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Economic and Strategy Viewpoint

July 2018

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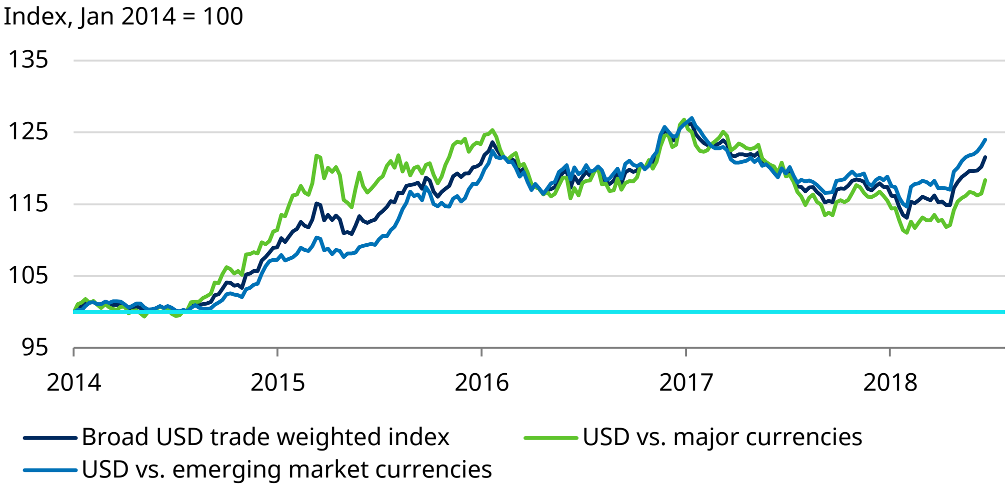
Chart: Dollar strength returns



Source: Thomson Datastream, Schroders Economics Group, GR9P, 22 June 2018.

Trade wars intensify

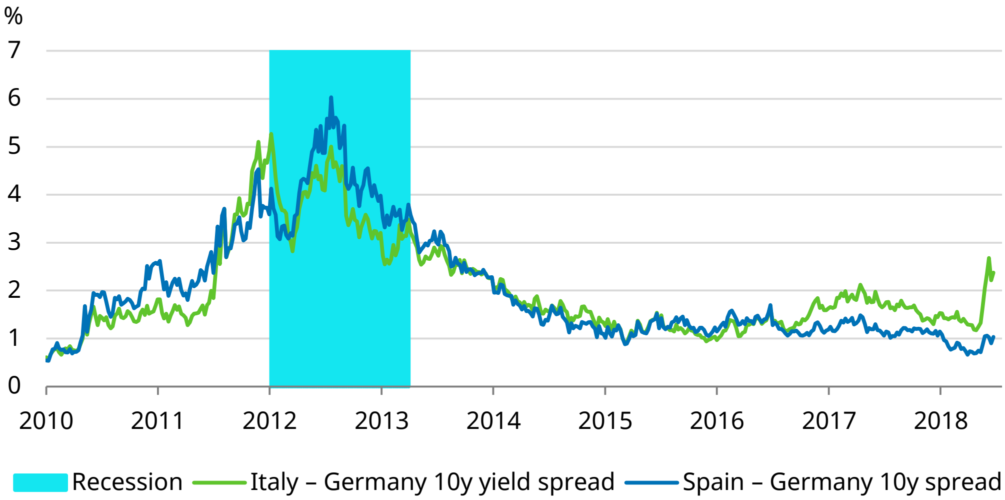
Fed hawks, ECB doves

The past month has brought a striking divergence in monetary policy between the US and eurozone. On 13th June, the US Federal Reserve (Fed) raised interest rates and alongside an upbeat assessment of the economy, delivered a more hawkish message by increasing its projections on future rate hikes. The following day the European Central bank (ECB) announced it would taper in September and cease net asset purchases by the end of December 2018. However, in a dovish surprise it said key ECB interest rates would "remain at present levels at least through the summer of 2019". ECB President Draghi refused to be drawn on when "summer" began or ended, but it is clear that he has no intention of moving away from ultra-low (negative) policy rates for at least a year.

The divergence in activity between the US and eurozone explains some of the deviation in policy. However, in search of a deeper explanation for the ECB's dovishness we take a closer look at the state of the economy in the eurozone section below. Our suspicion is that the monetary policy makers are concerned about the impact of ending QE on financial conditions.

For some time we have highlighted the impact of the ECB's asset purchase programme on European bond markets and capital flows with the scale of purchases being much greater relative to the bond market than in the US. The concern is that ending the programme will cause a significant rise in bond yields and a rise in the euro. Tighter financial conditions may then knock the recovery and push inflation down, or even worse set off a renewed widening of spreads in the periphery which could spiral into another crisis. Recent developments in Italy spring to mind, an economy which, unlike Greece, is too big to bail out.

Chart 1: Sovereign risk returns to the Eurozone



Source: Thomson Datastream, Schroders Economics Group (G0003), 26 June 2018.

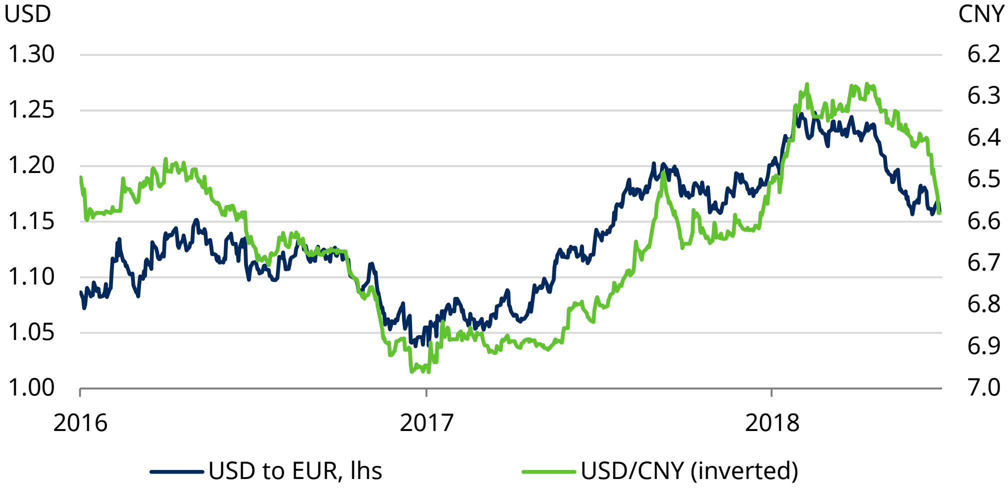
A return to currency wars?

