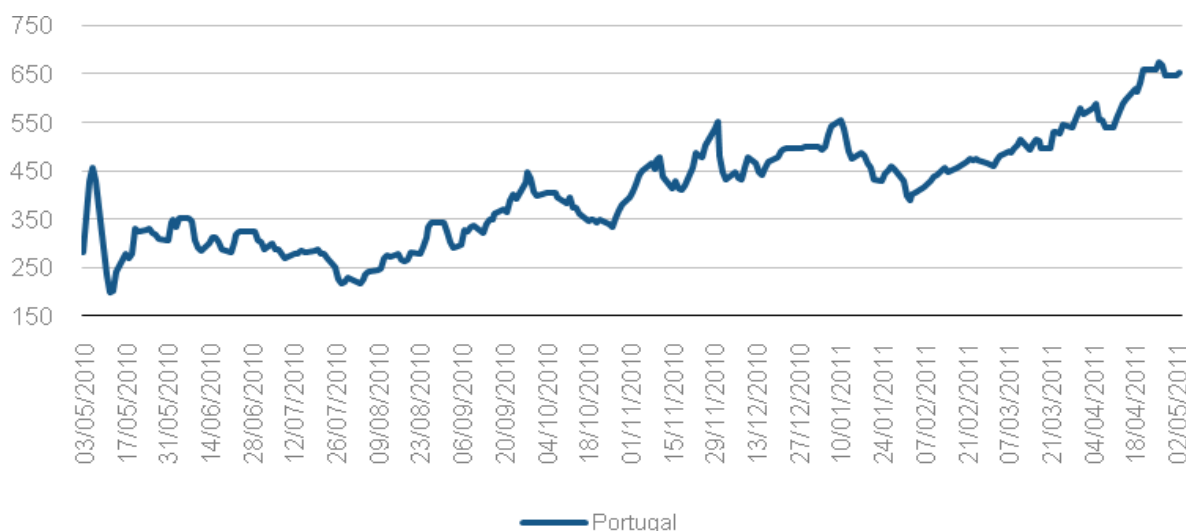


Markit Intraday Alert: A rebalancing act



Traders returned from the four-day weekend in the UK to a range-bound market. The death of Osama bin Laden has had little impact on risk appetite; he was an increasingly peripheral, albeit iconic, figure in the global Islamist movement. Investors are focused on the economic fundamentals, and the April Markit UK Manufacturing PMI released this morning added to the concerns on UK growth. The report showed that the headline figure fell to a seven-month low of 54.6 in April, well below expectations. Worryingly, the slowdown was driven by a significant easing in the rate of increase in new orders. Only improved demand for exports prevented the report from being even worse. The UK government will no doubt point to the report as further evidence that the economy is being rebalanced away from domestic consumption to exports. Whether this is enough to compensate for the effects on public spending cuts in the months ahead is open to question. Loose monetary policy, an essential component of the government's economic strategy, is now likely to continue for the rest of the year.

Sovereign spreads recovered from earlier widening to finish the day relatively unchanged. EU officials were reported as saying that preliminary terms on a bailout deal for Portugal could be announced in the coming days. IMF, EC and ECB officials are in Lisbon this week to iron out the details of the rescue, which was requested by the Portuguese government last month. The bailout will have to be approved by Portugal's major political parties, as a general election is to be held next month, as well as the other eurozone governments. Finland could block the deal. It is still not clear whether the True Finns party, which reiterated its opposition to the bailout today, will form part of the new Finnish government.

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