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Bloomberg --

U.S. stocks ended a meandering session at fresh records, while the dollar and Treasuries were little changed as a host of events vied for investor attention.

The S&P 500 Index got a slight boost from data showing American services industries climbed at the fastest pace in 12 years, while private jobs numbers met expectations. The data did little to change views on the timing or pace for monetary tightening as investors await government payroll data Friday.

The dollar slipped from near its highest level since July and 10-year Treasury yields held at 2.33 percent as markets assessed the Trump administration's shortlist of candidates to helm the Federal Reserve. A flood of U.S. crude pushed oil to a two-week low.

In Asian markets, investors may face a more muted trading session with China on a week-long holiday, while data on Australia's trade balance and retail sales are due.

U.S. markets failed to gain traction in either direction, with investors weighing the economic data, Fed succession battle and renewed turmoil in Washington that saw Rex Tillerson publicly confirm his intention to remain on as Secretary of State. Comments form President Donald Trump on Puerto Rico briefly roiled the municipal bond market before his budget director walked them back.

Speeches from Russian President Vladimir Putin and U.K. Prime MinisterTheresa May also vied for investor attention, while the continued political turmoil tied to Catalonia weighed on the region's assets.

Among the key events coming this week:

- Also this week are data on U.S. trade, durable goods and Friday's September nonfarm payrolls report.
- China is due to report monthly foreign-exchange reserves Thursday.
- Minutes of the last ECB meeting are the European economic highlight this week.

Here are the main moves in markets:

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Stocks

- The S&P 500 Index rose 0.1 percent to 2,537.74 as of 4 p.m. New York time.
- The Dow Jones Industrial Average gained 20 points to 22,661 for a sixth record close in a row.
- The Russell 200 Index dropped 0.3 percent, for the biggest loss in a month.
- The Stoxx Europe 600 Index declined 0.1 percent, ending nine straight days of gains.
- Spain’s IBEX Index fell 2.9 percent, the most in more than a year.
- The MSCI Emerging Market Index rose 0.4 percent, rising for the fourth day in a row.

Currencies

- The Bloomberg Dollar Spot Index fell 0.1 percent, the second day of declines.
- The Japanese yen gained 0.1 percent to 112.73 per dollar.
- The Australian dollar rose 0.3 percent to $0.7863.
- The euro climbed 0.2 percent to $1.1763.
- The British pound increased 0.1 percent to $1.3255.

Bonds

- The yield on 10-year Treasuries was steady at 2.32 percent, trading near the 200-day moving average.
- Germany’s 10-year yield dipped one basis point to 0.45 percent.
- Britain’s 10-year yield rose two basis points to 1.378 percent.

Commodities

- West Texas Intermediate crude dropped 1 percent to settle at $49.98 a barrel, falling for a third day.
- Gold increased 0.3 percent to $1,275.18 an ounce.
- Copper fell 0.2 percent to $2.95 a pound.

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DEFLATION VS INFLATION THEME

Russell Napier

Deflation of course !

In the real world, every teenager can explain the **deflationary impact of the internet**, though perhaps not in terms that an economist would understand. Jeff Bezos continues to destroy corporate profits at a rate that would have put a smile on the face of Friedrich Engels and maybe even have induced a grin from Karl Marx.

Maybe, please whisper it quietly, there are indeed some things that even central bankers cannot control. This analyst would only add to the rather obvious impact of the deflation driven by technology that central bankers are failing in the one thing they think they can control --- the growth in the quantity of money.

To read the front page of the newspapers, one would believe that a global reflation was underway. To look at the price of emerging market equities, one would believe that emerging markets are leading that global growth. The fact is that the growth in broad money across the world indicates that the global economy is likely slowing and that that slowdown is led by emerging markets.

From late last year The Solid Ground has been pointing out the slowdown in bank credit growth in the US and the slowdown in broad money growth across the world. The most recent data shows a further slowdown which is so dramatic that it needs to be highlighted, particularly because it is so at odds with what the front pages of the papers proclaim to be one of the greatest periods ever of synchronized global growth.

