



# Global Economic Outlook: Slower growth, elevated risks

Vilnius, 17 November 2015

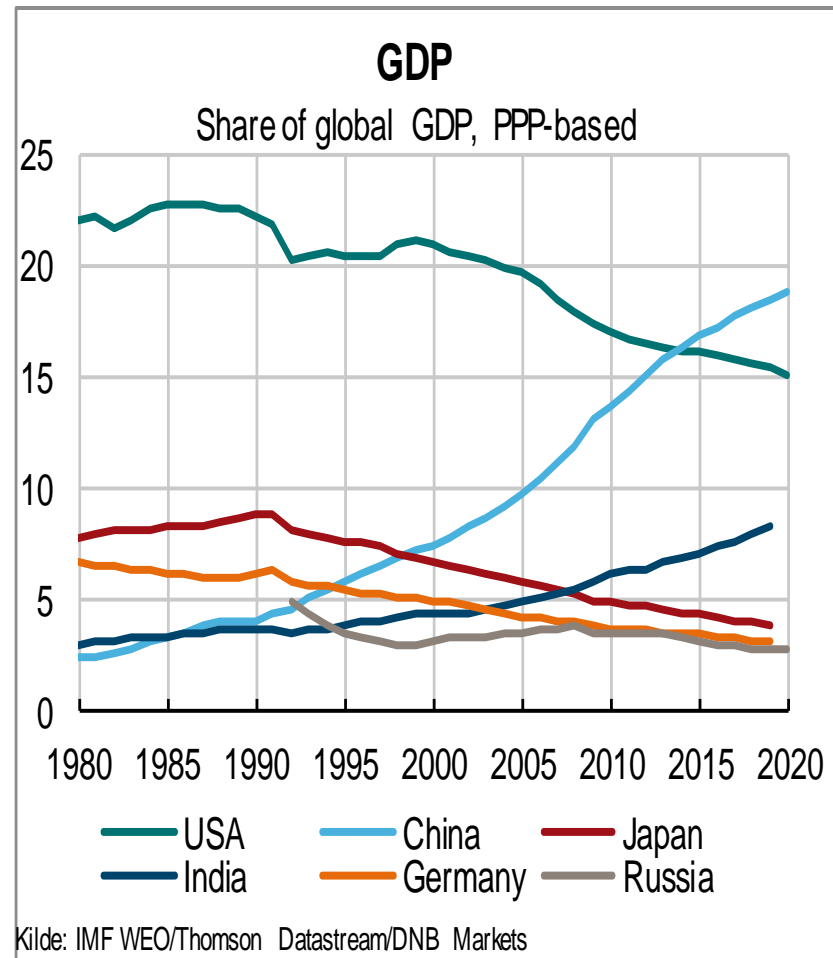
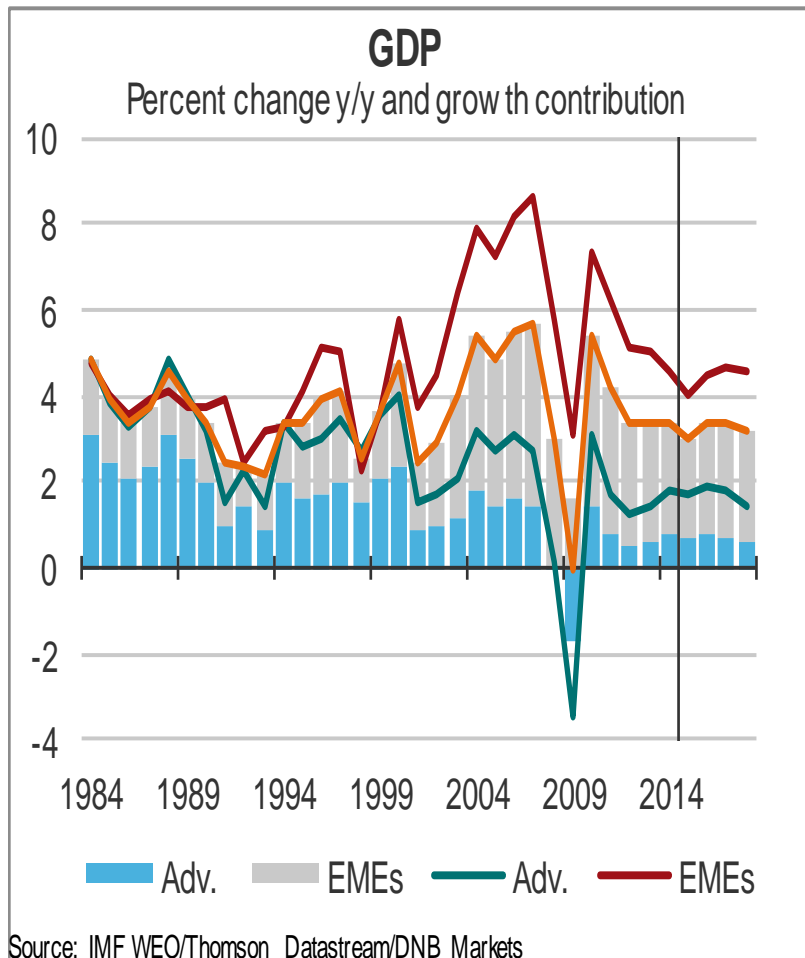
Chief Economist Øystein Dørum, DNB Markets

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# Overview

- The overall (multi-speed) picture
- China is changing gear..
- ...and quite a few EMEs are hit
- Increased risk of hard landing, but not main scenario
  
- Advanced nations: Many have yet not recovered lost ground
- Globalisation & spare capacity contains wage & price inflation
- Ultra-expansionary monetary policy likely to continue...
- ...but not obvious it will help

# Global Growth driven by EMEs



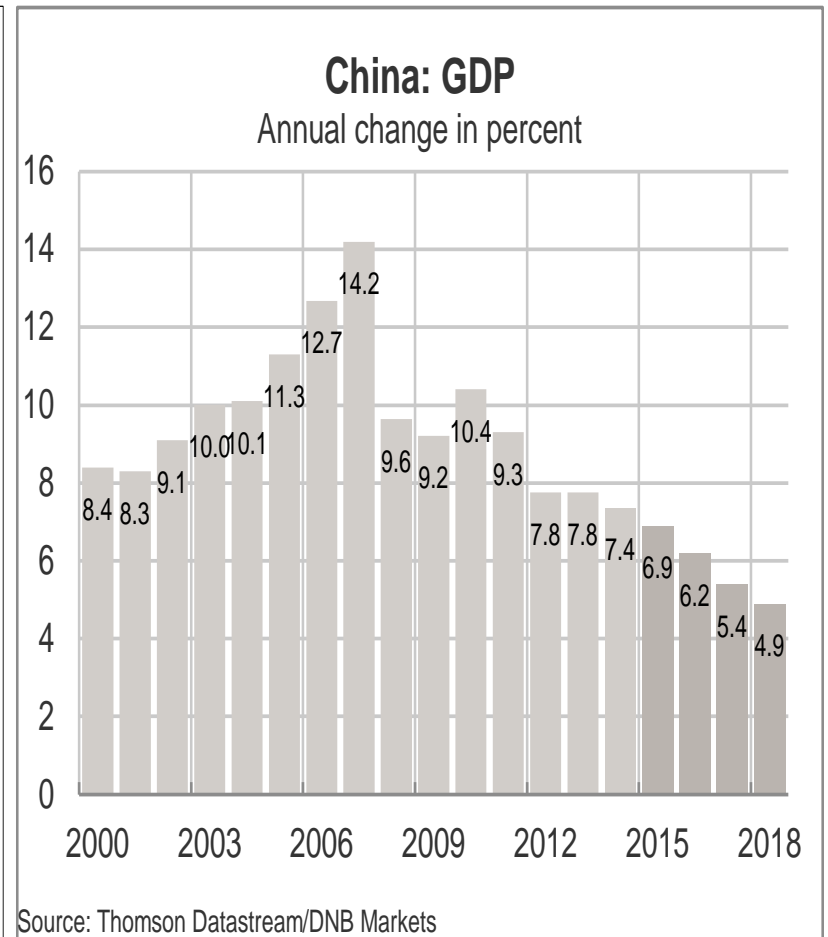
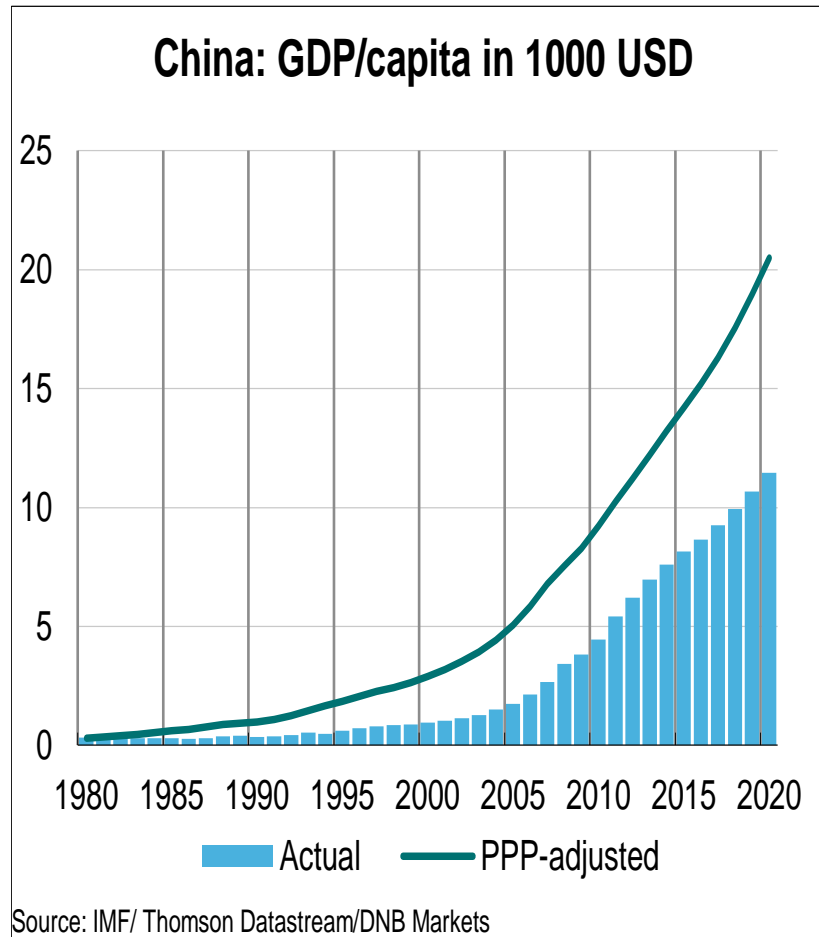


China: No smoke without fire!

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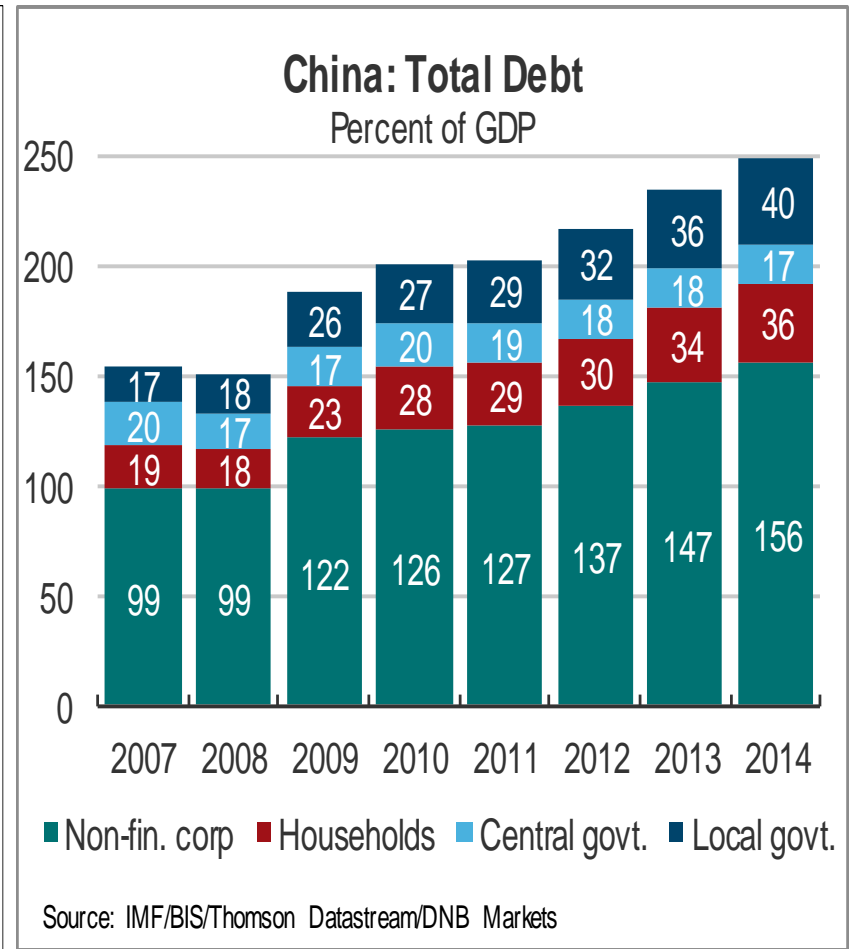
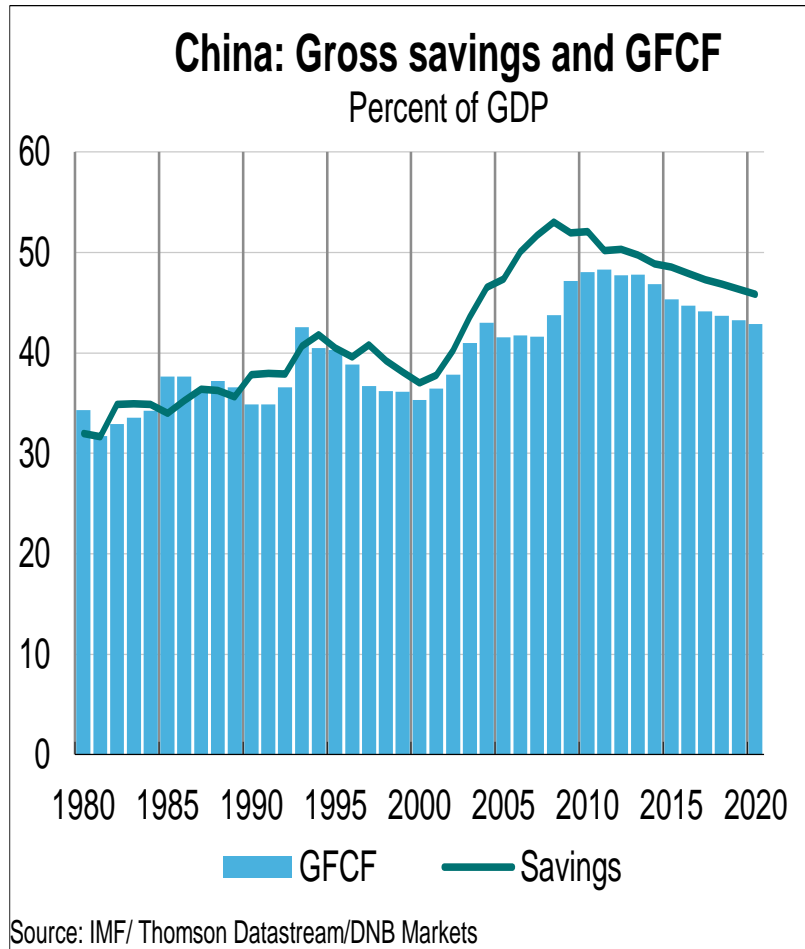
# Let's face it – it couldn't continue like it did...

10% annual growth since 1980. No longer a low-income economy



# ...and «artificially» high since Great Recession

High savings. But debt/GDP +100 pp. Investments have propped up demand



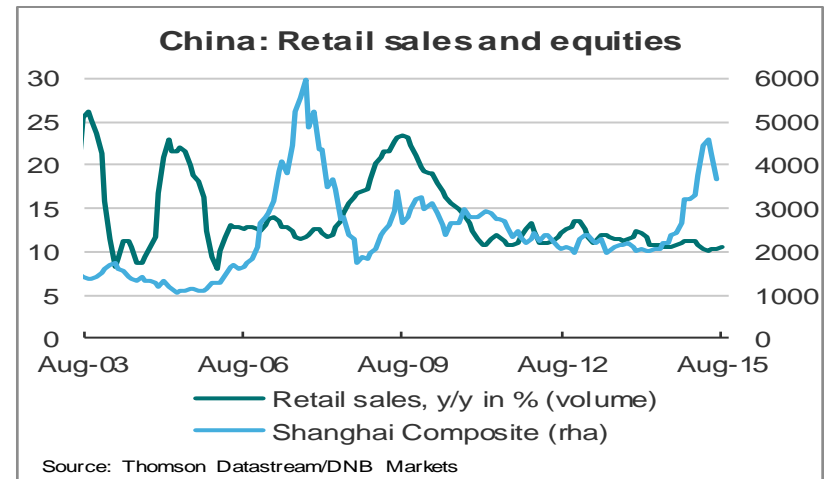
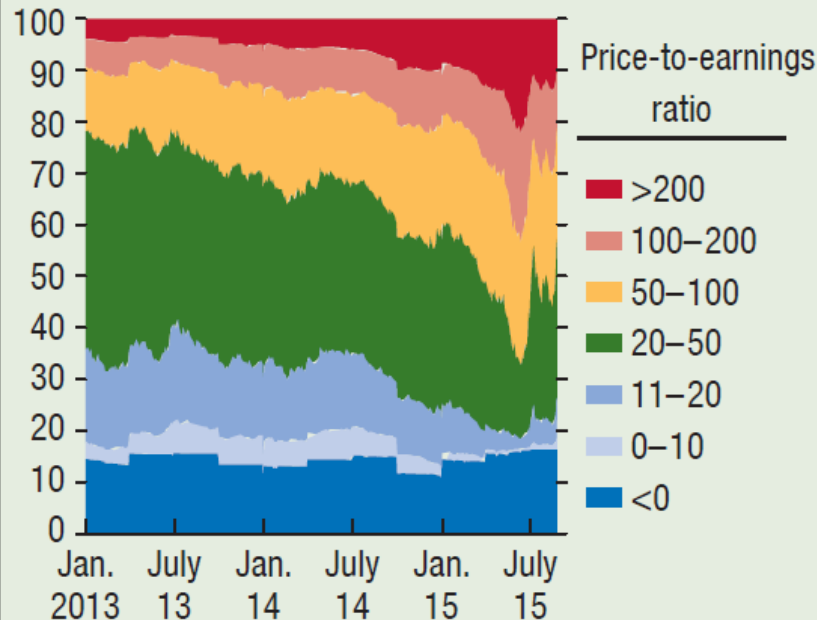
# Fuelling bubbles...

