Greek PM Calls Presidential Election for December 17

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

9 December 2014

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Economics

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Industrialised G7 Countries

Summary

Greek PM calls early Presidential election for next Wednesday, Dec 17, 2014 (instead of expected date of mid-February 2015). Additional rounds of the election are planned for Dec 22 and 27 according to media reports. A minimum of 180 out of 300 MPs is required to elect the President (the government coalition currently comprises 155 MPs). Otherwise, snap parliamentary elections will be called, which could take place in the second half of January.

Eurogroup approves two-month extension of Greek bailout programme, as current review cannot be completed by year-end.

ECB's weekly asset purchases average €3.1bn – The ECB bought €3.1bn of covered bonds and €0.2bn of ABS in the past week, compared to an average €6.6bn weekly repayment of the 3-year LTRO over the last seven weeks.

ECB's Coeuré: dissent was on communication, no vote on stance at last week's ECB meeting – noting that *"the only dissent was on how to communicate on the future course of our balance sheet between now and early 2015"*, adding that *"Thursday's discussion was focused on how and when to react to downside risks to inflation"*.

ECB's Nowotny: ECB's Governing Council focusing on government bonds QE – Mr. Nowotny noted that the *"balance sheet is still shrinking",* and saw a *"high probability"* of inflation slowing in Q1-15. Mr. Nowotny also stressed that nothing has been decided on whether QE purchases would be made according to ECB's capital key.

Eurogroup's Dijsselbloem on incentives to implement structural reforms – noting that "*we had an exchange of views on the possibility of incentivising the implementation of key structural reforms, a very interesting debate on how we can strengthen and support each other in pushing forward structural reforms".*

German Chancellor rules out cooperation with euro-sceptic AfD party.

German imports drop sharply in October, by 3.1% MM, with exports 1.7% MM lower.

France: Manuel Valls on reforms, Eurogroup on 2015 draft budget – Mr Valls said that France is serious about undertaking economic reforms. The Eurogroup stressed that *"additional measures would be needed […] to comply with the rules of the Stability and Growth Pact"*, welcoming the *"ambitious and wide-ranging reform agenda"*.

Spain: official measure of house prices rises by 0.3% YY in Q3 14, following a 0.8% YY increase in Q2 14 (first YY rise since Q1 2008).

Spain: banks to request up to €20.9bn in second TLTRO due in Dec 11, daily *Europa Press* reports citing banking sources.

Netherlands: Central bank lowers 2015 real GDP forecast by 0.1pp to 1.5%

Portugal: economic conditions continue to improve, Dijsselbloem says.

Recent Research

Norway — Norges Bank Forecast: Stable Interest Rate, Lower Rate Path

8 December 2014

At the 11-Dec monetary policy meeting, we expect Norges Bank to keep the key policy rate stable at 1.50%, as indicated in the September conditional interest rate path (signals nil probability of a rate cut). However, as Norges Bank historically has been cautious in periods of heightened uncertainty, we expect the Bank to retake a dovish bias by lowering its interest rate path slightly, hence, opening the door for near-term easing in case downside risks to economic growth materialize. Ahead, our base case is for an unchanged key policy rate throughout 2015, but with the uncertain outlook for the global economy and Norwegian oil investments (with the plunge in oil prices increasing downside risks), a rate cut next year cannot be ruled out. For comparison, market pricing discounts more than a 50% probability of a rate cut before

Today's News in Detail

Greek PM calls early Presidential elections for December 17, 2014 instead of February 2015. The Financial Times reports that Greek PM Samaras has called the Presidential election to take place next Wednesday (17 December), ahead of the previously envisaged date in mid-February. To elect a new President, 200 votes in favour are required in the first two rounds (with the second round taking place 5 days after the first round), while 180 votes in favour are required in the third and final round of the election. Should the candidate fail to gather 180 votes in the third ballot, parliament will be dissolved and snap parliamentary elections triggered. Greek government spokesperson Voultepsi justified the early elections as *"political uncertainty must end now",* noting that the coming months are *"crucial"*, due to ongoing negotiations over a follow-up bailout programme for Greece and over potential debt relief measures. Comment: the current coalition comprises 155 MPs, which implies that additional support of at least 25 MPs will be needed to avoid an early parliamentary election. In our view, it is highly uncertain whether the current government can achieve this level of support

