MORNING BRIEFING
December 4, 2017

Market Math

See the collection of the individual charts linked below.

(1) Flynn, the Flim-Flam Man. (2) Another impeachment panic attack? (3) Bad news tends to be ignored during meltups. (4) Focusing on S&P 500's tax rate. (5) A drop from an effective tax rate of 25% to a statutory rate of 20% would add an estimated $6 a share in 2018. (6) Targeting S&P 500 to hit 2800 by mid-2018 and 3100 by end 2018. (7) S&P 500 forward revenues and earnings making new highs. (8) OECD tax data for 2016 show corporate tax burden relatively light. (9) OECD: Americans paying relatively high property taxes, low sales and social security taxes.

Strategy I: Panic Attacks & Milestones. I was on CNBC's "Power Lunch" on Friday at 1:15 pm. The DJIA had plunged 350 points from Thursday's close through 11:34 that morning, mostly on an erroneous ABC News report. The report implied that Michael Flynn, after pleading guilty to having lied to the FBI, was ready to accuse President Donald Trump of directing him to talk to the Russians during the campaign, whereas that actually happened after the election, during the transition period. By the time I was on the air, the DJIA was down about 100 points and by the end of the day closed down only 40 points. During my interview, I observed that the bull market since March 9, 2009 has been characterized by frequent panic attacks followed by relief rallies to new high ground. I said that Friday's action was probably just another panic attack that would soon pass.

CNBC's Michelle Fox wrote up my comments in an article titled "Despite 58 panic attacks, this market is actually melting up, says Ed Yardeni." Joe and I have been keeping track of the panic attacks during the current bull market in our *S&P 500 Panic Attacks Since 2009*. We've noticed that the panic attacks have become less frequent and less severe. They've gone from lasting many days to several days to a few days to a couple of days. This year, there have been two one-day events (*Fig. 1*). Last year, there were seven such attacks, by our count (*Fig. 2*).

The previous "impeachment" panic was a one-day event occurring on May 17. We are holding off on adding Friday's intraday panic until we see if there is any follow through this week. We doubt that we will have to do so, since we believe that we are in the early phase of a meltup.

Of course, one of the characteristics of a meltup is that the market pays little, if any, attention to bad news. Another characteristic of a meltup is how quickly the DJIA blasts through the 1000-point milestones (*Fig. 3* and *Fig. 4*). It has blasted up by 6807 DJIA points since the start of last year, 5899 points since Election Day, and 4469 points ytd. Of course, that's getting easier to do, since crossing each 1000-point marker becomes less big of a deal percentage-wise as the market flies higher.

Strategy II: Earnings & the Tax Cut. Melissa and I are still working on sorting out why the effective corporate tax rate for all corporations is higher based on the GDP data than it is based on the IRS data (*Fig. 5*). Meanwhile, as Joe reminds us, the S&P 500 isn't the economy. So we take the S&P 500 effective tax rate at face value (*Fig. 6*).

I asked Joe to update the impact of a cut in the S&P 500's effective tax rate from 25.0% (our estimate for 2017, down from 26.4% in 2016) to 20.0%, assuming that will be the number in the final GOP tax reform bill. Here are his numbers and our forecasts:

(1) For a baseline, Joe estimates that the S&P 500 earnings per share would rise 7.2% from $131.50 this year to $141.00 next year without a tax cut. He calculates the tax cut will add $6 per share, accounting for some offset for the reduction in the deductibility of interest expense.

(2) So we are using $147.00 per share as the earnings number for 2018, which would be an 11.8% increase versus this year. For 2019, we are estimating a 7.1% growth rate, pushing earnings up to $157.50. That should be the earnings number that the market discounts at the end of 2018. Assuming an 18.0 multiple would put the S&P 500 over 2800 by the end of next year. That's actually our target for mid-2018. For the end of next year, we are using a meltup multiple of 20.0, putting the S&P 500 at 3150.

(3) Meanwhile, the latest analysts' consensus numbers show S&P 500 forward revenues and earnings continuing to rise into record territory (*Fig. 7*). These series tend to lead actual revenues and earnings. The same can be said of the S&P 400 and S&P 600 (*Fig. 8* and *Fig. 9*). The standout development for the S&P 500 is that analysts' consensus estimates for 2018 revenues and earnings remain steady in record-high territory, while 2019 estimates for both are moving to new highs (*Fig. 10*).

