



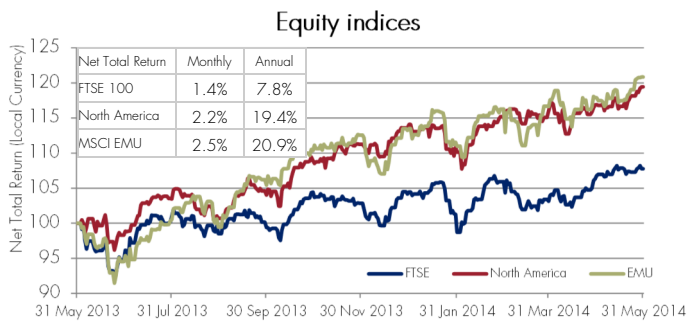
## Overview

Last month saw more speculation about the timing of a possible increase to the Bank of England's base rate. Minutes from the Monetary Policy Committee's May meeting show the committee voted unanimously to keep rates and gilt purchases unchanged. However, they also recorded 'for some members the monetary policy decision was becoming more balanced' leading many commentators to suggest we will see an increase in the base rate before May 2015. The MPC also announced a change in its make-up over the next three months, with three new members joining, two from outside the bank. This means only four of the nine members of the MPC will have been in place for longer than a year.

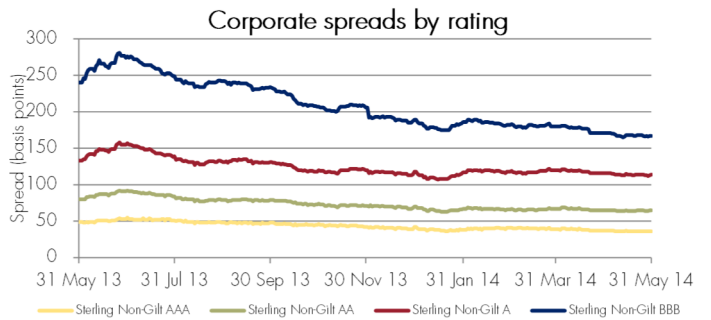
The ONS announced it will adopt new international standards for national income accounting from 30th September. Under the new standards, which include adjustments for illegal activity and intangible investment, the ONS expect GDP to be around 4 to 5% higher than current levels. It is unclear how these measures will affect the statistics in the longer term.

Global equity markets rose this month with the S&P 500 hitting a record high and the FTSE Eurofirst 350 reaching its highest level for six years. The rise in the European stock market is thought to be driven by the ECB, who are widely expected to cut rates further in an effort to stave off deflation. Any cut will leave the ECB rate negative, which would make it the first major central bank to announce such rates. This has led to much speculation on how this may impact lending in the Eurozone.

### Equity markets rose during the month



### Credit spreads were largely unchanged over the month

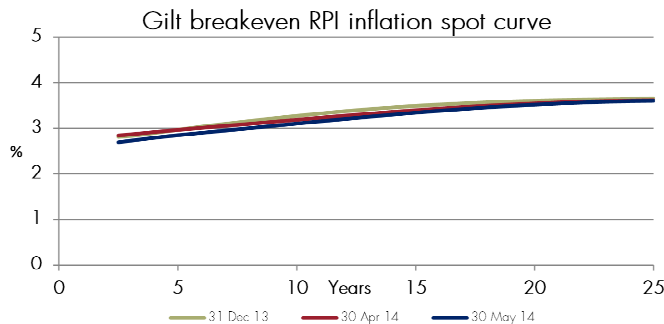


### LATEST ECONOMIC NUMBERS

Current base rate	0.5%
Quantitative easing	£375bn
CPI (April %y/y)1	1.8%
Halifax house prices (%m/m)	-0.2%
PPF 7800 funding	91.1%
\$/£ exchange rate	1.69

Numbers as at the end of month unless stated

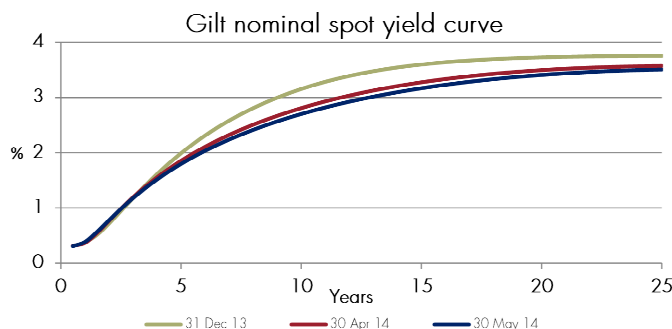
### Breakeven inflation was largely unchanged this month



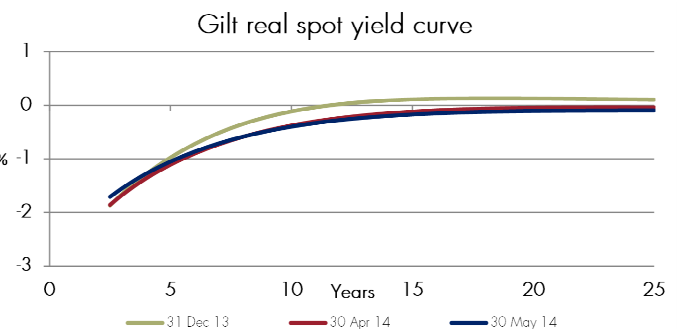
### CALENDAR OF EVENTS AND DATA RELEASES

MPC interest rate	5th June
UK trade April	6th June
BoE Quarterly bulletin Q2	16th June
RPI/CPI	17th June
Minutes of MPC meeting	18th June
National accounts Q1	27th June

### Nominal yields fell slightly this month



### Real yields fell slightly this month



All chart data sourced to Bank of England, Merrill Lynch, Financial Times, MSCI & Standard and Poor.



