



Global Economy Report

March-April 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.

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Compared to November 2015, in its February report the OECD reduced the global growth forecasts for 2016 by three tenths of a point (+3.0%). 2017 had a similar cut, with a 3.3% expected growth. Hence, growth intensity flattens out this year on last year's level, with a modest acceleration for 2017. Several other international organizations and private institutions also lowered their forecasts for global growth.

OECD - GLOBAL ECONOMIC GROWTH

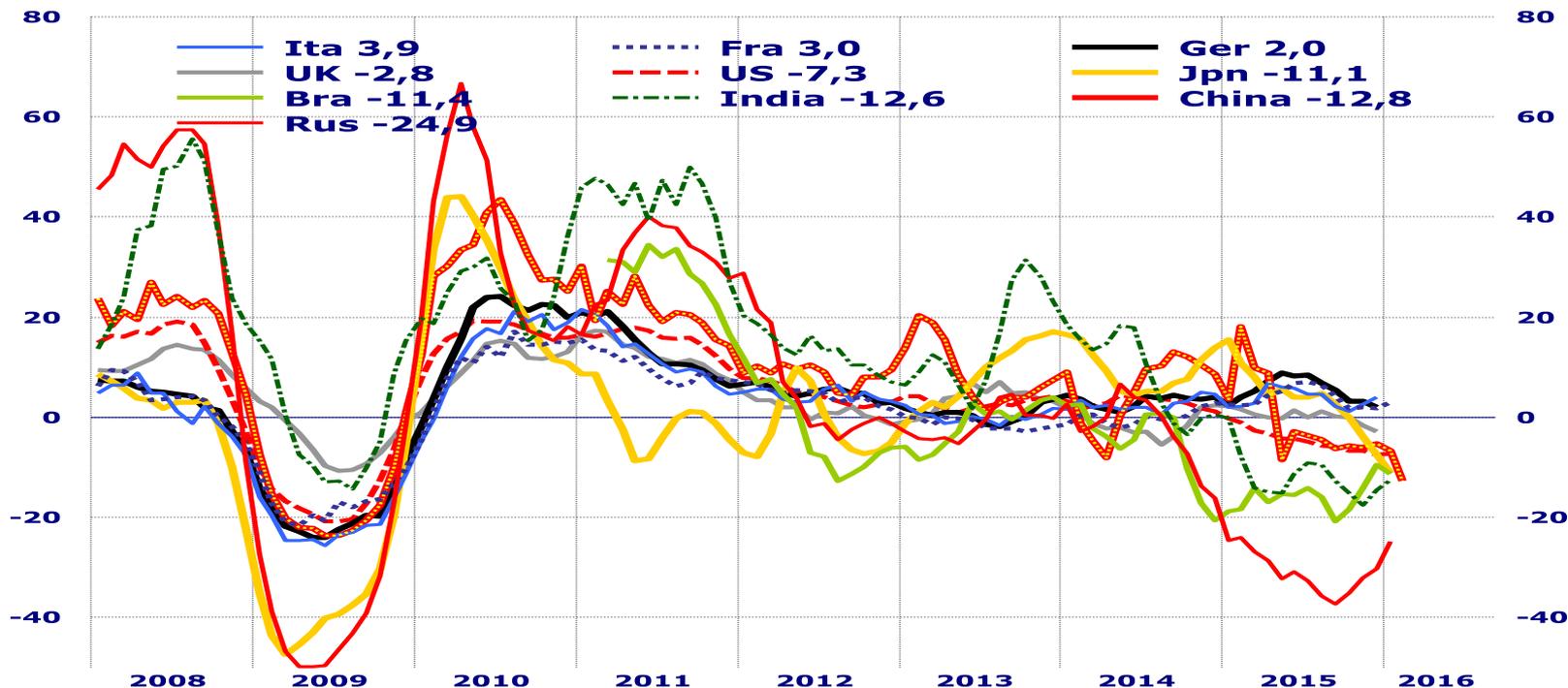
Average annual changes, current prices - Preliminary Report, February 2016

	2013	2014	2015	2016e	diff.	2017e	diff.
PIL (%a/a)							
CRECITA GLOBALE	3,3	3,3	3,0	3,0	-0,3	3,3	-0,3
STATI UNITI	2,2	2,4	2,4	2,0	-0,5	2,2	-0,2
EUROZONA	-0,3	0,9	1,5	1,4	-0,4	1,7	-0,2
GERMANIA	0,2	1,6	1,4	1,3	-0,5	1,7	-0,3
FRANCIA	0,7	0,2	1,1	1,2	-0,1	1,5	-0,1
ITALIA	-1,7	-0,4	0,6	1,0	-0,4	1,4	0,0
GIAPPONE	1,6	-0,1	0,4	0,8	-0,2	0,6	0,1
REGNO UNITO	1,7	3,0	2,2	2,1	-0,3	2,0	-0,3
CANADA	2,0	2,4	1,2	1,4	-0,6	2,2	-0,1
CINA	7,7	7,4	6,9	6,5	0,0	6,2	0,0
INDIA	6,4	7,2	7,4	7,4	0,1	7,3	-0,1
BRASILE	2,7	0,2	-3,8	-4,0	-2,8	0,0	-1,8

The OECD 2016 forecasts reduction depends on major economies' lower growth in the fourth quarter of 2015, which caused a slower initial momentum at the beginning of the new year. Quality-wise, the lower recovery of major economies is coupled with many emerging markets' issues and with a drop in potential output, lower investments and international trade.

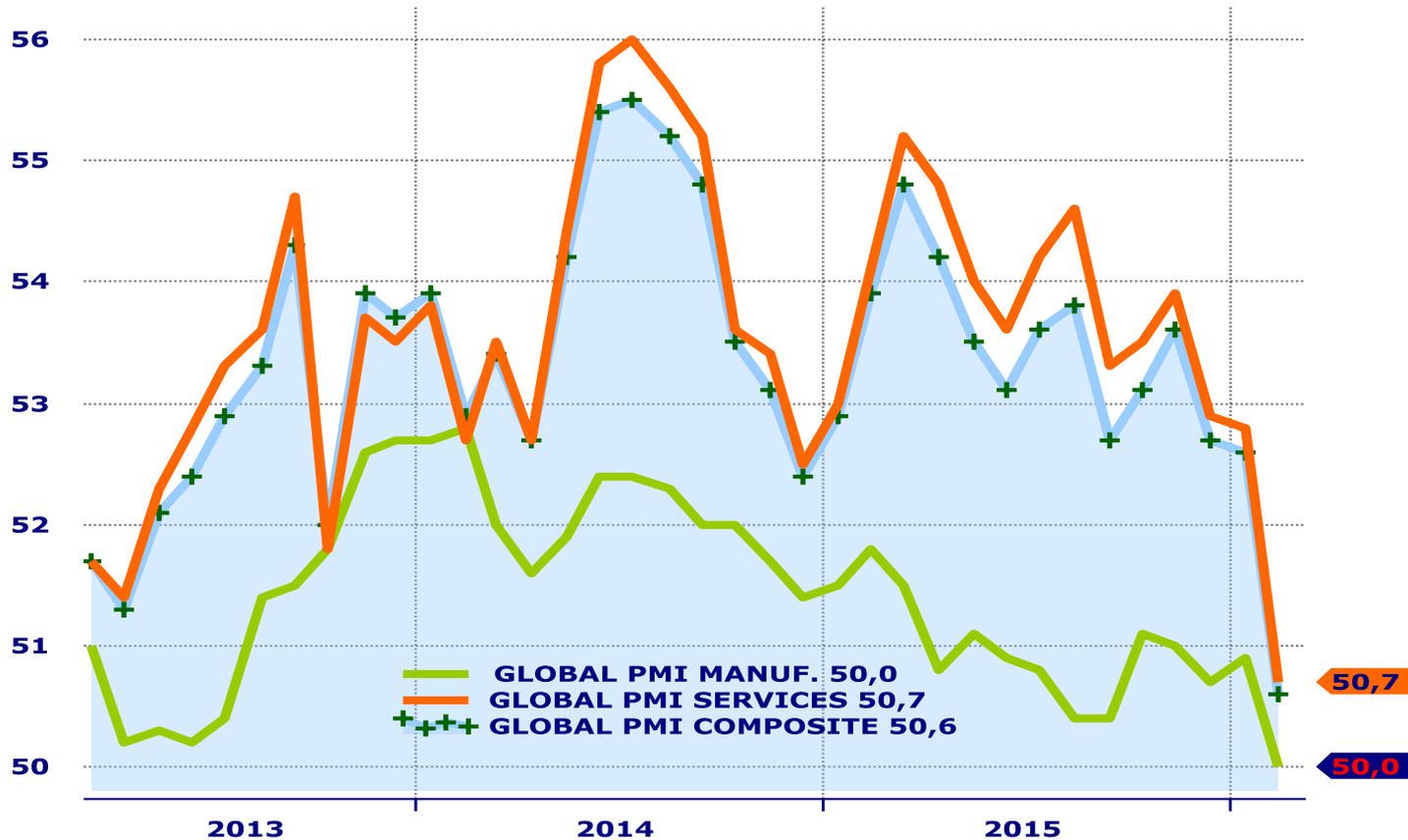
EXPORT

annualised growth rates - three month averages



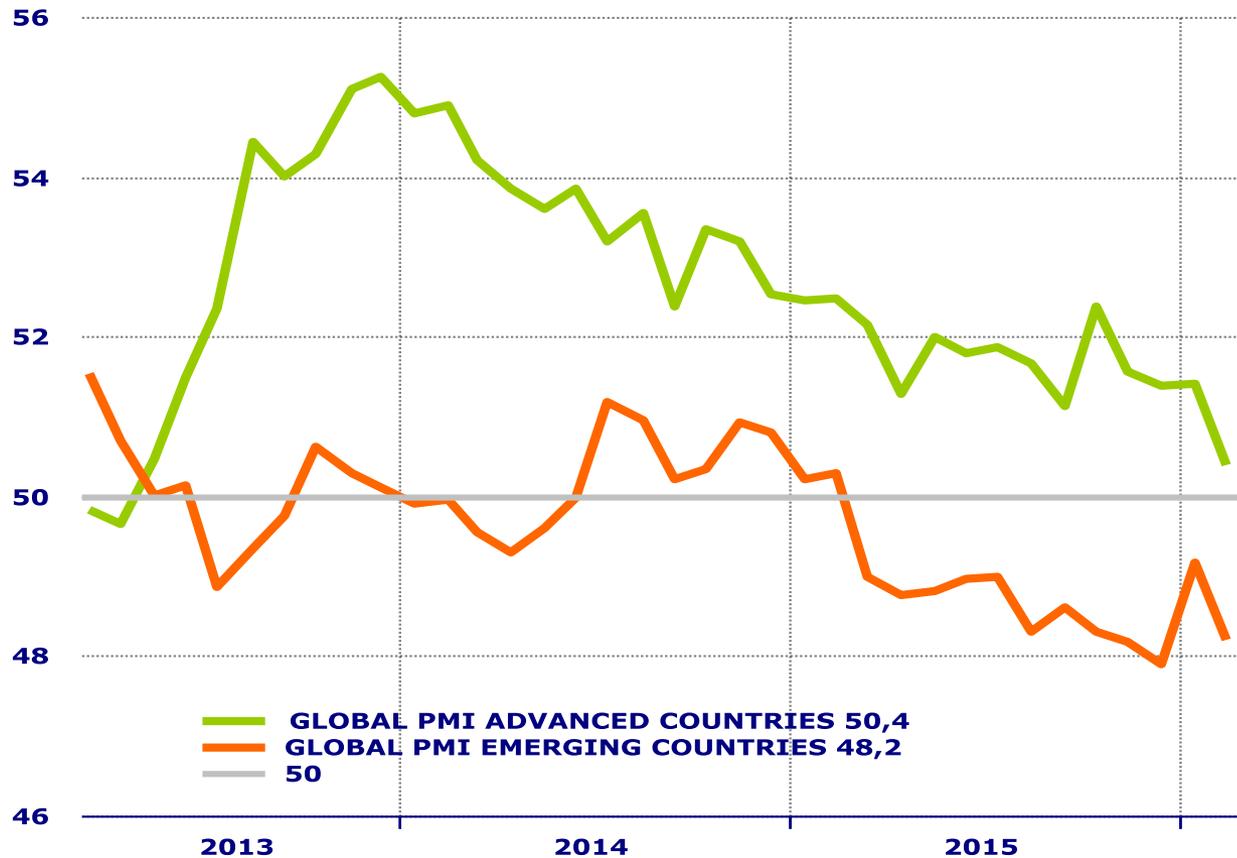
WORLD GROWTH

The global cycle maintains its expansive sign, as highlighted by PMI indexes, but the growth intensity is slowing down. The Services' compartment leads the rest, while Manufacturing's weakness persists.



WORLD GROWTH

The global cycle is characterised by the persistence of a double track between major and emerging economies, well tracked by the corresponding PMIs.

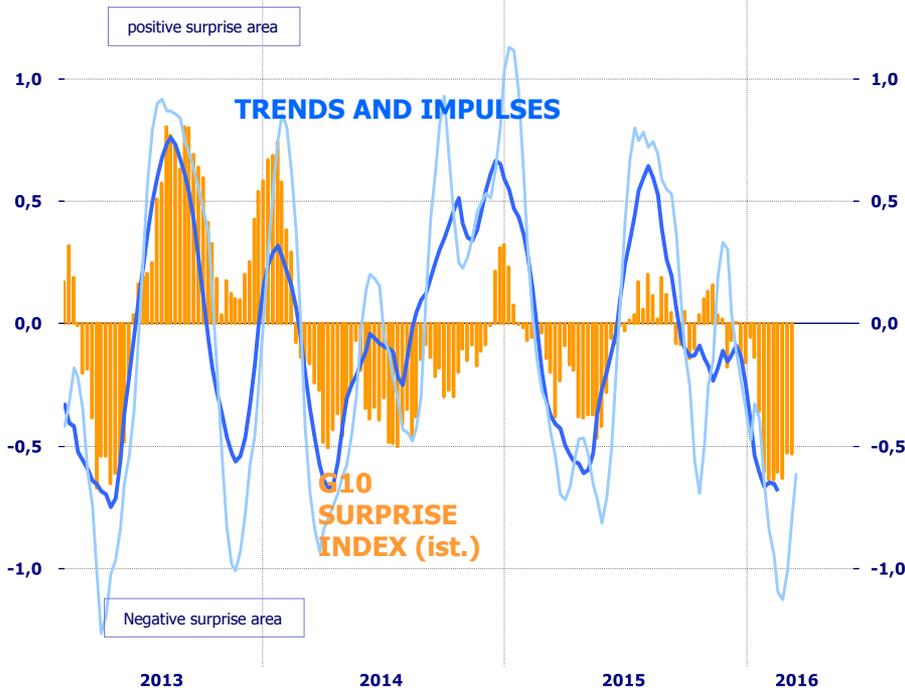


ECONOMIC DATA AND EXPECTATIONS

Macroeconomic data released in the past weeks are in line with expectations, both for the 10 major developed countries and for emerging economies. Relative to these dynamics, markets' development should follow current trends.

