

# Prospects

Quarterly – No. 18/200 – October 4, 2018

## WORLD – Macroeconomic Scenario for 2018-2019

### “And yet it moves”

There are plenty of genuine causes for concern. Some threats are still looming, and it is difficult – if not illusory – to assign a probability to them and give them tangible consistency; others have already taken shape. The global economy is proving quite resilient. Nevertheless, even before these threats have a tangible influence on the real economy, their effects are being felt in financial variables and expectations. “And yet it moves”, to quote Galileo, despite the undeniable multiplication of areas of risk.

#### Zoom vidéo



#### “And yet it moves”

... Despite the undeniable multiplication of areas of risk. These are not yet dramatically affecting the real economy but are prompting a tightening of financial conditions and undermining trust.

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#### No lack of genuine causes for concern.

Whether multi-form, limited or diffuse, many of these causes for concern derail our certainties. They include the challenges to multi-lateralism, the waning of the European project, the rise of US protectionism, increased geopolitical tension (especially in the Middle East), Brexit (where we are still no closer to any real idea as to how it will work) and, more ‘prosaically’, the tightening of US monetary conditions. **Some threats are looming over us, and it is difficult – possibly illusory – to assign a probability to them and give them**

#### tangible consistency. Others have already taken shape.

**US monetary tightening**, which is in line with expectations, and the deterioration in market conditions related to the (legitimate) rise in risk-aversion have already created victims among emerging countries. One obvious example of this is Argentina, where a less clement financial climate has triggered a currency crisis and highlighted the contradictions in an ambitious but incomplete policy mix, doomed to failure from the start. Another is Turkey; facing the sort of financial crisis to which it is now accustomed – although it is hard to imagine

that it will rush into the arms of the IMF – the political and geopolitical risks that undermine investor confidence in Turkey are subject to an upward revision.

**US sanctions against Iran** are also translating into a dearth of oil supply in a market that is already trying to cope with the decline in Venezuelan production and shipping difficulties in the US; the market will therefore need OPEC to achieve equilibrium in 2019, meaning the oil price could top USD100/bl, at least temporarily.

This is not to mention **US protectionism and the tariffs imposed on China**, with the probability that in 2019 they will apply to all Chinese exports. The trade war is likely to erode US households' purchasing power marginally and translate into an increase in the fed funds rate (only) slightly more marked than currently suggested by the Fed's dot-plot. The tariffs are likely to subtract 2ppt from Chinese growth, fully offset by Beijing's 'all-out' stimulus plan, which should keep the growth rate unchanged at around 6.5% in 2019.

“**And yet it moves**”, to quote Galileo, despite the undeniable multiplication of areas of risk.

The global economy is still proving resilient. In the **United States** – which continues to see the same sort of growth in 2018, itself a repeat of earlier strong growth of 2.9%, which is still only slightly inflationary given the strength and longevity of the trend – the prospects for 2019 look good. Growth is still being boosted by the fiscal programme, which should deliver close to half a percentage point in additional growth (after 0.8ppt in 2018). Growth is forecast to remain at a solid level of 2.5% in 2019, despite the continued monetary tightening, which – gradual as ever and accompanied by shrewd guidance – is not propelling long-term rates to anxiety-raising heights.

In the **Eurozone**, the dip in growth should not be interpreted as heralding an imminent downturn. It is a fact that growth is set to slow, from around 2.1% in 2018 to 1.8% in 2019, but this decline is natural. Household consumption is holding up well and, above all, the recovery in investment is dispelling fears of an early interruption to a still-virtuous cycle. Domestic demand should continue to consolidate, therefore. Concerns about a labour shortage – leading first to localised and then more widespread wage increases, and generating a significant acceleration in inflation and bringing a premature end to growth – are unfounded. Only Germany faces a lack of labour supply. Wage pressures continue to be very measured and explain why core inflation is itself very moderate.

Thus, in both the US and the Eurozone, we are unlikely to see any uncontrolled surge in inflation, no rushed monetary tightening, and no unhealthy rise in long-term interest rates. **However, even before the threats mentioned have a tangible influence on the real economy, their effects are already being felt in financial variables and expectations.**

Risk-aversion translates into periods of severe turbulence and increased volatility. It justifies the fact that core long-term rates are not picking up significantly, despite upbeat growth in the US, satisfactory nominal growth in Germany and a strong USD. Risk can also, obviously, lead to a downward revision to growth forecasts and negatively affect investment behaviour.

Thus, things could prove delicate in 2020, with a widespread downswing in growth. In the US, when the fiscal stimulus has largely run its course and the fed funds rate is in restrictive territory, growth will inevitably slow sharply. The Eurozone, for its part, will need to cope with significantly more difficult times without having built up the kind of room-for-manoeuvre needed to boost dangerously flagging growth.

## Developed countries – Growth easing back but no inflationary drift

The peak in highly sustained growth is now behind us. Growth is easing back, with no obvious inflationary excess. The hope is that the end-of-cycle period will be ordered, so long as the trade war remains limited to the open conflict between China and the US.

### USA: downhill from here

**Real GDP growth likely peaked in Q218 (4.2%) and we forecast growth of 2.8% for 2018 as a whole.** The slower pace of growth we forecast for 2019 (2.5%) will nonetheless be above the economy's longer-run potential growth rate of around 2%, keeping downward pressure on unemployment and upward pressure on inflation.

**A solid job market supports consumer confidence and spending.** Payroll gains so far this year have averaged near 200k per month. The number of job openings currently exceeds the number of unemployed persons. Unemployment (3.9%) is below the Fed's full-employment estimate of 4.5% and is projected to fall further. Average hourly earnings growth shows signs of accelerating (+2.9% YoY) and tightening labour markets will keep upward pressure on unit-labour costs and inflation. Household balance sheets are healthy, with low (but rising) debt-service burdens. Aggregate household net worth has maintained a strong uptrend with a positive wealth effect on spending. Meanwhile, the savings rate remains at a healthy 6.7% of disposable income.

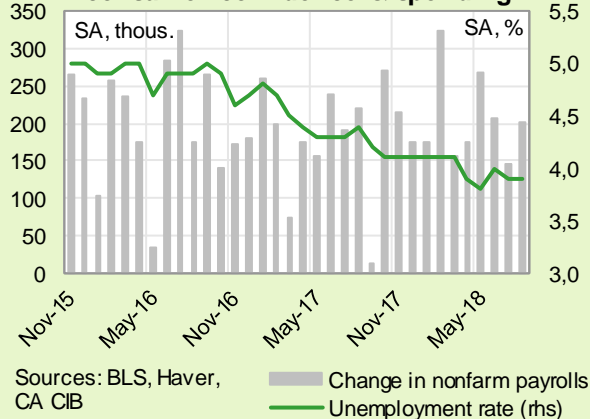
**Business investment trends have firmed** following the collapse in oil & gas sector activity in 2016. Firms are responding to a solid pace of domestic growth, higher after-tax profits, less business regulation and short-term capex investment incentives in the revised tax code. After the December 2017 tax bill, however, repatriated profits from abroad appear to have been used more for share buybacks than for new physical investment. Over the near term, firms face increased uncertainty due to volatile international trade issues. Some firms have reported delaying planned investments while they await further clarity on the trade front.

**Deficit-financed fiscal stimulus (tax cuts and spending increases) is estimated to have imparted a 0.6 percentage point boost to growth this year and next, but the stimulative effects fade sharply after two years.** The fiscal measures point to budget deficits of more than USD1trn in 2019 & 2020. Financing deficits may require higher rates (risk premium) to attract investors, thereby crowding out corporate investment and potentially dampening productivity growth. In addition, the burgeoning deficits may limit counter-cyclical fiscal policy in the next downturn.

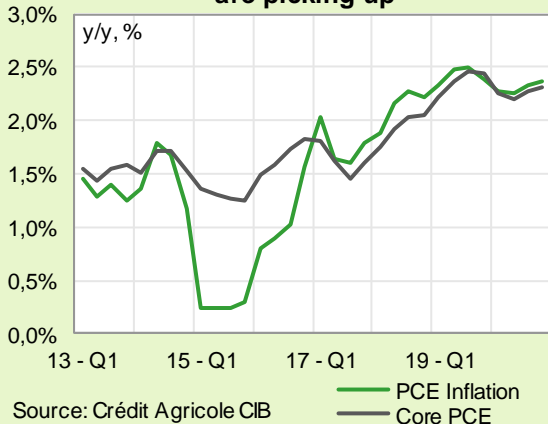
Core PCE inflation above 2% is likely to continue in our view. Above-potential growth has eliminated slack and pushed unemployment below the natural rate. An increasingly tight job market leads wages higher. Increased tariffs, raising US import prices, could add an additional 0.3-0.4ppt to inflation, and oil prices are forecast to rise over the next two years.

**Protectionist policies are increasing the risk of a negative shock from trade.** Supply-chain disruptions will likely lead to higher goods

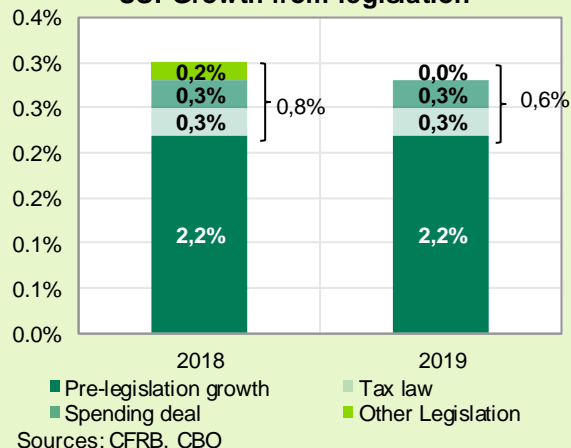
### US: Solid employment conditions support consumer confidence & spending



### US: Inflation pressures are picking up



### US: Growth from legislation



prices and diminished growth. Tariffs also discourage innovation in protected sectors, reducing productivity growth. It seems likely that a US–China trade war will result in nearly all Chinese imports into the US facing 25% tariffs next year, with US exports to China also subject to higher tariffs. The supply-chain disruptions and reduced household real purchasing power could trim 0.2-0.3ppt from growth over the next six quarters. A rough calculation suggests higher imported goods prices could raise US inflation measures by 0.3-0.4ppt, as mentioned above, which has implications for Fed policy .

