National Bank of Greece
Economic Research Division

Global Economic & Markets Factbook

Ilias Tsirigotakis
Head of Global Markets Research
☎2103341517
✉tsirigotakis.hlias@nbg.gr

Panagiotis Bakalis
☎2103341545
✉mpakalis.pan@nbg.gr

Lazaros Ioannidis
☎2103341553
✉ioannidis.lazaros@nbg.gr

Vasiliki Karagianni
☎2103341548
✉karagianni.vasiliki@nbg.gr

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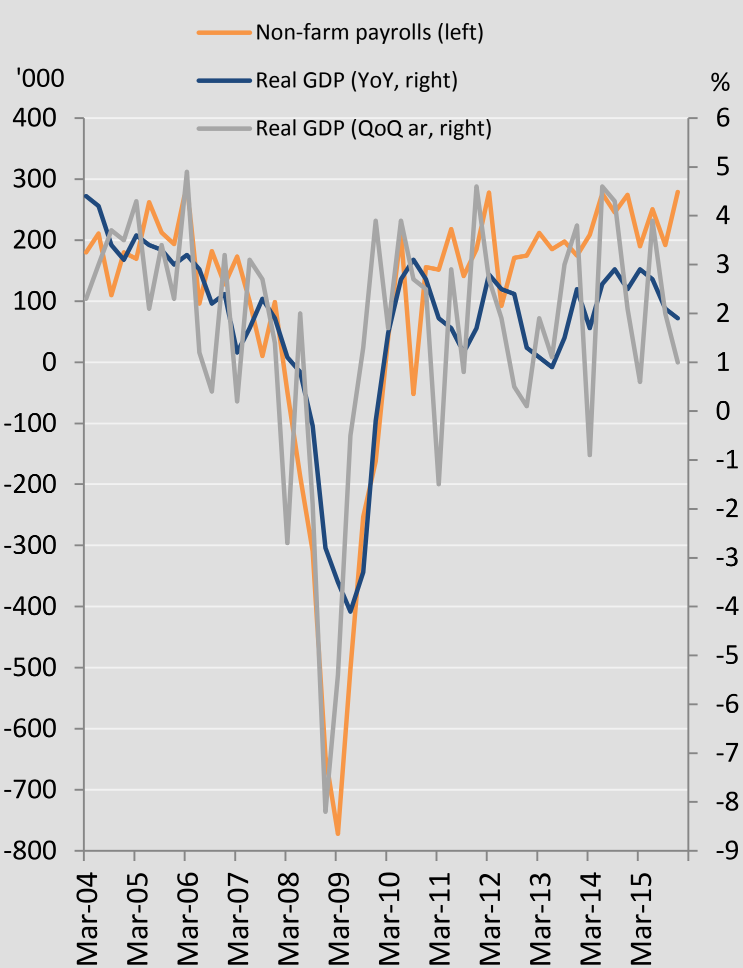
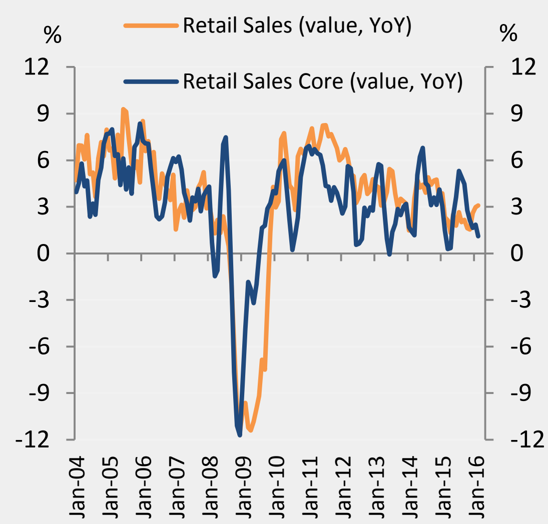
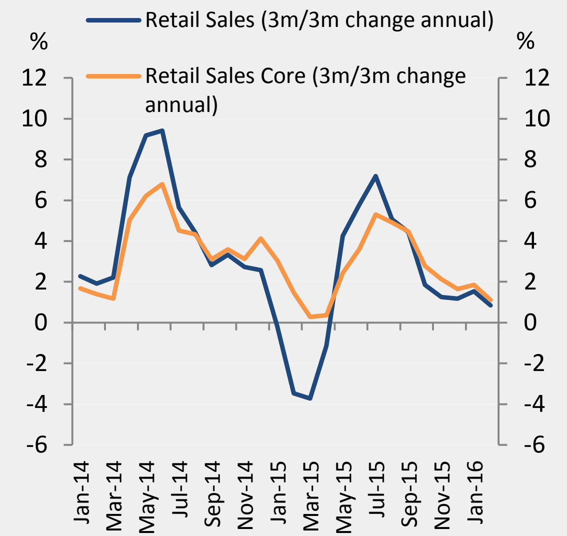
Contents

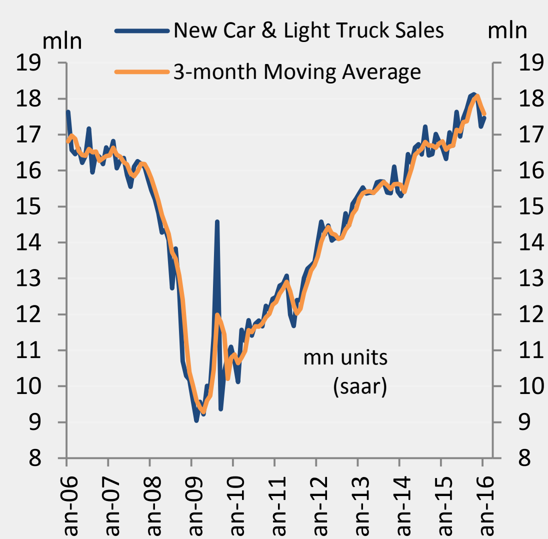
- US real GDP decelerated to 1% q-o-q saar in Q4:2015 from average quarterly growth of 2.4% q-o-q saar since 2014. The slowdown was broad based, with a decline in consumption, business investment (due to a sharp drop in the energy sector) and exports. We expect growth to pick up towards 2% q-o-q saar in the current quarter, albeit earlier inventory accumulation remains an overhang.
- In Q1:2016, forward-looking indicators are mixed, so far. The ISM manufacturing leading indicator increased for a second consecutive month in February. However, it remains below the expansion/contraction threshold (at 49.5), whereas new orders appear subdued due to weak external demand (China, euro area) and the strength of the USD.
- Indeed, net trade will continue to be a drag on GDP growth in 2016, following a -0.6 pp contribution in 2015, as the effect of the recent USD appreciation will continue to dampen exports and benefit imports (+13.9% in real effective exchange terms in the period Q1:2014-Q1:2016, as of March 18).
- Household spending is expected to remain the largest source of growth in Q1:2016, despite the increasing propensity to save by US households. The savings rate has risen to 5.1% of disposable income in Q4:2015 from 4.3% at end-2013, despite an increase in the household assets-to-GDP ratio by 8.7% to 560% for the same period.
- Labor income will continue to increase as: i) job openings are on an increasing trend; and ii) wages are expected to stabilise as the labor market is heading towards full-employment. Indeed, nonfarm payrolls (NFPs) increased by 207k per month, on average, so far in Q1:2016. According to our estimates, the unemployment rate could end 2016 (Q4:16 average) at 4.5% (currently 4.9%), assuming NFP gains of 200k/month, below NAIRU (4.7%-5%).
- Labor market tightness could add further to inflationary pressures. Note that core PCE increased to 1.7% yoy in January, its highest level in three years. However, Fed officials continue to have concerns about declining inflation expectations. Indeed, both survey-based and market-based measures (5Y/5Y swap rates) are hovering around multi-year lows. The latter may underestimate inflation due to low liquidity in CPI indexed bond markets pushing up their yields.
- The Fed will seek strong evidence of a sustainable economic recovery, in order to resume interest rate increases in H2:2016. At the meeting of March 17th, the Fed maintained, as expected, interest rates unchanged in the range of 0.25% and 0.50%. The Fed was more dovish-than-expected, revising lower its median federal funds rate forecast for end-2016 by 50 bps to 0.875% (target range of 0.75%-1.0%) implying 2 rate hikes before year-end, compared with 4 hikes at the December meeting.
- Government contribution to GDP growth is expected to turn slightly positive in 2016 and 2017, following an average tightening of +1.3 pps per annum in the period 2010-2015 (change in the General Government structural primary balance). According to the CBO, the budget deficit for 2016 is expected to increase (by $65bn or 0.4% of GDP) for the first time since 2009, mainly reflecting lower corporate and individual income taxes.
- Equity markets have recovered, following a poor six weeks, with the S&P500 increasing since mid-February by 12.1% (+0.3% y-t-d). However, the downward trend in corporate profitability is a cause for concern, with the expected EPS at 3.4% for 2016 (from 7.4% at end-2015) following zero EPS growth in 2015. UST yields have recovered, with the front-end increasing by 19 bps since mid-February to 0.84% (-21 bps y-t-d), following stronger-than-expected inflation data.

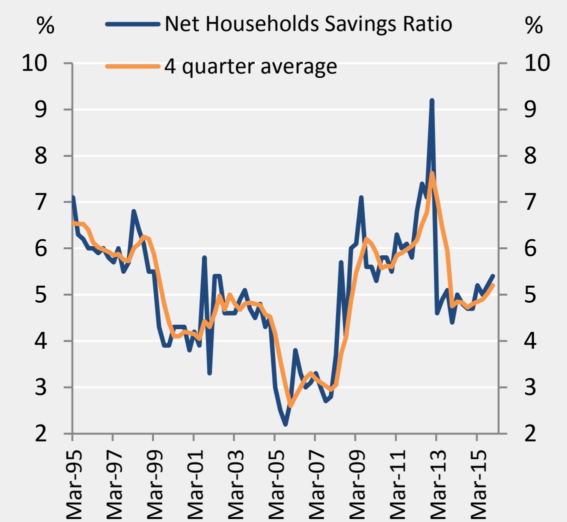
GDP growth was subdued in Q4:15





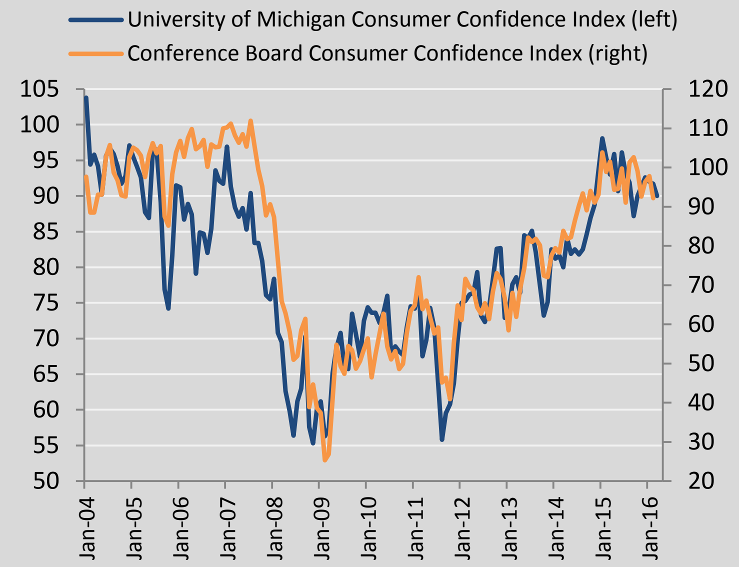


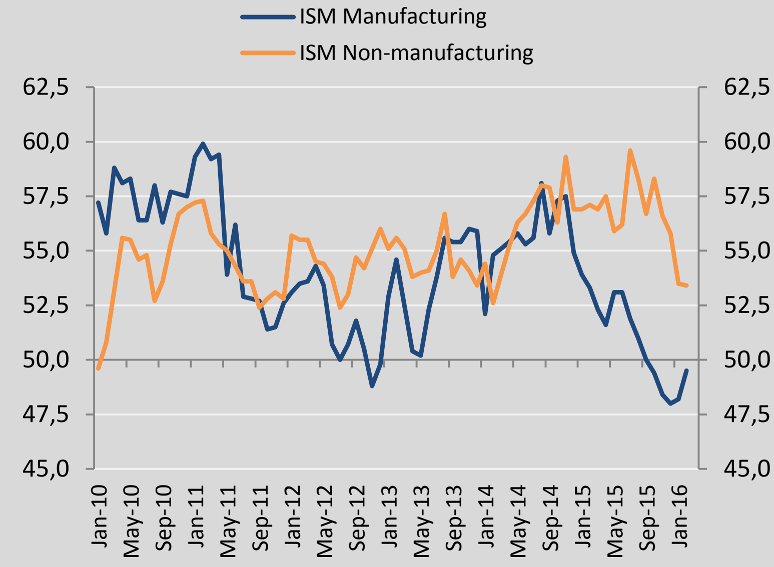


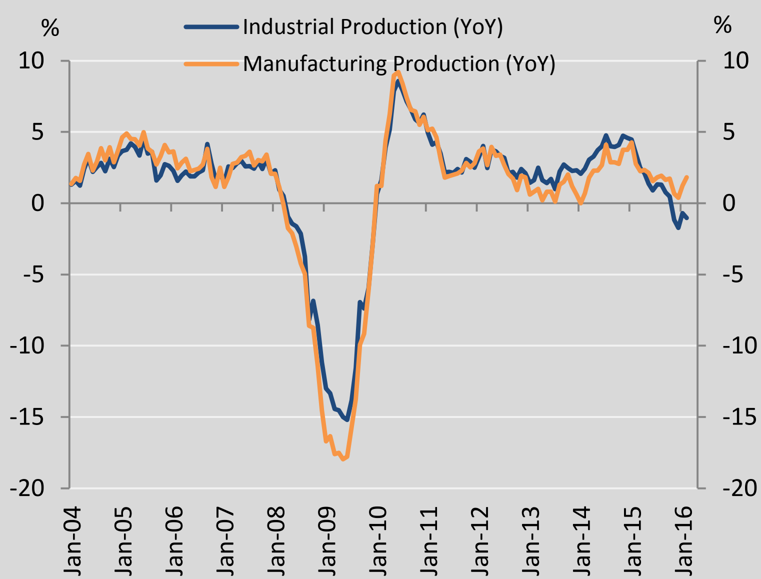


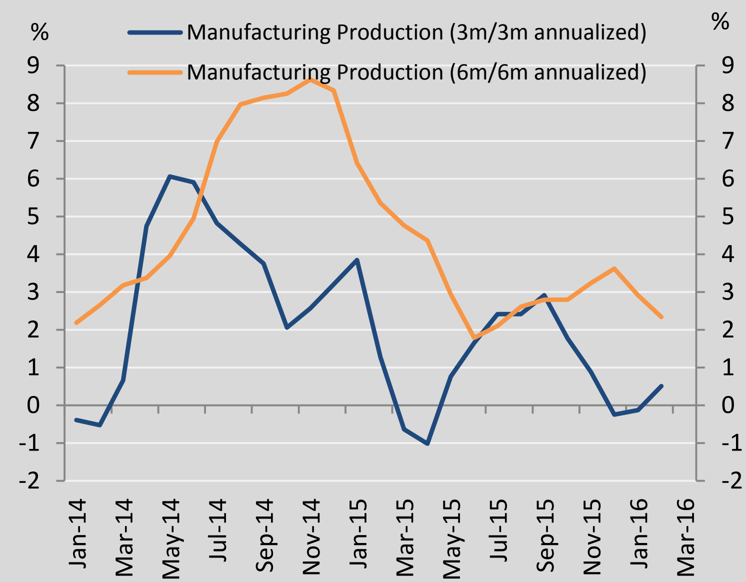
Source: US Bureau of Labor Statistics, US Bureau of Economic Analysis, Non-farm payrolls 3-month average, Real GDP QoQ seasonally adjusted annualized rate

ISM manufacturing reversed a trend of six consecutive disappointing monthly outcomes, albeit remaining in contraction territory









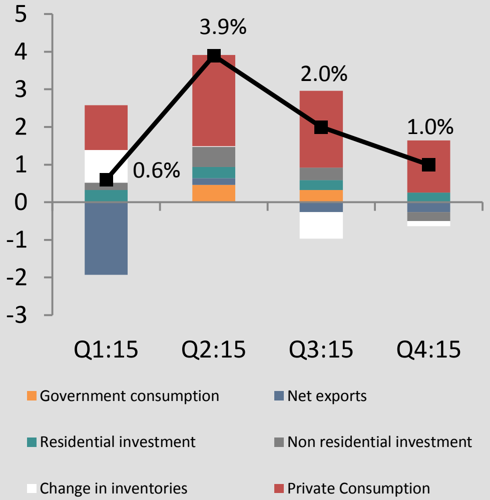
Consensus forecasts for 2016 GDP growth are declining (2.1% as of February vs 2.8% six months ago)

United States

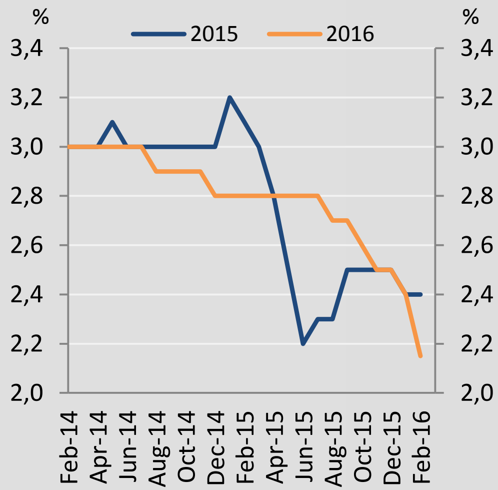
US Real GDP Growth	2014	Q1:15	Q2:15	Q3:15	Q4:15e	2015e	Q1:16e	Q2:16e	Q3:16e	Q4:16e	2016e
GDP (YoY)	**2,5**	2,9	2,7	2,1	1,9	**2,4**	2,3	2,0	2,2	2,6	**2,2**
GDP (QoQ saar)	-	0,6	3,9	2,0	1,0	-	2,3	2,6	2,7	2,7	-
Private consumption (QoQ saar)	2,7	1,7	3,6	3,0	2,0	3,1	2,2	2,2	2,7	2,9	2,5
Government consumption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

Source: BEA, Bloomberg, NBG estimates

GDP Contributions (%)

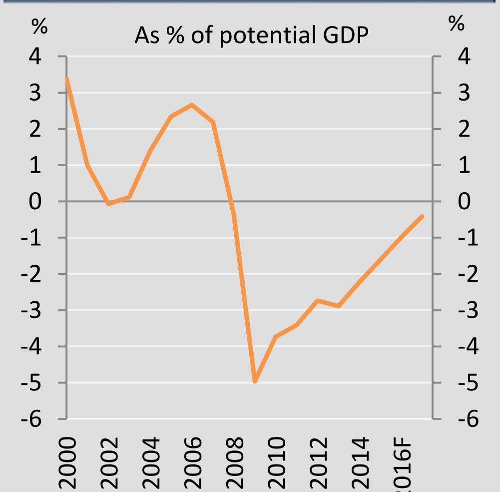


GDP Forecast Evolution



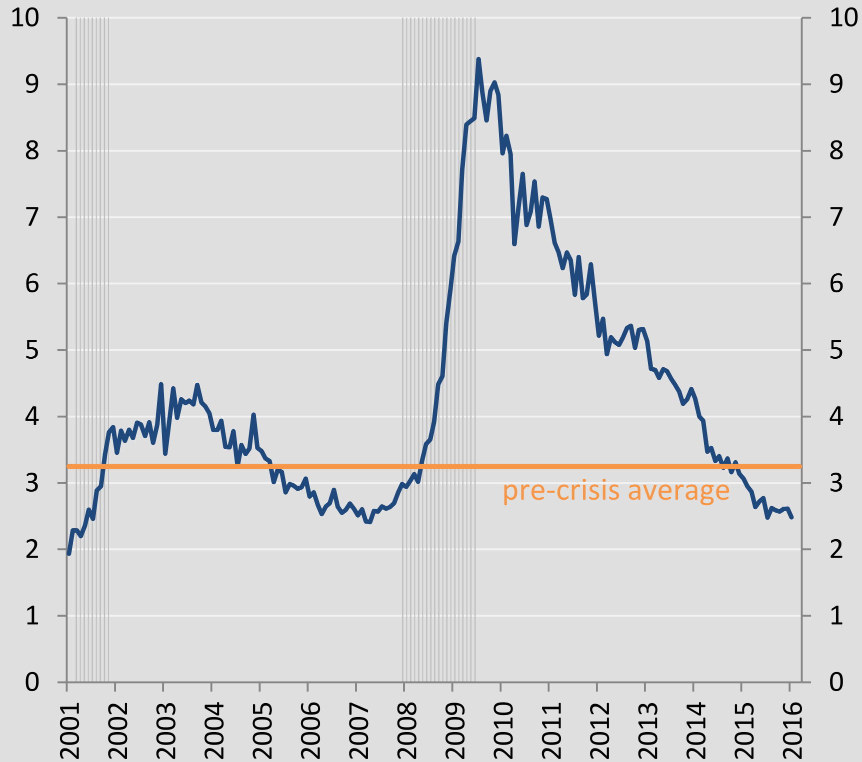
Source: Bloomberg Consensus

Output Gap



Source: IMF

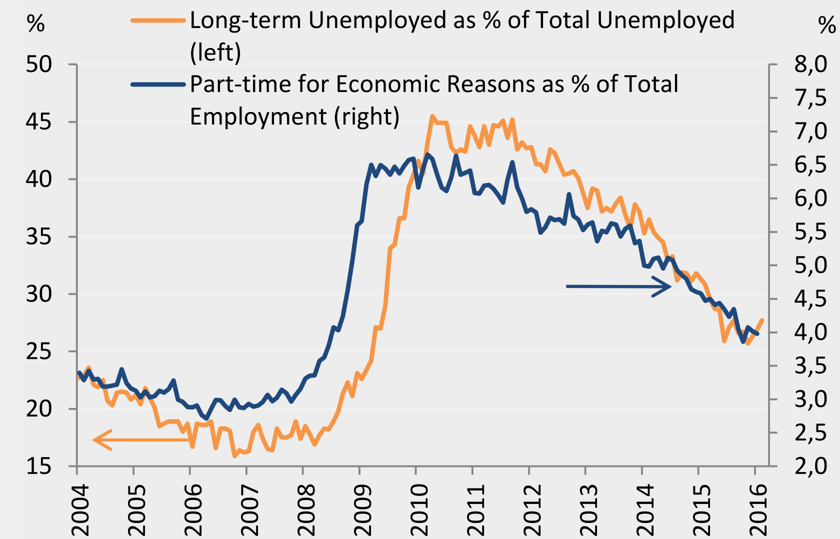
People Per Job Opening Index

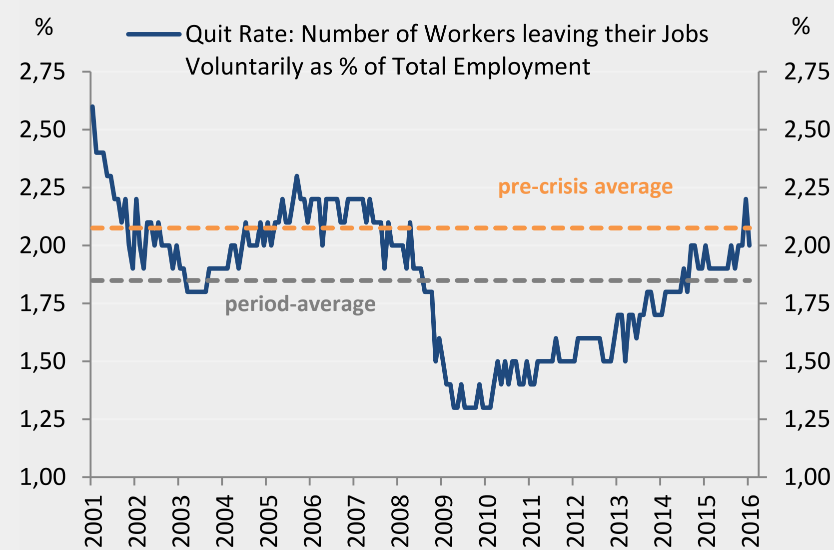


Index: Total Number of Unemployed plus People not in Labor Force but who want a job now divided by Total Number of Job Openings

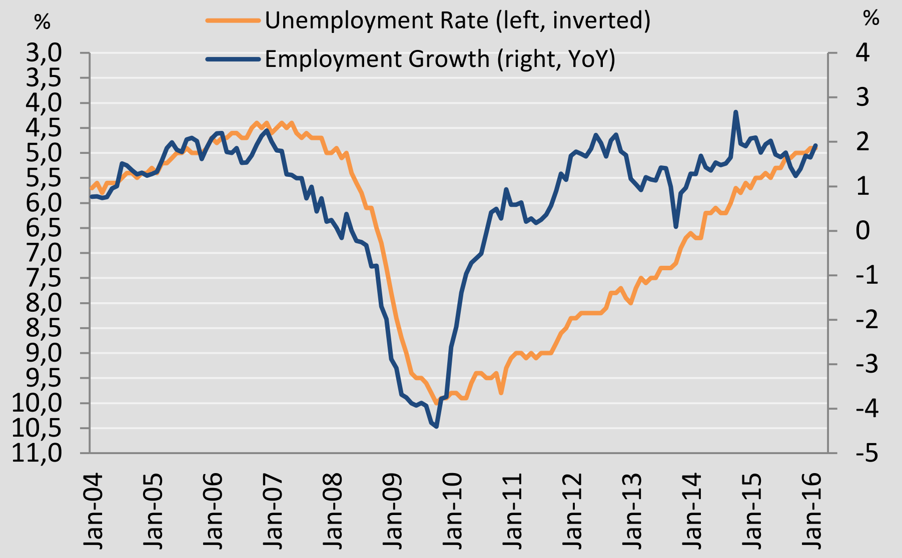
US Recessions in shaded areas

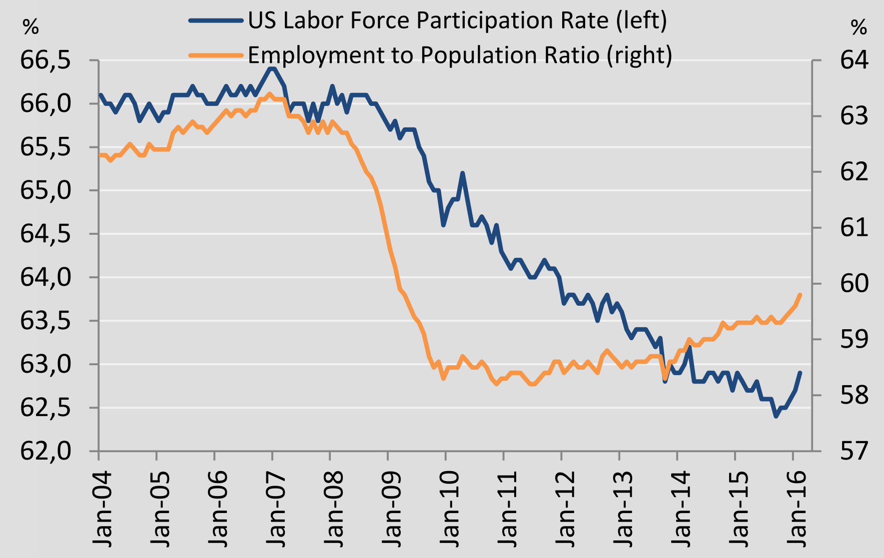
Source: US Bureau of Labor Statistics, NBER, NBG Estimates

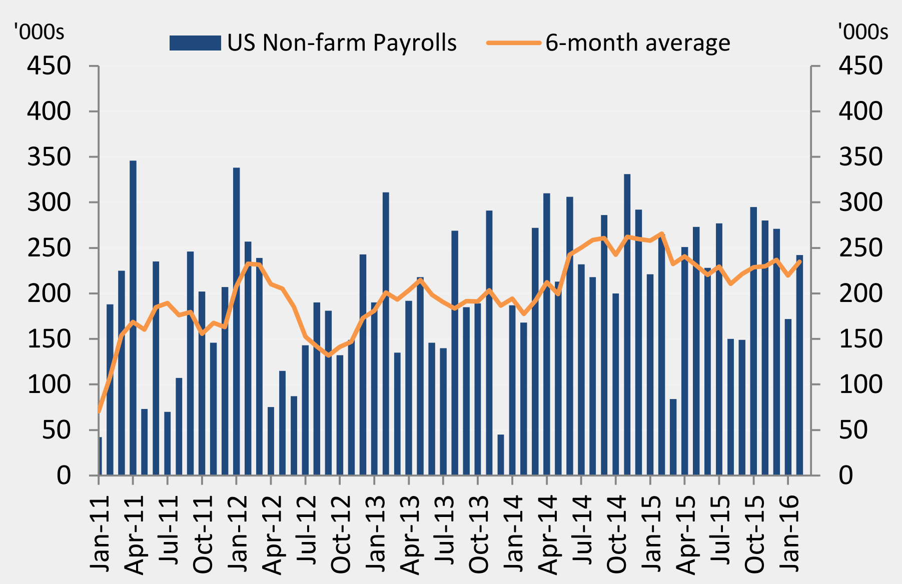


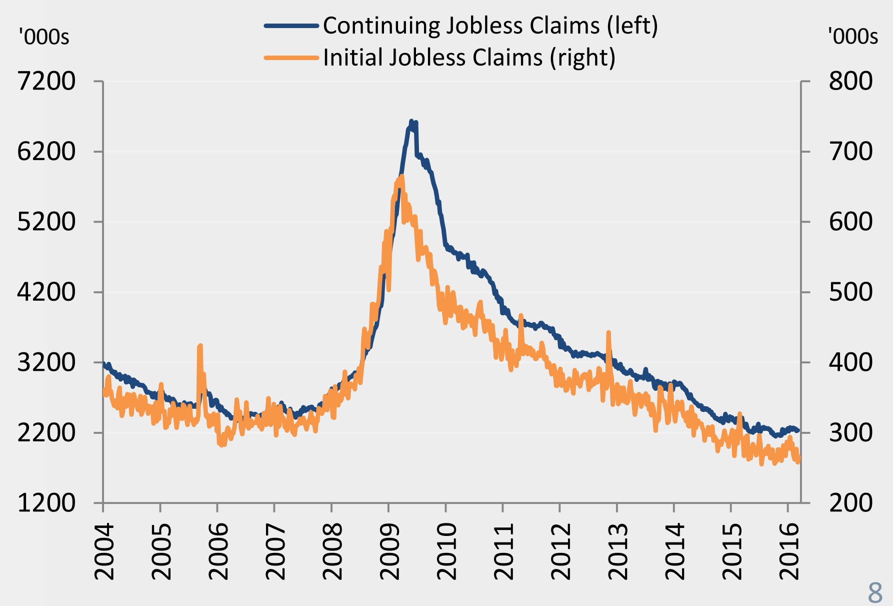


...and the unemployment rate decreased to a 7-year low of 4.9%



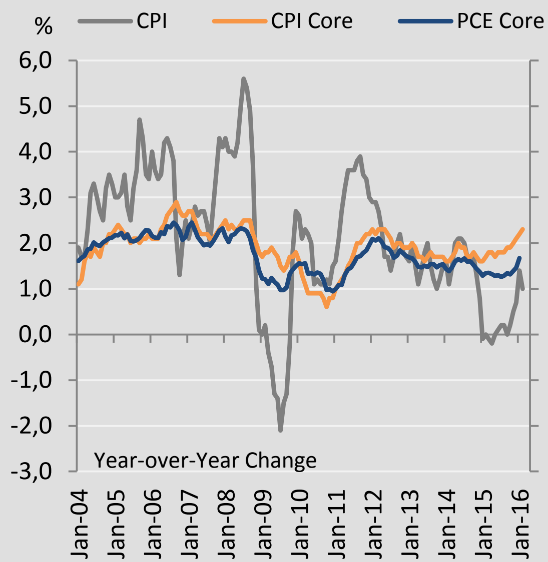


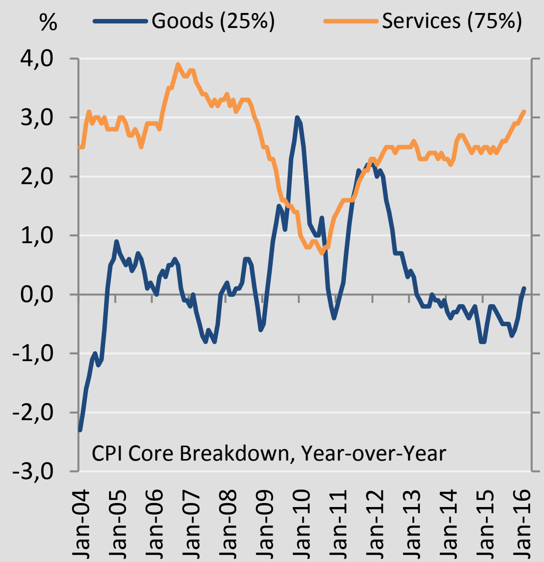


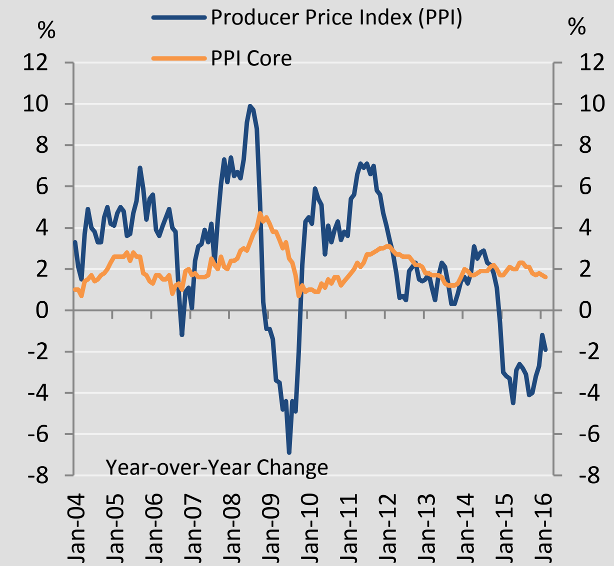


The inflation outlook has improved recently, with core CPI at 2.3% yoy in February, the the highest since May 2012

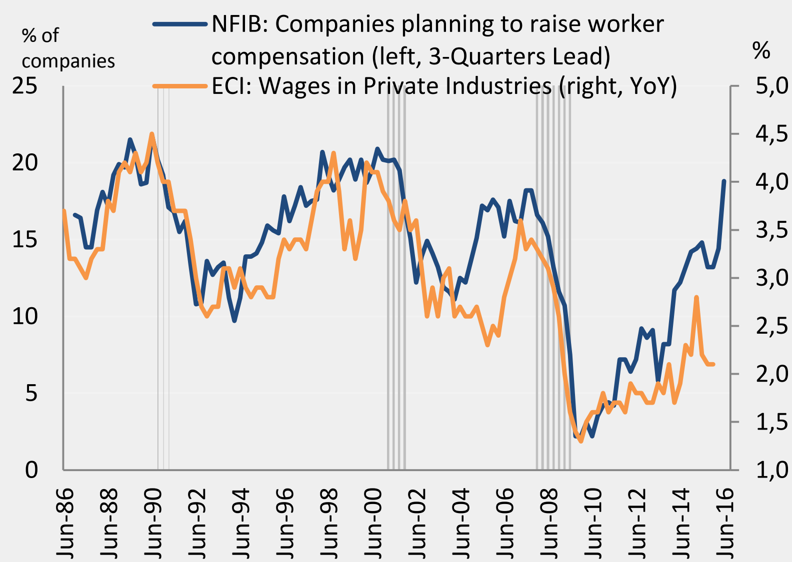
United States

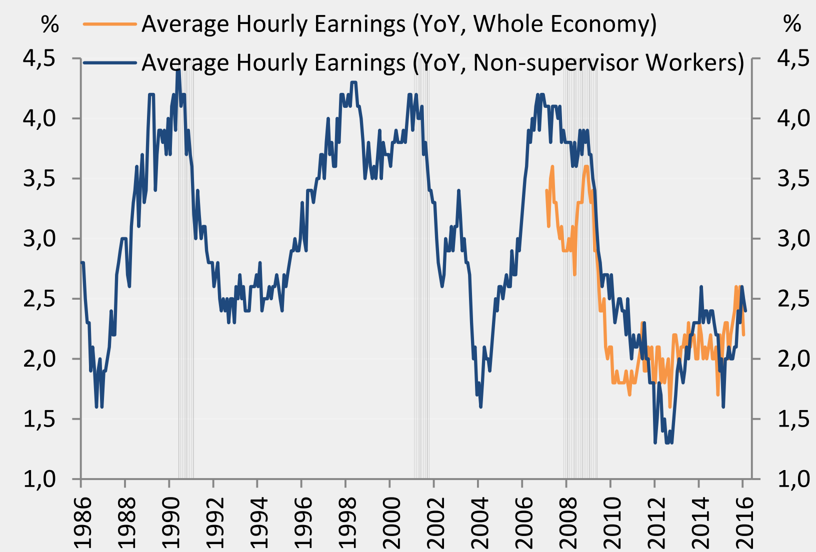






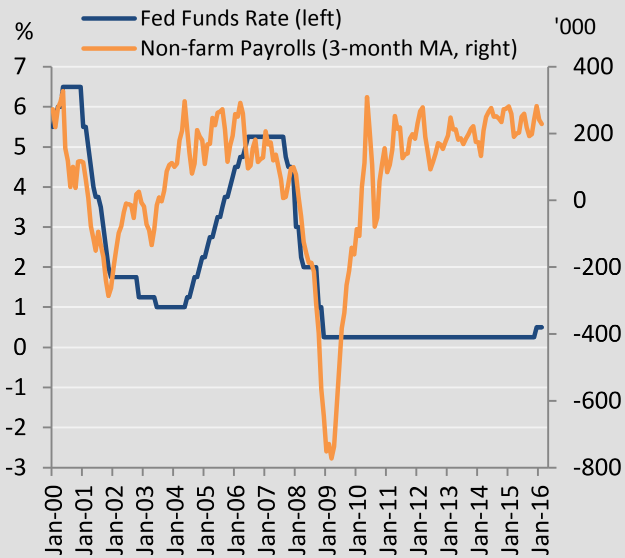
PCE Core: Fed’s preferred measure to gauge inflation developments

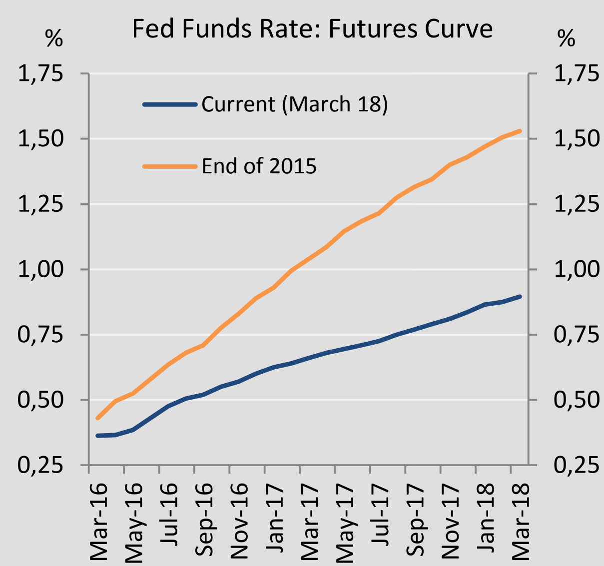


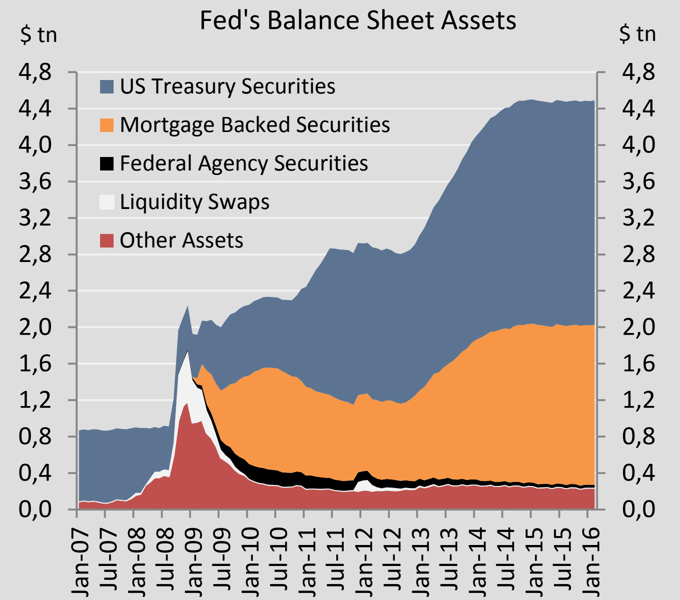


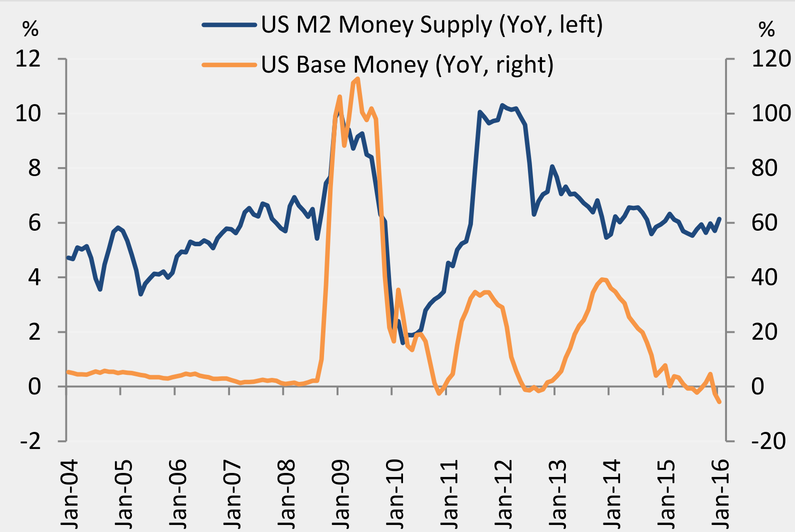
Markets continue to expect one rate hike in 2016, as the tightening in monetary conditions since December is significant

United States

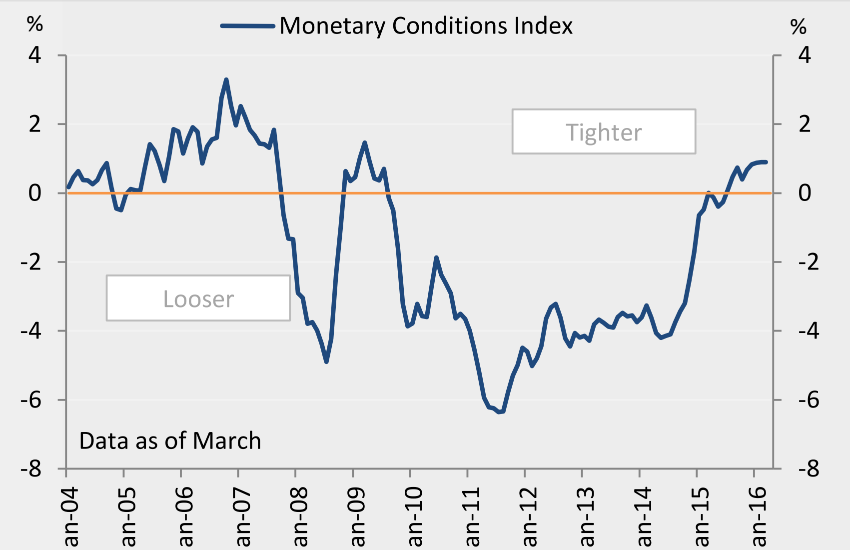








The Base Money is defined as the sum of currency in circulation and reserve balances (deposits held by banks in their accounts at the Fed

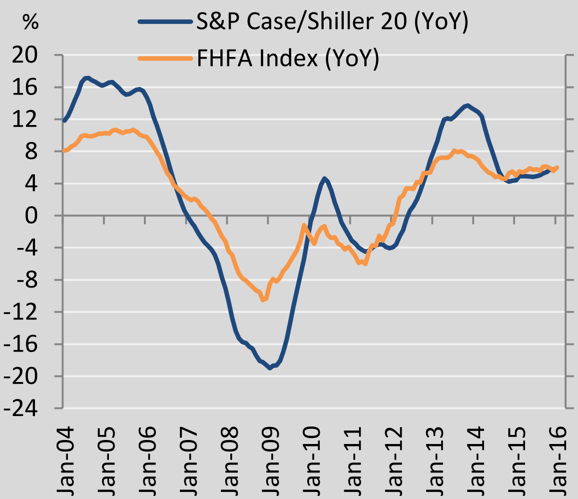


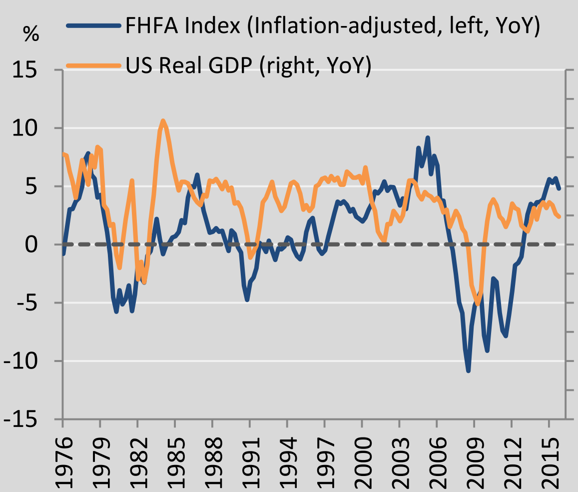
Monetary Conditions Index is a simple composite index of Real Short Term Rates (Libor less CPI) & Real Effective Exchange Rate

The housing market remains healthy, albeit new home inventories are rising

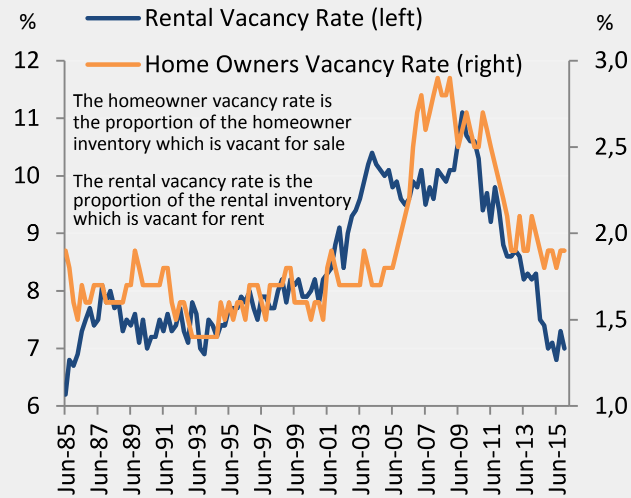
United States

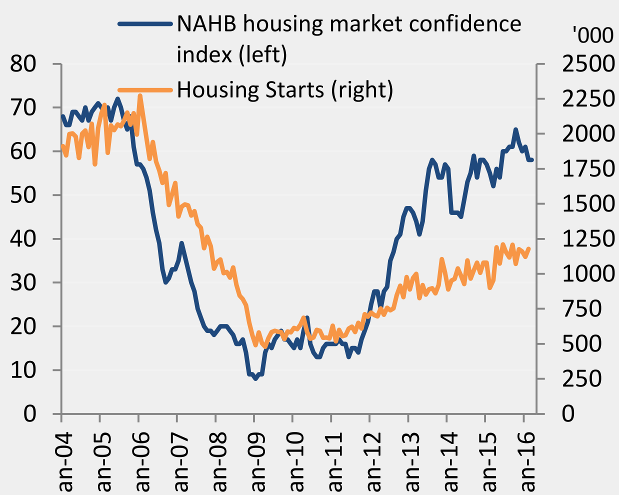
Prices



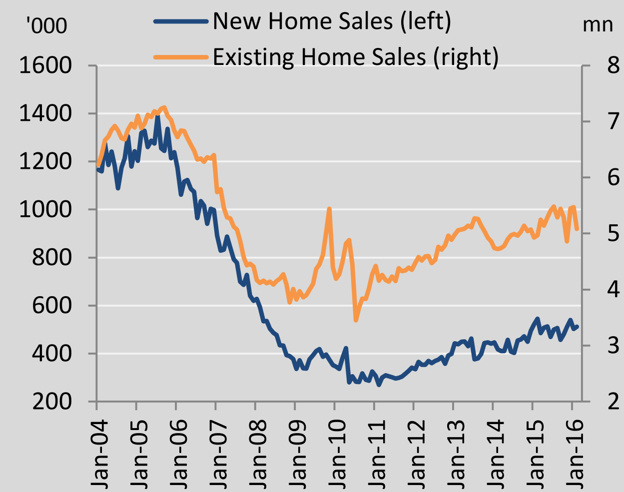


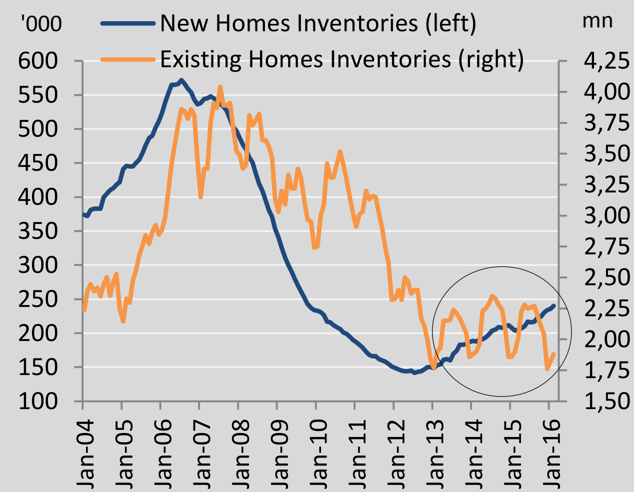
Vacancy Rates & Starts





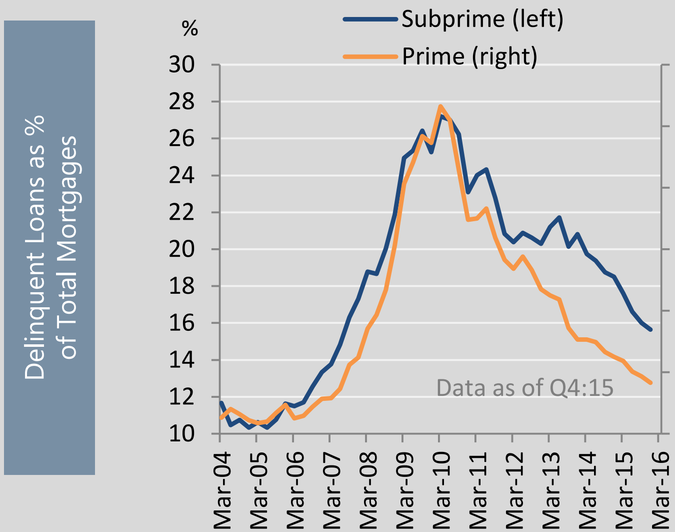
Sales & Inventories

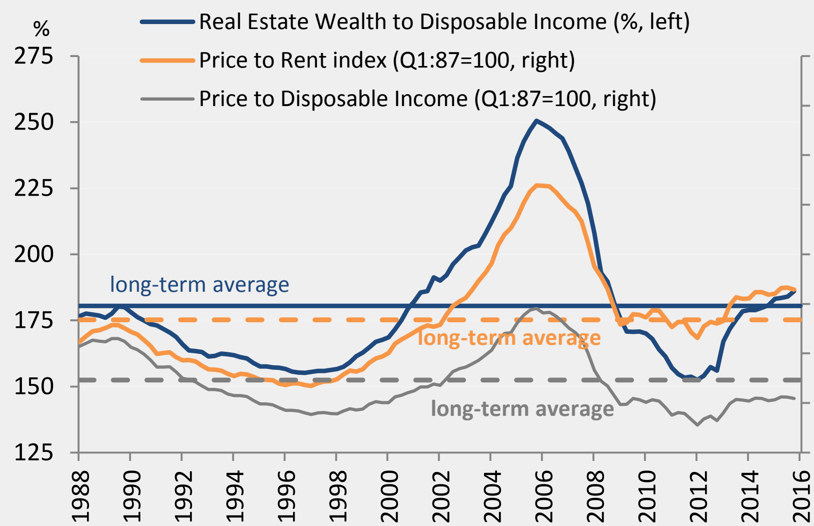


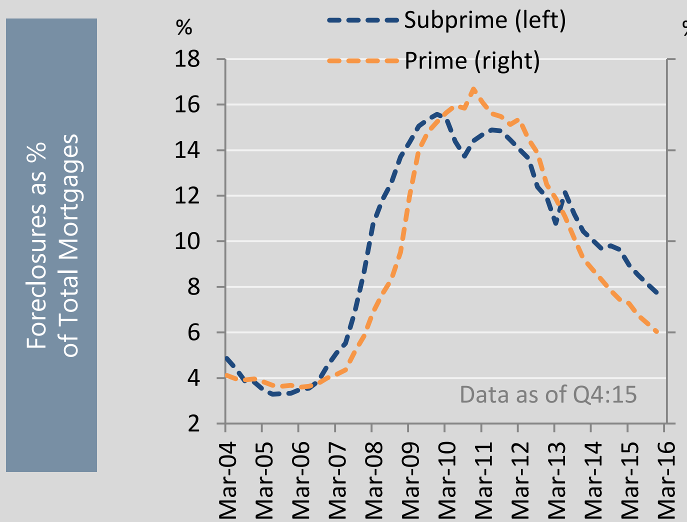


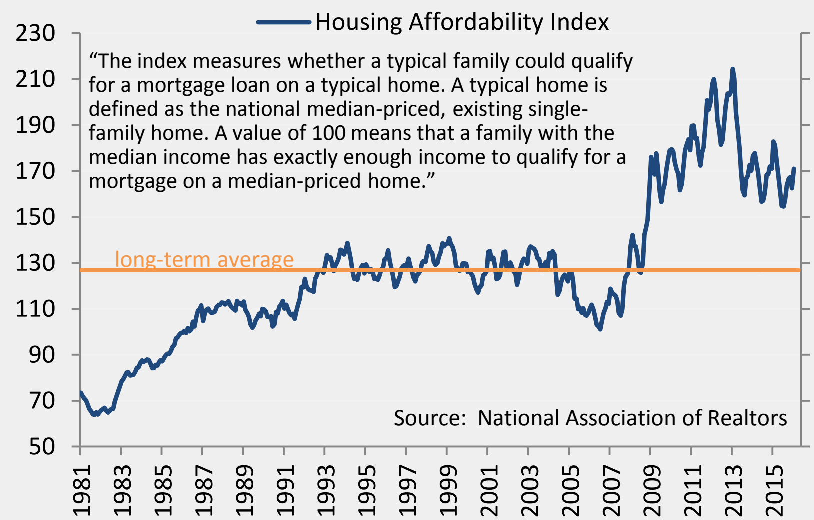
In Q4:15, mortgage delinquencies and foreclosures declined further, on the back of improving labor market conditions, as well as higher house prices

