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Economic and Strategy Viewpoint

June 2019

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Forecast update: a wobbly world economy

- Renewed trade tensions and higher oil prices have pushed our forecast in a more stagflationary direction, although monetary policy is expected to be looser as central banks focus on supporting growth whilst inflation remains low.
- With a relatively slow rate of underlying growth the world economy is vulnerable to shocks and our scenario analysis sees the risks as being skewed to the downside, with the greatest being a US recession in 2020 or a further deterioration in the trade wars.

Keith Wade
Chief Economist and Strategist
(44-20)7658 6296

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Europe: green shoots begin to sprout

- European growth has rebounded as a number of temporary headwinds have largely faded. However, external demand remains weak, and as the US-China trade war escalates, the situation could worsen still. We have therefore downgraded eurozone growth in 2019, but also nudged up inflation due to oil prices.
- The UK growth forecast is revised higher thanks to pre-Brexit stockpiling which has artificially lifted growth figures. However, the delay to Brexit to potentially October means companies will remain cautious. Meanwhile, the risk of a no-deal Brexit is high following PM May's resignation and the likelihood she will be replaced by a hard Brexiteer.

Azad Zangana
Senior European Economist and Strategist
(44-20)7658 2671

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Lower for longer in EM?

- Higher oil prices and renewed trade tensions see largely negative revisions to our emerging market (EM) forecasts this quarter, though there are few dramatic changes.
- We see slightly more scope for easing, or at least less pressure for hiking, in parts of EM.

Craig Botham
Emerging Markets Economist
(44-20)7658 2882

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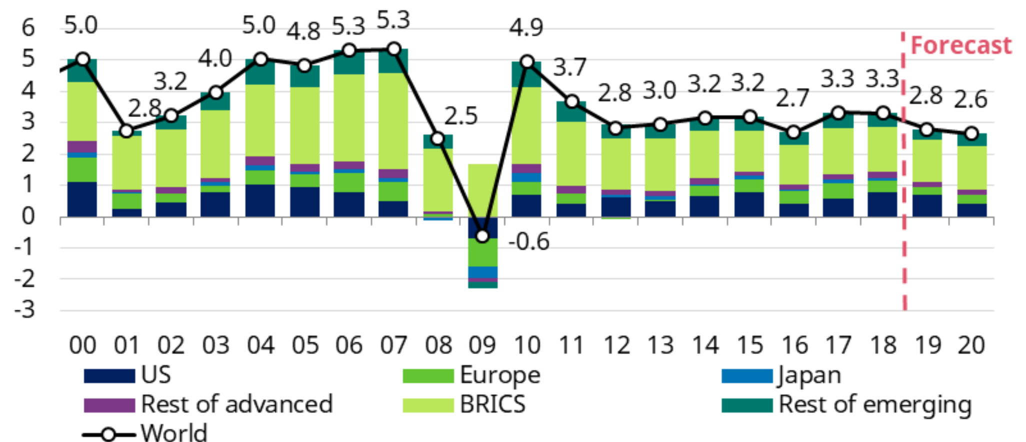
Japan: To hike or not to hike?

- We warn that investors should proceed with caution after a surprisingly strong Q1 growth, instead focusing on the composition of growth.
- Worse consumer fundamentals and ongoing external headwinds lead us to downgrade growth for the rest of 2019, although we mechanically upgrade 2019 growth to 0.9% y/y due to Q1 growth surpassing our expectations. For 2020, we nudge down our growth expectation to 0.2% y/y due to the trade war escalation as well as expected higher oil prices.
- We still think that the VAT hike will go ahead but we now expect the BoJ to be hold

Piya Sachdeva
Japan Economist
(44-20)7658 6746

Chart: Global growth to fade



Source: Schroders Economics Group. 17 May 2019. Please note the forecast warning at the back of the document.

Forecast update: a wobbly world economy

"Reduced confidence was commonly attributed to hesitation among clients and increased uncertainty, which were both often linked to global trade tensions."

Chris Williamson Chief economist, IHS Markit, Purchasing Managers report, 24 May 2019

Summary

Trade wars and Brexit cast shadow over forecasts

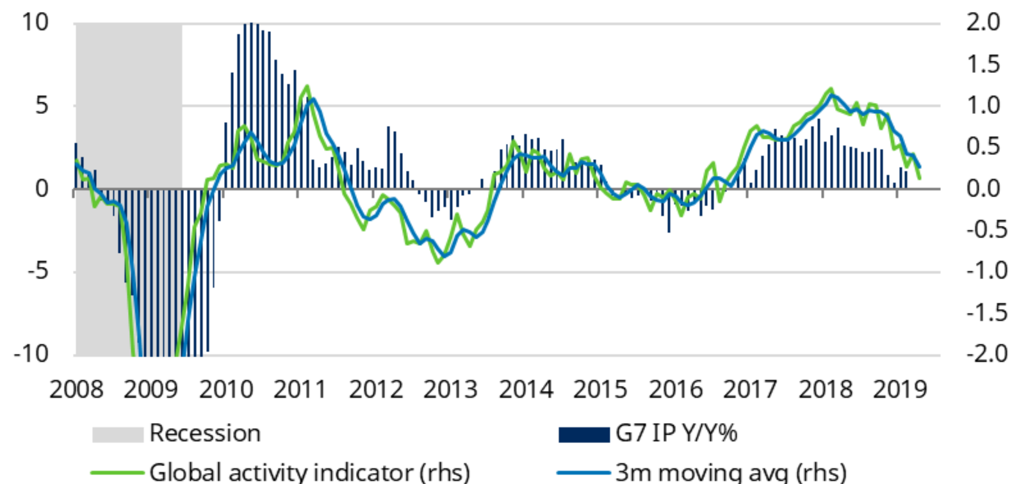
The headline growth numbers in our latest forecasts have not changed significantly since our last update in February. However, these have been boosted by a good start to the year with Q1 GDP beating expectations in the US, eurozone, UK, Japan and China. We do not expect this to last and with the setback in the US-China trade talks and ongoing Brexit uncertainty, the outlook is for a period of sub-par global activity.

Looking at the baseline forecast, our projection for global GDP growth in 2019 is unchanged at 2.8%, but we have trimmed our projection for 2020 to 2.6% (previously 2.7%). Although unchanged, the global forecast for this year contains upgrades to the US and Japan, which are offset by downgrades to the eurozone and the emerging markets. In 2020, the small downward revision is across the board with US growth cut to 1.5% and China to 6% (both 0.1% weaker). Our growth forecasts for 2020 are generally below consensus.

Growth to fade in Q2 as inventory build ends

Although first quarter GDP proved stronger than expected in many economies, this was largely due to inventory building, which we expect to be temporary and to reverse in the current quarter. Underlying indicators such as our global activity index signal further weakness ahead and this has yet to reflect the restart of the trade war between the US and China, which is likely to have damaged business confidence, causing firms to delay capital expenditure.

Chart 1. Global activity indicator continues to decline



Source: Thomson Reuters Datastream, Schroders Economics Group, 28 May 2019.

Meanwhile, our inflation forecasts have been raised for this year and next with increases across all regions largely driven by the rise in oil prices, which are now expected to be significantly higher over the forecast period than at the time of our last outlook in February. US inflation is also higher as a result of the setback in the US-China trade negotiations and the subsequent increase in tariffs from 10% to 25% on $200bn imports from China.

Fed funds assumed to have peaked, next move to be a cut in 2020

On monetary policy, the US Fed funds rate is assumed to have peaked, with the next move expected to be a rate cut in June next year in response to a weakening in growth. We have pushed out rate increases in the UK and eurozone, with only one move from the Bank of England now expected this year, whilst the European Central Bank (ECB) waits until 2020 before tightening. We expect the Bank of Japan (BoJ) to leave policy unchanged, rather than tightening its yield curve control policy. China is expected to ease further through a lower reserve requirement ratio (RRR) which is now expected to reach 10% by end 2020 (previously 11%).

The US dollar is expected to remain firm in the near term, but to weaken later in the year as policy begins to tighten in the eurozone and UK. Sterling (GBP) is also boosted by our assumption that the economy enters a transition period in October rather than crashing out of the EU, although there is considerable uncertainty surrounding this given the recent resignation of the Prime Minister.

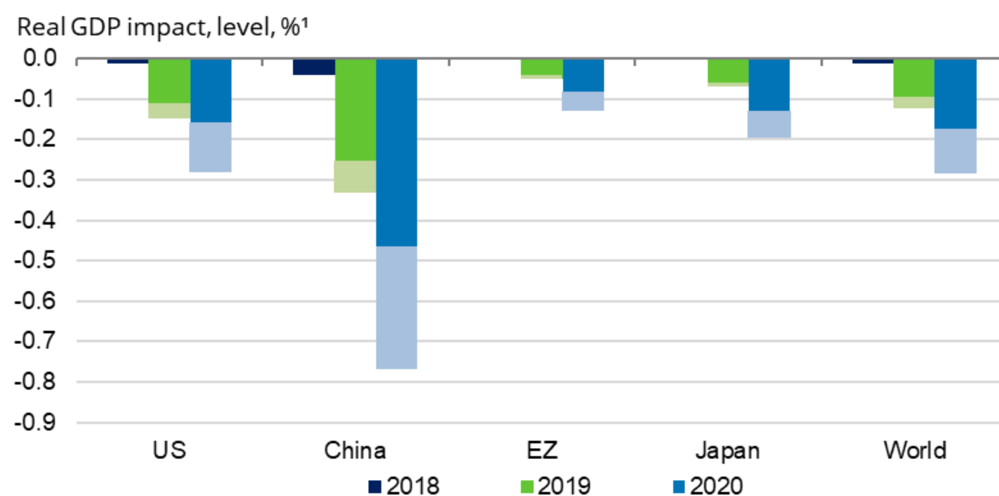
Scenarios: Deal or no deal?

