

How Worried Should We Be?

15 November 2018

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Simon Fitzpatrick

Cicero Group

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2019: How worried should we be?

Simon Fitzpatrick

Cicero Group

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WHAT DO THE NEXT FOUR MONTHS LOOK LIKE

NOVEMBER

TBC

Extraordinary
European Council
Summit



LATE-NOVEMBER

TBC

Potential for Govt to
table motion on
Withdrawal
Agreement in
Parliament



LATE-NOV –
EARLY-DEC TBC

Potential for both
Chambers in
Parliament to
debate and vote
on motion



13-14
DECEMBER

European
Council
Summit



DECEMBER-
MARCH

Passage of
Withdrawal
Agreement Bill and
other
requirements



20 DECEMBER – 7
MARCH

Parliament in
recess for
Christmas



21 JANUARY

UK Parliament 'No
Deal' deadline



14-25 FEBRUARY

Parliament in
recess



11-14 MARCH

Last possible dates for
European Parliament
vote on Withdrawal
Agreement



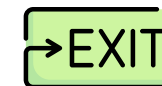
21-22
MARCH

European
Council
Summit



29 MARCH

Exit Day – UK
due to leave
the European
Union



APRIL - ?

Future
relationship
negotiations





Deal or No Deal – That is the Question



Can the UK Government get their deal through Parliament?

A black dog, possibly a Labrador Retriever, is sitting on a red leash. The dog is wearing a blue collar with a silver tag and a red harness. It is looking towards the left of the frame. To the left of the dog is a wooden signpost with a white sign that reads "POLLING STATION" in large, bold, black letters. The signpost is made of dark wood and is set against a red brick wall. In the background, there is a window with a white frame and some greenery. A red leash is attached to the top of the signpost. A small potted plant is visible at the bottom of the signpost.

**POLLING
STATION**

General
Election or
'People's
Vote'?



If we get a Withdrawal deal
– we start talks over again...



Tory Leadership: Will she stay or will she go?



The Runners and Riders



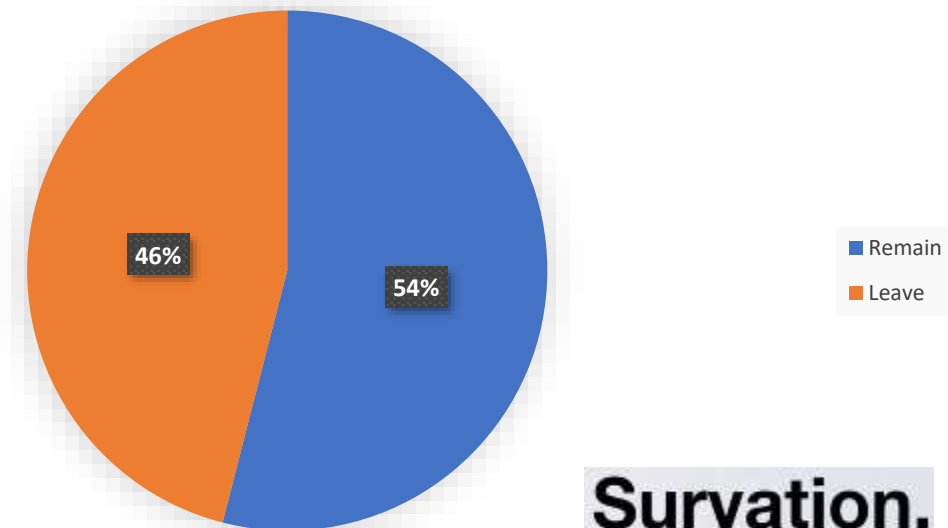
WHAT THE POLLING SAYS

Westminster voting intention

If there were a general election held tomorrow, which party would you vote for? %



If there was a vote today, would you vote to Remain in or Leave the Europea Union?





Are you ready for this?



