



# Global Economic & Markets Factbook



Ilias Tsirigotakis  
Head of Global Markets Research

☎ 2103341517

✉ [tsirigotakis.hlias@nbg.gr](mailto:tsirigotakis.hlias@nbg.gr)

Panagiotis Bakalis

☎ 2103341545

✉ [mpakalis.pan@nbg.gr](mailto:mpakalis.pan@nbg.gr)

Lazaros Ioannidis

☎ 2103341553

✉ [ioannidis.lazaros@nbg.gr](mailto:ioannidis.lazaros@nbg.gr)

Vasiliki Karagianni

☎ 2103341548

✉ [karagianni.vasiliki@nbg.gr](mailto:karagianni.vasiliki@nbg.gr)

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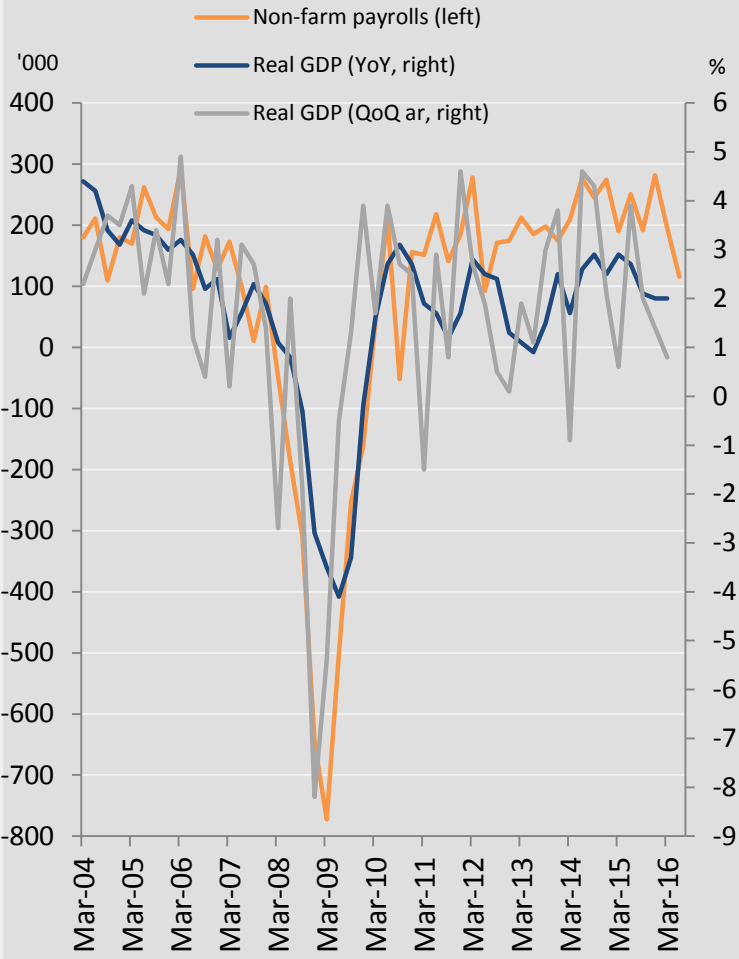
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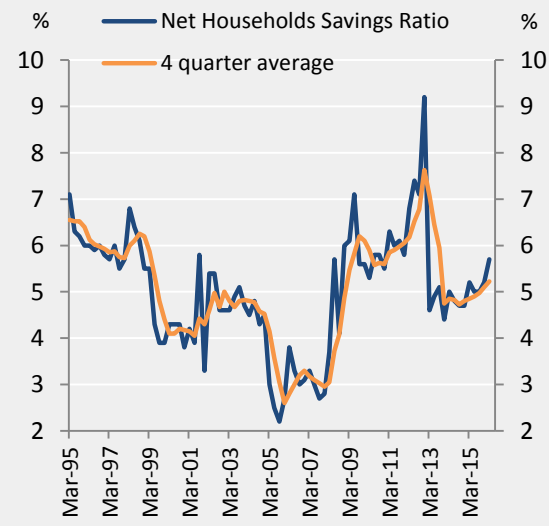
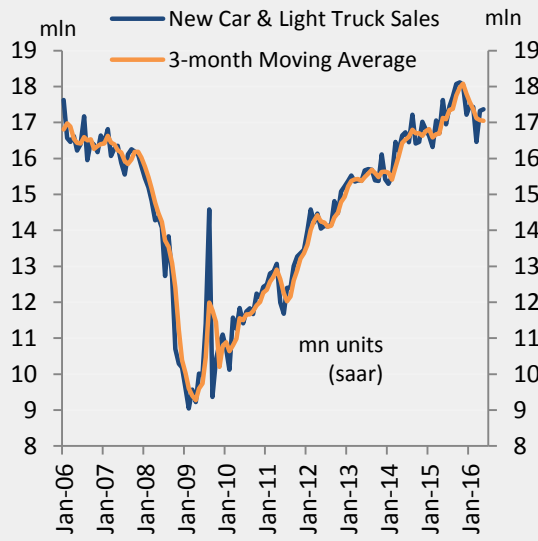
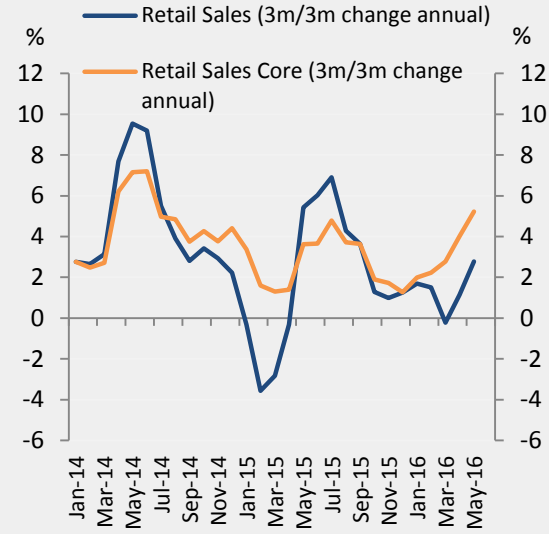
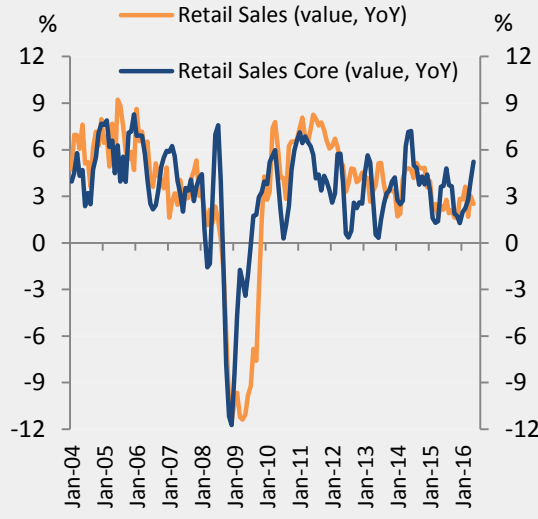
80. Disclosures & Analyst Certification

- US real GDP decelerated to 0.8% q-o-q saar in Q1:2016, from average quarterly growth of 2.0% in 2015. The slowdown was broad based due to a moderation in private consumption, a decline in business investment and a negative net trade contribution.
- Growth is expected to pick up to c. 2%-2.5% q-o-q saar in Q2, as consumption has rebounded and the housing sector remains strong. Net trade will remain a headwind (-0.2 pps contribution in Q1), due to a strong USD and subdued external demand.
- Private consumption will continue to be supported by higher spending power arising from the decline in oil prices as well as wealth effects. Indeed, nominal core retail sales entered Q2:16 on a strong footing (+4.6% qoq saar from +2.8% in Q1), and consumer confidence has improved. Moreover, motor vehicle sales have increased by 5.4% qoq saar in Q2 from -14.4% in Q1. However, a rising savings rate may act as a brake to consumption, especially if employment creation slows.
- The housing market recovery remains on track and continues to support the economy. Note that residential investment rose by 17.2% qoq saar, adding 0.5 pps to overall growth in the first quarter. New and existing home sales have improved (hovering around multi-year highs of 619k and 5.45mn, respectively, in April) and house prices continue to rise, with the Case-Shiller index increasing by 5.4% yoy in March.
- Business investment data to date suggest a modest improvement in Q2, following two consecutive quarterly declines (-4.2% saar on average in Q4:15/Q1:16) as the large declines in energy and mining expenditure will likely reverse following the rebound in oil prices. Note that manufacturing production surprised positively in April, while the ISM manufacturing leading indicator has averaged 51, so far, in Q2 from 49.8 in Q1.
- The decline in corporate profitability, exacerbated by the energy sector and the strong USD appears to be abating. According to NIPA accounts, US corporate profits declined by 5.7% yoy in Q1 (0.3% qoq saar), from -11.5% yoy in Q4:15 (-7.8% qoq saar). Moreover, profit margins remain high by historical standards (11.4% vs a long-term average 9.9%).
- Fiscal stimulus will turn slightly positive in 2016, following an average subtraction from GDP growth of 1.1 pp per annum since 2010 (change in the cyclically-adjusted primary balance).
- Job creation decelerated sharply in May, with nonfarm payrolls (NFPs) increasing by 38k -- the smallest gain since September 2010 -- following an increase of 123k in April and 196k on average in Q1:16. Other indicators (initial jobless claims, hiring plans) continue to portray a brighter outlook for the labor market. The unemployment rate fell by 0.3 pps to 4.7% in May (low since Nov. '07), albeit due to a decline in the labor force participation rate. Thus, labor market slack continues, putting pressure on wages. Indeed, average hourly earnings stand at 2.9% (3m/3m annualized rate).
- Following the latest labor market data, markets pushed back considerably their expected path for the Fed funds rate. Inflation remains below the Fed's target (2%) and is unlikely to rise above 1.5% by end-2016. Thus, the Fed, which remained on hold in June, will err on the side of caution with one or at best two rate increases in 2016 unless GDP resumes its upward trend towards 2%, NFPs revert to gains of 100k and inflation moves higher.

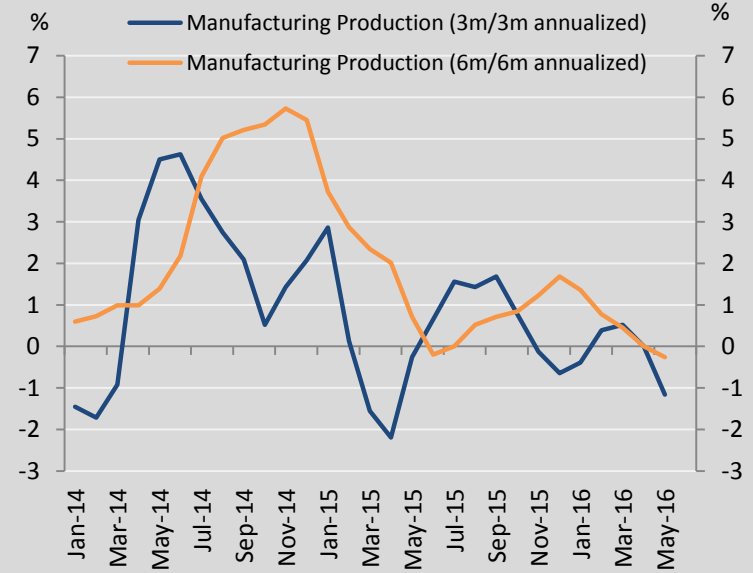
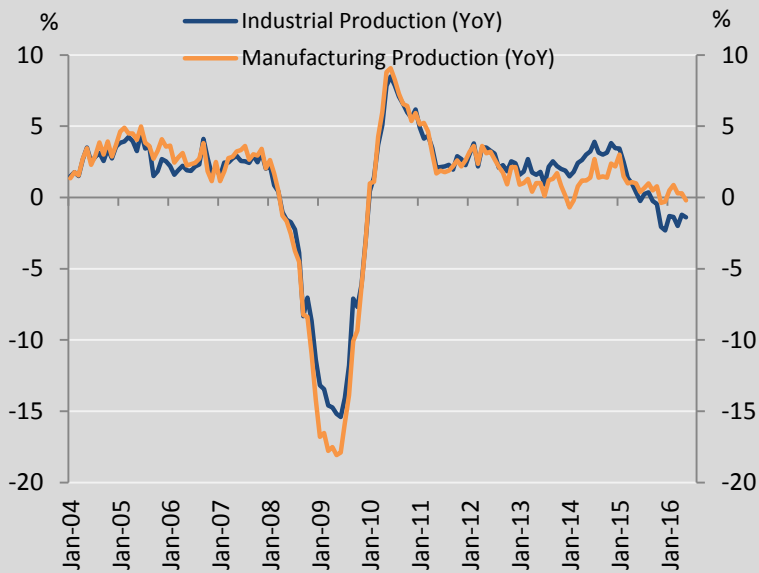
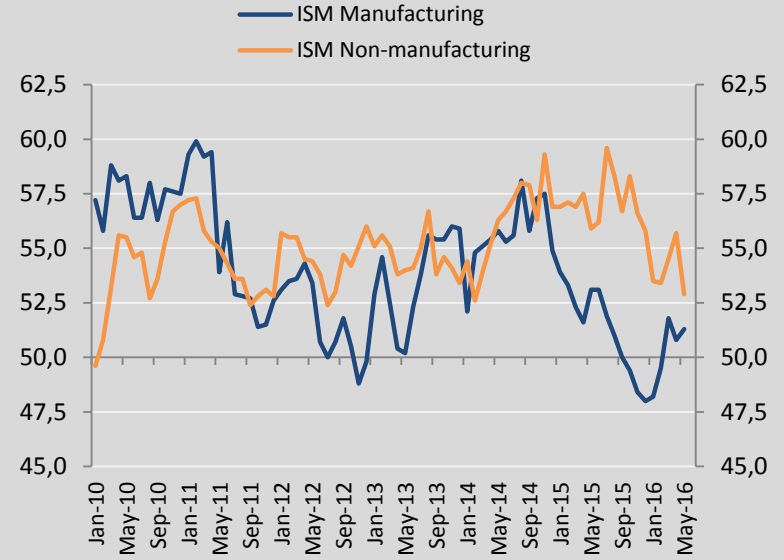
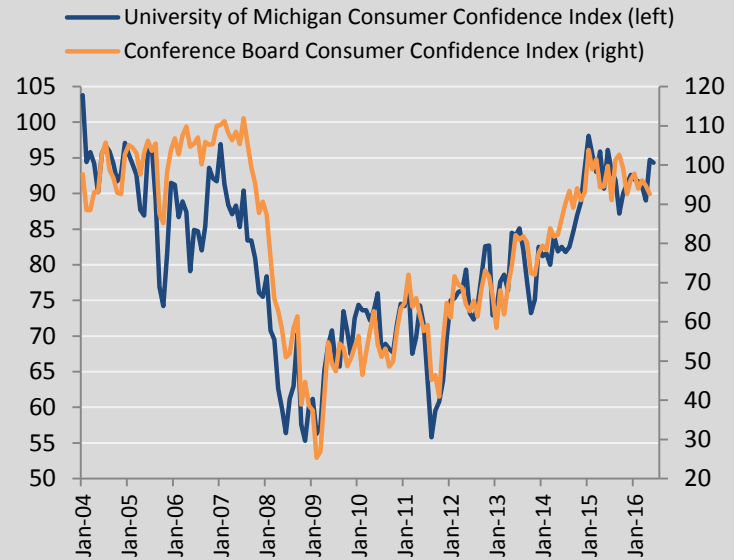
# GDP growth decelerated in Q1:16



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



# Leading indicators for the business sector point to a modest pick-up in Q2

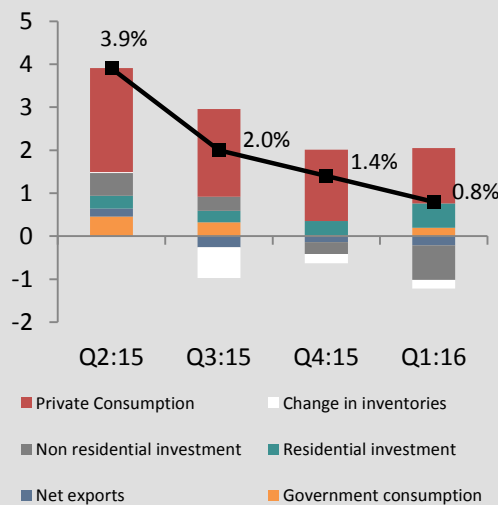


US Real GDP Growth	2014	Q1:15	Q2:15	Q3:15	Q4:15	2015	Q1:16	Q2:16e	Q3:16e	Q4:16e	2016e
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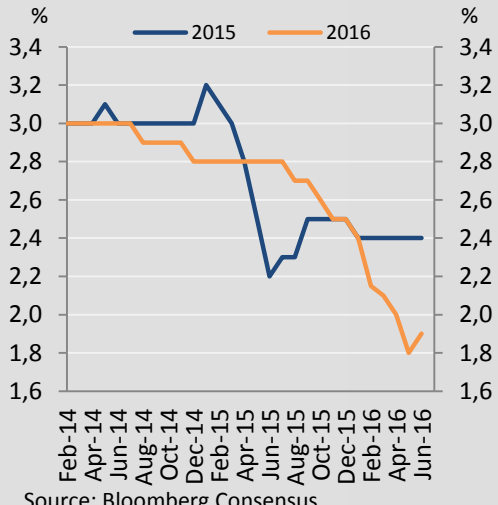
GDP (YoY)	2,5	2,9	2,7	2,1	2,0	2,4	2,0	1,6	1,7	2,0	1,8
GDP (QoQ saar)	-	0,6	3,9	2,0	1,4	-	0,8	2,3	2,3	2,6	-
Private consumption (QoQ saar)	2,7	1,7	3,6	3,0	2,4	3,1	1,9	3,6	2,7	2,7	2,7
Government consumption (QoQ saar)	-0,6	-0,1	2,6	1,8	0,1	0,7	1,2	0,4	2,1	1,9	1,2
Investment (QoQ saar)	5,3	3,1	5,1	3,7	0,2	4,0	-1,9	-1,0	3,3	4,7	0,8
Residential (QoQ saar)	1,8	10,1	9,4	8,2	10,1	8,9	17,2	2,5	6,0	6,0	9,2
Non-residential (QoQ saar)	6,2	1,6	4,1	2,6	-2,1	2,8	-6,2	-2,0	2,6	4,4	-1,2
Inventories contribution (QoQ saar)	0,0	0,9	0,0	-0,7	-0,2	0,2	-0,2	-0,2	-0,1	0,0	-0,2
Net Exports contribution (QoQ saar)	-0,2	-1,9	0,2	-0,3	-0,1	-0,6	-0,2	-0,1	-0,3	-0,3	-0,2
Exports (QoQ saar)	3,4	-6,0	5,1	0,7	-2,0	1,1	-2,0	-1,1	2,5	3,0	-0,2
Imports (QoQ saar)	3,8	7,1	3,0	2,3	-0,7	4,9	-0,2	-0,1	4,0	4,5	1,0

Source: BEA, Bloomberg, NBG estimates

### GDP Contributions (%)



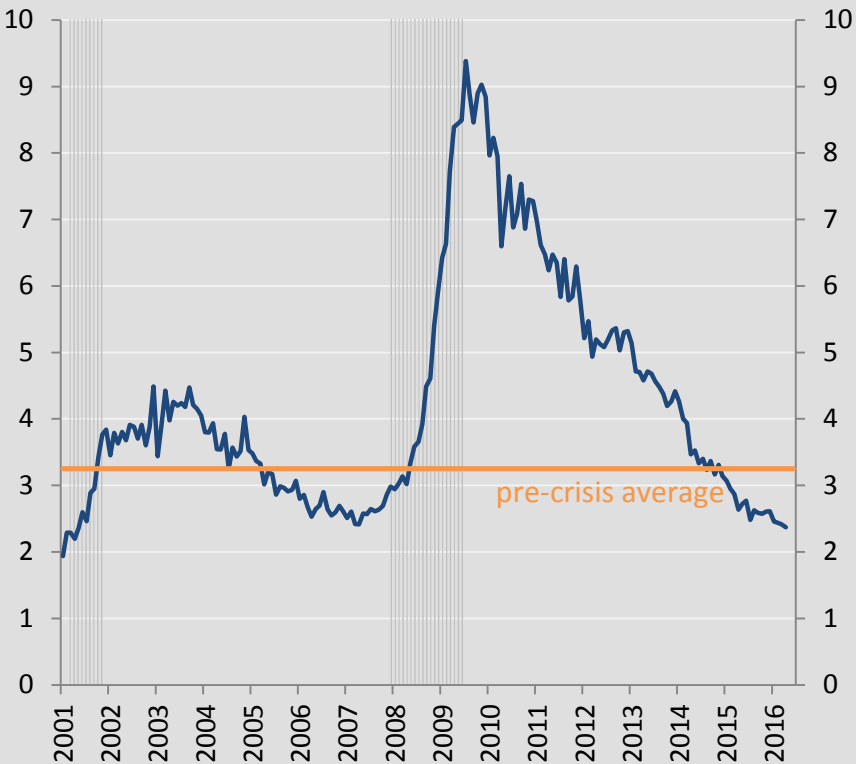
### GDP Forecast Evolution



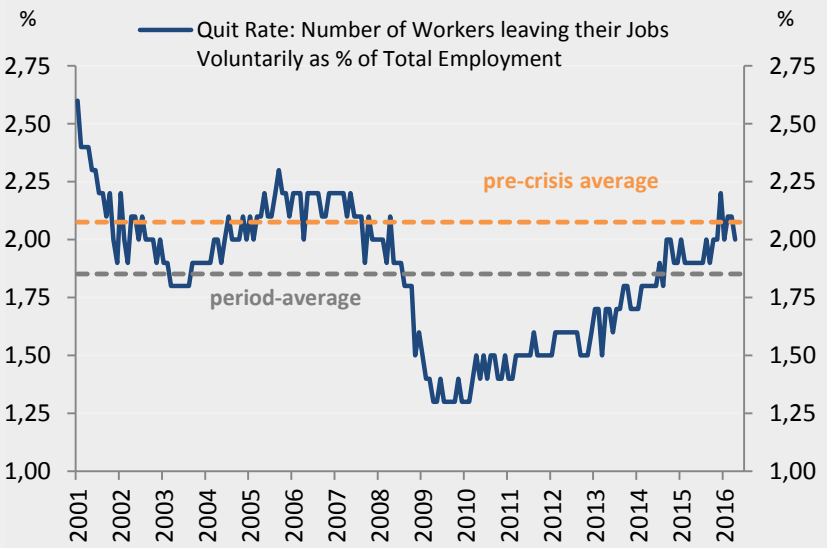
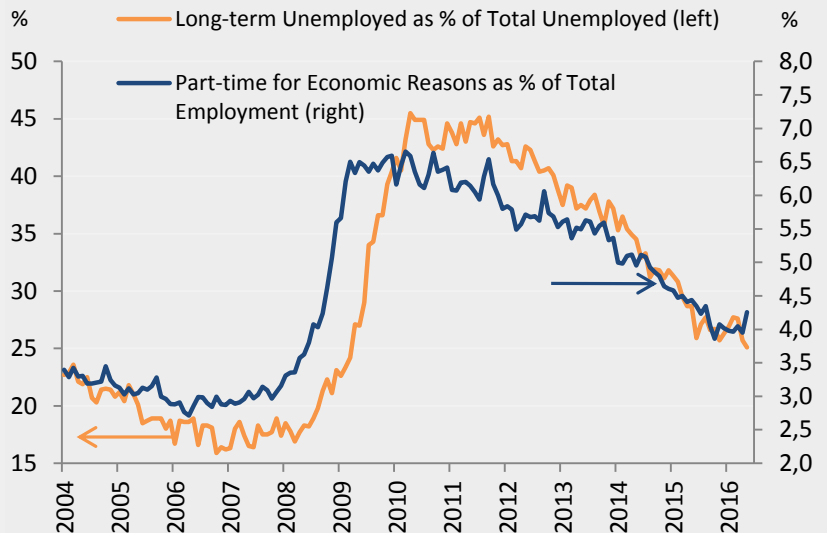
### Output Gap



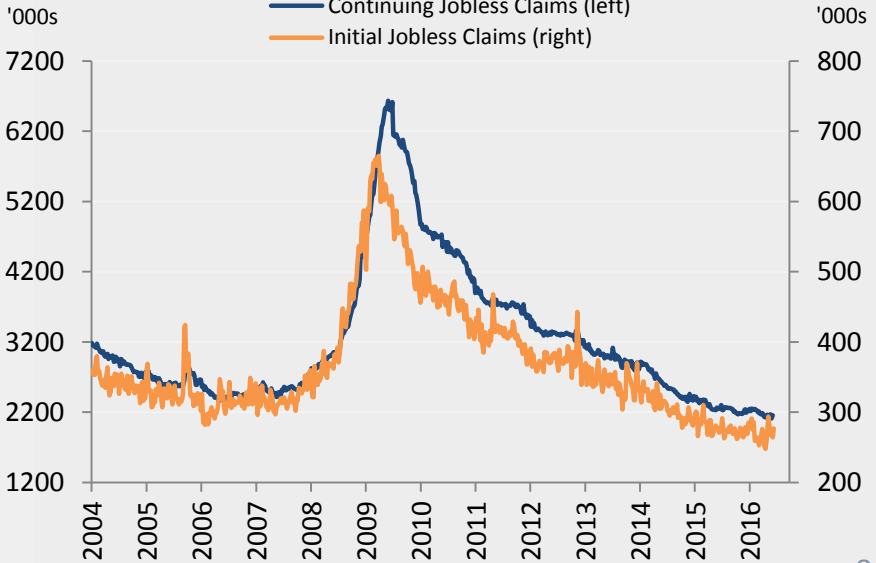
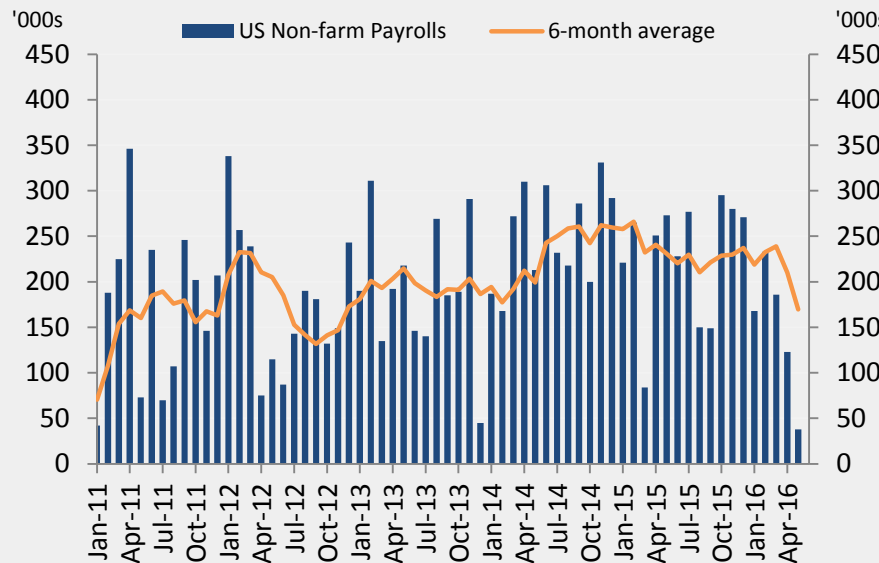
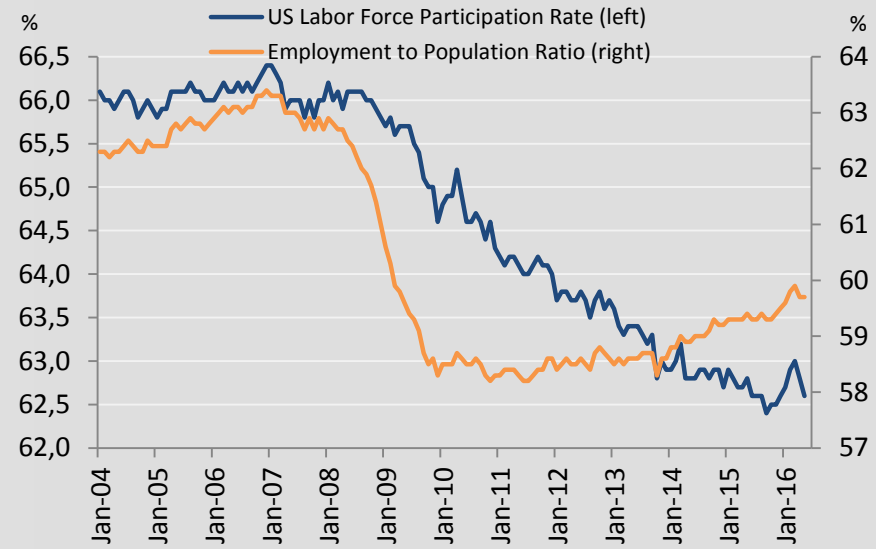
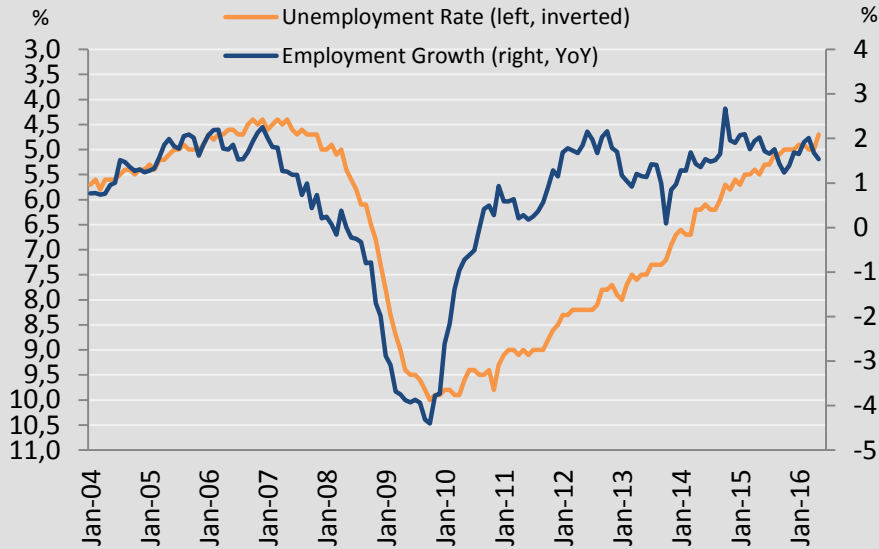
### People Per Job Opening Index



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

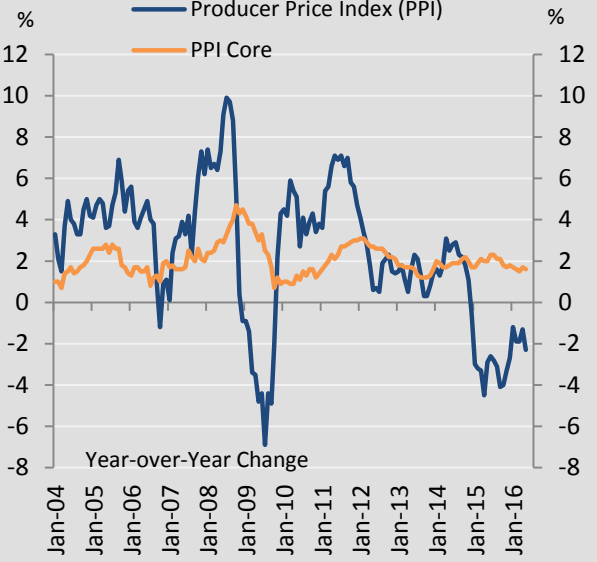
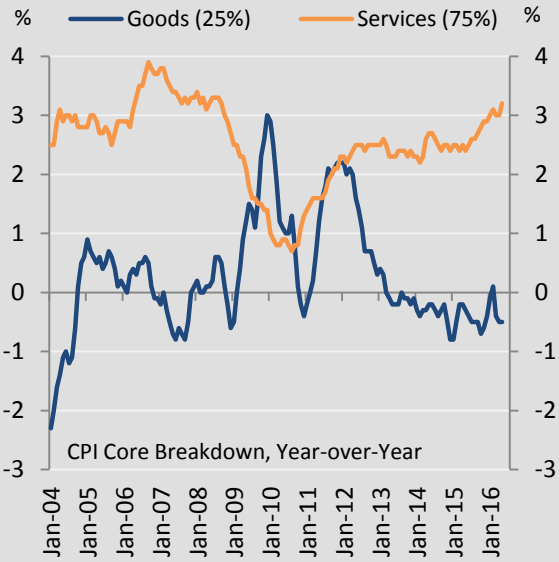


The unemployment rate decreased to an 8½-year low of 4.7% in May, albeit due to a declining participation rate

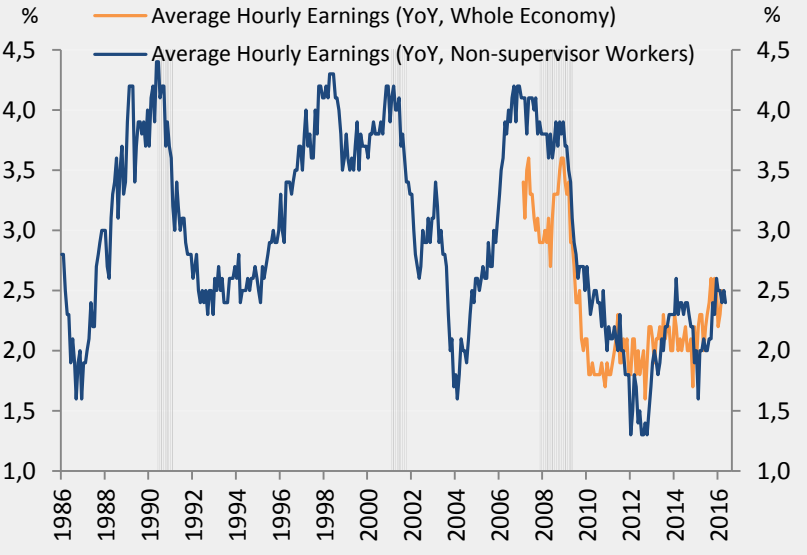
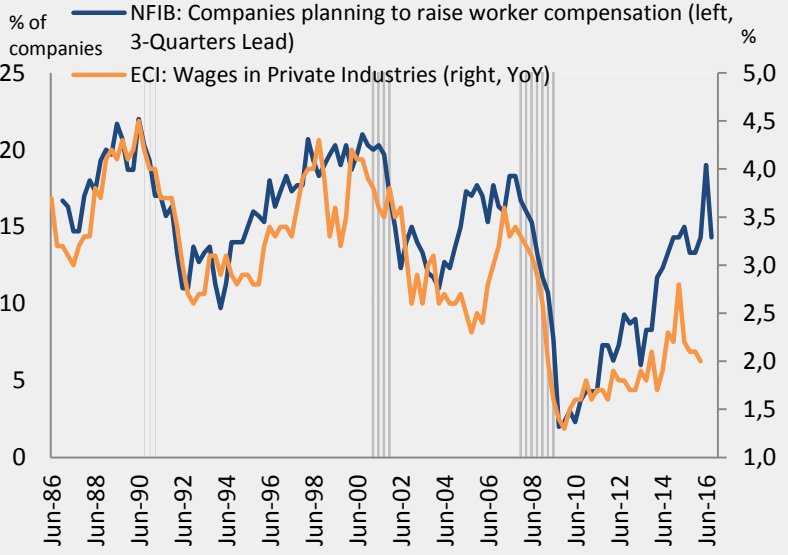




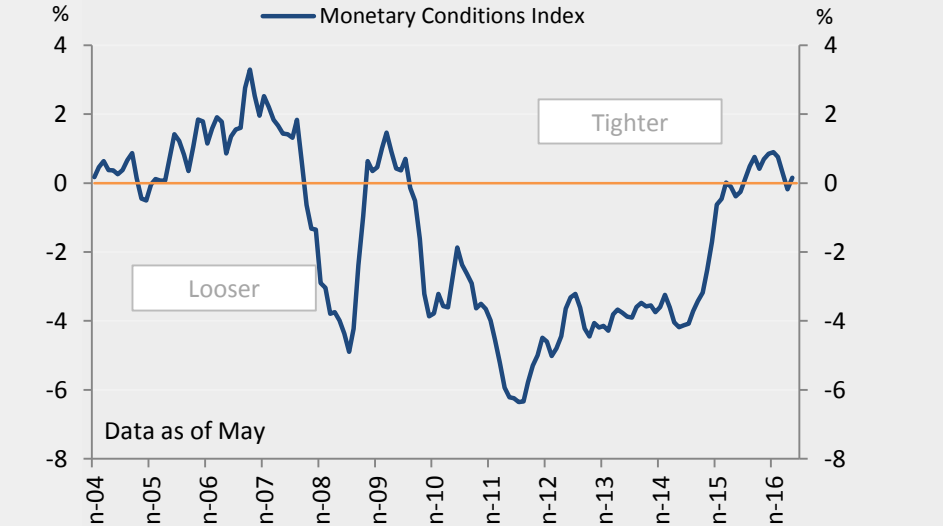
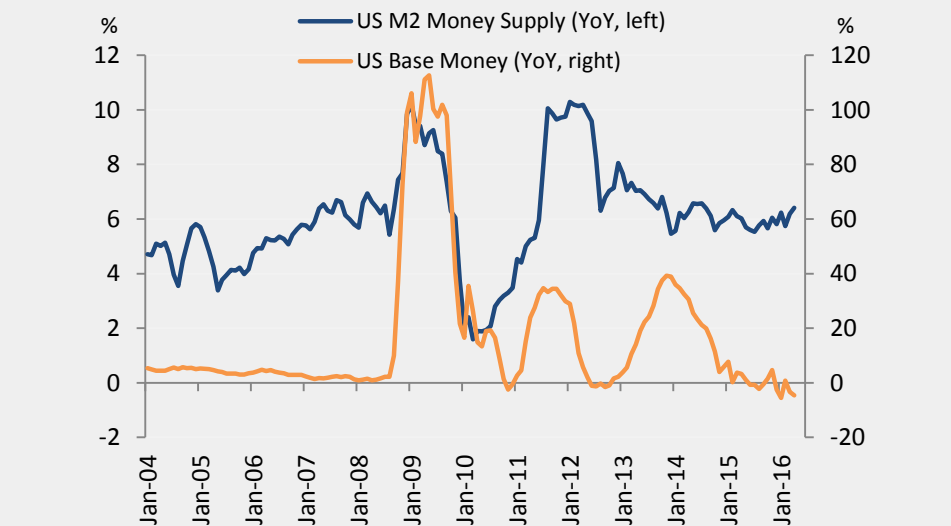
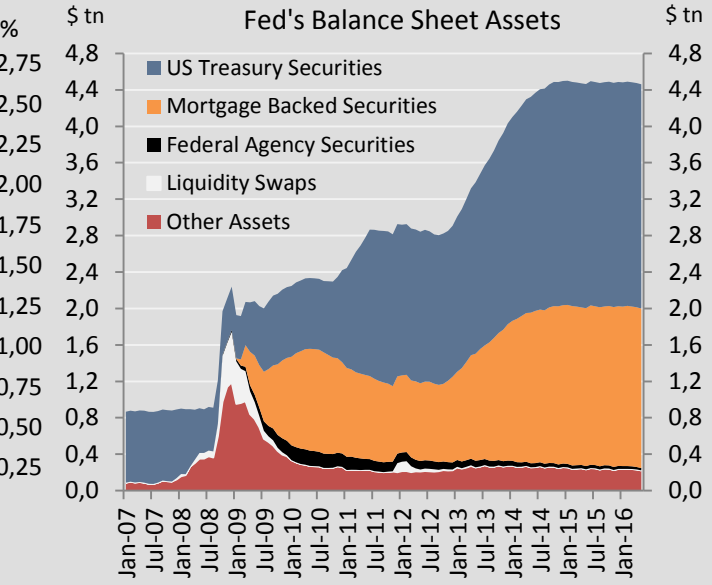
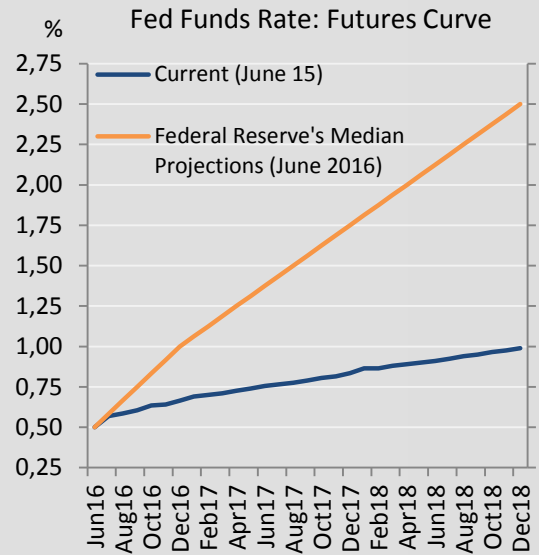
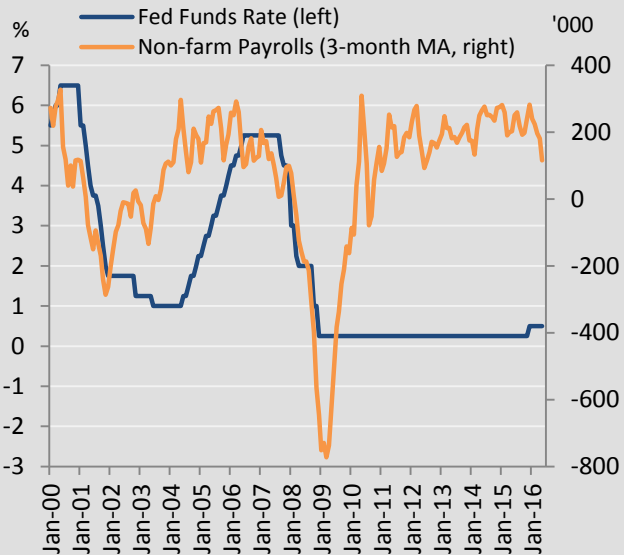
# Inflation has increased, as the effect from past oil price declines dissipates



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



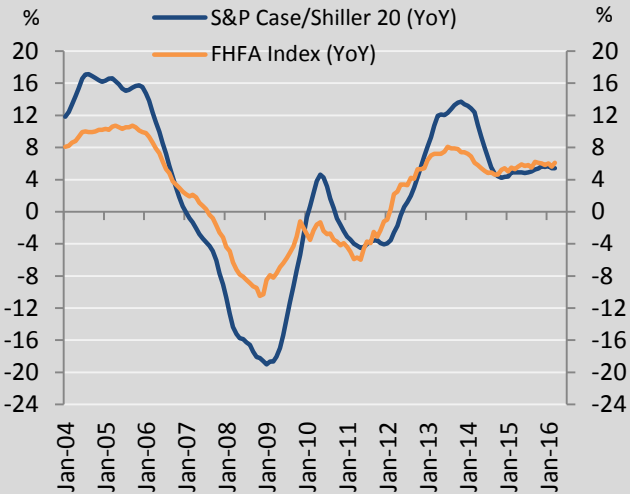
# Market estimates for interest rate hikes remain benign, expecting one hike by end 2017



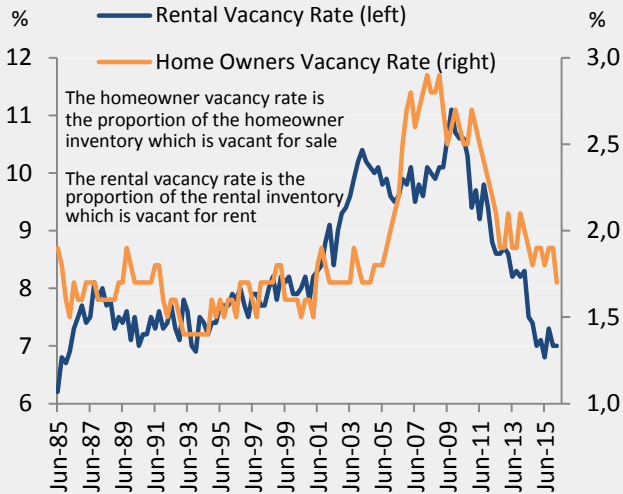
The Base Money is defined as the sum of currency in circulation and reserve balances (deposits held by banks in their accounts at the Fed)

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

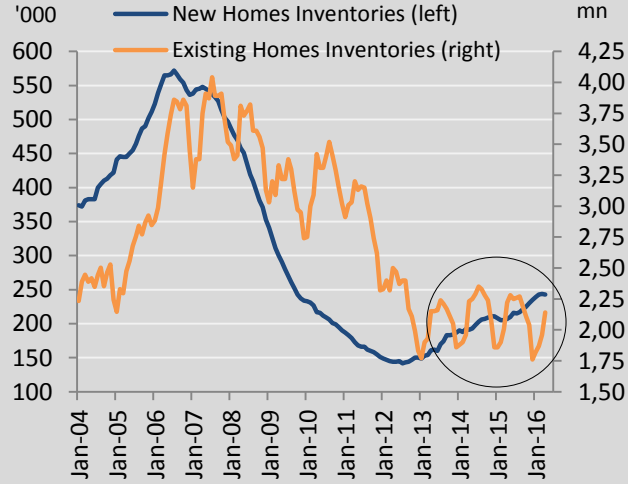
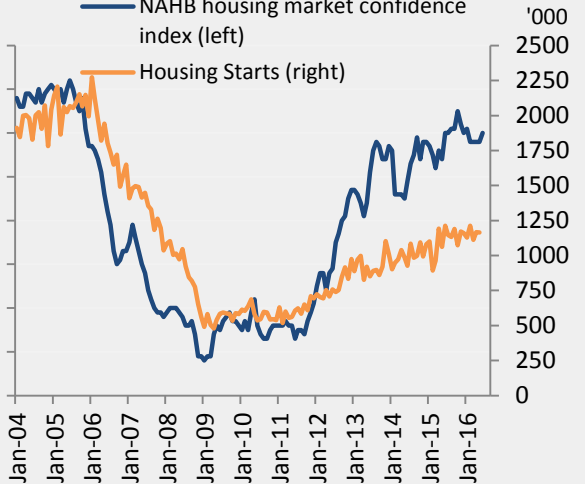
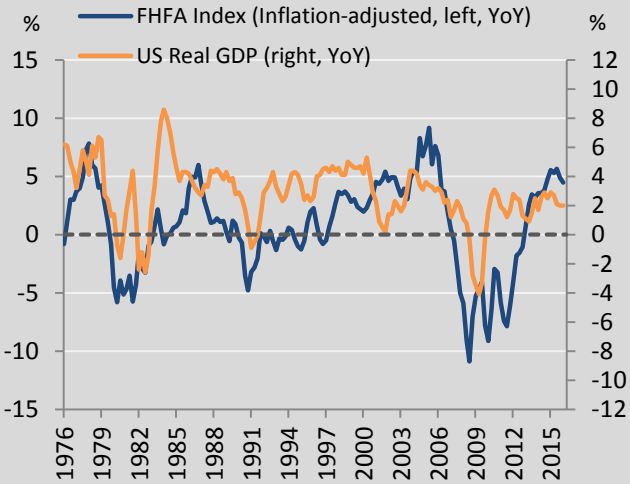
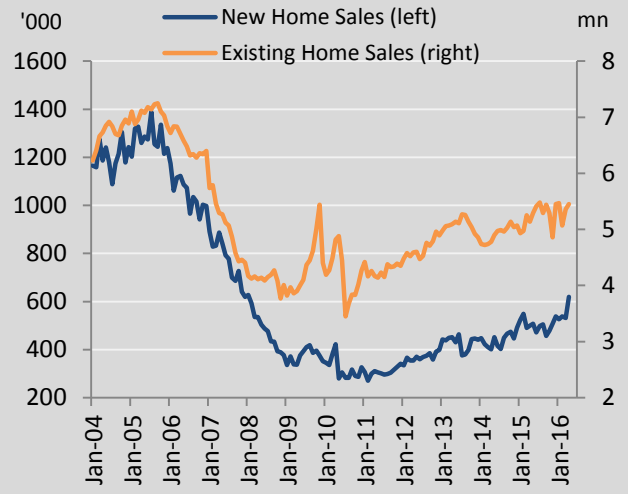
Prices



Vacancy Rates & Starts

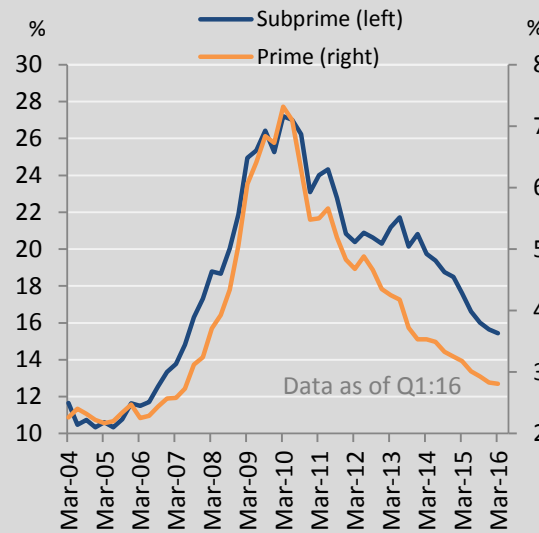


Sales & Inventories

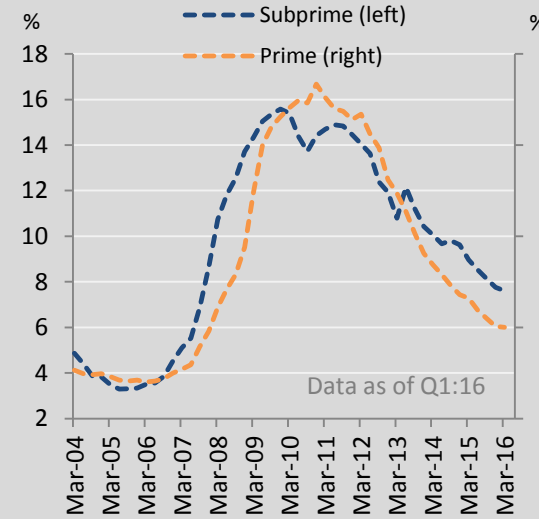


# Mortgage delinquencies and foreclosures continue to decline, while house valuations continue to increase

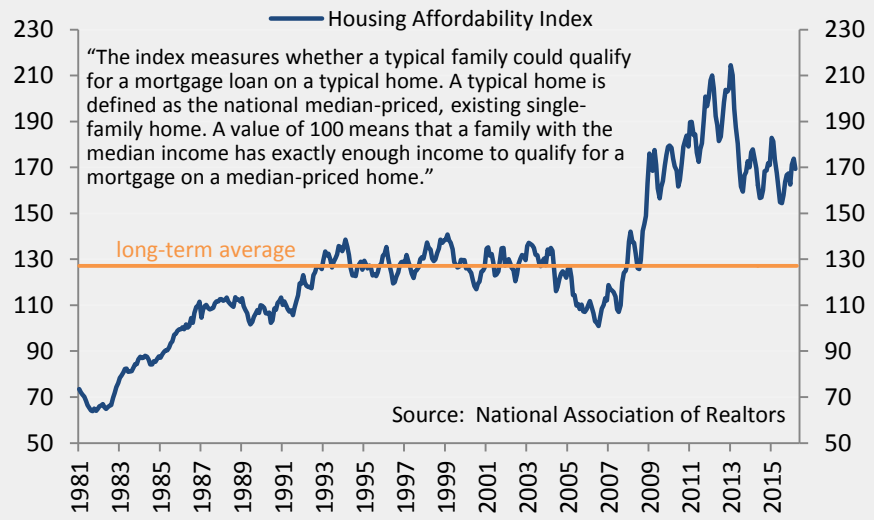
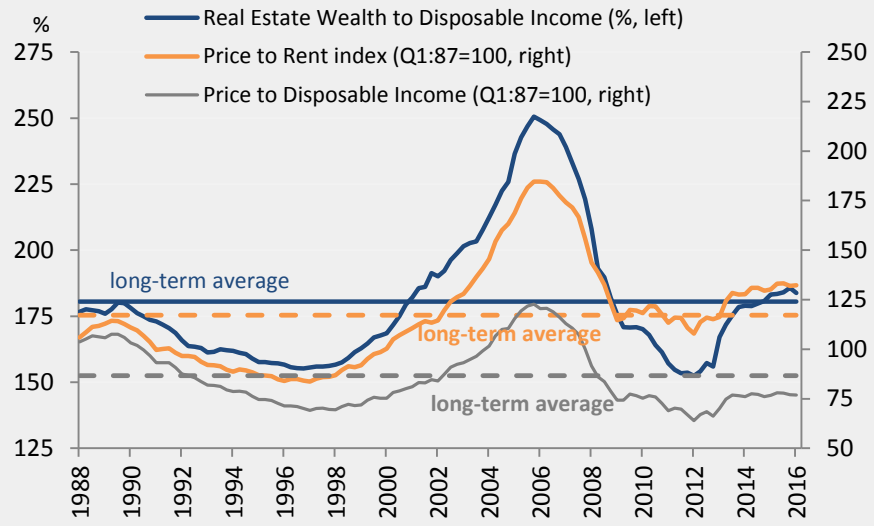
Delinquent Loans as % of Total Mortgages

