Schroders

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Economic and Strategy Viewpoint

April 2019

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

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

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

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Profits pressures, recession fears and the Fed

– Investor concerns have switched from trade wars to politics and growth. The inversion of the yield curve is now adding to US recession fears. We see scope for a near term bounce in activity, but remain concerned further out.

– Profits are expected to come under pressure as margins are squeezed with the risk this will prompt cutbacks in jobs and investment. Companies may limit cost pressures, but such an environment could bring rate cuts from the Fed in 2020, if not sooner.

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ECB rates policy: Is the tail wagging the dog?

– The European Central Bank has once again delayed its expected date for raising interest rates. It believes it is ahead of the curve in its forward guidance, but we disagree. The ECB is clearly behind market expectations, and its shift in guidance to protect its credibility is only hurting it.

– The delay in tightening policy is leading investors to believe that the negative interest rate is the new normal as they draw comparisons with the Japanese experience. This has profound implications for banking profits and raises serious questions over the redistribution effects of its policy.

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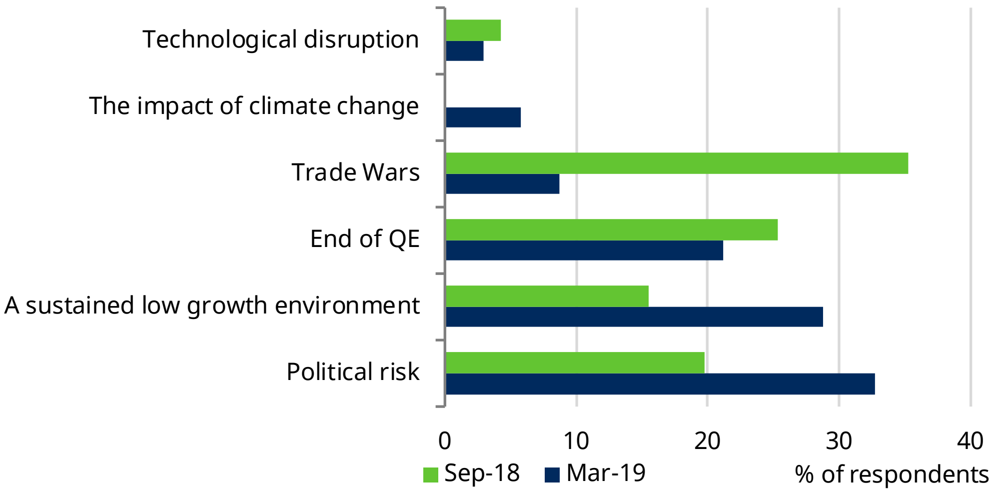
Indian elections: does Modi matter?

– Elections loom in India, with a Modi victory looking most likely, but whoever wins we remain cautiously optimistic about the path of Indian growth.

– Any strong market reaction should be faded, absent an outright majority in both houses, with sentiment likely to dominate in the immediate aftermath.

Chart: Investor concerns – which of these concern you most?



Source: Schroders Investment conference, 10 March 2019.

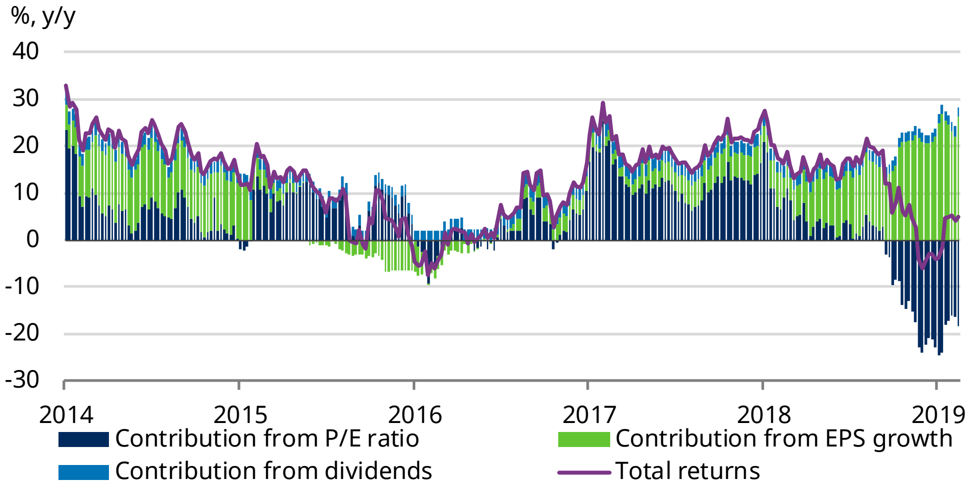
Profits pressures, recession fears and the Fed

Investor concerns switch from trade wars to politics and growth

At our recent client conference it was quite clear that investor concerns are now focused on growth and political risk, with the threat from trade tensions fading. The percentage of respondents citing trade wars as their biggest concern fell from 35% in September last year to 9%, an indication of the extent to which a good outcome from the US-China talks is now expected. The risks have switched to a sustained low growth environment (up from 16% to 29%) and political risk (up to 33% from 20%). The end of quantitative easing (QE) was also cited as a significant concern although slightly less than six months ago (see chart front page).

Given the slowdown in activity, particularly in Europe and Asia, and the recent inversion of the US yield curve this is not surprising. The latter has been a good predictor of recessions in the past and investors are very aware that equity returns in 2018 were almost entirely driven by corporate earnings per share growth (EPS) as the market de-rated (see chart 1 for the US market).

Chart 1: Earnings driven: US equity market return breakdown



Source: Thomson Datastream, Schroders Economics Group. 19 March 2019.

This may change going forward as a more friendly monetary policy from the US Federal Reserve (Fed) has helped markets re-rate and bounce back recently. Following the FOMC meeting on 20 March we have taken out the one remaining rate hike in our forecast and now expect the next move in fed funds to be down in 2020. This will support liquidity and bond markets including credit. Equity markets can also benefit, but eventually will re-focus on growth if gains are to be sustained.

