GEOPOLITICAL CONCERNS DOMINATE HEADLINES

This week the news has been dominated by the fallout from political upheavals. A coup attempt in Turkey, Donald Trump headlining the Republican National Convention, and the formation of a new UK government following the appointment of Theresa May as the new prime minister. In times gone by, any one of these events could have seriously unsettled markets, that they have been largely unmoved by these developments highlights how much chaos has been accepted as the new normal.

The impact of the Brexit vote has obviously been on the agenda, and will continue to generate headlines for years to come. This week we are no closer to finding out what Brexit actually means – Angela Merkel struck a conciliatory tone in her first meeting with May, while French President Francois Hollande came off a little belligerent. Call that a score draw for national stereotypes. Meanwhile, the falling pound made the UK the bargain bin of international M&A, a point proved this week as Japanese firm Softbank acquired the crown jewel of the UK technology industry, ARM holdings.

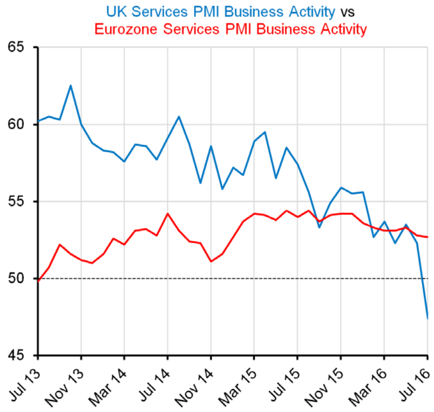
THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	Hang Seng	Dax 30	CAC 40	Ibex 35	Brent Crude	Natural Gas	Gold	Wheat
+0.46%	+0.43%	+2.59%	+1.58%	+0.89%	+0.09%	+0.62%	-4.22%	-1.85%	-0.47%	-1.65%

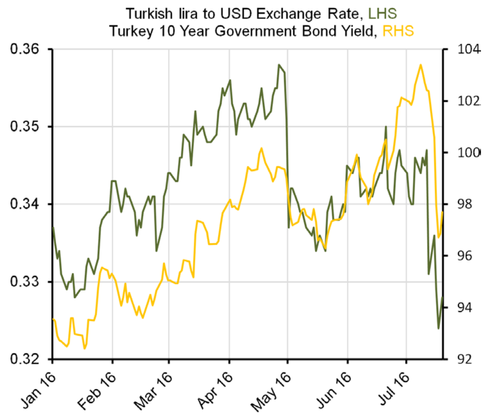
UK: FIRST POST-REFERENDUM ECONOMIC OUTLOOK

Research agency Markit published its latest Purchasing Managers' Index (PMI) readings this Friday, drawing the first picture of the post-Referendum economic landscape in the UK. The survey of Britain's manufacturing, construction and service sectors registers a significant slump in economic activity. All three PMI readings have fallen below the 50 point benchmark, flagging contractionary tendencies. The services sector, which comprises 80 per cent of UK economy, has fallen from 52.3 in June to 47.4 for July, below that of estimated forecasts. The report is likely to prompt a well-anticipated rate cut by the Bank of England in August.

Elsewhere, the European Central Bank mirrored the BoE's decision by maintaining the status quo in terms of interest rates and its QE programme. Yet, their decision is supported by stronger PMI results for continental Europe. The Eurozone composite PMI fared better at a reading of 52.9 for July, just 0.2 points down from its June figure.



TURKEY: NO CERTAINTY OF DIRECTION



The Turkish government announced a three-month emergency rule yesterday, in response to the failed military coup of last Friday evening. This exercise of centralised executive power, along with the massive purge of opponents in the public sector, has caused a flight of investment from the troubled country and a record fall in the Turkish lira. The Borsa Istanbul 100 Index plunged on Monday when markets first reacted to news of the coup, and it is still on course for its worst week since 2008. Judging by initial estimates, the Turkish consumer and industrial companies have been worst hit by capital outflows. Rating agencies have already downgraded Turkey's sovereign debt rating as the institutional instability unfolds.

Elsewhere, emerging markets have experienced a surge in investor interest in their sovereign bonds, with a record $4.9bn of inflows into emerging market debt only in the past week. Loose monetary policy in the West and sub-zero yields across Europe have made EM debt far more attractive in comparison.

JAPAN: KURODA DISMISSES FURTHER FISCAL EXPERIMENTS

The Bank of Japan's governor, Haruhiko Kuroda, dispelled fears earlier in the week of further fiscal spending by the government, in the form of direct consumer stimulus. Mr Kuroda however did not refute the possibility of further market easing in an effort to combat deflation, with more cuts to already negative interest rates under consideration. The monetary policy deployed by the BoJ over the past three years has arguably been unsuccessful in encouraging demand for credit and reviving a sluggish economy. As the latest Japanese PMI data shows for instance, contraction in the service sector continued in June, with a reading of 49.4, down from 50.4 in May.

In the meantime, Japanese companies have continued seeking out growth opportunities abroad, particularly through foreign acquisitions. The big news this week has been the takeover of the UK-based company ARM Holdings by Japanese conglomerate SoftBank for £23.4bn. The financing of such high risk deals provides an opportunity for Japanese lenders as well, whose earnings have been hurt in the low-rate environment at home.