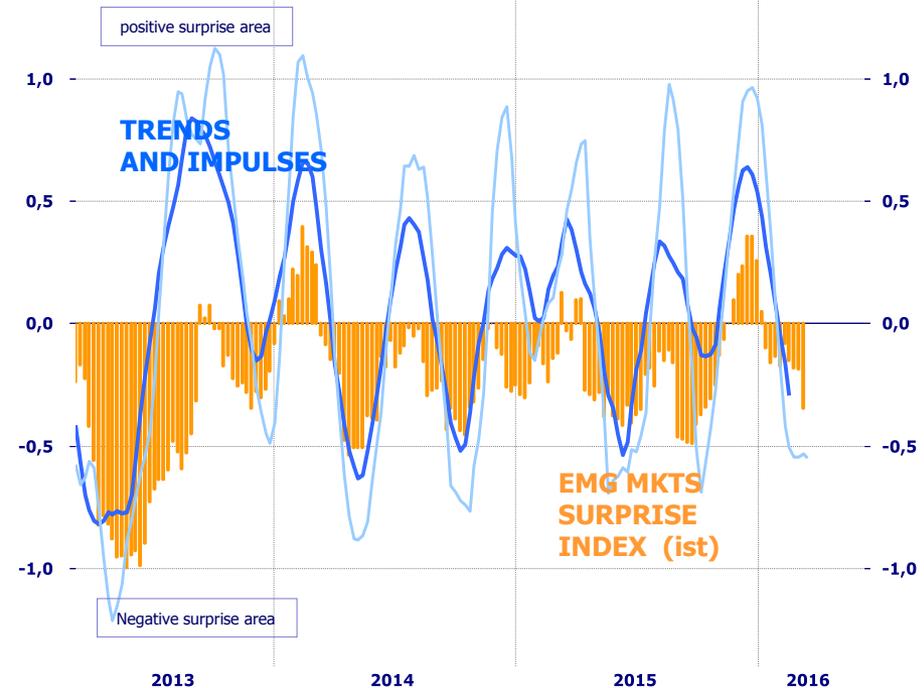
G10 ECONOMIC SURPRISE INDEX

Citigroup business surveys



EMERGING MKTS ECONOMIC SURPRISE INDEX

Citigroup business surveys

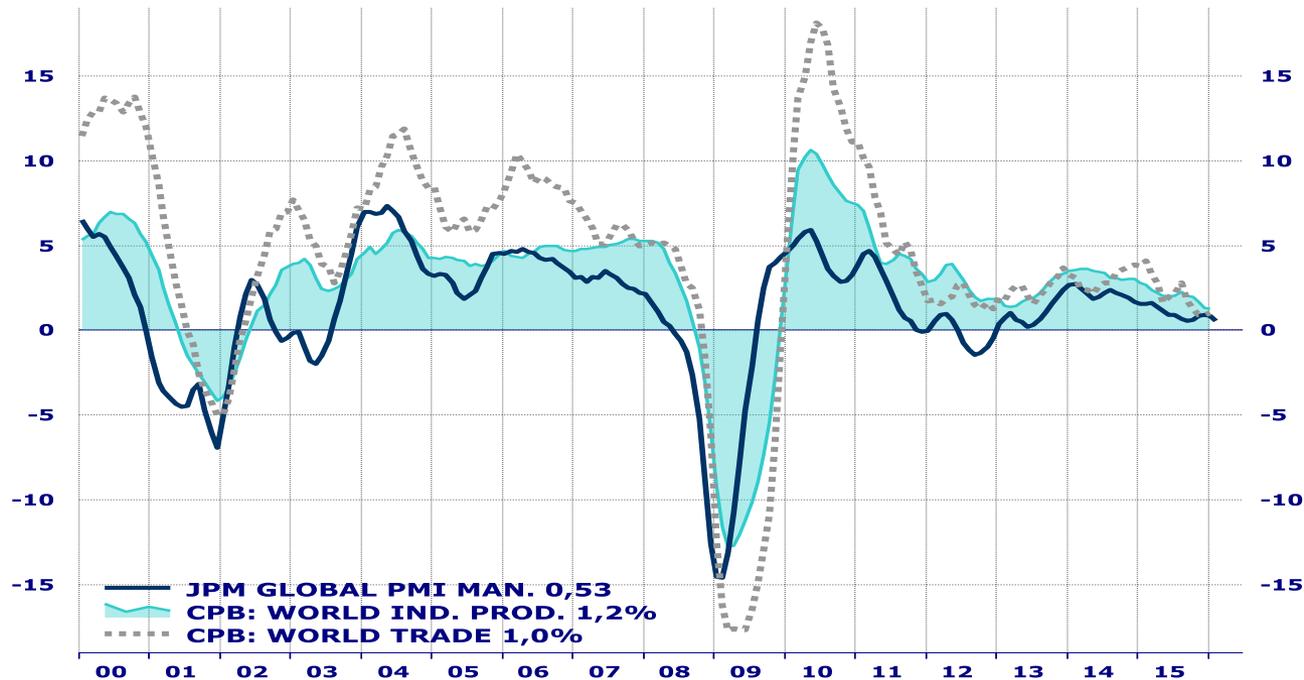


ECONOMIC DATA AND EXPECTATIONS

Downside risks persist: emerging markets' disorderly economic fall, stock prices' plunge due to interest rates' rise and fundamentals' deterioration. Also, the systems' frailty has become structural and increasing geopolitical tensions trigger negative spirals which are difficult to invert. Among major economies, structural weaknesses paired with leadership deficit make the system extremely vulnerable.

GLOBAL INDUSTRIAL PRODUCTION, TRADE & CONFIDENCE

annualised growth rates - PMI different from 50- 3 month averages

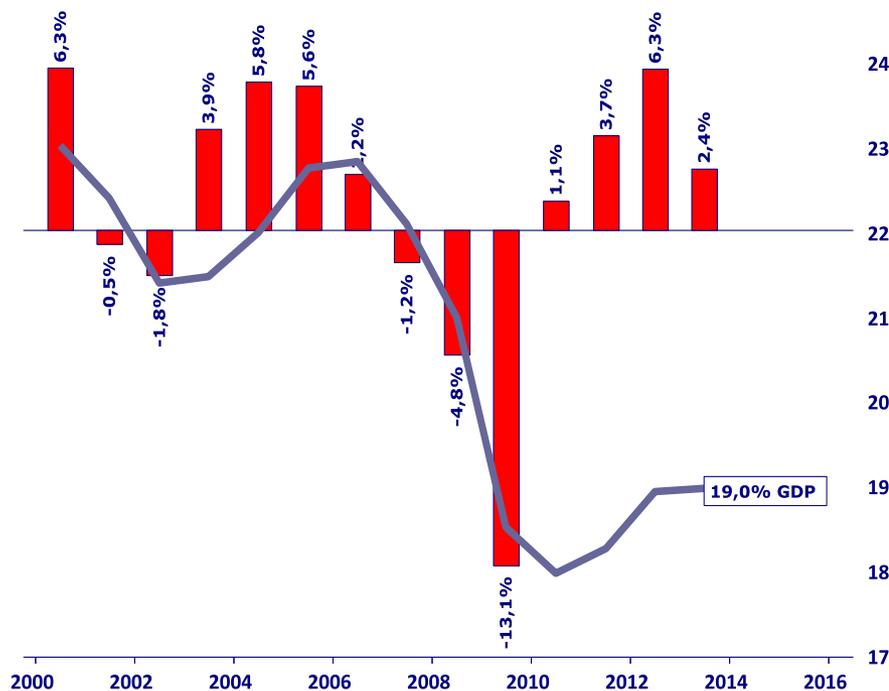


CONSTRAINTS TO GROWTH – INVESTMENT

Among major economies, growth is constrained by the recurring uncertainty phases, coupled with the recent problems and the de-leveraging process, which lead to low private investments.

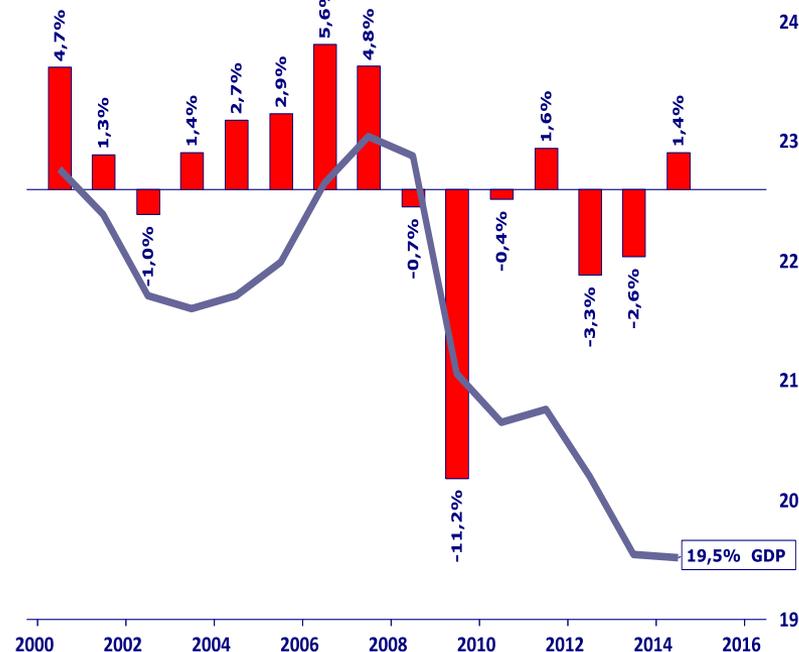
USA – INVESTMENT

World Bank – var. % Y/Y & % GDP



EMU – INVESTMENT

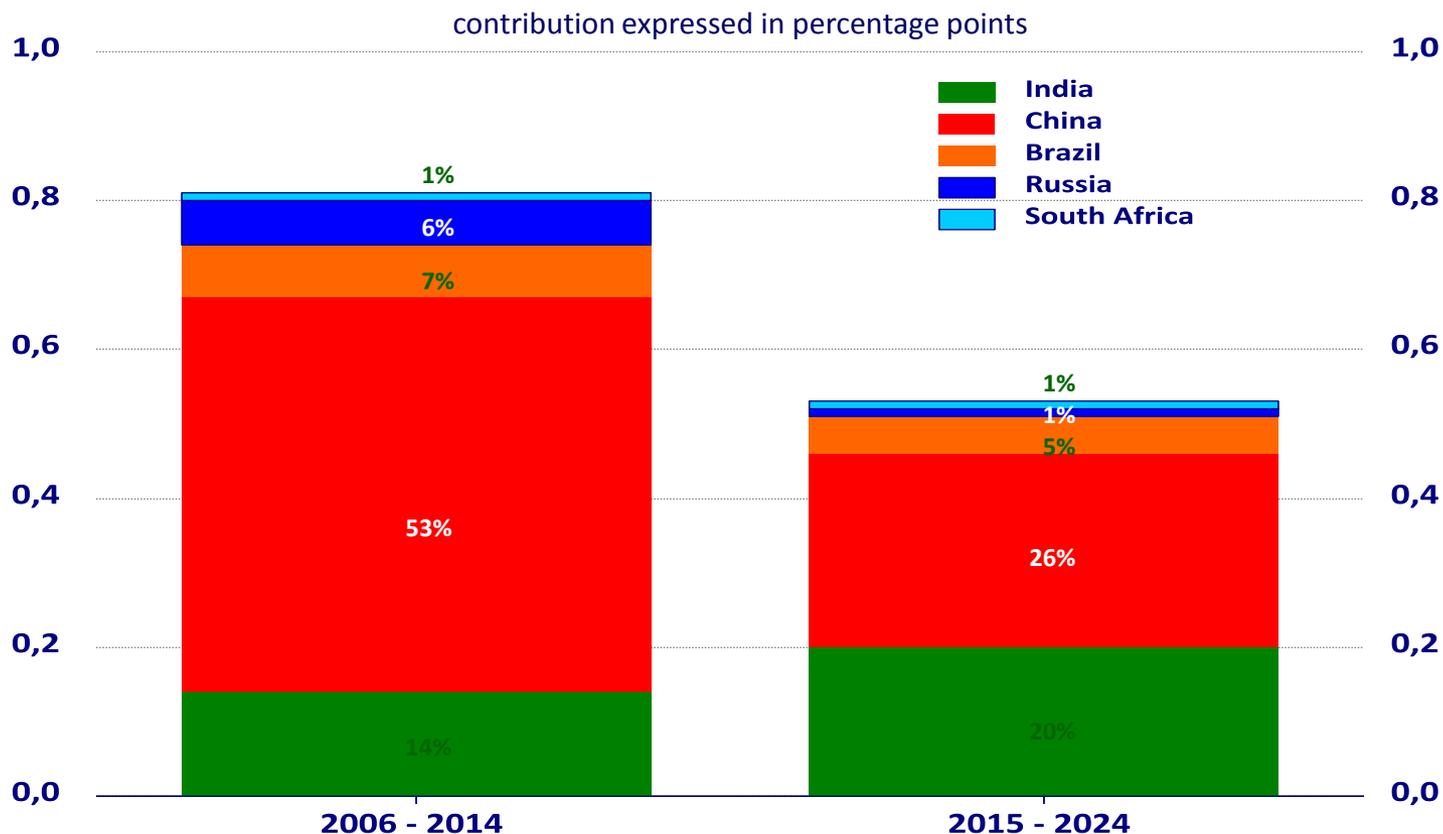
World Bank – var. % Y/Y & % GDP



CONSTRAINTS TO GROWTH – EMERGING COUNTRIES

Among emerging economies, and particularly among the main ones, there is a reduction in potential output that could determine a decrease in their contribution to global growth in the coming years.

