



FINANCIAL COMMENTARY NO 85

2010 has started with a fresh optimism and hope that the efforts and investment placed in the global economy by Governments worldwide will, at last, start to bear fruit and an end to the worldwide recession will gather pace. Only time will tell.

The Economy

So finally, after six consecutive quarters of doom and gloom, UK GDP figures published in January (+0.1%) show that we came out of recession for the last quarter of 2009, but only just! Many commentators had expected a return to growth in Q3, and were anticipating a rise of 0.4%, so the slight rise of 0.1% was disappointing to say the least. Any revisions to this figure (Due to be published on 26th February and the 30th March) will be eagerly awaited. There is still a very real concern that the UK may re-enter recession when the 2010 Q1 GDP figures are released. Retail sales fell by 0.3% in December (The first fall since May 2009) and recorded only a slight improvement of +0.3% for January. This figure was less than anticipated. Between July and September the UK economy shrank by a greater than expected 0.2%. Probably not surprisingly UK car production also slumped throughout 2009. That being said there are some signs of light at the end of the tunnel. January unemployment figures showed a fall and house prices continue to rise (+0.4%), with property sales at a 2 year high. UK borrowings for December were less than forecast at £15.7 billion, and although UK CPI jumped to 2.9% rates have remained unchanged at 0.50%. Rates are likely to remain unchanged in the short term as the authorities will not want to jeopardise and stifle any recovery before it has begun. The move out of recession, it would appear, remains fragile and continues to be drawn out.

The Market

Money market rates have continued to move lower as the consensus of opinion is that the low interest rate environment is likely to continue for the foreseeable future. The question of when the policy of Quantitative Easing will be withdrawn is at the forefront of most market participants minds, with huge implications for both money and stock markets. Local Authorities should be aware of last months' report from the FSA, in which they state that under current legislation they have no plans to regulate Local Authority Treasury Management advisors. Consequently, if and when any such legislation is put in place, the responsibility still remains, as ever, with the Local authority when deciding where to place cash deposits. Council treasury departments continue to be under pressure to cope with lower returns as the financial year end draws near. The time has come for Authorities to be more pro-active in their approach to managing cash balances and the construction of workable counterparty lists.

Cash Management

Our cash management scheme benefits from the 20 year proven track record, in the strategic lending of cash deposits, of managers Stuart Selleck and Paul Ewles. We believe that this experience would be complimentary to an Authorities in-house team. Our scheme is one of the few remaining segregated fund approaches, which enables clients to have their own counterparty list and time parameters.

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