



# Global Macro Report



## WEEKLY MACRO COMMENTARY: US HOUSING MARKET APPEARS SOLID, BRAZIL MAY FACE SECOND POLITICAL SCANDAL IN LESS THAN A YEAR

- 1) **US:** Housing sales appear solid, but they have been constrained by affordability and lack of supply. Against a backdrop of low mortgage rates, the appreciation in housing prices has risen above wage growth and has led to a shortage in housing supply. However, Donald Trump's election has led the market to believe interest rate increases will be more aggressive than had been expected, which may drive down housing prices and weigh on homeowners with mortgages.
- 2) **Europe:** Consumer and business sentiment have remained intact in Germany. Still, there is a risk that populist and antiestablishment sentiment may spread further in Europe. The upcoming constitutional referendum in Italy and the presidential election in France will be significant events to watch.
- 3) **Asia-Pacific:** Japan showed positive headline inflation for the first time in October after six consecutive months of negative readings. The core inflation indicator also indicated softening deflationary pressure. In Taiwan, industrial production rose for the third consecutive month, albeit less than the consensus estimate, and the country's Ministry of Economic Affairs expects significant growth toward the end of the year.
- 4) **Latin America:** In Brazil, consumer confidence has begun to fade as citizens have grown impatient about the slowness of the economic recovery. A recent corruption scandal associated with President Michel Temer may escalate into yet another political crisis.

## OUR VIEW

US President-Elect Donald Trump looks set to reshape the Federal Reserve. It is rumored that he will appoint economists who advocate higher borrowing costs to fill the two vacant seats on the Fed's Board of Governors and that he will replace Fed Chair Janet Yellen in 2018, who has been dovish on rate hikes. A change in interest rate policy will bring risks to the housing market, as rising mortgage rates will increase the burden on homeowners. A series of rapid rate hikes may derail the solid housing market recovery, so the government will need to ensure that housing demand remains strong in a rising interest rate environment.

In other regions across the globe, political risks are mounting as we near the end of 2016. In Brazil, just a few months after the Brazilian Senate voted to impeach President Dilma Rousseff, her replacement, Michel Temer, appears to be associated with a corruption scandal which can lead to more political instability. In Asia, South Korean President Park Geun-hye may face impeachment or resign amid an escalating corruption scandal that has brought 2 million protesters to the streets. In Europe, a constitutional referendum in Italy on December 4, which could lead to the resignation of Prime Minister Matteo Renzi, and France's presidential election in the spring of 2017 can lead to further instability after the Brexit vote earlier this year.

**Figure 1. Global Macro Indicators Released the Week of Nov. 20–26, 2016**

| Country | Indicator                        | Period | Actual | Survey | Prior  | Impact on Economy* |
|---------|----------------------------------|--------|--------|--------|--------|--------------------|
| US      | Existing Home Sales (Thous.)     | Oct    | 5,600  | 5,440  | 5,490  | +                  |
| US      | Existing Home Sales (MoM)        | Oct    | 2.0%   | (0.6)% | 3.6%   | +                  |
| US      | New Home Sales (Thous.)          | Oct    | 563    | 590    | 574    | –                  |
| US      | New Home Sales (MoM)             | Oct    | (1.9)% | (0.5)% | 1.2%   | –                  |
| GE      | Ifo Business Climate             | Nov    | 110.4  | 110.5  | 110.4  | +                  |
| GE      | Ifo Expectations                 | Nov    | 105.5  | 106.0  | 105.9  | =                  |
| GE      | GfK Consumer Climate Indicator   | Dec    | 9.8    | 9.7    | 9.7    | +                  |
| TW      | Industrial Production (YoY)      | Oct    | 3.7%   | 5.3%   | 4.6%   | –                  |
| JP      | National CPI (YoY)               | Oct    | 0.1%   | 0.0%   | (0.5)% | +                  |
| JP      | National CPI ex Fresh Food (YoY) | Oct    | (0.4)% | (0.4)% | (0.5)% | +                  |
| BZ      | FGV Consumer Confidence          | Nov    | 79.1   | 82.8   | 82.4   | –                  |
| MX      | Retail Sales (MoM)               | Sep    | (0.2)% | 0.2%   | 0.6%   | –                  |
| MX      | Retail Sales (YoY)               | Sep    | 8.1%   | 8.1%   | 8.9%   | =                  |

\*+ indicates a positive signal for the country's economy, – indicates a negative signal and = indicates little or no impact.

