PRIVATE BANKING

MACRO HIGHLIGHTS

WEEK OF 13 FEBRUARY 2017

OUR HIGHLIGHTS:

- **Economists' insight: China – What's at stake with the yuan**
  - The decline in foreign exchange reserves and the rise in capital outflows are a reminder that Beijing can only support the yuan for so long. However, rapidly switching to a floating exchange-rate regime would cause widespread instability.
  - In the short term, the Chinese government holds the currency reserves it needs to continue guiding the yuan. Beijing should favour higher interest rates and tighten capital controls.

- **Focus on the United States: Business tax cuts could narrow corporate spreads**
  - If Paul Ryan's proposed corporate tax reform is implemented, the resulting tax cuts, the elimination of certain tax loopholes and additional deductions could provide a boost to the mining, manufacturing and information sectors.
  - The quality of corporate debt could be improved by tax cuts, and corporate bond issuance could decline if interest expenses are no longer deductible. These factors may lead corporate spreads to tighten.

ECONOMISTS' INSIGHT

CHINA – WHAT'S AT STAKE WITH THE YUAN

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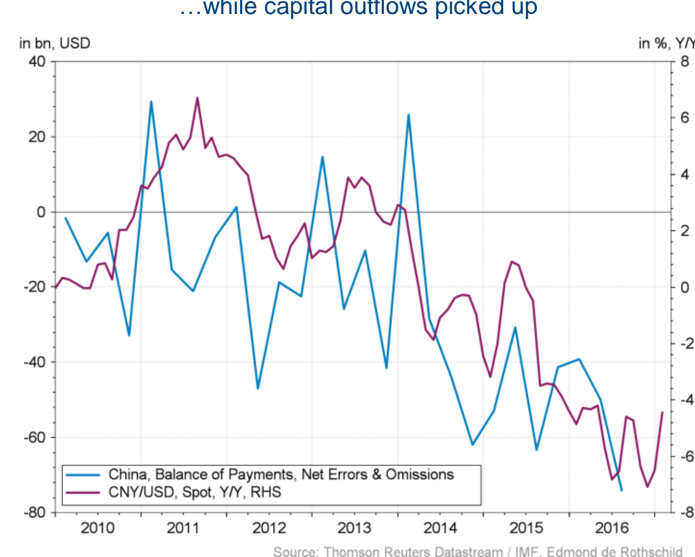
Recent manufacturing PMI indicators, which declined slightly but continue to point to expansion, show that the stability of GDP growth trends in China is well entrenched. Investors are now focussing on statistics concerning the country's foreign exchange reserves. China's reserves fell another USD 12.3 billion in January, to USD 2.998 trillion, just below the symbolic level of USD 3 trillion. The decline in January was lower than in recent months, and this is most likely the result of stricter capital controls and positive valuation effects. But it still raises questions about the minimum amount of currency reserves that China needs to (i) maintain its net international investment position and (ii) support the yuan.

As to the first concern, China's foreign exchange reserves appear to be sufficient, as they cover 220% of total external debt. The second point is less clear. There is no formal rule that sets the minimum level of currency reserves, but the International Monetary Fund's (IMF) recommendations serve as useful

guidelines. They set a suitable level of reserves for a given country, taking into account its exchange-rate regime (which for China is fixed, or, to use the IMF's terminology, a crawl-like arrangement) and the level of capital account openness (allegedly closed in China). Under this methodology, China's ratio is close to 165%, which is above the IMF's recommendation of 100-150%. In other words, China should have at least USD 1.750 trillion in foreign exchange reserves. This means the government still has some room for manœuvre.

China's currency reserves dropped below USD 3 trillion…

…while capital outflows picked up



In the longer term, however, China cannot afford to support its currency indefinitely. Declining currency reserves make investors wary of how much more the People's Bank of China (PBoC) can do, and this in turn puts downward pressure on the yuan, forcing the PBoC to dig further into its reserves. It is a vicious cycle. For this reason, **the speed at which China's reserves are dropping is a cause for concern. If they fall too fast, the monetary authorities will have to take firmer action, and this will feed the market's fears about the yuan**. We can look to the net errors & omissions line of the country's balance of payments for an estimate of how much capital is leaving China – often via indirect routes that bypass capital controls. Not only do these capital outflows show that the capital account is not completely closed, but that the outflows themselves have increased in recent quarters (see right-hand chart). If China's capital balance were open, the country would need a minimum of around USD 2.850 trillion in currency reserves according to the IMF's methodology – a figure that is not far from the current level. The **minimum level of foreign exchange reserves needed in China is probably somewhere between these two figures (USD 1.750 trillion and USD 2.850 trillion). This means the Chinese authorities have a cushion, but it also shows that the current policy for managing the yuan cannot be maintained for much longer**.

The Chinese government is probably going to step up its efforts in the area of capital controls. By reducing outflows, the government can hope to ease downward pressure on the yuan. Capital controls have indeed tightened in recent months: individuals and companies now have more paperwork to complete in order to conduct foreign currency transactions. In the long term, **a more closed capital account is not a lasting**

solution. It would run counter to the country's internationalisation and deprive the country of the capital it needs to expand its economy. That said, in the medium term this option looks more reasonable than suddenly switching the yuan to a floating exchange-rate regime. Such a switchover would cause widespread instability by allowing massive capital outflows that would drive up refinancing costs in a debt-laden financial system. The upcoming political transition for Xi Jinping at the end of 2017 makes the latter option even more unlikely. Donald Trump could also use such a move to accuse China of being a currency manipulator.

