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Insight Perspectives

Economic and political update

Turkey

Erdogan plays with fire!

Russia-Syria

The game plan of president Putin matters to the global financial market

By Invitation

Xi Jinping's fingerprints are everywhere

Image: Shutterstock, EKS, Mr. Timmi

Insight Perspectives
Economic and political update

The Insightperspectives newsletter is produced by Insightview.eu Ltd (Private Limited Company), Denmark, and is published on a monthly basis.

The editor-in-chief is Carsten B. Pedersen. If you are interested in subscribing to the newsletter, send your contact details to info@insightview.eu

The Insightperspectives newsletter provides a summary of what happened in the month under review, plus articles about "special issues" in the global economy.

The newsletter attaches importance to identifying and analyzing current and future trends in the global economy, financial market and politics.

All articles will be linked to external sources and Insightview.eu, which includes more charts, maps, data and elaborating comments.

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Nina Smith, Professor, **Aarhus University**, School of Business and Social Sciences Departm. of Econ. and Business. Former chairman of the Danish Economic Councils.

"This is actually a very good newsletter if you want to get quickly informed about major economic issues all over the world"

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"Insightperspectives is a valuable supplement to the daily stream of information, received from banks and the various other providers of news and market analysis. It puts the issues discussed into context and provides a view on the long term implications, which can easily get lost in the daily flow of information"

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"Insightperspectives provides an easily understandable summary of the financially most important events, news and developments around the world."

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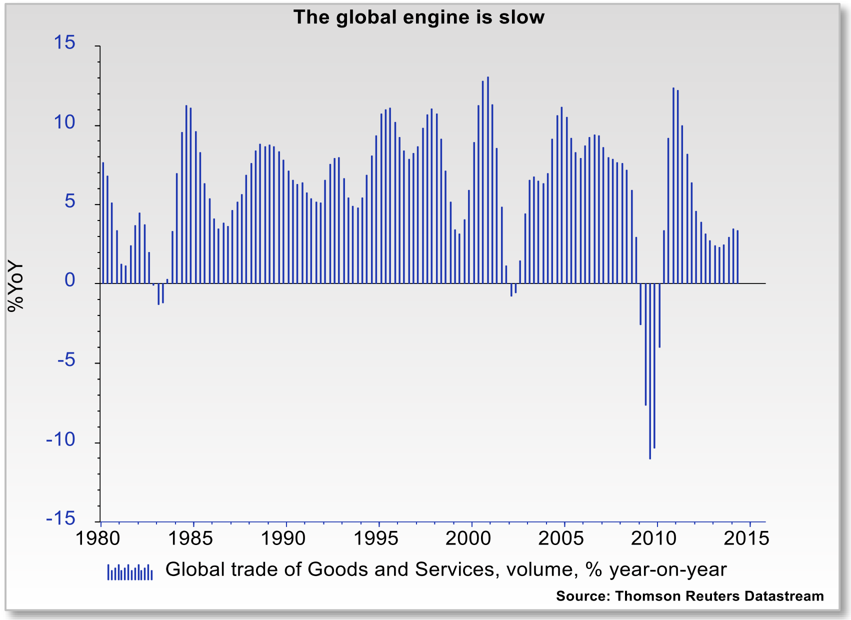
The editor of Insightperspectives is simply the best macroeconomist I have ever experienced. For more than a decade I have been a reader of his thoughtful analysis that comes with an edge. This is the only macroeconomic analysis you will need to be able to follow global trends that can make a difference in your own day-to-day decision-making, whether in business or investments.

Global economic and political update

At present, all eyes are focused on whether European policymakers are able to solve a refugee crisis that is only getting worse. So far, the political initiatives launched have not been convincing. Instead, the crisis has once again exposed a fragile and incoherent European Union. Insightperspectives believes the refugee crisis could make Europe's political center a void rather quickly, unless policymakers find a common solution backed by public opinion rather than only having the backing of the political elite – read the Deutsche Well article, Early results show anti-immigrant party make record gains in Swiss elections.

Unfortunately, Europe is short of political sense of reality; this risks not only endangering Europe's integration process, but also free trade in general. In Europe, anti-globalisation may be on the rise, which is probabaly a delayed political aftermath of the financial crisis in 2008-2009. On October 10, close to 250,000 people demonstated in the streets of Berlin against the Transatlantic Trade and Investment Partnership (TTIP). This comes after Pacific trade ministers reached a deal in early October on the Trans-Pacific Partnership (TTP) covering 40% of world economy (China is not part of this deal) .



Indeed, Europe is probably amidst its biggest political crisis since World War II. President Putin has used this "prudently", at least from a Russian point of view. This provides an opportunity to escape from being politically "cornered", having suffered from economic sanctions imposed on the country due to the Ukrainian conflict. Russia's intervention in Syria has suddenly made Putin play a key role when it comes to ending the civil war and therefore the refugee crisis in the European Union. At least, the latter is an ill graced conclusion in many European countries – read more on page 16, The game plan of president Putin matters to the global financial market - not least when it comes to the oil price.

This is a dangerous time with many confusing and interconnected conflicts. Europe was reminded about this after Ankara was hit by a terror attack killing nearly a hundred people. The attack was "apparently" launched by the Islamic State terror group although many Kurds believe the Turkish government played a role as well – read more on page 20, Turkey: Erdogan plays with fire!

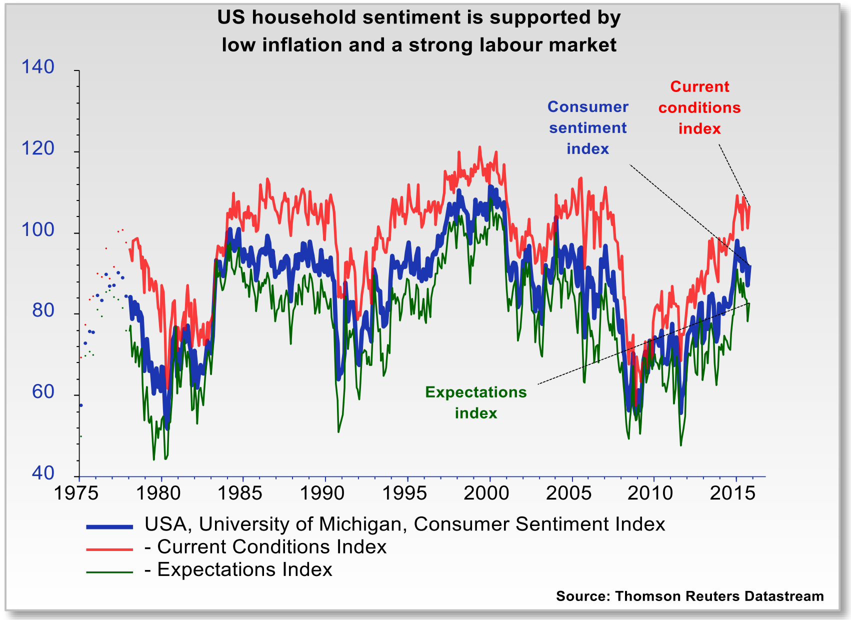
In the previous edition of Insightperspectives, it was outlined how the German chancellor Merkel's response to the refugee crisis initially was welcomed by the voters. Since then, the situation has changed dramatically as the majority of Germans no longer believe the country can handle the influx of refugees. If Mrs. Merkel does not adjust her position on the refugee crisis sooner rather than later, Insightperspectives will no longer rule out the risk that Mrs. Merkel may be forced by her own political party to step down – read more in the Germany section on page 6.

The Syrian civil war and the refugee crisis in Europe have moved attention away from China. Beijing, however, will soon make headlines when the Chinese government publishes its 13th Five-Year-Plan, which is followed closely by companies and investors all over the world. This could provide decisive indications of whether Beijing may decide to launch more aggressive stimulus measures to boost growth – read more in the article, Xi Jinping's fingerprints are everywhere, on page 24.

In October, the global economy continued to be exposed to a "third deflation wave", which is seen by this newsletter as a natural and unavoidable consequence of having escaped deflation in 2008-2009 - read the Insightview article, The third deflation wave - the consequence of having escaped deflation in 2009. At that time, the Federal Reserve, China and other central banks were only successful in postponing deflationary pressure; underlying long-term demand, however, was not increasing accordingly. The supply of commodities was predominantly increasing due to higher energy and commodity prices propelled by money-printing. The problem, however, is that this policy approach did not confront the underlying problem of overcapacity; in fact, this approach made the overcapacity problem even bigger. Since the US Federal Reserve and other central banks "saved the world" in 2008, macroeconomic equilibrium has been out-of-whack.

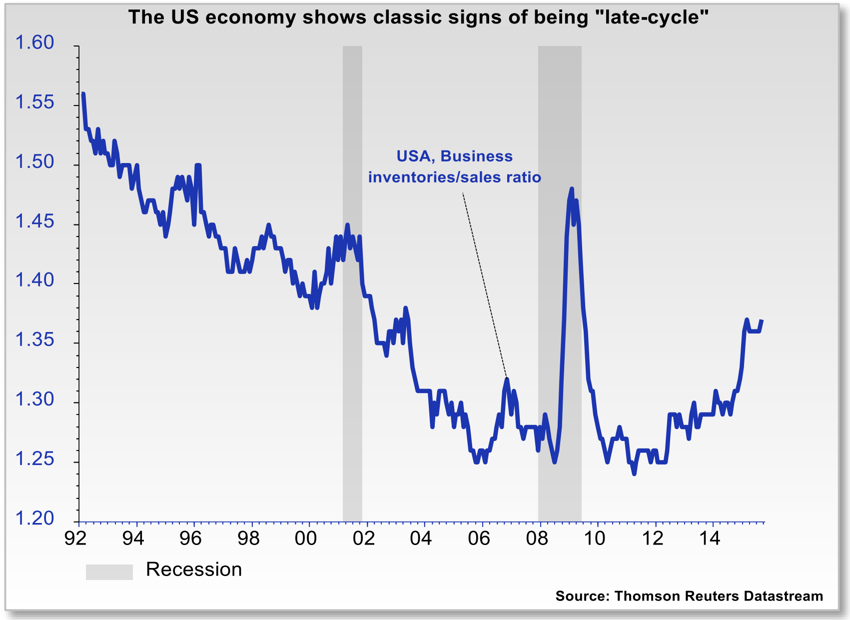
USA – Deflationary pressure fuels consumer sentiment as Federal Reserve focuses on manufacturing weakness

In the United States, the current downturn in the manufacturing sector does not seem to have had any impact on consumer sentiment. In October, the preliminary headline index in a strong consumer survey from the University of Michigan rose to a strong 92.1 from 87.2 in September. This should not be a major surprise as the manufacturing sector accounts for less than 15% of GDP. This, however, has not prevented the Federal Reserve from postponing the first rate hike in more than seven years.



In the last few months, Insightperspectives has reported that US households are barely seeing any headwind. Instead, they see tailwind from a strong labour market, although the latest employment report disappointed. Granted, wages are only increasing at an annual rate of 2.2%; on the other hand, the oil price and commodity prices have declined sharply, which will continue to support households' real income in the near future. Indeed, households in the United States and other countries around the world have seen a transfer from commodity producers to middle class households in particular (with a higher propensity to consume to the benefit of the broader economy).

Conversely, there is no doubt that the manufacturing sector is weak, which was also reflected in the latest manufacturing output statistics. In addition, the headline index in the leading manufacturing sentiment survey (ISM) fell in September to 50.2 from 51.1 in the previous month (below 50 means contraction); other regional surveys from October continue to show weakness as well. Since the last quarter of 2014, the inventories-to-production-ratio has been on the rise due to falling exports and energy investments.



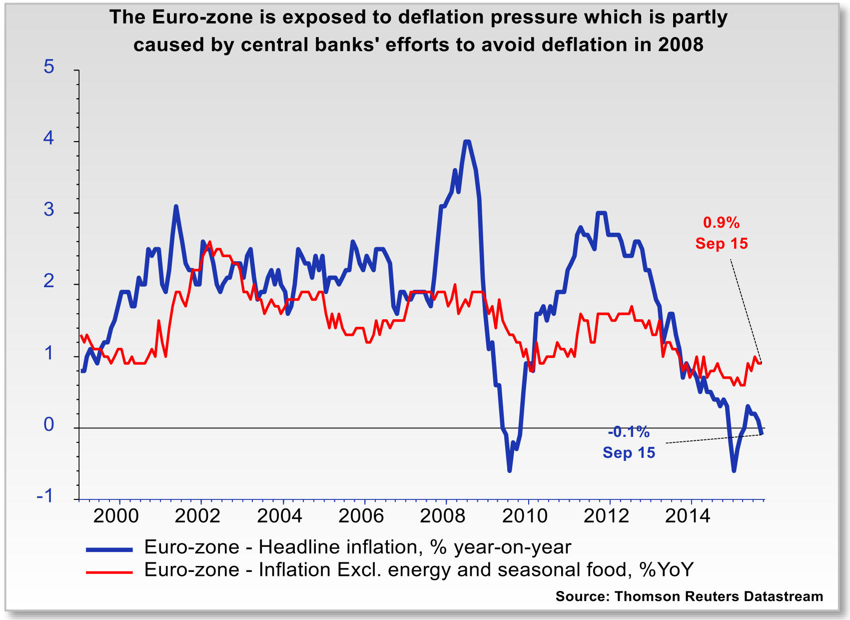
In the last few months, Insightperspectives has also outlined a picture of a US economy that is "late-cycle"; but there are no signs yet of any dramatic collapse in 2016 growth - see Insightview's real-time global economic growth forecast.

This is also why Insightperspectives still expects the Federal Reserve to raise policy rates in the last quarter of 2015. On the other hand, this newsletter also has to admit that in today's world of highly active central banks, just "the risk of a growth slowdown" is not an option. This is also why one cannot rule out that "interventionist" policy-makers may panic yet again in early 2016 (read the articles, Martin Wolf Solid growth is harder than blowing bubbles, and Larry Summers, The case for expansion).

Euro-zone – Cyclical tailwind supports growth

The Euro-zone is still exposed to strong cyclical tailwind. In September, the Euro-zone Economic Sentiment Index rose to 105.6 from 104.1 in August, which was the highest level since June 2011. Even the "weakest links" are gaining more momentum. In France, industrial production jumped by 1.6% month-on-month in August.

Interesting, it seems the European Central Bank is willing to raise money-printing to an even higher level, according to ECB Governing Council member Nowotny; this is in spite of stronger credit expansion. The ECB believes inflation is too low thereby ignoring the fact that global monetary policymakers are currently seeing the consequences of having "defeated", or more precisely postponed, deflation in 2008-2009 (read the Insightview article, The third deflation wave - the consequence of having escaped deflation in 2009).



In September, Euro-zone consumer prices fell 0.1% year-on-year after +0.2% in the previous month. The decline was of course due to falling energy prices. This, however, does not matter as the ECB now focuses on headline inflation. Interestingly, this is in sharp contrast to the policy approach in 2011-2013, when monetary policymakers said core-inflation was the key number (at that time, headline consumer price inflation was above three percent).

On the political front, Spain is the next hurdle for the Euro-zone as national elections have been called on December 20. The far-left Podemos party is no longer seen by the Spanish voters as the obvious alternative to the ruling government. The latest opinion poll from El Pais shows that Podemos would gain only 14.1% of the vote if elections were held today. On the other hand, the free-market-oriented Ciudadanos party would take 21.5% of the vote compared to 16.1% one month ago. Ciudadanos is surely a better choice compared to Podemos, at least from a financial market point of view. Nonetheless, the outcome is far from clear as Ciudadanos appears to gain at the expense of the ruling People's Party (PP).

Germany – Misfortunes rarely come singly

At the beginning of 2015, Germany was exposed to a Goldilocks scenario. The foundation for this was economic reforms launched ten years ago by the former SPD-chancellor Gerhard Schröder. Chancellor Merkel has had no share in this. Instead, she allowed the European Central Bank to "go Italian", which has, admittedly, maintained downward pressure on the euro and therefore boosted German exports.

Instead, Mrs. Merkel is now under siege as the political situation in Germany has deteriorated. This is the situation as chancellor Merkel has shown limited willingness to give in to increasing opposition within the CDU and the CSU when it comes to preventing the influx of refugees from Syria and other developing countries.

In Germany, the political situation is changing so dramatically that Insightperspectives no longer rules out the possibility that chancellor Merkel could ultimately lose the support of a majority within the CDU/CSU – read also the article, The game plan of president Putin matters to the global financial market - not least when it comes to the oil price, on page 15. Ironically, today Mrs. Merkel has to rely on politicians from the left to support her refugee policy - "Wir schaffen es!".

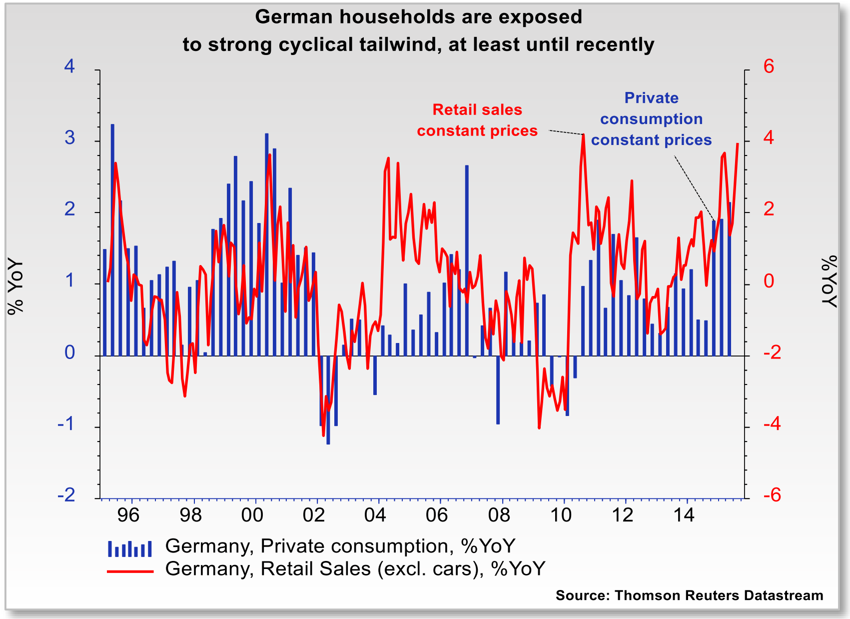
Frankfurter Allgemeine

Flüchtlingskrise

CDU-Fraktion

Aufstand gegen Merkel weitet sich aus

A politically unstable Germany would be bad news for the entire European Union, which has also been outlined by this newsletter in the last few months, read the article, This time around, spontaneous and high-handed Merkel risks alienating more than just her own party.



In contrast to many other European countries, there is no real political alternative to the CDU, at least not when it comes to immigration policy. The anti-immigration party, Alternative für Deutschland, has moved too far to the right after a number of market liberals left the party (although the party is yet again seeing increasing support according to the latest opinion polls). In addition, AfD is highly linked to the Pegida-movement (read the ARD article, Reaktionen auf Pegida Demonstration, Der Galgen des Anstosses).

In Germany, the only political alternative appears to be Horst Seehofer, minister president in Bavaria (CSU); but you can only vote for the CSU in Bavaria and for the CDU outside Bavaria, which is part of a CDU-CSU agreement. This means resistance will have to come from within the CDU, which is also a possible outcome seen by the vice-chairman of the FDP, Germany's liberal party – read the Focus.de article, FDP-Vize Kubicki: Wenn Merkel so weitermacht, stürzt die CDU sie noch vor 2017.

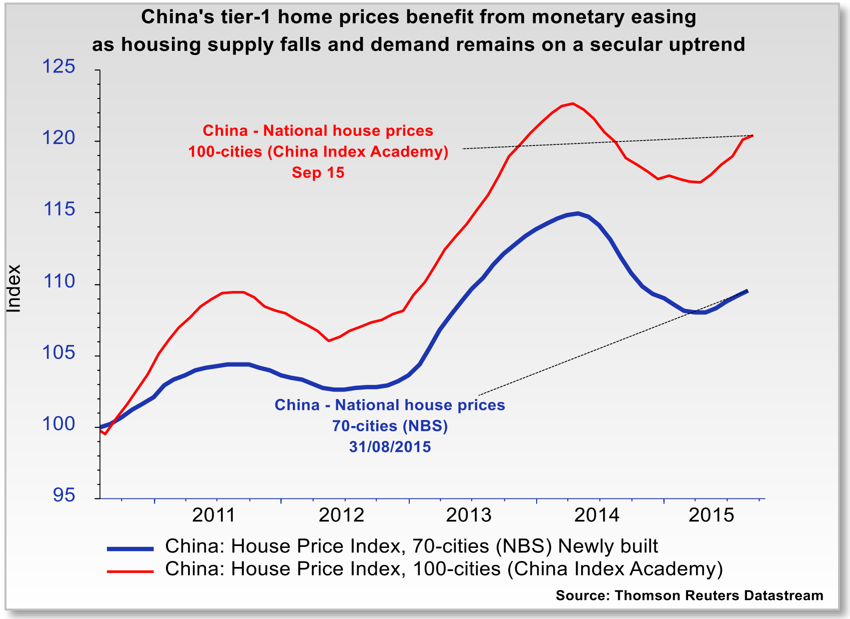
Pressure on Mrs. Merkel will increase in the coming months. This is not least the case after a respectable economist, Clemens Fuest, said last week that Germany may have to raise taxes considerably to finance the influx of refugees, thereby ignoring the demographic benefits. To see more about this issue, read also the article, The economic impact of the refugee crisis - and the unpredictable political outcome, in the previous edition of Insightperspectives.

