



Global Macro Report



Weekly Macro Commentary: Strong US Economy Supports Fed Rate Increase; ECB's Monetary Policy Remains Accommodative

- 1) **US:** The US Federal Reserve increased its key short-term interest rate this week by 25 basis points and projected three more increases in 2017. The Fed's decision was based on the labor market, which is approaching full employment, and inflation that is on track to reach the Fed's 2% target. Economic data released earlier last week showed that consumer sentiment has improved since the election of Donald Trump to the presidency. Consumers have become more confident about both current and future conditions. US job openings have trended higher over the year, which has signaled a further pickup in labor demand.
- 2) **Europe:** The Governing Council of the European Central Bank maintained its course of attempting to stimulate the European economy by leaving interest rates unchanged and extending its asset-purchase program through December 2017. In the UK, house prices continued to edge up against a backdrop of low mortgage rates and a shortage of supply. Germany's industrial production grew at a lower-than-expected pace.
- 3) **Asia-Pacific:** This week's economic data showed improvements in the Chinese economy. Industrial production in the country is stabilizing and the manufacturing sector can be optimistic about 2017, as producer prices shrugged off a deflationary trend that started in 2012. Retail sales growth and exports both picked up thanks to stronger domestic demand and a stronger US dollar, respectively.
- 4) **Latin America:** Brazil's economy is still characterized by a sense of pessimism; inflation is high and political instability continues to plague the country. Economic data released this week indicate there are some signs of relief, with commodity prices rebounding and inflation edging down. Consumer confidence in Mexico decreased, likely due to US President-elect Trump's rhetoric on trade.

Our View

The US Federal Reserve raised interest rates and projected more rapid increases in borrowing costs on the basis of a tightening labor market and expectations that inflation will continue to move toward the central bank's target. President-elect Donald Trump is expected to drive infrastructure spending and initiate fiscal stimulus, which should further boost the US economy and will likely prompt the Fed to take an even more hawkish stance on interest rates. As a result, the US dollar is expected to continue appreciating over the course of 2017 and into the medium term.

While the environment looks promising for the US economy, there are potential roadblocks on the horizon for both the US and the global economy. A strong US dollar does not gel well with Trump's ambition to narrow the US trade deficit. In addition, Trump's widely publicized, aggressive stance on trade issues, and on the US's trading partners such as Mexico and China, could lead to economic shocks in the US and across borders, if he implements the policies he has said he will. Europe is also entering a critical period in 2017 due to the recent resignation of Italian Prime Minister Matteo Renzi, which followed yet another referendum in Europe; the upcoming elections in France; and the unraveling of the Brexit conundrum in the UK.

Figure 1. Global Macro Indicators Released the Week of December 4–10, 2016

Country	Indicator	Period	Actual	Survey	Prior	Impact on Economy*
US	University of Michigan Index of Consumer Sentiment (Prelim.)	Dec	98.0	94.5	93.8	+
US	University of Michigan Current Economic Conditions Index (Prelim.)	Dec	112.1	107.5	107.3	+
US	University of Michigan Index of Consumer Expectations (Prelim.)	Dec	88.9	86.0	85.2	+
US	JOLTS Job Openings (Thous.)	Oct	5,534	5,500	5,631	+
UK	Halifax House Price Index (MoM)	Nov	0.2%	0.2%	1.5%	+
UK	Halifax House Price Index (3 Mos., YoY)	Nov	6.0%	5.9%	5.2%	+
GE	Industrial Production (SA, MoM)	Oct	0.3%	0.8%	(1.6)%	–
GE	Industrial Production (WDA, YoY)	Oct	1.2%	1.6%	1.3%	–
CN	Industrial Production (YoY)	Nov	6.2%	6.1%	6.1%	+
CN	Producer Price Index (YoY)	Nov	3.3%	2.3%	1.2%	+
CN	Retail Sales (YoY)	Nov	10.8%	10.2%	10.0%	+
BZ	Commodity Price Index (MoM)	Nov	6.2%	–	0.1%	+
BZ	Commodity Price Index (YoY)	Nov	(4.0)%	–	(14.5)%	+
BZ	IBGE Inflation IPCA (MoM)	Nov	0.2%	0.3%	0.3%	+
BZ	IBGE Inflation IPCA (YoY)	Nov	7.0%	7.1%	7.9%	+
MX	Consumer Confidence Index	Nov	84.4	83.5	85.0	–

*+ indicates a positive signal for the country's economy and – indicates a negative signal.

