



Global Macro Report



WEEKLY MACRO COMMENTARY: US ECONOMY CONTINUES TO SHOW IMPROVEMENT; EUROPE AND BRAZIL FACE GROWTH CONCERNS

- 1) **US:** US economic data released this week were positive across the board. Real Personal Consumption Expenditure (PCE) edged up and the inflation rate shows signs of picking up, despite being slightly below estimates. The ISM Manufacturing Purchasing Managers' Index (PMI) and Non-Manufacturing Index (NMI) showed that both the manufacturing and services sectors are expanding at a healthy pace. The US unemployment rate hit its lowest level in nine years.
- 2) **Europe:** The outlook for Europe is characterized by a growing sense of pessimism. In the UK, consumer confidence plummeted amid growing fears over Brexit and the potential of political instability as right-wing populist political parties rise. The Consumer Price Index readings in Germany and France were still lackluster, even though crude oil prices have stabilized over the past few months.
- 3) **Asia-Pacific:** The picture in Asia is mixed. China's manufacturing PMIs indicate broad economic stabilization in the country. Taiwan's PMI hit a 27-month high, driven largely by an upturn in demand from both domestic and international clients. South Korea's manufacturing sector faced contraction for the fifth consecutive month, probably due to the strikes at Hyundai Motor and the Samsung Note 7 fiasco. The recent political turmoil in South Korea may result in further economic deterioration. In Japan, industrial production and retail sales both showed encouraging signs of picking up. The recent yen depreciation may further boost Japanese exports.
- 4) **Latin America:** Brazil's economy is still failing to recover, and is even showing signs of deterioration. Brazil's GDP further contracted in the third quarter, and, in October, industrial production plunged and unemployment remained high. Brazilian citizens have grown impatient about the slowness of the economic recovery and a recent corruption scandal involving President Michel Temer may lead to another political crisis in the country.

OUR VIEW



The Organization of the Petroleum Exporting Countries (OPEC) has agreed to reduce output by about 1.2 million barrels per day. These cuts, OPEC's first production cuts in eight years, have caused the crude oil price to spike above \$50 per barrel. The biggest non-OPEC producer, Russia, has joined the effort to end the supply glut, agreeing to reduce production by 600,000 barrels per day. However, many are skeptical that these measures will indeed reduce the supply glut, for two main reasons. First, OPEC does not have the authority to enforce compliance from its member countries and their output has historically exceeded quotas. Second, US shale producers today can operate at lower costs than other players can. A surge in oil price will stimulate US shale producers to accelerate drilling activity. That, in turn, will push down oil prices and increase supply again.

On Sunday, voters in Italy rejected a constitutional referendum that would have recentralized power and simplified the legislation process. Prime Minister Matteo Renzi has taken responsibility for the referendum's failure and announced that he will resign. However, President Sergio Mattarella asked Renzi to delay his resignation until the 2017 budget is approved by the parliament. We see increasing political uncertainty in Europe, as Renzi's departure will present opportunities for the rise of right-wing political parties, such as the Five Star Movement, that advocate for Italy to leave the European Union. Furthermore, Italian banks with high levels of nonperforming loans may not receive a bailout from the European Union, and the situation could devolve into another financial crisis.

