MARS CAPITAL PARTNERS

Weekly Macro Review

w/c 12 November 2018

Key Themes

Slower global growth was a key focus this week across several fronts.

Speeches by regional Fed Presidents and Fed Chairman Powell all acknowledged slower growth globally, although growth remains strong in the US. “Broad consensus” to keep increasing US rates in the near term – but how far and how fast was the question. Mentioned by several Fed Presidents that modest inflation pressure is keeping expectations of rate increases in check.

ECB President Draghi also addressed concerns about slower European growth as GDP growth slowed to 0.2% in Q3, German GDP declined in Q3, Euro area employment growth slowed and CPI growth accelerated. Whilst Draghi claimed some of this weakness was due to ‘one-off’ impacts, some threats remain. Uncertainties around medium term outlook have increased and will be better placed at the Dec ECB rate meeting to make a full assessment of the risks to growth.

Japanese Q3 GDP also declined – led lower by public and private demand and negative contribution from net exports. More recent data suggests that there might some improvement.

A deal was reached on Brexit, but headwinds/uncertainty remain on whether the UK parliament will approve the deal. Some mixed data – retail sales declined for the second month in a row and the labour survey shows most recent quarter that employment growth remains lower and unemployment increased. CPI growth remained steady.

The USTR has now made formal requests and set dates for public hearings into the negotiating objectives for its trade negotiations with Japan, the UK and Europe.

Contents

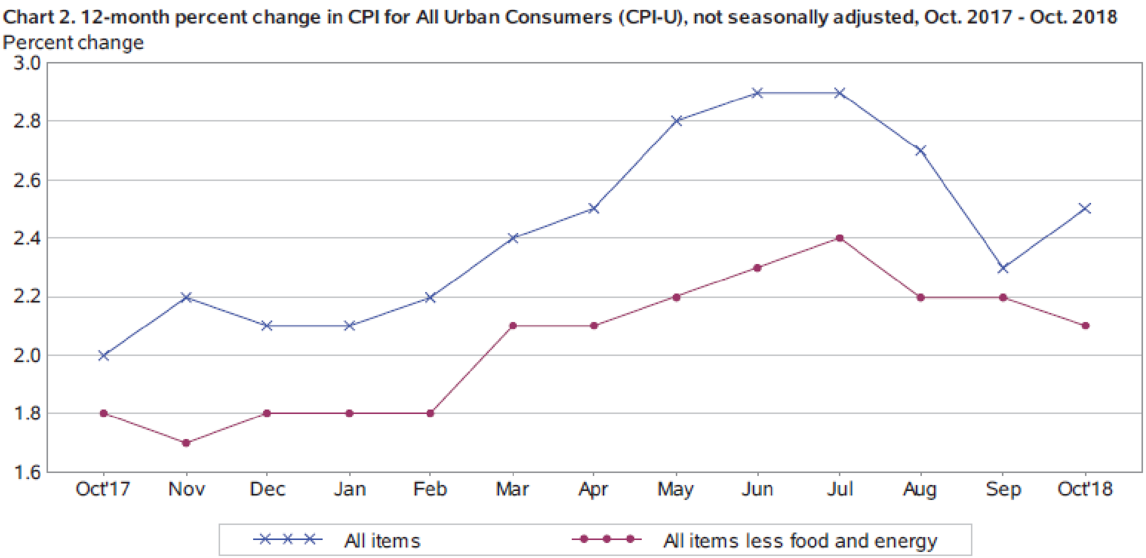
US Data

CPI (Oct)

US headline CPI grew at a faster pace in the latest month;

Headline CPI – monthly change; Oct +0.3% growth versus Sep +0.1%

The headline change from a year ago also accelerated slightly: Oct +2.5%;



The change in energy prices continues to drive the headline CPI growth higher;

Monthly change energy; Oct +2.4% versus Sep -0.5%. The 12month change in energy prices is +8.9%.

Although energy has a relatively lower weight in the CPI (approx. 8% at Oct) in the latest year, it accounted for approx. 30% of the growth in the CPI.

Surprisingly though, growth in the 'core' CPI ex food and energy is slightly more elevated than what we've seen in other economies;

US Core CPI (% chg from a year ago); Oct +2.1% - this has slowed somewhat over the last few months.

On the annual basis, growth in services less energy services has been the driver of this core CPI growth;

Shelter; Oct +3.2% growth from the same mth year ago. It has a 33% weight in the index and accounted for approx. 41% of the growth in the CPI in the latest year.

Transport services; Oct +3.8% growth from the same mth a year ago. Transport has a relatively low weight in the index. Motor vehicle insurance has been the main contributor to growth.

https://www.bls.gov/news.release/pdf/cpi.pdf

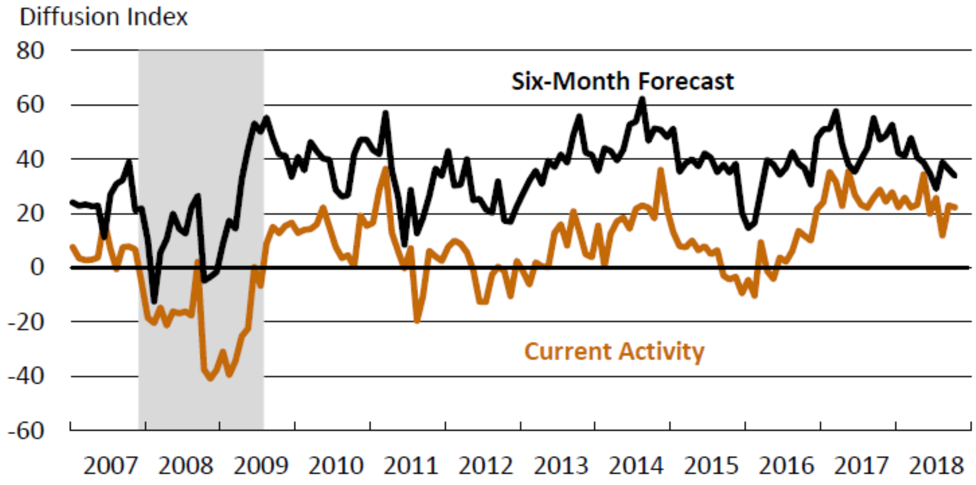
https://www.bls.gov/cpi/

Philadelphia Fed Business Outlook Survey (Oct)

The headline index of manufacturing activity showed little change versus the month prior – activity continued to expand at a similar pace, having rebounded off the 2018 lows;

Oct 22.2 versus Sep 22.9

Chart 1. Current and Future General Activity Indexes
January 2007 to October 2018



Note: The diffusion index is computed as the percentage of respondents indicating an increase minus the percentage indicating a decrease; the data are seasonally adjusted.

New orders grew at a slightly slower pace. Shipments increased at a faster pace. Unfilled orders fell into contraction. Inventories also continued to contract.

Prices paid remains elevated while prices received increased a t a faster pace.

The number of employees grew at a slightly faster pace, while the average work week increased.

Expectations for the 6mths ahead; the general level of manufacturing business activity will remain elevated and expected capex levels remained mostly unchanged.

https://www.philadelphiafed.org/research-and-data/regional-economy/business-outlook-survey/2018/bos1018

Retail Sales (Oct)

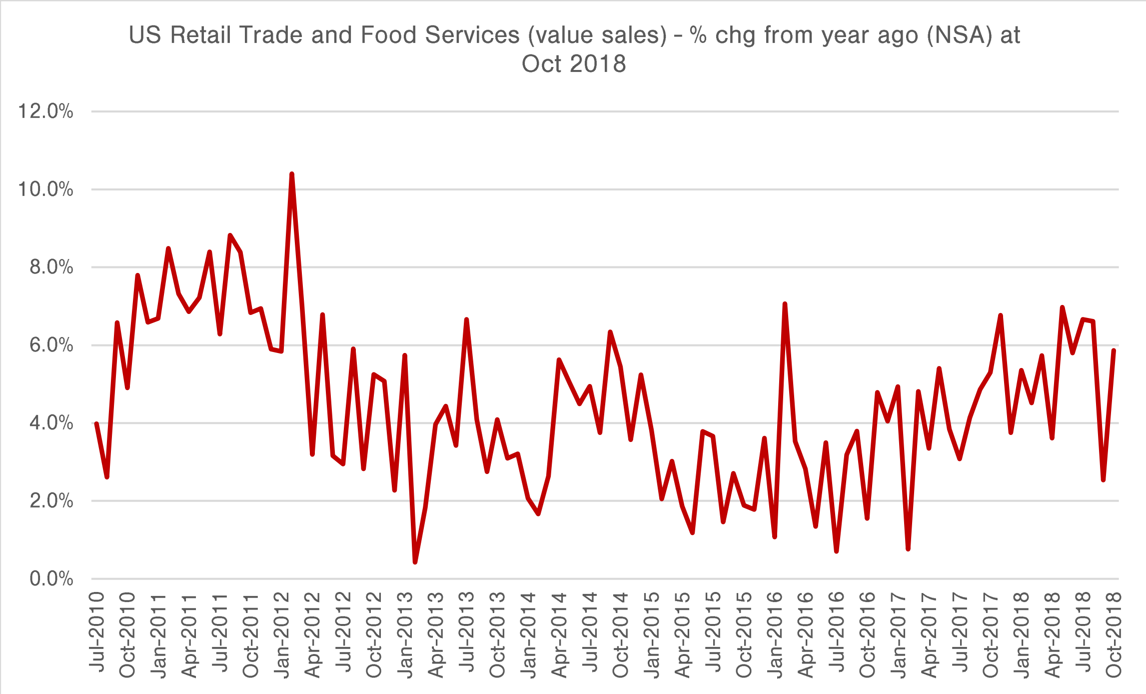
Retail sales growth accelerated in the latest month on the back of higher growth in motor vehicles, gasoline stations and general merchandise stores. Growth excluding fuel was lower than the headline growth but still higher than the month prior.

Revisions to Aug and Sep resulted in the growth in those two months, shifting to a decline.

Advance retail sales; Oct +0.8% versus Sep -0.1%

Advance retail sales excluding fuel; Oct +0.5% versus Sep 0%

Advance retail sales % chg from year ago (NSA); Oct +5.9% versus Sep +2.5%



The main drivers of the stronger growth in retail sales were;

Motor vehicles; +1.1% in Oct versus a small decline in Sep.

Gasoline stations; +3.5% in Oct (likely driven by higher fuel prices)

General merchandise stores; +0.5% in Oct after 0% growth in Sep

Building materials/garden equipment; +1% in Oct versus +0.1% in Sep

One of the other larger categories, Food and Bev, grew at a similar pace in Oct as in Sep, growing at +0.3%.

Growth in non-store retail was lower; +0.4% in Oct versus +1.3% in Sep

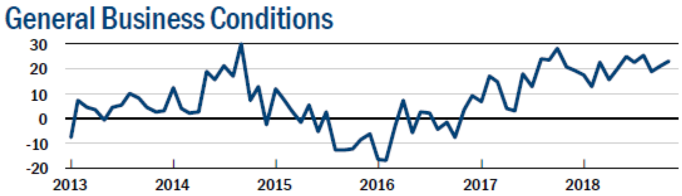
Sales in Food Service and drinking places declined again; Oct -0.2% versus -1.5% in Sep.

https://www.census.gov/retail/index.html

NY Empire State Manufacturing Index (Nov)

The headline business conditions index continued to expand at a slightly faster pace in Nov.

Nov 23.3 versus Oct 21.1



	Percent Reporting		
	Higher	Lower	Index
Oct	35.5	14.5	21.1
Nov	40.9	17.7	23.3
Change			2.2

Whilst shipments grew at a faster pace (looking like it reached a new high?), growth in new orders slowed again, with the expansion slowing from 22.5 to 20.4 (a higher proportion of firms reported 'lower' new orders).

