Macroeconomy

USA: Oct. data solid across the board; rate hike outlook more aggressive

- GDP came in at a strong 3.0% q/q annualized, with its year-on-year growth picking up to 2.3% y/y.
- Non-farm payrolls added a strong 261k in October shaking-off last month’s weakness.
- Housing starts surprised and hit a one-year high in October, coming in at 1.29 million.
- The Oct. slowdown in retail sales growth after Sep’s replacement of goods was not as bad as expected.
- The manufacturing PMI held on to a strong 58.7, while non-manufacturing broke through 60.
- Markets see a more aggressive rate hike path; the likelihood of at least two rate hikes by Mar-18 close to 50%.
- Despite healthy 3Q17 earnings, US tax reform uncertainty capped November’s rise in equity prices.
- The fiscal uncertainty also extended to the dollar, which lost some steam over-the-month.

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<th>Real GDP growth (%)</th>
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<tr>
<td>3.0% q/q annualized</td>
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<tr>
<td>2.3% y/y</td>
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GDP came in at a strong 3.0% q/q annualized, with its year-on-year growth picking up to 2.3% y/y.

Source: U.S. Bureau of Economic Analysis

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<th>Unemployment rate (%)</th>
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<td>4.1%</td>
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Unemployment dropped to 4.1%, beating expectations and recovering from the after-effects of hurricane season.

Source: U.S. Bureau of Labor Statistics

<table>
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<th>Non-farm payrolls (new jobs) (thousand)</th>
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<td>261k in October</td>
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Non-farm payrolls added a strong 261k in October shaking-off last month’s weakness, which was revised to a mild +18k.

Source: U.S. Bureau of Labor Statistics

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<th>Wage growth (%) y/y</th>
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<td>2.4%</td>
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Wage growth disappointed at 2.4%. This may be a result of the return of low paying service job hires post hurricane.

Source: U.S. Bureau of Labor Statistics
Inflation dipped to 2.0% in October as energy costs normalized post-hurricane. Core ticked up to an encouraging 1.8%.

Source: U.S. Bureau of Labor Statistics

The slowdown in retail sales growth (4.5%) following last month’s replacement of goods was not as bad as expected.

Source: U.S. Census Bureau

Non-manufacturing broke through 60 for the first time in 12 years, while manufacturing dipped to a still strong 58.7.

Source: Institute for Supply Management

Housing starts surprised and hit a one-year high in October, coming in at 1.29 million, as activity in the south picked-up.

Source: National Association of Realtors, U.S. Census Bureau

The next rate hike is expected before year-end, with market’s giving a December hike more than 97% probability.

Source: Thomson Reuters Eikon
Fed rate hike outlook
(probability, as of 16 November 2017)

Markets now see a more aggressive rate hike path, with the likelihood of at least two rate hikes by Mar-18 close to 50%.

Source: CME Group

Government bond yields
(%)

The 10-year yield was range bound in November on ongoing uncertainty over US tax reform and stubborn inflation.

Source: Thomson Reuters Eikon

Stock markets
(S&P 500)

Despite healthy 3Q17 earnings, US tax reform uncertainty capped November’s rise in equity prices.

Source: Thomson Reuters Eikon

Exchange rates

The fiscal uncertainty also extended to the dollar, which lost some steam. A pick-up in the euro also added to weakness.

Source: Thomson Reuters Eikon