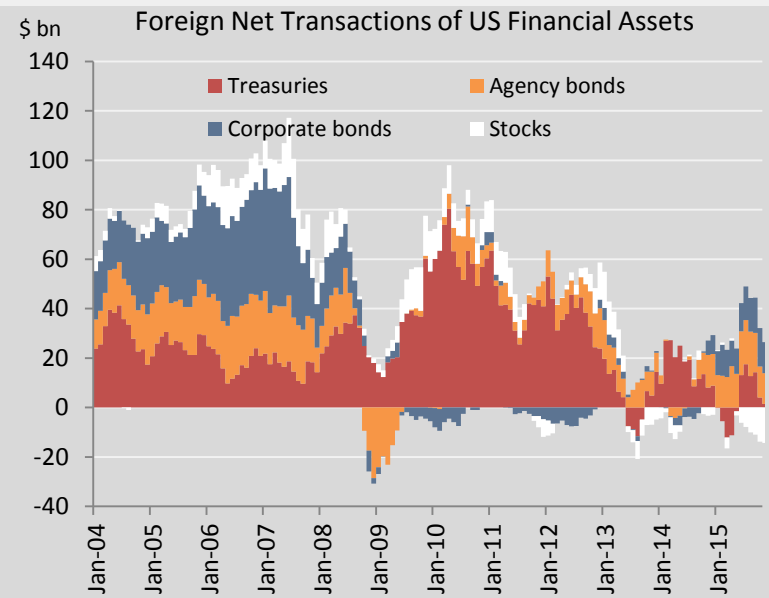
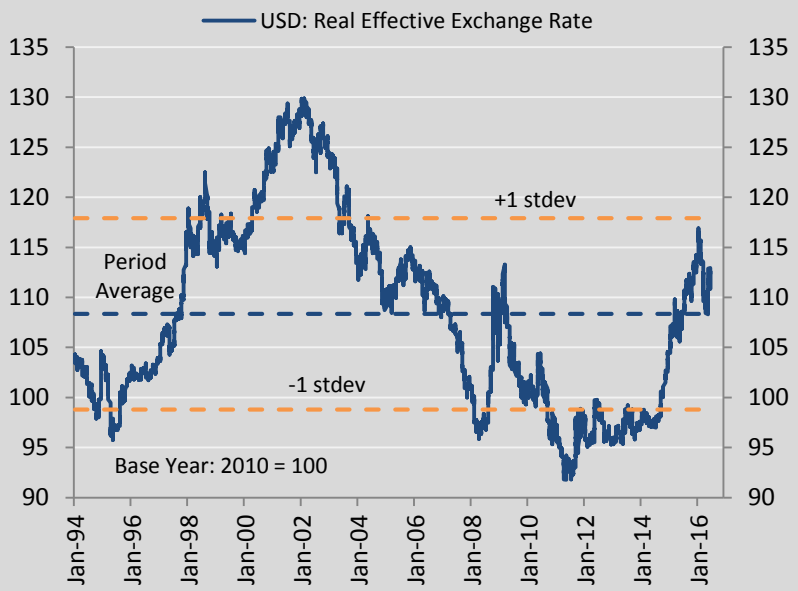
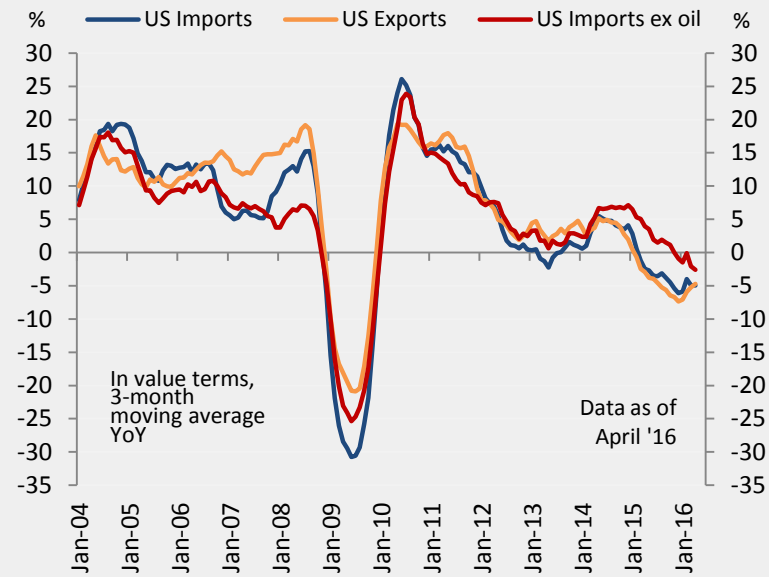
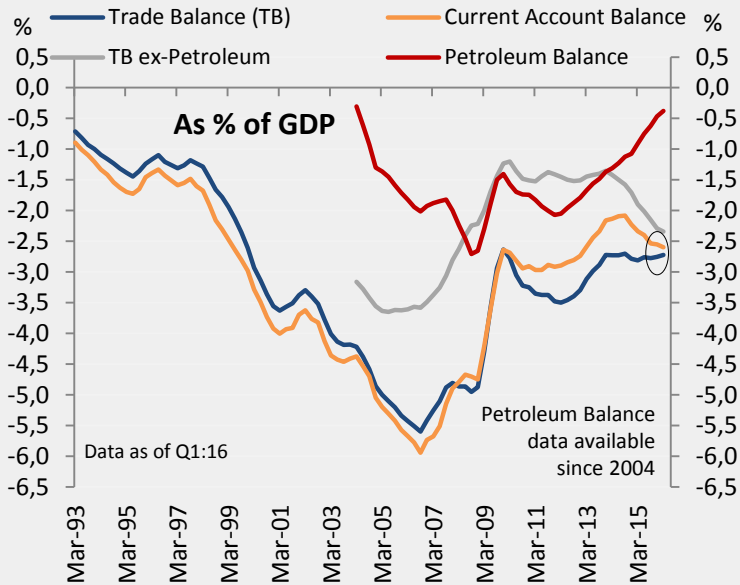


Foreclosures as % of Total Mortgages

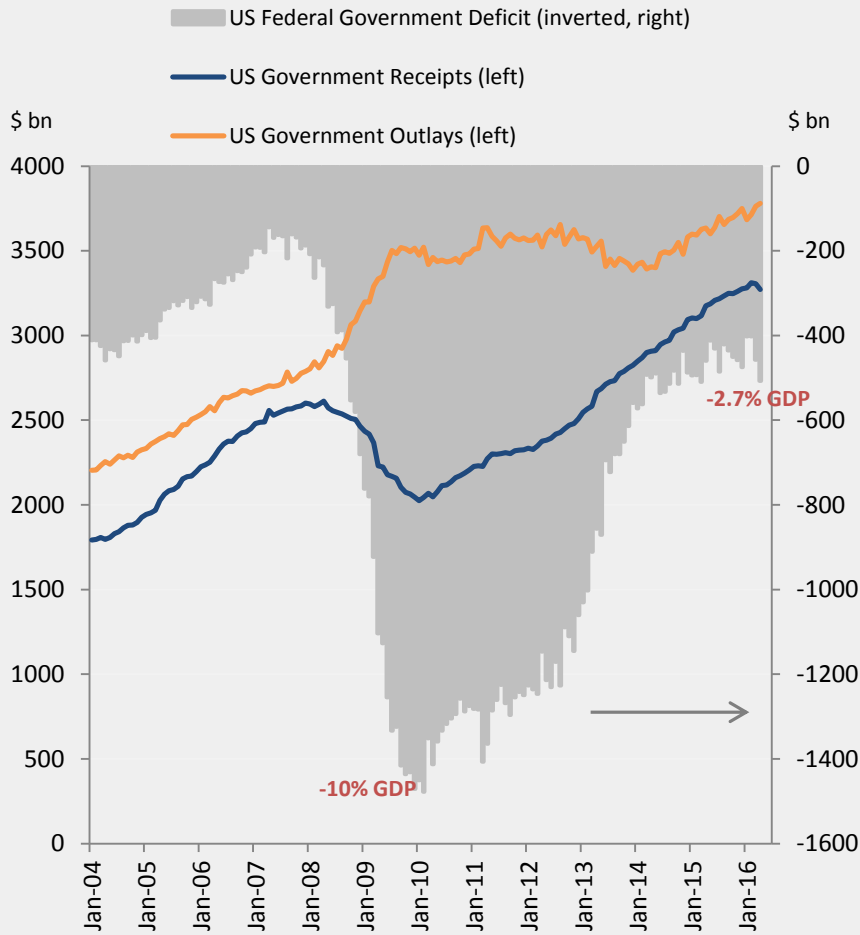


Source: Mortgage Bankers Association, Delinquencies are the total of 30, 60 and 90 days past due mortgage loans

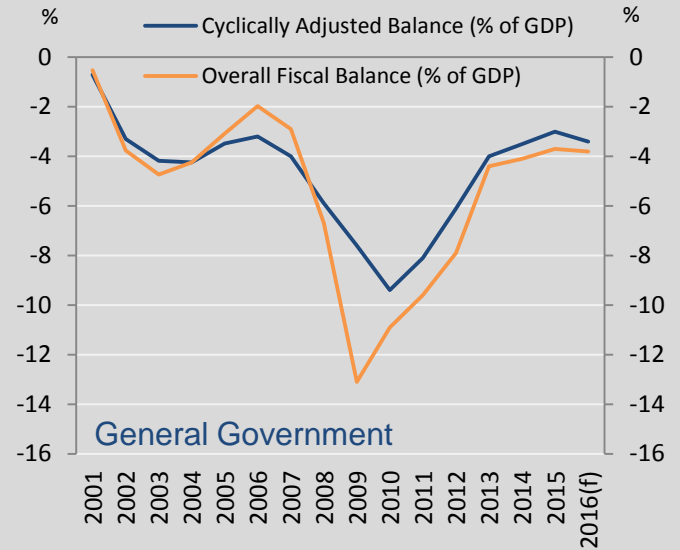




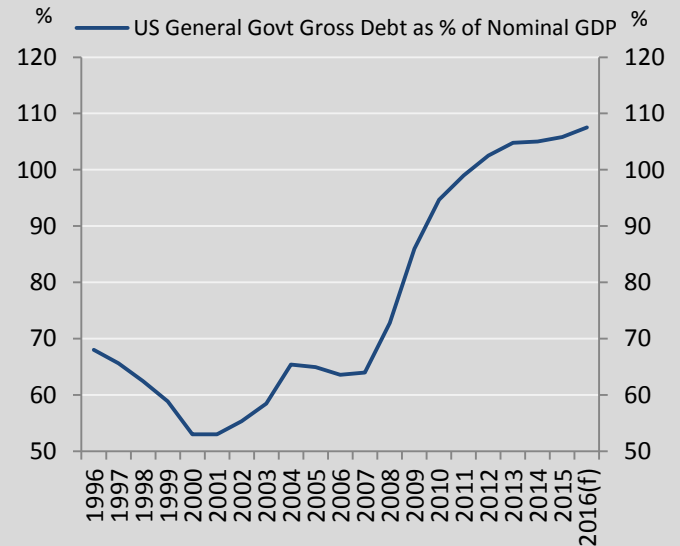
In fiscal year 2016 (Oct. 2015 – Sep. 2016), the Federal budget deficit will increase for the first time since 2009 (2.9% of GDP from 2.5% of GDP in fiscal year 2015)



Source: Congressional Budget Office (CBO) as of February 2016, [Federal Government](#) statistics, data appear as 12-month rolling sums

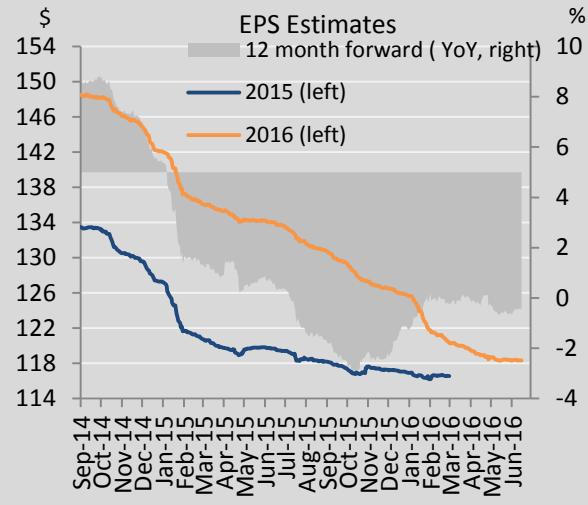
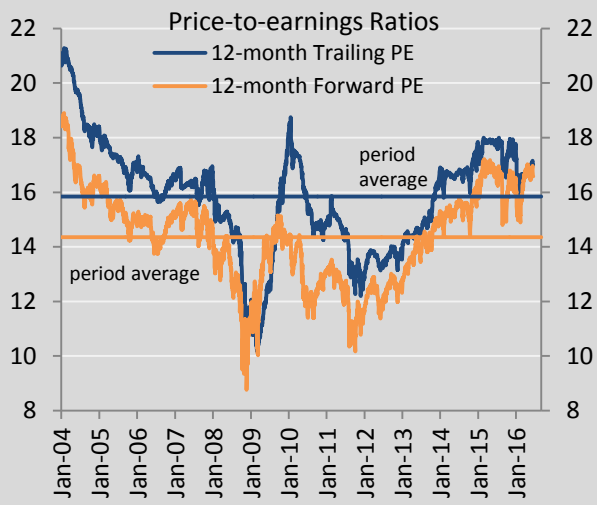
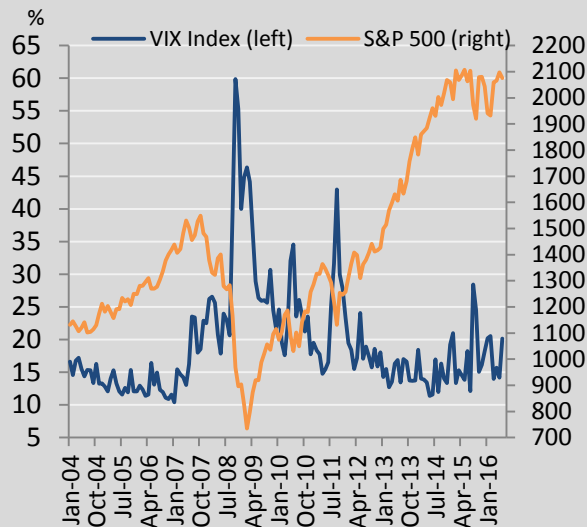


Source: IMF Fiscal Monitor, April 2016



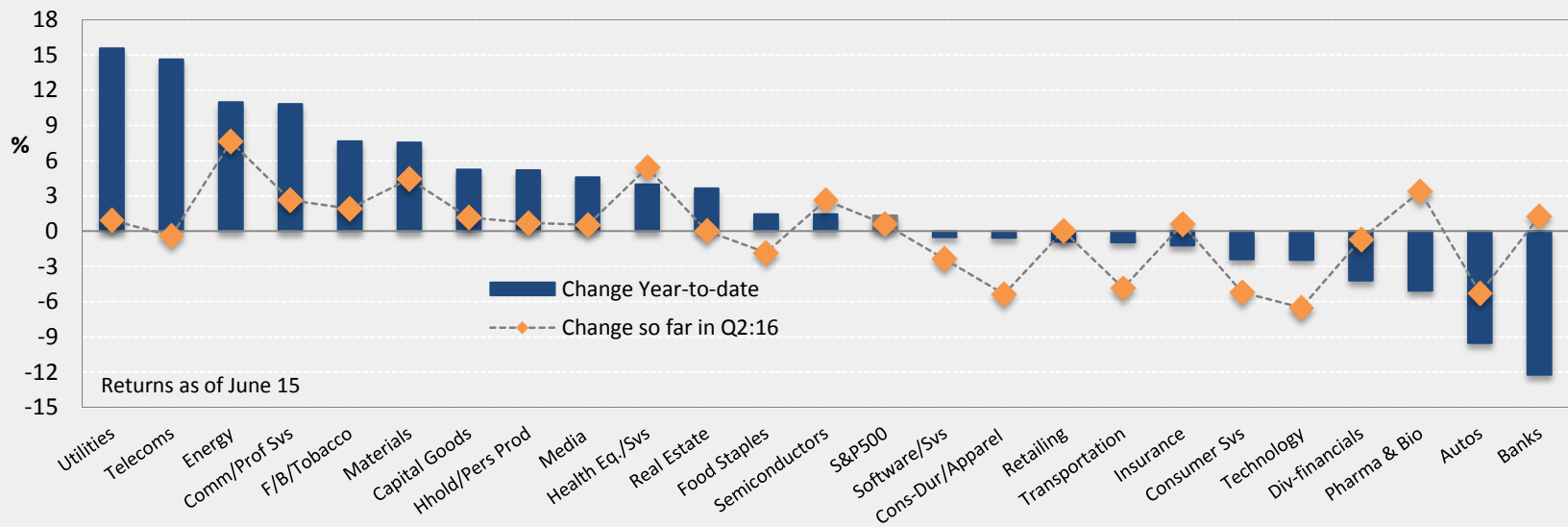
Source: IMF Fiscal Monitor, April 2016

The S&P500 overperformed its peers so far in Q2:16 (+0.8% vs -1.1% for the MSCI DM) and 2016 EPS estimates have stabilized

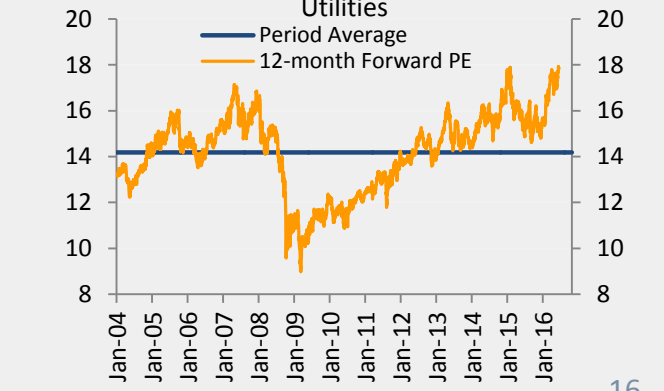
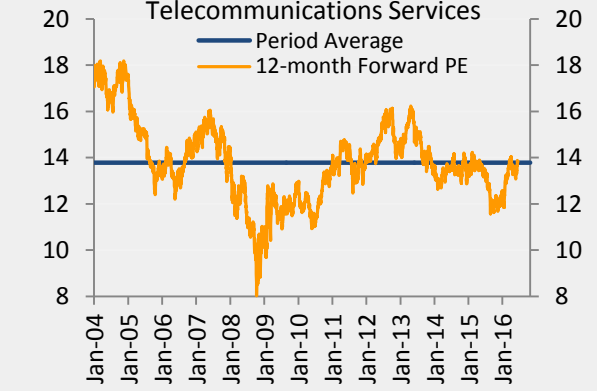
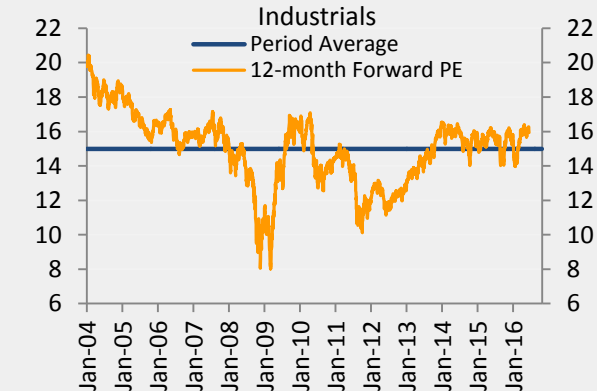
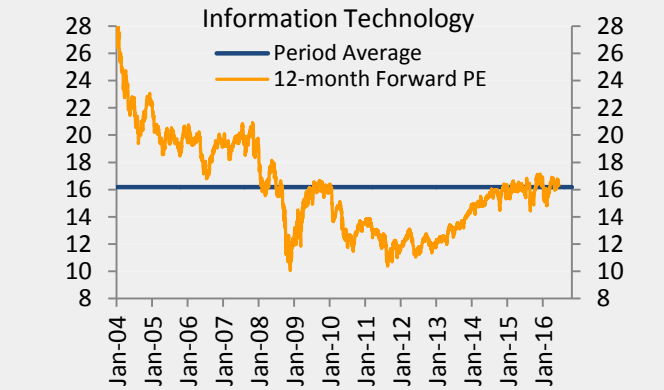
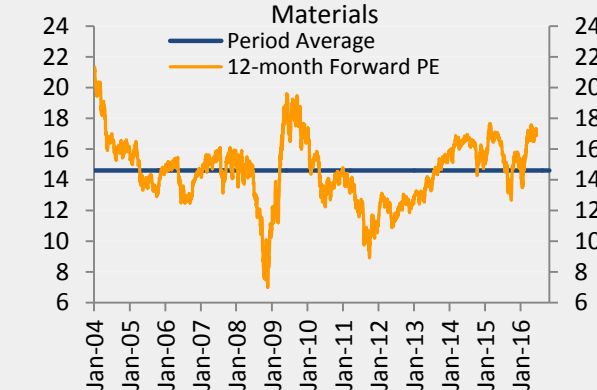
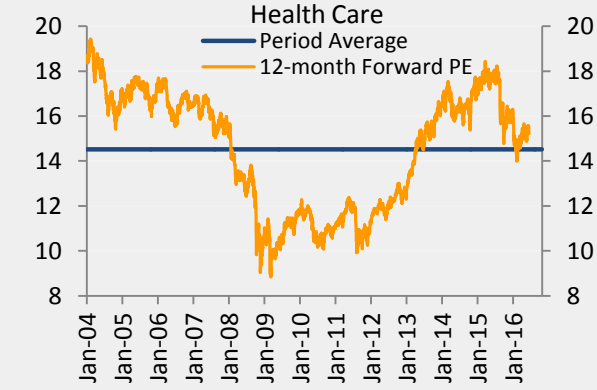
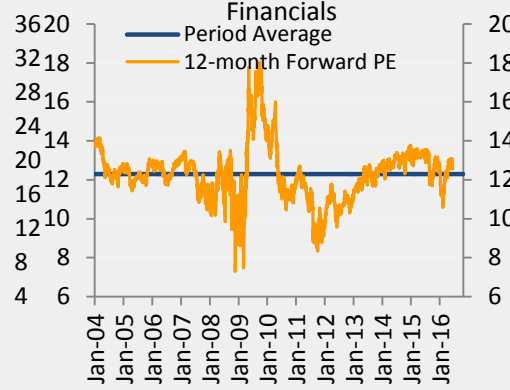
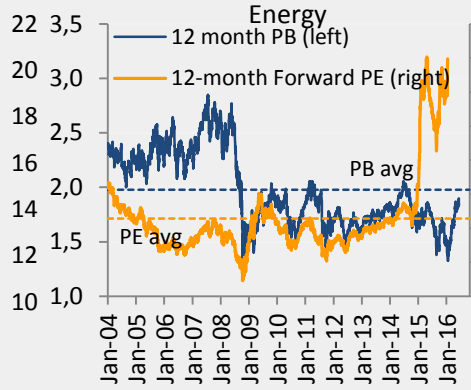
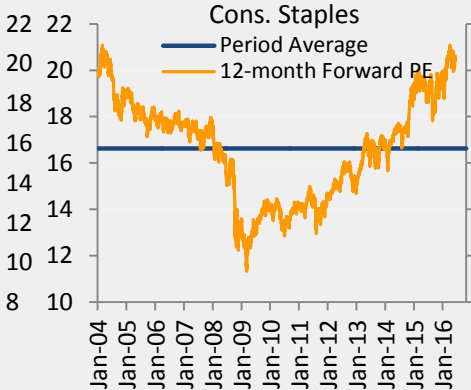
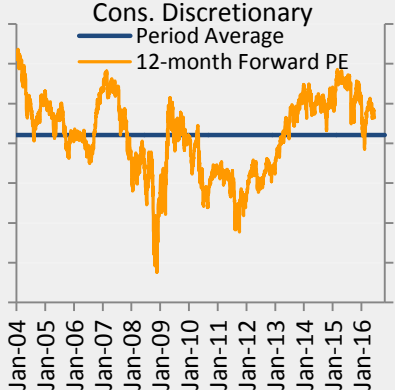


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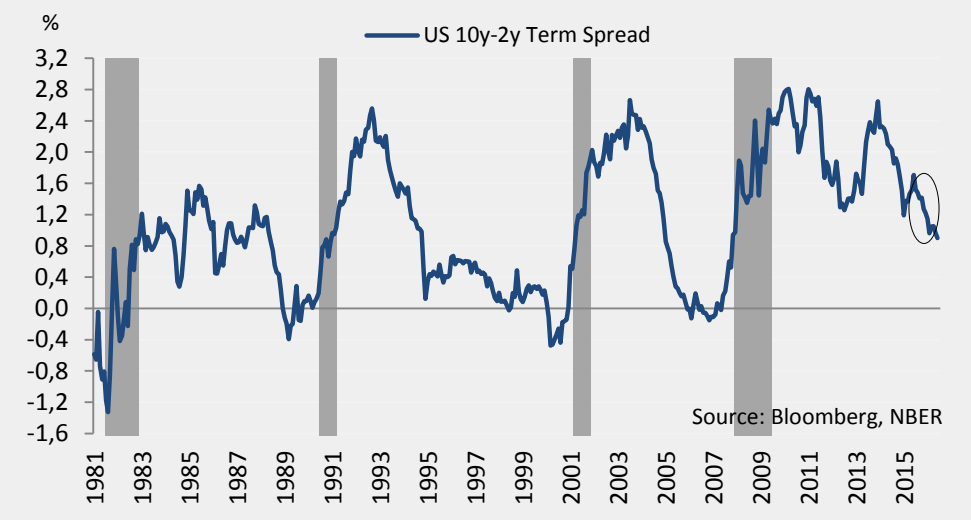
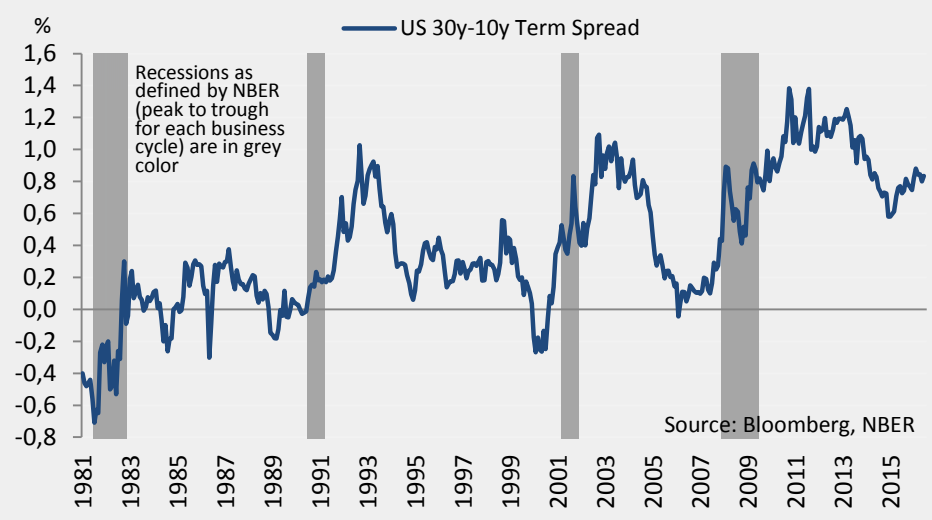
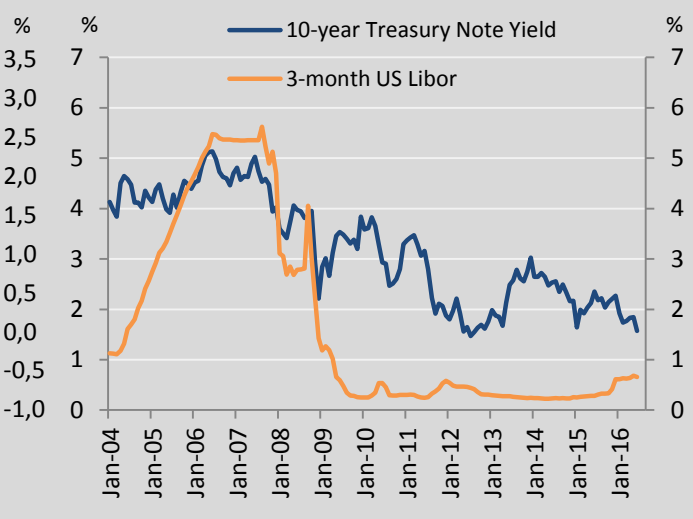
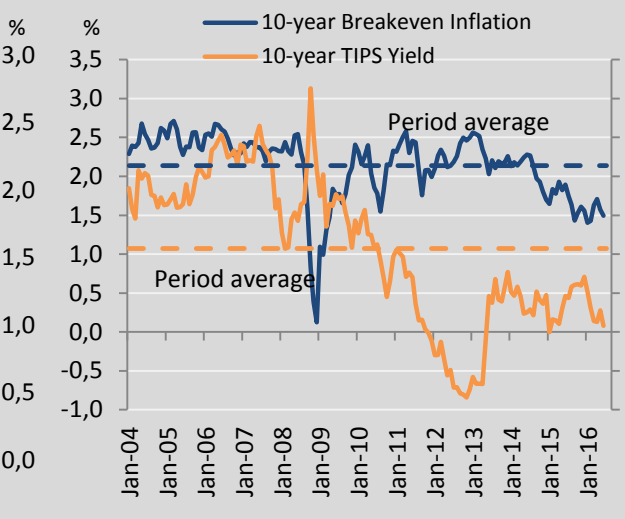
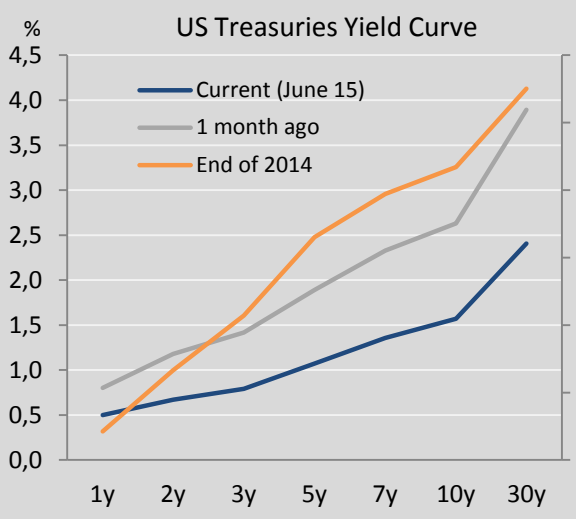
Source: Factset



# US Sectors Valuations

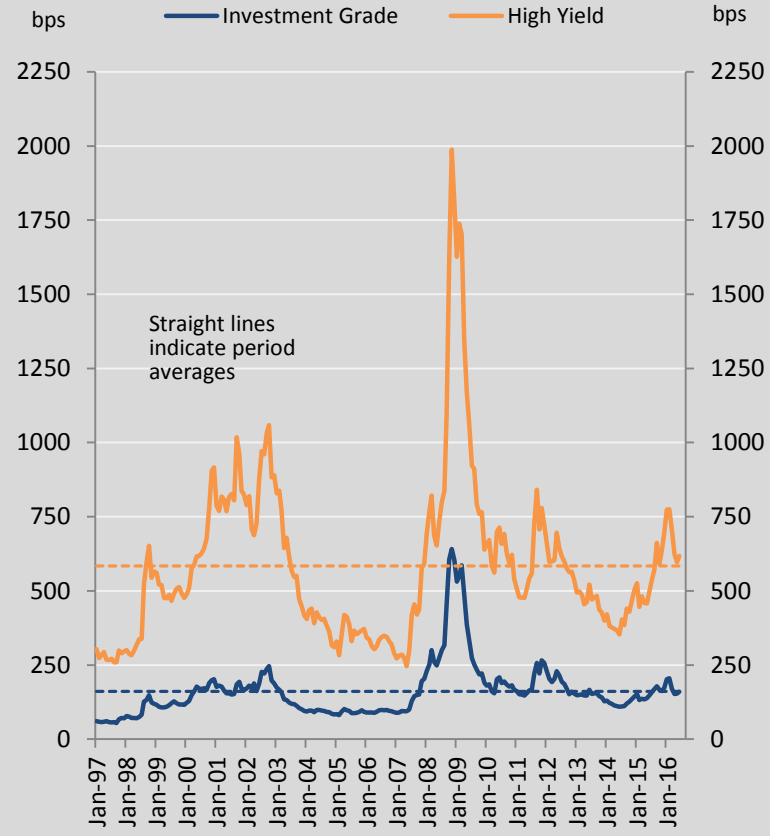






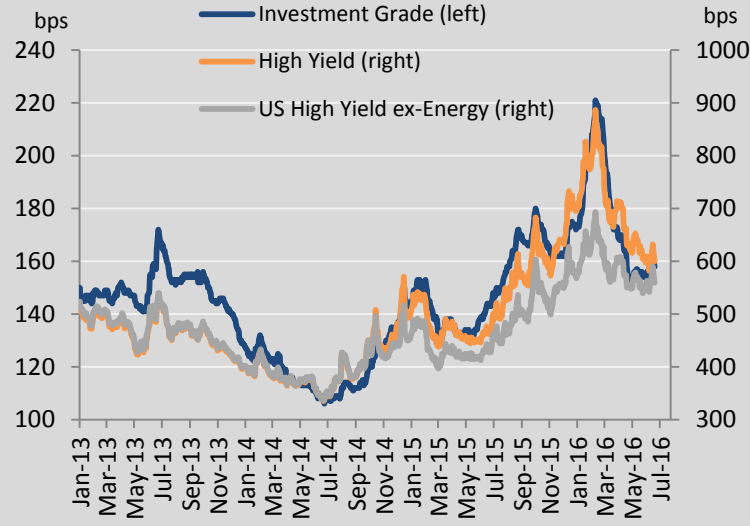
US HY corporate spreads have narrowed significantly so far in Q2:16 (-86 bps), as Energy HY sector spreads fell by 444 bps (due to higher oil prices)

### Corporate Bond Spreads

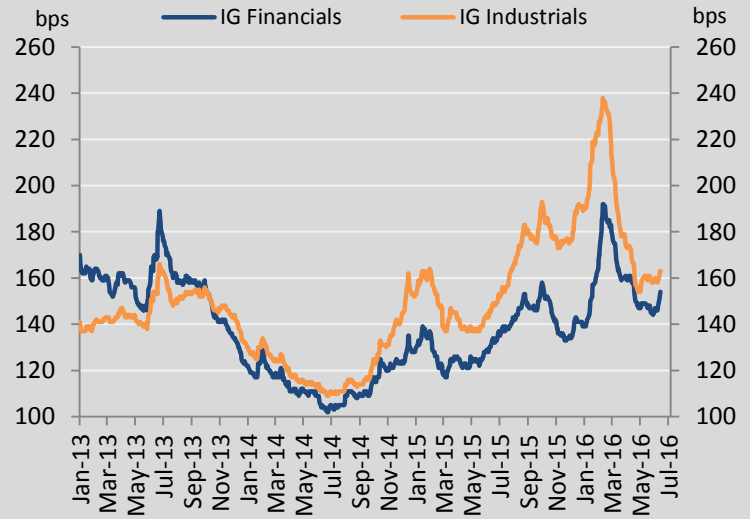


Source: Bank of America / Merrill Lynch US Corporate Bond Index (IG), US High Yield Master II (HY)

### Short-term View

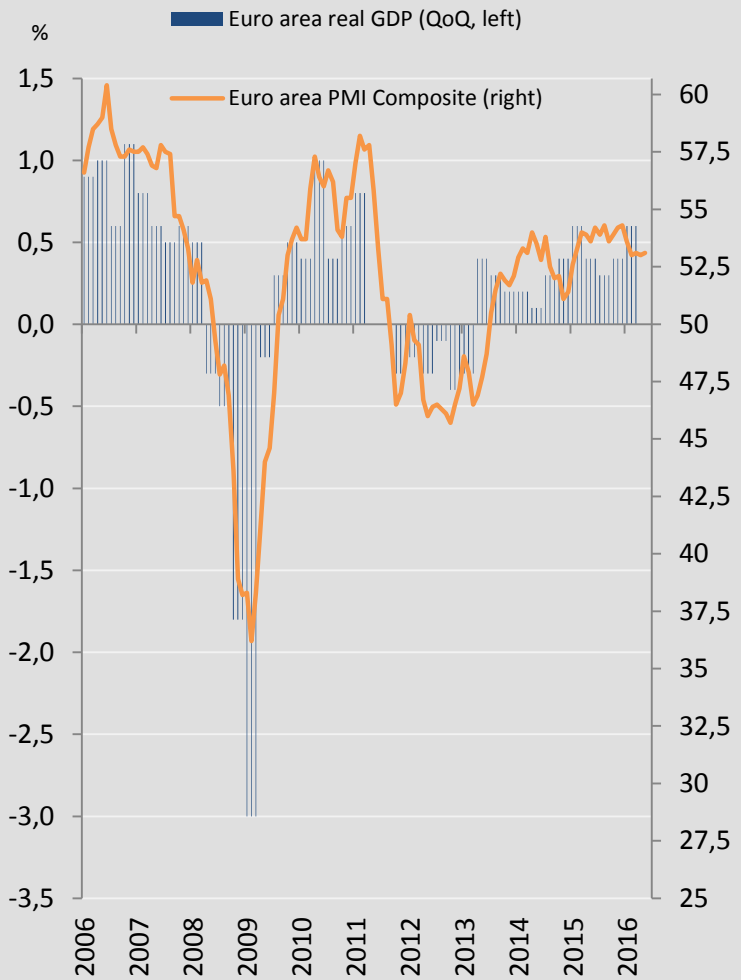


### IG Financials/Industrials

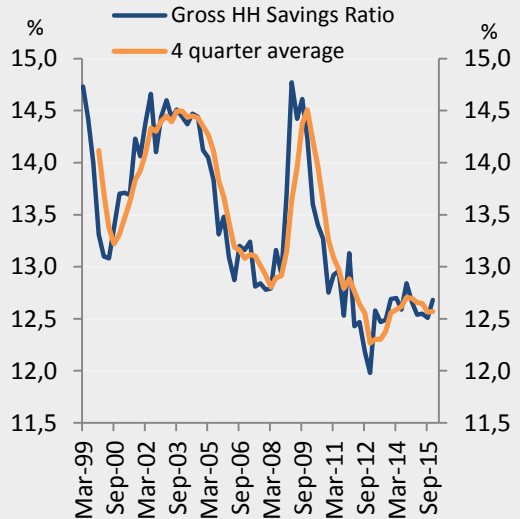
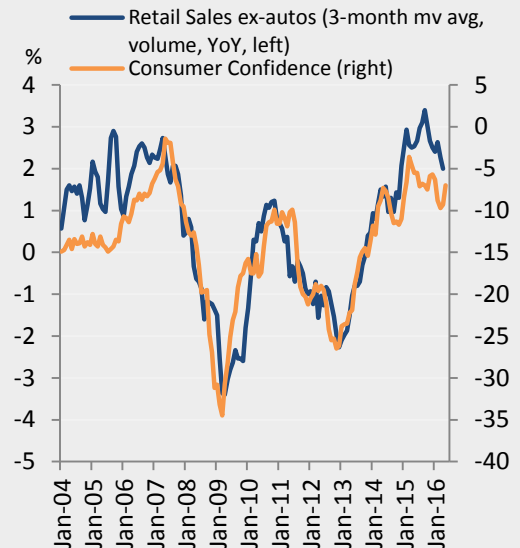
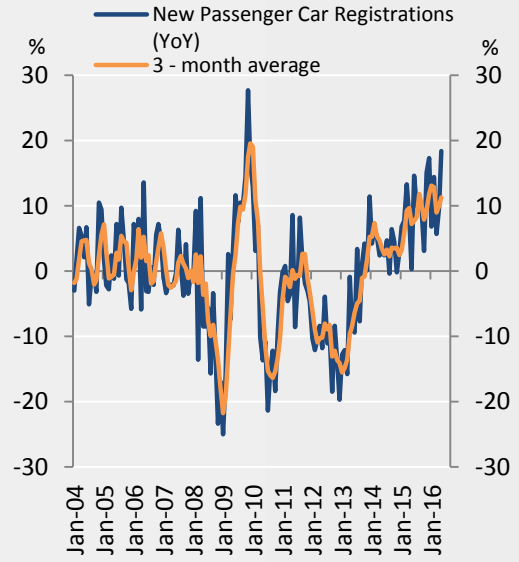
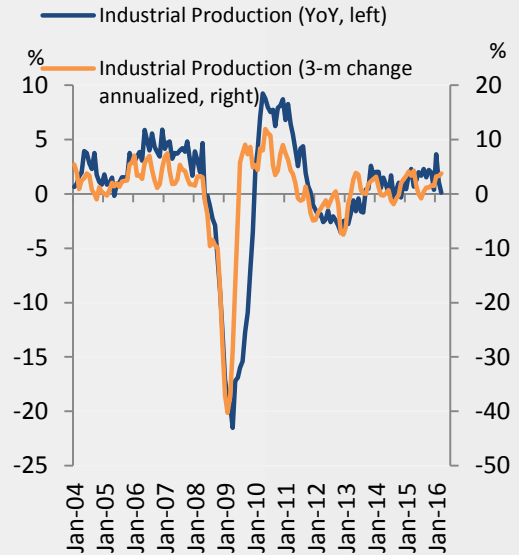


- Euro area real GDP accelerated to 2.2% qoq saar in Q1:16 from 1.7% qoq saar in Q4:15. Domestic demand remains solid, contributing 2.7 pps to growth in Q1:16, while weak net export growth -- due to a strong EUR and subdued global trade -- shed 0.5 pps. In Q2, growth will continue to be supported by personal spending, private investment and fiscal spending.
- Indeed, private consumption is expected to remain the main engine of growth as households continue to spend their oil-related gains in disposable income amid an improving labor market and higher wages. In fact, retail sales rose by 3.2% qoq saar and consumer confidence gained traction in Q2:16, increasing by 2.3 pts in May to an 8-month high of -7.0.
- Business investment is expected to continue to recover due to the projected strengthening of domestic demand amid exceptionally low funding costs and increasing profitability. Industrial production surged by 3.8% qoq saar from 1.5% qoq saar in Q4:15, albeit favorable weather effects likely added to the upside surprise. Business surveys remain healthy in Q2:16, with the euro area composite PMI at 53.1 vs 53.2 in Q1:16.
- Modest fiscal easing due to tax cuts, reduced contributions for social security and increased expenditure related to the influx of refugees, will continue to have a positive impact on growth. Specifically, the structural primary balance is expected to widen by 0.3 pps to -1.9% in 2016 from -1.6% in 2015, following an average tightening of +0.8 pps per annum in 2010-2015.
- Improving credit conditions remain supportive to growth. Euro area bank loans to the private sector have been in positive territory for the past 14 months (+0.9% yoy in April) and loans to non-financial corporations (NFCs) accelerated to their highest level since November 2011 in April 2016 (+1.2% yoy). Year-to-date, new banks loans to NFCs have averaged +€12.4 bn from +€1.8 bn in 2015 and -€8.5 bn in 2014.
- The ECB, assuming Brexit is avoided, will maintain a “wait-and-see” stance (MRO rate at 0.0%, Deposit rate at -0.4%, asset purchases of €80bn/month), as the balance of risks to growth has improved. Purchases of IG corporate bonds (June 8) and the first of four TLTRO-2 auctions (June 22) are expected to ease financial conditions further.
- Headline inflation remains in negative territory (-0.1% yoy in May) and core inflation is subdued (0.8% yoy in May – below 1% for 2 consecutive months). For the negative output gap to narrow rapidly and core inflation to increase significantly, economic activity would need to remain at its Q1 pace in 2016-2018. This is unlikely. Thus, the ECB will likely extend its asset purchases to beyond March 2017 (most probably in September 2016).
- Despite the resilience of the domestic sector, protracted political uncertainty, mostly due to the UK referendum and upcoming elections in Spain, France (2017) and Germany (2017) could disrupt the fragile euro area recovery. The ongoing refugee crisis, if it intensifies, could boost Eurosceptic populism.

# Economic activity continued to gain momentum in Q1:16



Above: GDP data as of Q1:2016, PMI data as of May 2016  
 Right: Industrial Production & Retail Sales & data as of April 2016, Consumer Confidence & New Passenger Car Registrations data as of May 2016  
 Source: Eurostat, Markit, Bloomberg



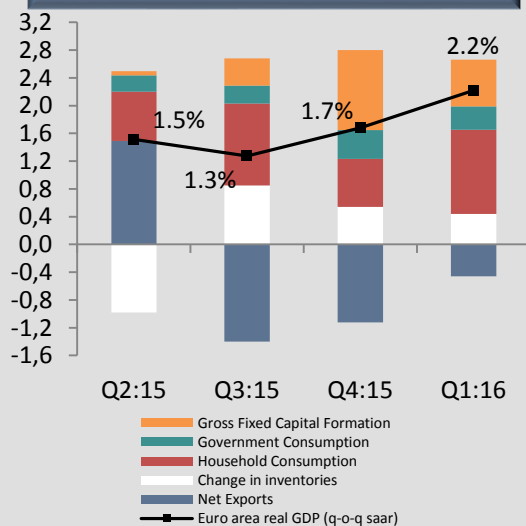
Source: Eurostat, data as of Q4:2015

In Q2:16, a moderation from the particularly strong performance in Q1:16 is likely

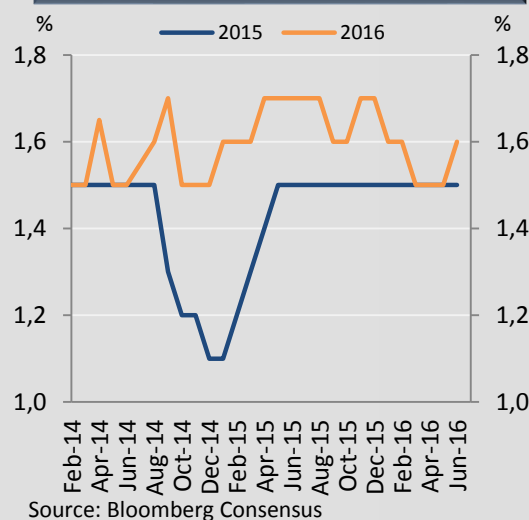
EA Real GDP Growth	2014	2015					2016e				
		Q1:15	Q2:15	Q3:15	Q4:15	2015	Q1:16	Q2:16f	Q3:16f	Q4:16f	2016e
GDP (YoY)	<b>0,9</b>	1,3	1,6	1,6	1,7	<b>1,6</b>	1,7	1,7	1,8	1,8	<b>1,8</b>
GDP (QoQ saar)	-	2,2	1,5	1,3	1,7	-	2,2	1,8	1,6	1,5	-
Private consumption (QoQ saar)	0,8	1,6	1,3	2,2	1,3	1,7	2,2	2,0	1,8	1,7	1,8
Government consumption (QoQ saar)	0,8	2,1	1,1	1,2	2,0	1,6	1,6	1,6	1,0	1,0	1,3
Investment (QoQ saar)	1,3	6,2	0,3	2,0	5,9	2,7	3,4	2,0	2,0	2,0	3,0
Inventories contribution (QoQ saar)	0,0	0,7	-1,0	0,9	0,5	-0,1	0,4	-0,1	0,1	0,1	0,3
Net Exports contribution (QoQ saar)	0,0	-0,9	1,5	-1,4	-1,1	-0,1	-0,5	0,1	-0,1	-0,1	-0,4
Exports (QoQ saar)	4,1	6,3	6,5	1,6	2,7	5,1	1,7	2,0	3,0	3,1	2,5
Imports (QoQ saar)	4,5	9,4	3,5	5,2	5,6	5,9	3,0	2,0	3,5	3,5	3,7

Source: Eurostat, Bloomberg, NBG Estimates

### GDP Contributions (%)



### GDP Forecast Evolution



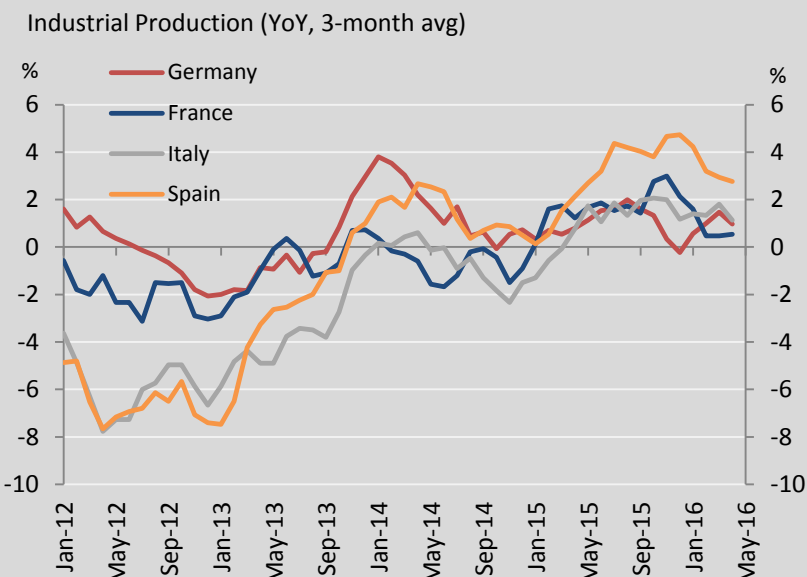
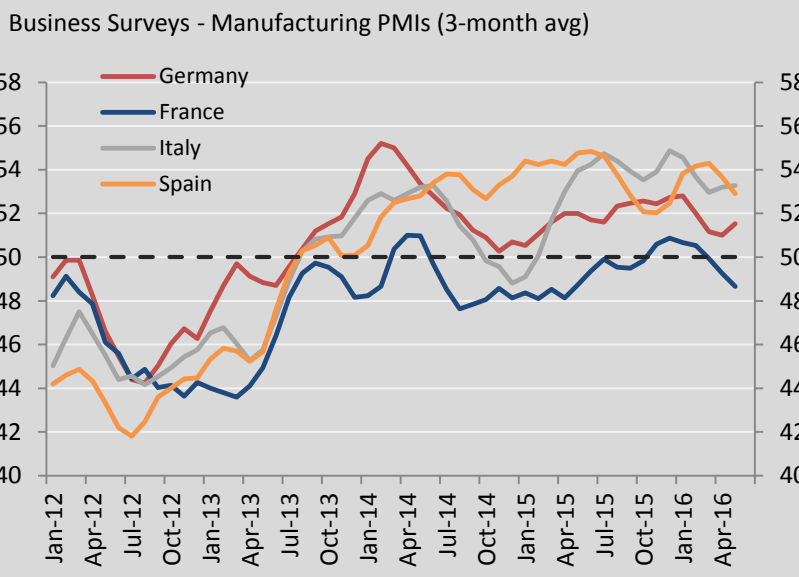
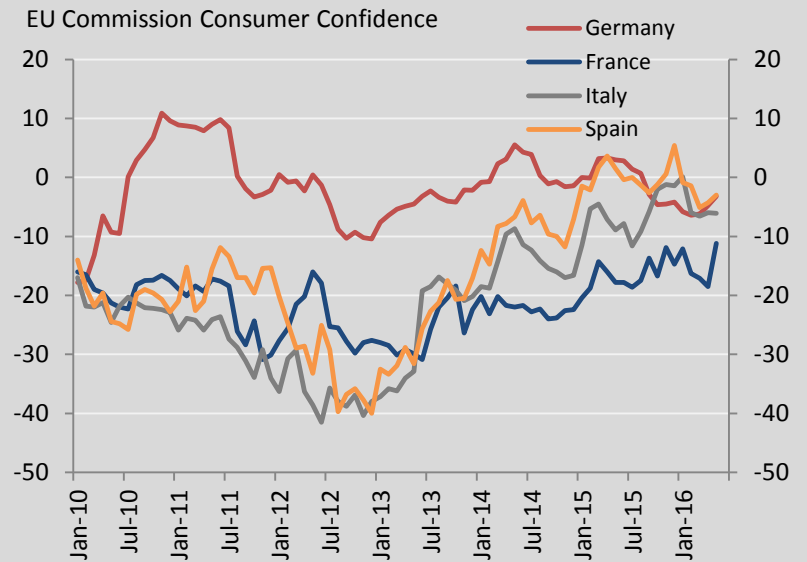
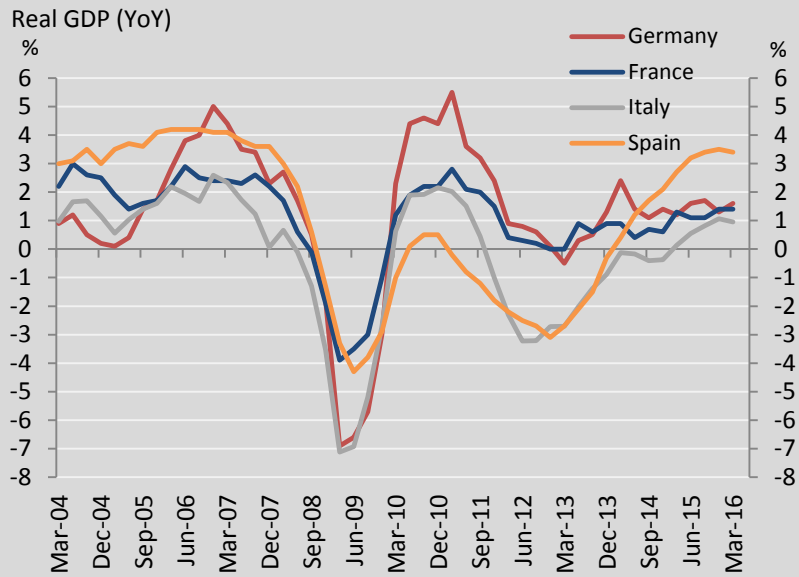
Source: Bloomberg Consensus

