

## LABOUR CUT TORY LEAD TO FIVE POINTS - OR DO THEY?

It seems like yesterday that we swore off opinion polls for life, but like addicts we are all back for more. YouGov saw the Tory lead down to five points after the Tories' manifesto was poorly received and the appalling Manchester bombing. Other polls show a similar trend, if less extreme. It seems that a growing certainty to vote and to vote Labour amongst young people and previous non-voters is driving the headline numbers, which is why certain pollsters, who place less weight on these categories, show such different figures.

Chances are these people will not vote, or will vote in safe Labour areas, with Labour MPs in marginals still hearing bad news on the doorstep from all accounts. However, we must prepare ourselves for the possibility of Prime Minister Corbyn, so we expect an increase in volatility in the markets in the two weeks before polling day.

## THE MARKETS THIS WEEK

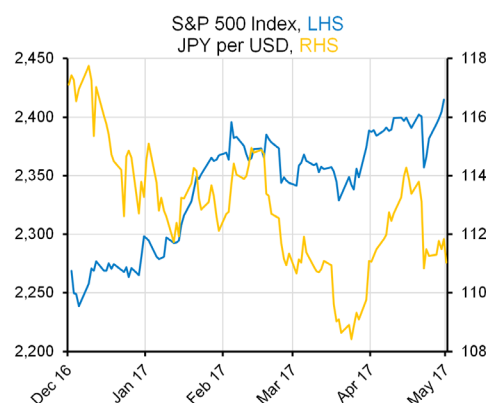
FTSE 100	S&P 500	Nikkei 225	Euro Stoxx 50	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Wheat	GBP USD
+0.73%	+2.09%	+0.49%	-0.74%	+1.84%	+0.01%	-0.06%	-4.31%	+0.62%	-1.32%	-1.27%

## US: TRUMPS BUDGET BRINGS QUESTIONS

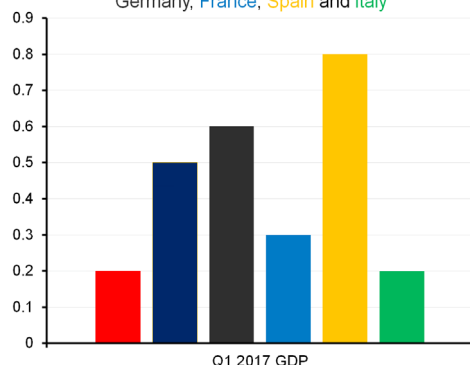


Trump's budget was released this week resulting in heavy criticism over unsupported growth claims and questionable accounting. The White House claim their proposed tax cuts are revenue neutral despite, analyst's calculations showing a revenue decrease of \$5tn over ten years. They also anticipate the tax cuts will boost growth to reach three per cent by 2021, delivering an additional \$2tn of revenue over ten years. So not only is this tax cut revenue neutral, it's providing additional revenue to help Trump reach his target of a balanced budget by 2027.

The Federal Reserve's May meeting notes were released on Thursday and the content helped the S&P rise 0.2 per cent to reach a new high. Officials signalled the US economy was strong enough to withstand an imminent rate rise, commenting that it will "soon be appropriate" to raise short-term interest rates. The dollar dropped 0.16 per cent against the Japanese yen after the release. Policy makers are confident that the recent weakness in economic growth is transitory and will not lead to a change of plan regarding the two further rate rises.



GDP Figures For Q1 2017, UK, Eurozone, Germany, France, Spain and Italy



## UK: UK GROWTH TRAILS EU



The Office for National Statistics, ONS, revealed the British economy slowed more than first thought in the first quarter of 2017, as retail sales dragged and the trade deficit weighed on growth. GDP rose 0.2 per cent which was lower than the 0.3 per cent originally thought, and significantly lower than the 0.7 per cent reached in the last quarter of 2016. The reason for the drop between the expected and actual value was due to a revision of the services and the production sectors.

Exports fell 1.6 per cent and net trade knocked a record drag of 1.4 percentage points off GDP. Economists are forecasting little expansion for the remaining quarters of 2017. This was the first time in a year that UK growth failed to outpace the euro area which achieved an average of 0.5 per cent. One positive point to come from the ONS's report was the uptick in business investment, which expanded at a rate of 0.6 per cent last quarter and 0.8 per cent year to date.

## CHINA: CHINA'S DEBT TAKES A HIT



Moody's downgraded Beijing's sovereign credit rating on Wednesday from Aa3 to A1. Unimpressed, China's finance ministry suggested the ratings agency had overestimated the difficulties facing China. Moody's expect the countries financial strength to erode over the coming years as their growth potentially slows and their economy-wide debt increases. Within the Chinese bond market most investors are domestic while foreigners only own four per cent of the nation's total debt. Thus, the news didn't have much of an effect on the stock or bond market and the yuan was steady against the dollar.

Meanwhile in Vienna, OPEC reached a decision to extend the production cut by nine months to March 2018. Despite this Brent crude fell from \$54 the previous day to finish yesterday at \$51.5. Investor's had hoped for additional measures to curb output and boost the oil price. Although the production cut has proved fruitful, boosting oil nearly 20 per cent over the last seven months, investors are keeping a close eye on the US as inventories remain high and output continues to surge.

