Catalan Consultation Shows 81% Support for Independence

10 November 2014

Ebrahim Rahbari
+44-20-7986-6522

Guillaume Menuet
+44-20-7986-1314

Antonio Montilla
+44-20-7986-3282

With thanks to Ann O'Kelly

Economics
Western Europe
Industrialised G7 Countries

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

Summary

Spain: Catalans vote in favour of independence, with 80.8% of voters supporting Catalonia to become an independent State (i.e. a 'Yes/Yes' vote), versus 14.6% against independence (i.e. a 'No' or 'Yes/No' vote). Turnout was 2.2m people, accounting for 35.9% of the resident population aged over 16.

Eurozone countries move closer to agreement on financial transactions tax, hope to find agreement in December.

IMF's Lagarde: supports ECB easing but says Germany could do more with its fiscal space.

ECB's Coeuré on inflation targeting: it is our absolute duty to do it.

QE: Bank of France governor Noyer indicated that central banks, including his own, should be prepared to buy public debt if needed to avert deflation or a run on sovereign bonds.

European Council President van Rompuy on EU's investment gap – and other matters.

ESM head Regling: ESM cannot be used for investment.

Greece: Eurozone countries insist on continued monitoring for follow-up programme.

Germany: pledged increases in 2016 investment spending may limit scope for spending by other ministries.

France: Q4 GDP estimated to be 0.1% QQ says BdF

Italy: Former PM Berlusconi claims PM Renzi wants early elections, says *La Stampa.*

Italy: Banks continue to increase central bank borrowing in October, by 2% MM to €177bn (or 4.4% of banks' assets).

Portugal – S&P confirms Portuguese BB rating with a stable outlook, although highlighting budget execution risks in 2015-16.

Today's News in Detail

Spain: Catalans vote in favour of independence. The consultation vote was based on two questions: *"Do you want Catalonia to become a State?"* and (among those who answer yes) *"Do you want this State to be independent?".* According to the latest data available (based on 96.8% of polling stations

Recent Research

Euro Economics Weekly — Door Open to QE, Favouring January over December

7 November 2014

Door to QE is now wide open, in our view. The ECB's General Council (GC) sent a clear dovish signal to investors about the importance of balance sheet targeting, highlighting a greater degree of urgency about the need to monitor the monetary policy stance and also asked staff to prepare additional policy measures in a timely manner. Not enough hawks on the GC to form a majority. We believe that the doves and the neutrals currently outnumber the hawks suggesting that the majority of GC members would favour additional policy action soon. More stimulus is coming, more likely in January. The GC might be ready to act in December, but we believe that it will probably need some time to review the supplementary measures. At the margin, we believe that January 22 is the most likely date for a QE announcement, depending on

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processed) 91.8% would like for Catalonia to become a State, while 87.9% of those answering yes to question 1 would also like the State to be independent. Overall, the results therefore implied 80.8% of support for independence (i.e. a 'Yes/Yes' vote), versus 14.6% against independence (i.e. a 'No' or 'Yes/No' vote), with 4.6% of blank or null votes. Turnout was 2,236,806 people, accounting for 35.9% of the population aged over 16 resident in Catalonia, according to figures by INE. Speaking in Barcelona after the preliminary results, Catalan Premier Artur Mas qualified the result as an outstanding success and demanded that a legally-binding referendum should take place. Separately, speaking in Madrid Justice Minister Rafael Catalá noted that results provided do not have any legal validity. Comment: the consultation vote does not hold any legal validity on the status of the Catalan region, as it has been deemed illegal by the Constitutional Court already three times during the year. Nevertheless, we expect the relatively high turnover to be used by the Catalan government to demand a legally-binding referendum to Madrid in the near future. In our view, it remains unlikely the central government will allow such a legally-binding referendum to take place, as it would require Constitutional reform. The failure to agree on a legal referendum could well trigger early elections in Catalonia in coming months. In the long-run we still consider it unlikely that Catalonia will become a fully independent state, and we continue to see more fiscal autonomy within Spain as a more likely outcome.