China – No signs of manufacturing rebound; QE remains on the agenda

The Chinese economy shows no signs yet that growth has hit rock bottom, at least there are no visible indications that the manufacturing sector is bouncing back. This is the case even though the economy expanded by 6.9% year-on-year in the third quarter of 2015, which was down from 7.0% in the previous quarter. In September, the official manufacturing sentiment PMI index from the National Bureau of Statistics (predominantly larger state-owned enterprises) rose only marginally to 49.8 from 49.7 in August. The private Caixin manufacturing China PMI index fell to 47.0 in September from 47.1. A number below 50 indicates manufacturing contraction.

At present, Insightperspectives also sees no anecdotal signs that the manufacturing sector is recovering. In September, cargo-handled-at-major-seaports (click here to see the chart) contracted at the fastest pace on record. Furthermore, there are no signs of any decisive credit expansion. Granted, new bank loans on the mainland rose in September compared to the previous month. The increase in credit, however, is still not in line with what was seen in early 2009 (part of the latest increase in new bank lending has been due to Beijing's effort to prop up stock market prices).

On the other hand, the service sector is doing fine, which is important as this sector is today far bigger than manufacturing. In the same way as manufacturing weakness is probably undersestimated in the official statistics, retail sales strength is probably underestimated as China's soaring online retail sales may not be fully captured by the National Bureau of Statistics. Today, online retail sales are estimated to account for 12% of total retail sales. Online retail sales rose nearly 50% in the first half of 2015, according to China e-business Research Center (CERC) - read also the article, Ecommerce Drives Retail Sales Growth in China - Mobile to account for half of e-commerce sales this year.



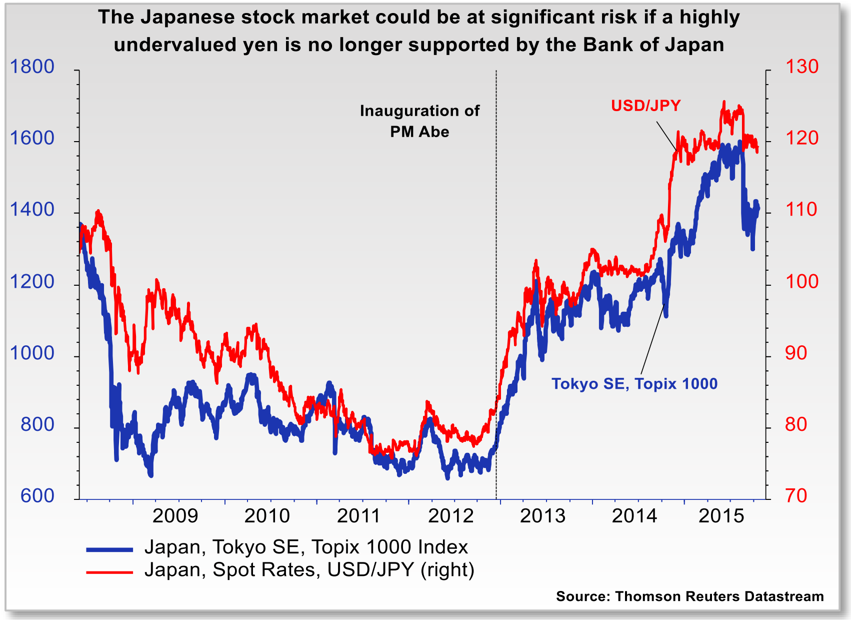
The housing market is another sector doing well, at least this is the case in tier-1 and to some extent tier-2 cities; they all benefit from Beijing's easing measures and the fact that new housing supply is now declining. In Shanghai, mortgage credit rose in September to the highest level in three years. Furthermore, one of the leading home price indices, 100-cities-price-index from China Index Academy, rose in September 0.3% month-on-month, which was up 1.4% year-on-year.

There are also tentative signs that monetary aggregates are slowly gaining momentum. This is particularly the case when it comes to M1, which rose 11.4% year-on-year in September compared to 9.3% in August. This is of special interest to this newsletter as it suspects Beijing already to have chosen a path of quantitative easing (money printing) by allowing the central bank to buy local government debt more aggressively (or provide incentives for state-owned banks to hold more local government bonds) – read the Insightview article, China discusses QE with "Chinese characteristics" (April 2015).

Japan – Tokyo is in two minds

In Japan, the best leading manufacturing surveys, such as the Reuters Tankan survey, are harbingers of a stalled recovery although the service sector is still doing relatively well. Furthermore, the majority of household surveys show a decline in consumer confidence. This underscores yet again that Abenomics has run into huge problems.

In October, the Japanese government cut its economic growth forecast. Interestingly, this has not yet animated the Bank of Japan to launch more monetary measures - read the Reuters article, BoJs Kuroda hints October stimulus is unlikely. The Japanese central bank is well aware that the economy is amidst a ”liquidity trap” where monetary policy has no or little impact on growth, at least not from a Keynesian point of view (click here to learn more about the so-called ”liquidity trap”).



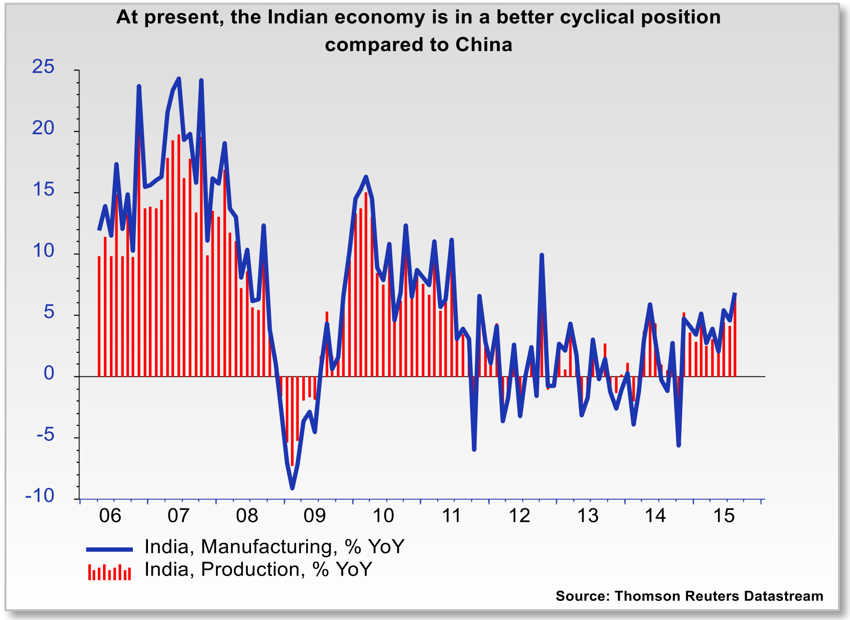
On the other hand, this means Tokyo will probably launch new fiscal stimulus measures although Japan's public sector debt is already close to 250% of GDP. If Tokyo considers a shift in policy away from monetary to fiscal stimulus, this is probably the most dangerous part of Abenomics as the current weak yen level is highly dependent on more monetary easing. This could trigger an abrupt appreciation of a significantly undervalued yen. Consequently, this could have serious negative consequences for the Japanese stock market. The outcome of Abenomics is of special in the Euro-zone after the European Central Bank in the beginning of 2015 officially decided to follow the same path.

India – Central Bank cuts policy rates by 0.5 percentage points; manufacturing output jumps

On September 29, the Reserve Bank of India cut policy rates by 0.5% percentage points to 6.75% , which was far more than financial market expectations. On the other hand, this is still in line with Insightperspectives' 2015 Outlook, which predicts the central banks in India and China in particular to add significant liquidity to the global financial market in 2015 and 2016.

On the other hand, Insightperspectives still expects the Indian central bank to ease monetary policy slowly as the country is not exposed to the same headwinds as China although Indian exports in US dollar terms are 25% lower today than one year ago.

This was also visible in other statistics published recently. In August, industrial production rose 6.4% year-on-year after 4.2% in July; manufacturing rose 6.9% compared to 4.7% in the previous month. This was the highest rate of expansion since October 2012, although this is still significantly below the level seen before the global crisis erupted. In India, policy rates are still relatively high. On the other hand, the Indian rupee is not assessed to be expensive; the rupee is cheap, which is in sharp contrast to a highly overvalued Chinese yuan.

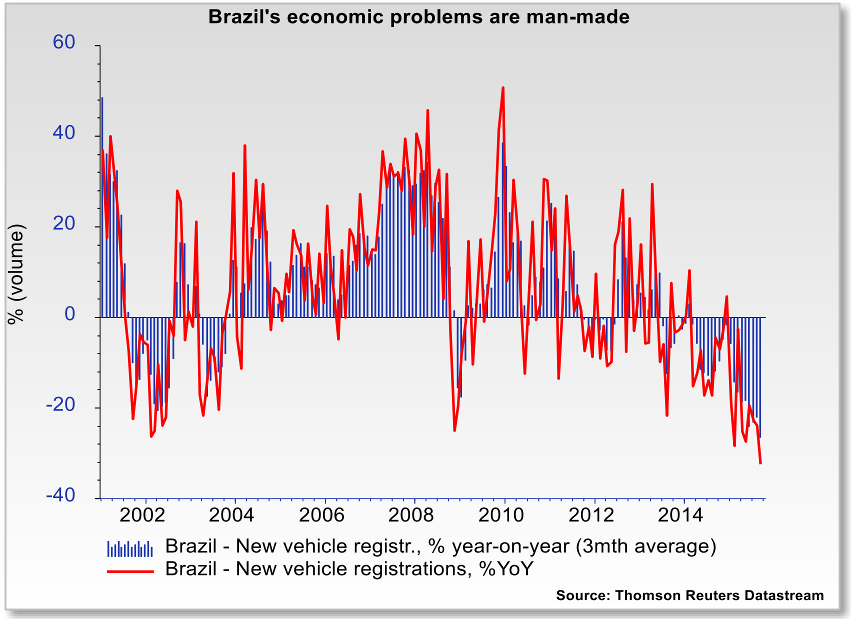


Brazil – A huge mess; impeachment of president is highly likely

In Brazil, there is no end in sight when it comes to the current economic and political mess. In October, a report showed that the number of vehicle registrations plunged by 32.4% year-on-year, which was the biggest contraction on record.

More worryingly, there are no signs of any softening in inflation in spite of a contracting economy. In September, the benchmark consumer price index (IPCA) rose 9.5% year-on-year, which was unchanged from the previous month. Inflation has been propelled by a sharp decline in the value of the real. In the last few weeks, there have been some signs of stabilisation in the currency market after the governor of the country's central bank, Mr. Tombini, made it clear on September 24 that he will support the real with its foreign currency reserves. These, however, may be depleted relatively quickly, unless this is supported by prudent fiscal policy measures.

In the current political environment, it is difficult to see how Brazil would be able to escape the economic crisis without a "cold turkey". Granted, such a policy approach risks destabilising the political situation. On the other hand, if Brazil does not take decisive action, the country risks falling back into hyper-inflation not seen since the early 1990s. The timing of harsh economic measures has "probably never been better"; the currency is heavily undervalued having declined sharply since mid-2014. Fiscal tightening and reform measures will make inflation fall dramatically to the benefit of future inflation and the non-commodity related export sector.



The problem, however, is that the incumbent president Dilma Rousseff no longer has the support of the Brazilian people. A month ago, Brazil's court said that it will launch an investigation into Mrs. Rousseff's re-election campaign, which could potentially make leeway for impeachment of the incumbent president. In early October, Brazil's federal court ruled that Rousseff's government manipulated its accounts in 2014 to disguise a widening fiscal deficit – read also the

Insightview article, Brazil reveals biggest budget deficit since 2001 after the election, of course! (November 2014).

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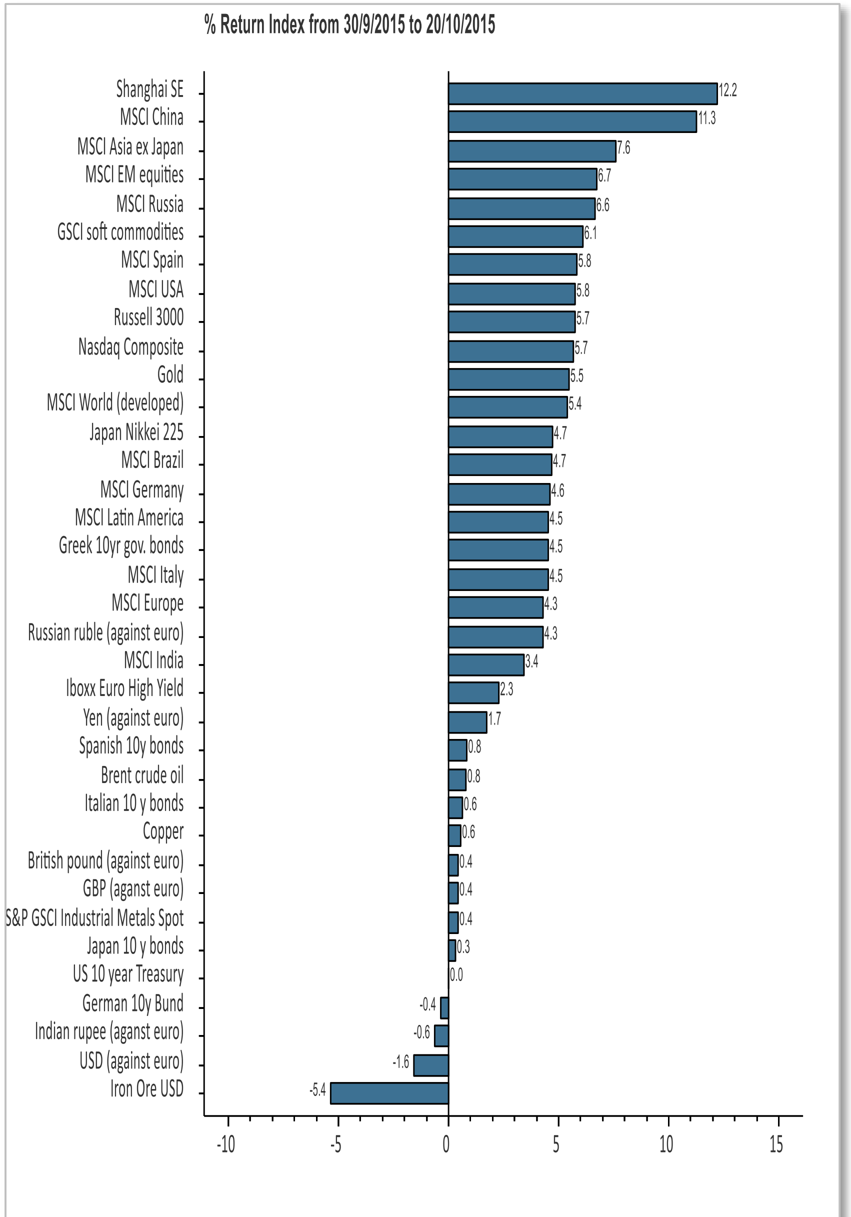
Financial Market Update

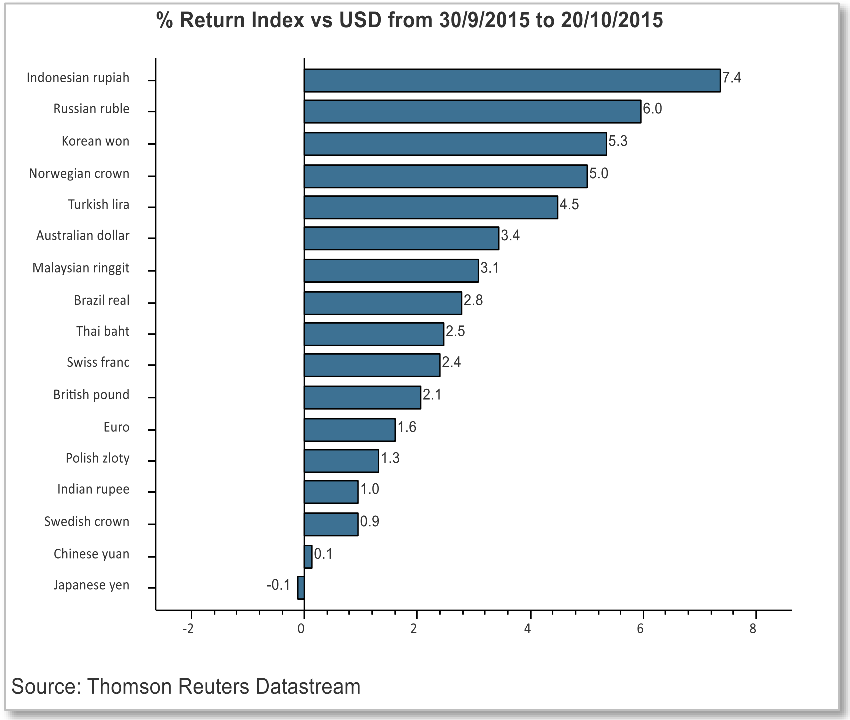
In October, a more dovish US Federal Reserve and a weak labour market report in the United States in particular made the majority of emerging market currencies bounce back against the US dollar. The Indonesian rupiah soared 7.4% (from September 30 to October 21). The rebound in commodity-linked currencies were reinforced by stronger commodity prices. The Russian ruble jumped 6.0% while the Brazilian real rose 2.8%. The Norwegian crown rose 5.0% against the US dollar.

The Turkish lira jumped by 4.5% supported by the fact that the European Union suddenly sees Ankara as an "important" partner to solve the refugee crisis. Ankara agrees after demanding $3 billion from Brussels – read the Hurriet Daily article, CHP leader says Merkel offered Turkey a 'bribe' from EU.



Source: Thomson Reuters Datastream

In the commodity market, prices reversed to the upside as many investors believe the downturn in commodity prices has been too excessive. In addition, more suppliers have announced significant cuts in capital expenditure plans. Furthermore, other major producers are even cutting down on production; in October, Glencore, the world's biggest miner and trader of zinc, announced an annual production cut of one third.



The global stock market also benefited strongly from the fact that the US Federal Reserve yet again did not have the guts to raise policy rates from "ultra-loose" to "loose". This helped lift the MSCI China index by 11.3% in October. The broader MSCI Asia index excluding Japan increased 7.6% while the MSCI Emerging market index rose 6.7%. The MSCI Europe index rose 4.3% propelled by stock markets in the Euro-zone periphery in particular. The MSCI Spain index rose 5.8% while the MSCI Italy index rose 4.5%.

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Russia and Syria

The game plan of president Putin matters to the global financial market - not least when it comes to the oil price

This article was pre-published on October 08, 2015

In 2015, foreign policy in the European Union and the United States has been “annus horribilis”, which was also outlined in the October edition of Insightperspectives. To some, such as the far right in the Republican Party in the United States, this shows that being inactive (or withdrawing troops too early) endangers political stability. To others, today’s political mess in the Middle East and with that the refugee crisis in Europe are the consequences of too much foreign policy action in the past.

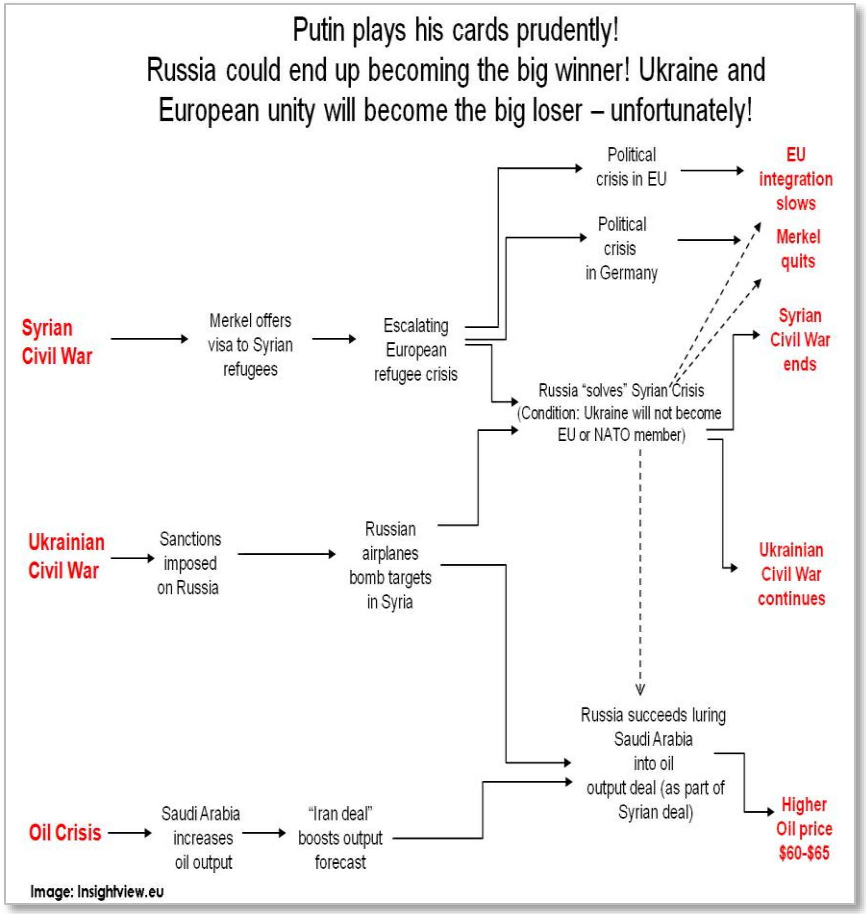
The financial market and non-financial companies, however, “only” need to focus on the future consequences of policy decisions made in the past. In this context, Russia’s president, Mr. Putin, is suddenly playing a significant role. In contrast to the European Union (Berlin), Russia has played its foreign policy cards prudently, at least from Moscow's perspective. Syria’s civil war provided an opportunity for Russia to break out from a dead-end having been cornered by economic sanctions imposed on Russia by Brussels and Washington due to the conflict in Ukraine.

