WORLD LEADERS GATHER IN DAVOS AMID MARKET TURMOIL

Prime Minister David Cameron was one of the many esteemed guests at the World Economic Forum in Davos this week, as he reiterated his stance on achieving reform on Britain's standing in the European Union. As well as a potential Brexit, other key points discussed at the summit included the inherent risks in global financial markets, as well as the recent escalating political tensions between Iran and Saudi Arabia. Though one noticeable absentee from the annual gathering in Switzerland was Russian President Vladimir Putin, who was probably too busy picking the bones from a domestic currency crisis and an independent inquiry relating to the murder of KGB agent Alexander Litvinenko in 2006.

Markets continued their dismal start to 2016 with further losses in the first part of this week, however hints of further stimulus by European Central Bank president Mario Draghi sent European bourses jumping by the end of the week. The ECB's "no limit" approach of pumping more and money into the financial markets ignores the fact that all assets have an intrinsic value, and history tells us that they inevitably return to this value over time.

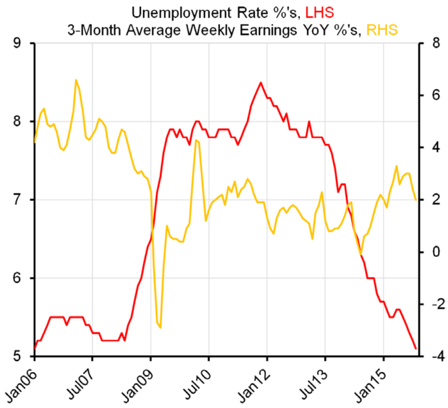
THE MARKETS THIS WEEK

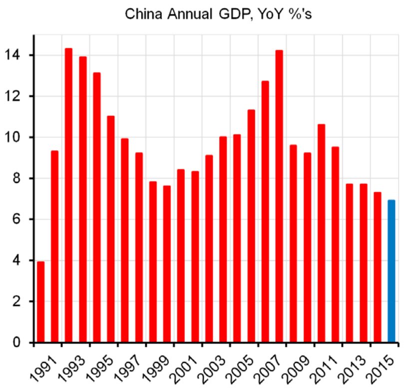
FTSE 100	S&P 500	Nikkei 225	Hang Seng	Dax 30	CAC 40	Ibex 35	Brent Crude	Natural Gas	Gold	Wheat
+1.67%	-1.13%	-1.10%	-2.26%	+2.23%	+2.89%	+2.01%	+7.81%	+0.51%	+1.54%	+1.65%

UK: WAGE GROWTH PRESSURES BLUR HIKING SCHEDULE

The case for a rise in interest rates in Britain was further sidelined on Tuesday, as the Bank of England governor Mark Carney admitted that the Bank has no timetable in place for a hike. Despite the UK unemployment rate falling to 5.1 per cent, its lowest in a more than a decade, this has failed to translate into any sort of real wage growth. Carney then went on to concede that the jobless level which triggers inflationary wages is likely to be lower than previously thought.

Wage growth disappointed in the three months to November, as average weekly earnings including bonuses rose by 2 per cent, down from 2.4 per cent in the three months to October. A number of factors are to blame for this weak performance; namely, an expanding workforce, employees opting to work fewer hours, and low inflation. Although December's reading for inflation came through at an 11 month high of 0.2 per cent, the consumer price index averaged zero in 2015, meaning that workers still enjoyed strong real wage growth throughout last year.





CHINA: GROWTH AT SLOWEST FOR A QUARTER CENTURY

A first contraction in steel production and power generation for over 25 years were among the many reasons as to why last year marked the slowest growth in Chinese GDP since 1990. The China Iron & Steel Association noted that demand for steel has fallen across key sectors such as machinery and ship building, with a 5 per cent decline in steel output expected for 2016. In a broader sense of how the economy is performing, data from the National Bureau of Statistics places national growth in 2015 at a questionable 6.9 per cent, while Beijing estimates that this figure for 2016 will decline to 6.5 per cent.

The grim industrial data was then followed by a report issued by the Institute of International Finance, concluding that the level of capital outflows in 2015 surpassed those of previous estimates. A weakening renminbi has triggered overseas investors to haul money out of faltering Chinese equity markets, with some $676bn worth of outflows in 2015. This accounted for more than 90 per cent of total outflows from emerging market economies last year.

RUSSIA: RUBLE HITS RECORD LOW AGAINST DOLLAR

The fallout from the sinking oil price is translating into renewed currency weakness for the Russian ruble, as it fell to a record low of Rbs85.97 to the dollar on Thursday. As a major oil producer, Russia's economy is already mired deep in a recession, while the government struggles to get to grips with reducing its budgetary dependence on oil and gas revenues. Continuing sanctions imposed by the West are not helping matters either, as leading economists warn that the money could soon dry up. Nevertheless, the central bank maintains that the ruble is trading at fair value and that intervention is not required, unlike in 2014.

The implications of weakness in emerging market currencies means that borrowing costs are at their highest level in five years for dollar-denominated debt. According to JPMorgan's weighted index, the average government borrowing cost stands at 6.7 per cent, up from 5.3 per cent this time last year. Last month's hike in US interest rates is testing the mettle of corporate borrowers, where total debt has more than quadrupled from $4tn in 2004 to $18tn in 2014.