Trade tensions influencing monetary policy?

The desire to keep the euro competitive is an unspoken factor, but no doubt will have been increased as President Trump ramps up his trade policy. Europe has got off relatively lightly so far, with tariffs being implemented on steel and aluminium which amount to just over $7bn of EU trade. This compares with tariffs on $50bn of Chinese exports to the US, which come on top of steel and aluminium tariffs.

China recently announced an easing in monetary policy by cutting the reserve requirement ratio (RRR), seen as a response to the more difficult global environment alongside slower domestic activity. Alongside the euro, the Chinese yuan (CNY) has weakened and fallen to its lowest level since last December. Trump's trade wars seem to have opened up a new chapter in the currency wars (chart 2).

Chart 2. Euro and Chinese Yuan weaken against the dollar



Source: Thomson Datastream, Schroders Economics Group (G0004), 27 June 2018.

Trade wars a central White House policy rather than a bargaining strategy

The dollar's move has caused stress in the emerging markets where selected currencies have been under pressure and the Fed's trade weighted index for the dollar against EM currencies is now close to the highs reached in 2016 (see chart front page and emerging markets section).

The EU is now braced for more action from the US, with Trump now threatening tariffs on cars. Germany is the fourth largest exporter of cars to the US with trade worth around 1% of German GDP. The president is also threatening tariffs on another $200bn of Chinese exports to the US.

Not surprisingly, markets are now waking up to the idea that tariffs are more than a bargaining chip to gain political support for the Republicans in the mid-terms. This was always an odd argument as the Republicans dislike tariffs and are generally free traders. Tariffs have more support on the Democrat side. The changes made in the White House to personnel suggest that there is genuine belief that this will help "make America great again". Staffed by people who see trade as a zero-sum game, the Trump team sees trade wars as a central policy rather than a bargaining strategy. Consequently, trade tensions could run well beyond the vote in November.

How might trade wars play out?

Regular readers will know that we have little time for Trump's assertion that "trade wars are good and easy to win". China may be limited in its ability to put tariffs on US goods, but as Korea has found, it holds many cards. The Chinese authorities targeted Korean owned businesses in China in the wake of the decision by South Korea to install a missile defence system. Strict application of fire regulations effectively closed one supermarket business (Lotte) from operating, with the result it is withdrawing from China.

The US is vulnerable in this respect. General Motors sold more cars in China than in the US in 2017 and there are twice as many active iPhones in China than in the US. Data from the Bureau of Economic Analysis in the US show that the US firms in China sold $223bn in 2015 and $150bn through exports from the US. China has not said it will target US business but a powerful option remains.

Another factor which might temper US enthusiasm for escalating the trade war is that by extending tariffs to another $200bn of Chinese exports, we will see higher inflation as the extra duties will have to fall more directly on consumer goods. The

US was keen to avoid such an outcome when drawing up its list of $50bn of Chinese imports, but extending tariffs further will hit clothing, footwear and a number of white goods.

Consequences of escalation

Our central assumption is that the trade spat between the US and China stops with tariffs on $50bn of goods from both sides. We also assume that a NAFTA deal is signed at some point next year. These assumptions are in jeopardy.

In addition, an escalation means we would have to factor in a stronger USD as central banks outside the US seek to counter the effect of tariffs and investors seek the safe haven of the greenback. This will hit trade and the emerging markets further by tightening monetary conditions, as well as exacerbating the inflationary impact of higher oil prices across all non-dollar economies.

Overall, an escalation in the trade wars means we would have to reduce our growth and raise our inflation forecasts, and markets would have to contend with a more stagflationary environment.

What happened to eurozone growth?

"The latest economic indicators and survey results are weaker, but remain consistent with ongoing solid and broad based economic growth."

Mario Draghi, President of the European Central Bank
14 June 2018

Questions remain over the health of eurozone growth. Temporary factors such as the snow storms and flu epidemics should have passed, yet leading indicators have not recovered to anywhere near the highs of the end of 2017. What has caused the slowdown and is it likely to persist?

Exploring recent growth data

The expenditure breakdown of eurozone GDP growth for the first quarter is now available, and it shows that the slowdown in activity was driven by net trade. Domestic demand accelerated in comparison with the second half of last year thanks to stronger household consumption and a build up in inventories (chart 3). However, the high contribution from net trade in 2017 turned negative, causing GDP to slow.

The contribution from net trade is made up of the growth in the volume of exports, minus the growth in the volume of imports to the economy, therefore growth in both needs to be considered. Both exports and imports fell sharply in the first quarter, but the drop in exports was not offset by the fall in imports when considering the net trade contribution (chart 4).

Weaker eurozone GDP growth in Q1 was caused by a sharp drop in exports. Domestic demand remains robust

