November 13, 2011

Growth and Inflation

The global economy is expanding slowly. The sovereign crisis continues to weigh on growth and confidence in Europe, while macro tightening measures are still pressuring activity in Asia. The EU cut its European growth forecast for 2011 and 2012, while projecting sluggish activity in 2013. 2011 growth was projected at 1.5% down from 1.6%. The 2012 growth forecast was reduced to 0.5% from 1.8% and 2013 GDP was expected to rise 1.3%. Chinese retail sales and industrial production show still high headline growth rates, but sequentially the trend in activity has downshifted from earlier in the year. Chinese trade data underscored the adverse impact of slower European growth on Asian output. Chinese exports to the EZ have contracted since a July peak and the year over year growth rate has decelerated sharply. Likewise, the growth rate of industrial production in India has down shifted significantly, as monetary tightening continues to dampen spending. The rate cut by the RBA highlights the weaker trend in Asian growth. In the U.S. the ISM economy weighed composite fell 0.1 to 52.8 in October. It remains well off the February high of 59.9, but in expansionary territory.

Inflationary pressures continue to moderation due to slower global growth. The CRB Raw Industrial price index remains in a downtrend and has worked sideways in recent weeks below year ago levels. Labor demand in the OECD is also sluggish and weighing on pricing power. The U.S. manufacturing PMI displayed a 15 point drop in the price index. Pricing power is also easing in Europe and appears reduced in China. Chinese CPI shows signs of peaking, and signs of falling real estate prices remain present. Looking at India, the inflation rate remains elevated, but is expected to moderate in 2012. A growing imbalance in the residential property market could pressure Indian home prices and exert deflationary pressure on the entire economy. Credit Suisse has indicated property prices may need to drop between 15% and 20% to remove excess housing inventory from the market.

Money Markets

Treasury prices are likely to trade mix to lower. The market is finding underlying support from signs of decelerating growth in Asia and worries over the European sovereign crisis. Further European banks are shrinking their balance sheets to improve their capital positions. The 2 year swap spread is elevated over 40 bps, highlighting credit stress and the risk of slower growth. However, prices look rich given the fact that unemployment claims have fallen below 400,000 and rail car data shows continued economic expansion. The U.S. economy is showing some level of strength given the slowdown in Asia and Europe. Beyond trends in economic growth, progress by the SuperCommittee will influence price action into month end. Movement to cut the deficit is slow with Democrats and Republicans at odds over tax increases and spending cuts. Lack of progress could spark a downgrade of the U.S. credit rating. China's credit rating agency, Dagong Global Credit, said it might downgrade the rating on U.S. debt because of the budget impasse. The Fed continues to shrink marketable supply on the long end of the curve via its twist operation, but yields do not reflect the budgetary risks which are present.

Foreign Exchange

The FX market will be driven by the outlook for growth, credit stress in Europe, and the ability of the SuperCommittee to reduce the U.S. budget deficit. The **euro** has found support on moves by Greece and Italy to push ahead with austerity measures, but the situation remains fluid. At the same time, there have been press leaks suggesting EU leaders are discussing a breakup of the euro. European growth is sluggish and the ECB will be biased toward providing more liquidity to keep the EZ banking system and economy stable. Moreover, banks are shrinking balance sheets to meet capital requirements. Technically, the **sterling** is coiling for a push toward the top end of the 52 week range in the 1.660/1.6700 area. The economy remains weak and the BOE is open to more policy accommodation, but worries over the ability of the U.S. to cut its deficit and on going unease over events in the EZ could cause money to seek the sterling as an alternative. The **Swiss franc** remains a slave to government intervention. SNB member Danthine recently indicated that the franc was still high and the SNB was ready to take further action to reduce its level. He went on to say that downside risks to the economy outweighed upside risks and the economy would experience deflation. The SNB is carefully monitoring the franc and working to cap its gains offsetting the positive impact of safe haven flows. The **Canadian dollar** remains supported by diversification flows, but the economy is uneven. Exports are firm, but imports are slow and suggest faltering consumer demand. The weakness in imports is consistent with the deterioration in the labor market. Manufacturing activity is expanding slowly, while the housing market appears firm given recent sales data in Montreal and Toronto. The **Australian dollar** faces mixed cross currents. Signs of slower growth in emerging Asia and anemic purchasing managers' surveys are negatives. The service, manufacturing, and constructions are each below 50.0. Moreover, the market is looking for multiple rate cuts into the middle of 2012. The 3 month forward deposit rate is expected to fall 100 bps into May 2012. Interest rate differential remains positive, but the narrowing differential could hurt demand over time. Like the Swiss franc, the **yen** remains subject to government intervention. The BOJ intervened on October 31st to pressure the yen and may continue to buy dollars at the 75.00 level. Low rates in the OECD are supporting the yen despite the fact that Japanese growth is sluggish and the recovery from the earthquake is slow. There is limited reason for Japanese investors to invest overseas and some investors are looking for alternatives to the euro and U.S. dollar.