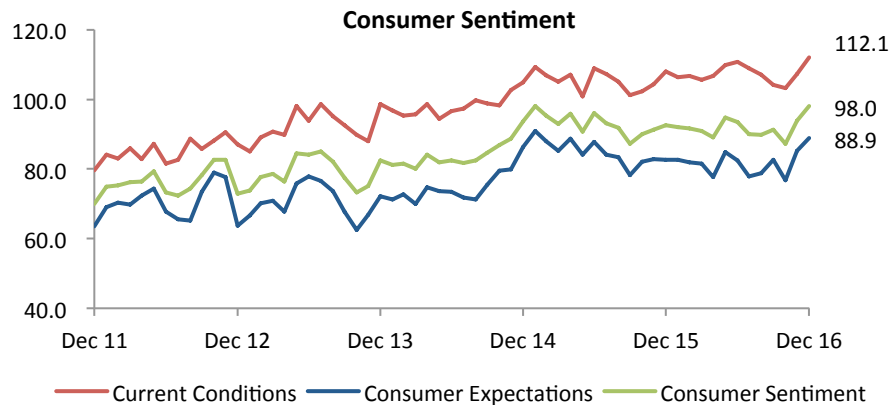
Source: University of Michigan/US Bureau of Labor Statistics/Halifax/Destatis/National Bureau of Statistics of China/Central Bank of Brazil/Instituto Brasileiro de Geografia e Estatística (IBGE)/Instituto Nacional de Estadística y Geografía (INEGI)/Fung Global Retail & Technology

US: Consumer Sentiment Surges; Job Market Appears Mixed

The US consumer sentiment data collected after the November 8 presidential election reaffirmed that consumers are optimistic about Trump's presidency.

US consumer sentiment, as measured by the University of Michigan Index of Consumer Sentiment, hit 98.0 in December, above the market's expectation of 94.5 and the prior month's reading of 93.8. The gain was largely driven by consumers' initial reactions to Trump's surprise victory in the presidential election. The December data collected after the November 8 election reaffirmed that consumers are optimistic about Trump's presidency.

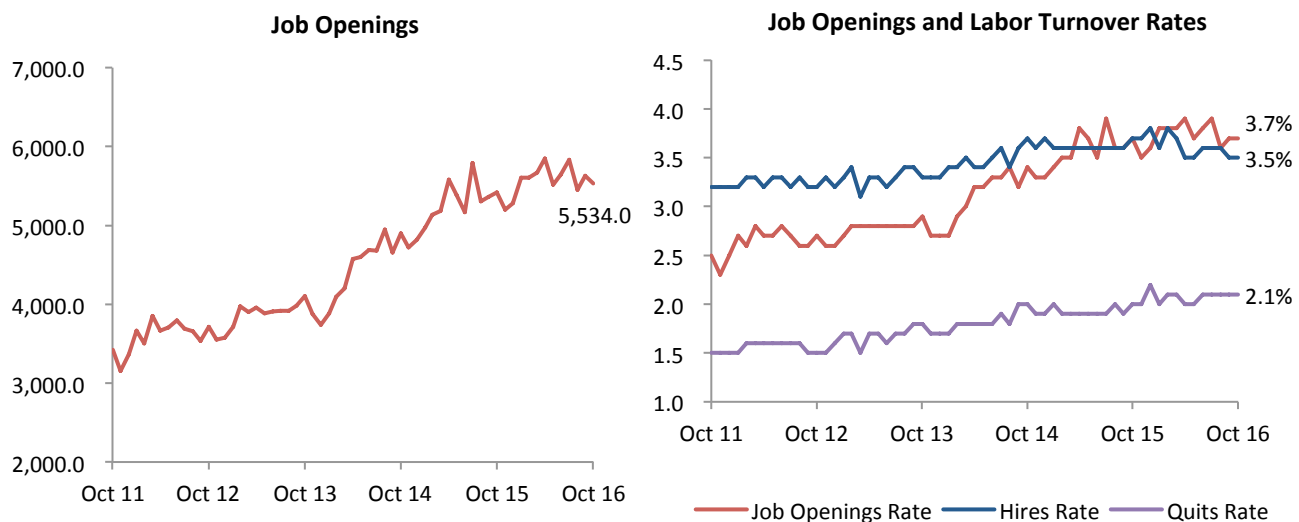
Figure 2. US: University of Michigan Indexes of Consumer Sentiment, Current Economic Conditions and Consumer Expectations



