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Global Macro Outlook 2016

March 2016

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PLEASE SEE ANALYST CERTIFICATIONS AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 44.

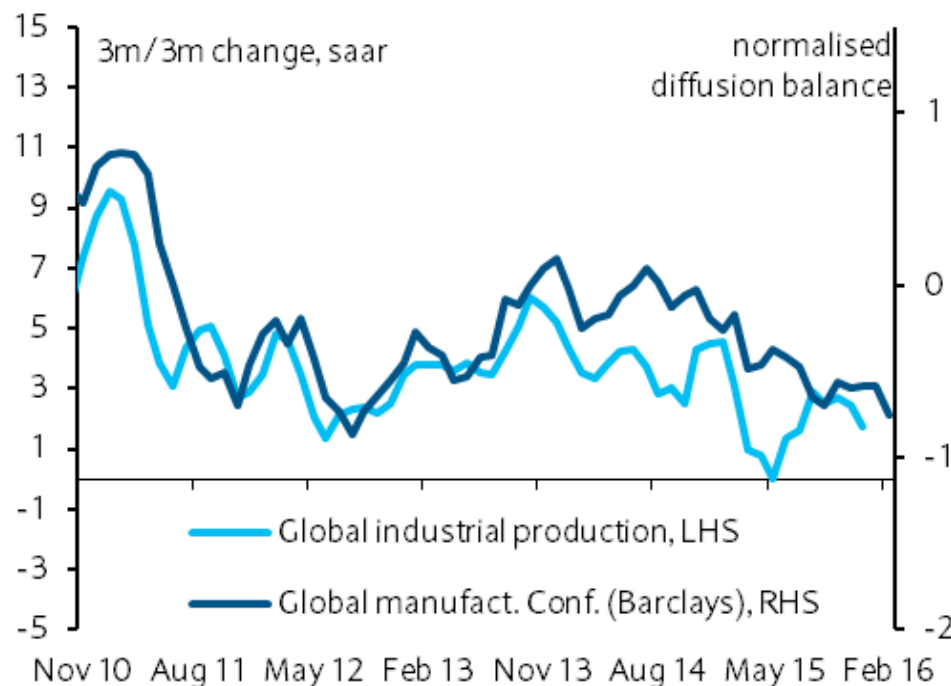
Global Macro Outlook 2016

- **Global growth: Slow and fragile**
 - Consumption-supported DMs versus weak EMs
 - What happened to the “oil dividend”?
- **Central banks: Managing expectations as options run out**
 - The fight to bring back inflation
 - ECB – changing the narrative
 - Fed – focus on the labour market
- **China: Facing difficult trade-offs**
 - Slower growth versus rising imbalances
 - RMB meets the “impossible trinity
- **UK referendum: major event risk**
 - UK – a leap into uncertainty
 - EU – ‘domino effect ’ towards EU’s disintegration?

Global growth: Slow and fragile

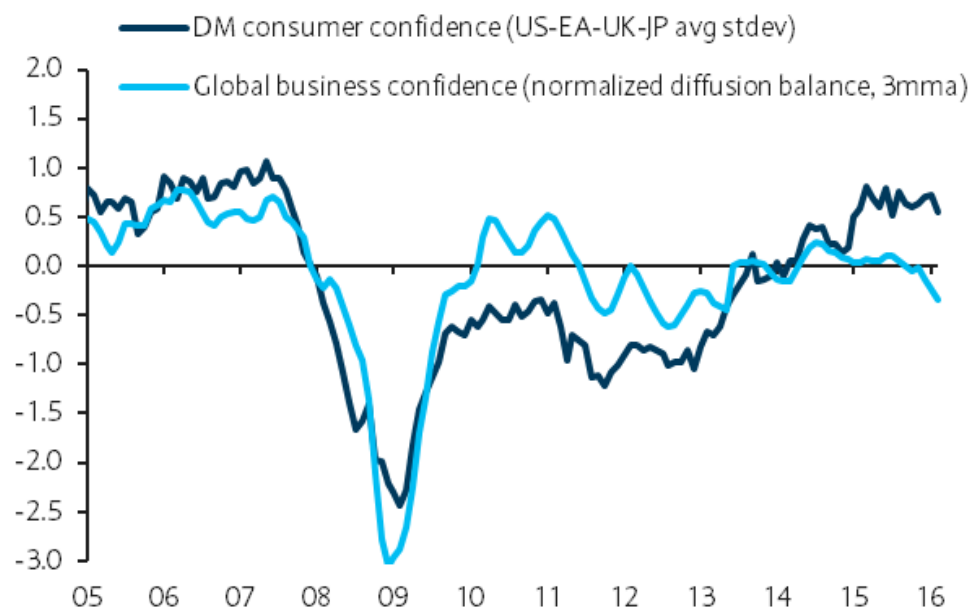
Global growth: Slow and fragile

Global IP and manufacturing is weak



Source: Barclays Research

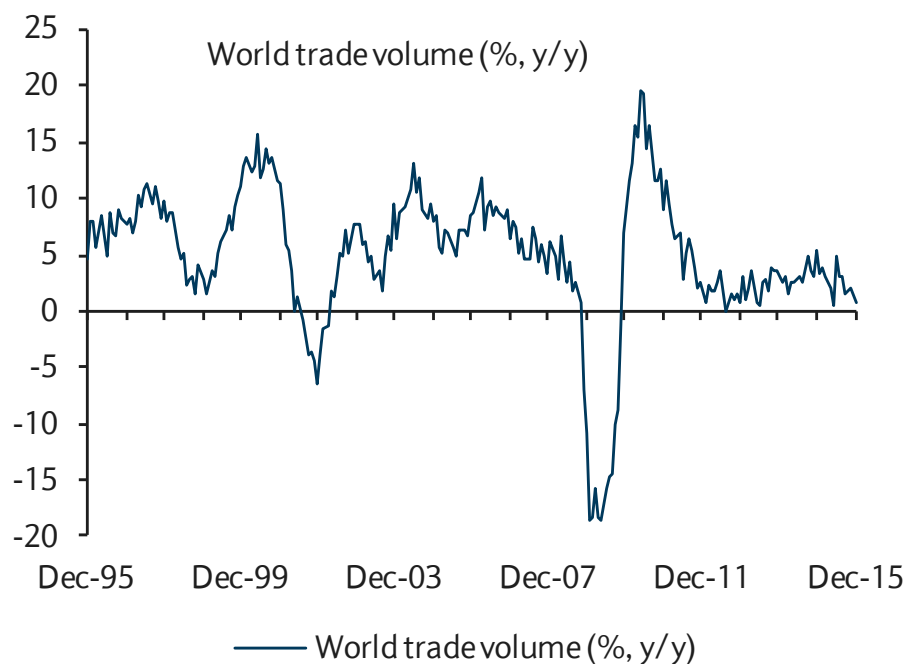
DM consumer is source of resilience



Source: Barclays Research

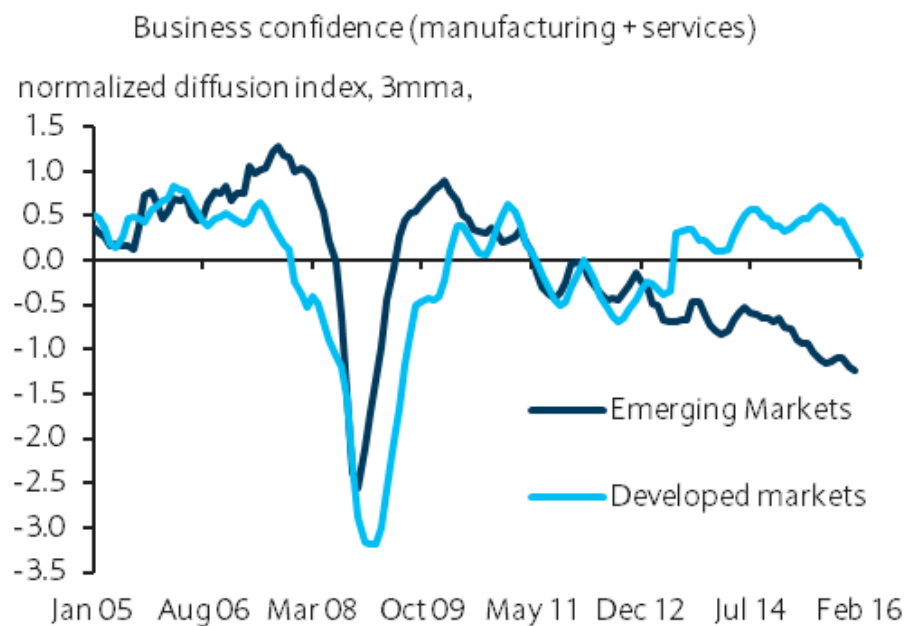
Global growth: Slow and fragile

But world trade is very weak...



Source: Barclays Research

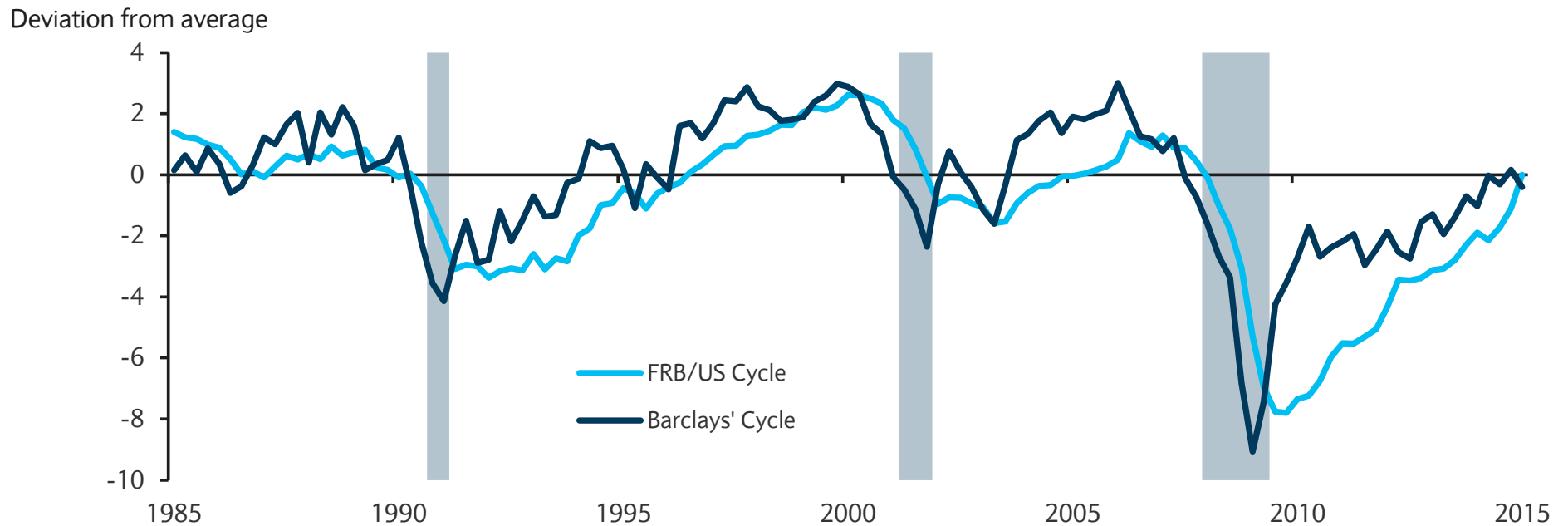
... and DM is slowing towards EM



Source: Barclays Research

Global growth: Slow and fragile

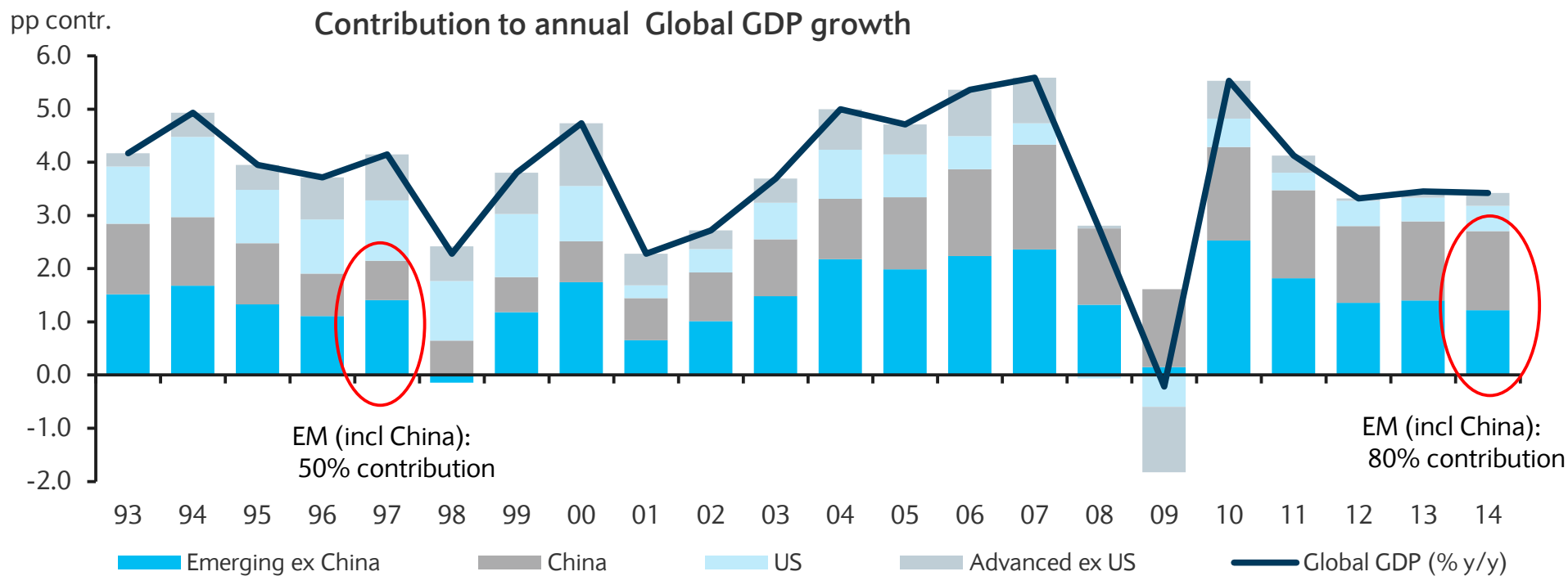
US recession risks seem exaggerated: Slow-paced recovery after a very deep recession leaves room for further expansion...



