High Frequency Economics®
Daily Data Analysis and Assessment of the Global Economy

Daily Notes on the **Global Economy**

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14 Days To Live

All the world's eyes are trained on Ireland's growing fiscal uncertainties. We, however, have our eyes on Greece and its still-unresolved fiscal problem. These are, indeed, the same problem: Had the Euroland governments fixed Greece's sovereign debt problem properly last spring, no one would doubt their will or ability to address the Irish problem. However, not only is Greece's fiscal situation not fixed, but its troubles are going to return to center stage of the global financial market very soon... like within the next two weeks. *If Greece defaults on its sovereign debt, Ireland will not be the only country to get dragged down along with it by investors whose faith in the governments' ability to fix sovereign borrowers will be totally destroyed.*

Greece has only 14 days from today to be cleared to receive the next disbursement of its bridge financing loan from the IMF and the EFSF. That payment is scheduled for November 30, but it is contingent on Greece demonstrating compliance with its fiscal adjustment program. It has agreed with the IMF on six quantified targets that include a ceiling on public sector expenditures, a floor on tax revenues and a target for its cash balance for the quarter. **Greece has already reported that its tax collections have fallen short of the minimum promised. This means that the government should be denied access to the €6.5 billion distribution of funds scheduled for end-November.** *If those funds are not received, we predict that the government of Greece will run out of cash within 60 days. If it does, Athens will have to shut down major portions of its government operations and suspend payments of interest and principle on its national debt.*

This would be a catastrophe of historic proportions. ***We have no way of predicting what happens to the global financial system when €300 billion worth of credit default swaps are triggered on the same day... but we can guess that the ripple will spread throughout the bank and non-bank financial sectors, touching all parts of the world.***

We see little wiggle room for avoiding this disaster. The IMF could simply say that Greece is on the right track, but that the quantified fiscal targets were too difficult to achieve. In that case, Greece would get a new adjustment scheme and new targets, and the drama would be delayed until the next test in February. *We sincerely doubt that Germany would agree to such a ploy: The bridge financing plan was offered to Greece with strict conditions... conditions that are not meant to be modified for reasons of convenience.*

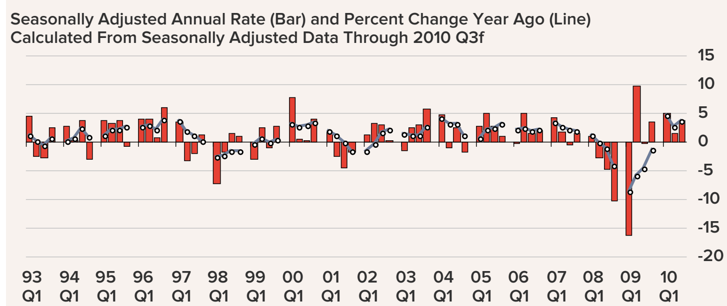
Another way out is to redefine the program in light of new initial conditions. EuroStat's statisticians yesterday revised their estimate of **Greece's 2009 fiscal deficit** to 15.4% of GDP from the prior estimate of 13.6%. So is Greece obliged to bring its fiscal deficit down to 7.6% of GDP, as promised to the IMF and the EU last May, or is it obliged to reduce its deficit by 6% of GDP? Does this merit recasting the whole program, with current estimates of initial conditions as the starting point? *Again, we do not know whether Germany and other EU governments would go for this.*

Barring a creative way to get Greece past these IMF criteria, we can confidently say that Greece will be returned to the same awful place, or worse, where it stood last spring. Unable to borrow from the financial markets, unable to draw on its bridge loan and unable to rope in public sector expenditures and raise taxes enough to live within its means, Greece will be teetering on the verge of bankruptcy. ***At that point, default or restructuring will be unavoidable, and the credit default swaps will redistribute the bonds willy-nilly around the global financial system. Only then will we know for sure if the institutions that wrote the credit default swaps have the liquidity and the financial strength to perform as contracted***.