Source: University of Michigan

The data on the job market have been relatively mixed. US JOLTS job openings dropped to 5,534,000 in October after September's figure was revised to 5,631,000. The reading was higher than the expected 5.5 million. The job opening rate, despite edging down in October, trended up from 2.5% in October 2011 to 3.7% in October 2016, signaling increased demand for labor. On the flip side, the low quits rate, which was 2.1%, reflected laborers' lack of confidence to change jobs.

Figure 3. US: JOLTS Job Openings (Seasonally Adjusted), Thous.; JOLTS Rates, %



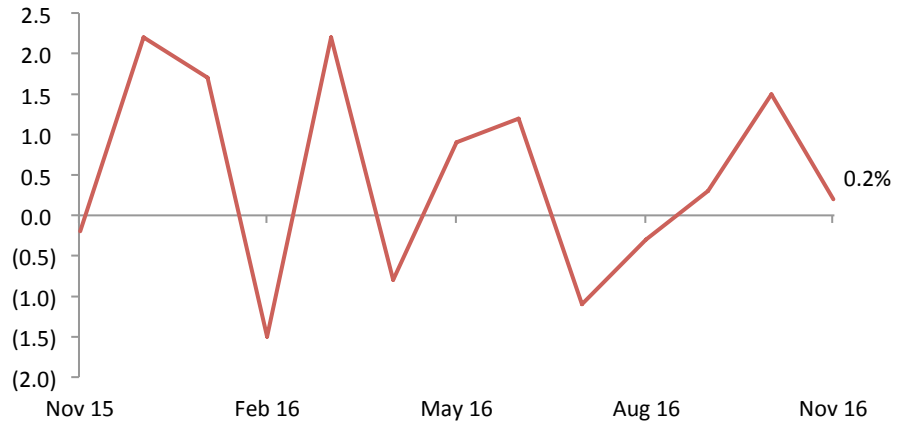
Source: US Bureau of Labor Statistics

Low mortgage rates and shortage of supply are supporting house price growth in the UK.

Europe: UK House Prices Edge Up; Germany’s Industrial Production Growth Is Slower than Expected

In the UK, the Halifax House Price Index rose by 0.2% month over month in November. House prices in the three months ended November were 0.8% higher than in the preceding three months and 6.0% higher than in the same period last year. Low mortgage rates and shortage of supply are supporting house price growth in the UK.

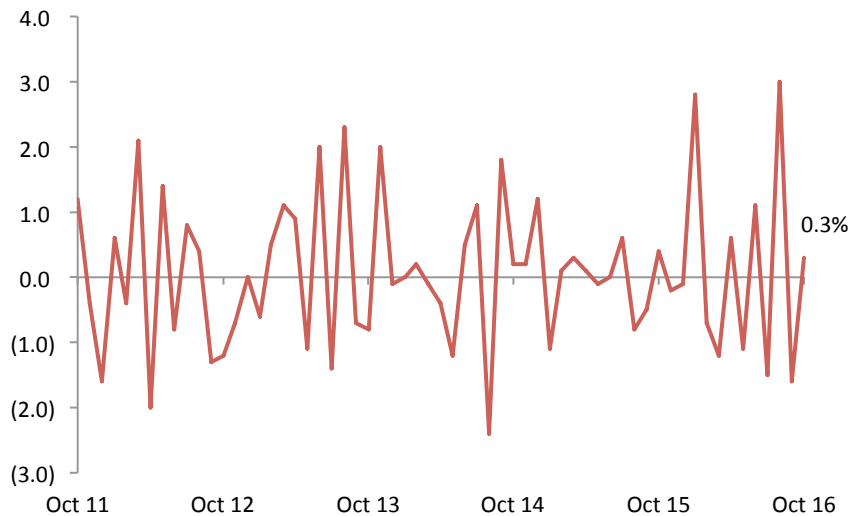
Figure 4. UK: Halifax House Price Index (Seasonally Adjusted), MoM % Change



