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WEEKLY MARKET COMMENTARY 13 FEBRUARY 2015

IMPROVING EUROPE BOOSTS MARKETS

This week most news outlets were shocked that rich people with Swiss bank accounts were using them to avoid tax, and that a major bank was in on the action. We would have been more surprised if they weren't. While cases of blatant fraud and dishonesty should be prosecuted it should be accepted that all the time there are tax loopholes, there will be people exploiting them and good money to be made from assisting them. Despite the furore and the upcoming election it has been remarkable how little talk of shutting down tax avoidance schemes there has been.

Sweden continues to tell its cautionary tale of copying the big kids, after it tried to impress Germany by being one of the first countries to hike rates and follow a self-imposed austerity policy, it is now willing to pay people to borrow money to try and undo the negative spiral it finds itself in. It would be nice to think European policy makers might look at this case study and apply some lessons to their current situation with Greece. Sadly facts and logic seem to have little place in European policy circles.

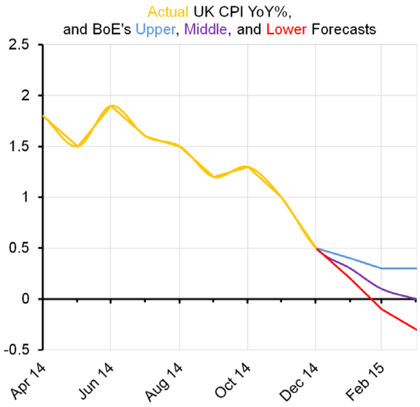
THE MARKETS THIS WEEK

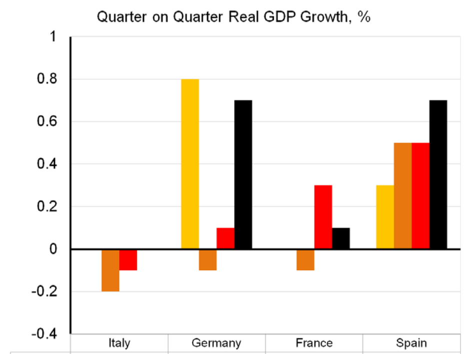
FTSE 100	S&P 500	Nikkei 225	Hang Seng	Dax 30	CAC 40	Ibex 35	Brent Crude	Natural Gas	Gold	Wheat
+0.23%	+1.26%	+2.34%	+0.01%	+1.31%	+1.52%	+1.25%	+0.30%	+9.01%	-0.62%	-0.90%

UK: BOE CONFIDENT INFLATION WILL STABILISE

Mark Carney, Governor of the Bank of England, played down the falling inflation rate as a temporary anomaly, which will be smoothed out as lower oil prices drop out of the data over the next year or so. This came after the BoE updated its inflation forecast, which now toys with the idea of a negative inflation rate in the coming months. However most investors chose to focus on the BoE no longer seeing 0.5 per cent interest rates as a floor. Carney mostly dismisses the idea of rates falling, but with European central banks all jumping on the negative rate bandwagon, perhaps the UK is also just a handful of stats away from joining them.

In the run up to May's general election chancellor George Osborne has announced a shameless attempt to buy more votes from pensioners, who often vote in higher numbers. This would be done by extending the pensioner bonds available to over 65's, which pay significantly higher rates than most savings accounts, from £10bn to £15bn.





	Italy	Germany	France	Spain
Q4 2014	0	0.7	0.1	0.7
Q3 2014	-0.1	0.1	0.3	0.5
Q2 2014	-0.2	-0.1	-0.1	0.5
Q1 2014	0	0.8	0	0.3

EU: UPBEAT GROWTH LIFTS MARKETS

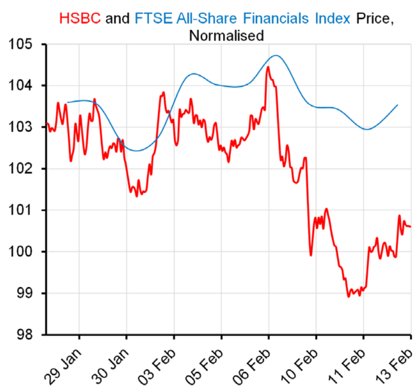
Eurozone growth came in ahead of expectations today, at 0.3 per cent compared to the consensus 0.2 per cent between the third and fourth quarter of 2014. Within this, Germany and Spain both powered ahead at 0.7 per cent, while France struggled at 0.1 and Italy stagnated at 0. Alongside the European Central Bank's planned Quantitative Easing, and cooling tensions over Greece, this has helped boost European equities to a seven year high. The situation does seem to show some real signs of hope, and if past patterns repeat, European equities could reap further benefits from QE.

Last week it seemed mad that people were paying for the 'privilege' of holding corporate debt, and now we have the situation in Sweden, where the central bank has cut its main lending rate to minus 0.1 per cent – effectively paying banks to borrow money in the wholesale market. This was combined with the beginning of their own QE, and we suspect will not be the last central bank surprise of this quarter.

BANKING: HSBC LEAK SHAMES INDUSTRY

In another blow to the industry, private banking client account details from HSBC's Swiss arm were leaked this week, unravelling to the public for the first time the extent to which the bank was facilitating tax avoidance. Pressure is now building for the UK to take a tough stance, especially as the information was originally made available to the UK government in 2010, but under strict conditions that prevented it leaving HMRC for any purpose other than to pursue individual taxation cases. The market's movements have been muted, with HSBC only trading marginally lower, however the further deterioration of trust in the financial services industry is really the biggest downside here.

Labour revealed plans in the wake of this mess, which would see banker's pay claw back provisions extended to 10 years and encompass fixed salary as well as the typical bonus. The inclusion of fixed pay is something Mark Carney of the BoE has already suggested in light of the EU bonus cap, however these measures are again not treating the problem at its cause.



Data Sourced from FE Analytics, and Bloomberg Finance LP