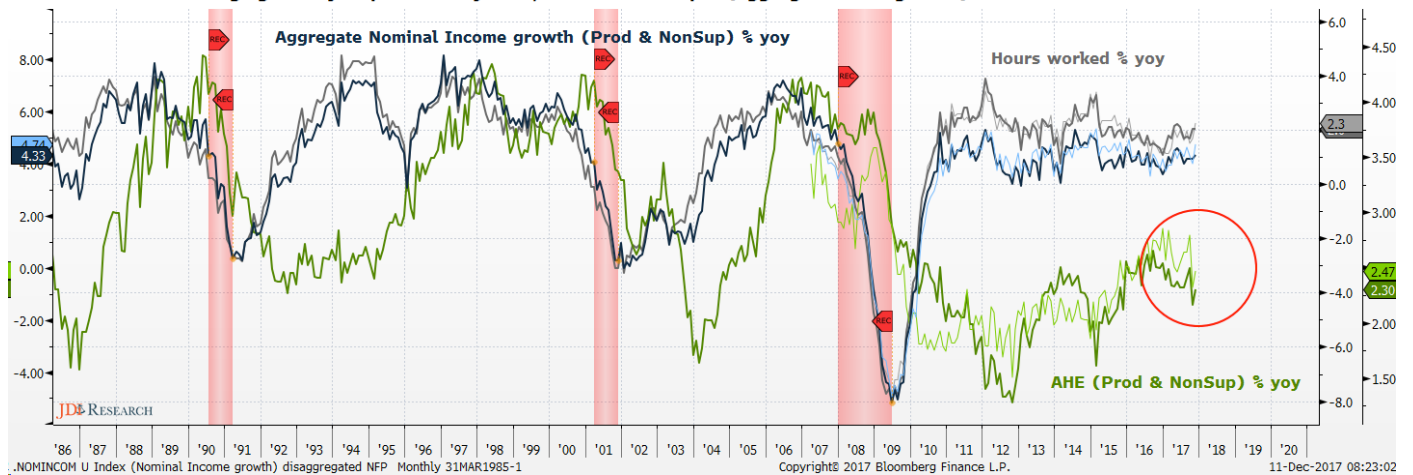


• The US macro landscape going into 2018:

Chart 1:

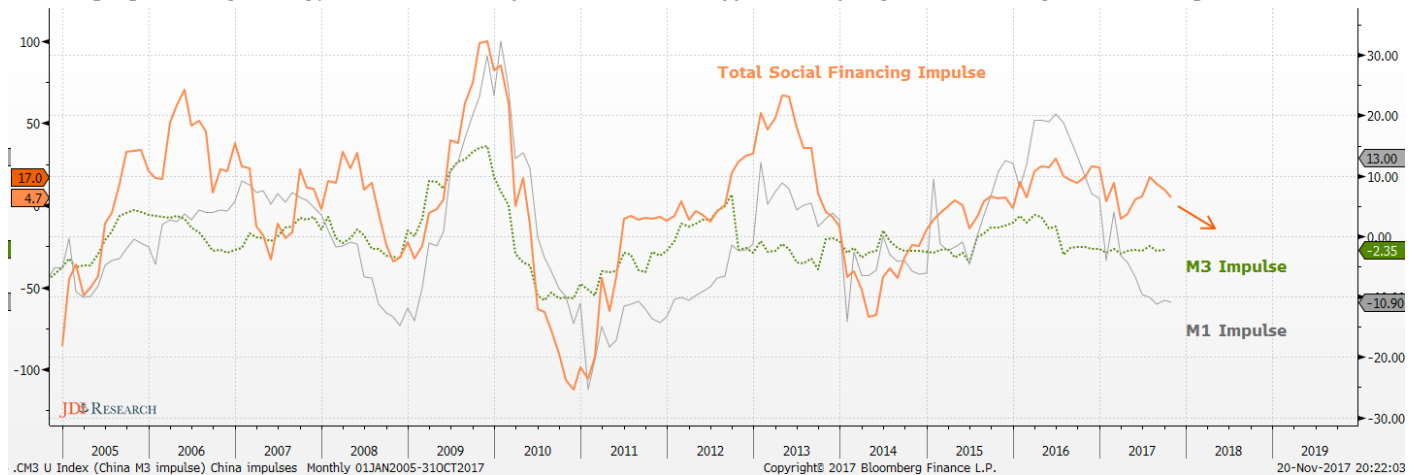
1% increase in real wage growth is equivalent to employment gains of 120k per month for a year:
The issue is that earnings growth just printed a 2yr low, whilst labour input (aggregate hours growth) will continue to trend down:



• China's macro landscape going into 2018:

Chart 2:

China monetary tightening - Narrow and Broad money impulses have turned negative in 2017:
Reflecting higher money velocity, the actual credit impulse has remained supported but policymakers are likely to favor reining in credit excesses:



- The US tax reform has been efficiently communicated and appears fully discounted both by markets and economic agents:

Chart 3:

Trump's communication has certainly been efficient !
 UMich: Share of consumers who heard favorable news on the changes in economic policies

