



Global Macro Report



Weekly Macro Commentary: US Retail Sales Weak Except for Autos; China's New Loan Issuance Expands at a Rapid Pace

- 1) **US:** While headline US retail sales in December were buoyed by the recent rise in energy prices, the sales growth excluding autos was weaker than expected. The Producer Price Index (PPI) indicates a firming price environment in the manufacturing sector.
- 2) **Europe:** Among the eurozone countries, Germany's economy has been relatively resilient, and economic data released over the week support that notion. Germany's real annual GDP grew at its fastest pace in five years amid improved economic sentiment and firming consumer prices.
- 3) **Asia-Pacific:** In China, banks' new loan issuance in December was higher than had been expected. In addition, there has been a shifting from corporate bond issuance to bank loans, probably due to the bond rout in November. Japan's industrial production increased in November and Singapore's retail sales improved.
- 4) **Latin America:** Brazil's inflation slowed in December, a positive sign that the price environment may be stabilizing. That bodes well for monetary stimulus to revive the country's sluggish economy. Mexico's industrial output remained unchanged month over month.

Our View

UK Prime Minister Theresa May delivered a speech confirming that the UK would have a clean exit from the European Union (EU). The country will take back control of immigration and implement structural reforms designed to ensure a strong and united UK. May's speech steered away from the UK's relationship with the EU and focused on the country's status as a global nation open to trade, science and innovation opportunities beyond the single market. May provided a clearer picture of Brexit, which spurred confidence in the UK, as evidenced by a rebound of approximately 3% in the British pound against the US dollar.

Chinese President Xi Jinping delivered a speech at the World Economic Forum in Davos that included a strong defense of globalization and a warning that no one will emerge as a winner in a trade war. Globalization is seen as somewhat of a Pandora's box in the post-financial crisis period, but it is not necessarily the root of the world's problems. Xi's speech may indicate that China is willing to take the leadership role in promoting globalization and trade if the US becomes more isolationist.

Figure 1. Global Macro Indicators Released the Week of January 11–18, 2017

Country/ Region	Indicator	Period	Actual	Survey	Prior	Impact on Economy*
US	PPI (MoM)	Dec	0.3%	0.3%	0.4%	+
US	PPI (YoY)	Dec	1.6%	1.6%	1.3%	+
US	Import Price Index (MoM)	Dec	0.4%	0.7%	(0.3)%	+
US	Import Price Index (YoY)	Dec	1.8%	–	(0.1)%	+
US	Retail Sales (MoM)	Dec	0.6%	0.7%	0.1%	+
Germany	Real GDP Growth	2016	1.9%	1.8%	1.7%	+
Germany	ZEW Survey of Economic Sentiment	Jan	16.6	18.3	13.8	=
Germany	Consumer Price Index (MoM)	Dec	0.7%	0.7%	0.7%	+
Germany	Consumer Price Index (YoY)	Dec	1.7%	1.7%	1.7%	+
Eurozone	Industrial Production (SA, MoM)	Nov	1.5%	0.5%	(0.1)%	+
Eurozone	Industrial Production (WDA, YoY)	Nov	3.2%	1.6%	0.6%	+
UK	Industrial Production (MoM)	Nov	2.1%	0.8%	(1.3)%	+
UK	Industrial Production (YoY)	Nov	2.0%	0.6%	(1.1)%	+
China	New Loans (CNY Bil.)	Dec	1,040.0	700.0	794.6	–
China	M2 Money Supply (YoY)	Dec	11.3%	11.5%	11.4%	–
Japan	Industrial Production (MoM)	Nov	1.5%	1.5%	1.5%	+
Japan	Industrial Production (YoY)	Nov	4.6%	–	4.6%	+
Brazil	IPCA Inflation (YoY)	Dec	6.3%	–	7.0%	+
Mexico	Industrial Output (MoM)	Nov	0.0%	–	0.1%	–
Mexico	Industrial Output (YoY)	Nov	0.3%	–	(1.4)%	–

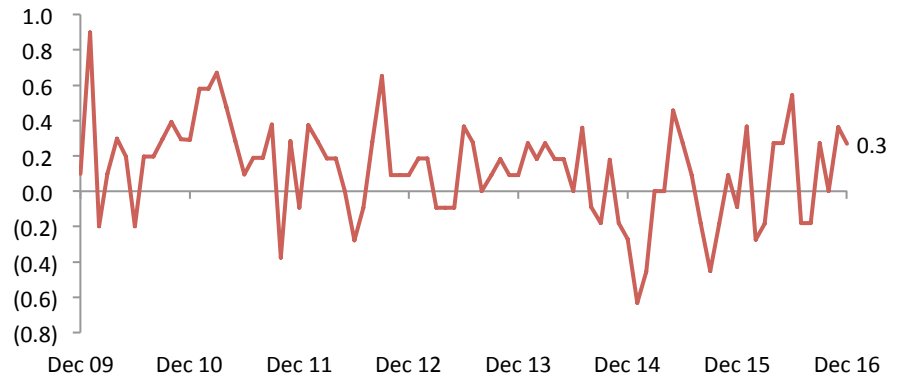
* Fung Global Retail & Technology's evaluation of the actual value's impact on the economy relative to historic benchmarks and the current macroeconomic environment. + indicates a positive signal for the country's economy, – indicates a negative signal and = indicates a negligible impact. Source: US Bureau of Labor Statistics/US Census Bureau/Destatis/Zentrum für Europäische Wirtschaftsforschung (ZEW)/Eurostat/People's Bank of China/Ministry of Economy, Trade and Industry Japan/Instituto Brasileiro de Geografia e Estatística (IBGE)/Instituto Nacional de Estadística y Geografía (INEGI)/Fung Global Retail & Technology