Source: Barclays Research

Global growth: Slow and fragile

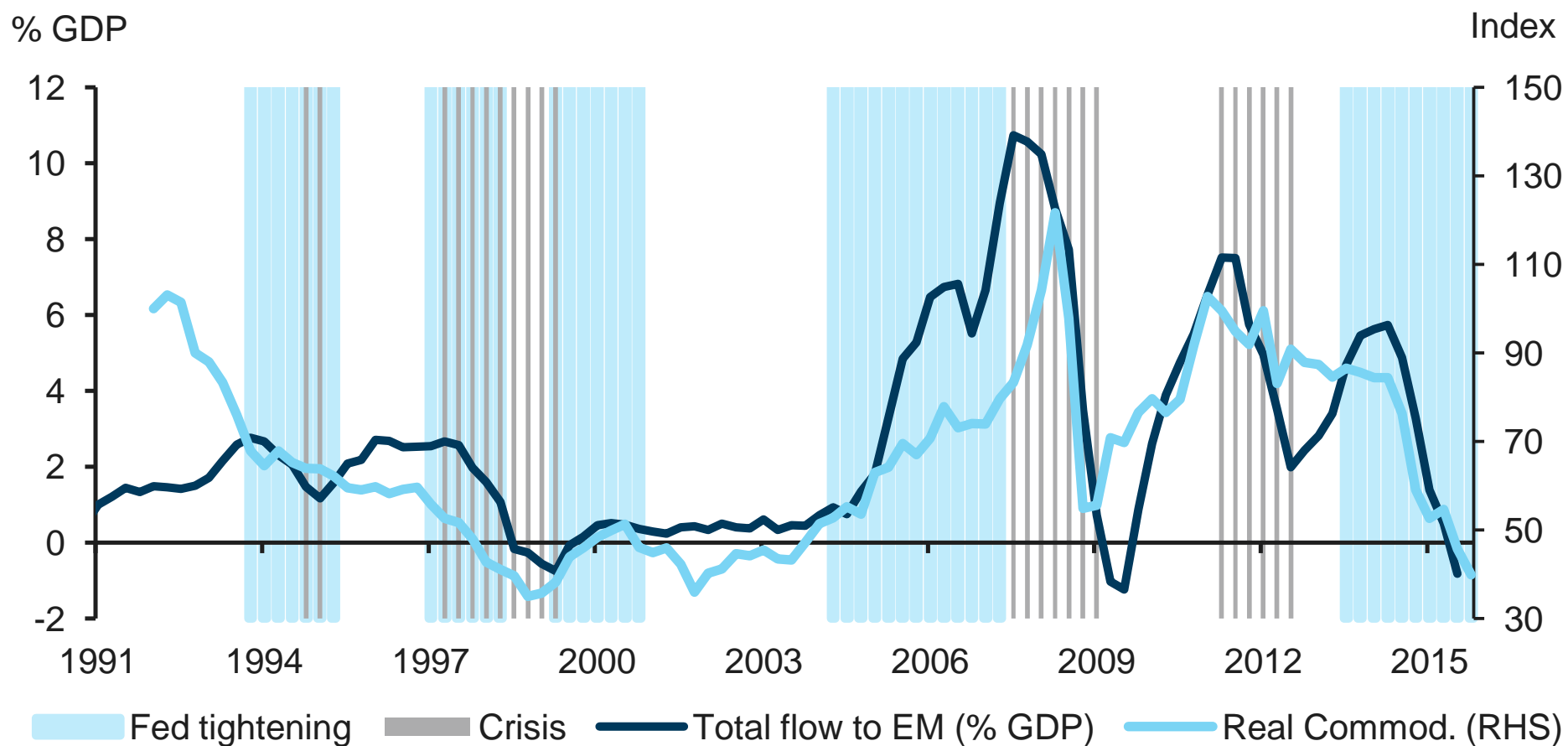
... but fragility in EM economies matters much more than in the past



Source: Barclays Research

Global growth: Slow and fragile

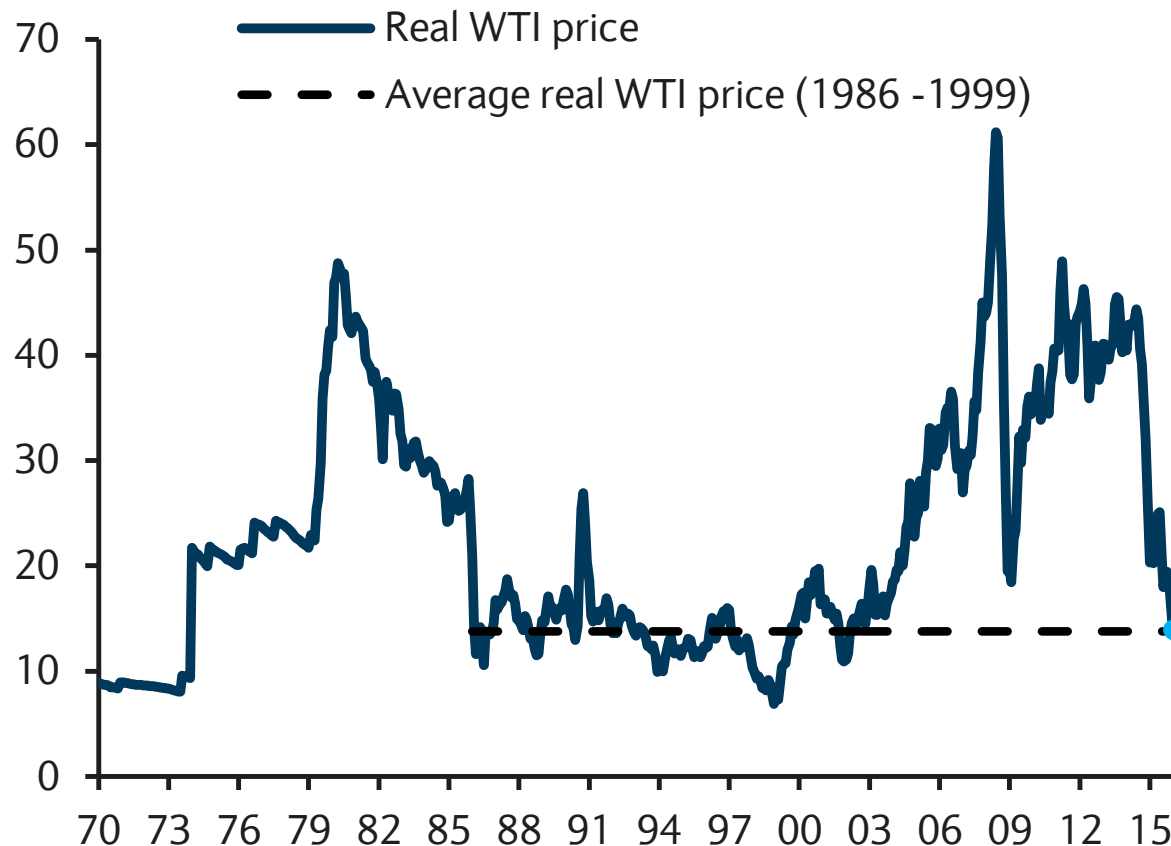
Fed hikes and commodity price slump raise risks of EM crises



Source: Barclays Research

What happened to the 'oil dividend'?

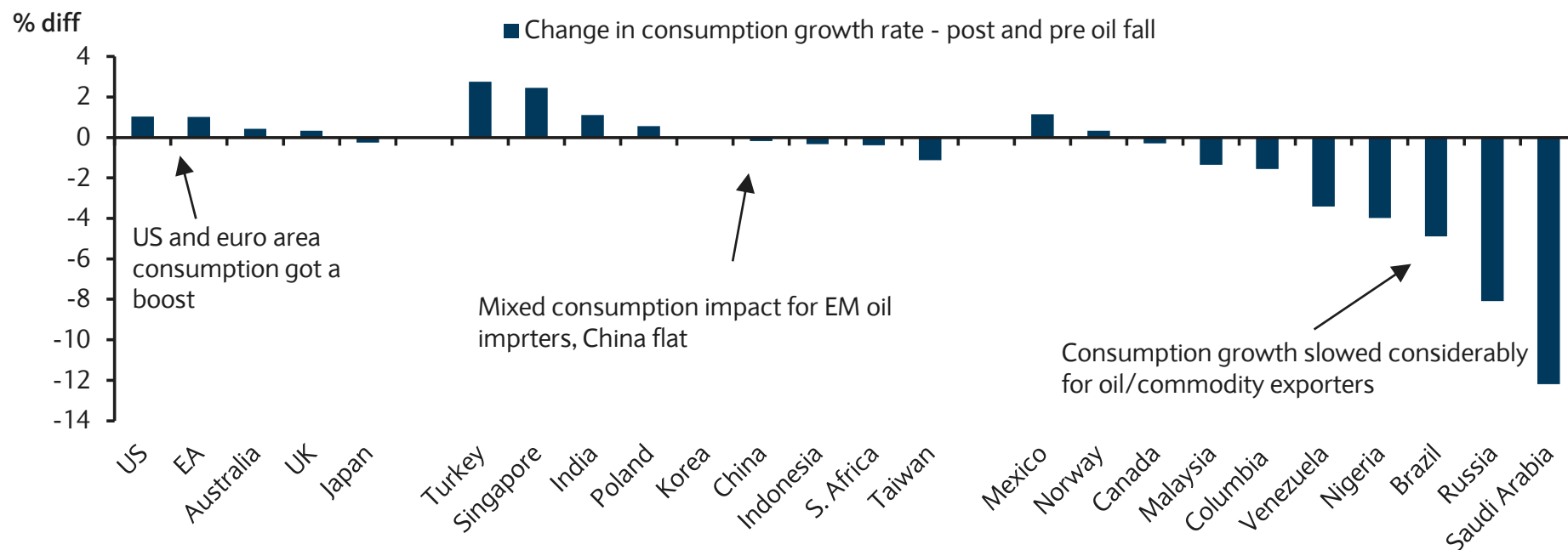
Real oil prices back to pre-boom average, when OPEC cartel was ineffective



Source: Haver Analytics, Barclays Research

What happened to the 'oil dividend'?

Oil did support consumption in the US, Europe, and some oil-importing countries; consumption for oil-producing countries was extremely weak

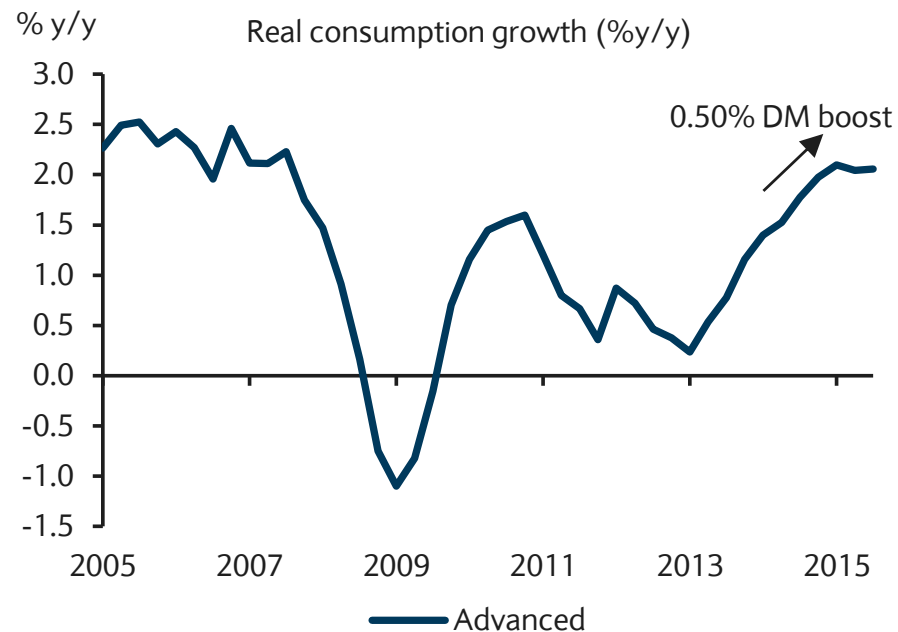


For more details, please see [Thinking Macro: Oil and growth: Stressed out](#), 29 February 2016

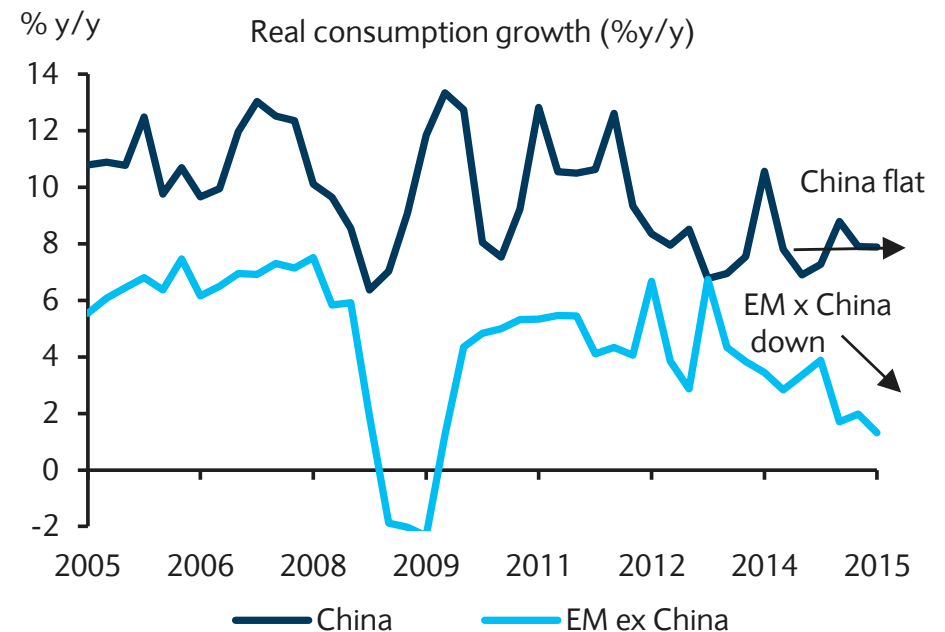
Source: National accounts, Haver Analytics, Barclays Research

What happened to the 'oil dividend'?

DM real consumption growth accelerated...



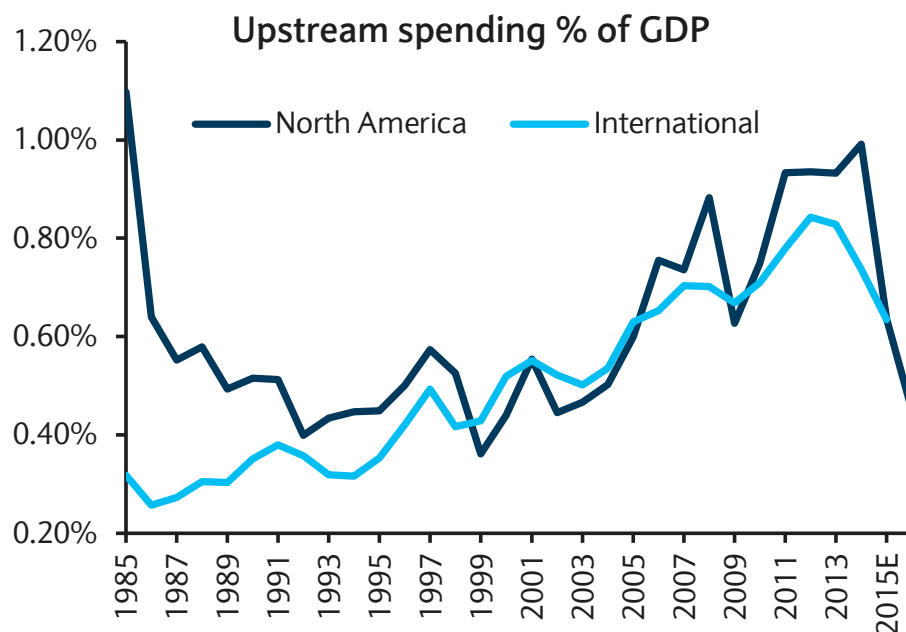
... but EM consumption growth (ex-China) slowed notably



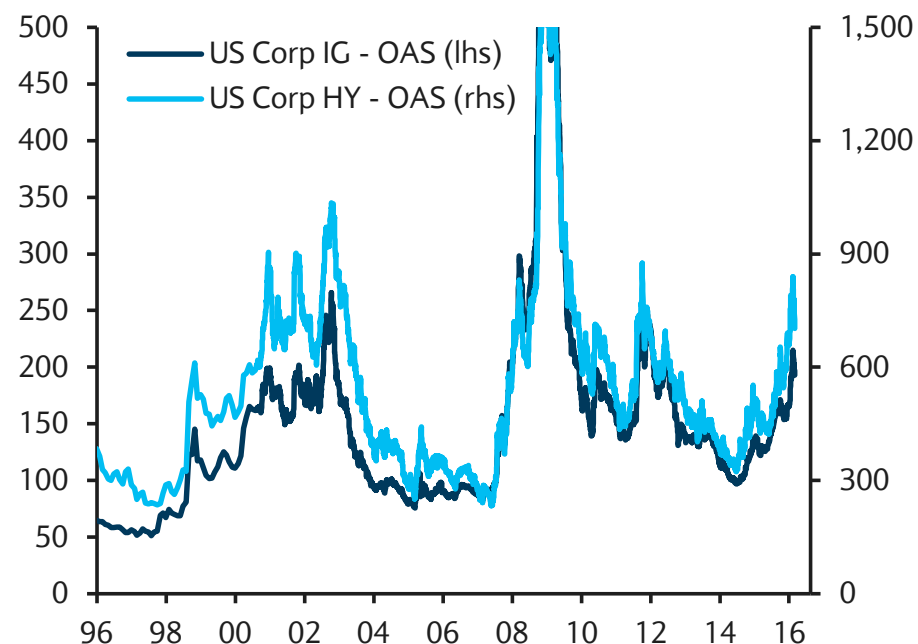
Source: National accounts, Haver Analytics, Barclays Research

What happened to the 'oil dividend'?

