MORNING BRIEFING
October 2, 2017

Thanks a Million!

See the collection of the individual charts linked below.

(1) While Buffett's ratio is sounding the alarm, Buffett is sounding bullish. (2) Shorting America has been a loser's game. (3) We can all be millionaires in 100 years. (4) CAGR is the 8th wonder of the world, though less so after inflation. (5) Adjusted for inflation, DJIA provides 3% CAGR, a bit less than S&P 500's real earnings yield. (6) Beware the front-cover curse. (7) Trump's tax plan revives animal spirits in the stock market, especially among SmallCaps. (8) Hard to find devils in Trump plan without any details. (9) Both fundamentals and technicals are bullish for stocks. (10) Movie review: "American Made" (+ + +).

Strategy I: Buffett Is Bullish. Among the various stock market valuation gauges, Warren Buffett has said he favors the ratio of the value of all stocks traded in the US to nominal GNP, which is nominal GDP plus net income receipts from the rest of the world (*Fig. 1*). The data for the numerator is included in the Fed's quarterly *Financial Accounts of the United States* and lags the GNP report, which is available a couple of weeks after the end of a quarter on a preliminary basis. Needless to say, it isn't exactly timely data.

However, the S&P 500 price-to-forward-revenues ratio (a.k.a. the price-to-sales ratio), which is available weekly, has been tracking Buffett's ratio very closely (*Fig. 2*). In an interview with *Fortune* in December 2001, Buffett said: "For me, the message of that chart is this: If the percentage relationship falls to the 70% or 80% area, buying stocks is likely to work very well for you. If the ratio approaches 200%—as it did in 1999 and a part of 2000—you are playing with fire." That's sage advice from the Oracle of Omaha.

Buffett's ratio rose back to 176% in Q2-2017, nearly matching the Q1-2000 peak of 180, and the weekly measure rose to 198% in mid-September. Yet Buffett chose to ignore all that, predicting that the DJIA will be over 1 million in 100 years. He said that on September 19, 2017, speaking at an event in New York City marking the 100th anniversary of *Forbes* magazine. Buffett noted that 1,500 different individuals have been featured on *Forbes*' list of 400 wealthiest Americans since the start of that tally in 1982. "You don't see any short sellers" among them, he said, referring to those who expect equity prices will fall. He added, "Being short America has been a loser's game. I predict to you it will continue to be a loser's game." Buffett also said, "Whenever I hear people talk pessimistically about this country, I think they're out of their mind."

CNBC reported that Mario Gabelli joked on Twitter about whether Buffett's normally sunny outlook had darkened given the numbers: "one million in one hundred years ... has Buffett turned bearish?," Gabelli tweeted. He noted that the roughly 3.9% compound annual growth rate (CAGR) needed to get from where the Dow is today to where Buffett predicts it will be in 2117 would be lower than the 5.5% CAGR from the beginning of the 20th century until now.

I asked Joe to go back 100 years and play with the numbers. Here is what he came back with:

(1) We have a monthly series for the DJIA starting December 1917. We can put it on a ratio scale and

compare it to alternative compounded annual growth rate (CAGR) lines (*Fig. 3*). During the 1950s to 1970s, the DJIA crawled along between CAGR lines of 4%-5%. During the two bull markets of the 1980s and 1990s, it climbed from a CAGR of about 4% at the August 1982 trough to about 6% at the March 2000 peak. During the 2000s and 2010s, it has been rising between the 5%-6% CAGR trends.

(2) Starting from the last trading day of 2016, when the DJIA was at 19,763, Joe calculates the following DJIA targets in 2117 in round numbers: 54,000 (1% CAGR), 146,000 (2%), 391,000 (3%), 1,038,000 (4%), and 2,729,000 (5%) (*Fig. 4*).

(3) Adjusting for inflation, using the CPI since December 1920, the real DJIA has been rising between the 2%-4% CAGR lines averaging around 3% (*Fig. 5*). Since 2000, it's been tracking the 3% line quite steadily.

(4) All of the above is based on the long-term annualized return of the DJIA ignoring dividends. Nevertheless, it is interesting that the 3.0% real annualized return from net capital gains isn't far off the 3.3% average real earnings yield of the S&P 500 since 1952 (*Fig. 6*). Joe and I derived that yield by subtracting the CPI inflation rate from the S&P 500's earnings-price ratio.

