Economic Calendar

Week of November 27

United States and South Africa

Consilium Group

Summary

This is another very important week for macro data both in the **US** and **SA**.

In the US, the week is marked by two key macro releases. The first is the preliminary or second print of US Q3 2017 GDP, with the other being the personal income and outlays report for October that will reveal movement in the core PCE Price Index.

We expect a Q3 GDP number close to 3.0% because consumer and business spending are at very robust, above-trend levels. If anything we think the 2nd print could come in a little higher than the first at 3.1%. The Fed upgraded its assessment of the US economy, calling it "solid".

We see the US dollar, which has weakened a bit of late, making a mid-week comeback. Watch the GBP-USD cross in particular, for some movement.

A good GDP read is historically associated with support for equities in general. Even though S&P500 constituents draw much of their revenue from abroad, US economic strength feeds into other markets as well via the trade channel.

Personal Income & Outlays are released on Thursday. Income and spending trends are quite strong. But, we are just not seeing these trends showing up in the Personal Consumption Expenditure Price Index at the headline and core level. It is the latter measure that is the favoured Fed inflation gauge.

The core PCE PI edged up 0.1% in September, after inching higher also by 0.1% in August. The September rate of 1.3% was the same as in August, is far lower than core CPI, and is materially below the Fed's 2.0% inflation target.

We expect the core PCE PI to get up 0.2%, and rise to 1.4%. Anything above this number and the USD will gain traction, Treasury yields will rise a little, and equities probably fall somewhat on a recalibration of the expected trajectory for the fed funds rate. Conversely, a number of 1.3% or below will see the opposite reaction.

Three important FOMC member addresses will also be a feature of the week.

NY Fed president William Dudley speaks on Tuesday early morning SA time, as well as later in the week.

The address is important because Dudley's views are very characteristic of the shift in opinion that is taking place on the FOMC.

The principle point of division is whether various measures of inflation, but

particularly the core PCE Price Index, are being held back by idiosyncratic (once-off) or at least cyclical phenomena or whether the problem is more deep-rooted, structural and secular in nature.

We know from the minutes to the FOMC meeting November 1, that "many" meeting participants and probably a majority of Committee voting members, if not all, are concerned that with core inflation readings continuing to surprise on the downside.

This ordinarily would not be a problem were the USD to be very strong or commodities very expensive, or resource slack in the labour market quite substantial. But these factors are simply not in play anymore.

Currently, four FOMC voters - Neel Kashkari, Lael Brainard, William Dudley and Charles Evans - hold reservations about whether inflation will rise to "moderate" levels around 2% in the medium term because of structural or secular inhibitors.

The first two are already stating that the correlation between unemployment and wages (the Phillips Curve) is breaking down to a degree as to make the relationship largely irrelevant.

The latter two are still hedging their bets.

The majority agrees that the Phillips Curve is much flatter than it used to be, but that the correlation holds, and tightness in the labour market will eventually generate moderate levels of wage inflation.

The minutes attribute the structural or secular argument to a "few" participants, probably more than three.

As we say, Dudley is straddling the two positions and his talk might give an indication of whether he is still prepared to give the FOMC majority a chance, at least until the new Fed Chair is sworn in, or whether he is inclined even now to side with the inflation dissidents.

Watch out for any indication that Dudley thinks low inflation is a more permanent feature of the US economy. This would tend to indicate to us that this view is becoming more established on the Committee, although we think a rate hike of 25 basis points in the fed funds target range will occur in December.

On Wednesday, Fed Chair Janet Yellen will be testifying on the US economic outlook before a Congressional Joint Economic Committee in Washington. The most important portion of the testimony will be her answers to questions put to her by Congressmen and women.

We know she is concerned about low inflation, and particularly subdued wage inflation. Expect her to traverse recent inflation indicators, some of which have actually risen, but are still low by historical standards at this stage of the recovery.

The key number in this regard is the Employment Cost Index (ECI) which is the broadest measure of labour costs, and is favoured by the Fed. It rose in Q3 2017 to an annualized rate of 2.5% from 2.4% the prior quarter, but with the US labour market apparently so tight, it should really be closer to 3.5%.

We anticipate that she will say that the FOMC is still waiting on incoming data re inflation and wage trends, and the answer to the riddle of why inflation is so low in the absence of inflation inhibitors, is actually unknown at the present. There are possibly structural features at play, and also possibly some temporary features, as we have mentioned. It is all a bit of a mystery.

But she will also mention that the US economy is on a solid footing, that financial markets have performed spectacularly despite policy normalization, which she will stress has been gradual, leaving the current policy orientation still accommodative.

On economic growth, we would like to hear something on the hurricane effect on Q3 GDP, the number for which will be out earlier in the day. Will the US be able to maintain the current momentum into 2018? The inventory run-off from November through to year-end will deflate the Q4 2017 figures a little.

The key statement we want to hear is that Yellen is still convinced that with the US labour market set to tighten further, there will be a moderate pickup in wages, salaries and benefits, such as to take core inflation to the Fed's 2.0% target in the medium term.

She will probably confirm that recent economic and inflation developments do warrant a December rate rise. We just cannot see her being more hawkish than that, more particularly because she will no longer be in her job by February.

And on Tuesday, the Senate Committee on Banking, Housing, and Urban Affairs will hold a full committee hearing on the nomination of Jerome Powell to be Chairman of the Board of Governors of the Fed i.e. Fed Chairperson. Powell has been nominated by President Trump as a sitting member of the Fed Board for a four-year term starting in February 2018. He needs a majority in the Senate to seal his position. This meeting is basically a Q&A session on monetary policy and is preliminary to the Senate vote. But the later vote is a given, provided of course all goes well in this hearing, and we do not expect many dissents from Democrats.

