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Global Outlook

March 2019

We expect global real GDP growth to slow slightly to 2.8% in 2019, while a more dovish Federal Reserve and the search for a Sino-US trade deal will to help calm financial markets in Q1-Q2. Lower growth in China and the OECD will replace US financial conditions as the key systemic concern for businesses.

SLOWER GROWTH IN KEY REGIONS

In 2019, real GDP growth in Europe will slow to 1.8% (from 2.0% in 2018), North America to 2.4% (from 2.8%), and Asia-Pacific to 4.3% (from 4.5%). In this context, global growth will slow to 2.8% (against 2.9% in 2018).

Potential headwinds persist, with trade and investment under pressure as a result of the threat (and reality) of trade wars and sanctions, the several drivers of China's deceleration, and political uncertainties in big European economies.

Slowing growth in several regions is impacting on global economic prospects.

Given these conditions, the Federal Reserve seems to be holding back on interest rate rises: we now anticipate only one further rate rise in 2019 and none in 2020, before rates fall in 2021.

This has already allayed concerns over global financing conditions since Q4 and reduced pressure on sovereign, household and corporate balance sheets.

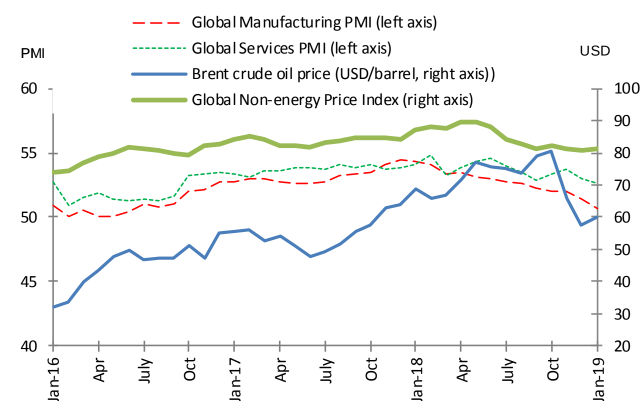
Furthermore, there has been a softening of Washington's tone with China, signalling a possible easing of trade and intellectual property tensions between the two countries.

However, any normalisation of the relations between the US and China will not be a sufficient condition to see global growth accelerate in 2019.

Normalisation of China-US trade will not be sufficient to see growth rebound in 2019.

The other factors outlined above will still act as a drag, and risks will remain tilted to the downside.

KEY GLOBAL GROWTH INDICATORS



'PMI' is the Purchasing Managers' Index – a reading above 50 denotes an expansion in sectoral activity, and one below 50 a contraction; the Global Energy and Non-Energy Price Indices are made available by the World Bank (2010=100). Sources: World Bank; Markit; Dun & Bradstreet

KEY RISK: ASIA-PACIFIC AND EUROPE GROWTH DENTS US POLICY TRAJECTORY

While financial market sentiment tracked Sino-US trade diplomacy signals in January-February, economic data from Europe showed new weakness, potentially delaying the long-awaited rise in ECB rates (due in Q2 2020, at the earliest).

Germany in Q4 saw its real GDP growth decelerate to the verge of technical recession, with only rising public spending averting the recording of two quarters of consecutive y/y falls. However, domestic demand in the euro-zone's largest member nevertheless expanded by over 2.0% y/y in Q3 and Q4, underlining the shock's focus on exports. Italy, another large euro-zone economy, was already in a technical recession by Q4.

Big euro-zone members ended 2018 in – or on the verge of – recession.

In the commodity sphere, meanwhile, given the weakness in China our forecast 2019 price for copper has fallen towards the USD6,000 per tonne mark, in spite of plans for infrastructure stimulus and rising electric vehicle sales in China.

There is no clearer sign of the shift in expectations than the change in tone from the US Federal Reserve since December. While actual 'dot plot' projections for the US policy rate were not released at the US central bank governor's January press conference, the wait-and-see approach that has emerged is a novel development, and indeed a significant – even unorthodox – departure from previous governors' practice, which tried to hold the policy line without flinching at financial market movements.

The quickly developing dovish tone emerged in the assertion that the Fed is now on a neutral (rather than an accommodating) stance.

It remains true that US inflation pressure has abated, despite the resilience of the core inflation component, but the new slowdown in China and Europe has evidently drawn the attention of policymakers.

Weaker global demand is feeding into the US Federal Reserve's policy stance.

REAL GDP GROWTH (%)

	2018e	2019f	2020f
World	**2.9**	**2.8**	**2.9**
Advanced economies	2.2	1.9	1.8
US	2.9	2.5	1.9
Euroland	1.9	1.6	1.7
Japan	0.7	0.8	1.0
UK	1.4	1.6	1.6
Emerging economies	4.1	4.3	4.6
Brazil	1.2	2.3	2.4
Russia	2.3	1.5	1.6
India	7.2	7.4	7.8
China	6.6	6.0	5.8

Sources: IMF; JPMorgan; Dun & Bradstreet

REGIONAL SUMMARIES

North America

Policymakers have put quantitative tightening in North America on pause amid well-telegraphed messaging from the Federal Open Market Committee that policy is now already neutral. The softening of top-line inflation data in the US has prompted a pause that the Reserve Bank of Canada is likely to follow.

