Rolling back the fears

At a time when global trade is under threat, there was some encouraging news from Asia this week. Terms of trade for the Regional Comprehensive Economic Partnership (RCEP) were agreed by 15 Asian countries: China, the 10 members of the Association of South East Asian Nations, Australia, Japan, New Zealand and South Korea.

The aim of RCEP is the eventual elimination of tariffs between its member states. This would create a new free-trade bloc that would be bigger than the European Union. RCEP’s member countries currently account for 29% of global GDP.

There was one fly in the ointment, however. India, which has the world’s fifth-largest economy by nominal GDP, withdrew from the agreement during the week, citing concerns about threats to domestic industry. But while this is a blow to the partnership, it also removes the biggest stumbling block to finalising the trade deal: tensions between India and China. With that obstacle removed, the deal is now set for ratification next year. The door is still open for India; RCEP countries said that they would work to resolve the disagreements in a “mutually satisfying way”.

Bigger than EU?

Renewed optimism about US-China trade made for a good week for global equities. In the US, the S&P 500 was up 0.6% by Thursday’s close, hitting an all-time high along the way. Investors took heart after a Chinese government spokesman said that China and the US could roll back some tariffs if the ‘phase-one’ trade deal agreed in October is signed.

European shares also did well. The FTSE World Europe ex UK index finished up 1.8% for the first four days of the week. The improving trade outlook and some strong corporate earnings were the main factors in this.
Banks wait on rates

In the UK, the Bank of England’s Monetary Policy Committee kept its benchmark interest rate unchanged at 0.75%. But two of the committee’s nine members voted for a 25-basis-point cut. Investors interpreted this as a sign that a rate cut is likely in 2020, leading to a sell-off in sterling and a surge in the FTSE 100. The index of the UK’s 100 largest companies was up 1.4% by Thursday’s close; many of its constituents earn the bulk of their earnings abroad, so a weak pound increases their profitability.

Elsewhere, there was little excitement on offer from the world’s central banks.

Pick ‘n’ mix

Economic news was mixed. Surveys of sentiment showed some signs of optimism, with increases in several purchasing managers’ indices (PMIs). In the US, the Institute for Supply Management’s services PMI rose to 54.7, comfortably in expansionary territory (any figure over 50 indicates growth). The UK’s services PMI rose to 50, the neutral level.

The picture was less rosy in Japan, where both manufacturing and services PMIs were revised down. These revisions took services into contraction. Germany’s PMIs were revised up, however, and other European data was less bad than expected. In September, German factory orders rose by 1.3% from August. But this still represents a year-on-year decline of 5.4%. Meanwhile, the Eurozone’s retail sales edged up by 0.1% in September, a year-on-year rise of 3.1%.

Of more concern was a 0.6% slump in US factory orders in September. The fall was slightly steeper than consensus expectations. There were particularly sharp drops in orders for aircraft components, computers and electronic components. Orders for electrical goods and machinery were up, however.

And finally...

Halloween may be behind us, but some news from Poland this week was still the stuff of nightmares.

Deep in the tunnels of an abandoned nuclear bunker lurks a tribe of cannibals. They dwell in darkness, they consume the corpses of their kin and – oh, yes – they spray acid from their abdomens as well.

Worried? Well, these fearsome flesh-eaters might sound terrifying, but most of them are less than a centimetre long. That’s because they’re ants.

Researchers at the Polish Academy of Science have discovered a colony of wood ants trapped in the bowels of an old nuclear weapons bunker. After falling from their main nest at the top of a vertical ventilation shaft, these ants have managed to thrive in the darkness by battening on the bodies of their fellows.

Since discovering the nest, the scientists have added a ramp to allow the ants to make their escape – and, in the fullness of time, to embrace a more varied diet.

Please talk to your financial adviser for more information

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