Powell is set to take over the reins at the Fed in February. He has been a member of the Yellen-led majority on the FOMC pretty much since her ascension to the position in 2013. He has never voted against the majority. His views on inflation are similar to those of Yellen, and he should provide policy continuity. Nevertheless, the Senate Committee hearing is important, because Powell is one of the least expressive members of the Fed Board of Governors. And we wish to ascertain whether his views on inflation have been updated and differ from the wait-and-see approach of predecessor Yellen.

In South Africa, we are looking for some early Q4 indicators of business confidence, as well as the release of the October SA trade balance.

The RMB/BER SA BCI did increase by 6 points to 35 in Q3 2017 after plumbing depths not seen since 2009 in Q2 2017, at only 29. The initial Q4 reading will cover the aftermath of the presentation by Minister Gigaba of the MTBPS, which revealed a marked deterioration in fiscal conditions.

One of the reasons why confidence built up a little in Q3 2017 was due to the absence of further unsettling political and policy events during the survey period.

This will not be the case for Q4 2107. Political and policy concerns have heightened as the ANC's Elective Conference in December draws nearer, amid weakening fiscal metrics, a downgrade to junk of South Africa's rand-denominated debt by S&P and the apparent end to the policy easing cycle, such as it was, of the SARB.

However, we expect the number to remain above 30 because the data set is incomplete. This will be the first measure of business confidence for the Q. Any reading under 35 will test the rand again. Consensus estimates point to a rise to 40.

SA's trade surplus to end-September stood at a R47.1 billion surplus from a R6.7 billion deficit in the corresponding period in 2016. This has fed into a much narrower current account deficit, and is the main reason why the rand and SA bonds have led up relatively well despite the MTBPS and the S&P downgrade.

We are looking for a small deficit in October, which will leave the YTD surplus down around R1 billion to R46 billion.

This should elicit no material market reaction. The real deterioration is expected in November, by which time the rand had weakened materially and the oil price had strengthened. History has shown when oil goes up, and the rand down, import prices shoot up, and to the extent that input prices rise domestically, not much help is afforded exporters.

UNITED STATES (source: Nasdaq.com)

Monday November 27 17h00 (SA time): US New Home Sales for October

New home sales measure the number of newly constructed homes with a committed sale during the month. The level of new home sales indicates housing market trends and, in turn, economic momentum and consumer purchases of furniture and appliances. New home sales comprise about 12% of total housing market activity in the US. Housing starts are a leading indicator of this series. For October, housing start ramped up 13.7% to a 1.290 million annualized unit rate.

We think that some of this number was seen already in new home sales for September. In that month data credibility was stretched somewhat when an 18.9% surge to a 667,000 annualized unit sales rate was reported. This kind of volatility, we argue, is not entirely atypical of this data series, and can be ascribed to the small size of the sample used. The gain was the largest in almost 28 years, and the level of unit sales the highest since October 2007. August's number was taken up to a 561,000 annualized unit pace from 560,000.

Some of the volatility can probably be ascribed to the dissipation of the hurricane effect, which help elevated sales in the South by 26% on the month to a 405,000 unit rate. Sales in the three other regions also rose, led by a 33% lift in the Northeast to a 48,000 unit rate and an 11% increase in the Midwest to a 73,000 unit rate. Sales in the West rose 2.9% to a 141,000 unit rate.

The jump in sales even as new home inventories held steady at 279,000, meant that supply relative to sales fell a full month to five months at the current sales pace. This is an extraordinary monthly adjustment.

While sales rose, prices ran up even further, with the median new home sales price gaining 5.2% to US$319,700. This is a big number, but new home sale prices have some way to run, because the existing home sales price gain on a year-on-year basis is between 5.0% and 6.0%. The year-over-year new home sales price increase is only 1.6% which is dwarfed by the yearly sales pace.

Because of the volatility of the series, it is probably better to look at the 3-month average. In September, this number read a more believable 603,000. The magnitude of the number prevents us from calling a higher trend in new home sales just yet. So, even more than the headline October number, which we see falling 3.0% on the month to around 630,000, the adjustment to September's number is more important. If it is only moderately adjusted, then it could well be that the market for new homes is growing faster than we had initially thought.

If September's number is kept at its current elevated level, and there is not much fall off in October, watch for US homebuilder stocks like Lennar, D.R. Horton, Pulte Homes and Toll Bros.

Figure 1: US New Home Sales over 5 years (source: Trading Economics)

17h30: Dallas Fed Manufacturing Index (Texas Manufacturing Outlook Survey)

The Dallas Fed conducts this monthly survey of manufacturers in Texas regarding their operations in the state. Participants from across the state represent a variety of industries. About 100 manufacturers regularly participate in the survey, which began collecting data in mid-2004. Participants are asked whether various indicators have increased, decreased or remained unchanged. Answers cover changes over the previous month and expectations for activity six months into the future. The breakeven point for each index is zero with positive numbers indicating growth and negative numbers reflecting decline.

The two main numbers here are the General Activity Index and the Production Index.

Texas factory activity expanded at a faster pace in October, according to business executives responding to the Survey. The Production Index, a key measure of state manufacturing conditions, rose six points to 25.6 and reached its highest reading since April 2014.

Other measures of current manufacturing activity also indicated a pickup in growth. The new orders index climbed six points to a 10-year high of 24.8, and the growth rate of orders index moved up to 12.3. The capacity utilization index also pushed to its highest level in a decade at 22.5. Meanwhile, the shipments index moved down several points but remained positive and at a well-above-average level of 20.9.

Perceptions of broader business conditions improved in October. The General Business Activity Index increased to 27.6, its highest reading since 2006. The company outlook index posted its 14th consecutive positive reading, holding steady at an elevated 25.8.