(5) We also have a total return index for the S&P 500 that includes reinvested dividends (*Fig. 7*). Since the mid-1950s, it has tended to rise around the 9%-11% CAGR lines. Adjusted for the CPI, it has been rising around the 6%-8% lines.

Strategy II: Fundamentals & Technicals Are Bullish. Notwithstanding Buffett's happy talk, we now have to consider the front-cover curse. Buffett's genial visage graces the cover of the *Forbes'* centennial issue. Contrarians need to be on high alert. On the other hand, while most measures of stock valuation seem dangerously high, including Buffett's ratio, *Barron's* this week includes an article, "Bears, Return to Your Caves—at Least for Now," by Vito Racanelli. He concludes with an observation that has been our mantra for quite a while during the current bull market: "Bear markets are generally caused by recessions." He rightly notes that "the evidence for that anytime soon is weak." Thankfully, Vito's story wasn't placed on the front cover.

The bullish article starts as follows: "This old bull market, the second longest in history, continues to be mocked, doubted, and just plain vilified. Okay, the last is an exaggeration, but investor euphoria is absent, even as stocks hit new highs after new highs in September. Instead, investor sentiment is neutral at best, not the kind of thing that dispatches an aging bull." Vito reports that Goldman Sachs' Chief US Equity Strategist David Kostin wrote in a recent report that institutional investors are "tormented bulls." Joe and I have been calling them "fully invested bears" ("fibers") for a long time.

Barring an exchange of intercontinental nuclear missiles with North Korea, an ETF flash crash, or some other black swan event, the outlook looks good for the rest of the year, according to the upbeat article: "Since 1928, there have been 29 Septembers in which the S&P 500 made a 12-month high. Following those 29 instances, the market rose over 80% of the time in the fourth quarter, averaging a 3.7% increase, says Doug Ramsey, chief investment officer of the Leuthold Group. Better still, 15 of those 29 September price highs were also accompanied by 12-month advance/decline line highs—as is the case now. Stocks increased an average 5.9% in the fourth quarter in those 15 instances."

Consider the following supportive developments:

(1) *Tax reform.* It's too soon to tell how bullish Trump's tax reform plan will be for corporate earnings. The latest outline was released last week. It proposes to slash the statutory corporate tax rate from 35.0% to 20.0%. The effective tax rate was 26.4% for the S&P 500 companies last year (*Fig. 8*). It was

21.3% for all US corporations during Q2-2017 (*Fig. 9*).

Stock prices started to discount a bullish round of Trump tax reforms the day after Trump was elected *(Fig. 10*). From November 8 through the end of last year, forward P/Es soared as follows: 16.4 to 16.9 for the S&P 500, 17.2 to 18.7 for the S&P 400, 17.4 to 19.8 for the S&P 600. Investors obviously believe that smaller companies have more to gain from a tax cut than larger ones, which generally have plenty of resources to game the current system. The SMidCaps spent most of this year giving back some of these valuation gains as tax reform seemed like a more distant and less likely outcome.

However, these valuation multiples have started to perk up now that tax reform is actually on the table after release of the administration's nine-page proposal, "Tax Reform: Unified Framework for Fixing Our Broken Tax Code," dated September 27, 2017. Once again, investors are particularly upbeat about the impact of tax reform on smaller companies. The forward P/E of the S&P 600, which jumped from 17.4 on November 8 to a high of 20.5 on December 6, sank back to 18.3 on August 21. On Friday, it jumped back to 20.1.

The Trump proposal remains very sketchy on the lower tax rate that might be applied to repatriated earnings. However, short of a major geopolitical blowup, its hard to see the stock market going down much with the possibility of over $2.5 trillion coming back home.

(2) *Forward revenues and earnings.* While forward P/Es have been meandering lower since early this year until they rebounded last week, forward revenues and earnings have continued on to record highs for the S&P 500/400/600 (*Fig. 11* and *Fig. 12*). Earnings estimates for both 2017 and 2018 for all three have been remarkably firm all year (*Fig. 13*). Earnings growth rates for this year and next year are currently as follows: 11.1% and 10.9% for the S&P 500, 11.0% and 13.7% for the S&P 400, and 5.7% and 20.3% for the S&P 600.

(3) *Breadth.* The percentage of the S&P 500 companies trading above their 200-day moving averages rose to 70.7% on Friday, up from a recent low of 59.6% on August 18 (*Fig. 14*). The percentage with gains on a y/y basis was 74.7% on Friday, a solid reading for sure (*Fig. 15*).