CICERO



Rebecca Park

UK Finance

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Jonathan Tyce

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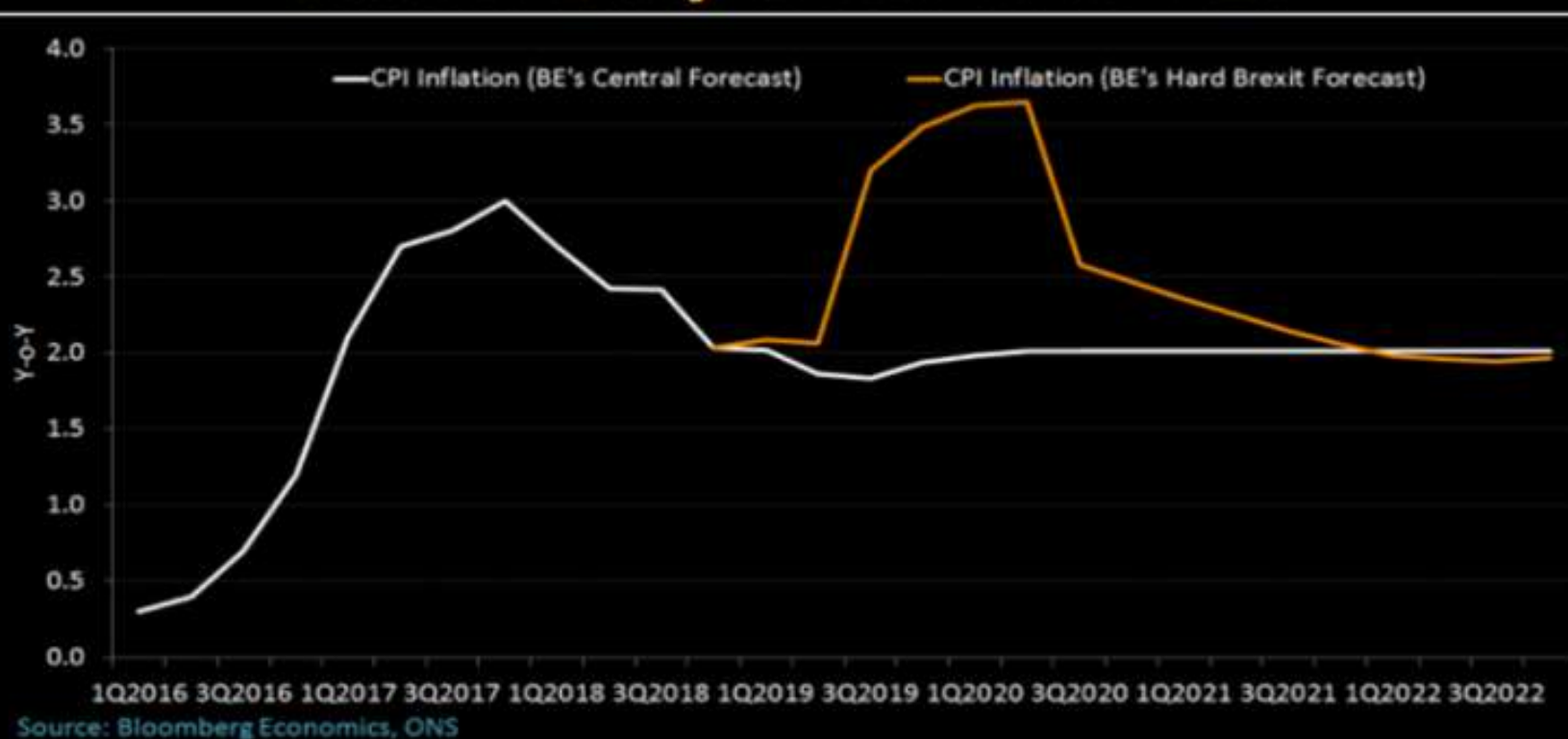
The Financial Services Forum