United States

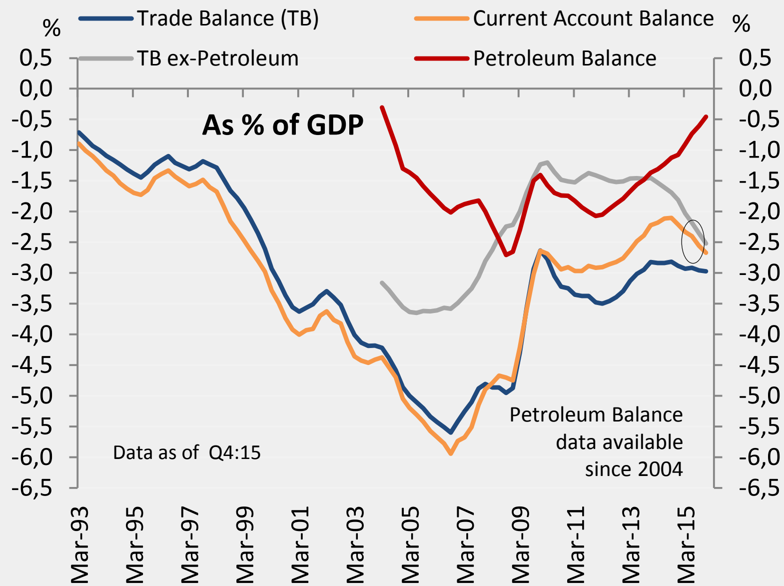


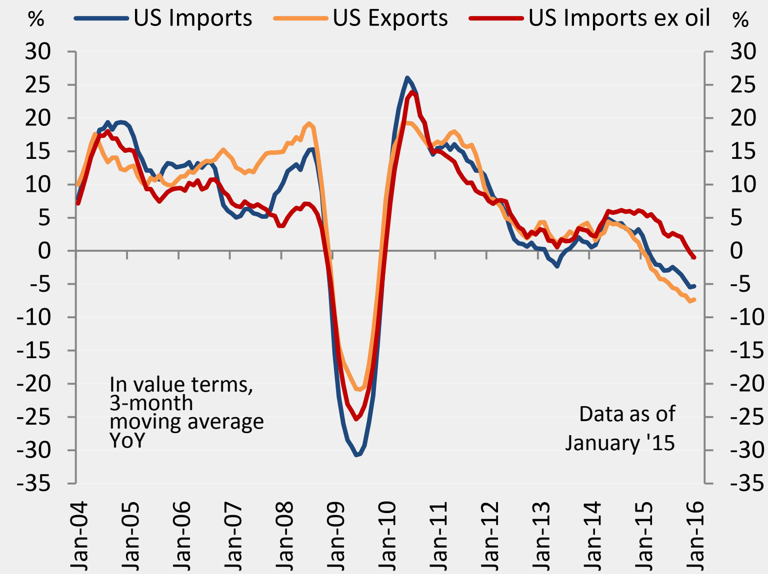


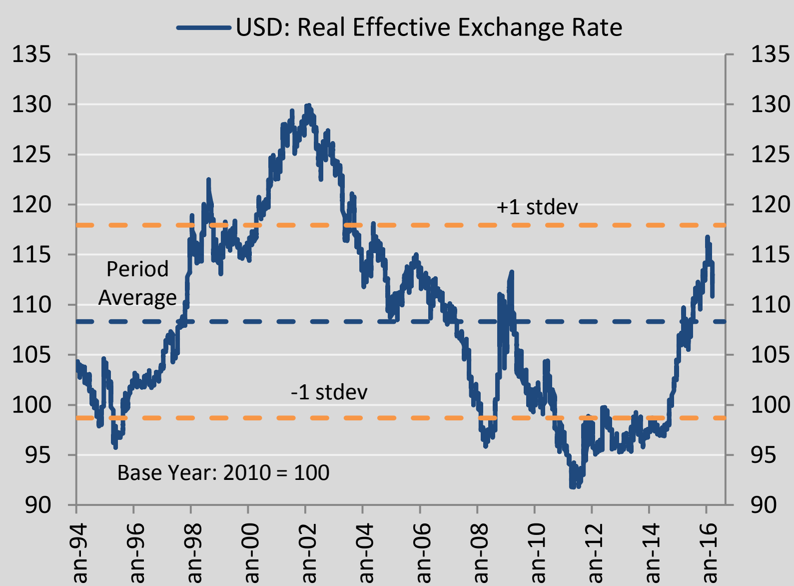


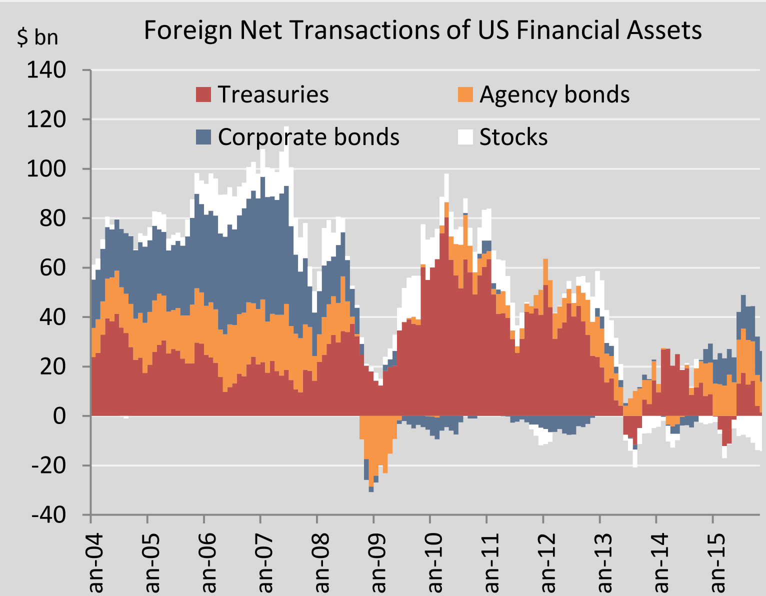


Source: Mortgage Bankers Association, Delinquencies are the total of 30, 60 and 90 days past due mortgage loans

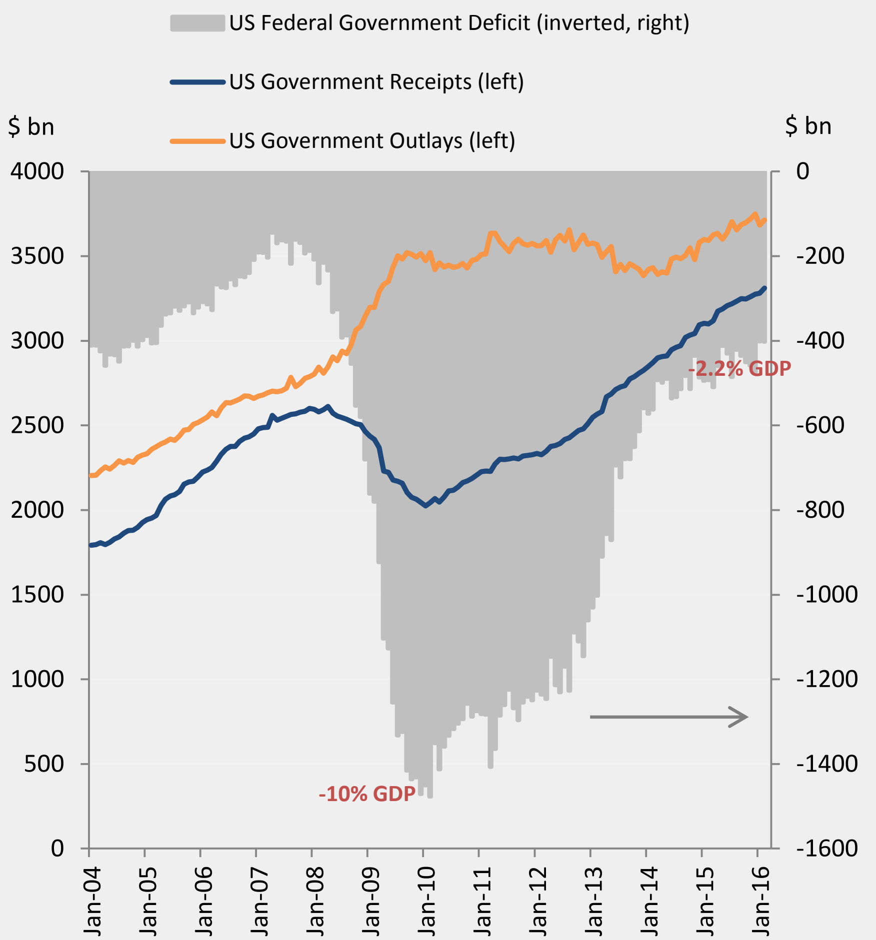

%
Trade Balance (TB)
Current Account Balance
TB ex-Petroleum
Petroleum Balance
As % of GDP
Data as of Q4:15
Petroleum Balance data available since 2004
0,5
0,0
-0,5
-1,0
-1,5
-2,0
-2,5
-3,0
-3,5
-4,0
-4,5
-5,0
-5,5
-6,0
-6,5
Mar-93
Mar-95
Mar-97
Mar-99
Mar-01
Mar-03
Mar-05
Mar-07
Mar-09
Mar-11
Mar-13
Mar-15


%
US Imports
US Exports
US Imports ex oil
In value terms, 3-month moving average YoY
Data as of January '15
30
25
20
15
10
5
0
-5
-10
-15
-20
-25
-30
-35
Jan-04
Jan-05
Jan-06
Jan-07
Jan-08
Jan-09
Jan-10
Jan-11
Jan-12
Jan-13
Jan-14
Jan-15
Jan-16

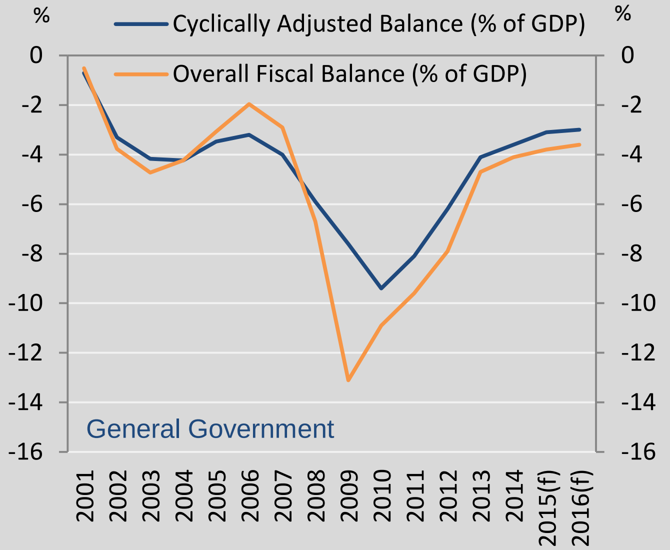

USD: Real Effective Exchange Rate
+1 stdev
Period Average
-1 stdev
Base Year: 2010 = 100
135
130
125
120
115
110
105
100
95
90
Jan-94
Jan-96
Jan-98
Jan-00
Jan-02
Jan-04
Jan-06
Jan-08
Jan-10
Jan-12
Jan-14
Jan-16


$ bn
Foreign Net Transactions of US Financial Assets
Treasuries
Agency bonds
Corporate bonds
Stocks
140
120
100
80
60
40
20
0
-20
-40
Jan-04
Jan-05
Jan-06
Jan-07
Jan-08
Jan-09
Jan-10
Jan-11
Jan-12
Jan-13
Jan-14
Jan-15

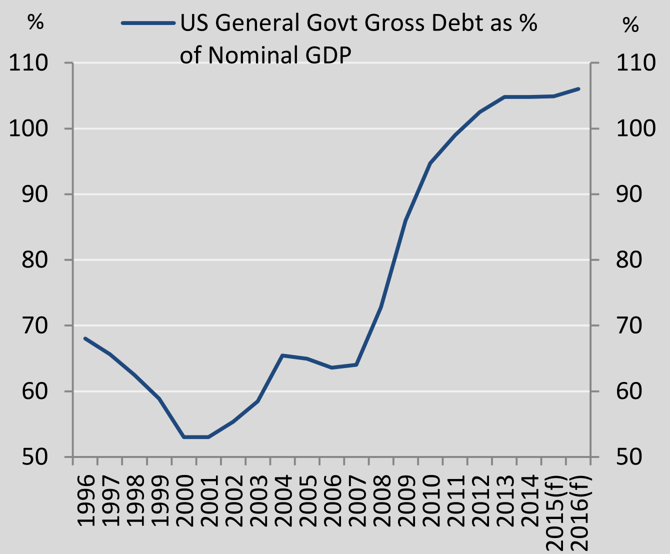
The Federal budget balance continues to shrink (in 12-month sum terms to -2.2% of GDP in February vs -2.6% of GDP in December)



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



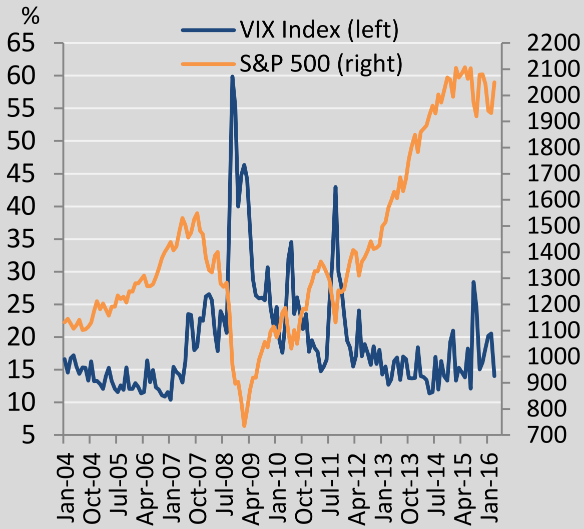
Source: IMF Fiscal Monitor, October 2015

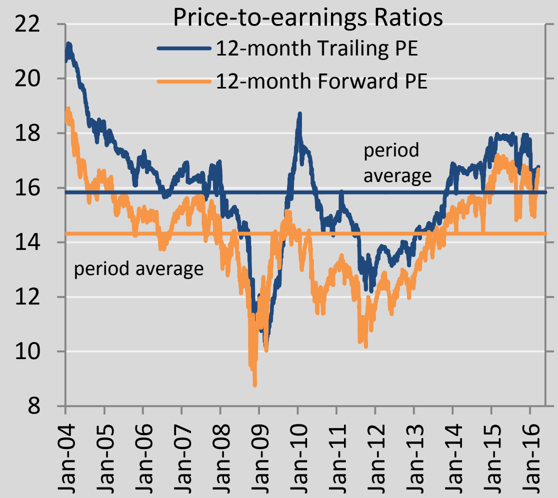


Source: IMF Fiscal Monitor, October 2015

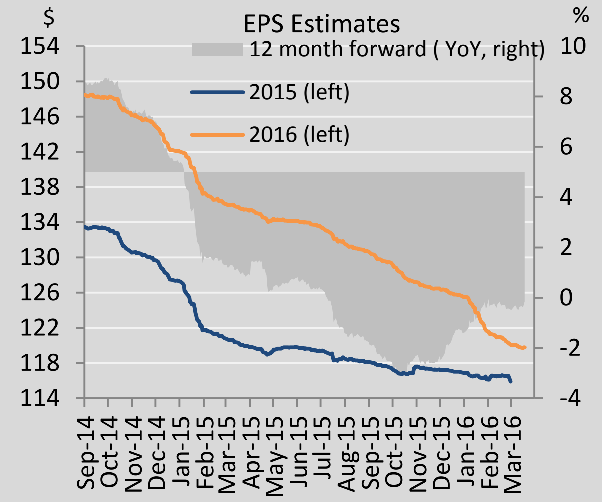
The S&P500 is broadly flat ytd, having recovered from -10.5% ytd in early-February. EPS continues to decline, with growth turning negative on a year-on-year basis

United States

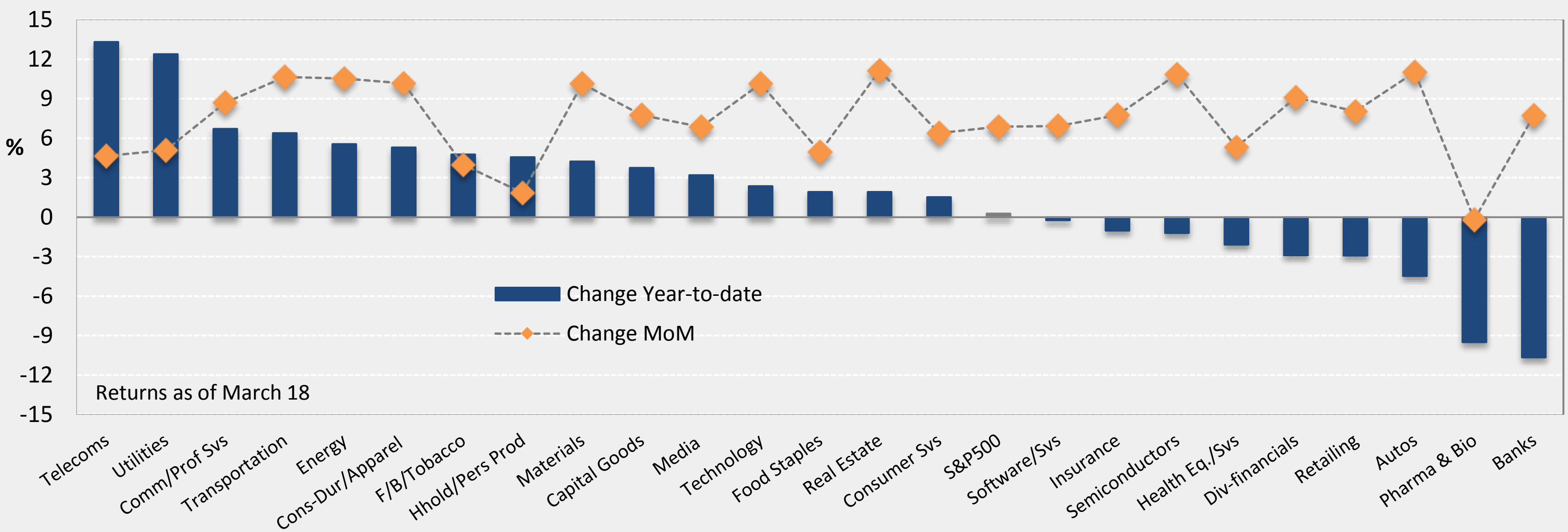


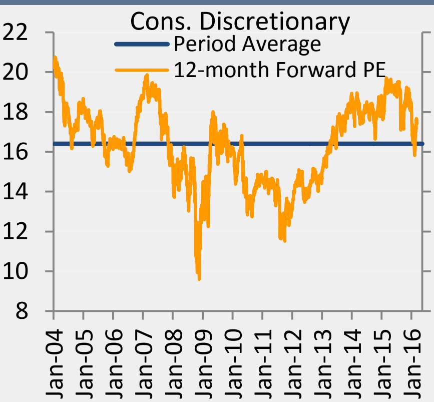


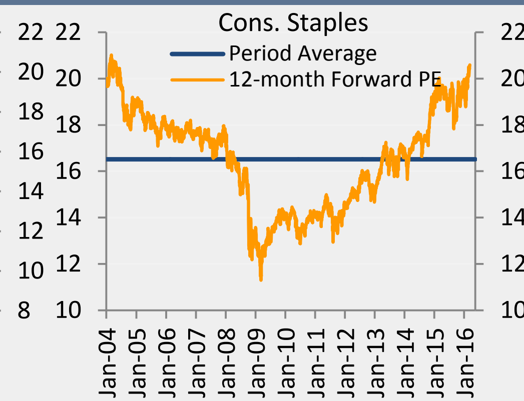
Source: Factset

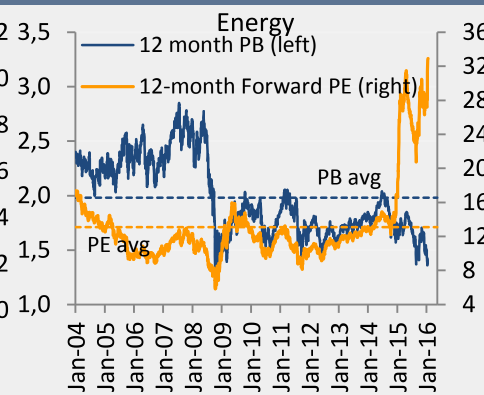


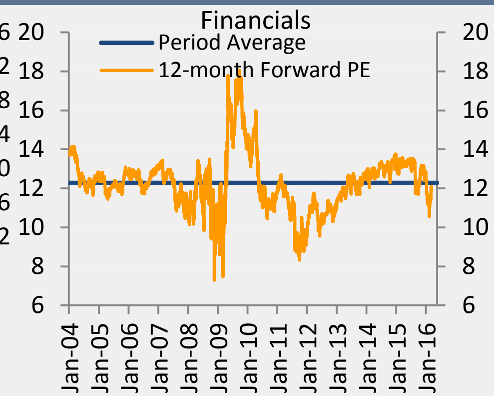
Source: Factset

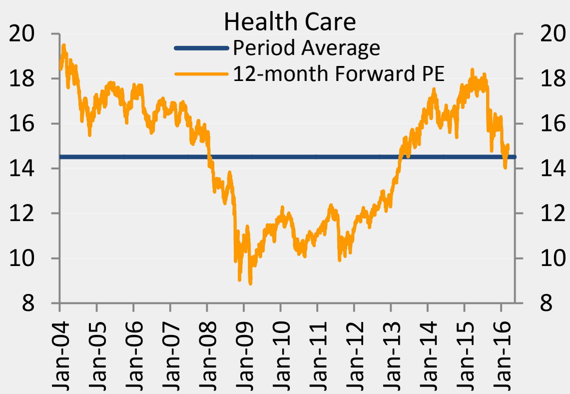


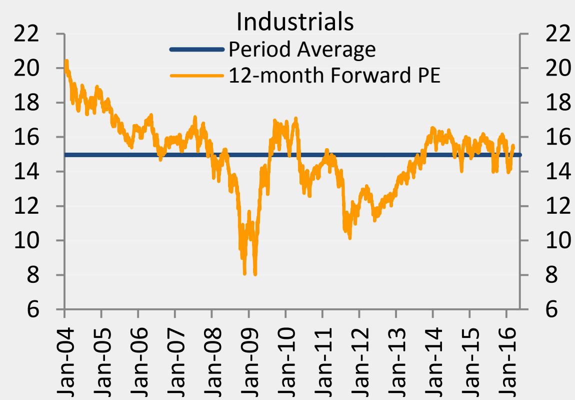

Cons. Discretionary
Period Average
12-month Forward PE

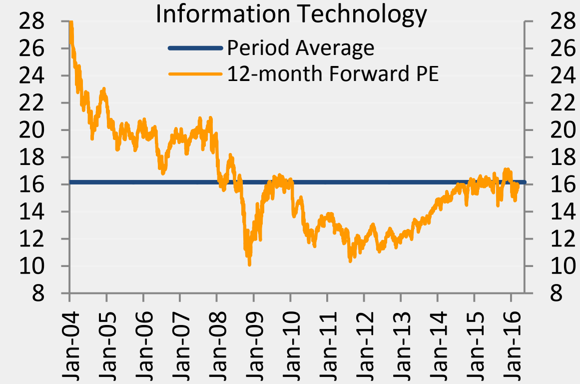

Cons. Staples
Period Average
12-month Forward PE

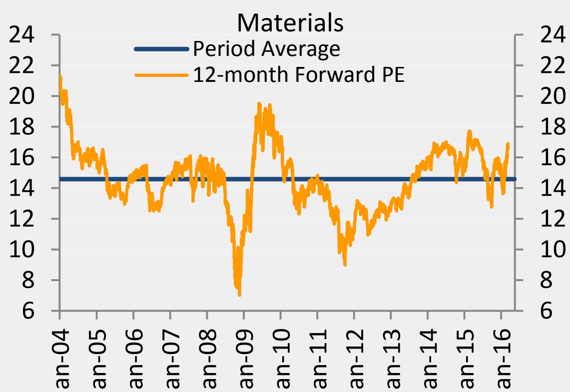

Energy
12 month PB (left)
12-month Forward PE (right)
PB avg
PE avg

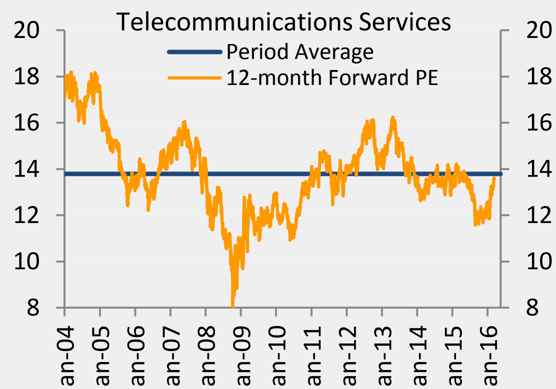

Financials
Period Average
12-month Forward PE

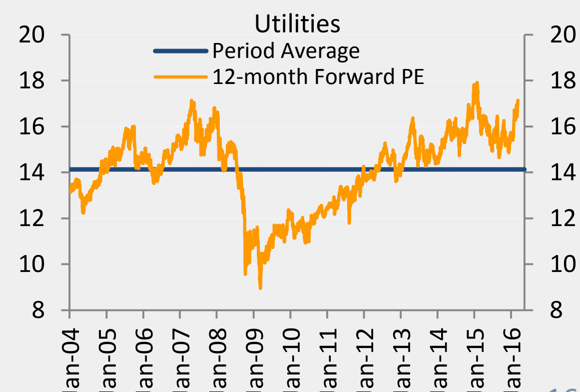

Health Care
Period Average
12-month Forward PE


Industrials
Period Average
12-month Forward PE


Information Technology
Period Average
12-month Forward PE

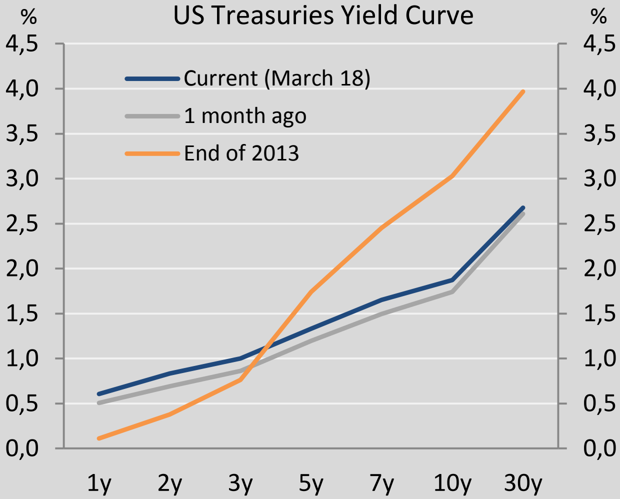

Materials
Period Average
12-month Forward PE

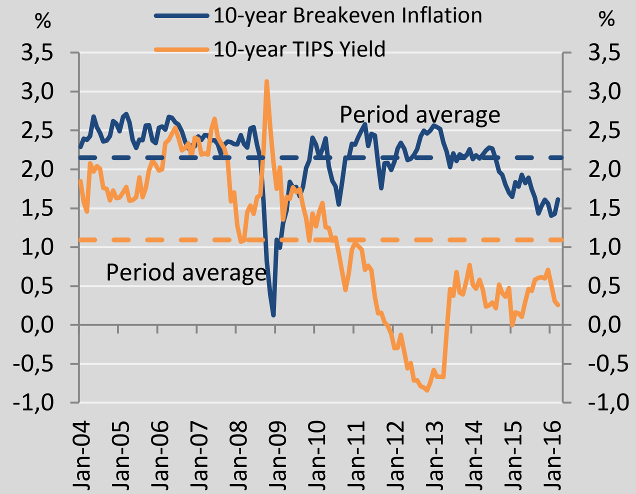

Telecommunications Services
Period Average
12-month Forward PE

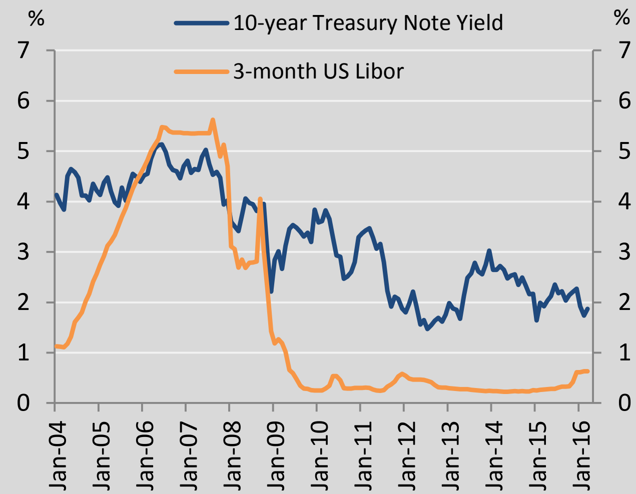

Utilities
Period Average
12-month Forward PE

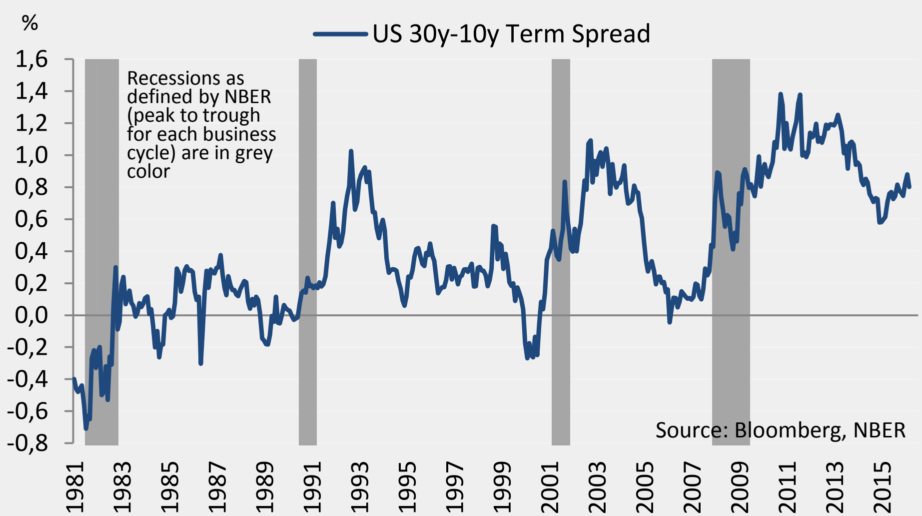
Increased safe-haven demand and bearish inflation expectations have led to a sharp decline in nominal US Treasury yields (-40 bps YTD for the 10-year Treasury yield)

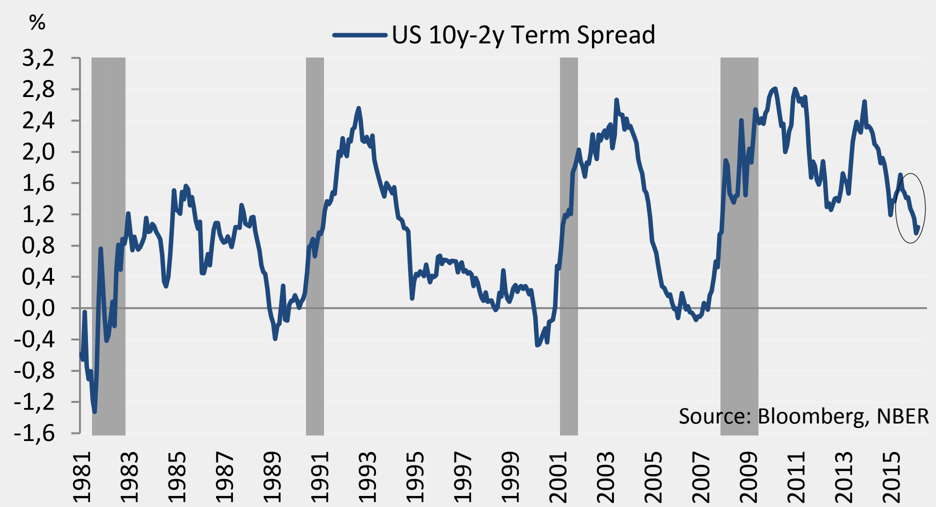
United States







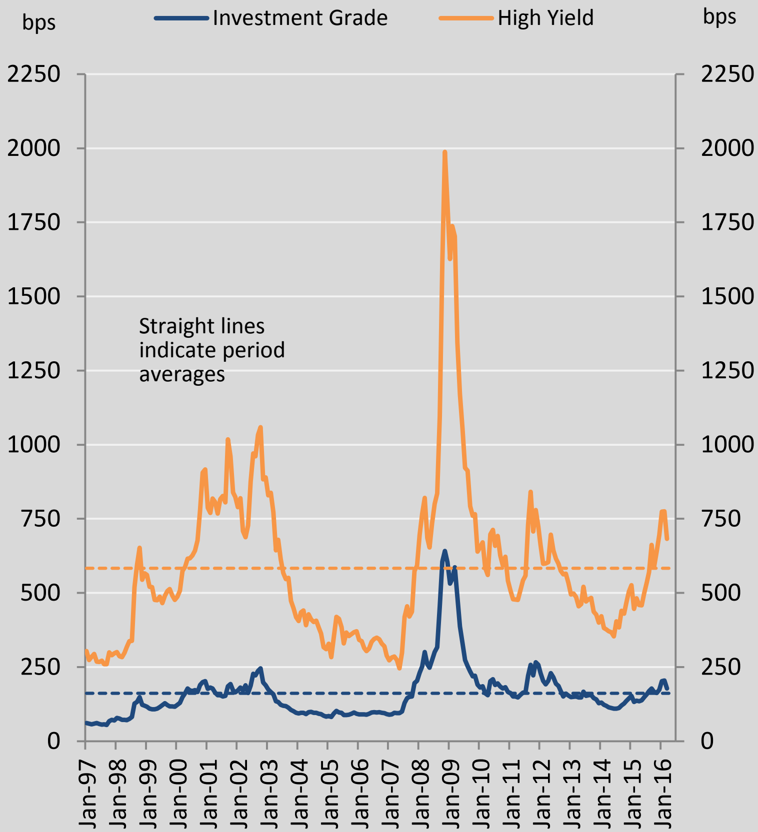




US HY corporate spreads narrowed significantly since mid-February as Energy HY sector spreads fell by c. 600 bps

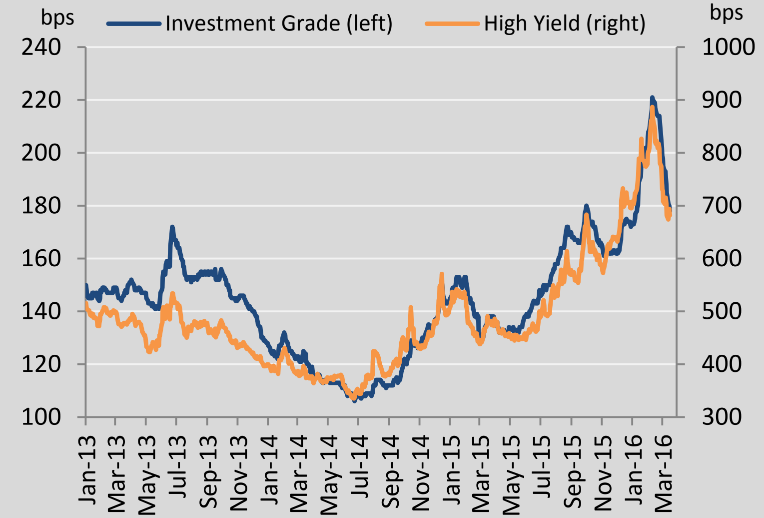
United States

Corporate Bond Spreads

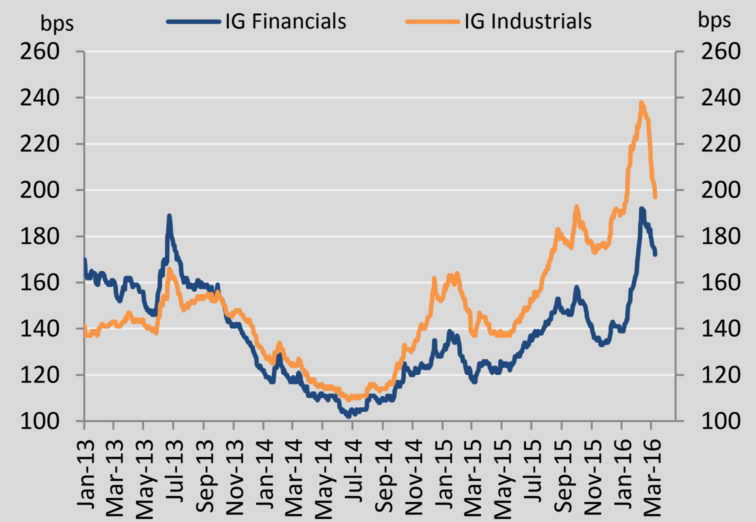


Source: Bank of America / Merrill Lynch US Corporate Bond Index (IG), US High Yield Master II (HY)

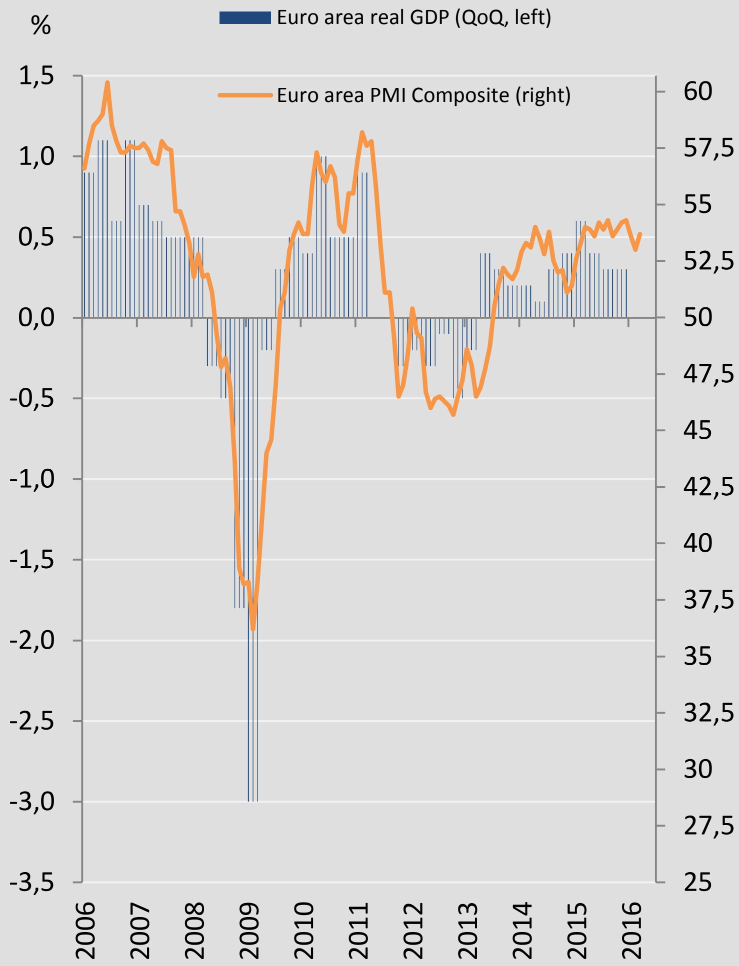
Short-term View

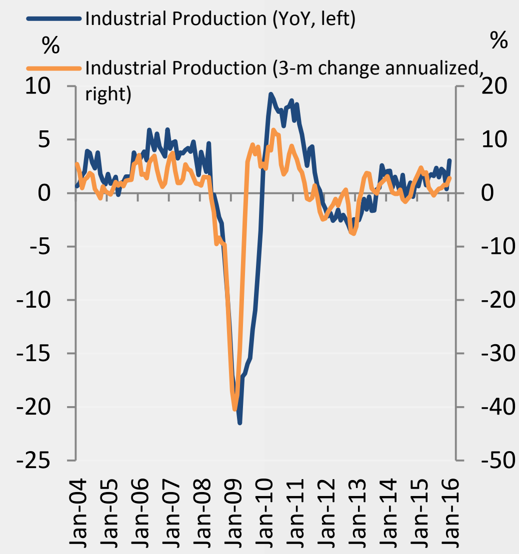


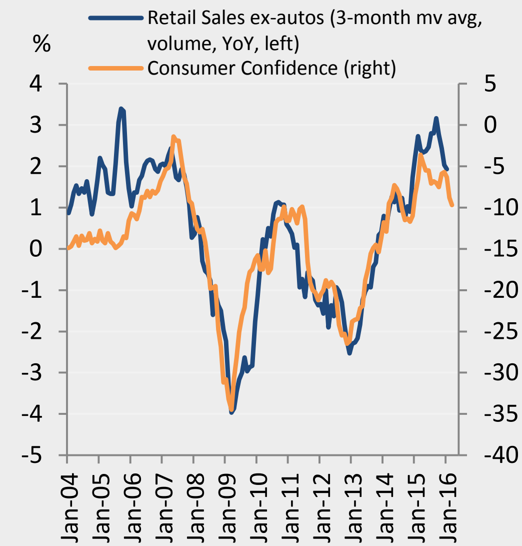
IG Financials/Industrials

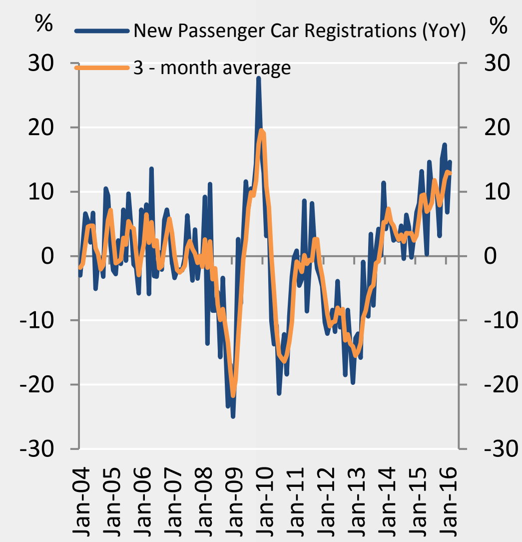


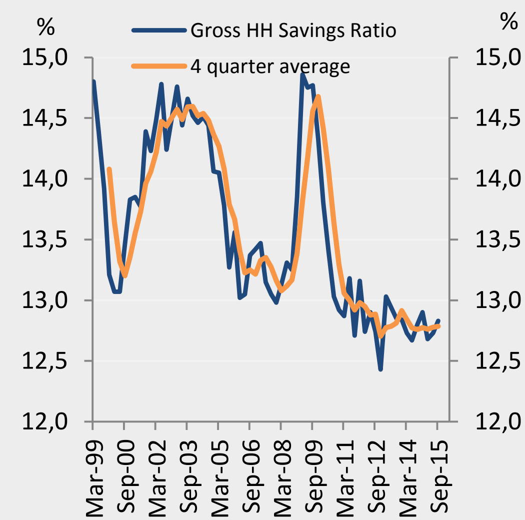
- The euro area economy lost momentum in H2:15, with real GDP increasing by 1.3% saar vs 1.9% saar in H1:15. External trade remains the main impediment to growth -- net trade subtracted 0.7 pps from overall growth in H2:15 -- as the EM slowdown holds down exports despite the euro depreciation (-5.7% in REER terms in the period Q4:2014-Q4:2015). The current account balance rose to a surplus of 3.0% of GDP in Q4:15, reflecting the relevant imbalance between domestic and external demand in the euro area.
- Moreover, indicators of industrial activity and consumption both decelerated in Q4:15. Specifically, industrial output fell by 0.3% qoq saar from +0.9% qoq saar in Q3:15 and retail sales (in volume terms) increased by 0.2% qoq saar in Q4:15 vs +2.6% qoq saar in Q3:15.
- Forward-looking indicators point to subdued activity in Q1:16. The euro area composite PMI rose to 53.7 in March, albeit from a 13-month low of 53.0 in February. At the same time, consumer confidence declined by 0.9 pts in March, to a 15-month low of -9.7, albeit remaining c. 3 pts above its long-term average.
- The economy is facing additional headwinds from elevated political uncertainty (Spain/Portugal and the UK referendum), as well as the refugee crisis. The direct impact of the refugee inflows is expected to be small, contributing 0.25% to euro area real GDP in 2015-2017 as a result of higher fiscal spending (IMF, February 2016), however indirect costs may be higher arising from disruption in activity (trade and tourism).
- Heightened concerns have also emerged regarding banks' profitability and capital adequacy amid: i) slower domestic growth and higher non-performing loans; ii) negative interest rates; and iii) the large exposure in the oil sector and EMs. For now, bank credit remains supportive (albeit weakly) to growth, albeit the aforementioned concerns could pose downside risks going forward. The growth of euro area bank loans to the private sector remains in positive territory for an eleventh consecutive month (+0.6% yoy in January) and interest rates have declined further (2.1% for new corporate loans in January from 2.4% a year ago).
- Headline inflation slipped into negative territory in February (-0.2% yoy, its lowest rate in a year, from +0.3% yoy). Importantly, the decline was only partly due to the energy subcomponent (-8.0% yoy). Indeed, core CPI also fell significantly, to 0.8% yoy from 1.0% yoy previously. Wage pressures appear modest, with earnings growth stable at 1.5% yoy in Q4:15 from Q3:15.
- The subdued inflation and decelerating growth increased the expectations for further monetary policy easing. Indeed, the ECB on March 10th: i) increased its asset purchases by €20bn to €80bn/month adding Investment Grade corporate bonds; ii) announced four new TLTROs from June 2016 to March 2017 with a 4-year maturity; and iii) cut the MRO rate by 5 bps to 0% and the Deposit facility rate by 10 bps to -0.40%.
- As mentioned earlier, a modest fiscal easing due, inter alia, to the influx of refugees and moderate tax cuts in individual countries (e.g. Italy), is expected to contribute positively to euro area GDP. Specifically, the change in the euro area structural primary balance is expected to decline by 0.4 pps in 2016 (to -2.1% from -1.7% in 2015), following an average tightening of +0.8 pps per annum in 2010-2015.
- The financial turmoil at the beginning of 2016, albeit easing recently, has sent Eurostoxx down by 6% ytd (Financials: -15% ytd). In a similar vein, expectations for ECB stimulus and weaker inflation expectations sent Bund yields significantly lower (10-year Bunds: down by 42 bps to 21 bps). The euro initially benefitted from higher risk aversion. However, following the ECB meeting, the euro increased (to USD 1.12/€ from 1.09/€ at end-2015), as Mr. Draghi signaled no further rate cuts, at least in the short term.











