Week Ahead Economic Preview

- **Worldwide manufacturing and services PMIs**
- **US jobs report, including non-farm payrolls**
- **Monetary policy meetings in Australia and India, plus Powell testimony**

Worldwide PMI surveys will provide fresh updates to global manufacturing and service sector business conditions, highlighting national and sector divergences in economic performance amid rising COVID-19 infections. The US will be in particular focus, with Fed Chair Powell's testimony before Congress on Wednesday and the monthly employment report on Friday. OPEC leaders also meet to decide on quotas in 2021 amid a climate of rising tensions and speculation as to whether current supply cuts will be rolled over.

So far, the flash PMI data for November showed the US recovery picking up as growth accelerated in both manufacturing and services. If confirmed by the final data from IHS Markit and ISM, the upbeat surveys will bode well for another robust labour market improvement. However, the consensus at the time of writing is for another 600k jobs to be added with the unemployment rate slipping from 6.9% to 6.8%. While that would be the lowest rate since March, it would represent the smallest improvement since April's 14.7% peak, and could stoke further concerns among policymakers that the economic upturn is losing momentum (page 3).

In contrast to the US, the European PMI data, have fallen sharply amid new lockdowns to fight off second waves of COVID-19 infections. The flash eurozone and UK PMIs both slid back into contraction in November to signal an increased risk of double-dip downturns. More colour will be added from the final PMI releases, as well as more detail on country performance and sector trends. Analysts will be especially keen to see if cyclical sectors such as autos continue to perform well, offsetting weakness in consumer facing services. In the UK, progress towards Brexit trade deal with the EU will also keep markets on edge (page 4).

In Asia, China PMIs from NBS and Caixin/IHS Markit will be eagerly awaited to assess the resilience of the recovery, though manufacturing PMIs from economies across the APAC region will provide key insights into whether raising global trade flows are helping to broaden out the recovery. Monetary policy action meanwhile comes from Australia and India, both of which are seeing signs of economic recoveries gain momentum (page 5).

Special Reports

Australia-China Trade Frictions: Recent developments have led to concerns about the economic implications to the Australian economy from a protracted disruption of Australian exports to China (page 6)

Upcoming PMI releases

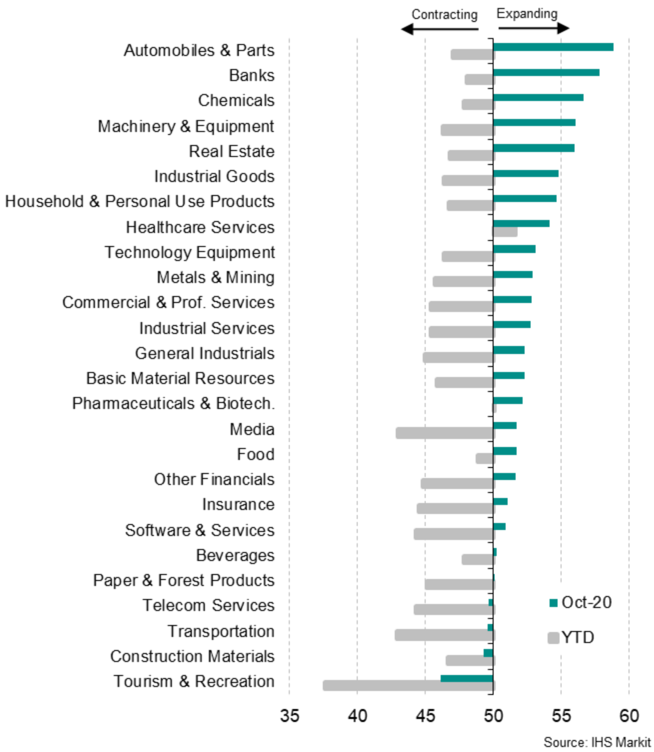
1st December: Final Global Manufacturing PMIs

3rd December: Final Global Services PMIs

4th December: Detailed Global Sector PMIs

Global PMI updates for November are due…

In addition to highlighting any regional divergences as countries strive to combat rising waves of COVID-19 infections, the PMI surveys will provide valuable insights into which sectors are being the most affected by lockdown measures, and where pockets of resilience persist. In October, the auto manufacturing sector led the global upturn for a second successive month, whereas tourism and recreation remained the fastest-contracting sector.