Movie. "American Made" (+ + +) (*link)* is loosely based on the true story of Barry Seal, who worked as a TWA pilot for a short stint before finding gainful employment as a drug runner, money launderer, and gun trafficker. He was employed (often at the same time) by the Columbian drug cartels, the CIA, the Sandinistas, the DEA, the Contras, and the Reagan White House. It's fun watching Tom Cruise have fun playing Seal. It's just another side of the bizarre and disturbing drug-infested relationship between the US and some Latin American countries, which also is entertainingly depicted in the Netflix docudrama "Narcos."

CALENDARS

US. Mon: Construction Spending 0.3%, ISM & Markit M-PMIs 58.0/53.0, Kaplan. **Tues:** Total & Domestic Motor Vehicle Sales 16.7mu/12.6mu, Powell. (Bloomberg estimates)

Global. Mon: Eurozone Unemployment Rate 9.0%, Eurozone, Germany, France, and Italy M-PMIs 58.2/60.6/56.0/56.8, UK M-PMI 56.2. **Tues:** Japan Consumer Confidence 43.5, RBA Rate Decision 1.50%. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance (*link*): The US MSCI index rose 0.7% last week, and ranked sixth out of the 49 markets as 10 countries rose in US dollar terms. That was its highest ranking since the week after the election and compares to 29th a week earlier, when it rose 0.1% as 29 countries moved higher. The AC World ex-US index under performed the US MSCI for the fifth time in 12 weeks, falling 0.6% compared to a 0.5% gain a week earlier. EMU performed best last week with a gain of 0.1%, followed by EM Eastern Europe (0.0%) and EAFE (-0.2). EM Latin America was the worst-performing region as it fell 2.2% w/w, followed by BRIC (-2.0), EM Asia (-1.8), and EMEA (-1.0). Argentina was the best-performing country with a gain of 4.0%, followed by Ireland (2.2), Russia (1.8), Belgium (1.5), and Peru (1.2). Greece was the worst performer as it fell 6.9%, followed by Hungary (-4.2) and Morocco (-3.9). In September, the US MSCI rose 1.9%, ranking 20/44 and ahead of the 1.6% gain for the AC World ex-US index as most regions rose. That compares to a 0.1% gain in August, when it ranked 30/44 and was behind the 0.3% rise for the AC World ex-US in a month when most regions rose. The best regions in September: EMU (3.8) and EAFE (2.2). September's worst-performing regions: EMEA (-1.9), EM Asia (-0.2), BRIC (0.7), EM Eastern Europe (1.3), and EM Latin America (1.5). The US MSCI is up 12.7% ytd, with its ranking up two places w/w to 35th of the 49 markets, but continues to trail the AC World ex-US (18.5) on a ytd basis. Forty-five of the 49 markets are positive ytd, now led by Argentina (61.1), Austria (46.4), Poland (43.9), China (40.5), Korea (31.7), and Chile (30.7). The worst country performers ytd: Pakistan (-22.8), Israel (-3.0), Jordan (-2.8), and Russia (-2.8). BRIC is the best-performing region ytd with a gain of 30.4%, followed closely by EM Asia (29.6) and ahead of EM Latin America (24.6) and EMU (24.3). The worst-performing regions, albeit with gains: EMEA (7.8), EM Eastern Europe (8.3), and EAFE (17.2).

S&P 1500/500/400/600 Performance (*link*): Last week, all three of these indexes rose for a third straight week and the fifth time in six weeks. SmallCap's 3.3% rise was its best since mid-December and outpaced those of MidCap (1.5%) and LargeCap (0.7). All three indexes ended the week at record highs, with SmallCap and MidCap hitting that target for the first time since late July. Thirty of the 33 sectors rose w/w, compared to 17 rising a week earlier and just one the week of August 11, which was the lowest since September 2016. Last week's biggest gainers: SmallCap Energy (5.5%), SmallCap Consumer Discretionary (4.3), SmallCap Financials (4.2), MidCap Energy (4.0), SmallCap Industrials (3.7), and SmallCap Health Care (3.6). Last week's worst performers: LargeCap Utilities (-0.5), MidCap Utilities (-0.2), and LargeCap Consumer Staples (-0.1). All three market-cap indexes moved higher in September as LargeCap rose for a sixth straight month, but its 1.9% gain was easily eclipsed as SmallCap (7.6) and MidCap (3.8) recorded their best monthly gains since November 2016. Twenty-five of the 33 sectors advanced in September, up from 10 rising in August. September's best performers: SmallCap Energy (22.5), MidCap Energy (17.4), SmallCap Industrials (10.6), LargeCap Energy (9.8), and SmallCap Materials (9.0). September's laggards: MidCap Telecom (-7.0), LargeCap Utilities (-3.0), MidCap Utilities (-2.4), SmallCap Telecom (-2.0), and LargeCap Real Estate (-1.9). Twenty-five of the 33 sectors are positive ytd, up from 24 a week earlier, as LargeCap (12.5) continues to outperform both MidCap (8.2) and SmallCap (7.9). Tech and Health Care dominate the biggest sector gainers ytd: SmallCap Health Care (26.7), LargeCap Tech (26.0), MidCap Health Care (20.0), LargeCap Health Care (18.7), MidCap Tech (16.9), and SmallCap Utilities (15.1). Energy and Telecom dominate the worst performers ytd: MidCap Telecom (-39.9), SmallCap Energy (-29.7), MidCap Energy (-24.1), LargeCap Energy (-8.6), and LargeCap Telecom (-8.1).

