MARKETS REASSESS LIKELIHOOD OF MAY RATE RISE

This week the fickle nature of economic forecasting was at the fore, with just a handful words from Mark Carney enough to cloud crystal balls over the country. This pattern is well worn – the market gets too confident that it knows exactly when the Bank will raise rates and then freaks out when reminded that all it's really doing is guesswork. The pound fell against the dollar after this latest reality check. Thankfully the next Monetary Policy Committee meeting isn't that far away; rate forecasters will soon be put out of their misery, at least for a week or two.

Elsewhere, in Brexit news we got a glimpse of an overlooked problem with "taking back control"; that control will go the Home Office, which at this point more resembles The Office than a functioning government department. The current crisis of "Windrush Generation" immigrants having their rights removed, by a change in policy decades after they arrived, will hardly fill the EU with confidence that the rights of EU citizens in Britain will be protected post Brexit. This makes any agreement where the European courts aren't appointed as a watchdog, much harder to reach.

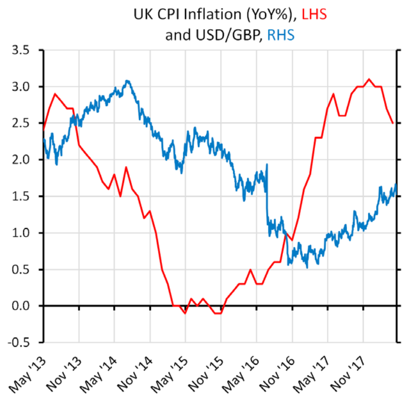
THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	Euro Stoxx 50	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Wheat	GBP USD
+1.18%	+1.09%	+1.76%	+0.93%	-1.38%	+0.09%	+0.05%	+1.25%	-0.22%	+0.05%	-1.35%

UK: WEAK INFLATION DATA RAISES INTEREST RATE UNCERTAINTY

Inflation fell more sharply than expected in March, raising doubts over whether the Bank of England will raise interest rates by 0.25 percent next month. ONS year-on-year consumer price inflation fell from 2.7 percent in February to 2.5 percent in March. Analysts had expected no change while the Bank of England had forecast an increase to 2.8 percent. A fall in goods inflation, which is more sensitive to the exchange rate, helped to offset the increase in services inflation. This suggests that the inflationary effect of the Brexit referendum, which raised import prices through a depreciation of the pound, is fading faster than the Bank of England had expected.

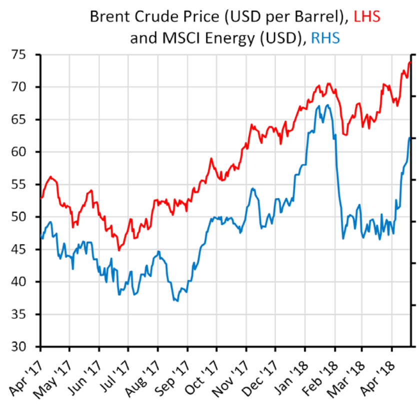
Earlier in the week the pound climbed to its highest level since the referendum on strong wage data from the ONS. However, in response to the publication of the weak inflation data, Mark Carney bolstered investors' expectations that the Bank of England will hold off on raising interest rates next month, reiterating that "there are other meetings over the course of this year". This caused the pound to drop 1.9 percent against the dollar and the implied probability of a May rate hike to drop from 85 to 55 percent.



OIL: RALLY PROVIDES WELCOME BOOST FOR ENERGY SECTOR

Oil prices have continued to climb this week, providing a welcome boost to global energy stocks. Brent crude rose above $74 a barrel on Thursday, reaching its highest level since 2014. The benchmark oil price has risen 10 percent in the year to date, extending a rally which started in June 2017. Its steady growth is partly attributable to the extension of OPEC production cuts, which are now entering their sixteenth month. There also remain several significant geopolitical risks. These include the Venezuelan economic crisis, Western military intervention in the Middle East and sanctions against Iran.

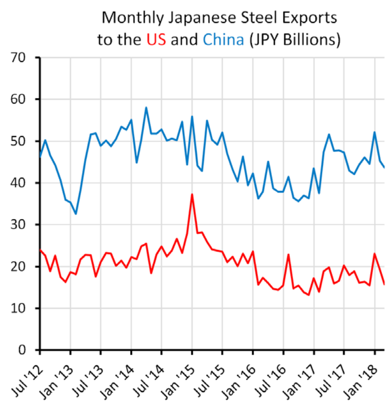
Richard Robinson, manager of the Ashburton Global Energy Fund, has said that "the seed is being sown for a structurally higher oil price, combined with heightened probability of risk premium". Protracted growth in prices has bolstered the global energy sector which, with most other equity spaces, has had a generally poor start to the year. Currencies most sensitive to the price of oil such as the Norwegian Krone and Australian and Canadian dollars have also gained recently in global markets.



US: GENERALLY POSITIVE WEEK FOR US-ASIA RELATIONS

It was also revealed this week that the Director of the CIA, Mike Pompeo, recently met with Kim Jong-un in North Korea. According to Trump the meeting "went very smoothly and a good relationship was formed". He also reassured his Twitter followers that his meeting with the North Korean leader will go ahead, tweeting that "details of Summit are being worked out now". The historic meeting is expected to take place later this month or in early June. The US, China and South Korea are hoping that this could lead to a formal peace treaty to officially end the Korean war.

Back in the US, Trump met with Japanese prime minister Shinzo Abe. The two leaders reached agreement on their approach to North Korea but remain divided on trade. Trump remains opposed to re-joining the Trans-Pacific Partnership (TPP) in the absence of a more favourable deal and Japan will also not be exempted from US steel tariffs. The US accounts for a small fraction of Japanese steel exports but the Trump administration is nevertheless hoping that they will provide some incentive for Japan to agree to a bilateral trade agreement to replace what their relationship would be under the TPP.



Data Sourced from FE Analytics, and Bloomberg Finance LP