BRICS COUNTRIES – GLOBAL GROWTH CONTRIBUTIONS

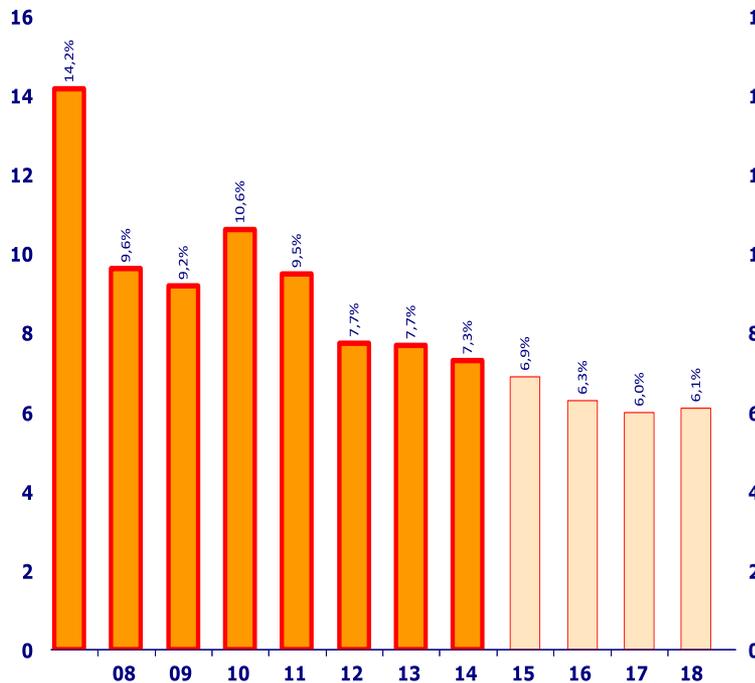


CONSTRAINTS TO GROWTH – THE CHINESE TRANSITION

Among emerging countries, China shows one of the more marked declines in potential growth. This is associated with the planned switch in the drivers of growth, from investment and export to internal consumption. This change in China’s development model significantly affects the growth perspectives of a rather large group of countries, in particular those exporting raw materials.

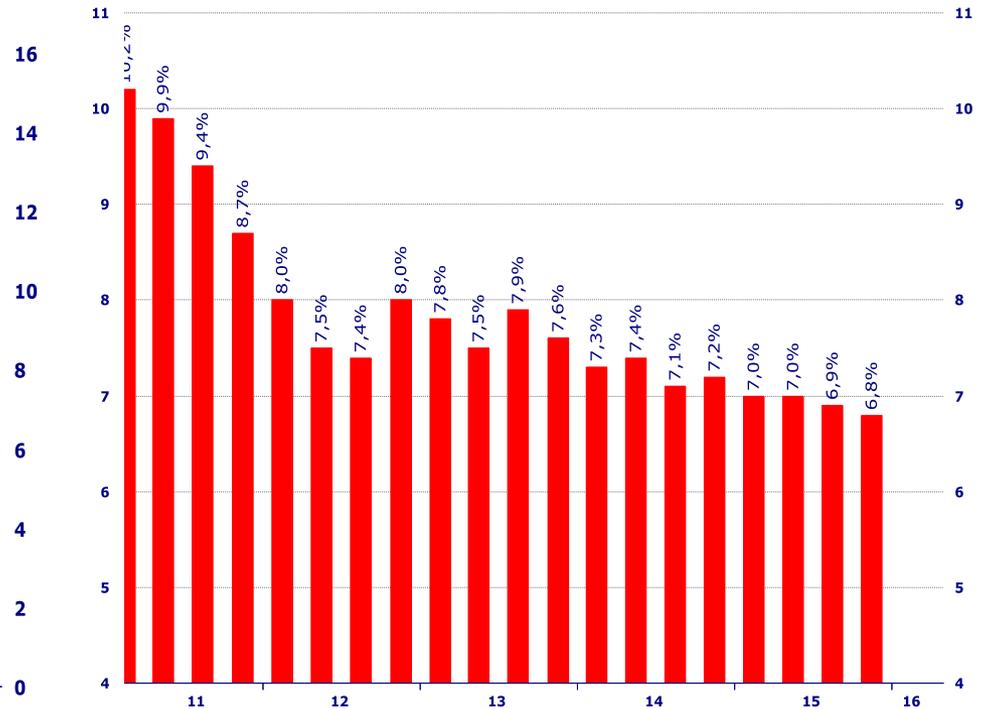
IMF – CHINA, ECONOMIC GROWTH

GDP- yearly average changes – Feb 2016



CHINA, ECONOMIC GROWTH

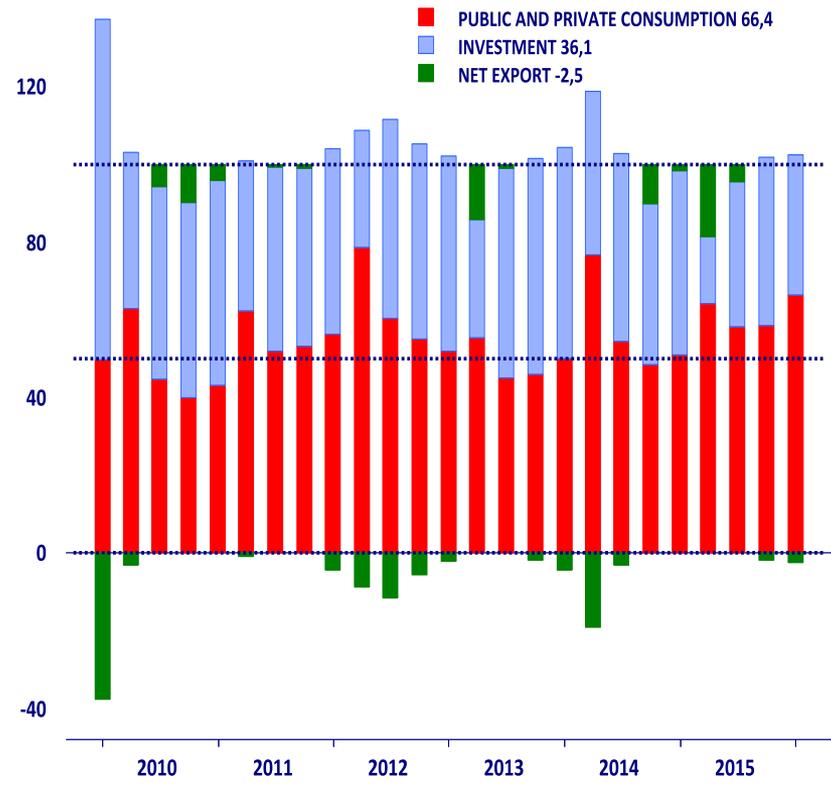
GDP- annualised quarterly changes



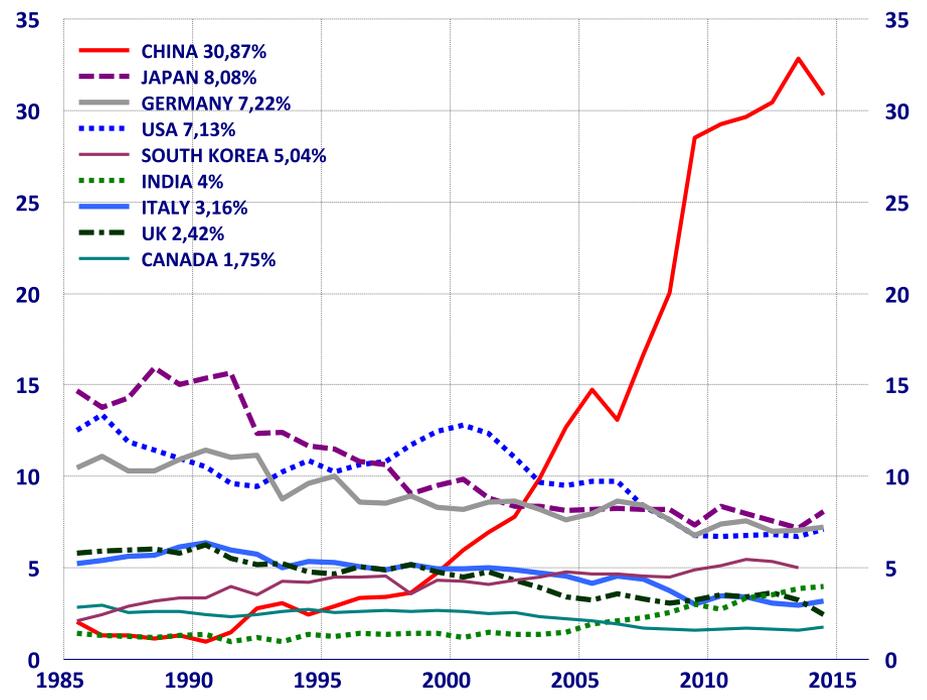
CONSTRAINTS TO GROWTH – THE CHINESE TRANSITION

The progressive decrease in growth intensity has highlighted the system's imbalances, particularly in the real estate, industrial (excess capacity) and credit sectors (above all, in non traditional channels).

CHINA, GROWTH CONTRIBUTIONS
Growth contributions - GDP- percentages



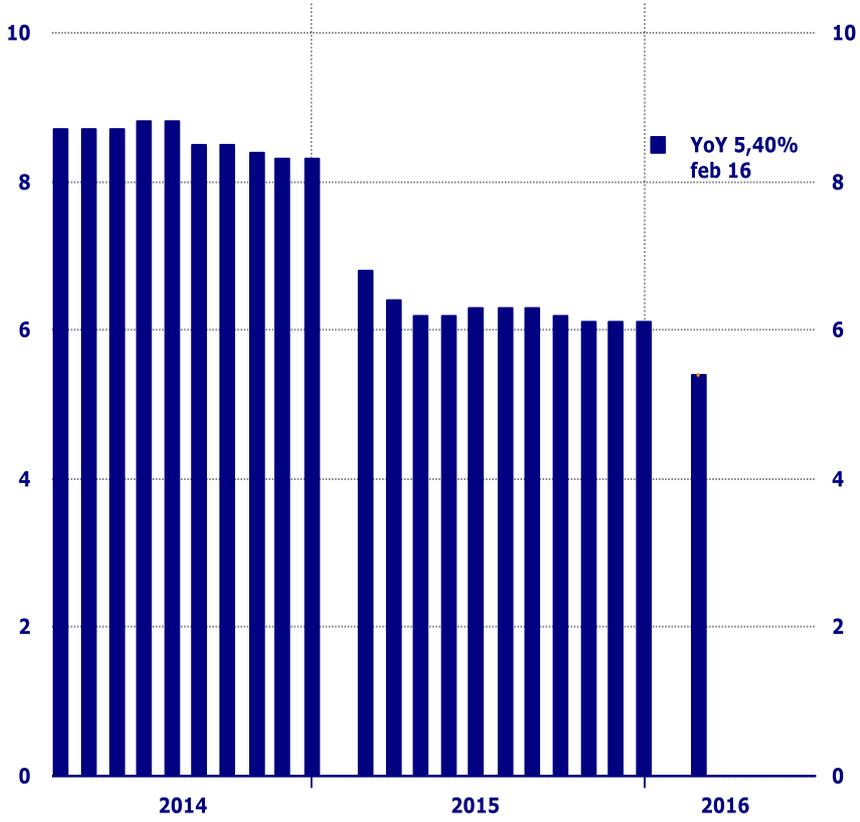
MINERAL AND METAL IMPORTS
Compared to global total - percentages



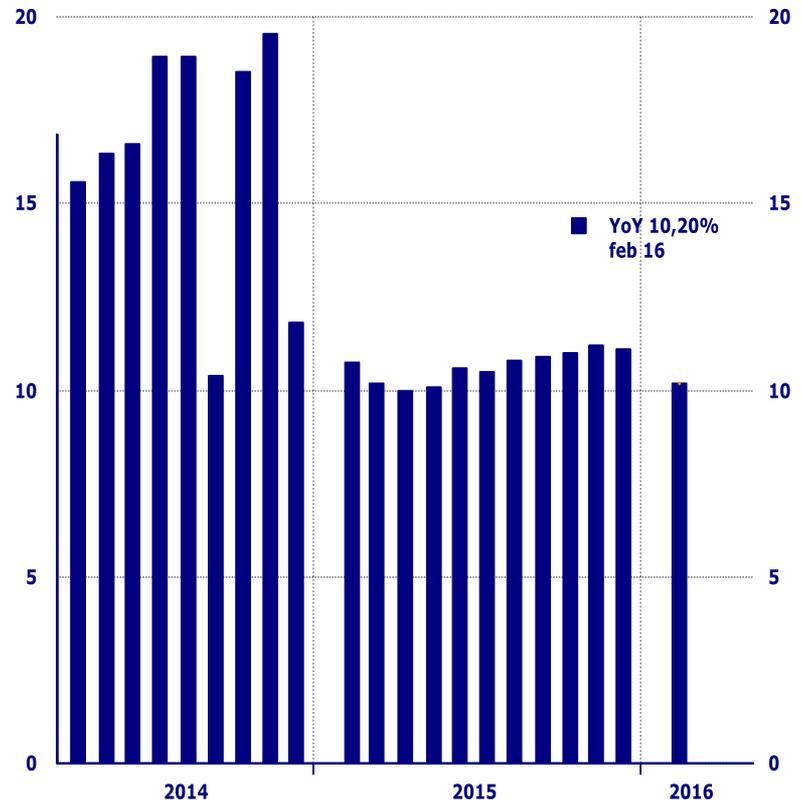
CONSTRAINTS TO GROWTH – THE CHINESE TRANSITION

The principal macroeconomic variables are on much lower growth trajectories than in the recent past, but undoubtedly we are witnessing a stabilisation phase, with industrial output still growing around 6% yearly and retail sales increasing over 11%.

