

WEEKLY MACRO UPDATE
FEBRUARY 21, 2017



STANCE AT A GLANCE

HIGHLIGHTS TO WATCH THIS WEEK (Feb 21– Feb 28)

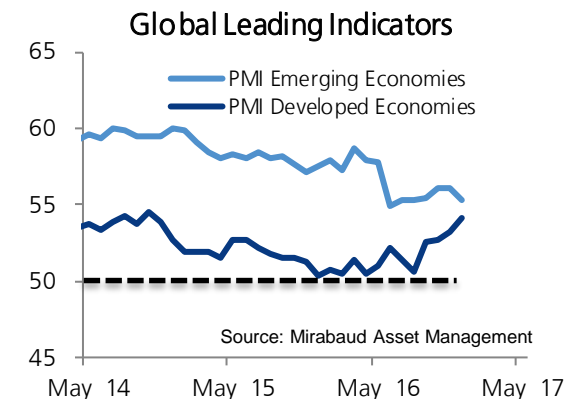
- > US FOMC Minutes (Wed) unlikely to give new hints on rate hikes; durable goods orders (Mon) to bounce; existing home sales (Wed)
- > Eurozone PMIs broadly unchanged (Tue); CPI (Wed) stable; M3 money supply and consumer confidence (Mon) to be unchanged
- > Switzerland's fourth quarter industrial production (Wed) to remain weak; investor optimism (Wed) to stabilise
- > UK GDP Growth (Wed) to confirm 0.6% QoQ growth rate, thanks to resilience in consumption growth; CBI total sales (Thu) up
- > Japan's January industrial production (Tue) to stay weak; retail sales (Tue) to show subdued consumer spending
- > China property prices (Wed) to rise; India's Q4 GDP (Tue) to grow more than 7%; Australia's manufacturing sector (Tue) to improve

MAIN DEVELOPMENTS LAST WEEK

- > US retail sales rise, including in control group; weak industrial production; CPI inflation ticks up markedly; weak housing starts
- > Eurozone GDP increased less than expected; consumer confidence and ZEW disappoint; no major surprises from ECB Minutes
- > Swiss trade surplus rises, on buoyant exports in pharmaceuticals and chemicals; SNB data signal continued FX interventions
- > UK retail sales weak last month, with downward revision to December sales, too; stable unemployment rate at low levels
- > Japan's trade surplus shrinks as exports weaken to all regions; strong manufacturing survey with solid output and backlogs of work
- > China's private lending continues to grow strongly, in particular mortgage loans; Singapore's GDP up 2% in 2016

ECONOMIC BACKDROP

- > Global growth momentum remains sluggish, but likely to improve in 2017
- > US growth is likely to remain on sub-par, post recession 2% growth path
- > Global monetary policy will remain accommodative post-Brexit vote
- > Eurozone economy to remain weak, growth acceleration likely to be modest only
- > ECB interventions are potent – purchases to continue until end-2017, at least
- > Swiss economic growth to suffer from strong Swiss franc, negative inflation rate
- > UK to enter into slowdown, but avoid sustainable recession; accommodative BoE
- > China's growth path remains bumpy, private sector debt rise a major concern
- > Inflation in emerging markets to firm modestly, but remains overall subdued
- > Main risks to global growth are European banking risks and Chinese private sector debt

