International Personal Bank

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FX Market Headlines

United States

Euro Zone

United Kingdom

Japan

Australia

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United States: Fiscal Impasse Threatens Budding Confidence - The furloughing of non-essential federal employees is not a serious threat to economic growth but an extended shutdown might shave a half-percentage point off 4 Quarter growth that would be made up early next year, in Citi Analysts view. The bulk of the hit reflects lost work time, while indications that personnel will not lose pay limit the threat of negative spillovers. The 1995-96 shutdowns had only minor effects on the economy despite a backdrop of significant slowing in growth. That period also was buoyed by an easing Fed and highly accommodative financial conditions. The debt limit crisis of 2011 did weaken financial markets and confidence, but subsequent events suggest that only sustained deterioration in financial conditions would threaten serious economic harm. Incoming data on initial claims and ADP employment report do not warrant a change in expectations for an 180,000 rise in September employment. Falling claims may point to improving perceptions of job availability as the probability of filing has dropped from near 100% in recession to less than 65%. Citi Analysts provide evidence that the fall in claims may not be a sign of either diminishing layoff activity or stepped up increases in payroll gains.

EURO ZONE: Italy – Political and Banking Fragility: The fracture that emerged this week within Italy's The People of Freedom (PdL) party has probably taken the balance of power in the government away from Mr Berlusconi and has increased the chances of some better fiscal outcomes. But the government will remain fragile and unlikely to last until 2015, in Citi Analysts view. Political instability may not have a major impact on the economy in quiet times, but it could diminish Italy's and Europe's ability to take bold decisions if intense market stress resurfaces and external help is needed. The time for Italy to focus on internal political crises is probably over, as rating agencies want to see concrete policy actions. Moreover, the upcoming European Central Bank (ECB) Asset Quality Review and European Banking Authority (EBA) stress tests will probably find Italian banks in a much weaker position than in mid-2011. Addressing Italian banks' fast deteriorating asset quality and the ever-stronger sovereign-bank nexus will be major hurdles for policymakers in coming months.

United Kingdom: Fiscal Red Ink Receding - The last few years have seen repeated fiscal disappointments, with the Office for budget Responsibility (OBR) time after time revising up the outlook for the fiscal deficit and public debts. Now, however, fiscal trends seem to be improving and further improvements probably lie ahead. Last year's deficit has been revised down by £5.2bn since the Budget (continuing the bias to favourable deficit revisions) and recent data point to an undershoot of perhaps £10bn or so in this year's deficit. Next year's fiscal deficit is set to fall further (ie at least £10bn) below the OBR's forecasts as the strong economic recovery boosts revenues, and prior experience has shown that cyclical effects on the fiscal deficit can be very powerful. The recent party conference speeches suggest that the government will react to the improving fiscal trends by slightly reducing near-term austerity, thereby adding upside to 2014-15 growth forecasts while leaving a modest fiscal tightening intact. Such an outcome would still allow the deficit to fall faster than the OBR's 2013 Budget forecasts. The government is likely to accompany this with the commitment to aim for a fiscal surplus by the end of the decade, although this target would not require any extra fiscal consolidation for the next few years.

JAPAN: Corporate sector has yet to break the mould: Business investment plans remain within the norm of the past couple years — While the Bank of Japan (BoJ)'s Tankan Corporate survey this week revealed a continued improvement in business confidence and a profit outlook, business investment plans for fiscal 2013 remained within the norm of the past couple of years. The corporate sector has yet to break out of its long-standing mould. The consumption tax hike could have a large impact on smaller firms — Even now, business conditions at smaller firms are quite different from those at large firms. According to the Tankan, recurring profit at medium-sized firms and small firms are projected to decline 0.1% and edge up just 1.7% in FY2013, respectively. It is probably unwise to extrapolate what are happening at large manufacturers to the rest of the corporate sector. Moreover, the consumption tax hike next spring is likely to have a significant negative impact on smaller non manufacturers. Prime Minister (PM) Abe announced a final decision to go ahead with the consumption tax hike — PM Abe officially announced that he will implement the consumption tax hike next April and at the same time showed his intention to introduce a new economic package amounting to ¥5trn or so in early December to mitigate the negative impact of the consumption tax hike. In Citi Analysts view, however, there is a serious mismatch between the negative impact of the consumption tax hike and policy effects from the measures included in the package.

AUSTRALIA: Safe as houses: 5 important signposts for the housing sector - The second most discussed topic among Australian market participants (after the issue of the US government shutdown) this week has been the performance of the Australian housing market. Citi Analysts look at five important signposts. These are the house price to income ratio, credit growth, mortgage serviceability, loan practices and demand vs. supply. Citi Analysts find little to be alarmed about in the Australian housing market. Market participants should expect to see further house price growth in Australia, but in Citi Analysts opinion as long as capital city average house price growth remains below double digits for any length of time, Citi Analysts do not expect problems to arise that would require a policy response.

