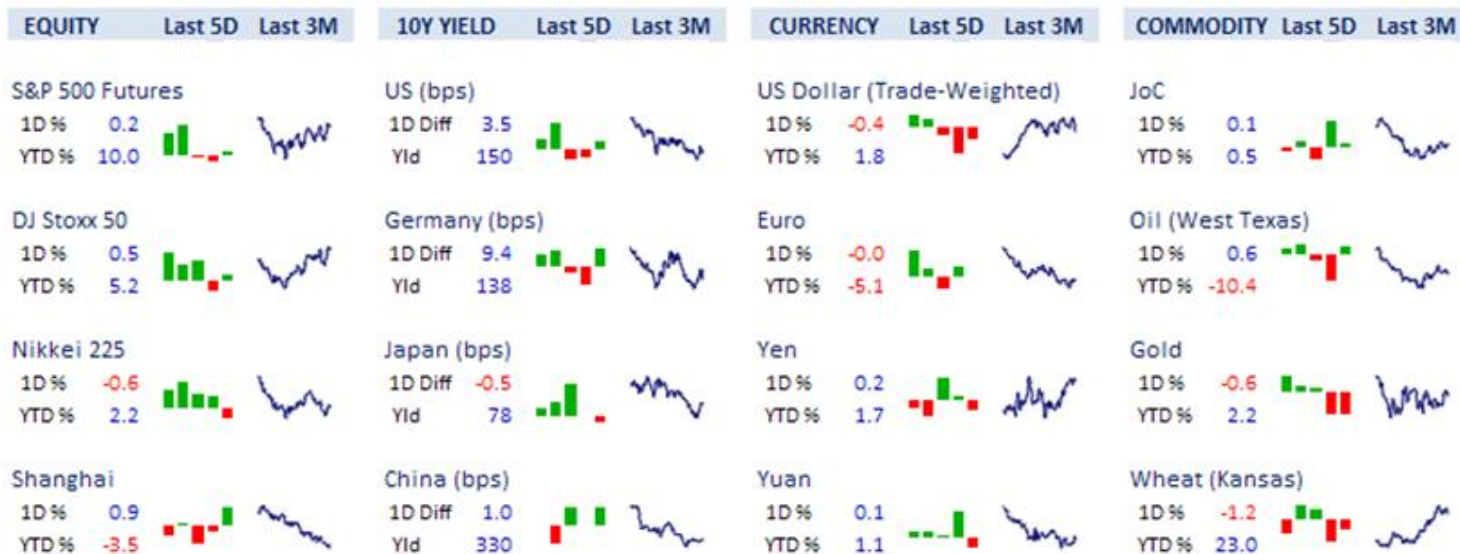


INVESTMENT TEAM HIGHLIGHTS

- China's Big City Spenders Confound Global Gloom
- Lambo Indicator: Down in HK; Up in China
- Cargill Urges Temporary Curb of Ethanol Quotas
- Ports of Los Angeles and Long Beach Building at Furious Pace
- India Considers Price Controls for Patented Drugs

Today's Issue Cluster: [Drought Update](#)

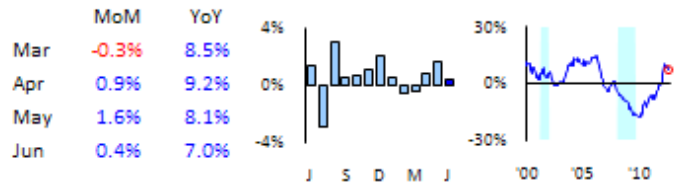
The US heat wave is forecast to continue. Farmers' insurance claims could hit \$20 billion. Cargill's CEO says the US ethanol mandate should be curbed for now. Food prices are rising in some countries, boosted by the stronger dollar. Brazil and Ukraine are planting furiously. Russia says exports targets will be met.



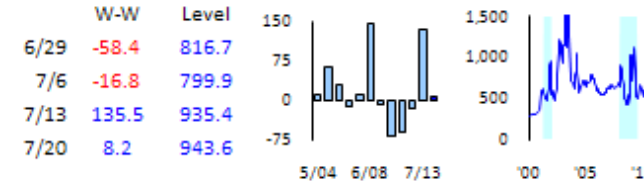
US: ISM - MANUFACTURING



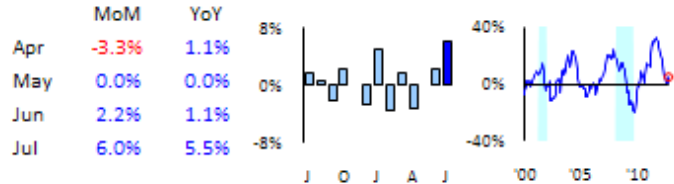
US: CONSTRUCTION SPENDING



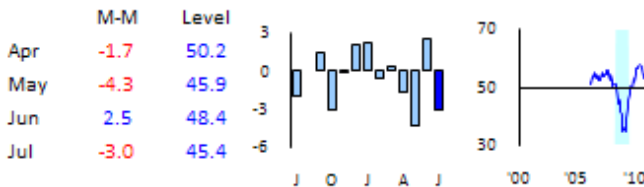
US: MORTGAGE APPLICATIONS



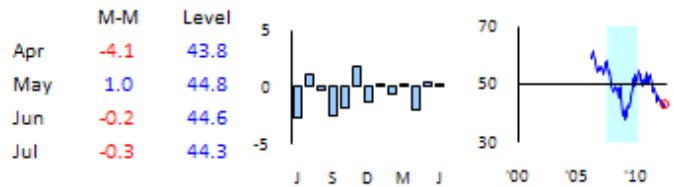
US: AGRICULTURAL PRICES



UK: MFG PMI



ITALY: MANUFACTURING PMI



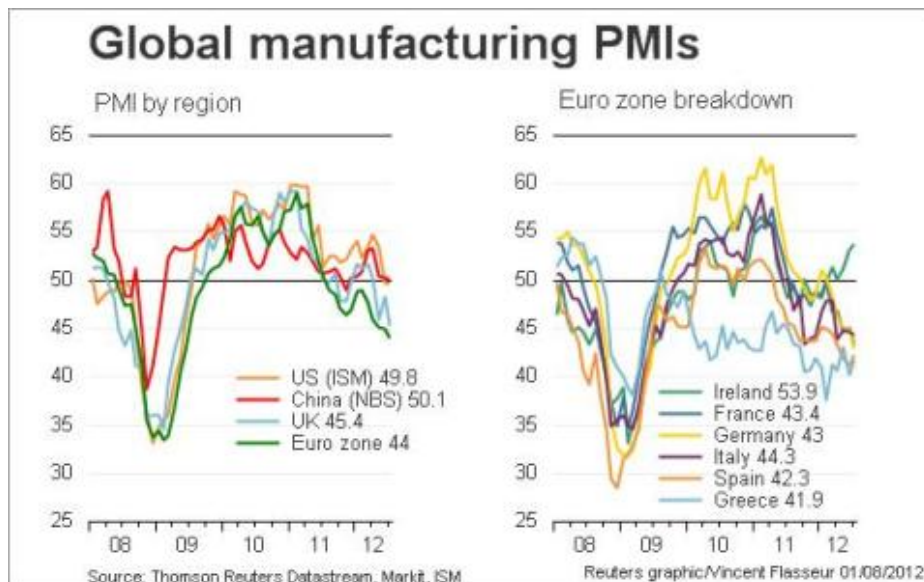
CHINA: MFG PMI



DATA POINTS

US – Jul: ADP Private Hiring Jumps, +163k from +172k / [WSJ](#) / [R](#) / [AP](#) / [FT](#) / [B](#)