S&P 500 Sectors and Industries Performance (*link*): Nine of the 11 sectors rose last week, but only three outperformed the S&P 500's 0.7% gain. This compares to five sectors rising a week earlier, when five outperformed the S&P 500's 0.1% rise. Energy was the best-performing sector as its 1.9% gain beat those of the other two outperforming sectors: Financials (1.5%) and Tech (1.0). Utilities (-0.5) and Consumer Staples (-0.1) were the only sectors to decline, followed by these underperformers: Health Care (0.1), Industrials (0.2), Real Estate (0.3), Materials (0.4), Telecom (0.5), and Consumer Discretionary (0.6). The S&P 500 rose 1.9% in September as eight sectors moved higher and five beat the index; that compares to five sectors rising and five beating the S&P 500's 0.1% rise in August. The leading sectors in September: Energy (9.8), Financials (5.1), Industrials (3.8), Telecom (3.5), and Materials (3.3). Utilities was the biggest laggard in September as it fell 3.0%, followed by Real Estate (-1.9), Consumer Staples (-1.1), Tech (0.6), Consumer Discretionary (0.7), and Health Care (0.9). So far in 2017, nine of the 11 sectors are higher, but only three have outperformed the S&P 500's 12.5% gain. The best performers in 2017 to date: Tech (26.0), Health Care (18.7), and Materials (14.1). The eight sectors underperforming the S&P 500 ytd: Energy (-8.6), Telecom (-8.1), Consumer Staples (4.4), Real Estate (4.7), Utilities (9.0), Consumer Discretionary (10.8), Financials (11.0), and Industrials (12.3).

Commodities Performance (*link*): Eleven of the 24 commodities we follow rose last week as the S&P GSCI commodities index gained 0.3%. That compares to 13 commodities advancing a week earlier, when the GSCI index rose 0.5%. The week's strongest performers: Lean Hogs (5.9%), Zinc (4.4), Cocoa (3.0), Crude Oil (2.0), and GasOil (1.4). Last week's laggards: Coffee (-4.8), Sugar (-3.7), Aluminum (-2.8), Feeder Cattle (-2.3), and Unleaded Gasoline (-2.2). September saw 12 of the 24 commodities climb, down from 13 rising in August and led by Crude Oil (9.4), Live Cattle (9.3), GasOil (7.7), Feeder Cattle (7.5), and Brent Crude (7.4). September's laggards: Nickel (-11.1), Unleaded Gasoline (-10.6), Silver (-5.1), Copper (-4.6), and Cotton (-3.5). Industrial metals-related commodities dominated Q3's best performers: Zinc (50.5), Lead (39.3), Copper (33.3), and Aluminum (26.8). Q3's worst performers: Cocoa (-31.0), Sugar (-30.6), Lean Hogs (-28.0), and Soybeans (-16.0). Industrial metals-related commodities also dominate the best performers in 2017 so far: Lead (24.1), Aluminum (23.6), Zinc (23.4), Feeder Cattle (23.1), and Copper (16.9). This year's laggards: Sugar (-27.7), Natural Gas (-19.3), Lean Hogs (-9.4), Coffee (-6.6), and Unleaded Gasoline (-4.8).

