EC to Deliver 2015 Budget Assessments

Summary | Today's News in Detail | Latest Issues of Sovereign Debt Update | Macroeconomic Forecasts | Recent Research

28 November 2014

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With thanks to Ann O'Kelly

Economics
Western Europe
Industrialised G7 Countries

Summary

EU 2015 budget assessments: France, Italy and Belgium under the spotlight – European Commission assessments of 2015 draft budgets to be released on Friday will highlight France, Italy and Belgium for a second review of compliance, according to Reuters.

German FinMin Schäuble: countries must abide by EU budget rules.

ECB's Draghi on the need for risk-sharing or some form of mutualisation – warning that one of the implications of "*not having fiscal transfers is that EMU countries need to invest more in other mechanisms to share the cost of shocks*", arguing that "*some form of cross-country risk-sharing is essential to help reduce adjustment costs for those countries",* also highlighting the need for "*some form of backstop for sovereign debt*".

ECB's Financial Stability Review: EA systemic risk at lowest since 2007.

French and German economists present plan to counter EU *"stagnation."*

Euro Area data: ECB October money and credit data largely in line with expectations. **EA Sentiment survey** for November rises slightly, and is better than expected, but business selling price expectations fall.

Germany drops opposition to EU-Canada free trade deal.

German data: Retail sales rise 1.9% MM in Oct – more than expected. **Unemployment rate** falls to 6.6% in Nov – new cycle low and lowest level since late 1991. **Consumer price inflation** in Nov in line with expectations at 0.5% YY for the HICP definition and 0.6% YY for the national definition, in both cases 0.2pp lower than in Oct and the lowest levels since Feb 2010.

GfK consumer confidence rises by more than expected, to 8.7 in Dec from 8.5 in Nov.

French data: bad unemployment and consumer spending figures for October – +28.4k new registered jobless (+0.8% MM, +5.5% YY); consumer spending contracted by 0.9% MM, highlighting downside risks to Q4 GDP.

Italy criticises the EC's output gap calculations, noting "*moves in Europe to revise these measures, first at a technical level and then at the political level*".

Italy: business confidence rises in November, up to 96.3 in November from 96.1 in October, beating the 95.9 consensus forecast.

Spanish data: Real retail sales continue to fall in October, down by 0.8% MM, and after falling by 1.7% MM in September. **Economic sentiment** improves in November, up to 104.2pts from 103.3pts in October, highest level since Aug 08.

Portugal: Government to adjust 2015 budget if projections do not materialise, says PM Coelho. **Consumer confidence improves** in November.

Greek government sees significant progress in troika talks.

Recent Research

Global Economics View — Gold: a six thousand year-old bubble revisited

27 November 2014

Gold is a fiat commodity currency (with insignificant intrinsic value). Bitcoin is a fiat virtual peer-to-peer currency (without intrinsic value). Gold and Bitcoin are costly to produce and store. Gold as an asset is equivalent to shiny Bitcoin. Central bank fiat paper currency and fiat electronic currency are socially superior to gold and Bitcoin as currencies and assets. There is no economic or financial case for a central bank to hold any single commodity, even if this commodity had intrinsic value. Forbidding a central bank from ever selling any gold it owns reduces the value of those gold holdings to zero.

