EDMOND DE ROTHSCHILD

WEEKLY ECONOMIC INSIGHTS

29 JANUARY 2018 – THE WEEKLY OF THE ECONOMIC RESEARCH TEAM

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HIGHLIGHTS OF THE WEEK

Economist insights: The ECB remains accommodative, acceleration in growth and introduction of trade tariffs in the US (p.1)

- Euro zone: The outlook for the economic activity continued to improve. The ECB confirmed however that it intends to maintain an accommodative monetary policy, as we expected
- United States: Year-on-year GDP growth continued to accelerate in Q4 2017, driven by a sharp increase in corporate investment. The trend should continue in 2018
- The Trump administration announced it would impose trade tariffs on certain categories of goods imported to the US
- Comments by the US Secretary of Commerce and the economic advisor to Xi Jinping nevertheless downplayed the risk of a trade war, which would be mutually destructive

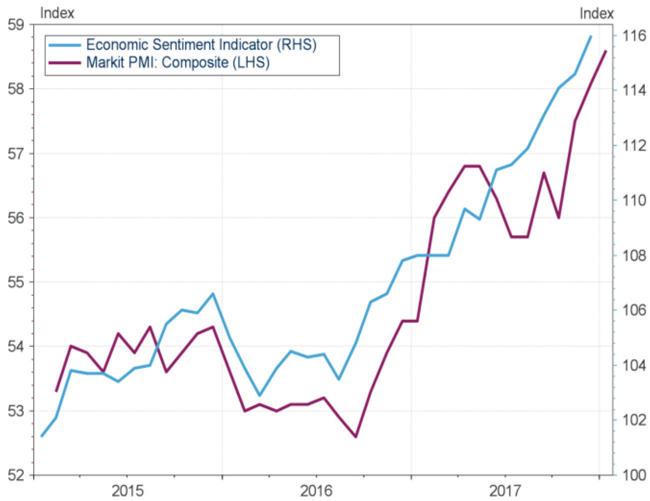
THE ECB MAINTAINS ITS COURSE, ACCELERATION IN GROWTH AND NEW US TRADE TARIFFS

EURO ZONE – THE ECONOMIC OUTLOOK CONTINUES TO IMPROVE; THE ECB HAS TAKEN NOTE BUT CONFIRMED THAT IT INTENDS TO MAINTAIN AN ACCOMMODATIVE MONETARY POLICY

Euro zone purchasing manager surveys were once again robust in January: according to the composite PMI, economic growth in the euro zone is currently at its strongest level in close to 12 years. At 58.6, the indicator has thus returned to its pre-crisis level for the first time. France and Germany contributed the most to this good economic trend. The French composite index continued to climb, reaching 59.7, while the German index dropped slightly, but remained at a high level at 58.8. As a result of the dynamic business trend and favourable outlook, recruitment by companies was strong in January. Employment growth was at its highest level since 2000, driven by both the manufacturing and services sectors. This is set to drive yearly wage growth, which was already at 1.7% in Q3 2017, its highest level since 2013. In addition, purchasing and selling price indices both reached their highest level since 2011.

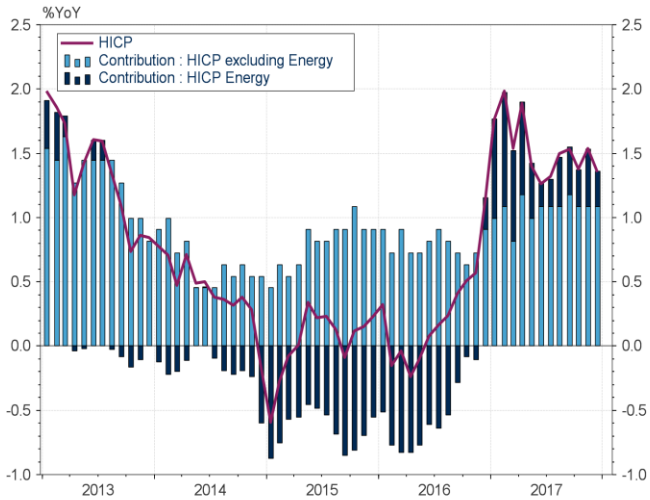
Nevertheless, this economic momentum has not led to an acceleration in inflation. Indeed, underlying inflation remained at 0.9% in December for the third month in a row, hence slightly below its 2017 average of 1.0%. This weak increase in prices can partly be explained by the appreciation in the euro by more than 9% since April 2017 vs. a basket of currencies, which weighs on the prices of imported goods. Imported inflation was thus only 1.0% in November vs. 3.2% in April 2017.

