

SECTOR

Tonbridge & Malling Borough Council

Investment Analysis Review

May 2010



Tonbridge & Malling Borough Council

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%

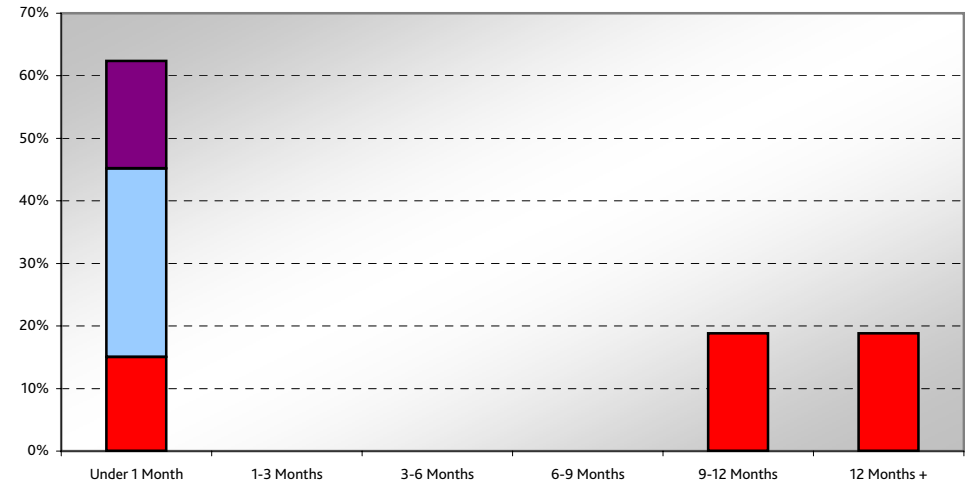
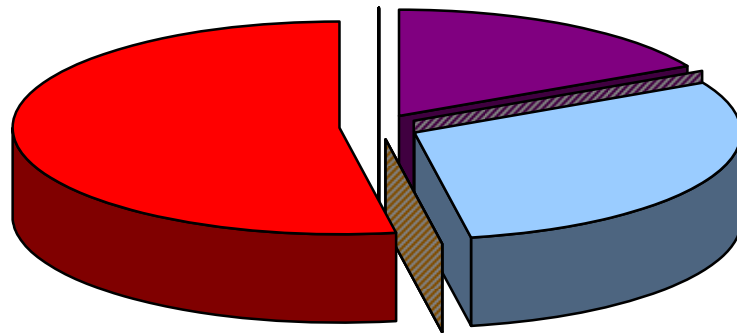
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Current Investment List

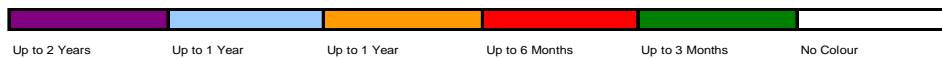
Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date
Alliance & Leicester	2,000,000	0.80%	28/05/2010	01/06/2010
Bank Of Scotland	2,000,000	0.80%	28/05/2010	01/06/2010
Natwest	2,000,000	0.80%	28/05/2010	01/06/2010
Insight	2,282,000	0.00%	28/05/2010	01/06/2010
Nationwide	2,500,000	6.25%	28/05/2008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

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Portfolio Decomposition by Sector's Suggested Lending Criteria



- Purple ■ Purple Calls ■ Blue ■ Blue Calls ■ Orange ■ Orange Calls
- Red ■ Red Calls ■ Green ■ Green Calls ■ No Colour ■ NC Calls



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

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	WAM at Execution	Excluding Calls/MMFs	
									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