Ironically, the roles have changed. Suddenly, the German chancellor, Mrs. Merkel, has cornered herself by autocratically opening the border to all Syrian refugees without consulting her own political hinterland or other European capitals. This now risks derailing the European integration process - read the article, This time around, spontaneous and high-handed Merkel risks alienating more than just her own party. More worryingly, this could endanger German unity in the same year as Berlin is celebrating the reunification 25 years ago - read the article, Flüchtlingskrise: Schafft Merkel das? The only gain, at least from Mrs. Merkel's perspective, could be if she is awarded the Nobel Peace Price. Ukraine, however, could end up paying the costs.

Putin's game plan

It may be that Russia's economic might has weakened due to a collapsing oil price. Moscow, however, has still the ability to change the military and political landscape. In addition, it appears that Mr. Putin has a game plan; but this will be walking a tightrope as Moscow needs to balance three highly integrated crises: The Ukrainian crisis, the Syrian Civil War and the Oil Crisis (see the image on the right or click here)

Moscow probably sees Syria as a tool for obtaining its ultimate goal namely to prevent Ukraine from becoming a member of the European Union and NATO. In addition, Mr. Putin's game plan may even succeed in boosting the oil price, which is highly needed to mitigate the current economic downturn in Russia.



So far, it seems everything is going according to Mr. Putin's game plan. Moscow has only made few policy errors such as offending Turkey after having violated Turkish airspace - read the article, NATO rejects Russia explanation on Turkish air space. Offending Ankara makes no sense from a Russian point of view; the Turkish president is highly ambiguous when it comes to taking side, which may be to Russia's benefit further down the road. In Europe, the escalating refugee crisis has suddenly made Mr. Putin highly needed. Ironically, the European Union even believes one should talk to Syrian president Bashar al-Assad.

Putin is a key player in Syria

When it comes to Syria, the situation is highly complex and many players are involved. President Assad, who is Alawite, a minority Shia group (click here to see Sunni-Shia distribution in the Middle East), is supported by Iran (Shia) and Russia. Assad, however, is opposed indirectly by Saudi Arabia (Sunni) and Turkey (Sunni) via military support to different opposition groups in Syria (“moderate” Muslims and ISIS). The United States has also financed “moderate” opposition groups in Syria although this has been concluded to be a huge failure.

Saudi Arabia is well aware that if Russia steps up military involvement in Syria, which seems to be the case, Riyadh's goal in Syria will not be achieved. Furthermore, there is no backing in Washington for another military adventure in the Middle East in front of presidential elections.

This is also why Saudi Arabia and Washington will add political pressure on Moscow to find a solution. Berlin will add pressure on Washington to soften its stance on Russia as a solution to the Syrian crisis is urgently needed to end the influx of refugees. Indeed, this is probably all part of Mr. Putin's game plan. Mr. Putin is suddenly negotiating from a position of strength rather than weakness. Interestingly, this may end up with the outcome that Saudi Arabia accepts lowering OPEC's oil output, which should help lift the oil price to the benefit of oil and gas exporting Russia. In addition, the European Union will have to pay the price by "abandoning" Ukraine.

On the other hand, if Mr. Putin's game plan proves “successful”, this may end the civil war in Syria (and maybe the refugee influx to Europe). If not, the oil price may still move higher as the Syrian conflict may potentially end up with a direct confrontation between Saudi Arabia and Iran - read also the the article, Iranian nuclear deal risks creating security vacuum beyond the Middle East (Insightperspectives, May 2015).

In Europe, the only difference is that Ukraine is left alone, which will leave Poland and the Baltic countries rather confused. Anyhow, realpolitik is what matters in the financial market and the real economy. The question is whether chancellor Merkel will be able politically to survive such an outcome, which will leave Germany and the European Union even more empty-handed?

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Turkey

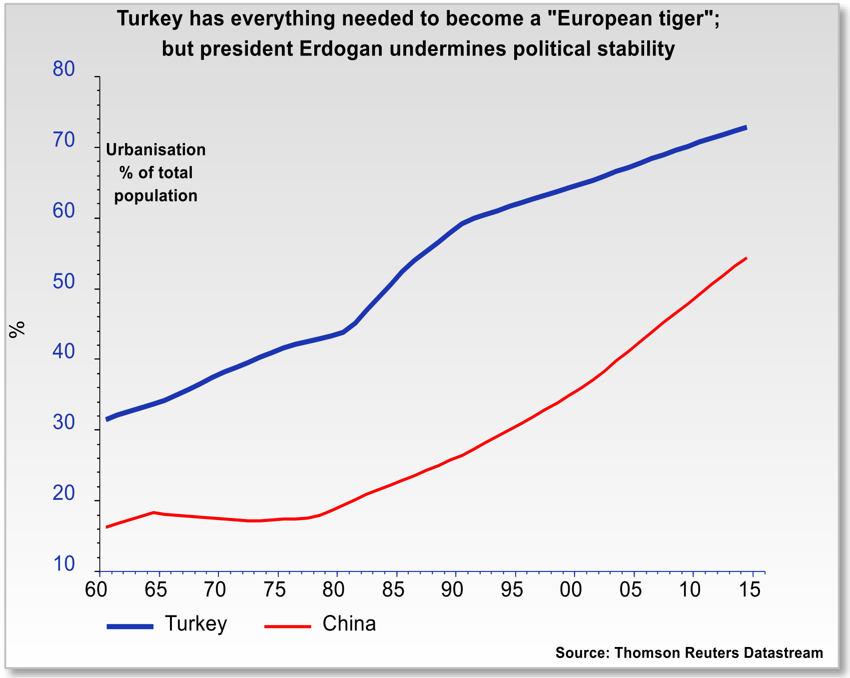
Erdogan plays with fire!

This article was pre-published on October 12, 2015

In Europe, there are currently many dangerous factors at play, which could have ramifications in the financial market later in 2016 - read the article, The game plan of president Putin matters to the global financial market - not least when it comes to the oil price. In the near future, however, many of these uncertainties will probably make it somewhat easier for the European Central Bank to launch more aggressive monetary easing - read also the article, Draghi Says ECBs Bond-Buying Plan Working Better Than Expected.

One of these uncertainties is Turkey. The country matters first of all because of its huge population of close to 80 million people. Turkey, however, is predominantly a problem due to its maverick-president, Mr. Erdogan, read Insightview's article from 2011, Is Turkey turning into an economic maverick?

Unfortunately, Insightperspectives has proved right that Turkey has all the ingredients to become the next political hot spot (see the July edition of this newsletter, Turkey – Election outcome is triumph for democracy but spells trouble). In June 2015, the Justice and Development AK Party, AKP, lost 8 percentage points (41%) in the national election, leaving the party shy of a simple majority in the national parliament. This made it impossible for Mr. Erdogan to change Turkey's constitution, which was needed to enable him to become "lifetime" president. But Mr. Erdogan does not take any defeat lightly. Since then, journalists have been imprisoned and Kurdish civilians have been killed by Turkish armed forces. Furthermore, newspapers taking a sympathetic view of the "Kurdish case" have been hit by violent attacks. Granted, the Turkish government has of course denied any involvement.



On the edge of civil war?

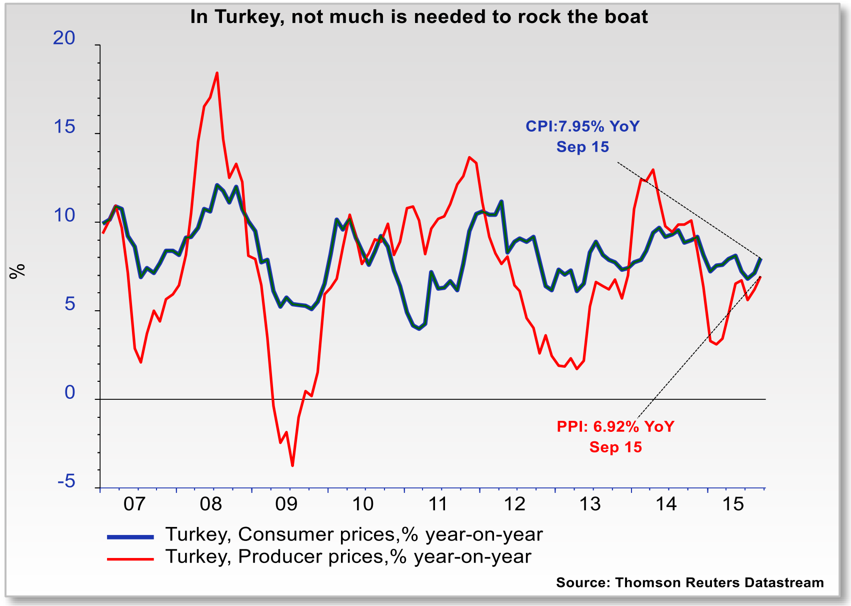
The situation is now so complicated that Turkey could be on the edge of a civil war. This is the case not least after nearly a hundred people were killed in two explosions this weekend - read the Hurriyet Daily News article, At least 95 killed in twin blast in Turkey's Ankara ahead of peace rally. As with previous terror attacks, which have predominantly hit the Kurdish minority, the government in Ankara takes no responsibility. This time, the Turkish government is probably right. On the other hand, Mr. Erdogan in particular has created an environment, which has made these attacks possible (ISIS “appears” to be responsible for the latest terror attack).

Until the election in June, the Kurdish people was positive-minded towards president Erdogan, who agreed a ceasefire with the Kurdistan Workers' Party (PKK) in 2013. After the election, however, president Erdogan has become less friendly towards the Kurdish minority. This is the case as the pro-Kurdish HDP party showed strong gains in the national election (13%). HDP is now seen as an impediment for Mr. Erdogan to become the "ultimate ruler" in Turkey.

Mr. Erdogan's response came promptly; the ceasefire was cancelled by PKK in July 2015 after Turkey bombarded Kurdish positions in Iraq. The Kurdish minority accounts for nearly 20% of the population, predominantly living in the eastern part of Turkey (but also in Turkey's biggest city, Istanbul).

This will get worse; Turkey is not a buying opportunity

Similar to the assessment in June, Insightperspectives does not see Turkey as a buying opportunity for global investors. There is a risk that the situation may get worse. Turkey has called new elections on November 1, 2015, as president Erdogan is eager to get his 50% majority, which will enable him to change the constitution before it is too late (Erdogan is accused of being involved in a nationwide corruption case, read the article, President Erdogan's son moves to Italy). On October 10, the PKK declared a ceasefire. This, however, has not changed Turkey's position; Turkish air force bombed PKK target shortly after this weekend's terror attacks.



As Insightperspectives has mentioned before, Turkey is exposed to multiple conflicts. There is a conflict between secularism and a more autocratic Muslim state, as well as a conflict among different directions of Islam. 80% of Turkey's population are Sunni Muslims (the Turkish Kurds are predominantly Sunni although a minority belong to Alevism, a branch of Shia). Unfortunately, this now risks being entangled in other regional conflicts - read the Insightperspectives article pre-published last week, The game plan of president Putin matters to the global financial market - not least when it comes to the oil price.

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China

Xi Jinping's fingerprints are everywhere

By Invitation

Insightperspectives regularly invites experts to write on "special" issues of importance to the financial market. In this context, **Joergen Delman**, professor, PhD, China Studies, Department of Cross-Cultural and Regional Studies, University of Copenhagen, has been invited to make his assessment of the upcoming 13th five-year plan (2016-2020).

Joergen Delman works on China's political economy, politics, civil society, climate policies and environmental issues. He is a frequent public speaker and media commentator on these topics and has lived in China for ten years, working as a consultant for international development organisations, as well as Danish and international businesses. He has worked extensively with and within Chinese government organisations at central and local level. **Joergen Delman** is Co-coordinator of ThinkChina.dk.

Xi Jinping has been active this summer in the preparations of the 13th five-year plan (2016-2020) and he has already set his fingerprints on it. But this is only one, albeit an important building block in his political program. He is now three years into his first five-year term and at the apex of power. He has full control over his peers in the leadership in Beijing and has expropriated the limelight in the national media. He is here, there and everywhere, actively pushing his program and delivering step-by-step on his reform agenda outlined in 2013. Internationally, he has been a frequent flier. His state visit to the US in September demonstrated that China is indeed the world's second superpower. Despite the usual bickering and mutual accusations that characterize the fragile US-China relationship, Presidents Obama and Xi were able to see eye to eye and negotiate and agree on issues as tough as cyber and nuclear security and collaboration on anti-bribery, anti-terrorism, climate change and international development assistance.

Popular, powerful and influential

Xi's public profile, his assertiveness, his reform agenda and his active international diplomacy have earned him considerable popularity in China. A survey by the Ash Center at Harvard University found that Chinese respondents rated Xi higher on 9 out of 10 dimensions than any other head of state was rated by their own populations. 94.8 percent of the Chinese respondents expressed confidence about his handling of domestic affairs and 93.8 percent were satisfied with his role in international affairs. While heads of authoritarian states generally rank higher than leaders of democratic states in these surveys, it is significant that Xi has the highest national approval ratings in the world. Further, Forbes found that Xi was the third most powerful person in the world after Vladimir Putin and Barack Obama, and just ahead of Pope Francis, Angela Merkel and Janet Yellen, Chair of the US Federal Reserve. According to Bloomberg, Xi is one of the most influential people in the global business world, ahead of Tim Cook of Apple and Warren Buffet, but he is not as influential as Janet Yellen.

Still vulnerable

Despite his aggressive approach, his national and international influence and his popularity at home, Xi is not invulnerable. He staked his reputation on salvaging the Chinese stock market during its turmoil earlier this year through massive state stimulus and regulatory interventions which cast doubt on his self-promotion as a market protagonist. The interventions did not work as expected and Xi lost face. International observers are now wondering whether his leadership can manage the soft landing associated with slower growth smartly.

Mid-October, official Chinese sources reported that the GDP growth rate for Q3 was 6.9%, the lowest rate since Q1 in 2009 during the global recession. However, it was as close to the 7 % target for annual GDP growth set in the 12th five-year plan (2011-2015) as could be and it seems that the economic and psychological effects of going from 10 % to 7 % take a long time to absorb both at home and abroad.

Even more, there is concern in China that slower growth may lead to unemployment and cause social unrest. Xi is aware that he must offer better social security as a buffer against unemployment. Otherwise, China will see more spontaneous protests and social unrest as was the case during the stock market turmoil.

Anti-corruption with no end

The corruption campaign continues, although not at the same intensity. A few high-level “tigers” have been taken out this year and former security czar, Zhou Yongkang, was put away for life without apparent opposition. His network has been dismantled and Xi seems to be in control of that flank. Xi’s predecessor, Hu Jintao, has also seen a few of his protégées in the central leadership being removed and some senior leaders of state owned enterprises (SOE) have been put under investigation. But while Xi seems politically unchallenged, it is evident that the bureaucracy is getting tired of the continuing corruption campaign and it is reported that local leaders around the country are wary of making critical decisions.

The Tianjin blast on 12 August sent shock waves through Beijing. It came a few weeks’ ahead of Xi’s ‘crowning’ ceremony, the military parade on September 3 in Beijing. The parade is a ritual that every Chinese top leader will organize a few years after ascending to power since it signifies that he is now on top of things. Fortunately for the leadership in Beijing, it was apparently concluded that the blast was due to negligence, possibly corrupt, by local officials and not to ill intent aimed at Xi’s leadership in Beijing.

SOE reforms and 13th five-year plan without surprises

SOE reform remains one of Xi’s major concerns since SOEs are not doing as well as they are supposed to. Many observers looked forward to the SOE reform proposal this summer as a test of Xi’s political stance. But eventually the proposal confirmed that Xi is rather conservative on this issue. The proposal argues refinement and not substantial reforms. Most significantly, while SOE leaders are supposed to be more market oriented, the Party will not relinquish its control over the leadership of the SOEs. New regulations on SOE governance are expected but they will not change the relationship between Party, government and SOEs substantially.

While GDP growth and other significant indicators in the 12th five-year plan are more or less on target, Xi's "war on pollution" and his climate change targets are not faring as well. A review of the progress of implementation showed that China is falling behind on its targets relating to increasing the percentage of non-fossil fuels against other non-recyclable energy and to lowering its energy and carbon intensity. This does not bode well for Xi's war on pollution.

The top leadership is expected to discuss the outline of the 13th five-year plan at the end of October. But Xi has already made the priorities clear. In line with his "new normal", the top priority is to maintain growth at around 7 %. The economic model will be adjusted. China will have to rely on more balanced development of the three main economic sectors, it will move towards high-end manufacturing and consumption as drivers of economic growth, while infrastructure investments and exports will remain important. The "optimum" future sectors will be favoured at the expense of 'sunshine' industries; therefore, innovation will be stimulated across the economy and the public sector. As part of the effort to balance sectoral development, agricultural modernization will be accelerated. Administrative reforms are supposed to follow suit so as to stimulate market based economic development rather than being a bureaucratic straitjacket. There will be more focus on coordinating regional development across administrative borders, e.g. in the Beijing-Tianjin-Hebei region and along the Yangzi Economic Belt. Eco-civilization is next with a focus on cleaning up the environment and securing better environmental conditions for ordinary people. Xi also links eco-civilization with the necessity to promote green growth. The ninth point in Xi's list of priorities is better livelihoods, higher real incomes, more education, and improved social and food security for China's people. Finally, the fight against poverty will be continued.

It is no surprise that these priorities are fully in line with Xi's political programme. He has a natural interest in setting his fingerprint on such an important document. The Central Committee will approve the overall framework of the plan at the end of October, the

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planners will fill in the details during the winter and the detailed plan will then be approved by the National People's Congress in March next year.

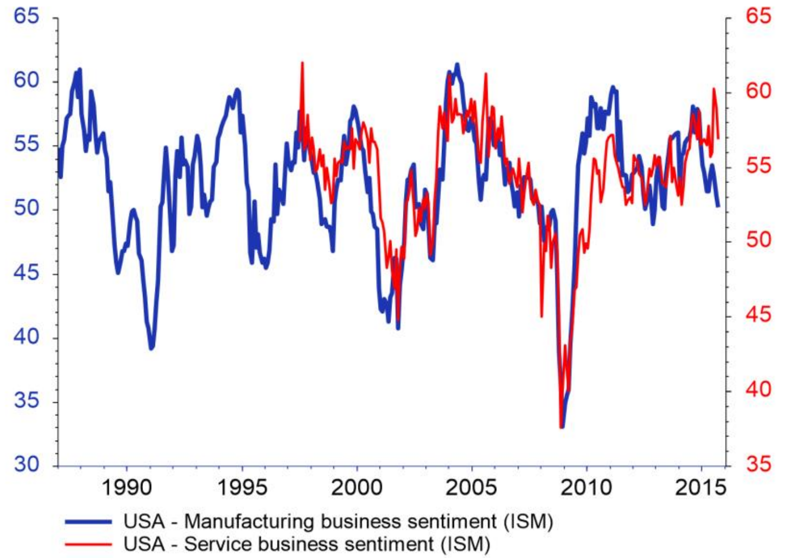
New leadership line up

Xi's final priority at this stage is the 19th Party congress in 2017 which provides him with an opportunity to set his fingerprint on the new leadership line-up. Five of the seven incumbent Standing Committee members, except Xi himself and Prime Minister Li Keqiang, and six out of the remaining 18 members in the Politburo are due to step down due to age limits. Xi cannot decide on promotions alone. They must be negotiated with retired elders, the factions in the leadership and the political families. But he will definitely use his position to promote allies and protégés from his network. With regard to the Standing Committee, the candidates must primarily come from the incumbent Politbureau. Choices are few since Xi's predecessors have already exerted significant influence on the selection of the current members. This is the name of the game and the rules seem to be fairly institutionalized. Therefore, Xi must also count on the future. Next time around, many of his allies and protégées will make it to the top, but they cannot all make it while he is the top leader.