US – Jul: ISM PMI contracts, 49.8 from 49.7 / [WSJ](#) / [AP](#) / [B](#)



US – Jul: Markit PMI slowest in almost three years, 51.4 from 52.5 / [R](#)

US – Jun: Construction spending rose, +0.4% / [AP](#)

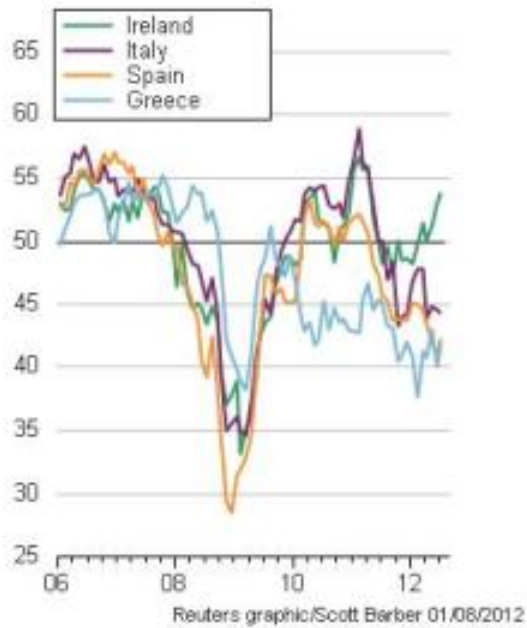
US – Jun: Reuters/PayNet Small Business Lending sagged, 98.5 from 103.8 / [R](#)

Canada – Jul: RBC PMI posts first decline in 6 months, 53.05 from 54.85 / [R](#)

EZ – Jul: Markit PMI Decline Steepens, 44.0 from 45.1 / [WSJ](#)

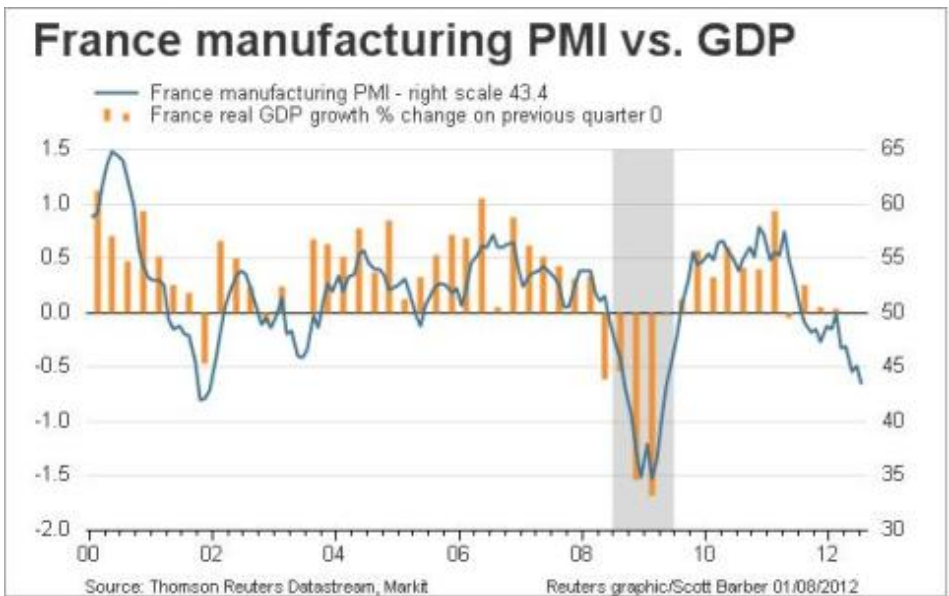


European manufacturing PMI



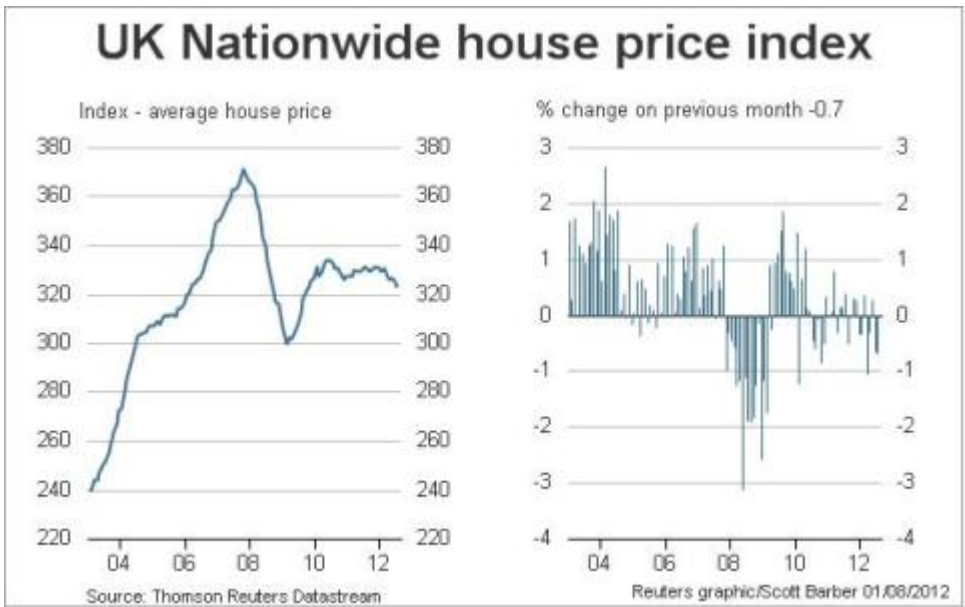
Germany – Jul: Markit PMI dropped, 43.0 from 45.0 / [R](#)

France – Jul: Markit PMI falls, 43.4 from 45.2 / [RT](#)



UK – Jul: Markit PMI slumped, 45.4 from 48.6 / [WSJ](#) / [B](#)

UK – Jul: Nationwide house prices suffer biggest drop since 2009, -0.7% / [R](#) /



Morocco – Q2: GDP growth weakens, +2.6% / [R](#)

India – Jul: HSBC PMI eased, 52.9 from 55.0 / [FT](#)

Indonesia – Jul: HSBC PMI rose, 51.4 from 50.2 / [FT](#)

Indonesia – Jun: Posts Record Trade Deficit, -\$1.3b / [WSJ](#)

Indonesia – Jul: Inflation Accelerates on Higher Food Prices, +4.56% / [B](#)

China – Jul: CFLP PMI unexpectedly fell, 50.1 from 50.2 / [FT](#) / [AP](#) / [WSJ](#) / [R](#) / [B](#) / [X](#)