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Economic Preview: Week of 30 November 2020

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Key diary events (UTC)

Monday 30 November

Australia business confidence (Final, Nov), business inventories (Q3), private sector credit (Oct)
China NBS PMI (Nov)
Malaysia exports, imports, trade balance (Oct)
Thailand private consumption, investment (Oct)
Spain, Italy and Germany inflation (Prelim, Nov)
UK mortgage lending and approval (Oct)
India GDP (Q2, FY2020-21)
US Chicago PMI, Dallas Fed manufacturing index (Nov)
US pending home sales (Oct)
South Korea GDP (Final, Q3) 23:00 UTC
Japan jobless rate (Oct), capital spending (Q3) 23:30 UTC

Tuesday 1 December

Worldwide release of IHS Markit manufacturing PMI (Nov)
Caixin/IHS Markit China manufacturing PMI (Nov)
au Jibun Bank/IHS Markit Japan manufacturing PMI (Final, Nov)
South Korea exports, imports, trade balance (Nov)
Australia building permits (Prelim, Oct)
RBA monetary policy meeting
Indonesia inflation (Nov)
Hong Kong SAR retail sales (Oct)
Germany unemployment rate and change (Nov)
Italy GDP (Final, Q3) and Canada GDP (Q3)
Euro area inflation (Flash, Nov)
US ISM manufacturing PMI (Nov)
South Korea inflation (Nov) 23:00 UTC
12th OPEC and non-OPEC Ministerial Meeting

Wednesday 2 December

US Fed Chair Powell's testimony for House of Rep
Australia GDP (Q3)
Japan consumer confidence (Nov)
Germany retail sales (Oct)
Spain unemployment change (Nov), tourist arrivals (Oct)
BoE FPC meeting
Euro area jobless rate (Oct)
Brazil industrial output (Oct)
US ADP job report (Nov), Fed Beige Book
IHS Markit Australia services PMI (Final, Nov) 22:00 UTC
Euro area ECB non-monetary policy meeting

Thursday 3 December

Worldwide release of IHS Markit services PMI (Nov)
Caixin/IHS Markit China services PMI (Nov)
au Jibun Bank Japan services PMI (Final, Nov)
Singapore and Hong Kong SAR PMI (Nov)
Brazil GDP (Q3)
US jobless claims (28-Nov)

Friday 4 December

IHS Markit Sector PMI for Asia, Europe, Global (Nov)
Australia retail sales (Final, Oct)
Philippines and Thailand inflation (Nov)
India monetary policy decision
IHS Markit Construction PMI for Eurozone, Germany, France, Italy and UK (Nov)
US nonfarm payrolls, jobless rate, earnings (Nov)
US exports, imports, trade balance, factory orders (Oct)

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United States Week Ahead

Non-farm payrolls, unemployment and the PMIs

By Siân Jones

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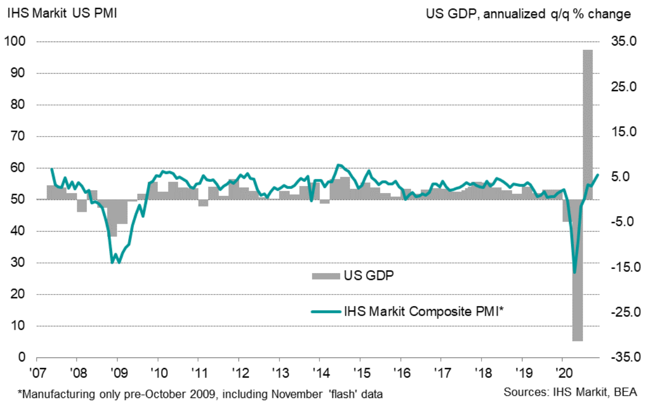
The week's packed schedule includes an in-depth look at the labour market and PMI data to add colour to the picture for November provided by the earlier released 'flash' estimate and regional surveys. Fed Chair Powell's testimony before Congress will also be closely monitored, as will FOMC member Williams' speech, after minutes from the last policy meeting showed concerns over the pace of economic growth and the potential appetite to tweak policy via asset purchases to add support.

