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Toxic Past

Shockingly, three years have now past following the tragic events of the Fukushima tsunami in Japan. The nuclear clean up exercise is continuing however another 'legacy' threat has been creeping across the Pacific. At the end of last year it was estimated over 1 million tons of debris from the Fukushima nuclear plant was believed to be floating off the American coast. A floating island of debris the size of Texas has slowly been making its way across the Pacific and is expected to land along the West Coast of America later this year. Experts agree that it is highly unlikely that any tsunami generated marine debris will hold harmful levels of radiation from Fukushima although this has got us thinking....

We thoroughly screen all our investment ideas using our extensive independent research material for possible toxic legacy issues. These can range from health related issues such as asbestos, contingent liabilities, technology patent disputes and pension deficits to the previous track record of a company's management team. It is only by fully understanding a company's past that you can then judge its future prospects.



Anyway on the subject of nuclear waste, this is an area in which **British industry has particular expertise and is considered a global leader.** Indeed, a team of scientists from Bristol University have successfully mapped radiation levels around the Fukushima power station using a drone. Not surprisingly we have a number of investments involved in nuclear de-commissioning.

What are we watching this week?

Market volumes remain subdued as we head into the main reporting season in the US and UK. US companies have so far produced strong earnings although need to with stretched valuations. In the UK, not surprisingly, currency headwinds continue to mask reasonable underlying growth. **The FTSE 100 has been boosted by positive Chinese GDP data which pushed the Mining sector higher and news of more mega-deals in the USA.**

However geo-political tensions have once more come back to the fore with increasing concern over Russia and Ukraine, following the extension of US sanctions and the Malaysian airliner crash as missile claims deepen escalation fears. In addition, Israeli incursions into Gaza have seen investors move into a more defensive mode as they assess the potential impact from both of these developments.



In the Pharma sector, **Shire** received an increased £31bn offer from Abbevie, albeit this was already priced in. **Time Warner** rejected an \$80bn offer from Rupert Murdoch's 21st Century Fox. In the UK Media sector, **BskyB** sold its 6.4% stake in ITV to cable company **Liberty Global** and although it said it did not intend to make an offer to acquire ITV does effectively put it into play on a longer term view. Aerospace stocks were also better with **Meggitt** moving up on a rumours emanating from the Farnborough Air Show of a possible bid from **United Technologies** although neither company made any formal comment regarding the press speculation.

Elsewhere, the **US Fed's** policy report highlighted the substantially stretched valuations in some smaller US social media and bio-technology companies which led to a predictable sell off in these areas.



In the UK, housing price data showed a 10.5% YoY increase due entirely to gains in London, the only region growing faster than average. Despite Sterling strength keeping a lid on import prices, **inflation jumped 1.9% in June** with clothing and footwear contributing to the increase with a later start to summer sales. While it is never sensible to take just one month's figures **the data nonetheless has increased the chances of the first interest hike in 2014**. Unemployment fell to 6.5% in the three months to May the lowest since 2008 however average earnings growth remained very weak so expect to hear more from the opposition about the 'cost of living crisis' which has not gone away as quickly as seemed likely a few months ago.



In **Europe**, Germany's ZEW investor sentiment survey showed a seventh straight month of decline possibly due to the escalation in Ukraine/Russian tensions. Eurozone industrial production contracted by 1.1% in May mirroring national data released in recent weeks. Holidays may not have helped but nonetheless **the region's recovery looks sluggish**. ECB President Draghi acknowledged that the euro's strength presented a challenge to recovery although stressing that the exchange rate is not a specific ECB policy target.



In **the USA**, Janet Yellen's senate testimony confirmed economic recovery is continuing albeit there are areas of weakness and the housing market and business investment remain weaker than ideal. **This suggests that the first US rate hike will not be until mid-2015**. **US data releases were positive** with retail sales up 0.6% in June and the New York Fed's Empire State manufacturing index registering the highest reading since 2010 while the Philly Fed activity index rose to the highest level since early 2011. Despite the Fed concerns **optimism does appear to be returning to the housing sector** with the NAHB housing market index at a six month high.



In **Asia**, the **Bank of Japan maintained its policy stance and forecast that inflation would hit its 2% target next year but trimmed its GDP forecast to +1%** for the current fiscal year.



Chinese Q2 GDP hit the 7.5% target but expansion appeared to be fuelled by credit growth. In addition, given the reforms being pushed through in China it would seem that the growth slowdown has not run its course. The authorities want to prevent bubble conditions in the property sector while limiting the impact on the wider economy. Chinese new home prices declined for a second straight month by 0.5%.

Despite an escalation in tensions in the Ukraine and ongoing fighting in Iraq and Gaza, Brent oil held around the \$108 level.



Finally, on a lighter note, award for best pun of the week must surely go to the FT on the story that German sausage makers with links to a price fixing cartel had been fined €338m – **What's the wurst that could happen?**

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