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Eurogroup approves extension of Greek bailout programme by two months. The Eurogroup meeting of euro area finance ministers issued a statement that noted that it is *"favourably disposed to a request by Greece for a technical extension of 2 months of the current EFSF programme"*, as despite some progress it judged that the current review was not likely to be achieved before the end of the year and would need to continue into early 2015 until a staff-level agreement was reached and all prior actions deemed to be fulfilled. The Eurogroup asked the troika to prepare a *"factual report"* on the state of the current review and gave a mandate to the Euro Working Group to report to member states so that these could launch national procedures that would allow a formal approval of the extension by year-end (the extension would also cover the availability of the EFSF bonds in the HFSF buffer). The Eurogroup called on the Greek authorities to *"ensure a rapid and full implementation of all the reform measures necessary to conclude the fifth review",* as *"these reforms are key for the smooth functioning of the Greek economy and will contribute to bringing about sustained growth and employment and to secure the sustainability of public finances, thereby fully delivering on the programme objectives."* The Eurogroup also noted that it was *"favourably disposed"* to grant Greece an ESM precautionary credit line (ECCL), *"if Greece were to request this and subject to the finalisation of the reform measures that are still pending under the current review, continued involvement of the IMF, and the completion of relevant national and EU procedures."* Eurogroup President Dijsselbloem said in a statement after the Eurogroup meeting that Greece is expected to formally submit a request to extend the programme by two months today.

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ECB weekly asset purchases average €3.1bn – The ECB bought €3.1bn of covered bonds and €0.2bn of ABS in the past week. Since the start of the third covered bond purchase programme, and with the addition of ABS, the ECB has bought a total of €21.5bn of securities while financial institutions have repaid €46.3bn of 3-year LTRO funds in the past seven weeks. Comment: with purchases barely amounting to half of the rate of repayments, the ECB's strategy of balance sheet expansion is heavily reliant on a sizeable TLTRO take-up on Thursday Dec 11. As a rule of thumb, the ECB would need to be able to add around €10bn per week to its balance sheet in order to expand it by €1tn to around €3tn over a two-year period. Hence the size of weekly purchases (€3.1bn since inception) will need to be increased noticeably in coming weeks for the ECB to be credible about its balance sheet intentions.

year-end, and sees a 50bp lower sight deposit rate by mid-2015.

Tina Mortensen

UK — BoE Article On Household Balance Sheets

8 December 2014

The latest BoE Quarterly Bulletin contains a regular annual survey of household balance sheets, carried out for the BoE by NMG Consulting, and based on a survey of 6,000 households. There are several points of interest. First, fewer households are worried about housing costs and debt levels. Second, households' decisions to borrow do not seem to be based on overly optimistic assessments of the interest rate outlook – or at least, no more optimistic than markets. Third, the BoE report that fewer households than a year ago would have to take some action to improve their finances if interest rates rise. We agree with this general message that household balance sheets are not highly fragile. .

Michael Saunders

Euro Economics Weekly — The Eurozone Investment Collapse And The Juncker Plan

5 December 2014

Eurozone investment trends are very weak and the outlook for Eurozone investment remains subdued. Investment weakness is probably both suffering from, as well as contributing to, poor overall growth prospects in the Eurozone. The EU's planned investment Offensive or 'Juncker plan' promises to boost Eurozone investment incrementally by cumulatively at least €315bn in 2015-17. In our view, this target seems very ambitious, as the public funding component is small and the appetite for private investors to finance the incremental funding needs uncertain. However, there is an intriguing possibility that additional national contributions to the EFSI could be a 'backdoor' route to modest fiscal easing in the Eurozone, which could address the plan's shortcomings of a lack of capital and the possibility of crowding out private investments.

Ebrahim Rahbari | Guillaume Menuet | Michael Saunders | Antonio Montilla | Ann

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ECB's Coeuré: **dissent was on communication, there was no vote on stance** – Executive Board member Benoit Coeuré noted "*there was no vote on monetary policy [on Dec 4]. The only dissent was on how to communicate on the future course of our balance sheet between now and early 2015*", adding that "*Thursday's discussion was focused on how and when to react to downside risks to inflation*", according to Reuters. Separately, German newspaper *Handelsblatt* reports that the ECB plans to limit the duration of emergency liquidity aid (ELA) to banks, considering ELA duration of 6 months, with the introduction of criteria for national central banks granting ELA support to avoid providing excessive support to clearly ailing institutions. Comment: the Governing Council (GC) remains unanimous about the need to do more with non-standard measures if necessary. **As indicated in previous dailies**, we estimate that some opposition was expressed about the very strong signaling about early 2015, which in some GC minds amounted to some form of pre-commitment to act. We suspect that there will be a vote on Jan 22 for QE and that a majority will agree to start purchasing government bonds to respond to the balance sheet and downside inflation risk contingencies.

