

CYNGOR SIR YNYS MÔN

ADRODDIAD I	PWYLLGOR ARCHWILIO		
DYDDIAD	24 MEDI 2013		
PWNC	RHEOLI'R TRYSORLYS – CHWARTER CYNTAF 2013/14		
SWYDDOG(ION) ARWEINIOL	CLARE J WILLIAMS		
SWYDDOG CYSWLLT	CLARE J WILLIAMS	(FFÔN: 2601)	

Natur a rheswm dros adrodd

I'w sgriwteiddio - yn gyson ag arweiniad proffesiynol.

1. Cyflwynir yr adroddiad hwn i sicrhau bod y Cyngor yn cydymffurfio â Chôd Ymarfer ar Reoli Trysorlys a gyhoeddwyd gan y Sefydliad Siartredig Cyllid Cyhoeddus a Chyfrifeg (CIPFA) yn ac sy'n argymhell diweddarau Aelodau ar weithgaredd rheoli trysorlys o leiaf ddwy waith y flwyddyn, a gorau oll yn chwarterol.
2. Rhoes ymgynghorwyr trysorlys y Cyngor (Sector) grynodedb o'r cefndir economaidd a'r rhagolygon economaidd (Atodiadau 1 & 2) ac, yn ddiweddar, maent wedi darparu'r rhagolygon canlynol:-

	Med-13	Rhag-13	Maw-14	Meh-14	Med-14	Rhag-14	Maw-15
Graddfa Banc	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%
Graddfa 5ml PWLB	2.20%	2.20%	2.20%	2.20%	2.20%	2.30%	2.40%
Graddfa 10ml PWLB	3.30%	3.30%	3.30%	3.30%	3.30%	3.40%	3.50%
Graddfa 25ml PWLB	4.20%	4.20%	4.30%	4.30%	4.40%	4.50%	4.60%
Graddfa 50ml PWLB	4.30%	4.30%	4.40%	4.40%	4.50%	4.60%	4.70%

- 2.1 Fe gynhaliodd Sector adolygiad o'i ragamcanion ynghylch cyfraddau llog yn dilyn rhyddhau Adroddiad Chwyddiant diweddaraf Banc Lloegr am Awst 2013 a chyflwyno canllawiau gan Mark Carney, Llywodraethwr newydd Banc Lloegr: bwriad hyn yw gwneud rhaglen ysgogi gyfredol y Banc yn fwy effeithiol drwy ddarparu mwy o eglurder i gartrefi a busnesau. Mae ef a'r MPC wedi rhoi neges gryf bod y marchnadoedd ariannol yn gwneud camgymeriad drwy ddisgwyl i'r cynnydd cyntaf yng Nghyfradd y Banc fod mor fuan â chwarter 4 2014 a bod y Gyfradd Banc yn annhebygol, fel y mae pethau'n sefyll heddiw, i fod yn mynd i fyny cyn chwarter 4 2016. Mae Sector felly wedi gorfod newid eu rhagamcan yn sylweddol ynghylch Cyfraddau'r Banc a hynny yn unol â'r cyfarwyddyd hwn a symud y rhagamcan am y cynnydd cyntaf yng Nghyfradd y Banc o chwarter 1 2015 i chwarter 4 2016.

Bu raid i'r rhagamcanion a ddarparwyd hefyd gymryd i ystyriaeth y codiad sydyn yn incwm trysorlys UD a giltiau DU (ac, felly, gyfraddau PWLB) ers i Ben Bernanke roi ei araith ar 19 Mehefin, nodi bod lliniaru ansoddol (quantitative easing) yn yr Unol Daleithiau yn debygol o ddechrau dod i ben yn raddol yn hwyrach y flwyddyn hon. Cafodd hyn effaith anferthol ar y marchnadoedd ariannol yn nhermau buddsoddwyr yn gwerthu allan o fondiau (risg i ffwrdd) a newid i gyfranddaliadau (risg ymlaen) gyda hynny'n cael effaith wedyn o yrru marchnadoedd stoc i uchafion newydd neu yn agos i hynny.

