



Global Economic & Markets Factbook



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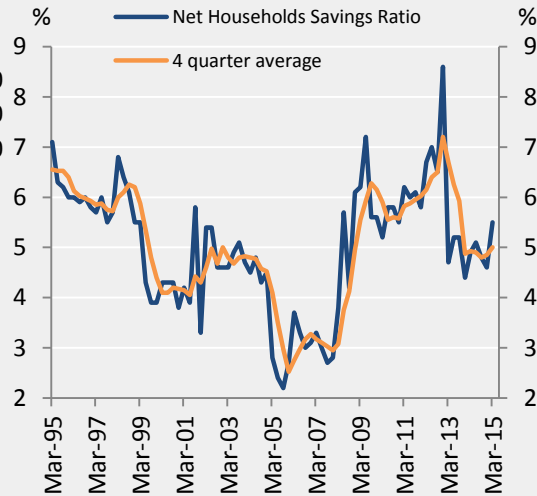
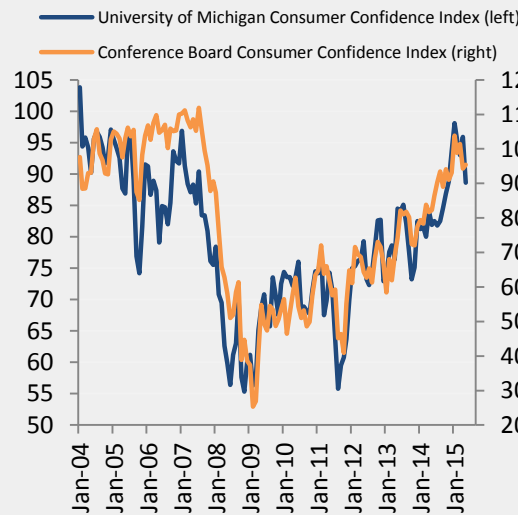
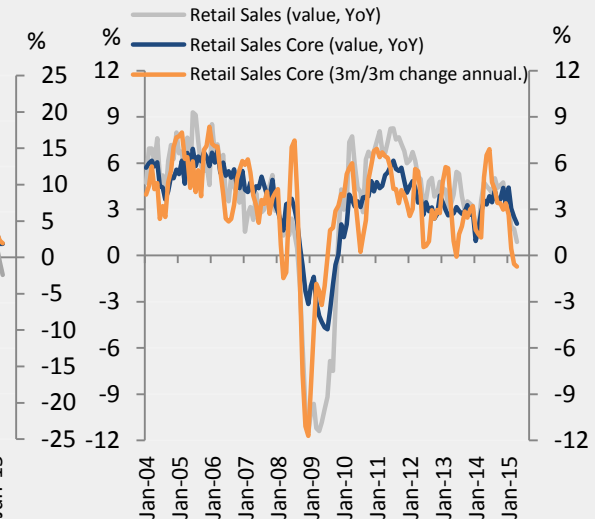
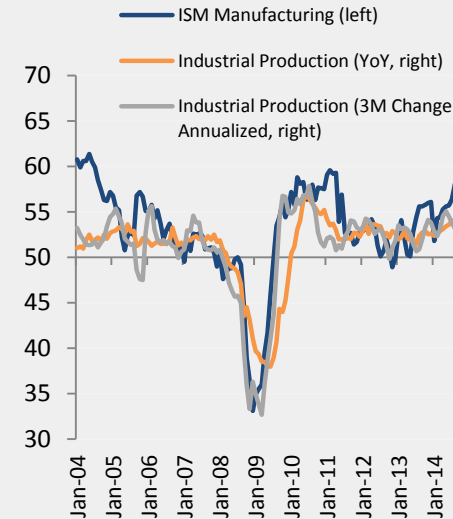
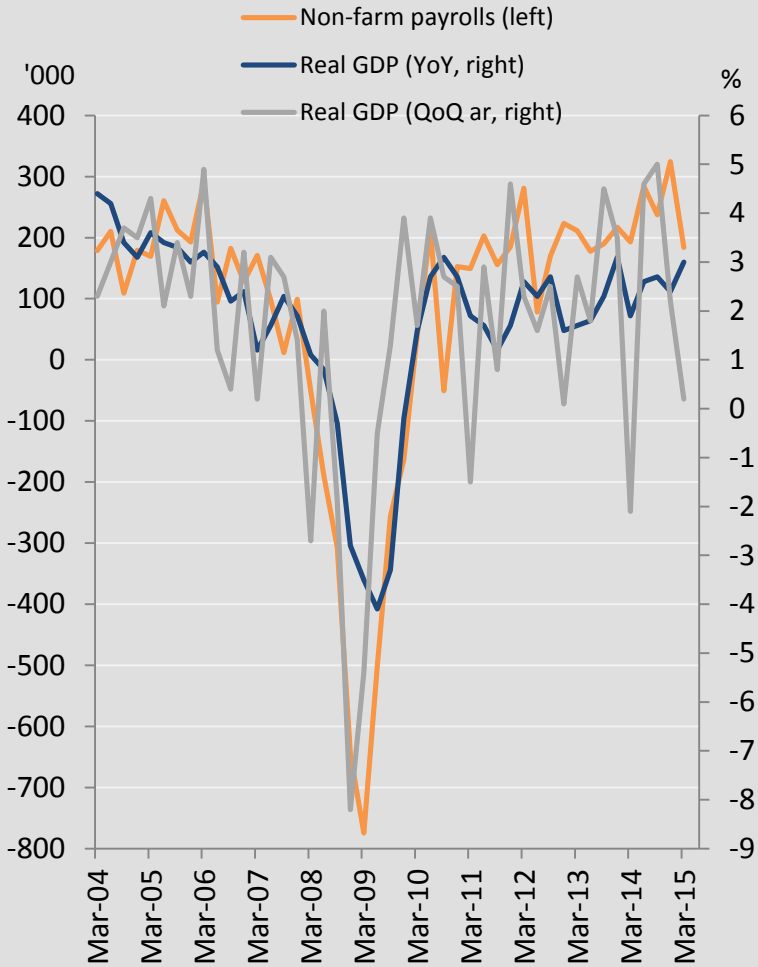
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- Real GDP remained flat in Q1:15, whereas subsequent data releases (mainly regarding trade and inventories) suggest negative growth (-1.0% to -0.5% qoq saar) in the second estimate for Q1:15 (expected on May 29th).
- So far in Q2, data has disappointed, tempering expectations for a growth rebound. Retail sales remain weak with the 3m/3m change in negative territory for the first time since mid-2013 and confidence indicators declining. Moreover, business investment has weakened, partly reflecting the substantial reduction in capital expenditure in the energy sector.
- Overall, downside risks to the outlook for economic growth have increased, reflecting longer-lasting effects from a strong USD and consumers' reluctance to spend despite lower oil prices (-42% yoy).
- Nevertheless, the economy should recover during 2015 as monetary policy remains accommodative, the housing market strengthens (with starts and permits rebounding as adverse weather conditions normalize) and consumer expenditure accelerating on the back of higher disposable income and increasing employment gains.
- The labor market remains strong, albeit there are signs of a moderation in job growth to more sustainable levels. NFPs rebounded in April (225k), following a weak outcome in March and initial jobless claims remain at fifteen-year lows (280k). The risk, however, is a lagged response by companies to the weakness in activity.
- By Q3:2015, the unemployment rate should be close to the Fed's estimate of full employment (5.1% based on the March FOMC). This should put further pressure on wages, that so far, albeit increasing (with the Employment Cost Index at 2.6% yoy), remain below the Fed's comfort zone (3%-4%).
- Inflation will remain below the Fed's target (2%) throughout 2015, mainly due to the strong appreciation of the USD in real terms (+18% yoy). The reversal in oil prices and the USD, if maintained, combined with a narrowing output gap, constitute an upside risk.
- The Fed will seek strong evidence that the economy is recovering sustainably, in order to increase interest rates in H2:2015. If US growth fails to resume, core PCE declines further and medium-term market and survey-based inflation expectations fail to recover, the Fed will delay interest rate increases.

Business (ISM) and consumer confidence indicators entered Q2 on a weak footing



Source: US Bureau of Labor Statistics, US Bureau of Economic Analysis, Non-farm payrolls 3-month average, Real GDP QoQ seasonally adjusted annualized rate

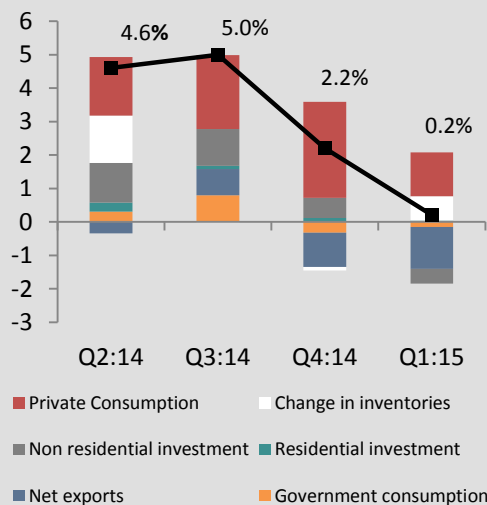
Source: Bureau of Economic Analysis

2015 real GDP growth estimates are declining

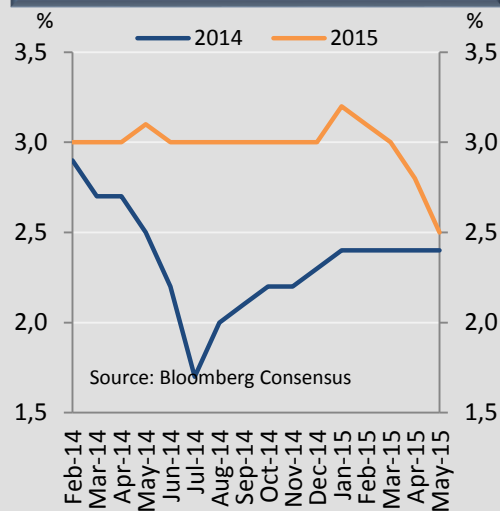
US Real GDP Growth	2013	Q1:14	Q2:14	Q3:14	Q4:14	2014	Q1:15e	Q2:15e	Q3:15e	Q4:15e	2015e
	GDP (YoY)	2,2	1,9	2,6	2,7	2,4	2,4	3,0	2,6	2,2	2,5
GDP (QoQ saar)	-	-2,1	4,6	5,0	2,2	-	0,2	3,0	3,4	3,6	-
Private consumption (QoQ saar)	2,4	1,2	2,5	3,2	4,4	2,5	1,9	3,1	3,2	3,2	3,1
Government consumption (QoQ saar)	-2,0	-0,8	1,7	4,4	-1,9	-0,2	-0,8	2,5	2,5	2,5	1,0
Investment (QoQ saar)	4,7	0,2	9,5	7,9	4,6	5,4	-2,5	6,3	6,4	6,9	4,1
Residential (QoQ saar)	11,9	-5,3	8,8	3,3	3,8	1,6	1,3	7,8	8,0	10,5	5,1
Non-residential (QoQ saar)	3,0	1,6	9,7	8,9	4,7	6,3	-3,4	6,0	6,0	6,0	3,9
Inventories contribution (QoQ saar)	0,0	-1,2	1,2	-0,1	-0,1	0,0	0,7	-0,6	0,0	0,0	0,1
Net Exports contribution (QoQ saar)	0,2	-1,6	-0,3	0,7	-1,0	-0,2	-1,2	-0,1	-0,2	-0,2	-0,5
Exports (QoQ saar)	3,0	-9,2	11,0	4,6	4,5	3,2	-7,2	4,0	5,0	5,5	1,9
Imports (QoQ saar)	1,1	2,2	11,3	-0,9	10,4	4,0	1,8	4,0	5,5	5,5	4,7

Source: BEA, Bloomberg, NBG estimates

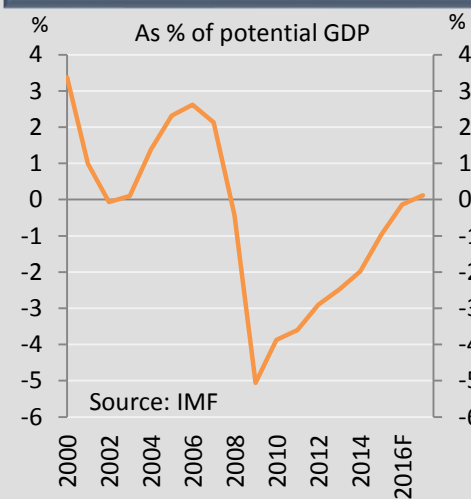
GDP Contributions (%)



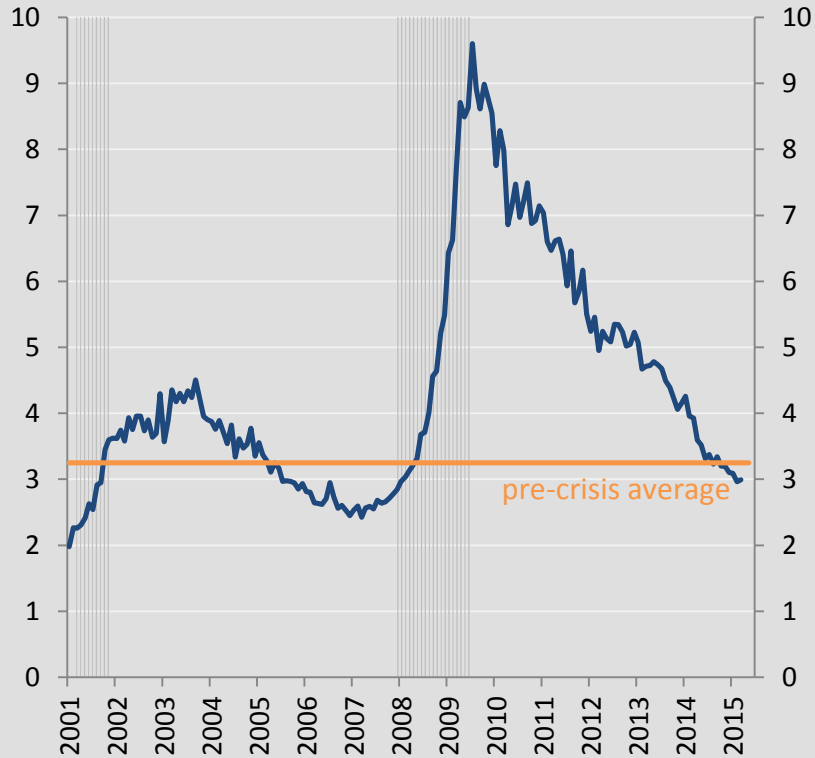
GDP Forecast Evolution



Output Gap



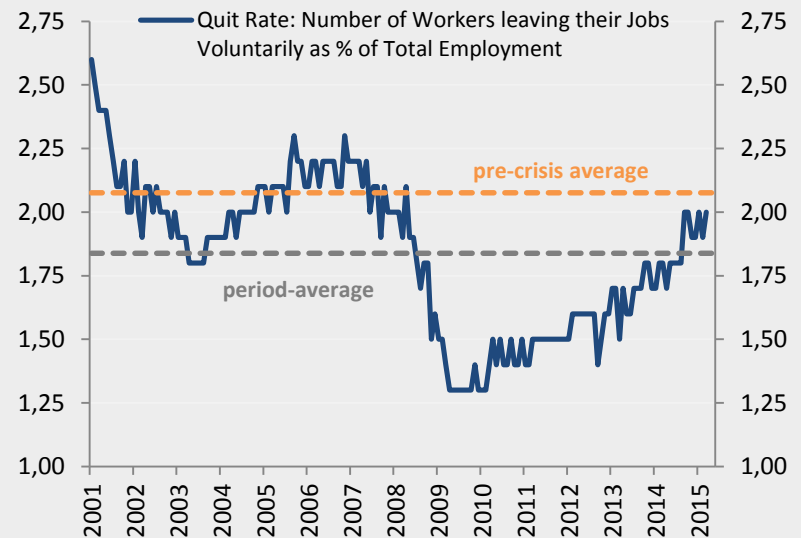
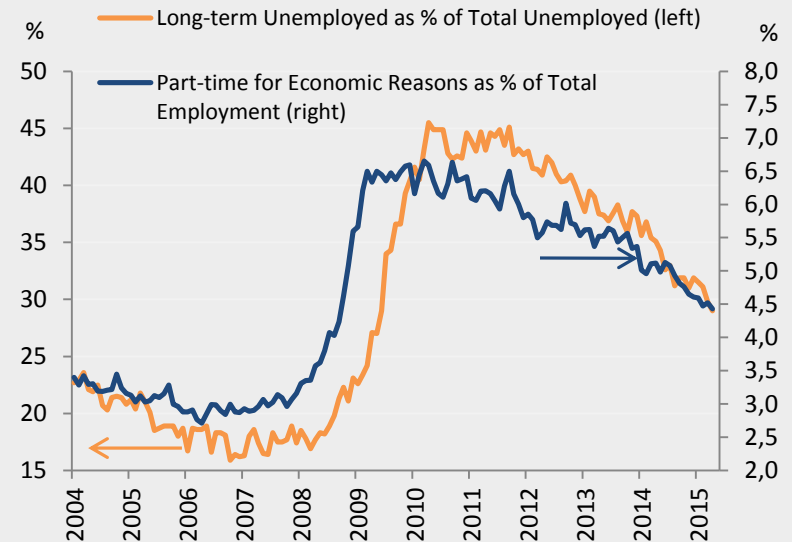
People Per Job Opening Index



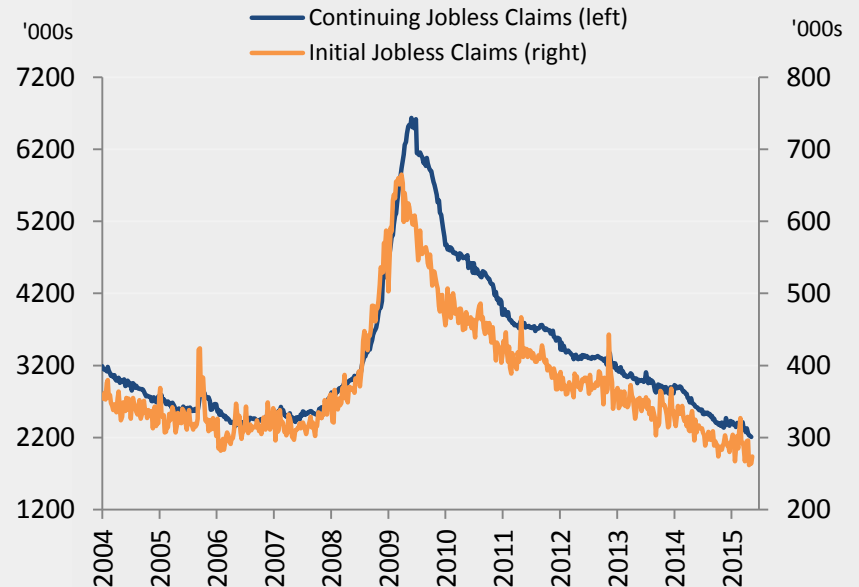
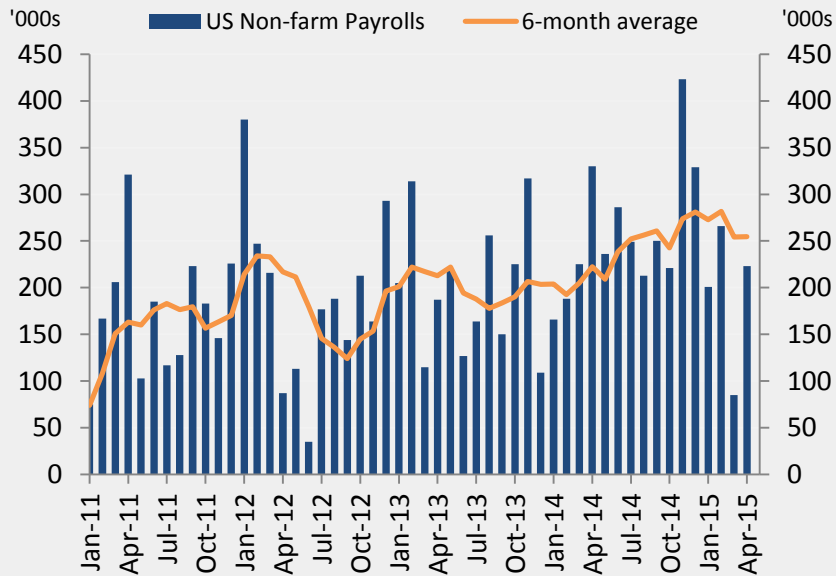
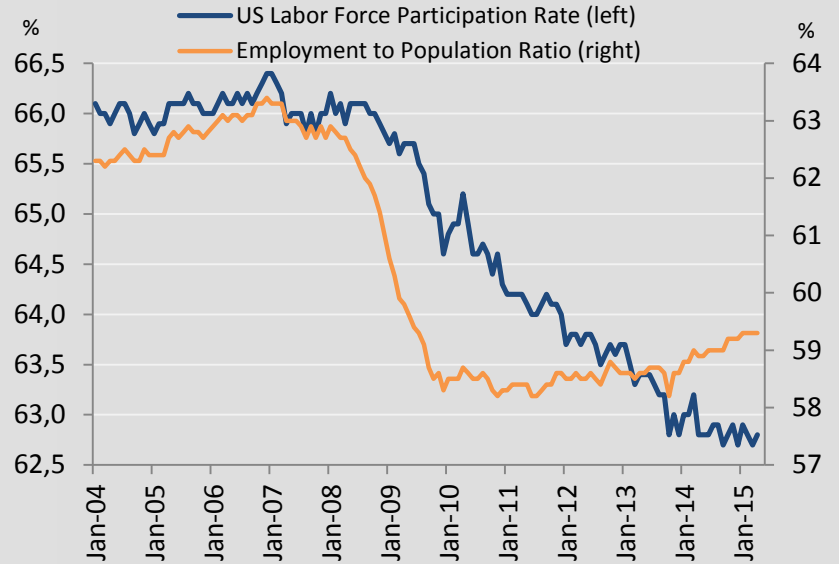
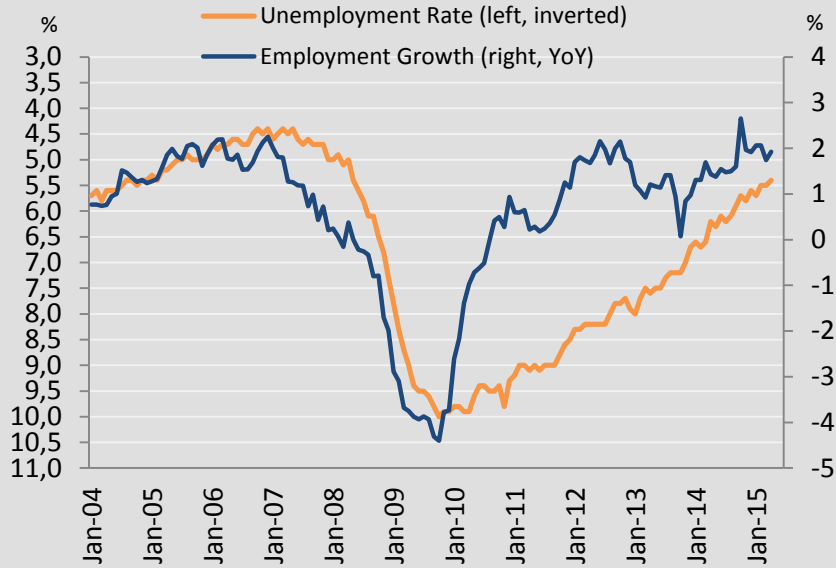
Index: Total Number of Unemployed plus People not in Labor Force but who want a job now divided by Total Number of Job Openings

US Recessions in shaded areas

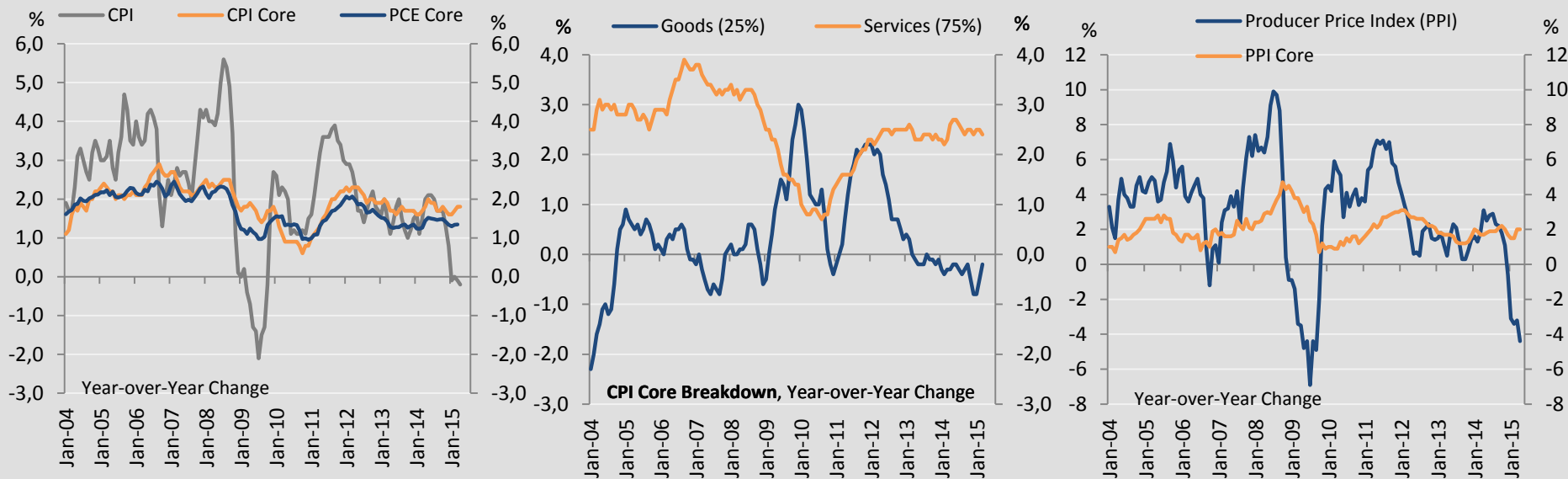
Source: US Bureau of Labor Statistics, NBER, NBG Estimates



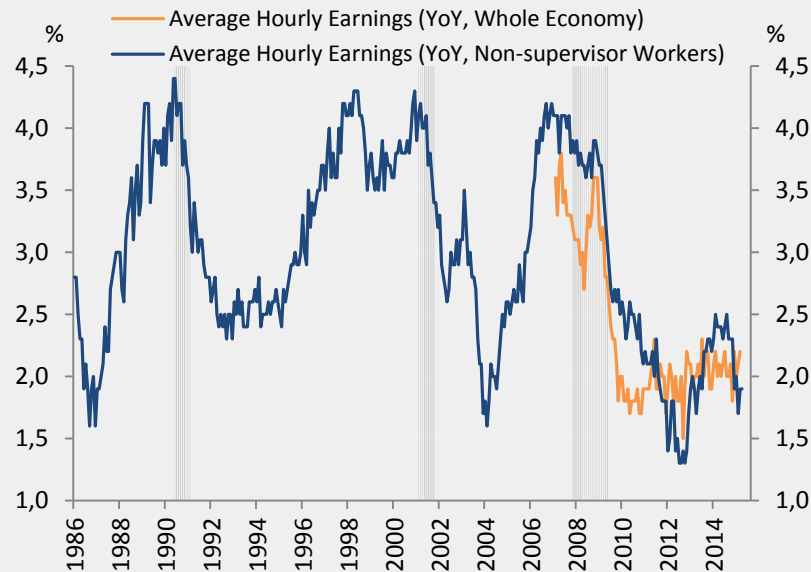
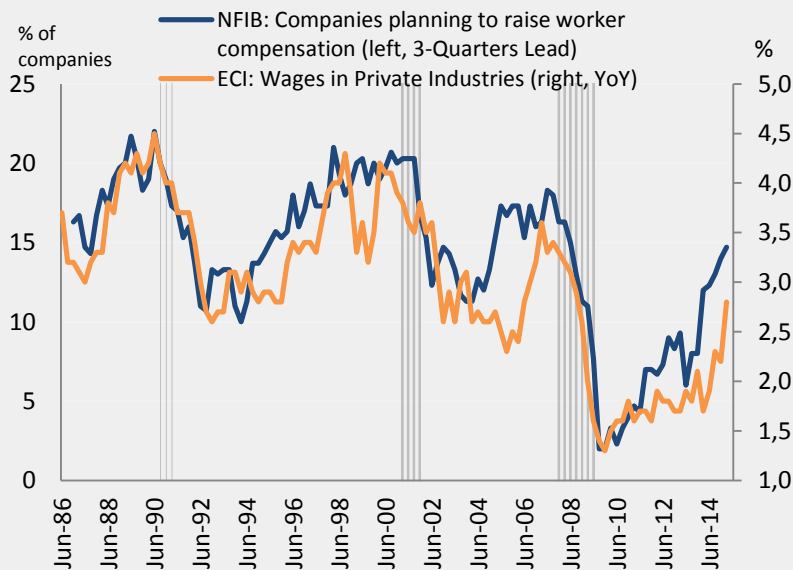
Job growth rebounded in April

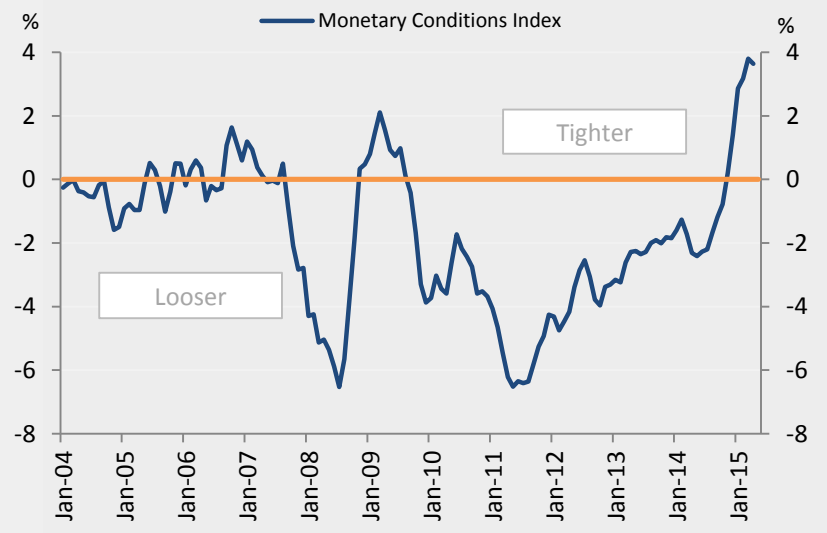
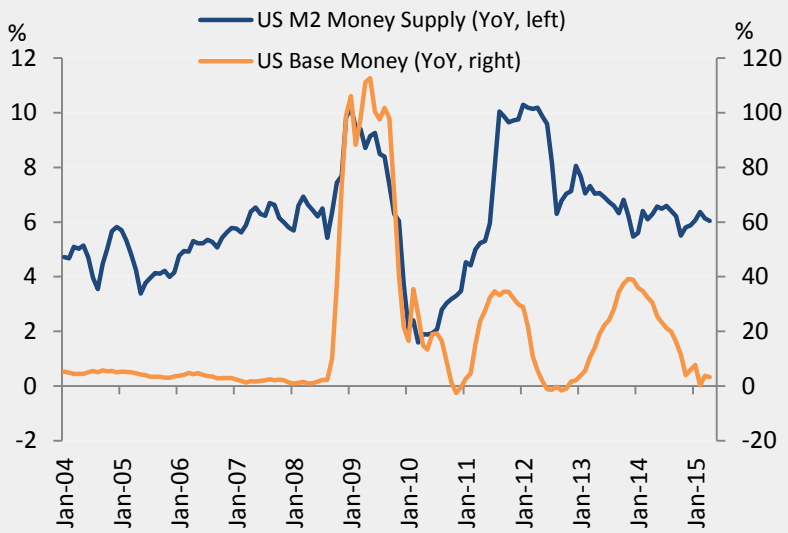
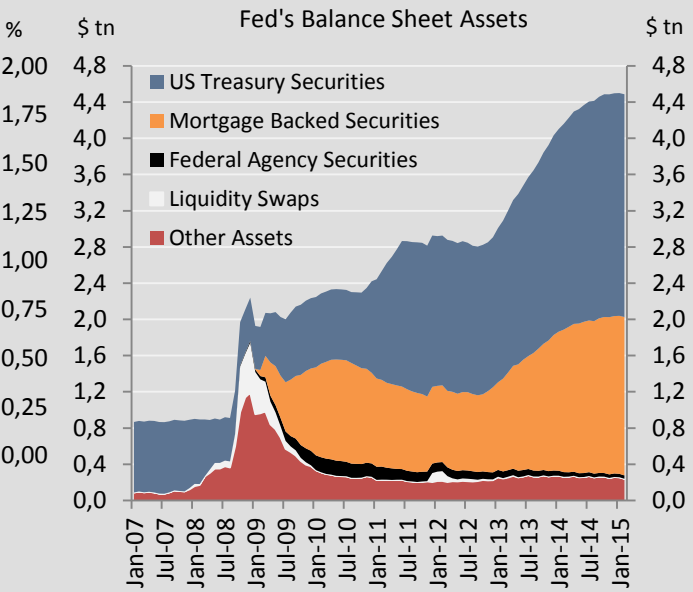
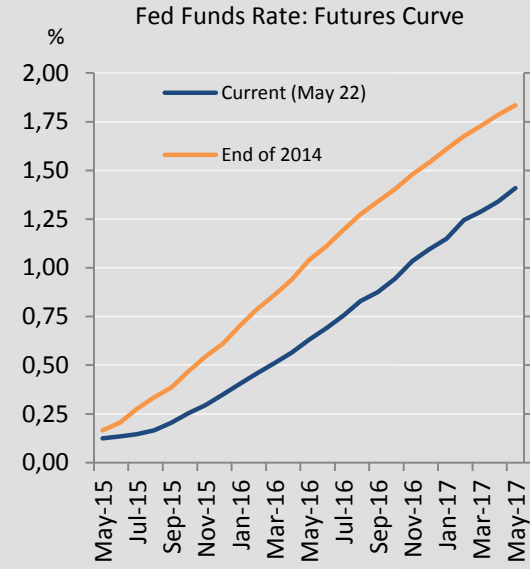
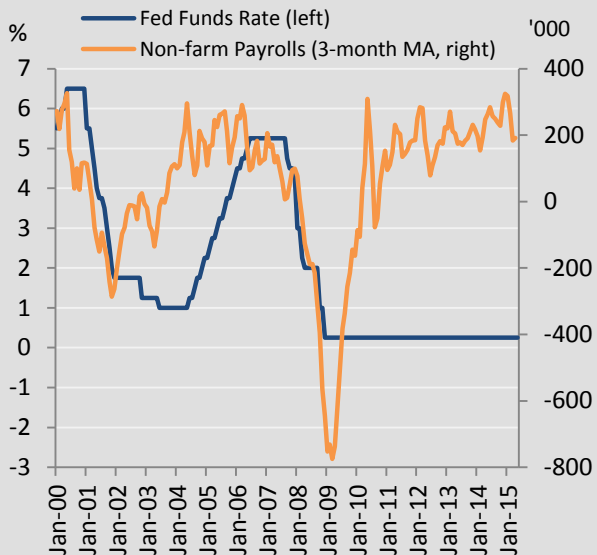


Inflation is firming amid increasing oil prices and the pause in the USD rally



■ PCE Core: Fed's preferred measure to gauge inflation developments

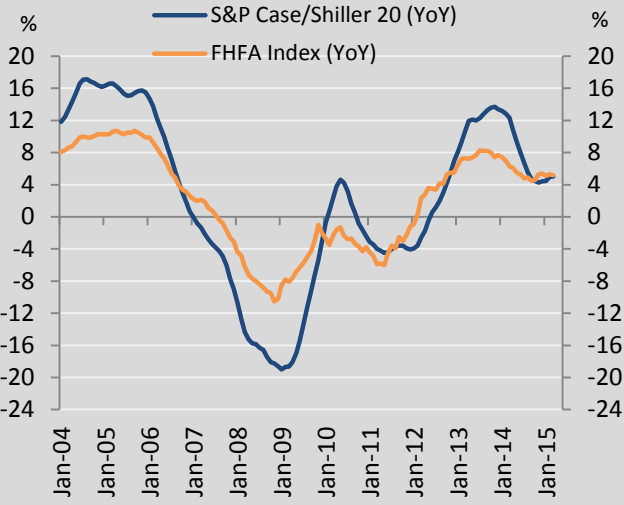




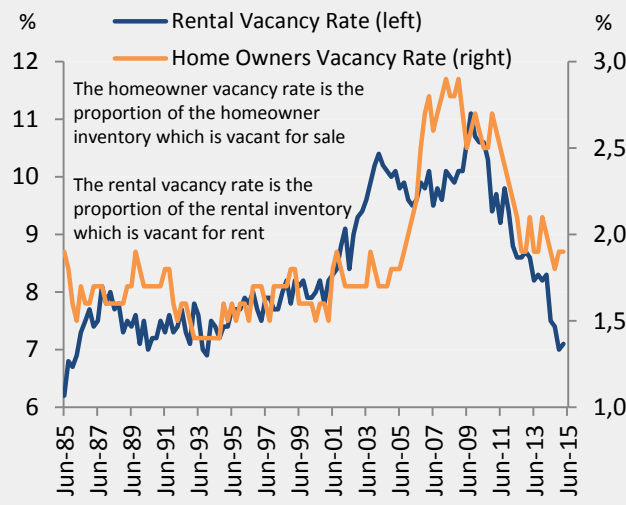
The Base Money is defined as the sum of currency in circulation and reserve balances (deposits held by banks in their accounts at the Fed)

Monetary Conditions Index is a simple composite index of Real Short Term Rates (Libor less CPI) & Real Effective Exchange Rate

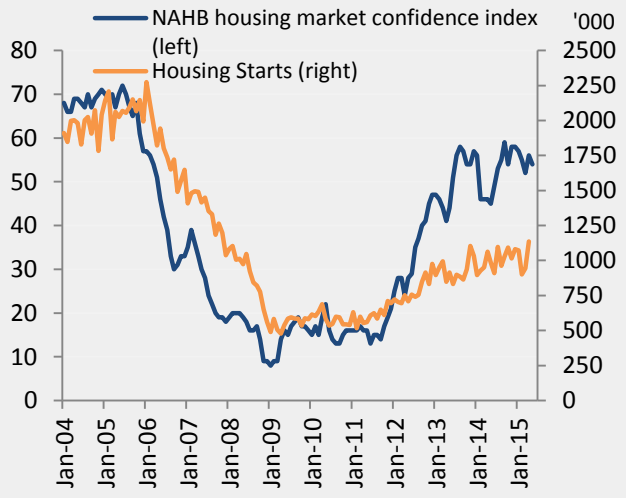
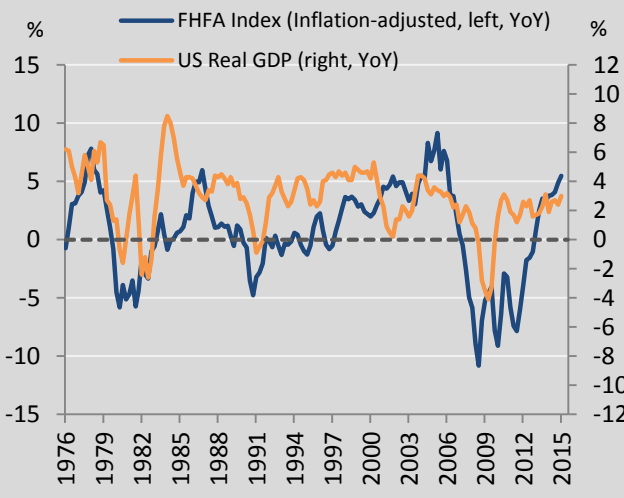
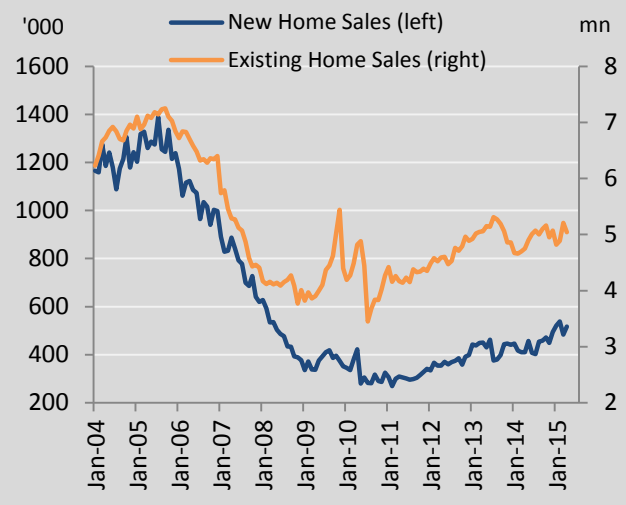
Prices



Vacancy Rates & Starts

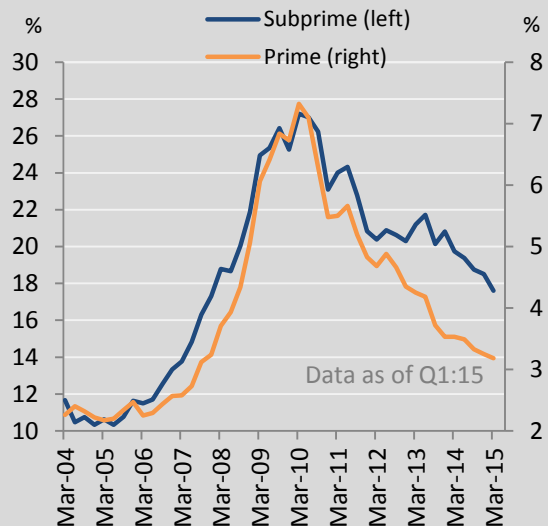


Sales & Inventories

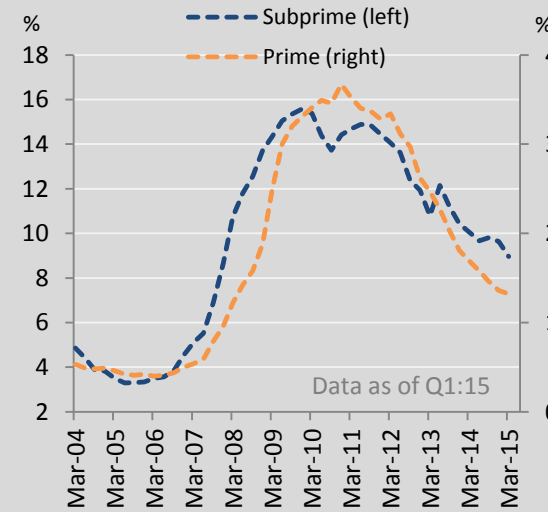


The decline in delinquencies and the improvement in real estate wealth and housing affordability remain solid

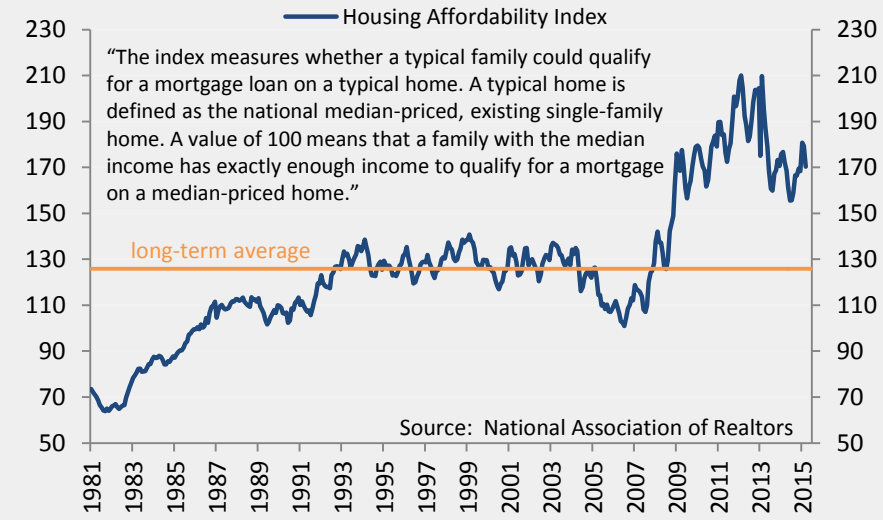
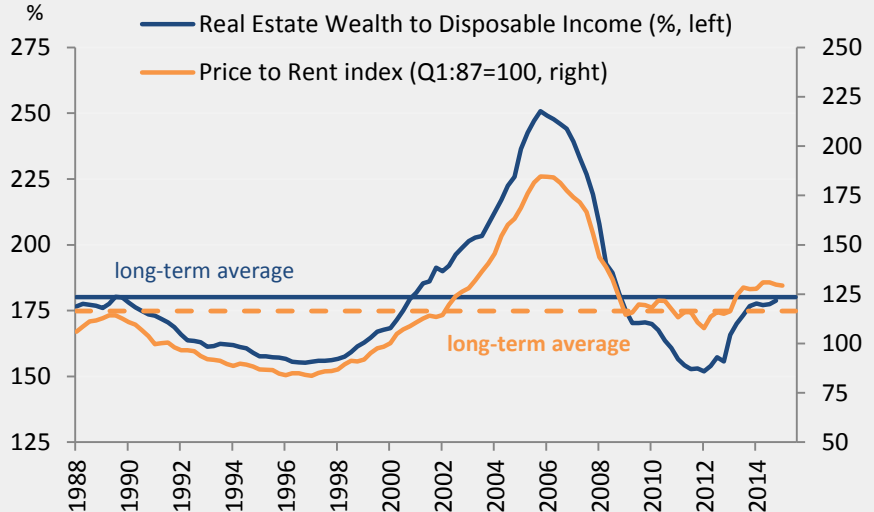
Delinquent Loans as % of Total Mortgages