### Output Gap

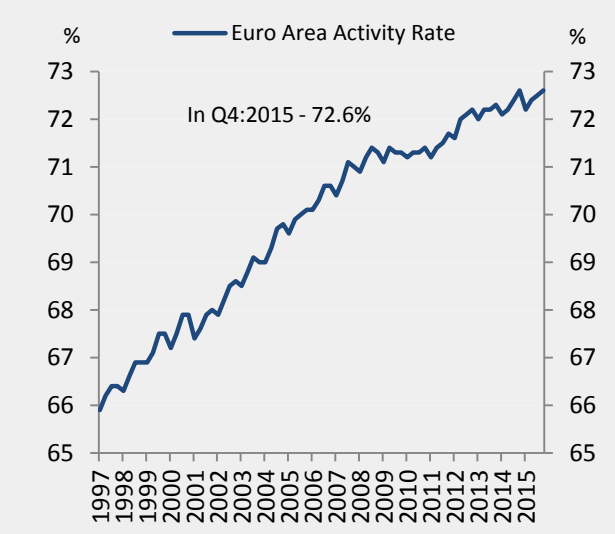
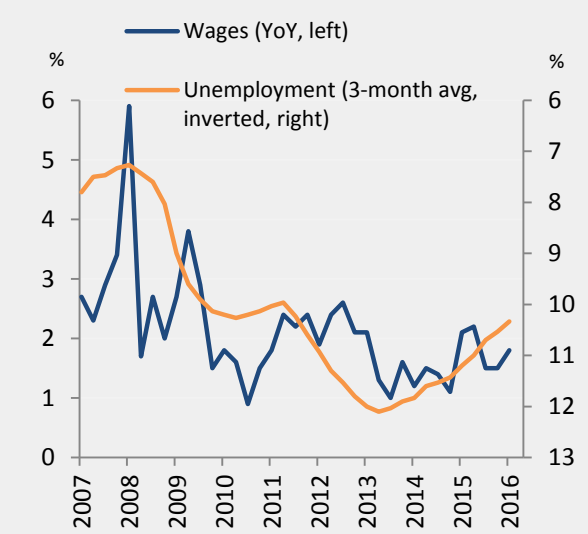
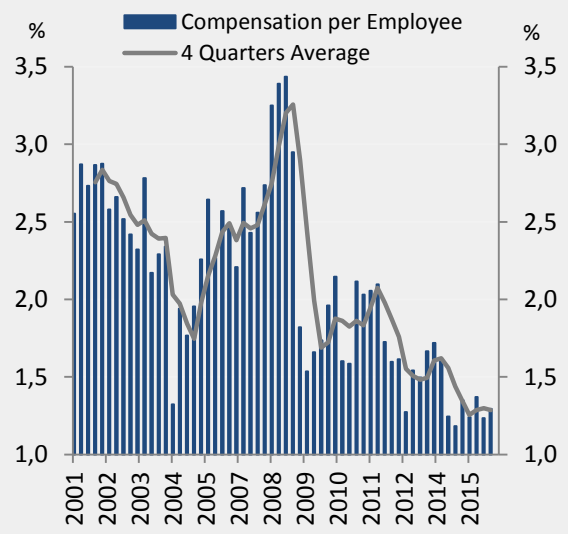
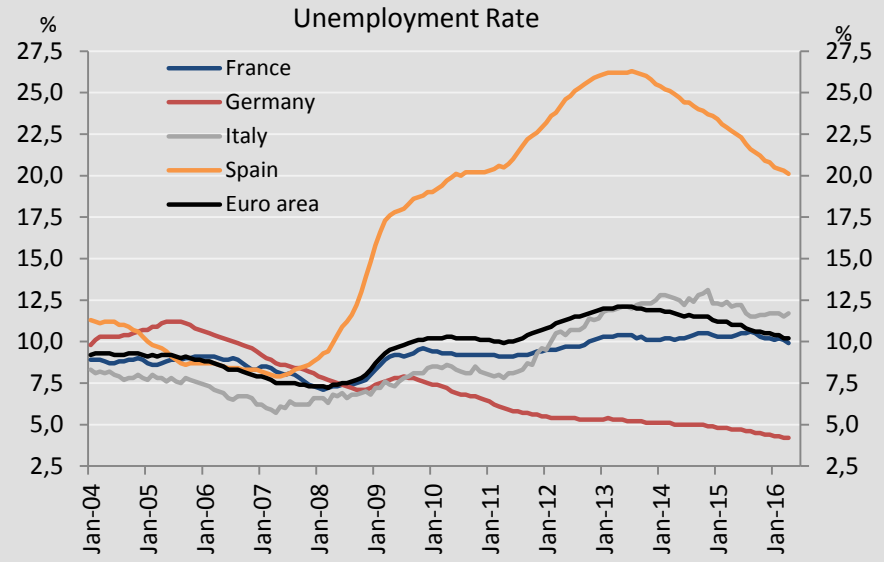
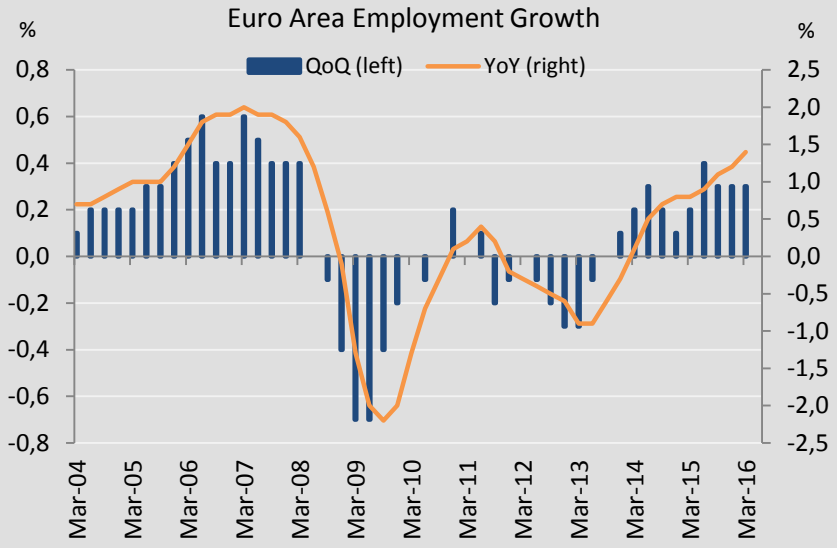


Source: IMF

The improvements in business surveys and consumer confidence indices are broad based across countries excluding France (PMI)



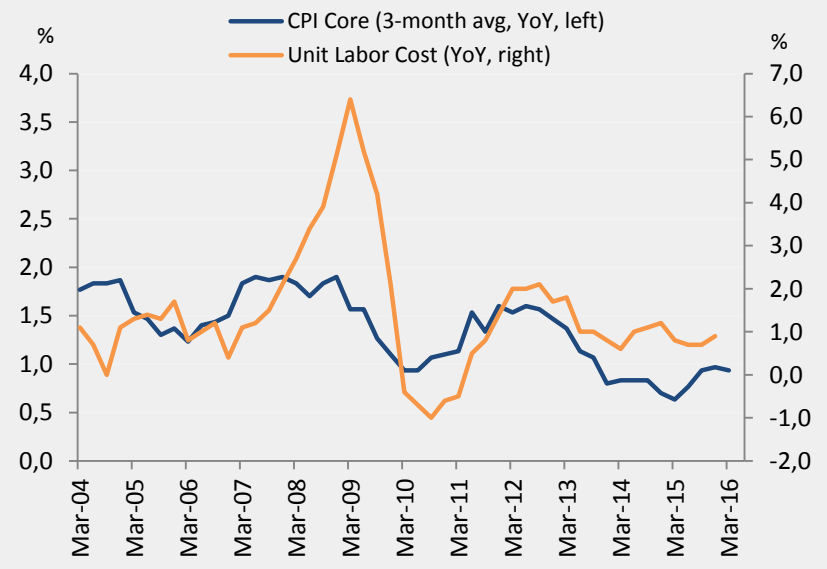
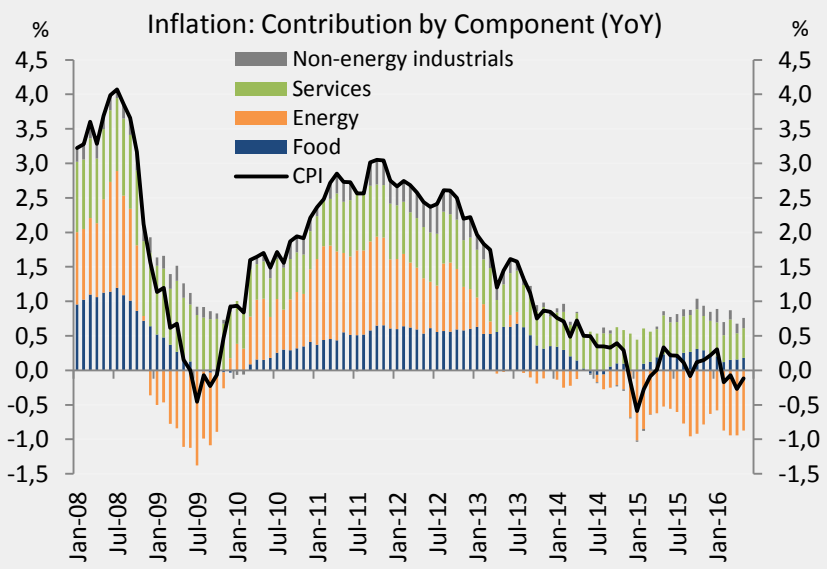
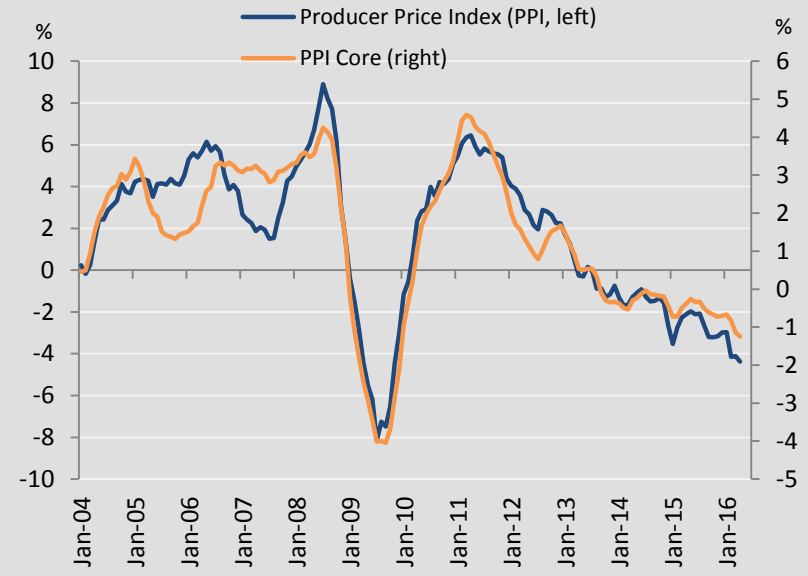
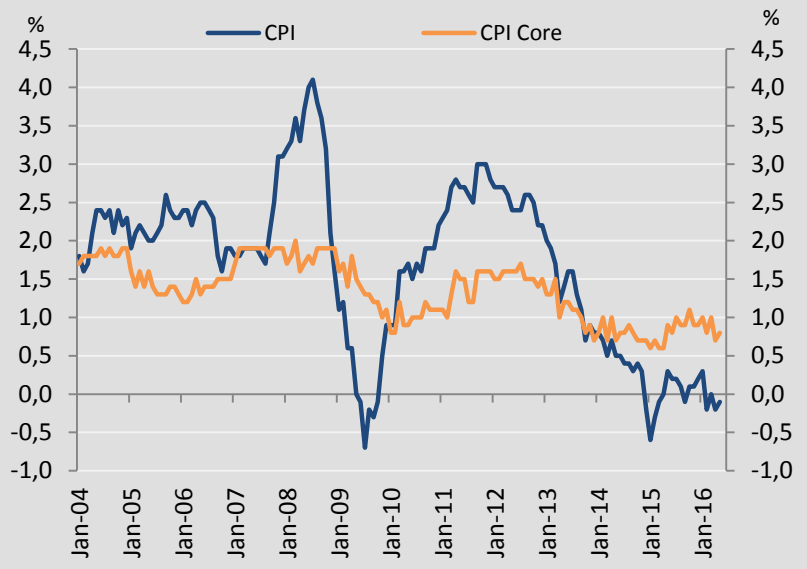
# The decline in the unemployment rate continues (10.2% in April), albeit remaining so far insufficient to spur a pick-up in compensation



Source: ECB, Compensation per Employee: the total remuneration that is payable to employees (salaries, bonuses, overtime payments and employers' social security contributions, divided by the total number of employees / Wages: indicator of Negotiated wage rates

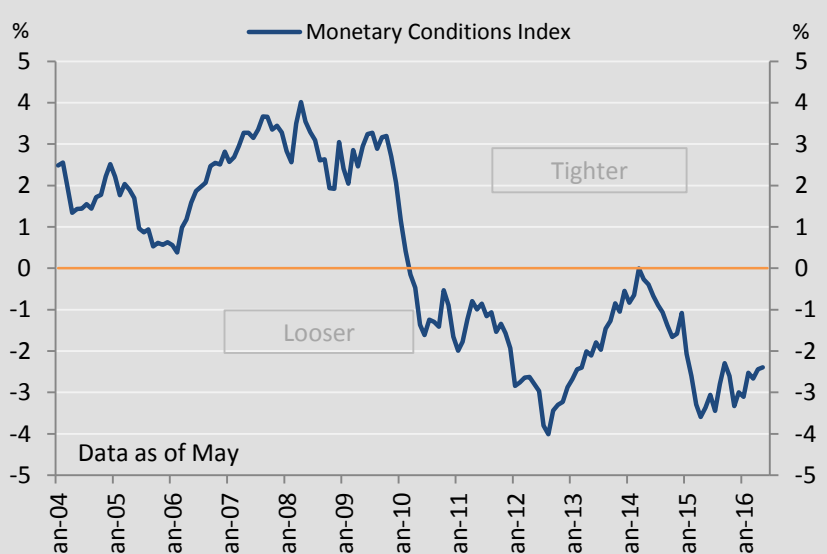
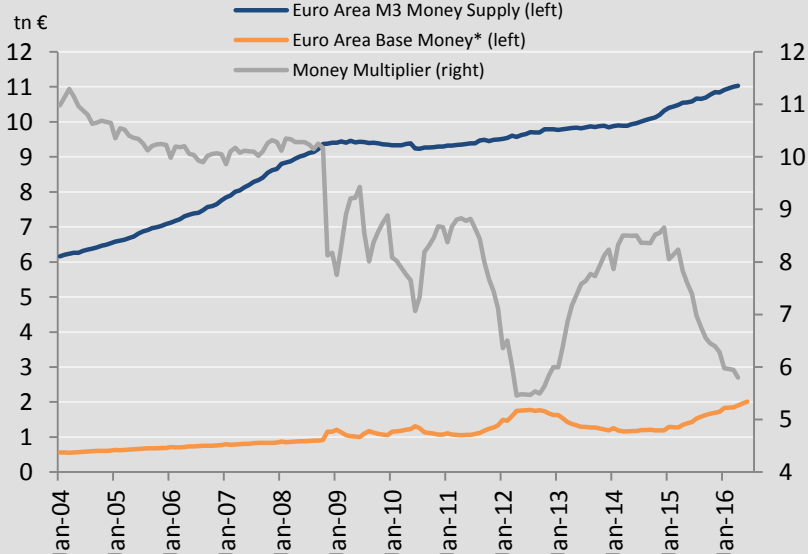
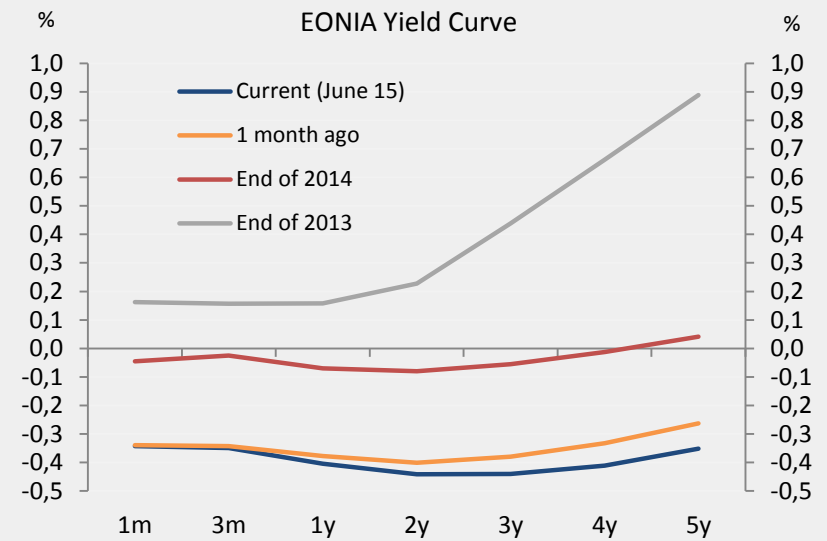
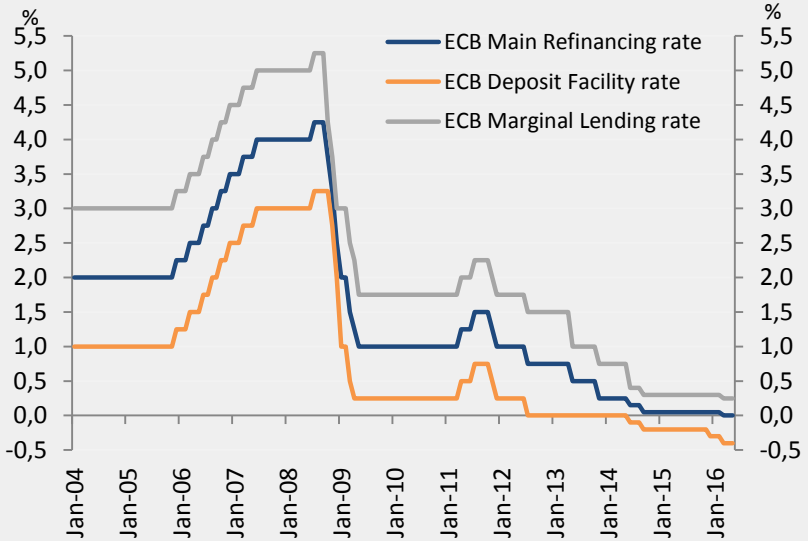
Source: ECB, Activity Rate: Total Labor Force / Working Age Population

Inflation remains subdued (-0.1% yoy in May)





The ECB will remain on hold at least until September 2016, except if "Brexit" occurs, in which case it will likely loosen policy

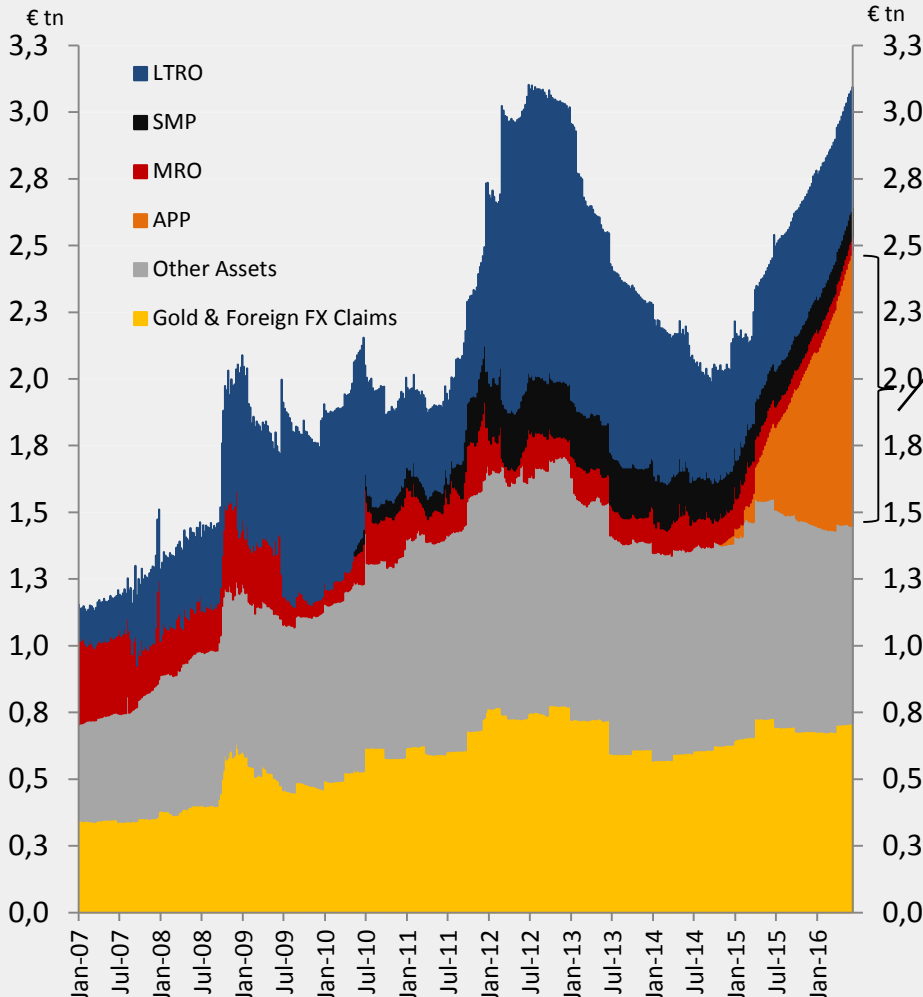


Base Money: Banknotes in circulation plus minimum required reserves & any excess reserves plus ECB's deposit facility  
Source: ECB

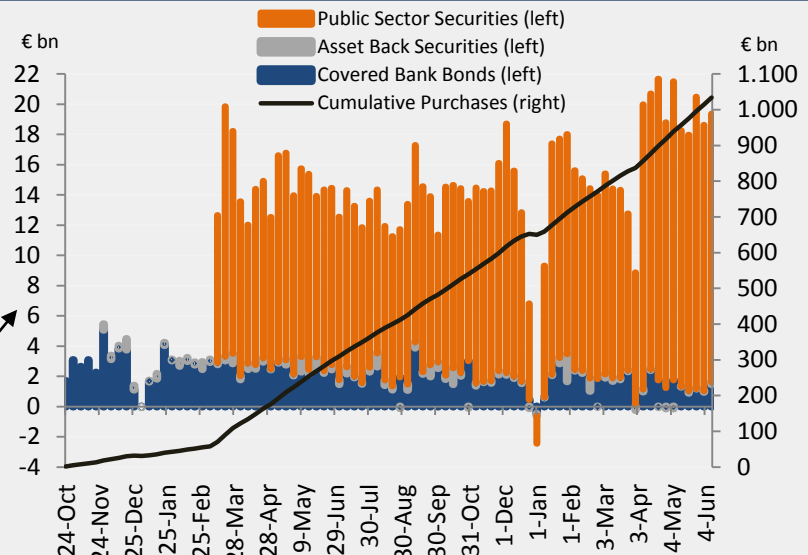
Monetary Conditions Index is a simple composite index of Real Short Term Rates (Euribor less CPI) & Real Effective Exchange Rate

Starting on June 8, the ECB will conduct purchases of investment grade corporate bonds within its €80bn per month asset purchase program

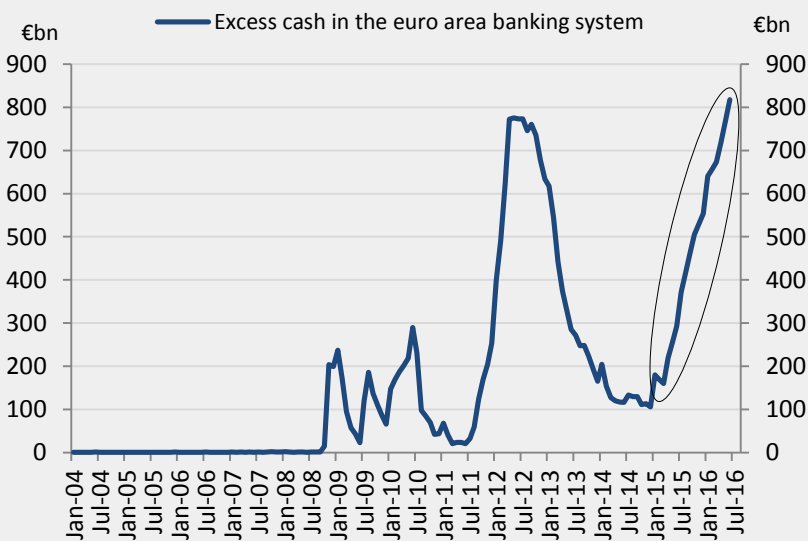
### ECB's Balance Sheet Assets



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



\*Flows shown negative at the end of 2015 due to end-of-quarter revaluation adjustments (at market prices)

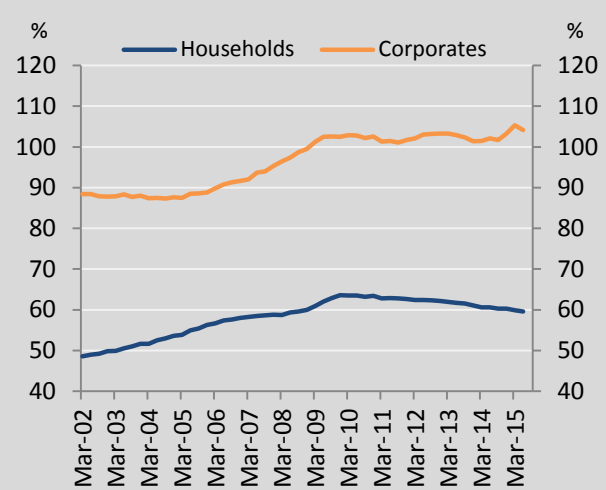


Source: ECB, Excess Liquidity: Deposit Facility minus Lending Facility + (CA reserves – Required Reserves)

ECB New Programmes Evolution

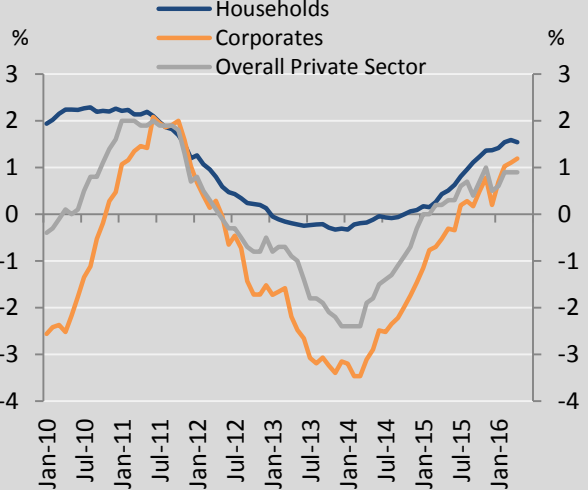
# Credit conditions remain supportive of growth

Private Debt\* as % of GDP



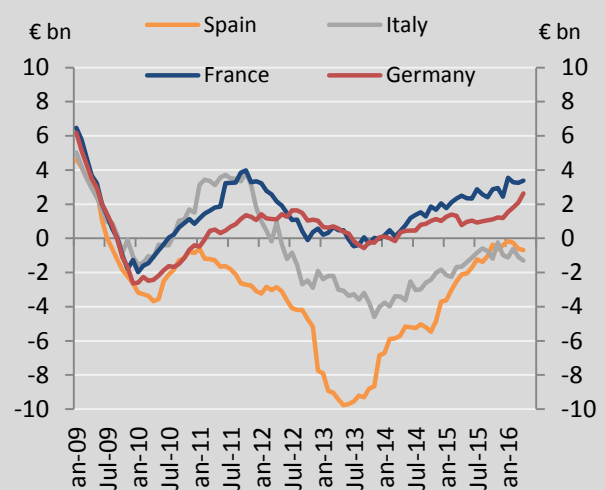
\*Private sector (Households and non-financial corporations) includes bank loans & corporate bonds, data as of Q4:15  
Source: Bank for International Settlements

Euro area Banks: Loans to the Private Sector



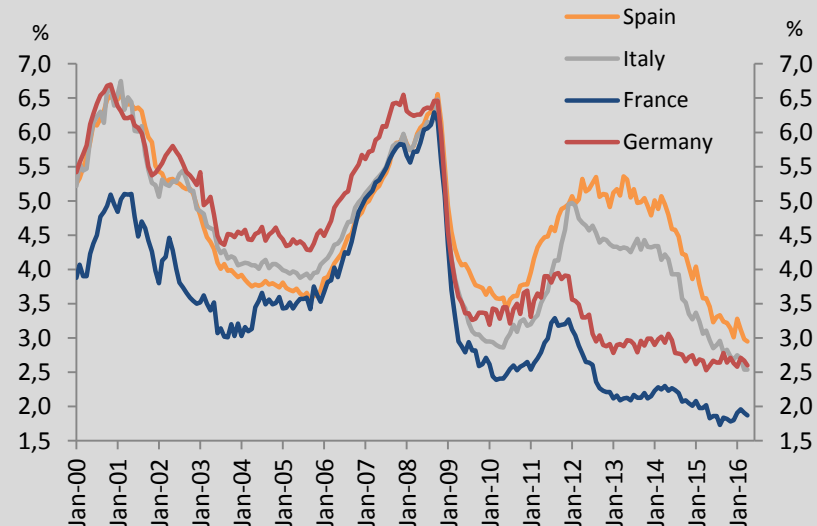
Source: ECB, data as of April 2016 / Adjusted for Sales & Securitization, YoY

Euro area Banks: Loans to Corporates



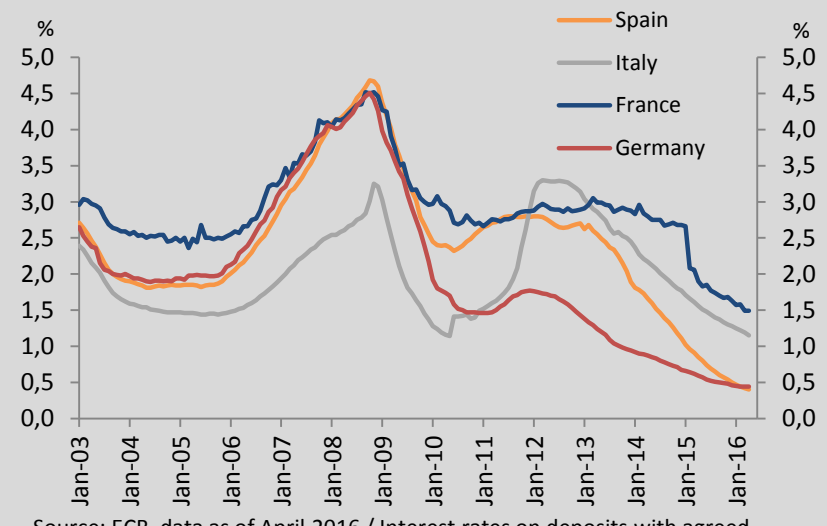
Source: ECB, data as of April 2016 / flows, 12-month moving average

Bank Interest rates on New Loans for Corporates



Source: ECB, data as of April 2016 / Interest rates on loans up to €1mn

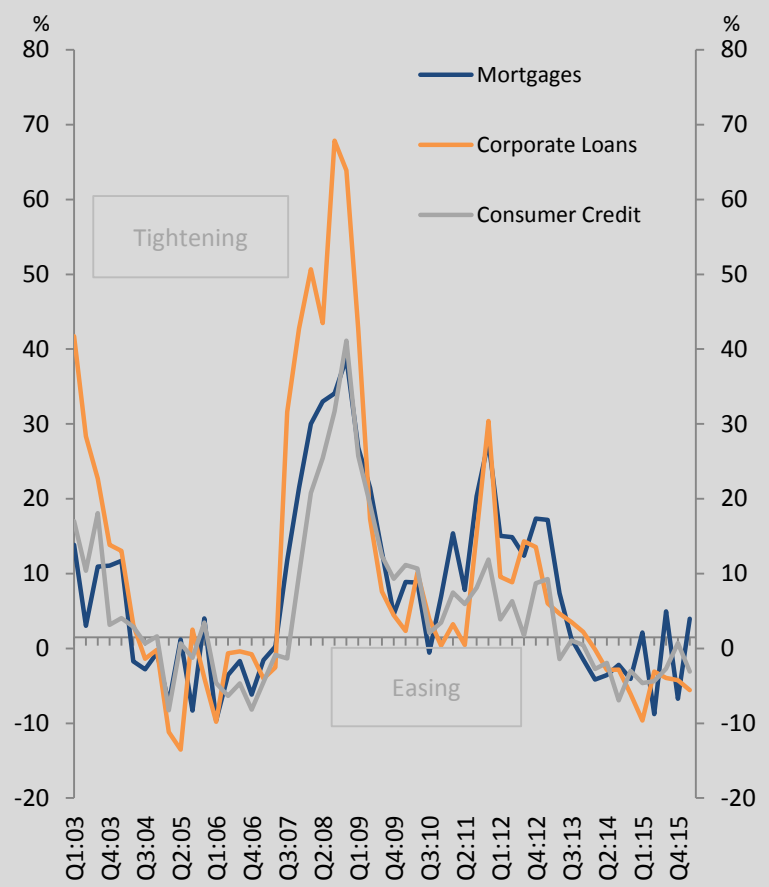
Bank Interest rates on Deposits from Households



Source: ECB, data as of April 2016 / Interest rates on deposits with agreed maturity up to 2 years

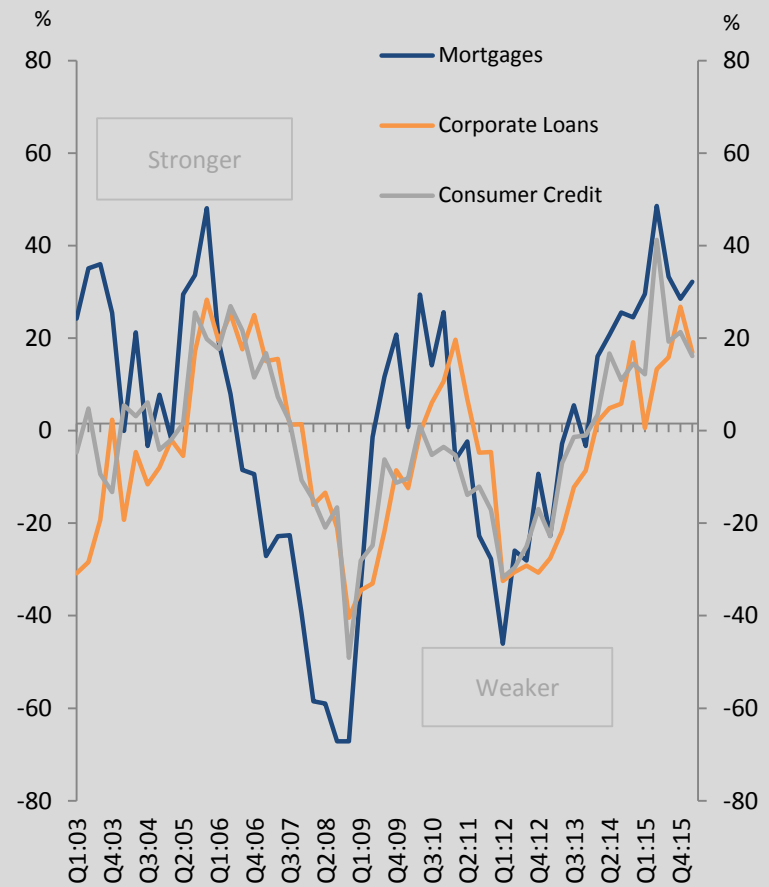
The ECB Bank Lending Survey for Q1 points to further easing in credit standards and stronger loan demand. The 2<sup>nd</sup> round of TLTROs (due to begin on June 22) will provide further support

Net % of Banks reporting tightening in Credit Standards



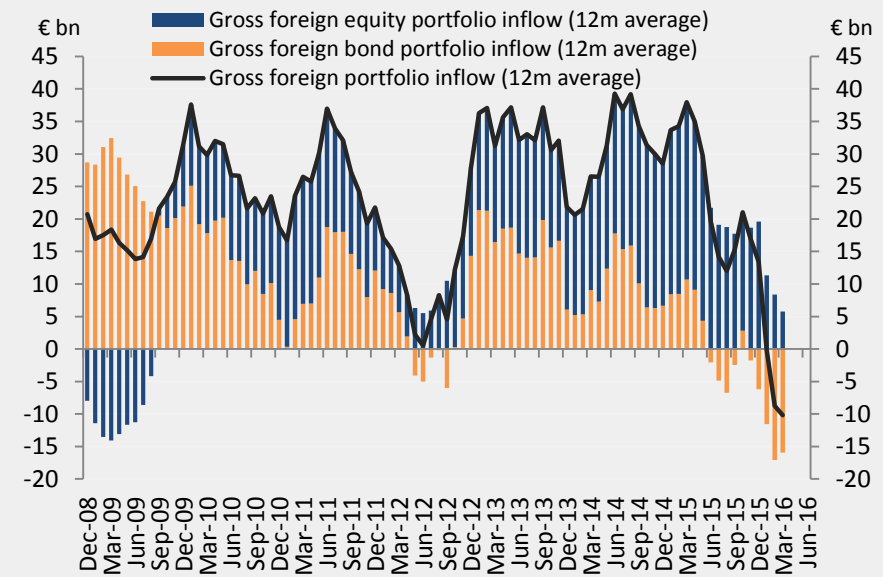
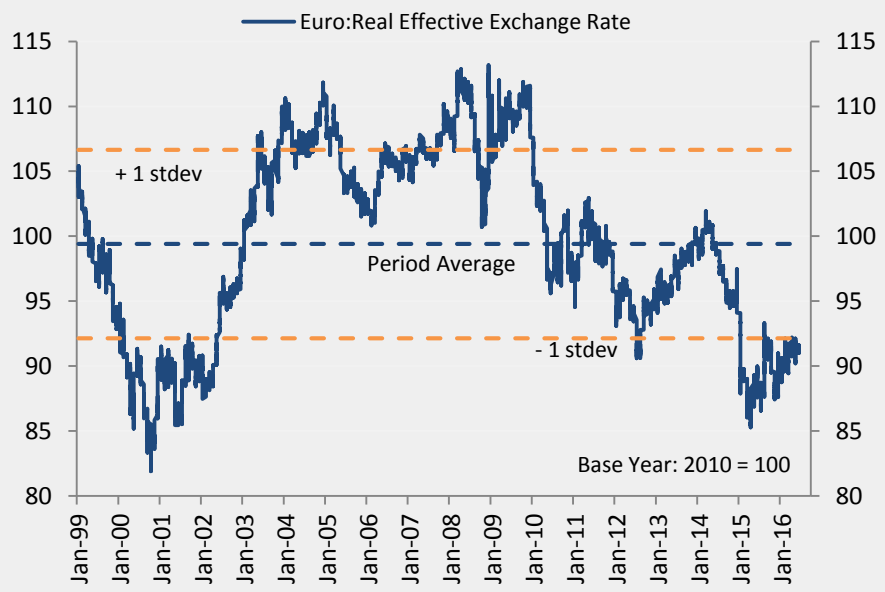
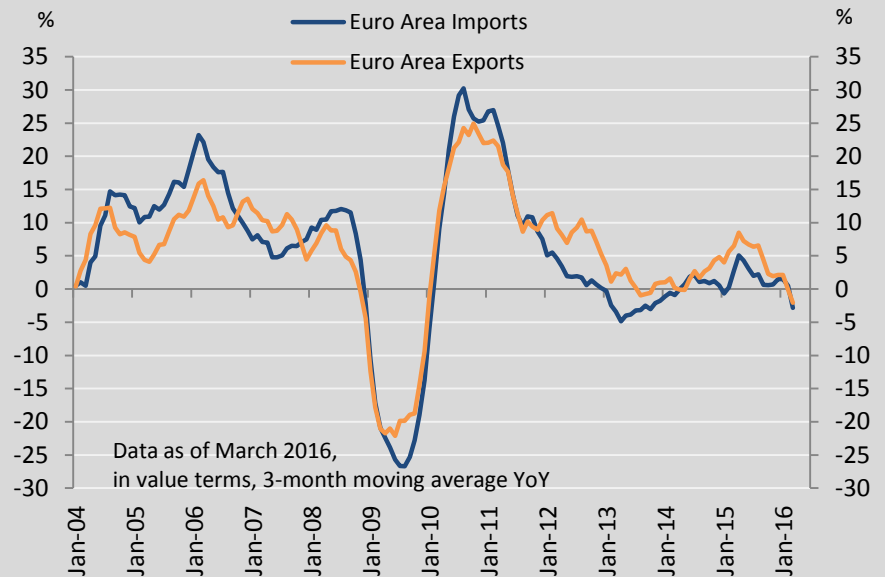
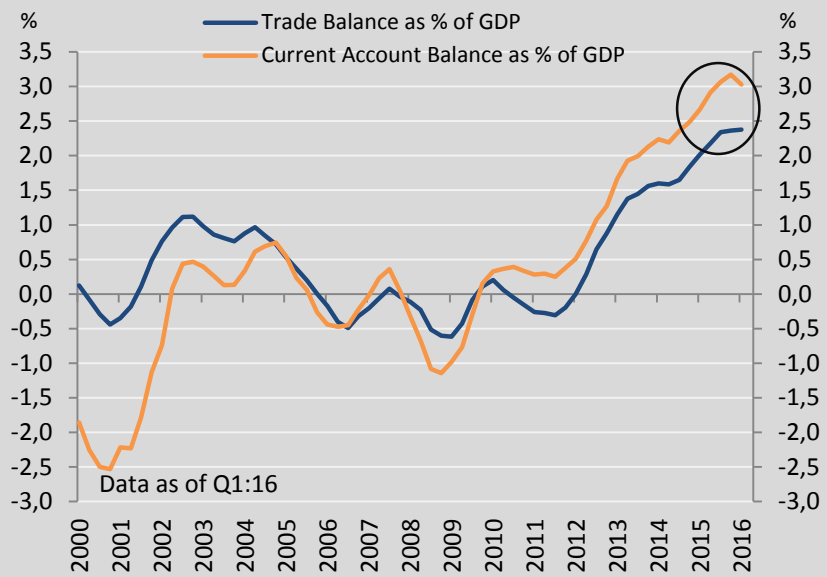
Source: ECB Bank Lending Survey

Net % of Banks reporting stronger demand for:



Source: ECB Bank Lending Survey

The CA surplus stabilized in Q1:16 (3% of GDP), from a record high of 3.2% of GDP in Q4:15

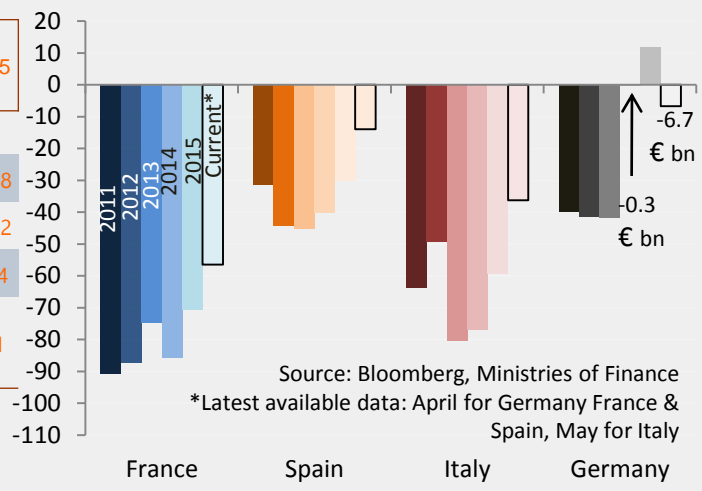


# The euro area fiscal stance is expected to turn modestly accommodative in 2016 for the first time in five years

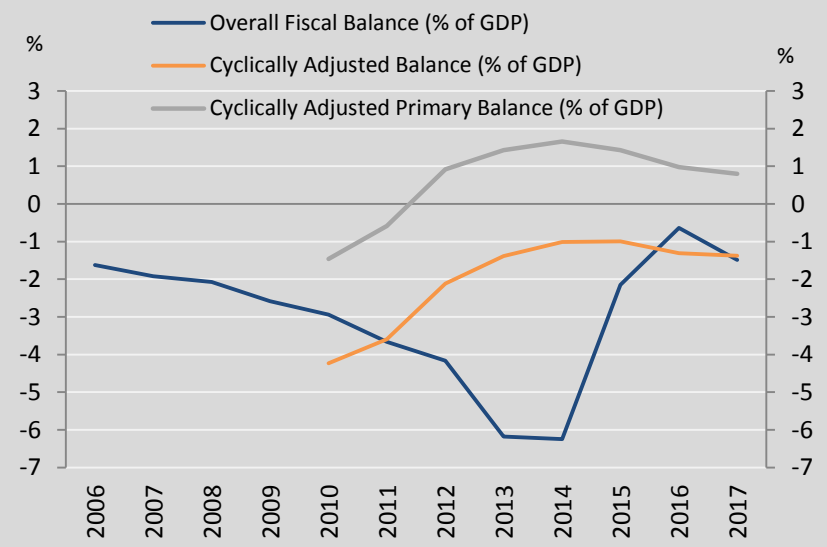
Euro area General Government Balance	Q1:13	Q2:13	Q3:13	Q4:13	2013	Q1:14	Q2:14	Q3:14	Q4:14	2014	Q1:15	Q2:15	Q3:15	Q4:15	2015
(+) Revenues	1.142	1.159	1.163	1.166	4.631	1.175	1.178	1.184	1.192	4.729	1.199	1.207	1.215	1.226	4.848
(-) Expenditures	1.222	1.238	1.238	1.230	4.928	1.238	1.243	1.253	1.255	4.990	1.253	1.262	1.261	1.287	5.062
(=) Balance	-80	-79	-74	-64	-297	-64	-65	-69	-63	-261	-53	-54	-46	-60	-214
General Government Balance (% GDP)	-3,2	-3,2	-3,0	-2,6	-3,0	-2,5	-2,6	-2,7	-2,5	-2,6	-2,1	-2,1	-1,8	-2,3	-2,1

Source: Eurostat, in EUR billions unless otherwise noted

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

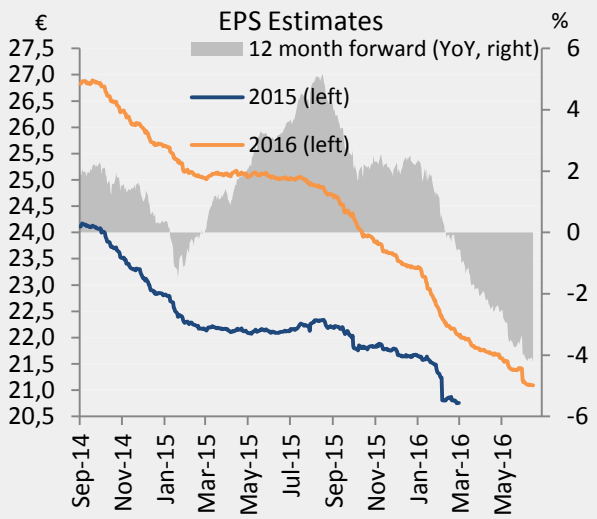
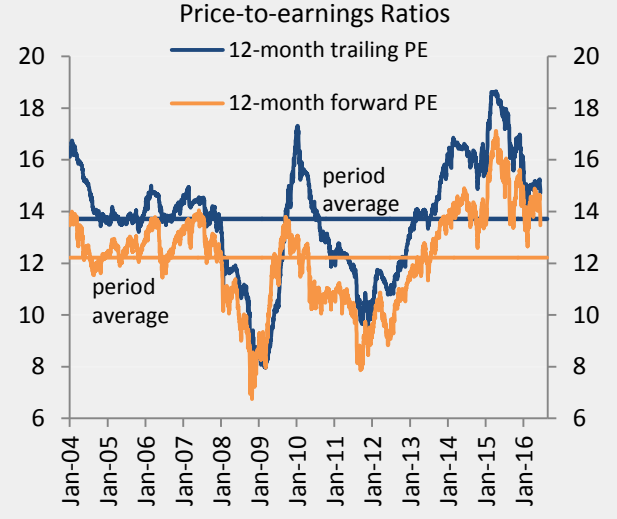
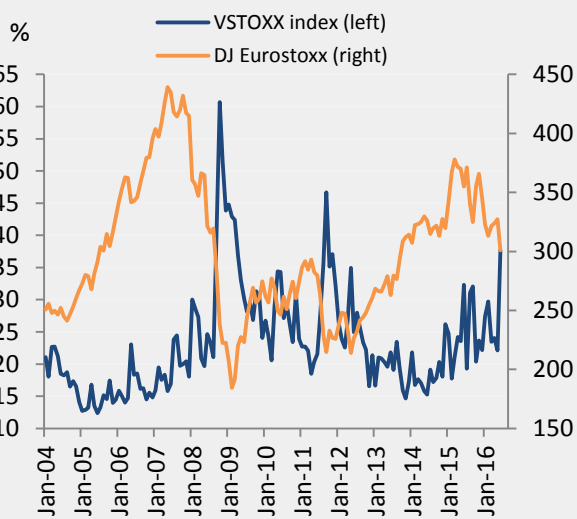


Source: IMF Fiscal Monitor, April 2016



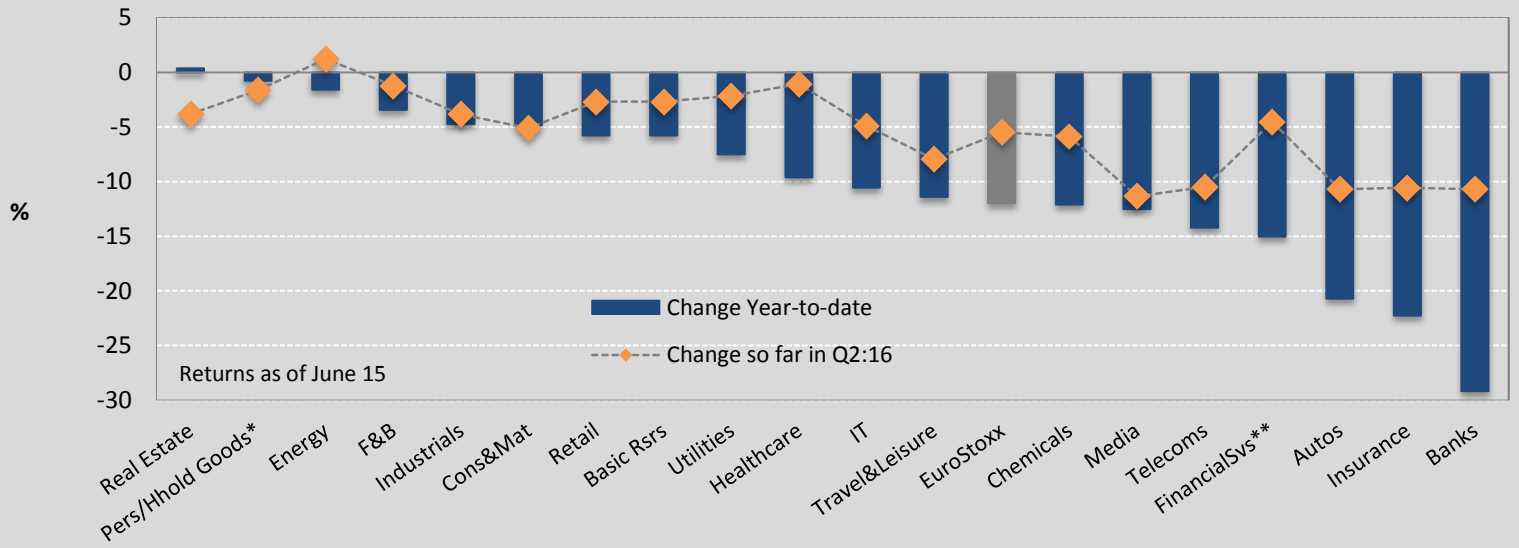
Source: European Commission May 2016

EPS continue to deteriorate and, combined with higher market volatility mainly linked to Brexit, euro area equities have underperformed their peers so far in Q2:16 (-6.4% vs -1.1% for the MSCI DM)