Equities

Stocks prices will be sensitive to events in Europe and the trajectory of global growth. Equities appear cheap based on the outlook for sales and revenue growth, and corporate actions. The S&P 500 is expected to post revenue growth of 4.2% in 2012 and 5.0% in 2013, while earnings are expected to rise 10.9% in 2012 and 11.3% in 2013. Estimates seem too high for the pace of global growth and an economic landscape filled with potholes, but companies have performed well in recent quarters. Granger reported a 16% y/y gain in October sales with organic sales rising 11% and volume up 9% y/y. Likewise, Fastenel reported October sales up 21.4% y/y. Service and international markets were said to be strong. Complementing strength in the industrial sector, McDonald's same store sales expanded 5.5% in October. Analysts were looking for 4.5%. There was strength across the global with European sales up 4.8%, US sales up 5.2%, and sales in AMEA rising 6.1%. In the technology sector there is worry about flooding in Thailand disrupting PC shipments, but Taiwan semiconductor reported a 13.3% sequential rise in sales and year ago comparisons will be easy over the next few months. Decelerating growth in India and China, and on going turbulence in the Eurozone create downside risks to the profit outlook. At the corporate level, Amgen announced it would buy back $5 bln worth of its stock or about 10% of its outstanding shares. The company was going to sell $6 bln in debt to finance the purchase. All State also indicated it would buyback $1 bln in stock and would sell $1.25 bln in preferred stock and a note to finance the purchase. Amgen and All State join the likes of Intel and McDonald's in issuing cheap debt to fund share repurchase. Companies are signaling their stocks are cheap.

Commodities

Commodity prices will be driven by the outlook for economic growth and individual market supply and demand factors. Looking at individual markets:

Crude oil prices will remain sensitive to the pace of demand, but the market will have an eye on geopolitics. U.S. oil supplies are below year ago levels, but stocks have followed a normal pattern in recent weeks. Inventories are likely to continue lower into early January on a seasonal basis. As of November 4th, there was a 23.3 days supply of crude compared to 26.0 days a year ago. Gasoline inventories have been falling relative to their normal pattern and suggest the market is tightening. However, the days supply is 23.8 compared to 23.2 a year ago. Sluggish gasoline demand is offsetting the bullish dynamic of a downtrend in gasoline inventories. As of November 4th, the 4-week average of gasoline demand was 8.657 mbd down 5.6% y/y. Gasoline demand has been persistently below a year ago levels. High prices and unemployment are cutting usage. Distillate supplies are falling dramatically compared to normal. Typically, there is a small increase in distillate stocks at this time of the year, but inventories have fallen sharply over the past four weeks. There was a 31.7 day supply of distillate in the period ending November 4th. This compares to 38.7 last year. In contrast to gasoline demand, distillate demand is robust. It rose 3.9% y/y in the four weeks to November 4th and has been persistently above year ago levels over the past six weeks. Oil demand in China is weak. Reuters estimated that China used 9.04 mbd in September. Consumption was up just 1.5% y/y. A slowdown in industrial output seems to be weighing on usage. The IEA cut its 2011 and 2012 oil demand forecasts by 70,000 bd and 20,000 bd respectively. Demand was forecast to rise 0.9% y/y to 89.2 mbd in 2011 and 1.5% y/y to 90.5 mbd in 2012. Despite weaker growth in China and sluggish U.S. gasoline demand, the IEA indicated that October preliminary data pointed to a 34.3 mb draw in OECD inventories. OECD inventories have been tracking below the 5-year average for the past few months – a first since 2004. On the political front, Iranian nuclear development is moving forward and there has been chatter about an Israeli strike on Iran's production facilities. Press reports have also suggested the Libya's oil production is coming back on line faster than expected. The IEA estimates that production will be 700,000 bd by year end. The IEA had been projecting production up 400,000 by year end.