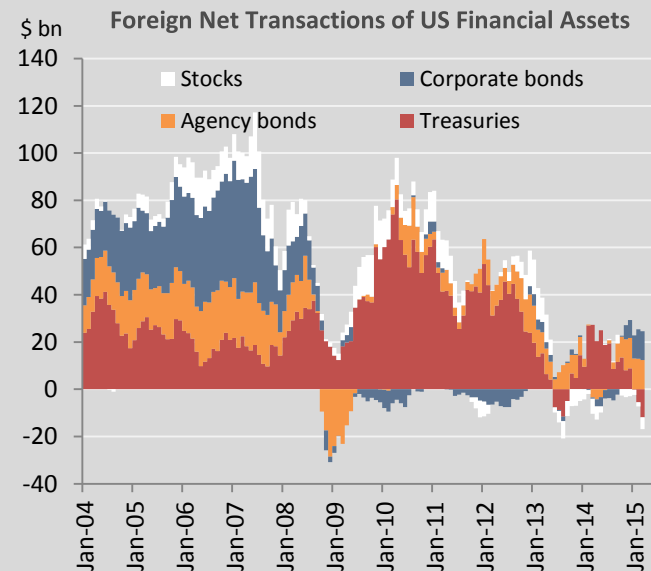
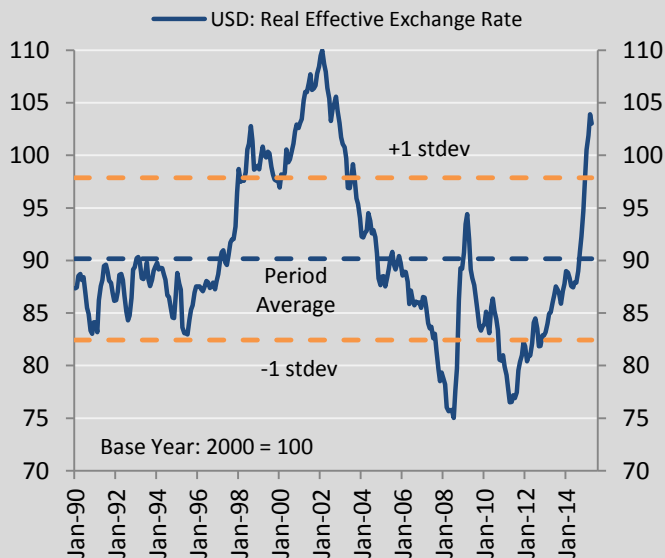
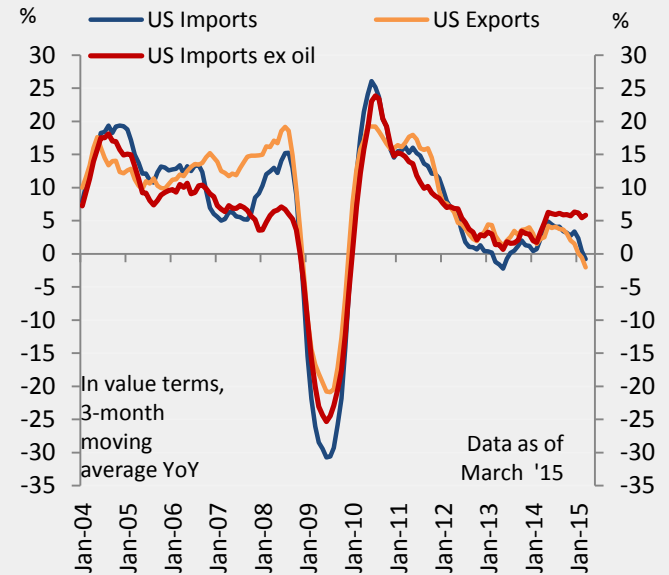
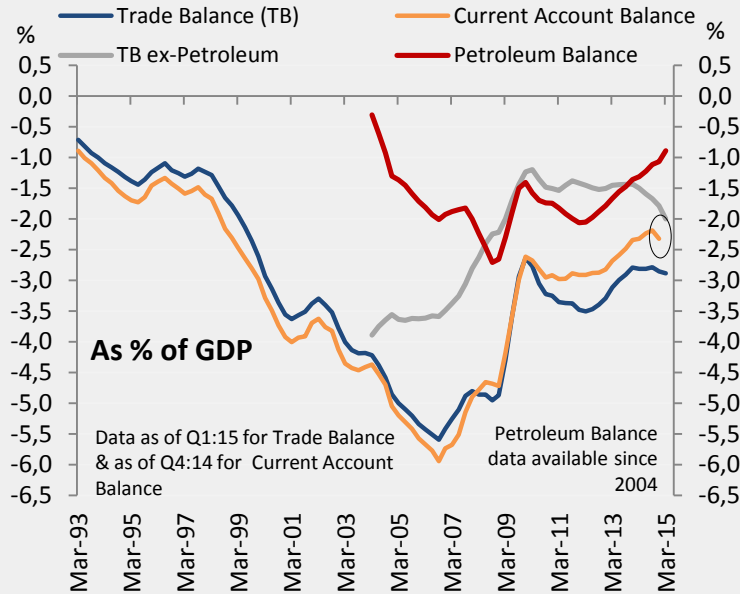
Foreclosures as % of Total Mortgages

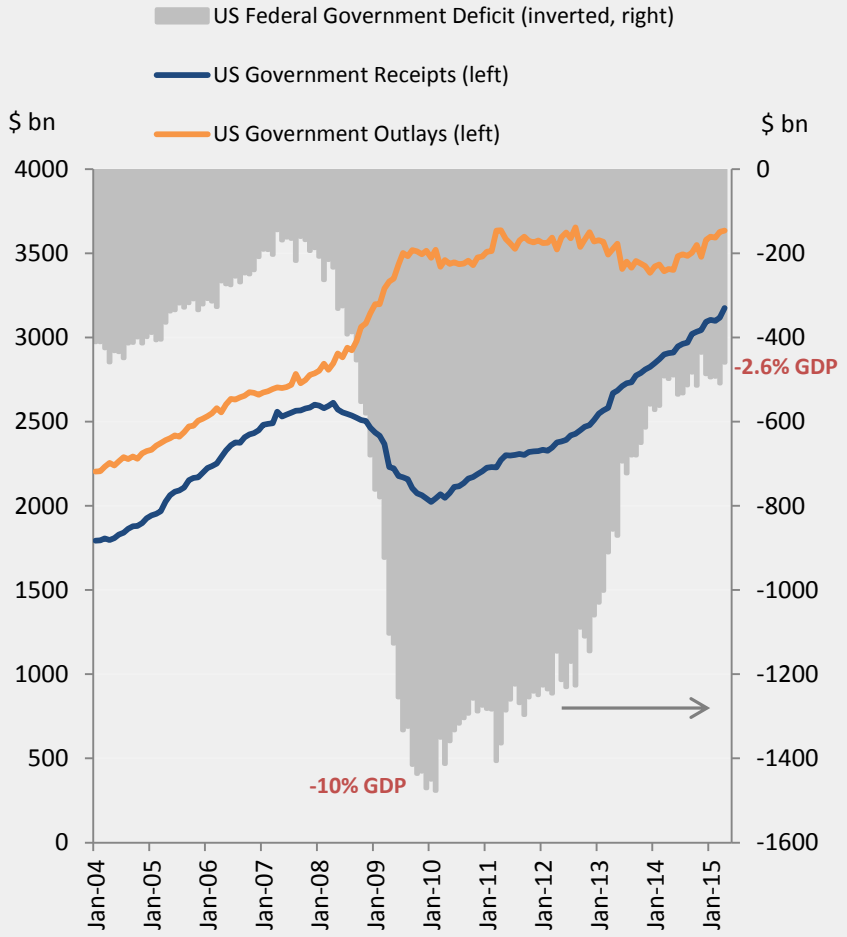


Source: Mortgage Bankers Association, Delinquencies are the total of 30, 60 and 90 days past due mortgage loans

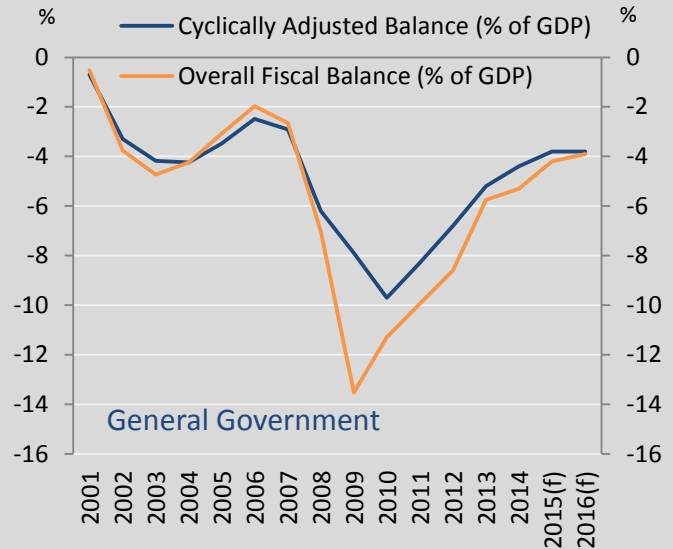


A strong USD took its toll on exports

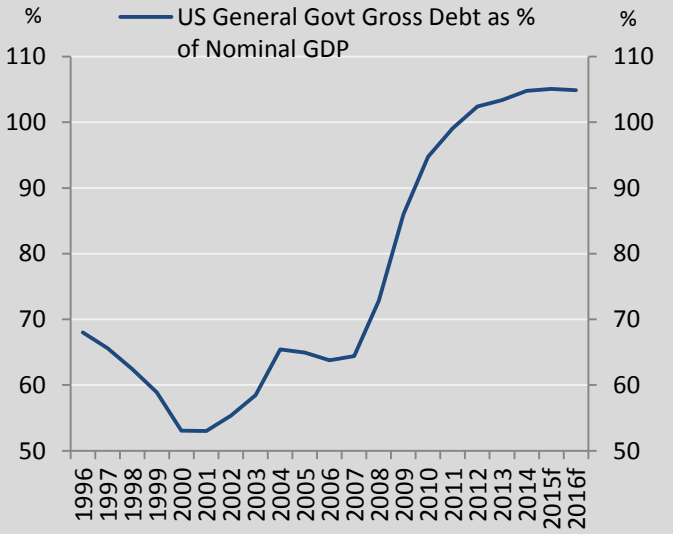




Source: Congressional Budget Office (CBO) as of April 2015, [Federal Government](#) statistics, data appear as 12-month rolling sums

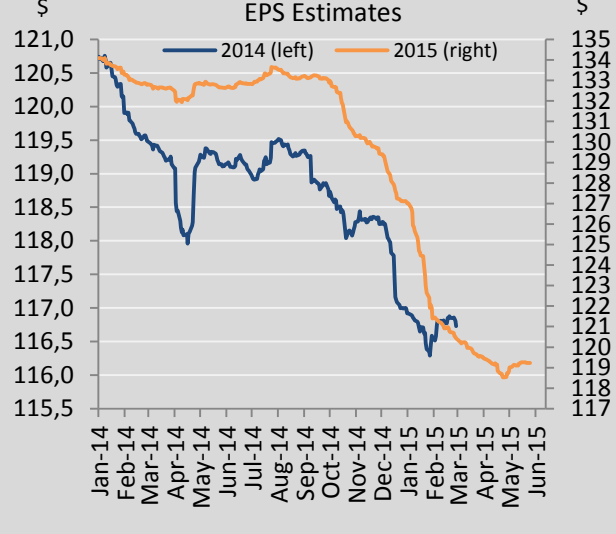
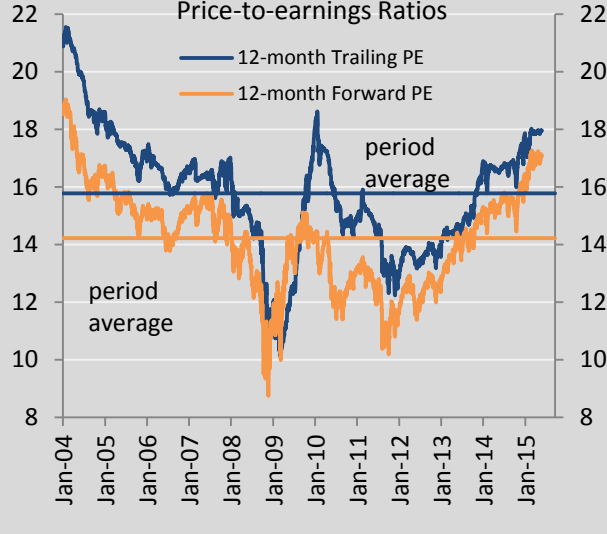
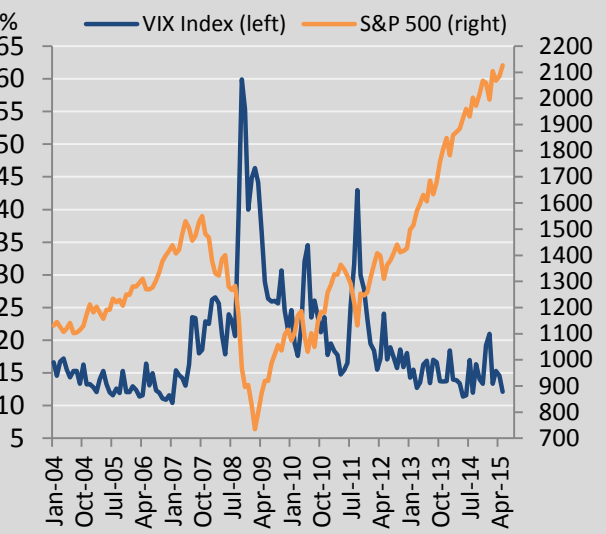


Source: IMF Fiscal Monitor, April 2015



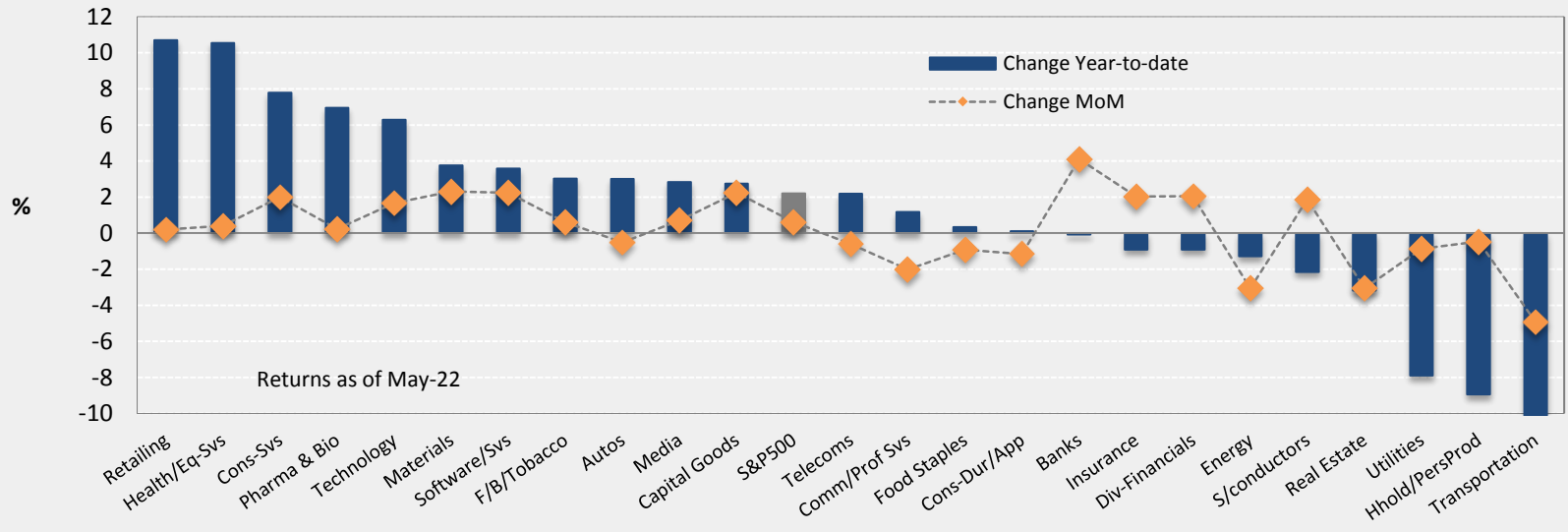
Source: IMF Fiscal Monitor, April 2015

2015 S&P500 negative EPS revisions have bottomed out, supporting the US equity market in May

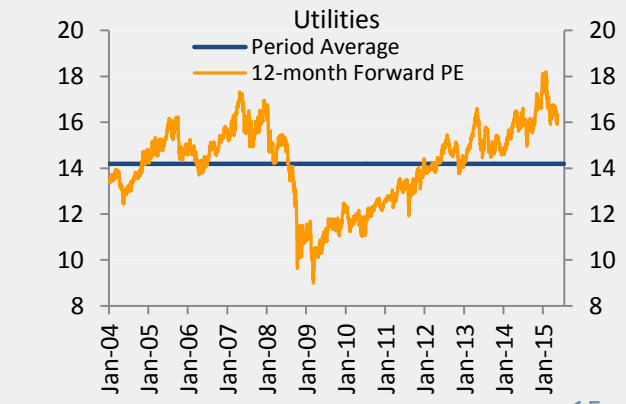
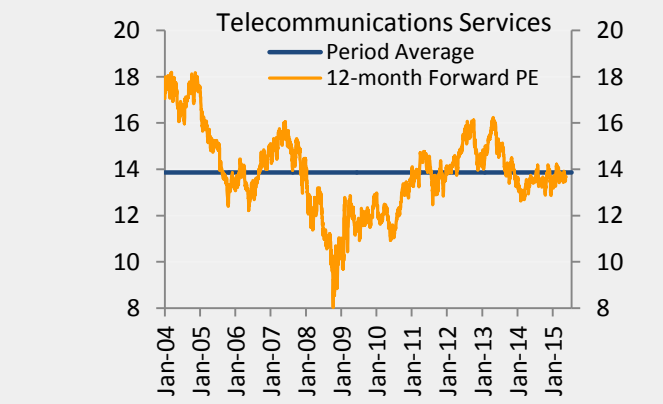
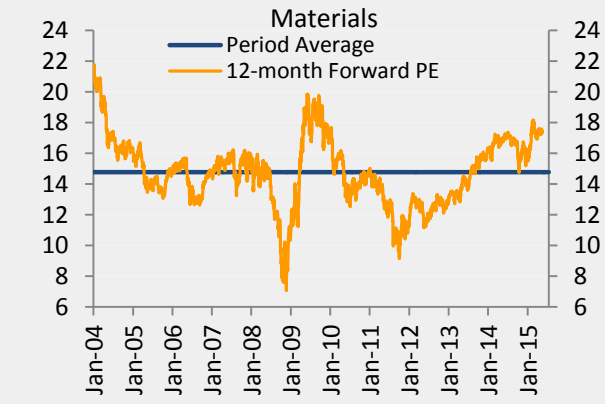
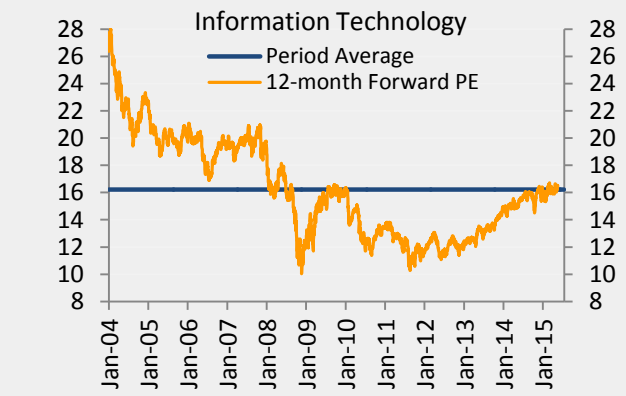
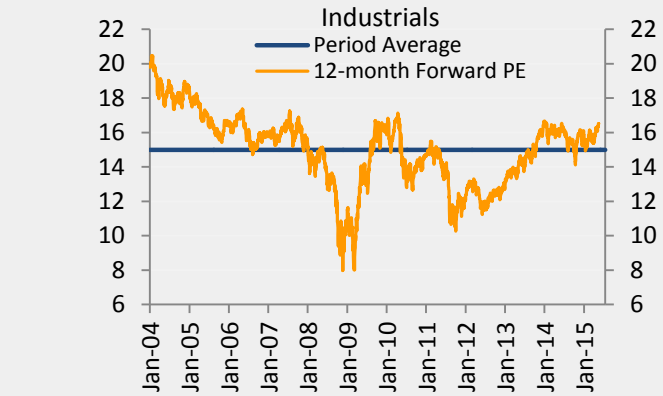
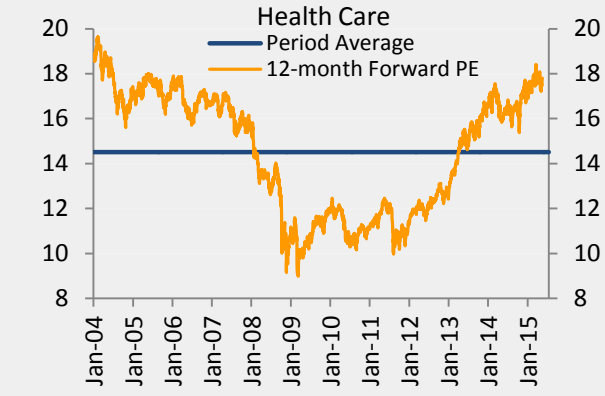
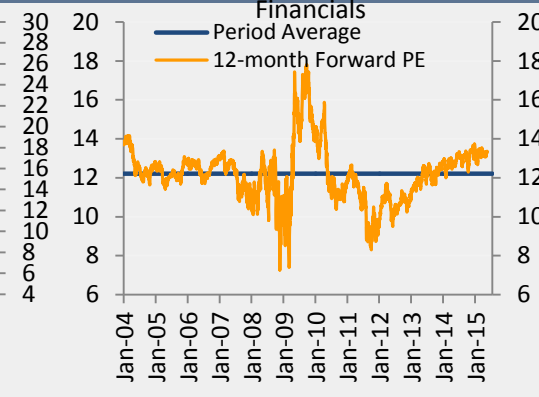
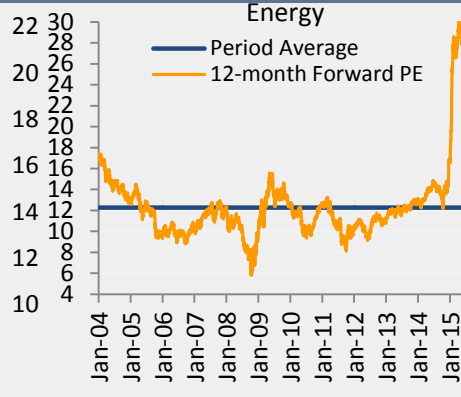
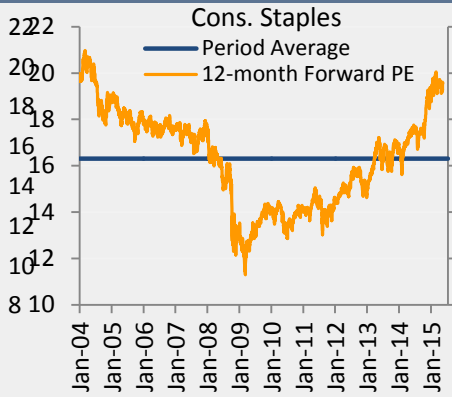
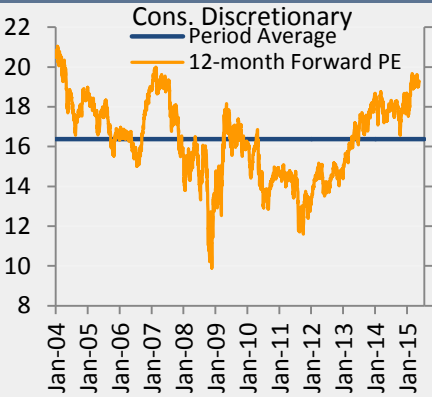


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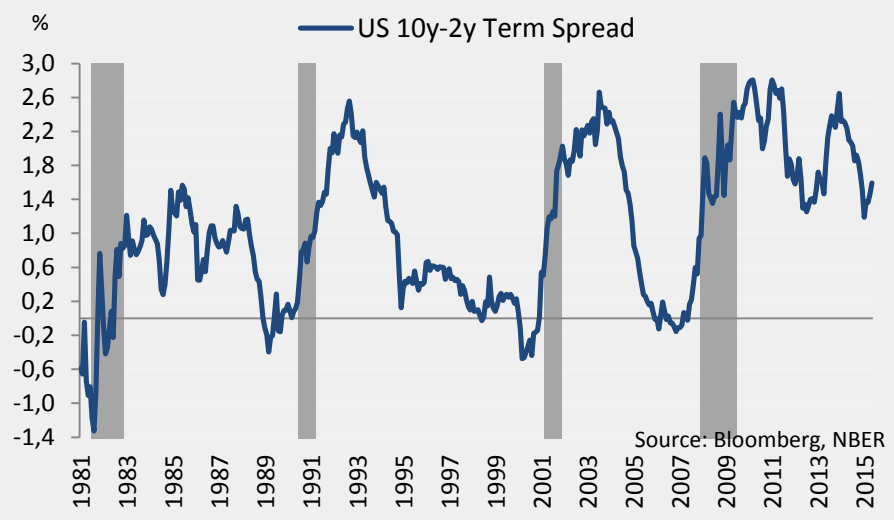
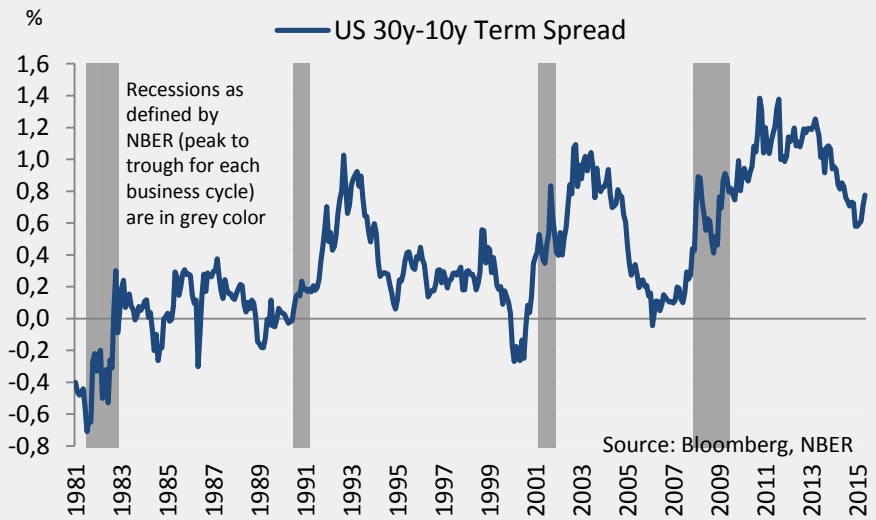
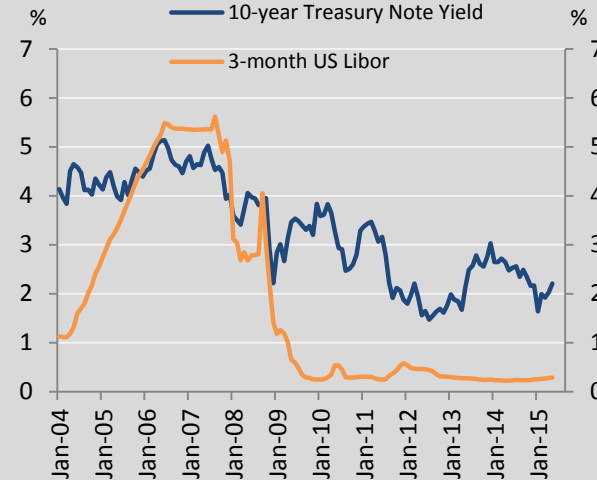
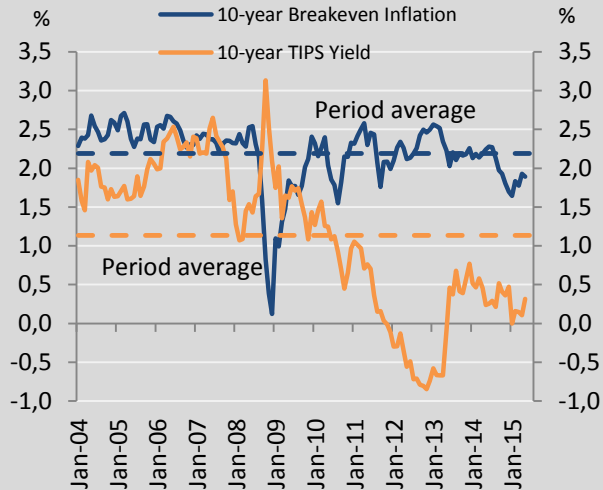
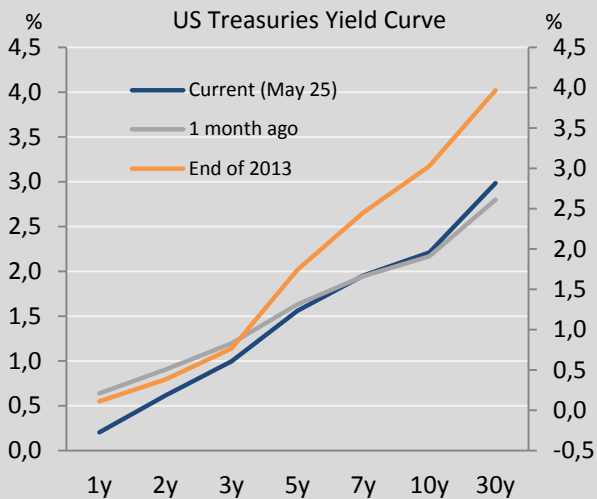
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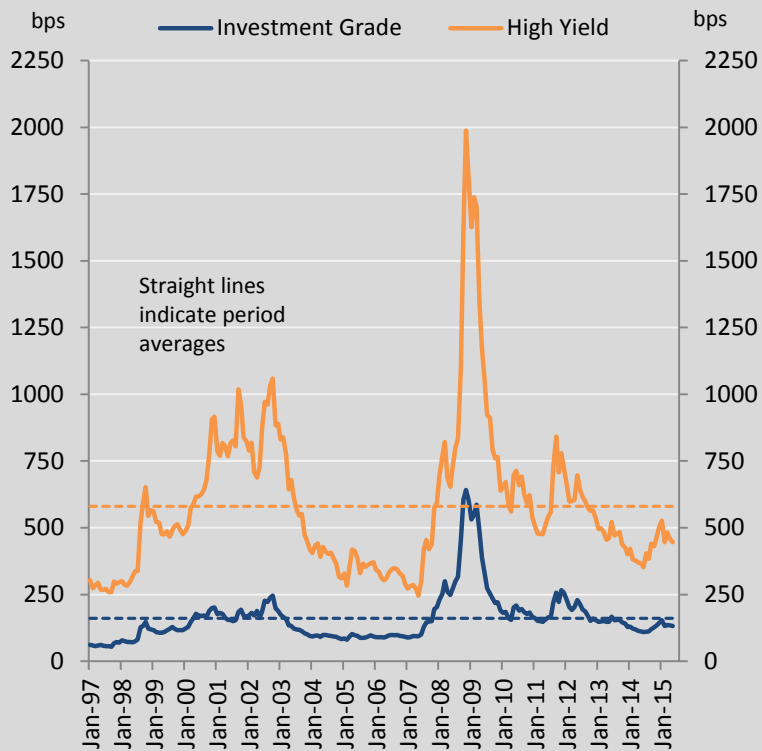
US Sectors Valuations



Government bond yields increased in May as deflationary pressures eased; the Treasury curve steepened

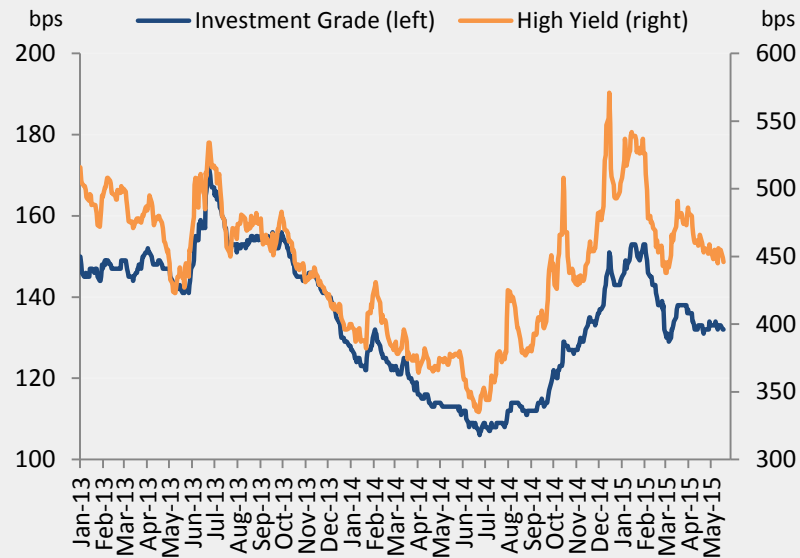


Corporate Bond Spreads

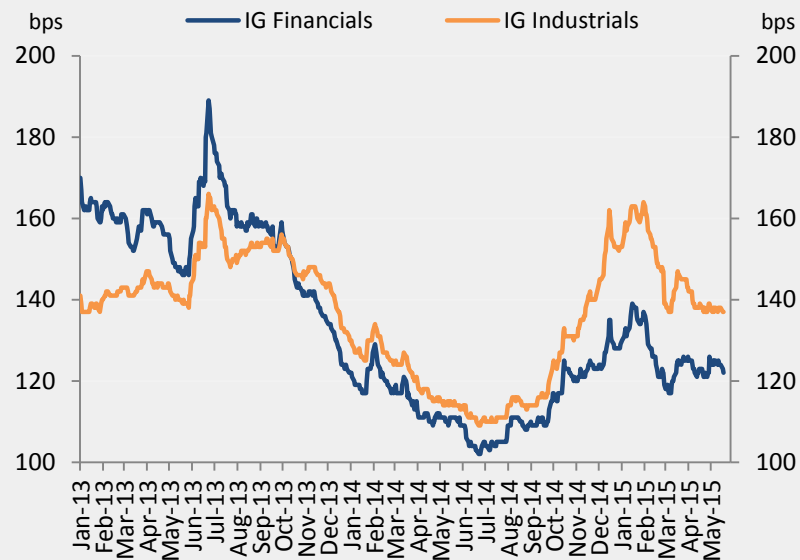


Bank of America / Merrill Lynch US Corporate Bond Index (IG), US High Yield Master II (HY)

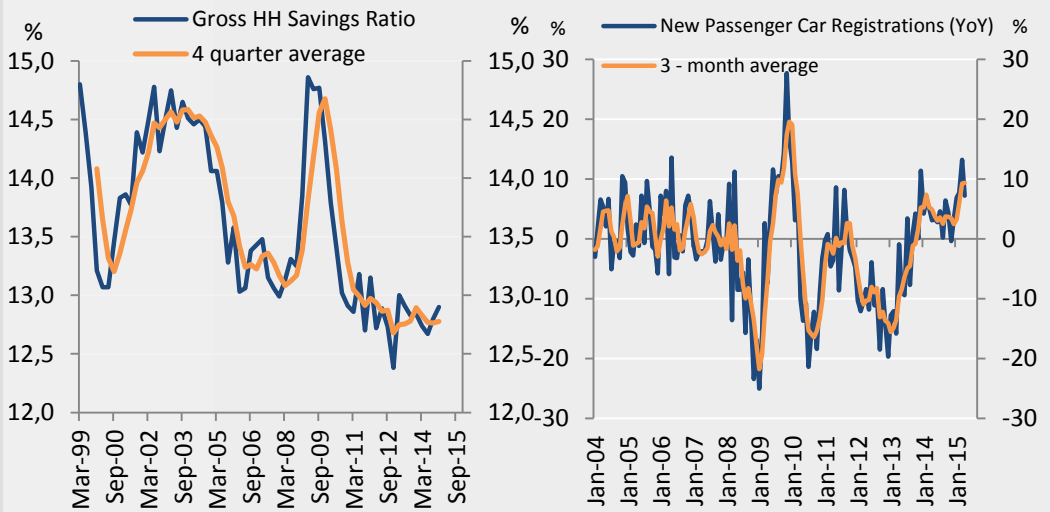
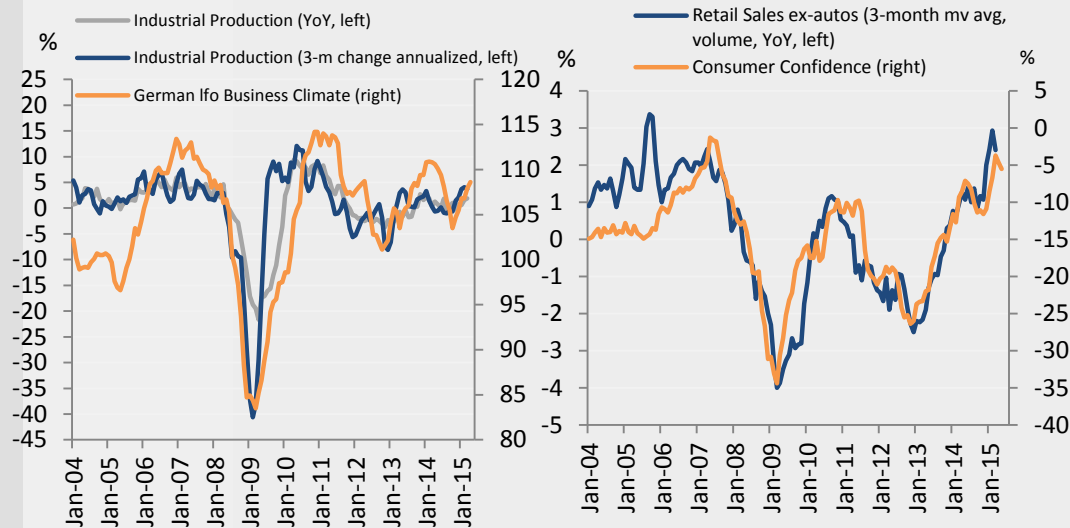
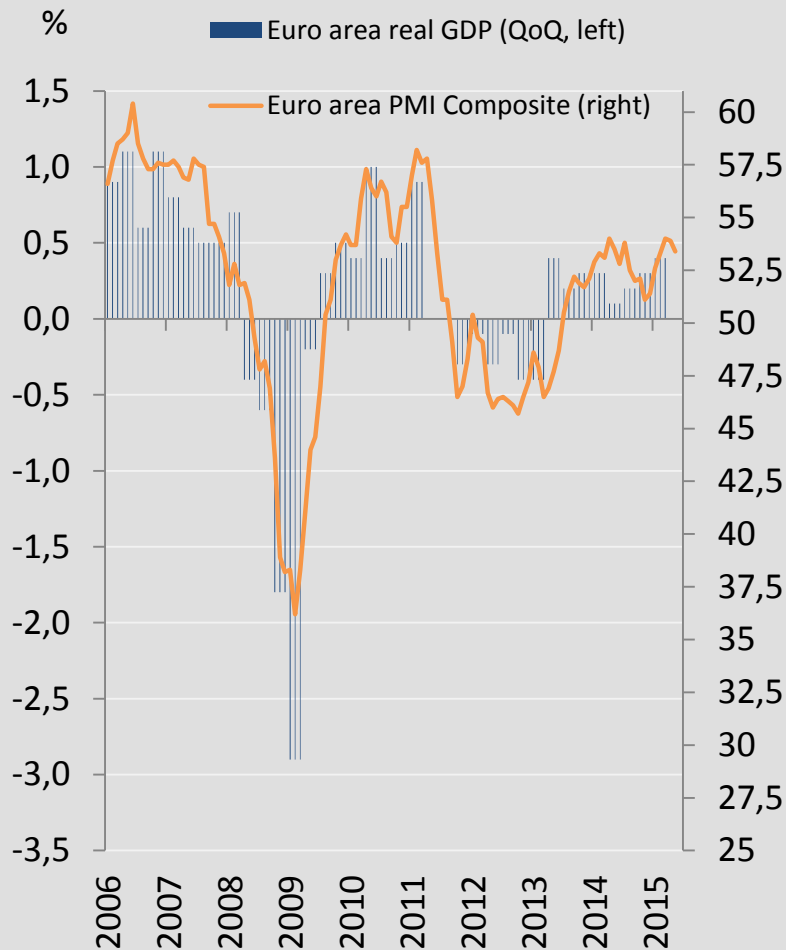
Short-term View



IG Financials/Industrials



- The euro area recovery gained traction in the first quarter, with real GDP increasing by 1.6% qoq saar compared with growth of 1.3% qoq in Q4:14. The Q1 outcome is the strongest in four years, reflecting the favorable impact from lower oil prices (-29% in euro terms yoy in May) and a weaker real effective exchange rate (-15% yoy in May).
- Business (PMI) and consumer sentiment (ECCI) surveys entered Q2 on a weak footing, albeit remaining at expansionary levels. The euro area PMI composite indicator has averaged 53.6 so far in Q2, and is consistent with 1.2%-1.5% qoq saar growth.
- However, the change in direction in the PMI and ECCI (-1pts and -1.8pts during the past two months) suggests that the recent increase in oil prices and the euro may brake the recovery. As a result, euro real GDP growth estimates for 2015 have peaked at 1.4%-1.5% following a rapid increase ytd.
- In view of the fragility of the recovery, ECB officials reaffirmed the commitment of the central bank to adhere to the Asset Purchase Programme (APP) (€60bn) until September 2016 or until a sustained adjustment to the path of inflation has been achieved. Note that the ECB intends to frontload (>60bn) its purchases until end-June, as bond markets are less liquid in July/August.
- The fiscal stance is expected to turn broadly neutral after several years of consolidation, thus supporting growth. Specifically, the change in the cyclically-adjusted primary balance in 2015 would be c. 0.1% of GDP following an average of 1 pp during 2010-2014 (a positive figure indicates consolidation).
- Deflationary pressures have receded recently, mainly due to the rebound in oil prices, with market-based measures of inflation expectations (5Y/5Y breakeven swap rates) increasing to a six-month high of 1.8%. Notwithstanding the improvement, headline inflation is expected to increase only gradually towards 1% by year-end.
- The risks to the economic outlook are now balanced. On the downside, a renewed decline in inflation expectations (resulting in higher real interest rates) could jeopardize investment and household deleveraging, whereas elevated political risks (elections in Spain and the situation in Greece) could slow the pace of recovery. On the upside, improving bank credit conditions, with the annual change of bank loans at a 3-year high of 0.8% yoy, should support the recovery.



Above: GDP data as of Q1:2015, PMI data as of May 2015

Source: Eurostat, Markit

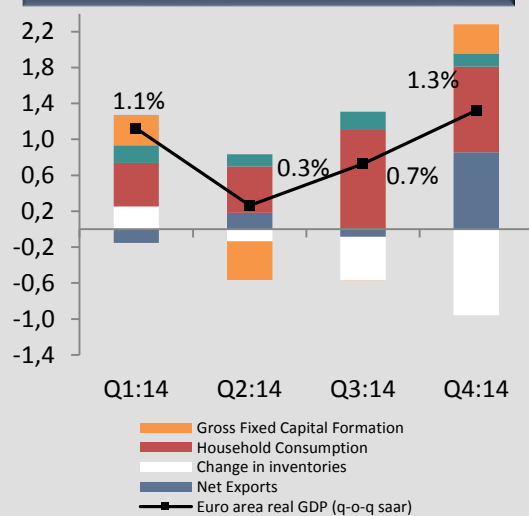
Source: Eurostat

Private consumption is expected to lead euro area growth in 2015

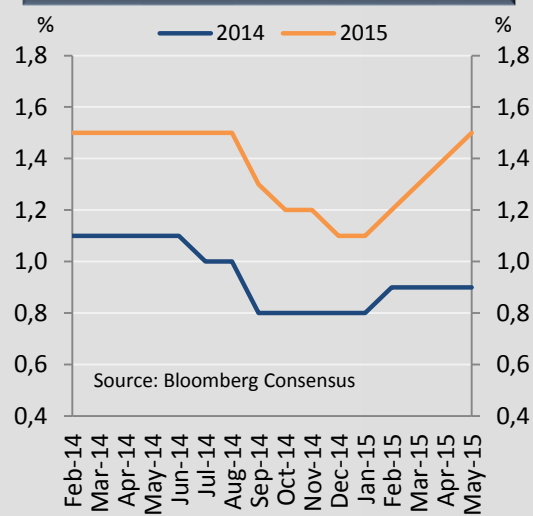
EA Real GDP Growth	2013	Q1:14	Q2:14	Q3:14	Q4:14	2014	Q1:15e	Q2:15e	Q3:15e	Q4:15e	2015e
GDP (YoY)	-0,4	1,1	0,8	0,8	0,9	0,9	1,0	1,3	1,6	1,8	1,4
GDP (QoQ saar)	-	1,1	0,3	0,7	1,3	-	1,6	1,7	1,9	1,9	-
Private consumption (QoQ saar)	-0,6	0,9	1,0	2,0	1,8	1,0	1,8	2,0	2,0	2,2	1,9
Government consumption (QoQ saar)	0,2	0,9	0,6	1,0	0,7	0,7	0,5	0,5	0,3	0,3	0,4
Investment (QoQ saar)	-2,4	1,8	-2,1	0,0	1,6	1,0	1,8	1,8	1,8	1,8	1,3
Inventories contribution (QoQ saar)	-	0,2	-0,1	-0,5	-0,9	-0,1	0,1	0,1	0,1	0,1	-0,2
Net Exports contribution (QoQ saar)	0,4	-0,1	0,1	-0,1	0,8	0,1	0,2	-0,1	0,3	0,2	0,2
Exports (QoQ saar)	2,2	1,7	5,3	6,0	3,3	3,7	4,0	4,5	6,0	6,5	4,7
Imports (QoQ saar)	1,4	2,2	5,5	6,9	1,7	3,8	4,0	5,1	5,9	6,6	4,6

Source: Eurostat, Bloomberg, NBG Estimates

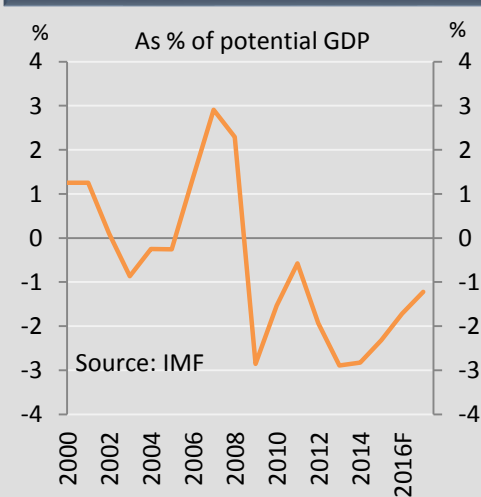
GDP Contributions (%)



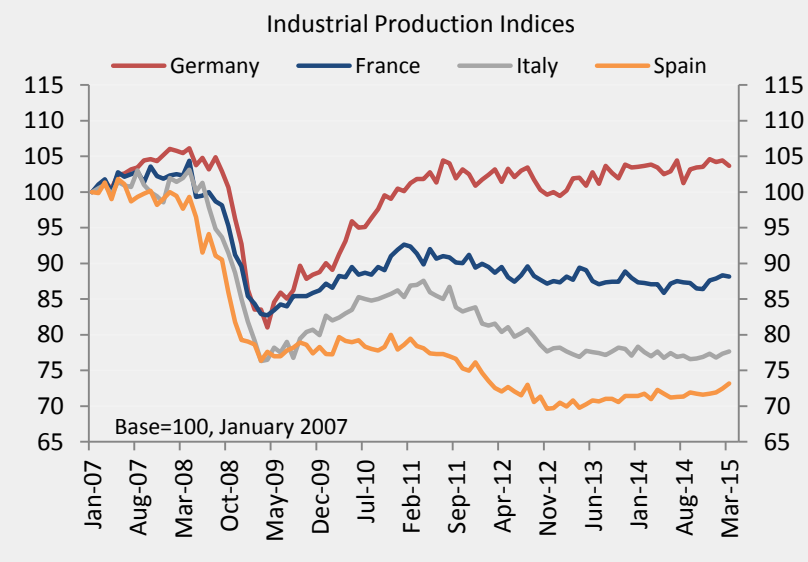
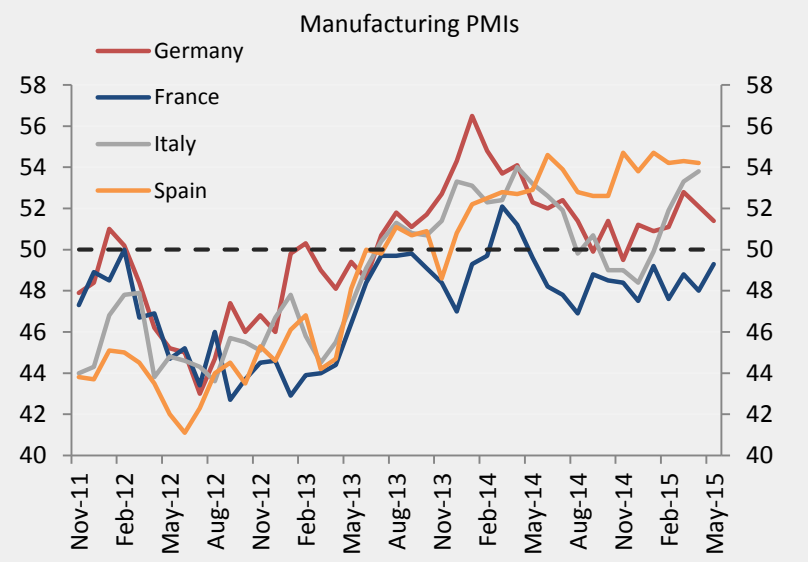
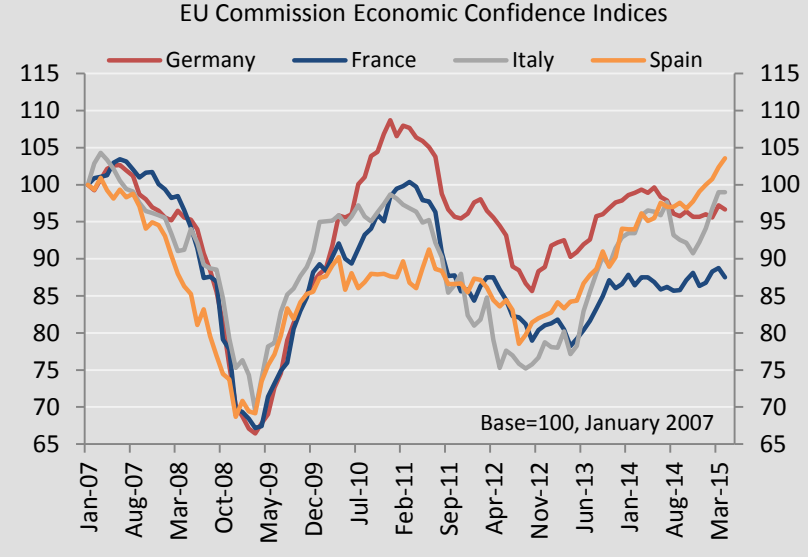
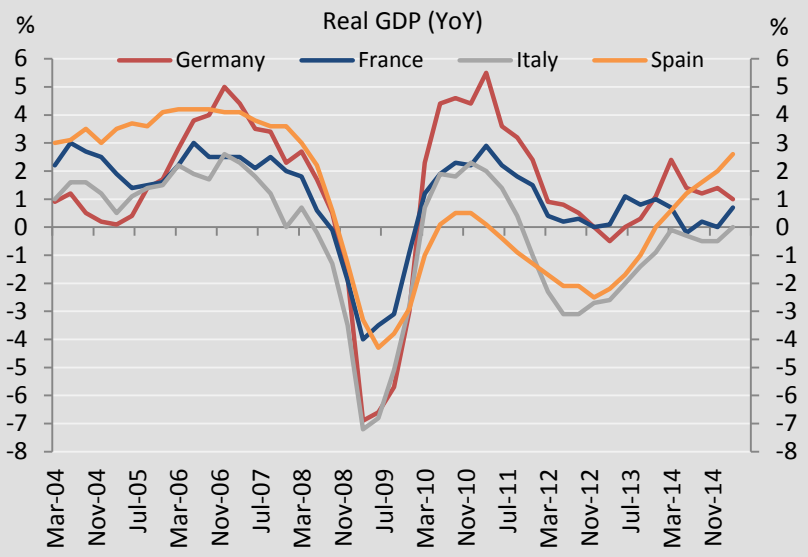
GDP Forecast Evolution