Searching for green shoots

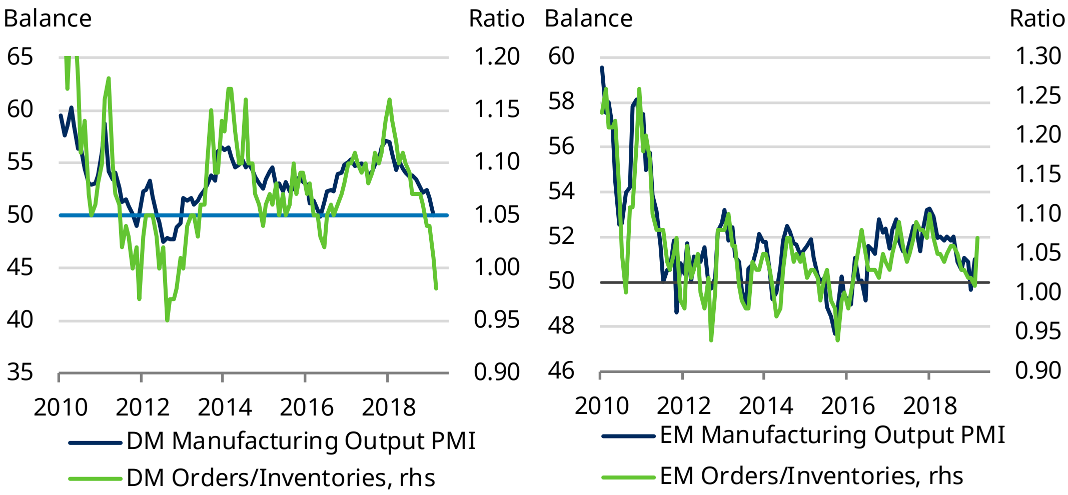
Some positive signs on activity, but inventory overhang persists

We discussed our view on the outlook for global growth in our forecast update last month here. Suffice to say that whilst near-term indicators are still weak we continue to forecast a pick-up in activity in Q2. Encouragingly, there are one or two green shoots of recovery coming through. For example, commodity prices have firmed (industrial metals rose 3.8% over the past month), the global purchasing managers' index (PMI) rose in February whilst in the US the composite ISM strengthened and the housing market has firmed (NAHB and home sales).

Meanwhile, retail sales in the eurozone bounced in January and got the region off to a good start for Q1.

However, there is a clear divergence between the service sector and manufacturing. There has been a build-up of inventory in the goods producing sector which will drag on activity particularly in Europe, and especially the UK (for Brexit related reasons). PMI reports suggest that firms in the developed markets will need to cut output to bring inventory into better balance with orders. By contrast, the emerging markets seem to be better placed and may enjoy firmer activity in the coming months (chart 2).

Chart 2: Inventory overhang in DM, not EM



Source: Thomson Datastream, Schroders Economics Group. 19 March 2019 (g0031).

China is adjusting its inventory down which ties in with the rapid cut back in imports from the US. Elsewhere though the picture is more mixed with both Korea and Taiwan showing a build-up of inventory as the semiconductor market has slowed. Inventory adjustments can lead to drops in output, but should be short lived as long as final demand holds up. The evidence on the consumer side where real wages are firming suggests this is still the case.

Pressure on profits

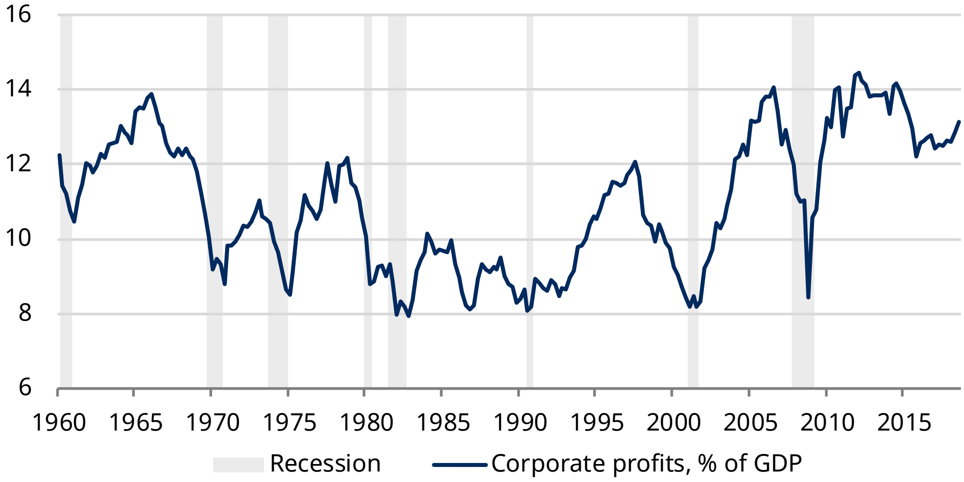
Whilst this gives us some comfort that activity will turn and salve investor concerns, looking further ahead there is still cause for concern as we see growth slowing in the US as stimulus fades in 2020. Our GDP forecast of 1.6% compares with consensus of 2%. In particular we are concerned about profits which ultimately matter more than GDP growth for equity investors.

Low inflation and rising wages will put pressure on profits

One of the key changes in our recent forecast update was a lower inflation profile which has fed into an easier monetary stance from the central banks. Whilst currently seen as positive for markets helping to support the level of valuations, lower inflation also implies more pressure on profit margins. Companies are facing rising wage costs and if they are unable to pass these on in prices then margins have to take the strain.

One of the key features of the current expansion has been the elevated level of margins as indicated by the high profit share (chart 3).

Chart 3: US profits as % GDP



Source: Thomson Datastream, Schroders Economics Group. 21 March 2019 (g0031).

The flip side of this of course has been a weak wage share which in turn has fed into inequality and dissatisfaction with the economic status quo. Going forward though this could change. We have run our profits models and found that margins will come under pressure such that the share of profits in GDP is likely to decline in the US. As discussed below, pressure will be felt as the economy slows later this year and into 2020. After rising 6% this year, US profits are expected to fall 4% next year.