Charts

All charts are updated on October 20, 2015

Business Sentiment



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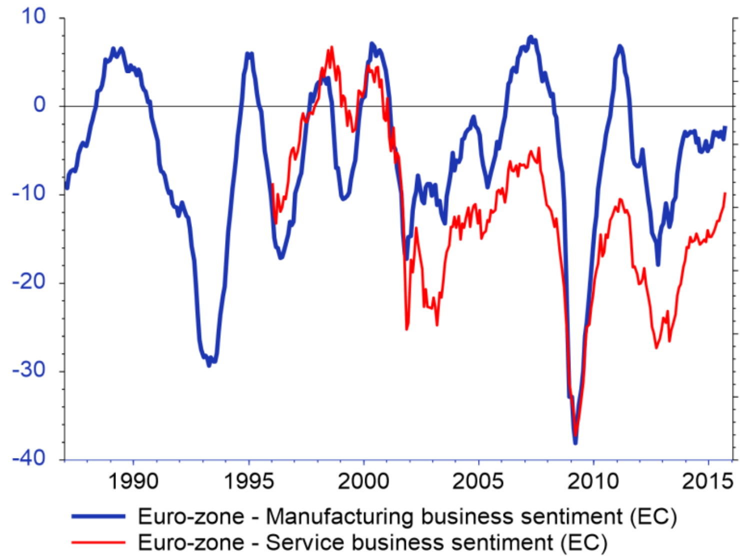

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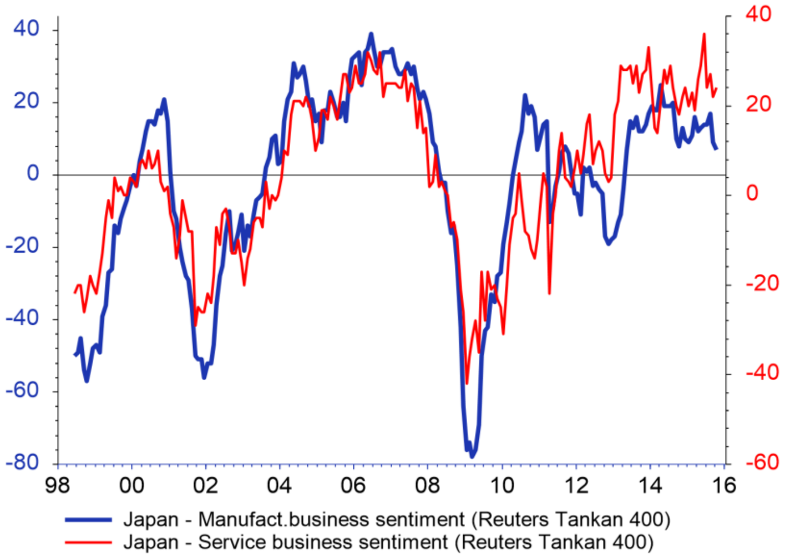

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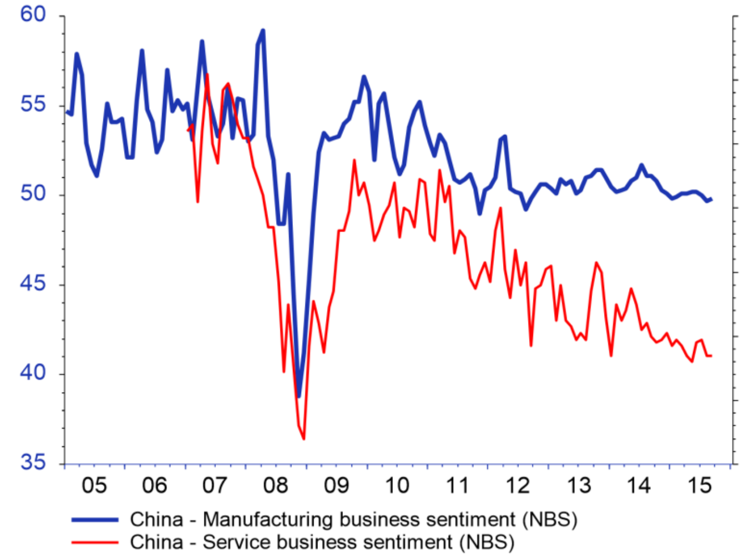

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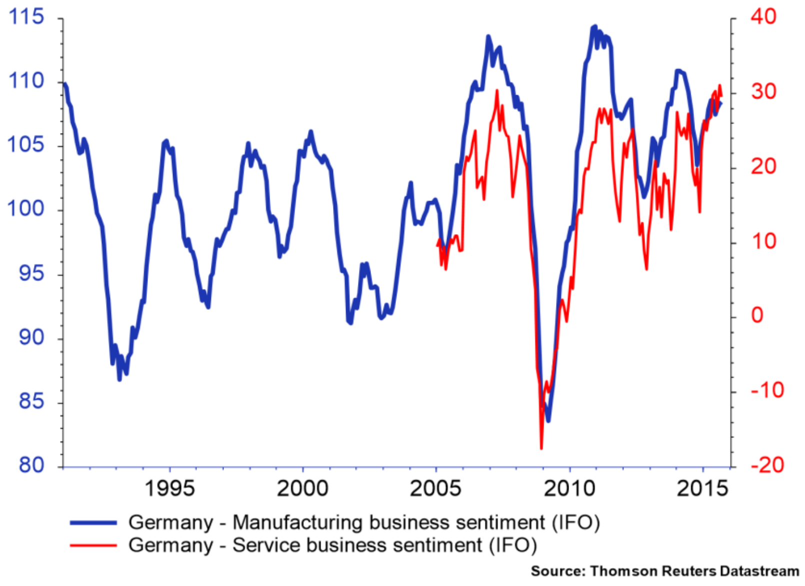
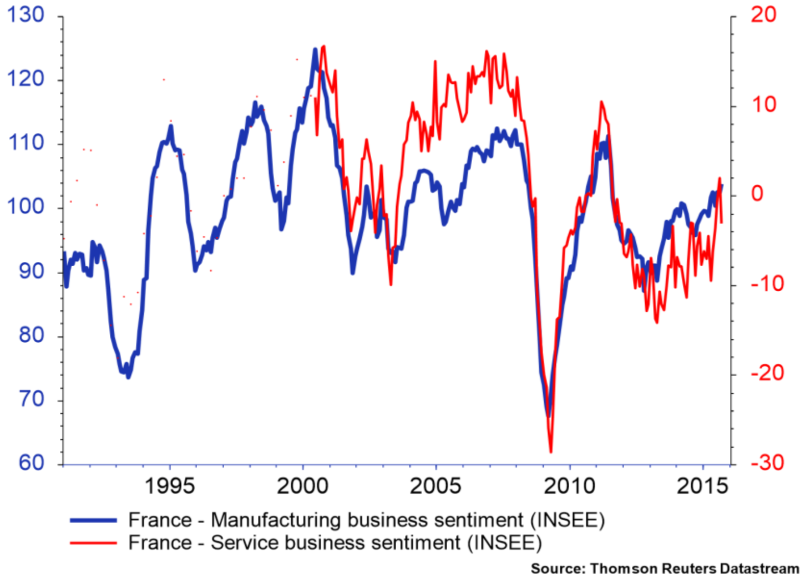
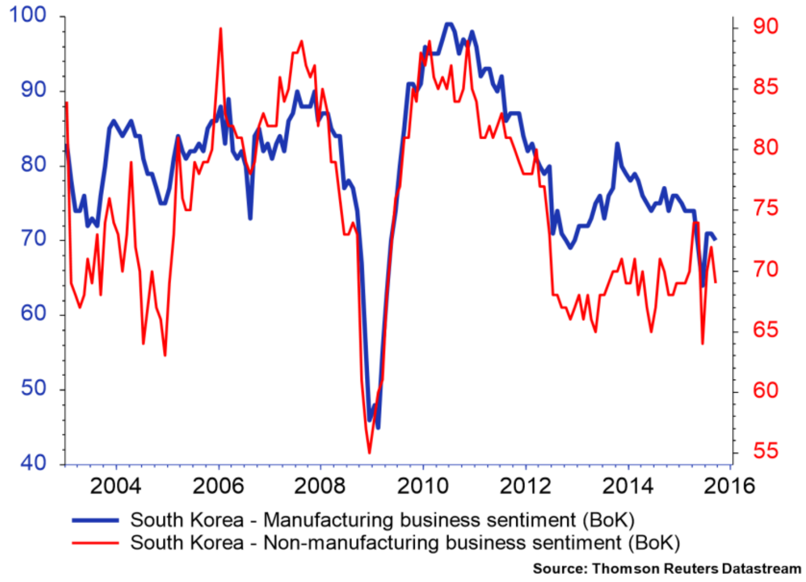
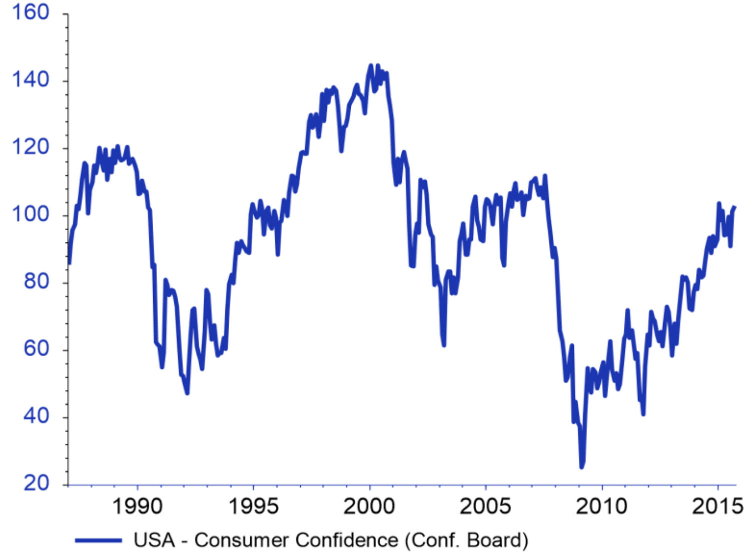






Consumer Confidence



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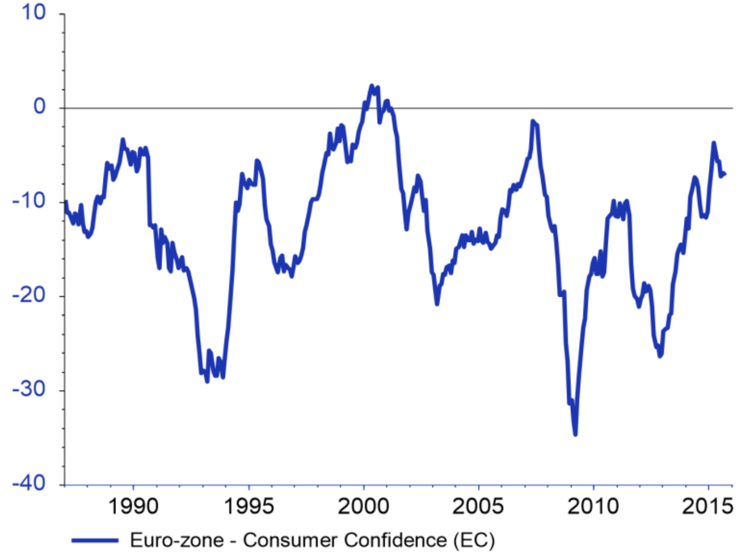

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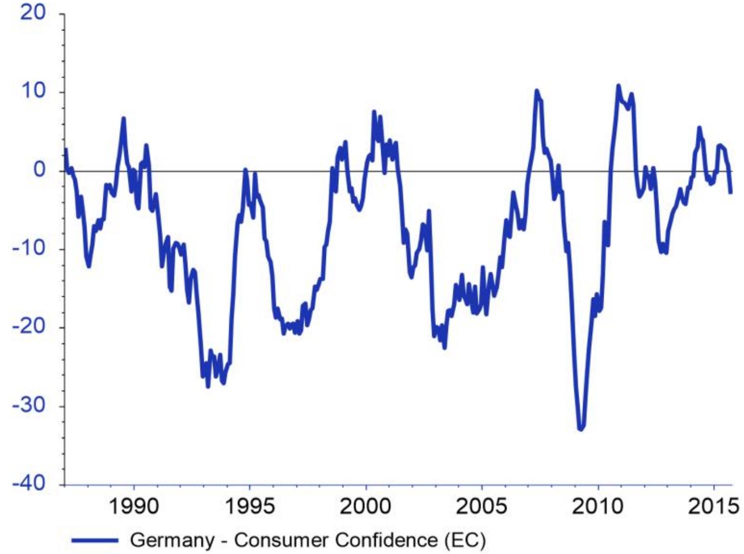

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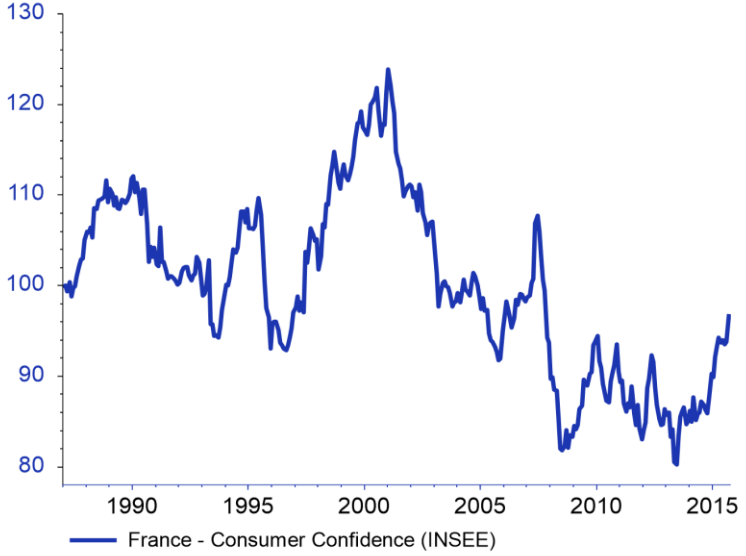

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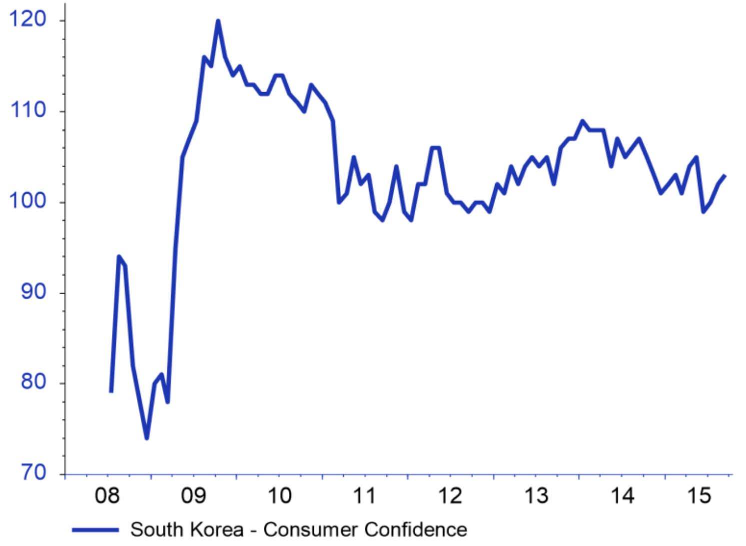

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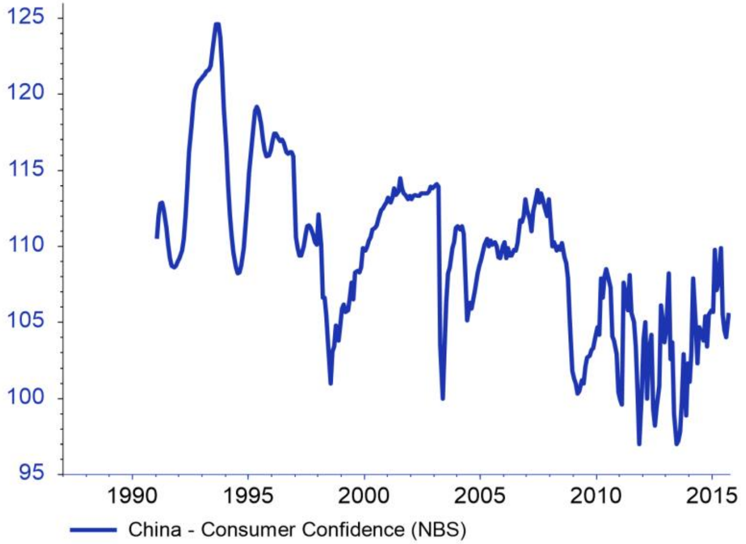

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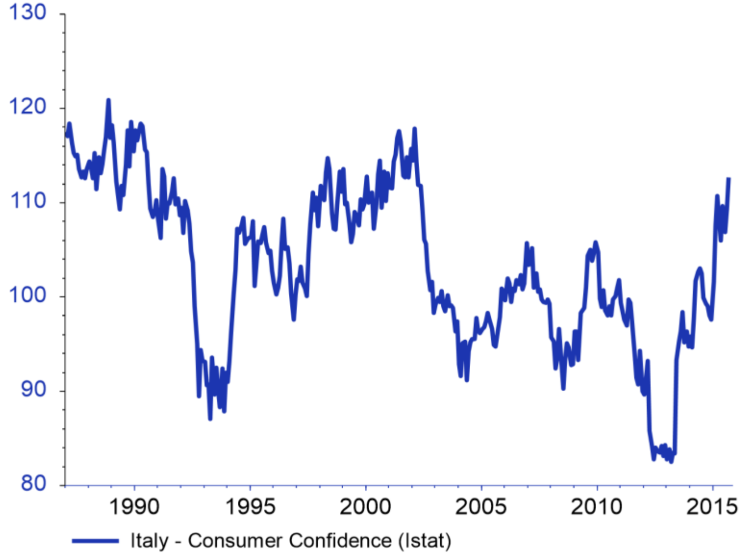

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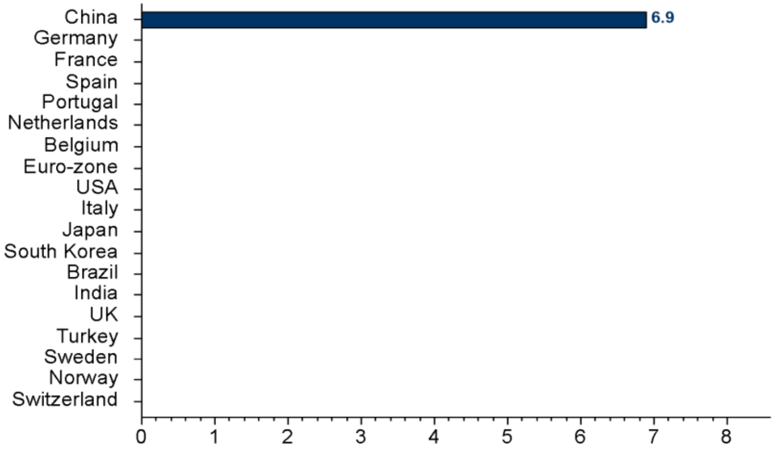
Real GDP growth

%YoY- Q3 2015



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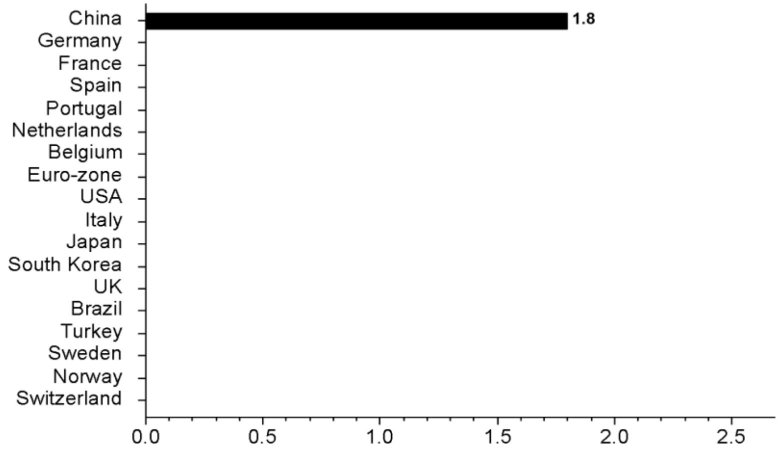
%QoQ - Q3 2015 (India is not included)



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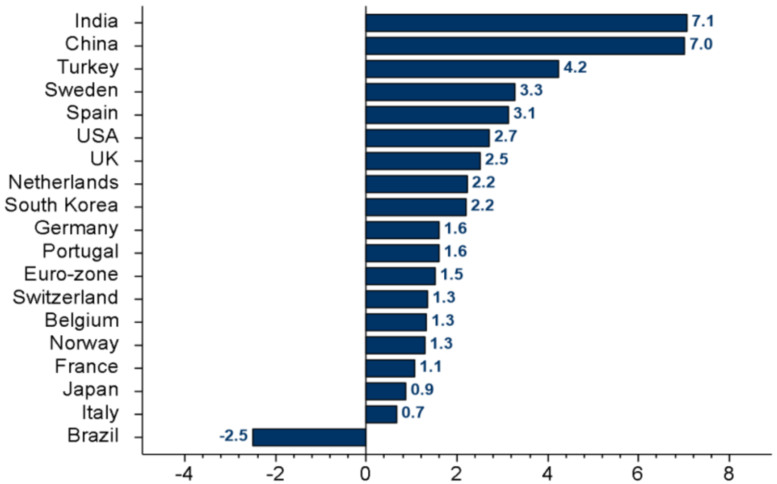
% YoY - Q2 2015



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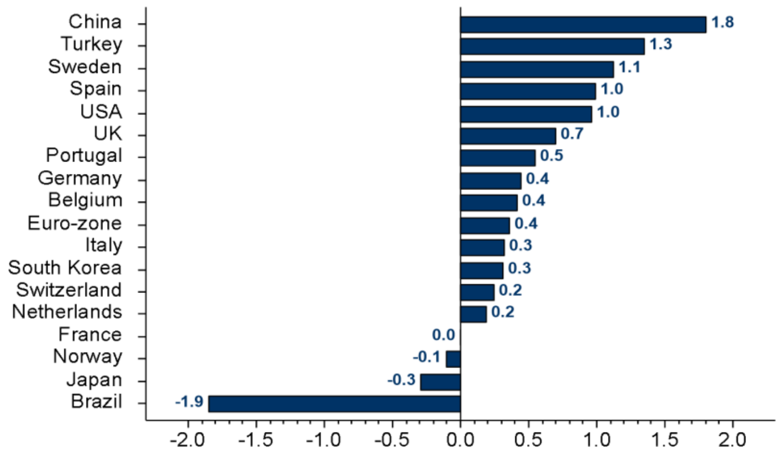
% QoQ - Q2 2015 (India is not included)