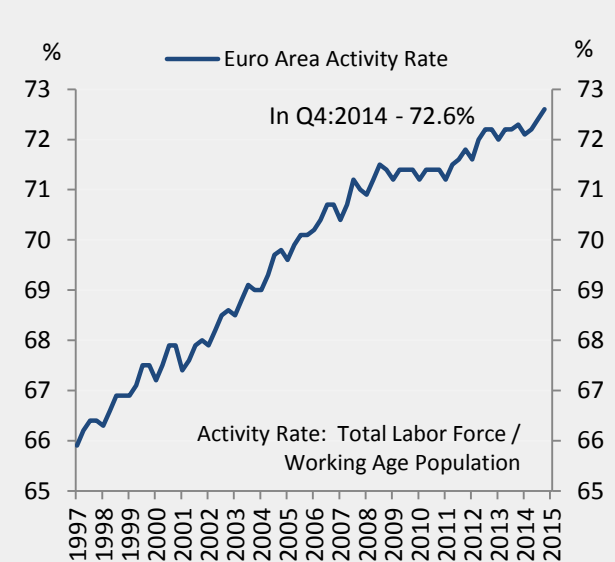
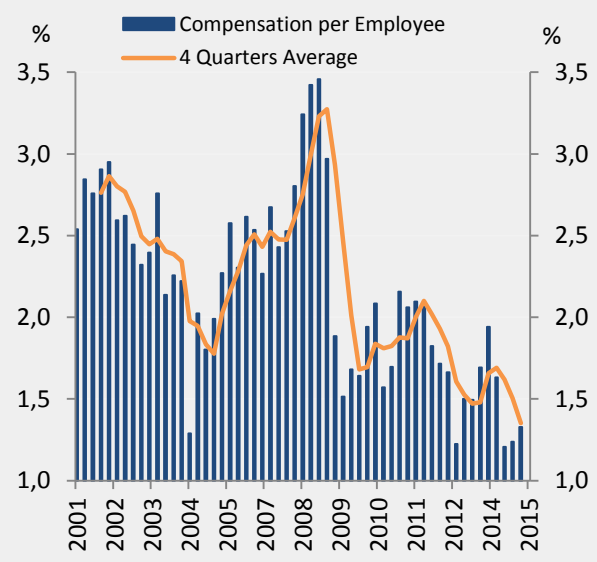
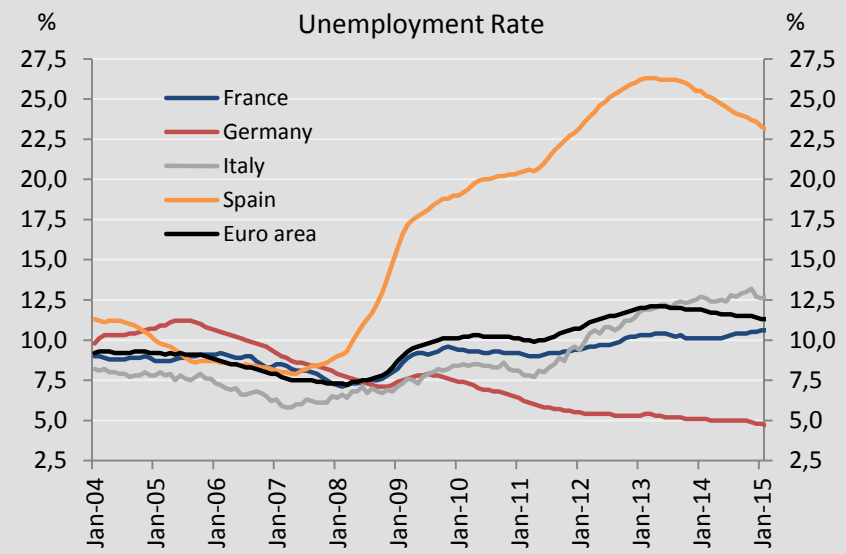
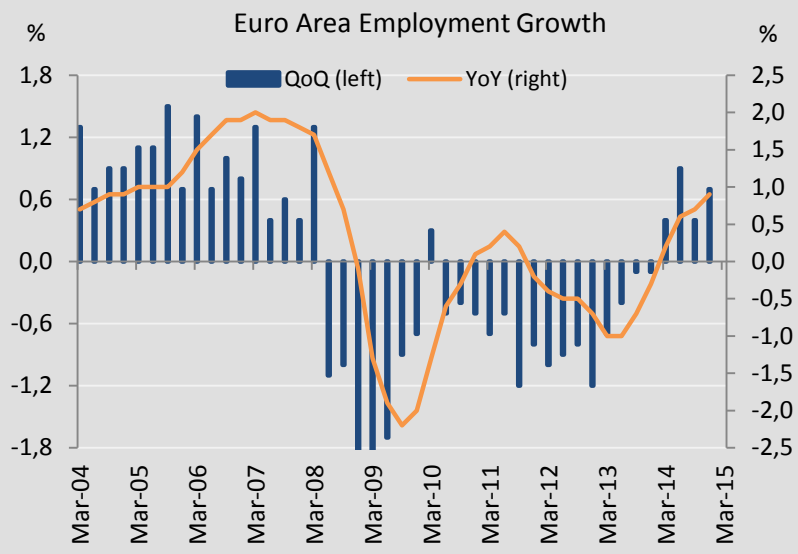
Output Gap



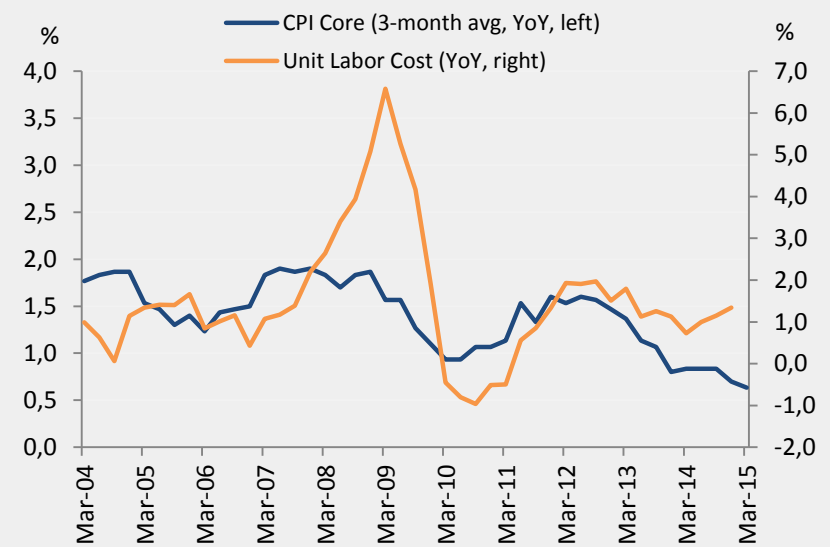
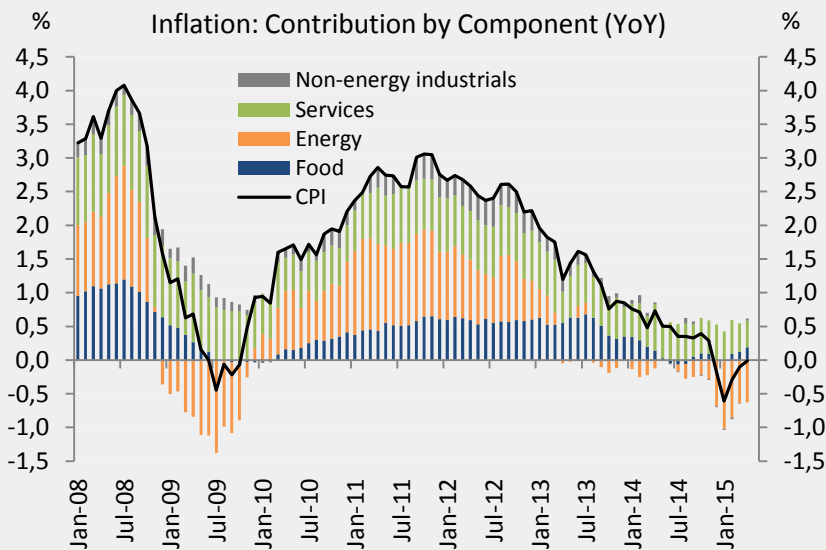
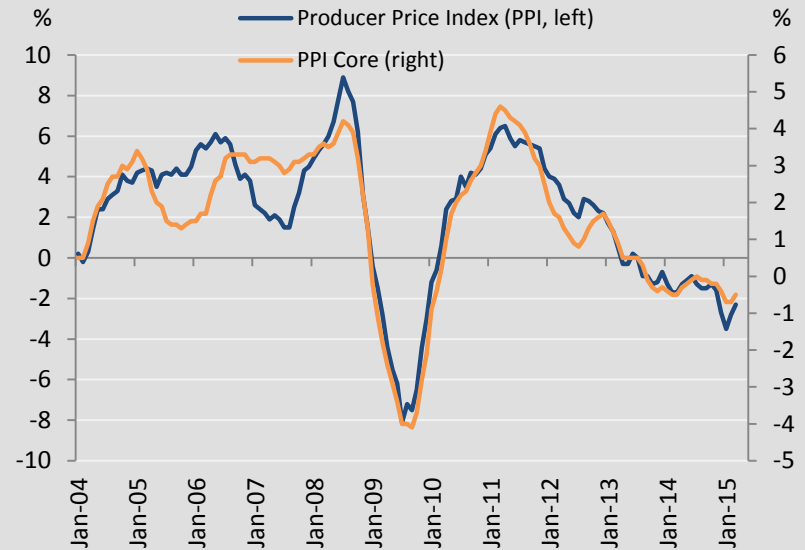
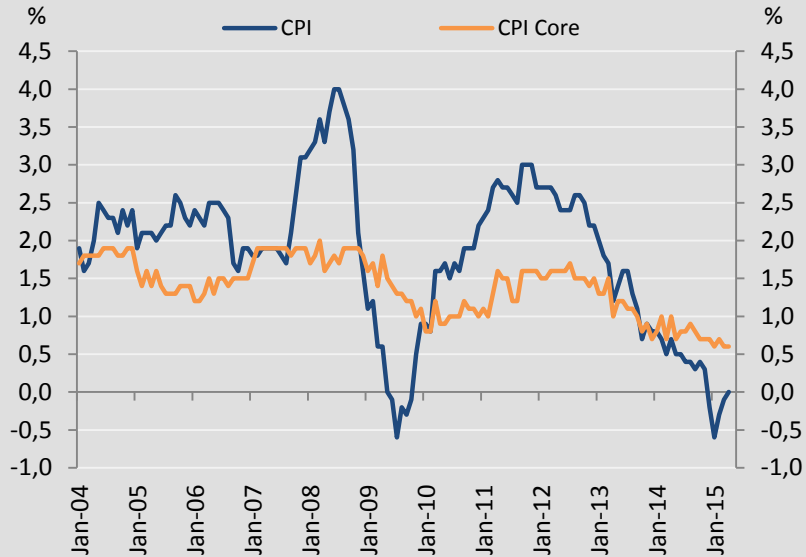
Spain is expected to be the strongest performer, with downside risks stemming from elections



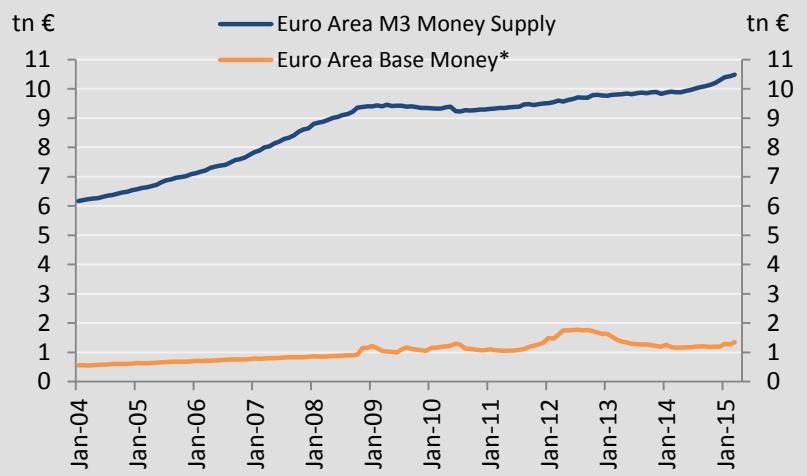
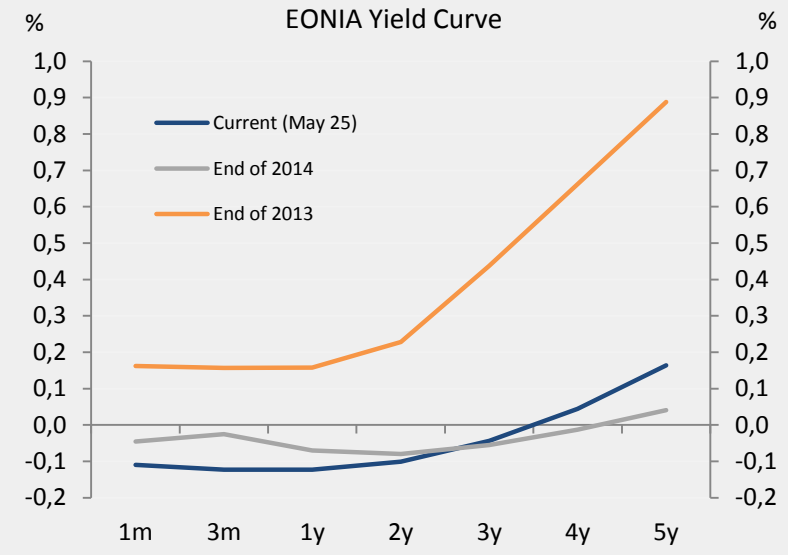
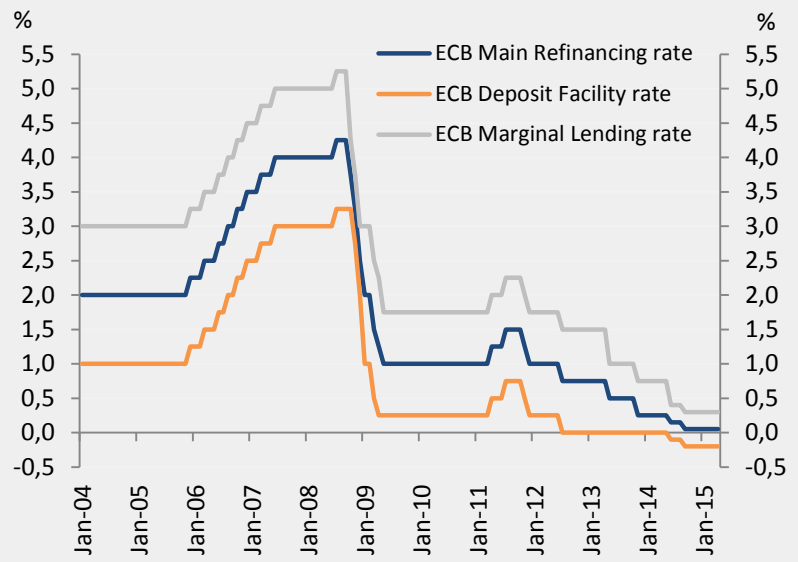
Job growth is gaining traction



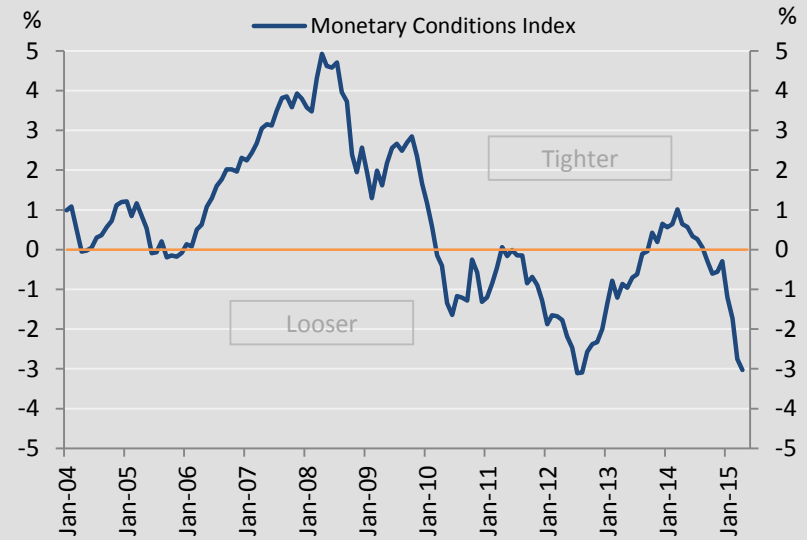
The downward trend in euro area inflation is showing signs of reversal



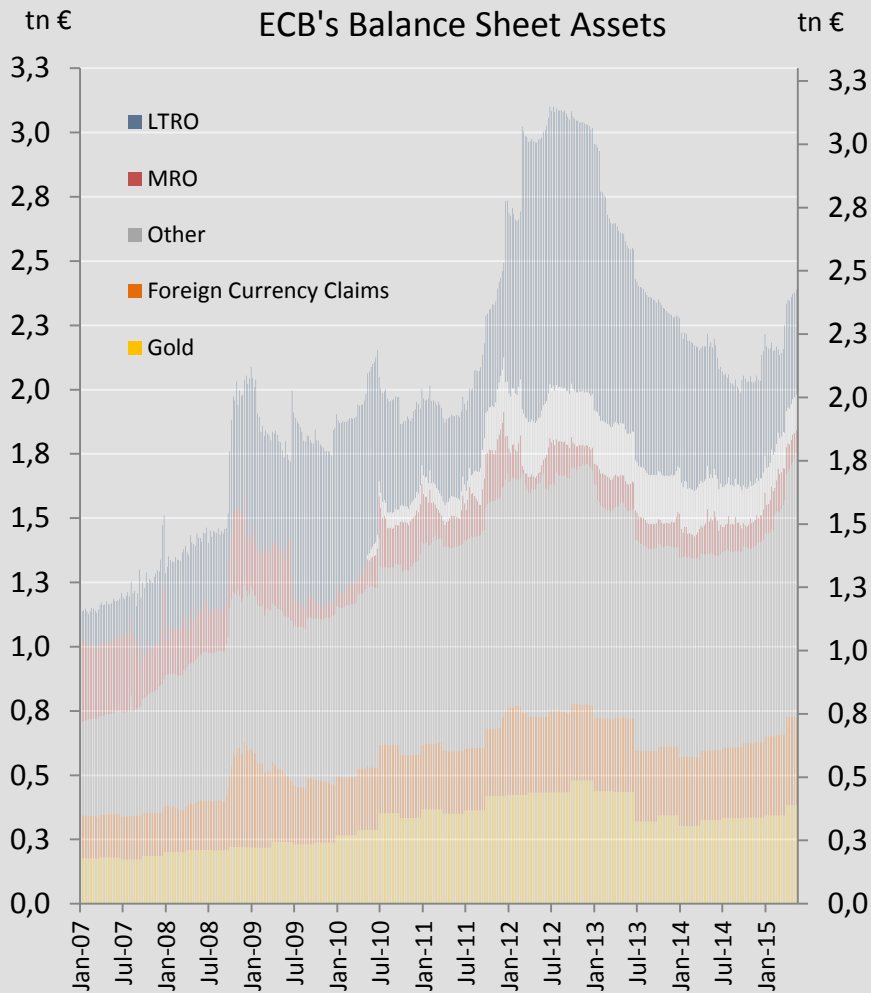
The ECB is expected to maintain its main policy rate at 0.05%, at least until end-2016, with EONIA rates predicting a more benign scenario



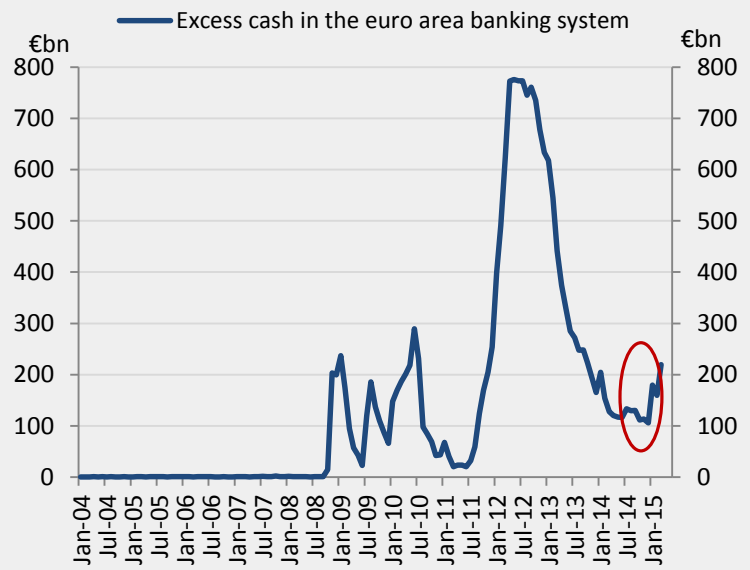
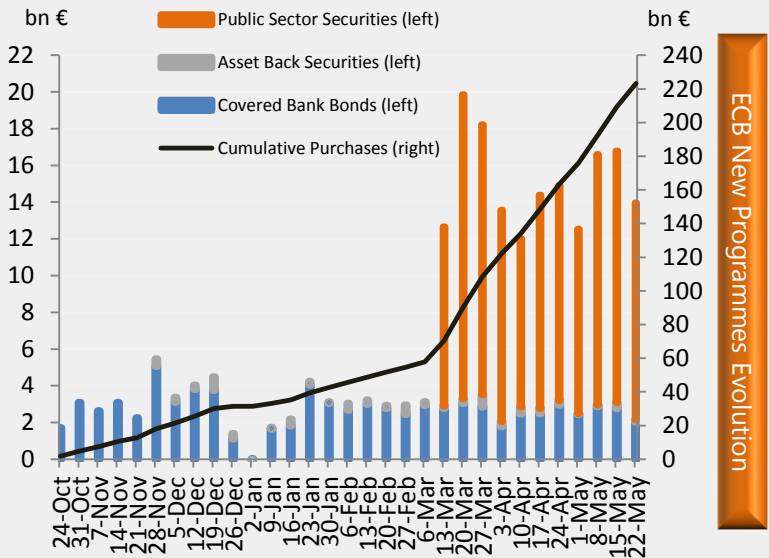
Base Money: Banknotes in circulation plus minimum required reserves & any excess reserves plus ECB's deposit facility
Source: ECB



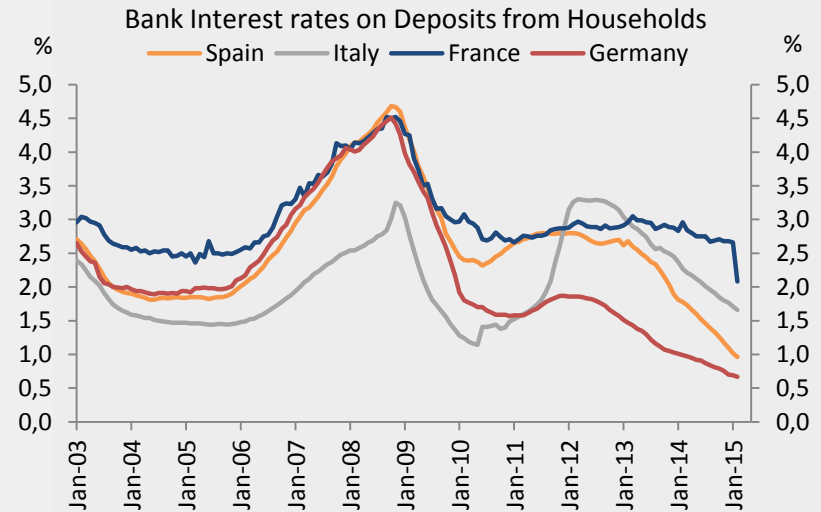
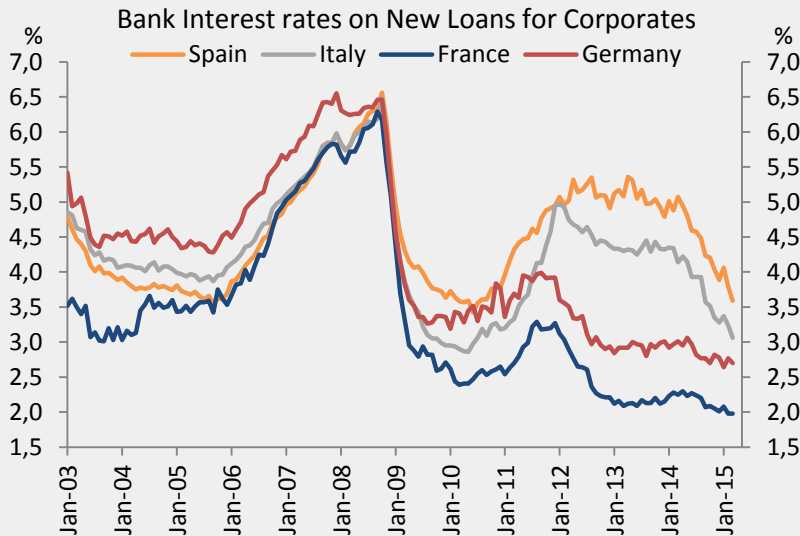
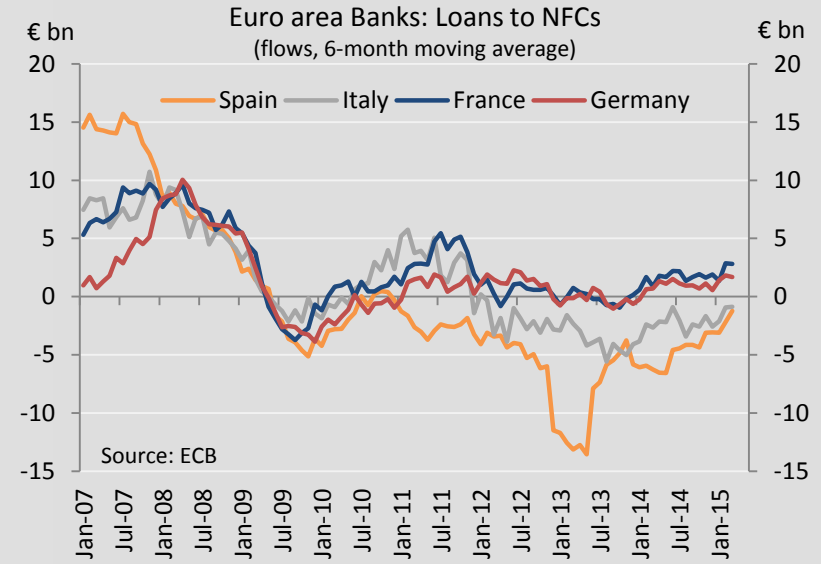
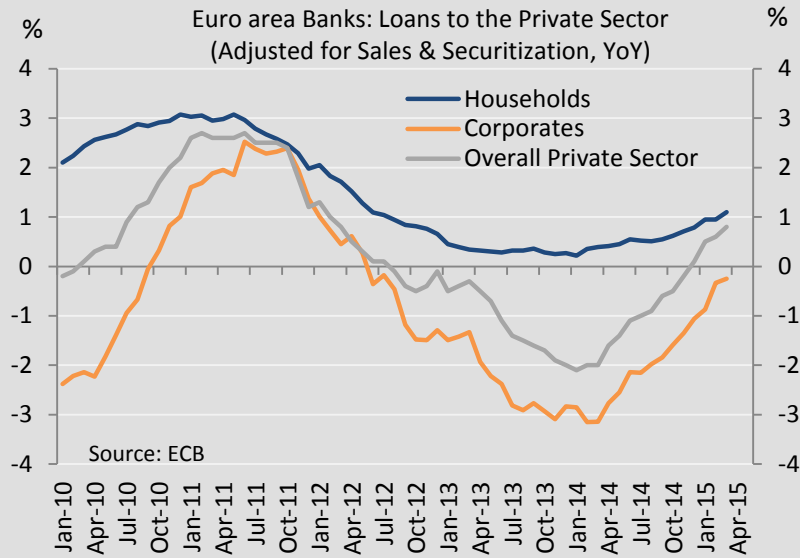
Monetary Conditions Index is a simple composite index of Real Short Term Rates (Euribor less CPI) & Real Effective Exchange Rate



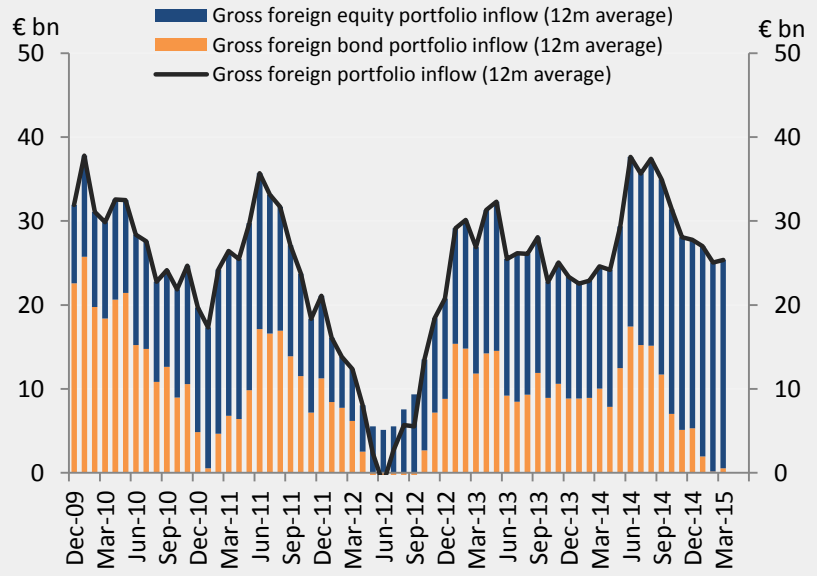
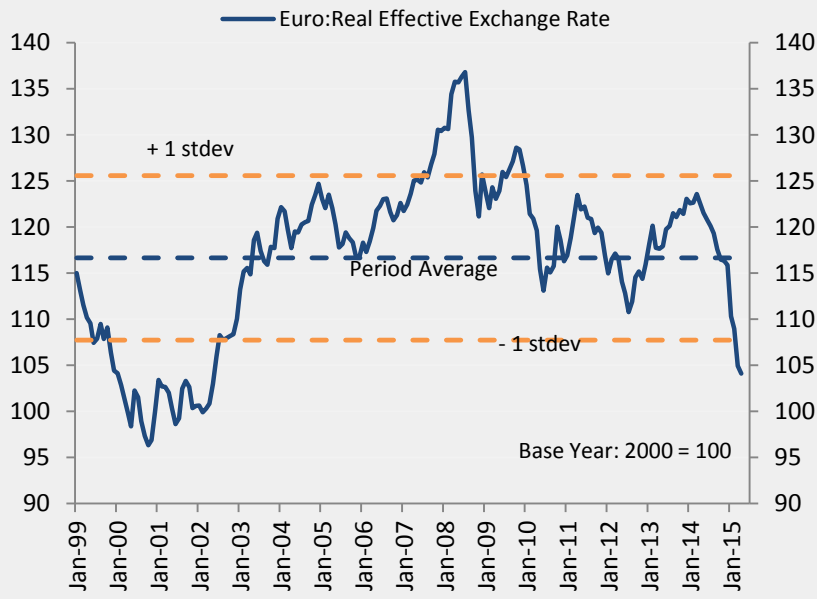
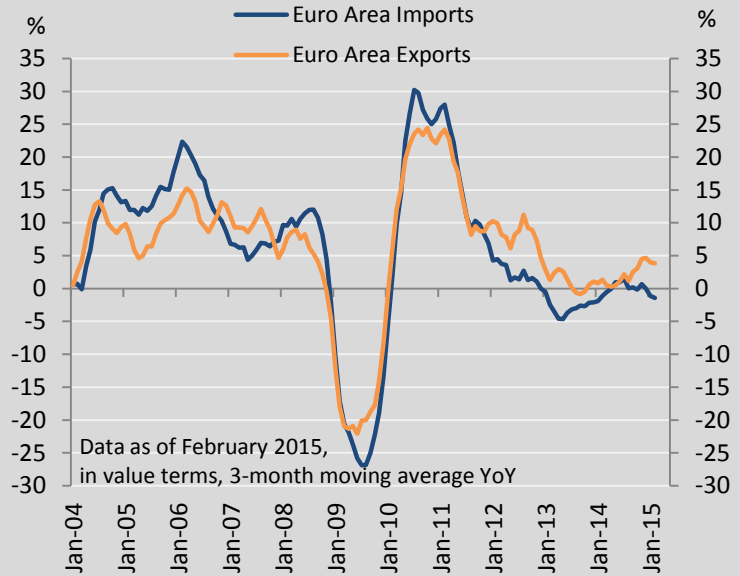
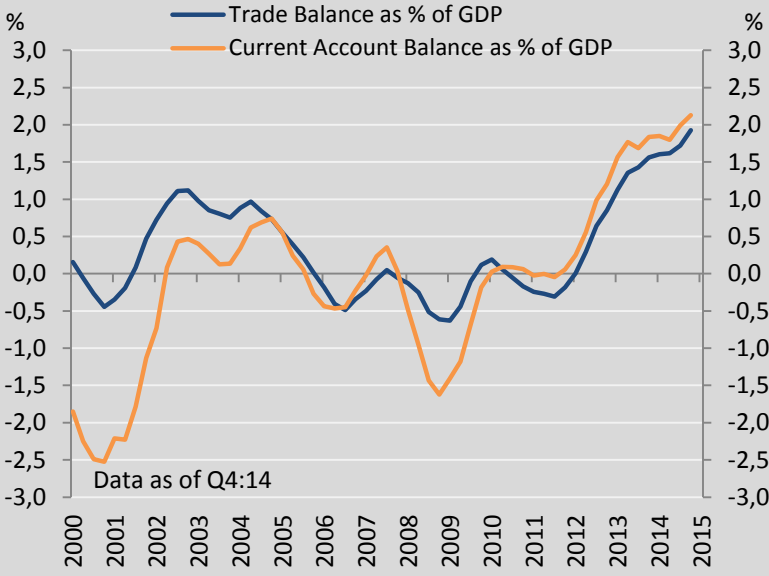
LTRO: Long-term refinancing operations, MRO: Main refinancing operations, SMP: Securities Market Programme, Other category includes ABS & CBBPP3 programmes, please refer to upper right graph
Source: ECB



Source: ECB, Excess Liquidity: Deposit Facility minus Lending Facility + (CA reserves – Required Reserves)



The current account surplus widens, with foreign equity inflows accelerating (and foreign bond inflows disappearing)



Fiscal policy will turn neutral in 2015, after years of consolidation

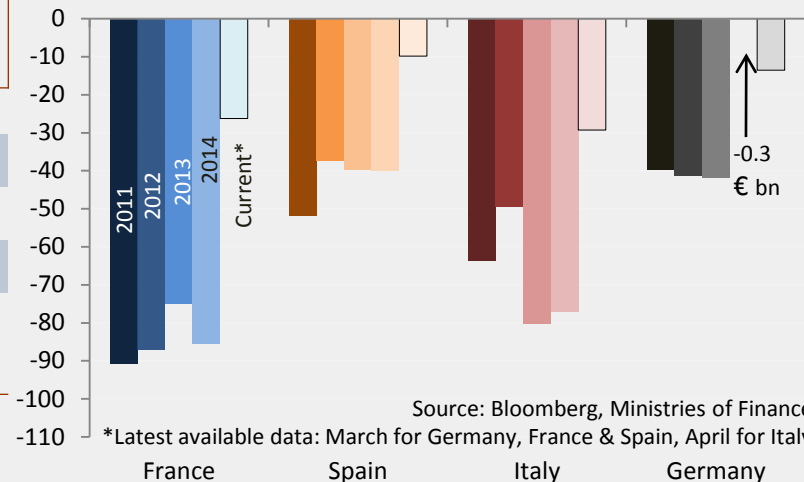
Euro area General Government Balance

Q1:13 Q2:13 Q3:13 Q4:13 2013 Q1:14 Q2:14 Q3:14 Q4:14 2014

(+) Revenues	1.144	1.154	1.160	1.167	4.624	1.172	1.175	1.181	1.188	4.716
(-) Expenditure	1.218	1.232	1.232	1.228	4.911	1.233	1.236	1.237	1.249	4.955
(=) Balance	-75	-78	-73	-61	-287	-61	-61	-56	-61	-239
General Government Balance (% GDP)	-3,0	-3,2	-2,9	-2,5	-2,9	-2,4	-2,4	-2,2	-2,4	-2,4

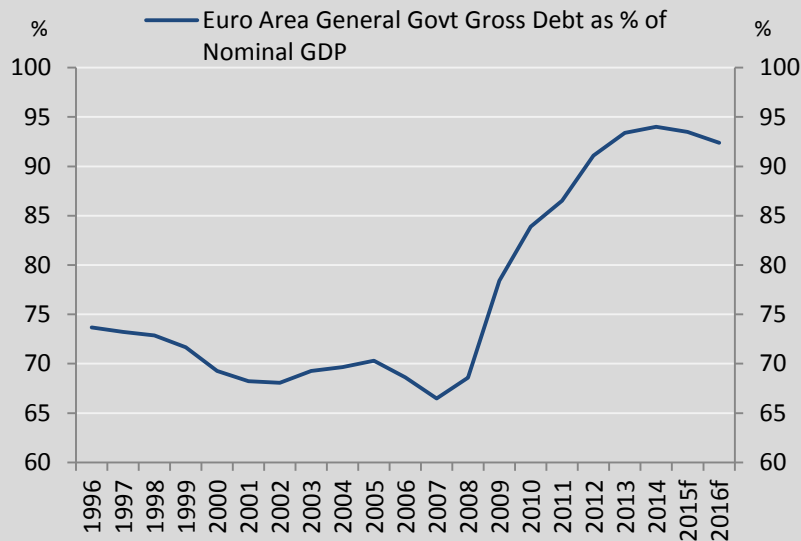
Source: Eurostat, in EUR billions unless otherwise noted

EA's G4 Countries Budget Balance (in € bn)

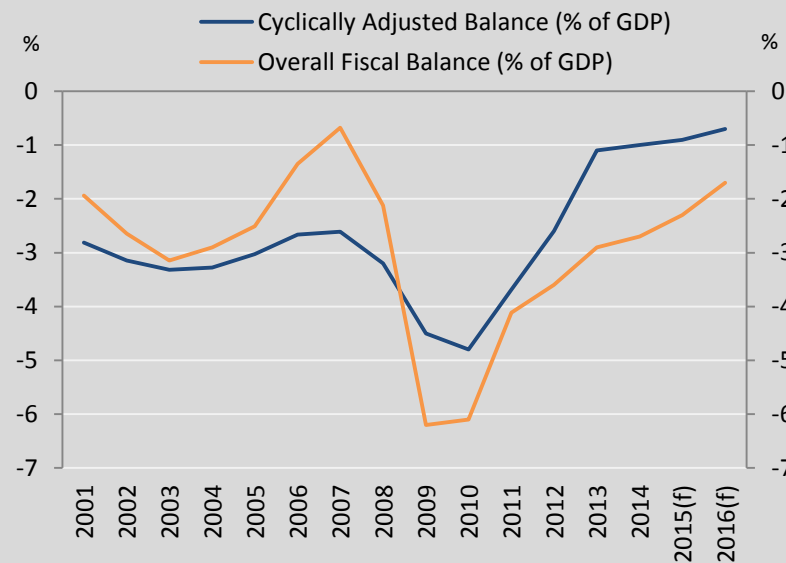


Source: Bloomberg, Ministries of Finance

*Latest available data: March for Germany, France & Spain, April for Italy

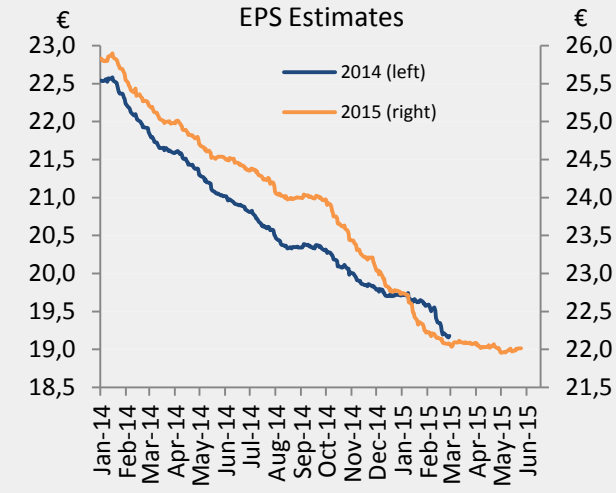
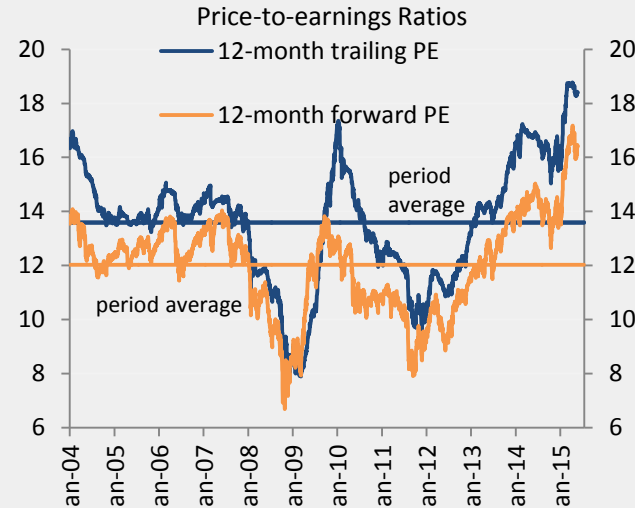
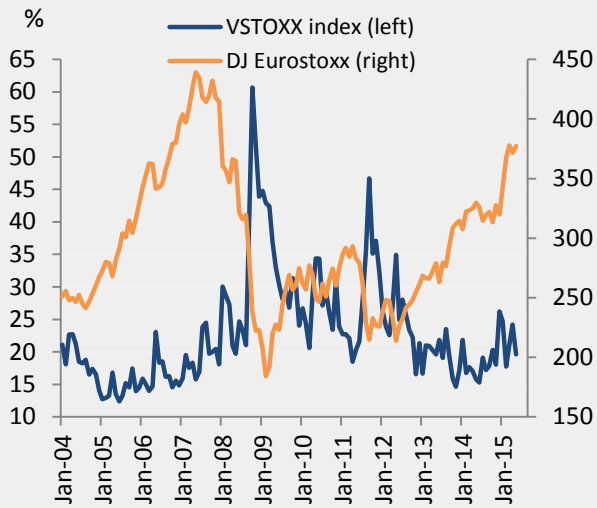