Median company has PE > 50. But the bubble did not affect demand

## Figure 1.1.1. Chinese Equity Market

At the June 2015 peak, valuations touched very high levels for a wide range of stocks...

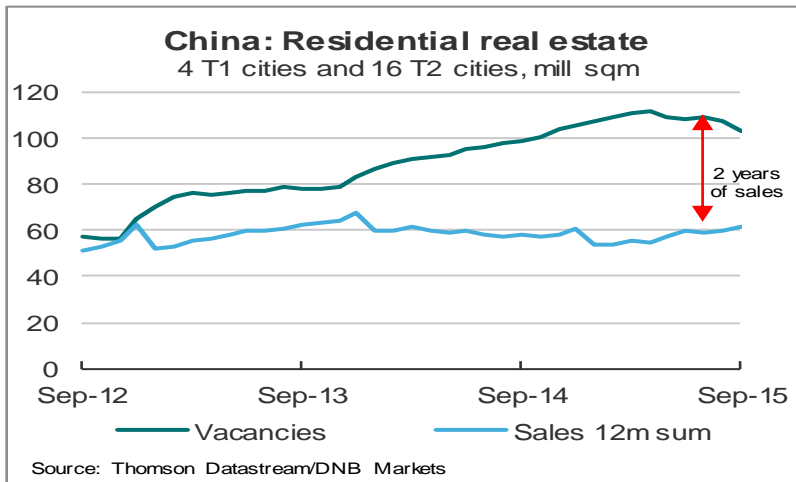
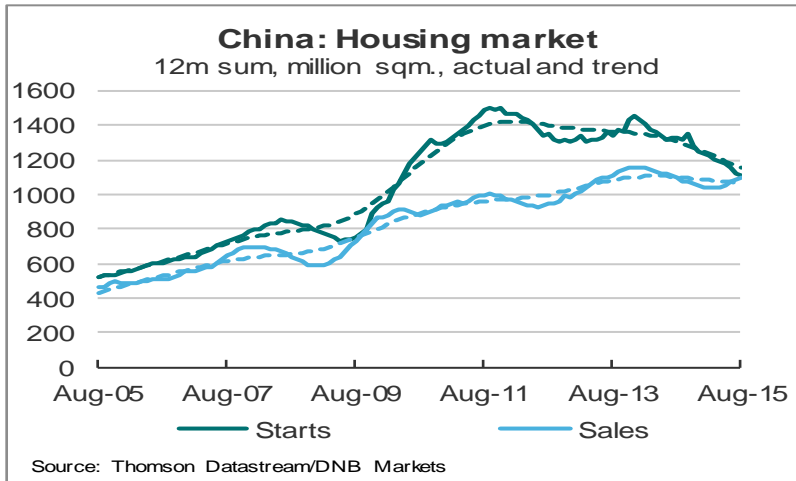
### 1. A-Share Price-to-Earnings Ratios (Distribution, percent)





# ...and imbalances, now being adjusted

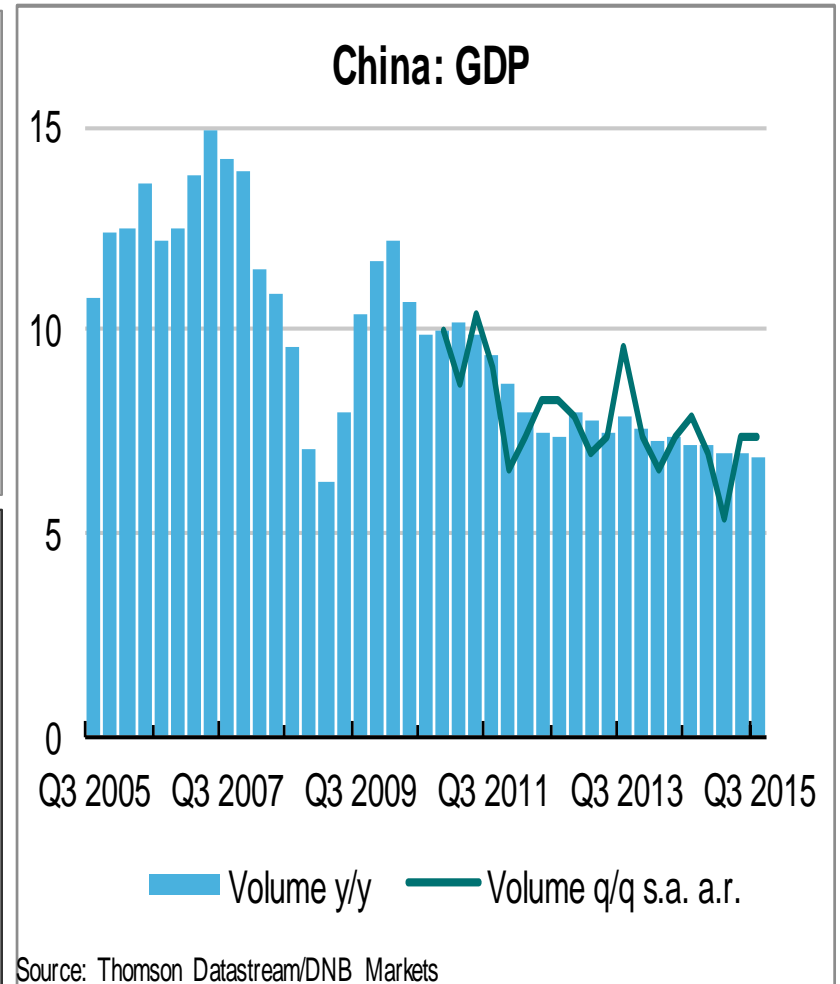
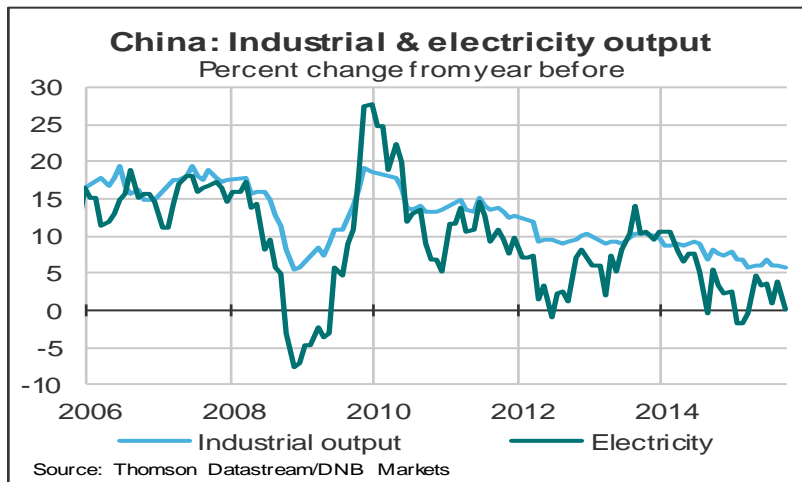
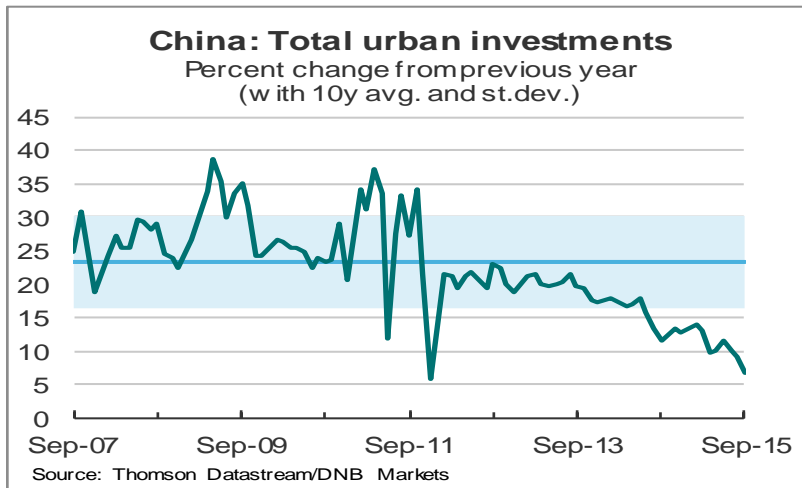
An estimated 49m empty units (22% of total): Risk of much tougher downturn





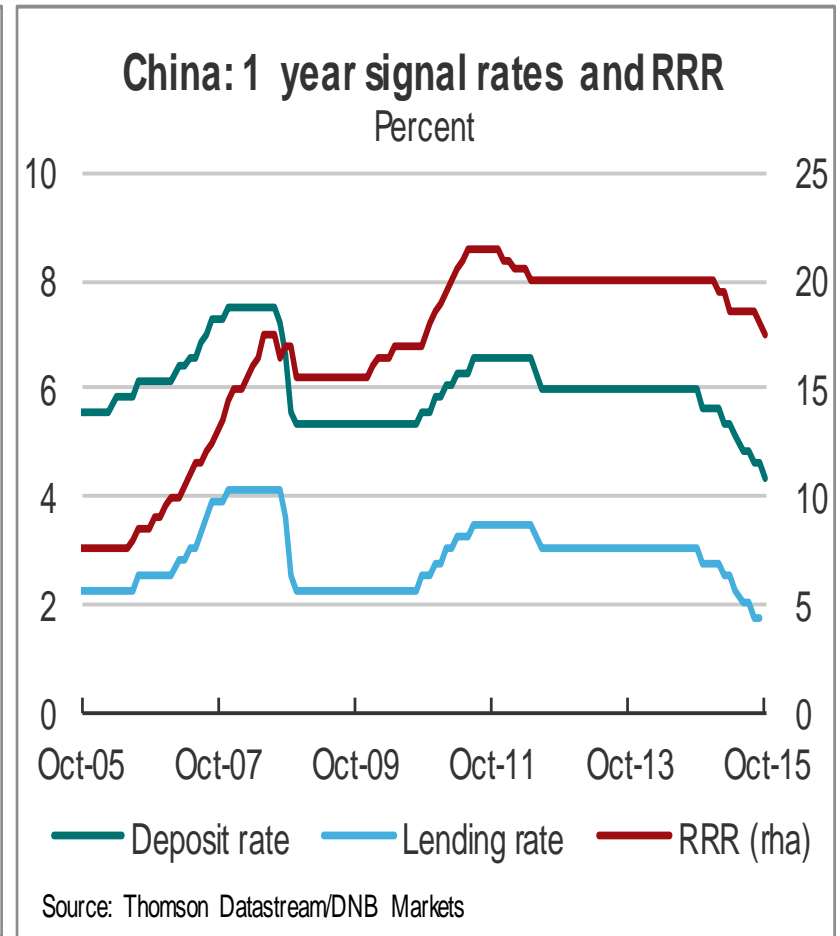
# No doubt that the Chinese economy is slowing

(But official data probably only tells parts of the story)



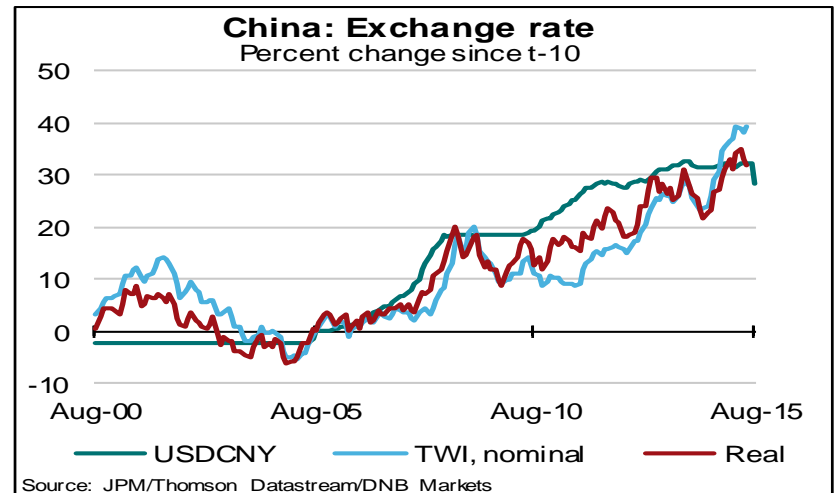
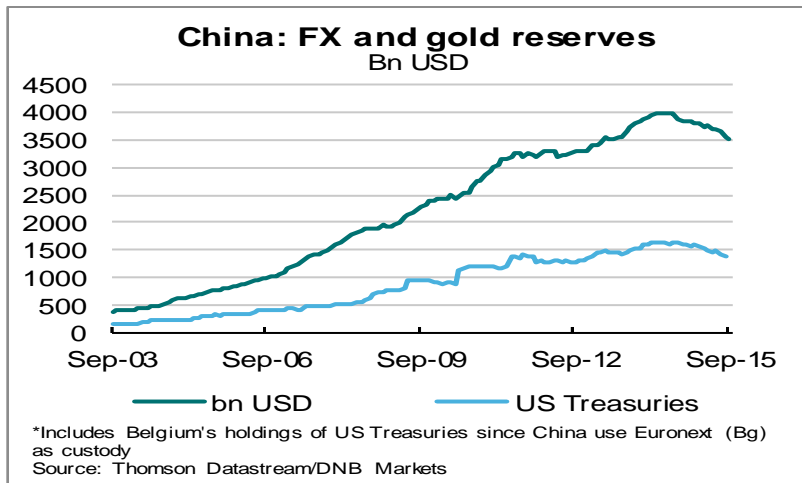
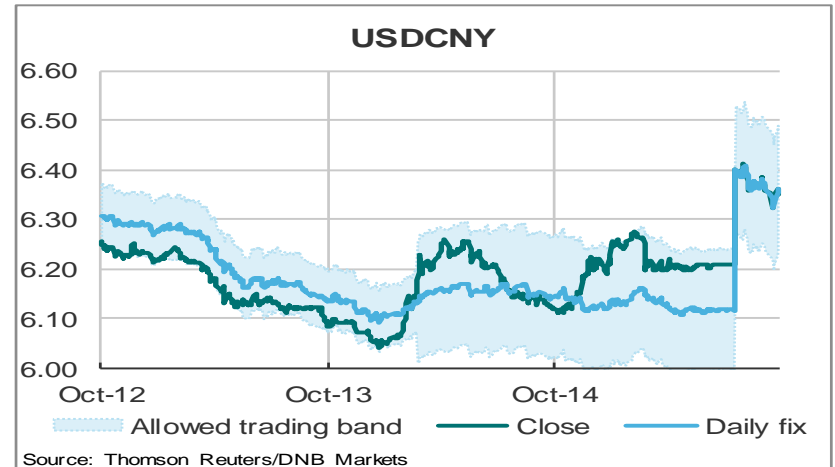
# But authorities won't let the economy crash

