

# UK Next Week's Agenda and Wrap Up, Sep 9 - 13

- Headlines for the UK economy and global highlights
- Wrap up
- Next week's agenda
- Financial overview
- Government bond yields
- Financial forecast
- Chart of the week
- The economy
- News and statements during the week

# Headlines for the UK and key global highlights

- **UK**

- This week delivered a mixed reading. While barometers continue to give an optimistic view about the economy, economic data did not quite reflect this.
- Barometers continue to reflect the overall more positive sentiment. PMI for the **manufacturing** sector increased to 57.2 in August from 54.8 in July. However, actual industrial data did not quite reflected the strong barometer, as the July reading was flat. PMI for the **services** sector also improved and stayed above the 60-treshold. The **construction** sector paints a similar picture and increased to levels not seen since records started in 2008.
- As expected, the **Bank of England's** Monetary Policy Committee voted to maintain the official Bank Rate paid on commercial bank reserves at 0.5 percent and also voted to maintain the stock of asset purchases financed by the issuance of central bank reserves at GBP 375bn.
- The risks to the recovery were highlighted as the **goods-trade deficit widened** in July, the most since October last year. Exports fell 7.6 percent, with shipments to nations outside the EU plunging 16 percent, the most since January 2009, and the decreasing sales to non-EU nations was led by finished manufacturing, machinery and transport gear and aircraft, the ONS said. Overall imports declined 1 percent while exports to EU countries rose 1.3 percent.
- The Bank of England **Inflation attitude survey** shows that fewer respondents expect rates to rise in the near term. When asked about the future path of interest rates, 29 percent of respondents expect rates to rise over the next 12 months, down from 34 percent in May. The response in August is the lowest response since November 2008, the height of the financial crisis. The survey began in 1999 and there have only been three occasions when fewer respondents expected interest rates to rise (February and May 2001 and November 2008). Only 5 percent of respondents expect interest rates to fall over the next 12 months, the same as in May. Interesting reading as investors' behaviour has caused gilts to rise.

- **Global**

- **ECB** - there was no change in policy rates or other non-standard measures, as expected, and attention was thus again drawn to the subsequent press conference with ECB President Mario Draghi. At the press conference, Draghi reiterated that the ECB expects interest rates to remain at current low levels or lower (he actually said that twice for what it's worth). Additionally, there were still prospects of a gradual economic recovery, and the recent improvement in confidence indicators have pointed this out. As expected, the growth estimate for 2013 was slightly revised up this year and slightly down in 2014. Draghi reiterated that growth risks remain on the downside and supplemented this time with the risk of higher commodity prices stemming from geopolitical uncertainty (Syria). There were no major changes to inflation estimates.

# Wrap Up, September 2 - 6

## Monday

- PMI Manufacturing, Aug **57.2** (e: 55.0, p: 54.8)
- Hometrack Housing survey, Aug **0.4/1.8** (p: 0.3/1.3)

## Tuesday

- PMI Construction, Aug **59.1** (e: 57.0, p: 57.0)
- BRC Sales like for like, Aug **1.8** (e: /2.4, p: /2.2)
- Auction of 0 1/8% Index-linked Treasury Gilt 2024

## Wednesday

- PMI Services, Aug **60.5** (e: 59.9, p: 60.2)
- BRC Shop price index, Aug **-0.5** (p: /-0.5)

## Thursday

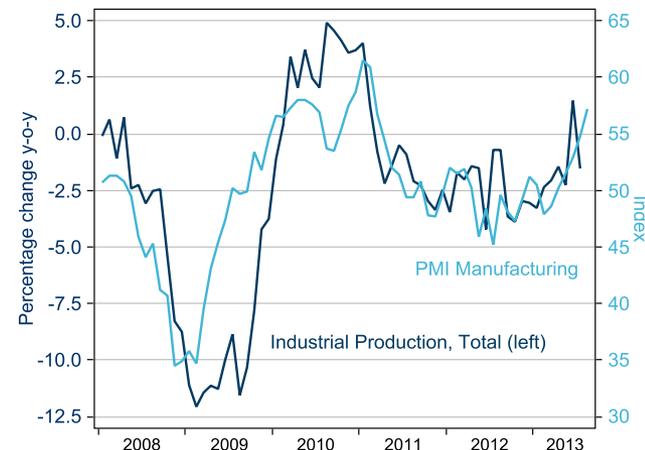
- Bank of England
  - Bank rate **0.5** (e: 0.5, p: 0.5)
  - Asset purchase target **375bn** (e: 375bn, p: 375bn)
- New car registrations, Aug **110.9** (p: /12.7)

