ECONOMIC UPDATE

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U.S. Added 266,000 Jobs in November.

November's reassuring employment report, released by the Labor Department, featured payroll increases of 266,000 and offered a counterpoint to recent anxieties about an escalating trade war and a weakening global economy."I think that this report is a real blockbuster," said Daniel Zhao, senior economist at the career site Glassdoor. "Payrolls smashed expectations."

At 3.5 percent, November was the 21st consecutive month with an unemployment rate of 4 percent or lower. Revisions to earlier estimates brought the average monthly payroll gain for the past three months to 205,000, a substantial achievement for the 11th year of an economic expansion. The hearty performance presented President Trump with something to showcase during a week when he fielded criticism for fueling trade tensions with Argentina, Brazil, China and European allies. Abroad, foreign leaders were caught on camera taking gibes at the president, while at home, congressional Democrats pressed ahead with plans that could result in an impeachment vote before the end of the year.

At the moment, many Americans are more focused on expanding payrolls and fatter paychecks, and in that respect, Mr. Trump has delivered. "It's the economy, stupid," he wrote on Twitter just before the report's release.Stock Markets Up Record Numbers. For this year alone, Dow up 18.65%, S&P up 24.36%, Nasdaq Composite up 29.17%. "It's the economy, stupid."

The report's dazzle was shadowed by a couple of weak patches. The return of tens of thousands of striking General Motors workers turbocharged the manufacturing numbers. But that closely watched sector remained anemic. "Manufacturing is still flat after you pull out the returning strike numbers," Mr. Zhao said. "It's still suffering from headwinds from the trade war, but at least it's not worsening."

The 7-cent increase in average hourly wages last month was also disappointing considering that the jobless rate is at a half-century low. Wages were up 3.1 percent from a year earlier.

However modest the pay increase, it has given Americans the confidence to keep buying, which is crucial in an economy where consumer spending accounts for 70 percent of the gross domestic product. Among businesses, worries about the economy seemed to peak this summer. Since then, there have been signs that slowdown fears are easing, said Joe Galvin, chief research officer of Vistage, an association of small-business owners and executives. Roughly 60 percent of the 654 employers surveyed in November by Vistage said they planned to expand their head count next year. Just 4 percent were planning cuts.

Mr. Galvin noted that the uncertainty surrounding trade had been unnerving. Nonetheless, "people feel good about their prospects," he said. Laughing, he added: "You can't have a recession when there's full employment."

The $10 Trillion Question: How to End a Lost Decade of Global Productivity

· One decade and $10 trillion of fiscal stimulus on from the global financial crisis, the Global Competitiveness Report 2019 finds most economies are still locked in a cycle of low or flat productivity growth.· Economies that have channeled investments into human capital, improving institutions, innovation capability and business dynamism will be best placed to revive productivity and withstand a global slowdown

Launched in 1979, the report provides an annual assessment of the drivers of productivity and long-term economic growth. The assessment is based on the Global Competitiveness Index (GCI), which maps the competitiveness landscape of 141 economies through 103 indicators organized into 12 pillars. These pillars are: Institutions, Infrastructure; ICT adoption; Macroeconomic stability; Health; Skills; Product market; Labour market; Financial system; Market size; Business dynamism; and Innovation capability. For each indicator, the index uses a scale from 0 to 100 and the final score shows how close an economy is to the ideal state or "frontier" of competitiveness. This year, the report finds that, as monetary policies begin to run out of steam, it is crucial for economies to boost research and development, enhance the skills base of the current and future workforce, develop new infrastructure and integrate new technologies, among other measures.

With a score of 84.8 (+1.3), Singapore is the world's most competitive economy in 2019. The United States remains the most competitive large economy in the world, coming in at second place. Hong Kong SAR (3rd), Netherlands (4th) and Switzerland (5th) round up the top five. The average across the 141 economies covered is 61 points, almost 40 points to the frontier. This global competitiveness gap is of even more concern as the global economy faces the prospect of a downturn. The changing geopolitical context and rising trade tensions are fuelling uncertainty and could precipitate a slowdown. However, some of this year's better performers in the GCI appear to be benefiting from the trade feud through trade diversion, including Singapore (1st) and Viet Nam (67th), the most improved country in this year's index.

"The Global Competitiveness Index 4.0 provides a compass for thriving in the new economy where innovation becomes the key factor of competitiveness. The report shows that those countries which integrate into their economic policies an emphasis on infrastructure, skills, research and development and support those left behind are more successful compared to those that focus only on traditional factors of growth." said Klaus Schwab, Founder and Executive Chairman of the World Economic Forum.

The report documents emerging areas of promising policies, reforms and incentives to build more sustainable and inclusive economies. To manage the transition to a greener economy, the report recommends four key areas of action: engage in openness and international collaboration, update carbon taxes and subsidies, create incentives for R&D, and implement green public procurement. To foster shared prosperity, the Report recommends four additional areas of action: increase equality of opportunity, foster fair competition, update tax systems and their composition as well as social protection measures, and foster competitiveness-enhancing investments.