Figure 1. Global Macro Indicators Released the Week of Nov 27–Dec 3, 2016

Country/Region	Indicator	Period	Actual	Survey	Prior	Impact on Economy*
US	Real PCE	Oct	0.1%	0.3%	0.5%	–
US	PCE Deflator (MoM)	Oct	0.2%	0.3%	0.2%	–
US	PCE Deflator (YoY)	Oct	1.4%	1.5%	1.2%	–
US	Core PCE Deflator (MoM)	Oct	0.1%	0.1%	0.1%	+
US	Core PCE Deflator (YoY)	Oct	1.7%	1.7%	1.7%	+
US	ISM Manufacturing PMI	Nov	53.2	52.5	51.9	+
US	ISM NMI	Nov	57.2	–	54.8	+
US	Unemployment Rate	Nov	4.6%	4.9%	4.9%	+
US	Labor Force Participation Rate	Nov	62.7%	–	62.8%	–
US	S&P CoreLogic CS 20-City NSA Index	Sep	191.8	–	191.5	+
US	S&P CoreLogic CS 20-City (MoM, SA)	Sep	0.4%	0.4%	0.3%	+
US	S&P CoreLogic CS 20-City (YoY, NSA)	Sep	5.1%	5.2%	5.1%	+
UK	GfK Consumer Confidence	Nov	(8.0)	(4.0)	(3.0)	–
GE	CPI (MoM, Prelim.)	Nov	0.1%	0.1%	0.2%	–
GE	CPI (YoY, Prelim.)	Nov	0.8%	0.8%	0.8%	–
FR	CPI (MoM, Prelim.)	Nov	0.0%	(0.1)%	0.0%	–
FR	CPI (YoY, Prelim.)	Nov	0.5%	0.5%	0.4%	–
CH	Manufacturing PMI	Nov	51.7	51.0	51.2	+
CH	Caixin China Manufacturing PMI	Nov	50.9	51.0	51.2	–
TW	Nikkei Taiwan Manufacturing PMI	Nov	54.7	–	52.7	+
SK	Nikkei South Korea Manufacturing PMI	Nov	48.0	–	48.0	–
JP	Retail Sales (YoY)	Oct	(0.1)%	(1.6)%	(1.7)%	+
JP	Retail Sales (MoM)	Oct	2.5%	1.1%	0.3%	+
JP	Industrial Production (MoM, Prelim.)	Oct	0.1%	0.0%	0.6%	+
JP	Industrial Production (YoY, Prelim.)	Oct	(1.3)%	(1.3)%	1.5%	–
JP	Nikkei Japan Manufacturing PMI (Final)	Nov	51.3	–	51.1	+
HK	Retail Sales (YoY)	Oct	(2.9)%	(5.2)%	(4.0)%	–
BZ	GDP (QoQ)	3Q	(0.8)%	(0.9)%	(0.4)%	–
BZ	GDP (YoY)	3Q	(2.9)%	(3.2)%	(3.6)%	–
BZ	Industrial Production (MoM)	Oct	(1.1)%	(0.8)%	0.5%	–
BZ	Industrial Production (YoY)	Oct	(7.3)%	(6.9)%	(4.7)%	–
BZ	National Unemployment Rate	Oct	11.8%	11.8%	11.8%	–
MX	Unemployment Rate (SA)	Oct	3.6%	3.9%	3.8%	+

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

Source: US Bureau of Economic Analysis/Institute for Supply Management (ISM)/US Bureau of Labor Statistics/S&P Dow Jones Indices/GfK/Destatis/INSEE/China Federation of Logistics and Purchasing/Markit Economics/Caixin/Nikkei/Japan Ministry of Economy, Trade and Industry/Hong Kong Census and Statistics Department/Instituto Brasileiro de Geografia e Estatística (IBGE)/Instituto Nacional de Estadística y Geografía (INEGI)/Fung Global Retail & Technology

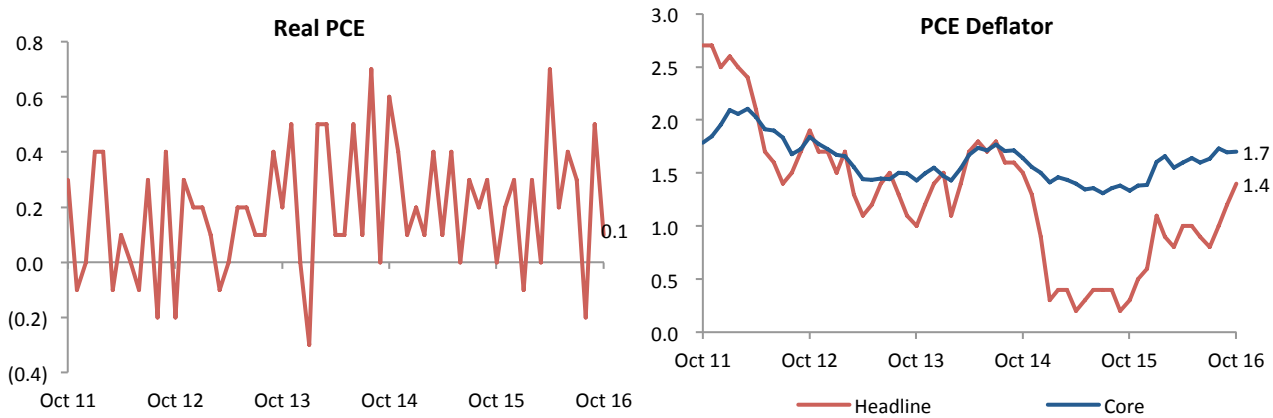
US: PCE Slightly Weaker than Expected; ISM PMIs Show Expansion and Unemployment Rate Hits New Low

In the US, real PCE in October increased by 0.1% month over month, reflecting increases in spending for durable and nondurable goods that were mostly offset by a decrease in spending for services.