In addition to tightening its capital controls, the Chinese government is likely to keep interest rates high. A number of market interest rates were recently raised, in part to clamp down on shadow bank lending, and the amount of liquidity injected into the financial system was reduced. These two moves should help reduce downward pressure on the yuan by narrowing the interest-rate spread with other regions, including the United States. Measures of this type should continue over the coming weeks. We would add that, early in the new year, many Chinese households have probably already exercised their right to convert the equivalent of USD 50,000 per year into foreign currencies. This effect should gradually peter out over the coming months. These factors point to a moderate depreciation by the yuan against the dollar: we forecast an exchange rate of 7.20 against the dollar at the end of 2017. The yuan could drop more sharply, however, if the Fed picks up the pace of its monetary tightening or if Donald Trump pursues a tough protectionist line against China. The repatriation of profits by US companies could also work against the yuan. The Chinese government’s real challenge lies in the structural reforms needed to transition the yuan to a floating exchange-rate regime without triggering massive capital outflows. We will come back to this point in the coming weeks.

In Switzerland, the Corporate Tax Reform Act III was rejected by 59.1% of voters, who considered it overly generous to companies and an undue burden on public finances. The reform plan’s proponents and opponents, who agree on the need to eliminate preferential tax regimes that do not comply with international standards, must now scramble to find a compromise tax reform package. Until that happens, the uncertainty surrounding the future corporate tax system is likely to weigh on investments by multinational companies in Switzerland. This outcome will also complicate relations with the European Union at a time when the EU is compiling a list of tax havens. This blacklist should be adopted at the end of 2017.

FOCUS ON THE UNITED STATES

TAX CUTS COULD NARROW CORPORATE SPREADS

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The US president raised the topic of corporate tax cuts in a recent meeting with business leaders. **The tax reform plan proposed by Paul Ryan** (speaker of the House) **and Kevin Brady** (chairman of the Ways and Means Committee) **appears likely to pass because it meets Mr Trump's political objectives and those of congressional Republicans.** It includes measures to lower corporate taxes from 35% to 20%, eliminate deductions for interest expenses and allow fixed capital investments to be directly deducted (as opposed to the current system of depreciation deductions; see table below). One issue that is causing a stir is the border tax adjustment (see box on the next page), which is part of the same draft and aims to remove taxes on exports and to tax imports. For the government, the rise in revenues from taxes on imports (which outweigh exports) is forecast to be USD 120 billion per year. This would partly offset the loss from lower corporate taxes, which is estimated at USD 180 billion[1] per year. Mr Trump has not yet been won over, but since the plan is likely to make it through Congress, his approval is essential.

Our analysis shows that the tax cuts will provide a boost to some sectors, which will benefit from new tax loopholes, while other sectors will lose their tax loopholes. More broadly, the proposed measures should improve corporate balance sheets and, thus, the quality of corporate debt.

	CORPORATE TAX REFORM : Major changes
1	**Reduce the corporate tax from a statutory rate of 35% to 20%.**
2	**Full and immediate write-offs of corporates' investments in both tangible and intangible assets (vs amortization).**
3	Limit the taxation of small businesses organized as sole proprietorships or pass-through entities (under the regime of individual taxes) to 25%.
4	Reduce the tax on dividend and captial gains of individual shareholders.
5	Repeal the corporate alternative minimum tax (AMT).
6	**Eliminate deductions for net interest.**
7	Provide a business credit to encourage R&D.
8	**Provide border adjustments exempting exports and taxing imports.**
9	End worldwide tax approach of the United states and replace it with a territorial tax system that is consistent with the approach of major trading partners.
10	Provide rules that will allow foreign earnings that have accumulated overseas to be brought home. They will be subject to a one-time tax at 8.75% if held in cash and 3.5% otherwise.

[1] Estimates by the Peterson Institute, *Border Tax Adjustments: Assessing Risks and Rewards,* January 2017

Border tax adjustment

Under a destination-based tax system, imports are not tax-deductible while exports are tax-exempt. The aim is to collect taxes where the products are sold (if a US good is sold in France, it will be subject to French value-added tax (VAT). The VAT rate would be applied to a lower price than before, however, because the product would not be subject to an export tax from the United States). **The system effectively subsidises exports and taxes imports. If adopted, the United States would be shifting towards the approach used by most OECD member states, which apply a value-added tax** but do not levy an export tax.

The United States has been running a trade deficit since the 1980s, with imports outpacing exports. All other things being equal, and without adjusting the dollar, a 20% import tax would boost the government's tax revenues by USD 120 billion per year (see the Peterson Institute's calculations below).

2016 imports: USD 2.738 trillion * 20% corporate tax = USD 548 billion

2016 exports: USD 2.138 trillion * (-20%) corporate tax = -USD 428 billion.

