FEDERAL RESERVE RAISES INTEREST RATE

This week it finally happened. After months and even years of speculation we have finally had an interest rate rise. As far as central bank action goes, this was probably the most widely anticipated move in Federal Reserve history. As a result there has not been the sort of impact you might expect from the first rate rise in nearly a decade. Markets had mostly priced in the hike, but still rallied on the news.

While the hike in itself is immaterial - a quarter percent doesn't significantly alter borrowing costs - it is a reminder that while the financial crisis was nine years ago, we are still living in its aftermath. With that in mind, this first rate rise does not signify that things are finally returning to normal. After all this time at zero, no one can be sure what normal even is anymore. This step is the first into the unknown and is likely to have consequences beyond those predicted by forecasters or central bankers.

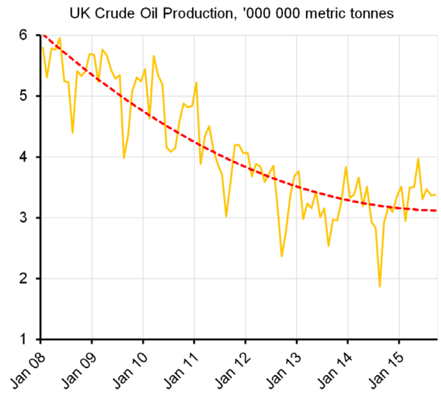
THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	Hang Seng	Dax 30	CAC 40	Ibex 35	Brent Crude	Natural Gas	Gold	Wheat
+2.45%	-0.50%	-1.27%	+1.36%	+3.24%	+2.21%	+1.88%	-3.83%	-8.44%	-1.90%	+0.00%

UK: FRACKING LICENSES GRANTED

The UK Oil & Gas Authority has granted 93 licenses to explore different parts of the UK for recoverable oil and gas reserves. Around three-quarters of the licenses are for the investigation of shale oil and gas, extracted using the controversial fracking technique. Ineos, Cuadrilla, IGas and Southwestern Energy have received large numbers of licenses.

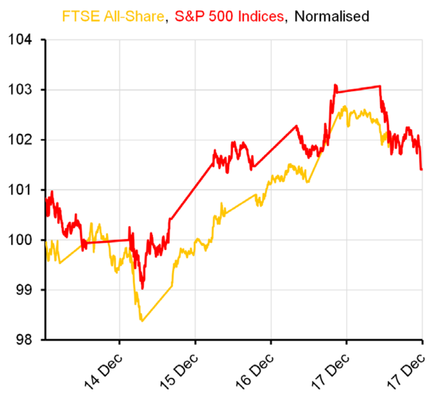
However, the companies will still need separate permissions to drill should they find recoverable reserves, which will require clearance from local planning authorities. Given that some of the areas are in national parks, there are still hurdles to overcome, although a vote in parliament has made it legal to frack in such areas. We are likely to see regulatory ping-pong in the coming years as the government puts pressure on reluctant local commissions to frack.



MARKETS: POSITIVE INITIAL REACTION TO US RATE HIKE

Equities rose after the Federal Reserve raised interest rates by 0.25% on Wednesday evening UK time. The S&P500 ended the US day up 1.5 per cent, with the FTSE All Share making a similar move on Thursday morning and the EuroStoxx 50 up almost 3 per cent. The MSCI Emerging Markets Index made over 2 per cent on the day. However, the S&P500 has since given up its gains and is trading marginally lower than before the hike. The UK and European markets are still up but have given up more than half their gains. It is the Emerging Markets index which has done the best, having retained almost all of its post-hike rise.

In the bond markets there was a mild reaction. It was only the short-dated US bonds which saw significant yield rises as investors seem to have moved further out along the maturity curve – the US 10 year treasury actually saw yields fall. The UK gilt market was trading tighter all along the curve. In both cases the markets had seen yields rise ahead of the meeting and then tighten on the announcement.



EMERGING MARKETS: SLOWING INVESTMENT FLOWS IN 2015

Foreign investment in emerging markets has dropped to the lowest level since the financial crisis. According to the Institute for International Finance, net inflows from overseas investors have dropped from $285bn in 2014 to $66bn this year. Following the 2008 crisis, the growth in emerging markets was in part fuelled by access to cheap funding by virtue of low interest rates in developed nations. This also triggered the build-up of corporate debt in emerging markets, which doubled between 2008 and 2014.

Investors are now divided as to whether the interest rate rise by the US Federal Reserve has already played out, and prices in emerging market debt and equity benchmarks have adjusted to the upcoming changes; or will the sell-off intensify for indebted companies and economies, dragging these markets lower. One key determinant of emerging market growth will likely be the knock-on effects of currency moves should investment flows further deteriorate, or actually reverse.