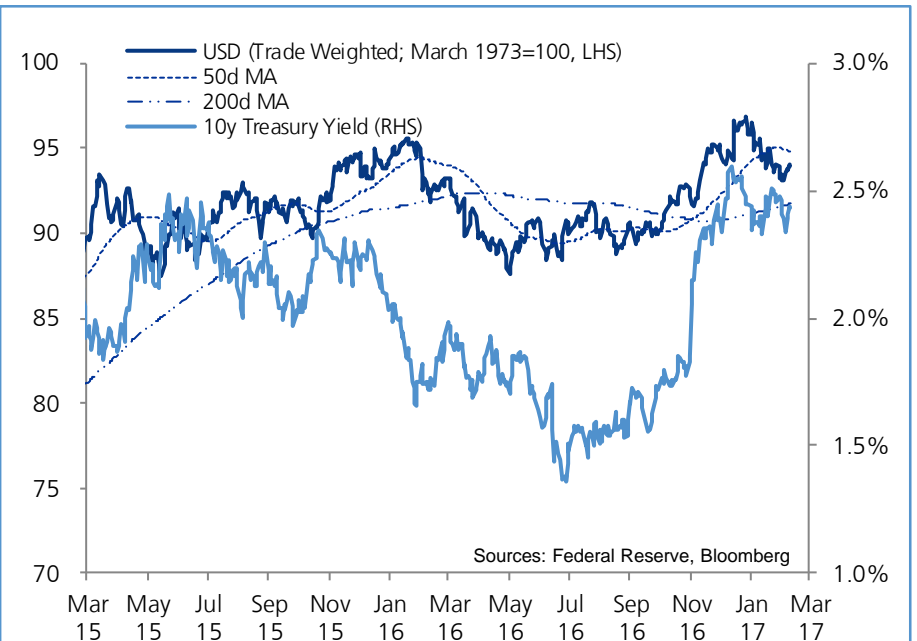


USA WE CONTINUE TO EXPECT TWO FED RATE HIKES THIS YEAR

Retail sales remain solid, with the main underlying components showing solid gains. Ex-auto sales rose nearly 1%. As to the implication for monetary policy, we do not change our current view of two Fed rate hikes this year and do not predict a more hawkish bias in the Fed in the coming months. Thus, in our view, market pricing of a near 40% probability for a rate hike in March and a likeliness of nearly 60% of a move during the May meeting – where no press conference is scheduled and no new economic projections are published – seem exaggerated. Our baseline was reinforced last week by latest Fed speeches, which showed a lack of any hawkish signals. This was notable in last week’s comments from FOMC Vice Chair Fischer and NY Fed’s Dudley, subsequent to Yellen’s testimony and following the upside surprise in CPI inflation data and solid retail sales data. While currently on a slight upward trend, we believe inflation numbers remain subdued, below 2% PCE inflation, implying that the Fed will remain cautious along its gradual tightening path.

Indicator	Period	Value	Unit	Expected	Prior	+/-	Comment
Retail Sales	Jan	0.4	%MoM	0.1	1.0	=	Ex autos +0.8%; control group +0.4%; food & drinking sales +1.4%
Industrial Production	Jan	-0.3	%MoM	0.0	0.6	-	Capacity utilisation lower to 75.3%; manufacturing production +0.2%
CPI Inflation	Jan	2.5	%YoY	2.4	2.1	=	Energy prices +4.0%; food prices +0.1%; core CPI rises to 2.3%YoY
Housing Starts	Jan	-2.6	%MoM	0.0	11.3	=	Housing permits rise 4.6% MoM; single family permits -2.7%
Philadelphia Fed Survey	Feb	43.3	Index	18.0	23.6	+	New orders +12pts; shipments +8 points; prices paid, received lower

US Economic Data	Ø*	Sep	Oct	Nov	Dec	Jan	Feb
Manufacturing PMI	54.0	51.5	53.2	53.9	54.3	55.1	-
ISM Manufacturing	52.8	51.7	52.0	53.5	54.5	56.0	-
ISM Non-Manufacturing	55.5	56.6	54.6	56.2	56.6	56.5	-
Retail Sales	0.3	1.0	0.7	0.2	1.0	0.4	-
Consumer Confidence	85.7	91.2	87.2	93.8	98.2	98.5	95.7
Home Prices (Case Shiller 20)	6.1	5.0	5.1	5.3	-	-	-
Initial jobless claims	370	255	258	252	258	248	237
Change in Payrolls	204.4	249	124	164	157	227	-
Unemployment Rate	6.3	4.9	4.8	4.6	4.7	4.8	-
Headline Inflation (%YoY)	1.3	1.5	1.6	1.7	2.1	2.5	-
Core Inflation (%YoY)	1.9	2.2	2.1	2.1	2.2	2.3	-
Fed rate	0.32	0.50	0.50	0.50	0.50	0.50	0.50
Trade Balance (USDbn)	-41.5
Durable Goods Orders (%MoM)	0.1	0.3	5.0	-4.7	-0.5	-	-
GDP Growth QoQ	2.1	3.5			1.9	-	-