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Eurozone countries move closer to agreement on financial transactions tax. Bloomberg reports that the eleven Eurozone countries that in principle signed up for the introduction of a financial transactions tax (FTT) moved closer to an agreement at a meeting on November 7, hoping to find an agreement in December for the FTT to take effect from January 2016. Among the issues of contention have been the scope of the tax (which securities are to be covered) and the article suggests that Austrian Finance Minister Schelling proposed a compromise to keep a wider scope but lower the tax rate from the original proposal of the European Commission (which set the rate at 0.1 percent for stocks and bonds, and 0.01 percent for derivatives). Schelling said that *"everyone subscribed to this compromise in principle,"* adding that even French Finance Minister Sapin said he *"could live with it."* Sapin presented his own proposal on November 4, in which the scope would be limited as a first step, but Schelling called the French proposal *"a fig-leaf tax."* Technical experts from the 11 countries are now to meet to discuss the lower tax rate, with only sovereign bonds being exempt for the time being. German Finance Minister Schäuble said any FTT will be *"very modest"* to start and set the stage for future steps. The eleven countries signed up to the FTT are Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia and Spain.

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IMF's Lagarde: supports ECB easing but says Germany could do more with its fiscal space – IMF Managing Director Christine Lagarde indicated at a central banking conference in Paris on Friday that it was "*perfectly legitimate and appropriate*" for the ECB and the BoJ to take unconventional steps to combat low inflation and economic stagnation, according to Reuters. U.S. Federal Reserve Chair Janet Yellen noted central banks "*need to be prepared to employ all available tools, including unconventional policies, to support economic growth and reach their inflation targets*," especially where governments have withdrawn fiscal stimulus, having previously described the world economy as being "*fragile, brittle and fragmented*". Mrs. Lagarde added that "*in this part of the world, we have to repeat over and over that monetary policy cannot be the only game in town, and that there has to be a combination of sound fiscal policies, use of fiscal space for those countries that have fiscal space in order to support growth and rejuvenate that growth*". Describing the German announcement of an extra €10bn in spending over the next three years, she remarked that "*clearly, the*

data flow, asset purchases and inflation

Guillaume Menuet | Ebrahim Rahbari | Michael Saunders | Antonio Montilla | Ann O'Kelly

UK Economics Weekly — The UK's Achilles Heel

7 November 2014

The UK is well on its way to achieving low inflation and something close to full employment. However, despite the buoyant economy, tax revenues are undershooting markedly, and we expect this year's fiscal deficit will overshoot the Budget forecast by about £13bn, at about 5.5% of GDP. The European Commission judges that the UK's structural fiscal deficit is about 5% of GDP, by far the highest in the EU. Tax and benefit reforms have proved very effective in lifting workforce participation and supporting employment, but have greatly weakened the extent to which falling unemployment generates a major fiscal windfall. The UK's relatively weak fiscal position heightens the importance of the UK's political uncertainties, given that opinion polls still suggest that the next election is likely to create a "doubly hung" parliament.

Michael Saunders | Ann O'Kelly

Euro Area — Draghi Reinforces Balance Sheet Targeting, More Easing Ahead

6 November 2014

ECB strengthens its dovish language and reduces ambiguity. Draghi highlights two contingencies for further easing. Differences of opinions no impediment to further action. Near-term QE is more likely, in our view

Guillaume Menuet

Sweden — A Divided Economy

5 November 2014

According to monthly statistics, manufacturing production stayed weak in September, while production in the service sector surprised on the upside. In other words, this confirms the long-held picture of a divided Swedish economy, with a strong domestic sector and a struggling export sector. Although monthly production data have not been reliable indicators for GDP over the last year or so, today's outcome clearly

announcement that was made yesterday was in the very small ballpark of what will be needed in order to do that". Comment: we believe these statements will be welcome in Paris, and provide comfort for the French government's position. The IMF has been consistent with its call for additional monetary policy stimulus in the Euro area. However, we suspect that getting the policy mix to ease meaningfully will take some time, particularly on the fiscal side of the equations.

