



Global Economy Report

July-August 2016



Global Economy Report

The Global Economy Report is prepared in cooperation by the Macroeconomic Research Division of Banca Aletti and the Global Governance Programme of the Robert Schuman Centre for Advanced Studies of the European University Institute.

The objective of the Report is to provide an analysis of the current and expected macroeconomic and financial conditions at the global level, with also a focus on key economic areas such as Europe, the USA and ASIA.

This report has been prepared by:

- Daniele Limonta (daniele.limonta@alettibank.it)
- Massimiliano Marcellino (massimiliano.marcellino@eui.eu)
- Alessandro Stanzini (alessandro.stanzini@alettibank.it)

with the collaboration of:

- Alberta Martino (albertamartino@gmail.com)

Report closed on July 18, 2016

The World Bank's forecasting scenario presented in June contains several downward revisions on growth estimates. Global income is at 2.4% in 2016 (-0.5 since January, same as 2015) and accelerates at 2.8% in 2017 (-0.3%), and will reach 3.0% (-0.1) in 2018. Growth forecasts were prepared before the British referendum, and Brexit can be expected to further reduce global growth, though only slightly.

WORLD BANK GLOBAL ECONOMIC GROWTH

Average annual variations, at fixed prices - June 2016

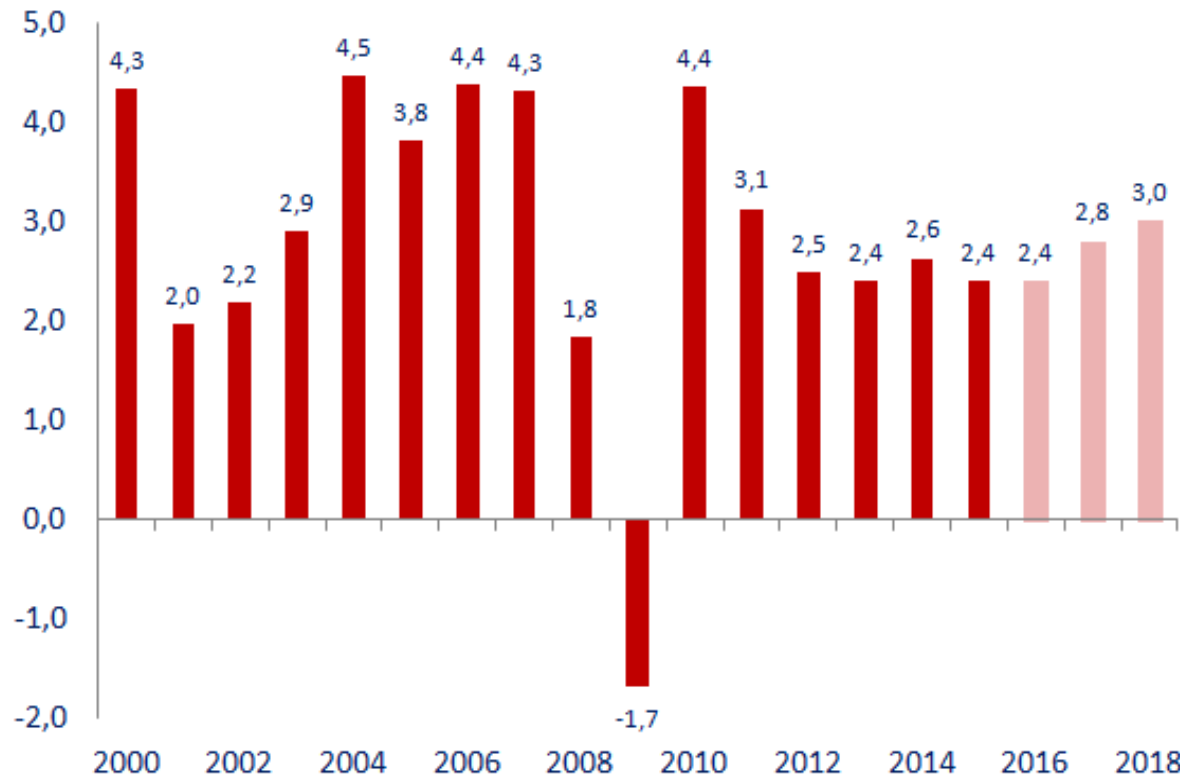
Global Economic Prospects Giu 2016	2013	2014	2015e	diff.	2016e	diff.	2017e	diff.	2018e	diff.
PIL (% a/a)										
CRECITA GLOBALE	2.4	2.6	2.4	0	2.4	-0.5	2.8	-0.3	3	-0.1
PAESI AVANZATI	1.1	1.7	1.8	-0	1.7	-0.5	1.9	-0.2	1.9	-0.1
STATI UNITI	1.5	2.4	2.4	-0.1	1.9	-0.5	2.2	-0.2	2.1	-0.1
EUROZONA	-0.3	0.9	1.6	0.1	1.6	-0.1	1.6	-0.1	1.5	-0.1
GIAPPONE	1.4	-0.1	0.6	-0	0.5	-0.8	0.5	-0.4	0.7	-0.6
REGNO UNITO	2.2	2.9	2.2	-0.2	2	-0.4	2.1	-0.1	2.1	0.0
TURCHIA	4.2	3.0	4	-0	3.5	0	3.5	0	3.6	0.2
PAESI EMERGENTI	4.7	4.2	3.4	0	3.5	-0.6	4.4	-0.3	4.7	-0.2
CINA	7.7	7.3	6.9	0.0	6.7	0.0	6.5	0.0	6.3	-0.2
INDIA	6.6	7.2	7.6	0.3	7.6	-0.2	7.7	-0.2	7.7	-0.2
BRASILE	3.0	0.1	-3.8	-0	-4	-1.5	-0.2	-1.6	0.8	-0.7
RUSSIA	1.3	0.7	-3.7	0.1	-1.2	-0.5	1.4	0.1	1.8	0.3
INDONESIA	5.6	5.0	4.8	0.1	5.1	-0.2	5.3	-0.2	5.5	0.0
SUDAFRICA	2.2	1.5	1.3	-0.2	0.6	-2.4	1.1	-0.7	2	-0.4

GLOBAL GROWTH

For major economies, growth is at 1.7% for the current year (-0.5), 1.9% in the next (-0.2%) and still 1.9% in 2018 (-0.1). For emerging economies, respectively, 3.5% (-0.6); 4.4% (-0.3) and 4.7% (-0.2). In particular, for 2016 the most aggressive cuts are for the United States (-0.8 at 1.9%) and for Japan (-0.8 at 0.5%), while for Eurozone the correction is only marginal (-0.1 at 1.6%). Among emerging economies, the worst figure is for Brazil (-1.5 at -4.0%), followed by Russia (-0.5 at -1.2%), both in obvious contraction. India was reduced by two tenths at 7.6%, while China is unaltered, with a forecast still at 6.7%.

