Economic Calendar

Week of October 23

Consilium Group

US & South Africa

UNITED STATES

Monday October 23 14h30 (SA time): Chicago Fed National Activity Index for September

The Chicago Fed National Activity Index (CFNAI) is a monthly index that tracks overall economic activity and inflationary pressures in the US not just in the Chicago region. The CFNAI is a weighted average of 85 existing monthly indicators of national economic activity. It is based on the index of economic activity developed by James Stock of Harvard University and Mark Watson of Princeton University in 1999. It is constructed to have an average value of zero and a standard deviation of one. Since economic activity tends toward trend growth over time, a positive index reading corresponds to growth above trend and a negative index reading corresponds to growth below trend. For July, the Index read plus 0.03, but fell to minus 0.31 in August, without any real hurricane-related effects evident. Two of the four broad categories of indicators that make up the Index decreased from July, and two of the four categories made negative contributions to the Index in August. The Index's three-month moving average, the CFNAI-MA3, decreased to minus 0.04 in August from a neutral reading in July. We expect another negative number for September of around minus 0.20 (minus 0.10 consensus), once Harvey and Irma effects on some industries, and national supply chains, are taken into account.

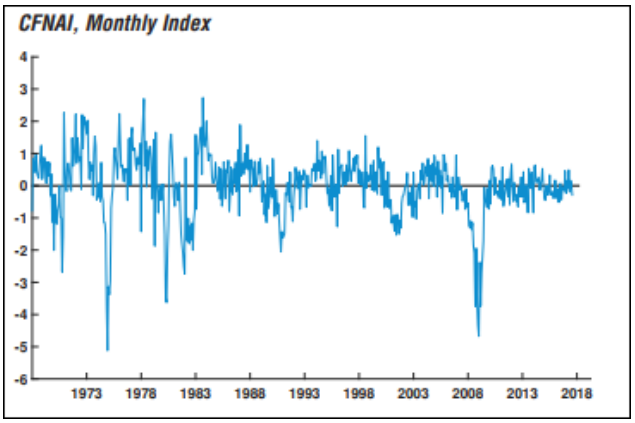

Figure 1: CFNAI Monthly Index since 1973 (source: Federal Reserve Bank of Chicago)

This report is actually quite significant, but a little dated. Much of the data will be in the market via prior September sector surveys.

Tuesday October 24 15h45: Markit US PMI Composite for October (flash)

The flash Composite Purchasing Managers' Index (PMI) compiled by Markit Economics provides a very early estimate of manufacturing and services activity in the US to the end of the third week of the month. It combines information obtained from surveys of around 1,000 manufacturing and service sector companies. The flash data are released around 10 days ahead of the final report and are typically based upon around 85% of the full survey sample. Results are synthesised into a single index

which can range between zero and 100. A reading above 50 signals expanding activity, while below 50, contracting activity versus the previous month. The report also contains separate flash estimates of the manufacturing and services PMIs. The data is a good leading indicator, but the market relies more heavily on the ISM US Manufacturing PMI and Services NMI, which are running far higher. So, the final Markit numbers for September came in at 53 for manufacturing and 55.1 for services (composite at 54.6), while for the ISM surveys, they read 60.8 and 59.8, respectively. We foresee something of a bounce in both flash reading as the economic rebound from the hurricane devastation gathers momentum. We are looking for a flash US Manufacturing PMI of 53.5, with a Services number closer to 55, leaving the PMI Composite above 54.5. The consensus forecast is for a number closer to 55.

Not a major market mover.