Source: IMF Fiscal Monitor, April 2015



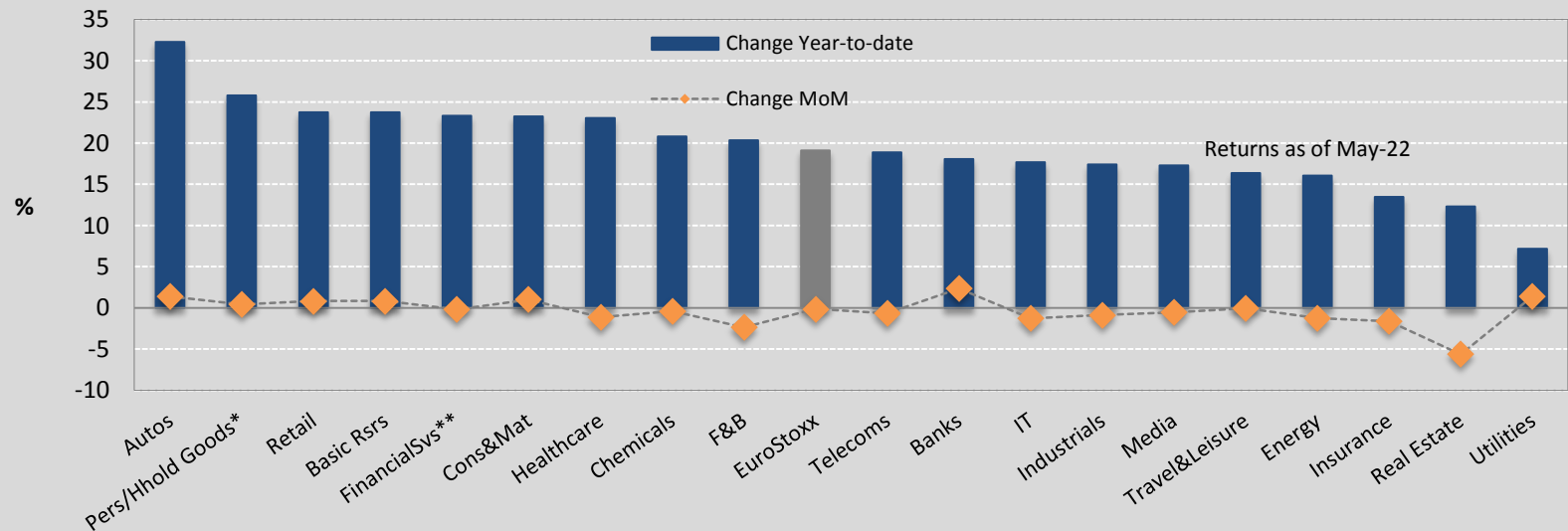
Source: IMF Fiscal Monitor, April 2015

The increase in bond yields brakes the euro area equity market rally



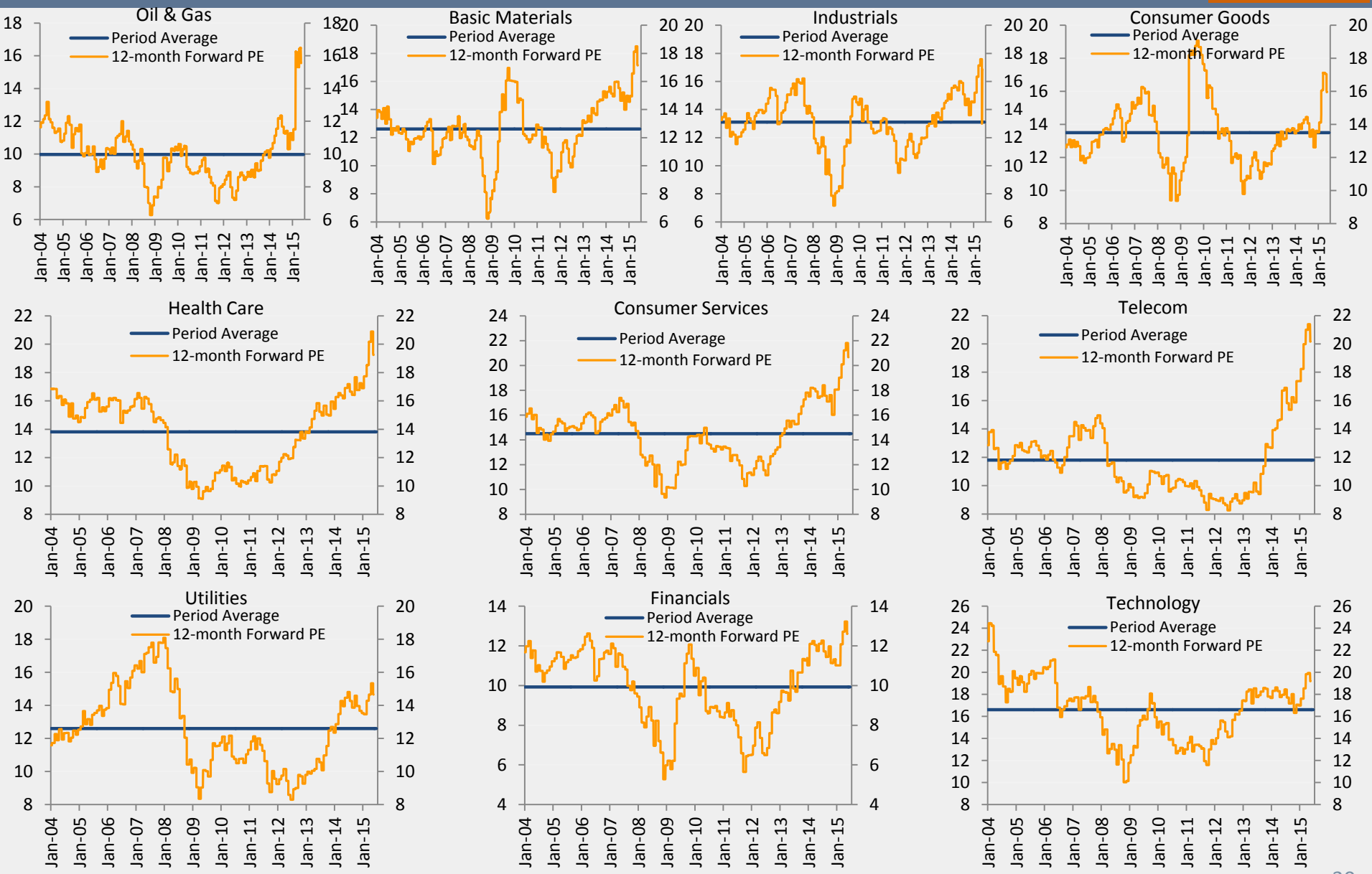
Source: Factset

Source: Factset

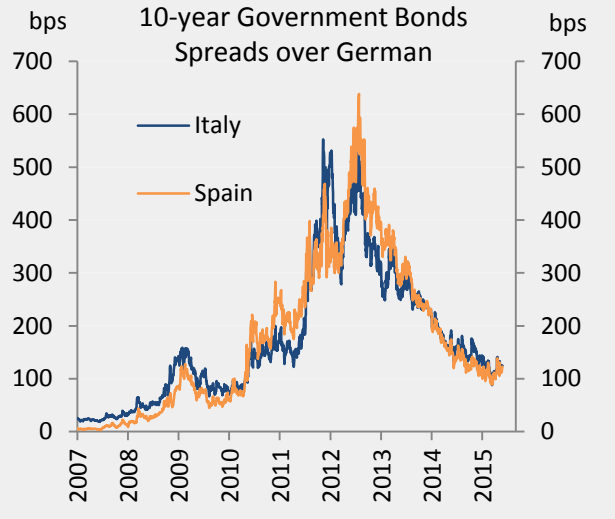
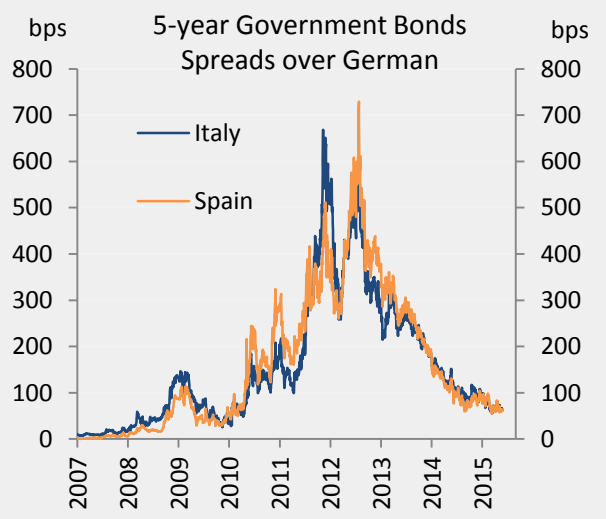
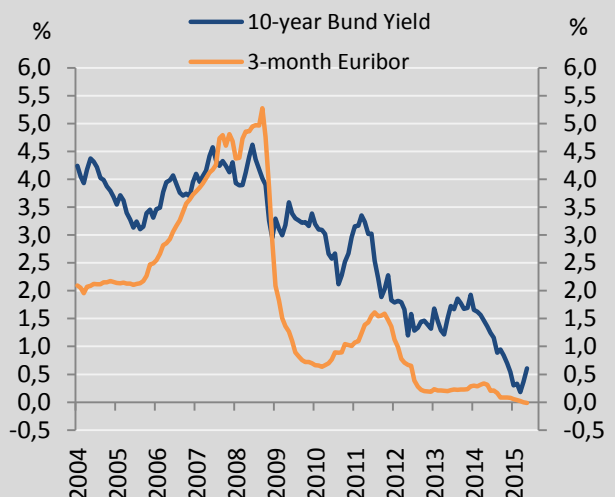
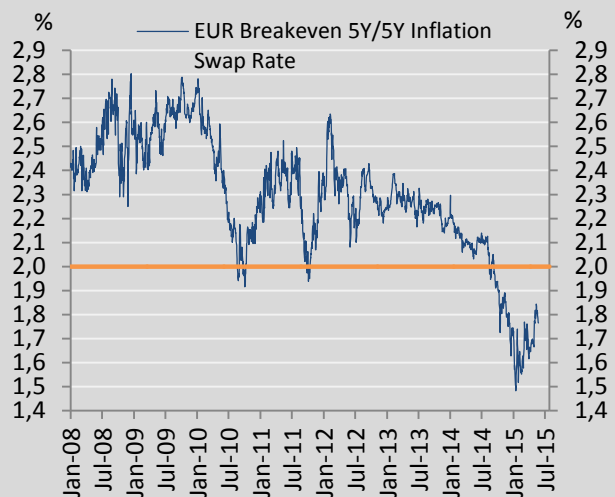
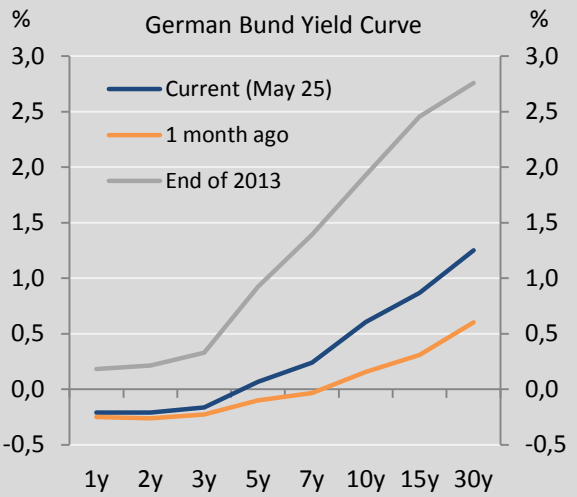


*Personal & Household Goods, **Financial Services

Euro area Sectors Valuation



Bunds sold-off, albeit from exceptionally low levels. A moderate upward revision in inflation, combined with low liquidity and investor positioning, were the main drivers



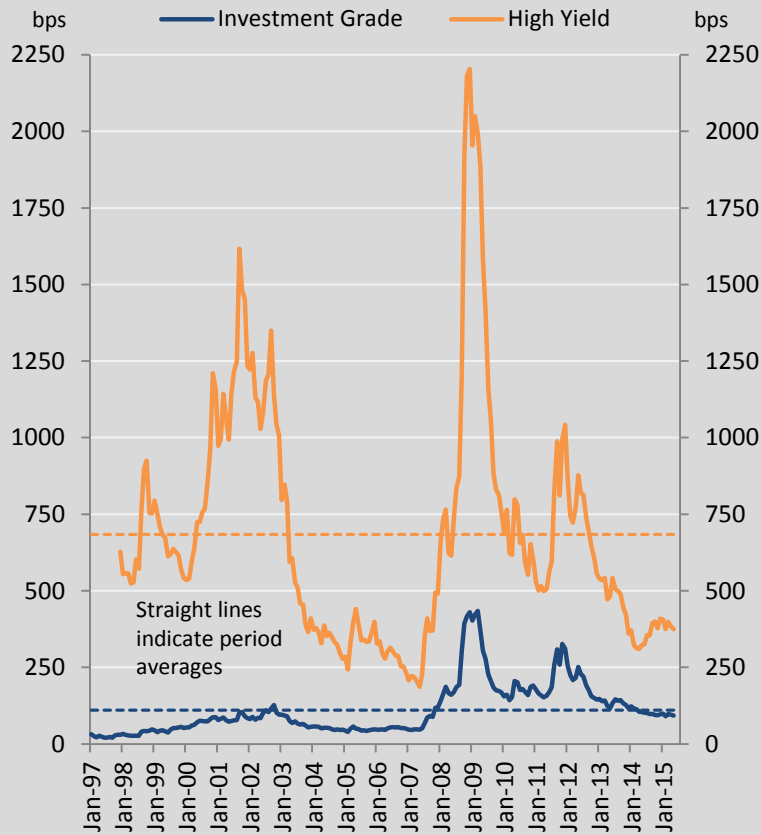
Sovereign Debt Ratings

	Moody's	S&P	Fitch
Germany	Aaa s	AAA s	AAA s
France	Aa1 n	AA n	AA s
Italy	Baa2 s	BBB- s	BBB+ s
Spain	Baa2 p	BBB s	BBB+ s

Source: Ratings Agencies, Bloomberg (as of 25.5.15)
Outlook: p = positive, n = negative, s = stable

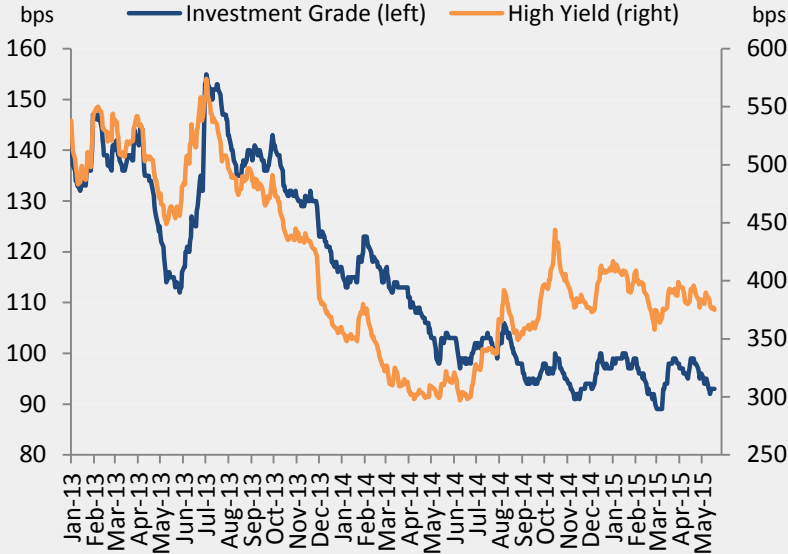
Corporate bond spreads have treaded water year-to-date

Corporate Bond Spreads

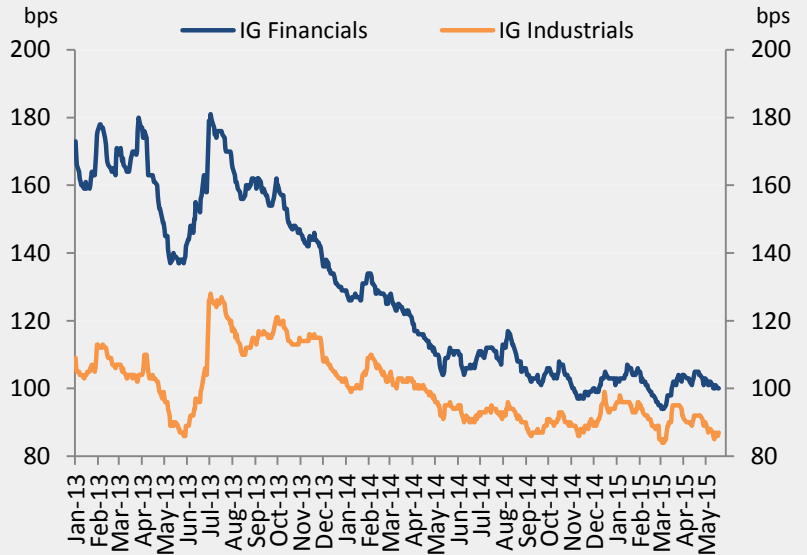


Bank of America / Merrill Lynch Euro Corporate Bond Index (IG), Euro High Yield Index (HY)

Short-term View

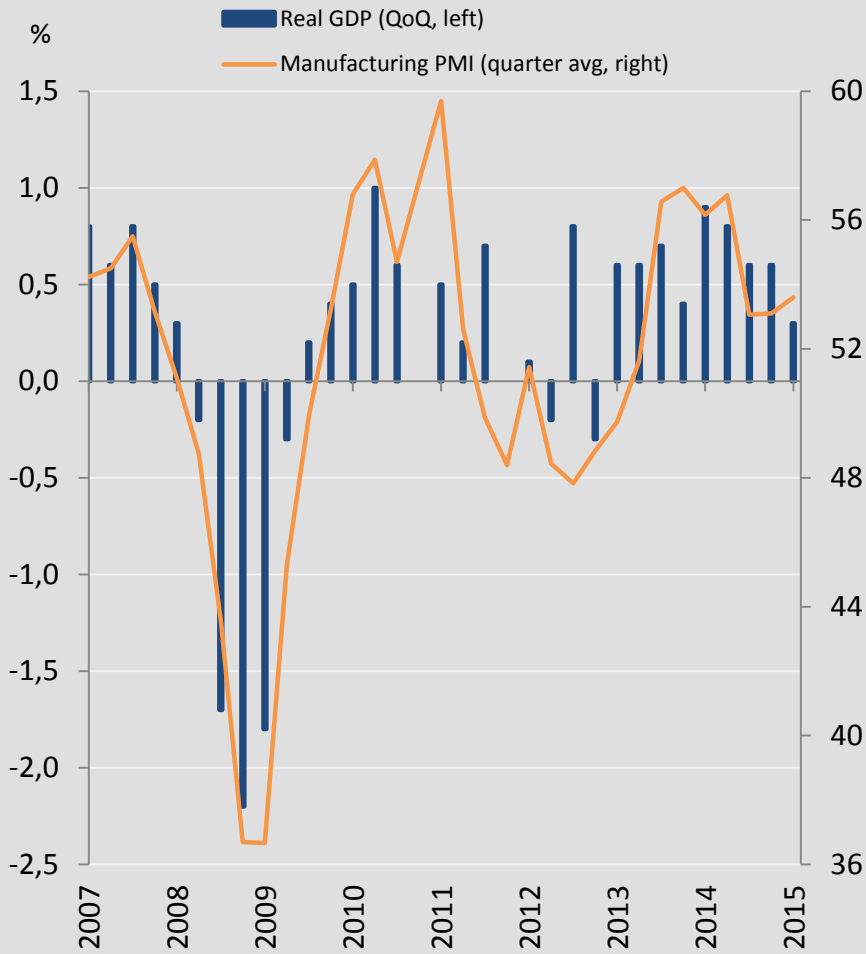


IG Financials/Industrials



- The UK elections resulted in a surprising victory for the Conservative Party, which gained 331 seats (out of 650), thus enabling it to form a majority Government. Short-term policy uncertainty relating to: i) fiscal issues (taxes, spending); and ii) a prolonged period of parliamentary weakness was removed.
- GDP growth in Q1 (0.3% qoq vs an average of 0.7% qoq in 2014) undershot consensus expectations as the strength of the GBP weighs heavily on exports. On the other hand, the underlying economic momentum remains strong, as rising wage growth and the decline in energy prices support households' real incomes. Indeed, retail sales and consumer confidence has increased sharply ytd.
- Similarly, strong corporate balance sheets, the pick-up in private demand and the rebound in oil prices (if sustained) should also support investment in the second half of the year. 2015 real GDP growth is expected to be a solid 2.5%.
- Housing market activity has stabilized following a deceleration during H2:2014, with mortgage applications (33k) and approvals (61k) broadly unchanged ytd. The recent decline in mortgage interest rates should support demand in due course. House prices continue to rise, albeit at a slower pace, with the 3m/3m annualized change at 2.6% in April.
- Inflation turned negative at -0.1% yoy in April (a record low), albeit is expected to gradually increase towards 0.6% yoy in Q4:2015, due to base effects from the previous declines in food and energy prices. However, the appreciation of the GBP (3% ytd in real terms), if sustained, has the potential to lengthen the period for which inflation remains below the BoE target (2.0% y-o-y).
- The Bank of England will not rush to raise rates, as inflation is expected to revert to its target no earlier than mid-2017 (baseline scenario), with GBP OIS futures pricing in the first interest rate increase for Q2:16 (currently 0.50%). The key upside risk for inflation stems from a faster-than-expected elimination of labor market slack that eventually leads to more powerful wage pressures.
- Indeed, there are signs that wage pressures have begun to increase, with average earnings at their highest level in 46 months (2.2%). The labor market has tightened significantly with: i) the unemployment rate at 5.5% in March (-1.3 pps yoy), the lowest rate since July 2008; and ii) employment growth buoyant at 2.0% yoy vs a 15-year average of 0.9% yoy.

Consumer confidence is surging amid higher real incomes

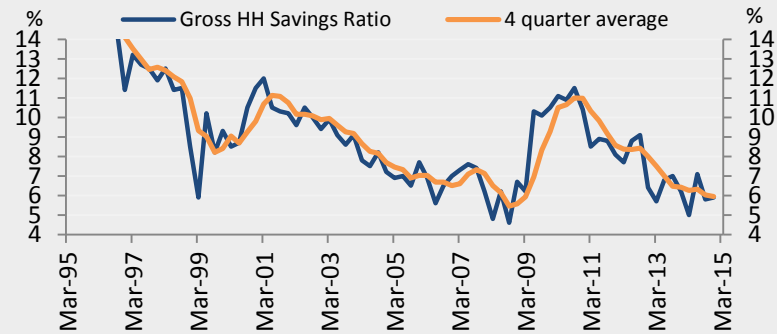
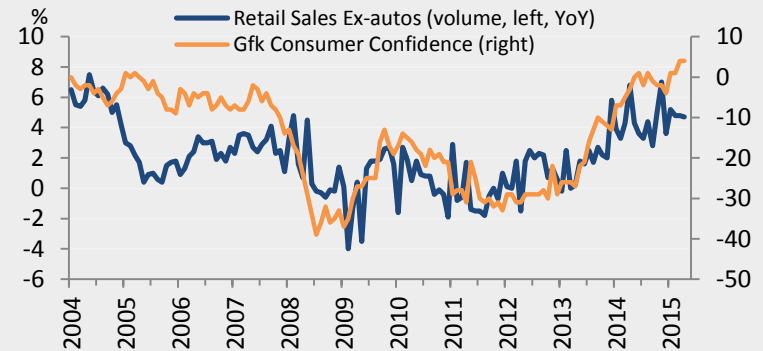
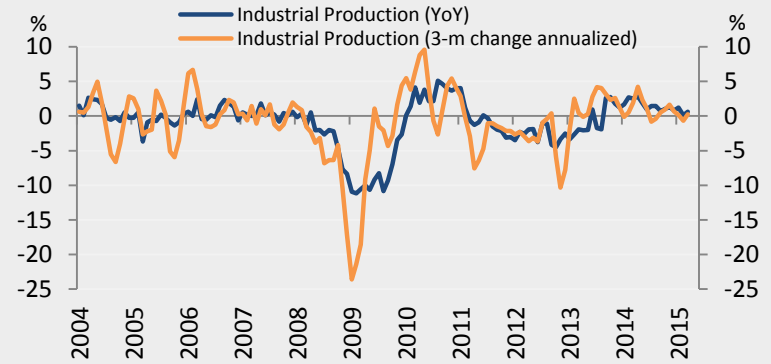


Above: GDP data as of Q1:2015, PMI data: Q1:2015 average

Right Top: all data as of March 2015

Right Middle: all data as of April 2015

Source: ONS, Markit, Bloomberg



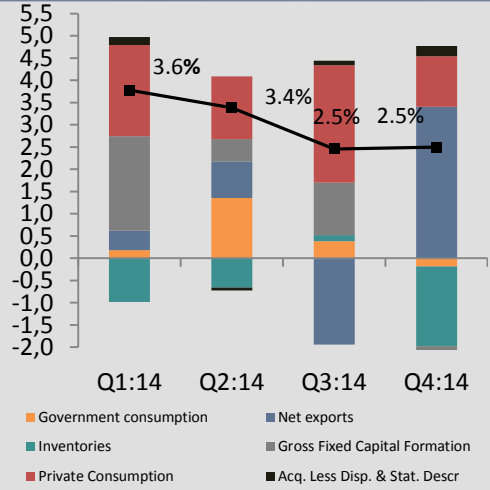
Source: Office for National Statistics, Bloomberg

UK growth is expected to remain solid in 2015

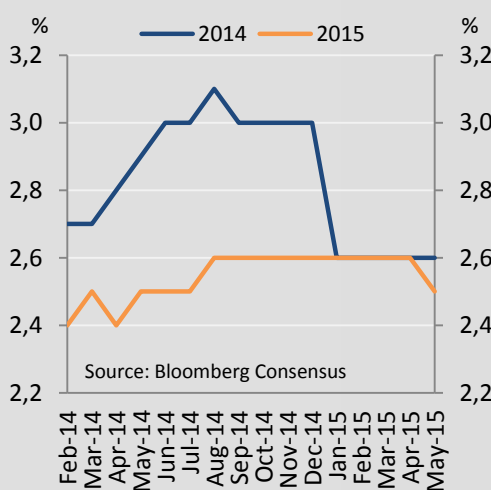
UK Real GDP Growth	2013	2014				2014	2015e				2015e
		Q1:14	Q2:14	Q3:14	Q4:14		Q1:15e	Q2:15e	Q3:15e	Q4:15e	
GDP (YoY)	1,7	2,7	2,9	2,8	3,0	2,8	2,4	2,3	2,7	3,2	2,6
GDP (QoQ saar)	-	3,6	3,4	2,5	2,5	-	1,2	2,8	4,3	4,3	-
Households consumption (QoQ saar)	1,7	3,2	2,2	4,2	1,8	2,5	1,5	3,0	3,3	3,3	2,5
Government consumption (QoQ saar)	-0,3	0,9	6,8	1,9	-0,9	1,7	0,0	1,0	1,0	1,0	0,9
Gross Fixed Capital Formation (QoQ saar)	3,4	13,2	3,0	7,1	-2,4	7,8	2,3	6,0	8,9	10,0	4,0
Inventories contribution (QoQ saar)	-	-1,0	-0,7	0,1	-1,8	0,3	0,0	0,0	0,0	0,0	-0,4
Net Exports contribution (QoQ saar)	0,0	0,4	0,8	-1,9	3,4	-0,5	-0,2	-0,1	-0,1	-0,1	0,3
Exports (QoQ saar)	1,5	7,0	-2,6	-0,5	19,9	0,6	2,3	2,7	2,7	2,7	4,8
Imports (QoQ saar)	1,4	5,0	-4,8	5,7	6,6	2,2	2,9	2,8	2,9	3,0	3,4

Source: Office for National Statistics, Bloomberg

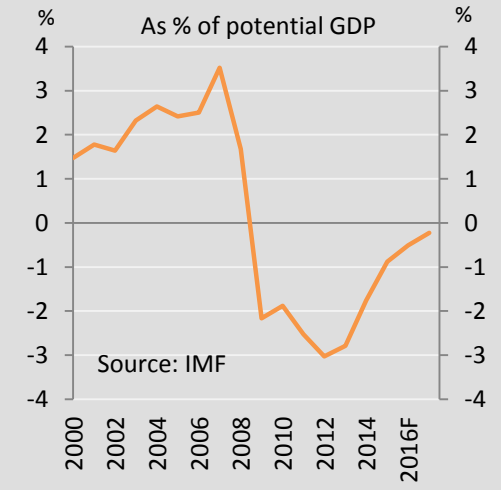
GDP Contributions (%)



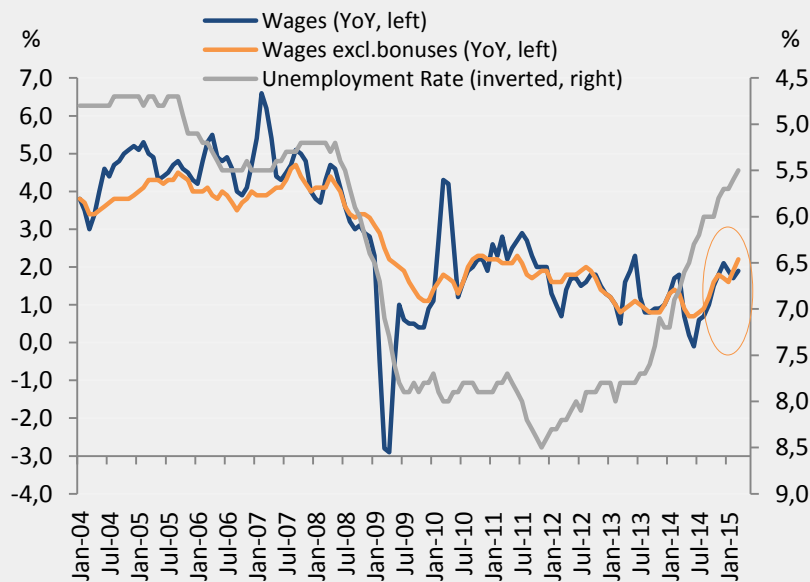
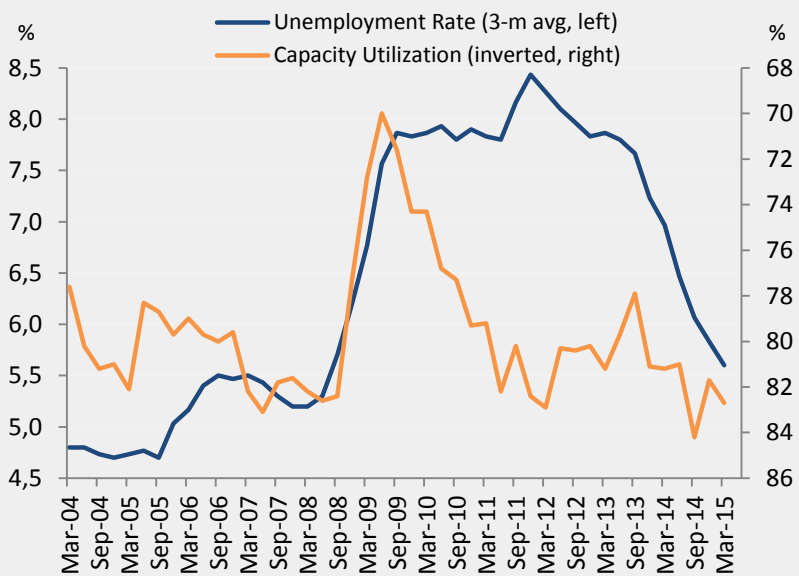
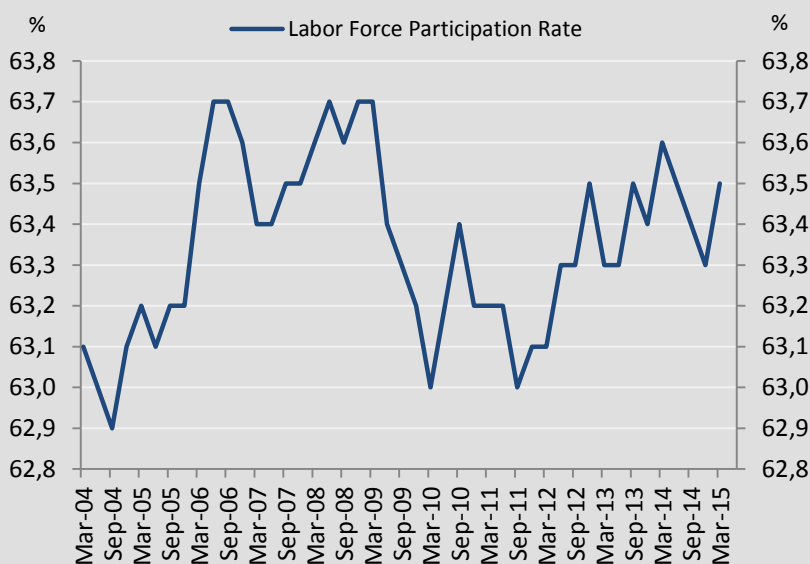
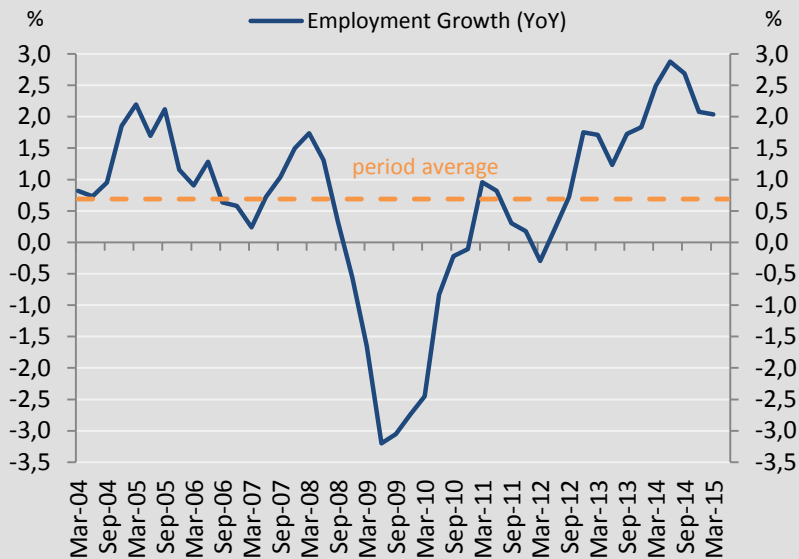
GDP Forecast Evolution



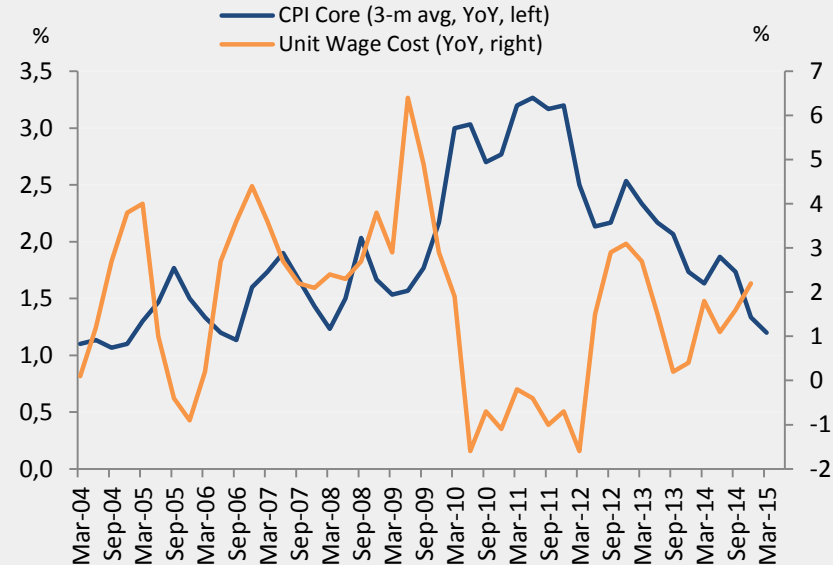
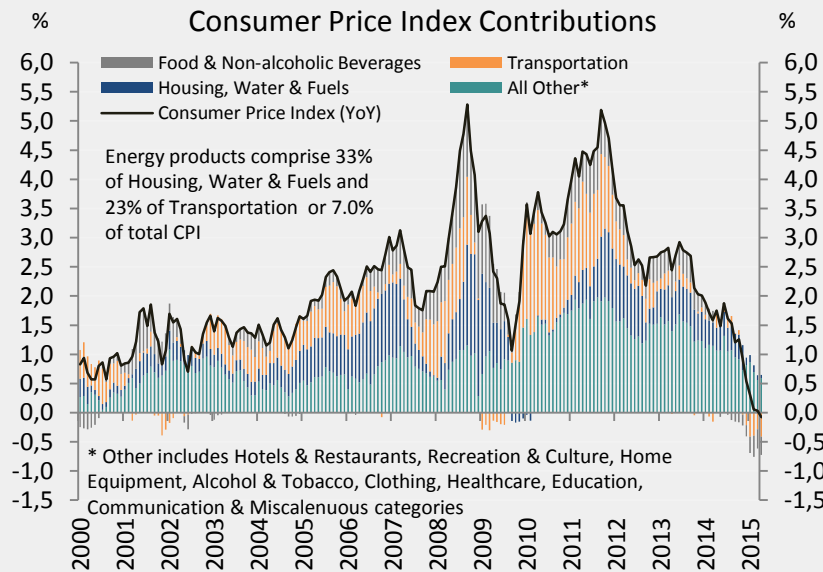
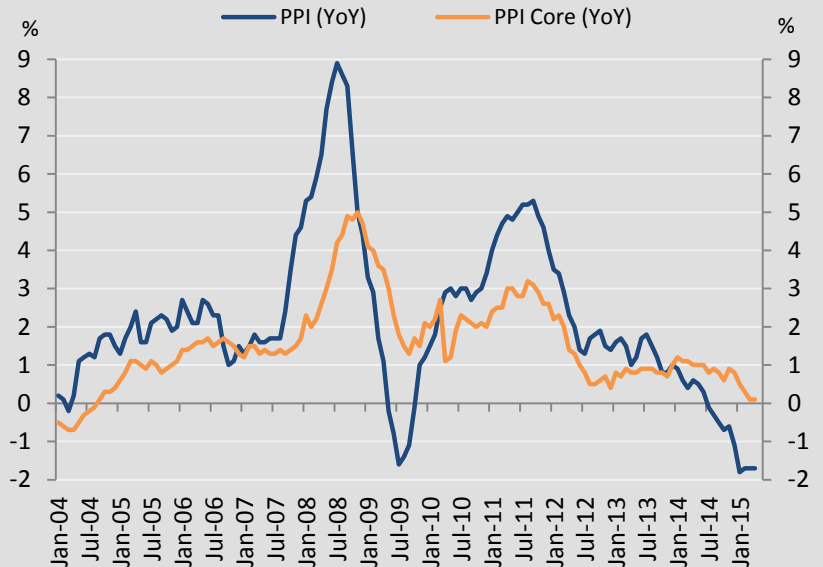
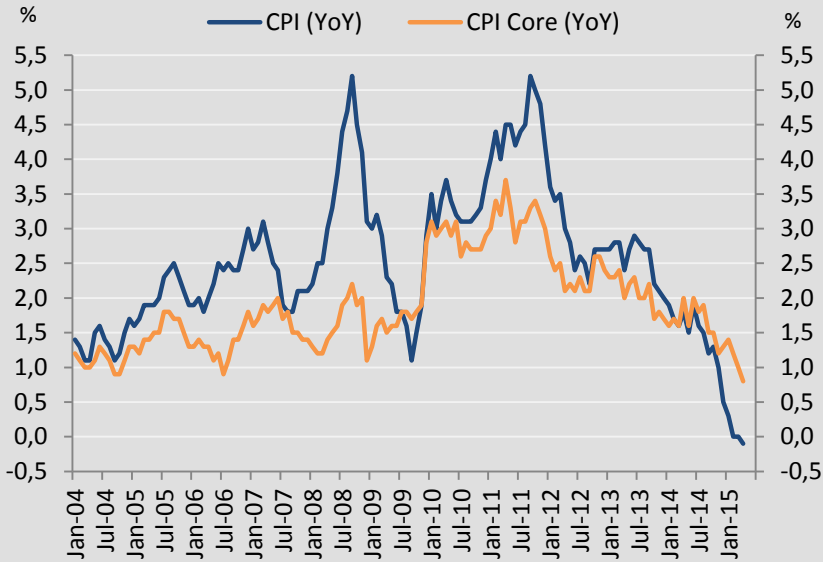
Output Gap



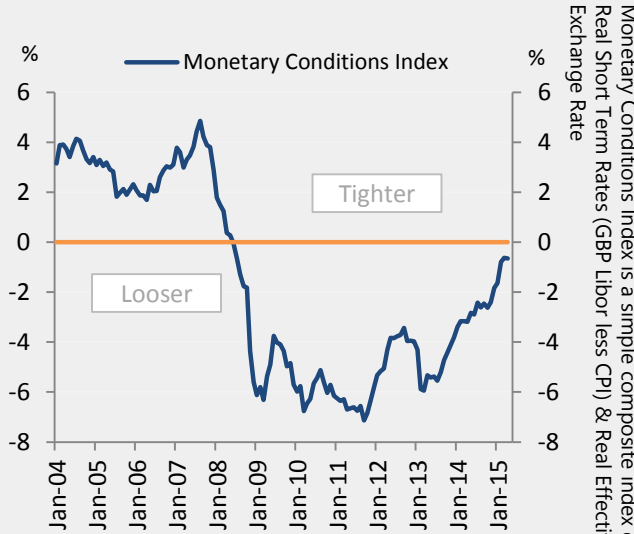
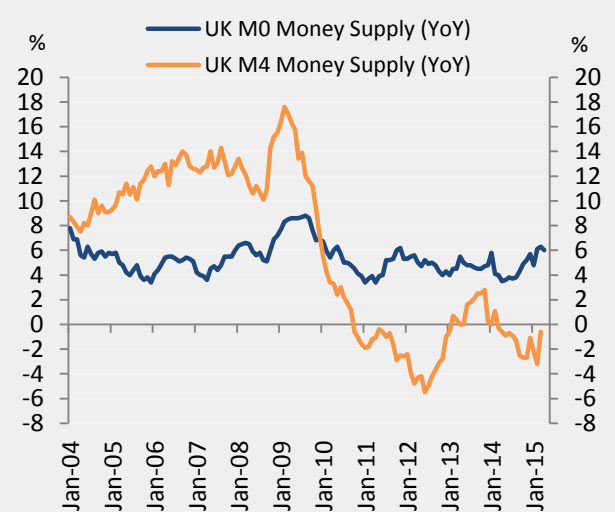
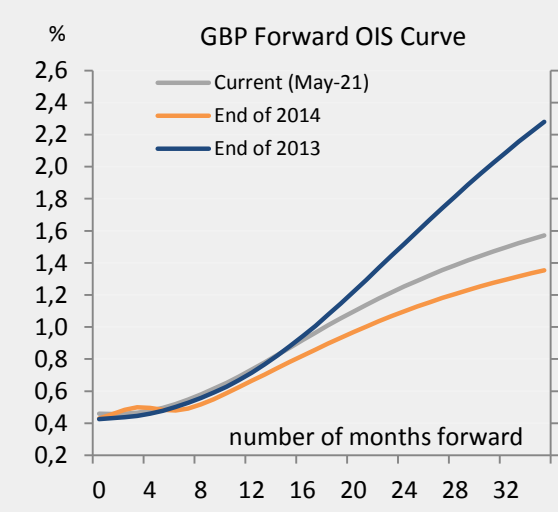
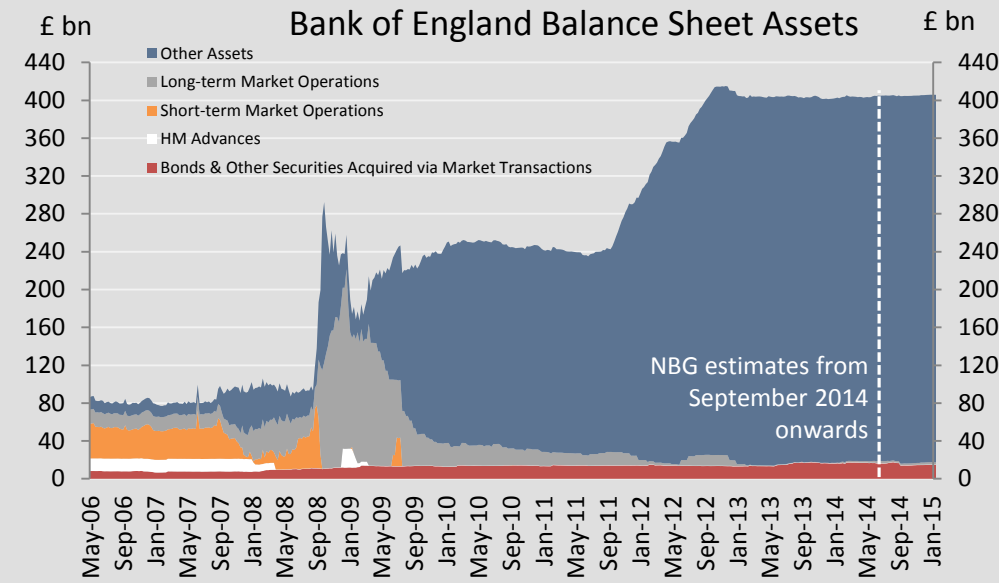
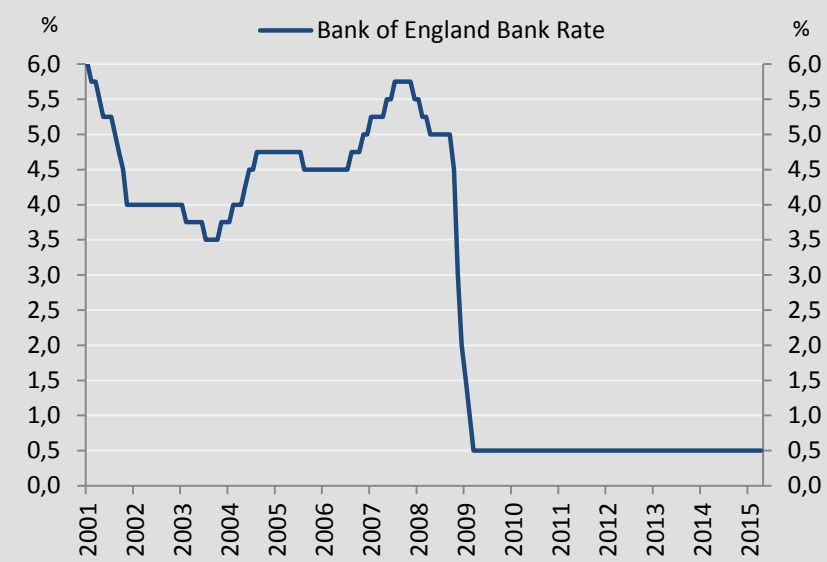
The unemployment rate declined to its lowest rate since July 2008



UK slide into deflation will be short-lived

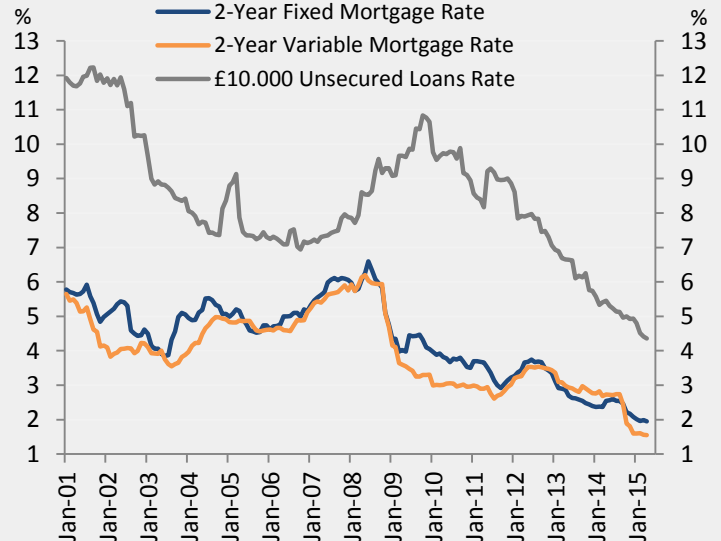
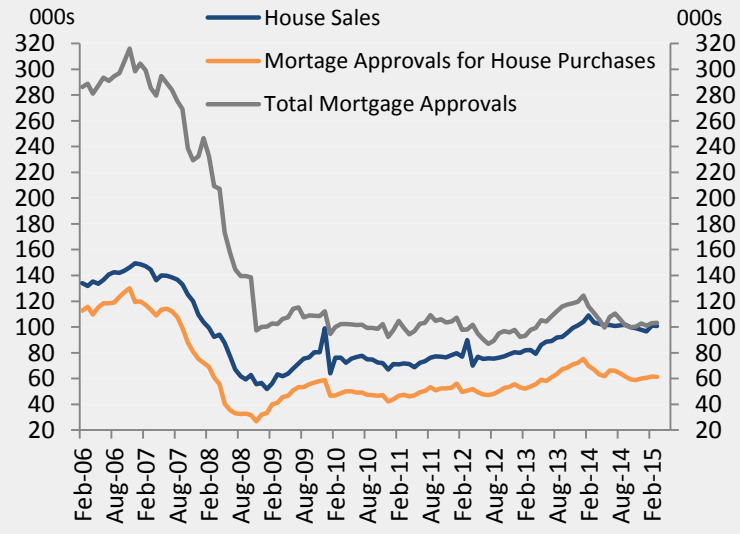
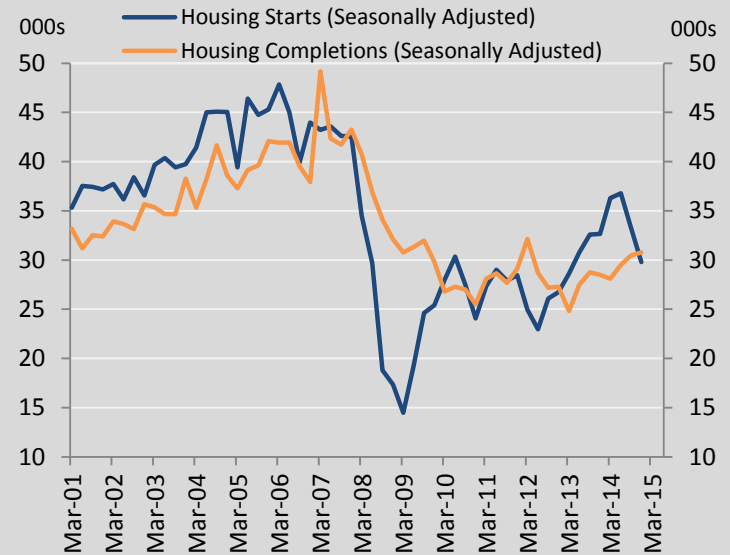
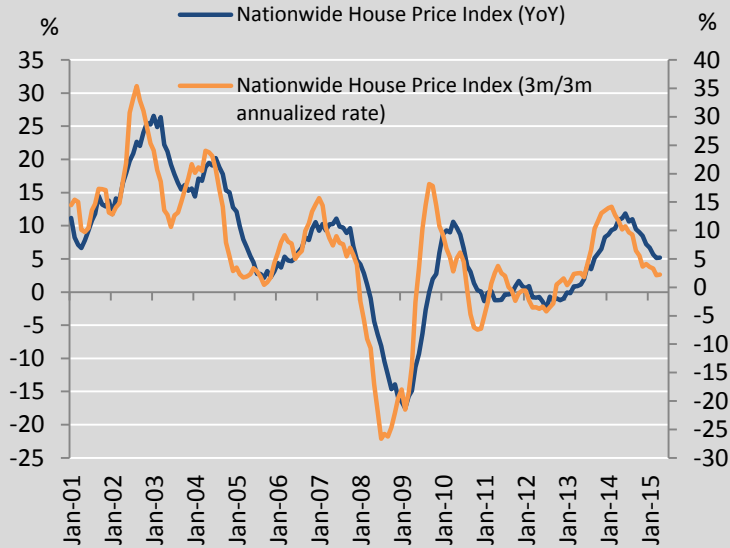


The Bank of England is expected to raise rates by mid-2016



Monetary Conditions Index is a simple composite index of Real Short Term Rates (GBP Libor less CPI) & Real Effective Exchange Rate