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ECB's Nowotny: GC focusing on government bonds QE – Austrian central bank governor Ewald Nowotny indicated in Frankfurt on Monday that the Governing Council (GC) was "*thinking specifically about government bonds*" when envisaging a QE programme. Mr. Nowotny added that *"there are a lot of arguments* [for government bond purchases]*, economically, legally, all this has to be debated with care*", stressing that "*it's clear that, if QE is being realised, that it has to be within legal limits. That's surely one of the points we have to look at in detail*". Bloomberg reported that he had stressed that nothing has been decided on whether QE purchases would be made according to ECB's capital key. Mr. Nowotny noted that the "*balance sheet is still shrinking*", while seeing a "*high probability*" of inflation slowing in Q1-15. Mr. Nowotny also suggested that he could not "*imagine a negative benchmark rate*" on the grounds that the ECB has reached the lower bound. He also noted that he hoped that the investment plan initiated by European Commission President Jean-Claude Juncker is implemented quickly, indicating that QE "*as a supportive measure in the context of a comprehensive plan, it can certainly be valuable*". Comment: Dovish remarks by one of the traditional hawks of the GC, suggesting that discussions will take place in coming weeks about what to do about the monetary policy stance at the Jan 22 meeting. With inflation likely to fall further in December (to at least 0.2% YY) and the balance sheet target not expanding meaningfully at this stage, we continue to expect the two contingencies highlighted by President Draghi at the November meeting to be triggered soon.

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Eurogroup's Dijsselbloem on incentivizing countries to implement structural reforms – Eurogroup chairman Jeroen Dijsselbloem remarked in the press conference that followed the meeting on Monday that euro area finance ministers had "*talked about incentives to strengthen investment as well as structural reforms*", with a view to "*preparing for debates later, perhaps beginning of next year*". Mr. Dijsselbloem indicated that "*we had an exchange of views on the possibility of incentivising the implementation of key structural reforms, a very interesting debate on how we can strengthen and support each other in pushing forward structural reforms. There are many ways to incentivize structural reforms in the short run, within our existing framework. There are also long term ways to do it*". Mr. Dijsselbloem also noted that "*more reflection is needed on the operationalization of how to get structural reforms higher on our agenda*". Comment: is this the return of the reform contracts suggested by Chancellor Merkel a few years ago? It is unlikely that financial incentives could be offered in

O'Kelly

UK Economics Weekly — What Does The Oil Price Plunge Mean for the UK?

5 December 2014

We calculate that the drop in oil prices from the 2013 average level will cut the aggregate fuel bill (ex taxes) of households and consumers by about £14bn (0.8% of GDP) per year. Roughly £4½bn of this will come through directly to consumers via lower prices for petrol and diesel transport fuel, £6bn will come through indirectly to households and businesses via lower costs for transport services (notably air travel, sea travel and freight) with the remaining feeding through via lower industry costs (including the wider use of oil for non-energy purposes). CPI inflation is likely to below 1% YoY in the December data. The mix of cheaper oil and cheap money is likely to ensure that GDP growth again overshoots consensus in 2015, fuelled by strength in household real incomes, consumer spending and business investment.

Michael Saunders | Ann O'Kelly

Euro Area — See You In January Says Draghi, Downplaying Lack Of Unanimity

4 December 2014

Dovish statement as expected — the Governing Council (GC) decided to introduce some of the language used by President Draghi in previous speeches (size, pace, composition), with a stronger language also used about balance sheet expansion objectives Much lower GDP & inflation trajectory in 2015-16 — the proxy for 2-year-ahead nominal GDP growth (real GDP+ HICP) fell to 1.7% (lowest since Sep-09) and the 3-year-ahead projection was lowered to 2.8%, 50bp below its average in the last three rounds Oil price vigilance to avoid unwarranted tightening — the GC indicates that "we will be particularly vigilant as regards the broader impact of recent oil price developments on medium-term inflation trends" Legality of achieving mandate trumps unanimity — Mr. Draghi remarked that "not pursuing its price stability mandate would be illegal". We

our view. An easier trade-off would likely to be more time to bring budget deficits below the 3%-of-GDP threshold or for full compliance with the (very demanding) debt rule, with member states recognizing that reforms tends to be negative for real GDP growth and inflation rates in the short-term.