= USD 120 billion in additional tax revenues over the year

The after-tax price of imports would thus be 25% higher than the price for an equivalent domestic product, and the after-tax price of exports would be 25% lower.[1] Of course, **exchange rates would quickly adapt** and redress this imbalance. If the dollar rises by 20%, fully offsetting the country's competitive advantage, importers would no longer be harmed by higher prices, and exporters would no longer benefit from lower export prices, since the more expensive dollar would cancel out the tax exemption.

[1] If a company wants to buy a product for USD 1,000 abroad, it will not be tax-deductible, yet if the company buys the same product in the United States for USD 1,000, it will be tax-deductible and the company will recover 20% of its value. The after-tax cost of the domestic good is thus USD 800 versus USD 1,000 for the imported good, i.e. 25% more expensive.

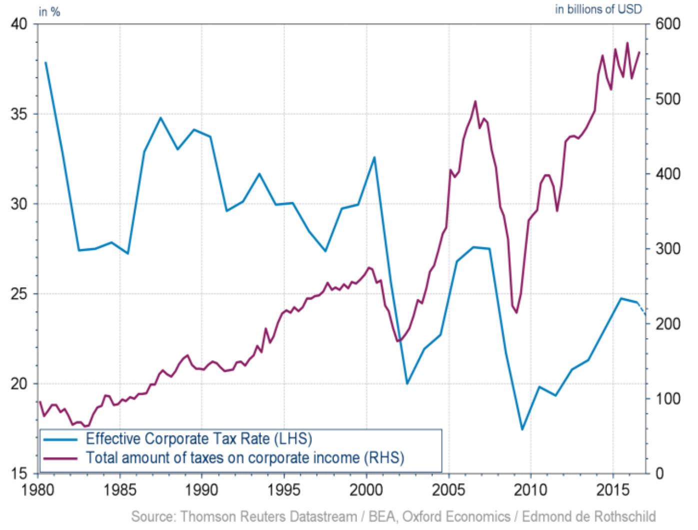
SCENARIO 1	SCENARIO 2	SCENARIO 3
Border tax adjustment is considered an indirect tax and is therefore compatible with WTO rules.		The border tax adjustment is considered a direct tax and is therefore not compatible with WTO rules.
If the **dollar rises 20%** and offsets the exporters' advantage and the importers' disadvantage, then:	If the **dollar does not rise much or at all** and does not offset the exporters' advantage and the importers' disadvantage, then:	The case would take at least four years to resolve.
Inflation would not be affected by the new tax system.	Import prices increase, as well as **inflation** in the United States. --> low-income consumers will be penalised. --> high-income consumers will increase their savings.	
The **trade deficit** does not shrink. The rise in the dollar offsets the rise in the price of imported goods subject to the tax, and so imports don't decline. The stronger dollar also offsets the decline in export prices (-20% in taxes), and so exports do not increase.	The **trade deficit** shrinks because exports increase (since they are tax-exempt) and imports decline (since they are taxed). Tax receipts on imports could decline too, thus reducing federal revenues.	
Negative impact: - Companies do not move operations back to the United States. - The value of foreign-currency-denominated stocks, bonds and real estate held by Americans would decline (wealth effect).	**Negative impact**: Importers (e.g. retailers) would see their margins shrink further. **Positive impact**: Some companies with a limited need for imports could decide to move their operations to the United States in order to benefit from lower taxes.	

The main goals of the tax reform:

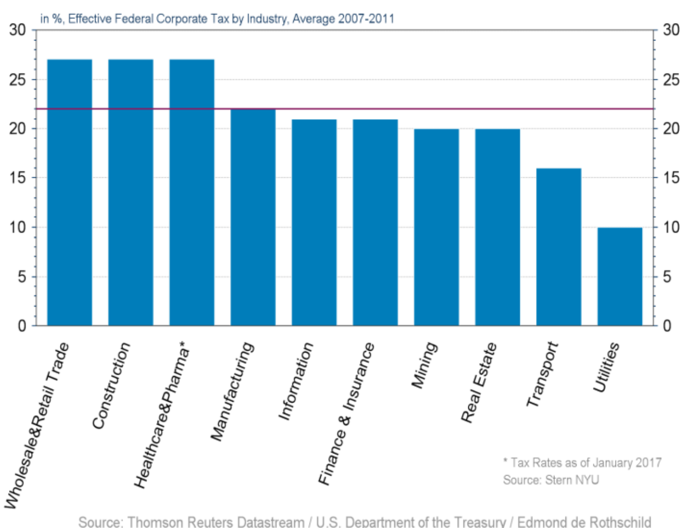
- **To limit the practice of tax inversion (see table on page 4: (1)(9)(10)).** The United States currently has a 'worldwide' tax system under which subsidiaries of US companies located outside the country are still subject to US corporate taxes, which are among the highest in the world. This has led many US companies to move their headquarters to another country and simply set up a subsidiary in the United States – hence the 'inversion'. The proposed corrective measure would replace the 'worldwide' tax system with a 'territorial' one, meaning that the US government would stop levying taxes on the foreign operations of US companies while at the same time reducing the territorial tax rate.
- **To limit offshoring (8).** The aim of the border tax adjustment would be to discourage foreign production by taxing imports. That said, if the dollar were to appreciate and neutralise this disadvantage, offshoring would continue.
- **To limit the transfer of US revenues to tax-advantaged countries (1)(10).** More than USD 2.0 trillion in US corporates' profits are estimated to sit outside the United States. Some companies could be persuaded to repatriate these foreign profits if they were taxed at a one-time rate of 8.75%.