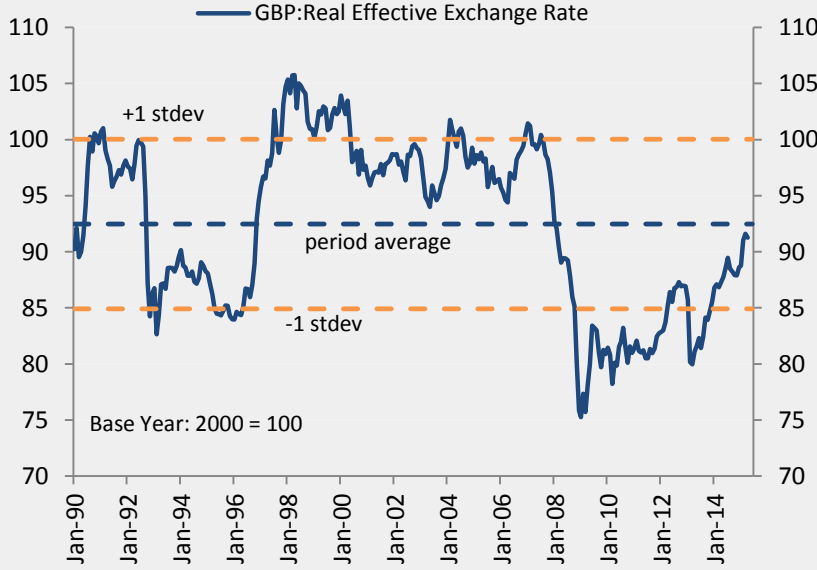
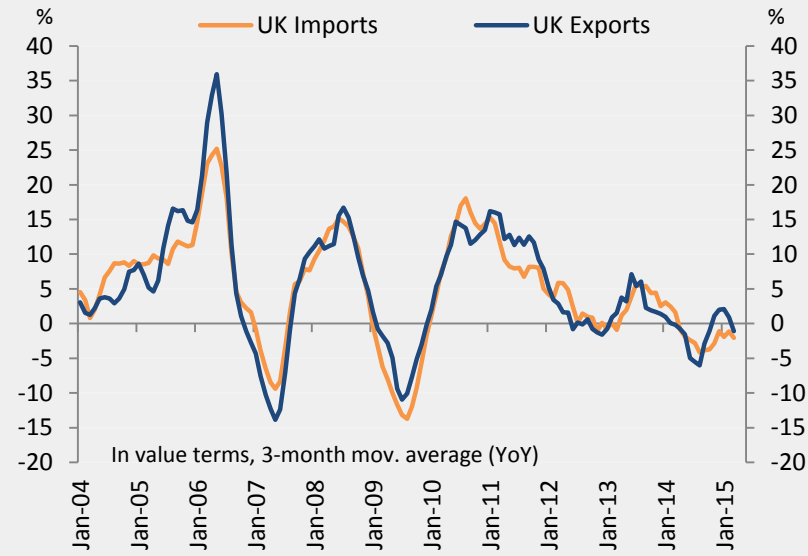
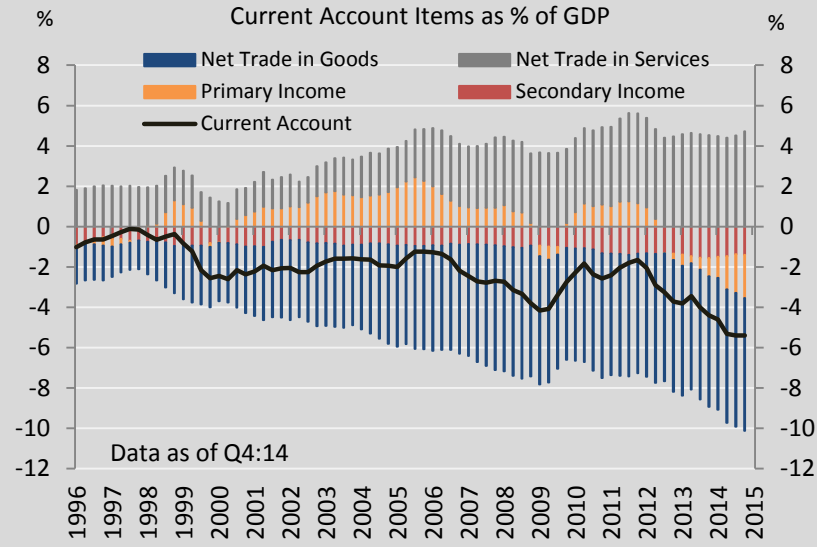
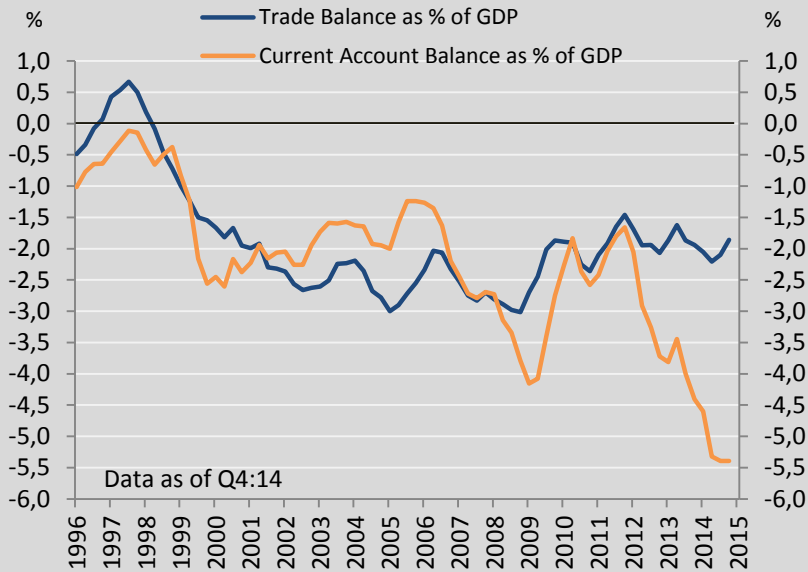
Housing price slowdown is bottoming out



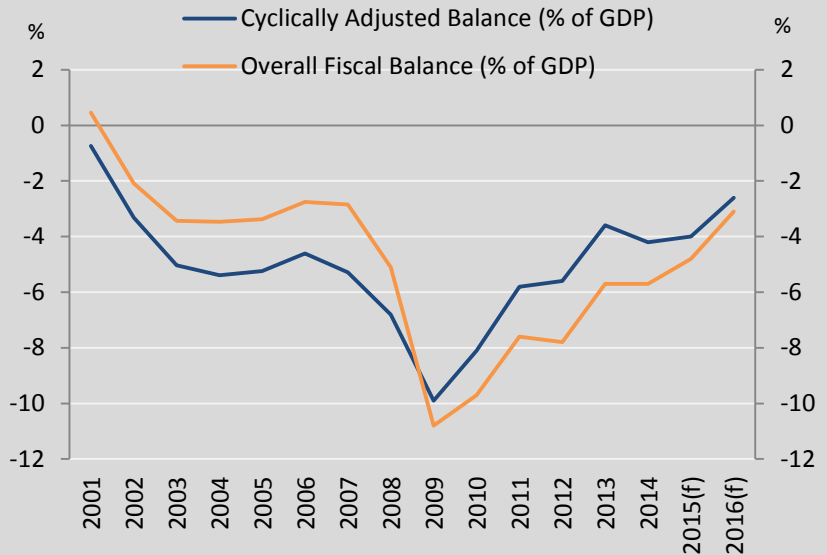
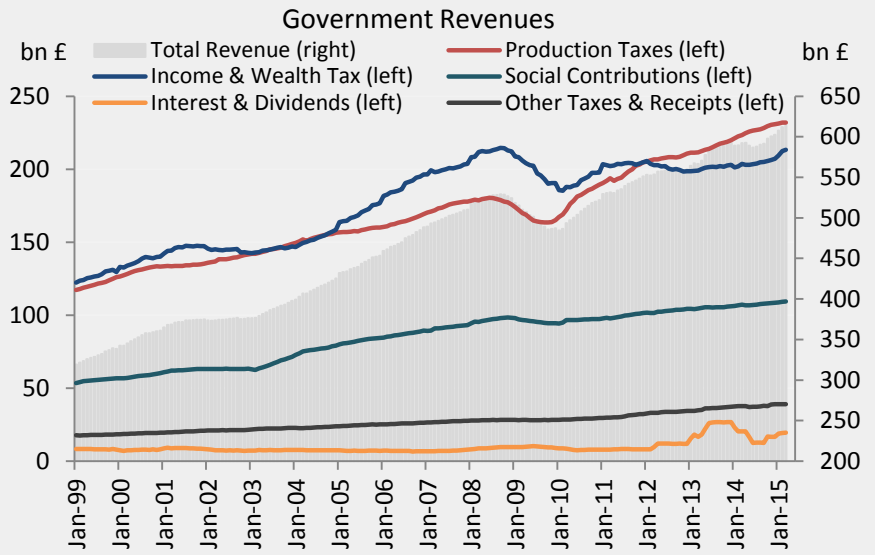
Source: Bank of England, HM Revenue & Customs

Source: Bank of England

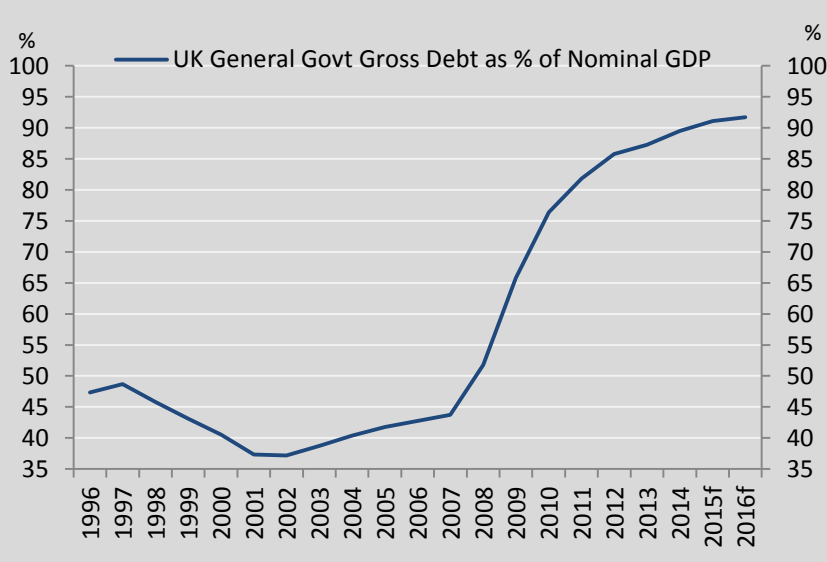
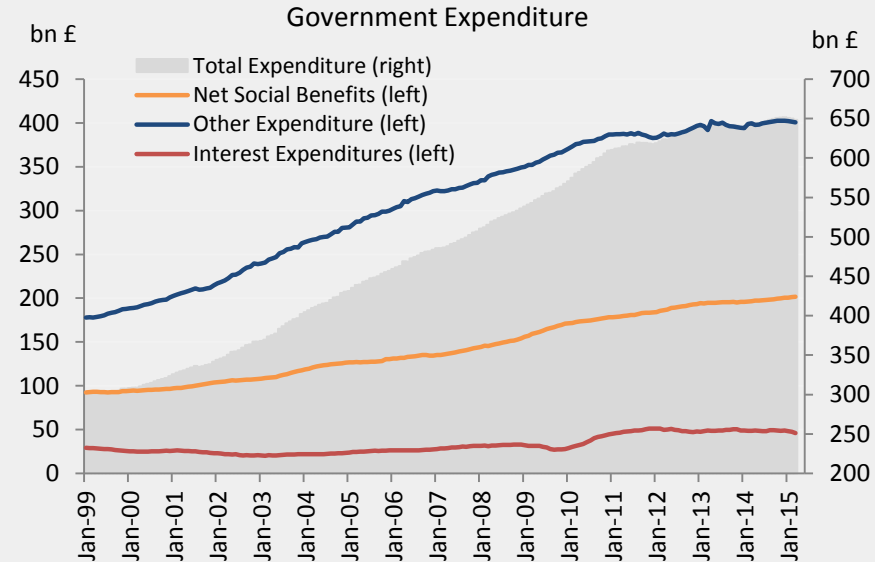
A strong GBP could act as a drag on exports



The Conservatives majority provides greater clarity to the path of fiscal consolidation



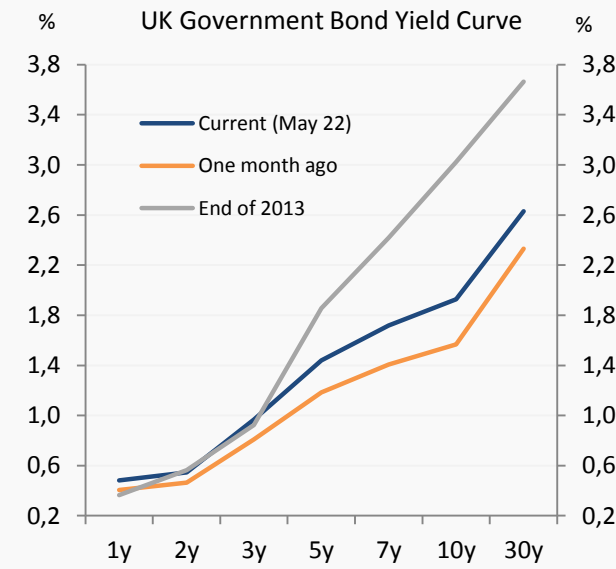
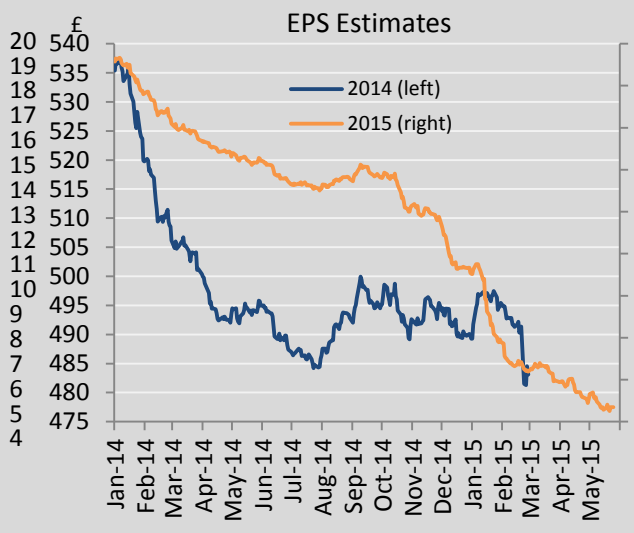
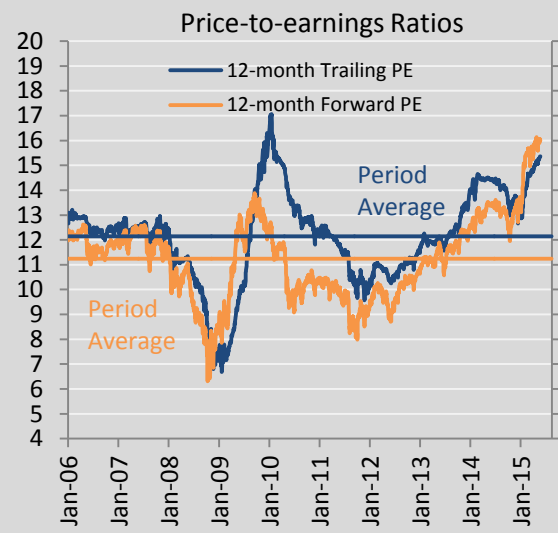
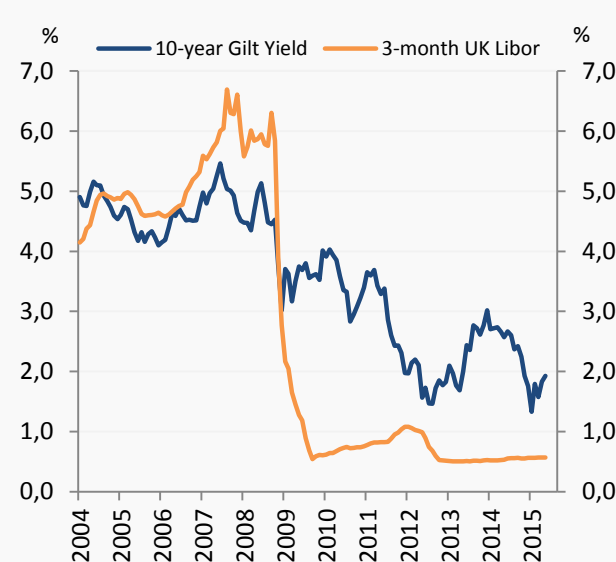
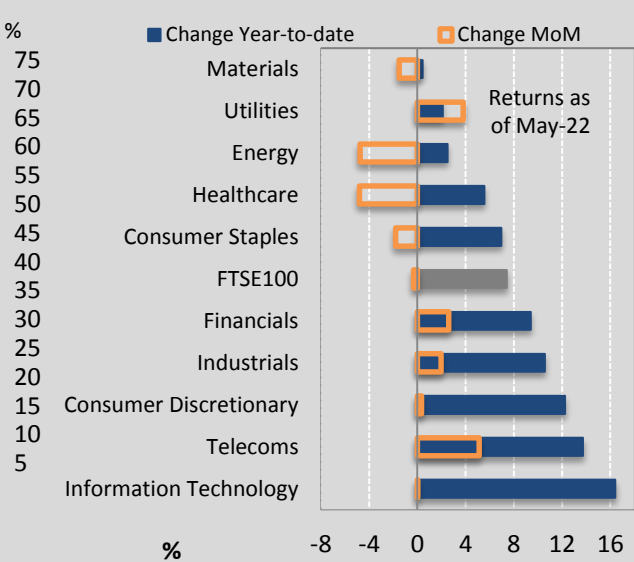
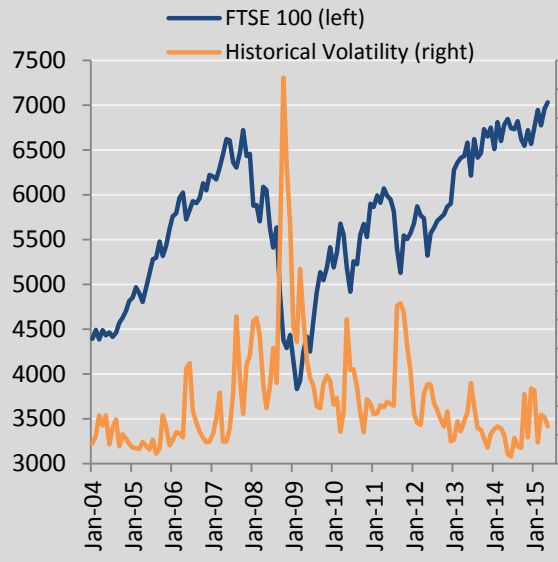
Source: IMF Fiscal Monitor, April 2015



Source: IMF Fiscal Monitor, April 2015

Government Revenues and Expenditures are 12 month rolling sums

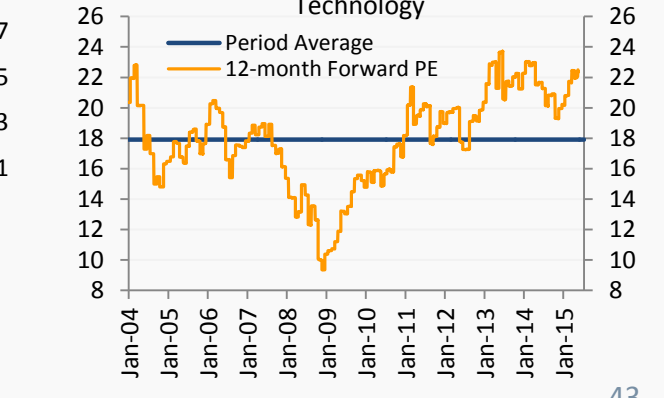
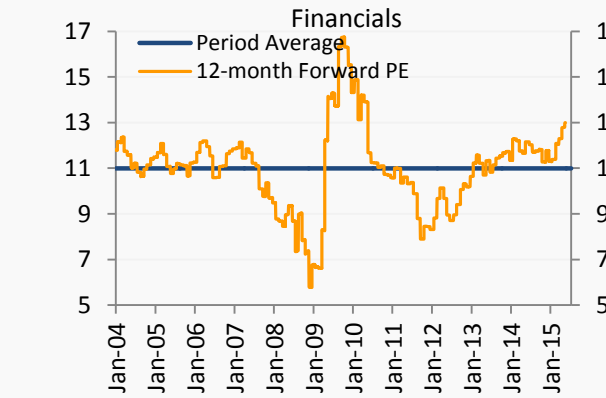
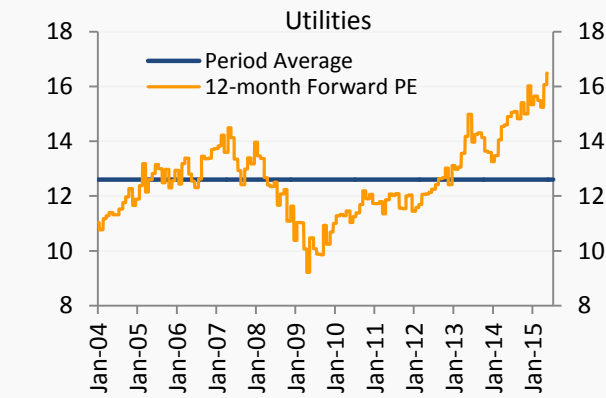
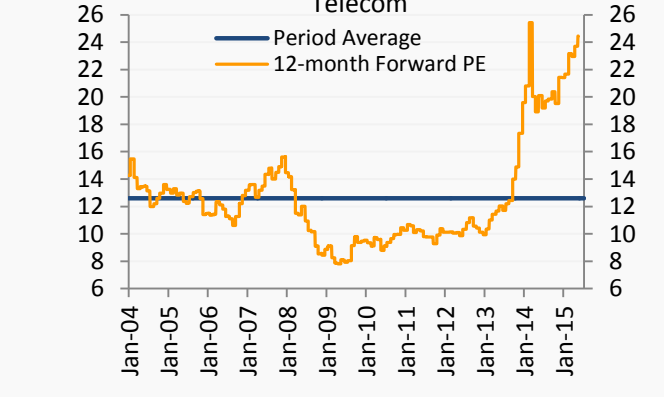
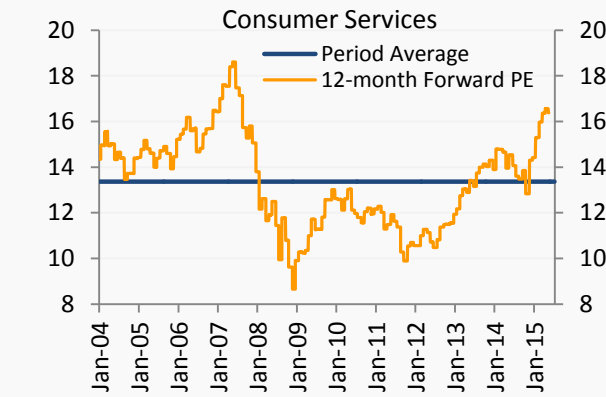
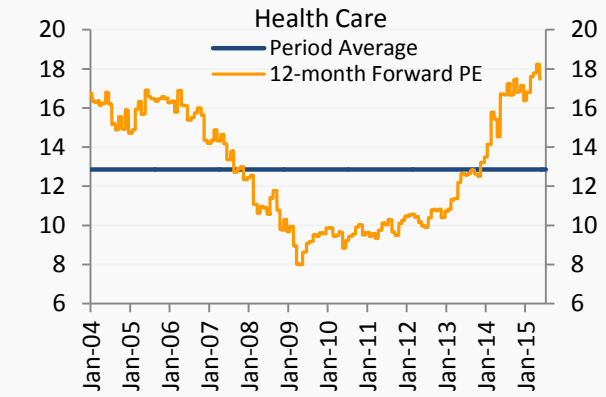
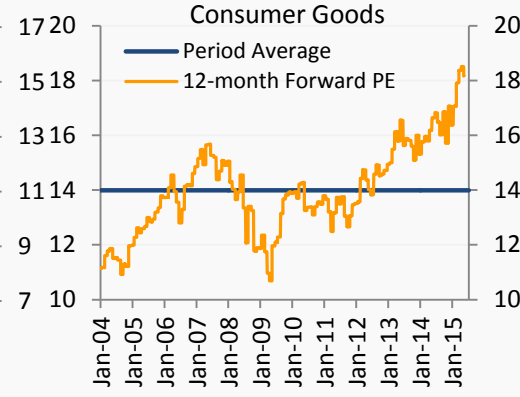
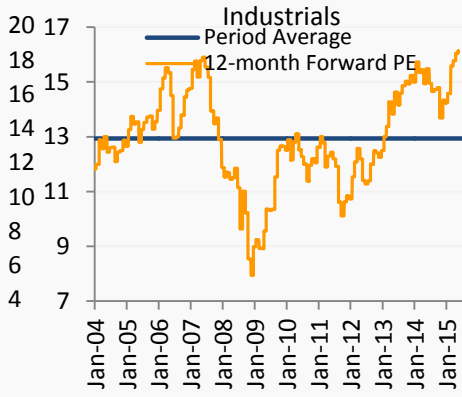
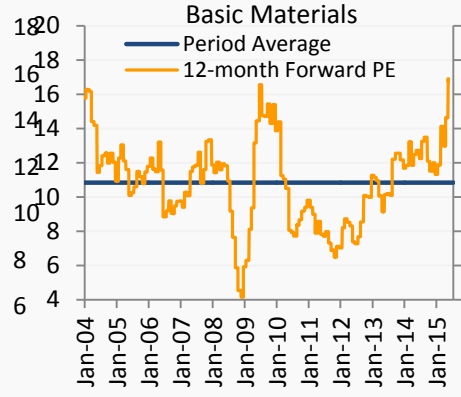
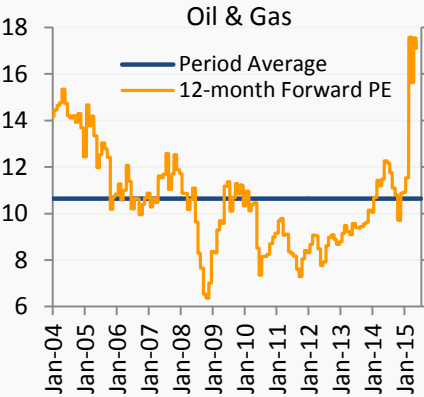
Gilts took their cue from the euro area bond market, increasing by 40 bps during the past month



Source: Factset

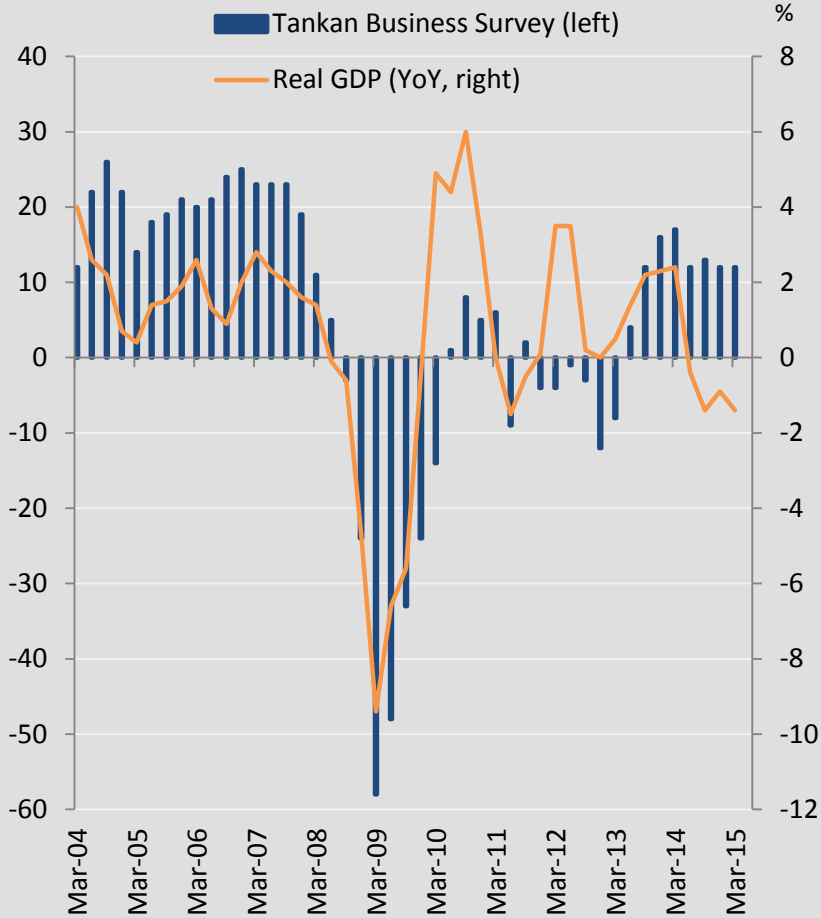
Source: Factset

UK Sectors Valuation

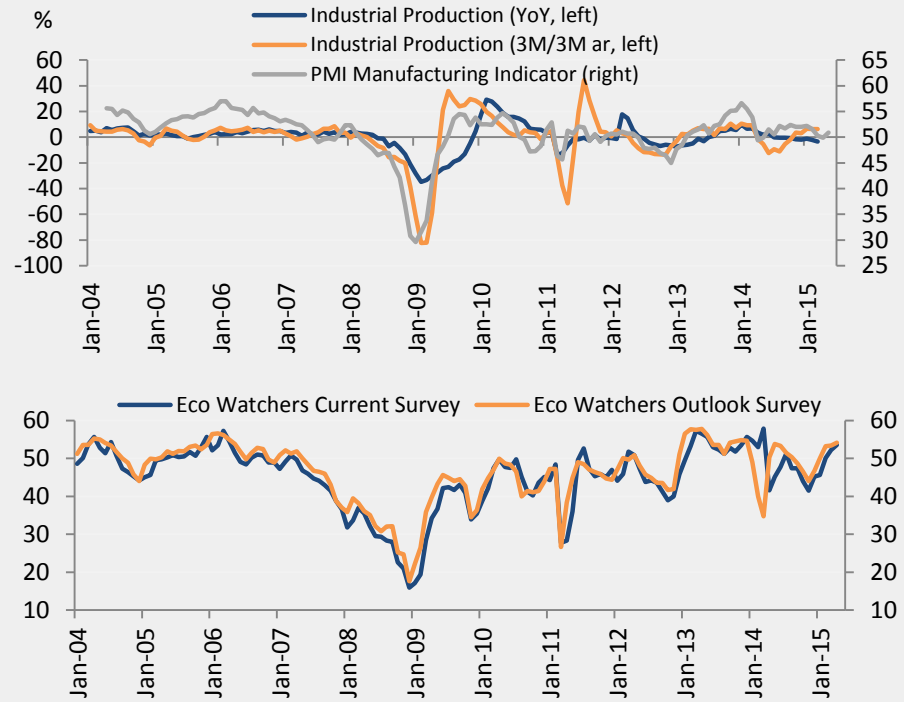


- The Japanese economy maintained its momentum, recording positive growth in the first quarter of 2015. Specifically, real GDP rose by 2.4% qoq saar, overshooting consensus estimates (albeit with a large contribution from inventories). Private consumption increased by the highest rate in four quarters, suggesting that consumers have absorbed the increase in the sales tax (April 2014).
- Housing investment has bottomed out, showing some signs of improvement. Moreover, business and consumer confidence leading indicators suggest a strengthening in activity in the course of 2015, as private consumption will find support from lower oil prices translating into, *inter alia*, higher corporate profits. The PMI manufacturing indicator increased to a three-month high of 50.9 in May.
- In addition, there are signs that the recent depreciation of the Yen has begun to support exports (10% yoy), with trade balance turning positive (on a monthly basis) for the first time in almost three years. On a negative note, a prolonged economic slowdown in the US and China could brake this trend.
- Inflation remains muted, as the CPI ex-fresh food (the BoJ's preferred measure for gauging inflation pressures) hovered around 0% yoy during the past months, excluding the effect of the consumption tax rate hike.
- However, the Bank of Japan remains confident that inflation will revert to its target of 2.0% due to a narrowing output gap. Indeed, Japanese growth is expected to exceed its potential in 2015 (1.2% vs 0.5%), as well as in 2016 (1.1%).
- However, the Bank of Japan will not hesitate to proceed with additional quantitative easing measures in order to prevent a renewed "deflationary mindset". Currently, the BoJ purchases ¥80tn of government bonds per annum (or 17% of GDP) and ¥3tn of ETFs.
- The Government's failure to deliver on corporate and labor market reforms (the third arrow of Abenomics), as well as a sharper-than-expected slowdown of the US and the Chinese economy (37% of Japanese exports), could weaken growth prospects.

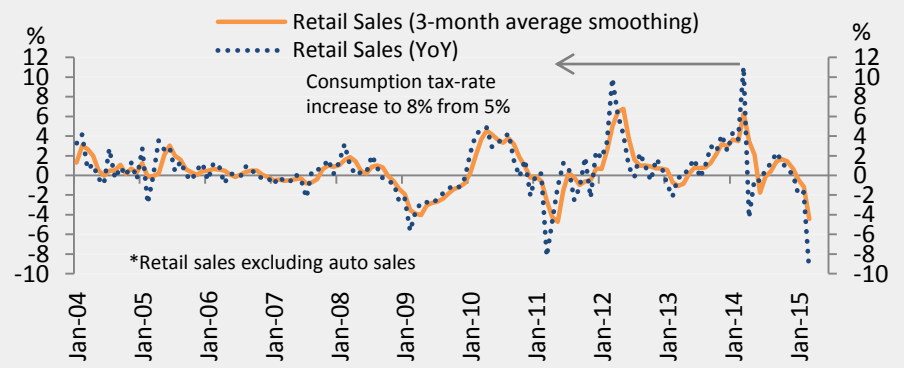
Mixed data point to a steady economic recovery in Q2



Above: Data as of Q1:2015
Source: Bloomberg



Note: Eco Watchers is a Business Survey conducted by the Cabinet Office. The Outlook Index assesses business conditions 2-3 months ahead



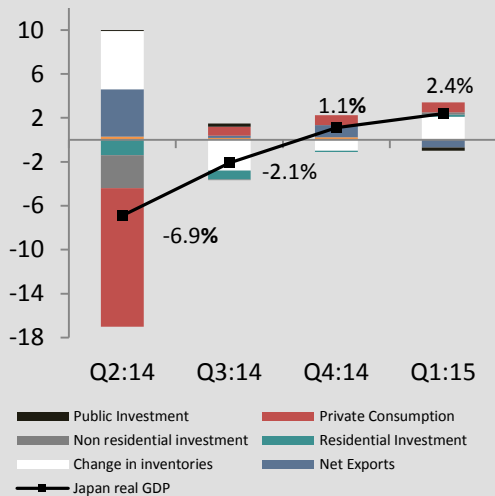
*Retail sales excluding auto sales

The steady recovery is driven by private consumption due to higher real incomes

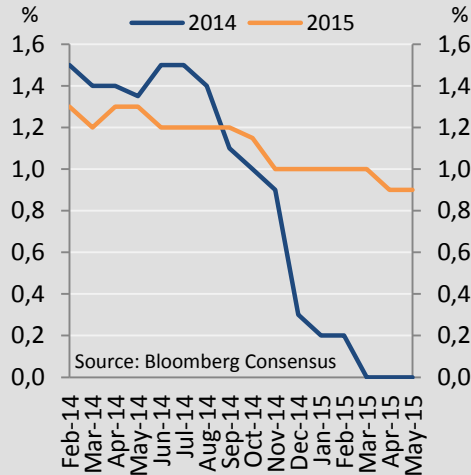
Japan Real GDP Growth	2013	Q1:14	Q2:14	Q3:14	Q4:14	2014	Q1:15	Q2:15e	Q3:15e	Q4:15e	2015e
GDP (YoY)	1,6	2,1	-0,4	-1,4	-0,8	-0,1	-1,4	1,1	2,3	2,7	1,2
GDP (QoQ saar)	-	4,9	-6,9	-2,1	1,1	-	2,4	3,1	2,8	2,5	-
Private consumption (QoQ saar)	2,1	8,7	-19,0	1,4	1,5	-1,3	1,4	3,1	3,1	2,7	0,6
Government consumption (QoQ saar)	1,9	-1,2	1,6	0,8	1,1	0,3	0,4	1,7	0,9	0,9	1,0
Private residential investment (QoQ saar)	8,7	8,3	-36,7	-23,2	-2,4	-4,9	7,5	-7,6	4,8	4,6	-5,5
Business investment (QoQ saar)	0,6	25,9	-19,2	-0,4	-0,2	3,6	1,4	5,2	5,8	5,7	0,9
Public investment (QoQ saar)	7,9	-3,7	3,0	6,7	0,5	3,8	-5,5	-5,7	-9,1	-10,0	-3,2
Private Inventories contribution (QoQ saar)	-	-1,9	4,8	-2,4	-0,8	0,1	1,7	0,0	-0,2	-0,4	0,2
Net Exports contribution (QoQ saar)	-0,2	0,0	3,3	0,4	1,3	0,3	-0,1	0,3	0,2	0,3	0,6
Exports (QoQ saar)	1,1	26,8	-0,1	6,5	13,5	8,4	9,9	4,4	8,8	10,2	8,3
Imports (QoQ saar)	3,0	29,3	-19,3	4,3	5,8	7,4	12,0	3,4	9,1	9,6	5,5

Source: Cabinet Office, Department of National Accounts, Bloomberg

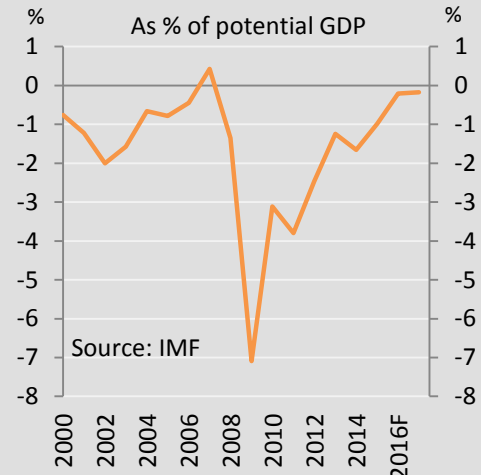
GDP Contributions (%)



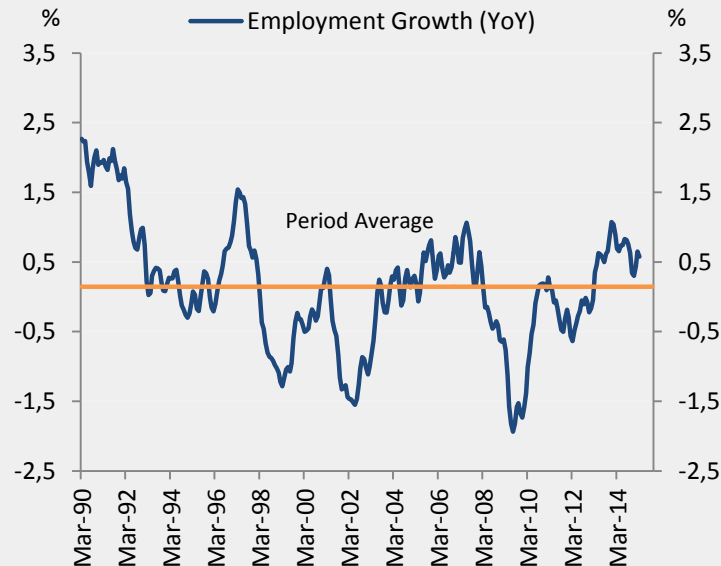
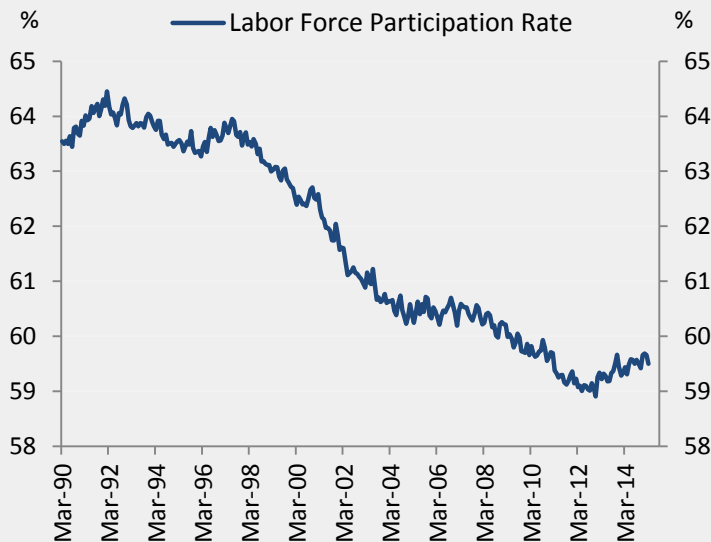
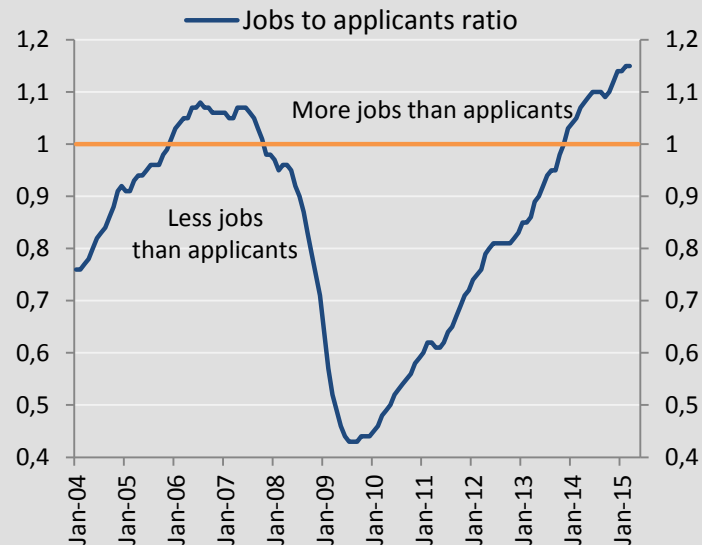
GDP Forecast Evolution



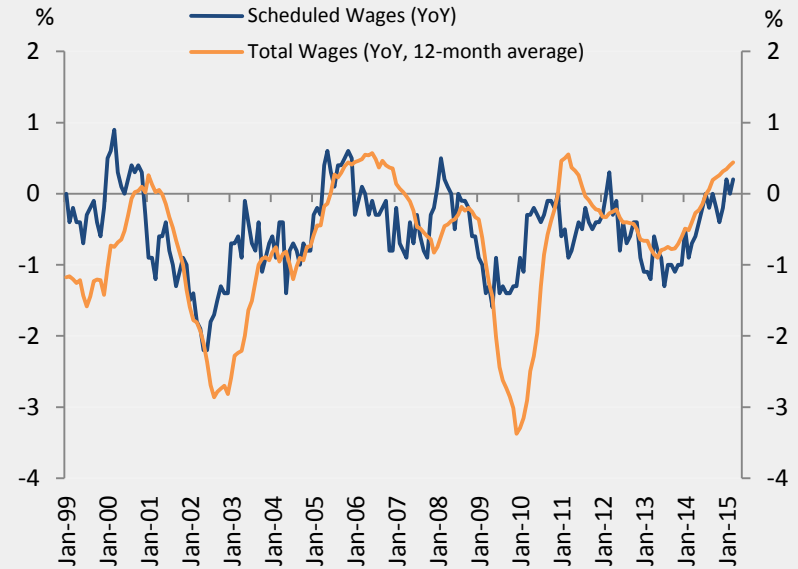
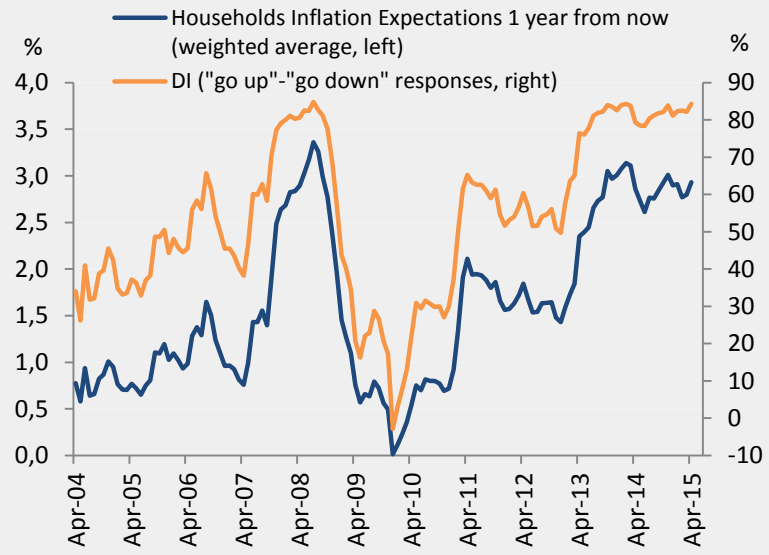
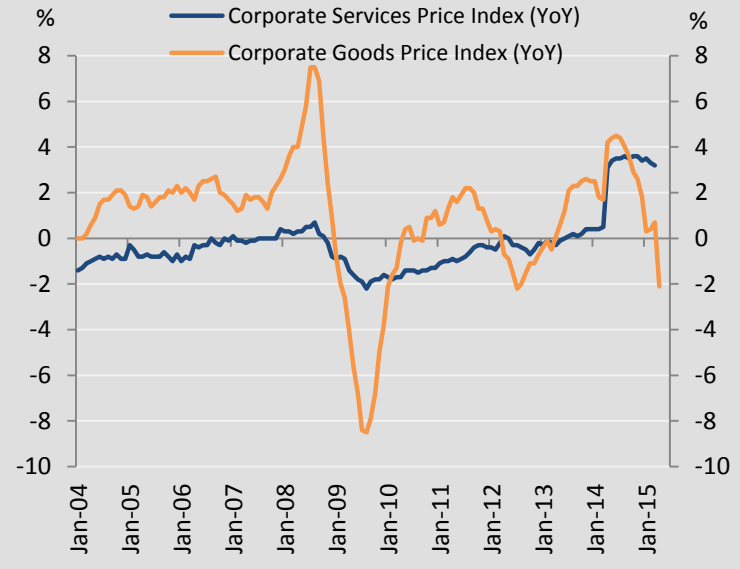
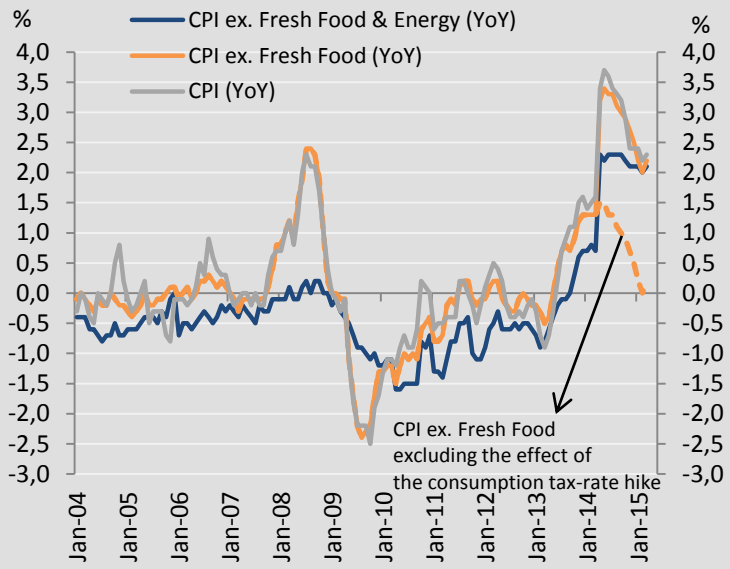
Output Gap