There is a lot of room for negative surprises, perhaps even of 1987 proportions, when the reality of a major tightening in global monetary conditions meets the appearance of a synchronized global growth recovery.

So here is the most recent data, and let's begin in the US. Growth in M2 has fallen from 7.6% year on year last October, just before the Presidential election, to 5.3% this August. That does not sound so dramatic, but the growth in broad money in the USA is now at its lowest level since early 2014 and below levels that saw the Fed engaged in QEI, QEII and QEIII.

All in all making it seem a peculiar time to be raising the price of money when the growth in the quantity of money suggests that things are just as tight as when the Fed's balance sheet was growing at its fastest pace in history.

While M2 growth may not slow a lot from this level, it is worth noting that US bank credit growth this year is running at an annualized rate of just 3.3%. As the expansion of commercial bank balance sheets is the key to the creation of money, it suggests that a rebound in broad money growth is unlikely and a moderate further slowing in broad money growth, perhaps to levels not seen since 2009, is now probable. Inflation may be low because the Fed has failed to boost the growth of money. If that is a contributory cause, you might think that it is one the Fed would have noticed.

Yet today they still remain focused on the Phillips curve even though an authority as wise as Claudio Borio suggested in a speech in London on September 22nd that there have been other periods in history where the Phillips curve simply did not explain the relationship between employment and inflation.

Money supply growth is slowing rapidly and inflation is declining, but the Phillips curve ignores monetary conditions. The ‘ voices in the air’ warn that higher employment means higher inflation. If the broad money slowdown is of interest in the US, it is of deep concern in the two key engines of global growth --- China and India.

While developed world central bankers claim and deserve some credit for saving the world from a depression in 2009, their colleagues in the emerging markets may also have been key players in staying disaster. As OECD broad money growth actually contracted in late 2009, China saw broad money growth around 30% and India around 20%.

Could this have been a key factor in preventing a debt deflation? If so, we need to be concerned that as broad money growth in the OECD slows rapidly the growth of broad money in India and China has reached new lows.

In China M2 growth year on year, at 8.9%, is the lowest level of growth recorded since records began. That is a marked slowing from the growth rate of above 11% when the world thought Chinese growth was collapsing in 1Q 2016. That tightening in monetary policy occurs as three month interest rates in China have risen from a low of 2.7% in 2016 to 4.7% today.

This, apparently, signals a reflation in China? Meanwhile in India M3 growth has reached 6.8% year on year which is above its low of 6.2% earlier this year, but is otherwise at levels not seen since the 1960s.

While some of that slowdown in broad money growth relates to the dislocation associated with the reissue of new bank notes late last year, the lasting impact on broad money growth suggests that reflation is not a phrase that should be applied to the situation in India.

The Fed is the closest thing we have to a global central banker, though they would never admit to acting to do anything other than sail the monetary ship according to US economic conditions.

The monetary evidence from the US suggests that this is not a good time to reduce sail and the global monetary conditions suggest that the ship is heading into the doldrums. The combined impact of these factors jars with a perception that the global economy is very much under full sail.

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ASIAN ECONOMIC OUTLOOK
World Bank

Global economic growth has strengthened since the April 2017 *East Asia and Pacific Economic Update*.

This improvement reflects a congruence of positive trends, with growth picking up simultaneously across country groupings. Obstacles to activity in commodity exporters have receded against a backdrop of resilient growth in major commodity importers. Growth in the Euro Area and Japan in the first half of 2017 has exceeded expectations, and U.S. growth rebounded strongly. World trade appears on track to expand at its fastest pace since 2010.

Interest rates remain low as the U.S. Federal Reserve and the European Central Bank move gradually to retreat from loose monetary policy.

Growth in developing East Asia and Pacific (EAP) accelerated slightly in the first half of 2017, relative to expectations six months ago.

