

# UK Financial Markets

January 2012

## Currency

- STG is well below its average in real trade-weighted terms.
- STG is currently below its historical averages against all of the other major currencies.
- Compared with six months ago, STG is not clearly higher or lower against the other major currencies.

## 90 Day Rates

- The short sterling futures curve has flattened during the past six months with rates generally declining.
- Futures are pricing the base rate to rise from the current 0.5% towards 1.0% in the coming year.
- The curve has flattened but is still somewhat steep by historical standards.

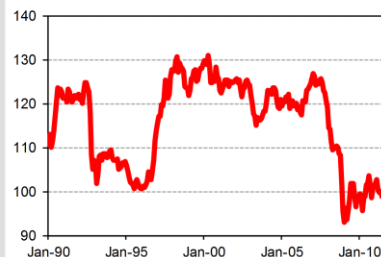
## 10 Year Yields

- UK yields are 1.0% lower than six months ago and, at 2.0%, they are extremely low by historical standards.
- UK yields have fallen in line with global yields so bond spreads have not systematically increased or decreased.
- Bond spreads are not systematically higher or lower than their historic norms against the other major bond markets.

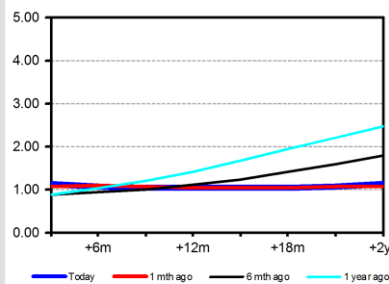
## Equities

- The market has declined sharply in the past six months and provided a loss of nearly -10% during 2011.
- A -10% loss in the past year was in line with losses in most other major markets.
- During the past five years, UK equities have returned a cumulative 5% which exceeds all other major markets.

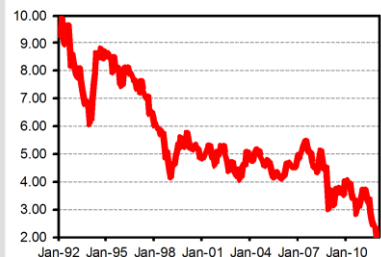
**Real Trade-Weighted Index (BIS index)**



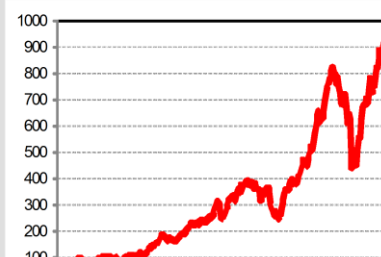
**90 day future strips (%)**



**10 year bond yields (%)**



**UK Equity Market (Total return index)**



**STG: Now vs History**

	Now	Average	Difference
USD	1.55	1.67	-8%
EUR	0.83	0.72	-15%
JPY	119	193	-62%
CHF	1.47	2.26	-54%
SEK	10.7	12.5	-17%
NOK	9.3	11.5	-24%
CAD	1.57	2.17	-38%
AUD	0.67	0.43	-56%
NZD	0.51	0.36	-43%
<b>TWI</b>	<b>102</b>	<b>116</b>	<b>-12%</b>

(average refers to 1990-2010)

**Yield Curve (10 year – 90 day)**



**Bond Spreads: Now vs History**

	Now	Average	Difference
USA	0.11	0.36	-25bp
Ger	0.20	0.70	-50bp
Japan	1.10	3.48	-238bp
Swiss	1.38	2.22	-84bp
Swede	0.39	0.15	24bp
Nor	0.05	-0.04	9bp
Can	0.10	0.15	-6bp
Aus	-1.83	-0.91	-92bp
NZ	-1.78	-1.20	-59bp

(average refers to 1995-2010)

**Recent Equity Returns**

	6m	1 year	5 years
US	-4%	2%	-1%
Euro	-18%	-17%	-34%
Japan	-13%	-17%	-52%
UK	-14%	-9%	5%
Swiss	-6%	-11%	-33%
Swede	-13%	-15%	-3%
Nor	-6%	-9%	-12%
Can	-10%	-11%	-7%
Aus	-6%	-9%	-5%
NZ	-4%	1%	-18%