

BANCA ALETTI
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Global Economy Report

May-June 2017



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.

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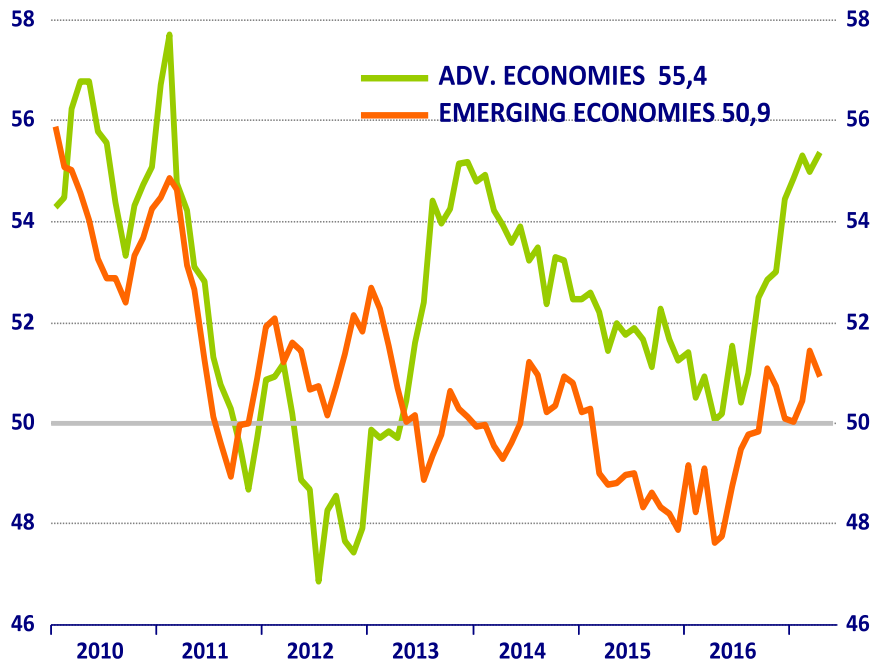
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Report closed on May 12, 2017

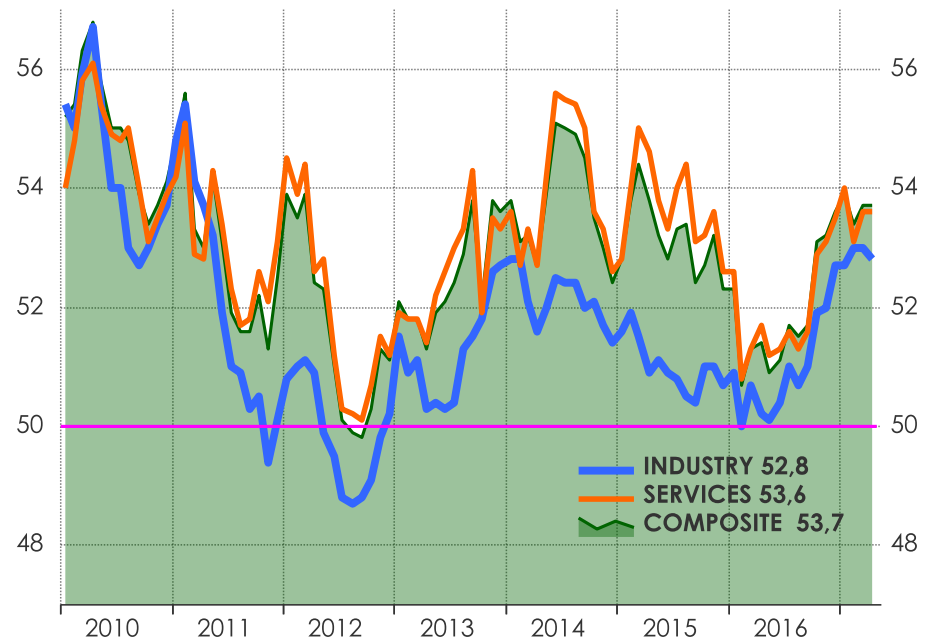
Global confidence indexes signal positive conditions for the economic cycle:

- a) Major economies' position is at its highest since 2011;
- b) Emerging countries' index is slightly lower than five-year highs, but confirms expansive conditions
- c) Industry and services' indexes have favourable dynamics

BUSINESS CONFIDENCE
Aggregate values



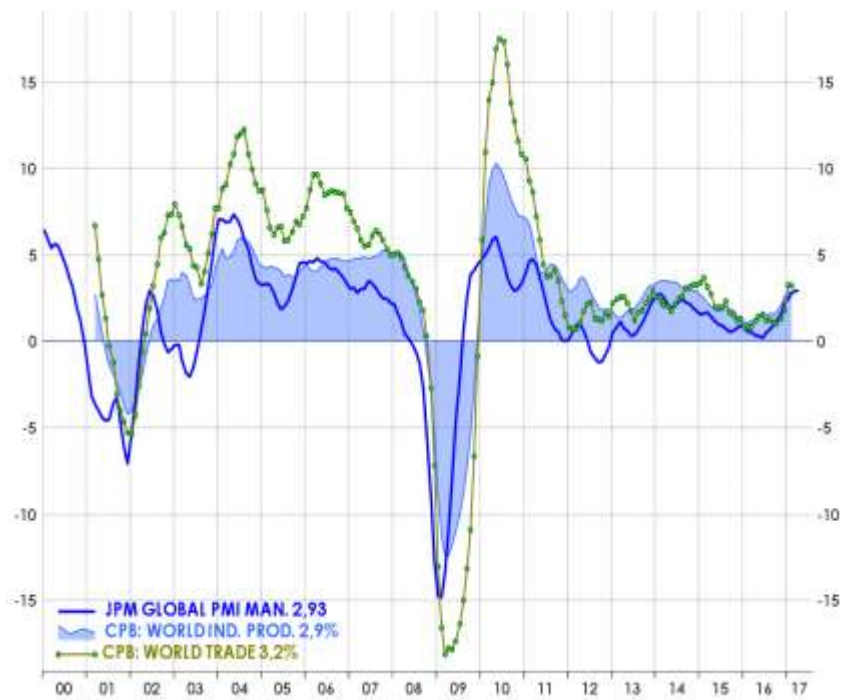
CONFIDENCE INDICATORS
Aggregate values by activity type



