BREXIT SIGNALS GROWING PAINS FOR ECONOMY

It has been almost two months since Britain voted to leave the EU, with the first signs of contagion really taking hold on the economy. We have learnt this week that economic contraction took place in July, with the manufacturing sector suffering especially. Following the decision by the Bank of England last week to cut interest rates, questions remain over whether this will really do anything for boosting lending-to-businesses. Nevertheless, we could see a strengthening of the British consumer who will be encouraged to spend rather than see their savings continue to be eroded away.

Ironically, the FTSE 100 has surged this week against the backdrop of our domestic problems. The blue chip index set a new high for the year, as oil and miners led the charge although it is important to remember that about 70 per cent of footsie earnings are derived from overseas. That's not to say that global growth is chomping at the bit – it makes the conundrum of seeking out returns in today's environment ever the more complex.

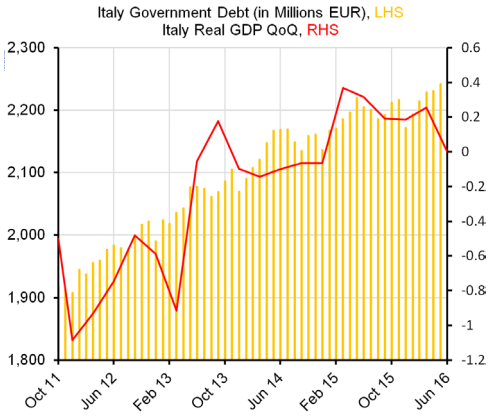
THE MARKETS THIS WEEK

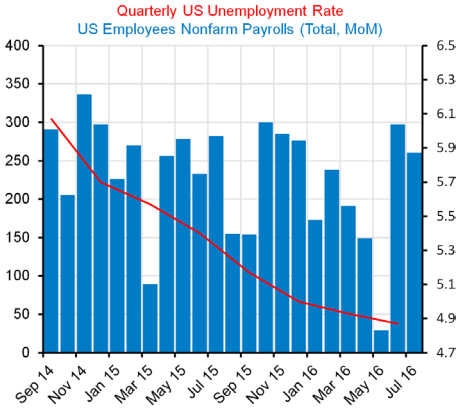
FTSE 100	S&P 500	Nikkei 225	Euro Stoxx	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Wheat	GBP USD
+1.85%	+1.00%	+4.09%	+2.29%	+2.80%	-0.04%	-0.12%	+3.95%	+0.11%	-0.30%	-0.95%

EU: SOUTHERN MEMBERS STRUGGLE WITH RESOLUTIONS

This week saw Spain and Portugal receive a bye from Brussels in their failure to cut their respective budget deficits to a target of 3 per cent of GDP, a cut both countries have foregone since 2009. The decision buys Madrid and Lisbon more time to conduct structural reforms however. EU economics commissioner Pierre Moscovici confirmed that the leniency was prompted by the decline in popular support for EU institutions, with any fine potentially amounting to 0.2 per cent of each countries' GDP, or €2bn for Spain and €300m for Portugal.

Italy are also pushing a bid to reduce their deficit-to-GDP ratio to 2.3 per cent in 2016, on top of introducing immediate measures to alleviate economic ails in this year's autumn's budget. Prime Minister Matteo Renzi has spoken of pension increases, extra welfare funding and income tax cuts this week, ahead of their scheduled enactment as Italy has forecasted 1.2 per cent growth of GDP for this year and the next. This optimism is not shared by the IMF however, who estimate that growth may well fall below 1 per cent this year and in 2017.





US: EMPLOYMENT NEWS BRIGHTENS FORECAST

The US Department of Labor reported positive news in its latest monthly report where job openings expanded ahead of forecasts, adding 255,000 new payrolls in July. The optimism was shared by one of the Federal Reserve's regional banks - the Bank of Atlanta, which published robust forecasts on US growth for the third quarter of the year. According to the Atlanta Fed's model, which is well regarded among investors, US GDP will see a boost of 3.7 per cent between July and September - a significant increase from last quarter's sluggish 1.2 per cent growth.

In the meantime, US retailer Macy has made the headlines this week, where it announced a complete restructuring of its business model and that is intends to close down more than 100 stores due to weak sales figures. While US consumer spending is not necessarily slowing, analysts expect a 0.4 per cent rise in retail sales for July. The news reflects changes in the retail sector structure, which sees increasing competition from online vendors taking market share from major department stores.

BRAZIL: ECONOMY BACK IN THE GAME?

The Olympic Games has coincided with newfound optimism for the Brazilian economy, the most recent reports on Latin America's largest economy reveal. Brazilian inflation continued to ease in July, falling to 8.7 per cent, and down from 8.8 per cent from the previous month. This confirms the overall stabilisation of consumer prices after last January's record level of 10.7 per cent. The central bank's record interest rate of 14.25 per cent along with a strengthening of the Brazilian real have mainly contributed to the falls in inflation. Yet, soaring food prices, which rose to 13.6 per cent in the year to July hampered further easing, which analysts expected.

Brazilian financial markets have benefited from both a change in fiscal policy brought about by the interim president, as well as the investors' enthusiasm for emerging market assets. Bovespa, the Brazilian stock market benchmark, has climbed 54 per cent so far from its low in January this year. The Brazilian real has also become the best performing major currency in 2016, gaining 26 per cent in value against the US dollar in the year to date.