US Taxes: Compared to Others in OECD. Over the past couple of weeks, Melissa and I have questioned whether US corporations really have a competitive disadvantage because the US corporate tax rate is relatively high compared to other countries. Color us skeptical given that while the statutory rate is relatively high at 35%, the effective rate recently has been 26% for the S&P 500, according to S&P data. For all corporations, it has been 20% and 13%, according to GDP and IRS data. Just by coincidence, the Organisation for Economic Cooperation and Development (OECD) recently published its *Revenue Statistics 1965-2016*. The annual publication provides information on tax levels and structures in OECD countries.

Most of the written portion of the report focuses on the averages for the 35 countries that are members of the OECD country average over periods of time. What piqued our interest was the supporting data released along with the report on the OECD's database website. We constructed a few charts comparing US taxes to those in other countries for 2016, the latest available dataset. (See *Comparing Tax Burdens Among the OECD Economies*, or *YRI-OECD*.)

The OECD data focuses on the following categories of tax revenues: total, individual, consumption (i.e., both sales and value-added tax, or VAT), property, social security, and corporate. Overall, comparing tax revenue to GDP, the US is relatively competitive with other OECD nations. However, drilling down to the components of tax revenues, we found that the results are mixed. Nevertheless, contrary to popular belief, US corporate income taxes are quite competitive relative to other OECD nations! That is, based on the OECD's measure of tax revenues to GDP. Let's have a closer look at these data:

(1) *US total taxes low*. The 2016 data show that the US has low total tax revenues as a percentage of GDP relative to other OECD nations (*YRI-OECD*, Fig. 1). The US percentage is 26.0% versus 34.3% for the unweighted OECD average for 33 of the 35 OECD member countries, based on available data. This puts the US at the fifth-lowest ratio of tax revenues to GDP among the OECD.

(2) *US corporate taxes low*. Comparing income, profits, and capital gains of corporations relative to GDP shows that the US is 10th lowest among the OECD countries (*YRI-OECD,* Fig. 2). The ratio is 2.2% versus an unweighted average of 2.9% for the available data for 32 OECD countries. However,

three large Eurozone economies have lower ratios: Italy 2.1%, France 2.0%, and Germany 2.0%.

New Zealand holds the top spot at 4.7% in corporate income, profits, and capital gains tax revenues. Even Ireland, known for its favorable corporate tax environment, generates more corporate tax revenues as a percentage of GDP, 2.7%, than the US.

(3) *US individual taxes high*. On the other hand, the US ranks as the 11th highest in tax revenues on individual income and profits, excluding capital gains, at 9.6% (*YRI-OECD,* Fig. 3). That's above the 8.9% unweighted average of the data available for 27 OECD countries. Among the larger OECD economies, higher tax burdens on consumers are found in Canada (11.6%), Sweden (11.5), Italy (11.1), and Germany (10.0). Lower than the US are France (8.6), Japan (5.7), and Korea (3.8).

(4) *No VAT in US*. The US generates the lowest consumption tax revenues relative to GDP of all OECD nations at just 4.4% (*YRI-OECD,* Fig. 4). This compares with an unweighted OECD average of 11.2% (based on the 33 countries with these 2016 data available). A notable difference is that sales taxes are imposed by state and local governments in the US; there is no national VAT as in many other countries.

(5) *US social security taxes low*. US tax contributions to pay for social welfare spending are also quite low on a relative basis. The US ranks 8th lowest at 6.2% (*YRI-OECD,* Fig. 5). That's well below the unweighted OECD average of 9.6% (for the 32 countries with these 2016 data available). At much higher levels are France (16.7), Netherlands (14.8), Germany (14.1), and Italy (13.0).

(6) *US property taxes high*. One area where the US tax burden is relatively high is property taxes. Property tax revenues as a percentage of GDP is 2.7% in the US, or the 9th highest in the OECD (*YRI-OECD,* Fig. 6). Yet for 20 OECD nations, property taxes represent less than 2.0% of GDP. Notably, homeownership tends to be higher in the US than elsewhere.

