LIVERPOOL INVESTMENT LETTER

October 2017

Cardiff Business School
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Julian Hodge Institute of Applied Macroeconomics

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LIVERPOOL RESEARCH GROUP IN MACROECONOMICS

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The Julian Hodge Institute was launched in autumn 1999 in a new collabouration 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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CARNEY'S VOLTE-FACE

One of the ideas behind inflation targeting was creating predictability in monetary policy and enabling the 'forward guidance', implicit in the target and the actions promised to make it happen, more effective. It must be said that the Canadian governor, Mark Carney's, tenure has been marked by a great downgrading of predictability. Governor Carney has been unable to resist the temptation to talk a lot about what he might do, and then promptly to change direction.

Only a few months ago the Governor was talking about prolonged monetary ease in the face of 'Brexit uncertainty'. This looked quite strange given that the economy was growing strongly throughout 2016, even if softer consumer spending was apparently reducing 2017 growth.

However, now the Monetary Policy Committee seems to have ganged up on him, and reached a more robust view of the economy, closer to ours: that it is growing steadily and that ultra-loose monetary conditions look inappropriate therefore. Effectively monetary policy has been on 'emergency loose' status since the financial crisis struck hard after the Lehman bankruptcy in September 2008. The MPC has finally decided enough is enough: monetary policy must return gradually to normal as befits a normal economy.

To keep the Governor onside the argument is being put about on Brexit that the Bank 'cannot offset' the effects of a long-term regime change such as Brexit. This is rich considering the Governor has been arguing that it must on every possible occasion. However, it seems to have done the trick and the Bank line is now seamlessly to 'renormalise'.

To which we say Hallelujah! This process is coming online just as the Basel Committee adjusts to the Trump administration's demands for a softening of bank regulation — at last some reversal of the draconian demands for ever — higher capital injections into banks, with their result in the near-aborting of the recovery from the crisis, itself caused mainly by central bank incompetence.

So there will be a gradual raising of interest rates and an even more gradual selling-off of the huge amounts of government bonds held by the Bank (round about a third of the national debt). This must be welcomed as a step away from a market in savings that has been hopelessly mucked around by monetary policy: returns to savers have been tiny, while the government has paid negative real interest rates for its massive borrowing and medium to largeish companies with weak prospects have been allowed to survive on essentially free money. All the while small companies, where disruptive innovation is potentially strong, have been denied credit because the rulebook says they are 'risky' and banks must hold a lot more capital when they lend to them. This has been a mad bad world of credit.

Table 1: Summary of Forecast

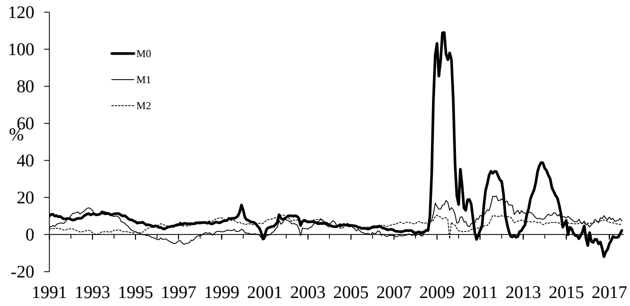
	2014	2015	2016	2017	2018	2019	2020
GDP Growth[1]	2.9	2.2	2.3	2.1	2.6	2.9	3.5
Inflation CPI	1.7	0.2	1.2	2.6	2.7	3.0	3.0
Wage Growth	1.2	2.4	2.9	2.2	2.7	3.2	3.5
Unemployment (Mill.)[2]	1.1	0.8	0.7	0.8	0.8	0.7	0.7
Exchange Rate[3]	87.1	91.6	81.5	77.0	76.3	74.9	73.7
3 Month Interest Rate	0.6	0.6	0.4	0.4	0.6	1.1	2.8
5 Year Interest Rate	1.8	1.3	0.9	1.1	1.5	2.5	3.0
Current Balance (£bn)	–99.9	–103.7	–87.4	–64.3	–45.0	–37.3	–28.6
PSBR (£bn)	83.3	71.2	45.1	51.6	45.4	21.1	22.7

[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)