Energy capex declined...



... and corporate credit spreads surged

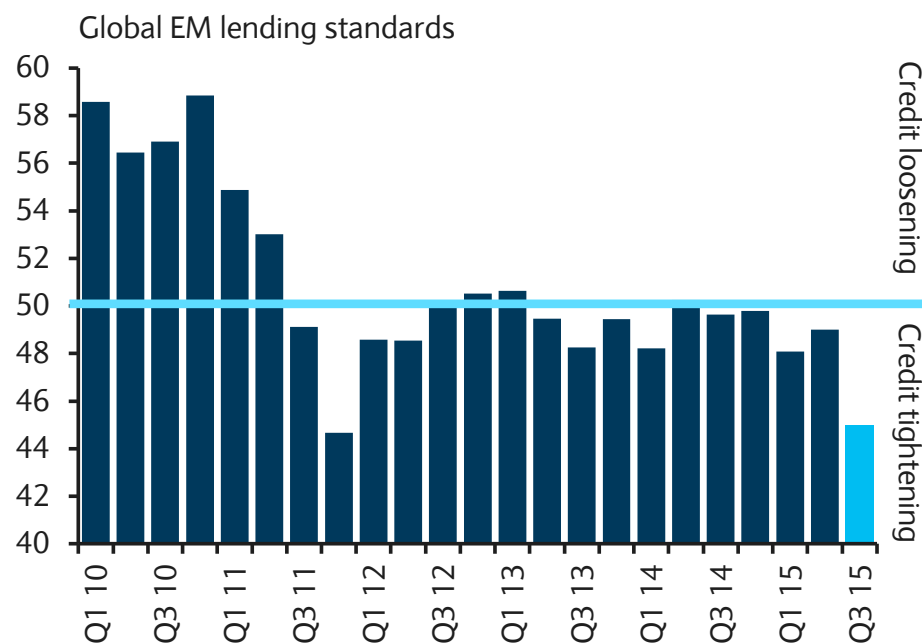


Source: National accounts, Haver Analytics, Barclays Research

What happened to the 'oil dividend'?

EM lending standards have tightened since 2011, when commodities started to fall...

... but recently US banks have started to tighten C&I loan standards as well



Global forecasts – Barclays' projections for 2015-2017

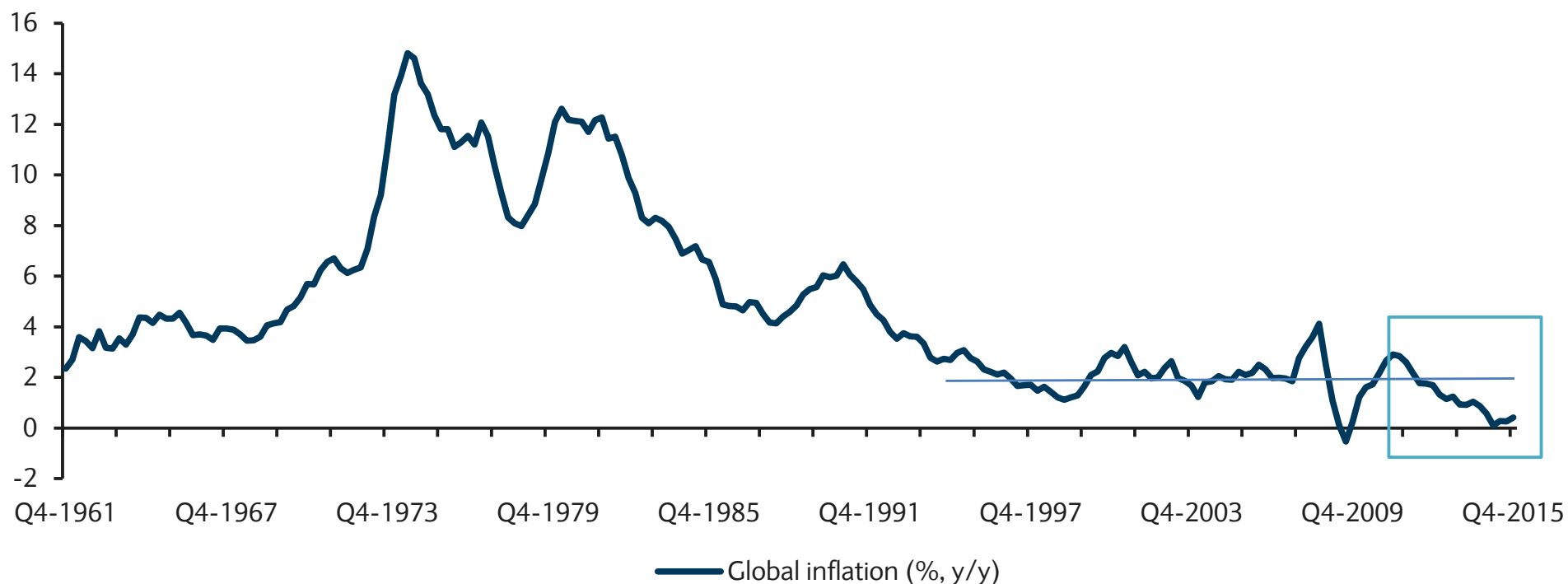
	Real GDP (% change)								Inflation (% annual change)		
	Barclays								Barclays		
	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16	2015	2016	2017	2015	2016	2017
Global	3.3	3.2	2.5	3.0	3.6	3.2	3.2	3.7	2.1	2.4	2.6
United States	3.9	2.0	1.0	2.5	2.5	2.4	2.2	2.5	0.1	1.2	2.3
Japan	-1.4	1.4	-1.1	-0.1	1.0	0.5	0.4	1.0	0.5	-0.2	1.6
United Kingdom	2.4	1.7	1.9	1.7	1.4	2.2	1.8	1.5	0.0	0.8	1.6
Euro area	1.6	1.2	1.3	1.6	1.9	1.5	1.6	1.8	0.0	0.1	1.0
Advanced	2.3	1.7	0.9	1.8	2.0	1.9	1.8	2.0	0.2	0.7	1.8
Emerging	4.2	4.3	3.7	3.8	4.7	4.1	4.2	4.9	5.0	5.0	3.8
Brazil	-8.0	-6.7	-5.8	-2.4	-1.2	-3.8	-3.1	0.6	9.0	8.7	6.4
Mexico	2.6	3.3	2.2	2.8	0.8	2.5	2.2	2.7	2.7	2.7	2.9
China	7.3	6.8	6.4	6.0	6.0	6.9	6.0	5.8	1.4	1.6	1.8
India	10.8	8.1	4.4	6.6	10.8	7.3	7.8	8.2	4.9	5.2	5.1
South Korea	1.3	5.3	2.3	1.9	2.0	2.6	2.5	2.4	0.7	1.3	1.8
Indonesia	5.9	3.5	7.6	5.0	5.0	4.8	5.4	6.0	6.4	4.2	4.8
Poland	3.6	2.7	2.7	4.0	3.5	3.4	3.4	3.6	-0.8	1.1	1.6
Russia	-5.1	-2.3	-3.0	-0.2	0.0	-3.7	-1.0	1.5	15.5	8.5	6.8
Turkey	3.9	3.0	5.3	1.2	3.2	3.8	3.1	3.3	7.7	8.4	8.1
South Africa	-1.3	0.7	0.6	1.0	0.8	1.3	0.9	2.0	4.6	6.3	6.1

Notes: India forecasts are for fiscal years; aggregates. For global and regional aggregates, weights used for real GDP are based on IMF PPP-based GDP, and weights used for consumer prices are based on IMF nominal GDP (five-year centered moving average). Source: Haver Analytics, Barclays Research, Consensus Economic. Last updated: 16 Feb 2016

Central banks: Managing expectations as options run out

The fight to bring back inflation

Long-term view on global inflation: After successful disinflation followed by stabilization, inflation globally has fallen below 'target'

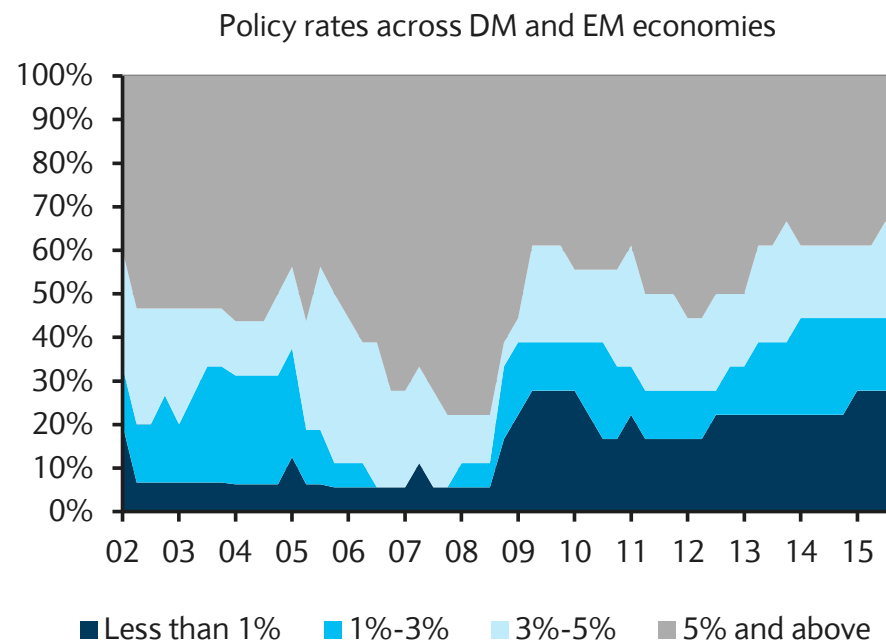
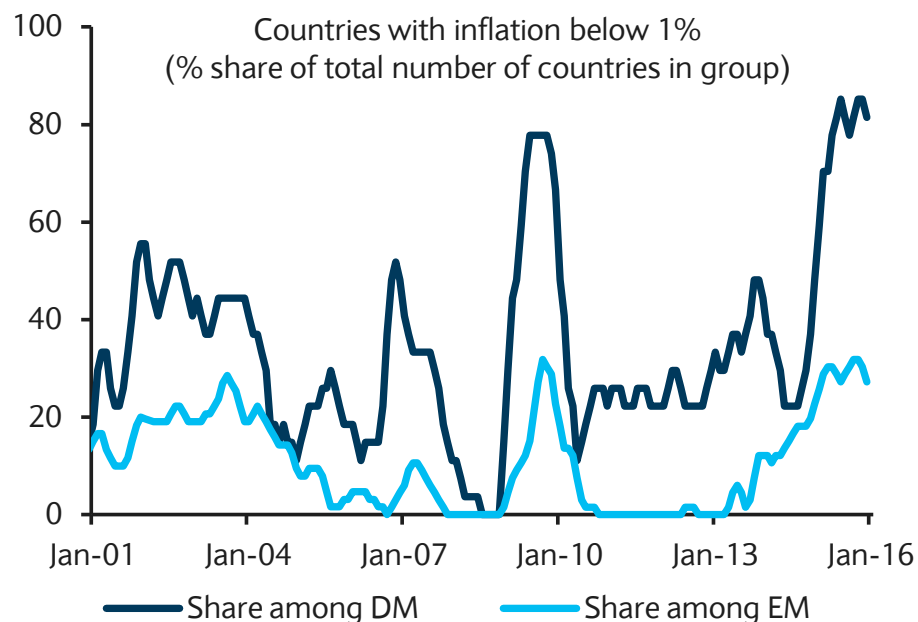


Note: CPI inflation of 22 OECD member countries, available from 1961 Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, UK and US. Source: OECD, Barclays Research

The fight to bring back inflation

Inflation is now very low in developed and EM economies...

... leading to very low policy rates across economies



Source: Barclays Research

Source: Barclays Research

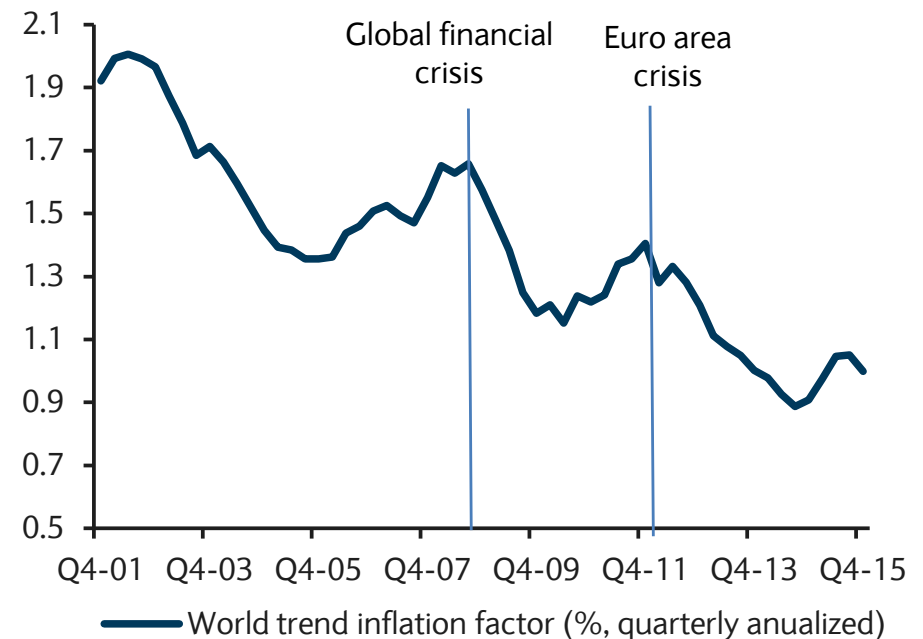
The fight to bring back inflation

The global trend inflation factor has continued to fall...