US: Firming Price Environment in the Factory Sector; Weak Retail Sales Except for Autos

Producer prices are showing additional signs of firming.

In the US, the PPI rose by 0.3% month over month and by 1.6% year over year in December. The core PPI, which excludes price movements of food and energy, increased by 0.2% month over month, slightly beating expectations of 0.1% growth, and increased by 1.6% year over year. Producer prices are showing additional signs of firming. Import prices increased by 0.4% month over month and by 1.8% year over year in December, buoyed by a 7.9% increase in imported petroleum prices. However, the renewed strength in the US dollar remains a challenge to import prices picking up.

Figure 2. US: PPI, MoM % Change

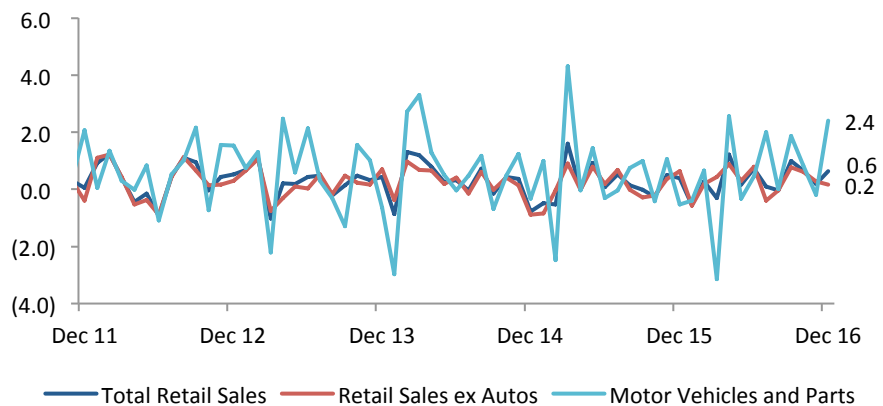


Source: US Bureau of Labor Statistics

Retail sales excluding autos and gas grew by only 0.2% month over month, below the consensus estimate of 0.5%.

Total retail sales increased by 0.6% month over month in December, slightly below expectations of 0.7%. The retail sales figure was buoyed by an increase in sales at service stations, reflecting higher energy prices. However, month-over-month sales excluding autos and gas grew by only 0.2%, which was below the consensus estimate of 0.5%. The recent increase in energy prices has reversed the headline pressure seen over the past few years and has boosted retail sales, which have increased in part thanks to higher gas prices. Rising fuel costs could, however, end up curtailing sales of motor vehicles.

Figure 3. US: Retail Sales (Seasonally Adjusted), MoM % Change



Source: US Census Bureau

Eurozone: Economic Data Show a Resilient European Economy

In 2016, Germany's real GDP grew by 1.9%, its fastest pace in five years.

Among the eurozone countries, Germany's economy has been relatively resilient, and economic data released over the week support that notion. In 2016, the country's real GDP grew by 1.9%, its fastest pace in five years. Germany's ZEW measure of economic sentiment increased from 13.8 in December to 16.6; the January reading was slightly below the median expectation of 18.3. Consumer prices in Germany increased by 0.7% month over month and by 1.7% year over year, reflecting an improving price environment.

Figure 4. Germany: Real GDP (Nonseasonally Adjusted), YoY % Change

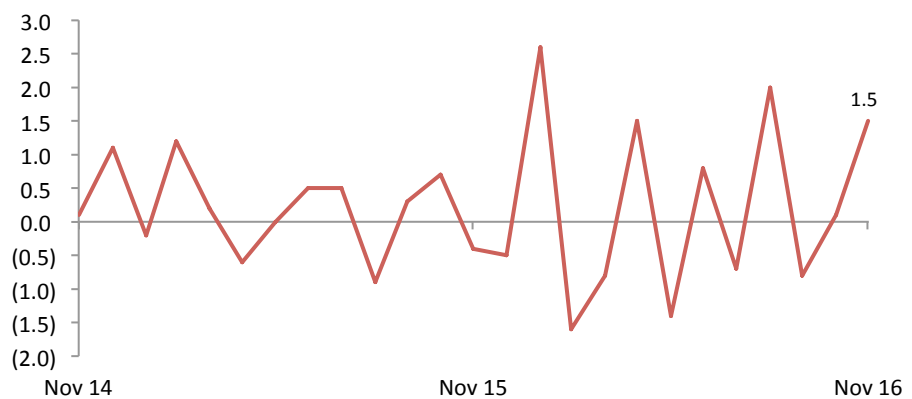


Source: Destatis

Economic data indicate a resilient manufacturing sector in the eurozone, where industrial production grew by 1.5% month over month in November. In the UK, industrial production rose by 2.1% month over month.

