Schroders
Economic and Strategy Viewpoint

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Emerging markets: Bother in the BRICs

- Limited growth changes to our emerging markets forecast, but all of the BRIC members face challenges this year, with sentiment on India beginning to turn.

Views at a glance (page 8)

- A short summary of our main macro views and where we see the risks to the world economy.

Table 4: Summary of BRIC forecasts

% per annum	GDP			GDP		
	2014	2014	2014	2014	2015f	2016f
China	7.4	7.4	7.4	2.0	1.4	2.0
Brazil	0.2	0.2	0.2	6.3	7.9	5.5
India	6.9	6.9	6.9	7.2	5.2	6.2
Russia	0.6	0.6	0.6	7.8	15.1	6.2

Source: Bloomberg, Thomson Datastream, Schroders. 21 May 2015. Please note the forecast warning at the back of the document.

Schroders

Emerging markets: Bother in the BRICs

Mixed revisions to the BRIC forecasts

This quarter has seen revisions to the growth outlook for 2015 for just two of the BRICs, Brazil and Russia, where growth data to date has been slightly out of line with our previous expectations. At present we see no need to revise our forecasts for Indian or Chinese growth, despite the more aggressive stimulus in the latter following a weak performance and reform disappointments in the former. The inflation outlook is more mixed. Higher inflation is expected in Russia and Brazil as pressures persist despite weaker demand while we see lower inflation in China and India thanks to a so far favourable set of surprises on food price pressures (though a forecast El Nino poses a risk here). Overall, all of the BRIC economies continue to face a challenging year.

Table 4: Summary of BRIC forecasts

% per annum	GDP			GDP		
	2014	2014	2014	2014	2015f	2016f
China	7.4	7.4	7.4	2.0	1.4 ↓	2.0 →
Brazil	0.2	0.2	0.2	6.3	7.9 ↑	5.5 ↓
India	6.9	6.9	6.9	7.2	5.2 ↓	6.2 ↑
Russia	0.6	0.6	0.6	7.8	15.1 ↑	6.2 →

Source: Bloomberg, Thomson Datastream, Schroders. 21 May 2015. Please note the forecast warning at the back of the document.

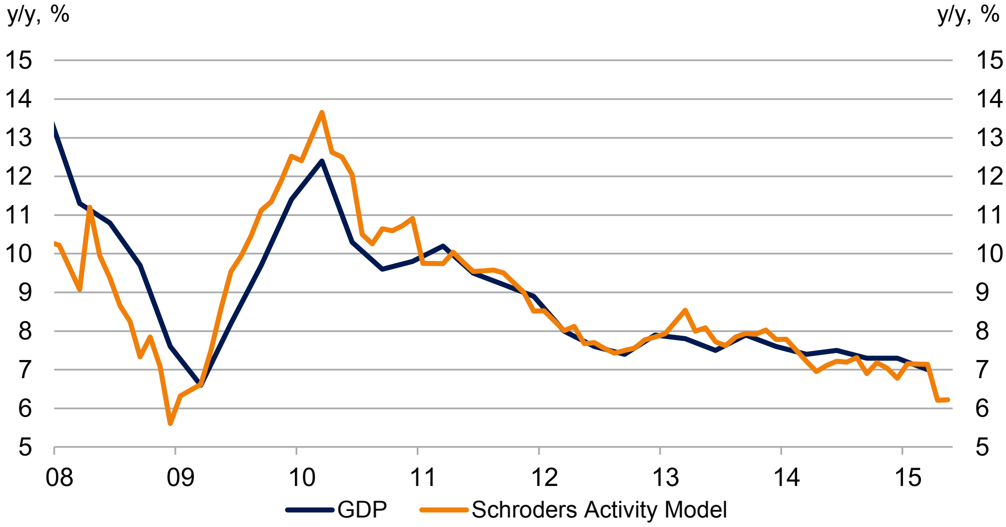
China: stimulus accelerates

April data points to a continuation of Q1 slowdown

The growth outlook for China this year and next is unchanged. Stimulus efforts in 2014 struggled to raise growth to the 7.5% target, and as we expected the growth target for 2015 was lowered to "around" 7% in March. This should give the government wiggle room in undershooting the target as they come to realise that the level of stimulus needed will once again build fragilities.

Chinese GDP grew 7% year-on-year in the first quarter of 2015, slower than the 7.3% recorded in the final quarter of last year. A slower rate of growth was fully expected for the first quarter given the weakness of the property market and reduced fiscal support from local governments. In fact, we had expected a slightly weaker number. Higher frequency data show that this weakness has extended into April, with only a limited rebound compared to March, and some series deteriorating further. Investment growth came in at a record low as property and manufacturing investment continued to struggle, despite the easing measures undertaken by the central bank in recent months. Infrastructure investment weakened too as fiscal reform pressured government expenditure. To make matters worse, first quarter growth may have been softer than the officially reported number; our China growth tracker (chart) pointed to an especially sharp fall in March, slipping from around 7% to 6.2%, year-on-year. While we do not subscribe to the view espoused in some quarters that growth was 3 to 4% – based on the partial perspective of the economy provided by the Li Keqiang index (railway cargo volume, electricity consumption and loans disbursed by banks) – growth was likely weaker than reported and heading rapidly downhill in April. We do however now expect more stimulus this year, with the RRR ending 2015 100 bps lower than originally predicted, at 18%, and the benchmark lending rate at 4.6%, with further cuts to both next year.