Source: Barclays Research

... with two further 'breaks' in 2008-09 and 2011-12



Source: Barclays Research

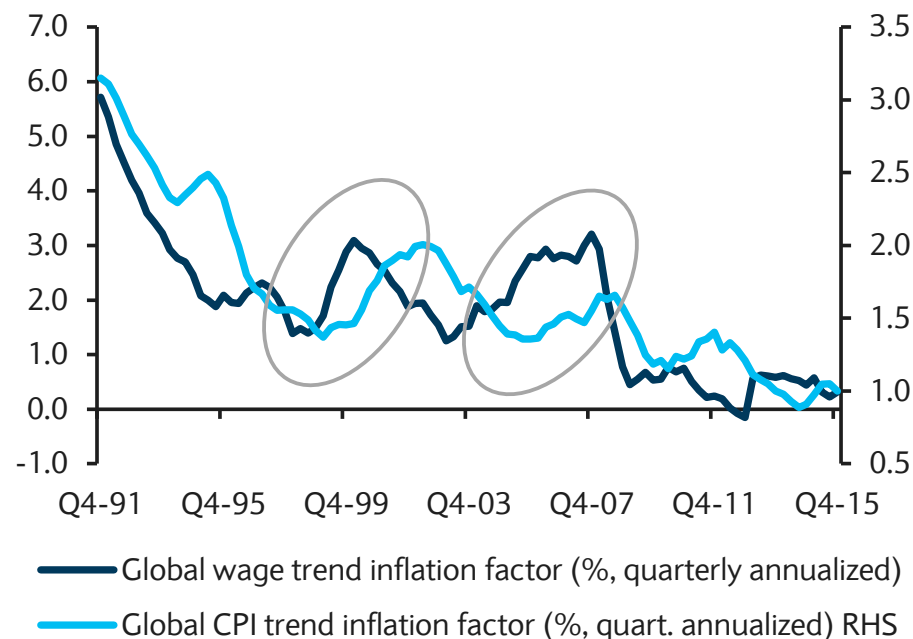
The fight to bring back inflation

Wage inflation tended to lead trend CPI inflation...



Source: Barclays Research

... but wage inflation has remained very weak since the GFC

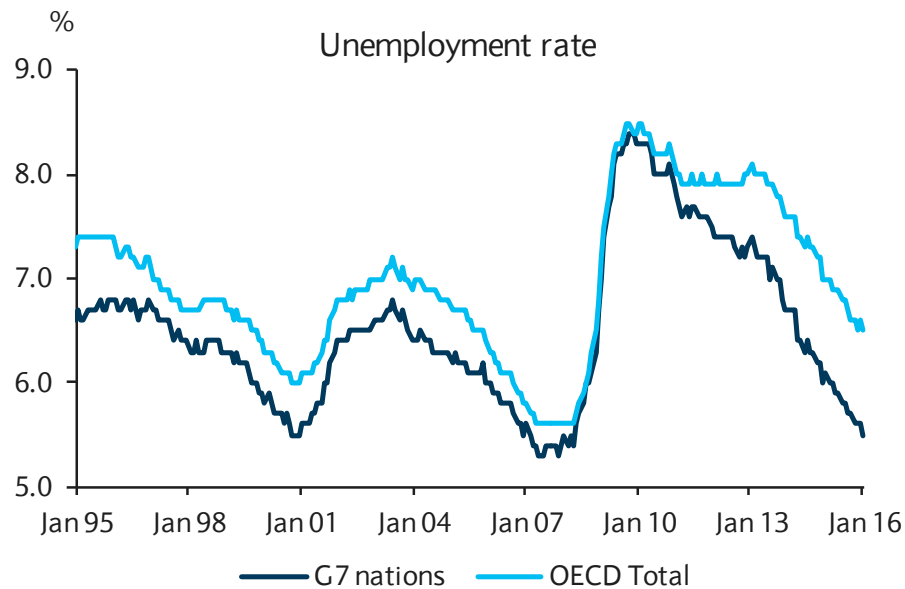


Source: Barclays Research

The fight to bring back inflation

Will improving unemployment rates...

... eventually bring back wage growth?



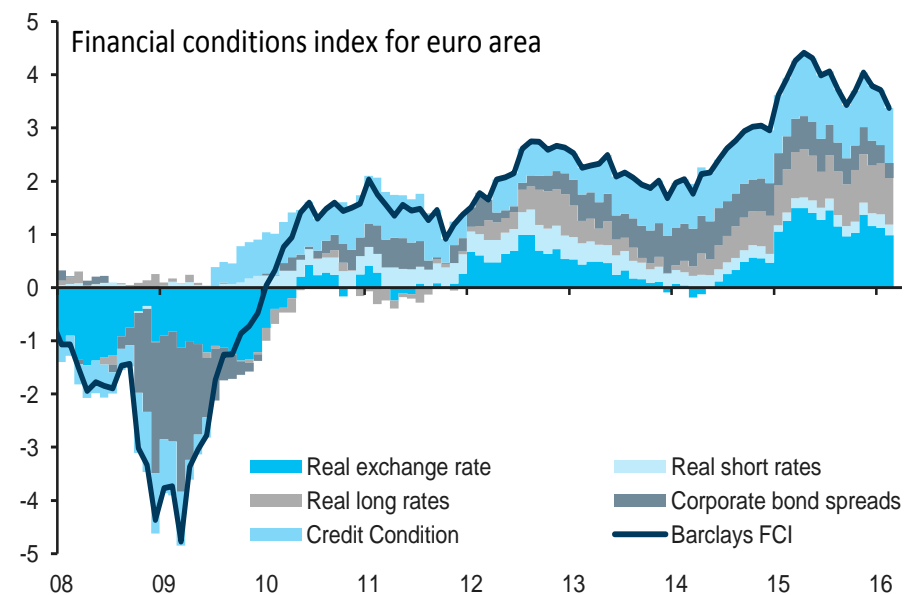
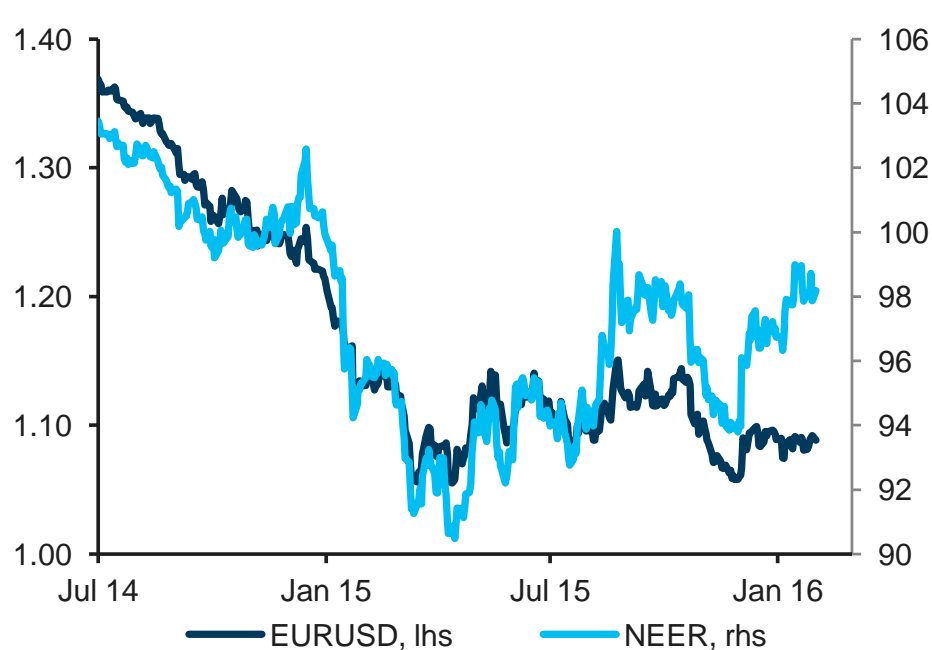
Source: OECD Database, Haver Analytics, Barclays Research

Source: OECD Database, Haver Analytics, Barclays Research

ECB: Changing the narrative

Even though a stronger
(trade-weighted) EUR...

... has partly reversed the easing
of financial conditions...

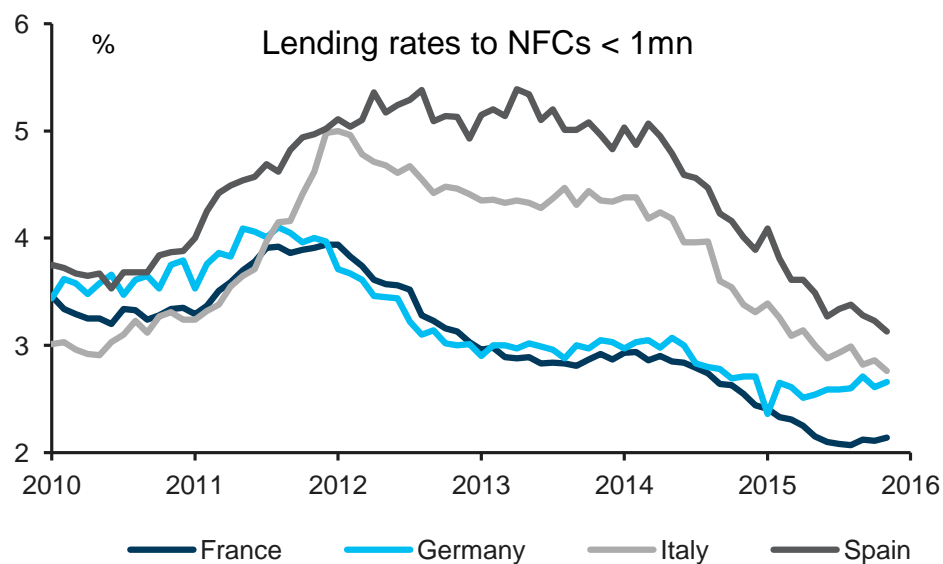


Source: Barclays Research

Source: Barclays Research

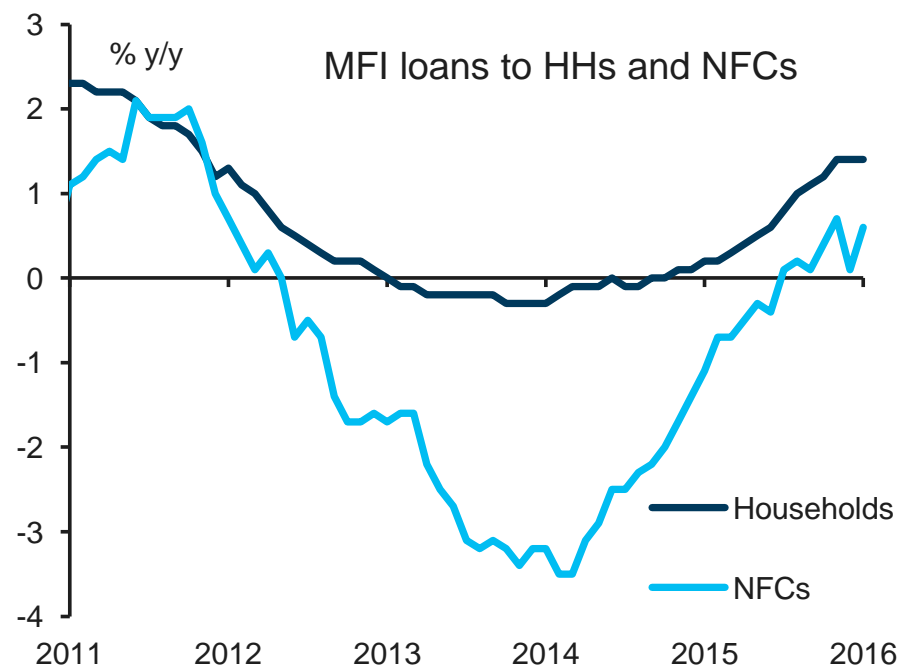
ECB: Changing the narrative

... the ECB's narrative has turned on credit easing...



Source: Barclays Research

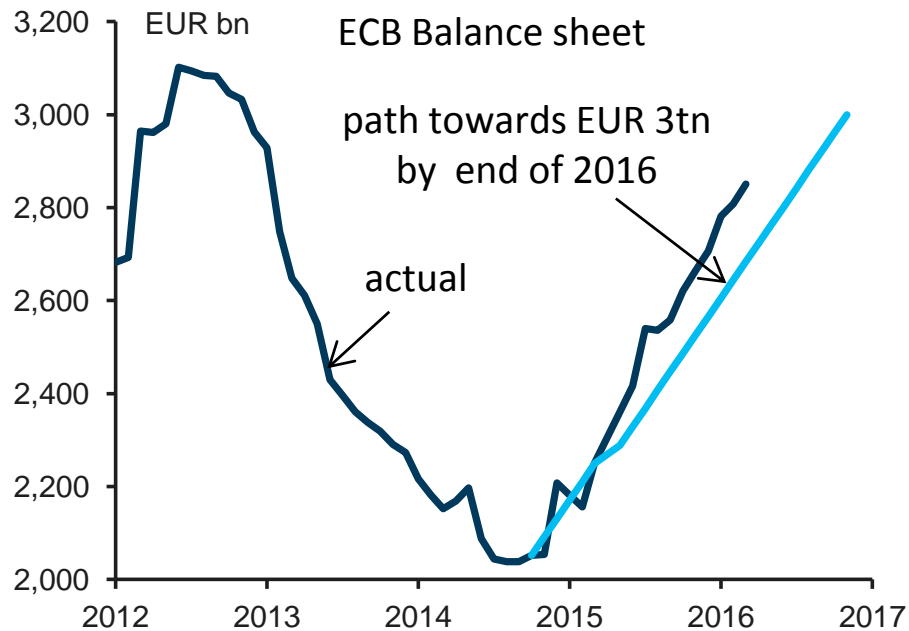
... to foster credit growth...



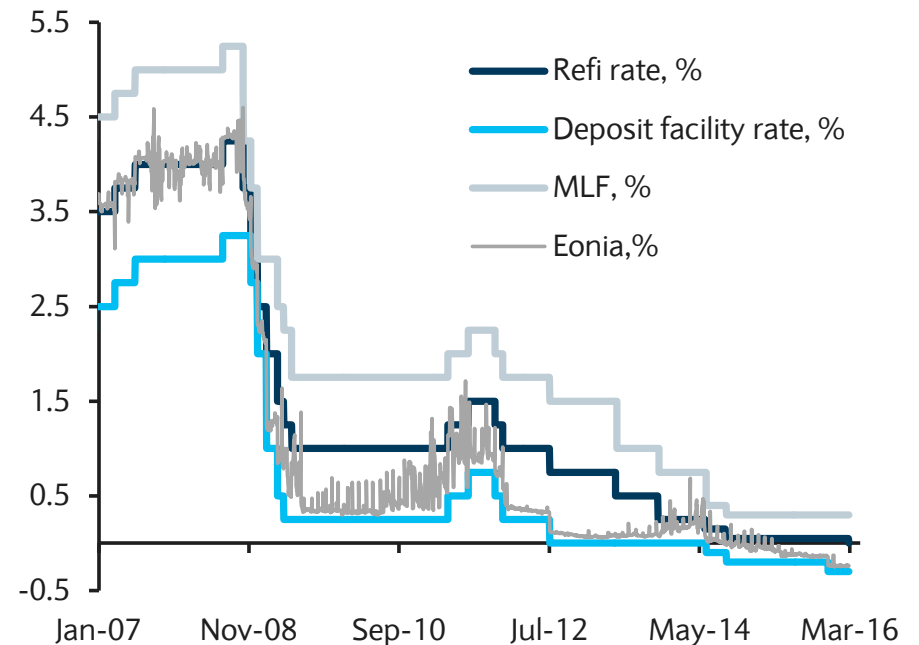
Source: Barclays Research

ECB: Changing the narrative

... via balance sheet expansion...



