BANK OF ENGLAND GIVES BREXIT WARNING

This week the Bank of England held interest rates at 0.5 per cent. Nothing spectacular here, however what was more poignant was the Bank's warning that uncertainty surrounding the EU referendum could lead to "some softening" of growth in the first six months of this year. Despite there being nothing concrete about what the Bank has said, financial information firm Markit has reported that business confidence is already suffering as a result of June's referendum. Expect further prophecies to be made from both camps, given that we are now a little over two months until the vote.

Following the fervent speculation which followed the Panama Papers leak last week, five of Europe's largest economies this week demonstrated their collective support for a new crackdown on international tax dodging. The news has been welcomed by an array of leading financial institutions; however the five nations may face a greater challenge in persuading the rest of the G20 nations to jump on board. The notion that the US, Saudi Arabia and China will agree to sharing details on highly secretive tax information seems a bit farfetched right now.

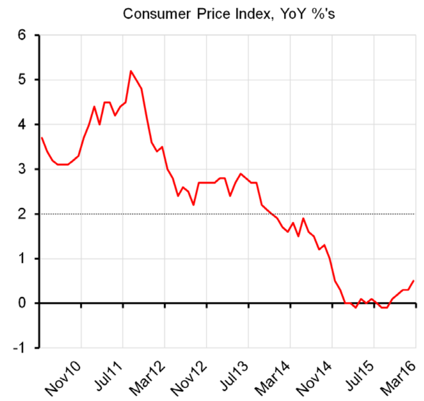
THE MARKETS THIS WEEK

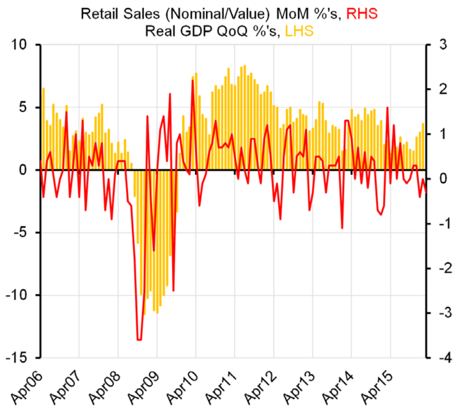
FTSE 100	S&P 500	Nikkei 225	Hang Seng	Dax 30	CAC 40	Ibex 35	Brent Crude	Natural Gas	Gold	Wheat
+2.59%	+1.98%	+6.89%	+4.75%	+4.90%	+4.84%	+5.15%	+4.07%	+2.34%	-0.92%	-0.11%

UK: INFLATION NEWS SPARK HOPES

This week was marked by the Office for National Statistics' most recent inflation release. The Consumer Prices Index rose by 0.5 per cent in March, exceeding expectations, and marking the highest level since December 2014. The rise can be attributed mainly to the 22.9 per cent increase in air fares between February and March, caused by the Easter holidays falling on earlier dates this year. Despite the contributing factors being only temporary, the news gave Sterling an immediate boost in trading against the US Dollar. The Bank of England's 2 per cent inflation target is however on the horizon still, especially in light of the slowdown in wage growth and anticipation for the June referendum.

The vote on EU membership is also causing house price inflation to slow, as Brexit prospects loom on the property market. According to estimates from the Royal Institution of Chartered Surveyors, prices will fall over the next three months, with real estate inflation varying between 5.7 per cent and 10.1 per cent over the next 12 months.





US: TROUBLING PUBLIC DEBT DATA

Analyst estimates from the Stanford Graduate School of Business found a worrying $3.4tn hole in US public pension funds this week. The news is particularly troubling when one considers the examples of Detroit and San Bernardino, cities which have both filed for bankruptcy in recent years over public pension liabilities. The study blames overly optimistic return estimates for the shortfall, since costs and liabilities have been calculated on the premise of 7 to 8 per cent annual returns. Instead, a more realistic return rate is 2 to 3 per cent a year, based on US Treasury bond yields.

Elsewhere, further troubling news of a weak first quarter for the US economy came, as retail sales fell unexpectedly in March. Primarily driven by large decreases in car purchases, this figure fell by 0.3 per cent. The sluggish consumer activity has prompted estimates of just 0.2 per cent annualised real GDP growth for the first three months of the year, which is in stark contrast to the 1.4 per cent growth measured in the fourth quarter.

CHINA: CORPORATE BOND DEFAULTS ON THE RISE

The number of bond defaults by Chinese state-owned groups has risen sharply according to the latest official data. While only 12 publicly issued bonds have defaulted since 2014, there were 62 bond issue cancellations in March, and a further 18 cancellations worth $2.8bn since the beginning of April alone. The rise in defaults can be attributed to the pronounced slowdown in Chinese manufacturing and construction, which has hurt the steel and coal industry. In a change of policy, the news marks a new approach taken by the government, who are not so keen to bail in corporate defaults.

Meanwhile, the most recent data on Chinese dollar-denominated exports brought cheer as their numbers rose 11.5 per cent, beating the expected growth rate for March. Of those, exports to the US were up 9 per cent and those to the EU have jumped 17.9 per cent. Even though the economic stabilisation of China is still a long way off, the news immediately galvanised local indices, which hit new highs for 2016.