Corporate tax rates only apply to 25% of US companies. Sole proprietors and owners of pass-through entities are taxed individually on their revenues, which avoids double taxation (corporate tax + dividend tax).

The effective tax rate was 24% in 2016



The effective tax rate varies by sector



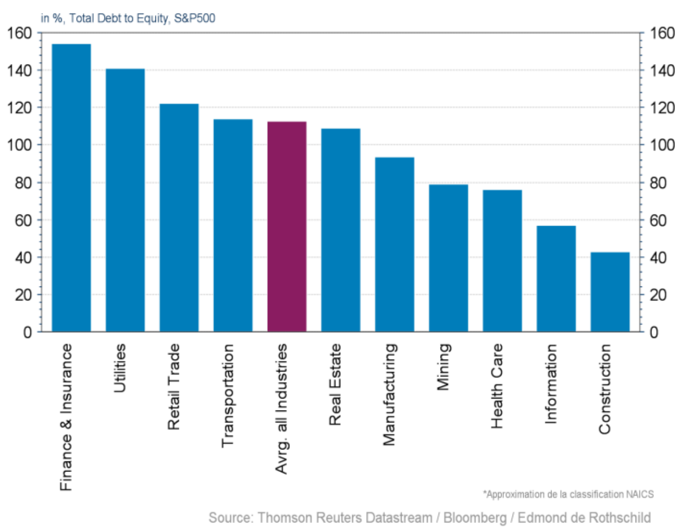
For companies affected by corporate taxes, the effective tax rate varies widely from one sector to another[2] (see charts). Some sectors, like utilities and real estate, enjoy more tax loopholes than others and

[2] This is a general analysis that does not take into account potential tax advantages for individual companies.

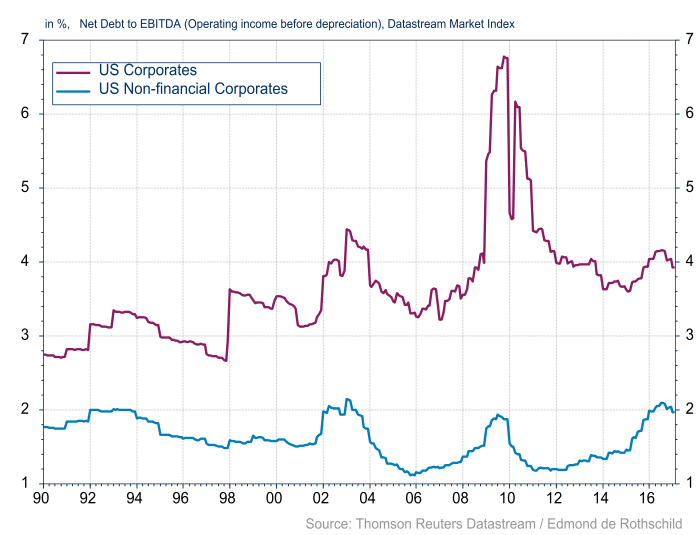
end up paying less in taxes. If the Ryan-Brady tax plan is implemented, the sectors are likely to find themselves on more equal footing.

1. **Sectors characterised by high levels of debt would be penalised by the elimination of interest-expense deductions.** As seen in the left-hand chart below, the finance & insurance, utilities, retail trade and transportation[3] sectors have above-average levels of debt and could be tax-disadvantaged under the new plan.

The finance, utilities and retail trade sectors carry the most debt



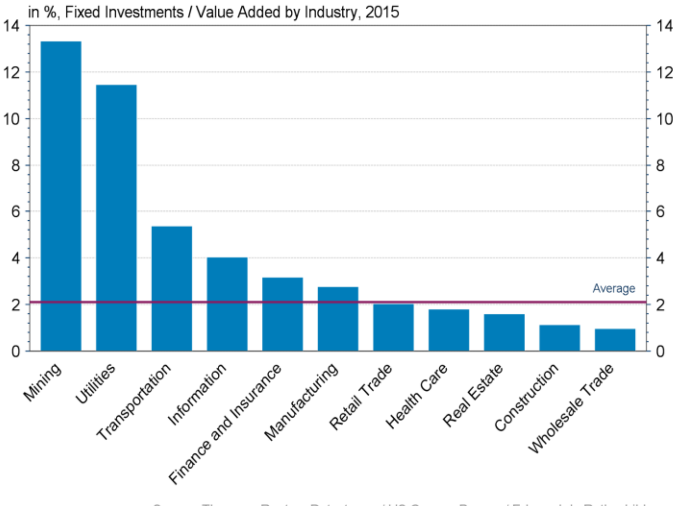
Net debt/EBITDA was 4% on average at end-2016