... and further rate cuts, including negative deposit rates



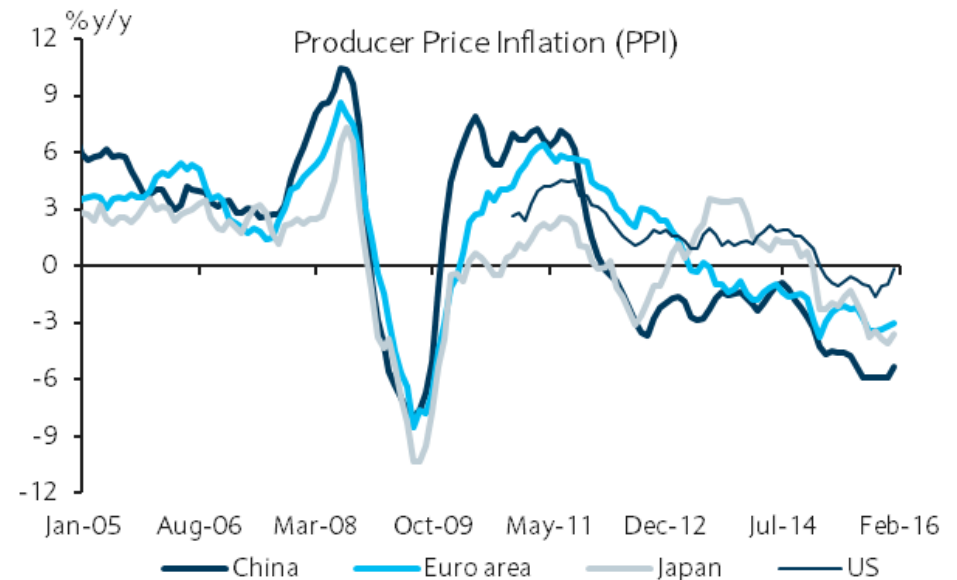
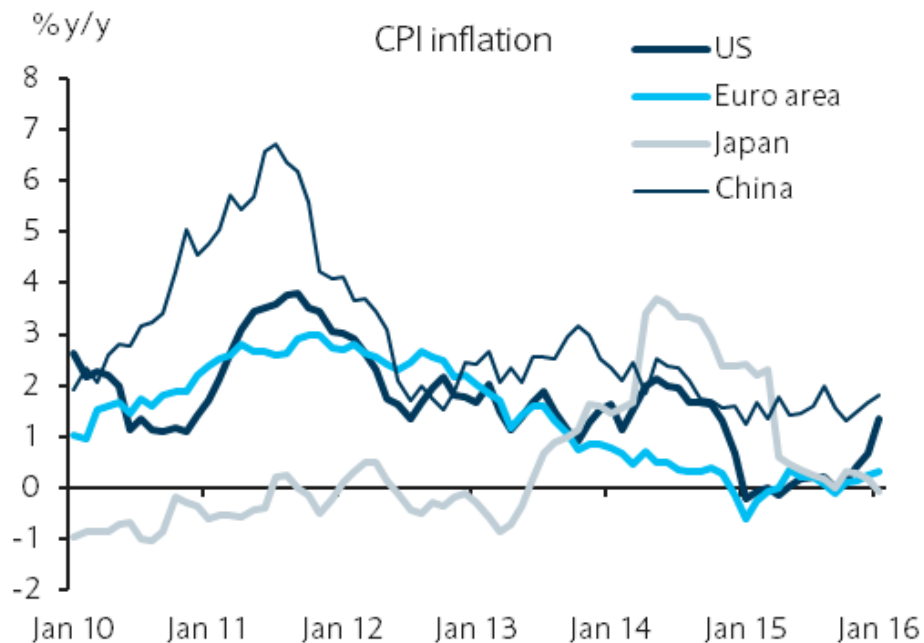
Source: Barclays Research

Source: Barclays Research

Fed: Focus on the labour market

**US inflation has risen
in recent months...**

**... and while global disinflationary
forces persist**



Source: Federal Reserve Bank of Atlanta, Barclays Research

Source: BLS, Barclays Research

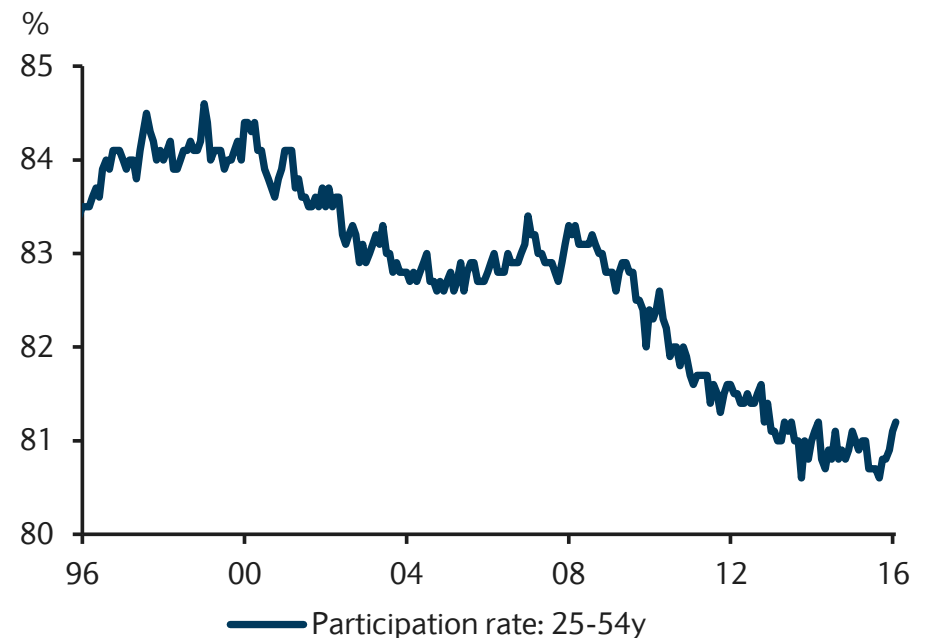
Fed: Focus on the labour market

**US wage growth
has been accelerating...**



Source: Federal Reserve Bank of Atlanta, Barclays Research

**... and participation by prime working-age
workers has increased recently**



Source: Barclays Research

Central bank policy rate forecasts

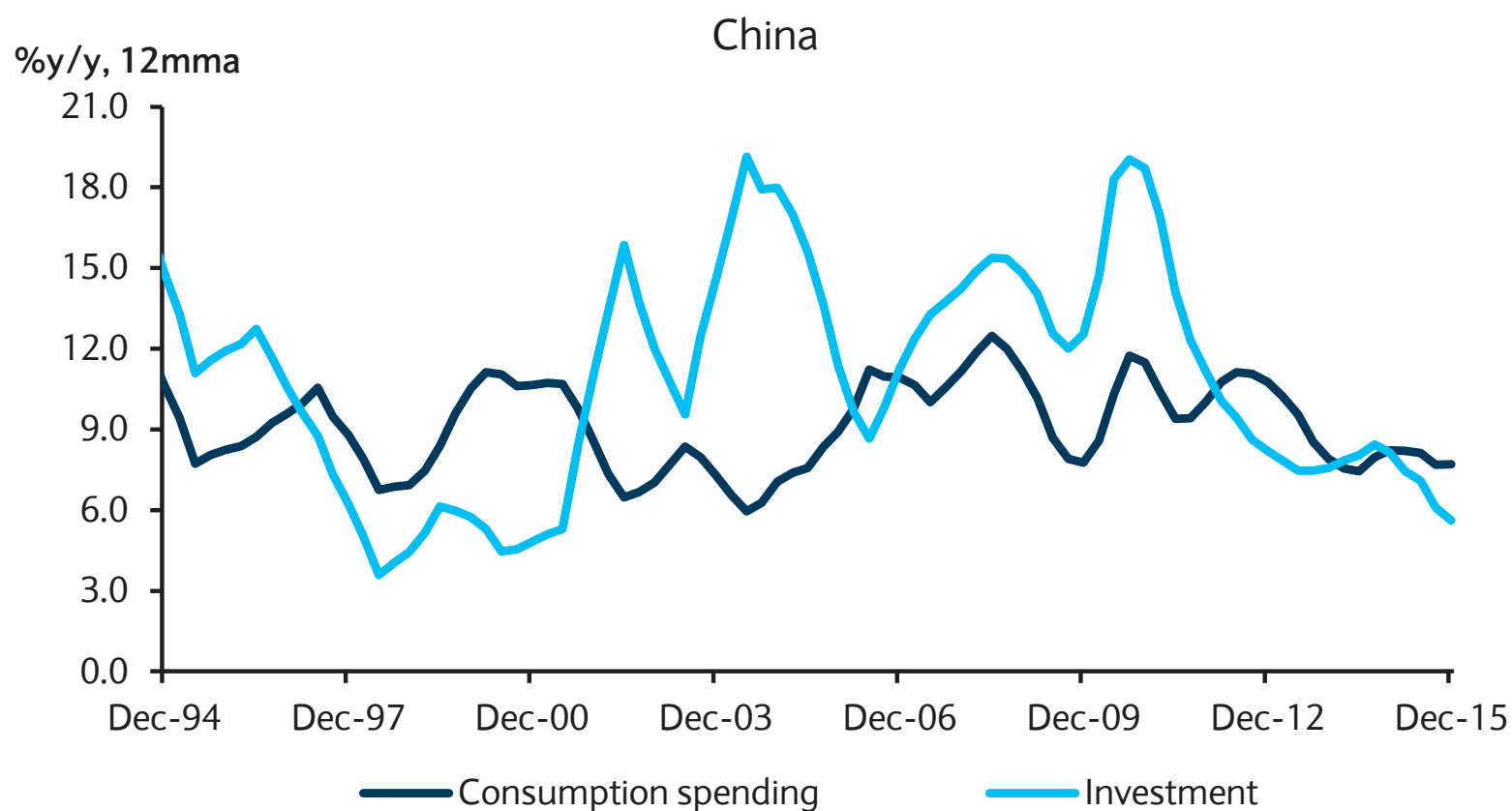
Official rate		Start of cycle			Next move	Forecasts as at end of			
% per annum (unless stated)	Current	date	level	Last move	expected	Q1 16	Q2 16	Q3 16	Q4 16
Advanced									
Fed funds rate	0.25-0.5	Tightening: 16 Dec 15	0-0.25	Dec 15 (+25)	Jun 16 (+25)	0.25-0.5	0.5-0.75	0.5-0.75	0.75-1.0
BoJ deposit rate	-0.10-0.10	Easing: 30 Oct 08	0.50	Jan 16 (-20-0)	Jul 16 (-20)	-0.10-0.10	-0.10-0.10	-0.30-0.10	-0.30-0.10
ECB main refinancing rate	0.00	Easing: 3 Nov 11	1.50	Mar 16 (-5)	-	0.00	0.00	0.00	0.00
ECB deposit facility rate	-0.40	Easing: 3 Nov 11	0.75	Mar 16 (-10)	-	-0.40	-0.40	-0.40	-0.40
BOE bank rate	0.50	Easing: 6 Dec 07	5.75	Mar 09 (-50)	Q4 16 (+25)	0.50	0.50	0.50	0.75
RBA cash rate	2.00	Easing: 3 Feb 15	2.50	May 15 (-25)	Q1 17 (+25)	2.00	2.00	2.00	2.00
RBNZ cash rate	2.25	Easing: 10 Jun 15	3.50	Mar 16 (-25)	Jun 16 (-25)	2.25	2.00	2.00	2.00
Emerging									
China: 1y bench. lending rate	4.35	Easing: 21 Nov 14	6.00	Oct 15 (-25)	Q1 16(-25)	4.10	3.85	3.85	3.85
India: Repo rate	6.75	Easing: 15 Jan 15	8.00	Sep 15 (-50)	Q2 16 (-25)	6.75	6.25	6.25	6.25
Indonesia: O/N policy rate	7.00	Easing: 17 Feb 15	7.75	Feb 16 (-25)	H1 16 (-50)	7.00	6.50	6.50	6.50
Korea: Base rate	1.50	Easing: 12 Jul 12	3.25	Jun 15 (-25)	Apr 16 (-25)	1.50	1.25	1.25	1.25
Hungary: 2w deposit rate	1.35	Easing: 28 Aug 12	7.00	Jul 15 (-15)	Q2 16(-25)	1.35	1.10	1.10	1.10
Poland: 2w repo rate	1.50	Easing: 7 Nov 12	4.75	Feb 15 (-50)	Q3 16 (-25)	1.50	1.50	1.25	1.00
Russia: One-week repo rate	11.00	Easing: 30 Jan 15	17.00	Jul 15 (-50)	Jul 16 (-50)	11.00	11.00	10.00	9.00
South Africa: Repo rate	6.75	Tightening: 29 Jan 14	5.00	Jan 16 (+50)	Mar 16 (+25)	7.00	7.25	7.50	7.50
Turkey: 1wk repo rate	7.50	Easing: 22 May 14	10.00	Jan 15 (-50)	Q2 16 (+100)	7.50	8.50	8.50	8.50
Brazil: SELIC rate	14.25	Tightening: 17 Apr 13	7.25	Jul 15 (+50)	Aug 16 (-25)	14.25	14.25	14.00	13.00
Chile: Monetary policy rate	3.50	Tightening: 15 Oct 15	3.00	Dec 15 (+25)	Sep 16 (+25)	3.50	3.50	3.75	4.00
Mexico: Overnight rate	3.75	Tightening: 17 Dec 15	3.00	Feb 15 (+50)	Jun 16 (+25)	3.75	4.00	4.00	4.25

Source: Barclays Research

China: Facing difficult trade-offs

China: Facing difficult trade-offs

China wants to transition from export- and investment-driven growth to consumption-driven growth, while maintaining 6.5-7.0% growth in the next five years