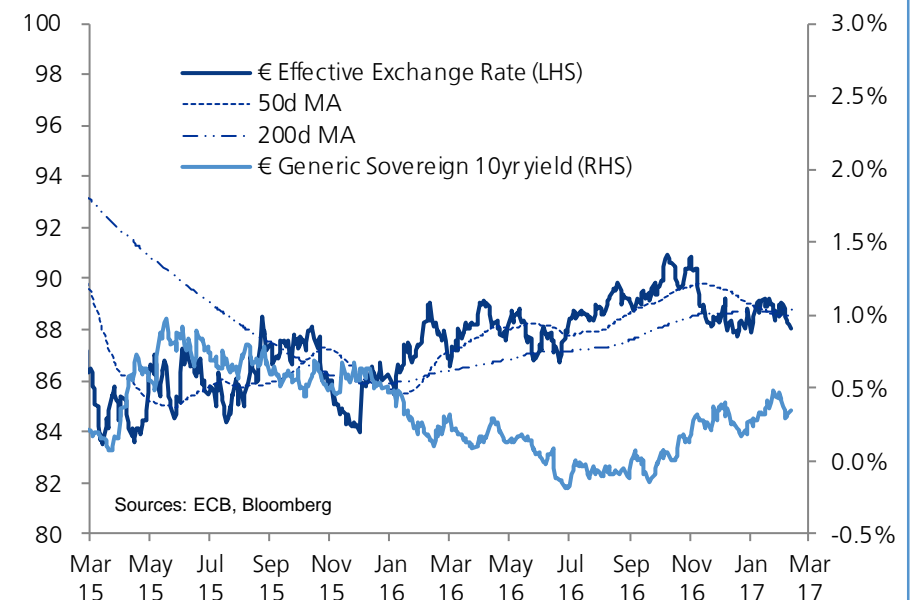
* Shows five-year rolling averages

€-ZONE MINUTES WITHOUT SURPRISES, SLIGHT DISAPPOINTMENT ON MACRO DATA

The ECB Minutes focused on three main issues. First, the reaction from financial markets to a moderate increase in the asset purchase program has been judged appropriate. Second, the effects of the current monetary stimulus continue to satisfy the ECB's Board of Governors. Third, there is still no convincing upward trend in underlying inflation, which includes weak wage dynamics. Also, we note that the deposit rate is no longer a main impediment, as purchases of government bonds with a yield below the deposit rate will be an alternative to two other solutions, namely capital key deviations and changes in issue limits. As to the latest macro data, we note the slowdown in the economic momentum, with GDP increasing by 1.7% last year, as projected by the ECB but lower than financial market expectations. Confidence slightly dwindled, signaled by a decrease in surveys (e.g. ZEW). Finally, industrial production disappointed with an improvement limited to 2.0% only, despite manufacturing surveys that remain buoyant.

Indicator	Period	Value	Unit	Expected	Prior	+/-	Comment
Composite PMI	Feb	56.0	Index	54.3	54.4	+	Manufacturing PMI up to 55.5; services surge to 55.6 (+1.9 pts)
GDP Growth	4Q	1.7	%YoY	1.8	1.7	=	+0.4% QoQ; proceeding recovery and above-trend pace growth rate
Industrial Production	Dec	2.0	%YoY	1.7	3.2	=	Negative contrib. from the decrease in production of capital goods
ZEW Survey Expectations	Feb	17.1	Index	-	23.2	=	Broadly unchanged relative to February 2016, at high levels
Consumer Confidence	Feb	-6.2	Index	-4.9	-4.8	-	Above long-term average; in line with consumption growth of 2%

EZ Economic Data	Ø*	Sep	Oct	Nov	Dec	Jan	Feb
PMI Manufacturing	52.3	52.6	53.5	53.7	54.9	55.2	55.5
PMI Services	53.3	52.2	52.8	53.8	53.7	53.7	55.6
ZEW Exp Eco Growth	28.8	5.4	12.3	15.8	18.1	23.2	17.1
Belgium Confidence	-6.9	-2.2	-1.8	-1.8	-0.2	0.5	-
Retail Sales (%MoM)	0.1	-0.3	1.5	-0.6	-0.3	-	-
Consumer Confidence	-12.5	-8.2	-8.0	-6.2	-5.1	-4.8	-6.2
New Car Registrations (%YoY)	1.5	9.4	-1.2	5.2	2.1	10.9	-
Unemployment Rate	11.2	9.8	9.7	9.7	9.6	-	-
Headline Inflation (%YoY)	0.9	0.4	0.5	0.6	1.1	1.8	-
Core Inflation (%YoY)	1.0	0.8	0.8	0.8	0.9	0.9	-
M3 Growth (3mMA, %YoY)	3.3	4.9	4.8	4.8	-	-	-
ECB Main Refinancing Rate	0.29	0.00	0.00	0.00	0.00	0.00	0.00
Trade Balance (€bn)	15.1	23.2	19.8	22.2	24.5	-	-
Industrial Production MoM	0.0	-0.8	0.2	1.5	-1.6	-	-
GDP QoQ	0.2	0.4	-	-	0.4	-	-



