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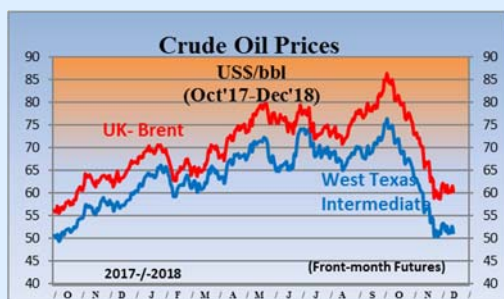
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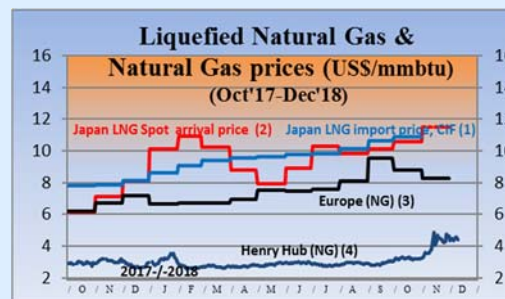
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Source: DOE-EIA, Financial Times, NASDAQ



Sources:

- (1) Ministry of Finance "Japan Trade Statistics"
- (2) Ministry of Economy, Trade and Industry (arrival month basis)
- (3) Estimated by World Bank (Netherland Title Transfer Facility)
- (4) DOE-EIA, NYMEX (Front-month Futures)
- (5) Investing.com



Source: x-rates.com



Source: Financial Times

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Summary

【Global Monitoring】

1. US: Importance of the Judiciary under a Divided Government

The mid-term elections have resulted in a divided government, with the Republicans winning the Senate and the Democrats the House. As it becomes difficult to decide policies through legislation, the judiciary will have a more important role to play.

2. EU: Official Approval of Binding 2030 Targets

The European Parliament completed the approval procedure for three regulations, namely the revised Renewable Energy Directive, the revised Energy Efficiency Directive, and the Regulation on the Governance of the Energy Union. In terms of countries, attention must be paid to the recommendation by Germany's coal exit council, which is scheduled to be made by February 2019.

3. China: Initiatives to Increase Imports and Protect Free Trade

As the US-China trade war deepens, China is reinforcing measures to expand imports and protect free trade. The US-China summit at the G20 at the end of November must be watched closely.

4. Impact of the Economic Sanctions Worsen amid Conflict with the West

The impact of the West's sanctions on Russia is increasing. As the country struggles to find a way to mend relations with the West, the international community is closely watching Japan's diplomatic efforts to improve relations with the country.



1. US: Importance of the Judiciary under a Divided Government

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As of November 27, the Republicans have secured 52 seats in the Senate (gaining 2 seats) in the mid-term elections held on November 7 but just 200 seats in the House of Representatives (losing 38 seats), giving them a minority. They won the gubernatorial elections in 27 states, losing 6 seats. It is widely expected that the coming Congressional session that opens in January 2019 will suffer deadlocks in the legislation process for deciding policies as a result of partisan conflict.

Under such circumstances, the role of the judicial branch will be more important than ever. As repeatedly witnessed during the past two years, the judiciary, as “the branch of common sense,” will likely act frequently as a bulwark against the Trump administration’s attempts to fulfill his public promises through executive orders.

Coincidentally, on November 8, the day after the election, the Montana District Court judge barred any further work on the Keystone XL pipeline project, which President Trump has been supporting as a key policy, citing inappropriate construction approval by the State Department. He ruled that the administration had “simply discarded” prior factual findings (that the construction of Keystone XL will increase GHG emissions) that provided a basis for the Obama administration’s State Department to decide not to approve the project. Four of the court’s six judges were appointed by a Democratic government and remain pro-environment.

The Obama administration’s guidelines that require federal agencies to consider climate impacts in their environmental assessments had already been revoked by President Trump in March 2017. However, the court decided that that does not automatically invalidate the environmental assessments themselves. Further, for example, the Federal Energy Regulatory Commission (FERC), which is authorized to issue permits for power line and inter-state pipeline construction, has continually been considering climate factors even after the guidelines were revoked. Disagreements in policy among the President, Congress, judiciary, and states are causing an “inertia” and easing the impact of policy changes caused by a change of government is exactly how the political system of the United States is intended to work.

