

VOLKSWAGEN EMISSIONS SCANDAL ROCKS GERMANY

This week has been dominated by the fallout from Volkswagen's admission that it has been cheating in US emission tests. Given all of the large corporate frauds that we've been subjected to, from accounting scandals to rate rigging, the furore over this one might seem a little overblown. The difference this time is that the blame can't be pinned on a few bad apples and suggests complete contempt of the regulators from the top down. While this was probably true of the banks as well, this is the first time it's been admitted. Worse, it casts doubt on the ideal of the well run German industrial giant being a superior corporate model, and has shaken confidence in the entire economy.

Elsewhere George Osborne, taking inspiration from sub-Saharan Africa, has asked China to pay for our power infrastructure. It seems curious that a government currently able to borrow at zero interest rates would need to seek such funding and hand control of a strategic industry to a foreign power. It seems unlikely the Dalai Lama will get to meet the Queen again any time soon.

THE MARKETS THIS WEEK

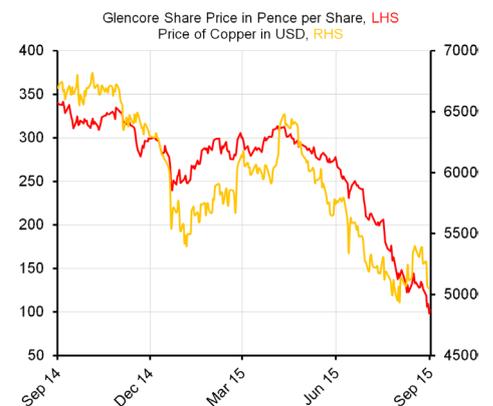
FTSE 100	S&P 500	Nikkei 225	Hang Seng	Dax 30	CAC 40	Ibex 35	Brent Crude	Natural Gas	Gold	Wheat
-0.05%	-2.91%	-0.81%	-3.35%	-2.25%	-1.04%	-3.39%	+1.41%	-4.24%	+0.60%	+2.52%



UK: MINERS HIT ON CHINESE SLOWDOWN FEARS

While the chancellor was keen to stress the importance of China to the UK economy, investor fears over the strength of the Chinese economy hit a number of UK mining firms. The depressed copper price off the back of worsening Chinese growth estimates is leading a mining sell-off, with Anglo American and Antofagasta taking heavy losses this week. Worst hit however is giant Glencore, having had over 9 per cent wiped off its share price on Thursday, its fifth fall in six days. The biggest current headwind for the company is the extraordinarily high level of debt it carries, which is looking increasingly difficult to service.

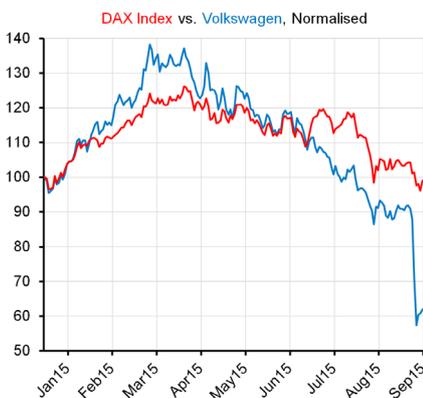
Meanwhile, the chancellor opened the bidding for construction of the HS2 high-speed rail line on Thursday. It is expected that the contracts for HS2 are worth £11.8bn, though sceptics note a more pressing issue that lies in the "paused" project to electrify the route between Leeds and Manchester. The aforementioned is a crucial part of Osborne's "northern powerhouse" scheme, which has upgraded transport infrastructure at the heart of its remit.



EU: VW CRISIS HAS WIDER IMPLICATIONS

German car manufacturer Volkswagen endured a torrid week as it emerged that it had manipulated emissions data on as many as 11m of its cars worldwide. The controversy was initially uncovered by US regulators however further revelations have now come to light in both Asia and Europe, heightening fears for investors. News of the crisis means that VW shares are down more than 30 per cent, which prompted chief executive Martin Winterkorn to resign on Wednesday. The world's second-largest carmaker is now likely to face a huge settlement bill of potentially \$18bn, says the US Environmental Protection Agency.

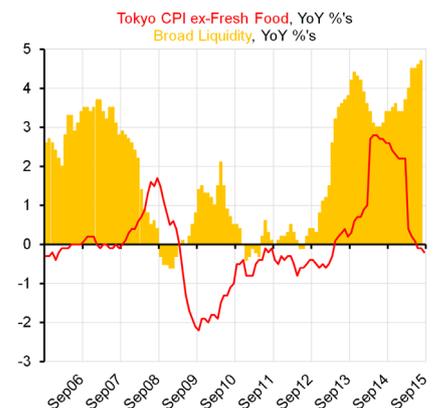
The VW case is likely to batter public confidence in the motoring sector. Following recalls of vehicles made by General Motors' owing to defective ignition switches earlier this year, and Toyota resulting from problems related to "unintended acceleration" in 2014, the industry is set to face higher levels of scrutiny. The EPA has announced plans to screen cars made by other manufacturers while a handful of European governments have outlined similar forays.



ASIA: CHINESE MANUFACTURING AT SIX YEAR LOW

China's general manufacturing purchasing managers' index fell for the seventh consecutive month in September to 47 points, down from 47.3 in August. It is now at its lowest ebb since the financial crisis of early 2009, and a long way below 50 which separates expansion and contraction in the sector. However President Xi Jinping, who is in the middle of a state visit to the US, insisted that the economy is still functioning within the normal range. The data will be particularly concerning to the US Federal Reserve, despite the hawkish rhetoric from Fed chair Janet Yellen last night, who reiterated her own expectations of a 2015 rate rise.

Elsewhere, Japanese Prime Minister Shinzo Abe suffered a blow to his economic stimulus programme as the country fell back into deflation for the first time since April 2013. Although domestic inflation is strong, external factors such as declining energy prices weighed on the annual figure for August. The chances that the Bank of Japan will ease monetary policy in October now look more likely given the news.



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