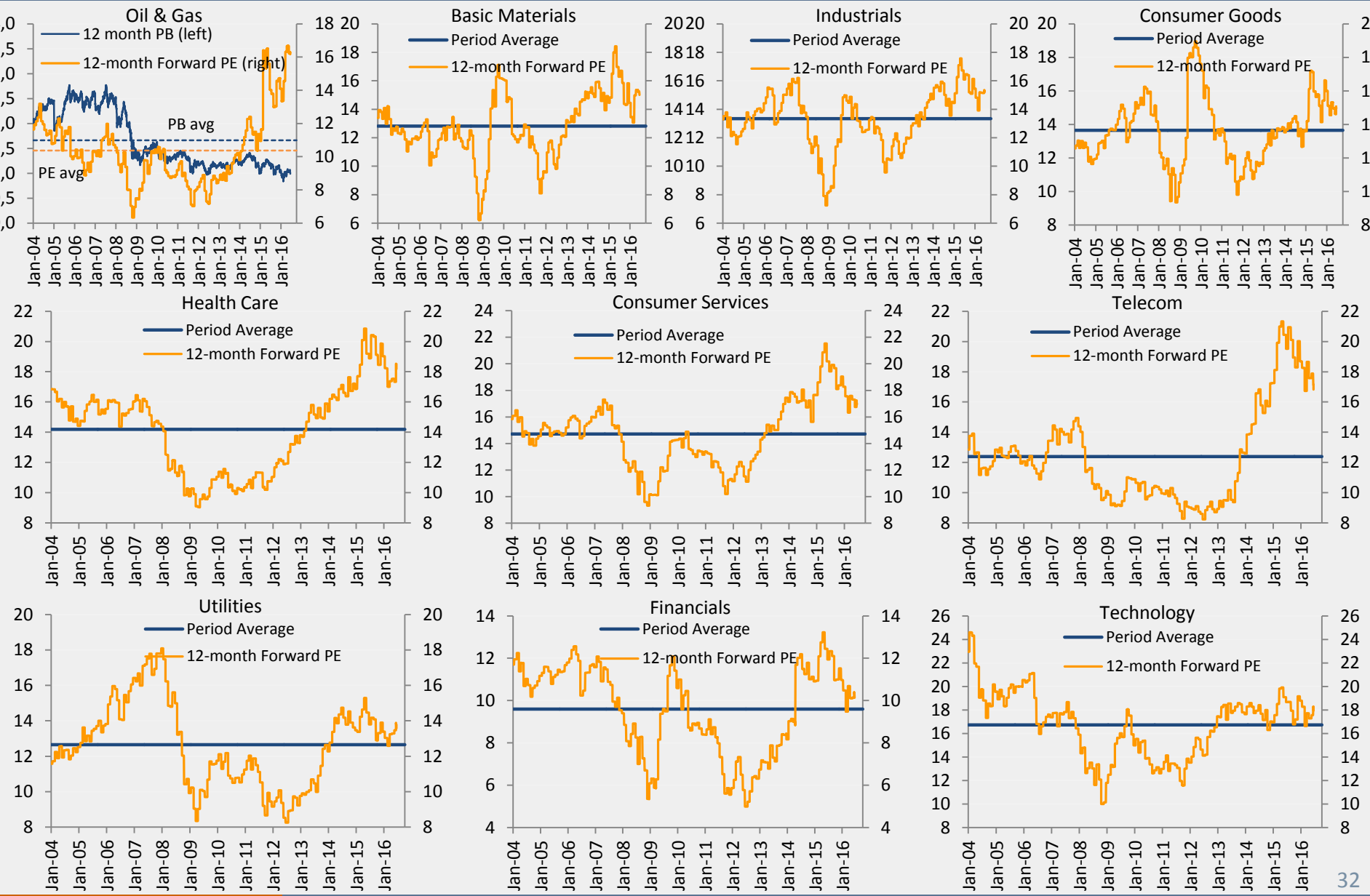
Source: Factset

Source: Factset



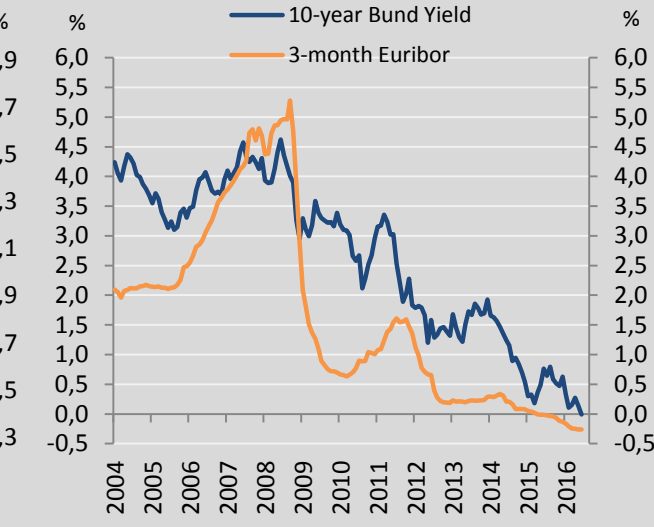
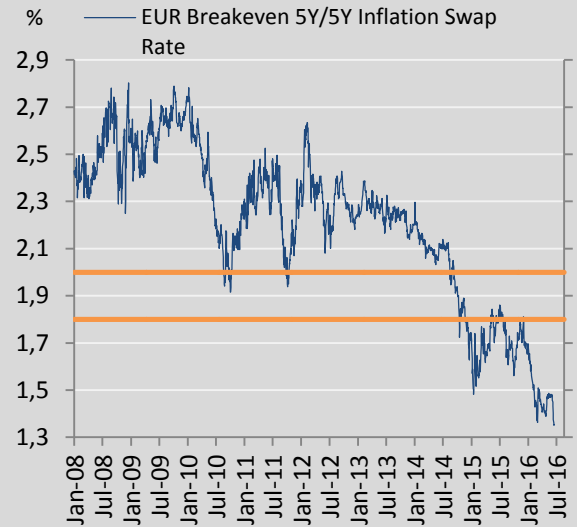
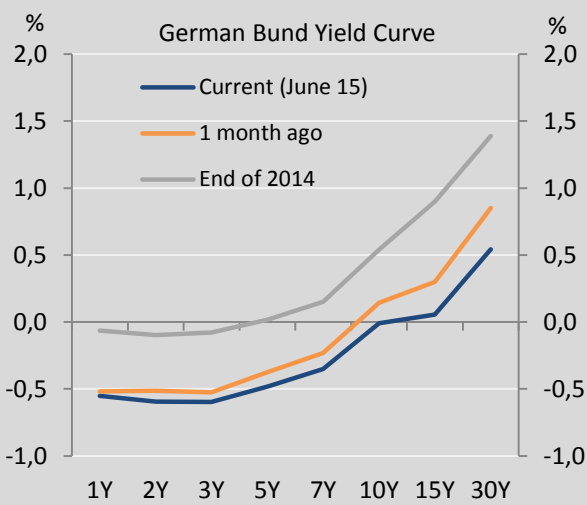
Note: \*Personal & Household Goods, \*\*Financial Services

# Euro area Sectors Valuation

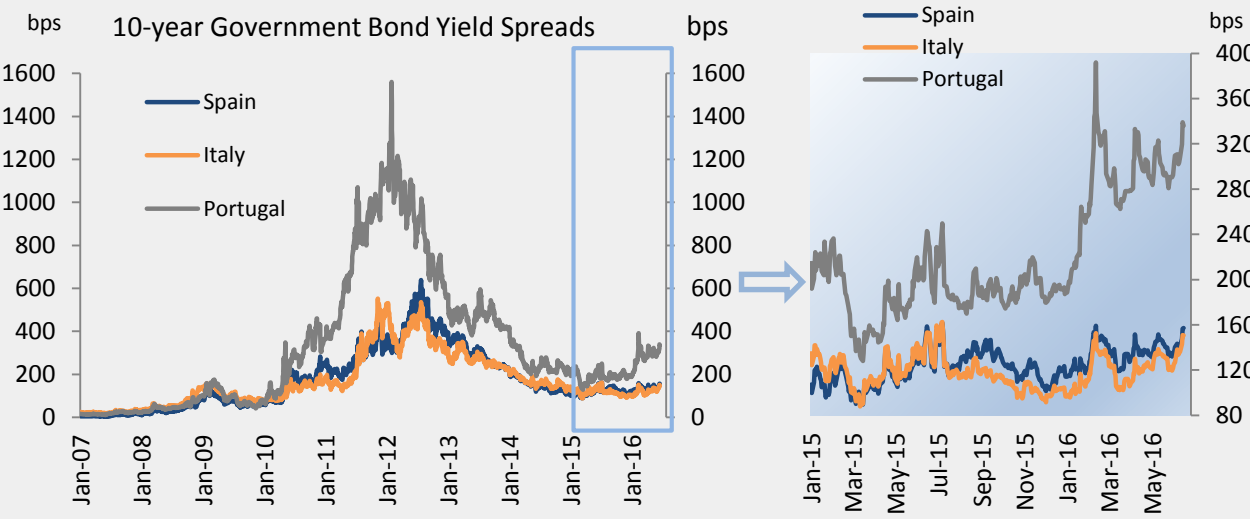




Bund yields reached record lows, with the 10Yr yield entering negative territory (-0.01%)



10-year Government Bond Yield Spreads over Bund



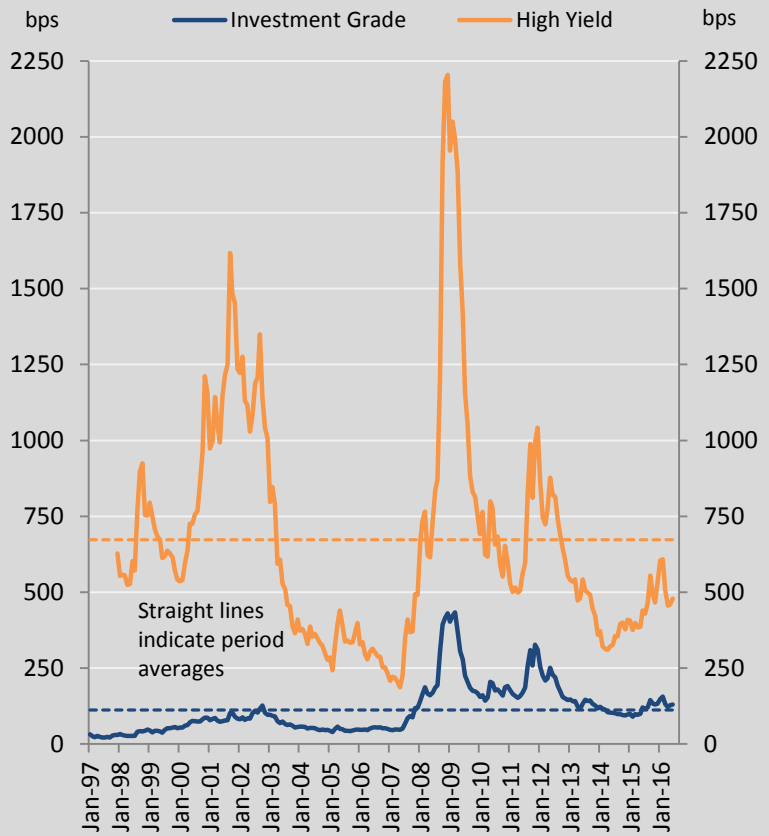
Sovereign Debt Ratings

	Moody's	S&P	Fitch
Germany	Aaa s	AAA s	AAA s
France	Aa2 s	AA n	AA s
Italy	Baa2 s	BBB- s	BBB+ s
Spain	Baa2 s	BBB+ s	BBB+ s

Source: Ratings Agencies, Bloomberg (as of 15.06.16)  
Outlook: p = positive, n = negative, s = stable

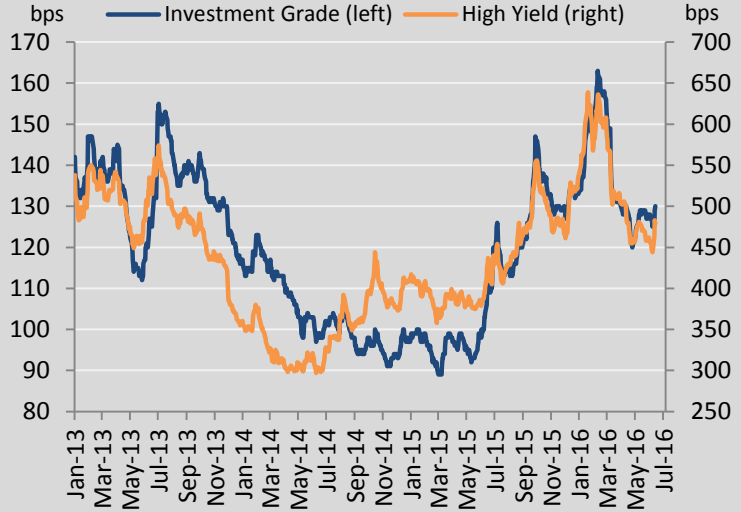
The inclusion of IG corporate bonds in the ECB's APP (effective from June 8) is expected to put downward pressure on euro corporate bond spreads

### Corporate Bond Spreads

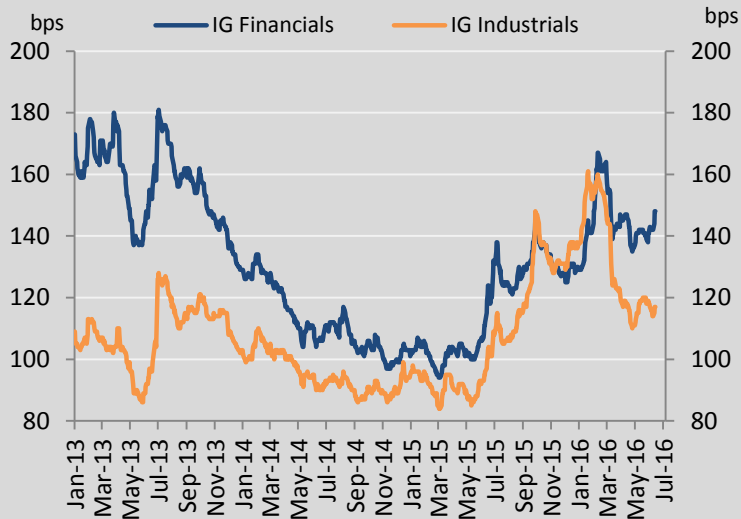


Source: Bank of America / Merrill Lynch Euro Corporate Bond Index (IG), Euro High Yield Index (HY)

### Short-term View

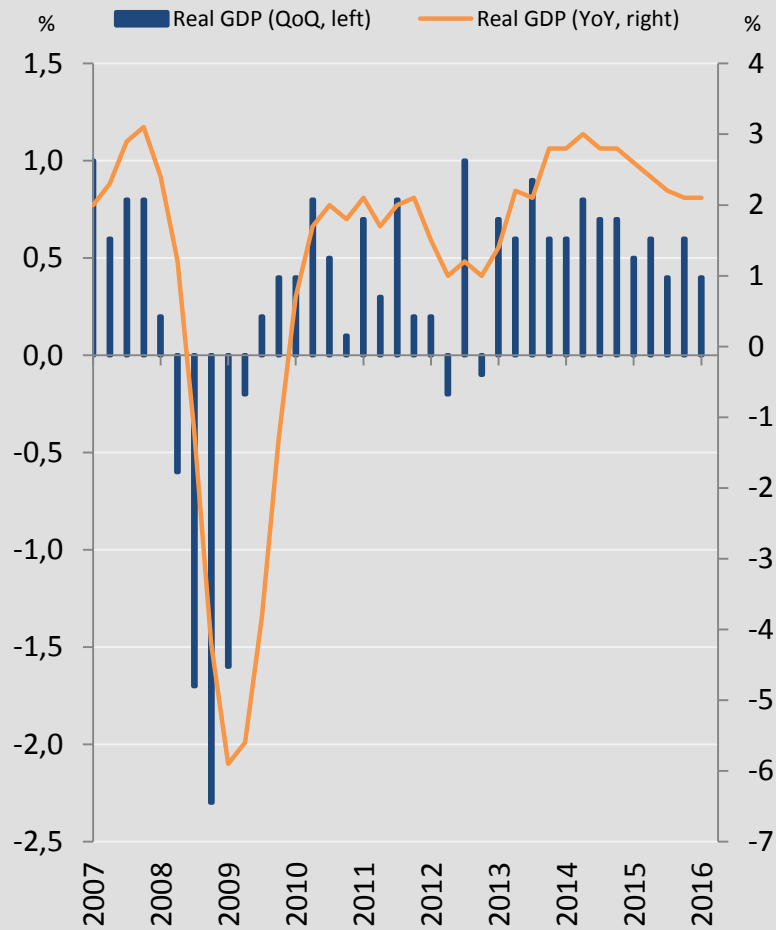


### IG Financials/Industrials

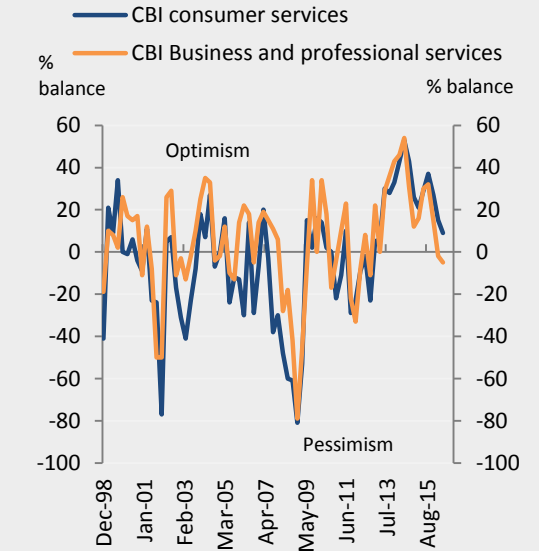
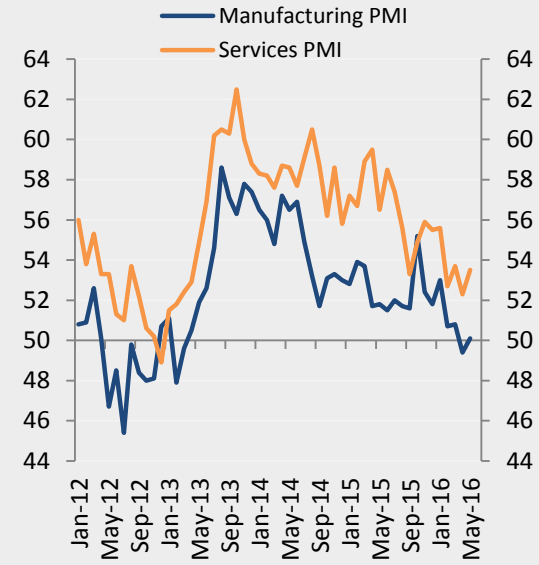
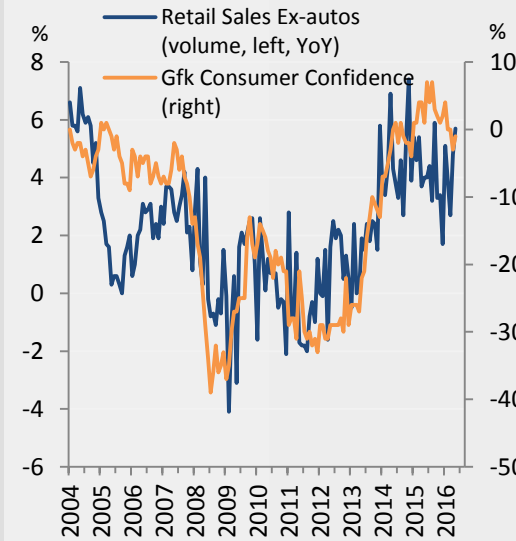
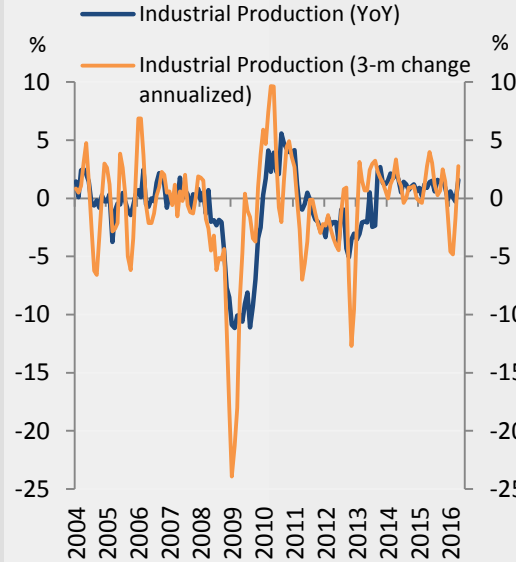


- UK real GDP was 1.4% qoq saar in Q1:16, down from 2.4% in Q4 and broadly in line with consensus. Private consumption remained the main driver (+1.7 pps contribution) of growth. Exports declined (-1.1% qoq saar) due to weak external demand, while imports were stronger (+3.3% qoq saar). As a result, net trade subtracted 1.4 pps from growth. In view of these imbalances, the current account deficit has increased to a worrisome 5.1% of GDP, leaving the economy vulnerable to capital flows.
- Consumption entered Q2 on a positive footing, with retail sales remaining strong in April (+4.2% yoy vs +3.8% yoy in Q1:16 on average). However, uncertainty around the referendum could dampen confidence, prompting households to postpone spending. Indeed, the GfK consumer confidence index decreased to -1 pt in May from +1 pt in Q1:16 and +2 pts in Q4:15.
- In Q1:16, business investment fell 1.9% qoq saar due to significant cuts to oil and gas extraction investment in the UK (North Sea) following the previous fall in oil prices. Business surveys, albeit improving in May, remain below levels recorded in the first quarter. On average so far in Q2:16, manufacturing PMI stands at 49.8, from 51.5 in Q1:16 (and 53.1 in Q4:15). In a similar vein, services PMI stands at 52.9 in Q2:16, from 54 in Q1:16 (and 55.4 in Q4:15).
- Overall in Q2, GDP growth is expected to decelerate towards 1% qoq saar as investment plans are deferred due to policy uncertainty stemming from the upcoming EU membership referendum (June 23) and consumers turn cautious.
- However, assuming a vote in favor of remaining in the EU, GDP growth is expected to rebound moderately in H2:2016 as contained demand will be released (business investment, commercial real estate transactions, M&As).
- The Bank of England, if the UK votes to remain in the EU, is likely to remain on hold during the course of 2016 seeking evidence that growth is picking up and uncertainty fading. At the same time, weak inflation (+0.3% yoy in April) and soft wages support the “wait-and-see” view.
- Indeed, wage growth remains range-bound at 1.9% - 2.2% yoy since November 2015, following a peak of 2.9% in July (long-term average: 2.9%). Meanwhile, the unemployment rate is showing signs of plateauing, remaining broadly stable for a 6th consecutive month at around 5% in April. Employment growth has slowed considerably.
- The EU membership referendum has led to a surge in volatility for the GBP, with the 1-month implied (by options) volatility of GBP/USD currently standing at multi-year highs of 28.1%. Since mid-May, the British pound has lost 3% vs the euro (at GBP 0.79/€).
- According to the latest polls the “Remain” lead has narrowed, while bookmakers have cut the implied probability of “Remain” since mid-May. A high turnout (above 65%) will act in favor of the “Remain”.
- If the UK votes to exit the EU (not our baseline), the Bank of England will cut rates, reactivate QE purchases and provide cheap funding to the banking sector, despite a likely surge in inflation amid a weaker GBP.

# Real GDP growth moderated in Q1:16 and business leading indicators (PMIs) have deteriorated so far in Q2:16



Above: GDP data as of Q1:2016  
 Right: Consumer Confidence, Retail Sales, Manufacturing PMI & Services PMI data as of May 2016, Industrial Production data as of April 2016, CBI survey data as of Q2:2016  
 Source: ONS, Markit, Bloomberg



In Q2:16, real GDP growth is expected to decelerate towards 1% qoq saar due to policy uncertainty. Going forward, growth will be highly dependent on the outcome of the EU membership referendum

## UK Real GDP Growth

2014

Q1:15

Q2:15

Q3:15

Q4:15

2015

Q1:16

Q2:16e

Q3:16e

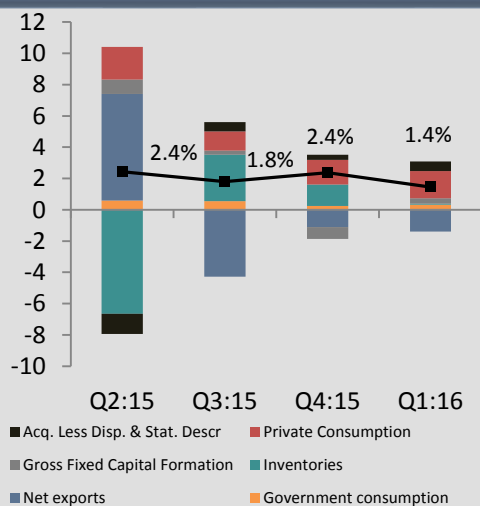
Q4:16e

2016e

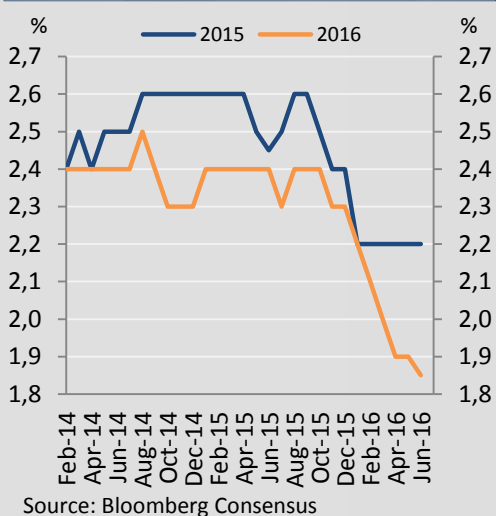
	2014	Q1:15	Q2:15	Q3:15	Q4:15	2015	Q1:16	Q2:16e	Q3:16e	Q4:16e	2016e
GDP (YoY)	2,9	2,6	2,4	2,2	2,1	2,3	2,0	1,6	1,8	1,8	1,8
GDP (QoQ saar)	-	1,8	2,4	1,8	2,4	-	1,4	1,0	2,4	2,6	-
Households consumption (QoQ saar)	2,5	3,4	3,3	1,9	2,4	2,7	2,7	1,8	3,0	3,0	0,0
Government consumption (QoQ saar)	2,5	1,7	3,0	2,7	1,3	1,5	1,6	0,4	0,7	1,5	0,0
Gross Fixed Capital Formation (QoQ saar)	7,3	6,2	5,5	1,5	-4,4	4,1	2,0	-1,0	3,5	3,5	0,6
Inventories contribution (QoQ saar)	0,2	1,1	-6,6	3,0	1,4	-0,4	0,1	-0,2	-0,1	-0,1	0,2
Net Exports contribution (QoQ saar)	-0,4	-4,6	6,8	-4,3	-1,1	-0,5	-1,4	0,1	-0,2	-0,2	-0,7
Exports (QoQ saar)	1,2	-0,5	11,5	-1,9	0,2	5,1	-1,1	4,0	1,7	1,7	1,3
Imports (QoQ saar)	2,4	14,6	-9,6	12,1	3,6	6,3	3,3	3,3	2,1	2,0	3,3

Source: Office for National Statistics, Bloomberg

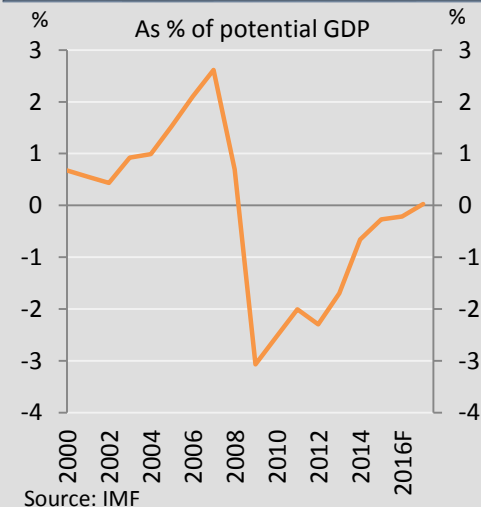
## GDP Contributions (%)



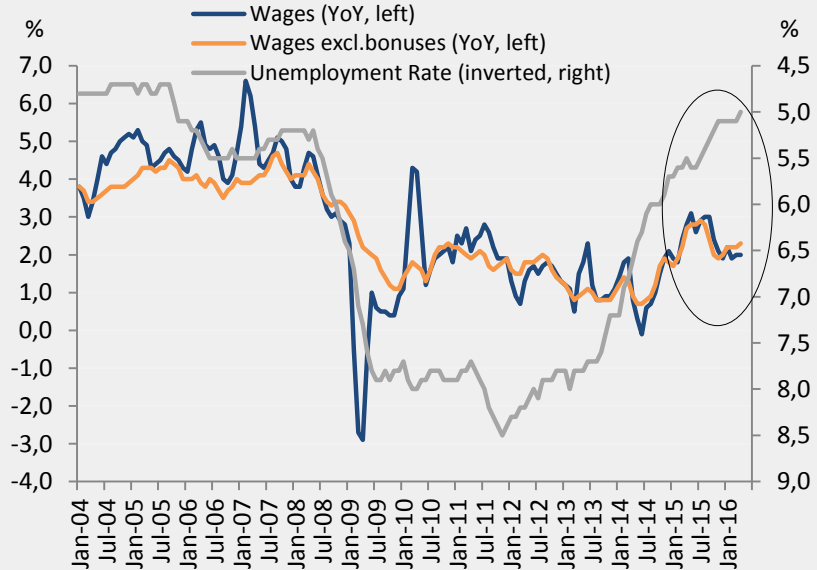
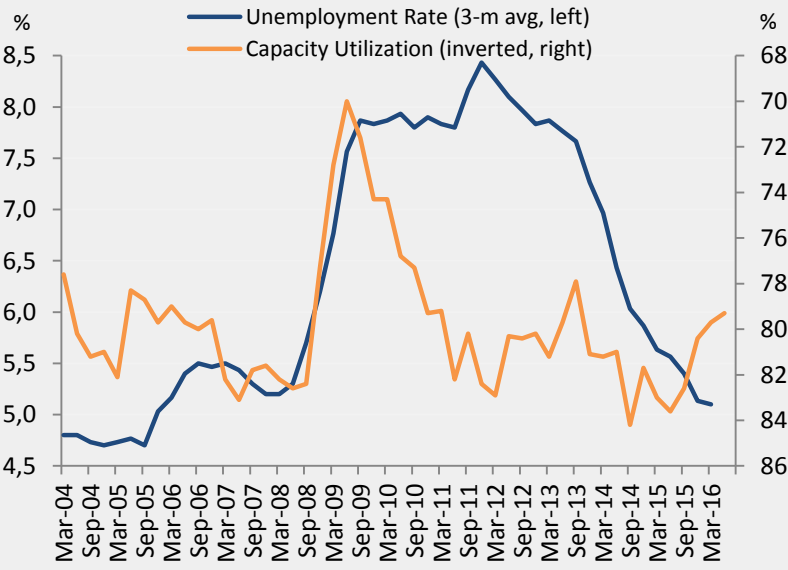
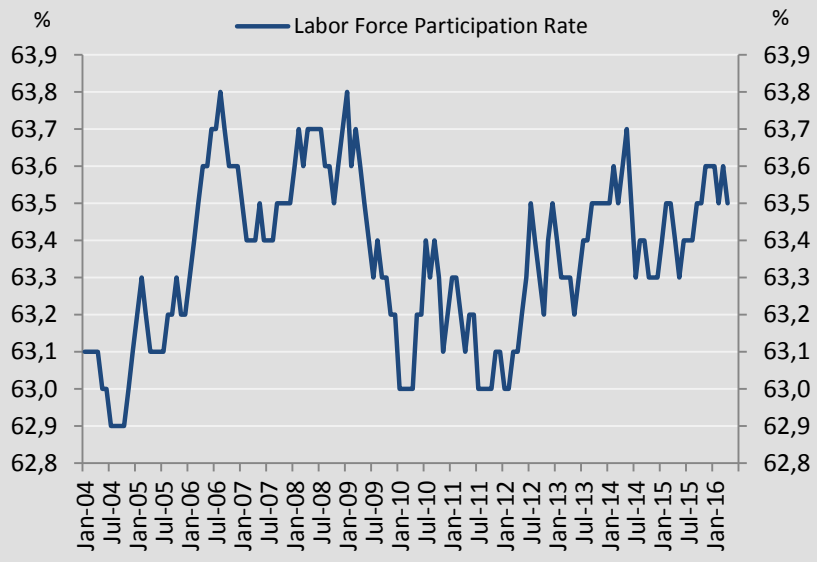
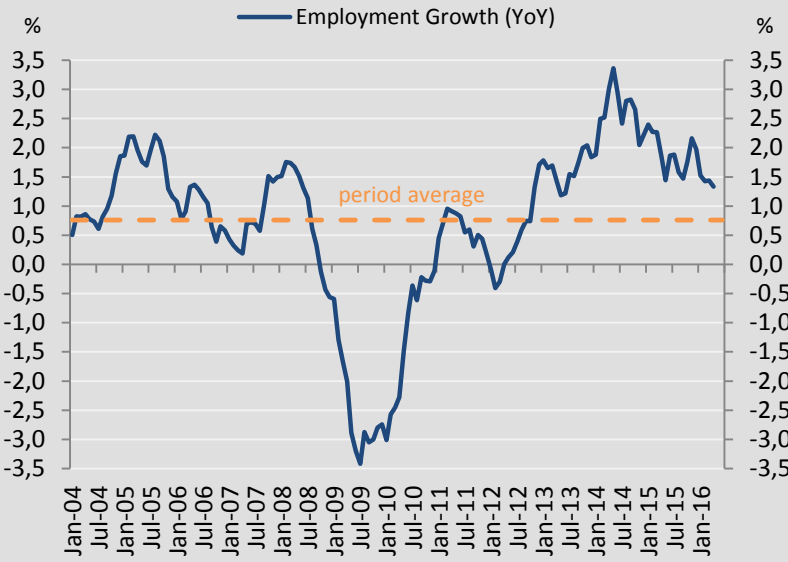
## GDP Forecast Evolution



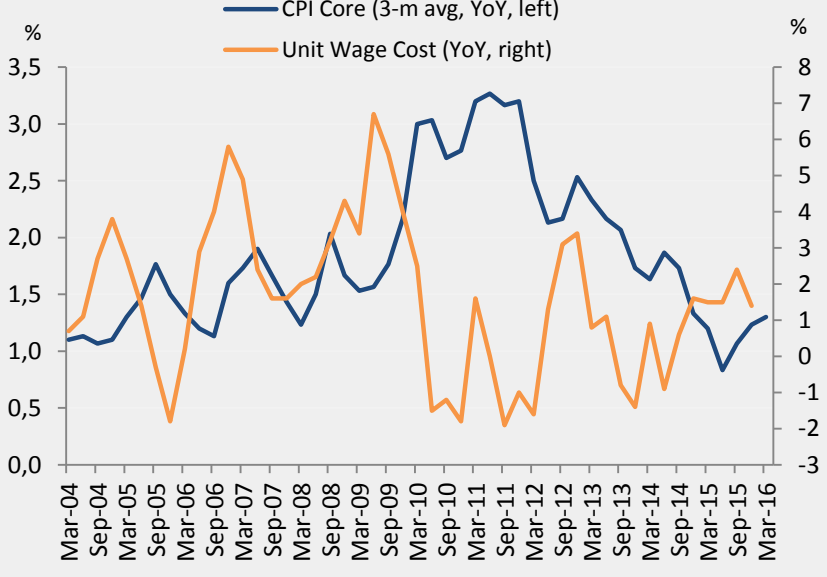
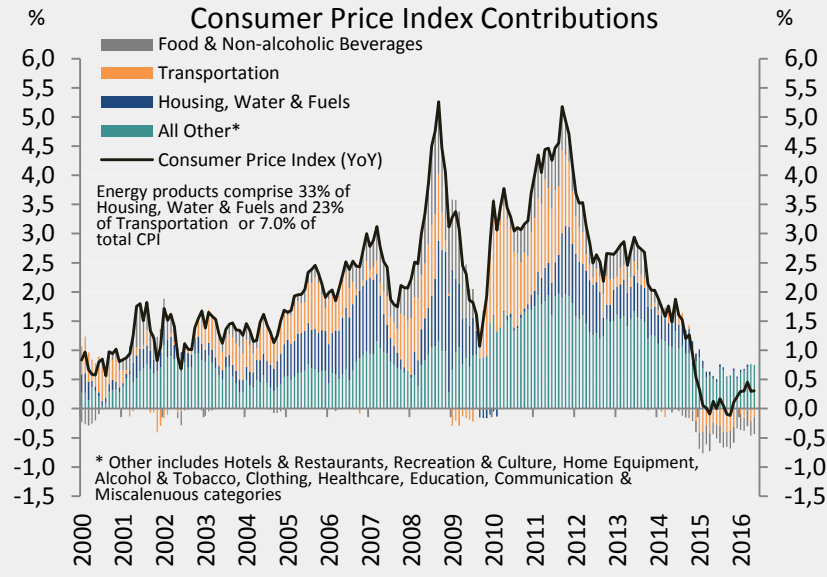
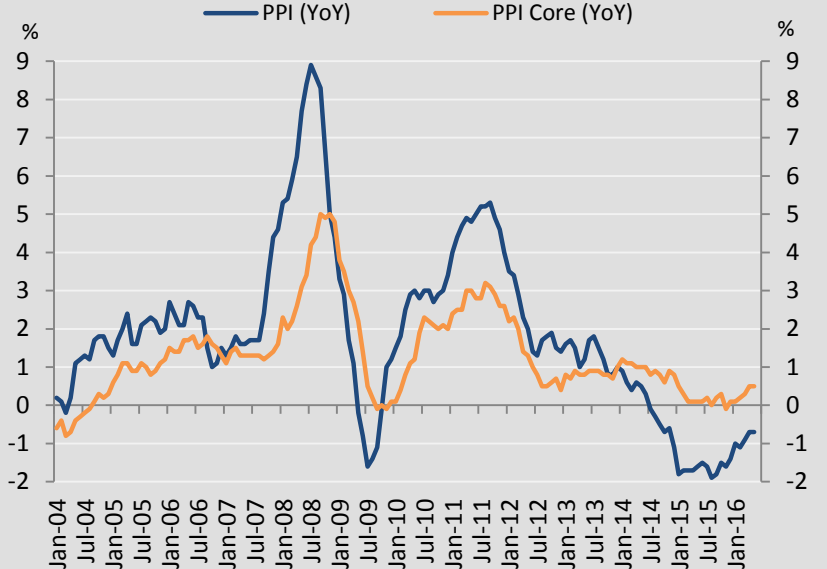
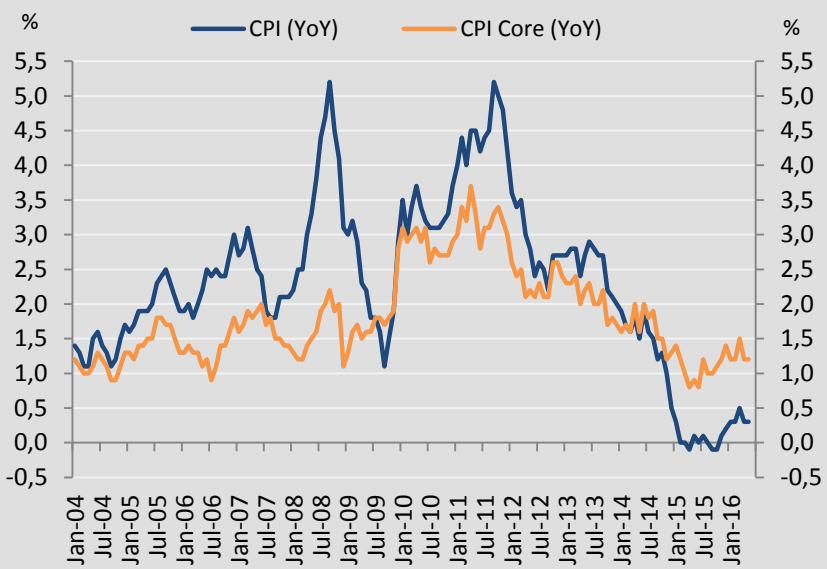
## Output Gap



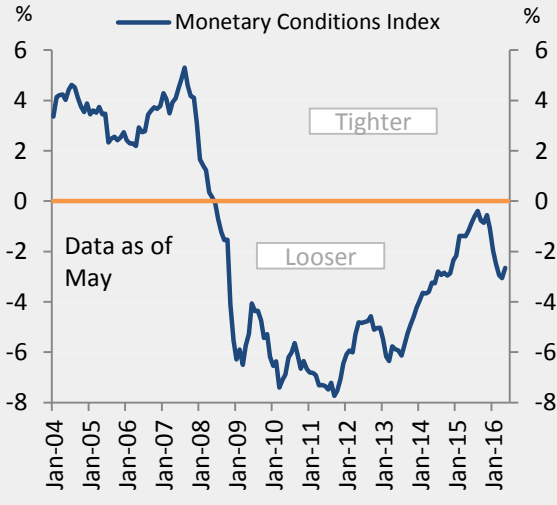
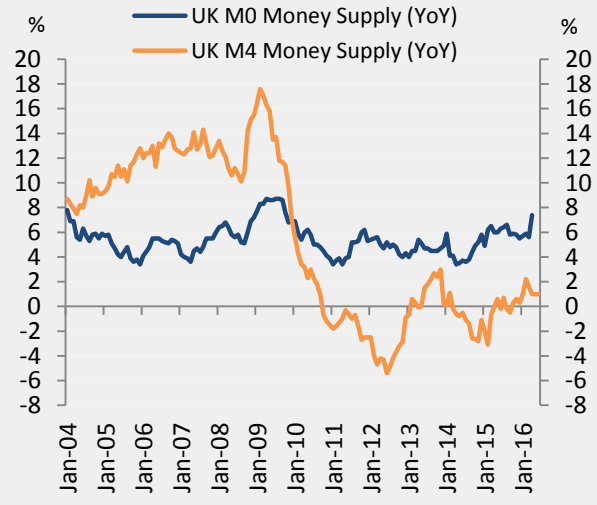
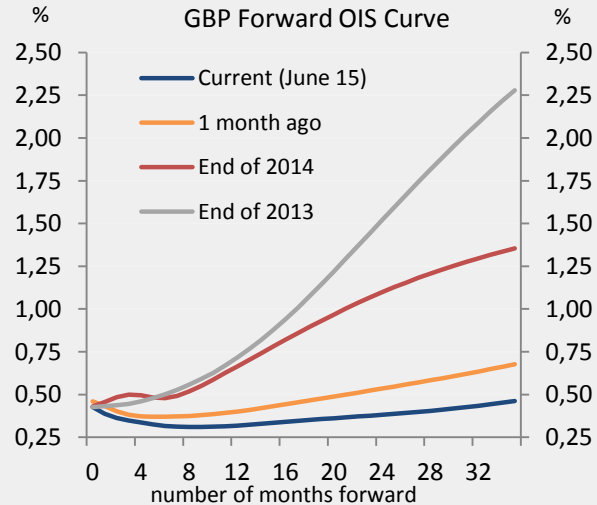
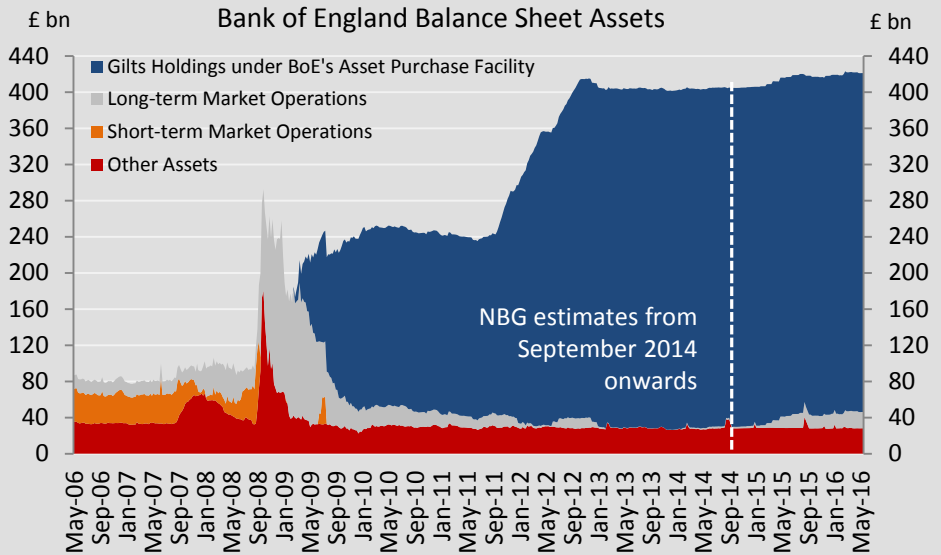
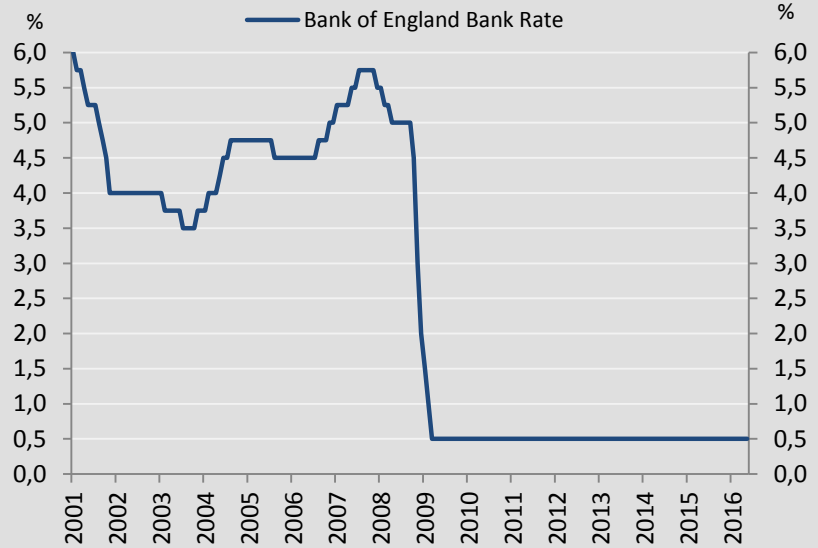
Employment growth decelerated recently and the unemployment rate revealed signs of plateauing. Wage growth remains steady at around 2%



CPI inflation remains subdued (+0.3% y-o-y in April). The Bank of England expects inflation to revert to the target of 2% no earlier than mid-2018 (assuming the UK remains in the EU)



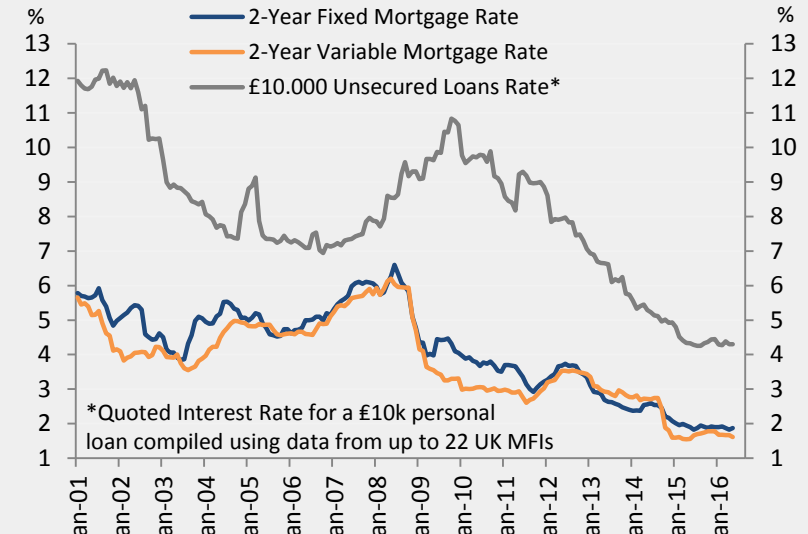
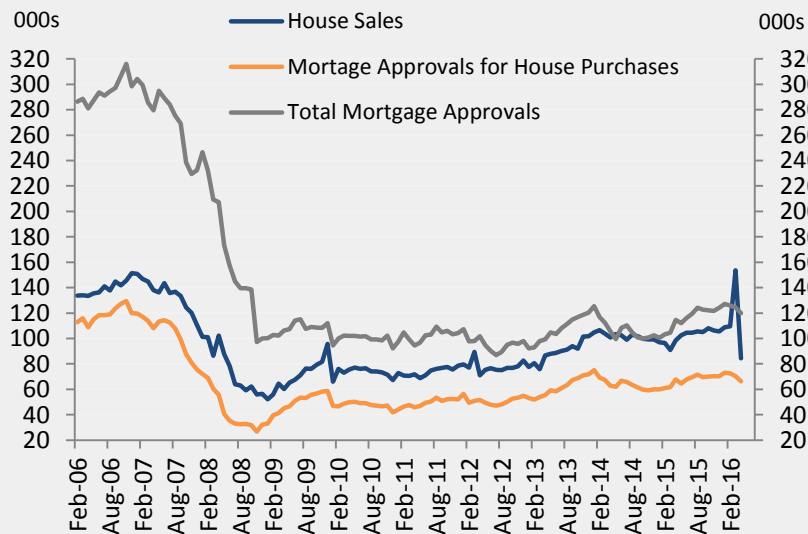
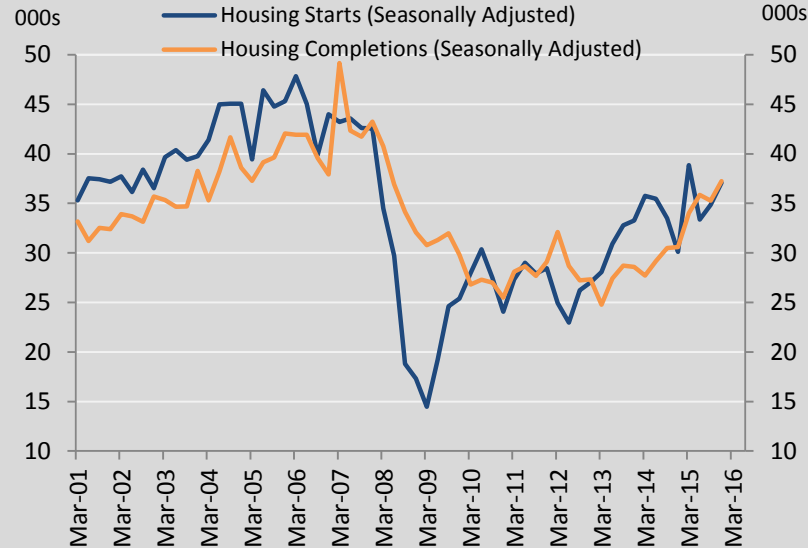
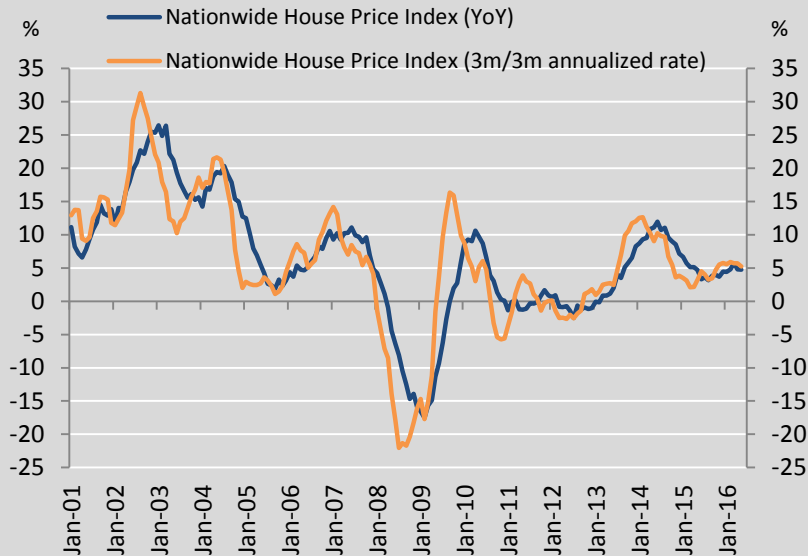
A vote to exit the EU would lead to a material reassessment of the Bank of England's policy stance. The first rate increase is now fully priced-in for Q2:2020, based on GBP OIS forward