Marked uptick in business activity during November, according to latest 'flash' PMI estimate

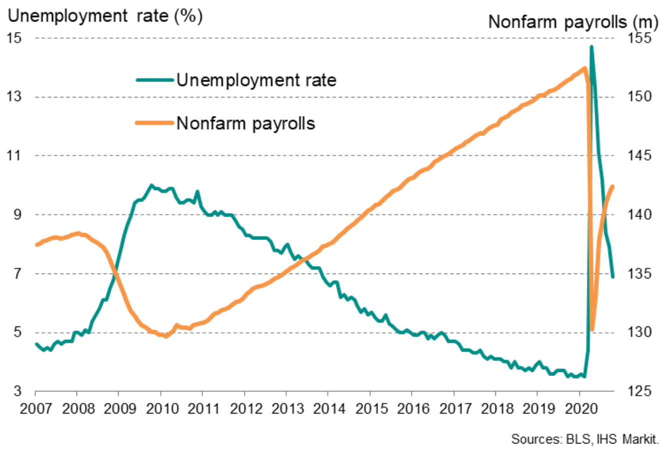


Final PMIs

PMI data from IHS Markit and the ISM are published for both manufacturing and non-manufacturing/services. November 'flash' data highlighted a notable acceleration in both sectors. Stronger client demand was reflected in greater business optimism, as output expectations for the year ahead were reportedly boosted by vaccine announcements and reduced uncertainty following the elections.

Nonetheless, a key theme emerging through the 'flash' estimate was that of supply chain disruptions, the most extensive on record, and sharp hikes in supplier prices. Although demand conditions were such that firms could pass on some costs, preliminary data indicated that the rate of cost inflation across the private sector was the fastest since data collection began in October 2009.

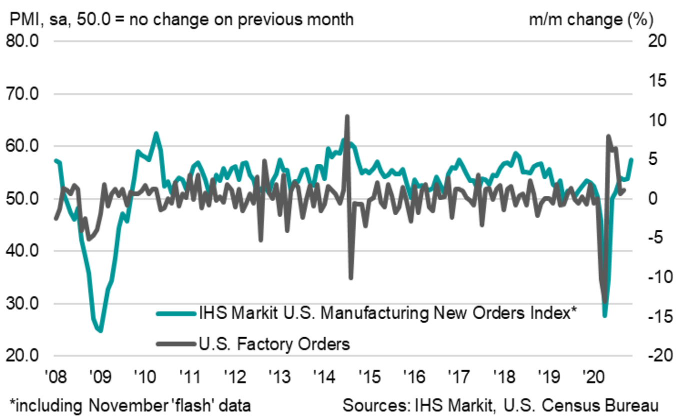
Unemployment looks set to fall further and non-farm payrolls to rise by around 600k, but the labour market recovery has shown signs of slowing



Employment report

Updates to non-farm payrolls, wage growth and the rate of unemployment will dominate the markets at the close of the week. Despite overshooting estimates, non-farm payrolls increased in October at the slowest pace in the recovery from the initial COVID-19 job market slump as the pandemic continued to restrain hiring in certain sectors. Worryingly, the latest indications from jobless claims data signalled a rise in initial claims for a second week. The consensus is for non-farm payrolls to rise by around 600k, which would be strong by historical standards but represents only a modest recovery when looked at in the context of the fall seen at the height of the pandemic, and would leave employment still around 9.5m lower than the pre-pandemic peak.

Factory orders are set to rise amid a sharp expansion in manufacturing new orders through the fourth quarter so far



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Europe Week Ahead

National PMIs, eurozone unemployment, inflation and retail sales

By Paul Smith

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Following on from Monday's flash PMI data for Europe, the forthcoming week provides us with the national breakdowns for the November PMIs. There are also some timely updates on unemployment, prices and retail sales developments in the eurozone. Mortgage and credit data in the UK are also released.

PMIs, unemployment and retail sales

November's flash UK and Eurozone PMIs showed a noticeable loss of momentum in the face of widespread virus-related restrictions on activity, characterised by a sharp deterioration in services. That contrasted with ongoing expansion in manufacturing – especially Germany – to again suggest the region's industrial base continues to perform much better than social contact sectors such as hospitality and tourism.

Whilst next week offers the opportunity to dig a little deeper into the national trends, thanks to industry's recovery, policymakers across the continent may well be buoyed by a seemingly shallower downturn in this phase of the pandemic compared to the spring.

Eurozone employment and retail sales data will be also eagerly awaited. Although economies clearly remain weak heading into year end, rising company confidence amid news of positive vaccine developments alongside the relative resilience of unemployment and retail sales (updates for which are provided in the euro area next week), has provided hope that the economic fallout is being contained to a degree.