Unfilled orders improved, coming back to neutral territory (0). Inventories also jumped from a neutral position to 10.9.

Prices paid continued to increase at a slightly faster pace and prices received slowed somewhat.

Of note was the larger increase in the number of employees, expanding at a faster pace. The average employee workweek also expanded at a much faster pace from a neutral reading in Oct to 9.2 in Nov.

The forward-looking indicator for general business conditions expanded at a faster pace but remains subdued and below the highs of the end of 2017.

Importantly, capex plans expanded at a faster rate from 16 in Oct to 24.8 in Nov.

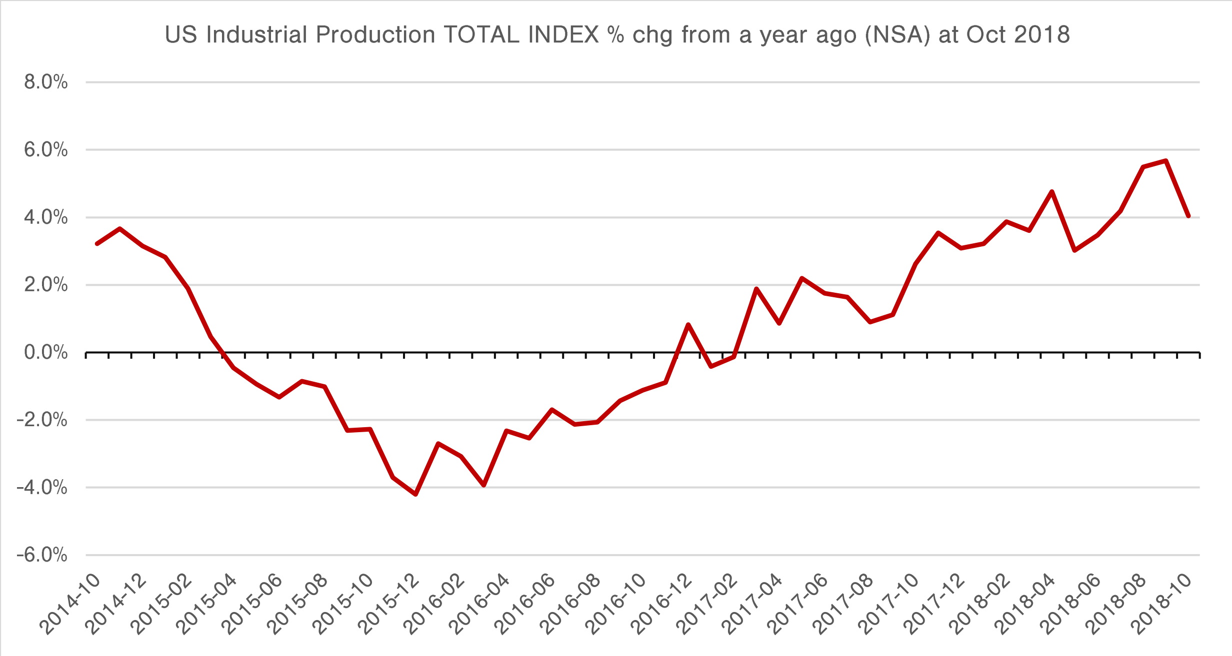
https://www.newyorkfed.org/survey/empire/empiresurvey_overview.html

Industrial Production (Oct)

US industrial production (IP) grew at a slower pace in the latest month. Manufacturing continued to grow at a constant pace, while Mining and Utilities IP declined in the latest month. The IP growth from a year ago at Oct is driven mostly by Mining, while Manufacturing and Utilities IP growth has been lower.

Total IP – monthly change; Oct +0.1% versus Sep +0.2% (revised lower from +0.3%)

Total IP - % chg from a year ago; Oct +4% versus Sep +5.7%



Of the major industry groups, Mining has been the main driver of IP growth over the last four years. Manufacturing has also followed a similar trend, albeit at a slower pace (yet still positive). In the latest month, only manufacturing IP was higher;

<u>Latest month;</u>

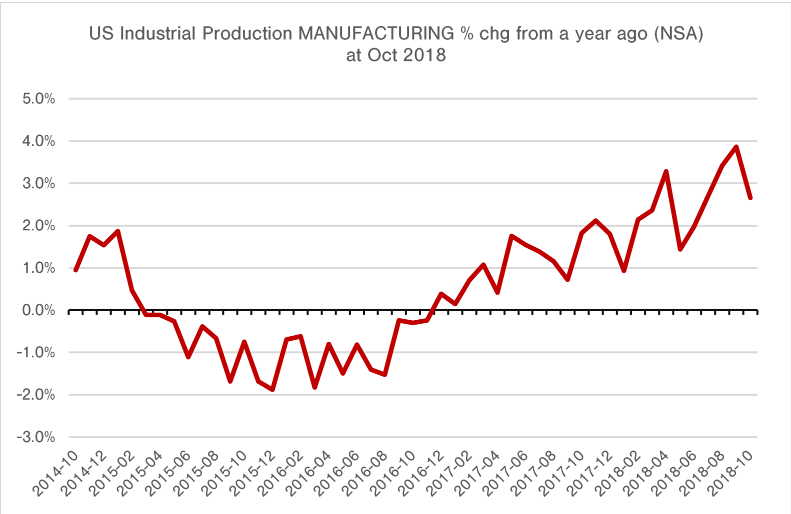
Manufacturing; Oct +0.3% versus Sep +0.3%

Mining; Oct -0.3% versus Sep -0.1%

Utilities; Oct -0.5% versus Sep -0.1%

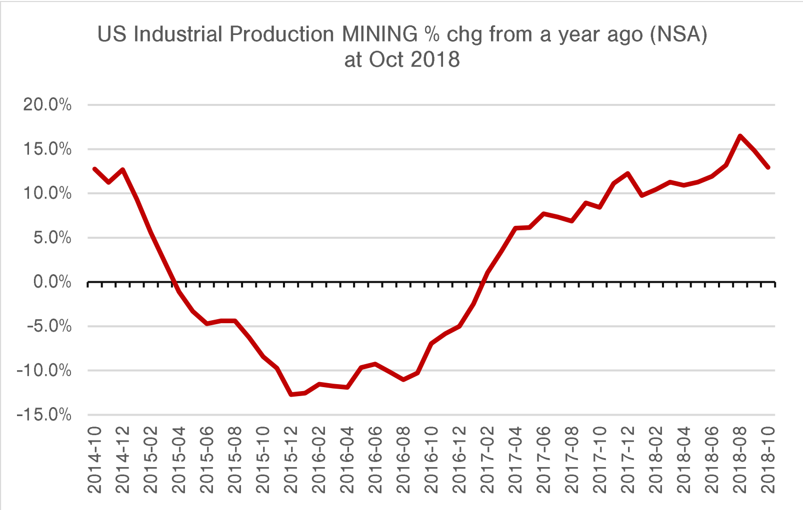
<u>% change from a year ago</u>

<u>Manufacturing;</u> Oct +2.7% versus Sep +3.9% (the near-term high rate of growth)



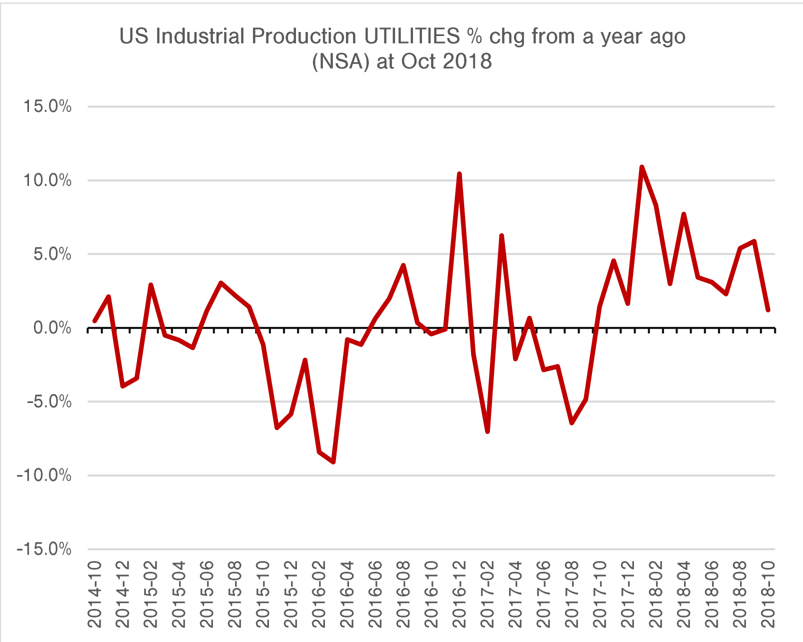
Mining: Oct 12.9% versus Sep +14.8%

Mining IP growth reached a near-term high in Aug at 16.5% and growth has slowed over the last three months



Utilities: Oct +1.2% versus Sep +5.9%

Utilities IP growth has not followed a similar trend as Manufacturing and Mining. Growth peaked back at the start of 2018 at 10.9% and growth is at its lowest point for the year;

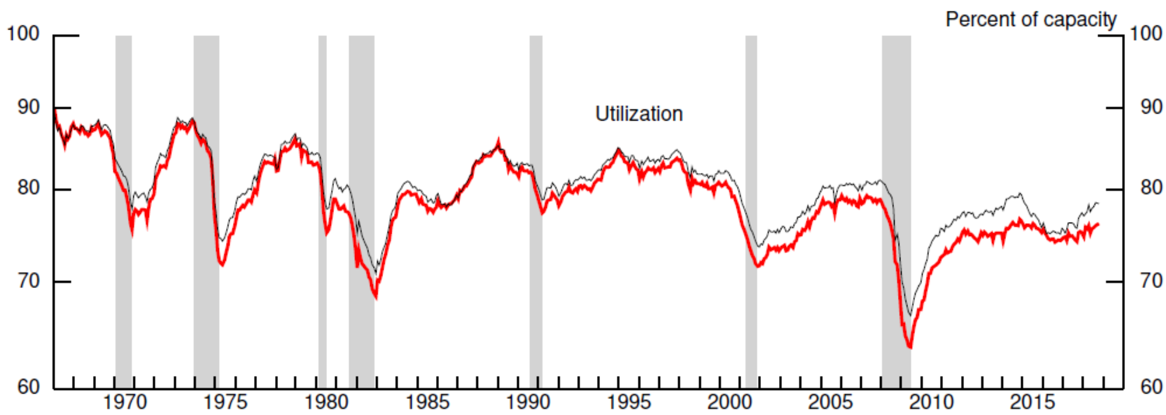


Capacity Utilization (total Index)

Total capacity utilization has increased over the latest year;

Oct 78.4% versus 75.7% Oct 2017.