3. Ar ddechrau'r flwyddyn newydd, roedd portffolio benthycar Cyngor i gyd o PWLB ac roedd £10.3m yn is na'r Angenrhaid Cyllido Cyfalaf (CFR) (h.y. rhan o'r benthycar wedi ei fewnoli). Mae ein strategaeth trysorlys ar gyfer 2013/14 a fabwysiadwyd ar 5 Mawrth 2013 yn seiliedig ar y disgwyliad y byddai graddfeydd buddsoddi yn y tymor canolig yn fyr o gyfraddau benthycar tymor hir ac felly y ffordd orau o sicrhau gwerth fyddai drwy ohirio unrhyw fenthycar allanol newydd a mabwysiadu benthycar mewnol. At hyn, mae'r strategaeth hon yn cael ei mabwysiadu er mwyn lleihau unrhyw risgiau gwrth-barti. Bydd y strategaeth hon os dilynir hi drwy gydol y flwyddyn, yn golygu y bydd cynnydd pellach yn y bwch rhwng CFR a benthycar allanol. Mae hyn oll yn amodol ar fod yn wyliadwrus, gyda gwaith monitro rheolaidd yn digwydd ar y raddfa log ac agwedd bragmataidd yn cael ei chymryd tuag at amgylchiadau sy'n newid er mwyn gallu osgoi i gostau tymor hir orbwysio unrhyw enillion tymor byr o beidio allanoli.
4. Mae'r tabl isod yn dangos y sefyllfa ar gychwyn ac ar ddiwedd y chwarter.

	30 Mehefin 2013		31 Mawrth 2013	
	£m	%	£m	%
Benthycar – (holl cyfraddau sefydlog)	96.1	5.53	96.1	5.53
Adneuron – Ar gael i 30 diwrnod	13.7	0.75	3.5	0.79
Adneuron – Cyfnod Sefydlog (< 1 blwyddyn)	10.0	1.27	10.0	1.63
Cyfanswm yr Adneuron	23.7	0.96	13.5	1.41
Yr Adneuron ar gyfartaledd yn y Chwarter	28.0	0.92	20.8	1.17

- 4.1 Mae manylion am y sefydliadau sydd ag adneuron ar gael yn Atodiad 3.
- 4.2 Yn ystod y cyfnod ni chymerwyd i fyny unrhyw fenthycar allanol.
- 4.3 Ar yr ochr buddsoddiadau, aeddfedodd adneuron tymor sefydlog gyda Banc Brenhinol yr Alban (RBS) (£5m, 1.68% hyd 364 diwrnod) ym Mai ac ar yr un diwrnod, fe ail-fuddsoddwyd y cyfan o'r arian hwn gyda RBS am 6 mis ar 0.95%.

Mae yna ddau bwynt sy'n werth eu nodi;

- Bu'r rhestr o wrthbartion gyda chredyd da yn parhau yn hynod gyfyngedig gydag ychydig iawn o wrthbartion yn bodloni'r meini prawf credyd; a
- Mae'r graddfeydd buddsoddi sydd ar gael yn y farchnad wedi parhau ar lefelau hanesyddol isel ac wedi disgyn ymhellach yn ystod y chwarter o ganlyniad i Gynllun Cyllido'r Llywodraeth ar gyfer Benthyciadau.

Yn dilyn adolygu'r opsiynau ar gyfer y cronfeydd oedd yn aeddfedu, fe wnaed y penderfyniad i ail-fuddsoddi'r cronfeydd a barnwyd mai RBS oedd yr opsiwn mwyaf ymarferol i fuddsoddi o ystyried bod y Banc wedi ei ran-genedlaetholi. Yr unig fater, fodd bynnag, oedd y sôn y gallai RBS gael ei ddad-genedlaetholi yn gynnar yn 2014 ac fe allai hynny ddod â phroblemau, ac felly risgiau ynglŷn â pha mor gryf fyddai ei gredyd. Fe wnaed y penderfyniad, gyda diogelwch y cronfeydd yn flaenaf, i fuddsoddi am 6 mis yn hytrach na'r 364 diwrnod gyda'r buddsoddiad blaenorol er mwyn lleihau'r risg o ddal buddsoddiadau ar amser preifateiddio RBS. Nid yw'r penderfyniad hwn yn egluro'r lleihad dramatig yng ngraddfa'r dychweliad rhwng y buddsoddiad oedd yn aeddfedu a'r buddsoddiad newydd; roedd y raddfa oedd yn cael ei chynnig gan RBS yr

