

# Macro Weekly

## What's next for the global economy?

Group Economics

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**Following the China and EM growth scare which has developed this year, the next big question is to what extent advanced economies will be affected. We think the effects will remain manageable. The eurozone is a little less likely to feel the negative effects of the EM slowdown than the US. But overall, we think the global economy will find a better balance in the quarters ahead.**

### China's slowdown affecting other economies

The Chinese economy has slowed more than expected this year. While one can debate the actual growth numbers, the effects of this slowdown are clearly visible in commodity prices, the downturn in economies reliant on exports to China and in Chinese trade data.

Having said that, the almost-panic nature of the concern has abated somewhat. We think that this is for the right reasons. The housing market is stabilising and strengthening at the margin, which is a crucial sector in the Chinese economy. Countries that depend on exports to China have been hit hard this year as Chinese imports have contracted sharply. That is partly a price effect as commodity prices have fallen, but imports are also weak in real terms.

It seems to me reasonable to assume that weak imports are at least partly policy related. By limiting imports, policymakers provide support for domestic activity. This is, obviously, at the expense of China's trading partners. But if we are right in thinking that the Chinese economic slowdown will remain gradual in the months ahead, the trade pattern should also normalise, supporting the economies of trade partners.

### Disappointment in EMs and little room for manoeuvre

A number of emerging economies have fallen in recession and are affected by capital outflows, leading to a tightening of financial conditions. Only a year or two ago, people argued that emerging economies were starting to look more stable and secure than advanced economies. That assessment was clearly premature.

The question now is what policymakers in EMs can do. The answer is: not so much. Room for fiscal policy is generally limited and inflation in some countries has risen, closing off the road to looser monetary policy. I must concede that there are important differences between different countries. Most of them have recently also been hit by capital outflows putting a

strain on financial systems. As large sums of money have flown into emerging economies in the last few years, the potential for further outflows is significant. Luckily, most emerging economies have very substantial foreign exchange reserves. They started building those following the Asian crisis in 1997 and 1998. I have often thought that some of these reserves had reached idiotic levels. In any event, this is the time for policymakers in EMs to use them. And they are. China's foreign exchange reserves have fallen USD 330 bn since the end of last year and some USD 480 bn since they peaked in June last year. Those are substantial amounts. But the Chinese still have plenty left (USD 3,514 bn in September, to be precise).

The main hope for improving economic conditions in these countries has to be based on what has happened to their exchange rates. Most of the currencies of EMs have depreciated considerably against the US dollar over the last 12 months (although some reversal has taken place during the last fortnight). During the Asian crisis in the late 1990s, the depreciation of Asia currencies was much more sizeable (but so where the economic problems in the region) and it then took around a year for the beneficial effects on competitiveness and economic activity to come through. While the world has changed dramatically since then, I am hoping something similar can happen this time.

### National FX rates against the US dollar

	Current rate	12 months ago
Brazil	3.75	2.40
Russia	60	40
India	65	61
Indonesia	13,550	12,000
Mexico	16.40	13.40
South Africa	13.25	11.00
Turkey	2.90	2.25
Korea	1140	1050

Source: Bloomberg

Europe and the US are feeling the effects, but holding up. The question for advanced economies is to what extent they will be affected by the slowdown in the emerging world. There are a number of points to take into consideration when answering this question. First, emerging economies are now much larger in economic size than they ever have been, arguing for a relatively strong impact. Second, the recovery in the US and in Europe is relatively broad based, which should reduce these countries' vulnerability. Third, the economy of the eurozone is probably less vulnerable than the US economy as the euro has depreciated on a trade-weighted basis during the last 12 months, while the dollar has appreciated. And last, the industrial cycle is showing surprising weakness globally at the moment, but it is likely that the cycle is overshooting on the downside. The weakness was unexpected and may have caught companies off guard. They typically respond relatively strongly as they need to run down inventories they may have built. This should be a temporary.

