

SECTOR

Sevenoaks District Council

Monthly Investment Analysis Review

June 2011



Sevenoaks District Council

Monthly Economic Summary

General Economy

The voting balance of the rate-setting committee at the Bank of England has changed from a vote of 6-3 to 7-2 in favour of holding rates at 0.5% in June. The rate was kept at a record low for a 27th straight month as signs of economic weakness at home and abroad appear to have outweighed any concerns about above-target inflation. Money markets have scaled back UK interest-rate expectations once more with overnight inter-bank average rates suggesting borrowing costs will be left on hold until August 2012. Inflation in Britain held steady at 4.5% in May as rising food prices balanced a drop in travel costs, providing little comfort for the Bank of England which expects inflation to hit 5% later this year as utility companies have announced further price rises for heating and energy. The Bank of England has resisted calls to raise interest rates on the basis that temporary, external factors, such as rising oil and food costs, are driving price rises.

UK retail sales fell by 1.4% in May, reversing the rise seen in April when sales were boosted by the Royal Wedding. The ONS said that May's figures showed consumers were now cutting back because of the tough economic climate, worries about rising fuel prices and job uncertainty. British consumer confidence slipped by four points to -25 in June as a boost from the Royal Wedding and a run of sunny May bank holidays gave way to harsher economic realities. Britain's economy grew by a disappointing 0.5%, in the first three months of the year, after an unrevised contraction of 0.5% in the final quarter of 2010. There was an upward revision to Q1 construction output, but this was cancelled out by a downward revision to manufacturing. The annual rate fell marginally to 1.6% from 1.8%. The number of people claiming unemployment benefit rose at its fastest pace in almost two years in May, by 19,600, against forecasts for an increase of 7,000, while the wider ILO measure of the number of unemployed people fell by 88,000 in the three months to April, the biggest decline since August 2000.

Housing Market

House prices rose by 0.1% m/m in May but are down by 1.2% in the last three months according to the latest Halifax house price index. Demand has been constrained by low earnings growth, higher taxes and high inflation whilst mortgage availability is also a key factor. Halifax expects the housing market to stabilise this year as the economy strengthens. Nationwide's June house price index showed no change on the month, compared to a 0.3% rise in May, and was 1.1% lower on the year. The Bank of England reported mortgage approvals ticked up marginally in May to 45,940 from 45,447 in April which was below the forecast of 46,100.

Currency

Sterling started the month against the dollar at \$1.640 and fell to a five-month low of \$1.5940 towards the end of June as worries about the European debt crisis ahead of a key Greek vote on reforms required for further aid curtailed risk appetite and investors bought safe-haven currencies. The pound is likely to stay under pressure on growing speculation that the Bank of England might resort to more monetary stimulus. At the beginning of the month Sterling stood at €1.138 against the Euro and remained on a downward trend ending the month at €1.107.

Forecast

Sector is forecasting first rate rise of 0.25% in Q4 2011, leaving interest rates at the end of the year at 0.75%. UBS has revised its forecast and expects the first rise of 0.25% in Q1 2012. Capital Economics has kept its interest rate forecast unchanged and believes that the rate will be held at 0.5%.

Bank Rate	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12
Sector	0.50%	0.75%	1.00%	1.25%	1.50%
UBS	0.50%	0.50%	0.75%	1.00%	1.25%
Capital Economics	0.50%	0.50%	0.50%	0.50%	0.50%

