Schroders

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Economic and Strategy Viewpoint

May 2019

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Are stock markets heading for a melt-up?

- With equity markets strengthening and the Fed on hold there is talk of a surge, or melt-up in markets. Signs of economic recovery, low inflation and easier central bank policy in Europe and Asia reinforce the Goldilocks narrative.
- Macro headwinds such as excess inventory, higher oil prices and a potential squeeze on profit margins threaten to check equity markets. These risks may materialise, but the lesson from history is that a melt-up can happen precisely because it is driven by sentiment rather than macro.

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UK: growth built on sand

- Despite concerns over the impact of Brexit uncertainty, UK economic growth is likely to have picked up markedly over the first quarter of the year. The UK manufacturing sector appears to be buoyant again, although the headline figures are not what they seem.
- Huge stockpiling appears to have taken place in the run-up to the March Brexit deadline. While this has boosted output of late, growth is highly likely to slow in coming months as excess inventories are wound down. Therefore, it may be premature to celebrate the likely improvement in near-term growth.

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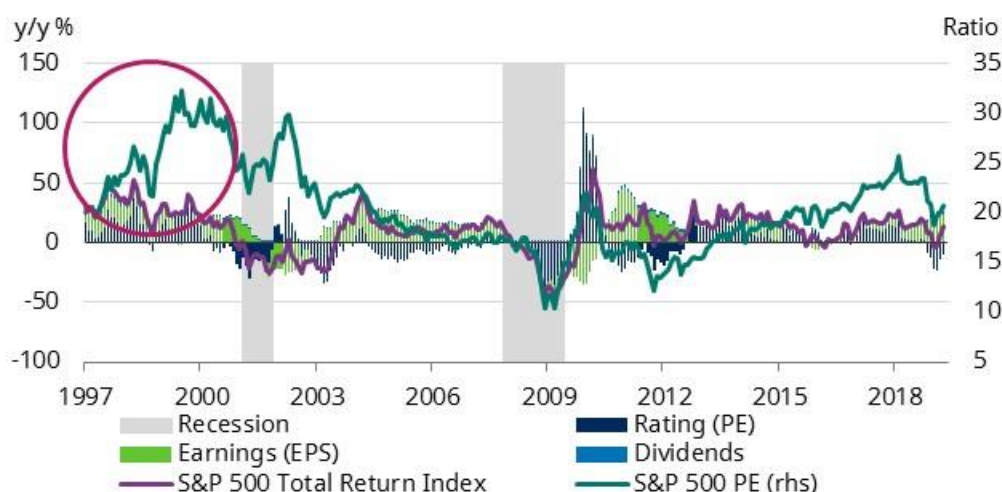
Quarantining Turkey and Argentina

- Turkey and Argentina face some serious problems. Luckily, we do not see a likelihood of contagion for the rest of EM.

Chart: Market returns and PE ratios, 1997–2000 in focus



Source: Thomson Reuters Datastream, Schroders Economics Group, 29 April 2019.

Are stock markets heading for a melt-up?

"We have a risk of a melt-up, not a meltdown here. Despite where the markets are in equities, we have not seen money being put to work."

Head of large asset manager (16 April 2019, CNBC)

Back to Goldilocks?

Equity markets have performed well so far this year, but there is now talk of a "melt-up" with a number of investors arguing we will see a surge in indices in coming months. Underlying this is the view that we are back in a "Goldilocks" environment where growth is "not too hot" to create inflation and "not too cold" to depress profits, it is "just right". The US Federal Reserve (Fed) is on hold, bond yields are low and investors have cash to put to work having missed out (apparently) on the rally in markets.

Certainly the Fed is playing its part following its dovish tilt earlier in the year which has led markets to dismiss the possibility of any further rate hikes in this cycle. The Fed can step back and markets can move higher. The historical comparison is with 1997 when a Fed tightening cycle was halted by the Asia and emerging markets crisis which led to fears of deflation. The subsequent crisis at Long Term Capital Management (LTCM)[1] in September 1998 then spurred rate cuts. The Fed's easier stance helped fuel the rapid rise in markets, culminating in the tech bubble of 1999 – a melt-up if ever there was one.

In today's market, the key factor for policy makers has been the benign behaviour of inflation. Despite being late in the economic cycle when tight labour markets and high rates of capacity use would normally put upward pressure on prices, US inflation has been falling. Headline consumer price inflation (CPI) was 1.9% in March, down one percentage point since last June. Meanwhile the core rate (CPI ex. food and energy) was 2% in March compared with 2.3% last July. The key core personal consumer deflator (the Fed's preferred measure) was running at just 1.5% in March.

Chart 1: Well behaved – US inflation

Source: Thomson Datastream, Schroders Economics Group. 29 April 2019.

[1]LTCM was a hedge fund using leveraged trading strategies which received a bail out from the New York Federal Reserve in September 1998 on concerns for the wider financial system.

Low inflation allows the Fed to be patient

Inflation is a lagging indicator so low rates today do not mean low rates tomorrow. Nonetheless by starting at such levels there is a sizable cushion for the Fed to tolerate a pick-up in price pressures in the coming months and so allow it to be patient in determining interest rates.

More green shoots

On the growth side, there are also elements of Goldilocks. The US economy grew 3.2% in the first quarter, up from 2.2% at the end of last year and well ahead of expectations. The typical seasonal pattern of a weak Q1 does not seem to apply in 2019 and President Trump was quick to tweet: "This is far above expectations or projections. Importantly, inflation VERY LOW. MAKE AMERICA GREAT AGAIN!" The reference to inflation is clearly a reminder to the Fed that it does not need to react with a rate hike.

Signs of recovery in the US, China and Europe

Looking beyond the US, there are signs that China is responding to stimulus with a pick up in the purchasing managers' index (PMI) and our Schroders China activity index has also bounced. At this time of year, the data is heavily distorted by the Chinese New Year so we would resist calling a definite turn; nonetheless, leading indicators such as credit have also strengthened, suggesting that easier monetary policy and fiscal stimulus is working.