The core PCE deflator, which excludes food and energy prices, increased by 1.7% year over year in October.

The PCE deflator, which is the Fed’s preferred measurement of the inflation rate, ticked up 1.4% year over year in October. The core PCE deflator, which excludes food and energy prices, increased by 1.7% year over year. The rate was still below the Fed’s 2% target, but was in line with the consensus estimate and has been picking up since March 2016.

Figure 2. US: Real PCE (Seasonally Adjusted), MoM % Change; PCE Deflator, YoY % Change



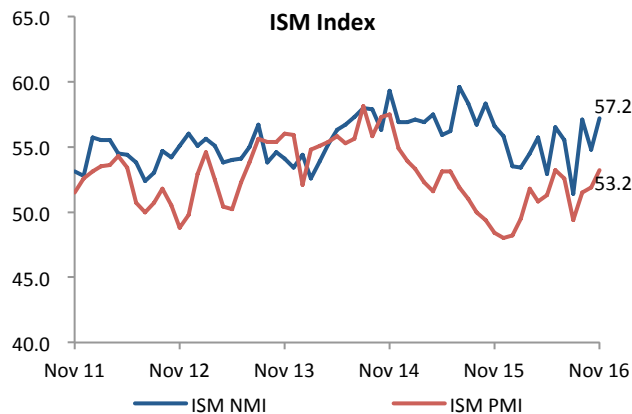
Source: US Bureau of Economic Analysis

US ISM Manufacturing PMI Ticks Up; Unemployment Rate Edges Down

In the US, the ISM Manufacturing PMI rose to 53.2 in November, up 1.3 points from October’s reading of 51.9 and above the consensus estimate of 52.5. The ISM NMI registered 57.2, up from 54.8 in October. Both gauges stayed above the threshold of 50.0, indicating an expansion in both the manufacturing and services sectors.

The November ISM readings pointed to an expansion of the overall US economy: the ISM Manufacturing PMI ticked up to 53.2 and the NMI stood at 57.2.

Figure 3. US: ISM NMI and Manufacturing PMI (Seasonally Adjusted)

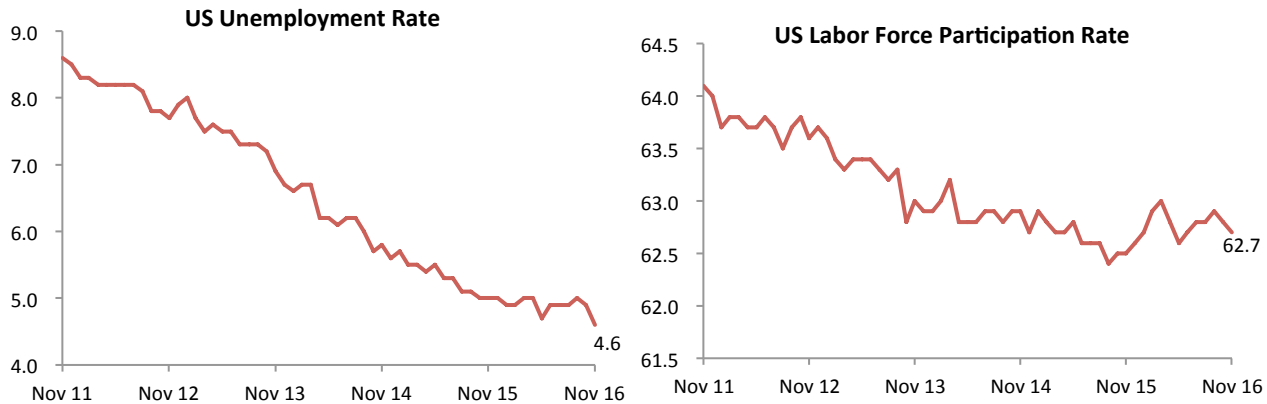


Source: ISM

The US unemployment rate in November edged down to 4.6%, below the consensus estimate of 4.9% and the October reading, which was also 4.9%.