Source: Eurostat, data as of Q3:2015

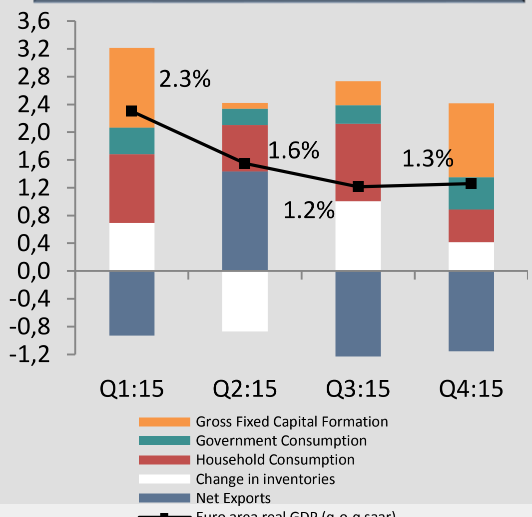
Above: GDP data as of Q4:2015, PMI data as of March 2016
Right: Industrial Production data & Retail Sales data as of January 2016, New Passenger Car Registrations data as of February 2016, Consumer Confidence data as of March 2016
Source: Eurostat, Markit, Bloomberg

Private consumption will continue to support growth, with the external sector remaining vulnerable

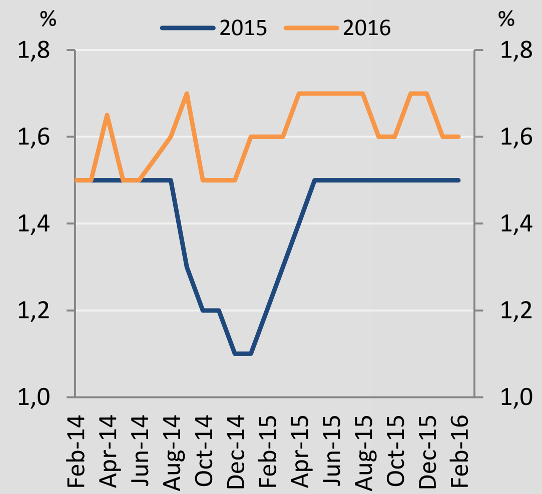
EA Real GDP Growth	2014	Q1:15	Q2:15	Q3:15	Q4:15	2015	Q1:16f	Q2:16f	Q3:16f	Q4:16f	2016e
GDP (YoY)	**0,9**	1,3	1,6	1,6	1,6	**1,5**	1,4	1,4	1,6	1,8	**1,5**
GDP (QoQ saar)	-	2,3	1,6	1,2	1,3	-	1,6	1,6	1,9	1,9	-
Private consumption (QoQ saar)	0,8	1,8	1,2	2,0	0,9	1,7	1,5	1,6	2,0	2,1	1,6
Government consumption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

Source: Eurostat, Bloomberg, NBG Estimates

GDP Contributions (%)

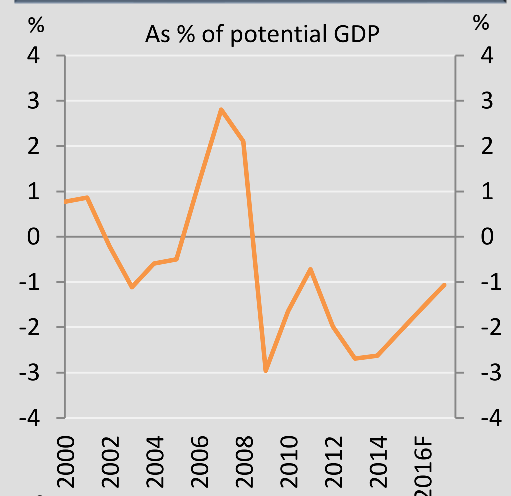


GDP Forecast Evolution



Source: Bloomberg Consensus

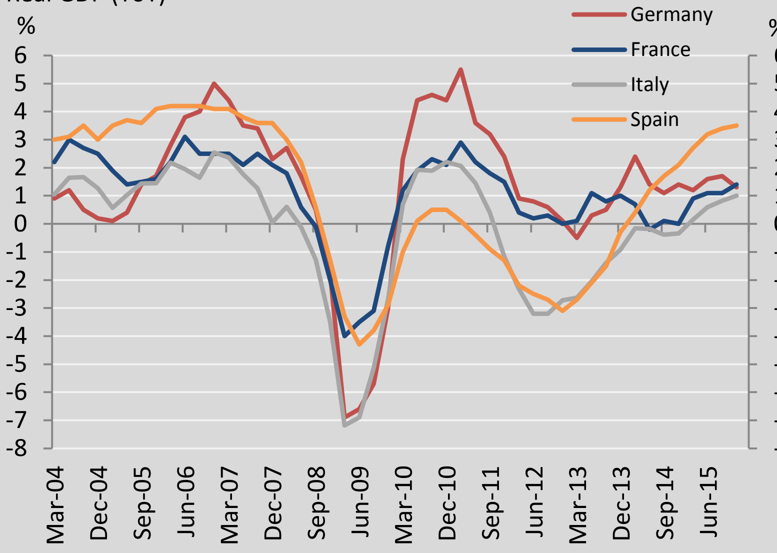
Output Gap



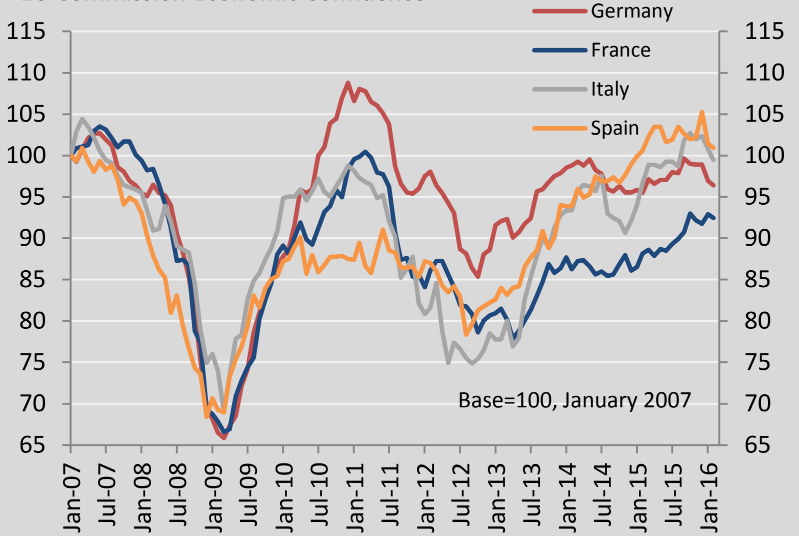
Source: IMF

PMI manufacturing indicators weakened in March, with German manufacturing PMI falling to a 16-month low of 50.4

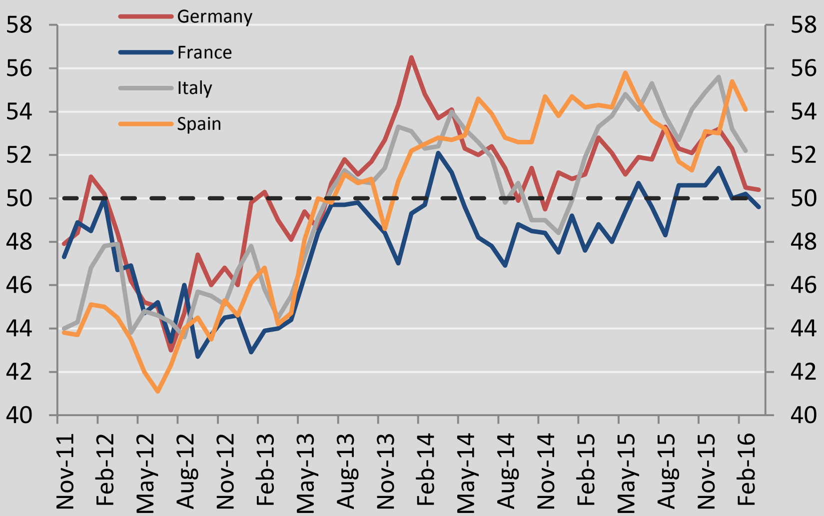
Real GDP (YoY)



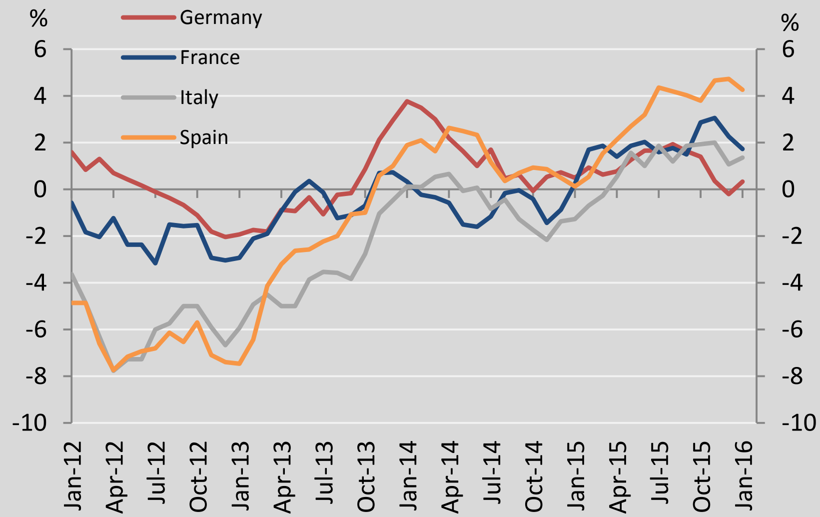
EU Commission Economic Confidence



Business Surveys - Manufacturing PMIs

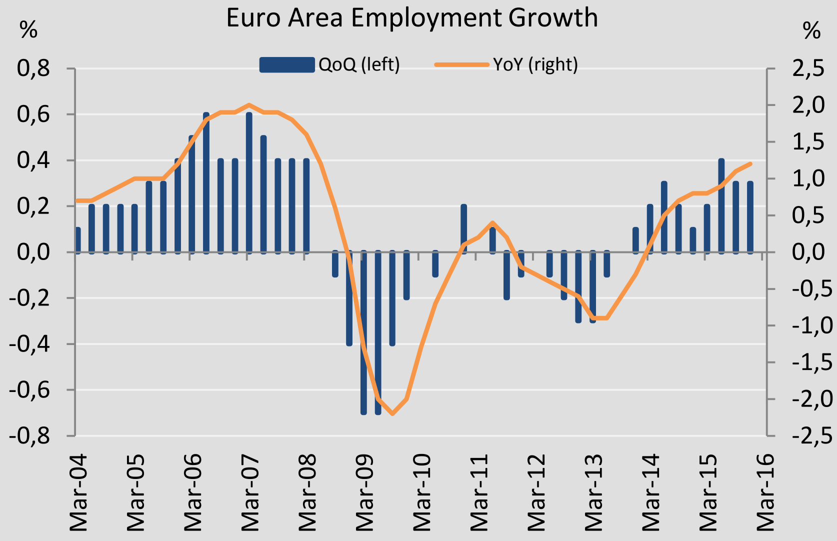


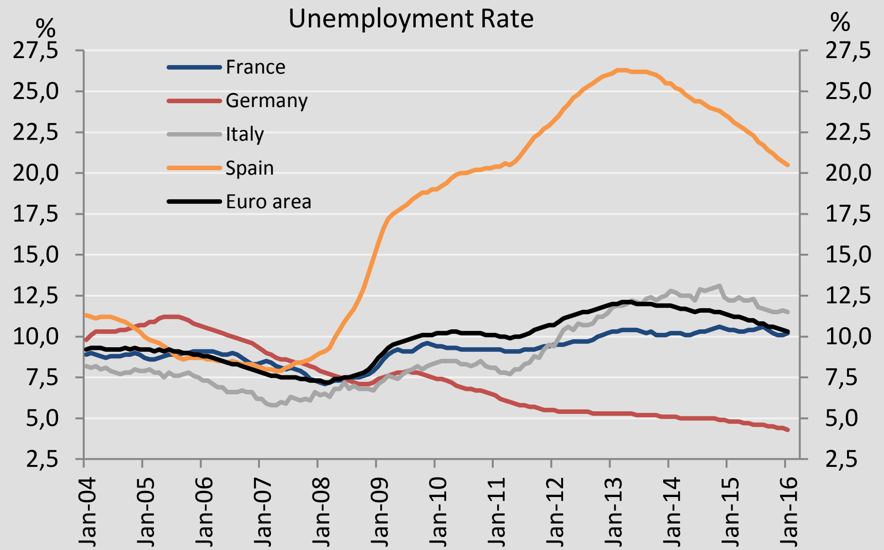
Industrial Production (YoY, 3-month avg)

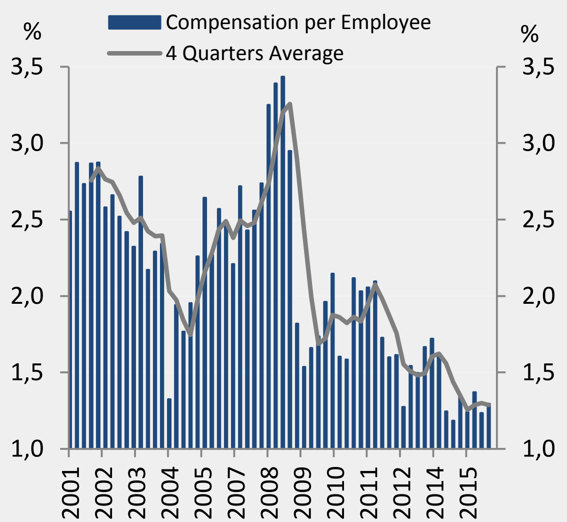


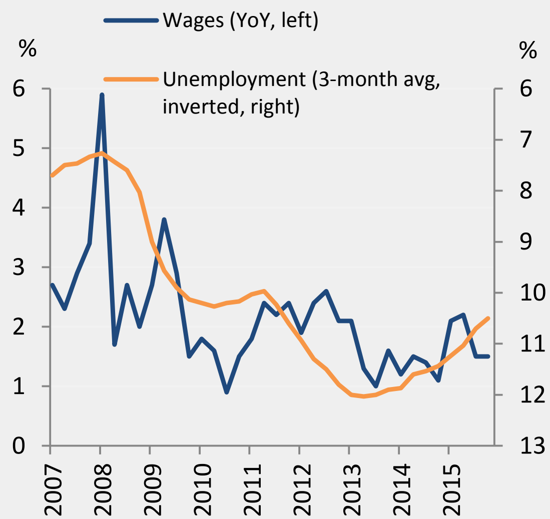
The unemployment rate remains on a downward trend (10.3% in January), albeit compensation measures remain lackluster

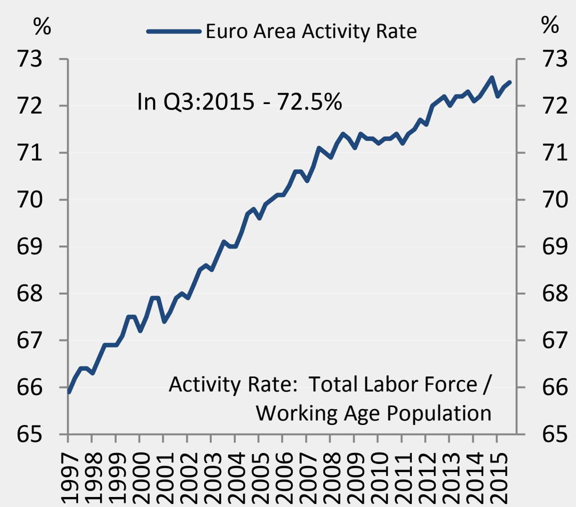
Euro area









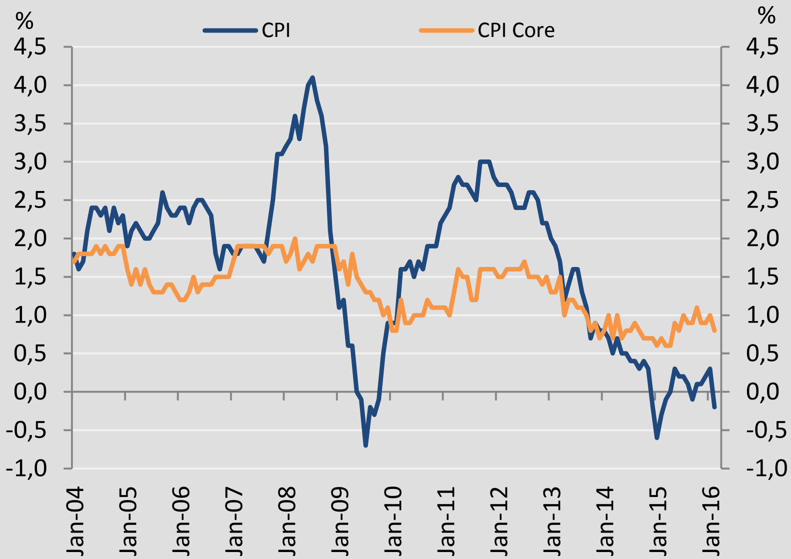


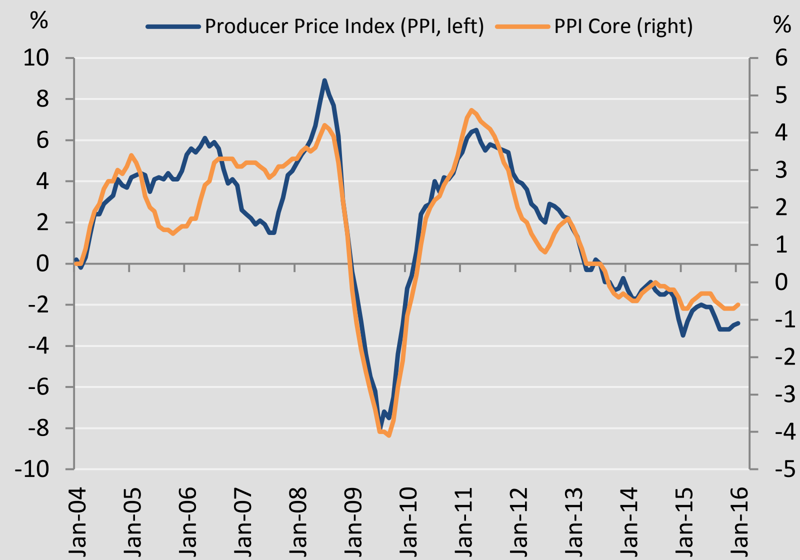
Source: ECB, Compensation per Employee: the total remuneration that is payable to employees (salaries, bonuses, overtime payments and employers' social security contributions, divided by the total number of employees / Wages: indicator of Negotiated wage rates

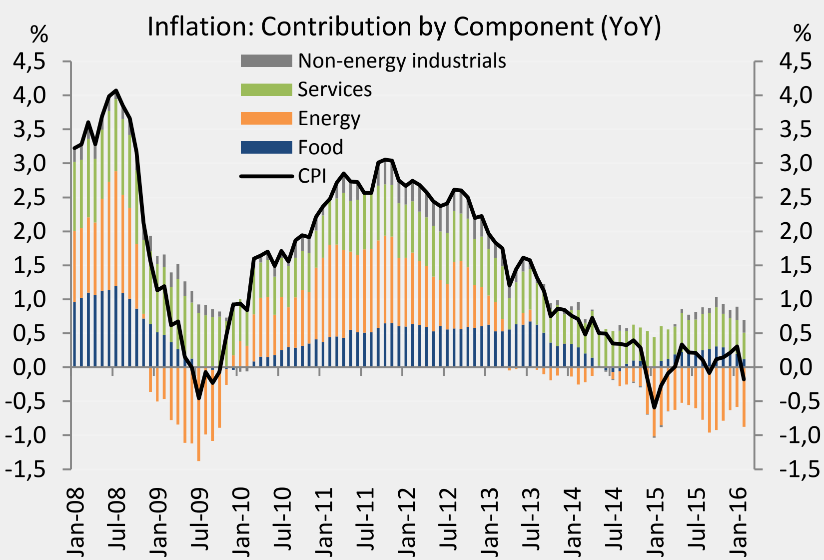
Source: ECB, Activity Rate: Total Labor Force / Working Age Population

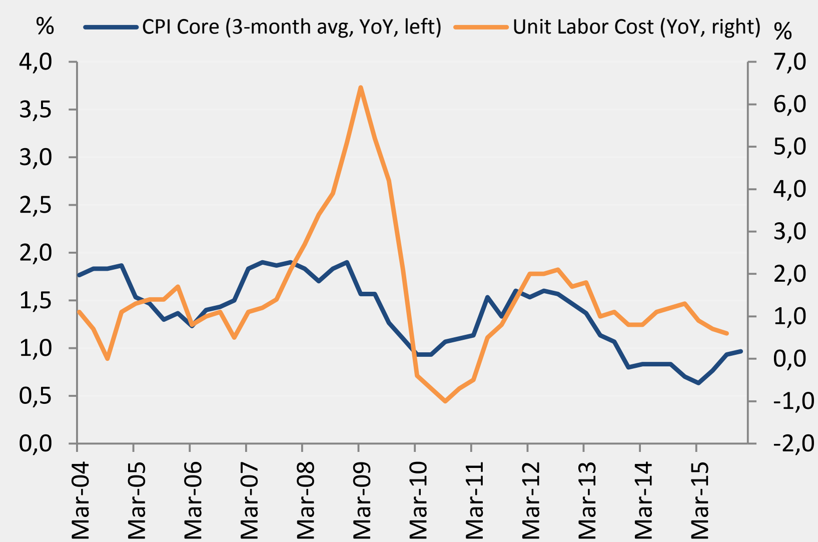
Inflation was particularly weak in February (-0.2% yoy)

Euro area

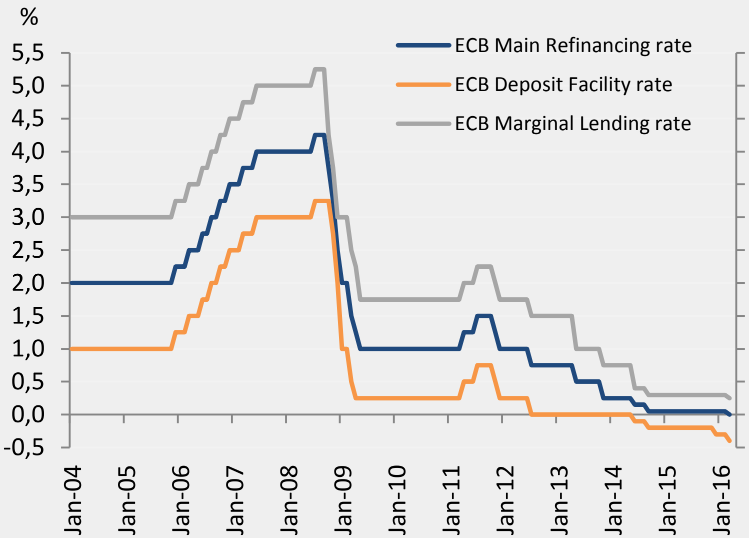


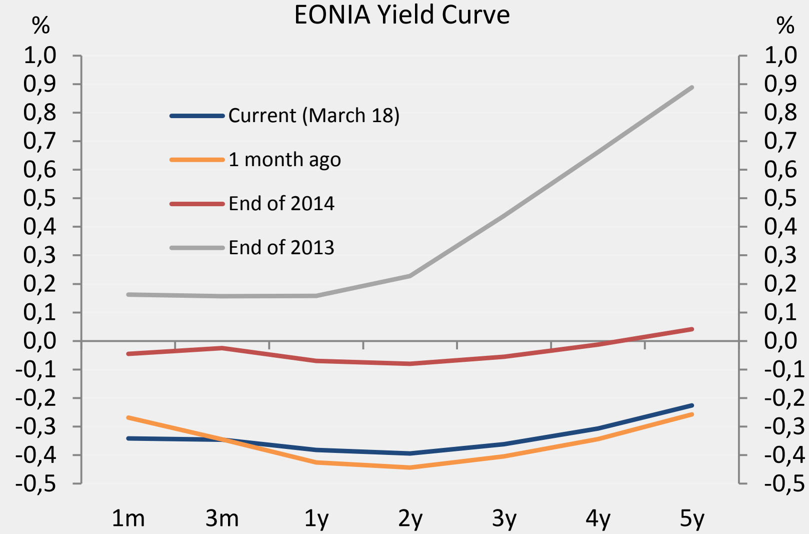


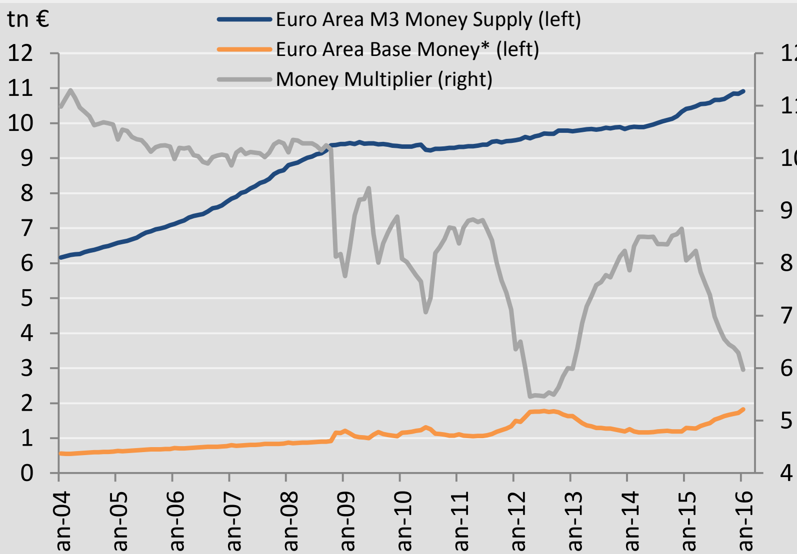




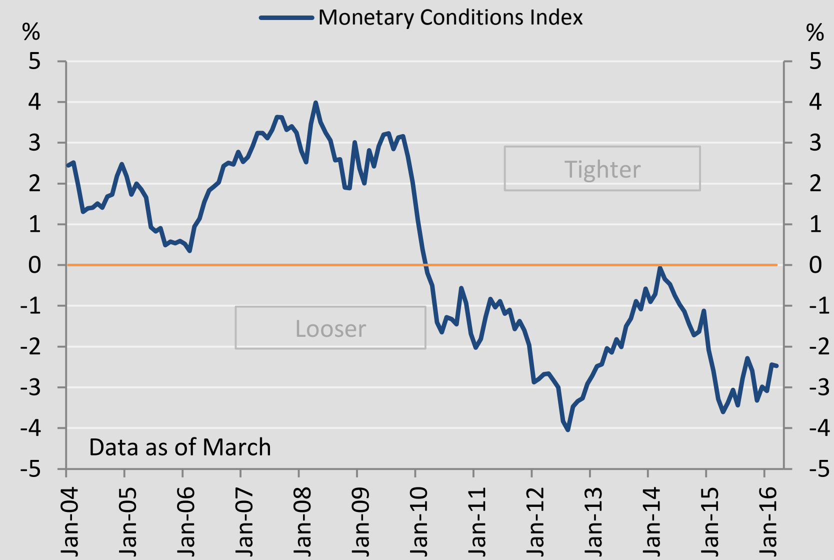
The ECB delivered a striking set of measures, cutting interest rates…



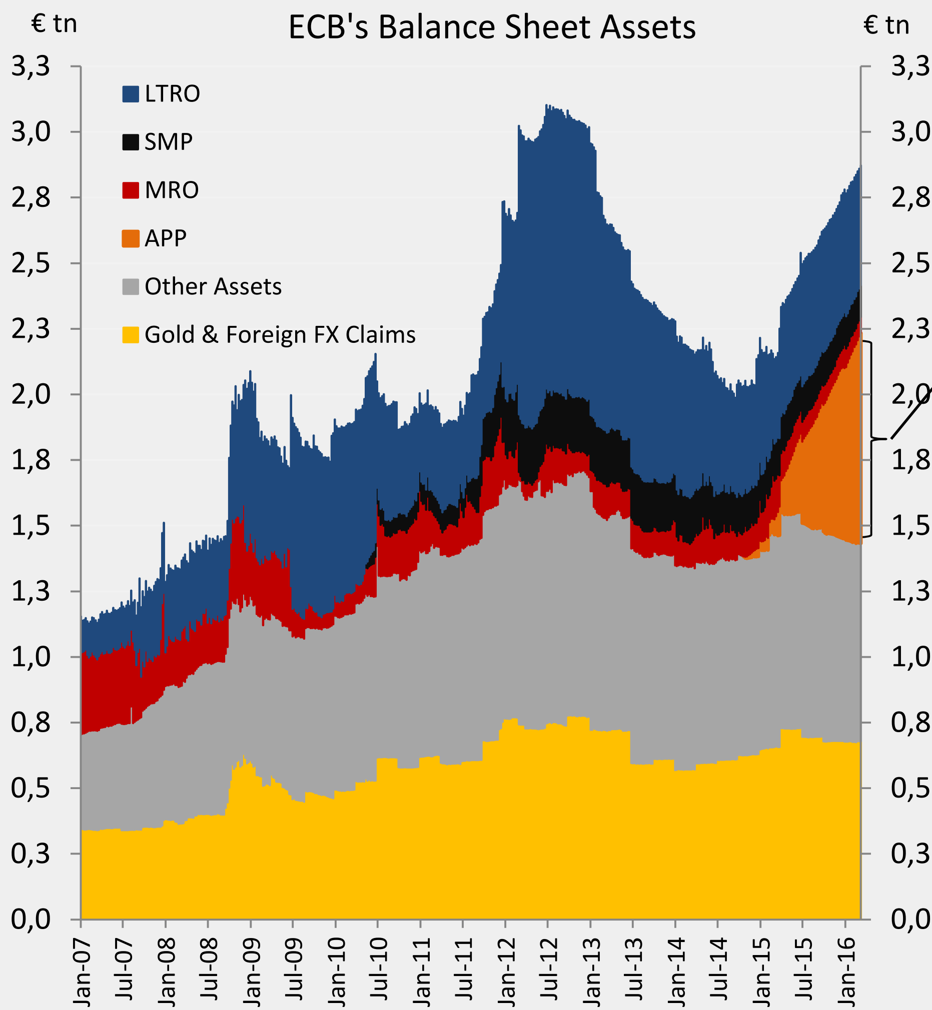


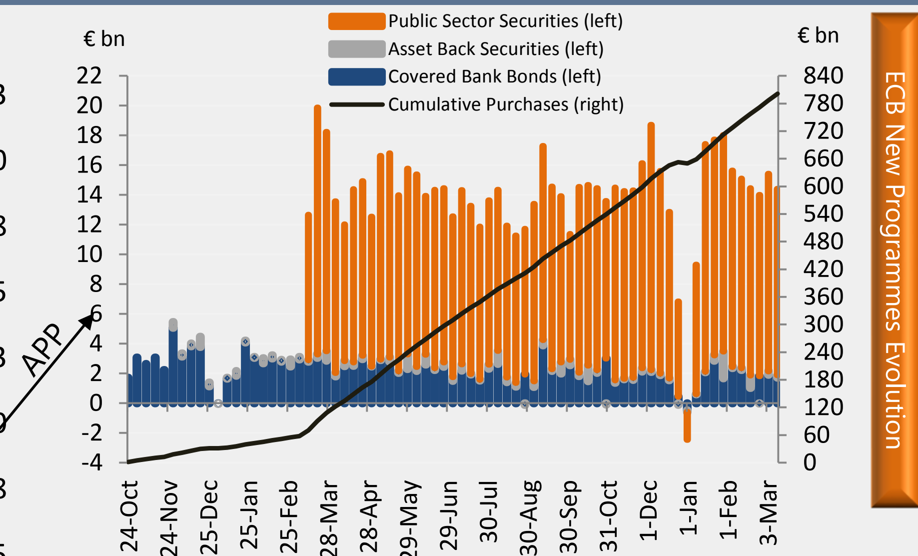


Base Money: Banknotes in circulation plus minimum required reserves & any excess reserves plus ECB's deposit facility
Source: ECB

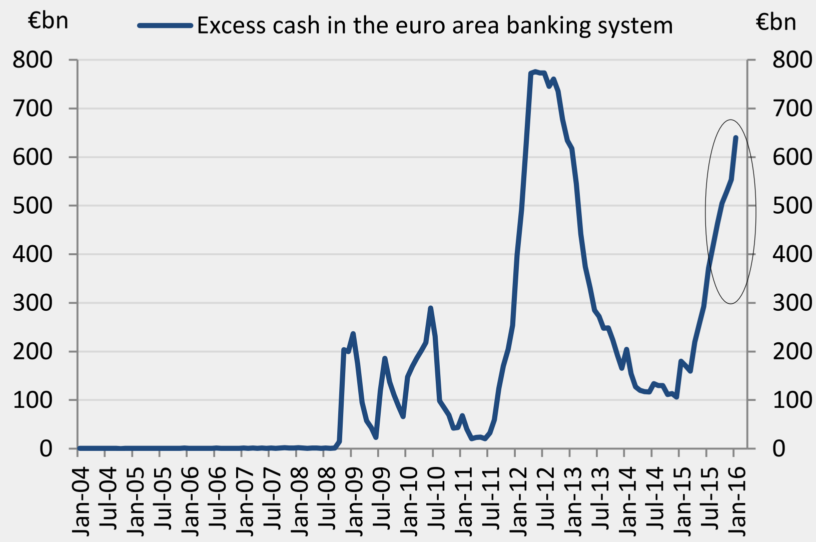


Monetary Conditions Index is a simple composite index of Real Short Term Rates (Euribor less CPI) & Real Effective Exchange Rate





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



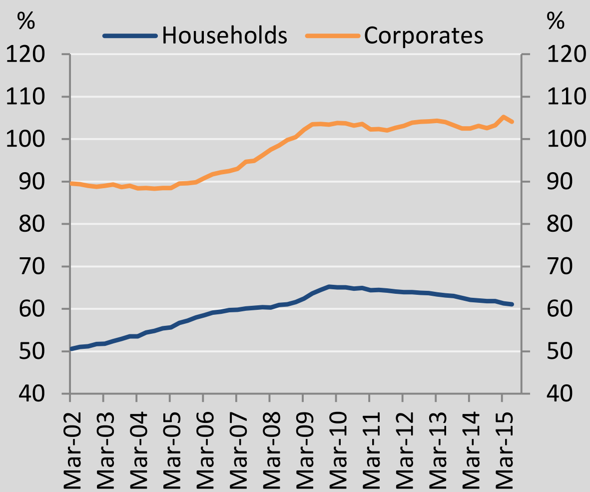
LTRO: Long-term refinancing operations, MRO: Main refinancing operations, SMP: Securities Market Programme, APP: includes ABS, CBBPP3 & PSPP programmes, please refer to upper right graph
Source: ECB

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

Credit conditions recovered in January, with bank loans to the private sector at +0.6% yoy

Euro area

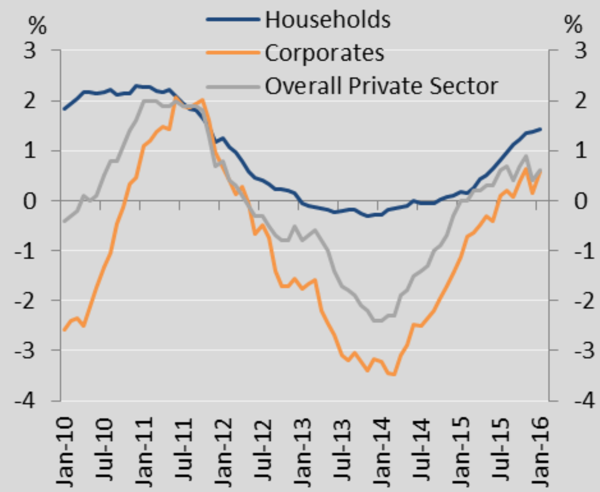
Private Debt* as % of GDP



*Private sector (Households and non-financial corporations) includes bank loans & corporate bonds, data as of Q3:15

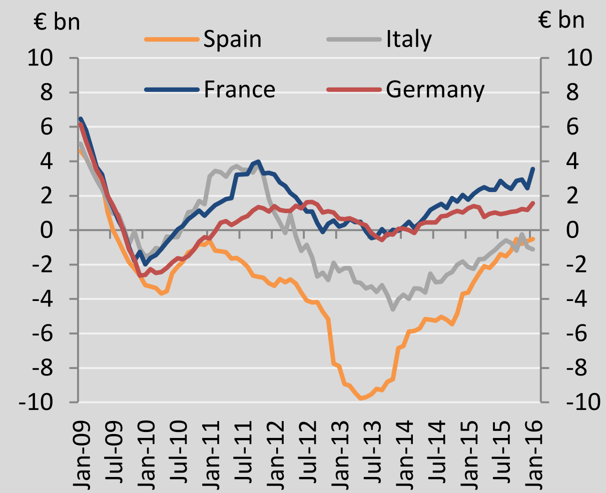
Source: Bank for International Settlements

Euro area Banks: Loans to the Private Sector



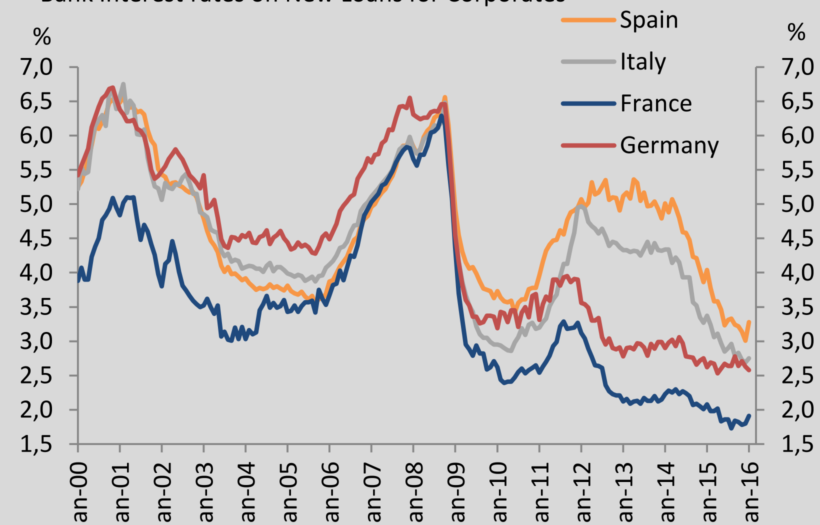
Source: ECB, data as of January 2016 / Adjusted for Sales & Securitization, YoY

Euro area Banks: Loans to Corporates



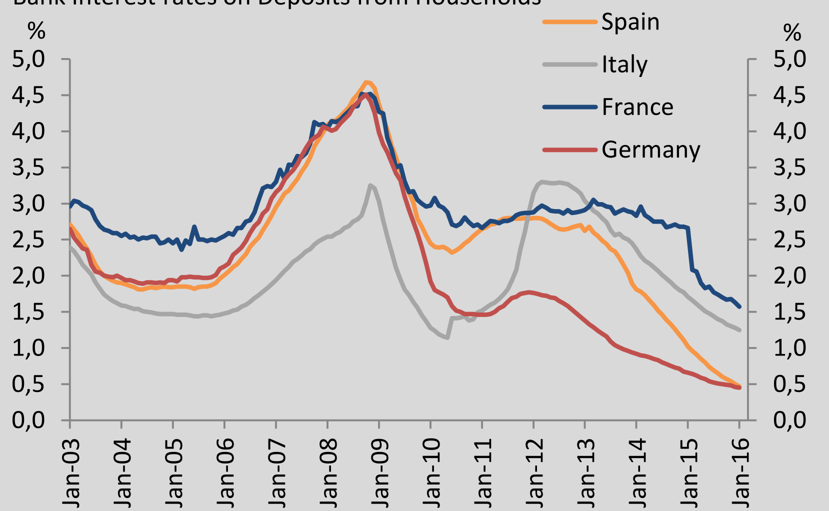
Source: ECB, data as of January 2016 / flows, 12-month moving average

Bank Interest rates on New Loans for Corporates



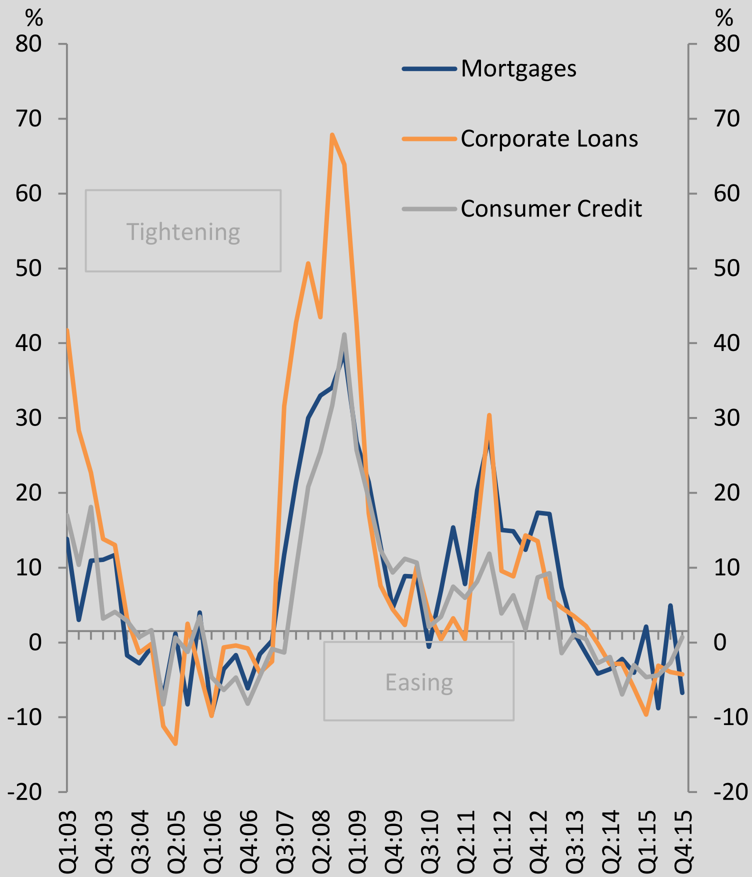
Source: ECB, data as of January 2016 / Interest rates on loans up to €1mn

Bank Interest rates on Deposits from Households



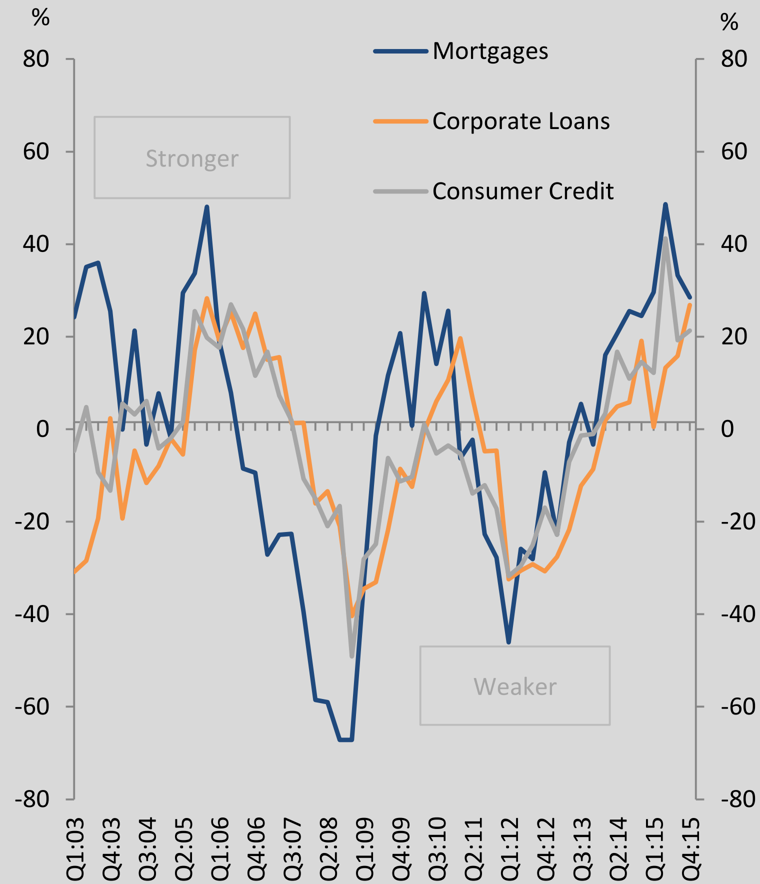
Source: ECB, data as of January 2016 / Interest rates on deposits with agreed maturity up to 2 years

Net % of Banks reporting tightening in Credit Standards



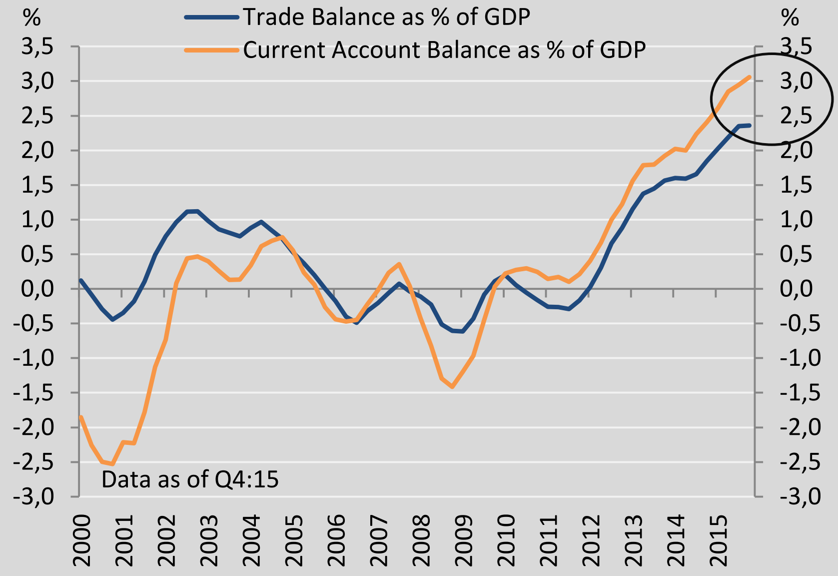
Source: ECB Bank Lending Survey

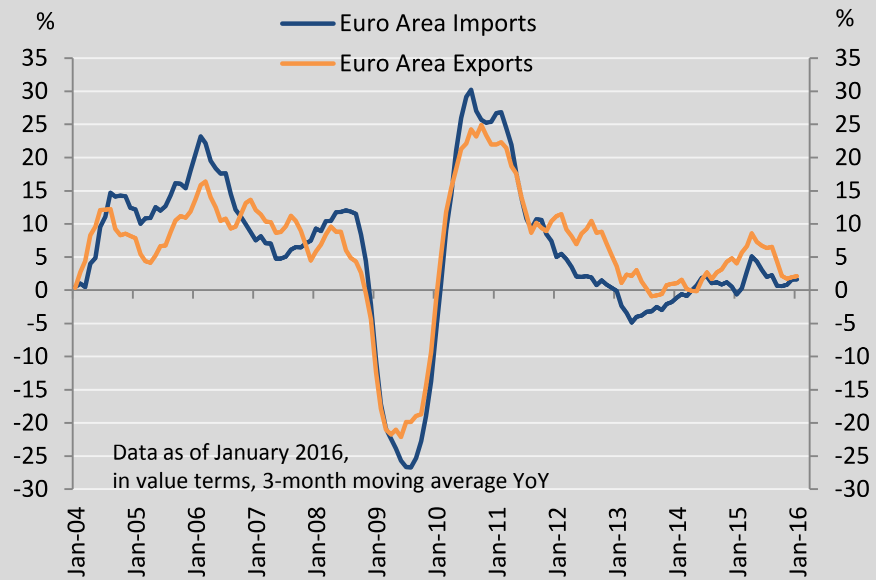
Net % of Banks reporting stronger Demand for:

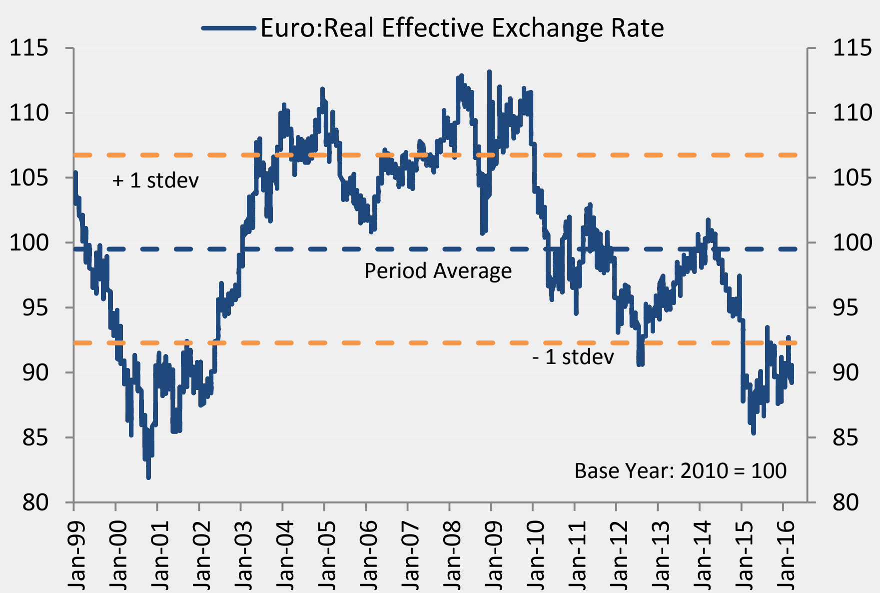


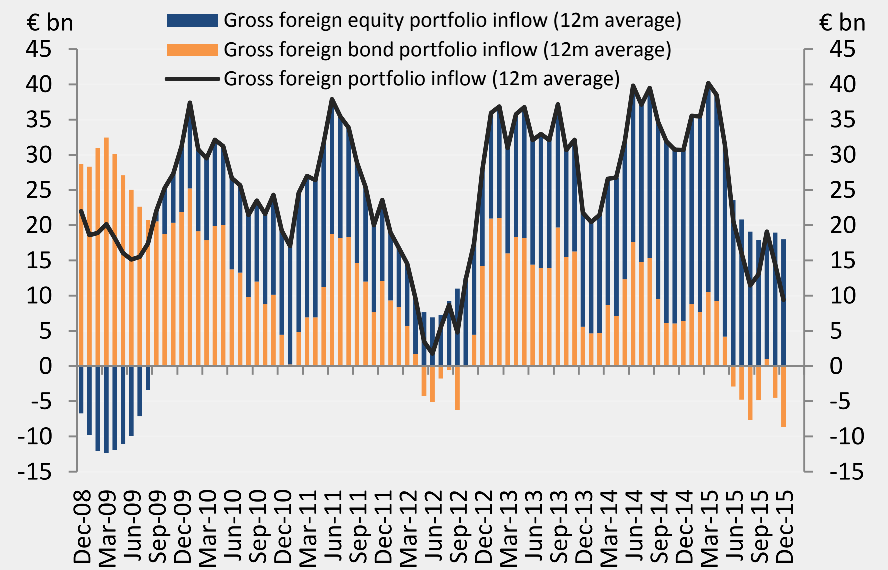
Source: ECB Bank Lending Survey

The CA surplus increased further in Q4:15 to 3% of GDP, a record high







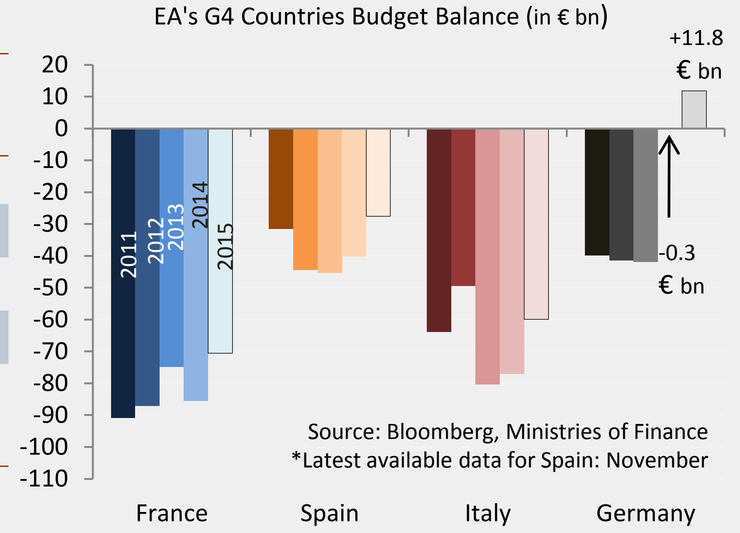


The euro area fiscal stance is expected to turn slightly accommodative in 2016 for the first time in five years

Euro area

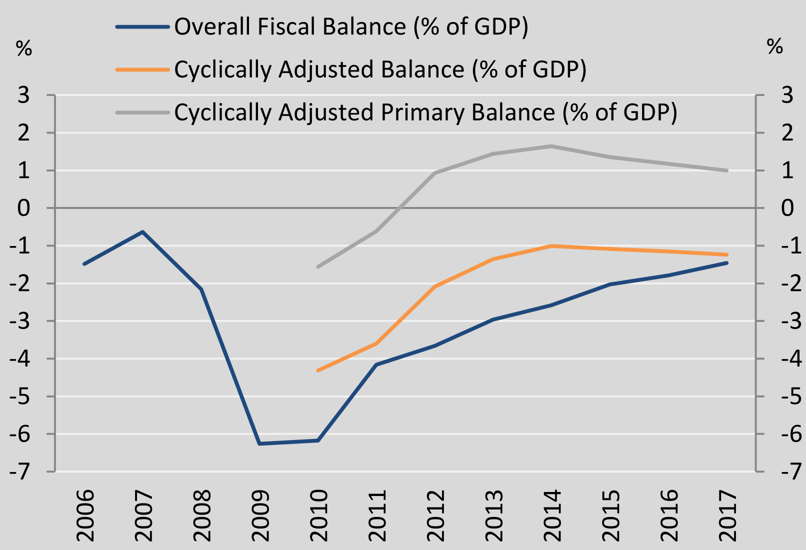
Euro area General Government Balance	Q1:13	Q2:13	Q3:13	Q4:13	2013	Q1:14	Q2:14	Q3:14	Q4:14	2014	Q1:15	Q2:15	Q3:15
(+) Revenues	1.143	1.159	1.164	1.166	4.632	1.175	1.178	1.184	1.192	4.730	1.198	1.206	1.213
(-) Expenditures	1.223	1.238	1.238	1.229	4.928	1.239	1.243	1.253	1.256	4.991	1.252	1.263	1.260
(=) Balance	-80	-79	-75	-62	-295	-63	-64	-69	-64	-261	-55	-57	-47
General Government Balance (% GDP)	-3,2	-3,2	-3,0	-2,5	-3,0	-2,5	-2,6	-2,7	-2,5	-2,6	-2,1	-2,2	-1,8

Source: Eurostat, in EUR billions unless otherwise noted



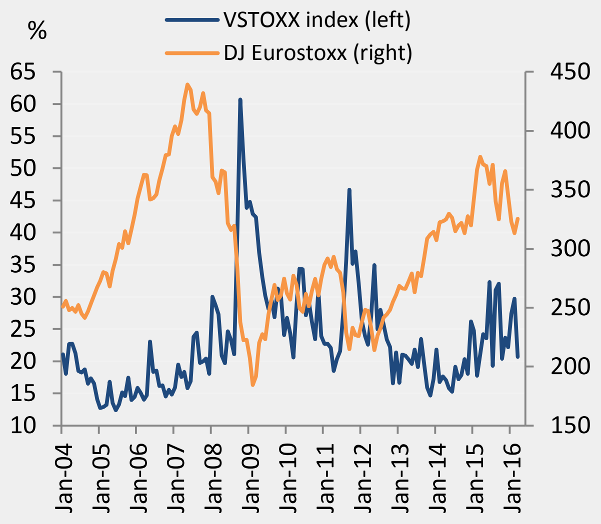
Source: Bloomberg, Ministries of Finance
*Latest available data for Spain: November

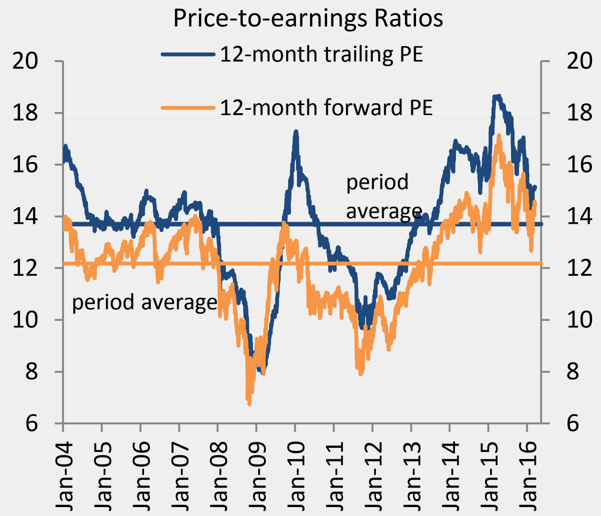
Source: IMF Fiscal Monitor, October 2015



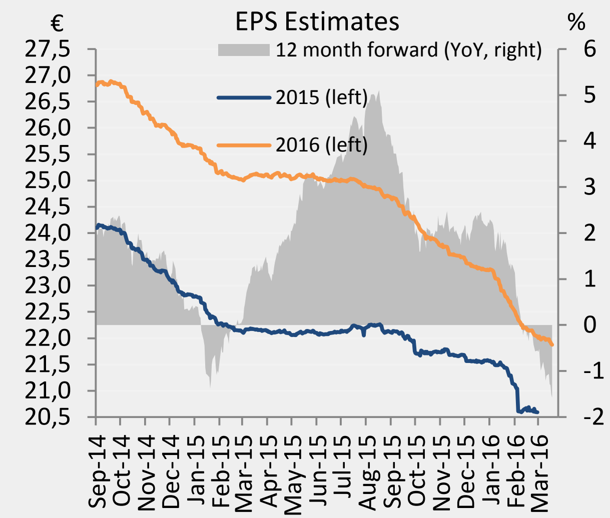
Source: European Commission, November 2015

Euro area bank equities have recovered slightly, increasing by 11% m-o-m as concerns receded regarding their profitability and credit quality

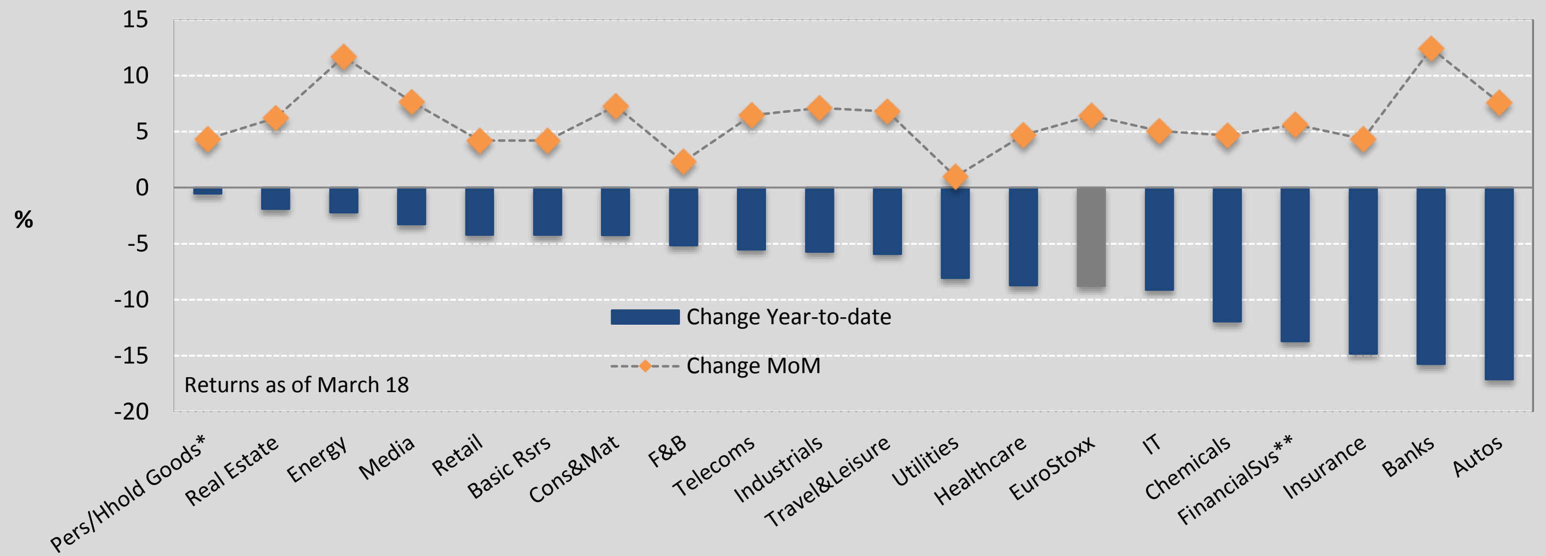




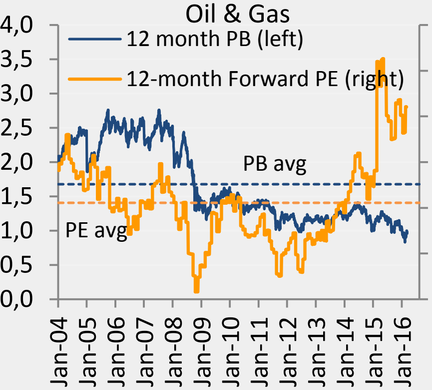
Source: Factset

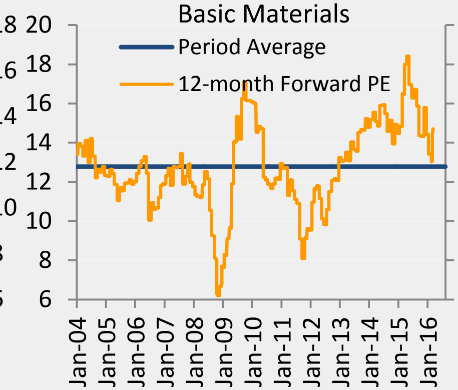


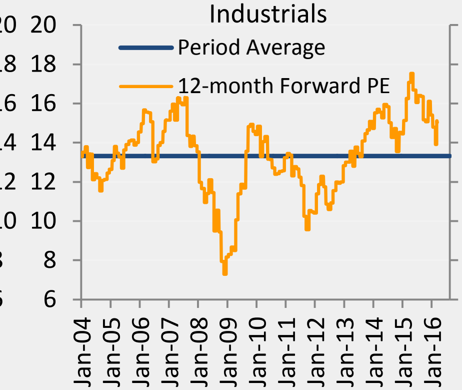
Source: Factset

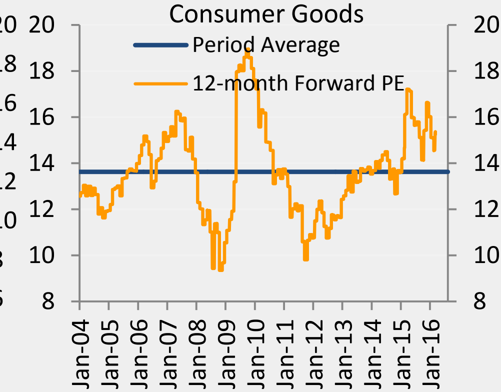


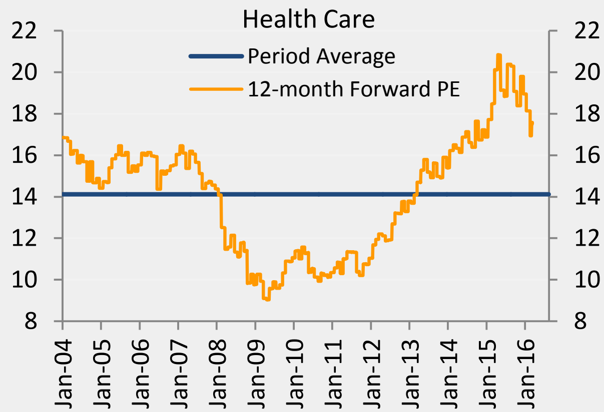
Note: *Personal & Household Goods, **Financial Services