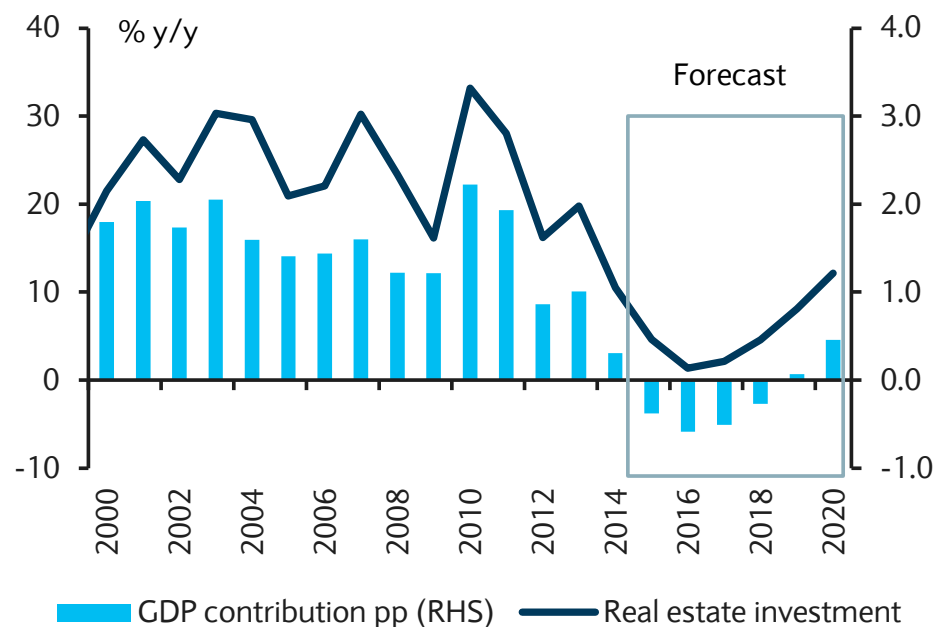
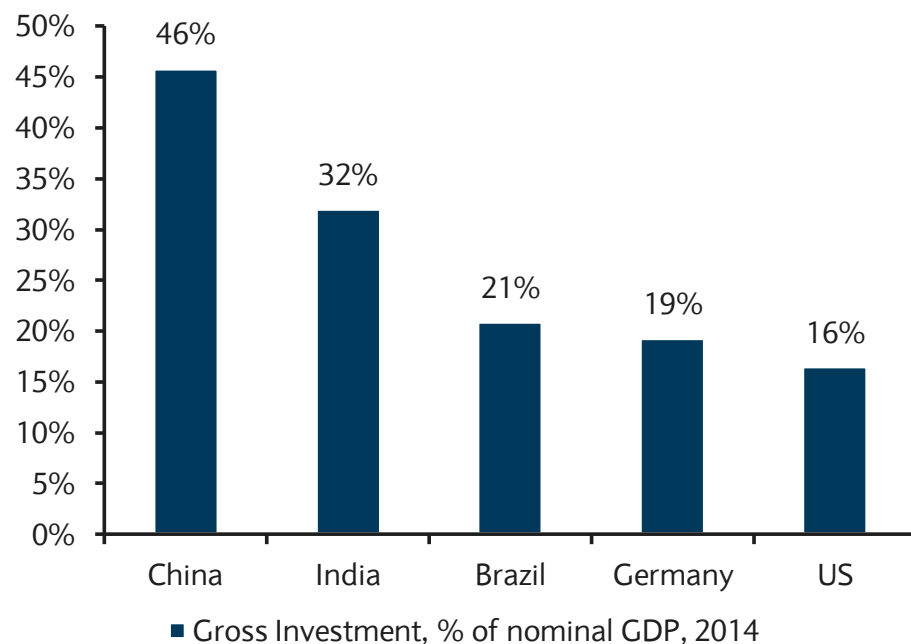


Source: Barclays Research

China: Facing difficult trade-offs

But China has experienced a massive over-investment cycle

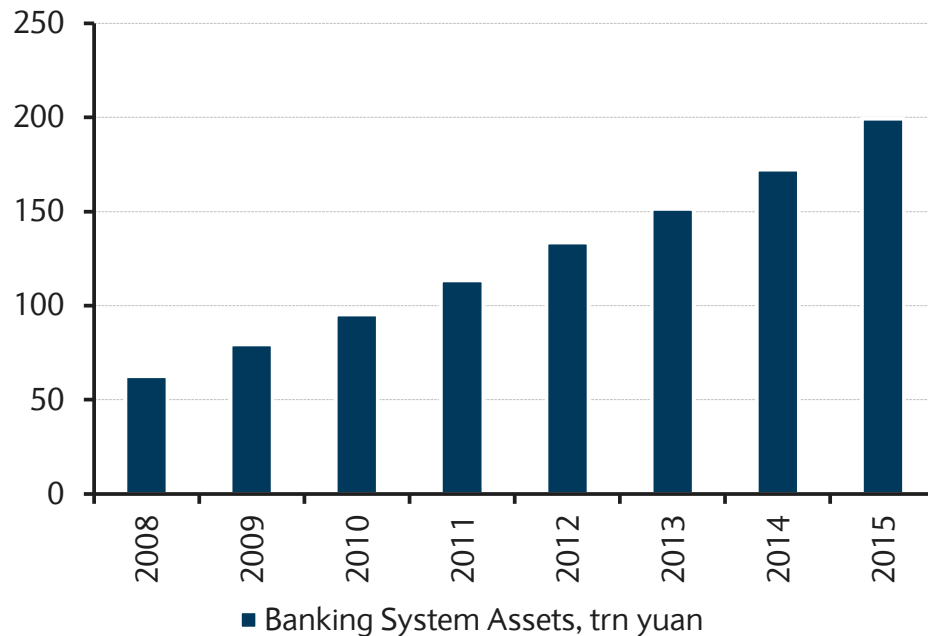
Particularly in real estate, which is now turning into a drag



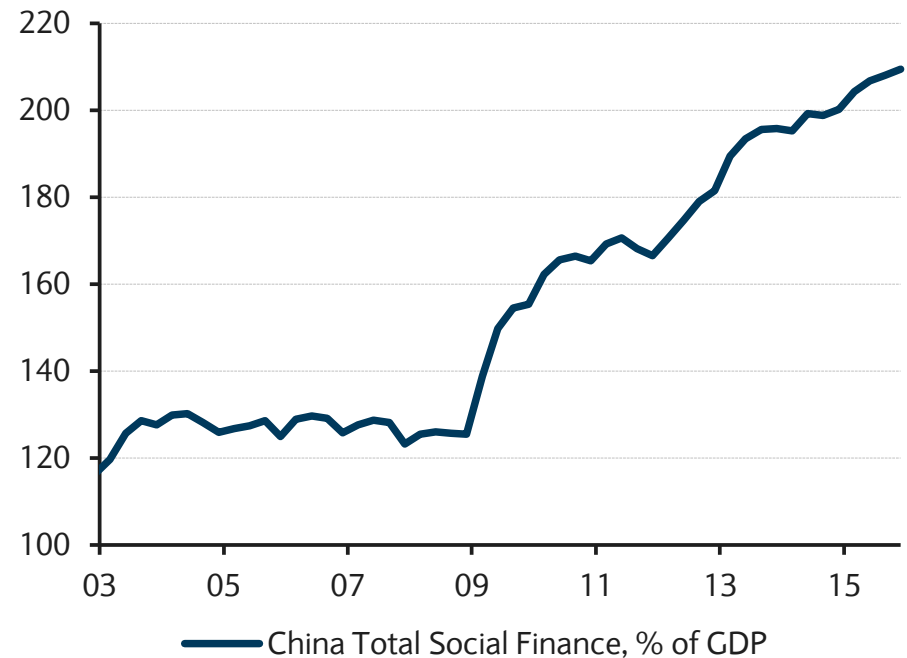
From IMF Working Paper "Understanding Residential Real Estate in China". Source: CEIC, Individual authorities, National Bureau of Statistics (NBS), IMF

China: Facing difficult trade-offs

The Chinese banking system has more than tripled since 2008...



... creating credit debt with diminishing returns

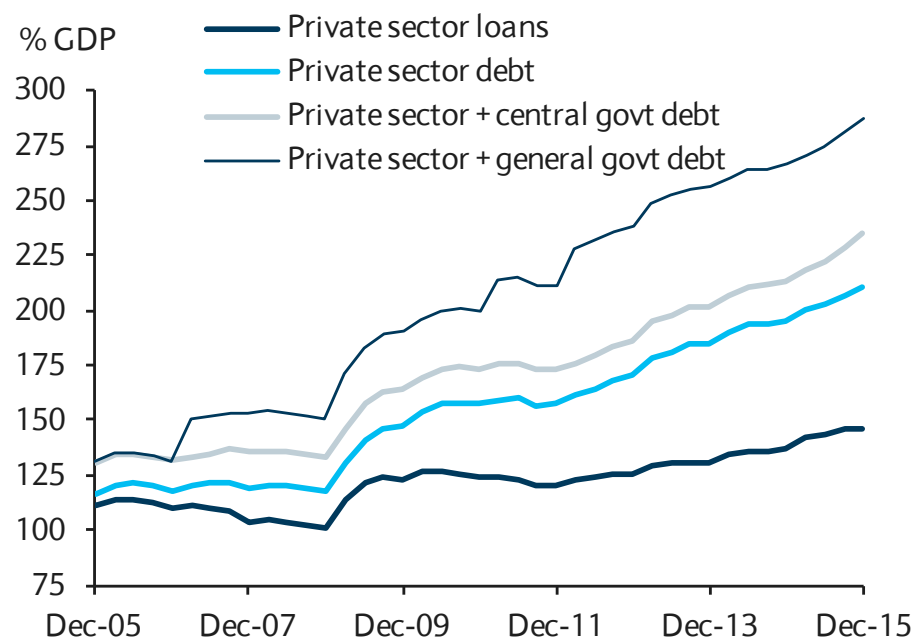
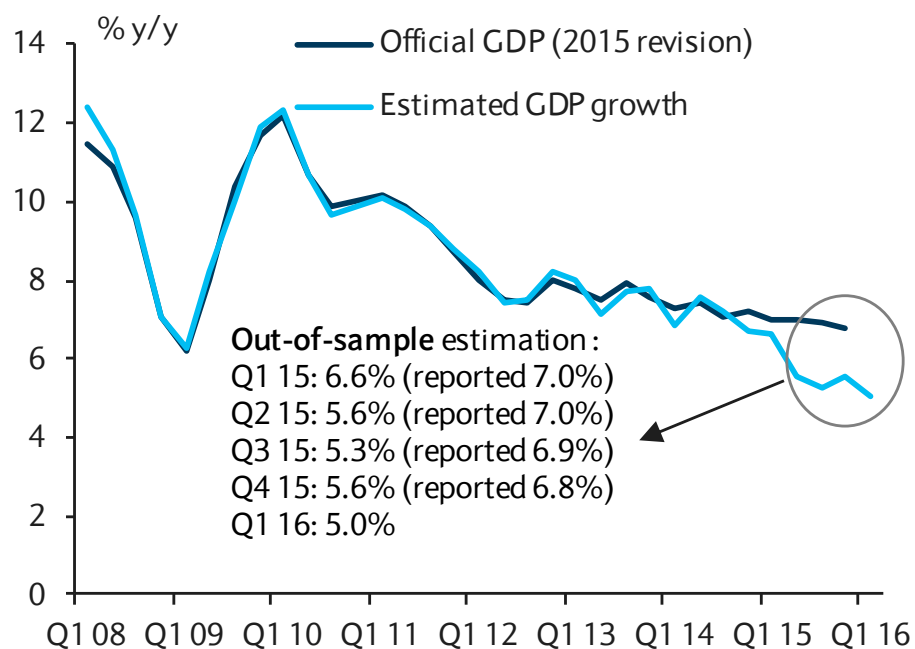


Source: Haver Analytics, Bloomberg, Barclays Research

China: Facing difficult trade-offs

While China's growth is likely slowing more than officially reported...

... leverage continues to increase throughout the economy

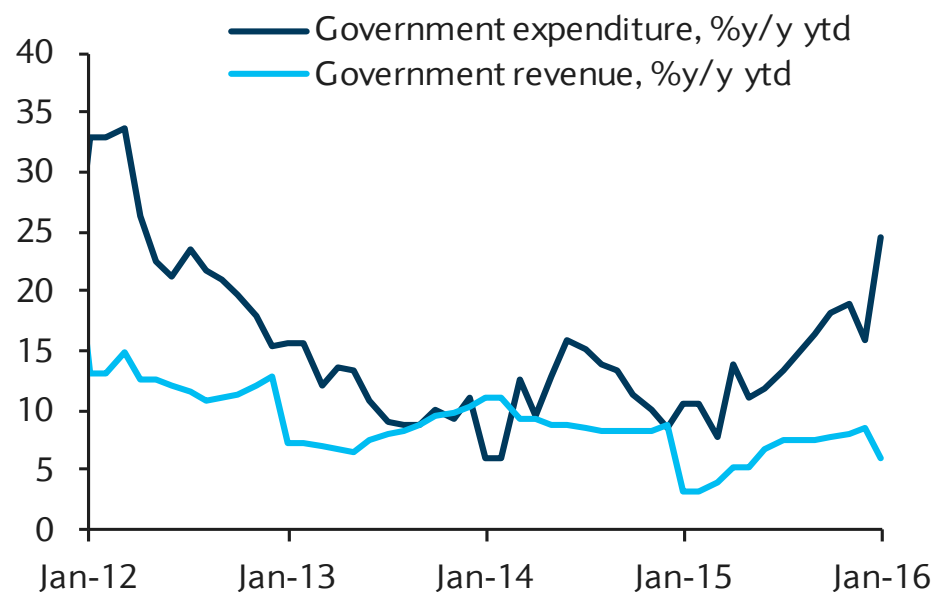


Source: Barclays Research

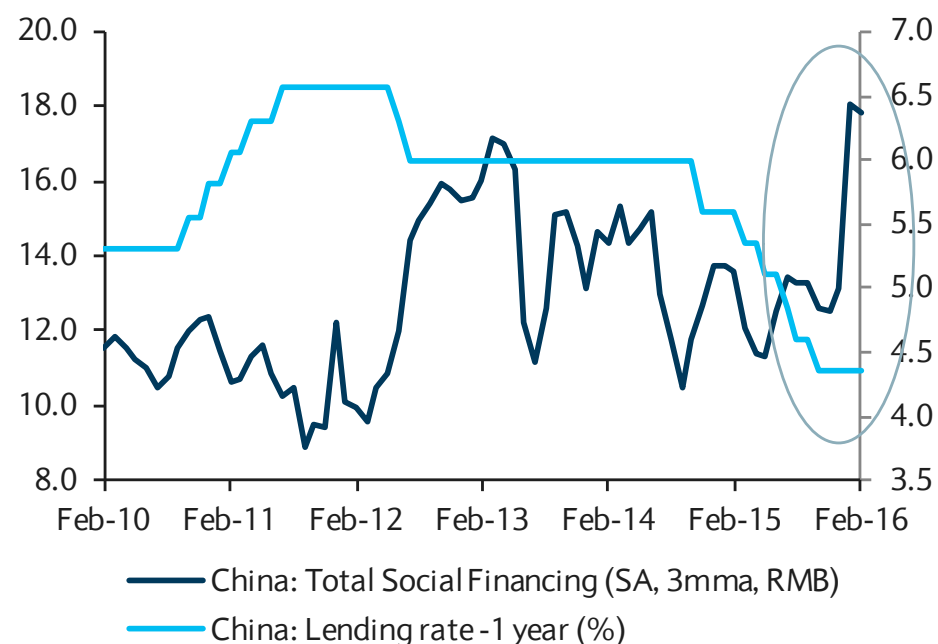
Source: Barclays Research

China: Facing difficult trade-offs

The authorities are easing fiscal policy ...