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ECB's Coeuré on inflation targeting: it is our absolute duty to do it – European Central Bank Executive Board member Benoit Coeuré said on Sunday that "*monetary policy cannot support growth in a long-lasting way. Only an adequate mix of reforms and investment can do it. And it is a matter of urgency*". Reuters noted that Mr. Coeuré had made references to the latest surveys and downward revisions in the European Commission forecasts calling for "*forceful and consistent action*" on the monetary policy front, stressing that "*the ECB is committed to taking additional measures if we face the prospect of inflation being too low for too long*". On inflation targeting, Reuters noted that Mr. Coeuré had stressed that "*this is our job -- even we don't give up, and we won't give up. It is extremely simple. We have to try again and again*". Mr. Coeuré added that "*we have instruments. If they don't work, we'll find other ones, or we'll do more of it, or we'll do something else. But it's absolutely our duty to do it*". Comment: the obvious risk that the ECB is facing at this stage is that fragility of the Euro area economy could exacerbate the importance of shock. We suspect that lower oil prices could be such a catalyst, lowering an already subdued headline inflation trajectory and acting a trigger for a further dis-anchoring of medium term price expectations. The statement on inflation targeting is a very strong signal that the ECB takes its mandate very seriously.

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BdF's Noyer on QE – Bank of France governor Christian Noyer indicated that central banks, including his own, should be prepared to buy public debt if needed to avert deflation or a run on sovereign bonds, explaining that "*such an action may be vindicated if there are risks to macroeconomic or financial stability or even if self-fulfilling runs on public debt may be a threat to market access, or lastly to avoid the deflationary consequences of a public debt event*". Comment: these remarks illustrate in our view the fairly extensive range of contingencies that could prompt the ECB to embark on a QE programme, in additional to **those explained by President Draghi on Thursday.**

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European Council President van Rompuy on EU's investment gap – and other matters. Bloomberg reports that the President of the European Council Van Rompuy said that the EU's real problem is financing for investment. Rompuy said that the EU had initially not been ready for Greek default during crisis. He also said that some EU leaders had wanted to punish Greece in the beginning of the crisis for the violation of various rules, but not the majority of countries, according to van Rompuy. Van Rompuy noted that structural reforms are helpful for fiscal consolidation and that political parties and politicians should keep in mind that Greece has made tremendous efforts to remain in the euro area. He added that the existential threat to the Eurozone is over. He indicated that the EU position on follow-up arrangements to the Greek bailout are converging. Regarding the UK, Van Rompuy said that the UK should remain in the EU for historic, and economic reasons, but that the UK has to respect the fundamental rules and principles of the EU.

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ESM head Regling: ESM cannot be used for investment. Bloomberg reports that the head of the ESM Regling said that to use ESM funds for development projects requires a change in the ESM treaty, in an interview with Cypriot

increases the uncertainty regarding the recovery for manufacturing and GDP ahead. We note that hard data for the third quarter, in general, have been weak, and, hence, well in line with the Riksbank's GDP forecast of a 0.2% QQ gain.

Tina Mortensen

Euro Area — EC forecasts points to non-compliance for some 2015 budgets

4 November 2014

Sharp cut in 2014-15 GDP forecasts — the EC lowered its 2014 and 2015 euro area GDP forecasts by 0.4pp and 0.6pp to 0.8% and 1.1% respectively **Noticeable reduction to 2014-15 inflation forecasts** — turning to 2016, inflation is forecast to rise as *"economic activity gradually strengthens and wages rise"* but also because of the *"waning impact of low energy prices and slightly higher import prices due to the depreciation of the euro"*. **Euro area fiscal stance: expected to be neutral again in 2015** — it is likely that a significant number of countries will be required to do more to be compliant with the Stability and Growth Pact requirements. **Risks around the baseline** — it also notes that the risks to growth and inflation are closely linked, but still judges the risk of outright deflation "still appears low".

