MORNING BRIEFING
February 22, 2018

Deflating & Inflating Industries

See the collection of the individual charts linked below.

(1) Amazon is eating the lunch of brand names. (2) Walmart's disappointing counterattack. (3) Squeezing the ketchup makers. (4) Materials companies have pricing power. (5) Trump's infrastructure spending planning is a starting point. (6) Trump administration considering limiting imports of steel and aluminum. (7) Robots are learning to knit. (8) Swedes go cashless. (9) BP boosting its forecast for number of electric cars.

Retail: Food Fight. Amazon has thrown down its latest gauntlet. It's offering Whole Foods shoppers who use an Amazon Prime Rewards Visa card 5% cash back on purchases. Cardholders who aren't Prime members can still get 3% back by using the Amazon Rewards Visa Card, CNN reported on 2/20. That follows news that Whole Foods is charging brands more money for prime shelf space at the grocery store and additional fees.

The ripple effects from Amazon's foray into the grocery business seem to be growing wider by the day. Let's take a look at some of the recent news that's related, directly or indirectly, to the Seattle retailer's charge into the food business:

(1) *Walmart staggers*. Walmart's efforts to compete with Amazon have been costly. A 2/20 Bloomberg article calculated that Walmart's spending on online expansion and cutting prices have reduced its operating margin to 3.3%, the lowest in the retailer's history. Combine that with the company's slowing ecommerce sales—23% y/y in Q4 versus north of 50% in the prior three quarters—and it's no surprise that Walmart shares fell more than 10% Tuesday.

(2) *Defensive buying*. Albertsons plans to buy the 4,300 Rite Aid stores that aren't being bought by Walgreens Boots Alliance. The deal will result in $375 million of expected annual costs savings, increase scale for both players, and expand Rite Aid's e-commerce offerings by tapping into Alpertson's expertise. The deal will give Albertsons, which is currently privately held, a way for its shares to trade publicly. The combined company will have about 4,900 grocery stores and 4,300 pharmacies across 38 states.

After the latest news, the three largest pharmacy chains in the US are now in the midst of deals, as CVS has agreed to buy Aetna, and Walgreens is in discussions to buy AmerisourceBergen.

(3) *Grocery wars.* As Amazon and grocery store retailers duke it out, both are squeezing the profits of their suppliers, the food companies. Q4 results indicate that the pressures have only intensified of late as consumers look for healthier meals and snacks.

Kraft Heinz said its Q4 comparable sales fell 0.6% globally, including a 1.1% drop in the US, a 2/16 *WSJ* article reported. At Campbell's, comparable sales fell 2% in Q4 as US soup sales dropped 7%, hurt by the end of a promotional deal with Walmart, the *Journal* reported. Smucker's overall sales rose 1% in Q4, but sales in its US consumer foods segment declined.

(4) *Diverging results*. Amazon is a member of the S&P 500 Internet & Direct Marketing Retail stock

price index, which is up 63.7% y/y through Tuesday's close. The industry is expected to have earnings growth of 40.9% over the next 12 months, and it has a forward P/E of 80.4, which is a 13-year high (*Fig. 1*).

The S&P 500 Food Retail stock price index, which has Kroger as its only constituent, is up 2.5% y/y, and earnings are expected to grow only 3.7% over the next 12 months (*Fig. 2*). The industry's forward P/E has fallen from north of 20 in early 2015 to a recent 13.4 (*Fig. 3*).

The S&P 500 Packaged Foods stock price index is down 7.4% y/y, even though analysts expect the industry to grow earnings by 10.1% over the next 12 months. The industry's forward P/E has fallen from north of 20 as recently as June 2017 to a four-year low of 16.4 (*Fig. 4* and *Fig. 5*).

Walmart and Costco make up the S&P 500 Hypermarkets & Super Centers stock price index, which is up 25.4% y/y (*Fig. 6*). That move is thanks primarily to Walmart shares, which are up 35.7% y/y even after Tuesday's drop. Costco shares, on the other hand, are up only 7.0% over the past year. The industry is expected to post 12.3% earnings growth over the next 12 months, the highest in 12 years, and its forward P/E, at 22.0, is near peak levels of the past 14 years (*Fig. 7*).