PMI OF MANUFACTURING SECTOR

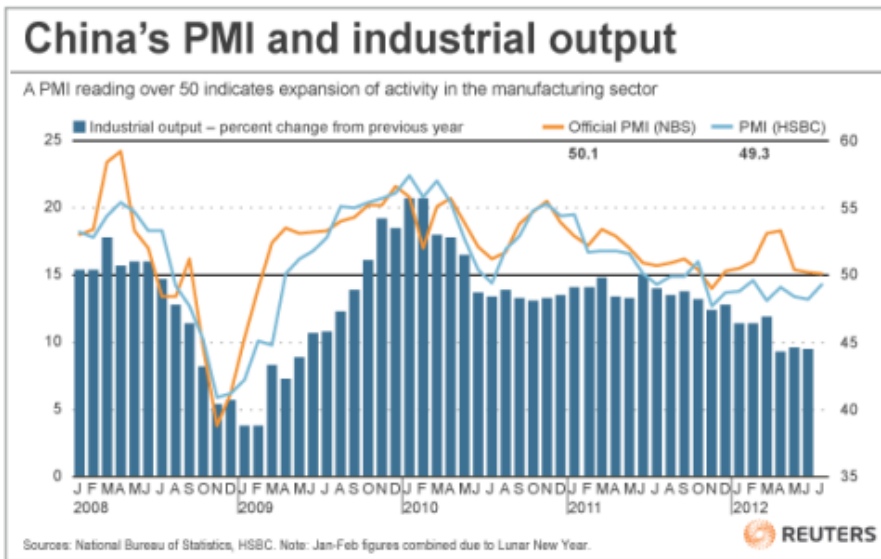
July 2011 - July 2012



Chinadaily.com.cn

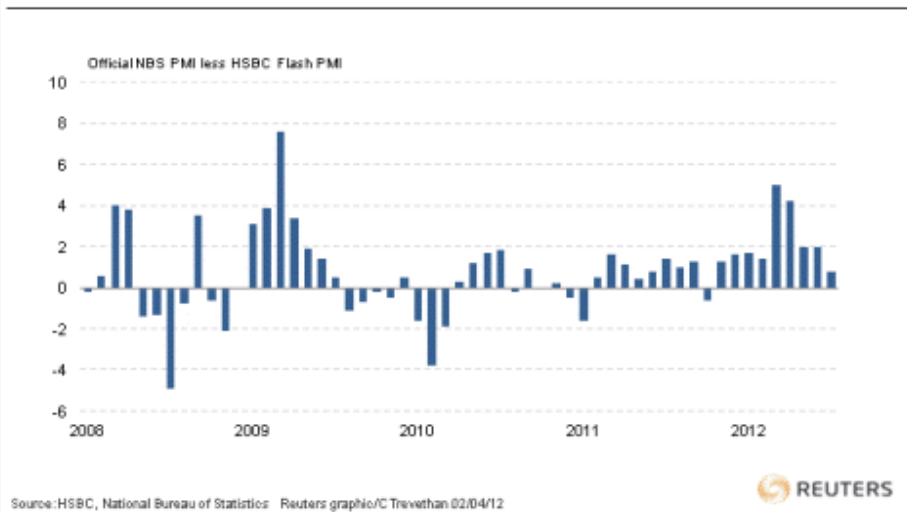
Source: China Federation of Logistics and Purchasing *

China – Jul: HSBC PMI rose, 49.3 from 48.2 / [AP](#)



Reuters graphic/Catherine Trevethan, Christine Chan 01/08/12 *

China HSBC flash PMI and Official PMI spread



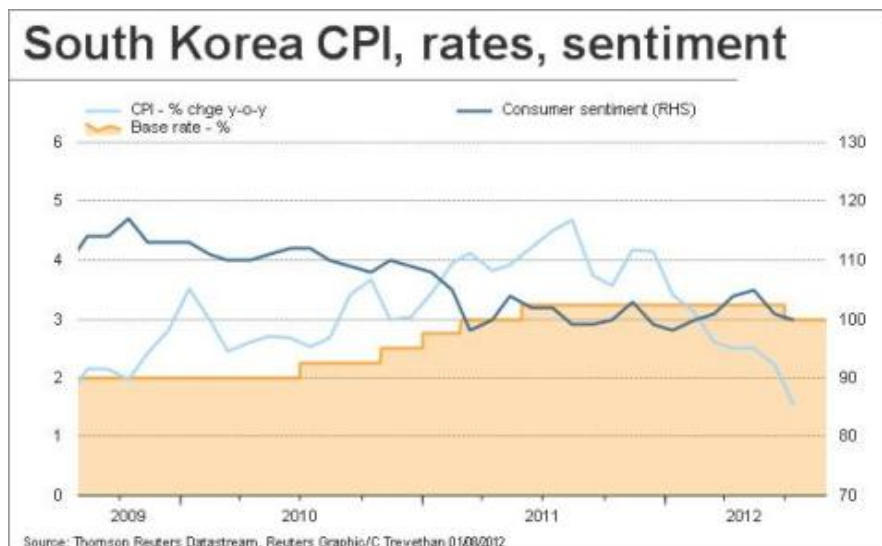
China – Jul: SouFun Home Prices Rise Again, +0.33% / [WSJ](#) / [B](#)

China – H1: Shipbuilding orders fall, -50.3% / [CD](#)

SK – Jul: PMI Sinks, 47.2 from 49.4 / [WSJ](#)

SK – Jul: Exports tumble, -8.8% / [WSJ](#) / [FT](#) / [AFP](#)

SK – Jul: Inflation slows, +1.5% / [WSJ](#) / [B](#)



Japan – Jul: Markit/JMMA PMI fell, 47.9 from 49.9 / [FT](#)

Japan – Jul: Auto Sales Surge, +36.1% / [WSJ](#)

Australia – Jul: Carbon tax partly blamed for manufacturing slump, -6.9 to 40.3 / [ABC](#) / [DJ](#)

Australia – Q2: House prices post surprise gain, +0.5% / [SMH](#) / [Aus](#)

MARKETS

Asia – Grows More Cautious

Asia's big sovereign-wealth funds and institutional investors, which collectively manage about \$1 trillion in assets, are selling stocks and, in some cases, bonds and boosting the cash they hold..... A Dow Jones Newswires survey of seven funds with tens of billions of dollars under management finds managers have put more of their portfolios in cash than called for by indexes—used as benchmarks—for the first time since April 2009. [WSJ](#)



ECONOMICS

China – Big city spenders confound global gloom

Consumer optimism in China's biggest cities rose to its highest in nearly three years in the second quarter.... The rise in confidence among consumers in China's so-called Tier 1 cities was fuelled by a combination of improving job prospects, better personal finances and a greater willingness to spend, said the survey by global information company, Nielsen..... Rural consumers remained the most optimistic - they have been since the first quarter of 2011 [R](#)