Chart 13: Our G-tracker suggests Chinese growth has slowed sharply



Source: Thomson Datastream, Schroders calculations. 26 May 2015

Authorities have stepped up easing…

Slower growth has seen a more aggressive policy stance than we had originally anticipated. April's 100 basis points (bps) cut to the reserve requirement ratio (RRR), combined with May's 25 bps cut to the benchmark rate took us close to our original year-end forecasts. This may have been motivated in part by weak data, but also by the ineffectiveness of easing measures so far. The quarterly report from the People's Bank of China (PBoC) showed that despite the easing measures introduced in 2014, effective interest rates in China remain elevated, and the low level of inflation means that real effective interest rates were higher in the first quarter than their 2014 average.

The RRR cut should inject roughly 1.2 trillion renminbi into the system, boosting bank profitability and lowering corporate and government borrowing costs. Indeed, to us this seems a move aimed at supporting and complementing fiscal policy this year. Fiscal reform has seen local government fiscal efforts stall, and this provision of liquidity will help create demand for the 1 trillion renminbi in local government bonds set to be issued this year. It will also provide funds for the planned infrastructure stimulus, largely the domain of state-owned enterprises (SOEs) and local governments.

…but no upgrade to our growth forecast

So far, rate cuts in China have depressed net interest margins at banks, as they felt unable to lower deposit rates but were compelled to reduce the rate on existing lending. As a consequence, the rate on new lending, which is important for refinancing costs, stayed higher as banks attempted to recoup their diminished margins. Following May's rate cut, however, listed banks have been reducing their deposit rates as well as their lending rates, suggesting not only less pressure on net interest margins but also a greater marginal impact on debt costs for corporates and households.

In addition to these easing measures, we have also seen some backpedalling on fiscal reform recently, essentially permitting greater local government borrowing, and regulations compelling banks to lend to local governments to help fund infrastructure projects. Against this backdrop, the monetary easing looks very much like it is targeted at enabling fiscal stimulus. Governments have seen muted interest for their planned bond issuance so far this year, and without it infrastructure spending can not go ahead. The combination of easing and regulation seems designed to force banks to finance fiscal stimulus, with some help from the PBoC. For this reason, we do not upgrade our growth expectations despite the more aggressive stimulus; it is merely allowing our original base case to play out.

Brazil: Dilma spiralling down

Data released in March confirmed a poor 2014, with GDP growing just 0.1%. The data also included a number of methodology changes, such that the overall level of GDP rose 5%, and the share of investment rose from 18% to 20%, thanks to the inclusion of research and development. However, a look at higher frequency data reveals that changing the label does not change the contents. Growth has worsened since the end of 2014, with the central bank's activity proxy suggesting an average growth rate for the first quarter of -2.0%, year on year. This weakness, combined with other disappointments, has prompted us to revise down our growth forecast. Persistently high inflation, meanwhile, highlights the need for far higher investment, an issue also flagged by the International Monetary Fund in their recent report on the country.

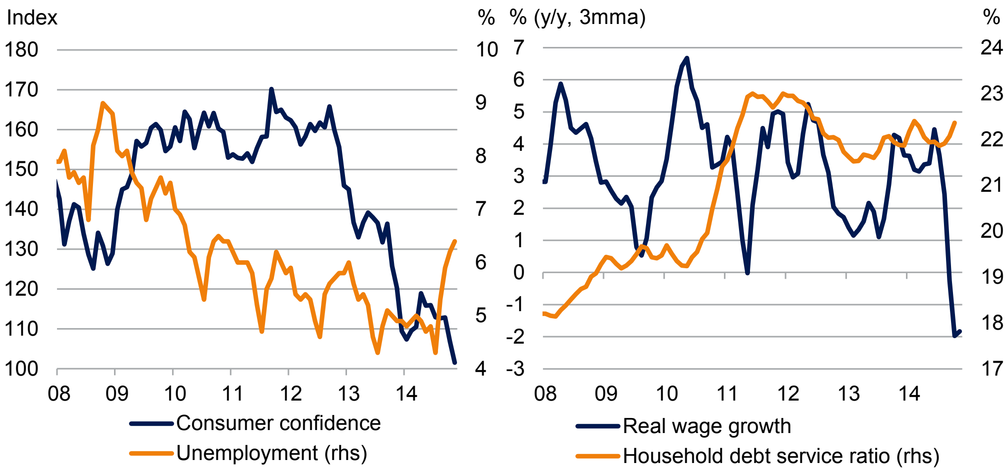
Petrobras' problems continue to hurt growth

The same factors discussed in our last forecast update continue to weigh on Brazilian growth. For one, the target fiscal surplus of 1.2% of GDP will require a fiscal tightening equivalent to 1.9% of GDP before the end of the year, with relatively little progress made so far. Perhaps scenting blood in the water as the Petrobras investigation rumbles on, Dilma's political opponents are proving increasingly obstructive in Congress, which poses a risk to the sovereign's rating.