Materials: Pricing Power. A global synchronized economic expansion has brought companies in the Materials sector pricing power that is bolstering their top and bottom lines. Throw in the tax cuts coming this year and the possibilities of government spending on infrastructure and protection from the dumping of aluminum and steel in US markets, and the growth could continue over the next 12 months.

The Materials sector is expected to have Q4 earnings growth of 35.2% y/y, second only to that of the rebounding Energy sector. Forward earnings growth looks constructive as well, with industry analysts' consensus expectations for earnings growth over the next 12 months in the Materials sector at 19.8%, behind only the rates expected for Energy (54.9%) and Financials (25.2%).

The strength is broad based. Here are the forward earnings growth estimates for the industries in the sector: Copper (48.2%), Steel (31.8), Construction Materials (30.4), Paper Packaging (27.8), Fertilizers & Agricultural Chemicals (23.6), Diversified Chemicals (20.5), Metal & Glass Containers (15.9), Specialty Chemicals (15.3), Industrial Gasses (13.0), Commodity Chemicals (2.1), and Gold (-0.5). Here's a look at some of the recent news in the sector to see what has analysts so upbeat:

(1) *Pricing power*. The ability to raise prices combined with strength in the domestic construction and fracking markets helped Martin Marietta Materials (MLM) post a 2.5% increase in net revenue and a 16.3% improvement in Q4 operating earnings.

Martin Marietta's volumes to the shale industry in Q4 were up 43% and have room to grow, according to comments by CEO Ward Nye in the company's conference call. In 2017, shipments were roughly 1.8 million tons, well below the 7.5 million tons shipped at the peak in 2014. Nye estimated that "normal" demand from shale drillers could be in the 3-4 million tons range.

A lower tax rate and expectations that the infrastructure market will improve in upcoming quarters led the company to forecast 7.4% revenue growth and 12.5% EBITDA growth this year, using the midpoint of the company's guidance range. Martin Marietta estimates its tax rate will drop to 20%-22%, down from last year's guidance of 28%. It also forecasts moderate volume growth and pricing power in the residential and commercial construction markets. A drag on results will be the higher price of diesel.

The company seemed optimistic government infrastructure spending would improve from a disappointing 2017, which was hurt by "near record precipitation, government uncertainty, labor constraints and slower than anticipated pace of public contract lettings exerted downward pressure on highway construction activity."

Part of the uncertainty stems from the Trump administration's infrastructure spending bill, which offered far less federal funding than was widely expected. Under the proposal, the federal government will spend $200 billion over a decade, paid for through budget cuts. Half of the $200 billion would be given to states in the form of matching funds, and the federal funding couldn't represent more than 20% of the overall cost of a project. Since states aren't exactly rolling in the dough, the proposal was considered a disappointment, and infrastructure-related stocks lagged behind the broader market in the four days after the proposal's big reveal, according to a 2/16 *WSJ* article.

Nye described the Trump administration's proposal as a conversation starter. Some parties have suggested raising the federal gas tax—which stands at 18.4 cents a gallon on retail gasoline and 24.4 cents a gallon on diesel—to boost funding. The Chamber of Commerce has proposed a $0.25 increase in the gas tax, a move that President Trump reportedly endorsed in a meeting. Meanwhile, the American Trucking Association aims for a $0.20 increase. Every penny increase raises $1.7 billion, Nye said.

In addition, infrastructure spending should benefit from the Obama administration's FAST (Fixing America's Surface Transportation) Act. Passed in 2015, it provides $305 billion to spend over five years. Martin Marietta also hopes to close its $1.6 billion acquisition of Bluegrass Materials, which is under review by the Department of Justice. The deal, which should be accretive to earnings per share in its first full year, will expand the company's footprint in the Southeast.

Martin Marietta is a member of the S&P 500 Construction Materials stock index, which has risen only 1.6% y/y (*Fig. 8*). The industry is expected to grow revenue over the next 12 months by 9.8% and earnings by 30.4%. Its forward P/E is 26.3, well above normal levels of the past 19 years (*Fig. 9*). Positive earnings estimate revisions in February were a welcome change after many months of downward adjustments (*Fig. 10*).

