

MARKETS LACK CLEAR DIRECTION

Everything that has happened this week was overshadowed this morning by yet another school shooting in America, which has made an irrelevance of any other US news. Other international developments have been also been disturbing; the Russian intervention in Syria has potentially made a bad situation worse, as they seem more concerned with propping up Assad than confronting ISIS. While in Europe the migrant crisis has started to put a strain on even the most welcoming countries such as Germany.

In the UK meanwhile there has been little of significance by comparison; the Volkswagen scandal has rumbled on, with news this week that 1.2 million UK vehicles are affected; the political party conference season got underway properly with both Labour and the Conservatives attending their annual talking shops; and the rugby world cup has offered England a fresh opportunity for sporting disappointment.

THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	Hang Seng	Dax 30	CAC 40	Ibex 35	Brent Crude	Natural Gas	Gold	Wheat
+0.37%	-0.44%	-0.87%	+0.95%	-0.95%	-0.11%	+0.30%	+1.35%	-7.39%	-3.27%	+2.26%

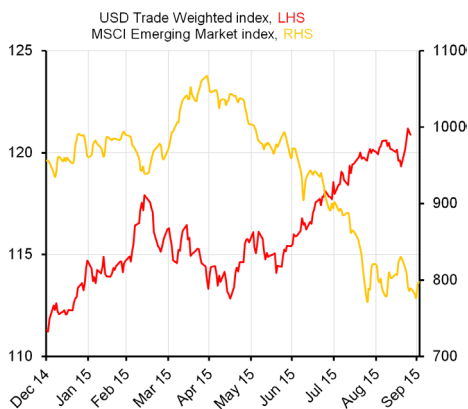
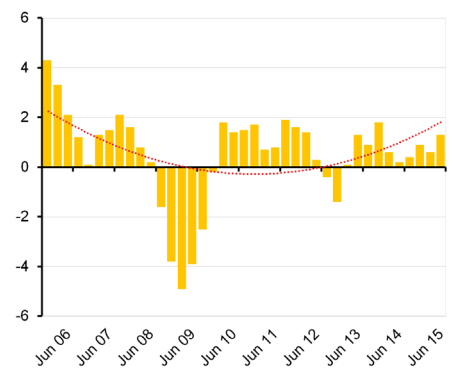


UK: RISING LABOUR PRODUCTIVITY MASKS IMBALANCE

UK productivity surged in the second quarter of the year by 0.9 percent, the largest quarter on quarter increase since Q2 2011. Productivity, measured per hour, was up 1.3 per cent year on year, the largest jump since Q4 2011. However, the good figures were restricted to the services sector – productivity in manufacturing was down.

Nonetheless, this is good news for the Chancellor as the decline in UK productivity since the financial crisis has become a major issue for the economy, with some suggesting it is causing the economy to be working below potential. Productivity is now above its pre-crisis level, although lower than other advanced economies. It is another sign that the UK domestic economy is doing well, even if the stock market is under pressure from the commodity and emerging market-exposed miners and oil companies.

UK Labour Productivity, Year on Year % Change



EM: CAPITAL OUTFLOWS BUILD ALONGSIDE RATE SPECULATION

Emerging markets will see net capital outflows this year for the first time since 1988, according to data from the Institute of International Finance. Investment into emerging markets from the developed world is at lower levels than the crisis year of 2008, while there has been a huge surge in local investors trying to get their money out.

This is largely due to anticipation of the US Federal Reserve raising rates. Some managers like to point out that US dollar debt in emerging markets is lower than the past, meaning that the direct effect of higher rates will be lessened. However, all assets are priced off the risk-free US Treasury rate, which should mean higher borrowing costs across all markets and higher risk premiums demanded by investors in emerging markets. With the Federal Reserve yet to actually raise interest rates and the tightening cycle likely to be long and slow, this could cause a serious drain of capital out of emerging markets for years to come.



COMMODITIES: GLENCORE SHARES FREE-FALL

Glencore, the commodity trader and producer, lost a third of its market value as fears of a prolonged commodity downturn rose. Shares suffered their biggest fall to a record low of 67p after analysts at Investec said Glencore’s equity value could be wiped out if commodity prices remained at current levels. Their analysis also pointed out the high level of debt, following the acquisition of Xstrata in 2013. The company management announced a plan to reduce the debt burden earlier on this year, with divestitures of assets.

It is only the severity of the share price’s decline that caught investors off-guard, after all, concern about a slowdown in China has hit the mining sector hard, with demand slowing just as years of investments in new lines of productions brings an excess of supply. Prices of many commodities, including copper, coal and oil – all commodities that Glencore produce and trade – are close to their lowest levels since the financial crisis.

Glencore, Oil, and Copper Normalised Prices



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