EXPLORING THE DIVERGENCE BETWEEN EUROPE AND THE US

This week was nicely summed up by president Trump's July 4th reimagining of the 1776 revolutionary war to include ye olde airports; incoherent markets with soft expectations fantasies winning out over hard reality. Equities rallied on talk that US and China might restart trade talks, despite data showing that manufacturing sectors in both China and the US have seen a slump in activity. Home purchases have been picking up, but construction has been falling and consumer confidence has risen while business sentiment has deteriorated. It will be interesting to see if shopper's refusal to acknowledge a slowing economy will actually make a recession less likely.

Elsewhere, Brexit aside, there is no escaping reality in Europe. Germany recorded a record slump in manufacturing activity, led in part by weakening demand for exports particularly cars. This is in contrast to a recent announcement by Jaguar Land Rover that it is investing £1bn in an electric car plant despite its repeated Brexit warnings. The two might be related, with structural change and the sudden drop in diesel popularity behind both events.

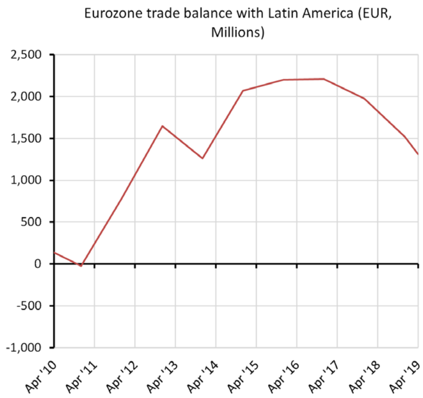
THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	Euro Stoxx 50	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Wheat	GBP USD
+2.12%	+2.82%	+2.21%	+1.73%	+0.54%	-0.05%	-0.15%	-1.49%	+0.35%	-4.74%	-1.13%

GLOBAL: EU AND MERCOSUR SIGN HISTORIC DEAL

20 years of negotiation concluded this week in a historic trade deal between the European and South American (Mercosur) trading blocs. Mercosur, a group that contains Brazil, Argentina Paraguay and Uruguay penned a deal with the EU to slash tariffs on a range of goods such as imported car parts. Mercosur will benefit from exporting key items like ethanol, beef and sugar duty free while the EU estimates the deal will save €4bn in annual customs duties on EU exports alone.

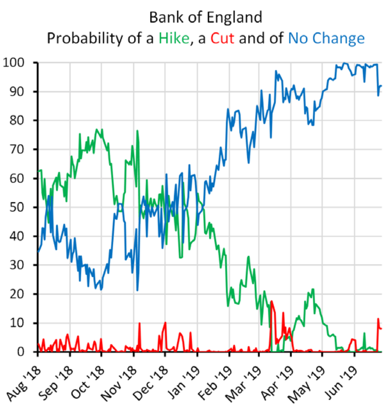
Ongoing trade tensions have no doubt helped speed negotiations up as countries reduce their reliance on the battling superpowers. This year has already seen the EU hash out a free trade agreement with Japan and a consultation between Mercosur and Canada is well under way and is anticipated to be wrapped up this year. A flurry of activity has also been recorded in the UK, albeit for Brexit reasons, as 11 out of 40 "continuity" deals have been signed in addition to an agreement with Korea.



BANKS: MARKET ODDS OF BANK OF ENGLAND RATE CUT THIS YEAR RISES

Expectations of a rate cut by the Bank of England (BoE) is growing, fuelled by weak economic data. The service sector accounts for most of UK activity and this week, IHS Markit's services purchasing managers index for June dropped to 50.2 from 51 in May. BoE governor Mark Carney's comment hinting towards a near term policy response in order to maintain growth was also interpreted by investors that a cut is imminent. Market probability of a rate cut within the next three years now stands at 50 per cent.

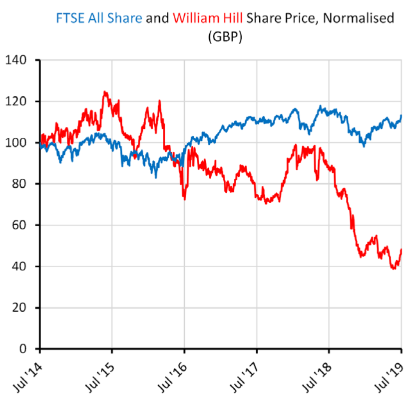
Elsewhere, European markets welcomed Christine Lagarde's nomination as ECB President. It is expected that Lagarde will continue current incumbent Mario Draghi's ultraloose monetary policy, providing further stimulus to aid up a struggling eurozone. Draghi's short-term decision on whether to implement rate cuts or go down the quantitative easing route has yet to be decided.



UK: WILLIAM HILL ANNOUNCES 700 STORE CLOSURES

An estimated 12,000 jobs within the betting industry are at risk as 25 per cent of UK high street bookmakers have been slated for closure. William Hill this week announced it will close 700 betting shops blaming tighter regulations on fixed-odds betting terminals (FOBTs). Previously FOBTs would allow a maximum stake of £100 per spin. This has now come down to £2 as of last April.

However, store closures can't solely be blamed on new regulation. The industry had been consolidating before the new rule and much like most high street stores companies have been expanding their online presence. The scale of store and job losses was vastly inflated by FOBT lobbyists who in an effort to influence the vote, reported that 21,000 job would be lost, and 4,500 stores would be closed. William Hill lead the way in store closure with rivals, Ladbrokes, Betfred and coral make up the remaining 60 per cent of job losses (as at March 2019).



Data Sourced from FE Analytics, and Bloomberg Finance LP