16h00: Richmond Fed Manufacturing Index for October

This is the third regional or district Fed report, following the Empire State Manufacturing Survey (New York State only) and the Philadelphia Fed Business Outlook Survey (the Third Fed District covering 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. Going back a month, the Empire State report was quite sensational with the headline General Business Conditions Index moving from 24.4 to a very robust 30.2, against expectations for a fall to 20.0. The headline number was last exceeded way back in October 2009. For the Philly Fed Survey, the headline General Business Conditions Index got to 27.9 from 23.8 (consensus 20.2), with an employment measure at the highest ever level in the 48-year history of the series. The Richmond data covers the Fifth Fed District encompassing the states of Maryland, Virginia, North Carolina and South Carolina, 49 counties constituting most of West Virginia, as well as the District of Columbia. In September, the Richmond data on manufacturing activity improved. The composite manufacturing index rose from 14 to 19, supported by a sizable increase in the measure of for shipments, which at a reading of 22, was the highest since December 2010. There was a smaller rise in the sub-index for new orders. The third component of the composite index, the employment sub-index, fell slightly. Although the wages barometer declined very slightly, there was a notable increase in the average workweek indicator. Manufacturing expectations were stable across most measures and continued to indicate overall optimism. The only notable changes in expectations were in the index for expected average workweek, which rose from 16 to 25, and the index for expected capital expenditures, which fell from 30 to 18. We are confident that the Manufacturing Index will rise from 19, to around 21, a little above forecasts.

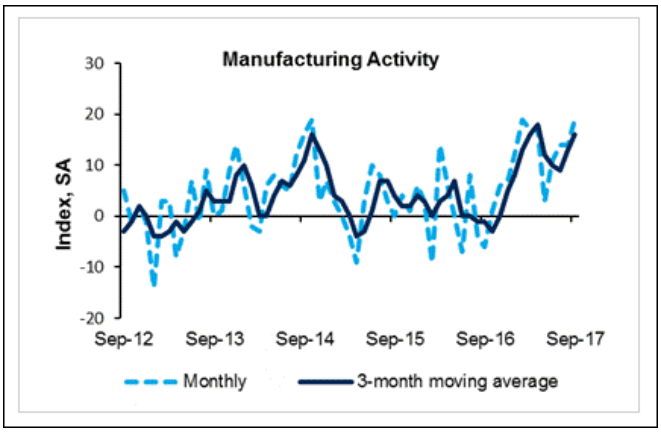

Figure 2: Richmond Fed Manufacturing Index since 2012 (source: Federal Reserve Bank of Richmond)

Expect some US dollar strength on this outcome and additional Treasury yield decompression, which is already under way due to prospective tax reform, or at least tax relief emanating from the Trump administration.

Wednesday October 25 13h30: MBA mortgage data for the week ended October 20

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 October 13, the purchase applications index increased 4.0% on the week, with the refinance index lifting 3.0%, leaving the market index up by 3.6%. We have come to expect volatility in this series, but do note the possible effect of rising 30-year mortgage rates above 4%.

14h30: US Durable Goods Orders for September

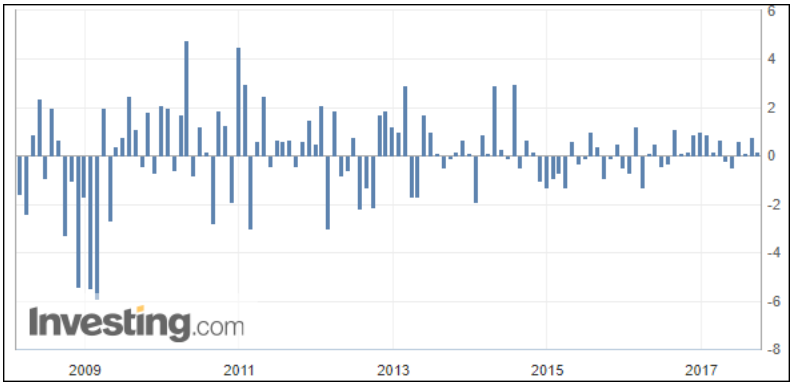

Figure 3: US Core Capital Goods Orders over 10 years (source: Investing.com)