Focus on US profits

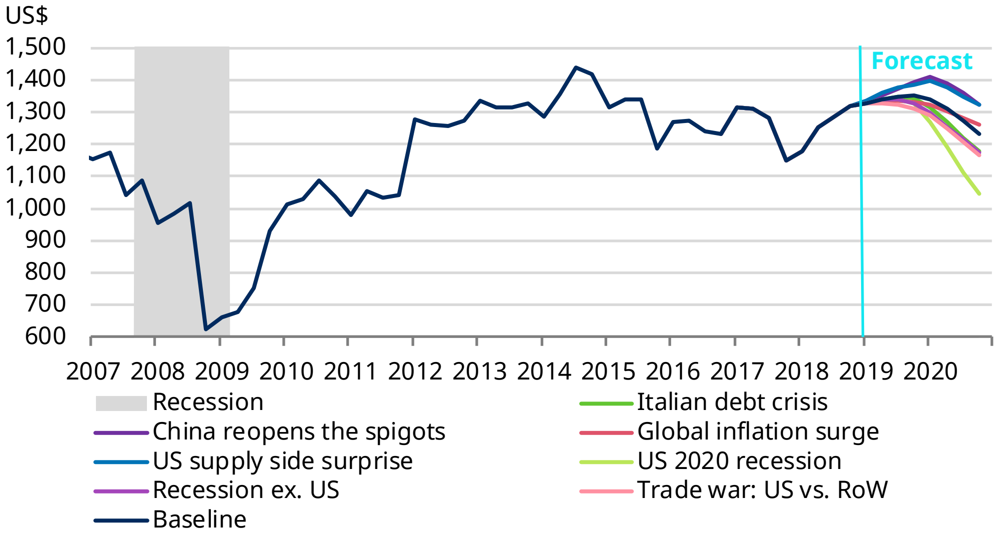
Our top-down approach allows us to forecast the share of profits in GDP via margins and capacity utilisation. While the forecast for capacity utilisation is being driven only by real GDP growth, the margins forecast is also affected by growth in labour costs, prices and productivity. Our forecasting model suggests that caution on US earnings in the following quarters would be appropriate, as it signals an economic profits recession in 2020.

An official US recession in 2020 is not the central forecast, but we expect profits to peak in Q3 2019 as the US economy slows thereafter. US economic profits (excluding financials) are expected to rise by 6% in 2019, but as the US economic slowdown continues in 2020 and growth falls below trend, they are expected to decline by almost 4% next year.

Profits are expected to peak in Q3 this year before weaker growth and pressure on margins leads to a decline in 2020

This is because below-trend growth means lower capacity utilisation, putting downward pressure on economics profits. Moreover, margins will be squeezed as labour costs rise, while inflation and productivity decline on the back of weaker growth. Unsurprisingly, the share of profits will see a sharper decline should a recession occur in 2020. Based on our current set of economic scenarios, a US recession will cause the economic profits to fall by 13.5%, while a recession ex. US will cause a decline of 7.4% in 2020. The scenarios in which we expect to firmer profits growth are where China reverts to a significant fiscal stimulus to avert a deepening economic slowdown (China re-opens the spigots), or where the US economy continues to surprise and delivers another year of strong growth in 2020 (US supply side surprise).

Chart 4: US economic profits (ex financials) set to peak in Q3 2019

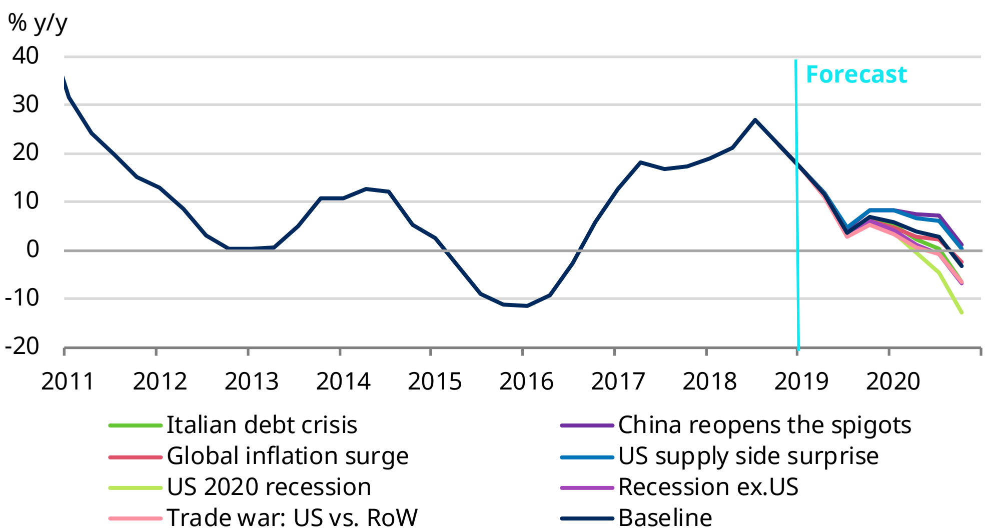


Source: Thomson Datastream, Schroders Economics Group. 27 March 2019.

Earnings per share (EPS) for the S&P500 large cap US equity index are more volatile than the top-down profits due to the effects of leverage and write-offs; however, as they are directionally similar, we exploit this relationship to get an estimate of market earnings per share.

We expect S&P500 operating earnings to rise by 6.8% in 2019, while reported EPS to increase by 7.8%. The decline of the profits share in 2020 will reverse these gains, as operating earnings will drop by 3.4% and reported earnings by 6.9%. This would take EPS growth back to the levels seen in 2016 following another bout of weakness in China.

Chart 5: Earnings per share (operating) for the S&P500



Source: S&P, Schroders Economics Group. 27 March 2019.

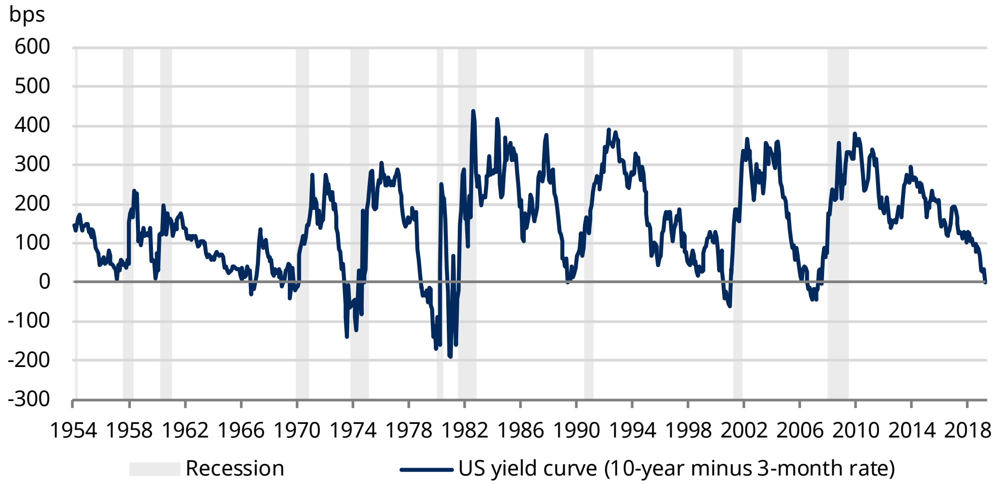
Conclusions

Falling profits will put pressure on firms to cut back …

In the near term we believe that growth worries are overdone, but looking further out we share our client concerns on growth. The analysis of profit margins suggests we will see a squeeze on corporate earnings in 2020. Corporate cash flows will come under pressure and this will provoke a reaction from the sector. Typically companies would cut jobs and capital spending which will weaken GDP directly through lower business capex and indirectly through weaker household incomes, confidence and consumer spending.