(2) *Blooming bottom lines*. After suffering through a couple of tough years, fertilizer prices were on the upswing in Q4, which helped Mosaic's top and bottom lines. The fertilizer company's sales jumped 12.3% in the quarter, and its earnings per share of $0.34 (excluding the impact of non-cash charges resulting from tax law changes) beat analysts' expectations of $0.28 and the year-ago result of $0.26.

Results were helped by the increase in the price of diammonium phosphate, which averaged $348 per tonne in Q4, up from $317 a year earlier. The average selling price of potash also rose in Q4, to $188 per tonne, up from $169 a year ago. Phosphate volumes were flat, and potash volumes were up 10% y/y. Mosaic shares jumped 5.2% on the news Tuesday, but are down 20.3% over the past year.

Mosaic is part of the S&P 500 Fertilizer & Agricultural Chemicals stock price index, which is up 10.3% y/y (*Fig. 11*). The industry's revenue is expected to grow 12.5% over the next 12 months, and its earnings are expected to improve by 23.6% (*Fig. 12*). The industry's forward P/E of 20.6 is lower than the industry's expected forward earnings growth, but higher than it has been during most time periods over the past decade (*Fig. 13*).

(3) *The not-so-invisible hand.* Prices of aluminum and steel have been on the rise, helped by global economic growth and the news that the Trump administration is considering limits on the import of the two metals. Commerce Secretary Wilbur Ross released reports last week that laid out the options he presented to President Trump to shield US companies from foreign competition. The President's decision is expected by April.

"The options would hit trading partners differently, with varying combinations of quotas and tariffs—some higher than 50%. But all had the same broad goal of cutting imports significantly from current levels in the hopes of boosting domestic production in the two hard-hit sectors," reported a 2/16 *WSJ* article. The proposal was made in the name of defending national security and it would impact countries like China, which represents 2.2% of US steel imports, along with allies like Canada and Japan, which represent 16.1% and 5.0% of US steel imports.

The S&P 500 Steel stock price index, which counts Nucor as its only member, is up 5.7% y/y (*Fig. 14*). The industry's revenue is expected to grow by 6.7% over the next 12 months, and earnings are expected to climb 31.8% over the next 12 months (*Fig. 15*). The industry's forward P/E has fallen to 13.0 as the cyclical industry's earnings have rebounded from their lows in 2016 (*Fig. 16*).

Technology: Octopuses. What's amazing about today's technological advancements is the sheer breadth of their impact. Tech doesn't just affect how we communicate; it's affecting how we produce goods, how we pay for goods, and what energy we use. And that's for just the three tech advances that caught our eye this week. Let's take a look:

(1) *Knitting robots*. Robots have long had a role on the factory floor, putting together parts of cars and other machinery. However, advances have made robots so much more dexterous that they're now invading the garment industry's factory floors. Machines are knitting sweaters and sewing pockets, work that historically has been the bailiwick of humans.

A 2/16 *WSJ* article described a factory in Bangladesh: "At the Mohammadi Fashion Sweaters Ltd. factory in Bangladesh's capital, a few dozen workers stand watching as 173 German-made machines knit black sweaters for overseas buyers. Occasionally the workers step in to program designs or clean the machines, but otherwise there is little for humans to do. It's a big change from a few years ago, when hundreds of employees could be found standing over manual knitting stations for up to 10 hours a day. Mohammadi's owners began phasing out such work in 2012, and by last year, the knitting process was fully automated." About 500 workers have been replaced by machines that work faster, and therefore presumably cheaper.

A study quoted by the *Journal* predicted that some Asian nations could lose more than 80% of their garment, textile, and apparel manufacturing jobs. While these are jobs that might not be desirable in the West, they provided a means to earn money in emerging nations. "If you cannot absorb [young people] in productive activities, they will do something. And the something they will do may not be socially pleasant," Zahid Hussain, the World Bank's lead Bangladesh economist told the *WSJ*. "It's a social time bomb." And it's a problem that may arrive faster than expected.

(2) *No spare change*. Last year, we told you about our friend who was warned before visiting Sweden not to exchange dollars for krona. Turns out, the Swedes have taken to Swish, an app downloaded to cell phones that lets users make or receive payments directly to or from their bank accounts.