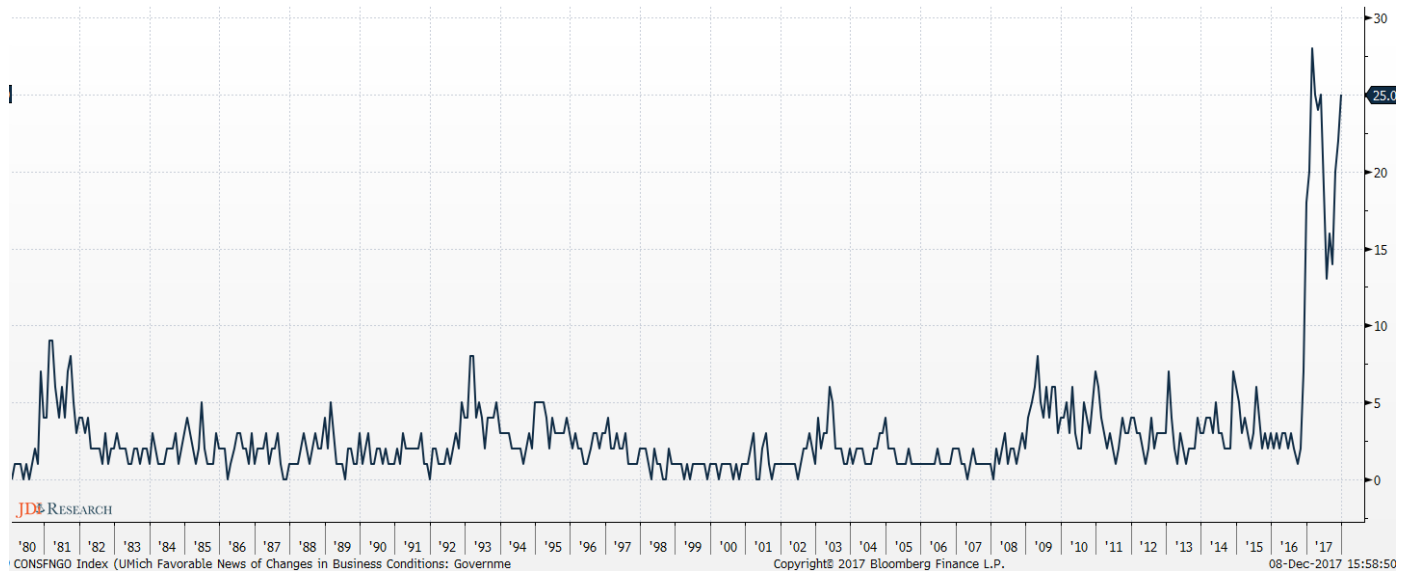


Chart 4:

Confidence does not deviate from real income for very long:

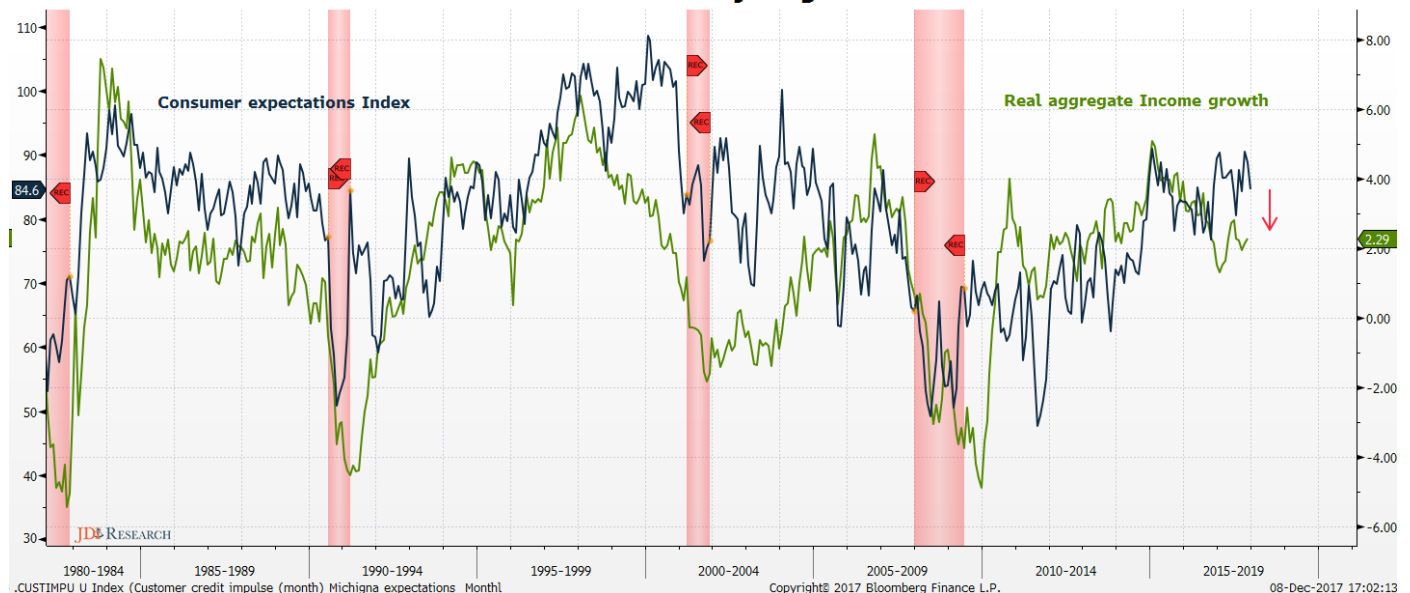


Chart 5:

US credit impulse has recovered sharply led by corporate borrowing:

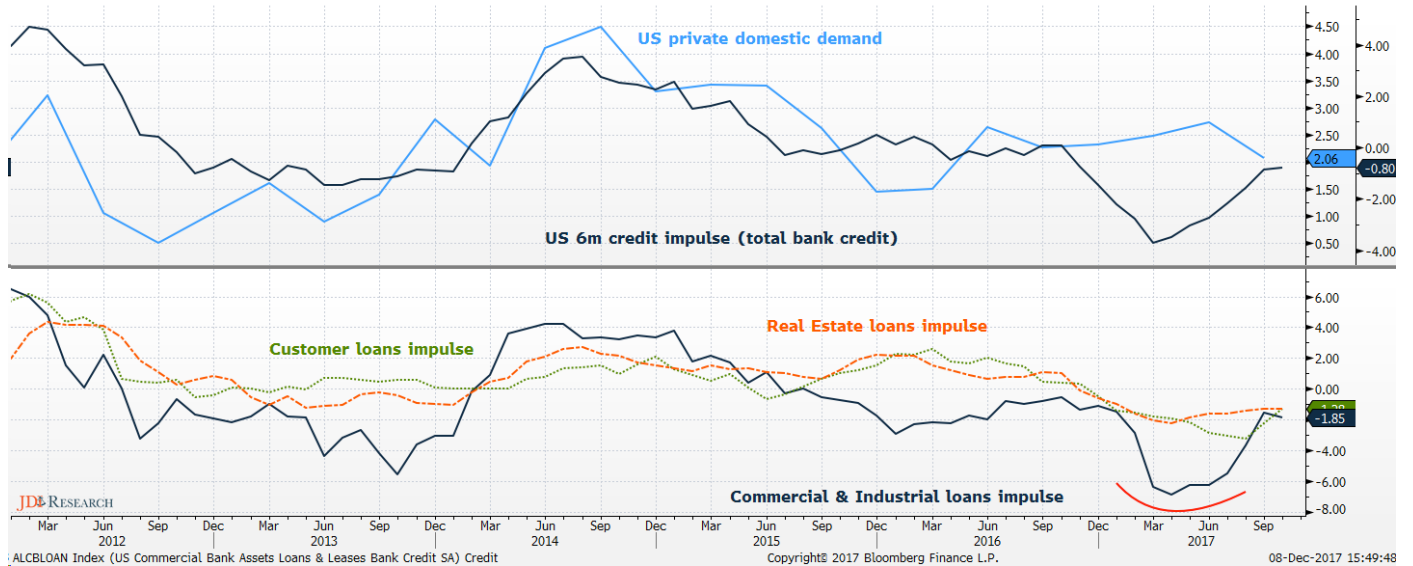


Chart 6:

The fiscal reform is already "mortgaged":

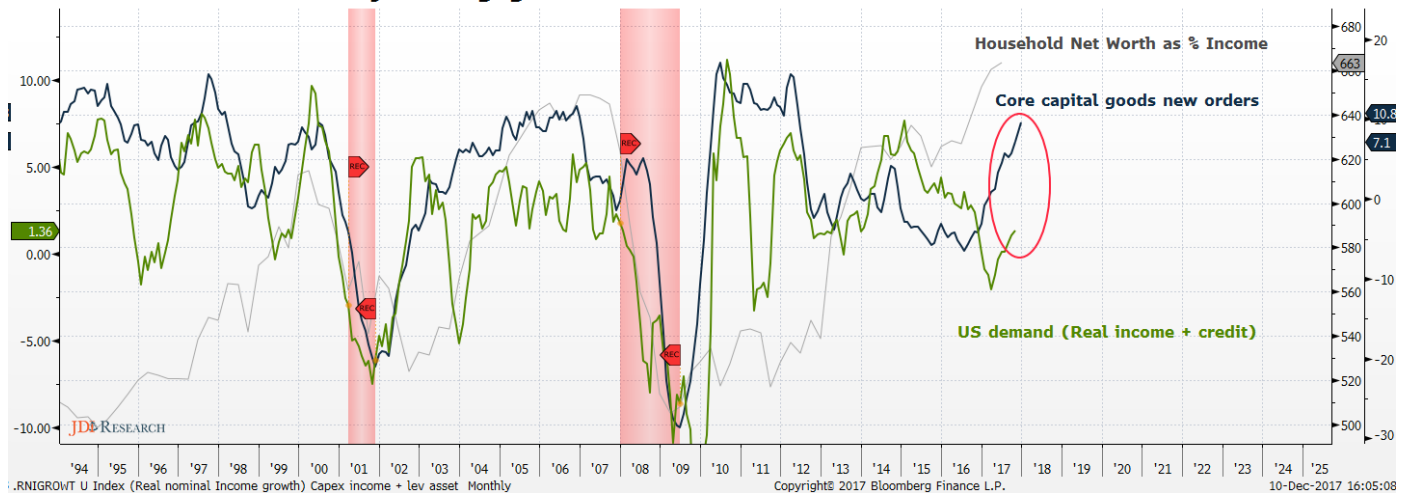


Chart 7:

The increased leverage allows the US to grow - temporarily - above income:

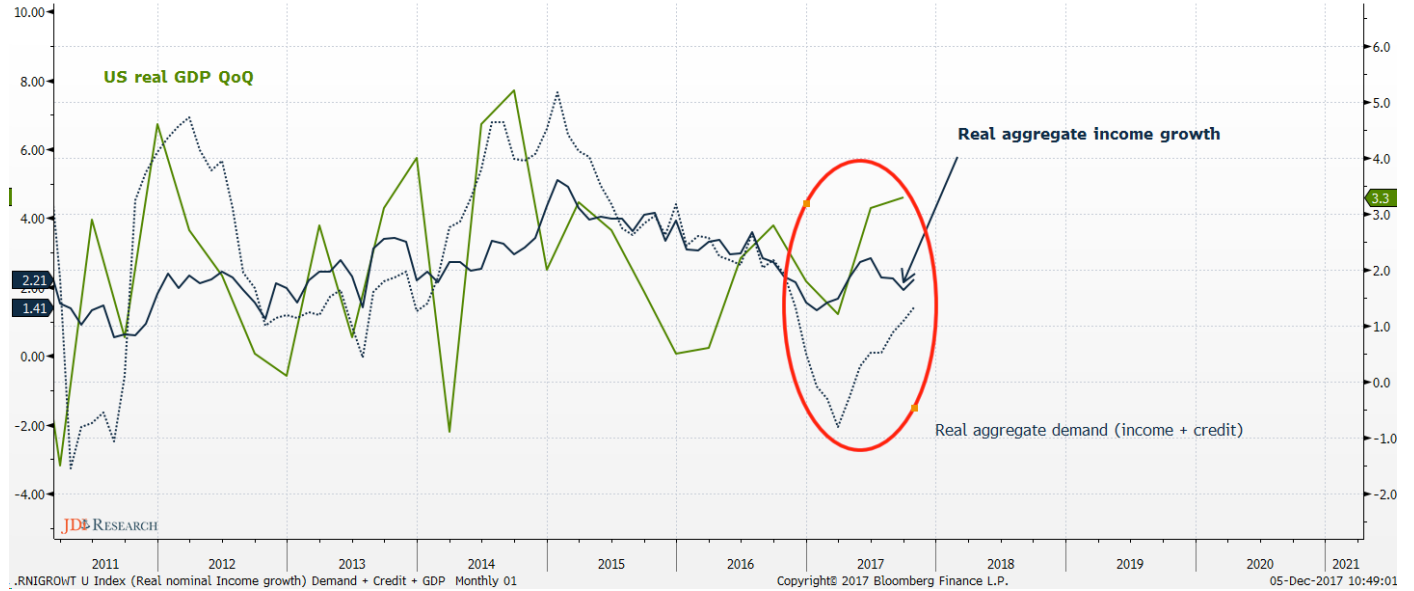


Chart 8:

As growth momentum fades, high leverage will potentially mean higher risk premia:

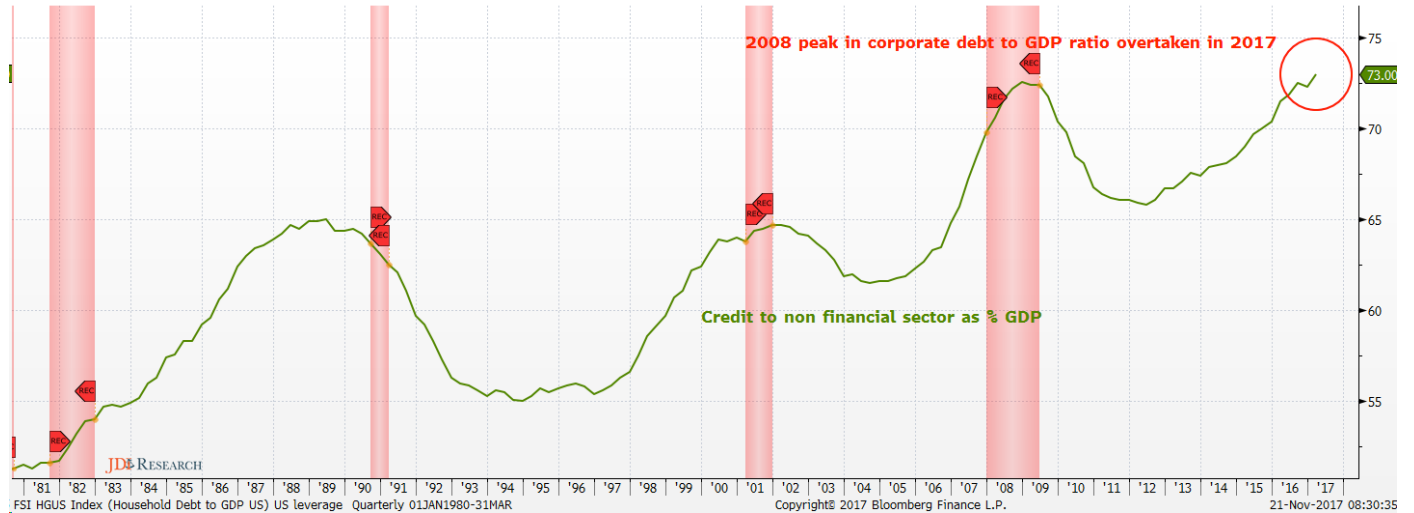
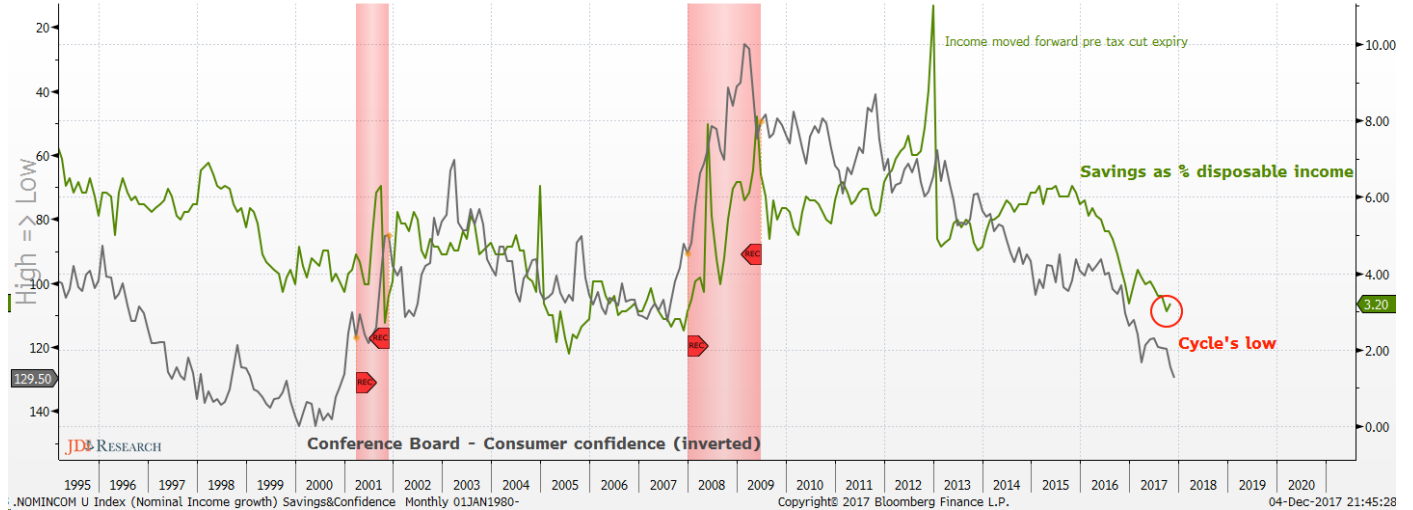