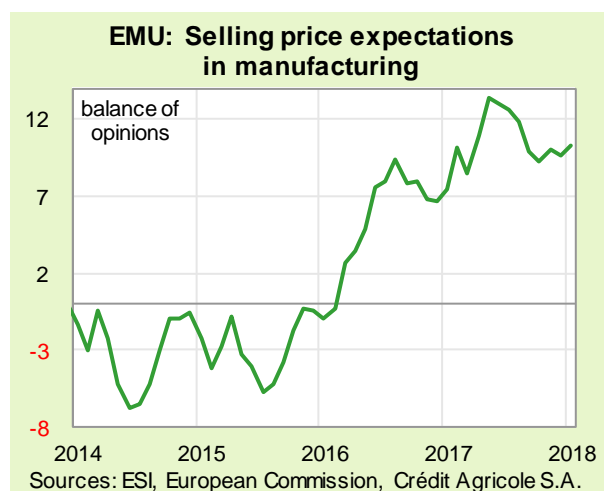
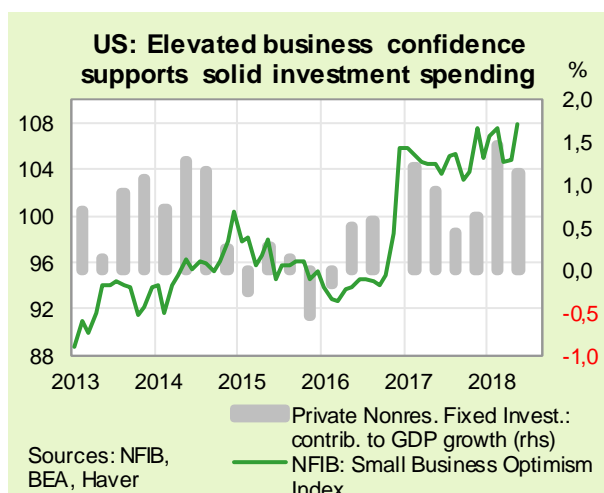
**There is a reasonably high probability that the Democrats will see a net gain of more than 23 seats in the mid-term elections and become the majority party in the House of Representatives.** Fewer vulnerable Republican seats will make it difficult for Democrats to win a majority in the Senate. We expect a divided government to severely limit partisan legislation. A hostile Democratic House will also likely bog down Trump’s aspirations with investigations and subpoenas into the workings of the administration and its policy agenda. Assuming the Senate remains under Republican control, President Trump can continue to make nominations for important vacant positions in the judiciary and the Federal Reserve.

### ***Eurozone: final leg of the cycle very moderate***

**Year-on-year growth in the Eurozone declined in Q218, although it remained at 2.1% – a deceleration relative to the Q317 peak of 2.8%.** However, the figure also testifies to a resumption of investment, dispelling fears of an interruption to the virtuous cycle of accumulation, temporarily at least. On the contrary, notwithstanding the negative contribution from trade – which could well prove to be a constant in the years ahead – domestic demand has continued to consolidate as consumption has been driven by the ongoing fall in unemployment levels and as investment has fuelled demand for capital goods. The latest (August) surveys point to growth of slightly over 2% in the second half of 2018 and are reassuring as to the sustainability of above-potential growth. Our scenario is based on activity firming up in the second part of 2018 but also a gradual slowdown towards its potential rate out to our forecasting horizon (2.1% in 2018, 1.8% in 2019 and 1.7% in 2020), with multiple risks from the international environment clearly to the downside.

**Several temporary factors – weather, strikes, inventory cycles – help to explain the weaker growth in the early part of the year and the expected rebound in Q318** suggested by Ifo’s German business climate data, which stabilised at its highest level for two months in September. It is true that the capacity utilisation rate stopped rising in April, reassuring those who were concerned about early overheating in the Eurozone economy. Pressure on capital goods, which is especially strong in Germany, also showed the first signs of easing with the growth slowdown at the beginning of the year. On the other hand, pressures on labour are still increasing and are intensifying in construction and services. Here again, it is above all down to Germany, since in France we saw things stabilise in the summer. However, on average, across the Eurozone, tensions remain at very high levels – and levels that are higher than the previous peak in 2007. Therefore, we believe it is legitimate to ask whether these labour constraints will rapidly translate into a sustained acceleration in wages.

**However, the relationship among growth, unemployment and jobs is more complex in the short and medium term than the fall in unemployment alone suggests.** Growth can accelerate and





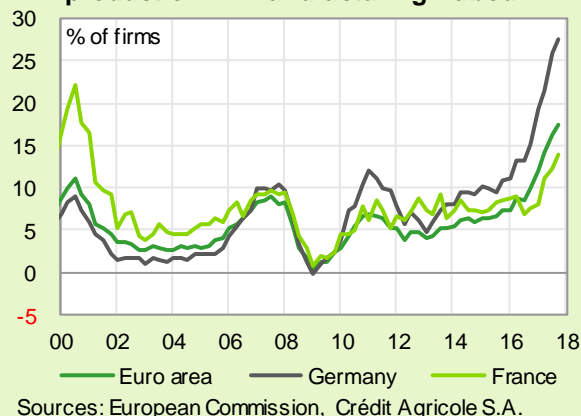
**EMU: Production price index in industry**



employment can increase with a limited fall in the unemployment rate, so long as growth in the workforce remains sustained. This is because the improvement in the labour market encourages people such as the discouraged jobless, housewives and students to return to the workforce, as they feel that they have a better chance of finding work (this is known as the workforce's responsiveness to employment). There was fairly rapid growth in the workforce in 2017 in Germany, Italy – at 1.0% and 0.7% respectively – and, to a lesser degree, France (0.5%), and this pace continued in Q218, although with a slight fall-off in Italy. Job creation has undoubtedly remained on a more dynamic trend than workforce growth but has slowed in the Eurozone's larger economies, to 1.4% in Germany and 0.9% over 12 months in France and Italy in Q2, slowing the rate of decline in the unemployment rate. Positive effects should continue to operate out to our forecasting horizon, including in Germany, thus limiting the decline in the unemployment rate despite continued upbeat job creation. One exception is Spain, where the stagnating workforce will drive further large-scale falls in the unemployment rate despite the already visible slowdown in job creation. Thus, although the job content in growth is still high in the Eurozone, the effects of the workforce's responsiveness to employment will delay the attainment of the neutral unemployment rate, ie, the rate at which firms will encounter recruitment difficulties that generate inflationary pressure.

**Although Q218 saw a rapid increase in wages** (per-capita wages growth rate rose from 1.8% YoY in Q417 to 2.4% in Q218); **this is above all due to wages in Germany, where the growth rate increased from 2.5% to 3.2% over the same period.** In France the rate is far more modest, with the per-capita wages growth rate rising from 1.8% to 2.2% over the same period. In Italy, the sharp rise in the wages growth rate per employee between end-2017 (0.7%) and June 2018 (2.5%) was mainly due to the end of the freeze on public-sector wages – the trend in the market sector being more modest and ensuring that the acceleration will not be repeated over the coming quarters. In Spain, on the other hand, the acceleration – from 0.4% in Q417 to 1.1% in Q218 – is more generalised among sectors and therefore more likely to continue.

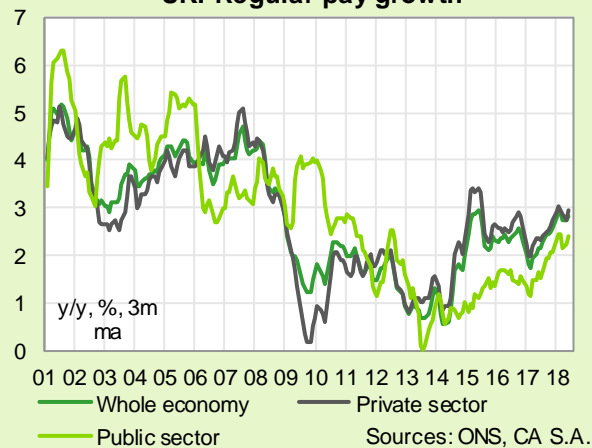
**EMU: Factors constraining production in manufacturing- labour**



The increase in Germany was due to the sharp rise in negotiated wages in H118 (from 2.4% YoY in late 2017 to 3.1% in the first half of 2018 – another high, after the highs of 2008 and 2014). Major wage demands resulted in collective bargaining that covered 8.5 million workers (or 42% of employees covered by industry-wide agreements) and will remain valid out to our forecasting horizon (26 months on average). The rise in wages was fuelled not only by the construction sector and intermediate goods producers, but also by the federal government and municipalities. For 2018 as a whole, although a new round of wage-bargaining is set to begin in the chemicals and rail industries, the rate of increase in negotiated wages should stop at 2.7% and stay there in 2019. The only potential for an acceleration in German wages next year would come from 'wage drift', with a faster rate of increase in effective wages (2.9% in 2018 and 3.1% in 2019), which can be seen in this phase of the cycle.