Source: Halifax

Industrial production in Germany increased by 0.3% month over month in October; the reading came in weaker than the consensus estimate, which called for a 0.8% increase.

Figure 5. Germany: Industrial Production (Seasonally Adjusted), MoM % Change

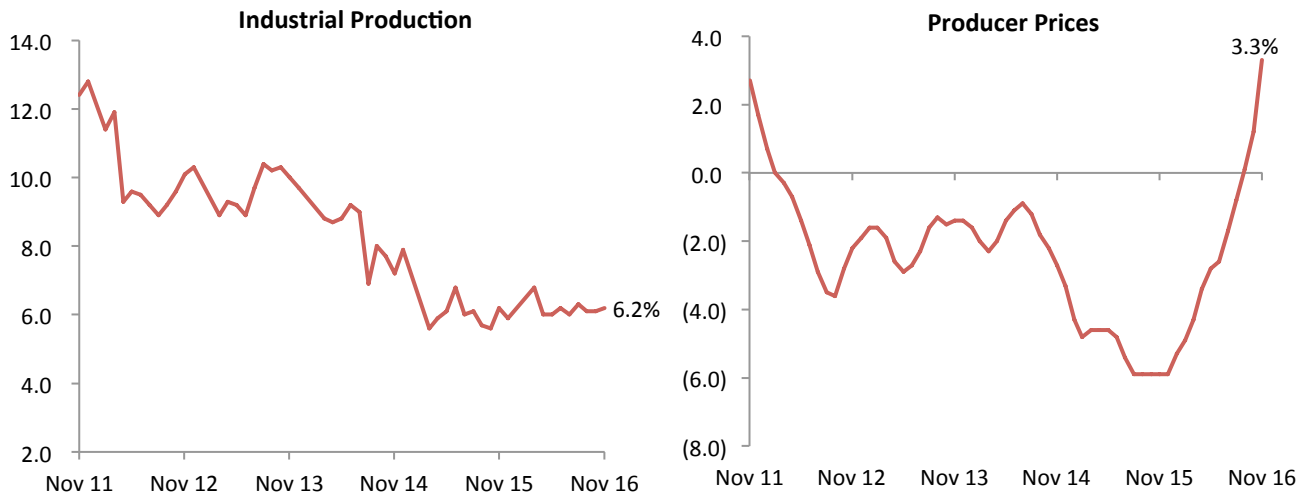


Source: Destatis

Asia-Pacific: China's Industrial Production and Producer Prices Stabilize; Retail Sales and Exports Seem Resilient

Industrial production in China grew by 6.2% year over year in November and producer prices ticked up 3.3% year over year. Industrial production is starting to stabilize and the rebound of producer prices is a positive sign for manufacturers.

Figure 6. China: Industrial Production, YoY % Change; Producer Prices, YoY % Change



