TRUMP RECEIVES BOOST TO APPROVAL RATING FOLLOWING KIM SUMMIT

This week saw the historic meeting between Donald Trump and Kim Jong-un in Singapore. The summit, which had been cancelled, delayed and negotiated through oversized envelopes during the run-up, appeared to go well. There was a vague commitment to de-nuclearise the Korean peninsula, albeit with little substance to the document itself. Although it will be some time before we see if the agreement has any teeth, this is still probably Donald Trump's finest hour; the world is safer now than it was this time last week, and that is quite an accomplishment from this president.

Elsewhere, in what was decidedly not his finest hour, Donald Trump did major damage to the Western alliance at the G7 summit, which culminated in a public spat with Canada and a refusal to sign even the blandest of communiqué. Additionally, the US announced a further $50bn of tariffs on China on Friday. With Trump burning bridges both east and west, he needs his negotiations with North Korea to go well. They may end up being his largest trading partner.

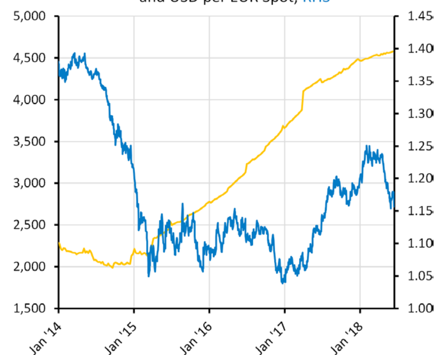
THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	Euro Stoxx 50	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Wheat	GBP USD
+0.81%	+0.44%	+0.69%	+2.33%	-2.10%	-0.03%	-0.09%	-1.17%	+0.41%	-4.95%	-1.04%

EUROPE: ECB WILL END QE AT YEAR END

The European Central Bank (ECB) has voted unanimously to end its bond-buying programme by the end of this year "subject to incoming data confirming our medium-term inflation outlook", i.e. a return of year-on-year inflation to the Bank's target of below but close to two percent. Monthly asset purchases will be halved to 15 billion euros at the start of September and halted together at the end of the year. However, it will continue to reinvest maturing debt until well after this date, meaning that the end of QE won't actually reduce the Bank's stock of debt.

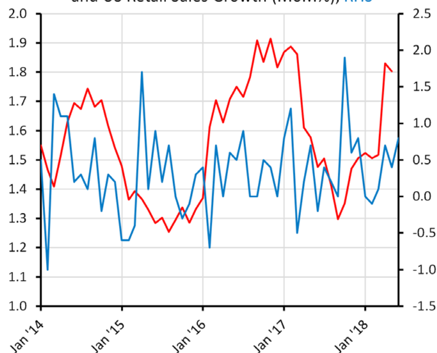
The Bank left its main refinancing and deposit rates at 0 and -0.4 percent respectively. It expects them to "remain at their present levels at least through the summer of 2019". This is later than had been anticipated, with the announcement causing the euro and European government bond yields to tick downwards. The widely anticipated announcement of a year-end drawdown in monetary stimulus comes despite a downgrade to the Bank's forecast for growth in 2018. However, it expects inflation to reach 1.7 percent this year, 3 percentage points higher than it forecasted three months ago.



US: HAWKISH RATE RISE FROM THE FEDERAL RESERVE

The Federal Open Market Committee has voted unanimously to raise the target range for the federal funds rate by 25 basis points to 1.75-2.00 percent. It now expects two more hikes this year, bringing the total for 2018 to four. Short-term rates are likely to be raised three more times next year. This puts projections for the midpoint of its target range in 2020 at 3.4 percent, higher than the prediction for the interest rate over the longer run, which currently stands at 2.9 percent. According to Jerome Powell, Chairman of the central bank, the decision "is another sign that the US economy is in great shape. Growth is strong, labour markets are strong, and inflation is close to target".

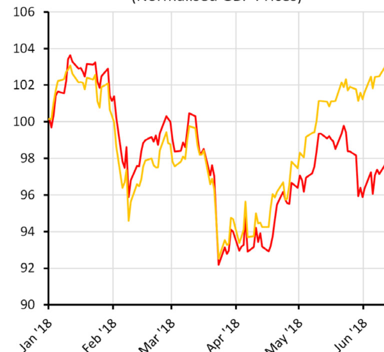
Strong US retail sales growth released this week points to strengthening growth, meanwhile tax cuts and additional federal spending are expected to translate into higher growth and inflation in the second half of this year. Although the hike largely met expectations, the Fed's tone was slightly more hawkish than expected, with US equities ticking slightly downwards on the announcement. Nevertheless, the Federal Reserve has maintained that monetary policy remains "accommodative".



FINANCIALS: SYSTEMICALLY IMPORTANT BANKS ENTER BEAR MARKET

Despite rising rates and a strong upward trend in equities as a whole, a group of big banks and insurers which are seen as systemically important to the global financial system have officially entered a bear market. 16 of the 39 so-called "Sifis" (Systemically Important Financial Institutions) are down more than 20 percent from recent peaks in dollar terms, the official definition of a bear market. They include Deutsche Bank, Nordea and ICBC. As the graph shows, global financials have diverged markedly from strengthening global equities as a whole.

While financials tend to benefit from a rising rate environment, the fact that many of these banks and insurers have become so dependent on wholesale dollar funding rather than more traditional deposits means that by raising their borrowing costs, tighter monetary policy is making expansion more expensive. This has translated into poor performance of the main financial stocks in recent months. This poses a challenge for central banks and in particular the Federal Reserve, which plans to continue raising rates in response to strengthening growth and inflation prospects.



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