CALENDARS

US. Mon: Factory Orders -0.4%. **Tues:** Merchandise Trade Balance -$47.1b, ISM & Markit NM-PMIs 59.0/54.7. (*Wall Street Journal* estimates)

Global. Mon: Japan Consumer Confidence 44.9, Eurozone Sentix Investor Confidence 32.7, Kuroda. **Tues:** Eurozone Retail Sales -0.7%m/m/1.6%y/y, Eurozone, Germany, France, and Italy Composite PMis 57.5/57.6/60.1/55.0, Eurozone, Germany, France, and Italy NM-PMIs 56.2/54.9/60.2/53.2, UK Composite & NM-PMIs 55.8/55.0, Japan & China Composite & MN-PMIs. (DailyFX estimates)

STRATEGY INDICATORS

Global Stock Markets Performance (*link*): Global Stock Markets Performance (link): The US MSCI index rose 1.4% last week for its biggest gain in 11 weeks, and ranked fifth out of the 49 markets as 12 countries rose in US dollar terms. That compares to 37th a week earlier, when it rose 0.9% as 44 countries moved higher. The AC World ex-US index tumbled 1.5% for its biggest decline in 16 weeks and underperformed the US MSCI the most since the 2016 election; that result compares to a 1.8% gain a week earlier. All regions fell w/w, but EAFE performed best with a decline of 0.9%. BRIC (-4.3%) was the worst-performing region, followed by EM Asia (-3.8), EM Eastern Europe (-3.4), EM Latin America (-3.1), EMEA (-2.3), and EMU (-1.7). Greece was the best-performing country, with a gain of 7.0%, followed by Israel (2.8), Egypt (2.4), and Jordan (2.1). Hungary was the worst performer as it fell 5.5%, followed by China (-5.1), and Poland (-4.2). In November, the US MSCI rose 2.8%, ranking 7/44 and ahead of the 0.7% gain for the AC World ex-US index as most regions rose. That compares to a 2.2% gain in October, when it ranked 14/44 and ahead of the 1.8% gain for the AC World ex-US in a month when most regions rose. The best regions in November: EM Eastern Europe (1.8) and EAFE (0.9). November's worst-performing regions: EM Latin America (-3.2), EMEA (-1.0), EM Asia (0.1), EMU (0.2), and BRIC (0.6). The US MSCI is up 18.1% ytd, with its ranking jumping nine places w/w to 25th of the 49 markets, but continues to trail the AC World ex-US (20.8) on a ytd basis. Forty-five of the 49 markets are positive ytd, led by Argentina (63.8), Austria (51.7), China (46.9), Poland (45.0), Korea (42.9), and Peru (32.4). The worst country performers ytd: Pakistan (-27.9), Israel (-6.7), Russia (-1.9), New Zealand (-0.8), and Jordan (0.1). EM Asia is the best-performing region ytd with a gain of 36.0%, ahead of BRIC (34.1) and EMU (23.7). The worst-performing regions, albeit with gains: EMEA (6.0), EM Eastern Europe (9.3), EM Latin America (16.6), and EAFE (19.0).

S&P 1500/500/400/600 Performance (*link*): All these indexes reached a record high last week. LargeCap rose 1.5% and outperformed SmallCap (1.1%), but both indexes trailed MidCap's 1.9% surge. LargeCap and MidCap ended the week 0.2% below their record highs on Thursday, and SmallCap was 0.7% below its Wednesday record. Twenty-seven of the 33 sectors rose w/w, compared to 32 a week earlier. Last week's biggest gainers: LargeCap Telecom (6.7%), LargeCap Financials (5.2), MidCap Telecom (4.6), SmallCap Consumer Staples (4.6), and MidCap Financials (4.5). Tech and Telecom dominated last week's worst performers: SmallCap Tech (-3.9), LargeCap Tech (-2.0), MidCap Tech (-1.9), SmallCap Real Estate (-0.9), LargeCap Real estate (-0.5), and MidCap Real Estate (-0.2). All three market-cap indexes moved higher in November as MidCap's 3.5% gain squeaked ahead of SmallCap (3.4) and beat LargeCap (2.8). LargeCap's gain was its best in nine months. Thirty of the 33 sectors advanced in November, the most in 18 months and up from 22 rising in October. November's best performers: SmallCap Consumer Discretionary (7.4), SmallCap Health Care (7.2), MidCap Consumer Discretionary (6.4), and MidCap Energy (6.4). November's laggards: MidCap Telecom (-11.5), SmallCap Tech (-3.1), and SmallCap Telecom (0.0). Twenty-eight of the 33 sectors are positive ytd, up from 26 a week earlier, as LargeCap (18.0) continues to outperform both MidCap (14.1) and SmallCap (11.9). Health Care and Tech dominate the biggest sector gainers ytd: LargeCap Tech (36.2), SmallCap Health Care (33.2), MidCap Tech (25.1), MidCap Health Care (22.6), SmallCap Utilities (22.5), and LargeCap Health Care (20.7). Telecom and Energy dominate the worst performers ytd: MidCap Telecom (-45.2), SmallCap Energy (-28.7), MidCap Energy (-19.8), LargeCap Telecom (-10.7), and LargeCap Energy (-7.4).

