

In a month of mixed economic data, most markets reported here ended the month up over 2%, with the best performer being the Nikkei 225 in Japan. Emerging Markets were down as the effects of the continuing unrest in the Middle East continued to concern investors. The FTSE 100 again spent most of the month over the 6,000 mark and at one point was at its highest level since May 2008.

The major domestic economic news over the month was again the soaring rate of inflation and whether the Bank of England would raise the base rate of interest in an attempt to control this. Those in favour of a rate rise believe the Bank of England is failing in its duty to maintain inflation at its 2% target, with the latest figure for the official Consumer Price Index (CPI) at 4%. Sceptics point out that any rise in interest rate would not have an effect on inflation until at least 18 months later when inflation is predicted to be lower. They also question whether an Interest Rate rise would have a sufficient impact on the inflation given that many of the factors driving inflation, including high oil prices and the rise in VAT rate, are out of its control. The most important question though, as yet unanswered, is whether the economy could survive an interest rise?

The European Central Bank has indicated that it is likely to raise their interest rate sooner rather than later, though inflation on the continent is lower at 2.4%. Any such raise would likely result in a further appreciation of the single currency, which is up nearly 10% against the US Dollar since its lows in June 2010.

The price of oil continued to rise, with increased demand and concerns over the troubles in the Middle East contributing to a price per barrel last seen in September 2008. The rise in the price of oil has had a positive impact on equity markets in those countries heavily reliant on oil for economic growth; in Russia the main equity market is up over 5% since the end of 2010.

March promises to be a busy month for investors and analysts, especially in the UK; not only is there the possibility of a rise in interest rate, but the coalition government will deliver its first full budget on 23 March and reveal whether it's rigidly sticking to its deficit reduction plan.

Key Data			
	28 Feb 2011	31 Jan 2011	+ / (-) %
FTSE 100	5,994.01	5,862.94	2.2
Dow Jones	12,226.34	11,891.93	2.8
EuroStoxx50	3,013.09	2,953.63	2.0
Nikkei 225	10,624.09	10,237.92	3.8
Hang Seng	23,338.02	23,447.34	(0.5)
MSCI EM	1,107.77	1,119.08	(1.0)
Crude Oil	\$97.32	\$90.98	7.0
£ = \$	1.626	1.601	1.6
Euro = \$	1.381	1.370	0.8
£ = Euro	1.178	1.169	0.8
Interest Rates			
Bank of England Base Rate			0.5%
ECB Refinancing Rate			1.0%
US Fed Funds Target Rate			0.00% -0.25%

UK

Underlying the argument about inflation and interest rates was the news that the GDP growth figure for the 4th quarter of 2010 was revised downwards to show a decline of 0.6%, raising concerns that the recovery in the UK could have stalled. Should the GDP growth for the 1st quarter of 2011 also be negative then the country will have technically entered a double dip recession.

EUROPE

Figures released in February revealed that the unemployment rate in Europe remained stubbornly high at 10%, a total of approximately 24 million people. Spain remains the country with the worst rate, with one in five people now out of a job, whilst the Netherlands was the lowest at 4.3%. As a comparison, the equivalent rate in the UK is currently 7.8%.

US

There was a raft of disappointing economic data from the US in February, with industrial production down 0.1% , retail sales falling below expectation even though they increased by 0.3% and even the headline GDP growth figure for the last quarter of 2010 was revised downwards from 3.2% to 2.8% (in Canada GDP growth was 3.3% over the same period). However, there was some good news with the unemployment rate at 8.9% dropping towards a two year low.

ASIA/PACIFIC

The benchmark interest rate in China rose to 3% in February as officials looked to try and contain inflation currently recorded at 5.3%. Commodity prices promptly fell on the news as fears that economic growth in the world's second largest economy is faltering. In Japan, the Nikkei 225 was up largely on the back of positive profits updates from some of the largest corporations, not least Toyota which is looking to recover from losses in 2010.

EMERGING MARKETS

Emerging Markets as a whole had a poor February, with the MSCI Emerging Markets Index down 1%. Markets in Latin America performed best, with equities in Brazil up 1.2%, whilst in Asia the impact of tightening monetary policy and fears of slowing growth in China affected most local markets, for example the KOSPI index in Korea ended the month down over 6%. Markets geographically and economically close to the troubled Middle East also suffered; the leading equity index in Turkey was down over 3%.