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Global slowdown… now it is official

As if we needed any further proof that 2015 is going to be another challenging year we now have **official confirmation of a global slowdown**. According to the world's time keeping agency, the International Earth Rotation and Reference Systems Service which is based at the Paris Observatory, the **earth is moving so slowly that an extra second is to be added in an adjustment to clocks on the 30th June** this year. The measure, which has taken place 25 times since 1972 is needed to keep atomic clocks synchronised with the rotation of the earth. However while some of you may no doubt be pleased to hear that you get an extra second to stay in bed, the 'leap second' will inevitably create disruption for computer systems used in everything from navigation and communication to money transfers and even global share trading. Something to watch out for?

What have we been watching?

 Talking of watches, the surprise news that stunned European investors and reverberated through global currency markets came from Switzerland. **The Swiss National Bank (SNB) scrapped its minimum exchange rate cap of 1.20 Swiss Francs to the Euro.** It also increased the level of negative interest rates on cash deposits. The Swiss Franc soared against the euro and caused over a 10% correction in the Swiss stock market while shares of watchmaker Swatch dropped by 15%. Switzerland is the home of many leading global exporters including Roche and Nestle so a sudden spike in the Swiss Franc is not helpful for them.

After the initial shock, **equity markets saw this as a pre-emptive move by the SNB ahead of the ECB meeting and appeared to take the view that this all but guarantees QE.** However, the objectives of QE are to drive liquidity, increase bank lending but most of all, **act as a 'shock and awe' measure** which underscores the fact that the ECB really will do whatever it takes to save the Euro. **Markets are already anticipating €1trillion but will this now be enough?** Will an even bigger QE programme need to be tabled? **Furthermore, we all know the policy does not work without structural reform in the Eurozone.**

Before the Swiss currency news, markets had been rattled by the sharp fall in commodity prices. In addition, increased risk aversion saw the **yield on both Japanese and German five year bonds drop to zero.** The World Bank didn't help sentiment by cutting its 2015 global GDP growth forecast from 3.4% to 3%. **The main trigger for the sell-off in equities was a sharp fall in the price of copper which dropped to a new five year low.** In the past, copper has been seen as a possible lead indicator of economic activity given its use in everything from housing to cars and electronics. Not surprisingly, within the FTSE 350 index, **the Mining sector dropped like a stone on the news,** falling by up to 8% as the market opened, dragging the FTSE 100 down with it. Markets subsequently bounced in anticipation of ECB QE.

A further drag came from the Oil sector as the **oil price continued to fall, at one point hitting a new six year low of under $46 before recovering to over $49.** This was despite a 13% increase in Chinese oil imports in December to boost reserves and seemed instead to reflect a comment from the UAE Oil Minister who said that 'OPEC cannot continue protecting a certain price'. A leading global investment house also suggested that besides protecting market share, that **Saudi Arabia was willing to tolerate lower oil prices for longer in order to drive regime change in Iran.** Brent oil 12 month futures were trading at around $59.

In the UK, **inflation fell to 0.5% in December, matching the record low set in May 2000.** Mark Carney, governor of the BoE, expects inflation to fall further with lower petrol and food prices. He said that the Bank of England had the tools to deal with the risk of deflation but suggested that this would be by keeping interest rates at these record low levels for a bit longer rather than more QE. He also stressed that he **still expected the BoE to 'normalise' interest rates, or raise them gently within the foreseeable future.**

In Europe, renewed fighting in the Ukraine has cast a shadow over potential peace talks between Mr Putin and European leaders. However, at **least the major hurdle to ECB QE has been removed with the Advocate General ruling that the ECB's Outright Monetary transactions programme is compatible, in principle with European Union law.** This clears Mr Draghi for action this Thursday although the degree to which risk is allocated to European central banks is likely to cause some disagreement.

With the USA seen as the main engine of global growth, equity markets were also spooked by weaker than expected retail sales which dropped by 0.9% in December, the weakest reading since January. However, **US consumer spending which accounts for more than two-thirds of the economy should benefit from lower gasoline prices while more jobs are being created.**

Shinzo Abe's cabinet **approved the largest budget in Japan's history** but has not risked spending cuts. While 'Abenomics' is delivering higher tax revenues, **social welfare costs are continuing to rise as Japan spends more on its ageing population** while rising tensions with China has seen defence spending increase. The 'jury remains out' therefore on the 2020 goal of a primary budget surplus.

Chinese trade with the rest of the world missed the government's target for the third year in a row with growth of 3.4% against a forecast of 7.5%. This comes ahead of this week's annual GDP data which is expected to show growth of between 7.2% - 7.4%. **The Chinese financial authorities have cracked down on certain credit products and the use of margin trading which resulted in an almost 8% fall in the Shanghai index.**

Equity markets feel as if they need to be thrown a lifeline... sounds like 'time' for action on the twenty-'second' of January by the ECB. If Mr Draghi doesn't deliver shock and awe then 'watch' out!

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