NORWAY STARTS TO SELL OUT OF OIL

Norway's sovereign wealth fund has announced it will sell out of oil and gas investments, subject to approval by the government and parliament. They justify this on diversification grounds, pointing out quite rightly that the country is already highly exposed to oil as a producer. However, that was true last year, so observers are asking what has changed.

Obviously, what has changed is the long-term outlook for the oil price. Cheap shale and increasingly cost-efficient renewables means that the world economy's dependence on oil is weakening. The Norwegian Central Bank says they must prepare for the possibility of a "permanent drop in oil prices", and they are not the only ones to be doing so. We have seen some signs of the dramatic changes this will lead to with the ongoing political turmoil in Saudi Arabia, a country which is desperately attempting to reform in order to cope when oil won't pay the bills anymore. This is going to be one of the major themes in global politics and economics for the next few decades.

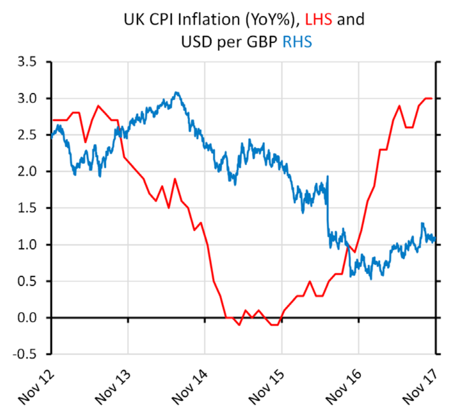
THE MARKETS THIS WEEK

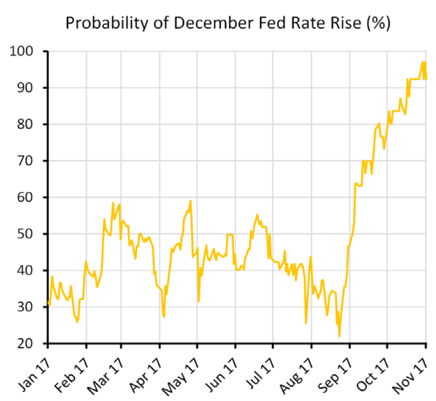
FTSE 100	S&P 500	Nikkei 225	Euro Stoxx 50	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Wheat	GBP USD
-0.93%	+0.04%	-1.25%	-1.03%	+0.27%	-0.04%	-0.02%	-3.59%	+0.57%	-1.80%	+0.34%

UK: INFLATION PEAKS AT FIVE-YEAR HIGH

The year-on-year rate of CPI inflation in October fell just short of expectations at 3 percent, the same rate as in September. On a month-on-month basis consumer prices rose by 0.1 percent. Economists had been forecasting a rate of 3.1 percent but the rise in food prices was offset by lower-than-expected fuel prices. The return to high inflation in recent months has been driven by a weak pound following the Brexit result, with higher import prices being passed onto the consumer.

This news means additional downward pressure on living standards and real interest rates. Despite the apparent peaking of inflation the Bank of England has not changed its plans to raise rates twice within the next two years. Investors seem somewhat unconvinced however. Two-year gilt yields remain below base rate, suggesting investor scepticism about the Bank of England's announcements especially given the uncertainty about the UK's future outside of the EU. Shortly after the inflation data were released the pound fell sharply by 0.22 percent against the US dollar.





US: TRUMP'S ELUSIVE FIRST LEGISLATIVE VICTORY

There have been some developments this week with regards to Republicans' effort to renew the country's tax code. On Wednesday, the party began trying to get a revised bill through the Senate finance committee but two senators would not support it. The main revision to the bill was the repeal of the requirement for US citizens to have health insurance. The Congressional Budget Office have estimated that this would save around $338bn over ten years. The bill would also make permanent a cut in the rate of corporate tax from 35 to 20-25 percent, potentially raising the deficit by $1.5tn over ten years.

On Wednesday, it was announced that core consumer price inflation rose by 1.8 percent on a year-on-year basis, up from 1.7 percent in September. This rate was higher than economists had forecasted, reinforcing investors' expectations that the Fed will raise rates in December. Markets are forecasting a 92.3 percent chance. Additional evidence comes from one of the Federal Reserve's leading doves, Robert Kaplan, who this week said that he is "actively considering backing a rate rise".

EMERGING MARKETS: MILITARY TAKEOVER IN ZIMBABWE

On Wednesday, the Zimbabwean army seized control of the capital to target individuals close to President Robert Mugabe "causing social and economic suffering in the country". The finance minister and the head of the ruling party's youth league have reportedly been arrested by soldiers. This comes a week after Mugabe fired his vice-president and likely successor Emmerson Mnangagwa, an ally of the army commander. This move may have been made to enable the succession of the president's influential but unpopular wife. The incumbent has, for now, refused to resign, drawing out the military's intervention.

Meanwhile S&P have formally declared the first Venezuelan sovereign debt default. On Monday, Caracas missed its deadline to pay $200m in interest payments on two bonds, and the nation is overdue on a further $420m of other interest payments. However, on Wednesday the Russian government agreed to restructure $3.15bn of Venezuela's debt and allow the country to repay it over ten years. Bond prices fell following the announcement. A $2.5bn bond due in October next year lost almost a fifth of its value to trade at 25.7 cents on the dollar.