Labour market measures suggested solid employment growth and longer workweeks. The employment index came in at 16.7, unchanged from September and still well above average. Less than 5% of firms noted net layoffs, something that has only been seen five other times since the start of the survey more than 13 years ago. The hours worked index moved down but remained positive at 13.7, indicating a continuing lengthening of workweeks.

Upward pressure on prices and wages continued in October. The raw materials prices and finished goods prices indices edged down but remained elevated at 32.3 and 15.3, respectively. The wages and benefits index also moved lower, but remained relatively high, at 22.5.

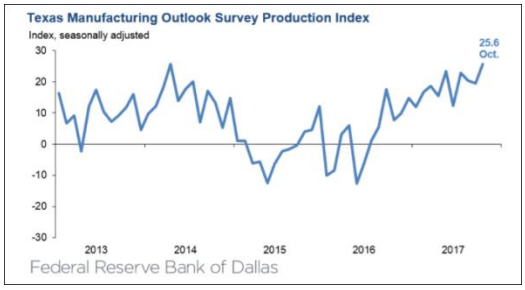
Expectations regarding future business conditions remained “highly optimistic”. The index of future general business activity moved up four points to 38.5, while the index of future company outlook remained unchanged at 39.0. Other indices of future manufacturing activity showed mixed movements but remained solidly in positive territory.

Some of the recovery was due to the dissipation of Hurricane Harvey effects, and also due to oil price gains. So we do not expect the extremely high level of the index to be replicated in November.

We foresee the general activity index to get well under 27.6, perhaps down to 25.0, still above where it was in 2007, because the price of WTI crude got even higher in November and Texas manufacturing is highly dependent on the energy sector. The production index could come off a little to 24.0, still near the highest levels in three years. More important to us are indicators of input price inflation, including wage and salary levels. It is this kind of data that is

presently more relevant for a FOMC desperate to find indications of intensifying wage pressures, with the US unemployment rate at only 4.1%.

Figure 2: Texas Manufacturing Outlook Production Index (source: Federal Reserve Bank of Dallas)



Tuesday November 28 01h30: Neel Kashkari speaks

Minneapolis Federal Reserve Bank President Neel Kashkari will participate in a moderated Q&A at Winona State University's Town Hall in Winona, Minnesota, with audience Q&A. Kashkari is a voting member of the FOMC, but his views represents something of an outlier perspective.

He voted against raising rates in March and June, arguing that there was no need to raise rates as inflation was very contained, and that rate hikes would damage the US economy. Still, it will be interesting to hear how he describes the current state of the US economy, which does not appear at all to have been retarded by the gradual policy normalization process.

02h00: William C. Dudley speaks

New York Federal Reserve Bank President William Dudley will speak about the "US Economy: 10 Years after the Crisis" at the "Moderated Conversation with New York Fed President William Dudley" event held by the University of California - Berkeley, in New York, with audience Q&A.

Dudley is set to resign in 2018, and his replacement will have a vote on the FOMC as head of the 2nd Fed District.

The address is important because Dudley's views are very characteristic of the shift in opinion that is taking place on the FOMC. The principle point of division is whether various measures of inflation, but particularly the core PCE Price Index, are being held back by idiosyncratic (once-off) or at least cyclical phenomena or whether the problem is more deep-rooted, structural and secular in nature.

We know from the minutes to the FOMC meeting October 30 to November 1, that many meeting participants and probably a majority of Committee voting members, if not all, are concerned that with core inflation readings continuing to surprise on the downside … "there was some likelihood that inflation might remain below 2.0% (the Fed objective) for longer than they currently expected".

This ordinarily would not be a problem were the US dollar to be very strong or commodities very expensive, or resource slack in the labour market quite substantial. But these factors are simply not in play anymore. The real issue then is why in the absence of these inflation inhibitors, is inflation still very inhibited?

Currently, four FOMC voters - Neel Kashkari, Lael Brainard, William Dudley and Charles Evans - hold reservations about whether inflation will rise to "moderate" levels around 2% in the medium term because of structural or secular inhibitors.

The first two are already stating that the correlation between unemployment and wages (the Phillips Curve) is breaking down to a degree as to make the relationship largely irrelevant. The latter two are still hedging their bets. The

majority agrees that the Phillips Curve is much flatter than it used to be, but that the correlation holds, and tightness in the labour market will eventually generate moderate levels of wage inflation. Some meeting participants, although we are unclear as to whether this sentiment is actually held by any FOMC voter, subscribe to the view that when actual employment exceeds full employment for a prolonged period i.e. when the actual unemployment rate is persistently lower than the natural rate of unemployment that balances the labour market and inflation, inflationary pressures could elevate considerably. This has always been the case historically and on every occasion, a recession has followed.

The minutes attribute the structural or secular argument to a "few" participants, probably more than three. If the view was held by two participants then the word used would have been a "couple" and if three, the word "several" probably would have been utilized.

Two of the principal arguments in this regard are lowered levels of longer-run trend inflation, based on more compressed long-term inflation expectations. This is an approach that Brainard has discussed at length. The minutes reveal that this development could at least to some degree, be attributed to the actions and communications of the Federal Reserve itself, while inflation was materially below the 2.0% objective.

A second secular influence is the effect of technological innovation in disrupting existing business models serving to offset upward cyclical pressure on inflation. We think the argument goes a bit further than that and is related to globalization and heightened trade and mobility. This, coupled with the experience of the Great Recession, has expedited trends like automation, outsourcing and relocation. The bottom line is that skills, just like business operations, are more mobile and a greater proportion of the world's population is educated and know-how far more geographically distributed. It is now possible to run a business outside the developed world where comparable skills are considerably cheaper, or import these skills into the developed world. The cost base in any event and due to technology has been substantially lessened. The Fed currently is speaking to this last point. Disruptive technologies keep operating costs suppressed and because of increased global competition ensure that these savings are passed on to consumers in the form of lower prices.