Trade wars threaten a more stagflationary outcome for the world economy

In our baseline we assume that the US and China move slowly towards a trade agreement by the end of the year, after which both sides reverse the latest tariff increases. The path to that deal is unlikely to be smooth and could well include significant financial market volatility, particularly later in June when the US will decide on whether to impose a new tranche of tariffs on a further $325bn of imports from China. This would mean that all US imports from China would be subject to a tariff.

In terms of macro impact, Chart 2 captures the cumulative effect on GDP from the latest increase in tariffs to 25% using the Oxford Economics macro model. Both the US and China will be worse off with US GDP down by 0.3% and China's GDP lower by 0.8% by 2020 compared to a baseline of no tariffs. These effects are almost double the impact from the existing tariffs. The impact is greater on China given its higher dependence on trade, whilst Japan and Europe also experience declines of between 0.1 and 0.2% of GDP (Chart 1).

Chart 2. US-China 25% tariffs to weigh on global activity



Source: Oxford Economics. [1]Dark bars show the impact of existing bilateral tariffs while shaded bars reflect the impact of raising the existing 10% tariffs on $200billion to 25% (and China retaliating in kind).

Tariffs are imposing costs on consumers which Trump would wish to avoid in an election year

In our view, President Trump would want to avoid such action as, in addition to likely equity market weakness, it would impose higher prices on consumers as firms pass the tariff costs on, something to be avoided in an election year. Despite the president's protestations, there is considerable evidence that those goods affected by tariffs are already rising faster in price than others. Higher inflation could also cause the Fed to hold back on rate cuts. Consequently, we still expect an agreement to be reached.

However, we acknowledge that there is a significant risk that this proves too optimistic and that we see further tariff increases. Trade tensions are likely to become a permanent feature of the global economy in our view (see our Inescapable Truths) and tariffs seem to be one area that Republicans and Democrats can agree on. Our scenario "Trade war: US vs RoW" covers the possibility that no deal is struck between the two superpowers and that the US raises auto tariffs on the rest of the world. Compared to the baseline, this scenario results in weaker global growth and higher inflation (despite lower oil prices); a stagflationary outcome (see chart 3 below).

Italian debt crisis and oil jumps to $100 also threaten stagflation

Our other stagflationary scenarios are the "Italian debt crisis" which, after a period of calm, now seems to be warming up again with the EU commission threatening to fine Italy €3.5bn for public debt violations. The scenario assumes renewed tension between Rome and Brussels in the autumn as the 2020 budget is formulated. The result is greater market volatility (10-year Italian government bond yields rising to 6%) which is only quelled by a bail-out where a technocrat is installed as Italian prime minster, and the ECB's Outright Monetary Transactions (OMT) programme is activated. Quantitative Easing (QE) is also restarted as the eurozone faces a deep recession. Global inflation is higher, although this largely reflects the impact of a large fall in the euro on the region's inflation rate as inflation in the US is actually lower, as are commodity prices.

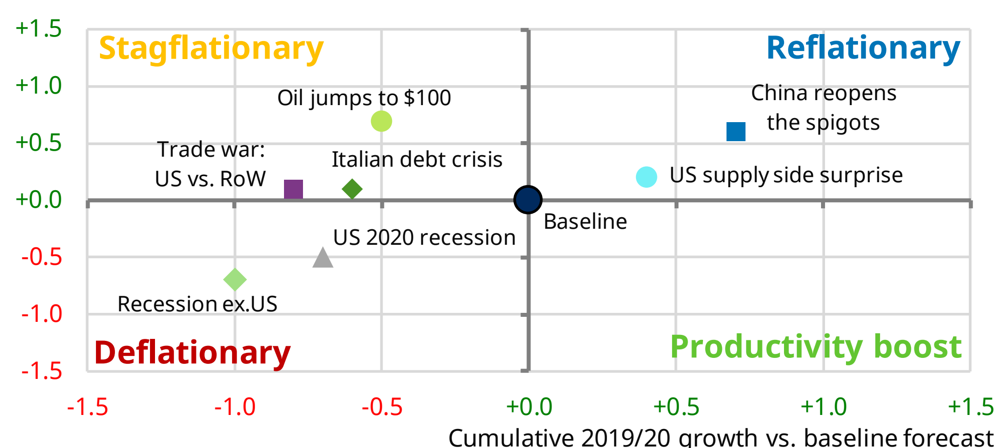
The final stagflationary scenario is "oil jumps to $100", where the loss of Iranian oil supply and the threat of conflict in the region drives oil prices higher. This is a new scenario and replaces our previous "Inflation surges" scenario which was based on a significant acceleration in wages. Whilst it is still possible that the Phillips curve will reassert itself, wages are still only rising modestly as factored into the baseline. Nonetheless, the new scenario has similar effects in terms of its stagflationary impact on the world economy.

On the deflationary side (weaker growth and lower inflation) we continue with our two recession scenarios: US recession 2020 and recession ex.US. Although the US yield curve has turned positive again our models suggest that it is still consistent with a significant risk of recession in the US next year.

In terms of reflation scenarios, we continue with "China reopens the spigots" where China reverts to its old playbook to avert a deepening economic slowdown. Casting aside the relative timidity of current stimulus measures, policymakers embark on large scale fiscal and monetary stimulus. Commodity demand skyrockets, to the benefit of a number of emerging markets, but when combined with tight capacity constraints acts to push global inflation higher.

Finally, we retain the "US supply side surprise" scenario where the labour market proves to be more flexible than expected, with supply continuing to rise through a higher participation rate as more people return to the workforce. This extends the cycle by containing wages and inflation in the US for longer than in the baseline allowing stronger growth. There is a knock-on to growth in the rest of the world though stronger US demand and higher commodity prices which raise inflation.

Chart 3. Scenario grid



Source: Schroders Economics Group, 28 May 2019.

Risks are skewed toward stagflation and deflation

In terms of probabilities, in our view the balance of risks has tilted in a slightly more stagflationary direction over the past three months, largely reflecting the increase in trade tensions (see table 1). Overall though, the balance between different outcomes has not altered significantly. The overall risks are clearly skewed toward a weaker outcome on growth than in the baseline.

In the view of the team, the scenario with the highest probability is "US recession 2020" at 9% closely followed by "Trade war: US vs RoW" at 8%.

Table 1. Balance of probabilities

Scenario	Probability February 2019, %	Probability May 2019, %	Change, (May vs. Feb) pp
Stagflationary	14	16	+2
Deflationary	17	14	-3
Reflationary	9	10	+1
Productivity boost	0	0	0
Baseline	60	60	0

Source: Schroders Economics Group, 27 May 2019.

The world economy as a wobbly bike?

Lack of a global driver leaves the world economy vulnerable to shocks

In our last forecast three months ago we said "the easing in US-China trade tensions, more flexible central banks and the benefits of lower oil prices should stabilise activity later this year and support an upgrade in our global growth forecast for 2020". In this forecast, two of those supports have fallen away and we are more reliant on easier monetary policy to maintain activity.

These revisions raise the question as to whether the world economy is suffering from secular stagnation. As we have argued previously, since the financial crisis there has been a shortage of demand in the world economy as US households have de-leveraged and China has begun to address the bad debts in its banking system.

This has been masked recently by the Chinese stimulus in late 2016 and then the US fiscal expansion of 2018, but as these have faded we are left with a relatively slow rate of underlying growth. As a result, the world economy is vulnerable to shocks such as the increase in trade tensions which threaten exports and capital spending as a result of the increase in uncertainty (see quote above). We are encouraged by the signs of green shoots in the eurozone (see section below), but beyond a cyclical pick-up as one-off headwinds fade, Europe is not set to become a driver of global growth.

Consequently we are left with a world economy that resembles an unstable bicycle that can be tipped over by the slightest bump in the road. Central bankers have been doing an effective job in keeping the bike stable through policy easing, but there will be increasing pressure for governments to pick up the responsibility.

The positive in this is that employment has held up remarkably well particularly in the US, UK and Japan – testimony to reforms which have made the labour market more flexible. The cost, though, has been weak productivity growth which is reflected in weak real wage growth. Economists have tended to accept this as a better outcome than one in which unemployment is much higher, but as we have seen in the recent European elections and elsewhere, this in turn has become a source of political discontent.

Europe forecast update: green shoots begin to sprout in difficult environment

It took a little longer than expected, but European growth has started to recover from the slump seen in the second half of last year. A number of domestic headwinds have faded, but uncertainty over external demand has returned. The escalation in the US-China trade war is likely to mean that Europe should not rely on a recovery in net trade.

In the UK, Brexit-related stockpiling has helped lift growth in the latest quarter, but a delay to the ratification of the Withdrawal Agreement means uncertainty for corporates is set to continue.

Broad-based rebound

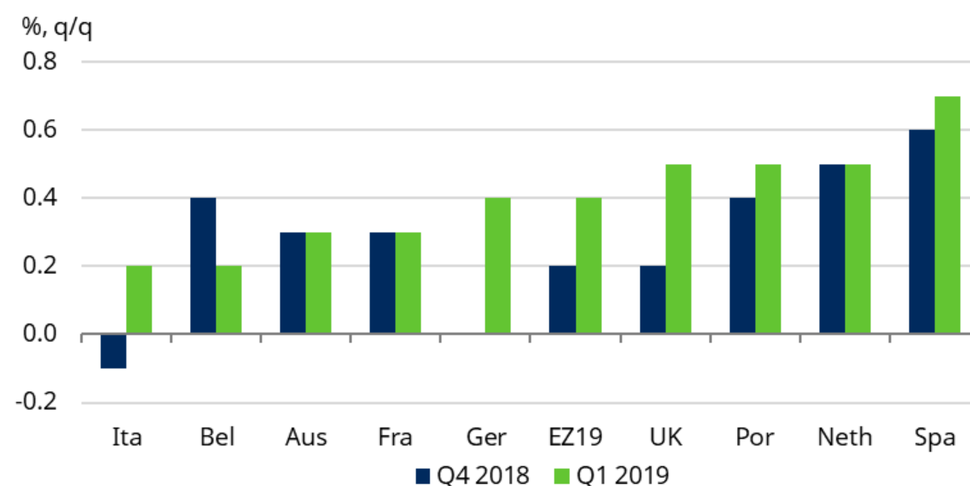
At the start of the year, weaker data had stoked fears that the eurozone had plunged into recession. European equities were not only priced for recession, but a potential financial crisis back in January. Since then, sentiment has been slowly recovering along with activity data. Pessimism was clearly overdone.