## Friday

- Industrial production, Jul **0.0/-1.6** (e: 0.2/-1.7, p: 1.3/1.4)
- Manufacturing production, Jul **0.2/-0.7** (e: 0.1/-0.7, p: 2.0/2.1)
- BoE/GfK Inflation expectations, Aug **3.2** (p: 3.6)
- Visible trade balance, Jul **-9.853bn**(e: -8.2bn, p: -8.171bn)
- Trade balance non-EU, Jul **-4.528bn** (e: -2,95bn, p: -2.806bn)
- Trade balance, Jul **-3.085bn** (e: 11.7bn, p: -1.256bn)
- NIESR GDP estimate, Aug (p: 0.7/)
- Halifax House prices, Aug **0.4/5.4** (e: 0.8/5.6, p: 0.9/4.6)

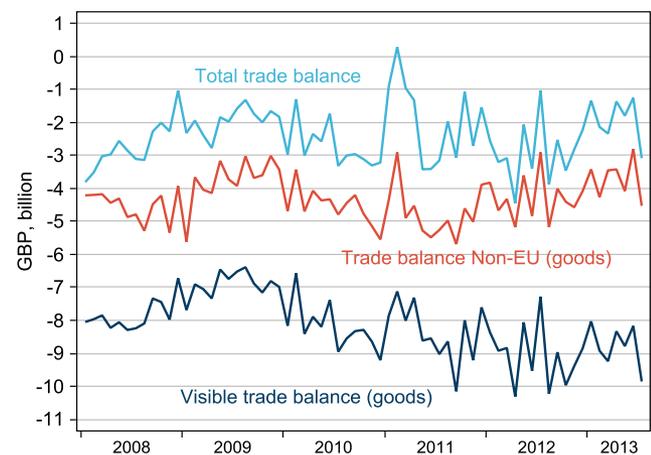
m-o-m/y-o-y a = Actual e = Estimate p = Prior

### UK: Industrial production and leading indicator



Source: Macrobond

### UK: Foreign Trade deficit, SA



Source: Macrobond

## Next week's agenda, September 9 - 13

### Monday

- No major events

### Tuesday

- RICS House price balance, Aug (e: 38, p: 36)
- Auction of 3¼% Treasury Gilt 2044

### Wednesday

- Claimant count rate, Aug (e: 4.3, p: 4.3)
- Jobless claims change, Aug (e: -21.5k, p: -29.2k)
- ILO Unemployment rate 3m, Jul (e: 7.8, p: 7.8)
- Employment change 3m/3m, Jul (e: 50k, p: 69k)
- Average weekly earnings 3m/yoy, Jul (e: /1.2, p: /2.1)
- Weekly earnings ex bonus 3m/yoy, Jul (e: /1.0, p: /1.1)