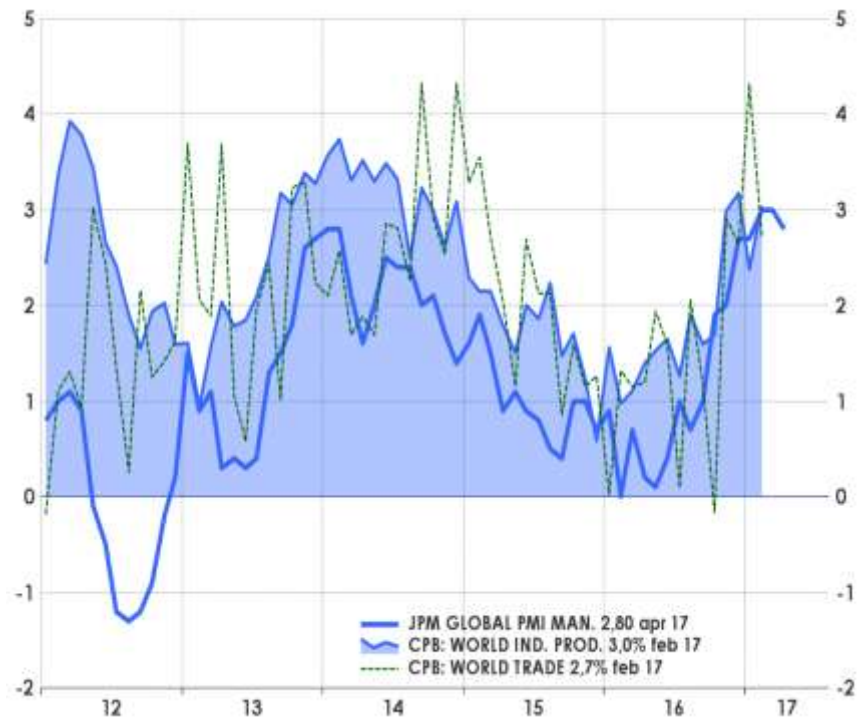
EXECUTIVE SUMMARY

Real economy's variables have decidedly quickened their pace in the first part of 2017:
Production and trade grow at almost 3%.
Leading indicators are at 2011 highs.

CONFIDENCE AND INDUSTRIAL PRODUCTION – SINCE 2000
Growth rates tendenziali - pmi diff da 50 - 3 month average



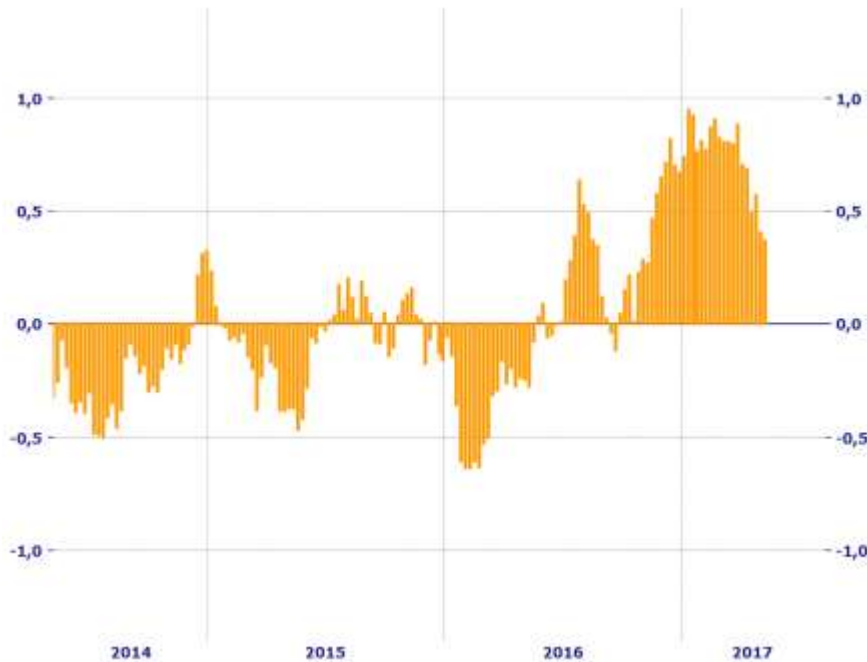
GLOBAL IND. PRODUCTION, TRADE AND CONFIDENCE
tassi tendenziali growth rates - pmi diff da 50 - dati puntuali



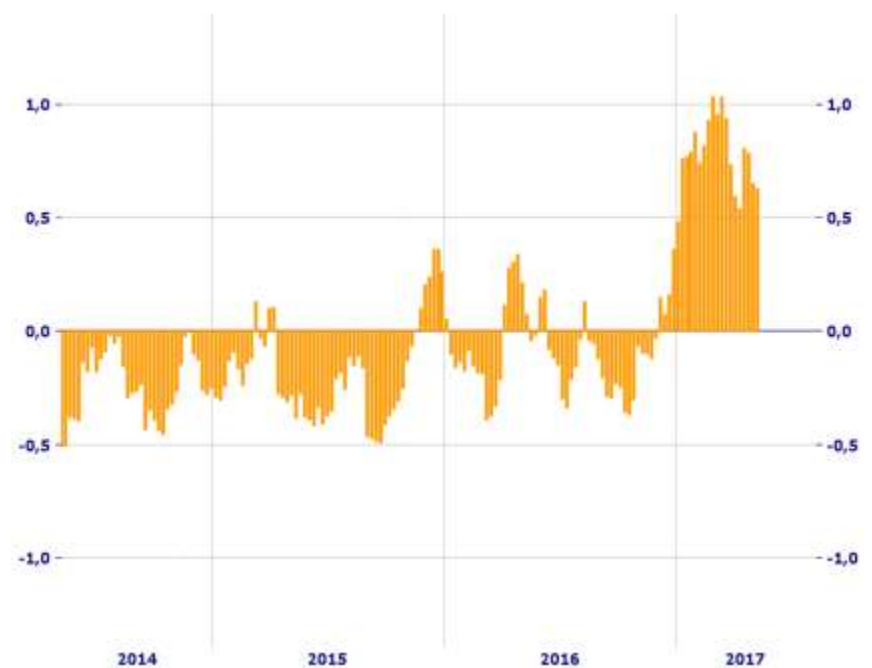
EXECUTIVE SUMMARY

Although positive surprises' intensity has decreased, macroeconomic data's tone is strong and has been above the market's expectations for months.