INDUSTRIAL PRODUCTION
Growth rate % - Y/Y change



RETAIL SALES
Growth rate % - Y/Y change

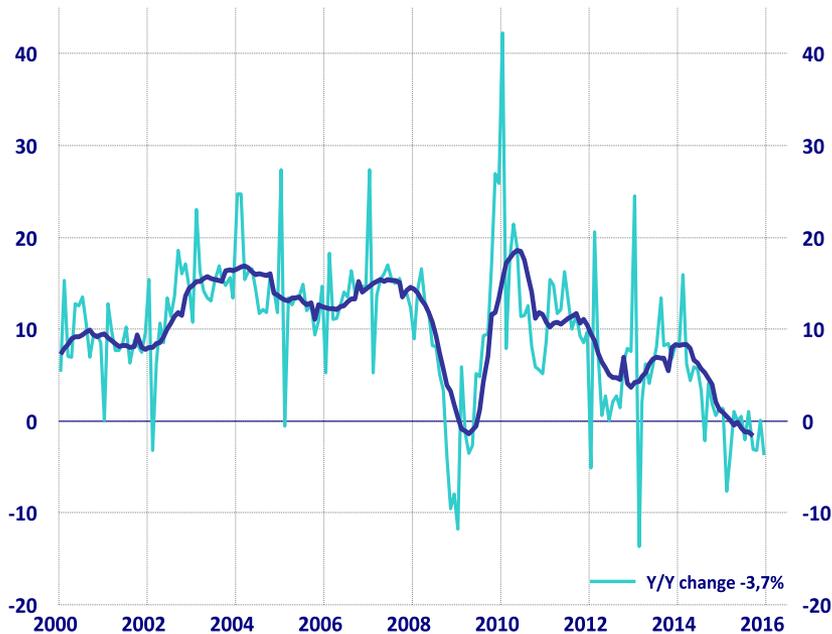


CONSTRAINTS TO GROWTH – THE CHINESE TRANSITION

In this new phase of lower growth, with the government’s implicit 6.5% growth target for the next 5-year period, lower production of electricity continues to be stressed by commentators as a negative indicator. This, however, should be balanced by the major efforts in China at increasing energy efficiency, closing obsolete and polluting plants and, above all, the increasing relevance of the services sector over manufacturing.

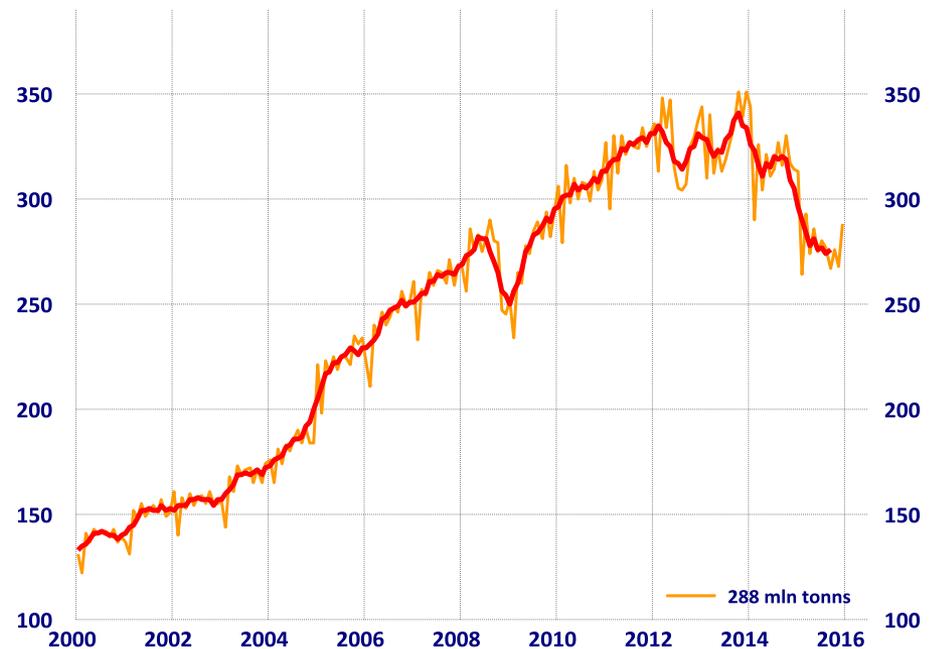
ELECTRICITY PRODUCTION

Growth rates % - Y/Y change and 12 month average



CARGO TRAFFIC BY RAIL

Real data in million tonnes and 6 month average

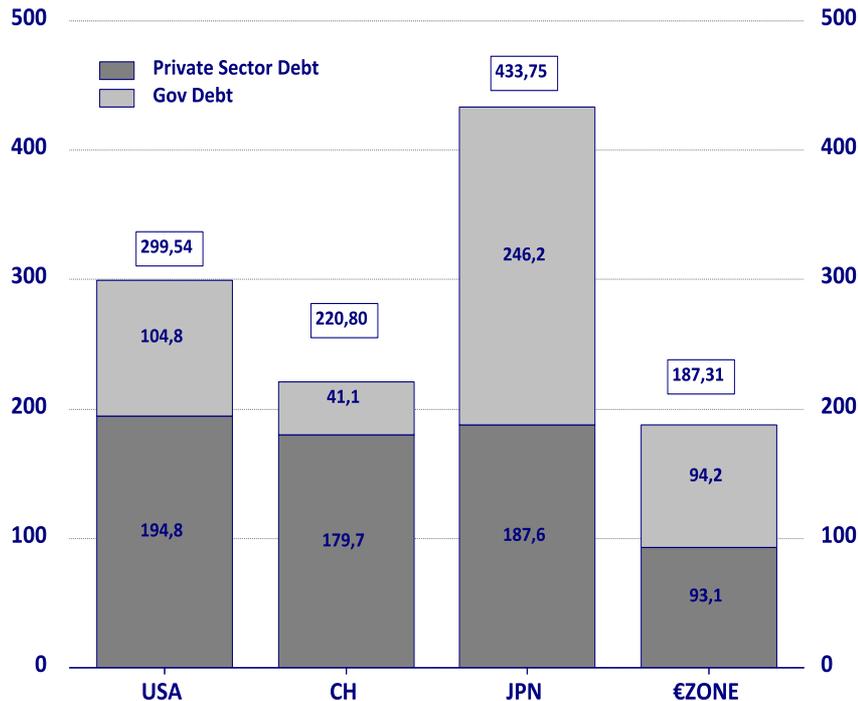


CONSTRAINTS TO GROWTH – THE CHINESE TRANSITION

Some of the Chinese authorities' contradictory decisions and unclear communication partly reduced the effects of a set of actions aimed at contrasting the stock market boom and the chaotic phases that increased pressure on the system and the deflationary risk. However, the gravity and nature of the imbalances (controllable by the Government) and the relatively small importance of the financial sector for the country, shouldn't be overstated.

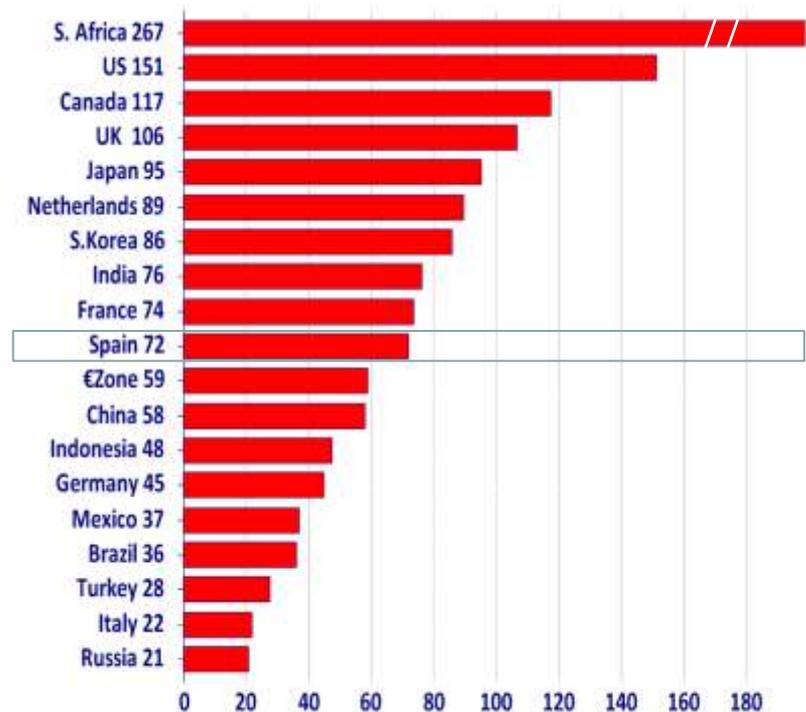
TOTAL DEBT – INTERNATIONAL COMPARISON

World Bank, IMF and national offices



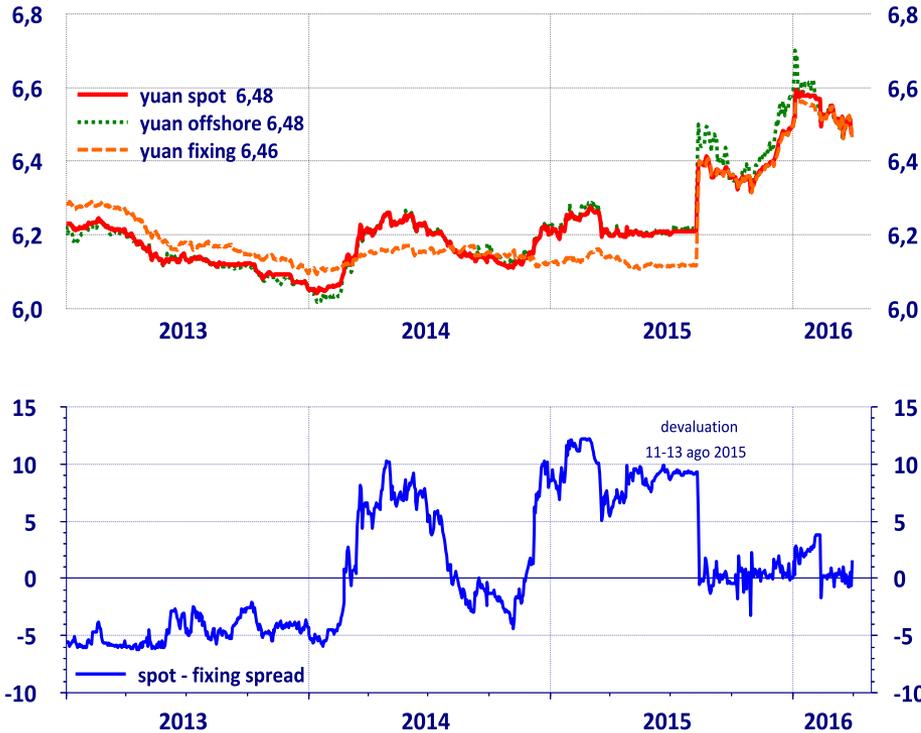
STOCK MARKET AND ECONOMY

Market cap/GDP

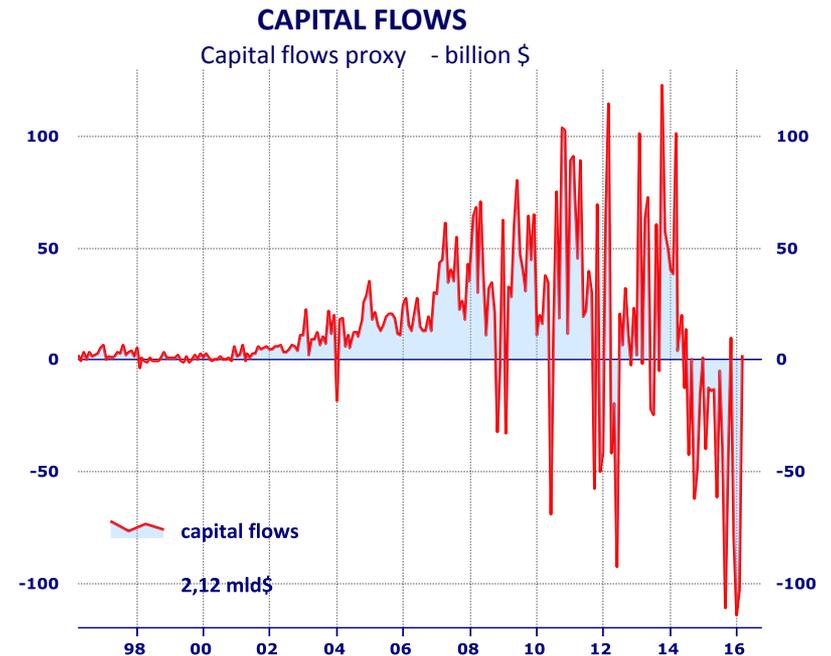


CONSTRAINTS TO GROWTH – THE CHINESE TRANSITION

Fluctuations connected to the exchange rate seem excessive. After the mid August devaluation (necessary to obtain IMF's qualification as international currency), the Chinese Yuan Renmimbi switched from a system with mobile parity (previously fixed), to a controlled exchange rate, i.e. based on a central parity that moves daily, based on market impulses and that the monetary authority governs by keeping it in a limited fluctuation band.



LEFT: YUAN RENMIMBI - SPOT, FIXING, OFFSHORE
Exchange rate against \$



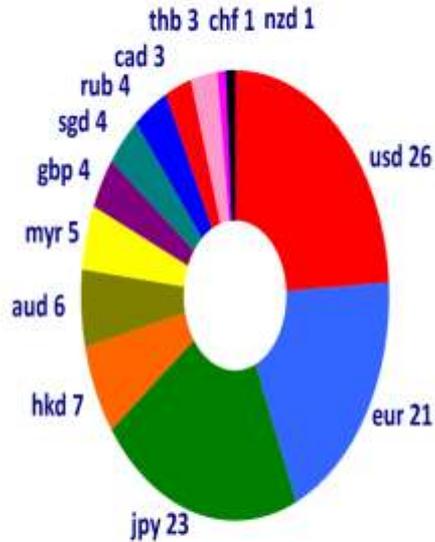
CONSTRAINTS TO GROWTH – THE CHINESE TRANSITION

Furthermore, the dollar is no longer the reference currency, it was replaced by a basket of currencies, weighted according to trade exchanges. The yuan's past months' depreciation vs the USD is essentially due to capital outflow towards more stable markets...