The current period of expansion in utilization has been in place since early 2016;



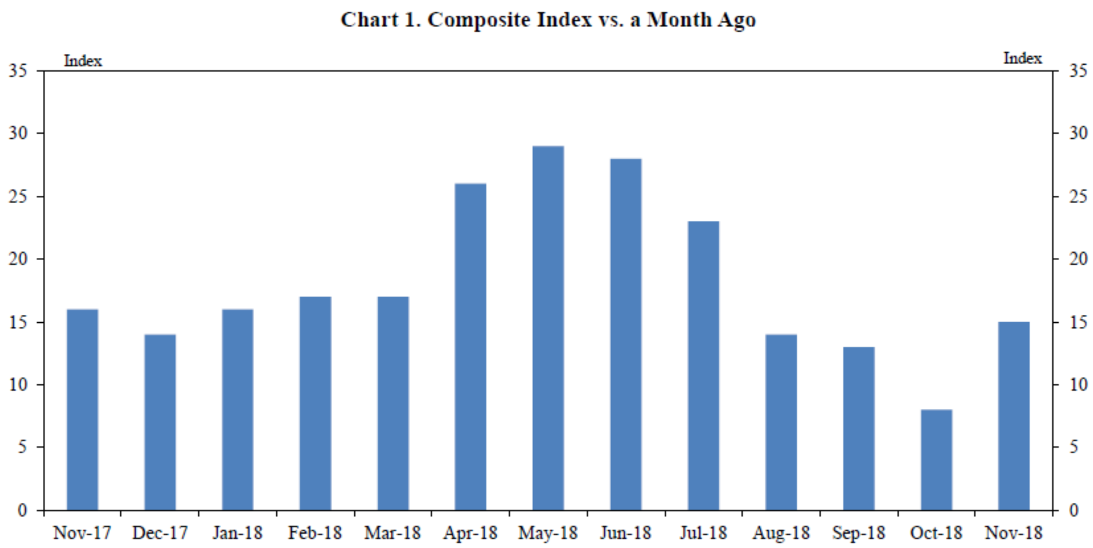
From an inflationary perspective, the current levels of utilization remain below the most recent peak in 2014 – which follows a series of 'lower highs'.

https://www.federalreserve.gov/releases/g17/Current/

Kansas City Fed Manufacturing Index (Nov)

The headline index indicated that manufacturing activity expanded at a faster pace in the latest month. The improvement was seen across a range of metrics after several months of slower growth.

Composite Index; Nov 15 versus Oct 8



The important indicators of demand all expanded at a much faster pace in Nov. Production rebounded from a reading of 5 in Oct to 24 in Nov. The volume of shipments and order backlogs also increased at a much faster pace. Looking forward to future production, new orders increased from a recent low of 7 in Oct to a reading of 20 in Nov.

Prices paid of raw materials increased but remains below recent peaks. Prices received also increased.

Less rosy results on the employment front. The number of employees slowed from an index reading of 8 in Oct to 6 in Nov. The average employee workweek also slowed and remains close to neutral territory (neither increasing nor decreasing)

The future view in 6 months' time suggests that manufacturers are expecting lower levels of activity. Production, shipments and new orders all slowed to some of their lowest levels of the last 12 months.

https://www.kansascityfed.org/~/media/files/publicat/research/indicatorsdata/mfg/2018/2018nov16mfg.pdf?la=en

Fed Speeches

The key points this week – US economy performing well, pockets of slowing global growth, trade policy concerns, housing slow-down. Lack of an inflation surge is keeping Fed expectations of rate increase in check. Moves in rates from next year will be data dependant, no forward guidance.

Regional Fed presidents (Bostic & Clarida) – rates are close to neutral.

Regional Fed Presidents Harker & Kashkari – modest inflationary pressure keeping need for rate increases in check;

> "Again, I go back to inflation. We're not seeing the recent data telling us that inflation's moving rapidly past our target. So I think we have some time to let this evolve." Patrick Harker

https://www.wsj.com/articles/feds-patrick-harker-not-convinced-a-december-rate-rise-is-prudent-1542400163

Fed President Charles Evans - Would accept a Fed funds rate that pushes 'slightly above what is still a vague idea of neutral policy'. The central bank could raise rates 3 or 4 times next year – neutral 2.75% and could comfortable go to 3.25% - assuming the GDP growth holds. Global growth concerns trade policy uncertainty, housing slowdown – could change the comfort zones around 'neutral rates'. https://www.marketwatch.com/story/feds-evans-projects-possibility-of-up-to-four-interest-rate-hikes-in-2019-2018-11-16?mod=mw_share_twitter

The probability of a Fed rate increase in Dec is currently 72.3% - down slightly from 75.8% a week ago. https://www.cmegroup.com/trading/interest-rates/countdown-to-fomc.html?utm_source=cmegroup&utm_medium=friendly&utm_campaign=fedwatch&redirect=/fedwatch

Chairman Powell – Dallas Q&A

Chairman Powell reiterated this week that from 2019, the central bank could raise rates at any time – "can and will move at any meeting".

Given recent volatility and some evidence of a slow down in the global economy, will the Fed continue to hike in Dec?

Chairman Powell continued to reiterate that the economy is doing well and monetary policy is part of the reason why.

Risks; evidence global econ not growing at the same pace as last year, volatility in equity/other markets, a "rising chorus of concern" from business on trade policy – though not seeing much in the way of impact in the economic data at this stage. Also mentioned slowing growth in housing metrics and potential for fiscal stimulus ie tax cuts to wear off in a year or two.

Said there was 'broad consensus' among Fed officials to keep raising rates in the near term.

The question is how much further and at what pace – this will now be data dependant.

The Fed Chairman will hold news conferences after each meeting next year rather than quarterly – ensuring that the Fed can change direction on rates with the ability explain its decision.

> "Our goals will be to extend the recovery ... and to keep unemployment low and inflation low. So that's how we're going to think about it," he added."

https://www.cnbc.com/2018/11/14/powell-credits-fed-policy-for-the-us-economy-being-in-a-good-place.html

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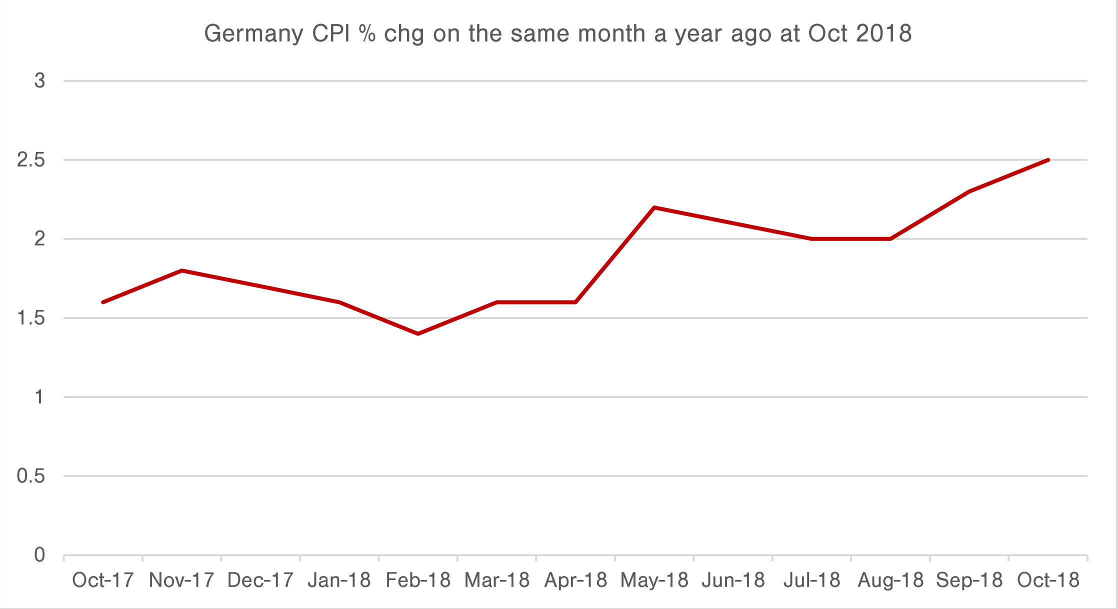
Europe

Germany CPI (Oct)

German consumer price growth continues to be influenced mostly by higher energy prices. The Oct headline CPI growth accelerated versus the same month a year ago;

German CPI % chg from same mth a year ago; +2.5%

On a monthly basis, CPI growth slowed somewhat; Oct +0.2% versus Sep +0.4%



Core CPI growth was lower;

CPI ex energy and food % chg from same month year ago; +1.7% and +0.1% for the Oct month.

Energy prices have been the main driver of the higher headline CPI growth;

Household energy prices; +6% on same month a year ago and +1.1% growth on the month prior. This is made up of electricity, gas and heating oil prices and represents 7% of the total index.

Within transport (13% weight of the index), motor fuel prices have also increased significantly over the year; +14.8% chg from the same month a year ago and +0.7% growth on the month prior. Diesel fuel +18.6% growth on the same month a year ago and +2.5% growth on the month prior.

In comparison, services CPI growth is more subdued; +1.8% growth on the same month the year prior and -0.1% versus the month prior.

https://www.destatis.de/EN/PressServices/Press/pr/2018/11/PE18_436_611.html;jsessionid=498C68DB1540003BEEE2BF3D09BB03F2.InternetLive1

Germany Q3 GDP (prelim)

In real terms, German GDP declined in the latest quarter versus the quarter prior. The decline was the result of weaker external demand and a decline in final consumption expenditure of households. The full detail will be released 23 Nov 2018.

Real GDP Q3; -0.2% decline from the prior quarter (+0.5% growth in the quarter prior)

Real GDP Q3; +1.1% growth on the same qtr a year ago (slowing from +2.0% in Q2)

Based on the preliminary release, the decline in the quarter was the result of;

Negative contribution from net trade; a decline in exports and an increase in imports

Negative contribution from household final consumption expenditure

Higher investment spending; gross fixed capital formation in machinery and construction

Higher government expenditure

The final detail will be released on 23 Nov and I think the key part to watch is the developments in domestic demand. Consider that higher CPI/energy prices are possibly impacting household expenditure as well.

https://www.destatis.de/EN/PressServices/Press/pr/2018/11/PE18_440_811.html

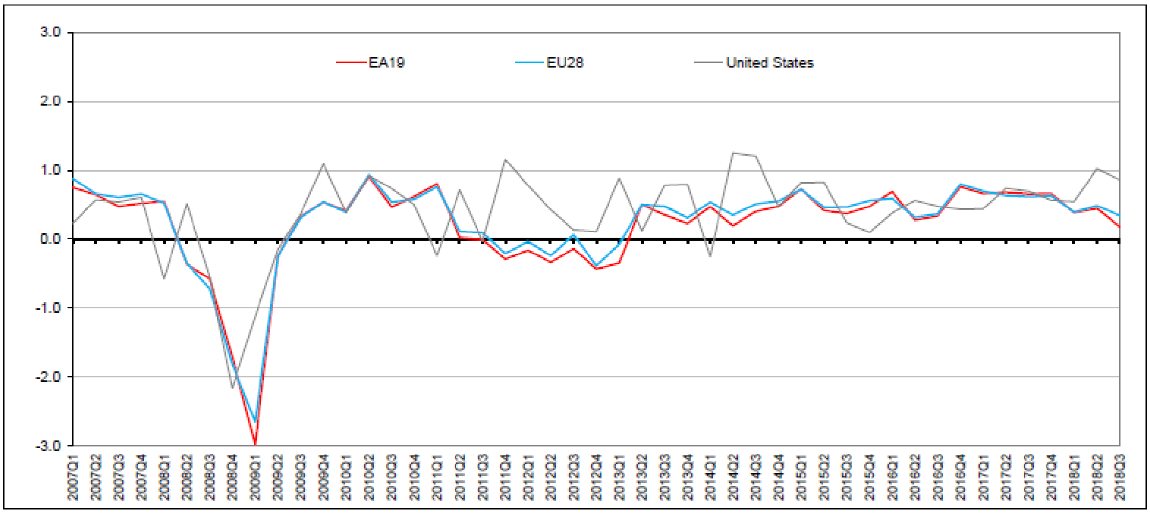
Eurozone Q3 GDP (prelim)

Euro area and EU GDP growth has slowed in the latest quarter.

The Euro area GDP Q3 growth (reported last week) was confirmed at +0.2% versus the +0.4% from the quarter prior. The change from the same quarter a year ago slowed from +2.2% in Q2 to +1.7% in Q3.

Growth in the EU 28 group also slowed in Q3; +0.3% versus +0.5% in Q2. The change from the same quarter a year ago slowed from +2.1% in Q2 to +1.9% in Q3.