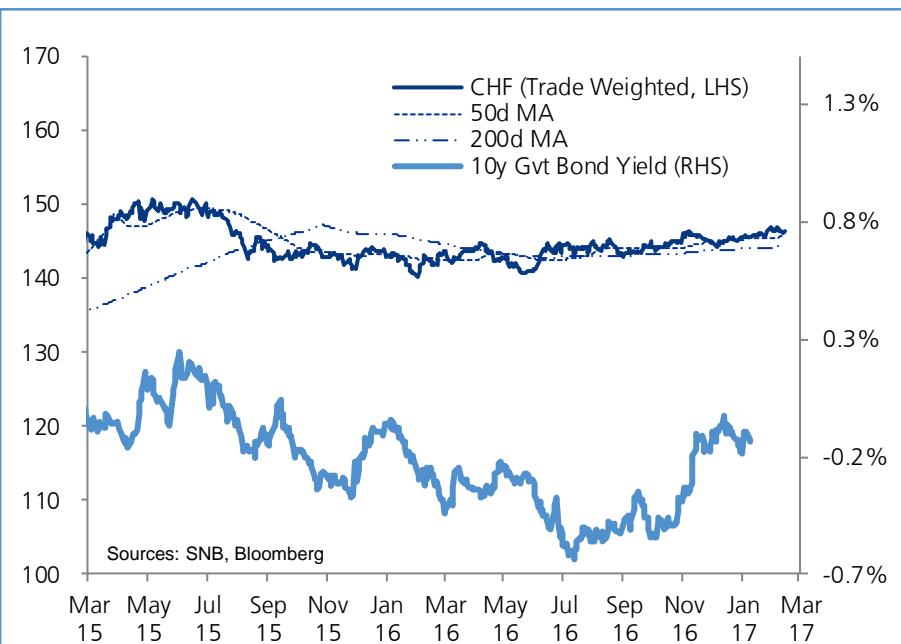
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SWITZERLAND SWISS TRADE SURPLUS TO USA AT NEW HIGHS

The Swiss trade surplus widened further, with export growth being led by its most dominant sector, pharmaceutical and chemical products. We note from the January trade report, published by the Federal Customs Administration, the following points. First, on the positive side, exports in the most important industry, chemical and pharmaceutical products, reached a new high, totalling CHF 9 billion last month. This gain was driven by strong rises in medical (+26%) and immunological products (+18%). Also positively, exports to North America were up 23% and we note that bilateral January trade surplus with the US reached CHF 2 billion. In case this trend continues, Switzerland would have a trade surplus in excess of USD 20 billion with its North American peer, one of the benchmarks for the US Treasury to qualify a nation as a currency manipulator. A second point of note from Swiss trade data is the continued weak performance of shipments in watches, which declined 13% YoY. Of note also that when excluding pharma and chemical shipments, Swiss exports would have declined by 5% in January.

Indicator	Period	Value	Unit	Expected	Prior	+/-	Comment
Trade Balance	Jan	4.73	bnCHF	-	2.69	+	Real exports +2.3% YoY, thanks to pharma, chemicals; imports -7%
Money Supply M3	Jan	2.9	%YoY	-	3.0	=	Currency in circulation +10%; sight deposits +7%; M1 +5.7% YoY
SNB Banks' TT Sight Deposits	Feb17	543.5	bnCHF	-	539.0	=	Signals SNB foreign exchange interventions of Fr 4.5 bn last week