Willem Buiter

Euro Area — ECB's Constancio on QE and EU's Juncker on Investment Plan

Today's News in Detail

EU 2015 budget assessments: France, Italy and Belgium under the spotlight – The European Commission (EC)'s assessments of the 2015 draft budgets to be released on Friday will highlight France, Italy and Belgium for a second review of compliance, according to Reuters. EC President Jean-Claude Juncker was reported as saying that no final decisions on sanctions would be taken until March 2015 for governments to come up with concrete measures and clear timetables, not mere promises, to address their budget problems. Reuters quotes from the draft document saying that "*overall, the Commission is of the opinion that the Draft Budgetary Plan of France, which is currently under the corrective arm, is at risk of non-compliance with the provisions of the Stability and Growth Pact*". The document adds that "*The Commission will examine in early March 2015 its position vis-à-vis France's obligations under the Stability and Growth Pact in the light of the finalisation of the budget law and of the expected specification of the structural reform programme announced by the authorities*". The wording is for Italy and Belgium is reported to be the same, but the focus is on the pace of reduction of their public debt over the business cycle. French FinMin Michel Sapin spoke to Reuters on Thursday stressing that "*I can clearly say that for 2014 France will respect the conditions that allow us to be in line with the application of the rules. The advantage of March is that we won't be working with hypothesis but with real data*". Comment: it is unlikely that France, Italy or Belgium will face a fine for non-compliance, provided that the relevant adjustments are made in due course. Failure to deliver and a similar assessment in March would likely initiate the start of a formal disciplinary process, involving annual targets for budgetary adjustments, intense scrutiny and the risk of fines unless blocked by a majority of member states.

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German FinMin Schäuble: countries must abide by EU budget rules. Bloomberg reports that the German FM said *that "we know that some of our most important partners are in a tougher situation than we are at the moment and we know that we have a common responsibility."* Schäuble added that "*we all have to ensure that we stick to European rules and carry responsibility for improving growth."* Schäuble noted that there would be a meeting at the beginning of next week between the French and German Economy and Finance Ministers, where they would have *"intensive discussions"* on the issues of growth and budgets.

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ECB's Draghi on the need for risk-sharing or some form of mutualisation – ECB President Mario Draghi indicated in a speech on "*Stability and Prosperity in Monetary Union*" in Helsinki on Thursday that "*the lack of structural reforms raises the spectre of permanent economic divergence between members*", a situation that could ultimately "*threaten the essential cohesion of the Union*". Mr. Draghi warned that one of the implications of "*not having fiscal transfers is that EMU countries need to invest more in other mechanisms to share the cost of shocks*", arguing that "*some form of cross-country risk-sharing is essential to help reduce adjustment costs for those countries and prevent recessions from leaving deep and permanent scars*". He also highlighted the need for "*some form of backstop for sovereign debt*".

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ECB Financial Stability Review sees euro area systemic risk at the lowest level since 2007. Bloomberg reports that the ECB published its biannual Financial Stability Review and noted that Euro-area systemic risk is at the lowest level since 2007, but that *"the economic recovery nonetheless remains weak, fragile and uneven – and could potentially reinforce financial-stability risks, against a backdrop of a global search for yield."* The ECB noted *that "legacy issues that require balance-sheet repair with emerging risks in the form of*

26 November 2014

ECB to review effectiveness of policy decisions in Q1 15 — We expect the GC's statement on Dec 4 to convey a more dovish stance than on Nov 6. Arguments in favour of QE — Mr. Constancio listed five main arguments to justify using non-standard measures. Debunking the QE ineffectiveness myth — why QE would still be effective despite already low sovereign yields securities. European Fund for Strategic Investment (EFSI) — 15x leveraged, worth 2% of EU GDP over the next three years, split between long-term projects (€240bn) and SMEs & mid-caps (€75bn).

Guillaume Menuet

UK — GDP Details

26 November 2014

Real consumer spending rose by 0.8% QQ, the strongest quarter for four years. Overall investment spending grew 1.0% QQ in Q3, and this is the eighth consecutive quarter in which the QQ gain in investment has exceeded the gain in consumer spending, the longest such run since the mid-1960s. But, within the overall investment figures, business investment fell 0.7% QQ after strong gains in prior four quarters. Profits remain buoyant, rising 3.6% QQ and 9.2% YY in Q3, but the share of wages in GDP (ie compensation of employees divided by nominal GDP) fell to 56.9% in Q3 from 58.6% a year earlier, and this ratio is now the lowest since Q1-98. While the number of people in work is at a record high, the share of GDP going to wages and salaries is close to a record low.

