MARKETS LOOK PAST BREXIT BLUES

We are still in the phoney war of the Brexit negotiations, with the papers full of conflicting rumours about the Government's intention and those of the EU's negotiators. It now seems more likely that a "hard" Brexit occurs – that the UK exits the EEA as well as the EU and negotiates a bespoke settlement – as prominent Labour supporters have rejected the principle of freedom of movement which would likely be insisted upon by the EU in the "softest" of exits.

However, once the negotiations start we will find out what is just positioning and what is a real threat, on both sides. For investors, the positive aspect is that markets are not reacting to the twists and turns of the soap opera in the papers. Rather it is central bank policy which is driving asset prices, as we return to the pre-June regime.

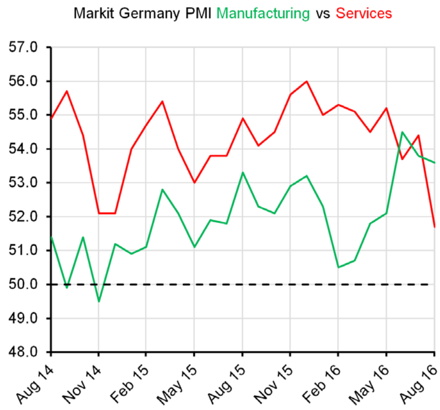
THE MARKETS THIS WEEK

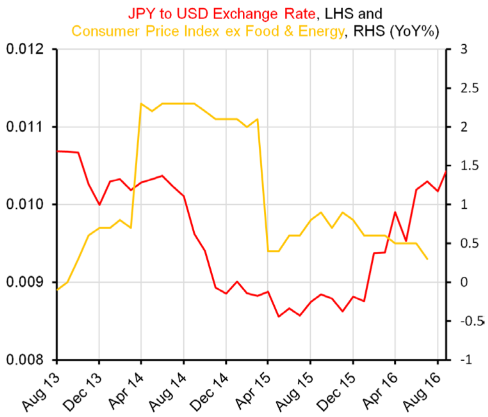
FTSE 100	S&P 500	Nikkei 225	Euro Stoxx 50	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Wheat	GBP USD
+2.86%	+1.39%	+0.84%	+3.54%	+1.50%	-0.08%	-0.15%	+4.67%	+2.14%	-0.12%	-0.11%

EUROPE: SLOWDOWN IN THE EU CORE

The latest readings of Markit's Purchasing Managers' Index showed a notable slowdown in the Eurozone core members France and Germany. The composite PMI for Germany fell to 52.7 points in September, from the previous month's 53.3 reading. While the Manufacturing PMI rose from the previous month level, the Services' indicator led the downturn with a fall to 50.6 points in September. This is the lowest level seen in more than 3 years and stands just above the threshold level of 50 which denotes stagnation. The loss of momentum was evident since the second quarter GDP results came in last month indicating a slowdown in Europe's second largest economy, which scaled back to 0.4 per cent growth for the period.

Meanwhile, France registered a contraction in growth for the second quarter. The GDP reading fell to -0.1 per cent in the period, a stark contrast to the 0.7 per cent growth registered in the beginning of the year. The country's large tourist sector is still struggling to shrug off the adverse effect of this year terrorist attacks.





JAPAN: CENTRAL BANK RESETS TARGETS

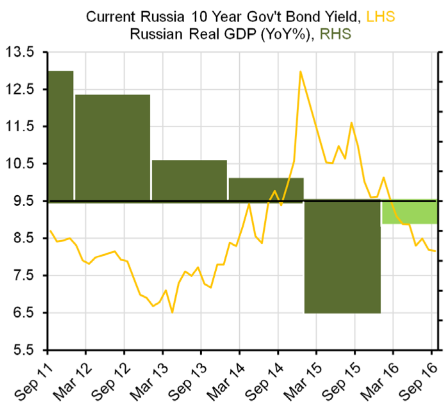
The Bank of Japan made headlines this week with surprising changes to its policy agenda. While the lending interest rate was kept on hold at -0.1 per cent, the policymakers announced a plan to re-set the inflation target above 2 per cent and cap the ten-year bond yields at zero per cent. The policy will extend the sovereign debt buying programme and the effort to stop the steady deflationary trend that has plagued the Japanese economy for the past two decades. The BoJ will continue its government bond-buying programme of ¥80tn a year as planned, yet it will target buying more short-term debt. In theory, this will benefit banks as short-term bonds' yields will rise.

Meanwhile, Prime Minister Shinzo Abe pointed that new set of reforms will target improving the legislation for part-time employment in Japan, which accounts for 40 per cent of the workforce. Critics of Abenomics worried that all recent statements did not specify details; even raising inflation to 2 per cent a year seems far-fetched in the current environment of deflation, let alone over 2 per cent.

RUSSIA: STRETCHING IN THE BOND MARKET

The past week's elections for the State Duma in Russia affirmed the status quo, with Vladimir Putin's United Russia party winning majority with 54.3 per cent of votes. The oil-producing economy has been put under strain by the oil price lows and Western sanctions, and Russian GDP contracted by 3.7 per cent in 2015. The Central bank predicts that the end to gloomy news is near as growth in 2016 is expected to contract by only 0.7 per cent. The Russian finance ministry is also maintaining a positive outlook by announcing a second sale this year in the sovereign bond market, worth $1.25bn.

The announcement comes days after the S&P Global Ratings agency revised its credit rating outlook on Russia from 'negative' to 'stable'. The $1.75bn bond sale in May this year took two months to gain access to international clearing, yet the prices surged quickly once eligibility was confirmed. As three-quarters of the initial sale was purchased by international investors, appetite for Russian debt is evident, despite the international sanctions imposed on the Russian economy.



Data Sourced from FE Analytics, and Bloomberg Finance LP