Natural gas prices will be sensitive to the on set of winter. The 8 to 14 day forecast has above normal to much above normal temps across the entire Midwest to Eastern portion of the U.S. This weather outlook should be a negative dynamic for natural gas usage. Natural gas storage levels suggest ample supply. As of November 4th, there was 3,831 Bcf in storage. Store was 0.2% below last year and 5.9% ahead of the 5-year average. Production continues to work higher. The EIA is looking for natural gas production to rise nearly 2.0% next year to 66.9 Bcf per day. Development continues as the Utica shale region is seeing investment. Caiman Energy recently announced the construction of two pipelines under the Ohio River to bring production to its processing plant in Marshell, West Virginia. The EIA is forecasting 2012 consumption to rise 1.2% to 67.9 Bcf. Residential and commercial usage was expected to rise mirroring the increase in heating degree days. The EIA believes Henry Hub natural gas prices were expected to average $4.13 MMBTU in 2012.

Copper prices will be sensitive to the direction of economic growth. Copper stocks have eased in China with Shanghai inventories at the lower end of a 2 year range. Deutsche bank reported that investors are taking copper out of bonded warehouses and putting copper in other facilities because of lack of alternative investment opportunities. The move could bolster Chinese imports and offset signs of slowing construction activity in China. Chinese copper imports rose to their highest level in 17 months in October. LME copper stocks have been falling aggressively since early October and it appears that strike activity and mining issues have led to a stock draw. Wage talks between Freeport McMoRan's and its Indonesian miners will restart November 14th and the strike has been extended until December 15th.

Gold prices remain supported by fiscal turbulence in Europe and the U.S. Although Italy and Greece appear to be pushing forward with fiscal reforms, the crisis has not been resolved and the move to cut borrowing is an uphill battle. Likewise, the U.S. Congress has done a poor job of reducing the deficit. The SuperCommittee is vulnerable to failure which could lead to a downgrade in the U.S. credit rating. Interest rates remain low and FX intervention by the SNB and BOJ make gold an attractive save haven. High prices are a negative. Coin demand appears to be easing. U.S. Mint sales are on pace to be down 76% y/y and 46.0% m/m in November. The weakness comes on back of sluggish sales in October. October's sales were off 46.8% y/y and 45.1% m/m. Even though coin sales are down, ETF holdings have climbed in recent weeks and are flirting with the August high of 74.912 mln ounces. The slowdown in Indian auto sales and industrial production could hurt incomes at the margin and reduce gold demand. However, the CEO of Goldfields said that demand in India and China would underpin current gold price levels. Likewise, there are stories that Indian investors are fleeing bonds and buying gold. Recent monthly investment flow data showed funds investing in sovereign debt declining 4% m/m to 30.2 bln rupees, while those that purchase gold rising 8% to 81.7 bln rupees. Individual investors are said to be withdrawing money from small savings accounts and gold is a beneficiary. Still high Indian inflation may be playing a roll in supporting demand.

