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Thanksgiving: A Good Time for Reflection and Sharing

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A global celebration of plenty

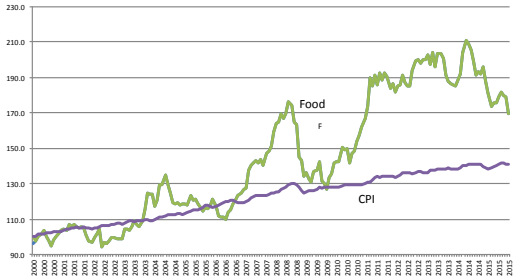
Thanksgiving is celebrated the world over under many different names and for many past centuries. Traditionally Thanksgiving is celebrated at the end of the growing season to give thanks to the forces of nature that have provided farmers, fishermen, and hunters with a bountiful harvest. This tradition and its timing is still observed in Canada and Australia.

The Thanksgiving tradition began in England back during the Protestant revolution. It had both a religious basis and a secular one, and had been celebrated under both guises in England. The British sent their ships and armory, built an empire, and established many of their customs in foreign lands. Arguably none have been more welcomed than the tradition of Thanksgiving.

Other non-British empire nations have also celebrated the harvest season in a similar manner. Thanksgiving is and has been celebrated in the Netherlands, Germany, the Middle Kingdom (a.k.a. Mid-Autumn or Moon Festival) and Japan for many years.

In the United States the pilgrims of the early colonies began the modern Thanksgiving festivities by consuming copious quantities of their plentiful yield after toiling in fields, forests, groves and seas. Politics interfered, as it often does, and set the timing of the holiday to the end of November long after the harvest had been stored, packaged and shipped to markets around the world.

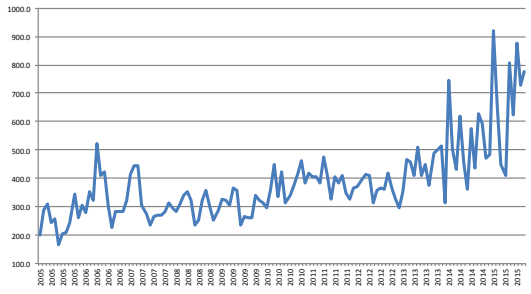
Food Prices plummeted in past year



What do the farmers and fishermen have to be thankful for today?

In a deflationary world, prices for agricultural products have not even kept pace with the broad measures of inflation, causing farmers to be relatively worse off than everyone else. Final prices for farm products, as measured in the Producer Price Index, have been falling for the past 18 months and therefore not contributing to a financially bountiful harvest for the farmers this year. As we see in Chart 1, food prices rose rapidly after the 2008-09 recession in the US and much quicker than the general price level, helping farmers escape from the destruction of the 'great recession'. However, their relative advantage has quickly vanished over the past few months.

Fish prices have steadily appreciated

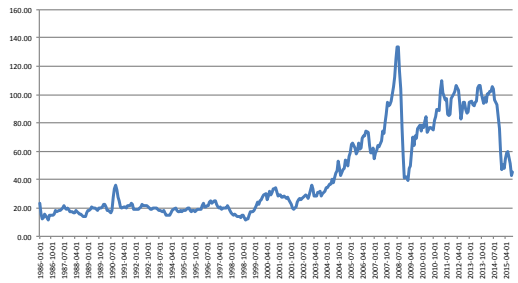


In contrast to the wellbeing of the farm community, fishermen faired much better: prices for fish at the wholesale level have climbed steadily higher according to the US producer price index. Prices have risen because demand kept growing, along with the growth in the global population and as poverty decreased. Meanwhile, the available supply of harvestable fish has been reported to be seriously depleted in many traditional locations, including here in our region.

No fuel for celebrations in the oil industry

Oil producers are not celebrating this year either. Crude oil prices (West Texas Crude) began diving approximately 17 months ago from a little over $100 per barrel to a range of $40 to $50 per barrel in the past ten months. The halving of oil prices damaged new producers of the latest technology in oil extraction in North America, and created losers among the producer-exporting countries such as Brazil and Russia and some South-east Asian producers. Naturally, there are also winners - the oil importing countries such as Japan, the EU and China.

West Texas Crude oil prices Plunged

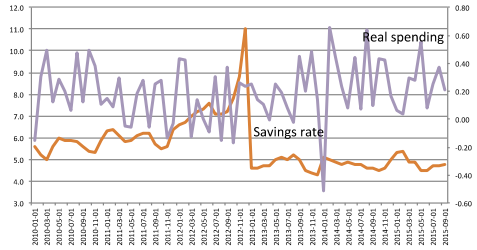


A one-time boost to consumers' income

The extensive and prolonged drop in crude oil and prices created a one time windfall for consumers. Initially consumers saved their oil price windfall, as seen in Chart 4. The savings rate jumped spectacularly as

consumers pocketed the difference in energy payments. It wasn't until one year after the big oil price plunge that consumers began increasing their rate of spending. Real consumption growth accelerated to twice as fast as it had one year earlier. It seemed as though consumers didn't believe that oil prices would stay low for a sustained period. After months of crude oil prices remaining in the $40 to $50 per barrel range did they finally accept the previously unimaginable drop in gas and oil prices.