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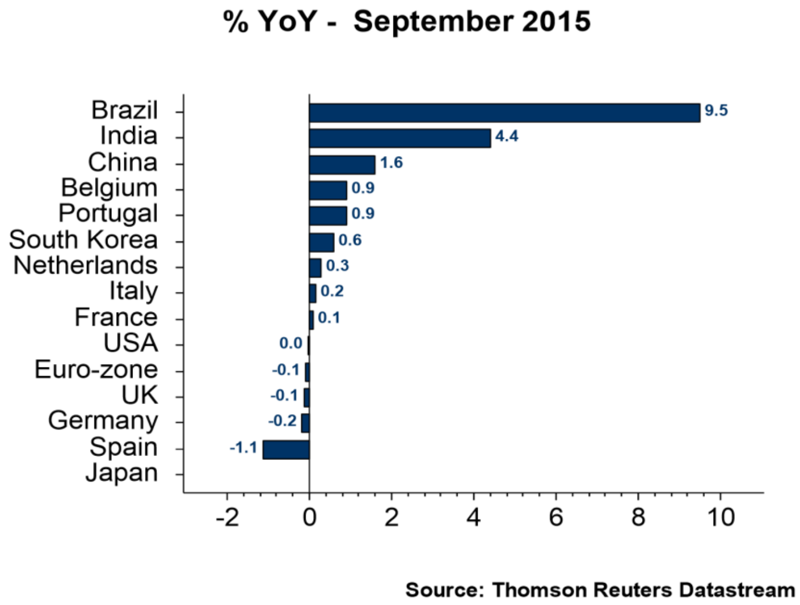
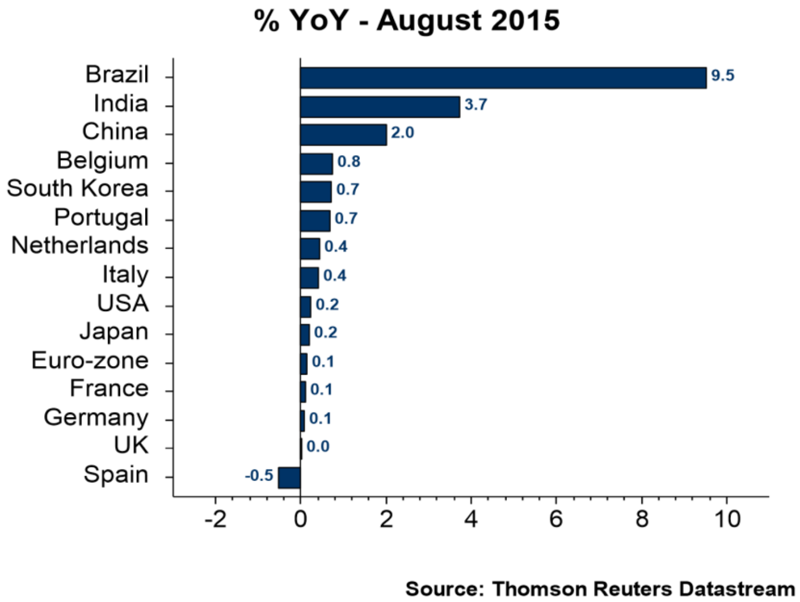
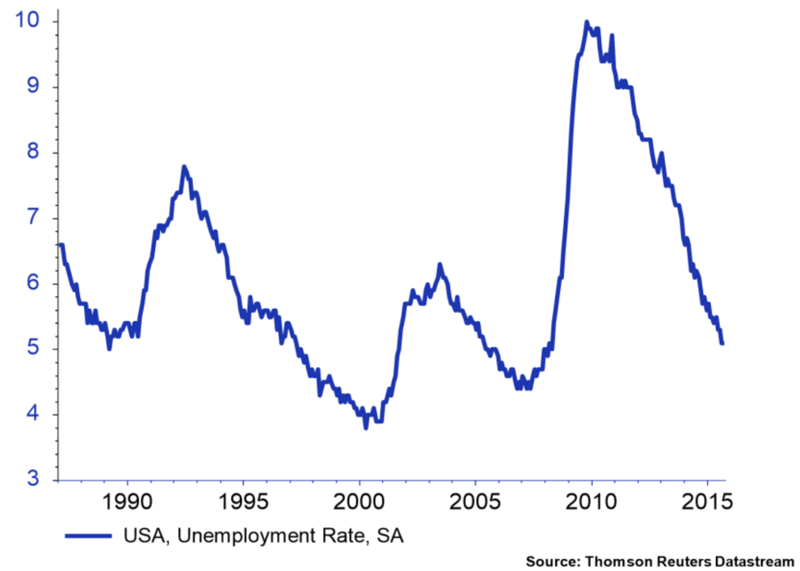
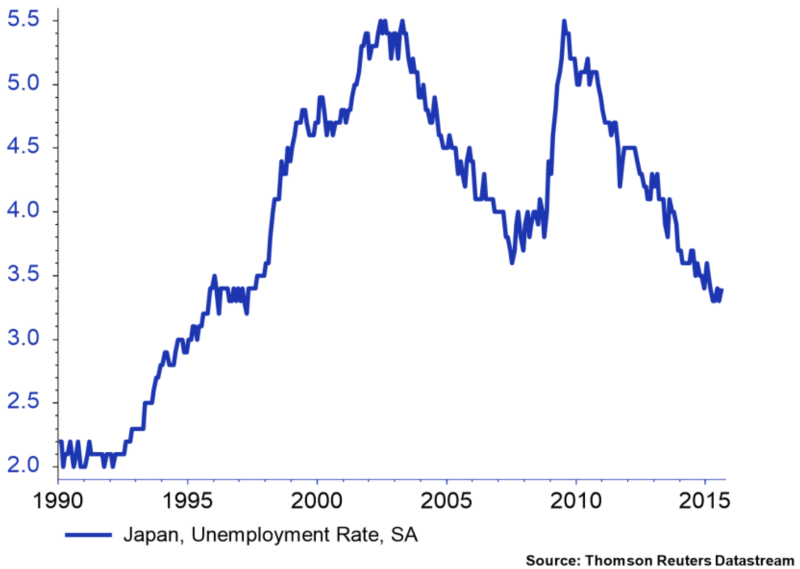
Consumer price inflation

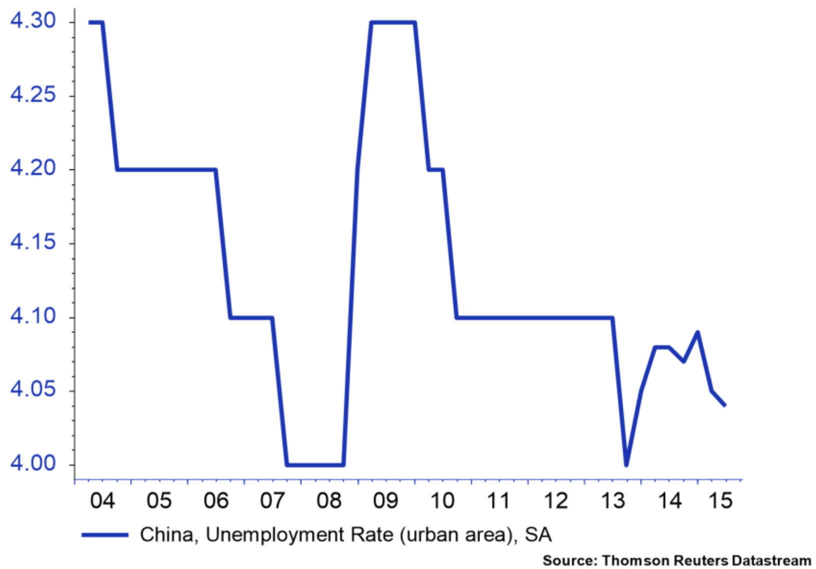




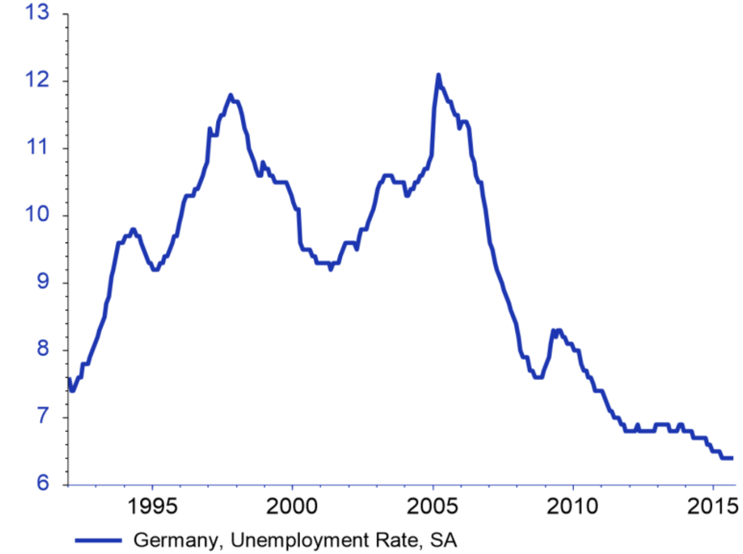
Unemployment







Unemployment (continued)



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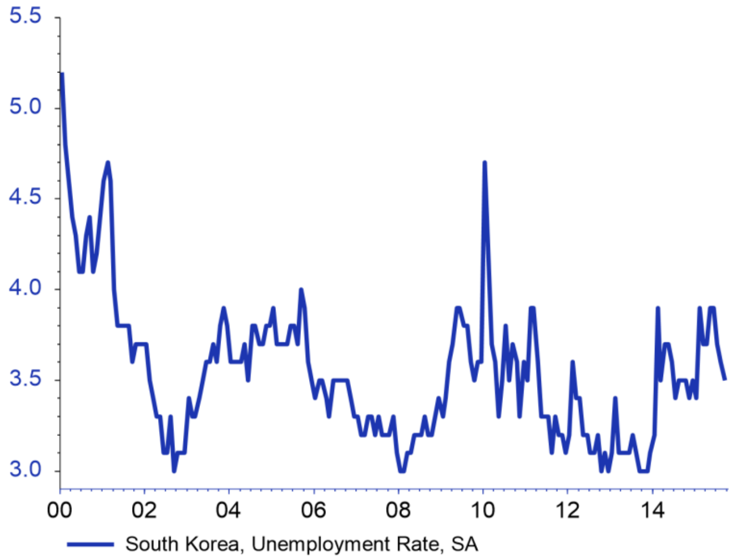

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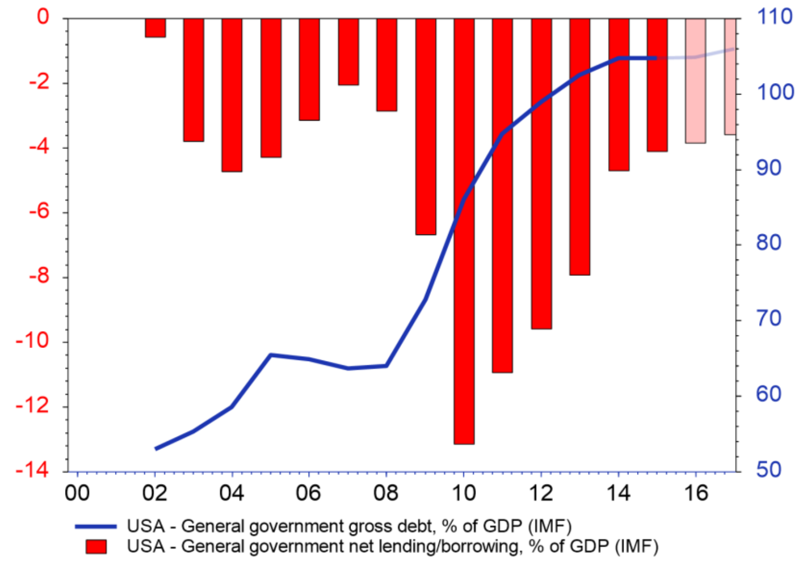
Public Sector Balances



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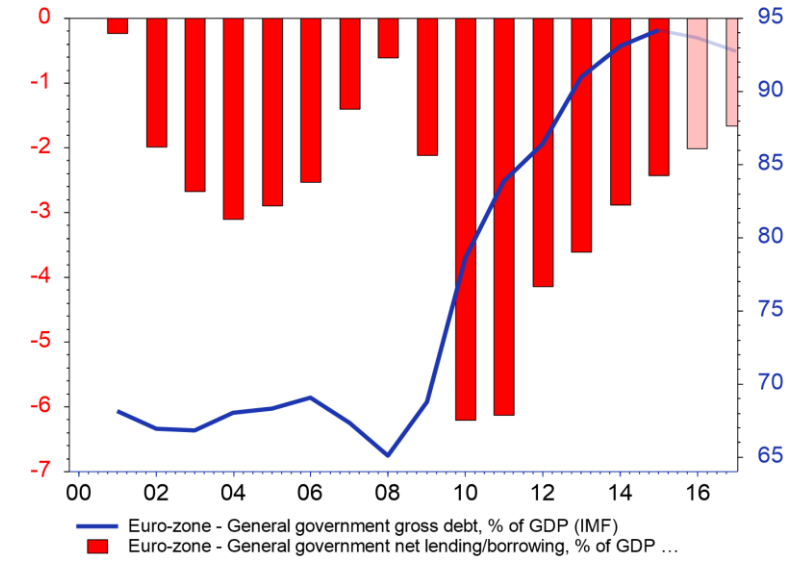

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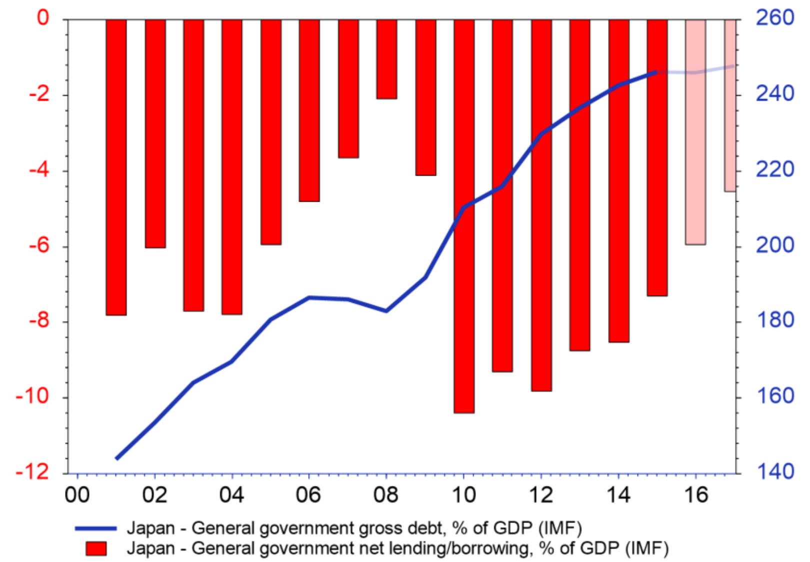

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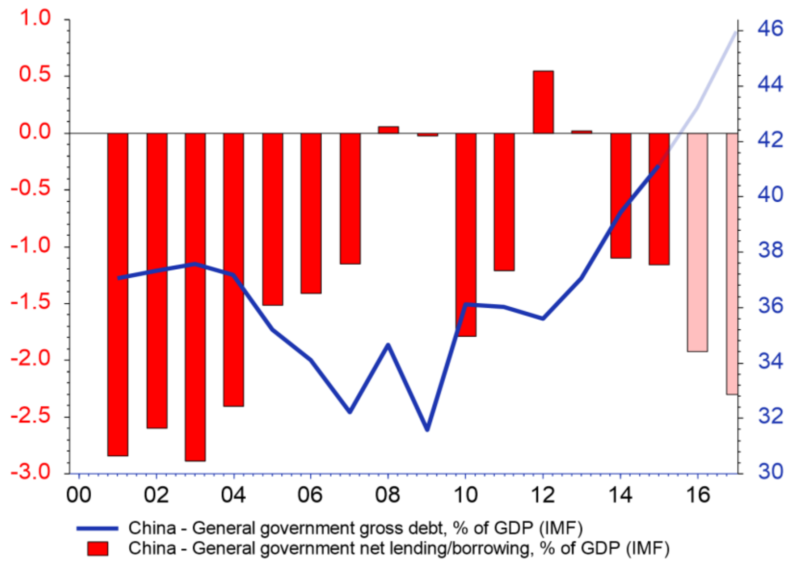

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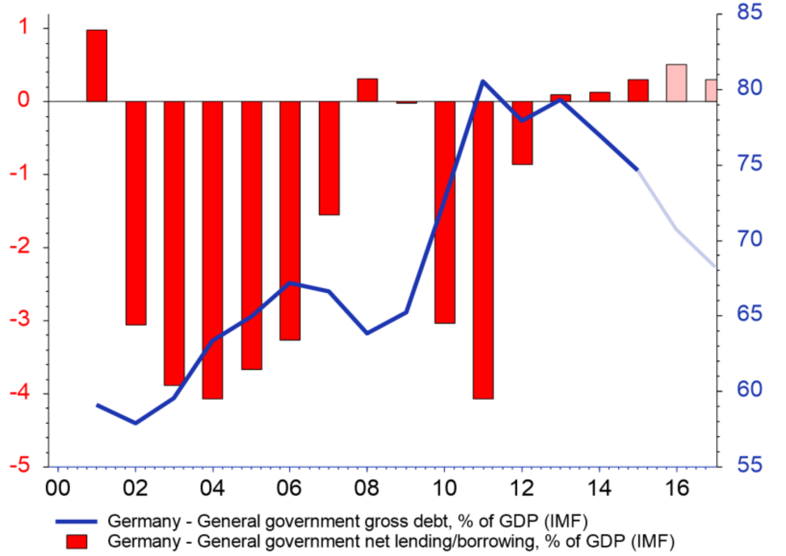

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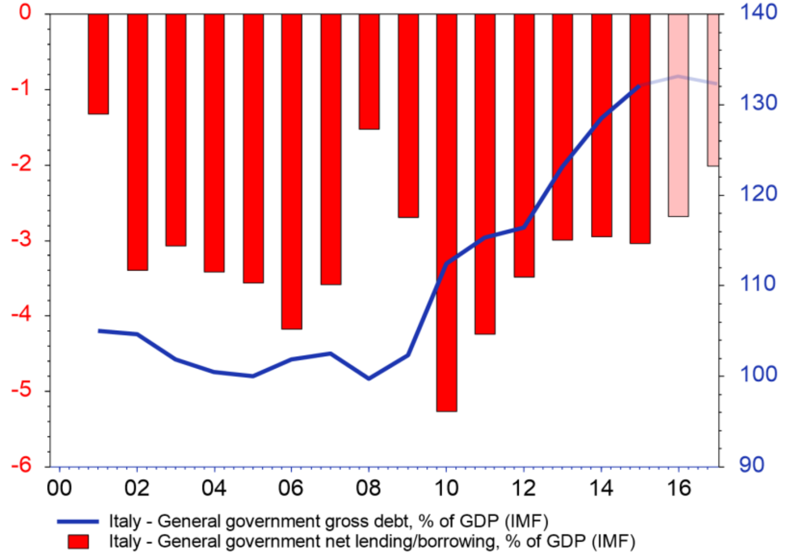

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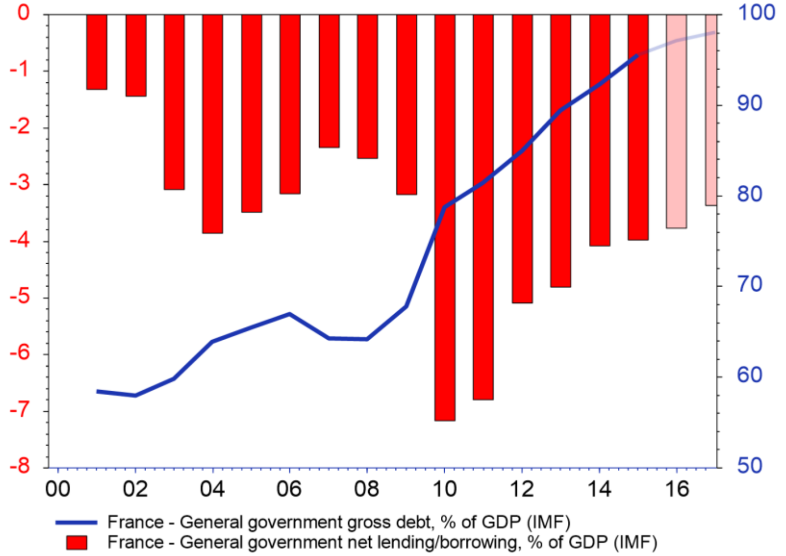

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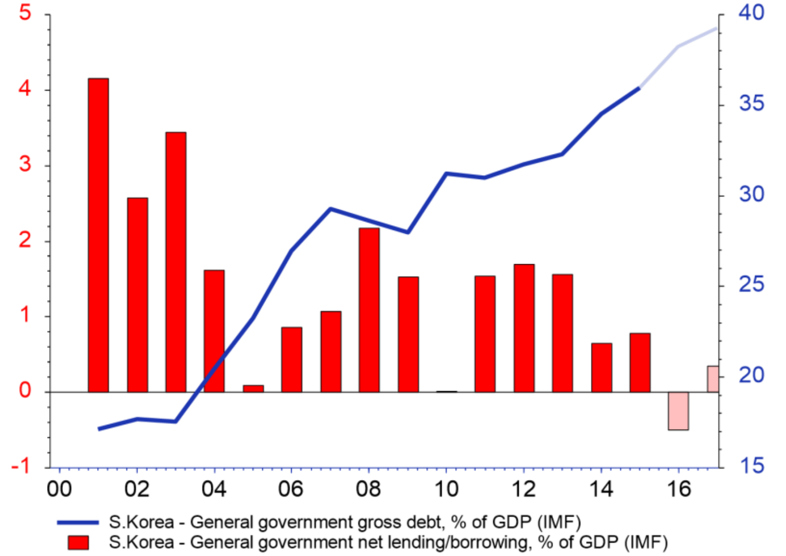