The use of Swish and credit card has gotten so popular that almost no one is using cash, and that has Swedish regulators concerned. Many bank branches, shops, and restaurants across the country are not accepting cash, according to a 2/18 Bloomberg article. The cash in circulation in 2017 dropped more than 40% below its 2007 peak and is at the lowest level since 1990.

The article explains: "[T]he pace at which cash is vanishing has authorities worried. A broad review of central bank legislation that's under way is now taking a special look at the situation, with an interim report due as early as the summer. 'If this development with cash disappearing happens too fast, it can be difficult to maintain the infrastructure' for handling cash, said Mats Dillen, the head of the parliamentary review." The central bank is considering creating a digital currency, an e-krona or forcing banks to provide cash.

In the US, banks are pushing Zelle, a digital payments network backed by Bank of America, JPMorgan Chase, Wells Fargo, and others. Zelle competes with PayPal's Venmo and Apple Pay, as the banks work frantically to prevent themselves from being disintermediated by the tech giants.

(3) *The end of "fill 'er up"?* The growing popularity of electric cars and solar energy is doing more than just making Elon Musk seem prescient. It may be on the verge of changing the entire energy industry. In its annual energy outlook, BP boosted its forecast for electric vehicles by 80% to 180 million by 2035 and estimated that a third of the miles driven in 2040 will be powered by electricity, a 2/20 Bloomberg article reported. As a result, BP reduced its estimate of growth in oil demand and moved up the projected date of peak oil demand, at 110 mbd, to mid-2030, earlier than the mid-2040s predicted in last year's report.

Ironically, if auto companies believe that more electric cars will be sold, they may no longer need to boost the efficiency of gasoline-powered cars to meet government efficiency regulations.

"BP has also raised its forecasts for renewables," Bloomberg noted. "It expects clean-energy technologies will make up 40 percent of the growth in energy supplies in the years ahead. The London-based company increased solar power projections by 150 percent compared with 2015 as panel costs fell faster than anticipated amid strong policy support globally."

The effects could touch drillers, refiners, gas stations, auto manufacturers, parts suppliers, and many others. Buckle up.

CALENDARS

US. Thurs: Leading Indicators 0.6%, Jobless Claims 230k, Kansas City Fed Manufacturing Index 16.5, Weekly Consumer Comfort Index, EIA Petroleum Status Report, EIA Natural Gas Report, Dudley, Bostic. **Fri:** Baker-Hughes Rig Count, Dudley, Mester, Williams. (*Wall Street Journal* estimates)

Global. Thurs: Germany Ifo Business Climate, Current Assessment, and Expectations Indexes 117.0/127.0/107.9, UK GDP 0.5%q/q/1.5%y/y, Japan Headline, Core, and Core-Core CPI 1.3%/0.8%/0.3% y/y, ECB Publishes Account of January 24-25 Policy Meeting. **Fri:** Eurozone Headline & Core CPI 1.3%/1.0% y/y, Germany GDP 0.6%q/q/2.9%y/y, Canada CPI 0.5%m/m/1.5%y/y. (DailyFX estimates)

STRATEGY INDICATORS

Stock Market Sentiment Indicators (*link*): Our Bull/Bear Ratio (BBR) sank to a five-month low this week, falling for the second time in three weeks from 5.24 to 3.32 over the period; it had been above 5.00 the last three weeks of January. The BBR was at 5.25 five weeks ago, which was the highest since early April 1986. Bullish sentiment has plummeted 17.5ppts the past three weeks to 48.5% (lowest since mid-September) after 16 weeks at 60.0% or above; it was at 66.0% three weeks ago, which was the most bulls since early April 1986. Most of the bulls fled to the correction camp, which jumped 15.5ppts the past three weeks to 36.9%—its highest reading since May 2016. Bearish sentiment climbed 2.0ppts over the three-week period, to 14.6% from 12.6%—which was the fewest bears since early April 1986. The AAII Ratio rose to 69.4% last week after sliding the prior three weeks from 71.7% to 51.4%. Bullish sentiment rose to 48.5% after declining the prior three weeks from 54.1%

to 37.0%, while bearish sentiment fell to 21.4% after climbing from 21.4% to 35.0% the previous three weeks.