G10 - ECONOMIC SURPRISE INDEX
Citigroup business surveys



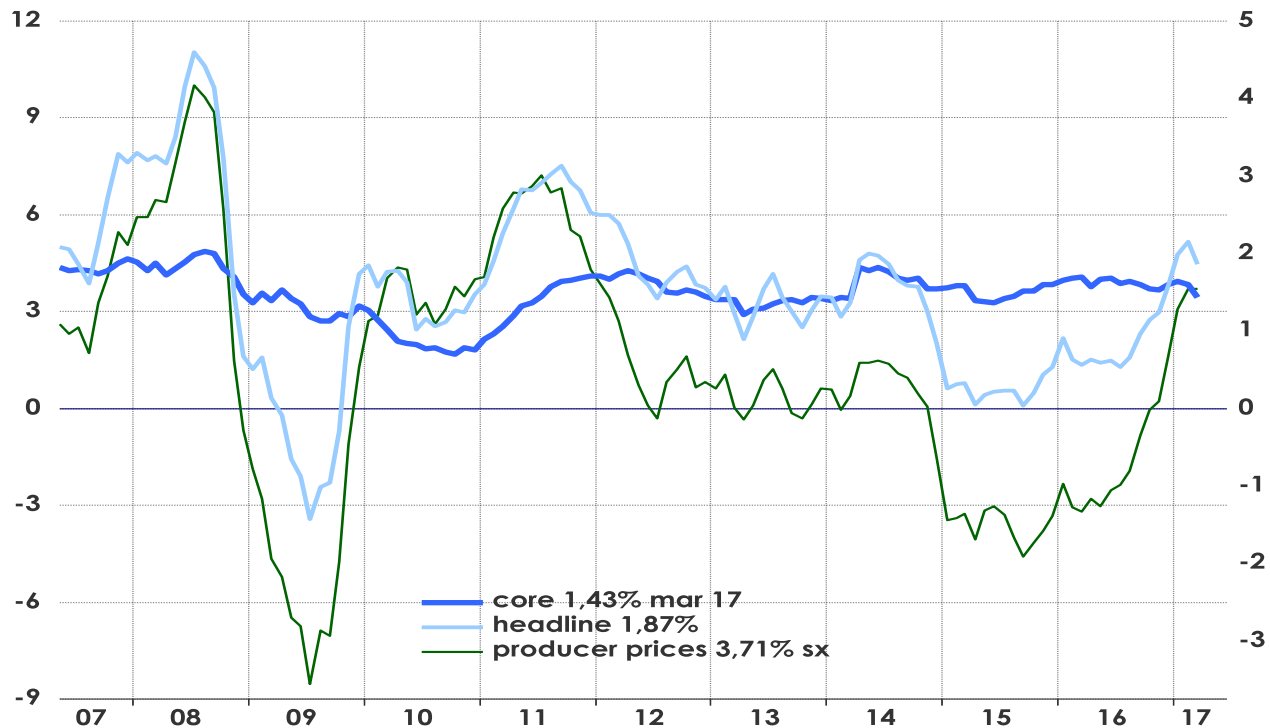
EMERGING MKTS - ECONOMIC SURPRISE INDEX
Citigroup business surveys



The reflationary phase is confirmed active on a global scale.

In this report we focus on economic conditions in China.

INFLATION – MAJOR ECONOMIES
valori tendenziali degli indici - aggregato G7



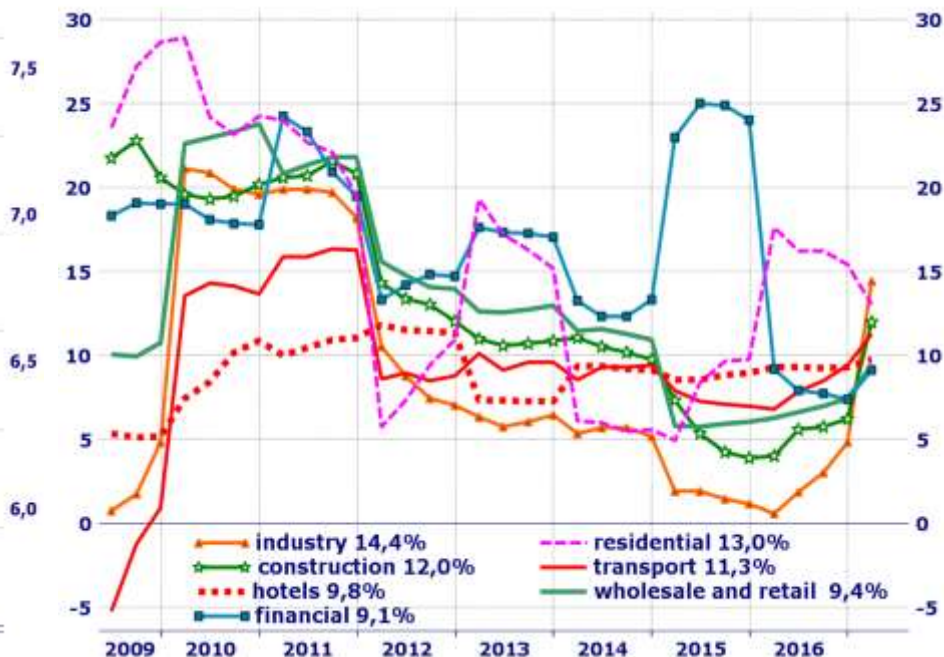
China

In the first quarter 2017, beating consensus, China's total product accelerated in annual terms at 6.9%, registering the highest growth in the past two years. It's the second quarter in a row with a growth increase. This had never happened since 2009. In particular, the manufacturing sector's increase registered a 15% growth, the best performance in the last five year period.