Meanwhile, in the House of Representatives where the Democratic Party regained majority control, the activities of the House Committee on Science, Space, and Technology should be watched. Under the current Chairperson Lamar Smith (R, Texas), the Committee has repeatedly proposed that government organizations should use only disclosable data (analyses based on such data) when establishing rules. This proposal was not legislated, but in 2018, the EPA announced a policy that when formulating environmental standards, it will not consider information including confidential data that cannot be disclosed. The aim is to consequently reduce environmental regulations by barring the use of research papers containing medical data that show the health impact of air pollutants, or business secrets such as operational records and costs of industrial facilities.

Eddie Johnson (Democrat), the next chairperson also from Texas, has set a goal of correcting the course of this discussion on “politics and science.” Since the information used by government agencies as a basis for their decisions will serve as evidence in an administrative lawsuit, attention must be paid to how this issue will develop as it may determine environmental policy through lawsuits, along with how many conservative judges will be appointed during the remaining two years of President Trump.



2. EU: Official Approval of Binding 2030 Targets

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On November 13, the European Parliament completed the approval procedure for three regulations, namely the revised Renewable Energy Directive, the revised Energy Efficiency Directive, and the Regulation on the Governance of the Energy Union, following the approval of the Energy Performance of Buildings Directive which became effective on July 9. These rules are part of the eight laws of the 2016 Clean Energy for All Europeans package. The revisions set new binding targets to increase renewables to at least 32% of energy consumed by 2030 (share of the gross final consumption, with a clause to review the target by 2023 for upward revision), and to improve energy efficiency by at least 32.5% by 2030 (from the 2007 baseline, also with a similar clause).

In its 2030 climate & energy framework, the EU has set targets to cut greenhouse gas emissions by at least 40% from 1990 levels, in addition to increasing the share of renewables and energy efficiency. This GHG reduction target has also been confirmed in the Intended Nationally Determined Contributions (INDC) that the EU has submitted.

Laws and regulations are steadily being prepared to implement the energy and climate actions of the EU. Meanwhile, regarding Germany, the media reported information leaked from a government report that the 2020 GHG reduction target will not be met. Germany has set a 2020 target of reducing CO₂ emissions by 40% from 1990 levels. However, the country has already announced in its Climate Action Report 2017 (approved by the cabinet in June 2018) that if things remain as they are, it can only achieve a reduction of about 32%, and the media report confirmed this prospect.

The draft government report stresses the role of the Commission on Growth, Structural Change and Employment (better known as the coal exit committee) which proposes means to fill the gap between the target and the status quo. On October 25, the coal exit commission unanimously approved a major policy recommendation for the brown coal regions that would be affected by an exit from coal-fired thermal power in the future. While details of the recommendation or discussions are not disclosed, the commission is set to identify measures to ensure that the 2030 target would be achieved and to discuss plans for reducing and phasing out coal-fired thermal power. The final report that the coal exit commission will present to the German government by February 2019 will hold the key to Germany's future climate actions.

On November 14, the negotiators of the European Commission and the United Kingdom agreed the draft text of an agreement on the UK's withdrawal from the EU. Though the draft agreement was approved by the Cabinet, the UK government is in chaos with several ministers including the Secretary of State for Exiting the EU resigning in protest at its content and opposition forces within the Conservative Party maneuvering to replace the prime minister. Meanwhile, on November 25, the European Council approved the draft agreement and a draft Political Declaration setting out the Framework for the Future Relationship between the EU and the UK. Whether both the European Council and the UK Parliament will approve the draft agreement will be the focus going forward. If the UK Parliament votes down the draft agreement, a no deal Brexit is very possible. The situation remains volatile and should be closely watched.



3. China: Initiatives to Increase Imports and Protect Free Trade

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On September 24, the United States imposed an additional 10% tariff on \$200 billion worth of Chinese goods and China countered with a 5 to 10% additional tariff on \$60 billion of US goods. As the US-China trade war enters the third stage and deepens further, China is strengthening initiatives to increase imports and protect free trade.

On November 1, import tariff rates were decreased for 1,585 items of mainly industrial products (down from 10.5% to 7.8% on average) based on the import expansion initiative decided at the standing committee of the State Council on September 26. Import tariffs were cut for pharmaceuticals starting on May 1 and for automobiles and daily necessities starting on July 1. The most recent reduction, the third, lowered China's average import tariff rate from 9.8% in 2017 to 7.5%. Notably, the rate was lowered to zero for anticancer drugs, to 15% for finished cars, and to 6% for automobile parts. Further, China International Import Expo was held in Shanghai from November 5 to 10 as the world's first national-level business convention focusing on imports. More than 3,600 companies from 170 countries and regions participated in the event and more than 400,000 buyers had business meetings, resulting in the signing of contracts worth an estimated \$57.83 billion. President Xi Jinping spoke at the opening of the event and announced plans to import \$40 trillion (\$30 trillion of goods and \$10 trillion of services) in 15 years, highlighting both China's intention to import more and its massive purchasing power. As China's import bill was at \$2.31 trillion for 2017 (\$1.8 trillion for goods, \$0.5 trillion for services), the country will need to boost its annual imports by \$44.6 billion each year to reach \$2.98 trillion in 2032 (\$2.1 trillion for goods, \$0.8 trillion for services). Needless to say, the lower tariffs and the Expo are both initiatives designed to help boost imports.