un fath am fuddsoddiad 6 mis ag a ydoedd am 364 diwrnod, a'r Cynllun Cyllido ar gyfer rhoi benthyg yw'r prif reswm a roddir am y gostyngiad mewn cyfraddau.

4.4 O ran buddsoddiadau parhaol, fe adroddwyd yn flaenorol am faterion mesur credyd gyda Santander UK plc. Yn ystod y chwarter, fe wnaed y penderfyniad i barhau i fuddsoddi gyda'r banc. Y prif bwyntiau i'w nodi yw'r canlynol:

- Mae adran 4.3 Strategaeth Buddsoddi Blynyddol 2013/14 sydd wedi ei chymeradwyo yn manylu ar y polisi safon credyd. I grynhoi, y broses yw gosod y mesurau credyd isaf i fuddsoddiadau. Yn haenau ar ben hyn, fe geir gwasanaeth sicrwydd credyd Sector sy'n rhoi awgrym o hyd unrhyw fuddsoddiadau. At hyn, cyfeirir at ddata a gwybodaeth ar y farchnad;
- Ni welwyd newid yng ngraddfeydd credyd Santander yn ystod y chwarter, gyda'r holl raddfeydd tymor hir 2 lefel islaw'r meini prawf ar gyfer y rhestr fenthycas gymeradwy, a 2 o'r graddfeydd tymor byr 1 lefel islaw'r meini prawf;
- Y cyngor gan ymgynghorwyr rheoli trysorlys penodedig yr Awdurdod (Sector) oedd ei bod yn briodol i barhau i fuddsoddi ar sail galw;
- Roedd dadansoddiad annibynnol a monitro'r marchnadoedd yn cefnogi casgliadau Sector;
- O ystyried y cyfan o'r uchod, fe wnaed y penderfyniad i barhau i fuddsoddi gyda Santander, ar sail galw yn unig.

4.5 A chymryd yn ganiataol yr heriau parhaol a wynebwyd gyda buddsoddi cronfeydd mewn sefydliadau diogel gyda chredyd da, sy'n cynnig graddfa resymol o ddychweliad am y risg, rydym yn edrych ar opsiynau i amrywio'r portffolio buddsoddi (o ran mathau a lleoliadau daearyddol y buddsoddiadau). Byddaf yn adrodd yn ôl ar y cyfle cyntaf ynglŷn â datblygiadau yn y maes hwn.

5. Yn ystod y chwarter, bu modd i'r Cyngor gadw o fewn ei Gyfyngiadau Pwyllog a Thrysorlys. Bydd yr Adroddiad Adolygiad Canol-blwyddyn yn rhoi diweddariad a dadansoddiad o berfformiad yn erbyn dangosyddion y trysorlys ac unrhyw ddangosyddion pwyllog fel fydd yn briodol.

6. 'Roedd cyllideb y Cyngor ar gyfer eleni yn cynnwys darpariaeth refeniw ar gyfer posibilrwydd o fenthycas digefnogaeth. Bydd gofyn i'r Cyngor Sir gymeradwyo unrhyw angen i gael benthyg rhagor o arian o'r fath.

7. Y cynlluniau ar gyfer gweddill y flwyddyn yw:

- Parhau i fuddsoddi balansau sy'n weddill mewn modd sy'n sicrhau diogelwch ynghyd â hylifedd a chynnyrch;
- Parhau i fewnoli benthyca tra'n monitro'r farchnad yn rheolaidd;
- Monitro'r farchnad fel y gellir aildrefnu ar adeg briodol os daw cyfleon ar gael;
- Ymateb i gynlluniau posib ar gyfer defnyddio benthyca digefnogaeth neu gymorth benthyca unwaith ac am byth.

