

THE PUNCHLINE...

November 26, 2013

2013 issue 22

Meager Growth but the Market Roars...

An interim deal on Iran's nuclear program pushed oil prices lower and sent global equities higher as investors' risk appetite rose on an easing of some Middle East tensions. As we close in to year-end and the start of a new year, one finds little evidence of serious inflationary concerns. Indeed, the opposite is feared. Major economies face debilitating deflation pressures. In Europe, for example, the latest annual inflation statistics fell in twenty-three Member States, remained stable in one and rose in only four. The HSBC/Markit Flash China PMI came in at 50.4 in November, marking a two-month low and missing expectations. The survey still indicated that the Chinese economy is expanding but it also raised fears that growth may be tailing off in the fourth quarter. China will be lucky if it manages to hit its official target of 7.5% growth in 2013, a far cry from the double-digit rates that the country had come to expect in the 2000s. Growth in India (around 5%), Brazil and Russia (around 2.5%) is barely half what it was at the height of the boom. In Europe, the Markit Flash Eurozone PMI fell from 51.9 to 51.5, the lowest reading for three months. The French index was particularly weak – the PMI was at its lowest level since June. Germany continued to improve but the rest of the (cont. →)

US Imports: Jewelry

Import (End Use): Jewelry (watches, rings, etc)
(Percent Change from Year Ago) Source: U.S. Department of Labor: Bureau of Labor Statistics



WAITING FOR BARGAINS?
WORSE THAN IN
'GREAT RECESSION'
CAUTION IN THIS
SECTOR - INDICATIVE
OF MODEST GROWTH
AND LURKING RISKS!

✓ *'Iran Deal Supports Markets' Rally... for now*

EU BANK MAY MOVE TO NEGATIVE DEPOSIT RATE...

Is This a Bubble?

As stocks hit new records and small investors – finally – return to the market, some analysts are getting worried.

Junk Glistens Under 'Bernankekare' as Worst Stocks Win

Some investors say prices for risky assets have climbed so high it's possible to look ahead and see an ugly end, argued Laurence Fink, CEO of BlackRock Inc

Gold hits four-year low

'Taper tantrum' and weak economic data weigh

*

The yen depreciated to a six-month low versus the dollar and a four-year low against the euro as the increased risk appetite in the wake of Iran's nuclear deal damped the demand for the safe-haven currency.

US oil output passes imports for first time since 1995 ✓

Oil production in the United States surpassed its oil imports for the first time in nearly two decades in October, the government said... Helped mainly by production from newly-tapped shale-based reserves, domestic output hit 7.7 million barrels a day last month, a 24-year high. Oil imports, long seen as a strategic and economic vulnerability for America, sank well below that figure to a 17-year low, according to the Energy Information Agency.

Business activity across the euro zone and at China's manufacturers have slowed, surveys showed

Japan's exports have seen their biggest annual rise for three years. Exports rose 18.6% to 6.1 trillion yen (\$61bn; £38bn) in the year to October, largely thanks to more car shipments, its ministry of finance said. A weak yen and an improving global economy has seen overseas demand pick up, but despite this and Prime Minister Shinzo Abe's looser monetary policies, Japan's economy remains fragile.

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In This Issue

- **Meager Growth but the Market Roars...**

(cont.) eurozone seems to be languishing. Questions abound whether the EU risks following the path carved by the sluggish Japan in the 1990s. Yet financial assets point to a worrisome asset inflation environment. Many have written off the likelihood that the Federal Reserve would begin QE tapering this year. As stocks hit new records and small investors—finally—return to the market, some analysts are getting worried. Risk assets have rallied to previous bubble conditions. Powered by unprecedented refinancing and recap activity, 2013 is now the most productive year ever for new-issue leveraged loans, for example. This has been great for corporations as financing and refinancing has put them on a stronger footing. Where M&A activity still lags the highs of the last boom, issuers have jumped into the opportunistic pool with both feet. And why not? Secondary prices are high and new-issue clearing yields remain low. Yet very inadequate movement has been evidenced on the hiring front. And after all the improvement in ebitda, where do we go from here? Forward guidance will clearly be harder. One might argue that we are back in a Goldilocks fantasy world, where the economy is not so strong (as to cause inflation and trigger serious monetary tightening) or so weak (as to cause recession and a collapse in profits) but "just right". Yet, it seems unlikely that issuers with weaker credit quality could find it so easy to sell debt without the excess liquidity created by the Fed and other central banks. Weaning everyone off the "liquidity fix" may be tough! (pg 1)

- **In This Issue** (pg 2)
- **Go Figure...** (pg 3)
- **The Return to Normal...** (pg 4)
- **The Likelihood of Unlikely Events...** (pg 5)

- **Engines of Growth**

Easy money continues to dominate across the globe. Repercussions from various political stalemates and serious geopolitical concerns are aggravating the problems of clearly insufficient growth in the world economy. And let's not forget that many of the challenges cannot be resolved easily ... (pg 6)

- **Households...** (pg 7)
- **Dislocation...** (pg 8)
- **You Can't Handle the Truth...** (pg 9)
- **Credit ...** (pg 10)
- **Credit Matters** (pg 11)
- **The New Geography of Business...** (pg 12)
- **Deal or No Deal in Europe...** (pg 13)
- **Pumping iron...** (pg 14)
- **The DNA of Business...** (pg 15)
- **Real Estate and Construction...** (pg 16)
- **Will Life Ever be the Same?** (pg 17)

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Go Figure... More Int'l Considerations

→ Not enough growth risks deflation...



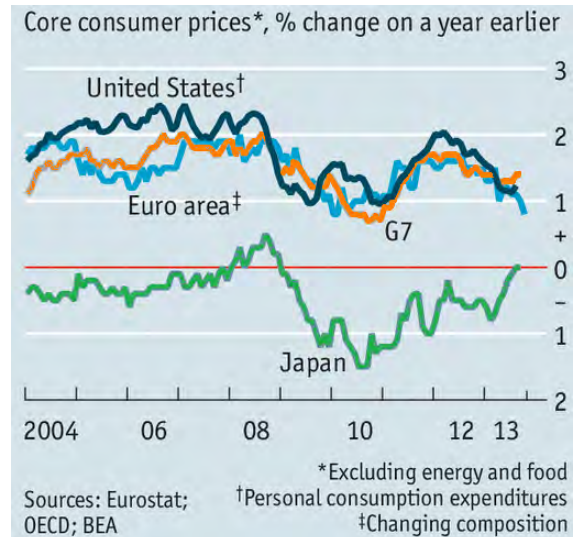
Lower wages forced on Spanish workers are a tough sell, but could help shrink sky-high unemployment. The burden of adjustment is likely to fall on the newly employed. Yet tackling the country's problems requires more reforms than brutal pay cuts.

Adding to the fears of an Eurozone deflation, Spain's producer price index fell 0.2% (y/y)

Shares of profits in national incomes are soaring; those of wages are falling. It's a recipe for corrosive and creeping deflation.

If disinflation is a healthy response to falling oil and commodity prices - that may be good. Consumers and growth will benefit. But if it is a result of low economic activity, that may become a problem...