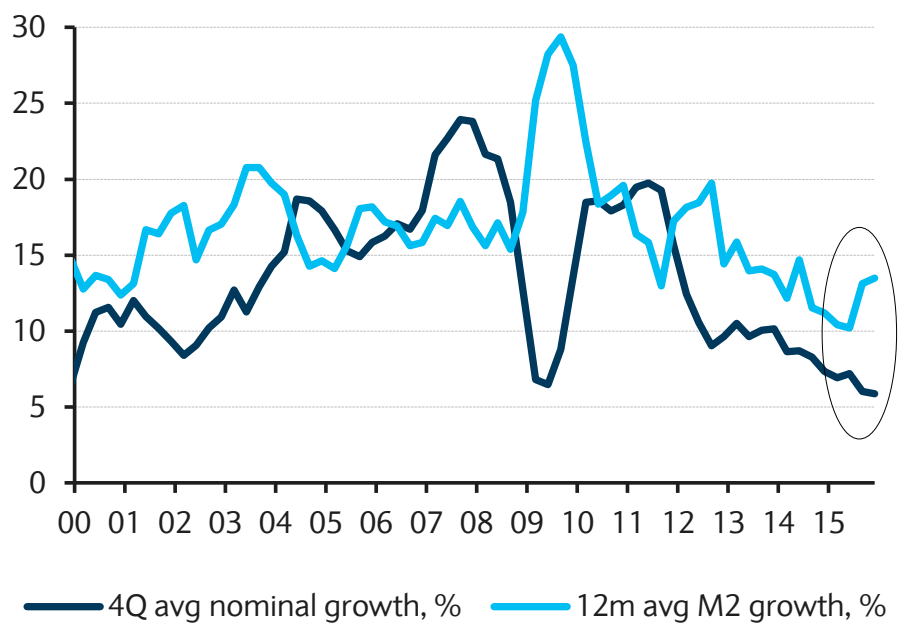
... and monetary and credit policies



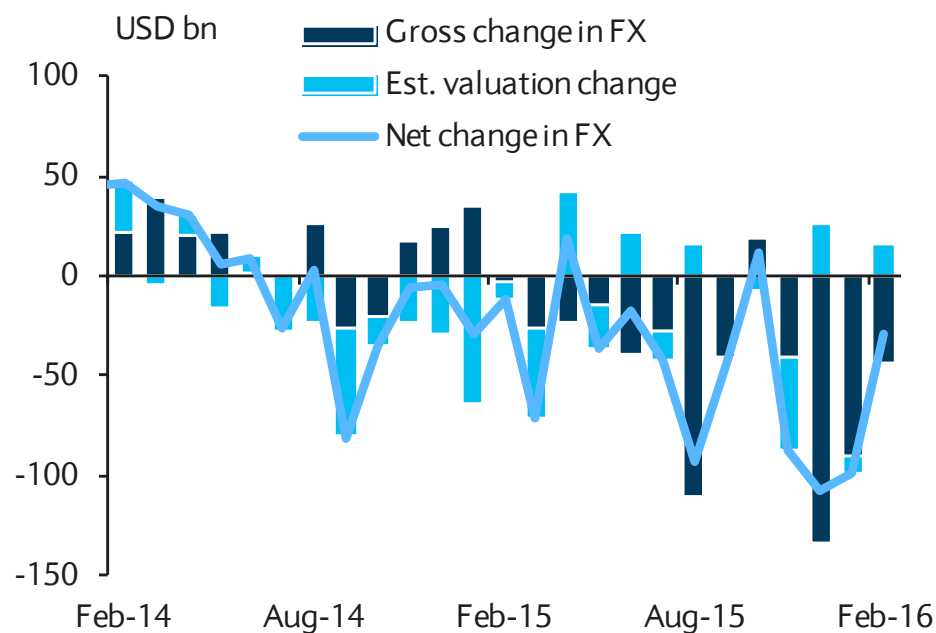
Source: CEIC, NBS, Haver Analytics, Barclays Research

China: Facing difficult trade-offs

With base money growing far more quickly than nominal GDP...



... capital outflows remain high

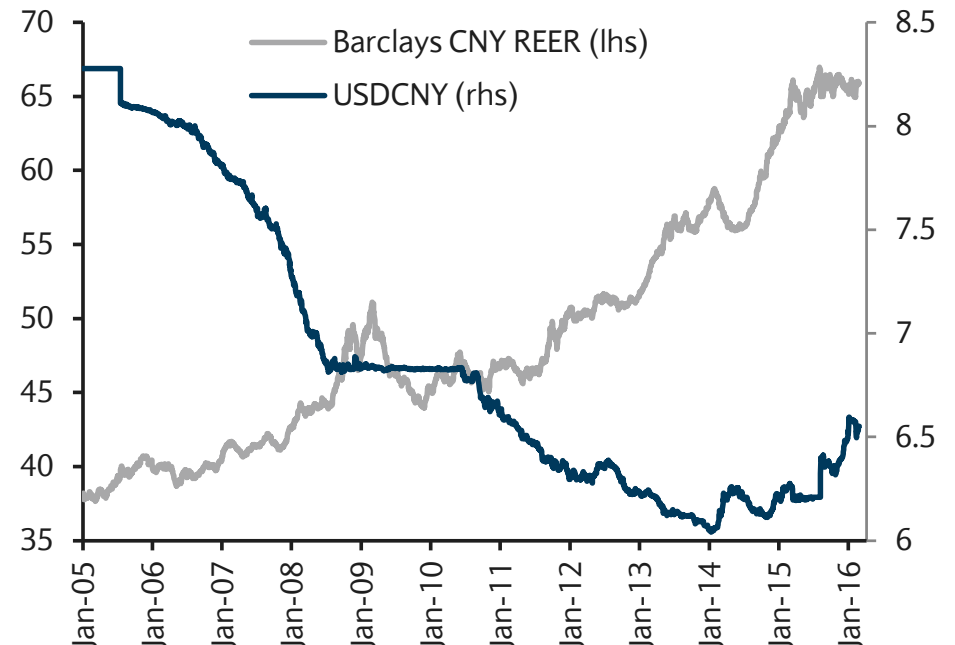
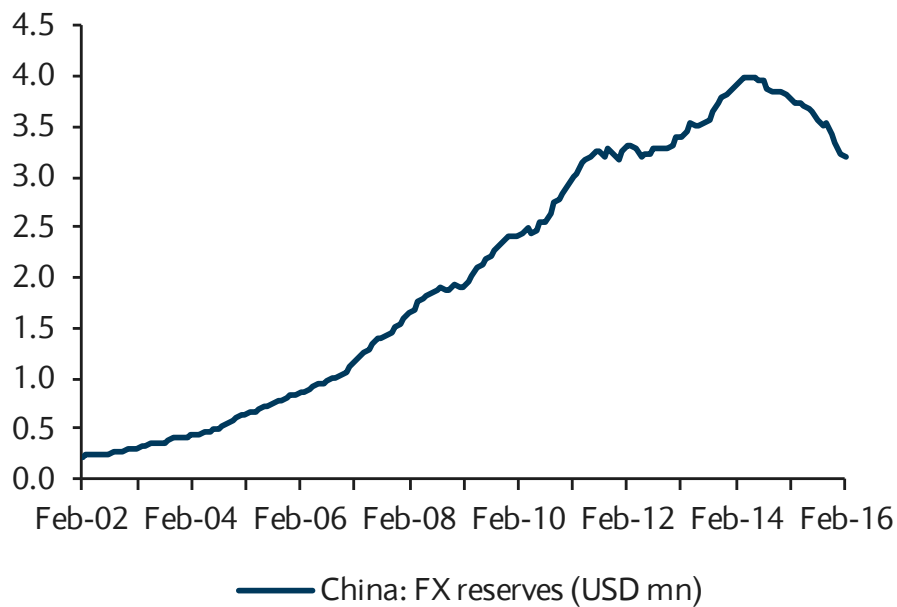


Source: CEIC, NBS, Haver Analytics, Barclays Research

China: Facing difficult trade-offs

China's reserves have started to fall...

... as CNY 's appreciation trend has turned

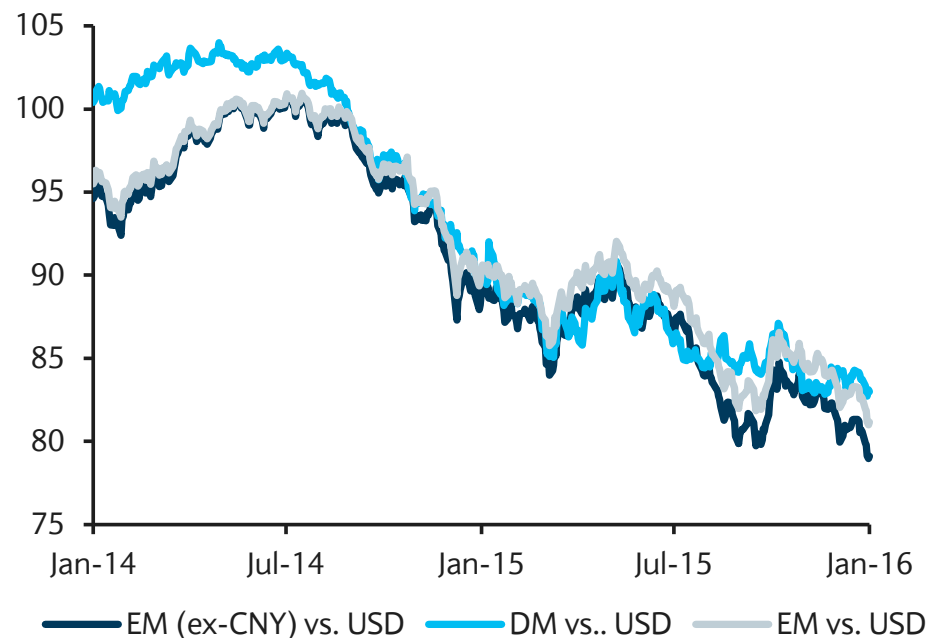
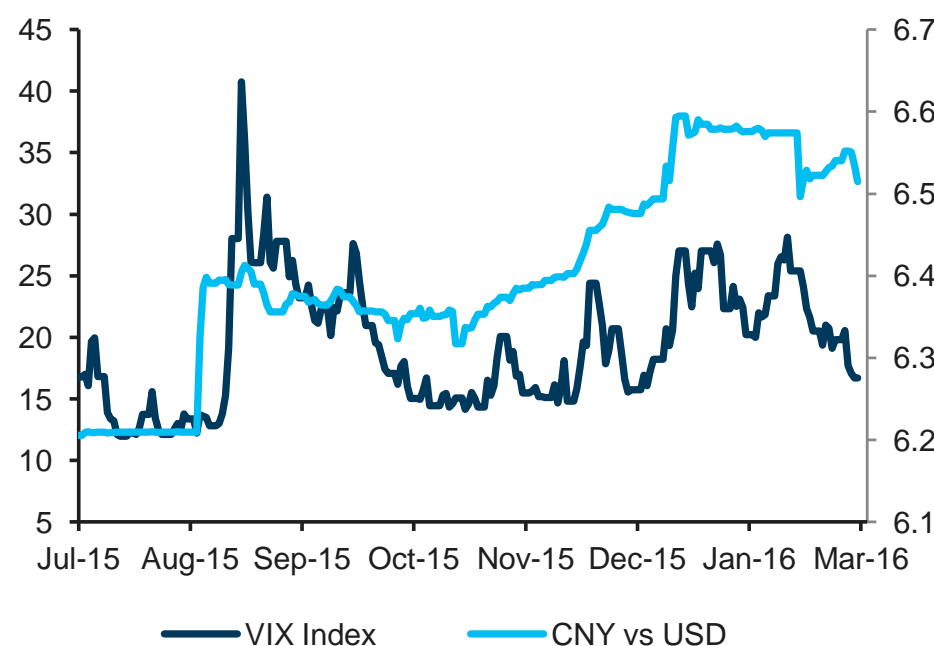


Source: IMF, Bloomberg, Barclays Research

China: Facing difficult trade-offs

CNY volatility has contagion effects on core financial markets...

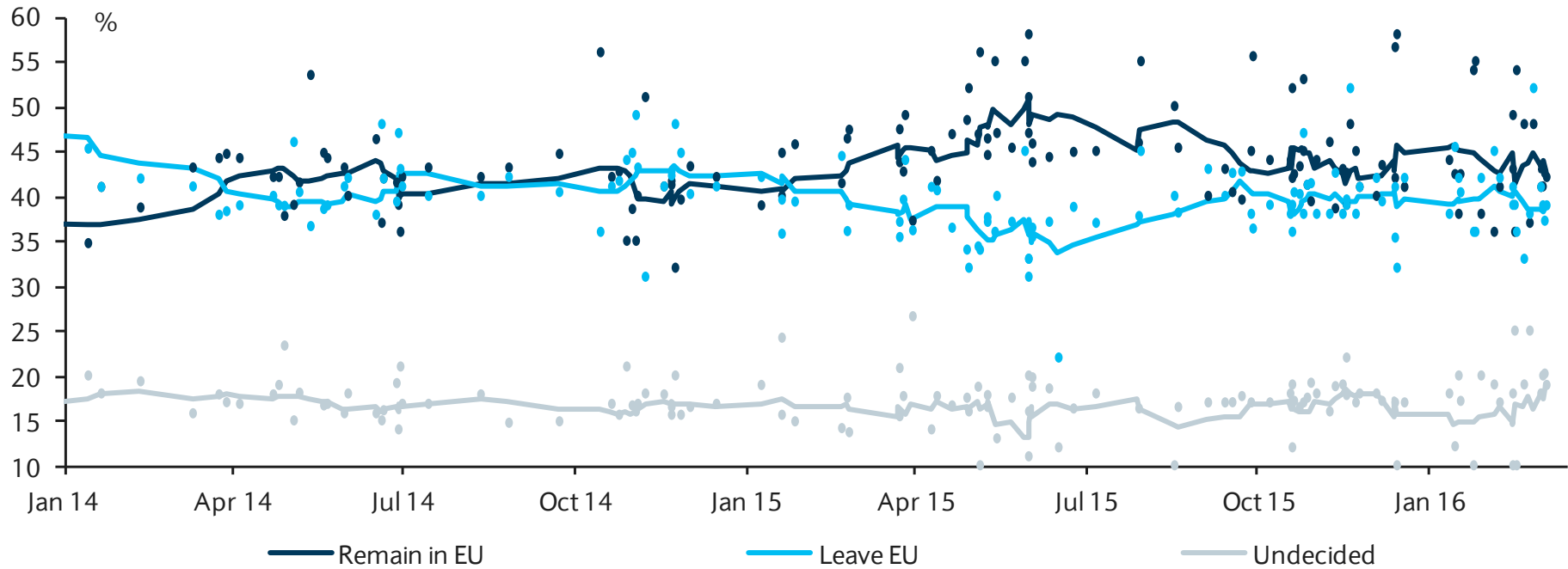
... and other EM currencies follow the CNY and oil