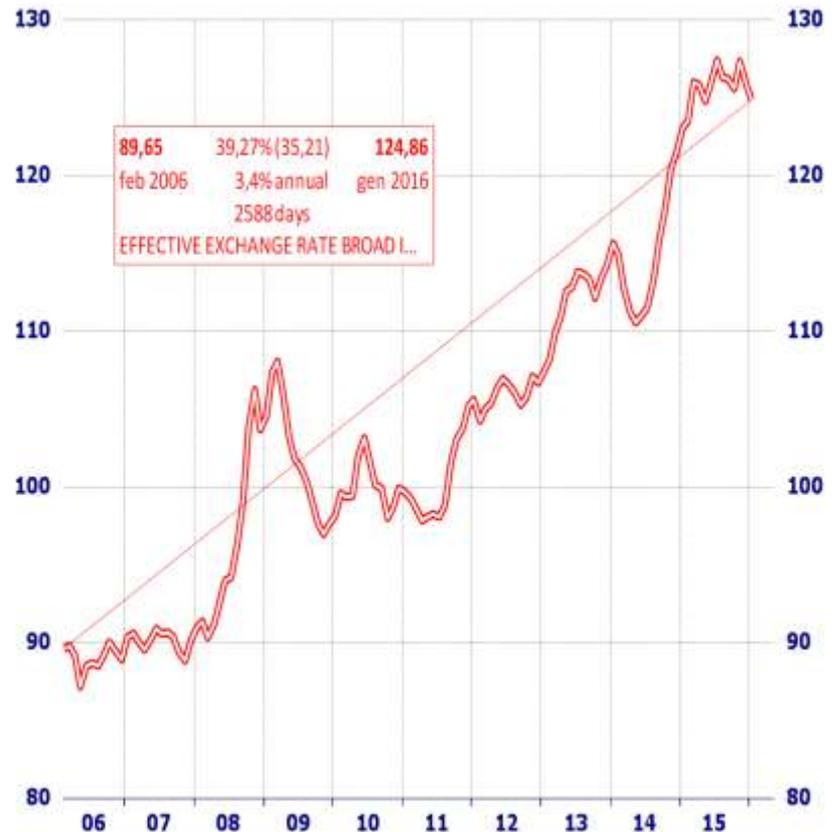
YUAN RENMIMBI – CFETS

Currency bundle composition and weights

CFETS: China Foreign Exchange Trade System

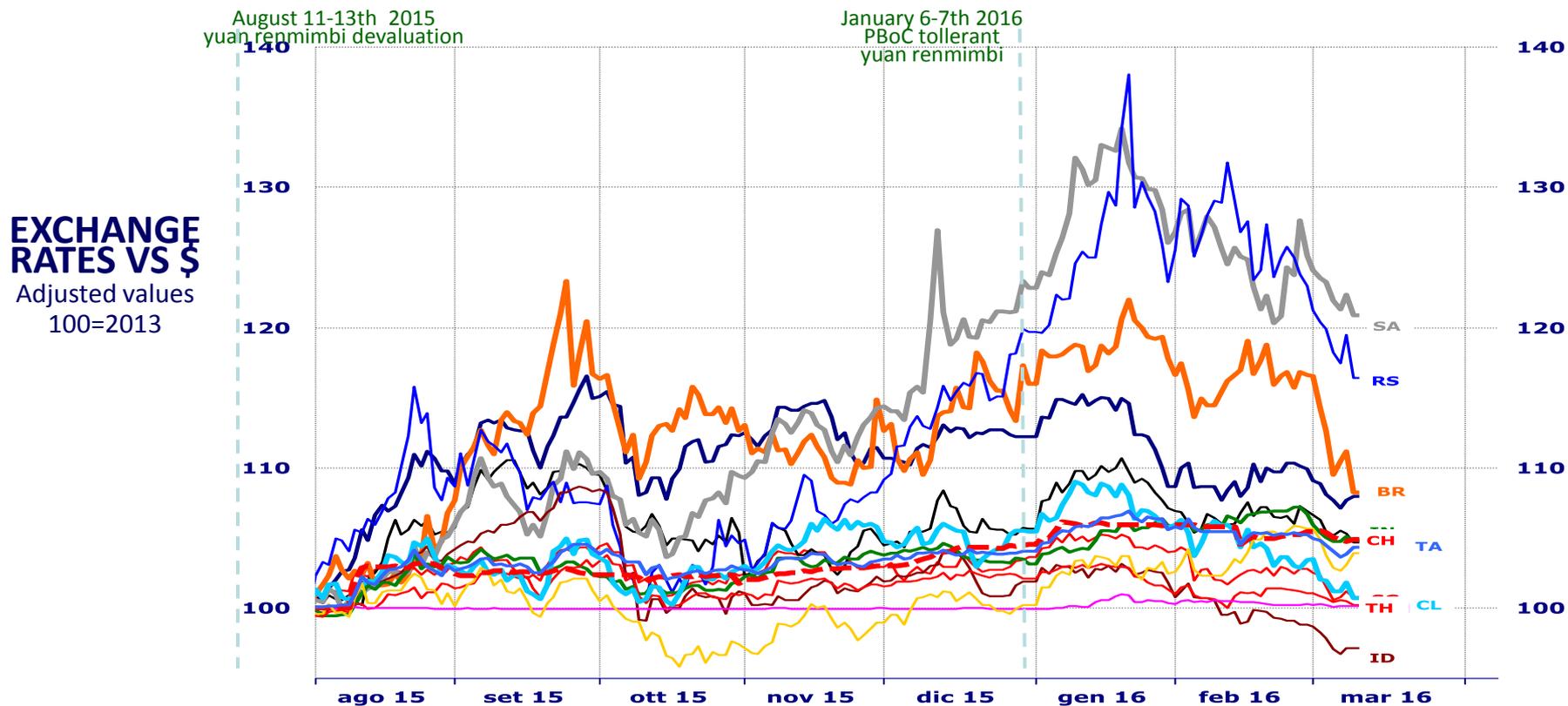


YUAN - REAL NOMINAL EXCHANGE RATE



CONSTRAINTS TO GROWTH – THE CHINESE TRANSITION

... for fear of devaluation and expectations on the PBoC's monetary policy, which is already fairly expansionary, impacting the system's liquidity. But it isn't true that China seeks to increase its competitive edge through a weaker Yuan...

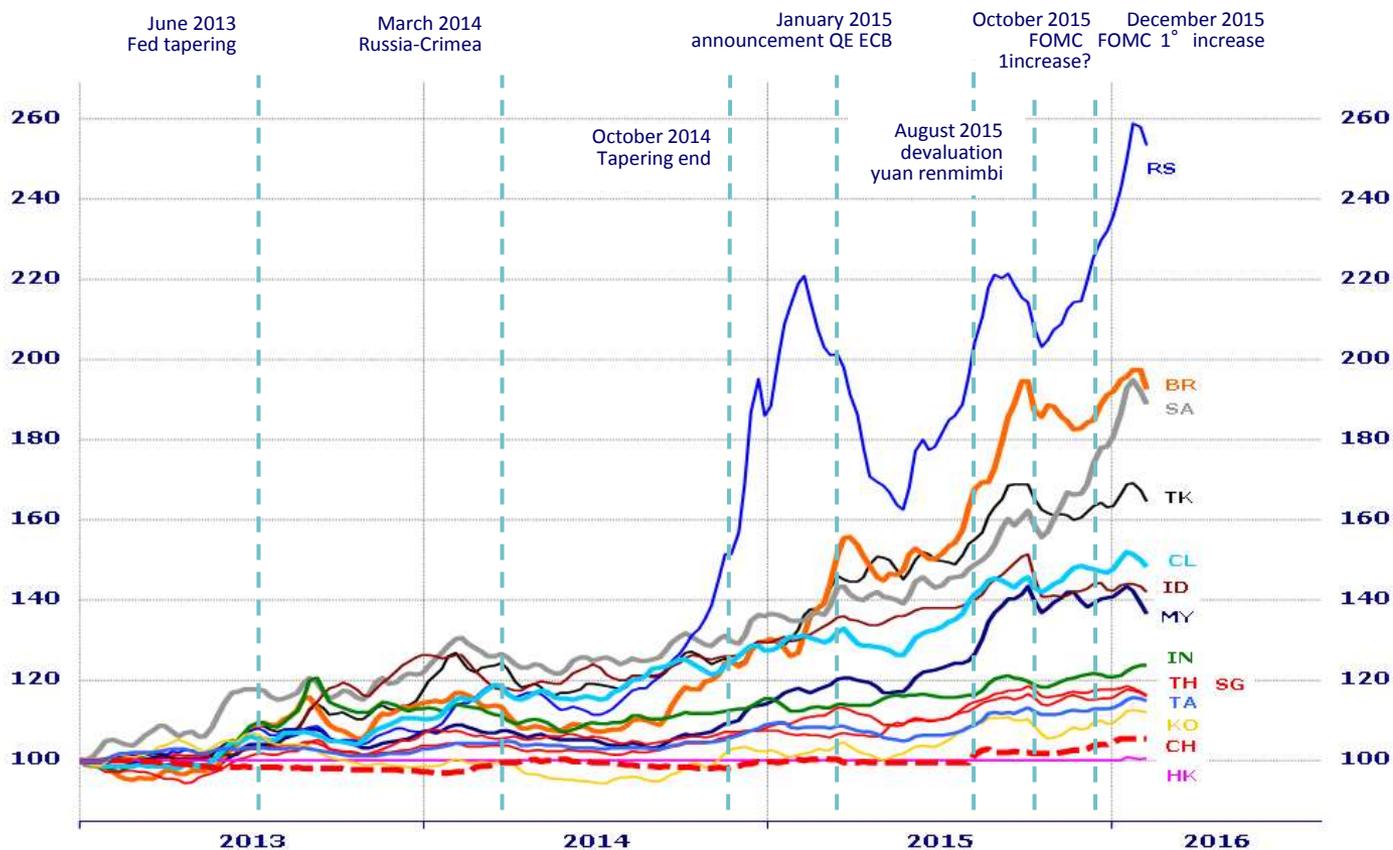


CONSTRAINTS TO GROWTH – THE CHINESE TRANSITION

... Between August and January the Yuan lost 6 percentage points against the USD, much less than the stronger depreciations of many other Asian and other currencies. This phenomenon is evident since the beginning of 2013 and it is mostly related to the Fed's expected change in monetary policy, which took place much later and more blandly than originally thought.

EXCHANGE RATES VS \$

Adjusted values
100=2013, 10 day averages

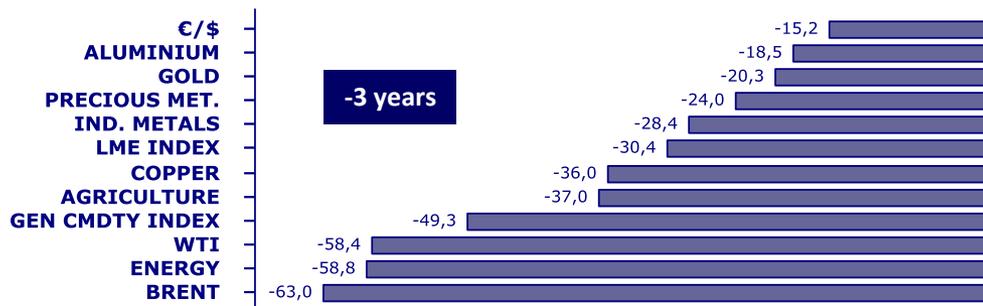
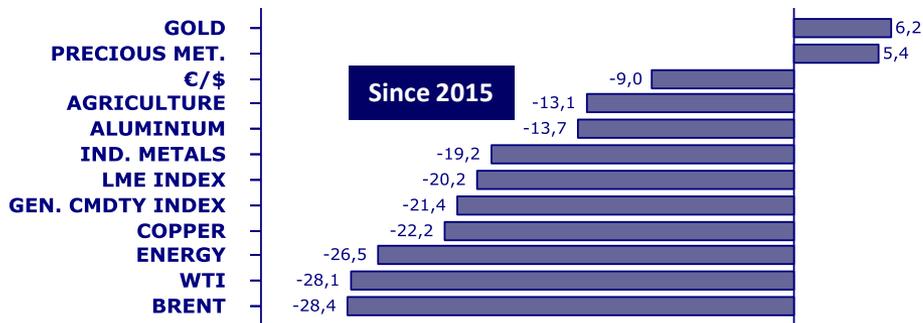


RAW MATERIALS AND THEIR EFFECTS

The fall in oil prices that depresses not only the whole energy compartment but also the whole raw materials sector, depends mostly on excessive production, given the weak demand.

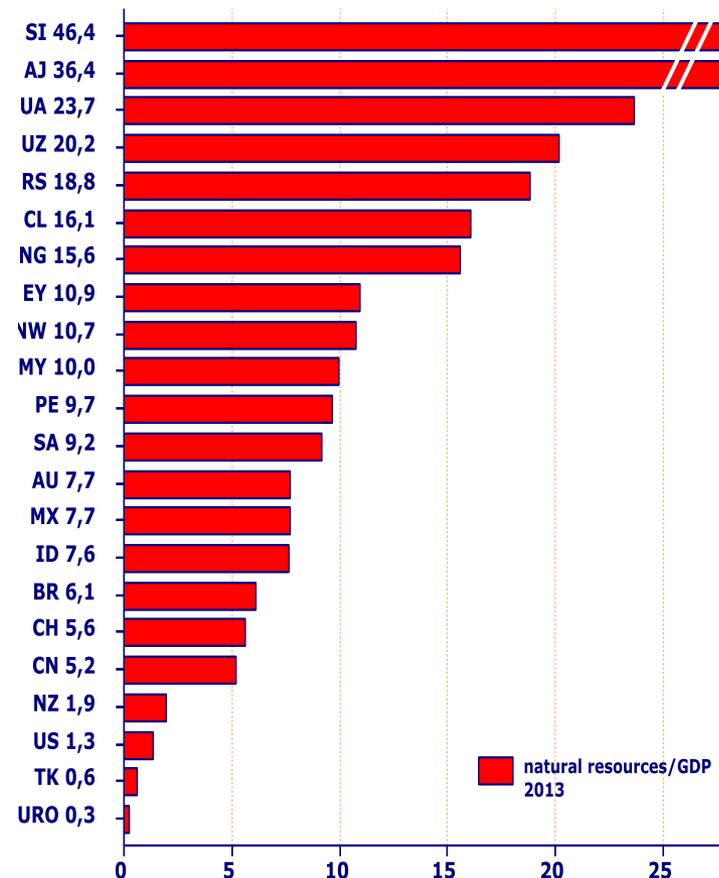
RAW MATERIALS' INDEXES

two and three year changes – 02/12/2016 survey



RAW MATERIALS PRODUCERS AND GDP

Raw materials value/ GDP

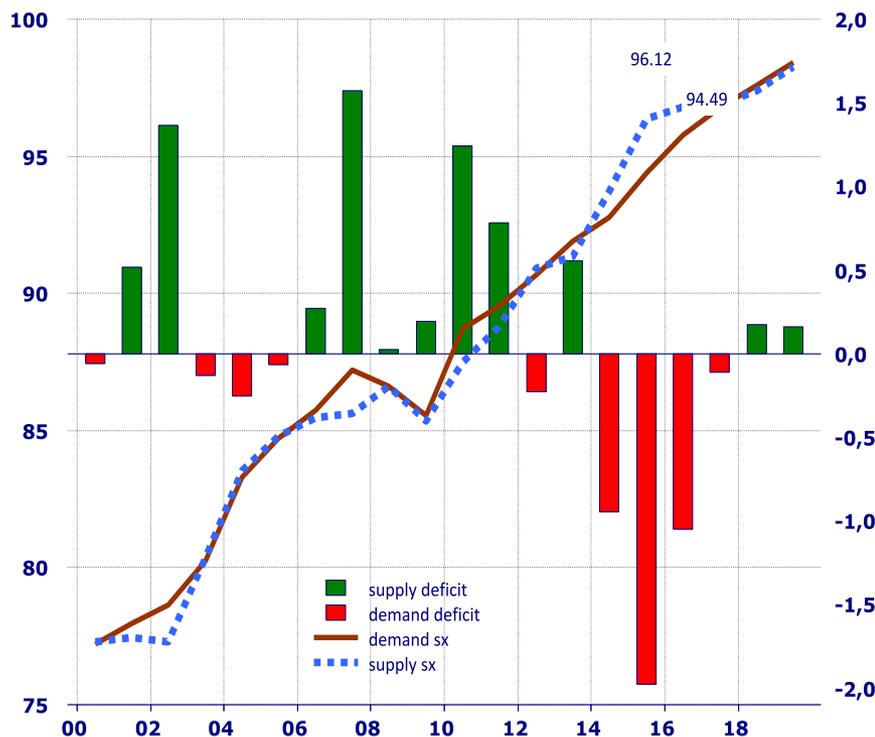


RAW MATERIALS AND THEIR EFFECTS

Although a generalised phenomenon among raw materials, oil has had a central role, also because of critical geopolitical issues (Russia, Saudi Arabia, Iran, Lybia,...). The slight recent improvement in a few critical areas and the possibility of OPEC led cuts in production underlie the recent relative rebound in oil prices.