This is one of two key data releases for the week. The report is important for assessing future manufacturing activity based on current orders, because most of these are only for future delivery. Orders have to be looked at stripping out the transportation category, which mainly comprises orders for vehicles and civilian aircraft, which are very volatile. The critical numbers have to do with orders for non-defense capital goods ex-aircraft and shipments of these items, which is one of the ways in which the Fed assesses business investment. In August, headline new orders gained 1.7% on the month after a big reversal of 6.8% in July. This was mainly due to orders surging for civilian aircraft. New orders ex-transportation rose only 0.2% against expectations for a monthly gain of 0.5%. Some of the softness was due to the exclusion of motor vehicles, orders for which climbed 1.5% in August with shipments getting up 1.9%. Non-defense capital goods orders ex-aircraft rose a substantial 0.9% on the month, three times the forecast rate. The August core capital goods shipments number of plus 0.7%, followed another very positive read in July. This points to business confidence and strengthening business investment and will significantly lift estimates for second-half non-residential fixed investment, a critical component of GDP. For September, it is quite likely that some hurricane effects will be felt, but in the main this will be to back-end delivery of current orders. We expect the headline number to fall back a bit, but as long as the orders figure ex-transportation is in the 0.4% plus range, and core capital goods orders and shipments show continued strength around plus 0.4%, which we think they will do, market participants will be satisfied.

We expect the numbers to underpin some further US dollar strength, as well as allow Treasury yields to hold onto some recent gains.

15h00: FHFA House Price Index for August

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 securitised 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, half the expected gain. The annual price index rise of 6.5% in June, slowed to 6.3% in July, but this is far higher than the price movements indicated by more representative samples like the S&P Corelogic Case Shiller 20-City Composite Home Price Index, which showed a 5.8% annual home price increment in July over 20 urban conurbations. The consensus forecast for the July FHFA HPI is for a monthly increase of at most 0.4%.

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.

16h00: US New Home Sales for September

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. In August, starts came in slightly higher than expected at a 1.180 million annualised unit rate. But in September, housing starts fell 4.7% to a 1.127 million annualised unit rate, well under the low estimate of analysts. Regional data showed some hurricane-related effects, with weakness in the South, where starts fell 9.3% to a 527,000 rate following August's 4.9% decline. So we are not that bullish for September new home sales numbers, because it could well be difficult to separate out hurricane-related effects from unrelated trends. The more important number here is in respect of new sales of single-family homes. We foresee a fall in September in new home sales from an annualised unit sales rate of 560,000 to +-540,000 (555,000 cons).

We do not expect any material market response other than in respect of US homebuilder stocks like Lennar, D.R. Horton, Pulte Homes and Toll Bros.

Figure 4: US New Home Sales over 10 years (source: Trading Economics)

Thursday October 26 14h30: Initial Jobless Claims for the week ended October 21

Initial jobless claims were relatively high in the immediate wake of Hurricanes Harvey, Irma, and Maria. But claims have dropped significantly and quite quickly of late to near historic lows, although Puerto Rico is still something of an unknown, signifying that the disruption to payroll creation will be short-lived. So in the October 14 week, jobless claims tumbled 22,000 to a much lower-than-expected 222,000. This was even better than the 227,000 recorded back in late February, which was the lowest reading in 44 years. The October 14 week was the sample week for the October jobs report and a comparison with the sample week of the September employment report points to a big improvement. Remember September payrolls fell 33,000. Jobless claims on a month-on-month basis are lower by 38,000 while the 4-week average which smooths out volatility, is now well under 250,000 at 248,250, and is off 20,500. Hurricane effects are clearly ebbing, with Texas and Georgia back to pre-hurricane levels last time out though Florida, at just over 11,000 in the latest week, is still running about 4,000 to 5,000 higher. Puerto Rico, which for the past two weeks has reported its own data and has not had to be estimated by Washington, is also at pre-hurricane levels though the jury is still out whether claims in the territory will move higher as displaced workers amid the dislocations, get themselves to the unemployment office. Continuing claims, where data lags by a week, were also favourable, down 16,000 in the October 7 week to a new multi-decade low of 1.888 million. The unemployment rate for insured workers is a very constrained 1.3%. For the October 21 week, we just cannot see claims getting much lower, and forecast a rise of 8,000 on the week to 230,000. The 4-week moving average will hold further under 250,000. We anticipate the lower trend among continuing claims to continue.

More signs of labour market tightness are expected by the market. The question remains whether these trends feed through into wage inflation. There is only limited evidence of this transpiring to date and this could well have been entirely hurricane related. No market effect unless accompanied next Monday by markers of higher inflation, which would serve to keep the FOMC majority on its current gradual monetary policy normalisation course.