**Demand-side pressure on labour supply is thus starting to bite, but it is still moderate, except in Germany, which legitimises our scenario of a limited increase in core inflation.** The triggering of the price-wage spiral – in other words, the behaviour of firms that pass on wage increases into their factory-gate prices – has not, so far, been proven. The fall-off in productivity at the start of the year, following the activity slowdown, was not enough to offset the acceleration in wages

**UK: Regular pay growth**



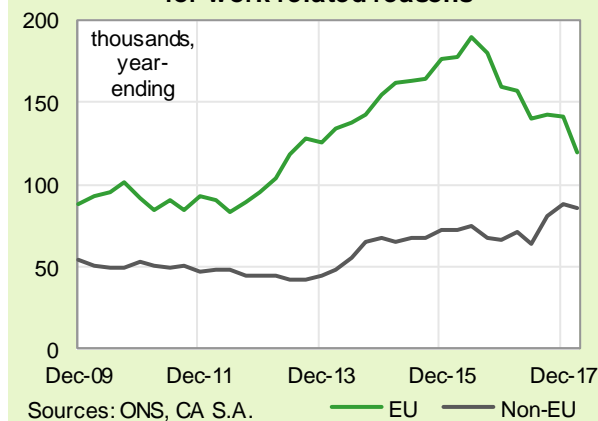
nor, in fact, the acceleration in the value-added deflator, which stalled the rise in margin ratios. The forthcoming productivity gains due to the year-end acceleration in activity are likely to be used to rebuild margins. Surveys of firms show opinions on expected sale prices deteriorating, while price-setting power (as shown by PMI surveys) was still falling in August. **Industrial producer prices are rising faster than consumer prices** (4% over 12 months), but this trend is largely down to energy output (10.7% over 12 months), with a modest diffusion of intermediate goods prices (3.2% over 12 months), and is non-existent elsewhere (1.1% for capital goods and 1.3% for consumer durables).

**While inflationary risk is resurfacing due to pressure on oil prices, it is weakened by domestic transmission channels against a backdrop of a gradual weakening in demand.** The EUR's appreciation in effective terms due to depreciating emerging-market currencies also lowers the potential for transmission of higher global inflation. The appreciation, which is collateral damage from the trade war, limits the potential gains the Eurozone could derive from lower Chinese tariffs on vehicles and components, and from import substitution in the Chinese and US markets. US tariffs are, nevertheless, undermining the profitability of European firms, especially in the automotive sector, which manufactures 26% of vehicles in the US, 60% of which are exported.

### **United-Kingdom: near-term growth stronger than expected**

**We revise up Q318 GDP growth but expect Brexit uncertainty to continue to weigh on growth in the medium term.** GDP growth posted a solid start to Q3, boosted by temporary factors this summer, such as the FIFA World Cup and the unusually warm weather. We raise our forecast to 0.5% QoQ versus 0.4% QoQ previously. Hence GDP would show an acceleration relative to Q2 (0.4% QoQ). GDP expanded by 0.3% MoM in July alone. The positive surprise was due to a solid 0.3% MoM gain in the services sector and a 0.5% MoM rebound in construction. After Q3, we expect growth to average 0.3% per quarter in Q418 and Q119, as the Brexit process enters the ratification stage and the UK Parliament votes on the final deal, representing a major source of political risk. We expect the negotiators to reach a deal on the UK's withdrawal from the EU by the end of the year at the latest and believe that a no-deal Brexit scenario has a low probability (around 10%).

**UK : EU and non-EU immigration for work-related reasons**



**Wage growth strengthens as labour supply falls.** The unemployment rate was 4% in the three months to July. Even though employment growth almost stalled over the same period (job creations were only 3,000 in the three months to July), wage growth has accelerated moderately, reaching 3% in the private sector (2.9% in the whole economy). The analysis per sector shows strong pay gains in retail, hotels and restaurants, where wage growth rebounded from 2.7% to 3.5%. This may be due to the temporary factors that sustained consumer spending growth during the summer. More fundamentally, a 0.2% contraction in the workforce between April and July likely contributed to lift wages. We expect workforce growth to remain weak in the medium term, as immigration from the EU is set to fall further on the back of restrictive immigration policy post-Brexit, which in turn is likely to support wage growth. Work-related immigration has fallen significantly since the Brexit referendum (to 77,000 in the year ending Q118 from 130,000 in Q216) largely driven by EU citizens.

**Japan: Slow recovery to continue, while political instability warrants focus on constitutional amendment**

**Real GDP in Q218 grew 3.0% QoQ saar**, the fastest growth rate since Q116. The major driver was private capex, which accelerated with growth of 12.8% QoQ saar. A natural question is whether this is likely to continue into Q3. Our answer is ‘no’. The reason is because the growth in capex in Q2 seems too fast compared with an almost flat reading for exports.

**Therefore, we should see some slowing in capex in Q3.** Moreover, Q3 suffered from very adverse conditions for private consumption with a series of typhoons and fierce temperatures, coupled with the Hokkaido earthquake. This will make Q3 real GDP growth slightly negative, in our view, and we forecast -0.3% QoQ saar.

**However, this negative Q3 reading will be temporary**, and we believe the current recovery phase will continue and reach the post-war record of 73 months in December. The reason is because Japan is yet to accumulate the three triggers for economic contraction: excess capacity, excess inventories and excess labour. Why has Japan not accumulated these three ‘excesses’ yet, despite such a long period of recovery? Simply put, the recovery has been too slow. So, we should not say the length of the recovery is the fruit of ‘Abenomics’.

Looking further ahead, one focus will be the political situation after PM Abe’s victory in the September LDP presidential election. By winning this election, PM Abe has entered his third, and final, three-year term as LDP President. This means Abe’s premiership can last till, but not beyond, September 2021.

**In the short run, Abe’s victory will be regarded as a sign of political stability in Japan when some other economies are facing political instability. In our view, however, political instability warrants a close watch in the longer run.** The point is that Abe can no longer postpone the proposed constitutional amendment given this is his third and final term as LDP President.

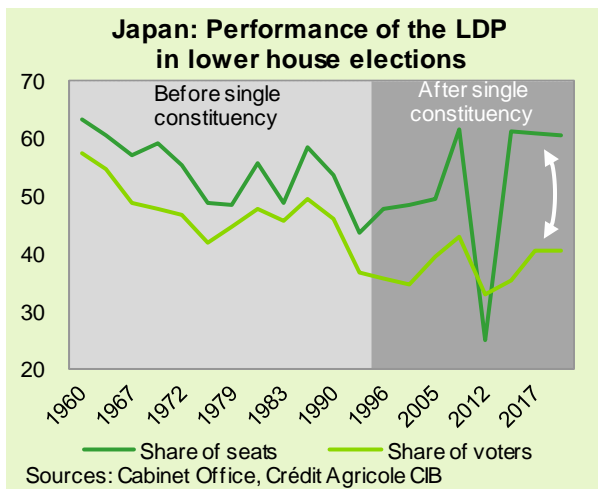
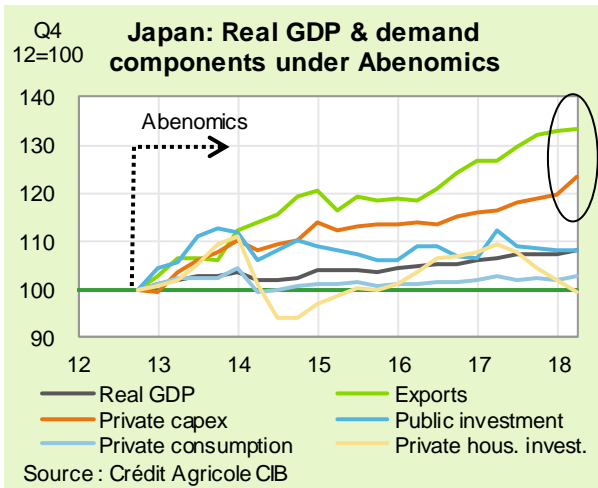
Japan’s constitution can be amended in two steps:

- ✓ A Diet proposal based on the concurring vote of two-thirds or more of all the members of the lower and upper houses.
- ✓ A referendum, which requires an affirmative vote from a majority of all votes cast.

The first step should not prove difficult while the second is rather a high hurdle.

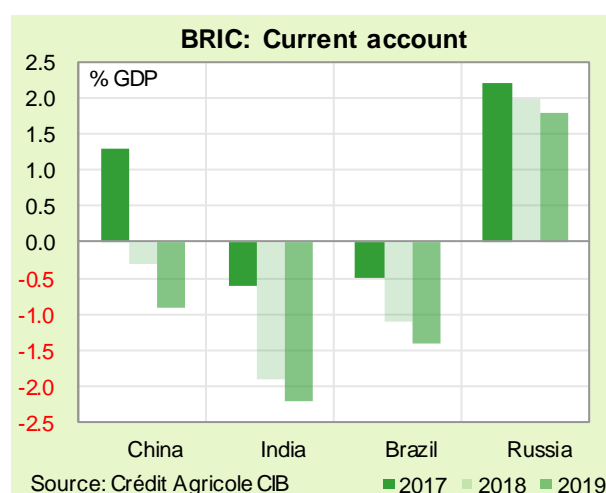
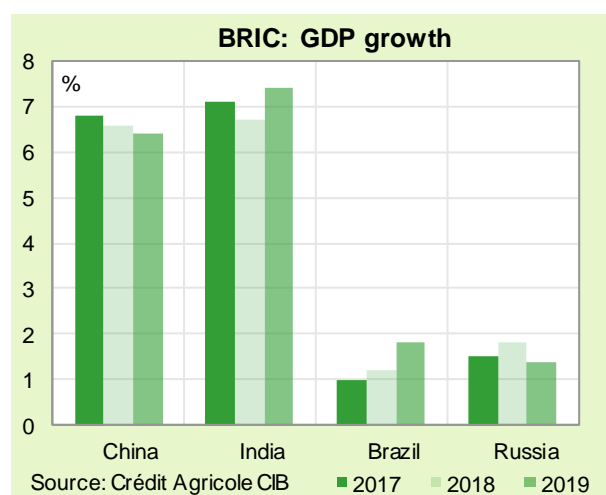
Here we need to note that there has been a large decoupling between the share of seats held by the LDP in the lower house and the share of those who voted for the LDP in the lower house elections. This gap is due chiefly to the single constituency system introduced in 1996, whereby only one Diet member is elected in each constituency, giving this system a ‘winner takes all’ nature.