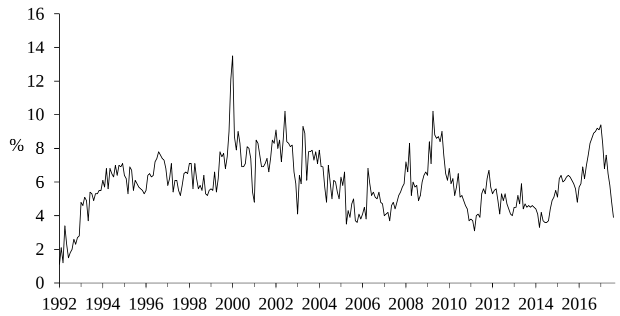
Meanwhile the Brexit process continues on its inexorable course. The EU negotiators are not being cooperative so it looks as if getting agreement on trade and even on a transition period may be unobtainable. But Mr. Davis keeps on putting forward sweet reason, so putting the lack of progress firmly in the EU's court. It so happens that the UK benefits most from this lack of agreement, since without it we will go to WTO rules faster and so more quickly reap the gains from free trade and UK-based regulation.

It has never been right to bet against free trade and competition in Britain's long history. Brexit will be no exception. It remains the case that many sophisticated commentators have yet to catch up with the extent of EU protectionism and over-regulation. Getting rid of this while still selling to the EU across quite small tariff barriers, as is done by all non-EU countries of the world, will usher in a period of lower prices and more competition, the same recipe that gave us the Thatcher period of resurgent productivity.

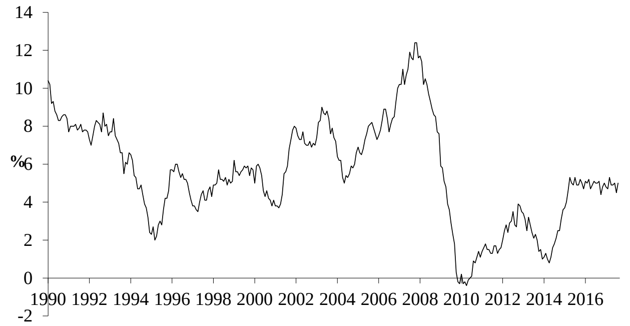
U.S.: Growth in Monetary Aggregates (Yr - on - Yr)



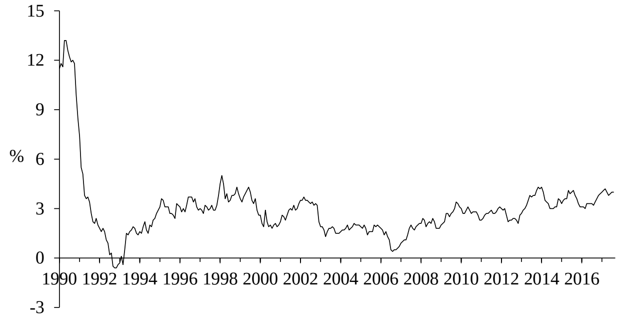
UK: Notes and Coins in Circulation Growth



Eurozone M3 Growth



Japan: Growth of M2+CD's



FOCUS ON JAPAN

Francesco Perugini

Japan is set for an October election

Although not unanticipated, Japanese Prime Minister Shinzo Abe's dissolution of Japan's lower house and call of a general election on 22 October still surprised many given the difficulty in finding any convincing explanation for why the election should be held more than a year early.

Japan's lower house was dissolved on September 28 ahead of an expected snap October 22 election being called by Prime Minister Shinzo Abe — 14 months before it was due — as he seeks to confirm his mandate in the face of a rising challenge from a popular new conservative party.

Abe said he needs a mandate by the voters for his plan to dedicate revenue from the next consumption tax hike to support child-rearing, including free pre-school education. He also said that he is seeking a fresh mandate from the electorate so that his administration can respond on a more solid footing to the security challenges posed by North Korea's ballistic missiles and nuclear weapons programs.

However, the various causes that he cited for holding the snap election at this point sound less than convincing to observers and practitioners. "The only reason Abe is up for a snap election is that he is confident of a win," said Hajime Yoshimoto, a senior economist at Nomura Securities. They believe that his decision seems driven more by the political calculation that the LDP can maximize the seats it can win by once again catching the opposition off guard. The popular approval ratings for Abe's administration, whose plunge to their worst levels just a few months ago appeared to make an imminent election impractical, have quickly recovered — Abe's personal ratings have risen to around 50% from around 30% in July, partly on the back of his leadership during the current North Korea crisis.