16h00: NAR Pending Home Sales Index for September

The National Association of Realtors developed the Pending Home Sales Index as a leading indicator of housing activity. Specifically, it is a leading indicator of existing home sales, not new home sales. A pending sale is one in which a contract has been signed, but not yet closed. It usually takes four to six weeks to close a contracted sale. In August, the index moved down 2.6% on the month to a level of 106.3. We see further weakness, because the existing home sales trend is quite soft, and this has been exacerbated by damage in Houston and more broadly in Florida. Sales in August dropped 1.7% on the month to a 5.350 million annualised unit sales pace, and are barely up year-on-year (+0.2%). But the September number, which came out last Friday, saw a rise of 0.7% to a 5.390 million annualised unit sales rate. Meanwhile we anticipate that the Pending Home Sales Index will hold steady in September at levels around 106, perhaps getting up to 106.5.

Not a market mover.

16h30: Neel Kashkari speaks

Minneapolis Federal Reserve Bank President Neel Kashkari will give welcoming remarks at the Opportunity and Inclusive Growth Institute Fall Conference in Minneapolis. Kashkari is far and away the most dovish voting member of the FOMC. Twice this year he has dissented when the Committee raised the target range for the fed funds rate by 25 basis points. His argument is that rate hikes have been unnecessary and moreover, damaging. Subdued inflation was a structural phenomenon, and in

the absence of any inflationary pressures, rate hikes simply served to tighten financial conditions without cause. He would prefer to focus purely on winding down the Fed balance sheet, a form of unconventional monetary policy. If the Fed hikes in December, as the market expects it to do, we are almost certain that Kashkari will dissent again. There is not much opportunity in this forum to expatiate on monetary policy, however.

Not a market mover even if Kashkari touches on monetary policy, because his approach represents a very outlier view on the FOMC.

17h00: Kansas City Fed Manufacturing Index for October

This will be the fourth regional or district Fed manufacturing survey to be released for October. The index offers a monthly assessment of change in the Tenth Fed District's manufacturing sector. The Tenth District encompasses the western third of Missouri, all of Kansas, Colorado, Nebraska, Oklahoma and Wyoming, and the northern half of New Mexico. Positive readings indicate monthly growth and negative readings monthly contraction. Readings at zero indicate no change. The headline number is the composite index, an average of the production, new orders, employment, delivery time, and raw materials inventory sub-indices. In September, the composite index came in at 17, up from 16 in August and 10 in July. Factory activity increased solidly at both durable and non-durable goods plants, particularly for chemicals, plastics, and machinery products. Month-over-month sub-indices were mixed. The production sub-index remained unchanged, while the shipments, employment and new orders for exports sub-indices increased modestly. In contrast, the new orders sub-index fell from 25 to 10, and the order backlog index also decreased. We are predicting a further increase in the composite index to 18.

Not a market mover.

Friday October 27 14h30: US Q3 2017 GDP (advance reading)

This is the key data release of the week. The Q2 2107 final GDP growth rate outcome was pretty robust, with a quarter-on-quarter annualised expansion of 3.1% from a preliminary estimate of 3.0%. On a year-on-year basis the growth rate registered 2.2%, which is well above trend (+-1.8%). The pace of consumer expenditure was upwardly revised to 3.3%, which compares well to the pace of 3.5% seen in the final quarter of 2016, recent multi-year high. Non-residential fixed investment (business investment) recorded a 6.7% rate of growth and was also a major contributor to the positive outcome. The net trade effect as well as inventory changes constituted small positives as well. The major negative was the 7.3% decline for residential investment, amid low home inventories, rising prices, and slightly higher mortgage rates. Government purchases, at minus 0.2%, were a slight drag on the quarter. We think the momentum from the second quarter will be carried through to Q3. We expect consumer expenditure and business fixed investment to remain strong, with support coming too from trade due to the soft US dollar, while inventories could well hold steady. Softness in housing is still apparent, but we hope to see an improvement on the third quarter off a low base.