AC World ex-US MSCI (*link*): This index is up 0.9% ytd in dollar terms after rising 24.1% in 2017 and 1.7% in 2016. In local-currency terms, the index is down 1.5% ytd compared to gains of 15.3% and 4.1% for all of 2017 and 2016, respectively. Local-currency forward revenues has risen 9.0% from a five-year low in March 2016 to near its highest level since January 2015. Forward revenues has been more stable longer term and is down just 2.2% from its October 2014 record high. Local-currency forward earnings has performed better, with a 25.2% rise from its six-year low in March 2016 to its highest level since September 2008, but remains 2.6% below its September 2008 record. Revenues are expected to rise 4.9% in 2018 following a forecasted 8.6% gain in 2017, and earnings are expected to rise 9.7% (2018) after surging 19.1% (2017). Analysts are forecasting STRG of 4.9%, down from a seven-year high of 6.8% in March 2017 and up from a cyclical low of 2.3% in March 2016. Their STEG forecast of 9.6% is down from a four-year-high forecast of 14.1% in March 2017, but up from their 6.3% forecast in January 2016, which was the lowest in seven years. The implied profit margin is expected to rise to 8.1% in 2018 from 7.7% in 2017. The forward profit margin forecast of 8.1% is at a nine-year high now. NERI was positive in February for a fifth straight month as it weakened to 1.3% from an eight-month high of 2.3% in January, and is down from a 76-month high of 2.7% in May. That compares to a 51-month low of -11.3% in March 2016. The P/E fell to a 19-month low of 13.5 in February from a 31-month high of 14.8 in January, which compares to a recent bottom of 12.4 in February 2016 and a six-year high of 15.3 in April 2015. The index's 12% discount to the World P/E remains close to its record-low 13% discount during March 2017.

EMU MSCI (*link*): The EMU's MSCI price index has gained 1.8% ytd in dollar terms after rising 25.3% in 2017 and falling 1.2% in 2016. In euro terms, the price index is down 0.9% ytd following gains of 10.2% in 2017 and 1.8% in 2016. Euro-based forward revenues is 4.0% above its six-year low in May 2016 to just 0.2% below its cyclical high (August 2015), but remains 7.0% below its record high (September 2008). Euro-based forward earnings had stalled from 2011 to 2016—but is now 10.4% above its prior cyclical high in September 2015 to its highest level since August 2011. It remains 20.4% below its record high in January 2008, but has improved 18.0% from its 23-month low in June 2016. Analysts expect revenues to rise 3.4% in 2018 after a 5.2% gain in 2017, and think earnings will rise 9.3% (2018) following a 10.7% increase in 2017. Forecasted STRG of 3.4% is down from a six-year high of 5.0% in April 2017, but up from 2.0% in May 2016. Forecasted STEG of 9.3% is down from a 78-month high forecast of 21.0% during February 2017, which compares to a seven-year low of 5.7% in April 2016. STEG had been higher than LTEG (currently 13.3%) from July 2016 to May 2017, but is trailing now. The forward profit margin ticked down to 7.6% from an eight-year high of 7.7% in January, which is up from a cyclical bottom of 6.2% in May 2013. The implied profit margin is expected to improve to 7.5% in 2018 from 7.1% in 2017. NERI was negative in February for a seventh month following eight straight positive readings, falling to -2.0% from -1.1%. Those readings are the lowest among the world's regions and down from a 131-month high of 8.1% in May, which compares to a 24-month low of -13.2% in April 2016. The P/E of 13.5 is at a 22-month low and down from a nine-month high of 14.9 in January, which compares to a 13-year high of 16.4 in April 2015 and a 30-month low of 12.2 in February 2016. That represents a 12% discount to the World MSCI's P/E now, up from a record-low 25% discount during 2011. But the current reading is still well below the 1% premium during April 2015—the post-euro-inception record high.