The U.S **corn** balance sheet remains tight. In its November report, the USDA revised down corn ending stocks 23 mln bushels to 843 mln bushels. Production was trimmed due to a decline in yield. The yield per acre was estimated at 146.7 compared to 148.1 in October and 152.8 a year ago. As a result, production was cut by 123 mln bushels to 12,310 mln bushels. Exports were left unchanged, but feed and residual usage was reduced 100 mln bushels. High prices are causing the livestock industry to control animal numbers and feed consumption. Globally, corn ending stocks were estimated at 121.57 mmts down 1.62 mmts in October. Global ending stocks were pressured by reductions in the EU (1.25 mmts), Mexico (0.77 mmts), the U.S. (0.58 mmts), and South Africa (0.33 mmts). In contrast, the Argentine crop was expected to expand and see ending stocks up 0.80 mmts.

The **soybean** balance sheet loosened slightly basis the USDA's November crop report. U.S. ending stocks rose 35 mln bushels to 195 mln bushels. Although yield per acre was reduced 0.2 to 41.3 and production cut 14 mln bushels to 3,046 mln bushels, a 50 mln reduction in exports helped to lift inventory. Globally, world ending stocks were revised up 0.55 mmts to 63.56 mmts. Higher inventories in China and the U.S. paced the gain. In terms of South America, Argentina's production was revised down 1 mmts to 52.0 mmts, while Brazil's production was revised up 1.5 mmts to 75.00 mmts. Weather appears favorable for the South American soybean and corn crops.

The USDA revised the U.S. **wheat** ending stocks down 9 mln bushels to 828 mln bushels. A reduction in yield led to a 9 mln bushel cut in production. Usage was kept unchanged. The USDA projected an average on farm price of $7.05 to $7.75 a bushel down slightly from October's estimate of $7.10 to $7.90 a bushel. World wheat ending stocks were revised up 0.23 mmts to 202.60 mts. Ending stocks were raised in China (0.50 mmts) and the FSU-12 (0.49 mmts) and cut in the U.S. (0.23 mmts) and EU-27 (0.28 mmts).

Cotton prices are likely to be driven by demand. Despite poor U.S. production, the USDA revised global ending stocks down just slightly to 3.80 mln 480 lb bales. Yield was cut to 794 from 809 per acre, reducing production 0.31 mln bales to 16.30 mln bales. Exports were reduced 0.20 mln bales to 11.30 mln bales. Globally, ending stocks were revised 0.14 mln bales higher to 54.96 mln bales. Stocks were raised in Central Asia and helped to offset the drop in U.S. ending stocks. Inventory levels were not adjusted in China, India, Pakistan, or Brazil. Beyond USDA's picture of the market, certified stocks on the ICE remain extremely depressed and supportive to prices. U.S. export sales have firmed in recent weeks, but remain well below the level needed to meet the USDA's export target.

Cattle prices will be driven by demand. High prices are a drag on consumption, but export demand is firm. Domestic demand across the holidays may set the tone for the market. Beef exports rose 27.3% y/y in September. A larger share of production is being allocated to the export market. 14.4% of production is now being sent cross boarder up from 11.0% last year. Cattle supply is expected to build into 2011, but cattle feeders are very current. Cattle slaughter was 625,000 head in the last period down 5.4% y/y. However, the average steer dressed weight for the week ending October 29th was 3 lbs higher than a year ago at 862 lbs. Big picture, the USDA did project 2012 beef production to fall 5.0% y/y highlighting tight supplies.

Hog prices will be sensitive to demand. The market is seeing fast exports and should find seasonal ham demand for Thanksgiving and Christmas. High prices and high unemployment could limit domestic consumption at the margin, but the export market is hot. Pork exports were up 23.6% y/y in September with China pacing the gain. Imports to Hong Kong rose 64% y/y, while import to mainland China surged 92% y/y. U.S. exports of pork now account for 26% of production up from 22% last year. Hog supplies appear lean. In the week ending November 12th, slaughter totaled 2.293 mln down 0.9% y/y. Hogs and pigs data suggests slaughter should be up around 1%. Light weights indicate producers are current. The Iowa Minnesota weight was tracking 1.2 lbs below a year ago.