The US unemployment rate in November hit its lowest level since August 2007: 4.6%. The rate was lower than the consensus estimate of 4.9% and the October reading, which was also 4.9%. Total nonfarm payroll employment increased by 178,000 in November, following a downward revision of October's reading, from 142,000 to 135,000. The labor force participation rate in November edged down by 0.1% from October, reaching 62.7%.

Figure 4. US: Unemployment Rate (Seasonally Adjusted, %); Labor Force Participation Rate (Seasonally Adjusted, %)

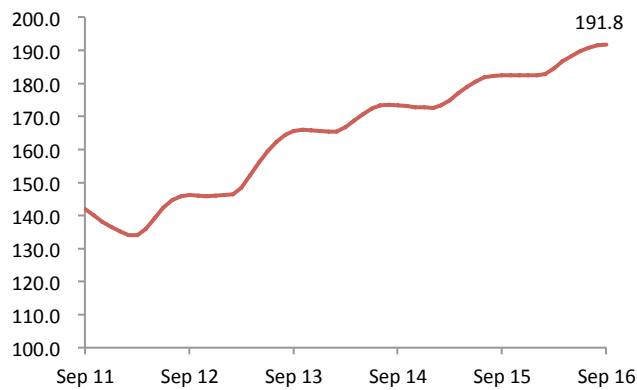


Source: US Bureau of Labor Statistics

In September, the S&P CoreLogic Case-Shiller 20-City Composite Home Price NSA Index showed a year-over-year gain of 5.1%, slightly below the consensus estimate of 5.2%.

In September, the S&P CoreLogic Case-Shiller 20-City Composite Home Price NSA Index showed a year-over-year gain of 5.1%, slightly below the consensus estimate of 5.2%. The index nudged up 0.4% month over month after seasonal adjustment, in line with the consensus estimate.

Figure 5. US: S&P CoreLogic Case-Shiller 20-City Composite Home Price Index (Nonseasonally Adjusted)



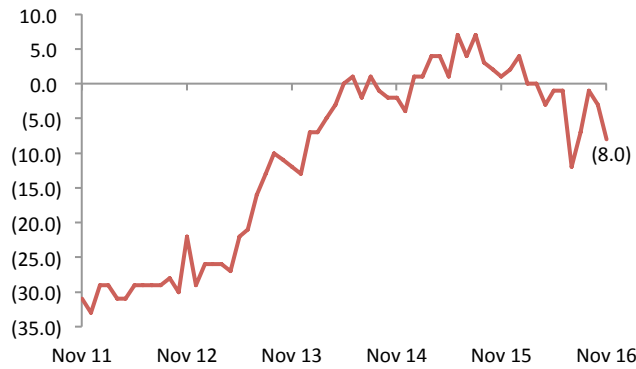
Source: S&P Dow Jones Indices

Europe: UK Consumer Confidence Plunges; European Inflation Stagnates

The UK GfK Consumer Confidence Index fell to (8.0) in November amid growing economic and political uncertainties.

The UK GfK Consumer Confidence Index fell by five points in November, to (8.0), which was well below the expected (4.0). The gauge reveals that UK consumers are feeling increasingly despondent about the country's economy amid mounting uncertainties over Brexit and the potential rise of right-wing populist political parties in other European countries.

Figure 6. UK: GfK Consumer Confidence Index



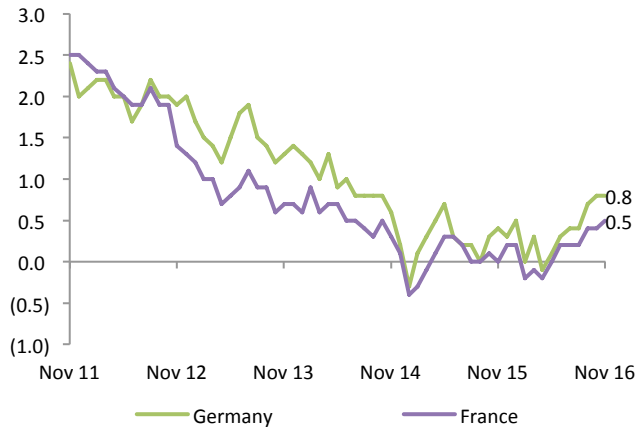
Source: GfK

In Germany, the CPI rose by 0.8% year over year in November and by 0.1% month over month. France’s CPI increased by 0.5% year over year, but remained unchanged month over month.