In January, the composite PMI returned to its pre-crisis level



Source: Thomson Reuters Datastream / EC Markit, Edmond de Rothschild Economic Research

Despite the economic momentum, inflation remains contained



Source: Thomson Reuters Datastream / Eurostat, Edmond de Rothschild Economic Research

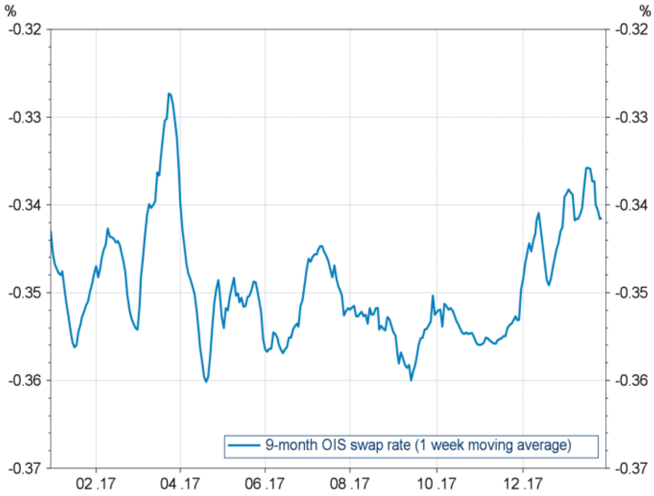
Given this context, the ECB's monetary policy meeting of 25 January was eagerly anticipated. The minutes of the December meeting, published on 11 January, indicated that a broad consensus among its members believed that if the economy were to continue to expand, the ECB should revise its communication at the start of 2018. The minutes were considered to be a hawkish signal, indicating that the ECB might gradually make its policy less accommodative. This publication, along with the continued improvement in confidence surveys in the euro zone, contributed to strengthening rate expectations and supported the euro (see charts, p. 3).

Following its January meeting, the ECB, unsurprisingly, maintained its monetary policy unchanged:

- its deposit facility and refinancing rates were maintained at -0.40% and 0.00%, respectively;
- it confirmed its intention to continue its asset purchases at a monthly pace of EUR30 billion up to September 2018 "and beyond, if necessary";
- it kept an accommodative bias to the asset purchase programme, reiterating that it could increase the programme in terms of size and/or duration if the outlook becomes less favourable;

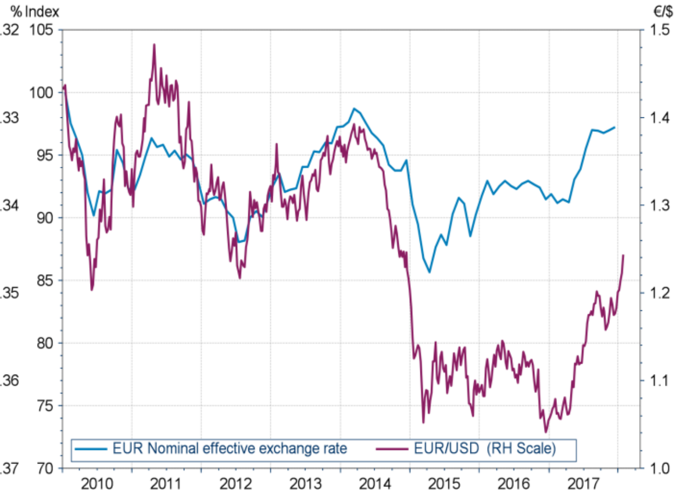
- it maintained its forward guidance on interest rates, indicating they would remain at current levels for an extended period of time, and well past the horizon of the net asset purchases;
- likewise, it confirmed its forward guidance with regard to the reinvestment of the securities it holds when they reach maturity, stating that it would continue them "for an extended period of time after the end of its net asset purchases, and in any case for as long as necessary".

Robust economic statistics and publication of the minutes of the ECB's December meeting



Source: Thomson Reuters Datastream / Edmond de Rothschild Economic Research

...supported rate expectations and the euro exchange rate



Source: Thomson Reuters Datastream / Edmond de Rothschild Economic Research

During his press conference, M. Draghi opted for a confident but still dovish communication. Thus, while he acknowledged the improvement in the growth outlook of the euro zone, indicating that it strengthens the ECB's confidence in a rise in inflation over the medium term toward its target of 2.0%, he nevertheless added that there are still no convincing signs of a sustained upward trend in inflation. Moreover, as he had in September 2017, he highlighted that the exchange rate trend, i.e. the rise in the euro, represents a source of uncertainty that the ECB would monitor, as it could weigh on the medium-term inflation outlook.

In particular, during the question and answer session, M. Draghi firmly stated that the ECB intends to follow the sequence indicated in its forward guidance, i.e. that it should not raise its interest rates and should continue to reinvest well past the end of its net asset purchases.