Chart 9:

The consumer has already leveraged up and stellar confidence has fed through to lower savings:



• Inflation remains elusive:

Chart 10:

"Fed has no reliable theory of inflation?" - Tarullo, Oct 4 2017

Hmmm when your business has negative earnings growth, do you raise employees' wages?

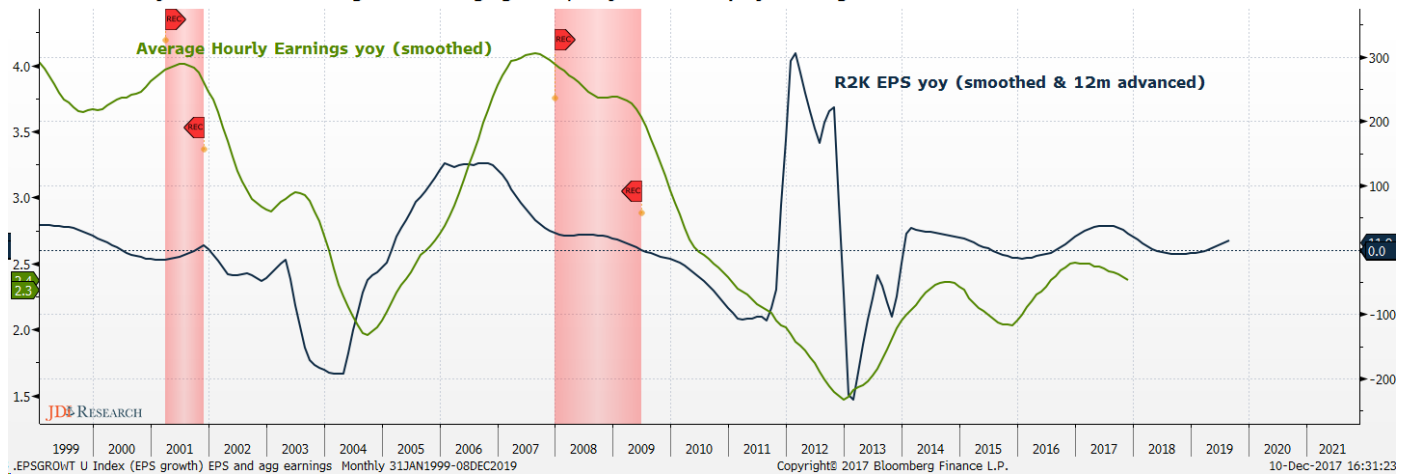


Chart 11:

An unprecedented disconnect between Wall Street and Main Street:

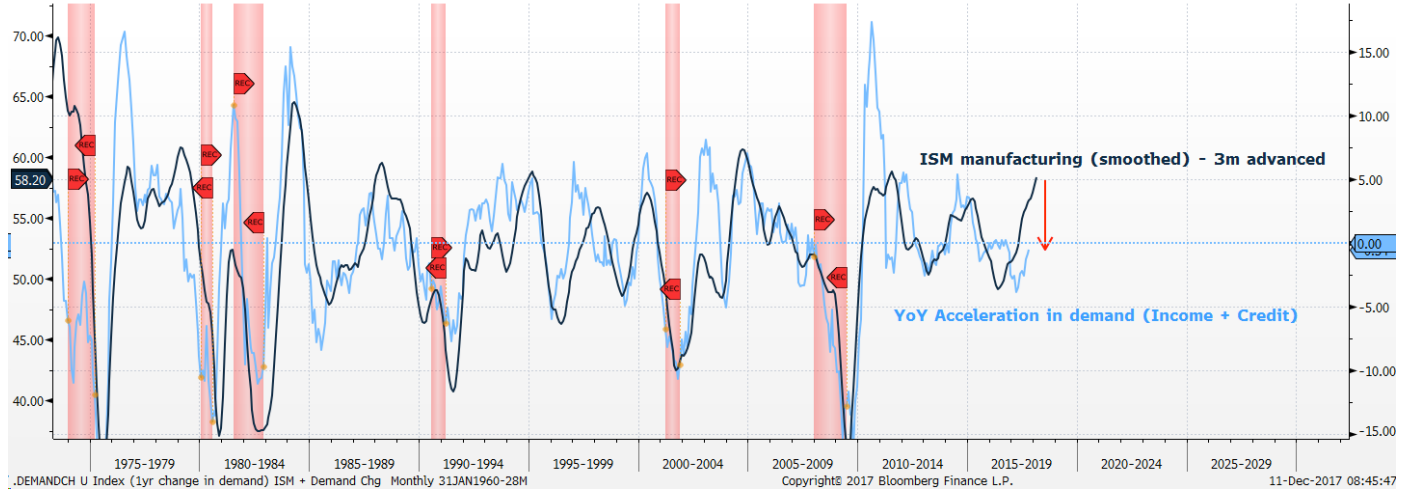
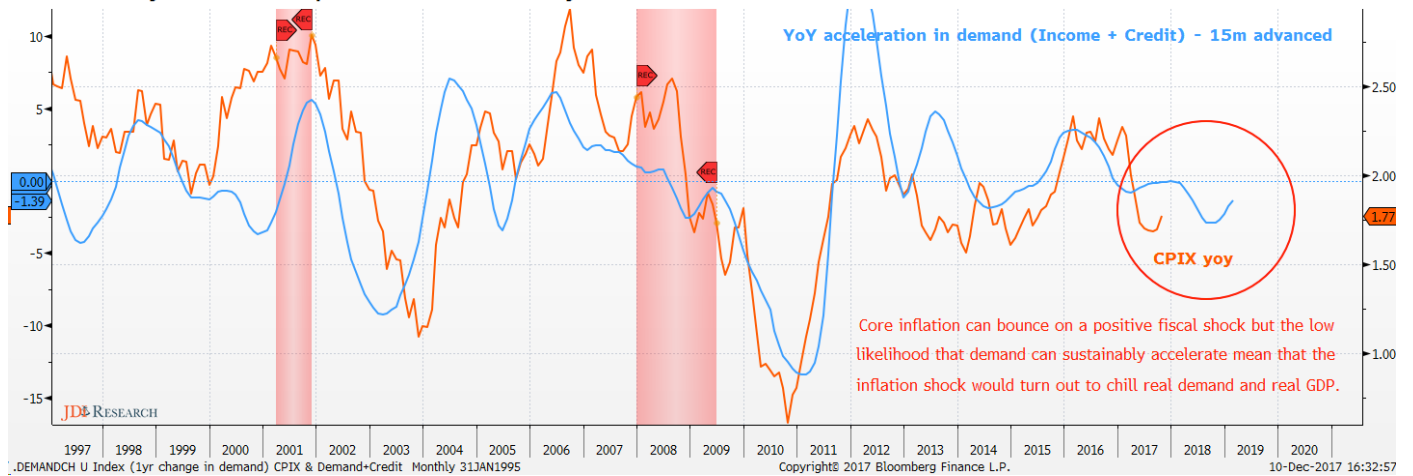


