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WEEKLY MARKET COMMENTARY 12 DECEMBER 2014

EQUITIES SUFFER AHEAD OF HOLIDAY SEASON

This week the most interesting news came from Greece, where it looks like far left party Syriza might cause an upset; assuming a general election ends up following the snap presidential vote that was called this week. The party's leader is an ex-communist running on a platform to bin austerity and massively increase government spending. Despite the obvious practical difficulties of enacting this plan, the party's message has proved extremely appealing to a population that has been ground down relentlessly over the years following the financial crisis.

Aside from Greece, the most talked about news was inevitably the musings on interest rates from the Bank of England. Estimates that most households could afford to pay higher mortgages straight away led to predictions of rate rises. We hope that the BoE plan to be more transparent and publish all the minutes of meetings will remove some of the need to continuously second guess the governor. Elsewhere a continued fall in oil prices has taken a heavy toll on Russia, resulting in its central bank hiking interest rates to 10.5%, levels inconceivable in the west, to try and prevent capital leaving the country.

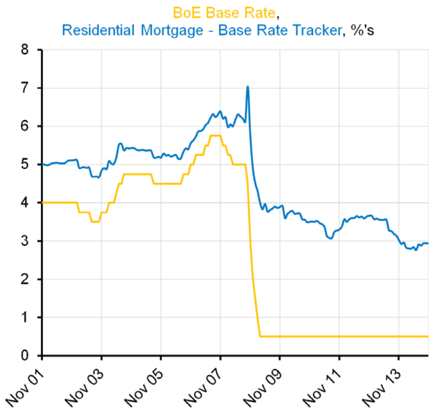
THE MARKETS THIS WEEK

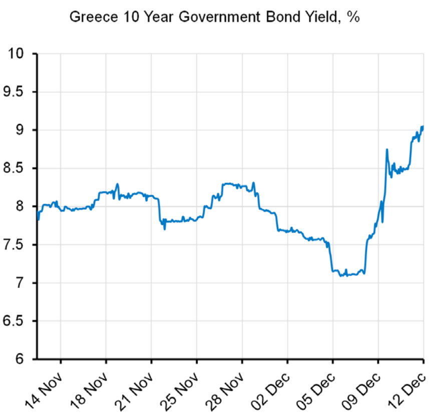
FTSE 100	S&P 500	Nikkei 225	Hang Seng	Dax 30	CAC 40	Ibex 35	Brent Crude	Natural Gas	Gold	Wheat
-5.41%	-1.77%	-3.06%	-3.14%	-3.46%	-5.53%	-5.35%	-8.55%	+3.60%	+2.86%	+1.75%

UK: BoE OPTIMISTIC ON HOUSEHOLD FINANCES

The many borrowers who have become accustomed to cheap mortgages after years of record low interest rates may be looking nervously ahead into 2015 as speculation over a rate rise increased following strong hints from the Bank of England on Monday. Some have predicted rates could rise as high as 2.5 per cent after being frozen at 0.5 per cent for 70 months since March 2009.

While reverting to a more normal monetary policy might seem like further evidence of the UK recovering from the financial crisis – the risks of a mistimed rate rise are hugely asymmetric. Raising rates too soon could endanger the recovery as struggling borrowers would cut back on spending while higher numbers of borrowers in arrears could damage banks' capital positions. The Central Bank have suggested that the vast majority of mortgage borrows would be able to handle these rate rises, the impact on demand would still be extremely damaging if the economy is not strong enough.





EU: GREEK POLITICS REIGNITE EUROZONE DOUBTS

On Tuesday the Athens stock market fell almost 13 per cent, its biggest one-day fall since the 1980s. The stock market plunged after the Greek prime minister's shock decision to call early presidential elections.

While the move has been calculated to improve the chance of the prime ministers preferred candidate - if the vote in Greece's parliament is inconclusive, investors fear that it could lead to general elections and a possible victory for an opposition party that wants to modify the bailout. Such an outcome would potentially reignite fears about Greece's position within the Europe's Monetary Union. While Greek stocks were heavily punished, the impact on the other European markets was less severe – suggesting that provisions put in place to insulate the Eurozone form a Greek exit hold confidence.

EM: DOLLAR STRENGTH FORMS A HEADWIND

Market risk aversion coupled with the apparent robustness of the US economy has helped the dollar regain its strength. However it is the speed with which this has occured recently that has hit many emerging market currencies hard. Several have fallen to 14 year lows. Despite a depreciating currency normally being positive for countries dependent on exports, the current situation is starting to look bleak for nations heavily reliant on foreign denominated debt.

Oil exporters such as Mexico, Nigeria and Russia are facing a double hammering as crude prices have continued their free-fall this week. With the benchmark WTi crude having fallen below the $60 per barrell mark, these governments will be having to deal with declining oil export revenues while their relative debt financing costs grow. This is not necessarily an immediate cause for concern, however a persistent weakness in the oil price could well lead it to be.