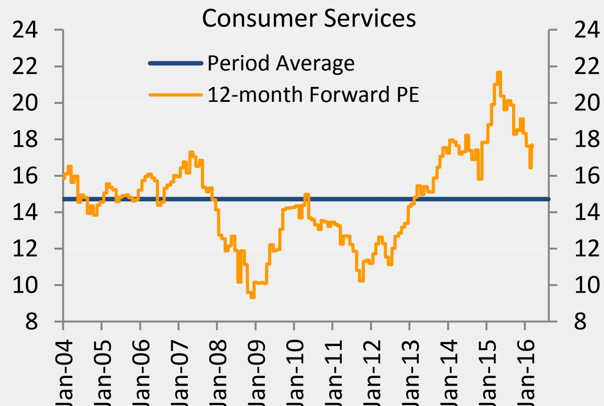

Oil & Gas
12 month PB (left)
12-month Forward PE (right)
PB avg
PE avg
4,0 3,5 3,0 2,5 2,0 1,5 1,0 0,5 0,0
18 16 14 12 10 8 6
Jan-04 Jan-05 Jan-06 Jan-07 Jan-08 Jan-09 Jan-10 Jan-11 Jan-12 Jan-13 Jan-14 Jan-15 Jan-16

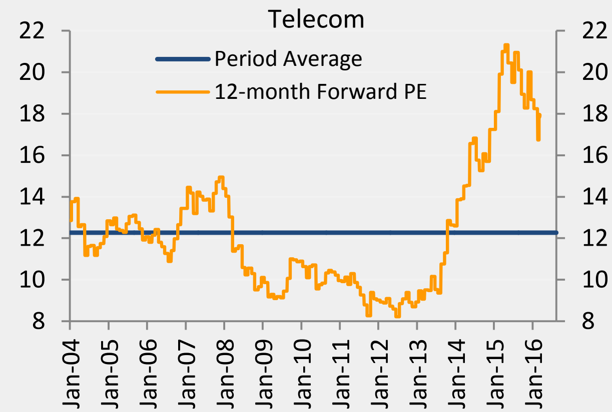

Basic Materials
Period Average
12-month Forward PE
20 18 16 14 12 10 8 6
Jan-04 Jan-05 Jan-06 Jan-07 Jan-08 Jan-09 Jan-10 Jan-11 Jan-12 Jan-13 Jan-14 Jan-15 Jan-16

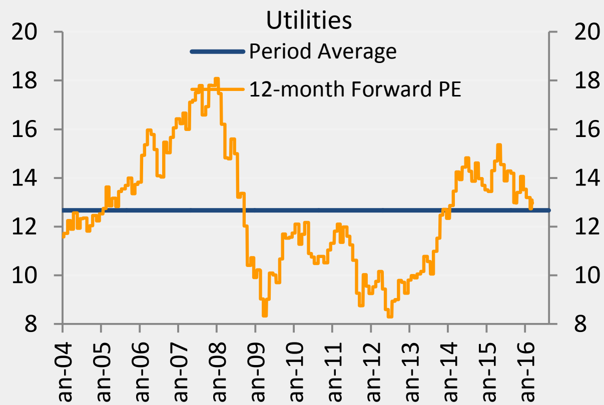

Industrials
Period Average
12-month Forward PE
20 18 16 14 12 10 8 6
Jan-04 Jan-05 Jan-06 Jan-07 Jan-08 Jan-09 Jan-10 Jan-11 Jan-12 Jan-13 Jan-14 Jan-15 Jan-16

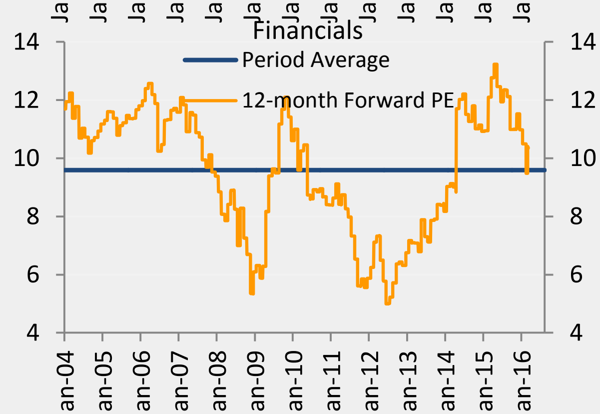

Consumer Goods
Period Average
12-month Forward PE
20 18 16 14 12 10 8
Jan-04 Jan-05 Jan-06 Jan-07 Jan-08 Jan-09 Jan-10 Jan-11 Jan-12 Jan-13 Jan-14 Jan-15 Jan-16

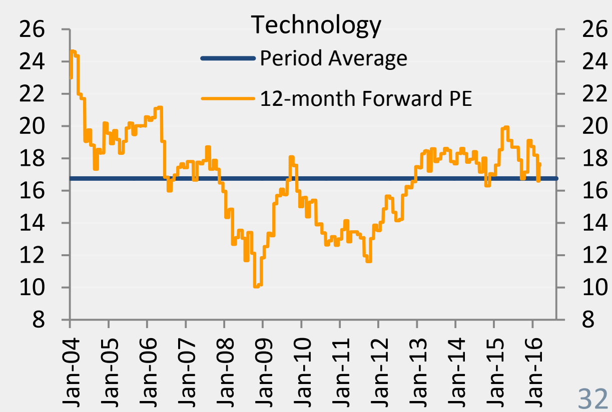

Health Care
Period Average
12-month Forward PE
22 20 18 16 14 12 10 8
Jan-04 Jan-05 Jan-06 Jan-07 Jan-08 Jan-09 Jan-10 Jan-11 Jan-12 Jan-13 Jan-14 Jan-15 Jan-16


Consumer Services
Period Average
12-month Forward PE
24 22 20 18 16 14 12 10 8
Jan-04 Jan-05 Jan-06 Jan-07 Jan-08 Jan-09 Jan-10 Jan-11 Jan-12 Jan-13 Jan-14 Jan-15 Jan-16

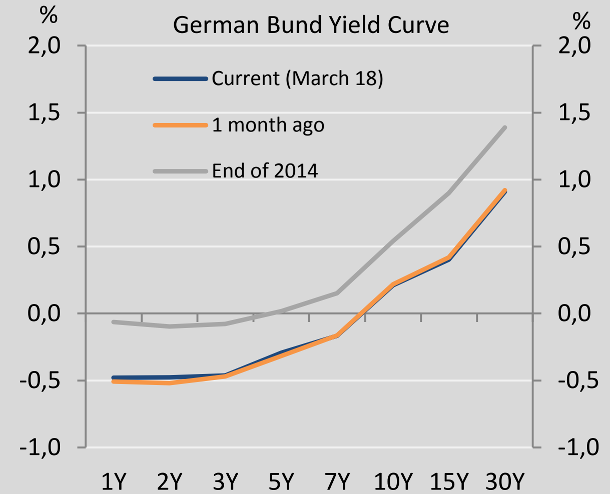

Telecom
Period Average
12-month Forward PE
22 20 18 16 14 12 10 8
Jan-04 Jan-05 Jan-06 Jan-07 Jan-08 Jan-09 Jan-10 Jan-11 Jan-12 Jan-13 Jan-14 Jan-15 Jan-16

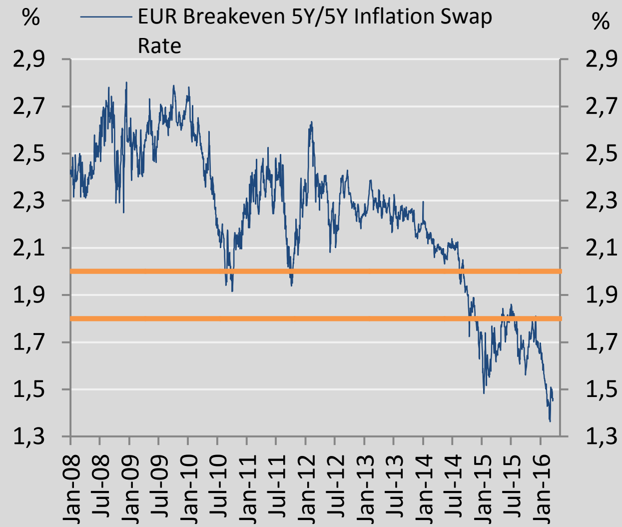

Utilities
Period Average
12-month Forward PE
20 18 16 14 12 10 8
Jan-04 Jan-05 Jan-06 Jan-07 Jan-08 Jan-09 Jan-10 Jan-11 Jan-12 Jan-13 Jan-14 Jan-15 Jan-16

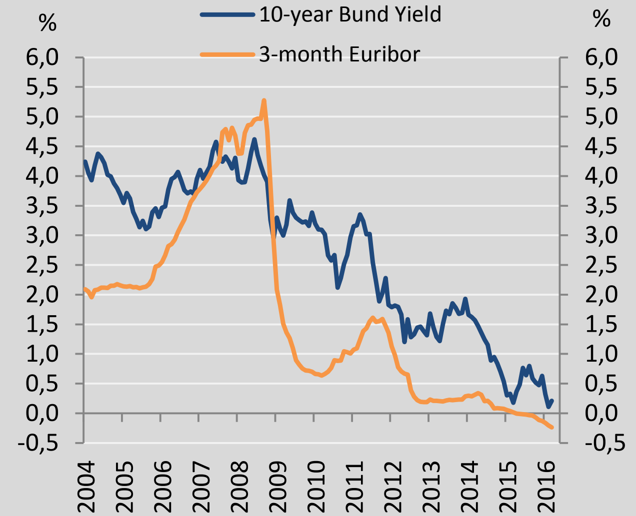

Financials
Period Average
12-month Forward PE
14 12 10 8 6 4
Jan-04 Jan-05 Jan-06 Jan-07 Jan-08 Jan-09 Jan-10 Jan-11 Jan-12 Jan-13 Jan-14 Jan-15 Jan-16


Technology
Period Average
12-month Forward PE
26 24 22 20 18 16 14 12 10 8
Jan-04 Jan-05 Jan-06 Jan-07 Jan-08 Jan-09 Jan-10 Jan-11 Jan-12 Jan-13 Jan-14 Jan-15 Jan-16

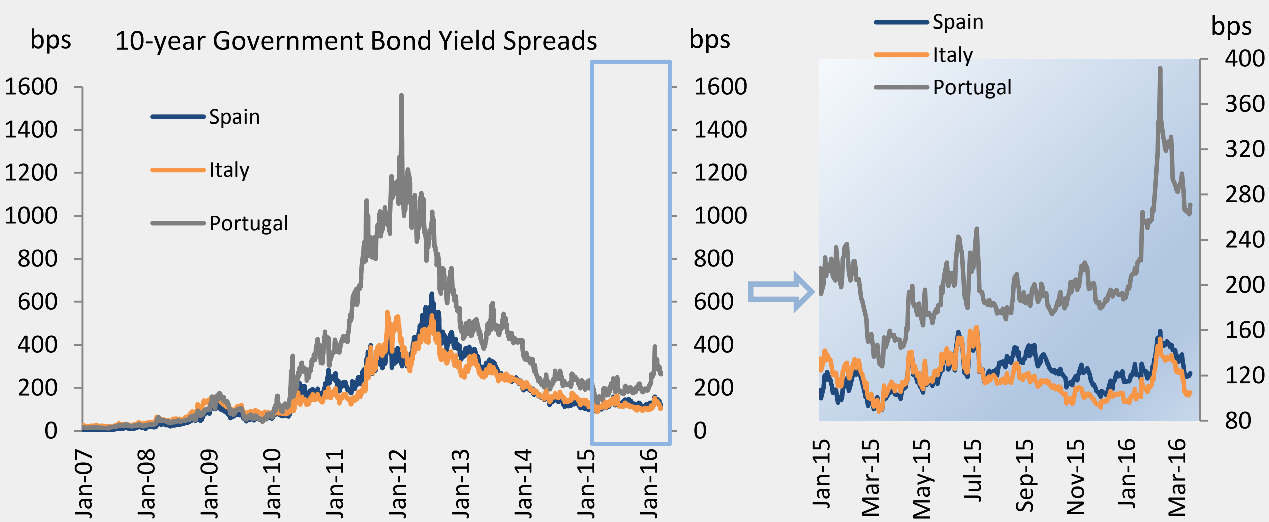
Market-based implied expectations for average inflation 5 years ahead (i.e. 2020-25) remain subdued, albeit picking up lately to 1.5% (historical low of 1.36% at end-February)







10-year Government Bond Yield Spreads over Bund



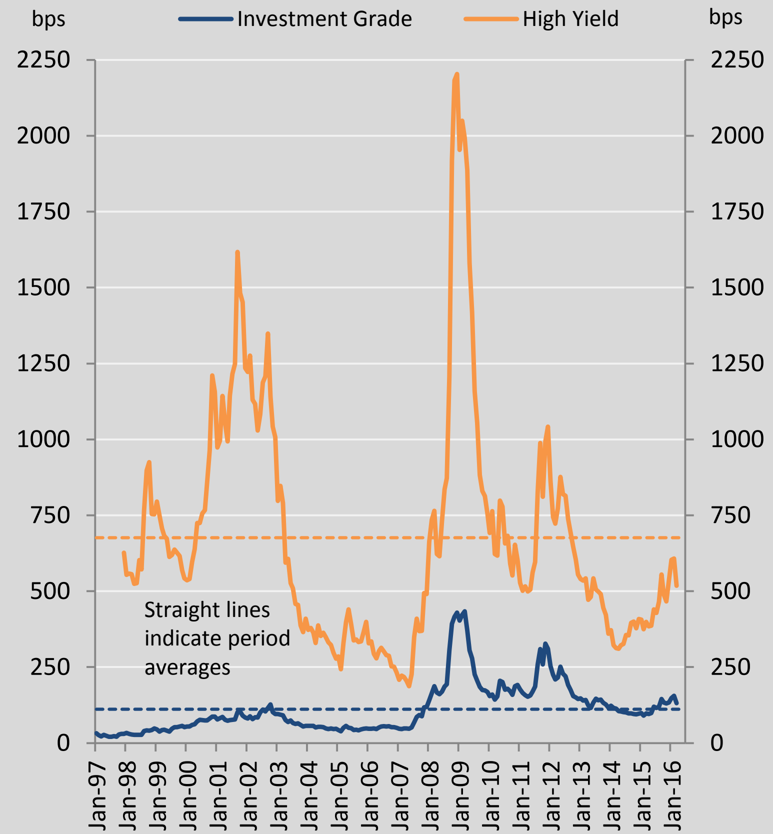
Sovereign Debt Ratings

	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 23.03.16)
Outlook: p = positive, n = negative, s = stable

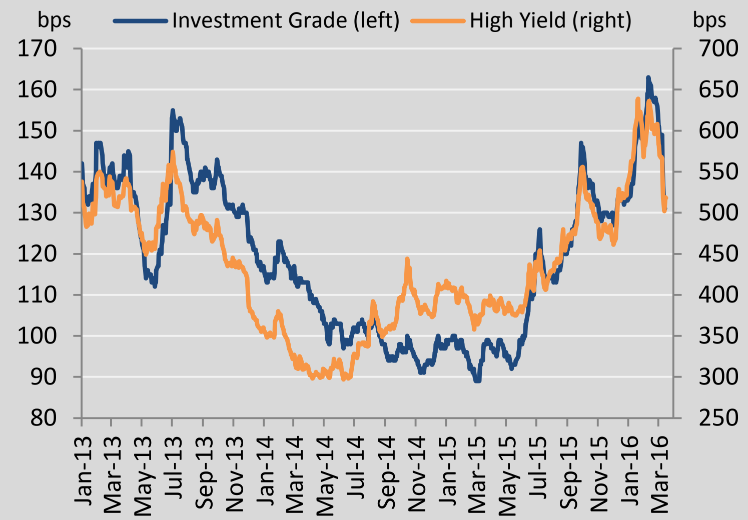
Euro Investment Grade spreads narrowed significantly following the ECB's decision to purchase IG corporate bonds (effective from Q2:2016)

Corporate Bond Spreads

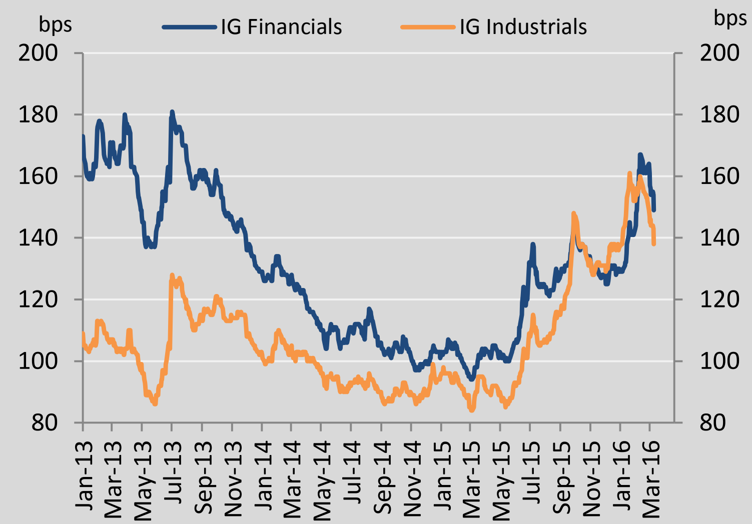


Source: Bank of America / Merrill Lynch Euro Corporate Bond Index (IG), Euro High Yield Index (HY)

Short-term View



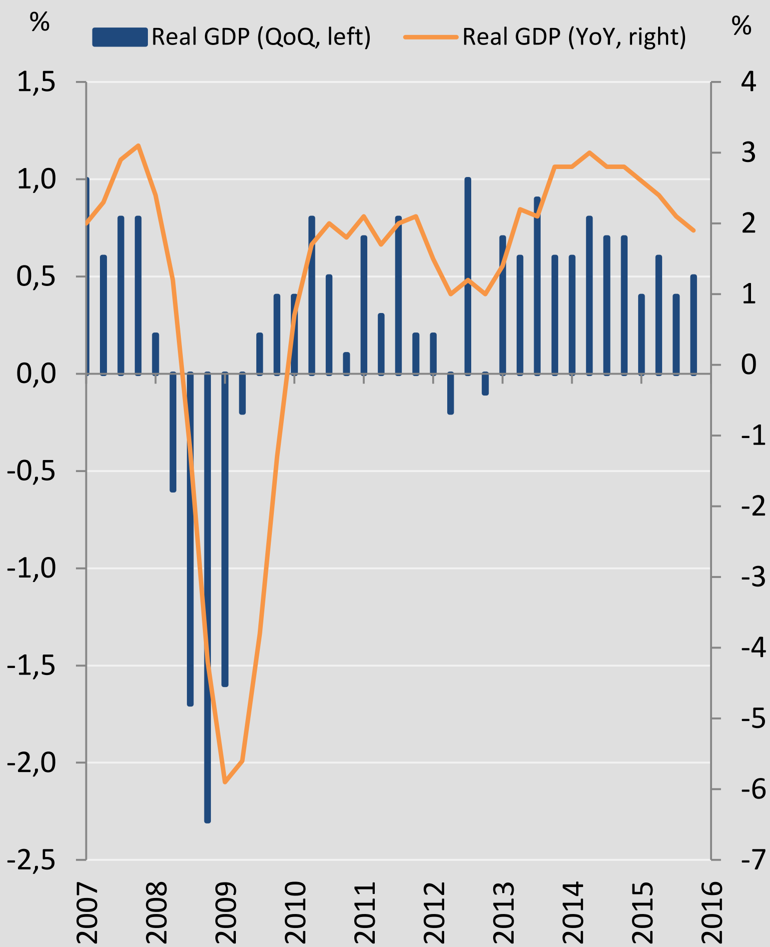
IG Financials/Industrials

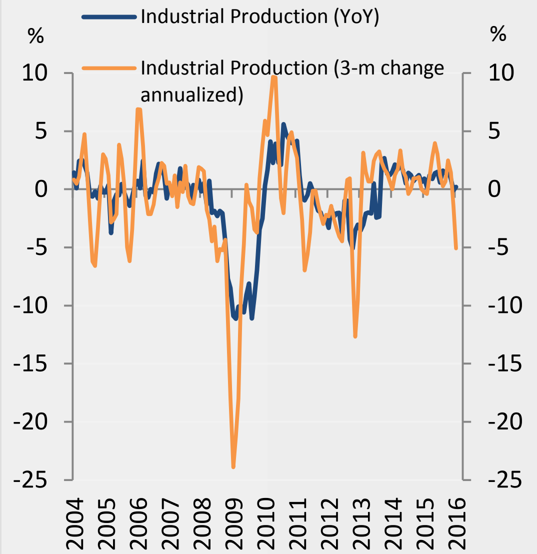


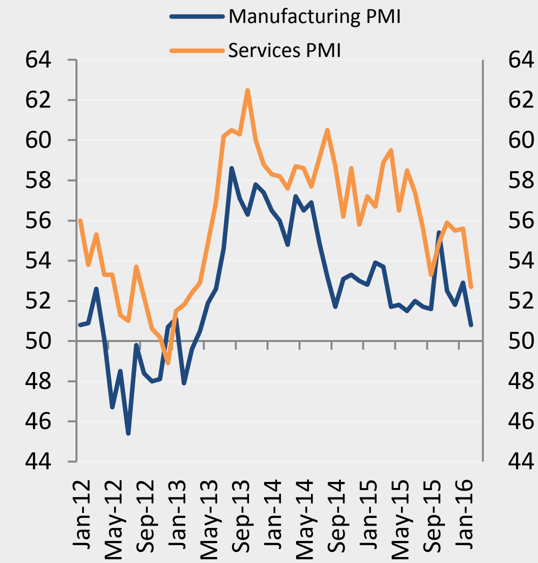
- UK GDP rose by 1.9% qoq saar in Q4:15 from 1.7% in Q3:15, with private consumption increasing strongly (+1.7 pps contribution to GDP), whereas stock-building was also significant (inventories' contribution was a sizeable 1.7 pps -- a negative for Q1:2016 GDP growth). Net trade subtracted 1.7 pps as exports declined due to weaker external demand. Indeed, the CAD increased to a worrisome 4.5% of GDP, signaling demand imbalances.
- Business surveys entered Q1:2016 on a weak footing, with the manufacturing PMI declining by 2.1 pts to a three-year low of 50.8 and the services PMI decreasing by 2.9 pts to 52.7. Uncertainty regarding global growth, heightened financial market volatility and the risk of "Brexit" cloud the outlook. A referendum on whether the UK should remain in the EU was announced for June 23rd, with the outcome being highly uncertain, at least for now, according to various polls.
- On the other hand, retail sales were exceptionally strong in January (+5.2% yoy vs +3.8% yoy in Q4:15 on average) and consumer confidence remains solid, averaging +2 pts (in Q1:16), broadly the same as in Q4 and significantly above the long-term average of -9.7. Private consumption will continue to support growth, albeit to a less extent compared with 2015, reflecting slower wage growth.
- Indeed, wage growth decelerated to c. 2.0% yoy in January, following a peak of 2.9% in July (long-term average: 2.9%) and non-wage costs (bonuses) also declined. The unemployment rate hovers at a 10-year low of 5.1% in January (-60 bps yoy), with NAIRU estimates at 4.7% according to the BoE.
- Inflation picked up slightly to +0.3% yoy in January from +0.2% yoy in December, due to favorable base effects relating to fuel prices (+0.14 pps contribution vs -0.05 pps in December). The Bank of England expects headline inflation to rise to the target of 2.0% no earlier than early-2018, with risks skewed to the downside.
- Fiscal tightening will continue to constrain growth, albeit by less than previously envisaged. The 2016 Budget lessens some of the drag on GDP growth over the next 2 years, back-loading fiscal adjustment towards the end of the decade. The change in the UK cyclical-adjusted net borrowing in 2016 is expected to be a tightening of 0.9 pps (to a deficit of -2.7% of GDP) from a tightening of 1.1 pp expected previously. For 2017, the tightening of cyclical-adjusted net borrowing is expected to be 0.8 pps (to a deficit of -1.9% of GDP) from a tightening of 1.2 pps under the previous Budget.
- Weak wage pressures and low inflation support the case for a "low-for-longer" BoE. Forward markets (GBP OIS) believe the policy rate will remain at current levels (0.50%) for the next three and a half years. The current market path for the policy rate appears pessimistic, assuming GDP growth continues at a 2% annualized rate and the unemployment rate declines further towards "full-employment".
- Heightened "Brexit" risk has led to a sharp depreciation of the GBP ytd (-4.7% in REER terms). Government bond yields have declined across the curve (10Yr Gilt: -51 bps ytd to 1.45%) due to weaker inflation expectations and the prospect of a "low-for-longer" BoE.
- The FTSE 100 has performed broadly in tandem with its developed peers ytd (-0.8% vs -0.9% for the MSCI DM excluding the UK). High commodity exposure was a drag on the FTSE since the large slide in oil prices began (mid-2014), thus the latest reversal of commodity prices is positive for the index. The recent depreciation of the GBP (-4.7% ytd) is also positive as c. 70% of FTSE100 revenue comes from abroad.

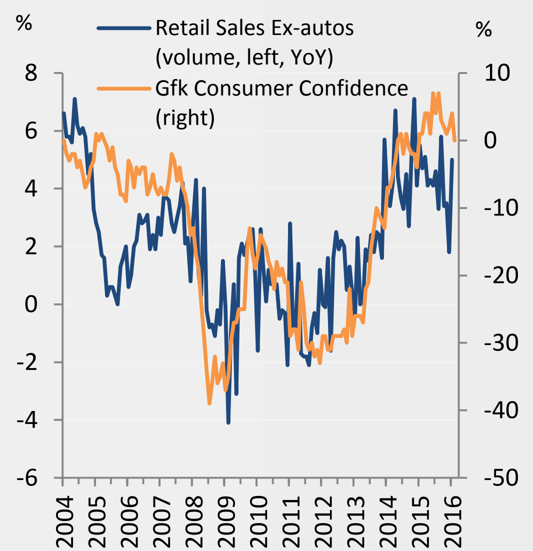
UK business leading indicators (PMIs) entered 2016 on a weak footing

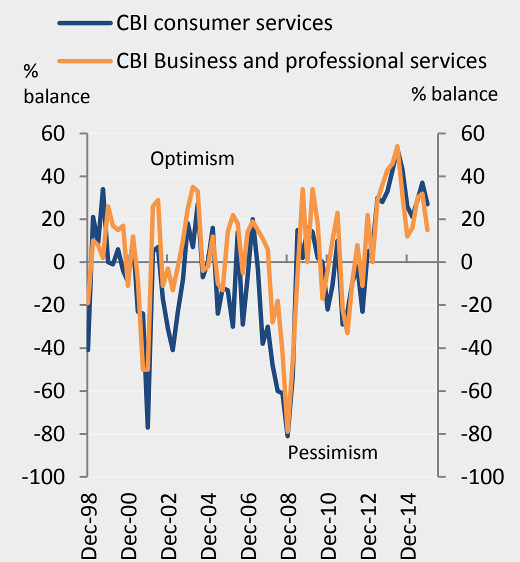
UK











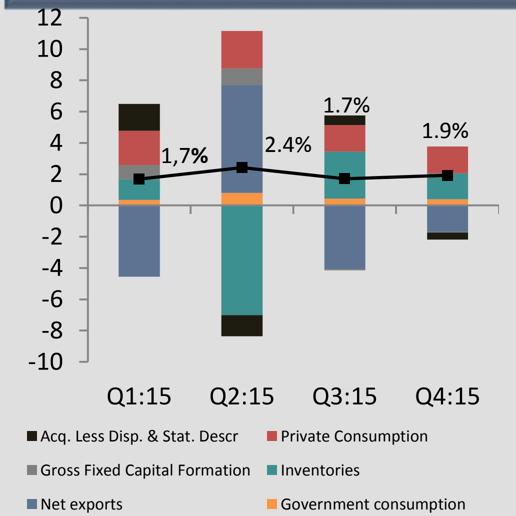
Above: GDP data as of Q4:2015
Right: Consumer Confidence, Manufacturing PMI & Services PMI data as of February 2016, Retail Sales & Industrial Production data as of January 2016, CBI survey data as of Q4:2015
Source: ONS, Markit, Bloomberg

Real GDP increased by 1.9% qoq saar in Q4:15, broadly unchanged from Q3:15 – expectations for 2016 growth are decelerating rapidly

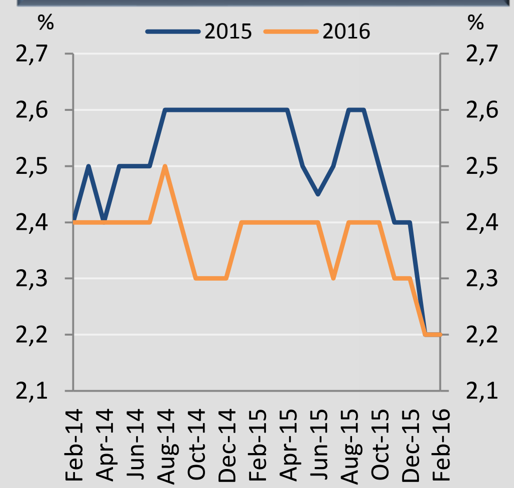
UK Real GDP Growth	2014	Q1:15	Q2:15	Q3:15	Q4:15	2015	Q1:16e	Q2:16e	Q3:16e	Q4:16e	2016e
GDP (YoY)	**2,9**	2,6	2,4	2,1	1,9	**2,2**	1,9	1,7	2,0	2,2	**1,9**
GDP (QoQ saar)	-	1,7	2,4	1,7	1,9	-	1,4	1,7	2,8	2,7	-
Households consumption (QoQ saar)	2,5	3,4	3,7	2,6	2,7	2,9	1,8	2,1	2,4	2,5	0,0
Government consumption (QoQ saar)	2,5	1,8	4,1	2,2	1,9	1,7	1,8	2,0	2,2	1,9	0,0
Gross Fixed Capital Formation (QoQ saar)	7,3	5,6	6,4	-0,5	-0,2	4,2	0,5	0,6	1,1	1,0	0,7
Inventories contribution (QoQ saar)	0,2	1,3	-7,0	3,0	1,7	-0,4	0,0	-0,4	0,4	0,4	0,2
Net Exports contribution (QoQ saar)	-0,4	-4,5	6,9	-4,1	-1,7	-0,5	-0,2	0,3	0,1	0,1	-0,4
Exports (QoQ saar)	1,2	-1,0	12,4	-1,9	-0,5	5,0	0,6	2,2	3,7	3,9	1,7
Imports (QoQ saar)	2,4	13,9	-9,2	11,3	4,7	6,2	1,1	1,2	3,0	3,1	2,7

Source: Office for National Statistics, Bloomberg

GDP Contributions (%)

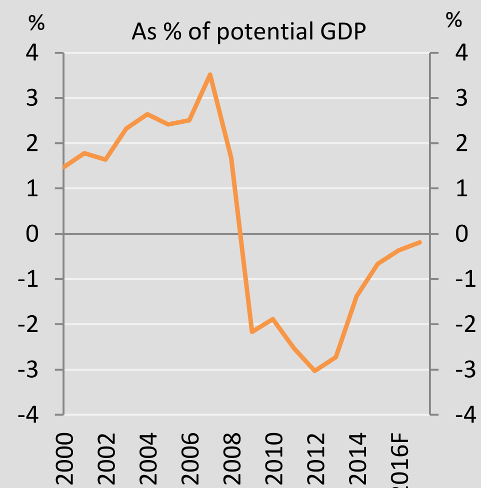


GDP Forecast Evolution

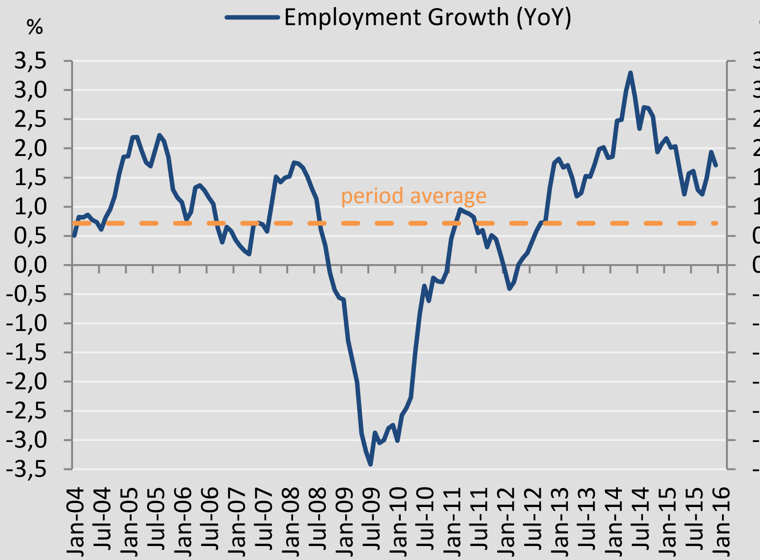


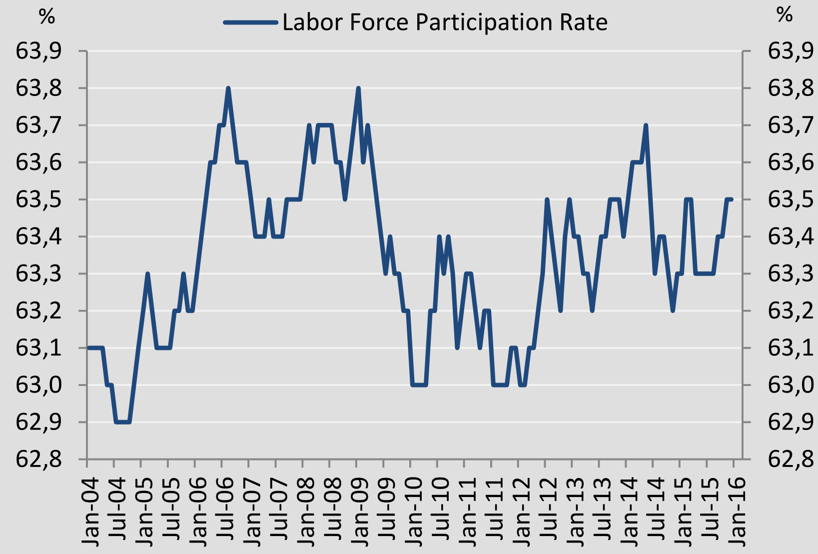
Source: Bloomberg Consensus

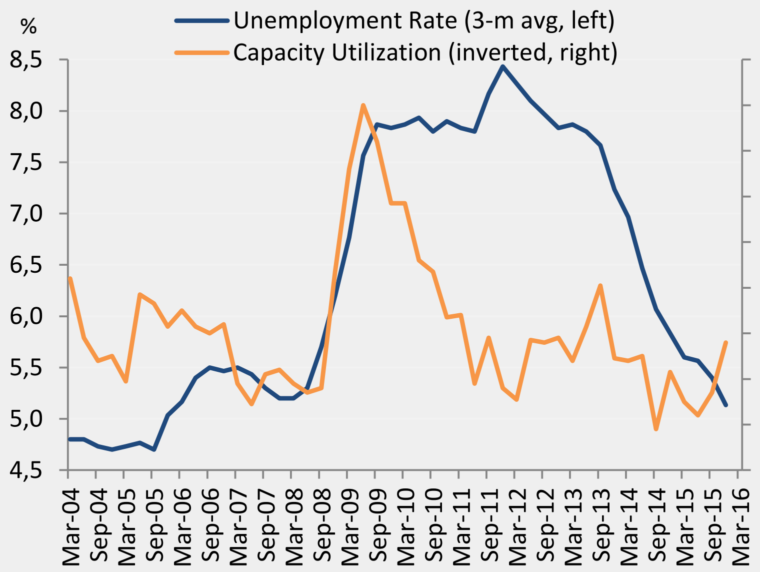
Output Gap

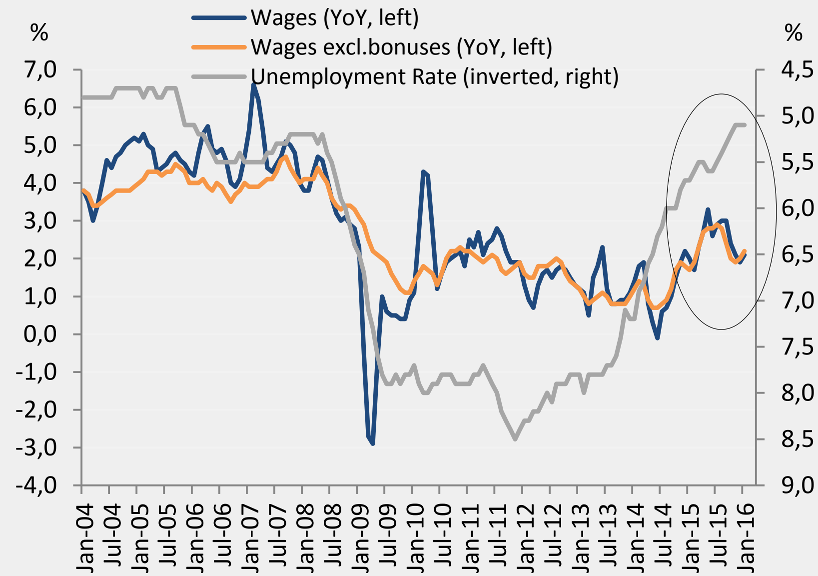


Source: IMF


Employment Growth (YoY)
%
%
period average

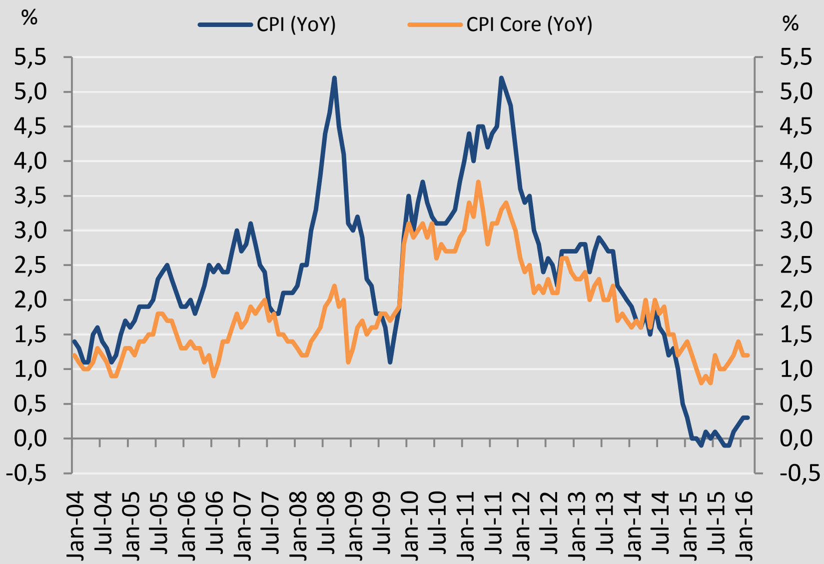

Labor Force Participation Rate
%
%

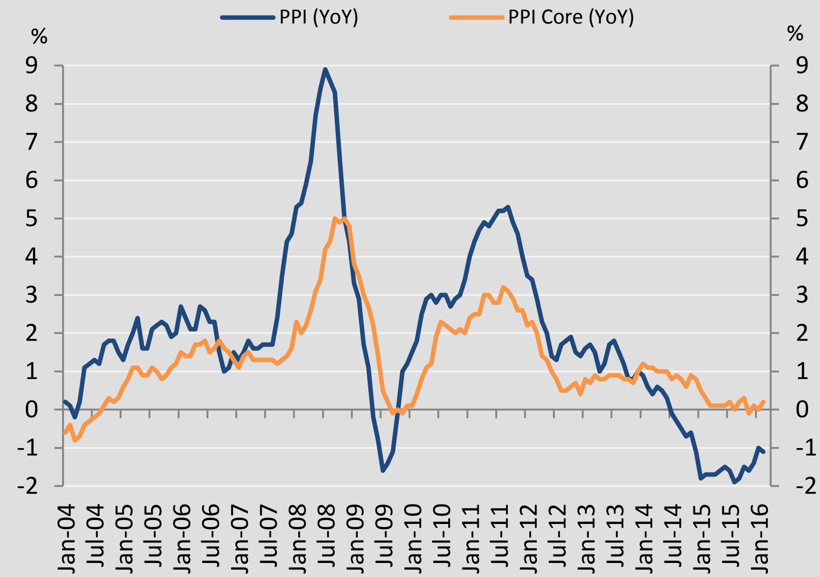

Unemployment Rate (3-m avg, left)
Capacity Utilization (inverted, right)
%
%

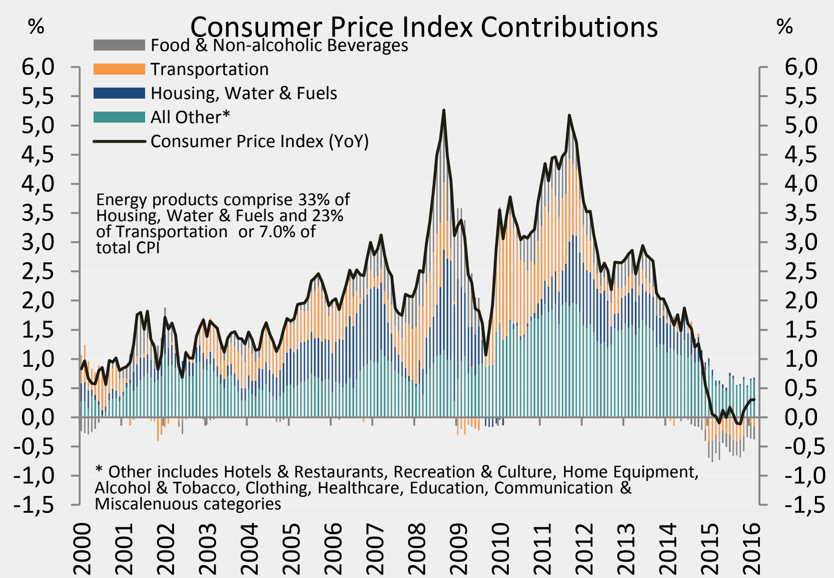

Wages (YoY, left)
Wages excl.bonuses (YoY, left)
Unemployment Rate (inverted, right)
%
%

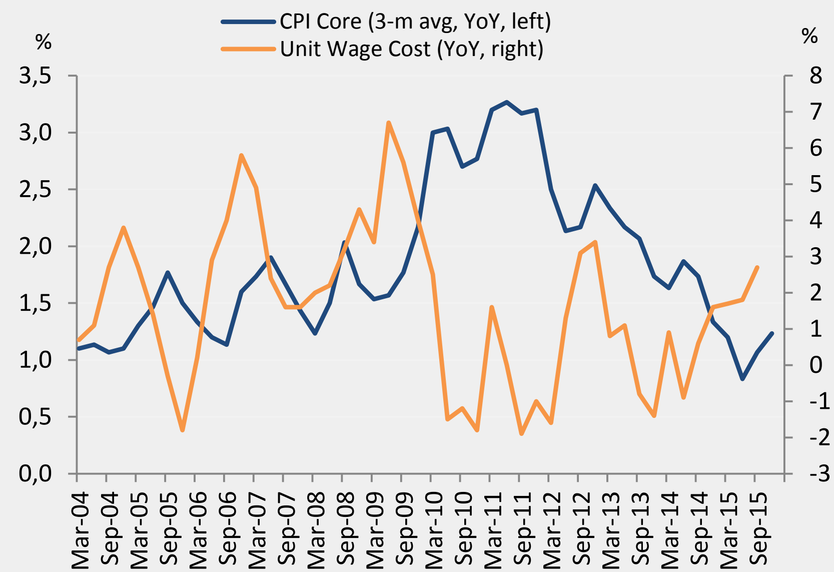
CPI inflation rose by 0.3% y-o-y in January (12-month high) mainly due to base effects

UK



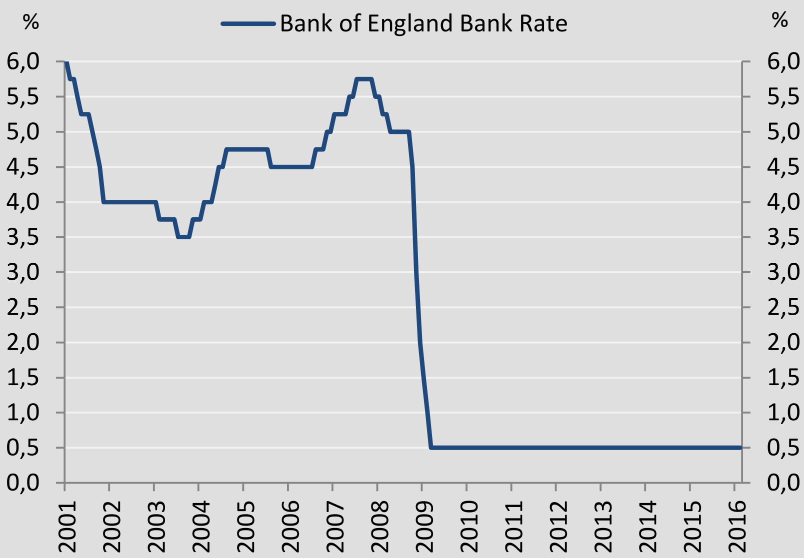


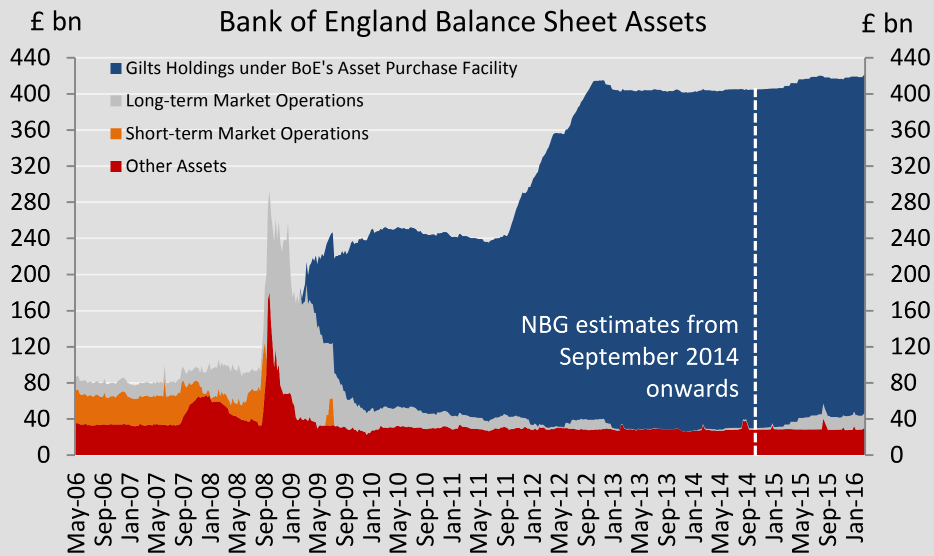


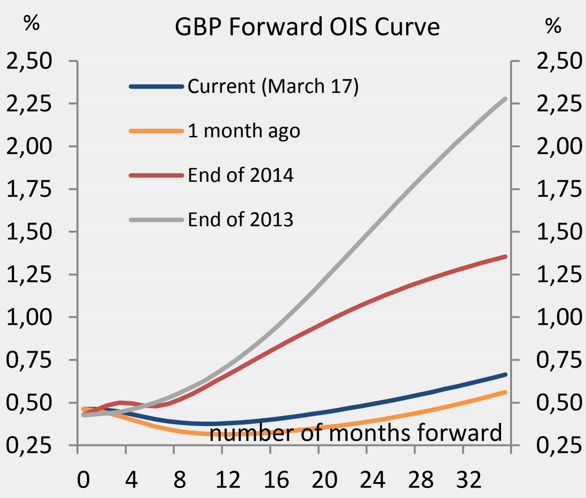


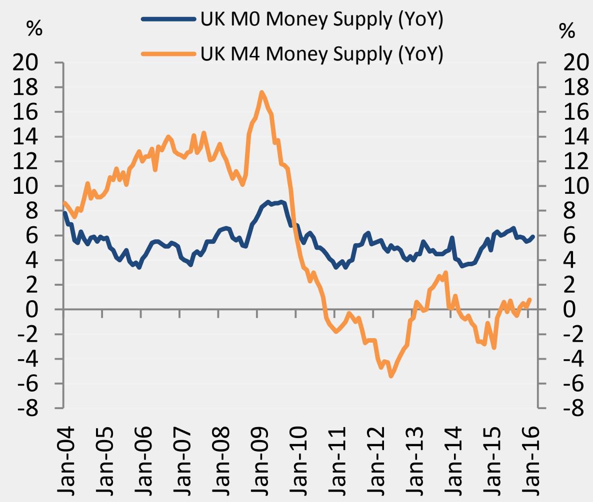
The first rate increase by the Bank of England is now fully priced-in for Q1:2020, based on GBP OIS forwards

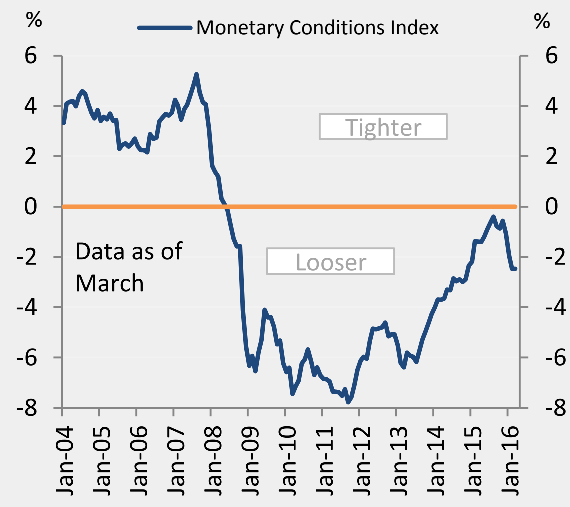
UK







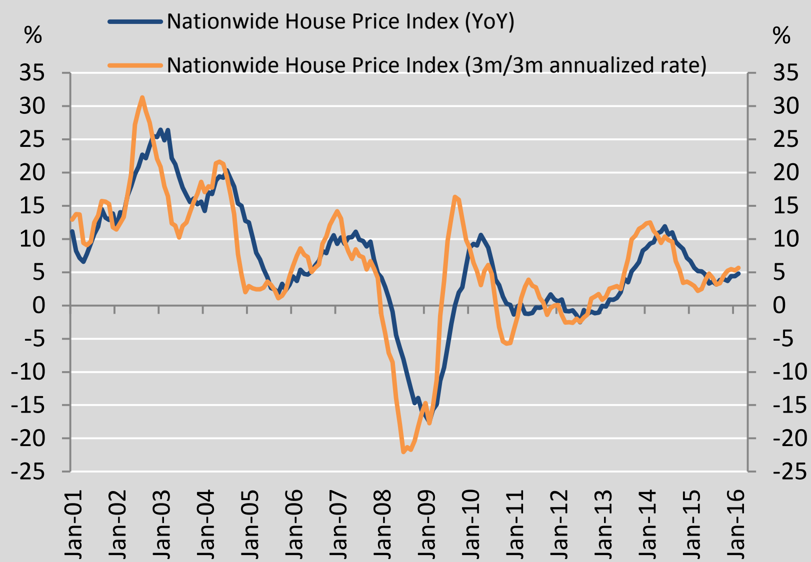


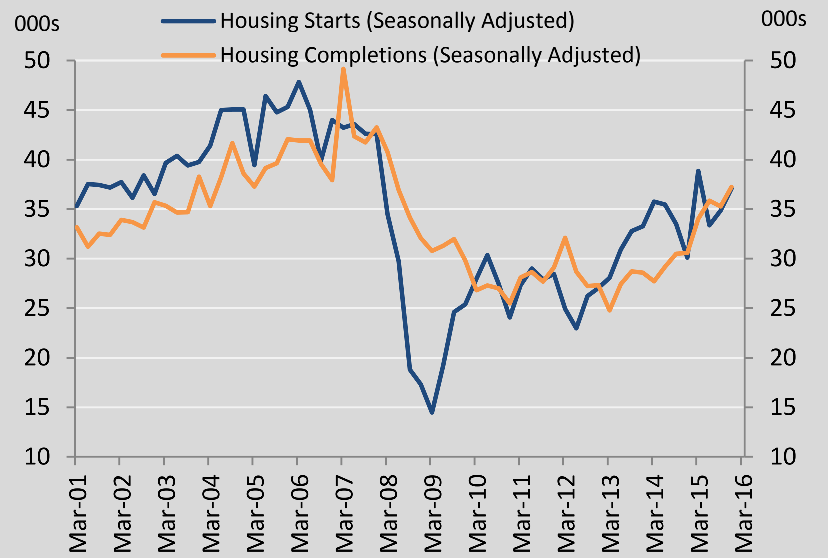


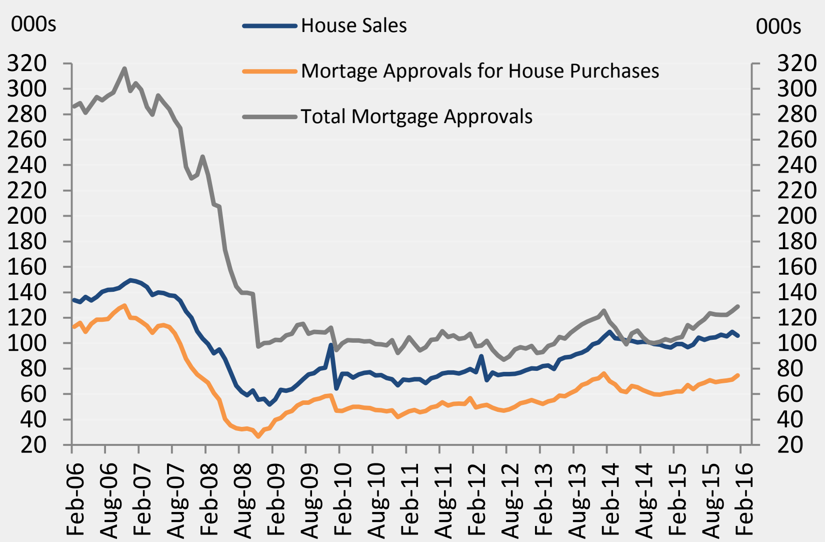
Monetary Conditions Index is a simple composite index of Real Short Term Rates (GBP Libor less CPI) & Real Effective Exchange Rate