S&P 500 Sectors and Industries Performance (*link*): Nine of the 11 sectors rose last week, and seven outperformed the S&P 500's 1.5% gain. This compares to all 11 sectors rising a week earlier, when four outperformed the S&P 500's 0.9% rise. Telecom was the best-performing sector as its 6.7% gain was its strongest in 18 weeks and beat these other outperforming sectors: Financials (5.2%), Industrials (2.9), Energy (2.7), Consumer Staples (2.4), Consumer Discretionary (2.1), and Health Care (1.8). Tech (-2.0) was the worst performer, and was followed by these underperformers: Real Estate (-0.5), Materials (0.4), and Utilities (0.9). The S&P 500 rose 2.8% in November as all 11 sectors moved higher and five beat the index; that compares to seven sectors rising and five beating the S&P 500's 2.2% rise in October. The leading sectors in November: Telecom (5.9), Consumer Staples (5.4), Consumer Discretionary (4.9), Industrials (3.5), and Financials (3.3). Materials was the biggest laggard in November as it rose only 0.7%, followed by Tech (0.9), Energy (1.2), Utilities (2.2), Real Estate (2.7), and Health Care (2.7). So far in 2017, nine of the 11 sectors are higher, but five are now outperforming the S&P 500's 18.0% gain versus just three a week earlier. The best performers in 2017 to date: Tech (36.2), Health Care (20.7), Consumer Discretionary (18.5), Materials (18.3), and Financials (18.1). The six sectors underperforming the S&P 500 ytd: Telecom (-10.7), Energy (-7.4), Real Estate (8.4), Consumer Staples (8.6), Industrials (15.1), and Utilities (15.3).

Commodities Performance (*link*): Twelve of the 24 commodities we follow rose last week as the S&P GSCI commodities index fell 0.4%. That compares to 16 commodities advancing a week earlier, when the GSCI index rose 1.4%. The week's strongest performers: Natural Gas (5.0%), Lead (2.7), Lean

Hogs (1.9), Cotton (1.9), and Coffee (1.6). Last week's biggest laggards: Nickel (-6.3), Silver (-4.1), Cocoa (-3.1), and Sugar (-3.0). November saw 15 of the commodities climb, compared to 15 rising in October and led by Cotton (6.5), Crude Oil (5.6), Natural Gas (4.5), and Kansas Wheat (3.6). November's laggards: Nickel (-9.8), Aluminum (-5.2), Zinc (-4.0), and Feeder Cattle (-3.4). Industrial metals-related commodities dominate the best performers in 2017 so far: Lead (26.9), Zinc (26.5), Copper (23.3), and Aluminum (22.2). This year's laggards: Sugar (-23.2), Natural Gas (-17.8), Coffee (-5.5), Cocoa (-4.0), and Soybeans (-1.0).

Assets Sorted by Spread w/ 200-dmas (*link*): Spreads between prices and 200-day moving averages (200-dmas) rose last week for 11/24 commodities, 1/9 global stock indexes, and 26/33 US stock indexes. Commodities' average spread fell w/w to 5.2% from 5.9%. Seventeen commodities trade above their 200-dmas, up from 16 a week earlier. Brent Crude now leads all commodities and all assets at 18.7% above its 200-dma, but Natural Gas (-0.2%) rose 4.5ppts w/w for the best performance of all commodities. Brent Crude is followed closely by Heating Oil (18.4), Crude Oil (16.9), and GasOil (16.9). Silver (-4.3) trades at the lowest of all commodities relative to their 200-dmas, but Nickel (8.6) fell 7.4ppts for the worst performance of all commodities and all assets. The global indexes trade at an average of 4.6% above their 200-dmas, down from 6.4% in the prior week. Eight of the nine of the global indexes trade above their 200-dmas, down from all nine a week earlier. Japan (13.3) leads the global indexes and rose 0.9ppts for the best performance among global assets. South Korea (5.6) fell 3.4ppts for the worst performance among the global indexes. The UK (-1.3) trades the lowest among its country peers, followed by Chile (0.7). The US indexes trade at an average of 6.0% above their 200-dmas, with 31 of the 33 sectors above, up from an average of 4.2% a week earlier, when 28 sectors were above. SmallCap Health Care now leads all US stock indexes at 13.3% above its 200-dma, followed by SmallCap Industrials (12.3), and LargeCap Tech (12.0). MidCap Telecom trades at a sharp discount relative to its 200-dma of 20.2%, the lowest among not just the US stock indexes but all assets. SmallCap Tech (2.9) fell 4.4ppts w/w for the worst performance among the US indexes last week. LargeCap Telecom (-0.2) is the only other sector trading below its 200-dma, but it improved 6.5ppts w/w for the best performance of the US stock indexes and all assets last week.

