

UK

Banks Report Rising Liquidity and Rising Rates

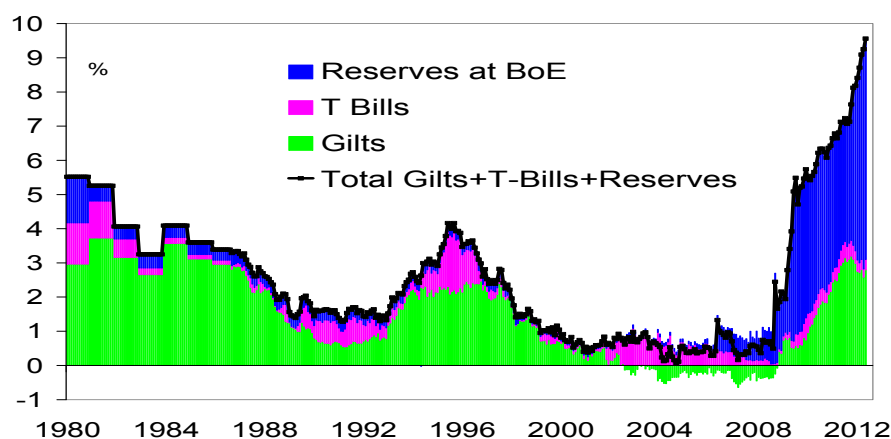
- There are several points of interest in today's BoE data. First, the number of mortgage approvals for house purchase fell to 51.1K in May from 51.6K in April, having hit 58.6K in January before the end of the first-time-buyers' Stamp Duty exemption. The number of mortgage approvals remains about half the pre-crisis norm. Second, the average interest rate on business loans up to £1m rose from 3.71% in April to 3.83% in May (ie 333bp above Bank Rate), while that on loans above £20m fell from 2.51% to 2.16% (166bp above Bank Rate). Spreads over Bank Rate on business loans below £1m have doubled from the pre-crisis days (rising to 333bp now from the 04-07 average of 167bp), whereas spreads on loans above £20m are up far more modestly, from 121bp to 166bp. These data hint at the poor state of credit availability for smaller firms, given that smaller firms are more likely to seek smaller loans. In addition, the BoE report that the average new mortgage rate rose to 3.75% in May from 3.64% in April, up by 35bp since January. Third, UK banks continue to accumulate high-quality liquid assets. Their gilt holdings rose by £8.0bn MoM in May to £104bn, while holdings of sterling treasury bills rose by £2.6bn to £11.5bn. With a small rise in banks' reserves at the BoE to £240bn from £238bn in April, aggregate high-quality sterling liquid assets hit a new record high of £356bn in May (9.6% of total sterling assets), up from £343bn in April and just £10bn (0.3% of sterling assets) in mid-07. The current figure (as a share of sterling assets) is the highest for at least 30 years. This surge in liquid assets clearly is doing little to improve credit availability. The authorities now recognize this, and a concerted approach, including QE, credit easing and easing of banks' regulatory liquidity requirements, is likely to be implemented to try to tackle this.

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Figure 1. UK — Banks' Holdings of Sterling High-Quality Liquid Assets as Pct Total Sterling Assets, 1980-2012



Sources: BoE and Citi Investment Research and Analysis

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Appendix A-1

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