Consumers Saved the initial Energy Price Decline



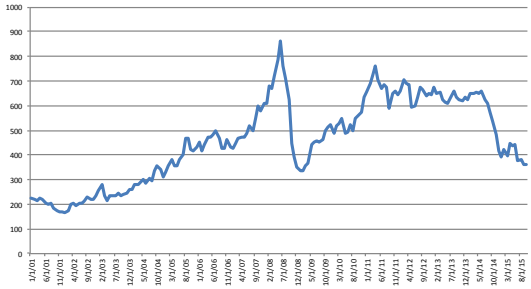
Commodity prices across the world have suffered

It isn't only farmers and oil producers that have fared poorly in the past year and a half. All other commodity producers have also witnessed a significant fall in the prices they received for their raw materials. Prices for metals, especially those that are heavily used in manufacturing, have also slumped.

Broad commodity price indices peaked in 2011 after their initial post 'great recession' surge and then these commodity price indices began to slowly subside. By the spring of 2011 the slide turned into a tumble from which the commodity indices have yet to recover.

The decline in commodity prices seems to have been coincident with the deceleration of growth in the Chinese economy. Of course in 2011 China's economy was growing upwards of 10%, and because of their need for raw materials to support their manufacturing-based economy, they drove commodity prices upward. When China's economic growth subsequently slowed to around 7% over the ensuing 3 years, their need for raw materials diminished and commodity prices began to slide downward.

Huge Fall in Commodity Prices



A more severe decline in commodity prices began in the late spring of 2014. This plunge in commodity prices did coincide with the abrupt decline in crude oil prices, and it was also coincident with a growing realization that China's economy was not growing at its official target rate of 7%, but something significantly slower.

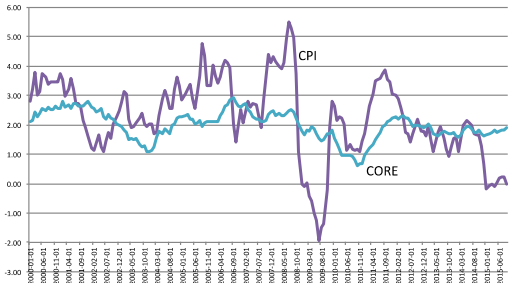
China's economy not only was undergoing a growth slowdown, but the Chinese

government was also determined to alter the determinants of growth from industrial production to a consumption- and service-oriented economy. On both accounts China's need for raw materials weakened, leaving gaps in the demand for commodities that could not be filled by any other economy. Most of the developed economies of the world were growing below their natural rates, and the developing economies were laboring under the strains caused by the decreased demand for their output by China. This was especially the case in South-east Asia.

Plummeting raw material prices contributed to deflation

The recent wild volatility in commodity prices has caused broader consumer price indices to fluctuate in a similar fashion. As shown in Chart 6, the US CPI has plunged recently and has been threatening to penetrate down into deflation territory. Sinking prices for crude oil and other energy sources plus declines in US food prices caused year-over-year changes in the CPI to stagnate over the past 18 months. In contrast, year-over-year changes in the core CPI has hovered just below 2% consistently since mid-2012.

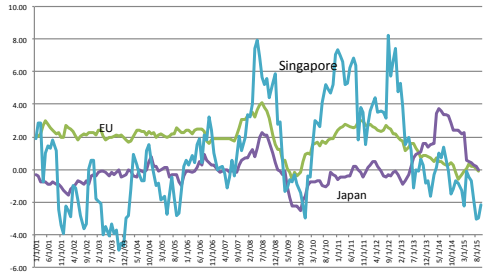
Headline CPI heavily influenced by volatile food and energy prices.



Such contrasting price signals create some critical uncertainty for monetary policy makers and undermine their confidence in taking the appropriate course of action. The hope and belief among policy makers is that over time the two prices indices will converge and move together.

Deflation is a global problem

Consumer Price Indexes Globally are at or Below Zero



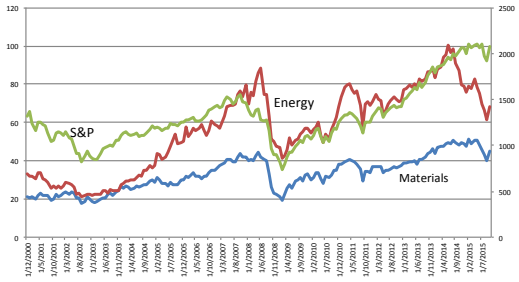
Deflation, or the threat of deflation, is not just a US phenomenon. Japan has struggled in the throes of deflation for more than a decade. Recently, even in the inflation-obsessed EU, the year-over-year change in their harmonized price index has decelerated rapidly and is closing in on deflation. In Asia it is more of the same. For

example the year-over-year change in Singapore's consumer price index has been below zero for more than a year. It has contributed to decisions to ease policy in Singapore.