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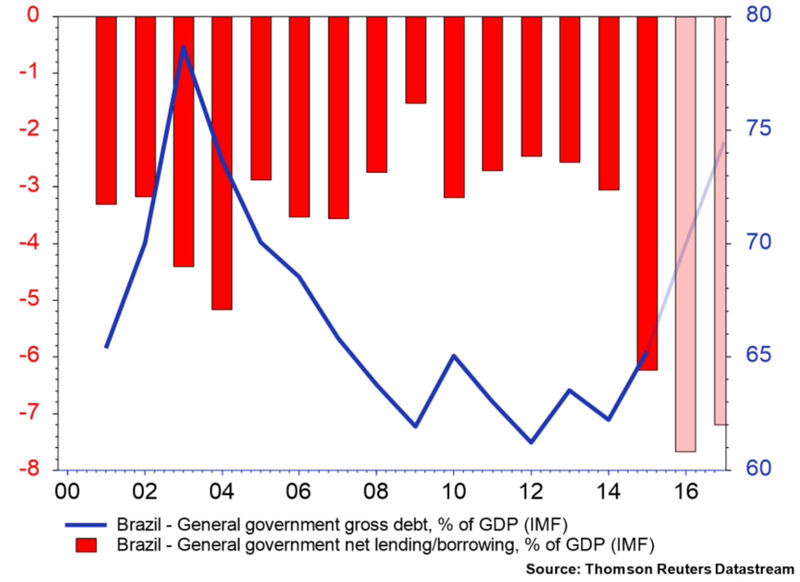
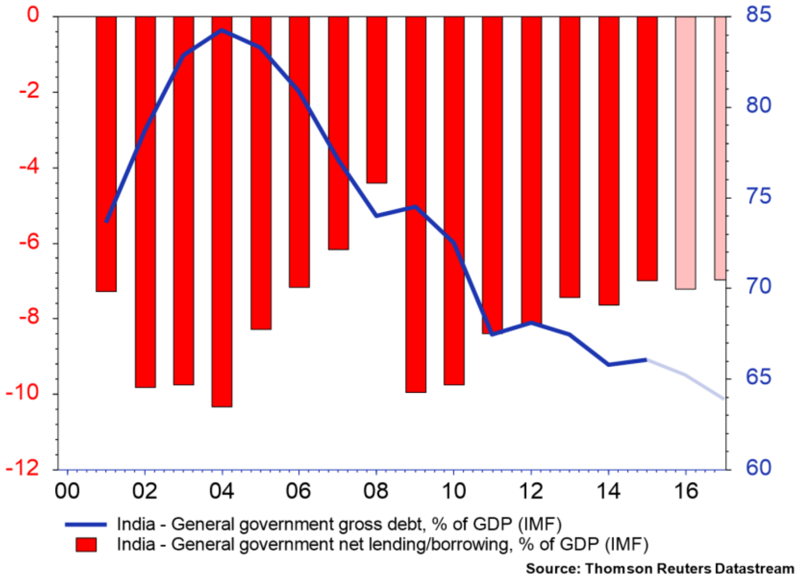
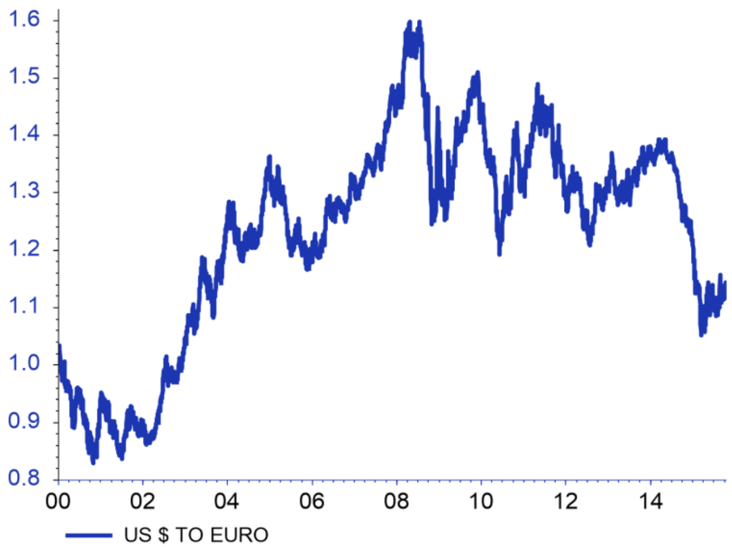




Foreign Exchange Market



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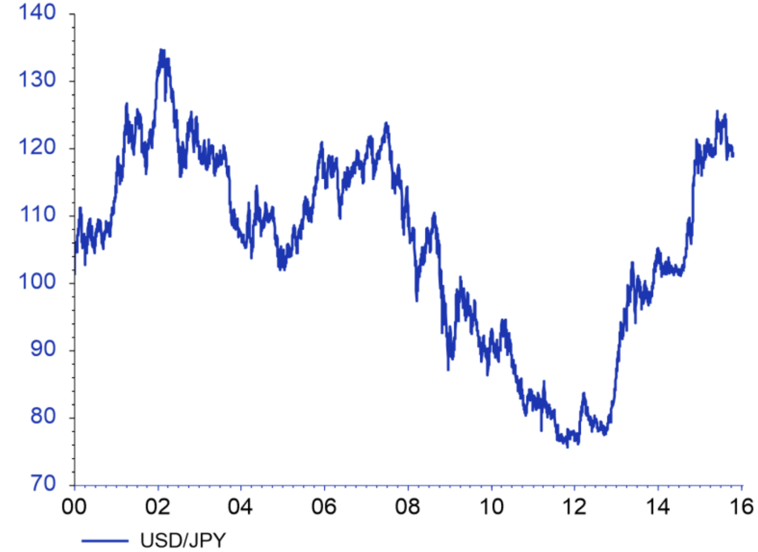

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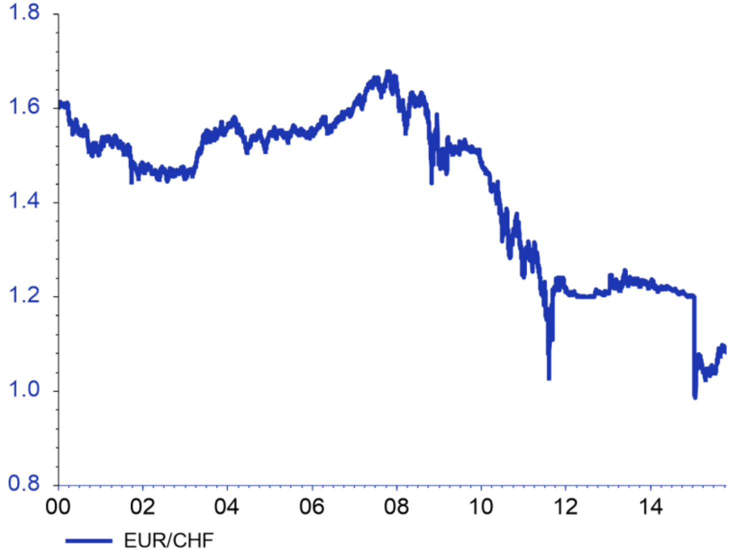

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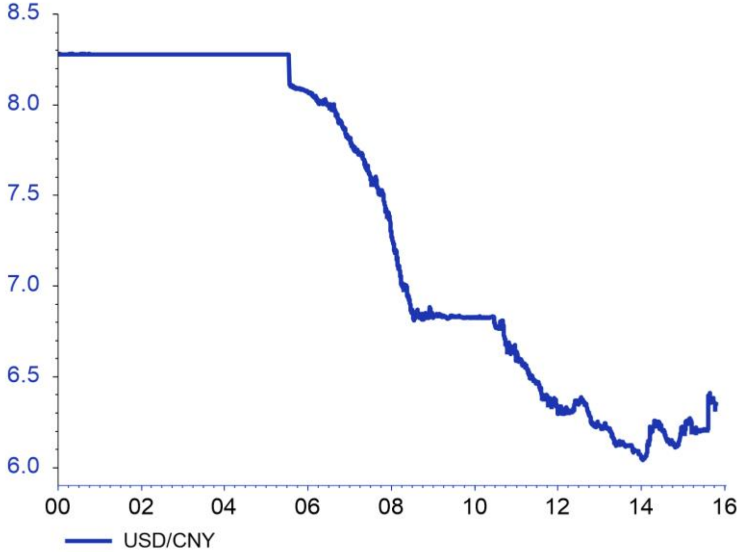
Foreign Exchange Market (continued)



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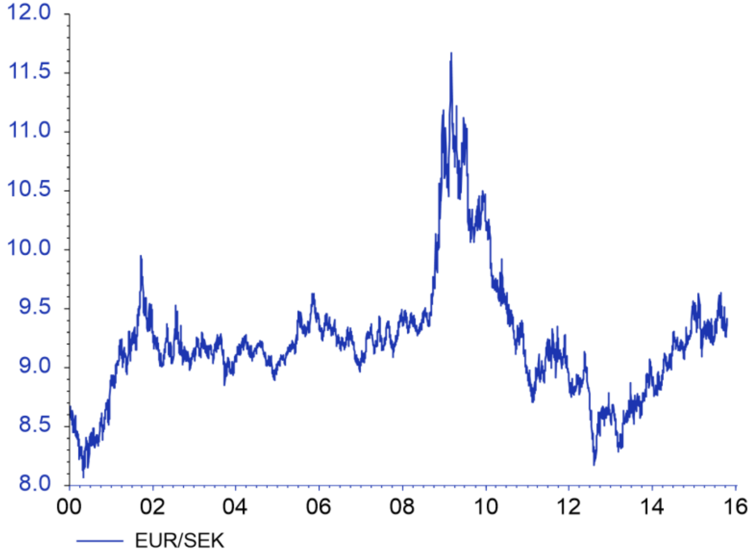

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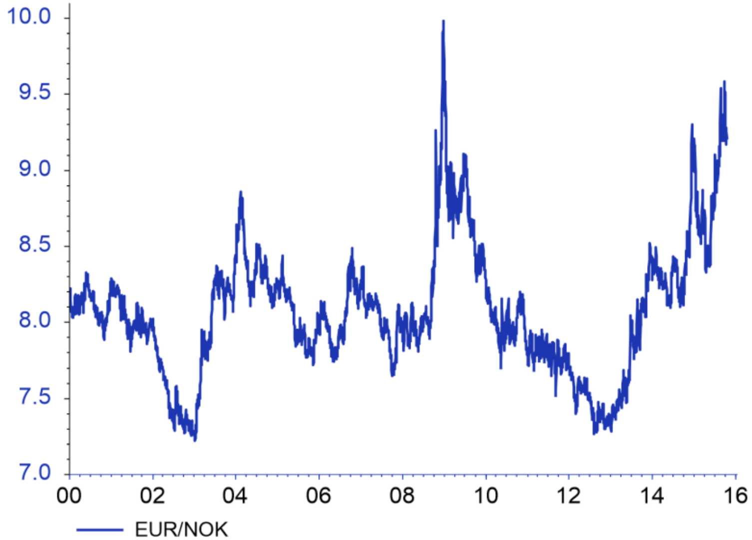

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Government Bond Yields

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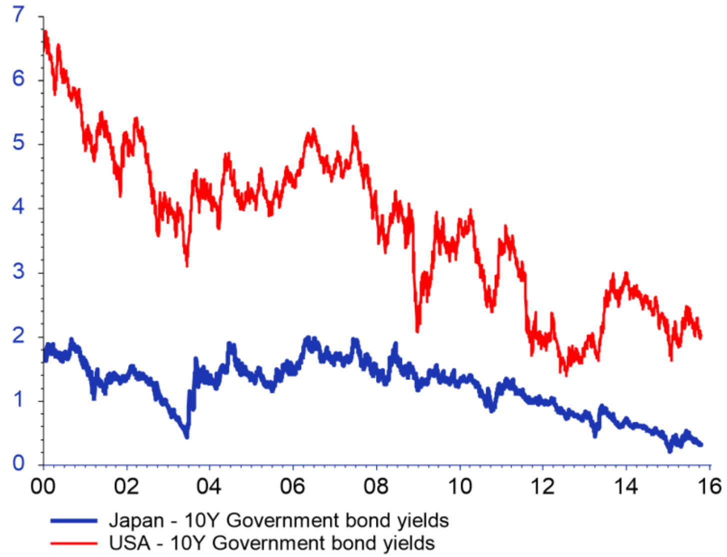

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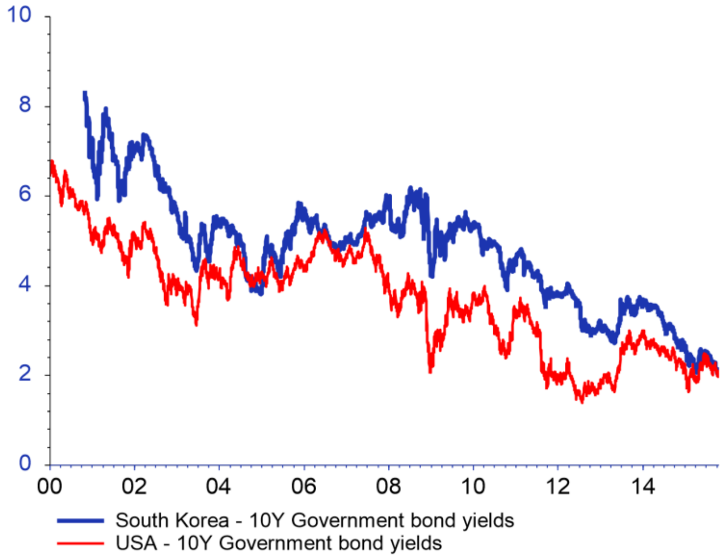

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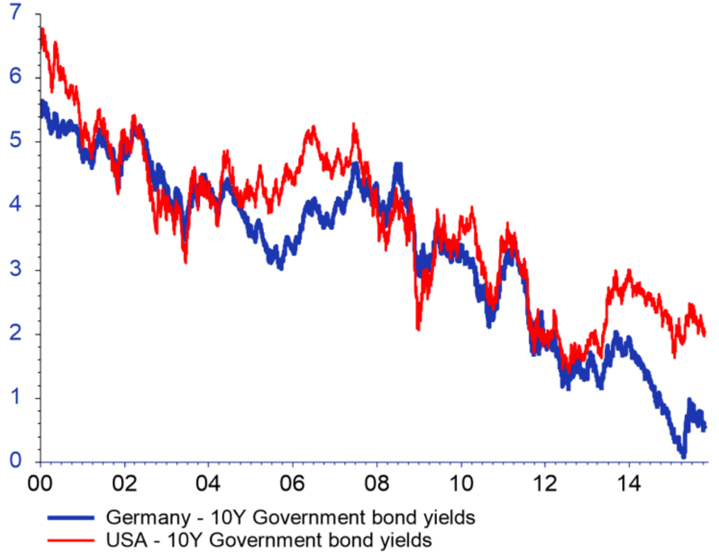
Government Bond Yields (continued)



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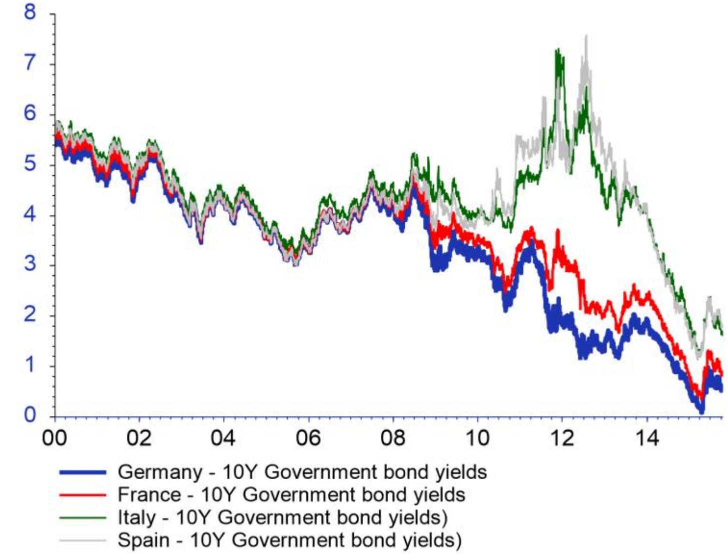

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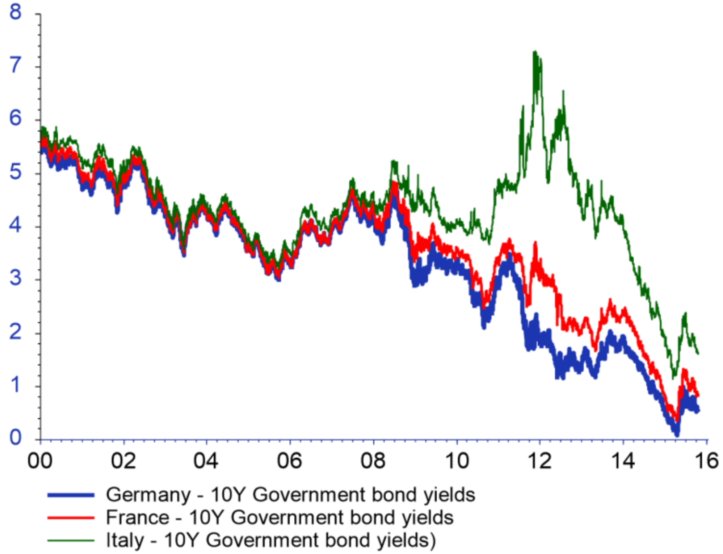

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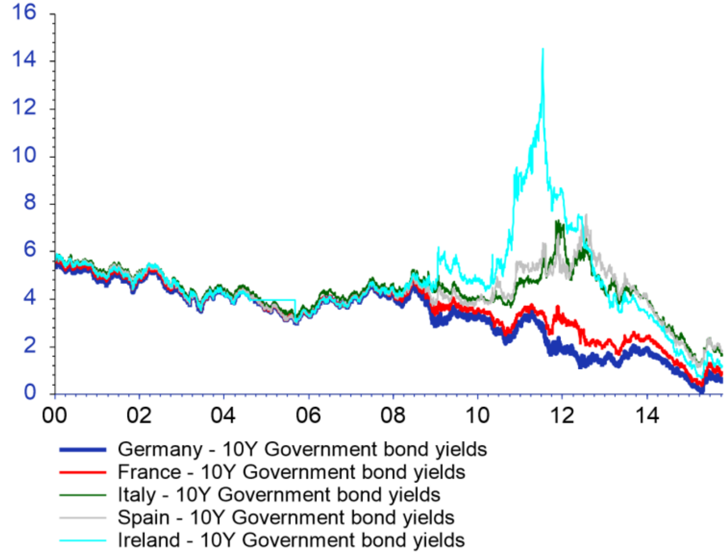

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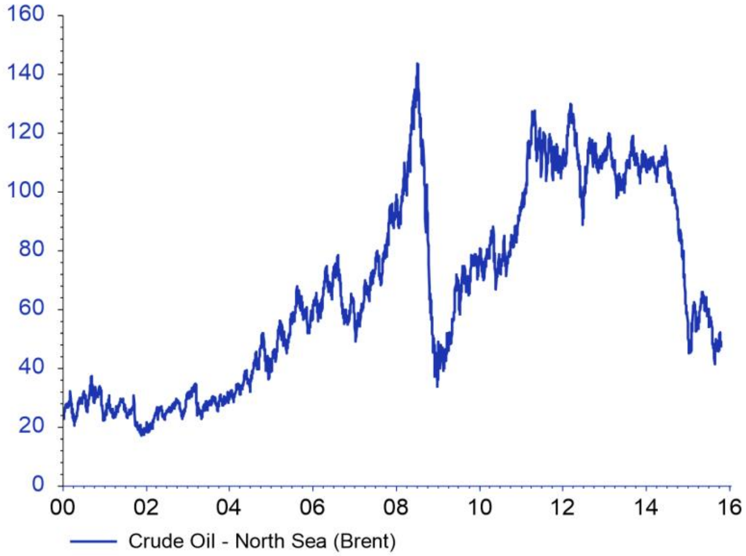
Commodity Markets



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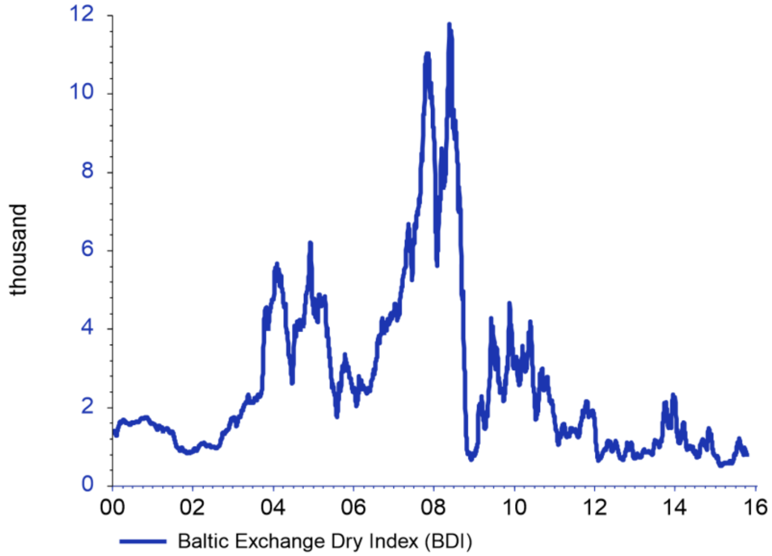