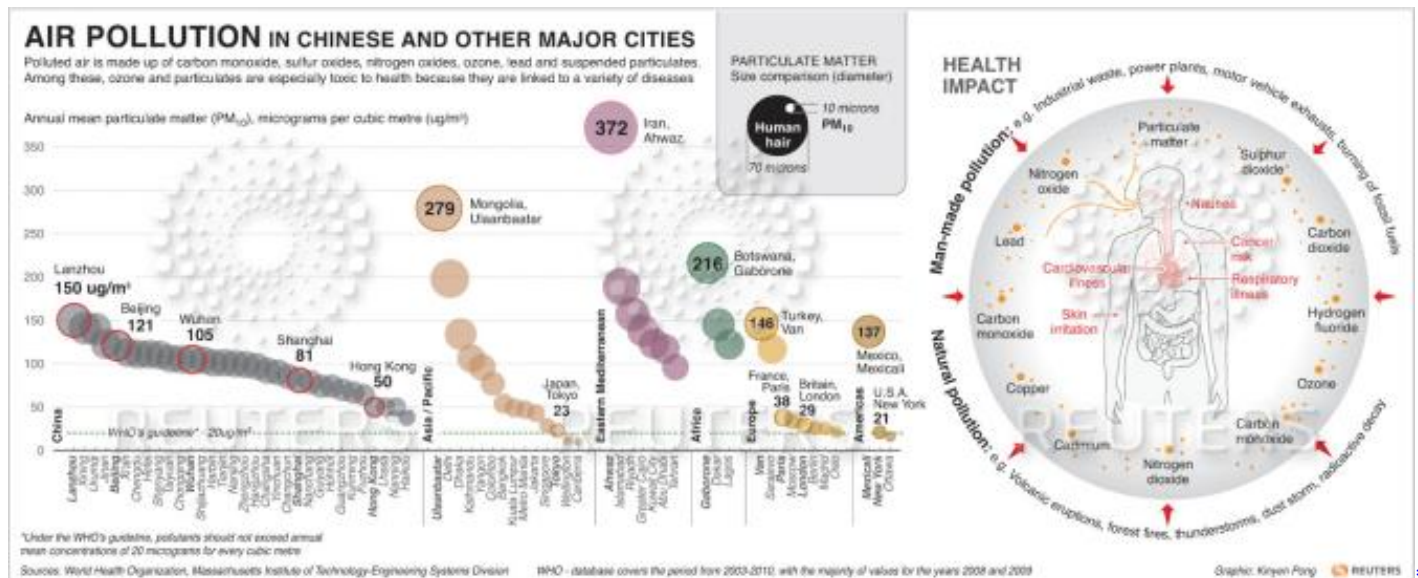
POLITICS & FISCAL POLICY

China – “Greyjing”? Pollution fouls Beijing’s name

Lung cancer rates are rising among the 20 million residents of China's capital, health officials say. For many multinational companies, Beijing is considered a hardship posting On some days, Beijing is enveloped in a brownish-grey smog, so thick it gets indoors, stings the eyes and darkens the sky in the middle of the day.... The Economist Intelligence Unit's liveability index this year ranked Beijing's pollution at 4.5, with 5 being the worst. Out of 70 cities surveyed, the only ones rated worse were Mumbai, New Delhi, Karachi, Dakar, Dhaka and Cairo. [R](#)

The cancellation over the weekend of a second Chinese industrial project in a month following fierce environmental protests demonstrates the government's growing sensitivity to China's pollution problems. Officials in the coastal community of Qidong in the eastern Chinese province of Jiangsu said Saturday that they would stop construction of a pipeline intended to dump wastewater from a Japanese-owned paper mill into the sea. [WSJ](#)

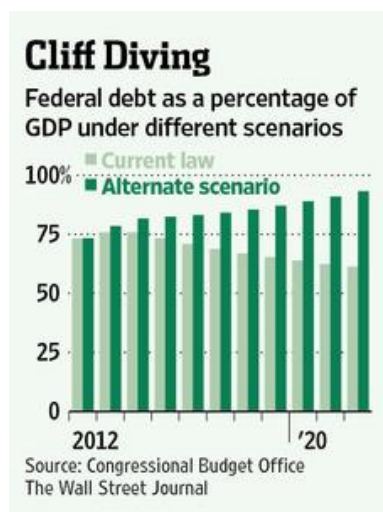
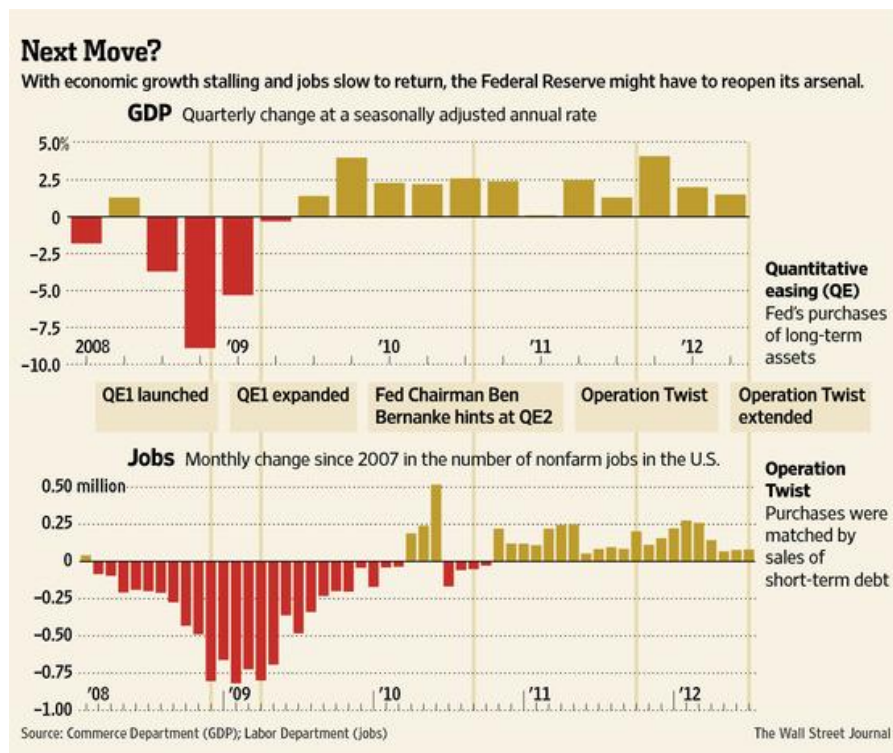
Beijing is one of the world’s dirtiest capitals – with pollution levels at nine times that of New York Over the past year, Beijing has unveiled ambitious plans to replace its coal-fired power plants, run more cars and buses on natural gas, clamp down on construction site dust and raise standards for vehicle emissions. If all goes to plan, the capital’s central urban areas will be completely coal-free by 2015..... coal use in neighbouring Hebei province – from which Beijing draws most of its electricity – will increase 15 per cent next year. Even as Beijing burns less coal inside city limits as it uses more gas, it will still draw the majority of its electricity from coal-fired power stations in Hebei. [FT](#)



MONETARY POLICY

Fed – To signal more easing but stop short of big steps

Wall Street is braced for another round of Fed bond purchases, and some see an off chance that an announcement might come on Wednesday. But analysts believe policymakers will wait until at least September, giving them more time to lay out the case for their preferred method for easing policy in speeches between now and then. [R](#) / [WSJ](#) / [NYT](#) / [AP](#) / [WSJ](#)

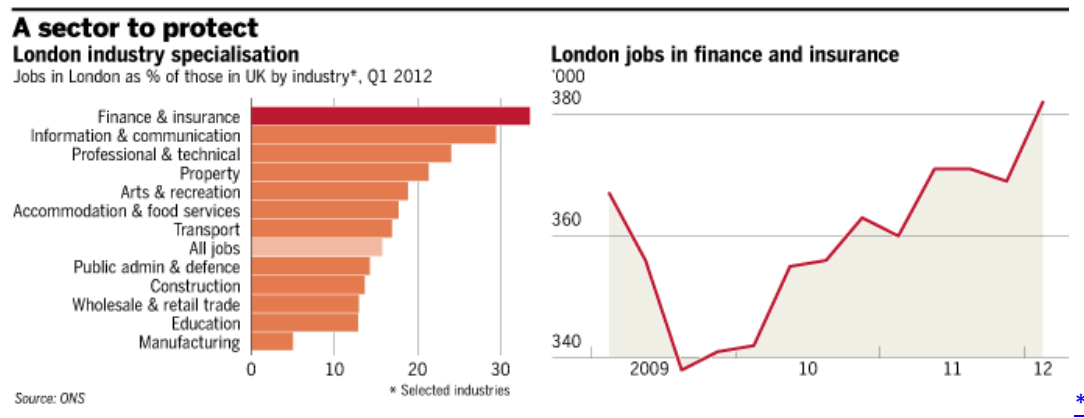


FINANCE

UK – London’s precarious position

Britain’s banks have been engulfed by a succession of scandals involving manipulated borrowing rates, malfunctioning IT, mis-sold insurance and Mexican money laundering.....there is a growing sense of alarm in the global industry at the response of policy makers to recent revelations. The City’s vaunted “light-touch” regulatory regime has become excessively heavy, say critics. ...

financial services employment in London is at an all-time high of more than 380,000. There was a sharp dip in 2002 after the dotcom crash and again in 2009 as the full effects of the global crisis began to be felt by the banks. But those cuts have been more than offset by new hires over the past two-and-a-half years.... On the other hand, institutions are not actively moving senior people to London as they did in the 1990s and early 2000s – partly for reputational reasons but also because of the UK’s proximity to the eurozone crisis. [FT](#)



REAL ESTATE

US – Regulator Rebuffs Obama on Plan to Ease Housing Debt

The Federal Housing Finance Agency said it had concluded after months of study that up to half a million homeowners could benefit from such a program, and that taxpayers might save \$1 billion because aid recipients would be more likely to continue making mortgage payments. But the agency’s acting director, Edward J. DeMarco, said the benefits most likely would be much smaller — too small in his judgment to offset potential costs....