In Europe, the picture is more mixed, but here we also see signs of a turn with industrial production in Germany and across the region levelling out over the past three months while the manufacturing PMI's have bottomed out. Provisional Eurozone GDP came in at 0.4% in the first quarter, after just 0.1% in Q4. The one-off factors which depressed activity at the end of last year (tighter auto emissions standards, the gilets jaunes protests, low water levels in the Rhine, etc.) have faded, allowing growth to resume. The UK remains a problematic case with a big build up of inventory as the Brexit cloud thickens (see below), but elsewhere the European picture is improving and allowing recession talk to fade.

Alongside these positive signs, central banks have been following the Fed in moving toward an easier monetary stance. The European Central Bank, Bank of Japan, and Bank of Canada have pushed out tightening, whilst others such as the Reserve Bank of India have cut rates.

The recovery faces three headwinds

These developments reinforce the Goldilocks narrative and are welcome after the gloom which had engulfed markets at the end of last year. In the near-term, they are in line with our macro views, however recovery still faces three headwinds.

Inventory boost to fade

First, there has been a large and temporary boost from inventory, not just in the UK, but across developed economies. Inventory added 0.7 percentage points to US GDP annualised growth in Q1. Strip this factor out, along with volatile net exports, and domestic final sales only grew at 1.4%, down from 2.1% in Q4 last year. The main drivers of this measure are fixed investment and consumer spending where growth rates halved in the first quarter.

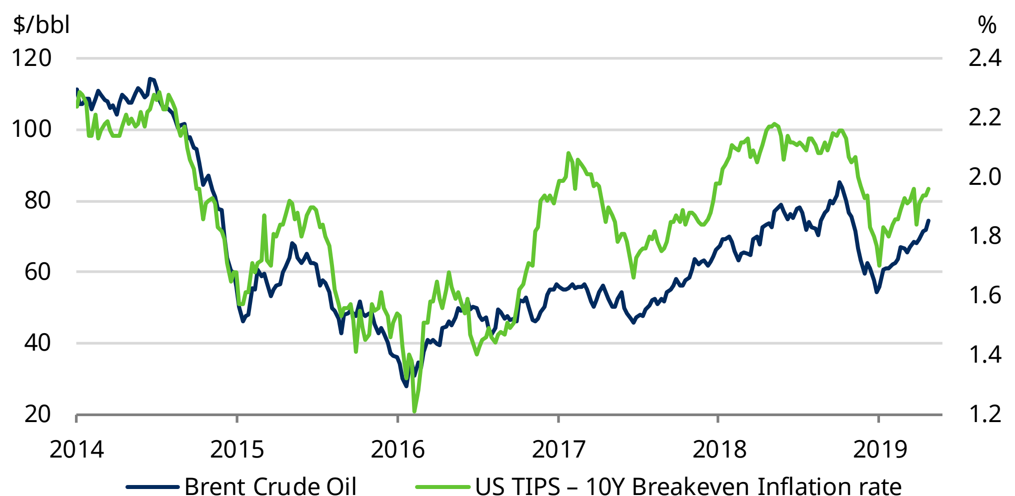
Going forward, the large build-up of inventories relative to activity and orders suggests that we will see a sharp cut back in inventory building in the current quarter, which will slow growth, unless underlying consumption and investment spending strengthen.

Higher oil prices threaten consumers

Another potential headwind to domestic demand is the rise in the oil price which has rebounded this year. This reflects a combination of the inventory building discussed above and the impact of the US ending sanctions waivers on purchases of Iranian oil.

If sustained at current levels, oil will add to inflation later in the year. The risk to activity would be that consumer spending slows in response as real incomes are squeezed. Our forecasts for global activity are likely to move in a stag-flationary direction as a result. Long run inflation expectations have risen in the inflation market (chart 2) and the Fed will also be alert to any signs that inflation expectations are rising in the wider economy, potentially pushing up wages.

Chart 2: Oil price leading inflation expectations higher



Source: Thomson Datastream, Schroders Economics Group. 29 April 2019.

For fixed investment, one positive would be a resolution of the US-China trade tensions and we continue to believe that a solution will be reached later in the current quarter. There is a risk that the trade war moves onto a new front with the US putting tariffs on auto imports, or for a more general trade war to break out between the US and EU. At this stage these are risks, as we doubt that president Trump would wish to raise tariffs and inflation ahead of the 2020 presidential election. Nonetheless, it is still possible.

Margin pressure to increase

Rising costs and low inflation points to a profits squeeze

The third headwind is from a potential profits squeeze. Whilst low inflation is seen as an essential part of the Goldilocks scenario, it also reflects a lack of pricing power amongst companies. Since both wage and energy costs are rising, this would imply a squeeze on profit margins. We expect US economic profits to rise 6% this year, but to fall 4% in 2020[2]. Earnings per share on the S&P500 would follow a similar path.

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[2] See our April Viewpoint here.

Such an outcome would be typical for a late cycle economy and can only be averted through better cost control by holding back wage demands and/ or increasing productivity. This would be a remarkable achievement at the end of a cycle when typically wages accelerate and productivity often falls. Initial unemployment claims suggest the labour market is at its tightest for 50 years.

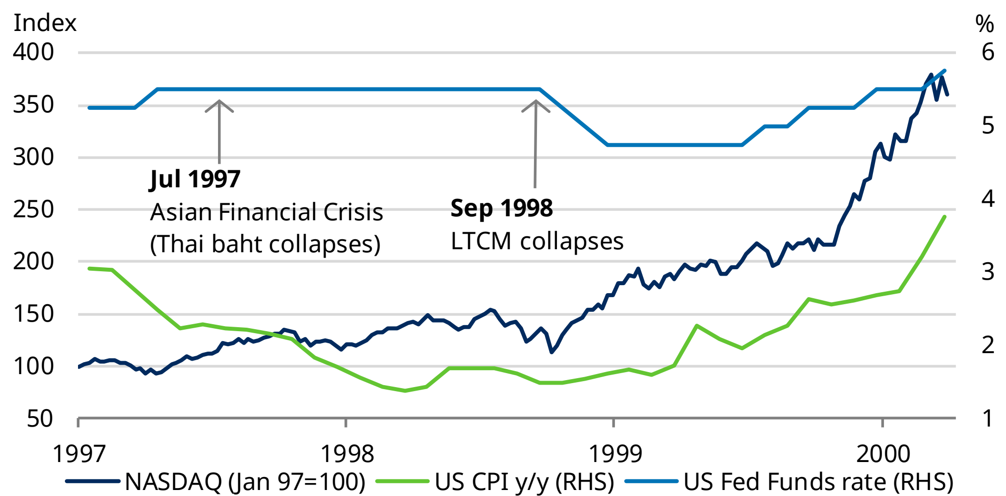
Does this mean we can dismiss the idea of a melt-up in markets?