WORLD BANK GLOBAL ECONOMIC GROWTH

Average annual variations, at fixed prices - June 2016

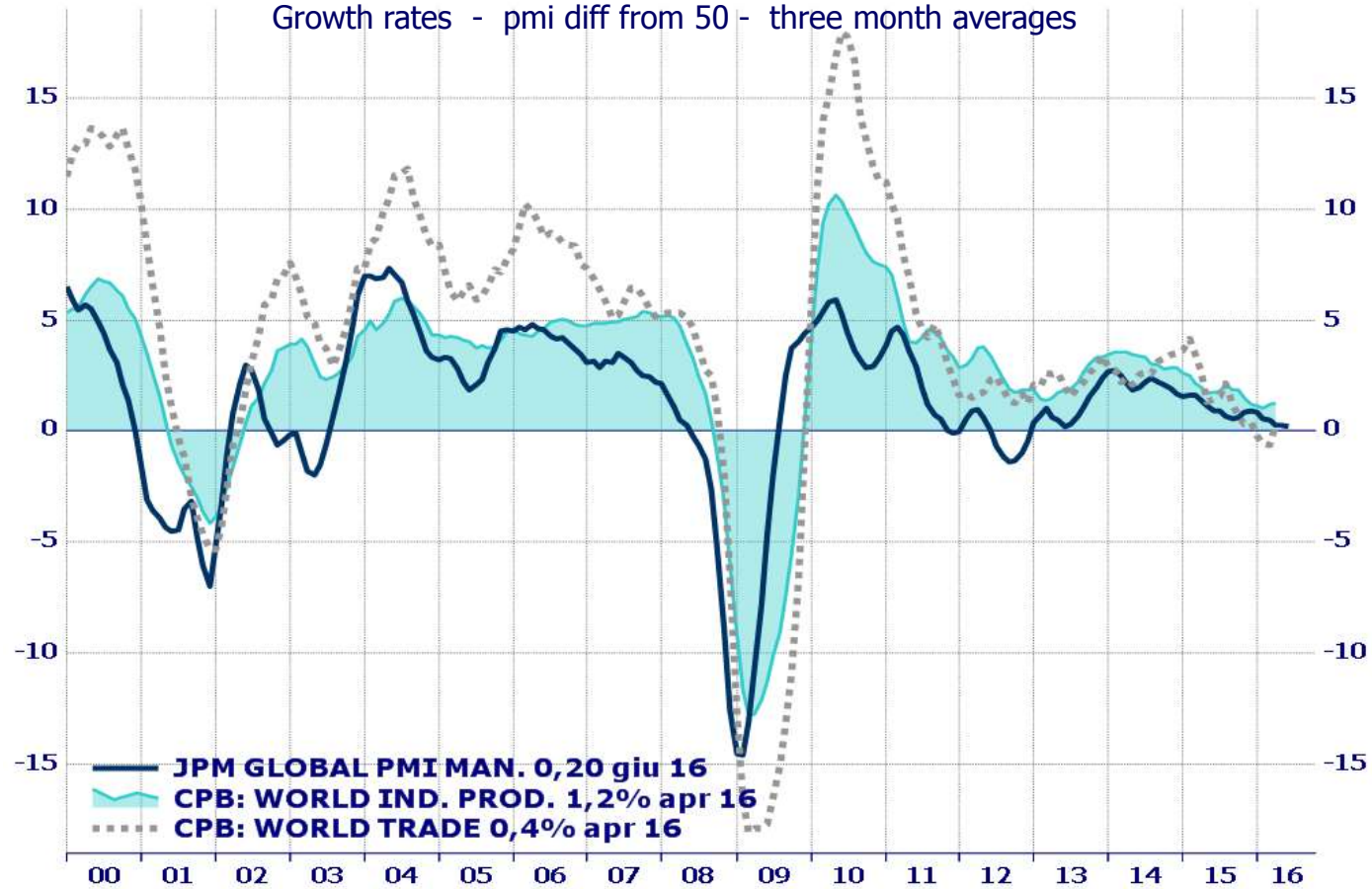


TRADE AND PRODUCTION

International trade and industrial activity have a still declining dynamic, with confidence index around neutral...

GLOBAL INDUSTRIAL PRODUCTION, TRADE AND CONFIDENCE

Growth rates - pmi diff from 50 - three month averages

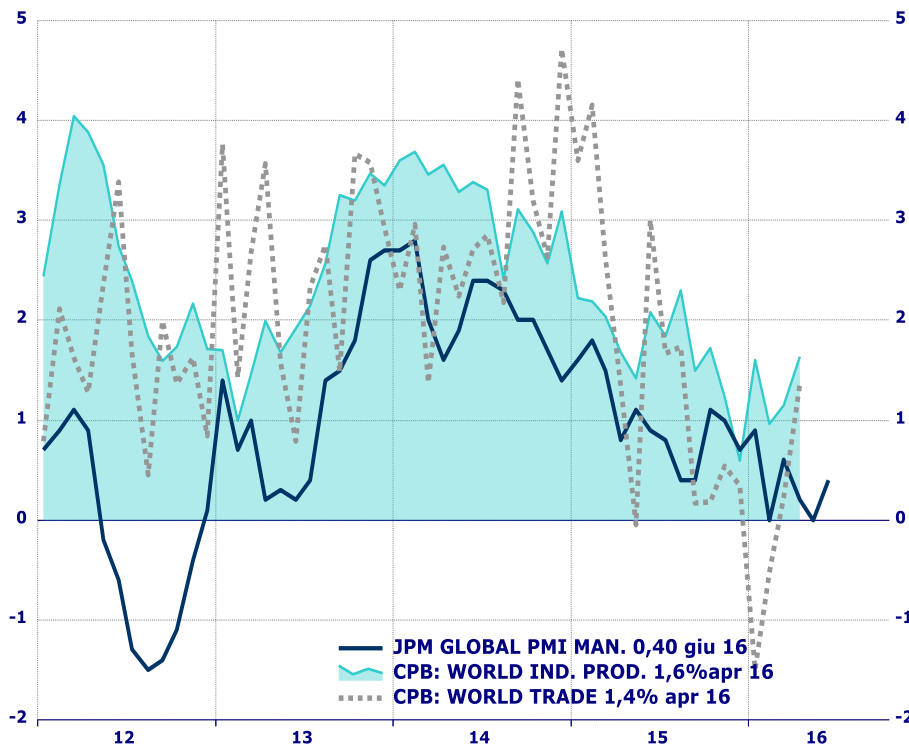


TRADE AND PRODUCTION

...but from real data we see a Spring phase with more promising notes. This phenomenon is surely connected to the recovery of raw materials' prices. The index, net of the energy component, in July signals a recovery that on an annual base has almost nullified negative values in the order of twenty percentage points.

