

FIGURE  
OF THE WEEK

80%

Turnout (est.)  
in Myanmar's  
general  
elections

## In the Headlines



### U.S.: Strong labour market pushes Fed towards December

The October jobs report was very strong, with +271,000 jobs created, far more than expectations of +180,000 to +190,000 and substantially more than in August and September even though both of those months were revised upwards. In addition, unemployment edged down -0.1pps to 5%, and the broader gauge of under-employment, the U-6, fell -0.2pps to 9.8%, below 10% for the first time since May 2008. Perhaps most importantly, however, hourly wages jumped a full +9 cents and by +2.5% y/y, the fastest since July 2009. The Fed has been waiting for positive data on wage inflation before moving on interest rates and, combined with recent speeches from Fed Chair Yellen and others, the first rate hike now seems more likely in December rather than 2016. Meanwhile, the latest ISM non-manufacturing index also came in quite strong, gaining +2.2 to 59.1, markedly in expansionary territory. Of the ten components, nine are above 50, eight improved and new orders gained +5.3 to a very strong 62.0. The trade deficit also showed strength in September, falling -USD7.2bn, with exports up +1.6% while imports fell -1.8%.



### Romania: Political uncertainty to continue?

Last week, Prime Minister Victor Ponta resigned after a fatal accident in a Bucharest nightclub triggered large-scale anti-government protests. Over the past year, Ponta had already been under pressure to resign over multiple corruption and fraud allegations but had managed to stay in office in spite of many protests and party defections. This week President Iohannis appointed Dacian Ciolos, an independent technocrat, as new prime minister. Ciolos has served as the agriculture minister of Romania and, more recently, as the agriculture commissioner on the European Commission. He has 10 days to name a cabinet and draft a legislative programme that will be put for a vote of confidence in parliament. If he gets it, he is likely to govern until the next general election in December 2016; otherwise early elections may be called. Against the backdrop of further increased political and policymaking uncertainty the Central Bank decided last week to retain its key policy interest rate at 1.75%, despite ongoing deflation (-1.6% y/y in October). Euler Hermes expects this rate to be maintained until mid-2016.



### China: Another month, another mixed performance

In October, exports in nominal USD terms were down -6.9% y/y (after -3.7%) and fixed asset investment (+10.2% y/y YTD, after +10.3%) and industrial production (+5.6% y/y, +5.7%) decelerated slightly. Retail sales remained resilient, with growth increasing moderately, to +11.0% y/y (from +10.9%). Going forward, business surveys show signs of stabilisation. The Markit Caixin China General Services PMI improved to 52.0 in October (from 50.5) with an increase in new business and employment components. Meanwhile, deflationary pressures persist, with consumer price growth decelerating in October (+1.3% y/y after +1.6%) and producer prices declining for the 44th consecutive month (-5.9% y/y, unchanged on September). Credit conditions remain fragile despite several cuts in interest rates. After a rebound in September (RMB1,050bn), new yuan loans decreased to RMB513bn. Further monetary easing is therefore likely, with at least a 25bps cut in both the policy rate and the reserve requirement ratio, which we expect will result in growth of +6.8% in 2015 and +6.5% in 2016.



### Greece: Still some obstacles

The ECB Asset Quality Review and stress tests of four banks (Alpha Bank, Eurobank, National Bank of Greece and Piraeus Bank) revealed a total EUR14.4bn capital shortfall under the adverse scenario and EUR4.4bn in the baseline scenario. The recapitalisation process has to be concluded before the end of the year. The latest Eurogroup meeting revealed that several milestones of the adjustment programme are still not implemented (dealing with NPLs, mortgage debts and household insolvency law) and gave Greece until 16 November to tackle such measures in order to allow disbursement of the EUR2bn aid tranche and the EUR10bn in bank recapitalisation. The banks continue to register low levels of deposits (EUR130bn in September, -25% since December 2014) and remain dependent on the ECB Emergency Liquidity Assistance facility (EUR86bn). The Troika review started on Wednesday and is expected to take 2-3 weeks. If positive, it will allow some debt relief and could restore a measure of confidence. This, together with bank recapitalisation, could allow a (partial) lifting of capital controls early next year.