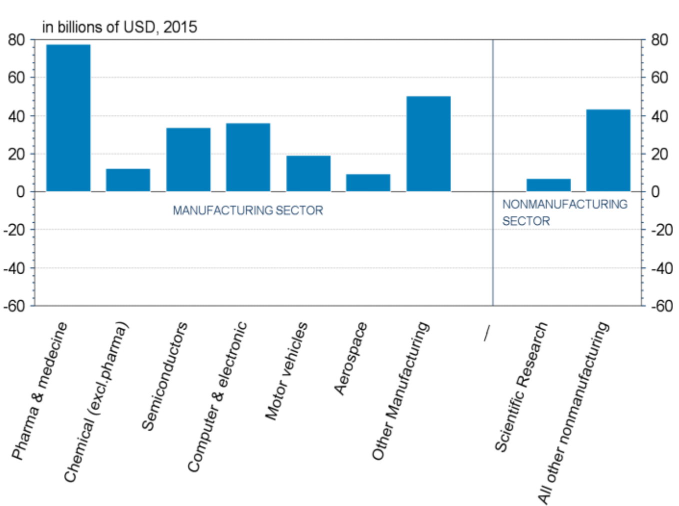
2. **Capital-intensive companies would benefit from the ability to directly deduct purchases of machines and equipment,** rather than depreciating them over several years. The mining, utilities and transportation sectors stand to gain the most, since they are highly capital intensive (see left-hand chart on the next page). In addition, sectors that invest heavily in R&D, such as the pharmaceutical sector, could get a boost from the tax credits included in the plan.

[3] The North American Industry Classification System (NAICS) is used in this analysis.

The mining, utilities and transportation sectors are highly capital intensive



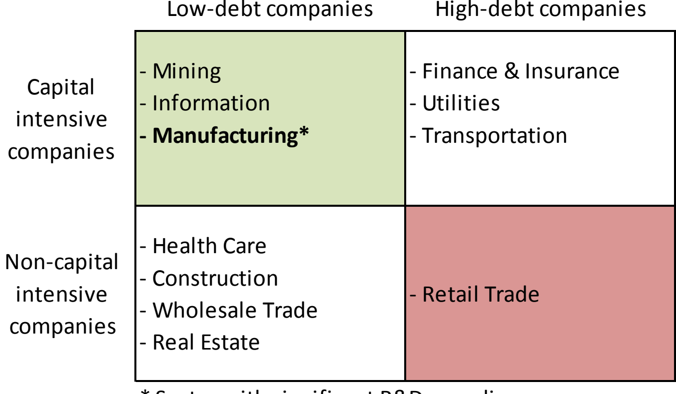
R&D spending is particularly high in the manufacturing sector



3. **Export-oriented sectors would be helped by the removal of export taxes under the border tax adjustment plan, although their gain could be (at least partly) offset by a rising dollar.** Sectors that rely heavily on imports would be penalised. This is why manufacturers, which had net imports of nearly USD 70 billion in 2016, are opposed to the border tax adjustment.

Altogether, the mining, information and manufacturing[4] sectors should benefit from the ability to fully deduct fixed capital investments. What's more, they should not be affected by the elimination of the interest-expense deduction, since these sectors do not carry a high level of debt (see the matrix below). The manufacturing sector also stands to gain from tax credits on their R&D spending.

The mining, information and manufacturing sectors could be the big winners under the tax reform

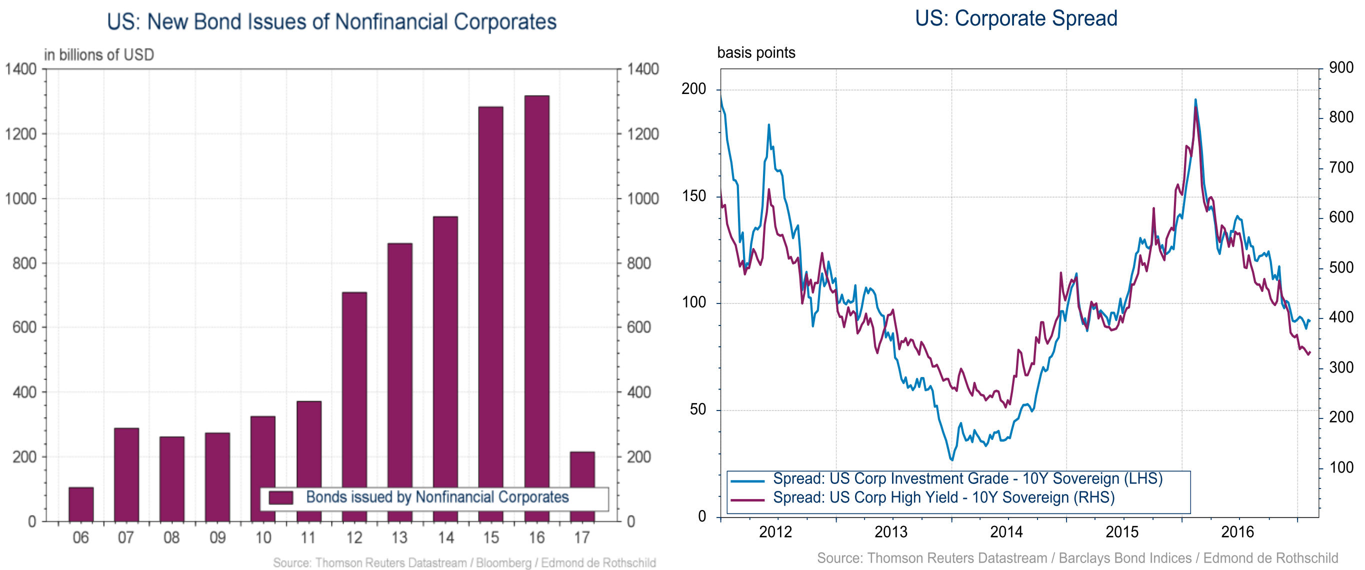


	Low-debt companies	High-debt companies
Capital intensive companies	- Mining - Information - **Manufacturing***	- Finance & Insurance - Utilities - Transportation
Non-capital intensive companies	- Health Care - Construction - Wholesale Trade - Real Estate	- Retail Trade