SZ Economic Data	Ø*	Sep	Oct	Nov	Dec	Jan	Feb
KOF leading indicator	100.7	101.6	103.9	102.2	102.1	101.7	-
PMI Manufacturing	51.5	54.4	55.2	55.9	56.2	54.6	-
ZEW Expectation Growth	-0.8	2.7	5.2	8.9	12.9	18.5	-
Retail Sales (%YoY)	0.7	-2.2	-0.8	0.8	-3.5	-	-
Consumer Confidence (UBS)	1.5	1.3	1.4	1.5	1.5	-	-
New Car Registrations (%YoY)	-0.2	8.3	-7.3	0.4	8.2	-3.7	-
House Prices (%YoY)	2.7	1.4			1.5	-	-
Unemployment Rate (SA)	3.1	3.3	3.3	3.3	3.3	3.3	-
Headline inflation (%YoY)	-0.5	-0.2	-0.2	-0.3	0.0	0.3	-
Core Inflation (%YoY)	-0.4	-0.1	-0.3	-0.3	-0.3	-0.2	-
M3 Growth (%YoY)	4.5	2.9	2.9	1.8	3.0	2.9	-
SNB 3m Libor	1.0	-0.73	-0.72	-0.75	-0.75	-0.73	-0.73
Exports (%MoM)	0.1	-1.9	0.3	-1.0	-1.6	5.0	-
Imports (%MoM)	0.4	0.5	0.8	2.0	2.1	0.7	-
Industrial Production (%YoY)	2.4	0.4				-	-
GDP QoQ	0.4	0.0				-	-