Other economic data released over the week indicate a resilient manufacturing sector. Industrial production in the eurozone grew by 1.5% month over month in November and by 3.2% year over year; the month-over-month figure was better than the expected 0.5% increase, given weaker-than-expected growth from Germany. In the UK, industrial production rose by 2.1% month over month in November, ahead of the median expectation of 0.8%.

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



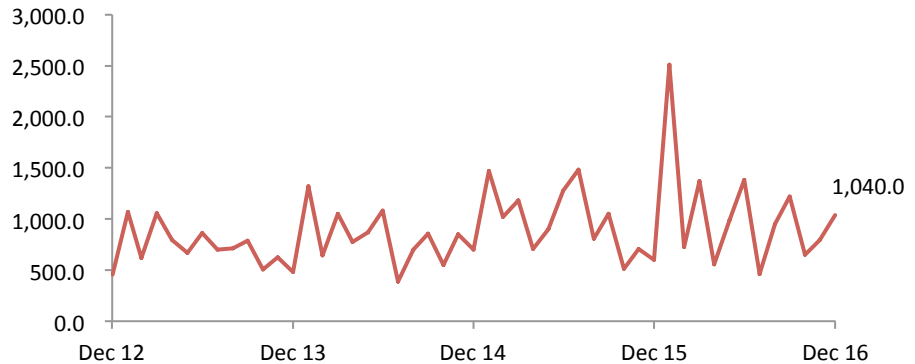
Source: Eurostat

In China, new loan issuance from banks reached a record ¥12.56 trillion in 2016.

Asia-Pacific: China’s New Loan Issuance Expands at a Rapid Pace

In China, banks extended ¥1.04 trillion in new loans in December and a record ¥12.56 trillion in 2016. The pace of new loan issuance has been faster than expected. There has also been a shifting from corporate bond issuance to bank loans, probably due to the bond rout in November. China’s M2 money supply grew by 11.3% year over year in December.

Figure 6. China: New Loans (CNY Bil.)



Source: People’s Bank of China

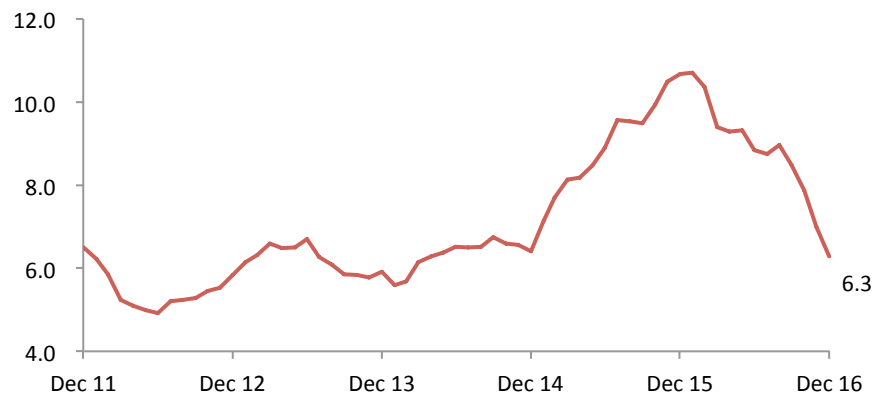
Japan’s industrial production increased by 1.5% month over month in November, in line with the consensus estimate, and by 4.6% year over year, while machinery orders dropped by 5.1% month over month. In Singapore, retail sales increased by 0.5% month over month in November. Australia’s Westpac Melbourne Institute Index of Consumer Sentiment edged up to 97.4 in January.

Brazil’s IPCA inflation slowed to 6.3% year over year in December, a positive sign that the price environment may be stabilizing.

Latin America: Brazil’s Inflation Shows Signs of Stabilizing

Brazil’s IPCA inflation slowed to 6.3% year over year in December, a positive sign that the price environment may be stabilizing, which bodes well for monetary stimulus to revive the sluggish economy. In Mexico, industrial output remained unchanged month over month in November, increasing by 0.3% year over year.

Figure 7. Brazil: IPCA Inflation Index, YoY % Change



Source: IBGE

Figure 8. Upcoming Economic Data Releases

Date	Country/ Region	Indicator	Period Covered
Jan 23	EZ	Consumer Confidence	Jan
Jan 24	GE	Markit Manufacturing PMI	Jan
Jan 24	US	Markit Manufacturing PMI	Jan
Jan 24	US	Existing Home Sales	Dec
Jan 25	GE	Ifo Business Climate	Jan
Jan 25	GE	Ifo Current Assessment	Jan
Jan 25	GE	Ifo Expectations	Jan

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