Guillaume Menuet

Scandi Economics Update — Norwegian Inflation on the Agenda

10 November 2014

Sweden — The Swedish Bankers' Association said it will not proceed with introducing recommendations aimed at having customers pay down mortgages to 50% of the property value.
Sweden — The Riksbank's general council, which elects new board members, will probably have named a new policy maker at the start of next year.
Sweden — EU Commission predicts larger Swedish budget deficit than the government.
Sweden — The former ruling Alliance will not seek to block individual budget items in the new government's budget

newspaper *O Politis*. Regling said that changing the ESM's mandate requires ratification from all 18 parliaments, which is politically very difficult. On **Cyprus**, Regling said that the economic adjustment is by no means completed and that the country needs a credible backstop, which is why the ESM encourages the continuation of the bailout program until 2016. On **Greece**, Regling said that if the current troika review of the Greek bailout is not completed by year-end, *"then the money that we disbursed and is kept at the Hellenic Financial Stability Fund in the form of bonds will have to be returned."* Failure to complete the current review would mean that the €1.8bn tranche to be disbursed would also be lost for Greece.

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Eurozone countries insist on continued monitoring for follow-up programme for Greece. Bloomberg reports that the Eurogroup President Dijsselbloem said that Greece will probably need a precautionary credit line underpinned by *"enhanced"* policy conditions from January 2015, after the EU part of its bailout ends. He also said that the IMF should have a role in the future Greek program and that follow-up support would be financed by the ESM. Dijsselbloem said that *"taking into account the still-fragile market sentiment and the many reform challenges still lying ahead, there is strong support for a precautionary credit line in a form of an existing ESM tool called the ECCL, an Enhanced-Conditions Credit Line,"* adding that *"there's also a broad understanding that the IMF needs to continue being involved."* But Dijsselbloem also note that *"further discussion will have to take place on the exact form of this involvement."* EU Economic and Monetary Affairs Commissioner Moscovici said that *"everyone feels that we should cease to micromanage the situation in Greece."* Dijsselbloem stressed that in any case *"it is crucial that the current review is concluded,"* as *"more remains to be done"* and Moscovici said that the troika should return to Greece before the end of next week so that euro-area finance ministers are in a position to decide on the next aid payouts to Greece and the planned end of the country's program at a December 8 meeting in Brussels. Greek Finance Minister Hardouvelis declined to comment on the details of the discussions with his euro area counterparts, saying only*: "I consider that we made progress."*

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Germany: pledged increases in 2016 investment spending may limit scope for spending by other ministries. Bloomberg reports that a number of ministries may have to reduce their planned spending increases after German FM Schäuble announced plans last week to boost infrastructure spending from 2016, according to an article in *Welt am Sonntag* citing unidentified cabinet members. According to the article, Schäuble is sticking to plans to balance the 2015 federal budget and is not prepared to expand spending in 2015 so as not to endanger that goal. Environment Minister Hendricks is seeking €3bn next year to improve energy efficiency in buildings, up from €1.8bn this year, while Ministers for Defense and Families are also seeking spending increases.

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France: Q4 GDP estimated to be 0.1% QQ says BdF – the French central bank indicated on Friday that it estimated economic activity to slow to 0.1% QQ in the fourth quarter after a 0.2% gain in the third quarter. This forecast was released as part of the central bank's monthly survey of economic activity showing the overall business climate measure had been stable in October at 96. The survey showed that sentiment in the services sector rose slightly to a reading of 94 from 93 compared to an historical average of 100. France's economy is on course to grow 0.1 percent in the final quarter of the year, led by modest gains in industrial and services activity, the central bank said on Friday in a first estimate for that period. Comment: the French economy is unlikely to accelerate much in the second half of 2014. A rebound in 2015 remains conditional on rising business

proposal.