* Sector with significant R&D spending

[4] Manufacturing of Food, Beverage, Textile, Apparel, Wood Product, Paper, Chemical, Plastics, Metal products, Machinery, Electrical Equipment, Furniture

Overall, a decline in tax rates should increase companies' cash flows, making it easier to cover their debt servicing costs. The inability to deduct interest expenses could discourage companies that are already highly leveraged, having taken advantage of the low interest rate environment, from taking on further debt. In 2016, a total of USD 1.317 trillion in non-financial corporate bonds was issued, which is 2.7% more than the previous year (see left-hand chart). If new debt issues were to slow, corporate solvency and credit ratings could improve, which would tend to narrow corporate spreads. In addition, carry trades may well continue to put downward pressure on US yields. The loose monetary policies followed by the European Central Bank and the Bank of Japan, among others, are leading investors to look for higher yields in the United States. **If the Ryan-Brady plan is enacted, improving debt ratios, reduced bond issues and ongoing carry trades could further compress investment grade and high yield bond spreads (see right-hand chart).**



Conclusions:

- Tax cuts, the elimination of certain tax loopholes and a number of new deductions could shake things up across the various sectors. Our analysis suggests that the mining, information and manufacturing sectors could be the big winners.
- If the border tax adjustment is implemented – meaning imports are taxed and exports are not taxed – the dollar could rise by 20%. This would run counter to one of the main goals of the tax plan, i.e. 're-onshoring' companies.
- If the entire tax plan is adopted, improving corporate credit ratings and reduced bond issues could further compress corporate spreads.
- Facing a budget deficit of USD 579 billion, Congress can be expected to approve the plan, as long as it doesn't add (too much) to the deficit. The plan's proponents hope that the tax reform will boost GDP growth enough to reduce the level of debt in the economy.

ANNEX 1 – LATEST CHANGES ON THE FINANCIAL MARKETS

PERFORMANCE IN LOCAL CURRENCY	LAST PRICE	WEEKLY RETURN	MONTHLY RETURN	YEAR-TO-DATE RETURN	1-YEAR RETURN
Equities					
World (MSCI)	441	1.4%	2.3%	4.7%	23.5%
United States (S&P 500)	2'325	1.6%	2.5%	4.2%	24.7%
Euro Area (DJ EuroStoxx)	355	2.1%	0.2%	1.5%	21.7%
United Kingdom (FTSE 100)	7'272	1.5%	-0.7%	2.0%	27.4%
Switzerland (SMI)	8'438	1.6%	0.1%	3.0%	10.2%
Japan (Nikkei)	19'239	2.5%	0.9%	1.8%	28.7%
Emerging Markets (MSCI)	935	1.4%	4.4%	8.5%	31.5%
Sovereign Bonds					
United States (7-10 Yr)	2.50%	-0.3%	-0.1%	0.3%	-3.1%
Euro Area (7-10 Yr)	0.38%	0.7%	-1.5%	-2.4%	-1.0%
Germany (7-10 Yr)	0.38%	0.3%	0.1%	-0.5%	1.1%
United Kingdom (7-10 Yr)	1.33%	0.1%	0.7%	-0.2%	2.9%
Switzerland (7-10 Yr)	-0.07%	0.1%	-0.1%	-0.1%	-0.7%
Japan (7-10 Yr)	0.10%	0.2%	-0.5%	-0.5%	-0.1%
Emerging (5-10 Yr)	4.78%	0.4%	1.1%	1.9%	11.7%
Corporate Bonds					
United States (IG Corp.)	3.35%	0.0%	0.0%	0.6%	6.3%
Euro Area (IG Corp.)	0.72%	0.1%	0.2%	-0.1%	3.9%
Emerging (IG Corp.)	4.02%	0.3%	1.2%	1.8%	9.5%
High-Yield Bonds					
United States (HY Corp.)	5.79%	0.2%	1.2%	2.4%	25.4%
Euro Area (HY Corp.)	2.71%	0.2%	0.6%	1.1%	13.5%
Emerging (HY Corp.)	6.32%	0.4%	2.1%	3.6%	25.8%
Convertible Bonds					
United States (Convert. Barclays)	48	0.7%	3.3%	5.1%	21.9%
Euro Area (Convert. Exane)	7'511	1.1%	0.6%	0.6%	8.8%
Commodities					
Commodities (CRB)	430	0.1%	-0.7%	2.0%	16.9%
Gold (Troy Ounce)	1'223	-1.0%	1.6%	6.0%	1.1%
Oil (Brent, Barrel)	55	-0.5%	-0.2%	-0.6%	71.7%
Currencies					
Dollar Index	101.3	1.0%	0.1%	-0.9%	5.5%
EURUSD	1.06	-1.1%	-0.4%	0.4%	-5.3%
GBPUSD	1.25	-0.5%	3.4%	0.9%	-13.7%
USDCHF	0.99	1.0%	-0.4%	-1.1%	2.1%
USDJPY	0.0	1.7%	0.1%	-2.3%	-0.2%