A series of diplomatic efforts are also being made to advocate free trade. On November 1, President Xi and President Trump had a phone meeting for the first time since May at the request of the US and agreed to proceed with the trade talks. Further, President Xi made a speech at the Asia-Pacific Economic Cooperation (APEC) meeting and summit held in Port Moresby, Papua New Guinea on the 17th and 18th. He pointed out that the growing protectionism and unilateralism are disrupting the world economy and that there are no true winners in a cold war or trade war, declaring that China will continue to reform, open up, and expand imports. At the same time, he called on the international community to uphold the multilateral trading system, clearly say no to protectionism, and strive to build an open Asia-Pacific economy and the Free Trade Area of the Asia-Pacific (FTAAP) for the APEC countries and regions. Many overseas media featured the speech in which Vice President Mike Pence criticized China by name and reported that the US is becoming increasingly harsh toward China. Meanwhile, in China, many point to the fact that President Xi's speech did not criticize the US by name, and argue that Vice President Pence is just one of the US hardliners against China, doubting whether his words reflect the thoughts of President Trump.

President Xi and President Trump are set to have a meeting during the G20 Summit in Buenos Aires, Argentina at the end of November. Attention must be paid to whether the countries can make progress toward alleviating the deepening trade war.



4. Impact of the Economic Sanctions Worsen amid Conflict with the West

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On November 16, Bloomberg Economics released an investigative report indicating that the West's economic sanctions since the annexation of Crimea in 2014 could have lowered Russia's GDP growth rate by up to 6% in the past four years. The report analyzed that concerns over future sanctions, in addition to the recent impact of the sanctions, are causing a serious slowdown of the Russian economy, not to mention the negative impact of low oil prices. \$42.2 billion of capital fled Russia between January and October 2018, tripling on a year-on-year basis (according to the Central Bank of the Russian Federation).

Chairman of the Accounts Chamber (and former Minister of Finance) Alexei Kudrin, known as a man who can give candid advice to President Putin, has warned that Russia's 2019 GDP growth rate may fall below the forecast by the Economic Development Ministry (1.3%) to less than 1%. Mr. Kudrin believes that the most serious problems are that higher oil prices can no longer boost economic growth as before, the consumption tax and raised pension age may chill consumption, and investors in and outside of Russia are no longer as eager to invest in the country.

On October 20, President Trump expressed his intention to withdraw the United States from the Intermediate-Range Nuclear Forces (INF) Treaty, which was signed by the United States and the then Soviet Union in 1987 and was a symbol of the end of the Cold War. The US has not yet sent a formal notice (that would trigger a six-month expiry period) to Russia, but on November 19, President Putin mentioned that he is ready to take retaliatory measures if needed. Many foreign affairs and military experts believe that the true aim of the US is to remove the Treaty which has become an obstacle in its military strategy against China, and thus the Treaty had to be abolished sooner or later. Meanwhile, some people in Russia believe the country is economically incapable of fighting another arms race with the US while others see the withdrawal as a good opportunity to drive a wedge between the US and Europe, which sees the Treaty as essential.

On November 11, the two regions in eastern Ukraine under the rule of pro-Russian separatist independence groups (the Donetsk People's Republic and the Lugansk People's Republic) pushed ahead with elections to decide their leaders despite the West's concerns over the deepening crisis in Ukraine. On the same day, the governments of Ukraine, Germany, and France set themselves apart from Russia which supported the election and released a joint communique stating that the election violates the Minsk agreements and is not to be recognized as legitimate. Ukraine is scheduled to hold a presidential election in March and a parliamentary election in October 2019. The elections are likely to escalate the stand-off between the West and Russia over the Ukraine situation.

On November 14, Prime Minister Abe attended a Japan-Russia summit with President Putin in Singapore, the venue of ASEAN-related Summit Meetings. They agreed to speed up negotiations on the peace treaty based on the 1956 Joint Declaration of Japan and the Union of Soviet Socialist Republics. The world is watching how Japan exercises its diplomatic skills toward Russia, which is struggling to find a way to mend relations with the West as the domestic economy worsens.



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