Mortgage rates hover around multi-year lows and should continue to underpin a housing market recovery. House prices rose by 5.7% on a 3m/3m saar in February

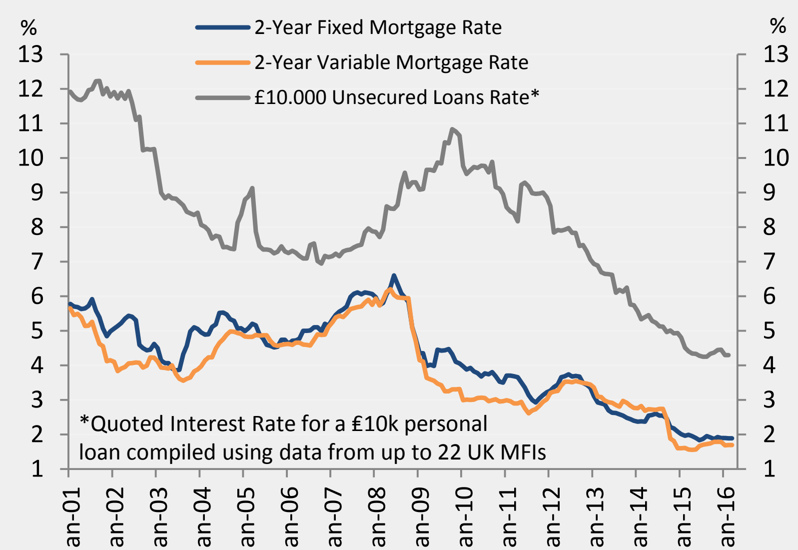
UK







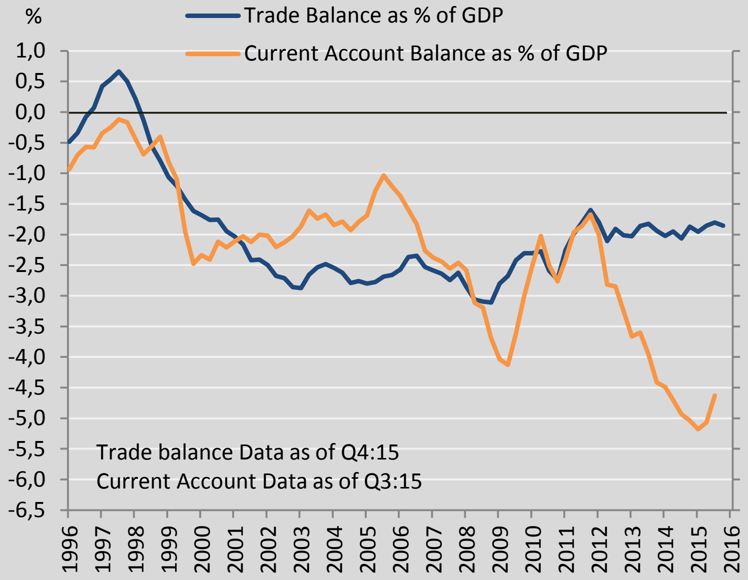
Source: Bank of England, HM Revenue & Customs

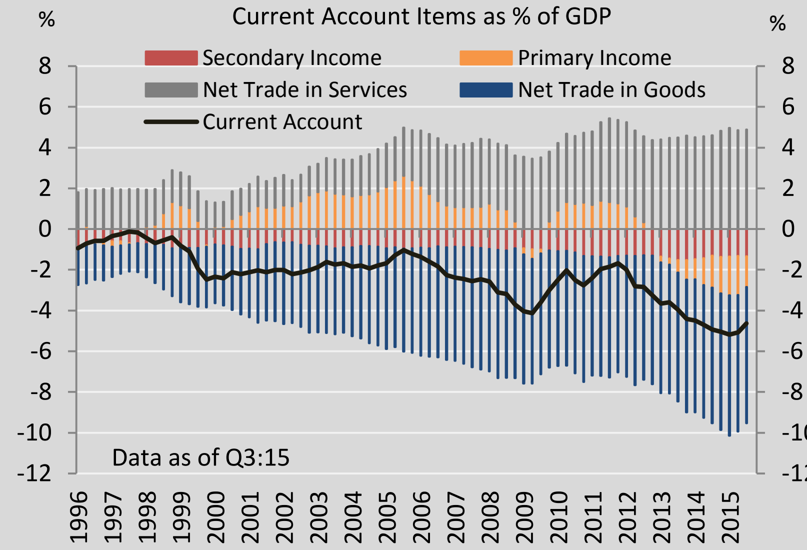


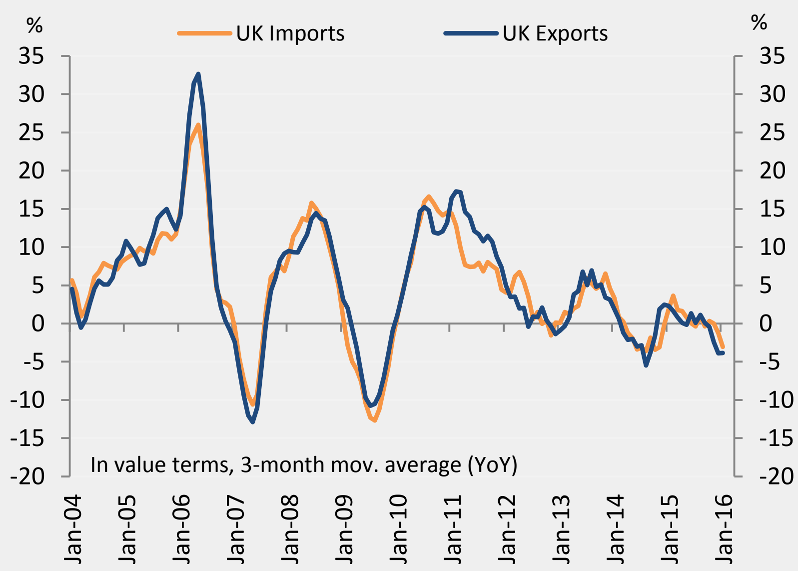
Source: Bank of England

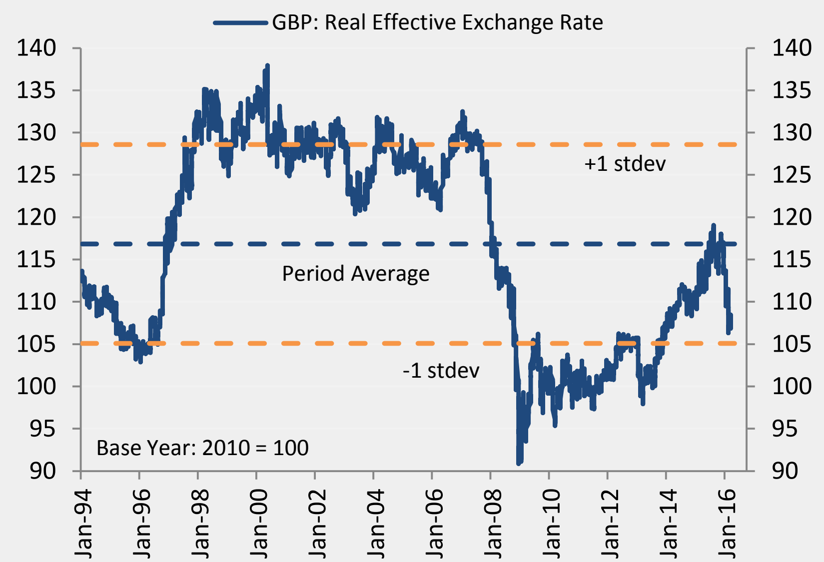
The current account deficit remains exceptionally wide at -4.5% of GDP

UK

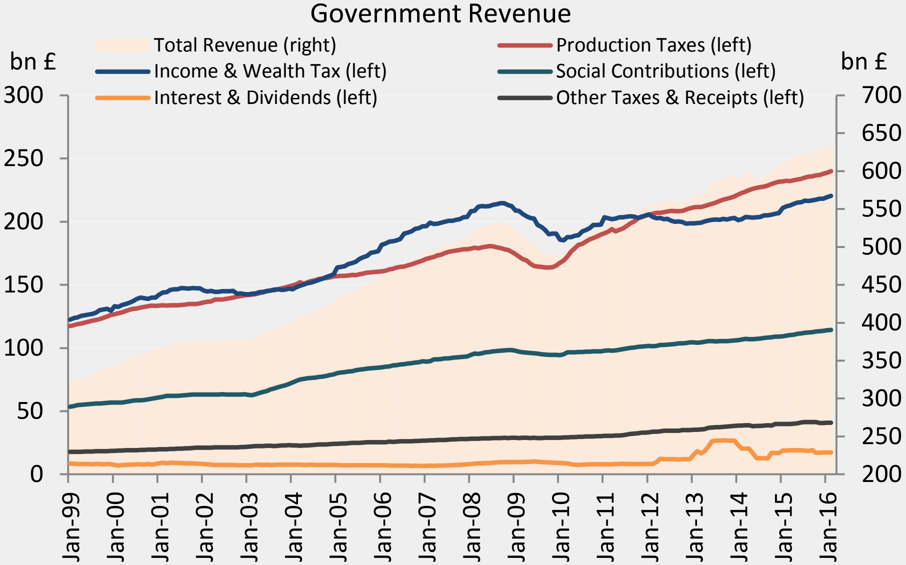


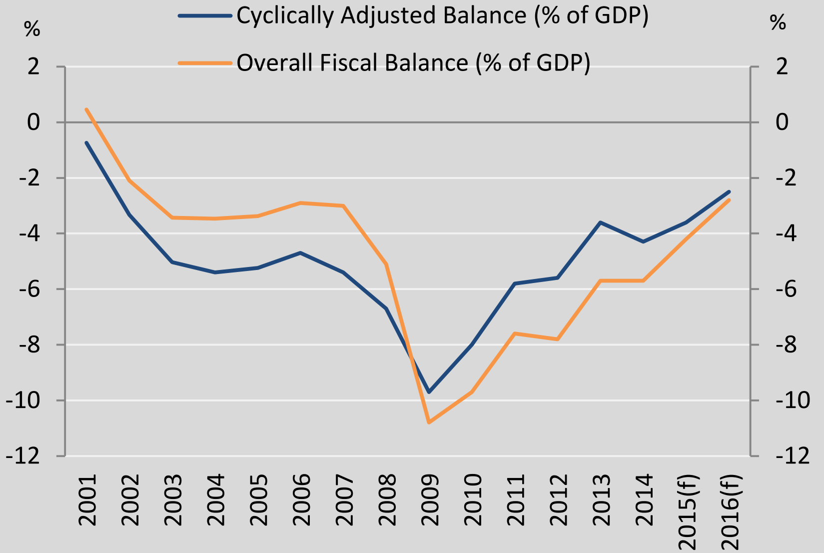




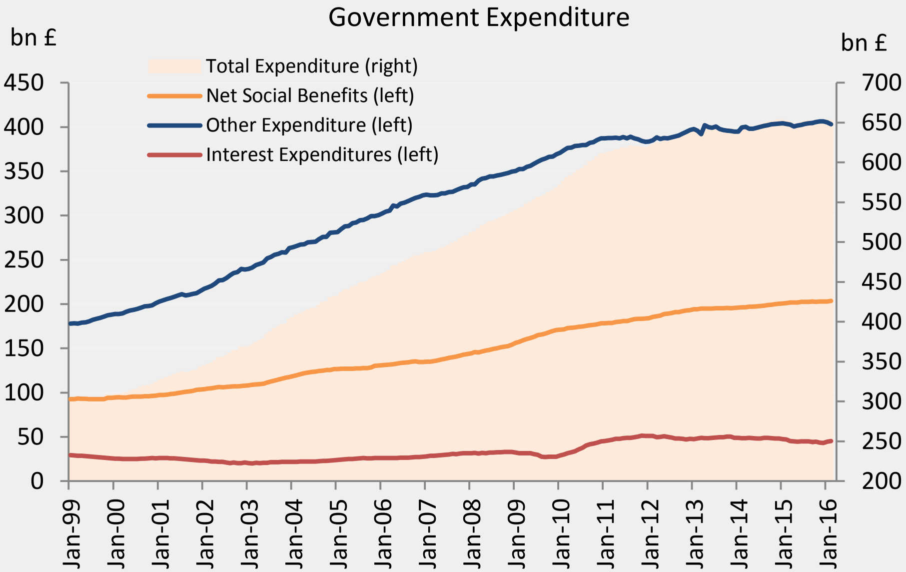


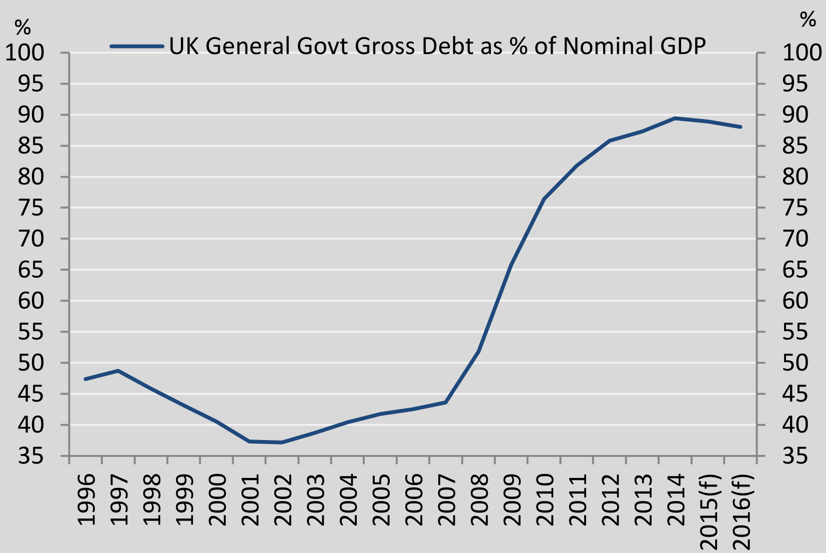
On the fiscal front, the budget deficit is expected to contract further (3.6% of GDP in 2015) as revenue growth (12-mth rolling of +3.1% yoy,) outpaces that of spending (+0.3% yoy)





Source: IMF Fiscal Monitor, October 2015



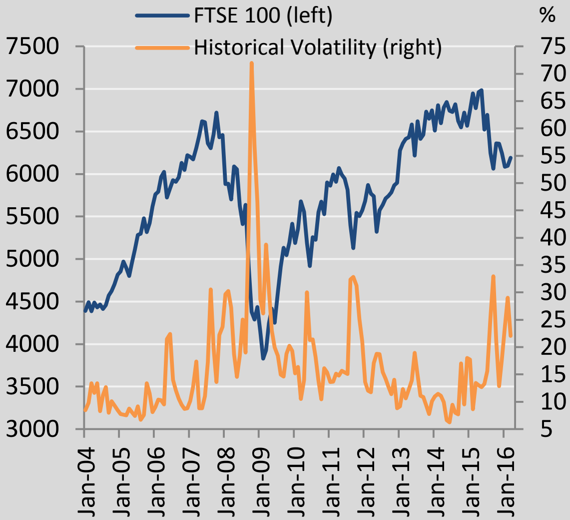


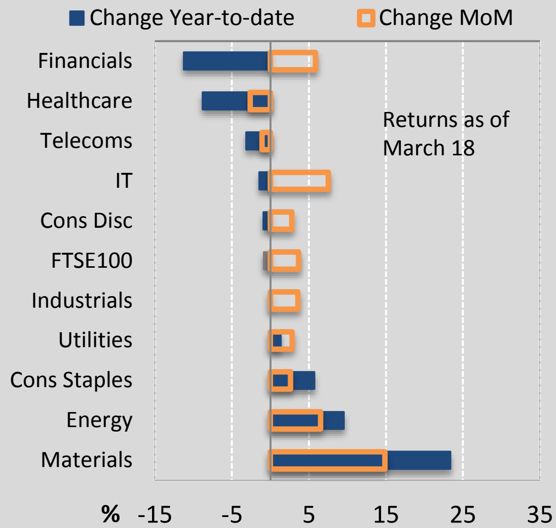
Source: IMF Fiscal Monitor, October 2015

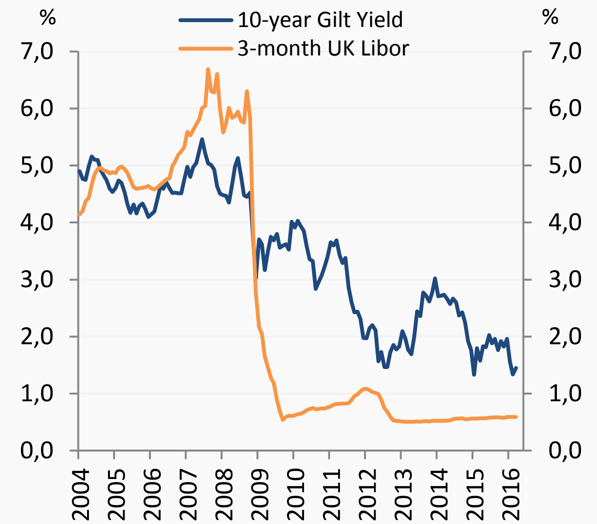
Government Revenues and Expenditures are 12 month rolling sums

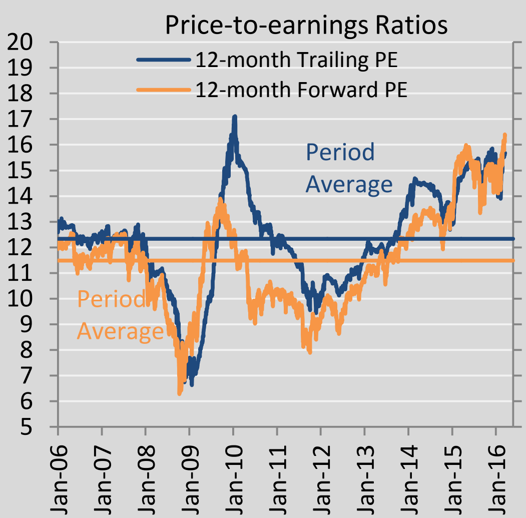
The FTSE 100 has performed broadly in tandem with its developed peers ytd (-0.8% vs -0.9% for the MSCI DM excluding the UK) following years of underperformance

UK

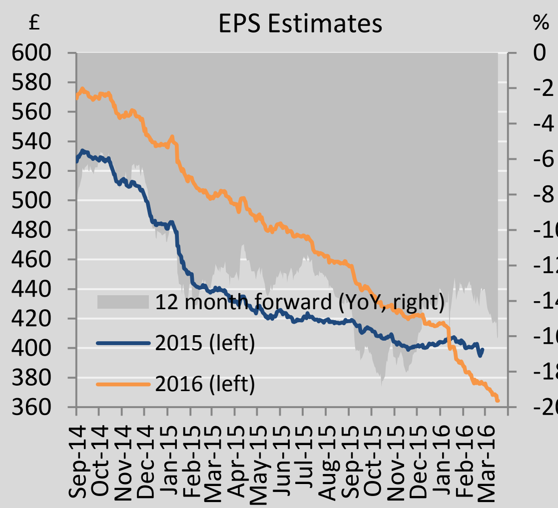




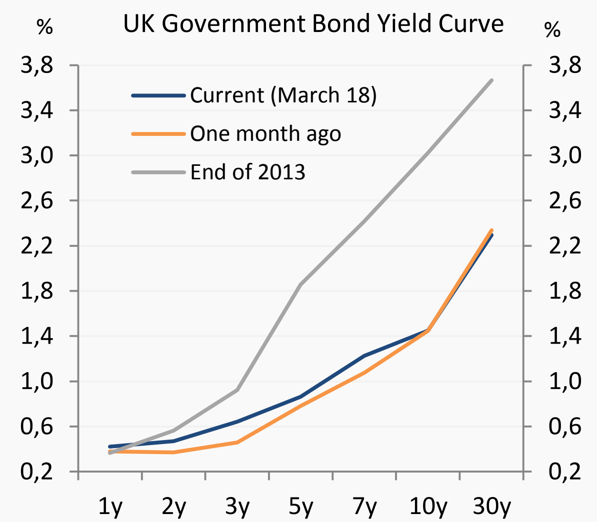


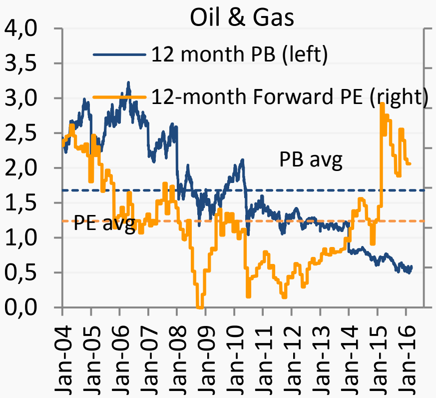


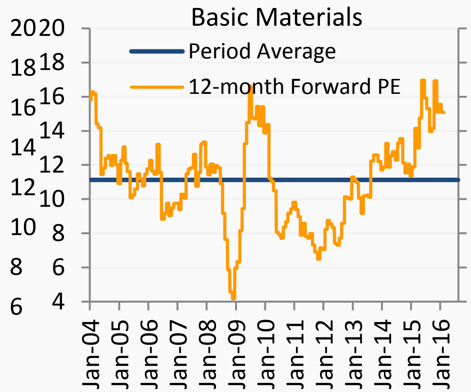
Source: Factset

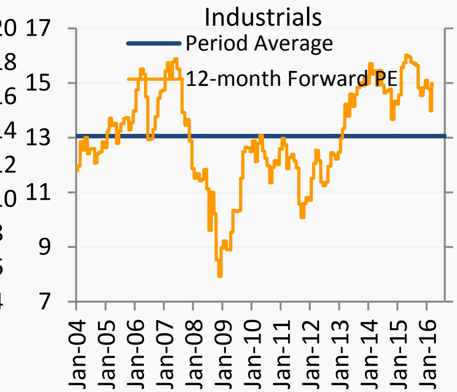


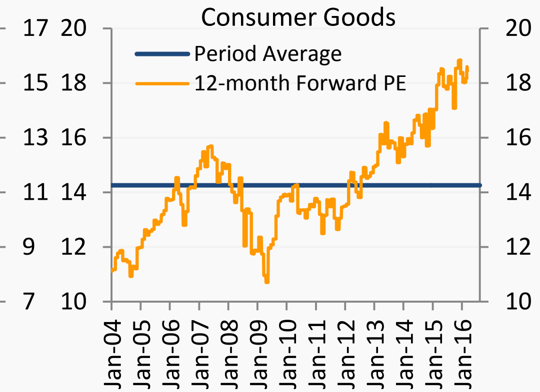
Source: Factset

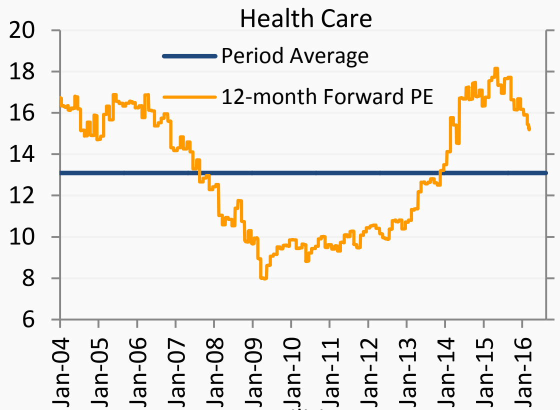


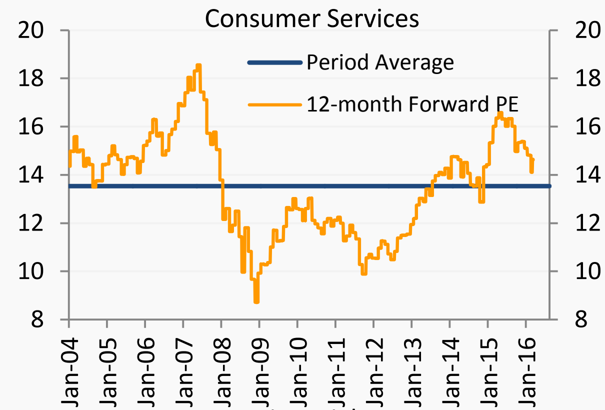

Oil & Gas
12 month PB (left)
12-month Forward PE (right)
PB avg
PE avg

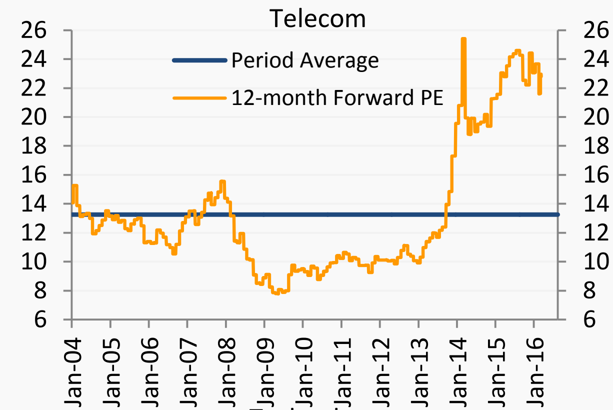

Basic Materials
Period Average
12-month Forward PE

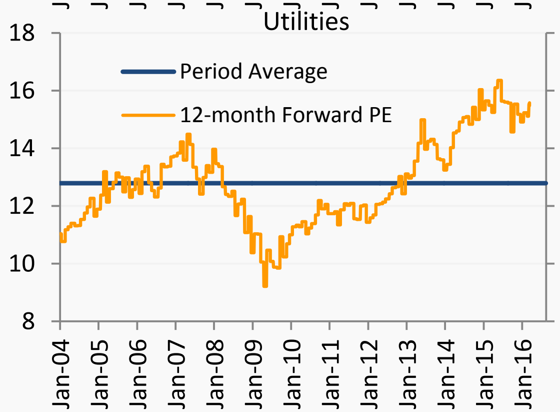

Industrials
Period Average
12-month Forward PE

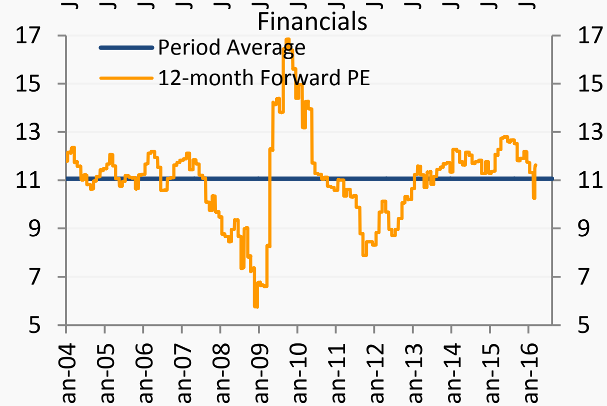

Consumer Goods
Period Average
12-month Forward PE

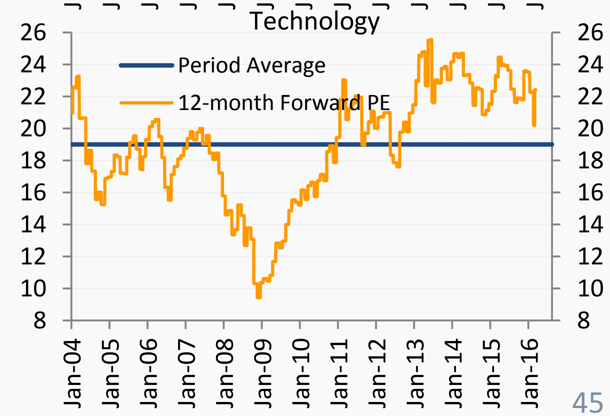

Health Care
Period Average
12-month Forward PE


Consumer Services
Period Average
12-month Forward PE


Telecom
Period Average
12-month Forward PE


Utilities
Period Average
12-month Forward PE


Financials
Period Average
12-month Forward PE

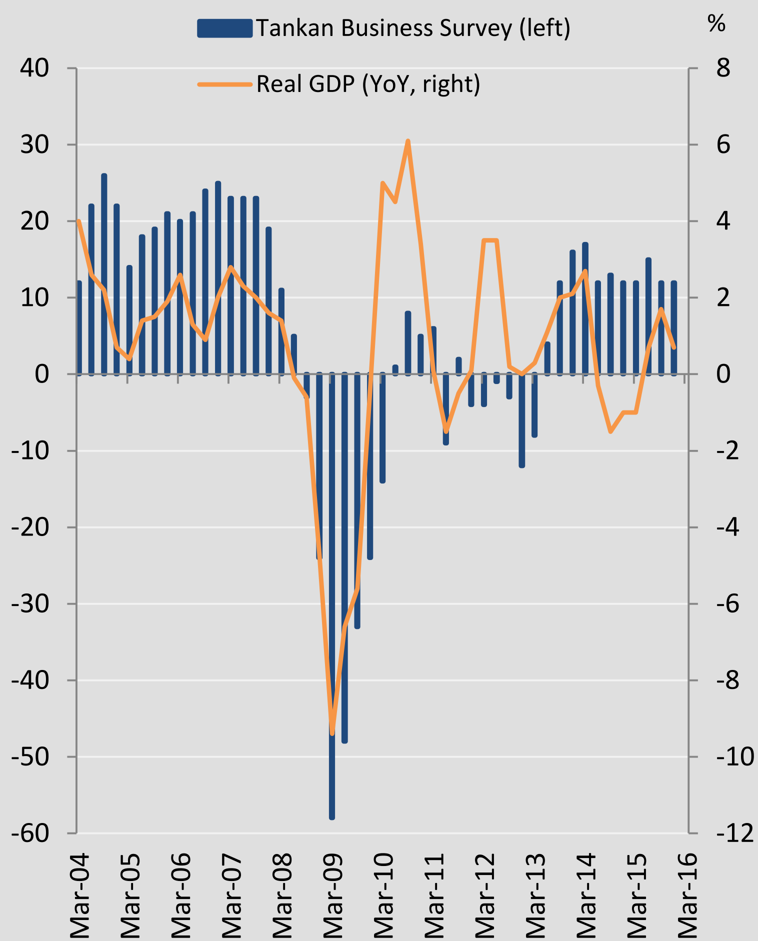

Technology
Period Average
12-month Forward PE

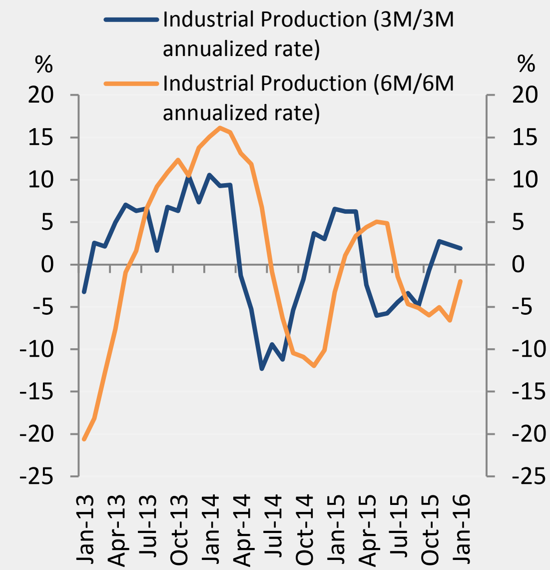
Japan

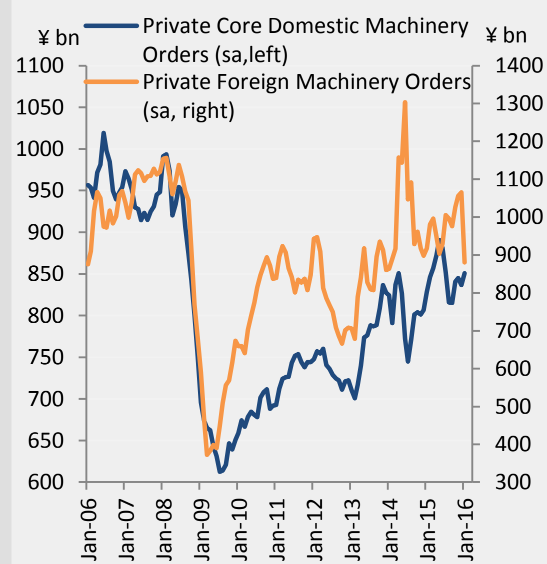
- Real GDP contracted by 1.1% qoq saar in Q4:15 from +1.4% qoq saar in Q3:15, with private consumption accounting for the bulk of the decline (-2.0 pps). Exports were also subdued (-3.3% qoq saar) due to declining activity in EM Asia, especially China (16% of Japanese exports). Nevertheless, the current account surplus continues to increase, reaching 3.3% of GDP in Q4:15, signalling weak domestic demand.
- Entering Q1:16, high frequency and forward-looking indicators are mixed. Indeed, retail sales declined for a third consecutive month in January (-1.1% m-o-m). On the other hand, industrial production in January rose +3.7% m-o-m, but may be the result of front-loading production ahead of the Chinese New Year (February).
- The prospects for the manufacturing sector are bleak, with business surveys weakening substantially in February. Specifically, the Nikkei PMI manufacturing index declined by 2.2 pts to an 8-month low of 50.1, slightly above the expansion/contraction threshold of 50.
- In order to support growth in the short term, a supplementary fiscal budget of 0.7% of GDP was approved on January 20th – the majority of supplementary funds will be disbursed in June 2016 and another supplementary budget for FY:2016 (April 2016-March 2017) is expected shortly. In view of the current state of the economy, there is an increasing likelihood for the postponement of the consumption tax rate hike (to 10% from 8% scheduled for April 2017). Thus, fiscal policy will be less expansionary, with a deficit of 6.1% in 2016 vs 6.7% in 2015.
- On a positive note, the labor market continues to tighten, with the jobs-to-applicants ratio at a 24-year high of 1.28 in January (implying that labor demand is stronger that supply). Wage growth remains in positive territory for an eleventh consecutive month in the range of 0.1% - 0.4% yoy. However, the (subdued) positive trend has failed to translate into increased consumer spending.
- The BoJ expects positive wage pressures to intensify, in light of the ongoing Spring wage negotiations (set to conclude by month-end). However, the deteriorating economy and the strong Yen that puts pressure on firms' profitability weakens bargaining power of unions.
- Inflation remains subdued and inflation expectations continue to decline. Indeed, core CPI (ex-fresh food) was 0% yoy in January and core CPI (ex-fresh food & energy) decelerated to 0.7% yoy from 0.8% yoy in December. These developments add to the pressure for further stimulus measures by the Bank of Japan, on top of its decision to push policy rates into negative territory.
- Indeed, the BoJ introduced in January a 3-tier system on commercial bank reserves (to mitigate the effect on banks' profitability) with: i) a 0.10% rate for the existing outstanding balance (c. ¥210tn); ii) a 0.0% rate for amounts outstanding in the form of required reserves (c. ¥40tn); and iii) a -0.10% rate for the amounts in excess of i) and ii) (c. ¥10tn). Thus, the effective policy rate was 0.08% on February 16th, and is expected to decrease gradually to 0.04% in 12 months.
- However, concerns over banks' profitability may increase the bar for further interest rate cuts by the BoJ. The BoJ is already the most aggressive central bank in terms of asset purchases (¥80tn per annum or 16% of GDP).
- The adoption of negative rates by the BoJ, along with the expectations for further measures and declining inflation expectations, have led JGB yields to historical lows (10-year yield at -0.09%). At the same time, the Nikkei 225 has underperformed its peers (-12.1% vs -0.5% for the MSCI DM excluding Japan ytd) as the significant appreciation of the Yen (+5.6% in REER terms ytd) worsens the sentiment for Japanese equities. According to some analysts, Nikkei225 2016 EPS growth may turn zero (from expectations of 13.9% currently) if the Yen appreciates to ¥110/USD (average) for 2016.

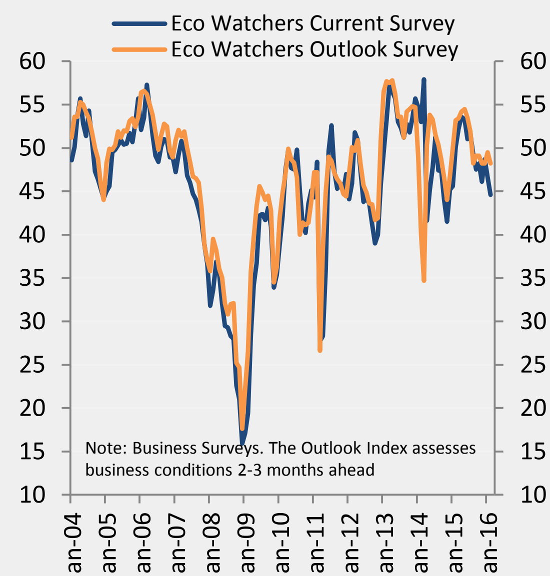
GDP contracted in Q4, while high frequency data and business surveys point to a continuation of weakness in Q1:16

Japan





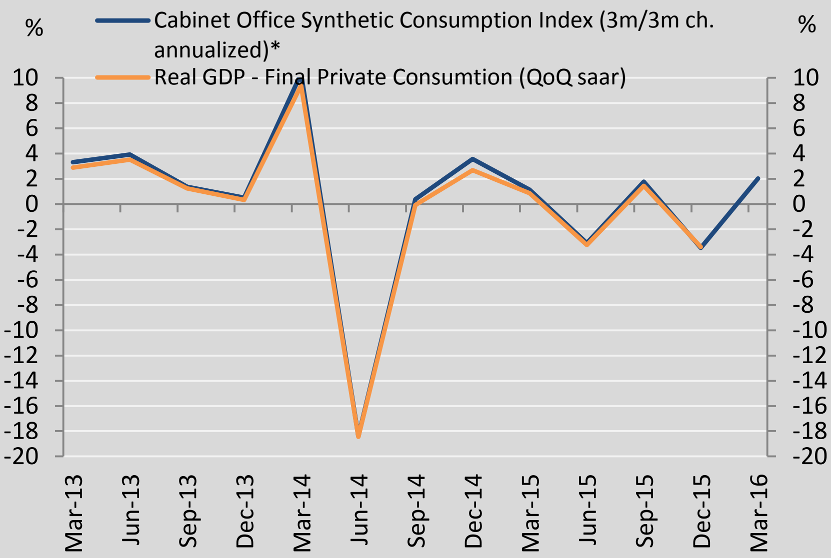




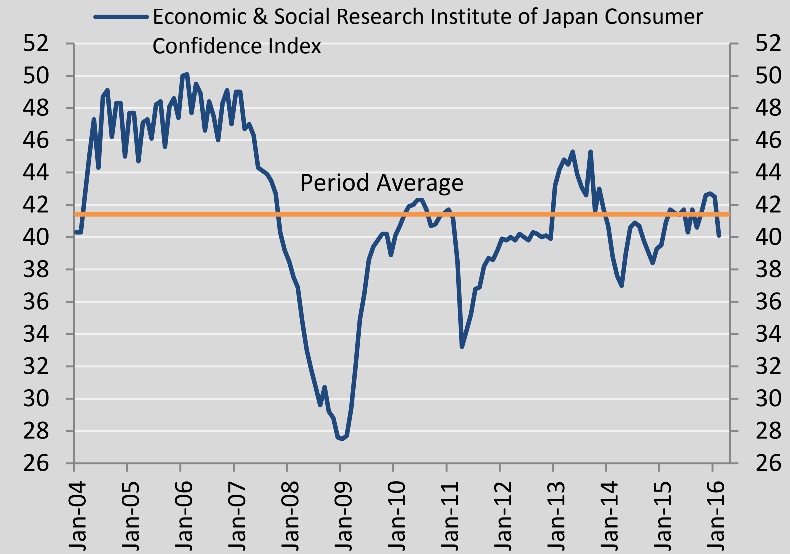
Above: GDP & Tankan data as of Q4:2015
Right: Industrial Production & Machinery Orders data as of January 2016, Eco Watchers data as of February 2016
Source: Bloomberg

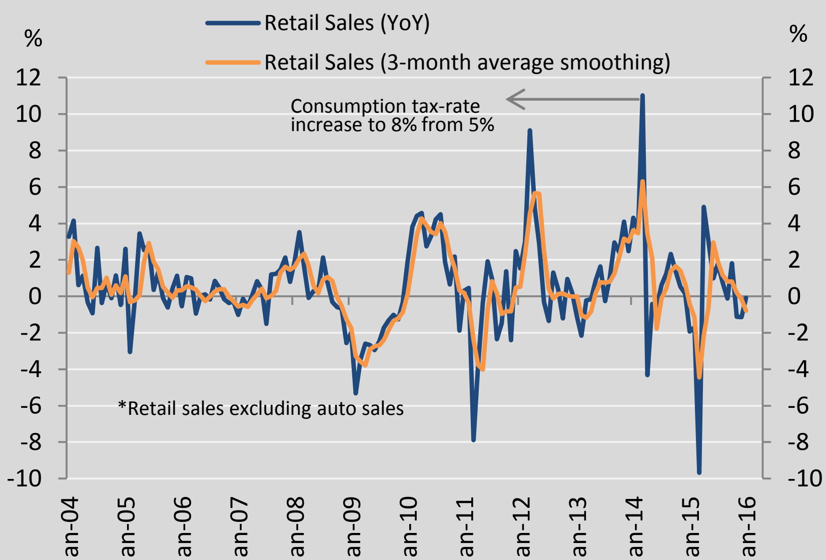
Retail sales have deteriorated in Q4:15 (-1.1% y-o-y in both November & December), with sentiment also declining below its long-term average

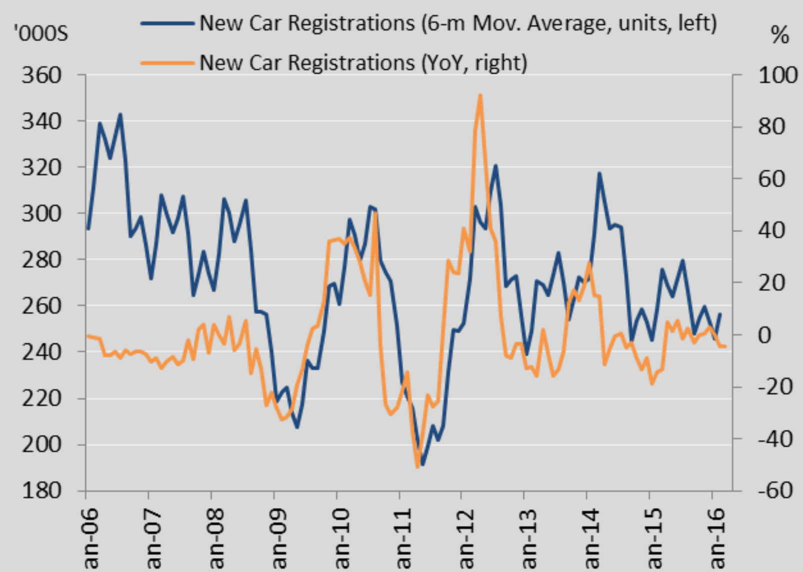
Japan



*last observation refers to January data compared to Q4:15 average







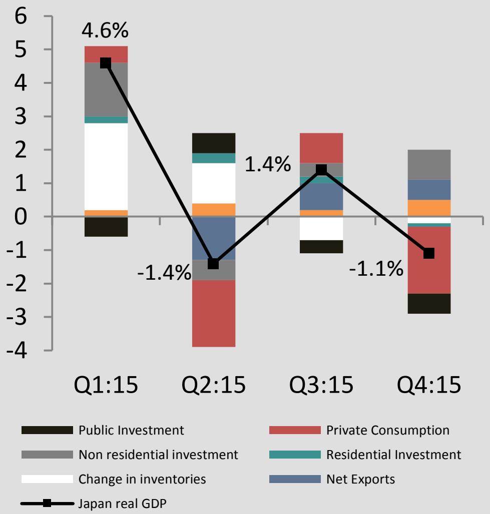
Private consumption was the main underperformer in Q4:15 (-3.4% q-o-q saar), while inventory accumulation remains to be addressed, posing downside risks to growth

Japan

Japan Real GDP Growth	2014	Q1:15	Q2:15	Q3:15	Q4:15	2015	Q1:16e	Q2:16e	Q3:16e	Q4:16e	2016e
GDP (YoY)	**-0,1**	-1,0	0,7	1,7	0,8	**0,5**	-0,1	0,4	0,3	0,0	**0,5**
GDP (QoQ saar)	-	4,6	-1,4	1,4	-1,1	-	0,9	0,6	1,0	2,0	-
Private consumption (QoQ saar)	-1,0	0,9	-3,3	1,4	-3,4	-1,2	1,6	1,7	1,4	1,3	0,3
Government consumption (QoQ saar)	0,1	0,9	1,9	0,8	2,4	1,2	1,2	0,7	0,7	0,7	1,3
Private residential investment (QoQ saar)	-5,0	8,7	9,7	6,6	-4,7	-2,7	-2,0	-1,1	-0,9	0,0	-0,4
Business investment (QoQ saar)	2,8	11,9	-4,5	3,0	6,3	1,5	3,1	3,2	3,4	3,5	3,3
Public investment (QoQ saar)	0,2	-11,6	13,4	-8,1	-12,7	-2,0	-15,0	-10,0	-5,0	-5,0	-9,4
Private Inventories contribution (QoQ saar)	0,2	2,3	1,1	-0,6	-0,2	0,5	0,3	0,0	-0,1	0,1	0,0
Net Exports contribution (QoQ saar)	0,3	0,3	-1,7	1,0	0,3	0,4	-0,5	-0,5	-0,1	0,2	-0,1
Exports (QoQ saar)	8,3	8,6	-17,2	10,9	-3,3	2,7	-1,2	1,3	2,2	3,5	-0,1
Imports (QoQ saar)	7,2	7,7	-9,8	5,2	-5,6	0,2	2,1	5,0	3,1	2,5	0,9

Source: Cabinet Office, Department of National Accounts, Bloomberg

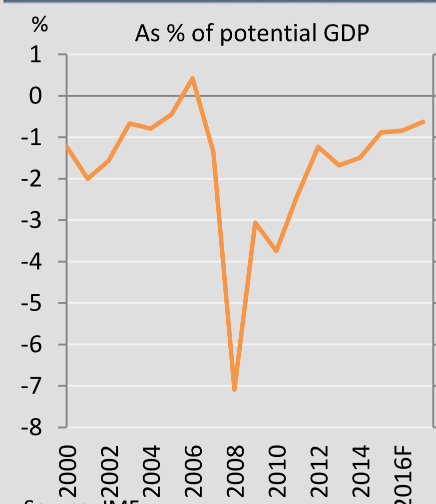
GDP Contributions (%)



GDP Forecast Evolution

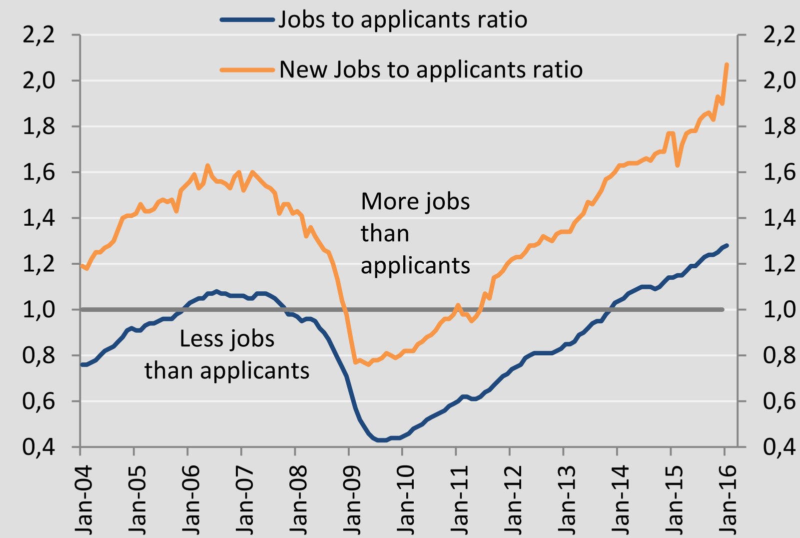
Source: Bloomberg Consensus

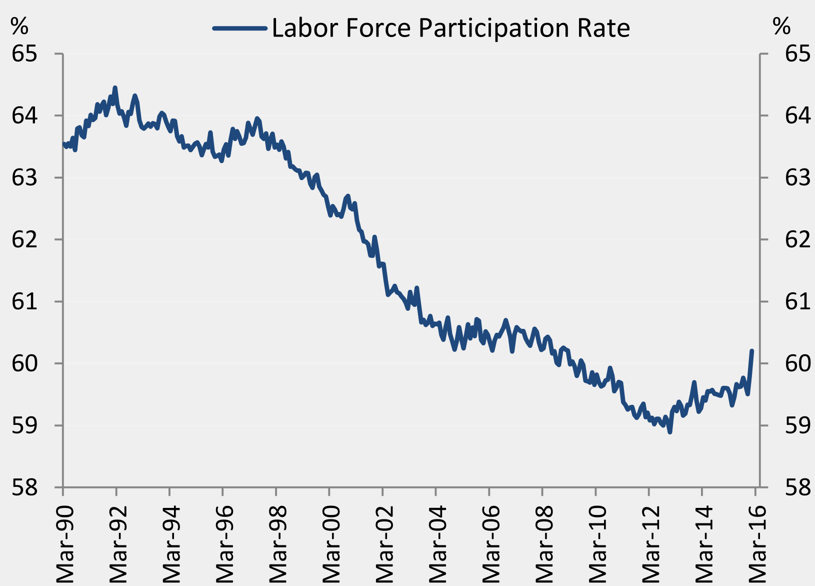
Output Gap

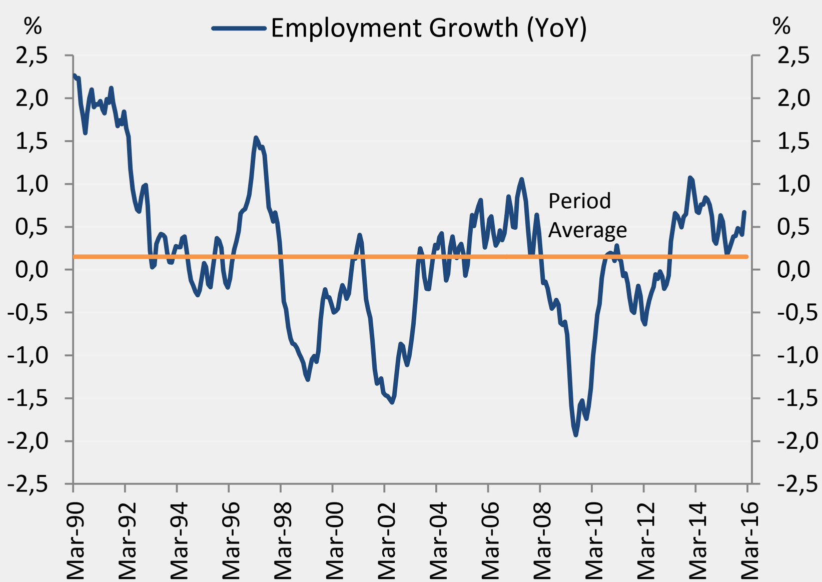


Source: IMF

The labor market tightening remains on track, with the jobs-to-applicants ratio at a 24-year high of 1.28 in January 2016