The Week Ahead

USD:

Oct 8, Cleveland Fed President Pianalto to speak on the economy and monetary policy at the Economic Club of Pittsburgh.
Oct 8, Philadelphia Fed President Plosser to speak on the economic outlook and monetary policy in Johnstown.
Oct 9, Chicago Fed President Evans to speak on "Unconventional Monetary Policies and their Cross-Country Spillovers."
Oct 10, Fed Governor Tarullo to speak on regulatory reform in Washington.
Oct 10, San Francisco Fed President Williams to speak on the economy to Boise Business and Community Leaders' Luncheon.
Oct 11, Fed Governor Powell to speak on monetary policy at the Institute of International Finance Annual Membership meeting.

Oct 8, August International Trade Balance (Billions of Dollars): Citi -40.0, July -39.1, June -34.5, May -43.7, April -39.5, March -36.8 - *The trade deficit probably widened slightly in August, but remained in the same general range. The trade deficit has been narrowing gradually for the past year and a half, but most of that improvement was in petroleum. Citi Analysts do not think there was further improvement in that sector in August.* ***Note:*** *Petroleum prices likely jumped in the month, reflecting a catch-up for prior gains in crude prices. Normally, that would boost the dollar value of imports. But the rise in price was neutralized by an adverse swing in the seasonal factor and a drop in the volume of oil imports.*

Oct 11, September Producer Price Index (Percent Change): Total – Citi 0.1 %. August 0.3 %, July 0.0 %, June 0.8 %; Ex. Food & Energy – Citi 0.1, August 0.0, July 0.1, June 0.2 - *There has been little in the way of price pressures at the producer level throughout this recovery, but the weakness seems to have become more pronounced in the past year. And Citi Analysts expect more of the same in the September reading.* ***Note:*** *Core PPI has been extremely tame lately. In the past year, the index increased by just 1.2%, or 0.1% per month on average. In that time, there was a similar mild increase in core intermediate supply prices and an outright decline of 4.6% in core crude goods prices.*

Oct 11, September Retail Sales (Percent Change): Total – Citi -0.2 %, August 0.2 %, July 0.4 %, June 0.7 %; Ex Autos – Citi 0.3, August 0.1, July 0.6, June 0.2 - *Retail sales likely were dampened by a sharp drop in motor vehicle sales and a decline in gasoline prices. Together, these two sectors subtracted about a half point from headline retail sales. Otherwise, Citi Analysts expect that retail sales continued to rise at a healthy pace. Citi Analysts estimate would mean that core retail sales increased at nearly a 4% pace in the third quarter.* ***Note:*** *Automakers have indicated that the 5% decline in unit vehicle sales reflected a timing issue as some sales during the Labour Day weekend were counted toward the August tally rather than September's. So any pullback in discretionary consumer spending as a result of the drop in vehicles is likely to be short-lived.*

Oct 11, October Reuters/Michigan Sentiment Index (Prelim): Citi 77.0, September 77.5, August 82.1, July 85.1, June 84.1 - *Consumer sentiment in early October will likely show little impact from the Federal shutdown. Past shutdowns have been largely undetectable in the Michigan survey.* ***Note:*** *The Michigan sentiment index is one of only a few privately produced pieces of economic data out next week. As such, if the shutdown persists and Federally collected data are not available the Michigan survey could be the focus of more attention than usual.*

Oct 11, September Employment Situation (Thousands Unless Indicated): Total Employment – Citi 180, August 169, July 104, June 172; Unemployment Rate (Percent) – Citi 7.3, August 7.3, July 7.4, June 7.6 - *Citi Analysts are looking for a modest rise in payrolls in September. Citi Analysts have witnessed signs of improved fundamentals across a wide array of labour market indicators, including initial claims, private employment gauges, and consumer and business surveys. Normally the drop in claims (away from the distortions in California and Nevada due to computer issues), reinforced by better survey data, would elicit a higher forecast. However, Citi Analysts have long noted that September payrolls generally are soft on the first print, or more specifically they rarely post big gains. September payroll figures typically come in low and get revised up.* ***Note:*** *The unemployment rate probably remained at 7.3% after two* *consecutive declines. But the trend is clearly downward. For the past three years, the rate has fallen steadily at a rate of 0.2 percentage point per quarter and there doesn't seem to be any let-up in sight.*

CAD:

Oct 11, Labor Force Survey Employment: Net Change in Employment (Sep): Citi Forecast 20.0K, Median 13.5K, Last 59.2K; Unemployment Rate – Citi 7.1%, Median 7.1%, Last 7.1% - *Employment likely rose by 20,000 in September after two months of wild swing – first downward and then upward. The September gain probably reflected in part the return of educational services workers with the start of the academic year. Despite the forecast rise in monthly employment, the year-to-year rate probably slowed a tad to 1.3% y/y from 1.4%, which would be consistent with past movements in the forward looking business services employment measure. Moreover, the unemployment rate likely remained elevated at 7.1%, while the participation rate at 66.6% hovered near cyclical lows. On balance, the general tone of the report probably will continue to point to a material degree of slack in the Canadian economy. A moderate pace of GDP growth in the first half of the year and the most recent update of the Manpower employment survey suggest further deceleration in employment additions ahead.*

