

Theresa May Declared as New Prime Minister

A lot has happened in Westminster this week. Andrea Leadsom decided to step down from the Tory leadership race, which left Theresa May as the last woman standing and facing the unenviable task of naming a new cabinet. She has reiterated that the new government will remain committed to EU withdrawal negotiations, while familiar faces such as George Osborne and Michael Gove are no longer around. The FTSE recorded modest gains in response to the news as the City welcomed the appointments.

In other news, the Bank of England's Monetary Policy Committee went against expectations this week by deciding to keep interest rates on hold. Given that the financial markets had priced in an 80 per cent chance of a cut to rates, you could argue that this was a surprising decision, but then maybe not. The cost of borrowing has remained unchanged for more than seven years at a record low of 0.5 per cent, however the MPC has not spoken about cutting rates in a long time. Do not expect this speculation to go away at next month's meeting.

THE MARKETS THIS WEEK

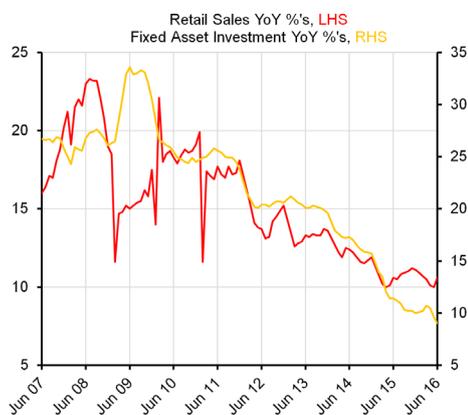
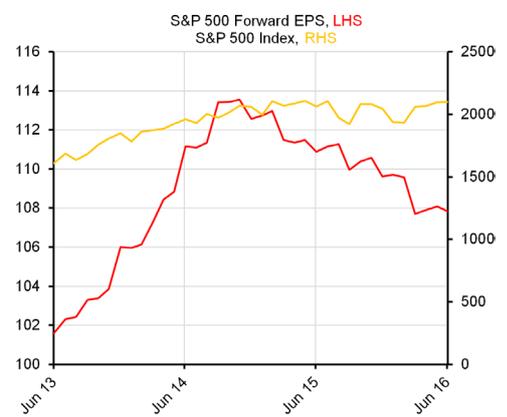
FTSE 100	S&P 500	Nikkei 225	Hang Seng	Dax 30	CAC 40	Ibex 35	Brent Crude	Natural Gas	Gold	Wheat
+0.97%	+2.60%	+8.47%	+4.85%	+4.56%	+4.65%	+4.48%	+2.35%	-1.62%	-2.04%	+3.15%



US: WALL STREET SURGES TO RECORD HIGHS

All the headlines this week were about the S&P 500 setting multiple record highs on the back of the solid results of US Financials and strong jobs data last week. JPMorgan, the largest US bank by assets, reported a higher than expected increase in quarterly revenues. Additionally, last Friday's news that the number of Americans filing for unemployment benefits had stayed at 43-year lows boosted sentiment on the financial markets. As well as this, nonfarm payrolls increased by an impressive 287,000 in June.

Despite the market highs, as US earnings season commences it is anticipated that a 5.9 per cent fall in corporate profits for the second quarter is likely, the fifth consecutive quarterly decline. Most of the damage is likely to stem from energy and banking stocks, while Apple has come under pressure from slowing demand for its iPhones in China. With second quarter earnings publicised to be weak, any earnings which surprise the market to the upside will surely lead the S&P higher.



CHINA: GROWTH HOLDS UP WELL

The Chinese economy performed robustly in the second quarter, growing at 6.7 per cent; slightly ahead of economic forecasts and unchanged from the previous quarter. A combination of a strong property market and loose monetary stimulus has helped to bolster demand for factory output. Government officials in Beijing have targeted 6.5 to 7 per cent growth for this year, and although this is slower than what we are normally accustomed to, there are still positive signs that the transition in the world's second largest economy is taking shape.

Retail sales in June were up 10.6 per cent from a year earlier, outpacing expectations of 10 per cent. While the government seeks to shift the economy towards one that is led more by consumption rather than industry, these figures should help to mask fears that the slowdown in private investment will spread to the consumer. Although fixed asset investment in the first half grew 9 per cent from a year ago, the private sector share of this actually fell, indicating that state owned enterprises benefitted more greatly from the fresh stimulus.



AGRICULTURE: BAYER INCREASES MONSANTO BID

In an attempt to create the world's largest supplier of seeds and agricultural crop sprays, German drugs-to-chemicals company Bayer has bettered its takeover offer for US rival Monsanto to \$64bn. The reason why such a bid has turned heads is that, if successful, it would be the largest all-cash takeover ever. As the agribusiness sector rapidly consolidates, it is anticipated that just a handful of companies will enjoy more than a 60 per cent share of the market. The fall in crop prices since the middle of 2012 has largely been down to a supply glut, with bumper harvests continuing for four consecutive years since. As farmers cut back on investment, earnings in the agribusiness sector have fallen considerably in the same period.

While the shareholders of Monsanto review such an offer, many will be keenly aware of several large deals which have taken place in the past 12 months. ChemChina agreed a \$43bn purchase of Syngenta AG back in February, while Dow Chemical and DuPont merged in a deal worth \$130bn last year.

