



# Review of global markets

## Week ending Friday 13 December 2013

### UK production output rises solidly over year to October

The Office for National Statistics (ONS) said that production output in the UK rose (in seasonally adjusted terms) by 3.2% from October 2012 to October 2013. In manufacturing, the largest component of production, the increase was 2.7%. 'The largest upward contribution [over the year] was, once again, from the manufacture of transport equipment, which rose by 16.8%. The majority of this strength came from the manufacture of motor vehicles, trailers & semi-trailers.' Manufacturing output increased by 0.4% in October itself.

The ONS noted separately that the UK achieved a (seasonally adjusted) deficit on trade in goods and services of £2.6bn in October. An estimated deficit of £9.7bn on goods was partly offset by a surplus on services of £7.1bn. The overall trade deficit on goods with the rest of the European Union (EU) rose to a record high of £6.5bn.

### US wholesale sales and inventories rise in October

The US Census Bureau said that wholesale sales in October were US\$435.3mn (seasonally adjusted). This represented a 1.0% rise relative to September and a 6.4% increase relative to October 2012. In October, 'sales of machinery, equipment and supplies were up 3.8% from last month, while sales of motor vehicle and motor vehicle parts and supplies were down 4.5%.' Wholesale inventories at the end of October amounted to US\$514.1mn (seasonally adjusted), up 1.4% relative to September and up 3.3% relative to the same month of 2012.

The National Federation of Independent Business (NFIB) reported that its Small Business Optimism Index rose by 0.9 points to 92.5 in November. Optimists outnumbered pessimists in relation to six of the 10 components of the index. However, net results (i.e. the number of optimists less the number of pessimists) improved in all but two components. In comparison with October, survey respondents have become less positive about the prospects for the economy and earnings trends. Nevertheless, a net 9% of survey respondents think that now is a good time to expand.

### EU achieves current account surplus of €35.6bn in July – September period

Eurostat said that, according to its initial estimate, the European Union (EU) as a whole achieved a combined current account surplus of €35.6bn (or 0.9% of GDP) in the July – September period of 2013. In the same period in 2012, the corresponding figures had been €30.3bn and

1.1% of GDP. The 17 euro area countries are estimated to have achieved a combined current account surplus of €52.6bn, or 2.2% of GDP.

Eurostat separately said that industrial production in the euro area fell by 1.1% in the euro area in October. Industrial production slipped by 0.7% across the EU as a whole. Relative to October 2012, industrial production rose by 0.2% in the euro area and by 0.8% in the EU.

### Japan's Cabinet approves ¥5.5tn supplementary budget

Japan's cabinet approved a new ¥5.5tn (US\$34bn) supplementary budget. The supplementary budget intends to counter the impact on consumption spending of the three percentage point rise in Japan's sales tax (to 8%) which will take place in April next year. The supplementary budget hopes to create at least 250,000 jobs and to promote construction expenditure. It includes ¥600bn in payments to home buyers and one-off payments to low and middle-income families with children.

The Cabinet Office reported that private-sector machinery orders, excluding volatile orders for ships and from power utilities, rose by 0.6% (seasonally adjusted) in October. Excluding volatile orders, demand from non-manufacturers rose by 11.5%. Meanwhile, the Ministry of Economy Trade and Industry (METI) noted that its Tertiary Industry Activity index, a measure of the output of Japan's broadly-defined services sector, slipped by 0.7% to 99.6 in October. Financial services, real estate/renting and hotels/restaurants were the three largest contributors to the fall. Output rose in the utilities, medical/healthcare and transport/postal sectors.

The Bank of Japan said that, according to its preliminary estimates, the domestic Corporate Goods Price Index increased by 0.1% in November. This means that the index has been rising for each month since November 2012 with one exception (October 2013). The index is up 2.7% year-on-year.

### Emerging market news

Ratings agency Fitch upgraded its rating for Colombia from BBB-, the lowest investment grade rating, to BBB. Fitch noted that general government debt amounts to 37.1% of GDP, and should fall over time. In spite of weaker growth in GDP, the government has managed to avoid an increase in the size of its debt. Fitch is confident that reform measures such as the fiscal sustainability law should reduce risk further. Fitch expects that the current account deficit, which

should exceed 3% of GDP over the next two years, will be covered by inwards net foreign direct investment (FDI).

Banco de México (Banxico - the country's central bank) kept its key policy rate unchanged at 3.50%. Banxico noted that the economy returned to growth in July - September 2013, thanks mainly to growth in exports. Elements of domestic demand were mixed. Banxico also observed that underlying inflation remains at historically low levels of about 2.5%. Bank of Korea kept its key rate unaltered at 2.50%, observing that 'domestic demand and exports have both increased.'

The Central Bank of Sri Lanka (CBSL) also kept policy settings unchanged: its key rate remains at 6.50%. CBSL remarked that, at US\$1,041mn, export revenues in October were up 35.1% year-on-year and were at a record high level for one month. 'Meanwhile, the Sri Lankan rupee [has] continued to remain stable against the US dollar ... as a result of improving external trade activity, increased workers' remittances and tourist earnings, increased flows to the financial sector and strengthened market expectations.' Indonesia's central bank kept its key rate unchanged at 7.50%, as it seeks to tame inflation and the current account deficit.

#### Company news

UK-based multi-national life insurance group Prudentialplc announced three new strategic objectives. The company is looking to lift the underlying surplus of its Asian insurance and asset management businesses from £484m in 2012 to £900-1,100m in 2017. It seeks to achieve compound annual growth in pre-tax operating profits of at least 15%.

Prudential plc wants to generate cash of £10bn from all group businesses from 2014 to the end of 2017. Chief Executive TidjaneThiam noted that, beyond 2017, Prudentialplc will look for opportunities from countries that share the characteristics of the Asian markets where the company is already established: fast-growing GDP, a young population and low insurance penetration. 'Over the last two years, we have invested in four new markets - Cambodia, Myanmar, Poland and most recently Ghana - and are exploring a fifth in Saudi Arabia.'

Spanish banking firm Santander reached an agreement with HSBC to buy the latter's 8% stake in China's Bank of Shanghai. The estimated cost of the purchase is €470m. Bank of Shanghai is the second largest urban commercial and retail bank in China, with 8m personal banking customers and nearly 200,000 corporate customers. It is the only urban Chinese bank with a presence in the recently established Shanghai Free Trade Zone. Total assets amounted to €98bn at the end of 2012. In May this year, Santander received permission to buy 20% of the consumer finance subsidiary of Bank of Beijing. At about the same time, Santander's car finance joint venture with Anhui JIANGHUAI Automobile Co.(JAC) started operations.

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