Euro area, EU28 and United States GDP growth rates
% change over the previous quarter



Full details will be released 7 Dec 2018.

https://ec.europa.eu/eurostat/documents/2995521/9378018/2-14112018-BP-EN.pdf/b4fd131d-8938-4ef6-9cb5-9c2f73d2809d

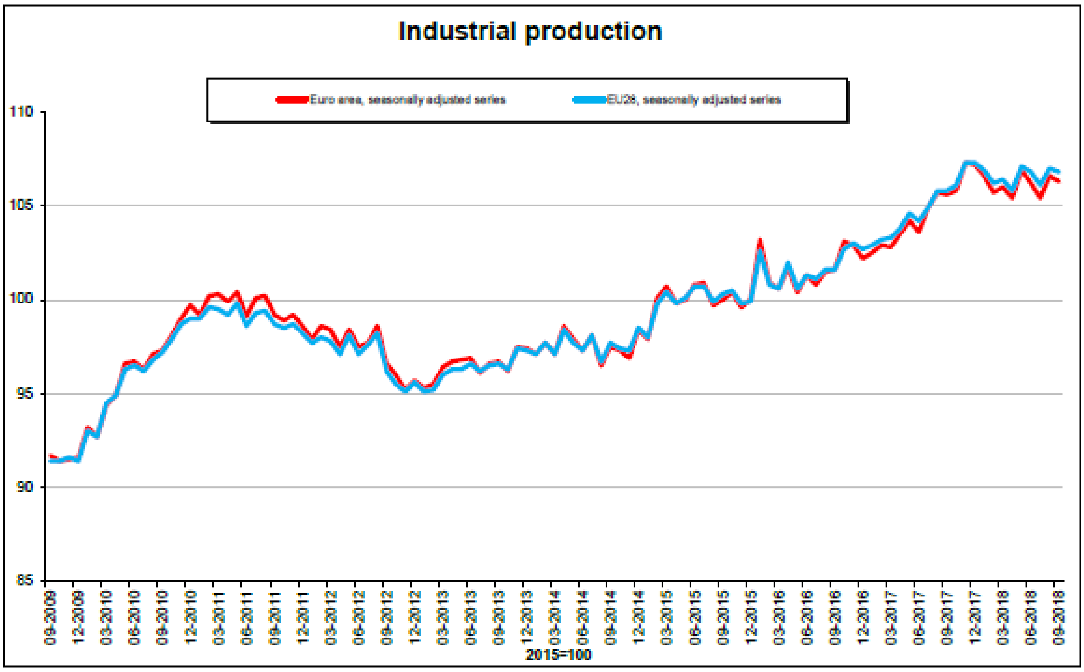
Eurozone Industrial Production (Sep)

In the latest month, industrial production in the Euro area and the EU28 declined but remains above last year.

Industrial production in the Euro area; Sep -0.3% versus Aug +1.1%. The change from a year ago slowed slightly to +0.9% in Sep from +1.1% in Aug. This is well down from the recent high of +5.2% in Dec 2017.

Industrial production in the broader EU28 group; Sep -0.2% versus Aug +0.8%. The change from a year ago also slowed slightly; Sep +1.1% versus Aug +1.3%. This is also well off the highs of +4.7% reached in Dec 2017.

Production growth is now stagnating after much stronger growth momentum throughout 2017.



In the latest month, industrial production was lower across all categories except for capital goods.

On an annual basis, industrial production in the Euro area is below the same month a year ago for;

Intermediate Goods; Sep -0.3% versus Aug -0.2% and is well below the high of +6.2% growth on a year ago recorded in Dec 2017. Growth has slowed consistently throughout the year.

Energy; Sep -1.4% and has been below last year for the last six months.

Durable Consumer Goods; fell in Sep by -2.5% versus Aug -1.3% and has also been slowing throughout 2018.

Industrial production for capital goods remains above last year; Sep +2.5% versus Aug +1.7%. Growth is still below the peak of +9.2% reached in Nov 2017.

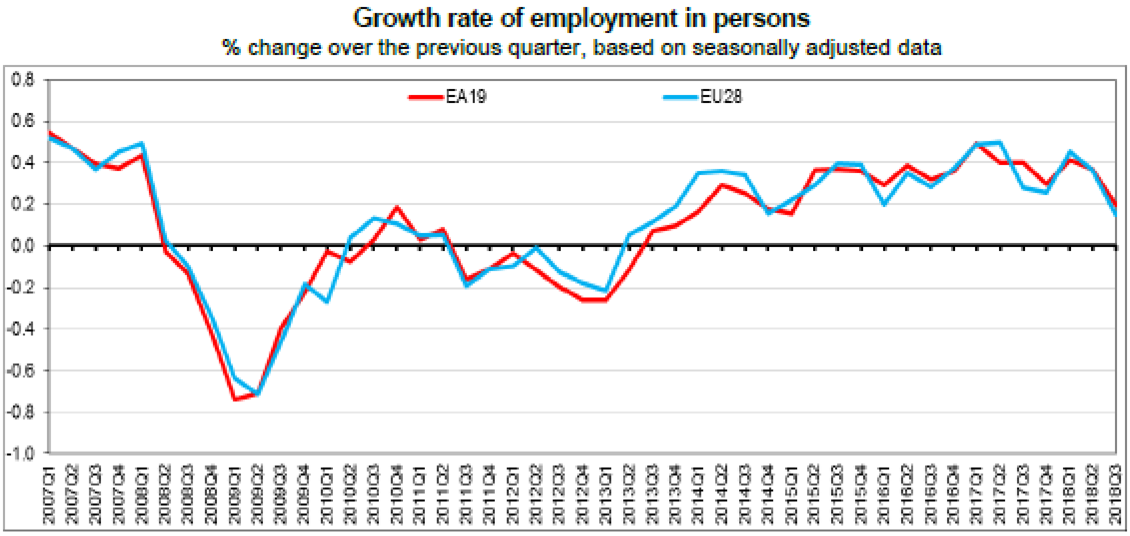
https://ec.europa.eu/eurostat/documents/2995521/9378033/4-14112018-CP-EN.pdf/ddf9ac2e-58cf-4650-9d99-d67b3639da4b

Eurozone Employment (flash est) (Q3)

Employment growth in the Euro area and EU28 group slowed/halved in the latest quarter.

Euro area; Q3 +0.2% versus Q2 +0.4%. Growth also slowed versus the same time a year ago; Q3 +1.3% which is below the peak of +1.7% in Q3 2017.

EU28 group; Q3; +0.2% versus Q2 +0.4%. The change from 12 months ago also slowed from +1.4% in Q2 to +1.2% in Q3. This has slowed from the peak of +1.7% in Q2 2017.



https://ec.europa.eu/eurostat/documents/2995521/9378003/2-14112018-AP-EN.pdf/e7916658-c54b-407e-955d-dc44878f9b55

Eurozone Trade Balance (Sep)

The Euro area trade balance (surplus) narrowed in Sep (compared to a year ago) as a result of a decline in exports and growth in imports.

Euro Area Trade Balance (extra EU)

Sep 2018 +13.1b € versus Sep 2017 +25.3b €.

The YTD trade surplus is lower; Jan-Sep 2018 +143.1b € versus Jan-Sep 2017 +169.2b € (-26.1bn deterioration)

Exports; Sep -1% change from a year ago. For the full Jan-Sep 2018 period, exports +3.6% growth on a year ago – current month is underperforming.

Imports; +6.4%. For the full Jan-Sep 2018 period, imports are +5.8% growth in a year ago.

The EU 28 group Trade Balance (extra EU)

Sep 2018 -1.8b € versus Sep 2017 +2bn €.

The YTD trade balance has deteriorated; Jan-Sep 2018 -14.6b € versus Jan-Sep 2017 +5b € (-19.6bn € deterioration)

Exports; Sep +2.5% change from a year ago. For the full Jan-Sep 2018 period, exports +4.1% - current month underperforming.

Imports; Sep +5% change from a year ago. For the full Jan-Sep period, imports are +5.5% growth from a year ago – current month is on par.

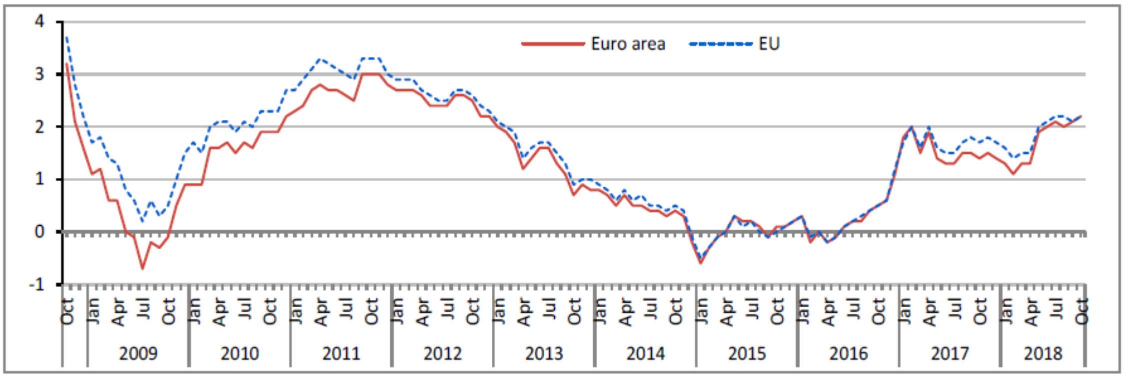
https://ec.europa.eu/eurostat/documents/2995521/9376927/6-15112018-AP-EN.pdf/d5f6e117-7f4e-4046-830d-87ab25d22237

Eurozone CPI (Oct)

The Euro area annual inflation rate continued to accelerate in the latest month. The higher rate of inflation can be traced back to a further acceleration in energy prices.

Headline CPI – annual change; Oct +2.2% versus Sep +2.1% (a year ago, annual CPI growth was +1.4%)

Annual inflation rate (%) in the euro area and the European Union



Underlying CPI growth remains much lower and consistent;

CPI ex energy and unprocessed food; Oct +1.2% versus Sep +1.1% (a year ago +1.1%)

Energy - annual growth in energy prices continued to accelerate in the latest month;

Oct +10.7% versus +9.5% in Sep (and was +3% a year ago). In the latest month alone, energy prices grew by +1.8%. Despite only having a 10% weighting in the CPI index, energy contributed 46% of the overall increase in the CPI (annual at Oct).

Services – there was a small acceleration in the annual growth of services prices;

Oct +1.5% versus Sep +1.3%

https://ec.europa.eu/eurostat/documents/2995521/9380908/2-16112018-AP-EN.pdf/c4bcb641-8f98-480d-b11a-0a2e79f8fb6f

ECB President Draghi – The Outlook for the Euro area Economy

Recently seen a loss in growth momentum – raising questions about the strength of the growth outlook

> The key issue at stake is as follows: are we witnessing a temporary "soft patch" or a more lasting deterioration in the growth outlook?

Two reasons for the slow down;

One off factors (weather, sickness, industrial action and intro of new vehicle emission standards slowed production esp in Germany) – these effects should be temporary.

Weaker global trade growth – which is broader based. But trade dynamics are normalising as growth 'retreats towards potential'. Two factors could make it longer lasting. One, further protectionism could dampen exports. Uncertainty about external demand spilling over into the domestic economy ie via lower capex

> "Most important is the virtuous circle between employment, labour income and consumption, which has been the motor of growth throughout the recovery. Various indicators suggest this cycle has not been disrupted by the loss of growth momentum this year."

A force behind the Euro employment growth has been structural change and are less sensitive to cyclical swings

Strong link between consumption growth and job growth –

> "consumption is more conducive to jobs than exports"

Financing conditions remain favourable.

