LIVERPOOL INVESTMENT LETTER

April 2017

Cardiff Business School
Ysgol Busnes Caerdydd

Julian Hodge Institute of Applied Macroeconomics

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LIVERPOOL RESEARCH GROUP IN MACROECONOMICS

LIVERPOOL RESEARCH GROUP IN MACROECONOMICS

Editorial and Research Direction: Patrick Minford†.

Senior Research Associates: Kent Matthews†, Anupam Rastogi, Peter Stoney.

Research Associates: Vo Phuong Mai Le†, David Meenagh†, Francesco Perugini, Yongdeng Xu†.

† Cardiff Business School

The Julian Hodge Institute was launched in autumn 1999 in a new collaboration between the Cardiff Business School of Cardiff University and Hodge. The aim of the Institute is to carry out research into the behaviour of the UK economy, and to study in particular its relationship with the other economies of Europe. The research has been particularly germane in recent years and has proved to be of significant social and political relevance as Europe has navigated the difficulties of the global financial crash, the Eurozone crisis and most recently the UK referendum on EU membership. The Liverpool Investment Letter is written by Patrick Minford, with the assistance of other members of the Group; in particular the emerging markets section is written by Anupam Rastogi, and the focus on Japan is written by Francesco Perugini. The Investment Letter is published monthly.

The Liverpool Research Group in Economics is pursuing a research programme involving the estimation and use of macroeconomic models for forecasting and policy analysis. The Group is now mainly based in Cardiff Business School, Cardiff University, and is indebted to the School and to the Hodge Foundation for their support. The Group’s activities contribute to the programmes being pursued by the Julian Hodge Institute of Applied Macroeconomics. This Liverpool Investment Letter is typeset by David Meenagh and published on behalf of the group by Liverpool Macroeconomic Research Limited, which holds the copyright

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THE BANK WORRIES ABOUT CREDIT CARD DEBT BUT WILL NOT RAISE RATES

Nothing more clearly illustrates the muddle at the heart of UK monetary policy today than the Bank's agonised public comments on the strong growth of credit card debt — currently around 10% up on a year ago. It worries that this is too high; and yet in the next breath it says it has no intention of raising interest rates from the 'zero bound'. It also treats the low level of sterling — some 15% below its pre-Brexit rate — as if it has nothing to do with monetary policy.

Yet think about it. A 15% devaluation under fixed exchange rates is the equivalent of a 15% boost to the money supply. Both have the effect in the long run of raising prices by 15%. In the short run both stimulate the economy via the burst of inflation that raises profits at the expense of wages until eventually wages catch up. We deploy these tools to stimulate a flagging economy.

Today we have not got a flagging economy; it is growing steadily and in the context of the post-financial crisis world rather strongly. Among developed countries the UK is one of the fastest growing, if not the fastest. All developed economies have suffered from a banking system that, presented with highly unwelcome demands by tightening regulators for more equity capital, have reacted by shrinking their balance sheets and twisting their loans towards areas where the capital requirements are lowest, such as mortgages, and car finance packages that can be sold off. Credit growth in general has been slow but with interest rates on 'safe' assets unusually low monetary ease has spilt over into channels where the regulative demands could be minimised.

What a mess! Credit channels are hugely distorted by regulators and in general credit growth has been sabotaged, and with it the animal spirits that fire up economies, when they have access to credit. Central banks have printed vast amounts of money under QE, with the aim of sparking off credit growth but the banks have simply parked the cash at the central banks. The result is anaemic, distorted growth. Then the regulators try to pick off bits of the picture of which they disapprove, such as credit card growth, whose behaviour has directly resulted from central bank actions.

We need to get totally away from this distorted world. President Trump, in his clumsy way, has identified bank regulation as one of the evils he wishes to abolish. How right he is and how we must hope he is successful in reversing the mad regulative backlash after the crisis. Basel and the BIS's ever-increasing regulative scope is in his sights.

But here in the UK, as we leave the EU, we have the chance to set out and create a new regulative structure. We should begin by raising interest rates slowly so that we get money markets working more normally again. We should withdraw the Bank from its role as credit controller on each and every channel of monetary policy; credit controls always had a bad name but when renamed as 'macro-prudential policy' people are duped into thinking that this time they are different.

Table 1: Summary of Forecast

	2014	2015	2016	2017	2018	2019	2020
GDP Growth[1]	2.9	2.2	2.0	2.3	2.5	3.0	3.4
Inflation CPI	1.7	0.2	1.2	1.9	2.6	2.9	2.3
Wage Growth	1.2	2.5	2.8	3.9	5.7	6.2	5.5
Unemployment (Mill.)[2]	1.1	0.8	0.8	0.8	0.8	0.7	0.7
Exchange Rate[3]	87.1	91.6	82.4	78.3	76.6	75.1	73.9
3 Month Interest Rate	0.6	0.6	0.5	0.9	2.0	2.8	3.0
5 Year Interest Rate	1.8	1.3	0.8	1.2	1.5	2.6	3.0
Current Balance (£bn)	−99.9	−103.7	−99.6	−55.8	−42.6	−20.5	−9.9
PSBR (£bn)	83.3	71.2	57.1	43.7	30.3	16.9	3.4

[1]Expenditure estimate at factor cost
[2]U.K. Wholly unemployed excluding school leavers (new basis)
[3]Sterling effective exchange rate, Bank of England Index (2005 = 100)

As the Bank's panic over credit card debt growth reveals, monetary policy does need to tighten. A 15% devaluation plus near-zero rates and continued QE adds up to a highly stimulative policy overall. So far, the inflation response has been muted. But as inflation exceeds 2% the alarm bells should be ringing for the MPC.

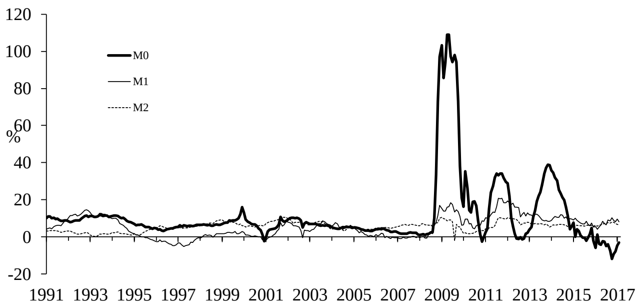
The World Environment

Monetary policy is highly stimulative in all major economies and yet the world economy's growth rate is only now edging above 3% per annum. This is a puzzle; but its resolution lies along the lines just discussed for the UK. The way money has been printed has been distortionary. We have credit growth to 'normal companies' stunted by the ridiculous Basel risk-weightings which force banks to raise much more capital that would wreck their profitability. Meanwhile dreadful balance sheets of private banks are propped up all over the world by governments for whom massive bond buying has forced down real interest rates deep into negative territory — think of bankrupt Deutsche Bank and Monte dei Paschi di Siena; or consider how many basically bankrupt Chinese state companies are being kept alive by the Chinese state. Governments have money to burn while decent private companies with good projects cannot borrow it. Basel has utterly wrecked the credit mechanism, blocking the major private credit channel and making it entirely cheap for bureaucrats to play God with useless banks or other clients.

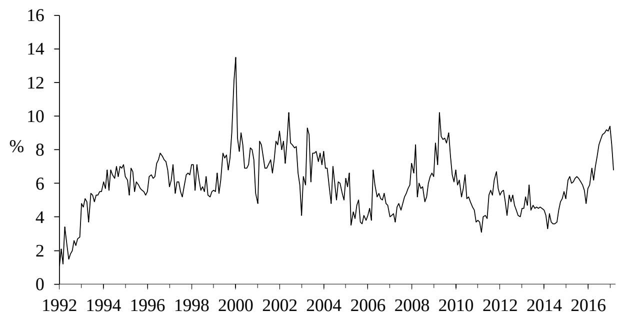
To call this 'financial repression' seems too kind; but in essence the modern regulative agenda combined with massive QE amounts to exactly this where governments can play any games they like with impunity while good private companies, especially smaller ones, struggle and are repressed.

Meanwhile the world business cycle carries on along a long wave in which commodity prices continue depressed by past overprovision, benefiting final output producers in the developed world. We compute the typical length of these wave half-cycles at 20–30 years. This one began at the commodity price peak of 2007. If it hews to the typical pattern the next commodity price peak will not be until 2027–2037, and ironically the weak growth of the current upswing implies that it could well be towards the later end of that range. For companies that can survive this is a reassuring prospect.