8. ARGYMHELLIAD

Ystyried cynnwys yr adroddiad.

Cefndir Economaidd / Economic Background

- During the quarter ended 30th June (the second calendar quarter):-
 - Indicators suggested that the economy accelerated;
 - Stronger household spending, both on and off the high street;
 - Inflation remained stubbornly above the MPC's 2% target;
 - The MPC remained in a state of limbo ahead of Mark Carney's arrival;
 - 10-year gilt yields rose above 2.5% and the FTSE 100 fell below 6,100;
 - The Federal Reserve discussed tapering the pace of asset purchases under Quantitative Easing 3 (QE3).
- After avoiding recession in the first quarter with a 0.3% quarterly expansion, it looks likely that the economy grew even more strongly in Q2. On the basis of past form, the CIPS/Markit business surveys for April and May point to 0.5% quarterly growth in the second quarter of 2013. Official output data echoed the message from the business surveys. The 3m/3m change in industrial production reached 0.9% in April, the strongest pace since July 2010. Similarly, the service sector expanded by 0.8% on the same basis. And while output in the volatile construction sector in April was 1% lower than a year ago, it was the smallest annual fall since the end of 2011, raising the prospect that the sector supported the recovery in Q2.
- There have been signs of renewed vigour in household spending in the second quarter. May's 2.1% monthly rise in retail sales overturned April's 1.1% fall. This tallied with information from the Bank of England agents, who reported a further pick-up in retail sales values in May. Non-high street spending looks to have been robust too, with new car registrations up by 20% in the year to May.
- The pick-up in economic growth appears to have supported the labour market, with employment rising by 24,000 in the three months to April. Admittedly, this was a lot slower than the 113,000 quarterly gain in employment seen on average over the past twelve months. But the rise in employment was still strong enough to reduce the level of unemployment further. The ILO measure fell by 5,000 in the three months to April while the timelier claimant count measure reported an 8,600 fall in May. Meanwhile, pay growth rebounded strongly in April, though this was mostly driven by high earners delaying bonuses until after April's cut in the additional rate of income tax. Excluding bonuses, earnings rose by just 1.3% y/y, well below the rate of inflation at 2.7% in May.
- Meanwhile, the Bank of England extended its Funding for Lending Scheme (FLS) into 2015 and sharpened the incentives for banks to extend more business funding. To date, the mortgage market still appears to have been the biggest beneficiary from the scheme, with the quoted interest rate on a 2-year fixed rate mortgage at a 90% loan-to-value ratio now 4.6%, around 130 basis-points lower in May than when the FLS was introduced in August 2012.
- Alongside the Government's Help to Buy scheme, which provides equity loans to credit-constrained borrowers, this is helping to boost demand in the housing market. Mortgage approvals by high street banks, as measured by the BBA, rose from 33,000 to 36,100 in May. Excluding a stamp-duty holiday related spike in January 2012, this was the highest level for over three years. The rise in demand has helped to push up house prices, with both the Halifax and Nationwide measures reporting a 0.4% monthly gain in May. On an annual basis, measured prices were up by 3.7% and 1.1% respectively.
- Turning to the fiscal situation, the public borrowing figures continued to be distorted by a number of one-off factors. On an underlying basis, borrowing in Q2 looked to be broadly in line with last year's figures, highlighting the government's difficulty in reducing borrowing while economic growth is relatively lacklustre.