We think insufficient analysis has been undertaken to assess the quality of jobs being created in the US and whether foreign residents are increasing beneficiaries. The data show that employers have a very hard time filling skilled positions with American labour. This must mean that despite a lot of job creation there is an element of structural unemployment in the US, that is being underestimated. The kinds of payrolls that are being generated are, in our estimation, mainly in categories of work where wages are more suppressed.

But the majority of participants and voting members of the FOMC are still clinging to the hope that temporary factors are at play, that wage inflationary pressures will intensify as the labour market tightens yet further such that 2.0% inflation will be attained in the medium term.

The minutes mention a few of these transient factors. First, "several" participants pointed to the possibility that the degree of labour market tightness was actually lower than is currently estimated.

This could be because the current measures of unemployment do not accurately reflect the reality of unemployment, or because the labour market became so loose after 2008, that the economy was coming off a very low base and is still playing catch-up so late in the recovery cycle.

Second it might well be that all that the problem has to do with a lag in the response of inflation to greater resource utilization. Just as the impact on the economy of rate moves are not felt immediately, so too the effect of higher employment on wages, salaries and benefits takes a while to come through.

As we say, Dudley is straddling the two positions at present, and his talk might give an indication of whether he is still prepared to give FOMC majority a chance, at least until the new Fed Chair is sworn in, or whether he is inclined even now to side with the inflation dissidents. Watch out for any indication that Dudley thinks low inflation is a more permanent feature of the US economy.

This would tend to indicate to us that this view is becoming more established on the Committee. Although we think a rate hike of 25 basis points in the fed funds target range will occur in December, more particularly because markets have made peace with this outcome anyway, there could be a dissent or two in addition to Kashkari, if this decision is taken.

Another reason why we do not expect a material change in monetary policy course in the immediate term is due to upcoming changes in the composition of the FOMC's voting members. With Stanley Fischer's retirement and Randall Quarles confirmation, there are currently three vacancies on the Fed Board of Governors. Janet Yellen is leaving the Fed early in February, not just as the Chairperson but also as a Fed Board Governor. By this time four new Fed District Presidents will have been rotated into the voting ensemble. Amid such changes, the net effect of which we think will be to make the Committee slightly more hawkish, it is unlikely that the FOMC will want to be too disruptive or too unpredictable.

16h00: FHFA House Price Index for September

The Federal Housing Finance Agency (FHFA) House Price Index (HPI) covers single-family housing, using data only provided by Fannie Mae and Freddie Mac. The HPI is derived from transactions involving only conforming conventional mortgages purchased or securitized by these government-sponsored enterprises (GSE's). In contrast to other house price indices, the sample is limited by the ceiling amount for conforming loans purchased by these agencies. Mortgages insured by the FHA, VA, or other federal entities are excluded because they are not "conventional" loans. The FHFA HPI is a repeat transactions measure, comparing prices or appraised values for similar houses.

For the record, the HPI rose 0.1% in June and 0.2% in July, subsequently revised up to a gain of 0.4%, but in August ramped up 0.7% for a 6.6% annualized gain from the previous month's 6.3%. This is a significant annual increment, near a 4-year high. It is much higher than the more representative Case-Shiller Index, where a 5.9% annual home price increase in August was recorded over 20 urban conurbations.

We do not place too much store in this data set because it is not representative

of the US mortgage market. This data set is unlikely to have any or any material effect on any asset class. Moreover, the Case-Shiller data is being released at the same time.

16h00: S&P Case-Shiller Corelogic 20-city House Price Index for September

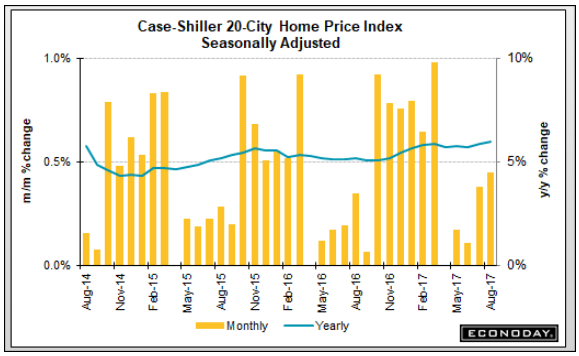
The expanded 20-city series is key and tracks monthly changes in the value of residential real estate in 20 urban metropoles across the US. Composite indices and regional indices measure changes in existing home prices and are based on single-family home re-sales, i.e. those houses with two or more sales transactions. Condominiums and co-ops are excluded as is new construction. The original series only covered 10 cities. House price values are the single biggest source of household wealth, far exceeding wages and salaries.

In August, Case-Shiller home prices firmed 0.4% in adjusted terms and 0.5% in unadjusted terms. The year-on-year rate (NSA) rose to a 3-year high of 5.9%. The report showed broad-based regional strength. And while it is below most other home price readings like the FHFA HIP, all these reports are demonstrating a strengthening trend.

We see the HPI getting up 0.4% to an annual price increase of 6.1%. A price pace of over 6.0% is quite high and is unlikely to be achieved on a sustainable basis. The September report might be affected by the hurricane effect in Texas and Florida, although the impact could even be to the upside because of lower inventory. The information is very dated and September data might prove transient inasmuch as it will be somewhat influenced by the hurricanes.

Not a major market mover.

Figure 3: Case-Shiller 20-city HPI (SA) since 2014(source: ECONODAY)



16h15: William C. Dudley speaks

New York Federal Reserve Bank President William Dudley will deliver the welcoming and introductory remarks at the "Third Annual Conference on the Evolving Structure of the US Treasury Market" event in New York.