GDP – GROWTH RATES

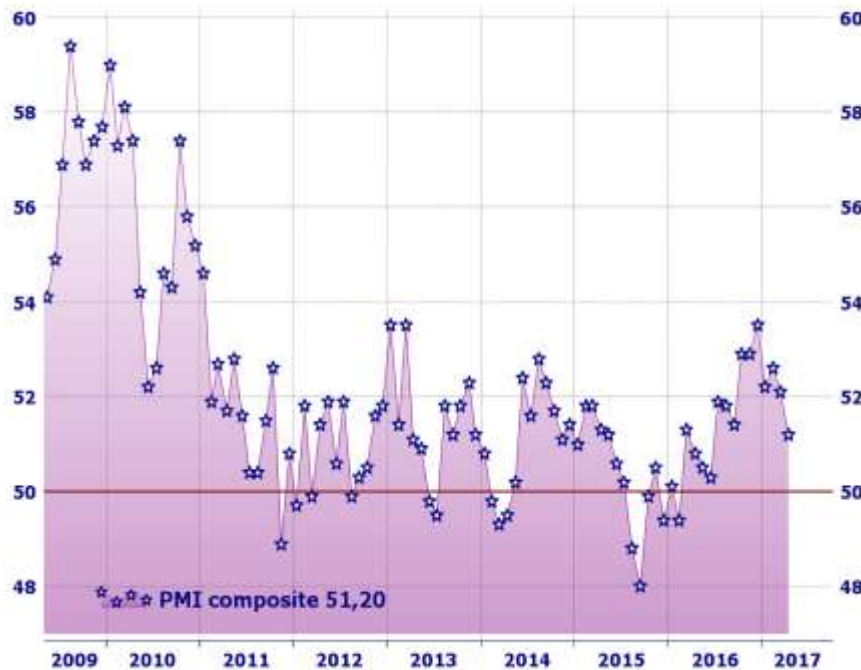


GDP – GROWTH RATES
Added value by sector, % yoy

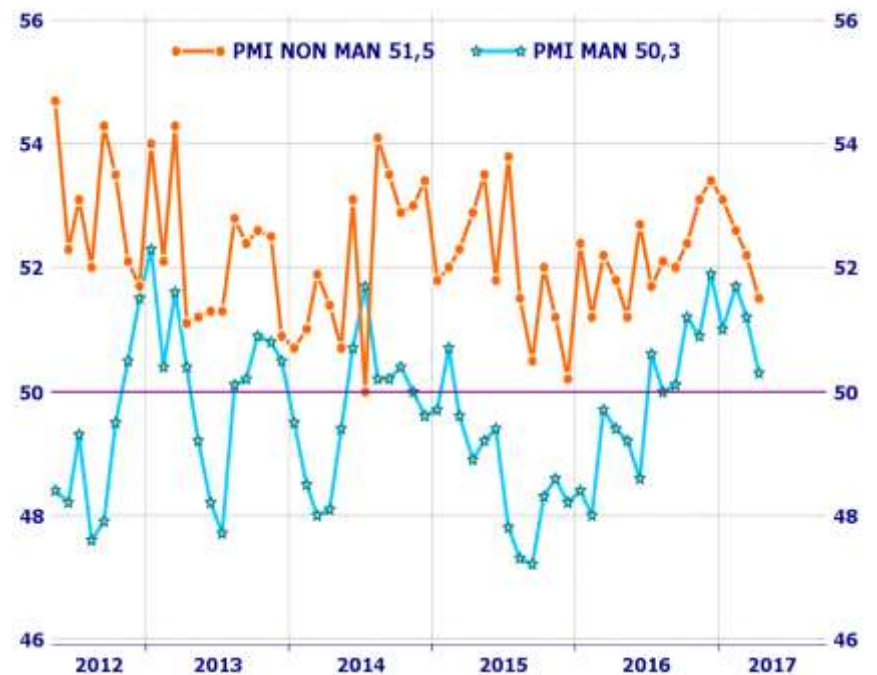


Qualitative indexes still point to expansion, but we must state that there's been an evident decrease in cyclical impulse, both in industry and services sectors.