Domestic demand continues to drive the region's performance. Consumption made the greatest contribution to growth in most large economies. Fiscal deficits have narrowed or held steady in most large countries, while remaining significant in many of the smaller economies. Consumer price inflation generally remained low and has allowed authorities to maintain generally accommodative monetary policies so far in 2017.

The growth outlook for the region remains positive.

With China's growth stronger than previously expected,developing EAP as a whole is projected to grow at 6.4 percent in 2017, a modest improvement over 2016 as well as relative to expectations in the April 2017 *East Asia and Pacific Economic Update*.

Domestic demand will remain the primary contributor to growth in most countries. Growing world trade, sustained recovery in advanced countries, and accelerating growth in emerging markets and developing economies will strengthen external demand. Commodity prices are expected to recover at a moderate pace. Global financing conditions are expected to tighten gradually.

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China's growth moderation and gradual rebalancing are expected to continue despite the uptick in 2017.

With more rapid growth in the first half of the year, the Chinese economy is expected to grow at 6.7 percent in 2017. Growth is projected to moderate to around 6.4 percent in 2018–19 as the economy rebalances away from investment and external demand toward domestic consumption.

In most of the large Association of Southeast Asian Nations (ASEAN) economies in the region, growth is projected to increase in 2017 and 2018.

Malaysia is expected to grow more rapidly, reflecting improved confidence, higher investment, and the recovery in world trade. Thailand's growth is also expected to increase due to stronger recovery in merchandise exports and tourism. Gradual increases in growth are foreseen for Indonesia and Vietnam in 2017 and 2018.

In Indonesia, private consumption is projected to strengthen in line with gains in real wages. And, in Vietnam, rebounding agricultural production and strong export-oriented manufacturing will contribute to higher growth. Growth in the Philippines is likely to expand at a slightly slower pace in 2017–18, due in part to slower-than-expected implementation of public investment projects. Nevertheless, it is expected to continue to be the fastest growing of the large ASEAN economies.

This generally positive outlook is subject to significant downside risks. First, continued uncertainty about economic policies in some advanced economies and the escalation of geopolitical tensions could jeopardize growth prospects.

Rising protectionism and economic nationalism, in particular, could have a chilling effect on world trade, to which countries in the region are disproportionately vulnerable because of their integration into global value chains. Increased geopolitical tensions in the region could generate volatility in global financial markets that could cause capital outflows for developing EAP, put pressure on exchange rates, and raise world interest rates. And the region's central role in global shipping and manufacturing supply chains means that further escalation of these tensions could disrupt global trade flows and economic activity.

Second, financial sector vulnerabilities in many countries could be exacerbated by tightening in global financial markets.

Private sector indebtedness has reached a level in EAP countries that is well above other regions.

In China, lending to the nonfinancial sector has grown to exceptionally high levels for a middle-income country.

Many banking systems in the region are already highly leveraged with deteriorating asset quality. Household indebtedness is also growing in several of the large regional economies. If world interest rates were to rise rapidly, loan defaults and capital outflows from the region could be triggered, undermining the stability of banking systems. Furthermore, particularly in China, a substantial share of new debt has involved credit intermediation through entities outside the regular banking system, that is, so-called "shadow banking." The increased complexity of shadow banking makes supervision and risk assessment more difficult, creating additional vulnerabilities in the financial sector.

Third, budget deficits remain high or are expected to rise in most countries over 2017–19.

These deficits are especially worrying in countries where public debt is also high or rising, as this combination narrows governments' policy space for responding to shocks. The deterioration of debt dynamics has been more pronounced among the region's commodity-exporting countries, and the worsening of their fiscal positions has been substantial and persistent since the sharp decline in oil prices in 2014.

The prospect of tighter global financing conditions in the future heightens the need to improve fiscal discipline. Governments must rebuild fiscal buffers so as to be able to deploy countercyclical fiscal policy in the event of financial stress or other shocks.