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German Chancellor rules out cooperation with euro-sceptic AfD party. In an interview with TV station ZDF, German Chancellor Merkel ruled out cooperating with the euro-sceptic AfD ("Alternative for Germany") party, saying that *"we will not agree any coalitions and we don't cooperate with the AfD.*" Regarding the ongoing developments in Ukraine, Merkel said that she is working for a diplomatic solution to the Ukraine crisis.

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German imports drop sharply in October. The German National Statistics Office reports that goods imports fell by 3.1% MM in October (Consensus: -1.7% MM), while exports fell a lower-than-expected 0.5% MM (consensus: -1.7% MM). The declines in imports and exports followed very large increases in exports and imports of 5.5% MM and 5.4% MM, respectively, in September. The trade balance and current account balance in October came in at €21.9bn and €23.1bn, respectively, both ahead of consensus expectations.

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France: PM Valls on reforms, Eurogroup on 2015 draft budget – French PM Manuel Valls told reporters in Prague on Monday that France is serious about undertaking economic reforms. Earlier in the day, the Eurogroup statement noted that France's structural fiscal effort would be 0.3% of GDP in 2015 according to the latest Commission assessment, some 0.5pp short of the 0.8% required for countries under the excessive deficit procedure (EDP). On this basis, "*additional measures would be needed […] to comply with the rules of the Stability and Growth Pact*". The statement also welcomed the "*commitments of France to address the structural weakness of the economy and encourage the implementation of the ambitious and wide-ranging reform agenda, as reflected in the letter addressed to the Commission of 21 November 2014*". Comment: the peer review exercise was conducted for only the second time with respect to draft budgetary plans, attempting to increase policy coordination under the Two-Pack regulation. The focus of the Eurogroup on the importance of reforms to reduce the tax burden on labour could still mean some room for an increase in VAT rates in the 2016 budget in our view given the need for France to demonstrate its ability to be compliant with the 2016-17 trajectory, if an extension were to be granted in March 2015.

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Spain: official measure of house prices rises by 0.3% YY in Q3 14, following a 0.8% YY increase in Q2 14 (first YY rise since Q1 2008), and after falling by 10.5% on average in 2013, according to data from INE released this morning. According to this measure, house prices are now 36% lower than their peak in 2007. By region, the data showed house prices rising in YY terms in 9 (out of 17) autonomous regions, including Madrid (2.8% YY), Catalonia (1.1%), and Valencia (0.9%). Comment: the rise in house prices adds to recent positive data on housing supply and demand in Spain (e.g. house transactions, mortgage contracts, and house permits), and confirms that the housing slump has reached the bottom.

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Spain: banks to request up to €20.9bn in second TLTRO due in Dec 11, daily *Europa Press* reports citing banking sources. The estimation is based on projections of the largest banks in the country (Banco Santander, BBVA, Caixabank, Banco Popular, Banco Sabadell and Bankinter) which jointly requested €14.7bn in the first TLRO operation conducted in September, *Europa*

continue to believe that the GC will announce a QE programme at its next monetary policy meeting on Jan 22

Guillaume Menuet

Norway — Investment Survey Implies Drop in Oil Investments in 2015, But Estimate Revised Up

4 December 2014

Following strong annual gains in previous years, Statistics Norway's 4Q 2014 investment survey suggests the growth pace of oil investment activity looks set to moderate quite a bit ahead. For 2014, investment is seen at NOK 218.6bn (down 8.7bn vs. Sep-estimate). While setting a near-record high in nominal terms, the 2014 estimate still implies moderating growth (expected level is "only" 4.6% above the actual 2013 outcome). The 3rd estimate for expected oil investment for 2015 implies a substantial decline, albeit slightly more moderate than suggested in September; investment costs are estimated at NOK 188.6bn next year (NOK 3.3bn up vs. Sep-estimate), equivalent to a 13.7% decline (in nominal terms) versus the estimated 2014 outcome. On the monetary policy outlook, today's report should, in isolation, be broadly neutral. With the very weak NOK, we expect NB will appear dovish at next week's monetary policy meeting, but refrain from cutting interest rates.