Not only is the Petrobras scandal still generating political headaches, but it continues to exert economic damage; the list of firms connected to Petrobras filing for bankruptcy is still growing. Nor is this the end; public prosecutors have said they expect the investigation to spread to new areas of the government (the health ministry has been recently implicated) and other firms. This serves to further undercut corporate and government investment spending, already at low levels (even with the recent methodological changes).

Meanwhile, the latest unemployment data adds to the consumer's woes, climbing for the fourth successive month to sit at 6.4%, its highest since March 2011. Combined with higher interest rates and lower wage growth, it should be no surprise that consumer confidence is so weak (chart 14). In an economy where consumption accounts for over 60% of GDP, the consequences for growth are unfavourable.

Chart 14: Assorted pressures weigh on the Brazilian consumer



Source: Thomson Datastream, Schroders. 26 May 2015. Household debt service costs are shown as a share of disposable income.

High inflation, too, is eroding purchasing power. Strong first quarter prints have motivated us to upgrade our inflation outlook for 2015, to just shy of 8%. However, a large part of this inflation results from one-off tariff and tax increases implemented in the first quarter, which should drop out in 2016, when we have lowered our inflation outlook. In fact, we see inflation in the first quarter of 2016 being sufficiently low as to allow a pre-emptive interest rate cut from the central bank in the final quarter of this year; we expect 50 bps of cuts in the fourth quarter after the hiking cycle peaks this quarter at 13.5%. Admittedly, the expected Fed rate hike does pose a risk to this view, and if there is a "taper tantrum" repeat, a Brazilian rate cut looks much less likely.

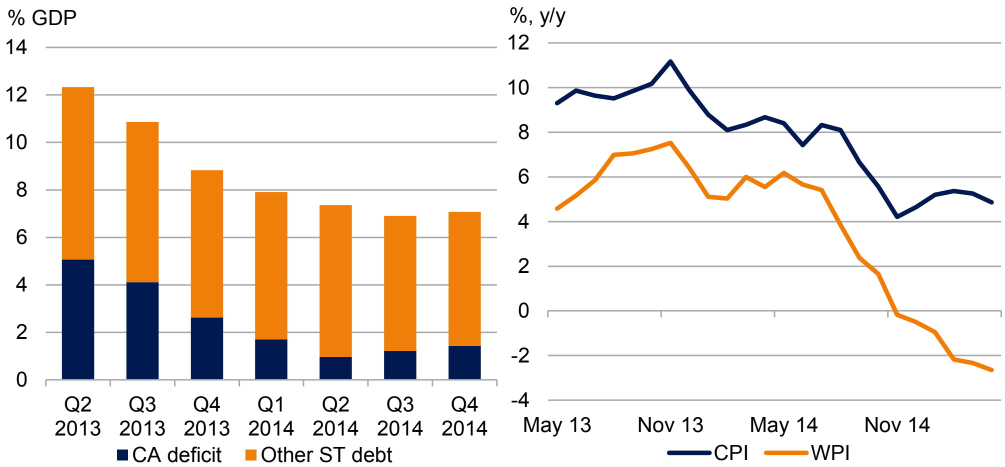
India: sentiment sours

India has improved under Modi…

We find ourselves one year on from Narendra Modi's electoral victory; a stunning result which delivered a powerful mandate. However, while important steps have been taken which reduce macroeconomic vulnerabilities and improve the business environment, "big bang" reforms have been lacking. The modest pace has been largely in line with our expectations but has disappointed the more euphoric reactions to Modi's triumph. Consequently, we do not yet revise our growth forecasts, though failure to deliver some reform in the next session of parliament would present downside risks.

On the positive side, India has come a long way since the "taper tantrum days saw it earn a place amongst the Fragile Five (chart 15). The current account deficit has fallen from a high of 5% of GDP in the second quarter of 2013 to just 1.4% at the end of 2014, reducing reliance on short term foreign capital flows. Inflation has nearly halved, to 4.8%, in one year. The currency has remained far stronger than at the taper tantrum peak, although US dollar strength is exerting pressure, as it is throughout all emerging markets. Further, as we reported following our trip to India earlier this year, businesses are reporting a marked qualitative change; a more engaged and proactive bureaucracy and greater ease of doing business. While the headline-grabbing reforms have been absent so far, we have still seen liberalisation of foreign direct investment rules, approvals accelerated for stalled projects and a reduction in fuel subsidies – even if this latter move was facilitated by the serendipitous fall in the oil price.

