EU REFERENDUM PROGRESSES ALONGSIDE WEAK MARKETS

This week there has been much fuss about David Cameron's "deal" struck with the EU, which has been widely perceived as disappointing. The EU membership debate is so emotionally charged that it was always likely that whatever concessions Britain was able to secure would have been dismissed. We feel the least risky option is to preserve the status quo, so an agreement that doesn't really do anything isn't so bad. While the uncertainty around a referendum will weigh on markets, the absolute unknown of the impact of a "Brexit" would be to cause devastation in the short and medium term; however this is an issue that has hampered governments for decades, finally putting it to rest might just be worth all the uncertainty.

Elsewhere the other big news item this week was Mark Carney's dismissal of any immediate rate rise. While most people should have come to accept the Bank's inherent reluctance to raise interest rates, the markets still reacted to what ultimately should have been obvious. With the risks of hiking rates too early so much greater than hiking them too late, it wouldn't be surprising if another round of bad news pushed expectations back even further.

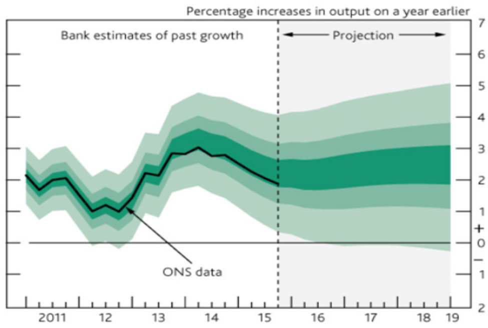
THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	Hang Seng	Dax 30	CAC 40	Ibex 35	Brent Crude	Natural Gas	Gold	Wheat
-3.04%	+1.01%	-2.70%	-2.54%	-4.13%	-4.27%	-3.94%	+2.41%	-2.70%	+3.35%	-1.36%

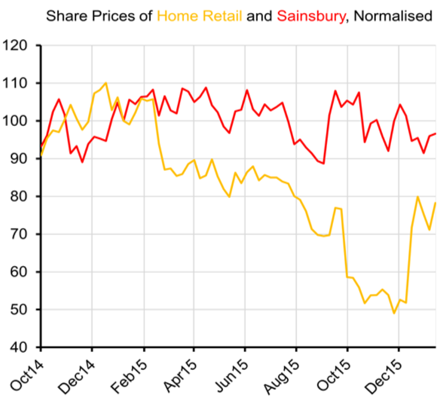
UK: BANK OF ENGLAND SLASHES GROWTH FORECASTS

Growth in the UK is likely to be fractionally lower than was expected last November, according to the Bank of England's inflation report for February, coming in at 2.2% rather than the 2.5% previously forecast. Inflation for the consumer is likely to be only 0.4% for the full year from the previously expected 0.7%. The result is that the MPC voted 9 to 0 to keep rates at their current level, with even the most hawkish member throwing in the towel. It is worth remembering that in 2014 the committee was voting 7 to 2 to keep rates at 0.5%.

Global economic softness is to blame for both changing figures, according to the BoE, with the domestic economy still looking healthy – rising house prices and real wage growth show the consumer is in good health - while the falling likelihood of rate rises is also helping through a falling currency, both factors counteracting deflationary forces. Sterling could well depreciate further ahead of a looming Brexit vote.



Source: Bank of England



US/UK: BATTLE FOR THE WEB

LinkedIn shares fell 28% in after-hours trading on Thursday after the company reported revenue would be down just 5%. Although it is true that EPS was down 26% thanks to write-downs, this was down to exceptional non-recurring items, so the huge move on such a small change in expectations shows the extraordinary volatility in the tech companies which have been one of the major drivers for the US equity market. LinkedIn is facing a competitor in much smaller rival GlassDoor, a site which allows users to post anonymous reviews of where they work. The company has floated the possibility of allowing users to set up personal profiles.

In the UK Sainsbury's is attempting to take on Amazon and the other leaders in online retailing with the acquisition of Home Retail Group, which gives it access to Argos' logistics network in the UK. Sainsbury's has very ambitious targets for synergies from the deal, but few traditional retailers have made a success of moving online. This is still a highly competitive market and there will clearly be big winners and losers.

GAZPROM: AFTER OIL, A NEW GAS WAR?

Could Russia and state-owned company Gazprom be about to start a price war in the global gas market? With the prospect of a wave of US liquefied natural gas (LNG) supplies starting to hit the market later this year, energy investors fear the Russian state gas giant may adopt the same strategy in the gas market that Saudi Arabia has done in oil. Just as Saudi Arabia is the main swing producer for the global oil market thanks to its ability to ramp up production if needed, Gazprom is the main holder of spare capacity in the global gas market. And just as Saudi Arabia has been unnerved by the prospect of US shale oil producers eroding its market share, Gazprom faces a similar prospect in the gas market.

There would also be a political benefit for Russia to depress prices. For years the European Union has tried to diversify away from Russian gas. The Ukraine crisis accelerated the efforts to find alternative sources because of perceived hostility, but if Gazprom intentionally depresses prices, it could undermine the EU's efforts, since cheap gas would be hard to pass up.