Even if the risks materialise, a melt-up can happen precisely because it is driven by sentiment rather than macro

The prospect of a drop in profits does not bode well for the current proponents of a melt-up: like many before and since, the late 1990s bull market was led by healthy profits growth with gains in earnings per share accounting for a significant proportion of returns up to 1999. However, back then the final stages of the bull market were driven entirely by a re-rating, with the price-earnings ratio on the S&P500 rising significantly (see chart front page). The tech sector represented by the NASDAQ composite accounted for much of this and saw the index rise by a remarkable 75% from late October 1999 to March 2000 (see chart 3).

This might tie in better with what people have in mind when they talk of a melt-up. Nonetheless, it is difficult to point to a clear macro driver as at the time the Fed was tightening policy in response to higher inflation. Liquidity was deteriorating as the market rose until inevitably the bubble burst. We may be right on the macro risks facing markets today, but the lesson from history would seem to be that melt-ups develop a dynamic of their own by sucking in investors who are fearful of missing out (FOMO). Any melt-up today would require the same – a FOMO mania.

Chart 3: Nasdaq, the Fed and inflation (1997–2000)



Source: Thomson Datastream, Schroders Economics Group, 29 April 2019.

UK: growth built on sand

"We thought just in case there were significant delays at ports as a result of Brexit, that we ought to increase our cover by about an extra month's supply, so didn't sell out. The Holy Grail of retailing is you don't want to hold more stock than you need to — but given the high-profile nature of that event, we genuinely thought it would be important to hold a few more weeks' stock just in case."

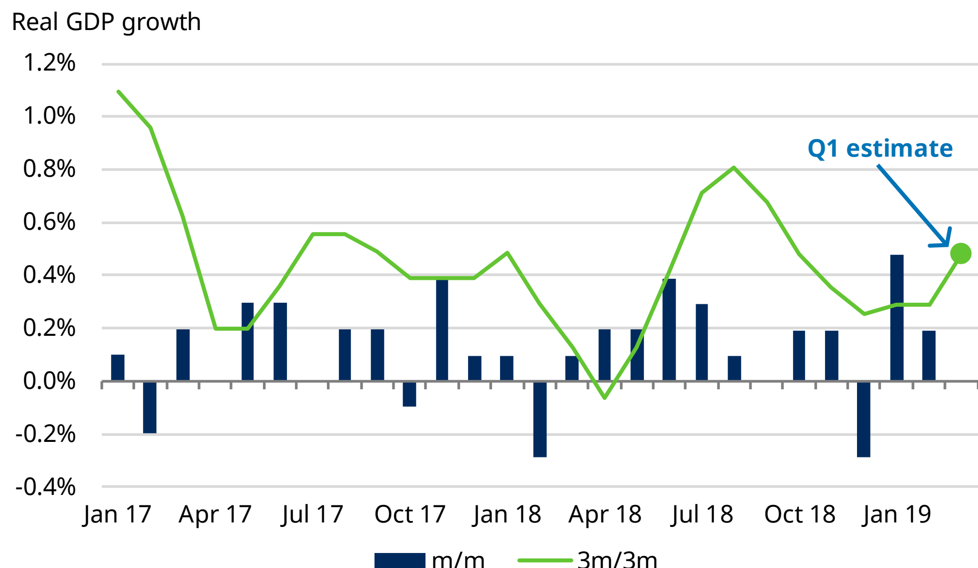
Fortnum & Mason CEO Ewan Venters, in an interview with Talk Radio, 4 April 2019.

Brexit continues to dominate everyday life in the UK. News, politics and even lowly economists pray for a break from the mundane gridlock and circular arguments. Now that the Brexit deadline has been extended to October[3], a little breathing room has been created to allow other topics to come into the fray.

The medium to long-term outlook for the economy will be heavily influenced by Brexit, but in the near-term, data seems to have improved. The Bank of England had downgraded its growth forecast for the coming quarters citing a more negative impact from Brexit uncertainty than it had previously anticipated. However, recent data has surprised to the upside. The monthly GDP release for January showed a significant improvement, as GDP growth picked up to 0.5% compared to -0.3% in December (Chart 4).

First quarter GDP is set to show a rebound in activity

Chart 4: UK growth seems to be improving



Source: Thomson Datastream, ONS, Schroders Economics Group. 29 April 2019.

The release for February was more subdued with 0.2% growth, but even if the economy stalls in March, the quarterly GDP estimate for the first quarter (3m/3m) would be 0.5%. We suspect it could be even higher, but in any case, it is very likely to be stronger than our present forecast, and will probably prompt many economists to revise up their estimates for 2019. The data is due to be released on 10 May.

A simple analysis of the contributions to GDP shows that a resurgence in manufacturing has played an important role in the pick-up in activity. This is reflected by the recent readings from the Markit purchasing managers' indices (PMI) – a set of private sector surveys that gauge the level of activity in the economy.

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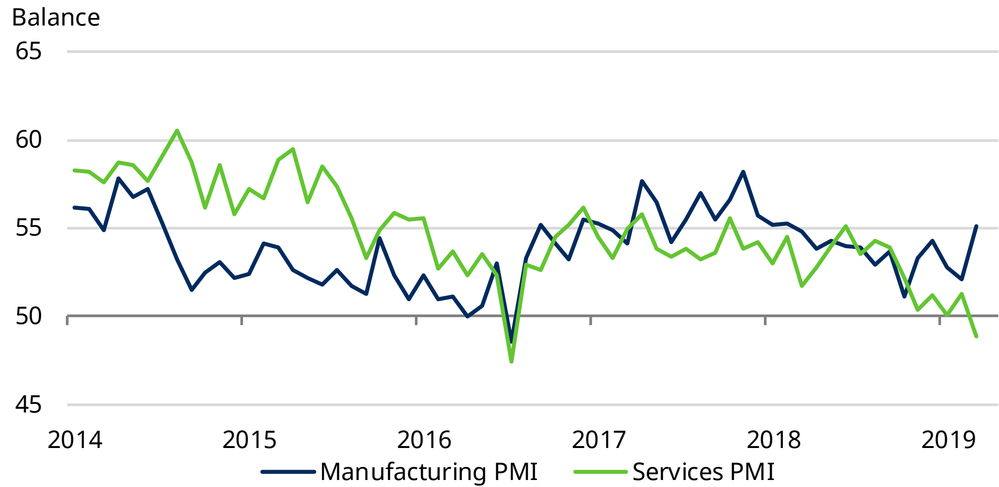
[3]See "Is the UK stuck in Brexit Limbo", 11 April 2019.