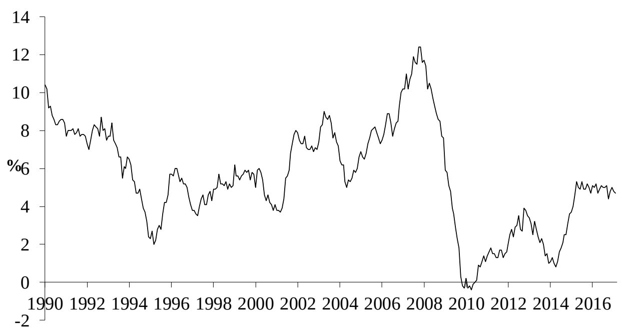
U.S.: Growth in Monetary Aggregates (Yr - on - Yr)



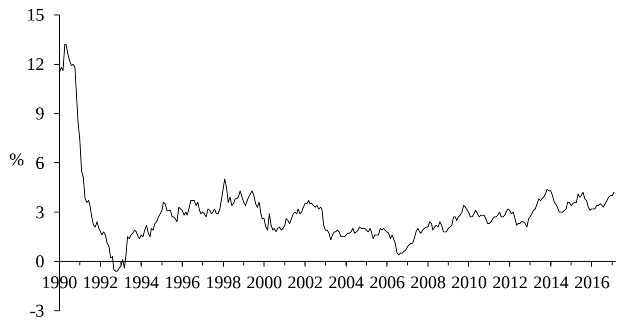
UK: Notes and Coins in Circulation Growth



Eurozone M3 Growth



Japan: Growth of M2+CD's



FOCUS ON JAPAN

Francesco Perugini

Inflation returns to Japan for the first time in more than a year

Core inflation has returned to Japan for the first time since 2015, with consumer prices excluding fresh food rising 0.1% in January over the same month a year earlier — headline consumer prices were up 0.4% on a year ago, compared with 0.3% the previous month. The so-called "core-core" CPI, a narrower measure excluding all volatile food and energy prices, was up 0.2% on a year earlier. The return to positive territory was mainly driven by energy — petrol prices jumped 9.2% year on year after big drops in 2016 — but the rise will be welcome news for the Bank of Japan (BOJ). The data suggest price pressures in Japan are picking up again with the recovery of global commodity prices and a slide in the yen since the election of US President Donald Trump, giving the BOJ renewed hope of hitting its 2% inflation target.

"We expect core inflation will pick up to around 1% this autumn, driven by the post-US election yen depreciation," said Kiichi Murashima, an economist at Citi in Tokyo. "We have reached a turning point on prices" as the impact of the past oil-price falls and yen strength disappears, echoed Takuji Aida, chief economist at Société Générale. "The inflation rate will likely rise by the end of the year, helped by upward pressure from tightening labour supplies."

However, some economists believe that Japan's price outlook is not so clear. The small increase in prices for January still leaves the central bank far from its 2% goal. Domestic consumption has yet to show a sign of the strength needed to keep feeding inflation, despite solid job growth. Yasunari Ueno, Mizuho Securities chief market economist, said even with the latest signs of improvement, 2% inflation is nowhere on the horizon. He says prices will have difficulty gaining traction with sluggish wage growth and the possibility of the yen strengthening again, a factor that would push down import prices.

Indeed, the core CPI for the Tokyo metropolitan area — which is less affected by gasoline costs than nationwide price data — fell 0.3% in February. Separate data pointed again to the mixed signals coming from Japan's economy. While the job market showed continued strength with unemployment falling to 3.0% — a factor that should help force up wages and by extension consumption down the line — household spending fell for the 11th straight month.

Economists and policy makers say that higher wages and stronger domestic consumption are important factors for lifting consumer prices and strengthening Japanese growth. "If ongoing tightening in the labour markets continues, wage growth may pick up in a more meaningful manner at some point in the future and this may start exerting upward pressure on prices, especially service prices for which the share of labour costs is high," said Kiichi Murashima, an economist at Citi in Tokyo. However, he noted that the effects of a hot jobs market on wages had not been as strong as expected during the past few years.

Latest news reveal that big companies in Japan are indeed offering smaller wage rises than last year. For instance, car group Toyota, which many companies look to for a lead, offered a basic pay rise of ¥1,300 per month — roughly 2% more in workers' pay checks — compared with ¥1,500 last year — an equivalent 2.14% increase. It will supplement that with an extra ¥1,100 for employees with children. Other companies follow. Nissan is offering ¥1,500 per month after meeting last year's ¥3,000 demand in full. Honda is proposing ¥1,600, which is up compared with ¥1,100 last year. In the electronics sector, Panasonic is offering ¥1,000, compared with ¥1,500 last year and union demands for ¥3,000. The main reason is that the corporate sector had a difficult 2016 as strength in the yen led to weaker profits, while domestic inflation slid below zero. Even though the yen has weakened since the election of Donald Trump in the US, the shunto figures — that is, the annual negotiations between trade unions and corporations on wage increases — suggest wage-setting in Japan is still backward-looking.

Sluggish wages for salary men contrast with the growing shortages of casual workers that have led companies like Yamato Transport, Japan's biggest parcel service, to propose across-the-board price rises for the first time in 27 years. "Big companies are dealing with labour shortages by making irregular staff into regular employees," said Katahiro Yasukouchi, deputy chairman of the Japan Association of Metal, Machinery and Manufacturing Workers, an umbrella group for industrial unions. "Small and medium-size companies can't do that so they may aim to keep staff by raising pay," he said. Manufacturers with fewer than 300 staff are offering marginally higher wage rises than last year at this stage in the negotiations. Employers also have to reckon with government plans to crack down on Japan's long working hours. That could lead to implicit wage increases — and deeper labour shortages — if staff end up working less for the same pay.

Though a tight labour market should accelerate wage growth, the pickup is now limited largely to small and midsize enterprises. And uncertainty over the future is driving many consumers to build up savings rather than spend. Stagnant demand has left many businesses unable to pass on rising labour costs to customers. In other words the tight labour market has not fuelled the hoped-for virtuous cycle of wage and price growth. With the economy at full employment, "the government should focus on productivity-boosting reforms, such as making it easier for workers to move to growth industries, rather than increasing demand," said Ryutaro Kono of BNP Paribas Securities.

He is right. It is extraordinary that so much policy attention is focused on money and prices and so little on the ultimate determinants of growth which are a competitive economy where new businesses can enter the market easily and old businesses are eliminated by their competitive thrust. The Japanese economy is throttled by cartels, trade protection and controls on entry. As for money creation, it is struggling against the effects of the new Basel regulative structures discussed in our opening section; as fast as the BoJ creates money the banks push it back into the BoJ as bank reserves. Broad money is hardly affected. No wonder prices are hardly reacting.

MARKET DEVELOPMENTS

If we are right that President Trump can start to unwind the Basel regulative tangle, then the wonderful run that governments have had on their bonds will come to a grisly end. Interest rates will finally rise. This will continue to be a good environment for equities; and as credit becomes less distorted the environment will improve further.