Michael Saunders

UK — YouGov Reports Further Drop in Inflation Expectations

25 November 2014

The median for inflation expectations in the year ahead fell to 1.8% in November from 1.9% in September and October, having been at 2.3% in August. The latest figure is the lowest since a matching 1.8% figure in August 2009, and there has not been a lower figure since May-09. The median for inflation expectations over the longer term (next 5-10 years) edged down to 2.8% YY in

continued global search for yield leads to three key risks to financial stability over the next 1 1/2 years that could reinforce each other, if triggered." The ECB noted as one of the key risks an *"abrupt reversal of the global search for yield, amplified by pockets of illiquidity, with signs of a growing use of leverage in the non-bank financial sector"*, which *"calls for continued efforts to improve the oversight of and the tools to deal with risks from shadow banking activities."* The second key risk highlighted by the ECB is the *"persistently sluggish bank profitability in a weak, fragile and uneven macroeconomic recovery",* while the third key risk is the *"re-emergence of debt sustainability concerns, set against low nominal growth and wavering policy determination for fiscal and structural reform."*

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French and German economists present plan to counter EU "stagnation." Reuters reports that two leading French and German economists proposed a package of reforms and investment initiatives on Thursday, commissioned by the French and German Economy Ministries. The economists (Henrik Enderlein of Germany's Hertie School of Governance and Jean Pisani-Ferry, head of the France Strategie government think-tank) said that *"the biggest danger we see right now is a period of window dressing where lip service is paid to grand projects and reforms, but no real steps are taken,"* noting both countries face elections in 2017 and there was no time to lose. **For France**, the proposal calls for wage negotiations to cover a three-year period, as in Germany, rather than being annual; for companies in difficulty to have more scope to negotiate with unions on short-time working, pay and jobs; and to make the cost of layoffs more predictable and remove legal delays. It also said the unemployment insurance system was not working but it did not propose specific changes and noted that France should aim to bring public spending below 50 percent of gross domestic product from 56.5 percent in 2014, but set no deadline. It also recommended linking increases in France's minimum wage to productivity gains instead of the average wage rise. But the report fell short of embracing more radical ideas such as scrapping the 35-hour work week or cutting unemployment benefits. **For Germany**, the authors said that the government should do more to promote full-time employment for women and prepare for a large inflow of migrants to staff factories and offices, noting *that "in contrast to France, where reforms are urgent and specific, the German reform needs are more fundamental in nature, requiring societal transformation and will likely need considerable time for implementation."* The report advocated a point system to attract skilled migrants and an automatic right to a work permit for anyone with a German higher education degree and recommended that the German government should have a rule obliging it to adopt a consistent balance-sheet approach to public finances with a minimum threshold for investments. In addition, the German government should boost public investment by €24bn in the next three years – more than twice the government's planned figure – and create a "German Future Fund" of federal, state and municipal authorities to drive public-private partnerships in energy, digital and transport projects. The report also suggested setting a price corridor for carbon, with minimum and maximum levels, to fix the EU's broken emissions trading system and create incentives to accelerate the transition to renewable energy sources by replacing old plant. However, it is worth noting that the French Economy Minister distanced himself in advance from the findings, stressing it was not a government reform plan and the proposals were not binding.

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ECB – October money and credit data largely in line with expectations. ECB data on money and credit flows for October show that the rate of contraction of bank loans to the Eurozone private sector (adjusted for sales and securitisations) continues to moderate, to -0.5% YY from -0.6% YY in September, leaving the August-October average at -0.7% YY. Growth in M3 and M1 was unchanged from September at 2.3% YY and 6.2% YY, which is slightly below consensus and

November from 2.9% in October. The latest figure matches the record lows recorded in March this year, and also in Dec-08/Jan-09. Lower inflation expectations coupled with signs of stronger wage growth is likely to translate into improving expectations for household real income growth. Nevertheless, these results, and the likelihood that weakness in food and energy will pull headline CPI inflation lower still in coming months, are likely to further encourage the MPC to pursue a "low for longer" policy in monetary policy.

