SECTOR

Tonbridge & Malling Borough Council

Investment Analysis Review

May 2010



Monthly Economic Summary

General Economy

New coalition government outlined £6.25bn of immediate spending cuts. Some £500m will be "recycled" to boost employment and skills, and the rest will be used to cut the government's debt. In May, the Bank of England has left interest rates at a record low of 0.5% for a 14th consecutive month as uncertainty about the levels of government debt here and across Europe remains a worry for policy makers. The Monetary Policy Committee said it had also voted against pumping yet more money into the economy. The consumer prices index measure of inflation hit 3.7% last month, up from 3.4% in March. On the broader retail prices index measure, inflation was at its highest rate in 19 years, at 5.3%. The UK economy grew by 0.3% in Q1 2010, slightly higher than the 0.2% previously estimated. The annual fall now stands at 0.2%, again an upwardly revised figure and the smallest decline since the third quarter of 2008. The number of people claiming jobless benefit fell by 27,100 in April, but the number of people without a job on the wider ILO measure rose by 53,000 to 2.51m in the three months to March. The jobless rate held steady at 8.0% as expected. The CBI's monthly distributive trades survey's reported sales balance tumbled to a 14-month low of -18 in May from +13 in April, and represents the biggest one-month drop in the index since January 2005. The public sector showed a deficit on current budget of £9.3 billion in April 2010, compared with a deficit of £7.6 billion in April 2009. Public sector net debt, expressed as a percentage of GDP, was 62.1% at the end of April 2010, whilst net debt was £893.4bn. Manufacturing PMI index was unchanged at 58.0 in May, slightly above the 57.8 consensus forecast. The GfK NOP Consumer Confidence Index dropped by two points in May to -18. This is the third month in a row that we have seen the overall confidence level drop.

Housing Market

Mortgage lenders Halifax and Nationwide have reported that property prices have risen around 10% from a low hit around a year ago, but access to finance is still hard for many buyers after the credit crunch. According to Rightmove, asking prices rose by 0.7% in May compared to 2.6% in April, causing the annual rate of increase to slow to 4.3% from 6.0%.

Currency

The currency market had a fairly volatile month. Sterling started the month at \$1.523 and reached a low of \$1.431 before ending the month at \$1.448. Sterling ended at €1.1750 against the Euro having started the month at €1.156. There was additional volatility in the middle of the month with Sterling hitting €1.232 against the Euro. The Euro started at \$1.329 against the dollar and reached a low of \$1.221 before ending the month at \$1.232.

Forecast

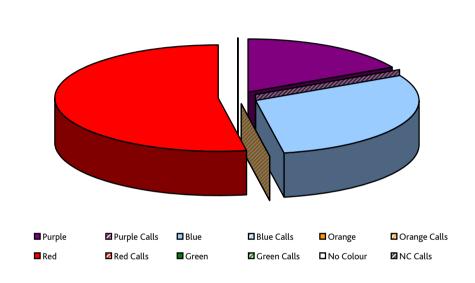
Sector have decided to revise their interest rate view. Sector continues to believe that the Bank rate will remain at 0.5% for the rest of the year and still expects the next upward move to be Q1 2011. However, we now expect the Bank Rate to get to 3.75% by March 2013 instead of 4.50%. UBS continues to believe that the bank rate will remain at 0.5% for the rest of the year and start to increase in Q4 of 2010, reaching 3% by the end of 2011. Capital Economics have not changed their forecast and believe that rates will be held at 0.5% for up to five years, if things do not improve.