On the future monetary policy;

> However, the Governing Council also noted that uncertainties surrounding the medium-term outlook have increased. When the latest round of projections is available at our next meeting in December, we will be better placed to make a full assessment of the risks to growth and inflation.

https://www.ecb.europa.eu/press/key/date/2018/html/ecb.sp181116.en.html

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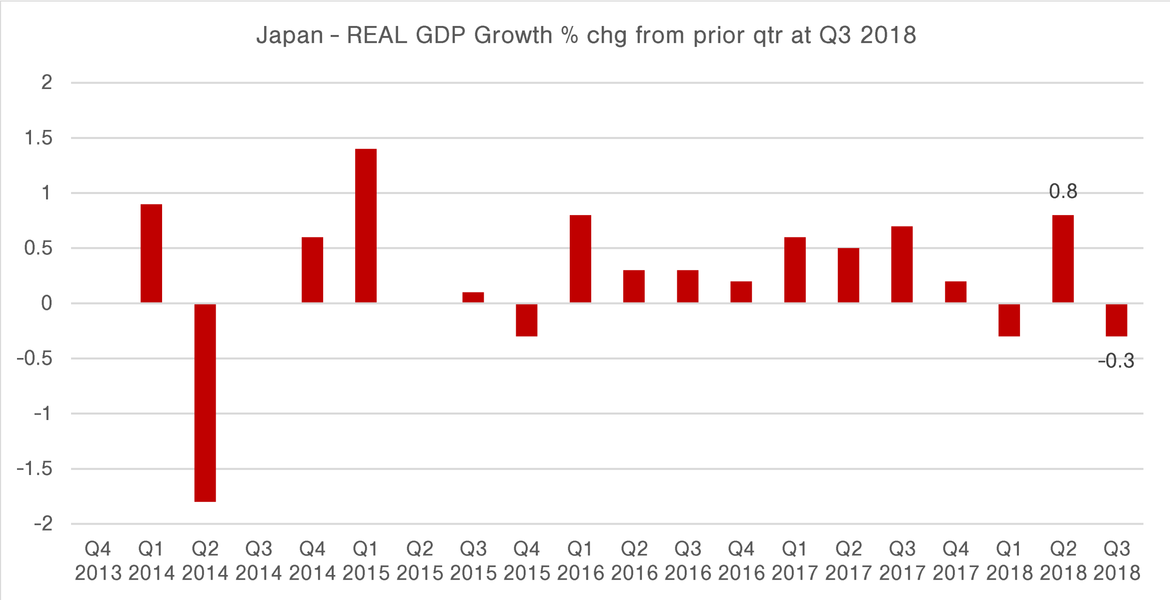
Japan

GDP Q3 (prelim)

The prelim quarterly GDP for Japan showed the economy contracted in Q3;

Real GDP % chg from prior quarter; Q3 -0.3% versus Q2 +0.8%



The decline was driven by several areas;

<u>Private demand; Q3 -0.2% versus Q2 +0.7%</u>

Consumption of households and private non-residential investment both declined and was offset to some degree by an increase in private residential investment. The change in private inventories also detracted from GDP.

<u>Public demand; Q3 -0.2% versus Q2 +0.1%</u>

Growth in government consumption spending was offset by the decline in public investment. Public investment has been declining for the last five quarters (incl). The change in public inventories made zero contribution to GDP.

<u>Gross Fixed Capital Investment</u>

The re-grouped total of both public and private sector investment spending declined by -0.5% in the latest quarter.

<u>Net exports</u>

The change in net exports in real terms detracted -0.1%pts from Q3 GDP growth. Exports declined by -1.8%, detracting -0.3%pts.

Imports also declined by -1.4%, which added +0.2%pts to growth.

Gross National Income (GNI) and Compensation of Employees

GNI declined in the latest quarter -0.7% and has now declined three out of the last five quarters. Compensation of employees (real terms) also declined -0.5% after much stronger growth in Q2 of +1.6%.

This result is consistent with the lower levels of industrial production, the weaker trade data and deterioration in PMI's (up until Sep). The more recent PMI data for Japan (from Oct) suggests that there has been some improvement in private sector activity coming into Q4.

http://www.esri.cao.go.jp/en/sna/data/sokuhou/files/2018/qe183/pdf/main_1e.pdf

http://www.esri.cao.go.jp/en/sna/data/sokuhou/files/2018/qe183/gdemenuea.html

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United Kingdom

Brexit

On 14 Nov, all aspects of the UK withdrawal agreement "have been finalised and agreed at negotiator level'. A European Council meeting has been set for Sunday 25 Nov 2018 to finalise and formalise the Brexit agreement.

On the backstop;

> The EU and the UK negotiators have agreed on how to avoid a hard border between Ireland and Northern Ireland. Both will use their best endeavours to have - by 1 July 2020 - a future agreement concluded before the end of the transition period. Should this not be the case, the EU and the UK could jointly extend the transition period. Alternatively, as of January 2021, the backstop solution for Ireland and Northern Ireland would apply, subject to a joint review mechanism.
>
> That backstop solution means that a single EU-UK customs territory will be established, which will apply from the end of the transition period until such a time as a subsequent agreement becomes applicable. Northern Ireland will therefore remain part of the same customs territory as the rest of the UK. The single customs territory covers all goods with the exception of fishery and aquaculture products.

Announcement; http://europa.eu/rapid/press-release_IP-18-6424_en.htm

Comprehensive factsheet; http://europa.eu/rapid/press-release_MEMO-18-6422_en.htm

Q&A Protocol on Ireland and Northern Ireland; http://europa.eu/rapid/press-release_MEMO-18-6423_en.htm

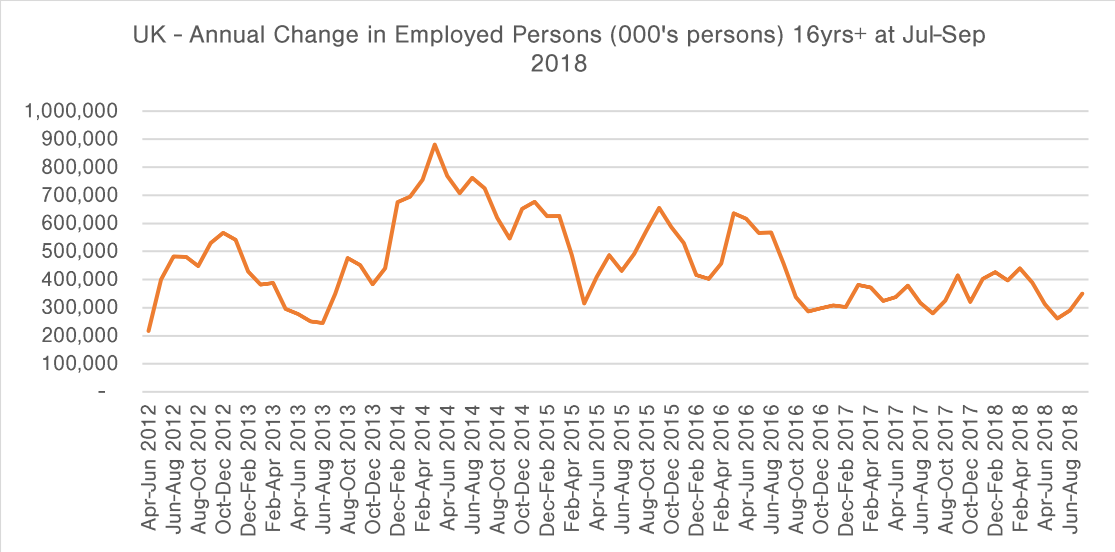
With details of the agreement now confirmed, the focus moves to the UK response and whether the withdrawal agreement will be approved by the parliament. The announcement of the draft agreement was followed by a number of resignations of UK ministers, including the Brexit Minister, Dominic Raab. Rumours of a vote of no confidence have also resurfaced, with PM May possibly facing a leadership challenge as early as this week.

Labour Force Survey (Jul-Sep)

There are several important aspects to this labour report. The more recent quarterly results show that there has been some deterioration in the stronger annual view of the labour force data.

Annual view

Employment growth increased in the latest year; +350k persons.

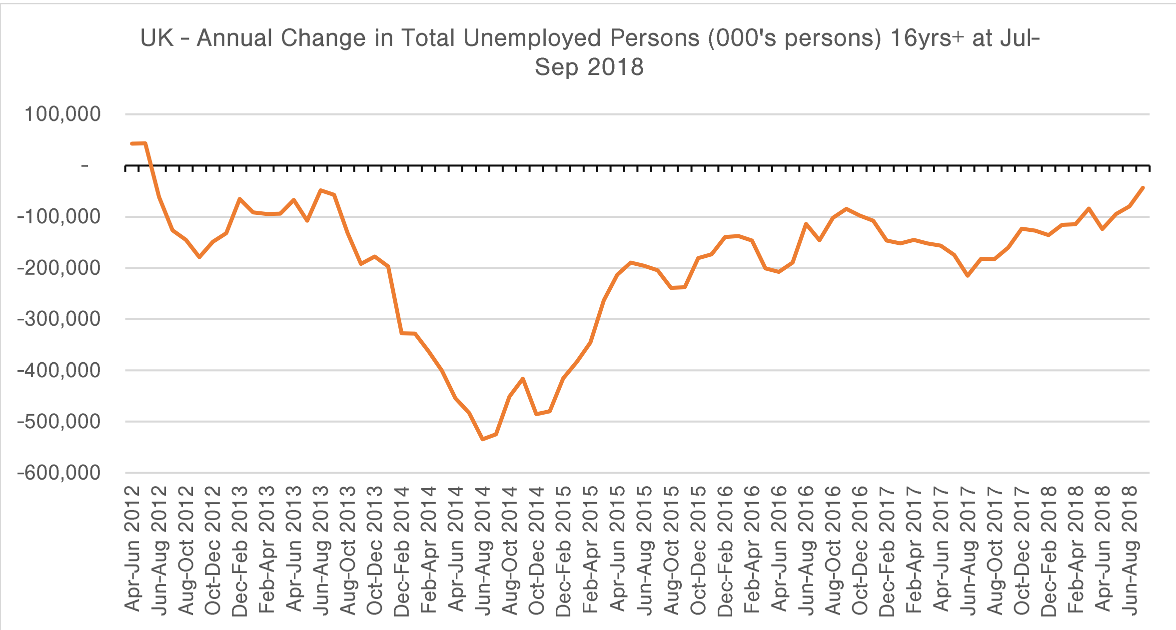


Employment growth for the 16-64yrs group was lower +275k persons – and follows a similar trend as the 16+yr group.

Importantly, annual employment growth has been higher than the estimated chg in the labour force due to population growth.