Assets Sorted by Spread w/ 200-dmas (*link*): Spreads between prices and 200-day moving averages (200-dmas) rose last week for 8/24 commodities, 5/9 global stock indexes, and 26/33 US stock indexes compared to 15/24, 8/9, and 22/33 rising a week earlier, respectively. Thirteen commodities trade above their 200-dmas, down from 14 a week earlier. Commodities' average spread weakened w/w to 1.8% from 2.1%. Zinc leads all commodities at 14.1% above its 200-dma, followed by GasOil (14.0%) and Heating Oil (13.5). Lean Hogs (-15.7) trades the lowest of all commodities relative to its 200-dma, but performed the best of all commodities as it improved 4.8ppts w/w. Coffee (-6.5) fell 4.5ppts last week for the worst performance of all commodities and all assets. The global indexes trade at an average of 6.2% above their 200-dmas, up from 6.1% in the prior week. All nine of the global indexes trade above their 200-dmas, up from eight a week earlier as the UK (0.4) turned positive, but still trades the lowest of the global indexes relative to their 200-dmas. Germany's 1.7ppt gain w/w to 5.1% was best among its peers. Brazil (12.8) leads the global indexes, but had the worst performance among its peers as it declined 2.4ppts. The US indexes trade at an average of 3.0% above their 200-dmas, with 26 of the 33 sectors above, up from an average of 1.5% a week earlier, when 24 sectors were above. SmallCap Telecom (1.5) and LargeCap Energy (0.9) both turned positive w/w. SmallCap Health Care leads all US stock indexes at 13.2% above its 200-dma, followed by LargeCap Tech (9.4) and SmallCap Industrials (8.9). MidCap Telecom trades 24.4% below its 200-dma, the lowest among the US stock indexes and all assets, followed by SmallCap Energy (-8.0), which surged 5.7ppts for the best performance of the US stock indexes and all asset classes last week. LargeCap Utilities (2.2) fell 0.7ppts for the worst performance among US assets last week.

S&P 500 Technical Indicators (*link*): The S&P 500 index remained in a Golden Cross last week for a 75th week (after 17 weeks in a Death Cross) as both the short-term and long-term technicals improved w/w. However, the index's 50-day moving average (50-dma) relative to its 200-dma fell to 3.4% from 3.5%, and is the lowest since early January. That's down from a 34-month high of 5.4% in early April and compares to a six-month low of 2.0% in early December and a 52-month low of -4.5% in March 2016. The S&P 500's 50-dma and 200-dma both rose together for a sixth straight week, after failing to rise together in mid-August for the first time in 36 weeks. The index closed above its 50-dma for a fifth week after three weeks below, which was its worst streak since it closed below its 50-dma for 10 straight weeks from September 2016 until the November election. The S&P 500 improved to a 10-week high of 1.9% above its rising 50-dma from 1.3% above its rising 50-dma a week earlier, which compares to a four-month low of 1.0% below its falling 50-dma in mid-August. These 50-dma readings compare to a 38-week high of 4.8% on December 13 and a 52-month high of 6.2% in March 2016. The S&P 500 improved to a seven-week high of 5.3% above its rising 200-dma from 4.9% a week earlier, which compares to a post-election low of 3.0% above its rising 200-dma in mid-August. That's down from a 38-month high of 9.4% on March 1, but up from an eight-month low of -0.1% immediately before the election.

S&P 500 Sectors Technical Indicators (*link*): Among the 11 sectors, eight improved w/w relative to their 50-dma and seven relative to their 200-dma. Industrials and Materials had both measures weaken w/w. Nine of the 11 sectors trade above their 50-day moving averages (50-dmas), up from eight a week earlier as Consumer Discretionary turned positive w/w, leaving these three with declining 50-dmas: Consumer Staples, Real Estate, and Utilities. During mid-August, just three sectors traded above their 50-dmas, matching mid-April's reading, which was the lowest since the election. All 11 sectors had been above their 50-dmas during mid-January, and all 11 were below the week before the election, for the first time since December 11, 2015. The longer-term picture is a tad stronger: Nine of the 11 sectors were above their 200-dmas last week, up from eight a week earlier as Energy turned positive for the first time in 30 weeks. Consumer Staples was below its 200-dma for a second week after 32 straight weeks above, and Telecom was below for a 27th week. Nine sectors are in a Golden Cross, with 50-dmas higher than their 200-dmas, unchanged from a week earlier and leaving Energy and Telecom still out of the club. All 11 had been in a Golden Cross during a 21-week streak that ended October 24, the longest such stretch since October 2014. Seven of the 11 sectors have rising 50-dmas, down from eight a week earlier as Utilities turned down for the first time in seven weeks. These three sectors also have declining 50-dmas: Consumer Discretionary, Consumer Staples, and Real Estate. Nine sectors have rising 200-dmas, unchanged from a week earlier. Energy's 200-dma fell for a 22nd straight week and Telecom for a fifth week.