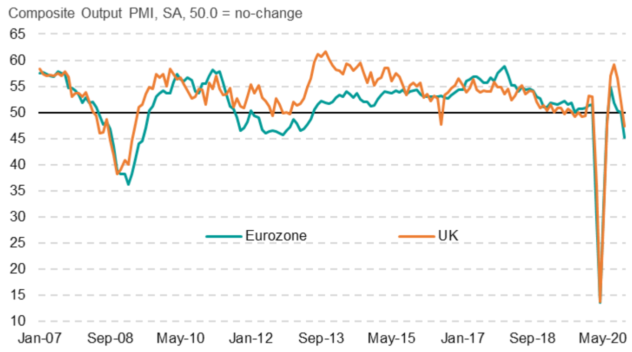
Eurozone inflation

Meanwhile, this week's Eurozone PMI data on pipeline price developments may well have caught the attention of those of a more hawkish disposition.

Although the pricing power of firms remains restricted by weak market demand due to the current crisis, cost pressures are steepening in manufacturing amid reports of supply-side shortages and lengthening delivery times.

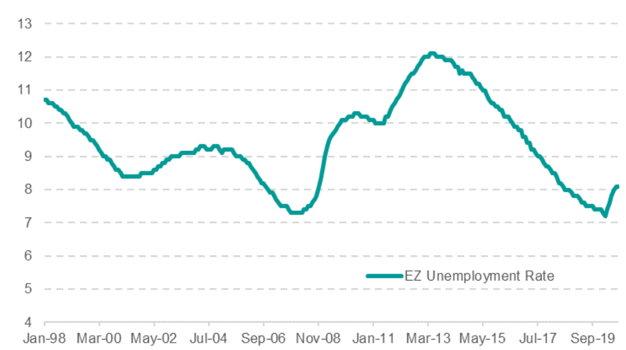
Whilst consumer price inflation remains non-existent – and is likely to remain so for some time to come – producer price developments will be watched closely for any pass through once the health crisis is finally brought under control.

The eurozone and UK economies have lost some momentum, but downturns in November were nowhere near to the degree seen during the spring



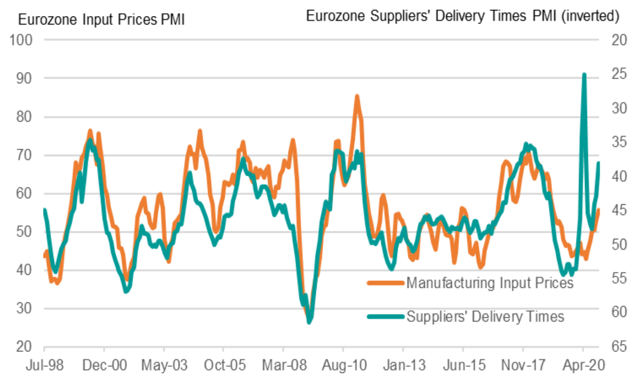
Source: IHS Markit

Eurozone unemployment has held up relatively well during the pandemic, remaining well below levels seen during the global financial crisis



Source: Eurostat

Consumer price inflation remains weak in the eurozone, but there has been a recent tick up in price pressures in manufacturing as supply-side shortages bite



Source: IHS Markit

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Asia Pacific Week Ahead

November PMIs, monetary policy, Asia GDP and trade updates

By Bernard Aw

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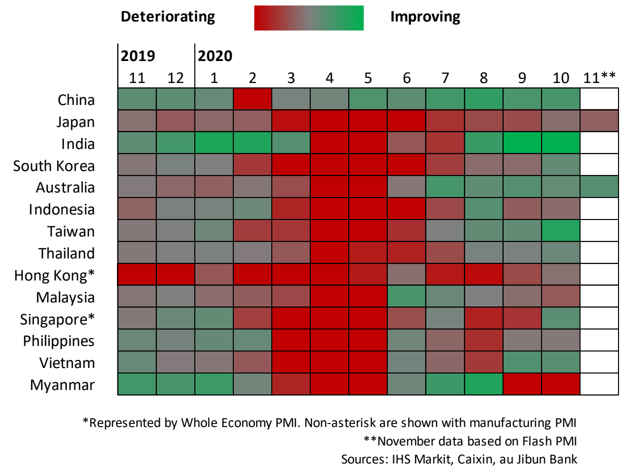
Insights into Asian economic recovery in the fourth quarter will be gleaned from the November PMI releases in the coming week, with the Caixin surveys for China in particular focus. Analysts will also monitor trade updates in Malaysia and South Korea. Australia and India will decide on monetary policies as well as issue latest GDP figures. South Korea will also publish a final estimate of third quarter GDP.