COMPOSITE PMI

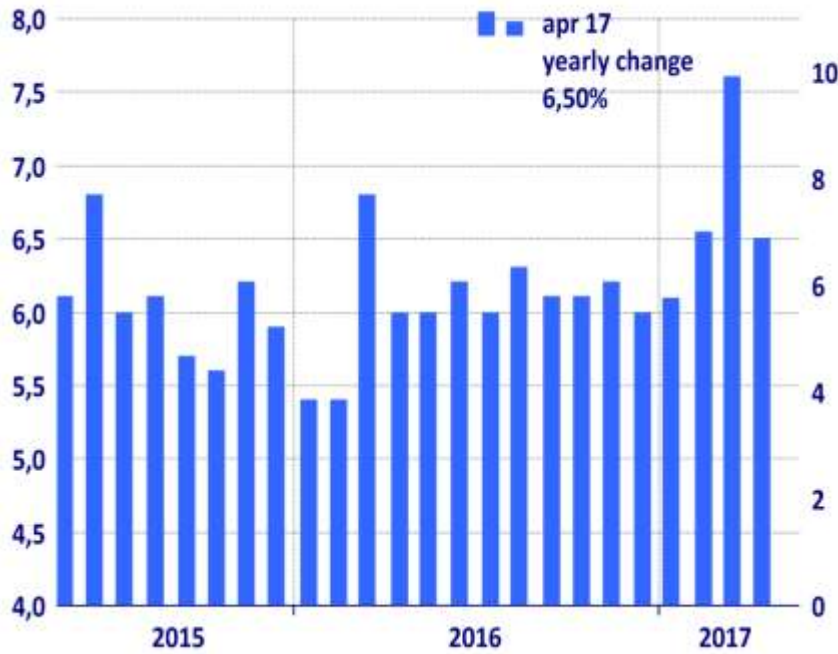


MANUFACTURING AND SERVICES PMI

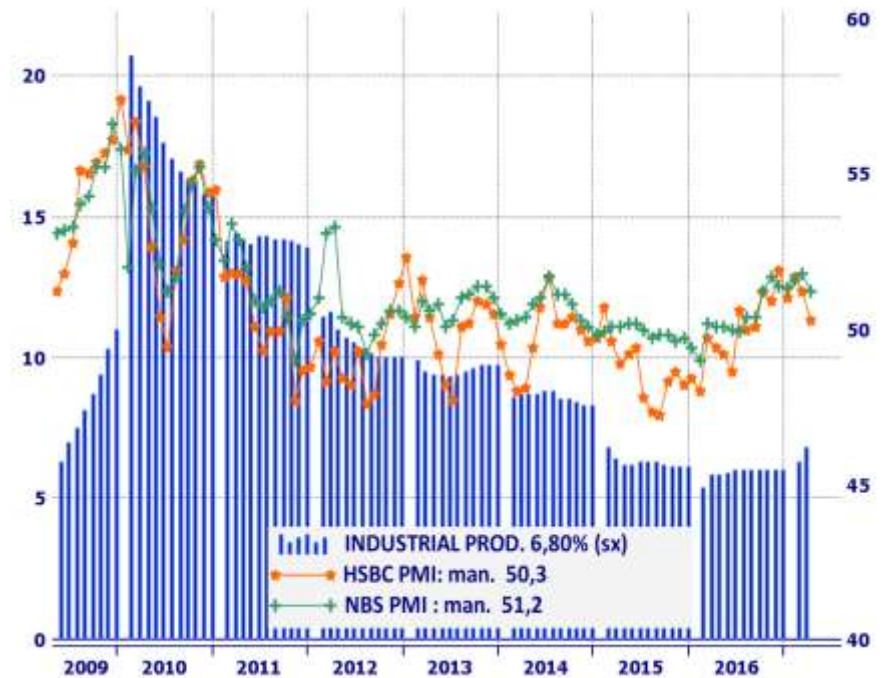


The economy has begun the year at a steady pace, triggered by an acceleration in industrial activity, growing at 7.6% in March, higher than the average 2016 growth. This is the highest growth rate of the past two and a half years, much above consensus. This trajectory seems sustainable over time, given the improving business climate.

INDUSTRIAL PRODUCTION
Short term



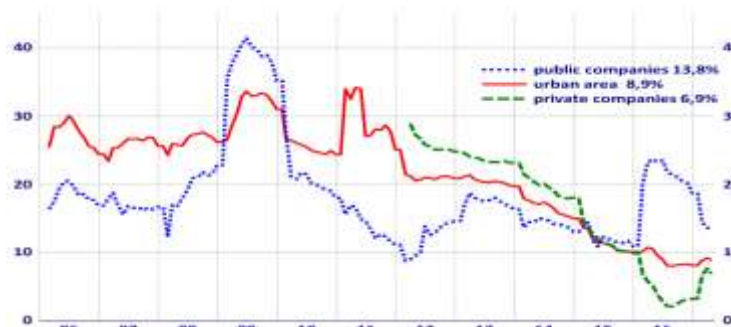
INDUSTRIAL PRODUCTION
Long term



INVESTMENT

Apart from production, there are also signals of acceleration in investment spending at the beginning of the new year. Fixed spending grew by 9.2%, much higher than the typical average rate of the second semester 2016. In particular, private investment growth, coupled with public spending, which had been stimulated by the government's vast spending plans for all of the past year...

PRIVATE AND PUBLIC INVESTMENT SPENDING
tendenziali growth rates, values %



INVESTMENT SPENDING
Long term – values %



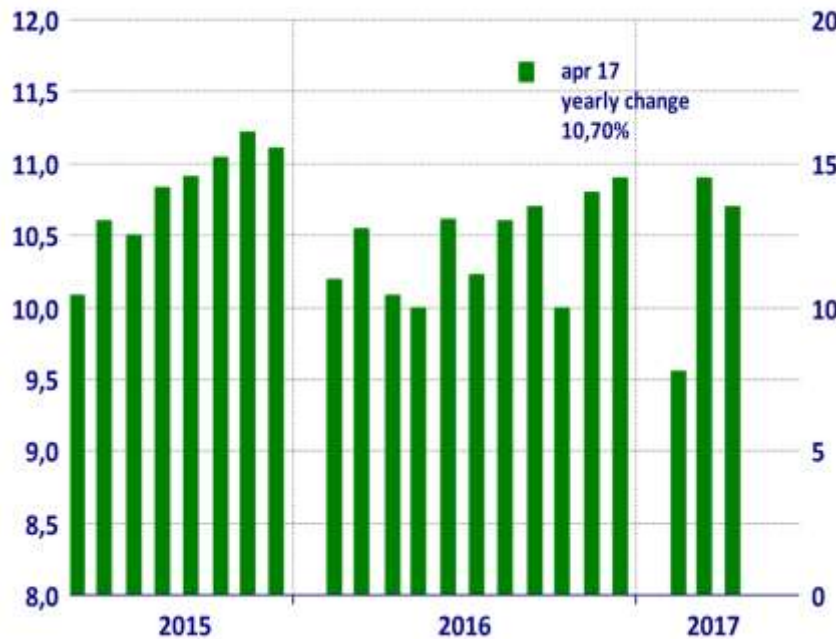
INVESTMENT SPENDING
Short term – values %



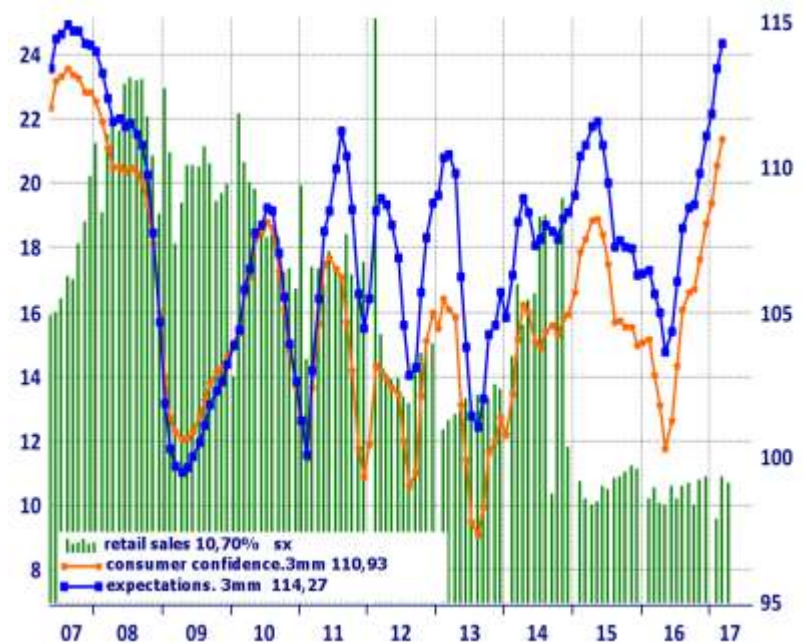
RETAIL SALES

Retail sales have also accelerated significantly, reversing February's temporary weakness: the 10.9% increase, much above consensus (9.7%), is the highest since the end of 2015. Consumption perspectives are positive, stimulated by the constant increase in households' confidence, at 2008 highs.