Table 1: Market Developments

	Market Levels		Prediction for Mar/Apr 2018	
	Mar 3	**Apr 6**	**Previous Letter**	**Current View**
Share Indices				
UK (FT 100)	7374	7303	12160	12043
US (S&P 500)	2382	2357	2951	2921
Germany (DAX 30)	12027	12231	19472	19802
Japan (Tokyo New)	1558	1480	2225	2114
Bond Yields (government				
UK	1.11	1.18	1.20	1.20
US	2.51	2.36	2.80	2.80
Germany	0.35	0.26	0.70	0.70
Japan	0.06	0.06	0.10	0.10
UK Index Linked	–1.63	–1.84	0.10	0.10
Exchange Rates				
UK ($ per £)	1.23	1.25	1.40	1.40
UK (trade weighted)	76.85	77.51	77.00	77.00
US (trade weighted)	106.43	105.00	102.0	102.0
Euro per $	0.95	0.94	0.93	0.93
Euro per £	1.16	1.17	1.30	1.30
Japan (Yen per $)	114.5	110.9	112.0	112.0
Short Term Interest Rates (3-month deposits)				
UK	0.31	0.30	1.50	1.50
US	1.15	1.25	1.30	1.30
Euro	–0.39	–0.39	–0.20	–0.20
Japan	–0.15	–0.05	0.00	0.00

Table 2: Prospective Yields [1]

Equities: Contribution to £ yield of:

	Dividend Yield	Real Growth	Inflation	Changing Dividend Yield	Currency	Total
UK	3.60	2.5	2.4	60.00		68.50
US	1.99	2.5	1.5	19.00	–12.03	13.86
Germany	3.30	1.8	1.1	59.00	–11.04	54.16
Japan	1.90	1.2	0.6	41.00	–13.15	31.55
UK indexed[2]	–1.84		1.5	2.00		2.56
Hong Kong[3]	2.60	6.0	1.5	–5.00	–12.03	–6.93
Malaysia	3.30	5.4	1.5	45.00	–12.03	42.17
Singapore	3.50	2.0	1.5	9.00	–12.03	3.97
India	1.40	8.0	1.5	29.00	–12.03	27.87
Korea	1.10	3.0	1.5	–19.00	–12.03	–25.43
Indonesia	2.20	5.2	1.5	30.00	–12.03	26.87
Taiwan	2.80	3.4	1.5	13.00	–12.03	8.67
Thailand	3.20	3.1	1.5	26.00	–12.03	21.77

Bonds: Contribution to £ yield of:

	Redemption Yield	Changing Nominal Rates	Currency	Total
UK	1.18	–0.20		0.98
US	2.36	–4.40	–12.03	–14.07
Germany	0.26	–4.40	–11.04	–15.18
Japan	0.06	–0.40	–13.15	–13.49

Deposits: Contribution to £ yield of:

	Deposit Yield	Currency	Total
UK	0.30		0.30
US	1.25	–12.03	–10.78
Euro	–0.39	–11.04	–11.43
Japan	–0.05	–13.15	–13.20

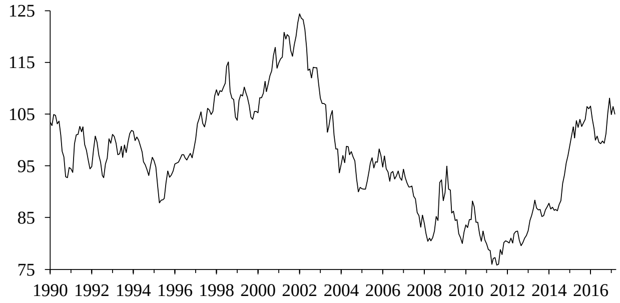
[1] Yields in terms of €s or $s can be computed by adjusting the £-based yields for the expected currency change.
[2] UK index linked bonds All Stocks
[3] Output based on China.

Table 3: Portfolio(%)

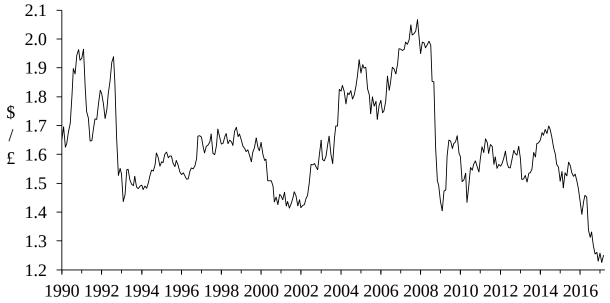
	Sterling Based Investor		Dollar Based Investor		Euro Based Investor	
	March Letter	Current View	March Letter	Current View	March Letter	Current View
UK Deposits (Cash)	5	5	5	5	1	1
US Deposits	-	-	-	-	-	-
Euro Deposits	-	-	-	-	-	-
Japanese Deposits	-	-	-	-	-	-
UK Bonds	-	-	-	-	-	-
US Bonds	-	-	-	-	-	-
German Bonds	-	-	-	-	-	-
Japanese Bonds	-	-	-	-	-	-
UK Shares	19	19	14	14	17	17
US Shares	14	14	19	19	16	16
German Shares	14	14	14	14	21	21
Japanese Shares	9	9	9	9	11	11
Hong Kong/Chinese Shares	4	4	4	4	4	4
Singaporean Shares	4	4	4	4	4	4
Indian Shares	4	4	4	4	4	4
Thai Shares	3	3	3	3	3	3
South Korean Shares	4	4	4	4	4	4
Taiwanese Shares	4	4	4	4	3	3
Brazilian Shares	4	4	4	4	3	3
Chilean Shares	4	4	4	4	3	3
Mexican Shares	4	4	4	4	3	3
Peruvian shares	4	4	4	4	3	3
Other:						
Index-linked bonds (UK)	-	-	-	-	-	-

INDICATORS AND MARKET ANALYSIS
FOREIGN EXCHANGE MARKETS

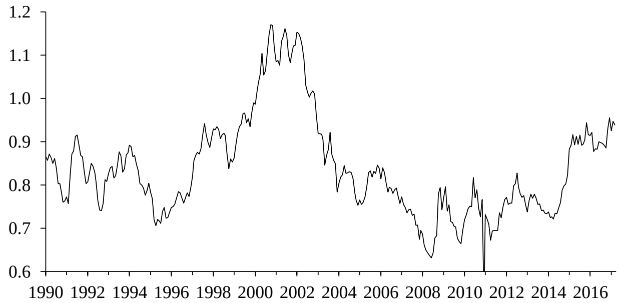
US : Trade Weighted Index
(Bank of England 1990 = 100)



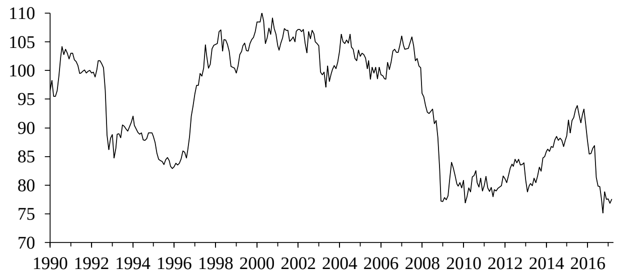
UK: Dollars Per Pound Sterling



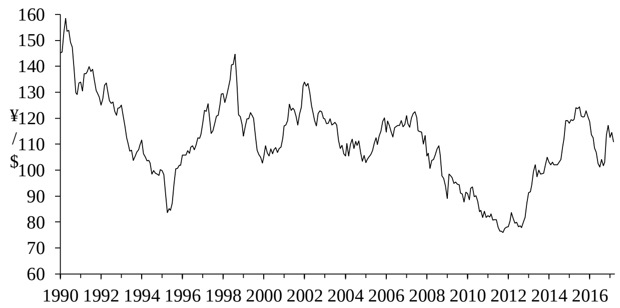
Euro per US dollar



UK: Trade-Weighted Index
(Bank of England 1990 = 100)