The March UK manufacturing PMI shows activity at its highest level since February 2018 (chart 5). In fact, the UK ranked only second to Denmark in the list of the 45 countries that Markit surveys.

Manufacturing is buoyant once again, although the larger service sector is struggling

Chart 5: UK PMIs suggest that manufacturing has led the rebound



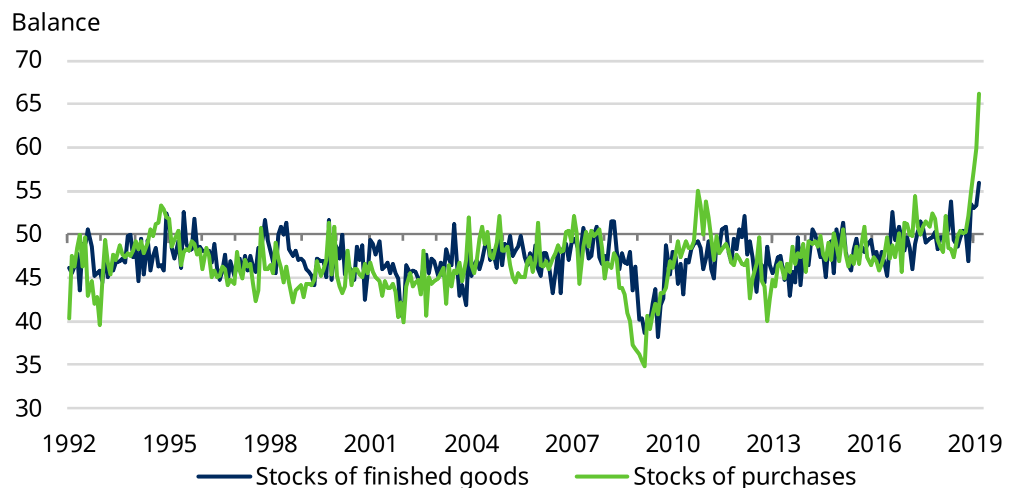
Source: Thomson Datastream, IHS Markit, Schroders Economics Group. 29 April 2019.

While manufacturing has been buoyant, services are struggling. The services PMI fell to its lowest level since July 2016, which is certainly a concern for the coming months given how much larger the service sector is in terms of its share of the economy.

Turning back to manufacturing, the sudden improvement does seem at odds with global trends at present. Delving into the details of the manufacturing PMI survey, we discover a worrying development. The survey questions that ask about the degree to which companies are building inventories show stocks of both finished goods and of purchases (parts or raw materials) are both are record highs (chart 6).

Companies stockpiling ahead of Brexit have boosted activity, but is this sustainable?

Chart 6: UK inventories hit a record high ahead of Brexit



Source: Thomson Datastream, IHS Markit, Schroders Economics Group. 29 April 2019.

The unusual boost from Brexit

In the run-up to the original 31 March Brexit deadline, there had been a number of anecdotal stories of both companies and government entities stockpiling supplies, for example, of medicines by hospitals and pharmacies. While the above survey questions only cover private manufacturers, we suspect it is a good indication of widespread stockpiling.

Stockpiling inevitably leads to a slowdown in production at a later point in time. Typically, a large build-up of inventories is involuntary. Companies are usually producing output at a normal pace, when a fall in demand and sales leads to unsold stocks building. This time is different as companies are hoarding ahead of possible disruption to output and the ability to import. Regardless of the cause, the same outcome of a slowdown in growth is likely, whether that disruption hits or not.

Once stockpiling ends, GDP growth is likely to slow in the coming months

For manufacturing activity to continue to enjoy above normal production, further stockpiling would need to occur. Reports of shortages of warehouse space suggest that this is unlikely to continue for much longer. Production levels would have to be wound down to stop any further build-up of inventories. If demand then disappoints, or if imports are not as restricted as feared in a worst-case scenario, then excess inventories would have to be discounted or destroyed at a cost to producers and retailers.

Conclusions

A cautious approach to analysing the momentum of the UK economy will be required in coming months. The improvement in monthly GDP figures appears to be driven by stockpiling, and not final demand. This may have been a reaction to Brexit uncertainty, but is still likely to lead to a slowdown in growth in the near future. Meanwhile, leading indicators of activity in the services sector suggest a slump could be on the horizon.

For the Bank of England, despite showing ambition to raise interest rates back to more "normal" levels, the Bank is unlikely to follow through given the poor quality of growth the UK is experiencing, set against a backdrop of ongoing Brexit uncertainty.

The government should also take note. Celebrating the forthcoming pick-up in GDP growth for the first quarter could prove to be premature. Indeed, Chancellor Philip Hammond has indicated that he may need to delay the next comprehensive spending review due to the delay in Brexit. Committing to a multi-year spending programme (which is likely to be stimulative) at a time of great uncertainty would be a big gamble. Still, at least the UK is well stocked with luxury hampers and preservatives.

Quarantining Turkey and Argentina

"We cannot allow the use of the tool of exploitation that is interest."