RETAIL SALES
Short term

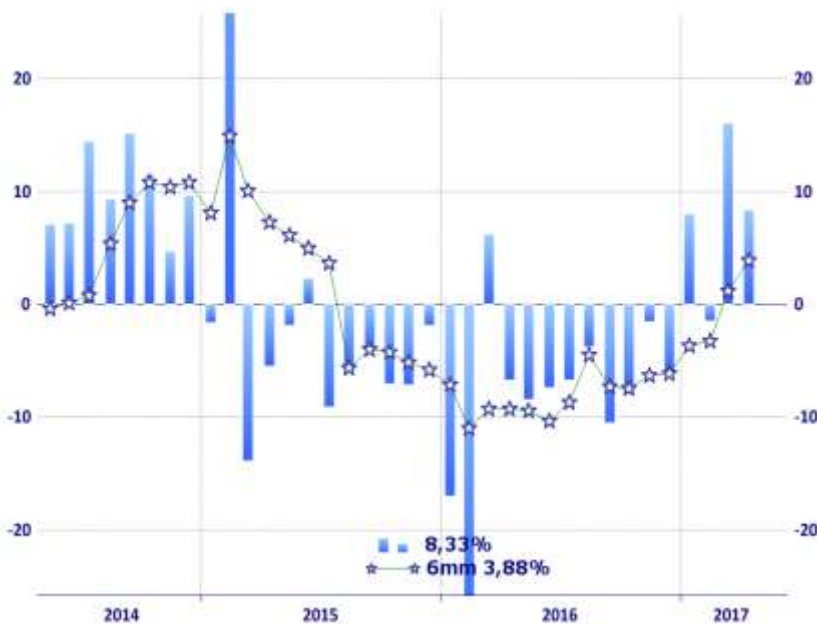


RETAIL SALES
Long term

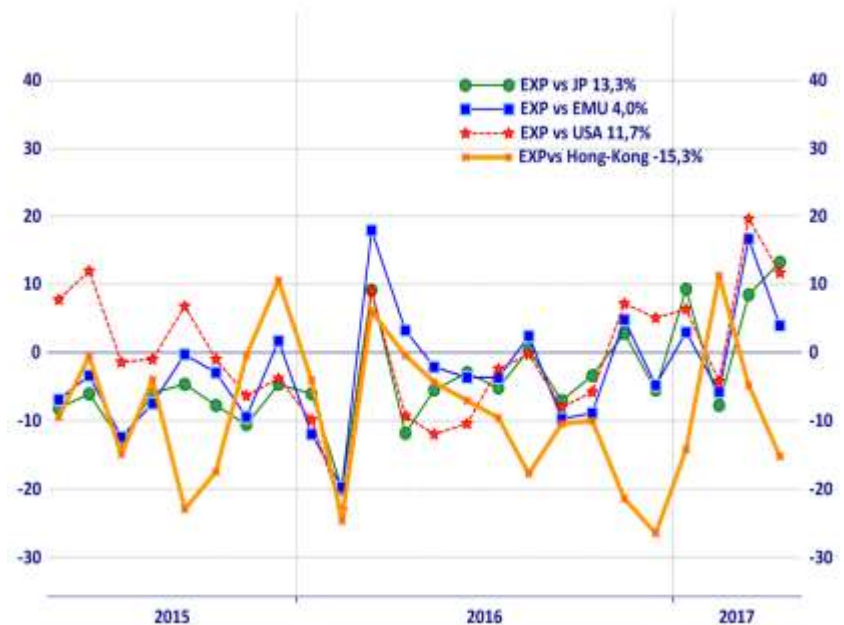


Internal and external demand's improving trend is also visible, also from foreign trade accounts. Exports remain fragile and are improving gradually...