Analysis and implications:

- The ECB meeting supported our scenario of a still accommodative monetary policy. Notably, the ECB's asset purchase programme should continue up to September 2018 at the monthly pace of EUR30 billion and then be ended. The ECB is likely to maintain its key rates unchanged in 2018 and will continue its reinvestments, which will keep the size of its balance sheet at a high level, close to 38% of euro zone GDP at end-2018, according to our forecasts.

- Over the coming months, the ECB may gradually adapt its communication to confirm that it does not intend to extend its asset purchase programme beyond September, as the minutes of the December meeting tended to indicate. However, it could opt for caution and not give specific details of its intentions until Q2 2018, so as not to increase upward pressure on the euro.

- According to our scenario, the end of the asset purchase programme in H2 2018 and the maintaining of key rates at their current level would favour a steepening of the rate curve in the euro zone in 2018. Keeping the ECB's balance sheet at a high level would nevertheless limit the risk of an abrupt rise in long yields. We maintain our forecasts according to which the German 2-year and 10-year yields would stand at -0.35% and 1.00%, respectively, at end-2018.

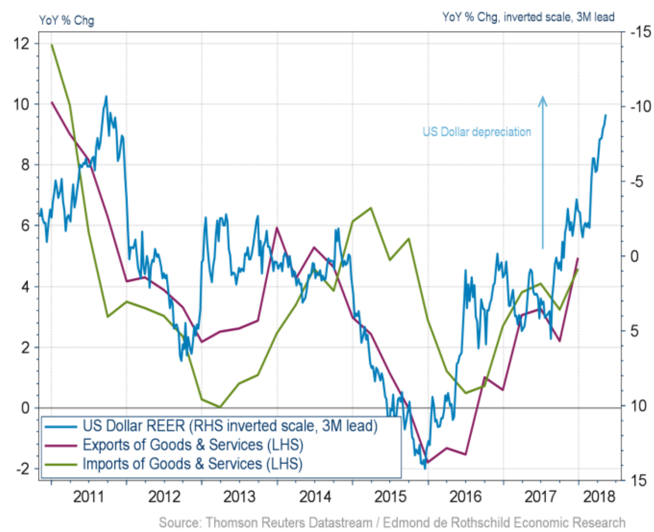
- Lastly, in light of this monetary policy outlook, we maintain our forecast that the euro could depreciate against the dollar in Q2 2018. We anticipate that at this horizon the growth differential in favour of the United States could widen once again, which would increase the gap between the rate expectations in the US and in the euro zone and would favour a rise in the dollar. We maintain our forecast of a EUR/USD exchange rate of 1.14 at end-2018.

THE UNITED STATES – CONTINUED ACCELERATION IN GROWTH AND THE INTRODUCTION OF TRADE TARIFFS

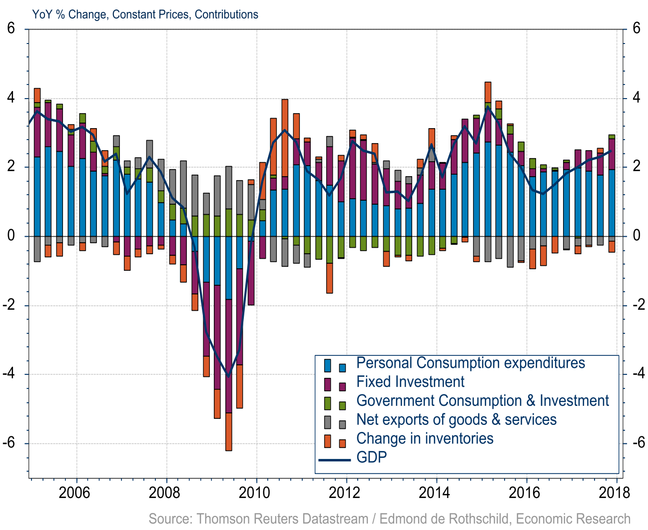
In the US, the Q4 2017 GDP publication confirmed the continued acceleration in growth already observed since end-2016. Year-on-year GDP growth increased from 2.3% in Q3 to 2.5% in Q4. While the trend in inventories and the trade balance contributed negatively to GDP growth, notably due to a strong rise in imports to meet a growing need for capital goods (see left-hand chart), domestic demand was solid: growth in corporate investment was up sharply, from 3.8% year-on-year to 5.4%, government spending increased from 0% to 0.7%, and consumption from 2.6% to 2.8%. Despite this slight acceleration in household spending in the fourth quarter, its average growth did not increase in 2017 (2.7% year-on-year) and thus did not contribute to the acceleration in GDP (see right-hand chart). The slowdown in growth of real wages, from 1.3% in 2016 to 0.4% in 2017, notably weighed on consumption.