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



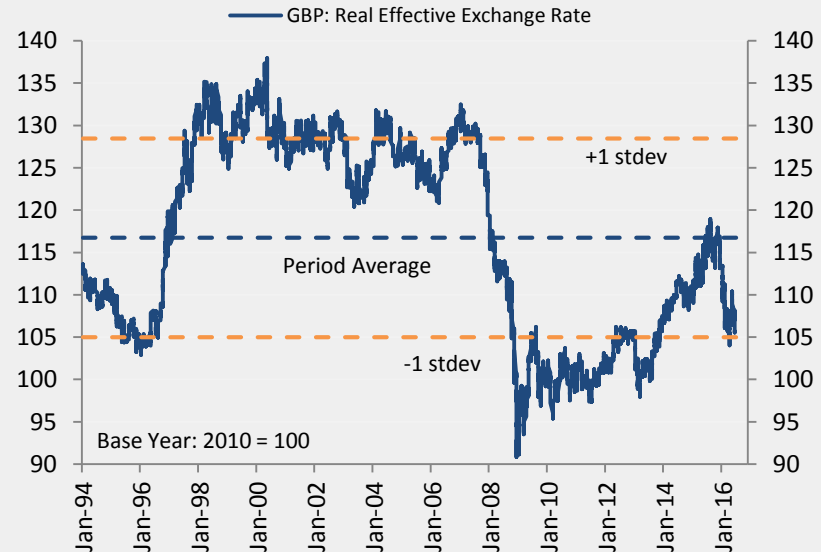
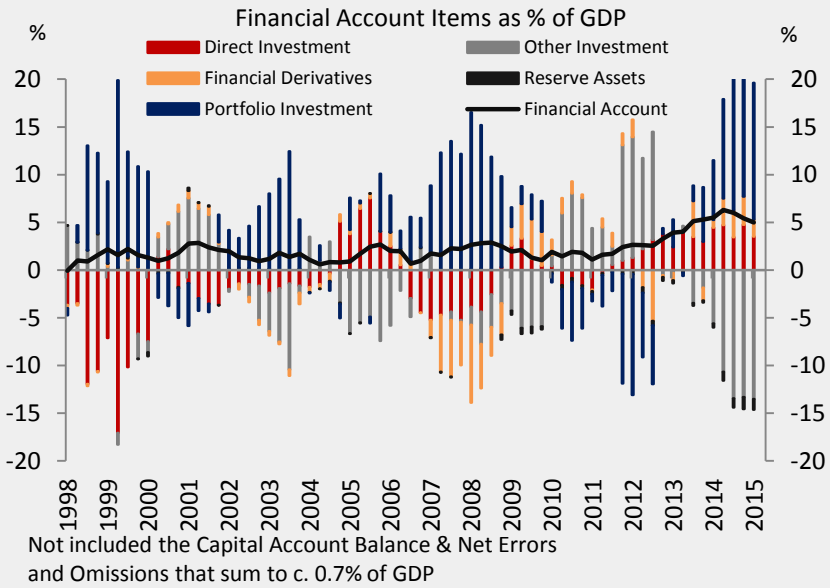
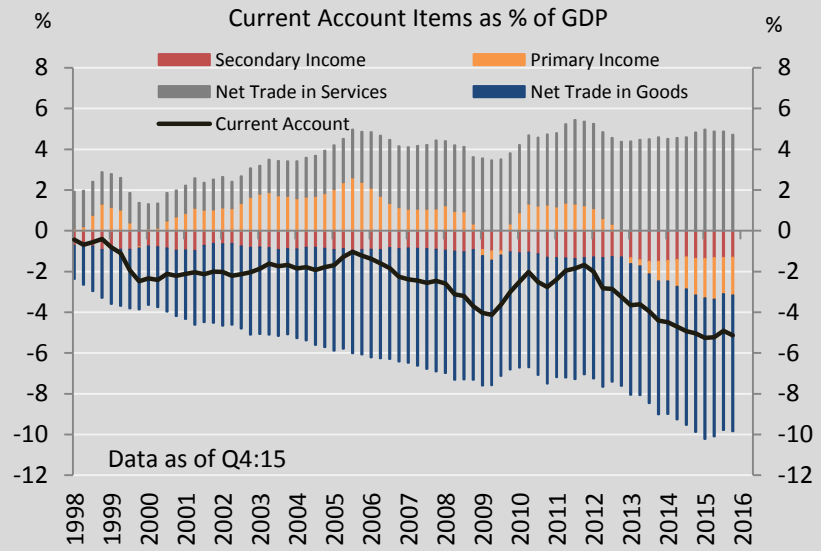
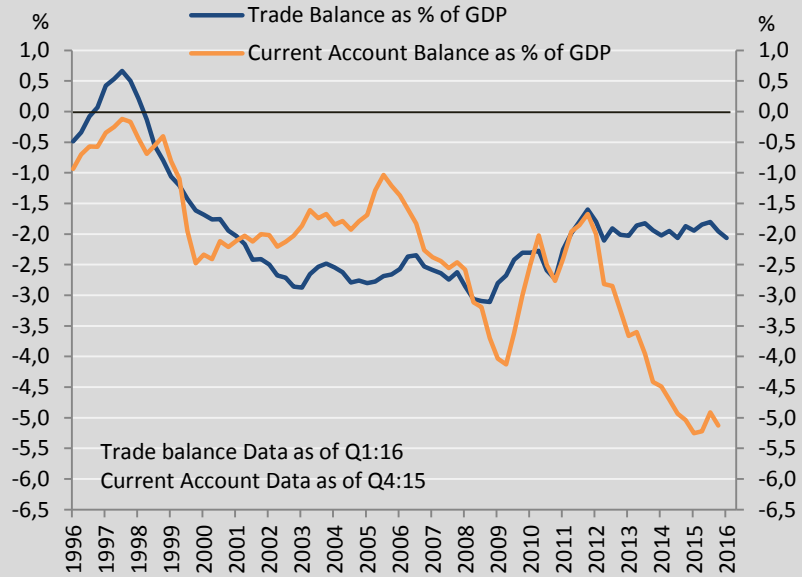
The housing market recovery continues, underpinned by multi-year low mortgage rates. House prices growth stabilized lately, at healthy levels (5.2% 3m/3m saar in May)



Source: Bank of England, HM Revenue & Customs

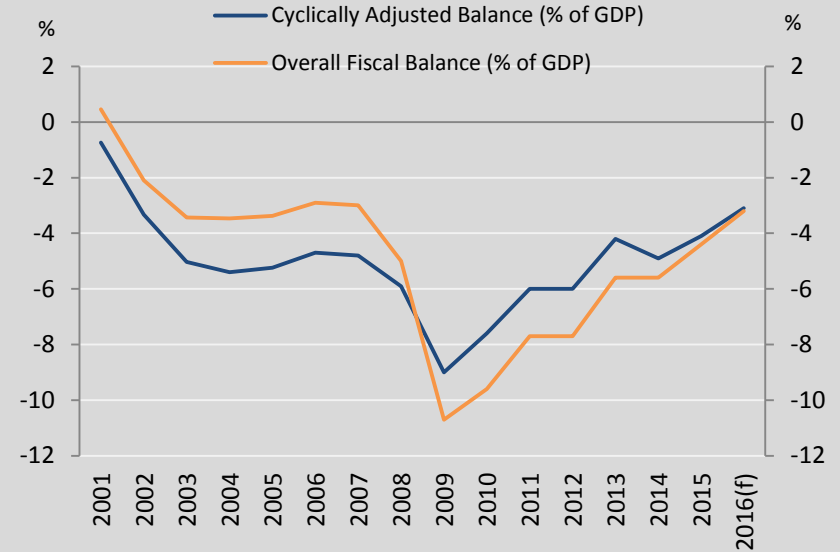
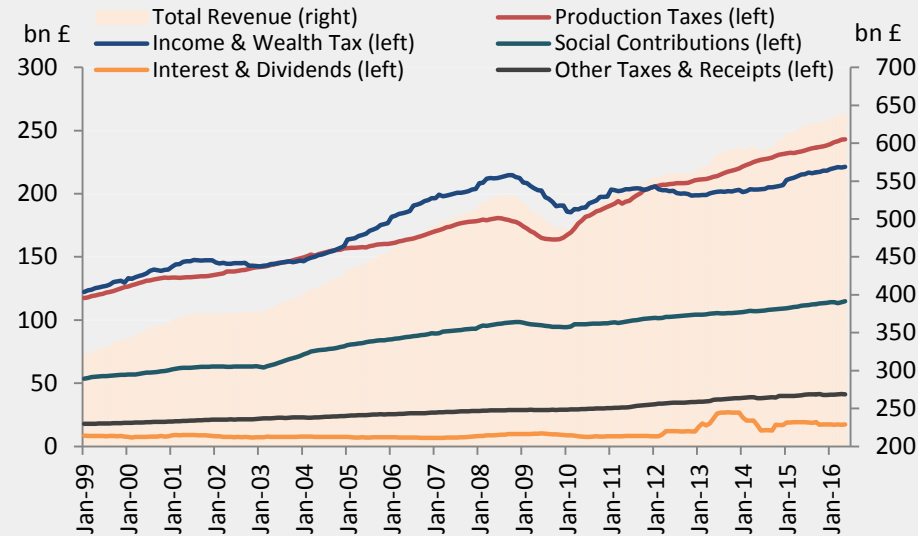
Source: Bank of England

The large UK CA deficit (-5.1% of GDP) and, subsequently, the reaction of international investors, is an important input into the likely economic impact of "Brexit"



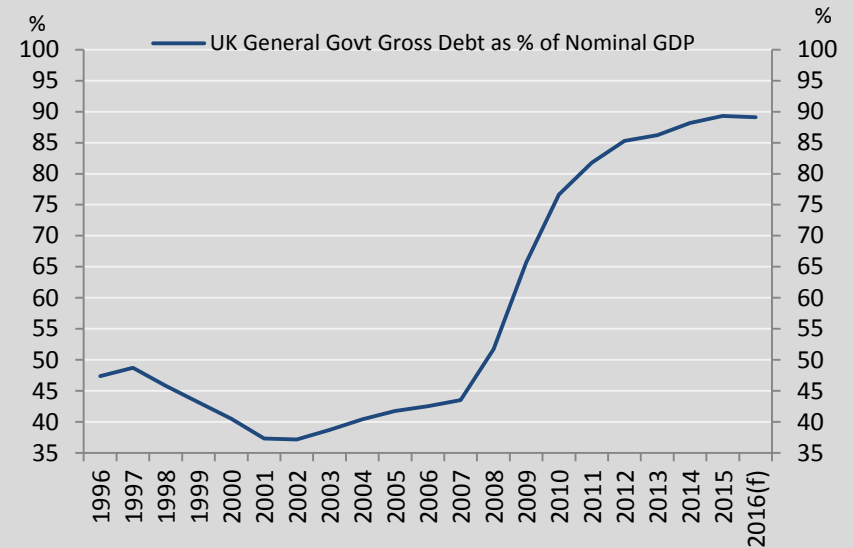
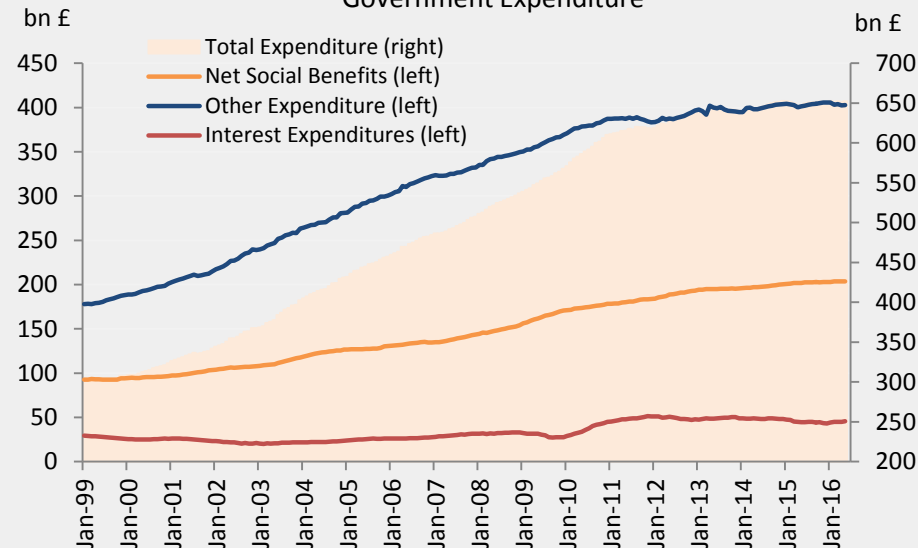
# Fiscal consolidation continues, with revenue growth at a 12-mth rolling rate of +3% yoy in April, while spending is broadly flat (+0.7% yoy)

## Government Revenue



Source: IMF Fiscal Monitor, April 2016

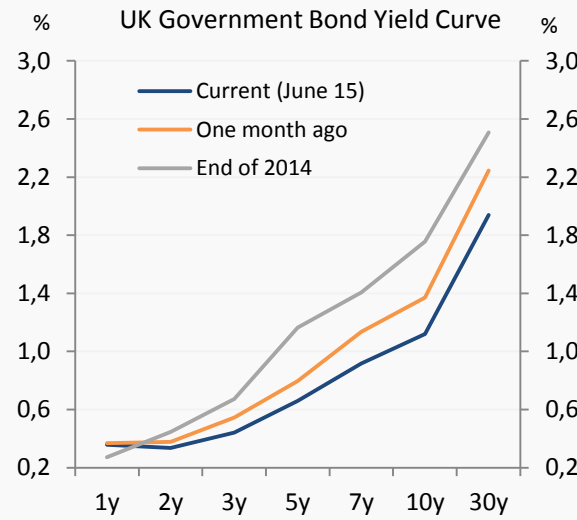
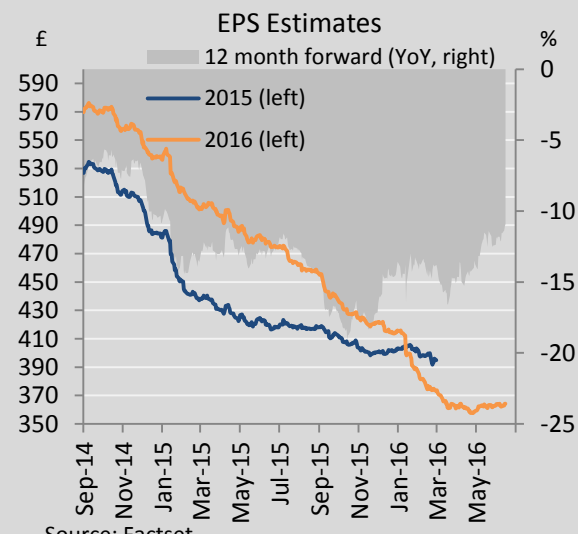
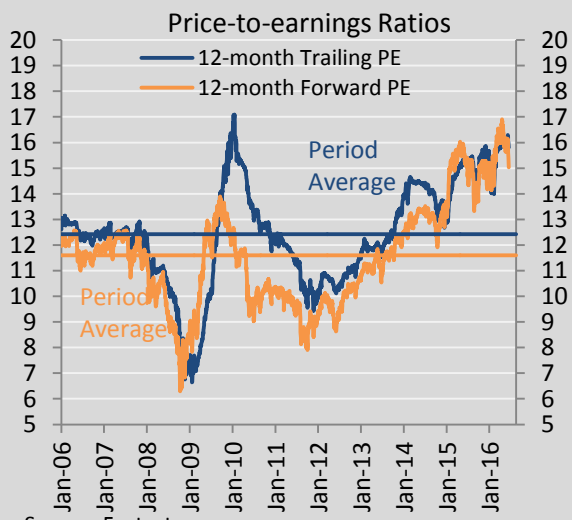
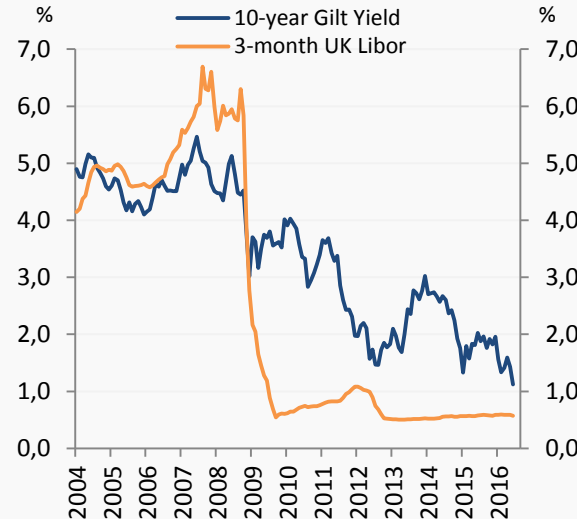
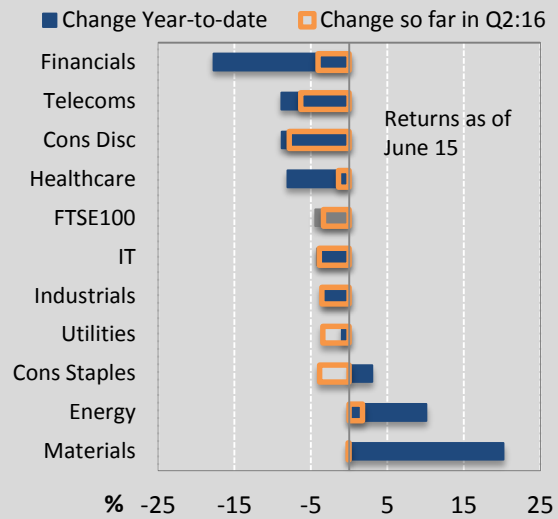
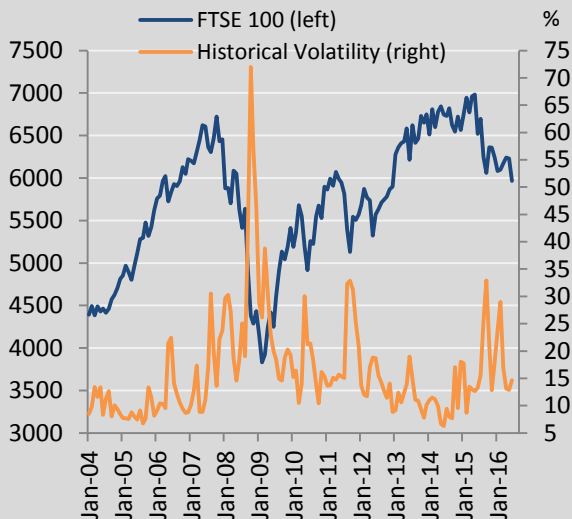
## Government Expenditure



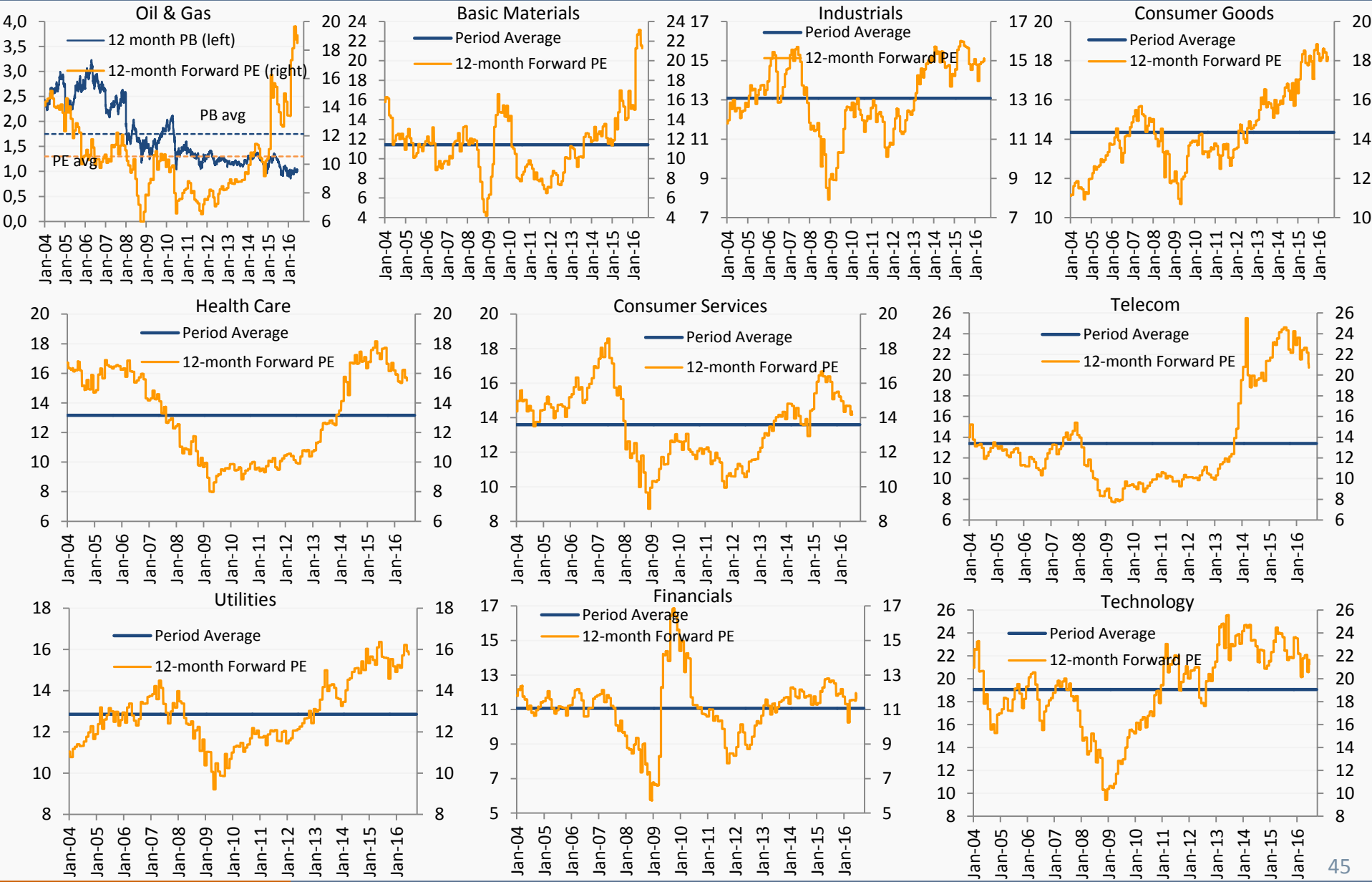
Source: IMF Fiscal Monitor, April 2016

Government Revenues and Expenditures are 12 month rolling sums

So far in Q2, the FTSE 100 has underperformed its developed peers (-4.1% vs -1% for the MSCI DM excluding the UK), while the 10Yr Gilt yield stands at a record low (1.14%)

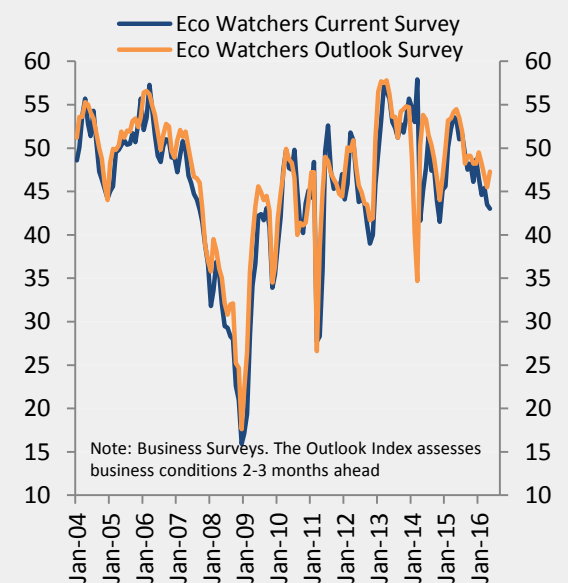
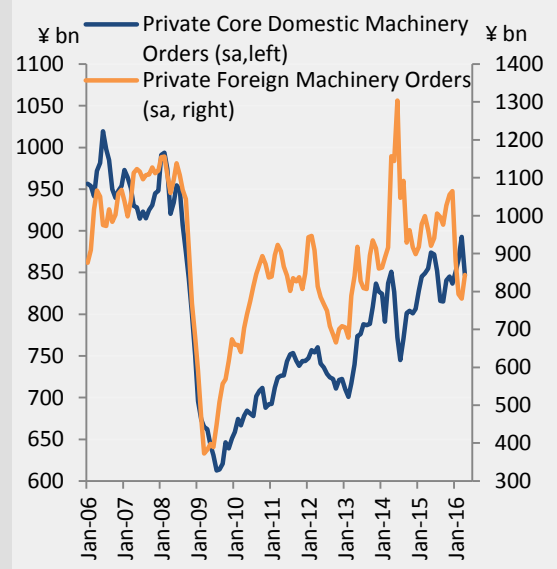
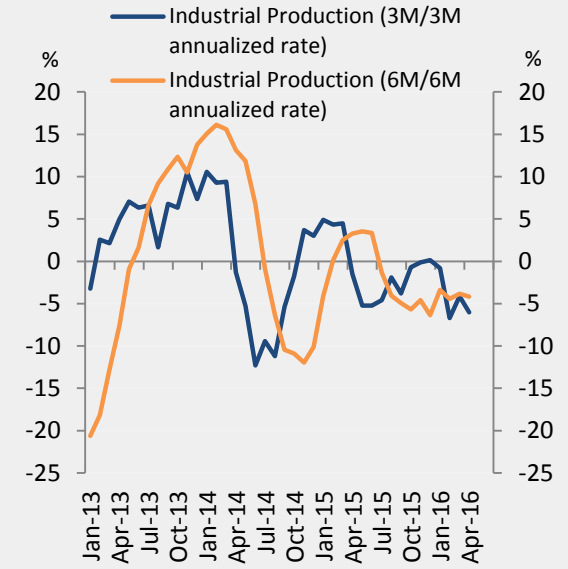
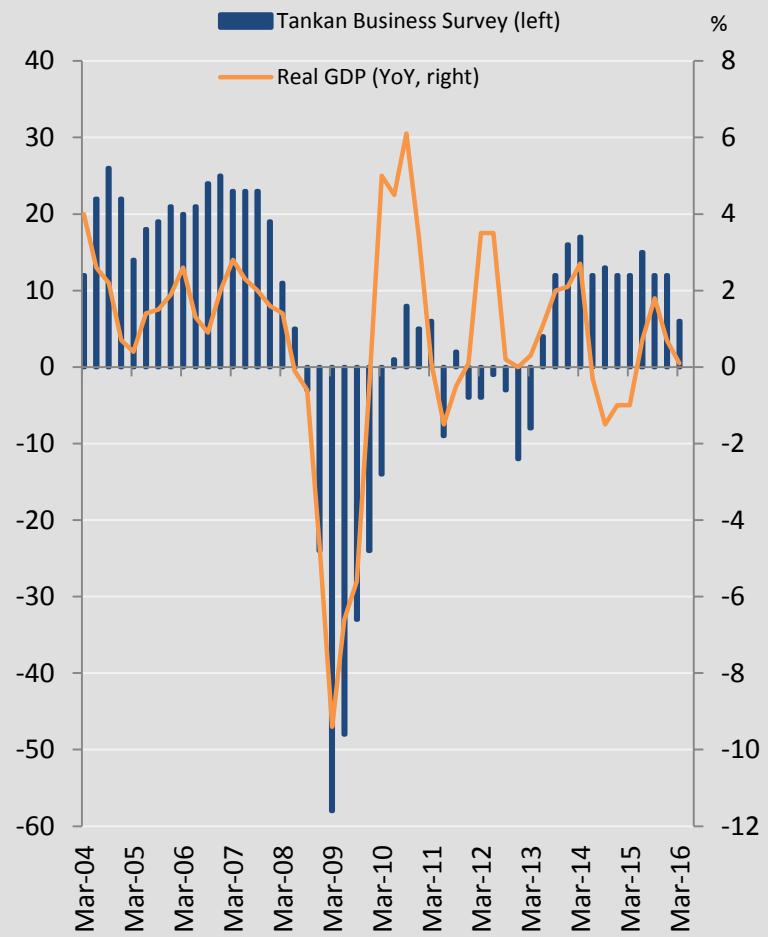


# UK Sectors Valuation



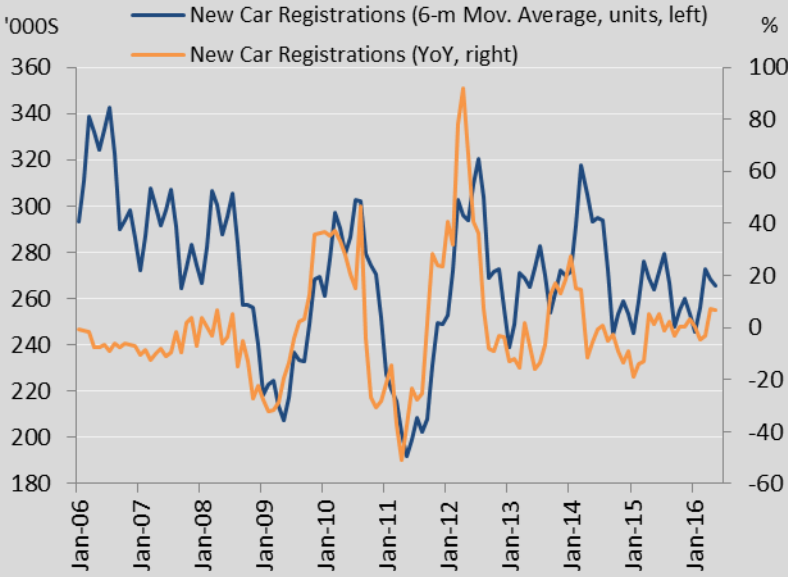
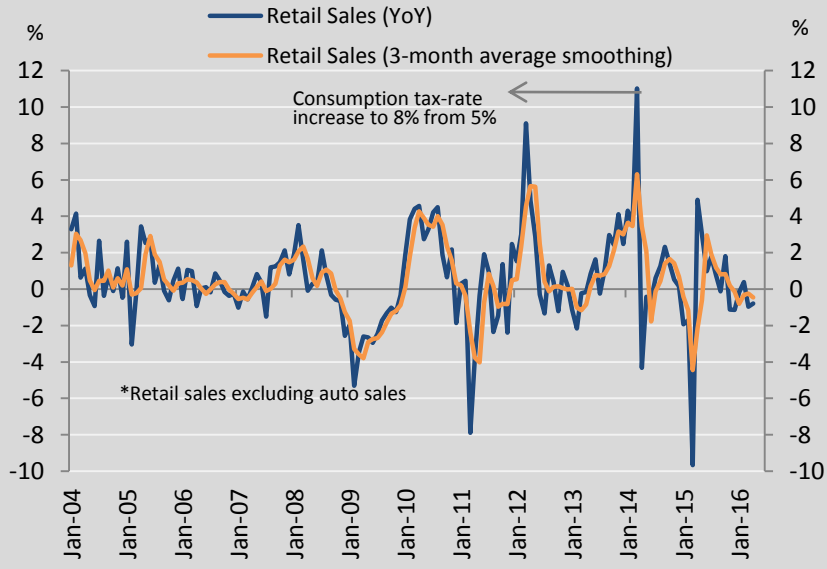
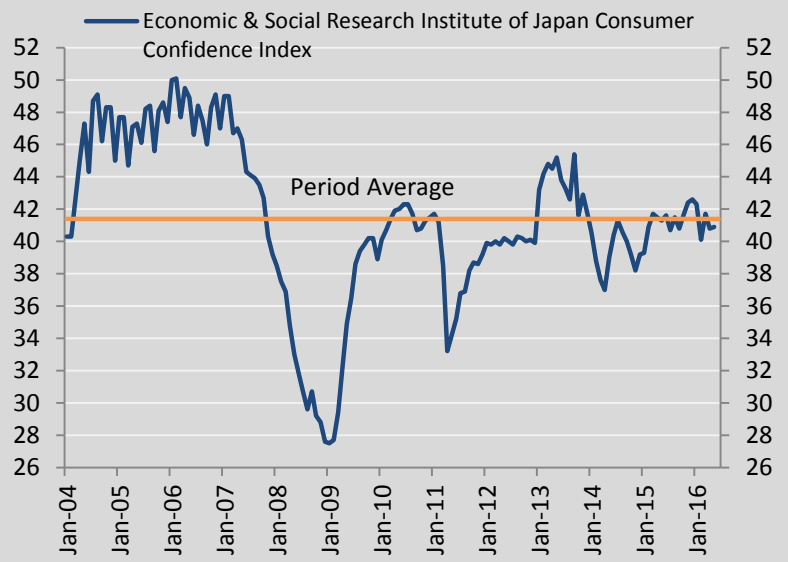
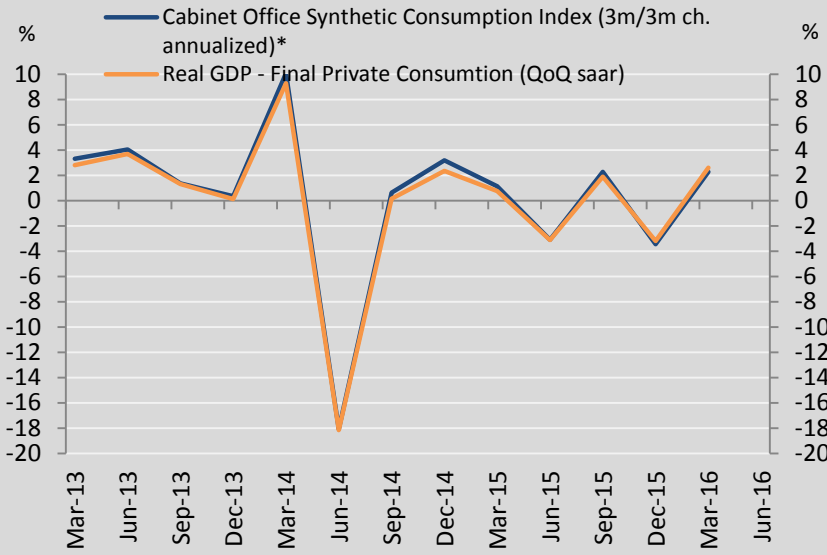
- In Japan, real GDP growth in Q1:16 surprised on the upside, increasing by 1.9% qoq saar, following a contraction of -1.8% qoq saar in Q4:15. The positive surprise was due to private consumption (+2.6% qoq saar) and net trade (+0.7 pps contribution) that more than offset the weakness in business investment (-2.6% qoq saar).
- The pick-up appears difficult to sustain in the current quarter. Investment will remain sluggish amid declining profitability, sentiment and weak prospects for external demand. Indeed, the Nikkei PMI manufacturing index stood at a 3½-year low of 47.7 in May (average of 48.0 so far in Q2:16) compared with 50.5 in Q1:16 and industrial production rose by a mere 0.3% mom in April (from +3.8% mom in March).
- Private consumption is expected to grow only modestly, supported by rising labor force participation, targeted fiscal transfers, and increasing real wage growth. Retail sales, albeit better than expected, have entered Q2 on a soft note, remaining flat on a monthly basis (from +1.5% mom in March) and consumer confidence declining in April/May compared to Q1.
- Overall, consensus expects that real GDP growth will decelerate to 0.7%-1.0% qoq saar in Q2:16. Nevertheless, this would be a solid outcome in view of potential GDP growth of around 0.5%.
- In light of the above, the decision for a supplementary fiscal budget for FY:2016 (April 2016-March 2017) of an estimated size of ¥5tn (or 1% of GDP) was deferred, likely until September 2016 or later, suggesting less pressure on the Government to ease policy.
- At the same time, the Government postponed the implementation of the consumption tax rate hike from 8% to 10% to October 2019 (scheduled for April 2017).
- The Bank of Japan remained on hold in June, albeit further easing is expected in H2:2016 (probably at the July 29 meeting) in view of the fact that there is still a long way to go in reaching the inflation target (2%). Headline CPI decelerated to -0.3% y-o-y in April, from -0.1% y-o-y in March, while the CPI ex-fresh food (the core index) and the CPI ex-food & energy (the core-core index) were stable at -0.3% y-o-y & 0.7% y-o-y. The recent deferral by the BoJ of the date for achieving the 2% inflation target from "around the first half of FY:2017" to "during FY:2017" raises credibility issues.
- Labor market tightening continues, with the jobs-to-applicants ratio at a 25-year high of 1.34 in April, implying that labor demand is stronger than supply. The unemployment rate stands at 3.2%. Wages remain on an upward path (+0.2% yoy), albeit not strong enough to trigger a cycle of higher wages and higher spending.
- So far in Q2, the Nikkei 225 has underperformed its peers (-5.0% vs -0.7% for the MSCI DM excluding Japan), with the significant appreciation of the Yen worsening the sentiment for corporates' profitability. Indeed, estimates for Nikkei225 2016 EPS growth now stand at +5.5% yoy, from 15% yoy in mid-February. At the same time, JGB yields stand at historical lows amid a negative interest rate policy by the BoJ (10-year yield at -0.14%).

GDP surprised positively in Q1:16. Nevertheless, the pick-up appears unlikely to be sustained in Q2:16, based on high frequency data and business surveys



Above: GDP & Tankan data as of Q1:2016  
 Right: Industrial Production & Machinery Orders data as of April 2016, Eco Watchers data as of May 2016  
 Source: Bloomberg

Retail sales were flat on a monthly basis in April, while consumer confidence remains below its long-term average, suggesting less support from private consumption in Q2:16

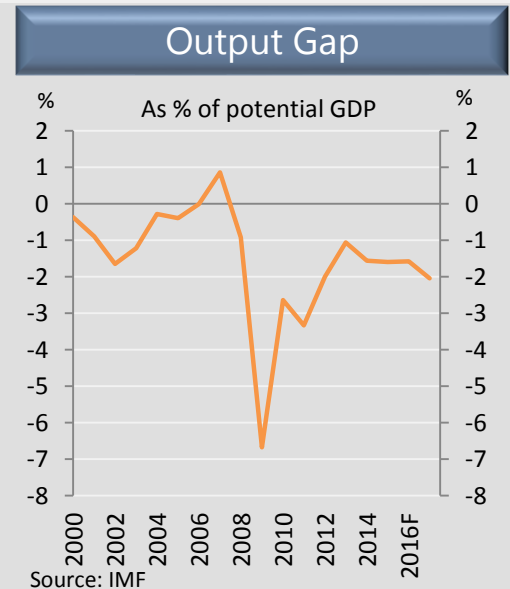
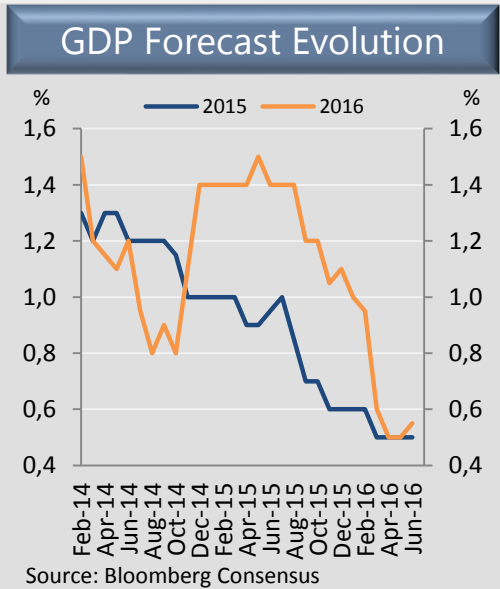
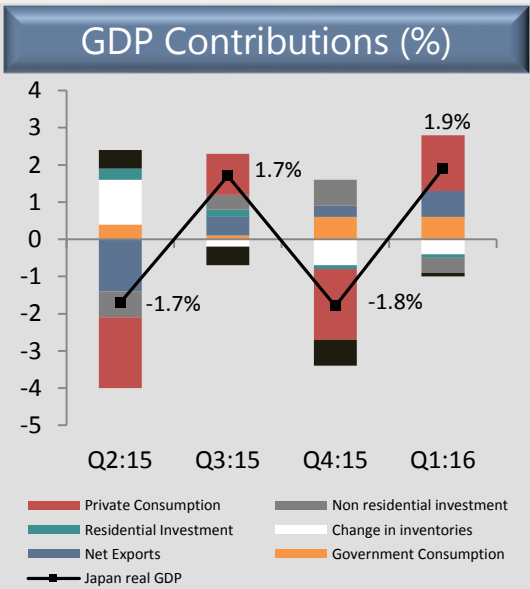




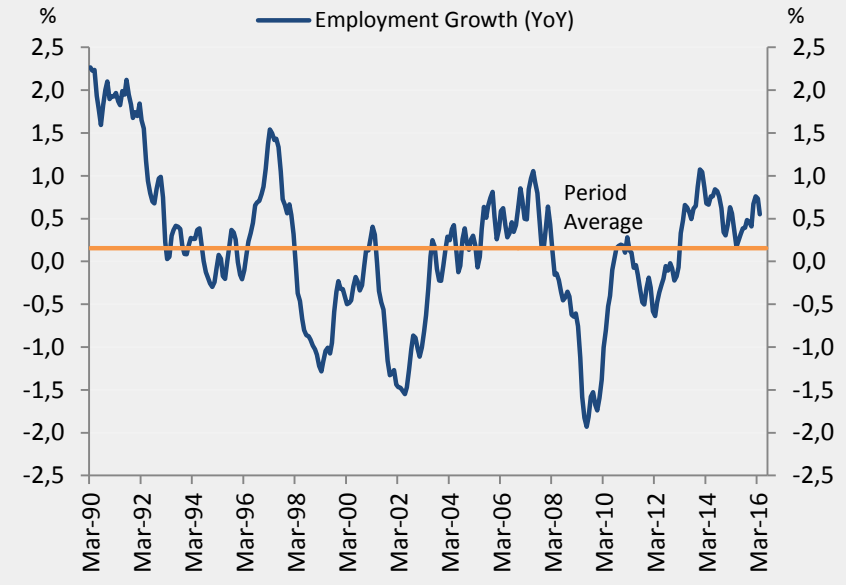
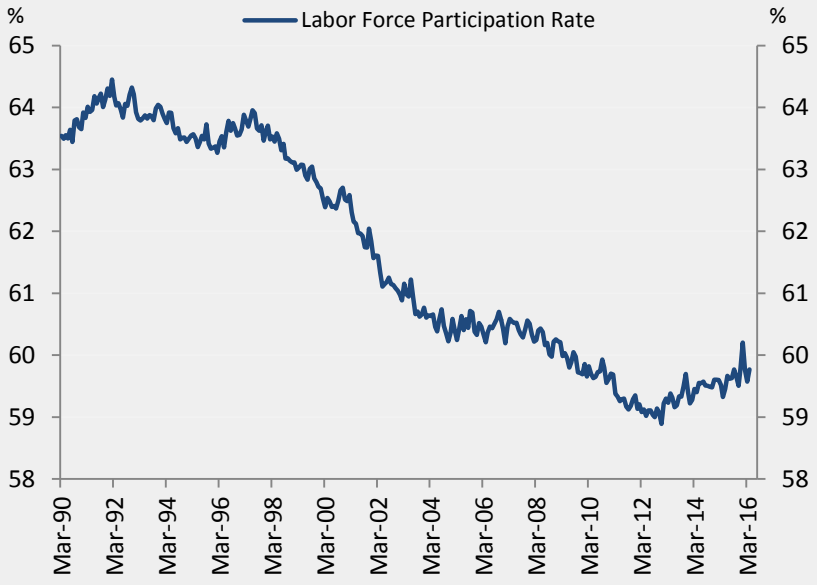
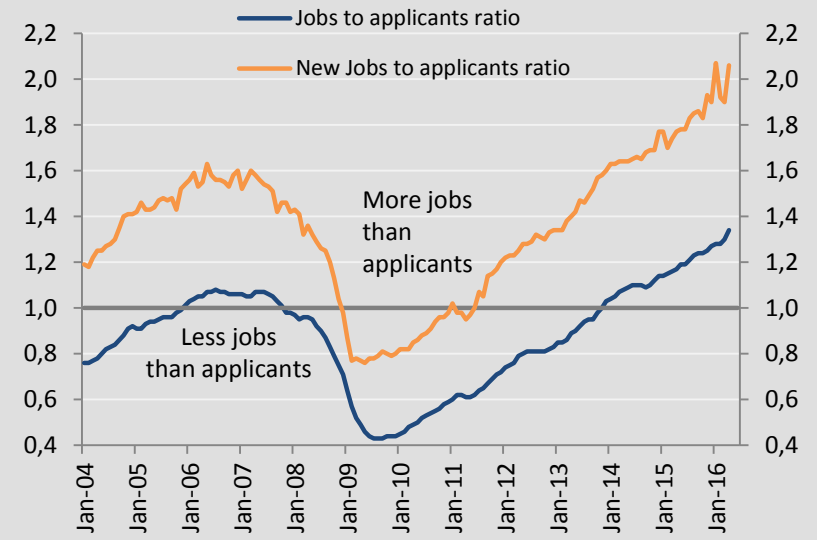
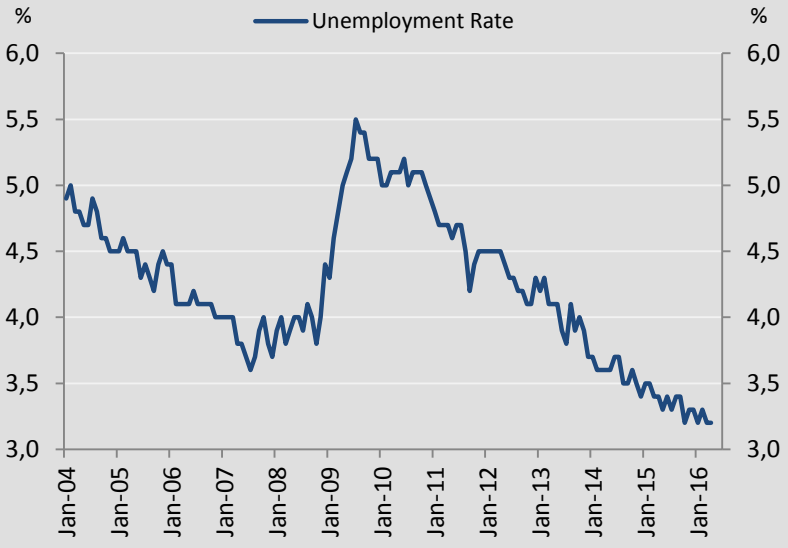
Real GDP growth is expected to decelerate towards 0.7% qoq saar in Q2:16

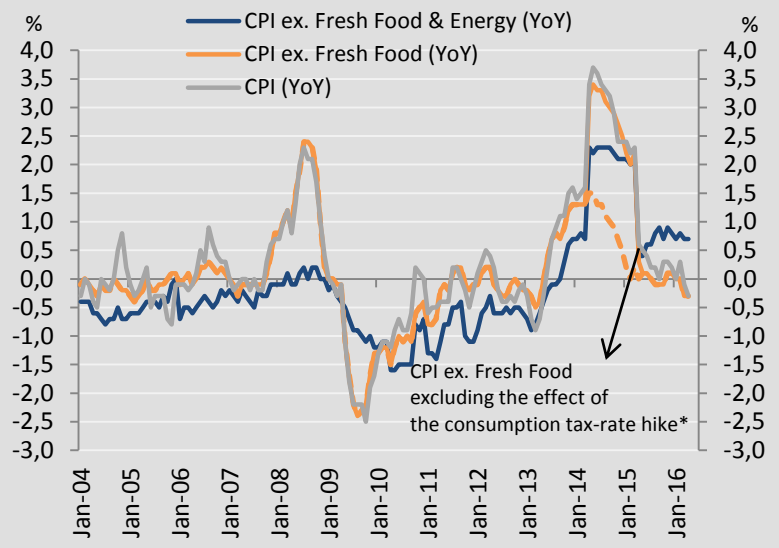
Japan Real GDP Growth	2014	Q1:15	Q2:15	Q3:15	Q4:15	2015	Q1:16	Q2:16e	Q3:16e	Q4:16e	2016e
GDP (YoY)	-0,1	-0,9	0,7	1,8	0,8	0,6	0,0	0,6	0,6	0,0	0,7
GDP (QoQ saar)	-	5,2	-1,7	1,7	-1,8	-	1,9	0,7	1,7	1,7	-
Private consumption (QoQ saar)	-0,9	0,8	-3,1	1,9	-3,2	-1,2	2,6	1,0	1,5	1,5	0,5
Government consumption (QoQ saar)	0,1	1,1	1,8	0,7	2,9	1,2	3,0	0,8	0,8	0,8	1,8
Private residential investment (QoQ saar)	-5,0	8,7	9,0	6,8	-4,1	-2,7	-2,9	2,0	2,0	2,0	0,6
Business investment (QoQ saar)	2,8	13,5	-4,6	3,2	5,2	1,6	-2,6	2,0	3,0	4,2	1,4
Public investment (QoQ saar)	0,2	-8,7	11,7	-9,4	-13,8	-1,9	-2,9	2,0	9,5	5,5	-2,2
Private Inventories contribution (QoQ saar)	0,2	2,1	1,1	-0,2	-0,6	0,5	-0,4	-0,8	0,0	0,0	-0,3
Net Exports contribution (QoQ saar)	0,3	0,6	-1,9	0,8	0,1	0,4	0,7	0,6	-0,1	-0,1	0,2
Exports (QoQ saar)	8,3	8,9	-17,8	10,8	-3,1	2,8	2,4	-1,0	3,5	3,5	0,5
Imports (QoQ saar)	7,2	5,9	-9,8	6,9	-4,3	0,3	-1,6	-5,0	5,0	5,0	-1,1

Source: Cabinet Office, Department of National Accounts, Bloomberg

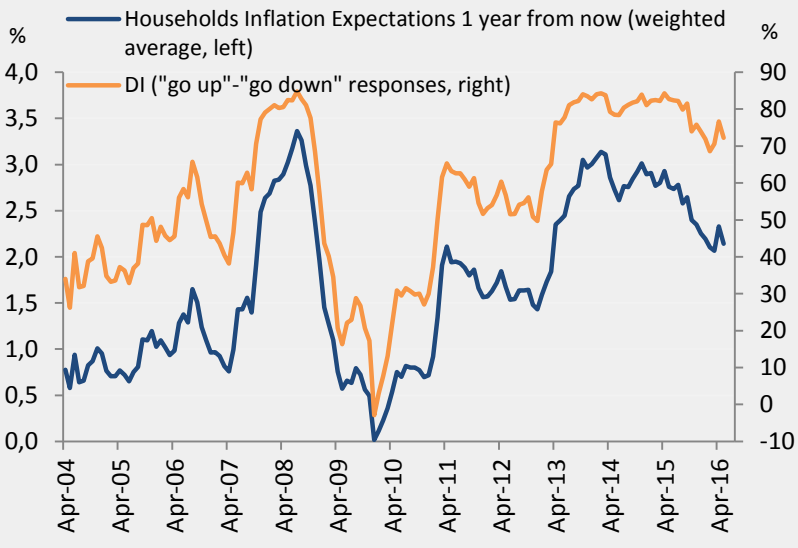
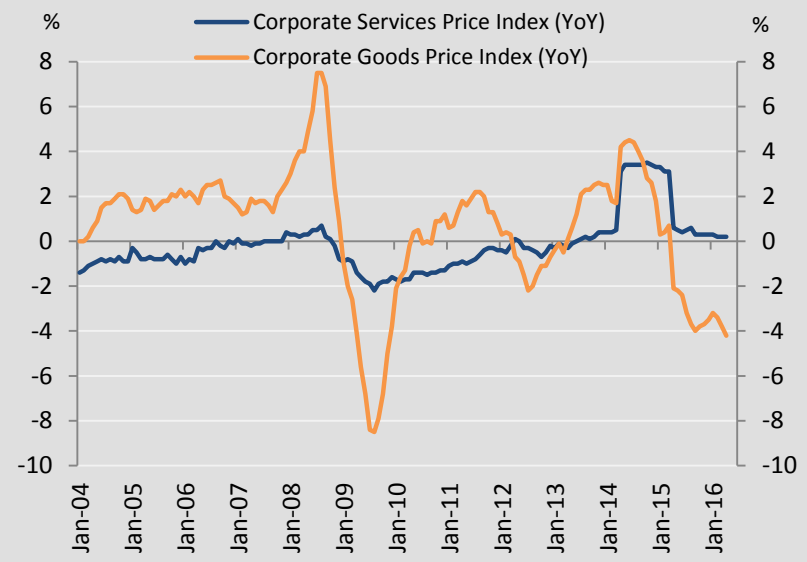


