EDMOND DE ROTHSCHILD

WEEKLY ECONOMIC INSIGHTS

07 MAY 2018 – THE WEEKLY OF THE ECONOMIC RESEARCH TEAM

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HIGHLIGHTS OF THE WEEK

Economist insights: US unemployment falls again, the Fed is not worried about the risk of overheating, stable PMIs in China (p. 1)

- In the United States, despite the drop in the unemployment rate to 3.9% in April, its lowest level since December 2000, wage growth has remained contained at 2.6%, in line with our scenario
- The Federal Reserve opted for the monetary status quo, and indicated clearly that it intends to continue its monetary tightening at a gradual pace, as we anticipated
- In China, leading indicators published for April suggest a continued dynamic momentum in services

Focus India: Toward a strengthening of the credit cycle (p. 5)

- Alongside the recovery of economic growth in India, the rebound in banking credit growth is an encouraging factor following the past few years of decline
- The credit market nevertheless remains marked by pockets of vulnerability, as illustrated by the large amounts of non-performing loans and recent deficiencies in risk management
- Structural reforms, particularly the recapitalisation plan of public banks, should nevertheless strengthen the credit cycle over the coming quarters

US UNEMPLOYMENT FALLS AGAIN, THE FED IS NOT WORRIED ABOUT THE RISK OF OVERHEATING, STABLE PMIS IN CHINA

UNITED STATES – UNDEREMPLOYMENT HAS DROPPED AND WAGE GROWTH IS STABLE, THE FED HAS CONFIRMED THE GRADUAL PACE OF ITS MONETARY TIGHTENING

While the US employment report for March had been disappointing due to the low number of new jobs created, April was a bit more encouraging. Job creation rose slightly, the unemployment rate was down by 0.1 percentage point to 3.9%, and 91,000 marginally attached workers[1] re-entered the job market in April alone. In addition, yearly wage growth was stable at 2.6%, in line with our scenario, according to which a gradual return of discouraged workers to the job market would limit upward pressure on wages.

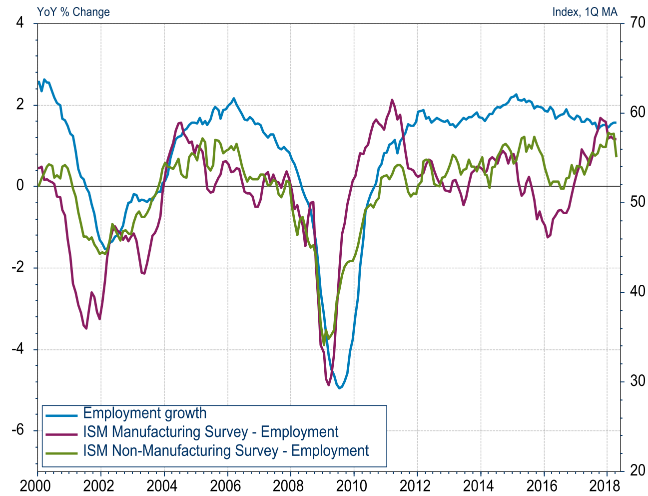
The employment report revealed that 115,000 jobs were created in the services sector and 49,000 in the manufacturing sector in April. It nevertheless should be noted that, although job creation was lower in manufacturing, a real pick-up in employment growth in this sector has been observed since mid-2017, with year-on-year growth at 2.8% in April 2018 vs. 1.4% for the services sector. This acceleration is in line with an improvement in industrial production in the US as well as with the pick-up in business investment in machinery and equipment.

Beyond sector disparities, the employment report for April confirmed the downward trend of two key variables:

- Employment growth has slowed: Despite the slight rise in new job creations to 164,000 in April, they remain below their average of Q1 2018, which was 212,000, as well as the 2017 average of 182,000. This slowdown in employment growth is in line with our scenario, and is also reflected in the surveys carried out by the Institute for Supply Management (ISM) since the start of the year, with the non-manufacturing employment index notably down from 61.6 in January to 53.6 in April (see left-hand chart).