Overall, GDP growth accelerated from 1.5% in 2016 to 2.3% in 2017, fully supported by the acceleration in business investment, above all in the energy sector. The growth outlook for 2018 should continue on the same path, as we anticipate a favourable impact of the tax reforms, mainly on business investment. The acceleration of GDP to 2.5% in 2018 should in turn enable inflation to continue to rise and reach an average of 2.3% according to our forecasts. Against this backdrop, we maintain our forecast according to which the Federal Reserve will make three 25bp hikes in its key rate in 2018, bringing it to 2.25%, and we anticipate that 10-year yields will rise to 3.05% by the fourth quarter of 2018.

Acceleration in exports in Q4 following the depreciation of the dollar, and rise in imports due to growing demand for capital goods



GDP growth in 2017 was driven by an acceleration in business investment



Moreover, the Trump administration announced it will impose trade tariffs on large washing machines for residential use as well as on solar cells and modules imported by the US, for respective periods of three and four years. The tariff on washing machines will be 50% – 20% for the first 1.2 million units imported – and will decrease by 5% each year to reach 40% the third year. This decision goes beyond the recommendations of the International Trade Commission (ITC), the US federal agency in charge of international trade issues. For solar cells and modules, the tariff will be 30% the first year before being reduced as well, to 15% in the fourth year. In 2012 and 2014, the Obama administration had already applied trade tariffs to solar panels imported from China, on the basis of dumping. These unilateral decisions are made in accordance with section 201 of the Trade Act of 1974, which allows the US President to apply restrictions on imports of certain goods if they cause significant damage to the US economy.

The measures aim to promote employment and investment in the US. They should nevertheless tend to result in a rise in the prices of these products for US consumers, as more than 80% of solar installations in the US use imported panels, most of which come from Asia. What's more, the relatively short lifespan of these trade tariffs – and their gradual reduction over the years – does not necessarily encourage US manufacturers to invest substantially in these industrial segments. The Solar Energy Industries Association estimates that these measures could lead to the destruction of 23,000 jobs in a sector that employs 260,000.

These measures mainly affect Asian imports. According to our calculations, Asia accounts for close to 85% of US imports for the two categories of goods targeted by the increased trade tariffs. However, these two categories of goods represent only 0.1% and 0.3% of exports of goods towards the US from China and South Korea, the main countries exporting these two products. While these measures will thus have a limited impact on export volumes, they raise concerns with regard to a possible trade war in the event that the US were to impose other measures to wider categories of imported goods, or if the exporting countries decided to retaliate. In response to the reactions of the United States' trade partners – South Korea announced its intention to file a complaint with the World Trade Organisation – the US Commerce Secretary brushed off the idea that the US wanted to start a trade war. Alongside these developments, Liu He, the economic advisor to Xi Jinping, announced in Davos Beijing's intention to integrate international trade rules more fully and facilitate access to its domestic market, notably in the services sector.

The next few days could provide further indications as to the intentions of the Trump administration with regard to international trade, notably potential measures relating to US imports of aluminium and steel. During his State of the Union speech on 30 January, Donald Trump could also address the subject of allegations of forced technology transfer faced by US firms operating in China. Lastly, the ongoing NAFTA negotiations could also give some direction.

Implications

- The consequences of a trade war would be destructive for all parties. This scenario appears unlikely.
- With a view to respecting his electoral promises, Donald Trump could nevertheless impose restrictions on imports of other categories of products, but which would represent only a minor part of the United States' trade exchanges. In this case, the risk of trade frictions would increase and could erode the international climate of confidence.
- We continue to expect an acceleration in US GDP growth to 2.5% in 2018, driven above all by an acceleration in investment by businesses, which will benefit from the tax reform.