U.S. producer prices fell for a second straight month in October ✓



The rich world, and especially the euro zone, risks harmfully low inflation

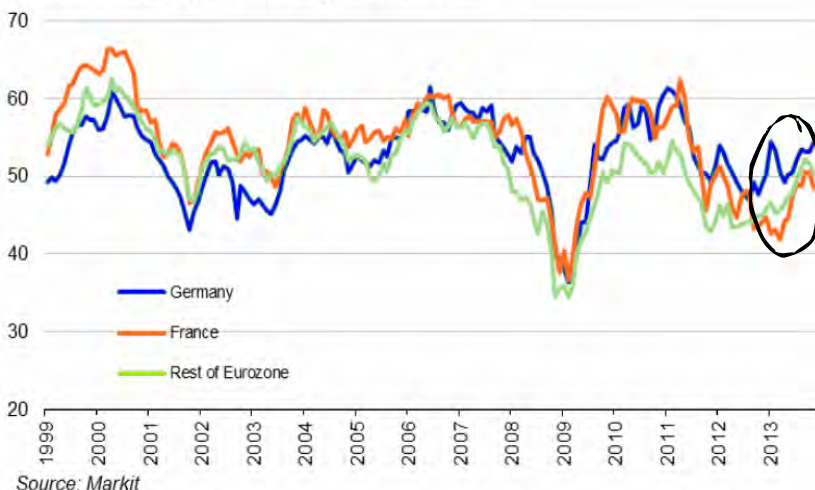
The near-stagnation of the Eurozone economy in the third quarter raises concerns about deflation in the region

Portugal's producer prices decreased for the third consecutive month in October, data released by Statistics Portugal showed on Tuesday. The producer price index fell 1.6 percent year-on-year, following a revised 1.5 percent decline in September. Month-on-month, prices dropped for the second successive month, down 0.6 percent in October. In September, prices decreased 0.5 percent.

EU PMI Survey Measures

Core Countries vs Peripheral

Composite Output, sa, 50 = no change on previous month



Business activity in the eurozone's two largest economies is diverging sharply, with France's private sector contracting after two months of growth while in Germany it accelerated to a 10-month high, according to a survey. Employment levels and order books in France both fell at the sharpest rate since May, underlining the weakness of the recovery in the eurozone's second-biggest economy.

The Return to Normal ?



Only modest hopes for global growth

Second half of this year had been widely tipped as the period when growth in the main advanced economies would begin to gather pace

Global growth for 2013 and 2014 has been downgraded "significantly" after weak prospects in emerging markets, says the Organization for Economic Co-operation and Development. Global GDP this year is now expected to grow by 2.7%, down from 3.1% forecast in May. But it said global economic growth would speed up by 2015.

NOTE

Walmart Struggling... the Arkansas-based discounter beat third quarter EPS estimates by a penny, thanks in parts to an aggressive and ongoing share buyback program. But their revenues and comparable store sales were both short of expectations, and the company trimmed a dime off of its fourth quarter and full year guidance.

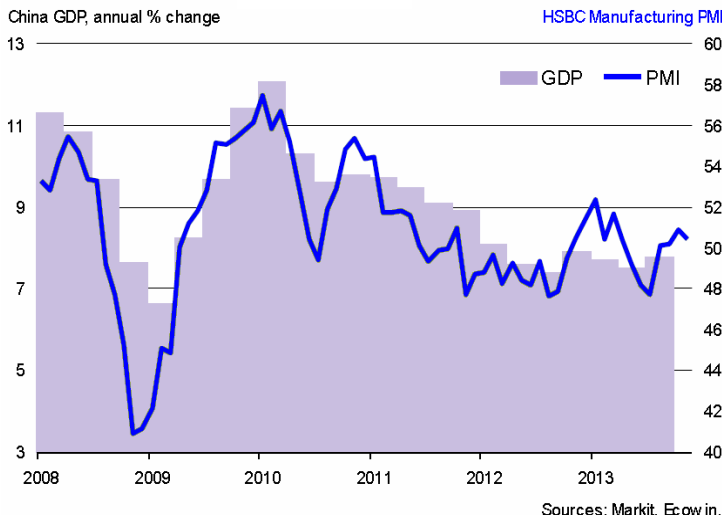
Fed remains clueless...

BEWARE

There are no asset bubbles – not in equity markets, not in the housing market. That's according to Federal Reserve chair nominee Janet Yellen, who was asked about bubbles in her confirmation hearing before the Senate Banking Committee

ART AUCTIONS - Emerging market billionaires, driven by vanity, easy money from the world's central banks and a quest for safe investments, are taking the contemporary art market to new heights. Art collectors made news for a second straight night on Wednesday as Sotheby's held the biggest auction in its history, led by the record-setting \$105 million paid for a work by Andy Warhol. The previous day, hedge fund managers, oil princes and oligarchs were bidding by telephone at Christie's when the auction house sold Francis Bacon's "Three Studies of Lucian Freud" for a record \$142.4 million, in what was seen as a test of the global art market's health.

China PMI and GDP



Eurozone finance ministers are losing patience with Greece as the country submitted its 2014 budget.

Greece will exit its six-year long recession next year with 0.6% growth, the budget said. The debt-laden country has received international bailouts since May 2010. At The Hague, Mr Dijsselbloem told a Greek newspaper, the Ta Nea daily, that "many finance ministers of the eurozone are starting to lose patience". Greece's deputy finance minister, Christos Staikouras, said the country's economy would shrink by 4% this year, below the 4.5% predicted.

NOTEWORTHY

U.S. retailers reveal monetary easing divide

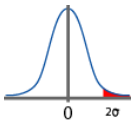
Recent results show high-end stores like Williams-Sonoma and those catering to DIYers like Home Depot are thriving. Sales at Wal-Mart and other discount retailers, though, are flat or barely growing. The gulf is another sign of how the Fed has created an asset-inflation economy.

SLOWER GROWTH
TRAJECTORY GOING FORWARD!

Heating Oil Prices

No. 2 Heating Oil Prices: New York Harbor
(Dollars per Gallon) Source: U.S. Department of Energy: Energy Information Administration

