CHINA DEVALUATION CARRIES POLITICAL WEIGHT

This week the main economic news has been dominated by China devaluing its currency. The move itself is of dubious economic value as the devaluation is too small to really boost China's export engine. The currency had appreciated in excess of 25 per cent over the last three years, so two per cent off the top now will likely have little impact. It has had significant political consequences though, with talk of a currency war and moves to replace the Dollar as the reserve currency all being speculated about. This is of course just noise; a prosperous China is, on balance, good for all of us, so let's hope the devaluation works and the Chinese authorities are bold enough to do more if necessary.

Elsewhere, Jeremy Corbyn's emergence as front-runner in the Labour party leadership race upset the political apple cart. With ideas including mass nationalisation and reopening of the coal mines, whether the other identikit career politicians counter this and continue to promote the same narrow political agenda will be interesting. In fact, with austerity producing a popular backlash all over Europe the Corbyn threat should be taken seriously.

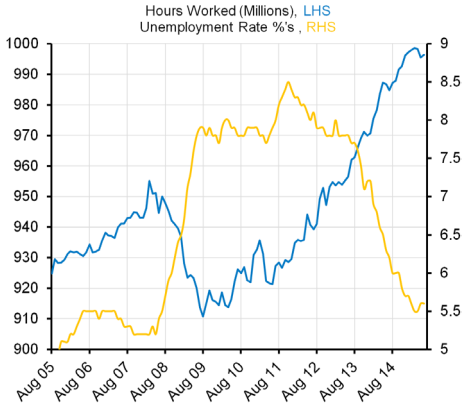
THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	Hang Seng	Dax 30	CAC 40	Ibex 35	Brent Crude	Natural Gas	Gold	Wheat
-2.38%	-0.01%	-0.99%	-2.29%	-4.67%	-3.86%	-2.68%	+0.10%	+5.49%	+2.64%	-2.35%

UK: UNEMPLOYMENT LEVELS OUT

The prolonged two-year fall in unemployment appears to be over as figures for the second quarter show that the number of people out of work rose 25,000 on the previous quarter. Despite the increase in the jobless numbers, the data compiled by the Office for National Statistics for the year is far more encouraging, indicating that 354,000 more people are in work than 12 months ago. The employment rate is now edging closer to its all-time high of 73.5 per cent, although chancellor George Osborne believes there is scope to add another 2m jobs by 2020, as outlined in his recent budget.

Ailing productivity since the onset of the financial crisis has been a major problem for the Bank of England. However, the ONS figures imply a modest uptick, with people working 0.2 per cent fewer hours between April and June this year while the economy grew at a pace of 0.7 per cent. Better productivity would enable employers to enlarge pay packets without increasing their own prices, a scenario which could trigger inflation to surge and lead to an early rate hike.



EU: EUROZONE GROWTH DISAPPOINTS

Overall eurozone growth slowed to 0.3 per cent between the first and second quarters of this year, and Germany continues to grow at a modest pace, recording 0.4 per cent expansion between April and June. Exports were boosted by the weaker euro as the German economy remained resilient to wider economic fragility in Greece and China. The subdued figures are unlikely to instil confidence in investors given the accommodating conditions of low interest rates, low energy prices and the weaker euro.

Elsewhere, the Greek parliament approved an €85bn bailout early on Friday morning, following overnight discussions. Ructions in the Syriza party look likely to undermine Prime Minister Alexis Tsipras's position after it emerged that opposition by his own MPs means he will have to rely on the votes of opposition parties to pass the bill. The other major development was the ECB and European Commission backing the IMF's calls for debt restructuring, which will add pressure on creditors to agree when the issue is discussed this autumn.

CHINA: CENTRAL BANK DEVALUES YUAN

China's central bank devalued the renminbi by 1.9 per cent this week, which was its largest one day move since 1993. Beijing's intervention seems to be a response to flagging economic growth and the strong dollar putting pressure on falling exports, which declined 8.3 per cent year-on-year in July – although Beijing denies this is the motive. Official growth figures which indicate GDP expansion of 7 per cent on an annualised basis have been challenged.

The devaluation sparked concerns of a currency war, however China maintains that the move is simply to improve the "market-orientation and benchmark status of the renminbi". Whatever the intentions, the market reaction to China's currency devaluation was just as important as the political reaction. Equity and bond markets were relatively calm in the face of the move, but commodity prices continued to slide, with WTI crude futures reaching a post-financial crisis low this week.