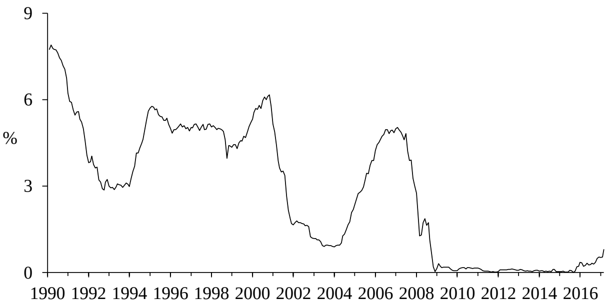
Japan : Yen Per U.S. Dollar



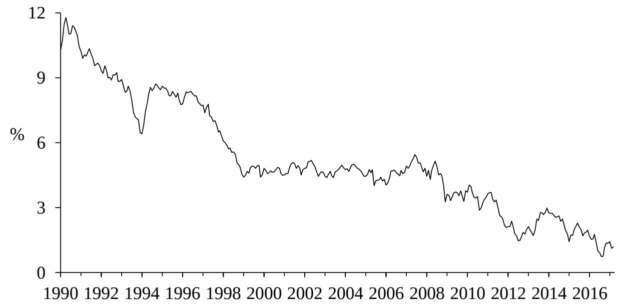
GOVERNMENT BOND MARKETS

U.S.: Yield on Long-Term Government Bonds

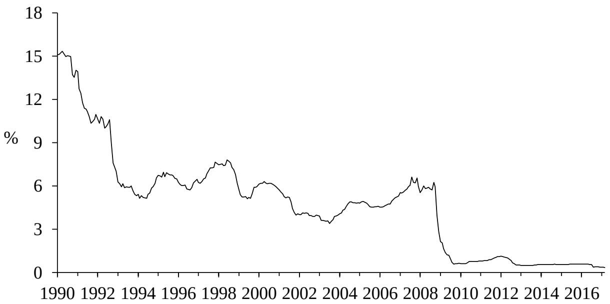
U.S. : 3-Month Treasury Bill



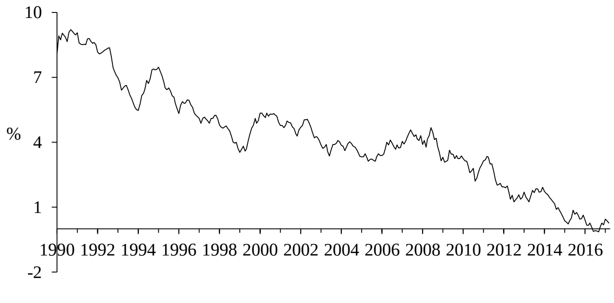
U.K.: Yield on Long-Term Government Bonds



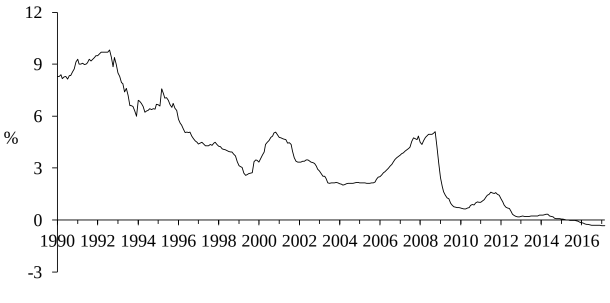
U.K. : 3-Month Interbank Rate



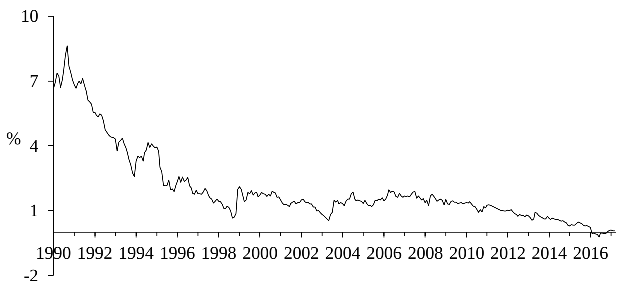
Germany: Yield on Public Authority Bonds



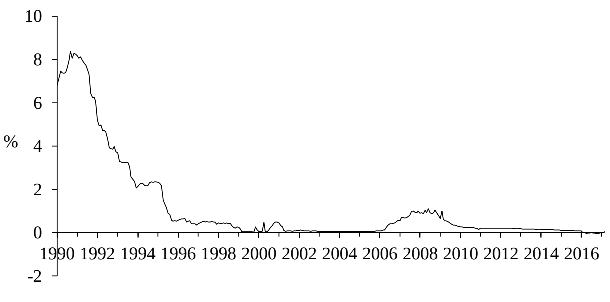
Germany : 3-Month Interbank Deposit Rate



Japan: Yield on Long-Term Government Bonds

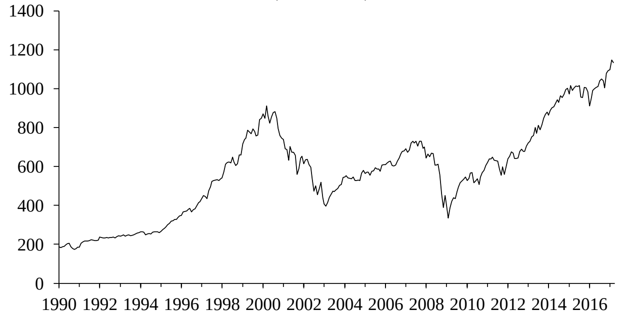


Japan : 3 Month Money Market Rate

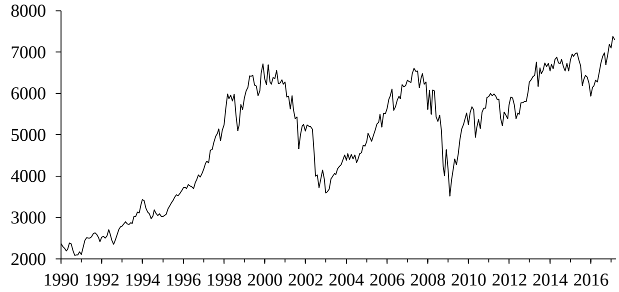


MAJOR EQUITY MARKETS

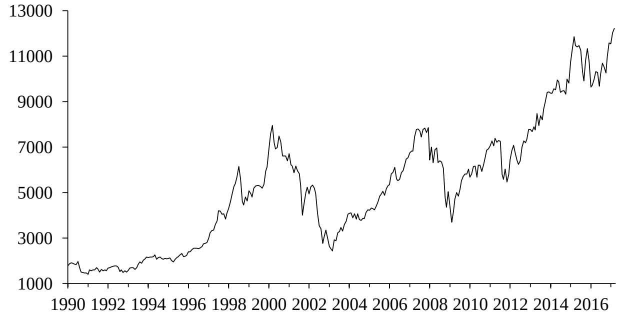
U.S. : S & P 400 Industrial
(1985=100)



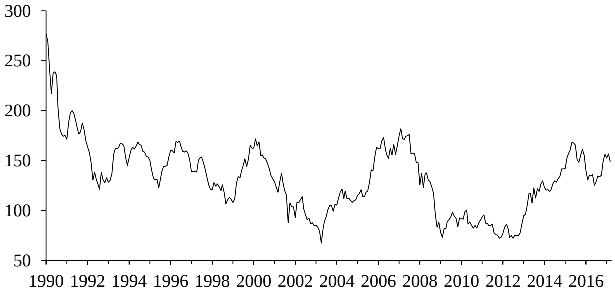
U.K. : FTSE-100 Index
(10 April 1962=100)



Germany : DAX 30



Japan : Tokyo S.E. New
(1985=100)



EMERGING MARKETS

Anupam Rastogi

India

An unprecedented win in state elections by the ruling party led by Prime Minister Modi has given India a new reform momentum. Both, forex and stocks markets are strengthening and hoping to have a stable government for the next 7–8 years as markets believe that Prime Minister Narendra Modi's chances of re-election in 2019 are a foregone conclusion and he would continue with economic reforms.

The ruling party sees the win as an endorsement of Mr. Modi's radical decision in November to cancel 86% of India's paper currency. Mr. Modi had cast his move as a crusade for the poor against wealthy tax-dodgers. He is now likely to widen his war on illicit wealth. From the election, the ruling party has emerged as a pro-poor and an anticorruption party.

The big-ticket reform is unlikely in the short run, while Mr. Modi continues to sell a vision of "new India" in which government removes obstacles for the poor which help in improving their lives. In the short-run government is dependent on expansive fiscal policies to boost the economy. His record on infrastructure development has fallen short of expectations but it is improving. Mr. Modi is still far from delivering the 1 million jobs that India requires to absorb newcomers to the labour market. The controversial labour market and land acquisition reforms have to wait until the ruling party gets re-elected in 2019

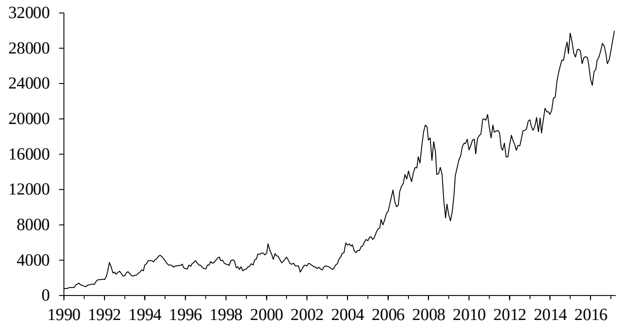
The IMF expects India to remain one of the fastest growing emerging market economies, forecasting 6.6% growth in the fiscal year ending on March 31, and 7.2% for the coming fiscal year. We are more optimistic in our growth forecast.

