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WEEKLY MARKET COMMENTARY 20 MAY 2016

EGYPT AIR TRAGEDY SPELLS NEW FEARS FOR TRAVEL INDUSTRY

This week was marked by the harrowing news of the downing of an EgyptAir flight on early Thursday morning. According to Egyptian officials, the tragedy over the Mediterranean sea was likely the work of a terrorist attack rather than a technical fault. It is therefore the latest incident to hurt the travel industry, with consumer confidence struggling significantly over the past twelve months, as security threats hurt profitability.

Elsewhere, the latest recovery in Sterling could well have signalled an end to an EU vote-inspired market wobble. Since November 2015, the currency has depreciated 9 per cent, with the Bank of England attributing half of this decline to uncertainty surrounding the EU referendum. It must be remembered that opinion polls are notoriously unreliable however, which should see Sterling remain volatile until the referendum date.

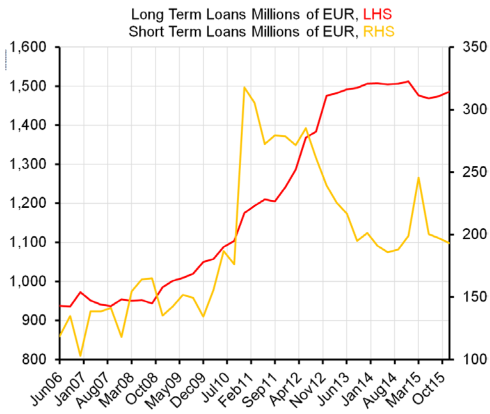
THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	Hang Seng	Dax 30	CAC 40	Ibex 35	Brent Crude	Natural Gas	Gold	Wheat
-1.39%	-0.80%	+1.43%	-0.13%	-0.67%	-0.87%	-0.54%	+2.20%	-4.79%	-1.44%	+0.81%

EU: GREEK DEBT CRISIS BACK ON THE AGENDA

Greece is back in the news again as debt negotiations are scheduled for later on this month, with €3.5bn of Greek debt maturing in July. Recently, the International Monetary Fund recommended that interest payments on Greek debt should be extended for up to 40 years in an effort to ensure debt sustainability. Debt restructuring will be a hotly contested topic again, as forecasts for Greek growth remain subdued. To turnaround fortunes, the IMF estimates a primary surplus of 1.5 per cent is needed for the country by 2018, while Eurozone creditors take a more pessimistic view of a 3.5 per cent surplus. Given seemingly more major EU-wide concerns surrounding the migrant crisis and political uncertainty, sentiments may however work in Greece's favour.

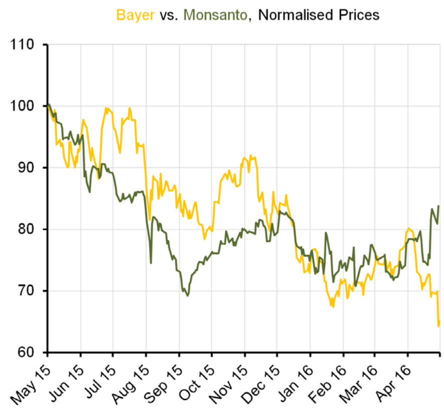
Elsewhere, some of the EU's troubled economies are looking to finance debt via the issuing of long-term bonds. Most recently Italy, whose debt amounts to 133 per cent of GDP, announced plans to issue bonds with a 50-year maturity. This appetite for long-term debt is evident given that Spain has already sold 50-year paper earlier this year.



PHARMACEUTICALS: ANOTHER ROUND OF ACQUISITIONS

This week saw news of major consolidation plans in the pharmaceutical industry as Bayer announced a bid for full acquisition of the US-based agribusiness company Monsanto, for an estimated $42bn. If it goes through, the deal will create the world's largest international seed and crop-chemical company. Bayer's shares fell 8.2 per cent not long after the announcement on Thursday however, with investors expressing concerns over the German company's esoteric presence in agrichemicals.

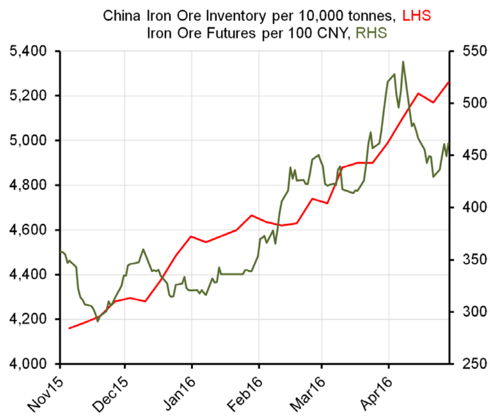
While regulatory authorities are yet to have their say on the agrochemicals group deal, industry giant Pfizer has announced a takeover of the biotech group Anacor for $5.2bn. After Pfizer's acquisition of Dublin-based Allergan was blocked by the US Presidential Administration last month on a witch-hunt for corporate tax avoidance, the drug-maker has now considered a corporate split. All the while, UK Equity Income managers will be watching pharmaceuticals with particular interest given the large number of income-paying stalwarts from the sector that feature regularly in their portfolios.



CHINA: BETTING ON COMMODITIES

The world's leading iron ore producer Vale SA issued a warning this week on the price of iron ore, as it highlighted the dangers posed by speculators in the market. Following yearly highs in April, iron ore had previously fell for three straight years owing to global supply exceeding demand, and most recently in particular, the weakness of the Chinese economy. This led benchmark prices to collapse 39 per cent in 2015.

Despite the still sluggish demand for raw materials in China, steel prices jumped by more than 30 per cent in March, spurred most likely by speculative activity in Chinese commodity futures. Producers have warned that the new levels of production are unsustainable with a correction in the market likely. Nevertheless, Chinese steel futures, which jumped by 20 per cent in April, will add to fears that speculative buying will encourage steelmakers to overproduce, despite rising inventories of iron ore. Stockpiles at ports now exceed 100m metric tonnes, which is worrying for officials given their intentions to turnaround the economy from one that is industry-led, to one that is more reliant on domestic consumption.



Data Sourced from FE Analytics, and Bloomberg Finance LP