## LAST CHANCE FOR GREECE

Last week we wrote that Greek banks were at five minutes to midnight and that by this time next week things should be much clearer. Yet astonishingly, although perhaps nothing should surprise us anymore, there is still no sign of a deal on the horizon. If last week we were at five minutes to midnight, you would need an atomic clock this week to measure the nanoseconds left. Presumably each side is still confident that the other will blink first, yet if no one does, the result for those who don't have well paid public sector jobs with generous pension schemes could be disastrous.

The consequences for the UK economy could be serious, even if research published by the Office for National Statistics shows that British trade to the EU is at a record low while trade to non-EU destinations is growing and likely to continue to grow. While most commentators are complacent about the knock-on effects of an accidental Grexit – or 'Graccident' – it is prudent to be prepared for possible contagion in the financial sector and declining confidence in Europe.

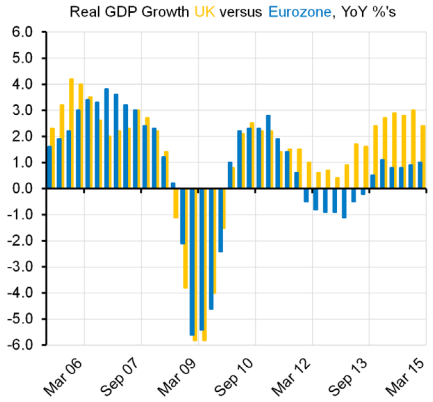
## THE MARKETS THIS WEEK

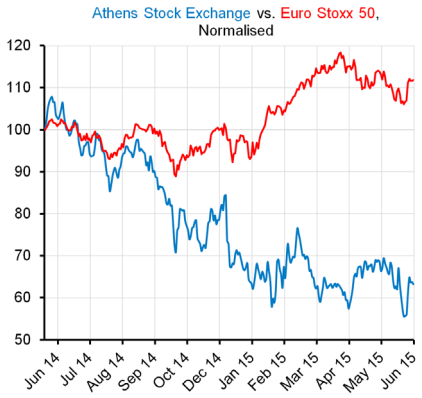
| FTSE 100 | S&P 500 | Nikkei 225 | Hang Seng | Dax 30 | CAC 40 | Ibex 35 | Brent Crude | Natural Gas | Gold | Wheat |
|---|---|---|---|---|---|---|---|---|---|---|
| +0.59% | -0.89% | +2.64% | -0.36% | +3.57% | +4.56% | +3.57% | +1.22% | -2.41% | -2.18% | +11.62% |

## UK: RAIL UPGRADES DELAYED

Plans to modernise large sections of the country's rail network have either been put on hold or scaled back amid rising costs and unrealistic targets. In what is being described as the biggest revamp of the network since the Victorian era, the delay to the £38.5bn project will inevitably damage the creditability of the government's "Northern Powerhouse" idea. Large sections of the line were planned for electrification, specifically for between London and Sheffield and also for between Manchester, Leeds and York, as chancellor George Osborne looks to address regional imbalances within the economy.

David Cameron was said to be in a rather more bullish mood on Friday following attempts to renegotiate the terms of Britain's EU membership. The main points included decentralising decision-making from Brussels, curbing EU migration to Britain through welfare changes and protecting the City of London as a financial centre. Eurosceptic Tory MPs are said to however remain sceptical over the ability of Cameron to deliver on his list of reforms.




## EU: GREEK DEBT DEAL DEAD IN THE WATER

Four failures in a single week. That is the worrying statistic for EU leaders after they were again unable to find common ground with Athens after lengthy talks which lasted overnight and into Thursday morning. Greek prime minister Alexis Tsipras refused to budge on a compromise proposal made by bailout monitors which now means that EU officials are likely to revert to "Plan B" if no deal can be struck tomorrow. This would entail "ring fencing" Greece via the use of capital controls, so that the fallout of any economic turmoil in the event of a default is contained. The situation will be resolved tomorrow either way.

Elsewhere, France's economy grew by 0.6 per cent in the first quarter of this year as its GDP figure was revised upwards. Data released by INSEE shows that investment in French companies also rose in the same period, countering overall trends of a lack of business investment across most of Europe. With corporate profit margins improving too, signs of economic recovery are finally beginning to show.

## BRICS: NEW DEVELOPMENT BANK MOVES AHEAD

The Asian Infrastructure Investment Bank added Australia to its growing list this week however a lesser known bank also headquartered in China is arguably just as important. The BRICS New Development Bank should begin operations by April next year according to its first President KV Kamath. Stating that the NDB will have a different role to play from the World Bank and AIIB, Mr Kamath said that its policies would be "driven by all stakeholders and not just lenders." Ultimately, the BRICS countries will hope to rebalance the international finance system away from their Western counterparts so that infrastructure and banking resilience can be improved.

Meanwhile, investors in China were left digesting the market's biggest fall in eight years on Friday. The Shanghai Composite Index sank 7.4 per cent which heightened concerns that the remarkable bull run on Chinese stocks is coming to an abrupt halt. Still, China looks increasingly expensive on an earnings multiple of 20 times, compared to only 9 times last year.