

Weekly Macro & Markets View

Highlights and View

- **President Xi Jinping outlines his thoughts on China's 'new era' at 19th Communist Party Congress**

We believe that quality of growth will be the major economic focus of Xi's next few years, while China's role as a major global player will increase and challenge the 'America first' ideology.

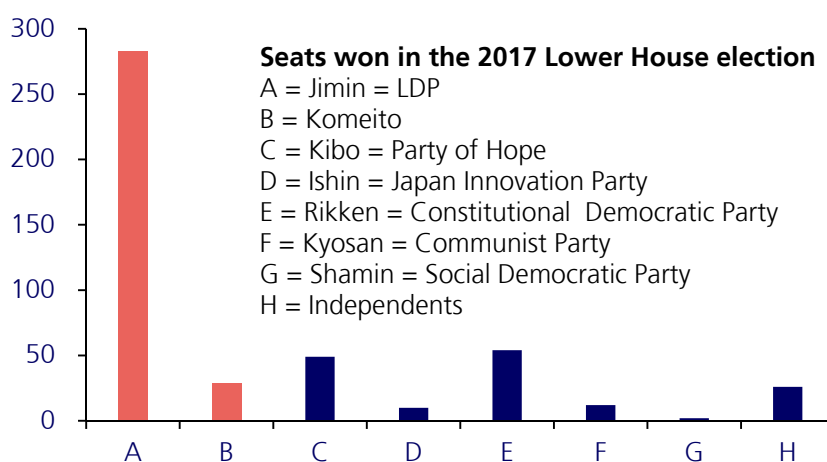
- **The Bank of Korea left monetary policy unchanged, but lifted its annual growth and inflation target**

The slightly more hawkish tone, plus the fact that one MPC member voted for a rate hike, makes a rate hike more likely next year, but policy will remain accommodative for now.

- **The Spanish government triggers the process to take control over the Catalan government**

Fresh regional elections look increasingly likely and the situation will remain tense, but the standoff is not expected to derail the Eurozone recovery.

The Nikkei 225 index is up a record 15 days in a row, as PM Abe's coalition defends its two-thirds majority in the Lower House



Source: NHK (Preliminary)

PM Abe's gamble to call Lower House snap elections paid off, with his LDP/Komeito coalition managing to defend its two-thirds 'super majority' of seats. Only three weeks ago there were concerns that the LDP would fail to win a majority, as Tokyo Governor Koike's Party of Hope saw a spike in public opinion polls. But the euphoria quickly turned on what was perceived as an arrogant attitude toward candidates wanting to join her party from the main opposition Democratic Party, which was dissolved. The Party of Hope eventually won in total five seats less than the Constitutional Democratic Party of Japan, a new party formed by previous left-wing DP members. We would like to point out, however, that support for Abe is less overwhelming than the election victory seems to suggest at a first glance. Indeed, the latest Nikkei poll showed that more respondents (47%) disapprove of the cabinet than approve (38%). We believe three facts had an impact. Firstly, the opposition parties failed to build a united front against Abe; secondly, the North Korean issue worked in Abe's favour, as he is perceived to be a more stable and reliable leader to tackle the North Korean threat; and finally, the typhoon that hit Japan on Sunday lowered voter turnout, which tends to favour the LDP. PM Abe now looks likely to become the longest serving PM, with his term set to end in 2021. Abenomics is here to stay, while constitutional reform will be another topic to be monitored closely.

China: The 19th Communist Party Congress paves the way for President Xi's 'New Era'

Interpreting the President's opening speech at China's Communist Party Congress, which takes place every five years, is a science of its own. One of the tools used to analyse the policy direction is counting how often certain key words are used and comparing the tally to speeches of previous presidents. President Xi's Political Report speech lasted more than three hours; was comprised of more than 30,000 words; and prominently featured key words such as 'law-based governance', 'political system', 'party leadership', 'new era' and 'green'. It is now being speculated that the

title of the 19th Congress, "New Era of Socialism with Chinese Characteristics", will be enshrined into the conventions of the Chinese Communist Party as "Xi Jinping Thought", which would lift Xi's words to the same level as the famous "Deng Xiaoping Theory". The target of building a 'moderately prosperous' society by 2020 was maintained, with a focus on the 'great renewal of the Chinese nation'. By 2050, a strong and wealthy China is envisaged as a grand goal. Xi earned special applause for stating that "Houses are for living in, not for speculation".