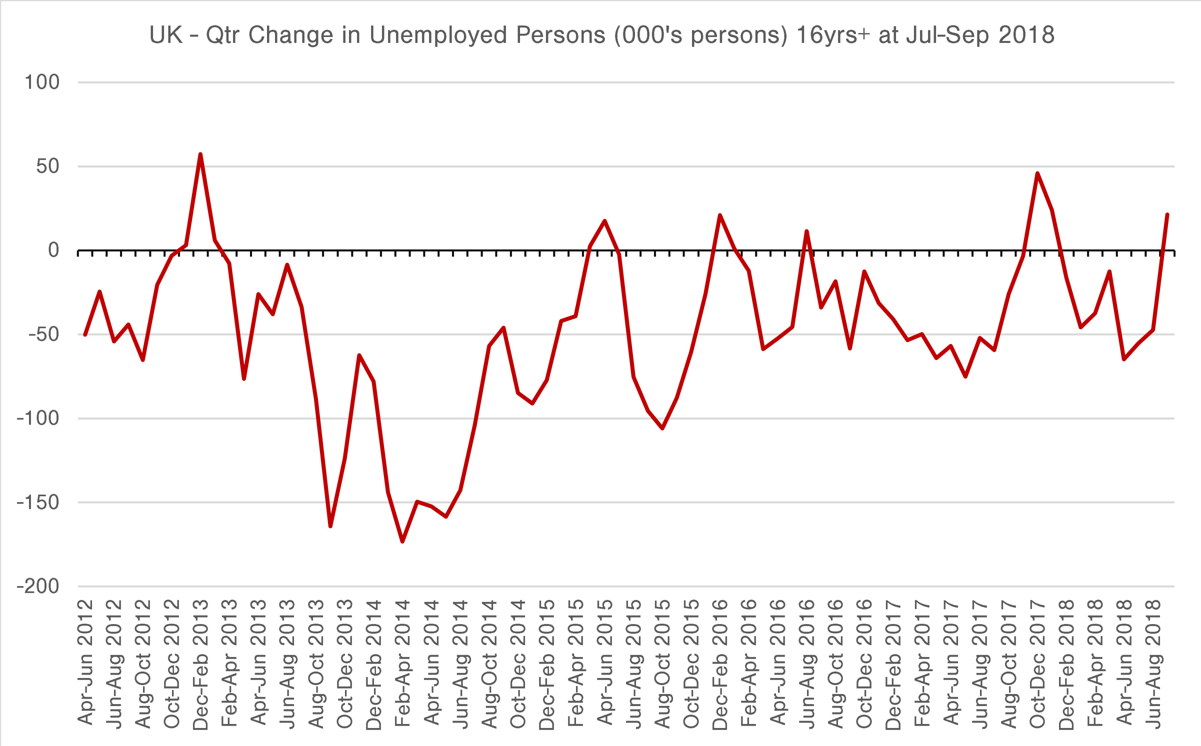
This annual rate of employment growth has also been high enough to absorb an increase in participation. On an annual basis, the participation rate for 16yrs+ has increased by +0.22%pts and for 16-64yrs participation has increased by +0.4%pts.

But due to this increase in participation, the annual change in unemployed persons has become smaller. The annual change at Jul-Sep (current) was -43k persons versus the annual change in Jun-Aug of -80k unemployed persons.



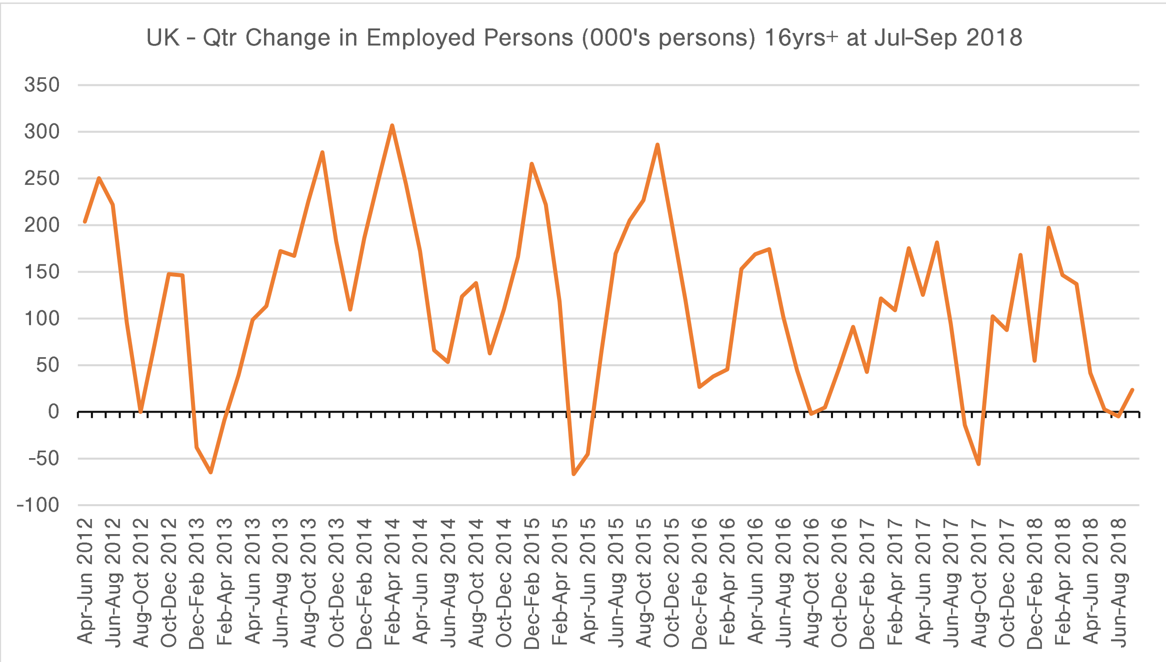
The annual unemployment rate has now ticked up to 4.1% (from 4% in the year to Jun-Aug) – the first increase since the start of the year.

A concerning aspect of this is that on a quarterly basis, unemployed persons has started to increase again. It is one of the larger quarterly increases in unemployed persons in recent years;



<u>Quarterly view</u>

The quarterly employment growth returned to positive territory in the latest 3mth chg but remains low. For the 16-64yr age group, employment declined slightly.



The quarterly change in employment is too low when you consider pop chg. In the latest quarter employment growth was less than what the estimated changed in population added to the labour force. So much so, that the resulting increase in unemployment was one of the higher increases in recent years. The small decline in participation in the latest quarter helped to offset some of the increase in unemployment.

The full summary of the key labour market dynamics is below.

	16yrs+ (000's of persons)		16-64yrs (000's of persons)	
	Latest Qtr Chg Jul-Sep 2018	ANN Chg Jul-Sep 2018	Latest Qtr Chg Jul-Sep 2018	ANN Chg Jul-Sep 2018
Estimated change in the Labour Force due to pop growth (1)	47.563	191.027	17.517	72.110
How many jobs available for them? (employment growth) (2)	23.361	350.248	-2.584	275.302
Difference; employment less est chg in labour force due to pop (3)	-24.203	159.220	-20.100	203.192
(if positive, then employment growing faster than pop)				
Change in the labour force due to the change in participation (4)	-2.834	115.984	3.390	166.572
The remainder is the chg in total unemployed persons (4) less (3)	21.368	-43.236	23.491	-36.620
Different views of the Labour Force;				
Double check - change in total economically active (pop + participation)	44.729	307.011	20.907	238.682
Double check - change in total economically active (employ + unemp)	44.729	307.011	20.907	238.682
Actual economically active ann chg (as reported)	44.729	307.011	20.907	238.682

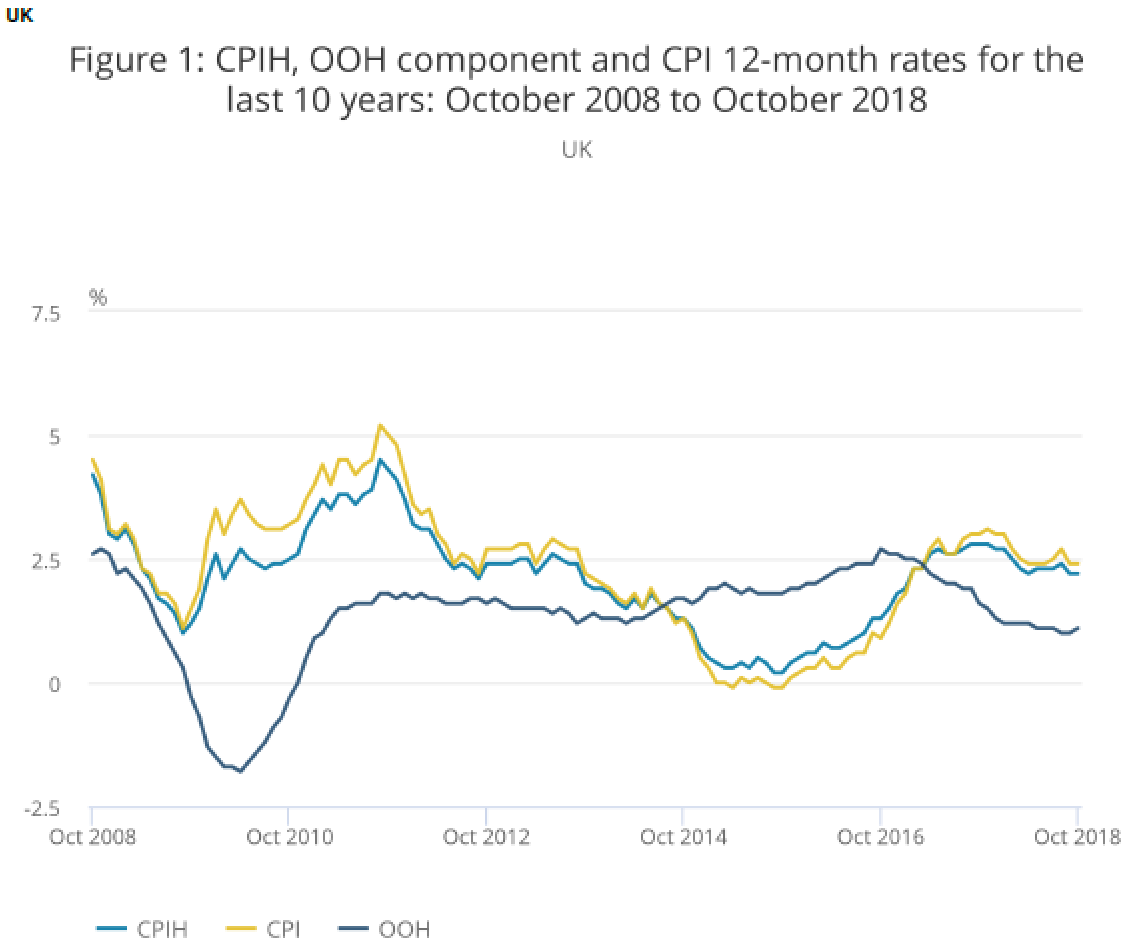
https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/singlemonthlabourforcesurveyestimates/november2018

UK CPI (Oct)

The headline rate of CPI growth remained unchanged in the latest month.

Headline CPI (CPIH) - %chg from same month a year ago; Oct +2.2% versus Sep +2.2%

Monthly change CPIH; Oct +0.1%



Core CPI, ex food, alcoholic bevs, tobacco and energy is growing at a slower pace than the headline rate; Oct +1.8% growth on a year ago (Sep +1.8%).

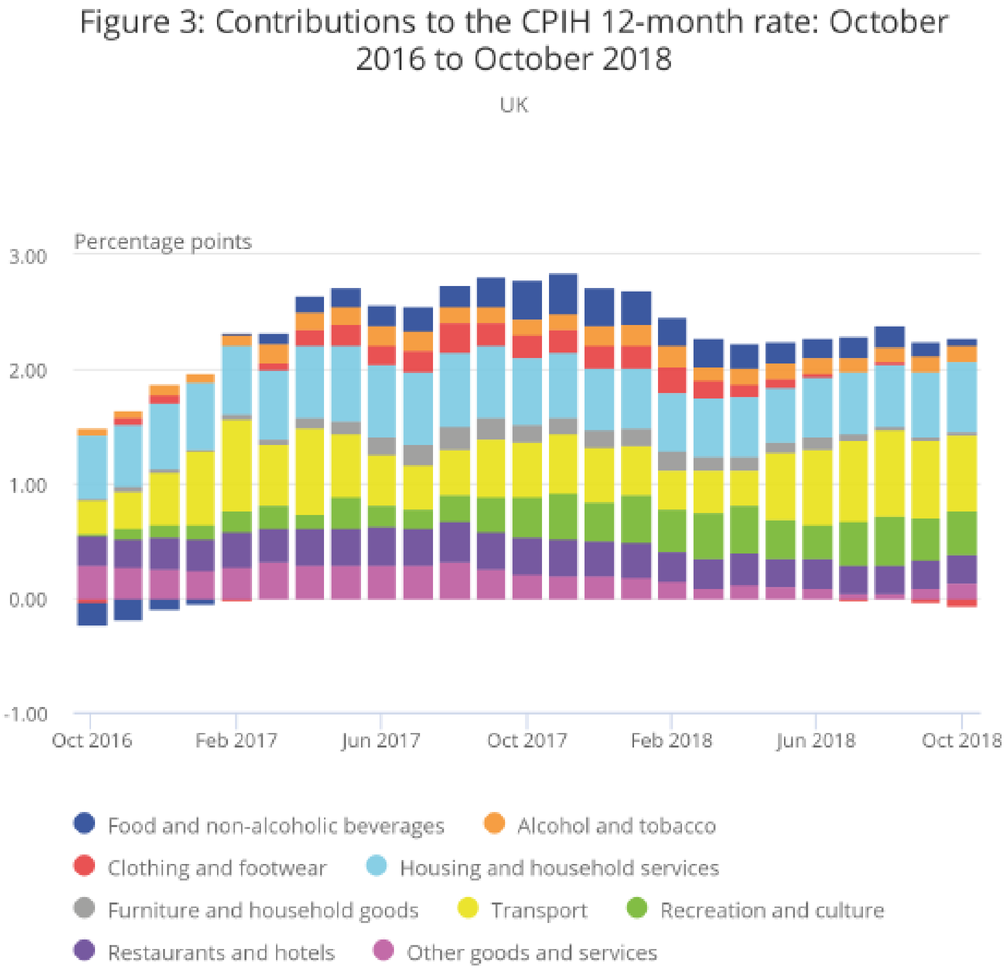
Goods CPI (% chg over 12mths) is growing at a slightly faster pace than the headline rate and has slowed somewhat: Oct +2.3% versus Sep +2.5%

Services CPI is growing at a slightly slower pace as the headline rate; Oct +2.1% versus Sep 2%.