**The large share of seats held by the ruling LDP will make the first step – Diet proposal – easier, while the sub-majority share of voters for the LDP will make the second step – referendum – rather difficult. Hence, we see a risk of political instability despite Abe’s victory in the September LDP election.**



## Emerging countries – Resilient growth but volatile markets

Escalating trade tensions, continued rate hikes...but only a slight EM growth slowdown, as China is supporting its own economy. Some EM currencies should still remain volatile though.



**Challenges for emerging markets have increased over the past few months. First, the trade tensions between the US and China have intensified.** The US is now committed to applying tariffs on USD250bn of imports from China. China has responded by applying tariffs to USD60bn of imports from the US. Both countries have chosen a rate that is lower than was expected for the last batch of tariffs, which may be a way to open the door to further negotiation. However, the lack of progress in the negotiations over the past few quarters and the determination of the Trump administration to keep the pressure on China make **the scenario of a further escalation towards a situation where their entire bilateral trade will eventually be subject to tariffs** realistic.

However, in such a scenario, we expect China to continue offsetting the negative impact of tariffs via stimulus measures. Hence, the negative impact on Chinese GDP growth should be limited. And if China's growth remains strong, those countries exporting to China should also suffer only in a limited way.

Secondly, **financial turmoil in some countries – including Argentina and Turkey – has also fuelled risk-aversion.** This has been compounded by the inadequate response provided by the authorities, particularly in Turkey where the independence of the central bank has been challenged by President Erdogan's reluctance to let interest rates be raised. The political uncertainty in Brazil ahead of the election has also fuelled volatility. At the end of the day, risky spots in EMs have provided the markets with pressure points.

That being said, the contagion to other EMs has not been irrational. In other words, the markets that have been the most impacted were also the most vulnerable from the point of view of their external weaknesses (with large external financing requirements, for example). Such discrimination suggests that the least vulnerable markets from a macroeconomic point of view should be under less pressure from a market point of view.

**From the monetary-policy point of view, some EM central banks have had to proceed to defensive rate hikes** (including Turkey and Argentina). A scenario of a full trade war could fuel risk-aversion and trigger more rate hikes in EMs. Still, most EM central banks still enjoy significant leeway and can afford not to hike rates at the same pace as the US Fed.

Overall, we revise our EM GDP growth forecasts, but only to a limited extent. We expect EM GDP growth to decelerate from 4.4% in 2018 to 4.2% in 2019. **The risk of volatility in financial markets (including currency markets) remains stronger than the risk of economic deceleration.** Against a backdrop of trade tensions, political & geopolitical uncertainty and continuing US rate hikes, the countries that are most reliant on foreign financing (including Turkey, Argentina, South Africa) and those that will undergo key political transitions (including Brazil) deserve particular attention.

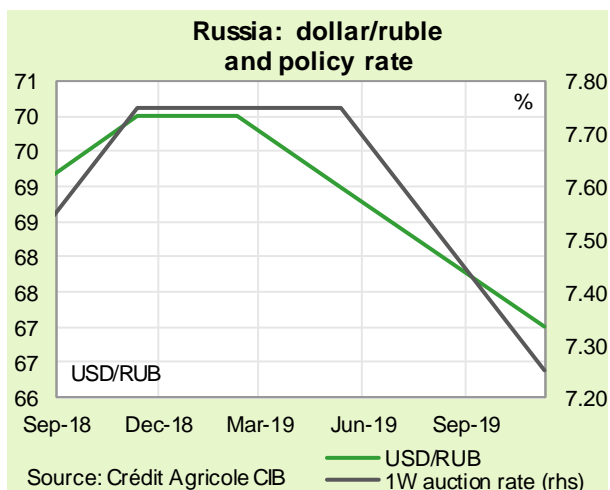


### ***Brazil: the fork in the road***

**The Brazilian presidential election on 7 October is probably the most uncertain race in Brazil’s democratic history.** The country is highly polarised, and anti-establishment sentiment is very prevalent. Frustration with the economy and the still-high level of unemployment are also behind the escalating demand for change. On the other hand, 13 years of populist policies under the PT administration is somehow still fresh in the memory of the lower-income sections of the population, so, despite all the corruption scandals and the imprisonment of former president Lula, there is a large captive electorate in favour of the PT.



The outcome of the race is looking pretty binary as far-right Jair Bolsonaro (PSL) leads the race on an anti-corruption and public security platform, likely against PT’s candidate Fernando Haddad in a run-off scheduled for 28 October. Bolsonaro’s nationalist comments clash with his economic advisor’s liberal thinking. Paulo Guedes is well respected by markets and is in favour of privatising all of the Brazilian state and dramatically reducing the size of the government. Guedes would also be in favour of a pension reform, but markets wonder if Bolsonaro would be able to garner the necessary congressional support for a significant overhaul of the social security system. In particular, if his anti-corruption credentials result in congressional paralysis, like when the ‘Carwash’ operation was at full speed. A Haddad win is also a concern, mainly because policy orientation would move towards increasing the role of the government in the economy once again, ie, intervention, and not dealing with the explosive trajectory of the fiscal accounts. If elected, we would expect Haddad to try to send market-friendly messages to guarantee a smooth transition, but markets will have a hard time buying them. **Our base scenario is that Bolsonaro will win the election and Brazil will likely go through some positive macro adjustments, although the outlook will remain challenging.**



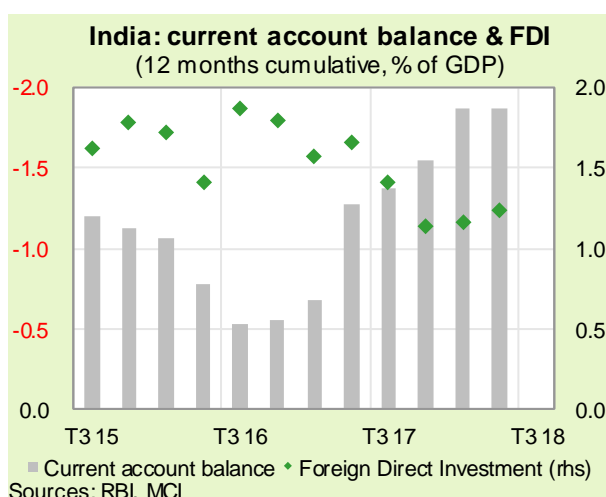
### ***Russia: A favorable context, concealed by the risk of US sanctions***

**Russia’s economic growth should remain lukewarm in the coming quarters.** Rather high oil prices should help, but private consumption – though it makes a key contribution to economic growth – is lagging wages, as Russian consumers remain cautious about the country’s outlook.

**The main threat in terms of the financial market concerns the possibility of a new round of US sanctions, which could cover the sovereign sector, banks and the oil sector.** It is not clear whether the US bill will actually be passed, but the mere risk of it may weigh on the RUB. The Bank of Russia has already raised its 1W repo rate in order to manage the inflation risk stemming from the recent RUB depreciation (as well as from the increase in the VAT rate). It could tighten further should the RUB weaken on these sanction fears.

### ***India: the burden of the current account deficit***

**8.2%: what a performance!** This is the figure for **growth in India recorded in Q218 – one of the world’s strongest.** However, the figure probably needs to be put into perspective in light of the very favourable base effect that partly underpins it and which is likely to fade from Q3 on, even if we should acknowledge slightly firmer domestic demand overall.



Nor, in any event, is it the figure that is currently attracting attention. We are thinking more of the widening **current-account deficit**, running at **1.9% of GDP in cumulative data over 12 months in Q2**, whereas it had narrowed to 0.5% of GDP in the summer of 2016. Underpinning this is the deterioration in the trade balance, and behind that again the increased cost of external supplies of oil (among other things). It should also be understood – for these very reasons – that the deficit could continue to widen in the short term, given the forecast trend in oil prices, somewhat on the upside (on average).

**The fact is that this deterioration is having an adverse impact on the INR.** The Indian currency has depreciated by slightly more than 12% against the USD since the start of the year, making it one of the most jostled emerging-country currencies. Steering monetary policy, and, more widely, the overall policy mix, has become more complicated as a result. The central bank has hiked its benchmark interest rate twice since May, by a total 50bp, and we would expect more to come. A downside risk is hovering over India's growth prospects...

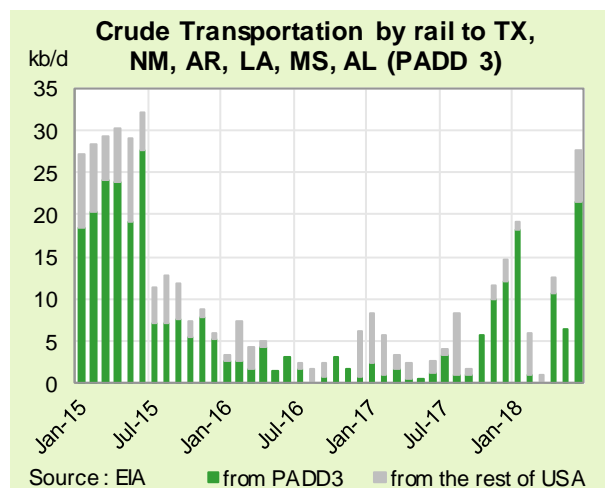
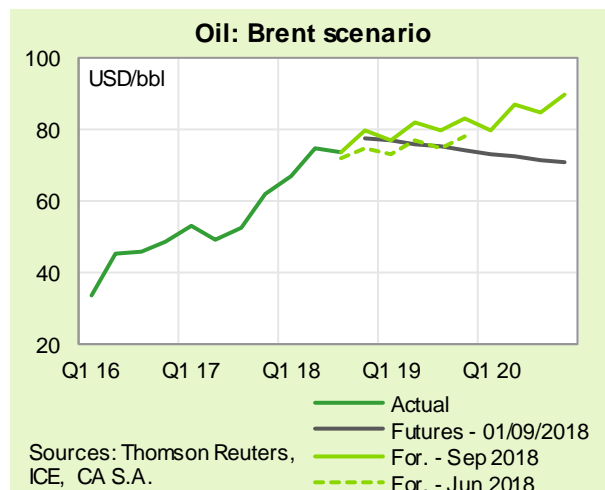
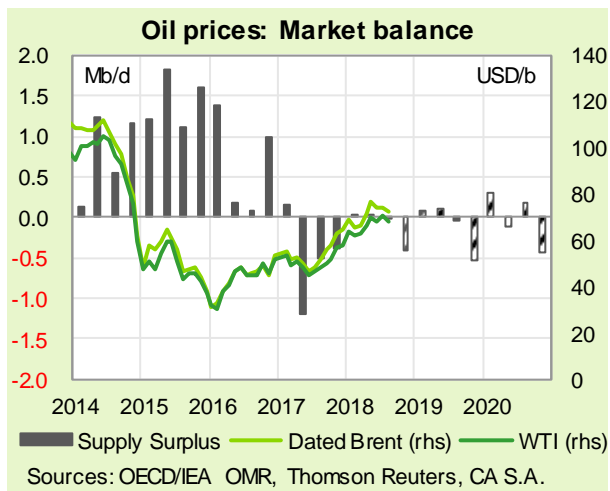
### **China: ready for trade war**