Europe sees a broad-based recovery in growth in Q1

The preliminary estimate for eurozone GDP growth shows the economy bounced back in the first quarter, as growth rose from 0.2% to a solid 0.4% quarter-on-quarter. The vast majority of member states reported an acceleration, highlighting the broad-based nature of the recovery.

Within member states, Spain led the pack by recording a strong quarter of 0.7% quarterly growth, followed by the Netherlands, Portugal and the UK at 0.5% each respectively. Italy and Belgium were the laggards with 0.2% growth, though the former did mark the end of its post-election recession.

Chart 4: GDP recovery seen across the EU



Source: Eurostat, ONS, Schroders Economics Group. 15 May 2019.

There was relief in Germany as the economy, which had narrowly avoided a technical recession at the end of 2018, rebounded to 0.4% growth in the first quarter. Although a breakdown of the figures is not yet available, the early report from the Federal Statistics Office (Destatis) suggested that strong household consumption offset lower government spending, while the contribution from net trade was mixed.

Meanwhile, France saw another robust quarter as GDP grew by 0.3% for the third consecutive quarter. A breakdown of French GDP showed a rebound in consumer spending, while investment also made a positive contribution. Net trade did however drag on growth, but this was offset by a small build-up of inventories.

Overall, data so far this year has been encouraging. There is clear evidence that domestic demand remains healthy, supported by unemployment rates falling further, and above-inflation wage growth. The key area of weakness remains external demand, but this is unlikely to improve anytime soon.

Eurozone forecast update

Domestic demand remains solid, but the escalation in the US-China trade war will weigh on external demand

Looking ahead, we have revised down the eurozone growth forecast for 2019 from 1.3% to 1.2% (chart 5). Despite the better-than-expected outcome for the first quarter, there are two significant headwinds that have prompted the downgrade.

The first is the escalation in the US-China trade war. The increase in tariffs and threat to apply more to a wider range of products is likely to lead to reduced demand for eurozone exports of capital goods. There may be some positive spillovers into other types of goods, but we doubt they will be big enough.

The second headwind is the recent rise in oil prices. The futures price for December 2019 is now $7.5 per barrel higher (or 12%) compared to our last forecast update. As an oil importer, Europe is likely to see higher energy inflation in the coming months, which will reduce purchasing power and, at the margin, lower consumption growth.

Chart 5: Eurozone GDP forecast

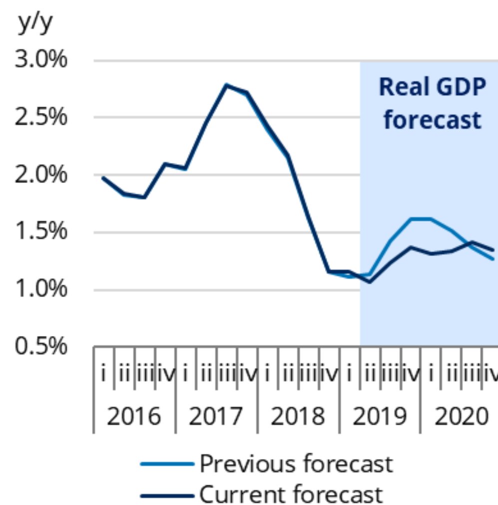
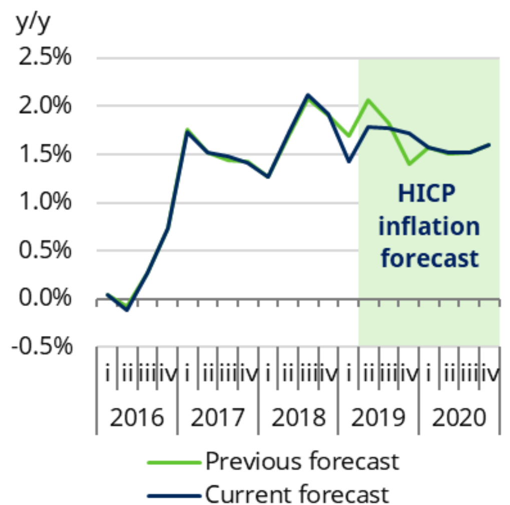


Chart 6: Eurozone inflation forecast



Source: Schroders Economics Group. 15 May 2019. Previous forecast from February 2019. Please note the forecast warning at the back of the document.

For 2020, the GDP forecast remains unchanged at 1.4%, but this does rely on a trade deal eventually being reached between the US and China, which helps lift external demand. The risk is that even more tariffs are applied as President Trump has threatened, and worse still, the US starts a trade war with the EU over car tariffs. These risks are portrayed in the "Trade war: US vs. rest of the world" scenario, which would most likely drive the eurozone into recession.

The eurozone inflation forecast remains at 1.7% for 2019 but is raised from 1.5% to 1.6% for 2020. Within the headline figures, the core inflation forecast is lowered from 1.6% to 1.3% for this year, largely owing to the lower outturn for the first quarter. However, energy inflation is revised up to reflect higher oil prices, hence the headline figure remaining at 1.7%.

As for monetary policy, updated forward guidance from the European Central Bank (ECB) in March led us to push out the next rate rise to March 2020. ECB president Mario Draghi announced that interest rates are likely to remain on hold until at least 2020. Previous forward guidance had suggested that interest rates would remain on hold until the end of this summer, but a perceived deterioration in the near-term

outlook persuaded the ECB Governing Council to extend the period of record low interest rates.

ECB pushed back its rate rise guidance to 2020, but was it premature?

Given the rebound in economic growth, it now seems that the ECB's shift in forward guidance may have been premature. Some members of the governing council may start to sound more hawkish again in the coming months, but the majority of the governing council are likely to remain dovish. We only have one additional rate rise at the end of 2020, which would take the deposit rate up to zero, and the main refinancing rate up to 0.50%.

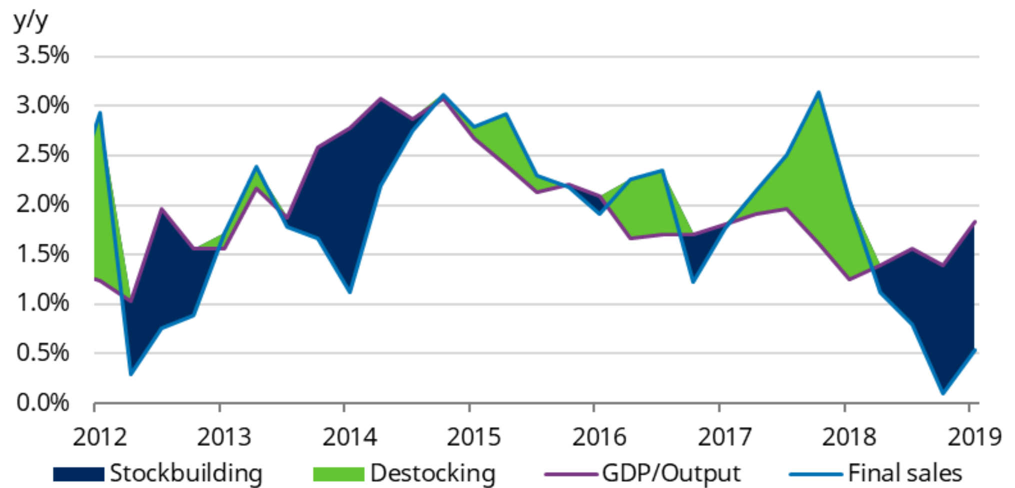
UK forecast update: Brexit stockpiling inflates GDP

Growth in the UK also rebounded in the first quarter, but for a very different reason. Households, firms and even the government appear to be stockpiling goods ahead of Brexit. We discussed this in last month's publication, highlighting the record highs reached by the survey questions on inventories from private business surveys. The latest GDP figures highlight the degree of stockpiling in the economy.

UK growth also rebounded, but for a very different reason

In the year to the first quarter of 2019, GDP grew by 1.8% y/y. However, final sales (GDP excluding inventories) only rose 0.7% y/y. Chart 7 shows these two measures of activity, with the shaded areas highlighting the difference. When final sales are running ahead of GDP (or output), then the economy is consuming its inventories, but when sales are below output (as at present), then the economy is seeing inventories rise. A rise in inventories is typically followed by destocking, which causes growth to slow. We assume this will happen later this year.

Chart 7: UK GDP vs. final sales



Source: Thomson Reuters Datastream, ONS, Schroders Economics Group. 15 May 2019.

The build-up of inventories in the first quarter of the year meant that GDP was far stronger than we had anticipated, leading to an upgrade in our forecast from 1.1% to 1.4% for 2019. 2020 is nudged down from 1.5% to 1.4% thanks to weaker external demand.

Stockpiling helped boost growth to 1.8% y/y, but final sales only grew by 0.7% y/y to Q1

The extension of the Brexit deadline to October means that the GDP growth forecast also needed re-profiling (chart 8). In the near term, companies are likely to remain cautious and hold back business investment. However, once some clarity on Brexit is provided, then we should see a pick-up.

We recognise the situation is extremely uncertain, however, for the purposes of the forecast we assume that the UK will eventually agree a Withdrawal Agreement and leave the EU at the end of October (in-line with the new deadline). The UK will then enter a transition period until the end of 2020, during which time it will negotiate its future relationship.