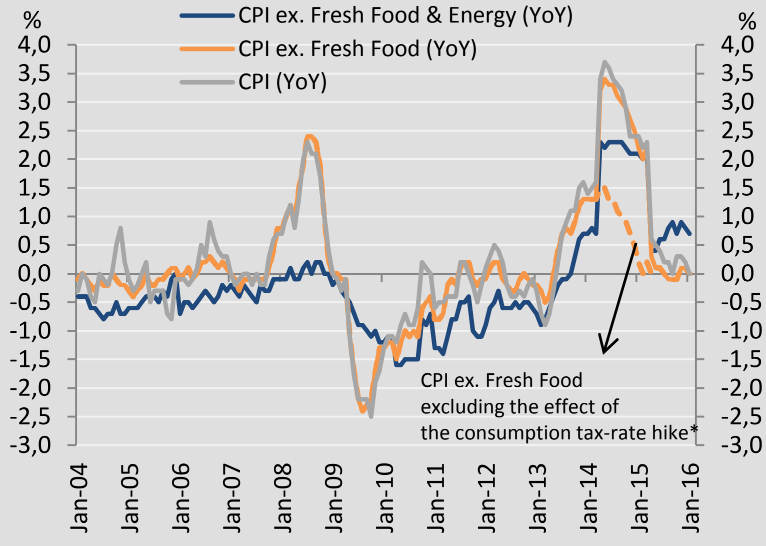




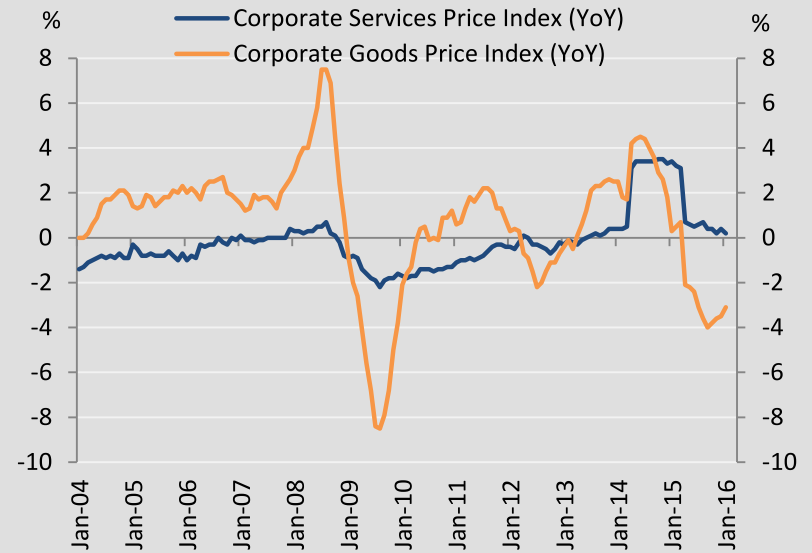


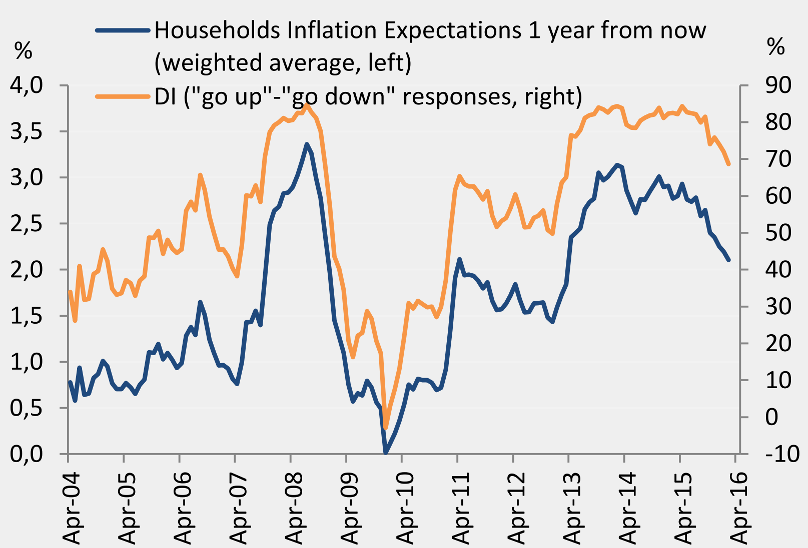
Inflation remains subdued and inflation expectations continue to decline

Japan

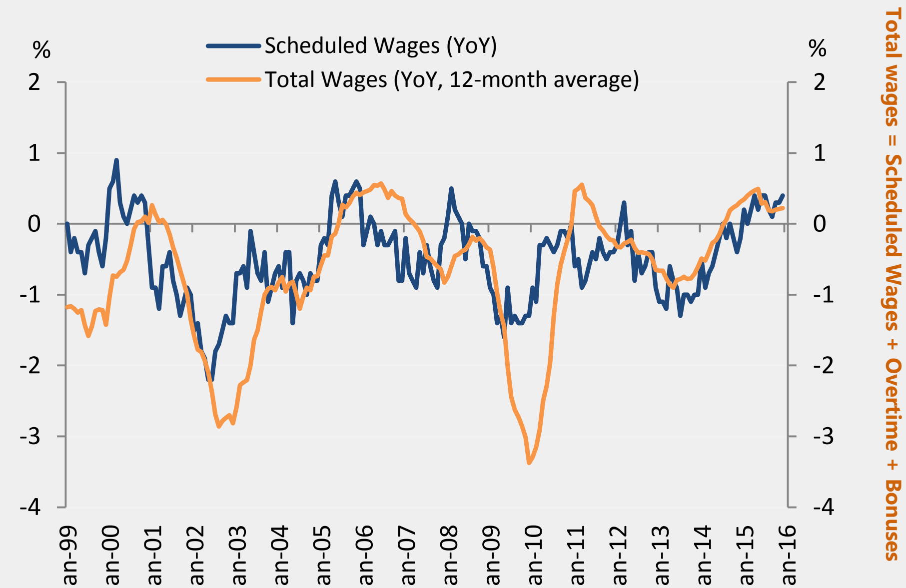


Consumption tax rate hike effect: 1.8%-2% up to March 2015, 0.3% for April 2015, no effect from May 2015, Source: Bank of Japan

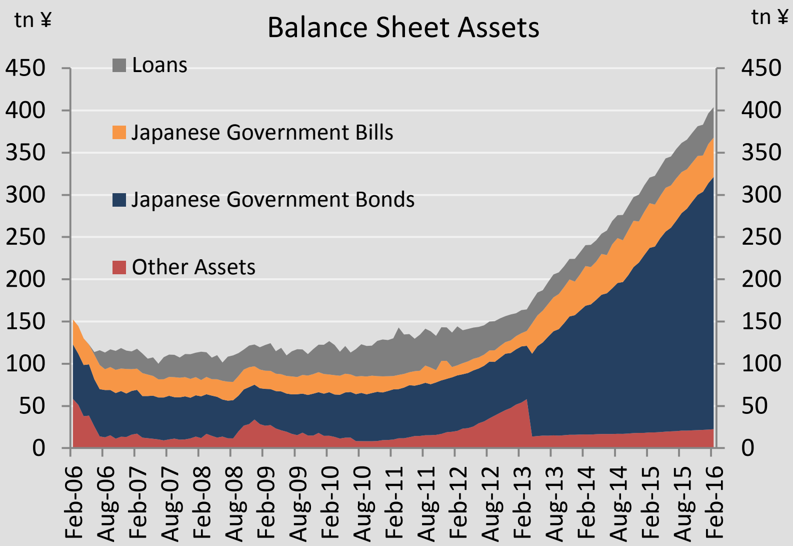


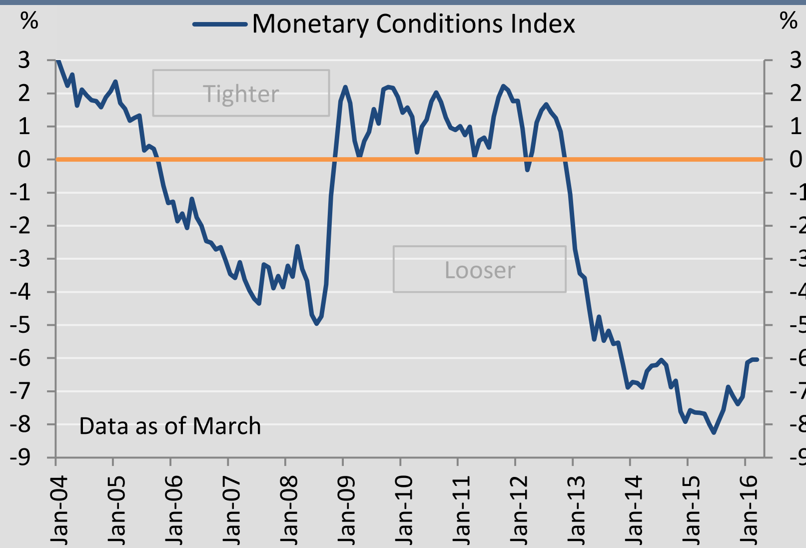


Source: Cabinet Office (February Consumer Confidence Survey)

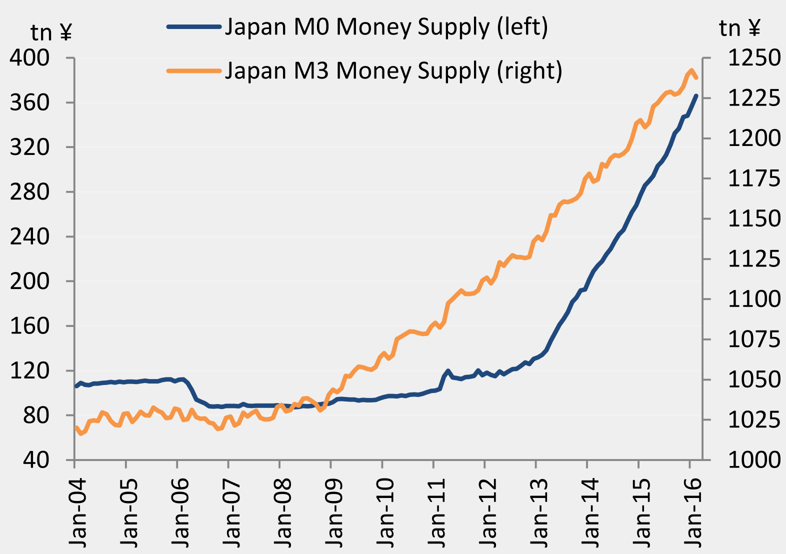


The BoJ adopted a 3-tiered interest rate system and is expected to expand further its QE during 2016

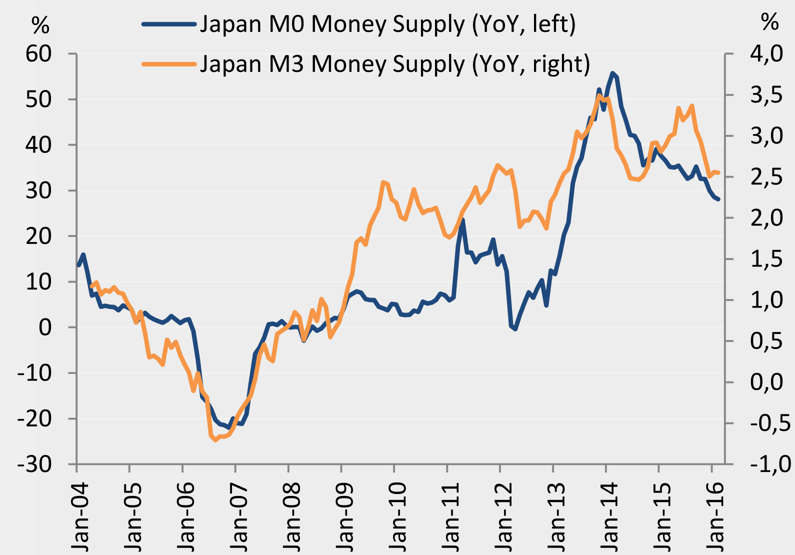




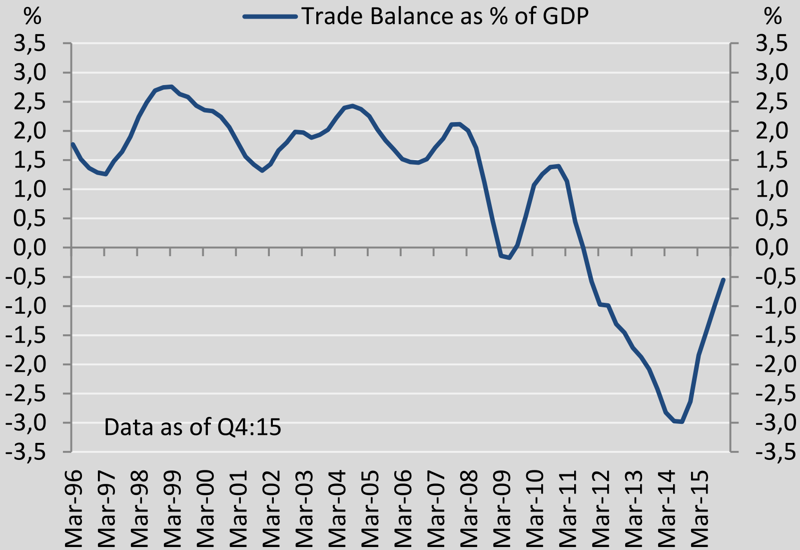
Monetary Conditions Index is a simple composite index of Real Short Term Rates (Tibor less CPI) & Real Effective Exchange Rate

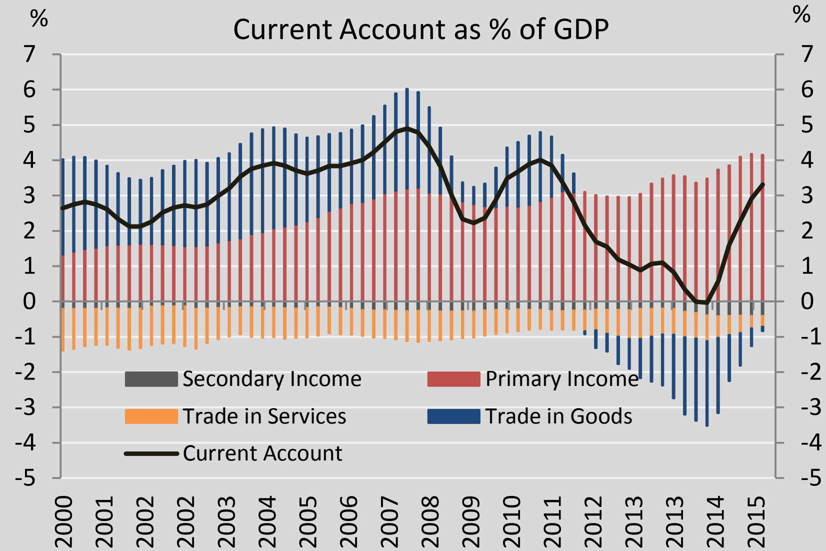


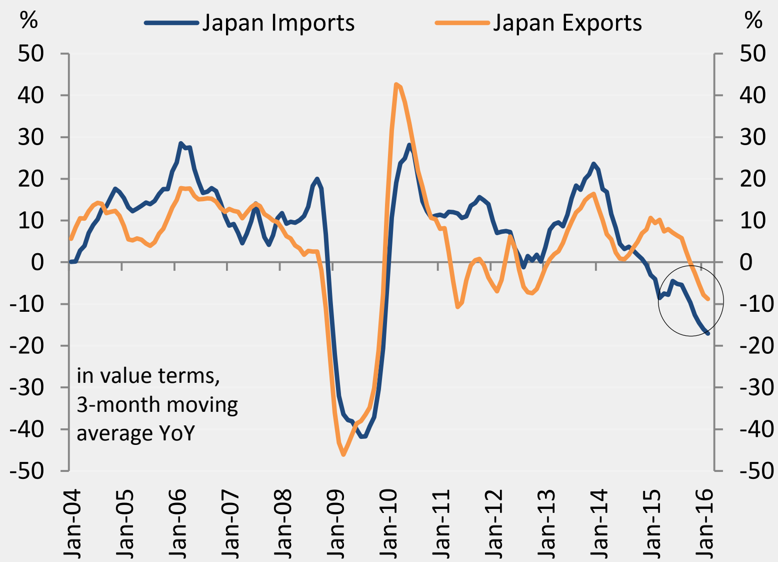
The Bank of Japan targets Monetary Base (M0) expansion of ¥80tn per annum

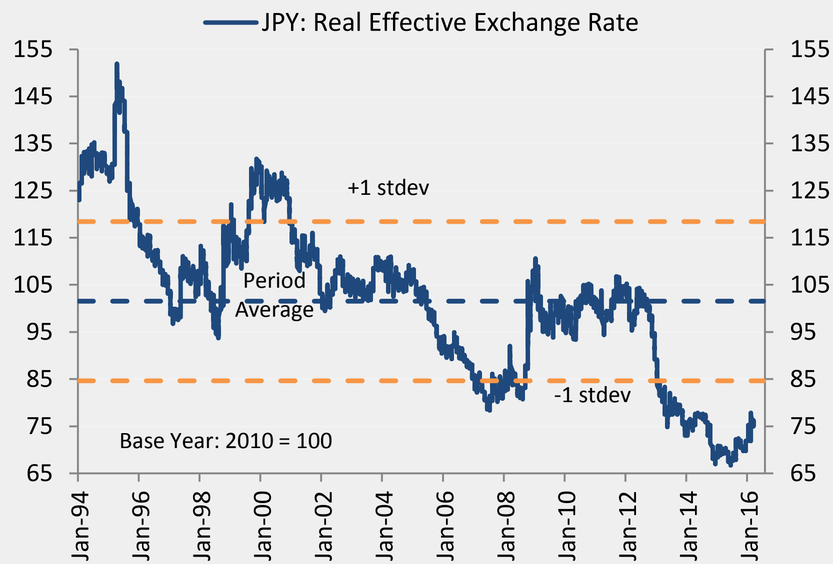


Weak domestic demand and inventory correction restrained imports. At the same time, export prospects are deteriorating amid an appreciating Yen (up by 5.6% in REER y-t-d)

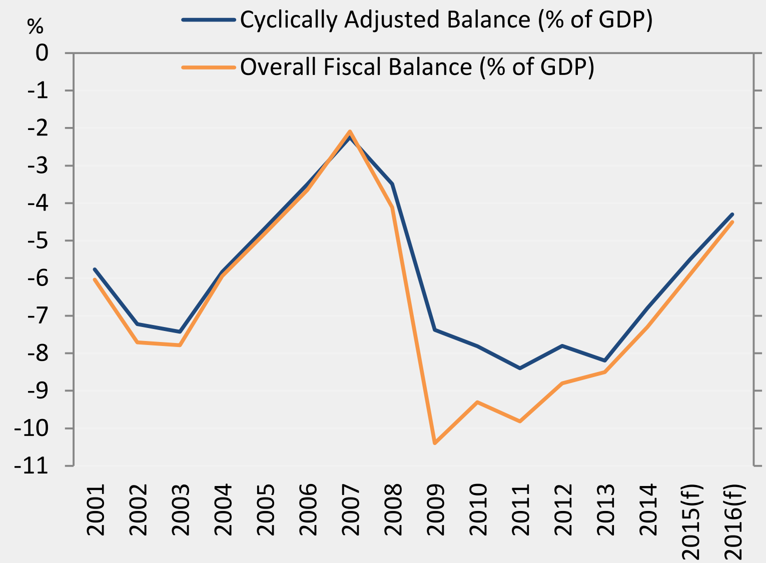




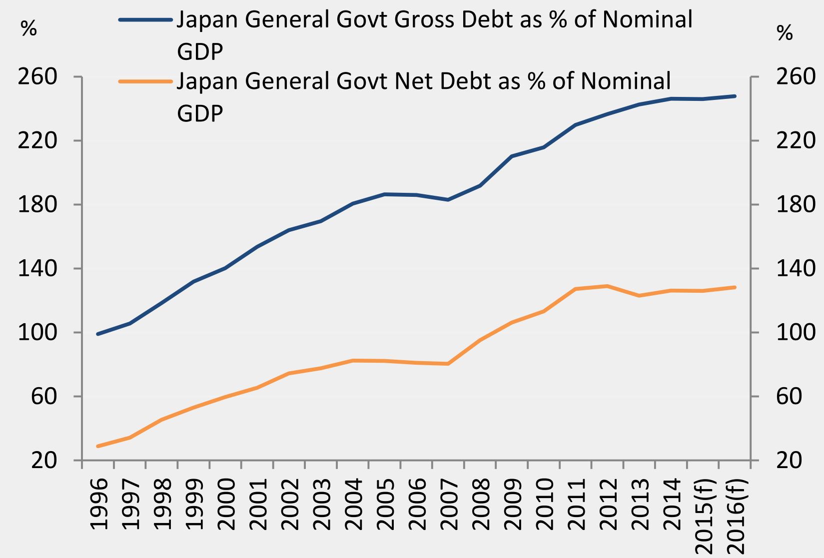




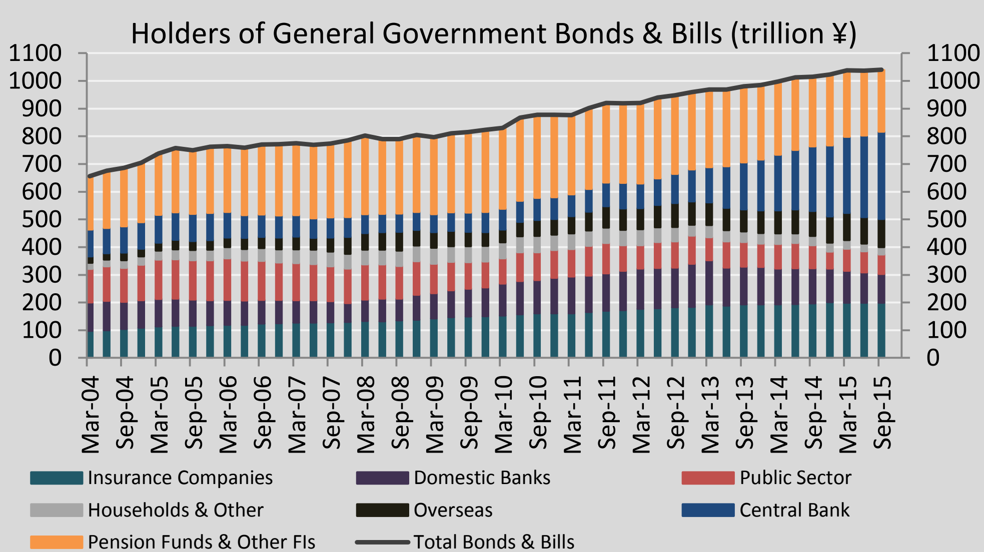
Fiscal consolidation is expected to ease in 2016



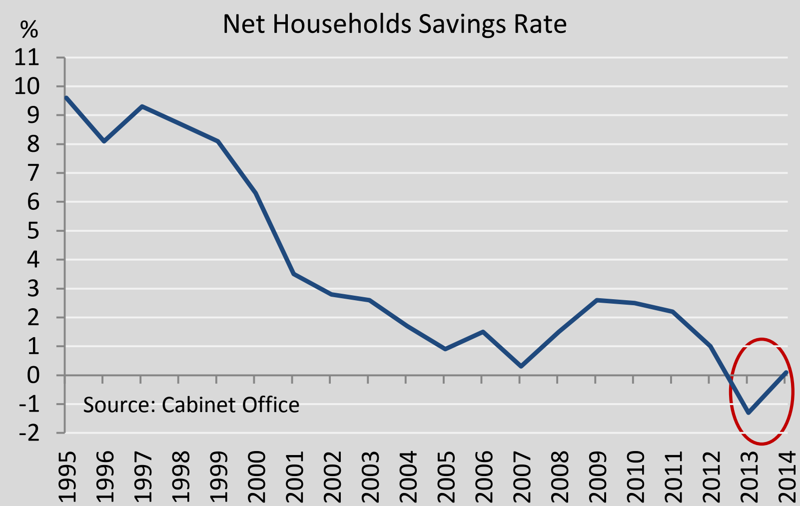
Source: IMF Fiscal Monitor, October 2015



Source: IMF Fiscal Monitor, October 2015



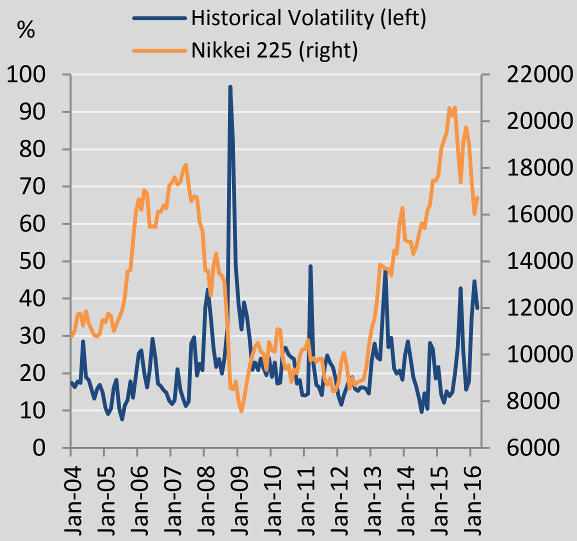
Source: Bank of Japan, Bloomberg (quarterly data, as of Q3:15)

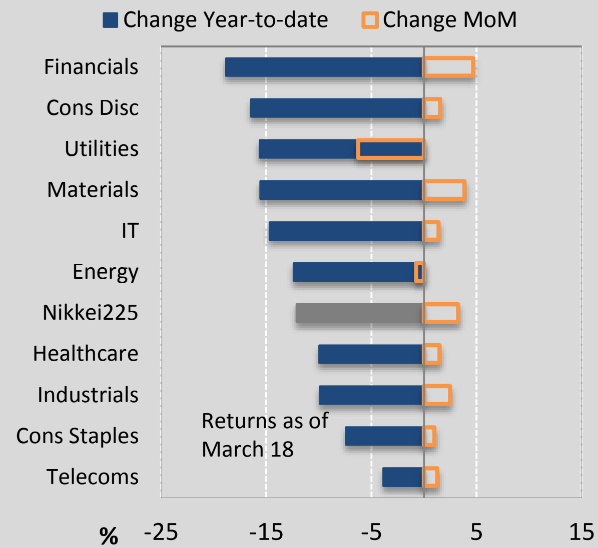


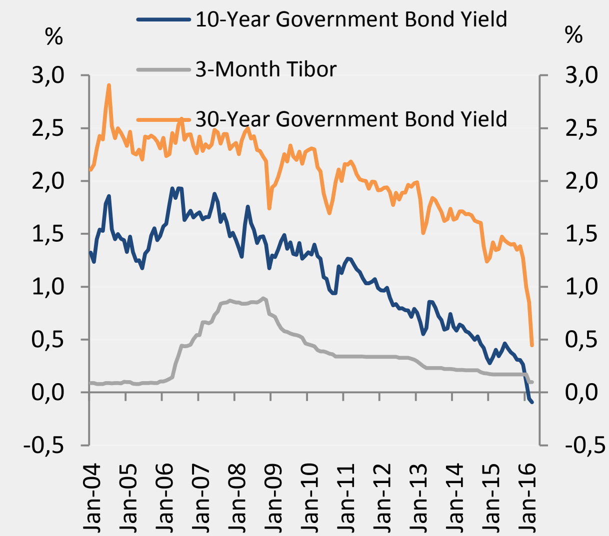
Note: Data appear for Fiscal Years, i.e. from April 1 of mentioned year to March 31 of the next year (e.g. 2013 accounts for 1/4/2013 - 31/3/2014)

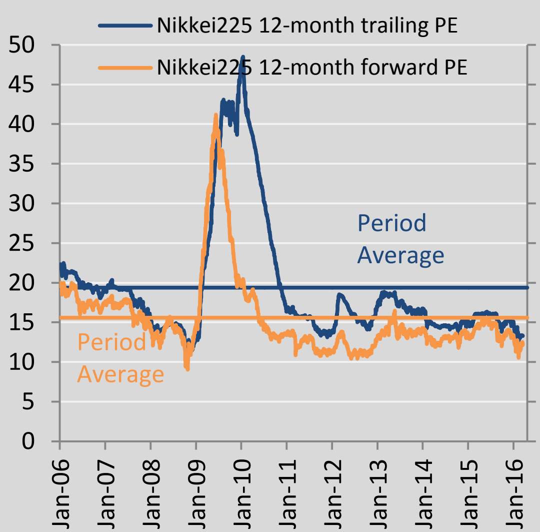
Japan

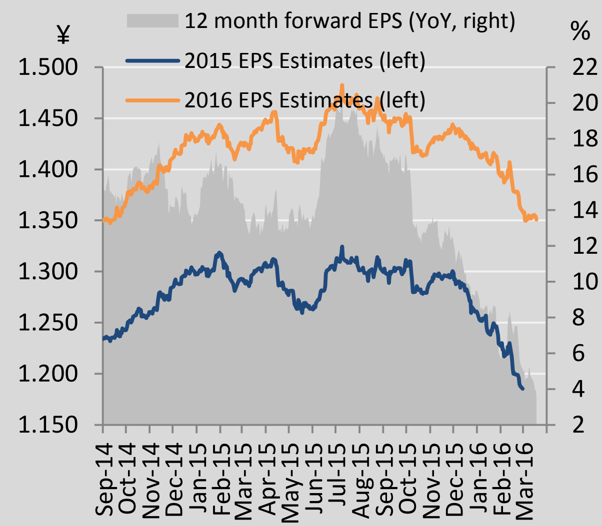
The adoption of negative rates by the Bank of Japan and low inflation expectations sent 10-Yr yields into negative territory

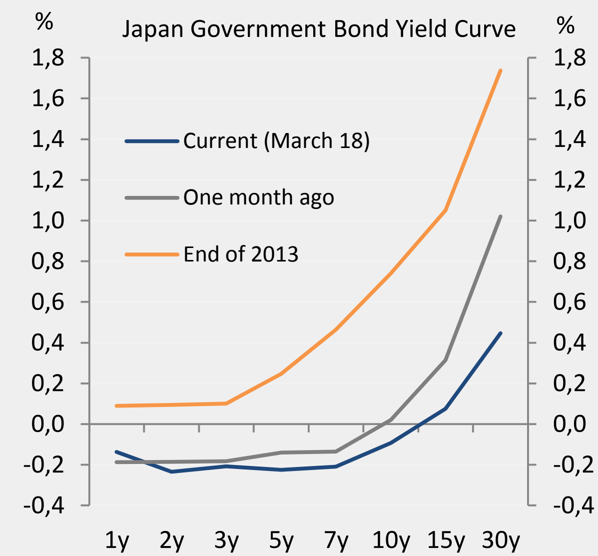






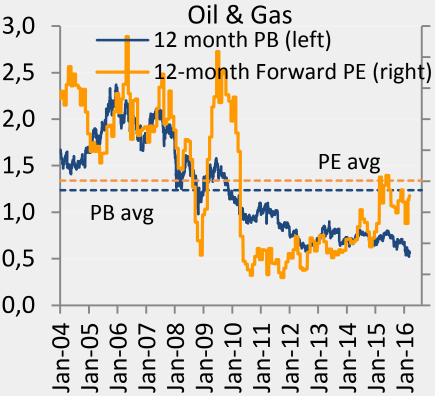


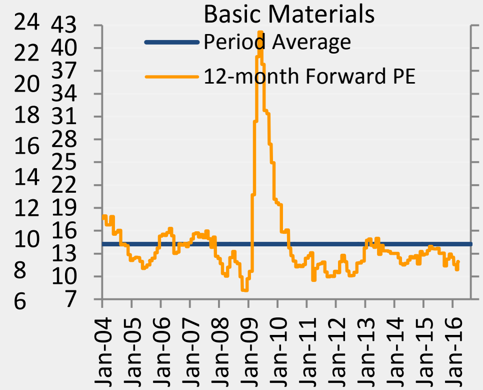


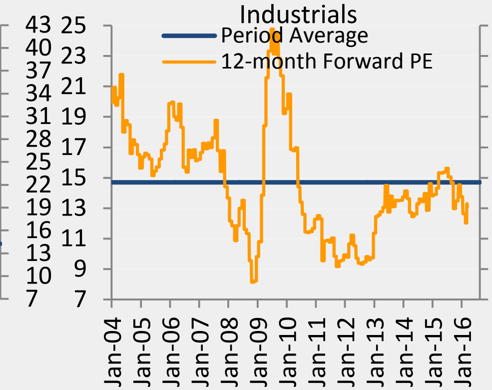


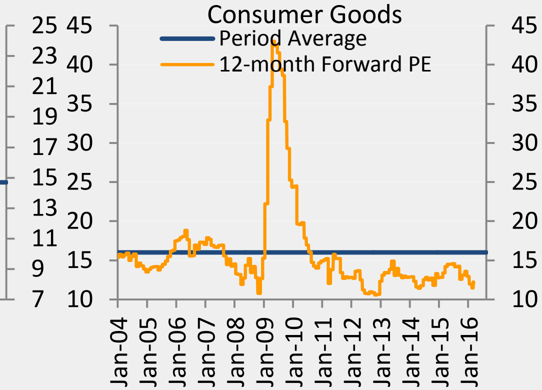
Source: Factset

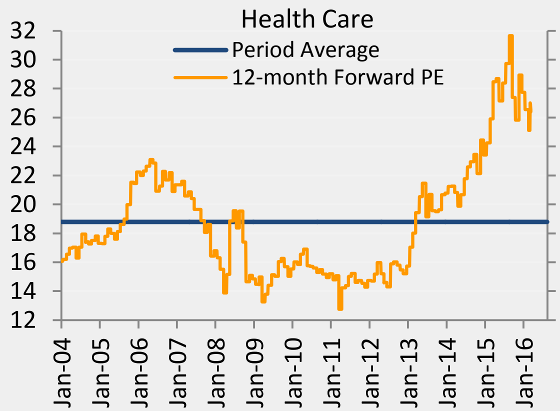
Source: Factset

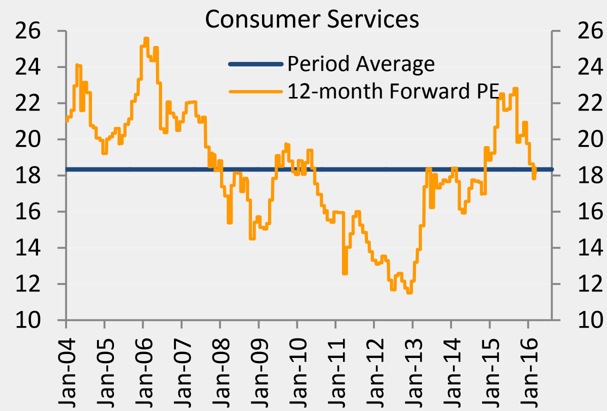

Oil & Gas
12 month PB (left)
12-month Forward PE (right)
PE avg
PB avg

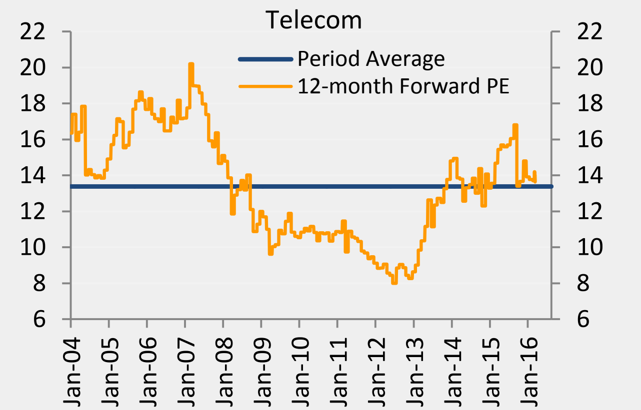

Basic Materials
Period Average
12-month Forward PE

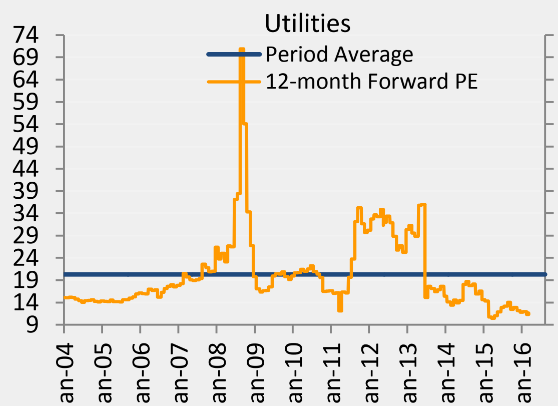

Industrials
Period Average
12-month Forward PE

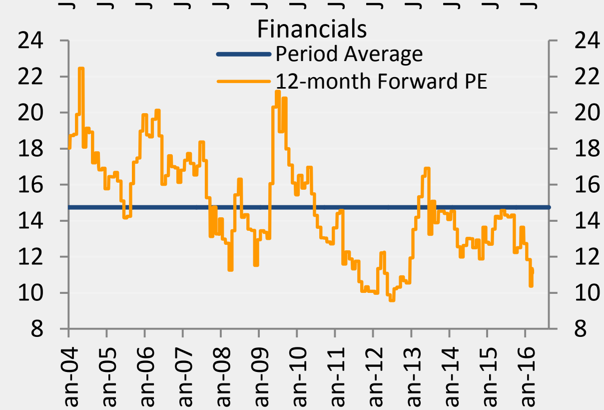

Consumer Goods
Period Average
12-month Forward PE

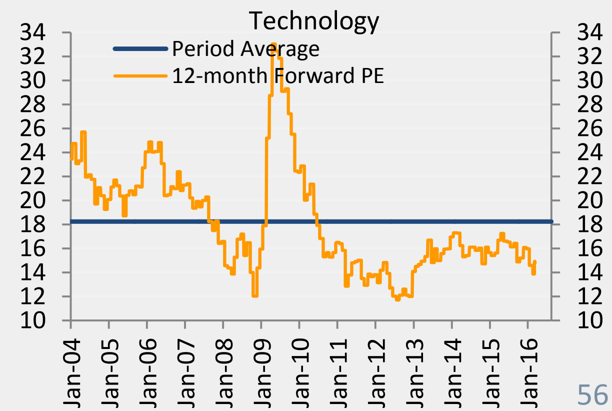

Health Care
Period Average
12-month Forward PE


Consumer Services
Period Average
12-month Forward PE


Telecom
Period Average
12-month Forward PE


Utilities
Period Average
12-month Forward PE


Financials
Period Average
12-month Forward PE


Technology
Period Average
12-month Forward PE

- The gradual transition of the Chinese economy towards a more sustainable, albeit lower, pace of growth continues. Real GDP growth decelerated to 6.8% yoy in Q4:15 from 6.9% yoy in Q3:15 and 7.0% yoy on average in H1:15. FY:2015 growth was 6.9% yoy from 7.3% in 2014.

- High frequency indicators have stabilized lately, albeit at relatively weak levels, while business surveys indicate that weakness will persist. Indeed, industrial production rose by 5.9% yoy in Q4, broadly unchanged compared with Q3:15. Manufacturing PMIs disappointed in February, with the official PMI at 49.0, the lowest level since November 2011.

- The decline in imports continues, mainly due to weak demand for industrial commodities, while exports have also slowed. The trade balance remains strong, albeit declining in February to 5.0% of GDP (12-month rolling sum basis) from 5.2% in January due to a sharp drop in exports by 25.4% yoy.

- On a positive note, the housing market recovery continues. 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 1.0% yoy in January from 0.2% yoy in December. Moreover, retail sales increased by 11.1% yoy in Q4:15 vs 10.7% yoy in Q3:15.

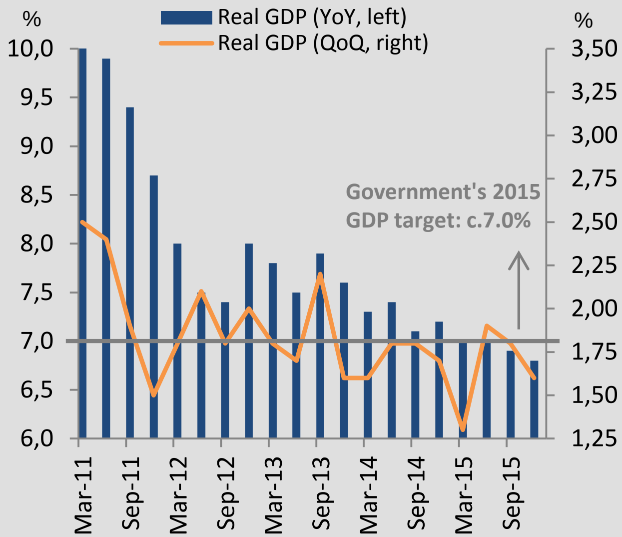
- The Government will proceed with modest fiscal and monetary easing in order to avoid a hard landing and achieve its new real GDP growth target of 6.5% - 7%. The fiscal budget deficit target was set at 3.0% of GDP, up from 2.3% in 2015, and the M2 growth target at 13% from 12%.

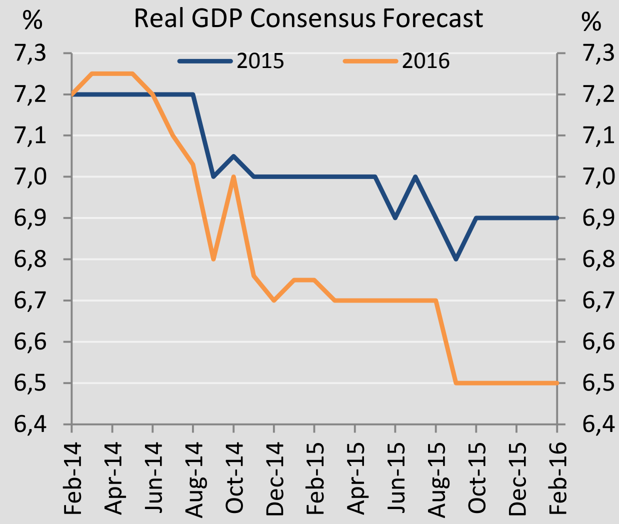
- Inflation picked up in February (2.3% vs 1.8% previously), albeit partly due to transitory effects, remaining below the PBoC's target for 2016 (3%) and providing room for further monetary easing. Indeed, the PBoC cut the Reserve Requirement Ratio (RRR) on large banks by 50 bps to 17% in March.

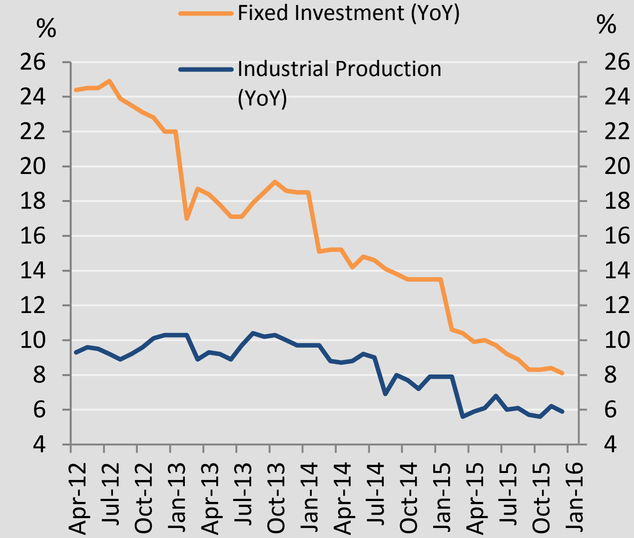
- However, monetary stimulus carries its own challenges. Rapid credit growth has driven up the Chinese private debt-to-GDP ratio to c. 205% (152% accounts for bank loans and 53% for corporate bonds) from 130% in 2009.

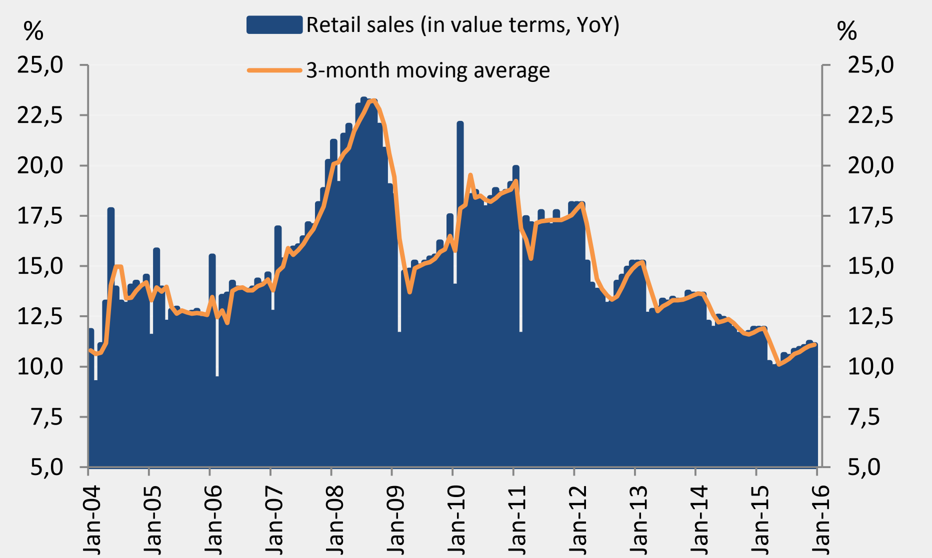
- The lack of FX policy clarity remains a source of uncertainty. The PBoC has stepped up its communication recently in order to convince investors that no significant devaluation of the RMB is planned (+0.2% ytd against the USD to 6.48 RMB/$). In February, capital outflows continued, albeit at a slower pace, with the decrease in FX reserves at USD 29bn vs USD 98bn on average in the previous 3 months and USD700bn since February 2015). Note that forward indicators price in a further depreciation of the RMB by 2% against the USD to 6.61 RMB/$ by end 2016.

Real GDP growth decelerated slightly in Q4:15 (6.8% yoy), with PMIs remaining in negative territory

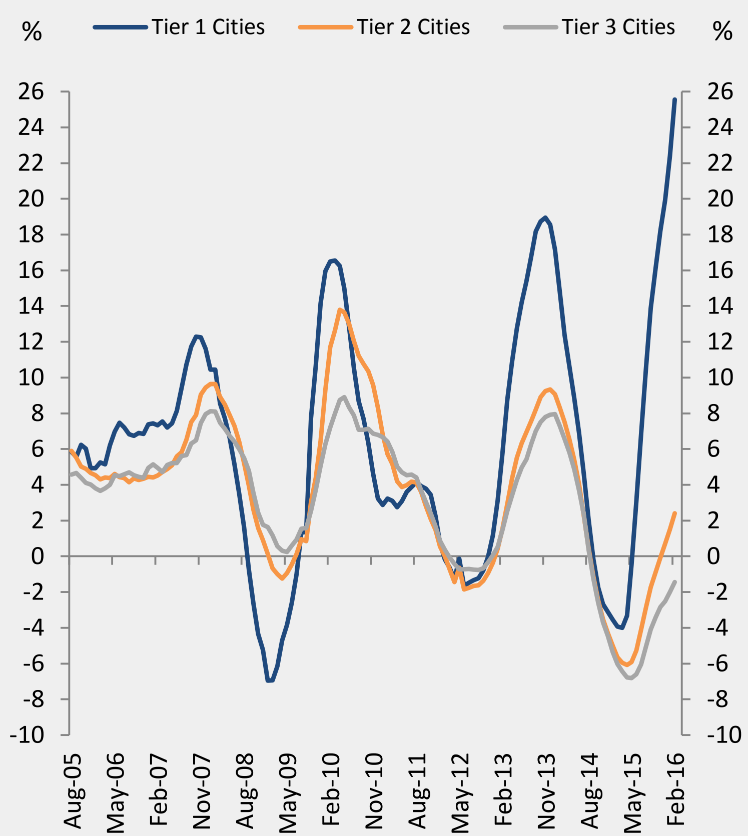






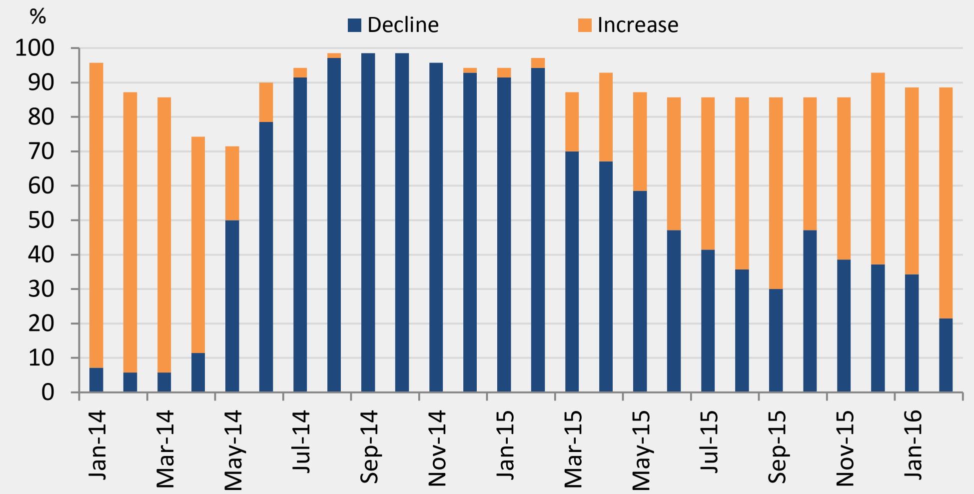


House Prices: Annual Growth Rate



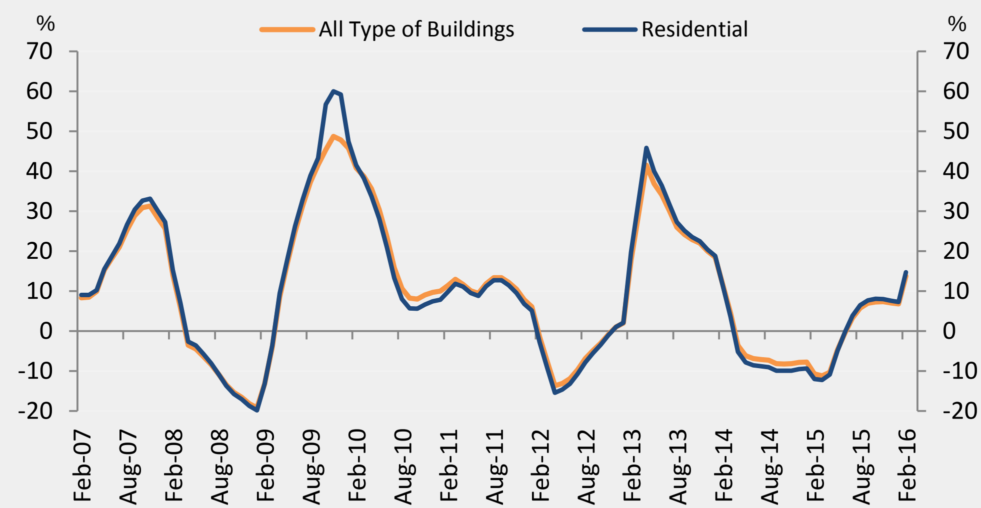
Tier 1 : 4 cities (Shanghai, Beijing, Guangzhou and Shenzhen) - 16 million households, Tier 2 : 23 cities - 38 million households
Tier 3: 229 cities - 75 million households
Source: Nielsen

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



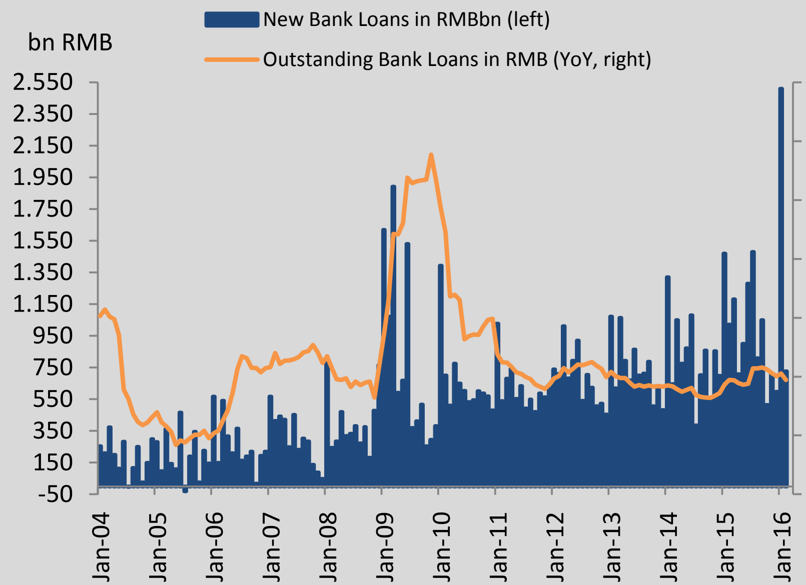
*% of cities (out of 70) where new residential apartments' prices either declined or increased

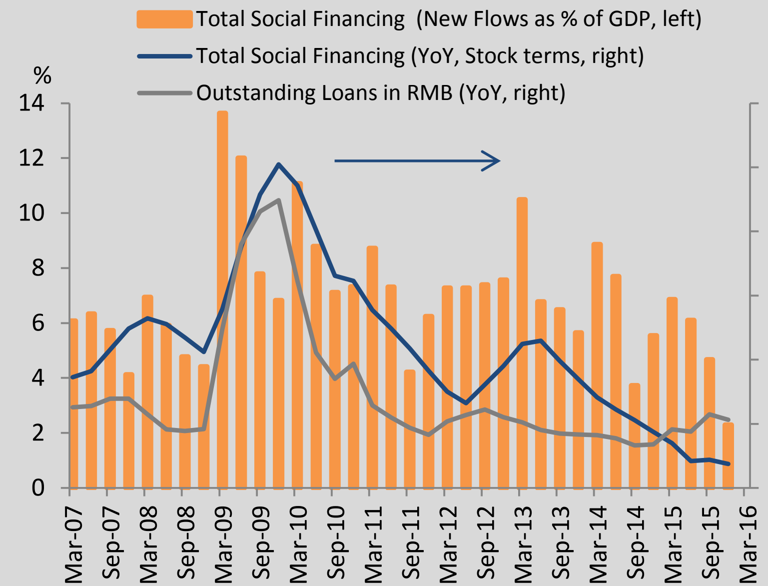
Housing Transactions: Volumes, YoY

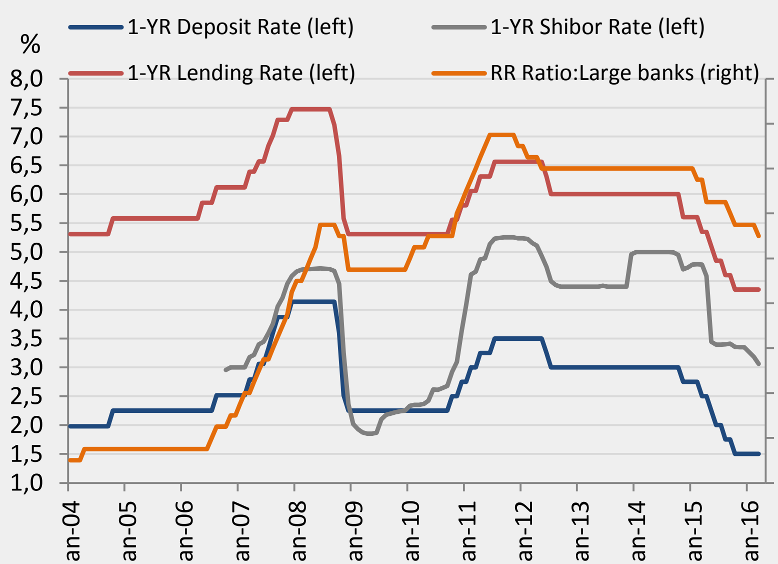


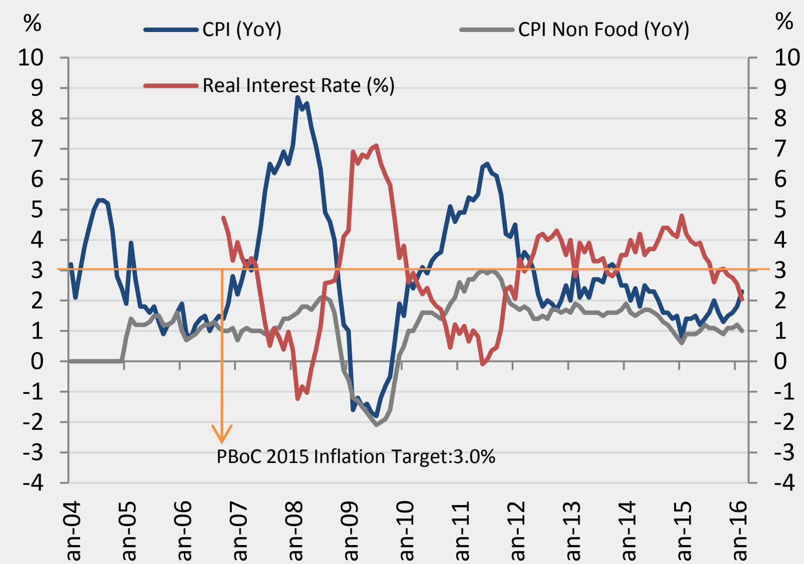
The PBoC cut the RRR by 50 bps to 17% in order to inject additional liquidity into the banking system