Chart 3: GDP growth contributions

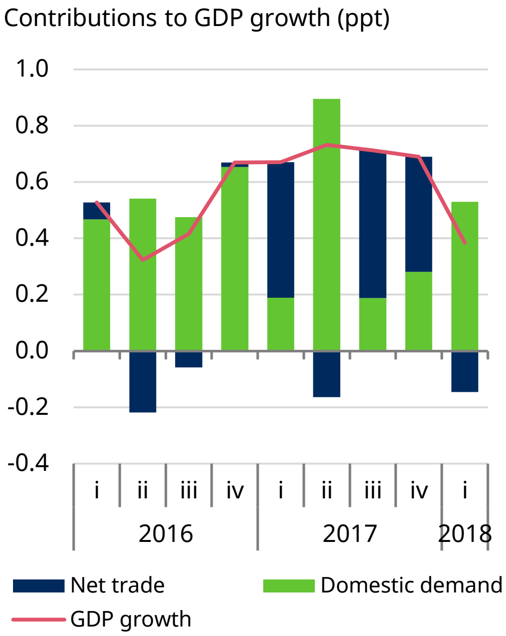
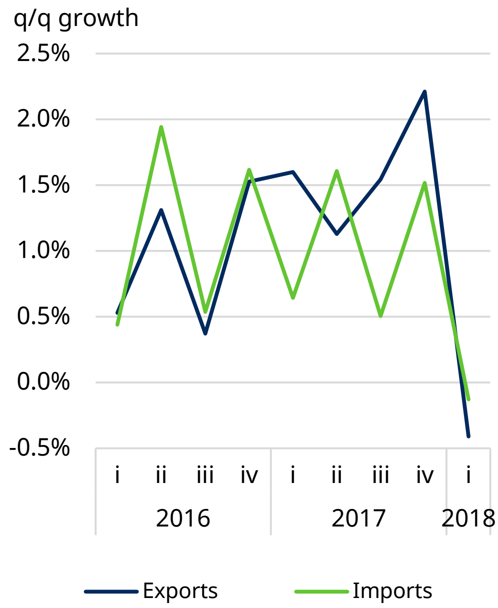


Chart 4: Exports and imports growth



Source: Thomson Datastream, Schroders Economics Group. 26 June 2018.

It is worth noting that part of the weakness in exports in the first quarter appears to be a reversal of the exceptionally high exports recorded in the fourth quarter of 2017. Nevertheless, the latest data is very weak and hard to explain without delving deeper into the data.

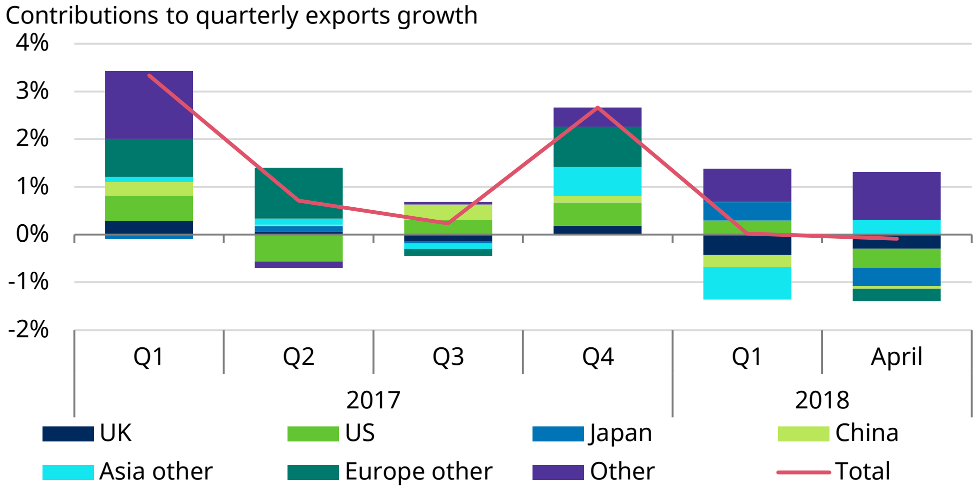
Why did exports collapse?

Trade data is notoriously difficult to work with. Poor coverage and late publication means it tends to be the part of GDP that is most prone to errors and revisions. Eurozone trade data is no different. The next step in our analysis is to examine the geographic breakdown of exports in order to identify where the weakness has come from. However, the geographic breakdown of exports provided by Eurostat only covers trade in goods, and only in nominal terms, meaning that the following analysis does not directly explain exports data in GDP, but it is a large proportion of the information required.

Chart 5 shows contributions to quarterly growth in the exports of goods in euros by destination. The chart shows that the main cause for the deceleration in growth between Q4 and Q1 is the fall in exports to "Asia other" (Asia excluding Japan and China). The second biggest swing in contribution to the downside came from "Europe other", which includes non-eurozone but EU member states, European Free Trade Association members, but not the UK which is shown separately, and has the third largest downside swing.

Exports to Asia excluding Japan and exports to the UK seem to be the main cause of the fall

Chart 5: Contribution to growth in exports[1] by destination



Source: Thomson Datastream, Schroders Economics Group. 26 June 2018.[1]Exports in goods only, using nominal working day adjusted data in euros.

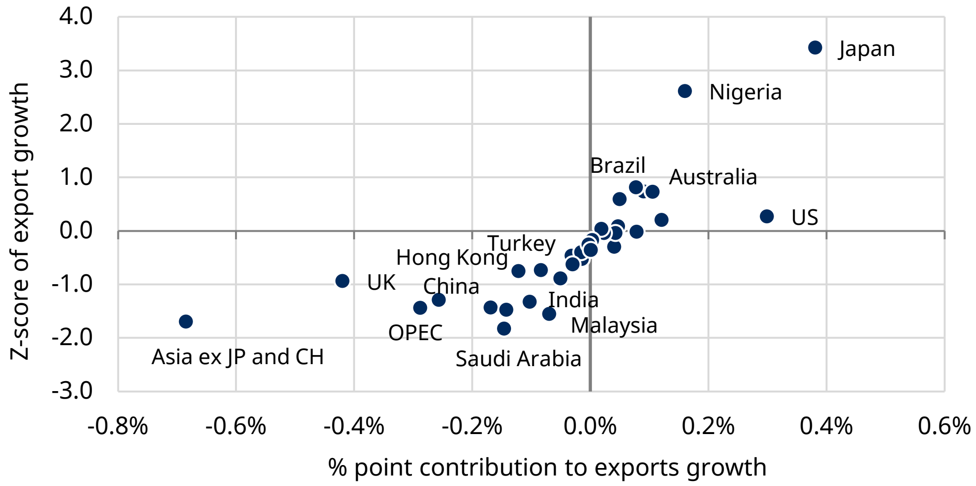
Simply comparing 2018 Q1 to 2017 Q4 is not necessarily the best comparison to make, especially if Q4 is the anomaly - the unusually strong quarter - rather than Q1 being the unusually weak quarter. A comparison to Q3 2017 may be more suitable. This comparison shows that "Asia other" had the largest negative swing, but China was second followed by the UK. Taking those two comparisons together, it is clear that "Asia other" and the UK are the main culprits behind the slowdown in exports growth, and therefore the slowdown in GDP growth.