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APPENDIX 1 – LATEST CHANGES ON FINANCIAL MARKETS

PERFORMANCE IN LOCAL CURRENCY	LAST PRICE	WEEKLY CHANGE	MONTHLY CHANGE	YEAR-TO-DATE CHANGE	1-YEAR CHANGE
Equities *(total return)*					
World (MSCI)	550	2.1%	7.8%	7.3%	29.3%
United States (S&P 500)	2'873	2.2%	7.3%	7.5%	27.6%
Eurozone (Euro Stoxx)	402	-0.2%	3.3%	4.3%	16.5%
Germany (DAX)	13'351	-0.7%	2.0%	3.3%	12.6%
France (CAC 40)	5'532	0.0%	3.1%	4.1%	17.0%
Spain (IBEX 35)	10'569	1.1%	4.4%	5.7%	15.2%
Italy (FTSE MIB)	23'905	0.7%	7.7%	9.5%	26.3%
Portugal (PSI 20)	5'763	1.4%	7.2%	7.1%	30.4%
United Kingdom (FTSE 100)	7'672	-0.8%	1.1%	-0.2%	11.3%
Switzerland (SMI)	9'518	0.1%	1.3%	1.4%	16.9%
Japan (Nikkei)	23'629	-0.7%	3.4%	3.8%	24.0%
Emerging Markets (MSCI)	1'273	3.3%	11.9%	9.9%	42.2%
Sovereign Bonds, 10Y *(change in basis point)*					
United States	2.70%	4.5	29.0	29.0	21.1
Eurozone	0.64%	7.8	22.0	22.0	18.4
Germany	0.64%	7.8	22.0	22.0	18.4
France	0.92%	8.2	14.3	14.3	-10.5
Spain	1.41%	2.9	-14.3	-14.3	-16.4
Italy	2.01%	8.9	0.0	0.0	-21.5
Portugal	1.94%	1.5	2.8	2.8	-217.1
United Kingdom	1.45%	8.9	25.9	25.9	-2.1
Switzerland	0.05%	4.4	22.7	22.7	14.3
Japan	0.08%	0.7	3.8	3.8	0.4
Emerging Markets (local currency)	4.82%	0.8	-4.0	3.3	-9.3
Corporate Bonds *(change in basis point)*					
United States (IG Corp.)	3.42%	0.2	18.0	18.6	6.4
Eurozone (IG Corp.)	0.79%	9.4	7.5	6.0	-15.9
Emerging Markets	4.56%	4.2	8.1	9.0	-12.9
High-Yield Bonds *(change in basis point)*					
United States (HY Corp.)	5.61%	0.8	-7.8	-5.2	-15.4
Eurozone (HY Corp.)	2.91%	3.8	-8.0	-7.5	-79.9
Convertible Bonds *(price change)*					
United States (Convert. Barclays)	54	2.0%	6.0%	6.1%	19.0%
Eurozone (Convert. Exane)	7'783	-0.3%	0.4%	0.7%	4.0%
Commodities					
Commodities (TR)	434	1.7%	4.9%	3.1%	0.9%
Gold	1'350	1.0%	2.7%	2.7%	11.6%
Crude Oil (Brent)	70	2.2%	5.7%	5.0%	26.3%
Currencies					
Dollar Index	89.3	-1.3%	-3.1%	-3.1%	-11.2%
EURUSD	1.24	1.1%	3.3%	3.3%	15.9%
GBPUSD	1.41	1.0%	4.5%	4.5%	13.1%
USDCHF	1.07	-2.5%	-3.7%	-3.7%	-5.7%
USDJPY	108.9	-1.8%	-3.4%	-3.4%	-4.3%

Source : Bloomberg

APPENDIX 2 – LEADING ECONOMIC INDICATORS

Main Economic Indicators - Released (22 - 26 January) and to be released (29 January - 2 February)

US

Date	Indicator	Period	Consensus	Actual	Prior	Revised
24/01	**Existing Home Sales, month**	**Dec.**	**5.70m**	**5.57m**	**5.81m**	**-**
25/01	**New Home Sales, month**	**Dec.**	**675k**	**625k**	**733k**	**-**
26/01	**GDP, QoQ annualized**	**Q4 A**	**3.0%**	**2.6%**	**3.2%**	**-**
26/01	**GDP, YoY**	**Q4 A**	**-**	**2.5%**	**2.3%**	**-**
26/01	**Durable Goods Orders, MoM**	**Dec. P**	**0.9%**	**2.9%**	**1.3%**	**1.7%**
30/01	*Case-Shiller 20-City Home Price index, YoY*	*Nov.*	*-*	*-*	*6.4%*	*-*
31/01	*ADP Employment Change, month*	*Jan.*	*185k*	*-*	*250k*	*-*
31/01	*FOMC Rate Decision (Upper Bound)*		*1.50%*	*-*	*1.50%*	*-*
31/01	*FOMC Rate Decision (Lower Bound)*		*1.25%*	*-*	*1.25%*	*-*
01/02	*ISM Manufacturing, month*	*Jan.*	*58.9*	*-*	*59.7*	*-*
02/02	*Change in Nonfarm Payrolls, month*	*Jan.*	*180k*	*-*	*148k*	*-*
02/02	*Change in Private Payrolls, month*	*Jan.*	*178k*	*-*	*146k*	*-*
02/02	*Unemployment Rate, month*	*Jan.*	*4.1%*	*-*	*4.1%*	*-*
02/02	*Average Hourly Earnings, YoY*	*Jan.*	*-*	*-*	*2.5%*	*-*