Meanwhile, the largest opposition Democratic Party (DP) remains in tatters, with the recent choice of Seiji Maehara as new chief failing either to uplift its sluggish voter support or halt the moves by its lawmakers to desert the struggling party, many of them to join a new party — the Party of Hope — being launched by Tokyo Governor Yuriko Koike. The popular governor, whose local party upstaged the LDP in the Tokyo Metropolitan Assembly election in July, scrambled to launch the national party in time for Abe's snap election announcement. It is uncertain, however, how far yet another fledgling party can go, even by teaming up with the DP defectors, in the vote just weeks from now.

According to a latest poll by the Nikkei newspaper, Abe's LDP is supported by 44% of voters, with the opposition DP on 8% and the Party of Hope also on 8%. However, the large number of undecided voters, plus Koike's huge following in the Tokyo region, means that the election is still full of potential pitfalls for the prime minister. LDP politicians in the greater Tokyo area fear Koike could sweep them away as comprehensively as she did in local elections.

Jeff Kingston, a professor at Temple University's Japan Campus in Tokyo, called Koike's new party a game changer. "I think it is really bad news for Abe," he said. "She doesn't actually have to win, but she has to inflict a bloody nose on Abe ... If her party does better than expected, expect the long knives to come out in the LDP, and Abe could be ushered to the exit."

George Mulgan, a Professor at the University of New South Wales, Canberra also shares a similar view. "Given her popularity, the 'Koike factor' may bring out voters who might otherwise have not bothered to participate and is likely to pull voter support from other parties including the LDP. If this translates into a loss of ruling coalition seats below the two-thirds majority threshold, it will have implications for the prospect of constitutional reform as well as for Abe's leadership", he said.

Abe's campaign will likely focus on education and constitutional amendment. The prime minister intends to partially reassign revenue from a consumption tax hike slated for October 2019 from government-debt repayment to providing free education, and to write Japan's Self-Defense Forces into the country's war-renouncing constitution. Basic policies on North Korea and ways to boost Abenomics will also form part of the ruling Liberal Democratic Party's manifesto, the prime minster said at the press conference.

In preparation for the election, Abe has ordered his cabinet to prepare a ¥2 trillion fiscal stimulus package before the end of the year. Yunosuke Ikeda, head of foreign exchange strategy at Nomura in Tokyo, said he expected "fairly limited direct implications" from the stimulus. "This will be spread over a three-year period from 2018 to 2020, so it is unlikely to alter the Bank of Japan's monetary policy trajectory," he said. "This stimulus package will mainly try to minimise the negative impact from the higher consumption tax rate schedule in 2019, so it's not necessarily a very expansionary programme. It's just trying not to tighten the fiscal conditions because the administration is focused on offsetting the tax hike."

Overall, it seems that the forthcoming election is all about Abe and consolidating his power, not about the LDP and certainly not about the broader national interest. Abe's announcement of the election capped off his latest round of overseas trips, including an address to the UN and another meeting with US President Donald Trump with Abe 'the statesman' on full display -a tactic that he has used before to raise support levels.

MARKET DEVELOPMENTS

The imminent start of rising interest rates spells more clearly the end of the bull market in bonds. Worldwide growth is steady and reasonably robust, with even the euro-zone now joining in the post-crisis recovery. Raw material capacity is still large and excessive so that we are still some time away from a tightening of world capacity conditions. It remains a good time for equity investment.

Table 1: Market Developments

	Market Levels		Prediction for Sep/Oct 2018	
	Sep 4	**Sep 29**	**Previous Letter**	**Current View**
Share Indices				
UK (FT 100)	7411	7373	11866	11966
US (S&P 500)	2477	2519	3009	3053
Germany (DAX 30)	12102	12829	19279	20334
Japan (Tokyo New)	1604	1675	1974	2077
Bond Yields (government				
UK	1.11	1.41	2.00	2.00
US	2.16	2.32	3.00	3.00
Germany	0.37	0.47	0.80	0.80
Japan	0.00	0.05	0.10	0.10
UK Index Linked	−1.69	−1.52	−1.00	−1.00
Exchange Rates				
UK ($ per £)	1.30	1.34	1.26	1.27
UK (trade weighted)	75.21	78.63	76.50	75.5
US (trade weighted)	98.59	99.44	102.4	102.4
Euro per $	0.84	0.85	0.92	0.85
Euro per £	1.09	1.13	1.16	1.08
Japan (Yen per $)	109.5	112.6	115.2	114.1
Short Term Interest Rates (3-month deposits)				
UK	0.27	0.30	1.50	0.60
US	1.32	1.37	1.50	1.80
Euro	−0.40	−0.40	−0.20	−0.20
Japan	−0.05	−0.05	0.20	0.10