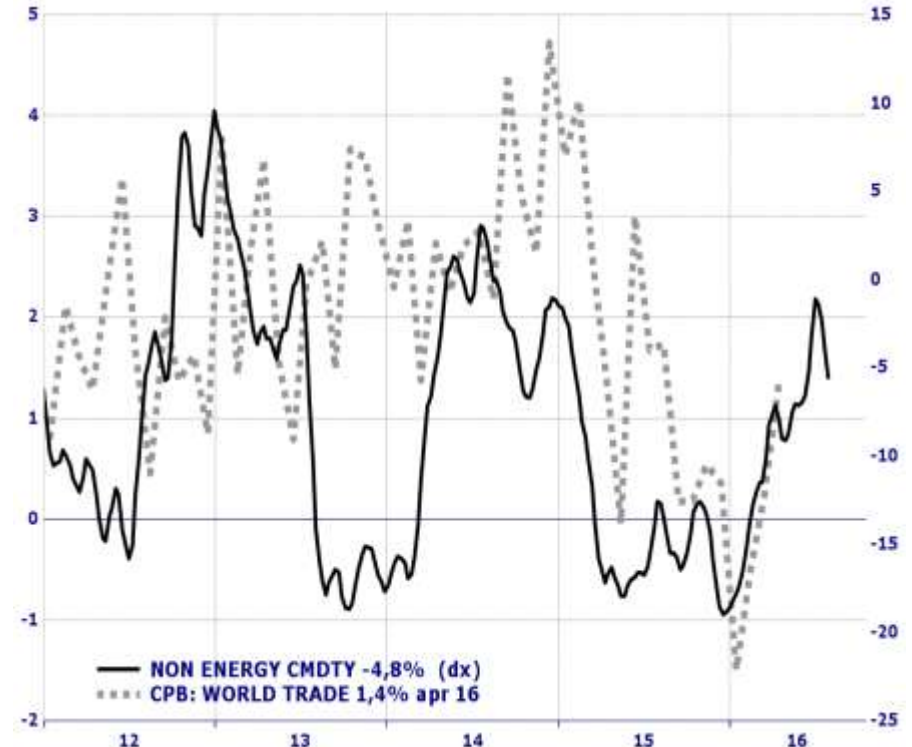
GLOBAL IND. PROD., TRADE AND CONF.

Growth rates- pmi diff from 50 - data



GLOBAL IND. PROD., TRADE AND CONF.

Growth rates - commodity: monthly average

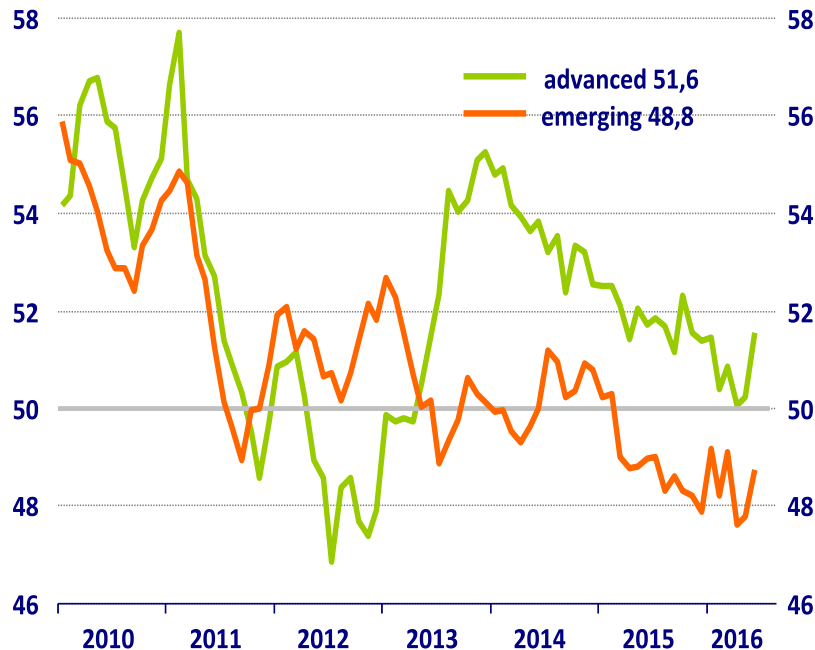


CONFIDENCE INDICATORS

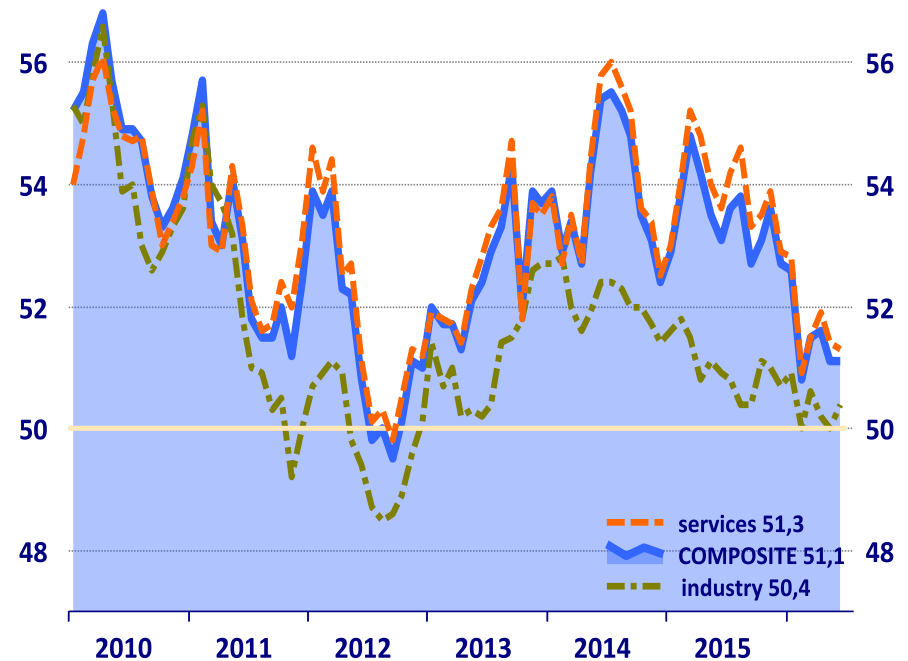
Compared to a still declining trend, leading indicators registered a rather significant reaction. The acceleration has brought the index relative to major economies in an area compatible with a positive growth evolution, while that relative to emerging markets has diminished the probability of further decline.