Ireland's stake in this is credibility. If the EU governments bite the bullet and fix Greece for good—by restructuring its debt into a manageable payment scheme—then people will stop worrying whether Euroland has the wisdom and determination to fix Ireland too... and Portugal and Spain and even Italy. However, if the Greek fiasco ends with a sloppy, uncontrolled default—with €300 billion worth of CDSs triggered at once, and institutions reeling with urgent write-downs—as finance ministers bicker over what to do, then no one will believe Ireland can fare any better. Ireland may not need to go to the markets until June for its normal financing needs, but it probably will need to come up with cash urgently if its banking system requires capitalization on a large scale. Unexpected losses on Greek bonds will cause the already precarious situations of Irish banks to decay even more.

So we all have 14 days to live before the Greek debt overhang triggers the end of the world. This is not a drill. Euroland finance ministers will be discussing their options when they meet today.

Japan: GDP



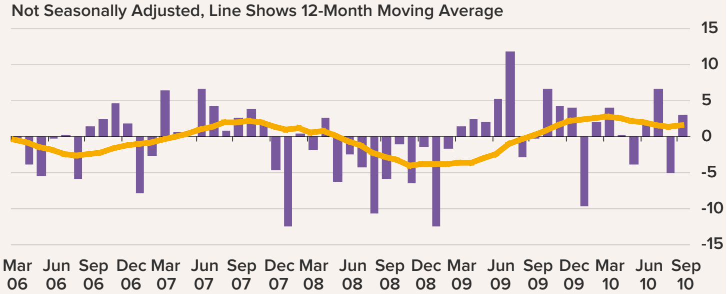
Yields On 10-Year Government Bonds @ 22:00 GMT

	Coupon	Maturity	Yield (%)	Prev. (%)	Chge (b.p.)	Δ vs U.S.	Prev. Δ vs U.S.
United States	2.625%	5/20	2.950	2.750	+20		
Japan	1.100%	6/20	1.004	0.955	+5	-195	-180
Germany	3.000%	7/20	2.546	2.492	+5	-40	-26
United Kingdom	4.750%	3/20	3.266	3.208	+6	+32	+46
France	3.500%	4/20	2.879	2.840	+4	-7	+9
Canada	3.500%	6/20	3.137	3.016	+12	+19	+27
Australia	4.500%	4/20	5.410	5.342	+7	+246	+259

Note: All yields converted to a comparable semi-annual basis. Data collected 22:00 GMT daily, from market sources believed to be reilable by High Frequency Economics. These data are market indications only, not quotes.

Euro Zone: Merchandise Trade Balance, €Billions

Not Seasonally Adjusted, Line Shows 12-Month Moving Average



Euro Zone

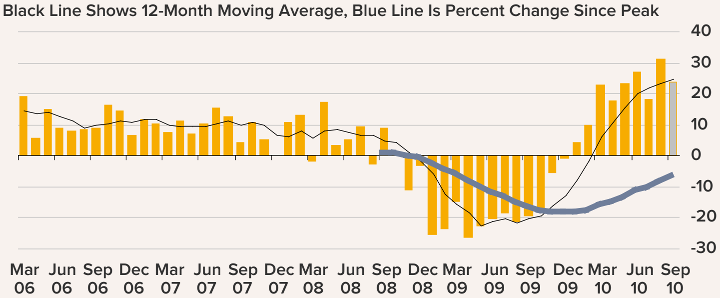
EuroStat yesterday reported that the unadjusted **merchandise trade balance** was in surplus by €2.9 billion in September, a better result than the deficit of €218 million a year ago. Exports have improved by 23.8% over the 12 most recently reported months, but they remain 7.3% lower than their peak two years ago. *Despite the improvement in the latest figure, the trend in the trade balance is adverse.* The surplus in the third quarter was less than one half that of the same quarter last year. So the change in net exports subtracted from GDP growth in Q3. *Gross exports are not producing jobs, and net exports are not producing income growth. Ouch!*