Currently easing policy. Large financial reserves. But 20% prob. of crash

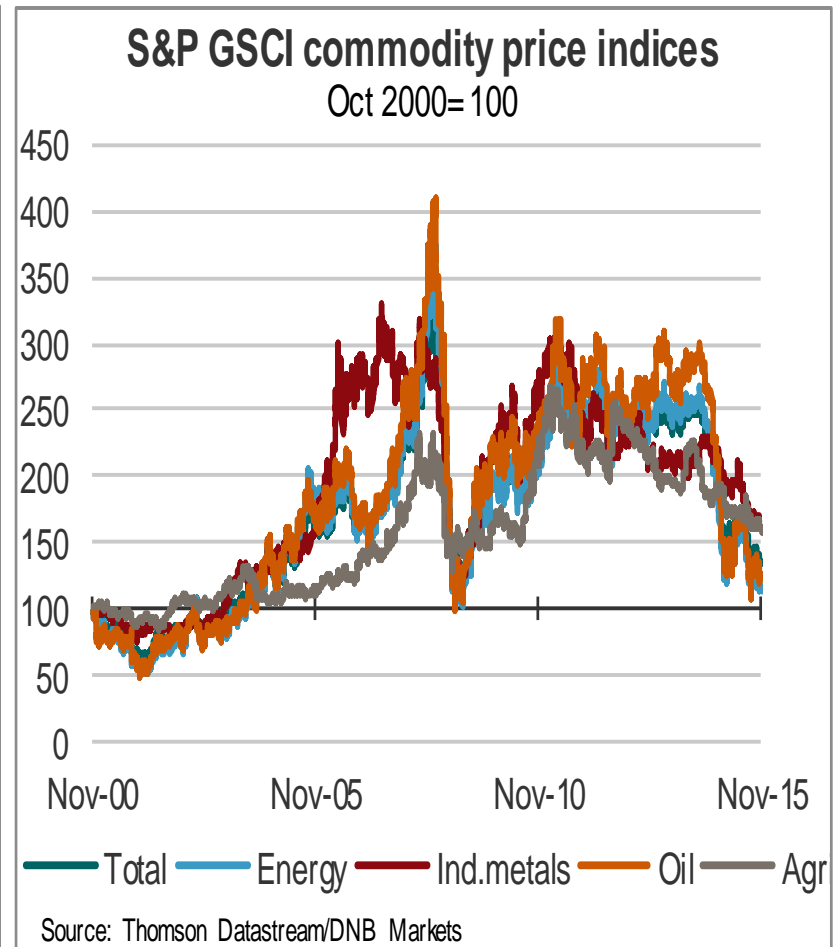
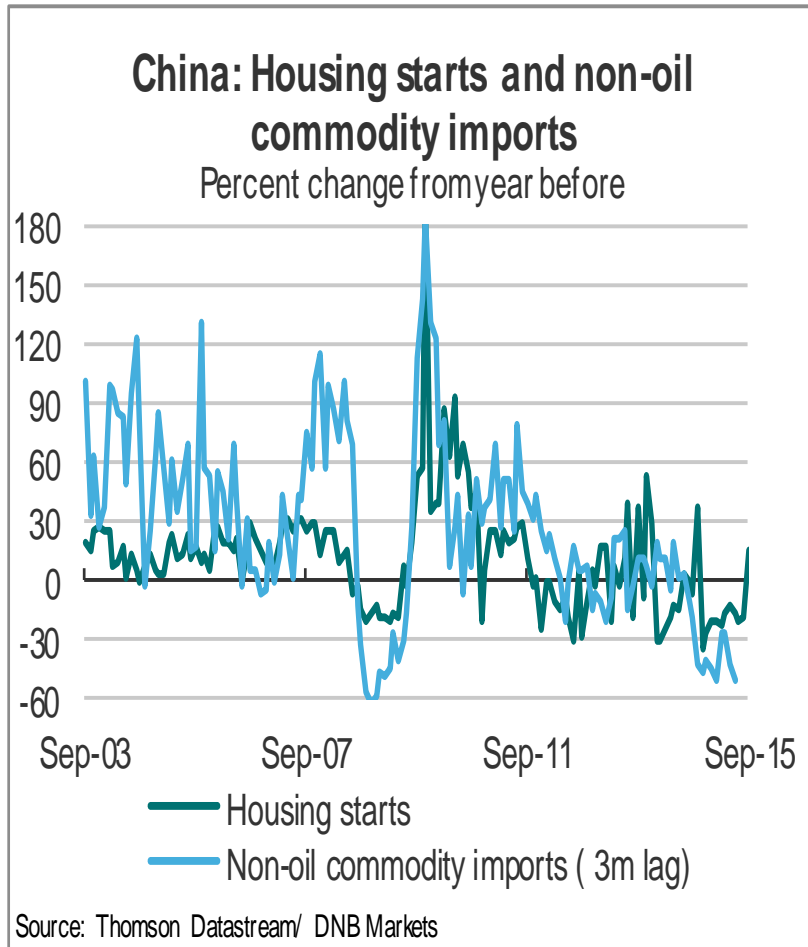


# Capital account eased, CNY weakened

Chinese NFCs net sellers of CNY. CNY depreciation no policy tool

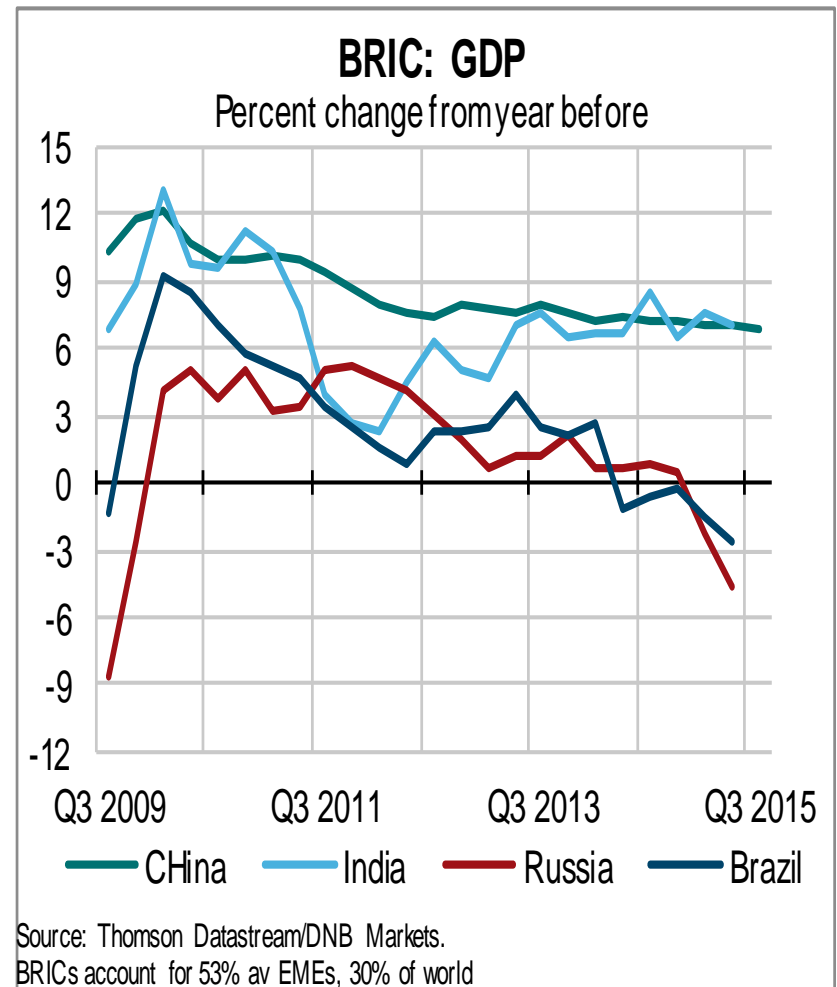
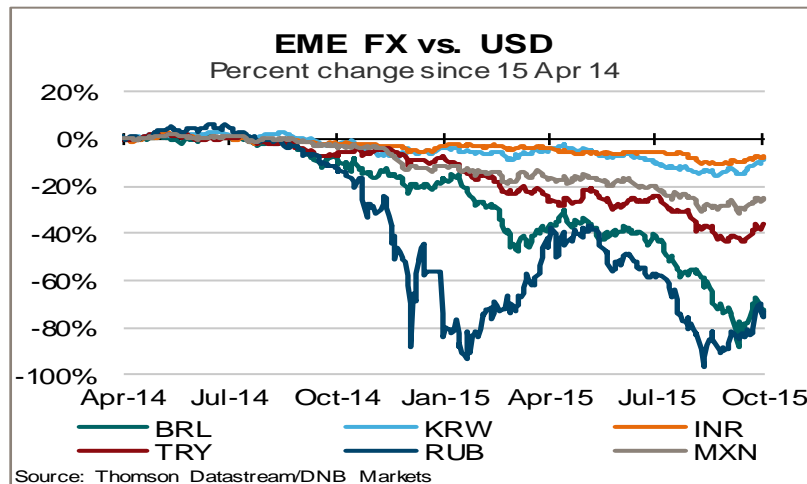
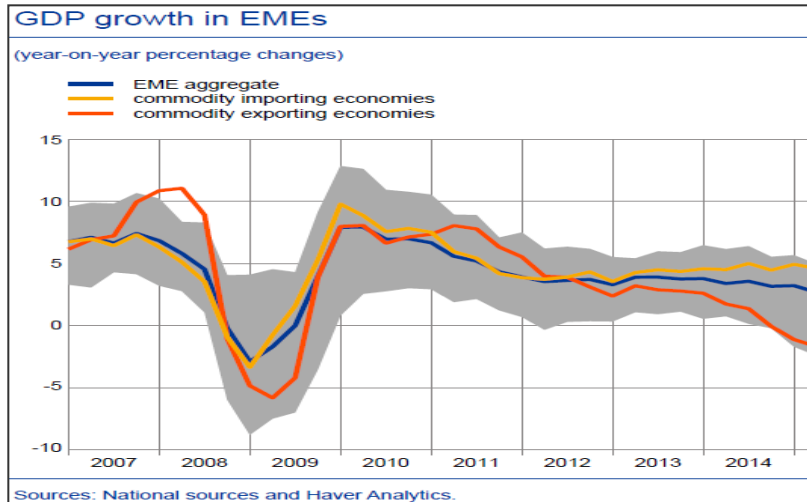


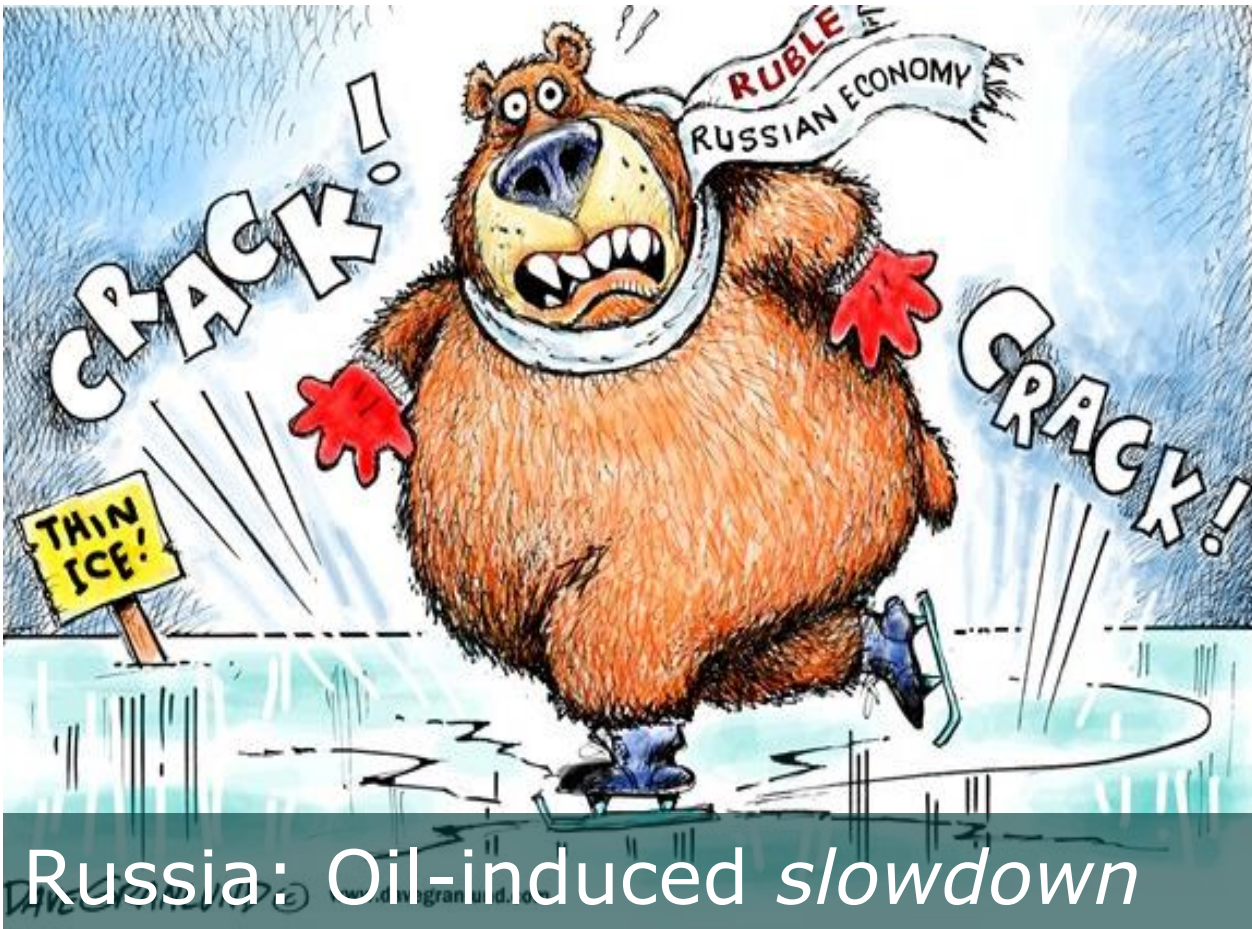
# China's slowing halts the commodity super cycle



# Prices driving revenues and demand – both ways

WB: «When the tide turns, you see who's left naked»



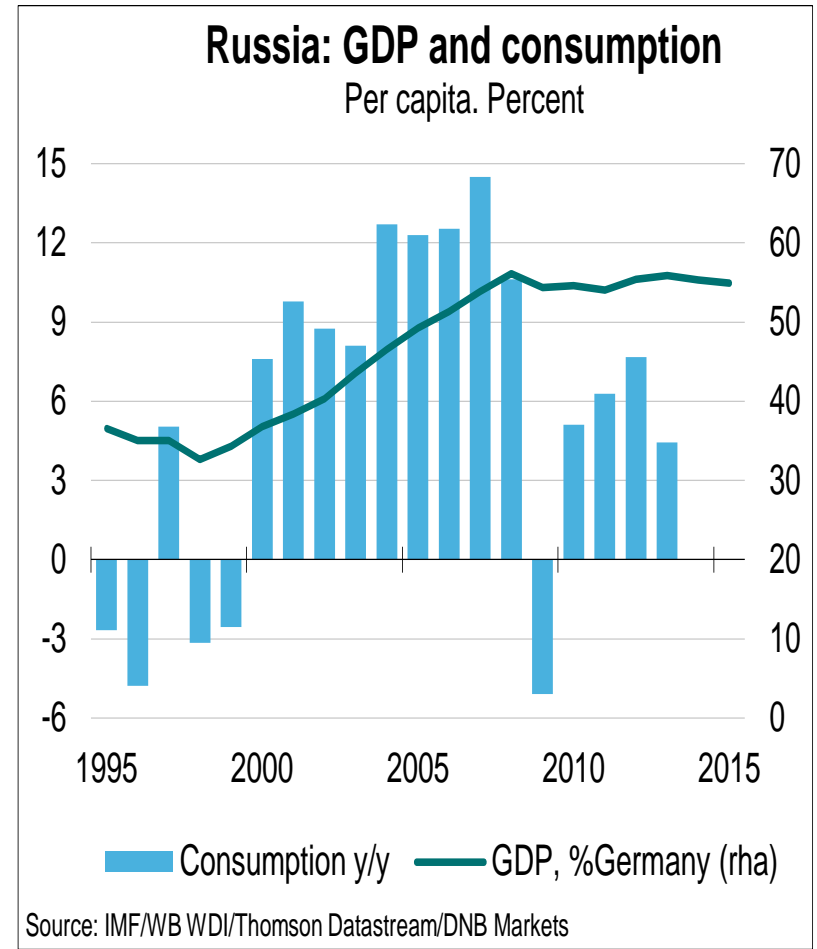


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Russia: Oil-induced *slowdown*

# 1) Oil-fuelled increase in living standards

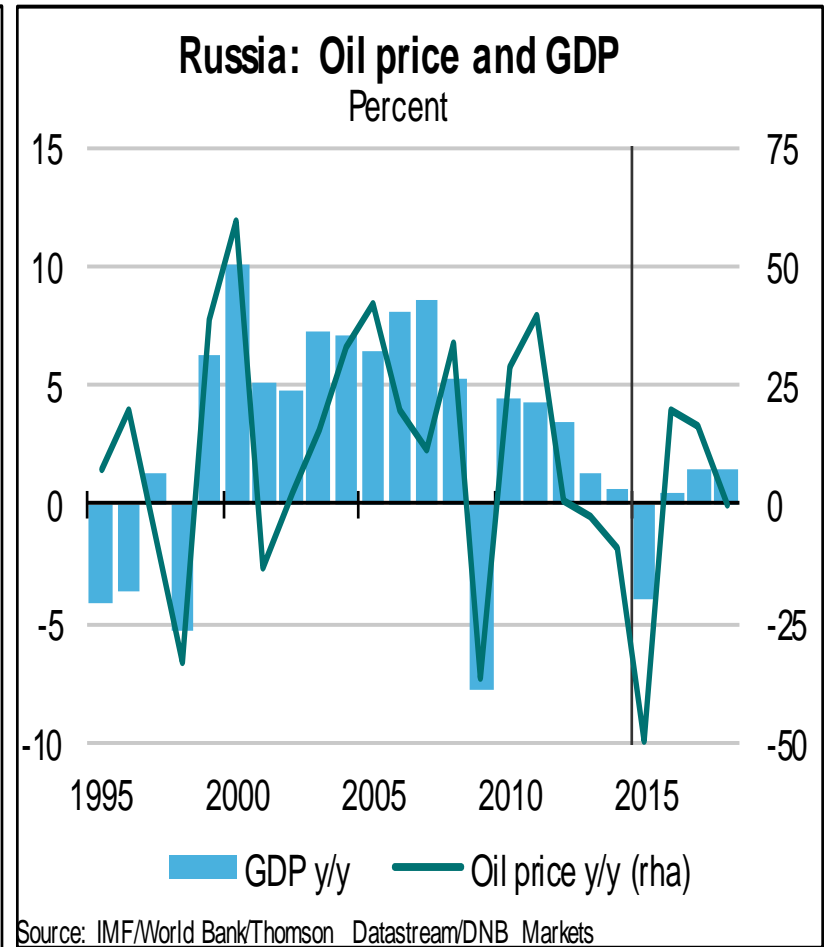
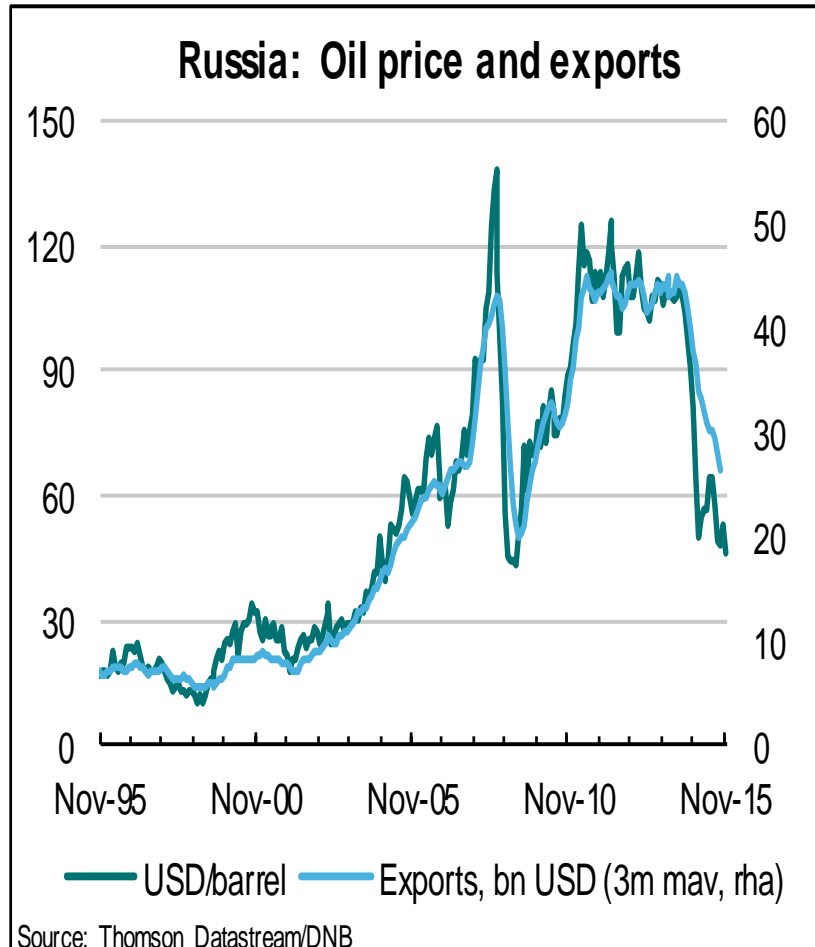
Oil rent 15% 1998-12: Cons./cap 9¼%, GDP 7%. From 33% to 55% of Gmy.