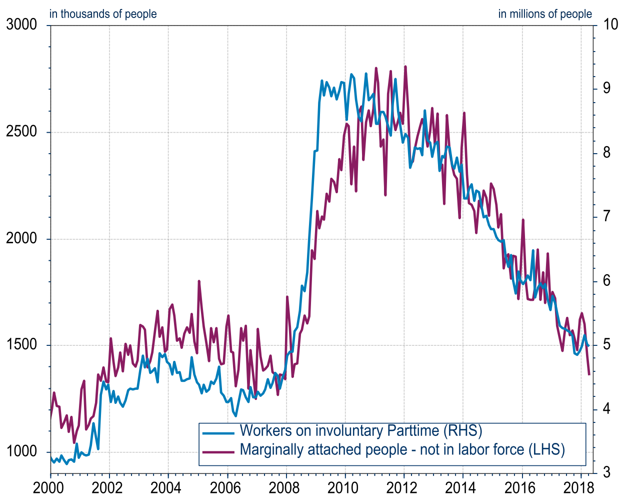
- The rate of underemployment – which groups together jobseekers, people not in the labour force but available for work, and involuntary part-time workers – has decreased, down from 8% to 7.8% in April. This drop can mainly be attributed to the return to the job market of 91,000 marginally attached workers in April, lowering the number to 1.36 million (see right-hand chart). The number of involuntary part-time workers stabilised at 5 million in April.

Employment growth has slowed since 2015 and ISM's leading employment indicators have dropped since the start of 2018



Source: Thomson Reuters Datastream / Edmond de Rothschild Economic Research

91,000 people outside the labour force re-entered the American job market in April



Source: Thomson Reuters Datastream / Edmond de Rothschild Economic Research

[1] *Bureau of Labor Statistics* definition of "*Marginally attached Workers*": "Persons not in the labor force who want and are available for work, and who have looked for a job sometime in the prior 12 months, but were not counted as unemployed because they had not searched for work in the 4 weeks preceding the survey."

Implications

- Despite the slowdown in employment growth in April compared to the first quarter of 2018, the number of job creations is high enough to absorb people not in the labour force[2], as shown by the decline in underemployment from 8% to 7.8%.

- The gradual return to the labour force of these available workers is set to limit, in the short term, overly high pressure on wages, despite the unemployment rate (down from 4% to 3.9% in April) being at its lowest level since December 2000. We thus anticipate that wage growth will remain moderate in 2018, at 2.8% on average.

The Federal Reserve (Fed) held its monetary policy meeting a few days before the publication of the employment report. At the end of the meeting, the fed funds rate was maintained at 1.75%, as we were expecting. Moreover, although no forecasts were published by the monetary policy committee (FOMC) following the meeting, and Jerome Powell did not hold a press conference (this will be the case for the meeting on 13 June), the Fed nevertheless made changes to its statement, which, according to our analysis, fully confirms that it intends to continue its monetary tightening at a gradual pace.

After acknowledging in its statement that inflation has returned to close to 2.0% (the year-on-year rise in the core PCE price index, used by the Fed to measure inflation, was up from 1.6% in February to 1.9% in March[3]), the FOMC indicated that it expected inflation to run near its "symmetric 2.0% objective over the medium term".

The introduction of the term "symmetric" in the definition of its inflation target is an important modification in the Fed's communication. According to our analysis, the Fed wished to indicate that it would tolerate inflation rising slightly and temporarily above this level of 2.0%, thereby suggesting that even though underlying inflation could rise over the coming months, this would not lead it to accelerate the pace of its rate-hike cycle.

This conclusion was moreover confirmed by the fact that the FOMC reiterated in its statement that it "expects that economic conditions will evolve in a manner that will warrant further gradual increases in the federal funds rate", nevertheless highlighting once again that this rate is likely to remain below its long-term levels "for some time".

Implications

- The statement published after the Fed meeting of 2 May confirms that the central bank is not worried about inflation getting out of control. The lack of strong wage growth, as revealed in the US unemployment report for April (see above), should back this analysis.

- By specifying that its inflation target is "symmetric", the Fed has suggested that, even if core inflation were to rise above 2.0% in the coming months, it does not intend to accelerate the pace of its rate hikes.

- Overall, this message underpins our scenario according to which, despite the acceleration in US nominal growth that we expect, the Fed is likely to continue its monetary tightening at a gradual pace.