In Germany, the CPI rose by 0.8% year over year in November and by 0.1% month over month. Energy prices fell by 2.7% year over year in November after a milder decline of 1.4% in October.

France’s CPI increased by 0.5% year over year in November, but remained unchanged month over month. Energy prices in France started to pick up, increasing by 2.1% year over year.

Figure 7. Germany and France: CPI, YoY % Change



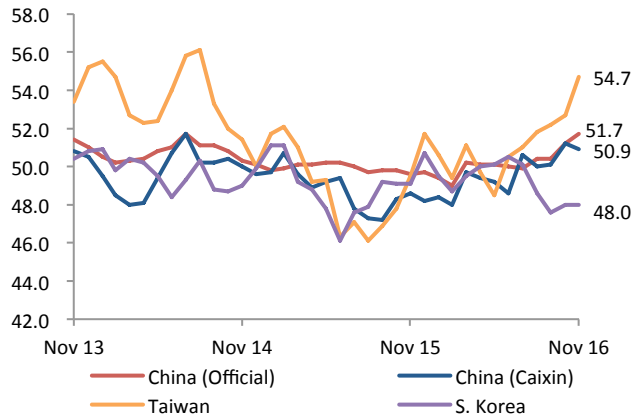
Source: Destatis/INSEE

Asia-Pacific: Asian PMIs Show a Mixed Picture; Japan’s Data Reflect Hopes of Stronger Recovery

China’s November PMI readings were above the threshold of 50.0, signaling broad economic stabilization in the country.

China’s official manufacturing PMI reached 51.7 in November, up from 51.2 in the previous month and above market expectations of 51.0. However, the Caixin Manufacturing PMI ticked down, to 50.9, which was slightly below the consensus estimate of 51.0 and the previous month’s reading of 51.2. The readings, which stayed above the threshold of 50.0, signal broad economic stabilization in China.

Figure 8. Asia: PMIs



Source: China Federation of Logistics and Purchasing/Markit Economics/Caixin/Nikkei

The Nikkei Taiwan Manufacturing PMI hit a 27-month high in November, reaching 54.7 points. The reading reflected sharper increases in output and new orders and an upturn in demand from both domestic and international clients. International demand for Taiwan’s products has boosted exports, contributing to economic expansion in the country.

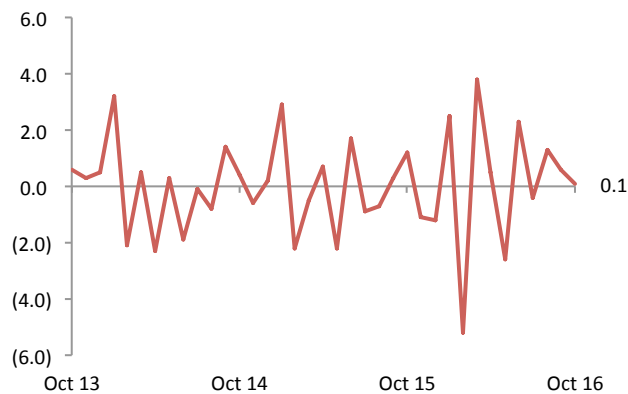
The PMI in South Korea registered below 50.0, indicating contraction in the economy, probably due to recent strikes at Hyundai Motor and the Samsung Note 7 fiasco.

The Nikkei South Korea Manufacturing PMI stood at 48.0 in November. The gauge has been below the threshold of 50.0 for five consecutive months, indicating that manufacturing conditions in South Korea have been worsening. Recent strikes at Hyundai Motor, the Samsung Note 7 fiasco and recent political turmoil have all contributed to the economic deterioration in the country.

Japan’s Industrial Production Edges Up; Retail Sales Improve in Hong Kong and Japan

Japan’s industrial production edged up 0.1% month over month in October, slightly ahead of market expectations, which called for no change from the previous month. This was partly due to a pickup in international IT demand. The yen’s weakening following Donald Trump’s victory in the US presidential election may help boost Japanese exports.