FOREIGN TRADE
Exports – 12 month changes
and its 6m moving average

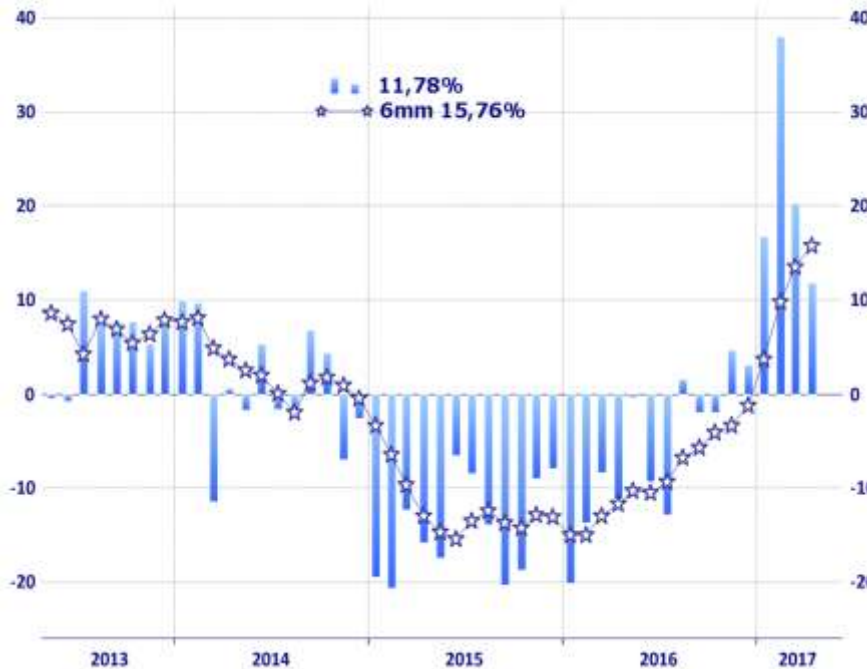


FOREIGN TRADE – VARIOUS COUNTRIES
Exports – 12 month changes

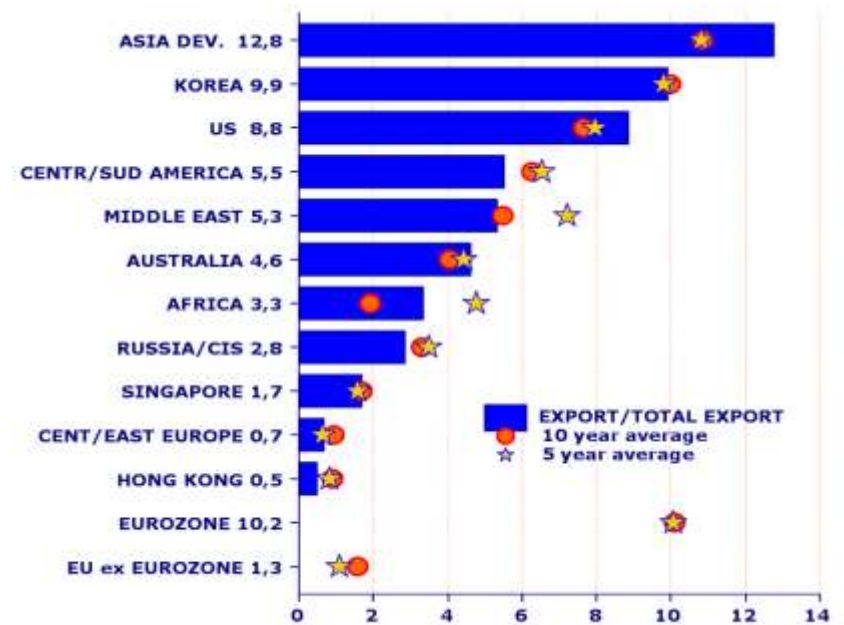


Imports have accelerated greatly, reaching 2012 highs...

FOREIGN TRADE
Import- 12 m and its 6m moving average



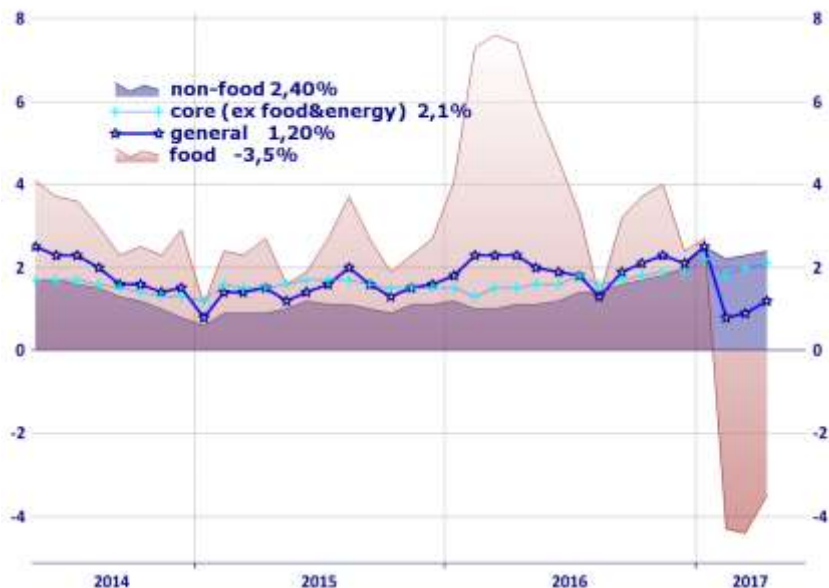
FOREIGN TRADE - AREAS OR COUNTRIES
import on total import



INFLATION

General inflation continues to suffer from food prices' negative dynamics. Net of this component, the index grows by 2.4% in annual terms.

INFLATION BY BASKETS
Indexes - 12m changes



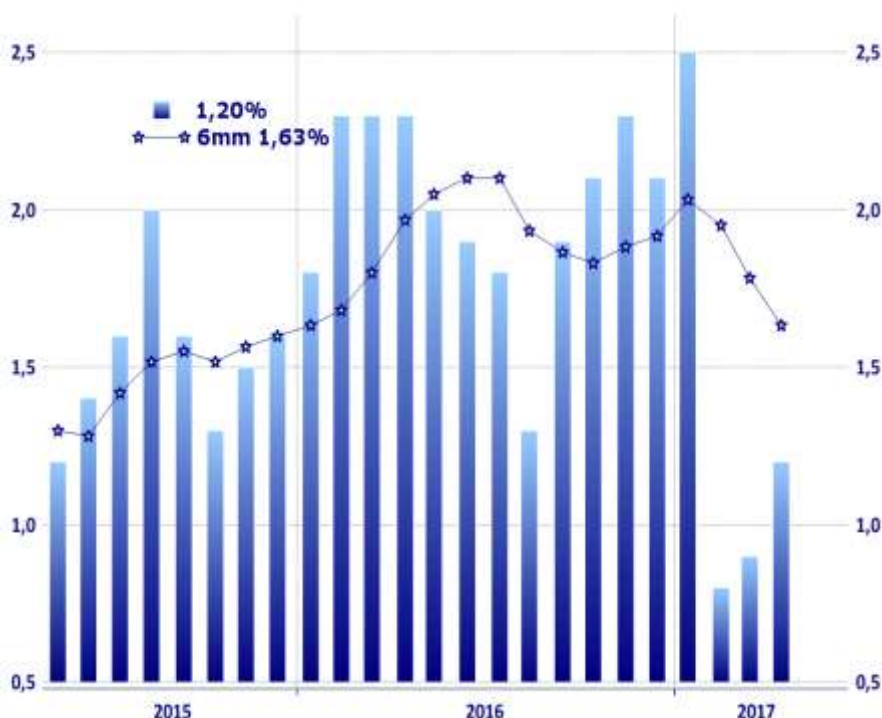
INFLATION BY STAGES
Indexes - 12m changes