**BLOOMBERG
INTELLIGENCE**

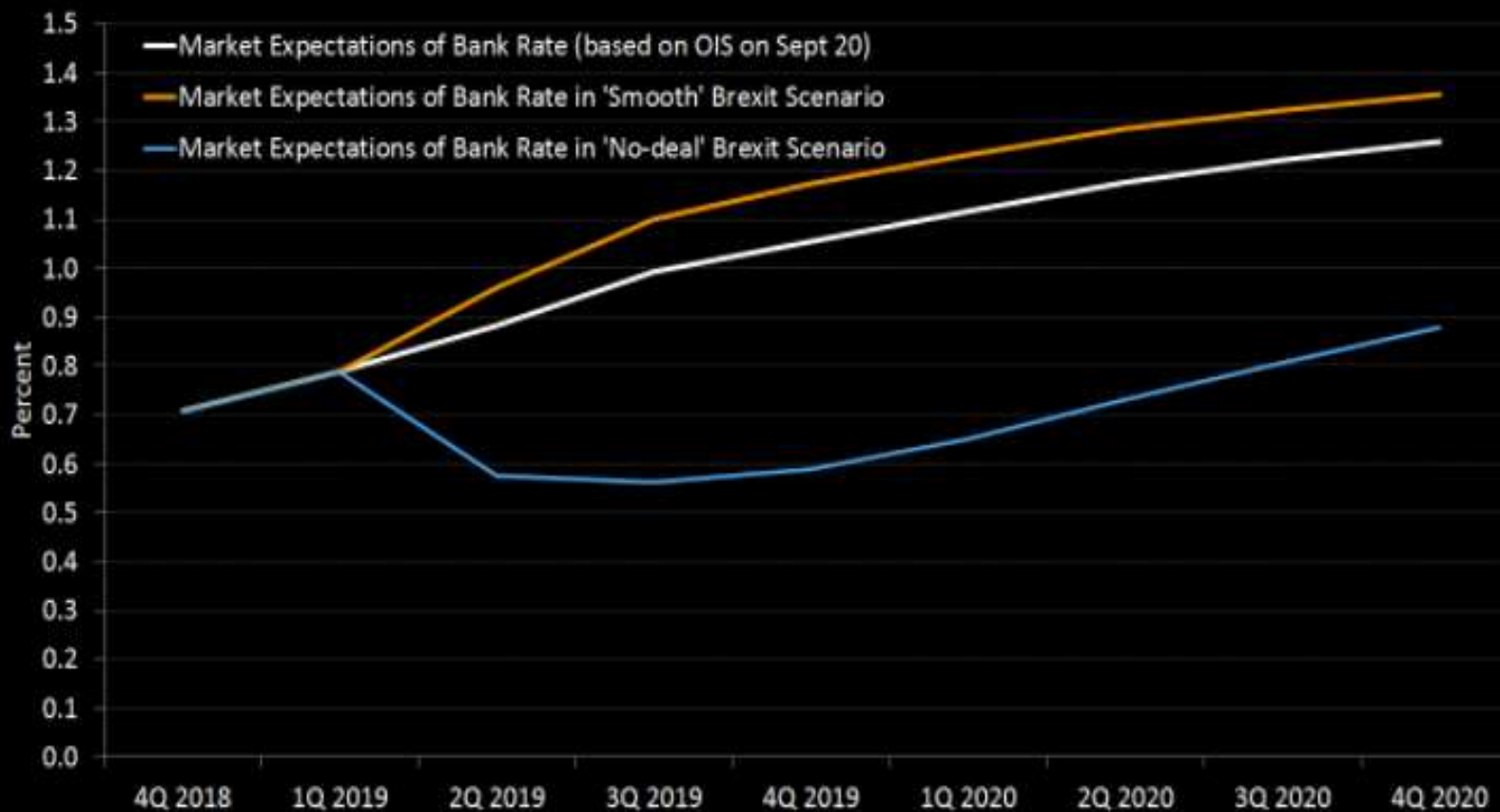
Bloomberg

INFLATION FEARS NOT PUT TO BED

Inflation Likely to Soar on No-Deal

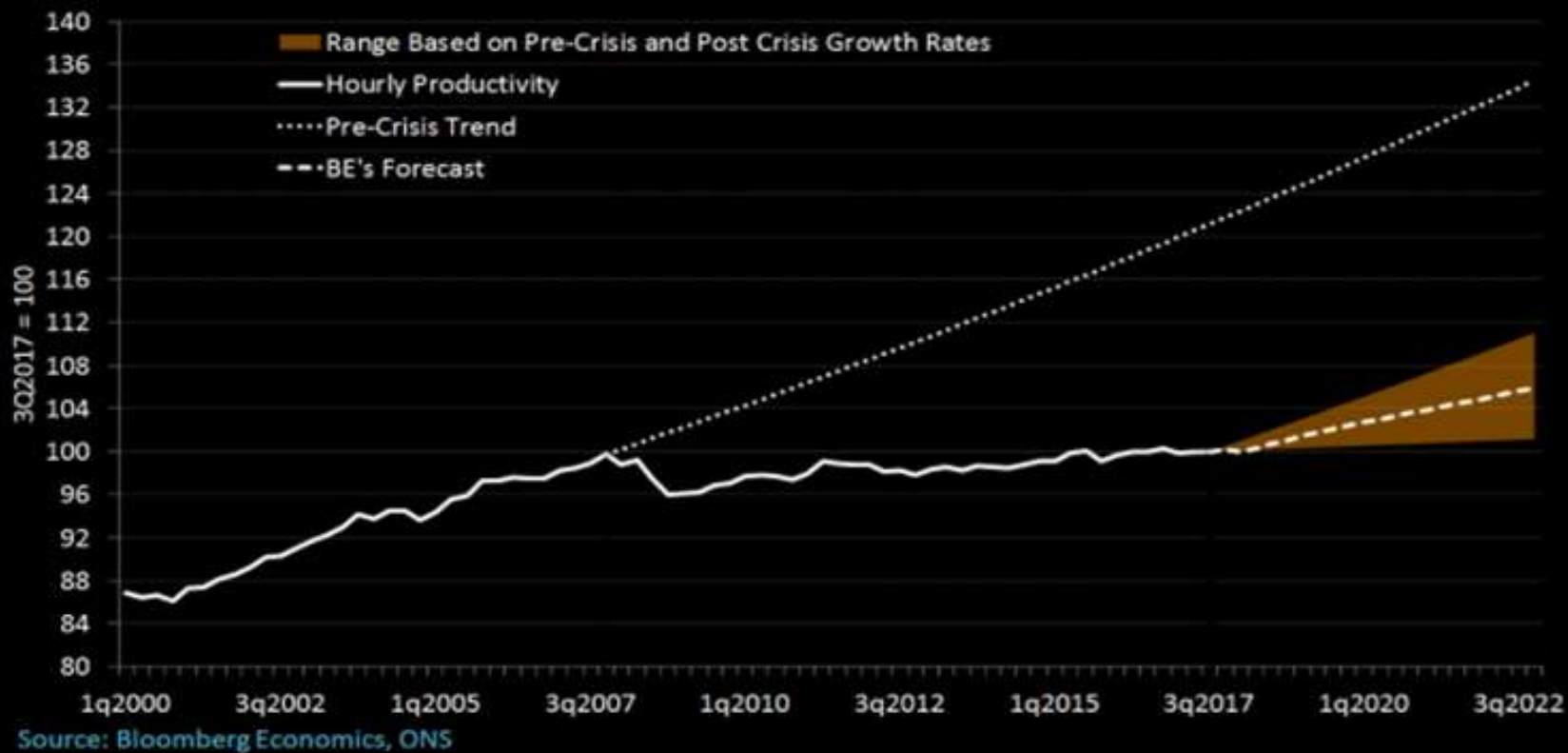


RATE OUTLOOK STILL VERY CONFUSED

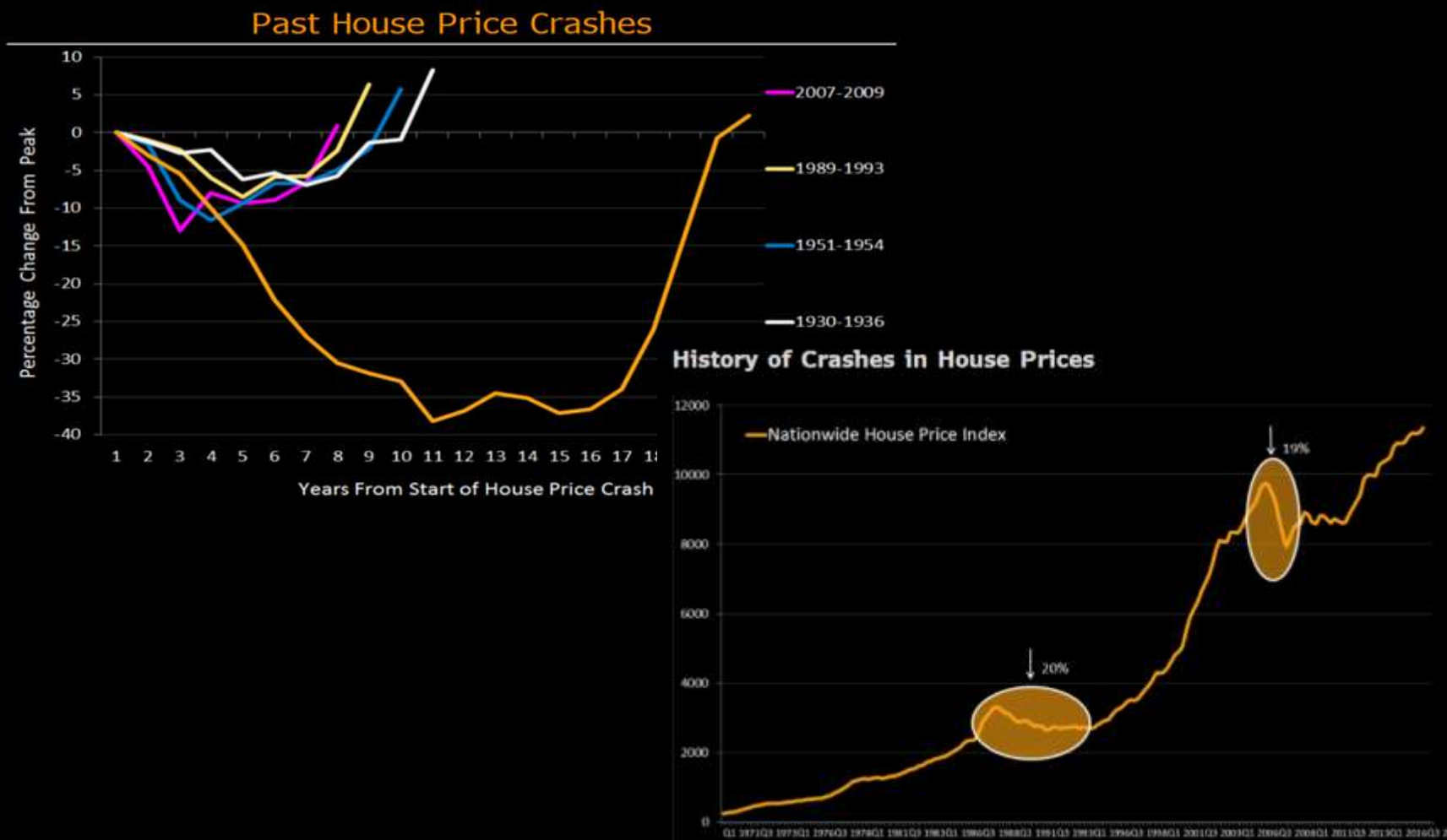


Source: Bloomberg Economics, BOE

CONUNDRUM: INCOMES CAN'T GROW WITHOUT STOKING INFLATION



\$9 TRILLION STORE OF HOUSING STOCK CRITICAL



HEALTHY MORTGAGE MARKET IS KEY

Mortgage Loan-to-Values at U.K. Banks

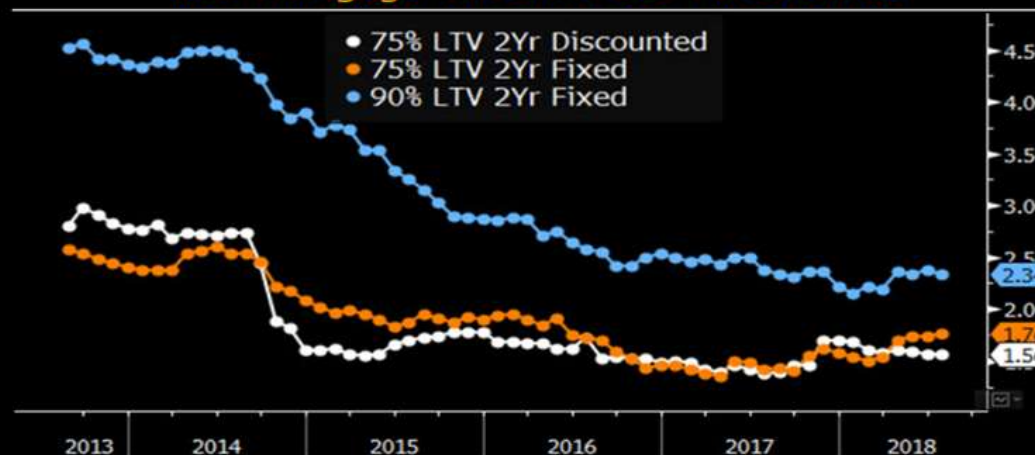
	LTV Stock				LTV New Lending	
	2010	2014	2017	1H18	2017	1H18
Lloyds	56%	49%	44%	44%	63%	62%