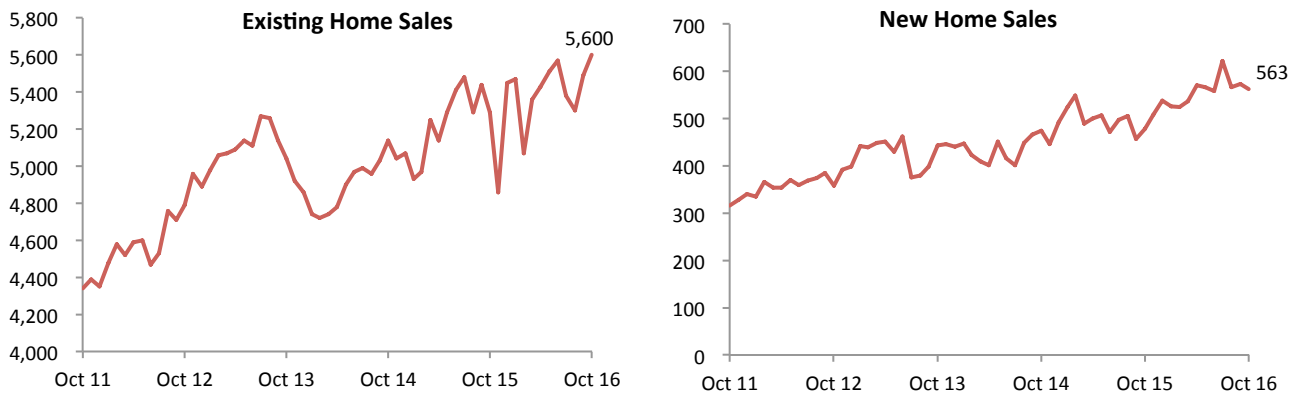
Source: US Census Bureau/National Association of Realtors/Ifo Institute for Economic Research/Ministry of Economic Affairs Taiwan/Ministry of Internal Affairs and Communications Japan/Instituto Brasileiro de Geografia e Estatística (IBGE)/Instituto Nacional de Estadística y Geografía (INEGI)/Fung Global Retail & Technology

*A series of rapid hikes in the federal funds rate may reduce the affordability of housing, which could increase risks in the housing market.*

## US: Home Sales Appear Solid, but Are Constrained by Supply and Affordability

Existing home sales increased by 2.0% month over month in October, to 5.6 million. We saw strong gains in existing home sales in both September and October, indicating some release of pent-up demand due to tight supply over the summer. New home sales decreased by 1.9% month over month in October. The reading came in weaker than the expected drop of 0.5% due to lower affordability.

Figure 2. US: Existing and New Home Sales (Seasonally Adjusted Annual Rate, Thous.)



Source: US Census Bureau/National Association of Realtors

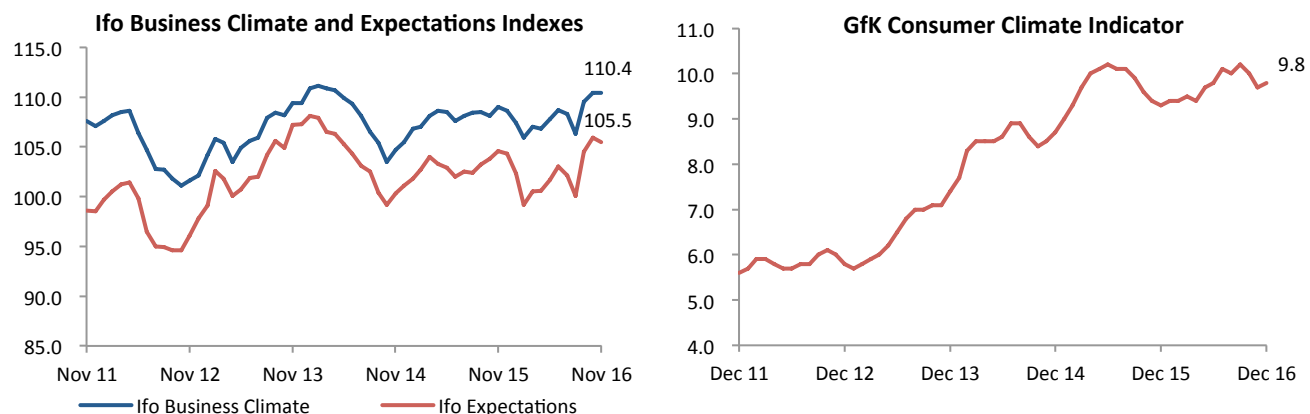
## EU: Germany's Sentiment Unfazed by US Election

*The gauges show that the economic upturn in Germany remains intact and that Germans appear somewhat unfazed by Trump's election in the US.*

The Germany Ifo Business Climate Index remained unchanged at 110.4 in November; the reading was slightly below the consensus estimate of 110.5. The Ifo Expectations Index edged down to 105.5 from 105.9 the previous month, and was lower than the consensus estimate of 106.0. The gauges show that the economic upturn in Germany remains intact and that Germans appear somewhat unfazed by Trump's election in the US and Europe's uncertainties, which include Brexit and an upcoming constitutional referendum in Italy.