**The most important issue for the Chinese economy and markets is the trade conflict with the US.** Within months, pretty much all of China's exports to the US will likely come under a 25% tariff, leading to a 2ppt hit to GDP growth in Year 1 (half directly, half via sentiment). However, the damage will likely be offset by the stimulus package rolled out by Beijing in recent months, encompassing monetary, credit, fiscal and regulatory policy easing. Hence, we maintain our forecast of GDP growth of 6.6% in 2018 and 6.4% in 2019, and estimate 6.0% in 2020.

China will also face higher import prices. We expect CPI inflation to rise to 2.5% in 2019 – still below the 3% government target. Its external balance should suffer to the tune of USD90bn, leading to the emergence of a 0.9% of GDP current-account deficit next year. This will be manageable due to rising portfolio inflows and China's huge FX reserves, and USD/RMB will weaken only modestly, to 6.95 in 2018 and 6.85 in 2019.



## Oil – Hundred-dollar mark in sight



In two years, the oil market has changed direction, moving from a surplus of oil to what will very likely be a supply shortage in 2019 and 2020. Since Q318, the market has been facing, in particular, the US administration's determination to completely eliminate Iranian oil exports; at the same time, growth in US production is set to slow and Venezuelan production appears unable to recover. There is still plenty of uncertainty over the effectiveness of US sanctions on Iranian oil, US producers' ability to remedy transportation difficulties, and the extent of the decline in Venezuelan production. Indeed, it is still too early to say how much the big buyers of Iranian oil – China, Turkey and India – will be able to circumvent the extra-territoriality of US sanctions and the USD in their dealings with Iran, or to benefit from exemptions in return for 'substantial' reductions in imports of Iranian oil.

Even assuming a moderate scenario, particularly as regards the extent of US sanctions, the drop in Venezuelan production and growth in global demand over the next two years, **the oil market will need OPEC's help to balance, not only in 2019 but very probably in 2020.**

Production from the United Arab Emirates and Kuwait is expected to very quickly peak from as early as 2019. Assuming a stable environment in Iraq – notably in the southern city of Basra, home to the oil terminals from where the vast majority of Iraqi oil is exported – Iraqi production should increase. **However, the oil market's equilibrium will depend mainly on Saudi Arabia.** Saudi production will need to increase by almost 1 million barrels a day in 2019 to avoid stocks drying up. **This will leave OPEC and Saudi Arabia with very little excess capacity:** just over 1.2 million barrels a day, according to figures from the International Energy Agency. **Such a low level of excess capacity within OPEC (hitherto only seen in 2008 and 2011) will expose the oil market to the risk of soaring oil prices in the event of further production losses** (even if only short-lived) in countries where the political environment is unstable – for example, Libya, where the recent attack on the headquarters of the national oil company shows just how vulnerable the country's oil industry is to infighting. Saudi Arabia has clearly realised its production will be greatly in demand. It recently awarded a contract to a US company to increase capacity at one of its major fields.

While the main source of disruption to the oil market in 2019 will be US sanctions on Iran, **International Maritime Organization (IMO) rules on fuel quality – set to come into force on 1 January 2020 – are likely to throw the diesel market out of balance in 2020.** The diesel market is one of the most buoyant and profitable petroleum product markets for refineries. It is also the market whose growth supports growth demand for oil. The IMO's requirement to use low-sulphur fuels from 2020 is likely to trigger increased demand for sulphur-free diesels, at the expense of the heavier, more sulphur-rich fuels currently used by most commercial fleets. **As such, these new regulations could indirectly push up the price of oil.** Strong demand for diesel in 2008 contributed to a dramatic rise in oil prices.

In this environment, in the absence of geopolitical change in the Middle East or a severe economic recession, **the price of oil is set to continue to rise gradually in 2019 and 2020.** Our scenario is based on an **average Brent price of USD80.5/bbl in 2019 and USD85.5/bbl in 2020.** Oil prices are likely to be volatile, sensitive to any event that could compound the oil-supply shortage. **As such, the possibility that oil might exceed the symbolic USD100/bbl threshold cannot be ruled out.**

## Monetary policy – Varied but still palatable tightening

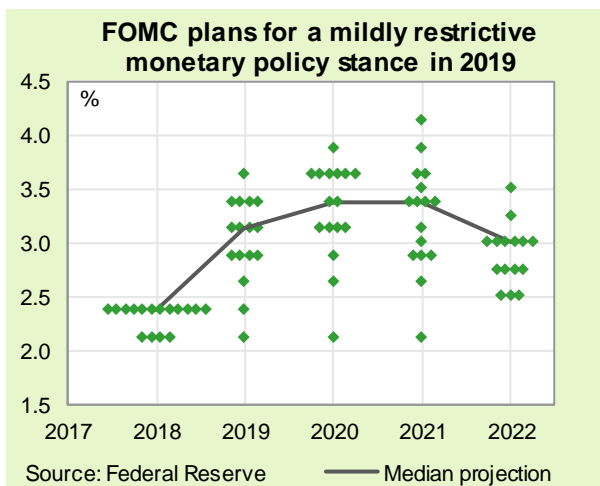
While US monetary policy is unlikely to take a truly restrictive turn until end-2019, the ECB is duty-bound to make a success of its announced end to quantitative easing, although this in no way heralds a hike in interest rates any time soon.

### Fed tightens rates, hoping for an economic ‘soft landing’

The FOMC hiked its policy target range by 25bp to 2.0-2.25% in September, as widely anticipated. The year-end 2018 median fed funds projection was maintained, pointing to another rate hike in December.

The current median fed funds rate projection for year-end 2019 is consistent with three 25bp rate hikes next year. If our forecast for a pick-up in inflation due to tariffs is on track, we believe the Fed will hike once each quarter in 2019, ending the year with a restrictive setting for the fed funds rate.

A trade war trims growth and raises inflation; however, given current conditions with growth above potential and unemployment below the natural rate, we believe that the Fed will be more sensitive to rising inflation than to slower growth. Even with a negative growth impact from supply-chain disruptions and reduced household purchasing power, widespread price increases for imported consumer items could lead inflation expectations to become unanchored and drift higher. That would be worrisome for Fed policymakers, and we see gradual rate hikes as a reasonable risk management approach. **However, the Fed’s ‘soft landing’ projection for the economy is easier said than achieved.**



	2018	2019	2020	2021	Longer run
Median	2,375%	3,125%	3,375%	3,375%	3,000%
	+100bps	+75bps	+25bps	+0bps	

Each shaded circle indicates the value (rounded to the nearest 1/8 percentage point) of an individual participant's judgment of the midpoint of the appropriate target range for the federal funds rate or the appropriate target level for the federal funds rate at the end of the specified calendar year or over the longer run.

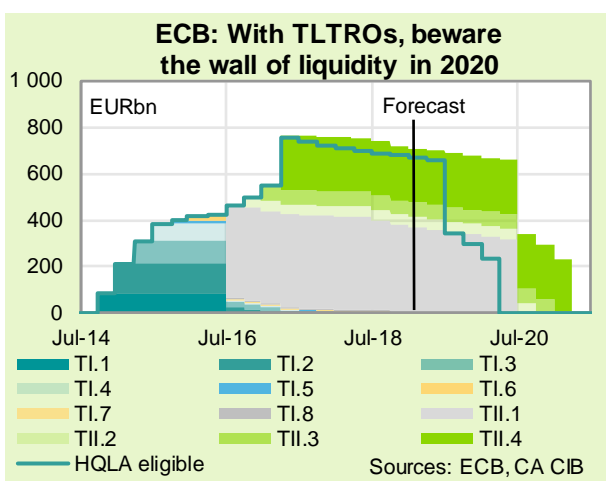
### ECB: securing a successful exit

The ECB's monetary policy has become so predictable that it is almost boring. **QE is approaching the finish line**, with a reduction of EUR15bn a month from October, and complete termination after December 2018. Interest rates should “remain at their present levels at least through the summer of 2019”. We are expecting the ECB not to hike before September 2019, with a 15bp increase in the deposit rate.

Of course, the ECB has retained the option of extending QE; of course, the first rate increase can be deferred; and of course, the Bank's forward guidance can be firmed up. However, in view of the ECB's recent signals, everything seems to indicate that the central scenario is the only one under consideration.

**This does not mean that the ECB will be inactive in the coming months:** two topics in particular will need to be addressed:

- ✓ **The arrangements for the reinvestment programme:** the rarity of certain sovereign issues should force the ECB to inject more flexibility into this programme.
- ✓ **The maturing of TLTRO II:** it is true that the most recent issue does not come due until March 2021; but the question of financing banks on maturities from 1Y to 3Y should arise, especially when the first TLTRO II sees its due date dip below one year, in June 2019.