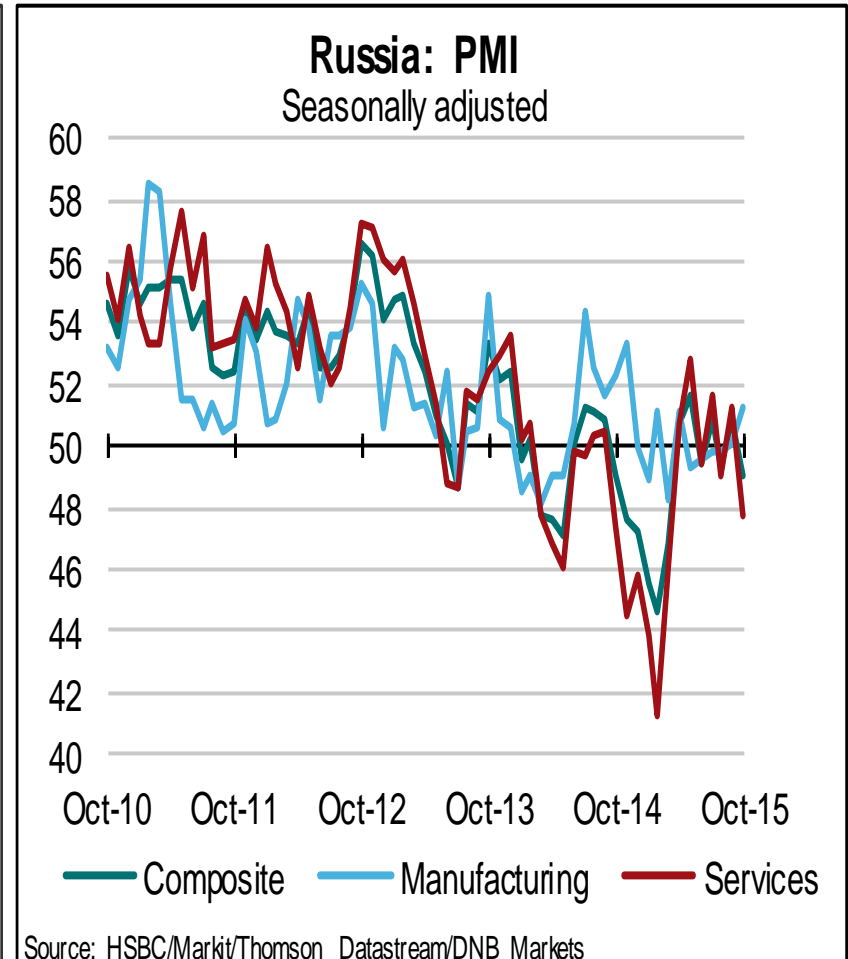
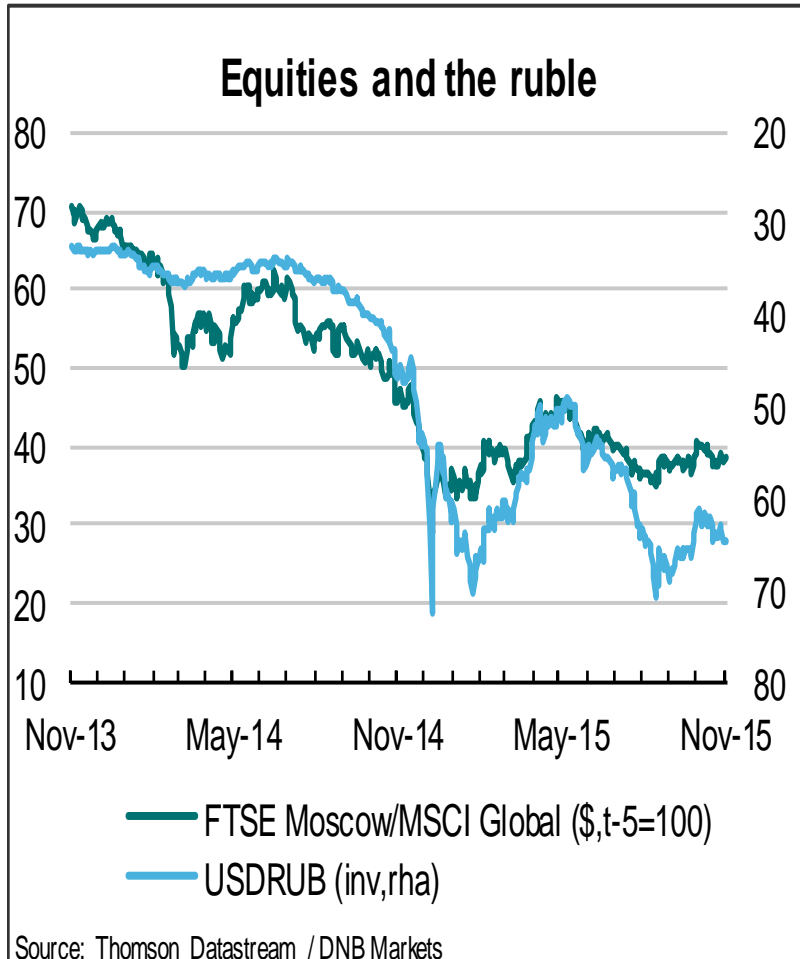
## 2) Oil dependent, two thirds of exports

\$220''' 'lost' (=20% of GDP). GDP tracks price of oil. CF -0.1%, DNB 0.5%



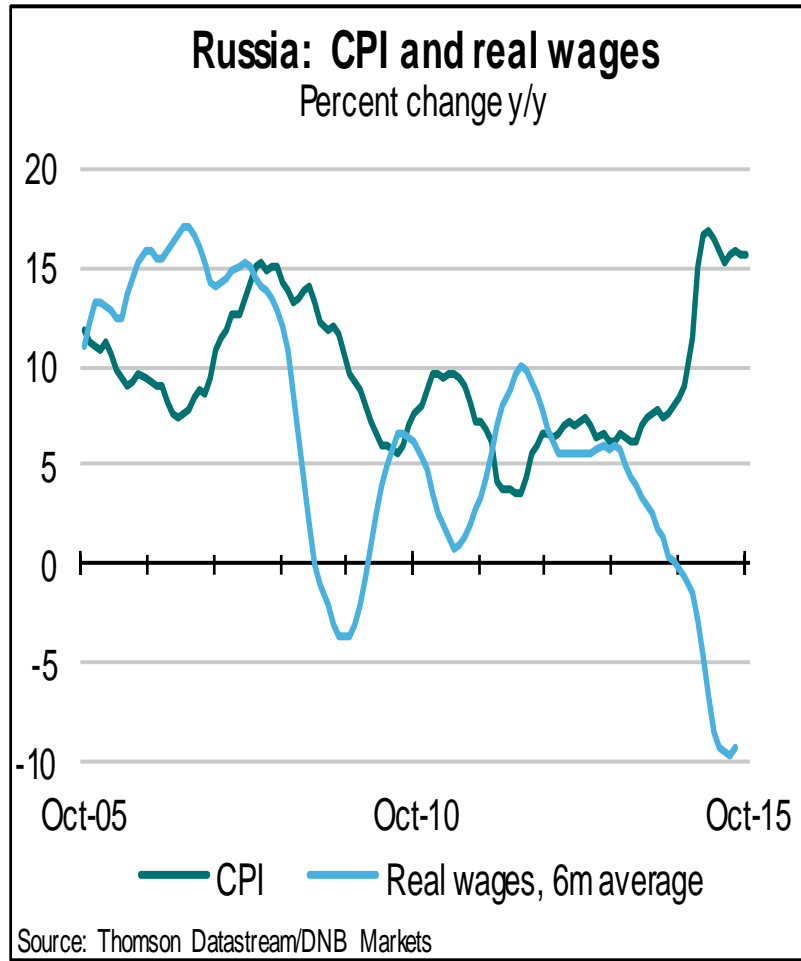
# Confidence weakened considerably

Capital flight led to weaker ruble



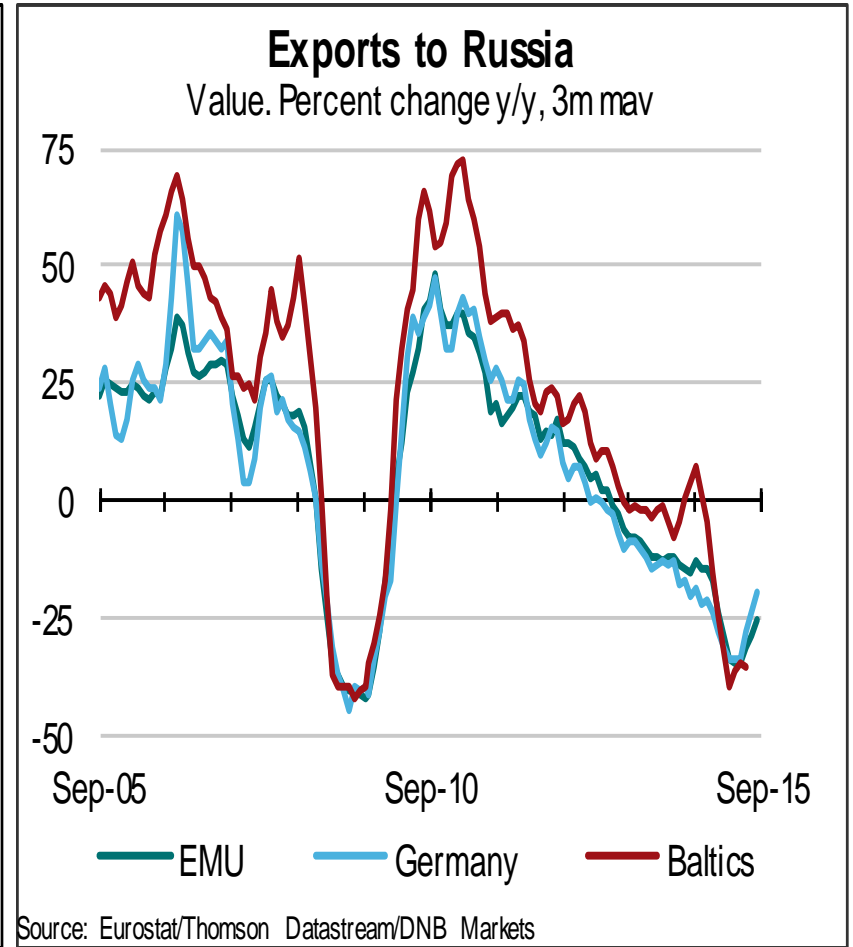
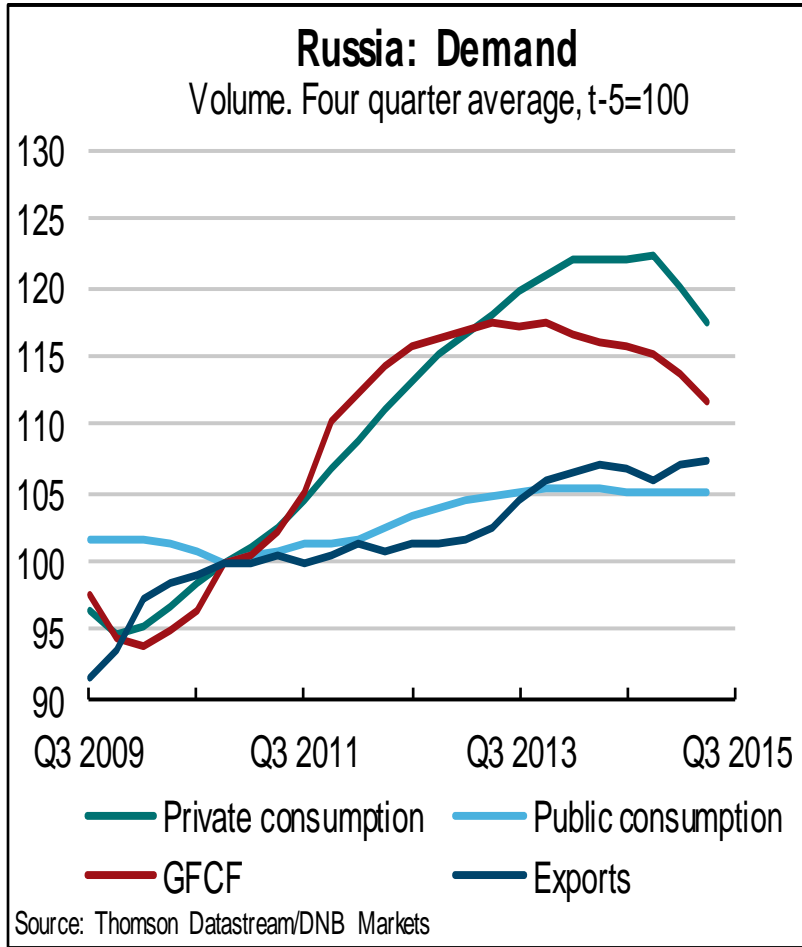
# Ruble-decline has raised inflation to 16%

