BREXIT TAKES BACK SEAT TO INFLATION

This week a bit of Brexit bluster, and the wonderfully prophetic statement from the irony impaired Theresa May that "there is no such thing as an unsackable minister", largely obscured the more interesting headlines of the week. The standout was the lower than expected inflation figures, while there is a large margin of error in these numbers, which might mean there was no real drop in inflation, the possibility is still noteworthy. Central bankers are splitting into two camps; the inflation is real and it's time to start hiking side vs. the inflation is temporary and the economy still needs to be on low rate life support side. The latest figures put the latter in the ascendency.

Elsewhere the most interesting data has been out of China. As well as surprising with their growth figures, a series of initiatives to dominate what they see as the industries of the future have also been announced. While they already lead the world in solar panels, wind turbines and batteries, this week they laid out a plan to dominate AI by 2025. While these industries seem niche now, this could mark the start of a Chinese age of industrial dominance.

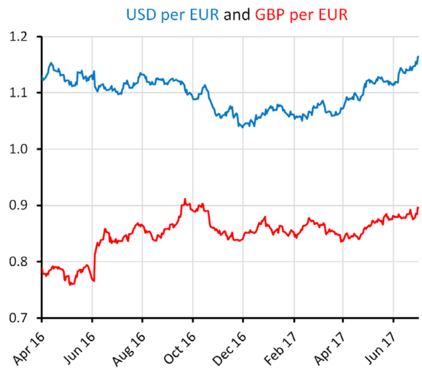
THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	Euro Stoxx 50	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Wheat	GBP USD
+1.61%	+1.05%	0.00%	-0.75%	+1.20%	-0.09%	-0.11%	+0.70%	+1.55%	+2.37%	-0.77%

EU: POLISH JUDICIARY BILL BRINGS TROUBLE

After being warned by the IMF to rein in its public finances at the start of the week Poland is now on a collision course with the ECB over recent passed and proposed legislation. Poland's right wing Law and Justice party, PiS, published a bill last week that gives parliament greater control over the body that picks judges. The party now plan to push through a second bill to give the justice minister the right to replace the head of any ordinary court within six months. The ECB is close to escalating Article 7 action by asking member nations to issue a formal warning to Poland.

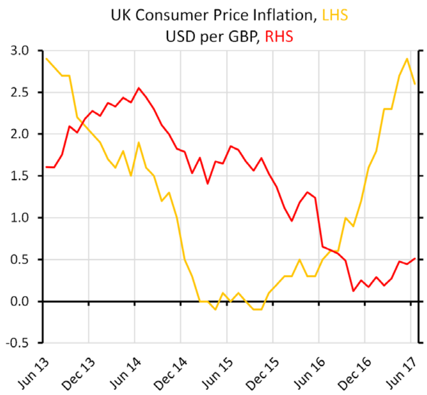
Meanwhile, investors eagerly awaited the European Central Bank's meeting on Thursday as they hoped for clues on the central bank's plans to pare back stimulus following Draghi's recent mildly bullish comments. Draghi suggested the next review of the bond buying programme will be in the autumn but did not offer any specifics other than that should inflation drop they are prepared to expand/extend stimulus. The euro surged past $1.16 after the press conference as investors interpreted no change as hawkish.



UK: INFLATION DIPS AS OIL SUFFERS

Year-on-year inflation dropped to 2.6 per cent in June from 2.9 per cent the previous month. Sterling's losses following the EU referendum last June have put upward pressure on consumer price inflation. The surge in the oil price also contributed to the boost to inflation as OPECs agreement helped prop up the commodity. Unfortunately for OPEC the ever-climbing number of US drilling rigs dampened the production cut's effect thereby alleviating some of the pressure on inflation.

Analysts had expected inflation to remain at 2.9 per cent however, the achieved 2.6 per cent figure is in line with the Bank of England's forecast in their May inflation report. Sterling fell 0.7 per cent against the dollar following the release. This latest figure has eased some of the tension in bond markets as the likelihood of a rate rise at the August meeting decreased. June's figure remains above the central banks two per cent target however, the bank is willing to look past this while the impact of Brexit remains unknown.



CHINA: GDP CONTINUES TO SURPRISE

The Chinese economy expanded at an annual rate of 6.9 per cent in the second quarter, ahead of analysts' expectations. The government's target for the year is 6.5 per cent. If the 6.9 per cent figure achieved in the first and the second quarter of 2017 continues, 2017 could be the first-year China's growth rate accelerated on the previous year since 2010. Analysts are always sceptical of the figures provided by the Chinese government, alternative measures such as the Bloomberg estimate suggest there has been a greater improvement in financial conditions than reported. Pressure on emerging markets has eased following the less aggressive tone taken by the Fed over the pace of rate rises in the US.

The property sector was a key driver for growth in the first half of the year. The central bank imposed a series of restrictions on the housing market, particularly on home purchases and mortgage lending, towards the end of 2016. These restrictions could threaten China's growth going forwards as housing sales and new builds are likely to slow.