China





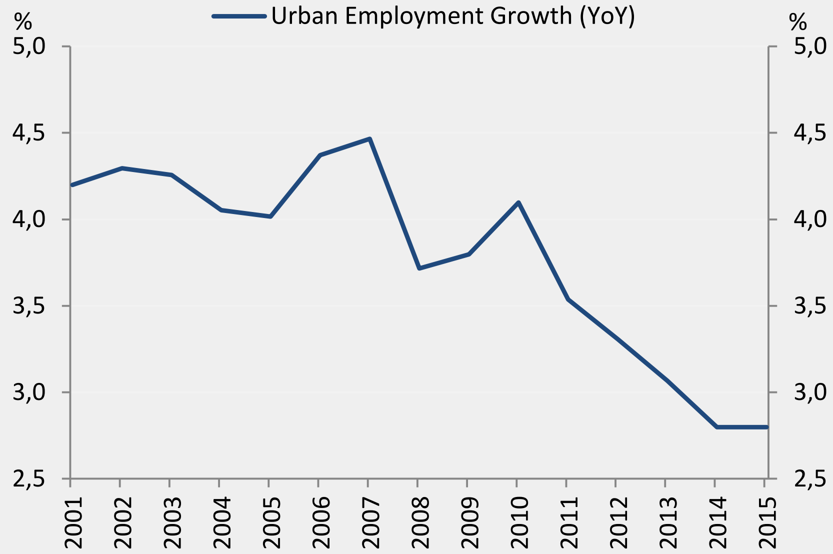




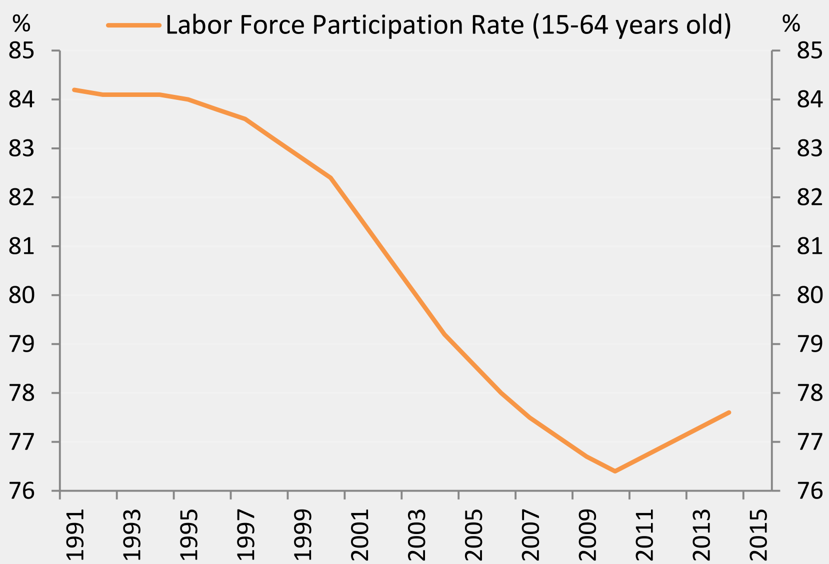
Labor market fundamentals remain solid. The 2016 target for urban new job creation remains at 10 mn despite lower GDP growth

China

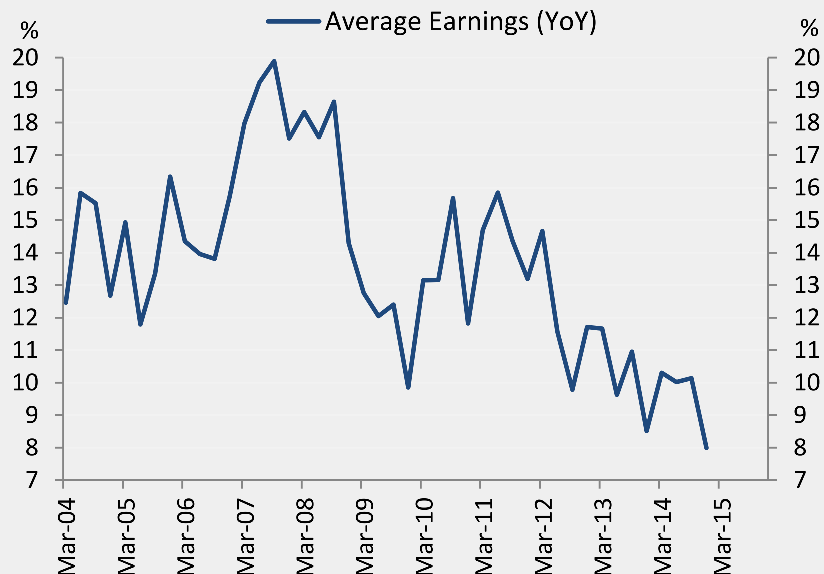
Source: Bloomberg



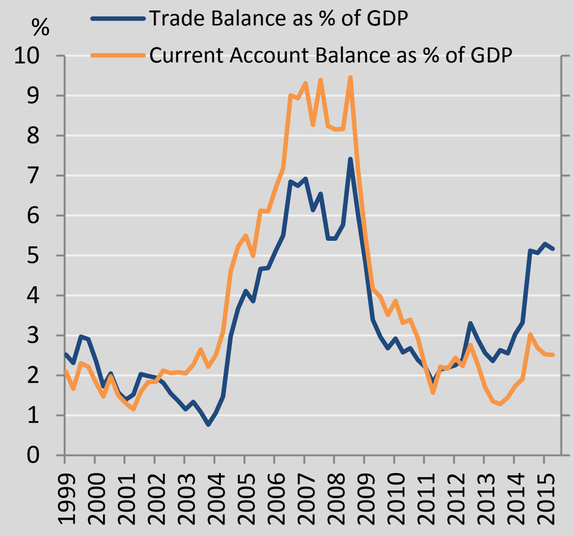
Source: National Bureau of Statistics, Datastream

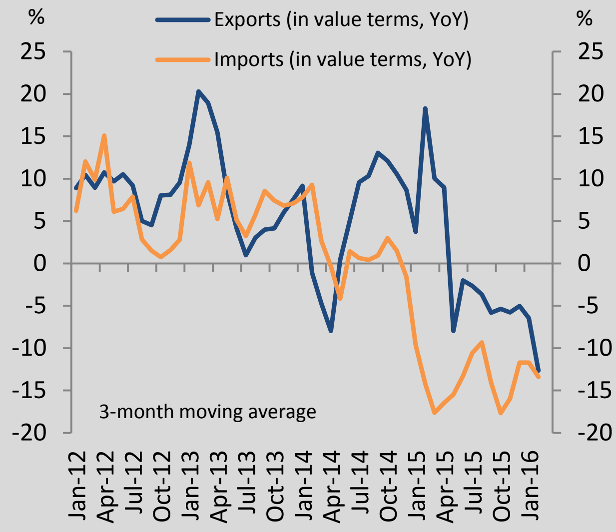


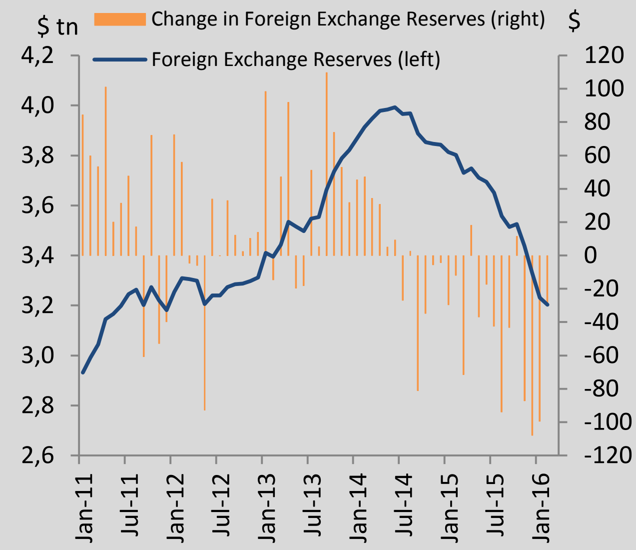
Source: World Bank (annual data, as of 2014)

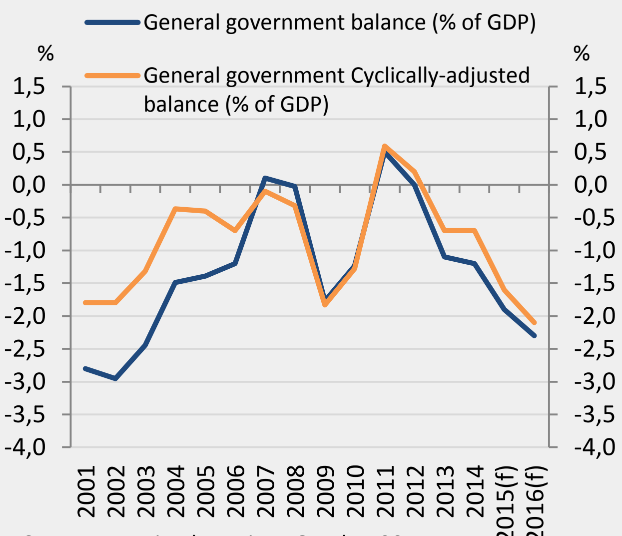


Source: National Bureau of Statistics, Bloomberg

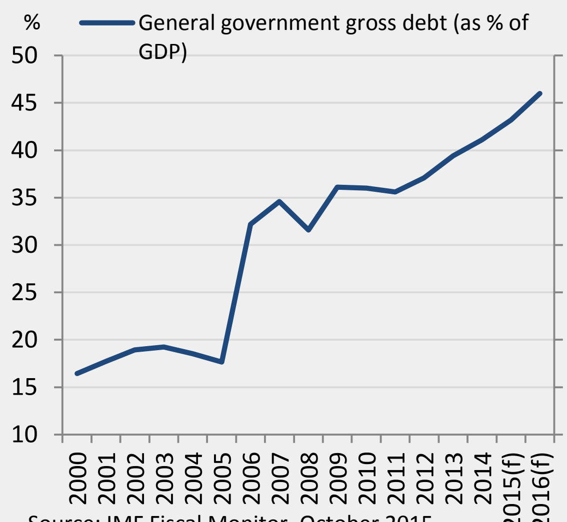




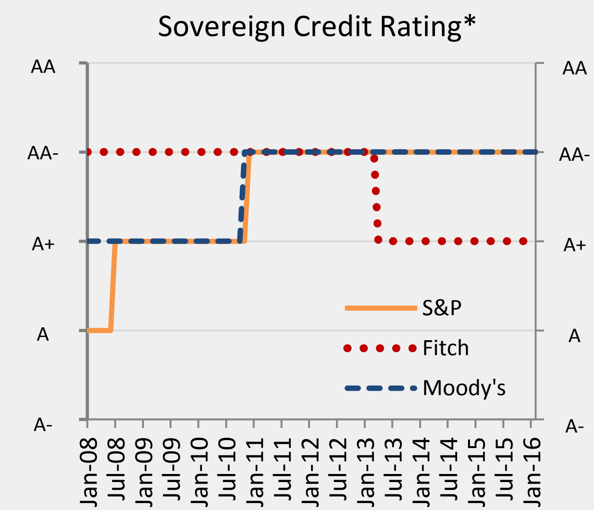




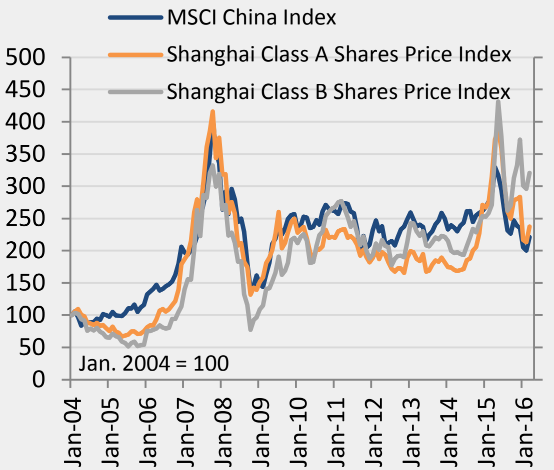
Source: IMF Fiscal Monitor, October 2015



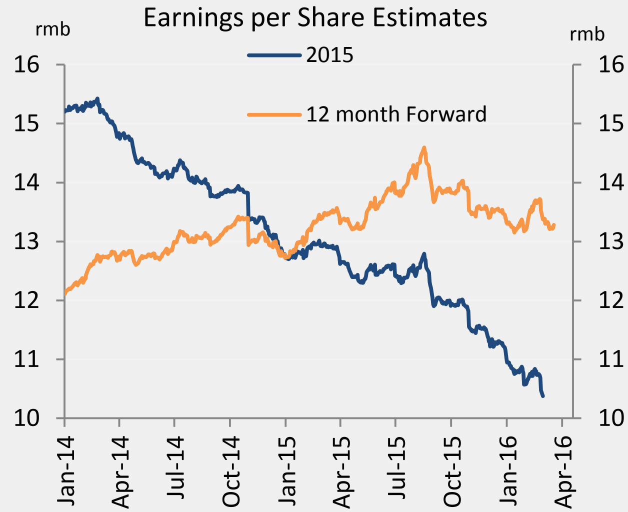
Source: IMF Fiscal Monitor, October 2015



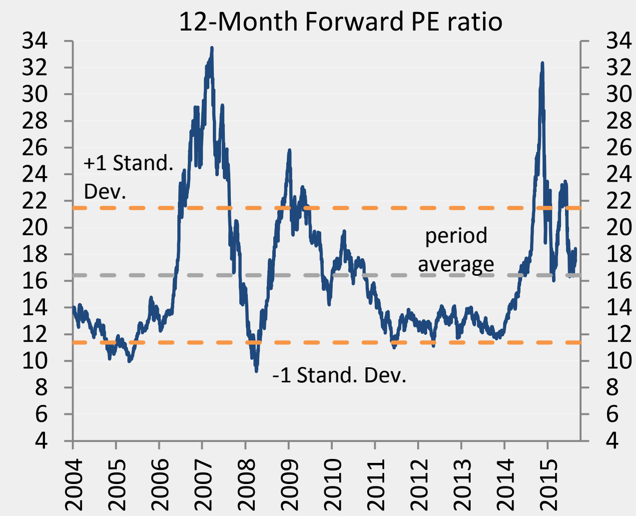
*in Local Currency



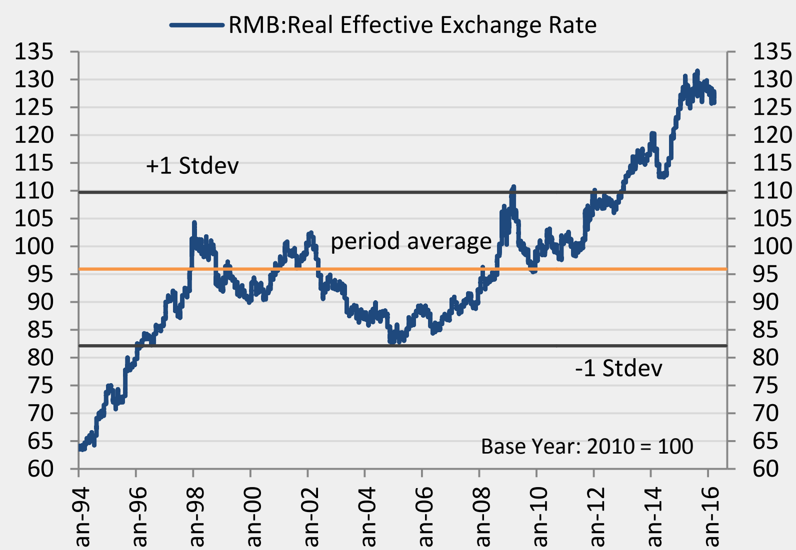
*Shanghai B-shares are eligible for foreign investors - Shanghai A-shares are available for purchase by mainland investors

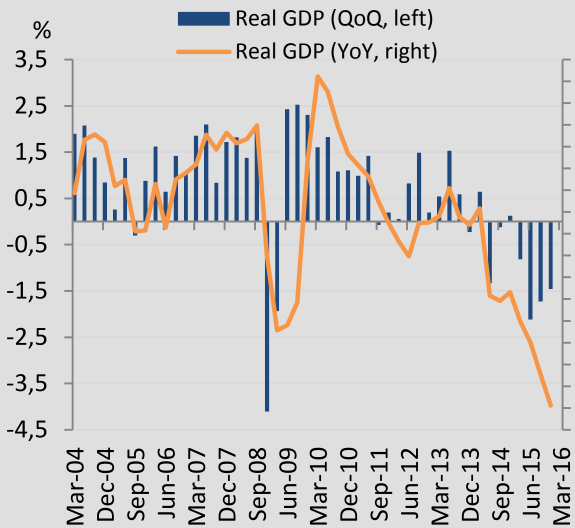


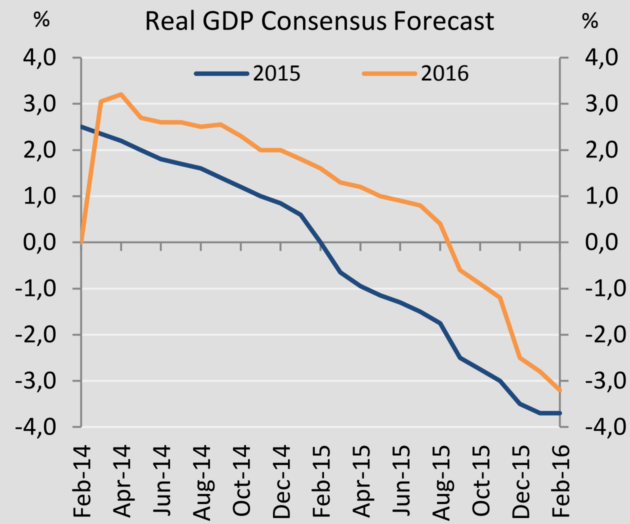
Source: Factset

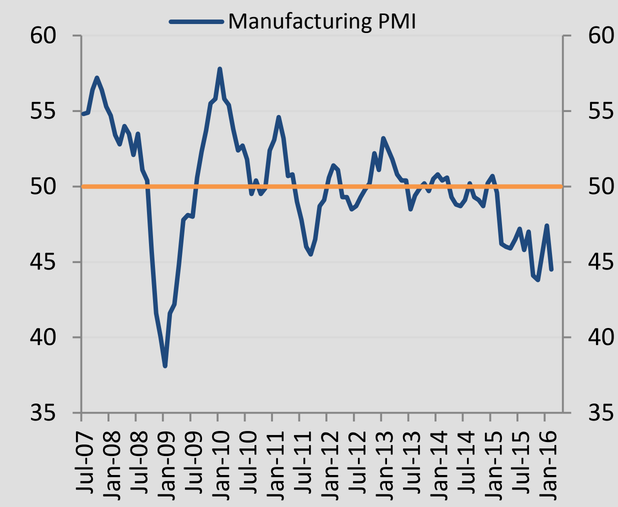


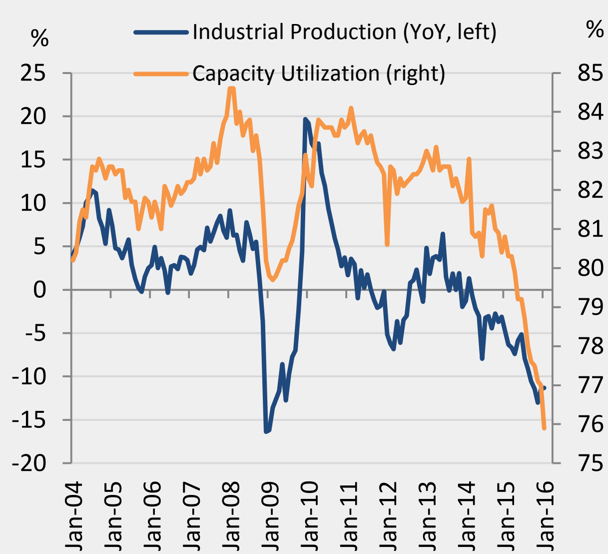
Source: Factset

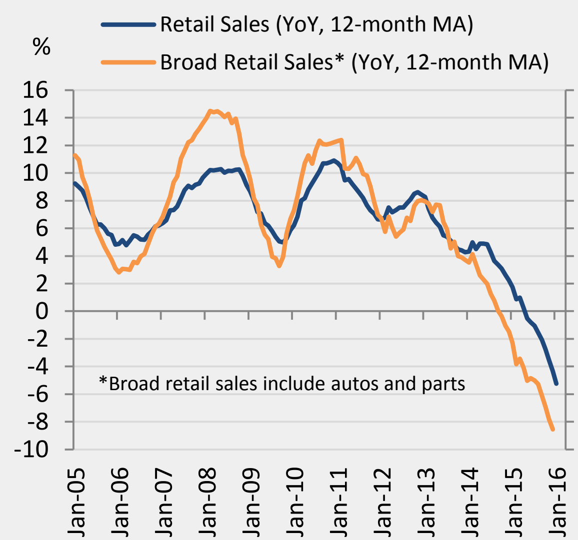


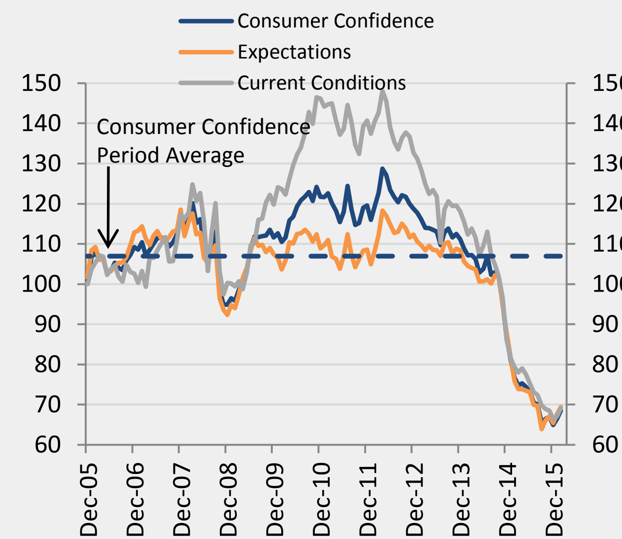

Real GDP (QoQ, left)
Real GDP (YoY, right)
%
%


Real GDP Consensus Forecast
2015
2016
%
%


Manufacturing PMI

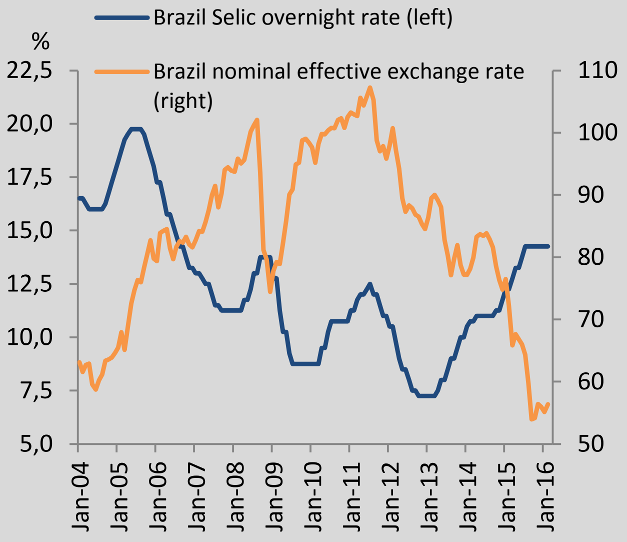

Industrial Production (YoY, left)
Capacity Utilization (right)
%
%

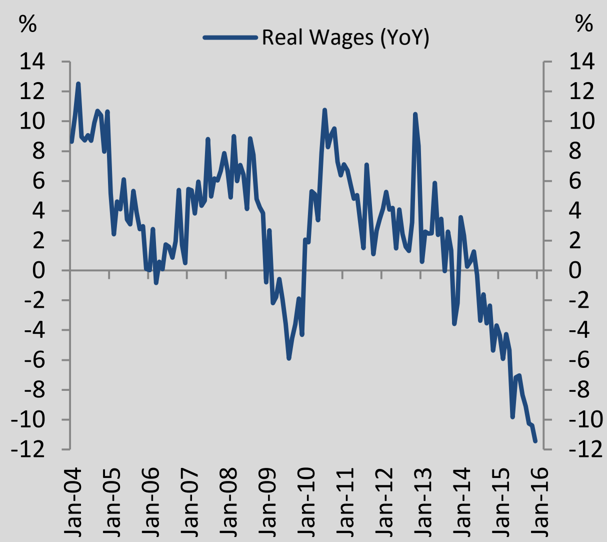

Retail Sales (YoY, 12-month MA)
Broad Retail Sales* (YoY, 12-month MA)
%
%
*Broad retail sales include autos and parts

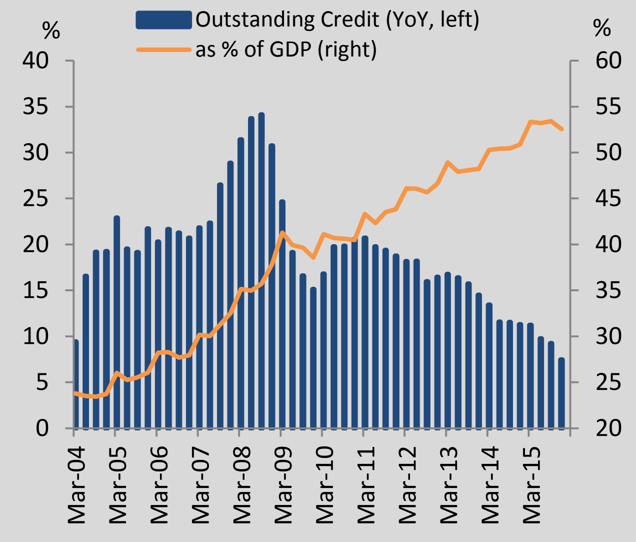

Consumer Confidence
Expectations
Current Conditions
Consumer Confidence
Period Average

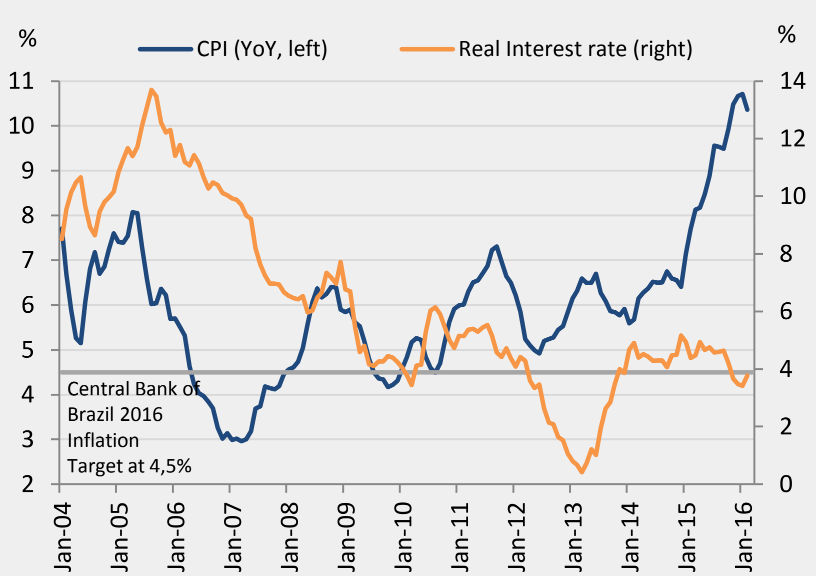
Inflation remains well above target due to the pass-through from past BRL depreciation and higher administered prices

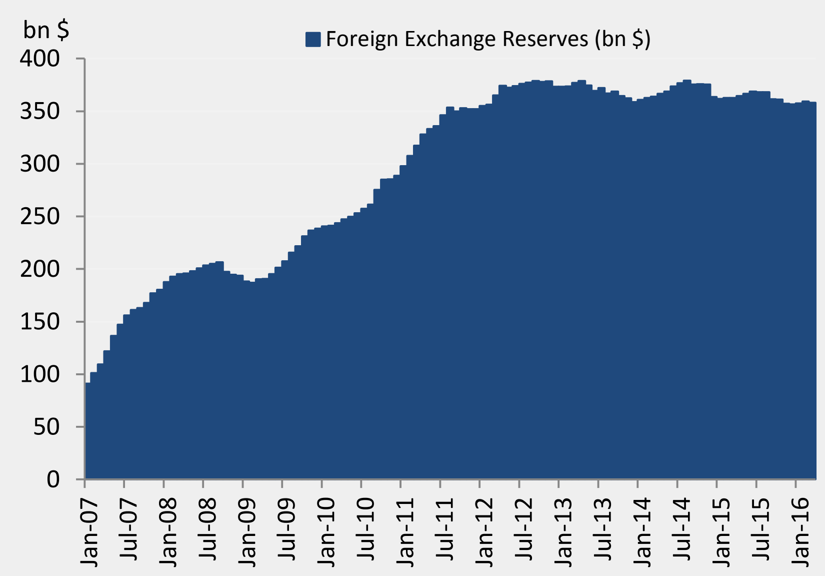
Brazil





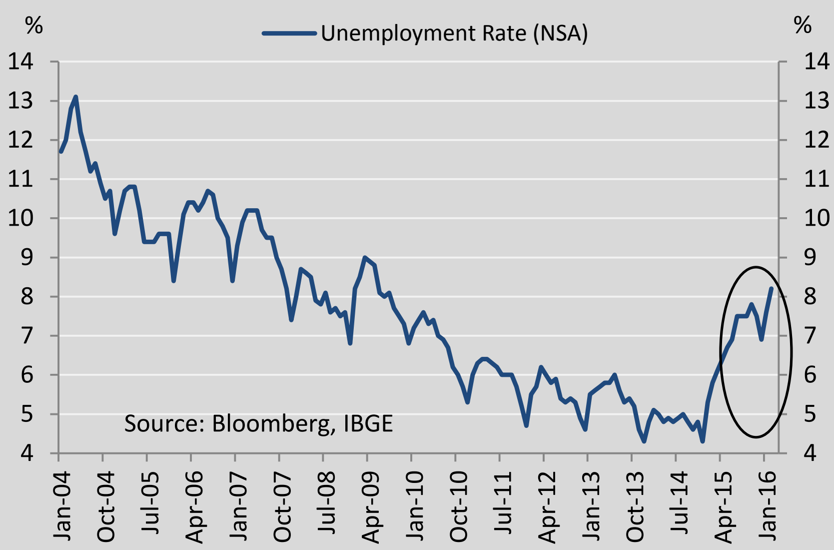


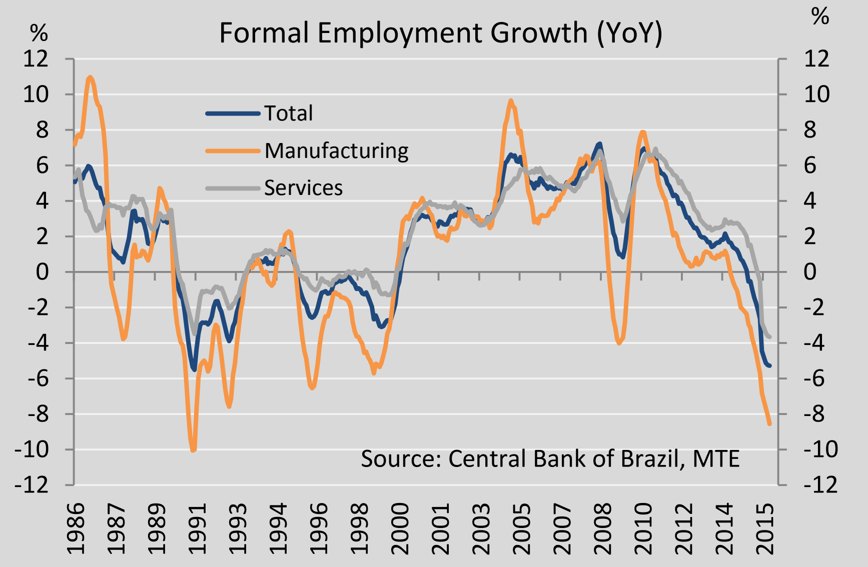


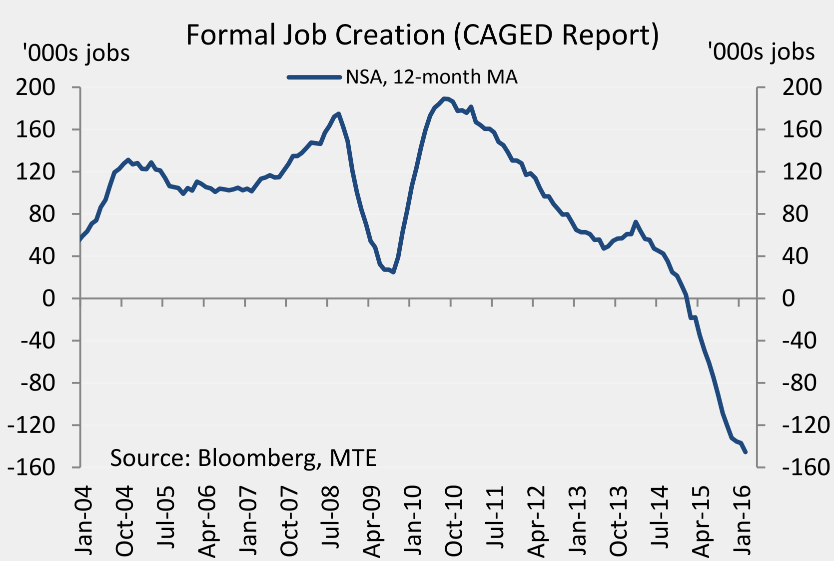


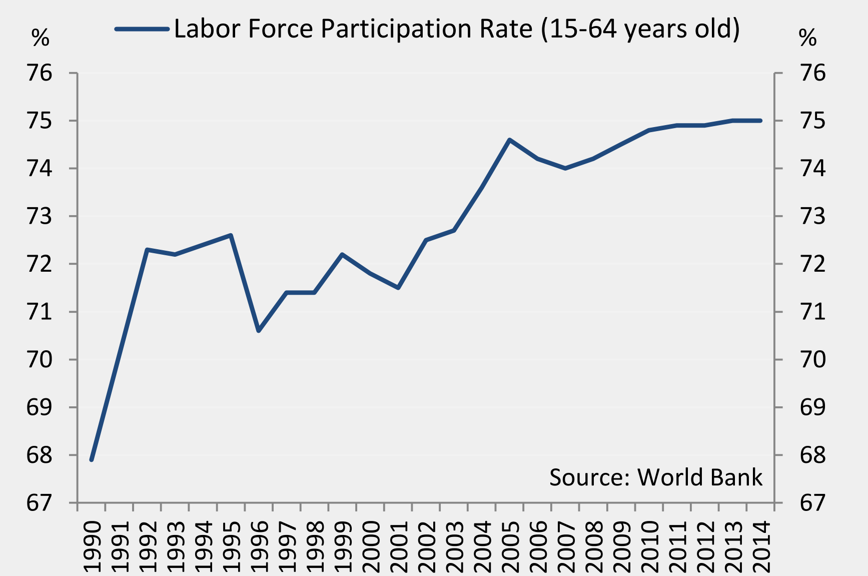
The unemployment rate remains high (8.2% in February), whereas layoffs were 145k in February-- a record high

Brazil

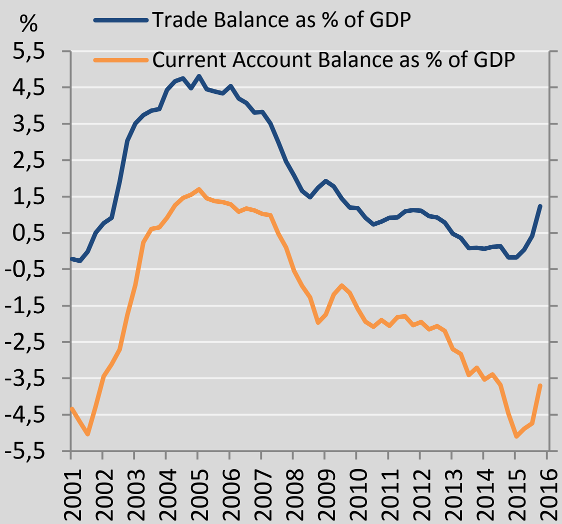


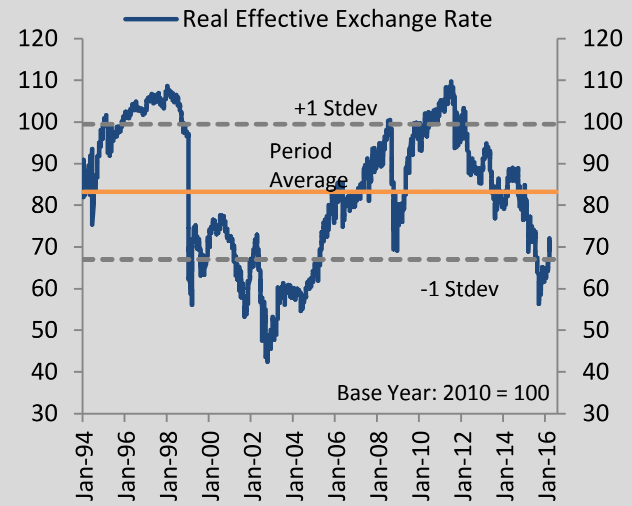


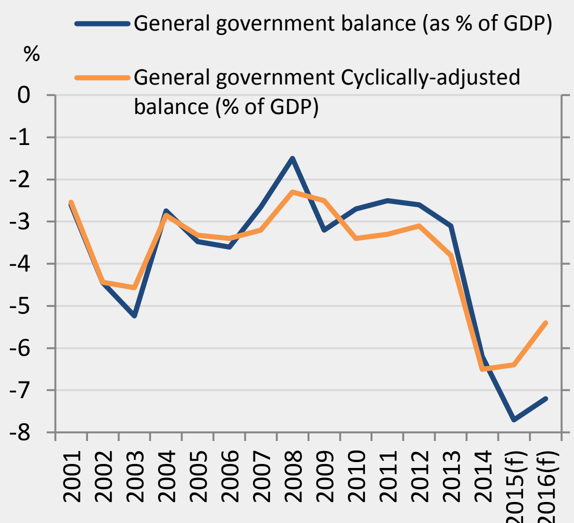




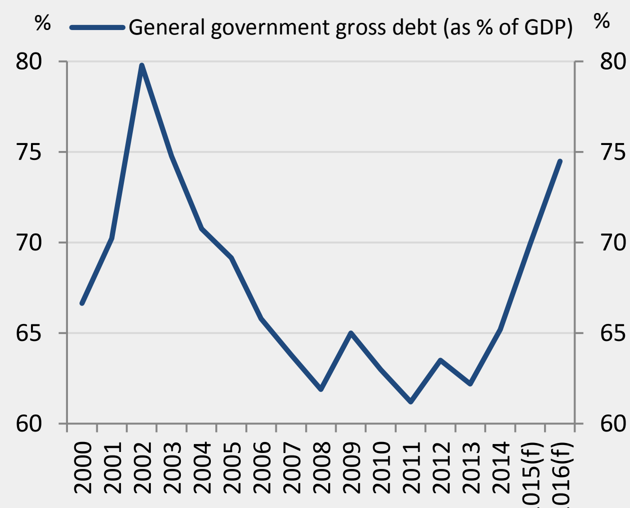
The recession and political uncertainty weaken the necessary fiscal adjustments. Moody's downgraded Brazil to below Investment Grade in February



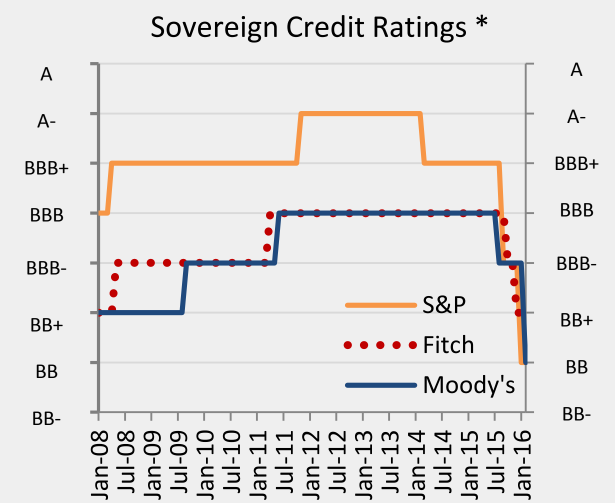




Source: IMF Fiscal Monitor, October 2015

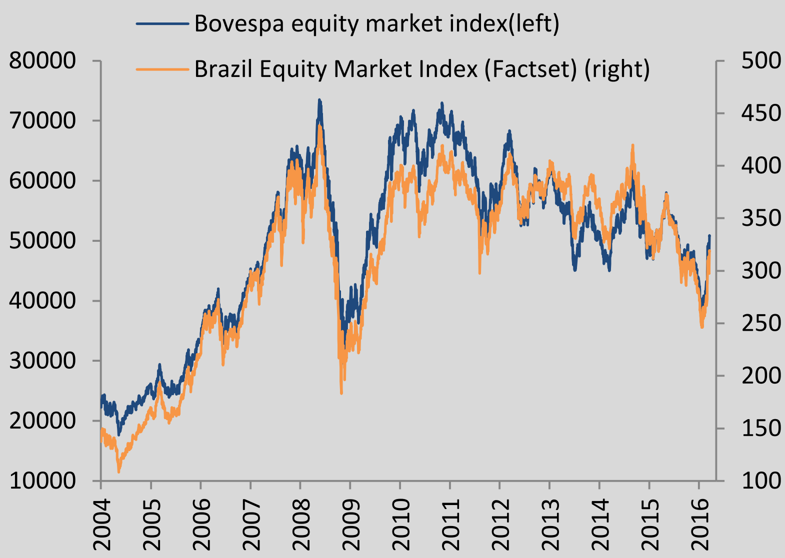


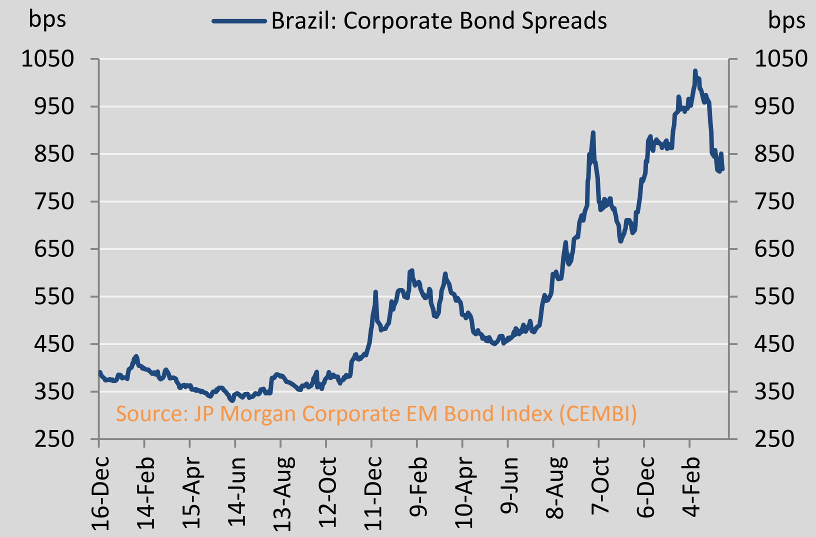
Source: IMF Fiscal Monitor, October 2015

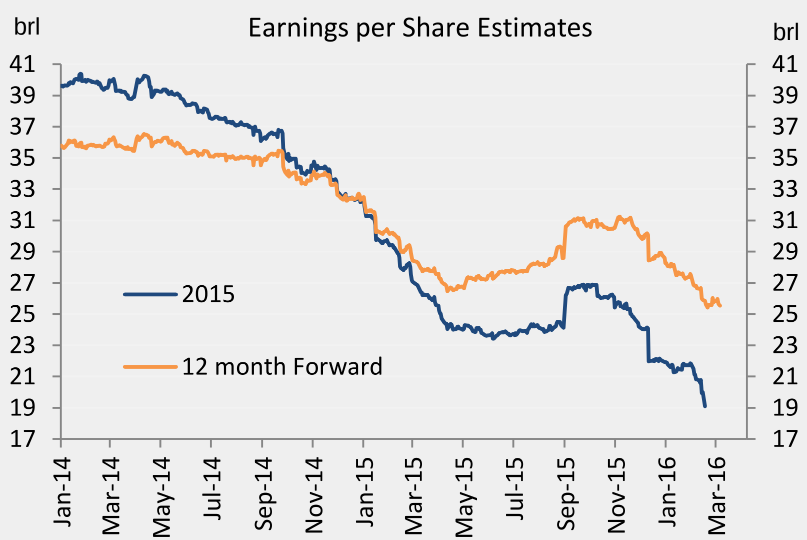


*in Local Currency

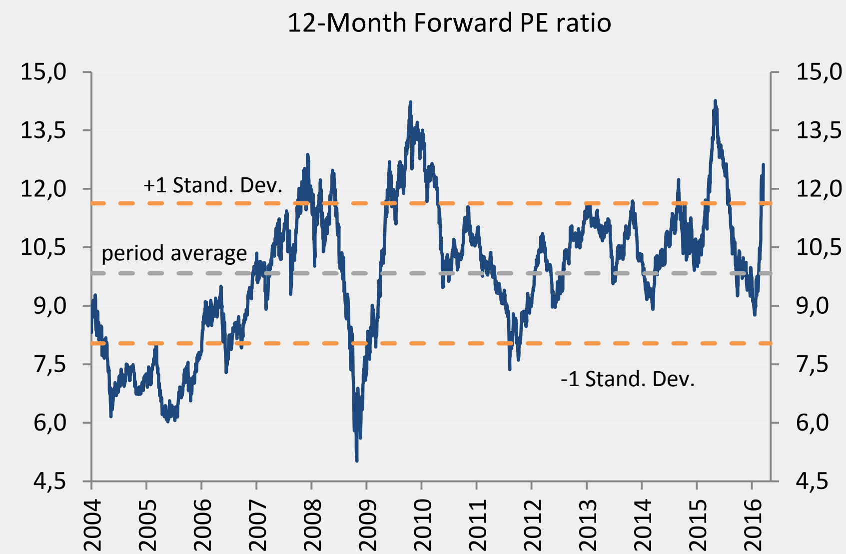
Corporate bond spreads remain exceptionally wide, albeit declining by 207 bps since mid-February







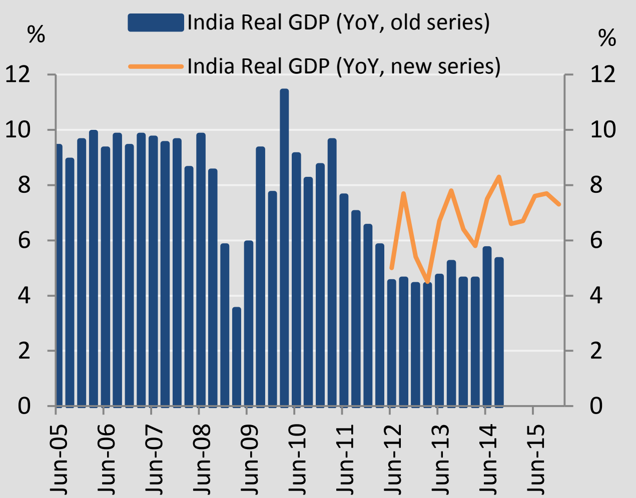
Source: Factset



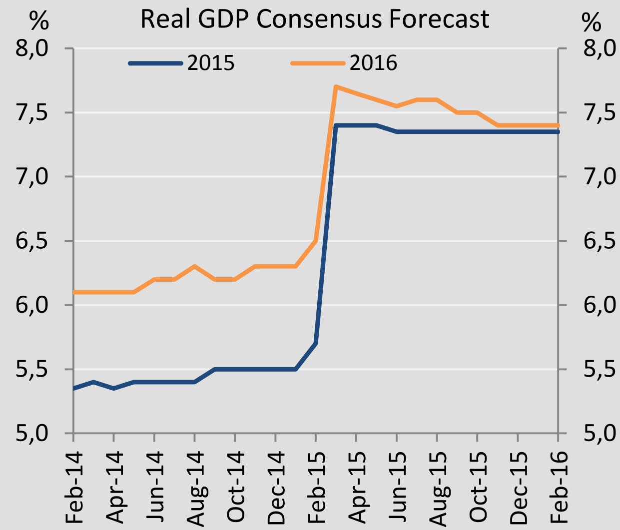
Source: Factset

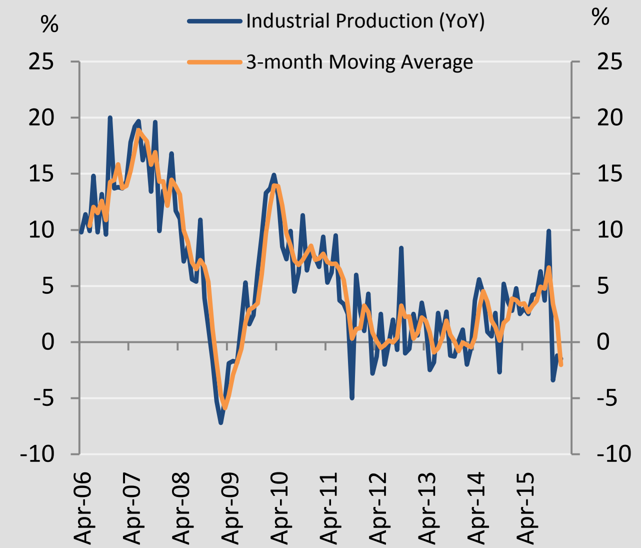
India: GDP growth remains solid (+7.3% yoy in Q4:15), albeit PMIs point to a slight deterioration