Table 2: Prospective Yields [1]

Equities: Contribution to £ yield of:

	Dividend Yield	Real Growth	Inflation	Changing Dividend Yield	Currency	Total
UK	3.60	2.4	2.9	57.00		65.90
US	1.99	2.4	1.9	16.90	5.34	28.53
Germany	3.30	1.9	1.6	55.00	4.89	66.69
Japan	1.90	1.2	0.8	22.00	4.05	29.95
UK indexed[2]	–1.52		2.9	1.00		2.39
Hong Kong[3]	2.60	6.3	1.9	–4.00	5.34	12.14
Malaysia	3.30	4.8	1.9	49.00	5.34	64.54
Singapore	3.50	2.0	1.9	8.00	5.34	20.84
India	1.40	8.0	1.9	23.00	5.34	39.24
Korea	1.10	3.0	1.9	–21.00	5.34	–9.66
Indonesia	2.20	5.4	1.9	30.00	5.34	44.84
Taiwan	2.80	3.4	1.9	12.00	5.34	25.44
Thailand	3.20	2.6	1.9	24.00	5.34	37.54

Bonds: Contribution to £ yield of:

	Redemption Yield	Changing Nominal Rates	Currency	Total
UK	1.41	–5.90		–4.59
US	2.32	–6.80	5.34	0.86
Germany	0.47	–3.30	4.89	2.06
Japan	0.05	–0.50	4.05	3.60

Deposits: Contribution to £ yield of:

	Deposit Yield	Currency	Total
UK	0.30		0.30
US	1.37	5.34	6.71
Euro	–0.40	4.89	4.49
Japan	–0.05	4.05	4.00

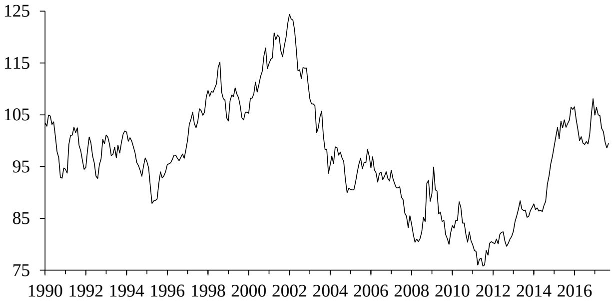
[1] Yields in terms of €s or $s can be computed by adjusting the £-based yields for the expected currency change.
[2] UK index linked bonds All Stocks
[3] Output based on China.

Table 3: Portfolio(%)

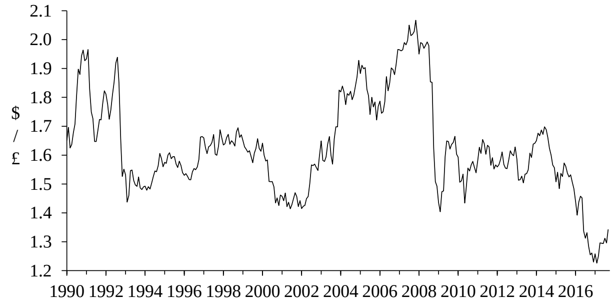
	Sterling Based Investor		Dollar Based Investor		Euro Based Investor	
	September Letter	Current View	September Letter	Current View	September Letter	Current View
UK Deposits (Cash)	5	5	5	5	1	1
US Deposits	-	-	-	-	-	-
Euro Deposits	-	-	-	-	-	-
Japanese Deposits	-	-	-	-	-	-
UK Bonds	-	-	-	-	-	-
US Bonds	-	-	-	-	-	-
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

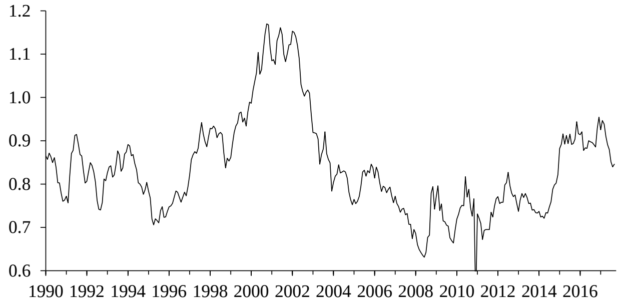
US : Trade Weighted Index
(Bank of England 1990 = 100)