Coffee prices could find support on ideas that the crop will fall short of estimate. The ICO said that coffee production would be 127.4 mln bags in the 2011/2012 season down from a prior forecast of 129.5 mln bags. Poor growing conditions led to a downward revision in the forecast. Production in Guatemala and El Salvador was expected to fall 8.9% and 21% respectively. Columbian production was also expected to be weak. In Asia, India's output was forecast to drop 16% to 5.5 mln bags, while output in Vietnam was projected to tumble 5% to 18.5 mln bags. On a more practical level, ED&F Mann said that production in picking up in Vietnam as weather has improved movement. On the demand front, Green Mountain reported weaker than expected shipments in its latest quarterly report. The news hints at falling demand but could be due to a competitive market. Moreover, there is talk that the household penetration rate for brewers and K-Cups has peaked.

Sugar prices should be pressured by an improved supply outlook. Losses from flooding in Thailand appear less than expected and India is offering its surplus to the global market. Further the Russian beat crop is reportedly strong, and sugar beet output in Germany is expected to surge 35.7% to 4.67 mmts. France has also raised its outlook for the sugar beet harvest by 13%. In Brazil, sugar output from the Center South in Brazil was 1.47 mmts in the second half of October and down 24% y/y. The number of ships waiting at Brazilian ports has fallen in recent days and stood at 30 on November 11th. There are reports that premiums are down and demand has been subdued. Funds remain extremely long sugar. CFTC data showed non-commercial reporting positions long 149,073 futures and options contracts and short just 24,734 futures and options contracts.

North America

*The **U.S.** economy is expanding slowly. PMI numbers are in the low 50's and auto sales have firmed, but October chain store sales fell short of expectation hurt by weather. Housing activity remains depressed, although Lennar's CEO said higher rents are starting to lift home demand. Unemployment claims suggest the labor market is improving at a slow pace. Inflation is steady, but the core rate is at a benign level. The Fed will keep policy steady, but there is support within the FOMC for more policy accommodation due to the high unemployment rate. The **Canadian** economy shows lackluster growth given recent data points. Trade numbers showed mixed results with weak imports and solid exports. Manufacturing activity is slow, and home sales seem much quicker than the pace of housing starts. The labor market has turned stagnate. The BOC is sticking to an inflation target around 2% and said it may need to support financial stability. The comments on financial stability hint no rate hike in the near term. Key economic indicators:*

U.S.:
- October PMI fell 0.8 to 50.8 [52.0 forecast]. Details: 1) Production fell 1.1 to 50.1. 2) New orders rose 2.8 to 52.3. 3) Employment fell 0.3 to 53.5. 4) Prices paid tumbled 15 to 41.0.
- October Non-Manufacturing PMI fell 0.1 to 52.9 [53.5 forecast]. Details: 1) New orders fell 4.1 to 52.4. 2) Backlog declined 5.5 to 47.0. 3) Supplier deliveries rose 2.5 to 52.0. 4) Employment rose 4.6 to 53.3.
- October Payrolls rose 80,000 [95,000 forecast]. Private payrolls gained 104,000 [125,000]. The Net revision was +102,000 jobs for September and August. A drop in construction jobs was balanced by the gain in retail jobs. Professional and business services and education and health paced the gain. Government jobs contracted 24,000.
- October Unemployment Rate fell 0.1% to 9.0% [9.1% expected]. Employment in the household survey rose 277,000 and unemployment increased 95,000.
- October ICSC Chain Store Sales rose 3.7% y/y [5.3% expected]. Apparel and department store sales were anemic. Weather may have dampened activity.
- October Unit Vehicle Sales were 13.3 mlu the strongest since February. Pent up demand helped to lift sales.