This in turn could bring the cycle to an end and lead to a recession. It would be consistent with the yield curve, which has a good track record in this respect. Looking at the last nine recessions in the US all have been preceded by an inverted curve with only false signal back in 1966 (chart 6). Our model currently puts a probability of 36% on a US recession in the next 12 months, the highest since 2007.

Chart 6: The yield curve and recessions



Source: Thomson Datastream, Schroders Economics Group. 27 March 2019.

... unless they can counter the margin squeeze,

For the current cycle to continue we would need to see action to prevent the margin squeeze. One possibility is that the corporate sector keeps labour costs under control either through limiting wage gains, or by boosting productivity growth. This is possible although will be difficult given the tightness of the labour market and scarcity of workers. We would need to see the supply side of the labour market surprising positively through higher participation to counter wage pressures, as in our supply side surprise scenario, for example.

... or the Fed eases policy

Alternatively, we would need stronger demand to support output thus boosting capacity use and productivity. This might come externally through stronger demand from China, but the more likely source would be from the Fed easing monetary policy by cutting interest rates. Political pressure on the central bank is likely to be intense next year given the presidential election. Meanwhile, the Fed will be faced with weaker growth and a moderation in inflation, and thus face little obstacle to easier policy. Our forecast includes two rate cuts from the Fed in 2020. At present we have those in June and September next year, the question will be whether they come too late to prevent a profits recession turning into a full economic recession.

ECB rates policy: Is the tail wagging the dog?

"Oh behind? Well, we never thought we were behind the curve."

Mario Draghi, President of the ECB, 7 March 2019.

The ECB has once again delayed its expected date for raising interest rates

Investors are once again drawing comparisons between Europe and Japan as the European Central Bank (ECB) appears to be struggling to normalise policy. The ECB has pushed back its expected date for the tightening of monetary policy in its forward guidance. Previously, it had suggested that interest rates would be held at present levels until the end of the summer of 2019. Following the Governing Council's policy setting meeting on 7 March, the guidance was changed to interest rates remaining "...at their present levels at least through the end of 2019..." – potentially a three-to-six month delay.

Leading indicators of activity have been very weak in recent months. New orders, especially from the rest of the world, have fallen precipitously, and inventories have started to build. Weakness in external demand may be feeding into the domestic economy. Corporate confidence has certainly taken a hit, which has made firms reluctant to take risk and invest.

As a result, the dovish change in ECB guidance was not altogether unexpected. Indeed, we pushed out the next ECB rate rise in our forecast from September to December in anticipation of such a delay. We also expected the announcement of a new round of cheap banking loans known as TLTROs. These will replace the loans that are maturing this summer, removing the risk of a funding gap for those banks still addicted to subsidised credit.

Where there was a surprise was the timing of the announcement. The ECB still expects growth in the monetary union to rebound in the second half of this year as a number of temporary headwinds abate. This led most to believe that the ECB would wait a little longer before announcing the delay, but ECB president Mario Draghi almost took pride in being "ahead of the curve".

A central bank being ahead or behind the curve is a phrase used to describe whether policymakers are leading or reacting to market expectations, as measured by the use of futures curves. Being "behind the curve" is a criticism that a central bank has been slow to react to conditions, while being "ahead of the curve" suggests superior knowledge, which warrants investors to pay close attention to communication.

When asked about the timing of the announcement and change in forward guidance during the press conference, Draghi claimed victory in being ahead of the curve (see quote at the top). Yet, market pricing would suggest otherwise.

The ECB believe it has been ahead of the curve, but we disagree

Based on the OIS EONIA[1] curve, there was little chance of a rate rise priced in by investors a day and even a month before the meeting (chart 7). A rate rise (at least 20 basis points) was just about priced by the end of 2020. What impact did the change in forward guidance have? Almost none. The chart shows a little noise around the end of 2019 and start of 2020, but the movements are worth less than five basis points and are therefore insignificant.

The ECB stresses that its forward guidance has two components. The first is the date, which attracts most of the attention of markets. The second is the state contingent element: "[rates on hold]...and in any case for as long as necessary to ensure the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term."

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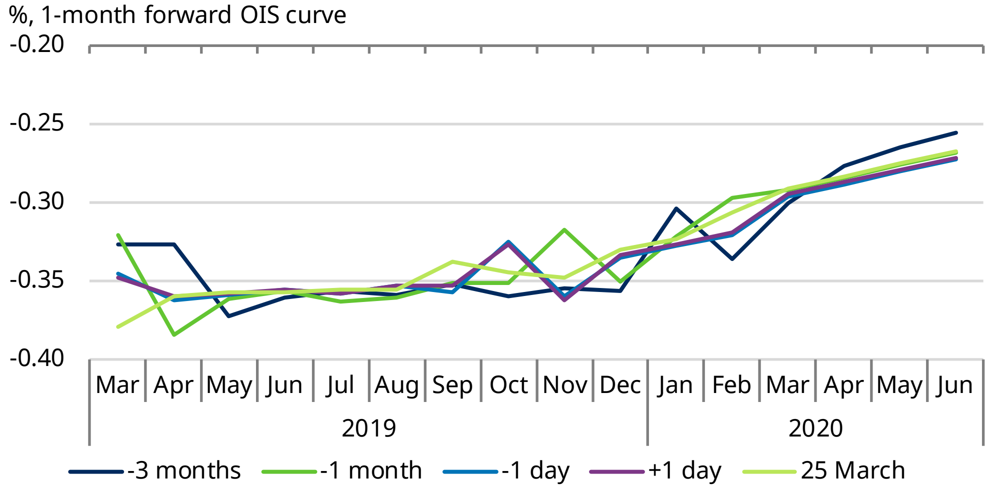
[1]EONIA is the one-day interbank interest rate within the eurozone.

Chart 7: Has ECB forward guidance moved interest rate expectations?



Dates before and after the ECB meeting on 7 March 2019. Source: Bloomberg, Schroders Economics Group. 25 March 2019.