Consumer inflation remains below 4% and fiscal deficit is set at 3.2% of GDP.

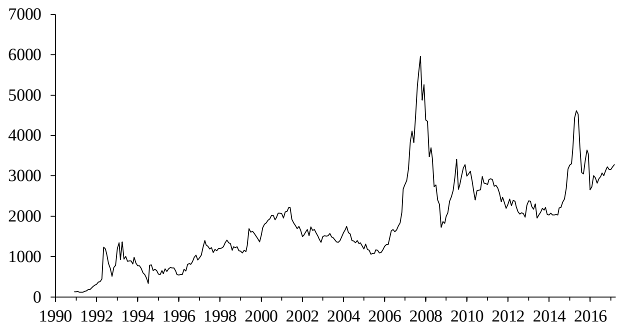
The Indian rupee rose 0.3% against the U.S. dollar on the eve of a widely-anticipated Federal Reserve rate hike. After the state elections the Indian rupee is appreciating as foreign direct investments and portfolio investments are pouring in. In the last week of March, the rupee broke the 65 rupee mark and touched a 17-month high since October 2015. The rupee appreciation is mainly attributed to the government's stance to contain fiscal deficit and RBI's change in monetary policy stance from accommodative to neutral.

The Indian parliament has passed the nationwide goods-and-services tax, or GST. It is scheduled to be implemented from July 1 this year. It is estimated that the new tax could add 0.8 percentage points to economic output.

India: BSE Sensitive



China: SSE Composite Index



India's benchmark BSE Sensex share index has gained more that 11% this year, and is forecast to rise another 3% by mid-year and a little over 6% by the end of 2017 from here. The monsoon is expected to be just below normal and should not affect economic growth substantially.

	15–16	**16–17**	**17–18**	**18–19**	**19–20**
GDP (%p.a.)	7.6	7.0	7.5	8.0	8.1
WPI (%p.a.)	5.2	4.5	4.0	4.0	4.1
Current A/c(US$ bill.)	-24.0	-24.0	-26.0	-28.0	-30.0
Rs./$(nom.)	66.5	68.2	67.0	68.0	69.0

China

Thanks to the government-directed spending and low-cost funding, the economy continued to grow in the first quarter. But, it may be tough to sustain. China has lowered its annual economic growth target to 'around' 6.5%, as Beijing wants the economy to continue growing at a steady rate in the final year of President Xi Jinping's first term. As China gears up for a high-level leadership transition at its party congress in November, stability has become the main watchword in Beijing, dictating everything from economic policies to reform efforts. Minimising volatility from economic liberalisation is seen as important for a smooth political transition even if it means backtracking on rebalancing the economy.

Premier Li Keqiang's three indicators, namely, electricity production, railway freight traffic, and bank credit is growing at a stable rate. China's electricity production was 8.5% higher than a year ago in December, rail freight traffic was 10.4% higher than a year ago. According to the "OECD Economic Surveys: China 2017" report, China will grow 6.5% this year and 6.3% in 2018.

China's consumer-price index in February was up just 0.8% from a year earlier, slowing from January's 2.5% pace, while the producer-price index — which measures production costs at the factory gate — was up 7.8%, its biggest jump since September 2008.

China reported an unexpected jump in its foreign-exchange reserves after months of decline and its first trade deficit in three years. China's foreign reserves rose by $6.9 billion in February compared with the previous month, rebounding for the first time in eight months and pushing the reserve total back above the $3 trillion mark.

Premier Li Keqiang has tried to reassure that China does not want a trade war with the US and will not devalue the renminbi to boost exports.

The yuan currently trades in the spot market at 6.89 to the dollar. Since the turn of the year, as the yuan's spot exchange rate against the dollar stabilized, the one-year forward rate has started dropping at a faster rate — despite the central bank purchases in the forward market — and is now above 7 yuan per $1. That is a level unseen since 2007.

	15	**16**	**17**	**18**	**19**
GDP (%p.a.)	6.9	6.5	6.3	5.8	5.5
Inflation (%p.a.)	1.4	2.0	2.2	2.0	2.1
Trade Balance(US$ bill.)	550	510	400	380	350
Rmb/$(nom.)	6.4	6.7	7.1	7.3	7.5

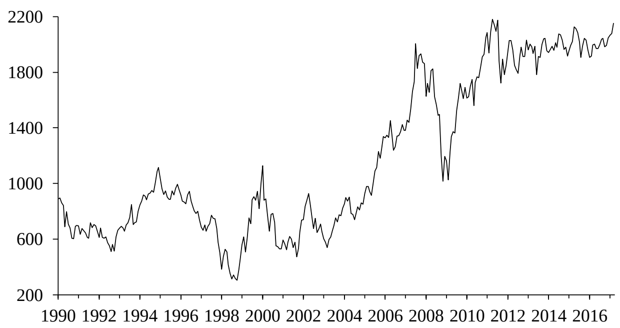
South Korea

The Bank of Korea has raised its figure for the 2016 economic growth rate by 0.1 percentage points to 2.8% as a result of improved manufacturing sector performance. We expect GDP growth to be 2.5% in 2017. In the last rate-setting meeting in February, the BOK left its key rate at a record low of 1.25%, the eighth consecutive rate freeze since it lowered the rate by 0.25 percentage point in June last year.

The Bank of Korea governor Lee Ju-yeol has repeatedly emphasized that the era of monetary policy has nearly ended and the government should use more aggressive expansionary fiscal policy to support growth. He said that the BOK has little room to move its base rate in any direction this year, due to mounting household debt and the already all-time-low interest rate.

The BOK has set its inflation targets at 2%, but the consumer prices index has remained below 2% since 2013. The consumer price index in February rose 1.9% from a year earlier.

Korea: Composite Index



Exports grew 2.1% in 2016, a reversal from a 0.1% contraction the previous year, while imports grew 4.5%, up from 2.1%.

Robert Lighthizer, US President Donald Trump's nominee for US Trade Representative (USTR), described South Korea as a trading partner that enjoys the biggest trade surplus.

The reason he called out South Korea is because the US's trade deficit with it, is steady and large in scale. According to figures provided by a US government statistics agency, the US trade balance with South Korea last year consisted of US$42.27 billion in exports and US$69.93 billion in imports, amounting to a deficit of US$27.67 billion.

The won is hovering at 1,114.0 against the dollar. The dollar bounced from 4-month lows after data showed that U.S. consumer confidence surged to a more than 16-year high in March.

Prosecutors in South Korea are seeking an arrest warrant for former President Park Geun-hye for her alleged role in a sprawling corruption scandal that triggered her impeachment. The country's top court has also upheld December's impeachment vote by the National Assembly, stripping South Korea's first female leader of the presidency and so her immunity from prosecution.

The polls are expected on May 9. The race looks set to be dominated by Moon Jae-in, a former human rights lawyer from the opposition Democratic party, who has pledged to revisit the deployment of a US missile shield that has triggered growing tensions with China. The leading contenders have laid out their corporate reform agendas, vowing to end presidential pardons for convicted top executives and promising to shake up governance at the country's conglomerates.

The ruling Conservative party is slowly gathering around acting president Hwang Kyo-ahn, who has remained quiet about any presidential ambitions. Of respondents to a poll conducted in the last week of March, Mr. Moon had nearly 30% support, followed by Mr. Ahn with 17 %.

	15	16	17	18	19
GDP (%p.a.)	2.6	2.5	2.5	2.5	2.5
Inflation (%p.a.)	0.7	1.0	1.6	1.2	1.3
Current A/c(US$ bill.)	90.0	88.0	88.0	86.0	80.0
Won/$(nom.)	1180	1160	1140	1140	1130

Taiwan

Taiwan's trade-reliant economy is recovering, but to fend off protectionist policies from US President Donald Trump and increasing competition from Chinese manufacturers, Taiwan has announced a T$882.4billion stimulus package to boost its export-driven economy. The stimulus plan will be spread over eight years and the infrastructure build-out will target rail, water, green energy and the digital economy, according to the government's proposal.