Michael Saunders

Euro Area — Dovish Draghi stresses need for aggressive B/S expansion

21 November 2014

Draghi strengthens the case for additional action. We also note a much stronger emphasis on direct purchases than on TLTROs. The ECB cannot be complacent about low core inflation. Growing concerns about the firm anchoring of inflation expectations. The greater the purchases, the greater the displacement of assets. Pace matters: room to adjust flow of purchases to raise inflation expectations.

Guillaume Menuet

Euro Economics Weekly — Spain: Improving Economy, Politics The Main Risk

21 November 2014

We expect real GDP growth in Spain to outperform other major EA countries in 2015-17. Domestic demand will benefit from more supportive fiscal policy as well as more accommodative financial conditions. In addition, a weaker currency coupled with some further competitiveness gains from recent structural reforms is likely to boost exports. The main risks are politics, with a reasonable probability that next year's national elections could produce a fragmented political environment. This could lead to a scenario of political inaction, in terms of structural reform and fiscal consolidation, further capping potential economic growth in Spain in the medium-term. Separatist pressures are likely to persist with Catalonia,

our expectations. Comment: these data show a continued moderation in the rate of contraction in bank credit flows to the private sector. However, there is no sign yet that the ECB Comprehensive Assessment already provided an identifiable boost to private sector credit availability. For more discussion of EA credit developments, see Euro Economics Weekly of 31 October 2014: ***Credit And The Eurozone Malaise***.

Eurozone Sentiment survey for November rises slightly, and is better than expected, but business selling price expectations fall. The European Commission's Economic Sentiment Index (ESI) for the Eurozone rose slightly in November, compared to consensus and our expectations of a very small decline. The ESI rose by 0.1pt to 100.8 (leaving it in line with its long-term average), its 2nd consecutive monthly gain (Citi and Consensus: 100.3). Industrial Confidence was up 0.8pt to -4.3 (0.2std above LT average), consumer confidence fell by 0.5pt to -11.6 (still 0.1 above LT average), Services Confidence was unchanged at 4.4 (-0.3 std below LT average), and the Business Climate index rose 0.13pt from 0.05. By country, the ESI rose in France (up 1.5pt to 98.1) and Spain (up 0.9 to 104.2), while it fell in Germany (down 0.7 to 103.7) and Italy (down 1.5 to 95.9). Consumer price expectations were stable for the Eurozone at 5.3 (1.4 std below LT average) whereas businesses' selling price expectations fell by 1.2pt to -1.5 (now 1std below LT average). Comment: the level of the ESI in the Oct-Nov average is consistent with GDP growth of 0.3% QQ in Q3, based on historical correlations.

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Germany drops opposition to EU-Canada free trade deal. The *Financial Times* reports that the German government has dropped its opposition to the planned EU-Canada free trade agreement. German Economy Minister Gabriel told the Bundestag on Thursday that it would not be possible to drop the controversial investor-state dispute settlement (ISDS) clauses from the agreement, but that blocking the agreement by Germany alone on this issue would be *"a disaster"* for Germany as an exporting nation. A spokesman for his ministry reiterated that the German government does not think that these special arbitration rules are necessary between states with reliable jurisdictions and stressed that even though these rules could not be eliminated from the planned agreement, *"there are a number of points where improvements can be made."* Comment: in our view these rules are an even more controversial element in the case of the Transatlantic Trade and Investment Partnership (TTIP) between the EU and the US. It remains to be seen if the German position on ISDS will be similarly flexible for the TTIP, which would raise the probability of agreement over the next 1-2 years, even though it is only one of a number of remaining sticking points.