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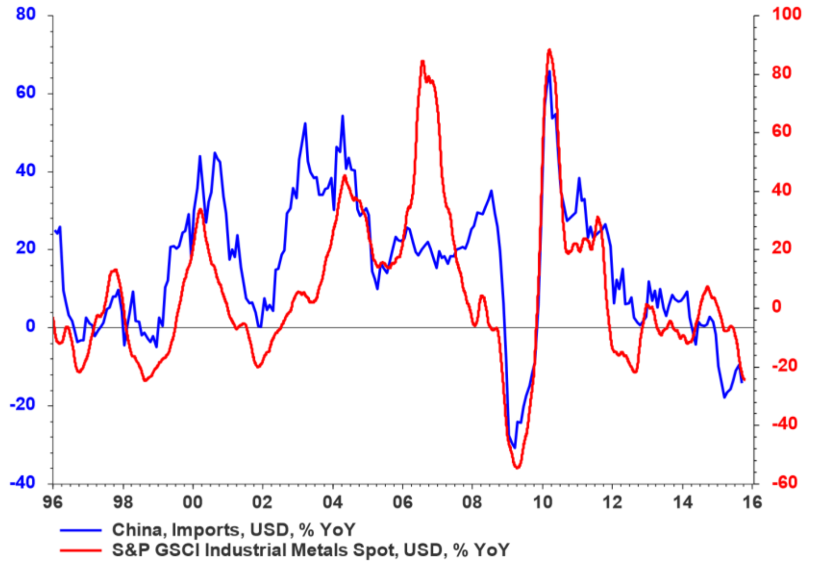

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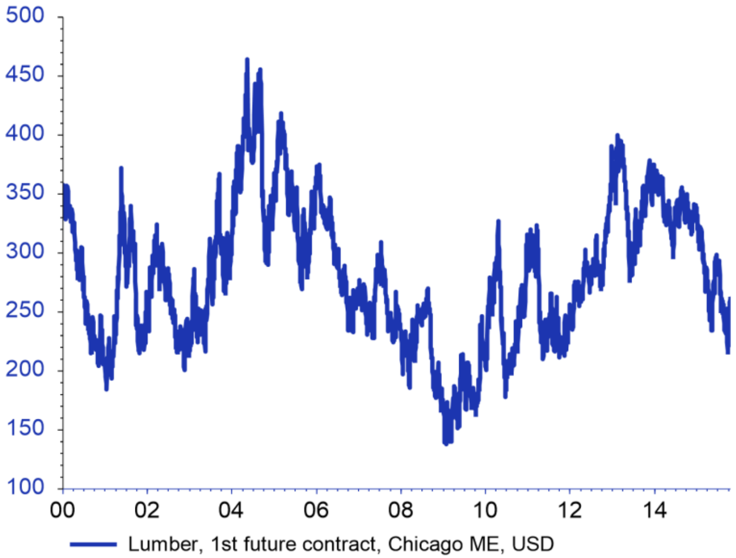
Commodity Markets (continued)



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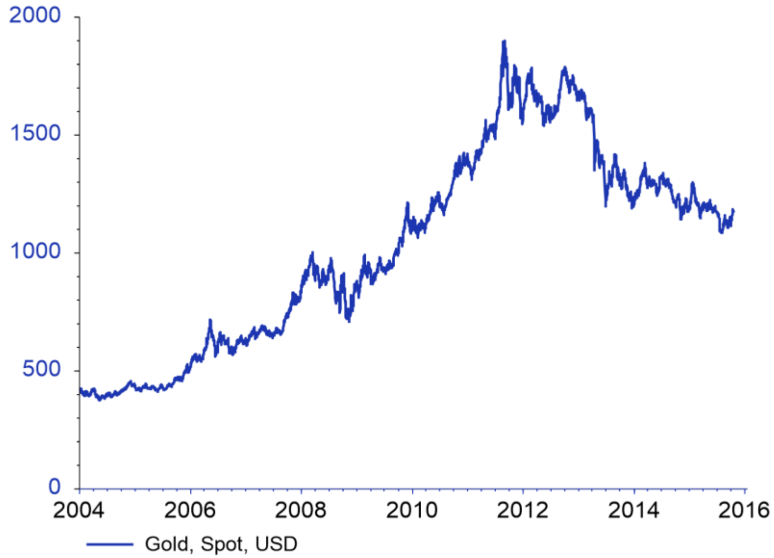

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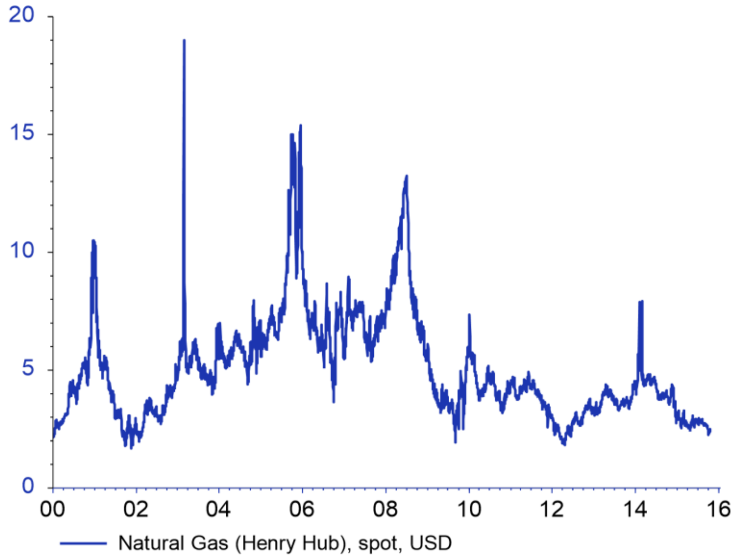

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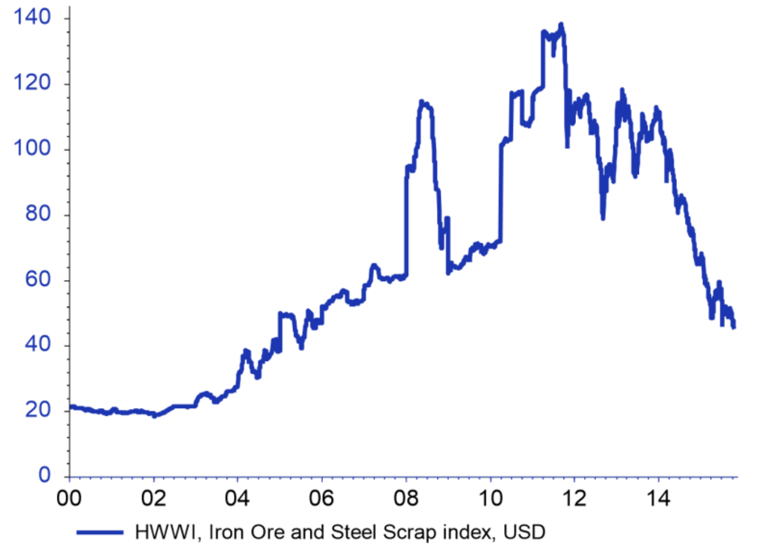

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Commodity Markets (continued)

Equity Markets

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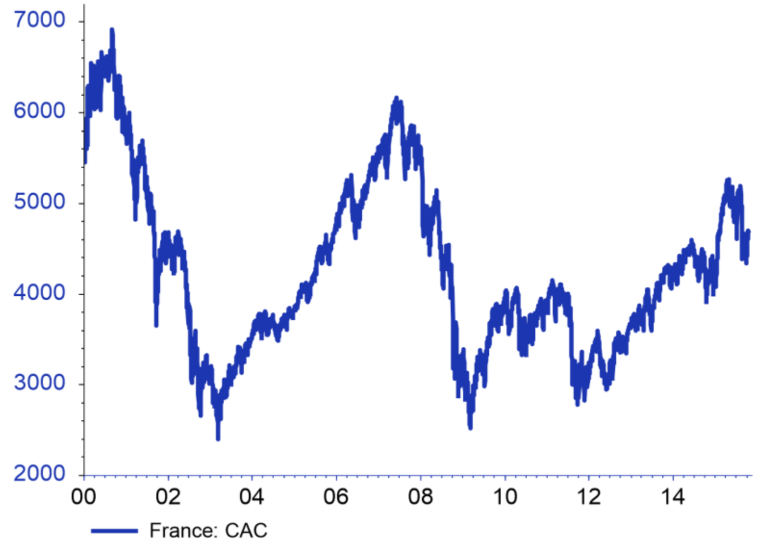

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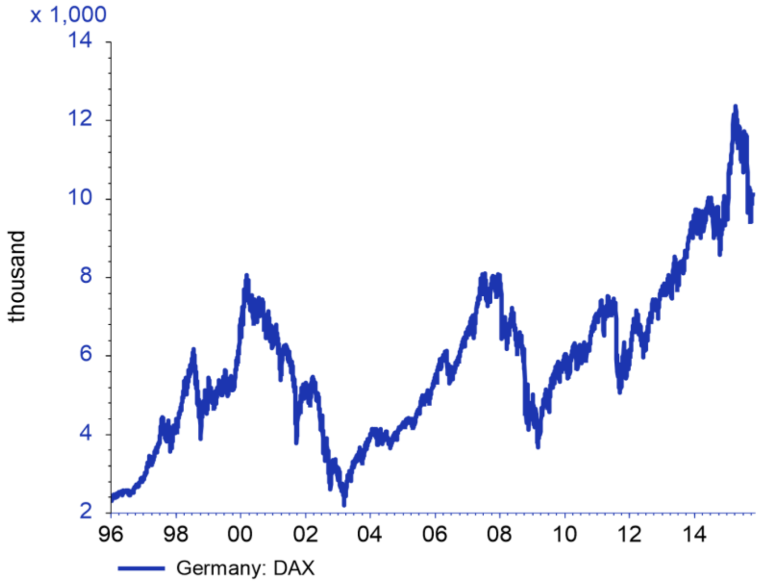

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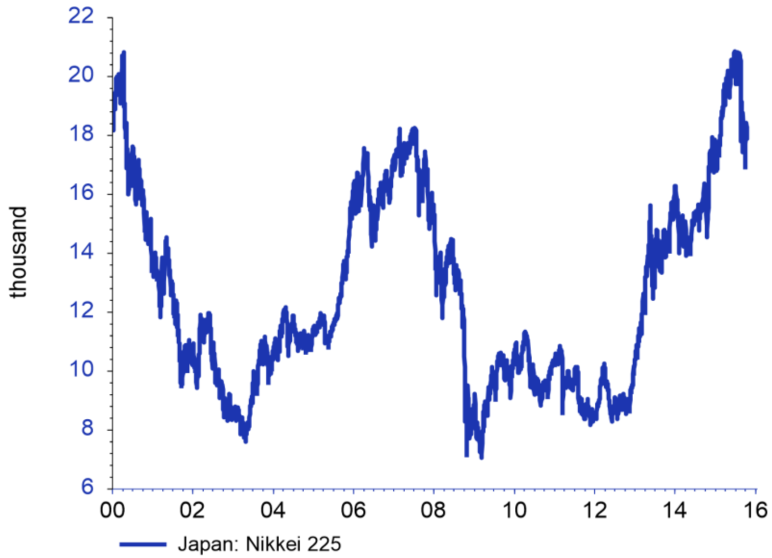

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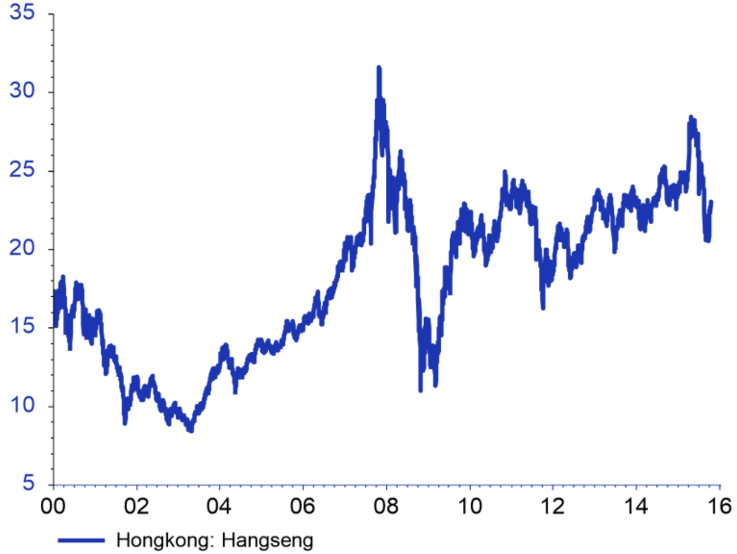
Equity Markets (continued)



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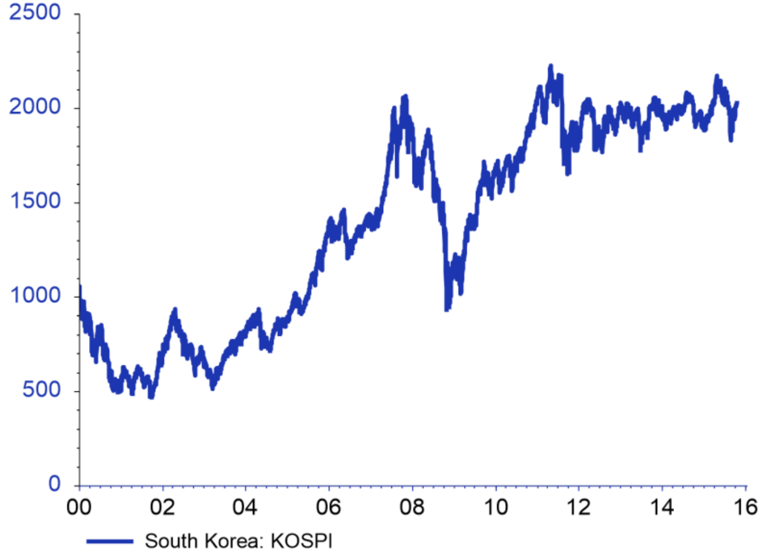

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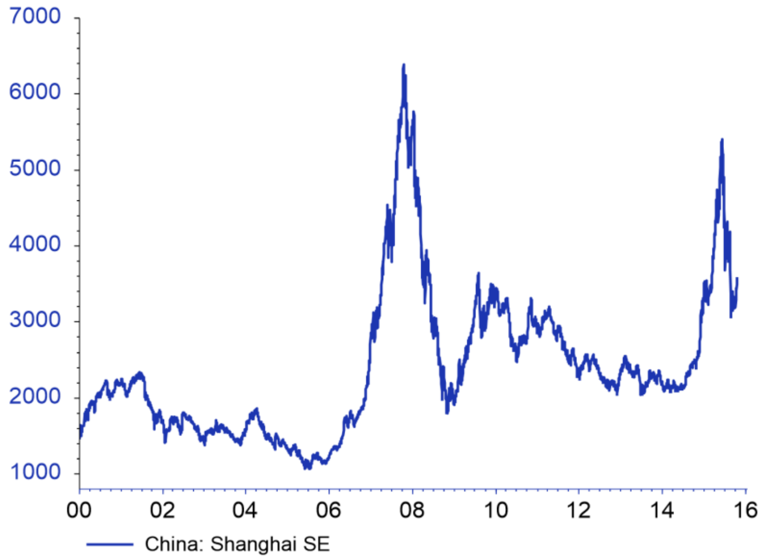

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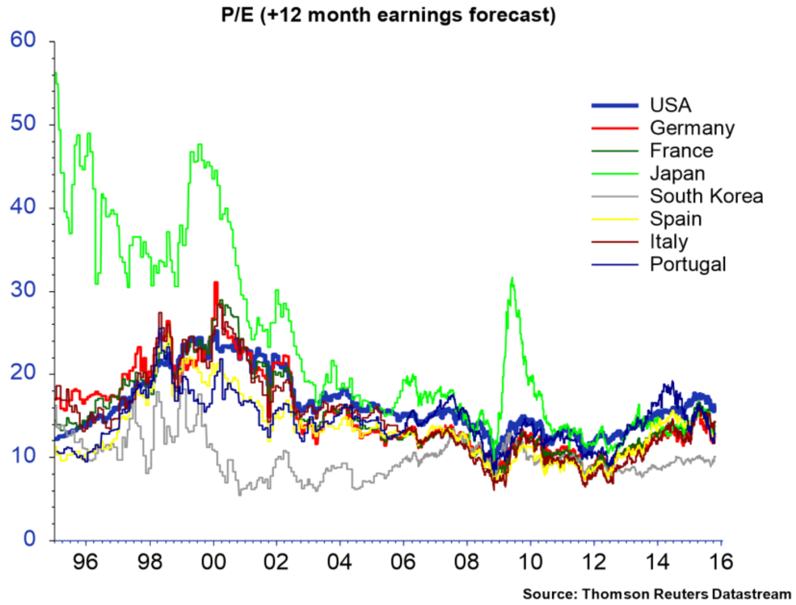
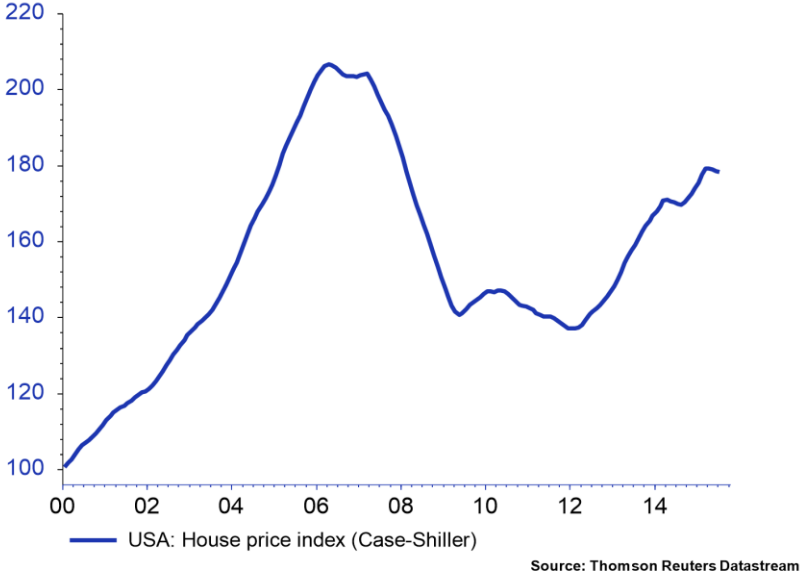
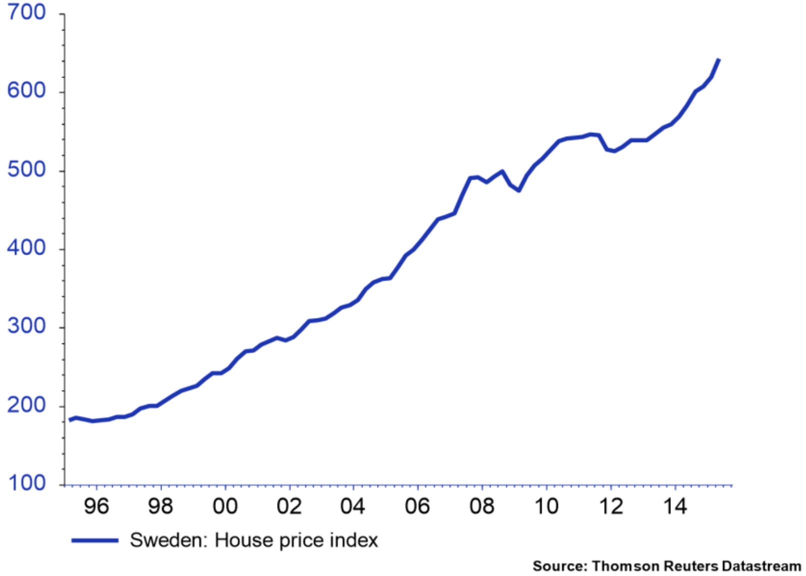
Equity Markets (continued)

