BREXIT ON THE AGENDA

This week has been Brexit again. Given that it will be Brexit every week between now and the end of June, we'll try and sum it up here and look for more interesting things to talk about until after the vote. The arguments that have intensified this week have been economic. Economic forecasts have quite a lot of assumptions in them and thus are open to being manipulated. Our take is that the uncertainty following an out vote will have some negative impact, probably not as much as the Treasury is forecasting, but certainly not nothing as proposed by the out camp.

The long term impacts are much harder to predict, but it's worth noting that the IMF, World Bank, BoE, G7, Treasury, and 196 academic economists have all come out recently and claimed the long term effect will be negative. Boris Johnson, Nigel Farage, Donald Trump, Marine Le Pen and John Redwood think it will be fine. The economic case for leave is not very strong, but was never the main driver of the referendum. For some even a negative economic impact will be a price worth paying.

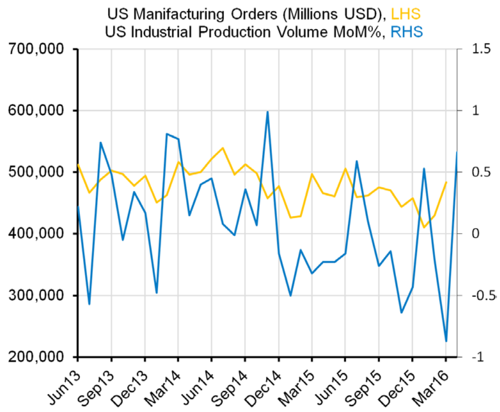
THE MARKETS THIS WEEK

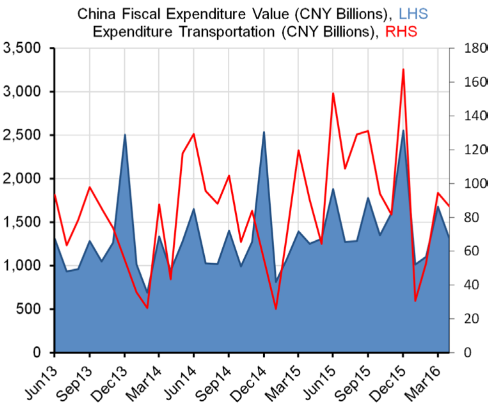
FTSE 100	S&P 500	Nikkei 225	Hang Seng	Dax 30	CAC 40	Ibex 35	Brent Crude	Natural Gas	Gold	Wheat
+1.78%	+2.48%	+0.22%	+2.74%	+3.60%	+3.65%	+3.51%	+3.21%	-3.21%	-2.58%	+2.89%

USA: FED HOPES FOR GOOD NEWS

This week's US Federal Reserve meeting spurred hopes of a strengthening of US dollar, with a rate hike now expected as early as the middle of the year if current economic conditions persist. The decision comes after the publishing of optimistic US manufacturing output results for April. Total industrial production, including mines and utilities, made its biggest advance since November 2014 by growing with 0.7 per cent. The news sparked hopes that the US industry may be finally over the manufacturing slump, which started last year.

The Federal Reserve warned that any interest rate decisions are dependent on the second quarter economic results. After muted growth in the first three months of 2016, a strengthening labour market and on-target inflation are expected to keep GDP expansion on track for the 2.25 per cent growth forecast. The drawdown in commodities markets earlier in the year is still having a palpable effect on the economy, with US business capital spending weakening in April for a third straight month according to latest data reports.





CHINA: BALANCING ON CHANGE

Following the US Fed meeting, the People's Bank of China reacted promptly on Wednesday by fixing the renminbi's daily currency level to its lowest in five years; a 0.34 per cent fall from the previous day's fix. While the move is seen largely as an adjustment to the US dollar rally, the broader picture is that Beijing now worries about fast currency depreciation. China's Finance Ministry announced earlier this week plans to issue RMB 3bn of bonds in the largest offshore listing since 2011. The sale will be clearly an assessment of foreign investors' appetite for Chinese assets following a turbulent first half of the year for the country.

Meanwhile, the Chinese government is investing heavily in transport infrastructure projects, following announcements earlier in May. The project worth of RMB 5tn will aim to keep the flagging heavy industry and construction sectors on track, yet leaving a stimulus of the staggering domestic consumption out of the agenda.

LATIN AMERICA: NO SILVER LINING YET

This week's spike in crude oil prices does not appear to have provided any respite to the politically distressed region of Latin America. The extent of the economic crisis in Venezuela was highlighted this week as it came to light that the Venezuelan government has sold $1.7bn worth of the gold just to repay debts incurred in the first quarter of this year. Over the past twelve months the gold reserves of the country have dropped by almost a third. As crude exports account for 95 per cent of export revenue, the IMF has projected an eight per cent shrink in the Venezuelan economy for 2016.

Elsewhere, growth prospects are suffering for other economies in the region, as the Mexican government has cut its 2016 growth forecast. An initial growth range target of between 2.6 to 3.6 per cent has been slashed to 2.2 and 3.2 per cent, highlighting the high dependency which Mexico has on both the US economy and commodity markets.