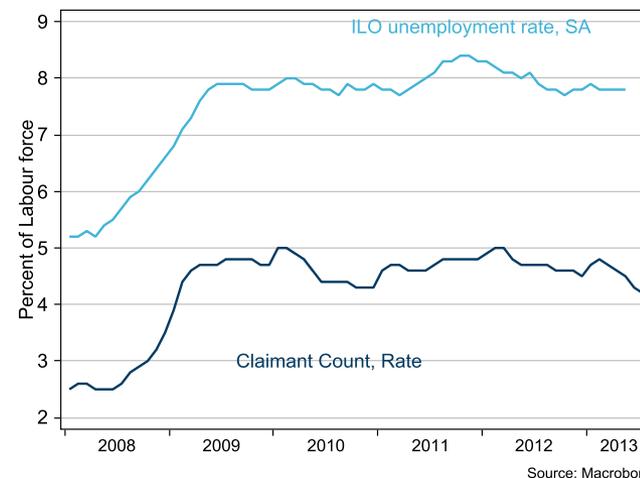
### Thursday

- Auction of 2¼% Treasury Gilt 2023

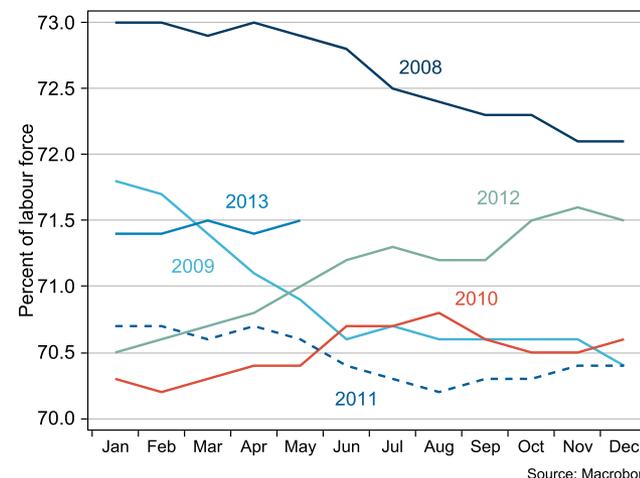
### Friday

- Construction output, Jul (e: 2.1/1.3, p: -0.7/1.9)