AUD:

10 Oct, Labour Force, Sep Employment Forecast: 12k, Previous: -10.8k; Unemployment Rate Forecast: 5.9%, Previous: 5.8% - *Citi Analysts doubt that employment fell for a third consecutive month in September, particularly when most of the Australian Electoral Commission's temporary hiring for the September 7 federal election occurred during the reference week of the September Labour Force survey. This presents some upside risk to Citi Analysts 12k employment forecast, although Citi Analysts aren't overly bullish this risk because previous elections have only corresponded with small positive monthly employment gains on average. Despite the forecast rise in employment Citi Analysts expect the unemployment rate to increase from 5.8% to 5.9% (5.85% to two decimal places). Strong working age population growth should lift the labour force numbers by more, although the participation rate should remain at 65.0%. Citi Analysts small upside employment risk poses the chance that the unemployment rate remains at 5.8%.*

EUR:

Oct 7, Euro area Sentix Investor Confidence, Oct Forecast: 3.0 Prior: 6.5 - *Citi Analysts look for a modest fall in the headline measure in October for the first time in three months. The expectations measure is expected to weaken a little for the first time in six months, reflecting some slowdown in the recovery sentiment which has been the hallmark of the euro area lately. Hard data disappointed somewhat at the start of the third quarter, suggesting that significant euro area structural headwinds remain.*

GBP:

Oct 9, Industrial Production (Aug) Forecast: 0.5% MoM, -0.6% YoY Prior: 0.0% MoM, -1.6% YoY; Manufacturing Output (Aug) Forecast: 0.2% MoM, 0.8% YoY Prior: +0.2% MoM, -0.7% YoY - *Base effects from the 2012 Olympics (which saw industrial production fall 1.3% MoM in Aug-2012) probably will lift the YoY rate further, and Citi Analysts expect the first positive reading for YoY manufacturing output since mid-2011. A figure in line with Citi Analysts forecast would put the level of IP 1.2% above the Q2 level, hence implying a solid gain in Q3 GDP.*

Oct 9, Trade Balance – Goods & Services (Aug) Forecast: £-1.8 billion Prior: £-3.1 billion - *The deficit on goods and services trade jumped to £3.1bn in July from £1.3bn in June, reflecting a sharp drop in exports (down 4.6% MoM). For the August data, Citi Analysts expect exports to rebound sharply, hence bringing the trade deficit sharply lower again.*

JPY:

Oct. 8, Balance of Payments, Current Account (Aug) Forecast: ¥234.3bn NSA; ¥345.5bn SA, Previous: ¥577.3bn NSA; ¥333.7bn SA - *Citi Analysts expect the seasonally-adjusted current account surplus to stand at \345.5bn in August, roughly unchanged from +¥333.7bn in July, along with a ¥234.3bn surplus before adjustment. The customs-clearance data indicated that the trade balance continued to generate a large deficit (sa) of -¥791.4bn in August after a ¥911.1bn gap in July. Given a prolonged slow economic recovery overseas, in particular in emerging nations, as well as elevated crude oil prices, Citi Analysts expect the trade gap to widen considerably in the third quarter on a QoQ basis. If Citi Analysts forecast is on the mark, the current account surplus in the July/August period would stand at ¥4.1trn annualized, decreasing by half from ¥8.5trn annualized in the second quarter. That said, Citi Analysts do not expect the current account surplus to fall below the first quarter's level (¥3.1trn annualized), because Citi Analysts believe the cumulative positive effects of yen depreciation has likely put some brake on deterioration in the trade balance. Citi Analysts think the current account has already started to increase gradually after having bottomed in the first quarter of this year.*

Oct. 10, Machinery Orders, Private Excl. Ships and Elec. Power (Aug) Forecast: 5.9% MoM; 13.2% YoY, Previous: 0.0% MoM; 6.5% YoY - *Private machinery orders excluding ships and power plants (private core orders) likely increased 5.9% MoM in August (+13.2% YoY). Partly as a reaction to back-to-back declines in June and July, Citi Analysts expect a relatively large increase in August. According to the Japan Machine Tool Builders' Association, domestic machine tool orders increased 9.3% MoM (Citi Analysts seasonally-adjusted figure) in August, for a second consecutive monthly gain. The Japan Machine Tool Builders' Association (JMTBA) cited orders are rising mainly from major automakers. Similarly, Citi Analysts expect meaningful order growth from major machinery makers including transport equipment and general machinery producers. If Citi Analysts are on the mark, private core orders would increase 4.4% in July/August from the second quarter average, clearly overshooting the Cabinet Office's projection of a 5.3% QoQ fall in the third quarter. Citi Analysts believe the August data will indicated a continued moderate recovery of private core orders following a bottom in the first quarter.*