MARKET ANALYSIS

May 2010

May was a turbulent month for the global economy, reviving memories of the difficult months at the end of 2008. Investor confidence fell across the globe as fears that the repercussions of a potential failure of the Euro would result in a 'double dip' recession. Even the French President questioned whether the Euro would survive. The unprecedented rescue package put together by the EU and IMF, with funds over £600billion potentially available to ailing countries, only just satisfied the markets.

Much has been written regarding the crisis that has engulfed the Eurozone in the first few months of 2010, though the main issue now appears to be just how long Germany is willing to pay to support the single currency. Towards the end of May, the German Government took unilateral action in placing a ban on naked short selling. Although Germany intended to use their power within the region to control volatility in the markets, this action served to anger its continental partners, and create uncertainty as to the cohesion of the Eurozone.

Equity markets across the globe finished the month down, with heavy losses in the 'flash crashes' early in the month and a sustained losing streak in the last week. Investors once again were looking for safety in their dealings and the principal beneficiaries were Gold, which reached an all time high of nearly $1,250 per ounce in May, and the US Dollar, which continues to benefit as investors shy away from the perceived riskier currencies of the Euro and Sterling.

Despite the lack of investor confidence, macroeconomic data across the globe continued to improve with the UK announcing GDP growth of 0.3% in the second quarter of 2010 and improved unemployment data in the US.

Key Data			
	31 May	**30 April**	**+/(-)%**
FTSE 100	5188.43	5553.29	(6.6)
Dow Jones	10136.63	11008.61	(7.9)
EuroStoxx50	2610.26	2816.86	(7.3)
Nikkei 225	9768.70	11057.4	(11.7)
Hang Seng	19765.19	21108.59	(6.4)
MSCI EM	926.40	1020.03	(9.2)
Crude Oil	$74.50	$86.22	(13.6)
£ = $	1.454	1.527	(4.8)
Euro = $	1.231	1.331	(7.5)
£ = Euro	1.182	1.148	2.9
Interest Rates			
Bank of England			0.5%
European Central Bank			1%
US Treasury Reserve			0.25%

Oil prices retreated throughout May, despite significant pressure on the oil industry following the leak in the Gulf of Mexico. With increasing political interference likely to hamper the industry for the foreseeable future, shares in many of the leading oil companies were amongst the month's largest losers.

In June, equity markets will be looking to improve following two losing months, though any market rally is likely to be affected by any news (or the lack thereof) from the Eurozone. Pressure is increasing for central bankers to raise interest rates, especially in the US, where fears of another housing market boom and bust cycle are increasing. However, it is unlikely that the Federal Reserve, or indeed the Bank of England or the European Central Bank, will raise rates whilst the equity markets remain so volatile.

UK

The General Election early in the month returned no overall majority, though the Conservatives and the Liberal Democrats eventually found enough common ground to form a coalition government. Markets were largely unaffected by the election result as attention was focused on Europe, although market analysts had expressed a preference for the Conservative pledge to work towards cutting the national deficit immediately. Indeed, the new Chancellor has already announced £6 billion of savings with further cuts, and possible tax rises, likely in the emergency budget to be held on 22 June.

EUROPE

In what was undoubtedly a difficult month for Europe, with the Eurozone project itself under threat, and the fears of many commentators were realised when Spain lost its prized AAA credit rating from Fitch. All member states, not just those with well documented fiscal difficulties, will now have to ask themselves just how much financial power they are willing to give to the European Central Bank in order for the project to survive.

US

With investors primarily focused on the Eurozone crisis, and to a lesser extent the UK General Election, May was a relatively quiet month on the economic front in the USA. However, one startling opinion from strategists pointed out that the US may actually be closer to losing its AAA credit rating than previously thought, with newly released figures revealing that public debt exceeded the $13 trillion mark for the time and now stands at 89% of GDP.

ASIA/PACIFIC

Fears that the economic bubble may be ready to explode in China were supported by data which revealed that inflation there had reached an 18 month high. Chinese authorities may be forced to raise interest rates to counter rising asset prices, especially property prices which have risen by nearly 13% since the same month last year. Elsewhere in the region, unemployment was down again in Australia with the overall rate of 5.4% being amongst the lowest in the developed world.

EMERGING MARKETS

With fears that the sinking of a South Korean warship could lead to war with North Korea, equities in the South were one of the main losers in May, finishing the month down nearly 6%. Markets throughout the South East Asia region were also hit with Taiwan, caught between Chinese inflationary pressures and Korean hostilities, particularly badly hit, down nearly 8%. Elsewhere, equities in Brazil and Russia were both down around 7%, whilst India was one of the best performing emerging markets, down just over 3% in the month.