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Germany: retail sales rise by more than expected in October. German retail sales (excluding car sales) rose by 1.9% MM in October, compared to consensus expectations of a 1.5% MM rise and leaving YY% growth at 1.8%. The level of retail sales in October is 0.4% above the Q3 average. Comment: Private consumption grew by more than expected in Q3 (almost 3% annualized); even though retail sales actually fell (by 0.4% QQ). Solid growth in retail sales would therefore allow private consumption to grow even if the parts of private consumption that are not captured in retail sales data (e.g. car sales) are somewhat weaker than in Q3.

Germany unemployment rate falls to 6.6%. The number of German unemployed fell by 14K in November (seasonally-adjusted), while consensus had expected only a 1K fall. The unemployment rate fell to a new cycle low of 6.6%, from 6.7% in October, the lowest level since late 1991.

German consumer price inflation in line with expectations. The German National Statistics Office reported that the German flash CPI for November came

although independence remains unlikely in our view.

Antonio Montilla | Tina M Fordham | Guillaume Menuet | Ebrahim Rahbari | Michael Saunders

UK — Fiscal Data Suggest Sizeable Deficit Overshoot Likely

21 November 2014

The fiscal deficit (ex-banks) was £7.7bn in October, marginally down from £7.9bn a year ago. Nevertheless, the deficit for the first seven months of the fiscal year is up by £3.7bn from a year earlier, whereas the OBR's Budget forecasts imply that the deficit will fall by £10.9bn over the current fiscal year as a whole. The deterioration would be greater but for a drop in the UK's contributions to the EU, which have totaled £6.1bn in April-October this year compared to £7.9bn in the same months a year earlier. We expect the deficit to overshoot the OBR's forecast by about £13bn over the full year, hence totaling roughly £100bn and slightly up from last year's outturn.

Michael Saunders

UK Economics Weekly — How Likely is Brexit? What Would the Effects Be?

21 November 2014

With UKIP winning another by-election - and having topped the midyear EU Parliament election - we consider the issues involved, and possible consequences if Brexit does occur. We believe that Brexit is unlikely but not impossible in the next five years. First, there probably will only be an EU referendum if there is a Conservative-led government after the 2015 election (for which we put the probability at below 50%). Second, if there is a referendum, it probably will occur against the background of strong support from most UK political parties and major businesses for the UK to stay in the EU. Third, the recent rise in support for UKIP has not gone alongside a rise in support for EU exit. However, perhaps uniquely among EU countries, the possibility of EU exit is not implausible for the UK.

Michael Saunders | Tina M Fordham | Ann O'Kelly

in line with consensus expectations at 0.5% YY for the HICP definition and 0.6% YY for the national definition, in both cases 0.2pp lower than in October and the lowest levels since February 2010, highlighting that even in Germany, inflation is far below the ECB's target.

German GfK consumer confidence rose by more than expected, to 8.7 for the December reading from 8.5 in November (consensus: 8.6).

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French data: bad unemployment and consumer spending figures for October – the total number of French registered unemployed hit a new record in October, rising by 28.4k, exceeding the 15k consensus forecast. The 0.8% MM gain was the largest monthly increase since February and meant that the total number of registered jobless was up by almost 180k (5.5% YY) on a 12-month rolling basis. Separately, **consumer spending** contracted by 0.9% MM (Mkt. +0.3%, Citi +0.4%) in October after a downwardly revised 0.5% MM drop (0.8% prev.) in September. This low entry point for the fourth quarter highlights downside risks to our baseline of a mild contribution from household expenditure to GDP growth in Q4. Comment: these poor unemployment figures highlight the need for additional labour market reforms, in our view. Many of the proposals made by various economic advisors to the French government such as introducing more flexibility in the labour market and/or moving to a multi-year wage negotiation structure between social partners would likely improve firms' competitiveness, help boost business confidence and generate more employment.