Labor market tightens further

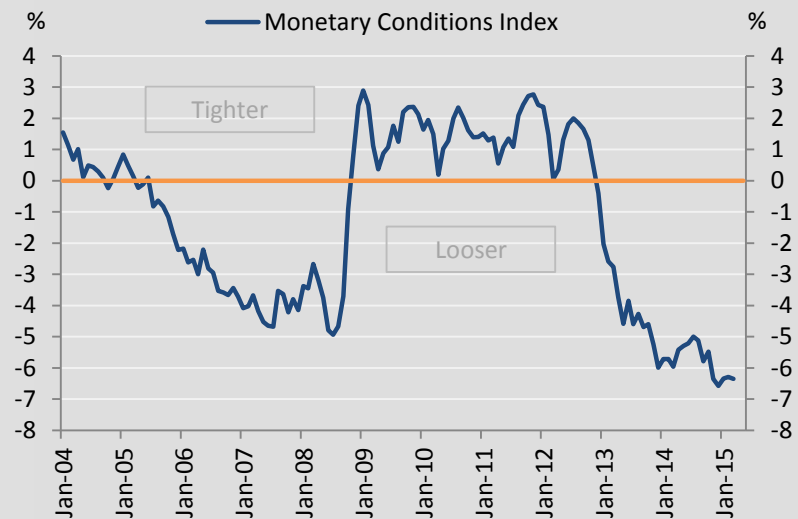
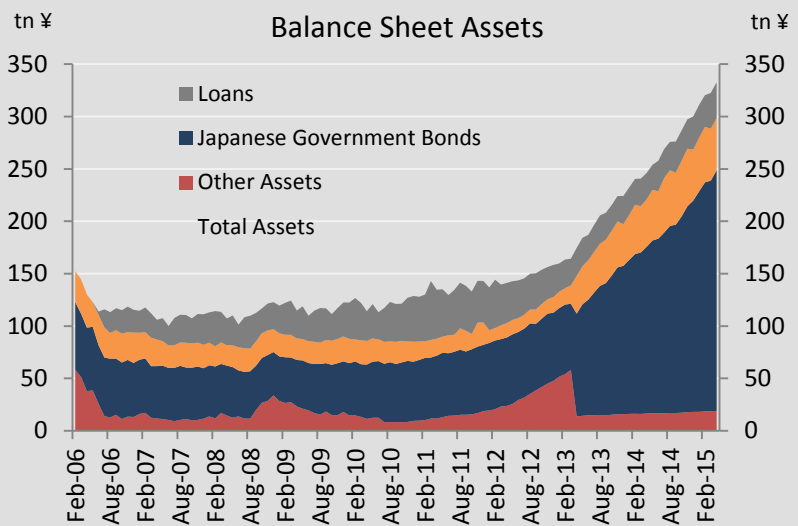


Wages have started to pick up and the inflation slowdown is bottoming out

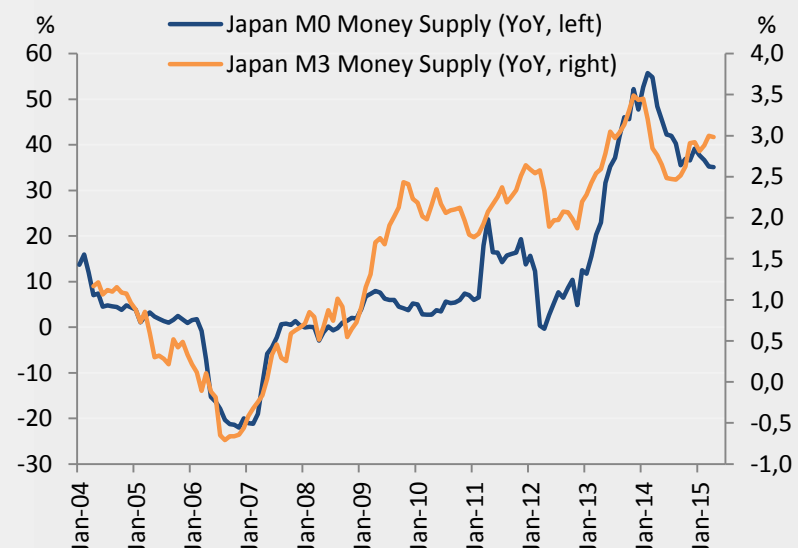
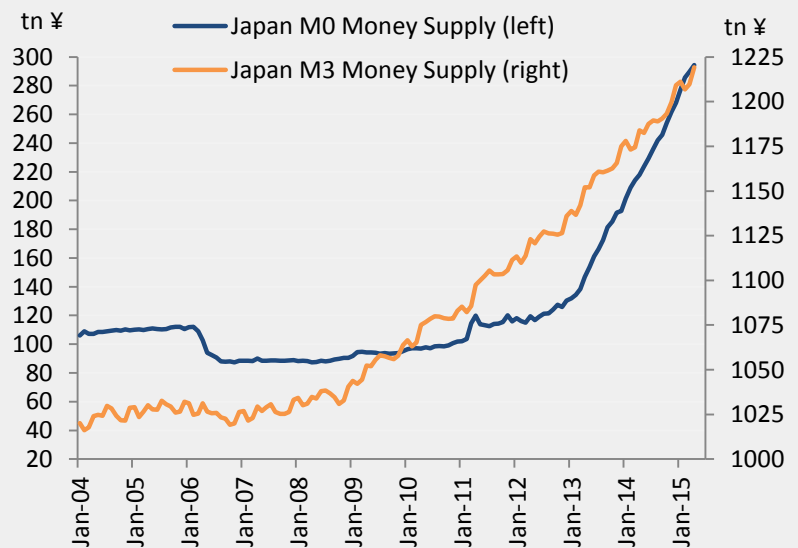


Total wages = Scheduled Wages + Overtime + Bonuses

Source: Cabinet Office (April Consumer Confidence Survey)

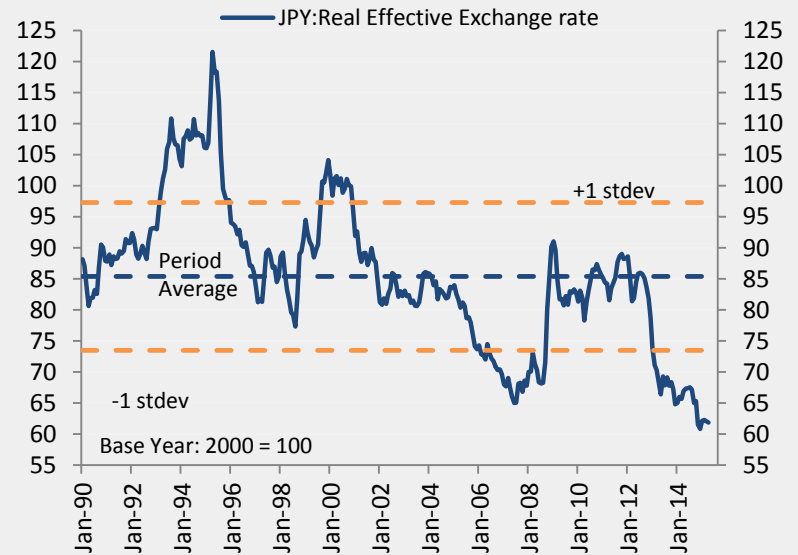
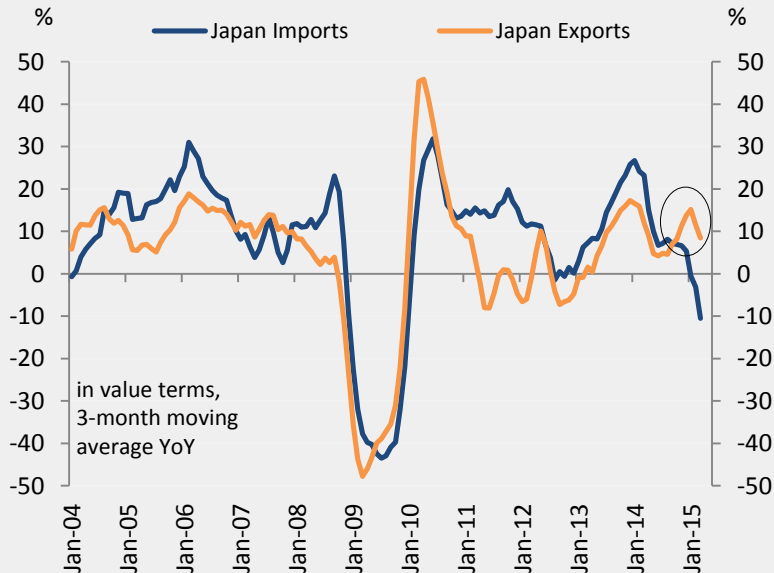
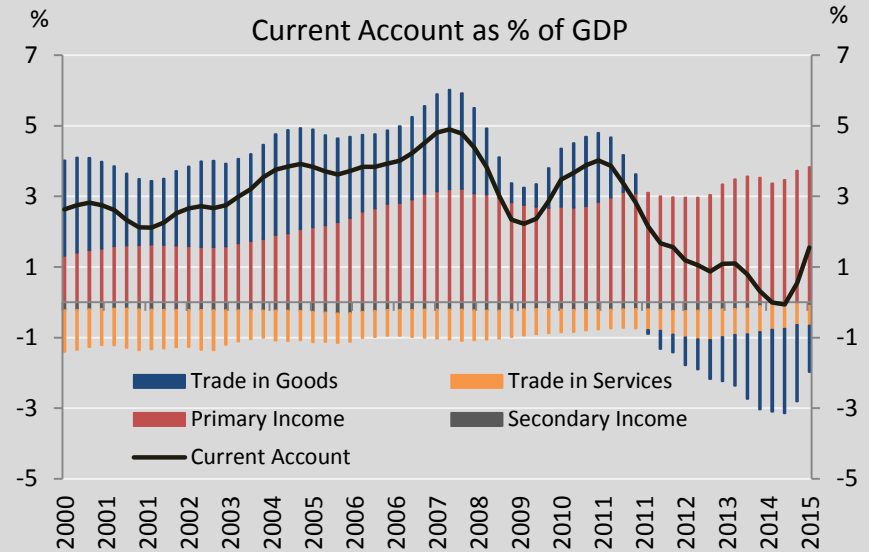
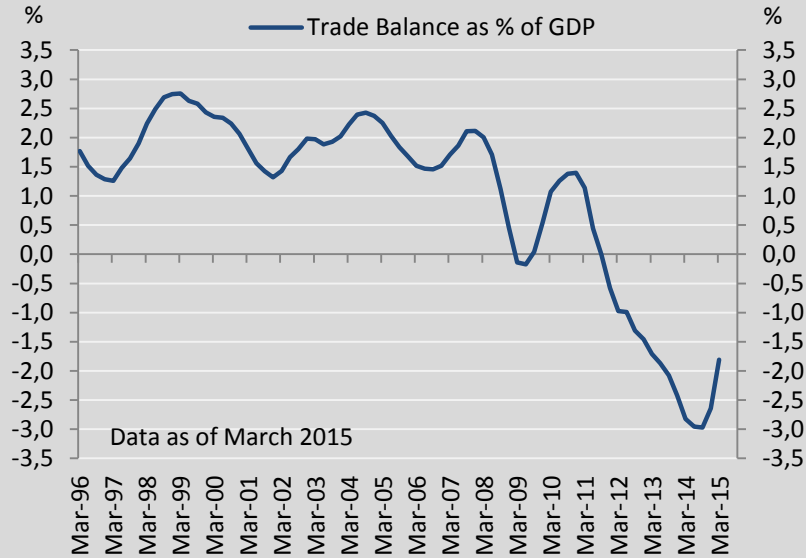


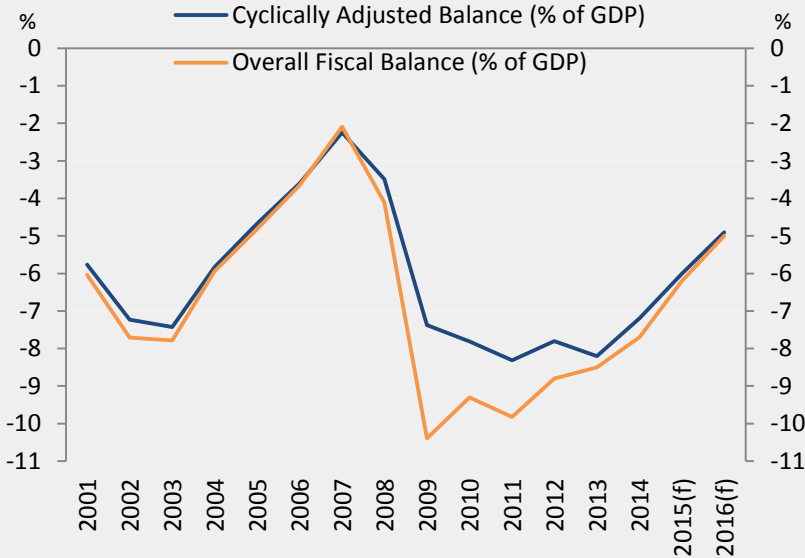
Monetary Conditions Index is a simple composite index of Real Short Term Rates (Tibor less CPI) & Real Effective Exchange Rate



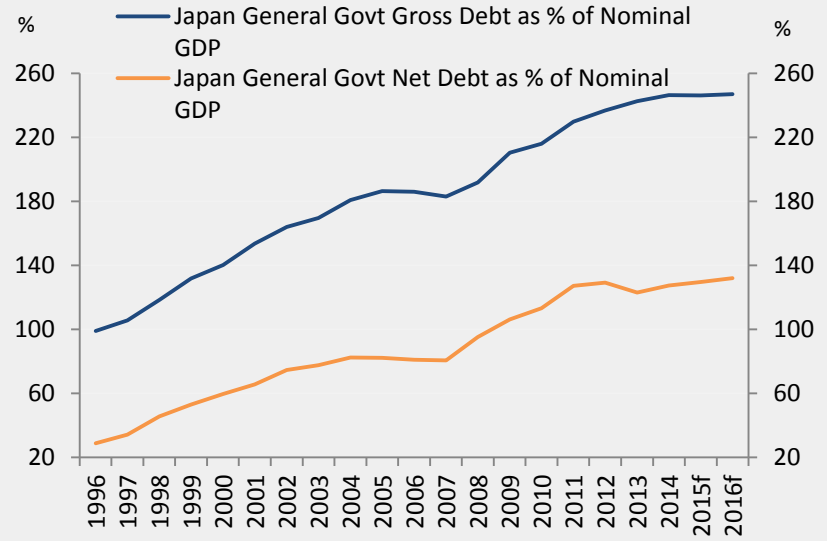
The Bank of Japan targets Monetary Base (M0) expansion of ¥80tn per annum

The large Yen depreciation has finally started to bear fruit, with exports accelerating

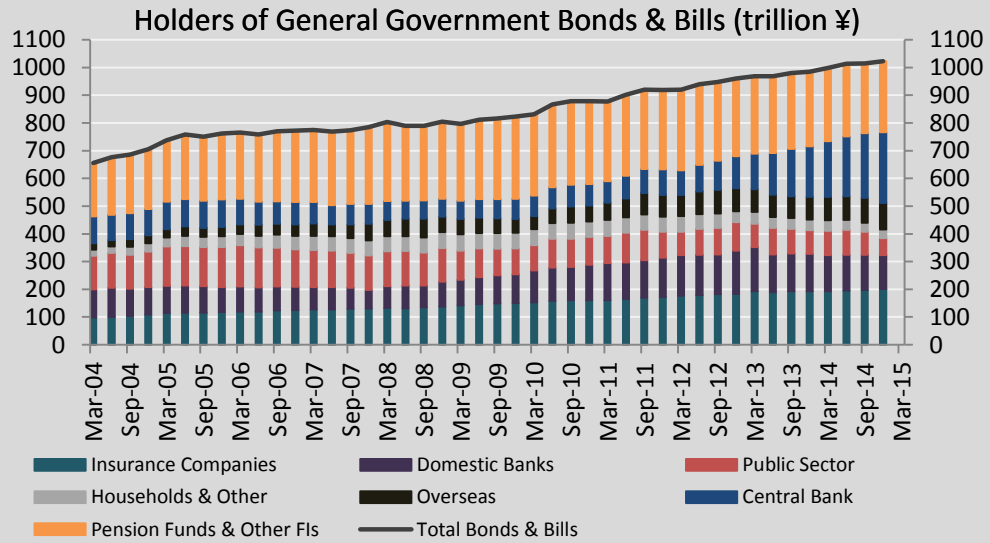




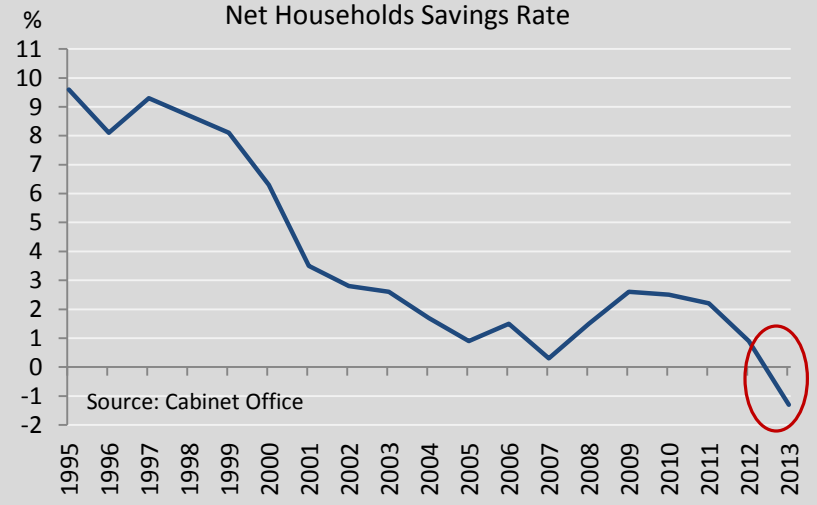
Source: IMF Fiscal Monitor, April 2015



Source: IMF Fiscal Monitor, April 2015

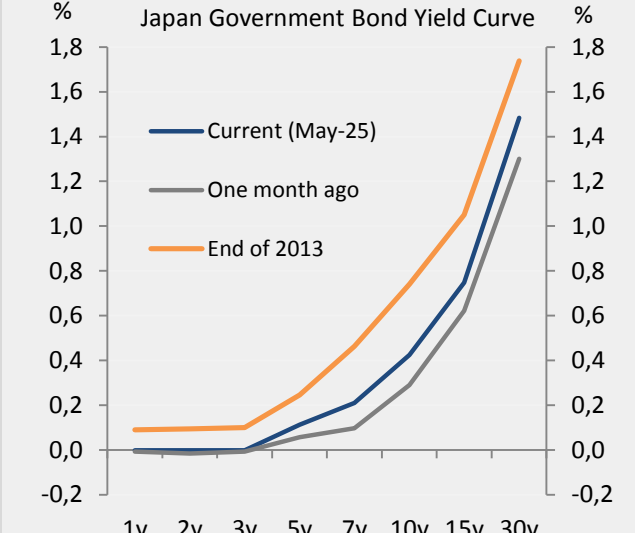
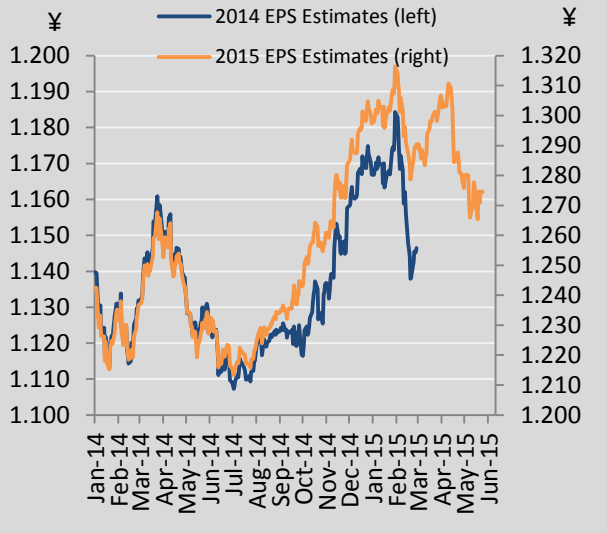
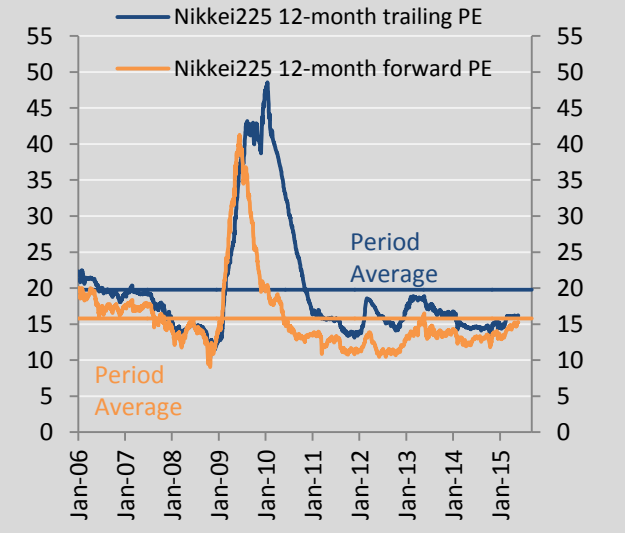
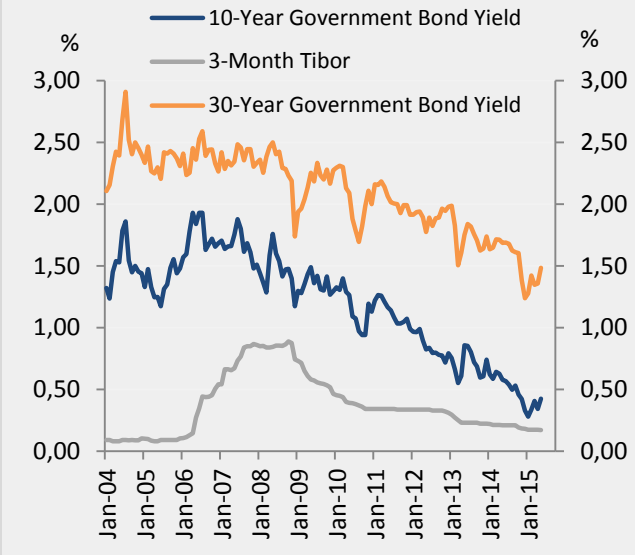
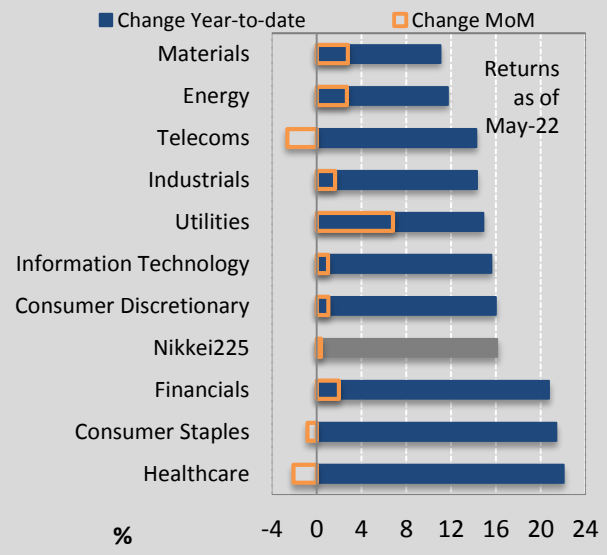
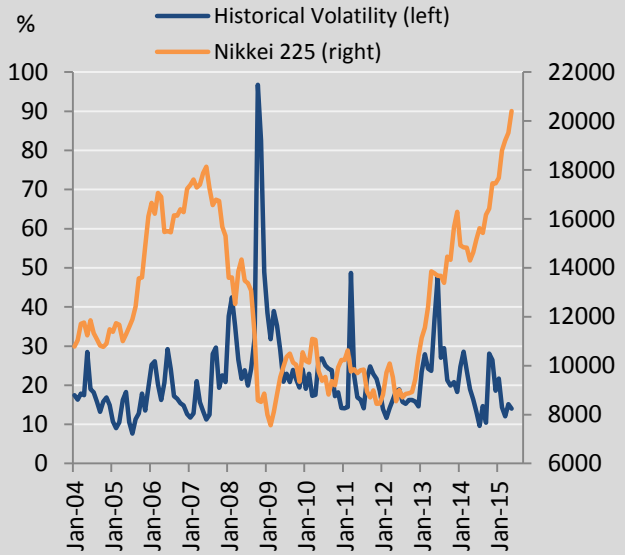


Source: Bank of Japan, Bloomberg (quarterly data, as of Q4:14)



Note: Data appear for Fiscal Years, i.e. from April 1 of mentioned year to March 31 of the next year (e.g. 2013 accounts for 1/4/2013 - 31/3/2014)

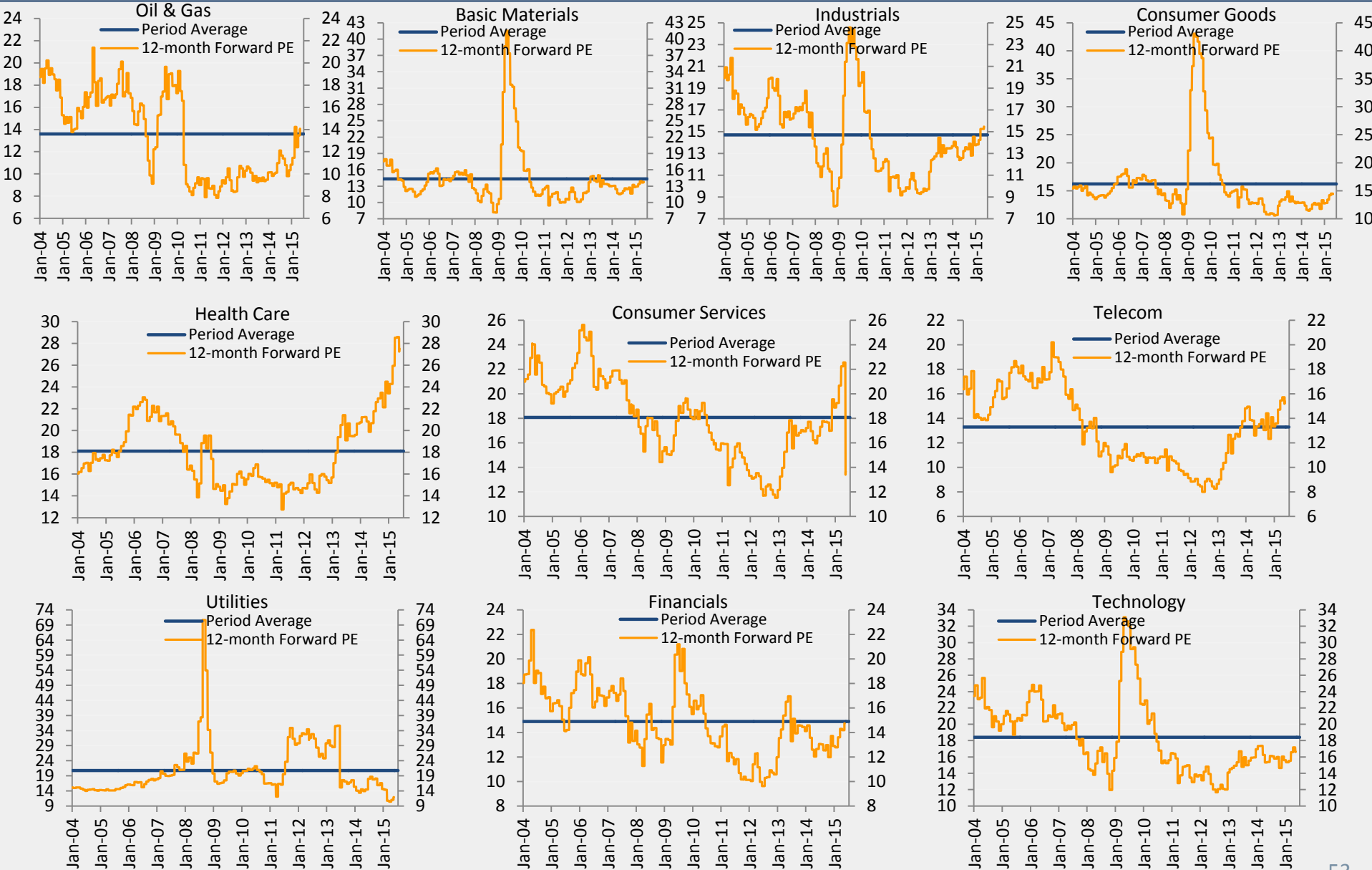
Equity market valuation stands in line with l-t averages, in stark contrast to other developed markets



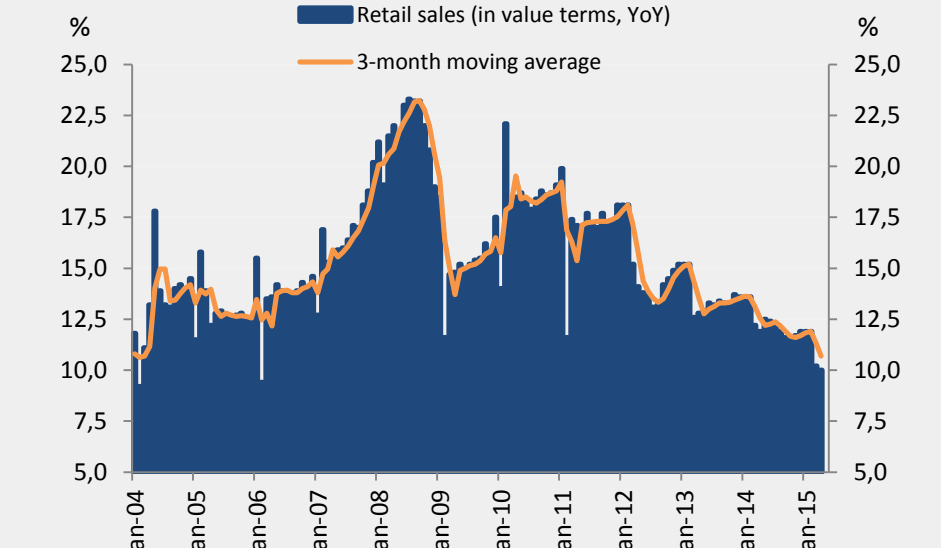
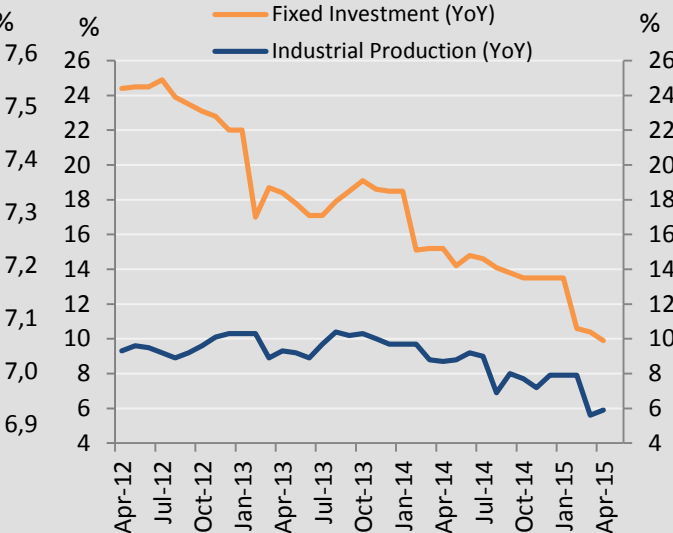
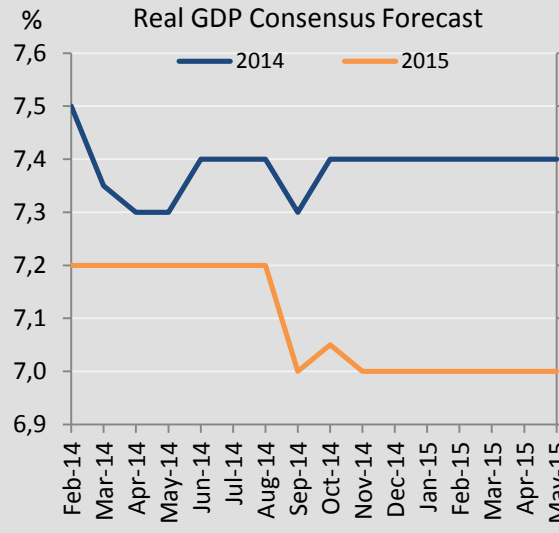
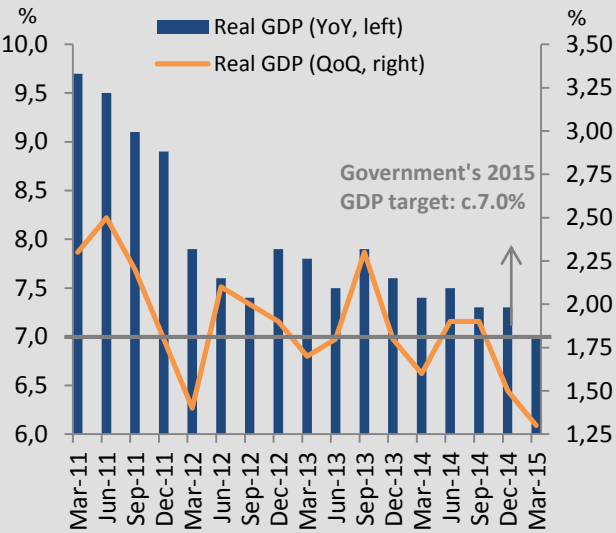
Source: Factset

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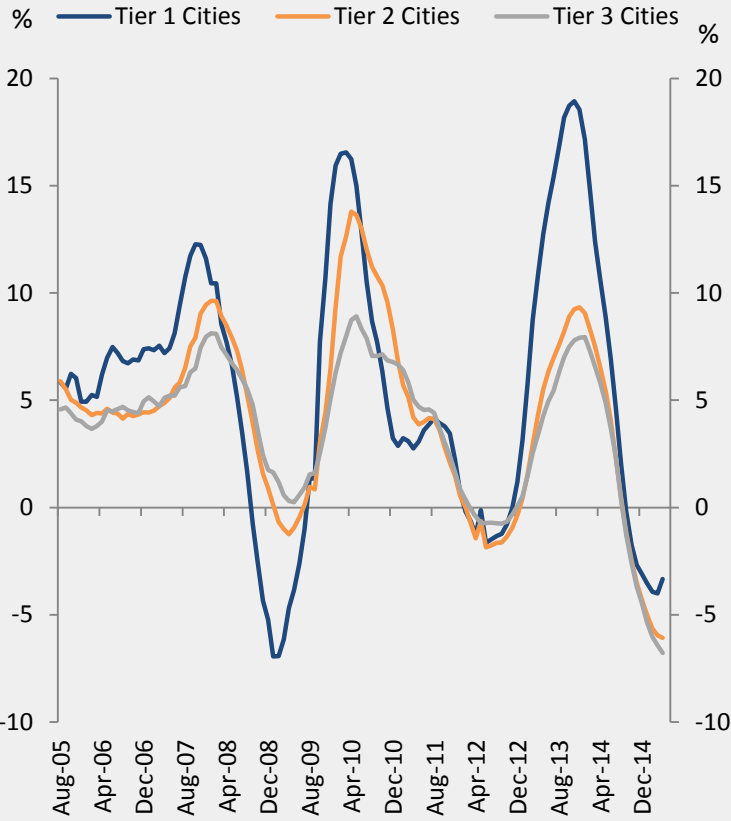
Japan Sectors Valuation



The Chinese economy is slowing, with the IMF projecting GDP growth of 6.8% in 2015 from 7.4% in 2014

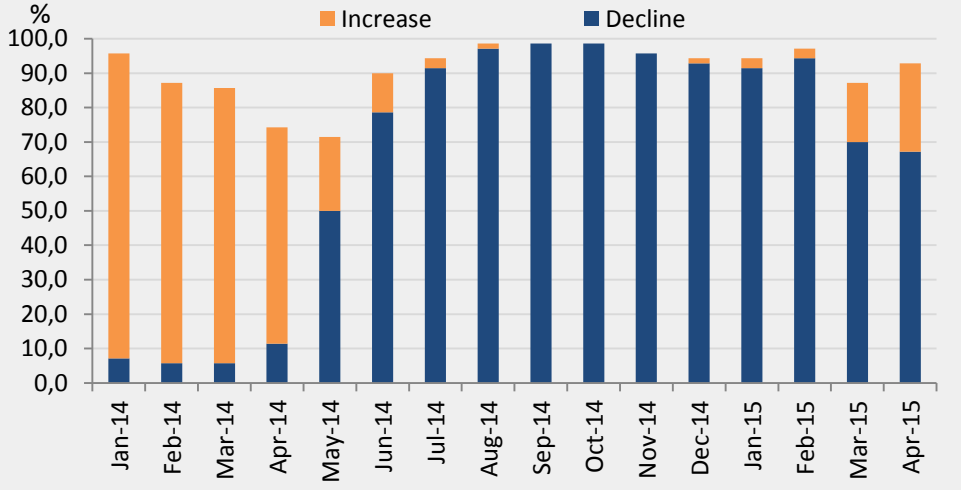


House Prices: Annual Growth Rate



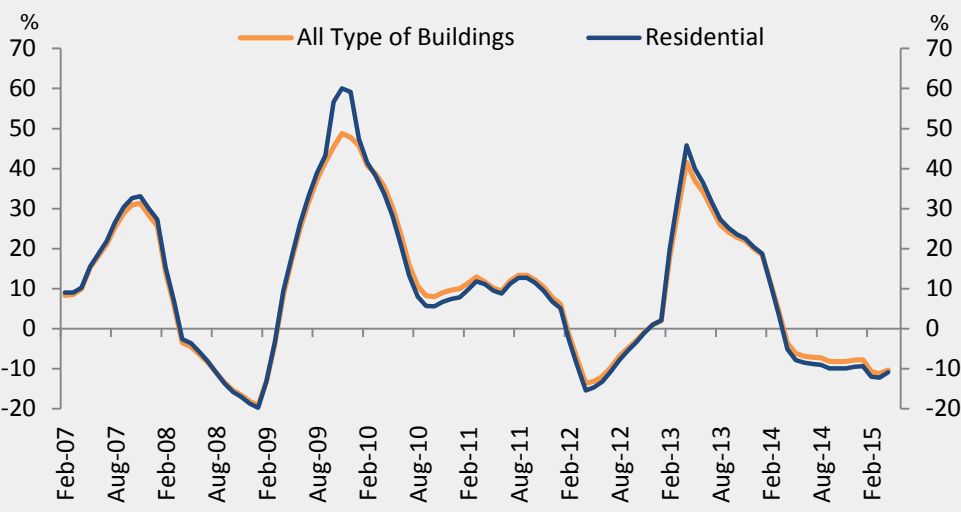
Tier 1 : 4 cities (Shanghai, Beijing, Guangzhou and Shenzhen) - 16 million households
 Tier 2 : 23 cities - 38 million households
 Tier 3: 229 cities - 75 million households
 Source: Nielsen

House Prices: Monthly Increases/Declines as % of Total*

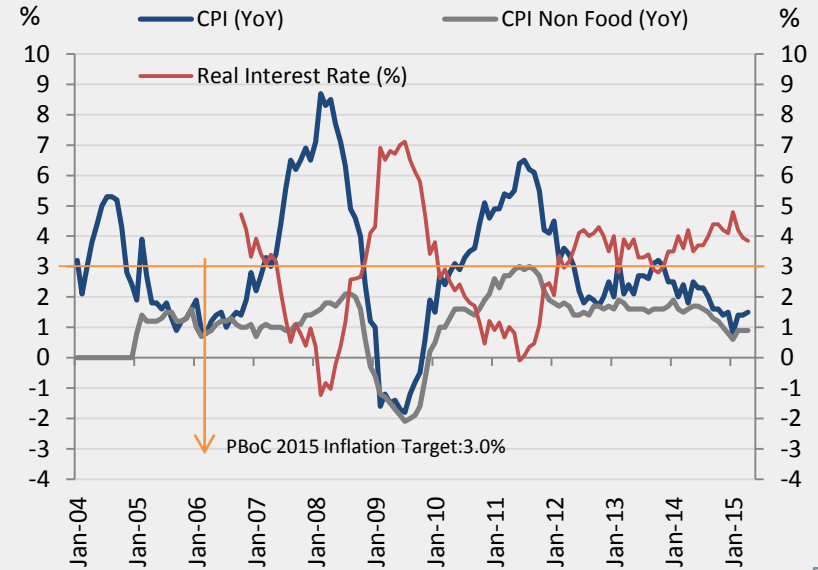
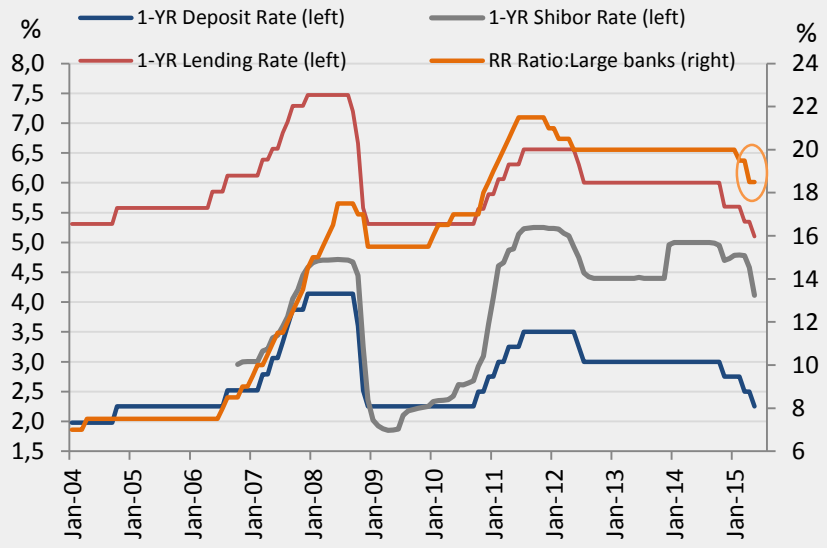
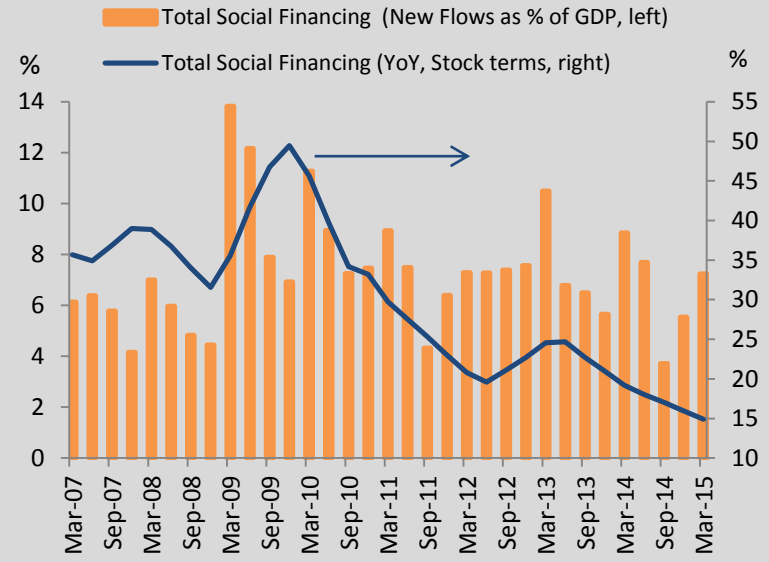
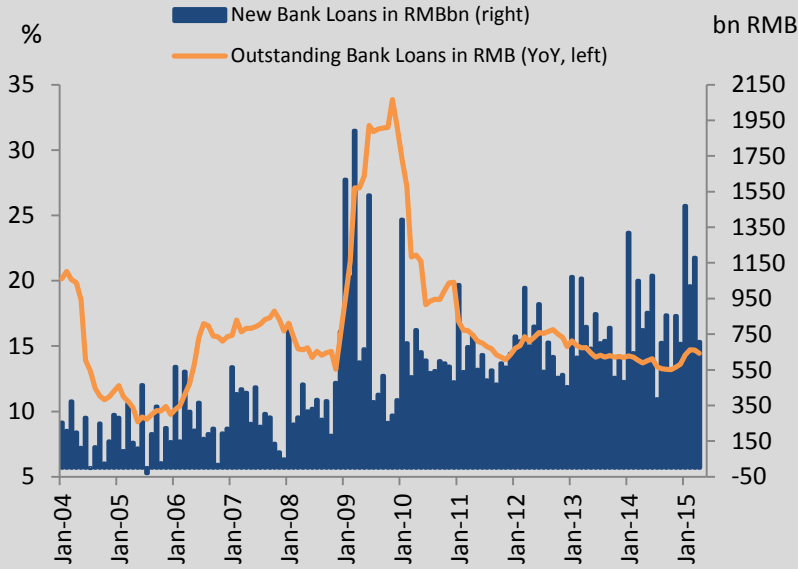


*% of cities (out of 70) where new residential apartments' prices either declined or increased

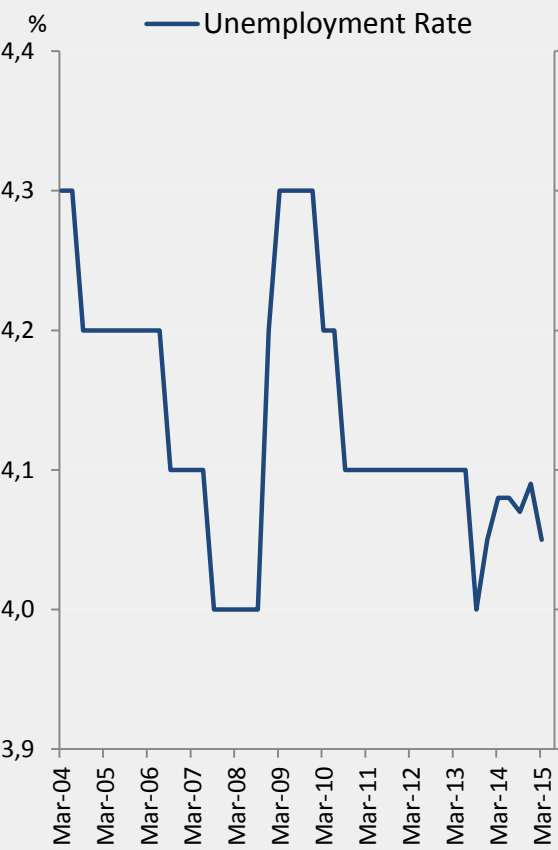
Housing Transactions: Volumes, YoY



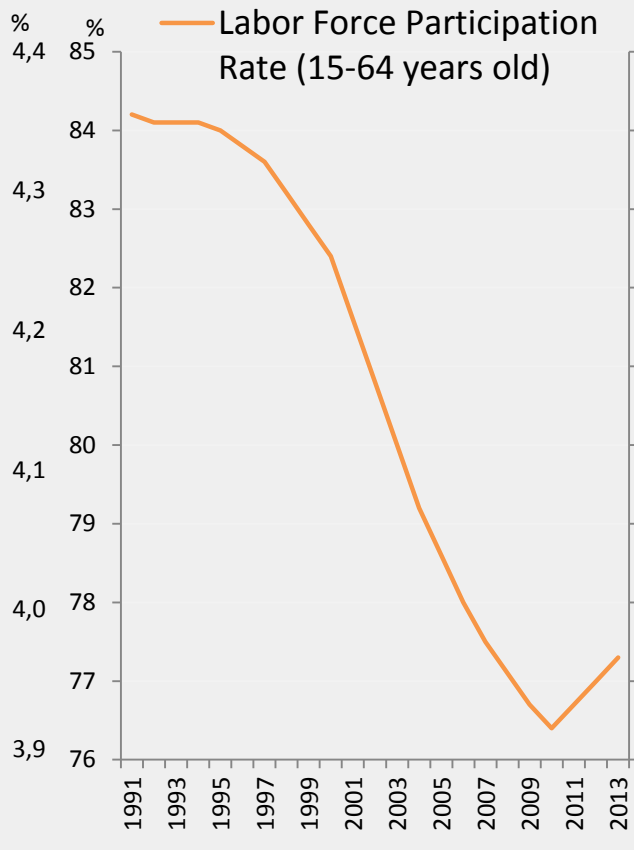
In the context of slowing activity and low inflation, the PBoC may take further action in addition to its recent actions (lending, deposit and RR ratio cuts)