US ECONOMIC INDICATORS

Personal Income & Consumption (*link*): Signs of the hurricane-related drag on economic growth expected this quarter are starting to show up. Real consumer spending in August fell for the first time since the start of the year. Real PCE slipped 0.1% after a five-month gain of 1.5%, led by a 0.5% drop in goods consumption—with durables down 1.0% and nondurables 0.2% lower; real services consumption ticked up 0.1%. Over the three months through August, on a three-month moving average basis, real PCE expanded 1.8% (saar), down from a recent peak of 3.5% in May and the lowest since March 2016. Real income growth was also impacted in August, with real incomes ticking down during the month, though the comparable three-month percent change for wages & salaries was a healthy 3.4% (saar). Our Earned Income Proxy, which tracks wages & salaries and consumer spending closely, was stalled at its record high in August and still indicates stronger growth in both up ahead.

Consumer Sentiment (*link*): "The resilience of consumers has again been demonstrated as concerns about the impact of the hurricanes on the national economy have quickly faded," said Richard Curtin, chief economist for the Surveys of Consumers, in a statement on Friday. The Consumer Sentiment Index (CSI) slipped to 95.1 (slightly below its preliminary estimate of 95.3) after rebounding from 93.4 to 96.8 in August. September's decline was entirely driven by a drop in the expectations component from 87.7 to 84.4—slightly above the mid-month reading of 83.4. The present situation component edged up from 110.9 to 111.7—below the initial estimate of 113.9. "In the past year, there has been a long list of issues that could have derailed the overall level of consumer confidence, including the unprecedented partisan divide, North Korea, Charlottesville, and the hurricanes," Curtin noted. Instead, the sentiment index has averaged 96.2 ytd, making 2017 the strongest since 2000. The current level of confidence signals a 2.6% increase in consumer spending over the next year, according to the Conference Board.

GLOBAL ECONOMIC INDICATORS

Eurozone Economic Sentiment Indicators (*link*): The September Economic Sentiment Indexes (ESI) for both the Eurozone and the EU rose 1.1 points to 113.0—their highest readings since the summer of 2007. Last month, ESIs for all of the five largest Eurozone economies improved, led by the Netherlands (+1.9 to 110.9) and Italy (+1.8 to 110.9), followed by Spain (+0.6 to 109.9), Germany (+0.5 to 112.4), and France (+0.4 to 111.2). At the sector level, industry (+1.6 to 6.6), construction (+1.6 to -1.7), retail trade (+1.4 to 3.0), consumer (+0.3 to -1.2), and services (+0.2 to 15.3) confidence measures all improved, with industrial, consumer, and construction sentiment on steep uptrends.

Eurozone CPI Flash Estimate (*link*): September's CPI rate is expected to match August's rate of 1.5% y/y, up from 1.3% the prior two months. It remains below the ECB's goal of just under 2.0%; April's 1.9% rate was in line with the ECB goal. Looking at the main components, energy (to 3.9% from 4.0% y/y) is expected to have the highest annual rate, ticking down slightly after accelerating steadily from June's four-month low of 1.9%. Meanwhile, the yearly rates for the remaining components show food, alcohol & tobacco (1.9 from 1.4) accelerating and services (1.5 from 1.6) decelerating slightly; the non-energy industrial goods (0.5) rate is expected to match its August reading. The core rate—which excludes energy, food, alcohol, and tobacco—is expected tick down to 1.1% y/y from 1.2% the prior two months, which was the highest rate in four years.

Japan Industrial Production (*link*): Japan's industrial production in August was a surprise on the upside, bouncing around recent highs. Headline output rose for the second time in three months, spiking 2.1% m/m and 3.5% over the period, with factory output matching those rates. Leading August's gain were production of business-oriented machinery (3.7%), transport equipment (3.4), and electronic products (1.8), partially offset by declines in petroleum products (-3.9), chemicals (-0.7), and non-ferrous metals (-0.5). Industrial and manufacturing production both are up 5.4% y/y, near their highs for the year. Upon the release of August's data, METI maintained its assessment that industrial production is showing signs of picking up.

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