EU CONCERNS NOT CONFINED TO BREXIT

This week, some of the most interesting news came out of Europe; not the bluster about it that dominated British media, but the assessment of Mario Draghi of the Eurozone's economic prospects. In short, he's not that upbeat. The problems facing the currency bloc are beyond what can be solved by a central banker, Draghi knows this, but with no one else seemingly willing to do anything he's giving it a go anyway. The expansion of the European flavour of QE into corporate bonds, comes as close as ever to the bank just printing money and giving it away in the attempt to reflate the economy. If it works expect other central banks, including our own, to take notice.

Elsewhere the dressing down given to Poland for messing with the independence of its judicial system provided a reminder that despite the infighting and inefficiency, the EU can be a force for good in promoting democratic values and the rule of law in places that have little experience of either.

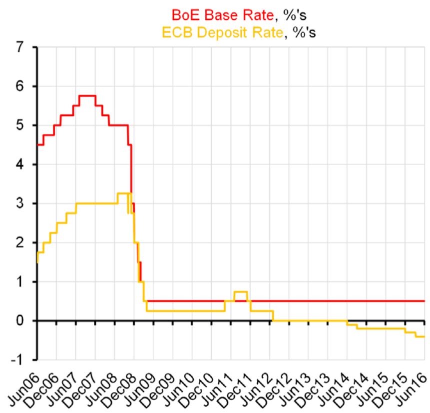
THE MARKETS THIS WEEK

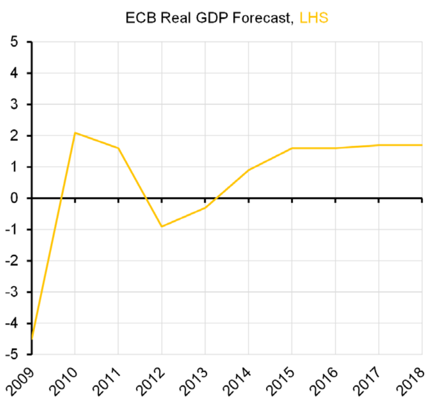
FTSE 100	S&P 500	Nikkei 225	Hang Seng	Dax 30	CAC 40	Ibex 35	Brent Crude	Natural Gas	Gold	Wheat
-1.28%	+0.42%	-1.62%	+1.37%	-0.76%	-1.08%	-1.64%	+0.31%	+0.00%	-0.16%	+0.88%

UK: WITHDRAWAL OF £50 NOTE

The Bank of England unveiled a new £5 note this week. What is potentially more significant is that they said they have not yet decided whether they will print a new £50 note. Ostensibly, the benefit to removing the £50 note would be to reduce the opportunity for tax evasion by discouraging large payments in cash, and this was the reason the Europeans gave for halting the printing of €500 notes earlier this year.

However, it is a remarkable coincidence that concerns about money-laundering and tax evasion have become so important just as policymakers implement negative rates. Negative rates are intended to encourage spending by penalising holding onto money, but can't work if people can take their money out of banks and hold physical cash instead. If policymakers expect to reduce rates significantly below zero in the future, you would expect to see them making it harder and harder to use cash. Time will tell if that is what is going on in the UK.





EUROPE: ECB TO CORPORATE BONDS

The ECB has confirmed it will begin purchasing corporate bonds in June as part of its QE programme. The programme will be restricted to bonds between six months' and thirty years' maturity and of investment grade credit quality. This policy was agreed upon in March, and it is only the date of 8 June which is new.

For this reason, we would not expect the market to react strongly to the new announcement. However, what was interesting was the ECB's own forecasts. As the Wall Street Journal highlighted, the ECB did not raise its growth and inflation forecasts when announcing the policy. This means they think that the economic situation is weakening (or that the corporate bond-buying programme is useless, in which case they would not be doing it). This is important in itself for investors, but also means we should expect further quantitative easing measures from the ECB in the future.

COMMODITIES: END OF THE RECOVERY?

There is growing evidence that the recent recovery in commodities is at an end. Oil prices rose before an OPEC meeting at which it as again rumoured production cuts were to be agreed. Once again, no cuts were agreed, and the price of crude fell back below $50 a barrel. Iron ore prices fell to a 10-week low on Monday, after a strong first two quarters off the back of improving Chinese demand.

While these could be temporary pauses in a bull market, South32 chief executive Graham Kerr suggests that there could be more significant falls to come in the industrial commodities as there is still an over-supply problem. BHP's Mike Henry predicted price falls in iron ore later in the year, again blaming over-supply. The commodities sectors have been the best performing on the FTSE this year, but if the producers are right they could be about to give back some of their gains.