EUROPEAN DISAPPOINTMENT LEADS MARKETS LOWER

This week economics again took a back seat as the news was dominated by the vote on military action in Syria and latterly, the shooting in California. Markets however have been reacting to moves from the ECB. Mario Draghi has underwhelmed many with a minor rate cut and slight extension to QE. Months of hinting had built expectations higher, and markets fell heavily on the dull reality.

Elsewhere there has been more noise form the US Federal Reserve that this time there really will be a rate hike. Half the job of central banks is setting expectations rather than interest rates, but even so the constant chatter has become tiresome. It may even be counterproductive; with one last jobs report to go, there is still time for the plan to be derailed, which will be even more damaging as the shock factor increases.

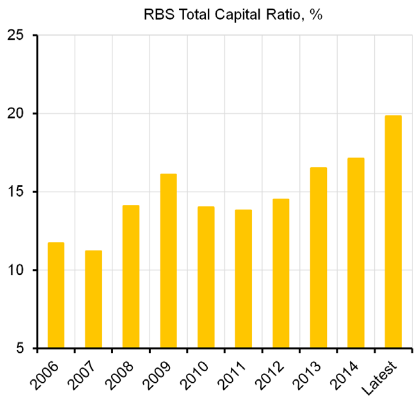
THE MARKETS THIS WEEK

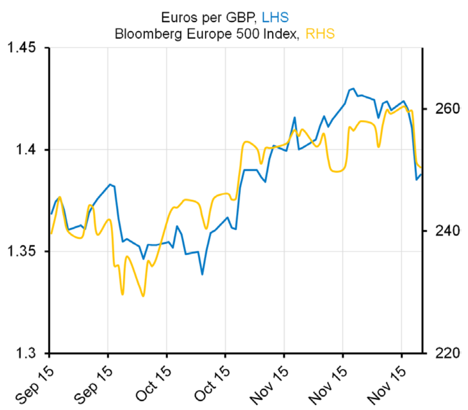
FTSE 100	S&P 500	Nikkei 225	Hang Seng	Dax 30	CAC 40	Ibex 35	Brent Crude	Natural Gas	Gold	Wheat
-1.72%	-1.88%	-1.91%	+0.76%	-4.79%	-4.48%	-2.69%	+0.49%	+2.76%	+0.35%	+0.38%

UK: BANKS PASS STRESS TESTS

All UK banks passed the BoE's stress tests published on Tuesday, although Standard Chartered and RBS had to raise extra capital to do so. Shares jumped on the day but gave back all their returns over the rest of the week, with the exception of Barclays. Lloyds was flat as of Friday morning after the government confirmed it would continue to sell down its position before offering shares at preferential rates to the public. The state now owns only 9.2% of the lender, down from 43% at the height of the crisis.

We have seen more managers buying into the banking sector this year, and there is no question the future is looking brighter. Governor Mark Carney reaffirmed that the BoE would not look to raise capital requirements further in the future, which would be good news for banks if true.





EU: FRESH STIMULUS MEASURES BELOW EXPECTATIONS

The European Central Bank announced that it would cut its deposit rate and extend its Quantitative Easing programme into 2017. However, markets were expecting an increase in amount of assets being purchased every month from the original €60bn, which did not occur, and a greater cut to the deposit rate. Consequently there were severe falls in Eurozone equity markets and knock-on effects in the UK. The Euro rose sharply against the dollar and sterling.

It should be remembered that the ECB was slow to introduce the QE in the first place, so it is not surprising that the development of the programme has been delayed. Some analysts have suggested that there is resistance within the ECB to pushing policy further. It is a useful reminder that we can't assume the Eurozone will simply follow in the US and UK's path in the coming years, having finally adopted quantitative easing. Buying European stocks over the US or UK is one of the areas of consensus trades for 2016.

CHINA: IMF ADDS RENMINBI TO RESERVE BASKET

The International Monetary Fund took the decision to add the Chinese Renminbi as one of the world's elite currencies. Starting in late 2016, the renminbi will make up about 11 percent of the basket that defines the value of IMF special drawing rights — a type of reserve asset that makes up a small but symbolic portion of overall currency reserves. The elevation of the renminbi means that other currencies in the basket will be losing some of their share — notably the euro, which will lose 6.5 percentage points, and the pound sterling, which will lose 3.2 percentage points.

For China the move is a validation of efforts over the past few years to liberalise financial markets and free up flows of funds into and out of Chinese capital markets. This decision could also boost overseas demand for the currency over time. Still, many investors foresee further slowdown in the Chinese economy and expect the People's Bank of China to depreciate its currency to increase international competitiveness.

Data Sourced from FE Analytics, and Bloomberg Finance LP