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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.

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