GREECE SHOCKS IMF BY WITHOLDING €300M

Greece fired yet another warning shot this week, when it decided to delay a loan repayment to the IMF. This is not the tipping point some have been predicting, Greece has the money to make the payment and the delay was allowable as part of the contract. Instead this is yet another act designed to convince the IMF and the rest of the Eurozone that it isn't bluffing and will default if it doesn't get the deal it wants. As an act of defiance it's much like a child threatening to run away from home and putting their toys by the front door to show they're really serious. Meanwhile Germany has reached two and a half in its "don't make me count to three" routine.

Elsewhere the chancellor seems to be preparing to sell on the government's stake in RBS at a significant loss. Given the public finances are not in such a perilous state as to make this a necessity; it seems odd to jettison the bank now at a time when it appears to be turning around. Are Tories ideological objections to state ownership of anything worth the nation taking a 25 per cent loss?

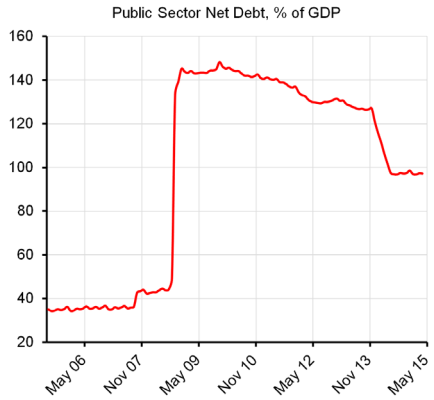
THE MARKETS THIS WEEK

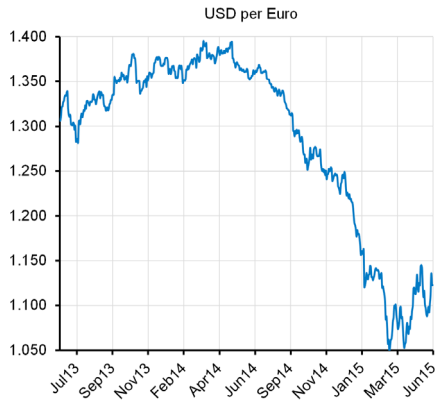
FTSE 100	S&P 500	Nikkei 225	Hang Seng	Dax 30	CAC 40	Ibex 35	Brent Crude	Natural Gas	Gold	Wheat
-2.42%	-1.18%	-0.50%	-0.60%	-2.03%	-1.77%	-1.47%	-3.76%	-6.48%	-1.21%	+9.54%

UK: TREASURY TO SELL OFF ROYAL MAIL

The government announced this week that the remaining 30 per cent stake in Royal Mail is to be sold off as the company becomes fully privatised. Based on the current share price, it is expected that the sale will generate £1.5bn, with chancellor George Osborne advocating there is "no reason we should hold a minority stake." The first sale of the company's stock took place in 2013, however the treasury will be hoping for a smoother disposal this time after it received criticism for short-changing taxpayers back then. It is understood that the government is considering a series of sell-offs aimed at reducing the debt load of approximately £1.5tn, with Lloyds Banking Group expected to also be fully sold to the public within 12 months.

Meanwhile, Lloyds was unable to escape the headlines as it was hit with a record £117m fine over the way it handled compensation claims for payment protection insurance between March 2012 and May 2013. The penalty levied by the Financial Conduct Authority comes as the regulator aims to get tougher on PPI amid banks setting aside £24bn for compensation to date.





EU: GREECE TO DELAY IMF PAYMENT

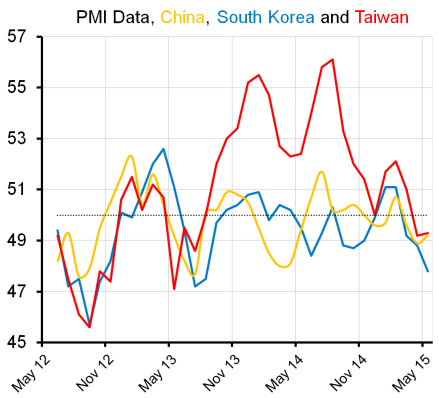
Greece has told the International Monetary Fund that it will delay its next €300m debt repayment, initially due for today. The refusal by Athens to cough up the funds means that they are to instead bundle several June instalments into a single payment at the end of the month, such that by 30 June the Greek government will need to pay €1.6bn to the IMF. The unusual move will further sour relations between Greece and the Eurozone; western politicians are disturbed by the possibility of Russia holding all the aces and coming to Greece's aid. Any move would be particularly poignant given that Russia is barred from this weekend's gathering of world leaders at the G7 summit.

The euro's response to the wider macroeconomic scene saw it earn its biggest two-day gain in six years against the dollar. The 3.2 per cent rally against the greenback saw the euro climb to $1.1285 on Thursday in light of the European Central Bank playing down the volatility of the bond markets and the eurozone returning to inflation.

ASIA: MANUFACTURING AND EXPORTS WEAKEN

Economic activity in the region for May remained weak, as insipid global demand led to a slowdown for Asian factories. India is now Asia's fastest growing economy as it reported a yearly 7.5 per cent expansion during the first quarter of 2015. It compares to China's annual GDP figure of 7 per cent growth in the first three months of this year, and follows a May PMI data reading of 49.2 which indicates a deteriorating manufacturing sector. A figure below 50 indicates contraction. South Korea also posted similarly worrying data as exports fell 10.9 per cent in May, the steepest decline since the summer of 2009.

The response from Asian central banks to this downbeat growth has been to cut interest rates this year. China and India have been particularly active in doing so and are expected to loosen monetary policy further in the coming months. This is all in the face of fears of what a rise in US interest rates will do for emerging markets, with investors expected to pull capital from the region when the rise takes hold.



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