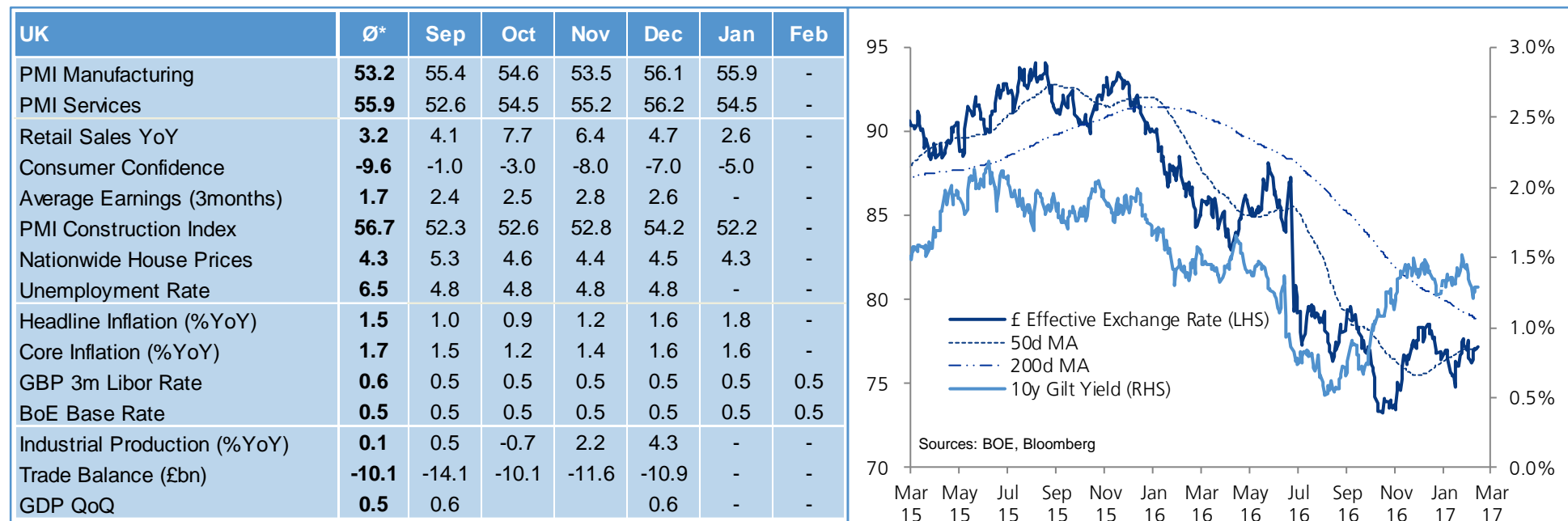


* Shows five-year rolling averages

UK SHOPPERS TIGHTEN THEIR PURSE STRINGS, FEELING THE WINTER CHILL – AND MORE

UK retail sales were weak in January, reinforcing our baseline scenario of a forthcoming deceleration in economic growth and no Bank rate hike this year. Looking at domestic demand, retail sales clearly turned weaker. In January, real ex. auto fuels retail sales fell a further 0.2%, adding weakness to the downwardly revised 2.2% decline in December. Overall, this is in the line with the fact that following the Brexit vote last year and upward revised inflation expectations, consumers proceeded with some front loading spending. Looking forward, we believe that consumer spending is likely to have a weaker momentum, as rising price levels and lower real wage growth pose significant risks to household income and therefore to spending power. However, we also exclude a significant downturn as, overall, the labour market continues to show resilience. Last month, the unemployment rate remained unchanged at a low 4.8%. This is only slightly above the Bank of England's estimate of the medium term equilibrium rate of 4.5%.

Indicator	Period	Value	Unit	Expected	Prior	+/-	Comment
Retail Sales	Jan	-0.3	%MoM	1.0	-2.1	-	+1.5% YoY; ex-auto sales -0.2% MoM; 3m/3m basis -0.5%
Unemployment Rate	Jan	4.8	%	4.8	4.8	=	Low since July 2005; real core wage growth eases to 1.4% YoY only
Industry Orders CBI	Feb	8	Index	4	5	+	Gauge of foreign orders remains <0; selling prices rise to 32 (+4pts)
House Prices [Rightmove]	Feb	2.3	%YoY	2.8	3.2	-	Average asking price for London property falls 0.4% to £ 641k
Public Sector Net Borrowing	Jan		Bn£	-14.4	6.4	=	+£320mio compared to Jan 2016; in line with official budget forecast



* Shows five-year rolling averages

JAPAN BROAD-BASED WEAKNESS IN EXPORTS

Japan's latest trade statistics were on the weak side with a decline of the trade surplus by more than ¥150 billions. More in the details, in January, export volumes decreased 6.5% on the month while imports increased 0.6%. By destination and compared to previous years, the decline in exports is broad-based and not related to weakness in China during the seven-day national holiday. We would then not expect volumes to recover strongly in February. By products, electrical machinery and transport equipment recorded the strongest decline. Looking at the latest manufacturing survey, the sector posted a record-high confidence with the sharpest rate of growth in output for three years, with the PMI levels up to 54.3. Rising backlogs of work accumulated for the first time in more than a year which should ensure that manufacturing output will stay relatively solid for the next quarter. However, the machine tool orders report continues to point to weak domestic demand (-4.6% over the year) while foreign demand stays solid (+8.7%).

Indicator	Period	Value	Unit	Expected	Prior	+/-	Comment
Industrial Production	Dec	3.2	%YoY	-	3.0	=	+0.7%MoM; mining, electricity & gas (+3.0%YoY, +0.3%MoM)
Machine Tool Orders	Jan	3.5	%YoY	-	3.5	=	Domestic (-4.6%YoY, -18%MoM); foreign (+8.7%YoY, +0.1%MoM)
Trade Balance	Jan	155.5	¥bn	277.5	327.5	-	Exports +1.3%YoY, -6.4%MoM to US, -5% to UE; imports +8.5%
All Industry Activity Index	Dec	-0.3	%MoM	-0.2	0.3	=	Industrial prod. (0.7%); tertiary industry (-0.4%); construction (-1.5%)
Manufacturing PMI	Feb	53.5	Index	-	52.7	+	35-month high; output index at 54.3 (+1.1), fastest growth in 3 years

JP Economic Data	Ø*	Sep	Oct	Nov	Dec	Jan	Feb
Tankan Manufacturing	6.9	6.0			10.0	-	.
Tankan Non Manufacturing	15.9	18.0			18.0	-	-
Nomura Manufacturing PMI	51.2	50.4	51.4	51.3	52.4	52.7	53.5
Department Store Sales	0.0	-5.0	-3.9	-2.4	-1.7	-1.2	-
Consumer Confidence	40.9	42.6	41.7	40.3	42.3	42.7	-
Household Spending	-0.9	-2.1	-0.4	-1.5	-0.3	-	-
Housing Starts	3.5	10.0	13.1	6.7	3.9	-	-
Unemployment Rate	3.7	3.0	3.0	3.1	3.1	-	-
Headline Inflation (%YoY)	0.7	-0.5	0.1	0.5	0.3	-	-
Core Inflation (%YoY)	0.5	0.0	0.2	0.1	0.0	-	-
Money Supply M2 (%YoY)	3.4	3.5	3.7	3.9	4.0	4.1	-
BoJ Target Rate	0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Exports (%YoY)	1.8	-6.9	-10.3	-0.4	5.4	1.3	-
Imports (%YoY)	0.1	-16.2	-16.4	-8.8	-2.6	8.5	-
Industrial Production (%YoY)	0.2	1.5	-1.4	4.6	3.2	-	-
GDP QoQ (Annualized)	1.2	1.4			1.0	-	-