Real wages & retail sales -10% y/y, car sales -40% y/y



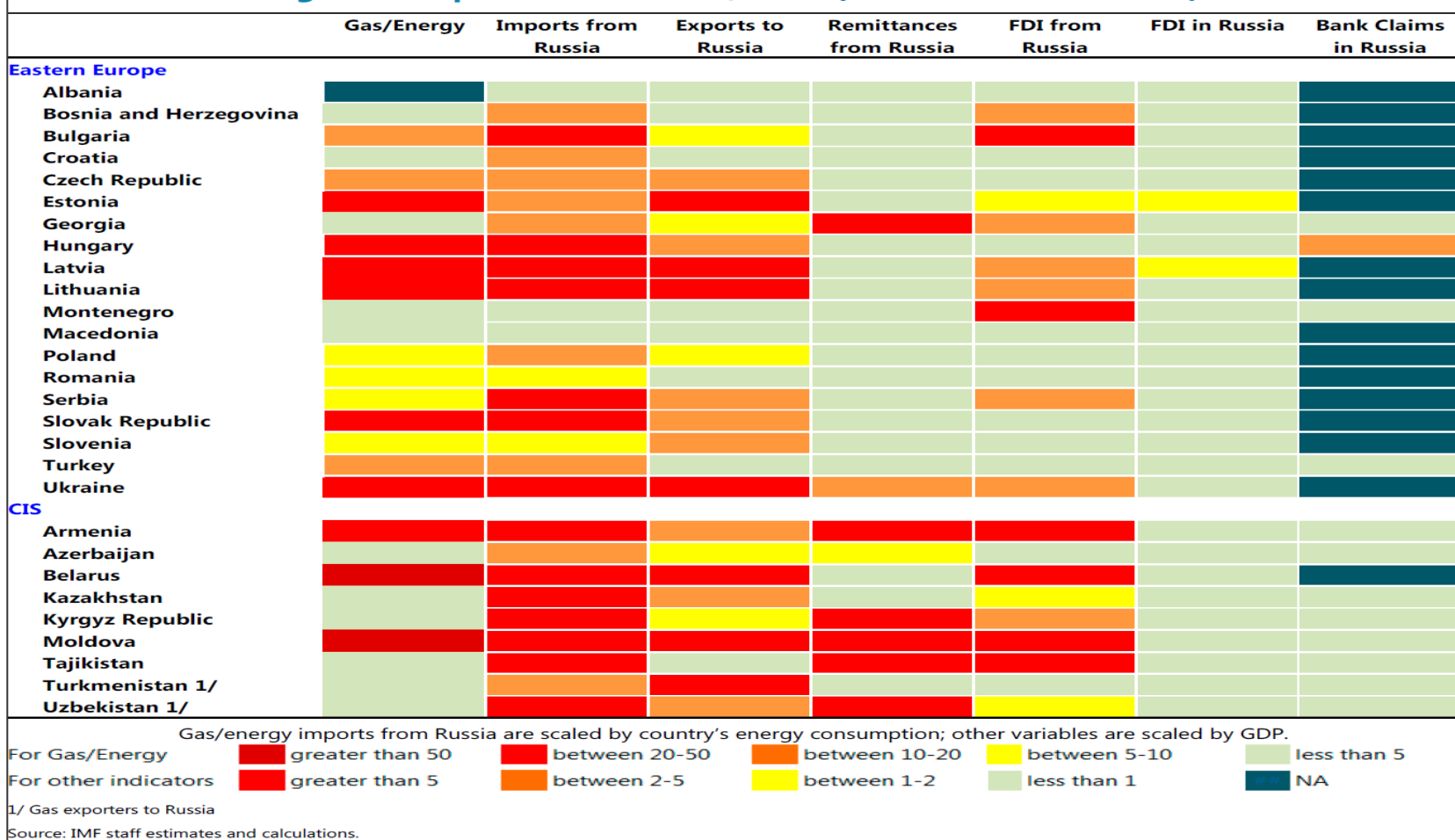
# Lower demand hits imports

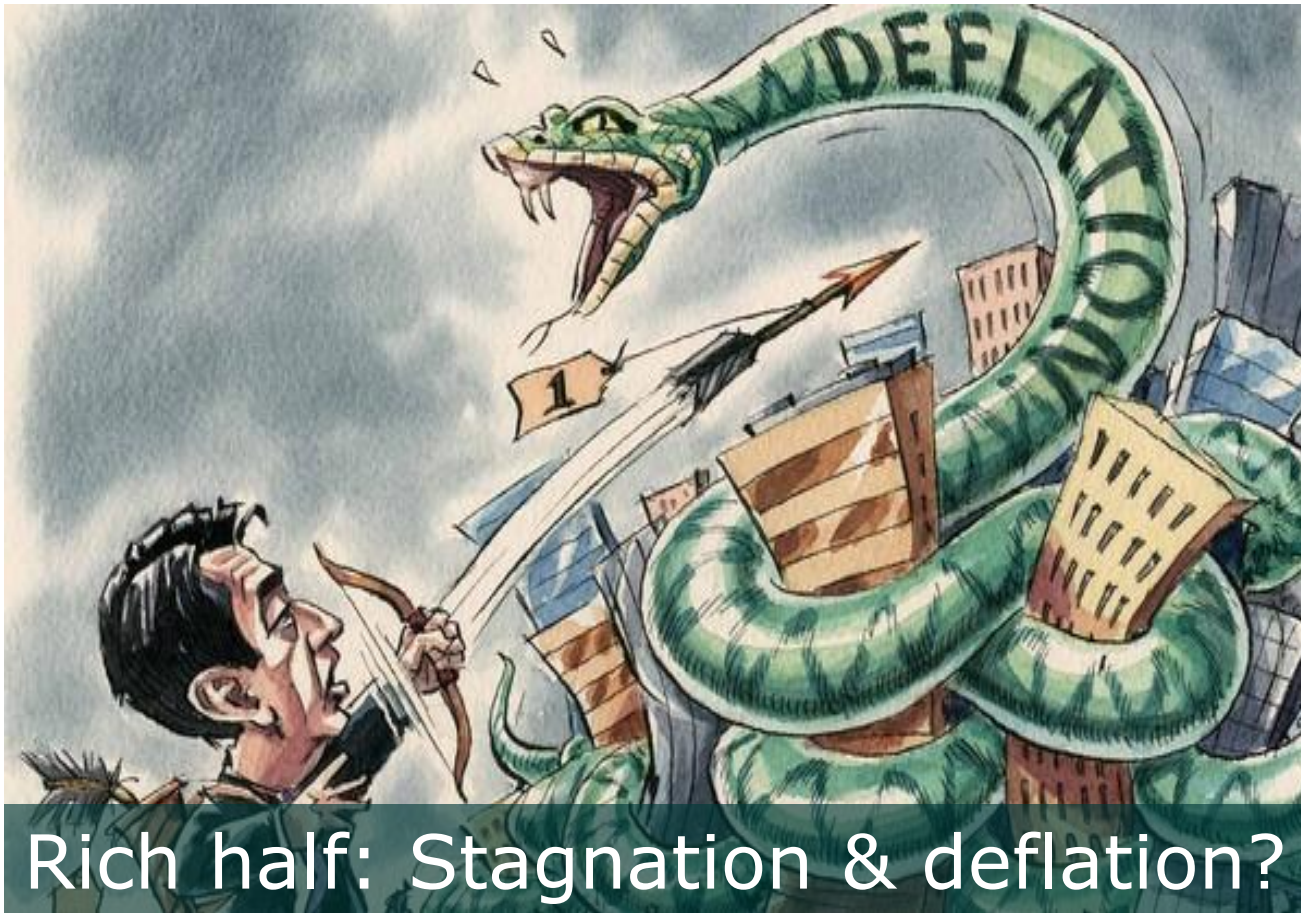
6<sup>th</sup> largest ecy. From +27% in 2011 to -30% now. Plus services & 2<sup>nd</sup> round



# CIS- and East Europe most exposed to Russia

**Figure 8. Exposures to Russia, 2014 (or the latest available)**



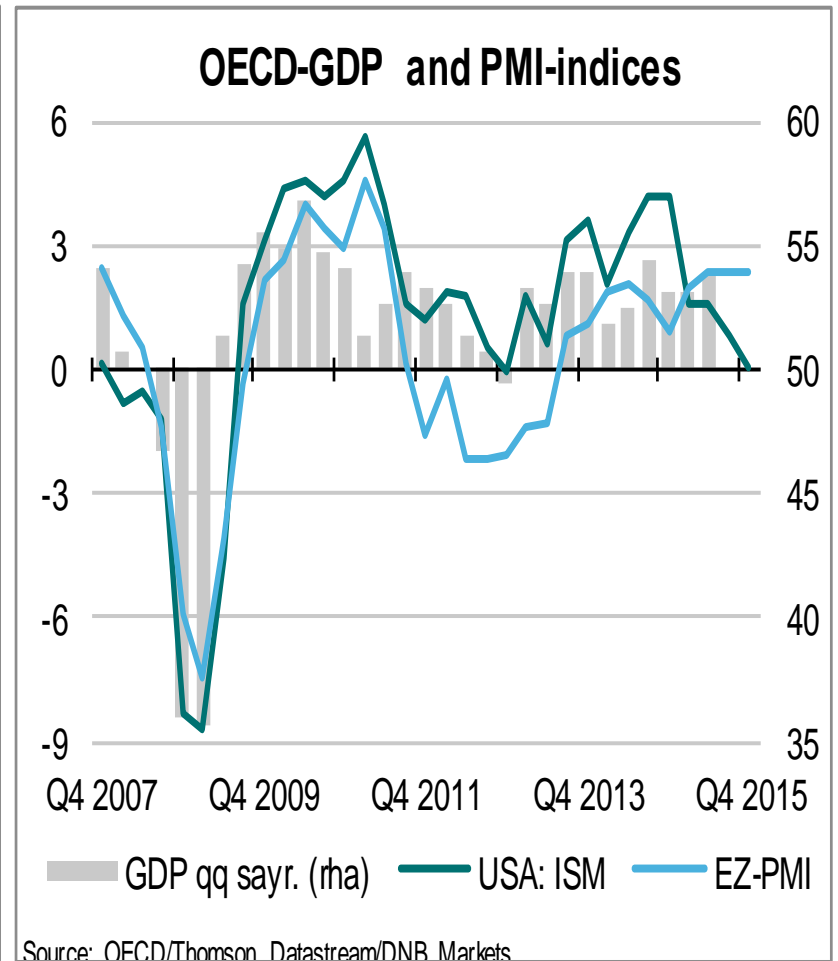
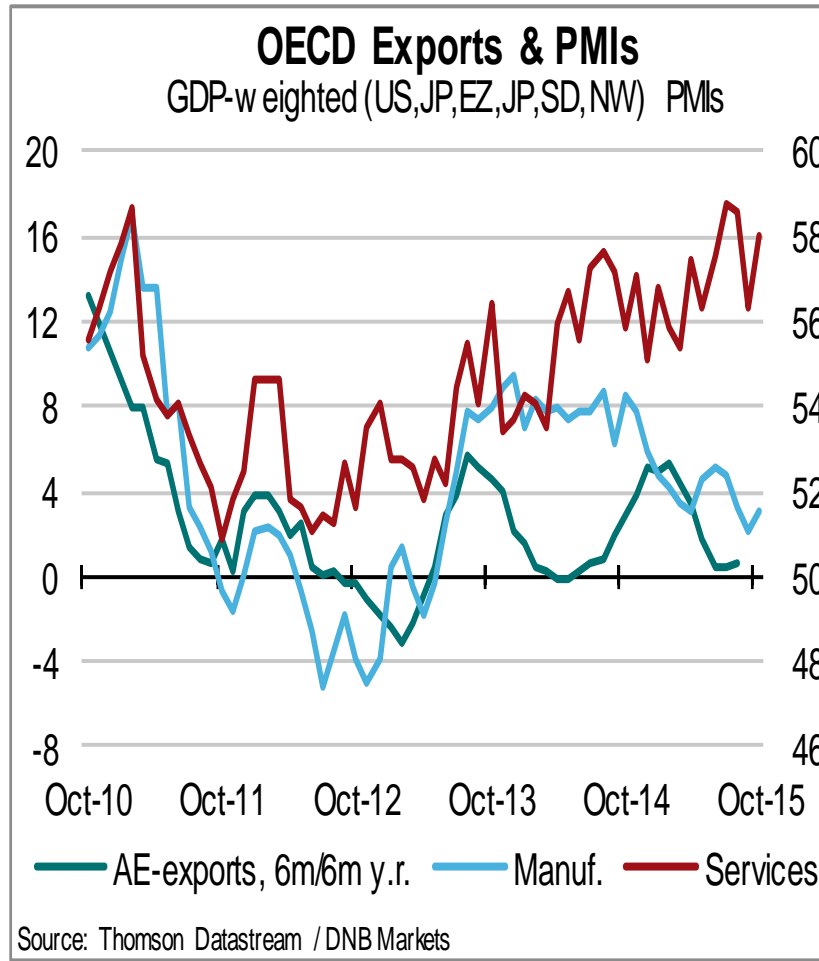


Rich half: Stagnation & deflation?

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# China's slowing also hits AE-exports

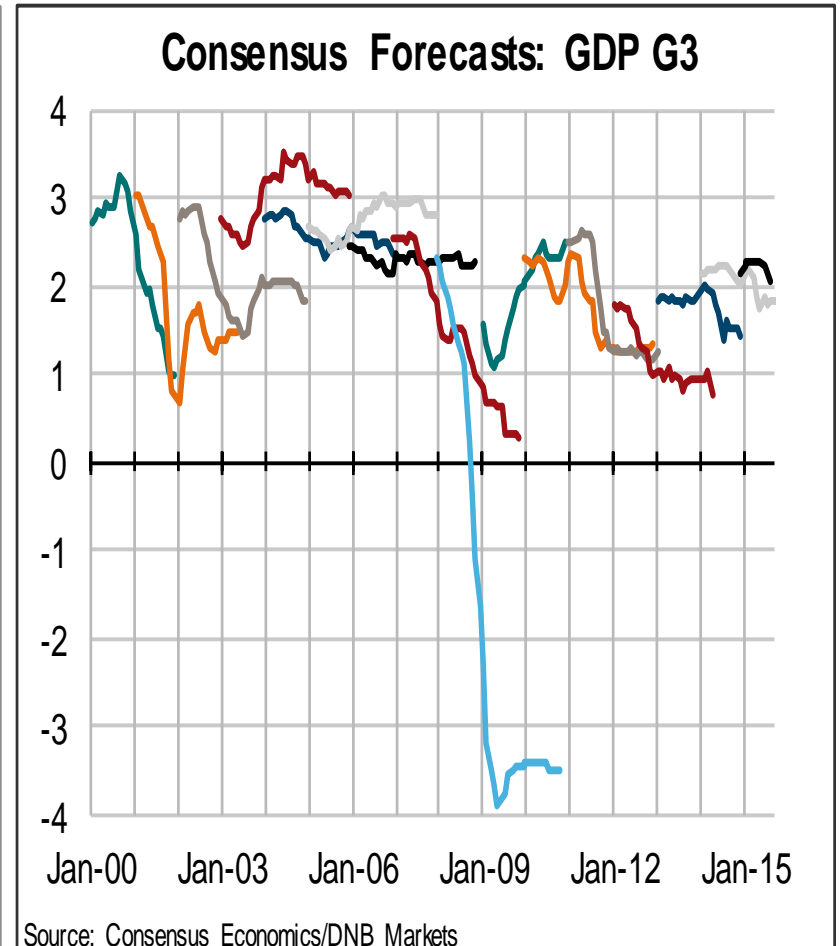
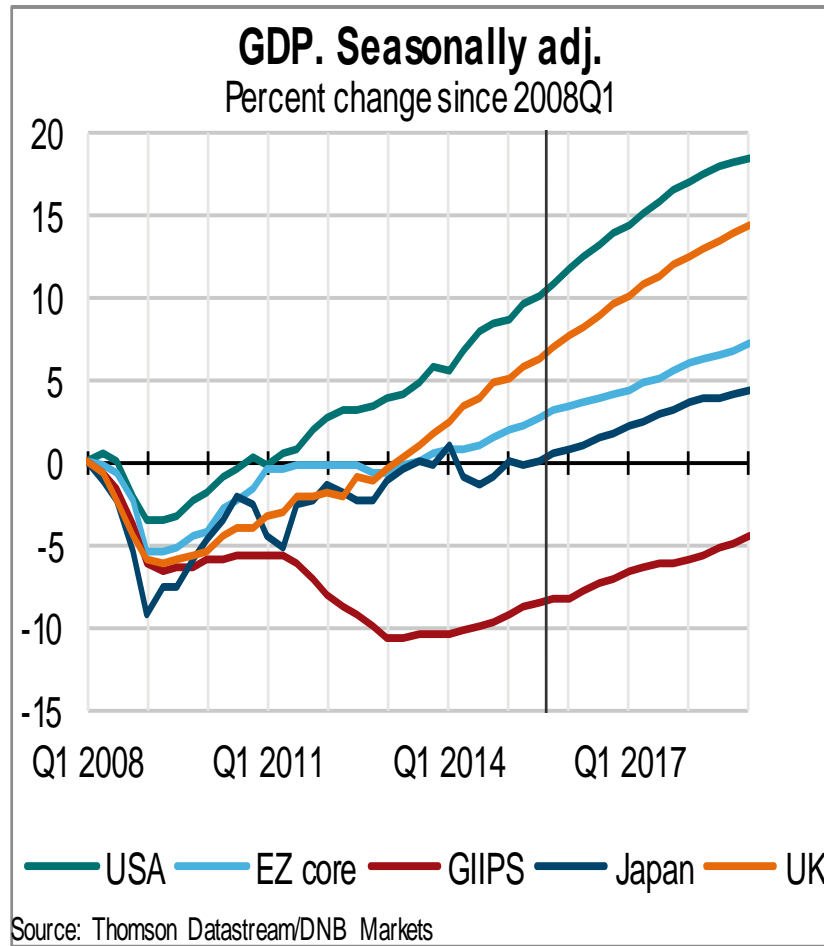
But service sector holding up well, and cycle is still alive and well





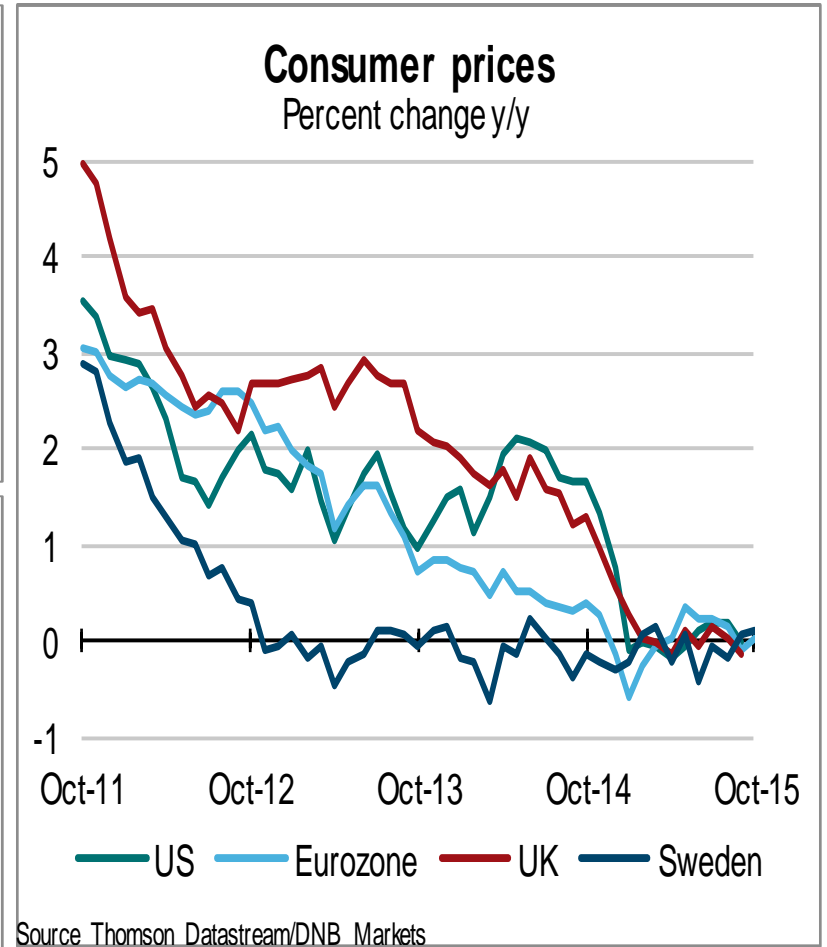
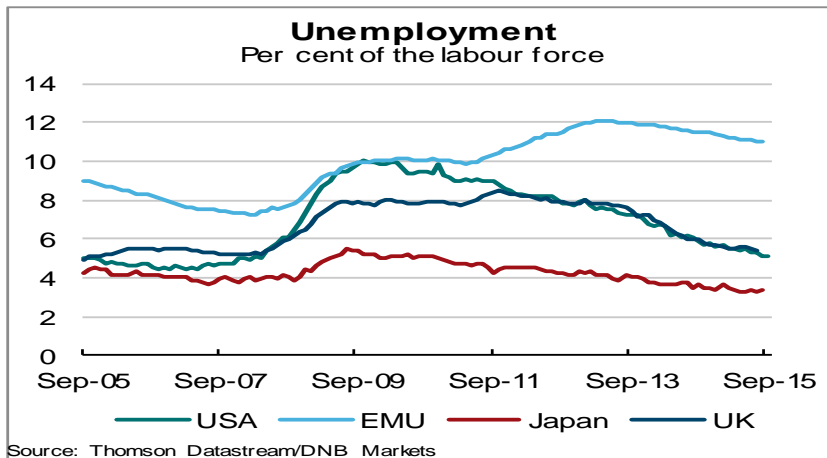
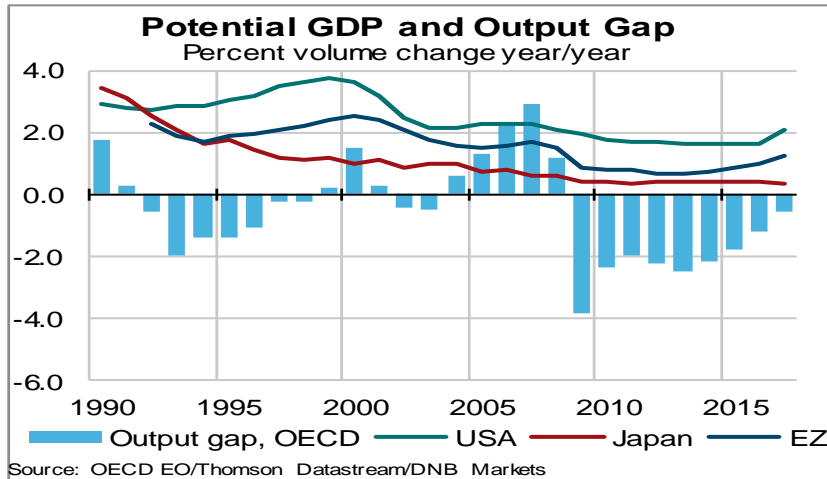
# Many have yet to recover lost ground