The UK growth forecast has been re-profiled to account for the delay in Brexit

Chart 8: UK GDP forecast

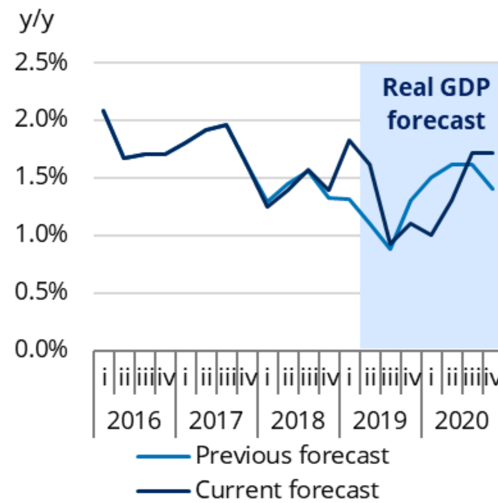
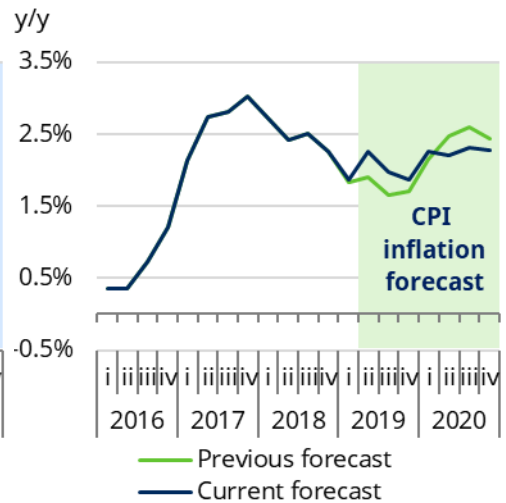


Chart 9: UK inflation forecast



Source: Schroders Economics Group. 15 May 2019. Previous forecast from February 2019. Please note the forecast warning at the back of the document.

The inflation forecast has been revised up from 1.8% to 2% y/y for 2019 due to the rise in wholesale oil prices. It is then nudged down for 2020 from 2.4% to 2.3% due to base effects.

As for the Bank of England, despite attempts to sound hawkish in the presentation of the May Inflation Report, governor Mark Carney admitted that a negative output gap is likely to become larger this year, before potentially excess demand appears in 2020. In other words, spare capacity still exists, and it is likely to increase in the near term, which should weigh on inflation pressures. In our view, the Bank is unlikely to raise interest rates before Brexit. We have therefore pushed out the next rate rise to November, assuming the UK leaves the EU in October. The single rate rise this year takes the main policy rate to 1% by the end of 2019, and we forecast two more hikes in 2020, taking rates to 1.5% by the end of 2020.

No-deal Brexit remains a key risk

Other than the various scenarios outlined earlier, the key risk to our UK forecast is a change in direction of the government on Brexit. Faced with the prospect of a fourth rejection of her withdrawal bill Prime Minister May has resigned and triggered a Conservative Party leadership contest, the winner of which would become Prime Minister in July.

A no-deal Brexit remains a very real risk, especially if a Brexiteer takes over from Theresa May

At this stage, bookmakers have the former Foreign Secretary and Mayor of London Boris Johnson as favourite. The hard-line Brexiteer could easily take the UK out of the EU without a deal, despite Parliament voting in favour of essentially removing the option. He could do this by simply failing to comply with the EU's demands that the UK should continue to follow the rules. This presumably would lead to the EU agreeing to terminate the relationship in October.

If this were to happen, we would anticipate the economy to slow and fall into recession around the turn of the year. While the Bank would probably cut interest rates eventually, the expected depreciation in the pound would cause inflation to spike. The household sector has already run down its safety buffer in the form of its savings rate, therefore a contraction in demand is very likely.

Lower for longer in EM?

"Various civilisations are not destined to clash" Chinese President Xi Jinping, speaking at the Conference on Dialogue of Asian Civilisations."

15 May 2019.

Geopolitics weigh on EM prospects

Higher oil prices and renewed trade tensions see largely negative revisions to our emerging markets (EM) forecasts this quarter, though there are few dramatic changes. Idiosyncratic factors are also at work, and in some cases work to counter the higher inflation implied by oil price increases, though for China the domestic spread of African Swine Flu aggravates the issue further.

Table 2: BRIC growth and inflation forecast summary

% per annum	GDP			Inflation		
	2018	2019(f)	2020(f)	2018	2019(f)	2020(f)
China	6.6	6.3 (6.3)	6.0 ↓ (6.1)	2.1	2.4 ↑ (2.0)	2.7 ↑ (2.2)
Brazil	1.1	1.4 ↓ (2.0)	2.4 (2.4)	3.7	4.1 ↑ (3.9)	4.0 ↓ (4.1)
India	7.2	7.1 ↓ (7.3)	7.7 (7.7)	3.9	2.7 ↓ (2.8)	3.9 ↓ (4.0)
Russia	2.2	1.5 ↑ (1.4)	1.8 (1.8)	2.9	4.8 ↓ (5.0)	4.3 (4.3)

Source: Thomson Reuters Datastream, Schroders Economics Group, 13 May 2019. Numbers in parentheses refer to previous forecast.

But central banks can provide some support

We see slightly more scope for interest rate easing, or at least less pressure for hiking, in parts of EM as a result of those idiosyncratic factors. Consequently, we now forecast more dovish paths for monetary policy in Russia, India and Brazil. Again though, these are relatively minor revisions.

Table 3: BRIC monetary policy expectations

% (year end)	2018	2019(f)	2020(f)
China RRR	14.50	12.00 (12.00)	10.00 (10.00)
China lending rate	4.35	4.00 (4.00)	3.50 (3.50)
Brazil	6.50	6.50 (6.50)	6.50 (7.00)
India	6.50	5.75 (6.00)	6.25 (6.50)
Russia	7.75	7.00 (7.25)	7.00 (7.00)

Source: Thomson Reuters Datastream, Schroders Economics Group. 13 May 2019. Numbers in parentheses refer to previous forecast.

China: truce broken

China has enjoyed a better start to the year than we and consensus had predicted. First quarter GDP growth surprised to the upside, at 6.4% y/y, showing no deceleration from the end of 2018. However, the high frequency data was very weak for the first two months and the strength for the quarter was concentrated in March, particularly in industrial production growth, which jumped to 8.5% y/y from 5.3%.

Given the prior stability of industrial production data in China, this kind of volatility raises an immediate red flag. For us, the difficulty lies in reconciling weak domestic demand as evidenced by contracting imports in the first quarter with the story told by surging industrial production. Credit data has been strong, but March is too soon to expect it to show up in activity data, particularly as lending to the real economy seemed to slow in January and February and only picked up in March. Either imports or industrial production must therefore be "wrong" in their signal on domestic demand. For weak imports to be consistent with strong domestic demand, this would suggest that China has managed to shift supply chains onshore. While this is an ongoing theme as China moves up the value chain, it seems doubtful that it could prompt such a sudden and dramatic disconnect, given that the two were much more closely related until March.

Distortions plague Chinese data and have led to many false conclusions by the market

The alternative explanation then is that something is amiss in the industrial production data. It is curious, for example, that industrial production should be so strong and yet manufacturing investment should slow. The implied increase in capacity utilisation would be expected to see capacity expansion under normal circumstances – that it has not suggests manufacturers do not see this as a sustainable increase in production. The second factor could be the cut to VAT effective at the start of April. This provided manufacturers with an incentive to frontload orders and production, to enable them to offset the older, higher VAT rate as an expense against future profits, taxed at the lower rate.

This seems borne out by the data for April, with industrial production back to below 6% and other data also softening. All of this suggests that second quarter data will be a little softer as frontloaded activity takes its toll. However, we are still confident that the strength in credit will feed through into activity by June (chart 10), delivering a pick up at the end of the second quarter and into the third. This is reflected better by our forecast for the Schroders China Activity Indicator (SCAI) than GDP, the official data for which is always suspiciously stable. Here the strength in credit is expected to support domestic demand even as exports struggle, with retail sales and investment receiving a boost, and a smaller lift for imports and industrial production.

Chart 10: The outlook for Chinese activity

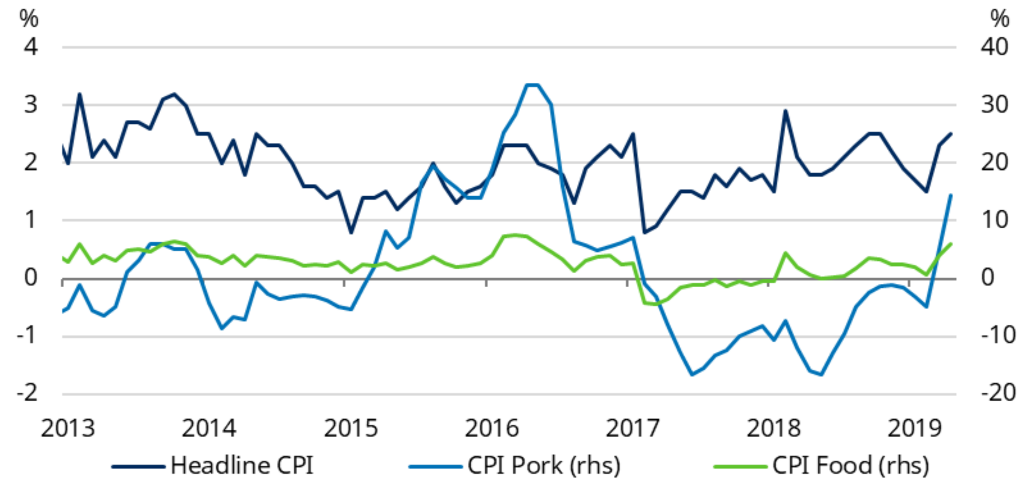
Source: Thomson Reuters Datastream, Schroders Economics Group. 17 May 2019.

