

The traditional view of August being a quiet month for markets and politics was shattered by a series of headline grabbing events. Standard & Poors downgraded the US debt rating for the first time in its history. Meanwhile in the UK, riots broke out across the country which required the return of the Prime Minister and senior politicians from their summer holidays. In Europe, Angela Merkel and Nicolas Sarkozy announced closer co-operation between the German and French economies in an attempt to restore confidence to the Eurozone.

Although the decision to downgrade the US debt rating was seized upon by many commentators as a pivotal event, the majority of August's falls in equity markets occurred before the downgrade and were largely the result of further concerns over Europe and poor macroeconomic data coming out of the US. In the face of slowing growth, analysts are not convinced that President Obama's recovery plan of limited cuts and increased spending will work. Whilst perhaps not unexpected, the timing of the decision did come as a surprise to markets which remained volatile for the remainder of the month. Despite a late rally towards the end of August, the FTSE 100 was down over 7% in August, and at one point was trading below the 5,000 mark for the first time in over a year.

The news from the Eurozone in August focused on a meeting between Merkel and Sarkozy in the middle of the month. The result of the talks was a decision to push for all the Eurozone member governments to only pass balanced budgets and the resurrection of the idea of a tax on all financial transactions. Several European countries also announced a ban on the practice of short selling (a technique used by speculators when betting on falls in asset values) in an attempt to control some of the market volatility. Investors were largely unimpressed with the results of the meeting and the uncertainty it created contributed to substantial losses in European equities.

Fears of a global economic slowdown led to a drop in the price of oil, down over 7%, whilst gold reached yet another nominal all time record high of over \$1,800 an ounce as investors moved away from equities towards the perceived safety of precious metals. Sterling was down against the US Dollar and Euro, reversing some of the gains made in July.

Key Data			
	29 July 2011	31 Aug 2011	+ / (-) %
FTSE 100	5,815.19	5,394.53	(7.2)
Dow Jones	12,143.24	11,613.53	(4.4)
EuroStoxx50	2,670.37	2,302.08	(13.8)
Nikkei 225	9,833.03	8,955.2	(8.9)
Hang Seng	22,440.25	20,534.85	(8.5)
MSCI EM	1,137.73	1,033.15	(9.2)
Crude Oil	\$95.68	\$88.77	(7.2)
£ = \$	1.642	1.624	(1.1)
Euro = \$	1.437	1.438	0.1
£ = Euro	1.142	1.129	(1.1)
Interest Rates			
Bank of England Base Rate			0.5%
ECB Refinancing Rate			1.5%
US Fed Funds Target Rate			0.00% -0.25%

UK

Amidst the riots and falling equity markets, macro economic data in the UK continued to disappoint. The rate of unemployment rose by 0.1% over the last quarter to 7.9%, with the number of new jobs also falling. Whilst not a significant increase, unemployment has now remained at above 7% since February 2009. Prior to that date the last time unemployment in the UK was above 7% was in 1997.

EUROPE

In addition to the current woes in the Eurozone, there were rumours that France might lose its AAA credit rating. At present, several countries in the Eurozone have an AAA credit rating, including Austria, Denmark, Germany and the Netherlands, along with non-Euro members Switzerland and the UK. The notion of a downgrade was strongly rebuffed by the French government, but analysts remain pessimistic for the future.

US

Another surprising piece of news concerning the US in August was the announcement that effectively no new jobs were created in the previous month. The figure is a net balance of the new numbers minus the number of existing positions lost. Analysts had been predicting approximately 100,000

new jobs to be created and the news caused a drop of over 2% in a single day on the Dow Jones.

ASIA/PACIFIC

Towards the end of August the Japanese government elected its sixth Prime Minister in five years following the resignation of Naoto Kan. Yoshihiko Noda was formerly the Finance Minister and one of his first moves as Prime Minister was to intervene in the currency markets to stop the appreciation of the Yen to aid exporters. Noda has the mammoth tasks of continuing to rebuild the country following the Tōhoku earthquake and resulting nuclear disaster, solving the long-standing national debt issue in the middle of a global economic slowdown, and determining how to provide for an ageing population.

EMERGING MARKETS

At the same time as downgrading the US debt rating, Standard & Poors upgraded their debt rating for Paraguay to B+. The Latin American economies are widely perceived as one of the best performing emerging market areas at the moment, led by the continent's largest country, Brazil, and supported by active politicians and lowering levels of corruption in countries like Argentina. In Paraguay, the economy has been boosted by a bumper Soya crop, one of its main exports, and a deal with its neighbour Brazil worth 1.5% of its annual GDP.