

Investec Economics

The week ahead: Monday 9 January 2017

- Markets have enjoyed a relatively positive start to 2017, with the S&P 500 gaining 1.4% and the FTSE 100 up 0.8% (at the time of writing). That performance is a far cry from the first volatile few trading days of 2016, which saw the S&P 500 fall 4.9%, as Chinese market volatility hit sentiment. Chinese equity markets themselves have seen gains this year, although the major attention will remain on the Yuan amid reports of capital controls and the significant rise in Yuan borrowing costs in Hong Kong which contributed to a sharp rise in the off shore and in turn the onshore Yuan.
- Domestically there are a number of releases which should provide some insight into the level of economic activity in Q4, with November industrial production and construction output data due. Trade and BRC retail sales figures will also be out, whilst Michael Saunders from the MPC will be speaking on Friday.
- Across the pond Donald Trump will continue to dominate the headlines ahead of his inauguration on 20 January. The key question for the US outlook will be how much of his fiscal measures will be passable in Congress and implemented. However, amid the political headlines there are still a number of important data releases to provide a steer on the state of the US economy, with next week mainly focusing on the consumer with retail sales and Michigan consumer sentiment both due.
- China will likely be a major focus next week, with the currency remaining in the spotlight. Indeed the week will kick off with the official reserves data, which in November saw FX reserves fall \$69.1bn on the month. Over the course of Q4 2016, the CNY weakened 4% against the USD, hitting its lowest level since 2008. And whilst the last two days have witnessed a sharp appreciation in the Yuan, it remains to be seen whether tightening Yuan liquidity conditions in Hong Kong and reports of capital controls being introduced will be sufficient to halt the slide. Additionally data will also be released in the form of CPI and PPI inflation, as well as credit figures for December.
- The Euro area macro calendar is relatively light next week, after this week's news on inflation and the PMIs. Whilst industrial production figures from Germany and the Eurozone will be due, attention may focus on Greece. The Euro Working Group is set to meet on Thursday to discuss the progress of Greece's delayed second review and short term debt relief measures. Hopes will be that some common ground can be found between Greece and its creditors in order to reach an agreement at the full Eurogroup meeting later this month.
- Finally note the week will start with Japanese markets on holiday for Coming of Age Day. **RD**

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Weekly Key Indicators

Indicator			Comment
BRC Retail Sales Monitor (Dec) 00:01 Tuesday 10 January			<ul style="list-style-type: none"> The BRC Retail Sales Monitor pointed to retail sales growth slowing to +1.3% y/y in November, from October's +2.4%. Like-for-like sales growth also slowed, from +1.7% y/y to +0.6% y/y. The November print hardly points to disaster though. According to the BRC, shop price inflation is still in negative territory, so the picture on volumes growth is still fairly strong. And we would note the data are choppy on a monthly basis, so we would not place much weight on a single observation. The November print is no exception, particularly as the survey did not cover the Black Friday sales which took place on the last weekend of the month. Next week's December survey will give us a steer on how well retail spending performed over the Black Friday period and in the run-up to Christmas. While we might see a degree of momentum being maintained in the near term, the prospect of rising inflation over the coming months (driven by post-EU referendum falls in sterling) might well see a slowing in retail spending over the course of this year. CH
Total		Last +1.3% (yoy)	
Like-for-like		+0.6% (yoy)	
Industrial Production (Nov) Manufacturing output (Nov) 09:30 Wednesday 11 January			<ul style="list-style-type: none"> Industrial production fell back by 1.3% on the month in October. Within this series, manufacturing suffered a 0.9% decline, with falls recorded in 9 of the 13 subsectors. In addition, oil and gas output plummeted by 10.8% as the Buzzard oilfield (the UK's largest) experienced maintenance shutdowns. On manufacturing specifically, soft data are difficult to reconcile with buoyant survey evidence. For example, the recent PMI showed that the manufacturing index for Q4 as a whole reached a 2½ year high. Accordingly we are tempted to treat October as a statistical anomaly and we are pencilling in a rebound of 0.8% on the month. The wider measure of industrial production stands to gain from manufacturing. In addition, reports indicate that production from Buzzard resumed towards the end of October also supporting output. Moreover Met Office figures suggest that the weather turned noticeably colder in November – the month saw temperatures fall to 1.3°C below the average for the month from 0.3°C above in October – which looks set to boost utility output. All things considered we are forecasting a 1.4% monthly increase in industrial production this time. On our forecasts for the quarter we tend to the view that the manufacturing sector probably expanded only very modestly in Q4. However this is unlikely to be the case for industrial production, where a second successive quarterly decline appears virtually inevitable. PS
	Forecast	Last	
Industrial production	+1.4% (+1.1% yoy)	-1.3% (-1.1% yoy)	
Manufacturing output	+0.8% (+0.7% yoy)	-0.9% (-0.4% yoy)	
Construction output (Nov) 09:30 Wednesday 11 January			<ul style="list-style-type: none"> Construction output contracted by 0.5% in October. Although output in this sector is up +0.7% year-on-year, much of the increase reflects gains made at the start of last year. Output in October actually stood 1.4% below its January 2016 level. Public sector austerity appears to be the main cause of the weakness last year. Public housing work fell by 7.5% between January and October. Other new public work declined by 5.6% over the same period, while infrastructure output declined by 10.8%. Meanwhile, Brexit uncertainty has not (yet) threatened to send the private sector into recession. Private sector housing output rose by 3% between January and October while new commercial property output saw a 1.5% increase. We also note that the construction PMI survey has strengthened to fairly healthy levels since the immediate aftermath of the Brexit vote. With construction headwinds (particularly from public sector retrenchment) set to persist, improvement in the coming months is likely to be muted. CH
Construction output		Last -0.6% (+0.7% yoy)	
UK trade in goods & services (Nov) 09:30 Wednesday 11 January			<ul style="list-style-type: none"> UK trade figures for October reported the smallest deficit since May 2016 at £9.7bn with a sharp improvement in the non-EU balance in particular. Indeed, import volumes to non-EU countries fell by 11.7% in October whilst export volumes rose by 13.3%. Our expectation is that the scale of the October swing leaves the November numbers vulnerable to some 'correction'; indeed, we expect any boost to the UK's net trade position from the weaker pound to arrive through a more gradual process. Overall we look for a net balance of -£11.4bn, still an improvement on the average through July to September of -£12.9bn. VC
	Forecast	Last	
Trade in goods	-£11.4bn	-£9.7bn	
- ex oil & erratics	-£10.4bn	-£9.9bn	
Goods & services trade	-£3.7bn	-£2.0bn	