The Germany GfK Consumer Climate Indicator edged up 0.1 in December, to 9.8. Consumers' economic expectations and their propensity to buy have increased slightly, while their income expectations have declined slightly.

Figure 3. Germany: Ifo Business Climate and Expectations Indexes; GfK Consumer Climate Indicator



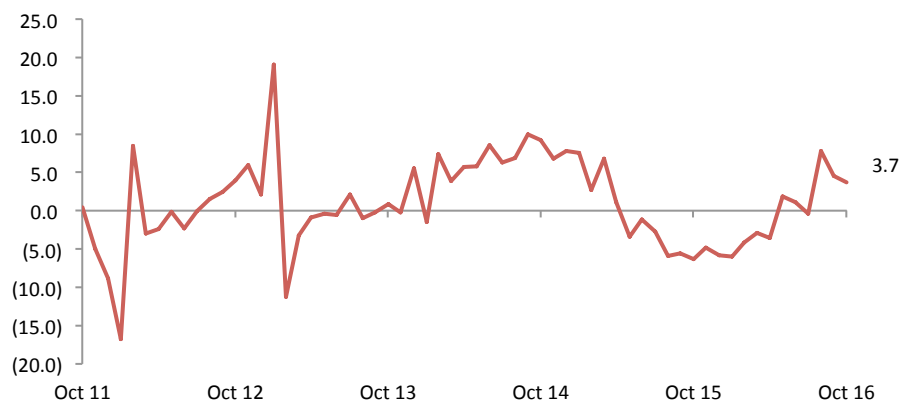
Source: Ifo Institute for Economic Research/GfK

## Asia-Pacific: Industrial Production Rises in Taiwan; Japan's Deflationary Pressure Eases

*Industrial production in Taiwan rose by 3.7% in October, increasing for the third consecutive month. The country's Ministry of Economic Affairs expects significant growth toward the end of the year.*

In Taiwan, industrial production rose by 3.7% in October, increasing for the third consecutive month. The figure was lower than both the market's expectation of 5.3% growth and the previous reading of 4.6%. The manufacturing sector posted strong, 5.67% growth year over year, its sixth consecutive monthly increase, while electricity and gas supply decreased by 14.1% year over year.

**Figure 4. Taiwan: Industrial Production, YoY % Change**



2011 = 100

Source: Ministry of Economic Affairs Taiwan

*Japan's headline CPI edged up 0.1% year over year in October. The recent depreciation of the yen may provide a further tailwind to the Japanese central bank's attempts to reflate the economy.*

Japan's headline CPI edged up 0.1% year over year in October after having registered negative growth for six months in a row. The core CPI, which excludes food price movements, showed softening deflationary pressure, falling 0.4% year over year. The recent depreciation of the yen may provide a further tailwind to the Japanese central bank's attempts to reflate the economy.

**Figure 5. Japan: Nationwide CPI, YoY % Change**



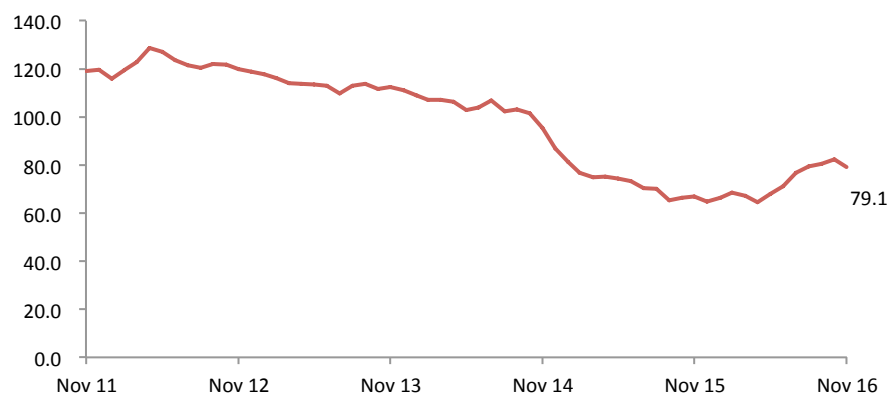
Source: Ministry of Internal Affairs and Communications Japan