Euro zone

Date	Indicator	Period	Consensus	Actual	Prior	Revised
24/01	**Manufacturing PMI, month**	**Jan. P**	**60.3**	**59.6**	**60.6**	**-**
24/01	**Services PMI, month**	**Jan. P**	**56.4**	**57.6**	**56.6**	**-**
24/01	**Composite PMI, month**	**Jan. P**	**57.9**	**58.6**	**58.1**	**-**
25/01	**ECB - Refinancing rate**		**0.00%**	**0.00%**	**0.00%**	**-**
25/01	**ECB - Deposit rate**		**-0.40%**	**-0.40%**	**-0.40%**	**-**
26/01	**M3 Money Supply, YoY**	**Dec.**	**4.9%**	**4.6%**	**4.9%**	**-**
26/01	**Loans to non-financial corporations, YoY**	**Dec.**	**-**	**2.9%**	**3.1%**	**-**
26/01	**Loans to households, YoY**	**Dec.**	**-**	**2.8%**	**2.8%**	**-**
30/01	*Economic Confidence, month*	*Jan.*	*-*	*-*	*116.0*	*-*
30/01	*GDP, QoQ*	*Q4 A*	*-*	*-*	*0.6%*	*-*
31/01	*Core HICP, YoY*	*Jan. A*	*-*	*-*	*0.9%*	*-*
31/01	*HICP, YoY*	*Jan.*	*-*	*-*	*1.4%*	*-*
01/02	*Manufacturing PMI, month*	*Jan. F*	*-*	*-*	*59.6*	*-*
02/02	*PPI, YoY*	*Dec.*	*-*	*-*	*2.8%*	*-*

Germany

Date	Indicator	Period	Consensus	Actual	Prior	Revised
23/01	**ZEW Survey Current Situation, month**	**Jan.**	**89.6**	**95.2**	**89.3**	**-**
23/01	**ZEW Survey Expectations, month**	**Jan.**	**17.7**	**20.4**	**17.4**	**-**
24/01	**Manufacturing PMI, month**	**Jan. P**	**63.0**	**61.2**	**63.3**	**-**
24/01	**Services PMI, month**	**Jan. P**	**55.5**	**57.0**	**55.8**	**-**
24/01	**Composite PMI, month**	**Jan. P**	**58.5**	**58.8**	**58.9**	**-**
25/01	**IFO Business Climate, month**	**Jan.**	**117.0**	**117.6**	**117.2**	**-**
30/01	*HICP, YoY*	*Jan. P*	*-*	*-*	*1.6%*	*-*
01/02	*Manufacturing PMI, month*	*Jan. F*	*63.3*	*-*	*61.2*	*-*

France

Date	Indicator	Period	Consensus	Actual	Prior	Revised
24/01	**GDP, QoQ**	**Jan. P**	**58.6**	**58.1**	**58.8**	**-**
24/01	**GDP, YoY**	**Jan. P**	**58.9**	**59.3**	**59.1**	**-**
24/01	**HICP, YoY**	**Jan. P**	**59.2**	**59.7**	**59.6**	**-**
26/01	**Manufacturing PMI, month**	**Jan.**	**112.0**	**110.0**	**112.0**	**-**
30/01	*GDP, QoQ*	*Q4 A*	*0.5%*	*-*	*0.6%*	*-*
30/01	*GDP, YoY*	*Q4 A*	*2.2%*	*-*	*2.3%*	*-*
31/01	*HICP, YoY*	*Jan. P*	*-*	*-*	*1.2%*	*-*
01/02	*Manufacturing PMI, month*	*Jan. F*	*-*	*-*	*58.1*	*-*

Switzerland

Date	Indicator	Period	Consensus	Actual	Prior	Revised
22/01	**Money Supply M3, YoY**	**Dec.**	**-**	**3.2%**	**4.4%**	**4.3%**
30/01	*Exports Real, MoM*	*Dec.*	*-*	*-*	*0.8%*	*-*
30/01	*Imports Real, MoM*	*Dec.*	*-*	*-*	*2.3%*	*-*
30/01	*KOF Leading Indicator, month*	*Jan.*	*-*	*-*	*111.3*	*-*
01/02	*Manufacturing PMI, month*	*Jan.*	*-*	*-*	*65.2*	*-*