CONFIDENCE INDICATORS— INDUSTRIAL COMPANIES

Aggregate values in various countries



CONFIDENCE INDICATORS

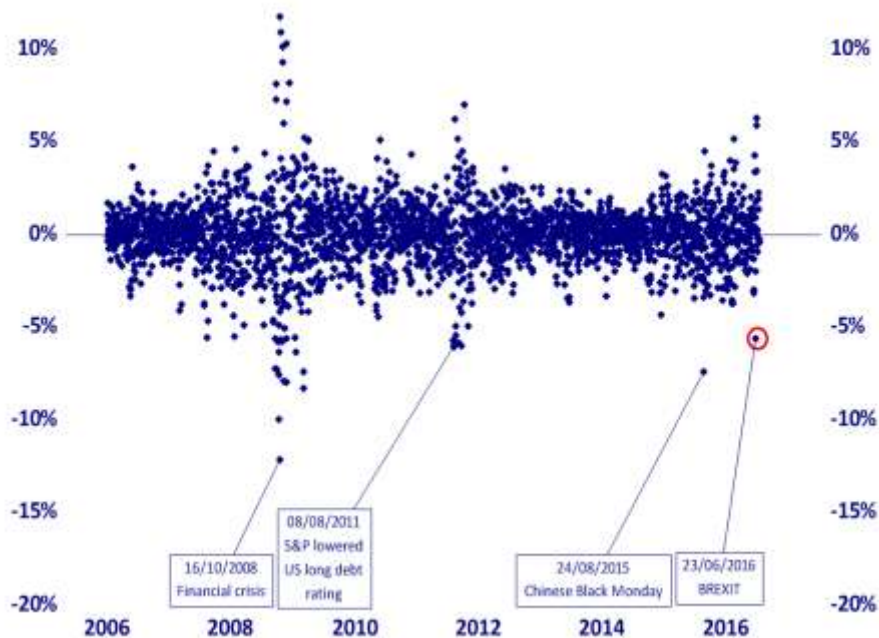


BREXIT

Brexit has been an historical event for the UK and for the whole world, with all characteristics of a shock, but compared to previous episodes, it has produced a different kind of discontinuity...Markets' reaction was immediate, measuring all the uncertainty of a scenario whose effects will be confusing for several months. In the equity market, the indexes' fall was potent, comparable with other more or less recent events...