(And growth has consistently disappointed, 5th disappointing year in a row)



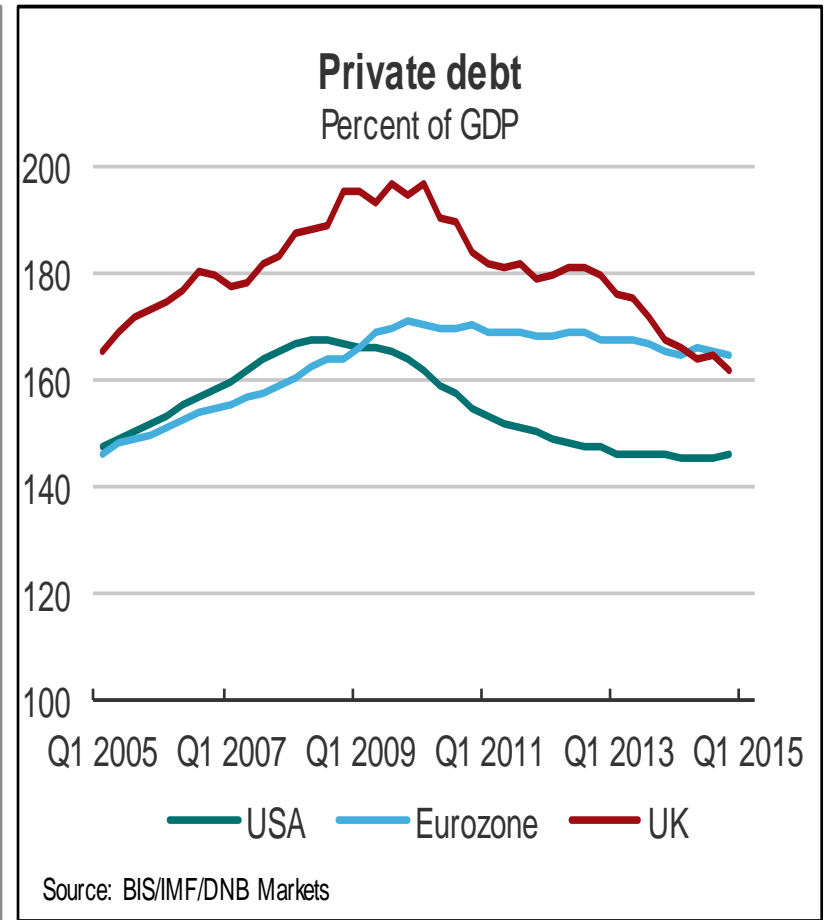
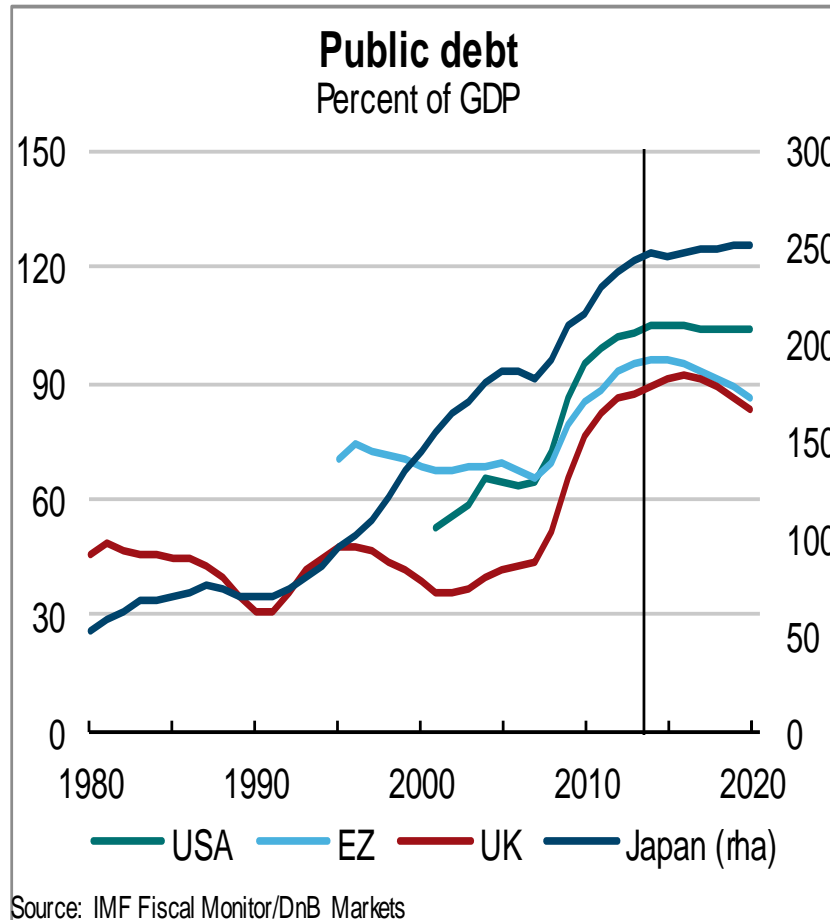
# Slack, and low trend growth for 7th year in a row

Output gap < 0 despite low trend growth. Inflation close to zero



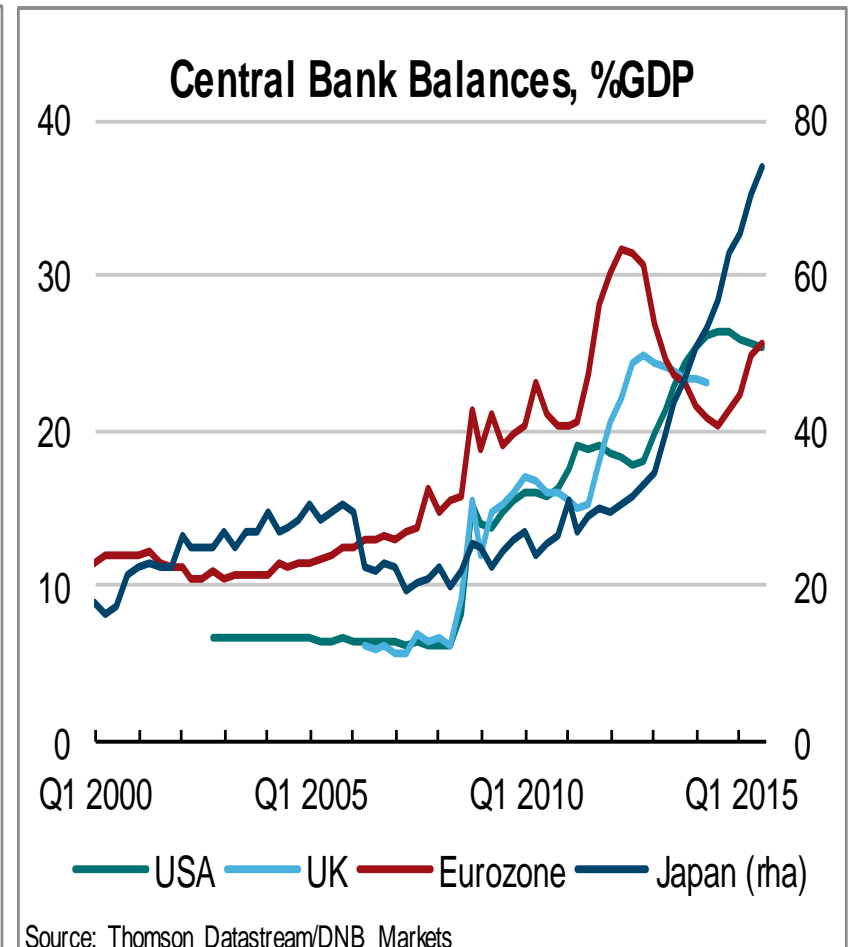
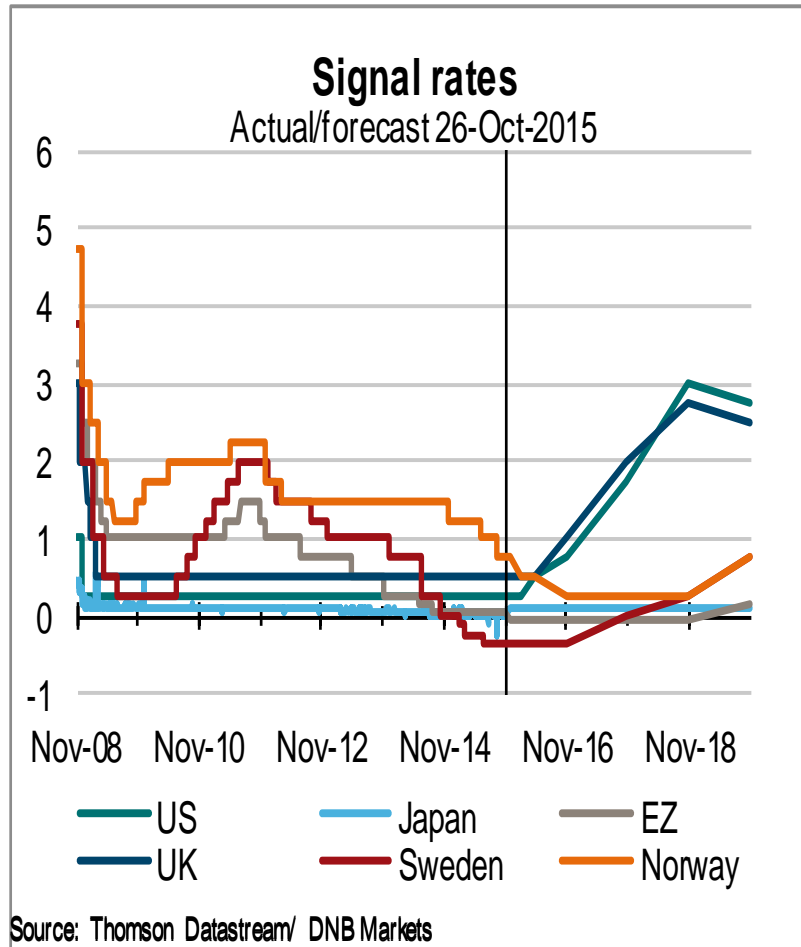
# Public sector debt ratios remain elevated

...and private debt reduction proceeds slowly in euro zone



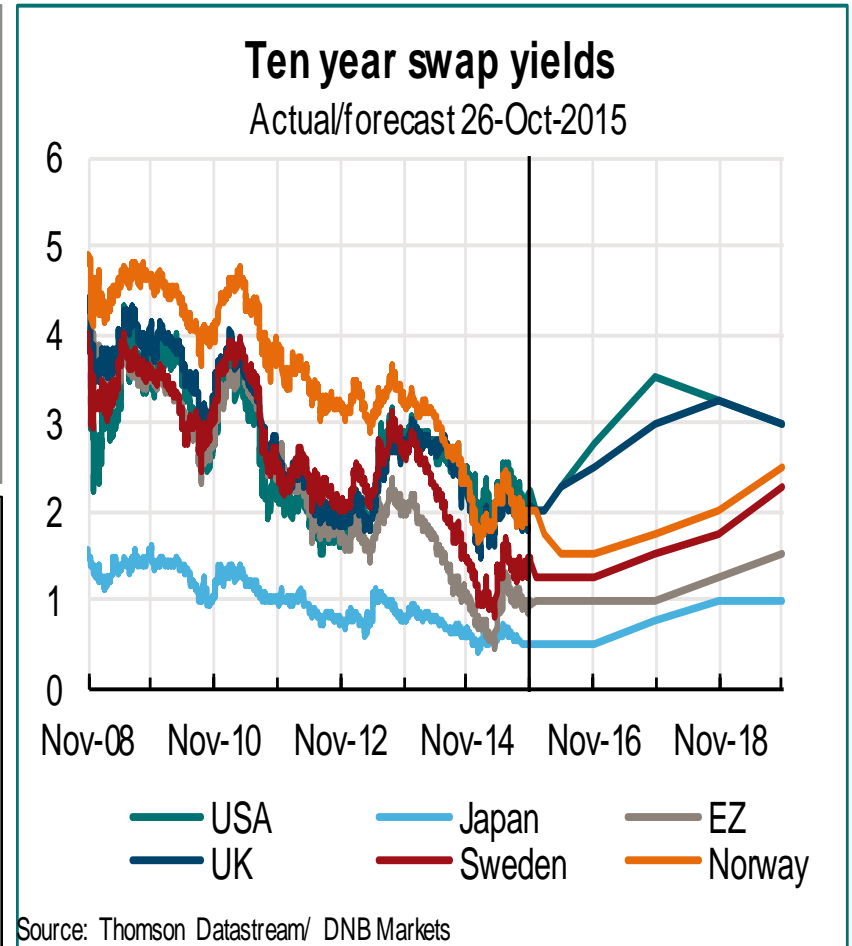
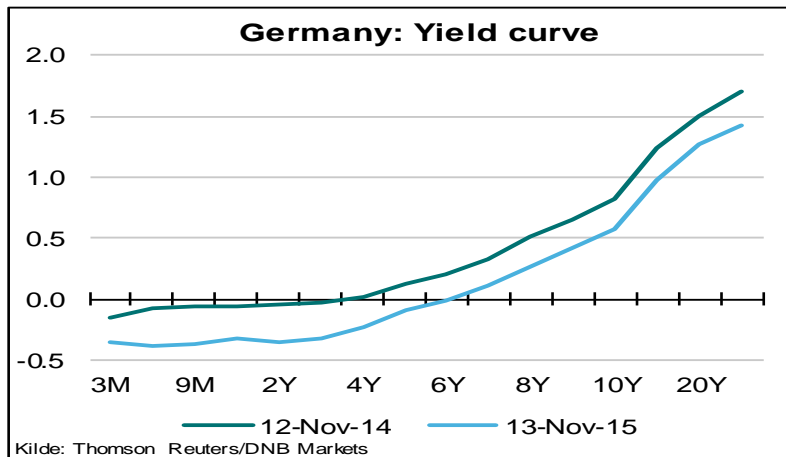
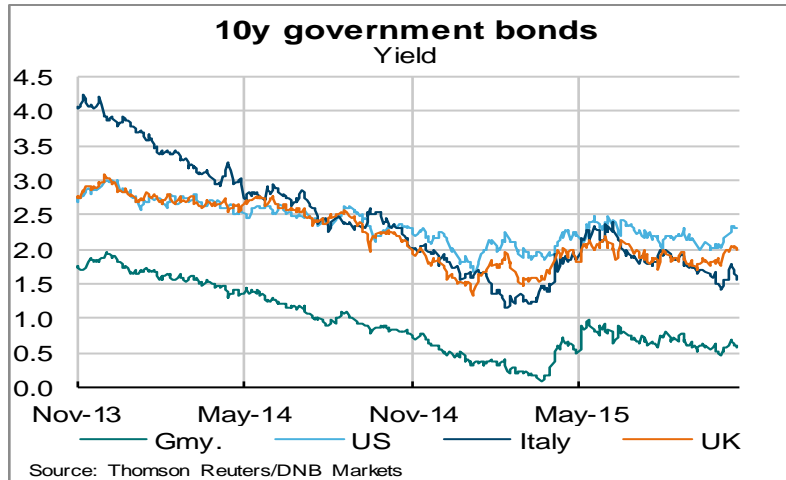
# Record-low interest rates & massive QE