Chart 12:

The tax reform is focused on the supply side and will not increase aggregate demand ...

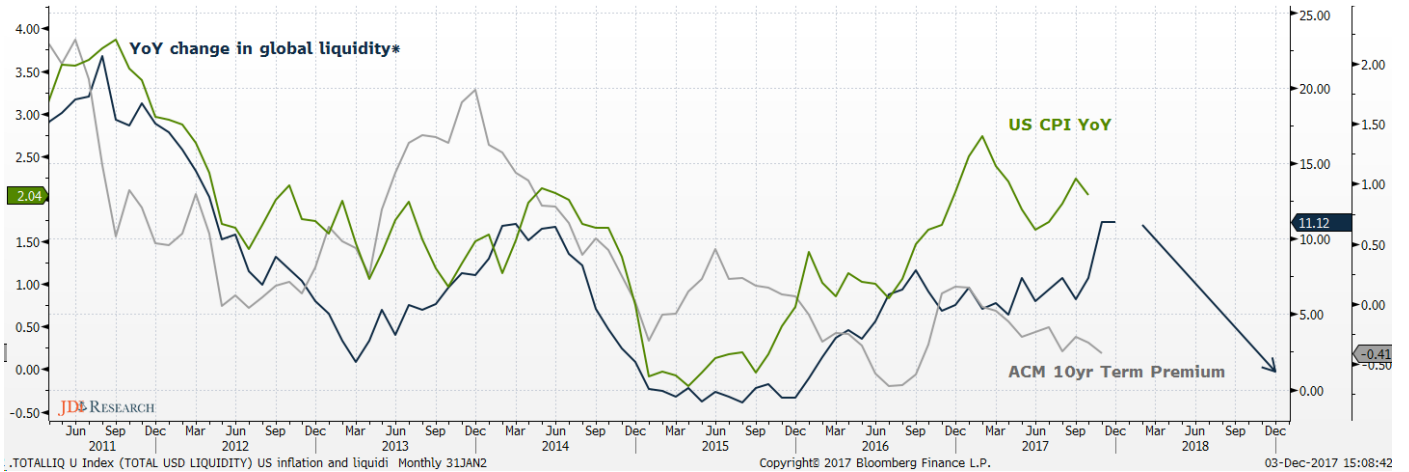
... The corollary is that demand-pull inflation is also unlikely to accelerate:



Chat 13:

Inflation has become a global phenomenon and a function of global liquidity...

The US term premium moves reflect anticipation of the in/deflationary effect of the global balance sheet expansion/reduction:

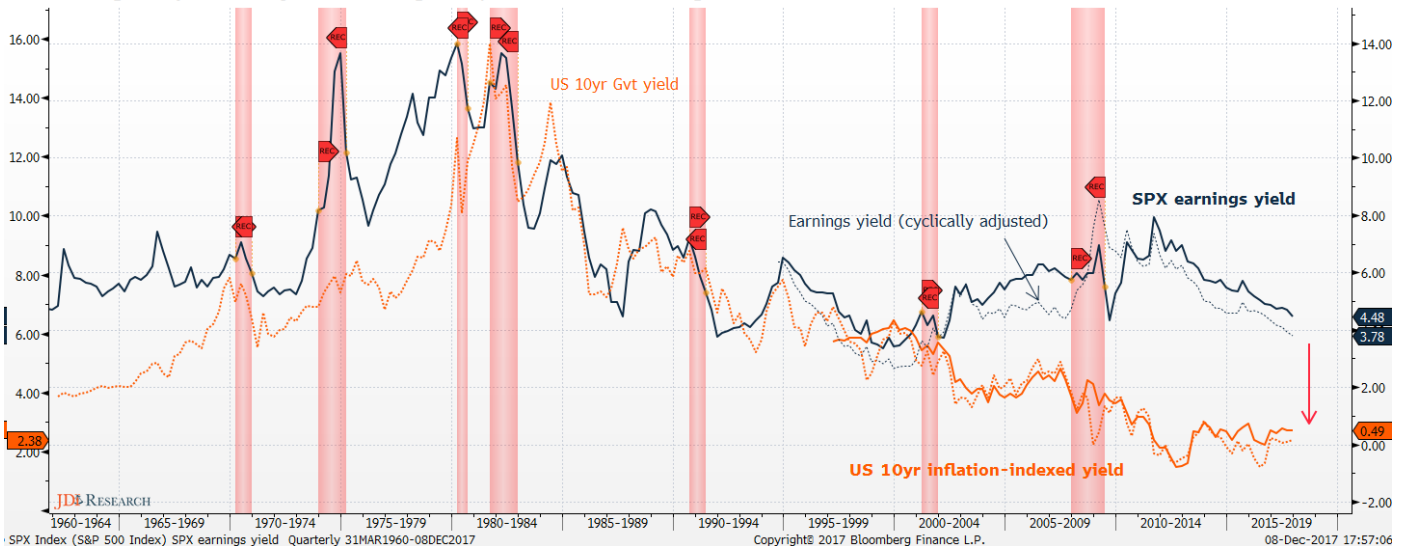


- Low inflation and a growth purgatory: 2017 goldilocks scenario

Chart 14:

The odds favor equity earnings yield converging to bond yields (rather than the opposite):

Measured against permanently lower funding costs, even mediocre earnings have remained attractive:



- What should we make of the 2017 curve flattening?

Chart 15:

Stable 10yr yield: a function of higher Risk-Neutral Yield and a lower Term Premium...



- Fed tightening cycle: How much is too much?

Chart 16:

Front-end risk-neutral rate and Fed accomodation ...

... Risk Neutral rates have continued rising, showing no concerns over the Fed's more restrictive stance:

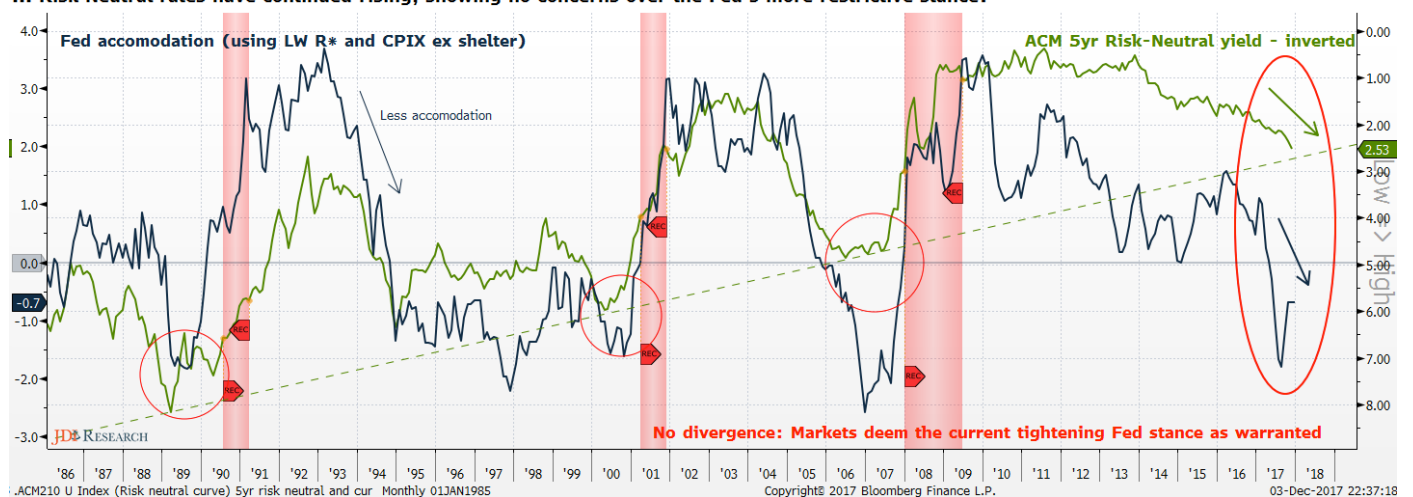
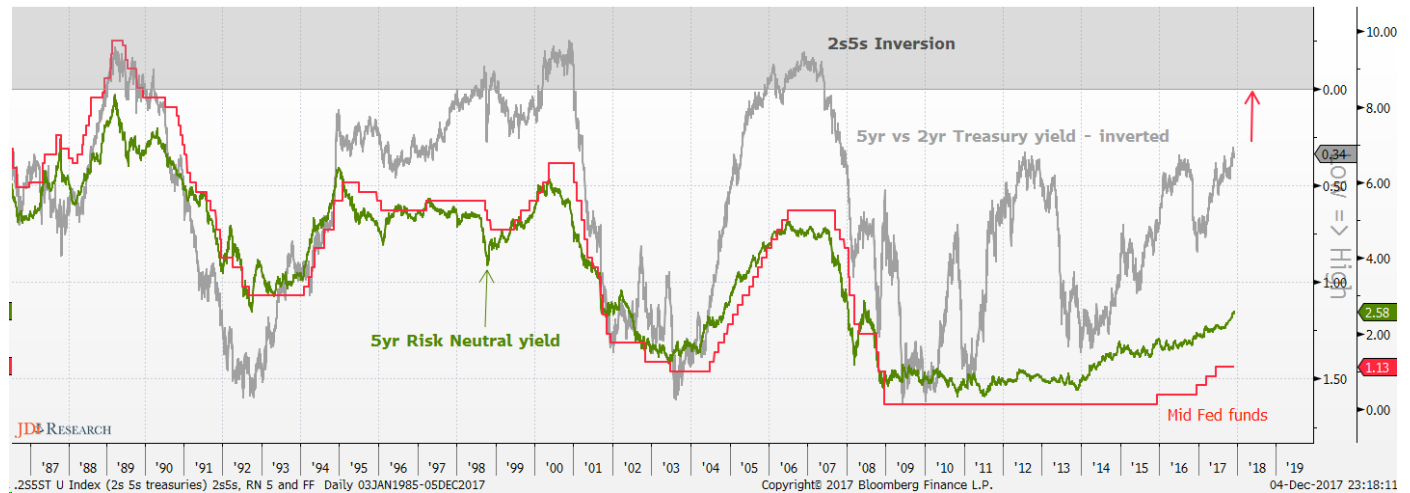


Chart 17:

The front-end of the US curve may well invert in 2018...