Chart 15: Indian fundamentals improving



Source: Thomson Datastream, Schroders. 26 May 2015.

…but not yet enough to justify the initial euphoria

However, land and labour reforms have been slow to gain traction, and the failure to pass the Goods and Services Tax in the recent session of parliament seems a missed opportunity. One reason for market disappointment has been the underestimation of the challenges Modi faces in the upper house, where his party does not hold a majority. Seemingly loath to utilise his overall majority to call a joint session (in part because it could hurt his party's chances in upcoming state elections), Modi has instead had to rely on use of ordinances, allowing state governments to reform their labour laws, and negotiation in the upper house. Yet ordinance is not a long-term solution, and government ordinance on simplifying land acquisition has now been referred to a parliamentary committee following opposition pressure. Meanwhile, encouraging state governments to reform labour laws initially looked promising, but now seems to have lost momentum, and Modi's modus operandi as a chief executive style politician seems not to help him when trying to persuade rivals to support his policies.

So, a steady grind upwards for growth seems more likely than a sudden jump. We expect reforms to eventually be passed, but market patience will likely be tested in the interim. Growth for now will make marginal gains thanks to improved business confidence, easier monetary policy, and the greater ease of doing business discussed above.

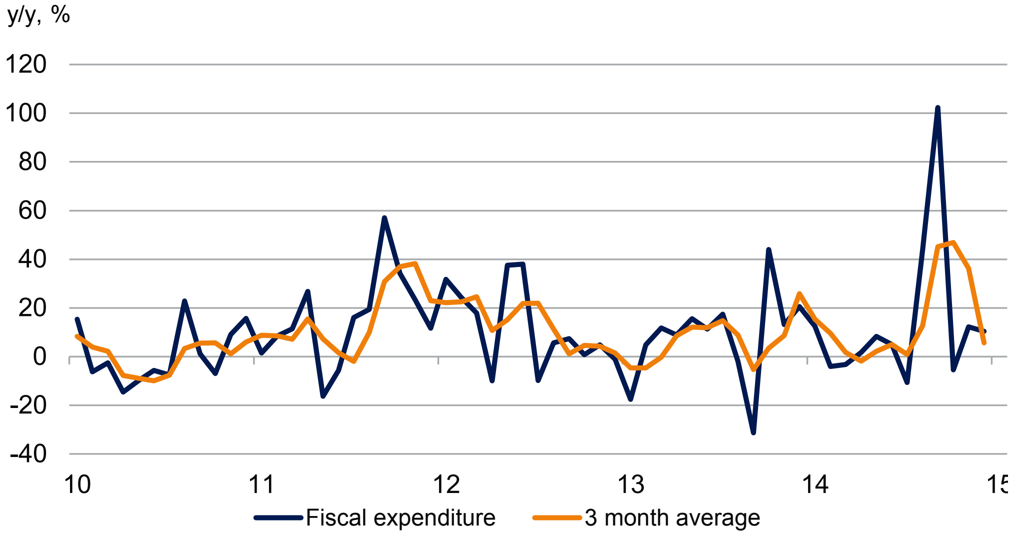
On inflation, we have revised down our forecast for this year thanks to better than expected outturns, driven in large part by lower food price inflation. We do not expect this, however, to persist into next year, and the risk of an El Nino event means inflation could surprise to the upside, though the government has proved adept at keeping prices under control through efficient distribution so far. We expect two more interest rate cuts this year given the low inflation, taking the policy rate to 7%, but no more than that given the desire to hit an inflation target of 4% in the medium term.

Russia: unwarranted optimism

Further weakness expected in Russia

Russian GDP contracted 1.9% year-on-year in the first quarter of 2015. Although this was better than expected, this is still a painful fall for any economy. A detailed breakdown will not be available until June, but the higher frequency data suggest that consumption and investment dragged on growth for the quarter, with both contracting over 6% versus the first quarter of 2014. Industrial production was also negative but performed better than expected, perhaps buoyed by ruble weakness as well as an apparent frontloading of fiscal stimulus (see chart). For the rest of the year it is difficult to envisage a recovery in either consumption or investment, given the weakness in real wages in the first quarter, and the structurally lower oil price. We revise up our year-end growth estimate slightly, but still expect a 4% contraction.

Chart 16: Russian government spending spiked in the first quarter



Source: Thomson Datastream, Schroders. 26 May 2015

The better-than-expected GDP data has prompted policymakers in Russia to turn much more optimistic on growth prospects for 2015, and some revision of forecasts is probably warranted. However, the extreme rouble weakness of the first quarter now looks to be behind us, the full impact of monetary and fiscal tightening is yet to be felt, and though oil has recovered it looks unlikely to rise to 2014 levels, limiting investment and earnings growth. Certainly, the second quarter looks to have had a substantially weaker start. April saw sharp falls in both industrial output and retail sales, with real wages also contracting substantially.