UK: Unemployment rate

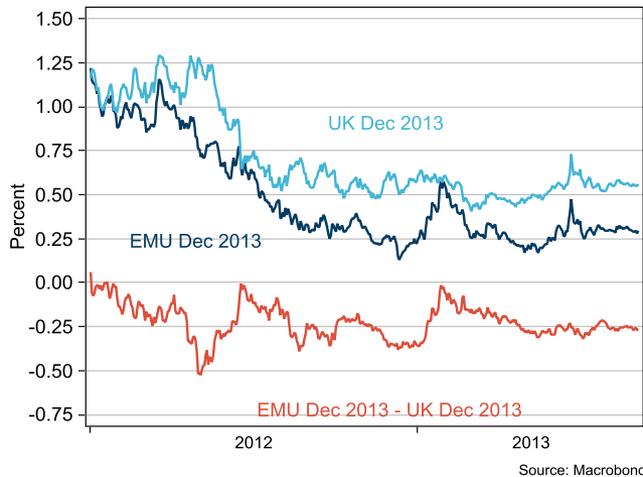


UK: Employment monthly change

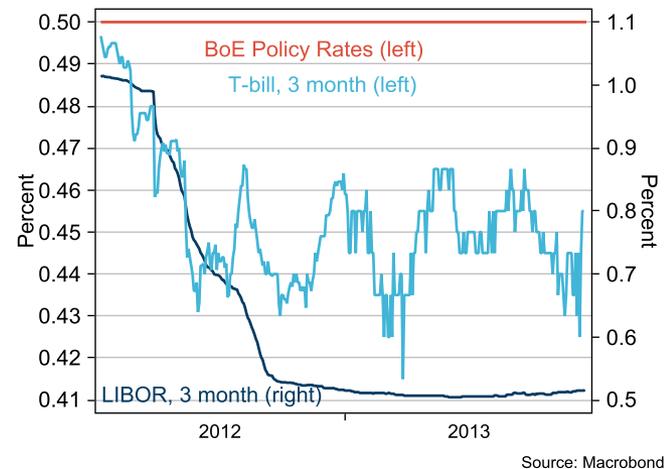


# Financial overview

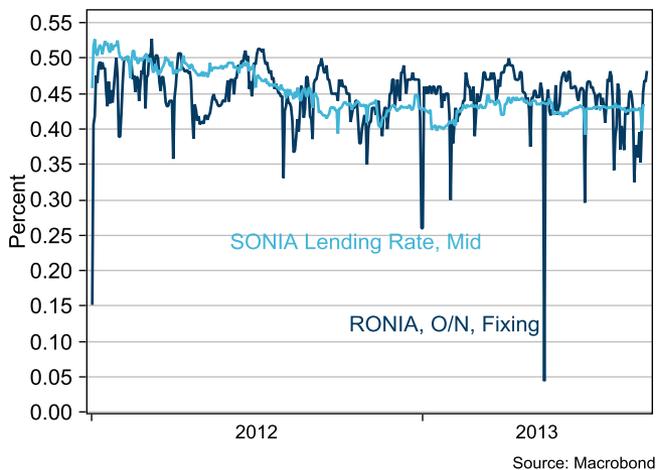
**UK: Expected interest rates**



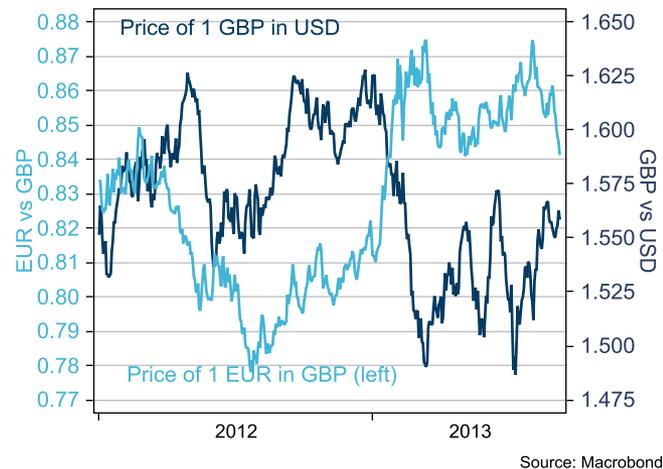
**UK: Money markets**



**UK: Interbank lending rates**

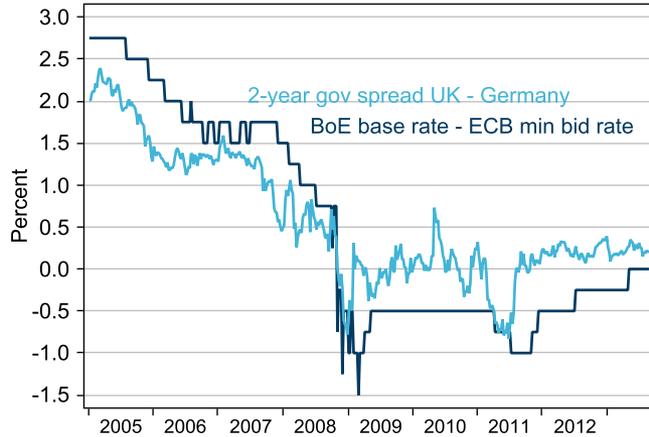


**UK: FX Spot Rates**



# Government bond yields

UK: 2-year gov. yield and policy rates



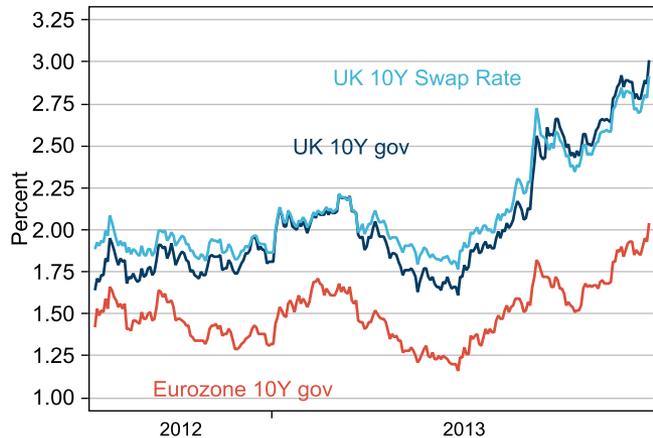
Source: Macrobond

UK: 10-year gov. yield and policy rate



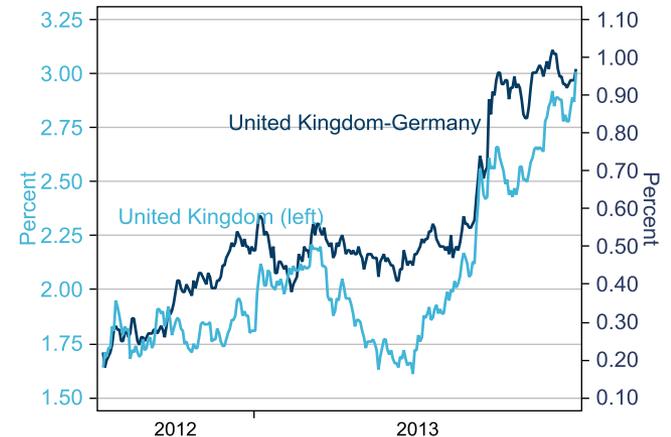
Source: Macrobond

UK: Government bonds and swaps



Source: Macrobond

UK: 10Y gilt yield and spread