GLOBAL OIL DEMAND AND SUPPLY

Million barrels per day – Oxford Ec. forecasts



SURPLUS/DEFICIT AND OIL PRICES

\$/barrel - Million barrels per day – Oxford Ec. forecasts
milioni di barili al giorno – previsioni Oxf. Ec.

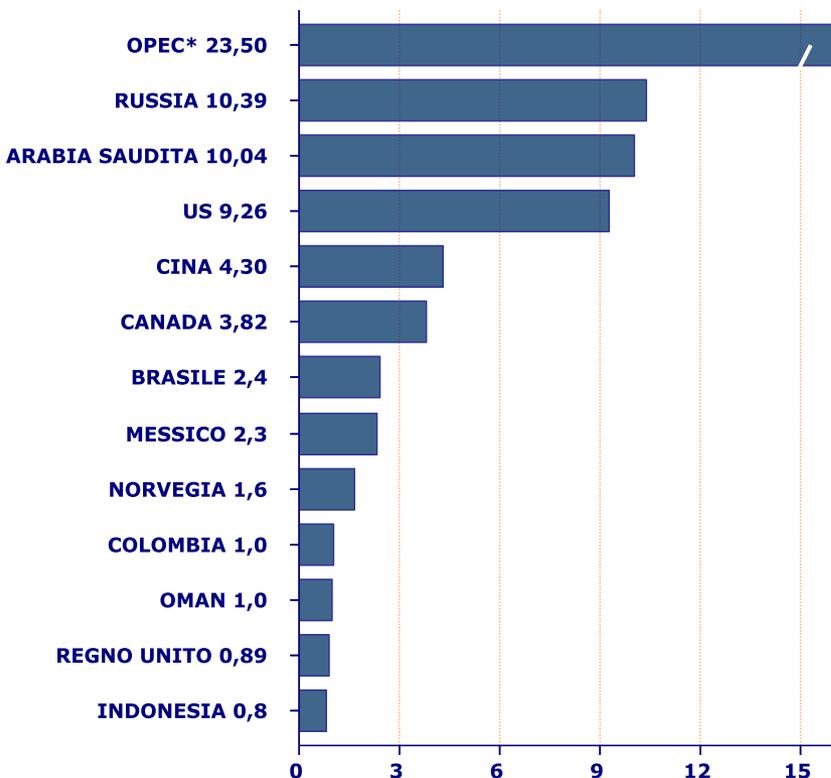


RAW MATERIALS AND THEIR EFFECTS

For oil importing countries, better terms of trade imply a growth in income for all economic agents, which eventually will increase spending or saving....

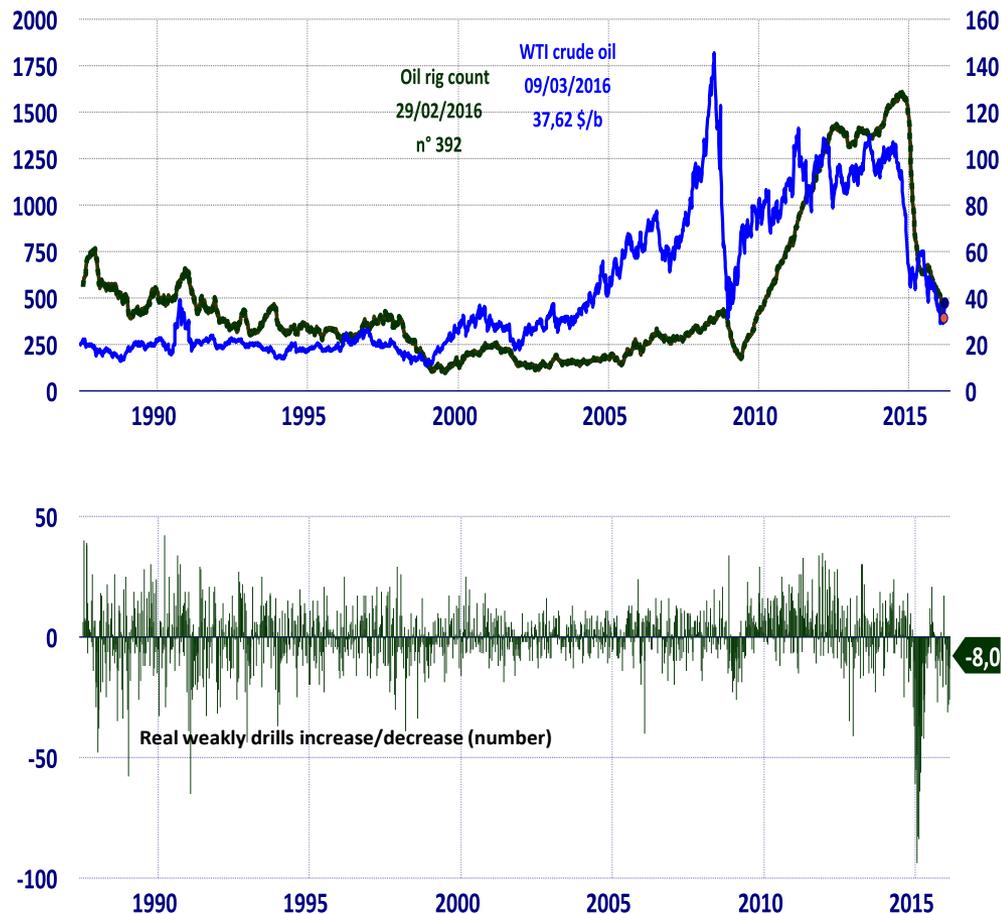
PRINCIPAL OIL PRODUCERS

Million barrels per day– last month surveyed



* Saudi Arabia, OPEC leader, is considered separately

USA - ACTIVE DRILLS AND OIL PRICES

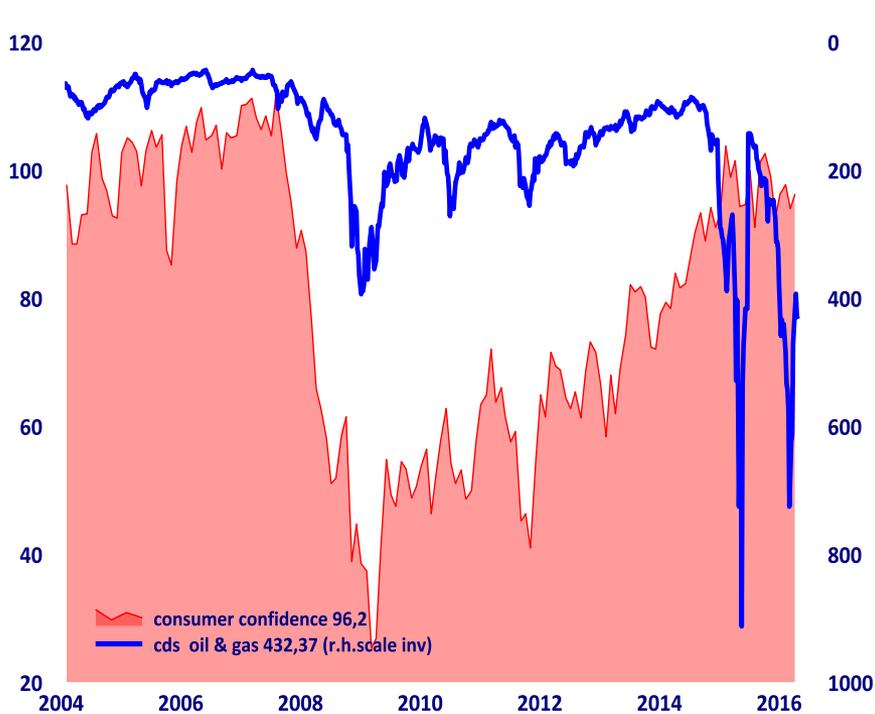


RAW MATERIALS AND THEIR EFFECTS

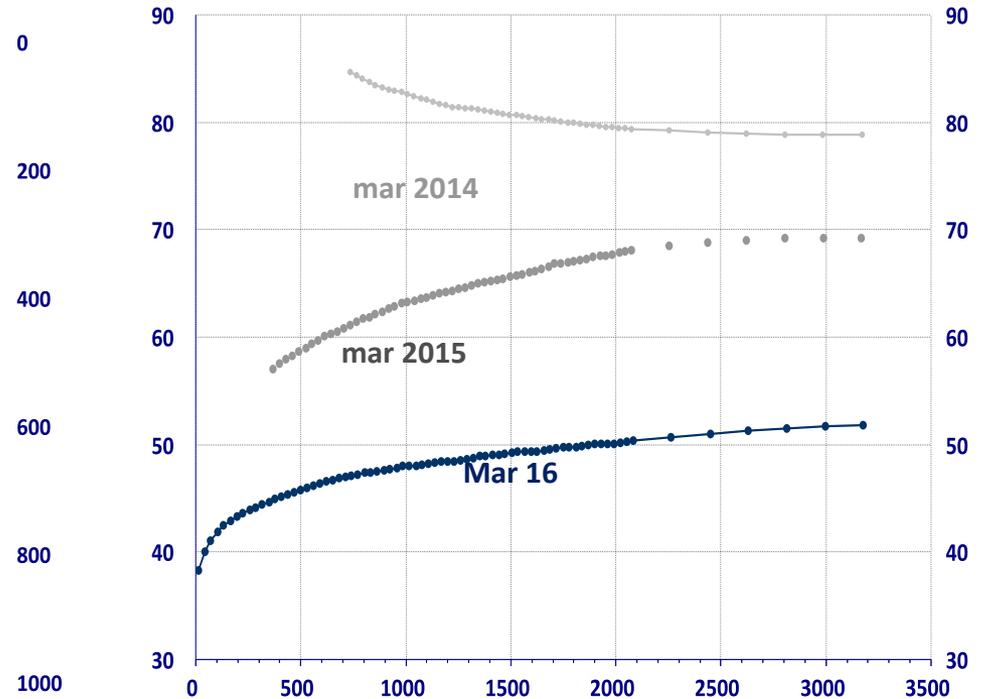
... For oil producing countries, the drop in prices is the cause of falling tax revenues, investment cuts, diminishing business profits and decline in employment. This is reflected also on development plans' postponement, decreases in stock prices, in aggregate income, pressure on current accounts and exchange rates...

OIL, OPTIMISM AND DEBT IN USA

Consumer confidence and Oil & Gas cds



OIL WTI FUTURE



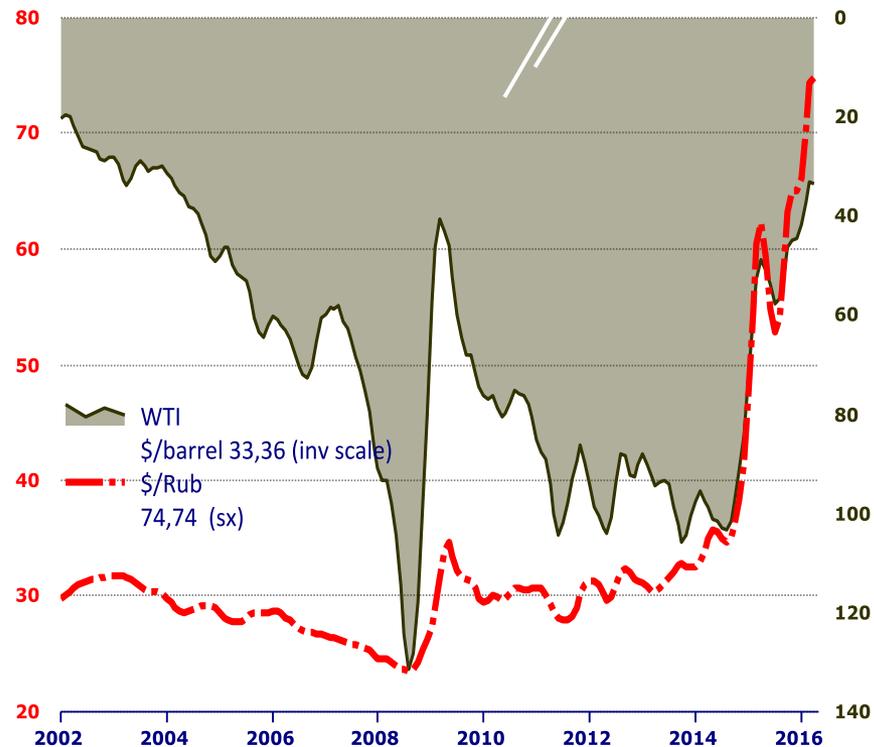
RAW MATERIALS AND THEIR EFFECTS

... The necessity to keep state accounts in balance has forced these countries to recur to their respective Sovereign Funds (at the end of 2014, total Sovereign Funds were worth almost 4500 billion USD). This capital is partly returning to government coffers, contributing to global stock markets' depression.