- Meanwhile, the 2013 Spending Review, covering only 2015/16, made no changes to the headline Government spending plan. Total expenditure was still forecast to be broadly flat in real terms in 2015/16 and the £50bn planned capital expenditure announced for that fiscal year was identical to the amount already outlined in March's Budget.
- On the monetary policy front, June's MPC meeting, the last chaired by the outgoing Governor Mervyn King, showed that the Committee remained in limbo ahead of the arrival of his replacement, Mark Carney. The Committee voted 6-3 to keep the level of asset purchases unchanged at £375bn, with the majority judging that the current stimulus and Funding for Lending Scheme would be sufficient to support growth in the context of price stability.
- Having fallen from 2.8% to 2.4% in April, CPI inflation rose to 2.7% in May. May's rise mostly reflected price changes due to the earlier timing of Easter, which depressed inflation in April. Even so, inflation is still likely to have risen further in June due to base effects, with last year's fuel price falls providing an unfavourable annual comparison. That said, underlying price pressures do seem to be easing, with wages and producer prices both growing at subdued rates. Indeed, if anything, the inflation outlook brightened over the second quarter, with the price of oil falling from \$108pb to \$103pb while sterling appreciated by around 1.5% on a trade-weighted basis.
- Having continued to rally over April and May, financial markets sold off in June following a Federal Reserve statement that suggested the central bank may 'taper' its asset purchases earlier than anticipated. The resulting rise in US Treasury yields was replicated in the UK, with 10 year gilt yields rising to 2.5% from 1.8% at the start of the quarter. Equities were hit too, with the FTSE 100 falling from 6,411 at the start of the quarter to below 6,100 before ending the quarter a bit higher at 6,240.
- In the US, the statement from the Fed took the limelight. The Fed's comments sparked a sharp sell-off in the Treasury market, with 10-year Treasury yields hitting 2.54%. The Fed move was a response to the improving economic outlook in the US. Indeed, payroll figures showed that the US added 175,000 new jobs in May, helping to pull the unemployment rate down to 7.6%, from 8.2% a year ago. In the housing market, house prices rose by 12% in the year to April, which helped to bring more households out of negative equity.
- Meanwhile, tensions in the Eurozone eased over the second quarter, but there remained a number of triggers for a potential flare-up. For example, the Democratic Left party left the Greek governing coalition in June, causing 10 year Greek government bond yields to surge to 11.5% from around 8% a month ago. And while the economic survey data improved consistently over the first half of the year, the composite Eurozone PMI is still pointing to a further contraction in output in Q2. If this materialises, it would be the seventh quarter of Eurozone recession, the longest on record.

Allan o / From SECTOR Ltd

Rhagolygon Economaidd / Economic Outlook

Bank of England Inflation Report for August 2013

After the previous Inflation Report included a somewhat encouraging shift towards optimism in terms of a marginal upgrading of growth forecasts, this latest Inflation Report has occurred in the midst of a recent welter of economic statistics which has left economists and forecasters speechless in terms of finding suitable words to describe a major simultaneous shift up in gear of the economy in all of the three sectors of services, manufacturing / industrial AND construction! It is not therefore surprising that the Report upgraded growth forecasts for 2013 from 1.2% to 1.4% and for 2014 from 1.7% to 2.5%. However, Carney put this into perspective by describing this welcome increase as not yet being “escape velocity” to ensure we return to strong growth after what has been the weakest recovery on record after a recession. So very encouraging yes, but still a long way to go yet. There therefore still remains the potential for further QE, especially to depress yields of gilts under five years, which the MPC may feel are still too high with financial markets not taking on board the MPC view of when Bank Rate is likely to start to rise.

In addition to QE, the Funding for Lending Scheme (FLS), (started in August 2012), is aimed at encouraging banks to expand lending to small and medium size enterprises. The FLS certainly seems to be having a positive effect in terms of stimulating house purchases (though levels are still far below the pre crisis level), and a marginal increase in house prices. FLS is also due to be bolstered by the second phase of Help to Buy aimed to support purchasing of second hand properties, which is due to start in January 2014. However, concerns are increasing that QE, FLS and Help to Buy are also in danger of causing asset price bubbles in terms of investors seeking higher yields by switching investment of cash from gilts, (still at historically low yields despite recent rises), to corporate bonds and equities and in FLS and Help to Buy inflating house prices, resulting in prices in each of these markets being pushed to potentially unsustainable levels – which was one of the primary causes of the initial crisis in the world financial system in the last decade. Indeed, both Fitch and the IMF have recently issued warnings about a potential housing price bubble and an increase in UK Government contingent liabilities by guaranteeing mortgages where purchasers were only required to put in deposits of 5% whereas the Government provided a guarantee to lending banks on 20% of the mortgage.