The announcement is a direct rebuff to the Obama administration, which has pressed Mr. DeMarco for more than a year to let Fannie Mae and Freddie Mac join nearly every other major mortgage company in offering debt forgiveness [NYT](#)

In a letter to lawmakers, DeMarco justified his actions and said borrowers could already obtain relief through programs already in place. The regulator also streamlined its refinancing program and removed certain loan requirements. [R](#) / [FT](#) / [WSJ](#)

SERVICES

Lux – Emerging markets buy in

Emerging market appetites for high-end handbags, fashionwear, champagne and cognac appeared to be holding up in the first half of the year, according to results from the French luxury goods groups LVMH and PPR.... The strongest sales growth came in LVMH’s wines and spirits division..... sales of fashion and leather goods perfumes and cosmetics and watches and jewellery all showed organic growth [FT](#)

On Thursday, the French-owned PPR SA, for instance - the world's third-largest luxury group by turnover, which owns Gucci and Bottega Veneta - revealed it generated 1.17 billion euros (\$1.4 billion) in sales from the Asia-Pacific region, excluding Japan, in the first half of 2012, an increase of 16.2 percent compared with the same period in 2011. [CD](#)

Lux – HK: Used Lamborghinis Linger on Lots Amid China Lull

At first glance, the numbers are deceiving: Sales of very expensive new autos surged 47 percent in the first six months.... People shopping in the second-hand market are typically aspirational buyers who are more likely to sit it out rather than trade down when they can’t afford the brand they want..... To spur demand, dealers in pre-owned cars are slashing their prices -- together with how

much they're willing to pay sellers.... Someone looking to sell a 2009 Bentley Continental will have to accept HK\$1.7 million, a third less than they would have received at the start of the year [B](#)

Lux – China: Lamborghini sees 20-30% rise in supercar sales

China's supercar market will grow at between 20 percent and 30 percent annually over the next five to 10 years, according to the general manager in Asia-Pacific for the famous Italian brand, Lamborghini..... Although China's car market is slowing for the first time in two years, the sale of luxury brands still increased by 30 percent and the super luxury brands enjoyed a more than 60 percent surge. of all sales in Europe and North America, 0.2 percent were of super luxury vehicles. However, the figure was just more than 0.05 percent in China, [CD](#)

MANUFACTURING

Appliances – Stores Bulk Up

Store chains are escalating their competition to sell appliances because many shoppers still prefer to buy the bulky products in person, making them somewhat immune from showrooming, the trend of consumers trying out merchandise in shops only to purchase it online. unlike prices for TVs and computers, which have plunged in recent years, appliance prices have remained steady and are beginning to rise, as manufacturers begin passing on higher raw-material costs. While retailers typically offer moderate discounts on appliances to drive traffic to their stores, the companies say they are still able to turn profits on the sales. [WSJ](#)

TECH

eMail – Microsoft launches new service

Outlook.com is a browser-based service aimed mainly at consumers, but it will not replace Microsoft's Hotmail webmail service, which has 350m users.... Apps from its Office suite – Word, Excel and PowerPoint – have been built in to allow all kinds of documents to be opened, edited and shared on SkyDrive. Skype will be built in to allow a video call from the inbox, rather than by starting a separate program. [FT](#)

an interim "preview" period—whose length has not been determined—for Outlook.com began for U.S. users Tuesday. The service, which will continue to be free, will eventually be available world-wide. [WSJ](#)

The company also says it has made advertising less obtrusive in the new service. [nyt](#)



TRADE & TRANSPORTATION

Ship – Ports of Los Angeles and Long Beach building at furious pace

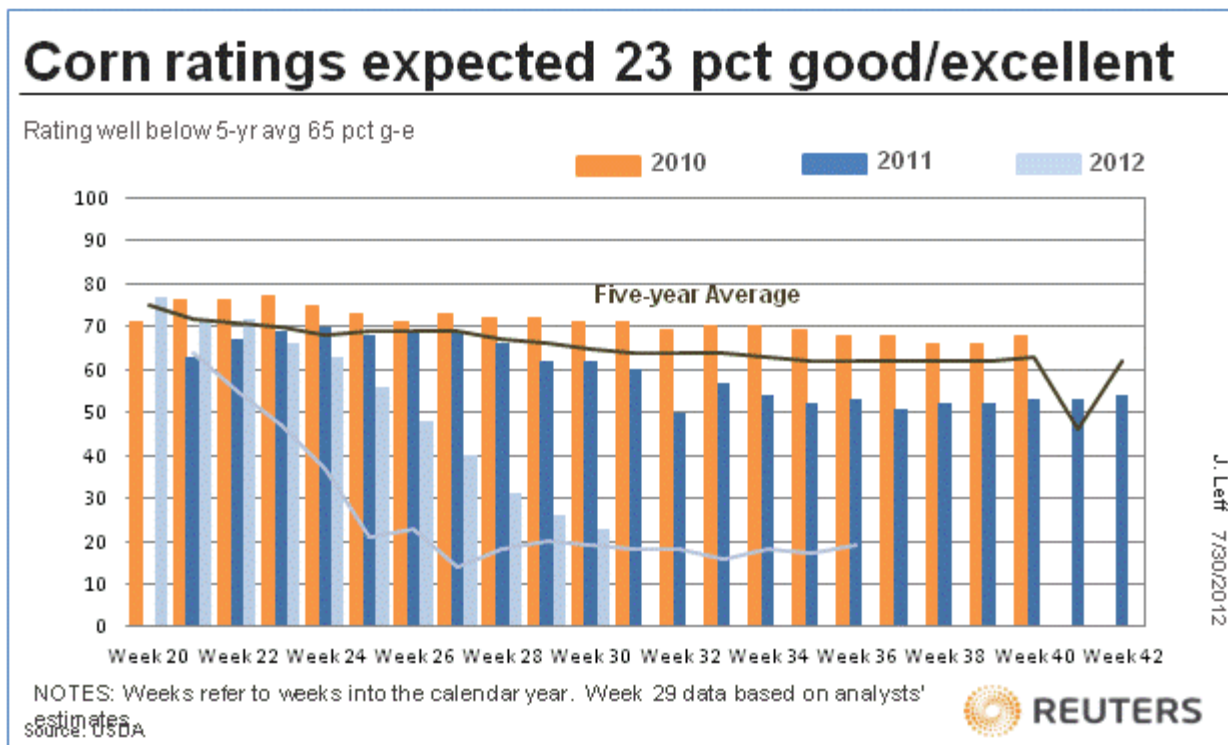
they're building new piers, wharves and rail yards at a furious pace to further dwarf the competition... So much construction is underway that the new facilities by themselves would move more freight than the entire port of Savannah, Ga., which ranks No. 4 among the continent's ports. ... The most expensive and extensive upgrades in the history of both ports will cost nearly \$6 billion.....