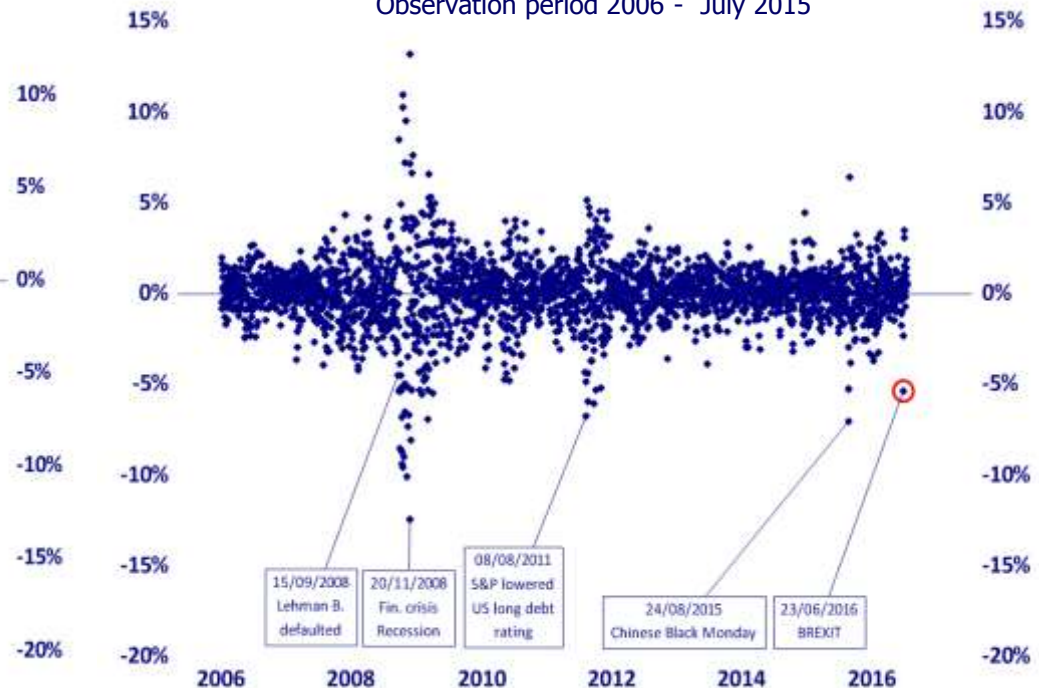
FTSE100 - TWO DAY PERFORMANCE

Observation period 2006 – July 2015



S&P500 - TWO DAY PERFORMANCE

Observation period 2006 - July 2015

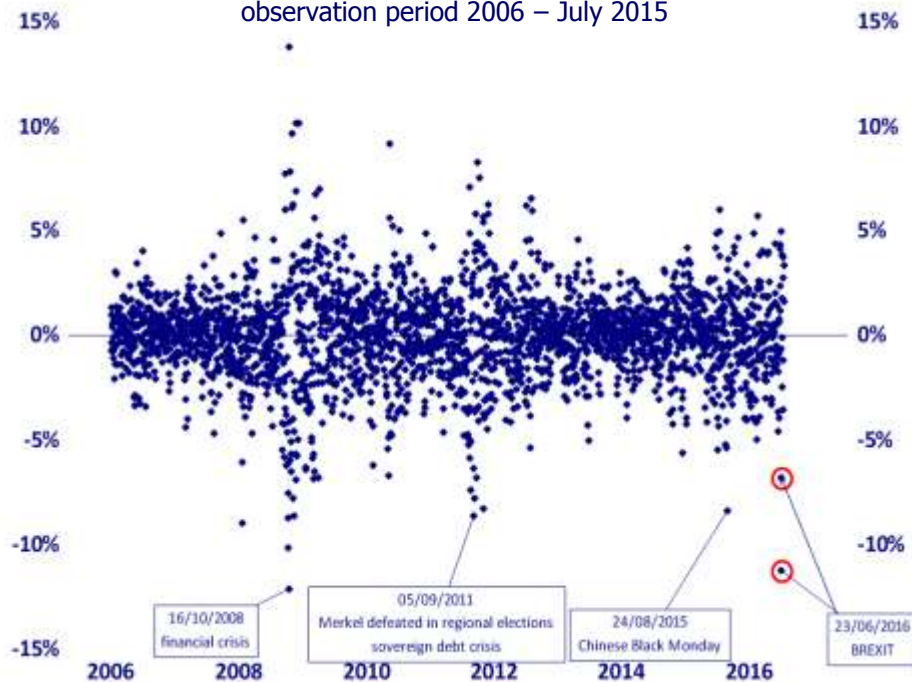


BREXIT

In Europe, the drop in stock prices has been even more violent. In any case, we believe that Brexit isn't comparable to the crisis that followed Lehman Brothers' default, a serious infection that in no time hit finance and the real economy. In this case, the contagion is absolutely containable.

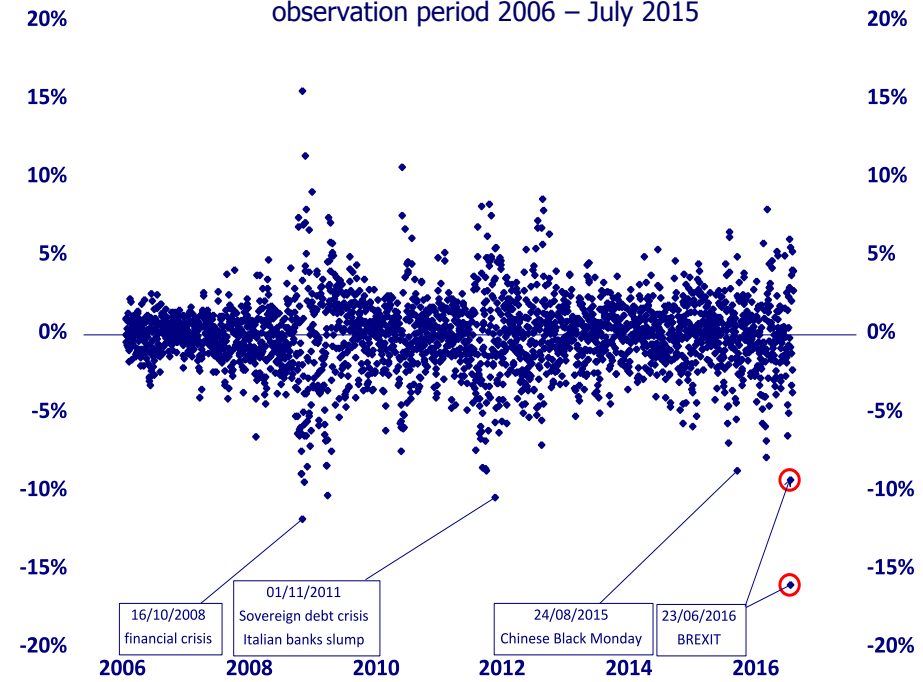
STOXX50 - TWO DAY PERFORMANCE

observation period 2006 – July 2015



FTSEMIB - TWO DAY PERFORMANCE

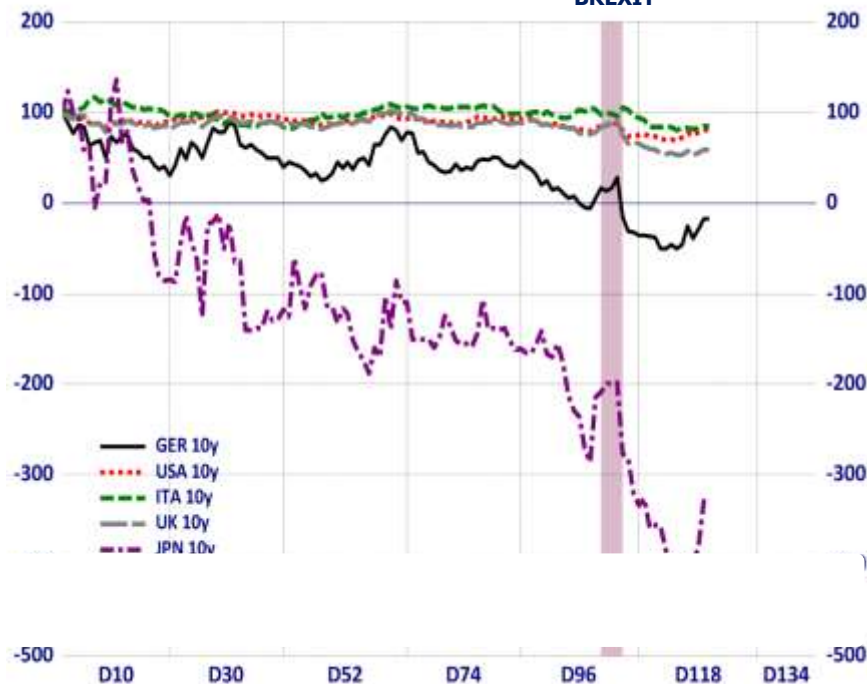
observation period 2006 – July 2015



Bond earnings have generally declined. Those of safe havens have seen an impressive boost, while peripherals had to absorb the peak caused by Brexit before continuing their favourable descendant phase. In the equity compartment, the announcement effect created a very strong general decline, but then there's been a decided reaction. Japan, United States and even United Kingdom have exceeded pre-Brexit levels, Germany and Italy are still below, but favourable conditions persist. Decreasing earnings and growing stock prices have a common matrix, i.e., central banks' possible even more expansionary policy.