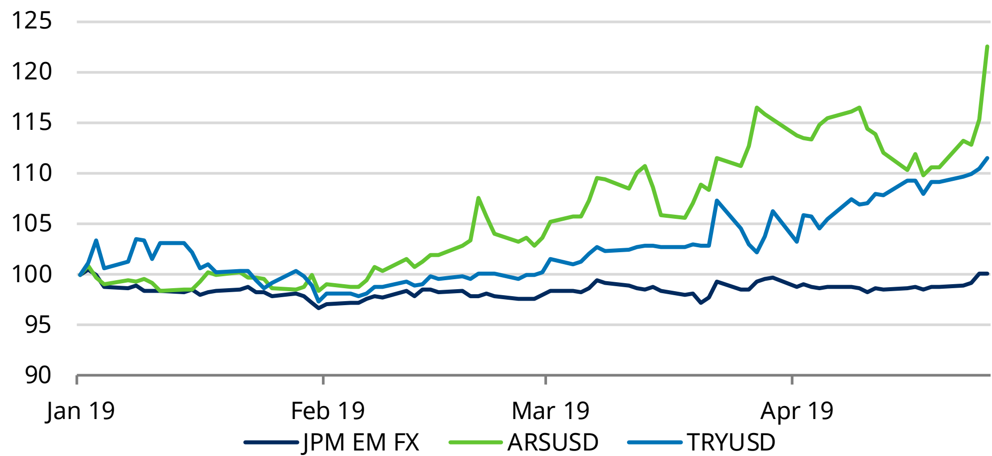
President Recep Tayyip Erdogan, 13 September 2018.

There are genuine reasons for the sell off in Turkey and Argentina…

Concerns are clearly building once more around Turkey and Argentina, which are once again experiencing a bout of currency volatility (chart 7). With growth seemingly faltering and fears of an eventual US recession, following the recent inversion of the yield curve, investors may be feeling more jittery than usual about the possibility of contagion to the rest of emerging markets (EM).

We, however, think any such concerns are overblown. Turkey and Argentina are not the symptom of a wider problem in EM; they face some rather unique problems in both the economic and political spheres. Sentiment aside, we see no reason for investors to extrapolate market performance in these two troubled economies to the rest of the asset class.

Chart 7: Trying times for Argentina and Turkey's currencies



Source: Thomson Datastream, Schroders Economics Group, 26 April 2019.

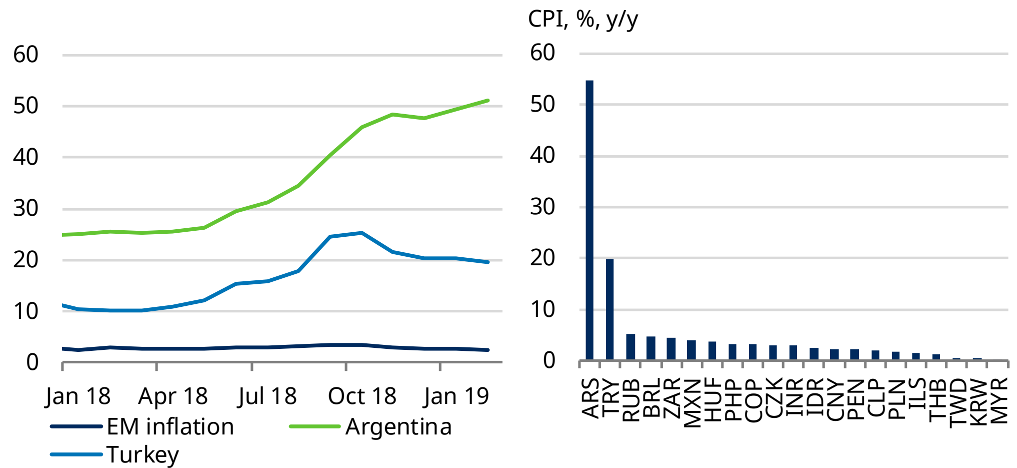
…but the argument for contagion is lacking

Macro matters…

The two countries' woes have some similarities. Fundamentally, inflation is a big concern in both economies and one which the respective central banks have been struggling to stay on top of. Chart 8 illustrates the scale of the problem; inflation is far above the EM average and has been climbing at a time when inflation in the rest of EM has been flat or falling.

What is also apparent though is that nowhere else in EM has this problem. Inflation is well under control thanks to a mix of global and domestic factors everywhere else, and so investors would be hard pressed to find even an echo of Turkish or Argentinian policy concerns in this space.

Chart 8: Inflation is a big, but unique problem for the troublesome two



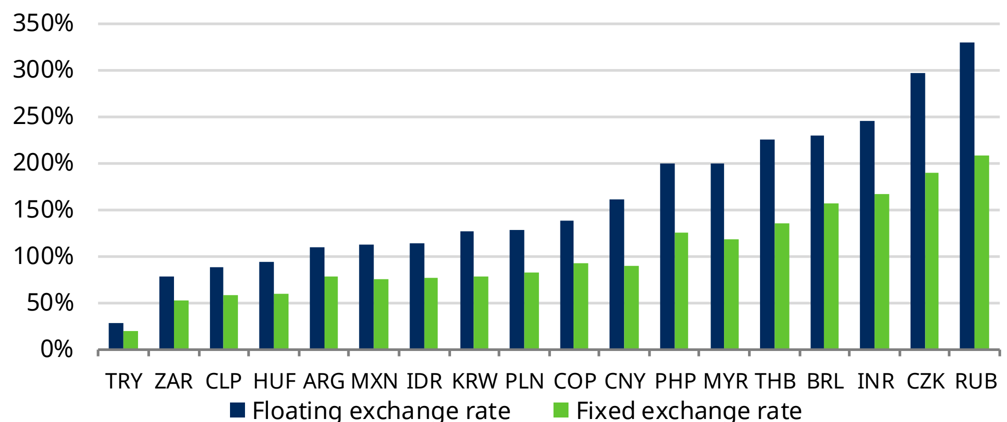
Source: Thomson Datastream, Schroders Economics Group. 26 April 2019.

Reserves are not everything, but Turkey could do with some

Another challenge for Turkey is that it has very little firepower left to defend its currency. Foreign currency reserves are very low relative to most metrics of adequate reserves. There are a number of ways to assess this; whether the country has enough reserves to finance a few months of imports, or to self finance maturing hard currency debt, for example. Turkey looks objectively terrible on all of them (and stated reserves may in any case be inflated by the use of swaps!).

As for the rest of EM, the question is how best to compare countries given the range of metrics on offer. One option is to essentially combine them into a single measure, as the IMF does[4]. The IMF approach notes that pressure on EM currencies can emerge from a range of sources, and using historical evidence constructs a metric incorporating export earnings (to guard against external demand shocks), external debt (to guard against a "sudden stop" of foreign capital flows) and other liabilities, and broad money (to guard against domestic capital flight).

