



Global Macro Report



Weekly Macro Commentary: Broad Firming in US Factory Sector; China's Producer Prices Pick Up

- 1) **US:** Economic data from the US continue to bode well for stronger growth. The labor market remained solid and average hourly earnings ticked up, supporting the case of inflation picking up. New orders of durable goods excluding transportation increased, signaling broad firming in the factory sector.
- 2) **Europe:** In the eurozone, the unemployment rate in November was unchanged from October's reading, its lowest level since July 2009, while retail sales fell, dragged down by sales of clothing, electrical goods and pharmaceutical products. In Germany, industrial production improved, but a drop in factory orders may pull the figure down in coming months.
- 3) **Asia-Pacific:** In China, a solid gain in producer prices amid a recovery in commodity prices further supports the notion that China's factory sector has shrugged off deflationary pressure. Consumer prices picked up more slowly than had been expected, but producer prices will soon push up inflation in the consumer market.
- 4) **Latin America:** In Brazil, a pickup in retail sales and industrial output was a positive surprise, given that the economy has failed to recover from a recession fueled by a political crisis and that unemployment has not decreased. In Mexico, consumer confidence edged up.

Our View

In China, foreign exchange reserves dropped from \$3.052 trillion to \$3.011 trillion in December, their lowest level in nearly eight years. The rapid fall in China's foreign reserves has stoked fears over the stability of the yuan, but the advisor of the People's Bank of China, Fan Gang, considers the gradual decline as good news in the long run. The inclusion of the yuan in the special drawing rights maintained by the International Monetary Fund has boosted the currency's international status and lower foreign reserves should be required to maintain the currency's international credit.

Alibaba Chairman Jack Ma recently met with US President-elect Donald Trump to discuss how Alibaba can help the US create 1 million jobs by helping a million small companies sell their products in China. The meeting came amid tensions between China and the US over Trump's view of the One China policy regarding Taiwan. This signals that Trump is open to discussing trade issues with China and to improving the relationship between the two nations.

Figure 1. Global Macro Indicators Released the Week of January 4–11, 2017

Country/Region	Indicator	Period	Actual	Survey	Prior	Impact on Economy*
US	Unemployment Rate	Dec	4.7%	4.7%	4.6%	+
US	Headline Factory Orders (MoM)	Nov	(2.4)%	(2.2)%	2.8%	-
US	New Orders of Durable Goods Excluding Transportation (MoM)	Nov	0.6%	-	1.1%	+
EZ**	Unemployment Rate	Nov	9.8%	9.8%	9.8%	-
EZ**	Retail Sales (MoM)	Nov	(0.4)%	(0.4)%	1.4%	-
GE	Retail Sales (MoM)	Nov	(1.8)%	(0.6)%	2.5%	-
GE	Industrial Production (MoM)	Nov	0.4%	-	0.5%	+
GE	Factory Orders (MoM)	Nov	(2.5)%	(2.3)%	5.0%	-
CN	Producer Price Index (YoY)	Dec	5.5%	4.5%	3.3%	+
CN	Consumer Price Index (YoY)	Dec	2.1%	2.3%	2.3%	-
BZ	Retail Sales (MoM)	Nov	2.0%	-	(0.3)%	+
BZ	Industrial Output (MoM)	Nov	0.2%	-	(1.2)%	+
MX	Consumer Confidence	Dec	85.0	-	84.9	+

*Fung Global Retail & Technology's evaluation of the actual value's impact on the economy relative to historic benchmarks and the current macroeconomic environment. + indicates a positive signal for the country's economy and - indicates a negative signal.

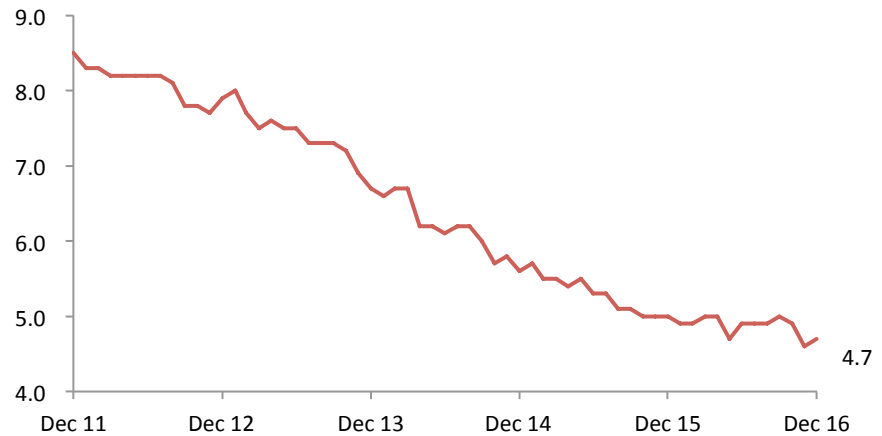
**EZ denotes the eurozone.