As for inflation, it was forecast to be little changed from the previous Report – falling back to 2% within two years and staying there during year three.

Forward guidance caveats

Bank of England governor Mark Carney has said that the Bank will not consider raising interest rates until the jobless rate (labour force survey / ILO i.e. not the claimant count measure) has fallen to 7% or below. This would require the creation of about 750,000 jobs and could take three years. The UK unemployment rate currently stands at 2.5 million i.e. 7.8% on the LFS / ILO measure. Forward guidance was needed "so that people at home, people who are running businesses, across the UK, can make decisions - whether they are investing or spending - with greater certainty about what is going to happen with interest rates". Mr Carney emphasised that the 7% unemployment figure was not a target, but a point at which the Bank of England would re-examine interest rates.

The Bank's guidance is subject to three provisos; breaching any of them would sever the link between interest rates and unemployment levels. These so-called 'knock-outs' are:

- CPI inflation is judged more likely than not to be at or above 2.5% over an 18-month to two year horizon;
- inflation looks like it could get out of control in the medium term; and

- the Bank's Financial Policy Committee judges that this stance poses a significant threat to financial stability

This actually makes Sector forecasting more complex given the lack of available reliable forecasts by economists over a three year plus horizon.

The Sector view is that the recession was notable for how unemployment did NOT rise to the levels that would normally be expected in a major recession. The latest Inflation Report noted that productivity has sunk to 2005 levels. We are, therefore, concerned that there has been a significant level of retention of labour, which will mean that a significant amount of GDP growth can be accommodated without a major increase in employment. While this may not be quite at 'the jobless recovery level', it does support the Bank's view that it will take three years to get unemployment down to a level of 7%.

That then leaves an open question as to how likely it is that one of the three caveats could kick in.

As for the first - CPI inflation, the MPC is both judge and jury on whether to look through temporary spikes in actual CPI inflation. As for the second, the MPC has also looked through heightened inflation expectations, while wage increases have remained very low and well below inflation. The third caveat is a tough one as the Financial Policy Committee has to do everything in ITS power to ensure financial stability, so it is not very likely at all that the MPC would be likely to be called upon to use monetary policy to help in this area as a very long, long stop. So that leaves unemployment very much in the driving seat, provided all other things remain equal. Will they remain equal?

Particular headwinds for the UK economy are going to be: -

- We could be seeing the start of an economic recovery built on sand rather than rock, i.e. based on consumers spending supported by running down savings while savings rates are miniscule, and/or increasing borrowing while borrowing rates are also so low. This could cause much pain when Bank Rate does eventually go up, potentially sowing the seeds of a fresh financial crisis;
- UK exporters are struggling to make significant progress in diversifying away from their dependence on markets in the EU and so rebalancing of the UK economy away from the dominance of the services sector;
- There is potential for sterling to weaken, especially if the Government does not make major progress in reducing its budget deficit, which could lead to a tick up in imported inflation. On the other hand, international commodity prices are under downward pressure due to the downturn in the economies of China, India, Brazil etc;
- The next UK general election in 2015 is looming closer and it could be even more fraught next time forming a workable coalition. That could impact on the approach to the management of reducing the public sector deficit and so impact on the economy;
- The latest growth statistics for the Eurozone indicate that it could crawl out of recession soon. However, the UK is very dependent on Eurozone recovery for a strong recovery itself. The jury is still out on whether austerity measures could cause a self perpetuating spiral down in economic growth and government tax revenues making it more difficult to reduce government annual deficits and total debt due to decreases in tax revenues. The attempts at making a credible banking union in the Eurozone also has more holes in it than Swiss cheese;