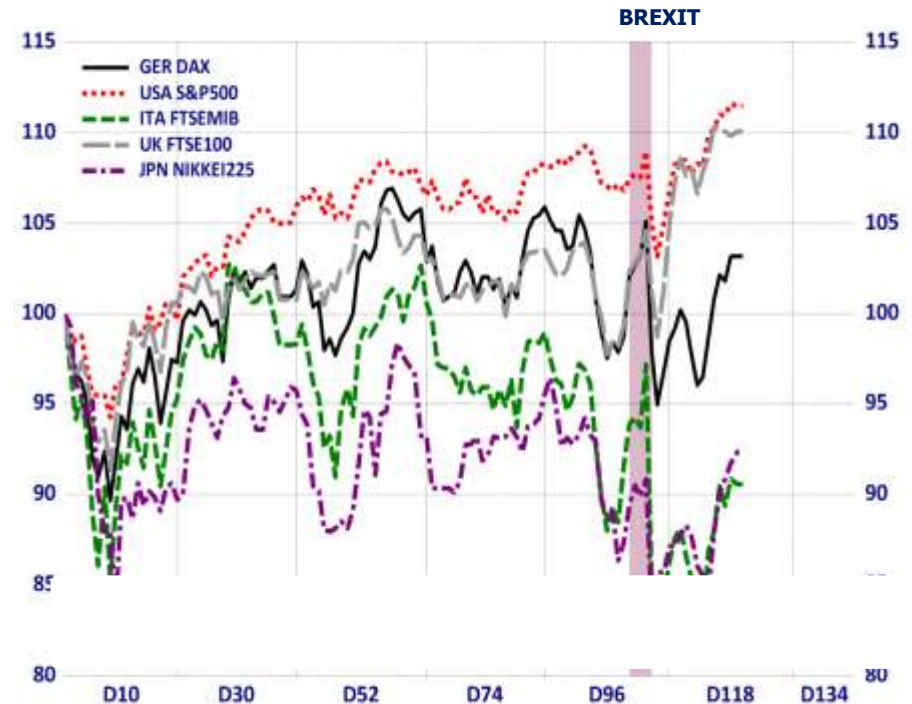
TEN YEAR GOVERNMENT BOND EARNINGS

1 February 2016=100 BREXIT



STOCK MARKET INDEXES

1 February 2016=100 BREXIT

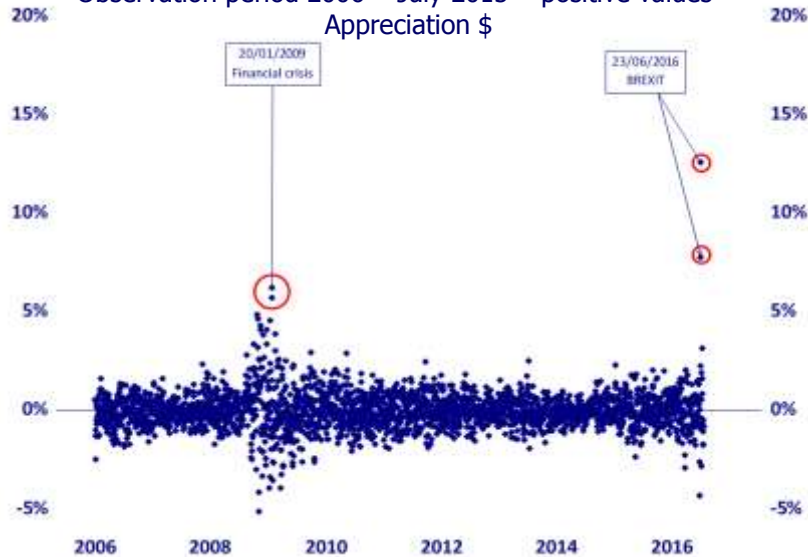


BREXIT

The devaluation of the pound is probably the most persistent effect of the referendum that will take Great Britain out of the EU..

