EQUITIES FALL WITH RATE RISE UNCERTAINTY

The fallout from the general election continued this week with the various candidates throwing their hats into the ring to be leader of either the Labour or Liberal party, while UKIP went into meltdown. While this is entertaining for politics fans, it has little impact on investors for the next four and a half years. More worrying is the reversal in gains from UK equities following last week's vote as fears of uncertainty over the election result have been replaced by the familiar fear of uncertainty over an interest rate rise.

The bond markets have been bucked this week by increasing inflation expectations. This is causing a problem for two reasons, it makes todays ultra-low yields look over priced and increases the chance of a rate rise which could see bonds lose some of their value. While rate rises are likely to be small and delayed, not knowing exactly what a bond might be worth is upsetting investors who are choosing to sell out and look elsewhere. With elsewhere not looking great either we expect some of these investors to come back and the market to stabilise, at least temporarily.

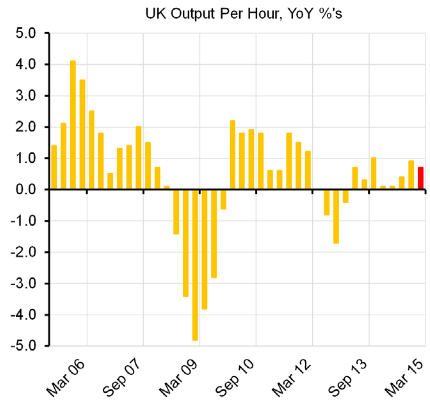
THE MARKETS THIS WEEK

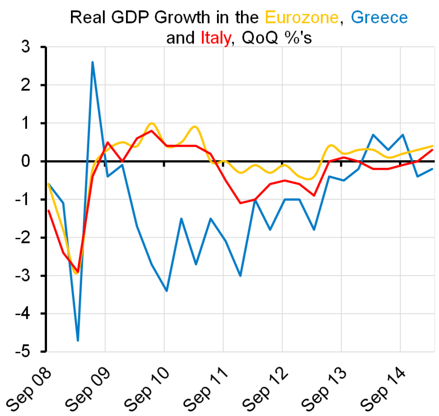
FTSE 100	S&P 500	Nikkei 225	Hang Seng	Dax 30	CAC 40	Ibex 35	Brent Crude	Natural Gas	Gold	Wheat
-0.64%	+1.59%	+1.83%	+0.89%	-0.91%	-0.71%	-0.14%	+1.94%	+3.56%	+2.18%	+8.71%

UK: CARNEY CALLS FOR QUICK REFERENDUM

Bank of England governor Mark Carney stated that the UK must hold its EU referendum "as soon as necessary" in an interview with Radio 4 this week, citing that businesses may delay important investment decisions if the uncertainty over Britain's future EU membership drags on. After the Conservative Party's success in the general election last week, David Cameron has assured the nation that a referendum will be pencilled in by 2017, however Carney advocates it is in everybody's interests for a quick resolution to the uncertainty.

Perhaps a more poignant post-election talking point is the worsening levels of productivity within the UK at the moment. The BoE's Inflation Report released this Wednesday was hardly encouraging as it further cut its forecast for productivity growth. Reasons for such subdued growth were attributed to a decline in capital investment and employment growth centred on lower-skilled occupations. The BoE's long-term inflation target of 2 per cent would deliver price stability according to Carney however a rate rise is still unlikely for a while yet.





EU: GREECE LOOKS TO PRIVATISE LARGEST PORT

Despite Greece slipping back into recession in the first quarter, it may be offered some salvation after the government revealed on Friday that it is in advanced discussions with China's shipping giant Cosco, who want to acquire a majority stake holding in the country's largest port at Piraeus. Talks over securing EU bailout aid have stalled in recent months, and the country appears to have made a significant U-turn over its stance on privatisation of its assets following deterioration in Greece's finances. The ridiculous saga therefore roles on and it remains to be seen whether a €7.2bn package can still be agreed from the EU.

Meanwhile, the eurozone economy grew by 0.4 per cent in the first three months of the year, official figures have shown. Quarterly growth is therefore at its fastest for two years, and was helped by better than expected data from France, which is being helped by an acceleration in industrial production. Italy also officially came out of recession as it recorded its first growth since the third quarter of 2011.

EM: CHINA CUTS RATES FOR THIRD TIME IN SIX MONTHS

Slowing growth in the Chinese economy has persisted in April as the central bank cut its benchmark one year lending rate to 5.1 per cent on Monday. This represents the third cut to interest rates in only six months, with borrowing costs likely to fall further according to senior analysts and policy makers. The idea behind a looser approach to monetary policy in China will be to combat any sudden jolts to the world's second largest economy that could pose a serious threat to employment and trigger a series of defaults in the bond markets.

China's recent fortunes are seemingly impacting on the 10-country Association of Southeast Asian Nations (ASEAN). The stellar long consumption boom experienced here may be slowing as three of the largest regional powers: Indonesia, Thailand and Malaysia are being hit by rising household debt, poor wage growth and political uncertainties, which have led to a slowdown in spending growth. Despite this downturn, the ASEAN region is home to over half a billion people and a growing middle class that should mean this as only a short-term headwind.