Main Economic Indicators - Released (22 - 26 January) and to be released (29 January - 2 February)						
UK						
Date	Indicator	Period	Consensus	**Actual**	Prior	Revised
24/01	**ILO Unemployment Rate, month**	**Nov.**	**4.3%**	**4.3%**	**4.3%**	**-**
26/01	**GDP, QoQ**	**Q4 A**	**0.4%**	**0.5%**	**0.4%**	**-**
26/01	**GDP, YoY**	**Q4 A**	**1.3%**	**1.5%**	**1.7%**	**-**
28/01	*Nationwide House Price Index, MoM*	*Jan.*	-	-	*0.6%*	-
28/01	*Nationwide House Price Index, YoY*	*Jan.*	-	-	*2.6%*	-
01/02	*Manufacturing PMI, month*	*Jan.*	-	-	*56.3*	-
Japan						
Date	Indicator	Period	Consensus	**Actual**	Prior	Revised
02/02	*Monetary Base, YoY*	*Jan.*	-	-	*11.2%*	-
02/02	*Monetary Base, End of previous month*	*Jan.*	-	-	*¥480.0t*	-
China						
Date	Indicator	Period	Consensus	**Actual**	Prior	Revised
31/01	*Non-manufacturing PMI, month*	*Jan.*	*55.0*	-	*55.0*	-
31/01	*Manufacturing PMI, month*	*Jan.*	*51.5*	-	*51.6*	-
01/02	*Caixin China PMI Manufacturing, month*	*Jan.*	*51.4*	-	*51.5*	-

APPENDIX 3 – OUR GROWTH AND INFLATION FORECASTS

GDP GROWTH IN VOLUME (%)	2014	2015	2016	Q4 17f	2017f	Consensus	Q4 18f	2018f	Consensus	2019f	Consensus
United States	2.6	2.9	1.5	2.4	2.2	2.2	2.3	2.5	2.4	2.1	2.1
Japan	0.4	1.1	1.0	1.4	1.5	1.5	1.1	1.2	1.3	0.9	0.9
Eurozone	1.4	2.0	1.8	2.2	2.2	2.2	1.8	1.8	1.9	1.6	1.6
Germany	1.9	1.7	1.9	2.5	2.2	2.2	1.8	1.8	2.0	1.8	1.7
France	0.9	1.1	1.2	2.1	1.7	1.7	1.7	1.8	1.8	1.6	1.6
Italy	0.1	1.0	0.9	1.6	1.5	1.5	1.5	1.5	1.3	1.0	1.1
Spain	1.4	3.4	3.3	3.1	3.1	3.1	2.3	2.4	2.5	2.4	2.2
Portugal	0.9	1.8	1.5	2.2	2.6	2.6	1.9	2.0	1.9	1.7	1.6
Luxembourg	5.7	2.9	3.1	4.0	3.3	3.5	3.1	3.3	3.5	3.0	2.5
Europe ex-Eurozone											
United Kingdom	3.1	2.3	1.8	1.4	1.5	1.5	1.0	1.2	1.4	1.0	1.6
Switzerland	2.5	1.2	1.4	1.6	0.8	0.9	1.7	1.8	1.7	1.7	1.7
Israel	3.5	2.6	4.0	3.1	3.3	3.2	3.3	3.3	3.3	3.4	3.0
Emerging countries	4.8	4.0	4.1	5.2	4.9	4.5	4.7	5.0	4.9	4.7	5.0
China	7.3	6.9	6.7	6.7	6.8	6.8	6.3	6.4	6.4	6.0	6.2
Brazil	0.5	-3.8	-3.6	1.3	0.6	0.7	2.5	2.1	2.4	2.3	2.5
India	7.0	7.5	7.9	6.9	6.3	6.4	7.8	7.6	6.7	7.7	7.4

CONSUMER PRICE INDEX (%)	2014	2015	2016	Q4 17f	2017f	Consensus	Q4 18f	2018f	Consensus	2019f	Consensus
United States	1.6	0.1	1.3	2.2	2.1	2.1	2.3	2.3	2.1	2.3	2.2
Japan	2.7	0.8	-0.1	0.7	0.5	0.5	0.9	0.8	0.9	1.3	1.6
Eurozone (HCPI)	0.4	0.0	0.2	1.4	1.6	1.5	1.6	1.5	1.4	1.6	1.6
Germany	0.8	0.1	0.4	1.6	1.8	1.7	1.7	1.6	1.6	1.7	1.8
France	0.6	0.1	0.3	1.2	1.2	1.1	1.4	1.3	1.2	1.4	1.5
Italy	0.2	0.1	-0.1	1.2	1.4	1.4	1.1	1.2	1.1	1.4	1.4
Spain	-0.2	-0.6	-0.4	1.6	2.1	2.0	1.4	1.5	1.4	1.7	1.8
Portugal	-0.2	0.5	0.6	1.5	1.5	1.5	1.4	1.5	1.4	1.5	1.4
Luxembourg	0.7	0.1	0.0	2.0	2.1	2.2	1.9	2.0	1.7	1.9	2.0
Europe ex-Eurozone											
United Kingdom	1.5	0.0	0.6	2.9	2.7	2.7	3.3	3.0	2.5	3.0	2.5
Switzerland	0.0	-1.1	-0.4	0.7	0.5	0.5	0.9	0.7	0.6	1.0	0.9
Israel	0.5	-0.6	-0.5	0.2	0.8	0.4	1.0	0.7	0.8	1.1	1.1
Emerging countries	4.2	4.3	3.8	3.0	3.0	3.0	3.2	3.3	3.3	3.1	3.3
China	2.0	1.4	2.0	1.8	1.6	1.6	2.0	2.2	2.2	2.0	2.2
Brazil	6.3	9.0	8.8	2.9	3.5	3.5	4.0	3.6	4.0	4.0	4.2
India	6.7	4.9	5.0	4.1	3.2	3.2	5.0	4.8	3.5	5.3	4.5