Trade tensions will hurt investment and export growth

Meanwhile, a more negative outlook for trade talks weighs against any thoughts of an upgrade to growth, despite a stronger first quarter, and has prompted a small downgrade for 2020 growth, consistent with the US outlook. We think this will manifest first through exports and investment, with knock on effects for retail sales and industrial production. This also leads us to think that the central bank will need to revert to accommodative policy sooner than it might otherwise have wished. We

do not, however, change our currency view: we had previously assumed the currency would be allowed to weaken once talks had concluded, if only to catch up with the move in the trade weighted basket. The moves of the last few days are in line with that process, albeit with a different catalyst, and we would expect renewed stability once talks are underway once more. Our year end figure for the RMB remains at 6.85 to the dollar, with 7 pencilled in for the end of 2020.

Chart 11: Swine flu decimates pig herds and sends prices soaring



Source: Thomson Reuters Datastream, Schroders Economics Group. 17 May 2019.

One notable change for the China outlook is a fairly large upward revision to our inflation forecast. Part of this is due to crude oil prices, but at least as important is the domestic pork price. China is seeing prices surge as a consequence of African Swine Fever (chart 11), which has devastated domestic herds. The price impact is only just beginning to feed through, as the pre-emptive mass slaughter of pigs until now had led to a glut in the market. Combined with oil, which impacts core prices with a lag, this sees a peak in inflation in early 2020, but we do not believe the People's Bank of China will halt easing on the basis of this print. This is partly because we do not see inflation sustaining above the 3% target for long, and partly because we see growth as the chief concern.

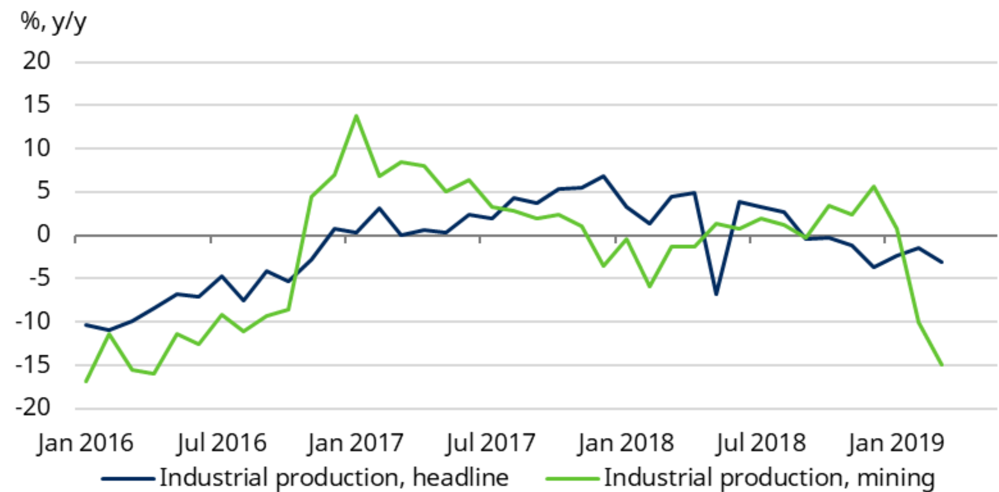
Brazil: Dam disaster adds to woes

Confidence has begun to fade and Vale's problems make matters worse

We find ourselves downgrading Brazilian growth for 2019 on the back of a series of disappointing monthly data prints. While we are still waiting for first quarter GDP at the time of writing, retail sales and industrial production have been very soft.

We can ascribe some of this to the ongoing uncertainty around pension reform and the impact this has on confidence and investment, but there has also been a material hit to activity from the Brumadinho dam disaster. Owned by Vale, the world's largest iron ore producer, the dam's collapse in January killed over 200 people and led to a $4.5 billion cost to Vale, or around 2% of Brazilian GDP. Vale was also ordered by Brazilian courts to cease mining operations elsewhere in Brazil (chart 12). On its own, the disaster is estimated to have shaved 0.2 percentage points from Brazilian growth in 2019.

Chart 12: Brazilian mining in a vale of tears



Source: Thomson Reuters Datastream, Schroders Economics Group. 17 May 2019.

As alluded to, uncertainty over reform efforts continues to pressure sentiment on both the corporate and consumer side. Even accounting for this weaker sentiment, real activity looks weak to us. Adjusting our forecasts for the weaker-than-expected outturns helps complete our growth downgrades. We still expect reforms to pass, with some dilutions, later this year.

We make only minor changes to the inflation outlook. First quarter inflation has been slightly softer than we had predicted, but we think it will be outweighed by a weaker currency and higher oil prices, resulting in a slight upgrade of inflation expectations. However at 4.1% for 2019 this is not enough to induce the central bank to hike, and in fact we now see rates on hold this year and next, as policymakers attempt to compensate for subdued activity in 2019. At this point, the output gap must be sizeable.

India: Elections unlikely to have a significant macroeconomic effect

India's marathon election process concluded with a stronger than expected victory for incumbent Narendra Modi. We do not think that the election result will make a significant difference to the macroeconomic outlook.

Weaker data to start the year, but elections are a red herring for macro performance this year

We assume that in his second term Modi will continue to follow a broadly pro-business agenda, bolstered by a larger majority. However, it is not clear how much appetite the prime minister has for pursuing aggressive macroeconomic reforms. Attempts to push through land and labour reform at the start of his first term fell short, and absorbed large amounts of political capital. A more nationalist bent has emerged since then and partially diluted the reform agenda. Consequently, we would not expect any big bang reforms, but instead a continuation of the last five years; incremental improvements in the business environment.

Instead, the changes to our outlook arise chiefly from weaker-than-expected economic data for the start of the year. This leads us to once again revise down 2019 growth marginally. Helpfully, however, inflation has also surprised to the downside, to the extent that even with a higher oil price we lower our inflation expectations. This provides scope too for greater support from the central bank, which now has a more dovish profile than in our last forecast update.

Russia: Outlook improving

Russia benefits from some of the geopolitical noise

Alone in receiving an upgrade, Russia should benefit from higher oil prices this year, with first quarter growth already surprising to the upside. Much of the additional revenue will be used to top up government funds further, but the economy should still benefit from an increase in production. We continue to expect a pick up in 2020, despite slower global growth, thanks to planned increases in government spending on infrastructure.

Adding to the good news, the VAT hike has proved less inflationary than we and the central bank had feared. This, and stronger oil supporting the currency, results in a downward revision of our inflation forecast for this year. The central bank had adopted a relatively hawkish stance, in part due to inflation projections influenced by this hike, and we think that now it has lowered its expectations sufficiently to warrant additional easing this year. We now expect interest rates to reach 7% by year end, which will mark the end of the easing cycle as growth begins to pick up on increased spending in 2020.

Japan: To hike or not to hike?

"By raising the sales tax when the economy is at such a critical juncture, Japan risks sliding into recession"

Bank of Japan Board Member Harada, 22 May 2019

Despite our pessimistic outlook for growth, we still think the VAT hike will go ahead

Following a surprisingly strong Q1 GDP print at 0.5% quarter-on-quarter (q/q), we warn that investors should proceed with caution, instead focusing on the composition of growth which shows weakness in the domestic economy.

As for changes to the outlook, a deterioration in consumer fundamentals and ongoing external headwinds weighing on capex lead us to downgrade growth for the rest of 2019. Despite our downgrade to future growth, we mechanically upgrade 2019 growth to 0.9% year-on-year (y/y) from 0.7% y/y, due to Q1 growth surpassing our expectations. For 2020, we nudge down our growth expectation to 0.2% y/y from 0.4% y/y due to the impact of recent developments in the US-China trade war as well as expected higher oil prices.

Despite our pessimistic growth outlook, we think that the Value Added Tax (VAT) hike will go ahead, although we acknowledge significant uncertainty around this. In a less supportive growth backdrop, we remove the interest rate hike that we had pencilled in for the end of 2020, keeping the Bank of Japan (BoJ) on hold in our forecast horizon.

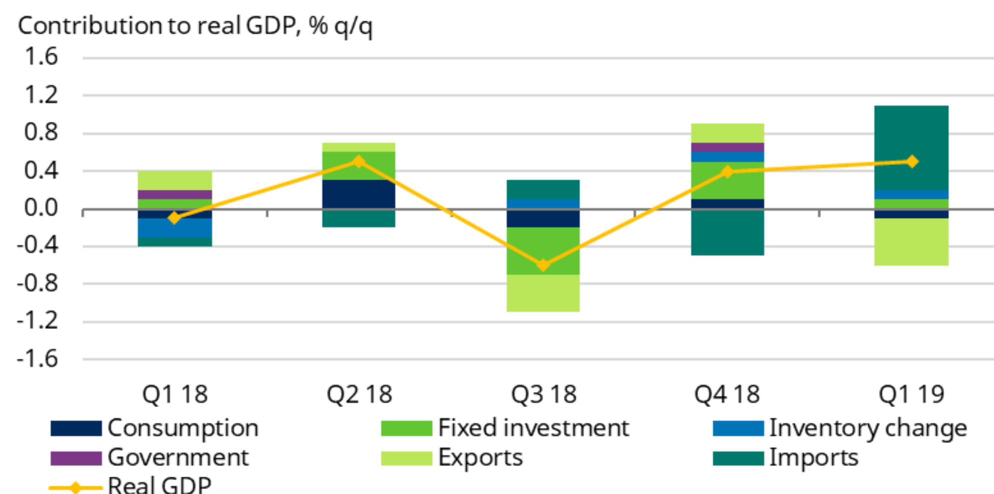
Strong Q1 GDP print, but domestic weakness is clear

Japanese growth improved in the first quarter to 0.5% q/q, in stark contrast to consensus expectations for a 0.1% q/q contraction. However, our view is that investors should proceed with caution, as the drivers of growth signal a weak economy.