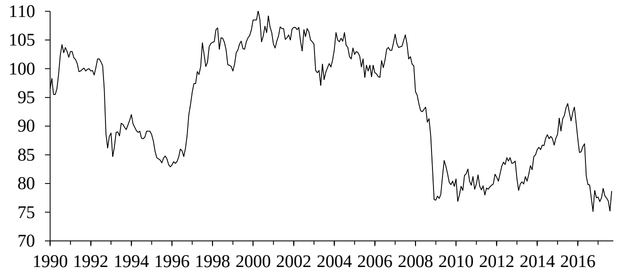
UK: Dollars Per Pound Sterling



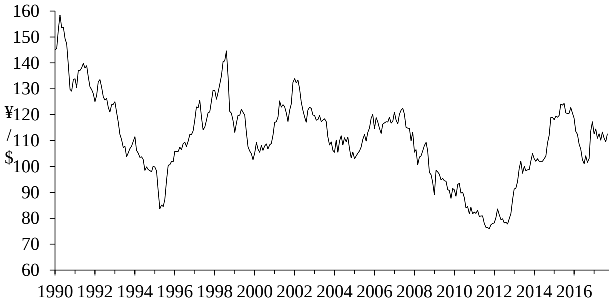
Euro per US dollar



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



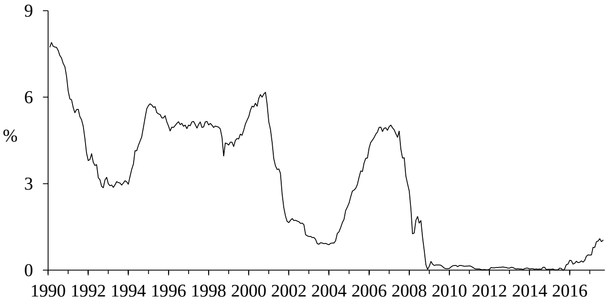
Japan : Yen Per U.S. Dollar



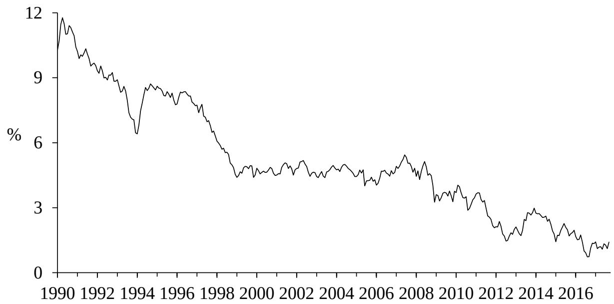
GOVERNMENT BOND MARKETS

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

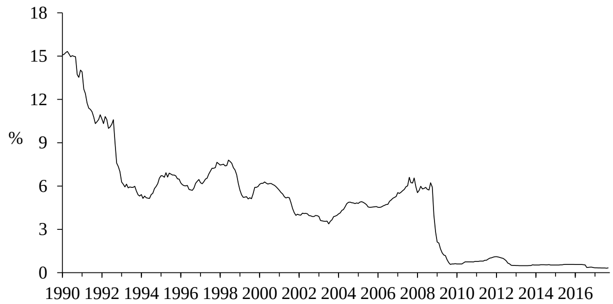
U.S. : 3-Month Treasury Bill



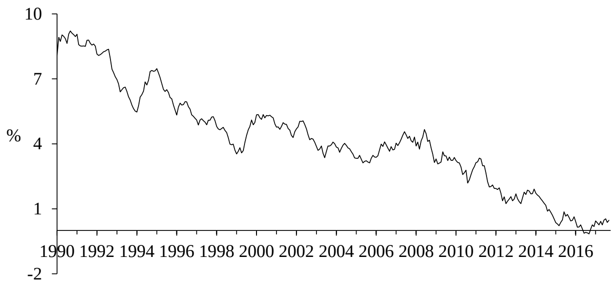
U.K.: Yield on Long-Term Government Bonds