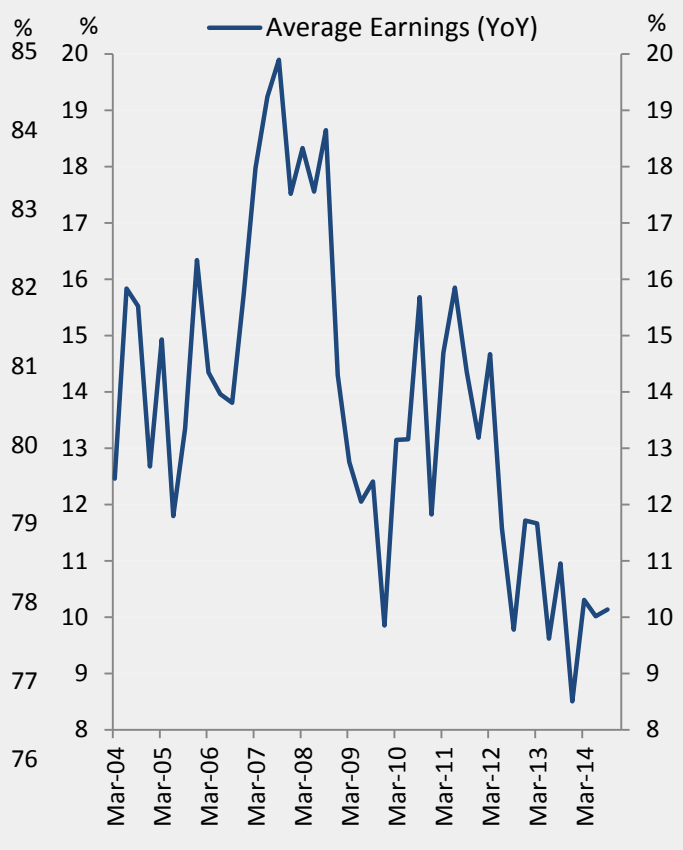
Data as of May 19



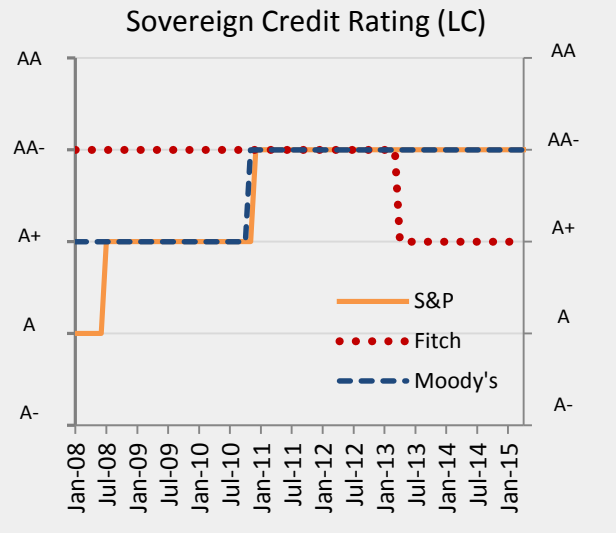
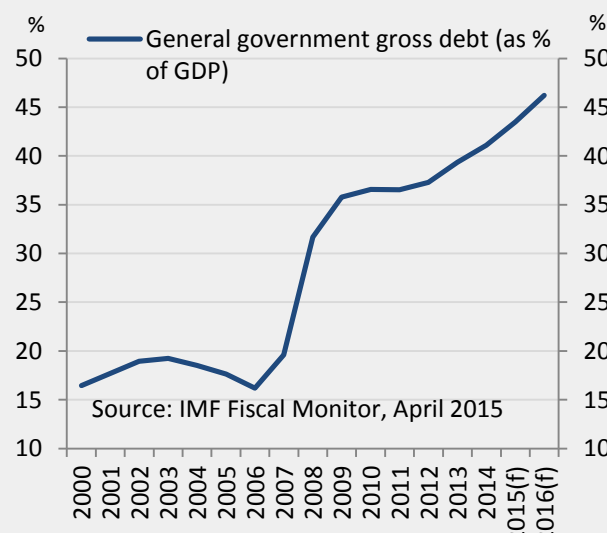
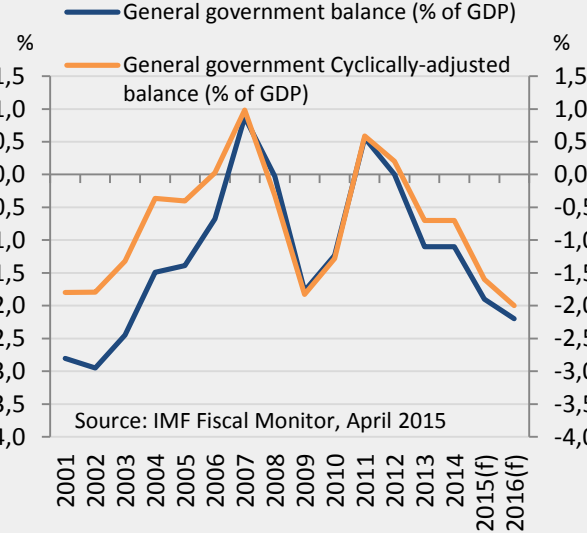
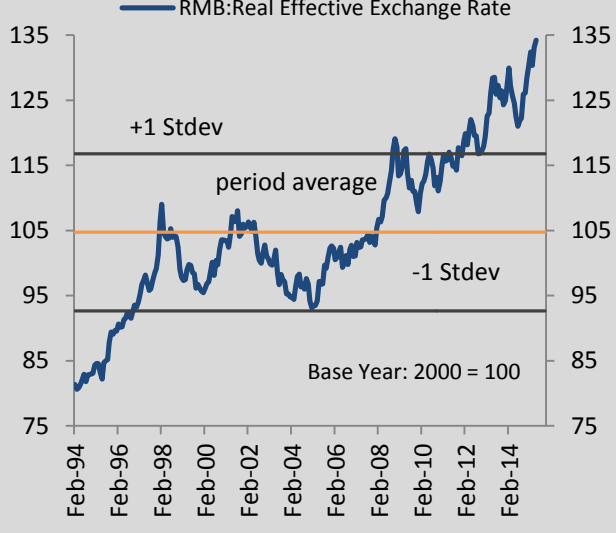
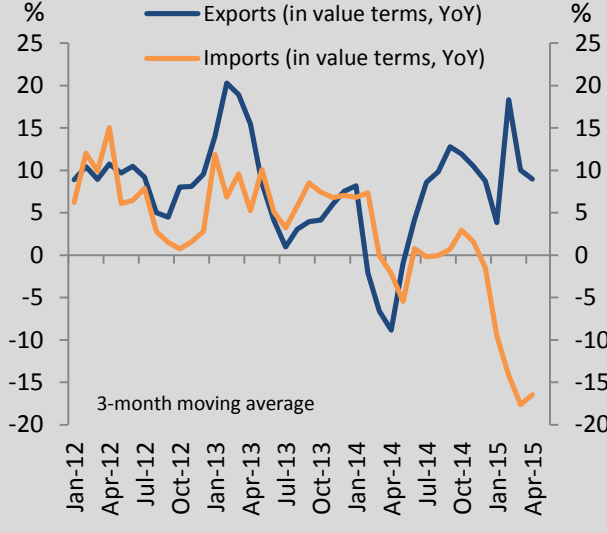
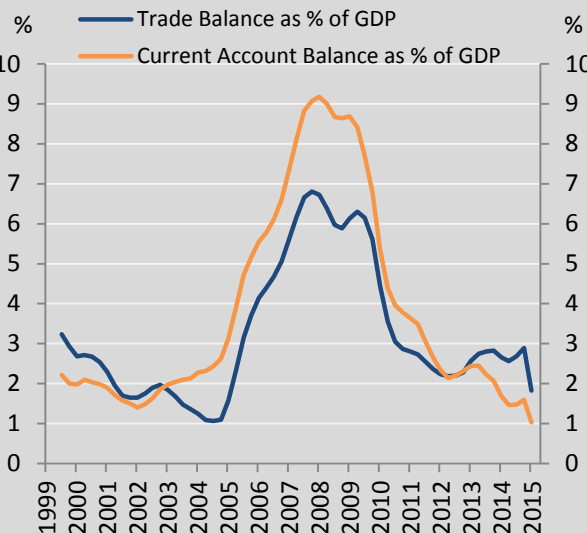
Source: Bloomberg

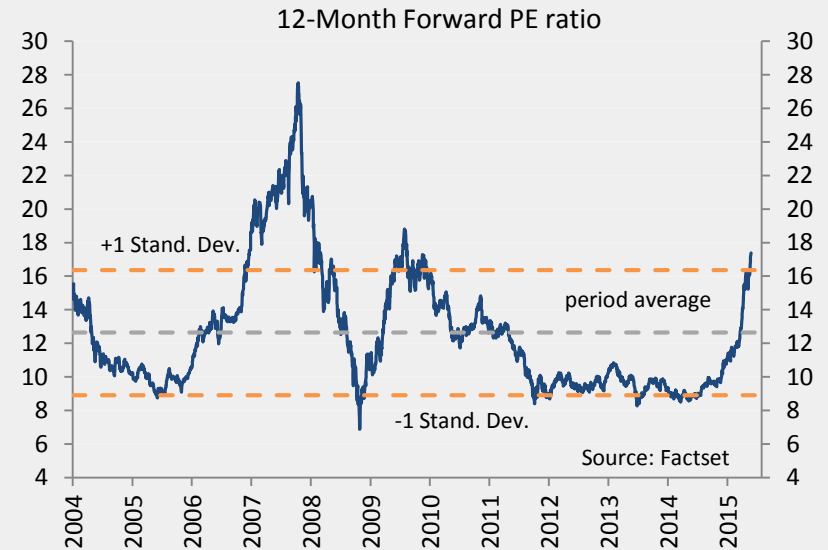
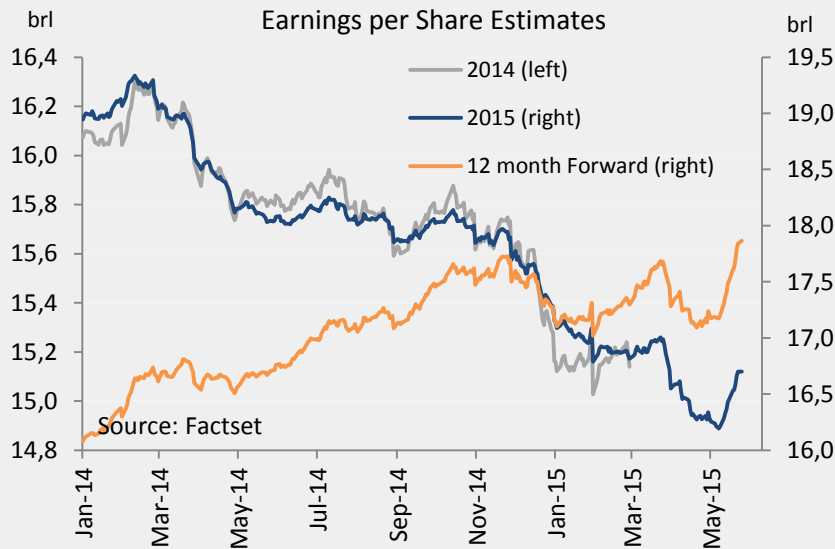


Source: World Bank (annual data, as of 2013)

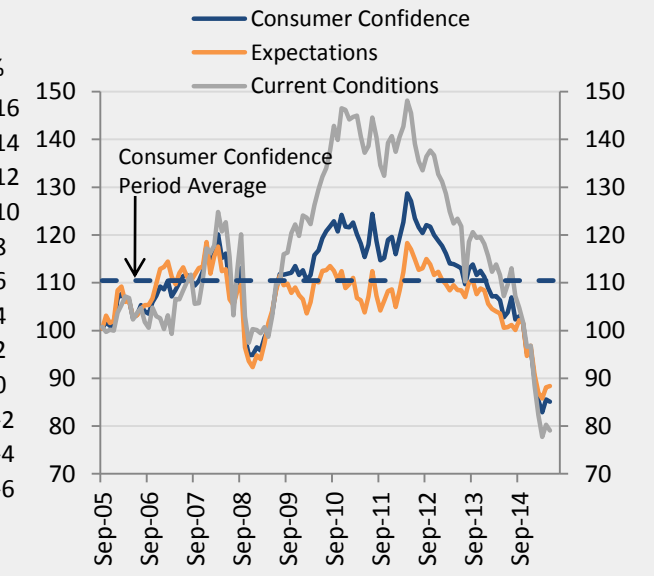
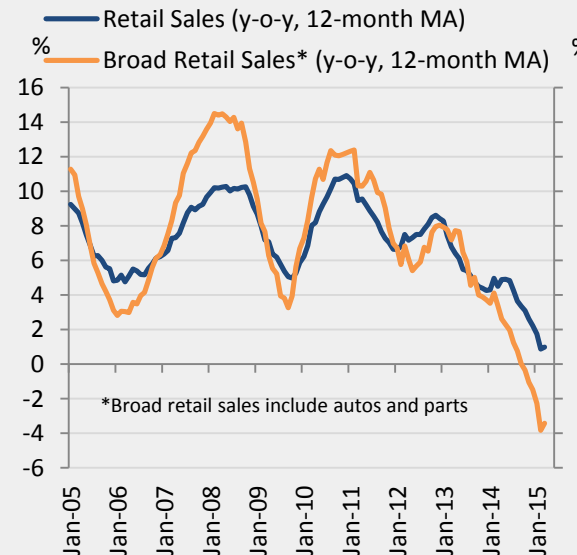
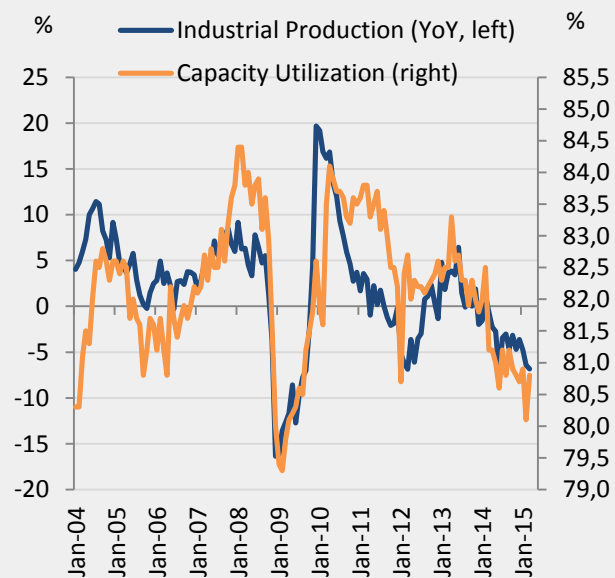
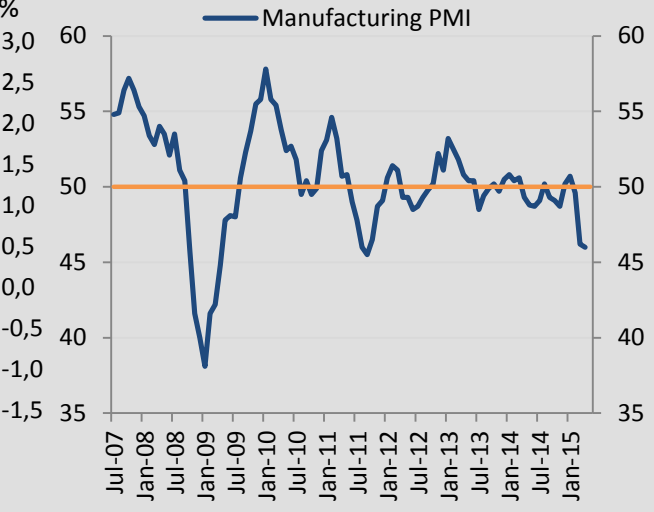
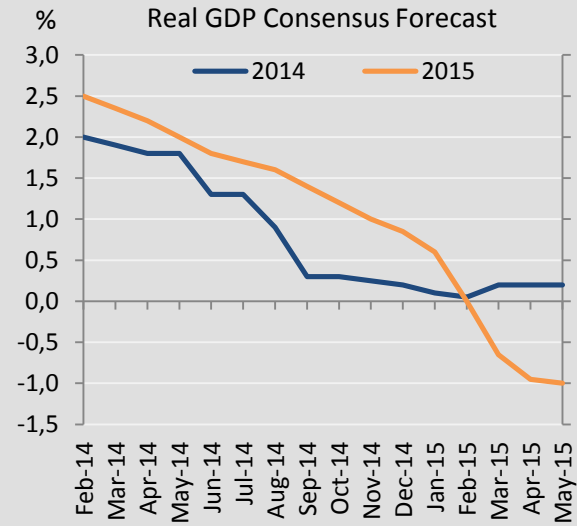
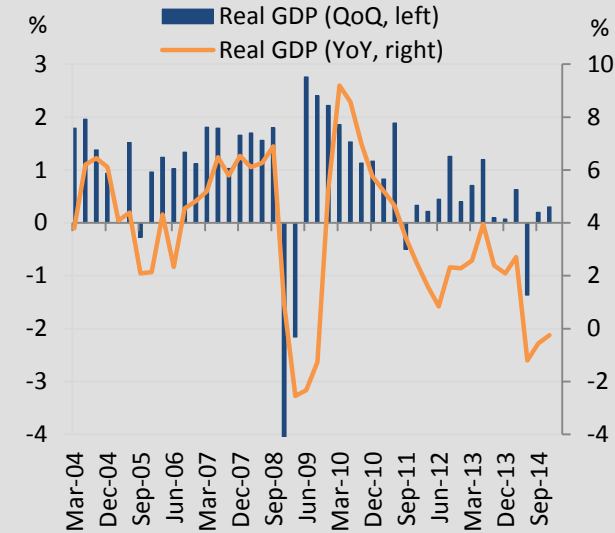


Source: National Bureau of Statistics, Bloomberg

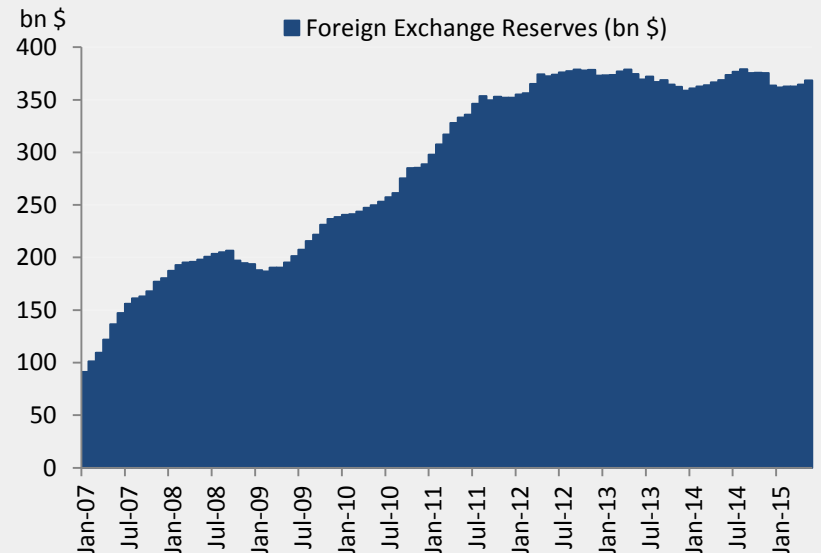
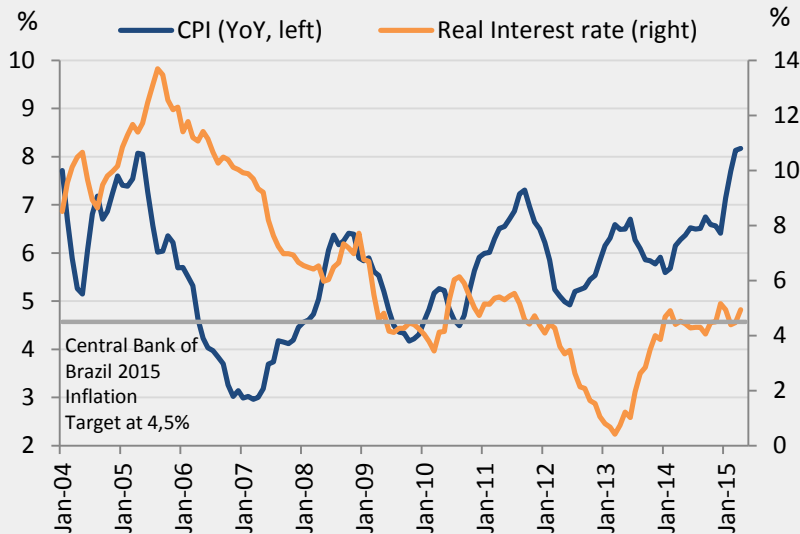
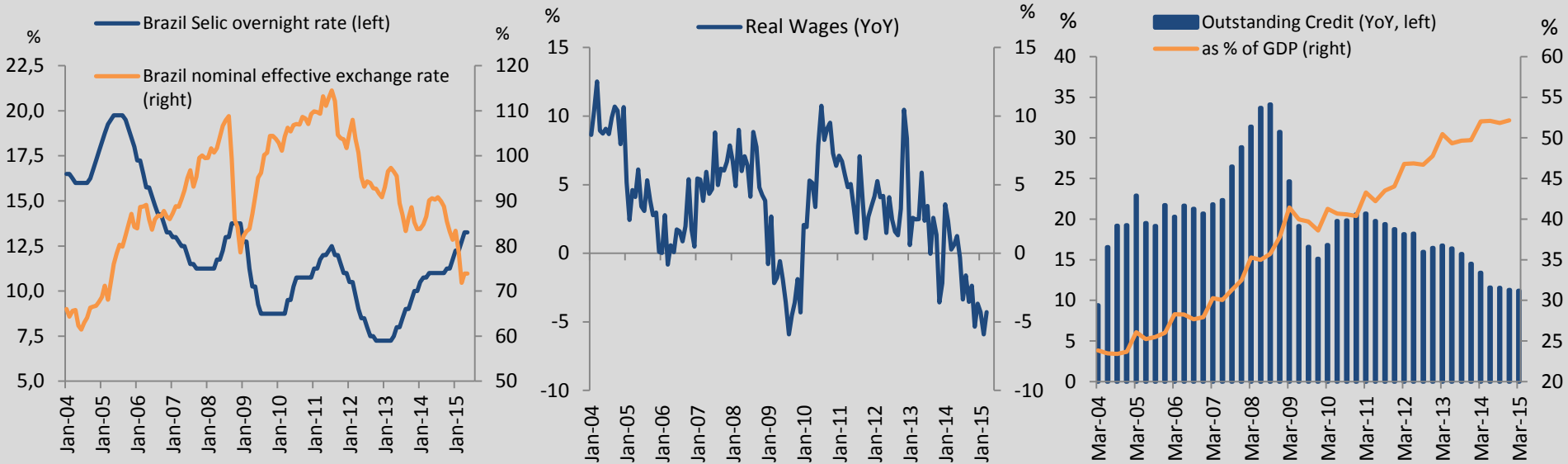




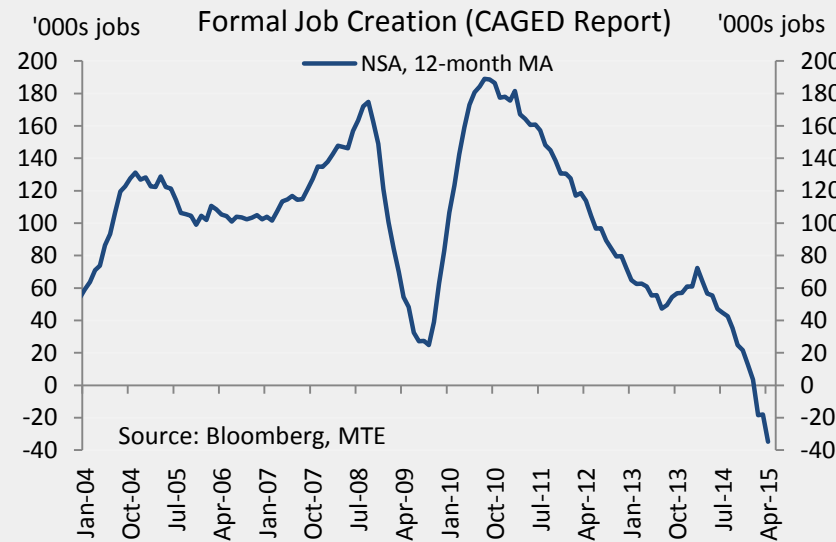
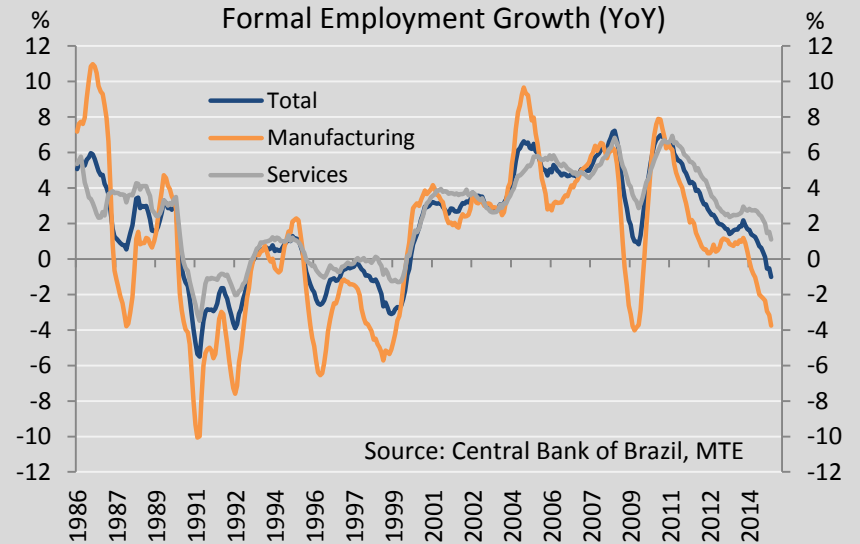
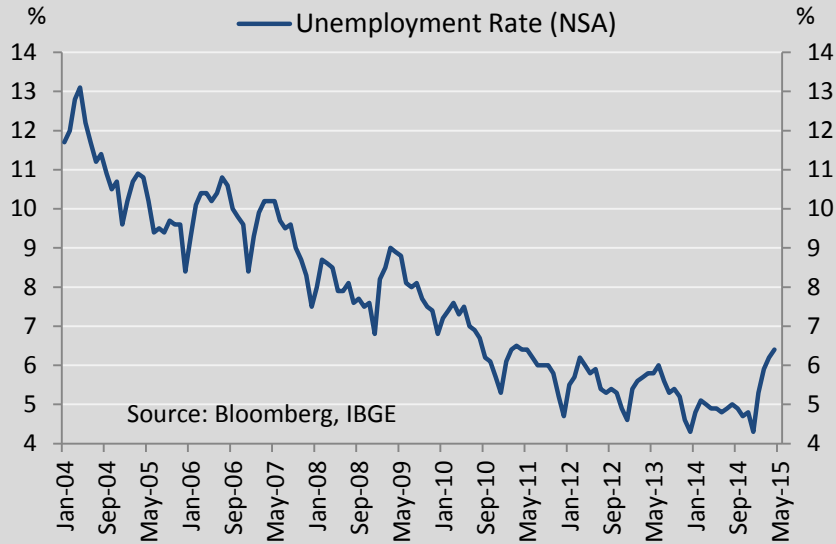
The economy is expected to contract in 2015, with high frequency indicators declining



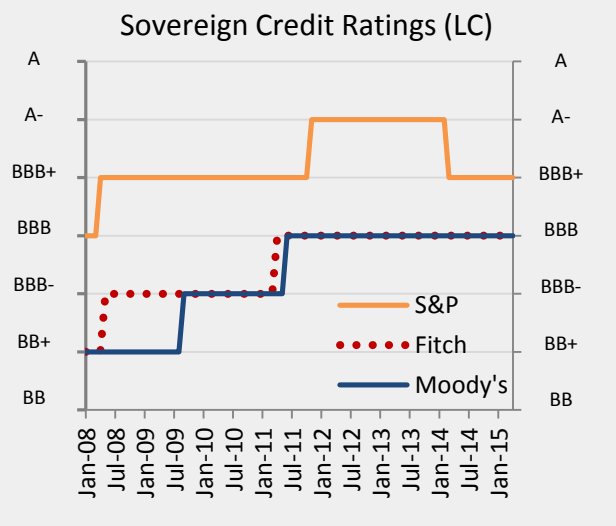
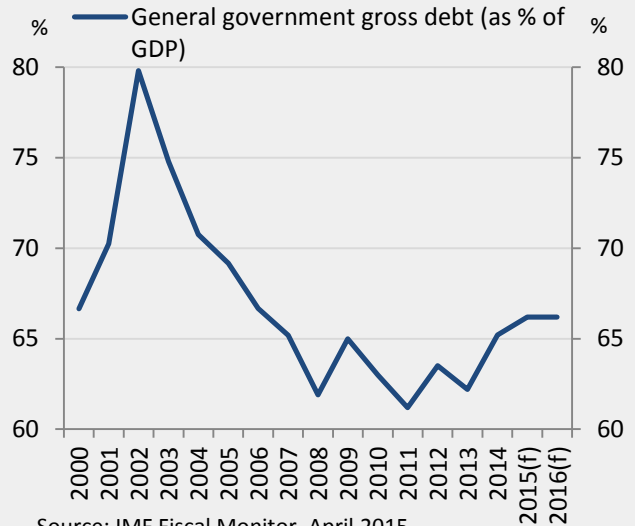
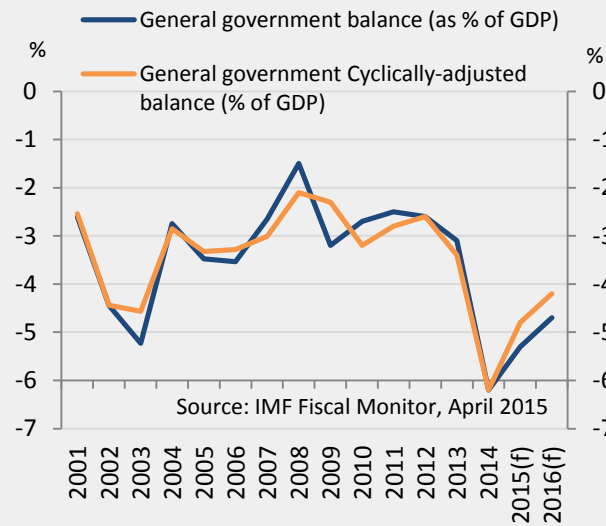
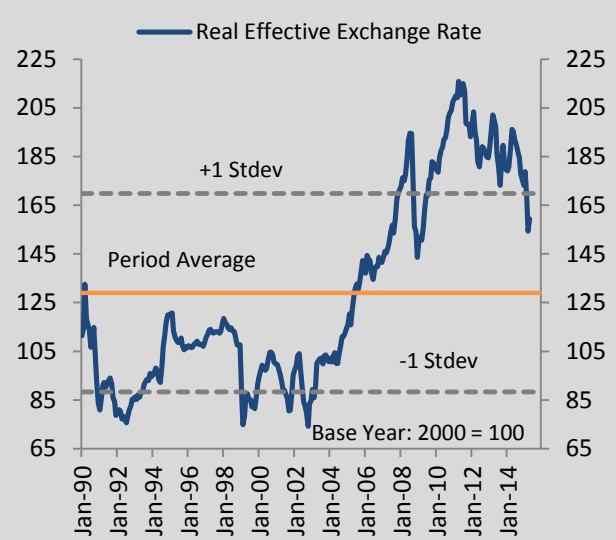
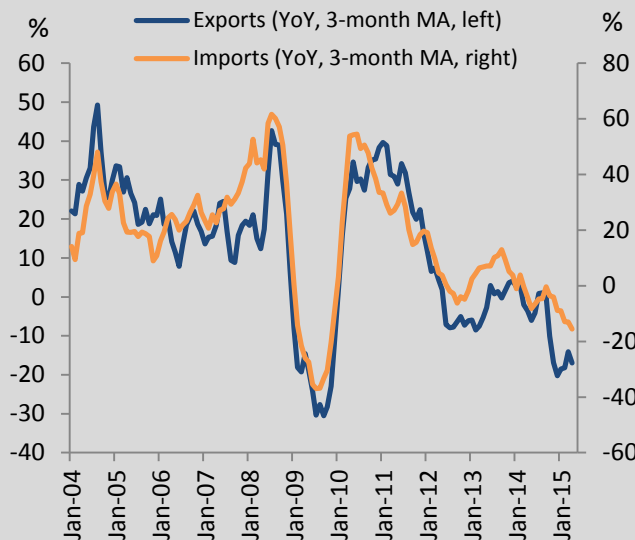
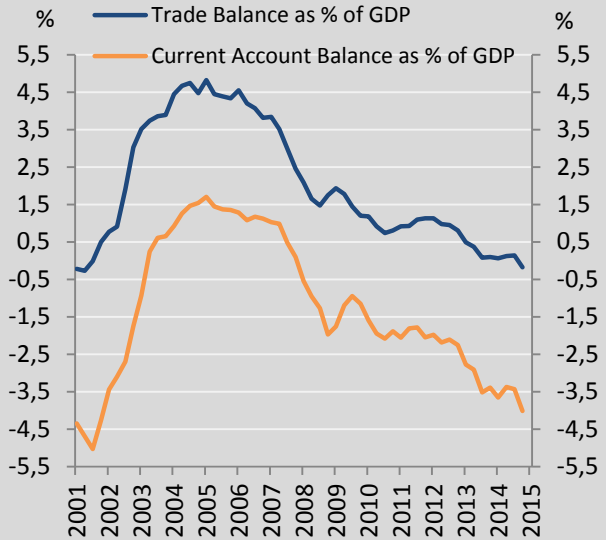
High inflation complicates the central bank's task, with the tightening cycle nearing an end



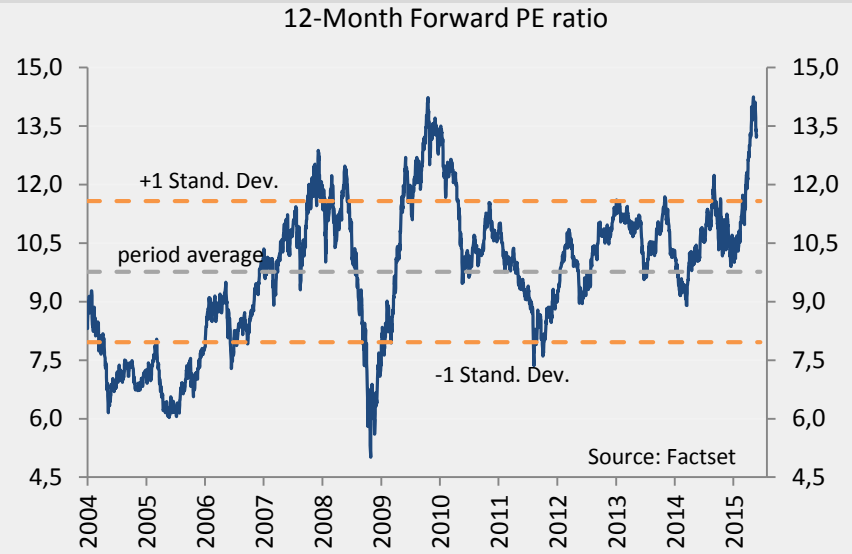
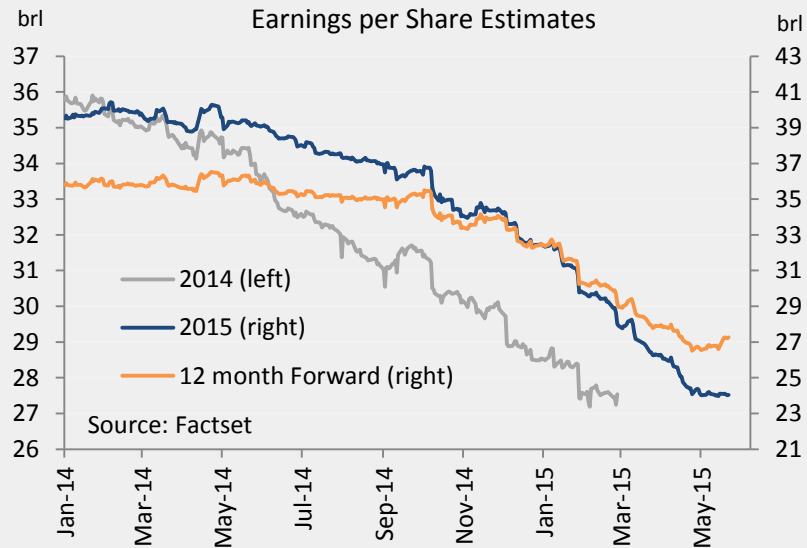
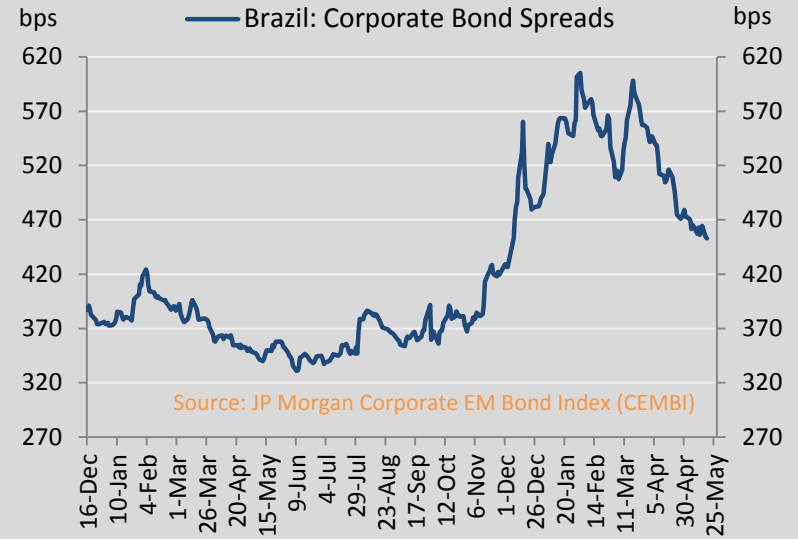
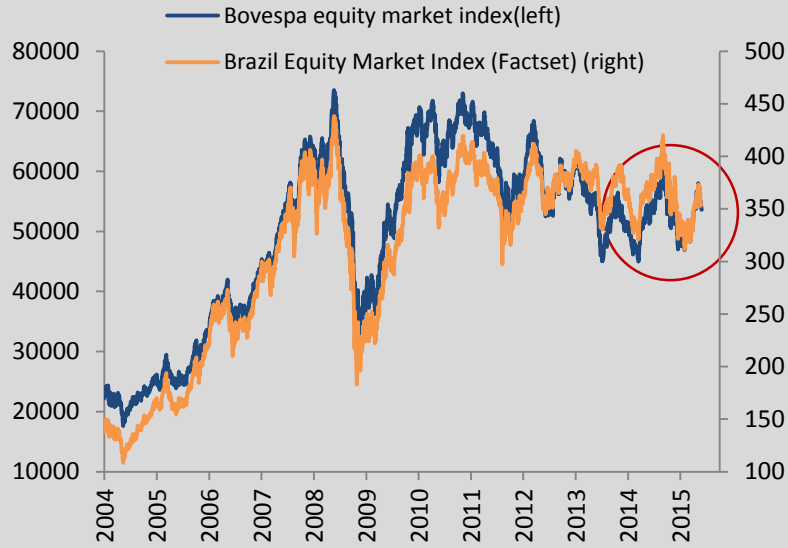
The sharp decline in job creation continues, with the unemployment rate at a 5-year high



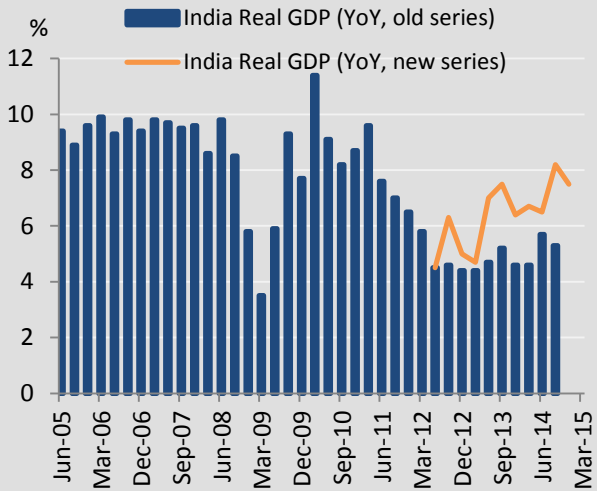
The Government committed to fiscal discipline that will turn recessionary



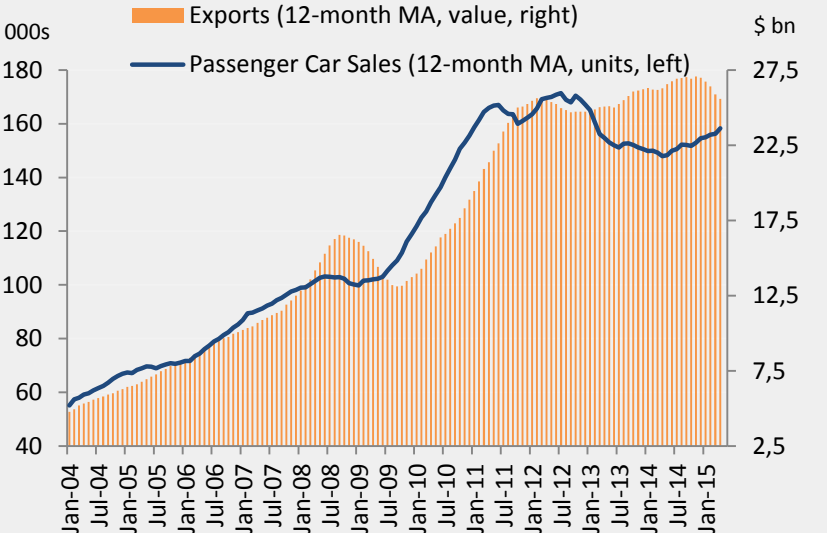
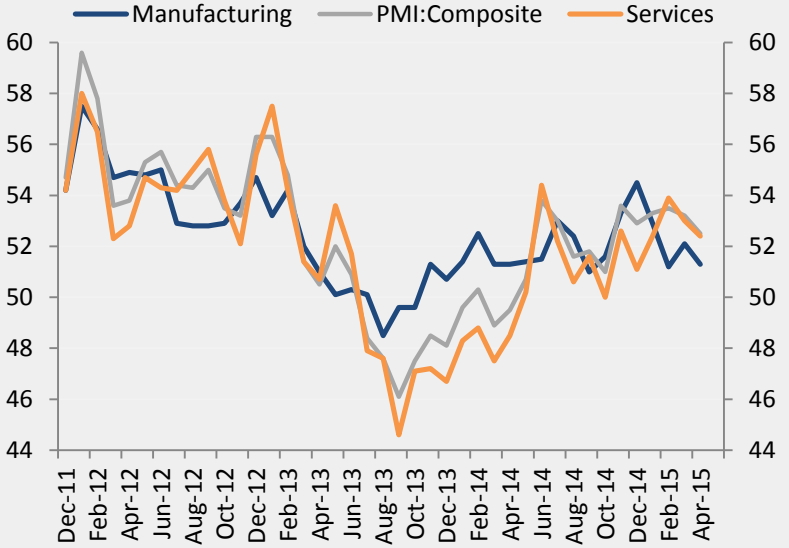
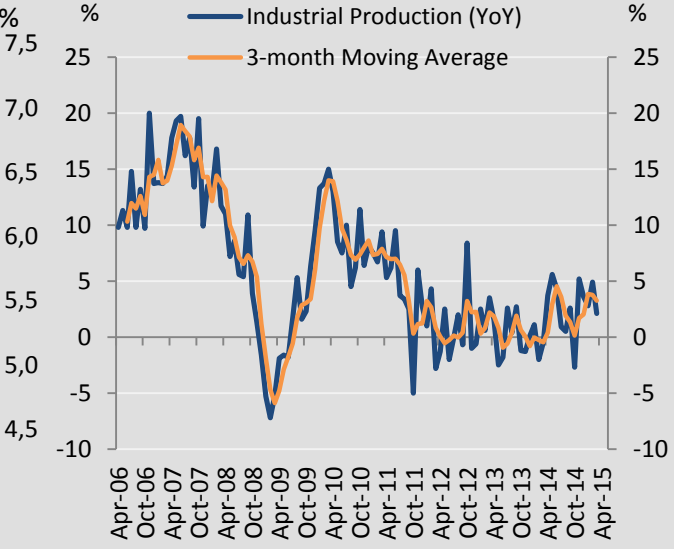
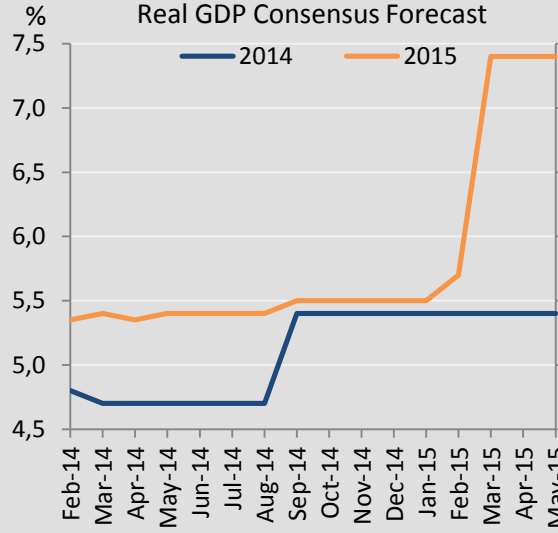
Equity markets may be supported by the rebound in commodity prices. Valuations appear high, albeit due to the collapse in earnings (-26% ytd)



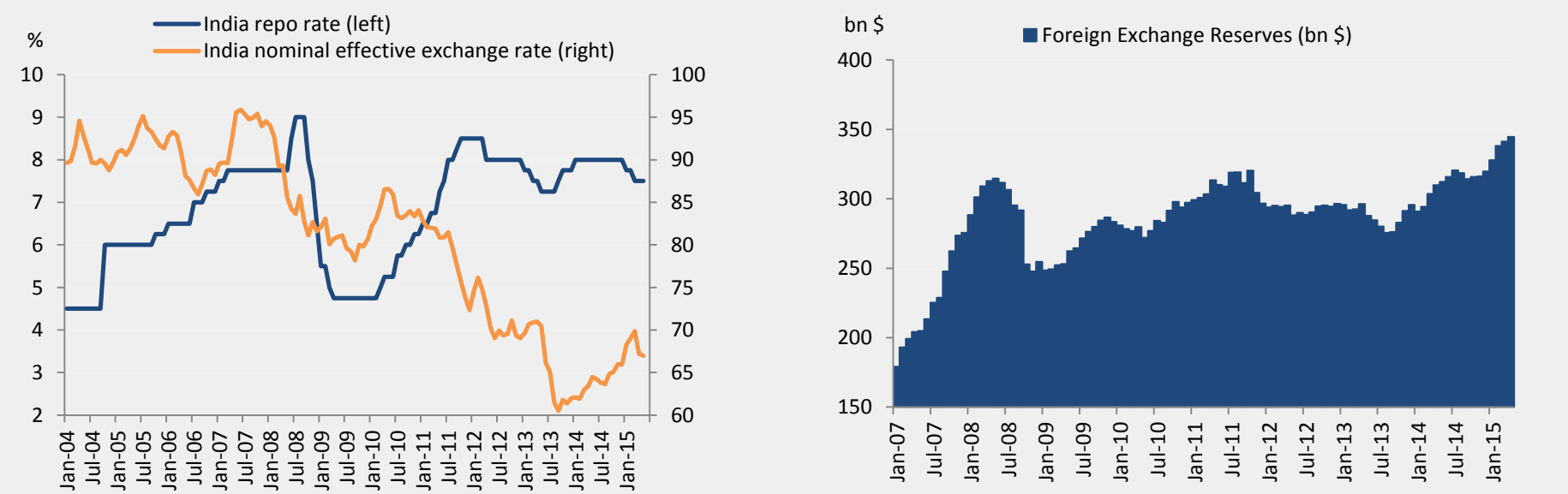
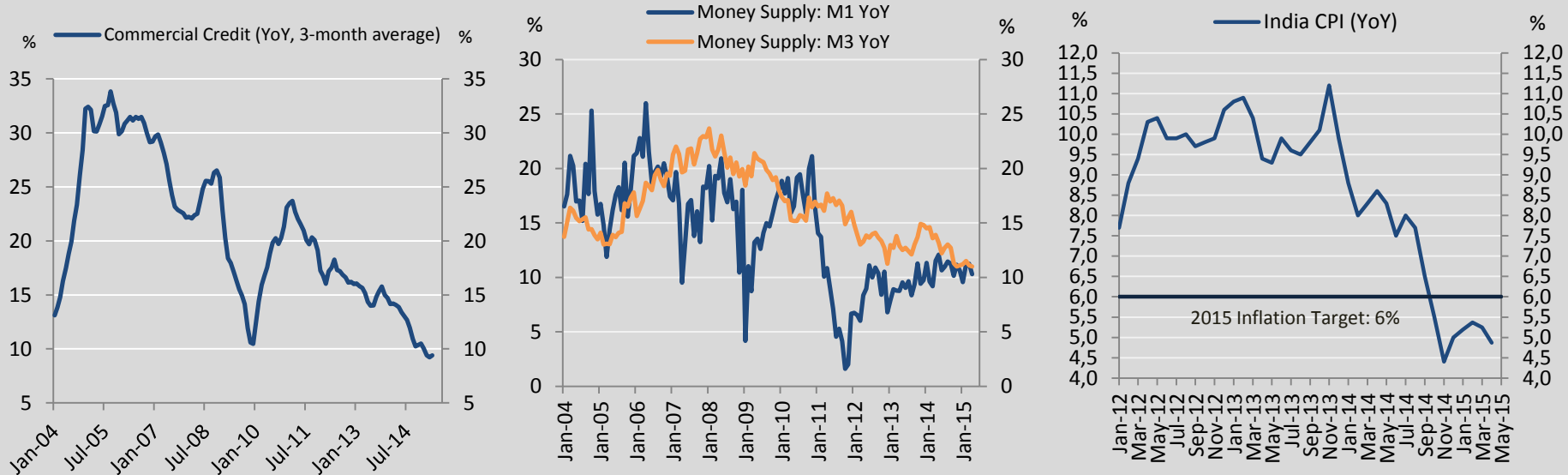
Growth is expected to accelerate in 2015 as reforms continue...