Canada:
- October Unemployment Rate rose 0.2% to 7.3% [7.1% expected] and shows signs of a bottom.
- October Employment tumbled 54,000 [+15,000 expected]. 48,000 manufacturing and 20,000 construction jobs were lost and offset a 12,100 gain in natural resource related jobs. Employment growth has been little changed since July
- October Ivey fell 0.7 to 54.4 [55.4 expected]. The number is slightly below last year's 55.4 and about mid range. Employment jumped 4.2 to 51.4, while supplier deliveries lifted 2.5 to 43.3.
- October RBC Canadian PMI fell 1.3 to 53.7. Production rose, backlog fell, and stocks of finished goods were reduced. Employment rose.
- October Housing Starts fell 0.6% to 207,600 units. Starts are trending sideways at the lower end of the 2003 to 2007 range.
- September Exports rose 4.2% m/m and 20.3% y/y, while Imports eased 0.3% m/m, but expanded 8.9% y/y. Imports show signs of cresting, but exports are trending higher. Although the underlying trends are positive, the level of activity is below that of the 2008 peak.
- The Canadian Real Estate Association indicated home sales in 11 regions rose 10% y/y gain.

Europe

*The **EZ** economy is contracting as austerity measures and credit stress hurt business and consumer confidence. The composite PMI is in recession territory. Headline inflation is high, but price pressures should ease. The ECB will be biased toward more monetary accommodation. The **U.K.***

economy is growing at a slow rate. PMI data was mixed, but consistent with sub par growth. Consumer spending is soggy and shows limited growth, while the housing market appears stagnate. Inflation should be peaking. The BOE will be biased toward expanding its asset purchase program, but action no change in policy is likely near term. Key economic indicators:

Eurozone:

- October EZ Composite PMI declined 0.7 to 46.5 [47.2 expected]. Weak demand and excess capacity hurt job growth. New business declined in Germany, France, Italy, and Spain. There was a slight increase in Ireland. Cost pressures moderated. The PMI indices suggest that Italy and France are in recession. Spain is close behind.
- October Bank of France Business Sentiment fell 1 to 96 [in line]. Sentiment is easing lower. For reference purposes, it was 102 in May. It is at the lower end of the 2002 to 2007 period.
- September German Exports rose 0.9% m/m [-0.8% expected]. Imports fell 0.8% m/m [0.4% forecast]. Exports are grinding higher and well above the start of the year. The level was E91.33 bln compared to E83.0 bln in January. Import growth has been flat since May.
- September French Exports plunged 5.9% m/m, but there was pay back from a strong August. The trend is creeping higher in recent months. Imports fell 0.6% m/m, breaking two months of strength. Imports have been grinding higher slowly.
- German Retail Sales rose 0.4% m/m [1.0% forecast]. Sales remain sluggish with the index showing no growth since at least February.
- October French CPI rose 0.3% m/m [0.1% expected]. Prices were up 2.5% y/y [in line]. Inflation is still elevated.
- October German CPI was up 0.1% m/m [flat expected]. Prices were up 2.9% y/y. Inflation remains elevated and it is too early to say it has crested.
- October Dutch CPI was flat m/m [-0.1% forecast]. Prices rose 2.6% y/y. Inflation is high to history and could be cresting.

U.K.:

- October Service PMI fell 1.6 to 51.3 [52.0 expected]. Activity and new business rose at a slower rate. There was discounting, but confidence improved. There was a fractional decline in employment. Input cost inflation is continuing its downtrend.
- October Manufacturing PMI fell 3.7 to 47.4 [50.0 forecast] and hit a 28 month low.
- October PMI Construction Index rose 3.8 to 53.9 [50 expected]. New business activity rose and employment expanded.
- September Export volume fell 1.6% m/m ex-oil and erratics. Activity is choppy and sideways. Imports rose 1.6% ex-oil and erratics. Like exports, the trend is choppy and sideways.
- October BRC Like for Like Sales fell 0.6% y/y [-0.2% expected]. The growth in spending is anemic. The numbers have been hovering either side of 0% in recent months.
- October RICS fell 1% to -24%. Detail: 1) New Buyer Enquiries rose 3 to 7 which is firm to trend. 2) The sales to stock ratio was down 0.1% to 21.1%, but consistent with trend. 3) The number of homes sold was 15.0 up from 14.6. Housing activity looks stagnate.
- September Industrial Production was flat [+0.1% was forecast]. Production is weak and the index level is moving sideways.