While oil, so important to the Russian economy, has rebounded from its earlier lows, it is far below its 2014 average and looks extremely unlikely to return to those levels this year. The forward curve is not pricing in such a move, and the outlook of our multi-asset commodities team is that oil is set on a volatile path this year, with prices capped by Saudi Arabian intervention aimed at squeezing fracking. Low and uncertain prices do not create a conducive environment for investment.

The situation in Ukraine remains tense, with February's ceasefire agreement still looking fragile. Russian soldiers recently captured by Ukrainian forces make Russian claims of non-involvement look ever flimsier, and mean a rollback of sanctions by the West is extremely unlikely this year. We do not expect Putin to escalate the conflict further, but given the febrile situation the risk of escalation resulting from some misunderstanding can not be ruled out.

Plenty more rate cuts to come

On the monetary policy front, the central bank has embarked on an interest rate cutting cycle which we expect to take rates to 10% by end-2015, given growing economic weakness and the expected peaking of inflation, which fell back to 16.4% in April from 16.9% previously. As a small positive for Russia, rouble strength in recent weeks has enabled the central bank to begin rebuilding reserves following months of heavy outflows. The flip side of this, of course, is that renewed rouble weakness would pose a risk to our rate view.

Schroders Forecast Scenarios

Scenario	Summary	Macro impact	Global vs. 2016 baseline Probability*	Growth	Inflation
Baseline	We have cut our forecast for global growth to 2.5% for 2015 primarily as a result of a downgrade to the US where the economy stalled in q1. We have also downgraded Japan and the UK following a weaker than expected start to the year. US growth is expected to pick-up going forward, but is now expected to reach 2.4% this year (previously 3.2%) the same as in 2014. The benefits of lower oil prices are taking longer to come through than expected and were offset by cuts in capex, a dock strike and bad weather in q1. By contrast, our forecast for the Eurozone is marginally stronger at 1.4% (prev.1.3%) whilst that for the emerging markets is little changed. Both regions have performed as expected in q1 with the former enjoying ongoing recovery, whilst the latter have continued to struggle. For 2016, global growth is forecast to pick-up slightly to 2.9% led by a better performance in the emerging markets and further recovery in the Eurozone and Japan.	Inflation is expected to remain low in 2015, but we have nudged our forecast slightly higher to reflect the recovery in oil prices. Global inflation is expected to come in at 2.8% for 2015 with a significant reduction for the Advanced economies to 0.6% from 1.4% in 2014 as falling energy prices impact on CPI inflation. The US Fed is still expected to look through this fall and focus on a firmer core rate of inflation and tightening labour market so as to raise rates in 2015. We expect the Fed funds rate to rise to 1% by end 2015 and then peak at 2.5% in 2016. Deflation concerns in the Eurozone are expected to ease as inflation picks up in 2016 thanks to the depressing effect of lower oil prices dropping out of the index and the weaker Euro. We expect the ECB to implement QE through to September 2016 and leave rates on hold, whilst for the UK, we now expect the first rate hike in February 2016. In Japan, the BoJ will keep the threat of more QQE on the table, but is now likely to let the weaker JPY support the economy and refrain from further loosening. China is expected to cut interest rates and the RRR further and pursue other means of stimulating activity in selected sectors.	55%	-	-
1. EZ deflationary spiral	Despite the best efforts of the ECB, weak economic activity weighs on Eurozone prices with the region slipping into deflation. Households and companies lower their inflation expectations and start to delay spending with the expectation that prices will fall further. The rise in savings rates deepens the downturn in demand and prices, thus reinforcing the fall in inflation expectations. Falling nominal GDP makes debt reduction more difficult, further depressing activity particularly in the heavily indebted peripheral economies.	Deflationary: weaker growth and lower inflation persists throughout the scenario. ECB reacts by cutting interest rates below zero and extending QE, but the policy response is too little, too late. As a significant part of the world economy (around one-fifth), Eurozone weakness drags on activity elsewhere, while the deflationary impact is also imported through lower oil prices and by trade partners through a weaker Euro. Global growth and inflation are about 0.5% weaker this year and 1% weaker in 2016 compared to the baseline. No rate rise from the Fed in this scenario.	2%	-1.1%	-1.1%