On a quarter-on-quarter basis, we are looking for expansion of around 2.5%, with the rate of consumer expenditure proceeding at over 2% annualised.

Any number over 2.5%, which is coming off a high base, should be celebrated for it promises a calendar growth rate of around 2.5% to 2.7%. We think the US dollar and Treasury yields will rise in

this case, with gold getting back under US$1,250/oz on the prospect of a steady incline in US rates. US equities stand poised to make end of week gains.

16h00: Thomson Reuters University of Michigan final October US Consumer Sentiment Index

The University of Michigan's Consumer Survey Center questions 500 households each month on their financial conditions and attitudes about the economy. Consumer sentiment is directly related to the strength of consumer spending. Consumer confidence and consumer sentiment are two ways of talking about consumer attitudes. Among economic reports, consumer sentiment refers to the Michigan survey released on a Friday, while consumer confidence refers to The Conference Board's survey that always comes out on a Tuesday. Preliminary estimates for a month are released at mid-month. Final estimates for a month are released near the end of the month. In September, the index fell 1.7 points from the final August read, to 95.1, about where it was in the middle of the month. Hurricane effects were likely behind the easing as respondents in Florida and Texas reported doubts about their financial situation. Yet confidence remained very high with the 9-month average at 96.2. This compares with 91.9 and 92.9 at this time in 2016 and 2015, respectively and is the best score since 2000. In the preliminary October print, the index got up to 101.0 reflecting a dissipation of hurricane effects amid ample job availability, higher income and better household balance sheets. Current conditions in September at 111.7, were a full 7.2% higher year-over-year.

Figure 5: US Consumer Sentiment Index over 10 years (source: Trading Economics)

We expect the final October number to exceed 100 and support domestic US equities. Current levels are above those preceding the financial crisis in 2008. Another important line item is constituted by inflation expectations, which are watched closely by FOMC policy makers. In September they were unchanged at 2.7% despite post-hurricane pressures in gasoline prices. At least expectations are well anchored ("rock solid" as Yellen calls them), but should they lift to 2.8% or higher on hurricane-related input scarcity and price fears, the Fed would be very encouraged and a rate hike in December would appear to be a nailed-on certainty.

SOUTH AFRICA

Wednesday October 25 14h00: Minister Gigaba presents the medium-term budget policy statement

The MTBPS seldom serves to introduce new appropriations, and never introduces new taxes. It is mostly about revisiting projections for economic and fiscal fundamentals, and therefore making anticipated changes to key fiscal metrics in line with recent developments. These metrics form the basis for the assessment of the country's creditworthiness by rating agencies. Given that Fitch has already taken SA's sovereign investor credit rating on rand-denominated debt (88% of total SA debt) to sub-investment grade, and S&P has such debt at one notch above junk, with a negative outlook, further material fiscal slippage in the form of lower-than-expected revenues relative to earlier projections, could prove the proverbial straw that breaks the camel's back. We are looking for signs of weakening economic fundamentals. In this regard, the new 2017 GDP forecast is expected to top 1.0%, but in reality this is very low by sub-Saharan standards. More important will be the growth

projections out to 2020. Our fiscal framework is predicated on getting GDP growth to over 3.0% within this timeframe.

- **The FY2017/18 budget presented February 22, already revealed considerable fiscal slippage.**

- **It showed a further revenue shortfall from R11.6 billion in the February 2016 budget, to R23 billion by the October 2016 MTBPS, then to R30.4 billion by this year's budget. Watch the revenue projection shortfall number now. We think at best it will get to about R40 billion, but there are projections for the number to balloon to over R50 billion. SARS is beset by operational issues and the amounts garnered from illicit smuggling and counterfeit activities have fallen. If, as PwC suggests, the estimated shortfall gets above R50 billion for the period to end-fiscal 2017, the rand will definitely take a hit.**