Figure 9. Japan: Industrial Production (Seasonally Adjusted), MoM % Change



2010 = 100

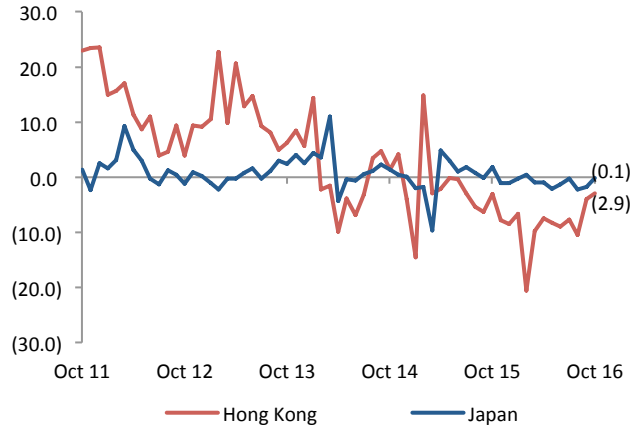
Source: Japan Ministry of Economy, Trade and Industry

Hong Kong retail sales continued to decline in October, falling by 2.9% year over year. Japanese retail sales were up 2.5% month over month, but down 0.1% year over year. The readings showed improvements from the previous month.

Hong Kong retail sales continued to decline in October, falling by 2.9% year over year. The drop was less than the market’s expectation of a 5.2% decline. Hong Kong’s retail sales have declined for 20 consecutive months, since March 2015.

Japanese retail sales were up 2.5% month over month in October; the result was better than the expected 1.1% increase. On a year-over-year basis, sales fell by 0.1%, which was better than the market’s expectation of a 1.6% drop. Japanese department store and supermarket sales dropped by 1.0%.

Figure 10. Hong Kong and Japan: Retail Sales (Seasonally Adjusted), YoY % Change



Source: Hong Kong Census and Statistics Department/Japan Ministry of Economy, Trade and Industry

Latin America: Brazil’s Economy Fails to Recover

Brazil’s real GDP further contracted in the third quarter and a recent corruption scandal involving President Michel Temer may lead to another political crisis.

Brazil’s real GDP further contracted in the third quarter, by 0.8% quarter over quarter and by 2.9% year over year. The contraction was milder than the market had estimated; expectations had been for a 0.9% quarter-over-quarter decline and a 3.2% year-over-year decline. However, Brazilian citizens have grown impatient about the slowness of the economic recovery, and a recent corruption scandal involving President Michel Temer may lead to another political crisis.

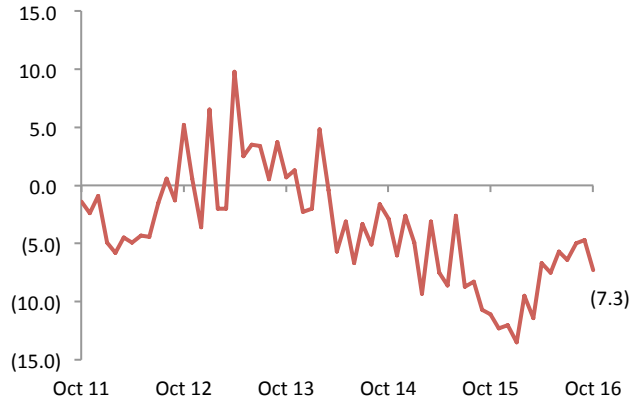
Figure 11. Brazil: Real GDP (Seasonally Adjusted), QoQ % Change



1995 = 100
Source: IBGE

Brazil’s industrial production plunged 7.3% in October year over year; the figure was worse than the market’s expectation of a 6.9% drop. On a month-over-month basis, the gauge fell by 1.1%.

