WEEKLY MARKET COMMENTARY BY ROB GLEESON

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CENTRAL BANKS HIT THE BRAKES AS THEY RAMP UP EFFORTS TO TACKLE INFLATION

This week has been a busy one for central banks with the Bank of England and Bank of Japan going against the grain and opting for a less dramatic approach than the central banks of the US, Europe and Switzerland. Markets have had another roller coaster ride as speculation mounted about a larger rate rise from the US Fed. The 0.75% hike may or may not have been leaked in advance of the meeting but risk assets and bonds were selling off early in the week. There was some respite when the confirmation of the largest hike since 1994 came through, but this was short-lived as the combined action of central banks cast a chill over most securities and drove some big moves in currency markets.

Elsewhere the reduction in Russian gas supplies is looking like a deliberate attempt by the Kremlin to sow division and cause economic pain in retaliation to EU sanctions. With US exports reduced due to disruption at one of its liquification terminals the price of gas has surged. Many countries have been working to refill their reserves but if high prices persist this will generate more inflationary pressure.

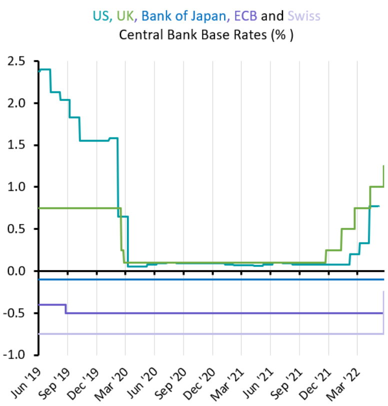
THE MARKETS THIS WEEK

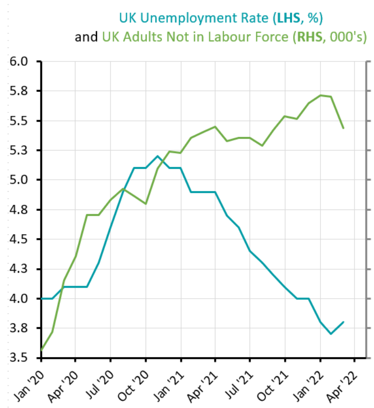
FTSE 100	S&P 500	Nikkei 225	MSCI Europe	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Iron Ore	GBP USD
-3.72%	-6.00%	-5.01%	-4.72%	-3.48%	+0.15%	+0.20%	-2.60%	+0.68%	-5.16%	-0.54%

GLOBAL: INTEREST RATE RISES CATCH MARKETS UNAWARE

The US Federal Reserve raised rates by 0.75%, the largest rise in almost 30 years, as it ramps up its attempts to cool inflation. Last Friday, US CPI hit 8.1% and with core inflation rising more quickly the Fed went for a bigger rise than the 0.5% markets expected this time last week. Speculation about the larger rise caused a sell-off in US Treasuries and risk assets at the start of the week as markets tried to reprice for a bigger rate increase and prices recovered slightly when the decision was announced.

The Swiss National Bank also surprised by increasing its interest rate for the first time in 15 years and the Bank of England increased rates for the fifth month in a row but by a more modest 0.25%. The one exception remains the Bank of Japan which left rates on hold. The Swiss and UK rate hikes caused a fresh round of selling and equities and government bonds sold off heavily on Thursday over fears of inflation and recession. The rate hikes also stirred currency markets with the dollar, Swiss franc and sterling all rising.





UK: GDP UNEXPECTEDLY FALLS IN MAY AS BoE TIPS INFLATION OF 11%

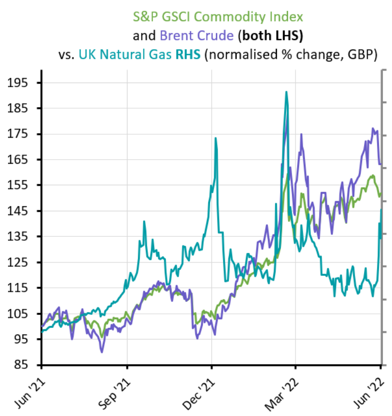
The UK economy contracted for the second consecutive month as GDP unexpectedly fell by 0.3% in April. The decline was seen across all sectors of the economy with the biggest detraction seen in services, particularly healthcare. Sterling tumbled by 1.5% against the US dollar following the announcement.

Stalling economic data has not yet taken the heat out of the UK labour market. Employment data showed the employment rate rising to 75.6% in the three months to June, up 0.2% from the previous quarter, and unemployment falling to 3.8%. Vacancies remain at record levels, partially due to the very high numbers of people who have left the labour force, and average regular earnings fell 2.2% in real terms as high inflation eroded incomes. Wages and spending are likely to come under more pressure as the Bank of England has forecast for inflation to peak at 11% later this year.

NATURAL GAS: PRICES SURGE AS RUSSIA ADDS TO MARKET DISRUPTION

The price of gas jumped this week as supplies from Russia were sharply reduced. Gazprom, Russia's giant state-owned gas company, abruptly cut supplies to Germany by around 60% this week as the company cited a backlog of maintenance due to sanctions imposed on Russia. Supplies to Italy were reduced by 15% without explanation and supplies of Russian gas to France have been halted completely.

The spot price of gas in Europe jumped 60% this week although it is still below the highs seen immediately after the Russian invasion of Ukraine. UK gas prices also shot up and the spot price and was up around 65%. Although the UK is not reliant on Russian gas supplies, a fire at a major export terminal for US liquified natural gas has significantly disrupted US exports to Europe and the UK at a time when many northern European countries are trying to fill strategic reserves. Energy prices contribute significantly to inflationary pressures in the UK and Europe so higher prices have the potential to extend the period of high inflation.



Data Sourced from FE Analytics, and FactSet