- The Eurozone crisis has abated somewhat recently but the current “solutions” for Greece and Cyprus could prove to be only another chapter in a saga that has a long way yet to run. Then there is also Portugal..... and the recent formation of a grand coalition government in Italy between the two main parties could easily prove unworkable. The 27% level of unemployment in Spain also poses a threat to a democratically elected government trying to implement German inspired austerity;
- Germany. A general election is due in September 2013. Chancellor Merkel’s party is, currently, expected to get the most votes but she may need to rethink the composition of the ruling coalition. There is a small risk of a surprise result that could unsettle investors but more and more Germans are getting fed up with the cost of supporting weak Eurozone countries;
- China: there are increasing concerns at how unbalanced the Chinese economy is and its dependence on investment expenditure. There are also concerns around the level of credit in the economy and the robustness of the banking system in respect of dubious lending practices to state owned organisations and into the property market; and
- The price of oil is particularly vulnerable to geopolitical events. The situation in the Middle East / Iran is especially vulnerable and intractable.

On a more positive note, there appears to be a solid recovery in progress in the US, especially in terms of a turnaround in the housing market – at long last! The US banking system has also recovered well from the financial crisis so is in much better shape than in the UK and Europe to finance economic recovery. We have also seen a surge in equity prices to beat the previous record high. However, again, this looks like this has been fuelled by desperate investors seeking any home for cash apart from pathetically low yielding cash deposit accounts and US Treasuries. There is, therefore, some caution that this could be an asset price bubble waiting for a correction e.g. the sequestration cuts of \$85bn in Federal expenditure this year have yet to fully impact the economy and are expected to knock 0.5% off GDP growth.

Also on a positive note, the new Japanese Government led by Prime Minister Abe, has launched a huge stimulus programme (now being referred to as Abenomics), which appeared to have a very positive initial impact in trying to get the Japanese economy out of twenty years of stagnation and deflation. However, the positive initial impact now appears to be wearing off and the Prime Minister has yet to even start on a major reform programme to deal with the major obstacles to Japan being able to break into longer term sustainable growth. These obstacles have proved highly intractable to all previous governments.

Short term turbulence in financial markets

We can only repeat our previous warnings that we are in times when events can precipitate major volatility in markets. A growing lack of confidence in the Eurozone austerity programmes could cause bond yields to rise for Eurozone countries. This could help maintain UK gilts as a safe haven and so depress gilt yields close to current levels for some time. There is also an ongoing prospect of some further QE in the UK; this has the same effect. The updated Sector forecast is based around an expectation that we are not heading into a disorderly break-up of the Eurozone, but rather a managed, albeit painful, resolution of the current crisis. Under this assumed scenario, growth within the Eurozone will be depressed for the next couple of years and could also lower UK growth as the EU is our biggest export market.

Our PWLB forecasts are based around a balance of risks. However, we would flag up the potential for upside risks, especially for longer term PWLB rates, as follows: -

- UK inflation being significantly higher than in the wider EU and US causing an increase in the inflation premium inherent to gilt yields;

- A reversal of QE; this could initially be implemented by allowing gilts held by the Bank to mature without reinvesting in new purchases, followed later by outright sale of gilts currently held;
- A reversal of Sterling's safe-haven status on an improvement in financial stresses in the Eurozone;
- A further increase in investor confidence that robust world economic growth is firmly expected causing a flow of funds out of bonds and into equities; and
- A further UK credit rating downgrade We would remind clients of the view that we expressed in our previous interest rate revision newsflashes of just how unpredictable PWLB rates and bond yields are as we are experiencing exceptional levels of volatility which are highly correlated to political developments, (or lack of them), in the sovereign debt crisis. Please find below our revised forecasts which are based on the new Certainty Rate (minus 20 bps) which has been accessible to most authorities since 1st November 2012.