UK companies hit by sharpest activity drop since Brexit vote

The services sector accounts for about 75% of the UK economy. Britain's private sector companies suffered the sharpest drop in activity this month since the EU referendum, as the prospect of a general election added to Brexit-related uncertainty. Most businesses blamed a contraction in activity in November on faltering confidence among both domestic and overseas customers, who are worn out by continuing political indecision.

Analysts said that the latest snapshot of the UK services and manufacturing sectors would heap pressure on the Bank of England to cut interest rates in the first half of next year. Not since July 2016 and the weeks after the EU referendum have businesses cut back on new orders and production to such an extent, according to the IHS Markit/CIPS flash index of business activity. The composite purchasing managers' index (PMI) covering the two sectors fell to 48.5 from 50 in October, where a figure below 50 indicates contraction. It is the first time the flash measure, which covers about 85% of the full PMI data, has been used to give an early indication of UK private sector activity.

Chris Williamson, the chief business economist at IHS Markit, said the figures suggested the UK economy was likely to shrink in the final quarter of 2019, following growth of 0.3% in the third quarter. He said: "With an upcoming general election adding to Brexit-related uncertainty about the outlook, it's no surprise to see UK businesses reporting falling output and orders in November. The weak survey data puts the economy on course for a 0.2% drop in GDP in the fourth quarter, and also pushes the PMI further into territory that would normally be associated with the Bank of England adding more stimulus to the economy."

For much of the year, the UK economy has only avoided slipping into a recession following a fall in imports that has improved net trade and a boom in government spending. Consumer spending has also remained high, though not as buoyant as expected after a couple of years of inflation-busting pay rises.

IHS Markit said Brexit uncertainty was the overarching concern of most companies and the main factor depressing business activity. Manufacturing companies reported that customer overstocking ahead of the Brexit deadline on 31 October had acted as a brake on factory output. But it was a fall in services output that dragged down the composite figure in November.

Trade disputes settlement system facing crisis

The World Trade Organization is facing a crisis in its system for resolving disputes between its members. It has an appeal "court" that is the final arbiter on such disputes and which is about to become unable to function.

WTO rules say three judges have to hear each case. On 10 December the number goes below that level. Only one will be left. The terms of the other two come to an end, and no replacements have been chosen. In fact there isn't even a process under way to find any. The reason is that the US has refused to allow the recruitment of new judges. Other WTO member countries have repeatedly proposed to start a selection procedure. At the end of November more than 100 members called for that but the US alone said no. It's the only country that has objected at any stage during this stand-off.

In the quarter of a century since the WTO was established, its system for settling disputes has been one of its main functions. A former director general Pascal Lamy has called the system the WTO's crown jewel. It has also been described as "probably the busiest international dispute settlement system in the world". But it is now in danger of seizing up. Not quite completely - there may some options for countries to work around the absence of an appeal court, or the Appellate Body to give its official title, but they are second-best and may not be accepted by some countries.

What is the US's objection? Perhaps the biggest issue is that the US accuses the WTO dispute system of "judicial overreach" - essentially that it interprets the WTO rules in a way that creates new obligations for WTO members. One area that particularly grates in Washington is dumping, when a foreign supplier sells goods abroad more cheaply than at home. The US and others have used a disputed method for assessing whether goods have been dumped and how much the price is below what it should be.

It is known as "zeroing". It's not explicitly prohibited by the WTO rules, but the Appellate Body took the view that it was in effect against the spirit. Yet it is not just about specific cases; it is a general concern that the US has about the rulings going too far, that they in effect create new WTO law.

The US also has some concerns about procedural issues, such as the Appellate Body not issuing its rulings as quickly as it is supposed to, and judges continuing to hear cases they have already started even after their terms have ended. And it is not just the current US administration led by President Trump that has had this concern. A recent statement by the US delegation at a WTO meeting stated: "For more than 16 years and across multiple US administrations, the United States has been raising serious concerns with the Appellate Body's overreaching and disregard for the rules set by WTO members."

It is not even the first time that a US administration has been uncooperative on Appellate Body appointments. Under President Obama, the US opposed a second term for a South Korean judge and even for an American chosen by a previous administration.

OPEC grapples with oil oversupply, negotiations over production cuts begin

The oil-producing nations will decide whether to stick with production cuts they've endured for the past three years, relax them or deepen them in the hopes of propping up prices OPEC nations have agreed to cut production by 1.2 million barrels per day through March 2020.The world may be heading for an even greater oversupply of oil, and that possibility which could drive down fuel and energy prices is hanging over members of the OPEC cartel as they head into negotiations Thursday.

The oil-producing nations will decide whether to stick with production cuts they've endured for the past three years, relax them or deepen them in the hopes of propping up prices. They're negotiating through a tangle of tensions driving members in competing directions. Saudi Aramco's stock market debut, which is expected Friday, has put Saudi Arabia in a precarious position as it bets on what volume of oil production will hit a sweet spot for prices, with the added pressure of considering the interests of the state-run oil giant's shareholders. The nation is already bearing the burden of the largest share of OPEC's production cuts.

