GOVERNMENT YIELDS SENT LOWER UPON UNCERTAINTY

This week, aside from the obvious, there has been a lot of attention on the US election and government bonds. Looking at the most interesting element first, the Japanese issued 10 year bonds that that will cost more to buy than you'll ever get back from them. There is now $10 trillion of bonds which have these effective negative rates. It is odd that investors are so desperate to lend the government money that they're willing to pay them to take it; at the same time the German finance minister, who can borrow money at a rate of 0.04 per cent, issued another warning about losing fiscal discipline.

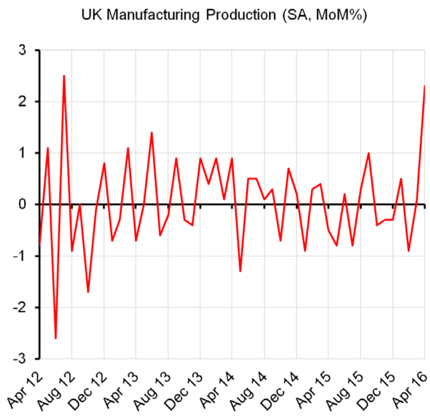
That people so are afraid of investing in the markets that they'd rather pay countries to keep it under their sovereign mattresses probably has something to do with the second point. Tuesday's primary results finally wrapped up the democratic nomination for Hillary Clinton, who has the honour of being the first female presidential candidate of a major party. She also has the dubious distinction of being the second most unpopular candidate at this stage in an election, when looking at favourability ratings. Luckily for her she's up against the most unpopular on record.

THE MARKETS THIS WEEK

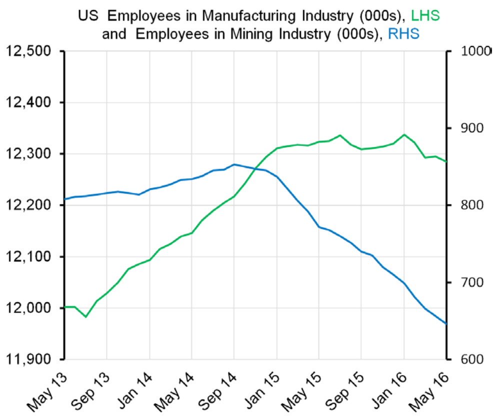
FTSE 100	S&P 500	Nikkei 225	Hang Seng	Dax 30	CAC 40	Ibex 35	Brent Crude	Natural Gas	Gold	Wheat
+0.36%	+0.66%	+0.16%	+2.10%	-0.14%	-0.37%	-0.36%	+2.75%	+0.97%	+2.05%	+2.61%

UK: CHECKING THE NUMBERS

This week finally witnessed the acute effect of political uncertainty on markets – the publishing of pre-election polls and the march of the Leave campaign, with a 4 point lead at one point - saw the highest implied volatility in Sterling since 2009. Signals from the markets affirm the Treasury's position that a Leave vote would prompt recession, where the economy is expected to contract 0.1 per cent every quarter for one year. Bank of England estimates that extreme uncertainty following the vote could reduce UK's GDP by 0.8 per cent in one year and carry on negatively impacting the economy for at least four years.



More optimistic news was delivered by the Office for National Statistics this week, confirming that overall industrial production had its best monthly performance in four years for April. Manufacturing output rose by 2 per cent on a monthly basis and 1.6 per cent year on year, mainly thanks to a surge in pharmaceutical production. The latter increased by 12.5 per cent, or the highest rise since April 2009. Whether the flow will sustain and help the second half of the year for growth will depend on the Referendum outcome.



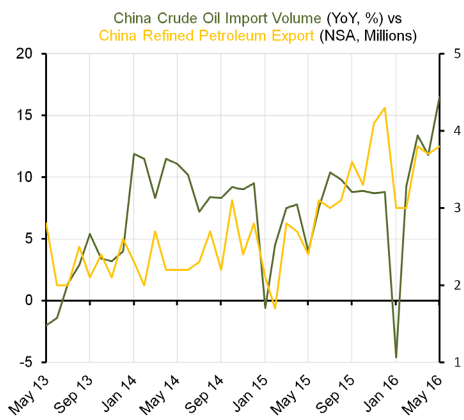
USA: SECOND LOOK ON UNEMPLOYMENT

Last week's US employment report published by the US Labour Department triggered a cautious response among policy-makers, as the US Federal Reserve now warns that the long-awaited rise in interest rates will be postponed until more encouraging data comes through. Labour market health concerns are influenced mainly by the numbers of non-farm payrolls, which rose only by a total of 38,000 in May with a seasonal adjustment, well below the expected growth forecast of about 160,000. The sectors affected mostly by the shortfall are manufacturing, construction and mining; well in line with latest news that US manufacturing is struggling.

The report also highlights that the number of part-time workers increased by 468,000 last month, which is another troubling sign. Amidst the presidential race heat up, the data quickly gained political meaning, as the trend has been blamed on Obamacare. Furthermore, the fall in the unemployment rate, which dropped again in May from 5 per cent to 4.7 per cent, could not be attributed to new hires but rather a rise in the number of people quitting the labour force.

CHINA: CONSUMER CONFIDENCE BACK ON TRACK?

The Chinese economy may be indicating the first signs of recovery, prompted by government fiscal and monetary stimulus, as newest trade data suggests. Imports fell by 0.4 per cent in May which is well below the expected 6 per cent, and represents a significant recovery from April's import contraction figure of 10.9 per cent. Notably, this is the smallest monthly decline in imports since October 2014. Stabilising Chinese demand comes at the same time as an optimistic forecast by the People's Bank of China on growth forecasts for 2016. The Bank estimates that the growth rate will be within the government's target range of 6.5 per cent to 7 per cent, above both IMF and the Asian Development Bank's estimates.



In the meantime, industrial sectors are still struggling in an economy with weak demand, and heightened concerns of overproduction. Steel, coal and aluminium, and now refined oil have formed a sitting queue of overproduced natural resources, which allegedly distort markets. The oil refinery capacity of China had reached 710m tonnes by the end of 2015, and continues to grow by the addition of new refineries, leaving excess capacity at 100m tonnes.