Source: Macrobond

## Financial forecast

<b>Policy rates</b>	<b>last</b>	<b>3 months</b>	<b>6 months</b>	<b>12 months</b>
USA	0.125	0.125	0.125	0.250
Eurozone	0.50	0.25	0.25	0.25
United Kingdom	0.50	0.50	0.50	0.50

<b>Ten year government bond yields</b>				
USA	2.98	2.80	2.80	3.00
Eurozone	2.04	1.80	1.65	1.65

<b>UK government bond yields</b>				
2 year	0.54	0.40	0.50	0.70
5 year	1.79	1.50	1.70	2.00
10 year	3.01	2.70	2.90	3.00

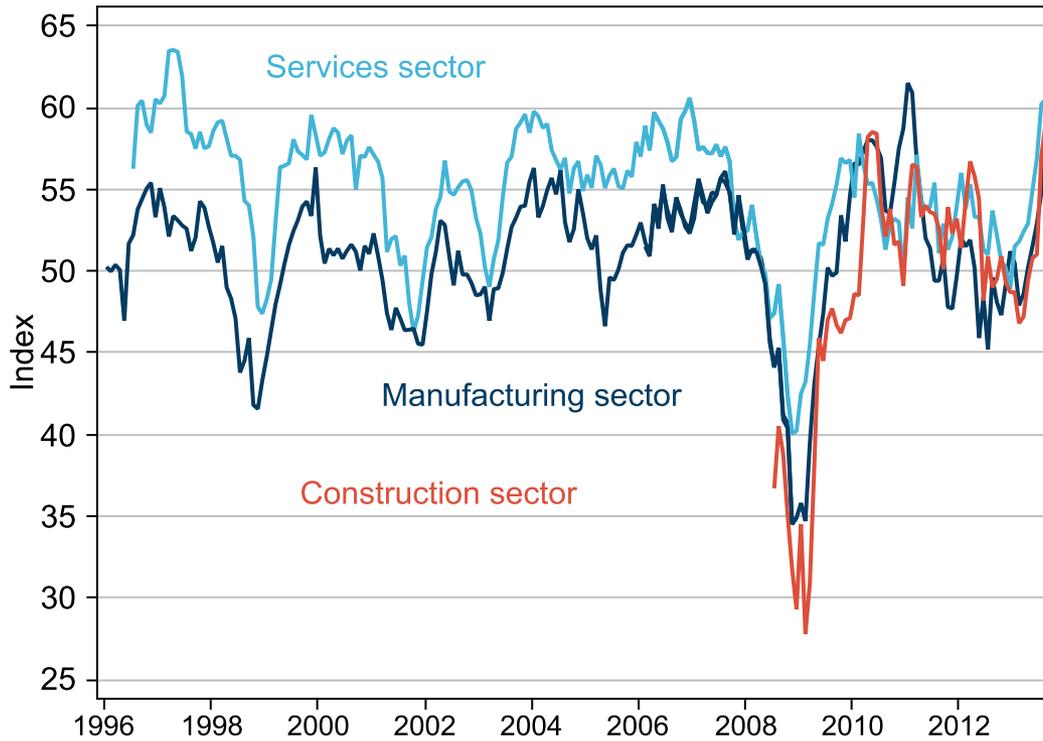
<b>UK swaps</b>				
2 year	0.94	0.75	0.90	1.10
5 year	1.99	1.70	1.50	1.75
10 year	2.92	2.65	2.90	3.00

<b>FX</b>	<b>last</b>	<b>3 months</b>	<b>6 months</b>	<b>12 months</b>
EUR/USD	1.31	1.28	1.23	1.10
EUR/GBP	0.842	0.835	0.830	0.820
GBP/USD	1.56	1.53	1.48	1.34