The improved outlook for global growth provides a window of opportunity for countries to reduce their vulnerabilities and strengthen the foundations for sustained and inclusive growth in the medium term.

The favourable environment offers the space to move away from policies aimed at stimulating short-term growth toward measures that address underlying vulnerabilities. Improvements in supervision and prudential regulation can help contain risks in economies that have experienced rapid credit growth and debt accumulation. Reform of tax administration and regional tax policy cooperation can help countries address common weaknesses in their tax systems that have resulted in lower revenue collection in EAP than in other regions, including high compliance costs, aggressive incentives, and outdated tax laws and treaties.

The prospects of tightening external financing and rising inflation may require monetary policy adjustment. In anticipation of the spillovers from the eventual normalization of monetary policy in advanced economies, developing EAP countries also need to further strengthen the transparency of their central banks and improve their monetary policy regimes, while refining their operational frameworks.

Countries in the region should continue to pursue structural reforms that can yield long-term economic benefits.

Across the region, there is still a need to strengthen competitiveness and raise productivity. Reform agendas need to be prioritized and tailored to country circumstances. In countries that are undertaking large public infrastructure programs, such as the Philippines, Thailand, Cambodia, and Lao PDR, efforts to improve public investment management systems need to be deepened.

China and Vietnam have initiated measures to tackle problems in their state-owned enterprise sectors, which will need to be sustained. Recent measures to tighten regulation of shadow banking activities in China need to be continued.

Developing tourism sustainably and promoting further regional integration offer opportunities for the region to offset the risk of rising protectionism.

The growth in tourism that the region has seen will likely accelerate in coming years. This trend has the potential to provide substantial economic benefits to developing EAP. If this growth is not well managed, however, it could mean challenges for economic, social, and environmental sustainability. To reap the gains from tourism, countries in developing East Asia must address key market and policy failures by focusing on priorities that include a stronger emphasis on integrated investment planning, improvements in the enabling business environment for tourism, enforcement of more robust environmental quality standards, and better links with local economies.

More broadly, there is a need to build on existing regional integration initiatives by further opening up markets and harmonizing standards and the business environment. ASEAN, which is celebrating its 50th anniversary in 2017, and in particular, the ASEAN Economic Community, which was launched in 2015, offer one avenue for such an effort, especially with regard to liberalizing services trade and reducing nontariff barriers.

A new set of policy challenges has emerged in ensuring the continued inclusiveness of growth and development.

While the policy mix aimed at achieving broad-based growth was effective in lifting most of those at the very bottom of the income distribution over the last three decades, new concerns are now emerging across the region beyond a focus on reducing poverty. Public perceptions now point to growing concerns among the regions' citizens about high and rising inequality, falling mobility, and growing economic insecurity. And some of the long-term trends that supported the region's growth with equity model in the past—such as the demographic transition and rapid urbanization—need to be better managed.

Governments in the region can adapt to these changing needs by raising the bar on policy priorities—going beyond an exclusive focus on reducing poverty to a broader emphasis on ensuring economic mobility and security for all. Such an emphasis will entail tailoring interventions to address the heterogeneity of extreme poverty at the country level, fostering mobility by closing gaps in access to jobs and services and seeking to improve the quality and productivity of those jobs, and increasing economic security by putting in place mechanisms that can help reduce households' exposure to risks while enhancing their ability to cope with the consequences of shocks when they do occur.

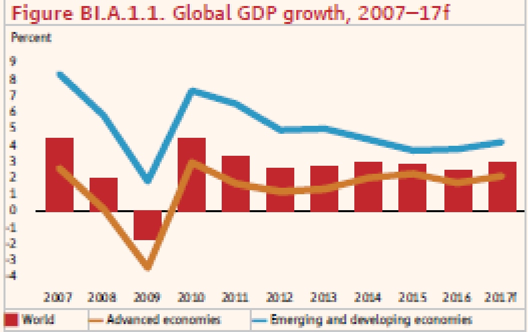
The global economy is strengthening.