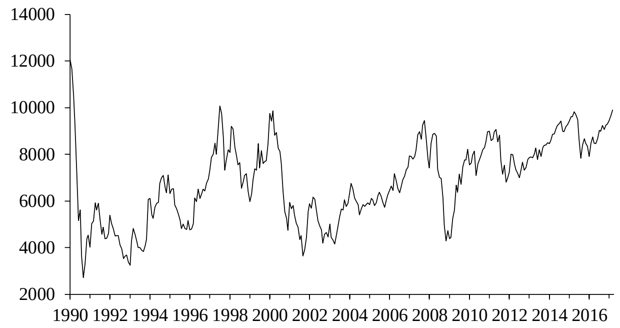
Taiwan's central bank kept its key policy rate steady after its quarterly policy meeting in the third week of March. Central bank chief Perng Fai-nan expects the economy to expand by 2% this year and 2.7% in 2018.

Taiwan's export orders grew at their fastest pace in six-and-a-half years in February on strong global demand for electronics that's bolstering makers of memory chips, flat panels and smartphones. There is a fear that China's slowdown and the slowing down of the tech cycle will start to weigh on exports soon.

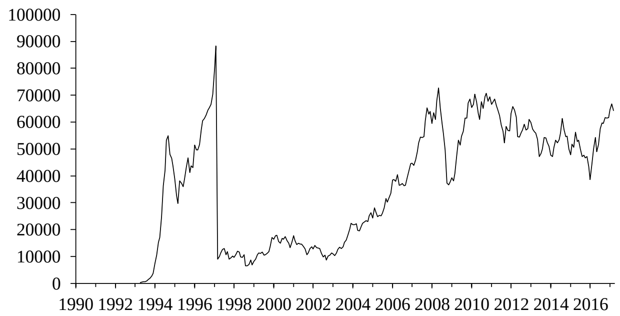
The central bank has signalled in a report to parliament amid worries that the United States could label the island a "currency manipulator". The report says that Taiwan does not deliberately weaken its currency to give the trade-dependent economy an "unfair competitive advantage". The bank maintains the dynamic stability of the Taiwan dollar and does not aim to seek unfair competitive advantage.

	15	16	17	18	19
GDP (%p.a.)	0.8	1.4	2.0	2.3	2.3
Inflation (%p.a.)	0.7	1.0	1.0	1.0	1.2
Current A/c(US$ bill.)	60.0	64.0	68.0	68.0	70.0
NT$/$(nom.)	32.8	32.5	32.0	32.0	32.0

Taiwan: Weighted TAIEX Price Index



Brazil: Bovespa



Brazil

The Brazilian economy is coming out of deep recession and it should expand 0.5% this year. The central bank governor Ilan Goldfajn hopes that in 2017 Q4 the economy would grow as much as 3%. GDP shrank 3.6% in 2016, following a contraction of 3.8% in 2015. These two years marked the worst recessionary period in the country's history, even worse than the 1930–1931 period, when GDP contracted 2.1% and 3.3% respectively. In 2018, GDP growth is estimated to expand at least 1.5% on the back of the monetary easing.

Brazil's inflation as measured by the consumer-price index eased further, paving the way for the central bank to continue with the reduction of its base rate in the coming months. The rolling 12-month consumer-price index ending in February decreased to 4.76% from 5.35% in January, reaching the lowest level since September 2010. Consumer price inflation is quite close to the central bank's inflation target for this year of 4.5%. By end of 2017, inflation may be just above 4%. The benchmark Selic rate is forecast to end 2017 at 9%.

According to the governor Ilan Goldfajn a real interest rate of 5% is the right level. Given inflation of 4–4.5% this year and the next, that implies nominal rates will bottom at 9%.

Brazil is forecast to post a $49.50 billion trade surplus this year. However, exports may suffer from the meat industry scandal. Importing countries are holding off on purchases and want to learn more about sanitary procedures. For now, countries such as China and Chile have announced temporary restrictions on Brazilian shipments. The European Union has also announced the suspension of products from 21 plants listed in the investigations.

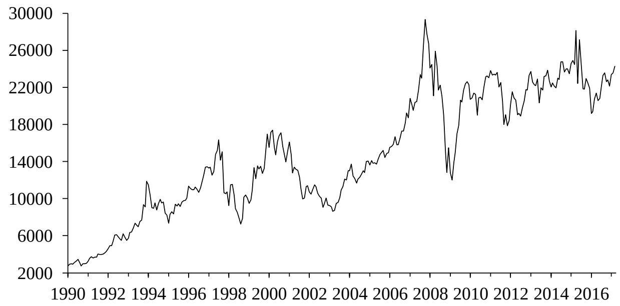
Moody's Investors Service has raised its credit rating outlook on Brazil to stable from negative, citing a recovery in the economy. Moody's has a Ba2 rating on Brazil credit, which is still non-investment grade.

The Brazilian government raised a total of $1 billion through the issue of overseas bonds. Investor interest in Brazilian assets is increasing because of expectations that the country's economy will recover this year.

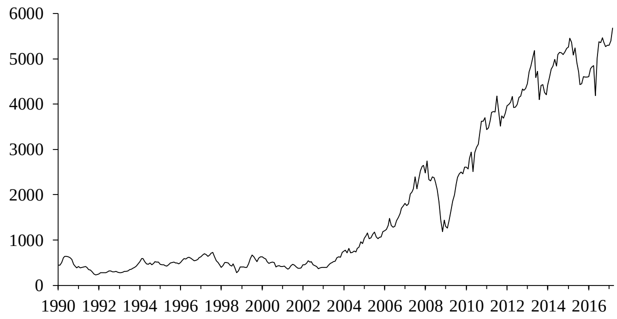
	15	16	17	18	19
GDP (%p.a.)	-3.8	-3.6	0.5	1.5	3.0
Inflation (%p.a.)	10.7	6.3	4.4	4.5	4.0
Current A/c(US$ bill.)	-70.0	-28.0	-25.0	-25.0	-32.0
Real/$(nom.)	3.9	3.5	3.4	3.2	3.2

Other Emerging Markets

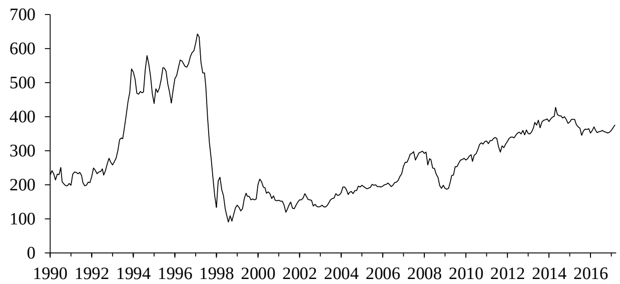
Hong Kong: FT-Actuaries



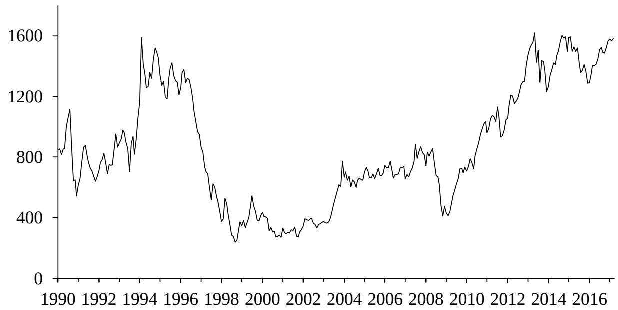
Indonesia: Jakarta Composite



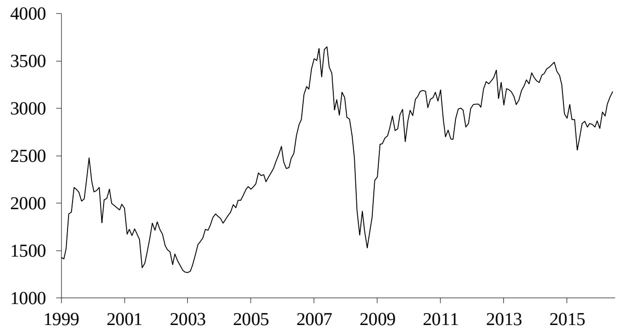
Malaysia: FT-Actuaries (US$ Index)



