

Global Economic Outlook and Strategy by Citi (Aug 20, 2014)

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We continue to have a slight bias to growth forecast downgrades, and are trimming our global growth forecasts for both 2014 and 2015 by 0.1 percent from last month, to 2.8% and 3.4% respectively (at current exchange rates). Among individual countries, we make modest growth forecast downgrades this month for Japan, the euro area, Australia, Brazil, South Africa and Sweden. Indeed, this month sees the biggest one-month downgrade to our euro area growth forecast since Jan-2012.

We believe that **early easing by both the BoJ and ECB** is more likely than the consensus view. We look for both central banks to downgrade their economic forecasts and to launch major QE programs in Q4-14 or perhaps Q1-15. In the euro area, inflation is close to zero, inflation expectations are falling sharply, while weakness in Q2 GDP and recent business surveys suggest that growth is unlikely to be strong enough to prevent a sustained inflation undershoot.

In Japan, recent comments suggest that the BoJ is now becoming more worried about growth prospects, in light of weak data after the tax hike. We regard the BoJ's semi-annual forecast update in late-October as a likely trigger for further easing, especially given the prospect that the government will proceed with the second consumption tax hike in 2015. By contrast, the UK remains likely to tighten in the next six months or so, with the Fed likely to start to hike rates about a year from now.

Some aspects of globalisation seem to have slowed or stalled: world trade growth is sluggish, cross-border bank exposure is shrinking and global FDI flows remain well below the pre-crisis norms relative to global GDP. To be sure, the prior boost to globalization from trade deregulation and rapid expansion of cross-border bank lending has diminished. However, some of these **“de-globalisation” trends** mainly reflect the modest pace of advanced economy growth — notably Europe — rather than a reversal of globalization itself. Indeed, **with big inflows of foreign workers, labour markets in many advanced economies have become more globalized.**

Figure 1. Currency and Interest Rate Forecasts, as of 20 August 2014

	Current	4Q 14F	1Q 15F	2Q 15F	3Q 15F
United States: Federal Funds	0.25	0.25	0.25	0.25	0.75
10-Yr. Treasuries (Period Ave.)	2.40	2.70	2.90	3.05	3.15
Euro Area: US\$/€	1.34	1.34	1.33	1.33	1.34
Euro Repo Rate	0.15	0.15	0.15	0.15	0.15
10-Yr. Bunds (Period Ave.)	1.00	0.75	1.00	1.25	1.50
Japan: Yen/US\$	102	105	107	108	109
Call Money	0.10	0.10	0.10	0.10	0.10
10-Yr. JGB (Period Ave.)	0.51	0.50	0.70	0.80	0.85

F: Forecast. Note: All forecasts are for end of period, unless specified. Source: Citi Research