Consequently, with global economic growth decelerating, it is no wonder that monetary policy makers adjust their basic borrowing rates lower and lower, and endeavor to find new tactics/policies to stimulate demand and even to prop up falling price levels. Lower official interest rate levels are hence the most likely outcome ahead for most of the Asian countries over the next several months.

Raw material stocks underperform

Falling Stock Prices of Energy and Materials Weigh on S&P Index



Investors have little to cheer about this Thanksgiving season either. The weakness in commodity prices caused the prices of raw material and energy stocks to depreciate seriously. Of course it was only natural that oil and energy stock prices would retreat in the midst of the plunge in crude oil prices. But the remaining raw material stock sectors have also underperformed broad stock price indices.

Conclusion

Big declines in commodity prices are probably behind us. However, it will probably require a serious acceleration in the pace of global economic growth before there is a substantial appreciation of commodity prices and therefore in the stock prices of energy and raw material producers.

As for policy makers the US Federal Reserve may be the only central bank in the world at the brink of deciding to begin a series of monetary tightening moves in 2016. The Fed, too, will be very wary of raising rates too rapidly, and could even be forced to reverse their initial decision to tighten policy if global economic conditions deteriorate further.

Consequently, from a financial point of view, there will not be much to celebrate for farmers, miners, oil producers or investors this Thanksgiving. Yet they can all enjoy the cheaper turkey and ham.

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	KEY INDICATORS TABLE (AS OF 16 NOVEMBER 2015)							
INDEX	**LEVEL (LC)**	**%1MO (LC)**	**%1MO (USD)**	**%1YR (LC)**	**%1YR (USD)**	**INDEX**	**LEVEL**	**%1YR**
S&P500	2053.19	1.18%	1.18%	2.77%	2.77%	3MO LIBOR	0.36	56.66
FTSE	6146.38	-3.19%	-4.66%	-3.90%	-6.64%	10YR UST	2.27	-2.28
NIKKEI	19393.69	6.02%	2.76%	12.87%	6.59%	10YR BUND	0.56	-32.51
HANG SENG	22010.82	-4.38%	-4.40%	-5.40%	-5.37%	10YR SPG	1.79	-15.51
STI	2915.73	-3.64%	-6.30%	-9.08%	-17.06%	10YR SGS	2.62	11.88
EUR	1.07	-5.83%		-14.68%		US ISM	50.10	-13.50
YEN	123.18	3.13%		5.92%		EU PMI	52.30	3.40
CMCI	968.59	-6.90%		-25.95%		JP TANKAN	8.00	100.00
Oil	41.74	-11.68%		-44.95%		CHINA IP	5.60	-27.30

Source: Bloomberg

APPENDIX

GLOSSARY OF KEY TERMS (Source: Bloomberg, with tickers in parenthesis. In US$ where applicable)
S&P500: capitalization-weighted index of the prices of 500 US large-cap stocks (SPX)
FTSE: capitalization-weighted index of the prices of the 100 largest LSE-listed stocks (UKX)
NIKKEI: capitalization-weighted index of the largest 225 stocks of the Tokyo Stock Exchange (NKY)
HANG SENG: capitalization-weighted index of companies from the Hong Kong Stock Exchange (HSI)
STI: cap-weighted index of the top 30 companies listed on the Singapore Exchange (FSSTI)
EUR: USD/EUR exchange rate: 1 EUR = xx USD (EUR)
YEN: YEN/USD exchange rate: 1 USD = xx YEN (JPY)
CMCI: Constant Maturity Commodity Index (CMCIPI)
Oil: West Texas Intermediate prices, $ per barrel (CLK1)
3MO LIBOR: interbank lending rate for 3-month US dollar loans (US0003M)
10YR UST: 10-year US Treasury yield (IYC8 – Sovereigns)
10YR BUND: 10-year German government bond yield (IYC8 – Sovereigns)
10YR SPG: 10-year Spanish government bond yield, proxy for EU funding problems (IYC8 – Sovereigns)
10YR SGS: 10-year Singapore government bond yield (IYC8 – Sovereigns)
US ISM: US business survey of more than 300 manufacturing firms by the Institute of Supply Management that monitors employment, production inventories, new orders, etc. (NAPMPMI)
EU PMI: Purchasing Managers' index for the 17 country EU region (PMITMEZ)
JP TANKAN: Bank of Japan business survey on the outlook of Japanese capital expenditures, employment and the overall economy, quarterly index (JNTGALLI)
CHINA IP: China's Industrial Production index, with 1-month lag (CHVAIOY)
LC: Local Currency