[2] J. Yellen, 3 December 2015, "*To simply provide jobs for those who are newly entering the labor force probably requires under 100,000 jobs per month*."
[3] The pick-up in US inflation in March can be explained by the end of the negative effects linked to a sharp drop in mobile telephone prices one year ago (see our Weekly of 16 April 2017).

CHINA – RELATIVELY STABLE LEADING INDICATORS

In China, leading manufacturing indicators remained relatively stable in April. The official PMI thus came in at 51.4 vs. 51.5 the previous month, while the PMI published by Caixin was at 51.1 vs. 51.0 in March. For the latter, the new export orders component recorded a contraction for the first time since November 2016, to 48.9. Conversely, the domestic orders component continues to indicate economic expansion.

Moreover, the PMI leading indicators for the services sector saw a slight rebound, which suggests a continuation of the momentum in the services industry in China. The configuration of these indicators reflects the bigger role played by total consumption in Chinese GDP growth in Q1 2018 (see our Weekly Economic Insights of 23 April 2018).

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FOCUS INDIA

TOWARD A STRENGTHENING OF THE CREDIT CYCLE

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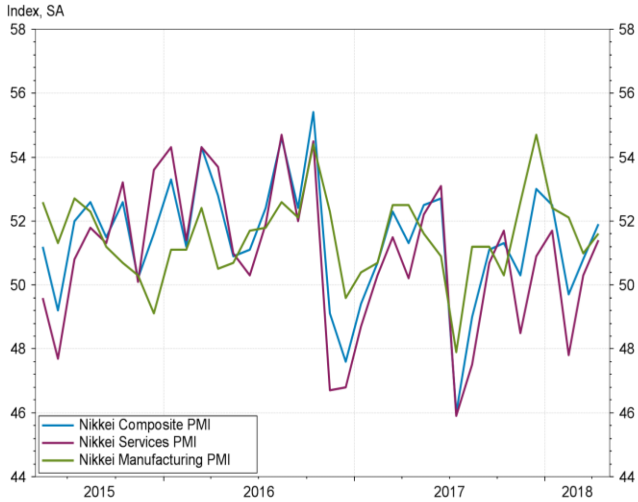
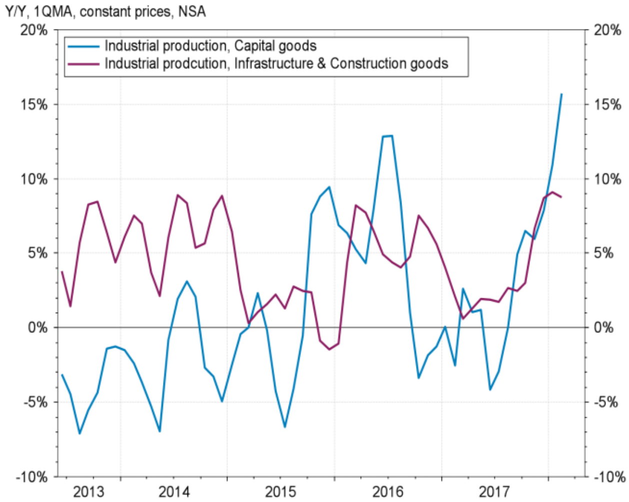
The upward trend of economic indicators in India suggests that domestic activity continues to improve following the acceleration in growth in real GDP recorded at the end of 2017. GDP growth in Q4 2017 came in at 7.2% compared to an average growth of 5.9% in H1 2017, which had been characterised by a drop in activity following India's demonetisation at end-2016 and the uncertainty surrounding the introduction of the unified Goods and Services Tax in July 2017. Leading indicators – both in manufacturing and services – bounced back from their low points following these two events, and now stand above 50, which signals economic expansion (see left-hand chart).