S&P 500 Technical Indicators (*link*): The S&P 500 index remained in a Golden Cross last week for an 83rd week (after 17 weeks in a Death Cross), as both the short-term and long-term technicals improved for a second straight week. The index's 50-day moving average (50-dma) relative to its 200-dma rose to an 18-week high of 4.6% from 4.4% a week earlier. That compares to a 34-month high of 5.4% in early April, a 39-week low of 3.4% in early October, 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 14th 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 13th 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 rose to a five-week high of 2.8% above its rising 50-dma from 1.8% a week earlier, which compares to a 33-week high of 3.1% seven weeks ago and 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% in December 2016 and a 52-month high of 6.2% in March 2016. The S&P 500 rose to a 37-week high of 7.6% above its rising 200-dma from 6.2% a week earlier, which compares to a post-election 38-month high of 9.4% on March 1, a post-election low of 3.0% in mid-August, and an eight-month low of -0.1% immediately before the 2016 election.

S&P 500 Sectors Technical Indicators (*link*): Among the 11 sectors, nine improved w/w relative to their 50-dmas and 200-dmas. Real Estate and Tech were the only two to weaken. All 11 sectors trade above their 50-dmas, up sharply from six a week earlier as these five moved above in the latest week: Energy, Financials, Health Care, Industrials, and Telecom. Health Care moved above for the first time in five weeks and Telecom for the first time in eight weeks. All 11 sectors were above for the first time since mid-January, which compares to the week before the 2016 election, when all 11 were below for the first time since December 11, 2015. The longer-term picture is similarly strong: 10 of the 11 sectors were above their 200-dmas last week, up from nine a week earlier as Consumer Staples turned positive for the first time in 11 weeks. Telecom ended the week below its 200-dma for a 37th straight week, but improved markedly to -0.2% from -6.7% a week earlier. Nine sectors are in a Golden Cross, with 50-dmas higher than 200-dmas, unchanged from a week earlier. Consumer Staples was out of the Golden Cross club for a seventh week, and Telecom was out for a 39th week. All 11 sectors had been in a Golden Cross during a 21-week streak that ended in late October of 2016, the longest such stretch since October 2014. Ten of the 11 sectors have rising 50-dmas, up from eight a week earlier as Consumer Staples' and Health Care's 50-dmas turned positive w/w, and Telecom's 50-dma fell for a ninth week. Nine sectors have rising 200-dmas, unchanged from a week earlier as Telecom's 200-dma fell for a 14th straight week. Energy's 200-dma dropped for a 32nd week, but is nearly flat now.

US ECONOMIC INDICATORS

Auto Sales (*link*): Motor vehicle sales in November continued to unwind the hurricane-related spurt that pushed September sales to a 12-year high. Sales slowed to 17.5mu (saar) from 18.1mu in October and 18.6mu in September—which was the best pace since July 2005, boosted in part by consumers in hurricane-hit parts of the country replacing flood-damaged vehicles. (Sales had been averaging 16.6mu (saar) during the four months prior to the hurricanes.) Light-truck sales, which led September's rebound, remained at a relatively high level, falling to 9.0mu (saar) after jumping to 9.7mu in September—which was the strongest showing since the summer of 2005. November domestic car sales slipped to 4.7mu (saar) after rebounding to 5.0mu in September, which was the first reading with a five-handle in nine months. Sales of imports (3.7mu, saar) were just shy of September's 3.9mu, which was the fastest pace since August 2009.

Construction Spending (*link*): October construction spending posted its best gain in five months, on widespread strength, reaching a new record high. Total investment advanced for the third month, by 1.4% m/m and 2.2% over the period, following a two-month slide of 1.7%. Public construction spending was up big for the third straight month, jumping 3.9% in October and 8.9% over the period, with spending at the federal and state & local levels all showing gains. Private construction investment rose for the first time in four months, by 0.7%, after falling 1.2% the previous three months. Within private construction spending, nonresidential investment rebounded 0.9%—only its second gain this year—recording a 3.6% ytd decline. Residential investment, on the other hand, has recorded only one loss this year, up 0.5% m/m and 4.5% ytd. Within residential investment, single-family construction remains strong, advancing 12 of the last 13 months by a total of 12.7%, while multi-family construction is down 5.7% in the six months through October after a 5.5% jump the first four months of the year. Meanwhile, home-improvement spending rebounded 1.4% in October after a 1.1% loss in September, continuing its up-and-down-pattern since jumping to a new record high in June.