Source: US Bureau of Labor Statistics/US Census Bureau/Eurostat/Destatis/National Bureau of Statistics of China/Instituto Brasileiro de Geografia e Estatística (IBGE)/Instituto Nacional de Estadística y Geografía (INEGI)/Fung Global Retail & Technology

US: Labor Market Remains Solid; Broad Firming in the Factory Sector

In the US, the unemployment rate in December was 4.7%, in line with the consensus estimate. The labor force participation rate edged up by 0.1%, to 62.7%. Average hourly earnings improved by 0.4% month over month, and by 2.9% year over year, which bodes well for a pickup in inflation.

Figure 2. US: Unemployment Rate (%)

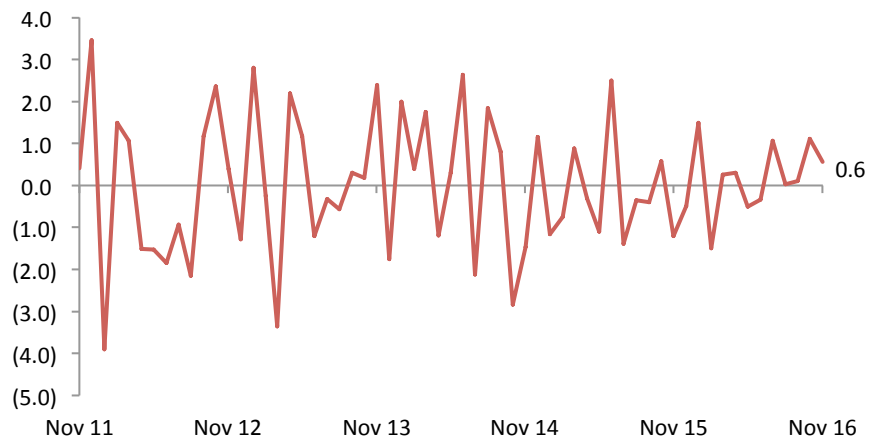


Source: US Bureau of Labor Statistics

New orders of durable goods excluding transportation were up a solid 0.6% month over month, implying broad firming in the factory sector.

Headline factory orders were down 2.4% month over month in November, largely due to the volatile transportation sector. New orders of durable goods excluding transportation were up a solid 0.6% month over month, indicating broad firming in the factory sector.

Figure 3. US: New Orders of Durable Goods Excluding Transportation (Seasonally Adjusted), MoM % Change



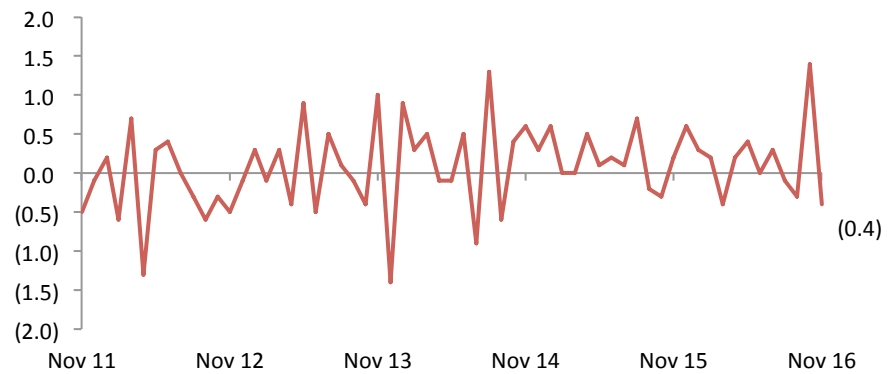
Source: US Census Bureau

EZ: Retail Sales Weaken in the Eurozone; Germany's Industrial Production Increases While New Factory Orders Drop

In the eurozone, November retail sales were down 0.4% month over month, but up 2.3% year over year.

In the eurozone, the unemployment rate in November was unchanged from October's reading of 9.8%, which is its lowest level since July 2009. November retail sales were down 0.4% month over month, in line with the consensus estimate of economists, but up 2.3% year over year. The month-over-month decline was driven by a 0.9% drop in purchases of items such as clothing, electrical goods and pharmaceutical products. In Germany, retail sales were down 1.8% month over month in November; the decline was larger than the 0.6% decrease that had been estimated. The sales figure was up 3.2% year over year.

Figure 4. Eurozone: Retail Sales (Seasonally Adjusted), MoM % Change

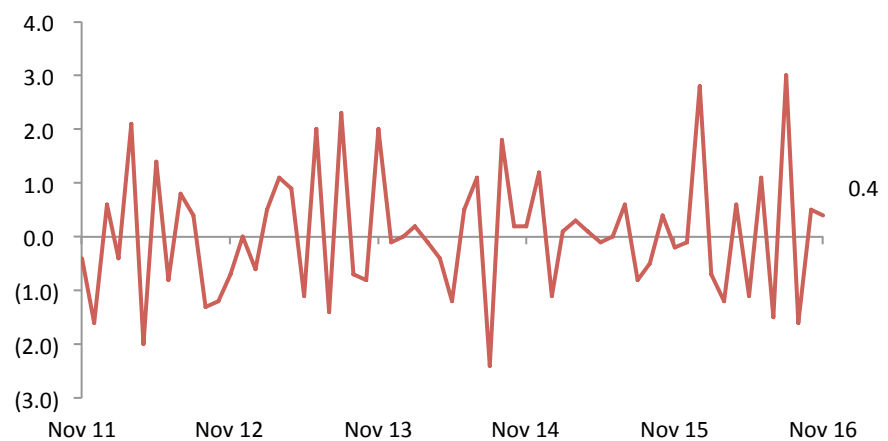


Source: Eurostat

In Germany, industrial production grew by 0.4% month over month in November, but factory orders were down 2.5% month over month.