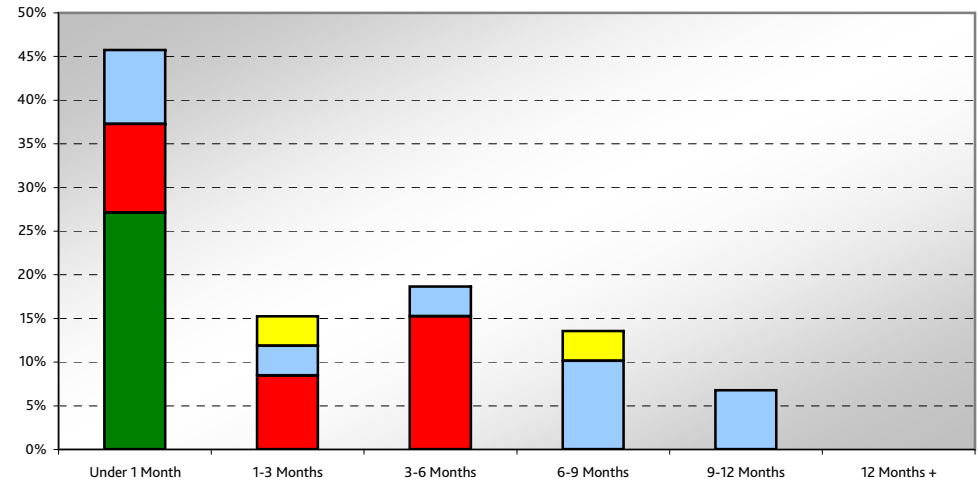
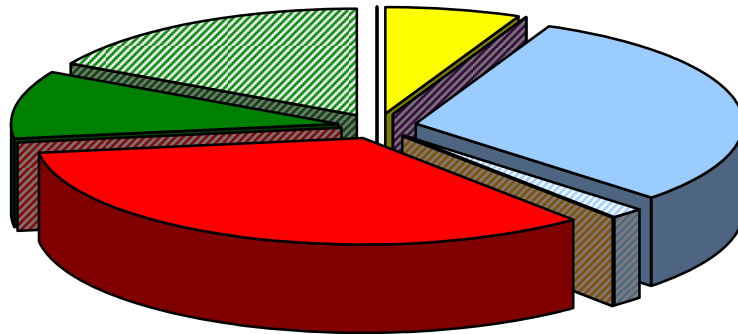
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Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date
Santander UK plc	5,000,000	0.80%		Call
Bank of Scotland plc	500,000	0.50%		Call
Barclays Bank plc	2,000,000	0.40%	23/06/2011	01/07/2011
Clydesdale Bank plc (Base Tracker Plus - 15 Day)	2,000,000	0.65%		Call15
Nationwide Building Society	1,000,000	0.74%	15/04/2011	15/07/2011
Lloyds TSB Bank plc	1,000,000	1.28%	24/01/2011	25/07/2011
Ulster Bank Ltd	1,000,000	1.12%	26/01/2011	26/07/2011
Santander UK plc	1,000,000	1.12%	28/04/2011	28/07/2011
Thurrock Council	1,000,000	0.75%	29/10/2010	24/08/2011
Nationwide Building Society	1,000,000	1.06%	02/03/2011	01/09/2011
Barclays Bank plc	1,500,000	0.72%	15/06/2011	14/09/2011
Ulster Bank Ltd	1,000,000	0.88%	17/06/2011	19/09/2011
Bank of Scotland plc	1,000,000	1.58%	04/02/2011	03/11/2011
Barclays Bank plc	1,500,000	1.05%	16/05/2011	16/11/2011
Nationwide Building Society	2,000,000	1.02%	17/06/2011	19/12/2011
Nationwide Building Society	1,000,000	1.02%	29/06/2011	30/12/2011
Newcastle Upon Tyne City Council	1,000,000	1.25%	12/01/2011	11/01/2012
Lloyds TSB Bank plc	1,000,000	1.65%	28/04/2011	31/01/2012
Lloyds TSB Bank plc	1,000,000	1.95%	03/02/2011	03/02/2012
Bank of Scotland plc	1,000,000	1.80%	26/05/2011	24/02/2012
National Westminster Bank plc	2,000,000	2.50%	22/03/2011	27/04/2012
Borrower - Icelandic Exposure	Principal (£)	Interest Rate	Start Date	Maturity Date
Landsbanki Islands hf	1,000,000	6.32%	25/06/2007	25/06/2009
Total Investments	£30,500,000			
Total Investments - excluding Icelandic exposure	£29,500,000	1.09%		
Total Investments - Icelandic Exposure Only	£1,000,000	6.32%		