The recovery in global growth, which has been underway since mid-2016, continued in the first half of 2017 (Figure below). Continued positive momentum in Q3 2017 was highlighted by the July and August global manufacturing PMI surveys, which remained firmly in expansionary territory. In the first two quarters of 2017, global growth is estimated at 3.1 percent (q/q saar) on average, somewhat up from 2.9 percent (q/q saar) in the final two quarters of 2016.

The expected improvement in growth this year reflects two developments against the backdrop of resilient growth in commodity-importing emerging market and developing economies EMDEs) led by China and India: an investment-led recovery in advanced economies, and receding obstacles to activity among major commodity-exporting EMDEs.

Among advanced economies, growth in the United States in the first half of 2017 has been in line with expectations (2.1 percent [q/q saar] on average), while growth in the Euro Area (2.4 percent) and Japan (1.9 percent) has been stronger than expected in the April 2017 issue of the *East Asia and Pacific Economic Update*. Among the EMDEs, growth in the first half of 2017 has been resilient in China, and appears to have picked up in most major commodity exporting EMDEs led by Brazil and Russia.

Figure BI.A.1.1. Global GDP growth, 2007–17f



Sources: World Development Indicators, Haver Analytics, World Bank.
Note: Data for 2017 for all regions are preliminary working assumptions to be finalized and published in the January 2018 issue of the World Bank's *Global Economic Prospects*. f = forecasts.

HOME BIAS

Stansberry Churchouse

Investing at home seems like a good idea. It's familiar and comfortable. If you live in Tokyo, for example, you see the Nikkei quoted every night on the news. If you're based in London, you're used to watching and reading about the national benchmark FTSE 100. And if you're American, U.S. markets are probably your first investment stop. Investing locally means investing in what you know – which is generally smart.

So it's not surprising that most people invest mostly in their home market.

Institutional investors put all their eggs in one basket

The graph below shows the asset allocation of institutional investors' (that is, big investment funds, pensions funds, and hedge funds, among others) by continent in 2014. In short, it shows continents that funds in different areas are invested in. (Data from 2014 may seem ancient, but investment allocations like this don't change very fast).