\$/REAL AND RAW MATERIALS' PRICES



\$/RUBLE AND OIL PRICES



RAW MATERIALS AND THEIR EFFECTS

These events tend to quickly depress the system, with pressure on prices that, starting from the beginning of the production process, transmit negative impulses downstream, thus creating stronger deflationary dynamics. Oil and raw materials' prices recent recovery is positive from this point of view.

WTI \$, SPOT PRICES AND FORECASTS

Average monthly data



OIL - FORECASTS

Average annual prices (\$/b) and Y/Y changes

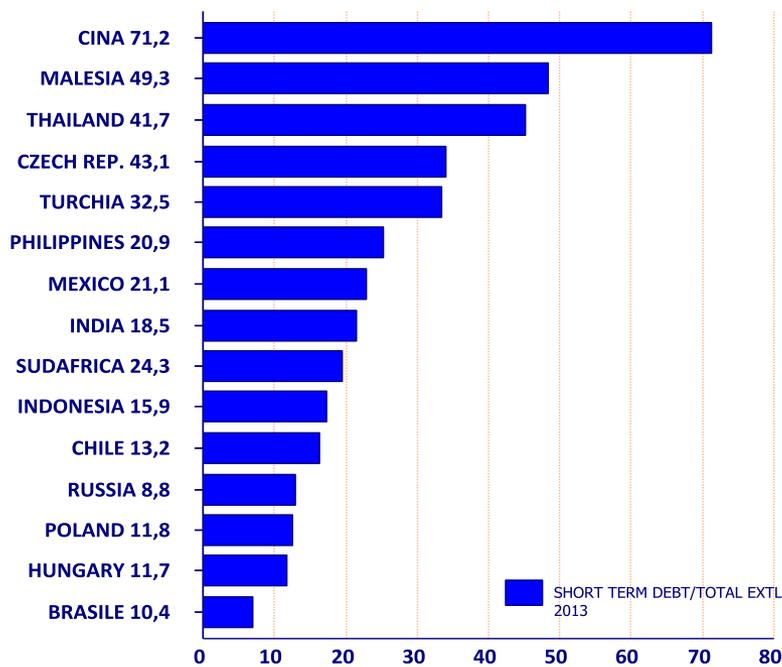
	WTI price	BRENT	WTI %	BRENT %	
1999	19,3	17,9	1999	34,0	40,5
2000	30,4	28,4	2000	57,1	58,4
2001	25,9	24,4	2001	-14,6	-14,2
2002	26,2	25,0	2002	0,9	2,6
2003	31,1	28,8	2003	18,9	15,2
2004	41,4	38,2	2004	33,2	32,7
2005	56,6	54,5	2005	36,6	42,6
2006	66,0	65,2	2006	16,7	19,6
2007	72,3	72,5	2007	9,5	11,3
2008	99,6	96,9	2008	37,7	33,6
2009	61,8	61,6	2009	-37,9	-36,4
2010	79,5	79,6	2010	28,6	29,3
2011	94,9	111,4	2011	19,4	39,9
2012	94,1	111,7	2012	-0,9	0,2
2013	98,0	108,7	2013	4,1	-2,7
2014	93,0	98,9	2014	-5,1	-9,0
2015	48,7	52,4	2015	-47,7	-47,0
2016	37,3	38,1	2016	-23,5	-27,3
2017	44,3	46,3	2017	18,8	21,4

RAW MATERIALS AND THEIR EFFECTS

A renewed decline in raw material prices could originate serious damage for exporting countries, both for their current accounts and for the whole economy, with a further negative factor in case of relevant debt exposure to the USD, whose rates are bound to rise. For importing countries, the benefits in terms of higher disposable income should be compared with those of a possible deflation, even though core inflation appears to be away enough from zero to have significantly negative overall inflation rates.

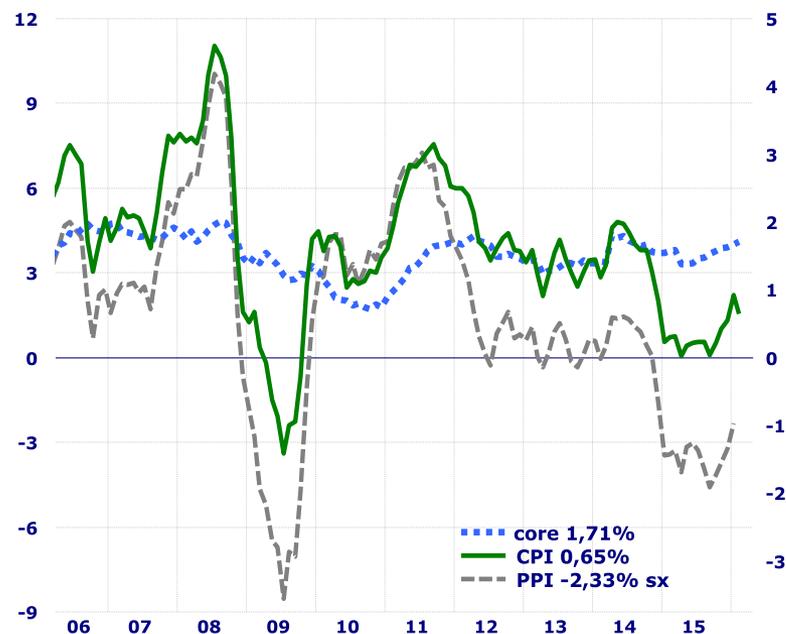
SHORT TERM FOREIGN DEBT

Values on total foreign debt



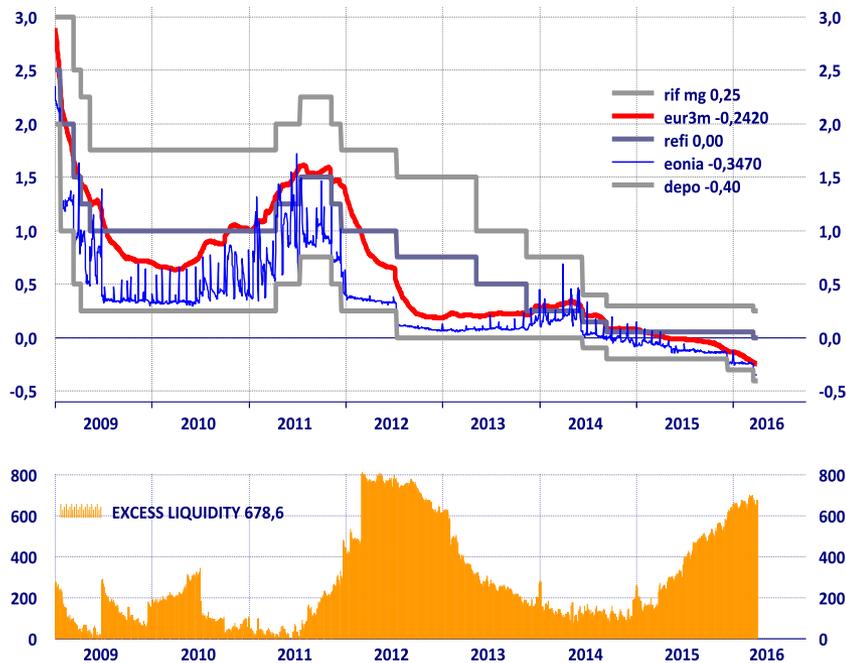
G7 AGGREGATE INFLATION

Prices growth rates on yearly basis

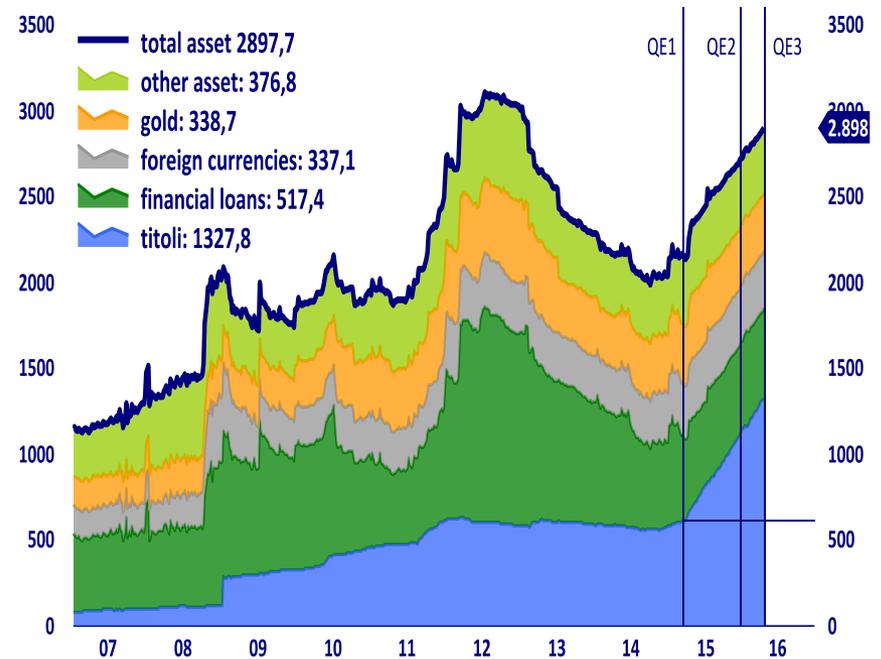


Since March 2015, the ECB has coupled traditional monetary policy measures with quantitative ones, to bring inflation back to normal levels (around 2%) and to favour credit recovery. The programme, that includes negative rates on bank deposits, financing auctions on tap and public and private bond acquisitions, has been increased in March due to the risk of missing its main target, i.e. to reflation the system.

MONETARY POLICY RATES



ECB – BUDGET



In the March 10th meeting, the ECB redefined the monetary policy scenario, intervening both on rates and non conventional measures. With a partly unexpected move, the ECB lowered the whole rates' corridor and brought the refinancing rate to zero (new historic minimum) from 0.05%. Depo rate cut was in line with expectations, for a further 10bps, at -0.4%. Regarding non conventional measures, monthly acquisitions grow by quantity (+20 billion per month, up to 80) and range of assets, that will include corporate investment grade bonds. Four new long term refinancing operations have been defined for a four year duration, starting in June.

ECB – NEW EMU FORECASTS

March 10 forecasts and changes since December '15

GROWTH ESTIMATES REVISED

GDP 2016 +1.4% from +1.7%

GDP 2017 +1.7% from +1.9%

GDP 2018 +1.8%

INFLATION ESTIMATES REVISED

CPI 2016 +0.1% from +1.0%

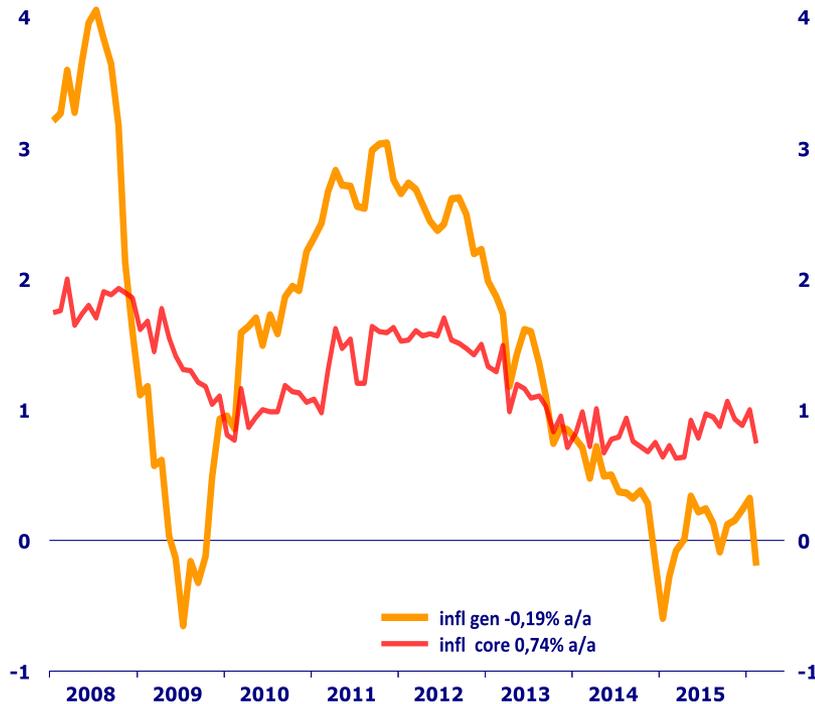
CPI2017 +1.3% from +1.6%

CPI 2018 +1.6%

In a chaotic context due to strong migration from North Africa, to Great Britain's referendum on staying in the EU, and to political pressure from separatist movements, at least four incidents signal a strong uncertainty in the Area's banking system, lowering the sector's stock prices: ...

