SWITZERLAND'S DECISION SHAKES UP MARKETS THIS WEEK

The Swiss trumped all other news stories with their decision to largely abandon the Franc and let it rise unconstrained. On the surface this seems fairly trivial; Switzerland is a small economy of little interest to most of us without the need to hide our assets from the authorities. However, the implications could be severe. The problem Switzerland has is people trust it - making it a safe haven destination of choice as optimism in the Eurozone diminishes; ever since the Greek debt crisis. This has been pushing up the Swiss franc, hurting exports and importing deflation as the cost of foreign goods continues to fall. The central bank's acknowledgement, that their unconventional monetary policy will be futile should the ECB go ahead with Quantitative Easing, is a welcome surprise – the dramatic correction in the exchange rate is not so warmly received.

Elsewhere the US had a tough week as several large companies reported disappointing earnings. With much of the world sliding towards deflation, the US was a bright spot in the global economy. These figures suggest the recovery should not be taken as a certainty.

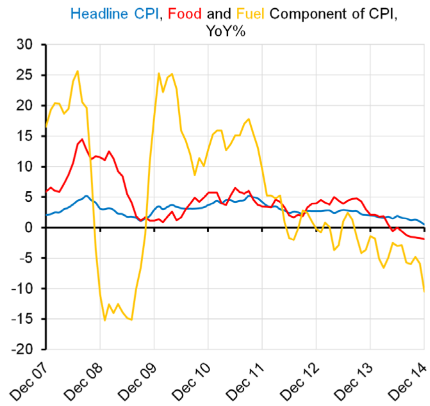
THE MARKETS THIS WEEK

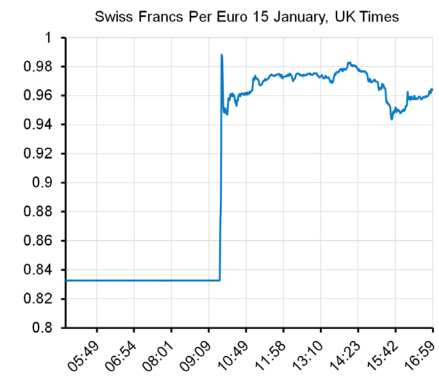
FTSE 100	S&P 500	Nikkei 225	Hang Seng	Dax 30	CAC 40	Ibex 35	Brent Crude	Natural Gas	Gold	Wheat
-0.58%	-3.37%	-1.76%	+0.77%	+3.47%	+3.20%	+2.21%	-3.30%	+13.09%	+2.89%	-4.35%

UK: INTEREST RATE EXPECTATIONS PUSHED BACK

UK CPI inflation came in at 0.5 per cent in December, its lowest level since May of 2000. The drop was almost entirely driven by the falling oil price and effect on food from the ongoing supermarket price battle. Although this bodes well for household finances, if inflation goes unchecked and continues to trend downwards, this could pose a more serious problem - much like in the rest of the world.

The low inflation figure has stalled the Bank of England on raising interest rates in the near future. Investors have also pushed back their forecasts of the first rate rise to late 2016. Investors should not over – dramatize the scenario with the fall in the inflation rate as the CPI ex- food and energy remains higher than the headline CPI inflation rate.





SWITZERLAND: CENTRAL BANK DROPS CURRENCY CEILING

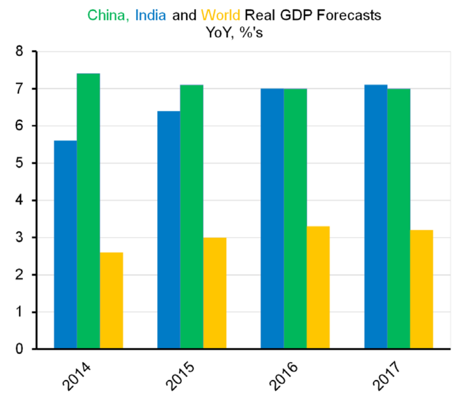
Switzerland's Central Bank shocked the global markets yesterday by unexpectedly ending the 1.20 per euro cap on the Swiss franc. The Swiss franc propelled 30 percent higher against the euro within minutes. The decision was accompanied by a reduction in the interest rates from -0.25 per cent to -0.75 per cent, futher reducing the appeal towards depoisitng in Swiss banks.

A strong franc leaves Switzerland's exporting companies in a difficult situation, many of whom depend on the European Union as an important market. Exportes are left with a choice between passing on increased prices to customers or keeping prices at a competitive level, but doing this reduces domestic revenues once over seas sales are converted back.

GLOBAL: WORLD BANK LOWERS GROWTH FORECASTS

The World Bank published its bi-annual report, lowering the global growth forecast due to disappointing economic prospects in the Eurozone and Japan. Global growth was predicted as 3 per cent this year and 3.3 per cent in 2016, below its June forecast of 3.4 per cent and 3.5 per cent. The report further outlined the US performing well is not enough to support global markets.

India's growth has been forecasted to become the World's fastest-growing major economy in the next two years, overtaking China. Compared to the supposedly managed slowdown in China, India is experiencing a gradual economic recovery. Of course these forecasts should be taken on lightly although at the global level, it does illustrate a further weakening of the sentiment.



Data Sourced from FE Analytics, and Bloomberg Finance LP