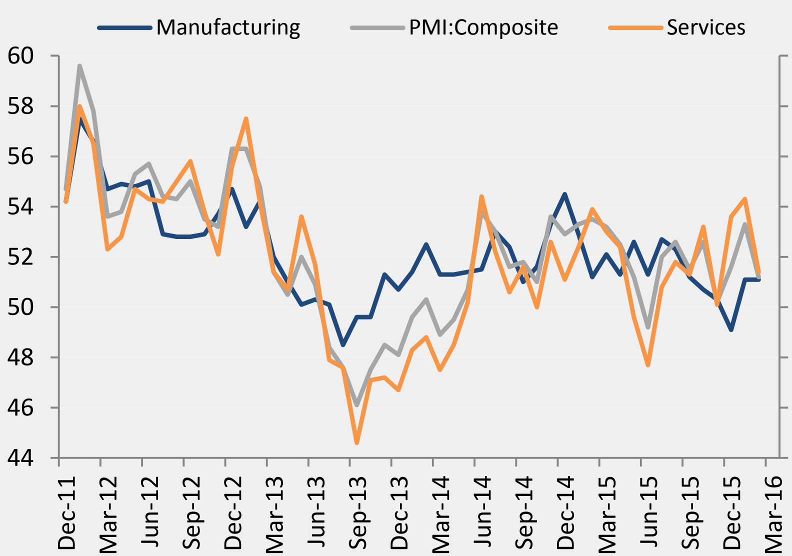
India

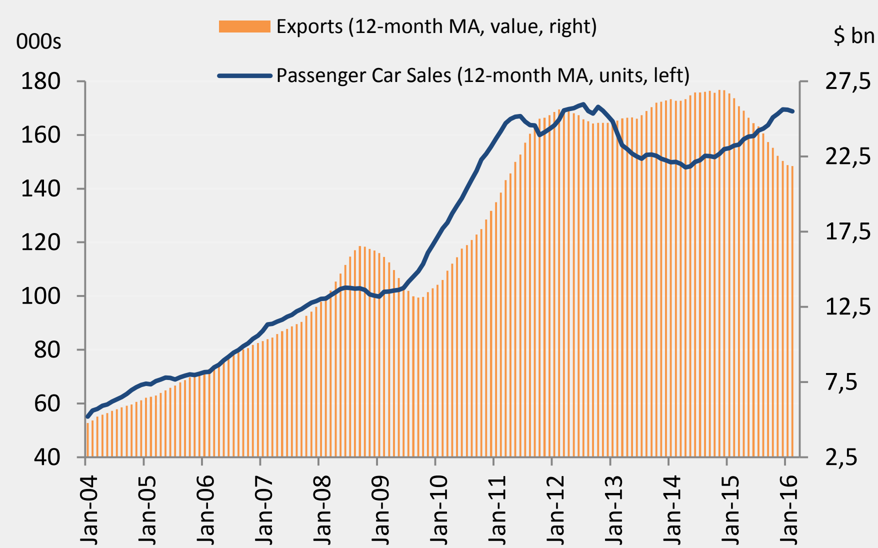


Source: India Central Statistical Organisation

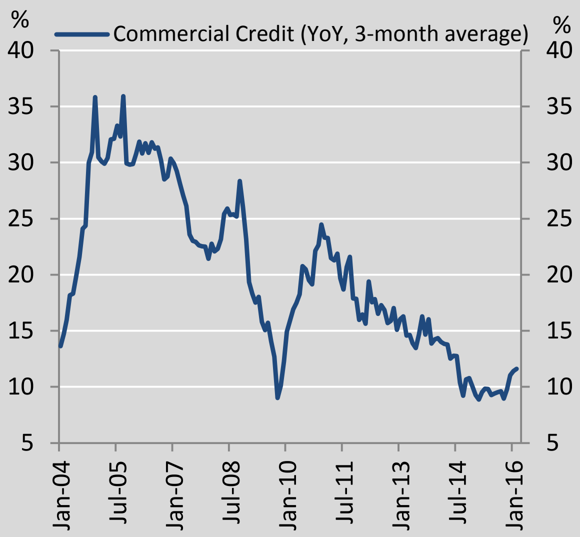


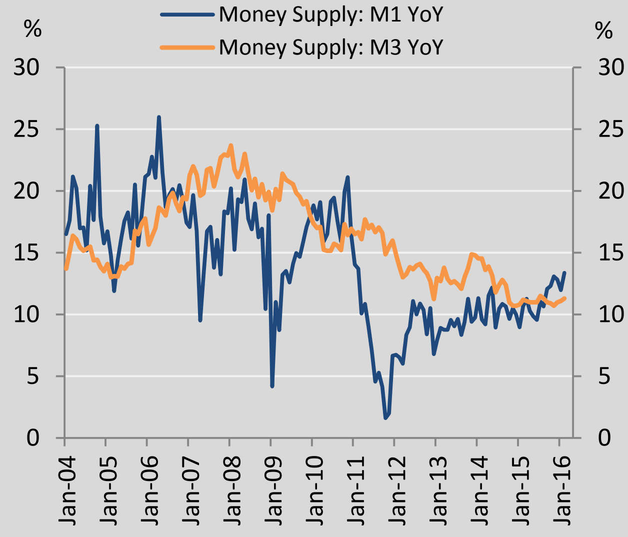


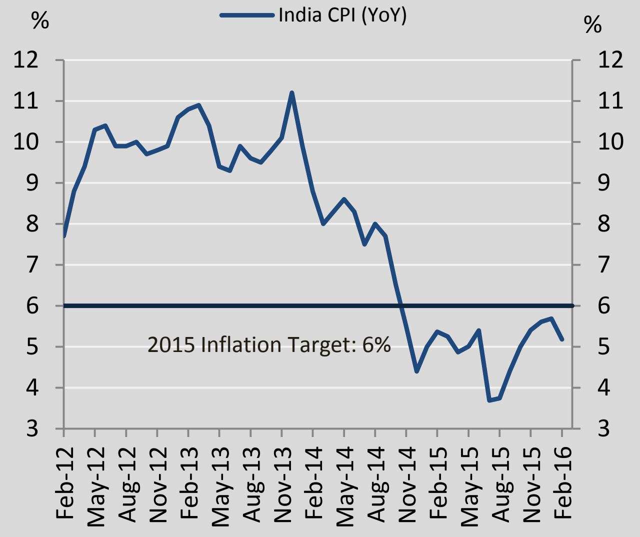


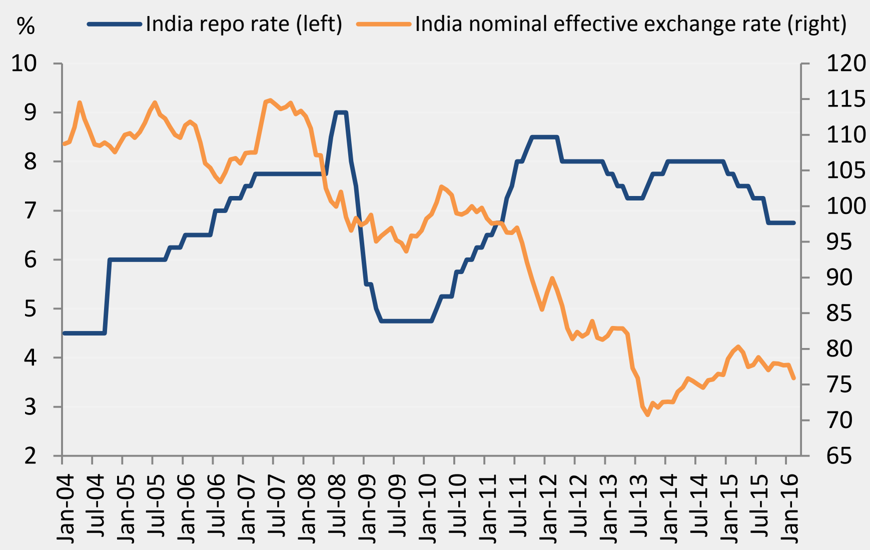


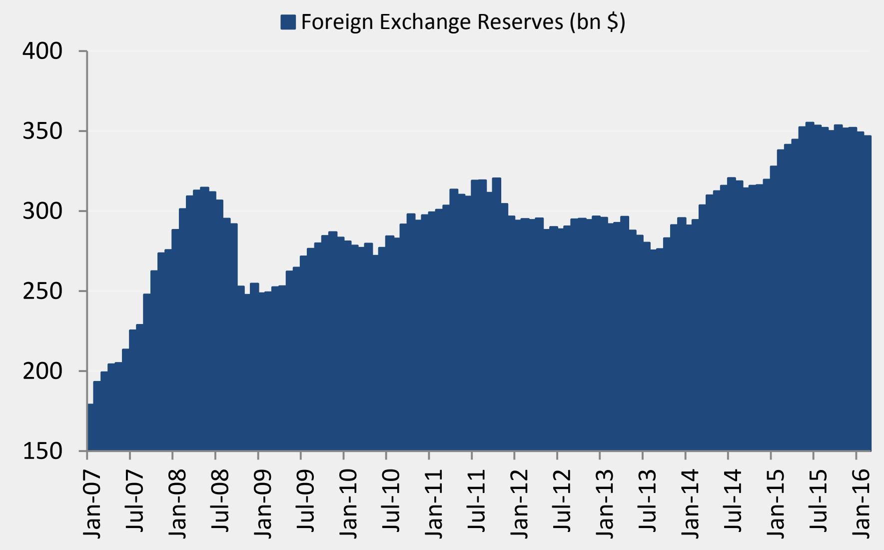
Inflation remains close to the target (6%), supported by past interest rate cuts by the central bank (-125 bps in 2015), albeit decelerating in February (5.2% from 5.7% in January)



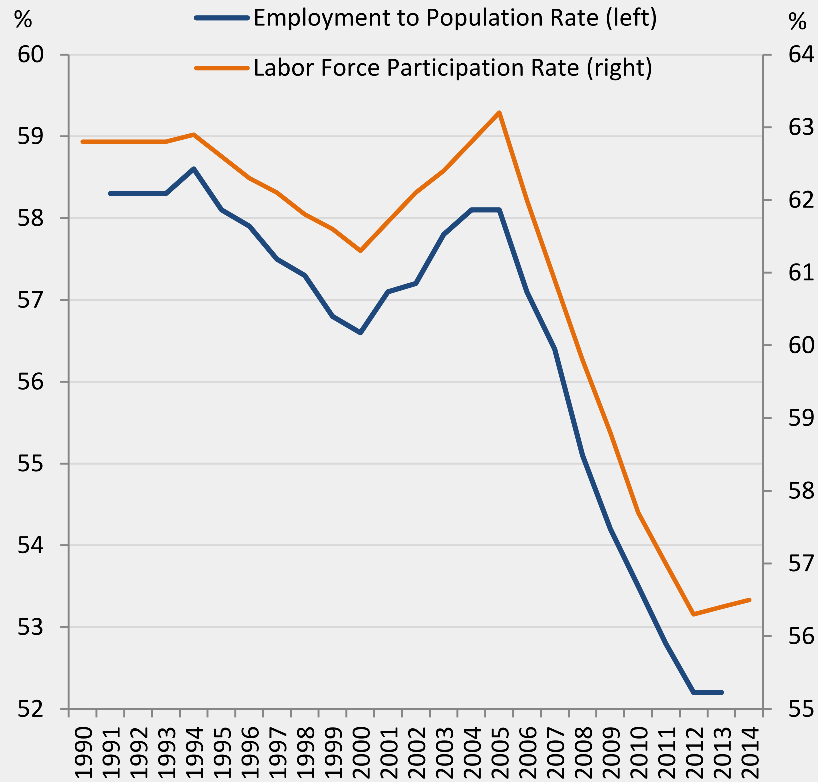






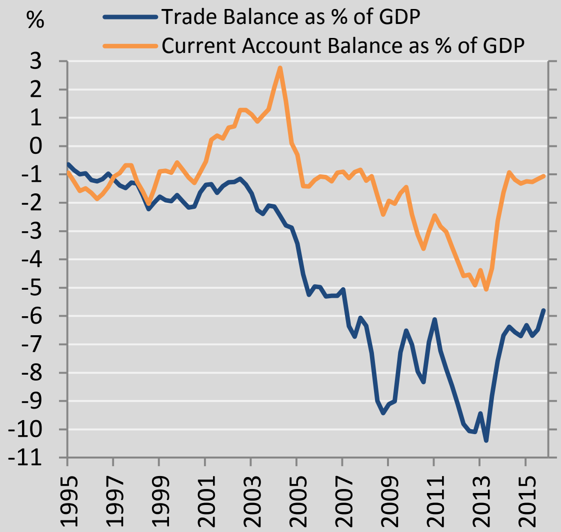


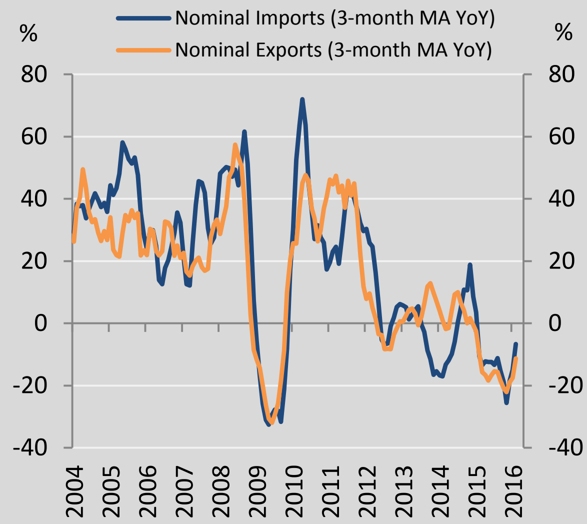
Source: Bloomberg (data as of 2014)

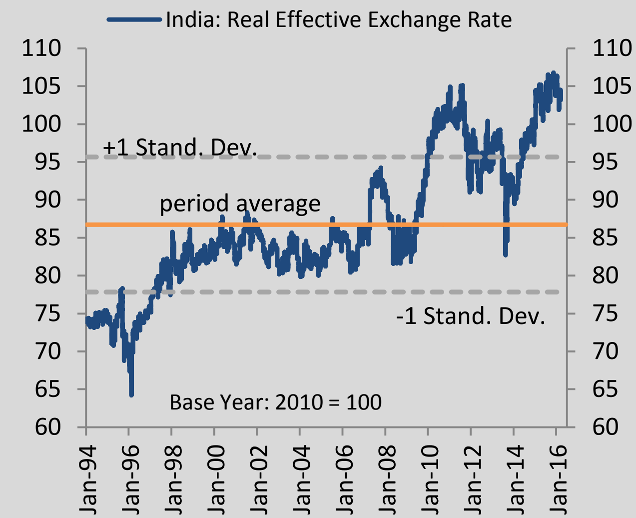


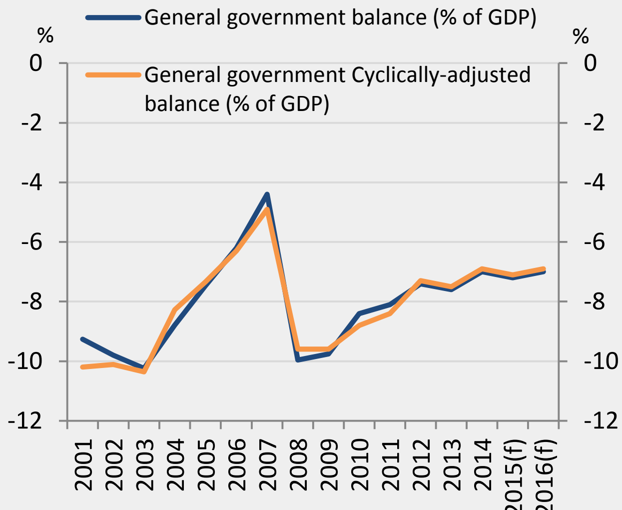
Source: World Bank (annual data, as of 2014 for Labor Force Participation Rate, 2013 for Employment to Population Rate)

The trade deficit has improved substantially lately, with exports showing signs of stabilization

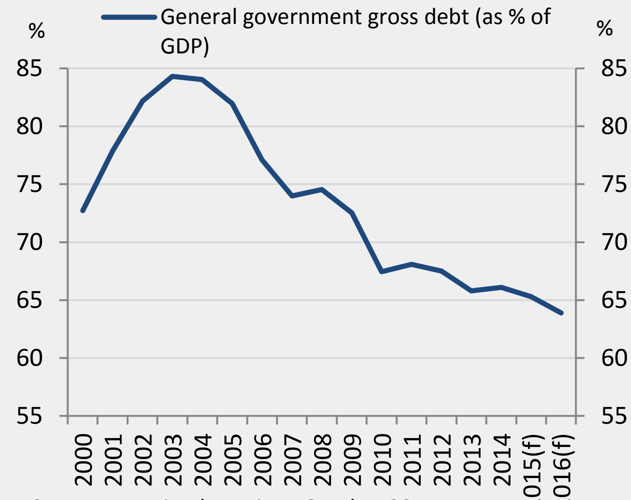






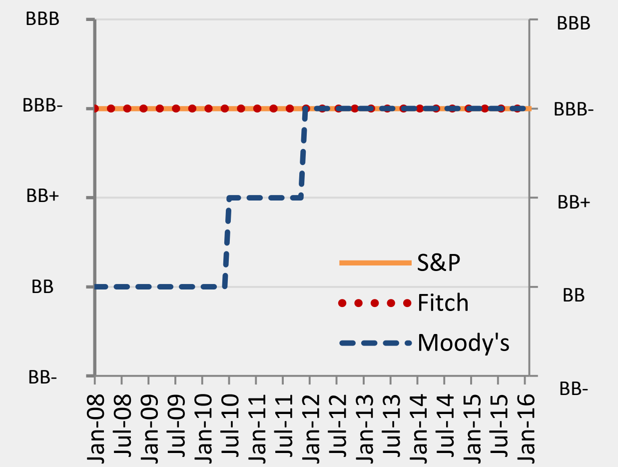


Source: IMF Fiscal Monitor, October 2015



Source: IMF Fiscal Monitor, October 2015

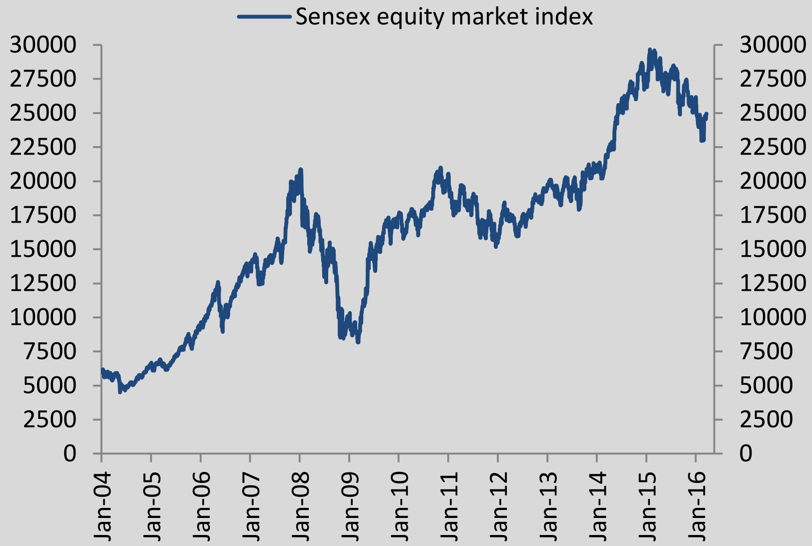
Sovereign Credit Ratings*

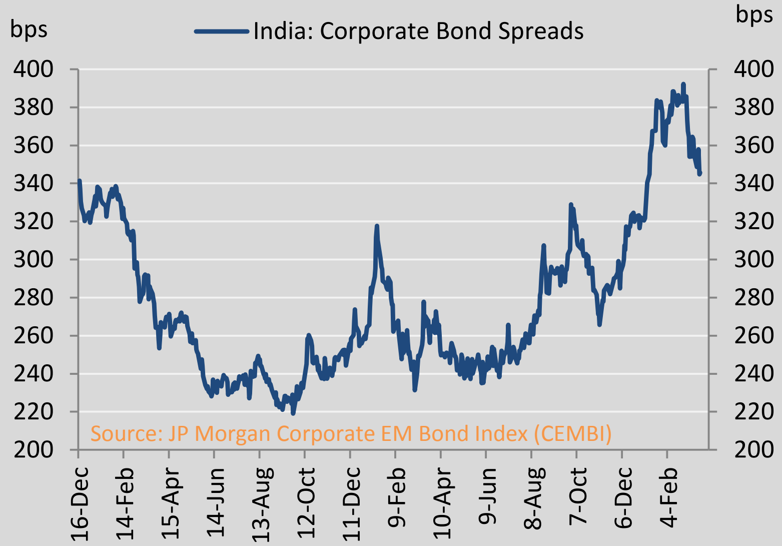


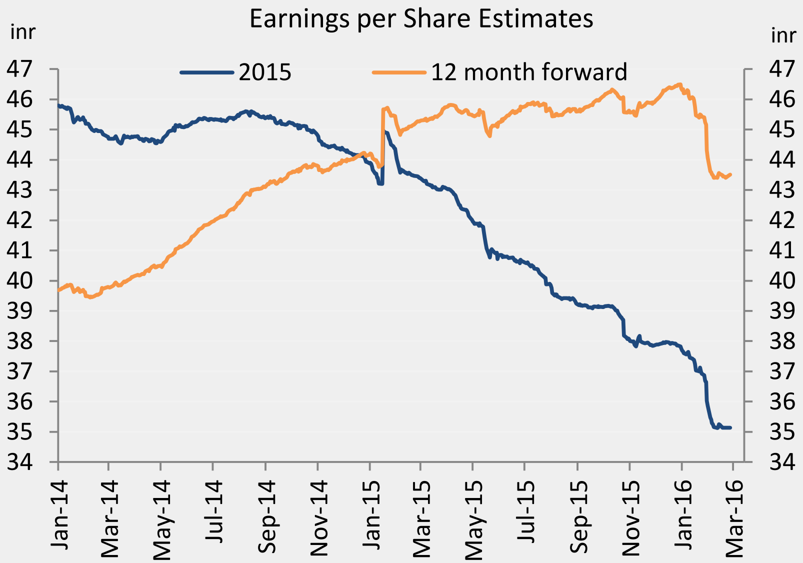
*in Local Currency

Equities continue to underperform their EM peers (-4.5%), with 12-month forward EPS declining significantly year-to-date

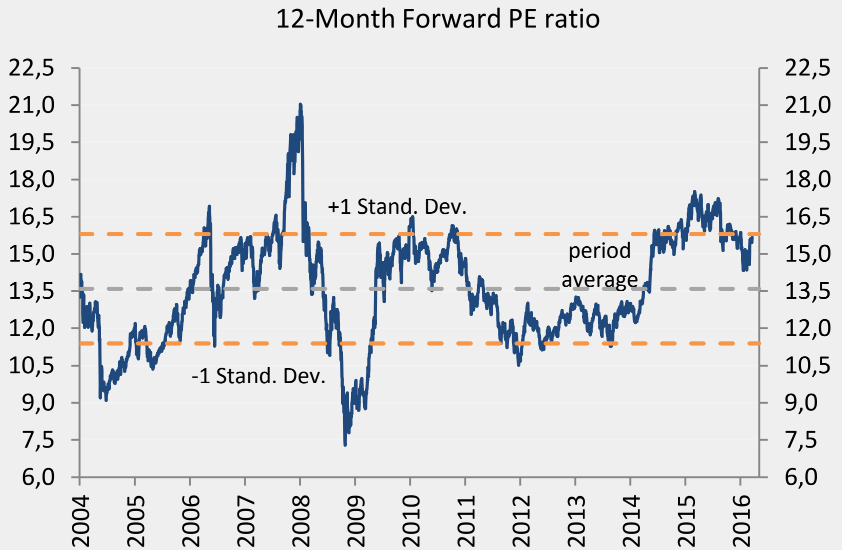
India





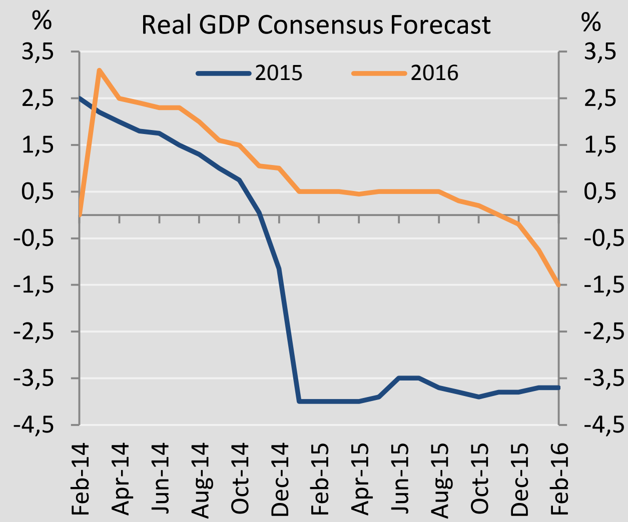


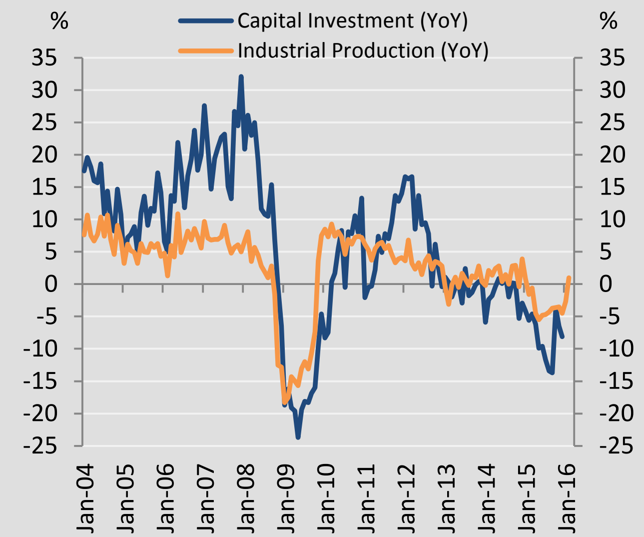
Source: Factset

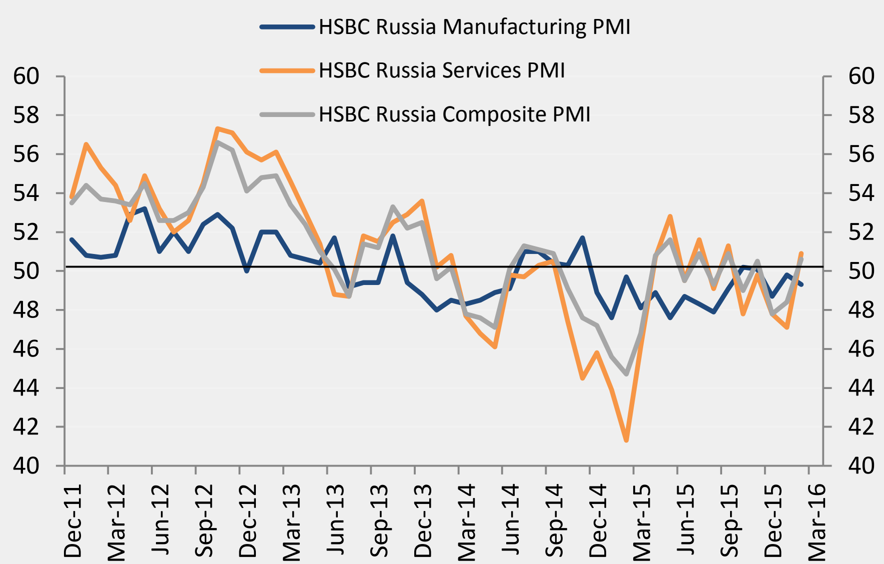


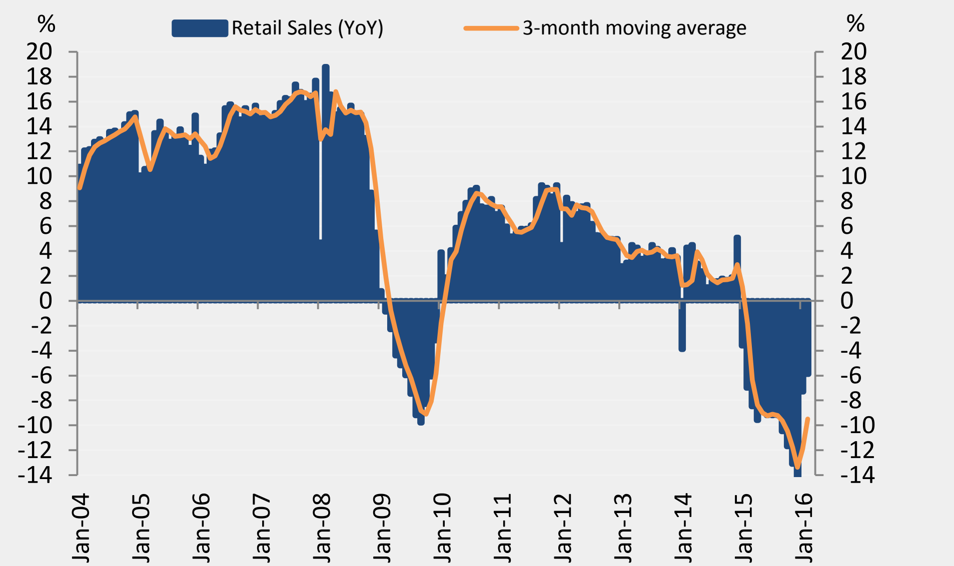
Source: Factset

Russia: The recession is showing signs of bottoming out, with 2016 real GDP expected at -1.5% from -3.7% in 2015

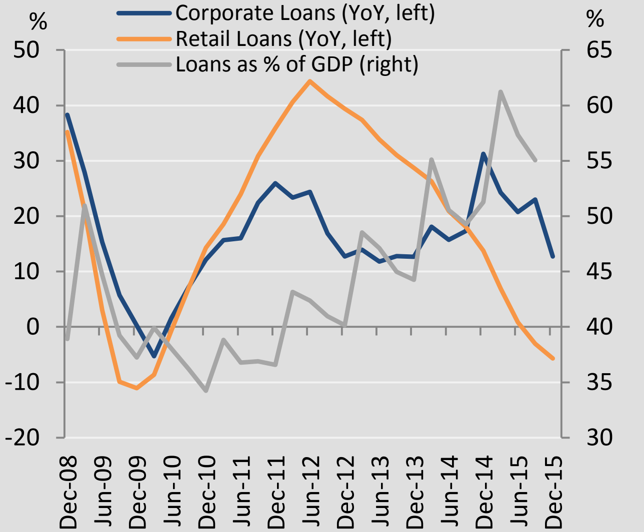


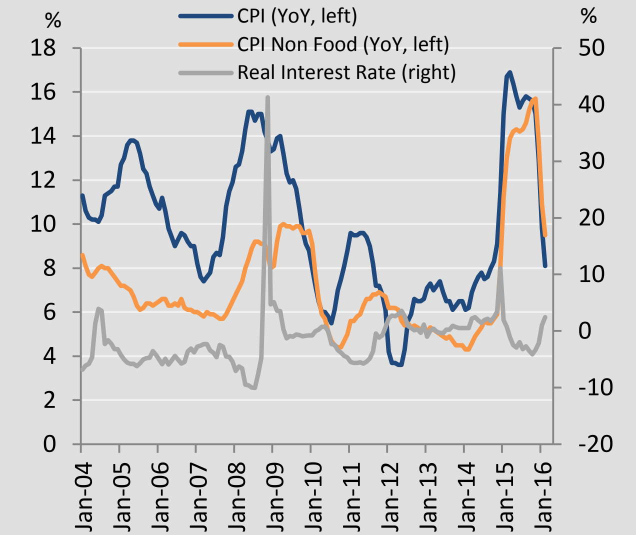


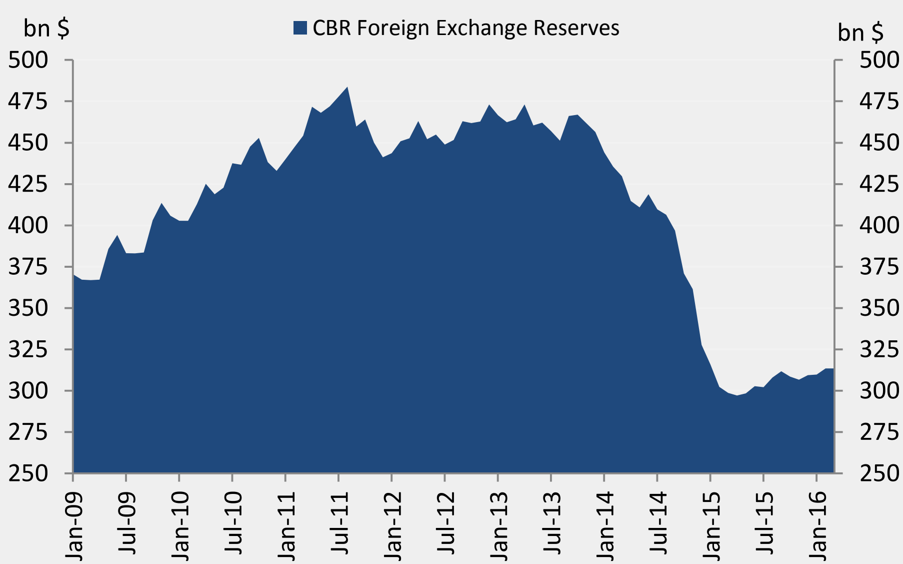


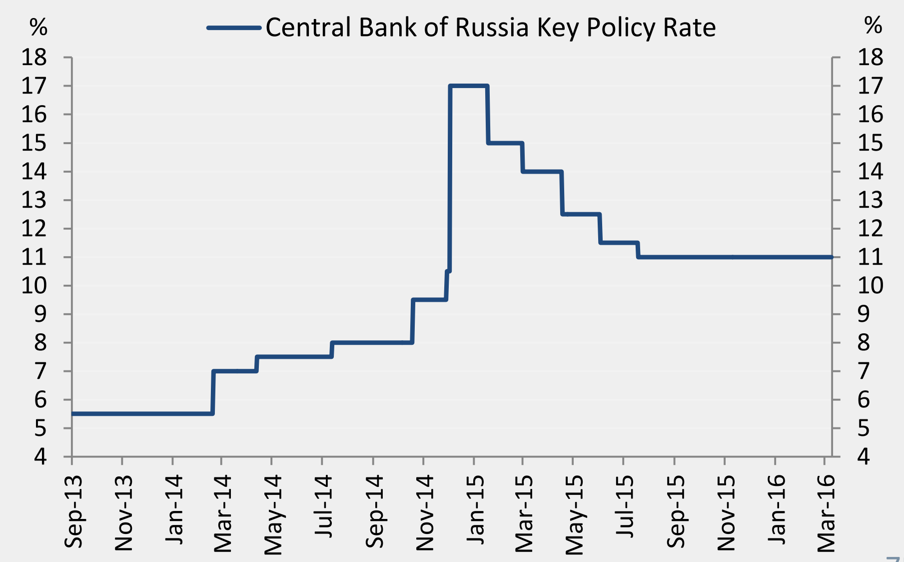


Inflation has declined substantially in the past four months (8.1% in February vs 15.6% in October 2015)



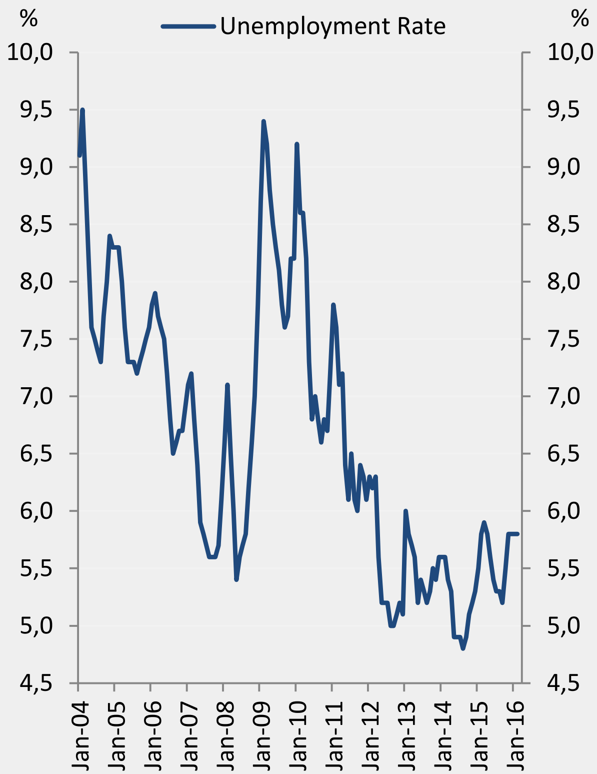




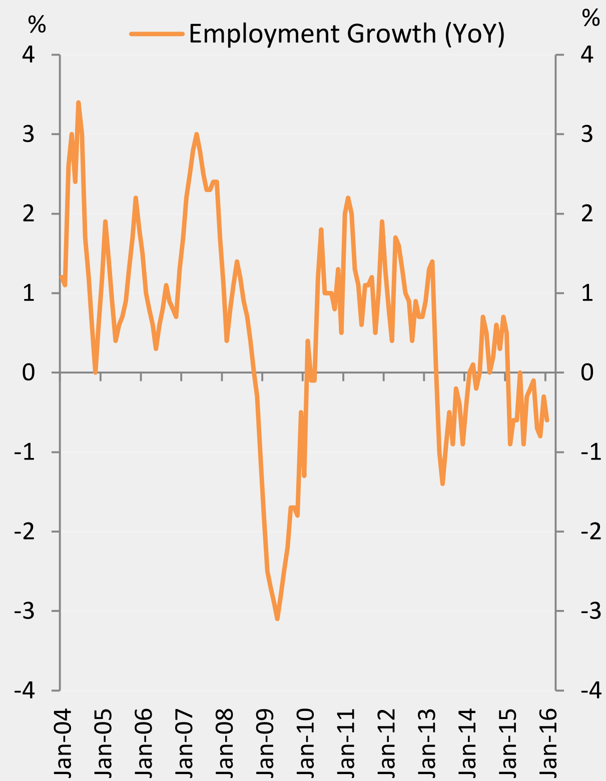


The unemployment rate has remained range-bound at 5.5%-6.0% in the past 3 months

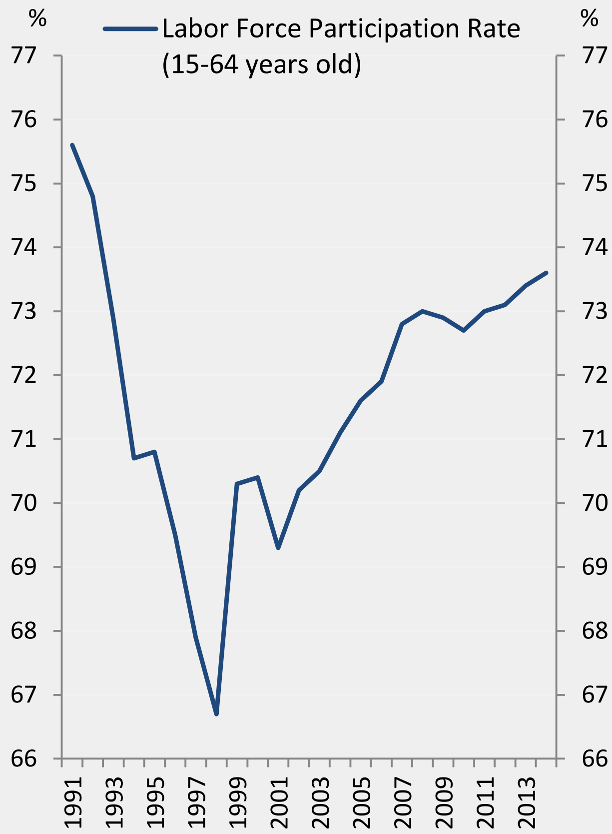
Russia



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

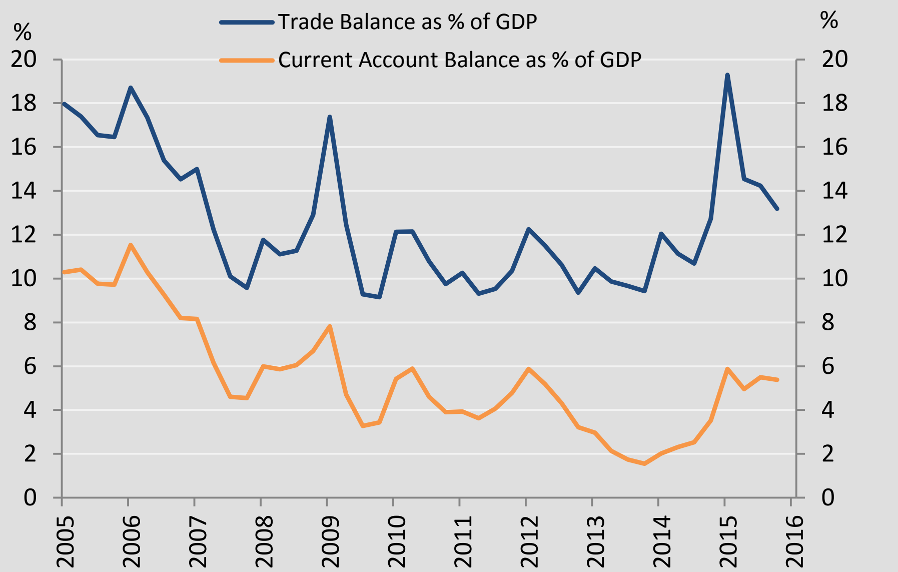


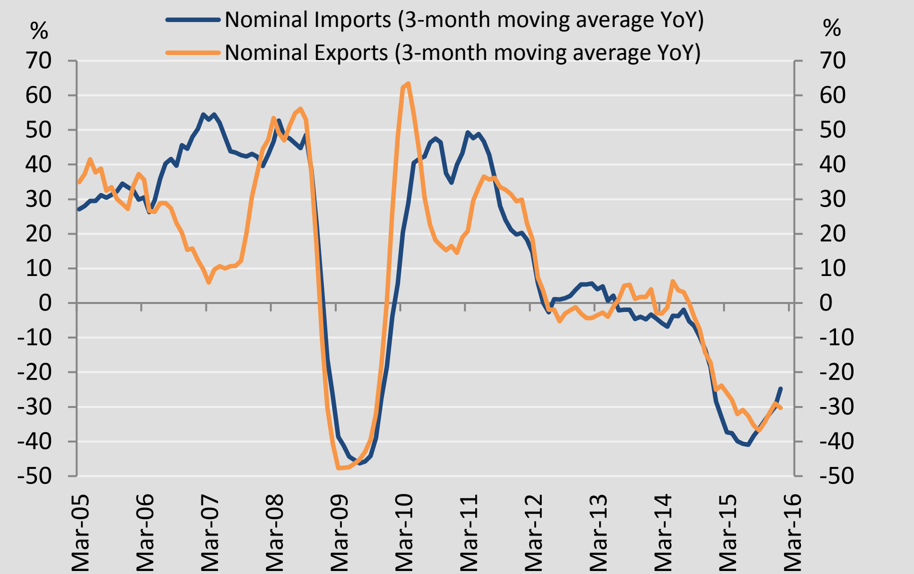
Source: Federal State Statistics Service, Bloomberg (monthly data as of January 2016)

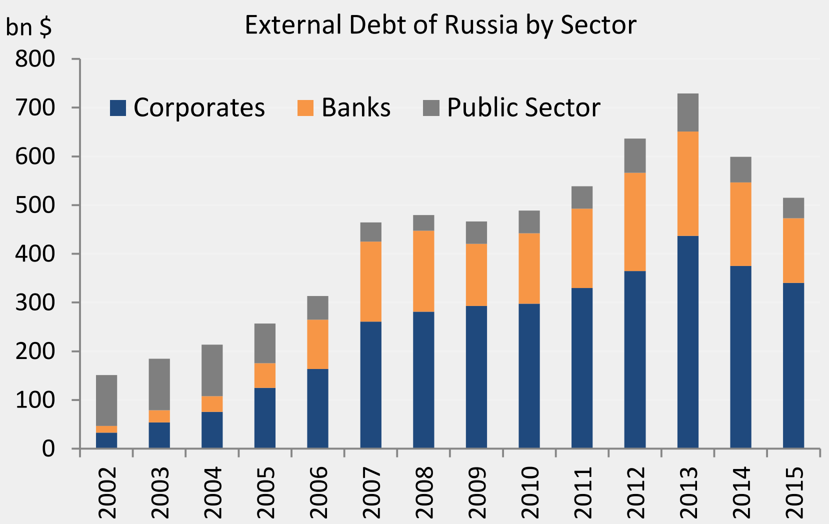


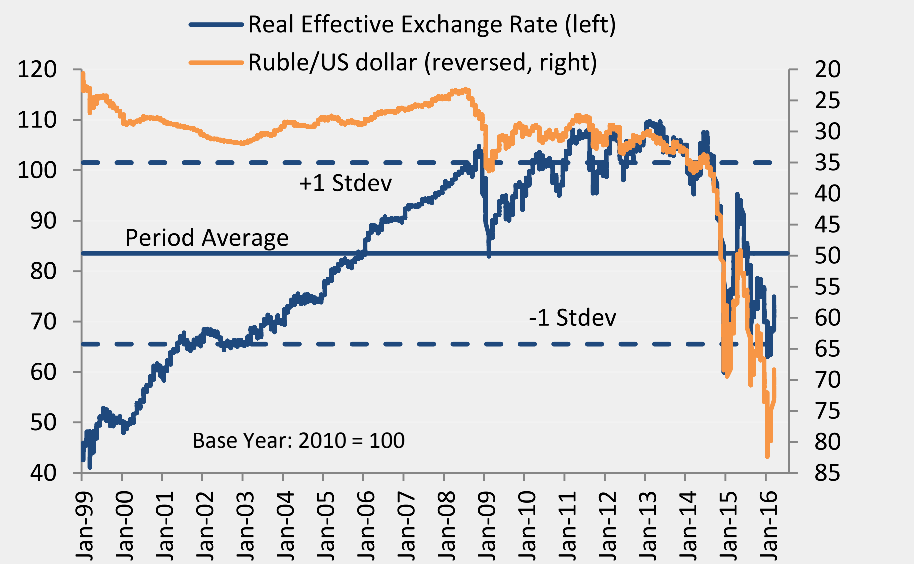
Source: World Bank (annual data, as of 2014)

The RBL has reversed course since mid-January (+19% in REER terms), in tandem with the rebound in oil prices (+44% for Brent)





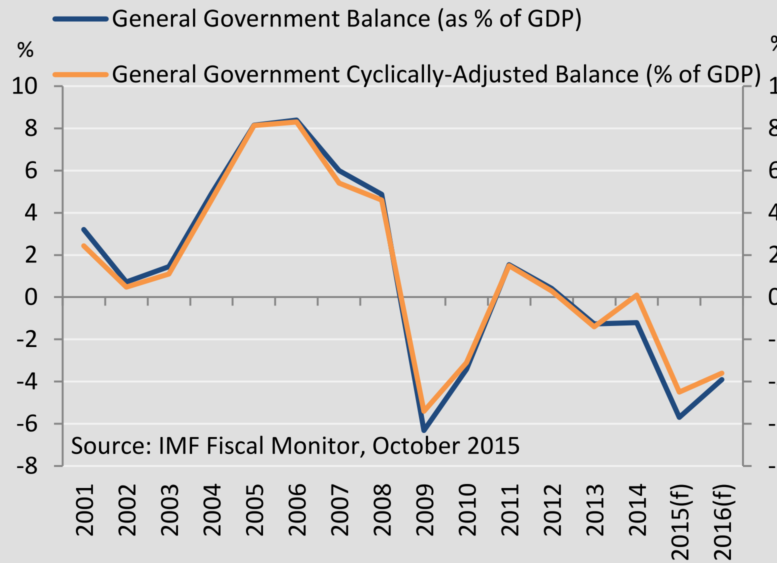


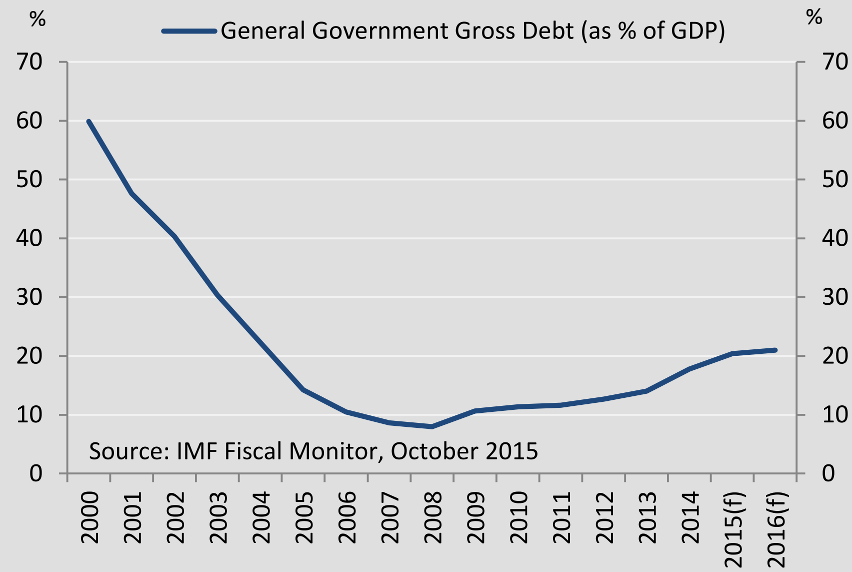


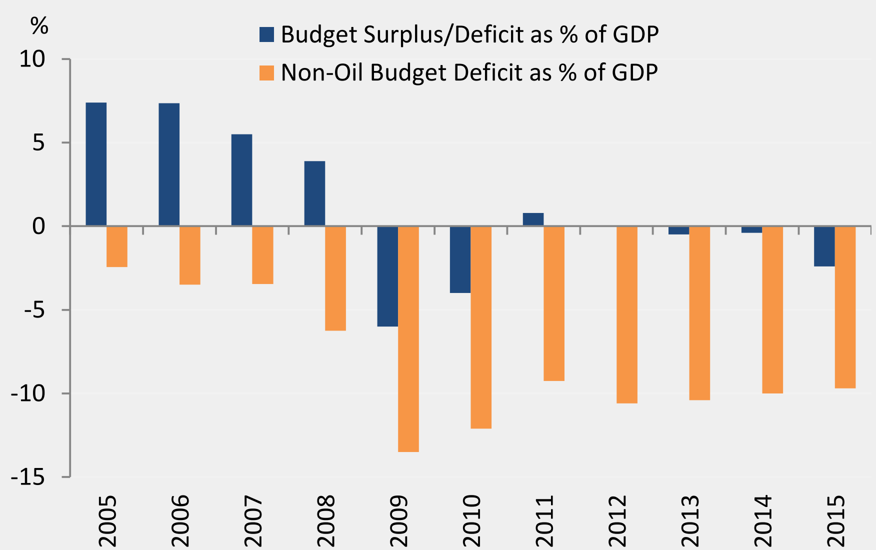
Source: Central Bank of the Russian Federation

The 2016 budget deficit target of 3% appears challenging (based on oil prices of $50/brl vs $40/brl currently)

Russia

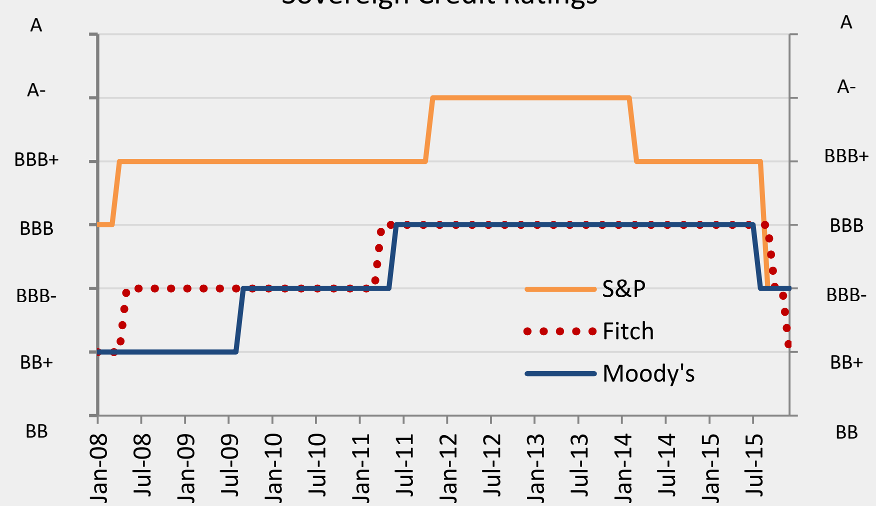






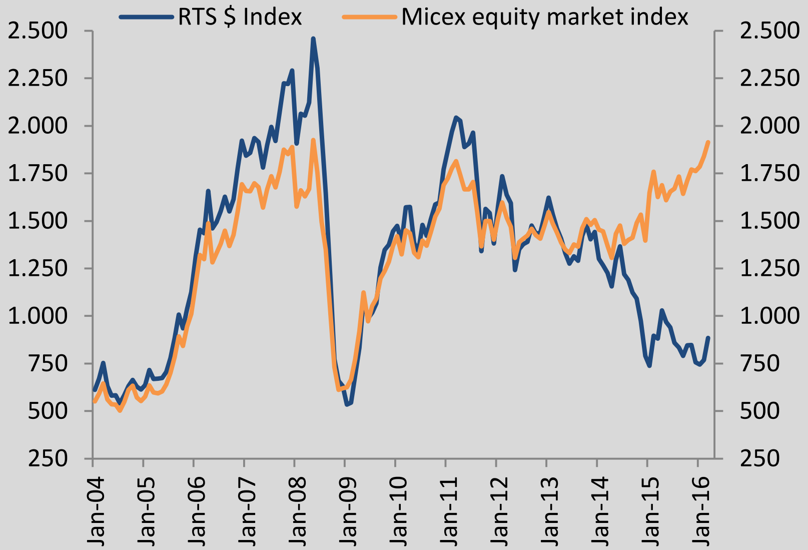
Source: Ministry of Finance of the Russian Federation

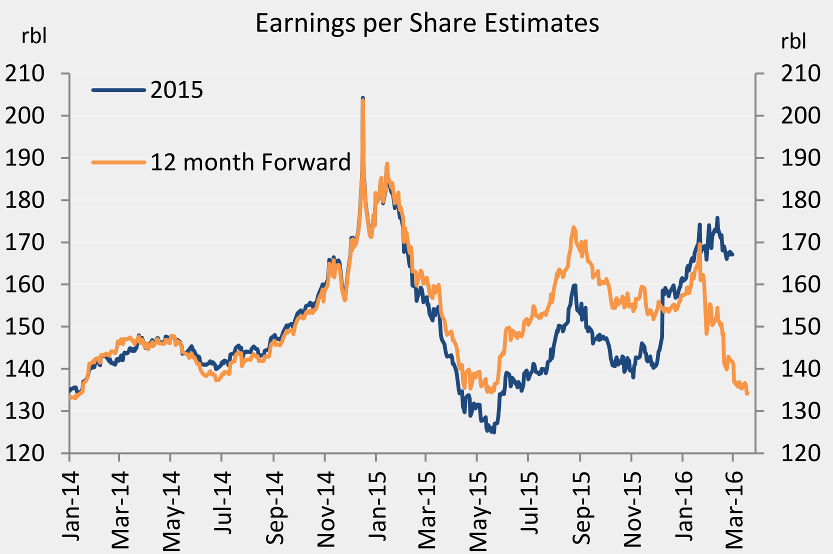
Sovereign Credit Ratings *



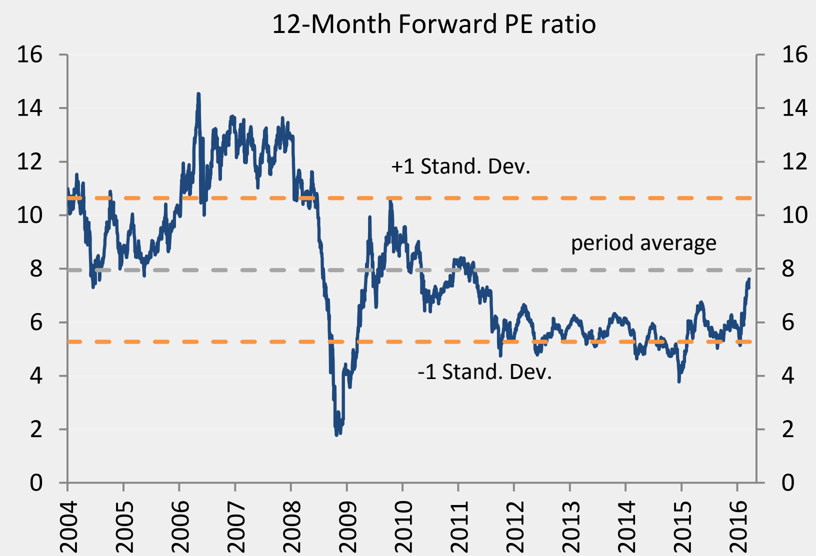
*in Local Currency

Russian equities have overperformed YTD their EM peers both in local currency (MSCI Russia: +10.5% vs MSCI EM:+2.2%) and USD terms (+16.9% vs +4.1%, respectively)





Source: Factset



Source: Factset

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