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FINANCIAL CONSULTANCY

MARKET COMMENTARY

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EUROPE'S LARGEST MONEY LAUNDERING SCANDAL

This week we take a brief Brexit respite to focus on what could be the biggest money laundering scandal in history. Between 2007-2015 around €200bn of non-residential flows was passed through Danske Bank's Estonian branch unchecked. The Danish firm bought Sabro bank in 2007 to expand its Baltic operations but was warned prior to purchase by Russia's central bank of fraudulent activity which it ignored. Subsequently, the branch wasn't onboarded onto the groups IT platform in 2008 to save costs which meant the branch didn't have to adhere to anti-money laundering procedures. In 2011 The region generated 11% of profits even though it accounted for 0.5% of the bank's total assets.

Many of the Nordic Banks quickly moved to dissociate themselves from the fallout, however, this week Swedbank CEO was fired as investigators honed in on similar claims. What this story does highlight is a shocking lack of a central European anti-money laundering agency. Leaving it to national regulators and local police will inevitable mean smaller nations like Estonia and Latvia struggle to enforce rules.

THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	Euro Stoxx 50	Hang Seng	US 10 Yrs	UK 10 Yrs	Brent Crude	Gold	Wheat	GBP USD
+1.85%	+2.27%	+2.84%	+2.74%	+4.04%	+0.12%	+0.12%	+1.66%	-1.71%	+1.86%	+0.46%

EUROZONE: ITALY'S DEBT AND BUDGET DEFICIT SET TO RISE

This week the Organisation for Economic Cooperation and Development (OECD) produced an updated special outlook report on Italy. The budget deficit is set to rise past its agreed target with the European Commission from 2 per cent to 2.5 percent in 2019. It could spiral further to 3 per cent in 2020 if Rome doesn't increase sales tax. In addition, GDP is expected to shrink by 0.2 per cent this year. Finally, unemployment is forecasted to rise from 10.6 last year to 12 per cent in 2019.

A series of inept governments, the Great Recession and Eurozone debt crisis have all played a hand in Italy's debt-to-GDP ratio spiralling to around 132 per cent. A period of quantitative easing helped bring down yields substantially creating breathing room for a country laden with sovereign debt, but the government missed its window of adding further taxes to bring debt to more manageable levels. Instead a populist coalition have gone down the route of attempting to slash taxes and increase public spending, a budget proposal that swiftly put the nation at loggerheads with the Commission

MARKETS: LYFT IPO FAILS TO TAKEOFF

Following a bumper IPO debut for Lyft, shares in the car sharing company fell by 12 per cent earlier in the week as investors cashed out of the stock. At the heart of the downturn is doubts about Lyft's future profitability. The group continues to be loss making accruing around \$2.3bn since 2016. Investors are willing to bet heavy on potential high growth tech stocks such as Amazon, which took close to five years to post a small return. However, this patience runs up to a limit with other tech stocks being abandoned due to either taking too long to post a profit (Twitter) or continues to be loss making (Snap).

Uber and Lyft remain locked in battle over market share. What is more concerning for investors is the size of Lyft's losses particularly as its customer base is predominately within the US. Rival Uber is expected to undergo its own IPO potentially as early as next month. Uber's global reach means that its initial market cap would be much higher and is estimated to be around \$120bn on debut.

GLOBAL: TRADE TALKS ENTER FINAL STRETCH

Trade talks fuelled the global rally this week as investors grew increasingly hopeful of a deal concluding in the near term. The S&P 500, Nikkei and FTSE 100 all ended up 2.3, 2.8 and 1.9 per cent respectively. Top level officials appear to have cleared most of the hurdles but a few key stumbling blocks, namely China's demand to lift the original tariffs along with who will monitor or enforce the agreement remain. The agreement would see China commit to buying more commodities from the US in addition to allowing American companies 100 per cent foreign ownership by 2025.

Elsewhere, US jobless claims fell to a 48 year low as the labour market remained resilient amidst sluggish world growth. Claims for unemployment benefits dropped by 10,000 to 202,000 for March.