Asia

*Asia is experiencing slow growth. Data points from **China** are mixed. Industrial production looks strong relative to a year ago, but sequentially activity has slowed and is moving more sideways. Retail sales are brisk in urban areas, but less strong in rural regions. Import activity is robust, but export growth is slowing. Housing continues to show signs of cooling. Inflation appears to have* *peaked. Macro tightening measures are likely to be loosened in the New Year. **India's** growth rate is decelerating meaningfully. Industrial production and auto sales are anemic. The trade sector has a slower tone, and PMI numbers indicate the economy has downshifted. Tighter monetary policy has restrained growth, but inflation remains elevated. Inflation should decline in 2012. The RBI is likely to keep policy steady in the coming months, but the next move is likely a rate cut. **South Korea** is expanding, but the BOK is cautious about the outlook. The labor market looks healthy and lending is positive for economic activity, but trade data indicates downside risks to the growth forecast. The BOK said the domestic economy was moderating and saw more downside than upside risks to growth. Lower food prices are helping to check inflation which remains high. The BOK continues to signal a desire to normalize interest rates. The **Australia's** economy is being hurt by slower growth in Asia and Europe along with cautious consumer spending. Exports and imports contracted in September, while PMI data showed weakness across the economy with manufacturing, service, and construction readings below 50. Inflation is tame. The RBA is likely to cut rates in early 2012. **Japan's** economy is recovering slowly from the earthquake and growth faces the headwind of a strong yen. The bright spot may be a rebound in the service PMI. Deflationary risks linger and BOJ will lean toward policy accommodation until growth normalizes and prices pose an inflation risk. Key economic indicators:*

Australia:
- October Manufacturing PMI jumped 5.1 to 47.4. The number has been below 50 four straight months. It was 49.4 mln a year ago. Production rose 6.7 to 45.9, Employment rose 5.9 to 51.6, and deliveries jumped 7.1 to 45.7. Selling prices rose 1.1 to 47.8 and remain below 50.
- October AIG Service PMI fell 1.5 to 48.8. The trend has been either side of 50 in recent months. The index was 50.7 a year ago. Sales fell 4.4 to 47.8, new orders eased 1.3 to 49.4, and employment rose 1.8 to 49.6.
- October AIG Construction PMI rose 4.7 to 34.7. It was 44.0 last year. Details: 1) new orders were 31.9 v. 32.3. 2) Deliveries were 39.8 v. 36.9. 3) Selling Price was 32.8 v. 34.0.
- September Retail Sales rose 0.4% m/m [in line]. Household goods and restaurants displayed strength up 1.0% and 0.9% respectively. Apparel and department store sales were weak up 0.1% each. The recent trend is firm.
- September New Home Sales fell 3.5% m/m. Sales have been trending lower in recent moths and justify the rate cut.
- October Employment rose 10,100 [10,000 expected]. Job growth is present but not strong. Strength was in full time jobs which rose 20,000.
- October Unemployment Rate fell 0.1% to 5.2% [5.3% forecast]. The number of unemployed has risen since the spring.
- September Imports fell 1% m/m, while Exports declined 3% m/m consistent with slower growth.
- November Inflation expectations were 2.5% down from 3.1% in October. Inflation is not a problem.

China:
- October Manufacturing PMI (NBS) fell 0.8 to 50.4 [51.8 expected]. Detail: 1) Output fell 0.4 to 52.3. 2) New orders declined 0.8 to 50.5 (sluggish tone). 3) Backlog fell 2.9 to 46.0. 4) Employment fell 1.3 to 51.0. 5) Input prices dropped 10.4 to 46.2. Growth has a slower trend. October HSBC Manufacturing PMI rose 1.1 to 51.0 by comparison.
- October HSBC Non-Manufacturing PMI (Markit) rose 1.1 to 54.1. Service activity reflected future gains in new business. Staffing numbers rose at a modest rate. Backlog of work fell. Input costs rose markedly.