Up in USA & UK, flat in Japan & Sweden, further cuts in EMU & Norway



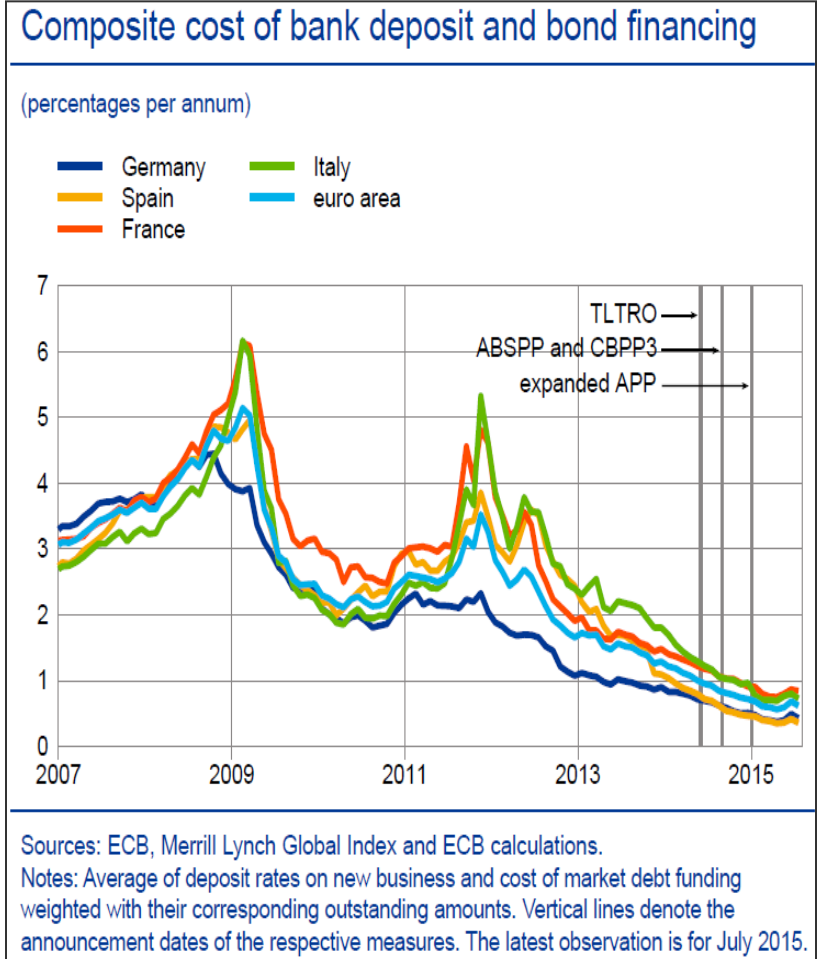
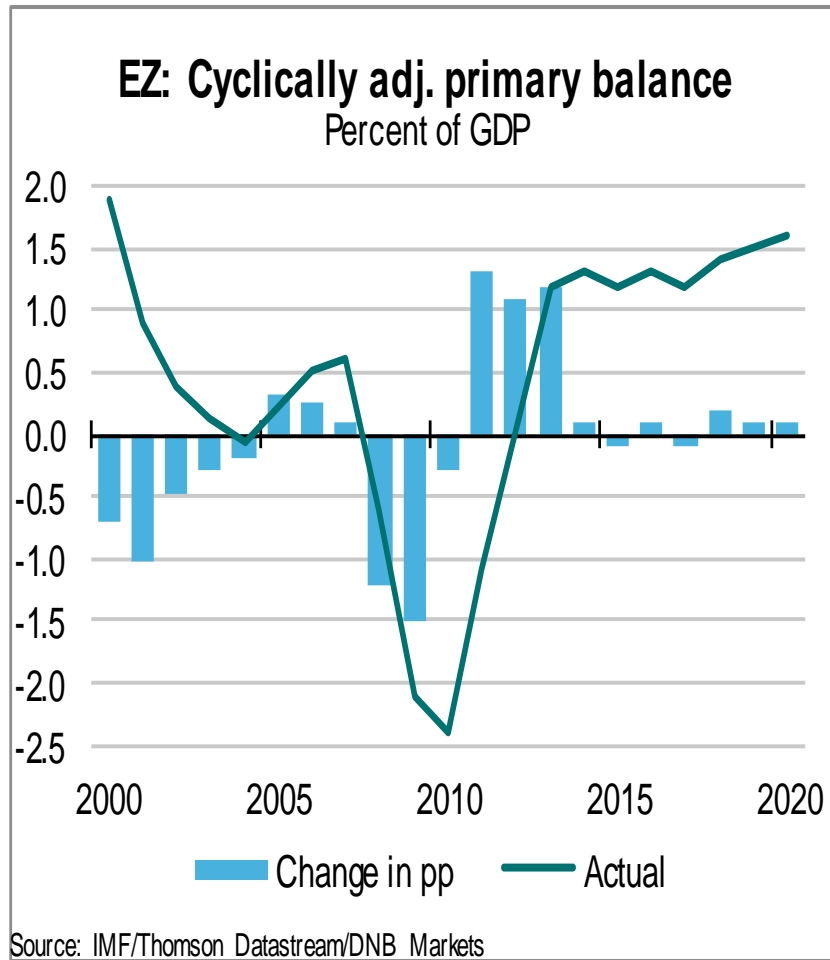
# Low interest rates, and first hikes postpones

Up in USA & UK, flat in EMU, Japan & Sweden, one cut in Norway



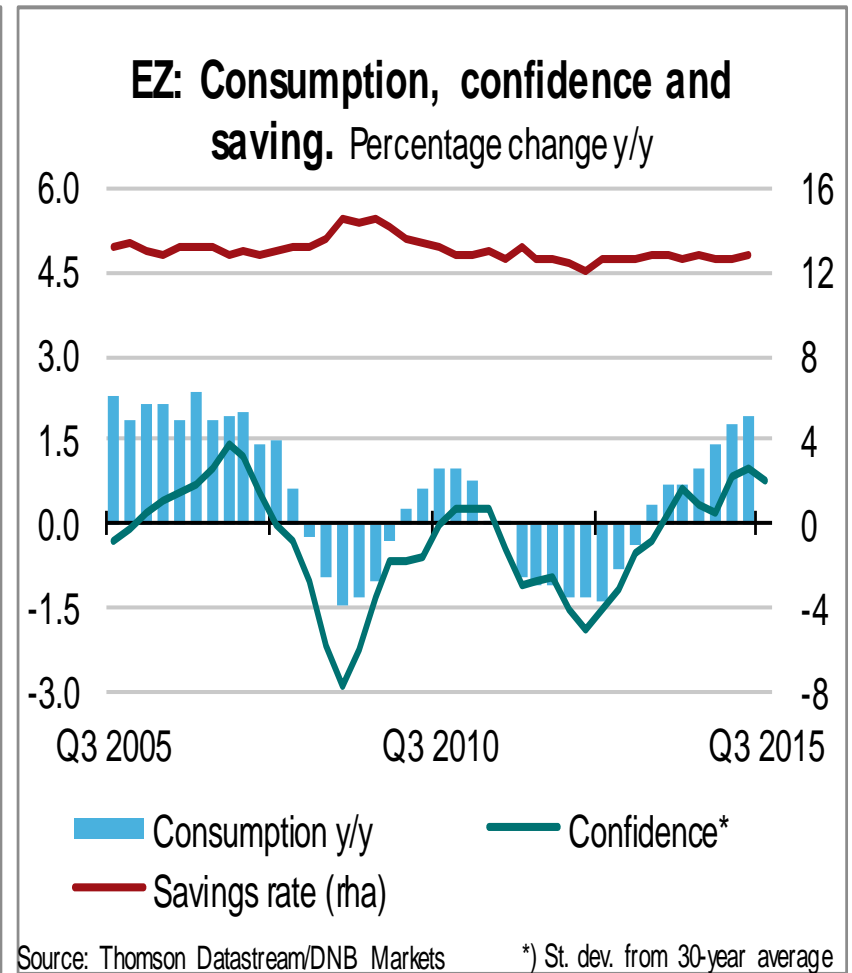
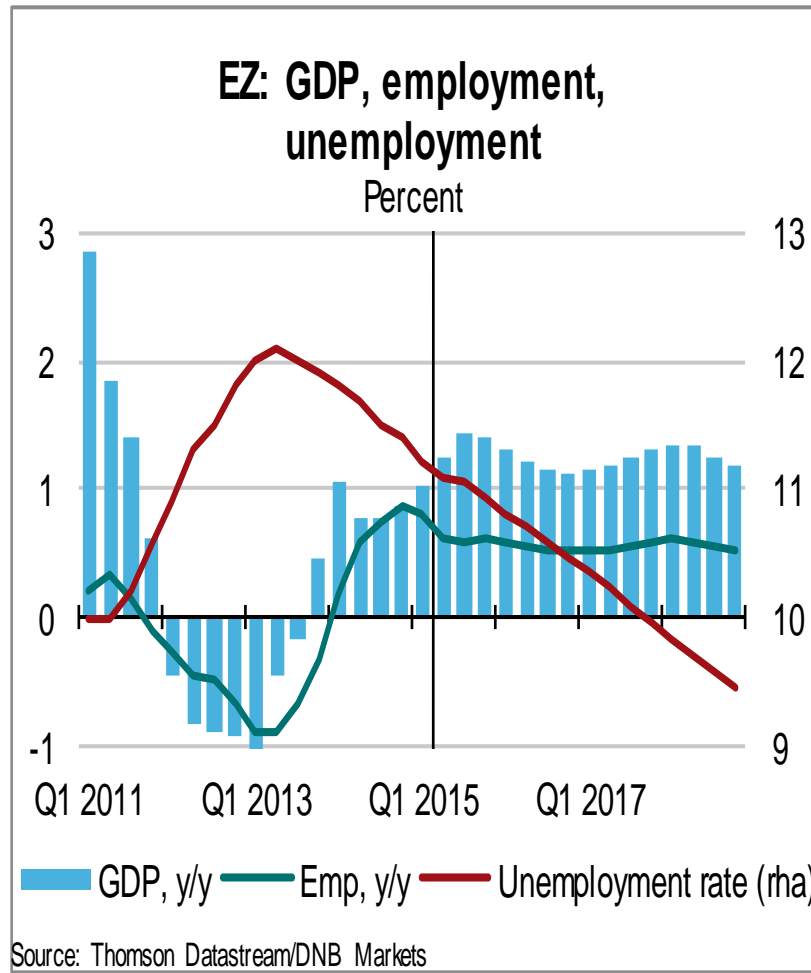
# EZ: Fiscal policy neutral, ECB aggressive

Low growth, high unemployment, inflation below target



# EZ: Modest upturn, and probably not “take off”

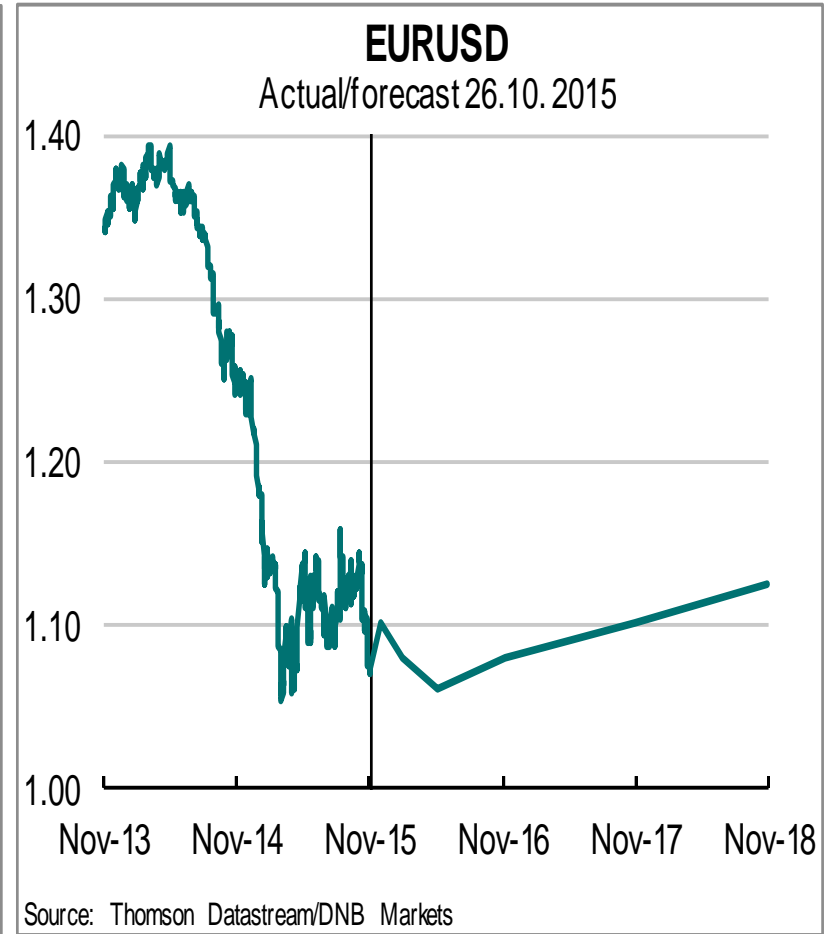
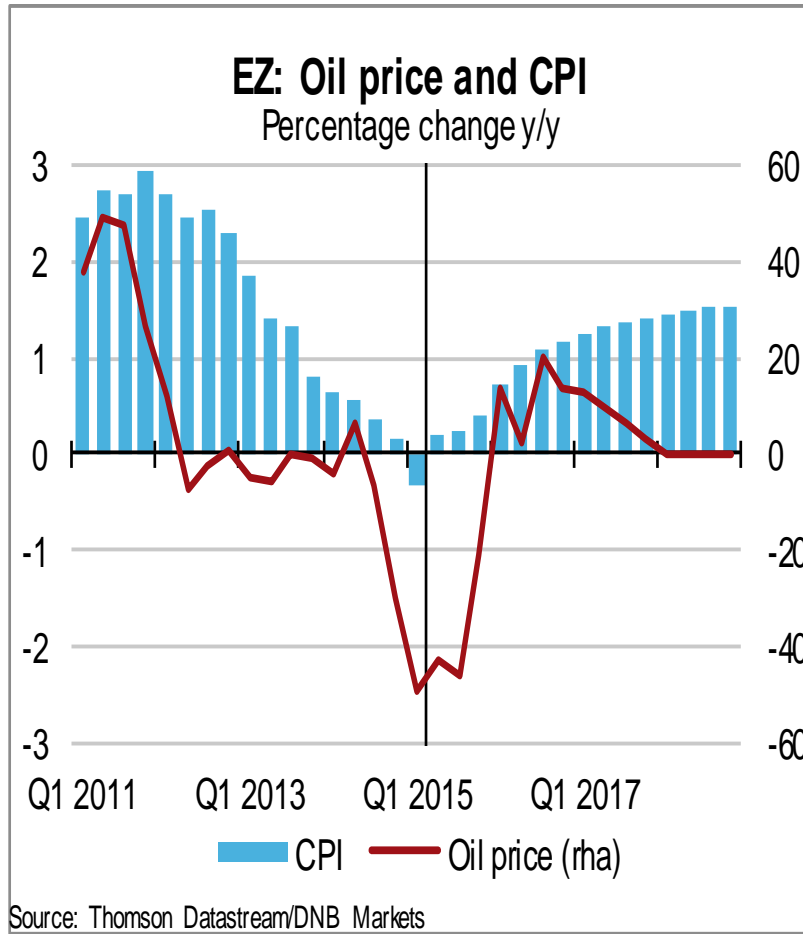
Households leading, aided by lower oil price, weaker € & neutral fiscal policy





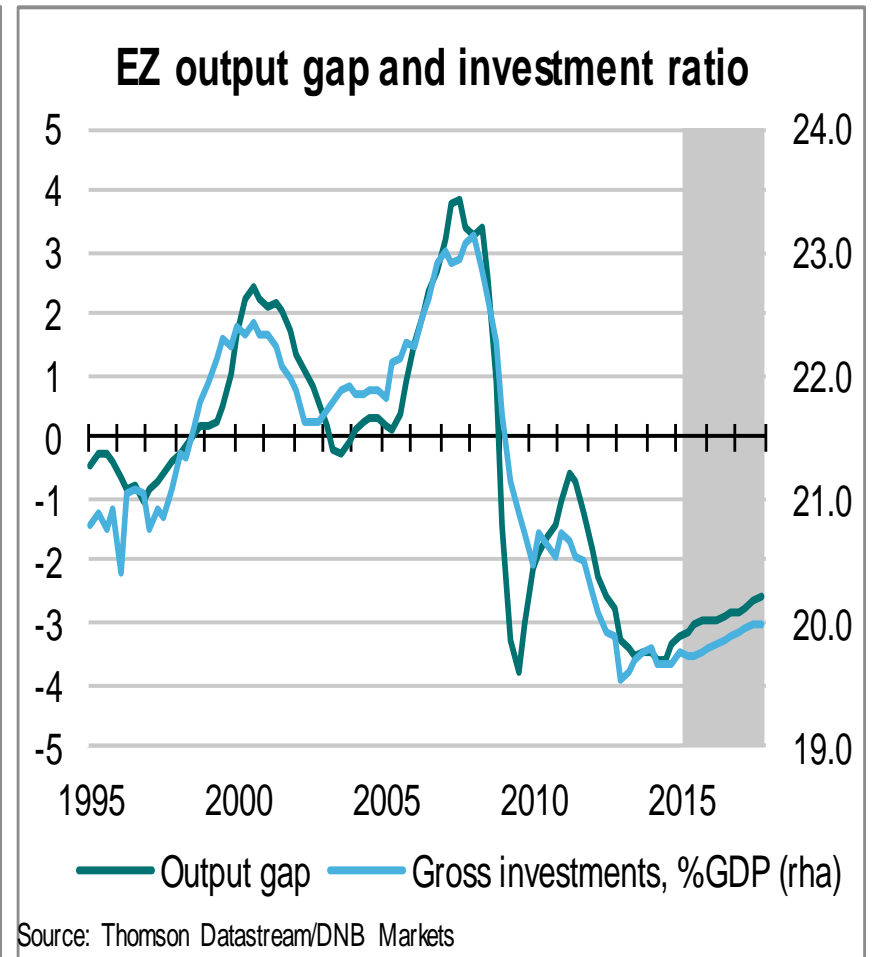
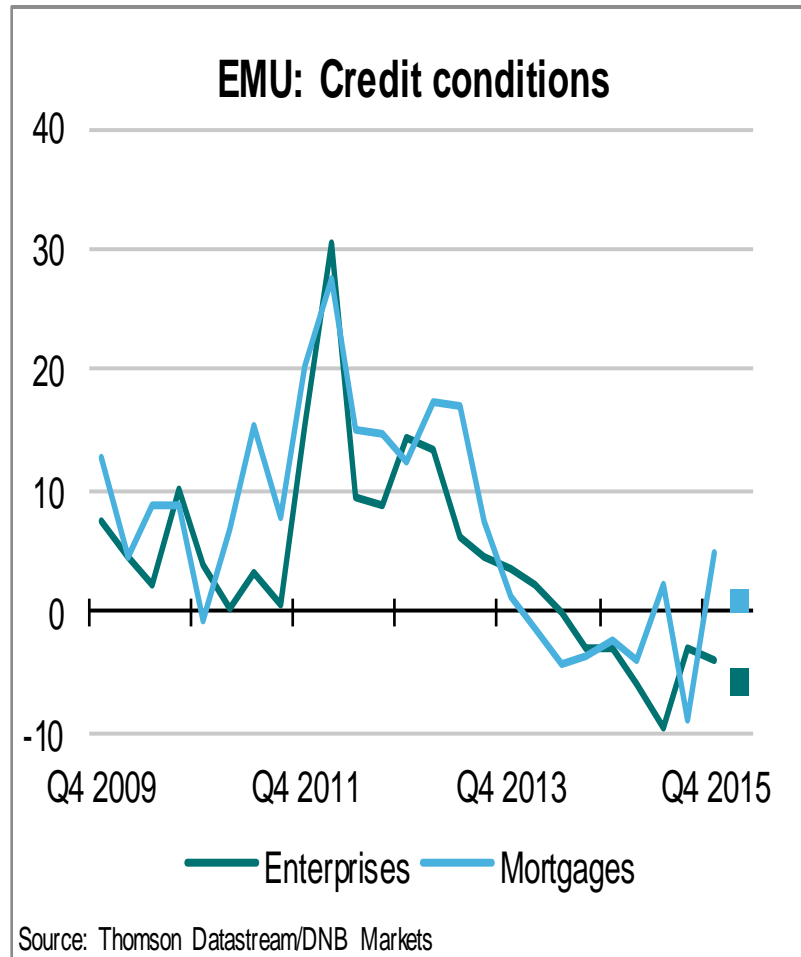
# EZ: ...but much of the boost is temporary