Nationwide	49%	51%	55%	56%	71%	71%
Santander UK	51%	47%	42%	42%	62%	62%
RBS*	58%	57%	56%	57%	70%	69%
Barclays	43%	52%	48%	50%	64%	64%
HSBC**	n/a	44%	40%	49%	59%	63%

Source: Company Websites, Bloomberg Intelligence


Note: * UK PBB (2014, 2017, 1H18) UK Retail (2010) New lending data
 ** 1H18 not comparable to prior periods due to switch from simple av

LTV weighting methodology not comparable between banks -- Nationw weighted LTVs, Santander simple average and Lloyds valuation weighti

U.K. Mortgage Mix Shift Set To Continue

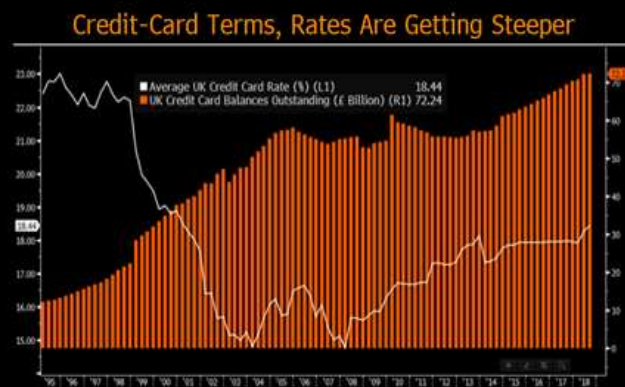


TIGHTER UNSECURED CREDIT SUPPLY

3. U.K.'s \$95 Billion Mountain of Credit-Card Debt Won't Get Bigger 

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U.K. credit card balances, which have risen by more than 23% in the past four years to top \$95 billion, are likely to stall, we believe. This will be a combination of shorter teaser-term periods on offer and higher card rates. We aren't concerned that delinquencies will rise any time soon, and the 90-day rate -- currently at 0.72% -- should remain below 1% well into 2019, or beyond. However, we do think that homeowners will be increasingly reliant on liquidity from remortgaging to fund spending.