- October Exports rose 15.9% y/y [16.1% expected]. Imports jumped 28.7% [22.2% forecast]. Trade numbers suggest slower growth. Details: 1) Aluminum and Aluminum scrap imports were sluggish. 2) Iron Ore imports were very weak sequentially at 49.94 mts. 3) Soybean imports were light to trend at 3.81 mts. 4) Copper imports were firm, but scrap imports were sequentially weak. 5) Oil and petroleum product imports were sluggish.
- October Retail Sales rose 17.2% y/y [17.6% expected]. The sequential rate of activity is still robust, but rural activity had a softer tone and actually contracted relative to September. The data is consistent with a softer tone of activity, but conditions still look healthy. Another sequential drop in rural spending would become troubling.
- China Association of Automobile Manufactures said October wholesale deliveries rose 1.4% to 1.22 mlu. This is reportedly the slowest gain since May.
- October Industrial Production rose 13.2% y/y [13.4% expected]. Details: 1) Vehicle production is still strong, but eased sequentially to 1.605 mlu. 2) Cement production rose a hair at 190.6 mmts, but has been flat to lower in recent months. It is consistent with no growth in construction activity. 3) Rolled steel output dipped and has been flat to lower since May. 4) Electricity output rose 9.3% y/y, but contracted 5.7% m/m. The slowdown in electricity consumption is consistent with a significant moderation in growth.
- New Home Prices in Shanghai fell 5.93% m/m, while sales declined 19.6% y/y in October.
- SouFun reported home prices down a second month in October. Prices fell 0.2% and declined in 58 of 100 cities.

India:

- October Manufacturing PMI rose 1.6 to 52.0. The rebound was light. Some detail: 1) A solid rise in business was reported. Better client demand was noted. 2) Output rose at a modest but firmer rate. 3) Employment fell. Increased salary demands made it hard to fill vacant positions. 4) Input prices rose substantially. Output prices rose markedly.
- October Services PMI fell 0.7 to 49.1. The index has trended sharply lower from July's reading of 58.2. New business grew at the slowest pace since May 2009. Input and output prices have risen less rapidly. Employment has a soft tone and backlog is faltering.
- September Exports rose 36.4% y/y, while Imports gained 17.2% y/y. Export growth has eased on a sequential basis, while imports have been declining on a sequential basis. The economy looks to have a slower tone.
- October Car sales fell 23.8% y/y and have now contracted four straight months on a year over year basis. Two wheeler sales rose only 2.0% and show sharp deceleration
- October Vehicle Production fell 1.1% y/y. Production is decelerating sharply.

Japan:

- October Service PMI rose 5.9 to 52.3 showing the highest reading of the survey since its inception in 2007. New volume picked up, but backlog fell. The pace of job reduction slowed. Input costs rose for the first time in 5 months, but service providers continued to discount.
- The Economy Watchers' survey (current) rose 0.6 to 45.9 [46.5 expected]. Growth looks sluggish based on the data. The recent high was 52.6 in July. The outlook was unchanged at 45.9.
- Consumer Confidence was flat at 38.6 [39.0 forecast]. Confidence is depressed. Employment improved marginally, while income growth eased slightly.

South Korea:

- The Manufacturing PMI rose 0.5 to 48.0. There was a solid reduction in new business. Output contracted, but at a slightly weaker pace than September. There was an increase in employment. Input prices rose but the rate of increased slowed. Output prices were unchanged. Competition was limiting price increases.

- October Exports rose 9.3% y/y [10.9% forecast]. Sequentially export growth has been flat since March. October Imports rose 16.4%y/y [22.3% expected]. Sequentially, import growth has weakened in recent months.
- October Bank Lending to Households rose KRW 2.38 trln, while Lending to Companies surged KRW 7.45 trln. Lending activity is positive for growth.
- October Unemployment Rate fell 0.1% to 3.1% [3.3% expected]. Hiring was strong in healthcare and welfare services. Retailers and wholesales also added a significant number of jobs. The strong labor market is a plus for growth.