Figure 12. Brazil: Industrial Production (Nonseasonally Adjusted), YoY % Change



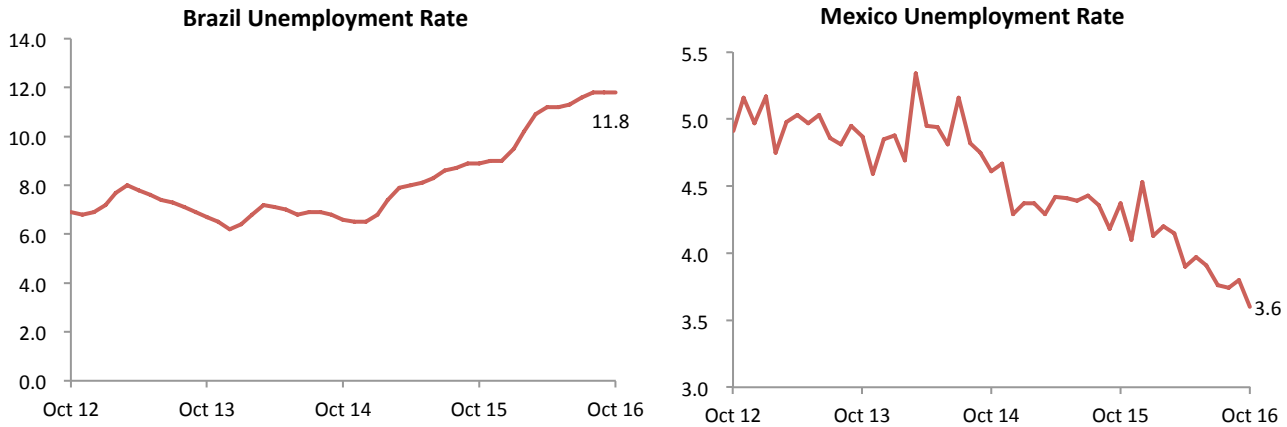
2012 = 100

Source: IBGE

Brazil's unemployment rate remained at 11.8% in October, while Mexico's unemployment rate ticked down to 3.6%.

In October, Brazil's unemployment rate remained at 11.8%, in line with the consensus estimate. Mexico's unemployment rate in October ticked down to 3.6%, which was lower than the expected 3.9%.

Figure 13. Brazil and Mexico: Unemployment Rate, Seasonally Adjusted (%)



Source: IBGE/INEGI

Figure 14. Upcoming Economic Data Releases

Date	Country	Indicator	Period Covered
Dec 12	MX	Industrial Production	Oct
Dec 12	CN	Industrial Production	Nov
Dec 12	CN	Retail Sales	Nov
Dec 12	CN	Fixed Assets ex Rural	Nov
Dec 13	GE	CPI (Final)	Nov
Dec 13	HK	Industrial Production	3Q
Dec 13	UK	CPI	Nov
Dec 13	UK	House Price Index	Oct
Dec 13	GE	ZEW Survey Current Situation	Dec
Dec 13	GE	ZEW Survey Expectations	Dec
Dec 13	BZ	Retail Sales	Oct
Dec 13	JP	Tankan Large Manufacturing Index	4Q
Dec 13	JP	Tankan Large Manufacturing Outlook	4Q
Dec 13	JP	Tankan Large Non-Manufacturing Index	4Q
Dec 13	JP	Tankan Large Non-Manufacturing Outlook	4Q
Dec 13	JP	Industrial Production (Final)	Oct
Dec 14	FR	CPI (Final)	Nov
Dec 14	UK	Jobless Claims Change	Nov
Dec 14	UK	Average Weekly Earnings (3 Mos.)	Oct
Dec 14	UK	ILO Unemployment Rate (3 Mos.)	Oct
Dec 14	UK	Employment Change (3 Mos.)	Oct
Dec 14	US	Retail Sales Advance	Nov

Deborah Weinswig, CPA

Managing Director
Fung Global Retail & Technology
New York: 917.655.6790
Hong Kong: 852.6119.1779
China: 86.186.1420.3016
deborahweinswig@fung1937.com

Kiril Popov
Senior Analyst

Esme Pau
Analyst

Charlie Poon
Research Assistant

HONG KONG:

8th Floor, LiFung Tower
888 Cheung Sha Wan Road, Kowloon
Hong Kong
Tel: 852 2300 4406

LONDON:

242-246 Marylebone Road
London, NW1 6JQ
United Kingdom
Tel: 44 (0)20 7616 8988

NEW YORK:

1359 Broadway, 9th Floor
New York, NY 10018
Tel: 646 839 7017

FungGlobalRetailTech.com