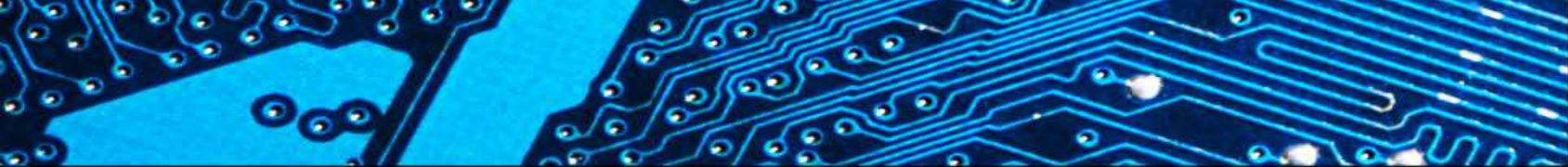


Source: Bank of England, Bloomberg

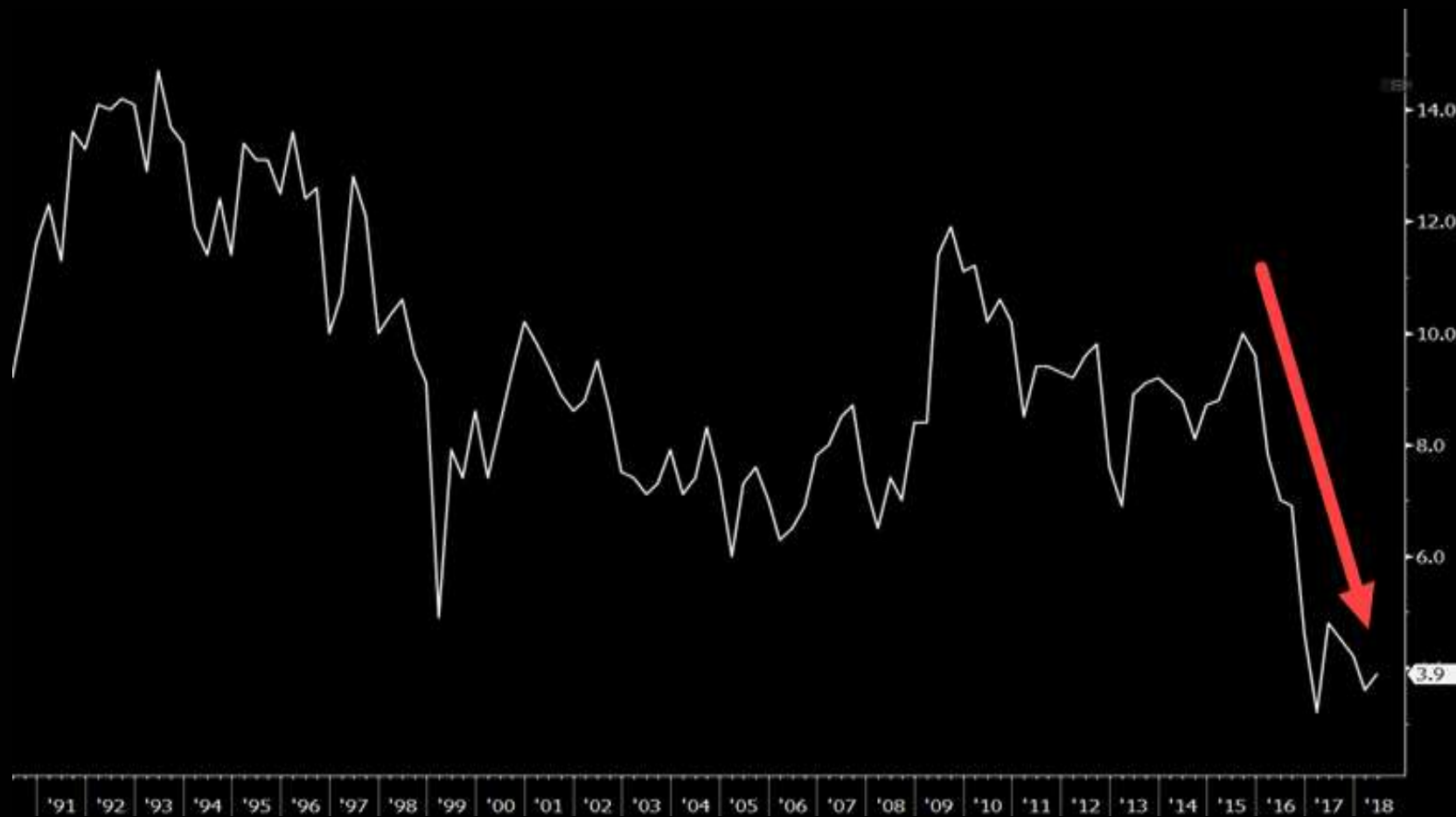
Credit-Card Terms Are Tightening

Issuer	Teaser Product APR	Low Rate Product APR	Balance Transfer Teaser (up to)	Balance Transfer Term Change Last 8m	Purchase Teaser (up to)	Purchaser Term Change Last 8m
Halifax	19.9%	6.4%	34m	2m decrease	27m	3m decrease
Lloyds	19.9%	6.4%	34m	2m decrease	20m	9m decrease
Tesco	18.9%-19.9%	5.9%	33m	3m decrease	28m	1m decrease
Barclays	19.9%	6.9%	33m	4m decrease	18m	6m increase
Virgin Money	18.9-20.9%	N/A	32m	3m decrease	28m	no change
HSBC	19.9%-22.9%	N/A	32m	no change	26m	no change
M&S	19.9%	N/A	32m	no change	25m	no change
Sainsbury's	19.9%-20.9%	N/A	30m	6m decrease	29m	2m decrease
Santander	15.9%-18.9%	N/A	30m	no change	30m	no change
TSB	18.9%	7.9%	28m	no change	20m	no change
First Direct	16.9-18.9%	N/A	27m	no change	17m	no change
Nationwide	15.9-17.9%	N/A	12m	no change	12m	no change
Metro	N/A	13.0%	N/A	no change	N/A	no change
RBS	N/A	9.9%	N/A	no change	N/A	no change
NatWest	N/A	9.9%	N/A	no change	N/A	no change