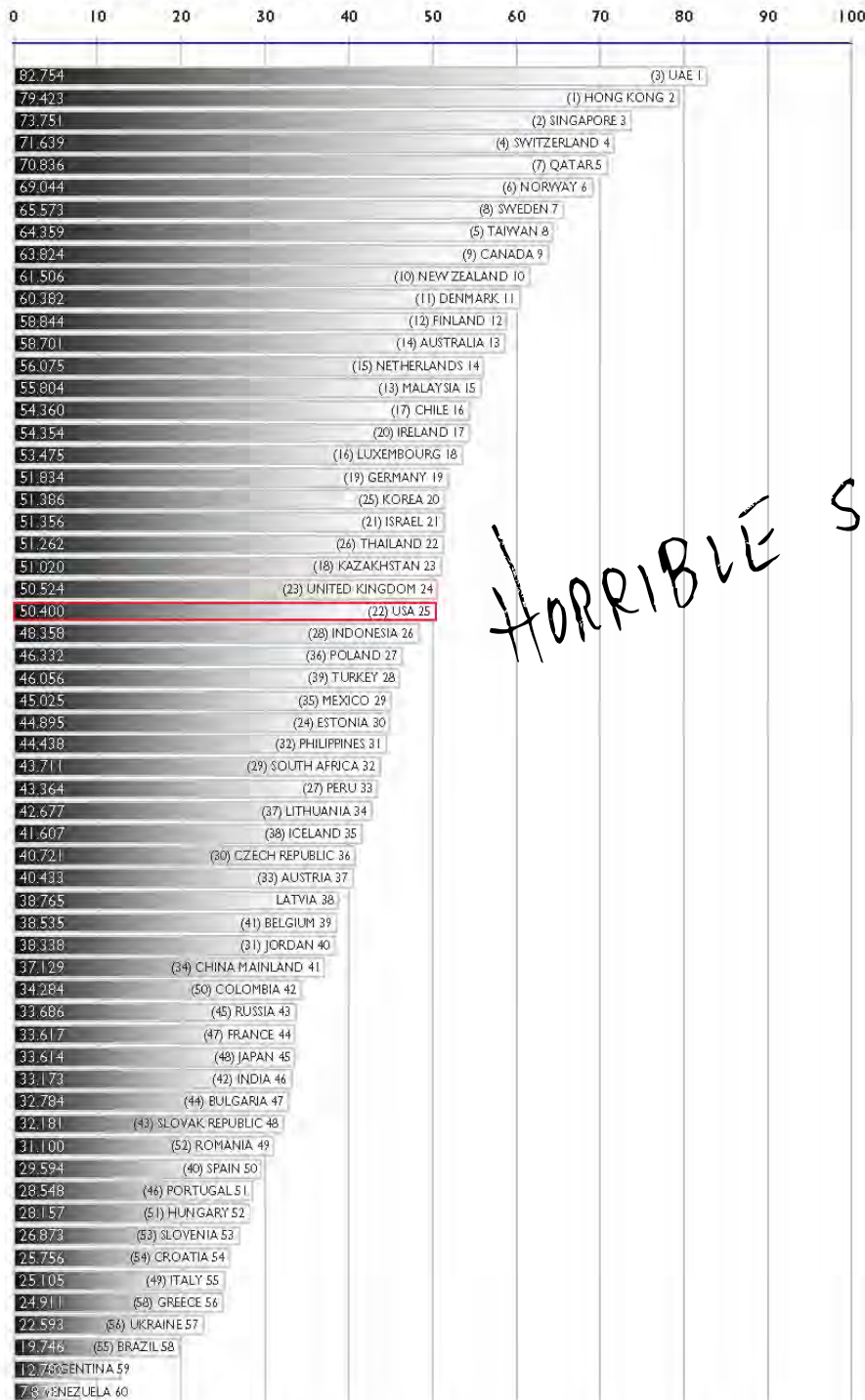




The Likelihood of Unlikely Events



GOVERNMENT EFFICIENCY



HORRIBLE SCORE!



(2012 rankings are in brackets)

WORLD COMPETITIVENESS YEARBOOK 2013



Engine Drivers...



Oil Bet Slides Down a Slippery Slope

UK car production in October rose at the fastest pace so far this year, and British industrial output is at its highest since 1995, organisations have reported. The Society of Motor Manufacturers and Traders (SMMT) said the number of cars built in October was up 17% from 2012.

Maersk Line called the bottom of the global trade cycle at the end of September, saying that the decline that started with the financial crisis in 2008 had ended and global demand for containers should be double this year's rate in 2014 and 2015. Signs of that were already apparent in the third quarter where Maersk said global demand rose by 5 per cent compared with a year previously. Maersk Line, which transports about 15 per cent of global sea freight, stuck by its prediction of 2-3 per cent growth this year, followed by 4-6 per cent in the next two years. But Mr Andersen cautioned that pre-financial crisis levels of trade were unlikely to be reached soon. "We see the trade multipliers being much lower, meaning that the same GDP will not lead to as big a growth in trade... We can't rely on GDP developments to help us; we need to do it ourselves," he said.

which

Wave of M&A predicted for telecoms and technology sectors

The telecoms and technology sectors will be transformed by unprecedented mergers and acquisitions activity in the next two years as industries consolidate around key companies, according to annual predictions made by CCS Insight, the research group.

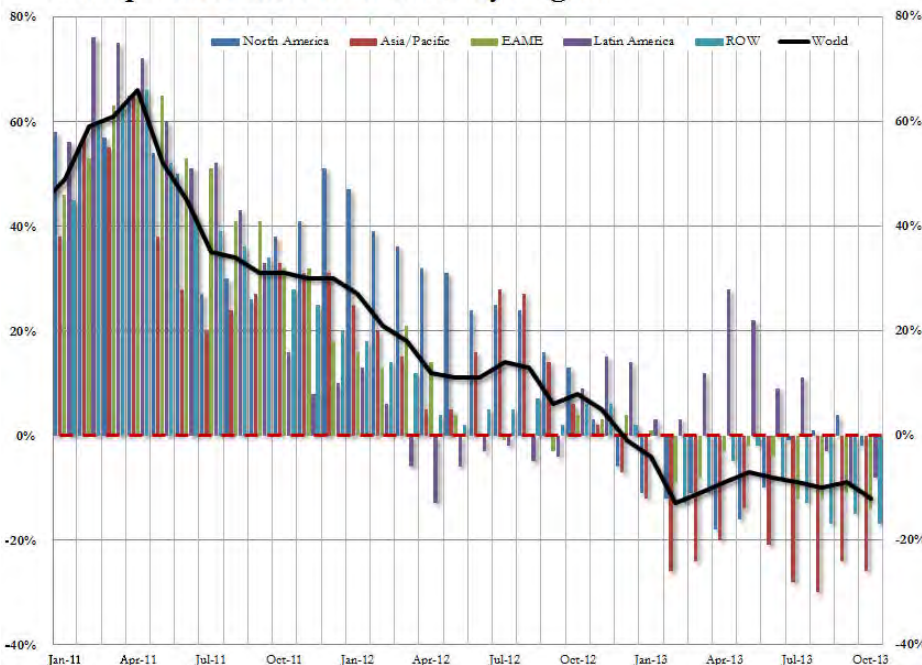
Caterpillar Inc. continuing a cost-cutting campaign, said Friday it would close a plant in Pulaski, Va., that makes underground mining equipment. The plant employs about 240 people. The Peoria, Ill.-based maker of construction and mining equipment said production at the plant will be shifted to its Houston, Pa., plant by mid-2014. **Hurt by a global drop in demand for mining equipment, Caterpillar has been resorting to temporary layoffs and permanent plant closures for months.**

TROUBLING Diverging trends in demand for investment goods argue against a broadly based recovery.

While orders for capital goods are picking up in the Euro Area, they have slowed in the United States, reflecting fiscal and monetary policy uncertainties, and are declining for developing countries considered as a whole. Orders for capital goods, an indicator of future business investment plans, are experiencing diverging trends across regions. A nascent recovery in the Euro Area economy is fueling demand for German machinery and equipment. Orders for Japanese investment goods rose at an annualized 18 percent pace in the third quarter, but slowing of GDP growth (to an annualized 1.9% in Q3 from 3.8% in Q2) has raised concerns of potential headwinds. In the US, although GDP growth picked up to annualized 2.8 percent pace, investment goods orders contracted in two out of the three months in the third quarter, mainly reflecting fiscal and monetary policy uncertainties. Developing-country investment orders are still contracting, but the pace of deterioration has eased led by rising orders in China. These heterogeneous trends in investment orders are consistent with a still hesitant recovery in global growth.

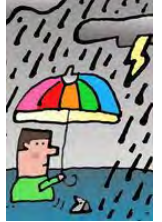
DRAMATIC SHIFT IN DEMAND

Caterpillar Dealer Retail Sales By Region





Households – Brave New World



U.S. Labor Costs Remain Subdued

Third-Quarter Gain of 0.4% Reflects Muted Inflation Picture

Retailers brace for hits from holiday discounts

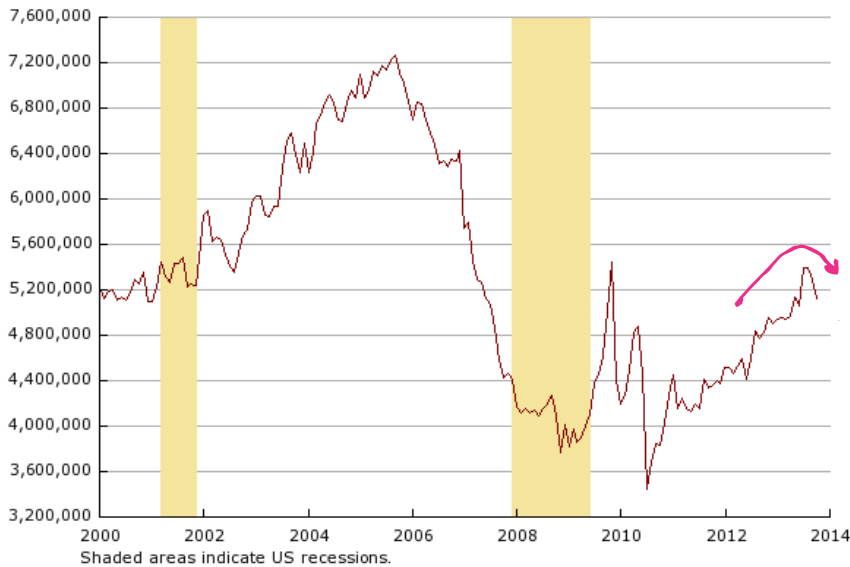
According to a new Reuters-Ipsos poll, most Americans plan to spend less than they did during the 2012 holiday shopping season. And by all indications, most are demanding rock-bottom prices.

