ECONOMISTS SHRUG OFF BREXIT EFFECT

August is always a particularly quiet month for the markets, with this no different. Now they have shrugged off Brexit, attention turns to the policy makers at the world's central banks and how they will try and do the same. The latest minutes from July's Federal Reserve meeting highlights the use of the word "Brexit" twenty times, while the ECB were also keen to stress its potential impact over the coming months. All we do know is that monetary policy is expected to be kept on the loose side.

How much looser it can go? This week it was revealed that global central banks sold a net $192bn of US Treasury bonds in the first half of this year, the largest sell-off of US debt since 1978. The mass selling of T-Bills is usually a sign of inherent weakness in the global economy, as countries attempt to prop up any declines in the values of their currencies. With the appetite for US debt is as high as it is, it is little wonder it can afford to continue paying historically low interest rates.

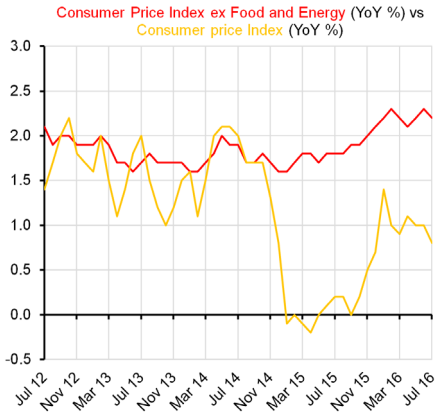
THE MARKETS THIS WEEK

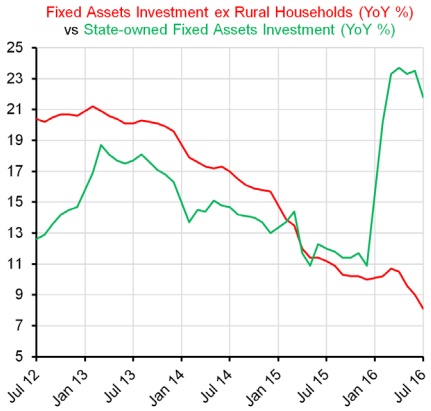
FTSE 100	S&P 500	Nikkei 225	Euro Stoxx	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Wheat	GBP USD
-0.90%	+0.06%	-2.21%	-2.73%	+0.75%	+0.03%	+0.04%	+7.92%	+0.90%	+0.77%	+1.56%

US: DOVISH FED POSTPONES RATE HIKES

The US Federal Reserve's August meeting did not bring anything of note, as Fed officials took a cautious stance on US economic health, delaying any further rate hikes until unequivocal data for growth comes through. While core inflation remains stable at 2.2 per cent, the lower commodity prices continue to keep energy and food prices subdued resulting in all-inclusive inflation reading below 1 per cent, far under the Fed's 2 per cent target.

Meanwhile, the Federal Reserve Bank of New York gave a more optimistic view on the US economy by publishing data which shows that more middle-income jobs have been created in the past two years than previously expected. Estimates that 2.3 million jobs had been added to the middle-income bracket are significantly higher than those of new vacancies filled in either the low or high tier wage categories. It means that 43 per cent of new positions in the period went to middle earners, in stark contrast to the 2010-2013 period when they comprised only one-fifth of new payrolls.





CHINA: JULY DATA CASTS DOUBT ON GROWTH

This week has been marked by the news of softening Chinese growth in July as retail sales, industrial production and fixed-asset investment registered at below initial forecasts. While the differences in the three indicators are marginal, these are key metrics for the economy's health and indicate that the government's minimum target of 6.5 per cent growth for the year may not be obtained if the trends persist.

In the meantime, it has become clear that the Chinese government is channelling its efforts to the country's struggling industrial sector, providing some $30bn of venture capital investment. The joint venture scheme of banks and government owned companies will fund technological upgrades and boost innovation in the industry. The decision is clearly an attempt to fill in the outflow of domestic capital from the stagnating economy as China is currently seeing record high Chinese foreign direct investment abroad. The outflow has totalled $13.9bn in the year to date, an 80 per cent increase on annual basis.

COMMODITIES: SHORT-LIVED RALLY IN PRICES?

Brent crude passed the $50 a barrel threshold this week in the biggest weekly gain since April, as OPEC announced it will hold an informal meeting in September. The markets anticipate a freeze in production, especially after the organisation failed in a deal earlier this year due to Saudi opposition. As OPEC's largest producer, Saudi Arabia has been increasing output up to record levels of 10.7m barrels a day in July, not only prompted by stronger domestic use in the summer, but also to supply an already saturated market. The Saudi energy minister however is quoted saying that the kingdom may cooperate in a coordinated manner this time.

The rally may also be attributed to the news coming from the US where a significant fall in crude oil inventory was reported this week. The drawdown of 200,000 barrels in the second week of August is larger than expected and prompted investors' sentiment. Yet, the trend's continuation is dubious as US nationwide crude oil inventories are 14.2 per cent more than for the same period in 2015.