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Italy: criticism of the EU's output gap calculations – Italian Economy Minister Pier Carlo Padoan said on Thursday speaking before the Italian parliament that "after three years of prolonged recession, the measures taken from a statistical method that belongs to the past should be revised", criticizing the methodology used by the European Commission. He noted that there was growing awareness among euro zone finance ministers that calculations of the output gap needed to be overhauled, according to Reuters. He suggested that "there are moves in Europe to revise these measures, first at a technical level and then at the political level". Mr. Padoan had indicated earlier in November that the Italian Treasury's estimate of the output gap was 3.5% of GDP in 2014 compared to the OECD's 5.1%.

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Italy: business confidence rises in November, beating expectations – Italian business confidence rose to 96.3 in November from 96.1 in October, beating the 95.9 consensus forecast, and marking the second consecutive month with a MM increase. However, data also showed the economic sentiment measure falling to 87.7 in November from 89.1 in October, due to a decline in the construction sector confidence indicator (-3.3pts to 74) and in the services sector confidence indicator (-0.5pts to 88.7), while there was an increase of 3.4pts in the retail sector to 97.6.

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Spain – Real retail sales continue to fall in October, down by 0.8% MM, and after falling by 1.7% MM in September, INE data showed this morning. On a yearly basis, retail sales (WDA) rose by 1% YY, after an increase of 0.8% YY in September, affected by base effects. According to the press release, the decline in October was mainly accounted for by household equipment (-1.2% MM), personal equipment (-1% MM), and service stations (-0.9% MM). Comment: the MM decline in retail sales in Oct likely continued to reflect a payback after the strong reading in August (+2.4% MM, largest MM increase since Aug 2012).

Spain: Economic sentiment improves in November, up to 104.2pts from 103.3pts in October, highest level since Aug 2008, and standing 0.4SD above its

Scandi Economics Update — Norges Bank's Regional Network Report on the Agenda

28 November 2014

Sweden — We look for a 0.2% QQ gain in 3Q GDP (out at 8.30 UK time), but acknowledge that an expected large negative contribution from net exports adds slight downside risk to our forecast (parts of the expected strong gain in imports are explained by higher inventories).

Sweden — Government will seek broad agreement on private debt measures.

Norway — The Regional Network Report provides a very important input ahead of Norges Bank's upcoming monetary policy meeting on 11 December. In today's report, we expect sectors exposed to downshifting oil investments will report expectations of a further deterioration ahead, but key to watch is whether this is also spilling over to other sectors (out at 9.00 UK time).

Denmark — Today at 8.00 UK time, Statistics Denmark publishes GDP for 3Q. The consensus looks for a 0.1% QQ decline, after a 0.2% QQ gain in the previous quarter.

Tina Mortensen

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long-term average. Separately, the Ministry of Industry, Energy and Tourism, reported yesterday that the business confidence indicator rose to -5.2 in November from -6.8 in October, the highest level since Jan 2012. Comment: the still buoyant survey data in Oct-Nov suggest that Q4 real GDP growth is likely to be around 0.4%-0.5% QQ, after 0.5% QQ in Q3.

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Portugal: Government to adjust 2015 budget if projections do not materialise, PM Coelho says. *Daily Diario Economico* reports PM Passos Coelho noting that the government is ready to provide additional fiscal consolidation measures in case the macroeconomic projections for next year do not materialise. Mr Coelho did not specify whether the additional measures will take place through tax hikes or spending reductions. Mr. Coelho however highlighted that he is convinced the current macroeconomic projections for 2015 (i.e. real GDP growth of 1.5%) will prove to be accurate.

Portugal: consumer confidence improves in November – rising to -21.4 from -22.2 in October and -23.2 in September, and standing 0.6sd above its long-term average (highest since Apr 2002), INE data showed. In particular, consumers' assessment of the current situation improved from -24.3 in October to -24.1 in November, while consumers' expectations about their financial situation fell by 3.2pp to -14.1. In addition, INE reported the economic climate indicator falling to 0.5 from 0.7 in October, following 22 consecutive months of improvement.