Other key Asian data highlights include inflation data in a number of Asian economies, retail sales figures in Hong Kong SAR, private consumption and investment updates in Thailand, and consumer confidence survey data in Japan.

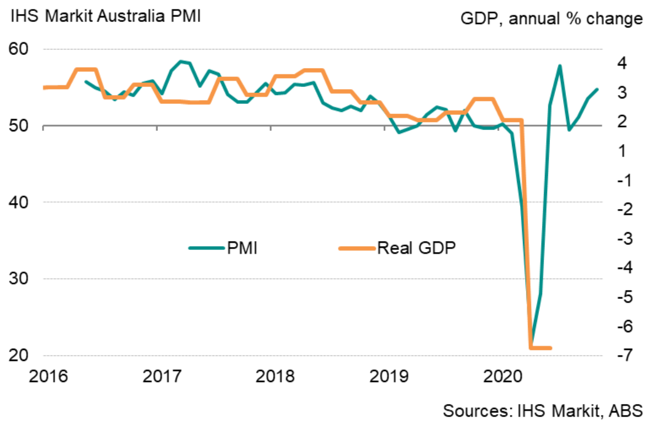
Heatmap of Asia Pacific PMI surveys (October)



PMI insights into fourth quarter GDP

After flash PMI data for Japan and Australia indicated subdued demand conditions in November, analysts will eagerly anticipate the release of the Asian PMI series to provide a broader view of regional economic trends as countries contend with second waves of COVID-19 infections. With China leading the global recovery, both NBS and Caixin surveys will be especially closely scrutinised for signs that the Chinese growth momentum was sustained midway through the fourth quarter.

Australia PMI* and economic growth



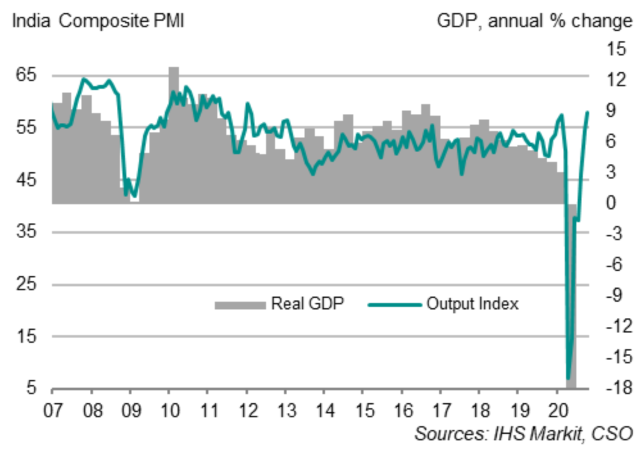
**November data based on flash PMI*

Australia and India

The Reserve Bank of Australia convenes for its final policy meeting of 2020 next week, though no change to the policy rate is expected after the central bank cut it's the cash rate to a record low of 0.1% in the November meeting. Eyes will instead be on any new changes to the bond buying programme. Meanwhile GDP data are expected to show the Australian economy expanded at a quarterly rate of 3.9% during the third quarter.

The Reserve Bank of India will decide its monetary policy amid rising inflation and signs of recovery. PMI data indicated the strongest rise in Indian private sector output in close to nine years during October, accompanied by a sustained order book growth. However, the recent gains come in the context of a sharp fall in the Apr-Jun quarter, and the Indian economy is expected to have contracted at an annual rate of 9.8% in the second quarter of FY2020-21.

India PMI and economic growth



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APAC
Special Focus

Escalating Australia-China Trade Frictions: Assessing the Economic Impact

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China-Australia trade tensions have escalated significantly during 2020. With Australia exporting around one-third of its total exports to mainland China, there is a high degree of vulnerability to disruptions in bilateral trade. Recent developments have resulted in mounting concerns about the economic implications to the Australian economy from a protracted disruption of Australian exports to China.

Latest data from IHS Markit Commodities at Sea highlights the significant impact of bilateral trade frictions on Australian coal exports, with 76 bulk carriers loaded with Australian coal waiting at anchorage at the various Chinese ports. China's General Administration of Customs has also halted barley shipments from Australia since September 2020, while exports to China of a number of other products have also been impacted.