Further investigation using a more detailed breakdown shows that within "Asia other", OPEC members such as Saudi Arabia and the UAE made up two fifths of the fall in exports to the region. This is highlighted by chart 6, which plots the percentage point contribution to total exports growth by country/region (horizontal axis) versus the z-score of the growth in exports to those destinations, with zero representing the historic average on the vertical axis, and each point showing a standard deviation from that average. For example, exports to Saudi Arabia saw the most significant drop compared to that series' history (-1.8 z-score), but it only made a small negative contribution to the fall in overall exports of -0.15 percentage points due to the relatively small level of exports compared to other countries.

Other significant falls in exports include those to China, OPEC as a whole, Malaysia, India, Hong Kong and the UK. Interestingly, to the upside, exports to Japan and Nigeria were very strong.

Within Asia, exports to Saudi Arabia and the UAE were notably down, but exports to Malaysia, India and China were also weak

Chart 6: Export[1] growth by destination vs. contribution in Q1



[1]Exports in goods only, using nominal working day adjusted data in euros. Z-scores calculated since 1999. Source: Thomson Datastream, Schroders Economics Group. 26 June 2018.

Looking ahead, we only have April data for the second quarter so far, as shown on chart 5 above, but it does show some rebound in exports to Asia. However, exports to China have continued to weaken and exports to Japan have reversed. This is just one month's worth of observations in a very volatile series, but overall there are no signs of a turnaround, or further weakness for that matter.

If the contribution from trade does not improve, where does this leave eurozone growth? As mentioned earlier, domestic demand has been improving, with the European Central Bank (ECB) reporting a notable pick-up in lending data. The domestic economy has further room for improvement, but there are other headwinds that are approaching. Higher oil prices and the recent depreciation in the euro will keep inflation elevated, reducing the purchasing power of households. This is unlikely to cause a major slowdown as strong employment growth should act as a support. Moreover, for the majority of member states, fiscal policy has shifted from tightening to a small loosening, with pressure growing for even more relaxation of budget stances.

Monetary policy tightening on the horizon

At its June meeting, the ECB's governing council decided to announce a final tapering of its quantitative easing (QE) programme. Monthly purchases will fall from €30 billion to €15 billion for the final three months of this year and then cease. In addition, ECB president, Mario Draghi, announced that the central bank intends to keep interest rates on hold until "through the summer" of 2019. On the one hand, this is later than our forecast of a first quarter rate rise. But on the other hand it confirms to markets, which have largely not priced any change in rates, that interest rates are going to rise next year.

The ECB will end QE this year, but keeping rates on hold into H2 2019 is more dovish than expected

The extremely slow pace of tightening is somewhat puzzling. Headline inflation is already at 1.9%, at the ECB's target of close to but below 2% inflation, while measures of capacity utilisation suggest that there is little slack remaining in the economy. With the euro depreciating and oil prices rising in recent months, the risk to eurozone inflation is now skewed to the upside, and while growth has slowed at the start of this year, the above analysis shows that this was due to external demand, while domestic demand remains healthy.

It is difficult to explain why the ECB has decided to extend QE and keep interest rates in negative territory for another year. Perhaps this is another attempt at a competitive devaluation or concern over the impact of ending QE on financial conditions as discussed above (see global section), or perhaps the ECB knows something the public is not aware of. Alternatively the move is to safeguard against volatility caused by Italian politics which is likely to flare up again in the Autumn as the government presents its budget.

In any case, we have pushed out the first ECB rate rise to the third quarter, and assume another hike in the fourth quarter, taking the deposit rate up to zero, and the refinancing rate up to 0.50%.

What is driving EM currency weakness?

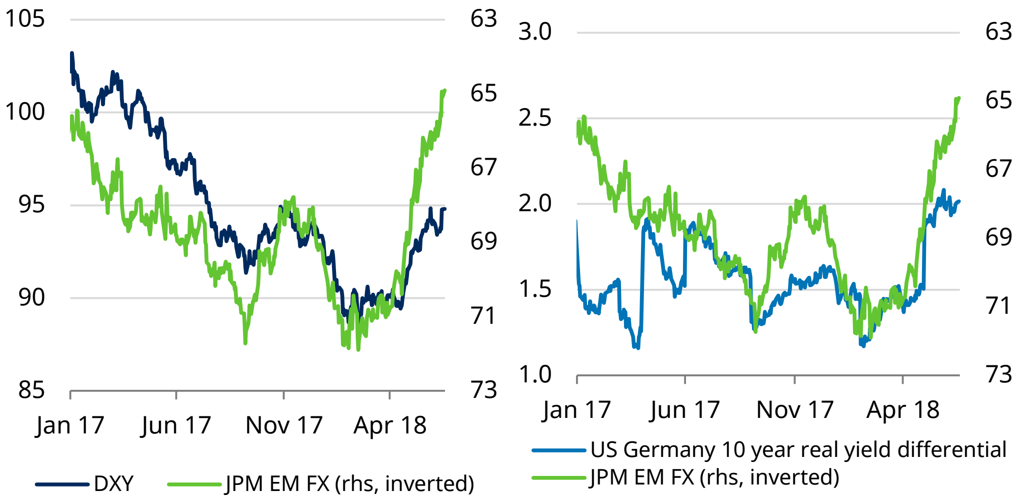
A bad quarter for EM likely reflects the dollar's strength and trade risks

Emerging markets (EM) are having a torrid second quarter, with equities some 10% lower compared to the end of Q1, currencies 8% lower, and debt spreads some 70 basis points (bps) higher. A lot of this can be pinned on a resurgent dollar, but it seems likely that growing trade tensions will be taking a toll on sentiment, and we also need to acknowledge a string of country specific negative shocks over the past few months.

The power of the dollar

Particularly on the currency side, a strong relationship between the dollar and EM is unmistakeable. Chart 7 shows how closely EM currencies (measured here by the JP Morgan EM FX index) have tracked the dollar, with recent weakness highly correlated with dollar strength.