We do not expect much monetary policy comment, and as far as there is please see above.

17h00: Conference Board US Consumer Confidence Index for November

The Conference Board compiles a survey of consumer attitudes on the economy. The headline Consumer Confidence Index is based on consumers' perceptions of current business and employment conditions, as well as their expectations for six months hence regarding business conditions, employment, and income. The survey also contains a measure of medium-term inflation expectations, which the Fed looks at. Three thousand households across the country are surveyed each month.

In general, while the level of consumer confidence is associated with consumer spending, the two do not move in tandem each and every month. The survey is to be distinguished from the University of Michigan's bi-monthly US Consumer Sentiment Index, which is tracking a bit

lower and is more readily revealing the political divide which informs much of the consumer outlook.

In September, weakness in the hurricane-affected states of Texas and Florida pulled down headline CCI to 119.8 from 122.9 in August, and against an expected 120.2. The level is still very elevated by historic standards. In October, the CCI moved up to 125.9, a 17-year high for the series.

We expect a headline number well above 120, but closer to 124.0. Of greater importance will be to see if inflation expectations rise over 5.0%, what with a dissipating hurricane impact, and wages, which are not really accelerating very much. The devil will be in the detail, but if medium-term inflation expectations get to 5.0% or above, this should keep the US dollar and Treasury yields supported. It is worth noting that headline consumer sentiment is far higher than it was before the 2008 financial crisis, but not quite as high as the period leading up to the bursting of the dotcom bubble, which was the most elevated it got since 1950.

17h00: Jerome H. Powell nomination hearing

On Tuesday, the Senate Committee on Banking, Housing, and Urban Affairs will hold a full committee hearing on the nomination of Jerome Powell to be Chairman of the Board of Governors of the Fed i.e. Fed Chairperson. Powell has been nominated by President Trump as a sitting member of the Fed Board for a four-year term starting in February 2018. He needs a majority in the Senate to seal his position. This meeting is basically a Q&A session on monetary policy and is preliminary to the Senate vote. But the later vote is a given, provided of course all goes well in this hearing, and we do not expect many dissents from Democrats.

Powell is set to take over the reins at the Fed in February. He has been a member of the Yellen-led majority on the FOMC pretty much since her ascension to the position in 2013. He has never voted against the majority. His views on inflation are similar to those of Yellen, and he should provide policy continuity.

Nevertheless, the Senate Committee hearing is important, because Powell is one of the least expressive members of the Fed Board of Governors. And we wish to ascertain whether his views on inflation have been updated and differ from the wait-and-see approach of predecessor Yellen.

17h00: Richmond Fed Manufacturing Index for November

This is one of three major regional or district Fed reports, along with the Empire State Manufacturing Survey (New York State only) and the Philadelphia Fed Business Outlook Survey and covers the 3rd Fed District (eastern Pennsylvania, southern New Jersey, and Delaware). The Richmond survey tracks business conditions in the District's manufacturing sector. The headline index is a composite of new orders, shipments, and employment sub-indices.

New orders and employment have been key positives for this series, which like many other regional or district reports has been running at very elevated levels, and on occasions at record levels. The index did soften a bit to 12 in October. This was mainly due to a decline in the shipments sub-index from 22 to 9, which we believe had nothing to do with hurricane effects. We are calling for a lift to 14 in November (consensus 15).

Not a major market mover.

Wednesday November 29 14h00: MBA mortgage data for the week to November 24

The Mortgage Bankers' Association compiles various mortgage loan indices. The purchase applications index measures applications at mortgage lenders. This is a leading indicator for single-family home sales and housing construction. The refinance index tracks refinancing activity, and the composite or market index combines the two.

In the week to November 17, the purchase applications index got up 5.0%, with the refinance index falling 5.0%, leaving the market index better by only 0.1% on the week. We have come to expect volatility in this series.

The average interest rate on conforming 30-year fixed-rate mortgages (US$424,100 or less) rose 4 basis points to 4.22% in the last October week, the highest rate since July. But it has since got a little lower. Applications are generally solid, approximately 10% higher year-on-year.

15h30: US Q3 2017 preliminary (2nd reading) GDP

This is one of two key data releases of the week, with the other being the personal income and outlays report for October that will reveal movement in the core PCE Price Index.

The advance US Q3 2017 GDP print came in at 3.0% quarter-on-quarter annualized, compared to 3.1% in the final Q2 report, and against an estimated 2.5%. The initial number was to an extent driven by a build-up in inventories, probably the result of the hurricane-related supply chain snafus. Inventories were higher by US$35.8 billion on the quarter and contributed 0.73 percentage points to the headline GDP number.

That said, the core of the report was still solid, led by personal consumption expenditures, which came in as anticipated at an annualized rate of 2.4% from just over 3.0% in Q2 and against 3.4% in Q4 2106. The gain contributed 1.62 percentage points to the quarterly number. Some PCE activity was clearly driven by hurricane effects, because spending on durable goods picked up 8.3%, much of it involving replacement demand for vehicles. Final sales, which exclude inventories, came in at a pretty robust 2.3%.

Government spending, net trade, and business fixed investment were positives as well. Non-residential fixed investment expanded at a 3.9% pace, somewhat lower than in Q2, but still strong. The net trade affect showed a narrowing of the deficit by nearly US$20 billion to minus US$595.5 billion deficit, which contributed 0.41 percentage points. The one area of relative weakness was residential investment, which contracted at a 6.0% annual pace. This trend is nothing new.

The GDP price index rose to 2.2% and ex-energy and food, to 1.7%, after a slump in the second quarter. This is an important number.