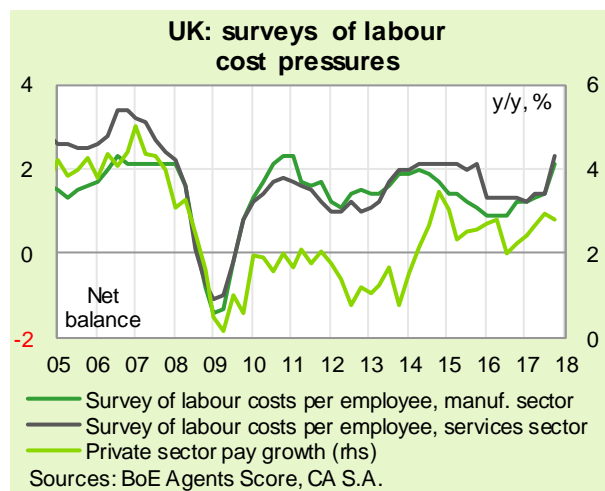




### **BoE: in the course of “ongoing tightening”**

The BoE has hiked its key policy rate twice over the past year (in November 2017 and August 2018) as the economy has fared better than expected since the Brexit referendum and the labour market has tightened further. The MPC expects GDP growth at rates above potential in the coming years (1.75% on average per year in the next three years) and a small margin of excess demand to emerge by late 2019, feeding into higher domestic costs. CPI inflation is expected to remain slightly above 2% and to reach target by the end of 2020.

The focus is now shifting to the supply impact from Brexit, as immigration from the EU – largely work-related – has fallen significantly since the referendum, thereby reducing the workforce and exerting upward pressure on wages in several sectors of the economy. In parallel, the prospects for domestic demand are improving, despite the persistent drag on investment. Household consumption growth is likely to strengthen as the squeeze on real income growth from imported inflation is fading. The combination of the drag to supply and a recovery in domestic demand implies stronger inflationary pressures and hence the need for tighter policy. We expect the next rate hike in May 2019 but, if a Brexit deal is signed by early November, and growth & labour market developments are in line with expectations, the next rate hike might come sooner.



### **BoJ: ‘Dichotomy’ between policy rates and 10Y JGB yield deviation**

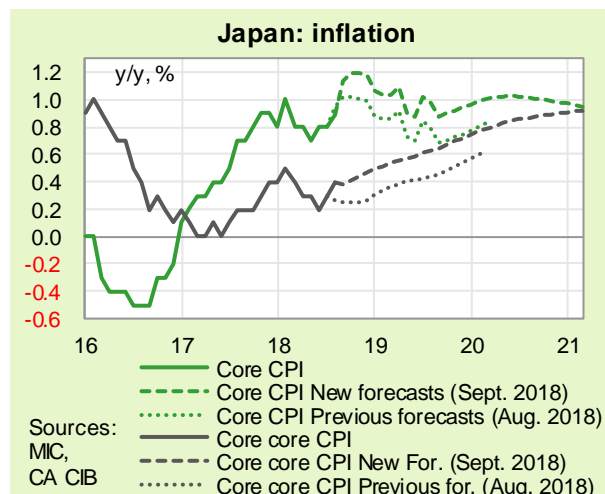
In a somewhat surprising move, the BoJ made some adjustments to the YCC (yield curve control) at the July MPM. The two central pillars of the adjustments were the newly introduced forward guidance on policy rates and the expansion of the 10Y JGB yield’s allowed deviation from the target of “approximately 0%”

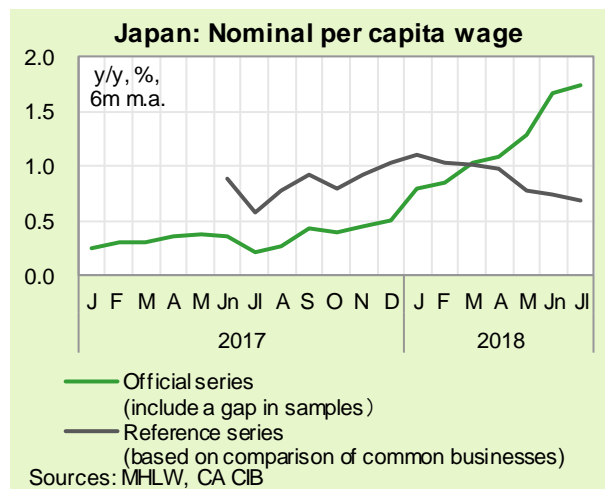
While the forward guidance is expected to rule out a scenario whereby the market factors in a policy exit too soon when CPI inflation remains well below 2% YoY, the widened deviation of the 10Y JGB yield from the target level is meant to increase the functionality of the JGB market, and thereby mitigate any negative side-effects of the current YCC framework.

Given these adjustments, we need to take a ‘dichotomic’ view in gauging what the BoJ will do in terms of policy management going forward. One view concerns the policy rates, which are still a function of the CPI, while another concerns the deviation of the 10Y JGB yield from the target, which is a function of how well the JGB market functions.

Given this dichotomic way of thinking, **our view on the BoJ is as follows. The BoJ will start to increase the 10Y JGB yield target – one of the two policy rates – at end-2020 at the earliest, provided that CPI rises 1% YoY.** On the other hand, we believe the BoJ may expand the deviation of the 10Y JGB yield again around mid-2019, assuming the BoJ is not satisfied with the development of the functionality of the JGB market.

**It will take the BoJ longer to raise the target for the 10Y JGB yield than to widen the deviation of the 10Y JGB yield. This is because CPI inflation is widely expected to remain far short of the 2% target.** In our view, the BoJ will start to soften its interpretation of the 2% inflation target sometime around 2019 and will decide on a hike of the 10Y JGB yield once CPI starts to rise not towards 2% but 1% YoY.





Stable CPI inflation requires stable wage growth. But we are facing a statistical issue regarding the measurement of wages, which, in our view, will translate into a policy issue in the future. The point is that the MHLW (Ministry of Health, Labour and Welfare) has changed the sampling methodology of businesses surveyed in the Monthly Labour Statistics. Until 2017, the MHLW changed the whole sample every third year on principle. However, starting in 2018, it is changing part of the sample every January. Consequently, YoY changes inevitably include a non-negligible gap in samples between this year and last year. The official series of per-capita wages, which does not adjust for a gap in the sample, shows a rise in wage growth. However, the reference series, which adjusts for the sample gap and compares wages paid by businesses surveyed both this year and last, shows an almost flat reading. The ‘true’ data will lie somewhere between the two. However, we advocate reading the official wage data with an unusually large pinch of salt.

Last but not least, in gauging when or whether the BoJ will widen the deviation of the 10Y JGB yield again, we focus on the bank’s bi-annual Financial System Report published in April and October. The next two issues of the report will be enough to tell whether YCC’s negative side-effects in terms of the functioning of the JGB market have been mitigated. If not, we expect the BoJ to engage in another widening of the deviation, which will come in mid-2019.

## Interest rates – The core and the periphery

Long-term rates are likely to rise very slowly. So long as the Fed operates an incremental tightening of its monetary policy, US long-term rates will remain on a very slightly upward trend. This holds equally true for Eurozone core rates, which are also benefitting from heightened risk factors.

### US: Gradual hikes flatten yield curve

We believe US rates will trade within the recent range over the near term, with a yield-curve-flattening bias. Over the medium term, yields are likely to grind higher as the current economic expansion continues and the Fed gradually hikes interest rates. However, with the trade-war overhang and troubles in emerging markets, there is limited upside in how far yields could rise.

The September FOMC statement and the updated dot-plot were less hawkish than some investors had feared. Market participants focused on the 2019 median dot (which was kept the same as in the June dot-plot) and the inclusion of the 2021 median dot (which is the same as the 2020 median dot). Despite the recent sell-off, the 10Y Treasury yield has failed to break the upper bound of the 2.75-3.11% year-to-date trading range. The latest price action suggests that the 10Y Treasury yield could trade below 3.00%.

Term-premium has been well contained, despite the Fed's gradual hikes and SOMA portfolio taper. In fact, at around -52bp, 10Y term premium is at the low end of the year-to-date range between -60bp and -20bp. We believe term-premium will likely stay low, as long as other global central banks continue QE, vol stays low and the risk of high inflation remains remote. The low term-premium is consistent with a flat yield curve.

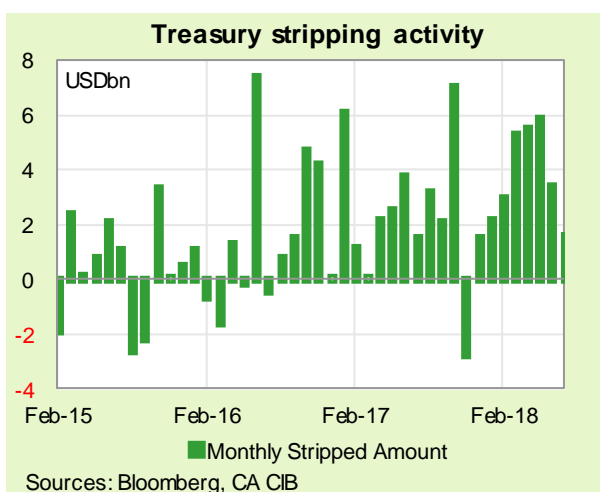
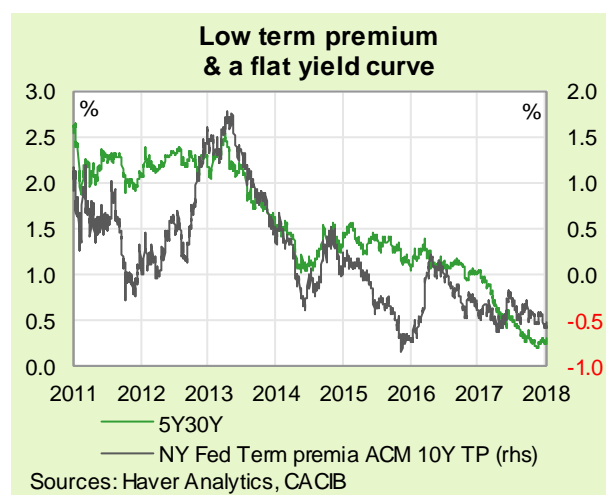
As long as the Fed continues to hike gradually, the yield curve is likely to flatten further. Flatteners had been a crowded trade in the first half of this year. Over the past couple of months, some steepeners seem to have been initiated, in both the spot and forward space. We believe the curve positioning is more balanced now than it was in Q2.