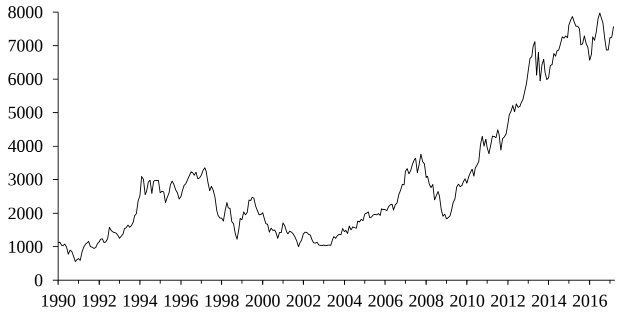
Thailand: Composite Index



Singapore: Straits Times Index

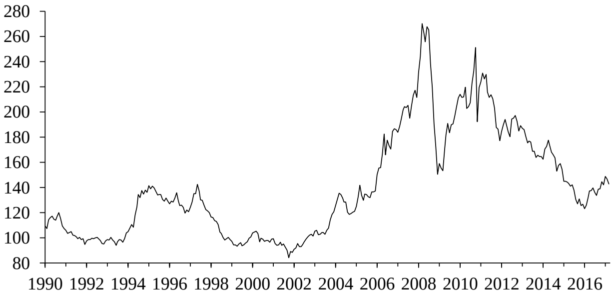


Philippines: Manila Composite

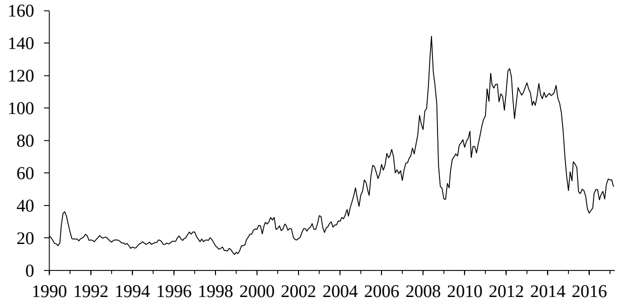


COMMODITY MARKETS

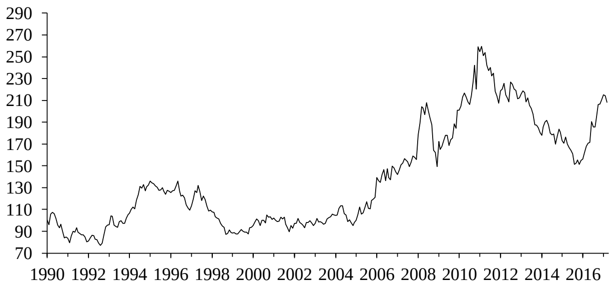
Commodity Price Index (Dollar)
(Economist, 2000=100)



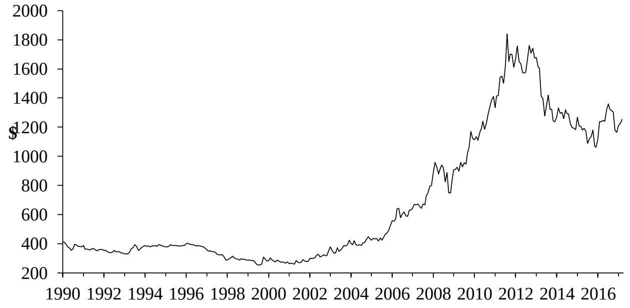
Oil Price: North Sea Brent (in Dollars)



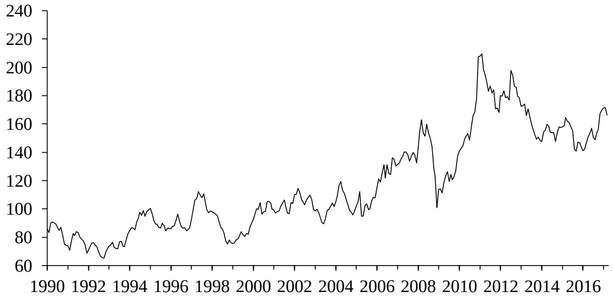
Commodity Price Index (Sterling)
(Economist, 2000=100)



Gold Price (in Dollars)



Commodity Price Index (Euro)
(Economist)



UK FORECAST DETAIL

Prices, Wages, Interest Rates and Exchange Rate Forecast (Seasonally Adjusted)

	Inflation %[1] (CPI)	Short Dated (5 Year) Interest Rates	3 Month Int. Rates	Nominal Exchange Rate (2005=100) [2]	Real Exchange Rate[3]	Real 3 Month Int. Rates %[4]	Inflation (RPIX)	Real Short Dated Rate of Interest[5]
2015	0.2	1.3	0.6	91.6	91.6	0.4	1.0	-1.0
2016	1.2	0.8	0.5	82.4	81.1	-1.1	1.9	-1.5
2017	1.9	1.2	0.9	78.3	76.5	-1.8	2.6	-1.2
2018	2.6	1.5	2.0	76.6	75.2	-0.9	3.2	-0.9
2019	2.9	2.6	2.8	75.1	74.7	0.5	3.5	0.5
2020	2.3	3.0	3.0	73.9	74.5	1.0	3.5	1.0
2016:1	0.6	0.9	0.7	87.2	87.1	-0.2	1.4	-1.3
2016:2	0.9	0.8	0.7	85.6	84.6	-0.8	1.6	-1.5
2016:3	1.4	0.6	0.4	78.9	76.6	-1.5	2.0	-1.7
2016:4	1.8	0.9	0.3	78.0	75.9	-1.8	2.5	-1.4
2017:1	1.8	1.0	0.5	79.2	77.5	-1.9	2.5	-1.4
2017:2	1.8	1.2	0.5	79.3	77.5	-2.0	2.5	-1.2
2017:3	1.9	1.2	1.0	77.6	75.4	-1.8	2.6	-1.2
2017:4	2.1	1.2	1.5	77.1	75.5	-1.3	2.8	-1.2
2018:1	2.4	1.3	1.5	77.0	75.5	-1.5	3.0	-1.1
2018:2	2.4	1.5	2.0	77.2	75.5	-1.0	3.0	-0.9
2018:3	2.8	1.5	2.0	75.9	74.6	-0.8	3.3	-0.8
2018:4	2.8	1.5	2.5	76.2	75.4	-0.3	3.3	-0.8

1 Consumer's Expenditure Deflator
2 Sterling Effective Exchange Rate Bank of England
3 Ratio of UK to other OECD consumer prices adjusted for nominal exchange rate
4 Treasury Bill Rate less one year forecast of inflation
5 Short Dated 5 Year Interest Rate less average of predicted 5 year ahead inflation rate

Labour Market and Supply Factors (Seasonally Adjusted)

	Average Earnings (1990=100)[1]	Wage Growth[2]	Unemployment (New Basis) Percent[3]	Millions	Real Wage Rate[4] (1990=100)
2015	247.3	2.5	2.3	0.8	141.2
2016	254.2	2.8	2.2	0.77	143.5
2017	264.0	3.9	2.2	0.78	146.3
2018	279.0	5.7	2.1	0.75	150.8
2019	296.3	6.2	2.0	0.73	155.6
2020	312.5	5.5	1.9	0.72	159.5
2016:1	252.0	2.1	2.1	0.74	143.1
2016:2	252.1	2.5	2.2	0.77	142.9
2016:3	254.4	2.4	2.2	0.79	143.5
2016:4	258.2	4.1	2.2	0.78	144.5
2017:1	261.2	3.7	2.2	0.78	145.7
2017:2	260.1	3.2	2.2	0.79	144.9
2017:3	264.7	4.0	2.2	0.78	146.5
2017:4	270.1	4.6	2.2	0.78	148.1
2018:1	273.6	4.7	2.1	0.77	149.1
2018:2	276.1	6.1	2.1	0.76	150.2
2018:3	280.8	6.1	2.1	0.75	151.4
2018:4	285.7	5.8	2.0	0.74	152.5

1 Whole Economy
2 Average Earnings
3 Wholly unemployed excluding school leavers as percentage of employed and unemployed, self employed and HM Forces
4 Wage rate deflated by CPI

Estimates and Projections of the Gross Domestic Product[1] (£ Million 1990 Prices)