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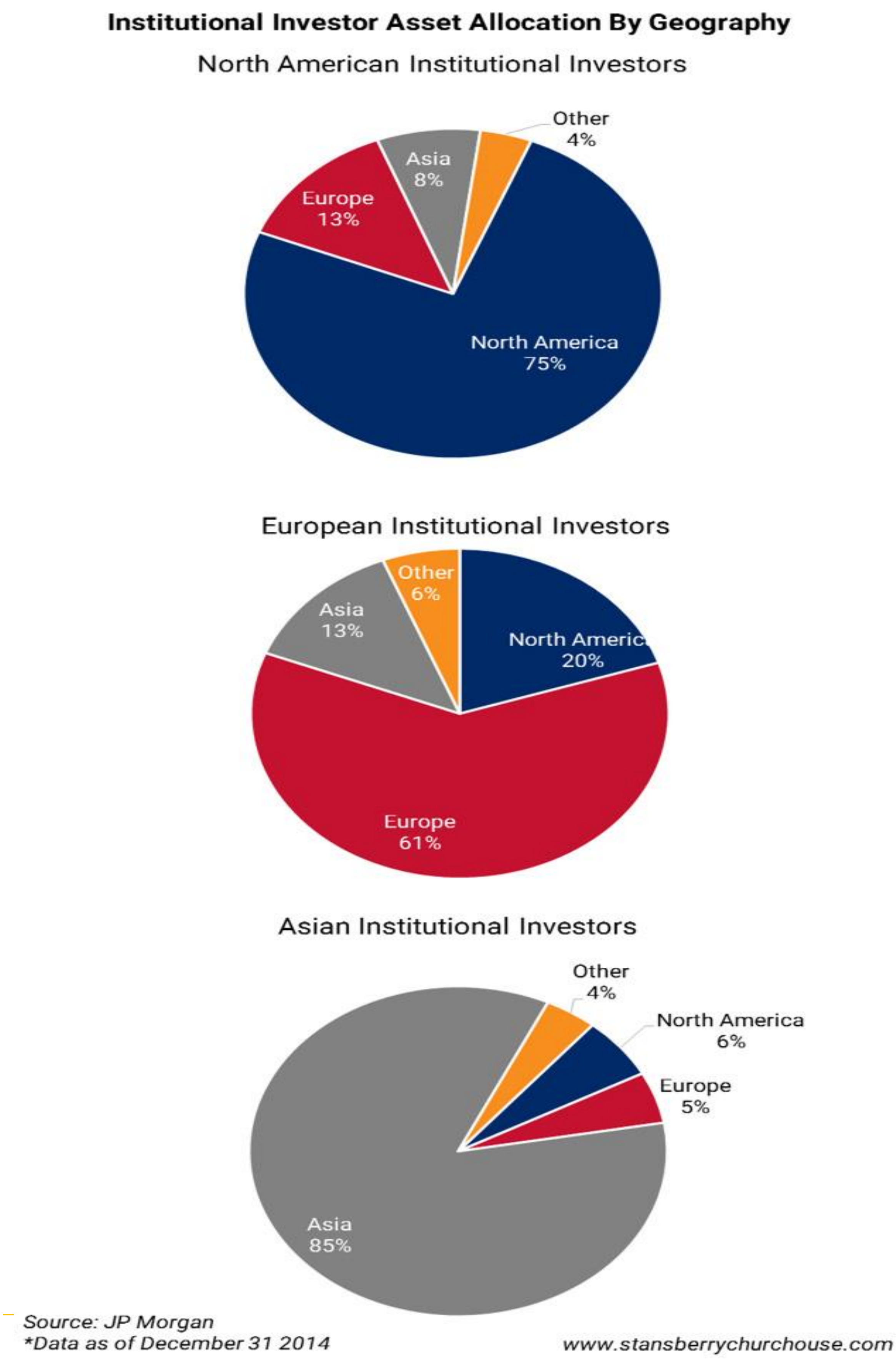

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As the above show, in North America, 75 percent of institutional investors' money was invested in North America. Just 13 percent was invested in Europe… and a tiny 8 percent in Asia. Meanwhile, in Europe, 61 percent of institutional investors' money remained in their home continent, with 20 percent in North America and just 13 percent in Asia.

Asia comes in with the highest home-region allocation, with 85 percent of institutional investors' funds staying at home. That means institutional investors have allocated just 6 percent of their investments to North America, just 5 percent to Europe… and 4 percent to other areas.

But that's just the tip of the iceberg. This is a mistake just about every investor makes…

Individual investors are guilty of home country bias too

As shown in the graph below, the average American with a stock portfolio has 79 percent of their money in U.S.-listed stocks. Investors in Japan put about 55 percent of their money in Japan-listed stocks. People in Australia have two-thirds of their portfolio in local shares.

That might be what they're comfortable with. But from a portfolio diversification perspective, it's like juggling live dynamite.

As the graph below shows, American stocks account for only 51 percent of total global market capitalisation (that is, the value of all stock markets in the world).