Sweden — The most important events this week will be the Riksbank's minutes, October inflation data and the meeting of the Financial Stability Council (all tomorrow).

Norway — We look for headline inflation to be confirmed at 2.1% YY, while core inflation is seen moderating to 2.3% YY in October. Our forecasts are slightly below those of Norges Bank (CPI: 2.2% YY, CPIF: 2.5% YY). Data out at 9.00 UK time.

Tina Mortensen

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confidence, which as this stage, will be hard to achieve unless the government deliver more meaningful structural reforms.

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Italy: Former PM Berlusconi claims PM Renzi wants early elections, says *La Stampa* – Italian news agency AGI is reporting that Italian Prime Minister Matteo Renzi wants early elections according to former PM Silvio Berlusconi who is quoted in *La Stampa* saying that "*Renzi has asked me to change our agreement yet again. The new variant would favour him and penalise the centre-right*". Mr Berlusconi added that "*his rush to reform the electoral law before taking more urgent measures to increase jobs or boost the economy makes one thing clear: he wants early elections*". Separately, the Italian press was focusing on suggestions that Italy's President Giorgio Napolitano could announce his decision to step down in his traditional year-end address on Dec. 31 and leave office several weeks later, some five years before the end of his second term. Reuters reports that newspaper *Corriere della Sera* claims that President Napolitano, who is aged 89, has confided to friends that he suffers from a series of age-related ailments that were making it difficult for him to carry on in the job. The presidential palace said in a statement it would "*neither confirm nor deny*" the reports. Reuters notes that potential candidates to succeed Napolitano include Romano Prodi, the former prime minister and European Commission president, and former Prime Minister Giuliano Amato, adding that both have been candidates for the presidency in the past. Comment: we believe reforming the political system in Italy was never going to be plain sailing. A premature resignation by President Napolitano would likely introduce more volatility in coming months, in our view.

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Italy: Banks continue to increase central bank borrowing in October. Bank of Italy data showed loans to Italian banks related to monetary policy operations rose by €3.5bn MM (2%) in October, to €177bn (or 4.4% of banks' assets), and after a 6.2% MM rise in Sept. On an annual basis, Italian banks have reduced central bank borrowing by 23%. In addition, the data showed Target2 liabilities falling by €15.5bn (7.8% MM) in October, after roughly €30bn MM expansions in the previous two months.

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Portugal – S&P confirms Portuguese BB rating with a stable outlook, on the back of *"Portugal's relatively prosperous economy compared with peers, expenditure-led budgetary consolidation, improved government debt maturity profile, and execution of important reforms"*. However, S&P noted that the credit rating remains constrained by very high private and public sector indebtedness, a weak external economic balance sheet, and a weak monetary transmission mechanism that appears to prevent parts of Portugal's corporate sector from further improvement in cost competitiveness, coupled with deflationary pressures. In addition, the rating agency highlighted risks to the government's fiscal deficit targets in 2015 (of 2.7% of GDP) and 2016 (2.1%), due to lower GDP growth projections, a low inflation environment, and fiscal risks related to the upcoming parliamentary elections in 2015. S&P cited further progress in structural reform implementation, budgetary consolidation in line with targets, and orderly private sector deleveraging as factors that could raise Portugal's BB rating.

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Latest Issues of Sovereign Debt Update

Dovish Draghi Reinforces Balance Sheet Targeting

7 November 2014

Draghi reinforces balance sheet targeting. Eurogroup: Dijsselbloem says greater

sense of urgency needed. OECD slashes EA GDP forecasts. Schaeuble to seek increase in 2016 spending. Hollande's TV interview, further drop in popularity. Italy's attractiveness to foreign investors increases - survey. Spain's Supreme Court rejects Catalan govt's appeal against ban on Sunday's consultative vote. Belgian street protests against austerity. Eurozone mulls three options for Greek exit from bailout.