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Greek government sees significant progress in troika talks. Bloomberg reports that Greek Finance Minister Hardouvelis said that the Greek government and the troika made *"significant progress"* in their talks over the current review of Greece's bailout programme. Hardouvelis said that the two sides had reached an agreement on a series of issues with its creditors, and were now working on solving the pending issues. Hardouvelis stressed that Greece is now leaving behind its difficulties, and taking steps for *"a new course",* for which political stability and the continuation of reforms are *"critical"*. Hardouvelis added that investments are *"key"* for a return to growth. Meanwhile, European Commission spokeswoman Andreeva said that the troika's aim is to conclude the current review and that *"we discussed things in a constructive and intensive manner on the key sector where reforms are to be expected within the framework of the review…and we will continue that dialogue,"* adding that *"I can't be any more specific than that on the timeframe and I'm not going to speculate now on any potential or possible extensions because the aim here is to conclude this here and now."*

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Latest Issues of Sovereign Debt Update

EC's Juncker Unveils EU Investment Plan

27 November 2014

Details of EC's European Fund for Strategic Investments (EFSI). ECB: Constancio says ECB to review policy decisions in 1Q15, Jazbec says too much pressure put on credit revival. Merkel supports EFSI, Italian FinMin says EFSI decisive. Italy's Confindustria warns that Italy's 4Q GDP could be flat, consumer confidence falls. Spain's 3Q GDP growth confirmed at 0.5% QQ, recovery continues in 4Q says BoS. New poll shows rising support for Spain's Podemos party. Greece: no agreement with Troika.

Antonio Montilla | Guillaume Menuet | Ebrahim Rahbari

ECB's Linde: December Data Key for Further Stimulus

26 November 2014

ECB's Linde stresses importance of December data. OECD calls for ECB

stimulus to counter deflation risk. Merkel warns of recession threat in Europe. France: Macron on budget reduction strategy, Sapin says no hike in minimum wage. French household confidence rises. Italy's Lower House adopts the Jobs Act. Spain: Catalan Premier Mas proposes early regional election as referendum. Spain's state budget deficit narrows. Portugal: budget deficit improves. OECD raises forecast for Greek growth.

Antonio Montilla | Guillaume Menuet | Ebrahim Rahbari

ECB Manages Expectations Ahead of Dec 4 Meeting

25 November 2014

ECB: Coeuré watching inflation, Nowotny favours steady-hand policy, Noyer says balance sheet signals mean no quantitative limit to further policy easing. BuBa's Weidmann: high legal hurdles to ECB sovereign bond purchases. EC verdict on 2015 budgets on Friday. EU Fund for Strategic Investment to EP tomorrow. German 3Q GDP details show stronger private consumption. Italy's Lower House set to approve labour reform. Spain: car production rises. Greece can find solution with IMF, says Venizelos.

Guillaume Menuet | Ebrahim Rahbari | Antonio Montilla

ECB's Constancio: Measures To Be Reviewed In Q1

24 November 2014

ECB's Constancio says measures to be reviewed in 1Q. Germany and France: joint reform plans. EU Investment initiative. Merkel urges more reform in EA economies, Schäuble says Treaty changes needed. Germany's ifo business climate rises in Nov. French 35-hour week will not be reviewed says Socialist Party head. Upcoming EC decisions on French and Italian 2015 budgets. Spain: Poll shows Podemos ahead of ruling PP. Spanish prosecutors indict Catalan Premier Mas. Portugal: unemployment falls.

Ebrahim Rahbari | Guillaume Menuet | Antonio Montilla

Draghi Highlights Need to Act Fast, Pushes for QE

21 November 2014

ECB's Draghi: Essential to bring inflation to target without delay. ECB's Praet: Premature to talk about govt bond buying. ECB's ABS programme to start soon, but probably not big enough. EA consumer confidence falls. German tax revenues rise. France's Macron says 35-hr week should not be put on pedestal. EC to ask France to do more in exchange for 2yr extension to fiscal targets. Italy's industrial orders fall. Portugal's current account improves. Greece: disagreements remain over 2015 budget.