The data appear to fit these considerations. US inventories have risen and industrial production growth has slowed this year while business confidence has fallen. I think this process is overshooting on the downside and things should stabilise in the period ahead.

German data last week surprised negatively. German exports, industrial production and orders all come in softer in August than expected. The weakness in emerging economies appears to be taking its toll. Having said that, German data can be volatile and there seems to have been a change in the holiday pattern in Germany. Last year, the August data also disappointed significantly, but that turned out to be temporary. In addition, other parts of the eurozone economy remain relatively robust.

### **On balance**

On balance, I expect emerging economies to stabilise in the months ahead and gain some growth momentum in the course of next year. A similar pattern is likely in advanced economies. In the near term, the negative effects of emerging markets weakness can still be felt, but somewhat stronger growth in the course of 2016 is on the cards.

Weaker growth than anticipated, uncertainty, lower inflation and volatile financial markets are all reasons for central bankers not to tighten policy. As a result, we have pushed out our forecast for the Fed to start hiking interest rates. In addition, we expect the ECB and the BoJ to add to the monetary stimulus that they are already supplying.

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**Main economic/financial forecasts**

<b>GDP growth (%)</b>											
	2013	2014	2015e	2016e	3M interbank rate	01/10/2015	08/10/2015	+3M	+12M	2015e	2016e
United States	1.5	2.4	2.7	2.9	United States	0.32	0.32	0.4	0.8	0.4	1.0
Eurozone	-0.2	0.9	1.6	2.0	Eurozone	-0.04	-0.05	0.00	0.00	0.00	0.00
Japan	1.6	-0.1	0.7	1.2	Japan	0.17	0.17	0.2	0.2	0.2	0.2
United Kingdom	2.2	2.9	2.8	2.6	United Kingdom	0.58	0.58	0.7	1.5	0.7	1.7
China	7.7	7.3	7.0	6.5							
World	3.1	3.2	3.0	3.5							
<b>Inflation (%)</b>											
	2013	2014	2015e	2016e	10Y interest rate	01/10/2015	08/10/2015	+3M	+12M	2015e	2016e
United States	1.5	1.6	0.2	2.1	US Treasury	2.04	2.10	1.9	2.5	1.9	2.6
Eurozone	1.3	0.4	0.1	1.4	German Bund	0.55	0.59	0.4	0.9	0.4	1.0
Japan	0.3	2.8	0.6	1.0	Euro sw ap rate	0.93	0.98	0.7	1.2	0.7	1.2
United Kingdom	2.6	1.5	1.1	1.9	Japanese gov. bonds	0.33	0.33	0.7	1.0	0.7	1.0
China	2.6	2.0	1.5	2.0	UK gilts	1.74	1.82	2.0	2.6	2.0	2.7
World	4.3	3.9	3.7	3.8							
<b>Key policy rate</b>											
	08/10/2015	+3M	2015e	2016e	Currencies	01/10/2015	08/10/2015	+3M	+12M	2015e	2016e
Federal Reserve	0.25	0.25	0.25	1.00	EUR/USD	1.12	1.13	1.12	1.00	1.12	1.00
European Central Bank	0.05	0.05	0.05	0.05	USD/JPY	119.9	119.9	128	135	128	135
Bank of Japan	0.10	0.10	0.10	0.10	GBP/USD	1.52	1.53	1.67	1.43	1.67	1.35
Bank of England	0.50	0.50	0.50	1.50	EUR/GBP	0.74	0.74	0.67	0.70	0.67	0.74
People's Bank of China	4.60	4.35	4.35	4.35	USD/CNY	6.36	6.35	6.40	6.55	6.40	6.55

Source: Thomson Reuters Datastream, ABN AMRO Group Economics.

