HD **Daily Agenda: New Paths to Global Trade Expansion**

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Japan sinks into recession; exports rebound in Europe; Halliburton and Baker Hughes**merge** in massive **energy**-sector deal.

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Are we moving into a new era for global trade? A push for change is indeed in the air. The Association of Southeast Asian Nations (ASEAN) conference in Myanmar last week provided another platform for the U.S. to advocate for an adoption of the 11-nation Trans-Pacific Partnership. This past weekend, Australia and **China** announced a historic trade pact that will remove tariffs on agricultural, base metal and **energy** commodities as well as pharmaceuticals, ultimately removing tariffs for sectors that accounted for more than A$100 **billion** ($870 **million**) in total shipments last year. Critically, the accord will also allow Australian insurers to enter third-party vehicle liability markets and will allow Australian banks to hold deposits in local currency within the year and brokerages to trade securities abroad for **Chinese** citizens. Finally, today's surprise upswing in exports for the euro zone in September was helped by increasing demand from **China**, driving the year-to-date pace of exports to the nation to a growth rate of 10 percent year-over-year. For now, regardless of geopolitical tensions or concerns over cooling growth in **China**, it appears clear that emerging Asia is ultimately intent on expanding trade with the West as the nature of demand there broadens, a long-term bullish signal from any perspective.

Japan is officially in recession. Recent optimism on rising activity measures is being rattled, as Japanese third-quarter gross domestic product registered an unexpected contraction to confirm a recessionary period. Headline growth contracted by 1.6 percent on a quarterly basis versus consensus forecasts for an expansion, while second-quarter figures were revised to a 7.3 percent contraction. The accompanying data registered weaker than anticipated across all segments of the economy. Most analysts now anticipate that Prime Minister Shinzo Abe will delay the next scheduled sales tax increase as the one implemented this spring continues to weigh on momentum despite unprecedented easing measures by the Bank of Japan.

Gold continues to lose its luster. The latest weekly trader sentiment data for U.S. **gold** futures contracts confirmed a 14 percent reduction in outstanding net-long exposures, bringing the reduction in total longs to almost 50 percent for the prior three weeks. With assets held in exchange-linked products reaching multiyear lows, investor appetite for precious metals appears to keep waning as global demand cools and the U.S. dollar remains resilient.

Exports jump in Europe. Aggregate euro zone trade data released today registered a record surplus of €17.7 **billion** ($22.1 **billion**) for September, well above consensus forecasts as exports rose sharply. August figures were also revised upwards by a significant margin. At 9 percent for the month, the surge in exports more than offset a modest increase in imports as a weak euro helped spur shipments abroad.

U.S. industrial production data to be released today. In the U.S. industrial production and capacity utilization data for October will be the most closely watched economic indicator for the day. Consensus forecasts call for a more modest rise than the surprise 1 percent jump in activity in September on the back of unusual utilities expansion, but for stronger activity nonetheless. Expectations are for capacity utilization to remain at 79.3 percent after last month's uptick.

Halliburton buys Baker Hughes. Halliburton has announced a definitive agreement to acquire Baker Hughes for $34.6 **billion** according to a **company** release, constituting a 31 percent premium to Baker Hughes' share price at the close of trading on Friday. The newly created **company** will sell up to $10 **billion** worth of assets to clear potential regulatory hurdles.

Portfolio Perspective: ECB Still Awaits Political Follow-Through — Derek Holt, Scotiabank

The European Central Bank's week starts off with bank president Mario Draghi's quarterly testimony before the Committee on Economic And Monetary Affairs of the European Parliament on Monday. He book-ends the week by reappearing on Friday at the 24th European Banking Congress on "Reshaping Europe." Draghi will likely wag a finger at Europe yet again by noting that monetary policy is doing its part but governments need to place greater emphasis upon regulatory and fiscal reforms. My view remains that ECB policy is at least partly responsible for stalled progress on regulatory and fiscal reforms by virtue of removing market pressures on governments to act. Unlike checks and balances in what outwardly appears to be a highly dysfunctional U.S. Congress that has nevertheless achieved material deficit repair, Europe's governments have proven less capable in this regard. German Finance minister Wolfgang Schäuble is on a panel at the same conference as Draghi on Friday and could well repeat his recent warnings to the ECB to respect limits on their powers and avoid straying toward sovereign bond purchases that would be tantamount to funding governments.

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