The rebound in growth following the shocks of demonetisation and the GST…



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

… resulted in an acceleration in investment momentum



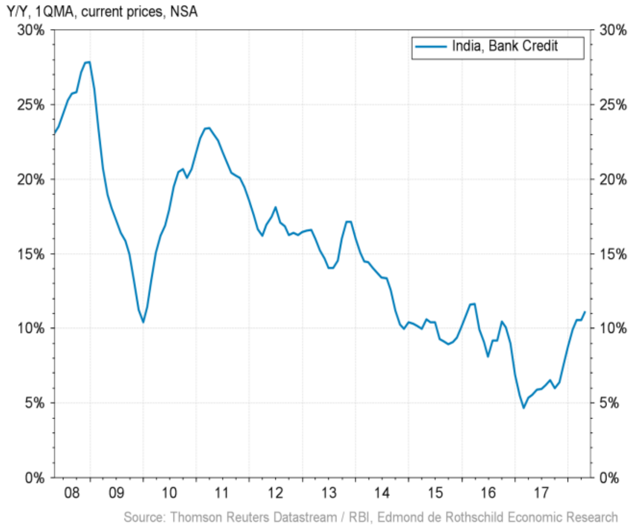
Source: Thomson Reuters Datastream / CSO, Edmond de Rothschild Economic Research

While household consumption shows lacklustre growth momentum and has tended to slow over the past several quarters – notably illustrated by declining consumer confidence – the investment cycle has confirmed the improvement in its underlying trends. Annual growth in investment reached 12% in real terms in Q4 2017, while it was still in negative territory at the start of the year. This better configuration can also be seen in the increase in the production of capital goods, up by more than 15% since the start of 2018 following the low point hit in the middle of 2017 (see right-hand chart). Likewise, the rebound in growth observed on the credit market – both in personal credit and corporate credit – reflects this better investment trend and is an encouraging development. Banking credit has in fact recorded a marked downward trend in India over the past few years, from 19% growth in 2010 to a historical low of 6.5% in 2017 (see left-hand chart, p.6). A dynamic credit market is, however, an important vector for the Indian economy, among other things to ensure the development of the country's infrastructure.

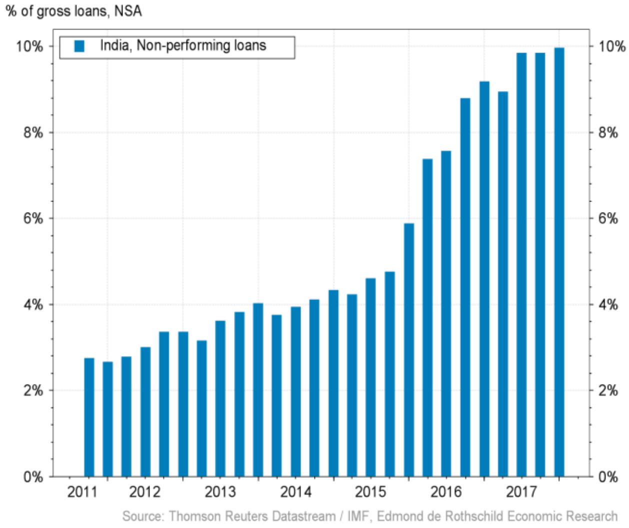
Despite this rebound, the Indian credit market remains characterised by many pockets of vulnerability. Although the trend has improved lately, the ratio of non-performing loans (NPL) to total outstanding loans stood at 10.2% at end-2017, which is far higher than the level observed in emerging Asian economies. Most of these NPLs are concentrated in public banks. The ratio for these banks is, in fact, at 13.5% compared to 3.8% for private banks. Moreover, these public banks have much lower capital adequacy ratios than the private banks (12.2% vs. 16.0%), while some of them have solvency ratios below Basel III criteria, which require a minimum ratio of 10.5% for 2019. In addition, these banks have posted negative profitability ratios since 2016.

The fragility of the fundamentals of the public banks and the resulting weak credit trends – public banks represent close to 70% of bank assets – have pushed the Indian government to adopt and implement structural reforms. The aim of the demonetisation in November 2016 was to transform part of the liquidities deriving from informal activities into bank deposits, which could then be recycled into credit. The Insolvency and Bankruptcy Code adopted in 2016 provides a framework for the recovery process linked to payment defaults in order to accelerate the restructuring of bad debt. This measure has enabled India to improve its unfavourable position in terms of the resolution of insolvency situations: it now ranks 103rd in the "Resolving Insolvency" classification of the World Bank, whereas it held the 130th spot in 2016. The average time required to unwind an insolvency situation is 4.3 years and, nevertheless, remains high when compared to the international level. Likewise, the recovery rate of 26.4% is relatively low. Lastly, the recapitalisation programme for public sector banks, announced at end-2017 and involving a total amount of INR2,110 billion (USD32 billion, i.e. 1.2% of Indian GDP) and spread over two years, resulted in the injection of an initial tranche of USD14 billion at the start of 2018 in favour of the most fragile public banks. The goal of this plan is for public banks to meet the Basel solvency ratios by March 2019. It would also enable the banks to have sufficient capitalisation levels to record some of the defaulting loans as non-performing loans in their balance sheets. These capital injections are thus set to reinforce the capital base and soundness of the Indian banking system. The announcement by rating agency Moody's of a positive outlook for the public bank IDBI – the biggest recipient of this first tranche and presenting the highest NPL ratio – and the possibility of a future upgrade of its credit rating are illustrations of this.