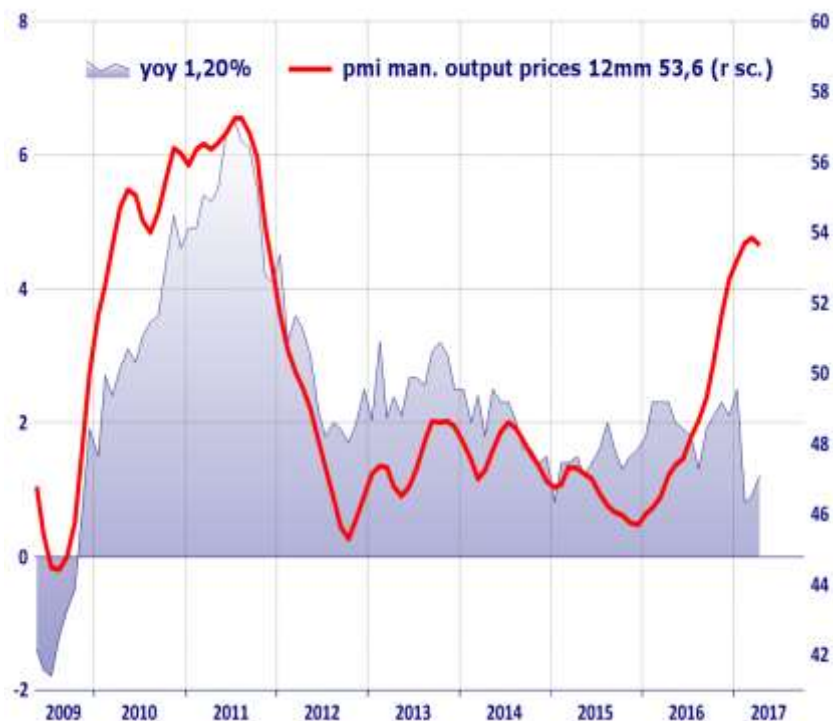
INFLATION

According to the leading indicator, highest since 2011, price pressure is pushing upward...

INFLATION – SHORT TERM
General index – 12 m changes and its 6m moving average



INFLATION & LEADING INDICATOR – LONG TERM
General index – 12 m changes and its 6m moving average



HOUSING

At the beginning of 2017, Chinese economy is mostly stimulated by traditional growth drivers, manufacturing and fixed investment, given a resilient housing market. Data point to a good start, with the system's satisfactory momentum. The macroeconomic evolution is closely monitored by the government authorities, also due to the change in 5-year leadership scheduled for the end of 2017. At the Party Congress at the beginning of March, the premier Li Keqiang announced the (minimum) GDP growth target at 6.5%, down from 6.7%. Also the monetary base's growth target was reduced from 13% to 12%, in line with the policy's moderately restrictive stance.

HOUSING MORTGAGES



HOUSING PRICES

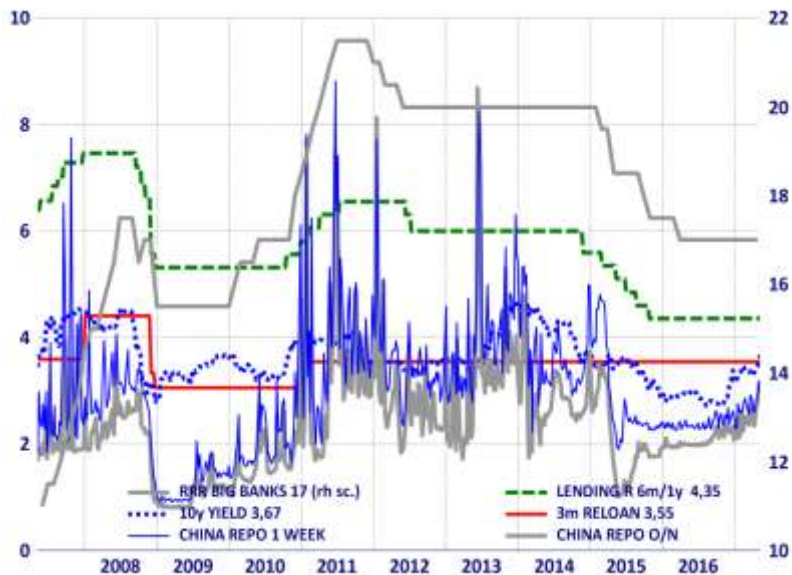


INTEREST RATES

The Chinese Central Bank's intervention on short term interest rates, increasing them on credit operations and on open market operations (repo), in different stages, has been a restriction on monetary conditions.

Thus monetary policy is becoming moderately restrictive.

CHINA – INTEREST RATES
values %



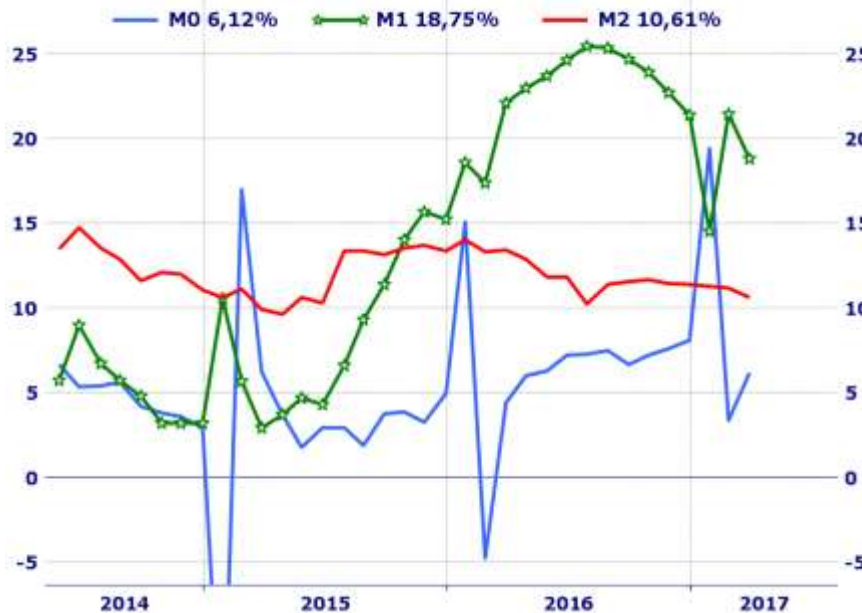
GOVERNMENT ASSETS EARNINGS
Past 18 months



HOUSING

Housing loans are growing at an astounding 35% in annual terms, the highest since 2011. As a consequence, housing prices are increasing rapidly, at over 12% yearly, never so aggressively since the beginning of the series. The great quantity of money is stimulating the housing compartment, removing depressive effects on growth ... but the system carries relevant imbalances, since the credit expansion depends on backward financial circuits.

LIQUID ASSETS - MONEY



MONEY AND GDP



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