

## INTEREST RATE RISE PUT ON HOLD

This week interest rate speculation returned like the prodigal son, with both the Bank of England and US Federal Reserve being second guessed by commentators. While we were critical and often scathing of all the pointless headlines interest rates were generating, compared to the political nonsense of the UK general election and Greek debt negotiations we couldn't be happier to see it return, by comparison it's almost newsworthy.

Elation was short lived however as the stories boiled down to "maybe, but not yet". So as you were. Instead our attention returns to Greece where the final act of the debt saga builds to its climax, expected next week. The chance of a peaceful outcome is looking remoter by the day, but strangely the Euro is holding up well, suggesting that this isn't the big deal it looks on paper or investors have severely underestimated the potential fallout from a Greek exit from the Eurozone.

## THE MARKETS THIS WEEK

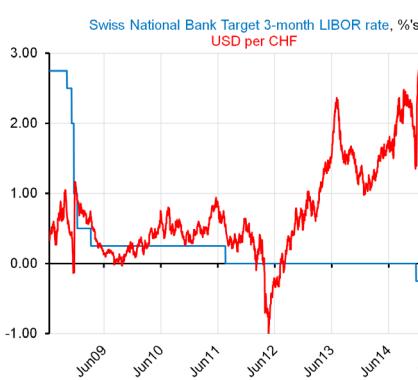
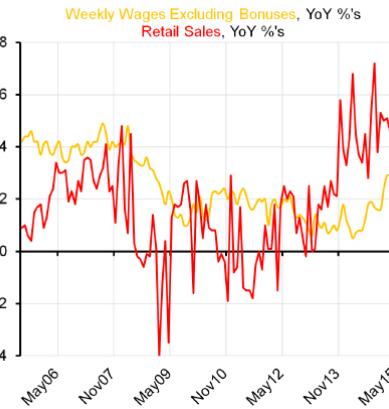
FTSE 100	S&P 500	Nikkei 225	Hang Seng	Dax 30	CAC 40	Ibex 35	Brent Crude	Natural Gas	Gold	Wheat
-0.65%	+0.59%	-1.14%	-1.91%	-0.23%	-0.97%	-0.41%	-2.39%	-0.41%	+1.71%	-3.62%



### UK: WAGES AND SPENDING UP

Real wages are now growing at their fastest rate since the financial crisis, with average weekly pay for employees increasing 2.7 per cent in the three months to April. With CPI inflation at a record low of minus 0.1 per cent in the same month, it means a real wage growth figure of 2.8 per cent. Nevertheless, economists warn that the recovery in incomes will not be sustainable if Britain is unable to shake off its woeful productivity record. This is because in the absence of rising productivity, wage growth has the potential to drive up medium term inflation which will likely hasten the need for a hike in interest rates.

The good news surrounding wages however means that household spending is also up as a result, with sales increasing 4.6 per cent in May compared with the previous year. These figures continue to show that the UK consumer is in very good health which should bode well for GDP growth in the second quarter, enabling it to rebound from its disappointing start to the year.



### EU: TIME RUNNING OUT FOR GREECE

Greek banks are at five minutes to midnight after no breakthrough was achieved at a meeting of finance ministers on Thursday, which means that an emergency summit of leaders from the Eurozone is to be held on Monday. If Greece doesn't negotiate a deal with its creditors within two weeks, then it will default on its existing €1.6bn loan repayment and could potentially leave the Eurozone and the EU altogether. Matters were hardly helped after Greek prime minister Alexis Tsipras visited Russian president Vladimir Putin at a business conference in St Petersburg this week, stoking rumours that Putin may offer Greece's cash-strapped government a loan in an attempt to win support against EU sanctions against Russia.

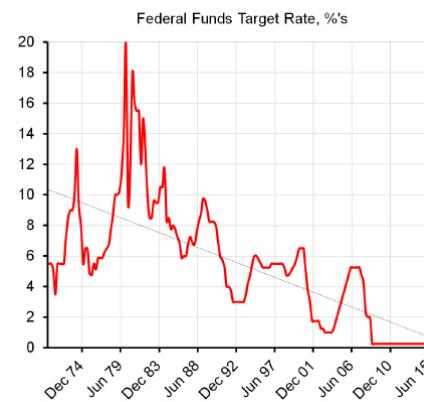
Switzerland's central bank says uncertainty over the Greek debt issue means that they will continue to curb demand for the franc. Any Greek default could spur further buying of franc-denominated assets, so the Swiss National Bank is maintaining its deposit rate at minus 0.75 per cent, a policy which charges depositors for holding cash and also weakens the currency.



### US: 'FAST TRACK' BILL APPROVED

President Barack Obama's task of strengthening US economic ties with Asia were boosted on Thursday, after US lawmakers approved a bill which enables a Pacific trade deal to be secured, albeit one that is stripped-down from its initial format. After initially being rejected, the successful vote means that the White House will have authority to fast track trade deals such as the 12-nation Trans-Pacific Partnership, one which comprises 40 per cent of the global economy and is nearing completion. Although the Democrats raised fears of US job losses to signatory countries, approval of the bill now should lead to a reduction in trade barriers among the member countries and could boost the global economy by \$300bn a year.

Elsewhere, the US Federal Reserve met this week to discuss when the next interest rate hike would take place. Chaired by Janet Yellen, she said that policy-makers are "anticipating a rate increase this year" although any increase would be "gradual" in nature. Any dramatic lift-off in rates could curtail the slow US recovery, so an incremental approach to tightening is favoured.



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