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The Week Ahead

Date	Venue	GMT	Indicator/event	For	Investec Forecast	Previous
Sat 7	CH		Foreign exchange reserves	Dec		-\$69.1bn (\$3051.6bn)
Mon 9	UK	08:30	Halifax house prices	Dec	+0.1% (+5.8% 3m yoy)	+0.2% (+6.0% 3m yoy)
	JA		Coming of Age Day holiday			
	EU19	10:00	Unemployment rate	Nov		+9.8%
	GE	07:00	Industrial production	Nov		+0.3% (+1.2% yoy)
		07:00	Current account	Nov		+€18.4bn
		07:00	Trade balance	Nov		+€19.4bn (r)
	IT	09:00	Unemployment rate (prel.)	Nov		11.6%
Tue 10	UK	00:01	BRC Retail Sales monitor	Dec		+0.6% l-f-l, +1.3% tot (yoy)
	JA	05:00	Consumer confidence	Dec		40.9
	CH	01:30	◆ CPI	Dec		+2.3% (yoy)
		01:30	PPI	Dec		+3.3% (yoy)
	FR	07:45	Industrial production	Nov		-0.2% (-1.8% yoy)
	US	11:00	NFIB small business optimism	Dec		98.4
		15:00	Wholesale inventories (final)	Nov		+0.9% (p)
Wed 11	UK	09:30	◆ Industrial production	Nov	+1.4% (+1.1% yoy)	-1.3% (-1.1% yoy)
		09:30	◆ Manufacturing output	Nov	+0.8% (+0.7% yoy)	-0.9% (-0.4% yoy)
		09:30	Construction output	Nov		-0.6% (+0.7% yoy)
		09:30	Trade in goods and services	Nov	-\$3.7bn	-\$1.971bn
		09:30	Trade in goods	Nov	-\$11.4bn	-\$9.711bn
		09:30	- ex oil and erratics	Nov	-\$10.4bn	-\$9.862bn
	JA	05:00	Leading index (prel)	Nov		100.8
	EU19		ECB non-rate meeting			No announcement
	SP	08:00	Industrial production	Nov		+0.1% (+0.5% yoy)
Thu 12	JA	05:00	Eco Watchers Survey: current	Dec		48.6
		(23:50)	Trade balance	Nov		+¥587.6bn
		(23:50)	Current account balance	Nov		+¥1719.9bn
	EU19	10:00	Industrial production	Nov		-0.1% (+0.6% yoy)
		12:30	ECB account of December meeting			
			Euro Working Group meets to discuss Greece			
	GE	09:00	GDP (calendar year)	2016		+1.7%
	FR	07:45	HICP (final)	Dec		+0.3% (+0.8% yoy) (p)
	IT	09:00	Industrial production	Nov		unch (+1.3% yoy)
	US	13:30	Weekly jobless claims	Sat 7		-28k (235k)
Fri 13	UK	09:30	BoE's Saunders speaks in London			
		09:30	BoE releases Credit Conditions Survey	Q4		
	CH		◆ Trade balance	Dec		+CNY298.1bn
			Exports	Dec		+5.9% (yoy) (CNY)
			Imports	Dec		+13.0% (yoy) (CNY)
	SP	08:00	HICP (final)	Dec		+0.5% (1.4% yoy) (p)
	US	13:30	PPI	Dec		+0.4% (+1.3% yoy)
		13:30	- ex food and energy	Dec		+0.4% (+1.6% yoy)
		13:30	◆ Retail sales	Dec		+0.1%
		13:30	-ex autos	Dec		+0.2%
		15:00	Business inventories	Nov		-0.2%
		15:00	◆ Michigan consumer sentiment (prel.)	Jan		98.2
		00:00	Yellen to address Town Hall			

Expected during the week

CH	Money supply - M2	Dec	+11.4% (yoy)
	New yuan loans	Dec	+CNY794.6bn
	Total social financing	Dec	+CNY1736.6bn (r)

Further ahead

Jan	UK	Supreme court ruling on holding a parliamentary vote on triggering 'Article 50'
19 Jan	EU19	ECB announcement (& press conference)
20 Jan	US	Donald Trump's inauguration
1 Feb	US	FOMC announcement
2 Feb	UK	MPC announcement (& press conference)

Key

◆ Key event indicator