Retail sales in October were moderately healthy with more components positive than not. Overall retail sales gained 0.4 percent after no change in September.

Autos helped, increasing 1.3 percent after a decline of 1.2 percent in September. Excluding autos, sales advanced 0.2 percent in October after rising 0.3 percent in September. But gasoline prices weighed down. Gas station sales slipped 0.6 percent in October, following a 0.2 percent increase the month before. Excluding both autos and gasoline, sales increased 0.3 percent, matching the pace in September. In the core, strength was seen in electronics & appliance stores; sporting goods, hobby, etc.; furniture & home furnishings, clothing; and food services & drinking places. Declines were seen in building materials & garden equipment and miscellaneous store retailers.

U.S. Existing Home Sales

(Number of Units) Source: National Association of Realtors



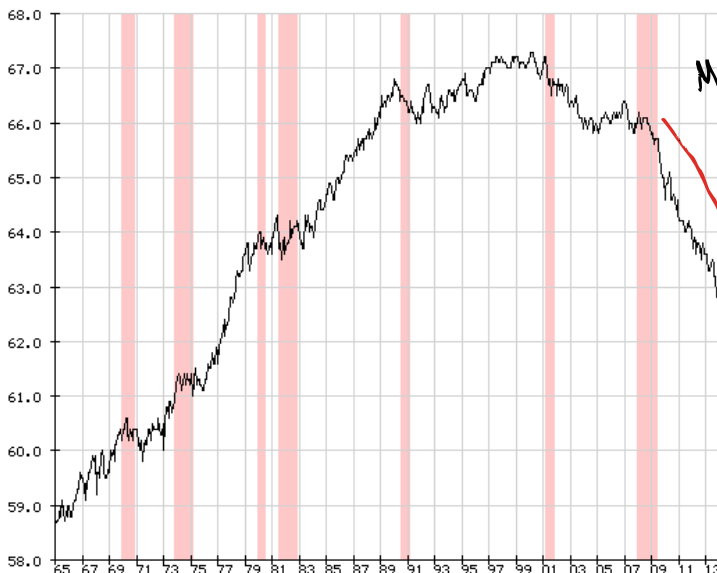
Hottest Housing Markets Hit Headwinds Rising Prices and Mortgage Rates Dent Demand, Pushing Up Supply a Bit

Some of the nation's hottest housing markets over the past year are cooling off as buyers balk at paying higher prices, according to The Wall Street Journal's quarterly survey of market conditions.

For the 12-month period ending in September, values have climbed by more than 33% in Las Vegas and Sacramento, Calif., and by more than 20% in San Francisco, Phoenix, San Diego, and Orange County, Calif., according to Zillow Inc., the real-estate website.

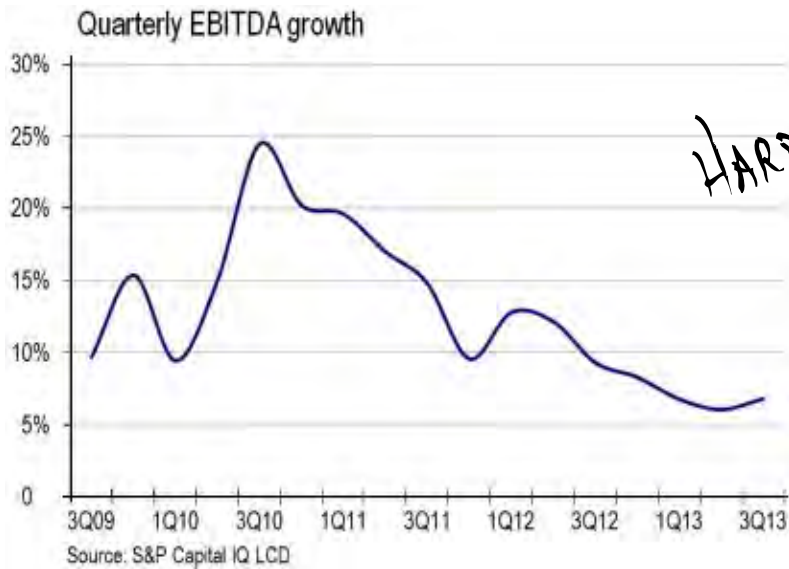
But lately, those gains have moderated. For the July-to-September quarter, home values in Orange County rose just 1%; in San Diego, 2%; and in San Francisco, 3%. Those were the smallest increases in those markets since prices began to rise in early 2012.

US Labor Force Participation Rate: SA



CAN ALMOST SAY THAT ALL OF THE IMPROVEMENT IN "JOBLESS RATE" HAS BEEN DUE TO COLLAPSE IN LABOR PARTICIPATION RATES

Dislocation, Dislocation, Dislocation



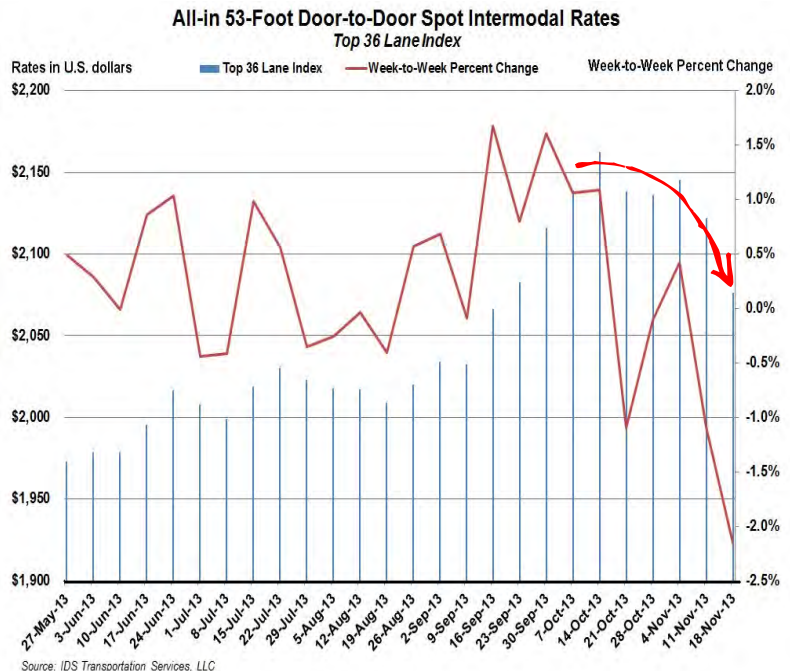
HARD TO ARGUE FOR
BIG UPSIDE
HERE!

**Massive Fuel Imports Send Japan's Deficit
Careening To 3rd Worst On Record**

FedEx goes paperless *wow*
Equips its pilots with 4,300 iPads and
saves 32 tons of paper

✓ Average US Intermodal Rate Falls

An index of U.S. intermodal rates fell again in the week ending Nov. 18, pulled lower by declines in all four directional indices this week. The overall index rate of the top 36 U.S. lanes decreased 2.2 percent, or \$46, to \$2,076, according to data on all-inclusive 53-foot door-to-door spot pricing quoted by railroads and provided by the 3PL IDS. The index has fallen roughly \$70 during the past two weeks



WHEN
GENIUS
FAILED

You Can't Handle the Truth...

Let's Take the "Con" out of Economics



U.S. Exports

Cass / INTTRA Ocean Freight Index

A measure of changes in U.S. export container activity.



