
## BREXIT DEBATE DOMINATES HEADLINES

This week has been dominated by "Brexit". No more than a day after we vowed not to mention it again until the referendum date had been announced, David Cameron duly named June 23rd as Referendum Day. Markets have not reacted well, with the pound dropping on the news; and a seemingly endless parade of business leaders coming out in support of one side or the other has provided no end of news coverage. Boris Johnson's decision to back the leave campaign has also added to the drama, giving hope to Eurosceptics requiring a popular and charismatic leader to see them over the line.

Elsewhere the world economy continues to show signs of slowing. World trade has slumped and confidence indices across the major economies show signs of weakness. While the consensus view is that a disaster is still a remote possibility, the prospects for growth look grim. With this in mind we would prefer the government to be focused on the economy rather the referendum, but at least now there is an end point in sight.

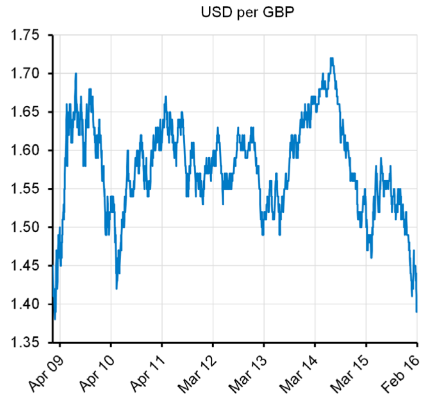
## THE MARKETS THIS WEEK

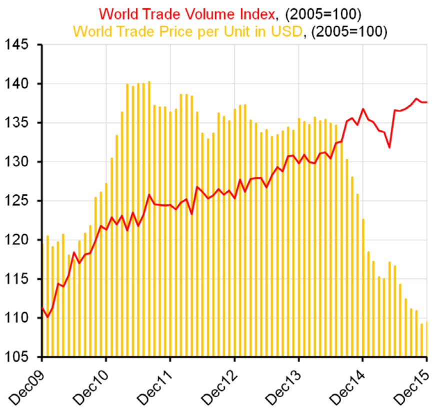
| FTSE 100 | S&P 500 | Nikkei 225 | Hang Seng | Dax 30 | CAC 40 | Ibex 35 | Brent Crude | Natural Gas | Gold | Wheat |
|---|---|---|---|---|---|---|---|---|---|---|
| +1.05% | +0.62% | +1.08% | -2.06% | -0.60% | +0.60% | +0.26% | +6.00% | -4.30% | +1.06% | -3.57% |

## UK: DEUTSCHE BORSE REVEAL INTENTIONS TO MERGE

London has this week been revealed as the domicile for a proposed merger between Deutsche Borse and the London Stock Exchange. Sources close to the two sides reveal that incumbent boss of the German company, Carsten Kengeter, would become the chief executive of the new group. A more challenging environment in equity trading has lowered both companies' market shares since the last failed bid by Deutsche Borse in 2006, so the prospect of increasing their influence in derivatives trading seems to be the purpose behind the move this time. Critics say that the proposal by Deutsche Borse is far from coincidental with the looming Brexit referendum having been announced this summer.

Concerns over Brexit saw sterling sink to seven year lows on Wednesday. Volatility in the world's fourth most traded currency has seen it drop to less than $1.39, not far off the low of $1.35 seen in 2009. A stark warning delivered by economists at HSBC say that the pound could fall by as much as 20 per cent in the event of Britain leaving the EU.




## EM: GLOBAL TRADE FIRM FOR 2015

Data released by the Netherlands Bureau of Economic Analysis on Thursday revealed that 2015 was the worst year for world trade since the financial crisis. A 13.8 per cent contraction in the dollar value of cross border trades last year will be concerning to global policymakers. Despite this, the volume of goods traded was robust for the year, recording 2.5 per cent annual growth, but down from 3.2 per cent in 2014. In January, China recorded double digit annual falls in both exports and imports, as softening demand threatens to undermine the country attempts to transition smoothly away from industry to a services led economy.

The subdued activity in global trade is hurting those countries which are heavily reliant on exports as a proportion of Gross Domestic Product. South Korea is the world's sixth-largest exporter and generates half of its GDP from overseas shipments of goods; 25 per cent go to China alone. Meanwhile, Seoul reported at the beginning of this month its largest monthly decline in exports for nearly seven years, falling 18.5 per cent year-on-year.

## GOLD: HAVEN ASSET SOARS 17% IN 2016

Since the start of the year the price of gold has increased by its largest amount since 1980; on Thursday it was up by 17 per cent. Production of the precious metal has been cut in recent years while appetite for gold, which acts as an inflation hedge in portfolios, has surged in both China and India. Combine these factors with the introduction of negative interest rates by many central banks such as Switzerland and Japan, and the reasons for buying gold become more obvious.

Still, macro driving forces are unlikely to be as influential as market psychology. Gold is traditionally seen as a safe haven asset for investors when markets are particularly volatile. Disappointing PMI data on Wednesday indicated that US services activity had fallen in February to 49.8, down from 53.2 in January. A reading below 50 signals contraction. Not long after this, gold futures had reached a high of $1,254 an ounce, with investors snapping up 50 tonnes of the precious metals in just two days, the highest volume purchased in ETFs for six years.