Charts 7 and 8: Changing rate expectations have driven currency moves



To a large extent, this dollar strength seems to have been driven by monetary policy changes, both expected and actual. Real yields in the US have outpaced those in Europe, with the surge in April propelled by a repricing of expectations as European growth disappointed. European Central Bank interest rate hikes seemed an increasingly distant prospect even as the Fed was gaining confidence in its own hiking path, and this seems to have been enough to propel the dollar higher, with the converse effect for EM currencies.

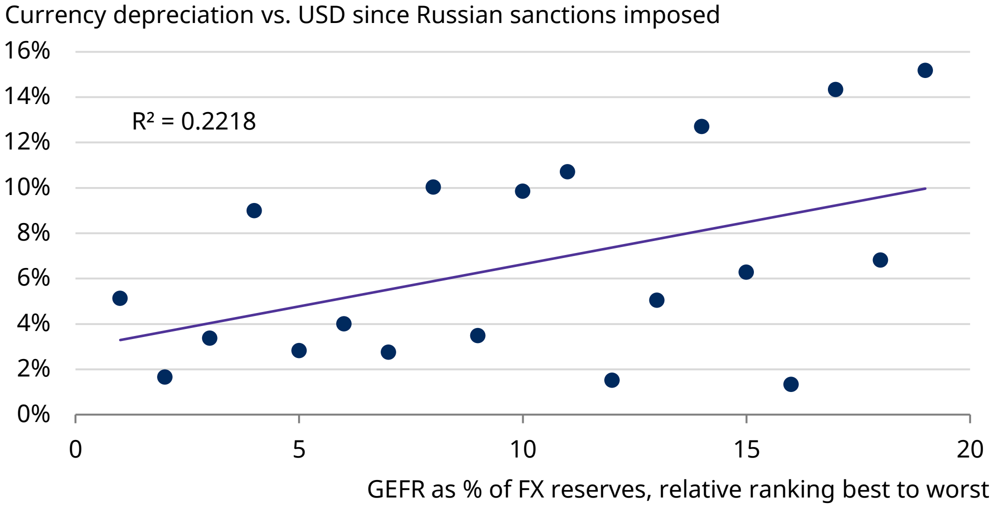
Of course, currency performance has not been uniform. In some cases there are idiosyncratic factors for this; sanctions applied to Russia caused a significant sell-off, for example. But we also believe that differentiation in EM FX performance is linked in part to different sensitivities to the dollar.

Relative performance across EM likely depends on the degree of dollar exposure

There are a number of possible metrics to capture this sensitivity. Perennial favourites for external vulnerabilities in EM are the current account and the level of reserves, relative to imports. However, while these are useful for measuring vulnerability to a crisis, it is something of a non-linear relationship. There are levels at which reserve import coverage, or a current account deficit, become a concern, but until those levels are breached they may not serve as a good guide to relative performance within EM. Similar logic applies to the basic balance, which adjusts the current account deficit for foreign direct investment flows. It can tell you something about resilience to crisis, but seems not to hold much explanatory power for the developments seen this year.

Generally speaking we want to assess the reliance of a given EM economy on dollar financing, such that a more expensive dollar materially raises the cost of credit and tightens domestic conditions. Consequently, we consider the level of foreign debt exposures. Ranking EM economies by their total external debt as a share of GDP, private sector dollar debt as a share of GDP, and the gross external financing requirement[1] as a share of both GDP and reserves, we find that the latter holds the greatest explanatory power for the sell-off since April, particularly once we get past Russian sanctions (chart 9).

Chart 9: Currency weakness correlates with short term foreign debt worries

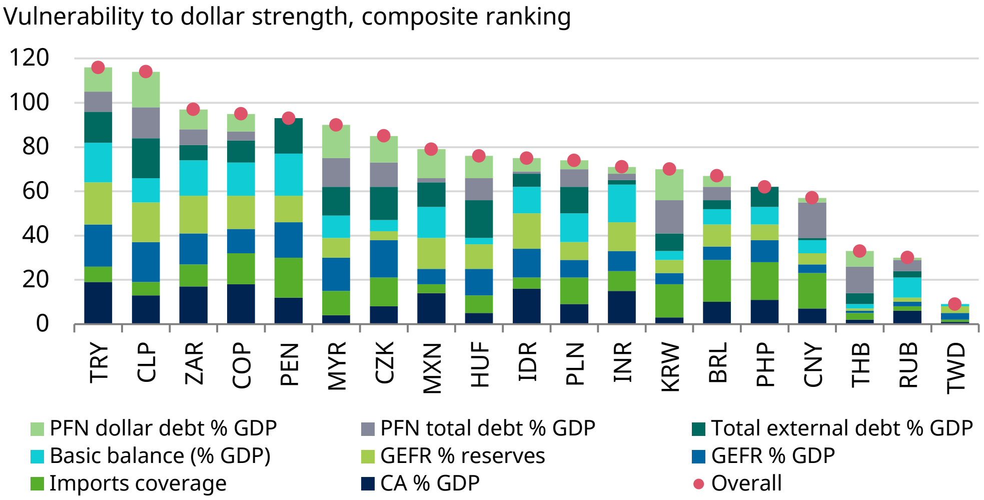


Source: Thomson Datastream, Schroders Economics Group. 20 June 2018.

Further dollar strength should see differentiation persist

Of course, just because this relationship is the strongest so far does not mean this will be the case in the future. Other metrics for dollar exposure could come to the fore. With this in mind we have compared 20 EM economies on a range of metrics, ranking them relative to one another. Chart 10 shows the overall ranking score (arrived at by combining the economy's rank for each metric), with higher scores reflecting greater vulnerability. Bear in mind that this is chiefly a consideration of structural fundamentals – idiosyncratic factors could see some otherwise less vulnerable economies react more strongly to dollar moves, with one example being policy woes in Brazil – but it seems a good starting point if we are worried about further moves in the dollar.

Chart 10: Assessing structural vulnerability to dollar strength



Source: Thomson Datastream, Schroders Economics Group. 20 June 2018. PFN stands for private non financial.