Source : Bloomberg

ANNEX 2 – MAIN ECONOMIC INDICATORS

Main Economic Indicators - Released (6 - 3 February) and to be released (13 - 17 February)

US

Date	Indicator	Period	Consensus	Actual	Prior	Revised
15/02	CPI, YoY	Jan.	2.1%	-	2.1%	-
15/02	Core CPI, YoY	Jan.	2.2%	-	2.2%	-
15/02	Retail Sales, MoM	Jan.	0.2%	-	0.6%	-
15/02	Industrial Production, MoM	Jan.	0.1%	-	0.8%	-
15/02	Manufacturing Production, MoM	Jan.	-	-	0.2%	-
16/02	Housing Starts, month	Jan.	1226k	-	1226k	-
16/02	Building Permits, month	Jan.	1235k	-	1210k	1228k

Euro zone

Date	Indicator	Period	Consensus	Actual	Prior	Revised
13/02	European Commission Economic Forecasts					
14/02	Industrial Production, MoM	Dec.	-	-	1.5%	-
14/02	GDP, QoQ	Q4 P	-	-	0.5%	-
14/02	GDP, YoY	Q4 P	-	-	1.8%	-
16/02	ECB account of the monetary policy meeting					

Germany

Date	Indicator	Period	Consensus	Actual	Prior	Revised
06/02	Factory Orders, MoM	Dec.	0.5%	-	-2.5%	-
07/02	Industrial Production, MoM	Dec.	0.4%	-	0.4%	-
14/02	GDP, QoQ	Q4 P	-	-	0.2%	-
14/02	GDP, YoY	Q4 P	-	-	1.7%	-
14/02	HICP, YoY	Jan. F	-	-	1.9%	-
14/02	ZEW Survey Current Situation, month	Feb	-	-	77.3	-
14/02	ZEW Survey Expectations, month	Feb	-	-	16.6	-

France

Date	Indicator	Period	Consensus	Actual	Prior	Revised
10/02	Manufacturing Production, MoM	Dec.	-	-	2.3%	-

Switzerland

Date	Indicator	Period	Consensus	Actual	Prior	Revised
07/02	Foreign Reserves, CHF, month	Jan.	-	-	645.3b	-
09/02	Unemployment Rate, month	Jan.	-	-	3.3%	-
14/02	CPI, YoY	Jan.	-	-	0.0%	-

UK

Date	Indicator	Period	Consensus	Actual	Prior	Revised
07/02	Halifax House Price Index, MoM	Jan.	0.2%	-	1.7%	-
07/02	Halifax House Price Index, YoY	Jan.	5.8%	-	6.5%	-
09/02	RICS House Price Balance, month	Jan.	24.0%	-	24.0%	-
10/02	Visible Trade Balance £Mln, month	Dec.	-£11250	-	-£12163	-
10/02	Manufacturing Production, MoM	Dec.	0.2%	-	1.3%	-
10/02	NIESR GDP Estimate, QoQ	Jan.	-	-	0.5%	-
14/02	CPI, YoY	Jan.	-	-	1.6%	-
14/02	Core CPI, YoY	Jan.	-	-	1.6%	-
15/02	ILO Unemployment Rate, month	Dec.	-	-	4.8%	-
17/02	Retail Sales Inc. Auto Fuel, MoM	Jan.	-	-	-1.9%	-

Japan

Date	Indicator	Period	Consensus	Actual	Prior	Revised
13/02	GDP, QoQ	Q4 P	0.3%	-	0.3%	-
13/02	GDP, YoY	Q4 P	-	-	1.1%	-

China

Date	Indicator	Period	Consensus	Actual	Prior	Revised
07/02	Caixin China PMI Composite, month	Jan.	-	-	53.5	-
07/02	Caixin China PMI Services, month	Jan.	-	-	53.4	-
07/02	Foreign Reserves, month	Jan.	$3003.5b	-	$3010.5b	-
10/02	Imports, YoY	Jan.	9.8%	-	3.1%	-
10/02	Exports, YoY	Jan.	3.2%	-	-6.1%	-6.2%
10/02	Trade Balance USD, month	Jan.	$48.20b	-	$40.82b	$40.71b
10/02	M2 Money Supply, YoY	Jan.	11.3%	-	11.3%	-
10/02	New Yuan Loans CNY, month	Jan.	2340.0b	-	1040.0b	-
14/02	CPI, YoY	Jan.	2.4%	-	2.1%	-