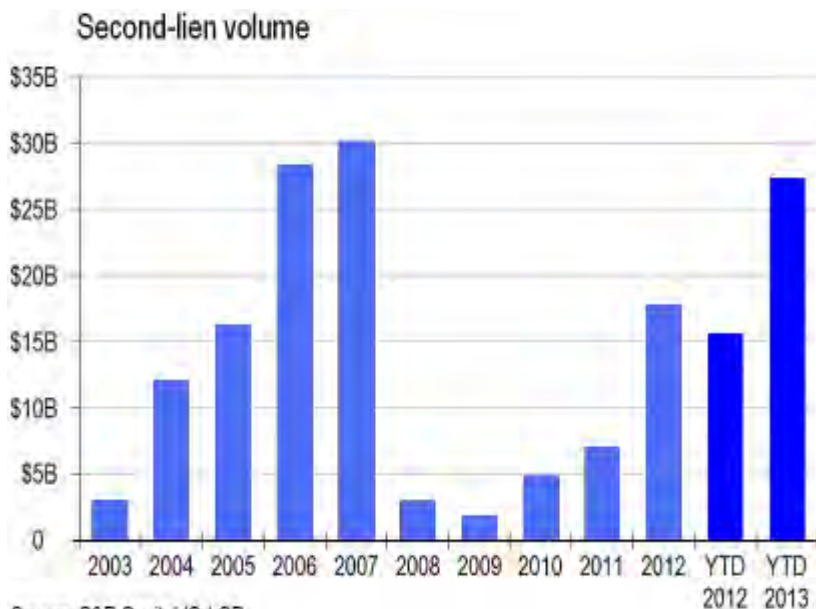
© 2013 INTTRA and Cass Information Systems, Inc.

The OECD announced that the global economy would expand 2.7% this year and 3.6% in 2014, compared with estimates of 3.1% and 4.0% made in May. The downgrade is in view of a slowdown in emerging markets, brinkmanship over the U.S. debt ceiling and concerns over the Federal Reserve's tapering.

! ?
LOWER IN 2013 . .

Bond Quality Drifting Lower... Lackluster U.S. GDP growth this year has failed to turn around a modest but persistently negative rating drift for the U.S. corporate bond market. Through the third quarter, the market's par downgrade rate of 3.9% outpaced the 3% share of bonds upgraded.

NOTE



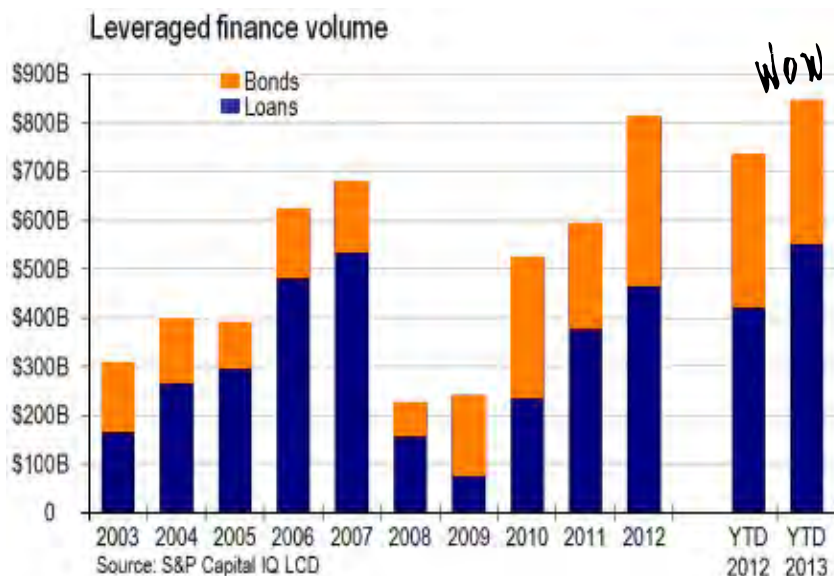
Source: S&P Capital IQ LCD

WOW -
JUST BORROW!

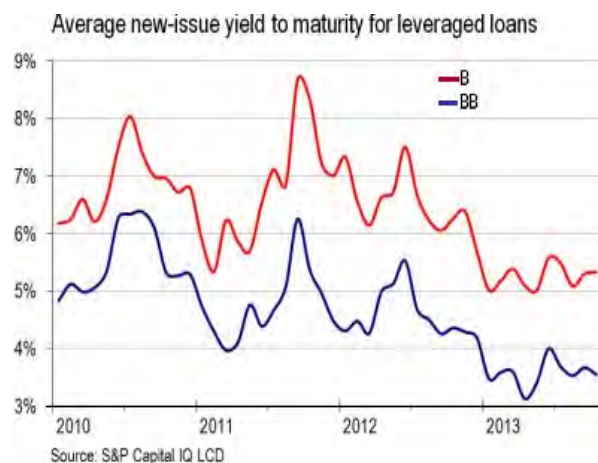
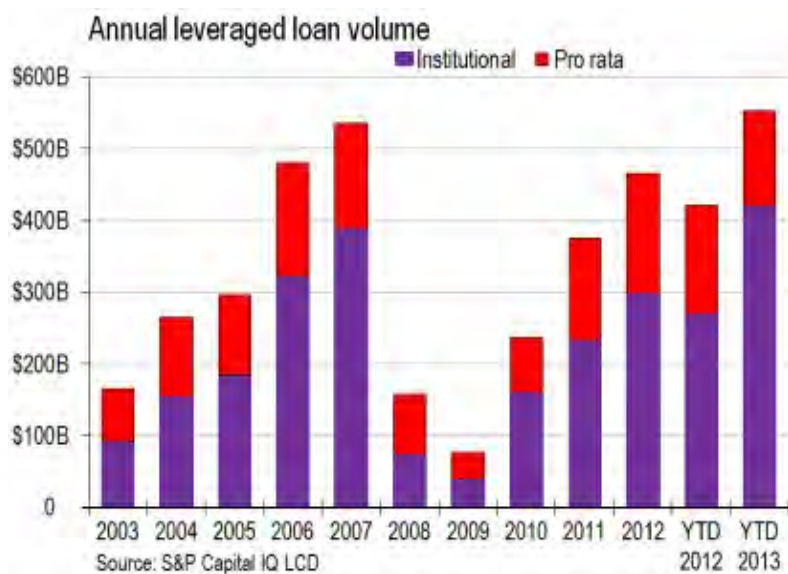
Riskier "covenant-lite" loans, which offer fewer protections to lenders, are making up record levels of the debt packages sold to investors amid resurgent lending markets and a thirst for higher returns. Managers of collateralized loan obligations, which package up corporate loans and slice them into different tranches, have increased the proportion of riskier loans that their investment vehicles are allowed to buy to the highest levels on record. CLO managers select the loans that underpin the structured products, walking a fine line between generating decent returns for investors and avoiding loans that will end up defaulting. But as "covenant-lite" loans have this year become the norm in the US, CLO managers have been forced to relax the limits on the percentage of the loans that can go into their deals. Already, 55 per cent of new leveraged loans come in "cov-lite" form, eclipsing the 29 per cent reached at the height of the leveraged buyout boom just before the financial crisis.

Credit - A Closer Look

WHAT AN AMAZING
FINANCING
ENVIRONMENT FOR
CORPORATIONS!



BACK TO RECORD
LEVELS





Credit Matters-Know Risk

Many Excel in Strategy, Few in the Management of Risk



Jefferson County, Ala., is planning a \$1.7 billion debt sale next week, challenging the market maxim that a bankruptcy filing leaves a permanent stain on municipal-bond issuers.

PRESSURE BUILDS TO FINISH SCRIPTING VOLCKER RULE QUICKLY

Treasury Secretary Jacob J. Lew has strongly urged federal agencies to finish writing the Volcker Rule by the end of the year - more than a year after they had been expected to do so - and President Obama recently stressed the importance of the deadline

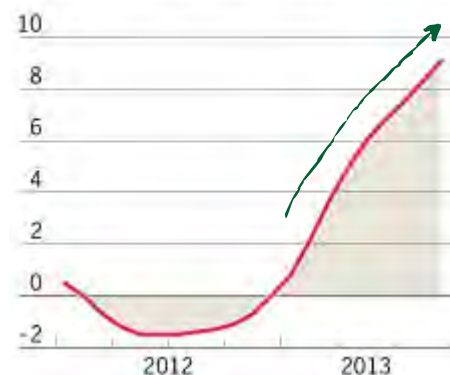
No CONSTRAINTS

China - Haunted housing

Even big developers and state-owned newspapers are beginning to express fears of a property bubble

Chinese house prices

70 medium and large cities (annual % change)



EV

Loan scarcity leads corporate shift to debt markets ✓

Stymied commercial bank lending is unlikely to ease and remains a significant obstacle to corporate expansion -- particularly in European countries (excluding the United Kingdom), which have traditionally relied on corporate lending rather than securities issuance to finance private enterprise. National regulators are unlikely to enact measures to promote expanded corporate lending, especially in countries such as the United States, where securities markets are meeting corporate funding needs at acceptable costs

After a rough summer, **Asian markets** are calm once again. But beneath the surface, the fear of what the Federal Reserve may do next is beginning to spread beyond India and Indonesia.