APPENDIX 4 – OUR RATE AND CURRENCY FORECASTS

KEY INTEREST RATES (%)*	2014	2015	2016	2017	Q1 18f	Q2 18f	Q3 18f	Q4 18f	2018f	Consensus	2019f	Consensus
United States												
Policy rate	0.25	0.50	0.75	1.50	1.75	1.75	2.00	2.25	2.25	2.10	2.75	2.52
2-year yield	0.46	0.68	0.83	1.39	1.90	1.95	2.25	2.45	2.14	1.99	2.65	2.54
10-year yield	2.53	2.13	1.83	2.33	2.60	2.90	3.00	3.05	2.89	2.63	3.20	3.12
Japan												
Policy rate	0.10	0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	0.00	-0.10	0.00
2-year yield	0.07	0.01	-0.21	-0.17	-0.15	-0.10	-0.10	-0.05	-0.10	-0.09	0.00	-0.04
10-year yield	0.55	0.36	-0.04	0.06	0.10	0.12	0.14	0.15	0.13	0.08	0.20	0.09
Eurozone												
Policy rate	0.05	0.05	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.45
2-year Schatz yield	0.05	-0.25	-0.59	-0.72	-0.60	-0.55	-0.45	-0.35	-0.49	-0.43	0.00	0.18
10-year Bund yield	1.24	0.54	0.14	0.37	0.55	0.70	0.85	1.00	0.78	0.84	1.40	1.47
2-year OAT yield	0.13	-0.18	-0.51	-0.48	-0.45	-0.40	-0.30	-0.20	-0.34	-0.22	0.15	-
10-year OAT yield	1.68	0.86	0.48	0.81	0.90	1.05	1.20	1.35	1.13	1.23	1.75	1.67
United Kingdom												
Policy rate	0.50	0.50	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.70	0.50	1.07
2-year yield	0.68	0.54	0.29	0.25	0.75	0.85	0.80	0.75	0.79	0.63	0.45	1.17
10-year yield	2.51	1.82	1.22	1.20	1.55	1.75	1.92	2.10	1.83	1.54	2.20	2.00
Switzerland												
Policy rate	-0.25	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.45
2-year yield	-0.33	-0.89	-0.91	-0.85	-0.70	-0.65	-0.55	-0.45	-0.59	-0.49	-0.20	0.10
10-year yield	0.31	-0.09	-0.35	-0.09	0.05	0.20	0.35	0.50	0.28	0.23	0.90	0.65
Emerging countries - Policy rates												
China	5.60	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.10	-
Brazil	11.75	14.25	13.75	7.00	6.50	6.50	6.50	7.00	7.00	7.00	7.50	-
India	8.00	6.75	6.25	6.00	5.75	5.75	6.00	6.00	6.00	5.95	6.50	-

* data at end of period for trimestrial values and period average for annual values

EXCHANGE RATE**	2014	2015	2016	2017	Q1 18f	Q2 18f	Q3 18f	Q4 18f	2018f	Consensus	2019f	Consensus
Dollar												
EUR/USD	1.20	1.08	1.11	1.13	1.15	1.11	1.12	1.14	1.13	1.20	1.18	1.25
USD/JPY	120	120	109	112	114	116	117	118	116	113	120	114
GBP/USD	1.56	1.47	1.36	1.29	1.29	1.27	1.25	1.22	1.26	1.31	1.22	1.35
USD/CHF	0.99	1.00	0.98	0.98	0.99	1.03	1.03	1.01	1.01	0.97	0.97	0.94
USD/CNY	6.16	6.28	6.65	6.76	6.75	6.80	6.95	6.95	6.86	6.65	7.00	6.50
Euro												
EUR/JPY	144	130	120	127	131	129	131	135	131	136	142	143
EUR/GBP	0.77	0.73	0.81	0.88	0.89	0.87	0.90	0.93	0.90	0.92	0.97	0.93
EUR/CHF	1.20	1.09	1.09	1.11	1.14	1.14	1.15	1.15	1.15	1.17	1.15	1.18
EUR/SEK	9.44	9.17	9.47	9.64	9.55	9.40	9.35	9.25	9.39	9.24	9.15	9.10

**period average

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