As it does every Monday, the ECB called for tenders for **seven-day repo agreements** at its fixed 1% minimum bid rate to replace €175 billion of identical agreements maturing this week. Last week, 146 banks stepped up to bank's short-term financing window to borrow reserves that they could not obtain from other banks. *We are hopeful that both the number of banks needing concessionary funding and the amount they need to raise will be lower this week than last, although we are not optimistic.* ECB liquidity extended at the overnight facility doubled yesterday compared to Friday. The sovereign debt crisis casts a miasma of risk over the entire European banking system, with no bank knowing to what extent any counterparty may or may not be exposed. *So we have to expect the number of bidding institutions and the amount of cash demanded to rise this week.*

Results of the repo tender will be announced today, as usual. We also expect revised and expanded estimates of the MUICP for October, including our first look at core price movements last month. Flash estimates of headline CPI showed a slight pickup in the year-over-year rate of increase to 1.9% from 1.8% in September. *That is trivial. We estimate core MUICP slowed to a 0.9% year-over-year rate of increase from 1% in October.* The target for MUICP increases of all ilk is 2% year-over-year. *So... no problem, right?* The October report on vehicle registrations is also due today. Tomorrow will bring September data on construction activity and an update to the Euro Zone debt-to-GDP ratio estimates for 2009.

Euro Zone: Exports, Percent Change Year Ago

Black Line Shows 12-Month Moving Average, Blue Line Is Percent Change Since Peak



A Quick Look at Upcoming Events

	Tuesday	Wednesday
Japan	Machine Tool Orders (10r) **Tertiary Index (9)**	LEI (9r)
Australia	**RBA Minutes (11)**	**Wage Cost Index (Q3)**
Euro Zone	**MUICP (10r)** Vehicle Registrations (10) Weekly Repos Allocated	Construction (9) Maastricht Ratios (2009r)
Germany	**ZEW Survey (11)**	Nothing
France	Payrolls (Q3p)	Nothing
United Kingdom	**CPI (10)**	**Monetary Minutes (11)** **Employment (10)** **Average Earnings (9)** Unit Labor Costs (9)
Canada	**Survey Of Mfg (9)**	UI Claims (9)
United States	NAHB Index (11) **Industrial Production (10)** **PPI (10)** **TIC Flows (9)** Weekly Redbook Sales	**CPI (10)** **Housing Starts (10)** Weekly MBA Mortgages
Other	Nothing	Nothing

Underscore=Already released *Italics*=Estimated release date

Further Down The Road...

December 2	Euro Zone—ECB Council Meeting
December 7	Canada—BoC Interest Rate Decision
December 7	Australia—RBA Board Meeting
December 8 - 9	United Kingdom—MPC Meeting
December 14	United States—FOMC Meeting
December 20 - 21	Japan—BoJ Board Meeting
January 26 - 30	Davos—World Economic Forum

Germany

No economic reports were noted yesterday.

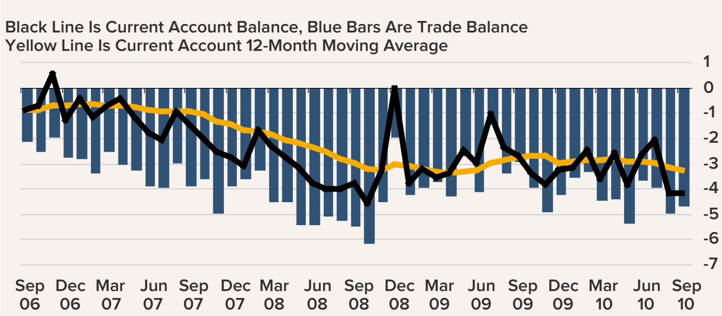
Today, we will see the ZEW survey of investor sentiment for November. *We are as curious as the next person whether the index of current conditions has finally turned south. The expectations index, which has decayed every month since last April, should drop again.* No economic releases are planned for tomorrow.