The drivers of Q1 growth show a weak domestic economy

Domestic demand only contributed 0.1 percentage points (pp) to growth, falling from 0.7pp in Q4. The major components of domestic demand, household consumption and private-non residential investment (capex), both fell over the quarter. Instead, domestic demand was driven by inventory and public investment. Meanwhile, exports fell, taking off 0.5pp from growth but imports fell by even more, typically reflecting weakness in domestic demand. Imports alone contributed an eye-opening 0.9pp.

Chart 13: Imports drive Japanese GDP growth in Q1



Source: Thomson Reuters Datastream, Schroders Economics Group, 22 May 2019.

Economists underestimated the contribution from capex and likely imports, given the strong contribution.

VAT: To hike or not to hike?

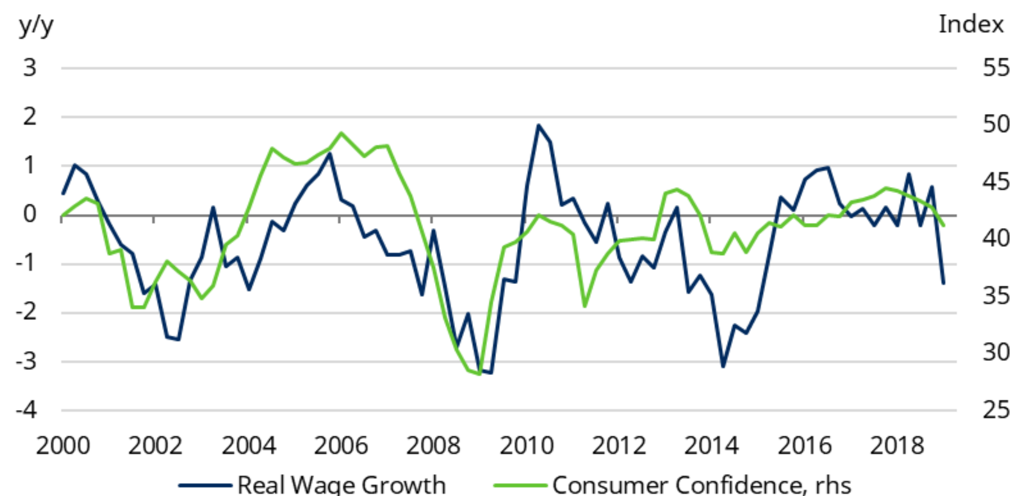
Economists underestimated capex and most likely the weakness is imports

Fears of a recession in Japan have been elevated following the Cabinet Office's downgrade of its assessment of the economy to "worsening" – the worst out of five possible economic assessments. This has led investors to doubt whether the upcoming rise in VAT – otherwise known as the 'consumption tax' – will go ahead. Policymakers have also voiced concern over the resilience of the Japanese economy (see quote from BoJ member Harada). The planned VAT hike, from 8% to 10%, has been postponed twice before due to concerns over the detrimental impact it will have on the Japanese economy. The government's formal stance has been that the hike will go ahead except in the case of a shock on the scale of the collapse of Lehman Brothers in 2008.

The Q1 GDP report does reduce speculation around the October VAT hike

On the one hand, strong growth was recorded, but on the other, the report reveals a weak consumer. Revisiting the fundamentals, real wage growth has fallen significantly over the quarter (chart 14), mainly driven by wages rather than rising inflation. This is particularly concerning as real wage growth is a key driver of household consumption. Meanwhile, consumer sentiment also continues to moderate.

Chart 14: Japanese consumer shaky



Source: Thomson Reuters Datastream, Schroders Economics Group, 22 May 2019.

Real wage growth – a key driver of household consumption – has fallen

Despite a weak economy, our base case remains that the hike goes ahead following promised spending using revenue from the hike. Therefore, our outlook for growth this year continues to be shaped by the tax rise. Typically it has a large impact on activity and we expect a subsequent sharp decline in demand as well as frontloading ahead of the tax rise.

Escalation of the US-China trade war could be the "Lehman-style shock"

We acknowledge that the risk of a postponement has significantly increased. We will be closely watching Japanese activity data as well as developments between President Trump and Xi Jinping as a further escalation of the US-China trade war could be the next Lehman-style shock in the eyes of the Japanese government.

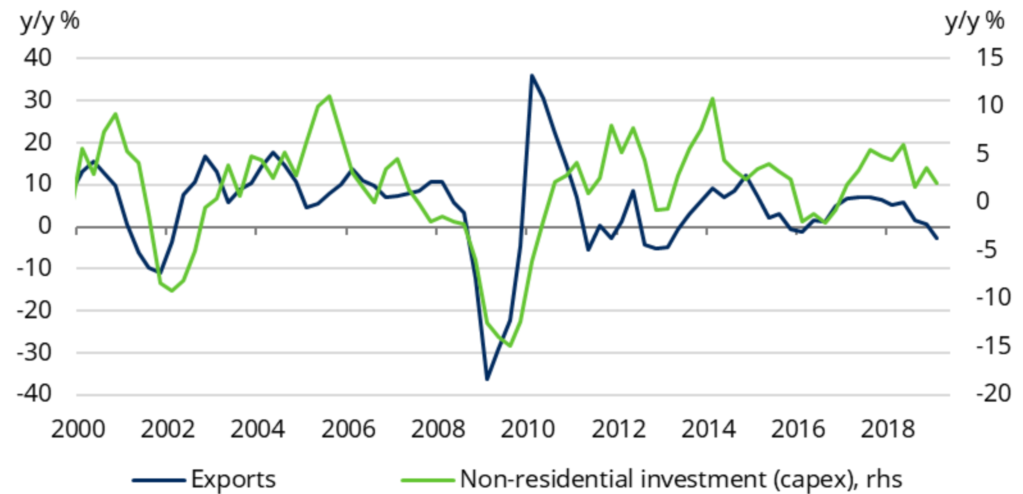
Downgrading the growth outlook

The Q1 GDP release confirms weakness in both consumption and capex. We downgrade 2019 growth to reflect the view that domestic demand should be lower than previously expected. The deterioration in real wages (chart 14) and consumer confidence suggests a more pessimistic outlook for consumption. Moreover, despite easy financial conditions, particularly against a backdrop of peaking profits, weakness in exports should continue to weigh on capex, given the historical strong positive relationship between the two (chart 15). In the very short term, we now see

a deceleration (rather than acceleration) in Q2 as the fall in imports should stabilise somewhat, reducing the contribution from net exports.

We downgrade 2019 growth to reflect that domestic demand should be lower than previously expected

Chart 15: Relationship between external demand and capex



Source: Thomson Reuters Datastream, Schroders Economics Group, 22 May 2019.

Changes to the 2020 outlook

For 2020, we factor in the impact to Japan from the recent escalation in the US-China trade war

We still see an underlying moderation in domestic demand in 2020. This is due to slowing employment growth leading to lower consumption growth. While labour shortages and still accommodative financial conditions will likely remain supportive for firms, the cyclical and external environment in 2020 should result in a moderation in capex, while demand related to the Olympics will have peaked. As we highlighted last quarter, in our view, public spending will be an important supporting factor for growth in 2020.

This quarter, we downgrade our expectation for growth in 2020 from 0.4% y/y to 0.2%. Firstly, we factor in the impact on Japan from the recent escalation in the US-China trade war as Japanese firms play a key part in the supply chain of Chinese exports to the US. We also factor in the repricing of the oil forward curve since we last updated our forecast. Higher future expected oil prices lead us to revise up 2020 inflation, squeezing household real incomes and, therefore, moderating consumption.

Inflation to moderate before VAT spike

Inflation fell significantly in the first quarter from 0.8% y/y to 0.3% y/y, mainly due to developments in the volatile fresh-food component. Our downward revision to inflation this year to 0.3% y/y mainly reflects this disappointment. Underlying inflationary pressure, as measured by CPI excluding fresh food and energy, remains very low at 0.4% y/y in Q1.

While the positive output gap points to a supportive core inflation outlook in the longer term, we continue to have a near term lower outlook for core inflation due to a one-off cut in mobile phone charges. The VAT hike itself will lead to a spike in inflation, some of which should be offset by free pre-school education.

Meanwhile, inflation should still pick up in 2020 but now to a higher level of 1.2% (previously expected to be 1%) in 2020. Our revision reflects the outlook for higher oil prices than in our previous forecast.

No hike in sight from the Bank of Japan

The BoJ's dovish tone was shown yet again in April

Last quarter, we continued to highlight that global headwinds – the number one risk to economic activity cited by the BoJ – had caused the central bank to turn more dovish, leaving aside more hawkish concerns about the side effects of prolonged easing.

This dovish tone was shown again in April, when the BoJ clarified their forward guidance of interest rates. Later addressing this to the press, BoJ Governor Kuroda said that "global economic uncertainties have drawn attention, so we wanted to clarify that we will keep rates low for a very long time," which was formally stated to be "at least through around spring 2020". Since then, Kuroda has added that the timeframe could be much longer, likely reflecting an outlook for inflation well below the 2% target – even in 2021 – as shown in the BoJ's forecasts.

The growth and inflation environment in 2020 will not be strong enough for the BoJ to hike rates

Given signs of domestic weakness in the economy ahead of the VAT hike as well as further uncertainty surrounding the US-China trade war, we take this change of forward guidance as an opportunity to remove the interest rate hike we had pencilled in for the end of 2020. On the whole, we think that the growth and inflation backdrop will not be strong enough for the BoJ to hike rates. Moreover, we doubt the BoJ will tighten policy, fearing an appreciation of the yen as the Federal Reserve cuts rates in the second half of 2020.

Therefore, yield curve control policy should remain unchanged; with the short-term policy rate at -0.1% and the 10-year government bond yield target kept at "around zero per cent" with fluctuations (of +/-20 basis points) alongside unchanged guidelines for asset purchases.