The escalation of trade tensions between China and Australia

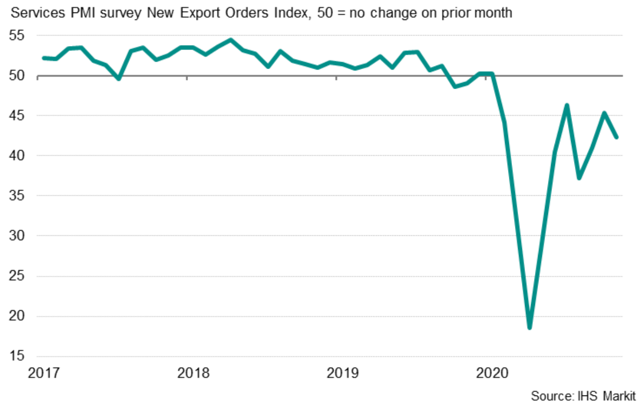
Mainland China is the largest export market for Australia, accounting for 32.6% of total exports of goods and services in the 2018-2019 financial year. The importance of mainland China as an export market for Australia has increased dramatically over the past two decades, with Australian exports to mainland China having grown from AUD 8.8 billion in the 2000-01 financial year to AUD 153 billion in the 2018-19 financial year.

Consequently, Australia has become increasingly vulnerable to trade sanctions by China on its exports. Due to escalating frictions on a wide range of issues, bilateral trade tensions have increased significantly during 2020.

Total Australian exports of services to mainland China amounted to USD 18.5 billion in 2018-19, with education and tourism accounting for around 90 per cent of this total. Due to the Covid-19 pandemic, Australian exports of tourism and education services to China have largely come to a halt since April 2020 due to the strict travel bans by Australia on foreign visitors entering the country. Since Australian exports to China for both education and tourism have been severely disrupted due to the Covid-19 pandemic, this has removed any scope for trade policy action on these sectors, at least while the travel bans remain in place.

The economic shockwaves to Australia's service sector exports due to the pandemic are of course not limited just to exports to China. Total Australian services exports to all countries in September 2020 were down around 40% year-on-year, according to trade data from the Australian Bureau of Statistics. The latest IHS Markit Australian Services PMI reflects the continuing contractionary conditions that are impacting on Australia new export orders in the services industry.

Australian Services PMI export orders



However, Australian exports of goods have been impacted by an increasing array of trade policy actions by China. Even during 2019, there had been some temporary disruptions of Australian coal shipments to certain Chinese ports, with long delays in permission to unload Australian coal cargoes at Chinese ports.

In May 2020, the Chinese government also imposed punitive tariffs on Australian exports of barley to China, amounting to a combined 80.5% tariff on Australian barley, comprised of a 73.6% anti-dumping duty and a 6.9% countervailing duty. In September 2020, China's General Administration of Customs said barley shipments from Australia would be halted after they stated that pests were found on multiple occasions. Australian barley exports to China amounted to around AUD 1.4 billion per year prior to China's trade policy measures, with 70% of Australian barley exports having been shipped to China.

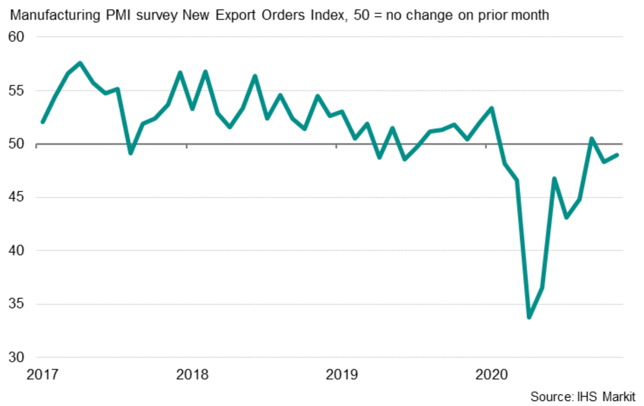
There has been a more intense escalation in trade measures by China in relation to Australian products since early November 2020. These measures, which include unofficial guidelines to Chinese importers as well as non-tariff measures such as customs procedures, have created considerable concern amongst Australian exporters of a wide range of products. The scope of the Chinese policy measures is reported to include beef, lobster and wine.

According to Chinese and international media reports, Chinese traders received an informal notice from authorities that Australian products in seven categories – barley, sugar, lobster, wine, timber, coal, and copper ore and concentrate – will not be cleared in customs from 6 November 2020.

However, the Chinese government denied any restrictions on Australian commodities. Amidst the confusion, there were reports that the Chinese end-users and traders are trying to resell their cargoes that have not reached Chinese ports and could cut down arrivals of Australian cargoes in the short term at least.