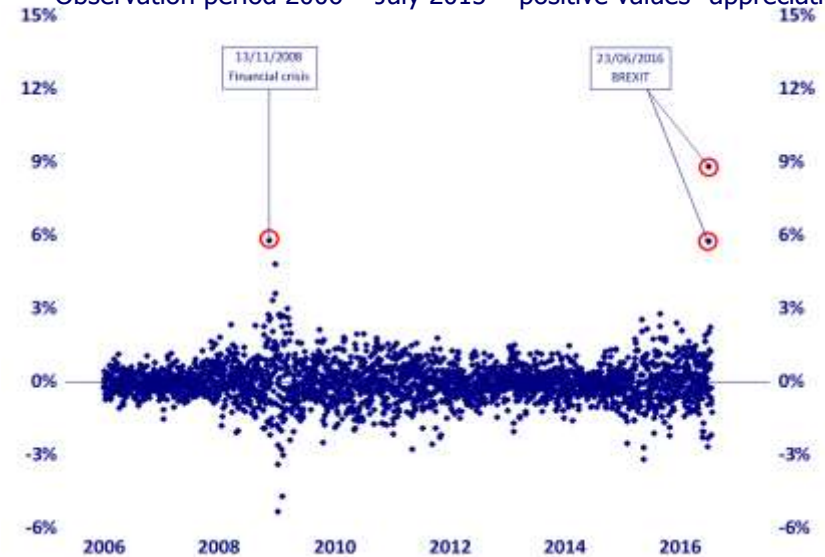
\$/£ - TWO DAY PERFORMANCE

Observation period 2006 – July 2015 – positive values = Appreciation \$



€/£ - TWO DAY PERFORMANCE

Observation period 2006 – July 2015 – positive values = appreciation €



\$/£ & GOVERNMENT RELIABILITY

Exchange rate and CDS on British debt, 5 year bonds

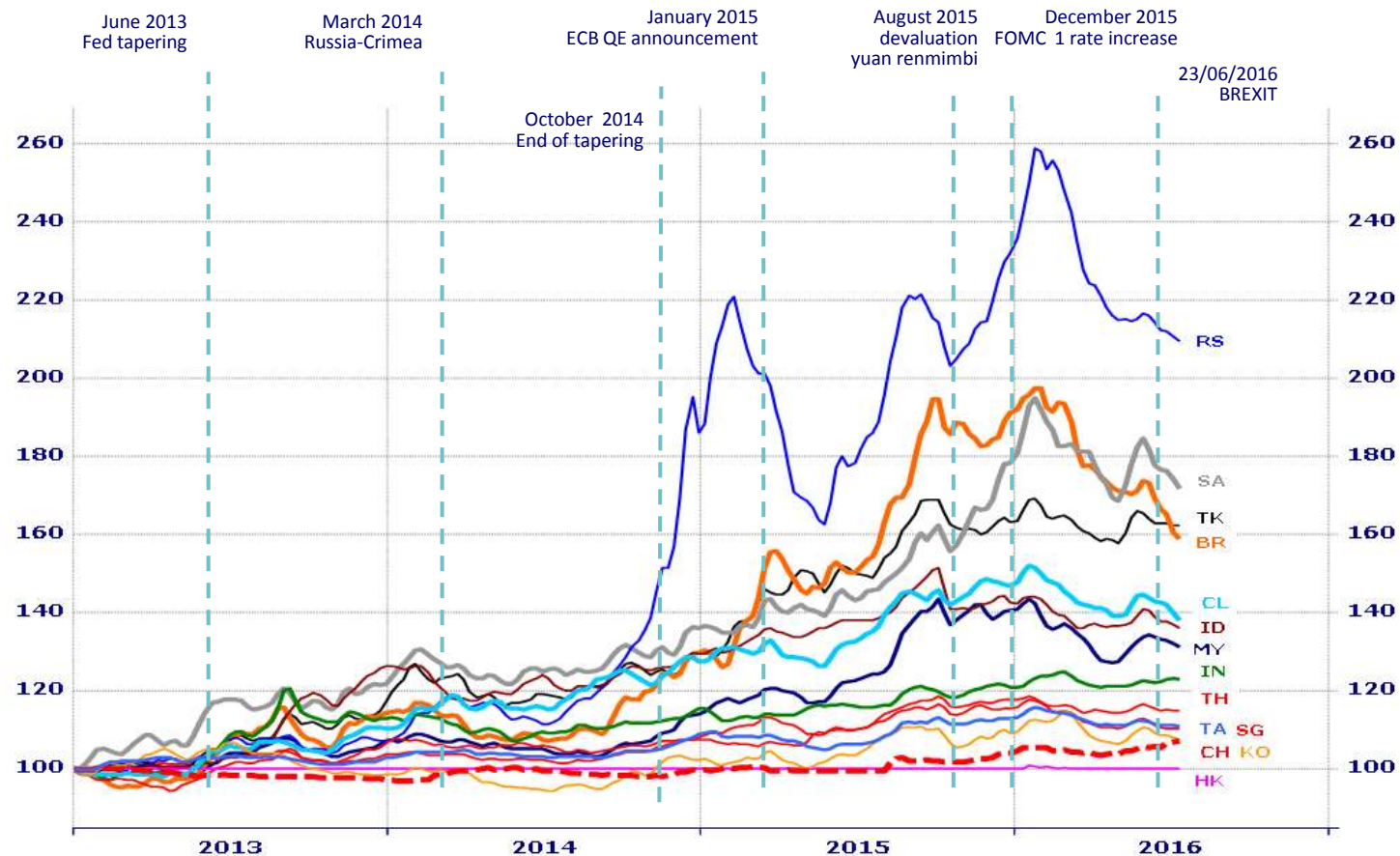
After Brexit, S&P and Fitch lowered Britain's debt rating from AAA to AA



Brexit has had beneficial effects on emerging currencies that have generally appreciated thanks to the Fed's greater prudence in terms of increasing rates that prevailed over the risk averse impulse. Surely China is an exception, where the effects of the US's monetary policy is lower than compressive effects such as ...

EMERGING CURRENCIES – CROSS VERSUS \$

1 July 2013=100 - exchange rates, daily survey, 10 day moving average



BREXIT

... the increase in risk aversion that in this specific case causes the yen to strengthen, the PBoC's expansive monetary policy and the capital outflow that isn't thwarted by Chinese authorities, as it is considered a consequence of the country's greater openness to the rest of the world.