The labor market tightening remains on track, with the jobs-to-applicants ratio at a c. 25-year high of 1.34 in April and the unemployment rate at a c. 20-year low of 3.2%

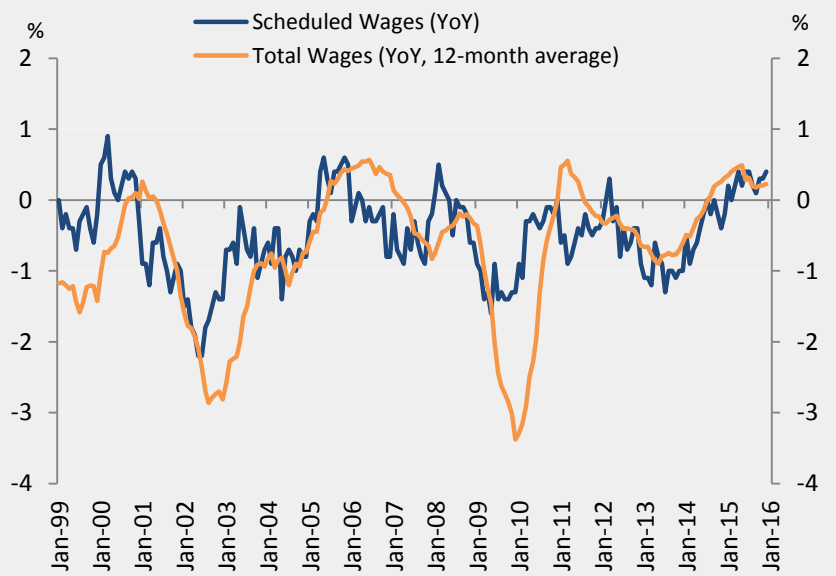




Consumption tax rate hike effect: 1.8%-2% up to March 2015, 0.3% for April 2015, no effect from May 2015, Source: Bank of Japan

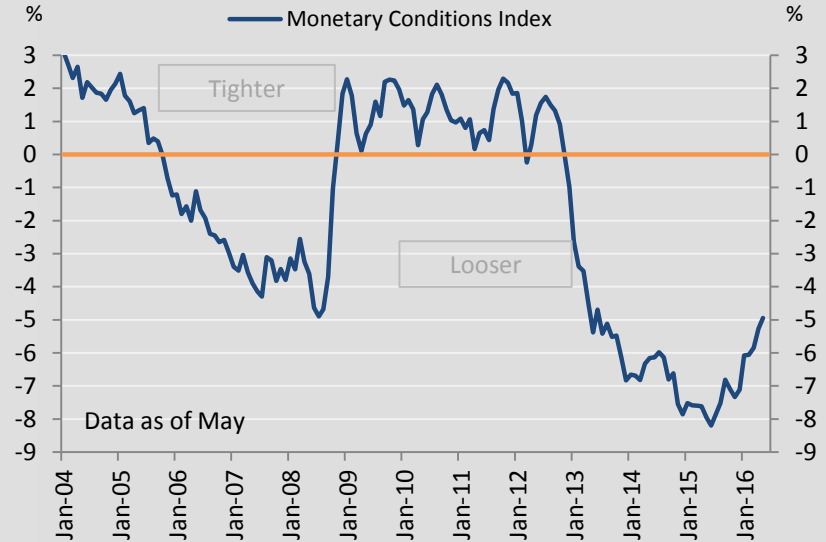
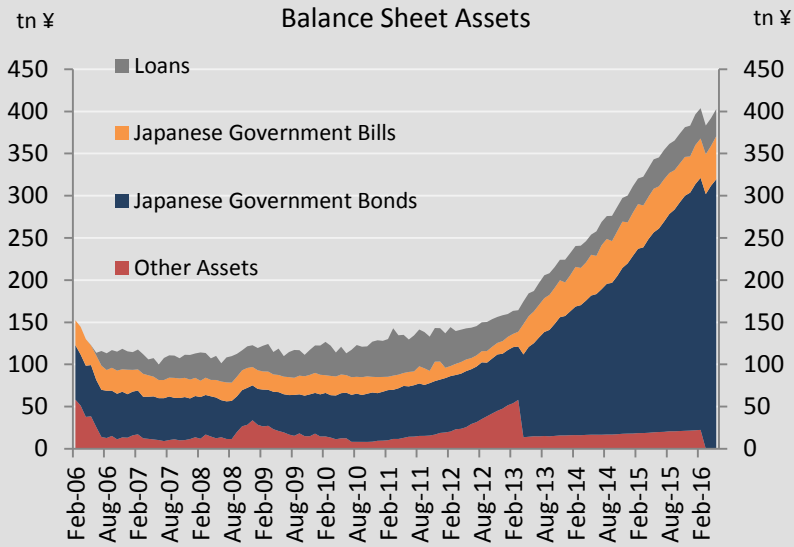


Source: Cabinet Office (May Consumer Confidence Survey)

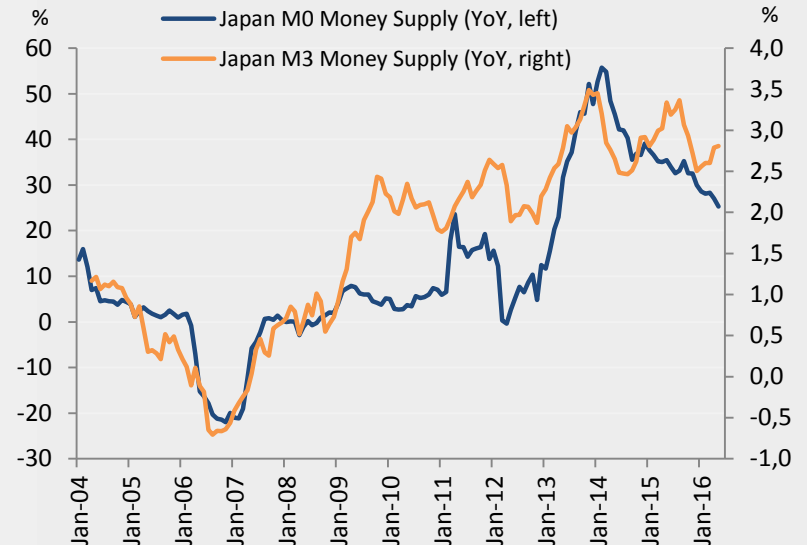
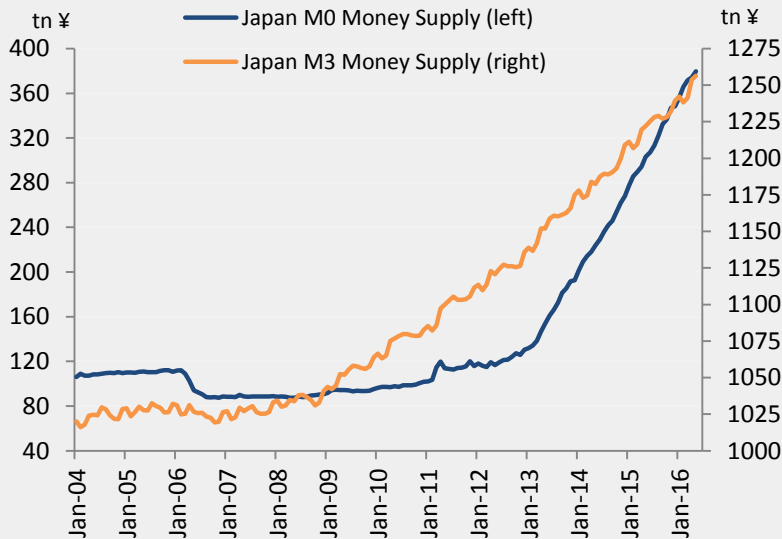


Total wages = Scheduled Wages + Overtime + Bonuses

# The BoJ is expected to proceed with further policy easing in Q3 to support inflationary pressures and the economic recovery

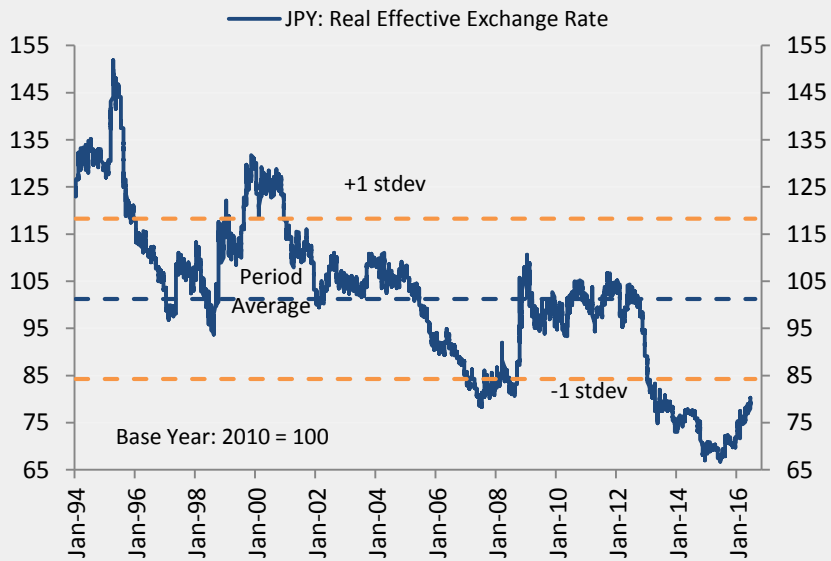
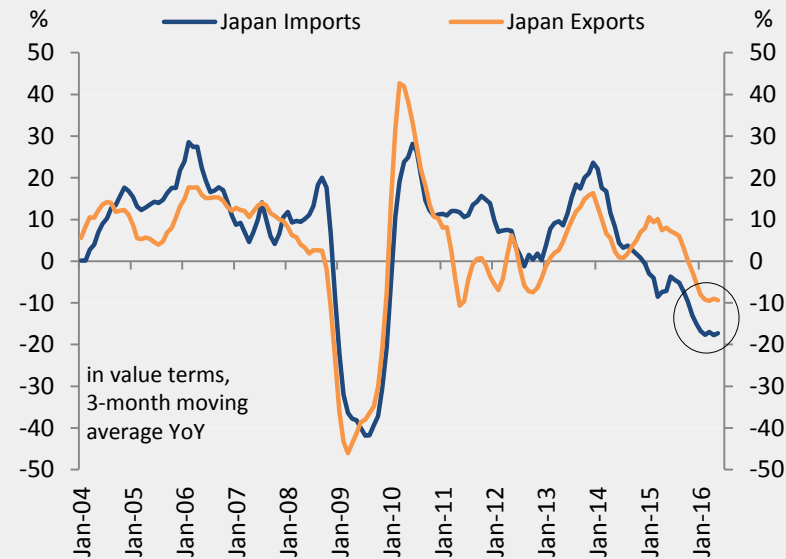
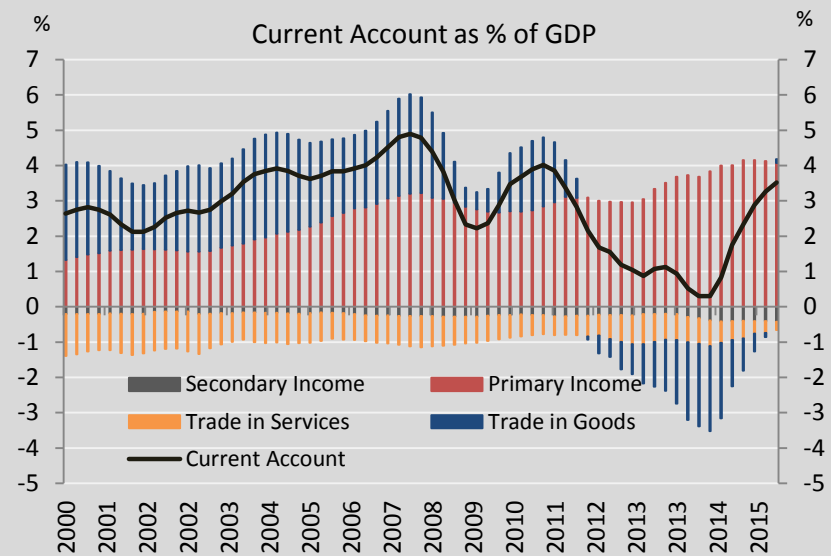
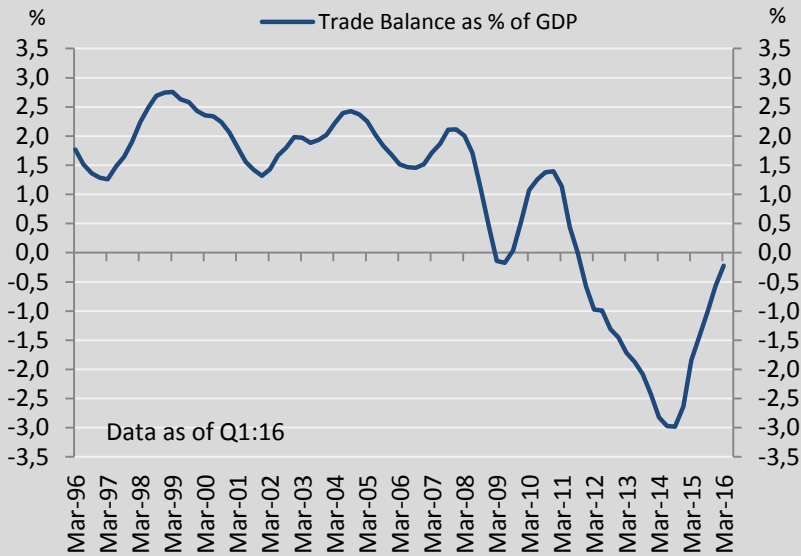


Monetary Conditions Index is a simple composite index of Real Short Term Rates (Tibor less CPI) & Real Effective Exchange Rate

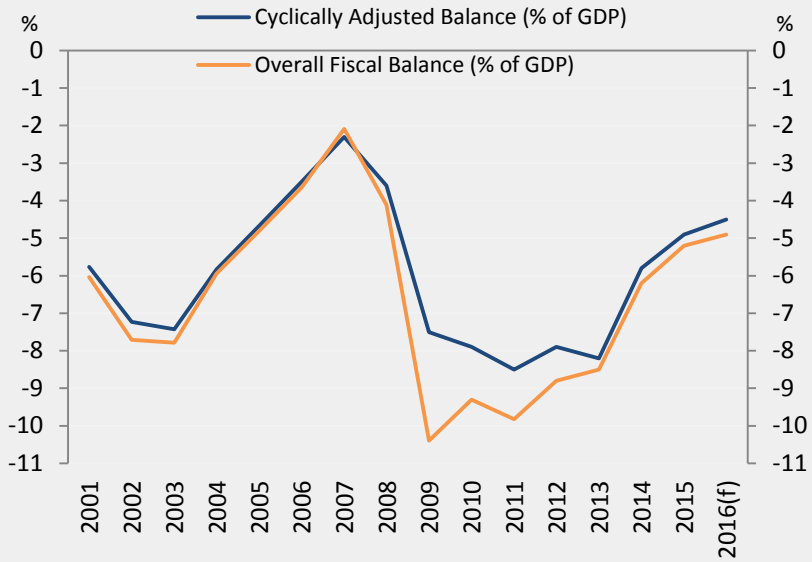


The Bank of Japan targets Monetary Base (M0) expansion of ¥80tn per annum

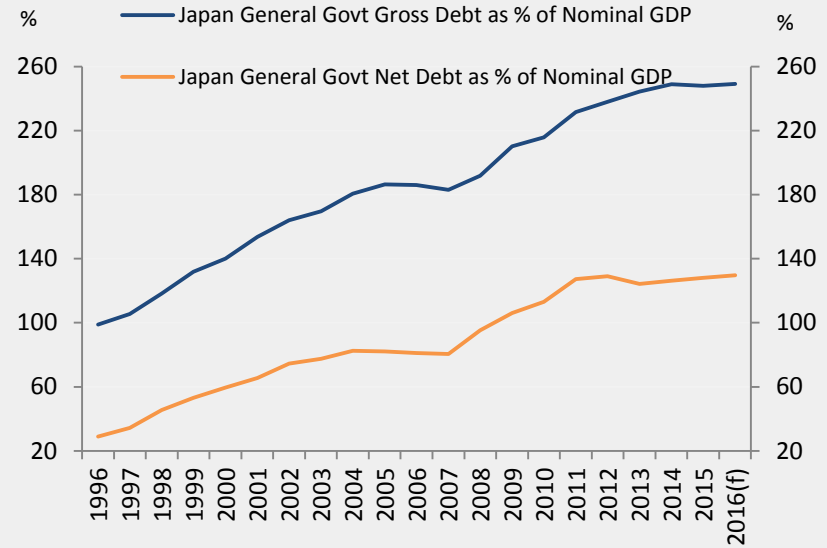
Imports have been declining since late 2014, resulting in a substantial improvement in the trade balance (-0.2% of GDP in Q1:16)



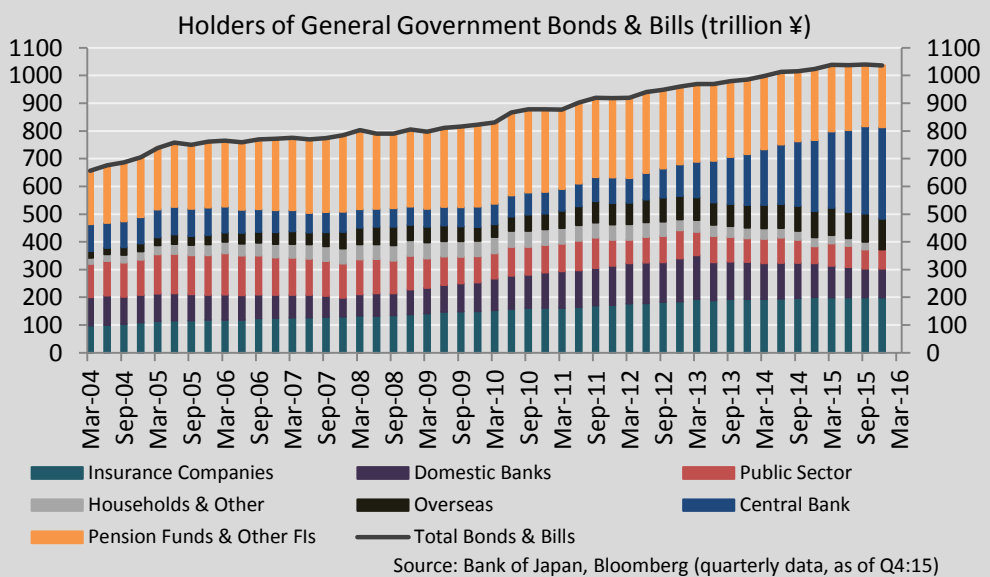
Fiscal consolidation will ease in 2016, on account of the weak economic recovery. The sales tax hike was postponed and a supplementary fiscal budget for FY:16 is very likely



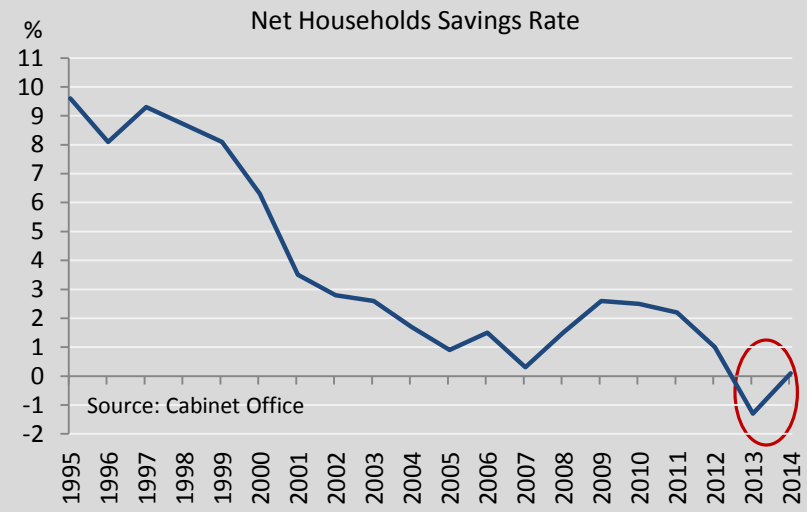
Source: IMF Fiscal Monitor, April 2016



Source: IMF Fiscal Monitor, April 2016

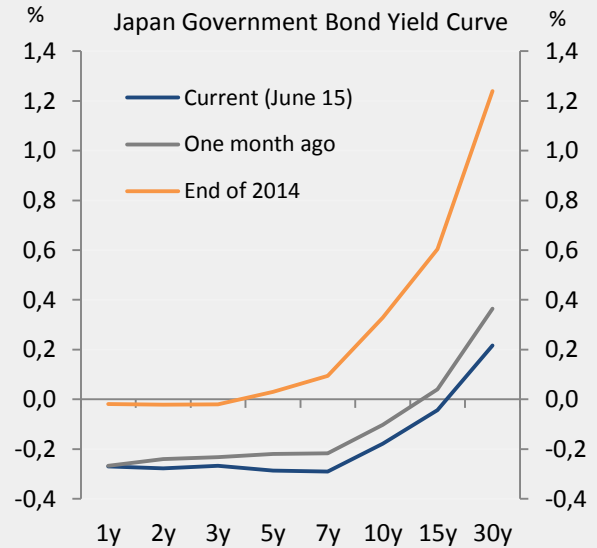
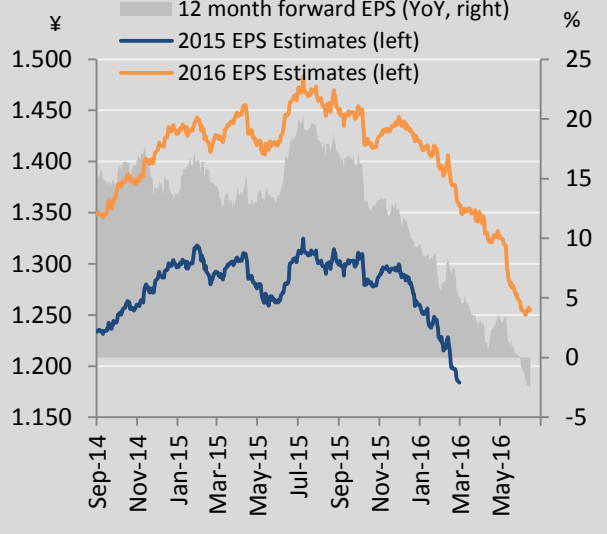
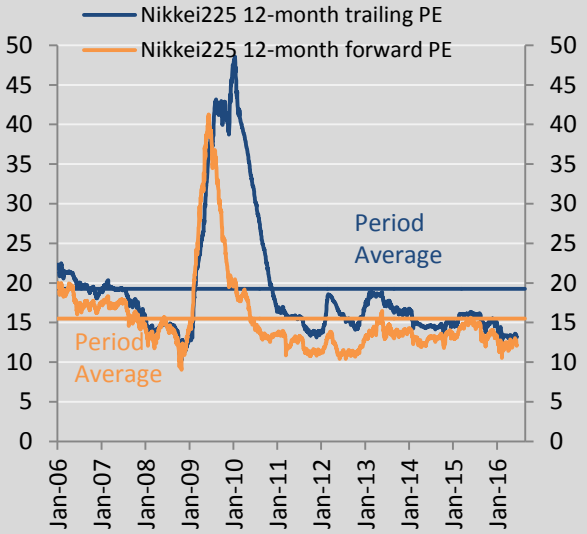
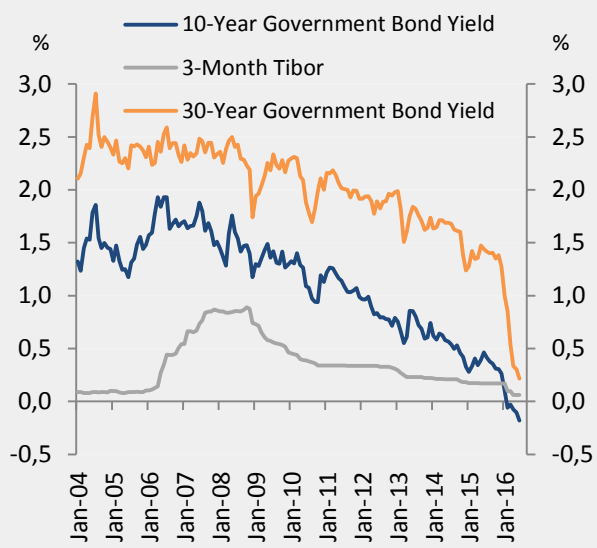
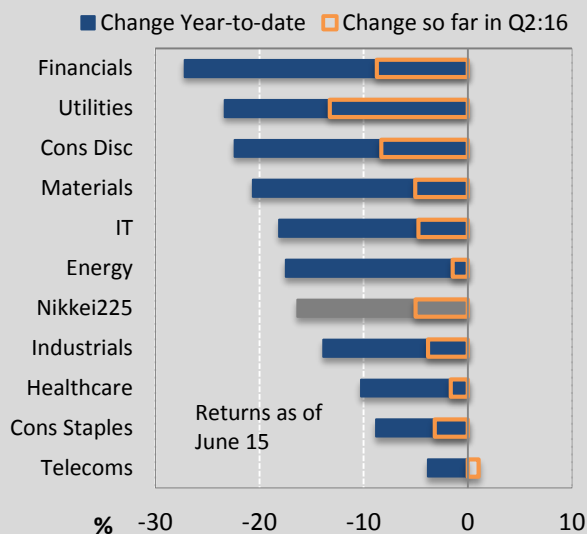
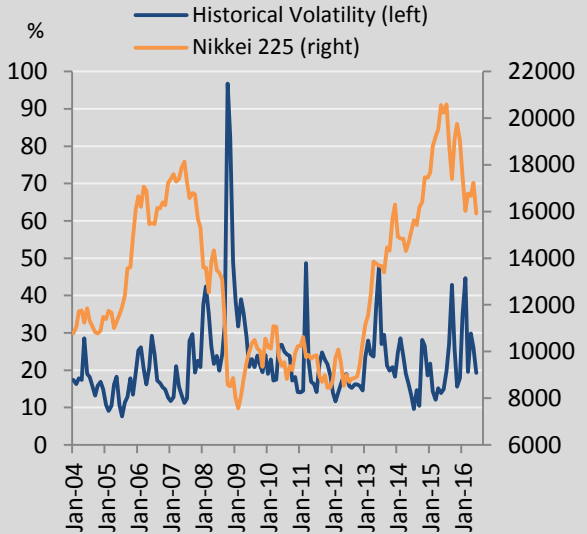


Source: Bank of Japan, Bloomberg (quarterly data, as of Q4:15)



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)

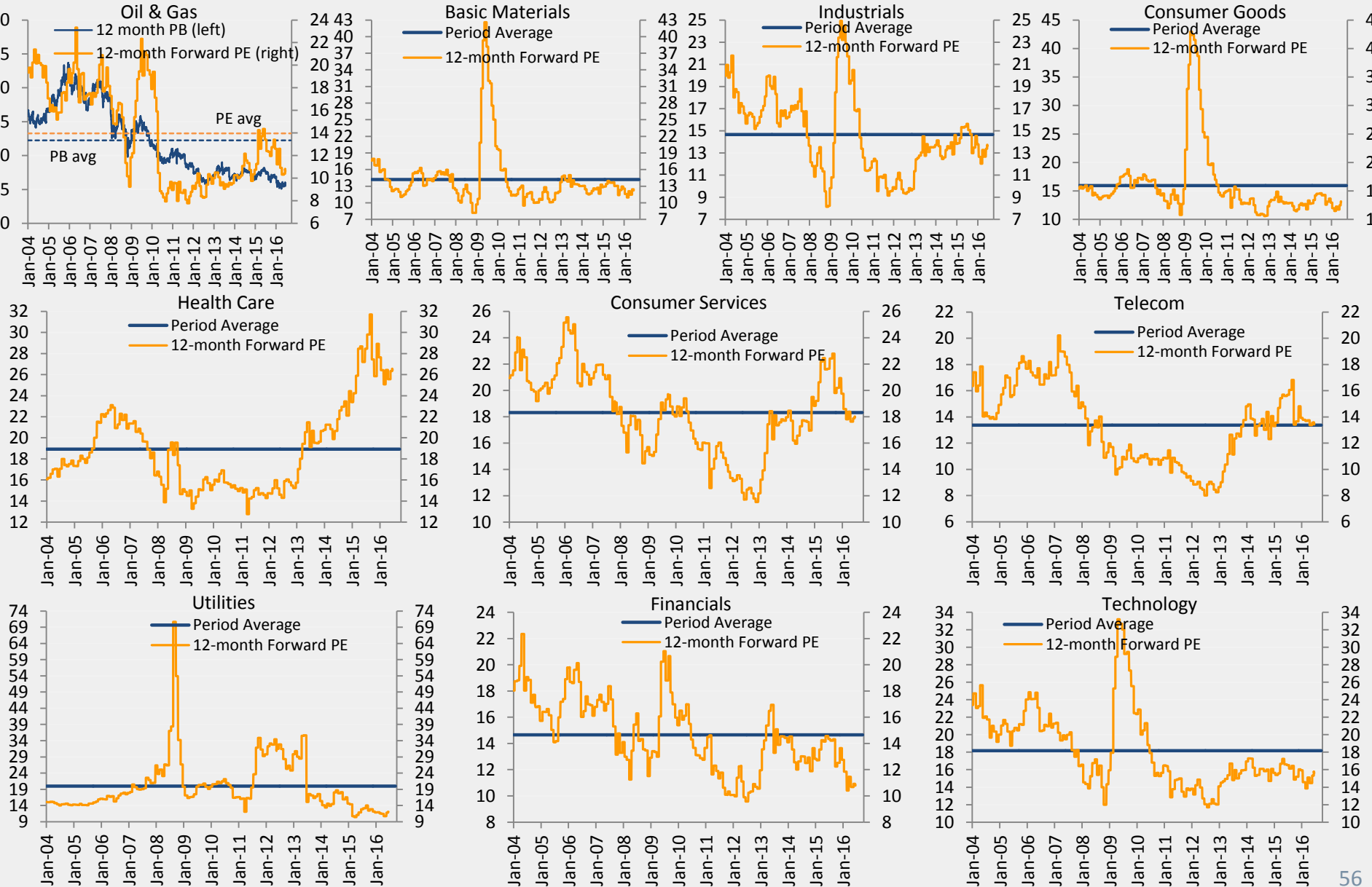
The Yen's appreciation worsens the prospects for corporate profitability. The Nikkei 225 has underperformed its peers so far in Q2:16 (-5.0% vs -0.7% for the MSCI DM excluding Japan)



Source: Factset

Source: Factset

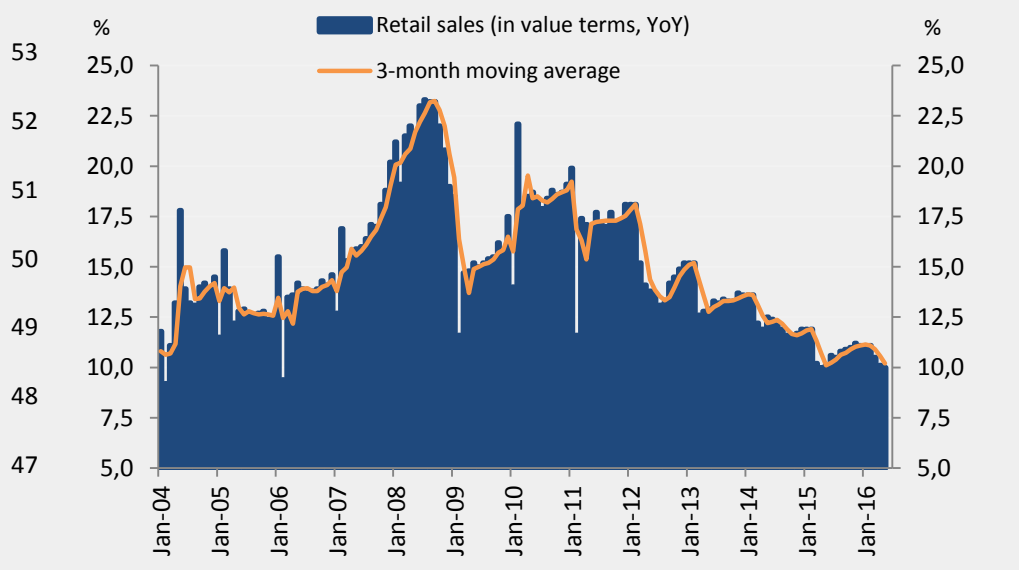
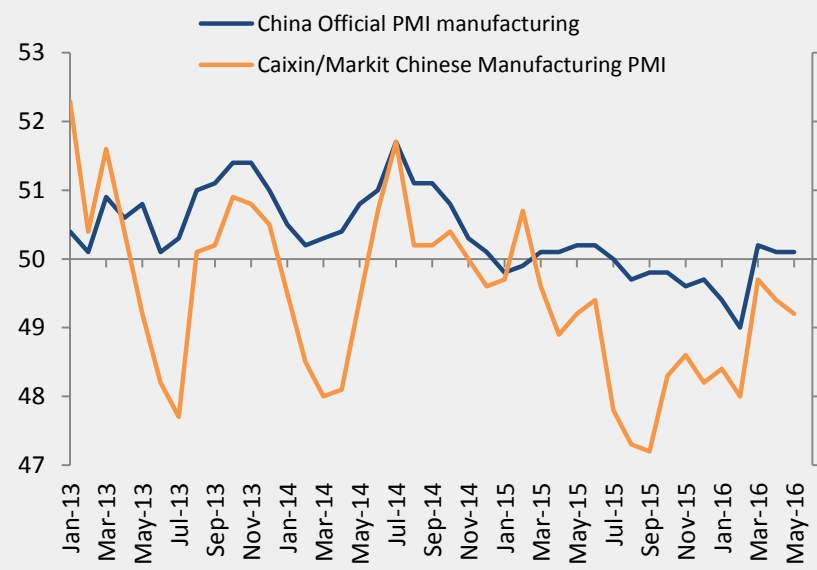
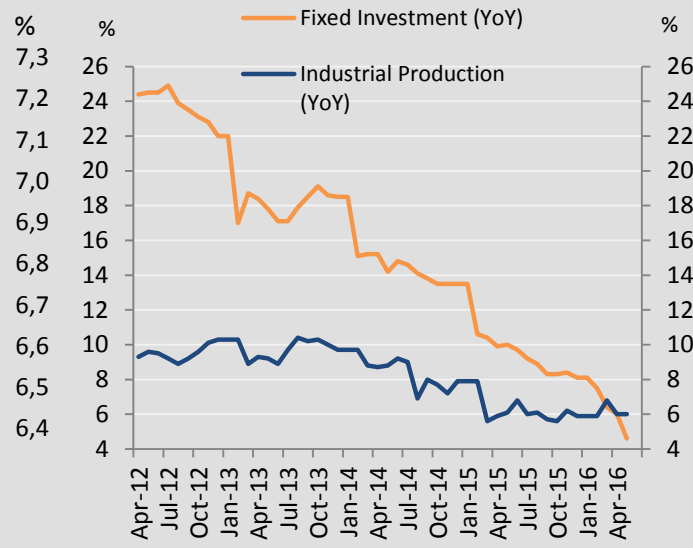
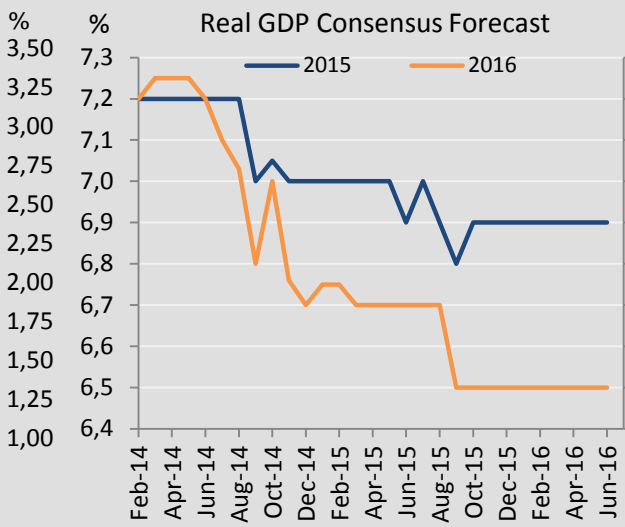
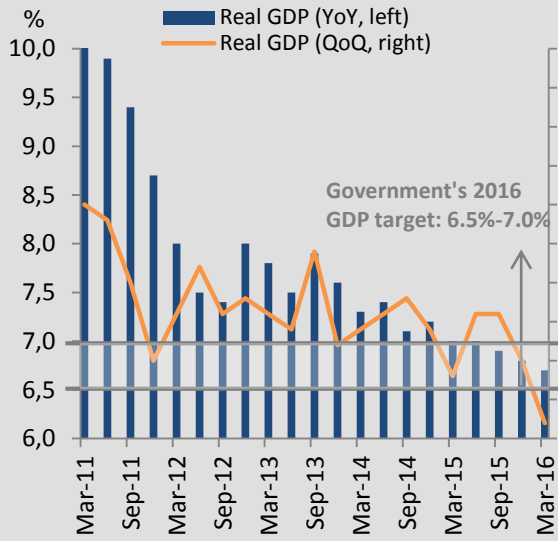
# Japan Sectors Valuation



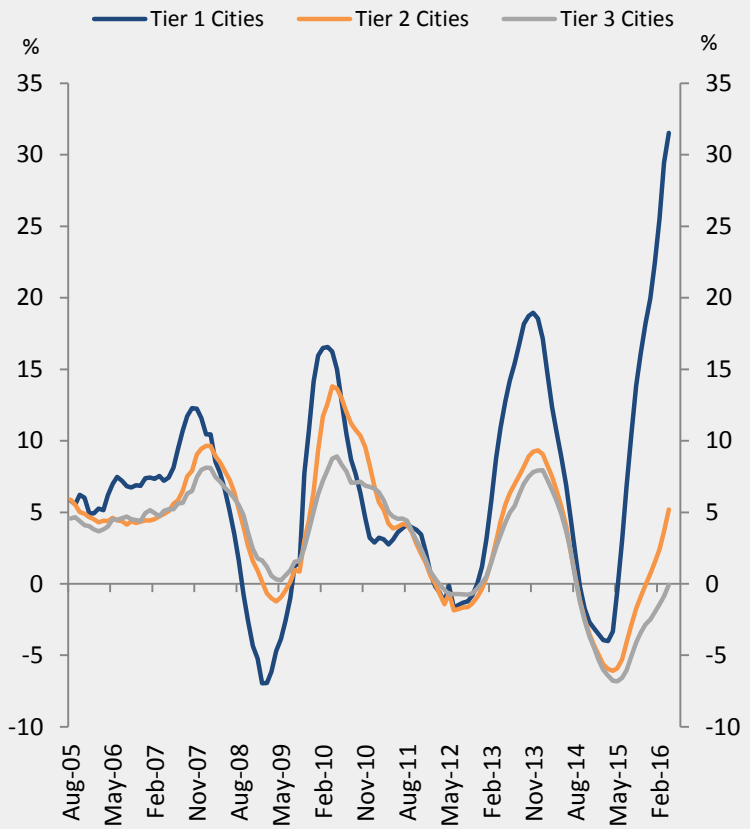


- The Chinese economy remains on the path of a gradual transition towards a more sustainable, albeit lower, pace of growth. Real GDP growth decelerated to 6.7% yoy in Q1:16 from 6.8% yoy in Q4:15 (6.9% yoy in 2015). High frequency indicators have retreated in April/May, following solid readings in late-Q1, as the Chinese authorities' policy stance has become less expansionary.
- Indeed, in May, industrial production stood at 6.0% yoy, after rising to 6.8% yoy in March. In addition, fixed assets investment eased to 9.6% yoy from 10.7% yoy in March and retail sales decelerated in May to 10% yoy vs 10.5% in March.
- Meanwhile, business surveys ceased to improve in May. The official manufacturing PMI remained unchanged at 50.1, slightly above the expansion/contraction threshold of 50 for a 3<sup>rd</sup> consecutive month, after reaching 49.0 in February, the lowest level since November 2011.
- On a similar note, trade data for April/May were weak. The decline in imports persists (-5.7% yoy on average in April/May) due to weaker domestic demand, especially for industrial commodities, and outpaces the respective trend for exports (-3.0%). Thus, the trade balance remains strong, increasing to 5.6% of GDP (12-month rolling sum basis) in May, from 5.5% in March and 5.3% yoy in February.
- On a positive note, the housing market recovery continues on the back of the Government's supportive measures (interest rate cuts, lower taxes and further reductions to the minimum down-payments required for mortgage loans). In view of the sector's importance for household wealth (70%), the positive trend, if sustained, could support private domestic demand. Indeed, house prices increased by 4.2% yoy in April from 2.9% yoy in March and remain on an upward trend since April 2015.
- Overall, consensus expects real GDP growth to decelerate to 6.6% yoy in Q2:16 and to 6.5% yoy in 2016, the low end of the Government's target (6.5% - 7.0%). Risks of a "hard-landing" remain, in view of surging corporate and quasi-Government debt.
- Indeed, the expansionary monetary stance since Q3:15 has fueled a further build-up in debt. The Chinese private sector debt-to-GDP ratio stood at c. 205% in Q3:15 (152% accounts for bank loans and 53% for corporate bonds) and is estimated at c. 210% in Q4:15, having almost doubled since 2008.
- The monetary policy stance has recently turned less expansionary. As a result, total social financing (TSF) growth slowed to 11.9% yoy in May (12.8% in March), while the outstanding RMB loans (c. 65% of TSF) declined to 14.4% yoy (14.7% yoy in March). Consensus now expects the PBoC to proceed with only one rate cut (in Q4:16), compared with expectations for two cuts in mid-March.
- More FX policy clarity and the stable growth momentum helped end capital outflows in late Q1/early-Q2. FX reserves increased by \$17bn cumulatively in March/April following 10 consecutive monthly declines, totaling \$546bn. Outflows of \$28bn occurred in May.
- In May, the RMB depreciated by 1.6% against the USD to 6.58 RMB/\$ as the USD rebounded and capital outflows resumed (\$28bn). Moreover, the declining probability of a Fed rate hike in June/July following the disappointing US payrolls outcome may contain, for now, pressures on RMB and capital flows. Overall, forwards price in a further depreciation of the RMB by 1.3% against the USD to 6.67 RMB/\$ by end 2016.
- In conjunction with data in March/April that showed signs of improving economic momentum, Chinese equities were upbeat in the respective period (c. +10%). Nevertheless, in May, equities were broadly flat as the data flow turned negative.

Real GDP growth decelerated slightly in Q1 (6.7% yoy vs 6.8% yoy in Q4:15). High frequency data and business surveys suggest that the gradual slowdown in activity continues

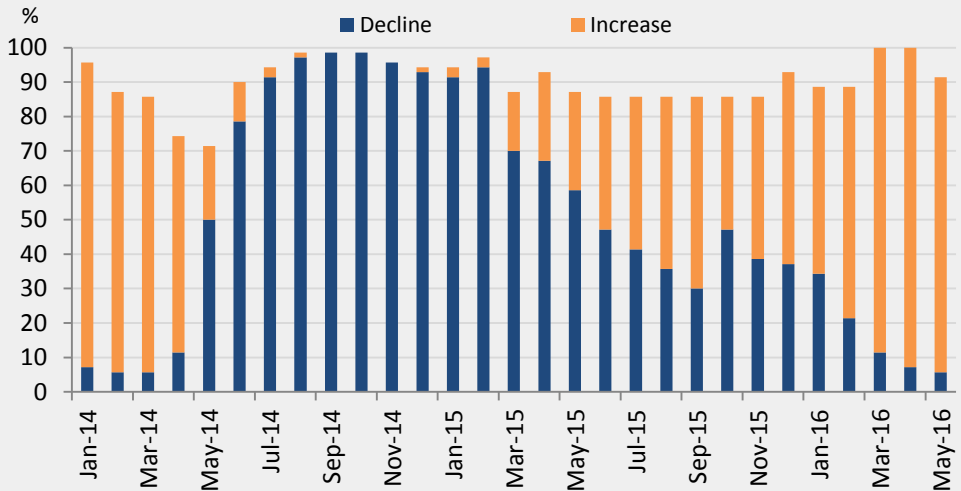


House Prices: Annual Growth Rate



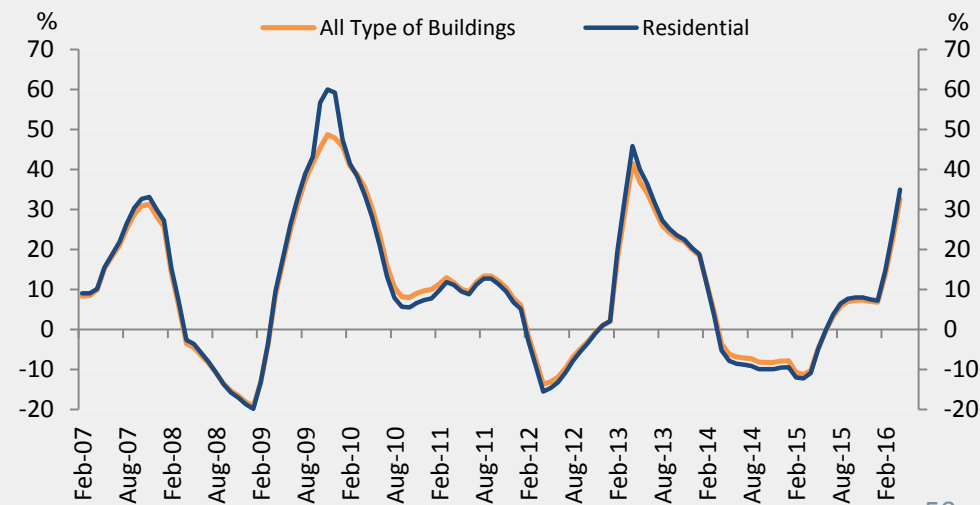
Tier 1 : 4 cities (Shanghai, Beijing, Guangzhou and Shenzhen) - 16 million households, Tier 2 : 23 cities - 38 million households  
 Tier 3: 229 cities - 75 million households  
 Source: Nielsen

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

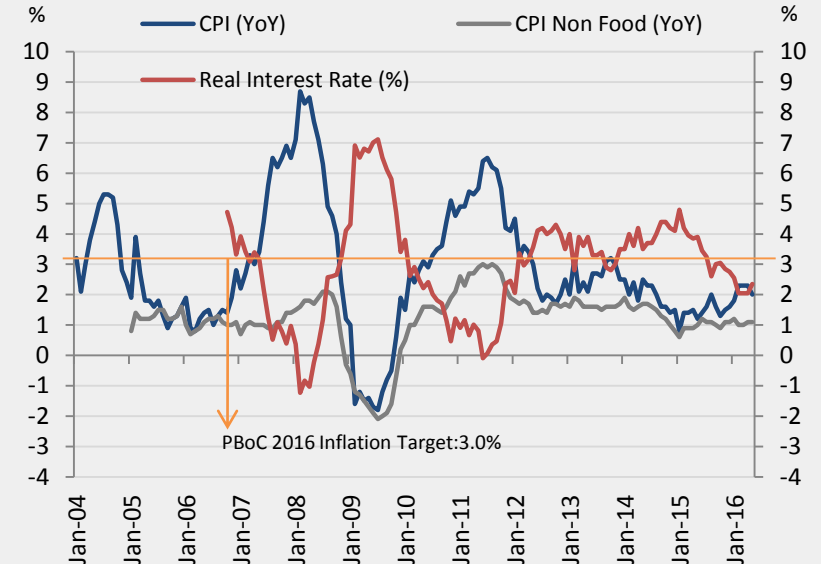
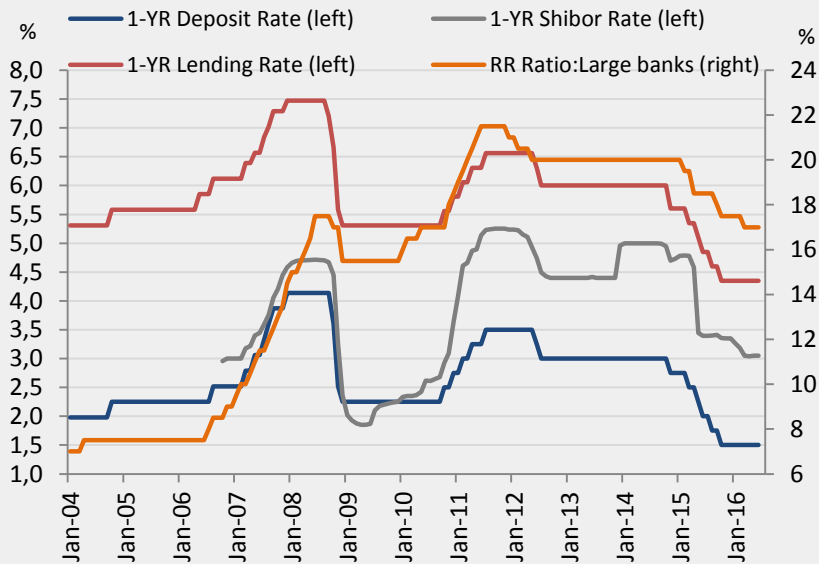
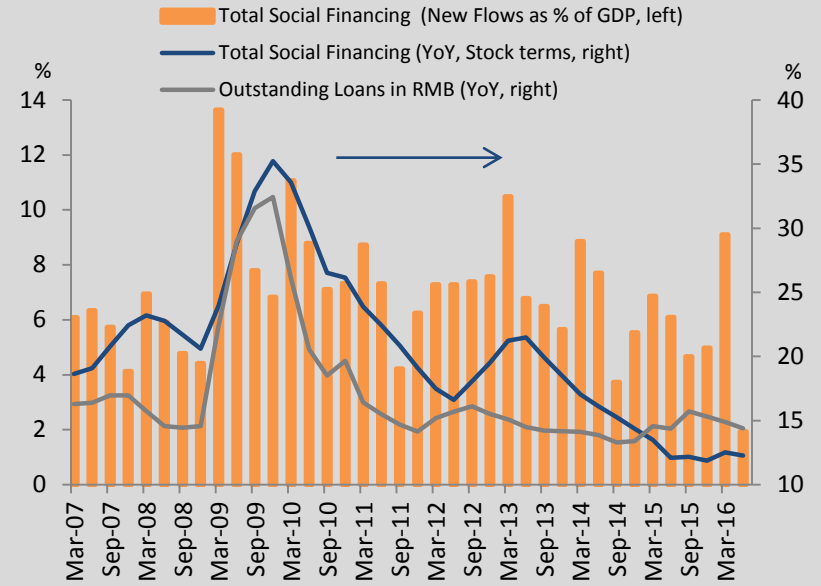
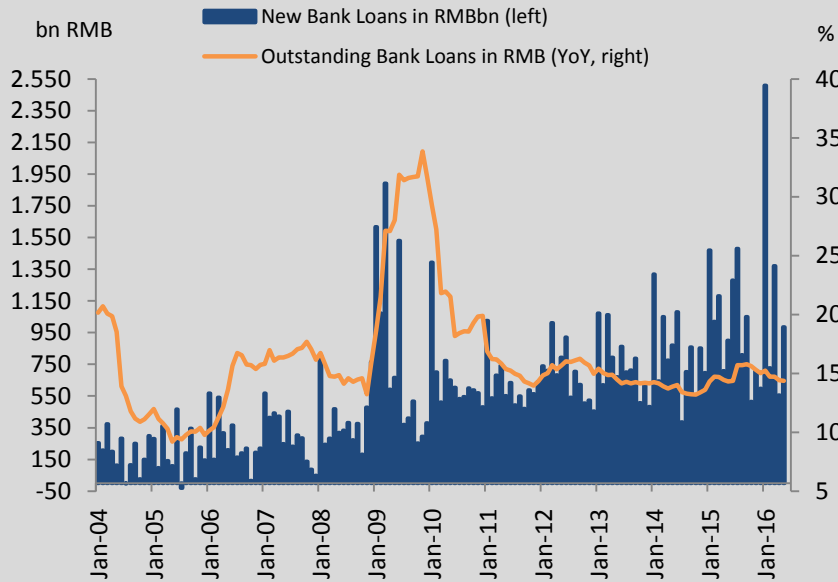


\*% of cities (out of 70) where new residential apartments' prices either declined or increased