... causing the Fed to relent or triggering a 2019 recession:



• Bottom line for the US\$?

Chart 18:

USD overshoot in 2014/15...

Because of a global macro and monetary divergence between the US and the RoW, 2017 was the start of the correction of this overshoot ...

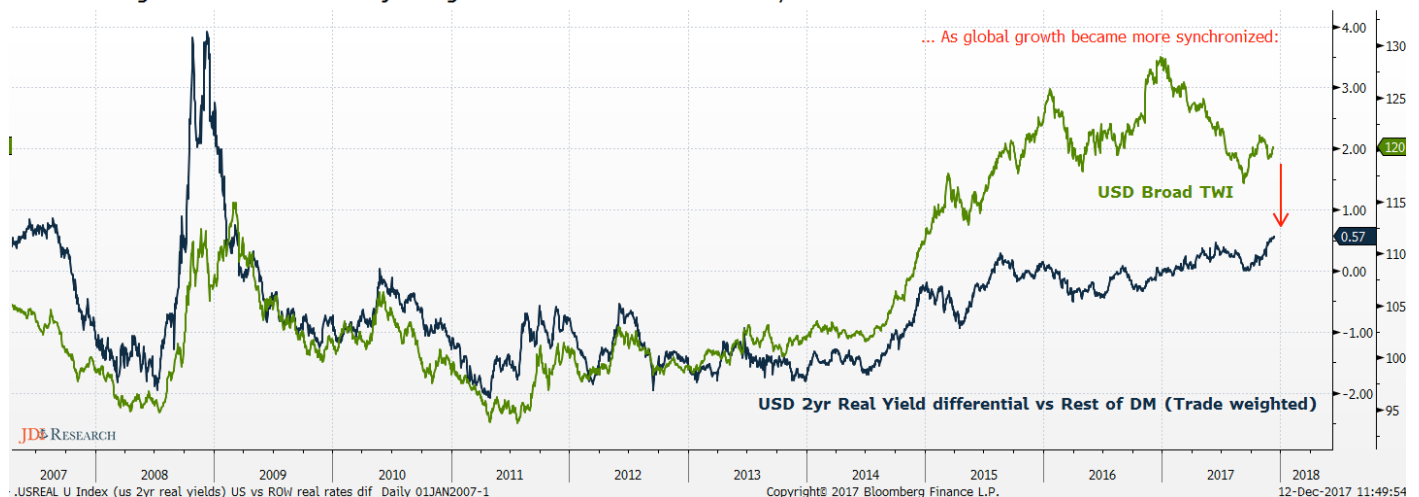


Chart 19:

The prolongation of the cycle will entail a weaker US\$:

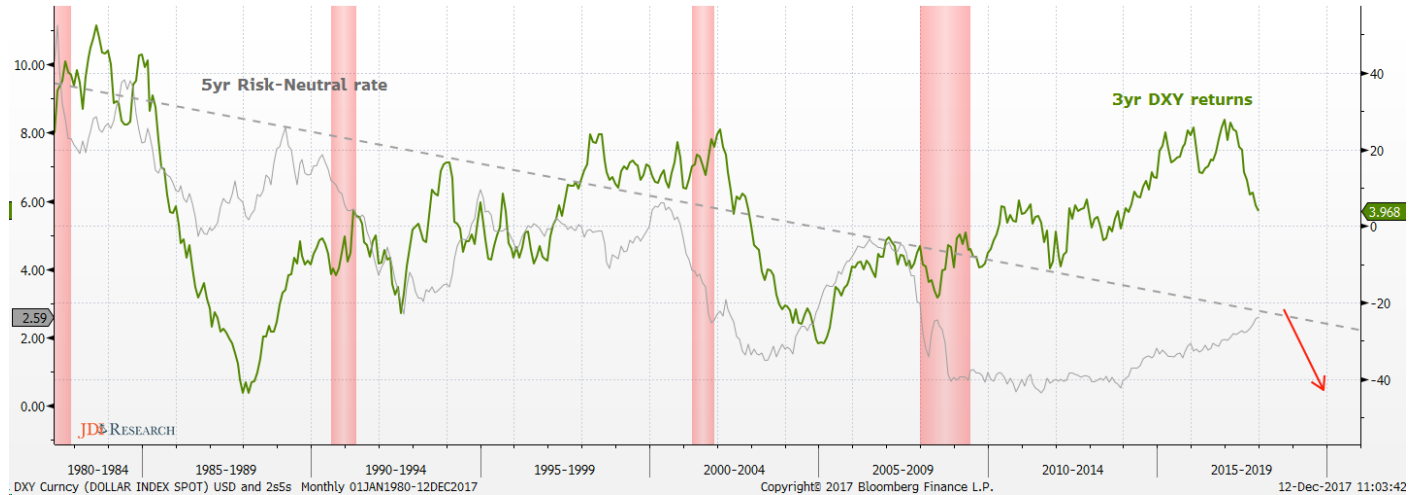


Chart 20:

US NIIP and Broad USD

What "opportunities" are flows still chasing in the US except for carry?



JD

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