Source: Company Websites, Bloomberg Intelligence

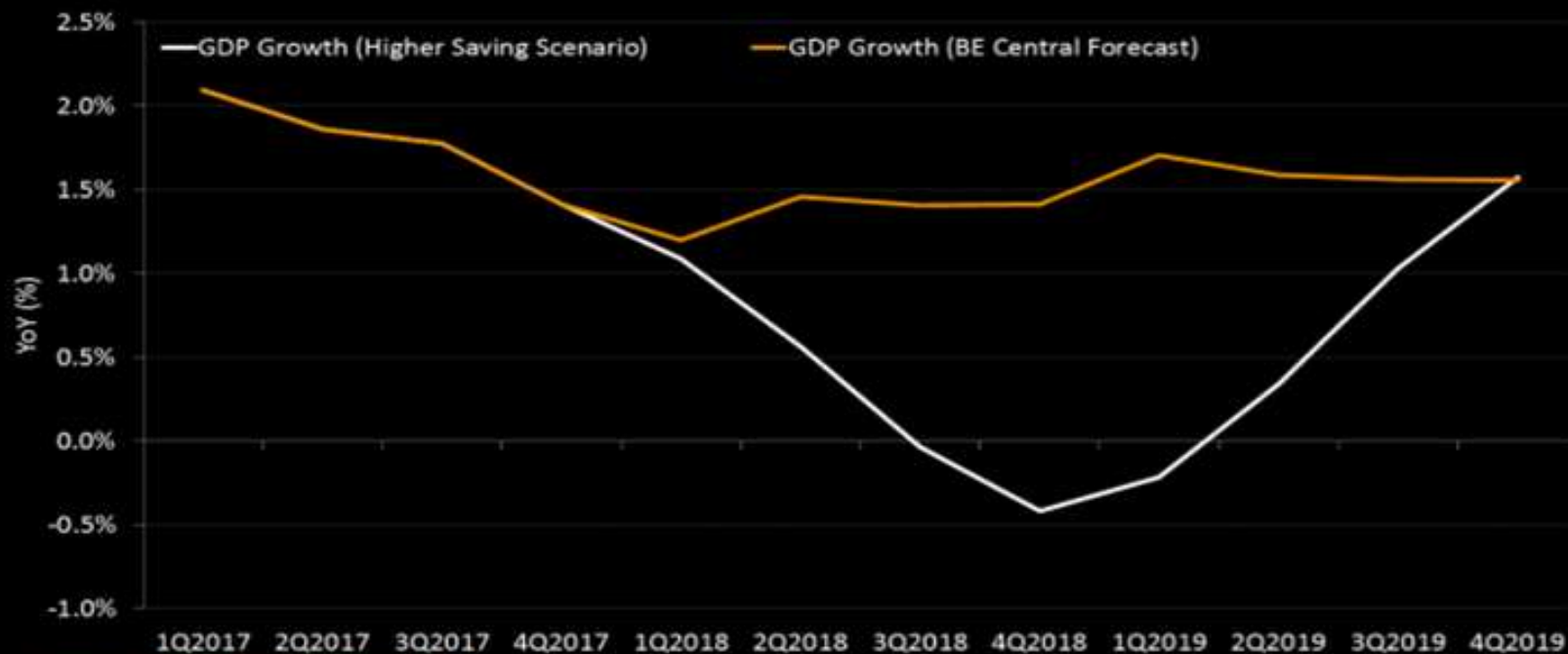


CONSUMER CUSHION HAS DISAPPEARED



THREATS TO GROWTH OUTLOOK ABOUND

Possible Growth Impact of Higher Saving



Source: Bloomberg Economics, ONS

UNKNOWNNS AND RISKS ABOUND

- U.K. Bank Stress Tests – December 5
- Buy-to-Let, U.K. Leaseholding Law Review
- B of E Policy Responses Unclear
- Wage Inflation and Savings Patterns – Consumer is King

2) EMEA									
20)	United Kingdom	UKT1	$\frac{5}{8}$ 10/28	101.750	+0.486	1.435	-5.2		1.146
21)	France	FRTR	0 $\frac{3}{4}$ 28	99.820	+0.138	0.769	-1.4		.604
22)	Germany	DBR0	$\frac{1}{4}$ 08/28	98.723	+0.197	0.384	-2.1		.254
23)	Italy	BTPS	2.8 12/28	94.824	-0.352	3.442	+4.4		1.641
24)	Spain	SPGB	1.4 07/28	98.262	-0.006	1.594	+0.1		1.146
25)	Portugal	PGB2	$\frac{1}{8}$ 10/28	101.689	+0.003	1.936	+0.0		1.583
26)	Sweden	SGB0	$\frac{3}{4}$ 05/28	101.253	+0.175	0.614	-1.9		.432
27)	Netherlands	NETHERO	$\frac{3}{4}$ 28	102.197	+0.169	0.516	-1.8		.374
28)	Switzerland	SWISS	4 04/28	138.171	+0.161	-0.050	-1.5		-.241
29)	Greece	GGB3	$\frac{3}{4}$ 01/28	95.369	-0.231	4.370	+3.2		3.606

THINGS NOT YET PRICED FOR HARD BREXIT

Country/Region/World: **United Kingdom** Contributor: **Contributor Composite** Yearly Quarterly

Private Official

Actual / Forecasts Probability of Recession 20.0%

Indicator	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Economic Activity										
Real GDP (YoY%)	1.6	1.4	2.0	2.9	2.3	1.8	1.7	1.3	1.5	1.6
Household Consum...	-0.9	1.7	2.0	2.1	2.7	3.2	1.9	1.4	1.2	1.3