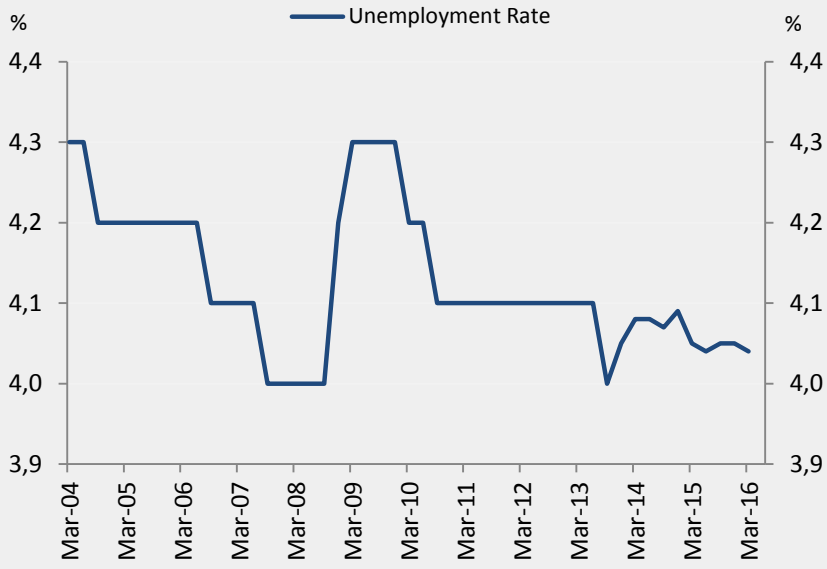
Housing Transactions: Volumes, YoY



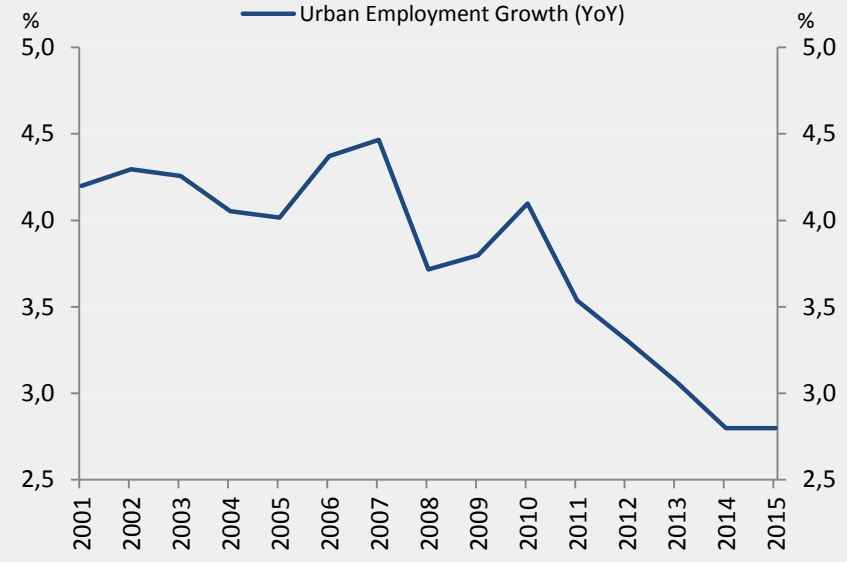
# The PBoC's policy stance has turned more neutral and total social financing (TSF) growth eased to 11.9% yoy in May from 12.5% in April and 12.8% in March



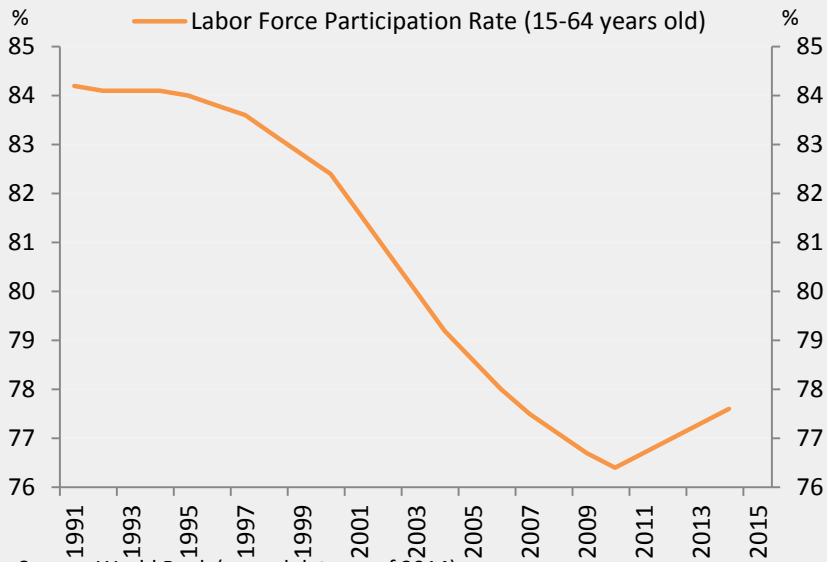
Labor market fundamentals remain solid



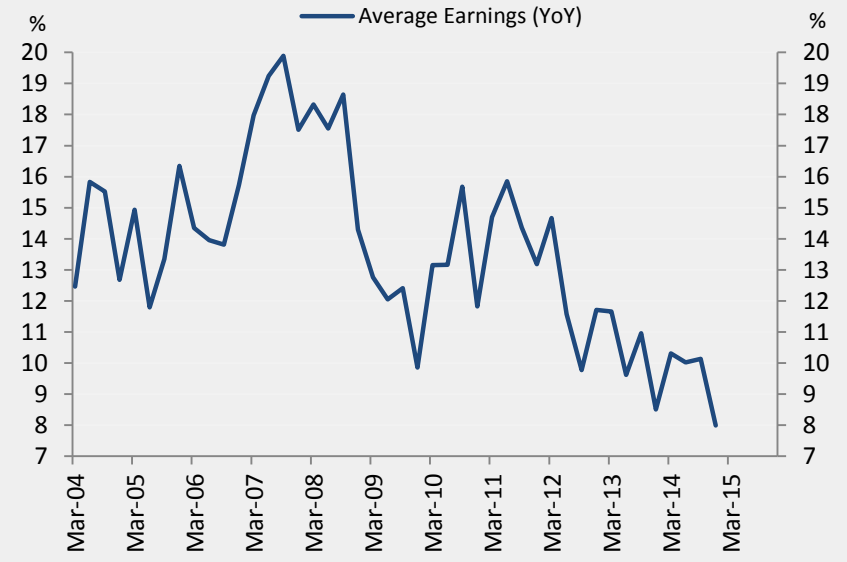
Source: Bloomberg



Source: National Bureau of Statistics, Datastream

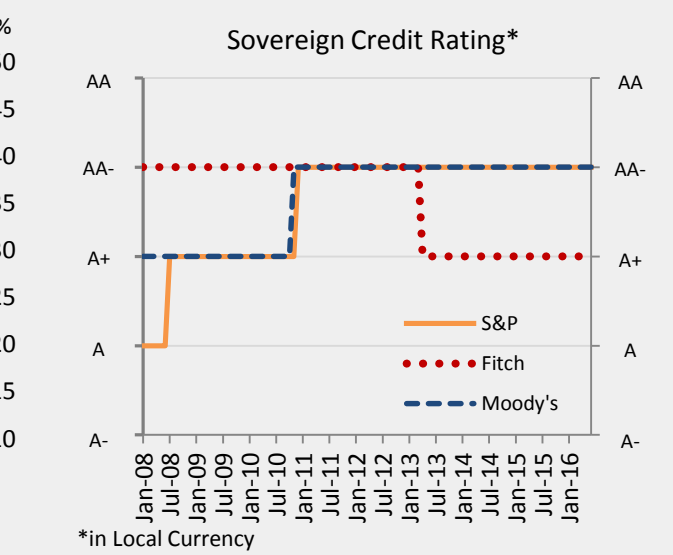
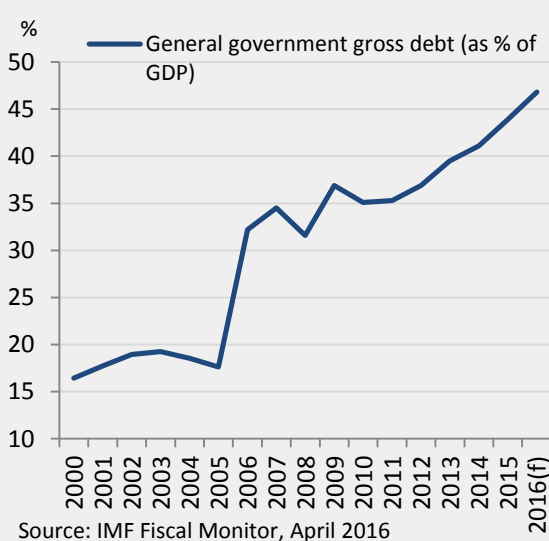
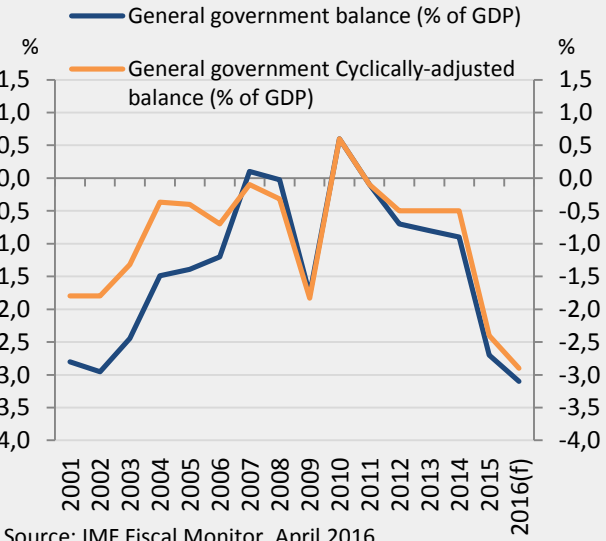
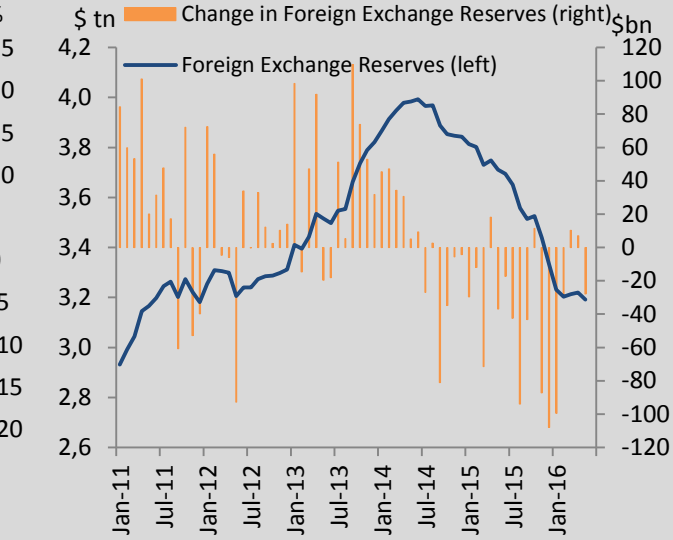
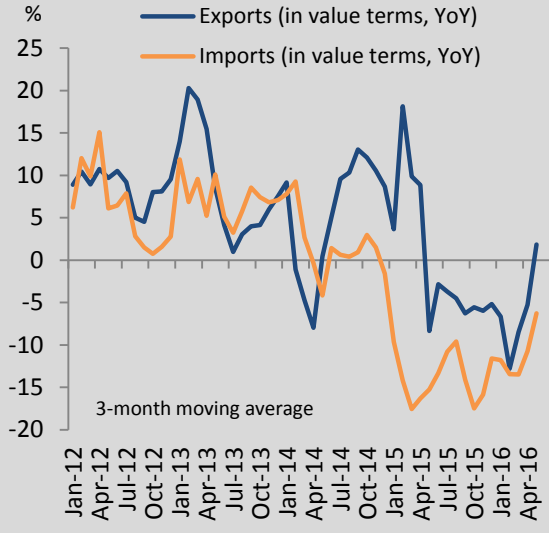
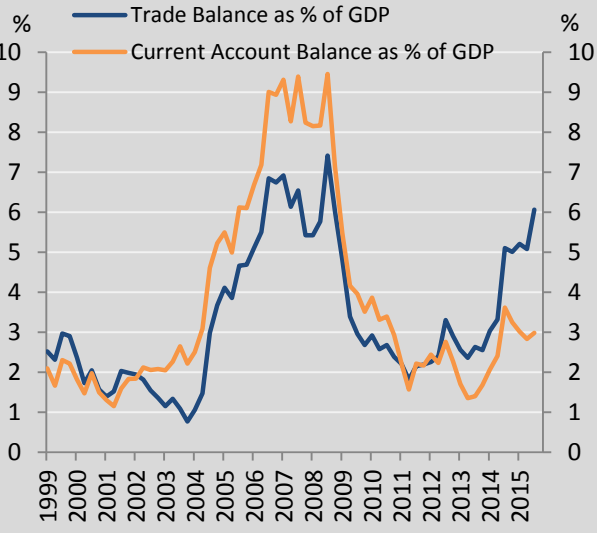


Source: World Bank (annual data, as of 2014)



Source: National Bureau of Statistics, Bloomberg

The trade balance remains strong and is increasing, as the decline in imports outpaces the respective trend for exports. Capital outflows resumed in May due to, *inter alia*, a weaker RMB



Source: IMF Fiscal Monitor, April 2016

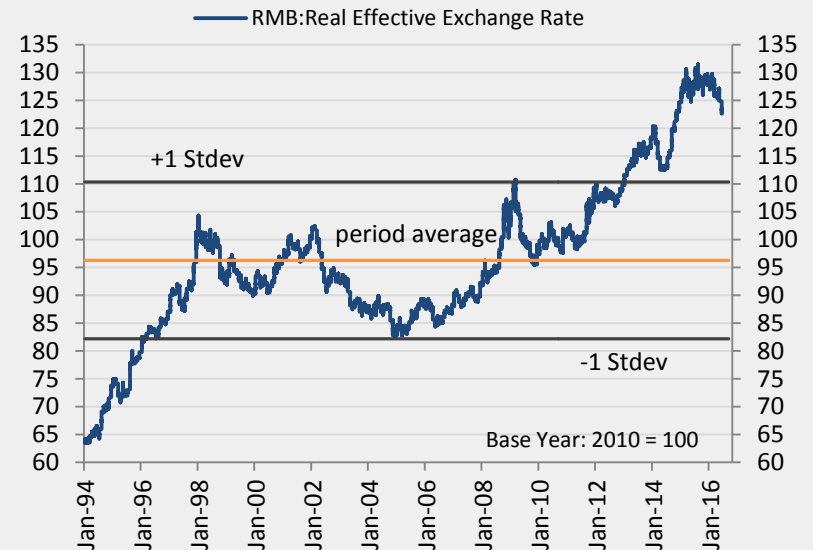
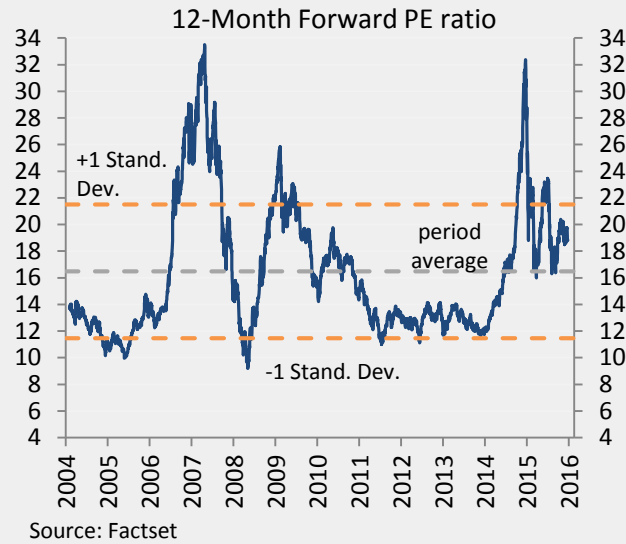
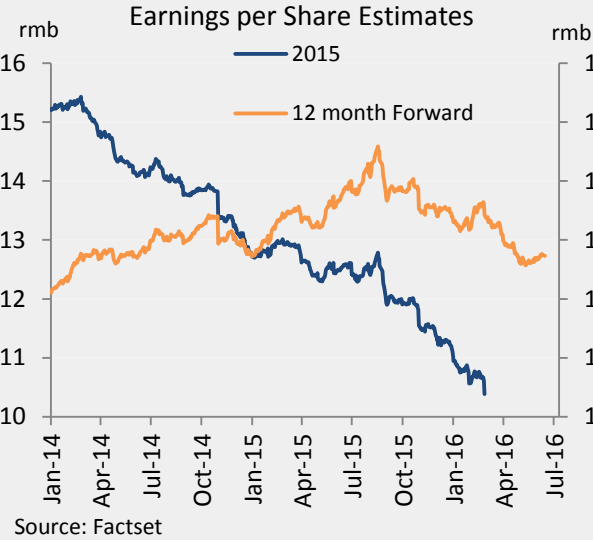
Source: IMF Fiscal Monitor, April 2016

\*in Local Currency

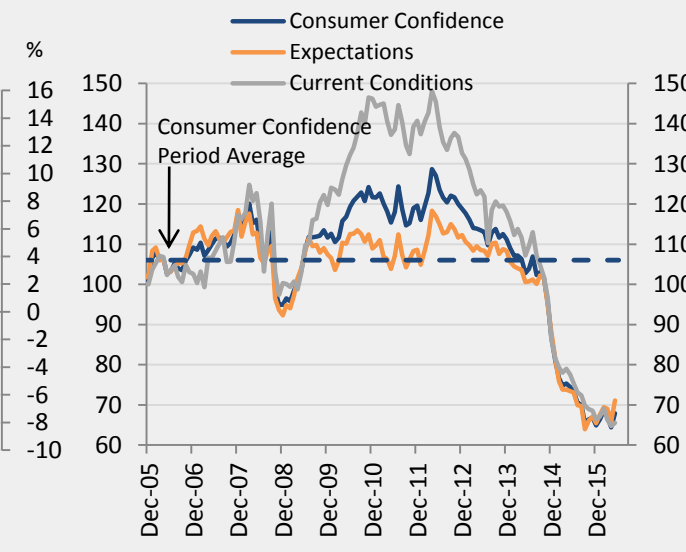
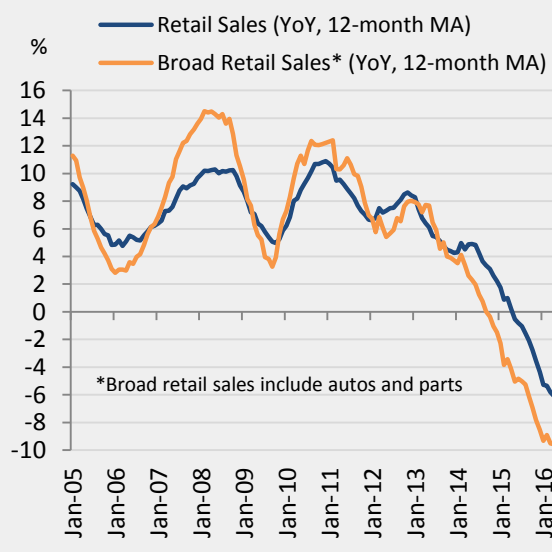
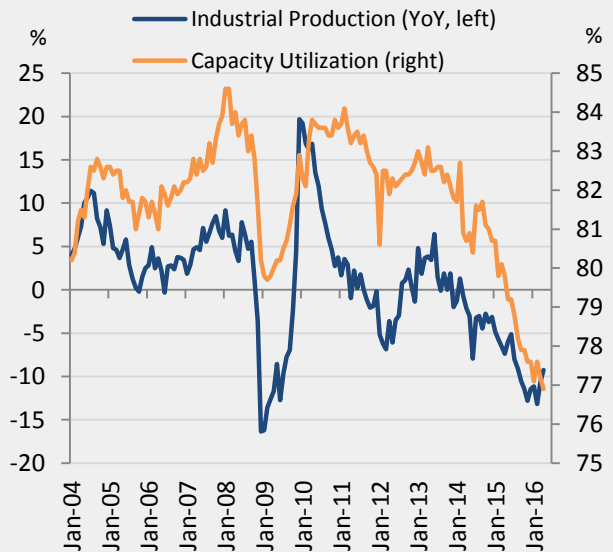
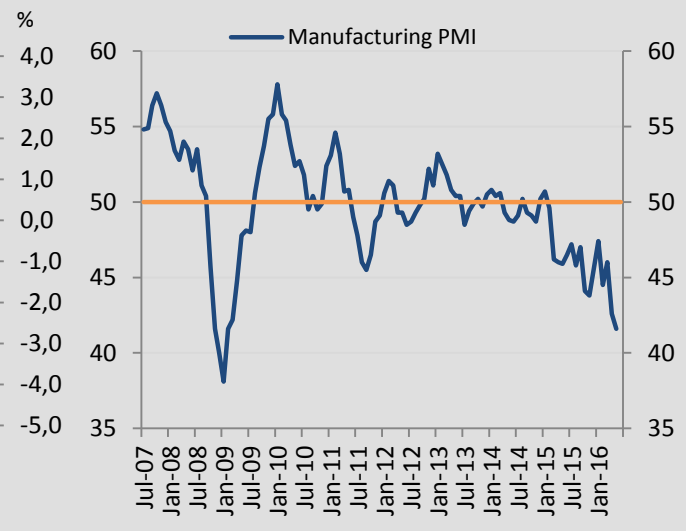
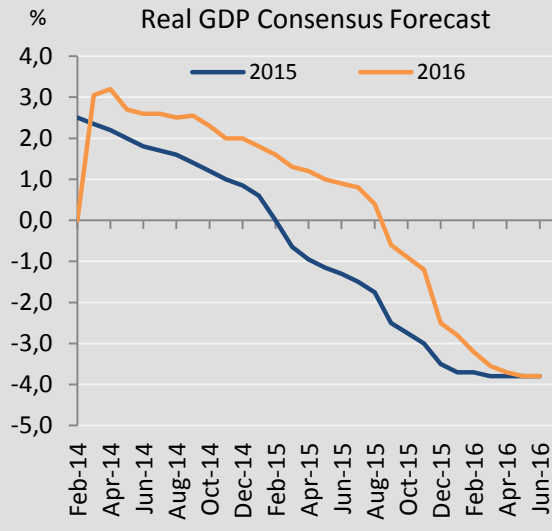
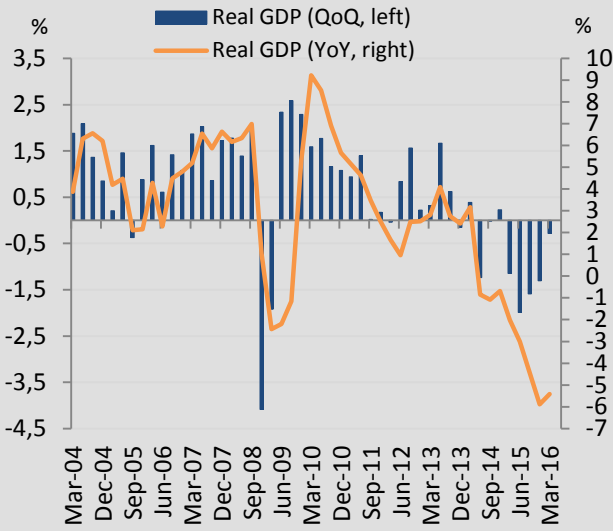
# Chinese equities performed in tandem with the economic data flow in the previous months (A-shares up by 9.3% in March/April and down 3.3% thereafter)



\*Shanghai B-shares are eligible for foreign investors - Shanghai A-shares are available for purchase by mainland investors

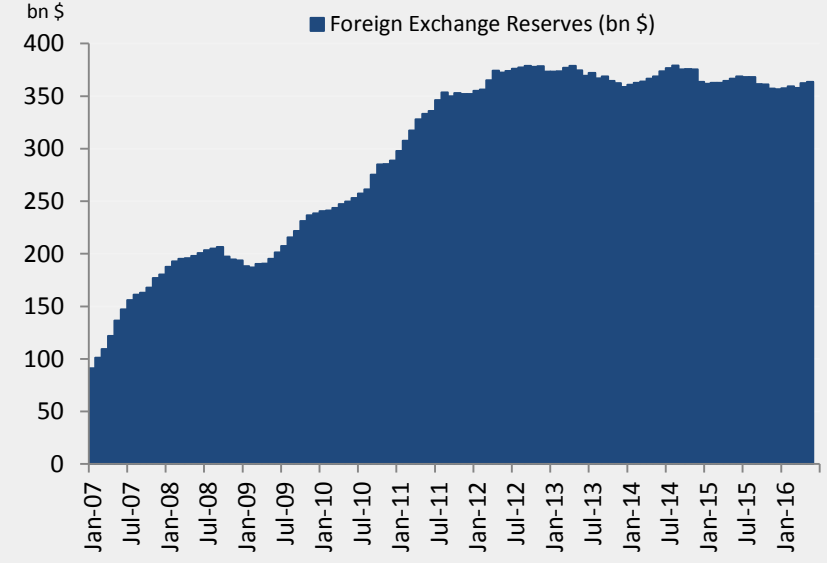
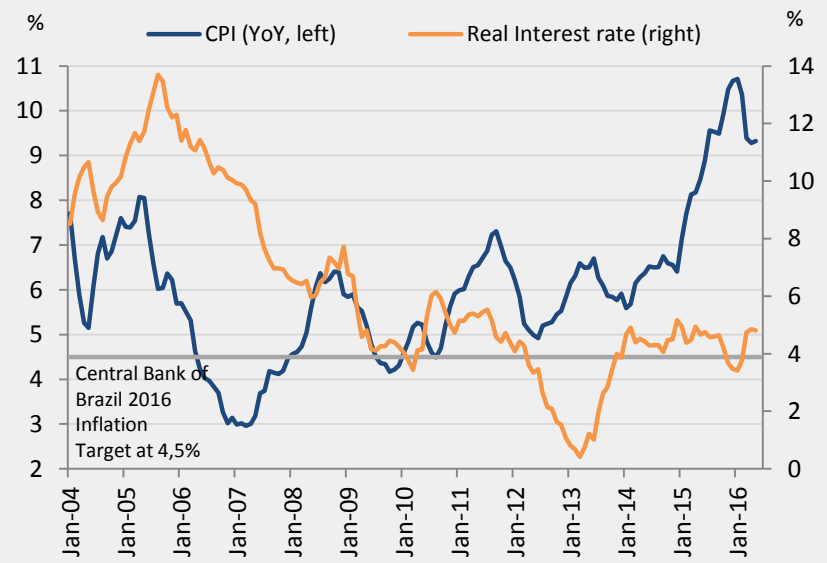
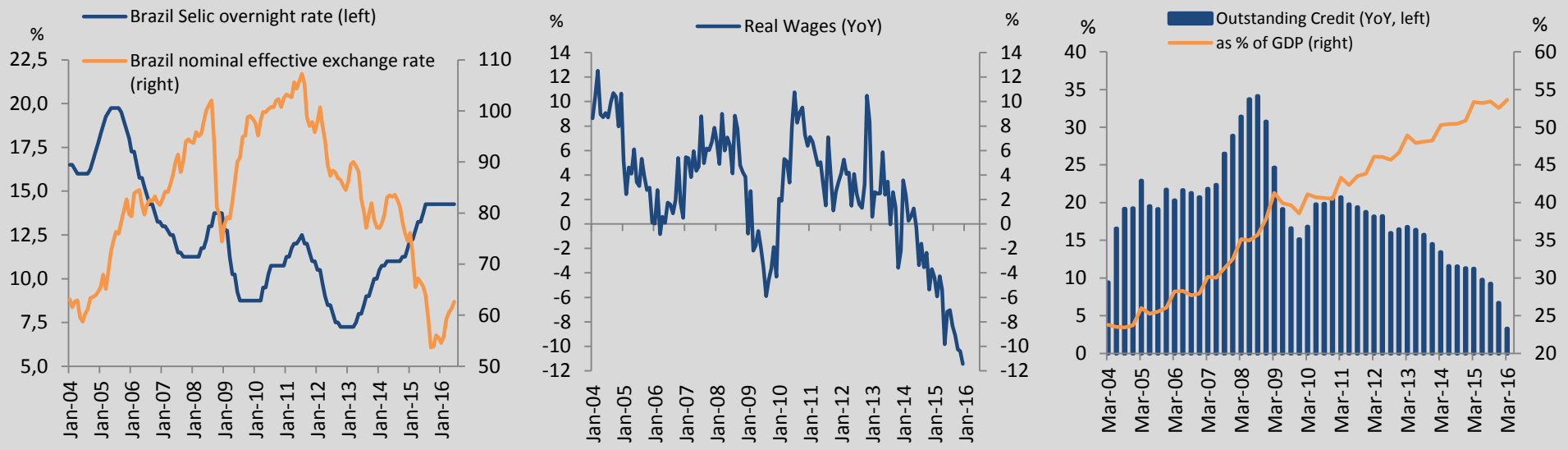


# Brazil: Recession to continue unabated in 2016 (-3.8% from -3.7% in 2015)

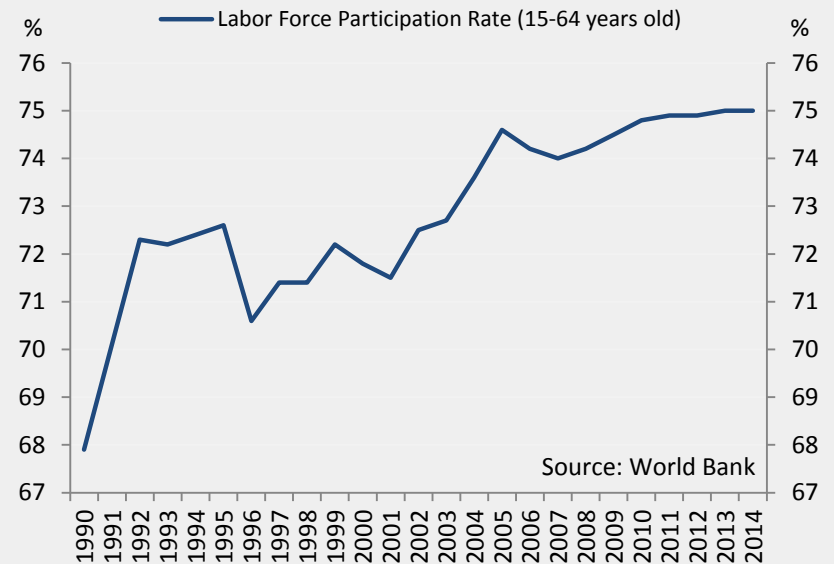
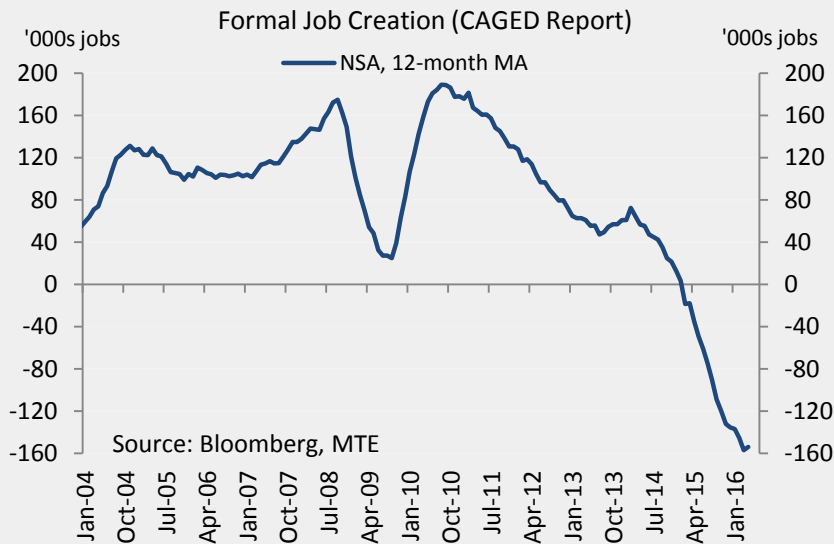
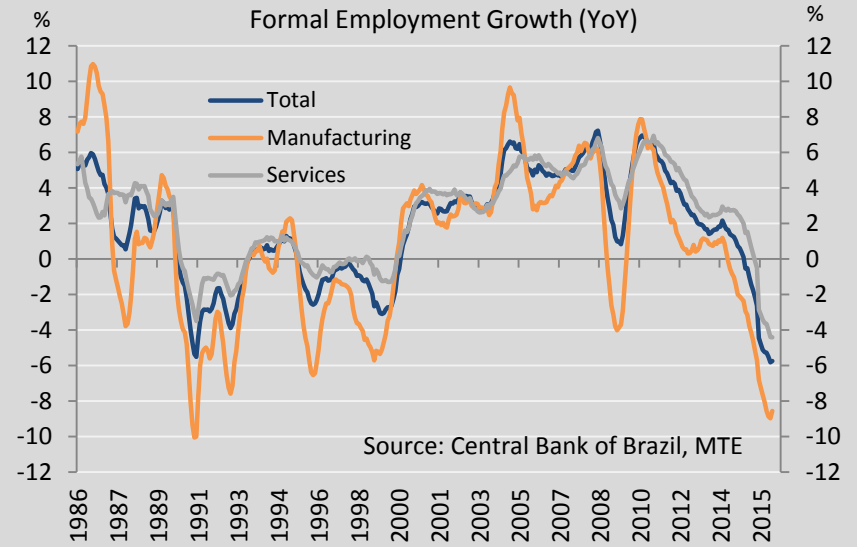
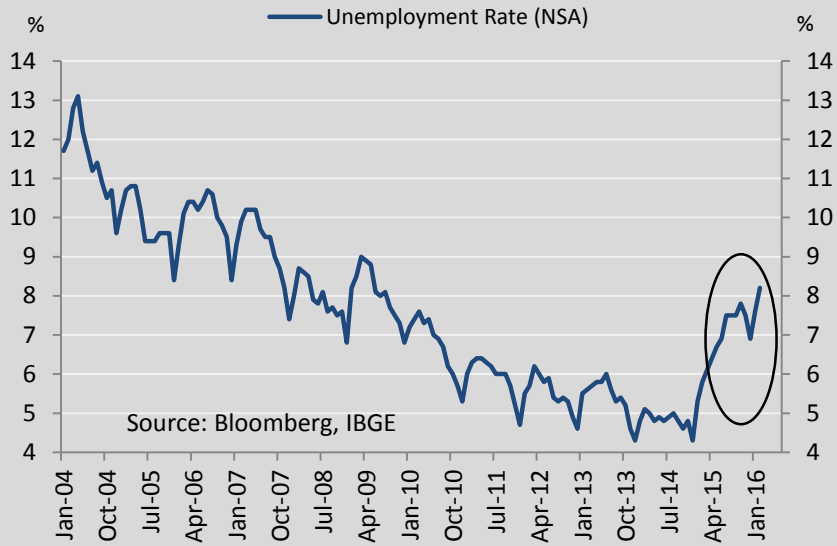




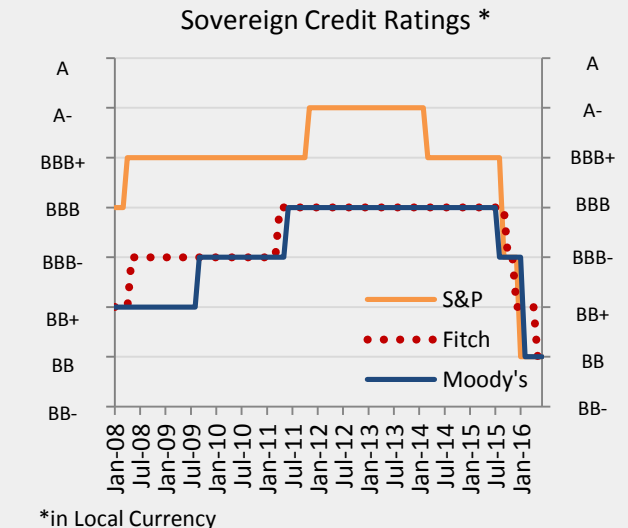
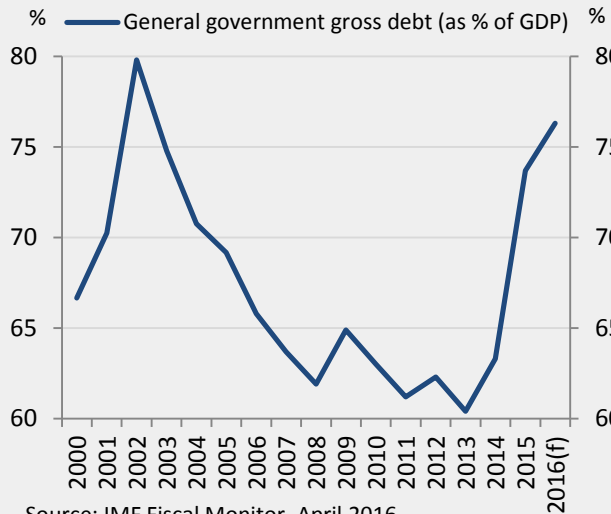
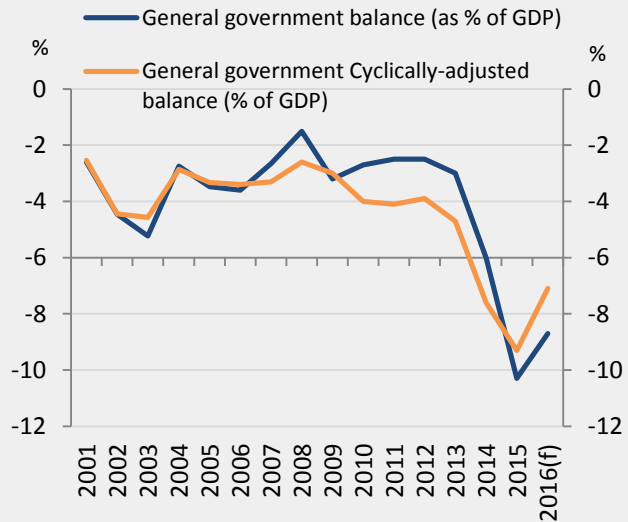
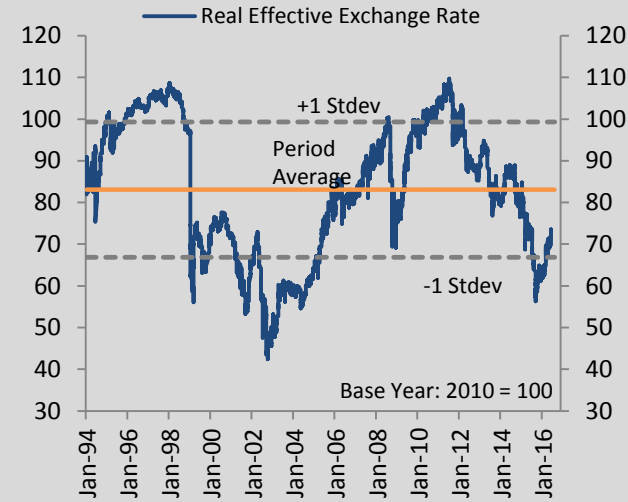
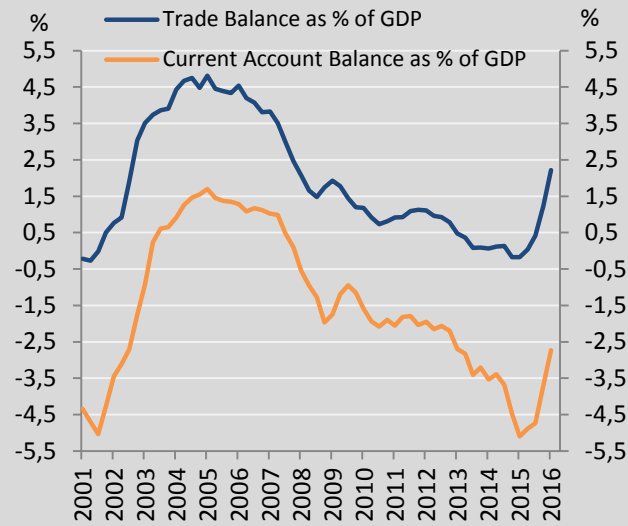
Inflation, albeit posting signs of topping out, remains far above target, while wages continue to adjust rapidly (in constant price terms)



# The unemployment rate remains elevated, while layoffs reached a record high of 157k in March



# Political uncertainty poses challenges to the implementation of the necessary fiscal adjustment. Brazil's rating status stands below Investment Grade

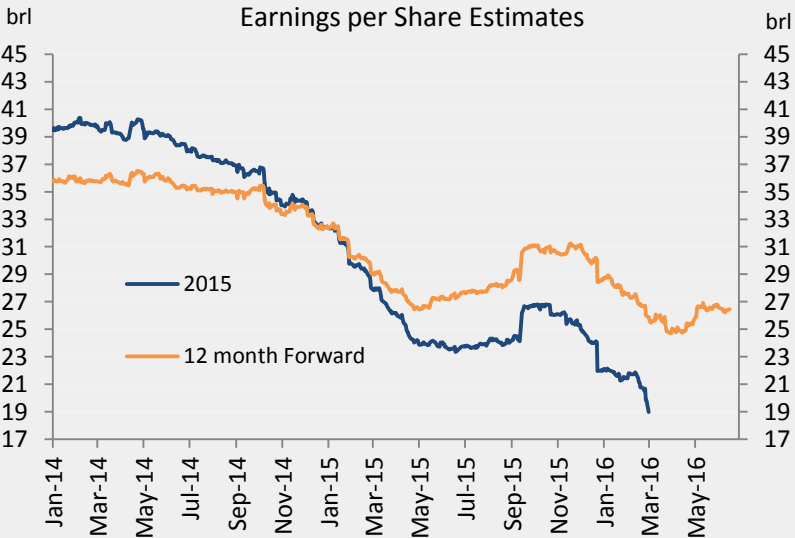
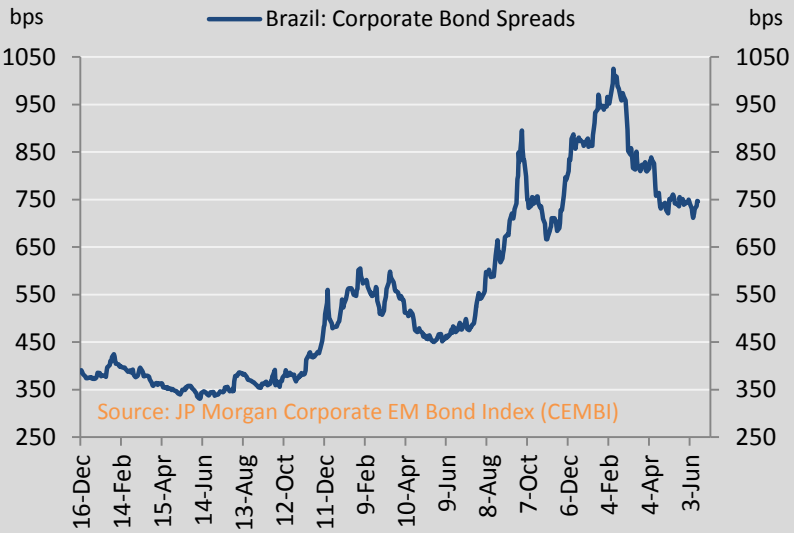
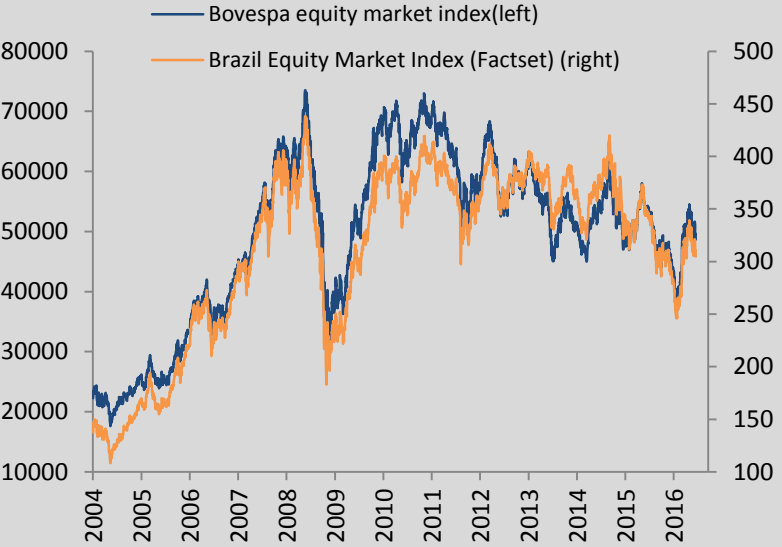


Source: IMF Fiscal Monitor, April 2016

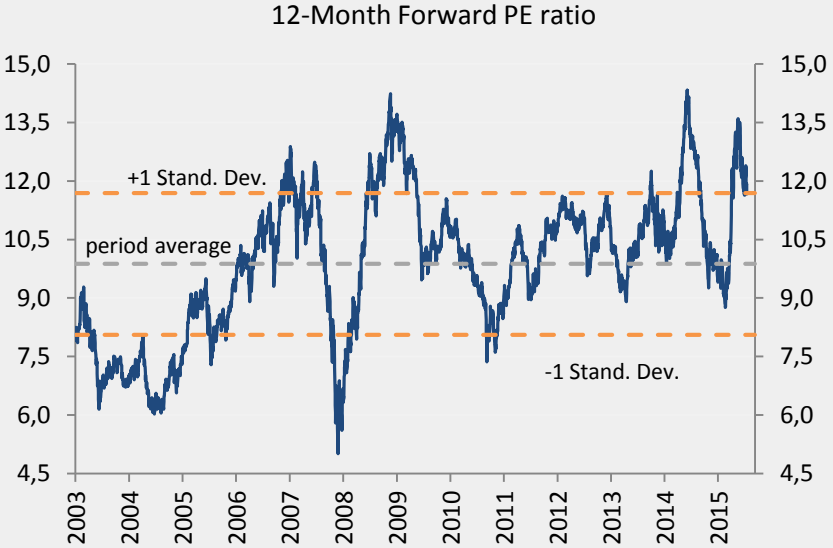
Source: IMF Fiscal Monitor, April 2016

\*in Local Currency

# Brazilian equities have performed broadly in line with their emerging peers so far in Q2:16 (-2.8% vs -2.5% for the MSCI EM)

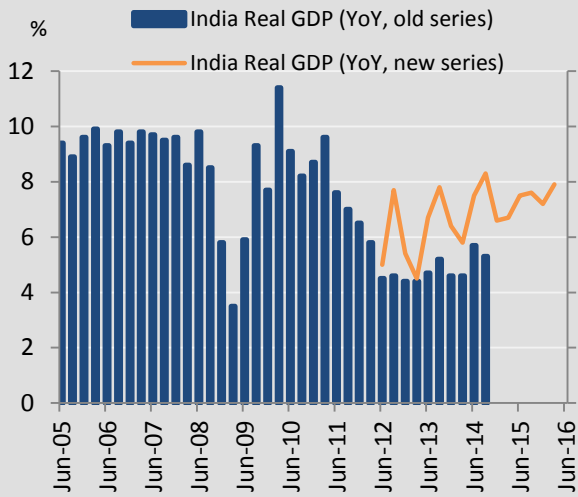


Source: Factset

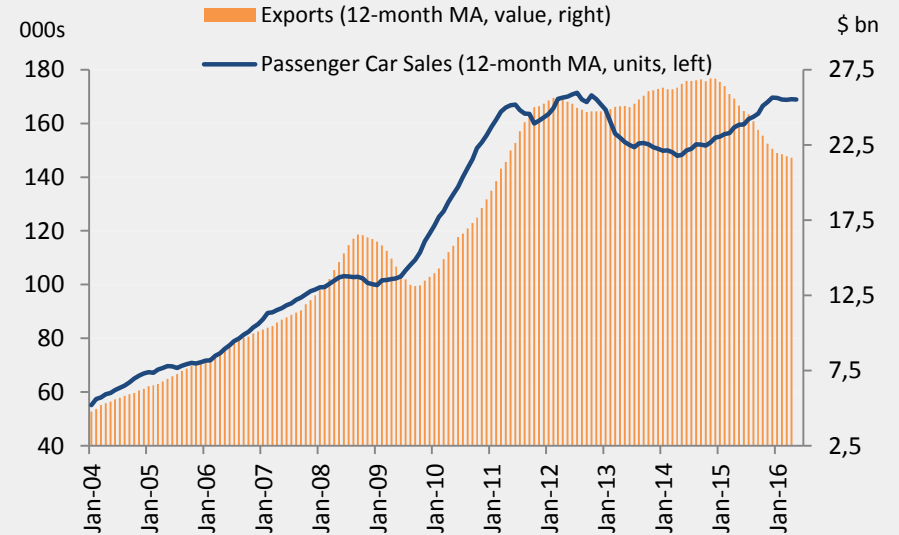
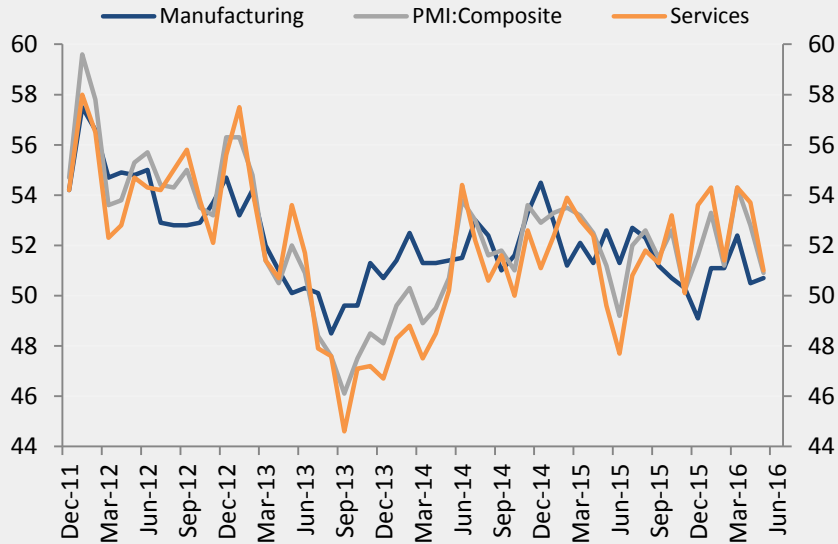
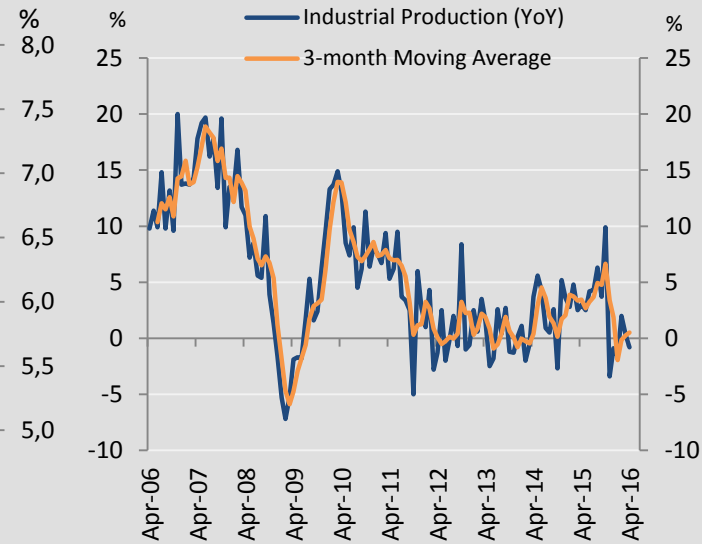
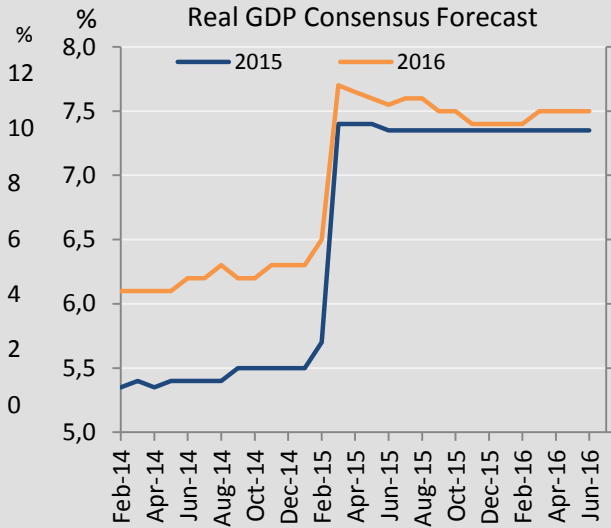