The MSCI Asia-Pacific-ex-Japan stock market index is up 11 percent from its end-August low. The intense selling pressure on the Indian rupee and the Indonesian rupiah has eased since the Fed's surprise September decision to keep its \$85-billion-a-month money-printing programme intact for now.

But the fragilities that prompted investors to rush for the exits remain. With prices of coal and palm oil exports in the doldrums, Indonesia's current account shortfall - a broader measure of the country's reliance on foreign capital - may remain elevated at the second quarter's level of 4.4 percent of GDP.

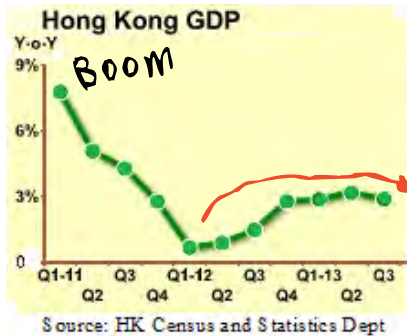
By contrast, India isn't much of a commodity seller. Its exporters, therefore, are benefitting from a weaker currency, and the trade deficit is narrowing. However, the nation's savers are still losing money on bank deposits because of double-digit inflation. If U.S. interest rates shoot up, another round of capital outflows is possible.

WATCH

Asia debt is soaring. In Thailand, bank loans to individuals have jumped 20 percent in the first nine months of the year, higher than last year's 18 percent growth. Meanwhile, the Thai economy has lost momentum, the politics has become unstable, and the current account has tipped into a deficit. Instead of easing, Asia's fear of the Fed is spreading wider.



The New Geography of Business



David Bloom, a demographer at Harvard School of Public Health, who coined the theory of the demographic dividend, estimates up to a third of the "miracle" growth in Asia between 1965 and 1990 was due to favorable demographics. In China's case, the results were even sharper because of the decision to limit most families from 1980 to having only one child.

But, from 2016, China's working-age population, those aged between 15 and 64, is set to start declining as a share of the population, according to the United Nations.

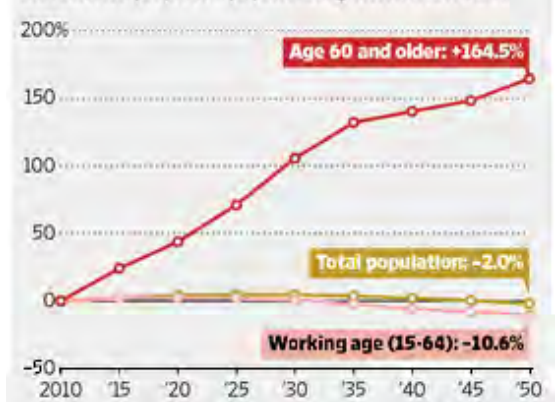
Beware

China Eases One-Child Policy
Concession Comes as Labor Shortage Looms

China's Children

The one-child policy, started in 1980, put the brakes somewhat on population growth... now China faces a shortage of younger workers.

Cumulative projected population growth from 2010



Prospects for Japan in 2014

Prime Minister Shinzo Abe has survived through 2013 with his political popularity still running at over 60% and his authority within the Liberal Democratic Party (LDP) so far unchallenged. His strong position at home has freed him to pursue a pro-active foreign policy. Aggressive monetary expansion is weakening the yen and pushing up share prices. Rising inflation expectations have driven up household consumption. The key policies affecting Japan's economy in 2014 are already in place.

Higher hopes raise Latin American political pressures

Latinobarometro, a Santiago-based research organization that has surveyed public attitudes in Latin America since 1995, released the results of a new poll on November 1. Its results indicate ongoing consolidation of democracy in the region but also draw attention to the increasing pressure of expectations.

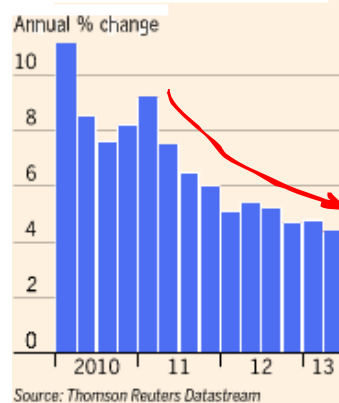
Prospects for Brazil in 2014

President Dilma Rousseff is the favourite to win re-election in October. Yet while a healthy job market has kept her popular, growth will remain low as the country struggles to move from an exhausted consumption- and credit-based economic model to a formula relying more on investment and productivity gains. Even if successful, this transition will take years. Meanwhile, dissatisfaction with poor public services will remain, potentially leading to further massive protests -- possibly during the football World Cup, which the country will host in June-July.

Stability secures UAE's status as investment haven

The emirates of Abu Dhabi and Dubai are reaping the benefits of recent developments in the Arab world. Crackdowns on domestic Islamists and the eclipse of the Muslim Brotherhood in North Africa have removed the major threat to political stability in the United Arab Emirates (UAE). Close coordination of policy with Saudi Arabia has diluted Qatar's regional influence and strengthened internal security cooperation within the Gulf Cooperation Council (GCC). Strong economic fundamentals have driven growth in both the oil and non-oil sectors and facilitated strategic investments in support of key allies in Egypt and elsewhere

INDIA GDP Growth



SUBDUED
GROWTH

- * Oil traders are planning to transport Canadian crude thousands of miles by pipe and rail across the US for export to global markets, in a bid to exploit big price differences created by surging North American output. At least one major trading house is looking at lodging an application with the US government for a license to export cheaper Canadian crude via the US Gulf Coast to higher priced international markets, according to people familiar with the situation.



Deal or No Deal in Europe?



Italy's economy

High payroll taxes choke off recovery

Italian retail sales in September unexpectedly decreased 0.3% (m/m sa) from August when they were flat. The monthly decline was the steepest in eight months. Sales of food products dropped 0.2% and sales of non-food products decreased 0.3%. On a three-monthly annualized basis, retail sales declined 1.7% (3m/3m sa) in September down from August's fall of 1.1%.

Prospects for the United Kingdom in 2014 *

Popular dissatisfaction with a political class seen as pro-EU and pro-immigration points to a strong showing for the UK Independence Party (UKIP) in the European elections in May 2014. Scotland's referendum on independence in September will intensify the debate surrounding EU membership, raising pressure on Labour to follow the Conservatives in promising a referendum. Stronger growth should reduce unemployment to 7% in late 2014 or early 2015, justifying market expectations of an interest rate rise but inflation will continue to outstrip wages.

NO LENDING -

Annual change in euro-zone loans to nonfinancial corporations



Source: European Central Bank

IMPORTANT

Asset quality is still serious issue in the periphery. Non-performing loans in **Spanish banks** accounted for 12.7% of lending in September, up from 12.1% in August and 10.7% a year earlier. The Bank of Spain has introduced more stringent requirements around NPL classifications, and this has contributed to the increase.

BEWARE

EU poverty levels rising

According to recent Eurostat estimates, over 125 million persons in the EU (25% of the total population) were at risk of poverty or social exclusion in 2012, up from 122 million in 2011 and from 118 million in 2010. This increase was caused in large part by the deterioration of living conditions in long-time EU member states (EU-15).