Sources: Handelsbanken Capital Markets and Macrobond

# Chart of the Week – PMI's all on high levels

## UK: PMI for all sectors are improving

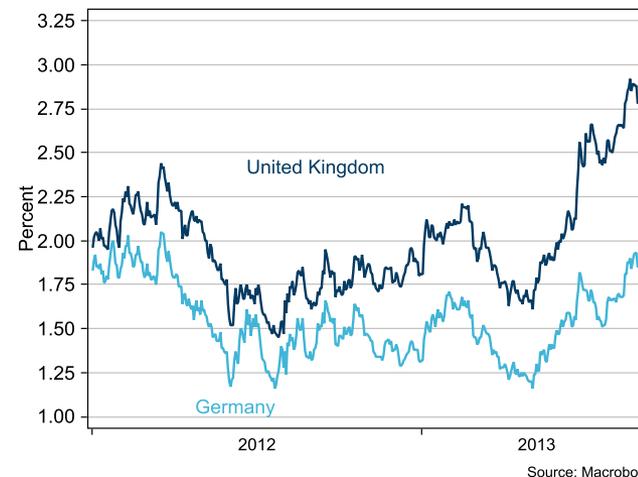


Source: Macrobond and Bloomberg

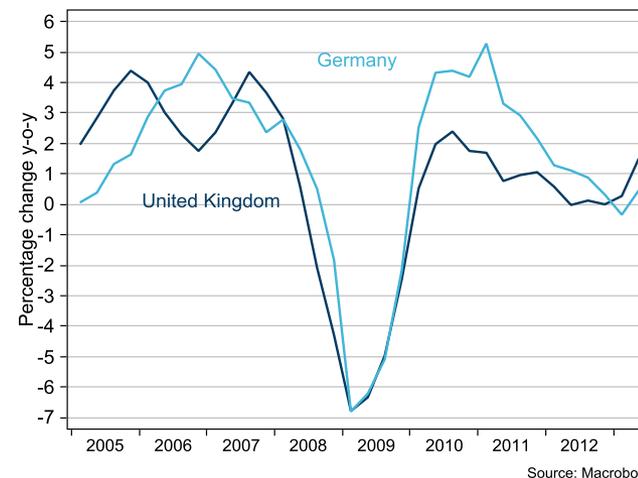
## The economy – gilts vs german bonds

- In the UK, market yields suggest that investors think the Bank of England will have to raise interest rates before the end of 2016, as signaled by Governor Mark Carney when he introduced the forward guidance one month ago.
- Under the new policy framework, policy makers will not consider raising the benchmark interest rate from a record-low 0.5 percent until unemployment falls to 7 percent from its current rate of 7.8 percent. The pledge is subject to a so-called knockout if inflation expectations become dislodged.
- The spread between UK gilts and German bonds has widened significantly during the last year. The major reason is the Ben Bernanke effect, as the Chairman at the Federal Reserves highlighted that the Fed will reduce its asset purchases sooner than previously announced.
- The real economy differences between the UK and Germany is not as severe as it should explain the widening yields.
- We believe that expectations are too optimistic regarding GDP for the following years. The overall trade deficit has widened and the UK's major trade destination, Germany, is still struggling even if the economic environment looks slightly better. Our view is that interest rates will come down as investors seek other potential revenues.