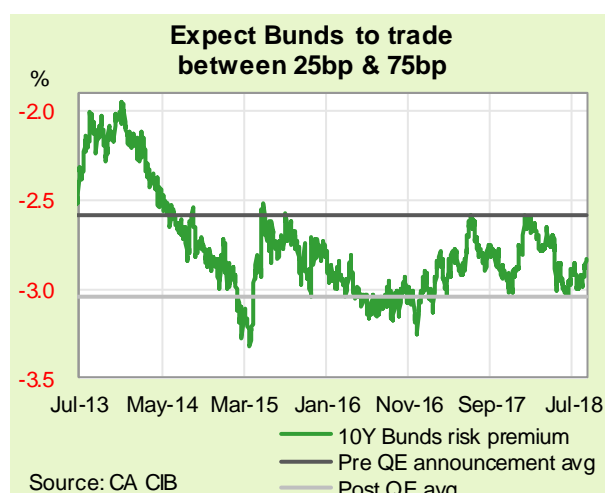
Although the latest US Treasury stripping data shows the first month of net reconstitution since November 2017, we do not believe pension demand will completely dry up going forward. The recent price action suggests the demand for long-duration fixed income assets is unlikely to evaporate given aging demographics and strong equity performance.

### Europe: risk factors increasing

Over the past three months, markets have witnessed risk-aversion driven by a number of factors: concerns over a trade war, the Italian budget and volatility in emerging markets.

The seemingly different factors have been the background to reduced support from central banks and a potential slowdown in economic growth. One of the main drivers for all asset classes over recent years has been the high level of liquidity and accommodative central-bank policies. As we emerge from these supportive monetary policies, a number of asset classes appear vulnerable; thus the bar for potential triggers for risk-aversion is likely to be low going forward.



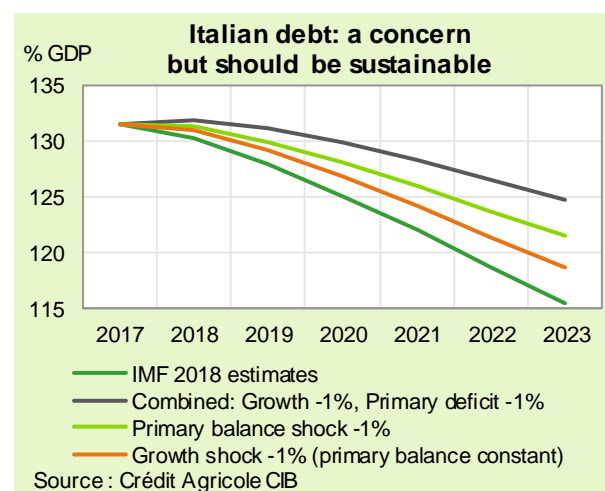


A few observations are in order:

- ✓ Accommodative central-bank policies have benefitted risky assets, **in particular EM, US HY and equities**, much more than fixed income. As the policy accommodation is withdrawn, these assets will become vulnerable. EM as an asset class is also vulnerable given the high USD-denominated issuance in recent years.
- ✓ **The economic growth cycle may have matured** particularly in the US. Fiscal stimulus in the US will start fading in H219, and there is a risk of a slowdown in the US in 2020 and beyond.
- ✓ **Geopolitical risks are increasing** as the globalisation wave witnessed over the past 20 years is facing a pause, if not a reversal. Protectionist policies will hurt growth and increase event risks.

Thus, in our view, the potential for further headline risk over the coming months appears high. The stage is already set for additional tariffs on USD200bn-worth of Chinese exports to the US, and the risk of a further escalation in the trade war is no longer a tail-risk scenario but needs to be factored into our central scenario.

The coming months should also see increased headline risk from Italy over budget negotiations. While we acknowledge the near-term headline risk, we do not expect systemic risks from Italy or a rating downgrade below investment-grade.



Thus, our base-case macro picture is one of heightened risk from a trade war and risky-asset valuations but limited systemic risks from Italy. Against this backdrop, we expect core rates to remain contained, as any sell-off would make risk assets expensive, which would again lead to a bid for fixed income. Using a risk premium framework, our **fair value range for 10Y Bunds is 25-75bp**, and we expect this range to be respected in 2019.

The front end rates should be anchored by a supportive ECB. In our view, the main question for the ECB is not the timing of the first rate hike, but the pace of rate hikes once the ECB starts hiking.

In 2020, when the ECB embarks on its rate-hiking cycle, it is likely to be in an environment where US (and likely global) growth is slowing, risky assets are vulnerable and inflation is still ‘missing in action’. Thus, we expect **the ECB to remain behind the curve** and adopt an accommodative stance.



## Exchange rates – Dollar doing well

In the short term, whereas the Fed is the only major central bank whose monetary policy is likely to take a more aggressive turn than expected, safe-haven currencies – and obviously the USD – should benefit from increased risk factors.

### USD selectively stronger, for longer

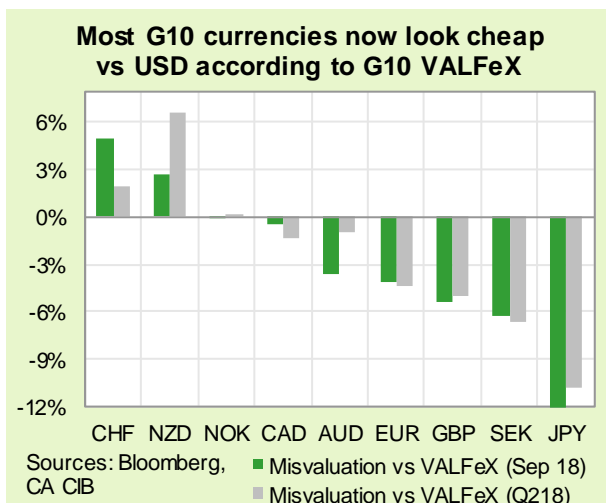
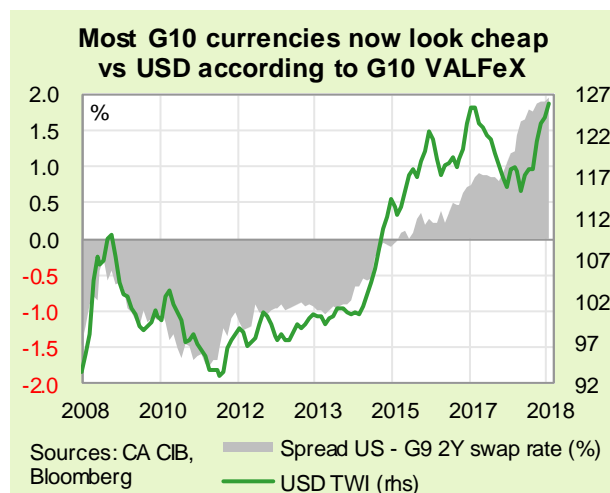
**USD should do well mainly against G10 currencies whose central banks have either a neutral or dovish policy outlook.** The policy stance of these central banks depends on the outlook for their domestic economy as well as the external environment. A special emphasis would be put on how vulnerable the economies would be to a potential escalation of the global trade conflict. The trade tensions between the US on the one hand and Canada and the EU on the other should start subsiding before long, and this could pave the way for cautious policy normalisation by both the BoC and the ECB, as well as other European banks like the Norges Bank and the Riksbank. At the same time, the trade conflict between the US and China may fester. This could mean that the RBNZ, the BoJ and the RBA will remain neutral in their policy outlook going forward. In the case of the first two, weaker domestic activity or inflation data also seems to be keeping them rather cautious for the time being.

**We further assess the vulnerability of the G9 currencies vs USD according to FX market positioning, as well as the sensitivity of these currencies to a potential further increase in both UST yields and risk-aversion.** The latter sensitivity could prove an important performance driver, especially if the combination of Fed policy normalisation and festering trade tensions between the US and China undermines market risk-sentiment ever further in the coming months.

**Our positioning data highlights that the FX markets are running close to record USD longs vs significant shorts in AUD, EUR, JPY, GBP, CHF and SEK.** At the same time, our gauge suggests that investor positioning in NZD and CAD is closer to neutral while there seem to be small longs in NOK. When looking at the FX sensitivity to higher 10Y UST yields and risk-aversion, we conclude that the G10 commodity currencies are the most vulnerable to potential spikes in UST yields and/or risk-aversion. At the other end of the spectrum are the safe havens, JPY and CHF, which benefit from their positive correlation with risk-aversion.

**We conclude that USD could continue to do well in the near term against currencies that are vulnerable to a further escalation in US protectionism and whose central banks have a neutral to dovish outlook.** NZD and, to a lesser degree, AUD should be the key G10 underperformers. In comparison, CAD and NOK could be relatively more resilient given the outlook for oil, their central-bank policies and – in the case of CAD – falling political uncertainty since Canada and the US have agreed on a trade deal. We expect renewed CHF weakness and EUR, SEK and JPY gains before year-end.