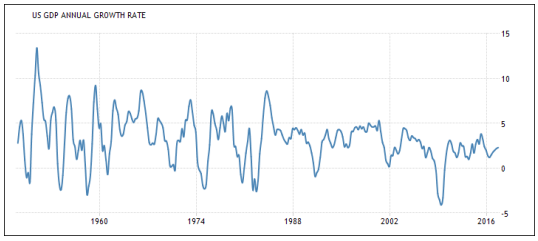
In a special note on Hurricanes Harvey and Irma, the Bureau of Economic Analysis said it could not estimate the net impact on US GDP, but it did release preliminary estimates of disaster losses of US$121.0 billion for privately-owned fixed assets. Hurricane Maria, which hit Puerto Rico, is not assessed in the GDP report which excludes US overseas territories.

We expect a number close to 3.0% on Wednesday because consumer and

business spending are at very robust, above-trend levels. If anything we think the second print could come in a little higher at 3.1%. The Fed has upgraded its assessment of the US economy, noting that economic activity had been rising at a "solid" rate despite hurricane-related disruptions. This is code for "above-trend".

We see the US dollar, which has weakened a bit of late, making a mid-week comeback. Watch the GBP-USD cross in particular, for some movement. A good GDP read is historically associated with support for equities in general. Even though S&P500 constituents draw much of their revenue from abroad, US economic strength feeds into other markets as well via the trade channel, with which President Trump has not really attempted to interfere with. We see Treasury yields rising a little from still compressed levels.

Figure 4: Post-war US annual GDP growth rate (source: Trading Economics)



15h30: William C. Dudley speaks

New York Federal Reserve Bank President William Dudley will speak about "Prospects for the National and Regional Economy" at a Fireside Chat event held by Rutgers University, in New Brunswick, NJ, with audience Q&A.

We have already talked about Dudley's position. The key question is whether he thinks low inflation, particularly low wage inflation, is now a structural feature of the US economy.

17h00: Janet L. Yellen testifies

Federal Reserve Chairperson Janet Yellen will be testifying on the US economic outlook before a Congressional Joint Economic Committee in Washington D.C. Yellen will speak before a joint committee and will not testify separately before Senate and House committees, as per usual. The most important portion of the testimony will be her answers to questions put to her by Congressmen and women.

We know she is concerned about low inflation, and particularly subdued wage inflation. Expect her to traverse recent inflation indicators, some of which have actually risen, but are still low by historical standards at this stage of the recovery. The crucial number in this regard is the Employment Cost Index (ECI) which is the broadest measure of labour costs, and is favoured by the Fed. It rose in Q3 2017 to an annualized rate of 2.5% from 2.4% the prior quarter, but with the US labour market apparently so tight, it should really be closer to 3.5%.

We anticipate that she will say that the FOMC is still waiting on incoming data regarding inflation and wage trends, and the answer to the riddle of why inflation is so low in the absence of inflation inhibitors, is actually unknown at the present. There are possibly structural features at play, and also possibly some temporary features, as we have mentioned. It is all a bit of a mystery. But she will also mention that the US economy is on a solid footing, that financial markets have performed spectacularly despite policy normalization, which she will stress has been gradual, leaving the current policy orientation still accommodative.

On economic growth, we would like to hear something on the hurricane effect on Q3 2017 GDP, the number for which will be out earlier in the day. Will the US be able to maintain the current momentum into 2018? She will note consumer and business spending strength, but also identify housing sector weakness. The inventory run-off from November through to year-end will deflate the Q4 2017 figures a little. Perhaps some comment on this trend will be forthcoming.

The key statement we want to hear is that Mrs. Yellen is still convinced that with the US labour market set to tighten yet further, there will be a moderate pickup in wages, salaries and benefits, such as to take core inflation to the Fed's 2.0% target in the medium term, that is by 2020. She will probably confirm that recent developments in respect of inflation and the broader economy do warrant a rate rise in December. We just cannot see her being more hawkish than that, more particularly because she will no longer be in her job by February.

17h00: NAR Pending Home Sales Index for October

The report is released monthly by the National Association of Realtors. In September, the index was unchanged on the month at a level of 106.0. Traditionally, the index has been a reliable leading indicator of trends in the resale housing market. But September's existing home sales were very strong. Something of an index comeback of the order of a monthly gain of around 1.0% is pretty much assured.

Not a market mover.

20h50: John C. Williams speaks

San Francisco Federal Reserve Bank President John Williams will give the keynote address at the 54th Annual Economic Forecast Luncheon sponsored by Arizona State University Phoenix, Arizona, with audience Q&A.

Williams is an alternate voting member of the FOMC.

Thursday November 30 15h30: Initial jobless claims for the week ended November 25

Initial jobless claims have been a little more volatile of late, but are still very low relative to the historical norm. In the week to November 18 claims fell 13,000 to 239,000, making up for the rise in the week prior to that. The 4-week moving average that smooths out volatility did rise 2,000 but is still under 240,000 at 239,750. At the beginning of the month this number was closer to 232,500. So there has been some deterioration.

Because initial jobless claims are a good leading indicator of payroll creation, it is evident that November payrolls might not be quite as buoyant as the 261,000 rebound seen in October. We are expecting jobless claims to hold around 240,000, with the 4-week average getting above 240,000. This is the more important number. Claims out of Puerto Rico are still a bit elevated because of the hurricane. Perhaps more importantly, continuing claims are hovering near a post-recession recovery low of 1.88 million.

No market impact.

15h30: Personal Income & Outlays for October

This is the second key macro release of the week.

Income and spending trends are quite strong. Personal income rose 0.4% in September, underpinned by a rise in wages and salaries of 0.4% while consumer spending was up a sizeable 1.0%, largely because of an outsize gain in replacement spending on durables.

But, we are just not seeing these trends showing up in the Personal Consumption Expenditure Price Index at the headline and core level. It is the latter measure that is favoured by the Fed.