## Latin America: Brazil's Consumer Confidence Falls amid Corruption Scandal

In Brazil, the FGV Consumer Confidence Index dropped in November for the first time since President Michel Temer took office as Interim President in May (he took office officially in August). Brazilian consumers are seemingly frustrated by the fact that the economy has failed to rapidly recover from recession under Temer. A recent corruption scandal involving Temer may lead to another political crisis.

**Figure 6. Brazil: FGV Consumer Confidence Index (Seasonally Adjusted)**

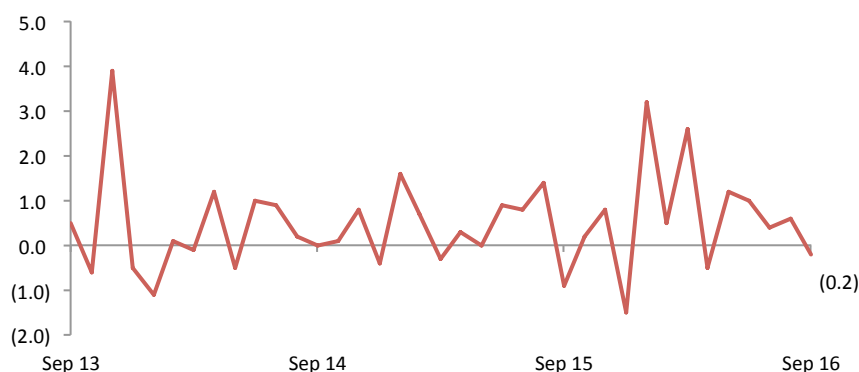


*In Brazil, the FGV Consumer Confidence Index dropped in November for the first time since President Michel Temer took office as Interim President in May, as the economy has failed to rapidly recover from recession.*

Source: IBGE

In Mexico, retail sales were down 0.2% month over month in September, missing economists' estimate of a 0.2% increase. The sales figure grew by 8.1% year over year, which was slightly below August's 8.9% growth.

**Figure 7. Mexico: Retail Sales (Seasonally Adjusted), MoM % Change**



Source: INEGI

**Figure 8. Upcoming Economic Data Releases**

| Date  | Country | Indicator  | Period Covered |
|-------|---------|--|----------------|
| Dec 4 | CN      | Caixin China Services PMI                                    | Nov            |
| Dec 4 | CN      | Caixin China Composite PMI                                   | Nov            |
| Dec 5 | JP      | Consumer Confidence Index                                    | Nov            |
| Dec 5 | TW      | Foreign Reserves   | Nov            |
| Dec 5 | US      | ISM Non-Manufacturing Composite Index                        | Nov            |
| Dec 5 | TW      | CPI  | Nov            |
| Dec 6 | GE      | Factory Orders   | Oct            |
| Dec 6 | MX      | Consumer Confidence Index                                    | Nov            |
| Dec 6 | US      | Factory Orders   | Oct            |
| Dec 6 | AU      | GDP  | 3Q             |
| Dec 6 | MY      | Exports  | Oct            |
| Dec 6 | MY      | Imports  | Oct            |
| Dec 7 | GE      | Industrial Production  | Oct            |
| Dec 7 | MY      | Foreign Reserves   | Nov 30         |
| Dec 7 | TW      | Exports  | Nov            |
| Dec 7 | TW      | Imports  | Nov            |
| Dec 7 | UK      | Halifax House Price Index (3 Mos.)                           | Nov            |
| Dec 7 | UK      | Industrial Production  | Oct            |
| Dec 7 | US      | Consumer Credit  | Oct            |
| Dec 7 | JP      | GDP (Forecast)   | 3Q             |
| Dec 7 | CN      | Exports  | Nov            |
| Dec 7 | CN      | Imports  | Nov            |
| Dec 8 | MX      | CPI  | Nov            |
| Dec 8 | CN      | CPI  | Nov            |
| Dec 8 | MY      | Industrial Production  | Oct            |
| Dec 9 | FR      | Industrial Production  | Oct            |
| Dec 9 | BZ      | IBGE Inflation IPCA  | Nov            |
| Dec 9 | US      | University of Michigan Index of Consumer Sentiment (Prelim.) | Dec            |

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