Antonio Montilla | Guillaume Menuet | Ebrahim Rahbari

ECB May Modify Language to Indicate Future Easing

6 November 2014

ECB today: we expect unchanged rates but some change in language. German parliament votes on banking union/ESM today. German FinMin on investment plan. German factory orders rebound. French President Hollande could announce labour market reforms tonight in major TV interview. Spain: latest poll shows surge for new left-wing Podemos party, ruling PP still in lead. Portugal: unemployment falls, EU/ECB and IMF on likely 2015 deficit target overshoot. EA ponders debt relief for Greece.

Ebrahim Rahbari | Guillaume Menuet | Antonio Montilla

EC Revises Down Eurozone Growth and Inflation Forecast

5 November 2014

ECB sources on Governing Council discord. EC economic forecasts point to non-compliance for some countries' 2015 budgets. Juncker on fiscal consolidation and growth. Merkel says debate about fiscal rigour leads governments astray. Uncertainty on France's extra 2015 budget savings. Spain's Constitutional Court rules against Catalonia's consultative vote on independence. EC forecast updates on Italy, Spain, Netherlands, Belgium, Portugal and Greece. Greek PM: early elections will not happen.

Ebrahim Rahbari | Guillaume Menuet | Antonio Montilla

ECB’s Draghi: Large Scope for Purchases, But No Target

4 November 2014

ECB: Draghi on ABS purchases, Constancio on TLTRO, Coeuré on risk of loss of momentum, Nowotny on need for more time. ECB's Lautenschläger says EU banks now more resilient, SSM's Nouy on banks' risk assessment models. EU budget contributions due by 1 Dec. German SPD blocks German bank separation plan. Italy's ISTAT cuts GDP growth forecasts. Spain's EconMin sees "cruising pace of 2% growth" in 2015. Slovakia's fiscal deficit.

Guillaume Menuet | Ebrahim Rahbari | Antonio Montilla

Podemos comes first in Spanish poll of voting intentions

3 November 2014

ECB's Visco on the need to address the 'real risk of deflation'; ECB's Coene: Interest rates to stay low for a while; SSM's Nouy: ECB's Stress Test was ‘strict, just, thorough; Euro Economics Weekly: Credit And The Eurozone Malaise; German government does not support limits to EU freedoms of movement and considers possibility of UK exit from the EU; German FM: Germany backs limited Treaty change and growth will not be helped by an increased in central bank money; France: FinMin Sapin acknowledges that tactics played a part in initial 2015 budget submission; France: President Hollande scheduled on prime time TV this Thursday; France: PM Valls vows to stay the reform course; Italy: Unemployment rate rises slightly in September; Italy: HICP inflation rises to 0.2% YY in October; Spain: Poll shows Podemos ahead of ruling PP party and main opposition PSOE..

Ebrahim Rahbari | Guillaume Menuet | Antonio Montilla

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Macroeconomic Forecasts

European Economic Forecast Highlights — 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 Forecasts — October 2014

31 October 2014

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

Michael Saunders

Global Economic Outlook and Strategy — Global Economic Outlook and Strategy — October 2014

29 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

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

Foreign Exchange Forecasts — Consolidation in Strong USD Trend – October 2014

24 October 2014

October's risk asset correction led to expectations of a more dovish Fed and some consolidation in what we expect to remain a strong USD trend medium term. Over 6-12m, we still look for 8-9% gains for the USD vs. the average G10 currency. EM currencies are likely more protected by carry and lack of local quantitative easing. We expect USD gains of 3-4% vs. EM over 6-12m and many currencies, especially outside CEEMEA, beat forwards in our forecasts. EUR and most other European currencies will be the biggest losers. Dangerously low inflation leaves the ECB little choice but to use EUR depreciation as a key intermediate policy tool and balance sheet expansion as the method of achieving this. We forecast 1.10-1.15 over the next year or so. In Japan, we still expect further money base expansion to lead USD/JPY higher medium term. Over 6-12m we forecast 115.

Jeremy Hale

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Appendix A-1

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