The U.S. Federal Reserve, Bank of Japan and Bank of England all have purchased large amounts of government bonds in efforts to loosen monetary policy, a practice known as quantitative easing. **That isn't so easy for the ECB, which has to cope with 17 member states and a government-bond market fractured by the sovereign-debt crisis.**

Eurozone slows as 'sick man' France hits recovery

Disappointing eurozone PMI survey signals slowing growth for second month in November with activity in France shrinking and the bloc's service sector weakening. The economy will grow 0.2% this year, with GDP finally reaching its 2007 level -- presaging a very weak recovery in 2014 due to the continuing fiscal austerity. Unemployment shows no sign of receding, contrary to the government's claims, and will reach a historical peak at close to 11.5%. The year will also be marked by the municipal elections in March and the European Parliament (EP) elections in May, with the far-right National Front expected to do well in the latter. This will probably trigger a significant reshuffling of President Francois Hollande's government, including the nomination of a new prime minister, but will have very little effect on the government's economic policy and willingness to implement necessary reforms.

EU Car Registrations

New Passenger Car Registrations in October

Results in the EU 2003 - 2013



Russia's economy

Will the stagnating economy bring about much-needed structural reform?

STAGNATION has a particularly unpleasant resonance to the Russian ear, conjuring up memories of the ossified gerontocracy of the Brezhnev era. But with year-on-year GDP growth at just 1.2% last quarter and growth in investment and industrial production nearing zero, stagnation seems to be the most apt description of the Russian economy. Speaking at an investment forum last month, Alexei Ulyukayev, the economic-development minister, paraphrased an old joke: "Practically, there is no economic development," he said, "but the economic-development minister is here in front of you!" Throughout the 2000s, the Kremlin funneled profits from oil and gas into the rest of the economy, largely through state-led investment projects and increases in wages and pensions. Consumption soared. Spare industrial capacity left over from the Soviet era meant that firms did not have to invest to produce more. They could simply unlock capacity that had been sitting unused.

Pumping Iron - Old Economy – New Challenges

Industrial Output Runs Hard to Stay in Place

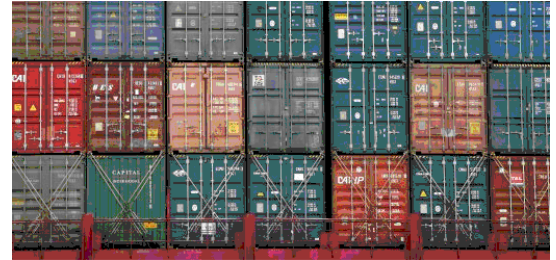
Industrial production in the U.S. unexpectedly saw a modest decrease in the month of October, the Federal Reserve revealed... The report said industrial production edged down by 0.1 percent in October after climbing by an upwardly revised 0.7 percent in September.

* Mining output is nearly 22% higher than in 2007, and business equipment almost 4% higher. On the other side of the ledger, consumer-goods output is about 6% lower and construction-supplier activity is off nearly 18%.

Taken as a whole, the fact it has taken this long for the headline index to climb back to its level before the downturn points to an extraordinarily tepid recovery. There hasn't been a postrecession rebound in industrial output this slow since 1951, which followed the winding down of military production after World War II.

✓ Petrochemicals Investment Ignites Growth at Houston Port

Energy Outlook: The expected rate of crude oil demand growth has increased, as has supply capacity due to gains in US and Iraqi crude production and OPEC natural gas. OECD crude stocks have fallen below their five-year average and China is expected to continue its strategic inventory build. Key risks to oil prices in 2014 remain instability in the Middle East -- though oil futures suggest these risks are more subdued than a year ago. International gas markets remain tight as only two major new projects are expected to come on stream, while Asia-Pacific demand continues to grow strongly.



Tank, Flatbed Trucking Outperform on Energy Boom, Housing Recovery

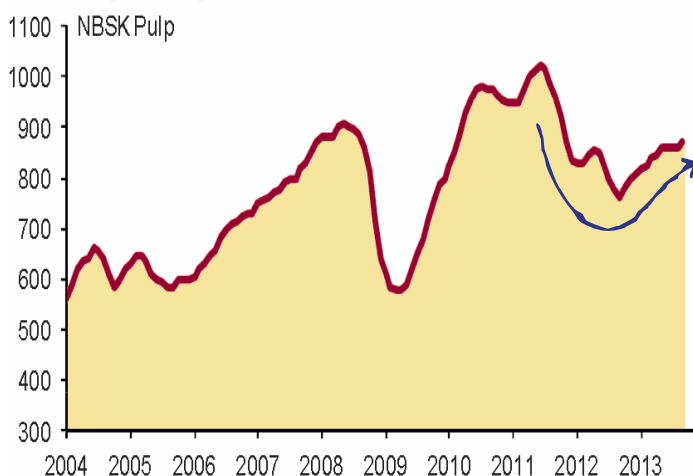
Coffee Bear Market Slump

Arabica prices have fallen 22% since the start of 2013 and are at the lowest levels seen since 2009.

Global production will expand 3.1 percent to 151.9 million bags (9.11 million metric tons) in the year that began Oct. 1, up 15 percent from 2008, with a surplus of 8.7 million bags, Macquarie Bank Ltd. said in an Oct. 4 report. The glut is enough to supply every coffee drinker for almost a year in Germany, the largest consumer after the U.S. and Brazil. Most of the excess are arabica varieties found in specialty coffees sold by Starbucks and other coffee shops, the bank said. Brazil, the largest grower and exporter, will reap an all-time high of 59 million bags in the harvest that starts in April, according to the median estimate of eight traders and analysts surveyed by Bloomberg News. Output in the country, which will shift next year to the high-yielding half of the biennial cycle for trees, surged 69 percent in the past decade, U.S. Department of Agriculture data show.

Fisker files for Chapter 11 bankruptcy protection following Karma electric sports car flop

Paper Pulp Prices



Coffee Prices – Arabica

KCZ13 - Coffee (ICEUS)



The DNA of Business

Workouts to Define Recovery



Midwest Farmland Values: Past Peak Season?

Regional Fed Banks Report Declining or Slowing Growth in Prices
A multiyear run-up in the value of farmland in the U.S. Midwest may be running out of steam.

Average cropland prices declined in parts of the Farm Belt in the third quarter from the previous quarter while rising at a low rate in other areas, according to separate reports this past week by regional Federal Reserve banks in Chicago, St. Louis and Kansas City.

The surveys also found that some agricultural bankers expect cropland prices to decline across the Farm Belt as 2014 approaches because big harvests this fall have driven grain and soybean prices sharply lower. Corn prices also are expected to weaken after the U.S. Environmental Protection Agency on Friday proposed for the first time lowering an annual requirement for how much ethanol should be blended into gasoline.

US prepares for more online gambling

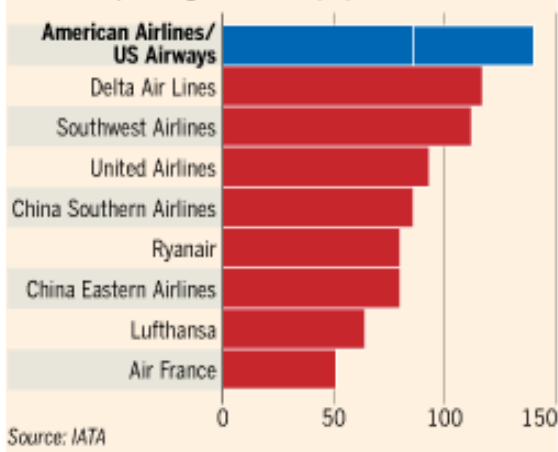
Online gambling is launched in the state of New Jersey, a sign that the US may slowly be opening up to the multibillion-dollar industry.

