

**INFLATION FLATLINES AHEAD OF ELECTION**

A relatively uneventful week as markets paused for breath, with equities seeing some pull-back - no doubt an inevitable reaction to the frenzy initiated by the European Central Bank's recent Quantitative Easing. In the UK most of the focus centred on inflation, or rather the very near deflation-inflation, ahead of the general election. The oddity here is that the election itself seems to be largely slipping under the radar, though we expect this to change in the blink of an eye once poll results hit the headlines.

Elsewhere there have been flare ups in various geopolitical risks, especially surrounding oil prices; then again, who still remembers the drama surrounding Crimea and Ukraine? What is more interesting is the continuing downward trend for global commodity prices. We have yet to see whether this will provide a boost for growth going forward, or is actually a forecast of slowing growth to come.

**THE MARKETS THIS WEEK**

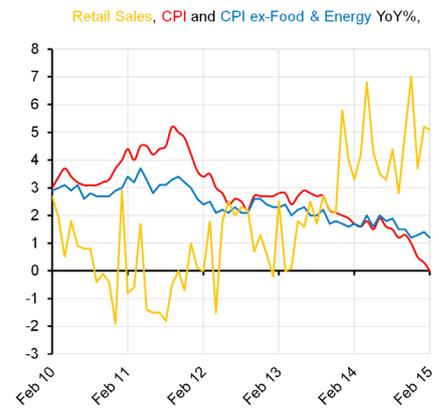
<b>FTSE 100</b>	<b>S&amp;P 500</b>	<b>Nikkei 225</b>	<b>Hang Seng</b>	<b>Dax 30</b>	<b>CAC 40</b>	<b>Ibex 35</b>	<b>Brent Crude</b>	<b>Natural Gas</b>	<b>Gold</b>	<b>Wheat</b>
-2.25%	-1.59%	-1.40%	+0.46%	-1.51%	-1.32%	+0.13%	+6.00%	-3.84%	+2.21%	-5.05%



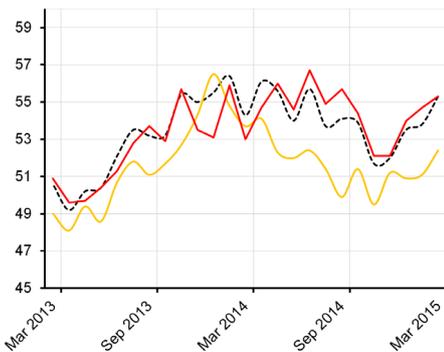
**UK: INFLATION FALLS TO ZERO AMID DEFLATIONARY CONCERNS**

UK Inflation in February fell to zero for the first time on record, merely reflecting the global trend of falling oil prices and other commodities. This coincided with a broad upturn in consumer spending as retail sales volumes for February came in 0.7 per cent higher than in January, and 5.1 per cent higher than a year earlier.

Analysts had worried that zero inflation could lead people to delay spending in the hope of buying goods cheaper in the future, prompting a downwards spiral of persistent deflation. This latest data will again be welcomed by households, as the weekly shop becomes even cheaper placing "more pounds in the pocket", allowing for more spending on luxury items. We are keen to see the UK avoid so called 'bad' deflation, as seen in Japan over the last 20 years, however this seems unlikely for the time being.



Germany Composite, Services and Manufacturing PMI



**EU: PMI DATA SIGNALS ACCELERATION IN GROWTH**

Germany's PMI data came through much stronger than expected in March. The combined manufacturing and services reading jumped from 53.8 in February to 55.3. Both sectors exhibited solid improvement however manufacturing grew at a faster rate than services for the first time since April last year, which is expected given the Euro's weakness.

Ukraine has announced that it is to temporarily stop buying Russian natural gas from April 1st. The tension between the two countries has fed into pricing disputes over the supply of gas, which is currently contracted out to Russia's state-owned Gazprom. In negotiations which have been taking place in Brussels between the two sides, Ukraine will ultimately hope to reduce its costs per cubic metre of gas, or otherwise seek alternative sources of energy that could lead the charge for renewable energy.

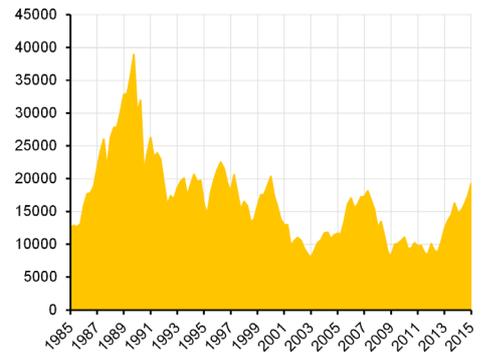


**JAPAN: NIKKEI HITS 15-YEAR HIGH**

Japanese stocks continued their extraordinary run of late as the benchmark Nikkei 225 index closed at a 15-year high of 19,754.26 on Monday, however fell back later this week. The news comes as questions remain over the potency of prime minister Shinzo Abe's money stimulus programme, as he bids to bring the country out of an endemic period of deflation lasting two decades. Japan is still the world's third-largest economy, but may feel itself yielding as it attempts to curb China's economic influence.

This can be no better illustrated by close-ally South Korea's declaration to join the Chinese-domiciled Asian Infrastructure Investment Bank (AIIB) on Thursday. In a direct challenge to the World Bank, the AIIB is expected to fund projects for China's developing neighbours, while also allowing it to increase their exposure in the foreign currency reserves market, enabling the renminbi to compete against the dominant position of the US dollar. Meanwhile Japan remains loyal to the United States, maintaining its cautious stance over the AIIB.

Nikkei 225 Index Value



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