## Does the World Cup affect Financial Markets?

The biggest single-event sporting competition in the world is due to kick off on 12 June in Sao Paulo. This month we take a lighter-hearted look at the potential effect the football World Cup might have in Brazil and across global markets.

### Investor Inattention

The World Cup could have a number of impacts on financial markets. A recent study of international stock exchanges during the previous World Cup in South Africa suggests that trading volumes were up to 55% lower when the national team was playing and that specific events, such as a goal, could reduce the activity by a further 5%. The paper suggests co-movement between national and global stock markets reduced by up to 20% during matches. The authors concluded that the pricing process changed at these times due to inattention of market participants. Matches in Brazil are mostly going to be held after European markets have closed (see Box 1) so the impact in Europe may be limited.

### Market Mood

Other studies have looked into the short-term effect the results of World Cup matches have on asset prices. These claim a significant negative effect on the losing country's stock market, which they say is due to a downturn in the mood of investors. For example, there is evidence of correlation between the results of the England football team and daily changes in the FTSE 100. The studies also show little evidence of any positive effect following a win. Similar effects have been documented in response to other events that may impact market sentiment, such as the daylight saving clock change.

### Correlations and Predictive Abilities

Some commentators have remarked on the apparent occurrence of significant market events at the time of World Cups. For example, the 1930 World Cup coincided with the start of the Great Depression and the 1990 World Cup with a US recession. In addition other events, such as the dotcom recession, have occurred close to World Cups. Critics argue that a link does not exist and only appears to due to the regular occurrence of the World Cup. Some studies have found that equity returns have been significantly lower during the World Cup period and have linked this to the downturn in mood discussed above. However, the causal link is challenged with others noting that similar effects do not seem to occur during other major international football tournaments such as the European Championships.

These 'predictive' abilities of the World Cup are likely to be similar to the 'Super Bowl Theory' from the US, where the conference (i.e. league) of the Super Bowl winner is used to predict whether the stock market will end the year higher or lower than it began. From 1967 to 2010 this was 79% accurate, although most commentators agree this is coincidental.

#### Box 1 — Fixtures

England fixtures: (All times UK)

Italy—Sat 14 June 23:00

Uruguay—Thu 19 June 20:00

Costa Rica—Tue 24 June 17:00

#### Knock-out stages:

Last 16—Sat 28 & Sun 29 June

Quarter-Final—Fri 4 & Sat 5 July

Semi-Final—Tue 8 & Wed 9 July

Final—Sun 13 July (Source: BBC)

#### Box 2 — World Cup Predictions

	Colin	Matt	Andrew	Chris
Winner	Brazil	Spain	Argentina	England
Runner-up	Germany	Argentina	Germany	Belgium
England	1/4-Final	Semi-Final	First Round	Winners
Golden boot	Neymar	Higuain	Muller	Rooney
Total goals	120	155	135	170

### Long-term Impact in Brazil

Brazil has seen a number of large infrastructure projects take place since 2010. These include the development of stadiums, airport expansions and investments in transport systems. Whilst a number of these were already due to take place under the Government's 'growth acceleration programme' there has been unrest at what some of the Brazilian public perceive as unnecessary spending. Despite this a number of commentators argue that world cup related spending constitutes a small proportion of both GDP and overall investment.

Several studies into previous hosts of the World Cup (such as the USA in 1994) conclude that the benefit to the economy is small or even negative in the long-term. However, many commentators speculate that the recent economic growth in Brazil may mean the outcome is different this time. They suggest much of the infrastructure investment being made is necessary to continue this growth and increase productivity. Brazil's Minister of Sports predicts the World Cup and Olympics (due to be held in Rio in 2016) will create around 3.6 million short-term and long-term jobs each.

Any material or information in this document is based on sources believed to be reliable; however, we can not warrant accuracy, completeness or otherwise, or accept responsibility for any error, omission or other inaccuracy, or for any consequences arising from any reliance upon such information. The facts and data contained are not intended to be a substitute for commercial judgement or professional or legal advice, and you should not act in reliance upon any of the facts and data contained, without first obtaining professional advice relevant to your circumstances. Expressions of opinion may be subject to change without notice.

#### Contact Information

Colin Wilson  
Technical Director  
T: +44 (0)20 7211 2672  
E: colin.wilson@gad.gov.uk

Matt Gurden  
Investment & Risk Actuary  
T: +44 (0)20 7211 3498  
E: matt.gurden@gad.gov.uk

Andrew Jinks  
Investment & Risk Actuary  
T: +44 (0)20 7211 2655  
E: andrew.jinks@gad.gov.uk

Chris Bull  
Investment & Risk Actuary  
T: +44 (0)20 7211 2739  
E: christopher.bull@gad.gov.uk