Source: India Central Statistical Organisation

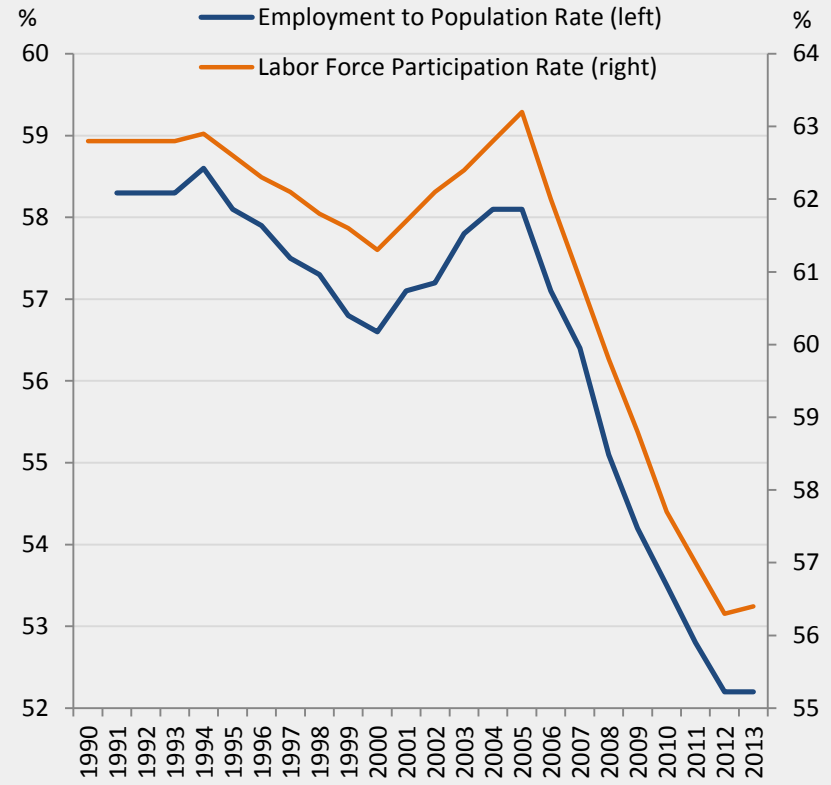


...and monetary policy remains accommodative



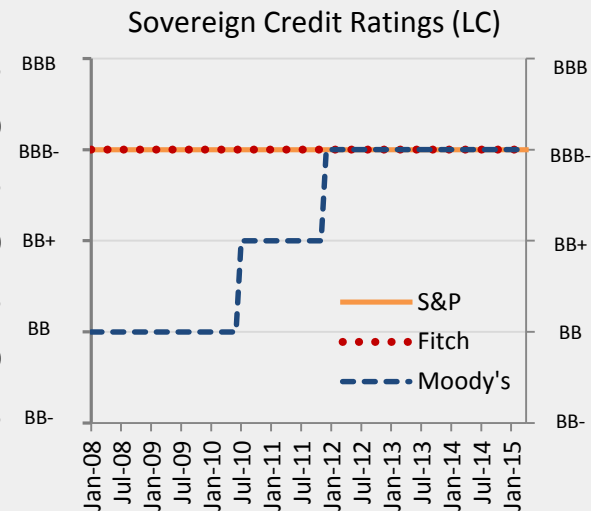
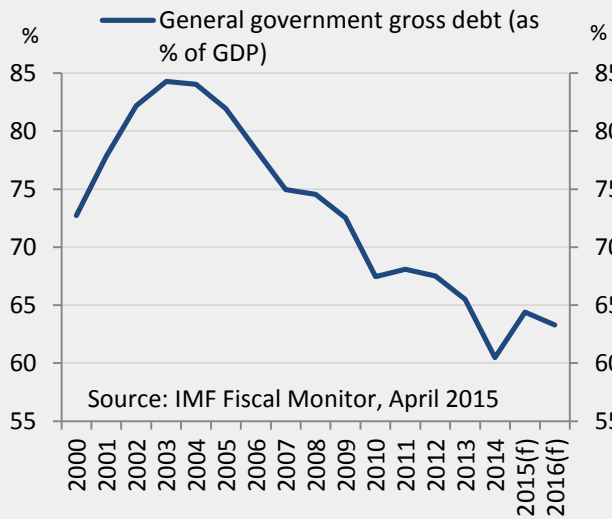
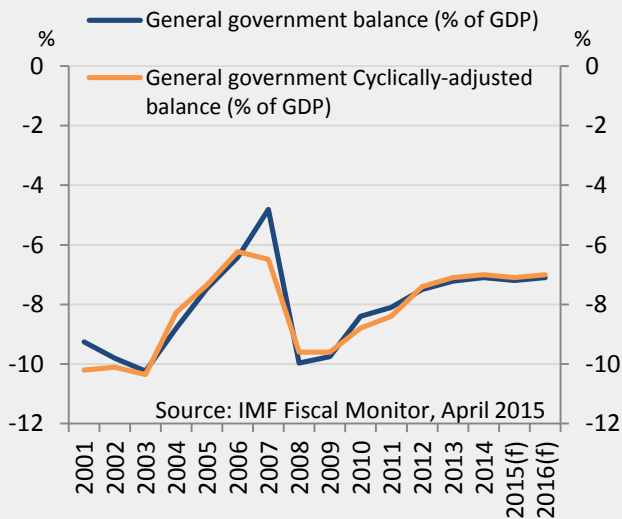
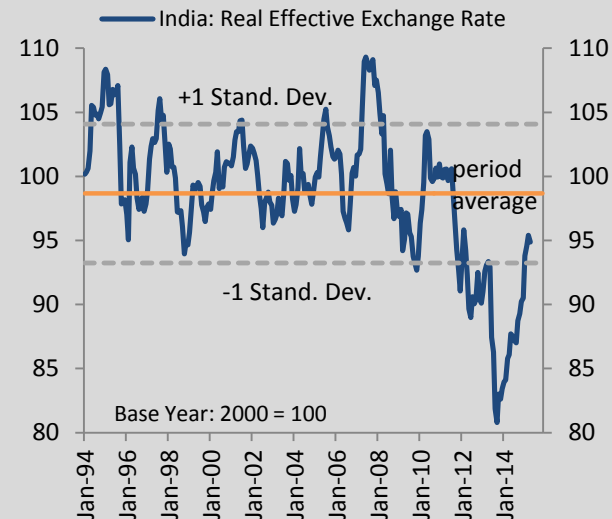
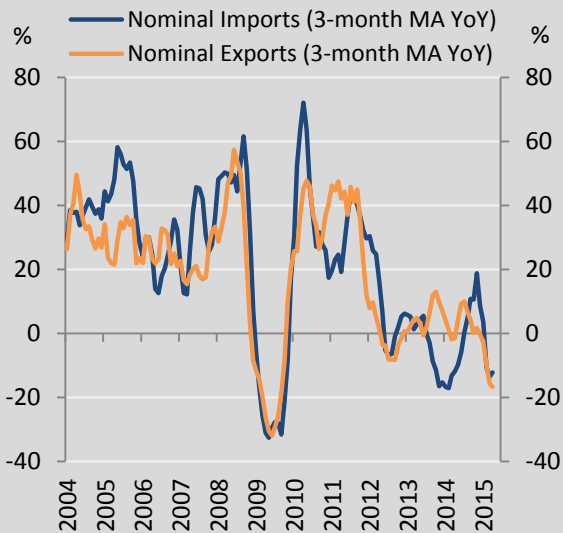
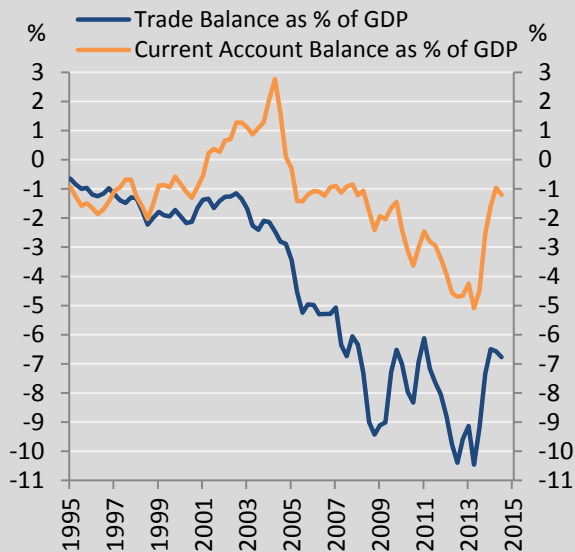


Source: Bloomberg (data as of 2013)

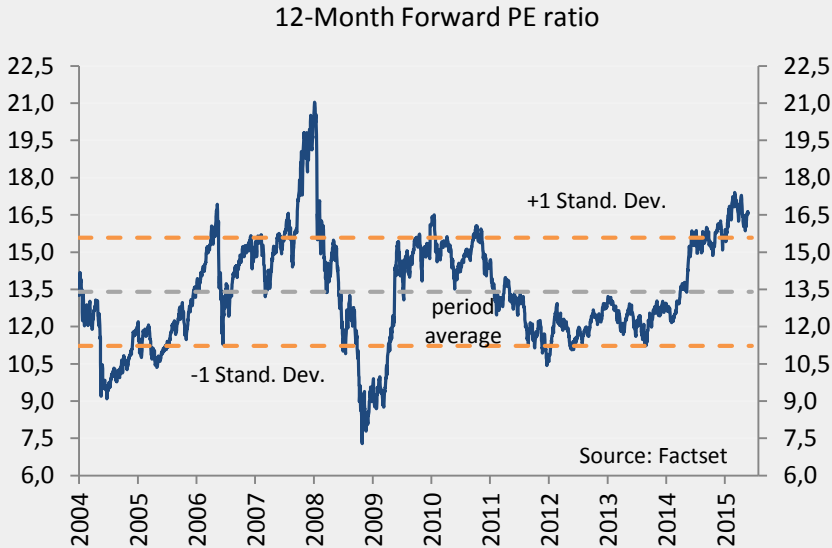
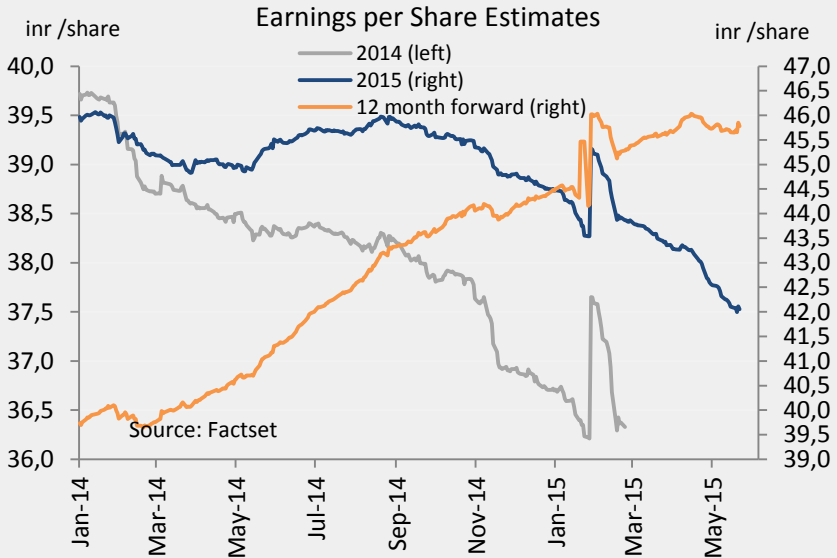
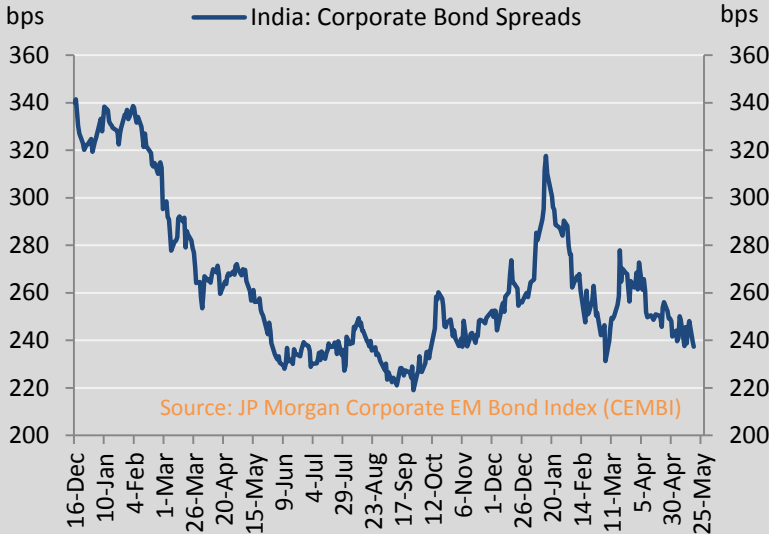
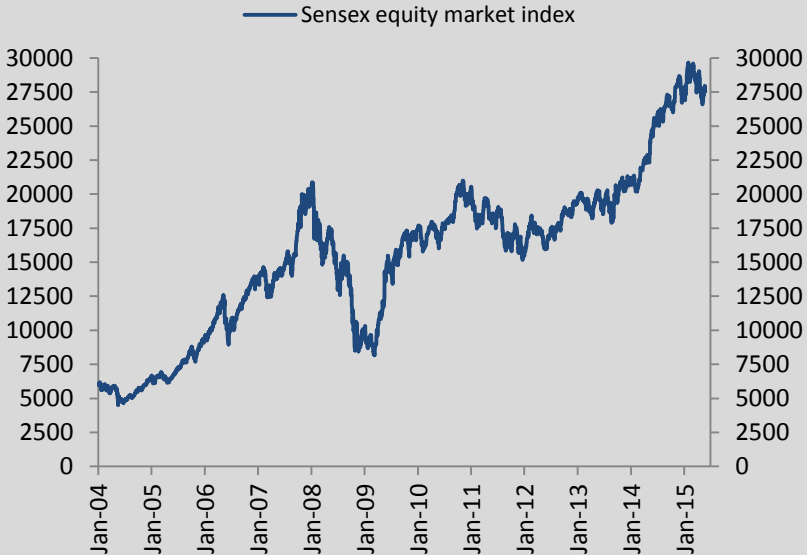


Source: World Bank (annual data, as of 2013)

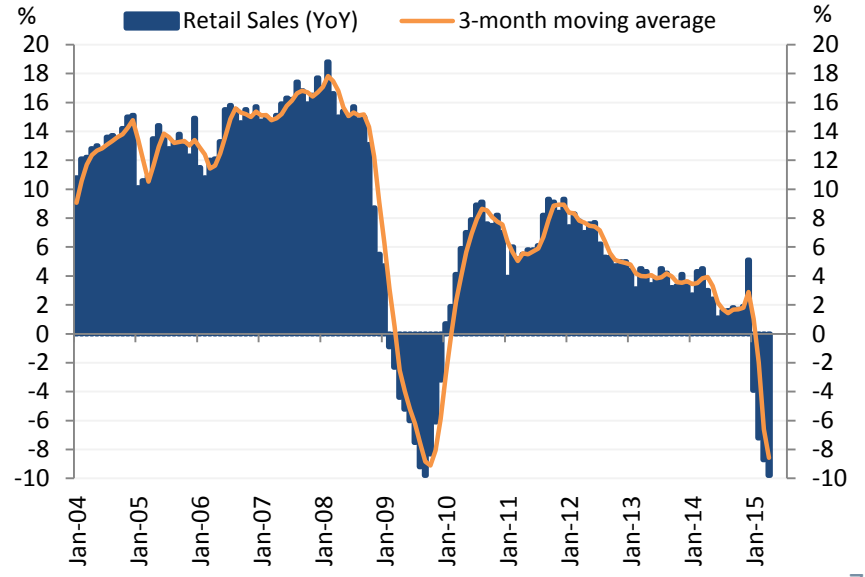
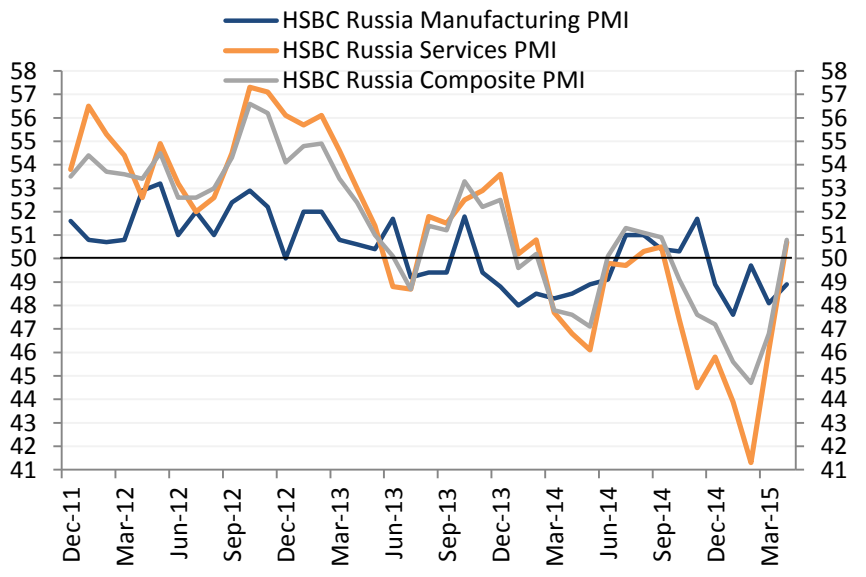
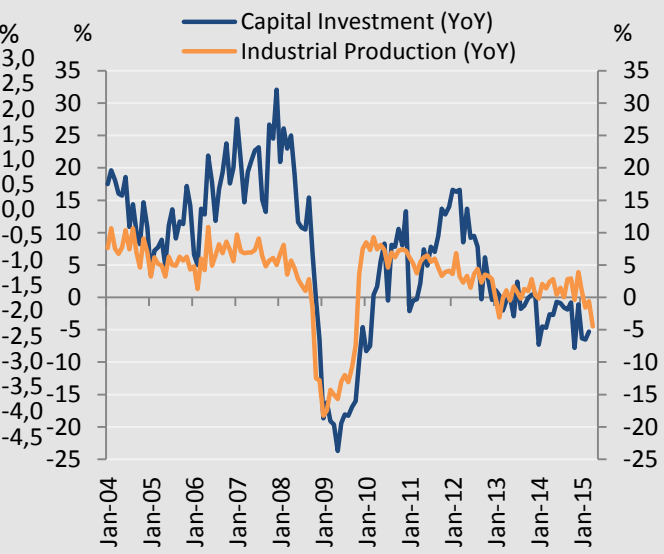
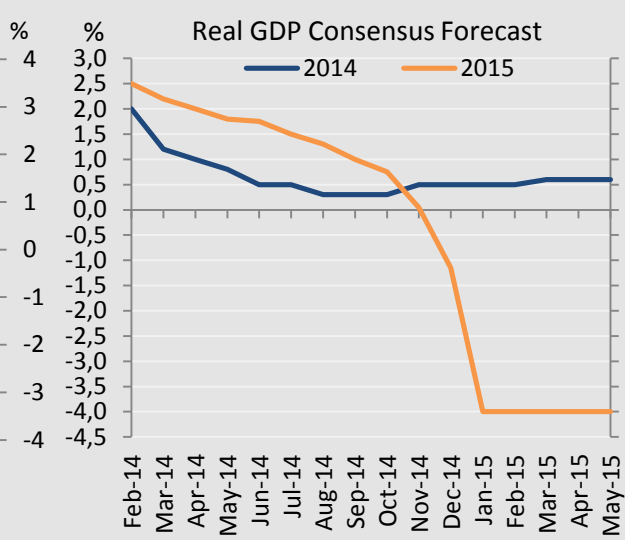
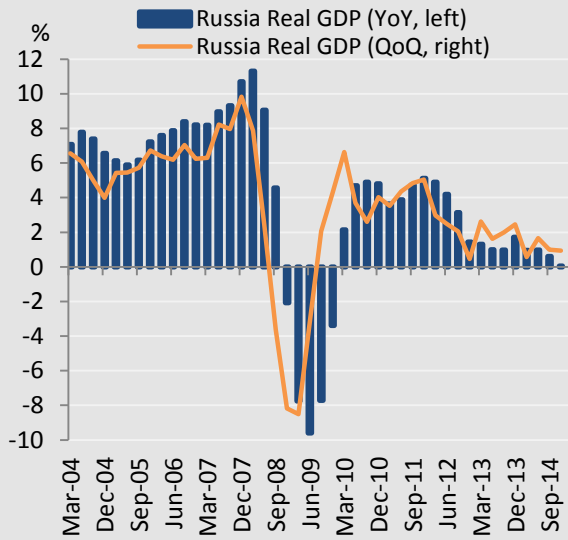
External imbalances are reversing rapidly, mainly due to lower oil prices (energy imports c. 35% of total imports) and increasing capital flows



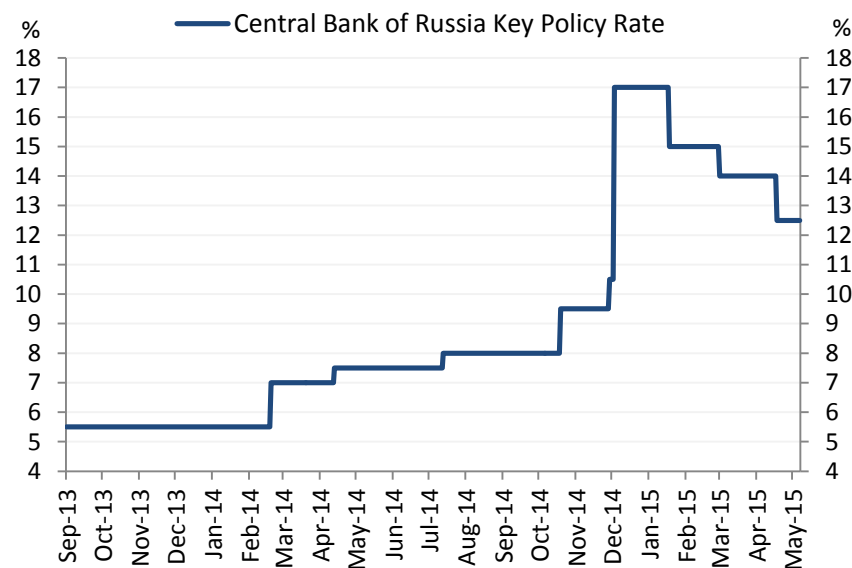
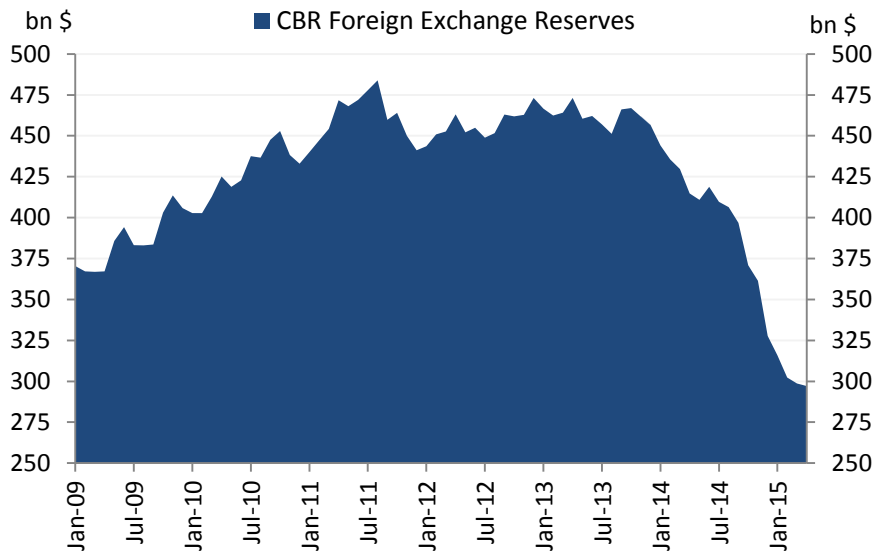
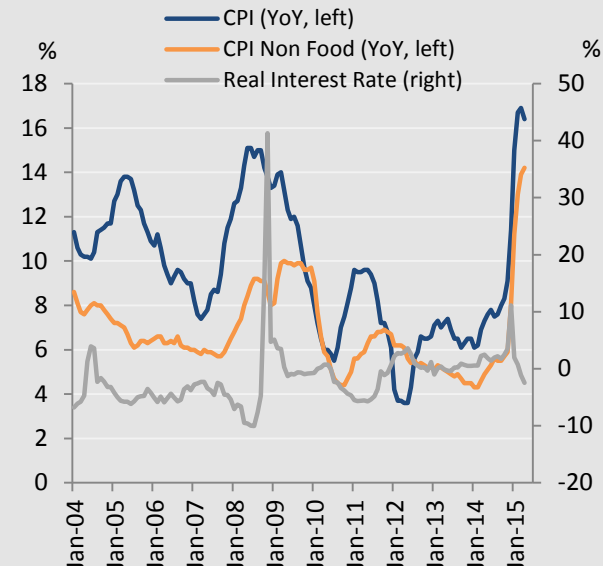
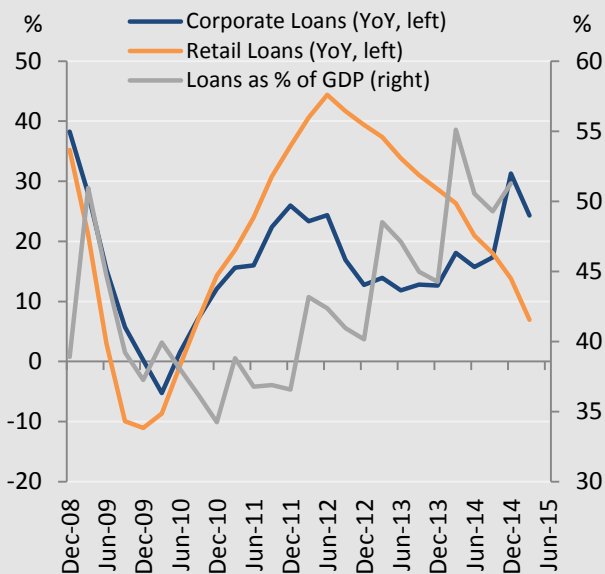
Valuations appear demanding, following the impressive rally in 2014 (+30%)



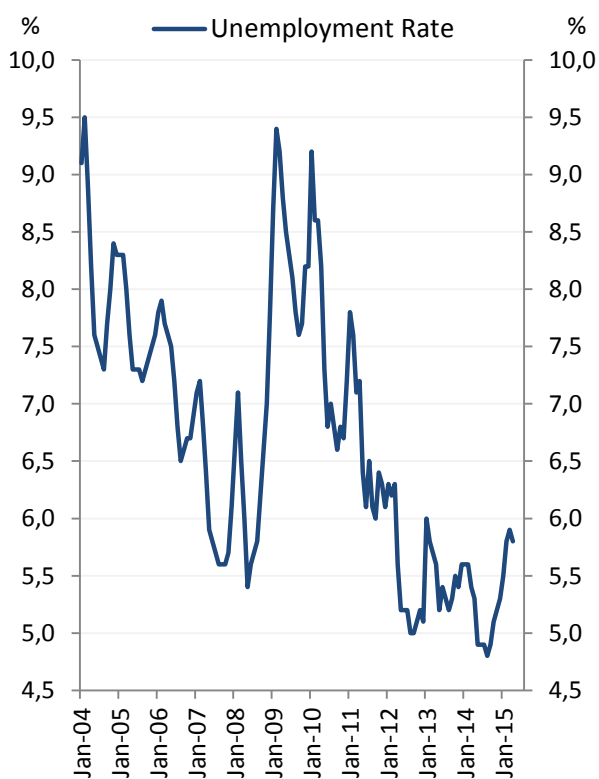
Notwithstanding some signs of improvement, Russian GDP is expected to shrink by 3%-4% in 2015



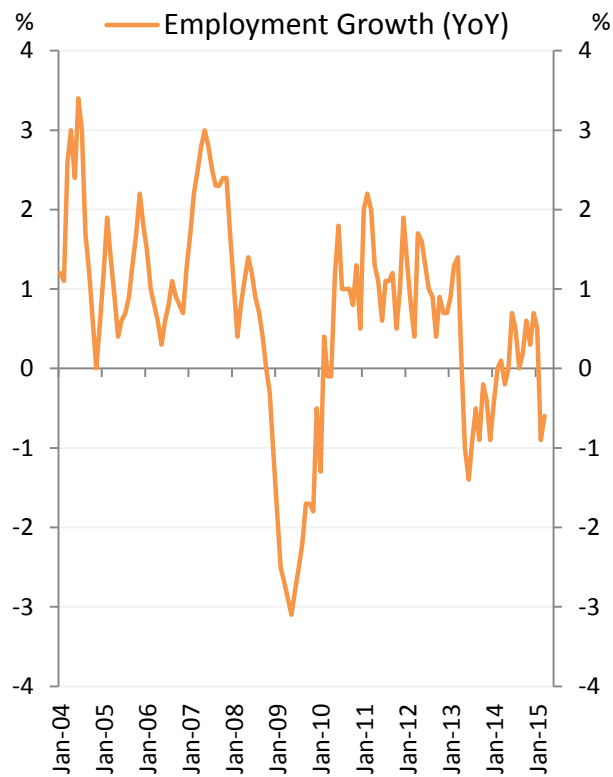
The CBR cut rates by a further 150bps in April, albeit this move appears premature since inflation is well above target of 5.0%



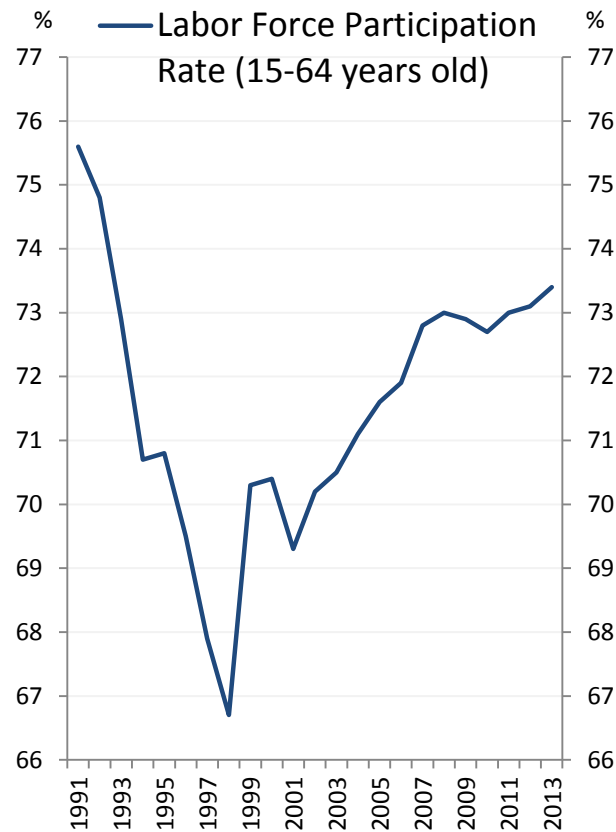
The unemployment rate fell slightly in April, following eight consecutive monthly declines amid a deteriorating economic outlook



Source: Federal State Statistics Service, Bloomberg (monthly data as of April 2015)

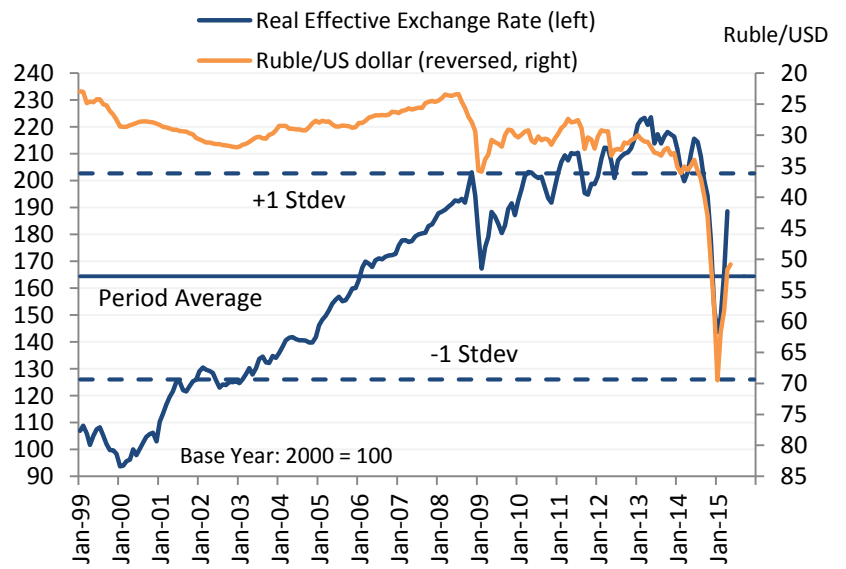
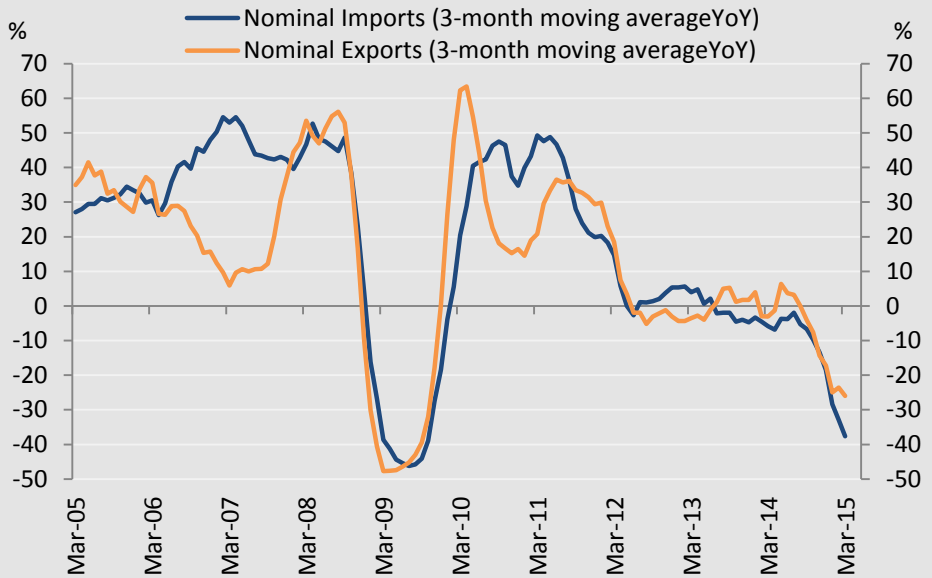
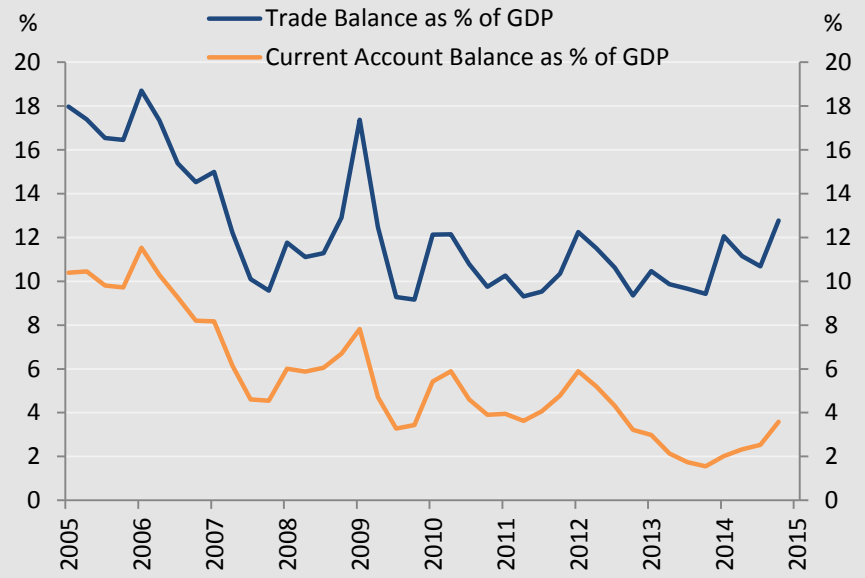


Source: Federal State Statistics Service, Bloomberg (monthly data as of March 2015)



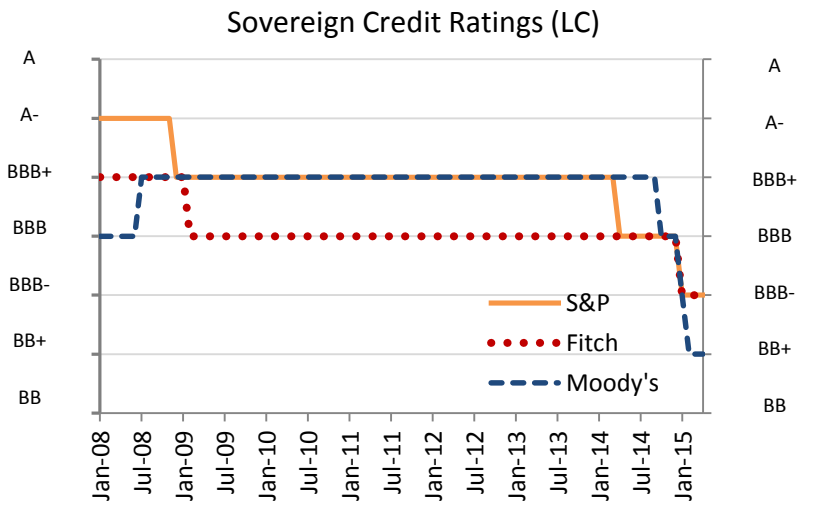
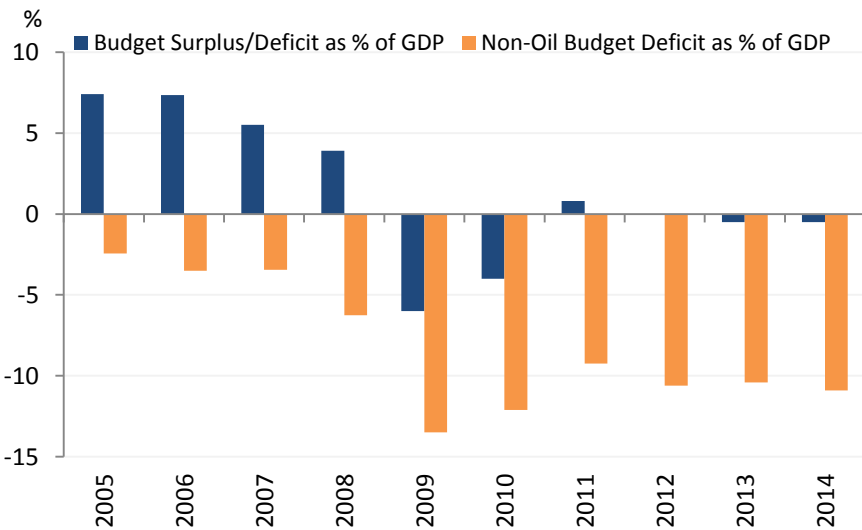
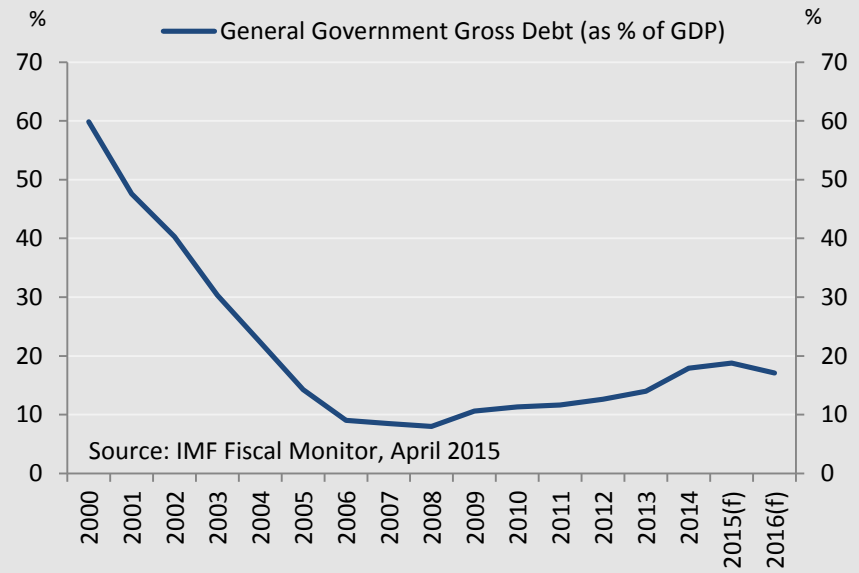
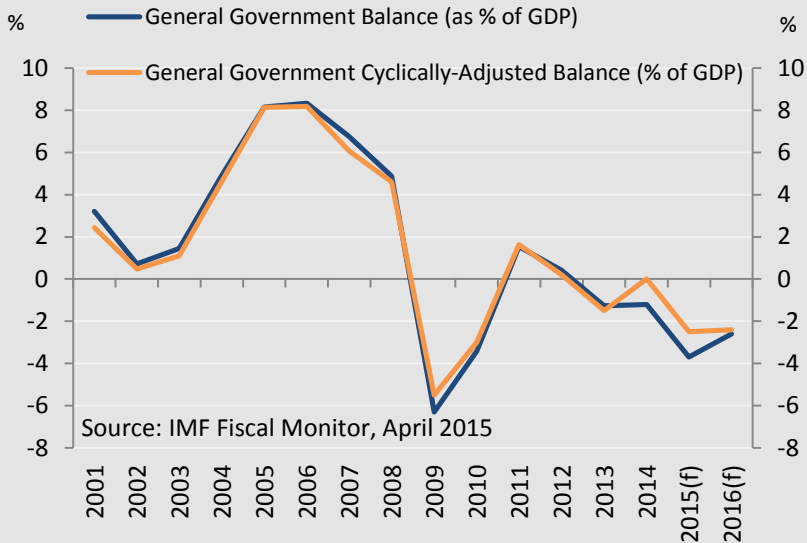
Source: World Bank (annual data, as of 2013)

The oil shock compressed exports (lower revenue) and imports (deteriorating outlook)



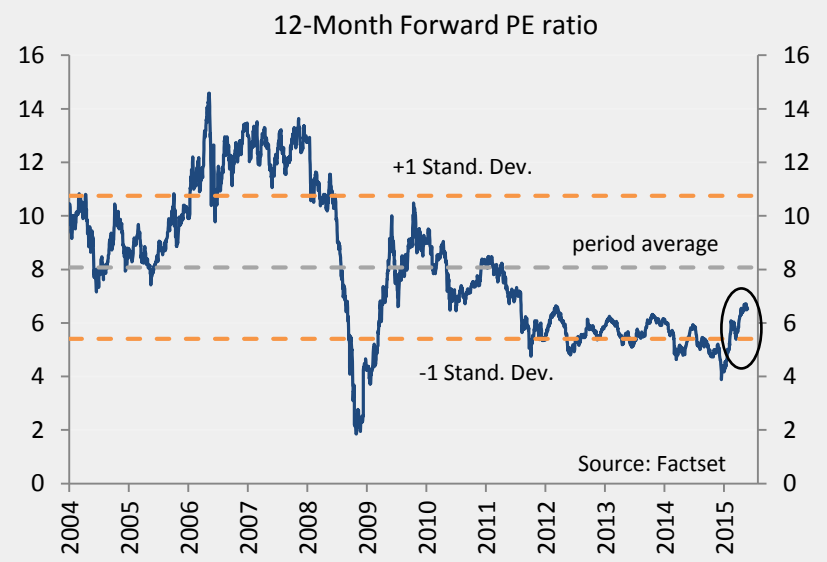
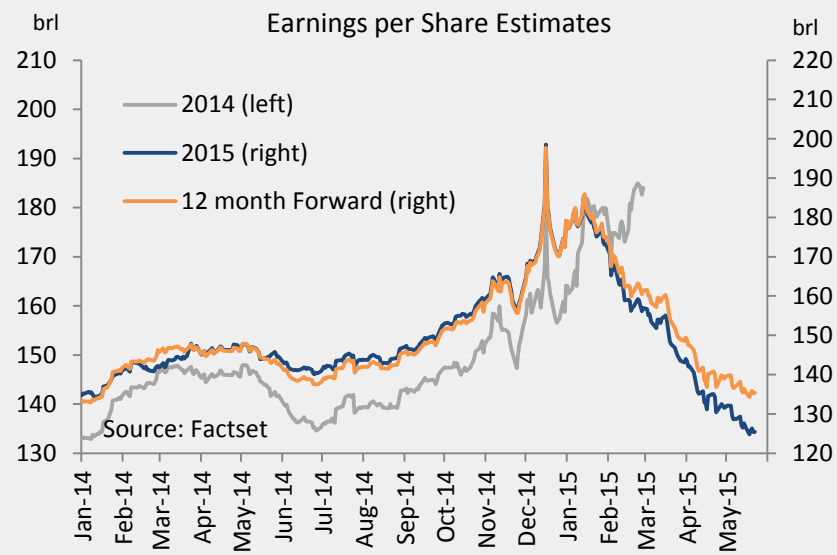
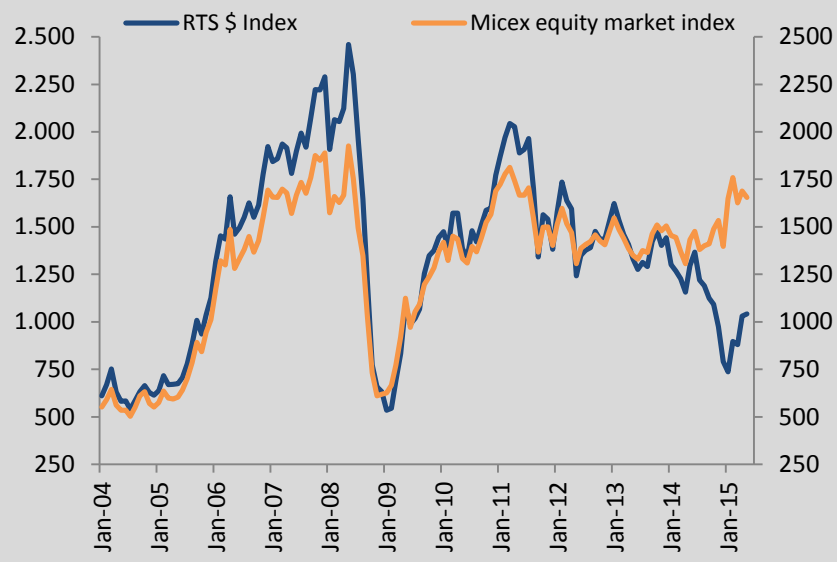
Source: Central Bank of the Russian Federation

The prospects for expansionary fiscal policy are limited due to the loss of oil revenue



Source: Ministry of Finance of the Russian Federation

In a contrarian view, Russian assets (equity and credit) have outperformed year-to-date with the stock market remaining cheap on P/E basis



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