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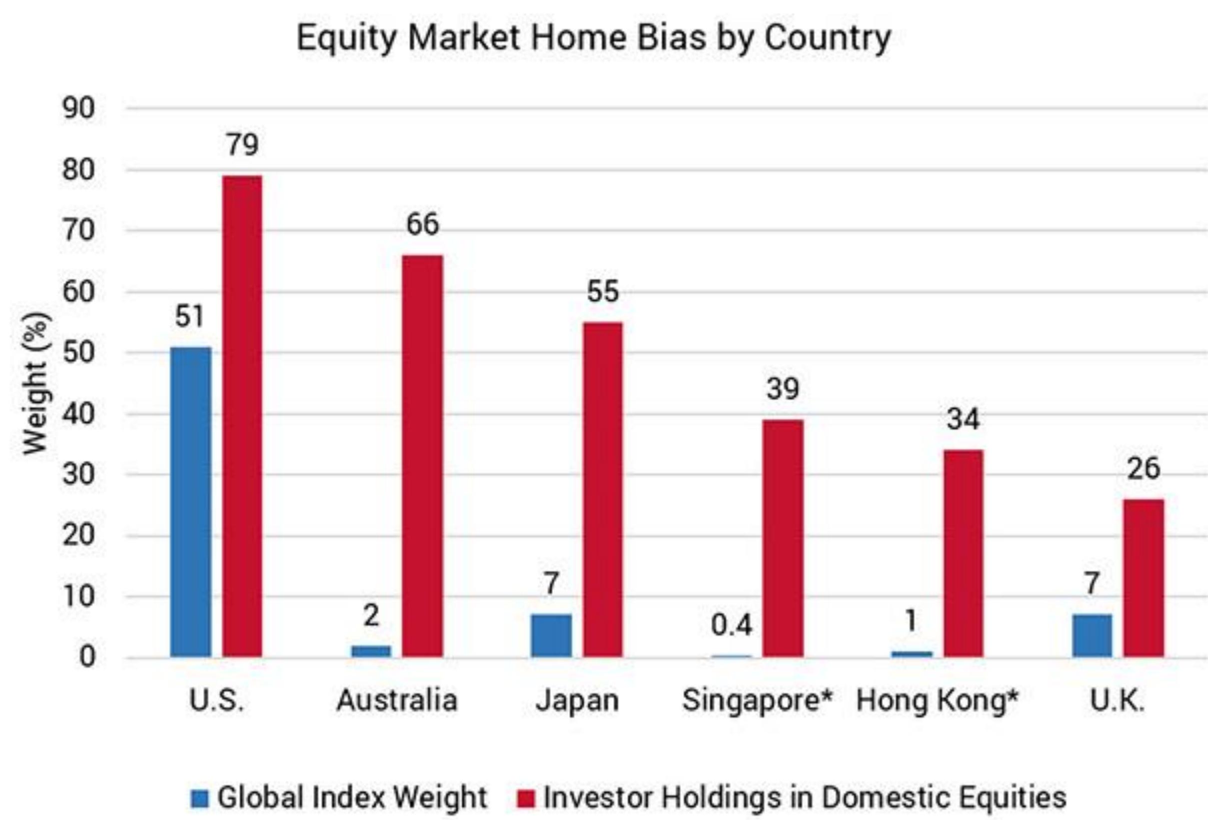
So American investors are a lot more exposed to U.S.-listed companies than – based on a breakdown of the world's markets – they should be.

Japanese investors are even more lopsided in their home preference – Japan accounts for only 7 percent of the world's stock market, yet they invest 55 percent of their money at "home". And Australians put 66 percent of their money into their own market – which is just two percent of the world's markets.



Source: Vanguard, IMF's Cordinated Portfolio Investment Survey (2014), Barclays, Thomson Reuters Datastream, and FactSet
**Singapore & Hong Kong domestic equity holdings based on Eastspring Investment Asia Investor Behaviour Study 2015*
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And Singapore's stock market is only 0.4 percent of the world total, but Singaporeans invest about 39 percent of their money in domestic equities.

Why do investors do this?

As I mentioned, they're investing in what they know, which (all else being equal) makes sense. Also, studies have shown that domestic investors tend to be more optimistic about the local economy than foreign investors – so local investors think they're investing where the growth is.

And local investors face fewer tax hassles when buying domestic shares, and less foreign currency risk. Crucially, investors often trust companies and stocks outside their borders less than they do those in their own country (even if the "foreign" market is bigger and less volatile than the local market).