The ECB argues that the market will have seen the deterioration in the data, and that it has correctly predicted that the ECB would shift, therefore justifying the effectiveness of its forward guidance. However, the market has barely changed from three months ago, when the ECB re-affirmed its intention to raise interest rates in 2019.

Have negative rates become the new normal? Comparisons with Japan are inevitable

The reality is that the ECB thought it was ahead of the curve when it was trying to persuade the market that it would raise rates this year, but in the end, it has given up. In response to a question during the press conference, Draghi said: "… clearly, if you have market expectations which are far away from the foreseen date of the guidance, then of course credibility becomes an issue. In this sense, I think we've if anything enhanced the credibility of the forward guidance with today's decision."

The ECB is clearly behind the curve and its communication has barely moved market expectations in months. Its delay in raising interest rates and withdrawing the non-standard elements of its monetary policy has led investors to believe that the status quo is the new normal. This has profound implications for the profitability of banks, along with serious questions over the re-distribution effects of its policy[2].

Comparisons with the Japanese experience are becoming more frequent, and it is easy to understand why. The Bank of Japan failed to tighten policy convincingly over the years, and investors are questioning whether Europe is heading down the same path, and whether policy interest rates will ever return to positive territory.

[2]Quantitative easing and negative interest rates are thought to have boosted financial assets significantly. As assets such as equities tend to be own by more wealthy individuals, many argue that the ECB's policies have increased inequality in society. The ECB claims that the side effect of its policy is justified by the overall boost to economic growth, but as an unelected body, this is highly controversial.

Indian elections: does Modi matter?

"Politics is the art of the possible, the attainable – the art of the next best."

Otto von Bismarck.

The overall macro impact of Indian elections will be limited

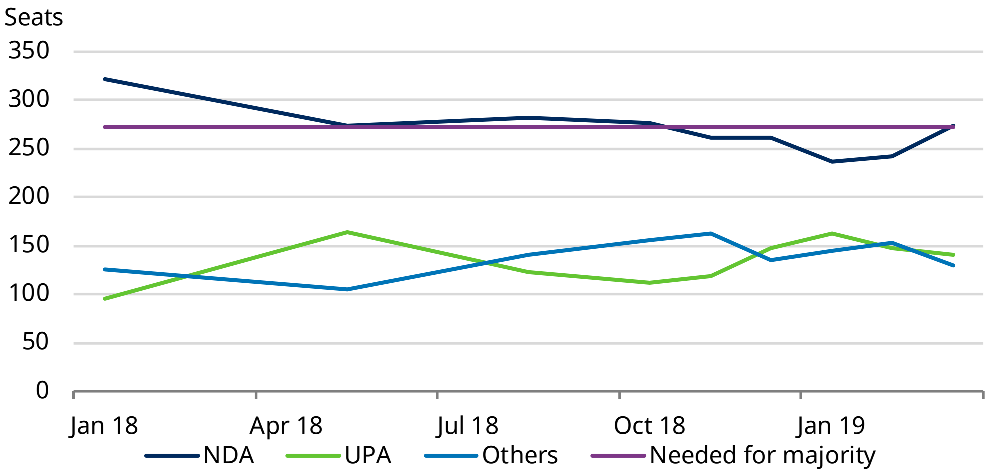
General elections approach in India, scheduled to begin on 11th April and conclude 19th May. All being well we should have the results on 23rd May, when we find out whether the incumbent Bharatiya Janata Party (BJP) will remain in power under the presidential Narendra Modi, or if the Indian National Congress (INC) under Rahul Gandhi will return to power. We could even end in a third party coalition scenario, with the two main parties consigned to supporting roles at best. Whatever the outcome, we think it is best not to overegg the likely impact on India's economy, which likely faces incremental change under any victor.

Taking the electoral temperature

Geopolitics have boosted Modi at a key time

Eyes will increasingly be on the polls as the elections loom, particularly because in recent months it had looked as though the BJP's coalition, the National Democratic Alliance (NDA) were under threat (chart 8). Local elections toward the end of 2018 reinforced this perception, with the BJP losing ground to the INC. However, as this narrative was gaining hold it was interrupted by chance; on February 14th a Pakistan based militant group killed 40 Indian police in a suicide car bombing. Tensions escalated rapidly and culminated in the capture and subsequent return of an Indian air force pilot following a dogfight over the skies of Pakistan. Prime Minister Modi received a strong boost to his personal ratings from his handling of the incident which appears to have translated to gains for his party as well. The BJP, as a Hindu nationalist party, is also the natural political beneficiary of inflamed tensions with a Muslim neighbour.

Chart 8: Modi's coalition has gained ground following tensions with Pakistan



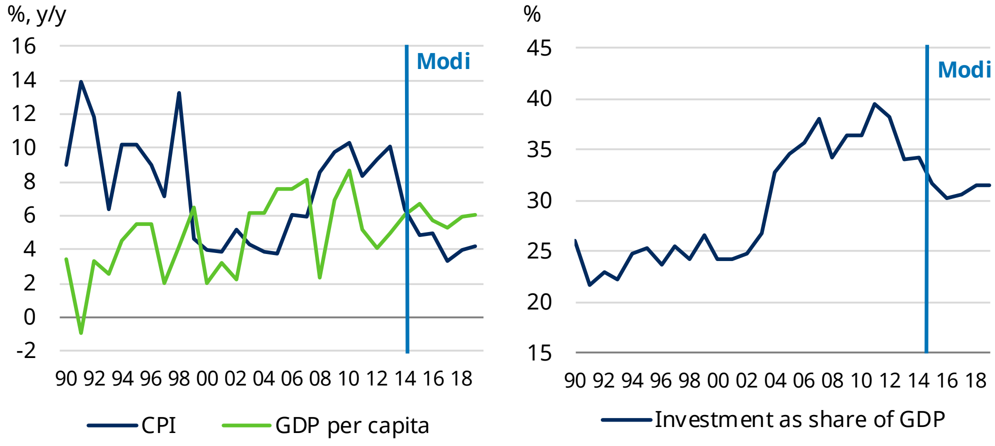
Source: Wikipedia, Schroders Economics Group. 20 March 2019. NDA = National Democratic Alliance (BJP coalition), UPA = United Progressive Alliance (Congress coalition).

It looks likely then that the BJP will return to power, though probably with a reduced majority. What does this mean for India?