2. Global reflation	Frustration with the weakness of global activity leads policy makers to increase fiscal stimulus in the world economy. This then triggers an increase in animal spirits which further boosts demand through stronger capex. Global growth reaches 3% this year and 4% next. However, higher commodity prices (oil heading toward $90/ b) and tighter labour markets push inflation higher by nearly 1% in 2016.	Reflationary: stronger growth and higher inflation compared to the baseline. Central banks respond to the increase in inflationary pressure with the fastest response coming from the US and UK which are more advanced in the cycle compared with the Eurozone where there is considerable slack. The US Fed raises rates to 4% by end-2016 and starts to actively unwind QE by reducing its balance sheet. Although there is little slack in Japan, higher wage and price inflation is welcomed as the economy approaches its 2% inflation target. This is likely to lead the BoJ to signal a tapering of QQE, but no increase in interest rates. Inflation concerns result in tighter monetary policy in the emerging markets with all the BRIC economies raising rates in 2016.	5%	+1.1%	+0.9%
3. Oil lower for longer	Saudi Arabia becomes frustrated at the slow response of US oil production and drives prices lower in a determined effort to make a permanent impact on US shale producers. Meanwhile, Iraq and Russia continue to grow production sharply. This means a significant period of low prices with Brent crude falling to just below $40 by end 2015 and remaining there through 2016.	Stronger growth/ lower inflation with the benefits primarily felt in the oil consuming Advanced economies. For the emerging economies , activity is only marginally better as gains and losses roughly offset one another although China and India are net winners. On the policy front, lower inflation allows the Fed to move slightly less rapidly, but interest rates still rise. The rate profile is also slightly lower in China, Brazil and India, but Russia has to keep policy tighter to stabilise the currency. No change in the Eurozone or Japan where policymakers balance lower inflation against stronger growth.	6%	+0.3%	-0.4%
4. Secular stagnation	Weak demand weighs on global growth as households and corporates are reluctant to spend. Animal spirits remain subdued and capex and innovation depressed. Households prefer to de-lever rather than borrow. Adjustment is slow with over capacity persisting around the world, particularly in China, with the result that commodity prices and inflation are also depressed.	Deflationary: weaker growth and inflation vs. baseline. Although not as deflationary as China hard landing or the Eurozone deflationary spiral, the world economy experiences a slow grind lower in activity. As the effect from secular stagnation is more of a chronic than acute condition, this does not prevent policy makers from initially raising rates in the US although this is then reversed as it becomes apparent that the economy is losing momentum. Overall, global interest rates are lower than in the base and we would expect the ECB and BoJ to prolong their QE programmes.	8%	-0.7%	-0.5%
5. China hard landing	Official efforts to deliver a soft landing in China's housing market fail and house prices collapse. Housing investment slumps and household consumption is weakened by the loss of wealth. Losses at housing developers increase NPL's, resulting in a retrenchment by the banking system and a further contraction in credit and activity. Growth in China slows to less than 5% this year and under 3% in 2016.	Deflationary: Global growth slows as China demand weakens with commodity producers hit hardest. However, the fall in commodity prices will push down inflation to the benefit of consumers. Monetary policy is likely to ease/ stay on hold while the deflationary shock works through the world economy.	5%	-1.4%	-0.7%
6. Fed behind the curve	Concerns about the strength of the economic recovery and the impact of tighter monetary policy causes the Fed to delay raising rates until the second half of 2016. Meanwhile the labour market continues to tighten, wages accelerate and inflation increases. US rates then have to rise more rapidly but still end 2016 at 1.5%, lower than in the baseline. Interest rates would continue to rise in 2017 as the Fed battles to bring inflation under control.	Reflationary in 2016: stronger growth and higher inflation compared to the baseline. Note that this scenario will turn stagflationary in 2017 as growth slows whilst inflation remains elevated. Better growth in the US provides a modest stimulus to activity elsewhere, however this is likely to be tempered by a more volatile financial environment with long yields rising as inflation expectations rise.	10%	+0.3%	+0.6%
7. Tightening tantrum	Bond markets sell off in response to Fed tightening with US 10 year Treasury yields rising 200 basis points compared to the baseline. This has a knock on effect to the rest of the world as yields rise in both the developed and emerging markets. Equity markets and risk assets generally weaken as the search for yield begins to reverse causing capital outflows from economies with weak external accounts and negative wealth effects.	Deflationary: weaker growth and inflation vs. baseline. Economic weakness causes the Fed to bring its tightening cycle to an early end with rates peaking at 1% and then reversing toward the end of 2016 as further stimulus is required. Emerging markets experience weaker growth, but are more resilient than in the 2013 "taper tantrum" given improvements in their external financiing requirements. Global policy rates are generally lower by end-2016.	5%	-0.7%	-0.2%
8. Other			4%	-	-