Emerging Markets MSCI (*link*): The EM MSCI price index is up 3.1% ytd in US dollar terms after surging 34.3% in 2017 and rising 8.6% in 2016. In local-currency terms, EM has gained a lower 2.2% ytd compared to gains of 27.8% (2017) and 7.1% (2016). Local-currency forward revenues is up 11.3% from a four-year low in June 2016 to 6.3% below its November 2014 record. Local-currency forward earnings has fared substantially better, rising to record highs recently for the first time since January

2014; it has improved 31.9% from April 2016's six-year low. Revenues are expected to rise 7.9% in 2018, down from a forecasted 12.1% gain in 2017. That's expected to lead to an earnings gain of 13.9% in 2018, which follows a 22.9% surge in 2017. Forecasted STRG fell to 7.8% in February from 8.7%, and is down from a four-year high of 9.6% in January 2017. However, STEG edged up to 13.3% in February from 13.2%, which is down from a cyclical peak of 17.5% in March 2017 and is below LTEG (22.4%) again. The implied profit margin is expected to improve to 7.3% in 2018 from 7.0% last year. The forward profit margin of 7.3% is the highest since March 2012 and up from a record low of 6.0% in February 2016, but remains 3ppts below its 10.3% record high in December 2007. NERI declined to -0.5% in February from 1.6% in January, which had been its third month of positive readings after 80 months of negative readings through October. The February reading compares to an 83-month low of -10.2% in March 2016. Emerging Markets' valuation has been more stable recently than that of the rest of the world, falling only to a seven-month low of 12.2 from an eight-year high of 13.1 in January. The index is trading at a 20% discount to the World MSCI P/E, its best reading in 15 months and compares to a 22% discount in January and a 10-year-low 30% discount in August 2016.

MSCI World & Region Net Earnings Revisions (*link*): Analysts' recent earnings revisions through February point toward waning optimism about profits across the world. Powered by the US, in the lead among regions, the AC World MSCI's NERI was positive for a 13th month as it improved 1.5ppts to a 93-month high of 7.1% from 5.5% in January. The US was positive for a tenth straight month as its NERI soared 7.6ppts to a record high of 20.7% from 13.1%. The AC World Ex-US was positive for a fifth month, but ticked down 1.0ppt to 1.3% from 2.3%, which compares to a 76-month high of 2.6% in May. Emerging Markets' NERI turned negative after three months of positive readings, dropping 2.1ppts to -0.5% from 1.6%, and compares to December's 83-month high of 1.7%. EM Latin America turned negative, dropping to -0.2% from a barely positive 19-month high of 0.03% in January; EM Asia was the weakest as it slipped 2.7ppts to -0.9% from 1.8%; EM Eastern Europe rose 0.6ppt to a 96-month high of 5.0% from 4.4%; Europe (down 0.3ppt to -0.6%) was negative for a seventh month following 10 positive readings; EAFE (down 0.3ppt to 2.5%) was positive for a 15th month; EMU (down 0.9ppts to -2.0%) was negative for a seventh straight month following eight positive readings. February's scores among the regional MSCIs: US (20.7% in February, up from 13.1% in January), AC World (7.1, 5.6), EM Eastern Europe (4.9, 4.4), EAFE (2.5, 2.8), AC World ex-US (1.3, 2.3), EM Latin America (-0.2, 0.0), Emerging Markets (-0.5, 1.6), Europe (-0.6, -0.3), EM Asia (-0.9, 1.8), Europe ex-UK (-1.4, -0.2), and EMU (-2.0, -1.1).

MSCI Countries Net Earnings Revisions (*link*): NERI was positive for 23/44 MSCI countries in February, down from 24/44 in January, which was the most since July. That compares to 23/44 in December, 22/44 in November, 16/44 in October, and 12/44 in September, which was the lowest since July 2016, and compares to 29/44 in June, which was the highest since June 2010. NERI improved m/m in February in 22/44 countries, compared to 28/44 rising from November to January, but that's still down from 32/44 in May, which had been the most since June 2016. The United States' NERI was at a record high in February, followed by Russia's at a 154-month high, Australia (141), South Africa (45), Indonesia (45), Canada (43), and the Czech Republic (33). On the flip side, Denmark's was at a 27-month low, followed by those of Korea (22), Finland (19), and the Philippines (9). The 23-month positive NERI streak for Hungary is the best, followed by those of Austria (21), China (18), Hong Kong (16), Poland (16), Turkey (16), and Japan (15). South Africa's NERI has been negative for 45 straight months, followed by the negative streaks of New Zealand (21), Mexico (16), Pakistan (15), Egypt (11), and Israel (11). NERI turned positive in February for five countries: Portugal (for the first time in 12 months), Greece (6), Indonesia (6), Italy (4), and Taiwan (3). Six countries slipped back into negative territory: Philippines (for the first time in 9 months), Belgium (7), Finland (4), Korea (4), India (2), Malaysia (2), and Sweden (2). The highest NERI readings in February: Argentina (record high of 21.0%), US (record high of 20.7%), Austria (17.7), Peru (15.7), Russia (13-year high of 12.7), Hong Kong (8.4), and Japan (8.3). The weakest NERIs occurred in Denmark (-12.9), Korea (-6.7), Chile (-