Europe (EU + Iceland, Norway and Switzerland)

Real GDP growth data for Q4 shows that Italy has fallen into a technical recession and that Germany, the region's biggest economy, avoided a similar fate by a whisker. Forward-looking indicators are still narrowly in growth territory, but economic headwinds are increasing.

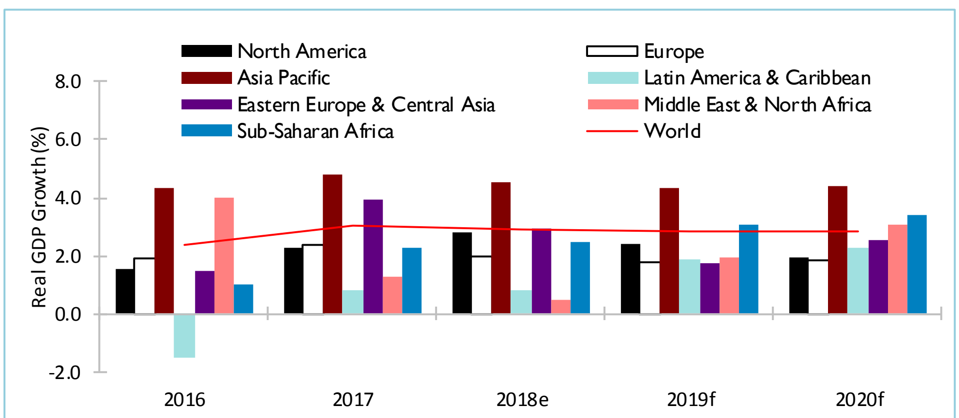
Asia Pacific

The region is in a disinflation phase: high-income economies posted CPI inflation below 1%, and India and China 1-2%. The pause in oil price increases since Q3 2018, relatively stable currencies, and softer demand along the global supply chains running into China and on to the US in the wake of the Sino-US trade war are all assumed to be responsible.

Latin America & Caribbean

Elevated global trade tensions and forecasts of deceleration in China and the US pose the biggest external risks to the regional economy this year. Policy uncertainty in Brazil and Mexico are among the key domestic risks. Multi-speed growth will continue: Brazil accelerating while Mexico slows, and Argentina stuck in recession.

GROWTH OUTLOOK BY REGION



Our forecast of 4.3% real GDP growth for emerging markets in 2019 is subject to the caveats around China's actual import demand, which could contract faster than real GDP growth projections imply. The slowdown in the Asia-Europe trade nexus is also a new dynamic to watch.

Eastern Europe & Central Asia

Headwinds from a global slowdown have filtered into the region, hampering the environment for trade as industrial production figures in Q4 2018 showed broad weakness. Our regional outlook trend is held at 'deteriorating', reflecting ongoing Western sanctions, lower oil prices, currency volatility and weaker output.

Middle East & North Africa

Increased pressure from Washington on the regime in Iran is threatening to further destabilise the region. Sanctions have already pushed Iran's economy into recession and are boosting the position of the conservatives, who have increased regional adventurism and rogue operations in Europe and Latin America.

Sub-Saharan Africa

A steady improvement in growth is still expected, despite receding confidence in the region's overseas markets and sources of capital, but political risks dominate the short-term horizon: election results are due in both South Africa and Nigeria, following the contested outcome in the Democratic Republic of Congo.

EXCHANGE RATES

The Fed's dovish turn will help to limit general currency volatility in 2019, but we expect weaker demand to weigh on commodity exporter currencies, except where supply restrictions will impact, as in the crude oil market via sanctions.

	Nov-18	Dec-18	Jan-19	Latest	2018e	2019f	2020f
EUR:USD	0.871	0.880	0.879	**0.882**	0.846	0.870	0.847
JPY:USD	112.79	113.36	112.18	**110.76**	110.43	114.60	105.00
GBP:USD	0.769	0.776	0.790	**0.766**	0.749	0.765	0.763
BRL:USD	3.76	3.79	3.89	**3.74**	3.19	3.65	3.77
Key US interest rate	2.00-2.25	2.25-2.50	2.25-2.50	**2.25-2.50**	2.38	2.63	2.63
Key ECB interest rate	0.00	0.00	0.00	**0.00**	0.00	0.00	0.50

COMMODITY PRICES (PERIOD AVERAGE)

Any supply-induced impetus for commodity prices to increase in 2019 will be capped by the threats to global trade.

	Nov-18	Dec-18	Jan-19	Latest	2018e	2019f	2020f
Aluminium (USD/tonne)	1,937	1,928	1,846	**1,890**	2,109	1,820	1,875
Copper (USD/tonne)	6,192	6,081	5,930	**6,489**	6,523	6,660	6,650
Gold (USD/ounce)	1,224	1,256	1,295	**1,329**	1,269	1,275	1,281
Oil (USD/barrel)	66.5	57.6	59.2	**67.2**	71.1	76.9	78.0
Cocoa (USD/kg)	2.19	2.21	2.26	**n.a.**	2.29	2.41	2.26
Coffee (US cents/lb)	139.7	128.1	128.9	**125.9**	136.9	135.0	149.0

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