DEUTSCHE BANK LEADS GLOBAL MARKETS LOWER

Stock markets around the world have reacted with fear and trepidation to the ongoing financial misery at Germany's largest lender. Shares in Deutsche plunged to below €10 this morning, which are at 33-year lows. Much of the attention on the health of European banks has ironically been triggered overseas, with the US Department of Justice seeking a pre-election settlement of $14bn from Deutsche over claims of mis-selling of mortgage securities in the run-up to the 2008 financial crisis. It is believed that Deutsche has insufficient funds to take on these liabilities, but the problem for European banks is more widespread than this.

Additionally, German lender Commerzbank announced job cuts earlier in the week, and the balance sheets of many leading Italian banks continue to remain in ill-health. While banks in Europe's southern economies have been denied government assistance – mostly because of pressure from Germany – it remains to be seen if Merkel will let the same fate befall Deutsche. Speculation over a bailout will cause uproar from Rome to Dublin.

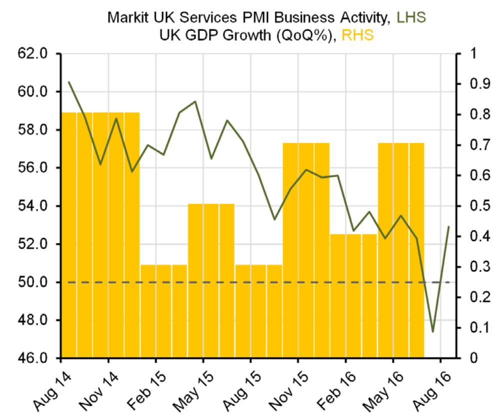
THE MARKETS THIS WEEK

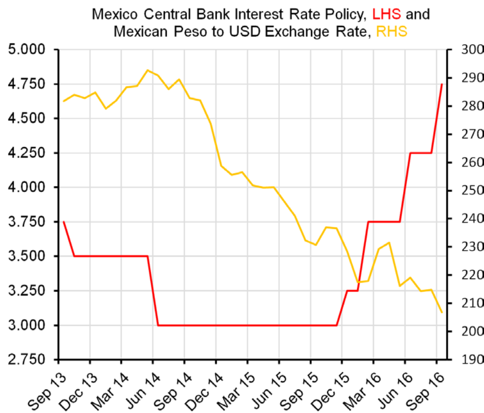
FTSE 100	S&P 500	Nikkei 225	Euro Stoxx 50	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Wheat	GBP USD
-0.84%	-1.20%	-1.82%	-2.74%	-1.64%	-0.07%	-0.03%	+5.22%	-0.77%	-1.67%	+0.03%

UK: SERVICES SHRUGS OFF BREXIT SHOCK

The Office for National Statistics has just published its keenly-anticipated services output for July, and the figures were in line with already visible trends. The UK's largest sector grew 0.4 per cent from June to July, well above the expected 0.1 per cent, and driven primarily by strong output in the transport, storage and communication sector. Information agency Markit had recently recorded a more adverse effect from the shock UK referendum vote to the services sector, but had also built in a strong rebound in August.

Meanwhile, revised figures on UK quarterly GDP growth showed that the economy was in robust health in the period between April and June, beating expectations marginally, and squeezing out 0.7 per cent growth. Despite the good indicators, the Bank of England is likely to continue with loose monetary policy, and cut interest rates further according to the Banks's deputy governor Ms. Minouche Shafik. Earlier this week, Shafik pointed out that BoE may lower rates to unprecedented zero levels to avoid a rapid slowdown, thus emphasising more even marginal changes to economic health indicators.





EM: MARKET RALLY HITS HARD WALL

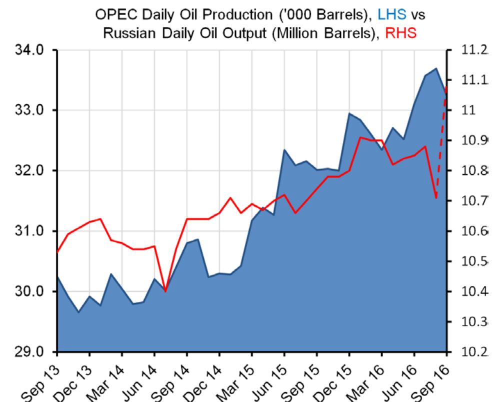
Mexico's central bank voted for an interest rate hike this week in an effort to ease inflationary pressures, as the Mexican peso fell to record lows against the US dollar. The inter-bank interest rate rose by half a percent to 4.75 per cent. This year the peso has depreciated 11.5 per cent against the dollar, in response to the possibility of Republican candidate Donald Trump winning the US presidency race. A victory for the protectionist Trump would have a largely adverse effect on Mexico, as the US is their biggest trading partner.

Political instability has hurt growth in other emerging economies as well, with Turkey being the most prominent example. The country's central bank recently cut the overnight lending rate for a seventh consecutive month, down to 8.25 per cent, and gives off further signals that monetary easing will continue. Despite these measures, Turkey's GDP in the second quarter expanded at 3.1 per cent, lower than expected and still well below the first quarter's 4.7 per cent growth. Analysts point out that the slowdown in growth was evident even before the disruption caused by July's failed coup.

OIL: OPEC REACHES CUT AGREEMENT

The major oil-producers announced a deal on freezing output in Algeria this Wednesday, the first time this has occurred in eight years. The consensus surprised markets as the largest Opec members have often had open disagreements on the freezing of supply in the past. It is expected that the new policy will target production cuts of between 240,000 and 740,000 barrels per day from current production levels of 33.24m barrels. Even though analysts note that supply should be cut by a further 1 million barrels to have any tangible effect on prices, the markets reacted regardless, as crude oil indices spiked by 6 per cent in the first day after the announcement.

The policy may give a boost to cash-strapped countries like Venezuela, but it is also welcome news for the most important Opec members, particularly Saudi Arabia, which has reached its highest budget deficit ever, of 13.5 per cent of GDP this year. Yet, the effect may be hard to see as Russia has said that it has broken its post-Soviet oil production record, by pumping 11.1 million barrels a day in September.



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