Australian total exports of goods to all countries were down 3% year-on-year in October 2020, with exports of coal down 27% and gas exports down 43% year-on-year. However, the overall contraction in exports has been mitigated by the continued strong performance of certain mineral commodity exports, notably metal ores, which rose 37% y/y in October 2020. This strong increase in metal ore exports has been helped by robust iron ore export volumes as well as buoyant iron ore prices throughout 2020. Meanwhile gold exports have benefited from the surge in world gold prices during 2020.

Australian Manufacturing PMI export orders



Due to the importance of iron ore in overall export values to mainland China, total Australian exports of goods to China actually increased by 13.3% y/y in October 2020, despite the various trade policy actions on a range of Australian exports during 2020.

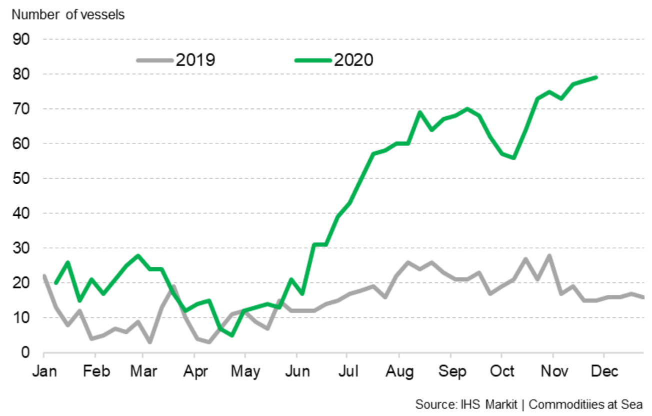
Among the impacted export sectors, the Australian wine industry has seen rapid growth in exports to mainland China over the past decade, which reached AUD 1.2 billion in the year to September 2020, amounting to around 39% of total Australian wine exports. However Australian wine exports to China are reported to have faced severe customs clearance hurdles since early November. China's Ministry of Commerce announced on 18th August that it had launched an anti-dumping investigation into Australian wine. As a result, the Australian wine industry has reported that new shipments of wine to mainland China have been significantly curtailed while these hurdles to customs clearance continue.

Disruption of Australian coal exports to China

Australian coal shipments to China are also reported to have been delayed at Chinese ports.

According to IHS Markit's Commodities at Sea data, during 02-08 November 2020, no vessels laden with Australian coal vessels were discharged at the Chinese ports. In the last two and half weeks (09-24 November 2020) only nine vessels laden with Australian coal were discharged which is significantly below the normal levels analyzed in the past. As per IHS Markit shipping data, a total of 76 bulk carriers loaded with Australian coal are waiting at anchorage at various Chinese ports, with major congestion at Jingtang (22 vessels), Caofeidian (15 vessels), and Bayuquan (9 vessels). In terms of vessel segments, out of a total of 76 ships, 26 are Capesize vessels while the remaining 50 are Panamax vessel segments.

Australian coal shipments to China: port congestion (number of vessels)

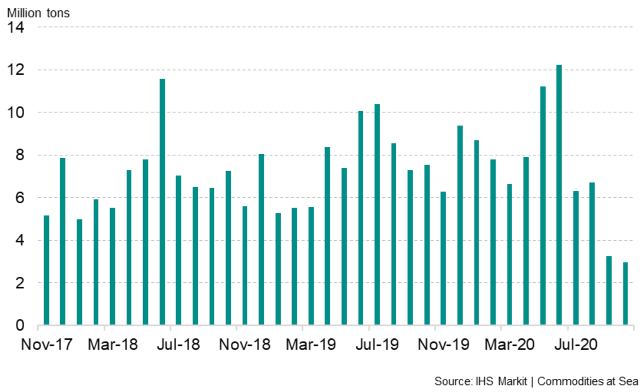


Due to the long queue, some vessels are also being diverted. For example, MV NAVIOS STELLAR (169,001 dwt) had loaded coal at Newcastle (sailed 5 October 2020) initially destined for Zhoushan; however, around 19 October 2020 got diverted to Krishnapatnam, India.

As a result of the severe disruption to Australian coal cargoes being shipped to China, latest IHS Markit Commodities at Sea data also shows that new loading of shipments of Australian coal cargoes destined for China have slumped in September and October, with weekly data also showing very weak coal shipments for China during November.