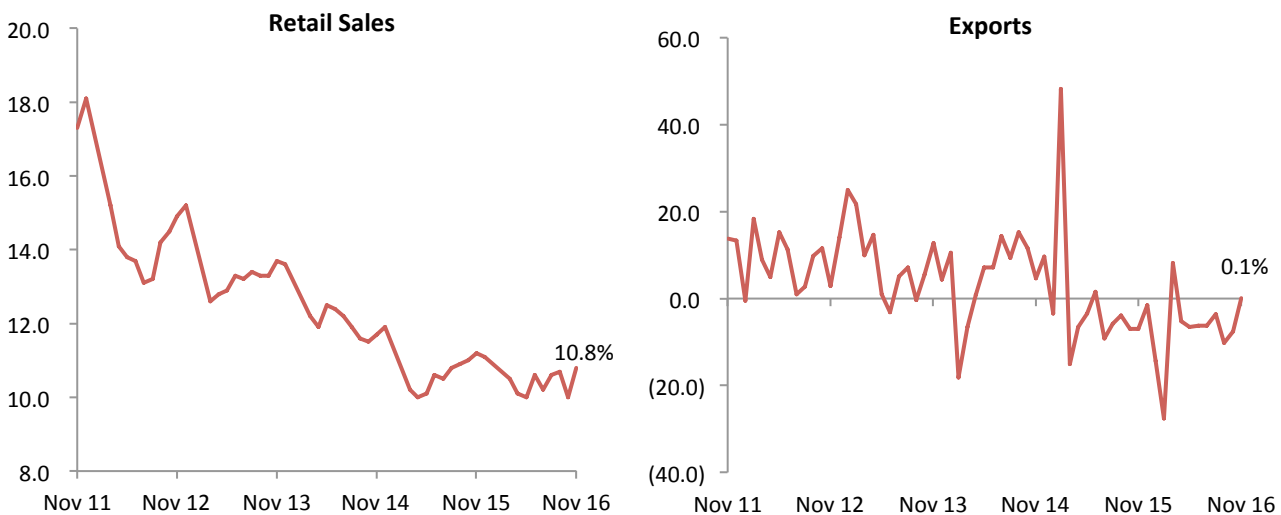
Source: National Bureau of Statistics of China

China's retail sales grew by 10.8% year over year in November, while its exports trade increased by 0.1% in US dollars and by 5.9% in Chinese yuan.

China's retail sales grew by 10.8% year over year in November, above the market's expectation of 10.2%. China has striven to evolve its economy to become less reliant on exports by growing domestic consumption. The country's retail sales growth seems to have stabilized and bottomed at 10%.

China's exports trade increased by 0.1% in US dollars and by 5.9% in Chinese yuan in November, driven by a stronger US dollar since President-elect Trump's victory.

Figure 7. China: Retail Sales Value, YoY % Change; Exports (in USD), YoY % Change



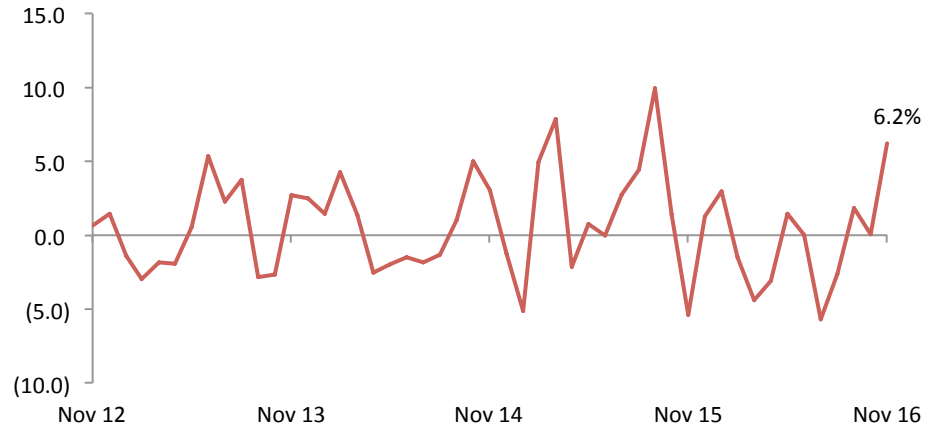
Source: National Bureau of Statistics of China

Latin America: Brazil's High Inflation Persists, While Mexico's CPI Moderates

Brazil's Commodities Index surged 6.2% month over month in November, potentially signaling relief for Brazil's economy.

Brazil's Commodities Index surged 6.2% month over month in November as US President-elect Trump's call for over \$500 billion in infrastructure spending stimulated a rebound of commodity prices, which could potentially relieve Brazil's economic recession.

