U.S. TICs report shows large exodus from U.S. assets in August. The Treasury Department’s database covering U.S. and foreign purchases of U.S. and overseas assets (TICs) indicated clearly that August was a month of “capital flight” from U.S. equity-, bond and other long-term markets. During the month, foreign investors sold a record net $69.3 billion in U.S. assets, following a moderate $19.2 billion increase in July. This is the largest such decline since Russia defaulted in 1998. Including short-term securities, such as Treasury Bills, foreigners sold a net $163 billion, compared with a gain in the previous month. International holdings of U.S. equities fell $40.6 billion in the month; holdings of Treasury securities decreased $2.6 billion, while foreigners sold a net $1.2 billion in U.S. corporate bonds.

Though the data sheds some light on the international capital flow dynamics attendant with the August mortgage meltdown, additional information will be needed to assess what happens next? According to Mark Chandler of Brown Brothers Harriman in New York, “I’d be surprised if I saw a repeat of this in my career.”

Stock markets decline globally. Equity markets fell sharply on Tuesday as poor corporate earnings and renewed concerns about U.S. sub-prime losses rattled investors. Europe’s Dow Jones Stoxx-600 index fell 1% to 383.17, and national benchmarks lost ground in all 18 Western European markets. In particular, Sweden’s index posted the biggest movement among global markets after telecom equipment group Ericsson plunged almost 30%, the biggest decline in at least 17 years. The U.K.’s benchmark FTSE-100 index sank 0.5%; France’s CAC-40 index fell 0.9%, and Germany’s DAX index slid 0.4% in afternoon trading.

Asian markets declined the most in four weeks, with the MSCI Asian-Pacific Index down 1.3% to 166.62 (Tokyo). Shares in the financial sector contributed the most to the decline. Japan’s benchmark Nikkei-225 index lost 1.3%, while Hong Kong’s Hang-Seng Index slipped 2%. All markets in the region fell except for Taiwan, China, and Sri Lanka. And U.S. stocks opened lower in morning trading following yesterday’s sharp drop.
U.S. manufacturing output shows no change in September. A set-back in autos-and auto part output, tied to declining sales and the short-lived UAW strike at GM last month, offset solid unit production gains for capital goods and other machinery products destined for overseas markets. The two trends/events effectively cancelled one another to yield no change in factory output. This follows a 0.8% decline in August, to place the momentum of growth on an easing trend—to 4.3% in September from 5.2% (saar) [see Daily chart at http://GEM]. According to Mike Englund of Action Economics in Boulder Colorado, “Exports are a huge contributor, and capital goods exports have been quite strong.”

Euro Area inflation above ECB targets in September. For the first in more-than a year, Euro Area HICP inflation reached 2%, accelerating quickly from 1.7% in August. Higher food and energy prices underpinned the rise, while core inflation (excluding these categories) moderated to 1.8% from 1.9% in August. Inflation in Germany picked-up to the fastest pace in six years, at 2.7% in September from 2% in August. The ECB is monitoring inflation closely, as CPI is expected to continue rising over the coming months. Earlier this month, the ECB held its policy rate at 4% instead of tightening, as had been earlier indicated, noting the need to further assess the impact of tighter credit conditions tied to the U.S. sub-prime mortgage crisis. Growth in the Euro Area is expected to moderate during the second half of 2007 due to weaker demand for exports from the United States and tighter credit conditions at home.

German investor confidence holds steady in October. This was an upside surprise for analysts, who expected it to fall sharply, according to a Bloomberg survey. The ZEW Center for European Economic Research in Mannheim reported that its index of investor-and analyst expectations remained constant at minus 18.1, the same as in September and lowest level since December 2006. The reading is below the index’s average positive reading of 32.1 since 1991, and below the average reading of 20.26 reported during the second quarter of 2007, before U.S. mortgage market woes began to clamp down on markets. The index of current economic conditions for October fell to 70.2 from 74.4 in September the lowest level in 2007 to date, suggesting that growth will slow in coming months.

U.K. inflation maintains low 1.8% pace in September, matching the August posting and registering lowest levels since March 2006. An easing of gas-, electricity and clothing prices helped to offset rising food prices. This marks the third consecutive month that inflation outcomes were below the Bank of England’s (BoE) 2% target rate. Many analysts anticipate that the BoE will cut its policy rate to mitigate the impact of higher credit costs tied to housing market problems in the United States. The central bank’s benchmark rate is currently at 5.75%, the highest in six-years. “Inflation doesn’t look like it’s a barrier to rates coming down,” noted David Page, economist at Investec Securities (London).

Among emerging markets... in East Asia, China’s consumer price inflation slowed in September, after reaching a 10-year high in August, bringing inflation in the first nine months of the year to 4.1%, according to the Vice Chairman of the National Development and Reform Commission.
In Central and Eastern Europe, The IMF revised up its 2007 growth and inflation forecasts for Bulgaria to 6.4% and 10% respectively, from 6% and 8% respectively, saying that inflationary pressures “are clearly rising”. The Fund projects a current account deficit equivalent to 20% of GDP, due to strong private-sector investment and high imports. Further, the Fund anticipates growth to remain at current levels, inflation to decelerate, and the current account to narrow in 2008. In Poland, the budget deficit is expected to narrow to 3% of GDP in 2007, remain flat in 2008, and then further narrow to 2.8% of GDP in 2009 and 2.5% of GDP in 2010, according to the Finance Minister Zyta Gilowska.

In Russia, industrial production gained 3% in September (y/y) the slowest pace of expansion this year, down from 3.8% the previous month, carrying gains over the first nine months of the year to 6.6%. Output in manufacturing decelerated to 4% growth in September from 5.5% the previous month. In Hungary, industrial output increased 12% in August (y/y) as export demand from the E.U. boosted production. Industrial export sales jumped 22.9%, comparing with a 4.7% increase in domestic sales.

In Latin America, Mexico’s industrial production climbed 2.6% in August (y/y) boosted by a 20% upsurge in automobile output. The second consecutive month of accelerating growth in industrial output suggests that the Mexican economy may be in recovery, after a seven-month slump. In Colombia imports jumped 26.7% in August (y/y) buoyed by purchases of furnaces, machinery, machine parts, autos and auto parts, all of which point to strong investment.

In Sub-Saharan Africa, In Botswana consumer price inflation slowed to 6.8% in September, below the central bank’s target for the first time in three months, and down from 7.2% the previous month. The central bank expects that inflation will remain above the targeted 4%-7% range in the short term. In Mauritania oil output plunged 58% in September (y/y) to 12,769 barrels per day, after an equipment changeover. Oil revenue plunged to $1.2 million in September, down from $15.3 million during the same month of 2006.