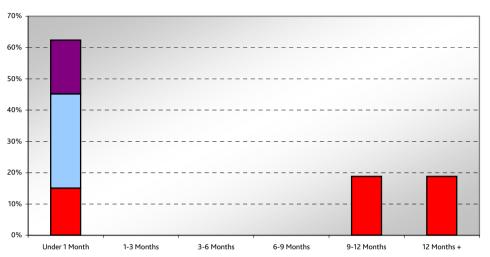
Bank Rate	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
Sector	0.50%	0.50%	0.50%	0.75%	1.00%
UBS	0.50%	0.50%	0.75%	1.00%	1.25%
Capital Economics	0.50%	0.50%	0.50%	0.50%	0.50%

Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date
Alliance & Leicester	2,000,000	0.80%	28/05/2010	01/06/2010
Bank Of Scotland	2,000,000	0.80%	28/05/2010	01/06/2010
Natwest	2,000,000	0.80%	28/05/2010	01/06/2010
Insight	2,282,000	0.00%	28/05/2010	01/06/2010
Nationwide	2,500,000	6.25%	28/05/2008	27/05/2011
Barclays	2,500,000	7.05%	17/07/2008	16/07/2011
Total Investments	£13,282,000	2.87%		

Portfolio Decomposition by Sector's Suggested Lending Criteria





Up to 2 Years Up to 1 Year Up to 6 Months Up to 3 Months No Colour

WAROR = Weighted Average Rate of Return WAM = Weighted Average Time to Maturity

			% of Colour	Amount of	% of Call				Excl	iding Calls/MMFs
	% of Portfolio	Amount	in Calls	Colour in Calls	in Portfolio	WARoR	WAM	WAM at Execution	WAM	WAM at Execution
Purple	17.18%	£2,282,000	0.00%	£0	0.00%	0.00%	1	4	1	4
Blue	30.12%	£4,000,000	0.00%	£0	0.00%	0.80%	1	4	1	4
Orange	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Red	52.70%	£7,000,000	0.00%	£0	0.00%	4.98%	276	783	276	783
Green	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
	100.00%	£13,282,000	0.00%	£0	0.00%	2.87%	146	414	146	414

Monthly Credit Rating Changes FITCH

Date	Update Number	Institution	Country	Rating Action
05/05/2010	741	Commerzbank AG	Germany	Upgraded Individual Rating from 'D/E' to 'D'
10/05/2010	745	The Bank of New York Mellon		
12/05/2010	747	Landesbank Berlin AG	Germany	Upgraded Individual Rating from 'D' to C/'D'
20/05/2010	749	Australia & New Zealand Banking Group (ANZ)	Australia	Revised L/T (AA-) rating outlook from 'Stable' to 'Positive'
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Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
05/05/2010	742	Portugal - Sovereign Rating	Portugal	Placed 'Aa2' Sovereign rating on 'Review for possible downgrade'
06/05/2010	743	Banco Espirito Santo	Portugal	Placed L/T (A1), S/T (P-1) and BFSR (C-) under 'Review for possible downgrade'
06/05/2010	743	Banco BPI	Portugal	Placed L/T (A1), S/T (P-1) and BFSR (C-) under 'Review for possible downgrade'
06/05/2010	743	Banco Santander Totta	Portugal	Placed L/T (Aa3) and BFSR (C) under 'Review for possible downgrade'
06/05/2010	743	Caixa Geral de Depositos	Portugal	Placed L/T (Aa2) and BFSR (C-) under 'Review for possible downgrade'
20/05/2010	748	DBS Bank Ltd	Singapore	Revised L/T (Aa1) and BFSR (B) outlook from 'Negative' to 'Stable'
20/05/2010	748	Oversea Chinese Banking Corporation Ltd	Singapore	Revised L/T (Aa1) and BFSR (B) outlook from 'Negative' to 'Stable'
20/05/2010	748	United Overseas Bank	Singapore	Revised L/T (Aa1) and BFSR (B) outlook from 'Negative' to 'Stable'

Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
07/05/2010	744	Wachovia Bank National Association	USA	L/T (AA) and S/T (A-1+) ratings withdrawn
10/05/2010	746	National Bank of Kuwait	Kuwait	Revised L/T (A+) rating outlook from 'Negative' to 'Stable'
26/05/2010	750	Royal Bank of Canada	Canada	Revised L/T (AA-) rating outlook from 'Stable' to 'Positive'