ECB HINTS AT FURTHER STIMULUS

Markets are rallying into the weekend as the European Central Bank hinted it would restock the booze cupboard in December. ECB President Mario Draghi explained that the bank is looking at extending and deepening its quantitative easing programme and investors responded by shifting money into riskier equities and high yield "junk" bonds.

It is a good reminder that the EU is in a very different phase of the cycle to the UK and the US which will complicate the path for asset prices over the coming year. Even if rates rise in the US and here, the Europeans are likely to be providing stimulus for markets for some time to come. This may mean that any falls in the bond and equity markets when the Fed raises rates are tempered or short-lived, and almost certainly means we should expect a number of volatile moves in both directions before the rate cycle is well underway. As ever, the way to go is to remain diversified and avoid chucking the baby out of the window because of the latest newspaper talking point.

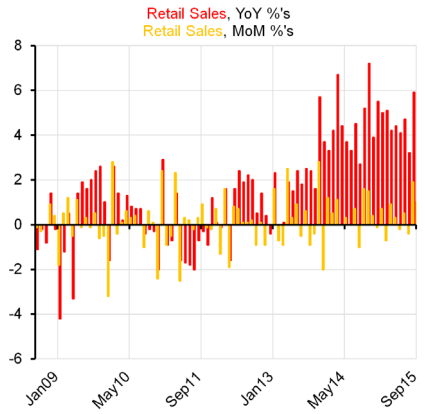
THE MARKETS THIS WEEK

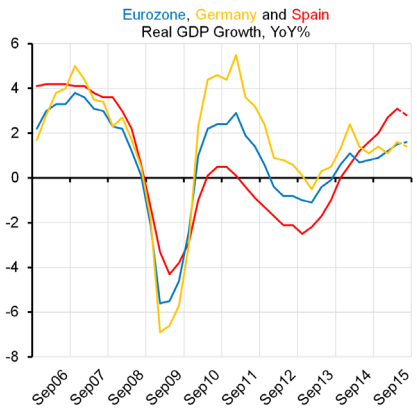
FTSE 100	S&P 500	Nikkei 225	Hang Seng	Dax 30	CAC 40	Ibex 35	Brent Crude	Natural Gas	Gold	Wheat
+1.07%	+1.42%	+2.92%	+1.15%	+6.25%	+4.10%	+2.52%	-5.36%	-6.13%	+0.16%	+0.30%

UK: PRESIDENT XI VISIT FUELS LIST OF DEALS

A series of business deals worth approximately £40bn has been signed between China and the UK following the first ever state visit of Chinese president Xi Jingping to the UK this week. The agreement for China to finance construction of a nuclear power plant planned at Hinkley in Somerset is most notable, as it is expected to create 25,000 jobs and power 6m households. Cameron has dismissed critics who say he is kowtowing to China, with issues such as the steel industry and human rights being raised over the last few days.

Meanwhile retail sales for September have far exceeded economists' expectations, jumping by 1.9 per cent for the month, well beyond the 0.3 per cent forecasted. Despite the anomaly of the Rugby World Cup, the data released by the Office for National Statistics shows that consumer confidence is resilient in Britain in the face of the global economic slowdown. Falling UK retail prices have aided the appetite for spenders to hit the shops, with the "implied price deflator" which measures shop price deflation, 3.6 per cent lower from this time last year.





EU: UNEMPLOYMENT FIGURES GIVE BOOST TO RAJOY

Elsewhere, Spanish prime minister Mariano Rajoy received a timely boost ahead of the December's election. The number of unemployed workers in Spain is now less than 5m for first time in four years. Although the jobless rate is still chronically high at 21.2 per cent, the country is enjoying the fastest GDP growth of any economy in the Eurozone at 3 per cent for 2015, led by strong export growth and a falling labour costs. Despite the positive news, worker productivity in Spain is still lower than in most other European countries, some 20 per cent lower on average.

Elsewhere, the latest meeting of European Central Bank officials pointed to an increase in the existing asset purchase programme, with many analysts foreseeing an expansion from the current €60bn a month to €80bn per month from December onwards. In a speech highlighting the slowdown in emerging markets, Mario Draghi also indicated that recent market volatility has dampened expectations of a positive outlook for growth and inflation in the Eurozone.

MIDDLE EAST: IMF IN WARNING TO OIL GIANTS

The International Monetary Fund this week announced that export giants located in the Gulf could face losses of $1tn if oil prices remain at their existing lows, over five years. The price of the commodity has collapsed since its peak in June 2014, with the fund estimating that oil will average just $52 a barrel for the rest of 2015. The implications of such a price level for the Gulf states are potentially damaging in the long-term, as oil is a long way from breakeven levels, which would require extensive restructuring of a number of projects.

In particular, it would appear that Saudi Arabia vastly underestimated the US's ability to continue drilling for shale, in the hope that a price war would deter further production and allow them to regain market share. Additional worries for the Gulf state haved ensued from the ongoing conflict with Yemen, which is stretching the fiscal budget. As the world's biggest oil producer, Saudi Arabia has cancelled over $200bn worth of energy projects since last summer's oil price peak, however this should lead to tighter supplies, eventually yielding higher prices in theory.