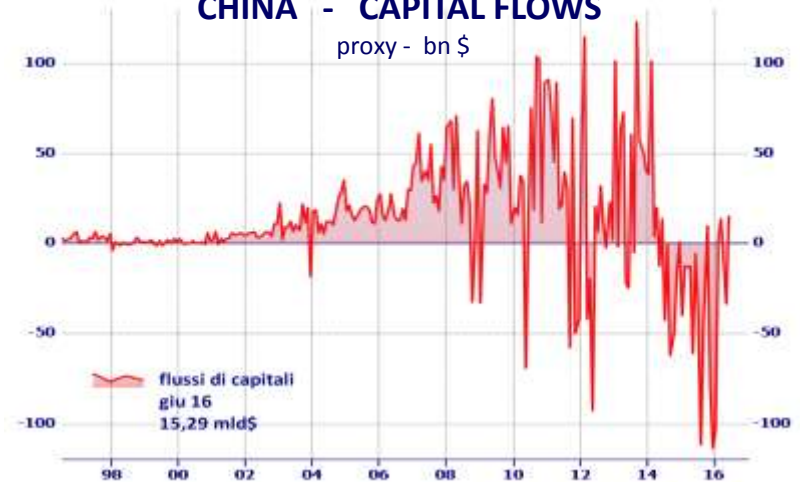
YUAN RENMIMBI - SPOT, FIXING, OFFSHORE

Exchange rate on \$



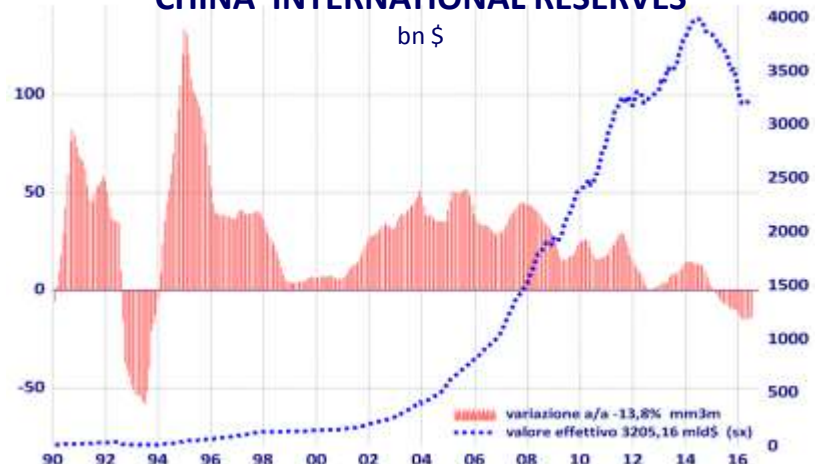
CHINA - CAPITAL FLOWS

proxy - bn \$



CHINA INTERNATIONAL RESERVES

bn \$



BREXIT: impact on monetary policies and rates

OFFICIAL RATES							Bloomberg consensus July 2016	
	last values	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2016	Q3 2017
FED Funds	0.25-0.5	0.50	0.75	0.75	1.00	1.00	0.75	1.25
Refi - BCE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Base rate - BOE	0.50	0.00	0.00	0.00	0.00	0.00	0.50	0.50
3 MONTHS RATE FORECASTS							Bloomberg consensus July 2016	
	last values	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2016	Q3 2017
USA	0.66	0.70	0.90	0.95	1.10	1.15	0.79	1.32
EMU	-0.29	-0.35	-0.35	-0.35	-0.30	-0.25	-0.30	-0.25
UK	0.51	0.30	0.20	0.30	0.35	0.45	0.51	0.79
2 YEARS RATE FORECASTS							Bloomberg consensus July 2016	
	last values	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2016	Q3 2017
USA	0.60	0.65	0.90	1.00	1.20	1.30	1.10	1.56
EMU	-0.68	-0.65	-0.60	-0.60	-0.50	-0.40	-0.50	-0.38
UK	0.14	-0.10	-0.20	0.00	0.10	0.25	0.51	0.60
10 YEARS RATE FORECASTS							Bloomberg consensus July 2016	
	last values	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2016	Q3 2017
USA	1.38	1.40	1.60	1.70	1.90	2.10	2.10	2.45
EMU	-0.17	-0.20	-0.25	-0.15	0.10	0.25	0.30	0.55
UK	0.77	0.50	0.60	0.60	0.70	0.90	1.50	1.73
Spread EURO 10-2 anni							0 gen-00	
	last values	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2016	Q3 2017
USA	0.78	0.75	0.70	0.70	0.70	0.80	1.00	0.89
EMU-Bund	0.51	0.45	0.35	0.45	0.60	0.65	0.80	0.93
UK	0.63	0.60	0.80	0.60	0.60	0.65	0.99	1.13

Impact on growth

Area	2015 GDP Growth Rates - QoQ ann.			
	Q1 15	Q2 15	Q3 15	Q4 15
U.S.	0.6	3.9	2.0	1.4
Eurozone	2.3	1.6	1.2	1.3
Germany	1.6	1.6	1.1	1.1
France	2.6	0.2	1.5	1.3
Italy	1.6	1.1	0.7	0.6
UK	1.7	2.4	1.7	1.9
Japan	5.4	-1.7	1.6	-1.7

Area	2016 GDP Growth Rates - QoQ ann.			
	Q1 16	Q2 16	Q3 16	Q4 16
U.S.	1.1	2.9	2.5	2.0
Eurozone	2.2	1.2	0.8	0.5
Germany	2.7	1.0	1.2	0.5
France	2.6	0.6	0.8	0.5
Italy	1.0	0.8	0.7	0.6
UK	1.8	1.0	0.1	-1.0
Japan	1.9	-0.8	1.5	1.5

Area	2017 GDP Growth Rates - QoQ ann.			
	Q1 17	Q2 17	Q3 17	Q4 17
U.S.	1.6	2.6	2.2	2.0
Eurozone	0.8	1.4	1.5	1.8
Germany	1.0	1.2	1.3	1.7
France	0.8	1.0	1.2	1.3
Italy	1.3	1.5	1.9	1.8
UK	-0.5	-0.2	0.6	1.0
Japan	0.8	1.0	1.0	1.0

Area	2015 GDP Avg Yearly Growth		
	May-16	Jul-16	Consensus - July 16
U.S.	2.4	2.4	2.4
Eurozone	1.5	1.6	1.5
Germany	1.4	1.4	1.4
France	1.1	1.1	1.1
Italy	0.8	0.8	0.8
UK	2.3	2.3	2.3
Japan	0.6	0.6	0.5

Area	2016 GDP Avg Yearly Growth		
	May-16	Jul-16	Consensus - July 16
U.S.	1.9	2.0	1.9
Eurozone	1.5	1.5	1.5
Germany	1.6	1.5	1.6
France	1.4	1.3	1.5
Italy	1.0	0.8	0.9
UK	1.8	1.4	1.6
Japan	0.4	0.4	0.5

Area	2017 GDP Avg Yearly Growth		
	May-16	Jul-16	Consensus - July 16
U.S.	2.3	2.2	2.2
Eurozone	1.6	1.0	1.3
Germany	1.7	1.0	1.3
France	1.4	0.9	1.3
Italy	1.3	0.6	0.9
UK	1.9	-0.1	0.7
Japan	0.5	1.0	0.8

Impact on exchange rates

	Last values	Avg 2014	Avg 2015	Q3 16	Q4 16	Q1 17	Q2 17	Q3 17	Q4 17	Consensus (June 2017)
EUR/USD	1.103	1.328	1.110	1.075	1.052	1.065	1.070	1.081	1.108	1.112
EUR/CHF	1.090	1.214	1.068	1.080	1.099	1.076	1.083	1.092	1.117	1.140
EUR/GBP	0.833	0.806	0.726	0.822	0.809	0.809	0.811	0.807	0.823	0.745
EUR/JPY	117.88	140.40	134.33	113.1	113.5	115.6	116.5	119.2	123.5	126.8
USD/CHF	0.988	0.915	0.963	1.005	1.045	1.010	1.012	1.01	1.008	1.025
USD/JPY	106.9	105.9	121.0	105.2	107.9	108.5	108.9	110.2	111.5	114
GBP/USD	1.325	1.648	1.528	1.307	1.300	1.316	1.320	1.340	1.347	1.493

DISCLAIMER

The content of the preceding pages has been prepared by Banca Aletti&C. S.p.A. ("Banca Aletti") together with the European University Institute. Banca Aletti – belonging to the Gruppo Banco Popolare – is a broker authorized by law, listed in the Register of Banks, number 5383.

With this document Banca Aletti proposes to its customers' evaluation information retrieved from reliable sources in the system of financial markets and – where deemed necessary – its own opinion on the matter with possible commentary (notes, observations, evaluations).

We point out that the information provided, communicated in good faith and on the basis of data available at the moment, could be inexact, incomplete or not up to date and is apt to variation, even without notice, at any given moment.

This document cannot be in any way considered to be a sales or subscription or exchange offer, nor any form of soliciting sales, subscriptions or exchange of financial instruments or of investment in general and is neither a consulting in financial investment matters.

Banca Aletti is not responsible for the effects deriving from the use of this document. The information made available through the present document must not be considered as a recommendation or invitation on Banca Aletti's side to accomplish a particular transaction or to perform a specific operation.

Each investor should form his own independent persuasion, based exclusively on his own evaluations on the opportunity to invest. The decision to undertake any form of financial operation is at the exclusive risk of the addressees of the present disclaimer.

The source of all data and graphs is provided by Thomson Reuters where not otherwise specified.