TELECOM

- Vodafone's announcement that it plans to boost its investments in network upgrade measures to £7 billion (\$11.1 billion) may have spooked the UK giant's rivals, but is one of several positive moves in Europe's struggling telecoms markets to have emerged this week.
- Other positive news came out of France, where both Bouygues Telecom and SFR indicated an improvement in third-quarter results and provided some evidence that their tactics of cutting costs and launching their own low-cost price plans are starting to pay off.
- Over in Austria, one of Europe's most cutthroat markets, T-Mobile Austria opined that the beginning of the end to the market's price war could be in sight.
- At the same time, the latest missive from Moody's served to remind us that Europe is still a very uncertain place for telecoms players. The ratings agency said despite anticipated operating margin stabilisation in 2014, the EMEA telecoms service sector will remain on negative outlook due to the slow pace and uncertain sustainability of the revenue recovery.

US airlines' mega merger

Scheduled passengers carried (m)



'Next gen' internet alters global corporate strategies

The internet is now entering a new phase of innovation with billions of consumer devices, including smart phones, tablets and industrial machines, being connected to one-another using sensors, telecommunications links and internet infrastructure. More objects are becoming embedded with sensors and gaining the ability to communicate -- resulting in the number of objects connected to the internet exceeding the number of people on earth. This is not only creating new business models but also a range of new benefits including improved business processes and reduced costs and risks. However, there are potential drawbacks for those organizations that are not able to exploit these benefits. This can be referred to as the 'data divide'.

Boeing Takes \$100 Billion in Orders From Gulf

U.S.-based Boeing Co. dominated on the first day of the Dubai Airshow, netting \$100 billion in orders at an event that showcased the spending power and aggressive expansion efforts of the Middle East's Gulf Arab carriers. The 342 orders represented more than twice the value of those seen by European rival Airbus, who said it took 142 orders worth some \$40 billion. The massive commitments came from just four carriers in the tiny nations of Qatar and the United Arab Emirates, which are in a race to create more jobs for their own citizens and diversify their oil-dependent economies.

Rivals Circle Time Warner Cable

U.S. cable giants appear to be maneuvering for control of Time Warner Cable the country's second-biggest cable firm, setting up a possible takeover fight that could reshape America's television landscape.

Credit spreads referencing Time Warner Cable (TWC) surged wider again this morning amid reports that Charter Communications is nearing a long-rumored leveraged bid to acquire its substantially larger peer. But speculation regarding potential emerging rivals for TWC is already complicating the outlook, trade data show.

The Wall Street Journal, citing unnamed sources, late yesterday reported that Charter has worked with banks regarding the debt portion of the funding for the takeover play, while casting a wider net for equity contributions from liquid investors. TWC 4% notes due 2021 were among the most actively traded issues in the secondary market this morning, changing hands 20 bps wider on the day, at T+245, according to trade data published by MarketAxess. Other debt issues backing TWC were similarly 20-35 bps wider this morning.

Time Warner Inc moved another step closer to spinning off its magazine assets as Time Inc., the publisher of People, Fortune and the eponymous newsweekly Time, filed with regulators on Friday to list itself as a standalone company. The filing indicated that Time Inc would list its common stock in 2014 but did not reveal the number of shares to be sold or the symbol they would be traded under. Time Inc., which also publishes the Sports Illustrated magazine, reported revenue of \$2.39 billion for the nine months ended September, more than half of which came from advertising. The company reported net profit of \$135 million for the period and long-term debt of \$37 million. Following the spin off, Time Warner will own no equity interest in Time Inc.

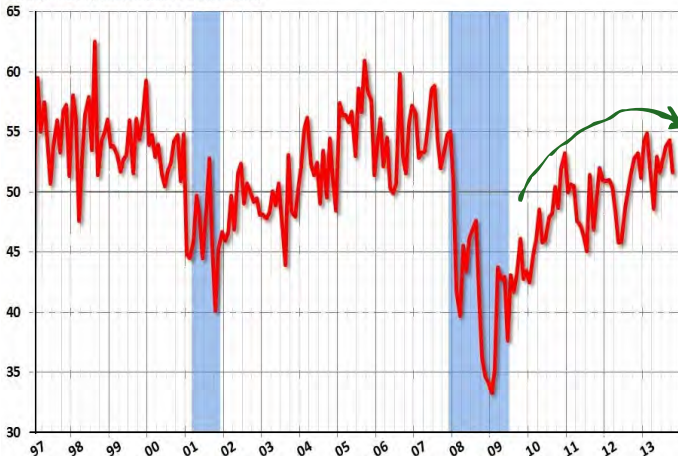
Real Estate and Construction Outlook

Landlords are so eager to build self-storage facilities near large, dense population centers that they are disguising the projects as hotels, office buildings, apartments and stores.



U.S. Architectural Billings Index

Billings Index (Greater than 50 = Expansion)



Through October 15th, office investment sales volume already totaled about \$65 billion nationwide vs. \$81 billion in 2012, Dan Fasulo, Managing Director of Real Capital Analytics, tells Michael Bull. Office sales should finish 10 percent to 20 percent greater year over year given that the fourth quarter is historically the most active quarter for office transactions, he added. Active buyers are as diverse as they were at the height of the market. Everyone, from institutional investors to private investors, [is] back with a vengeance. Additionally, both public and private REITs have re-entered the market. Financing is even available for secondary markets and transitional assets that were starved for capital during the last few years, Fasulo said. "We have to figure out how to keep the CMBS channel open because it is really helping the market be as healthy as it can be," he added. In prime locations, good properties are seeing cap rates as low as 4 percent, Fasulo said. "For prime, core assets, cap rates are at or near all-time lows again, and certain properties are trading at levels where the yields don't appeal to the broad spectrum of the investment community

Over the last year, Federal Reserve officials have been raising red flags over an obscure part of the mortgage-finance world: **companies known as mortgage real estate investment trusts, or mREITs**, which invest in mortgage-backed securities, pay out most of their income to investors in the form of dividends, and pay little to no corporate income tax. Fed officials have highlighted mREITs as an area where troublesome signs could be emerging and the Financial Stability Oversight Council, a group of top regulators, also identified the industry as a potential source of market vulnerability in its recent annual report.

Some of the biggest names in U.S. real estate are circling Los Angeles for what could be the highest-priced sale of a U.S. office property since before the recession. J.P. Morgan ChaseJPM +0.16% & Co.'s asset-management arm is seeking to sell Century Park, a complex consisting of two 44-story towers and a 12-story building that together total 3.2 million square feet of space in Los Angeles' Century City. A first round of bids submitted within the past two weeks attracted top landlords including Hines, Tishman Speyer Properties LP, Douglas Emmett Inc.DEI -0.98% and Commonwealth Partners, according to real-estate executives familiar with the sales process. J.P. Morgan's adviser on the sale, Eastdil Secured LLC, has told bidders a second round has a minimum bid of \$2.2 billion, those people said. If that price is hit, it would be the largest sale of an office property in the country since Google Inc. bought its New York headquarters at 111 Eighth Ave. in 2010 for about \$1.9 billion.

After posting modest gains throughout the third quarter of 2013, price growth for **commercial property** was mixed in September, reflecting the uncertainty that existed over economic policy and an uptick in interest rates.

The two broadest measures of aggregate pricing for **commercial properties** within the CCRSI—the value-weighted U.S. Composite Index and the equal-weighted U.S. Composite Index—saw little movement for the month. The value-weighted index, which is influenced by larger transactions, expanded by 0.3% in September while the equal-weighted index, which reflects more numerous smaller transactions, dipped by 0.6% in September. However, both indices posted modest gains in the third quarter of 2013, and advanced 8.4% on an annual basis.

PRICE GROWTH ACCELERATING IN SECONDARY REGIONS AND PROPERTY TYPES:

With pricing for multifamily assets in the Northeast and West regions approaching peak or near-peak levels, investors have continued to expand their search for yield beyond core gateway markets, leading to stronger price gains in the office, retail and industrial sectors in other regions, including the Midwest region.

Office investment sales are gaining traction as a new wave of buyers have emerged, bidding up pricing for core assets and driving investors to second-tier markets in their search for higher yields. ✓

Will Life Ever Be the Same?



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