Chart 9: A handful of countries join Turkey in concerning reserves territory



Source: Thomson Reuters Datastream, IMF, Schroders Economics Group. 26 April 2019. Adequacy below 100% indicates insufficient reserves.

The weights assigned to each depend on the FX regime – a fixed exchange rate requires more firepower to defend than a floating currency – but the rankings are broadly unchanged by the choice of regime (chart 9).

Interestingly, Argentina would appear to have enough reserves to defend the currency under a floating exchange rate regime, and so does not share Turkey's

[4]Moghadam, R., Ostry, J., and Sheehy, R., "Assessing Reserve Adequacy" IMF 2011.

vulnerability here. There are some economies which do – South Africa, Chile and Hungary – and where pressures could potentially therefore emerge in the future. However, at present these currencies are not seeing anything like the pressure that the Turkish lira faces, while the Argentinian peso is underperforming despite apparently enjoying an adequate buffer. The final explanatory variable in all of this is policy, and politics.

...but so does policy credibility

The biggest challenge is the direction of politics and policy

Expectations play a crucial role in macroeconomic models and in financial markets. If policymakers are not trusted to take the necessary measures in the future, even if they are doing the right thing now, consumers, firms and investors will take fright. The belief that central banks are unwilling or unable to deal with inflation, for example, will lead households to move their money out of the currency to prevent losing the value of their savings. Firms will price in the expectation of further large increases in costs, perpetuating the cycle. Investors will demand a greater return to compensate for the risk that their investments will be eroded by inflation.

In both Turkey and Argentina, there is reason to fear for the path of policy. In Turkey this is a familiar story by now; President Erdogan is vehemently opposed to orthodox monetary policy and to that end has leant on the central bank on repeated occasions. That the central bank recently dropped hawkish language, despite the pressure on the currency, served as affirmation of this perception. The appointment of his son-in-law as finance minister also did nothing to assuage market fears, particularly after lacklustre PowerPoint presentations, most recently at the IMF meetings. There is little sign so far that policy will take the right direction in Turkey.

In Argentina this is something of a new tune, at least under the current president. President Macri was elected on an economically orthodox reform agenda, initially cheered by markets. However, the turnaround has taken longer than expected, and the electorate have begun to tire of promises of jam tomorrow. Former President Cristina Fernández de Kirchner has begun to climb in the polls, with elections due this October. The return of Kirchner, and populist policy, seems an increasingly real threat.

Political challenges for Turkey and Argentina then are clearly significant, if not insurmountable. The good news for the rest of EM though is that this is very clearly country specific risk, and there is little reason for it to lead to contagion beyond the hit to general EM investor sentiment.

It does however point to a need for investors to monitor political developments, and for policymakers to maintain credibility; both in talking the talk and walking the walk.

Schroders Economics Group: Views at a glance

Macro summary – May 2019

Key points

Baseline

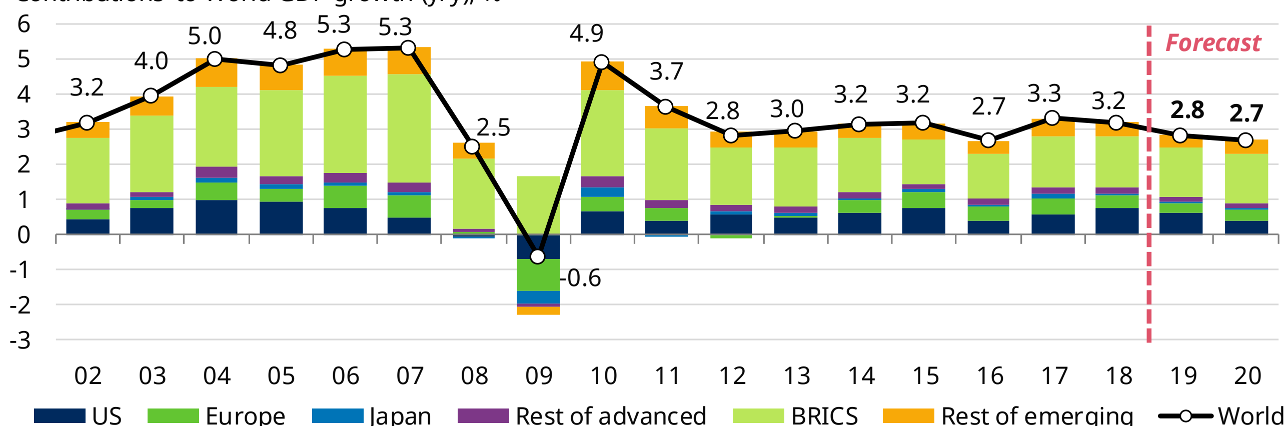
- After expanding by 3.2% in 2018, global growth is expected to moderate to 2.8% in 2019 and 2.7% in 2020. Inflation is forecast to decline to 2.4% this year after 2.8% in 2018 and then falling to 2.5% in 2020. Meanwhile we expect the US and China to sign a trade deal in June, although the impact of actions so far will still be felt in 2019.
- US growth is forecast to slow to 2.4% in 2019 and 1.6% in 2020. Following recent statements from the Fed we do not expect any further rate hikes. As US fiscal stimulus fades and the economy slows, the Fed is forecast to cut rates twice in 2020 after ending quantitative tightening in October 2019.
- Eurozone growth is forecast to moderate from 1.8% in 2018 to 1.3% in 2019 as the full effects from the US-China trade war and Brexit hit European exporters. Inflation is expected to remain under 2%, with higher energy price inflation in 2018 replaced by higher core inflation in 2019. The ECB has ended QE and is expected to raise interest rates only twice in 2020. The refinancing rate is forecast to reach 0.50% and the deposit rate zero by the end of 2020.
- UK growth is likely to slow to 1.1% this year from 1.4% in 2018. Assuming that a Brexit deal with the EU passes parliament ahead of a transition period that preserves the status quo of single market and customs union membership, growth is expected to pick up to 1.5% in 2020. Inflation is expected to fall to 1.8% in 2019 thanks to an expected rise in sterling, but stronger growth is expected to push inflation up to 2.4% in 2020. Meanwhile, the BoE is expected to hike once in 2019 and twice in 2020 (to 1.5%).
- Growth in Japan should stay steady in 2019 at 0.7%, however the path of activity should be volatile owing to the consumption tax hike in October this year. A slow recovery should follow resulting in 0.4% growth in 2020. We do not expect the BoJ to alter yield curve control, but look for rates to rise to 0% at the end of 2020 as inflation picks up.
- Emerging market economies should slow to 4.5% in 2019 after 4.8% in 2018, but pick-up slightly to 4.6% in 2020. We are optimistic that for most of the BRIC economies' domestic factors can outweigh global problems in 2020. China benefits from the easing of trade tensions with the US, but against a backdrop of secular decline the PBoC should continue to ease.