Government Benchmarks, 10 Year, Yield



Gross Domestic Product, Constant Prices



## News and statements during the week

- The **UK has lost export market share** during the period since 2008, but has closed some of the gap in the last two years. Trade with the BRIC economies has expanded significantly since 1998, but a slowdown in imports from China since 2010 has seen the UK trade deficit with the BRICs falling slightly. ([http://www.ons.gov.uk/ons/dcp171766\\_326339.pdf](http://www.ons.gov.uk/ons/dcp171766_326339.pdf))
- The Bank of England said **expectations for a rate increase** in the coming year fell to the **lowest** since the aftermath of the Lehman Brothers Holdings Inc. collapse after Governor Mark Carney introduced forward guidance. Twenty-nine percent of people expect an increase, down from 34 percent in May, the BOE said in its quarterly Inflation. Attitudes survey published in London today. That's the lowest since November 2008 and the fourth lowest since the survey began in 1999. The poll of 2,050 people was conducted Aug. 8-13. The report indicates Carney's message that interest rates will remain low for some time is getting through to Britons even as investors bet against him. Respondents in the BOE survey were also asked about the inflation target, and 46 percent said it was "about right." Assessing how the BOE is "doing its job to set interest rates to control inflation," the net satisfaction balance was 15 percent, compared with 17 percent in May. (Bloomberg)
- George Osborne has told the BBC he is "passionate" about the multi-billion pound **high speed rail project**, despite rumours that the costs are spiralling. The chancellor said he had set a GBP 42bn budget with a GBP 14bn contingency fund- and the Olympics showed that the UK could deliver big projects to budget. His predecessor, Labour's Alistair Darling, is among those sceptical about whether the project is worth the cost. HS2 Ltd's boss Alison Munro says it is not true that costs are out of control. The project's first phase would see 225mph trains running on a new railway line to be built between London and the West Midlands by 2026. A second phase would see the line extended further north, with branches to Leeds and Manchester by 2033. (<http://www.bbc.co.uk/news/uk-politics-23919949>)

# Disclaimer

## Research Disclaimers

Handelsbanken Capital Markets, a division of Svenska Handelsbanken AB (publ) (collectively referred to herein as 'SHB'), is responsible for the preparation of research reports. SHB is regulated in Sweden by the Swedish Financial Supervisory Authority, in Norway by the Financial Supervisory Authority of Norway, in Finland by the Financial Supervisory of Finland and in Denmark by the Danish Financial Supervisory Authority. All research reports are prepared from trade and statistical services and other information that SHB considers to be reliable. SHB has not independently verified such information and does not represent that such information is true, accurate or complete. Accordingly, to the extent permitted by law, neither SHB, nor any of its directors, officers or employees, nor any other person, accept any liability whatsoever for any loss, however it arises, from any use of such research reports or its contents or otherwise arising in connection therewith.

This report has not been given to the subject company, or any other external party, prior to publication to approval the accuracy of the facts presented. The subject company has not been notified of the recommendation, target price or estimate changes, as stated in this report, prior to publication.

In no event will SHB or any of its affiliates, their officers, directors or employees be liable to any person for any direct, indirect, special or consequential damages arising out of any use of the information contained in the research reports, including without limitation any lost profits even if SHB is expressly advised of the possibility or likelihood of such damages.

The views contained in SHB research reports are the opinions of employees of SHB and its affiliates and accurately reflect the personal views of the respective analysts at this date and are subject to change.

There can be no assurance that future events will be consistent with any such opinions. Each analyst identified in this research report also certifies that the opinions expressed herein and attributed to such analyst accurately reflect his or her individual views about the companies or securities discussed in the research report.

Research reports are prepared by SHB for information purposes only. The information in the research reports does not constitute a personal recommendation or personalised investment advice and such reports or opinions should not be the basis for making investment or strategic decisions. This document does not constitute or form part of any offer for sale or subscription of or solicitation of any offer to buy or subscribe for any securities nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever. Past performance may not be repeated and should not be seen as an indication of future performance. The value of investments and the income from them may go down as well as up and investors may forfeit all principal originally invested. Investors are not guaranteed to make profits on investments and may lose money. Exchange rates may cause the value of overseas investments and the income arising from them to rise or fall. This research product will be updated on a regular basis.

No part of SHB research reports may be reproduced or distributed to any other person without the prior written consent of SHB. The distribution of this document in certain jurisdictions may be restricted by law and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions.

## Please be advised of the following important research disclosure statements:

SHB employees, including analysts, receive compensation that is generated by overall firm profitability. Analyst compensation is not based on specific corporate finance or debt capital markets services. No part of analysts' compensation has been, is or will be directly or indirectly related to specific recommendations or views expressed within research reports.

From time to time, SHB and/or its affiliates may provide investment banking and other services, including corporate banking services and securities advice, to any of the companies mentioned in our research.

We may act as adviser and/or broker to any of the companies mentioned in our research. SHB may also seek corporate finance assignments with such companies.

