

SOFT "SOFT BREXIT" PLANS DRAW HARD CRITICISM

This week we finally learnt what Brexit meant when the government published its white paper on what sort of deal it wants from Brussels. Sadly, the paper spells out a poorly conceived, unworkable compromise that fails to take in the complexities of the institutions involved or the practicalities of international trade; and which fails to protect the British economy or return any sort of real control. As one well known political commentator succinctly put it "a total Horlicks". In that sense, to one half of the country at least, Brexit did indeed mean Brexit all along.

The optimistic will point to this being just a starting point to work from in the negotiations, but that would hold more weight if it were not for the fact the negotiations are almost over. Given how badly the new Brexit minister handled the relatively simple task of printing the white paper, leading to parliament being suspended while he distributed copies, the prospects for implementing it don't look great. In a remarkable bit of stopped clock-ism even Donald Trump has managed to point out the flaws in the idea, perhaps the most damning criticism of all.

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
+0.91%	+2.25%	+3.71%	+0.08%	+0.74%	+0.02%	-0.02%	-4.89%	-1.20%	-4.27%	-1.17%

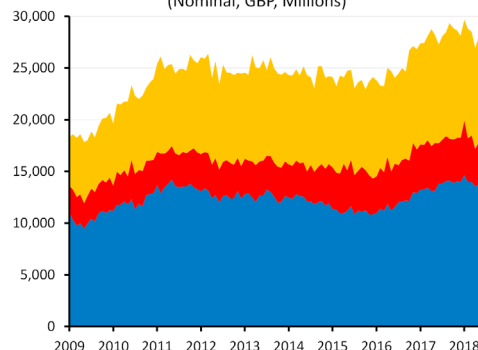


UK: CABINET RESIGNATIONS AND THE LONG-AWAITED WHITE PAPER

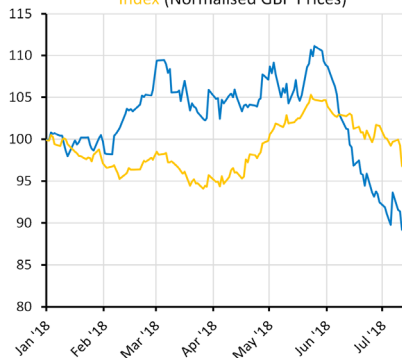
The government has this week released its plans to achieve a relatively soft Brexit. The white paper is based on the cabinet agreement made at Chequers last Friday, which triggered the resignations of two senior Eurosceptic ministers, Brexit Secretary David Davis and Foreign Secretary Boris Johnson. The document sets out plans for what would be an "association agreement" between the UK and EU, granting the UK "privileged links" to the single market such as those afforded to Ukraine.

If the government's plans were to materialise, there would be no tariffs on goods traded between the UK and EU but the two sides would have a looser relationship in terms of services, which makes up 80 percent of the UK economy. In particular, the government has abandoned its plans for "mutual recognition" of financial services regulation between London and Brussels, a model favoured by the City. However, it is unlikely that the white paper will be implemented in its current form. This is instead the long-awaited initial negotiating bid, one that Trump says could "kill" any UK-US trade deal.

UK Exports of Goods to EU, US and Others
(Nominal, GBP, Millions)



Soybean Futures and Bloomberg Commodity Index (Normalised GBP Prices)



GLOBAL: TRUMP CLAIMS VICTORY ON DEFENCE WHILE TRADE WAR CHURNS

Meanwhile, the US-led trade war has continued to escalate, with President Trump kick-starting the process to impose tariffs on a further \$200bn of annual imports from China. The President wants to levy 10 percent duties on products including refrigerators, electronics and other final products. As expected, the Chinese government has vowed to take "firm and forceful measures" in response. Meanwhile, the United States Department of Agriculture has forecast that soybean exports, one of the biggest targets of retaliatory Chinese tariffs, will fall significantly over the next couple of years.

This week, President Trump also attended the NATO summit in Brussels, where he called on other western leaders to double their defence contributions from two to four percent of their GDP. Trump later claimed that allies had agreed to "substantially up" their spending but European leaders said that they had simply agreed to remain committed to a 2014 spending deal. Despite strong criticism and fears that Trump would pull the US out of the alliance, he has tentatively committed to what he now sees as a "fine tuned machine".

TURKEY: ERDOGAN GRANTS HIGHEST ECONOMIC POST TO SON-IN-LAW



The newly reappointed President of Turkey, Recep Tayyip Erdogan, has picked his own son-in-law to become the emerging market's joint treasury and finance minister, stoking existing fears that the country's leadership will abandon economic orthodoxy. The President himself has a well-documented aversion to high interest rates which has raised questions over the central bank's ability and willingness to reign in consumer price growth, which reached 15 percent in June year on year.

Despite calls from investors to raise rates, Erdogan has predicted that "in the period ahead" we will see interest rates fall. This announcement led to a broad sell-off in Turkish assets this week. Adding to the country's woes, statistics have been released showing that the country's current account deficit has widened, meaning it has become more dependent on foreign financing for its economic growth and hence more vulnerable to external shocks. Consolidation of more power in Erdogan's hands following last month's election means that his often-controversial statements about the economy should be watched more closely.

Borsa Istanbul 100 (GBP, Normalised), LHS
and USD per TRY, RHS