1 Current account deficit plus all short term foreign currency liabilities.

The role of trade tensions

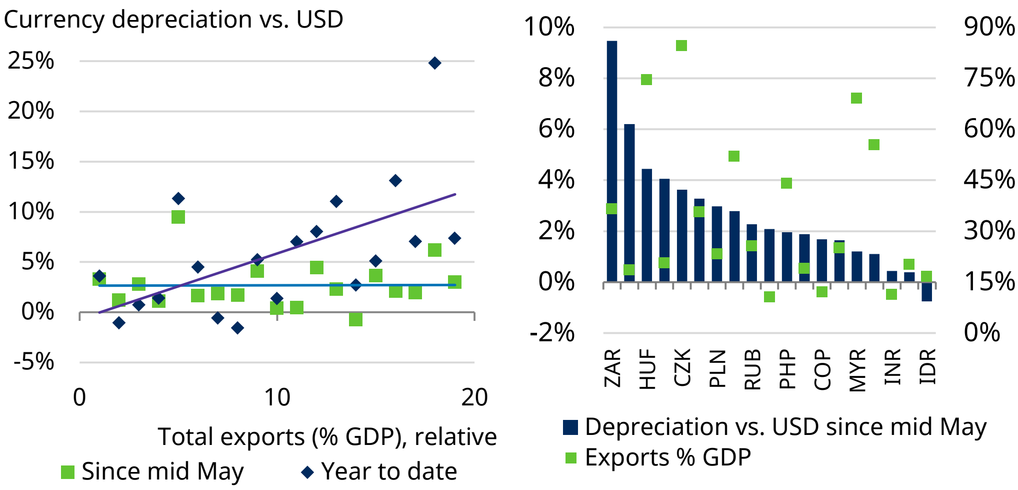
While the dollar undeniably plays a big role in explaining the weakness we have seen, the currency weakness in EM has exceeded what might be inferred from the current level of the dollar or yield differentials in May.

Markets do not seem to have distinguished within EM on the basis of trade yet

It seems plausible that growing tensions around global trade may have contributed to this additional weakness, with the US imposing tariffs on allies and rivals alike. Emerging market economies are typically more reliant on trade, so might be expected to suffer more in such an environment.

We looked at three metrics in assessing vulnerability to trade tensions: total exports as a share of GDP, exports to the US as a share of GDP, and value added in Sino-US trade as a share of GDP. Unfortunately for our hypothesis, there is no relationship between any of these measures and the move in exchange rates since May, when the divergence from the dollar trend began. If anything, the more trade exposed economies have enjoyed better currency performance this year as a whole, with the relationship breaking down in the last month or so (chart 11).

Chart 11 and 12: Currency markets not yet focusing on trade risk



Source: Thomson Datastream, Schroders Economics Group. 21 June 2018. A similar picture emerges if we look at our other two metrics.

Meanwhile, chart 12 shows the individual currency performances since mid May. As is apparent from chart 11, most EM FX moved by a similar amount, with outliers at either end driven by idiosyncratic factors rather than trade risk: political concerns in Turkey, growth fears in South Africa, politics and NAFTA risk in Mexico for example. While Korea has moved to the weaker end of the pack, and India (a more closed economy) is performing relatively well, Taiwan is also an outperformer. It is difficult to argue that trade concerns are fully priced in at this stage. Instead, at this stage it may be more a case of general "risk off" sentiment dominating.

It seems then that EM currency weakness so far this year is attributable chiefly to the dollar, with some idiosyncratic factors thrown in. The market is not yet pricing a global trade war, at least in currency space, which has the potential to prove more disruptive to EM Asia and potentially parts of EM Europe.

Schroder Economics Group: Views at a glance
Macro summary – July 2018

Key points

Baseline

– Global growth is expected to reach 3.4% in 2018 after 3.3% in 2017, before moderating to 3.2% in 2019. Inflation is forecast to rise from 2.3% in 2017 to 2.7% in 2018, before falling back to 2.4% in 2019. Core inflation in the US is expected to rise back above 2% in 2018 and the world economy moves firmly into the expansion phase of the economic cycle.

– US growth is forecast at 2.9% in 2018 and 2.6% next, incorporating president Trump's fiscal stimulus packages. The Fed has now started balance sheet reduction (quantitative tightening) and with core inflation rising, we expect four hikes in total in 2018, and two more in 2019 with the Fed funds rate ending at 3%.

– UK growth is likely to slow to 1.4% in 2018 as Brexit uncertainty weighs on confidence. Inflation is forecast to fall back slightly to 2.6%, as sterling depreciation effects are replaced with energy and domestically generated inflation. 2019 is very uncertain given Brexit, but we assume a transition period will be agreed that preserves the status quo of single market and customs union membership. The BoE is expected to hike once in 2018 and two more times in 2019 (to 1.25%).

– Eurozone growth is forecast to moderate to 2.4% in 2018, but remains robust overall. Italian political risk is back which will reintroduce volatility. Growth should moderate in 2019 to 2.1%, but this remains above trend. Inflation is expected to remain under 2%, with higher energy price inflation in 2018 replaced by higher core inflation in 2019. The ECB is expected to end QE in December 2018, before raising interest rates in the second half of 2019. The refinancing rate is forecast to reach 0.50%, and the deposit rate to reach zero.