Credit growth underwent a sharp downward trend over the 2011-2017 period



The banking system continues to be penalised by a high level of non-performing loans



While in the short term the recognition of certain defaulting loans as non-performing loans could weigh on credit growth in India, credit growth is set to continue to improve over the coming quarters given the structural efforts underway. These efforts will have to be maintained over the long term, as the recovery is not yet certain. The fraud of close to USD2 billion that hit the public bank Punjab National Bank, along with the under-declaration by the State Bank of India of USD3.6 billion in NPLs, reflect the existing deficiencies in terms of risk control and corporate governance of the Indian banking sector. Furthermore, the credit trend will also depend on the monetary conditions put in place by the Reserve Bank of India (RBI). In this respect, changes in commodities prices, particularly food, are a variable to monitor, as a sharp rise could lead the central bank to raise its key rates, currently at 6.0%, which would lead the cost of credit to rise. For the time being, however, inflation stands at 4.3% – within the target corridor of the central bank of 2%-6% – which should prevent it from raising its key rate too sharply in the upcoming months. As a result, credit should continue to improve and support an acceleration in growth in 2018.

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)	509	-0.4%	1.3%	0.0%	14.1%
United States (S&P 500)	2'663	-0.2%	0.8%	0.2%	13.7%
Eurozone (Euro Stoxx)	393	1.2%	6.9%	3.1%	4.1%
Germany (DAX)	12'860	1.9%	7.2%	-0.8%	1.4%
France (CAC 40)	5'514	1.0%	8.1%	4.8%	6.1%
Spain (IBEX 35)	10'134	1.8%	7.1%	2.0%	-4.9%
Italy (FTSE MIB)	24'403	1.7%	8.8%	12.1%	18.2%
Portugal (PSI 20)	5'516	-0.7%	3.0%	2.7%	8.9%
United Kingdom (FTSE 100)	7'567	0.9%	8.0%	-0.1%	8.6%
Switzerland (SMI)	8'914	0.8%	5.5%	-2.3%	2.6%
Japan (Nikkei)	22'467	1.2%	5.1%	-0.5%	17.8%
Emerging Markets (MSCI)	1'136	-1.7%	-1.6%	-1.4%	18.9%
Sovereign Bonds, 10Y *(change in basis point)*					
United States	2.96%	0.5	18.5	55.3	60.9
Eurozone	0.53%	-2.6	3.6	10.7	11.5
Germany	0.53%	-2.6	3.6	10.7	11.5
France	0.77%	-1.8	3.3	-1.3	-7.4
Spain	1.27%	0.1	5.2	-28.3	-27.1
Italy	1.77%	-1.1	-1.0	-23.4	-38.9
Portugal	1.67%	1.2	-0.7	-23.6	-169.1
United Kingdom	1.40%	-4.6	0.4	21.0	28.3
Switzerland	0.02%	-4.5	3.8	19.4	9.2
Japan	0.04%	-1.0	-0.1	-0.3	2.4
Emerging Markets (local currency)	4.94%	7.0	15.5	14.2	-0.2
Corporate Bonds *(change in basis point)*					
United States (IG Corp.)	3.96%	4.9	20.4	65.8	65.6
Eurozone (IG Corp.)	0.92%	0.8	0.7	16.9	4.9
Emerging Markets	5.58%	21.3	52.2	108.1	117.2
High-Yield Bonds *(change in basis point)*					
United States (HY Corp.)	6.31%	3.1	4.3	58.1	62.3
Eurozone (HY Corp.)	3.28%	5.6	-4.6	32.1	-2.9
Convertible Bonds *(price change)*					
United States (Convert. Barclays)	52	1.1%	2.0%	3.8%	12.2%
Eurozone (Convert. Exane)	7'781	0.8%	2.7%	0.6%	0.8%
Commodities					
Commodities (TR)	436	0.8%	4.1%	3.6%	8.0%
Gold	1'313	-0.5%	-1.7%	-0.4%	5.3%
Crude Oil (Brent)	76	1.4%	10.2%	12.1%	56.8%
Currencies					
Dollar Index	92.8	1.0%	2.9%	0.7%	-6.0%
EURUSD	1.19	-1.2%	-3.1%	-0.6%	9.3%
GBPUSD	1.35	-1.6%	-4.2%	0.2%	4.7%
USDCHF	1.00	1.2%	4.9%	2.9%	0.4%
USDJPY	109.2	-0.1%	2.3%	-3.1%	-3.5%