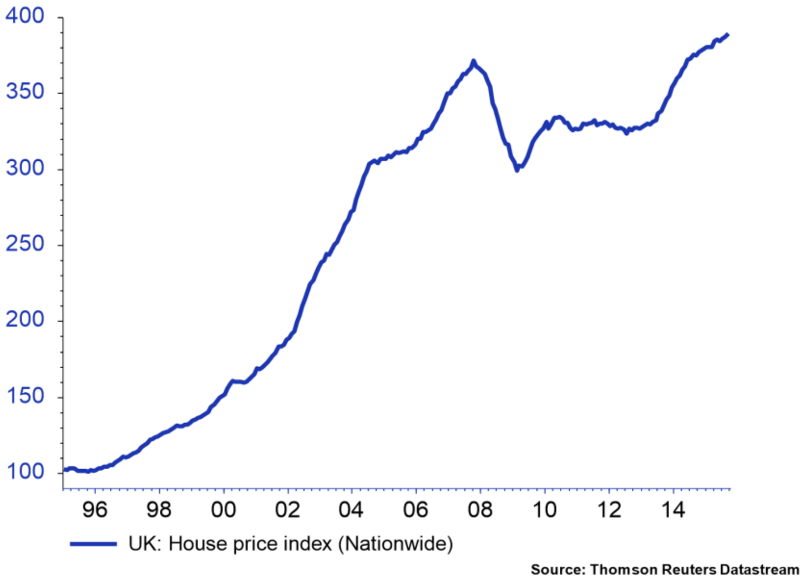
Equity Markets - Valuation

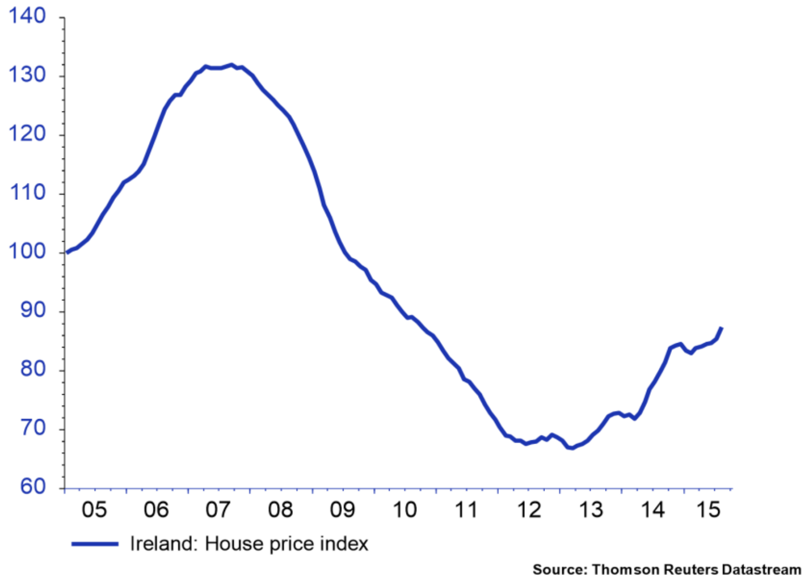


Home Prices

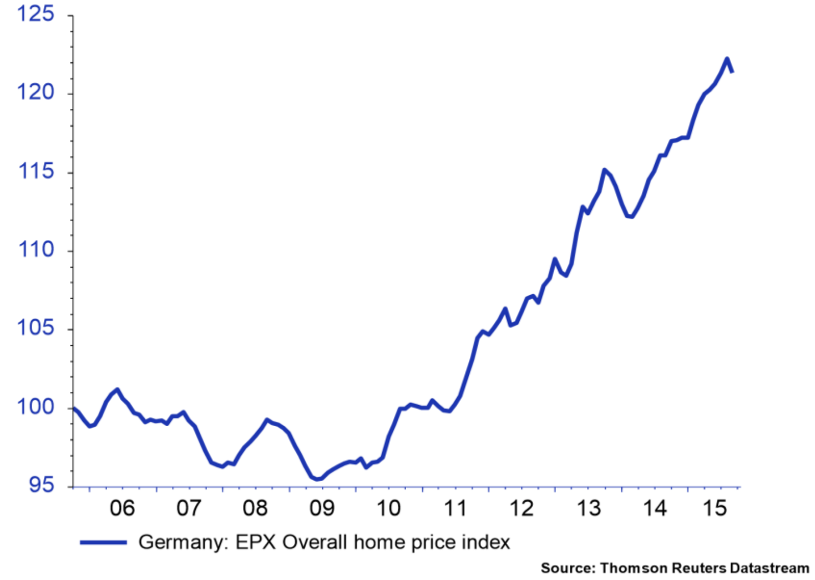

220
200
180
160
140
120
100
00 02 04 06 08 10 12 14
USA: House price index (Case-Shiller)
Source: Thomson Reuters Datastream

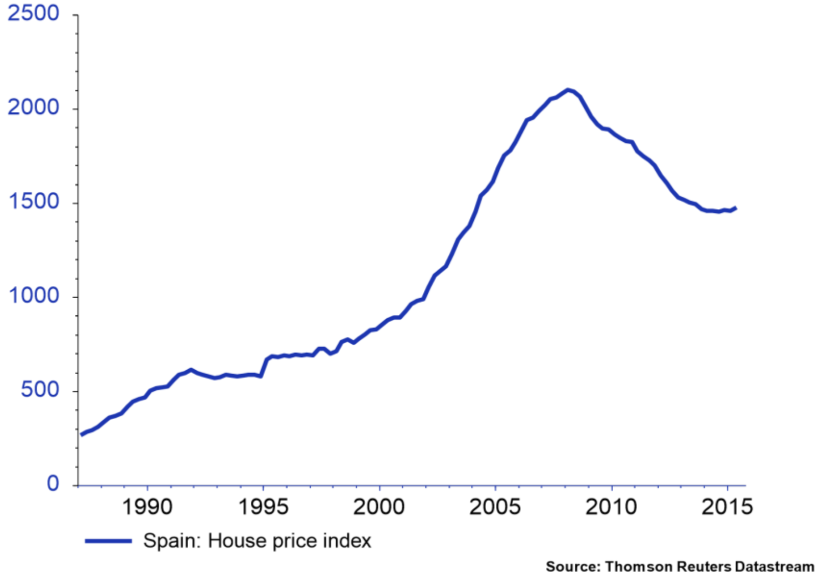

700
600
500
400
300
200
100
96 98 00 02 04 06 08 10 12 14
Sweden: House price index
Source: Thomson Reuters Datastream

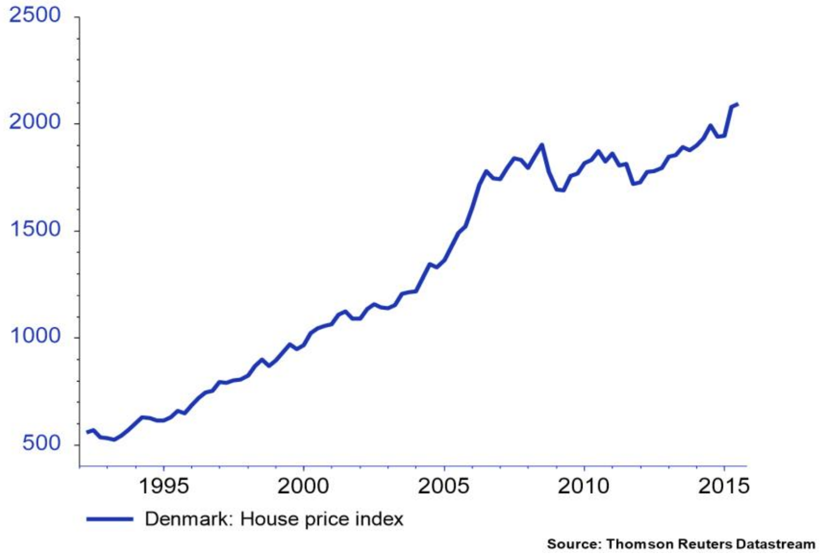

400
350
300
250
200
150
100
96 98 00 02 04 06 08 10 12 14
UK: House price index (Nationwide)
Source: Thomson Reuters Datastream


140
130
120
110
100
90
80
70
60
05 06 07 08 09 10 11 12 13 14 15
Ireland: House price index
Source: Thomson Reuters Datastream

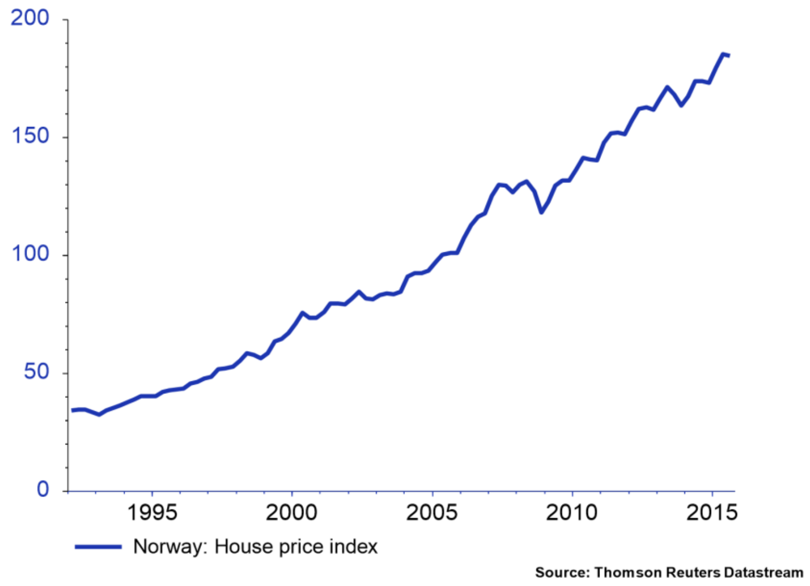
Home Prices (continued)

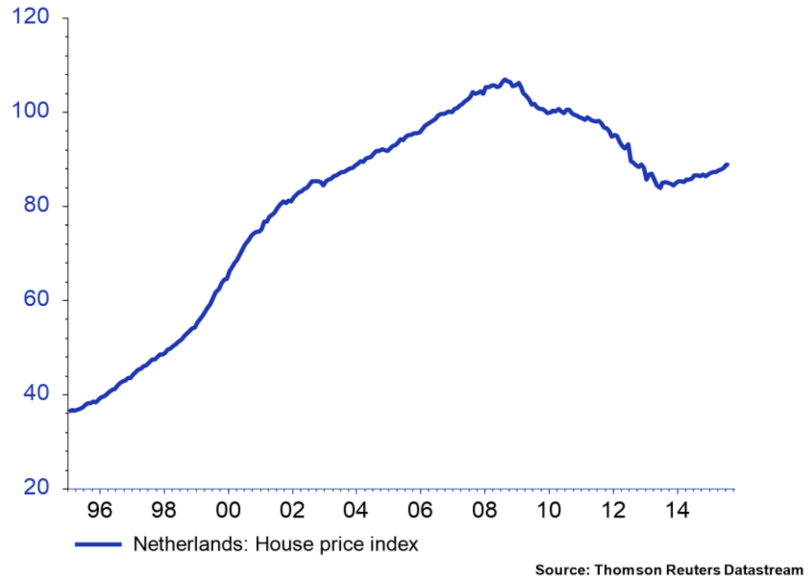




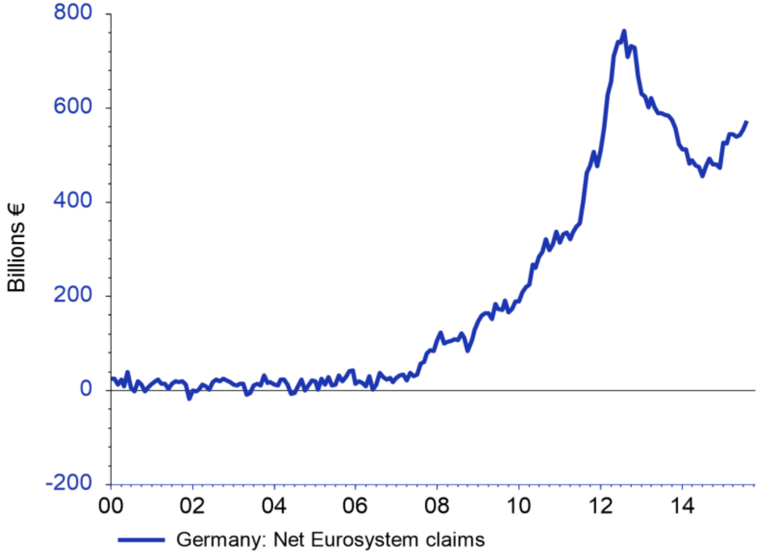


Home Prices (continued)





Euro-zone Crisis



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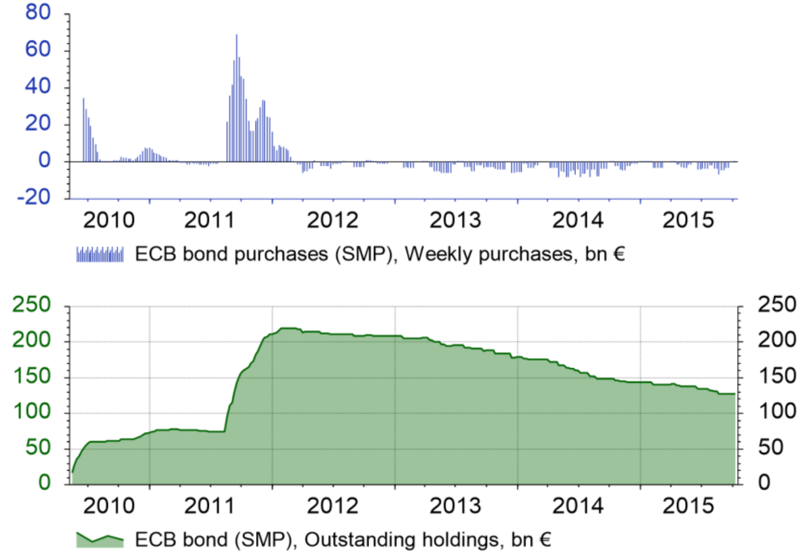

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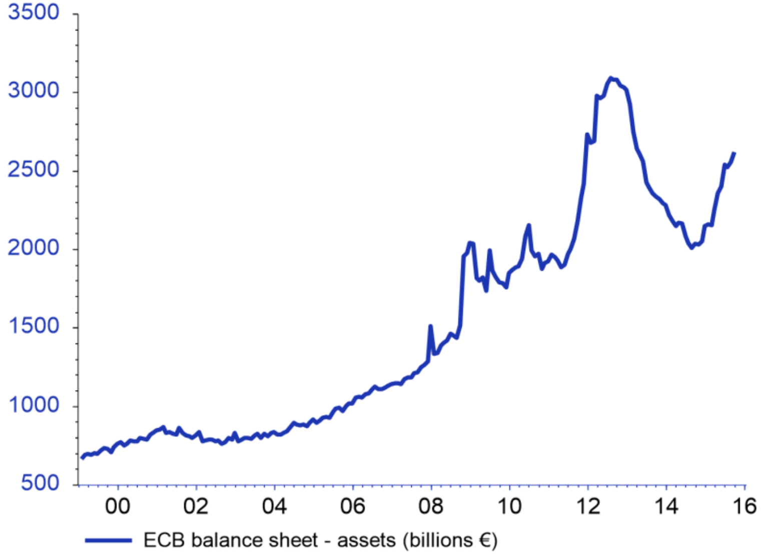

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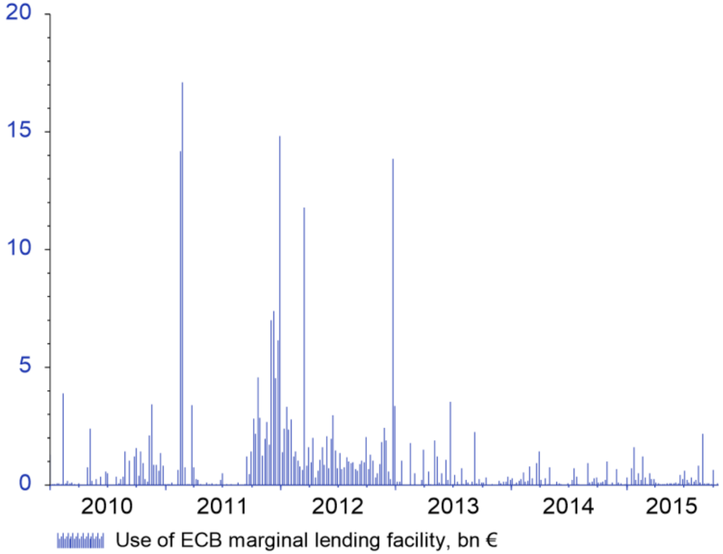

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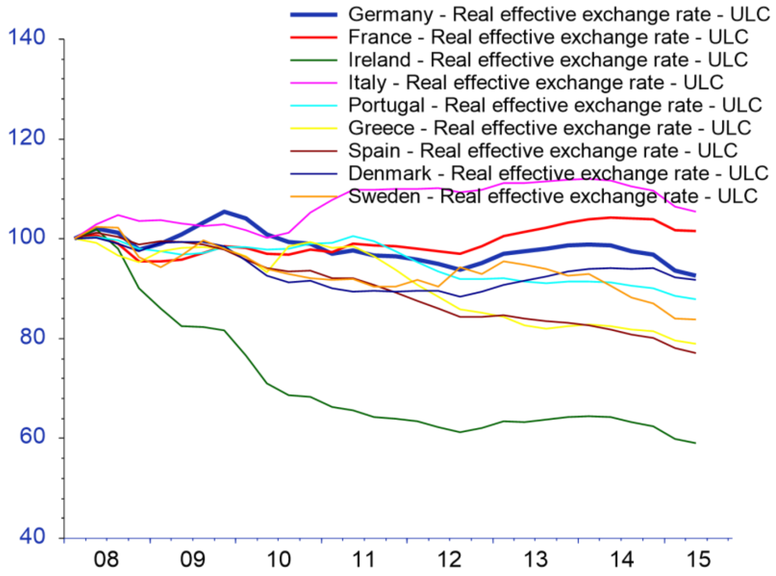
Labour costs



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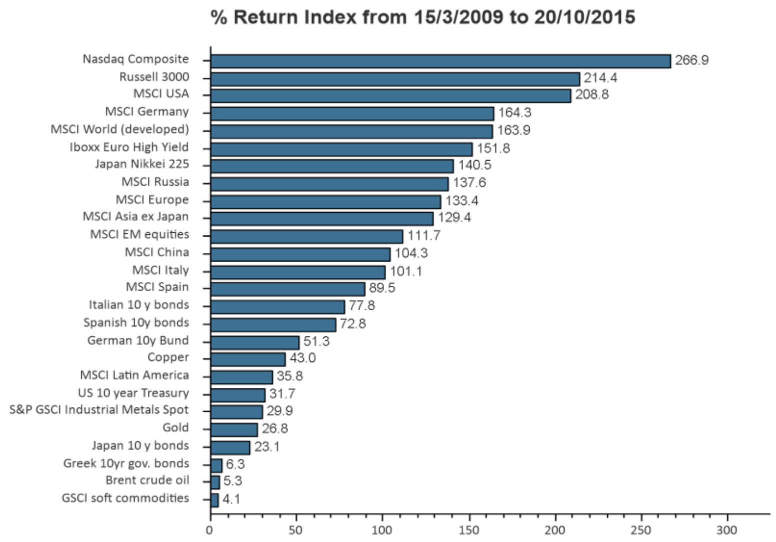
Performance of Asset types (local currency) – last update: October 20, 2015



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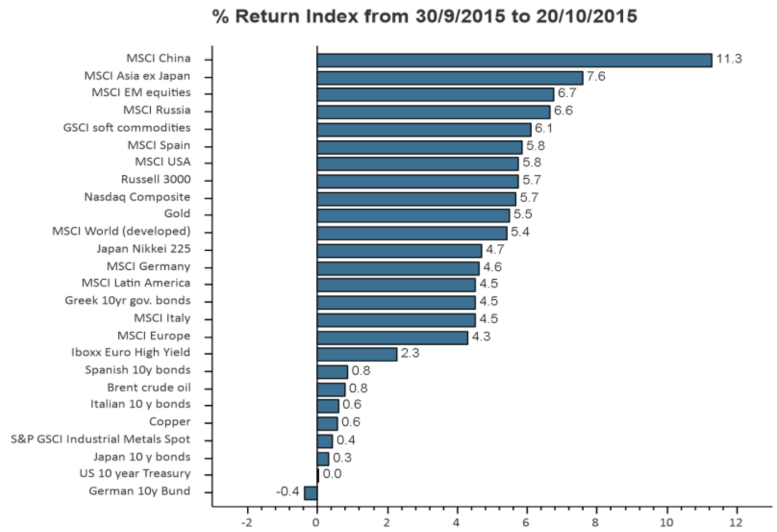

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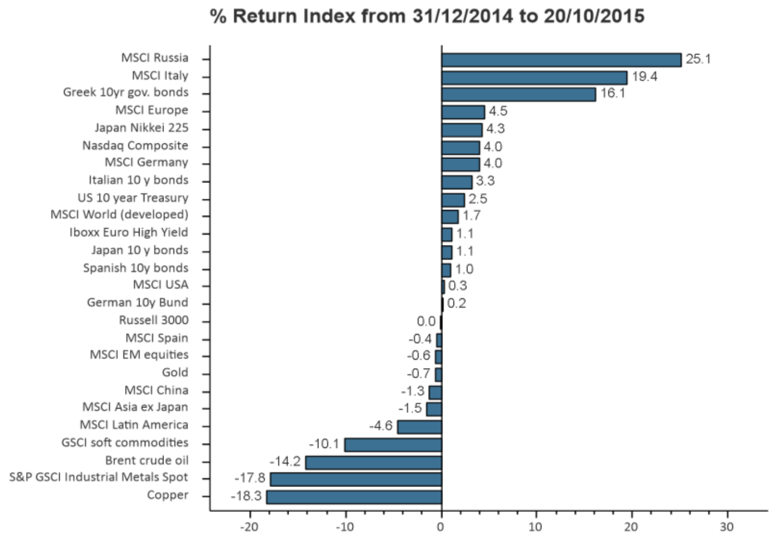

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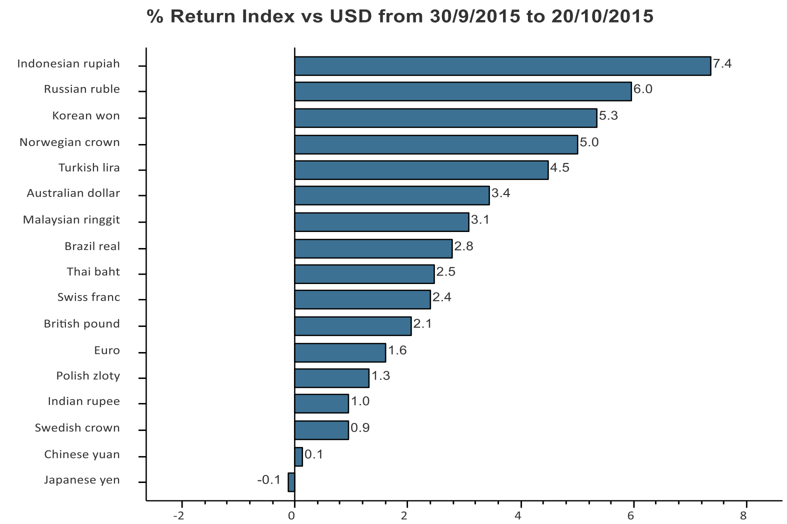

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