ANOTHER GLOBAL SELL-OFF GREETS THE NEW YEAR

This week has seen a number of significant events, with a huge burst of market volatility kicking off the New Year and blowing away any lingering cobwebs after the festive season. Much of the turmoil can be attributed to China, where the government is struggling to come to terms with the fact that it is unable to exert its usual level of influence on the stock market. After four days of chaos the offending circuit breaker system has been discarded.

Elsewhere, our own chancellor spooked markets by warning of an imminent rise in interest rates, while also describing a dangerous cocktail of economic uncertainties that makes a hike less likely. Following the US rate rise last month, speculation over when the UK will follow suit will be the feature of 2016. Just as in the US, we expect it to be later than most are predicting with Mark Carney likely to be more worried about rising too soon rather than too late. The global economy looks like presenting a headwind in 2016, while George Osborne's insistence on fiscal consolidation will probably add to contractionary pressures, meaning a need for tighter monetary policy to cool down the economy is uncertain.

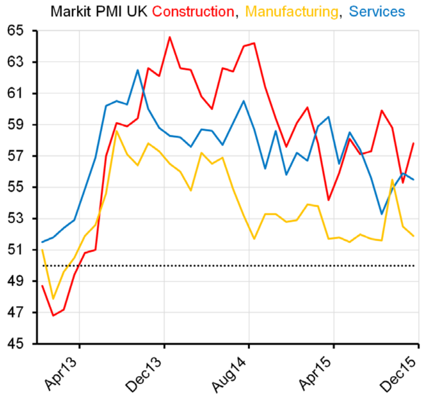
THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	Hang Seng	Dax 30	CAC 40	Ibex 35	Brent Crude	Natural Gas	Gold	Wheat
-4.18%	-5.83%	-7.02%	-6.67%	-6.93%	-5.31%	-5.28%	-9.02%	+1.46%	+3.33%	+0.48%

UK: ECONOMIC DATA MIXED

The latest PMI data saw a slight dip in activity for the UK services sector, slowing to 55.5 in December, and down from 55.9 in November. A reading above 50 represents expansion in the economy. Optimism in the services industry is now at a 3-year low, and highlights Britain's struggle in achieving a balanced economy. Manufacturing exports slowed at the end of 2015 as well, whilst the British Chambers of Commerce in their survey of 7,500 firms concluded that the sector is "close to stagnation". Nevertheless, the construction sector is still seen as robust as housebuilding recovered strongly in December.

Meanwhile, UK car sales enjoyed a record year in 2015 as buyers took advantage of a number of tailwinds. Rising consumer confidence, cheap fuel and easy borrowing mean that domestic sales have been rampant of late, culminating in an extraordinary run whereby there has only been one fall in purchases in the last 46 months. The expansion of consumer credit is likely to yield another successful year for 2016.



CHINA: MARKETS IN TURMOIL

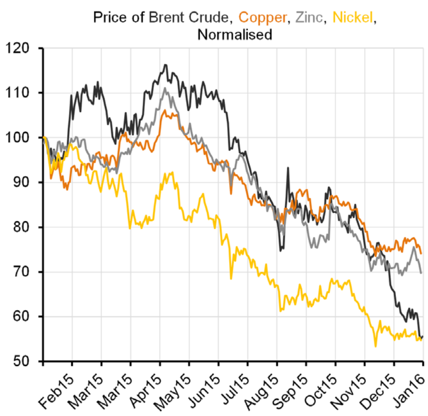
The Chinese markets endured a torrid start to 2016 as shares plunged nearly 10 per cent this week on the Shanghai Composite Index. Introduced on Monday, Thursday marked the second day when the controversial use of "circuit breakers" suspended trading in the markets after only 30 minutes, designed to prevent further panic selling. As of Friday, the Chinese regulators announced that they had discarded this ploy while a so called national team of buyers propped up share purchases, enabling Shanghai to close up nearly 2 per cent.

The mismanagement of such an event by policymakers has done little to inspire investor confidence, with global markets tumbling and commodities being hit further. Fundamentals are slowly weakening as China struggles to cope with a rather pronounced slowdown in its economy. Only in December, the biggest ever monthly drop in foreign reserves was recorded, as they declined by $107.9bn. Part of this fall could be attributed to the decision by the US to raise rates last month, making dollar-denominated assets more attractive to investors.

COMMODITIES: BRENT AT 11 YEAR LOW

Brent crude fell to its lowest price since 2004 at under $33 a barrel on Thursday, largely in response to the market turmoil in China. Other commodities fared no better, with copper falling to $4,486 a tonne and both nickel and zinc extending their losses too. It means there was little new year cheer for UK mining and energy stocks; the share prices of diversified miners Glencore and Anglo American fell both 8 per cent and 11 per cent on Thursday.

Elsewhere, Saudi Arabia announced this week that it is taking a view on listing shares in Aramco, the state-owned oil producer. The deputy crown prince, Mohammed bin Salman suggested that any decision over an initial public offering would be taken "over the next few months". Aramco is responsible for producing 12.5 per cent of the world's oil, and taking the company public would place a value on the firm in the trillions of dollars. Apple is currently the most valuable company in the world at $543bn, however it is expected that Aramco will easily take its crown if it is fully listed.



Data Sourced from FE Analytics, and Bloomberg Finance LP