Government Spend...	0.1	1.7	0.5	2.5	1.7		0.4	0.9	1.1	1.5
Gross Fixed Invest...	2.6	2.1	3.4	7.2	3.4	2.3	3.3	0.0	1.2	1.9
Exports (YoY%)	6.4	1.4	1.5	2.3	4.4	1.0	5.7	1.3	2.7	2.4
Imports (YoY%)	0.7	3.0	3.2	3.8	5.5	3.3	3.2	0.8	2.4	2.1
Manufacturing Producti...							2.2	1.1	1.0	0.8
Price Indices										
CPI (YoY%)	4.5	2.8	2.6	1.5	0.0	0.7	2.7	2.5	2.1	2.0
RPI (yoy%)	5.2	3.2	3.1	2.4	1.0		3.6	3.4	3.1	3.0

Country/Region/World: **United Kingdom** Contributor: **Contributor Composite** Yearly Quarterly

Private Official

Actual / Forecasts Probability of Recession 20.0%

Indicator	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Labor Market										
Unemployment (%)	8.1	8.0	7.6	6.3	5.4	4.9	4.5	4.1	4.0	4.1
External Balance										
Curr. Acct. (% of GDP)	-2.0	-3.8	-5.2	-4.9	-4.9	-5.2	-3.7	-3.5	-3.2	-2.8
Fiscal Balance										
Budget (FY, % of GDP)	-7.1	-7.5	-5.7	-5.3	-4.1	-2.9	-1.8	-1.8	-1.6	-1.4
Interest Rates										
Central Bank Rate (%)	0.50	0.50	0.50	0.50	0.50	0.25	0.50	0.75	1.10	1.40
3-Month Rate (%)	1.08	0.52	0.53	0.56	0.59	0.37	0.52	0.83	1.26	1.51
2-Year Note (%)	0.32	0.32	0.56	0.44	0.65	0.04	0.43	0.90	1.33	1.55
10-Year Note (%)	1.98	1.83	3.02	1.75	1.96	1.24	1.19	1.57	1.99	2.14

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- Appraising Fintechs: Performance Lessons and Their Path to Sustainability
22 November 2018
- Annual Members' Dinner & Marketing Effectiveness Awards
29 November 2018
- Changing Agency Models – 06 December 2018

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