

Good Morning Asia

Rabobank International

Financial Markets Research
Economics

Jan.Lambregts@rabobank.com
+852 - 2103 2667

www.rabobank.com

Overnight

Markets

	Last	Previous	% Change
DJIA	13619.9	13445.0	1.30
NASDAQ	2709.0	2666.4	1.60
FTSE 100	6485.6	6493.8	-0.13
Nikkei 225	15874.1	15608.9	1.70
Dated Brent	90.09	88.78	1.48
US10 Yr Yield	4.01	3.96	
USD 6m LIBOR	4.90	4.90	

Source: Bloomberg

Data

Cty	Event		Expected	Actual	Prior
JN	Net Stocks Investment	(NOV30)	--	¥134.5B	-¥372.8B
JN	Net Bonds Investment	(NOV30)	--	-¥105.7B	¥88.7Br
JN	Leading Economic Index	(OCTP)	20.0%	20.0%	0.0%
JN	Coincident Index	(OCTP)	66.7%	66.7%	54.5%r
JN	Machine Tool Orders (YoY)	(NOVP)	--	13.0%	16.6%
GE	Factory Orders (sa, MoM)	(OCT)	0.9%	4.0%	-1.6%r
GE	Factory Orders (nsa, YoY)	(OCT)	6.2%	14.0%	1.9%r
UK	Industrial Production (MoM)	(OCT)	0.2%	0.4%	-0.4%
UK	Industrial Production (YoY)	(OCT)	0.7%	1.0%	-0.4%r
UK	Mfg Production (MoM)	(OCT)	0.2%	0.3%	-0.6%
UK	Mfg Production (YoY)	(OCT)	0.4%	0.3%	-0.2%r
EC	OECD Economic Outlook	(DEC)			
UK	BoE Rate Decision	(DEC6)	5.75%	5.50%	5.75%
EC	ECB Rate Decision	(DEC 6)	4.00%	4.00%	4.00%
US	Initial Jobless Claims	(DEC1)	335K	338K	353Kr
US	Continuing Claims	(NOV24)	2620K	2599K	2658Kr
US	Mortgage Delinquencies	(3Q)	--	5.6%	5.1%
US	ICSC Chain Store Sales (YoY)	(NOV)	2.4%	3.5%	1.6%

Source: Bloomberg

USA:

The BoE obliged following a slew of weaker UK data, but only cut rates 25bps. The ECB didn't relent to a deteriorating economic outlook, instead reiterating its commitment as an inflation fighter and keeping rates firmly on hold. The Fed's most likely to decide on a compromise 25bps cut at the December 11 FOMC meeting. We can only hope it will be accompanied by a different risk assessment, i.e. a bias towards the downside risks to growth rather than the upside risks to inflation, or at the very least an acknowledgement of all the uncertainties out there and a promise the Fed's keeping a close eye on them and stands ready to act if needed. It's not so much a question of whether the Fed will ease monetary policy if the financial crisis persists. We know they will, they always have in the past. It's more about whether the Fed will do so in a timely fashion, for that in part determines how painful the road's going to be. Some think the road should be painful to teach all wrong-doers a lesson and pay tribute to the shrine of moral hazard avoidance. A couple of months ago we dubbed this the "By Fire Be Purged" approach. We'd prefer a practical and timely approach instead in which the sins of a few don't translate into a drag on the economy as a whole. We can always worry about punishing the sinners separately at a later stage.

Weekly jobless claims pulled back 15K to 338K in the week up until November 24. Prior week's jump was mainly related to seasonal factors due to an early Thanksgiving holiday. The four-week moving average rose 4K to 340K. The seasonal distortion aside, weekly jobless claims have been trending higher over the past month, which doesn't bode well for non-farm payrolls. The latest

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market median forecast for November non-farm payrolls stands at a mediocre 80K. Expectations have risen since the sharp gains in the ADP employment report, but it remains to be seen whether that will be a good guide for payrolls today. The employment sub indices in both the manufacturing and services PMIs were weak. All in all a mediocre reading of 80K seems about right. Also keep an eye on the University of Michigan's gauge of consumer confidence. Weekly consumer confidence series have kept sliding in the past couple of weeks and the bottom for consumer sentiment doesn't appear in sight.

Eurozone: ECB officials know their mandate very well: inflation fighters first, everything else second. The ECB therefore didn't follow the MPC or BoC and instead kept the refi rate unchanged at 4.0%. Moreover ECB President Trichet delivered a pretty hawkish press conference, in particular when considering the persistent turmoil in financial markets. He pointed out recent data had confirmed the central bank's earlier assessment that the risks to price stability are on the upside and the Governing Council plans to continue to monitor these risks very closely. Elevated crude oil, commodity and food prices are all a concern and on top of that we may see second-round effects as labor demands higher wages and has more leverage this time around due to tightening labor markets across Europe. Moreover money supply and credit growth remain high. After some prompting and prodding, Mr. Trichet even acknowledged all of these factors taken together had made some ECB officials consider a rate hike.

