

March 2017

## Macroeconomic picture

AMERICAS		RISK FACTORS
<b>UNITED STATES</b>	<p><b>Extension of the growth cycle against a backdrop of major political uncertainty</b></p> <ul style="list-style-type: none"> <li>&gt; On the heels of a rebound in the second half of 2016, indicators for Q1 2017 (particularly the ISM Manufacturing Index) point to a highly favourable business climate. Job creation is continuing at a steady pace and wages are on a modest upward trend. For now, core inflation (excluding energy and food) remains under control.</li> <li>&gt; Despite high expectations, it is still difficult to predict exactly what economic policies Donald Trump will be able to implement. In a great number of areas approval by Congress is far from assured.</li> <li>&gt; It is likely that consensus will at least be reached on tax cuts and deregulation (particularly on finance, the environment and healthcare), which will have a stimulative impact on the economy that will be more apparent in 2018 than 2017. With regard to the nature and scale of potential protectionary measures, uncertainty is very high.</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Major uncertainty surrounding the new administration's decisions</li> <li>&gt; Growth potential stunted for the foreseeable future ("secular stagnation")</li> <li>&gt; Erosion of corporate margins</li> </ul>
<b>BRAZIL</b>	<ul style="list-style-type: none"> <li>&gt; In terms of macroeconomic data, Q4 GDP came out at -2.5% yoy, compared to -2.9% in Q3. The two major factors behind this drop in GDP were investment (-5.4% yoy) and consumer spending (-2.9% yoy). Brazil posted yet another major recession in 2016 at -3.4%.</li> <li>&gt; Inflation slowed considerably and the BCB began a cycle of monetary policy easing which, in light of the weakness of cyclical indicators.</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Sharply appreciation of the Brazilian real</li> <li>&gt; Easing of fiscal policy</li> </ul>
EUROPE		
<b>EUROZONE</b>	<p><b>Slight deceleration, impacted by the erosion of temporary factors and political risk</b></p> <ul style="list-style-type: none"> <li>&gt; On the heels of strong performance in Q4 2016 (GDP up 0.4% from Q3), indicators for the beginning of 2017 proved better than anticipated, reaching levels not seen for several years. However, the European economic cycle, which is behind that of the United States, is not yet at the point where it could generate inflationary pressure. For now, core inflation remains stable at just below 1% a year.</li> <li>&gt; The main risks to the continued recovery are attributable to political uncertainty, the top concerns being the French electoral cycle (presidential and legislative elections between April and June) and the still-precarious situation in Italy, with both countries seeing mounting Euroscepticism. Issues surrounding Brexit could also have an adverse effect in the coming months.</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Political risk (packed election calendar, rise of anti-establishment parties, Brexit)</li> <li>&gt; Contagion of the emerging world's economic and/or financial hardships</li> <li>&gt; Rise in geopolitical risk</li> </ul>
<b>UNITED KINGDOM</b>	<p><b>The economic situation is holding up better than expected. However, political uncertainty will be a factor in 2017</b></p> <ul style="list-style-type: none"> <li>&gt; The lack of visibility over the future shape of economic relations with the EU will ultimately have an adverse effect on the economy. However, for now, business indicators are positive.</li> <li>&gt; Private investment (corporate, real estate) and consumer spending will feel the effect of rising inflation from the depreciation of the pound and the uncertainty surrounding future prospects. In a notable development, the government decided not to spend the surplus from tax revenues after higher-than-expected growth in 2016-2017. A moderately expansionary fiscal stance will be adopted in 2017-2018 (compared to the two previous years), and the government has some leeway to loosen its policy if needed.</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Shock of uncertainty related to Brexit</li> <li>&gt; Public and foreign deficits still very high</li> </ul>
ASIA		
<b>CHINA</b>	<p><b>China: a stabilising impact on the global economy and currencies in 2017 and likely in 2018 as well</b></p> <ul style="list-style-type: none"> <li>&gt; We believe China's economic stabilisation will continue throughout 2017 and into 2018.</li> <li>&gt; The reasons for China's economic stabilisation are both bottom-up and top-down. Both private capital expenditure and public spending are experiencing expansion cycles, and are proving to be much bigger than the market had anticipated.</li> <li>&gt; The longer-than-expected stabilisation of China's economy (2016 to 2018) is giving rise to a global upturn, clearly benefitting global cyclical sectors, commodities and the emerging markets</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Contribution to global economic and currencies stabilisation in 2017 and likely in 2018 as well</li> <li>&gt; A longer global cycle is taking shape through the stabilisation of China's economy from 2016 to 2018</li> </ul>
<b>INDIA</b>	<p><b>India: a steady growth driver for Asia in 2017 in spite of demonetisation</b></p> <ul style="list-style-type: none"> <li>&gt; The slowdown in discretionary spending, auto sales and winter crop sowing was less severe than expected post-demonetisation. However, it was more evident in the construction sector.</li> <li>&gt; Our baseline scenario points to a prolonged moderation of inflation in 2017. We believe that the demonetisation measures will have only a temporary impact on growth and inflation.</li> <li>&gt; The major issues of contention surrounding the GST have been sorted out, and the GST is likely to be implemented in July 2017.</li> </ul>	<ul style="list-style-type: none"> <li>&gt; India's growth is positioned to be steady post-demonetisation</li> <li>&gt; Prolonged moderation of inflation</li> </ul>
<b>JAPAN</b>	<p><b>The recovery is continuing, with growth above potential.</b></p> <ul style="list-style-type: none"> <li>&gt; The economy is showing signs of acceleration in terms of domestic demand (investment). Unemployment is at a 20-year low, wages (part time) are rising and profits are improving. The fiscal stimulus plan and the tax cut on corporate earnings are major supporting factors. Externally, the stabilisation in China is having a positive effect.</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Exposure to Chinese slowdown</li> <li>&gt; Negative interest rate policy</li> </ul>

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