# Countries in Focus

## Americas

### Brazil: Inflation close to 10%

Inflation registered 9.9% y/y in October, a 12-year peak and markedly above the Central Bank target range of 4.5% +/-1pps. Notably, prices of food (+10.4% y/y) and housing and services (+18% y/y) continued to be driven upwards by measures to consolidate public finances implemented by the government in recent months. Indeed, the cut in energy subsidies and directives on regulated prices were responsible for around a third of October's inflationary pressures, according to the institute of statistics (IBGE). Despite strengthening inflationary pressures, the Central Bank has maintained its key policy interest rate (SELIC) at 14.25% since August, as economic indicators continue to deteriorate. Industrial production fell by -10.5% y/y in September, worse than expected, while business and consumer confidence are at record lows. We forecast that the economy will be in recession in 2015, with GDP contracting by around -3%. Moreover, recession will be extended into 2016.



## Europe

### Croatia: Hung parliament

Preliminary results indicate that Patriotic Coalition, the opposition alliance led by the conservative HDZ, narrowly won last Sunday's parliamentary elections, gaining 59 out of 151 seats. The ruling centre-left Croatia is Growing coalition, led by the Social-Democratic Party (SDP), won 56 seats but has already joined forces with the IDS party (3 seats) and five minority representatives in parliament. Since neither of the two main alliances gained enough seats to form a government, the kingmaker role in upcoming coalition talks falls to the centre-right MOST, a new political party that won a surprising 19 seats. MOST proposed the formation of a national unity government made up of HDZ, SDP and MOST. However, this is unlikely to take place, given the animosities between HDZ and SDP. A HDZ-MOST coalition appears more likely. Whatever form the next government takes, it will have to deal with a weak economic recovery – EH expects +1% GDP growth in 2015 after six years of recession.



## Africa & Middle East

### Saudi Arabia: Not just wait and see

With state revenues reduced by weak oil prices, financial reserves continue to be drawn down, with net foreign assets falling for the eighth consecutive month in September and to the lowest level since November 2012, but still amounting to almost USD647bn. The authorities are also adopting proactive measures to counter current financial pressures including tapping local and global bond markets (debt levels are currently low) and the creation of a special office - reporting to the Deputy Crown Prince - that will oversee management of government spending through ministries, municipalities and state entities. The new office will ensure that ongoing infrastructure projects are implemented on time and within budget. In addition, the government is actively pursuing longer-term structural plans such as building more solar power installations. It will also make buildings and cars more energy efficient, partly through increasing use of natural gas. Expect further measures to promote financial stability.



## Asia Pacific

### Indonesia: Turning the corner?

GDP growth of +4.73% y/y in Q3 was broadly stable (+4.67% in Q2). However, a breakdown reveals that, while trade continued to disappoint (exports down -0.69% y/y), domestic demand was positive, led by strong acceleration in government spending (+6.56% y/y, from +2.28%), an increase in investment (+4.62%, +3.55%) and solid private consumption growth (stable at +4.96%). Short-term indicators point to a gradual improvement, although the trend remains fragile. Retail sales (+7.2% y/y, +5.8% in August) and tourism (foreign arrivals up +9.8% y/y) accelerated in September. Business and consumer surveys indicate moderate improvement in confidence in Q3. Fiscal policy is becoming more supportive, with the government unveiling a stimulus package (including tax breaks and a lower administrative burden). However, prudent monetary policy is still acting as a drag on GDP growth, which we forecast at +4.8% this year, markedly below the +5.7% government target.



## What to watch

- November 13 – Eurozone Q3 GDP (preliminary)
- November 13 – U.S. October PPI
- November 13 – U.S. October retail sales
- November 13 – UK September construction output
- November 13 – Eurozone October inflation (final)
- November 15 – Israel October CPI
- November 16 – Ghana interest rate decision
- November 16 – Israel Q3 GDP
- November 16 – Ukraine Q3 GDP (flash estimate)
- November 16 – Austria October CPI
- November 17 – U.S. October CPI
- November 17 – U.S. October industrial production
- November 17 – Hungary interest rate decision
- November 17 – Germany November ZEW survey
- November 17 – Russia October IP
- November 18 – South Africa October CPI
- November 18 – Eurozone September construction

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