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| Quarterly |

# Global Economic Outlook

## US-China Decoupling



Source: Thinkstock

### 1# CHINA'S REAL STORY IS NOMINAL

We have revised down our already below-consensus China forecast (from 6.3% to 6.0% in 2016) and maintain our 30% probability of a hard landing over the coming year, given the still considerable downside risks. Moreover, it seems unlikely that the uncertainty on China, be it the real economy or policy, will fade anytime soon.

### 2# EMERGING ECONOMIES BALANCE SHEET WOBBLES

In the wake of the latest crisis many corporations in emerging economies increased leverage and FX borrowing, taking advantage of highly accommodative financing conditions. Weaker commodity prices and lower domestic currencies are now putting a number of these corporations under pressure to adjust their balance sheets. Fed tightening is seen as an additional headwind. These headwinds have been in place for some time and motivated our below-consensus call for a number of major economies, with the notable exception of Eastern Europe.

### 3# ADVANCED CONSUMERS ABOVE TREND

Despite the many concerns, consumers in advanced economies have generally fared well over the summer, underpinned by better job prospects and windfall gains from low commodity prices. Exports, on the other hand, have underwhelmed in line with our expectations.

Our message is not to say that China has not had an impact on the advanced economies, it has. But even in China, we find cause to be more constructive on the consumer.

### 4# SHIFTING JOBS-PRODUCTIVITY BALANCE

The continued disappointment on productivity has raised an important debate about its causes; explanations range from simple measurement issues to gloomy views of secular stagnation. Our view sits at the less gloomy end of the spectrum. While we do expect some cyclical decline in productivity in EM economies, we now look for a gradual recovery hereof in the advanced economies.

### 5# DIVERGENCE OF MONETARY POLICIES

We expect to see a divergence of monetary policies. In the US, we look for gradual Fed tightening and expect the BoE to follow with a lag. Both the BoJ and the ECB are expected to deliver further policy accommodation. In emerging markets too, we look for a range of policy reactions. Several economies are facing the classical monetary policy trilemma; not least those with high domestic inflation. The new feature in this GEO is the decoupling of US and Chinese monetary policies.

Editorial	US – China decoupling.....	5
SG vs Consensus	Below consensus on China; above on the US .....	6
Balance of risks	Looking to the history books .....	9
SG Growth and Inflation Outlook .....		12
SG Monetary Policy Outlook – Key rates .....		13
SG Long Gvt. Bond Yield Outlook (10Y) .....		14
SG FX Outlook .....		15
<b>Anchor theme #1</b>	<b>China’s real story is nominal .....</b>	<b>16</b>
Box 1	RMB regime change_ Not for competitive devaluation .....	22
Box 2	China growth - The slowdown that matters.....	23
<b>Anchor theme #2</b>	<b>Emerging economies balance sheet wobbles .....</b>	<b>24</b>
Box 3	Asia Pacific -_No tit-for-tat devaluations in Asia .....	30
Box 4	South Korea - Exchange rate not a big factor in trade with China.....	32
Box 5	CNY regime change - Muted impact on Taiwan’s economy in the near term.....	33
Box 6	Latam’s trade with China - Currency depreciation alone can’t resurrect exports.....	34
Box 7	India --Reforms pushed further down the road.....	36
Box 8	Russia -_Demystifying the labour market conundrum.....	37
Box 9	Poland -_Political uncertainty in Poland.....	38
<b>Anchor theme #3</b>	<b>Advanced consumers above trend .....</b>	<b>39</b>
Box 10	US Investment - Lower oil prices to further curb energy investment .....	44
Box 11	Italian economy - Stars gradually lining up for an investment recovery .....	45
Box 12	Euro area -_Euro area: Hoping for a drop in the savings rate .....	46
Box 13	Euro area - Why Greece is not fixed yet .....	47
Box 14	Euro area - The return of political risk in Spain and Portugal .....	49
Box 15	Euro area - Path to fiscal union thorny; investors beware! .....	50
Box 16	Japan - No fiscal soundness without economic recovery: growth strategy and the new fiscal stabilisation plan .....	52
<b>Anchor theme #4</b>	<b>Shifting jobs-productivity balance .....</b>	<b>54</b>
Box 17	Productivity developments - Good policies could counter the ineluctable slowdown .....	58
Box 18	US labour market - Explaining the wageless recovery .....	61
Box 19	United Kingdom - Employment growth is losing its mojo.....	63
<b>Anchor theme #5</b>	<b>Divergence of monetary policies .....</b>	<b>64</b>
Box 20	US Inflation - Domestic forces to trump external ones.....	68
Box 21	70Euro area - Brent, not China could derail the inflation turnaround .....	70
Box 22	CEE - The impact of personnel changes on monetary policy in the Czech Republic and Poland .....	72
Election Calendar .....		73
Event Calendar .....		74
Country Notes .....		80

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