Over the last 12 months, CPIH growth has been driven by higher growth in prices for tobacco +6.7%, transport +5.3% and recreation and culture (+3.3%).

This has been offset by lower growth in food and non-alcohlic bevs (+0.9%), clothing and footwear (-1.1%) and furniture (+0.7%).

UK



Source: Office for National Statistics

Growth in housing, water, electricity, gas and other fuels has been on par with the headline at a total level: Oct +2.1% change over the last 12 months. Underlying that result though, much lower growth in housing (+1.1%) and rental (+0.6%) prices have offset higher electivity/gas and other fuels – growing at 9.2% over the last 12 months and +2.3% in the latest month v prior month.

https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/october2018

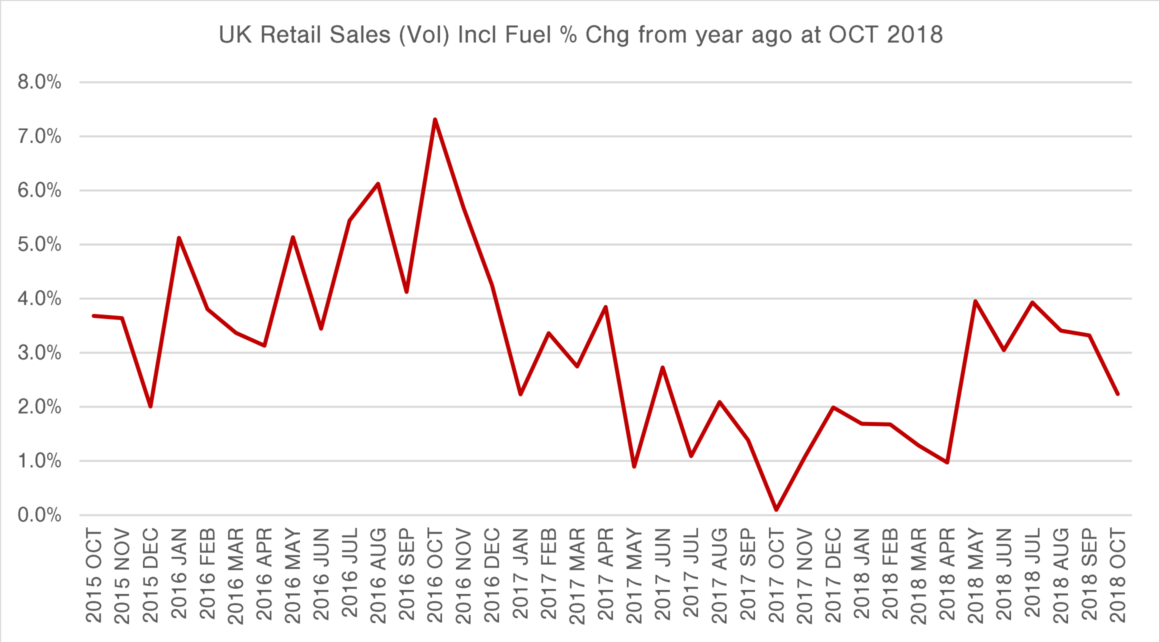
UK Retail Sales (Oct)

Retail sales in the UK declined for the second month in a row.

Retail sales (volume, incl fuel);

Oct -0.6% versus Sep -0.4%

Growth from a year ago slowed from 3.3% in Sep to +2.2% in Oct. This has put a firm dent in the stronger growth momentum since Oct 2017;



There were some revisions;

> Sep; all business retail index was revised higher by +0.3 index points (which halved the decline previously reported for Sep)
>
> Aug; all business retail index was revised lower by -0.2 index points (which lowered the growth previously reported for Aug)

In the latest month and on a volume basis, growth in food stores retailing was offset by lower sales in non-food stores and fuel. Non-store retailing made zero contribution to growth in the month.

In the latest year and on a volume basis, non-store and non-food stores made the largest contributions to growth. On a year ago basis, fuel sales (vol) detracted from growth.

https://www.ons.gov.uk/businessindustryandtrade/retailindustry/bulletins/retailsales/october2018

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Australia

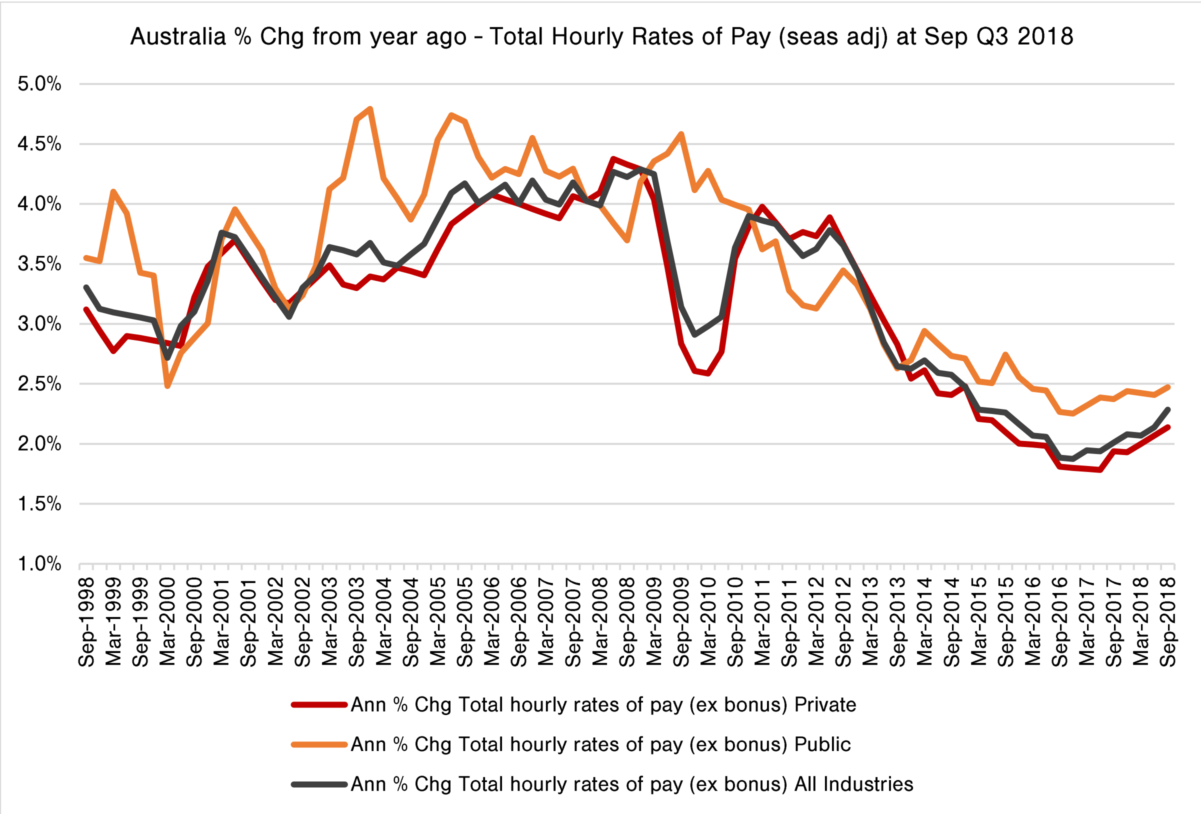
Wage Price Index Q3

The third quarter wage price index showed continued modest growth in wages in Australia;

All Industries – Public and Private

% chg from qtr last year; Q3 +2.29% versus Q2 +2.14%

Growth in the wage price index has been accelerating, albeit slightly, since the Jun Q2 2017;

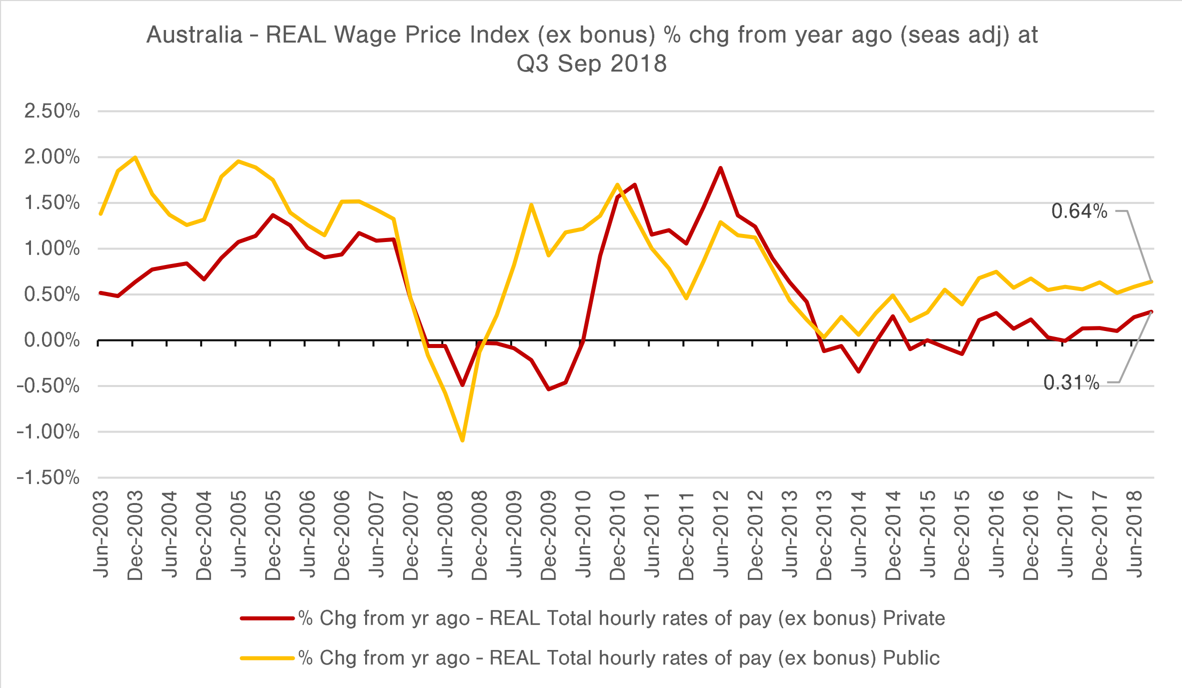


In Q3, the growth in private sector wages continues to lag that of the public sector;

Private sector % chg from last year; +2.14% versus public sector % chg from last year +2.47%

Growth in real wages shows a slightly different perspective.