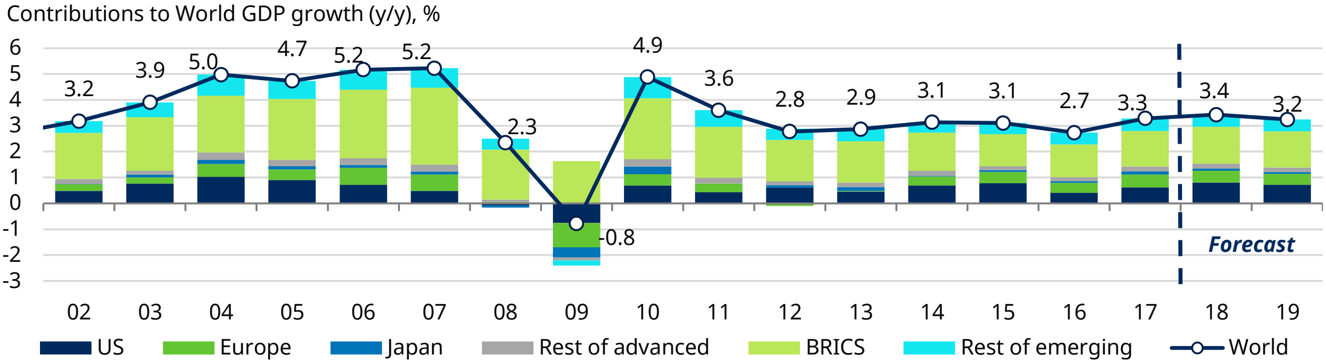
– Japanese growth is forecast to slow from 1.7% in 2017 to 1.3% in 2018, as inflation more than doubles to 1.2% owing to higher oil prices. We expect a change to yield curve control in 2019 in the form of a 10bps increase in the target yield for 10 year JGBs from zero.

– Emerging economies are forecast to see growth largely unchanged near 5% over 2018 and 2019. China's GDP growth is forecast to continue it secular decline, but this is offset by recoveries in the rest of the BRICs.

Risks

– Risks to the baseline forecast skewed towards a more stagflationary outcome. "Inflation accelerates", "oil back to $100" and "rise in global protectionism" are the main causes. "Mid-cycle slowdown" and "secular stagnation" make up the deflationary scenarios, but these are offset by two reflationary scenarios: "global trade boom" and "global fiscal expansion".

Chart: World GDP forecast



Source: Schroders Economics Group, 21 May 2018. Please note the forecast warning at the back of the document.

Schroders Baseline Forecast

Real GDP

y/y%	Wt (%)	2017	2018		Prev.	Consensus	2019		Prev.	Consensus
World	100	3.3	3.4	↓	*(3.5)*	3.3	3.2	↓	*(3.3)*	3.2
Advanced*	62.8	2.3	2.4	↓	*(2.6)*	2.3	2.2	↓	*(2.3)*	2.1
US	27.1	2.3	2.9	↓	*(3.1)*	2.9	2.6	↓	*(2.9)*	2.6
Eurozone	17.4	2.5	2.4	↓	*(2.6)*	2.2	2.1	↓	*(2.2)*	1.9
Germany	5.1	2.5	2.3	↓	*(2.8)*	2.1	2.2	↓	*(2.4)*	1.8
UK	3.8	1.8	1.4	↓	*(1.7)*	1.3	1.6	↑	*(1.5)*	1.5
Japan	7.2	1.7	1.3	↓	*(1.5)*	1.1	1.1		*(1.1)*	1.1
Total Emerging**	37.2	5.0	5.1		*(5.1)*	5.0	5.0		*(5.0)*	4.9
BRICs	24.2	5.7	5.9	↓	*(6.0)*	5.8	5.8	↓	*(5.9)*	5.8
China	16.4	6.8	6.6		*(6.6)*	6.6	6.4	↓	*(6.5)*	6.4

Inflation CPI

y/y%	Wt (%)	2017	2018		Prev.	Consensus	2019		Prev.	Consensus
World	100	2.3	2.7	↑	*(2.4)*	2.6	2.4	↓	*(2.6)*	2.5
Advanced*	62.8	1.7	2.1	↑	*(1.9)*	2.0	1.9	↓	*(2.1)*	1.8
US	27.1	2.1	2.8	↑	*(2.5)*	2.5	2.4	↓	*(2.6)*	2.2
Eurozone	17.4	1.5	1.6	↑	*(1.2)*	1.7	1.5		*(1.5)*	1.6
Germany	5.1	1.7	1.8	↑	*(1.5)*	1.8	1.8		*(1.8)*	1.8
UK	3.8	2.7	2.6	↑	*(2.5)*	2.5	1.9	↓	*(2.3)*	2.1
Japan	7.2	0.5	1.2	↑	*(1.1)*	1.0	1.4	↓	*(1.6)*	1.1
Total Emerging**	37.2	3.2	3.6	↑	*(3.4)*	3.7	3.3	↓	*(3.5)*	3.5
BRICs	24.2	2.2	3.0	↑	*(2.8)*	2.9	2.9	↓	*(3.0)*	3.0
China	16.4	1.5	2.4	↑	*(2.2)*	2.2	2.0	↓	*(2.3)*	2.3

Interest rates

% (Month of Dec)	Current	2017	2018		Prev.	Market	2019		Prev.	Market
US	2.00	1.50	2.50		*(2.50)*	2.65	3.00		*(3.00)*	2.97
UK	0.50	0.50	0.75		*(0.75)*	0.88	1.25		*(1.25)*	1.17
Eurozone (Refi)	0.00	0.00	0.00		*(0.00)*	-0.29	0.50	↓	*(0.75)*	-0.13
Eurozone (Depo)	-0.40	-0.40	-0.40		*(-0.40)*		0.00	↓	*(0.25)*	
Japan	-0.10	-0.10	-0.10		*(-0.10)*	0.09	-0.10		*(-0.10)*	0.11
China	4.35	4.35	4.35		*(4.35)*	-	4.00		*(4.00)*	-

Other monetary policy

(Over year or by Dec)	Current	2017	2018		Prev.	Y/Y(%)	2019		Prev.	Y/Y(%)
US QE ($Tn)	4.4	4.4	4.0		*(4.0)*	-9.1%	3.4		*(3.4)*	-15.0%
EZ QE (€Tn)	2.2	2.2	2.4		*(2.4)*	9.1%	2.4		*(2.4)*	0.0%
UK QE (£Bn)	425	445	445		*(445)*	0.0%	445		*(445)*	0.0%
JP QE (¥Tn)	529	521	551		*(551)*	5.7%	567		*(567)*	2.9%
China RRR (%)	17.00	17.00	15.00	↓	*16.00*	-	14.00	↓	*16.00*	-