China: The shallow slowdown in growth is fully in line with expectations

Q3 GDP growth slowed marginally to 6.8% YoY, or about 7% on a sequential annualised basis, mainly impacted by the slowdown in July/August, which was partly weather related, partly policy driven. The shutdown of production facilities due to tighter pollution control measures had a visible impact in the ferrous and non-ferrous metal smelting industries, while growth remained brisk in the higher-value added industries like communication and electronic equipment, computers, autos and machinery. Fixed asset investment growth statistics are published in nominal

terms. On a real basis investment has shrunk on a YoY basis, which is a concern, but in line with the shift toward more consumption and service driven growth. Indeed, service sectors contributed to nearly 59% of GDP growth in Q3. A pickup in disposable income growth helped retail sales to rebound. We note a revival in home related items like furniture and renovation material due to strong home sales in lower tier cities. Looking forward, winter pollution controls will be a drag on growth in Q4. We are confident that our growth forecast of 6.8% for 2017 is on target.

US: Initial jobless claims fall to the lowest level since 1973

While it is still early, the earnings season has shown a somewhat mixed picture. With 88 S&P 500 firms having reported so far, the average earnings surprise is 1.8%, bringing the blended annual growth rate to 8.5%. While most firms beat expectations, a number of companies have been relatively cautious with regard to the outlook. Nevertheless, the S&P 500 ended another positive week. Investors' mood was lifted by renewed optimism on expected tax cuts as the Senate has passed a budget resolution as a first step towards the Republicans' tax reform plans.

However, working out the details of the tax plan will still face some headwinds. Housing data published last week was on the weak side, but this can partially be explained by the hurricanes' impact in September. The more recent NAHB homebuilder sentiment index rose to the highest level since May, indicating that the positive trend in housing continues. Initial jobless claims completely recovered from the weather-related pick-up and fell to 222'000, reaching a new multi-decade low.

UK: Inflation remains high, squeezing households' real income

Headline CPI inflation ticked up to an annual rate of 3% in September from 2.9% the month before, while the RPI remained at 3.9% YoY. As the BoE has recently put a lot of focus on inflation, the latest set of data are unlikely to dissuade it from its willingness to tighten monetary policy soon. Investors have now basically priced in a rate hike for the November meeting. However, when taking other data into consideration such a step looks less convincing. The pressure on households remains as real earnings keep falling – weekly earnings growth stayed at

2.2% YoY in August. The labour market looks solid at the surface, but it has shown some softness recently. While the unemployment rate remained at 4.3%, employment growth was weaker than expected with a three-month rolling average of 94'000, which is down from 181'000 the month before. The headwinds for households were also reflected in retail sales, which fell 0.7% in September, lowering the annual rate to 1.6% from 2.6% in August.

Credit: Credit lags equities, investors' focus turns to the ECB

Credit has lagged equities in the unrelenting 'risk on' environment recently, in which even the modest volatility that followed developments in Spain, was seen as a buying opportunity. Within credit, CDS underperformed cash. CDS indices are close to their post-crisis tight levels, which limits upside, while cash was supported by light issuance. The post-earnings supply from US banks has been weaker than expected, although JP Morgan and Goldman Sachs placed preferred paper, while Eurobank is likely to become the second Greek bank to

mark a return to the markets. Although events in Spain impacted some Spanish bank equities, credit markets were calmer. The Spanish Minister of Economy stated that banks that have shifted their base from Catalonia have received net inflows, despite reported deposit flight. We expect Spanish credit volatility to persist, but be contained and localised. This week, credit investors' focus will be on the ECB meeting, after which it is expected that the bank will announce a continuation of QE, albeit at a reduced pace during 2018.

What to Watch

- We expect the PMIs for the G3 economies to show continued solid growth in the global economy.
- Apart from the PMIs, our focus will be on Q3 GDP data for the US, the UK and Korea, US September new home sales, the German IFO Business Climate for October and inflation data in Japan.
- The ECB is anticipated to announce a reduction in the size of QE purchases at this week's monetary policy meeting.
- In Germany, 'Jamaica' coalition talks between the CDU/CSU, the liberal FDP and the Green Party begin.

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