Growth in the public sector real wage price index shows that growth in hourly rates of pay has been relatively constant and averaged around +0.6% growth (% chg from a year ago basis) for the last nine quarters;



Note: Wage Price Index deflated by the Trimmed Mean/Core CPI (both seas adj)

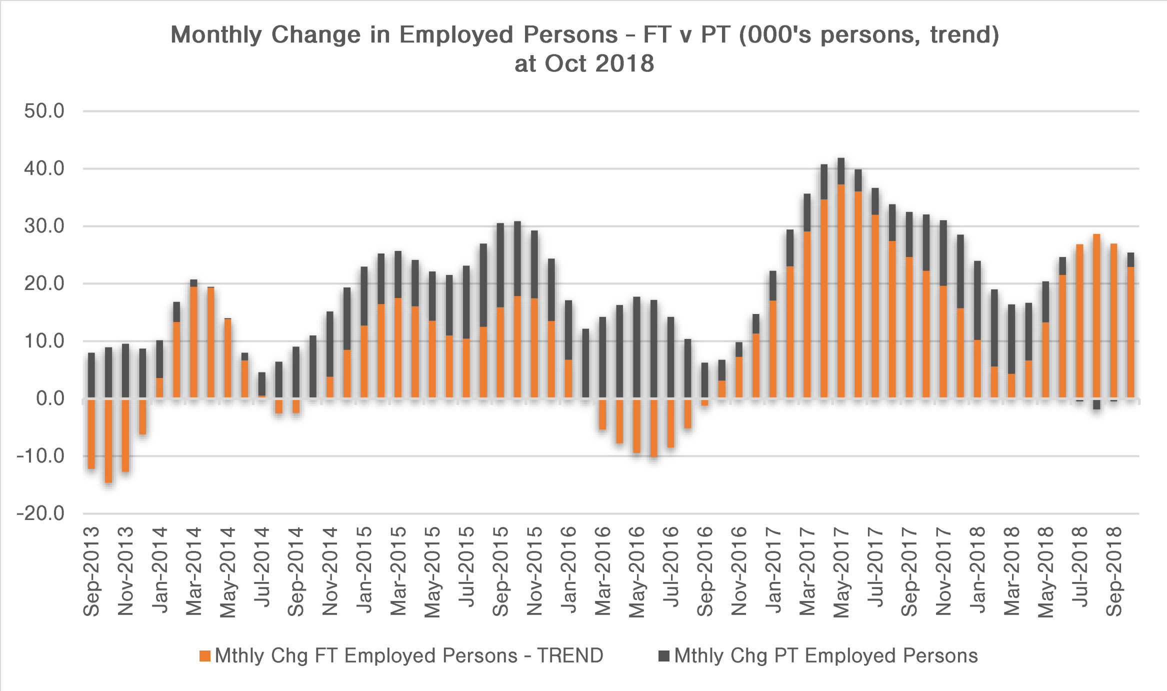
Growth in the private sector wage price index has been more subdued – barely growing between 2014-2017. Since Jun 2017, it appears as if there is some small level of acceleration in the growth of hourly rates of pay for the private sector.

http://www.abs.gov.au/ausstats/abs@.nsf/latestProducts/6345.0Media%20Release1Sep%202018

Labour Market Report (Oct)

This was another strong labour market report for Australia. Employment growth remains strong and unemployment continues to fall. Given the developments in the housing sector, the labour market should be a stabilising factor.

On an annual and monthly basis, employment growth has slowed from recent highs but remains elevated. The growth has been driven by Full-time (FT) employed persons;



Importantly, employment growth is higher than the estimated change in the labour force due to population growth.

Employment growth also remains high enough to 'absorb' the increased participation on both an annual and latest month basis. The participation rate has increased by +0.19%pts in Oct from the same month a year ago.

Even with the increase in participation, employment growth has been high enough that unemployment has continued to decline. In the latest month, the decline in total unemployed persons slowed somewhat, but the annual decline increased;

The unemployment rate decreased from 5.16% in Sep to 5.1% in the latest month (Oct).

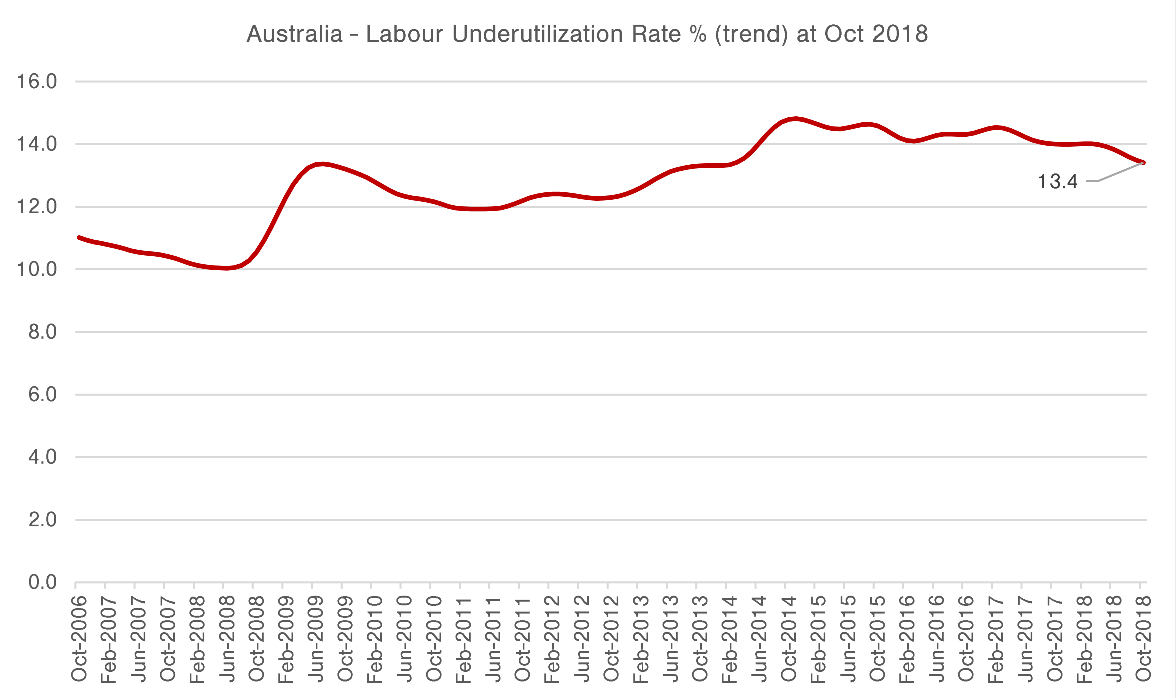
Summary of the key labour market dynamics;

On both an annual and monthly basis, employment growth remains higher than the est chg in the labour force due to population growth. The current level of employment growth is also high enough to absorb the increase in participation and continue to reduce the total number of unemployed persons.

	000's Persons	
	Annual Chg - Oct	Month Chg - Oct
The estimated change in the Labour Force due to pop growth	209.754	16.215
How many jobs available for them? (employment growth)	285.875	25.435
Difference (employment growing faster than pop est)	76.121	9.220
Change in labour force due to the change in participation	38.985	1.602
The reminder is the reduction in total unemployed persons	-37.135	-7.62
Double Check - Annual chg in size of the Labour Force	248.740	17.81

Labour underutilization

The underutilization rate has been elevated in Australia, due in part to higher growth in PT employment and a stubbornly high level of unemployment. Since early 2017, that underutilization has been declining (lower underutilization);



This highlights that there is still slack in the Australian labour market – need to see underutilization come down further/continue to fall before there are more material increases in wage growth.

http://www.abs.gov.au/ausstats/abs@.nsf/latestProducts/6202.0Media%20Release1October%202018

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China

A brief summary of key economic results;

Total Social Financing (Oct); 728.8bn Yuan versus 2.2trillion Yuan Sep

(the People's Bank of China has revised the way it calculates TSF by adding financial institutions' asset-backed securities and loan write-offs. It has also added local government special bonds issuance into the TSF calculation from September.) https://uk.reuters.com/article/china-economy-social-financing/china-oct-total-social-financing-falls-to-7288-bln-yuan-idUKENNIB90RY

New Loans Oct; 697bn Yuan versus 826bn Yuan expected, prev 1.38trillion Yuan

Retail Sales (Oct) +8.6% versus Sep +9.2%

Industrial Production (Oct); +5.9% versus Sep +5.8%

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Trade

US-China Trade Negotiations

After several weeks of more public conciliatory remarks from both sides, the US-China relationship took a more negative tone over the weekend at the APEC summit.

> ""They begin with trade practices, with tariffs and quotas, forced technology transfers, the theft of intellectual property. It goes beyond that to freedom of navigation in the seas, concerns about human rights," Pence told reporters travelling with him."

https://www.japantimes.co.jp/news/2018/11/18/asia-pacific/politics-diplomacy-asia-pacific/apec-leaders-seek-unity-u-s-china-spat/#.W_DdcTgzZhF

Tariffs threats were reiterated by US Vice President Pence over the weekend;

> "MAY EVEN DOUBLE TARIFFS, UNLESS CHINA BOWS TO U.S. DEMANDS"

The G20 Leaders Summit commences 30 Nov – 1 Dec and the finance meetings commence 26 Nov. Presidents Trump and Xi are expected to meet on the sidelines of the G20.

A possible fourth round of tariffs may be implemented by the US on $267b of Chinese imports.

NAFTA/USMCA

U.S. officials intend to sign the agreement with Canada and Mexico most likely at the G-20 meeting on 30 November. https://www.politico.com/newsletters/morning-trade/2018/11/09/g-20-to-be-site-of-usmca-signing-406899

After which it would be submitted to the U.S. Congress for approval. Given mid-term election results, the deal is still likely to gain approval in Congress.

The joint statement can be found on the USTR website; https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/september/joint-statement-united-states

US-Japan Trade Talks

A hearing is now scheduled to take place on 10 Dec 2018 on the negotiating objectives for a US-Japan trade agreement. Talks likely to start in Jan 2019.

As noted in the announcement, the USTR will publish objectives for the negotiations at least 30 days before negotiations begin (https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/october/trump-administration-announces)

https://www.federalregister.gov/documents/2018/10/26/2018-23569/request-for-comments-on-negotiating-objectives-for-a-us-japan-trade-agreement

Section 232 – Car and Truck Imports

The recommendations on the US car industry are undergoing an inter-agency review process and were due to be discussed at a weekly meeting of the Trump administration's top trade officials.

> The White House has pledged not to move forward with imposing tariffs on the European Union or Japan as long as it is making constructive progress in trade talks.

https://www.straitstimes.com/world/united-states/tariff-proposals-on-imported-cars-and-parts-given-to-white-house

US-Europe Trade Talks

Official notification of trade talks was sent to the US Congress three weeks ago (also notifying the US Congress of the intention to commence trade talks with Japan and the UK).

Formal consultation for the US-EU negotiations has now been announced on the US Federal Register

https://www.federalregister.gov/documents/2018/11/15/2018-24979/request-for-comments-on-negotiating-objectives-for-a-us-european-union-trade-agreement

A public hearing has been set for 14 Dec for input into the negotiating objectives for the US-EU trade negotiations.

As noted in the announcement, the USTR will publish objectives for the negotiations at least 30 days before negotiations begin (https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/october/trump-administration-announces)

US-UK Trade Talks

A formal request has now been posted on the US Federal Register for comments on the negotiating objectives for a US-UK trade agreement. https://www.federalregister.gov/documents/2018/11/16/2018-24987/request-for-comments-on-negotiating-objectives-for-a-us-united-kingdom-trade-agreement

A public hearing has been scheduled for 29 Jan 2019 on the negotiating objectives for the US-UK trade talks.

As noted in the announcement, the USTR will publish objectives for the negotiations at least 30 days before negotiations begin. (https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/october/trump-administration-announces).

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