BOE DISH OUT BREXIT WARNING

This week it's Brexit again. While we've tried to avoid it as much as possible we have to accept that the referendum on Britain's EU membership is now the leading issue affecting market. Number one status was confirmed this week when Mark Carney intervened to warn of the probability of a recession should the nation vote to leave.

While much of this will be written off as scaremongering by out campaigners, it is set against a worsening backdrop for global growth. With odds of a recession shortening anyway, the additional disruption would be especially unwelcome. The possibility of a rate cut and even negative rates in the short term in response to a leave vote makes the result in June even more significant for investors.

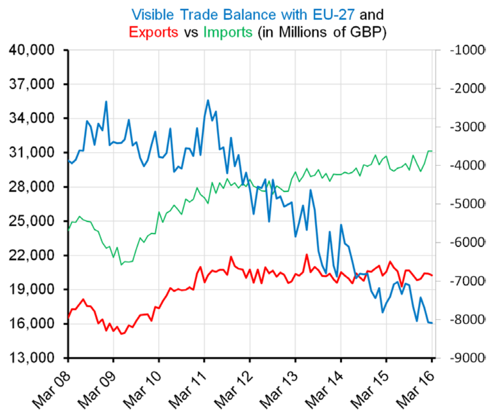
THE MARKETS THIS WEEK

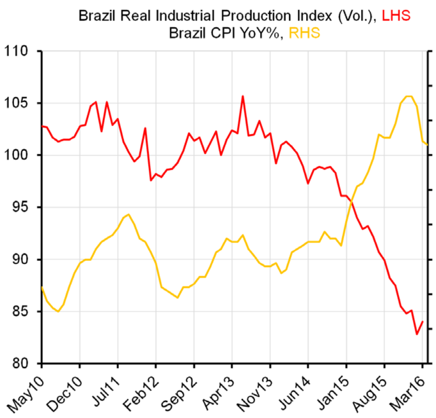
FTSE 100	S&P 500	Nikkei 225	Hang Seng	Dax 30	CAC 40	Ibex 35	Brent Crude	Natural Gas	Gold	Wheat
-0.35%	+0.67%	+3.35%	-0.97%	-0.08%	-0.19%	-0.45%	+5.86%	-1.70%	-1.88%	+1.16%

UK: TRADE DEFICIT AT RECORD HIGHS SINCE RECESSION

The Office for National Statistics released new data on the UK trade deficit earlier this week. The level of which imports exceed exports with the rest of the EU has reached an eight-year high, increasing £1.1bn in the first quarter of 2016 alone. It means that the net trade balance peaked at negative £13.3bn, which is the largest level since 2008. While the news was quickly absorbed by both sides of the Brexit debate, the numbers highlight sluggish exports as the main contributor to the imbalance in the UK economy, which rose at slower rates of 1.6 per cent than EU imports, at 2.3 per cent.

Meanwhile, in its quarterly inflation report released on Thursday, the Bank of England took a firm stance on a potential Brexit vote, outlining "technical recession" as highly probable. An inflation shock is likely to follow a Leave vote, according to the report, which would require increase in interest rates for stabilising purposes. In anticipation of the referendum, the BoE has decided to maintain the current record low bank rate at 0.5 per cent.





BRAZIL: HOPES AMIDST POLITICAL TURMOIL

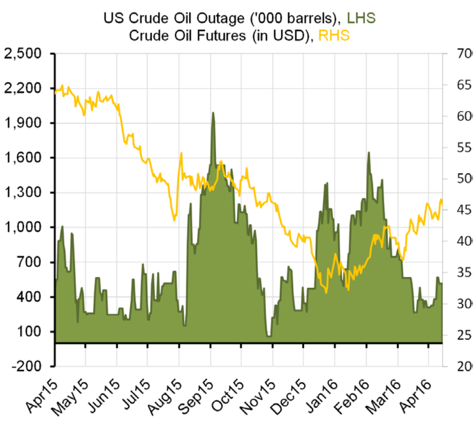
This week finally delivered the long awaited government shake-up in Brazil. Michel Temer of the opposition Democratic Movement party will resume the position of Dilma Rousseff, the impeached President, bringing with him hope that much needed reforms will finally reboot the Brazilian economy. According to recent estimates by the Brazilian Central Bank, 2015 and 2016 will represent the first two consecutive years of economic contraction since the 1930s, as Brazil's economy is expected to shrink by 3.89 per cent in 2016. The state-owned oil giant Petrobras, whose mismanagement also fuelled the political turmoil, announced this week large first quarter losses of $340m, and a decline in production and revenue in line with the economy's present state.

In April the Brazilian Central Bank voted to keep interest rates at a near-decade high of 14.25 per cent, in a clear attempt to stabilise the spiralling inflation rate of 9.3 per cent. There are high hopes that a more market-friendly reform agenda may return the Brazilian economy to positive growth, with forecasts in place for 0.4 per cent expansion in 2017.

OIL: GOOD NEWS FOR PRODUCERS

US crude oil prices copied their November highs by rising 4 per cent earlier this week, amidst an announcement by the US Administration's that crude inventories had fallen by 3.4 million barrels in just seven days. These figures are in stark contrast to the initial estimates which indicated an increase in inventory. The price rally has been brought about by a recovery in oil demand, which is expected to continue throughout this year according to the International Energy Agency's latest report. The IEA confirm that global oil giants are expected to see a "dramatic reduction" in production over the next two quarters of this year.

Demand is driven by a recovery in emerging markets, particularly India's oil consumption, which has been on a steady rise. On the other hand, supply outages in Canada and Nigeria, brought about by environmental and political crises, respectively, have also attributed to the rally. Gulf economies have responded to the macro trends promptly as well, while the Saudi state-owned firm Aramco formalised plans to increase production in 2016, thus heightening the anticipation of its first public listing.



Data Sourced from FE Analytics, and Bloomberg Finance LP