Measuring Modi

Assessing the prospects of another five years under Modi and the BJP might be easier if we look at their record to date. We would argue that in 2014, when Modi was elected, much of the euphoria centred on the belief that he would revive the Indian economy and boost investment with business friendly reform. Against these criteria, there have been some successes, but the "Modimania" of 2014 was ultimately not justified.

Chart 9: The scorecard is mixed for the first term



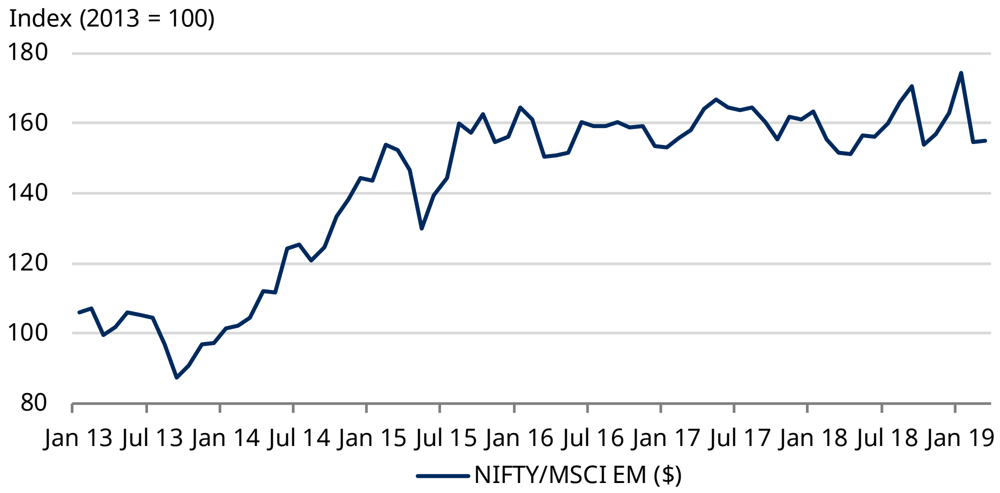
Source: Thomson Datastream, Schroders Economics Group. 20 March 2019.

Not a bad five years, but not the performance that was hoped for

Looking at the main macro headlines (chart 9), things do seem to have been better under Modi. Income growth, as measured by GDP per capita, has been consistently strong compared to a volatile track record, and inflation looks low by historical standards. However, the five-year average growth rate is no higher than was achieved under the previous government (5.94% in 2018 against 5.98% in 2013). The reduction in volatility is definitely a plus, but it is hard to point to Modi as a catalyst for economic resurgence. Meanwhile, inflation has undoubtedly improved but arguably this was down more to the central bank under Raghuram Rajan (who began his tenure before Modi's election, in 2013) than to Modi's government. Finally, investment as a share of GDP is actually lower under Modi than his predecessors.

The performance of India equities gives a similarly mixed picture (chart 10). After a year of solid outperformance versus the rest of emerging markets, Indian equities have moved broadly in line with the rest of the universe. Excitement over the prospect of a Modi led government was ultimately not borne out by reality.

Chart 10: From mania to meh-nia in Indian equities



Source: Thomson Datastream, Schroders Economics Group. 23 March 2019.

This is not to suggest that Modi has not had any policy successes; the passage of the Goods and Services Tax is arguably the highlight, but measures on bankruptcy resolution and a number of smaller reforms have also been positive for the economy.

A reduction in subsidies, the continued roll out of the biometric ID scheme, and improvements in general governance should all be tallied in Modi's favour as well.

Against this, we should offset the big policy mistake of demonetisation, and the failure to pass land and labour reform. While the first of these was an unforced error, it seems likely that any government would struggle to pass the banner reforms of India's land and labour markets. These two are arguably the key to driving Indian industrialisation.

The art of the possible

Ultimately we think Modi's record reflects more on India than on the man himself. A huge democracy with strong regional parties and only rare outright majorities, India's system does not lend itself to quick reform and dramatic change. As an example, the Goods and Services Tax (GST) was first proposed in 1999 and pursued by both NDA and UPA governments until Modi's government, which enjoyed a majority in the lower house but not the upper, finally succeeded in 2017.

Political realities ultimately constrain policy to a narrow, favourable, window

This has certain implications for the outcome of this election. Whoever wins, we should not expect any sweeping policy changes, in either direction. Modi will presumably continue to follow a broadly pro-business agenda, but with a reduced majority will find it even more difficult to push through contentious reforms. A victory for the Congress party, or a third party coalition, might initially worry markets. However, as illustrated by the attempts of both Congress and BJP governments to enact the GST we think that there is less space between the policy stances of the main parties than is commonly imagined. In addition, once in government, practical realities reduce the differences further.

From a market perspective, this would leave us inclined to fade any strong reaction to the election outcome. Absent a single party winning an overall majority in both the lower and upper house, aggressive reforms seem to be off the agenda. Land and labour reform have been delegated to the state level (with some promising results) and are off the national agenda for now. Consequently, the path India follows for the next five years looks set to be similar given the range of plausible outcomes. This does not mean, of course, that a Modi victory would not prompt a rally, nor that a Congress victory or even hung parliament would not see a sell off. But ultimately we would see either move as a sentiment led response. India is set for gradual, incremental improvement, and expectations should be accordingly calibrated to cautious optimism.