Finally, despite a reluctance to ease policy, the BoJ continue to claim that they have various tools to do so. We would not rule out such actions, in the case of a further deterioration in the global backdrop, but, for now this is a risk scenario. In particular, we see the BoJ cutting interest rates in our recession scenarios (US and ex. US) as well as the Trade War scenario.

Schroders Economics Group: Views at a glance

Macro summary – June 2019

Key points

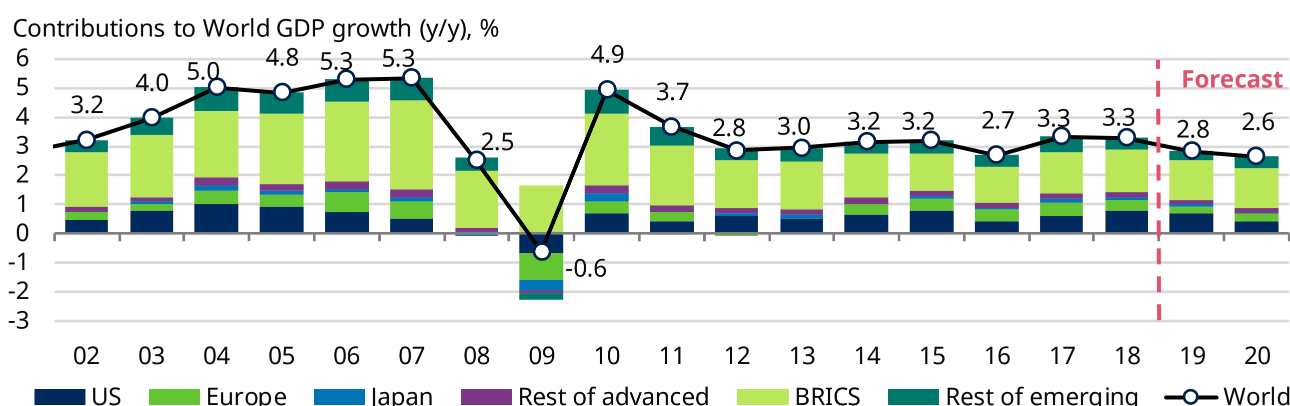
Baseline

- After expanding by 3.3% in 2018, global growth is expected to moderate to 2.8% in 2019 and 2.6% in 2020. Inflation is forecast to decline to 2.6% this year after 2.7% in 2018 and then rise to 2.7% in 2020. Meanwhile we expect the US and China to sign a trade deal in December, although the impact of actions so far will still be felt in 2019 and 2020.
- US growth is forecast to slow to 2.6% in 2019 and 1.5% 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 September 2019.
- Eurozone growth is forecast to moderate from 2% in 2018 to 1.2% 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 remain constant at 1.4% this year, unchanged from 2018. Assuming that a Brexit deal with the EU passes parliament in Q4 ahead of a transition period that preserves the status quo of single market and customs union membership, growth is expected to remain at 1.4% in 2020. Inflation is expected to fall to 2% in 2019 thanks to an expected rise in sterling, but stronger quarterly growth is expected to push inflation up to 2.3% in 2020. Meanwhile, the BoE is expected to hike once in 2019 and twice in 2020 (to 1.5%).
- Growth in Japan should fall to 0.9% in 2019 from 1.1% in 2018, 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 0.2% growth in 2020. We do not expect the BoJ to alter yield curve control as inflation remains well under 2% in our forecast horizon.
- Emerging market economies should slow to 4.4% 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 an 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. We also see a risk of an escalation in the US-China dispute with the US extending the trade war to Europe.

Chart: World GDP forecast



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

Schroders Forecast Scenarios

Scenario	Summary	Macro impact	Probability*	Cumulative 2019/20 global vs. baseline: Growth	Cumulative 2019/20 global vs. baseline: Inflation
Baseline	Our forecast for global GDP growth in 2019 is unchanged at 2.8%, but we have trimmed our projection for 2020 to 2.6% (previously 2.7%). Although unchanged the forecast for this year reflects upgrades to the US, which are offset by downgrades to eurozone, Japan and the emerging markets. In 2020, the downward revision is across the board with US growth cut to 1.5% and China to 6%, for example. Meanwhile, our inflation forecasts have been raised for this year and next with increases across all regions largely driven by the rise in oil prices which are now expected to be significantly higher over the forecast period than at the time of our last outlook in February. US inflation is also higher as a result of the latest increase in tariffs on imports from China which also have an adverse effect on growth.	The US Fed funds rate is assumed to have peaked with the next move expected to be a rate cut in June next year in response to a weakening in growth. We have pushed out rate increases in the UK and Eurozone with only one move from the Bank of England now expected this year whilst the ECB waits until 2020 before tightening. We expect the BoJ to leave policy unchanged rather than tightening its yield curve control policy further. China is expected to ease further through a lower RRR which is now expected to reach 10% by end 2020 (previously 11%). The USD is expected to remain firm in the near term but to weaken later in the year as rates peak in the US whilst beginning to rise in the Eurozone and UK. GBP is also boosted by our assumption that the economy enters a transition period in October rather than crashing out of the EU.	60%	-	-
1. Italian debt crisis	Although Italy has reached an agreement with the European Commission on its budget for this year, we would expect renewed tension between Rome and Brussels in the autumn as the next budget is formulated. Markets fear another more serious dispute, pushing the 10yr BTP yield up to 6%. After a couple of failed auctions, the government is forced to seek help from the rest of the EU in the form of a bail-out. There is some knock-on effect to other peripheral bond markets. A technocrat is installed as Italian PM, and the ECB's OMT programme is activated. QE is also restarted in 2019 as the Eurozone faces a deep recession. The threat of restructuring/default on Italian debt remains, but yields return to more manageable levels thanks to the ECB and change in domestic policy.	Stagflationary. The principal impact is weaker global growth with all regions affected as Italy drags Eurozone growth lower and the increase in uncertainty weighs on confidence and spending around the world. On inflation the picture is more mixed: for the eurozone, this is a stagflationary scenario due to EUR falling to 0.99. The US and Japan see their currencies appreciate, and combined with lower oil prices and a shock to financial markets, both see lower growth and inflation compared to the base. The impact on EM is more mixed. China intervenes to prop up the CNY, but Brazil, India and Russia all see FX depreciation as global risk aversion rises, making this a stagflationary scenario in EM.	4%	-0.6%	+0.1%
2. China reopens the spigots	China reverts to its old playbook to avert a deepening economic slowdown. Casting aside the relative timidity of current stimulus measures, policymakers embark on large scale fiscal and monetary stimulus, embodied in massive infrastructure spending and a resurgent property sector. Global commodity demand skyrockets, to the benefit of a number of emerging markets, and Chinese demand for manufactured goods also jumps.	Reflationary. Stronger demand from China boosts world trade and increases commodity prices with the result that both global growth and inflation are higher than in the baseline. The trade sensitive Eurozone sees a significant boost to growth in 2020 with the EM also benefitting. Interest rates are higher across the DM and in the EM (ex. China).	5%	+0.7%	+0.6%
3. Trade war: US vs. RoW	The US administration decides to impose tariffs on auto imports from the rest of the world thus extending the trade war into new territory. Meanwhile the dispute with China worsens as trade talks fail and the US imposes further tariffs on the remainder of imports from China.	Stagflationary. Higher import prices push inflation higher whilst weaker trade weighs on growth. Capex is also hit by the increase in uncertainty and the need for firms to review their supply chains. Central banks are expected to focus on the weakness of activity and ease policy by more than in the baseline.	8%	-0.8%	+0.1%
4. Oil jumps to $100	President Trump's withdrawal from the Iran nuclear deal and imposition of sanctions results in 1 million barrels per day being removed from global oil supply, as the agreement collapses. Risk premium on oil rises as threat of conflict in the region between Iran, Saudi Arabia and Israel spreads beyond Syria. Given the tightness of the oil markets, oil prices surge to $100 p/b where they remain over the forecast period.	Stagflationary: Higher oil prices feed through rapidly into inflation putting a squeeze on oil consumers world wide. Oil producers benefit but do not increase spending rapidly enough to offset cut backs elsewhere. In the US, stronger shale gas capex and output initially offset the shock, but once this fades, the effect on household budgets and global trade drag on growth. Policy tightening by the Fed is more limited as the central bank weighs higher inflation against weaker growth.	4%	-0.4%	+0.7%
5. US supply side surprise	The US labour market proves to be more flexible than expected with labour supply continuing to rise through a higher participation rate as more people return to the workforce. This extends the cycle by containing wages and inflation in the US for longer than in the baseline allowing stronger growth. There is a knock-on to growth in the rest of the world though stronger US demand although slightly higher commodity prices raise inflation.	Reflationary. Stronger real growth allows the Fed to increase real rates slightly more in 2019 and as the economy continues to expand in 2020 the central bank does not cut rates as in the baseline. Interest rates are slightly higher elsewhere in line with stronger activity.	5%	+0.4%	+0.2%
6. US 2020 recession	The US economy proves to be more fragile than expected, as tighter monetary policy combined with the end of fiscal stimulus slow demand and cause business and households to retrench. Output begins to contract at the start of 2020 thus bringing an end to the cycle whilst commodity prices and inflation fall. The Fed eases, but markets slump on fears of a wider global recession.	Deflationary: Weaker US growth drags global trade lower, hitting the eurozone, emerging markets and Japan particularly hard. Increased market volatility also hits demand through tighter financial conditions and weaker confidence and consequently global growth slows sharply. Monetary policy is eased significantly across both the DM and EM economies in 2020.	9%	-0.7%	-0.5%
7. Recession ex.US	The slowdown in Europe, China and Japan gathers momentum as contracting export growth undermines business confidence causing capital spending to contract. Firms retrench and unemployment rises hitting consumer spending. Commodity prices weaken and inflation falls.	Deflationary: Weaker growth drags global trade lower, hitting the US which is also affected by increased market volatility and tighter financial conditions. The USD is expected to strengthen putting added pressure on EM. Monetary policy is eased around the world.	5%	-1.0%	-0.7%
8. Other			0%	-	-

