

GREECE SET TO DECIDE ITS FUTURE

The Greek debt crisis took a considerable step forward with the country officially defaulting on payments to the IMF this week. The consequences so far have been muted, although not for the Greeks. Over the last few weeks the deadline of the IMF payment has been talked up as the point of no return, but now that we're past this point it seems that there might be a few more after all. A "Yes" vote in the referendum on whether the Greek people should bow to creditor demands would see the end of the Syriza government and a completely new set of negotiations begin, with something workable potentially emerging now that the terribly thought out bailout package has expired and much of the animosity between the parties removed.

Market reaction has been violent but not too severe; a reminder that Greece by itself is unable to cause much of an impact on the world economy. The inability of the Eurozone to resolve what started as a moderate debt problem in one of its smallest members is probably the most worrying component of the whole saga. A "No" vote this weekend could lead Greece returning to the Drachma, though the short term impact will likely be limited we expect.

THE MARKETS THIS WEEK

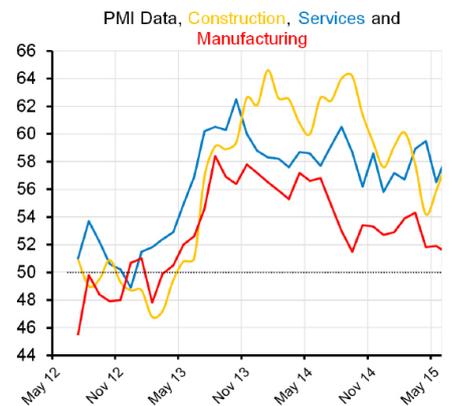
FTSE 100	S&P 500	Nikkei 225	Hang Seng	Dax 30	CAC 40	Ibex 35	Brent Crude	Natural Gas	Gold	Wheat
-2.40%	-1.21%	-0.80%	-3.98%	-3.61%	-4.97%	-5.07%	-1.34%	-0.14%	-0.47%	+10.10%



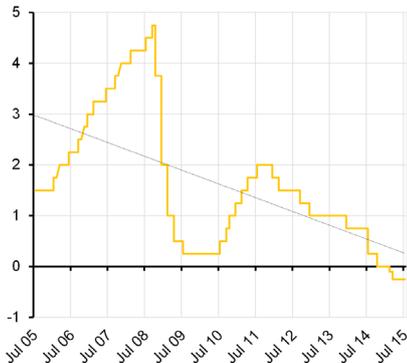
UK: HEATHROW GETS THE NOD

The recommendation made by Sir Howard Davies this week to build a new runway at Heathrow carries a lot of weight not just for all the political squabbling, but more importantly in terms of its economic consequences. No decision has been made yet but the Airports Commission believe that the favoured option at Heathrow would add £147bn to the economy and 70,000 jobs by 2050. It is also estimated that by expanding Heathrow, annual GDP could be boosted by 0.65-0.75 per cent in the same year. As Europe's financial centre, London is in desperate need of more airport capacity, but political wrangling could undermine the project.

Elsewhere, improving sentiment within the construction sector was reflected as PMI data rose to 58.1 in June, up from 55.9 in May, well-exceeding the 50 mark which indicates an expansion in the sector. The large increase in the survey is likely to stem from a revitalisation of projects which had previously been held back by election uncertainty; certainly good news for new home builds.



Swedish Riksbank Interest Rate, %s



EU: GREECE PREPARES FOR BAILOUT REFERENDUM

Major rallies by rival camps are to be held in Athens today ahead of this Sunday's referendum on whether to accept or reject international bailout terms. It comes after Greek banks closed this week, having had capital controls imposed on them after negotiations broke down for a final time between the Greek government and EU officials last Saturday. Then on Tuesday, Greece subsequently missed a payment on an IMF loan which meant that the country fell into arrears. Bailout terms dictate that Athens must increase taxes while slashing welfare spending so it can deliver on its debt obligations. A poll conducted this week shows that the "Yes" vote is at 44.8 per cent compared to the "No" vote at 43.4 per cent.

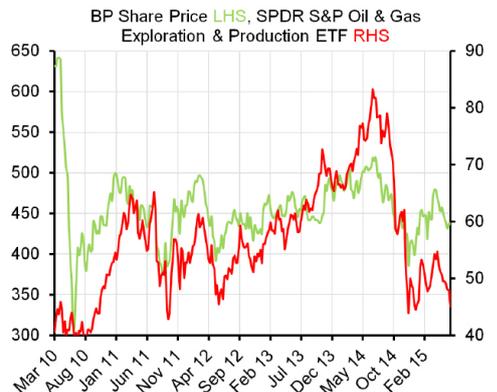
Meanwhile, Sweden's central bank took markets by surprise as it cut its main interest rate by 10 basis points to minus 0.35 per cent. Reasons behind the reduction stem from lingering concerns over Greece and continued attempts to stave off deflation. A weaker currency should help to boost inflation but the strong Swedish krona has hindered these efforts so far.



OIL: BP AGREES TO SETTLEMENT PAYOUT

British Petroleum was ordered to pay the largest settlement ever by a single company in US history this week. The Department of Justice concluded that damages of \$18.7bn will be paid by BP following the 2010 Deepwater Horizon disaster, where over 125m gallons of oil leaked into the waters of the Gulf of Mexico after an oil well exploded, also killing 11 people. The agreement should allow BP to pursue some ambitious new projects outlined for the region, as the Gulf remains a key driver for further exploration opportunities.

The lifting of liabilities is a real monkey off the back for BP, especially as the company has been viewed as a potential takeover candidate in the past, most notably by ExxonMobil. Merger and acquisition activity has been subdued this year in the oil and gas industry, although the US exploration and production sector index has fallen by as much as 12 per cent since the beginning of May. Coupled with US crude hovering around the \$60 mark, this means that there could be scope for a higher volume of M&A activity within the sector in the near future.



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