Risks

- Risks are tilted toward deflation with the highest individual risk going on the US recession 2020 scenario where the economy proves more fragile than expected as fiscal stimulus is withdrawn. There is also a risk of recession outside the US given the current weakness in Europe.

Chart: World GDP forecast

Contributions to World GDP growth (y/y), %



Source: Schroders Economics Group, February 2019. Please note the forecast warning at the back of the document.

Schroders Baseline Forecast

Real GDP

y/y%	Wt (%)	2018	2019		Prev.	Consensus	2020		Prev.	Consensus
World	100	3.2	2.8	↓	*(2.9)*	2.8	2.7	↑	*(2.5)*	2.8
Advanced*	61.4	2.2	1.8	↓	*(1.9)*	1.7	1.5	↑	*(1.3)*	1.6
US	26.5	2.8	2.4		*(2.4)*	2.4	1.6	↑	*(1.3)*	2.0
Eurozone	17.2	1.8	1.3	↓	*(1.6)*	1.1	1.4	↑	*(1.2)*	1.3
Germany	5.0	1.5	1.0	↓	*(1.4)*	0.8	1.4	↑	*(1.3)*	1.5
UK	3.6	1.4	1.1	↓	*(1.4)*	1.3	1.5		*(1.5)*	1.5
Japan	6.7	0.7	0.7	↓	*(1.0)*	0.6	0.4	↑	*(0.0)*	0.5
Total Emerging**	38.6	4.8	4.5		*(4.5)*	4.4	4.6	↑	*(4.5)*	4.6
BRICs	25.3	5.7	5.5		*(5.5)*	5.5	5.5	↑	*(5.4)*	5.5
China	16.7	6.6	6.3	↑	*(6.2)*	6.2	6.1	↑	*(6.0)*	6.1

Inflation CPI

y/y%	Wt (%)	2018	2019		Prev.	Consensus	2020		Prev.	Consensus
World	100	2.8	2.5	↓	*(2.9)*	2.4	2.6	↓	*(2.7)*	2.5
Advanced*	61.4	2.0	1.7	↓	*(2.0)*	1.5	1.9		*(1.9)*	1.8
US	26.5	2.4	1.9	↓	*(2.7)*	1.9	2.3	↓	*(2.4)*	2.2
Eurozone	17.2	1.7	1.7	↑	*(1.6)*	1.3	1.5		*(1.5)*	1.4
Germany	5.0	1.8	1.8		*(1.8)*	1.5	1.7		*(1.7)*	1.6
UK	3.6	2.5	1.8		*(1.8)*	2.0	2.4	↑	*(2.1)*	2.1
Japan	6.7	1.0	0.5		*(0.5)*	0.6	1.0	↓	*(1.1)*	1.0
Total Emerging**	38.6	4.1	3.7	↓	*(4.2)*	3.9	3.6	↓	*(4.0)*	3.6
BRICs	25.3	2.6	2.6	↓	*(3.3)*	2.8	2.8	↓	*(3.0)*	2.8
China	16.7	2.1	2.0	↓	*(2.6)*	2.1	2.2	↓	*(2.4)*	2.1

Interest rates

% (Month of Dec)	Current	2018	2019		Prev.	Market	2020		Prev.	Market
US	2.50	2.50	2.50	↓	*(3.00)*	2.45	2.00	↓	*(2.50)*	2.18
UK	0.75	0.75	1.00	↓	*(1.25)*	0.92	1.50	↓	*(1.75)*	1.03
Eurozone (Refi)	0.00	0.00	0.00	↓	*(0.50)*	-0.31	0.50	↓	*(1.00)*	-0.22
Eurozone (Depo)	-0.40	-0.40	-0.40		*(0.00)*		0.00	↓	*(0.50)*	
Japan	-0.10	-0.10	-0.10		*(-0.10)*	0.03	0.00		*(0.00)*	0.03
China	4.35	4.35	4.00		*(4.00)*	-	3.50		*(3.50)*	-

Other monetary policy

(Over year or by Dec)	Current	2018	2019		Prev.	Y/Y(%)	2020		Prev.	Y/Y(%)
US QE ($Tn)	4.1	4.0	3.5	↑	*(3.4)*	-12.5%	3.5	↑	*(3.1)*	0.0%
EZ QE (€Tn)	2.4	2.4	2.4		*(2.4)*	0.0%	2.4		*(2.4)*	0.0%
UK QE (£Bn)	435	435	445		*(445)*	2.3%	445		*(445)*	0.0%
JP QE (¥Tn)	552	552	575	↑	*(572)*	4.1%	595	↑	*(592)*	3.5%
China RRR (%)	14.50	14.50	12.00		*12.00*	-	10.00	↓	*11.00*	-

Key variables

FX (Month of Dec)	Current	2018	2019		Prev.	Y/Y(%)	2020		Prev.	Y/Y(%)
USD/GBP	1.29	1.27	1.42		*(1.42)*	11.5	1.38		*(1.38)*	-2.8
USD/EUR	1.12	1.14	1.17	↓	*(1.21)*	2.3	1.20	↓	*(1.25)*	2.6
JPY/USD	111.6	109.7	110		*(110)*	0.3	108		*(108)*	-1.8
GBP/EUR	0.86	0.90	0.82	↓	*(0.85)*	-8.2	0.87	↓	*(0.91)*	5.5
RMB/USD	6.74	6.87	6.85	↓	*(7.20)*	-0.2	7.00	↓	*(7.40)*	2.2
Commodities (over year)										
Brent Crude	72.0	71.6	62.7	↓	*(71.7)*	-12.4	62.3	↓	*(68.1)*	-0.7

Source: Schroders, Thomson Datastream, Consensus Economics, April 2019
Consensus inflation numbers for Emerging Markets is for end of period, and is not directly comparable.
Market data as at 26/04/2019
Previous forecast refers to November 2018
* **Advanced markets:** Australia, Canada, Denmark, Euro area, Israel, Japan, New Zealand, Singapore, Sweden, Switzerland, United Kingdom, United States.
** **Emerging markets**: Argentina, Brazil, Chile, Colombia, Mexico, Peru, China, India, Indonesia, Malaysia, Philippines, South Korea, Taiwan, Thailand, South Africa, Russia, Czech Rep., Hungary, Poland, Romania, Turkey, Ukraine, Bulgaria, Croatia, Latvia, Lithuania.