U.S. ports have \$46 billion in upgrades planned over the next five years, partly to jockey for new business from the widening of the Panama Canal, which is slated for completion in 2014. [LAT](#)

COMMODITIES

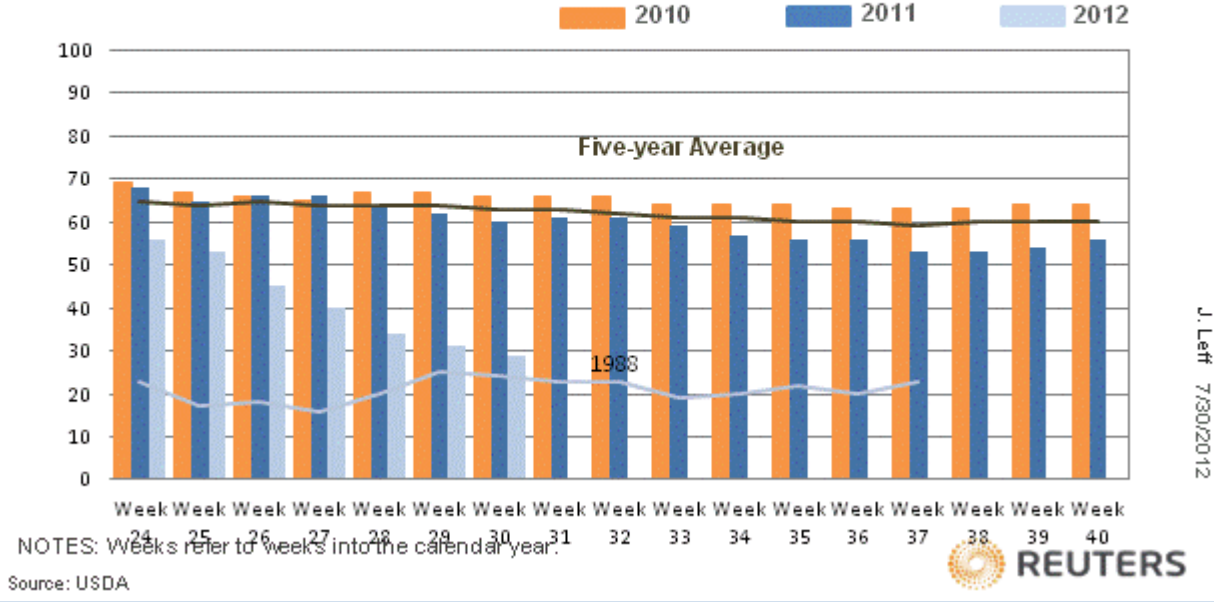
Drought – US: Lion's share of crops to swelter into August

More than half of the U.S. corn and soybean growing region will see little change from the heat and drought that have withered and degraded crops..... The U.S. Department of Agriculture rated 24 percent of the corn crop in good-to-excellent condition as of Sunday, and 29 percent of the soybean crop in good-to-excellent shape, both down 2 percentage points from the previous week. The ratings for each were the worst since the comparable week in 1988, another year of severe drought in the nation's crop-growing mid-section. [R](#)



Soy rating seen 29 pct good-excellent

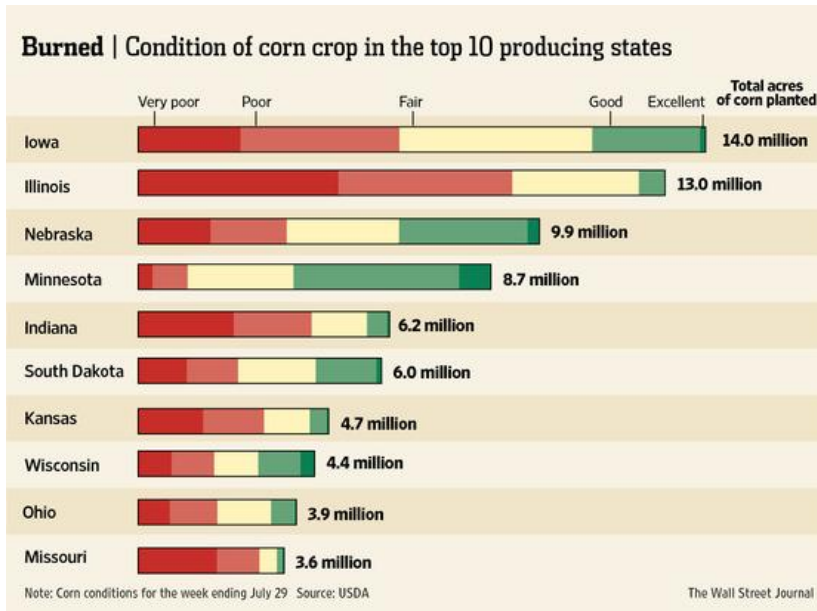
Soy rating well below 5-yr avg 63 pct g-e



J. Leff 7/30/2012

Drought – US: Crops Hurt, but Farmers Will Still Get Paid

Farmers already are giving up on crops in parts of the Midwest.... But most crop farmers, who have had several years of strong incomes, are in good shape.... crop insurance in recent years has become nearly ubiquitous across the corn belt. The federal government underpins much of the crop-insurance system.... The most popular insurance coverage protects not only against declines in the field, but also changes in price. Under current conditions, that could translate into as much as \$20 billion of claims paid by the federal government and insurance companies [WSJ](#)



The Wall Street Journal

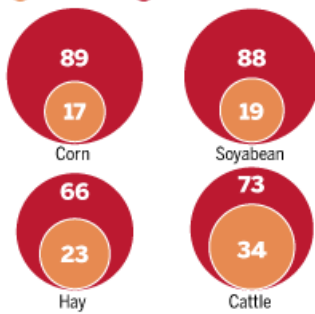
Drought – US: Stuck on dry land

US farmers last year grew 35 per cent of the world’s corn and soyabean crop, and exported 40 per cent of these staples traded on the world market. Since 1970, average US corn yields have doubled.... But yields peaked at 164.7 bushels an acre in 2009. This year, some analysts are eyeing a 122 bushel harvest, a level last reported in the 1990s. Lower yields in the US have raised prices and led to aggressive planting by rivals in countries such as Brazil and Ukraine.....

After declining in the past three months, the FAO Food Price Index will probably jump when it is updated next week. Food inflation fears are building in emerging markets. [FT](#)

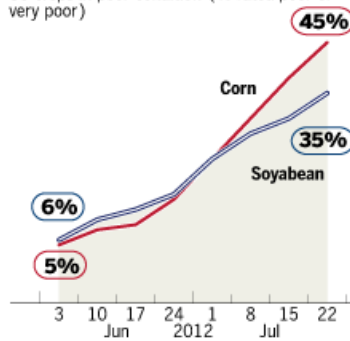
Scorched earth

US areas in drought by land use (%)
 ● Jun 5 2012 ● Jul 24 2012



Sources: USDA; FAO

US crops in poor condition (% rated poor or very poor)



UN Food and Agriculture Organization food price index



*

Drought – US: Cargill urges temporary curb of ethanol quotas

Greg Page, chief executive of global grains trading giant Cargill Inc, joined a chorus of critics of biofuels by urging the U.S. government to temporarily curb its quotas to produce corn-based ethanol fuel.... "If all of that is only on livestock or food consumers, it really makes the burden disproportionate. What we see are 3 or 4 percent declines in supply lead to 40 to 50 percent increases in prices, and I think the mandates are what drives that," In 2011, almost 40 percent of the giant U.S. corn crop went into making ethanol, and the United States still exported more than half of all corn shipments worldwide. [R](#)