Allan o / From SECTOR Ltd

Graddfeydd Credyd Gwrthbartion buddsoddi a'r adneuron a ddelir gyda phob un ar Mehefin 2013 *
Credit ratings of investment counterparties and deposits held with each as at 30 June 2013*

Grŵp Bancio/ Banking Group	Sefydliad/ Institution	Adneuron / Deposit £'000	Hyd (Galw tymor sefydlog) / Duration (Call / Fixed Term**)	Cyfnod (O/I)/ Period (From / To)	Graddfa Dychweliad/ Rate of Return %	Graddfa Tymor Hir Fitch Long Term Rating	Graddfa Tymor Byr Fitch Short Term Rating	Graddfa Tymor Hir Moody's Long Term Rating	Graddfa Tymor Byr Moody's Short Term Rating	Graddfa Tymor Hir Standard & Poor's (S&P) Long Term Rating	Graddfa Tymor Byr Standard & Poor's (S&P) Short Term Rating	Lliw Sector/Hyd Awgrymiedig/ Sector Colour / Suggested Duration
Lloyds Banking Group plc	Bank of Scotland plc	2,974	Galw/ Call	n/a	0.75	A	F1	A2	P-1	A	A-1	Glas - 12 mis/ Blue - 12 months
HSBC Holdings plc	HSBC Bank plc	1,069	Galw/ Call	n/a	0.25	AA-	F1+	Aa3	P-1	AA-	A-1+	Oren - 12 mis / Orange - 1 2months
Santander Group plc	Santander UK plc	9,703	Galw/ Call	n/a	0.8	A	F1	A2	P-1	A	A-1	Gwyrdd - 3 mis/ Green - 3 months
The Royal Bank of Scotland Group plc	The Royal Bank of Scotland plc	5,000	Tymor Sefydlog/ Fixed Term (364 diwrnod/days)	Tachwedd/ November 2012 Tachwedd/ November 2013	1.58	A	F1	A3	P-2	A	A-1	Glas - 12 mis / Blue - 12 months
The Royal Bank of Scotland Group plc	The Royal Bank of Scotland plc	5,000	Tymor Sefydlog/ Fixed Term (6 mis/months)	Mai /May 2013 / Tachwedd/ November 2013	0.95	A	F1	A3	P-2	A	A-1	Glas - 12 mis / Blue - 12 months

* Ceir y Rhestr Benthycy Cymeradwyedig yn Atodiad 5 o'r Datganiad Strategaeth Rheoli Trysorlys 2013/14/Strategaeth Buddsoddi Blynyddol/ Appendix 5 of the 2013/14 Treasury Management Strategy Statement / Annual Investment Strategy The Approved Lending List can be found at

** Sef tymor ar pwynt y buddsoddi/Being term at the point of investment.

- Santander oedd yr unig sefydliad i beidio â chwrdd â meini prawf y Rhestr Benthycy Cymeradwyedig. Fe parhawyd i fuddsoddi yn Santander. Trafodir hyn yn Rhan 4.4./The only institution not to meet the Approved Lending List credit criteria was Santander. Investment in Santander did continue though. This is discussed in Section 4.4.
- Yn Atodiad 5 ceir y graddfeydd credyd cyfatebol ar gyfer y 3 asiantaeth graddio y cyfeirir atynt uchod./The equivalent credit ratings for the 3 rating agencies referred to above can be found at Appendix 4.

**Graddfeydd Credyd Cyfartebol/
Equivalent Credit Ratings (Fitch, Moodys, S&P)**

Tymor Hir Fitch Long Term	Tymor Hir Moodys Long Term	Tymor Hir S&P Long Term
AAA	Aaa	AAA
AA+	Aa1	AA+
AA	Aa2	AA
AA-	Aa3	AA-
A+	A1	A+
A	A2	A
A-	A3	A-
BBB+	Baa1	BBB+
BBB	Baa2	BBB
BBB-	Baa3	BBB-
Tymor Byr Fitch Short Term	Tymor Byr Moodys Short Term	Tymor Byr S&P Short Term
F1+	n/a	A-1+
F1	P-1	A-1
F2	P-2	A-2
F3	P-3	A-3