In Germany, industrial production grew by 0.4% month over month and by 2.2% year over year in November. However, factory orders were down 2.5% month over month, which was worse than the median estimate of a 2.3% drop. The drop in factory orders will drag down future industrial production.

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



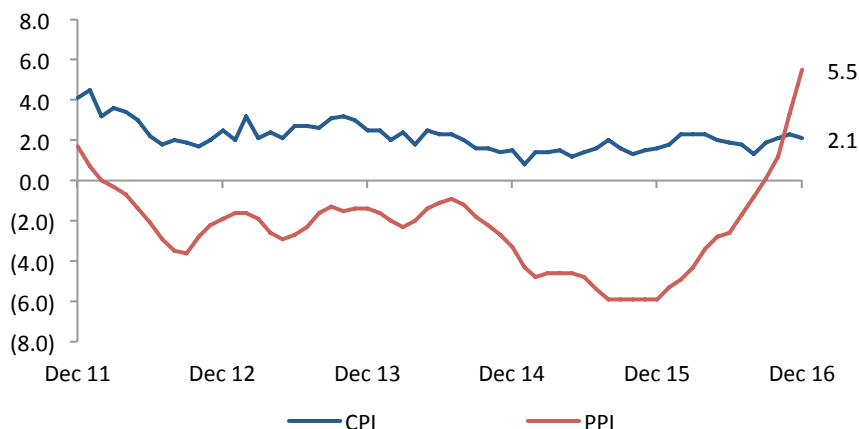
Source: Destatis

Asia-Pacific: Producer Prices Bode Well for a Firm Price Environment in China

In China, the December PPI was up a solid 5.5% year over year, further supporting the notion that China's factory sector has shrugged off deflationary pressure.

In China, the December PPI was up a solid 5.5% year over year, further supporting the notion that China's factory sector has shrugged off deflationary pressure. The pickup in PPI was primarily due to a recovery in commodity prices. The December CPI was up 2.1% year over year, below the median estimate of 2.3%. The sharp increase in PPI will potentially push consumer prices higher in a few months.

Figure 6. China: PPI and CPI, YoY % Change



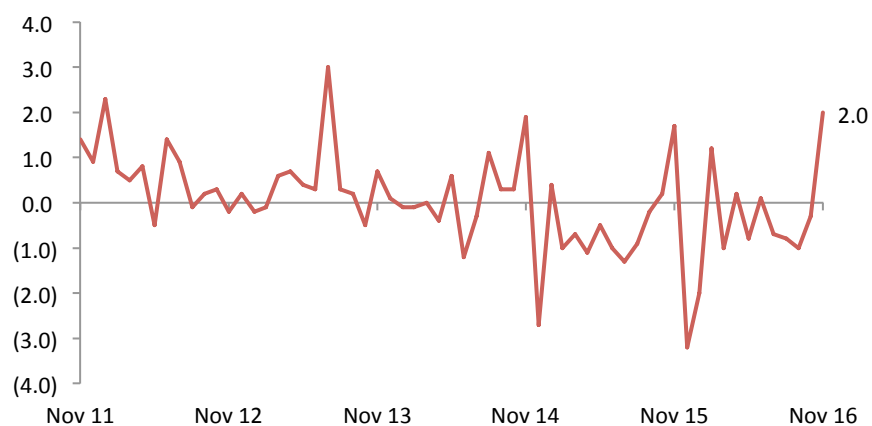
Source: National Bureau of Statistics of China

Latin America: Brazil's Retail Sales Improve amid High Unemployment

In Brazil, retail sales ticked up 2.0% month over month in November and industrial output edged up 0.2% month over month amid high unemployment.

In Brazil, retail sales ticked up 2.0% month over month in November and industrial output edged up 0.2% month over month. The sales uptick came in as a positive surprise, as the November unemployment rate nudged up to 11.9%. In Mexico, consumer confidence stood at 85.0 in December, up from 84.9 in the previous month.

Figure 7. Brazil: Retail Sales Volume (Seasonally Adjusted), MoM % Change



Source: IBGE

Figure 8. Upcoming Economic Data Releases

Date	Country/ Region	Indicator	Period Covered
Jan 16	UK	Rightmove House Price Index	Dec
Jan 17	JP	Industrial Production	Nov
Jan 17	UK	PPI	Dec
Jan 17	UK	CPI	Dec
Jan 17	EZ	ZEW Survey	Jan
Jan 18	GE	CPI	Dec
Jan 18	UK	Unemployment Rate	Nov
Jan 18	UK	Jobless Claims	Dec
Jan 18	US	CPI	Dec
Jan 19	US	Building Permits	Dec
Jan 19	US	Housing Starts	Dec

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