Source: IMF, Bloomberg, Barclays Research

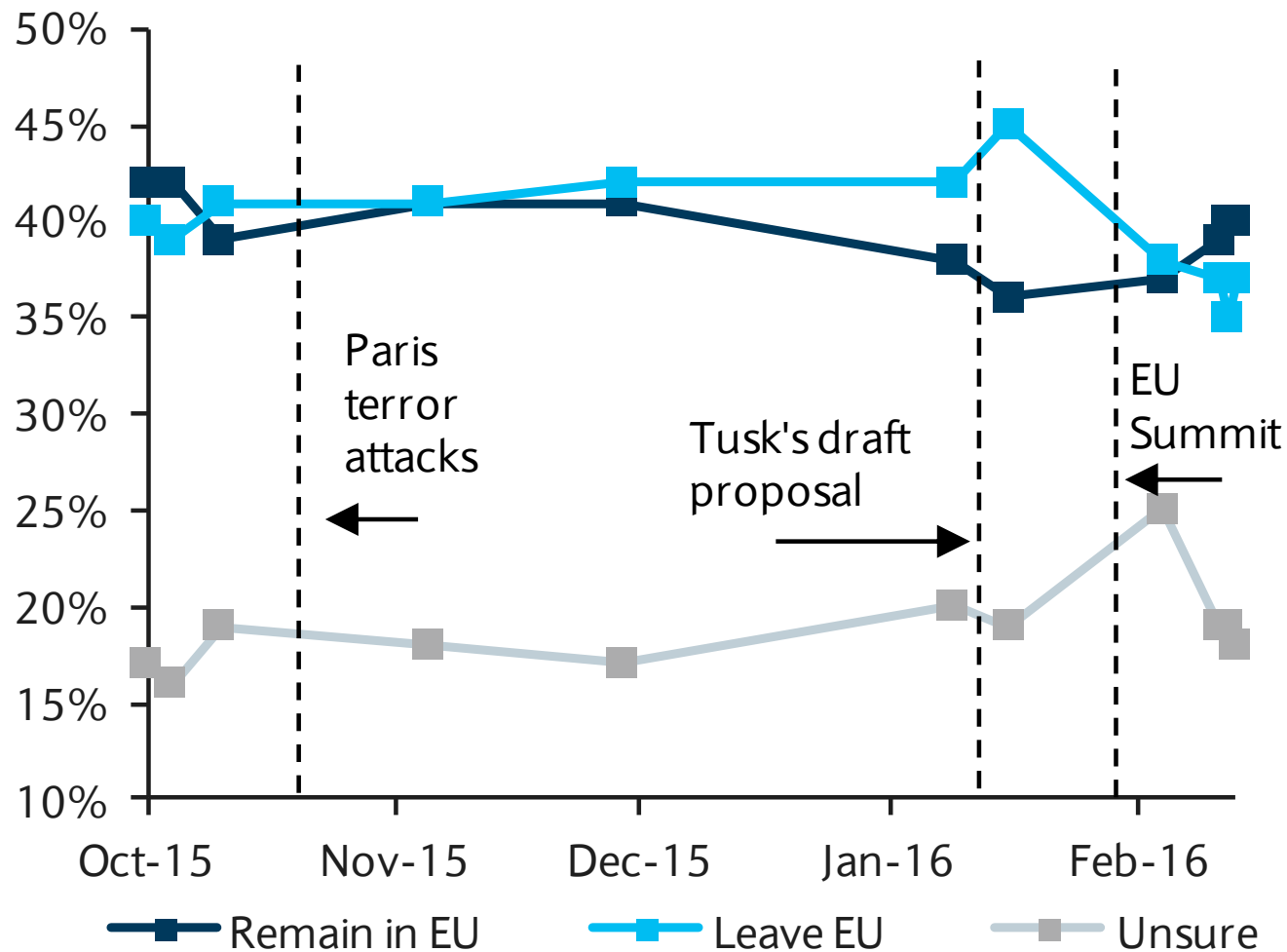
UK referendum: Major event risk

UK EU referendum voting intentions remain close



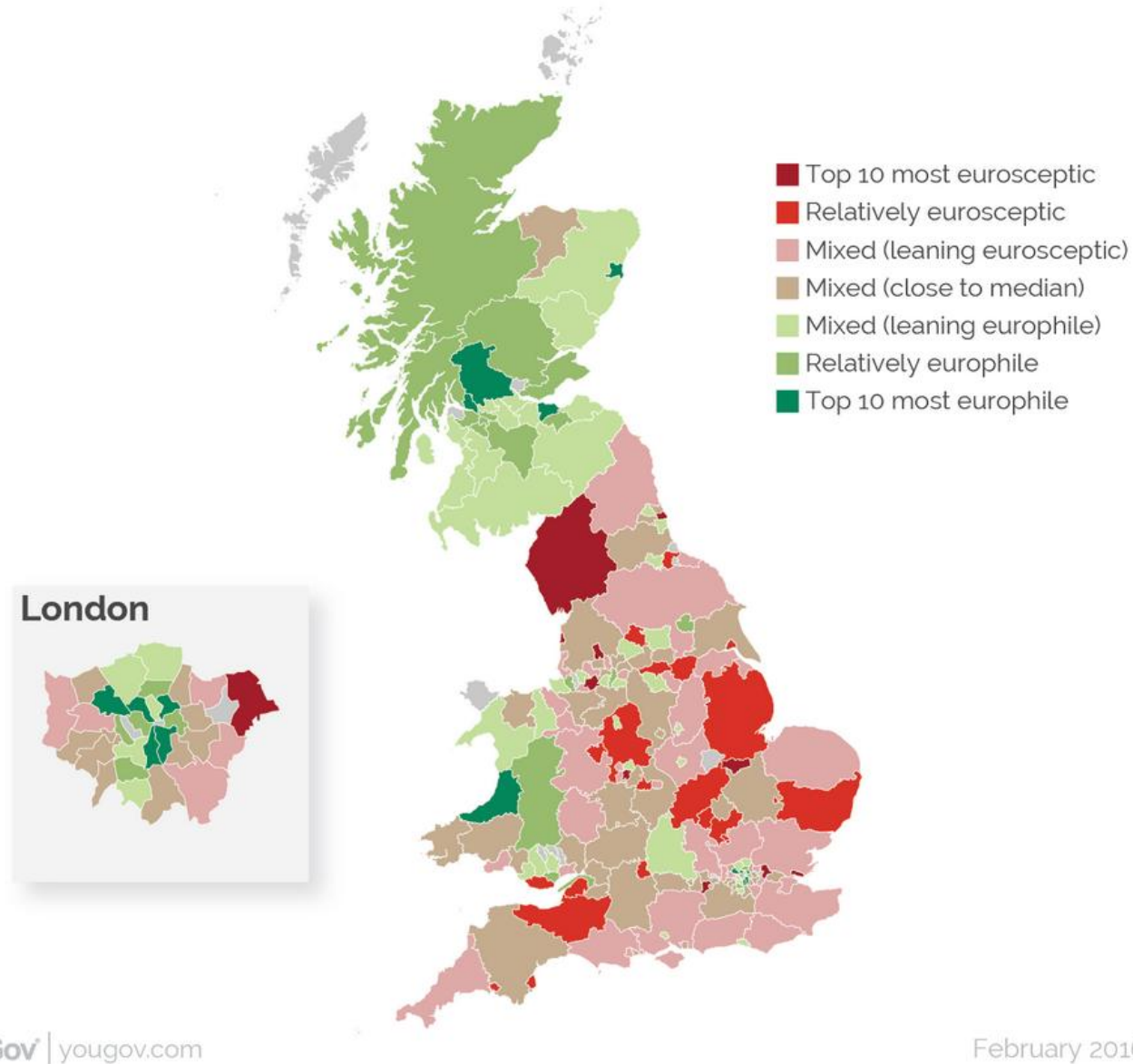
Note: Smoothed lines are average over most recent seven polls, excluding the highest and lowest survey. Source: Available polling resources, Barclays Research

UK EU referendum voting intentions remain close



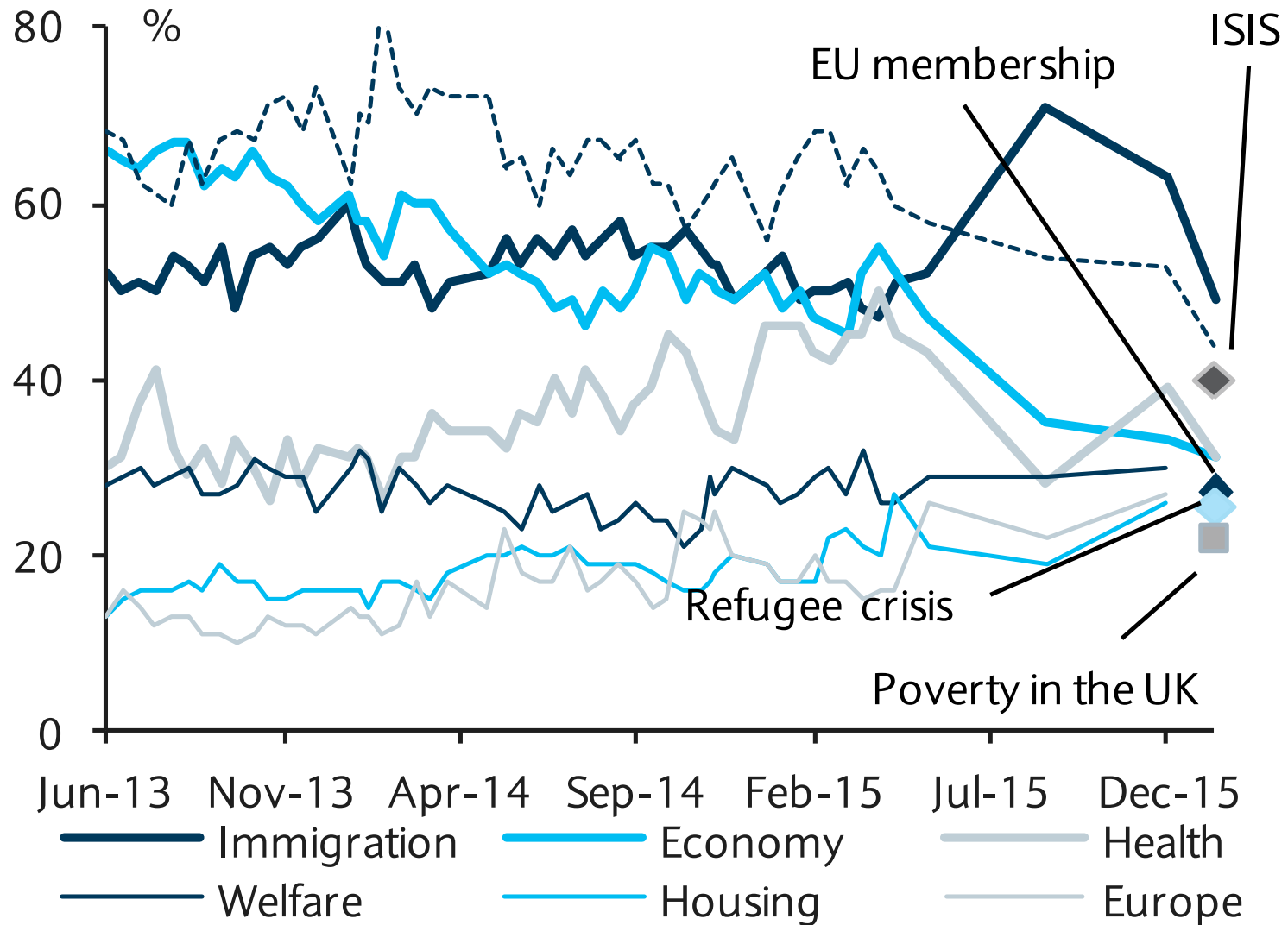
Note: Smoothed lines are average over most recent seven polls, excluding the highest and lowest survey. Source: Available polling resources, Barclays Research

YouGov eurosceptic map of Britain



Note: The map is based on data from over 80,000 British people on the YouGov panel collected over the past year responding to the question: "Overall, are you in favour of Britain remaining in, or leaving, the EU?". The map and further information are available [here](#). Source: YouGov

Immigration is pivotal issue for UK voters...



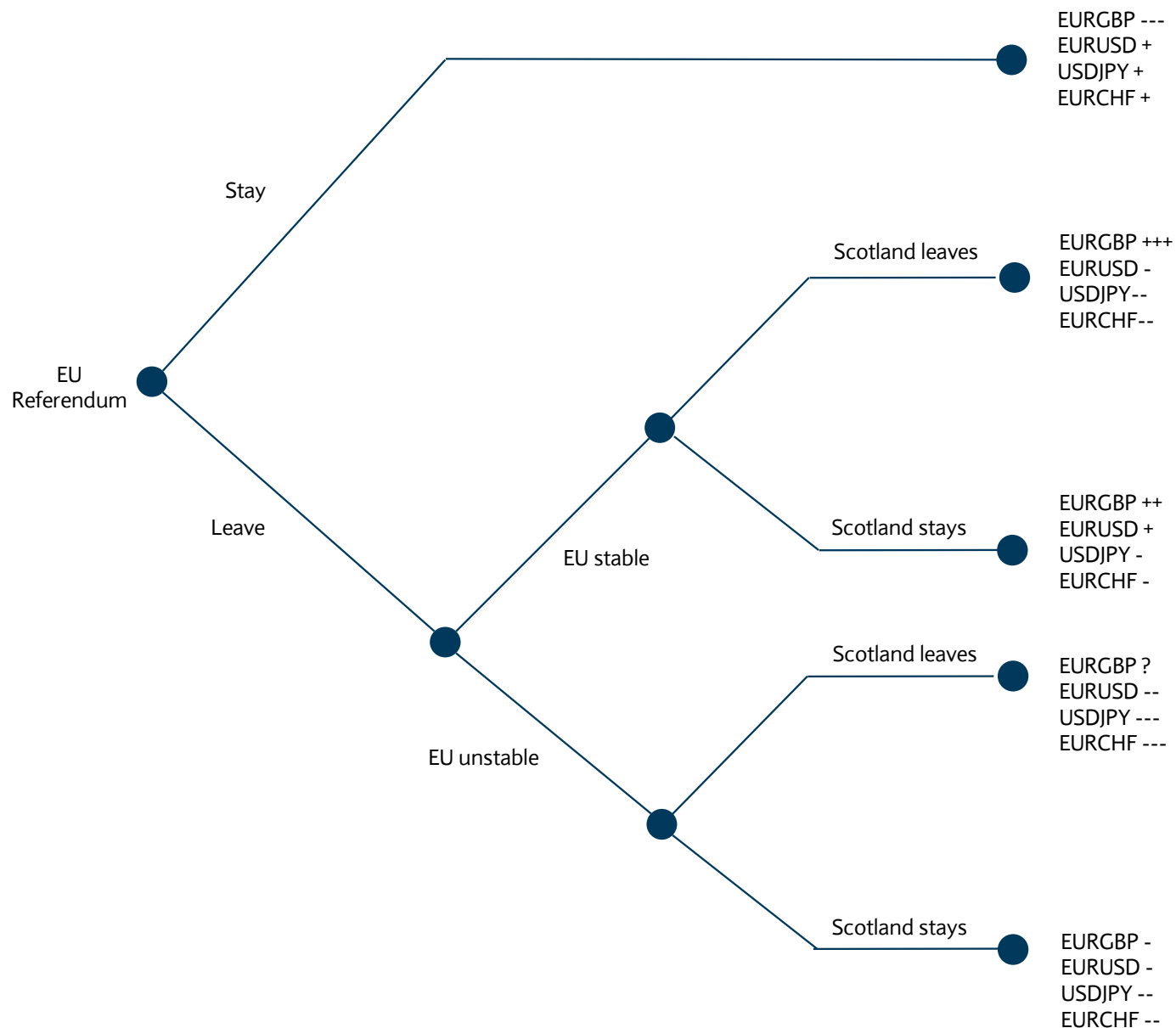
Source: YouGov. Respondents asked to name top three issues; not shown: crime, education, environment, family life, pensions, tax, and transport; latest poll 27 January 2016 included additional surveyed issues displayed as markers and did not list housing or welfare. Sources: Bloomberg, Google Trends, YouGov, Wikipedia, Barclays Research

... which is reflected in the reforms they want from EU



Source: YouGov. Respondents asked to name top three issues; not shown: crime, education, environment, family life, pensions, tax, and transport; latest poll 27 January 2016 included additional surveyed issues displayed as markers and did not list housing or welfare. Sources: Bloomberg, Google Trends, YouGov, Wikipedia, Barclays Research

GBP behavior post referendum will depend on other factors



Source: Barclays Research.

Conclusions

- The outlook for global growth has deteriorated further
 - Growth in core economies is supported by consumption only, and
 - China and other EM economies remain weak
- The oil price decline does have positive effects on DM consumers
 - But is offset by EM slowdown, reductions in oil-related investment
 - And some tightening in credit conditions
- However, US recession fears have been exaggerated
- Global inflation has been trending down, posing a great challenge for policymakers. Weak wage growth plays a key role
- An improving US labor market should allow further hikes by the Fed (Barclays forecast: June and December), but the ECB faces an uphill battle after the recent policy shift received a mixed reception from the markets
- China remains an inherently unstable element in the global economy, as its ambitious growth targets imply further rising imbalances
- UK vote for EU exit is a key event risk, increasing uncertainty for UK and the EU

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