Schroders Economics Group: Views at a glance

Macro summary – April 2019

Key points

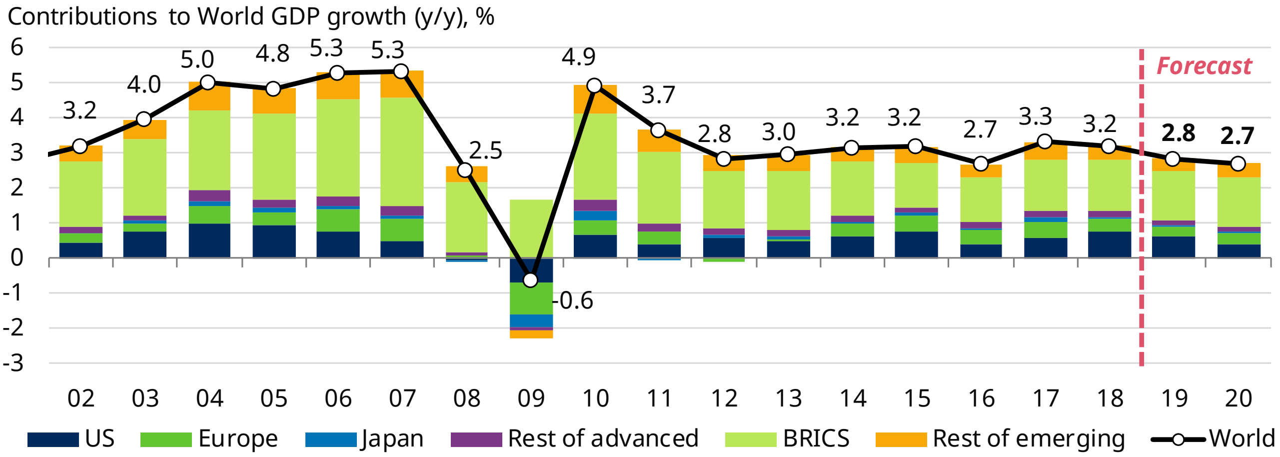
Baseline

- After expanding by 3.2% in 2018, global growth is expected to moderate to 2.8% in 2019 and 2.7% in 2020. Inflation is forecast to decline to 2.4% this year after 2.8% in 2018 and then falling to 2.5% in 2020. Meanwhile we expect the US and China to sign a trade deal in June, although the impact of actions so far will still be felt in 2019.
- US growth is forecast to slow to 2.4% in 2019 and 1.6% in 2019. Following recent statements from the Fed we do not expect any further rate hikes. As US fiscal stimulus fades and the economy slows, the Fed is forecast to cut rates twice in 2020 after ending quantitative tightening in October 2019.
- Eurozone growth is forecast to moderate from 1.8% in 2018 to 1.3% in 2019 as the full effects from the
- US–China trade war and Brexit hit European exporters. Inflation is expected to remain under 2%, with higher energy price inflation in 2018 replaced by higher core inflation in 2019. The ECB has ended QE and is expected to raise interest rates only twice in 2020. The refinancing rate is forecast to reach 0.50% and the deposit rate zero by the end of 2020.
- UK growth is likely to slow to 1.1% this year from 1.4% in 2018. Assuming that a Brexit deal with the EU passes parliament ahead of a transition period that preserves the status quo of single market and customs union membership, growth is expected to pick up to 1.5% in 2020. Inflation is expected to fall to 1.8% in 2019 thanks to an expected rise in sterling, but stronger growth is expected to push inflation up to 2.4% in 2020. Meanwhile, the BoE is expected to hike once in 2019 and twice in 2020 (to 1.5%).
- Growth in Japan should stay steady in 2019 at 0.7%, however the path of activity should be volatile owing to the consumption tax hike in October this year. A slow recovery should follow resulting in 0.4% growth in 2020. We do not expect the BoJ to alter yield curve control, but look for rates to rise to 0% at the end of 2020 as inflation picks up.
- Emerging market economies should slow to 4.5% in 2019 after 4.8% in 2018, but pick-up slightly to 4.7% in 2020. We are optimistic that for most of the BRIC economies domestic factors can outweigh global problems in 2020. China benefits from the easing of trade tensions with the US, but against a backdrop of secular decline the PBoC should continue to ease.

Risks

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

Chart: World GDP forecast



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

Schroders Baseline Forecast

Real GDP

y/y%	Wt (%)	2018	2019		Prev.	Consensus	2020		Prev.	Consensus
World	100	3.2	2.8	↓	(2.9)	2.8	2.7	↑	(2.5)	2.8
Advanced*	61.4	2.2	1.8	↓	(1.9)	1.7	1.5	↑	(1.3)	1.6
US	26.5	2.8	2.4		(2.4)	2.4	1.6	↑	(1.3)	2.0
Eurozone	17.2	1.8	1.3	↓	(1.6)	1.2	1.4	↑	(1.2)	1.4
Germany	5.0	1.5	1.0	↓	(1.4)	1.0	1.4	↑	(1.3)	1.5
UK	3.6	1.4	1.1	↓	(1.4)	1.3	1.5		(1.5)	1.5
Japan	6.7	0.7	0.7	↓	(1.0)	0.7	0.4	↑	(0.0)	0.4
Total Emerging**	38.6	4.8	4.5		(4.5)	4.5	4.7	↑	(4.5)	4.6
BRICs	25.3	5.7	5.5		(5.5)	5.5	5.5	↑	(5.4)	5.5
China	16.7	6.6	6.3	↑	(6.2)	6.2	6.1	↑	(6.0)	6.1

Inflation CPI

y/y%	Wt (%)	2018	2019		Prev.	Consensus	2020		Prev.	Consensus
World	100	2.8	2.4	↓	(2.9)	2.4	2.5	↓	(2.7)	2.5
Advanced*	61.4	2.0	1.7	↓	(2.0)	1.5	1.9		(1.9)	1.8
US	26.5	2.4	1.9	↓	(2.7)	1.8	2.3	↓	(2.4)	2.2
Eurozone	17.2	1.7	1.7	↑	(1.6)	1.3	1.5		(1.5)	1.5
Germany	5.0	1.8	1.8		(1.8)	1.5	1.7		(1.7)	1.7
UK	3.6	2.5	1.8		(1.8)	2.0	2.4	↑	(2.1)	2.1
Japan	6.7	1.0	0.5		(0.5)	0.7	1.0	↓	(1.1)	1.1
Total Emerging**	38.6	4.1	3.7	↓	(4.2)	3.8	3.5	↓	(4.0)	3.5
BRICs	25.3	2.6	2.6	↓	(3.3)	2.7	2.8	↓	(3.0)	2.8
China	16.7	2.1	2.0	↓	(2.6)	2.1	2.2	↓	(2.4)	2.1

Interest rates

% (Month of Dec)	Current	2018	2019		Prev.	Market	2020		Prev.	Market
US	2.50	2.50	2.50	↓	(3.00)	2.36	2.00	↓	(2.50)	2.02
UK	0.75	0.75	1.00	↓	(1.25)	0.84	1.50	↓	(1.75)	0.92
Eurozone (Refi)	0.00	0.00	0.00	↓	(0.50)	-0.31	0.50	↓	(1.00)	-0.23
Eurozone (Depo)	-0.40	-0.40	-0.40		(0.00)		0.00	↓	(0.50)	
Japan	-0.10	-0.10	-0.10		(-0.10)	0.02	0.00		(0.00)	0.00
China	4.35	4.35	4.00		(4.00)	-	3.50		(3.50)	-

