THE SHIFTING TRADE WAR LANDSCAPE

First, it was the tariffs wars which saw commodities slapped with additional levies, eventually ramping up to all imports from China. Then the focus shifted to technology with US companies considering moving their production lines out of China, with Huawei and Chinese drone companies blacklisted. We now appear to have entered a new chapter focusing on currency wars.

The US claims that China is manipulating its currency to the detriment of other nations by letting the Yuan slide past the 7 to a dollar limit. However, while China may have been accused of currency manipulation in the past, the nation has simply been propping up the Yuan over the last few years and letting it fall was an acknowledgement of weakening exports for the nation rather than an act of malice. Nevertheless, the US Treasury department were quick to add China to the currency manipulation list. Whilst the move is largely symbolic, it gives President Trump the legitimacy to hike tariffs further.

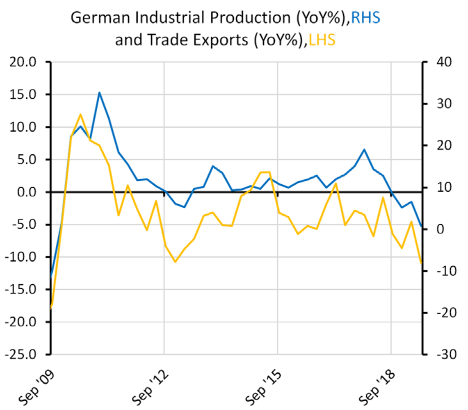
THE MARKETS THIS WEEK

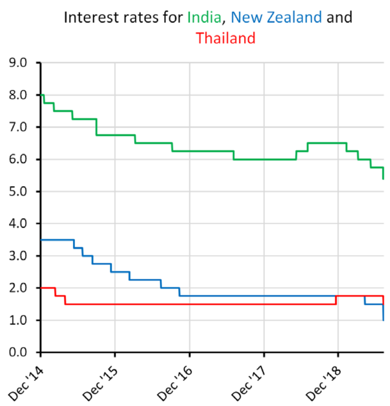
FTSE 100	S&P 500	Nikkei 225	Euro Stoxx 50	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Wheat	GBP USD
-1.87%	-0.52%	-1.91%	-0.81%	-3.64%	-0.14%	-0.06%	-6.03%	+4.05%	+2.24%	-0.39%

EUROZONE: GERMAN INDUSTRIAL OUTPUT SHRINKS AMIDST TRADE TENSION

German industrial output fell by more than the 0.4 per cent month by month figure predicted by economists to 1.5 per cent for the month of June, driven by weaker intermediate and capital goods production. The manufacturing sector continues to remain weak as a pivot away from diesel to electric cars and a slowdown in demand from China has stalled the country's key engine for growth. And with Sino-US trade tensions rumbling on, expectations of an economic contraction last quarter have risen.

The longer this continues the more likely industrial production woes will start to affect other sectors of the German economy. Energy production was down for the month of July by 1.6 per cent and this week, Commerzbank announced it will set more money aside (doubled to €178m in Q2) in case struggling firms are unable to pay back their loans.





GLOBAL: CENTRAL BANKS FOLLOW IN DOVISH FED FOOTSTEPS

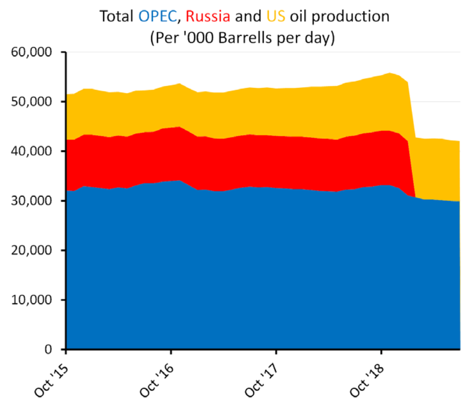
Central banks across India, Thailand and New Zealand all followed the US's dovish path and lowered interest rates this week. What threw investors off kilter was how aggressive these cuts were. India dropped their interest levels to their lowest level in nine years cutting rates by 0.35 of a percentage. New Zealand reduced theirs to a historic low by slashing rates by half a percentage point – greater than the expected quarter of a percent reduction. And Thailand keen to weaken its currency to remain competitive, lowered rates for the first time in four years by a quarter of a percentage point.

Rate cutting to prop up domestic economies could be seen as a sign of a recession in the near term. A signal which investors haven't ignored pilling into safe haven assets and government bonds. German and UK yields dropped to their lowest levels while US 10-year yields dropped to 1.74 per cent – their lowest in three years.

OIL: PRICES APPROACH BEAR TERRITORY

Global slowdown and recession fears have also spilled over to oil. Trade tensions in the Middle East hasn't stemmed the fall in oil prices by 8.7 per cent this month. Admittedly an oversupply in shale oil in the US would help push down prices but OPEC supply cuts and Venezuela's and Iranian oil sanctions should have kept oil prices on track to hit the $70 mark by 2020.

Instead oil languishes at $52.8 indicating the commodity isn't so immune from global headwinds. In turn oil stocks have also struggled this week with BP and Royal Dutch Shell down 2.3 and 1.4 per cent this week respectively. Meanwhile China's flagrant disregard of oil sanctions levied against Iran by the US could put further downward pressure on prices. It's estimated that between 4.4 million and 11 million barrels of Iranian crude were imported to China last month indicating the market wasn't as tight as first thought.



Data Sourced from FE Analytics, and Bloomberg Finance LP