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Portfolio Composition by Sector's Suggested Lending Criteria



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

Y	P	B	O	R	G	N/C
1	2	3	4	5	6	7
Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 3mths	No Colour

Portfolios weighted average risk number = **4.4**

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
Yellow	6.78%	£2,000,000	0.00%	£0	0.00%	1.00%	125	332	125	332
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	32.20%	£9,500,000	5.26%	£500,000	1.69%	1.63%	161	258	170	272
Orange	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Red	33.90%	£10,000,000	0.00%	£0	0.00%	0.83%	93	126	93	126
Green	27.12%	£8,000,000	62.50%	£5,000,000	16.95%	0.80%	7	15	19	40
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Total	100.00%	£29,500,000	18.64%	£5,500,000	18.64%	1.09%	94	152	115	187

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Monthly Credit Rating Changes FITCH

Date	Update Number	Institution	Country	Rating Action
15/06/2011	923	Commerzbank AG	Germany	Individual rating upgraded to 'C' from 'D' and removed from 'Positive Watch'
27/06/2011	927	Danske Bank AS	Denmark	LT rating Outlook changed to 'Negative ' from 'Stable'
29/06/2011	928	UBS AG	Switzerland	Individual rating upgraded to 'B/C' from 'C'
29/06/2011	929	The Royal Bank of Scotland Group plc	UK	Individual rating upgraded to 'C' from 'C/D'
29/06/2011	929	The Royal Bank of Scotland plc	UK	Individual rating upgraded to 'C' from 'C/D'

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Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
03/06/2011	919	Bank of America N.A.	USA	LT rating placed 'Under Review for Possible Downgrade'
03/06/2011	919	Bank of New York Mellon, The	USA	LT rating Outlook changed to 'Negative' from 'Stable'
03/06/2011	919	Citibank N.A.	USA	LT rating placed 'Under Review for Possible Downgrade'
03/06/2011	919	Wells Fargo Bank N.A.	USA	LT rating placed 'Under Review for Possible Downgrade'
08/06/2011	920	Swedbank AB	Sweden	FSR upgraded to 'C-' from 'D+'. LT& FSR removed from 'Under Review for Possible Downgrade'
14/06/2011	921	DnB NOR Bank	Norway	FSR Outlook changed to 'Stable' from 'Negative' and removed from 'Under Review for Possible Downgrade'
15/06/2011	922	BNP Paribas	France	FSR & LT rating placed 'Under Review for Possible Downgrade' and removed from 'Stable Outlook'
15/06/2011	922	Credit Agricole SA	France	FSR & LT rating placed 'Under Review for Possible Downgrade' and removed from 'Stable Outlook'
15/06/2011	922	Societe Generale	France	FSR & LT rating placed 'Under Review for Possible Downgrade' and removed from 'Negative Outlook'
15/06/2011	922	CALYON Corporate and Investment Bank	France	LT rating placed 'Under Review for Possible Downgrade' and removed from 'Stable Outlook'
20/06/2011	924	Italy Sovereign Rating	Italy	Sovereign rating placed 'Under Review for Possible Downgrade'
21/06/2001	925	National Bank of Kuwait	Kuwait	LT rating downgraded to 'Aa3' from 'A2'. LT rating removed from 'Under Review for Possible Downgrade' and assigned a 'Stable Outlook'. ST rating assigned a 'Stable Outlook'. FSR downgraded to 'C' from 'C+' and removed from 'Under Review for Possible Downgrade' and assigned a 'Stable Outlook'
24/06/2011	926	Banca IMI SpA	Italy	LT rating placed 'Under Review for Possible Downgrade' and removed from 'Stable Outlook'
24/06/2011	926	Intesa Sanpaolo	Italy	LT ratings placed 'Under Review for Possible Downgrade' and removed from 'Stable Outlook'

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Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action