4.0), Mexico (-3.9), and Israel (-3.8).

US ECONOMIC INDICATORS

Existing Home Sales (*link*): Existing home sales slumped in January for the second month after reaching a cyclical high in November. These sales—tabulated when a purchase contract closes—sank 3.2% in January, and 5.9% over the two-month period, to 5.38mu (saar). NAR's chief economist noted a glaring inventory shortage at the start of 2018, "The utter lack of sufficient housing supply and its influence on higher home prices muted overall sales activity in much of the U.S. last month." Single-family sales fell 5.7% over the two-month period to 4.76mu (saar), the lowest since August 2016; multi-family sales recovered 1.6% last month, to 620,000 units, following a 9.0% plunge in December. Overall sales were down 4.8% y/y, the largest annual decline since August 2014, with single- and multi-family sales down 4.8% and 4.6%, respectively. The number of existing single-family homes on the market at the end of January was little changed at 1.36mu—9.9% below a year ago—recording y/y declines for the 32nd consecutive month; unsold inventory was at 3.4 months' supply, holding near December's record low of 3.1 months.

GLOBAL ECONOMIC INDICATORS

US PMI Flash Estimates (*link*): US manufacturers reported the strongest growth in 40 months in February, according to flash estimates, while service sector growth was at a six-month high, though the latest reading was one of the highest achieved since early 2015. The C-PMI rebounded to 55.9—the highest since November 2015, after sliding the prior three months from 55.2 to 53.8. The M-PMI climbed for the third month, from 53.9 in November to 55.9 this month—the best since October 2015—led by the sharpest rise in incoming new orders in around 3.5 years, with both domestic and foreign orders accelerating. The NM-PMI also reached 55.9 last month, after a three-month drop from 55.3 to 53.3, driven by a continued rebound in new order volumes to its best levels since March 2015; the rate of job creation accelerated to a six-month high.

Eurozone PMI Flash Estimates (*link*): The Eurozone continued to expand at a vigorous pace this month, according to flash estimates, though pulled back a bit from January's near 12-year high. February's C-PMI slipped to 57.5 from January's 139-month high of 58.8, as both the M-PMI (to 58.5 from 59.6) and NM-PMI (56.7 from 58.0) slowed from January's elevated rates. The slowdown in growth was broad-based. Germany's C-PMI dipped slightly this month to 57.4 after reaching an 81-month high of 59.0 in January, as its M-PMI fell for the second month from a record high of 63.3 in December to 60.3—its sixth consecutive reading above 60.0; the NM-PMI drifted down to 55.3 from 57.3 in January, which was the best service-sector growth since March 2011. France's C-PMI fell to 57.8 this month from 59.6 the prior two months, remaining firmly in positive territory—well above its long-run series average of 53.9. The NM-PMI (57.9 from 59.2) and M-PMI (56.1 from 58.4) measures eased from recent highs, though growth remained significant in both. Business activity slowed across the rest of the Eurozone, but still registered the second-largest expansion in nearly 12 years.

Japan M-PMI Flash Estimate (*link*): Japan's manufacturing sector this month is growing at a slower but still robust pace, according to its flash estimate. The M-PMI eased to 54.0 after accelerating the prior three months from 52.8 in October to 54.8 in January—which was the best pace since February 2014. This month's report was a mixed bag: Both orders and production grew at their slowest rates since October, while employment growth was the best in nearly a year.

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