We buy and sell securities mentioned in our research from customers on a principal basis. Accordingly, we may at any time have a long or short position in any such securities. We may also make a market in the securities of all the companies mentioned in this report. [Further information and relevant disclosures are contained within our research reports.]

SHB, its affiliates, their clients, officers, directors or employees may own or have positions in securities mentioned in research reports.

According to the Bank's Ethical Guidelines for the Handelsbanken Group, the board and all employees of the Bank must observe high standards of ethics in carrying out their responsibilities at the Bank, as well as other assignments. The Bank has also adopted Guidelines concerning Research which are intended to ensure the integrity and independence of research analysts and the research department, as well as to identify actual or potential conflicts of interests relating to analysts or the Bank and to resolve any such conflicts by eliminating or mitigating them and/or making such disclosures as may be appropriate. As part of its control of conflicts of interests, the Bank has introduced restrictions ("Information barriers") on communications between the Research department and other departments of the Bank. In addition, in the Bank's organisational structure, the Research department is kept separate from the Corporate Finance department and other departments with similar remits. The Guidelines concerning Research also include regulations for how payments, bonuses and salaries may be paid out to analysts, what marketing activities an analyst may participate in, how analysts are to handle their own securities transactions and those of closely related persons, etc. In addition, there are restrictions in communications between analysts and the subject company. For full information on the Bank's ethical guidelines please see the Bank's website [www.handelsbanken.com/About/bank/Investor relations/Corporate social responsibility/Ethical guidelines](http://www.handelsbanken.com/About/bank/Investor%20relations/Corporate%20social%20responsibility/Ethical%20guidelines).

Handelsbanken has a ZERO tolerance of bribery and corruption. This is established in the Bank's Group Policy on Bribery and Corruption. The prohibition against bribery also includes the soliciting, arranging or accepting bribes intended for the employee's family, friends, associates or acquaintances.

For company-specific disclosure texts, please consult the Handelsbanken Capital Markets website: [www.handelsbanken.com/research](http://www.handelsbanken.com/research).

## When distributed in the UK

Research reports are distributed in the UK by SHB.

SHB is authorised by the Swedish Financial Supervisory Authority (Finansinspektionen) and the Prudential Regulation Authority and subject to limited regulation by the Financial Conduct Authority and Prudential Regulation Authority. Details about the extent of our authorisation and regulation by the Prudential Regulation Authority, and regulation by the Financial Conduct Authority are available from us on request.

UK customers should note that neither the UK Financial Services Compensation Scheme for investment business nor the rules of the Financial Conduct Authority made under the UK Financial Services and Markets Act 2000 (as amended) for the protection of private customers apply to this research report and accordingly UK customers will not be protected by that scheme.

This document may be distributed in the United Kingdom only to persons who are authorised or exempted persons within the meaning of the Financial Services and Markets Act 2000 (as amended) (or any order made thereunder) or (i) to persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order"), (ii) to high net worth entities falling within Article 49(2)(a) to (d) of the Order or (iii) to persons who are professional clients under Chapter 3 of the Financial Conduct Authority Conduct of Business Sourcebook (all such persons together being referred to as "Relevant Persons").

## When Distributed in the United States

### Important Third-Party Research Disclosures:

SHB and its employees are not subject to FINRA's research analyst rules which are intended to prevent conflicts of interest by, among other things, prohibiting certain compensation practices, restricting trading by analysts and restricting communications with the companies that are the subject of the research report.

SHB research reports are intended for distribution in the United States solely to "major U.S. institutional investors," as defined in Rule 15a-6 under the Securities Exchange Act of 1934. Each major U.S. institutional investor that receives a copy of research report by its acceptance hereof represents and agrees that it shall not distribute or provide research reports to any other person.

Reports regarding fixed-income products are prepared by SHB and distributed by SHB to major U.S. institutional investors under Rule 15a-6(a)(2). Reports regarding equity products are prepared by SHB and distributed in the United States by Handelsbanken Markets Securities Inc. ("HMSI") under Rule 15a-6(a)(2). When distributed by HMSI, HMSI takes responsibility for the report. Any U.S. person receiving these research reports that desires to effect transactions in any equity product discussed within the research reports should call or write HMSI. HMSI is a FINRA Member, telephone number (+1-212-326-5153).