Updated forecast charts – Consensus Economics

For the EM, EM Asia and Pacific ex Japan, growth and inflation forecasts are GDP weighted and calculated using Consensus Economics forecasts of individual countries.

Chart A: GDP consensus forecasts

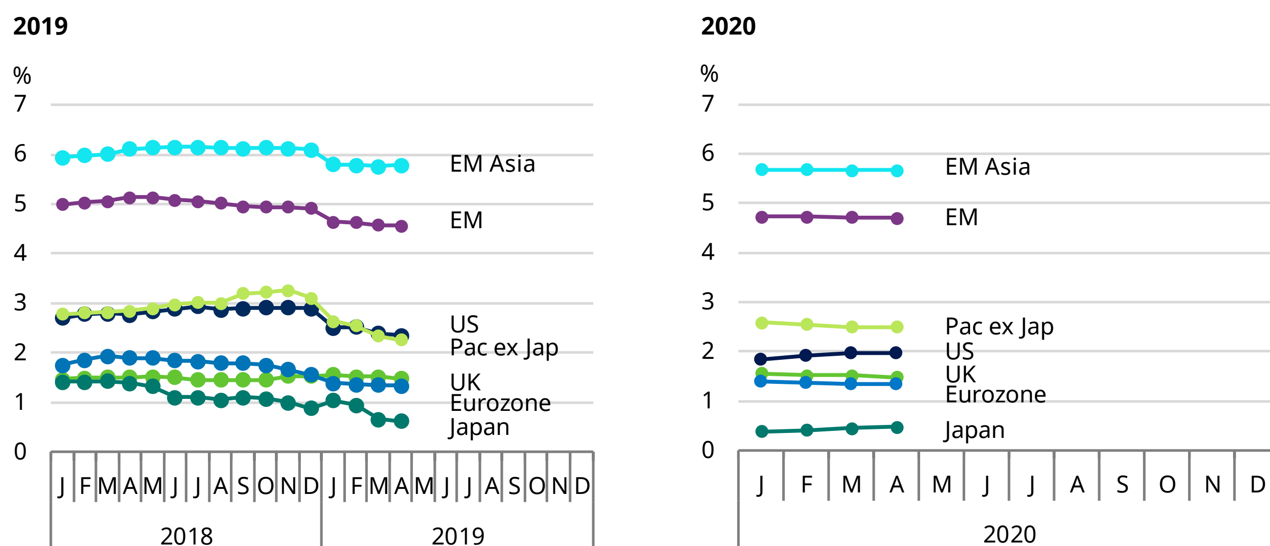
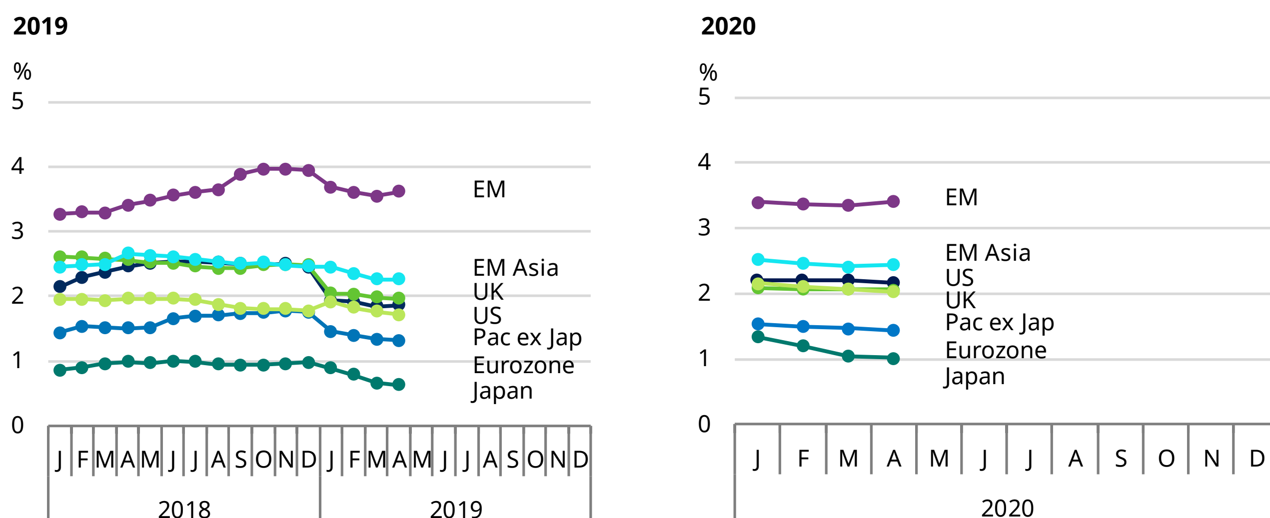


Chart B: Inflation consensus forecasts



Source: Consensus Economics (April 2019), Schroders.
Pacific ex. Japan: Australia, Hong Kong, New Zealand, Singapore.
Emerging Asia: China, India, Indonesia, Malaysia, Philippines, South Korea, Taiwan, Thailand.
Emerging markets: China, India, Indonesia, Malaysia, Philippines, South Korea, Taiwan, Thailand, Argentina, Brazil, Colombia, Chile, Mexico, Peru, South Africa, Czech Republic, Hungary, Poland, Romania, Russia, Turkey, Ukraine, Bulgaria, Croatia, Estonia, Latvia, Lithuania.

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