Five World markets themes for the week ahead

1/ MISSING TRADE WAR CASUALTY - JOBS

U.S. President Donald Trump's tariff war has cast a shadow over all economic data releases lately, including the biggest *market*-mover of them all: the U.S jobs employment report. Friday offers a fresh chance to see if the brewing tensions have had any impact on hiring or not.

The narrative a month ago, when July's employment and earnings figures were released, was about how rising tensions between Washington and its trade partners, especially China, might have hurt job creation. The answer was not much. The 157,000 jobs added was pretty healthy and at 3.9 percent, the unemployment rate was 0.10 percent above May's 18-year low.

Friday's figures are expected to show a gain of 187,000 new jobs in August, just as some of the trade war clouds appear to be dissipating. A bilateral trade deal looks sealed with Mexico. Should Canada sign on, the president will trumpet his rescue of the 24-year old North American Free Trade Agreement.

Manufacturing jobs are also expected to have risen in August, following July's biggest gain in seven months. If the labor market continues to reflect an economy growing at a steady, solid pace, the Fed will have few obstacles in its path to raise rates again later this month.

*As clock ticks, Canada and U.S seek ways to salvage NAFTA
*U.S. job growth slows in July, unemployment rate drops
GRAPHIC: U.S. joblessness and the employment cost index - reut.rs/2LK4ir0

2/ CHINA TARIFF TROUBLE

Chinese stocks are already the worst performers among the world's biggest indices. Next week could see them go from cheap to even cheaper as the Trump administration prepares to impose tariffs on another $200 billion of Chinese imports, on top of the $50 bln already taxed in the trade row.

Those concerns over trade, tightening monetary conditions at home, slowing growth and rising defaults have managed to wipe out 13 percent of the Shanghai index's market value since late March, and drag the index down 17 percent.

More Chinese stocks enter the MSCI benchmark emerging market index on Monday, although China's overall weighting is still a trifling 0.8 percent.

And foreigners, who own just around 5 percent of that market, are still rushing in for a slice of the long-term Chinese growth pie. Valuations are low but domestic investors are not ready to buy yet. That is why share trading volumes have collapsed and there's been a rush of money into China's money market mutual funds.

*Most Asian stocks markets near bear territory, China worst hit –
*Fears of rout in China stocks overdone, some say –
*Investors in China prepare for MSCI part-2, armed with wishlist

GRAPHIC: China, HK, Brazil underperformers among world's top stock markets - reut.rs/2PjBVSW
Reuters Graphic

3/ CURRENCY WOES EMERGE

Emerging markets don't have to go looking for trouble, given the crises now enveloping Turkey and Argentina. Trump's latest comments that the United States is ready to impose tariffs on $200 billion more in Chinese imports have put further pressure on EM currencies.
Investors bet that any escalation of trade tensions would boost the greenback and hurt export-oriented emerging markets. And the damage could be indiscriminate.
Those tensions looked to be abating this week after the Chinese central bank propped up the yuan against the dollar, and the United States and Canada remain locked into discussions to hammer out a trade deal. But Trump's latest comments on China put the spotlight back on emerging markets.
The Turkish lira has been firmly in the spotlight, dropping more than 30 percent in August. But Argentina's peso plunged around 20 pct this week - more than 10 pct in one day - dragging other currencies like the Brazilian real down with it. With the Fed poised to raise rates later this month, the blood-letting may not be over for EM currencies.

*Argentina to announce new economic measures after peso freefall
*Deputy governor leaves Turkey's central bank, lira falls
*European funds boost equities to seven-month highs, slash EM debt
GRAPHIC: Emerging market woes - reut.rs/2PhovXm

4/ BREXIT BLUES

Markets got a rare taste of how an orderly Brexit might feel this week when EU negotiator Michel Barnier said the bloc was ready to offer Britain an unprecedentedly close relationship after it leaves. At least that's how markets interpreted it.
The result was a rapid unwinding of short sterling positions by investors who had hedged against a no-deal Brexit and a sharp jump in the currency. It moved back above $1.30 for the first time in three weeks.
Still, many of those short bets remain, meaning even a slight shift in sentiment toward sterling can lead to outsized moves.
That could happen as early as next week when parliament returns from summer recess and raises the prospect of more divisive noise over Brexit. A slew of data on Britain's services and manufacturing sectors will also be closely watched.

Also coming up on the horizon is the Conservative Party conference at the end of September, where Prime Minister Theresa May could potentially face a leadership challenge.

*Sterling set for fifth monthly loss on Brexit concerns, data
*COLUMN-Bond yield curves flatten - except in Brexit Britain: McGeever
GRAPHIC: GBP positions - reut.rs/2Pk6QOZ
Reuters Graphic

5/ ITALIAN INDICATORS

Concerns over Italy's upcoming budget have ebbed and flowed almost on a daily basis, with the country's borrowing costs rising and falling sharply with every politician's comment on the 2019 spending plans.

The main point of contention - whether Italy will breach the 3 percent deficit threshold - has gripped investors and this week its bond yield spread over Germany hit its widest in three months.

The question for next week is whether or not these concerns are seeping into business sentiment and, by extension, economic activity.

Markit's manufacturing sector purchasing managers' index survey for August is due on Monday, and the services sector PMI is due out on Wednesday. A consensus of economists polled by Reuters expect 51.1 for manufacturing and 53.0 for services.

If Italy's economy, which showed shoots of recovery in 2017, goes back to the stasis of previous years, the government will be under renewed pressure. With Fitch due to review Italy's credit rating late on Friday, investors will once again have plenty to chew on.

*Italy talks of big deficit amid weak economic data.
*Italy Aug business morale falls to lowest in 20 months.
*Italy economy minister tells party leaders to cool it - paper GRAPHIC: Italy GDP - reut.rs/2N1O9SN
Reuters Graphic

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