In August, the headline PCE PI rose 0.2%, but ramped up 0.4% in September to an annual rate of 1.6% against expectations of 1.7%, and versus 1.4% before. Some of this was hurricane related, and we would want to see the trend continuing. We think it will in November because of the softening of the US dollar amid rising oil prices. But for October, we expect the headline PCE PI to gain only 0.1% and fall to a rate of 1.5%.

The core PCE PI edged up 0.1% in September, after inching higher also by 0.1% in August. The September rate of 1.3% was the same as in August. It is far lower than core CPI, and is materially below the Fed's 2.0% inflation target. This is the crucial number.

We expect the core PCE PI to get up 0.2%, and rise to 1.4%. Anything above this number and the USD will gain traction, Treasury yields will rise a little, and equities probably fall somewhat on a recalibration of the expected trajectory for the fed funds rate.

Conversely, a number of 1.3% or below will see the opposite reaction.

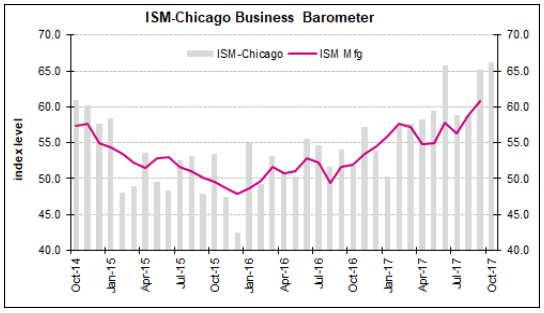
16h45: ISM November Chicago PMI

The Institute For Supply Management - Chicago compiles a survey and a composite diffusion index of business conditions in the Chicago area covering both manufacturing and services firms, and therefore not comparable to other district or regional surveys, which are in the main readings on activity in the manufacturing sector. Since October 2011, the survey has been conducted by Market News International.

In October, the headline Business Barometer Index got up to 66.2 from a very elevated 65.2. This was the strongest reading in 29 years. The report has been showing that employment opportunities exist in abundance but cannot be filled. This has led to a decline in the hiring sub-index. We do not think the current stratospheric levels of the index can be maintained, and we foresee a fall to around 64.0.

Not a market mover.

Figure 5: ISM Chicago - BBI vs. ISM Manufacturing Index



Friday December 1: US November Motor Vehicle Sales

Motor vehicle sales, which were affected by Hurricane Harvey in August, rebounded in September from a 3-1/2 year low. That month saw the best monthly sales performance in 12 years. Total unit vehicle sales shot up to an 18.6 million annualized unit sales rate from a prior 16.1 million unit rate. September's rate pointed to replacement demand following Hurricane Harvey's flooding of Houston. Sales of domestic-made vehicles rose to a 14.7 unit yearly sales pace from August's

12.7 million. In October, the sales pace diminished a bit to a still robust 18.1 million units, with sales of domestic vehicles at 14.2 million units. We think replacement activity was still taking place in October, but this will not be as evident in November. Accordingly, we are predicting a fall in vehicle sales to a 17.7 million annualized unit sales rate with domestic vehicle sales in the 13.7 to 13.8 million unit sales rate range.

We think the markets have already factored in these numbers.

16h05: James Bullard speaks

St. Louis Federal Reserve Bank President James Bullard will give a presentation on "The US Economy and Monetary Policy" at the Economic Briefing in Little Rock, Arkansas, with audience Q&A.

Bullard is not a voting member of the FOMC anymore. He is remembered as extremely dovish.

16h30: Robert S. Kaplan speaks

Dallas Federal Reserve Bank President Robert Kaplan will participate in a moderated Q&A session at the "Border Economic Development and Entrepreneurship Symposium" in McAllen, Texas, with audience and media Q&A.

Kaplan is a voting member of the FOMC, and is a supporter of Janet Yellen's position on inflation. We do not expect much, if any, monetary policy comment.

17h00: ISM Manufacturing PMI for November

The ISM manufacturing PMI has ramped up phenomenally this year, beating consensus estimates for the five of the last six months. So it was to be expected that October's report showed some relative weakness.

The October headline number of 58.7, represented a decrease of 2.1 percentage points from the September reading of 60.8. The New Orders Index registered 63.4, a decrease of 1.2 percentage points from 64.6 before. The Production Index registered 61, a 1.2 percentage point decline from September's 62.2. The Employment Index recorded 59.8, a fall of 0.5 of a percentage point from 60.3. The Supplier Deliveries Index came in at 61.4, a 3 percentage point drop from the September reading of 64.4. The Inventories Index read 48, a fall of 4.5 percentage points, while the Prices Index stood at 68.5 in October, 3 percentage points lower than in September, indicating higher raw materials prices for the 20th consecutive month.

We think the market accepted a certain measure of volatility over the hurricane period, and a number close to 58.0 will still be seen as a very solid outcome. Expect the US dollar to be helped a little.

Figure 6: ISM US Manufacturing PMI over 12 months (source: ISM)

Month	*PMI®*	*Month*	*PMI®*
Oct 2017	58.7	Apr 2017	54.8
Sep 2017	60.8	Mar 2017	57.2
Aug 2017	58.8	Feb 2017	57.7
Jul 2017	56.3	Jan 2017	56.0
Jun 2017	57.8	Dec 2016	54.5
May 2017	54.9	Nov 2016	53.5
Average for 2017 – 57.3 Average for 12 months – 56.8 High – 60.8 Low – 53.5			

17h00: US Construction Spending for October

Construction spending has been mixed, rising 0.3% in September with October's consensus increase at 0.5%. This might be

a touch high. Non-residential construction has been the weak link but not residential construction which, with strength centred on single-family homes. Construction here has been expanding at a nearly double-digit pace.