High job growth/low productivity growth, lower inflation and euro



# EZ: Modest rebound for investments

Pro: Banks, interest rate, sentiment. Contra: Revenues, capacity, uncertainty

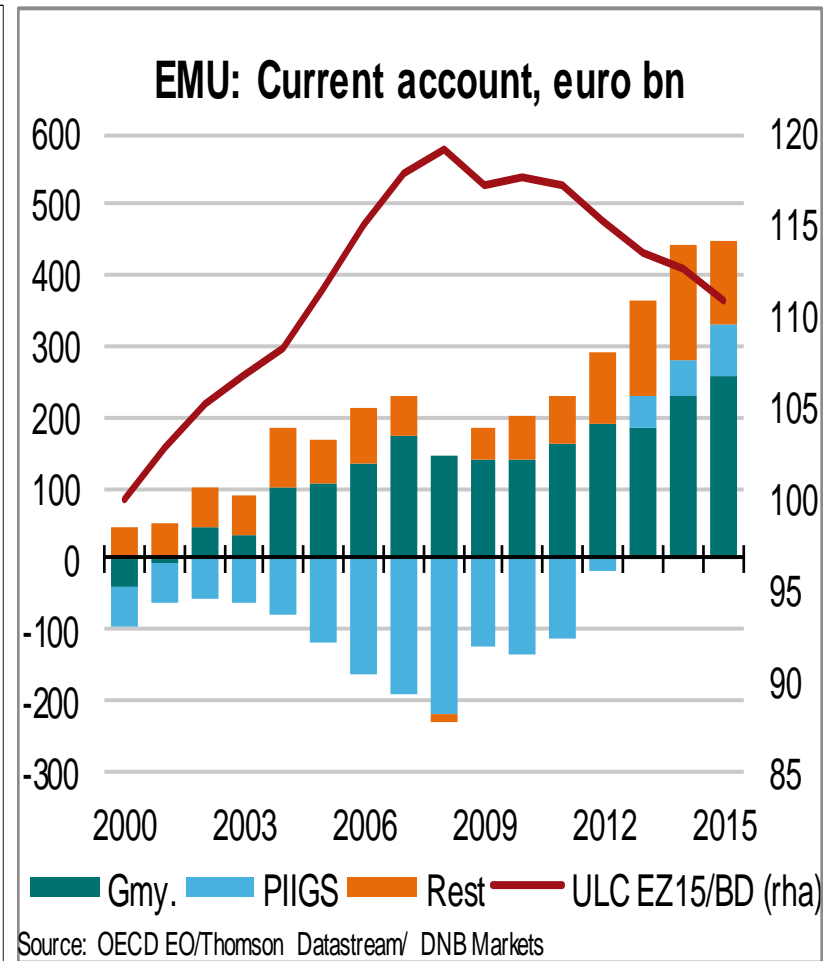
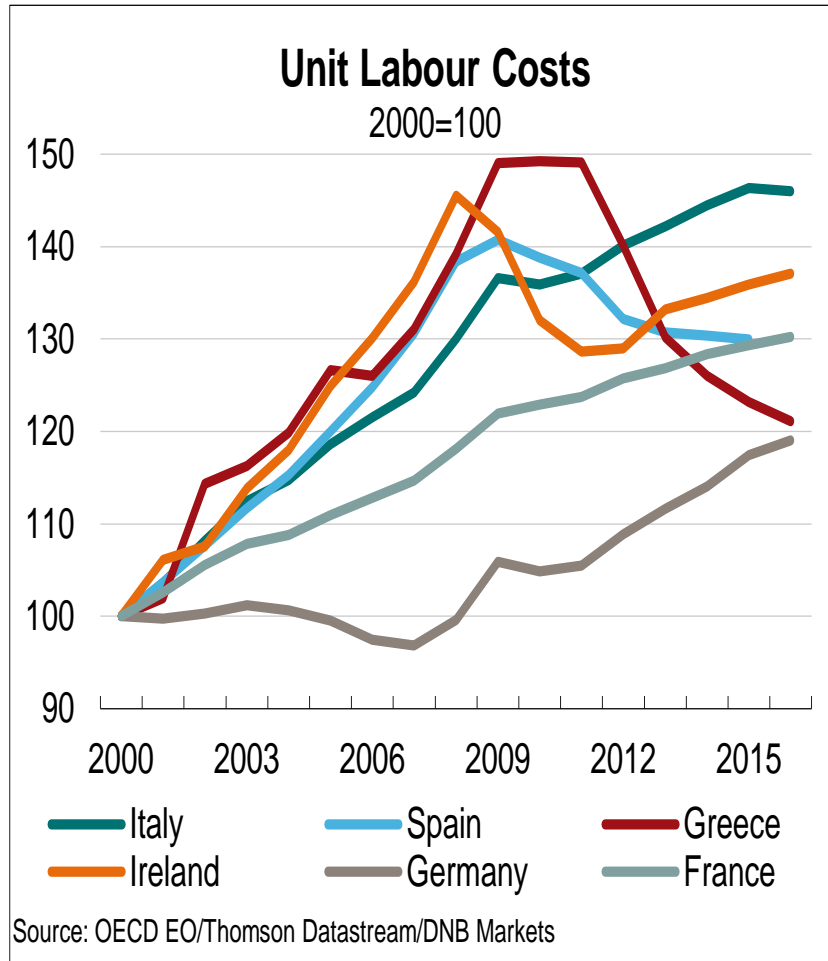




Thanks for listening!

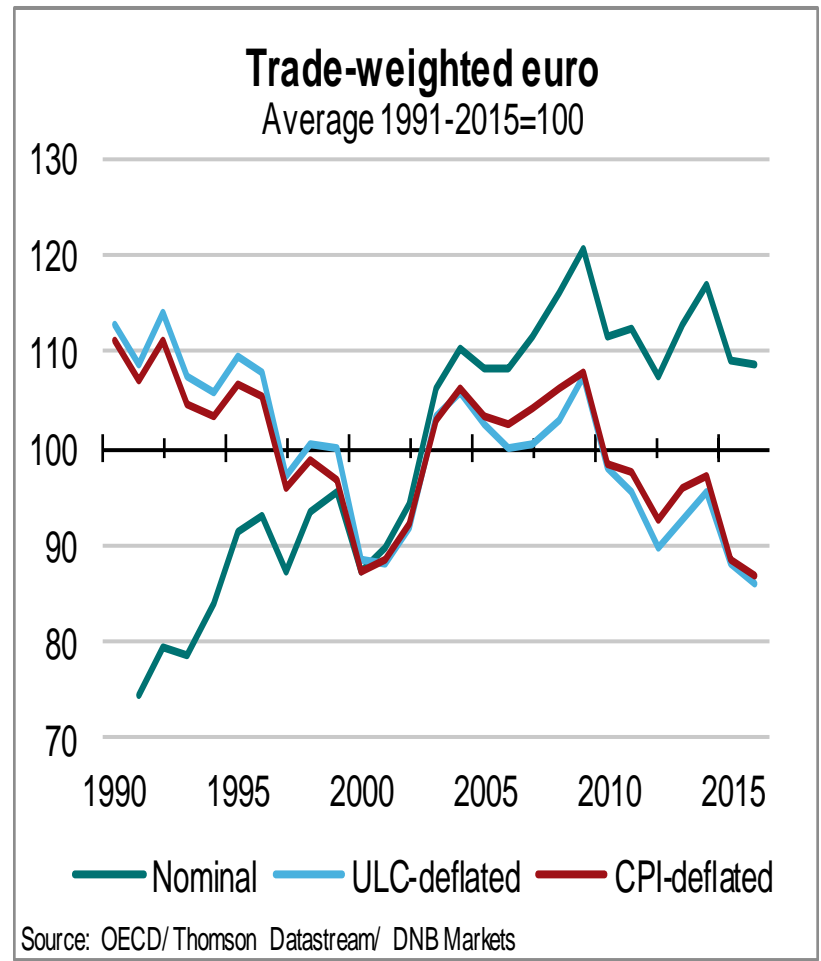
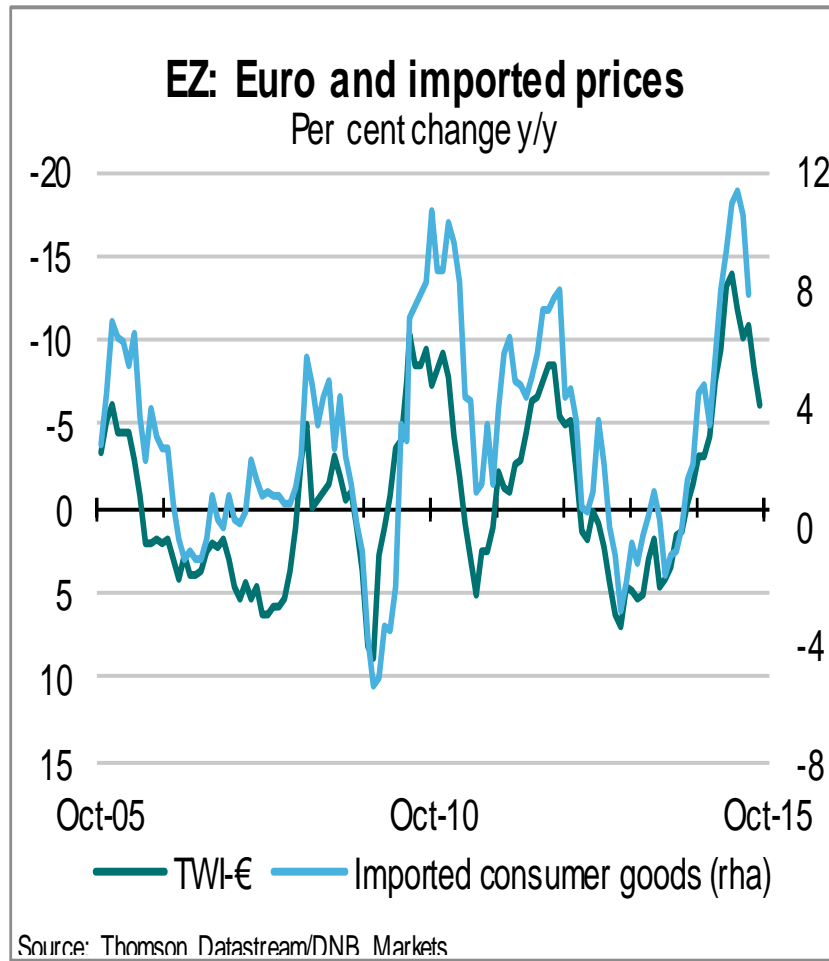
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# Post crisis adjustment inside a currency union



# A relative price: Everybody can't devalue

Must devalue continuously. Harder the further away from parity



Global

# Lower Chinese and US growth

## GDP. Per cent change from preceding year

	August 15					Change from Januar 15					Consensus	
	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018	2015	2016
<b>World</b>	3.3	3.0	3.4	3.4	3.2	0.1	-0.4	-0.1	-0.2	-0.4	3.5*	4.0*
<b>Advanced economies</b>	1.6	1.7	1.9	1.8	1.4	0.0	-0.5	-0.1	-0.1	-0.4	1.9**	2.2**
<b>USA</b>	2.4	2.4	2.7	2.4	1.6	0.0	-1.0	-0.1	-0.1	-0.7	2.3	2.7
<b>Eurozone</b>	0.8	1.3	1.2	1.2	1.3	0.0	0.1	-0.1	-0.1	-0.1	1.5	1.8
<b>Sweden</b>	2.1	2.8	2.3	2.1	2.0	0.2	0.6	-0.1	-0.4	-0.3	2.7	2.9
<b>Mainland Norway</b>	2.3	1.4	1.4	1.8	2.1	-0.3	0.2	-0.3	-0.3	-0.3	1.4	1.8
<b>UK</b>	2.9	2.6	2.4	2.3	1.9	0.3	0.1	0.0	0.0	-0.2	2.6	2.5
<b>Japan</b>	-0.1	0.7	1.3	1.4	1.0	-0.3	-0.3	-0.3	-0.1	-0.4	0.8	1.7
<b>Emerging economies</b>	4.6	4.0	4.5	4.7	4.6	0.2	-0.4	-0.2	-0.3	-0.5	5.0***	5.7***
<b>China</b>	7.4	6.9	6.2	5.4	4.9	0.0	-0.2	-0.5	-0.9	-1.1	6.9	6.7
<b>India</b>	7.3	7.6	8.0	7.5	7.5	1.7	1.6	1.5	0.5	0.5	7.7	8.0
<b>Brazil</b>	0.1	-2.0	0.0	1.0	2.0	0.0	-2.5	-1.5	-1.5	-1.0	-1.6	0.6
<b>Russia</b>	0.6	-4.0	0.5	1.5	1.5	-0.1	-2.0	0.5	-0.5	-1.5	-3.5	0.4

Source: DNB Markets

\*Weighted average of industrialized economies and BRIC

\*\*Weighted average of G3, UK, Norway and Sweden

\*\*\*Weighted average of the BRIC-countries

# Memo

## FX- and interest rate forecasts

### Policy rates

	26-Oct-15			
	13-Nov-15	Feb-16	May-16	Nov-16
USA: Fed Funds	0.25	0.25	0.50	0.75
Japan: Day-to-day	0.10	0.10	0.10	0.10
Euro: Repo	0.05	-0.05	-0.05	-0.05
UK: Base rate	0.50	0.50	0.50	1.00
Sweden: Repo	-0.35	-0.35	-0.35	-0.35
Norway: Folio	0.75	0.50	0.50	0.25
Switzerland: 3M Libor CHF	-0.75	-0.75	-0.75	-0.75

### 3-month money market rates

Country	26-Oct-15			
	13-Nov-15	Feb-16	May-16	Nov-16
USA	0.36	0.45	0.55	0.95
Japan	0.08	0.15	0.15	0.15
Euro	-0.08	-0.15	-0.15	-0.10
U.K.	0.58	0.60	0.85	1.35
Sweden	-0.35	-0.25	-0.25	-0.10
Norway	1.15	0.75	0.75	0.50
Switzerland	-0.75	-0.75	-0.75	-0.75

### 10-year swap rates

Country	26-Oct-15			
	13-Nov-15	Feb-16	May-16	Nov-16
USA	2.18	2.00	2.25	2.75
Japan	0.48	0.50	0.50	0.50
Euro area	0.94	1.00	1.00	1.00
U.K.	1.96	2.00	2.25	2.50
Sweden	1.47	1.25	1.25	1.25
Norway	2.00	1.75	1.50	1.50
Switzerland	0.06	0.25	0.25	0.25

Source: DNB Markets

### Exchange rates

	26-Oct-15			
	13-Nov-15	Feb-16	May-16	Nov-16
EURNOK	9.36	9.70	9.10	9.00
USDJPY	122.8	123	125	125
EURUSD	1.08	1.08	1.06	1.08
EURGBP	0.71	0.71	0.70	0.72
EURSEK	9.32	9.40	9.10	9.00
EURCHF	1.08	1.08	1.10	1.15
USDCNY	6.37	6.55	6.70	7.00

### Exchange rates (calculated)

	26-Oct-15			
	13-Nov-15	Feb-16	May-16	Nov-16
SEKNOK	100.42	103.19	100.00	100.00
USDNOK	8.70	8.98	8.58	8.33
GBPNOK	13.24	13.66	13.00	12.50
JPYNOK	7.08	7.30	6.87	6.67
DKKNOK	125	130	122	121
CHFNOK	867	898	827	783
KKI	116.9	121.0	114.0	112.0

Source: DNB Markets

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