Guillaume Menuet | Ebrahim Rahbari | Antonio Montilla

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Macroeconomic Forecasts

Foreign Exchange Forecasts — EUR/USD Parity Breach – November 2014

21 November 2014

The multi-year USD rally looks set to have legs as divergence in economic performance and monetary policies continues. We see 10-20% more USD upside vs. G10 currencies over the next couple of years. EUR/USD should find support in the low 1.20s short term but cut through, like a hot knife in butter, medium to long term. We expect parity to be approached and maybe breached over two years. BoJ QE acceleration announced on 31 October surprised the market and pushed USD/JPY sharply higher. We may get near term consolidation sometime given how overbought the USD is. But portfolio rebalancing and ongoing money

base expansion should push USD/JPY towards 125-135 longer term. EM currencies are likely more protected by carry and lack of local quantitative easing. We expect USD gains of 5-6% vs. EM over 6-12m.

Jeremy Hale

European Economic Forecast Highlights, October 2014

30 October 2014

This companion to the October issue of Global Economic Outlook and Strategy gives more detailed forecasts for the main European countries to 1Q16. Figures 20-21 give annual forecasts to 2018 for growth, inflation, current balance, fiscal balance, primary balance and government debt. New this month: forecasts for annual unemployment to 2018. We also show our forecasts in comparison with those of the IMF, OECD and EU Commission.

Ann O'Kelly | Michael Saunders | Guillaume Menuet | Ebrahim Rahbari | Tina Mortensen

Europe: Monthly Inflation Profiles for Selected Countries

30 October 2014

Updated monthly inflation forecasts for Euro Area, Germany, France, Italy, Spain, UK, Sweden and Switzerland.

Ann O'Kelly | Michael Saunders | Guillaume Menuet | Ebrahim Rahbari | Tina Mortensen

Global Economic Outlook and Strategy — October 2014

30 October 2014

This monthly publication contains Citi's updated forecasts and commentary for major economies, central bank policy and financial markets. We are cutting 0.1 percent from our global growth forecasts for both 2014 and 2015, which now sit at 2.7% and 3.2% respectively, with downgrades for the Euro area, UK, Korea, Mexico, Singapore, Turkey and Venezuela. We are cutting our 2015 global inflation forecast by 0.3 percentage points, the sharpest cut to our year-ahead inflation forecast since 2009. Inflation next year is likely to undershoot central bank forecasts in the US, Euro area, Japan and UK. The PBOC, ECB, BoJ and various EM central banks are likely to ease in coming months. We are scaling back our forecasts for BoE and BoC hiking in 2015, while the Fed has scope to defer the first hike beyond our base case (Sep-2015) if US growth disappoints. Please click on the link to read more.

Willem Buiter | Guillermo Mondino | Michael Saunders

Global Economic Forecasts — October 2014

31 October 2014

This file shows summary forecasts as published in Citi's Global Economic Outlook and Strategy

Michael Saunders

Emerging Markets Macro and Strategy Outlook — Commodities and EM: a quick tour

31 October 2014

‘Sellers lose and buyers win’; is that all that’s worth saying when commodity prices fall? Unfortunately there is a sense in which all EM ‘loses’ when commodities fall: EM is a ‘commodity-exporting asset class’. Recent developments in China have not been especially commodity-friendly, or EM-friendly. There is another way in which all EM ‘loses’ when commodity prices fall, especially when the dollar strengthens: weak commodity prices are associated with declining risk appetite. One consequence of this is that falling oil prices affect oil exporters and importers asymmetrically: oil exporters lose more than oil importers win But equally there is a way in which all EM ‘wins’ when commodity prices fall, and that is on the fight against inflation. Weaker oil prices are

unambiguously disinflationary, and we suspect that the market may be in for some downside inflation surprises if oil and other commodity prices stay weak in the coming month

Guillermo Mondino

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Appendix A-1

Analyst Certification

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