According to the McCloskey Coal Report (13th November 2020 edition) published by IHS Markit, Chinese buyers have been turning to the Atlantic market for replacement coal shipments due to the difficulties of customs clearance for Australian coal. Chinese buyers have been picking up numerous cargoes from South Africa and Colombia. In January-September 2020, Australia exported 74.9 mt of coal to China (41.1 mt of thermal, 33.6 mt of met coal), but by October 2020, monthly Australian coal shipments to China had fallen to a total of around 3 mt of both thermal and met coal, compared with 7.5 mt in the same month a year ago. In calendar 2019, Australia exported around 93 mt of coal to China.

Australian coal shipments to China



Asia-Pacific Free Trade Agreements

Both China and Australia are members of the Regional Comprehensive Economic Partnership (RCEP) trade deal that was signed by 15 Asia-Pacific nations on 15th November 2020. The scope of RCEP includes reducing tariffs on trade in goods, as well as creating higher-quality rules for trade in services, including market access provisions for service sector suppliers from other RCEP countries. The RCEP agreement will also reduce non-tariff barriers to trade among member nations, such as customs and quarantine procedures as well as technical standards.

Nevertheless, the impact of this regional trade deal on reducing bilateral trade tensions between China and Australia has not yet been felt.

China and Australia also have in place the China-Australia Free Trade Agreement that entered into effect on 20th December 2015. This free trade agreement is due for a five-year review in December 2020, in the midst of significant turbulence in bilateral relations.

Outlook for Australia-China trade flows

A key weakness for Australia is that many of its major exports to China are agricultural and mineral commodities, many of which can be substituted by China for similar imports from other countries. Thermal as well as metallurgical coal is widely available from other global suppliers. China is willing to pay $115/t for USA mid-vol metallurgical coal versus cheaply available Australian mid-vol PHCC coal offered at $100/t which also had a freight advantage and short voyage journey.

While some Australian coal shipments can be diverted to other markets, China accounts for around 25 per cent of total Australian coal exports, amounting to around 100 mt per year, so it is extremely difficult to find alternative markets rapidly for such a large displacement of coal exports. However, over the medium term, Australian coal exporters had already recognized the need to develop their coal exports to other Asian markets such as India, Vietnam and Pakistan.

Similarly, agricultural commodities such as barley or beef can be bought by Chinese importers from other major agricultural exporting nations. As over 50 per cent of Australian barley exports had been sent to China in recent years, it will be difficult for Australian barley exporters to quickly find alternative markets for the entire displaced barley exports to China. However key international barley markets such as Saudi Arabia, India and Vietnam do offer some alternative market opportunities, and farmers will also shift production to other crops, mitigating the overall economic impact.

A particular challenge for Australia is that China is trying to meet its bilateral Phase One trade deal commitments to the US to ramp up imports of US goods. Consequently, substituting Australian agricultural exports for US exports would help China with its own commitments to the US under the US-China Phase One trade deal agreed in late 2019.

While a large share of total Australian exports to China, such as iron ore and LNG, have not been impacted so far by China's trade policy measures, there are intensifying concerns that an increasing range of Australian exports to China could face such measures.

Australian trade policy responses

Over the past decade, many Australian export industries had become increasingly vulnerable to disruptions of market access to China due to rising concentration risk to that single market. This had become well recognized as a key risk by Australian policymakers and industry leaders in recent years. However, as the former Citibank CEO Charles Prince was quoted as saying in 2007 prior to the Global Financial Crisis in relation to the leveraged lending business, "As long as the music is playing, you've got to get up and dance". The music has certainly stopped for a number of Australia's significant exports to China.

While Australia is unlikely to embark on any kind of tit-for-tat retaliatory trade measures, particularly given the very asymmetric bilateral trade relationship, the policy implications for Australia are that most Australian export industries with significant exports to mainland China will be urgently looking at diversification strategies to reduce their vulnerability to future Chinese trade policy measures. It seems clear that any hopes of a return to "business as usual" have become a rapidly receding mirage.

However, the process of trade diversification for various industries is likely to be gradual, over a protracted period of time, as different industries look to diversify into a wider range of export markets.

Despite the tremendous challenges of significantly diversifying its export markets, Australia will benefit from its proximity to many other large consumer markets across the Asia-Pacific region. India is already the world's fifth largest economy, with its consumer market forecast to grow strongly over the next decade. The ASEAN region has also become a very large consumer market with a total regional GDP of USD 3 trillion and a population of over 600 million. Consequently, ASEAN and India are likely to be high priorities for Australia's export diversification strategy over the decade ahead.