- **In the budget the FY2017/18 fiscal shortfall was to be made up by additional taxes in amount of R28 billion, on top of the R15 billion already earmarked in the FY2016/17 budget. The highest marginal rate of tax taken up from 41% to 45%, limited bracket creep relief was provided, dividend withholding tax was taken from 15% to 20%, and an increase of 30c/l in fuel levy was introduced. We will not see any new taxes now, but revenue insufficiency could lead to the minister signposting new or higher taxes next February. This will serve to further lower consumer confidence, and as a result business confidence, already at very subdued levels.**

- **In the 2017 budget, proposed expenditure for FY2017/18 stood at R1.56 trillion, with projected revenues at R1.41 trillion, leaving a deficit of +-R149 billion to be borrowed. This deficit represented 3.1% of GDP. Watch the projected expenditure number. We do not expect the Minister to be able to downwardly adjust this estimate, meaning that coupled with weakening revenue, the forecast fiscal deficit is set to get wider than 3.1% of GDP, perhaps closer to 3.5%. This would represent material fiscal weakening, and a red flag for the rating agencies.**

- **We want more clarity on public service salaries, which constituted over 35% of total FY 2017/18 budget. We do not think this number has come down much, but it has come down.**

- **What is the projected level for government's gross debt. Currently it stands at +-R2.2 trillion or 50.7% of GDP. Again, we could see this number rising.**

- **Interest payments will still be the fastest growing expenditure line item.**

- **The level of SoE debt stood at R1.25 trillion in the last budget. What are the changes to this figure, for it is a contingent sovereign liability that is growing all the while, and a major rating agency concern.**

- **In the last three-year outlook, gross debt to GDP ratio was set to rise above 55%, the borrowing requirement would get close to R200 billion, and the government guarantee framework was set to rise from about R350 billion to over R500 billion. What are the changes to these projections?**

- **We do not expect to hear anything additional concerning the proposed nuclear deal, which appears to be running in a parallel process. Be alert to any information concerning the proposed RosGeo gas deal that is estimated to be in the region of R5 billion.**

- **We advise that caution is necessary going into Wednesday. The rand will be volatile, and we expect to see some weakening in the domestic currency, along with higher bond yields, and negativity among domestic-focused equities. We just cannot see any other outcome than a material deterioration in fiscal fundamentals. The Minister it compelled to highlight these deficiencies now.**

Thursday October 26 11h30: SA September PPI

Annual producer inflation in South Africa increased to 4.2% in August from 3.6% in July, which was the lowest in two years. Prices rose faster for coking coal, petroleum, chemical, rubber and plastic products (plus 7.3% compared to 3.0% in July) and wood and paper products (8.0% versus 7.7%) but slowed for food products, beverages and tobacco products (3.1% versus 3.7%). On a monthly basis, producer prices increased 0.4%. We see PPI getting up 0.5% on the month, as food price decreases start to brake, and energy costs escalate. The annual rate will almost certainly top 5.0%.

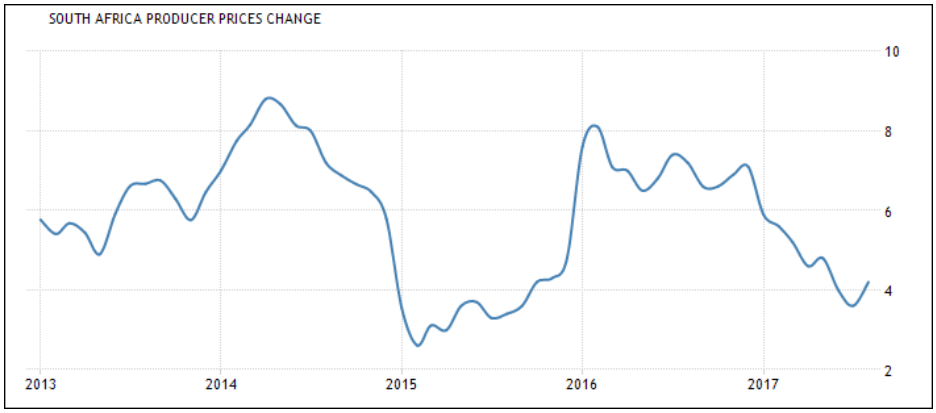

Figure 6: SA PPI over 10 years (source: Trading Economics)