Not a market mover

SOUTH AFRICA (source: Trading Economics)

Wednesday November 28 08h00: Private Sector Credit for October

South Africa's private sector credit rose 5.59% from a year earlier in September, following 5.98% expansion in the previous month, and beating market expectations for a gain of 5.19%. Nevertheless, September's number was the smallest increase in private sector credit since March. Private sector credit in South Africa averaged 13.96% from 1966 until 2017, so we are well below average at present.

We predict growth in private sector credit of only 5.3% in October, which is very pedestrian indeed, as the SARB has repeatedly noted. Minimal market response, just a confirmation that household consumption and domestic demand more broadly is under enormous pressure.

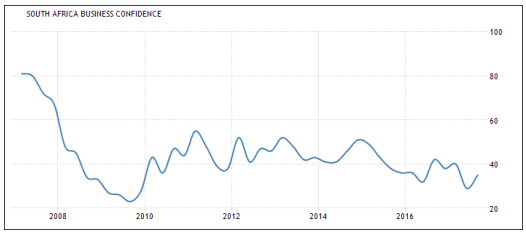
13h00: RMB/ BER SA Business Confidence Index for Q4

The RMB/BER SA BCI did increase by 6 points to 35 in Q3 2017 after plumbing depths not seen since 2009 in Q2 2017, at only 29. The initial Q4 reading will cover the aftermath of the presentation by Minister Gigaba of the Medium-Term Budget Policy Statement, which revealed a marked deterioration in fiscal conditions. One of the reasons why confidence built up a little in Q3 2017 was due to the absence of further unsettling political and policy events during the survey period.

This will not be the case for Q4 2107. Political and policy concerns have heightened as the ANC's Elective Conference in December draws nearer, amid weakening fiscal metrics, a downgrade to junk of South Africa's rand-denominated debt by S&P and the apparent end to the policy easing cycle, such as it was, of the SARB.

However, we expect the number to remain above 30 because the data set is incomplete. This will be the first measure of business confidence for the quarter. Any reading under 35 will test the rand again, and possibly see a small rise in bond yields. We do not think market participants have discounted this kind of number, with consensus estimates pointing to a rise to 40.

Figure 6: RMB/ BER SA BCI over 10 years (source: trading Economics)



Thursday November 30 11h30: October SA PPI

Annual producer inflation in South Africa increased to 5.2% in September from 4.2% in August. Prices rose faster for coke, petroleum, chemical, rubber and plastic products (plus 10.9% compared to 7.3% in August); metals, machinery and computing equipment (plus 1.9% vs. 1.3%) and transport equipment (plus 3.7% vs. 1.4%). Meanwhile, prices advanced at a

slower pace for food products, beverages and tobacco products (plus 2.6% vs. 3.1%), and wood and paper products (plus 7.7% vs. 8.0%).

On a monthly basis, producer prices increased 0.7%.

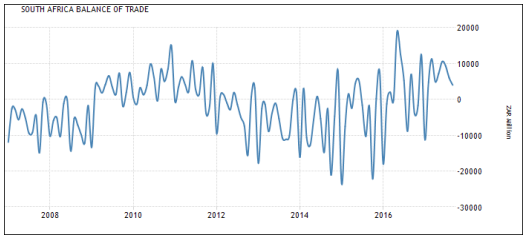
Following the moderate CPI print for October, we are expecting at least a 0.4% monthly lift, but base effects should ensure that the headline PPI rate gets below 5.0% to 4.9%. We think October inflation outcomes will not be replicated going forward, as the rand weakens, the petrol price rise, and food prices begin to climb off a low base in a stronger US dollar environment.

14h00: SA October Trade Balance

South Africa's trade surplus decreased to R4.0 billion in September from an upwardly revised R5.98 billion surplus in August, and was below market expectations for a R7.0 billion surplus. Exports decreased 1.6% after an 11% surge in August, while imports advanced 0.4%. For the year to end-September period, exports increased 5.4% and imports decreased 1.2%, moving the country's trade balance into a R47.1 billion surplus from a R6.7 billion deficit in the corresponding period in 2016. This has fed into a much narrower current account deficit, and is the main reason why the rand and SA bonds have led up relatively well despite the MTBPS and the S&P downgrade.

We are looking for a small deficit in October, which will leave the YTD surplus down around R1 billion to R46 billion. This should elicit no material market reaction. The real deterioration is expected in November, by which time the rand had weakened materially and the oil price had strengthened. History has shown when oil goes up, and the rand down, import prices shoot up, and to the extent that input prices rise domestically, not much help is afforded exporters.

Figure 7: SA Trade Balance over 10 years (source: Trading Economics)

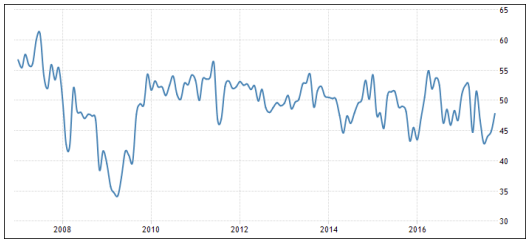


Friday December 1 11h00: ABSA SA Manufacturing PMI for November

The Absa Manufacturing PMI for South Africa rose to 47.8 in October from 44.9 in September. This was the highest level in five months, albeit off a low base. Despite the improvement, the PMI remained below the neutral 50-point mark that separates contraction from growth for the fifth straight month.

We anticipate a slight increase in the index level to around 48.1, which is really scant improvement. Stripping out the price component and this index would actually be much lower.

Figure 8: ABSA Manufacturing PMI over 10 years (source: Trading Economics)



13h10: SA Total New Vehicle Sales for November

Total Vehicle Sales in South Africa increased to 51,040 in October from 50,320 in September. We are looking for a number north of 52,000.