Key variables

FX (Month of Dec)	Current	2017	2018		Prev.	Y/Y(%)	2019		Prev.	Y/Y(%)
USD/GBP	1.32	1.30	1.35	↓	*(1.40)*	3.8	1.35	↓	*(1.36)*	0.0
USD/EUR	1.17	1.15	1.18	↓	*(1.28)*	2.6	1.20	↓	*(1.25)*	1.7
JPY/USD	109.9	115.0	110	↑	*(105)*	-4.3	108	↓	*(110)*	-2.3
GBP/EUR	0.88	0.88	0.87	↓	*(0.91)*	-1.2	0.89	↓	*(0.92)*	1.7
RMB/USD	6.56	6.60	6.35	↑	*(6.20)*	-3.8	6.30	↓	*(6.37)*	-0.8
Commodities (over year)										
Brent Crude	75.1	55.6	71.6	↑	*(64.0)*	28.8	59.7		*(59.7)*	-16.6

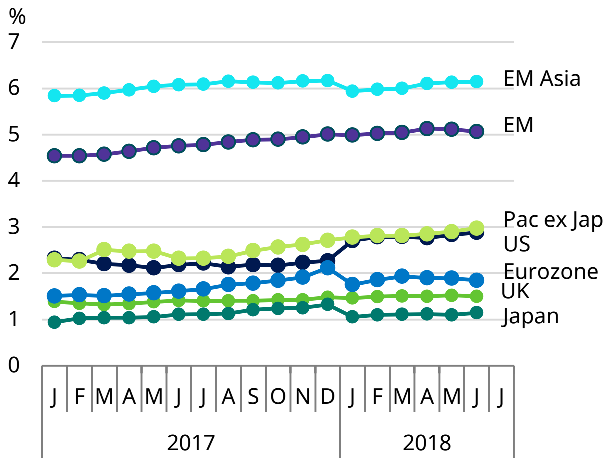
Source: Schroders, Thomson Datastream, Consensus Economics, June 2018
Consensus inflation numbers for Emerging Markets is for end of period, and is not directly comparable.
Market data as at 26/06/2018
Previous forecast refers to March 2018
* **Advanced markets:** Australia, Canada, Denmark, Euro area, Israel, Japan, New Zealand, Singapore, Sweden, Switzerland, United Kingdom, United States.
** **Emerging markets**: Argentina, Brazil, Chile, Colombia, Mexico, Peru, China, India, Indonesia, Malaysia, Philippines, South Korea, Taiwan, Thailand, South Africa, Russia, Czech Rep., Hungary, Poland, Romania, Turkey, Ukraine, Bulgaria, Croatia, Latvia, Lithuania.

Updated forecast charts – Consensus Economics

For the EM, EM Asia and Pacific ex Japan, growth and inflation forecasts are GDP weighted and calculated using Consensus Economics forecasts of individual countries.

Chart A: GDP consensus forecasts

2018



2019

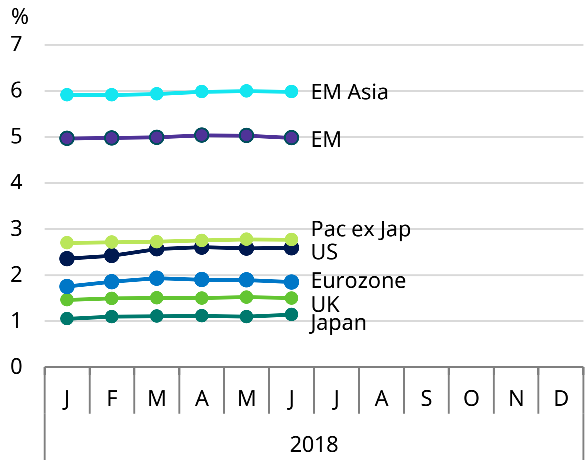
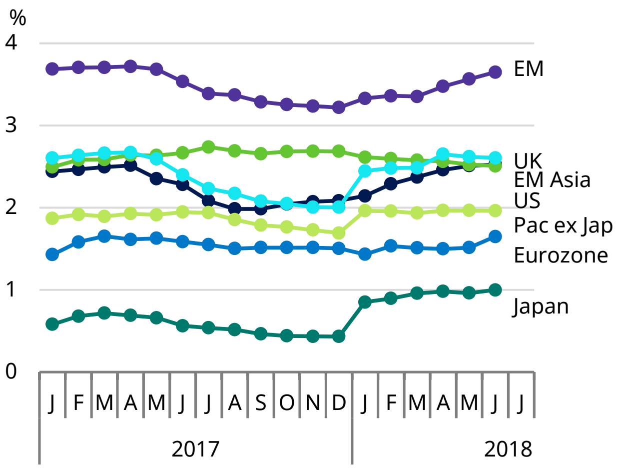
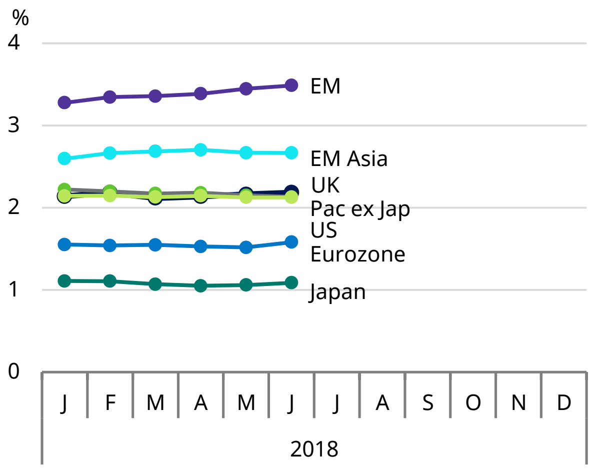


Chart B: Inflation consensus forecasts

2018



2019



Source: Consensus Economics (June 2018), Schroders Economics Group
Pacific ex. Japan: Australia, Hong Kong, New Zealand, Singapore.
Emerging Asia: China, India, Indonesia, Malaysia, Philippines, South Korea, Taiwan, Thailand.
Emerging markets: China, India, Indonesia, Malaysia, Philippines, South Korea, Taiwan, Thailand, Argentina, Brazil, Colombia, Chile, Mexico, Peru, South Africa, Czech Republic, Hungary, Poland, Romania, Russia, Turkey, Ukraine, Bulgaria, Croatia, Estonia, Latvia, Lithuania.

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