GLOBAL ECONOMIC INDICATORS

Global Manufacturing PMIs (*link*): Global manufacturing activity in November accelerated at its fastest rate since March 2011, with new orders, output, and employment expanding at multi-year highs. The JP Morgan M-PMI rose for the fifth month from 52.6 in September to 54.0 last month; the developed nations (55.8) continued to record much stronger growth than emerging markets (51.7). The Eurozone M-PMI (60.1) recorded its second-highest reading in the history of the series, with Germany (62.5, 81-month high) remaining at the top of the leader board last month, followed by the Netherlands (62.4) and Austria (61.9), which both reached new record highs. Also posting impressive numbers were Italy (58.3, 81-month high), Ireland (58.1, 215-month high), France (57.7, 84-month high), and Spain (56.1, 129-month high); Greece (52.2) remained above 50.0 for the sixth month after contracting steadily for many years. Among other leading developed nations, rates of increase also accelerated in the UK (58.2, 51-

month high), Australia (57.3, 8-month high), Canada (54.4, 2-month high), and Japan (53.6, 44-month high); the US M-PMI (53.9) eased slightly, but remained solid overall. M-PMIs for the main emerging nations showed growth accelerating in Brazil (53.5, 81-month high), India (52.6, 13-month high), and Russia (51.5, 2-month high), and slowing in China (50.8, 5-month low); Mexico's (52.4) measure showed manufacturing activity expanding again after contracting in October.

US Manufacturing PMIs (*link*): Manufacturing activity in November remained robust according to both the ISM and Markit surveys. The ISM M-PMI edged down for the second month to 58.2, after soaring to 60.8 in September—which was its best performance since May 2004! The recent slowing has been slight: The new orders (to 64.0 from 63.4) and production (63.9 from 61.0) indexes accelerated last month, with the latter the highest since March 2011; both were above 60.0 for the sixth month. The employment (59.7 from 59.8) measure was little changed around October's recent peak of 60.3—which was the highest reading since June 2011. Meanwhile, the supplier deliveries (56.5 from 61.4) gauge posted its biggest one-month decline since January 2015, though remained at a solid reading, while the inventories (47.0 from 48.0) measure was in contraction territory for the second month. Markit's M-PMI (53.9 from 54.6) showed manufacturing activity slowed slightly in November, holding near recent highs. According to the report, both production and new orders increased solidly, while employment levels grew at the second best rate since June 2015.

Eurozone CPI Flash Estimate (*link*): November's CPI rate is expected to move back up to 1.5% y/y, according to the flash estimate, after easing in October to 1.4% from 1.5% the month before. So November's rate should remain below the ECB's goal of just under 2.0%. Looking at the main components, energy (to 4.7% from 3.0% y/y) is once again expected to have the highest annual rate, accelerating for the first time in three months. Meanwhile, the yearly rates for the remaining components show food, alcohol & tobacco (2.2 from 2.3) slowed from October's eight-month high, while rates for both services (1.2) and non-energy industrial goods (0.4) are expected to be unchanged at October's rate. The core rate—which excludes energy, food, alcohol, and tobacco—is expected to hold at 0.9% y/y, after falling below 1.0% in October for the first time since May.

Japan Industrial Production (*link*): Japan's industrial production in October fell short of expectations, but the outlook was upbeat. Headline production rose 0.5% (considerably below the 1.9% expected advance) after a 1.0% loss and a 2.0% gain the previous two months, continuing to bounce around cyclical highs. Upon the release of October's data, METI maintained its assessment that industrial production is showing signs of picking up. Leading October's output gain were electrical machinery (2.5%), transport equipment (0.7), and general-purpose production & business machinery (0.7), the ministry noted. Meanwhile, manufacturers polled by the METI said they expect production to rise 2.8% in October and 3.5% in December. November's M-PMI data, released at the end of last week, show Japan's manufacturing sector expanded last month at the fastest pace in 44 months--with the M-PMI climbing to 53.6, from 52.8 the prior month, as production recorded its strongest growth since February 2014.

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