Source: Factset

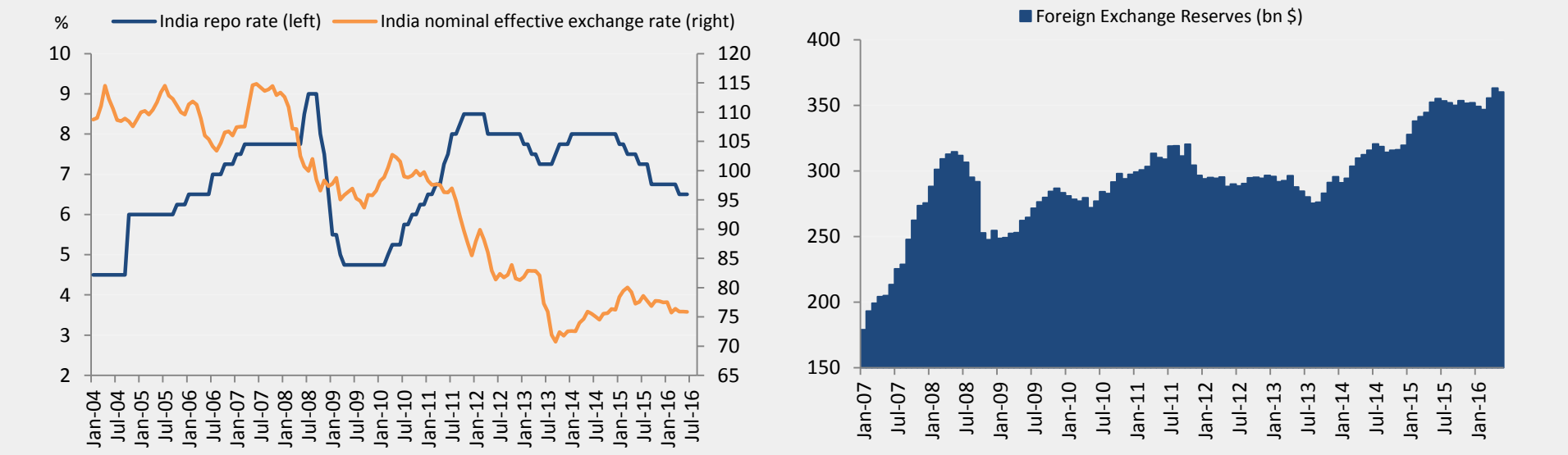
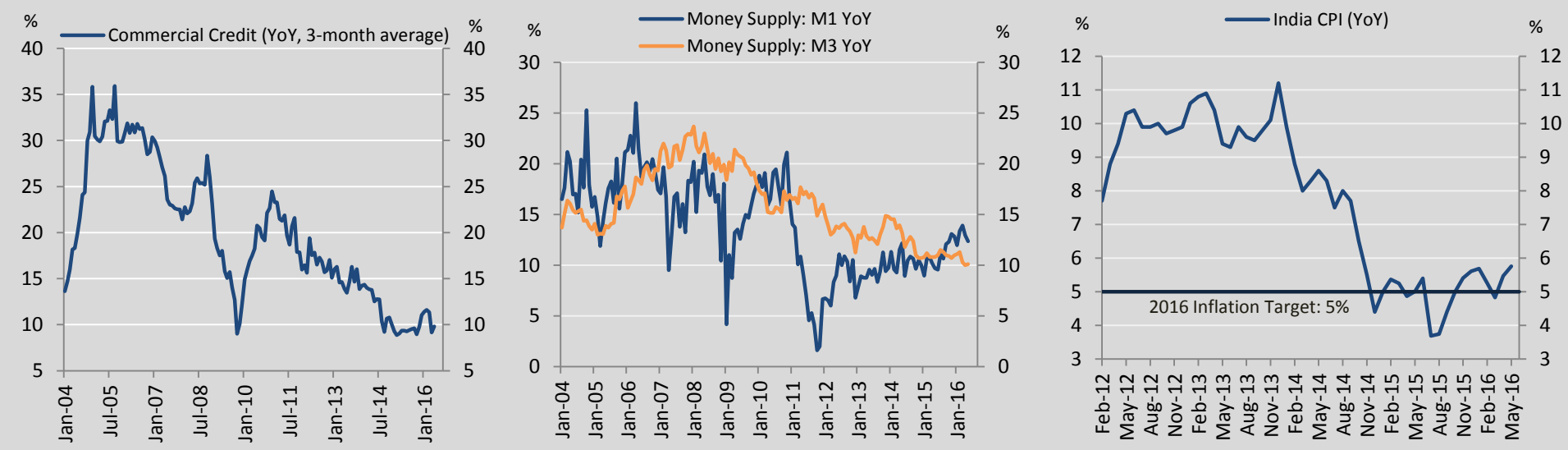
# India: GDP growth remains solid (+7.9% yoy in Q1:16)



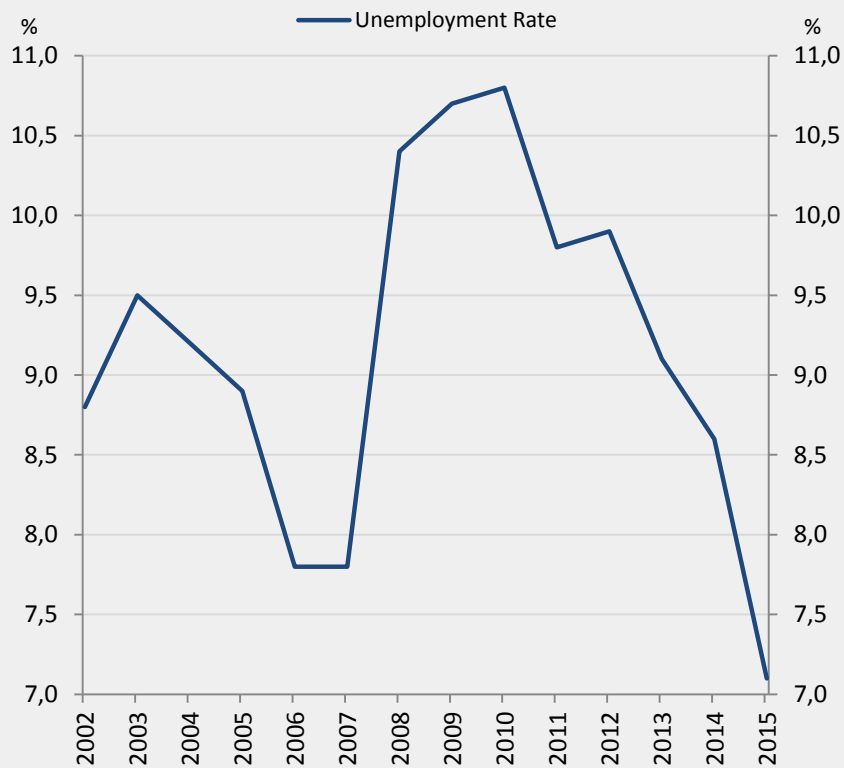
Source: India Central Statistical Organisation



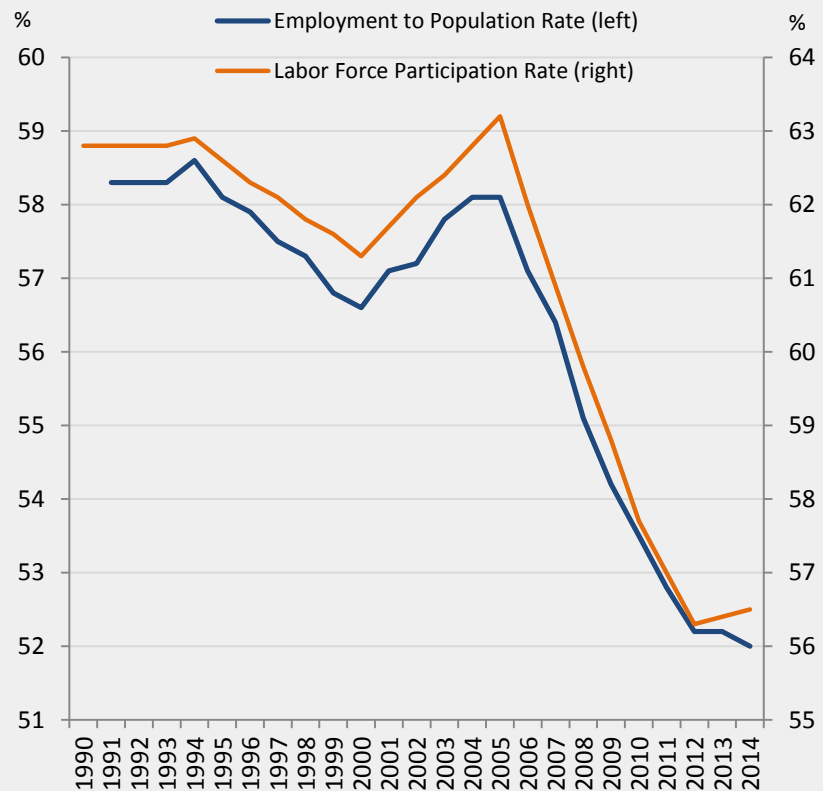
Following the latest rise in inflation (5.8% in May – above the target of 5%), the central bank is expected to remain on hold in the coming months



The unemployment rate is expected to decline further on the back of solid economic activity, as the labor force participation rate stabilizes

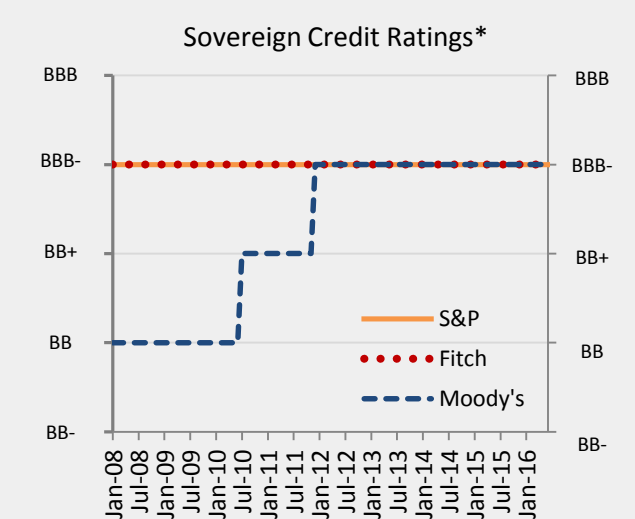
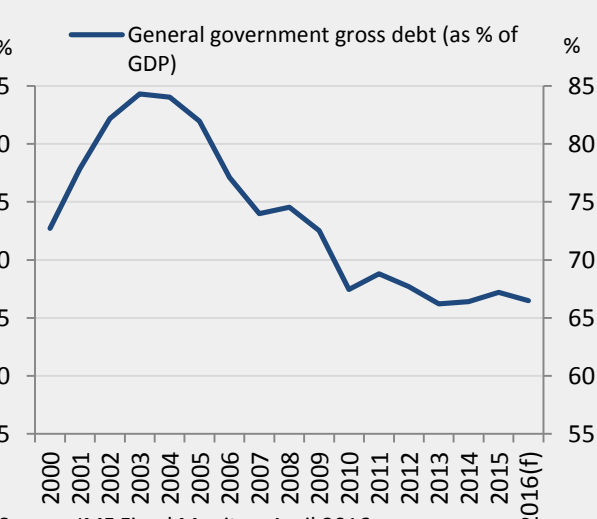
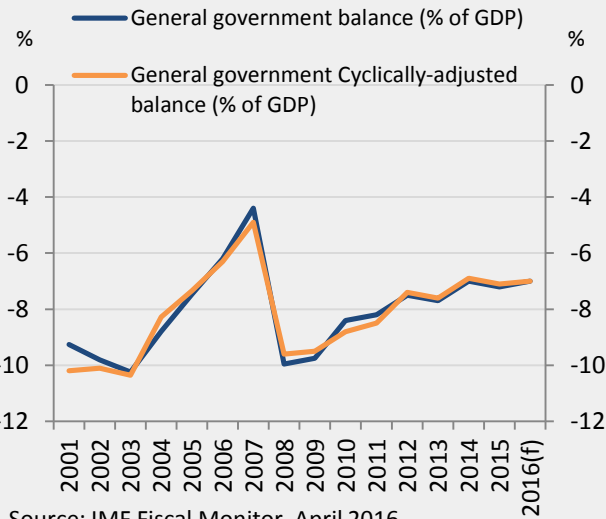
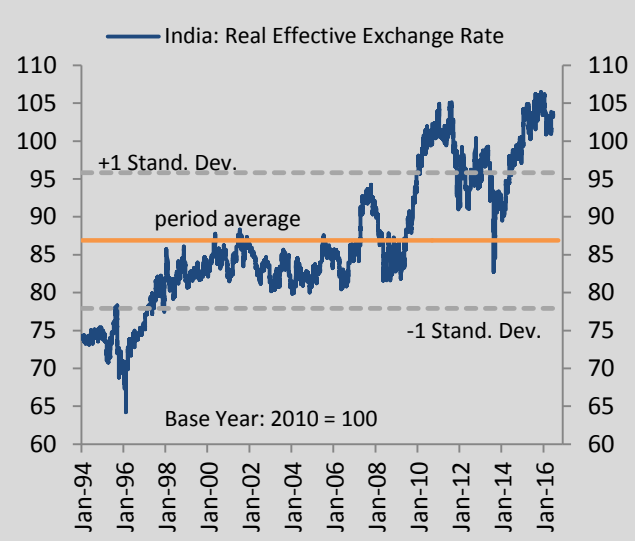
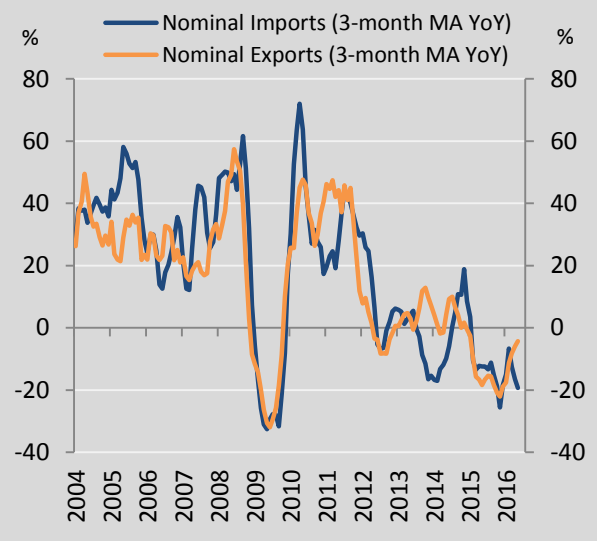
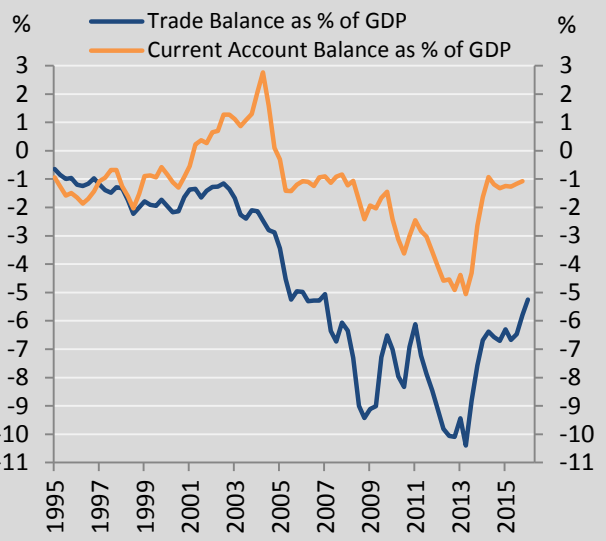


Source: Bloomberg (data as of 2015)



Source: World Bank (annual data, as of 2014)

# The trade deficit continues to improve, while the current account deficit has stabilized recently



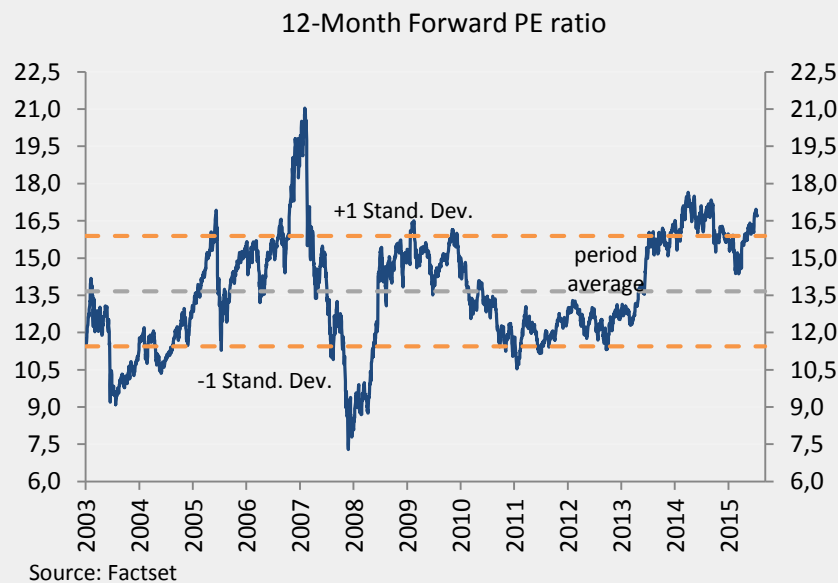
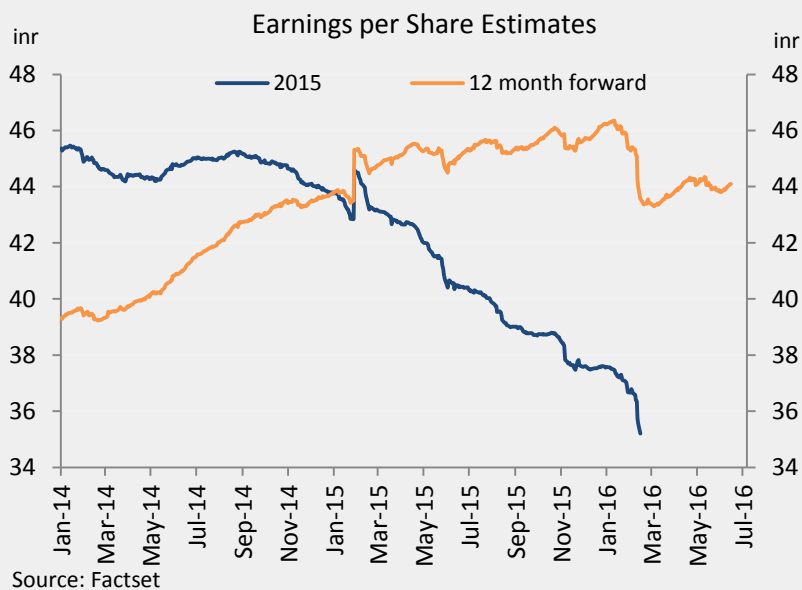
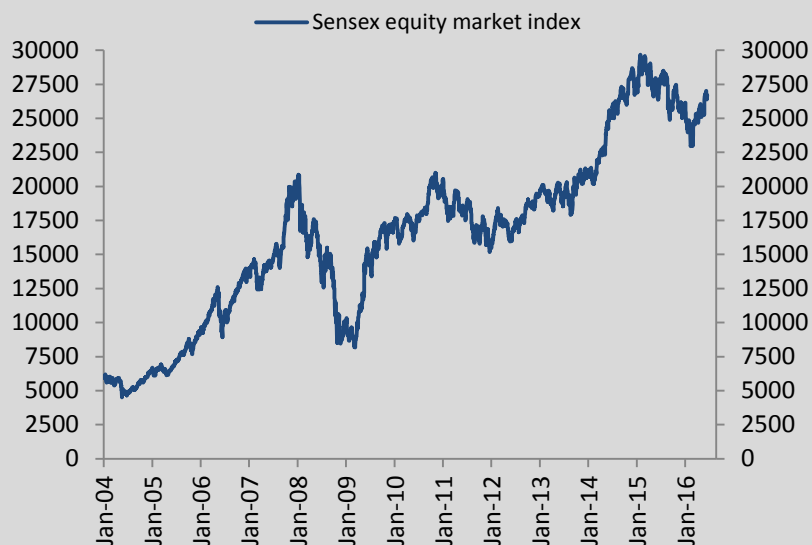
Source: IMF Fiscal Monitor, April 2016

Source: IMF Fiscal Monitor, April 2016

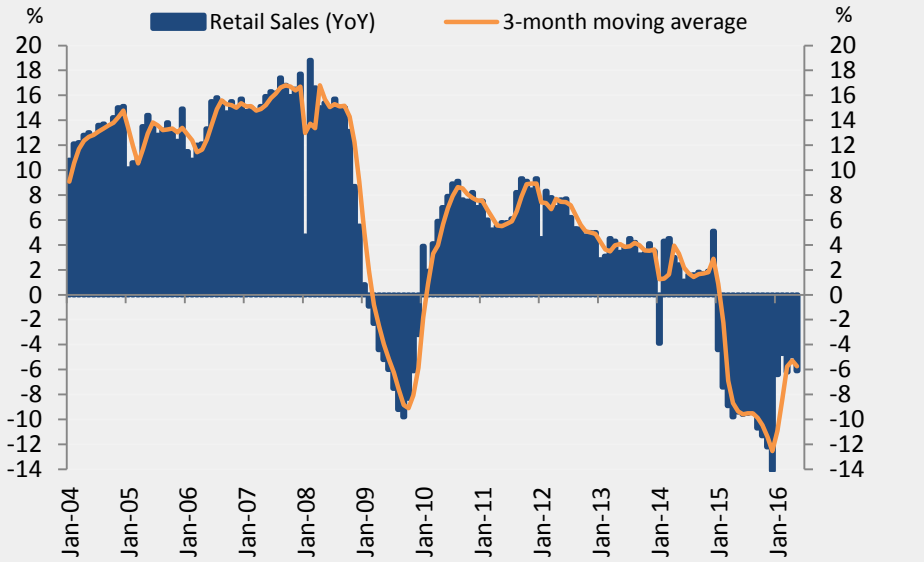
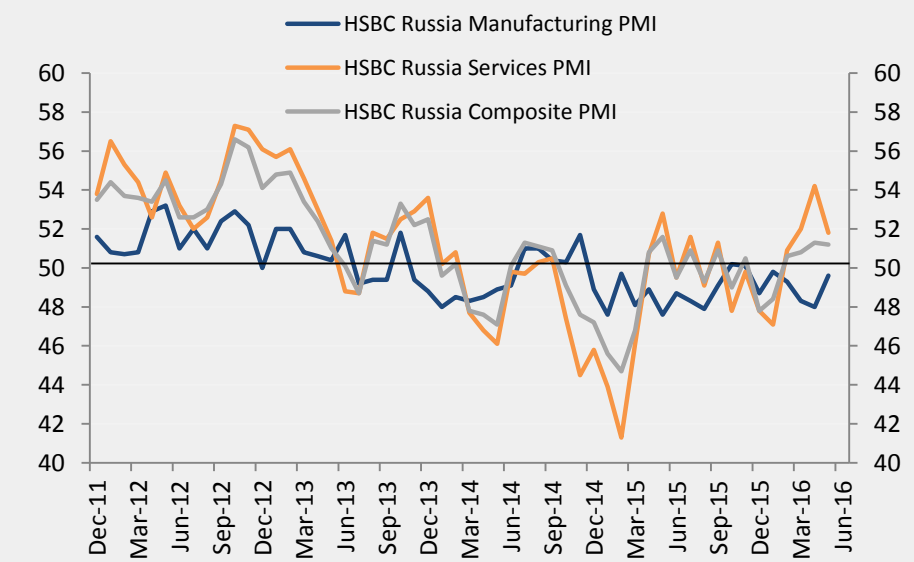
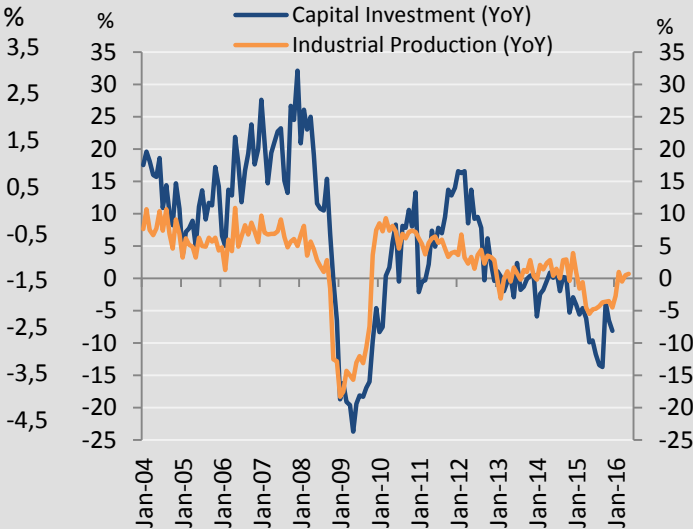
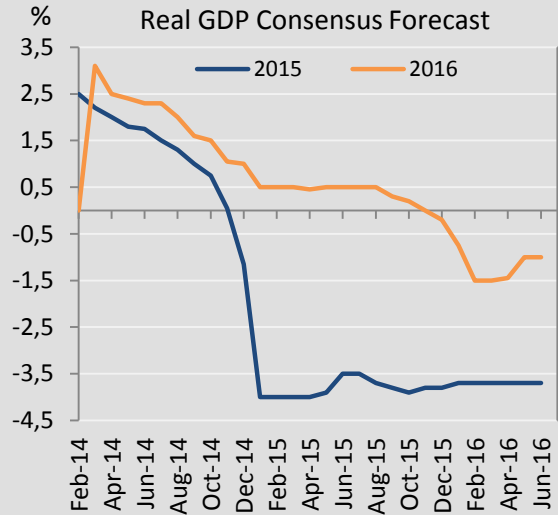
\*in Local Currency



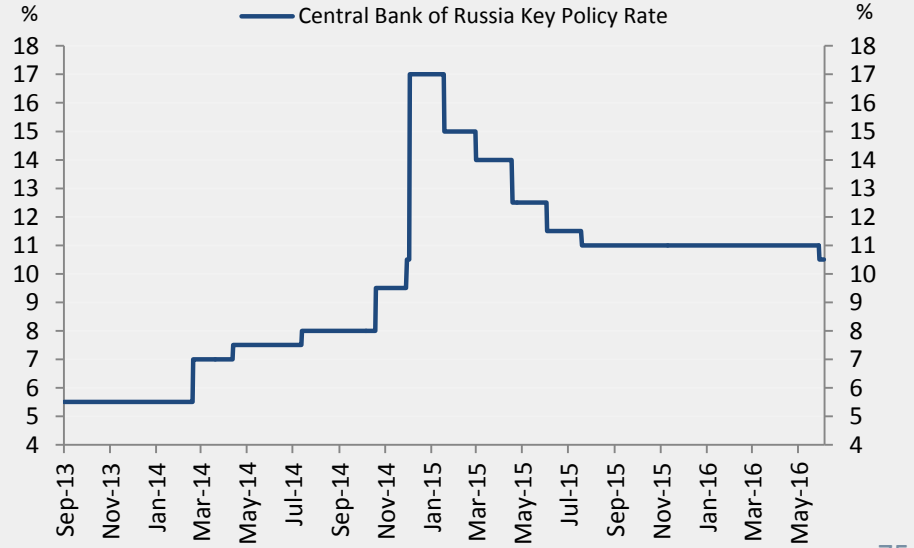
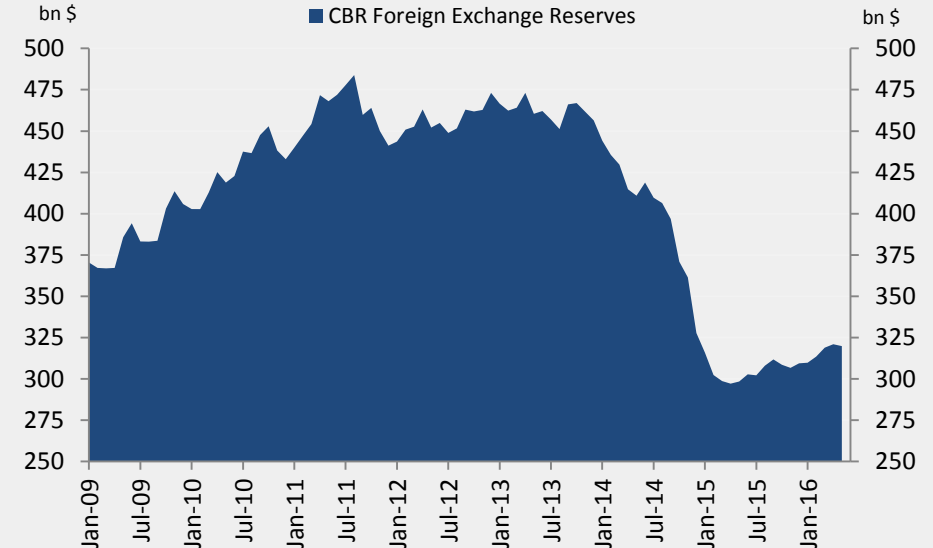
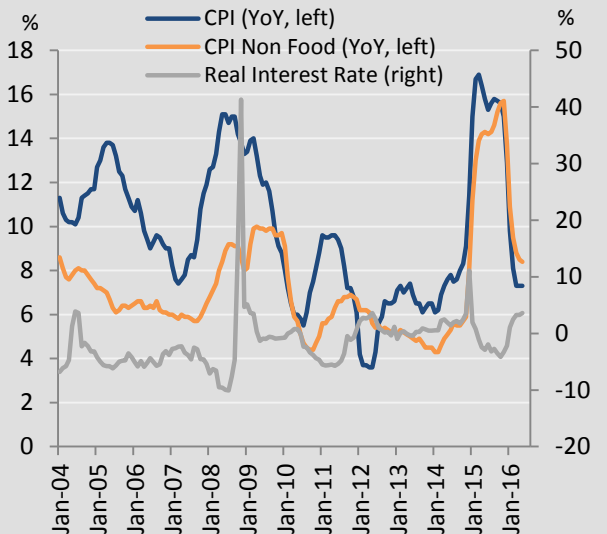
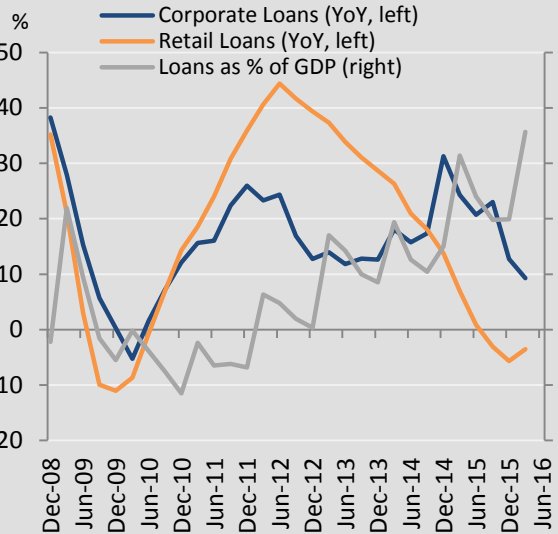
So far in Q2:16, equities (+4.2%) overperformed their EM peers (-2.5%), while 12-month forward EPS have stabilized



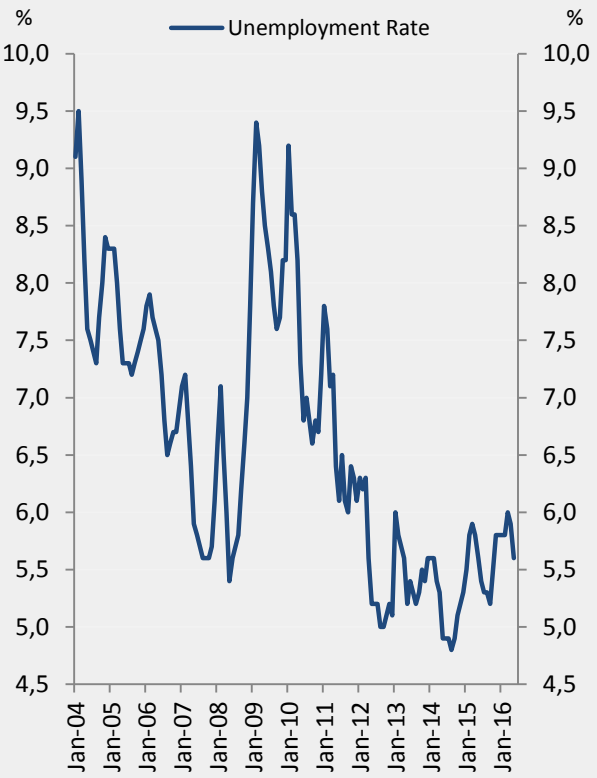
Russia: The recession bottomed out in Q1:16 (-1.2% yoy from -3.7% yoy in Q4:15). 2016 real GDP is expected to decline by 1%



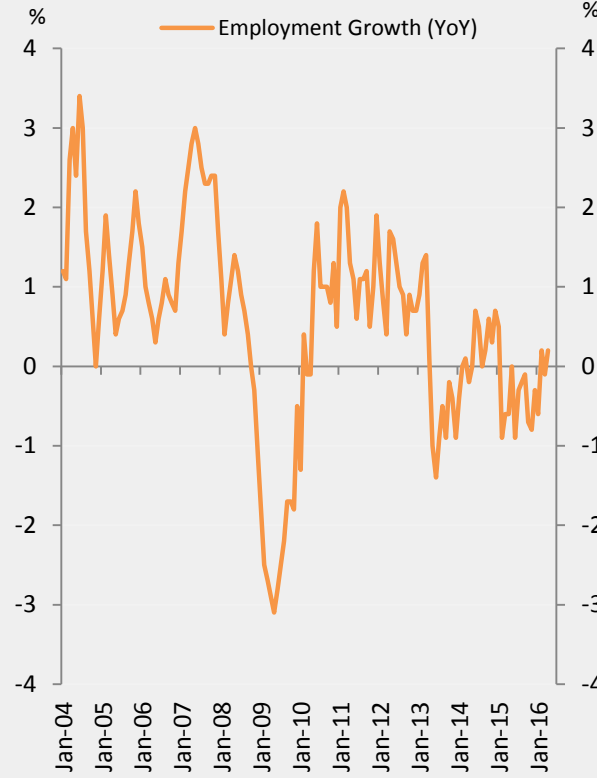
# Inflation has declined substantially, supporting the central bank's decision to proceed with an interest rate cut in June (-50 bps)



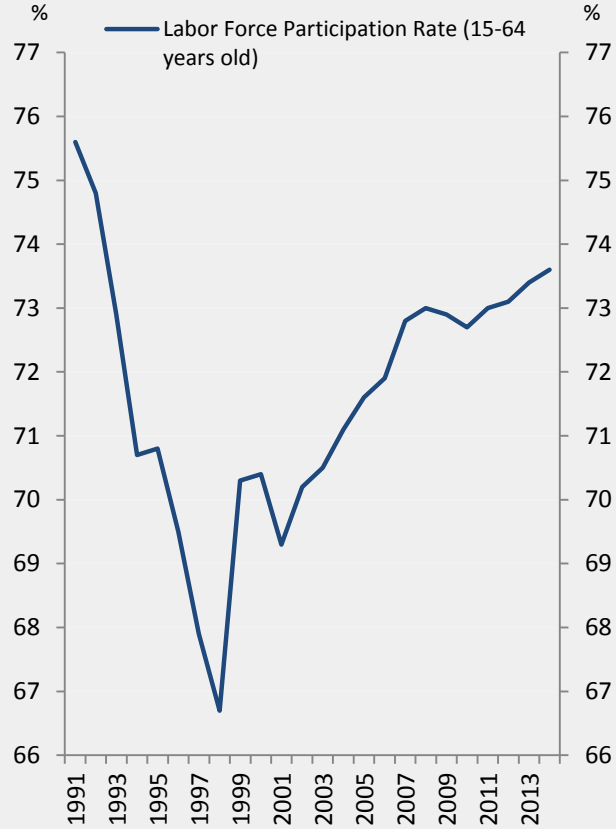
The unemployment rate has stabilized in the range of 5.5%-6.0% in the past 8 months



Source: Federal State Statistics Service, Bloomberg (monthly data as of April 2016)

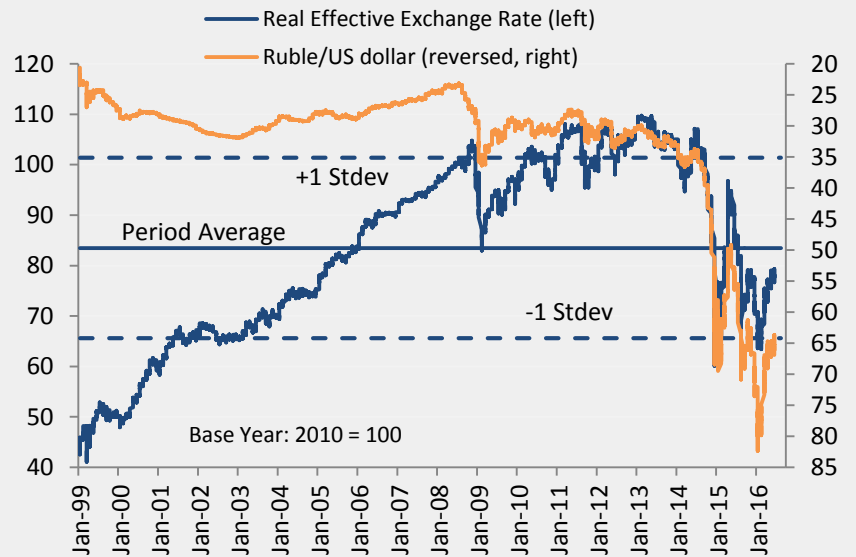
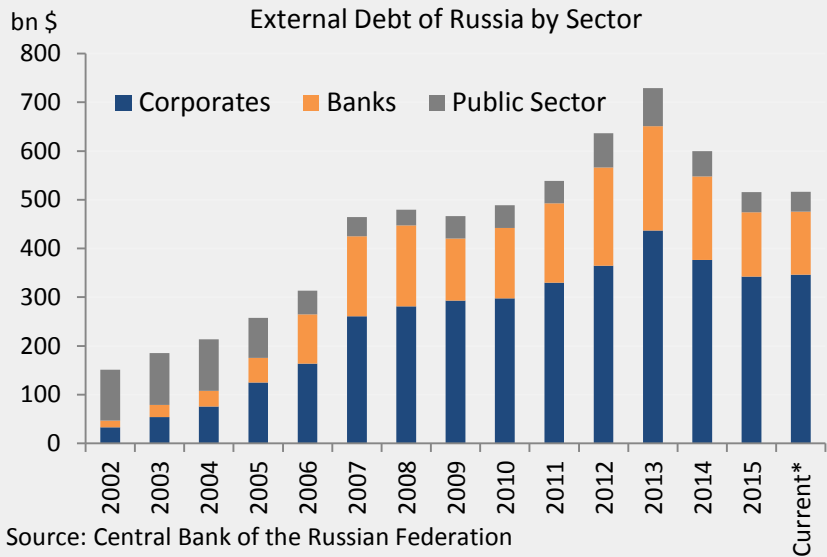
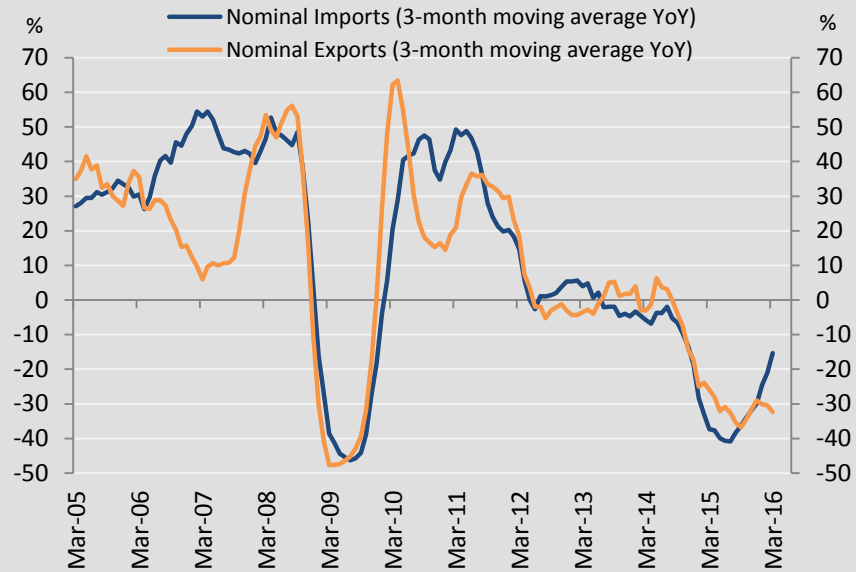
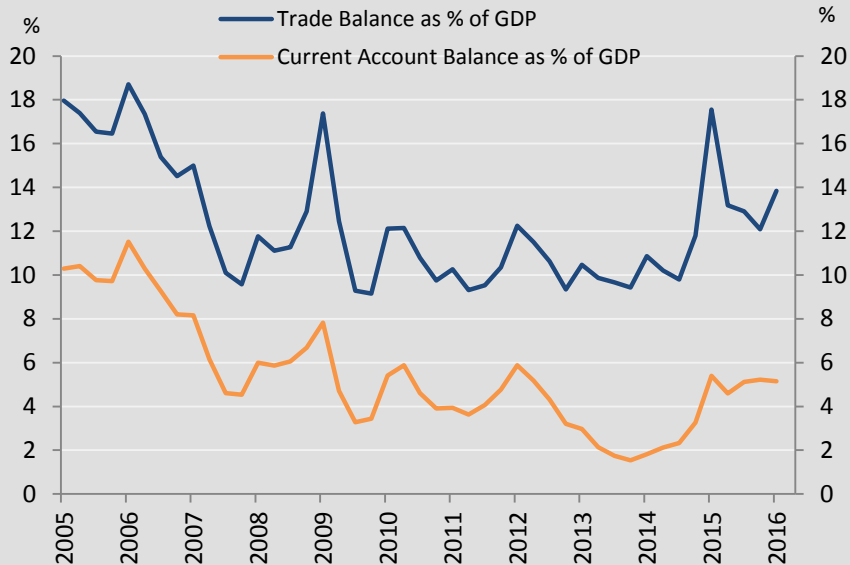


Source: Federal State Statistics Service, Bloomberg (monthly data as of April 2016)



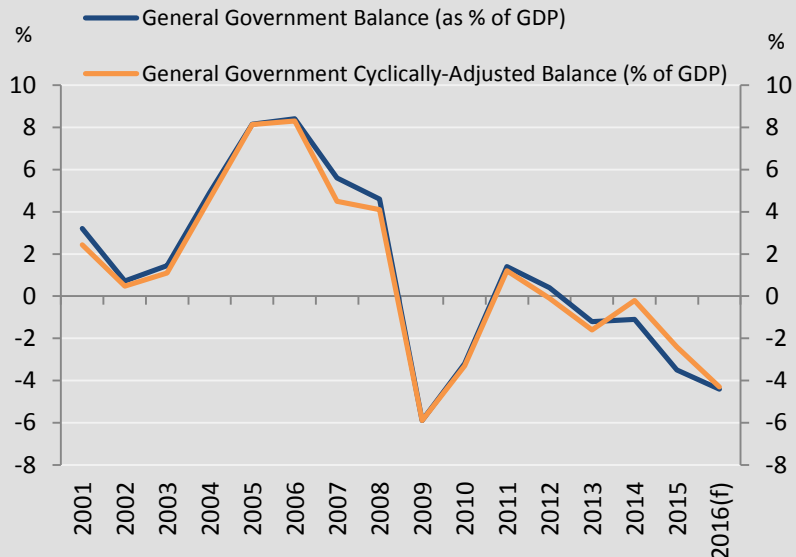
Source: World Bank (annual data, as of 2014)

# The decline in imports has reversed course due to improving domestic demand

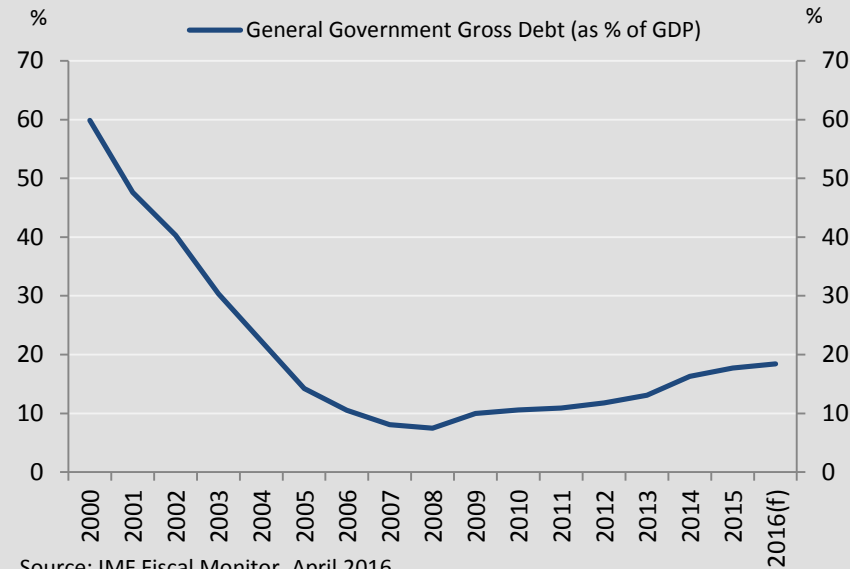


Source: Central Bank of the Russian Federation  
\*March 2016 (estimate)

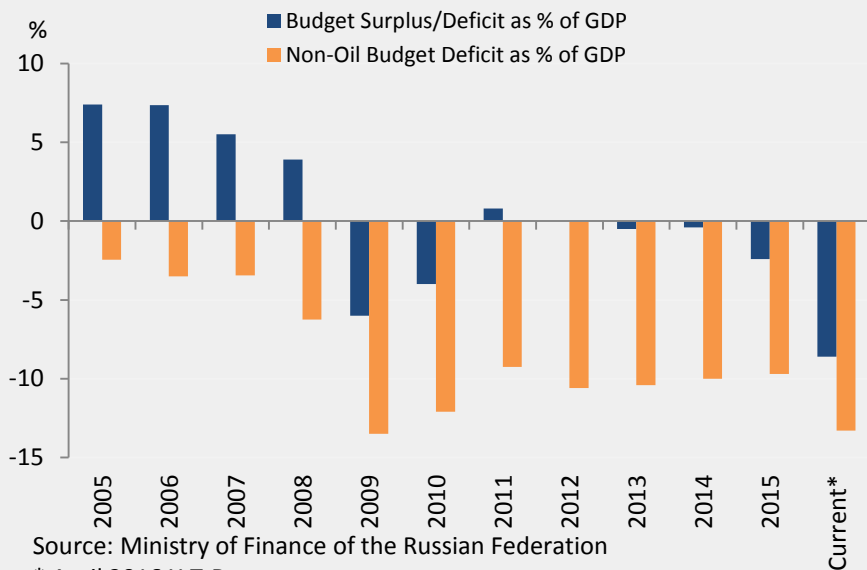
# The 2016 budget deficit target of 3% (based on oil prices of \$50/brl) now appears feasible, on account of higher oil prices



Source: IMF Fiscal Monitor, April 2016



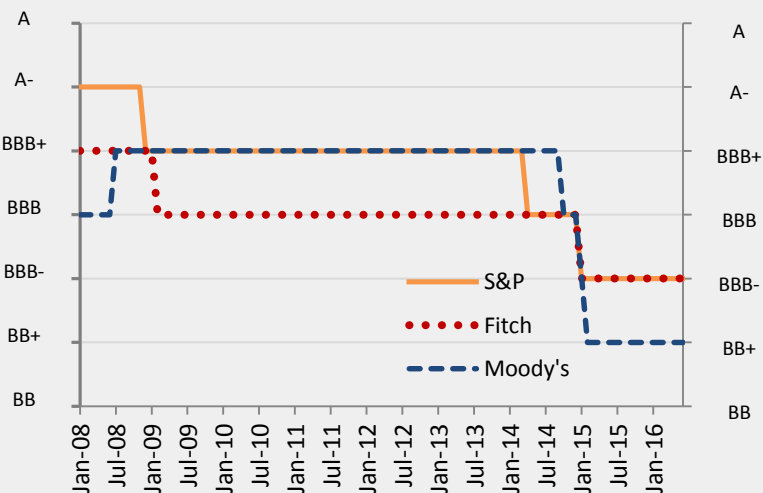
Source: IMF Fiscal Monitor, April 2016



Source: Ministry of Finance of the Russian Federation

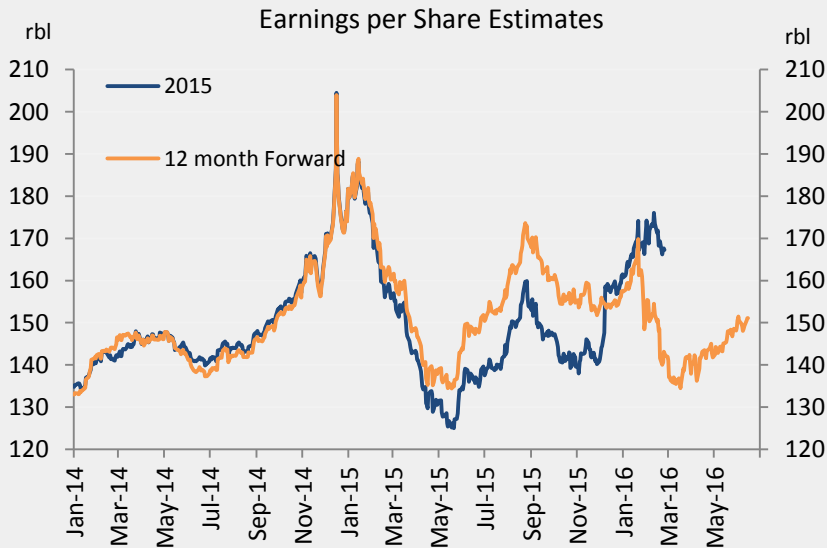
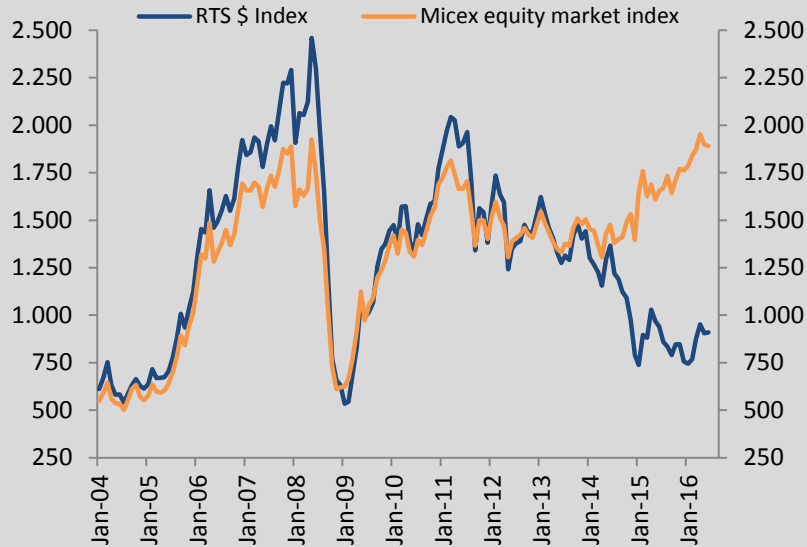
\* April 2016 Y-T-D

## Sovereign Credit Ratings \*

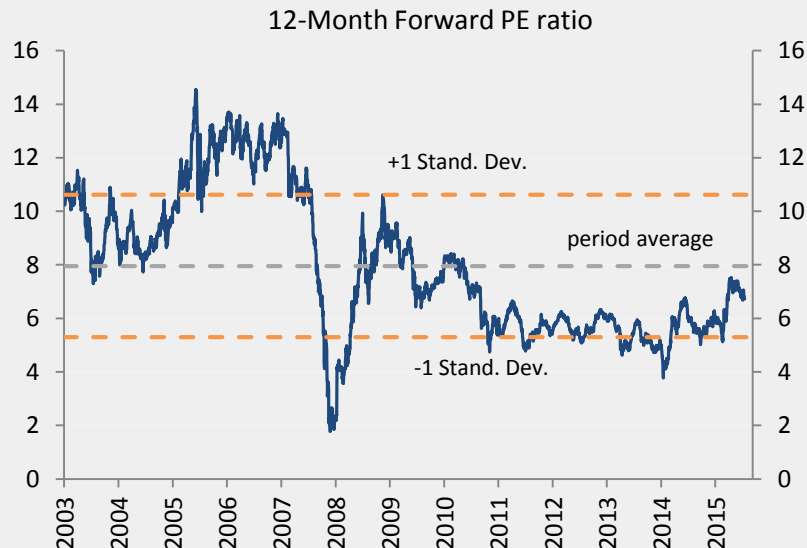


\*in Local Currency

# In Q2, Russian equities have overperformed their EM peers (MSCI Russia: -0.8% vs MSCI EM: -2.5%)



Source: Factset



Source: Factset

## DISCLOSURES:

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