But some nations such as Iraq have been ignoring the agreement and producing more than their allotted amount. If people are already not complying to the current agreement, what's the point to those that are complying cutting more? So the others can go on cheating? said Bhushan Bahree, executive director of global oil at research group IHS Markit.

I think the Saudi position is they're willing to cut more if needed, but they want better compliance. Brent crude oil hovered around $61 per barrel Wednesday afternoon. Prices have fluctuated throughout the year, reaching nearly $75 per barrel in April after US sanctions on Iran and Venezuela limited world supply, but lingering trade tensions between the U.S. and China dampened economic expectations, pushing prices back down.

West Texas Intermediate, the U.S. benchmark crude, was trading at around $56 Wednesday afternoon, and its price followed a similar trajectory throughout the year. As it stands, OPEC nations have agreed to cut production by 1.2 million barrels per day through March 2020, and most analysts expect OPEC nations to extend those production cuts until at least summer.

If they just keep the existing situation, then you get this massive oversupply, said Jacques Rousseau, managing director at Clearview Energy Partners. Rousseau believes OPEC nations will cut production by an additional 400,000 barrels per day to keep supply and demand in balance during the first half of next year, with the cuts made mainly by Kuwait, Saudi Arabia and the United Arab Emirates. But substantial cuts may be difficult to achieve with some OPEC members following their own agendas.

Iraq has exceeded its production target every month this year, Rousseau said. Granted, there's some unrest going on in the country, but I don't think they'll voluntarily reduce. Meanwhile, Russia, which is not part of OPEC but has been following its lead on production limits in recent years, has indicated it wants its oil production re-calculated in a way that's in line with OPEC nations. That could enable it to produce more oil.And even if members of the cartel cut production, there's more oil coming online from non-OPEC nations including the U.S., Canada, Brazil, Norway and Guyana, which will more than make up for any drop in production, according to IHS Markit. The dynamic to watch will be whether Russia and Saudi Arabia will come to an agreement on production levels in the early and middle parts of next year, said Heather Heldman, managing partner at Luminae Group, a geopolitical intelligence firm.

If something goes awry with Saudi production in the next few months, and there's a fairly good chance something will happen ... Russia's going to be the first party looking to fill that gap, Heldman said. And I think the Saudis know that.

China's $17 bn default wave about to break record, economy slowdown

At least 15 defaults since the start of November have pushed this year's total to 120.4 billion yuan ($17.1 billion), within a hair's breadth of the 121.9 billion yuan annual record in 2018.China is hurtling toward another record year of onshore bond defaults, testing the government's ability to keep financial markets stable as the economy slows and companies struggle to repay unprecedented levels of debt. At least 15 defaults since the start of November have pushed this year's total to 120.4 billion yuan ($17.1 billion), within a hair's breadth of the 121.9 billion yuan annual record in 2018, according to data compiled by Bloomberg.

China corporate bond defaults climb toward all-time high. While the defaulted notes amount to a small sliver of China's $4.4 trillion onshore corporate bond market, they've fueled concerns of potential contagion as investors struggle to gauge which companies have Beijing's support. Policy makers have been walking a tightrope as they try to roll back the implicit guarantees that have long distorted Chinese debt markets, without dragging down an economy already weakened by the trade war and tepid global growth.

“The authorities have found it hard to rescue all the companies,” said Wang Ying, a Shanghai-based analyst at Fitch Ratings.

This year's China debt woes have spread to a broad array of industries, from property developers and steelmakers to new-energy firms and software makers. The types of borrowers facing repayment difficulties has also expanded from private companies and local state-run firms to business arms of universities, an obscure and loosely regulated corner of China's corporate world.

One of those business arms, Peking University Founder Group, rattled investors on Monday after failing to repay a 2 billion yuan bond. The same day, Tunghsu Optoelectronic Technology Co., a maker of photoelectric display components, failed to deliver early repayment on both interest and principal for a 1.7 billion yuan note.

Recent signs of stress have also popped up in China's offshore market, which has so far been more insulated from defaults. Tewoo Group Co., a major commodities trader from the northern city of Tianjin, is poised to become the most high profile state-owned enterprise to default in the dollar bond market in more than two decades. The company has recently offered a debt restructuring plan that entails deep losses for investors or a swap for new bonds with significantly lower returns, the first of its kind for an offshore SOE issuer.

Tewoo Group is likely to default on its $300 million dollar bond due Dec. 16, one of the notes included in the plan, according to investors who cited the company's offshore debt manager. Despite the drumbeat of bad news, analysts say the threat of a systemic debt crisis in China remains distant.

“I don't think it is a tipping point,” said Todd Schubert, a managing director for fixed income at Bank of Singapore. “China is a big market with a lot of issuers. In a functioning capital market, one would naturally expect some defaults.”The onshore default rate in China this year is expected to remain the same as last year's 0.5%, according to a November report from S&P Global Ratings.

Faced with a corporate debt pile that swelled to a record 165% of gross domestic product last year, Chinese policy makers are allowing more bond failures in part to impose increased discipline on borrowers and investors.