Source : Bloomberg

APPENDIX 2 – LEADING ECONOMIC INDICATORS

Main Economic Indicators - Released (30 April - 4 May) and to be released (7 - 11 May)

US

Date	Indicator	Period	Consensus	Actual	Prior	Revised
30/04	PCE index, YoY	Mar	2.0%	2.0%	1.8%	1.7%
30/04	Core PCE index, Yoy	Mar	1.9%	1.9%	1.6%	-
01/05	ISM Manufacturing, month	Apr	58.4	57.3	59.3	-
02/05	ADP Employment Change, month	Apr	195k	204k	241k	228k
02/05	FOMC Rate Decision (Upper Bound)	May 2	1.75%	1.75%	1.75%	-
02/05	FOMC Rate Decision (Lower Bound)	May 2	1.50%	1.50%	1.50%	-
03/05	ISM Non-Manufacturing, month	Apr	58.0	56.8	58.8	-
04/05	Change in Nonfarm Payrolls, month	Apr	192k	164k	103k	135k
04/05	Change in Private Payrolls, month	Apr	190k	168k	102k	135k
04/05	Unemployment Rate, month	Apr	4.0%	3.9%	4.1%	-
04/05	Average Hourly Earnings, YoY	Apr	2.7%	2.6%	2.7%	2.6%
09/05	*PPI, YoY*	*Apr*	*-*	*-*	*3.0%*	*-*
09/05	*Core PPI, Yoy*	*Apr*	*-*	*-*	*2.7%*	*-*
10/05	*CPI, YoY*	*Apr*	*2.5%*	*-*	*2.4%*	*-*
10/05	*Core CPI, YoY*	*Apr*	*2.2%*		*2.1%*	

Euro zone

Date	Indicator	Period	Consensus	Actual	Prior	Revised
30/04	M3 Money Supply, YoY	Mar	4.1%	3.7%	4.2%	-
30/04	Loans to non-financial corporations, YoY	Mar	-	3.3%	3.1%	3.2%
30/04	Loans to households, YoY	Mar	-	3.0%	2.9%	-
02/05	Manufacturing PMI, month	Apr F	56.0	56.2	56.0	-
02/05	GDP, QoQ	1Q A	0.4%	0.4%	0.6%	0.7%
02/05	GDP, YoY	1Q A	2.5%	2.5%	2.7%	2.8%
03/05	Core HICP, YoY	Apr A	0.9%	0.7%	1.0%	-
03/05	HICP, YoY	Apr	1.3%	1.2%	1.3%	-
04/05	Services PMI, month	Apr F	55.0	54.7	55.0	-
04/05	Composite PMI, month	Apr F	55.2	55.1	55.2	-

Germany

Date	Indicator	Period	Consensus	Actual	Prior	Revised
30/04	HICP, YoY	Apr P	1.5%	1.4%	1.5%	-
02/05	Manufacturing PMI, month	Apr F	58.1	58.1	58.1	-
04/05	Services PMI, month	Apr F	54.1	53.0	54.1	-
04/05	Composite PMI, month	Apr F	55.3	54.6	55.3	-
07/05	*Factory Orders, MoM*	*Mar*	*-*	*-*	*0.3%*	*-*
08/05	*Industrial Production, MoM*	*Mar*	*-*	*-*	*-1.6%*	*-*