ANNEX 3 – OUR GDP GROWTH AND INFLATION FORECASTS

GDP GROWTH IN VOLUME (%)	2013	2014	2015	2016f	Consensus	2017f	Consensus	2018f	Consensus
United States	1.7	2.4	2.6	1.5	1.6	2.0	2.2	2.3	2.2
Japan	1.4	0.0	0.6	0.7	0.6	1.0	0.8	0.7	0.7
Eurozone	-0.2	1.2	1.9	1.6	1.6	1.6	1.3	1.5	1.5
Germany	0.4	1.6	1.5	1.8	1.8	1.6	1.4	1.6	1.5
France	0.6	0.7	1.2	1.3	1.2	1.4	1.2	1.3	1.3
Italy	-1.7	0.2	0.6	0.7	0.8	0.6	0.8	0.8	1.0
Spain	-1.7	1.4	3.2	3.2	3.3	2.5	2.3	2.3	2.1
Luxembourg	4.2	4.7	3.5	3.6	3.4	3.7	3.0	4.0	2.9
Europe ex-Eurozone									
United Kingdom	1.9	3.1	2.2	2.0	2.0	0.2	1.0	1.0	1.5
Switzerland	1.8	2.0	0.8	1.4	1.5	1.5	1.5	1.6	1.6
Israel	4.4	3.2	2.5	3.2	3.1	3.3	3.1	3.2	3.2
Emerging countries	5.1	4.7	3.7	3.8		4.7		4.5	
China	7.8	7.3	6.9	6.7	6.7	6.4	6.4	5.8	6.0
Brazil	3.0	0.1	-3.8	-3.4	-3.3	0.5	1.0	1.4	2.0
India	6.6	7.2	7.6	7.3	7.5	7.4	7.3	7.7	7.6

CONSUMER PRICE INDEX (%)	2013	2014	2015	2016f	Consensus	2017f	Consensus	2018f	Consensus
United States	1.5	1.6	0.1	1.3	1.3	2.0	2.3	2.2	2.4
Japan	0.4	2.7	0.8	-0.1	-0.2	0.5	0.5	1.0	1.0
Eurozone (HCPI)	1.3	0.4	0.0	0.2	0.2	1.4	1.3	1.5	1.5
Germany	1.6	0.8	0.1	0.4	0.4	1.4	1.5	1.4	1.5
France	1.0	0.6	0.1	0.2	0.3	1.0	1.3	1.2	1.4
Italy	1.2	0.2	0.1	0.0	0.0	1.2	1.2	1.4	1.4
Spain	1.5	-0.2	-0.6	-0.3	-0.4	1.5	1.6	1.7	1.6
Luxembourg	1.7	0.7	0.1	0.0	0.2	1.5	1.9	1.8	1.5
Europe ex-Eurozone									
United Kingdom	2.6	1.5	0.0	0.7	0.7	3.5	2.5	3.0	2.4
Switzerland	-0.2	0.0	-1.1	-0.4	-0.4	0.5	0.3	0.7	0.7
Israel	1.5	0.5	-0.6	-0.5	-0.5	1.1	-	1.7	-
Emerging countries	3.3	3.1	3.7	2.7		3.4		3.4	
China	2.6	2.0	1.4	2.0	2.0	2.3	2.2	2.2	2.1
Brazil	6.2	6.3	9.0	8.8	8.8	6.1	5.4	5.9	4.6
India	10.7	6.7	4.9	5.1	4.9	5.3	4.8	5.1	5.0

ANNEX 4 – OUR INTEREST-RATE AND CURRENCY FORECASTS

KEY INTEREST RATES (%)*	2013	2014	2015	2016f	Consensus	2017f	Consensus	2018f	Consensus
United States	0.25	0.25	0.50	0.75	0.75	1.25	1.30	1.75	-
Japan	0.10	0.10	0.10	-0.10	0.00	-0.10	-0.10	-0.10	-
Eurozone	0.25	0.05	0.05	0.00	0.00	0.00	0.00	0.00	-
Europe ex-Eurozone									
United Kingdom	0.50	0.50	0.50	0.25	0.25	0.25	0.25	0.25	-
Switzerland	0.00	-0.25	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-
Israel	1.00	0.25	0.10	0.10	0.10	0.25	-	0.50	-
Emerging countries									
China	6.00	5.60	4.35	4.35	4.35	4.05	4.35	3.80	-
Brazil	10.00	11.75	14.25	13.75	13.75	11.00	10.50	9.50	-
India	7.75	8.00	6.75	6.50	6.15	6.00	6.00	5.75	-

*data at end of period

EXCHANGE RATE**	2013	2014	2015	2016f	Consensus	2017f	Consensus	2018f	Consensus
Dollar									
EUR/USD	1.37	1.20	1.08	1.11	1.12	1.06	1.08	1.08	-
USD/JPY	105	120	120	109	108	113	109	118	-
GBP/USD	1.66	1.56	1.47	1.35	1.35	1.18	1.23	1.20	-
USD/CHF	0.89	0.99	1.00	0.98	0.98	1.02	1.02	1.02	-
USD/CNY	6.05	6.21	6.49	6.67	6.90	7.05	7.10	7.40	7.13
Euro									
EUR/JPY	144	144	130	121	120	120	117	127	-
EUR/GBP	0.83	0.77	0.73	0.83	0.82	0.90	0.88	0.90	-
EUR/CHF	1.23	1.20	1.09	1.09	1.09	1.08	1.09	1.10	-
EUR/SEK	8.85	9.44	9.17	9.47	9.49	9.58	9.45	9.45	-

**yearly average

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