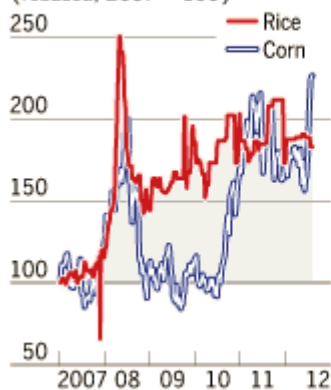
Drought – US: Fears grow for rise in food prices

The increase in grain prices is already being felt around the world. In Indonesia, the tofu industry has threatened to strike over rising soyabean prices; in Mexico, the cost of corn tortillas is on the rise; and Iran last week witnessed a rare protest over the cost of chicken... Nomani Nasr Nomani, deputy head of Egypt’s General Authority for Supply Commodities, the state wheat importer, said Egypt’s wheat imports would be about 20 per cent lower than last year, thanks to a record domestic crop other countries have not been so fortunate. Morocco, for example, is likely to have its smallest wheat crop in five years...

Moreover, the strength of the dollar is causing an additional worry. Unlike in 2007-08, when the rise in grain prices coincided with a weaker dollar, this time the reverse is true.... while benchmark Chicago corn futures are currently trading 6 per cent above their 2008 peak in dollar terms, when priced in Egyptian pounds corn is 21 per cent above its 2008 high, and in Mexican pesos it is 37 per cent higher. [FT](#)

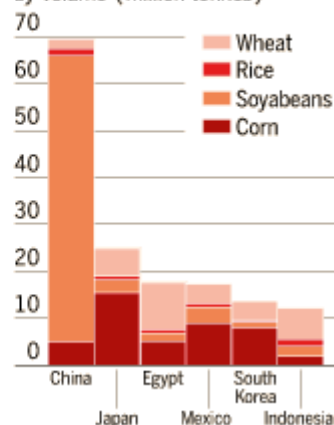
Costly commodities

Grain prices (rebased, 2007 = 100)



Sources: Thomson Reuters Datastream; USDA

Top grain importers in 2012 by volume (million tonnes)



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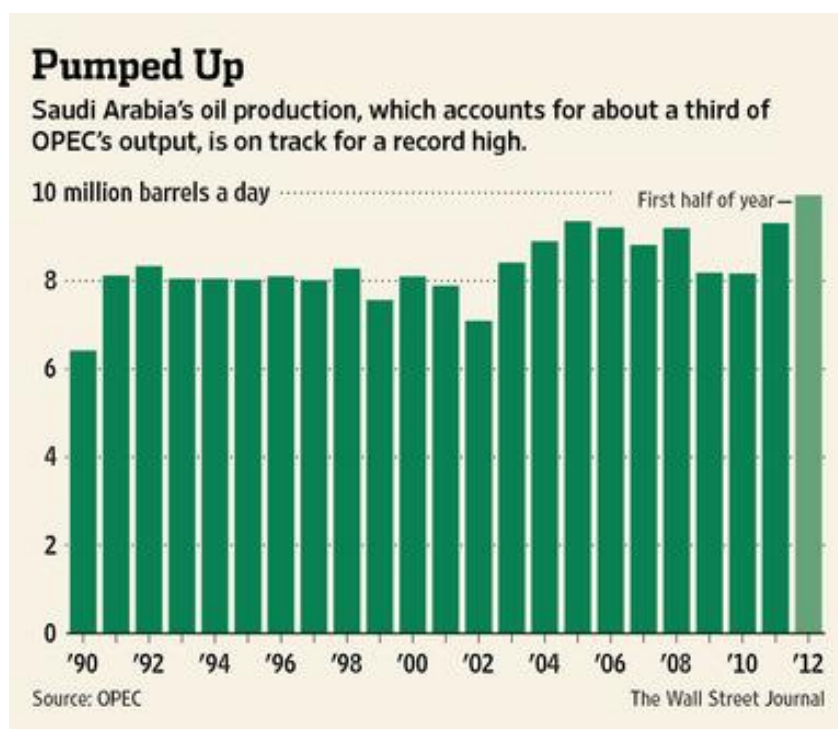
Drought – Russia: Medvedev sees grain surplus, cuts crop estimate

Key global wheat supplier Russia will be able to maintain an exportable grain surplus, Prime Minister Dmitry Medvedev said on Tuesday, even as the agriculture ministry narrowed down its estimate of the drought-hit harvest to 80 million tonnes..... from a previous 80-85 million tonnes ... But Medvedev's optimism could be undermined by the impact of unfavourable weather The country's state forecaster expects temperatures in Russia's South, Siberia and Volga regions to remain high in the coming days. [R](#)

ENERGY & ENVIRONMENT

Oil – Saudi Output Seen at Record Pace

Output averaged 9.9 million to 10 million barrels a day in July.... That puts the top oil exporter in line to exceed its record oil output of 9.901 million barrels a day in 1980, when the country opened the taps to make up for a sharp fall in Iranian output after its 1979 revolution.... Iranian oil production has fallen to 3.2 million barrels a day from 3.7 million barrels in June, and could fall lower by year-end under tightening sanctions.... Saudi officials say they are ready to supply customers with all the crude they need. [WSJ](#)



Oil – Sanctions-hit Iran ‘expands’ tanker insurance

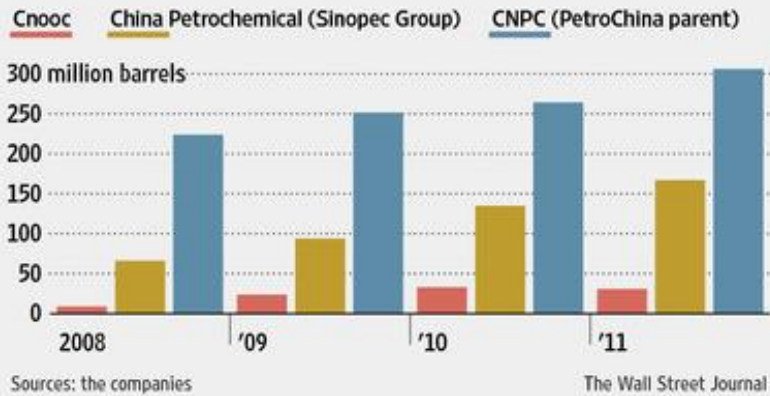
Iran is expanding a promise to insure shipments of its oil to include both Iranian and foreign tankers, in an effort to get around EU sanctions crimping its crude exports, reports said Saturday. The insurance will be made possible through a new multi-billion-dollar line of state credit... Crude buyers have the option of using Iran's fleet of 47 oil tankers or their own... European insurers accounted for 90 percent of coverage for Iran before the EU sanctions took effect on July 1. [AFP](#)

Oil – China Fuels Production

China's state-controlled oil producers are targeting struggling energy companies and projects world-wide... In the latest deal, Cnooc Ltd. last week said it would buy one of Canada's largest oil producers for \$15.1 billion. ... Including Nexen's output, a conservative tally of publicly available data on foreign production for major Chinese oil companies would be in the neighborhood of the total output of Norway, the world's No. 15 crude-oil producer. [WSJ](#)