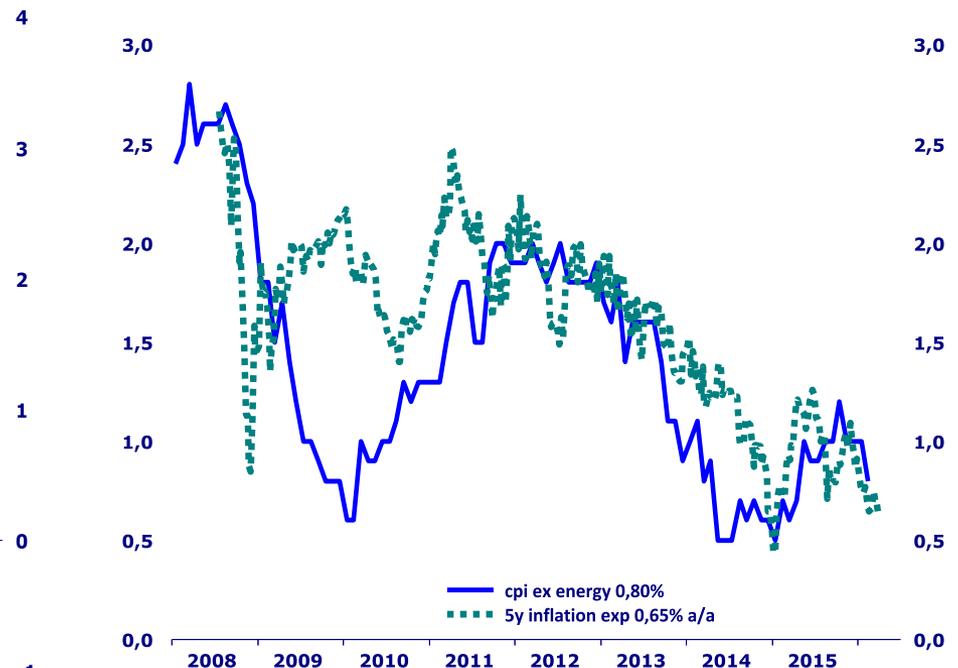
EUROZONE – INFLATION

annualised growth rates



EUROZONE – EXPECTED INFLATION

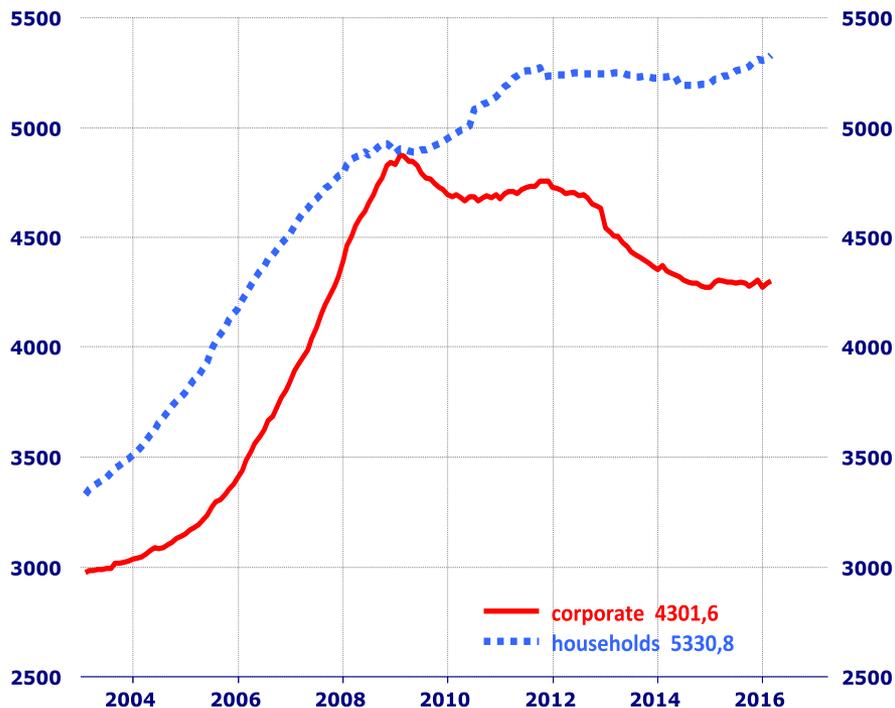
Index ex energy and 5 year swap linked to inflation



... the improper asset attribution to a Portuguese bad bank; the request of Germany's finance minister to limit government bonds in banks' balance sheets; the default in December 2015 of four small Italian banks; and the ECB's Surveillance qualitative survey required from a certain number of banks and comouflaged as a request to strengthen capital.

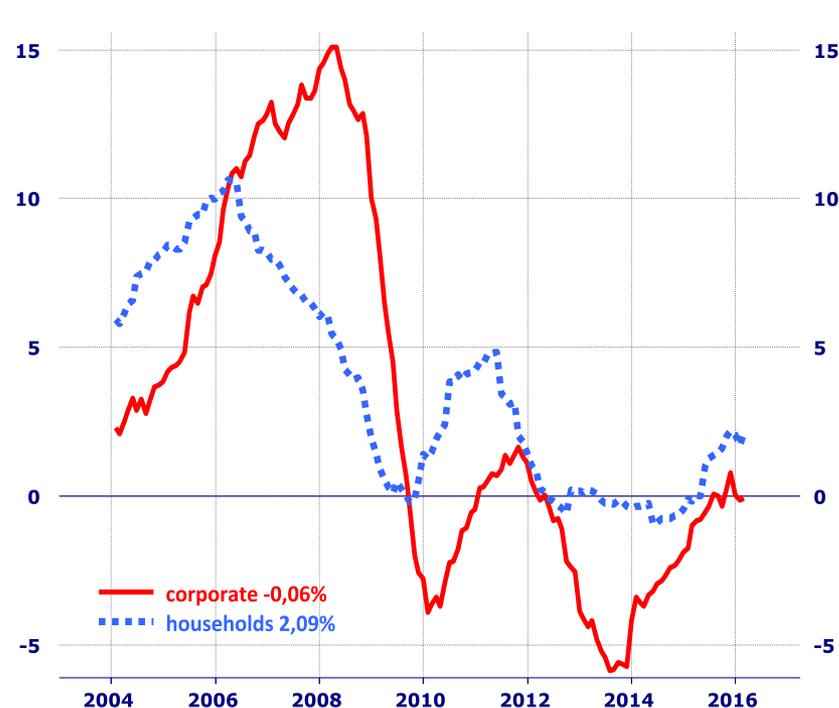
EUROZONE - CREDIT

Real values, billion euro



EUROZONE - CREDIT

Annualised quarterly values



Actually, the start of the bail-in procedure in 2016 (in case of bank bankruptcy), without the simultaneous creation of a European deposits' fund, has created big uncertainty on the possible losses of deposit and bond holders...

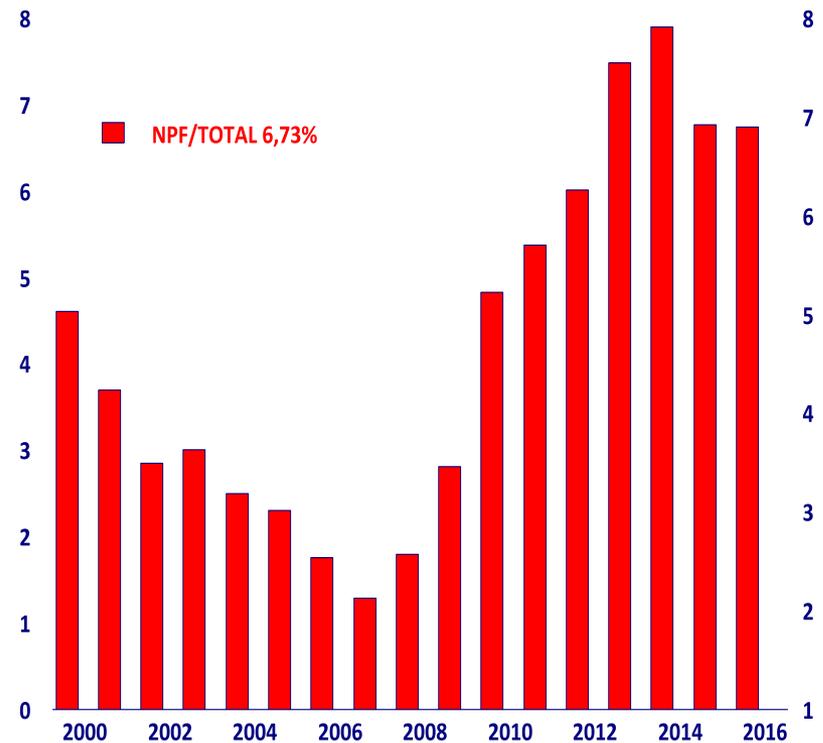
EUROSTOXX INDEX AND BANKING SECTOR

Adjusted values 100=1/1/2015



EUROZONE NON PERFORMING LOANS

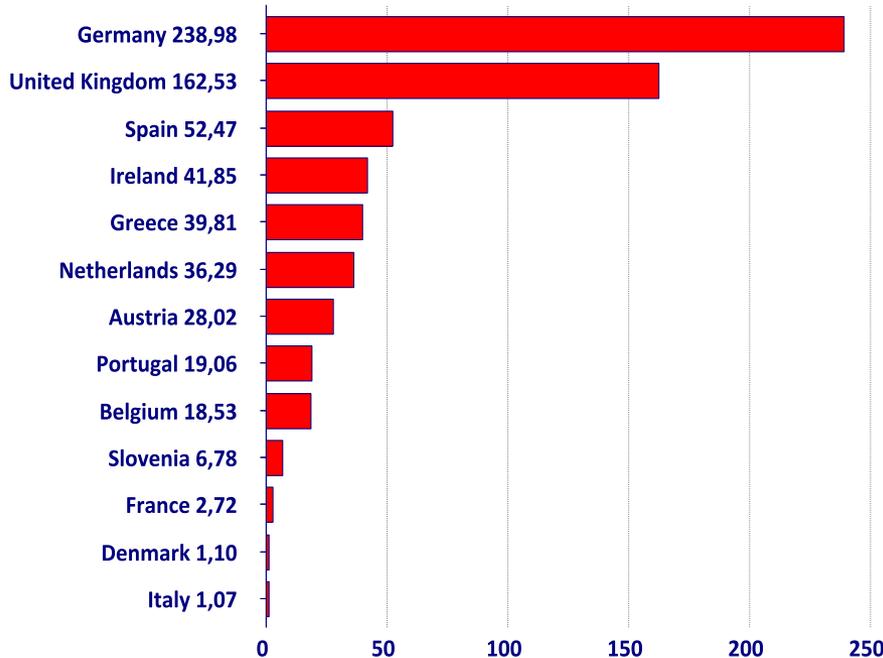
Values on total loans



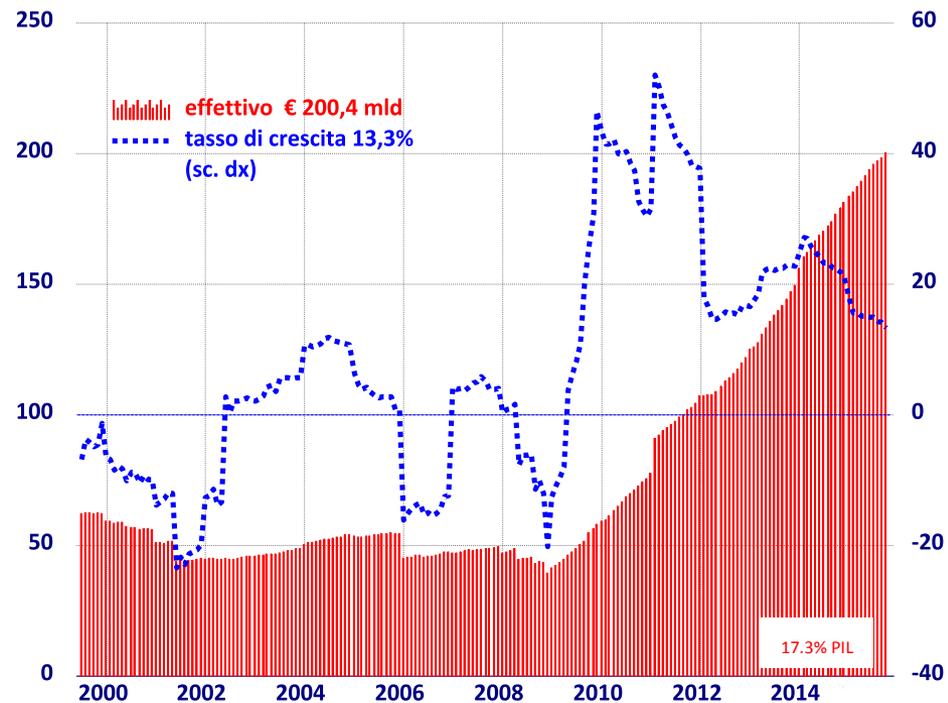
... and paved the way to a series of speculations on banks' stock evaluations, which reached values far away from those compatible with the banks' book values. More generally, this problem, combined with the size of the non-performing loans, limits the banks' capacity to supply credit, and the associated uncertainty also limits the demand for credit, keeping investment, growth, and inflation low.

EUROPE – STATE BAIL OUTS

Values in billion euros



ITALY – NON PERFORMING LOANS



SUMMARY FORECASTS

	2010	2011	2012	2013	2014	2015	2016E	2017E
GDP (%YOY)								
US	2.5	1.6	2.3	2.2	2.4	2.4	2.2	2.4
EUROZONE	2.0	1.6	-0.9	-0.4	0.9	1.5	1.4	1.7
GERMANY	4.2	3.6	0.4	0.1	1.6	1.4	1.5	1.8
FRANCE	2.0	2.1	0.2	0.7	0.2	1.2	1.3	1.5
ITALY	1.7	0.6	-2.8	-1.7	-0.4	0.8	1.0	1.5
UK	1.9	1.6	0.7	1.7	2.9	2.2	1.9	1.7
JAPAN	4.7	-0.4	1.7	1.6	-0.1	0.5	0.8	0.6
BRAZIL	7.6	4.0	1.8	2.8	0.2	-3.8	-3.6	1.0
RUSSIA	4.5	4.3	3.4	1.3	0.6	-3.7	-1.4	1.2
INDIA	8.9	7.5	5.1	4.6	7.2	7.3	7.4	7.7
CHINA	10.4	9.3	7.7	7.7	7.3	6.9	6.5	6.3
AUSTRALIA	2.3	2.7	3.6	2.0	2.8	2.3	2.6	2.9
KOREA	6.5	3.7	2.3	2.9	3.3	3.1	2.6	2.9
INFLATION (%YOY)								
US	1.6	3.2	2.1	1.5	1.6	0.1	1.3	2.2
EUROZONE	1.6	2.7	2.5	1.4	0.4	0.0	0.2	1.3
GERMANY	1.1	2.5	2.1	1.6	0.8	0.1	0.4	1.6
FRANCE	1.7	2.3	2.2	1.0	0.6	0.1	0.3	1.3
ITALY	1.6	2.9	3.3	1.3	0.2	0.1	0.2	1.3
UK	3.3	4.5	2.8	2.6	1.5	0.0	0.7	1.8
JAPAN	-0.7	-0.3	0.0	0.4	2.7	0.8	0.2	2.2
BRAZIL	5.0	6.6	5.4	6.2	6.3	9.0	8.5	6.2
RUSSIA	6.9	8.5	5.1	6.8	7.8	15.6	8.7	6.8
INDIA	12.1	8.9	9.3	10.9	6.4	5.9	5.0	5.4
CHINA	3.3	5.4	2.7	2.6	2.0	1.4	1.7	1.9
AUSTRALIA	2.9	3.3	1.8	2.5	2.5	1.5	1.9	2.5
KOREA	3.0	4.0	2.2	1.3	1.3	1.3	1.4	2.0

Banca Aletti Forecast

Cons. Bloomberg (Mar16)

Historical Data

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