France

Date	Indicator	Period	Consensus	Actual	Prior	Revised
02/05	Manufacturing PMI, month	Apr F	53.4	53.8	53.4	-
04/05	Services PMI, month	Apr F	57.4	57.4	57.4	-
04/05	Composite PMI, month	Apr F	56.9	56.9	56.9	-
09/05	*Manufacturing Production, MoM*	*Mar*	*-*	*-*	*-0.6%*	*-*

Switzerland

Date	Indicator	Period	Consensus	Actual	Prior	Revised
24/04	Exports Real, MoM	Mar	-	0.6%	2.3%	2.0%
24/04	Imports Real, MoM	Mar	-	3.9%	-9.5%	-8.8%
30/04	KOF Leading Indicator, month	Apr	106.0	105.3	106.0	105.1
02/05	Manufacturing PMI, month	Apr	59.8	63.6	60.3	-
07/05	*CPI, YoY*	*Apr*	*-*	*-*	*0.8%*	*-*

Main Economic Indicators - Released (30 April - 4 May) and to be released (7 - 11 May)

UK

Date	Indicator	Period	Consensus	Actual	Prior	Revised
01/05	**Manufacturing PMI, month**	**Apr**	**54.8**	**53.9**	**55.1**	**54.9**
03/05	**Services PMI, month**	**Apr**	**53.5**	**52.8**	**51.7**	**-**
03/05	**Composite PMI, month**	**Apr**	**53.7**	**53.2**	**52.5**	**52.4**
08/05	*Halifax House Price Index, MoM*	*Apr*	*-*	*-*	*0.0*	*-*
08/05	*Halifax House Price Index, YoY*	*Apr*	*-*	*-*	*0.0*	*-*
10/05	*Visible Trade Balance £Mln, month*	*Mar*	*-*	*-*	*-£10203*	*-*
10/05	*Manufacturing Production, MoM*	*Mar*	*-*	*-*	*-0.2%*	*-*
10/05	*Bank of England Bank Rate*	*May 10*	*0.5%*	*-*	*0.5%*	*-*
10/05	*BOE Asset Purchase Target*	*May*	*-*	*-*	*435b*	*-*
10/05	*Bank of England Inflation Report*					

Japan

Date	Indicator	Period	Consensus	Actual	Prior	Revised
02/05	**Monetary Base, YoY**	**Apr**	**-**	**7.8%**	**9.1%**	**-**
02/05	**Monetary Base, End of previous month**	**Apr**	**-**	**¥498.3t**	**¥487.0t**	**-**

China

Date	Indicator	Period	Consensus	Actual	Prior	Revised
30/04	**Non-manufacturing PMI, month**	**Apr**	**54.5**	**54.8**	**54.6**	**-**
30/04	**Manufacturing PMI, month**	**Apr**	**51.3**	**51.4**	**51.5**	**-**
30/04	**China PMI Composite, month**	**Apr**	**-**	**54.1**	**54.0**	**-**
02/05	**Caixin China PMI Manufacturing, month**	**Apr**	**50.9**	**51.1**	**51.0**	**-**
04/05	**Caixin China PMI Composite, month**	**Apr**	**-**	**52.3**	**51.8**	**-**
04/05	**Caixin China PMI Services, month**	**Apr**	**52.3**	**52.9**	**52.3**	**-**
07/05	*Foreign Reserves, month*	*Apr*	*$3133.00b*	*-*	*$3142.82b*	*-*
08/05	*Trade Balance USD, month*	*Apr*	*$29.35b*	*-*	*-$4.98b*	*-*
08/05	*Imports, YoY*	*Apr*	*16.0%*	*-*	*14.4%*	*-*
08/05	*Exports, YoY*	*Apr*	*8.0%*	*-*	*-2.7%*	*-*
10/05	*PPI, YoY*	*Apr*	*3.4%*	*-*	*3.1%*	*-*
10/05	*CPI, YoY*	*Apr*	*1.9%*	*-*	*2.1%*	*-*
10/05	*M2 Money Supply, YoY*	*Apr*	*8.5%*	*-*	*8.2%*	*-*
10/05	*New Yuan Loans CNY, month*	*Apr*	*1100.0b*	*-*	*1120.0b*	*-*

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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