Japan

The Cabinet office reported yesterday that **GDP** grew 0.9% in the third quarter after a 0.4% increase in the second quarter. GDP was 4.4% higher than a year ago last quarter after a 2.7% year-over-year rise in the second quarter. *GDP did not slow, as we thought it would.* Almost all the growth came from consumers' expenditures, which contributed 0.7 percentage points of the total increase in GDP for the quarter. Most of that was in durable goods, and most of *that* was for automobiles, which benefited from government subsidies. Non-residential investment added 0.1 percentage points to GDP growth—we all know how that number can be revised downward—and no other sector of demand contributed anything of significance to economic growth. The car subsidies are over, and locals fear that this strong figure overstates the real condition of the economy... and of the consumer. *So do we! The Nikkei jumped on this better-than-expected report, but we figure a string of miserable or worse monthly economic indicators will slap it back into place quickly.*

Today will bring revised estimates of machine tool orders for October as well as the tertiary sector index for September. Initial figures showed orders were 70.9% greater than last year's very depressed level but also 44% lower than their peak before the economic crisis began. *We estimate the tertiary sector index dropped 0.6% in Sep-*

France: Trade And Current Account Balances, €Billions



tember and was just 1.3% higher than last year, or 4.9% lower than its recent peak if you prefer to see it that way. We do! Tomorrow, the Cabinet Office will update its estimate of the index of leading economic indicators for September.

United Kingdom

We did not see any economic releases yesterday.

NatStats will publish the CPI report for October today. *We expect to see a slowdown in the headline index to a 2.9% year-over-year rate of increase from 3% in September. Excluding the effect of the VAT rate hike at the start of this year, we estimate the CPI would be just 1.4% higher than a year ago, down from 1.6% in September. Prices are slowing, and CPI increases excluding VAT rate impacts are below the BoE's 2% "inflation" target.* Tomorrow, the BoE will publish the minutes of this month's Monetary Policy Committee meeting. *These will be scoured for any hints that the Committee may be closer to renewed asset purchases than last week's* Inflation Report *suggested. We expect to find such evidence.* Also tomorrow, we will see the October employment report and September data on average earnings and unit labor costs.

France

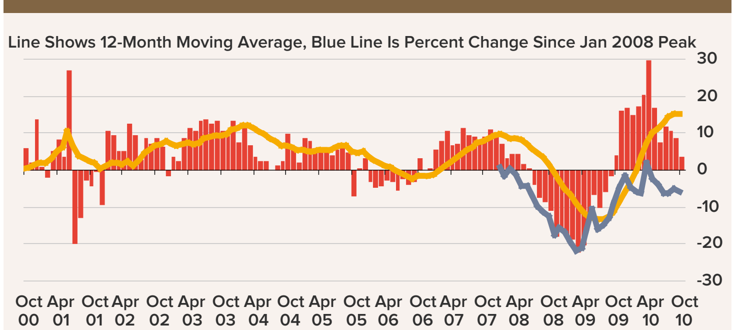
INSEE reported yesterday that the seasonally adjusted **current account deficit** widened to €4.4 billion in September from €4.3 billion in August and only €2.8 billion a year ago. *A widening current account deficit will subtract from national income and GDP.*

Today will bring the third quarter report on payroll employment, which we think will show 0.2% fewer jobs last quarter compared to Q2 and only 0.2% more than a year ago. The calendar for tomorrow is empty.

Australia

ABS yesterday reported 85,250 **new vehicle sales** for October, 0.6% fewer than in September and just 3.3% more than a year ago. *Car sales are not jumping off the hook. Tighter monetary conditions are pulling sales down, and interest rates are generally expected to continue to rise.*

Australia: New Vehicle Sales, Percent Change Year Ago



Today, the RBA will publish the minutes from this month's Board meeting. *People will be looking for hints that the next interest rate increases will come sooner rather than later. That would boost the Ozzie dollar.* Tomorrow, we will see the third quarter wage cost index from ABS. *A slowdown of wage costs seems likely.*

Canada

We did not see any economic reports yesterday.

StatsCan will publish the results of its survey of manufacturing for September later today. *We estimate production dropped 0.4% from August, which would leave it 14.7% higher than a year ago but still 15% below its recent peak.* Tomorrow, we expect September figures on unemployment insurance claims.

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