Wow. Scary stuff at first sight. But this dog's bark remains worse than its bite. The key message is that the ECB's not ready to cut rates at this stage. Looking at the ECB staff forecasts the 2008 inflation figure was raised to 2.5%, but expected to ease back to 1.8% by 2009. In other words the ECB may sound worried, but on a medium-term horizon they still expect current monetary policy to be sufficient to achieve their price target of close to but below 2%. The 2008 GDP forecast was moderately revised down to 2.0% from 2.3%.

Japan: Japan's 3Q GDP figures were surprisingly revised down to 0.4% quarter-on-quarter from a first estimate of 0.6%. A quick first look at the revised data shows a lower contribution from business investment spending, incorporating the results of a recent government report on capex, while inventories were run down further. Construction spending remained a substantial drag on 3Q GDP and we don't expect a real turn-around until 1H08.

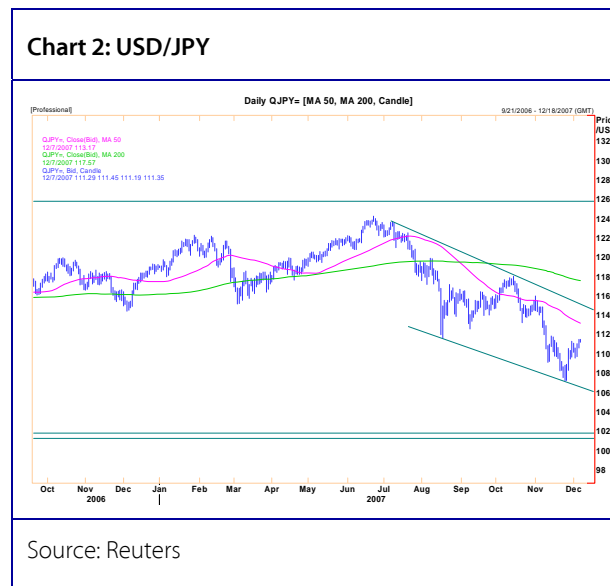
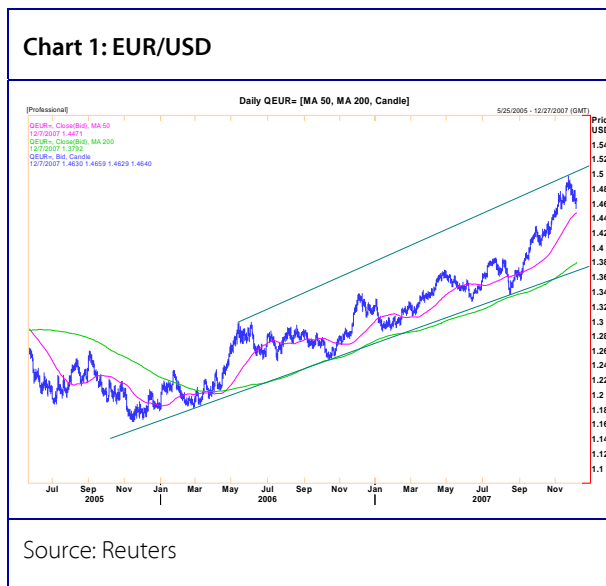
These revised figures are an unwelcome development for the BoJ, even as the 3Q is increasingly ancient history. The prospects for next year are however not nearly as gloomy as some analysts would like to make us believe. The BoJ's unlikely to change its medium-term forecasts of GDP growth that will come in close to trend growth (1.5-2.0%). At the same time these revised figures add to the case for a rate hike no sooner than the middle of 2008, rather than just before Mr. Fukui steps down in March. We'd still look for a total of 50bps of tightening next year, to bring the overnight call rate to 1.00% by year-end 2008.

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Asian data for release today

GMT	Cty	Data	For	F/cast	Prior
22:30	AU	Perf. of Construction Index	(NOV)	53.2a	57.4
23:50	JN	GDP (QoQ)	(3Q F)	0.4%a	0.6%
23:50	JN	GDP Annualized	(3Q F)	1.5%a	2.6%
23:50	JN	Nominal GDP (QoQ)	(3Q F)	0.2%a	0.3%
23:50	JN	GDP Deflator (YoY)	(3Q F)	-0.4%a	-0.3%
23:50	JN	Official Reserve Assets	(NOV)	\$970.2Ba	\$954.5B
1:00	SK	BoK Rate Decision	(DEC)	5.00%a	5.00%
4:01	MA	Industrial Production (YoY)	(OCT)	5.0%	2.9%
5:30	AU	Foreign Reserves	(NOV)	--	A\$36.0B
	PH	Foreign Reserves	(NOVP)	--	\$32.5B
7:30	TH	Foreign Reserves	(NOV30)	--	84.6
	PH	M3 Money Supply (YoY)	(OCT)	--	11.4%
8:00	TA	Trade Balance (US\$ bn)	(NOV)	--	\$3.49B
9:00	SI	Foreign Reserves	(NOV)	--	\$158.17B
9:00	MA	Foreign Reserves	(NOV30)	--	\$101.17B
9:00	HK	Foreign Currency Reserves	(NOV)	--	\$142.2B

Source: Bloomberg, Reuters



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