*Scenario probabilities are based on mutually exclusive scenarios. 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	3.3	2.8		*(2.8)*	2.8	2.6	↓	*(2.7)*	2.8
Advanced*	61.4	2.3	1.8		*(1.8)*	1.8	1.4	↓	*(1.5)*	1.6
US	26.5	2.9	2.6	↑	*(2.4)*	2.6	1.5	↓	*(1.6)*	1.9
Eurozone	17.2	2.0	1.2	↓	*(1.3)*	1.1	1.4		*(1.4)*	1.3
Germany	5.0	1.9	0.9	↓	*(1.0)*	0.8	1.2	↓	*(1.4)*	1.5
UK	3.6	1.4	1.4	↑	*(1.1)*	1.4	1.4	↓	*(1.5)*	1.4
Japan	6.7	1.1	0.9	↑	*(0.7)*	0.6	0.2	↓	*(0.4)*	0.4
Total Emerging**	38.6	4.8	4.4	↓	*(4.5)*	4.4	4.6	↓	*(4.7)*	4.6
BRICs	25.3	5.7	5.5		*(5.5)*	5.5	5.5		*(5.5)*	5.5
China	16.7	6.6	6.3		*(6.3)*	6.3	6.0	↓	*(6.1)*	6.1

Inflation CPI

y/y%	Wt (%)	2018	2019		Prev.	Consensus	2020		Prev.	Consensus
World	100	2.7	2.6	↑	*(2.4)*	2.5	2.7	↑	*(2.5)*	2.5
Advanced*	61.4	2.0	1.8	↑	*(1.7)*	1.6	2.0	↑	*(1.9)*	1.8
US	26.5	2.4	2.3	↑	*(1.9)*	1.9	2.4	↑	*(2.3)*	2.1
Eurozone	17.2	1.7	1.7		*(1.7)*	1.4	1.6	↑	*(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	2.0	↑	*(1.8)*	2.0	2.3	↓	*(2.4)*	2.0
Japan	6.7	1.2	0.3	↓	*(0.5)*	0.6	1.2	↑	*(1.0)*	0.9
Total Emerging**	38.6	3.8	4.0	↑	*(3.7)*	4.0	3.8	↑	*(3.5)*	3.7
BRICs	25.3	2.8	2.8	↑	*(2.6)*	2.9	3.1	↑	*(2.8)*	2.9
China	16.7	2.2	2.4	↑	*(2.0)*	2.3	2.7	↑	*(2.2)*	2.2

Interest rates

% (Month of Dec)	Current	2018	2019		Prev.	Market	2020		Prev.	Market
US	2.50	2.50	2.50	↓	*(2.75)*	2.35	2.00	↓	*(2.25)*	2.06
UK	0.75	0.75	1.00		*(1.00)*	0.89	1.50		*(1.50)*	0.99
Eurozone (Refi)	0.00	0.00	0.00	↓	*(0.25)*	-0.33	0.50	↓	*(0.75)*	-0.26
Eurozone (Depo)	-0.40	-0.40	-0.40	↓	*(-0.20)*		0.00	↓	*(0.25)*	
Japan	-0.10	-0.10	-0.10		*(-0.10)*	0.03	-0.10	↓	*(0.00)*	0.02
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)	4.0	4.1	3.7	↑	*(3.5)*	-9.8%	3.7	↑	*(3.4)*	0.0%
EZ QE (€Tn)	2.4	2.4	2.4		*(2.4)*	0.0%	2.4		*(2.4)*	0.0%
UK QE (£Bn)	422	435	445		*(445)*	2.3%	445		*(445)*	0.0%
JP QE (¥Tn)	557	552	573	↓	*(575)*	3.8%	593	↓	*(595)*	3.5%
China RRR (%)	13.50	14.50	12.00		*12.00*	-	10.00		*10.00*	-

Key variables

FX (Month of Dec)	Current	2018	2019		Prev.	Y/Y(%)	2020		Prev.	Y/Y(%)
USD/GBP	1.27	1.27	1.34	↓	*(1.42)*	5.2	1.38		*(1.38)*	3.0
USD/EUR	1.12	1.14	1.14	↓	*(1.17)*	-0.3	1.18	↓	*(1.20)*	3.5
JPY/USD	109.5	109.7	110		*(110)*	0.3	108		*(108)*	-1.8
GBP/EUR	0.88	0.90	0.85	↑	*(0.82)*	-5.2	0.86	↓	*(0.87)*	0.5
RMB/USD	6.90	6.87	6.85		*(6.85)*	-0.2	7.00		*(7.00)*	2.2
Commodities (over year)										
Brent Crude	67.8	71.6	70.2	↑	*(62.7)*	-1.9	69.1	↑	*(62.3)*	-1.6

Source: Schroders, Thomson Datastream, Consensus Economics, June 2019
Consensus inflation numbers for Emerging Markets is for end of period, and is not directly comparable.
Market data as at 28/05/2019
Previous forecast refers to March 2019
* **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

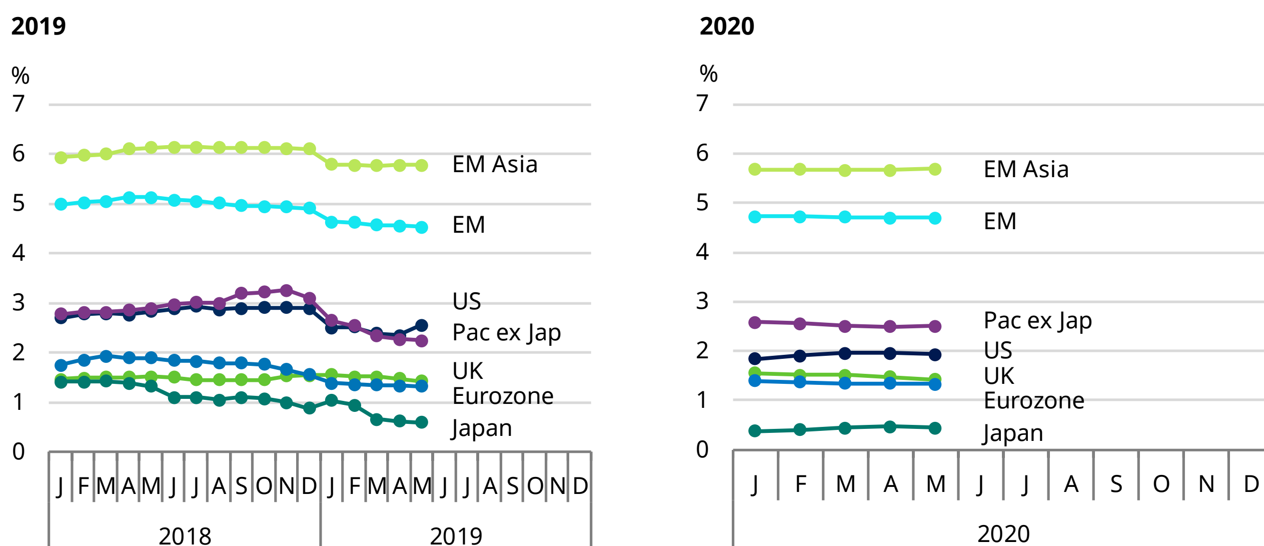
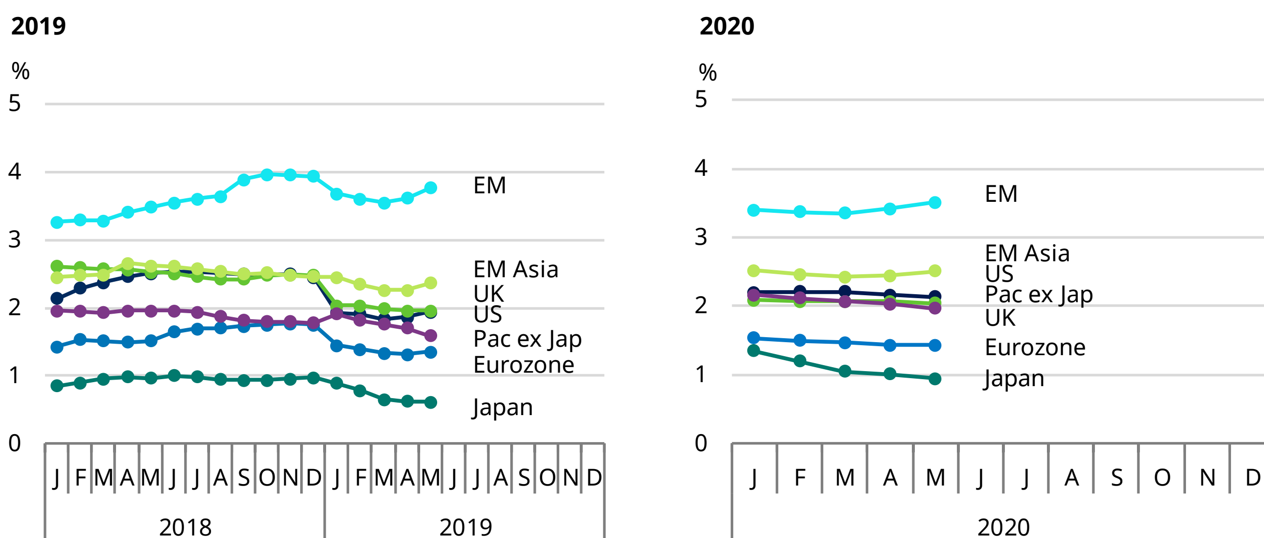


Chart B: Inflation consensus forecasts



Source: Consensus Economics (27 May 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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Schroders

Schroder Investment Management Limited

1 London Wall Place, London, EC2Y 5AU
Tel: + 44(0) 20 7658 6000

schroders.com

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