*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 (%)	2014	2015		*Prev.*	Consensus	2016		*Prev.*	Consensus
World	100	2.6	2.5	↓	*(2.8)*	2.6	2.9	↓	*(3.0)*	3.1
Advanced*	63.2	1.7	1.9	↓	*(2.2)*	2.0	2.1	↓	*(2.2)*	2.3
US	24.5	2.4	2.4	↓	*(3.2)*	2.5	2.5	↓	*(2.7)*	2.8
Eurozone	19.2	0.9	1.4	↑	*(1.3)*	1.5	1.6		*(1.6)*	1.8
Germany	5.4	1.6	1.6		*(1.6)*	2.0	2.1	↑	*(2.0)*	2.0
UK	3.9	2.8	2.2	↓	*(2.6)*	2.5	1.9	↓	*(2.0)*	2.5
Japan	7.2	-0.1	0.9	↓	*(1.6)*	0.9	2.0	↓	*(2.2)*	1.8
Total Emerging**	36.8	4.3	3.6	↓	*(3.7)*	3.7	4.3	↓	*(4.4)*	4.5
BRICs	22.6	5.4	4.2		*(4.2)*	4.4	4.9		*(4.9)*	5.2
China	13.5	7.4	6.8		*(6.8)*	6.9	6.5		*(6.5)*	6.7

Inflation CPI

y/y%	Wt (%)	2014	2015		*Prev.*	Consensus	2016		*Prev.*	Consensus
World	100	2.8	2.8	↑	*(2.5)*	2.5	3.1	↑	*(3.0)*	3.0
Advanced*	63.2	1.4	0.6	↑	*(0.5)*	0.3	1.7	↓	*(1.8)*	1.7
US	24.5	1.6	0.9	↑	*(0.7)*	0.2	2.3	↑	*(2.2)*	2.2
Eurozone	19.2	0.4	0.2	↑	*(0.1)*	0.2	1.2		*(1.2)*	1.2
Germany	5.4	0.8	0.5	↑	*(0.4)*	0.4	1.7		*(1.7)*	1.6
UK	3.9	1.5	0.4	↓	*(0.6)*	0.3	1.8	↓	*(2.1)*	1.6
Japan	7.2	2.7	0.8	↑	*(0.6)*	0.6	1.1	↓	*(1.3)*	1.0
Total Emerging**	36.8	5.1	6.4	↑	*(5.9)*	6.2	5.4	↑	*(5.0)*	5.3
BRICs	22.6	4.0	4.7	↑	*(4.5)*	4.3	3.6		*(3.6)*	3.5
China	13.5	2.0	1.4	↓	*(1.7)*	1.4	2.0		*(2.0)*	1.9

Interest rates

% (Month of Dec)	Current	2014	2015		*Prev.*	Market	2016		*Prev.*	Market
US	0.25	0.25	1.00		*(1.00)*	0.56	2.50		*(2.50)*	1.43
UK	0.50	0.50	0.50	↓	*(0.75)*	0.72	1.50		*(1.50)*	1.32
Eurozone	0.05	0.05	0.05		*(0.05)*	0.01	0.05		*(0.05)*	0.11
Japan	0.10	0.10	0.10		*(0.10)*	0.10	0.10		*(0.10)*	0.10
China	5.10	5.60	4.60	↓	*(5.00)*	-	4.00	↓	*(4.50)*	-

Other monetary policy

(Over year or by Dec)	Current	2014	2015		*Prev.*		2016		*Prev.*
US QE ($Bn)	4481	4498	4494	↓	*(4562)*		4512	↓	*(4617)*
EZ QE (€Bn)	68	31	649	↑	*(600)*		1189	↑	*(1140)*
UK QE (£Bn)	375	375	375		*(375)*		375		*(375)*
JP QE (¥Tn)	323	300	389		*(389)*		406		*(406)*
China RRR (%)	19.50	20.00	18.00	↓	*19.00*		17.00	↓	*18.00*

Key variables

FX (Month of Dec)	Current	2014	2015		*Prev.*	Y/Y(%)	2016		*Prev.*	Y/Y(%)
USD/GBP	1.57	1.56	1.52	↑	*(1.50)*	-2.5	1.50	↑	*(1.48)*	-1.3
USD/EUR	1.14	1.21	1.08	↓	*(1.12)*	-10.7	1.00	↓	*(1.09)*	-7.4
JPY/USD	119.1	119.9	118.0	↓	*(120)*	-1.6	115.0	↓	*(125)*	-2.5
GBP/EUR	0.72	0.78	0.71	↓	*(0.75)*	-8.4	0.67	↓	*(0.74)*	-6.2
RMB/USD	6.20	6.20	6.30		*(6.30)*	1.5	6.40		*(6.40)*	1.6
Commodities (over year)										
Brent Crude	67.4	55.8	64.3	↑	*(62)*	15.1	71.1	↑	*(70)*	10.6

Source: Schroders, Thomson Datastream, Consensus Economics, May 2015
Consensus inflation numbers for Emerging Markets is for end of period, and is not directly comparable.
Market data as at 13/05/2015
Previous forecast refers to February 2015
* **Advanced markets:** Australia, Canada, Denmark, Euro area, Israel, Japan, New Zealand, Singapore, Sweden, Switzerland, Sweden, Switzerland, United Kingdom, United States.
** **Emerging markets**: Argentina, Brazil, Chile, Colombia, Mexico, Peru, Venezuela, China, India, Indonesia, Malaysia, Philippines, South Korea, Taiwan, Thailand, South Africa, Russia, Czech Rep., Hungary, Poland, Romania, Turkey, Ukraine, Bulgaria, Croatia, Latvia, Lithuania.