Tina Mortensen

UK — Autumn Statement

3 December 2014

The Chancellor admitted that this year's deficit is overshooting. The independent OBR believe that this deficit overrun is temporary, hence reinforcing the Chancellor's political inclination to avoid nearterm restraint. Third, the specific AS measures are aimed at providing stimulus where possible and limiting fiscal headwinds, while appeasing voters. We expect the Stamp Duty reforms will be highly popular with voters overall. The key losers will be a narrowly-based group that do not have many votes: banks, multinationals and people buying houses of price above £950,000. Fourth, we expect that GDP growth will overshoot the OBR's forecast in 2015 but that the deficit will

Press reports. Comment: the total amount (€36bn) accounts for 65% of the maximum Spanish banks could borrow in the first two T-LTRO operations (i.e. 7% of the total amount of their loans to the euro area non-financial private sector, excluding household mortgages, outstanding on 30-Apr-14).

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Netherlands: Central bank lowers 2015 real GDP forecast by 0.1pp to 1.5% –

The Dutch central bank's semi-annual economic forecast published on Monday lowered the 2015 real GDP growth forecast by 0.1pp to 1.5%, after a projected 0.8% gain in 2014. The bank anticipates further house price increases in 2015 and 2016, and unemployment to decline to 6.6% in 2015-16 from 6.9% in 2014. The budget deficit is forecast to widen to 2.4% of GDP in 2014 from 2.3% in 2013, before narrowing to 2.1% in 2015 and 1.8% in 2016.

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Portugal: economic conditions continue to improve, Dijsselbloem says. Eurogroup head Jeroen Dijsselbloem said yesterday that market sentiment, economic and financial conditions have continued to improve in Portugal following the conclusion of the bailout programme earlier this year. Mr Dijsselbloem noted that while there are concerns about an apparent slowdown in the progress of fiscal consolidation and structural reforms, the Portuguese authorities have reaffirmed their commitment to correct the excessive deficit next year and to continue the reform agenda. The Eurogroup concluded yesterday that there is a risk of not complying with the requirements of the Excessive Deficit Procedure (EDF) in 2015, urging the Portuguese government to apply further measures in order to reduce its fiscal deficit below 3% of GDP.

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Latest Issues of Sovereign Debt Update

ECB QE Programme Could Exceed €1tn

8 December 2014

ECB QE programme could exceed €1tn. ECB: Nowotny says QE decision in 1Q15, Weidmann says monetary policy too expansive for Germany, Coene concerned over lasting low inflation, Visco warns that current oil prices may lead to negative CPI. Merkel urges Germany and France to do more. French PM Valls urges voters to back reforms. S&P lowers Italy's rating. Spain's fiscal watchdog asks for sanctions on some regions. Rajoy says Spain's growth could exceed 2%. Greek parliament adopts 2015 budget bill.

Guillaume Menuet | Antonio Montilla | Ebrahim Rahbari

ECB Strengthens Dovish Tone Despite Lack of Unanimity

5 December 2014

ECB's dovish statement sends strong signal of action in early 2015. ECB sources suggest at least two executive board members opposed language change. EC considers shelving planned bank reform. BaFin head as Chair of new Single Resolution Board? German factory orders stronger than expected. France: Hollande's popularity creeps up. Renzi and Merkel likely to meet in Jan. Spain's IP falls in Oct. Belgian trade unions to strike over austerity plans. Greek govt wants only short extension of bailout.

Guillaume Menuet | Ebrahim Rahbari | Antonio Montilla

ECB to Modify Language to Cement Expectation of Action in Q1

4 December 2014

ECB language change expected at today's meeting to cement expectations of more action. EA Nov final composite PMI revised down, while Oct retail sales rise 0.4% MM. Germany's junior coalition party SPD to put EU-Canada trade deal to

probably overshoot slightly. Fifth, the UK's medium-term fiscal outlook remains very uncertain, given the likelihood that the 2015 election creates a doubly hung parliament and hence ushers in a multi-party coalition or minority government.

Michael Saunders

Scandi Economics Update — Swedish NDO publishes Forecast and Financing Plan

9 December 2014

Sweden — Former PM and outgoing Moderate leader Reinfeldt once again ruled out any active cooperation with the Sweden Democrats. Furthermore, he also rejects the idea that Sweden offers a haven for many more refugees than it can cope with.

Sweden — The four opposition Alliance leaders say they want to make an agreement with the ruling parties on rules that will make it possible for a minority government to come into office and get a budget bill passed in Parliament.