* Shows five-year rolling averages

ASIA/PAC CHINA'S LENDING GROWTH CONTINUES UNABATED

In China, despite some comments from the central bank pointing to tighter monetary policy, we note that the objective is not met, as seen in latest credit growth numbers. In January, total social financing reached a new high of RMB 3.5 trillion, which puts into question the PBoC's power, or actual willingness, to rein in excessive lending and shadow banking activities. In the details, mortgage loans increased 32% over the year while other loans decreased at the same pace. While positive for short-term activity, this strong rise in lending adds to long-term deleveraging problems. Meanwhile, in Singapore, GDP grew 2.0% in 2016, up from 1.9% in 2015. On a quarter-on-quarter basis, GDP surged 12.3% in the last quarter following a contraction of 0.4% earlier. The rebound was driven by a solid manufacturing sector, which grew 11.5% over the year versus 1.8% in the previous quarter. The construction sector continued to be a weak spot. From the expenditure side, private consumption and investment fell while government expenditures rebounded sharply (+7.0% YoY). In the short term, Singapore will benefit from stronger external demand while domestic demand remains subdued.

Indicator	Period	Value	Unit	Expected	Prior	+/-	Comment
China: New Yuan Loans	Jan	2'030	Bn	2'440	1'040	-	Fast expansion; total social financing hit a record-high of RMB 3.7 tn
India: Trade Balance	Jan	-9'840	\$mn	-10'265	-10'369	=	Exports +4.3% YoY; imports +10.7% YoY; oil imports rose 61.1%
Thailand: GDP Growth	Q4	0.4	%QoQ	0.7	0.4	=	2016 annual growth of 3.2% from 2.9% in 2015; consumption eases
Singapore: GDP Growth	Q4	12.3	%QoQ	12.6	9.1	=	2016 annual growth of 2.0%; weak private consumption (-2.3%YoY)
Indonesia: Trade Balance	Jan	1'396	\$mn	823	1'046	=	Exports +27.7%YoY; imports +14.5%, of which oil & gas +48%

Asia Pacific Economic Data	Ø*	Sep	Oct	Nov	Dec	Jan	Feb
CHINA: PMI Manufacturing (Official)	50.5	50.4	51.2	51.7	51.4	51.3	-
AUS: AiG Manufacturing Index	48.3	49.8	50.9	54.2	55.4	51.2	-
AUS: AiG Service Index	48.0	48.9	50.5	51.1	57.7	54.5	-
CHINA: Retail Sales (%YoY)	13.0	10.7	10.0	10.8	10.9	-	-
CHINA: New Yuan Loans (Bn)	875.5	1220.0	651.3	794.6	1040.0	2030.0	-
AUS: Retail Sales (%MoM)	0.3	0.7	0.4	0.1	-0.1	-	-
AUS: Consumer Confidence	0.1	0.3	1.1	-	-	-	-
CHINA: Headline Inflation (%YoY)	2.1	1.9	2.1	2.3	2.1	2.5	-
CHINA: Money Supply M2 (%YoY)	13.1	11.5	11.6	11.4	11.3	11.3	-
AUS: House Price Index QoQ	1.6	1.6	-	-	-	-	-
AUS: RBA Rate	2.50	1.50	1.50	1.50	1.50	1.50	1.50
CHINA: Exports (%YoY)	2.9	-10.4	-7.9	-1.5	-6.2	7.9	-
CHINA: GDP (%YoY)	7.3	6.7	-	-	6.8	-	-
AUS: Trade Balance (AUDmio)	-1 468	-553	-733	2 040	3 511	-	-
AUS: GDP (%QoQ)	0.6	-0.5	-	-	-	-	-



* Shows five-year rolling averages

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