**Over the long term, the risks to USD should remain on the downside.** We expect US political risk to intensify after the mid-term elections and limit the support for USD coming from President Trump's policy mix of aggressive fiscal stimulus and protectionism. While the USD's bond yield advantage has recently climbed to its highest level in almost 20 years, we expect that the cyclical and policy divergence



between the US and the rest of the world could start reversing as other central banks start to normalise policy in late 2018 and in 2019. In addition, according to our long-term valuation model G10 VALFeX, USD looks significantly overvalued versus JPY, SEK, GBP, EUR and even AUD (Figure 2). Somewhat less pronounced is its overvaluation vs NOK and CAD. The currency still looks undervalued vs CHF and, less so, NZD. All this could point to downside risks for USD over the next 6 to 12 months, broadly consistent with our long-term G10 FX forecasts.

### ***Emerging market currencies: likely to remain capped***

**EM currencies may remain under depreciation pressure in coming months, but not all of them; on average, we expect them to stabilise into 2019.**

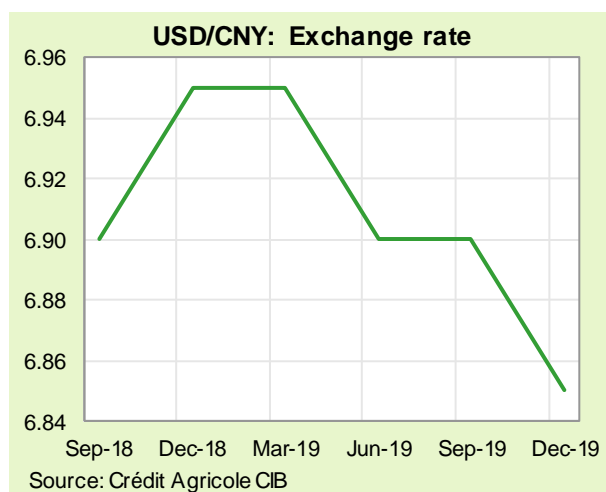
Persisting depreciation pressure makes sense given the challenges facing EMs, including the continued increase in US rates and the ongoing escalation of trade tariffs between the US and China.

Further trade tensions may have only a limited negative impact on EM economic growth, as China will, in our view, support its own economic growth with stimulus measures. However the market impact may be stronger than the macro impact. Further deterioration in the US-China relationship would fuel risk-aversion, keeping under pressure the currencies of those countries that are the most dependent on foreign financing (the TRY in particular).

That being said, the Chinese authorities will, in our view, try to support the CNY. Indeed, too strong a depreciation would bear the risk of fuelling capital outflows, in a way that could become more difficult to control after a while, and that could slow the development of the bond market. Limiting the CNY depreciation would in turn also limit the depreciation of other EM currencies (Asian currencies in particular).

**In 2019, once the bulk of the protectionist risk has, we hope, been priced in, EM currencies could stabilise.** The recent EM sell-off has led to more interesting levels in FX, equity and rate markets. Should EM risk-aversion moderate, investors could be tempted to benefit from such levels.

**Our house view sees depreciation of the USD in coming quarters – which would make it easier for EM currencies to appreciate vs USD.** That being said, we only expect limited appreciation of EM currencies vs USD in 2019. As times goes by, an additional risk may emerge: **the expected end of the growth cycle in the US** (which may become more obvious in 2020). This **may cut into the appetite for EMs and should limit the potential upside for EM currencies.**



## Economic and financial forecasts

### Interest rate

		2-Oct	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
USA	Fed funds	2.25	2.50	2.75	3.00	3.25	3.50
	10Y	3.06	3.05	3.15	3.20	3.25	3.30
Eurozone	Repo	0.00	0.00	0.00	0.00	0.00	0.25
	10Y (Germany)	0.42	0.50	0.55	0.60	0.65	0.70
10Y Spread vs. EUR	France	0.37	0.30	0.30	0.30	0.30	0.30
	Italy	3.06	2.20	2.20	2.20	2.10	1.95

### Exchange Rate

USD Exchange rate Industrialised countries		2-Oct	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
Euro	EUR/USD	1.15	1.19	1.21	1.23	1.25	1.27
Japan	USD/JPY	113.70	114.00	114.00	110.00	108.00	106.00
United Kingdom	GBP/USD	1.30	1.34	1.36	1.39	1.42	1.46
Switzerland	USD/CHF	0.99	0.98	0.98	0.97	0.96	0.96
Asia							
China	USD/CNY	6.87	6.95	6.95	6.90	6.90	6.85
Hong Kong	USD/HKD	7.83	7.85	7.82	7.80	7.80	7.80
India	USD/INR	72.92	75.00	76.00	74.50	73.50	74.00
South Korea	USD/KRW	1117	1115	1095	1075	1075	1085
Latin America							
Brazil	USD/BRL	3.91	4.10	4.05	4.00	4.00	4.00
Mexico	USD/MXN	18.77	19.00	18.75	18.75	18.50	18.50
Emerging Europe							
Poland	USD/PLN	3.72	3.61	3.53	3.46	3.36	3.27
Russia	USD/RUB	65.31	67.00	68.00	68.00	67.00	67.00
Turkey	USD/TRY	5.98	8.30	8.50	8.50	8.50	8.50

### Commodities

		2-Oct	2018	2019			
Precious metals			Q4	Q1	Q2	Q3	Q4
Gold	USD/oz	1,202	1,270	1,290	1,320	1,350	1,370
		2-Oct	2018	2019			
Av. quarter price			Q4	Q1	Q2	Q3	Q4
Brent	USD/BBL	84	80	77	82	80	83

## Economic Forecasts

	GDP (yoy, %)			Consumer prices (yoy, %)			Current account (% of GDP)		
	2017	2018	2019	2017	2018	2019	2017	2018	2019
United States	2.2	2.8	2.5	2.1	2.5	2.6	-2.3	-2.5	-2.8
Japan	1.7	1.0	1.1	0.5	0.9	1.2	4.0	3.6	3.3
Eurozone	2.5	2.1	1.8	1.5	1.8	1.7	4.0	3.4	3.3
Germany	2.5	1.9	1.9	1.7	1.8	1.9	8.0	7.6	7.0
France	2.3	1.6	1.6	1.2	2.2	1.9	-0.6	-1.3	-1.0
Italy	1.6	1.2	1.0	1.3	1.3	1.2	2.8	1.6	1.8
Spain	3.1	2.7	2.3	2.0	1.8	1.6	1.9	1.8	1.8
Netherlands	3.0	2.8	2.3	1.3	1.8	1.8	10.2	9.9	9.9
Other advanced									
United Kingdom	1.7	1.2	1.4	2.7	2.5	2.4	-4.2	-3.6	-3.5
Canada	3.0	2.1	2.1	1.6	2.5	2.2	-2.9	-2.8	-2.5
Australia	2.2	3.0	2.7	1.9	2.0	2.2	-2.5	-2.3	-2.6
Switzerland	1.1	2.1	1.7	0.6	0.8	0.8	9.8	10.0	9.8
Asia	6.2	5.9	5.9	2.4	2.5	3.0	1.9	0.6	0.0
China	6.8	6.6	6.4	1.6	2.2	2.5	1.3	-0.3	-0.9
India	7.1	6.7	7.4	4.5	3.6	5.1	-0.6	-1.9	-3.1
South Korea	3.1	2.9	2.8	1.9	1.6	2.0	5.5	5.5	5.5
Latin America	1.6	1.2	1.9	6.3	9.6	7.1	-1.6	-1.6	-1.6
Brazil	1.0	1.2	1.8	2.9	4.1	4.0	-0.5	-1.1	-1.4
Mexico	2.0	2.1	2.1	5.7	4.2	3.5	-1.6	-1.2	-1.4
Emerging Europe	3.6	2.8	1.4	5.7	6.0	6.6	-0.3	-0.8	-0.5
Russia	1.5	1.8	1.4	4.4	3.2	4.0	2.2	2.0	1.8
Turkey	7.4	3.2	-1.9	11.1	16.2	19.0	-5.6	-7.2	-4.9
Poland	4.6	4.8	3.5	2.0	1.6	1.5	0.2	-0.7	-0.7
Africa, Middle East	1.6	2.3	1.7	7.6	6.8	7.2	-0.3	2.1	1.9
Saudi Arabia	-0.9	1.5	2.0	-0.8	3.0	2.0	2.2	7.0	7.0
United Arab Emirates	0.8	2.6	3.1	2.0	3.7	3.0	6.9	9.0	8.0
Egypt	4.2	5.0	5.2	29.5	13.2	12.0	-6.0	-3.3	-2.7
Morocco	4.2	3.5	3.3	0.8	2.3	2.0	-3.6	-3.8	-3.5
Total	3.6	3.5	3.3	3.0	3.4	3.5			
Advanced economies	2.2	2.2	2.0	1.7	2.1	2.1			
Emerging countries	4.6	4.4	4.2	4.0	4.5	4.6			



## Public accounts

	Government balance (% of GDP)			Public debt (% of GDP)		
	2017	2018	2019	2017	2018	2019
<b>United States</b>	-3.5	-4.0	-4.7	76.3	77.8	78.6
<b>Japan</b>	-4.4	-4.5	-3.6	236.3	237.0	234.6
<b>Eurozone</b>	-0.9	-0.8	-0.7	89.0	87.3	84.4
Germany	1.3	1.3	1.2	64.1	61.0	58.3
France	-2.7	-2.6	-2.8	98.5	98.7	98.6
Italy	-2.4	-1.8	-2.4	131.2	130.5	130.3
Spain	-3.1	-2.6	-1.9	98.3	98.2	96.8
Netherlands	1.1	0.7	1.0	57.9	54.4	51.2
Belgium	-1.0	-1.2	-1.4	103.1	101.6	100.2
Greece	0.8	0.4	0.2	178.6	177.9	171.5
Ireland	-0.3	-0.3	-0.8	68.0	65.4	64.5
Portugal	-3.0	-0.9	-0.6	125.7	122.7	119.6
<b>United Kingdom</b>	-1.9	-2.0	-1.5	87.7	86.5	84.9

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*Copy deadline October 3, 2018*

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