Turning the Tap

Annual overseas crude-oil production by major Chinese companies

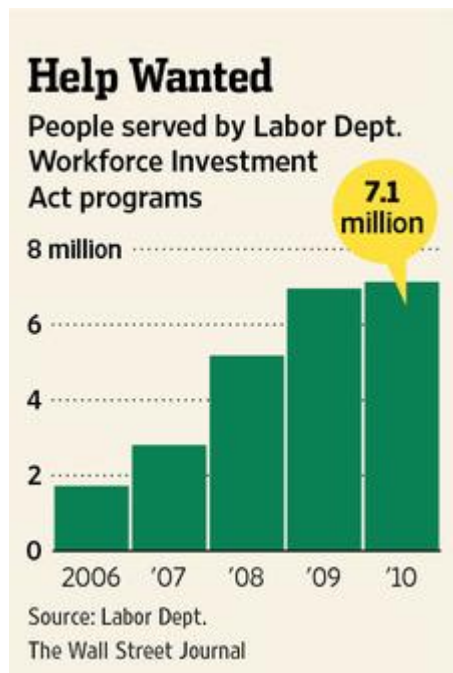


LABOR & EDUCATION

US – Faces Uphill Battle in Retraining the Jobless

The Obama administration has been promoting the retraining of unemployed workers as a linchpin of its economic-recovery plan. The federal government spent about \$18 billion on training and job-search programs, running 47 separate programs offering training, in the year ended September 2009

The Workforce Investment Act, the largest federal program for unemployed people, offers everything from résumé preparation to in-depth retraining for "dislocated workers" In the year ended June 2011, 78% of the 110,776 who went through the dislocated-worker training program said they wound up with jobs within three months.... about 38% told the Labor Department they landed the kind of jobs for which they were trained... [WSJ](#)



Back to Class

The U.S. government runs a multitude of employment and job-training programs. Efforts to determine their effectiveness have been spotty.

By the numbers

Federal employment and training programs (2009)

47

Programs that do impact studies to prove their effectiveness

11

People served by federal employment and training services (2011)

31 million

Annual federal spending on training and employment services

2003 **\$13 billion**

2009 **\$18 billion**

Workforce Investment Act

The largest federal program for unemployed people, offering everything from résumé preparation to in-depth training

People receiving in-depth training under WIA 'adult' and 'dislocated-worker' programs

Percentage of unemployed trainees to secure a job within three months after training



Top areas of job training

Under WIA dislocated-worker program, which services, among others, those who have been laid off

PCT. OF PREVIOUSLY UNEMPLOYED TRAINEES WHO GOT JOBS WITHIN THREE MONTHS

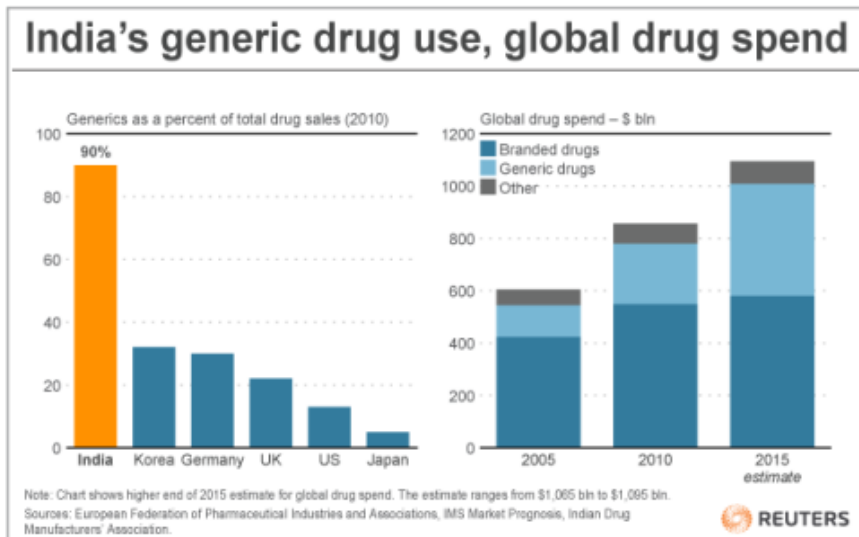
JOB TRAINED FOR	TRAINED*	PCT. OF PREVIOUSLY UNEMPLOYED TRAINEES WHO GOT JOBS WITHIN THREE MONTHS
Truck drivers, heavy and tractor-trailer	11,197	84.4%
Nursing aides, orderlies and attendants	5,051	83.3
Medical assistants	3,863	82.0
Licensed practical and vocational nurses	2,305	84.9
Medical-records and health-information technicians	2,155	82.5
Computer-support specialists	2,015	79.3
Medical secretaries	1,722	78.3
Network and computer-systems administrators	1,585	80.0
Bookkeeping, accounting and auditing clerks	1,560	78.2
Welders, cutters and welder fitters	1,468	83.4

*Includes some trainees who held jobs
Sources: Labor Department; Government Accountability Office
The Wall Street Journal

HEALTH

Pharma – India considers price controls for patented drugs

India is planning to rein in prices of expensive patented drugs to make medicines affordable to its predominantly poor population... The step would be the latest by India to make medicines more affordable after it announced earlier this month it would implement a \$5.4 billion plan to provide free generic medicines Currently, patented drugs are free of price controls, but there are restrictions on the prices of 348 so-called "essential" drugs. Patented drugs are mostly imported by multinational drugmakers and used to treat diseases like cancer and heart ailments. [R](#)



Note: Chart shows higher end of 2015 estimate for global drug spend. The estimate ranges from \$1,065 bin to \$1,065 bin.
Sources: European Federation of Pharmaceutical Industries and Associations, IMS Market Prognosis, Indian Drug Manufacturers' Association.



Reuters graphic/Christine Chan 02/07/12

ENDNOTES

Olympics: Money Matters

Money doesn't affect medal counts in all sports equally... two Goldman Sachs analysts.... looked at a set of variables — including gross domestic product per capita, the ratio of income to that of the United States, democracy, and whether the country was the host of the Games — and their relationship with medals awarded.... the biggest effects are in canoeing, diving, fencing, swimming and table tennis..... Countries typically score unusually well in cycling, gymnastics, rowing, sailing, swimming and wrestling in years when they are the host, gathering 1.5 to 3 additional medals in a single Olympics in each of those sports. [nyt](#)

Table 2: Income and Host Effects Vary Across Sports

	R ²	Income Effect	Host Effect
All	0.87	6.57	20.85
Archery	0.43	0.34	0.52
Canoeing	0.67	0.43	0.04
Cycling	0.43	0.95	1.44
Diving	0.68	-0.08	0.60
Equestrianism	0.55	0.12	0.66
Fencing	0.71	0.22	0.24
Football	0.14	0.06	0.10
Gymnastics	0.55	0.30	2.63
Handball	0.23	0.12	-0.03
Hockey	0.38	0.21	0.28
Judo	0.57	0.73	0.44
Pentathlon	0.29	-0.05	-0.04
Rowing	0.54	0.56	1.00
Rhythmic Gym.	0.54	0.04	0.15
Sailing	0.53	0.47	1.14
Shooting	0.63	0.26	0.50
Softball	0.22	0.09	0.05
Swimming	0.82	0.53	1.98
Syncrh. Sw im.	0.36	0.11	0.09
Table Tennis	0.72	0.21	0.22
Taekwondo	0.22	0.46	0.31
Tennis	0.21	0.32	0.37
Trampolineing	0.19	0.09	0.29
Triathlon	0.07	0.16	0.01
Volleyball	0.21	0.09	0.34
Water Polo	0.27	0.07	0.21
Weightlifting	0.54	0.01	0.38
Wrestling	0.61	0.11	1.36

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