**Key Macro Events**

Day	Date	Time	Country	Key Economic Indicators and Events	Period	Latest outcome	Consensus	ABN AMRO
Saturday	10/10/2015	15/10/2015	CN	Aggregate financing - CNY bn	Sep	1082.3	1200.0	
Saturday	10/10/2015	15/10/2015	CN	New yuan loans - CNY bn	Sep	809.6	900.0	
Saturday	10/10/2015	15/10/2015	CN	Money supply M2 - % yoy	Sep	13.3	13.1	
Monday	12/10/2015	14:00:00	IN	CPI - % yoy	Sep	3.7	4.4	
Monday	12/10/2015	09:00:00	CH	Total Sight Deposits bn		465		
Monday	12/10/2015	15:45:00	EC	ECB announces weekly QE details				
Monday	12/10/2015	14:10:00	US	Fed Lockhart speaks on US outlook				
Monday	12/10/2015	16:30:00	US	Fed Evans speaks on policy and the economy				
Tuesday	13/10/2015	08:00:00	DE	CPI - % yoy	Sep F	0.0		
Tuesday	13/10/2015	10:30:00	GB	CPI - % yoy	Sep	0.0		
Tuesday	13/10/2015	11:00:00	DE	ZEW index (expectation economic growth)	Oct	12.1	6.8	0
Tuesday	13/10/2015	12:00:00	US	NFIB small business optimism - index	Sep	95.9		
Tuesday	13/10/2015		CN	Exports - % yoy	Sep	-5.5	-6.0	
Tuesday	13/10/2015		CN	Imports - % yoy	Sep	-13.8	-15.9	
Wednesday	14/10/2015	03:30:00	CN	CPI - % yoy	Sep	2.0	1.8	
Wednesday	14/10/2015	03:30:00	CN	PPI - % yoy	Sep	-5.9	-5.9	
Wednesday	14/10/2015	10:30:00	GB	Claimant count unemployment rate - %	Sep	2.3	2.3	
Wednesday	14/10/2015	10:30:00	GB	Change in claimant count - thousands	Sep	1.2	0.5	
Wednesday	14/10/2015	11:00:00	EC	Industrial production - % mom	Aug	0.6		
Wednesday	14/10/2015	14:30:00	US	Prod. prices index - % mom	Sep	0.0	-0.2	
Wednesday	14/10/2015	14:30:00	US	Prod. prices index excl food and energy - % mom	Sep	0.3	0.1	
Wednesday	14/10/2015	14:30:00	US	Retail sales - % mom	Sep	0.2	0.2	0.3
Wednesday	14/10/2015	16:00:00	US	Business inventories - % mom	Aug	0.1	0.1	
Thursday	15/10/2015	14:30:00	US	Empire State PMI - Manuf. general business conditions - index	Oct	-14.7	-6.8	
Thursday	15/10/2015	14:30:00	US	Inflation excl food and energy - % mom	Sep	0.1	0.1	0.1
Thursday	15/10/2015	14:30:00	US	Inflation excl food and energy - % yoy	Sep	1.8	1.8	1.8
Thursday	15/10/2015	14:30:00	US	Inflation (CPI) - % mom	Sep	-0.1	-0.2	-0.2
Thursday	15/10/2015	14:30:00	US	Inflation (CPI) - % yoy	Sep	0.2	-0.1	-0.1
Thursday	15/10/2015	16:00:00	US	Philadelphia Fed - business confidence - index	Oct	-6.0	-0.8	-1.0
Thursday	15/10/2015		KR	Policy rate - %	Oct 15	1.5	1.4	
Thursday	15/10/2015	16:30:00	US	Fed Dudley speaks on appropriate level of interest rates				
Friday	16/10/2015	11:00:00	EC	Trade balance external EU - EUR bn	Aug	22419.5		
Friday	16/10/2015	15:15:00	US	Industrial production - % mom	Sep	-0.4	-0.3	
Friday	16/10/2015	16:00:00	US	Univ. of Michigan cons. confidence - index	Oct P	87.2	88.0	89.0
Friday	16/10/2015	16:00:00	US	US Job Openings by Industry	Aug	5753		

Source: Bloomberg, Reuters, ABN AMRO Group Economics (we provide own forecasts only for selected key variables and events)