ELECTION FEVER RISES AMID GREXIT CONCERNS

This week saw an escalation in election fever with the main parties publishing their manifestos. That not one thing worthy of a weekly newsletter could be found says plenty about the choices facing the country. It's not that there is nothing of note any of them, just that the state of the national finances and world economy means that there is little that we think is likely to be implemented. The most worrying thing we've read is a promise of an EU referendum, but the near certainty of another coalition means this will probably be watered down somewhat, if not abandoned during the horse trading.

Elsewhere jitters abound over a possible Greek default and exit as either side refuses to budge, even as the hard deadline of May, when Greece is likely to run out of money, approaches. While Grexit would cause a huge reaction in markets, Greece is small and has already suffered most of the possible pain from within the Eurozone, while the possibility of default has been priced in by the market for some time. We expect that once the dust settles, markets will revert to normal fairly quickly.

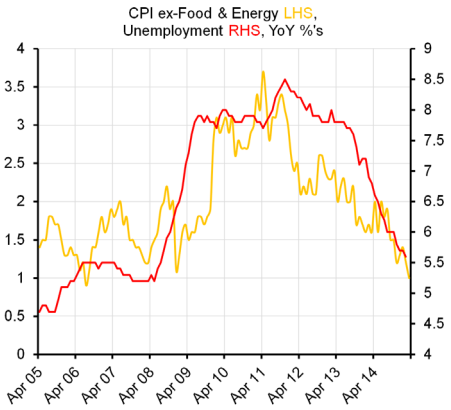
THE MARKETS THIS WEEK

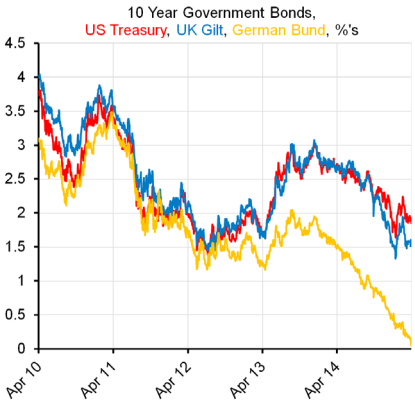
FTSE 100	S&P 500	Nikkei 225	Hang Seng	Dax 30	CAC 40	Ibex 35	Brent Crude	Natural Gas	Gold	Wheat
-0.84%	+0.66%	-1.28%	+1.40%	-4.60%	-1.61%	-3.17%	+7.45%	-1.86%	-0.02%	-6.03%

UK: INFLATION REMAINS AT ZERO

The UK's inflation rate remained at its record low of zero per cent in March. Figures released by the Office for National Statistics on Tuesday show that rising oil prices between February and March offset the fall in the prices of clothing and shoes. Flat inflation is an especially welcome development for both consumers and employers, as even moderate wage growth will reduce the cost of living. The question of raising interest rates will also be put on the back burner, as any increase in rates by the Bank of England seems vastly unlikely in a zero inflation environment.

The UK's unemployment rate has also been falling, and is now at its lowest level since July 2008. Unemployment in February fell to 5.6 per cent, down from 5.7 per cent in January and coincided with weekly wages rising to 1.7 per cent. The positive data will provide a pre-election boost for the Conservative Party, with David Cameron suggesting this week that a Labour/SNP "coalition of chaos" would do serious harm to the economy.





EU: GREECE HITS BACK AT CREDITORS

The Greek debt debate delivered again yesterday as finance minister Yanis Varoufakis came out in defiance over the fragile state of his country's finances. In an International Monetary Fund summit in Washington, Varoufakis voiced that Greece has, "The right to challenge the logic of a programme which has clearly failed." His reaction came as the IMF denied Greece an extension of a bailout of its debt repayments. The prospect of a Greek default is looking more likely by the day, with yields on the government's three-year debt rising to 27 per cent.

Meanwhile, long-term debt in Germany sank to record lows again on Thursday, as the 10-year bond yield hit a new low of 0.073 per cent. German government debt is generally considered to be one of the least risky assets globally, and so demand is driving prices up. This trend is primarily being driven by the European Central Bank's quantitative easing programme, and ECB President Mario Draghi reiterated on Wednesday that the bank remains committed to buying as much as €1tn of bonds through to September 2016.

ASIA: CHINA EXPANSION SLOWS

China's economy grew at its slowest pace in six years in the first three months of 2015, largely caused by the slowdown to its construction and manufacturing sectors. The government however will not be too concerned by the first quarter GDP growth of seven per cent, as it pursues a growth model which will make China a more consumption-led economy. Fixed-asset investment in the country is declining, which includes expenditure on infrastructure, factory equipment and property construction. Similarly, retail sales grew at a nine-year low of 10.2 per cent in the year to March. The rebalancing to China's $10tn economy will take time to adjust to new norms, so keep an eye as to how it performs over the remainder of the year.

Elsewhere, Japan has toppled China as the biggest official holder of US Treasuries. Its holding of US government debt now stands at $1.224tn, an increase from $1.21tn last year. The falling yen has made dollar exposure more attractive for Japanese investors, and the higher yielding bonds are another pull for Japanese investors.