Sweden — Monthly data suggest that the NDO likely will lower its forecast for central government borrowing for this (and next) year; up until November, government borrowing has been around SEK 13bn lower than forecast, with tax revenues being SEK 15bn higher than expected (out at 8.30 UK time).

Norway — The government said yesterday that it might cut its mainland GDP forecast for next year amid the plunge in oil prices.

Tina Mortensen

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party vote in 2015. French FinMin details €3.6bn savings for 2015 budget. Italy's Senate adopts Jobs Act. Spain's consumer confidence falls in Nov. Unnamed EU official says Greece may get technical extension of bailout.

Ebrahim Rahbari | Guillaume Menuet | Antonio Montilla

Franco-German Ministers' Meeting Yields No New Measures

3 December 2014

Little that is new after Berlin meeting of French and German Finance and Economy Ministers. Bundesbank's Weidmann says oil-price drop amounts to mini-stimulus programme. German EconMin Gabriel says EA does not need short-term stimulus. French govt would suffer extreme defeat if election held today - CSA poll. Renzi says new electoral law could come into force from 2016. Spain's services PMI fall sharply. Greek PM Samaras calls on Greeks to ignore Syriza.

Ebrahim Rahbari | Guillaume Menuet | Antonio Montilla

ECB ABS Purchases Started Slowly

2 December 2014

ECB's ABS purchases start slowly but covered bonds purchases ramped up. Italy's PM Renzi calls for more flexibility on EU fiscal rules. Italy's 3Q GDP growth confirmed at -0.1% QQ. Spain: Registered unemployment fell more than expected in November, while car sales rose. Greek government and EU see progress in bailout review talks. Dijsselbloem says Eurogroup to discuss possible follow-up Greek loan on Dec 8. Citi's "Prospects for Economies and Financial Markets in 2015 and Beyond" is out.

Ebrahim Rahbari | Guillaume Menuet | Antonio Montilla

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Macroeconomic Forecasts

European Economic Forecast Highlights, December 2014

3 December 2014

This companion to the December issue of Global Economic Outlook and Strategy - Prospects for Economies and Financial Markets in 2015 and Beyond gives more detailed forecasts for the main European countries to 4Q16. Figures 21-22 give annual forecasts to 2018 for growth, inflation, current balance, fiscal balance, primary balance and government debt and Figure 23 shows the change in forecasts from last month. Figure 24 shows forecast unemployment to 2019, and Figures 25-27 compare our forecasts with those of other institutions.

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

Europe — Europe: Monthly Inflation Profiles for Selected Countries

2 December 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 — December 2014

3 December 2014

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

Michael Saunders

Global Economic Outlook and Strategy — Prospects for Economies

and Financial Markets in 2015 and Beyond

1 December 2014

In this "Prospects" edition, Citi's research team presents updated forecasts for economies, interest rates, FX rates, commodity prices and sovereign ratings around the world for 2015 and beyond. Overview essays discuss the drift into secular stagnation, whether globalization is stalling, political issues for 2015, emerging market strains, advanced economy "low-flation" and long-run projections for the size of major economies. We are cutting 0.1 percent off our global growth forecast for 2015 and 0.2 percent off for 2016, and expect only a modest pick-up in global growth in 2015, led by advanced economies. Major monetary policy divergence is likely, with QE by the ECB and BoJ, widespread nearterm monetary easing across emerging markets, but (in late-2015) tightening by the Fed and BoE. We forecast further major USD appreciation, breaching €1.10/$ and ¥125/$ in 2015, with levels of €1.00/$ and ¥135/$ likely over the next 2-3 years.

Willem Buiter

Emerging Markets Macro and Strategy Outlook — Prospects For 2015 And Beyond

1 December 2014

EM's prospects in 2015 will be governed by familiar themes: i) China's slowdown and its consequences; ii) the impact of falling commodity prices; and iii) the prospect of US monetary tightening. EM will face a challenging, though not insurmountable, year. After all, returns from (and flows into) EM were positive in 2014 in spite of a wide set of challenges. Weaker commodity prices in EM the last few quarters have had a notable effect on macroeconomic performance across the group of EM commodity exporters; so it is now possible to argue that a principal dividing line in EM is between manufacturing-based economies and commodity-based ones. On balance we expect EM spreads to widen by 15bp next year but with significant volatility, and with particular difficulty for quasi-sovereigns. In local markets, our themes are broadly negative on EMFX and more constructive on duration.

Guillermo Mondino | David Lubin | Johanna Chua

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

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Appendix A-1

Analyst Certification

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