EQUITIES STRONG AGAINST MIXED BACKDROP

This week the positive message on UK wage growth has sent a welcome sign that much of the spare labour and capital that had been sat idle while the economy was in the doldrums, might finally be being put to good use. Wage growth is the final indicator that reassures us that we are indeed recovering and that previous growth figures weren't just an illusion created by swathes of easy money.

While the UK had something to cheer about, it has been almost impossible to avoid news and analysis on the continued fall in oil prices. That prices have fallen so dramatically and seemingly unexpectedly still has most analysts and commentators working feverishly to work out the ramifications. Much of the focus has been on Russia, but more worrying could be Nigeria, whose state apparatus is dependent on petro dollars and is battling an Islamist uprising. Deteriorating living standards will not help.

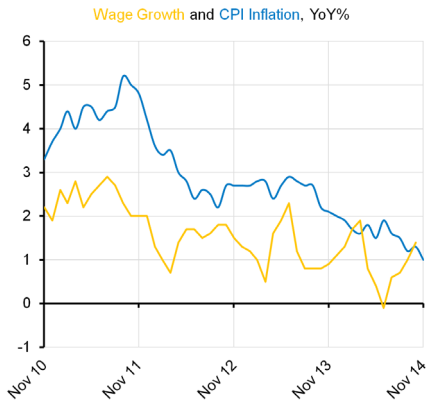
THE MARKETS THIS WEEK

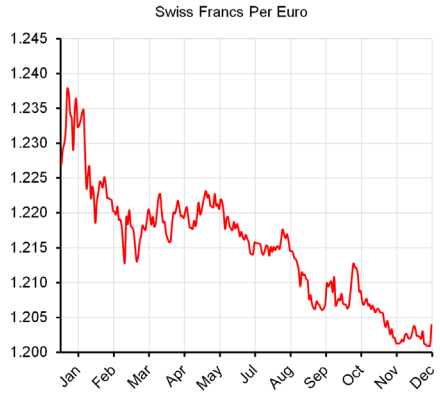
FTSE 100	S&P 500	Nikkei 225	Hang Seng	Dax 30	CAC 40	Ibex 35	Brent Crude	Natural Gas	Gold	Wheat
+2.97%	+1.27%	+1.44%	-0.57%	+1.68%	+2.93%	+1.24%	-3.04%	-0.04%	-2.23%	+1.59%

UK: WAGE GROWTH RISES ABOVE WEAK INFLATION

An early Christmas present has arrived for millions of families across the UK as the CPI inflation rate dropped to just 1 per cent last month for the first time in 12 years. A continuous fall in oil prices has contributed towards inflation now being half of the Bank of England's 2 per cent target, the threshold below which Mark Carney will have to begin writing explanations to the Chancellor of the Exchequer.

The living standards of many are starting to recover as wage growth including bonuses now sits above the rate of inflation after rising by 1.4 per cent. Although this bodes well for consumer spending in 2015, at this rate it may take over a decade to recover the real value of people's earnings. From an investor's standpoint, falling inflation may start becoming a concern to international investors, especially if the UK is perceived to be following the Eurozone into the battle against deflation.





SWITZERLAND: CENTRAL BANK MOVES TO NEGATIVE RATES

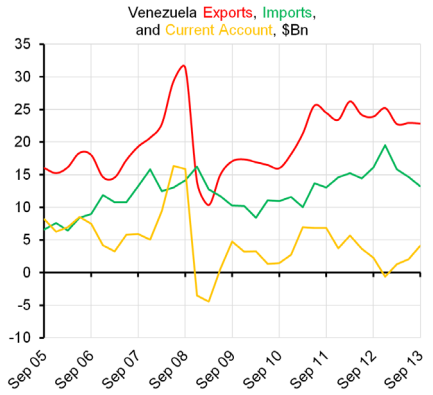
On Thursday, Switzerland's central bank imposed a negative interest rate in order to reduce the appeal of depositing large sums of money in the country. The negative rate of 0.25 per cent will be introduced on the 22nd of January to ease this pressure and should lead the Swiss franc to depreciate, which had been strengthening at some speed.

The imposition of negative interest rates is designed to discourage large inflows of cash coming in from international investors worried about a weakening euro. The euro is expected to weaken further when the ECB ramps up its QE programme and the Swiss are concerned that the resulting strength of the Swiss Franc would reduce the competitiveness of its exports. The Swiss move follows the ECB's decision to introduce a negative deposit rate in June to encourage investment. As many parts of the world now suffer from low inflation or deflation, we wouldn't be too surprised if negative rates become a more common sight.

GLOBAL: FALLING CRUDE RAISES VENEZUELA DEFAULT RISK

This week the oil price fell yet again, taken the total to 40 per cent since June. After plunging below $60 a barrel, the Brent price then fell to $58.50, before recovering slightly. While Russia has been the focus of tabloid headlines, several other countries have also fallen victim to the drastic plunge in the oil price.

Venezuela's risk of default has risen dramatically as a result of low crude prices, since the nation's economy is heavily dependent on oil export revenues. Together with a public debt of 50 per cent of GDP and budget deficit of 16 per cent, a stumbling economy puts Venezuela in a vulnerable position. Low prices are excellent news for oil consumers in Japan and the US, where petrol is reaching recent lows. Many investors are betting on cheap oil being a short term phenomenon, however with low global growth expectations it isn't certain that prices will revert anywhere near to their previous levels.



Data Sourced from FE Analytics, and Bloomberg Finance LP