NORTH KOREA RESPONDS TO SANCTIONS WITH MISSILE

This week has seen a rather aggressive end, with another North Korean missile flying directly over Japan in the early hour of Friday morning. The test flight is undoubtedly a defiant response to the additional sanctions imposed on the dysfunctional state this week by the UN in response to their earlier nuclear test. The problem with this policy is that taking more away from a country that has nothing does little to change the minds of the North Korean leadership, as they are clearly trying to point out with their latest provocation. There are also reports breaking as we write this of an explosion on the London Underground system, we will be unlikely to know the scale of the incident before this is published.

Less alarming domestic developments come in the form of the Bank of England's latest decision not to raise interest rates yet again. This time the move came with a warning to prepare for a rise imminently, but we're rather inclined to focus more on the Bank's actions than its rhetoric and as far as a hike coming this year, we'll believe it when we see it.

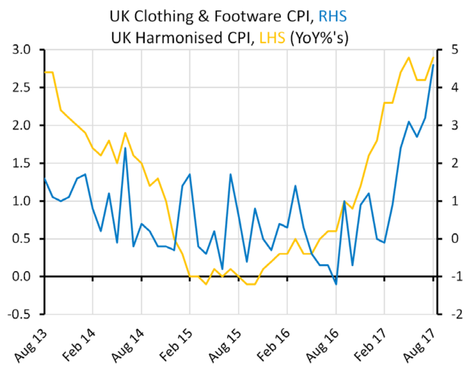
THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	Euro Stoxx 50	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Wheat	GBP USD
-1.48%	+1.24%	+3.29%	+2.27%	+0.50%	+0.14%	+0.30%	+2.84%	-1.50%	+6.71%	+2.26%

UK: INFLATION SURGES AS CLOTHES COSTS CLIMB

The Bank of England monetary policy committee (MPC) decided to hold interest rates at 0.25 per cent on Thursday, but indicated a rate rise in the coming months was possible. Despite unemployment dropping to 4.3 per cent in July – the lowest level in over four decades, the MPC focused on weak wage data. The drop in real wages, which includes the impact of inflation, raises further concern over consumer spending which has suffered lately in response to higher inflation from the weaker pound and uncertainty surrounding Brexit.

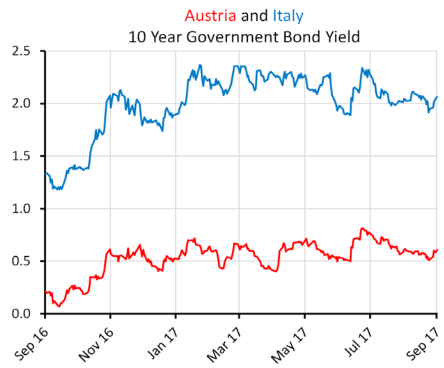
Inflation climbed to 2.9 per cent last month matching May's four-year high. The figure, up from 2.6 per cent in July, can be attributed to an increase in clothing and footwear prices which climbed 4.6 per cent from the previous year. Rising petrol and diesel prices also contributed to the larger than anticipated increase. Sterling rose 0.8 per cent to reach a one-year high against the dollar and 0.7 per cent against the euro following the news.



EU: AUSTRIA BREAKS THE CENTURY BOND RECORD

This week Austria issued the largest century bond to date. The bond has a yield of 2.11 per cent and its issuance raised €3.5bn and bids from potential investors reached €11.4bn. Last year Austria raised €2bn of debt with a 70-year maturity. According to Dealogic in 2016, governments around the world sold a record $63.5bn worth of debt with ultra-long maturities. Long-dated issuance has become popular in recent years with $43.6bn worth of bonds sold in 2017 with maturities of over 30 years. This increase in investment into long dated bonds suggests investors expect limited future rate rises.

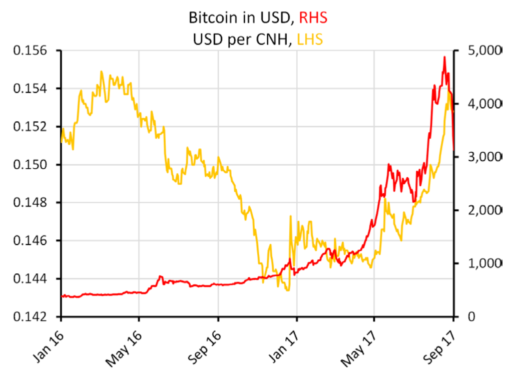
Elsewhere in the eurozone, Italy's bank's bad loans continue to reduce, suggesting the struggling financial sector is beginning to benefit from stronger economic data. The second quarter of 2017 brought the fastest pace of GDP growth in six years. This decrease in bad loans can be attributed to stricter regulations from the European Central Bank encouraging banks to improve their balance sheets.



CHINA: RENMINBI'S RISE BRINGS TROUBLE

In an unexpected turn of events China is having to reverse a range of measures put in place to support the Chinese yuan. A recent surge in the value of the currency has hurt Chinese exporters. The government's plan to scrap a two-year old rule which made it more expensive to bet the yuan would fall in value has put some downward pressure on the currency. The softening of the US dollar since the start of 2017 has helped the Chinese currency regain its 6.6 per cent decline against the greenback last year.

Meanwhile bitcoin took an 11 per cent hit as one of China's exchanges plans to halt trading of the digital currency at the end of the month. China appear to be taking a stand against bitcoin as it has been suggested investors use the currency as a way to bet that the yuan would depreciate. Cryptocurrencies have been the talk of the town lately with several high-profile sceptics questioning the legitimacy of the digital currency, following Nasdaq's survey of the world's most crowded trade naming bitcoin's rise as number one.



Data Sourced from FE Analytics, and Bloomberg Finance LP