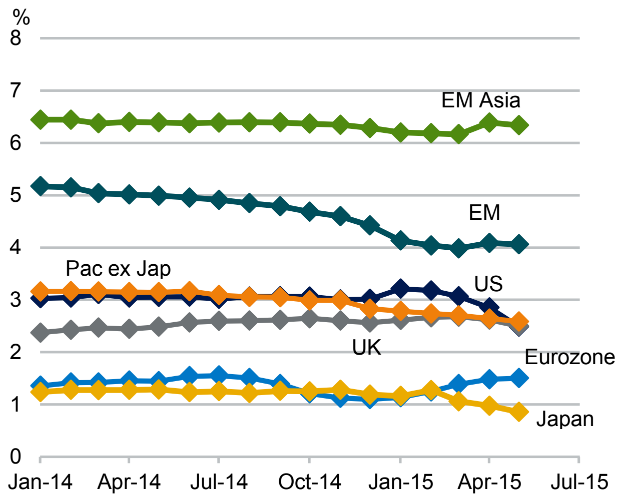
Please note the forecast warning at the back of the document.

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

2015



2016

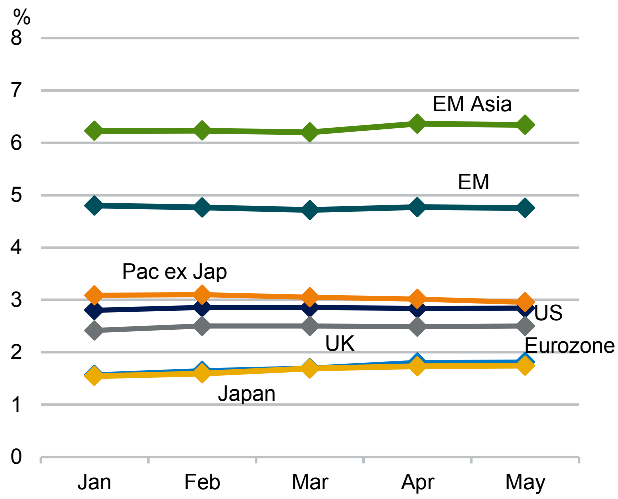
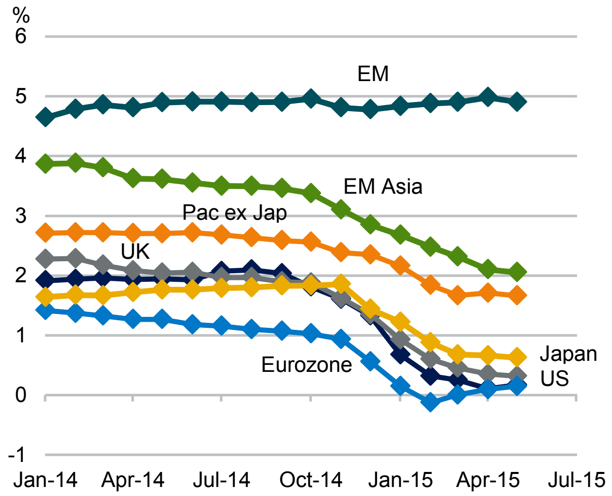
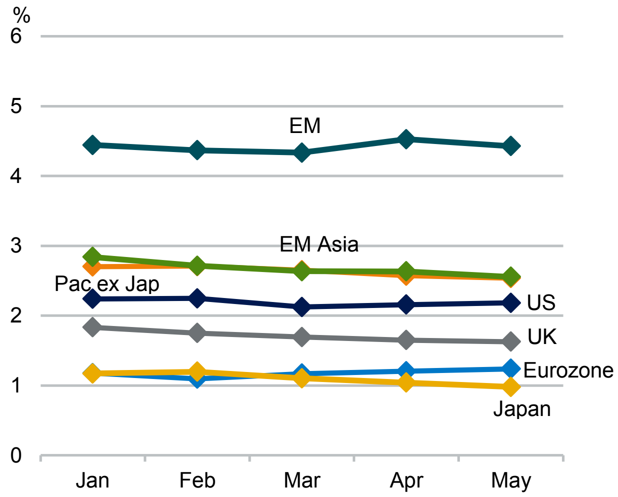


Chart B: Inflation consensus forecasts

2015



2016



Source: Consensus Economics (May 2015), Schroders. Please note the forecast warning at the back of the document.

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, Venezuela, South Africa, Czech Republic, Hungary, Poland, Romania, Russia, Turkey, Ukraine, Bulgaria, Croatia, Estonia, Latvia, Lithuania.