	Expenditure Index	£ Million '90 prices	Non-Durable Consumption[2]	Private Sector Gross Investment Expenditure[3]	Public Authority Expenditure[4]	Net Exports[5]	AFC
2015	156.5	749593.1	430478.9	302953.3	196562.0	-50539.3	129861.8
2016	159.7	764884.7	440989.7	291942.7	198146.5	-50493.6	115700.9
2017	163.4	782270.2	458510.3	271594.3	201835.6	-31228.2	118441.5
2018	167.4	801747.2	469801.9	270784.6	205872.3	-23275.3	121434.6
2019	172.4	825316.6	481547.0	269609.6	209989.8	-11175.3	125137.9
2020	178.2	853470.1	493585.6	281097.0	214189.6	-5675.3	129723.2
2015/14	2.2		1.4	4.0	1.0		1.3
2016/15	2.0		2.4	-3.6	0.8		-10.8
2017/16	2.3		4.0	-6.8	1.9		2.4
2018/17	2.5		2.5	-0.3	2.0		2.5
2019/18	3.0		2.5	-0.4	2.0		3.1
2020/19	3.4		2.5	4.3	2.0		3.7
2016:1	158.3	189484.5	108439.3	72922.4	50700.0	-13273.4	29303.9
2016:2	159.3	190701.5	109534.3	74622.5	48658.8	-12532.0	29582.1
2016:3	160.2	191772.1	110077.5	75935.4	49283.1	-15879.9	27643.9
2016:4	161.1	192926.6	112938.5	68462.4	49504.7	-8808.3	29171.0
2017:1	162.0	193975.7	113610.1	65697.2	52080.7	-7810.2	29602.1
2017:2	162.8	194936.9	114285.7	68754.0	49227.3	-7808.3	29521.9
2017:3	163.8	196090.5	114965.4	68406.0	50032.9	-7808.4	29505.3
2017:4	164.8	197267.1	115649.0	68737.0	50494.7	-7801.3	29812.3
2018:1	166.0	198778.8	116365.2	65511.1	53122.3	-6097.5	30122.2
2018:2	167.1	200001.7	117085.7	68792.4	50211.8	-5798.5	30289.0
2018:3	167.6	200680.2	117810.8	67504.2	51033.6	-5290.7	30377.1
2018:4	169.0	202286.5	118540.3	68976.9	51504.6	-6088.6	30646.2

1 GDP at factor cost. Expenditure measure; seasonally adjusted
2 Consumers expenditure less expenditure on durables and housing
3 Private gross domestic capital formation plus household expenditure on durables and clothing plus private sector stock building
4 General government current and capital expenditure including stock building
5 Exports of goods and services less imports of goods and services

Financial Forecast

	PSBR/GDP %[1]	GDP[1] (£bn)	PSBR (£bn) Financial Year	Debt Interest (£bn)	Current Account (£ bn)
2015	4.6	1533.1	71.2	52.0	-103.7
2016	3.6	1576.1	57.1	52.0	-99.6
2017	2.7	1646.3	43.7	55.8	-55.8
2018	1.7	1738.2	30.3	62.2	-42.6
2019	0.9	1842.5	16.9	68.0	-20.5
2020	0.2	1460.0	3.4	52.9	-9.9
2016:1	0.2	385.4	0.6	13.1	-24.4
2016:2	5.7	388.7	22.3	13.1	-22.8
2016:3	4.3	389.1	16.8	12.9	-26.4
2016:4	5.4	397.2	21.5	12.9	-26.0
2017:1	-0.9	401.0	-3.5	13.2	-15.8
2017:2	4.4	403.3	17.8	13.2	-15.3
2017:3	3.8	407.7	15.7	13.8	-12.1
2017:4	4.3	414.7	17.8	14.4	-12.6
2018:1	-1.8	420.6	-7.6	14.5	-13.1
2018:2	3.1	423.8	13.3	15.0	-12.0
2018:3	4.1	429.5	17.7	15.2	-7.7
2018:4	2.4	437.5	10.7	15.9	-9.8

1 GDP at market prices (Financial Year)

WORLD FORECAST DETAIL

Growth Of Real GNP

	2013	2014	2015	2016	2017	2018
U.S.A.	1.5	2.4	2.4	2.1	2.4	2.5
U.K.	2.2	2.9	2.2	2.0	2.3	2.5
Japan	1.4	–0.1	0.5	1.0	0.8	0.8
Germany	0.3	1.6	1.7	1.8	1.5	1.6
France	0.7	0.2	1.1	1.4	1.5	1.6
Italy	–1.7	–0.3	0.8	1.1	1.3	1.5

Growth Of Consumer Prices

	2013	2014	2015	2016	2017	2018
U.S.A.	1.5	1.6	0.1	1.3	2.2	2.0
U.K.	2.3	1.7	0.2	1.2	1.9	2.6
Japan	0.4	2.7	0.8	0.2	1.8	2.0
Germany	1.5	0.9	0.3	0.5	1.6	2.0
France	0.9	0.5	0.0	0.4	1.2	1.8
Italy	1.2	0.2	0.1	0.2	1.1	1.7

Real Short-Term Interest Rates

	2013	2014	2015	2016	2017	2018
U.S.A.	–1.5	–0.1	–1.1	–1.2	–0.7	–0.5
U.K.	–0.8	–2.2	0.4	–1.1	–1.8	–0.9
Japan	–2.5	–0.6	0.0	–1.8	–2.0	–1.8
Germany	–0.6	–0.2	–0.6	–1.8	–2.2	–2.2
France	–0.2	0.1	–0.5	–1.4	–2.0	–2.0
Italy	0.1	0.0	–0.3	–1.3	–1.9	–1.9

Nominal Short-Term Interest Rates

	2013	2014	2015	2016	2017	2018
U.S.A.	0.1	0.0	0.2	1.0	1.3	1.5
U.K.	0.6	0.6	0.6	0.5	0.9	2.0
Japan	0.2	0.2	0.2	0.0	0.0	0.2
Germany	0.3	0.1	–0.1	–0.2	–0.2	–0.2
France	0.3	0.1	–0.1	–0.2	–0.2	–0.2
Italy	0.3	0.1	–0.1	–0.2	–0.2	–0.2

Real Long-Term Interest Rates

	2013	2014	2015	2016	2017	2018
U.S.A.	1.6	0.7	0.3	0.4	0.8	1.0
U.K.	–0.8	–0.7	–1.0	–1.5	–1.2	–0.9
Japan	–0.8	–1.1	–1.3	–2.0	–1.9	–1.7
Germany	0.8	–0.8	–1.0	–1.5	–1.3	–1.1
France	1.1	–0.5	–0.8	–1.3	–1.1	–0.9
Italy	1.2	–0.5	–0.7	–1.2	–1.0	–0.8

Nominal Long-Term Interest Rates

	2013	2014	2015	2016	2017	2018
U.S.A.	3.0	2.2	2.2	2.4	2.8	3.0
U.K.	1.3	1.8	1.3	0.8	1.2	1.5
Japan	0.7	0.3	0.3	0.0	0.1	0.3
Germany	1.9	0.5	0.6	0.4	0.7	0.9
France	1.9	0.5	0.6	0.4	0.7	0.9
Italy	1.9	0.5	0.6	0.4	0.7	0.9

Index Of Real Exchange Rate(2000=100)[1]

	2013	2014	2015	2016	2017	2018
U.S.A.	82.1	83.9	93.0	94.0	94.5	94.8
U.K.	86.5	93.1	91.6	81.1	76.5	75.2
Japan	63.5	59.8	56.0	58.4	58.5	58.6
Germany	99.0	99.9	94.7	95.0	95.2	95.1
France	100.7	100.8	96.2	96.0	95.9	95.7
Italy	106.9	107.5	102.1	102.0	101.8	101.7

[1] The real exchange rate is the domestic price level relative to the foreign price level converted into domestic currency. A rise in the index implies an appreciation in the real exchange rate.

Nominal Exchange Rate (Number of Units of Local Currency To $1)

	2013	2014	2015	2016	2017	2018
U.S.A.[1]	85.61	89.04	103.08	101.91	102.20	102.40
U.K.	1.55	1.65	1.53	1.35	1.27	1.26
Japan	98.20	106.70	120.00	118.40	112.00	113.00
Eurozone	0.75	0.76	0.90	0.95	0.93	0.92

[1] The series for the USA is a trade weighted index (1990=100); the series for the UK is $ per £

* Forecasts based on the Liverpool World Model