Other monetary policy

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

Key variables

FX (Month of Dec)	Current	2018	2019		Prev.	Y/Y(%)	2020		Prev.	Y/Y(%)
USD/GBP	1.32	1.27	1.42		(1.42)	11.5	1.38		(1.38)	-2.8
USD/EUR	1.13	1.14	1.17	↓	(1.21)	2.3	1.20	↓	(1.25)	2.6
JPY/USD	110.4	109.7	110		(110)	0.3	108		(108)	-1.8
GBP/EUR	0.85	0.90	0.82	↓	(0.85)	-8.2	0.87	↓	(0.91)	5.5
RMB/USD	6.72	6.87	6.85	↓	(7.20)	-0.2	7.00	↓	(7.40)	2.2
Commodities (over year)										
Brent Crude	68.1	71.6	62.7	↓	(71.7)	-12.4	62.3	↓	(68.1)	-0.7

Source: Schroders, Thomson Datastream, Consensus Economics, March 2019
Consensus inflation numbers for Emerging Markets is for end of period, and is not directly comparable.
Market data as at 27/03/2019
Previous forecast refers to November 2018
* **Advanced markets:** Australia, Canada, Denmark, Euro area, Israel, Japan, New Zealand, Singapore, Sweden, Switzerland, United Kingdom, United States.
** **Emerging markets:** Argentina, Brazil, Chile, Colombia, Mexico, Peru, China, India, Indonesia, Malaysia, Philippines, South Korea, Taiwan, Thailand, South Africa, Russia, Czech Rep., Hungary, Poland, Romania, Turkey, Ukraine, Bulgaria, Croatia, Latvia, Lithuania.

Updated forecast charts – Consensus Economics

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

Chart A: GDP consensus forecasts

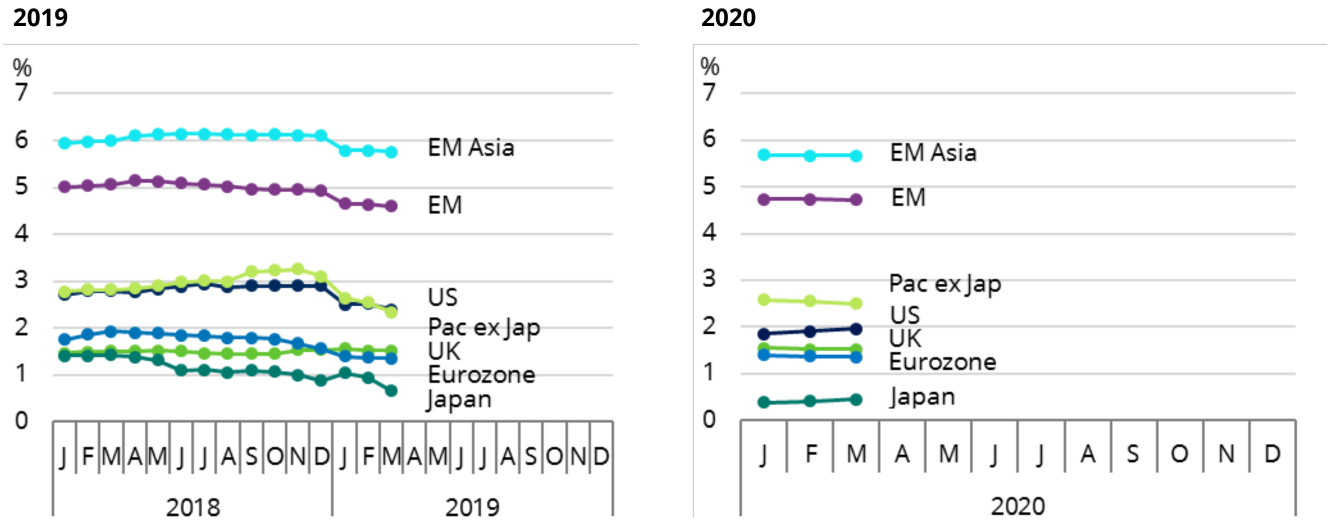
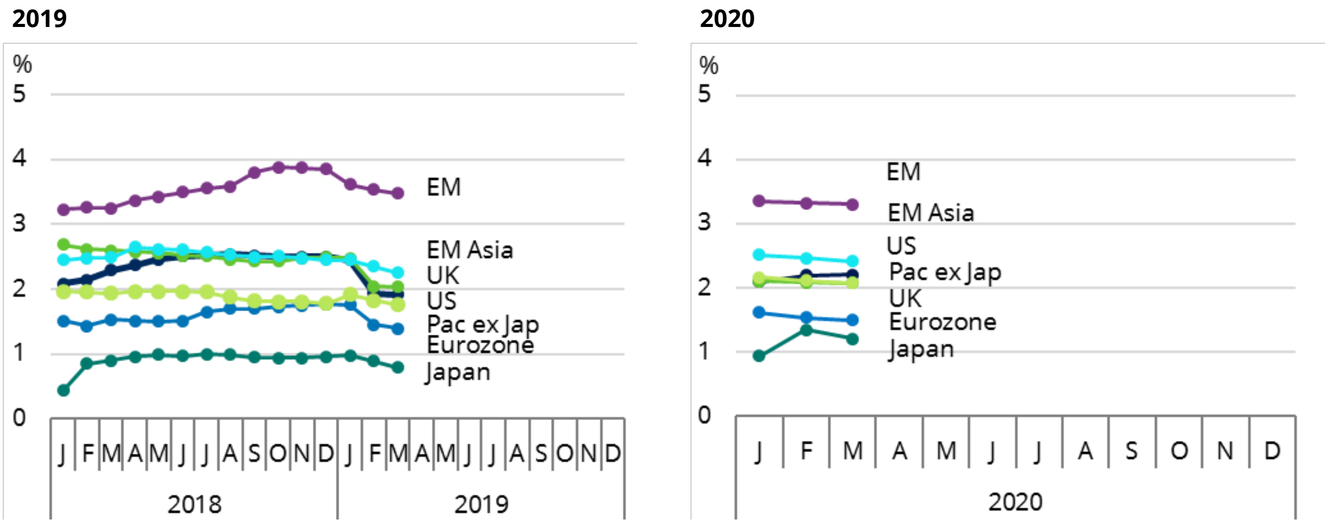


Chart B: Inflation consensus forecasts



Source: Consensus Economics (25 March 2019), Schroders Economics Group.
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.

Schroders

Schroder Investment Management Limited

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

schroders.com
@Schroders