Figure 8. Brazil: Commodities Index Composite, MoM % Change



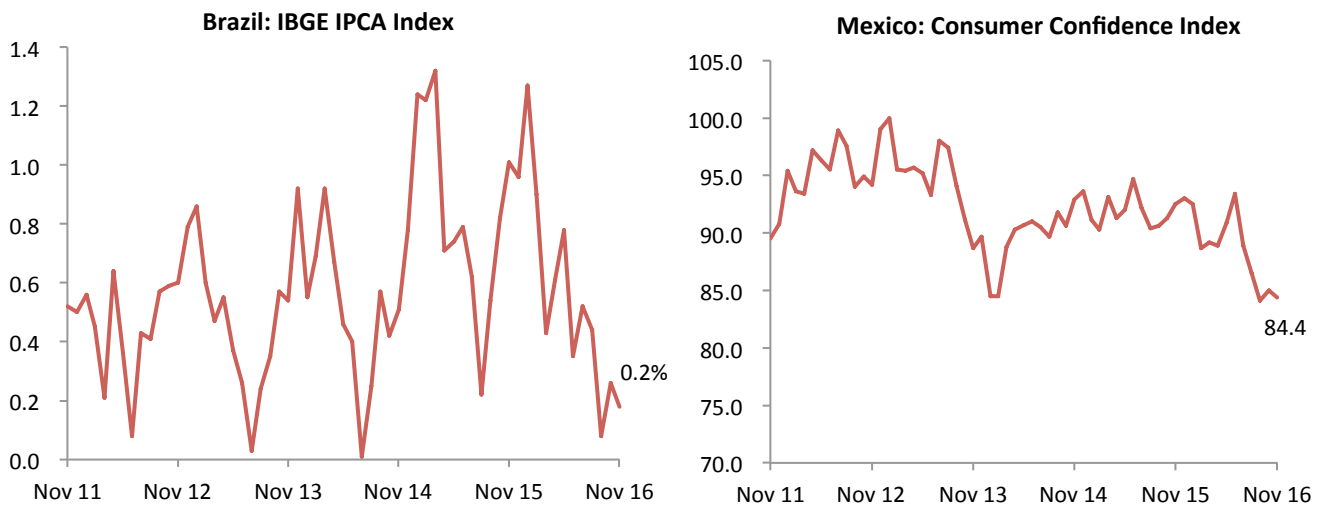
Source: Central Bank of Brazil

In Brazil, the IBGE IPCA Index, which measures inflation, increased by 0.2% month over month and by 7.0% year over year in November.

The IBGE IPCA Index, which measures inflation, increased by 0.2% month over month in November. The figure was below the consensus estimate and October's increase. Year over year, the index rose by 7.0%, which was higher than the central bank's official target of 4.5%.

In Mexico, the Consumer Confidence Index fell in November to 84.4, which was lower than October's reading but higher than the consensus estimate of 83.5.

Figure 9. Brazil: IBGE IPCA Index, MoM % Change; Mexico: Consumer Confidence Index



Source: IBGE/INEGI

Figure 10. Upcoming Economic Data Releases

Date	Country	Indicator	Period Covered
Dec 18	JP	Trade Balance	Nov
Dec 18	JP	Exports (YoY)	Nov
Dec 18	JP	Imports (YoY)	Nov
Dec 19	US	Markit US Services PMI (Prelim.)	Dec
Dec 19	US	Markit US Composite PMI (Prelim.)	Dec
Dec 20	JP	Nationwide Department Store Sales (YoY)	Nov
Dec 20	JP	Tokyo Department Store Sales (YoY)	Nov
Dec 20	JP	Convenience Store Sales (YoY)	Nov
Dec 20	MX	Retail Sales (YoY)	Oct
Dec 20	MY	CPI (YoY)	Nov
Dec 21	JP	Supermarket Sales (YoY)	Nov
Dec 21	FR	Producer Price Index	Nov
Dec 21	US	Existing Home Sales	Nov
Dec 21	UK	GfK Consumer Confidence	Dec
Dec 21	TW	Unemployment Rate	Nov

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