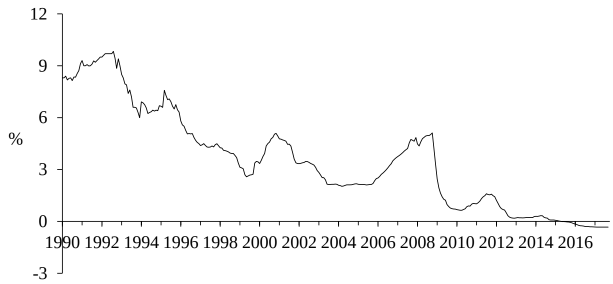
U.K. : 3-Month Interbank Rate



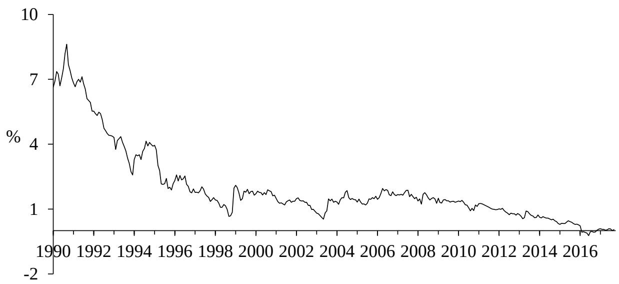
Germany: Yield on Public Authority Bonds



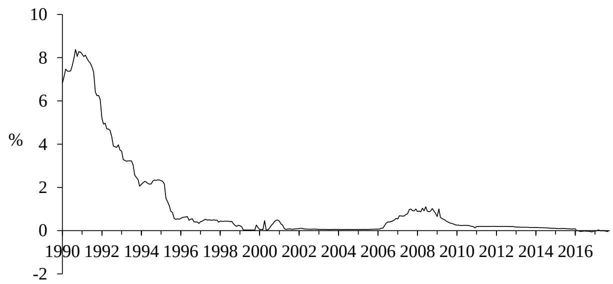
Germany : 3-Month Interbank Deposit Rate



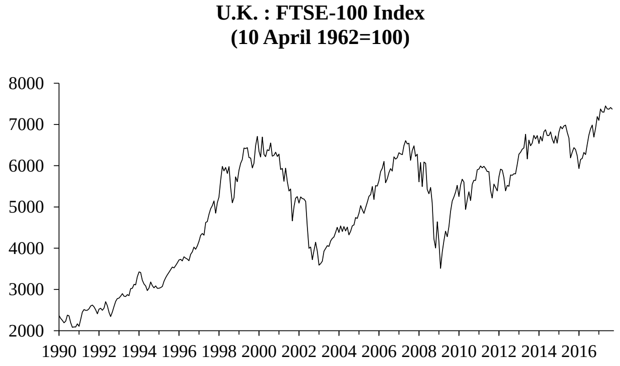
Japan: Yield on Long-Term Government Bonds

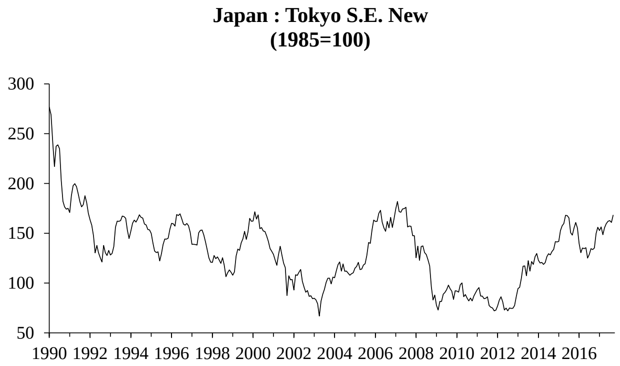


Japan : 3 Month Money Market Rate



MAJOR EQUITY MARKETS





EMERGING MARKETS

Anupam Rastogi

India

With the Indian economy slowing to a three-year low of 5.7% last quarter, the government is under pressure to give a fiscal and monetary push to the economy. The growth was lower than the 6.1% expansion in the previous quarter. India's economy unexpectedly decelerated last quarter with GDP growth dipping below 6% as the impact of New Delhi's demonetization and implementation of Goods and Services tax slowed down manufacturing. The World Bank predicted that the South Asian nation's economic growth will accelerate from an estimated 6.8% this year to 7.2% in 2018.

Many critics are saying that India's shine is fading rapidly. In our view, implementation of structural reforms takes 2–3 quarters and results start showing after that. Until the end of 2017, we have to have patience to see the real impact of the reforms.

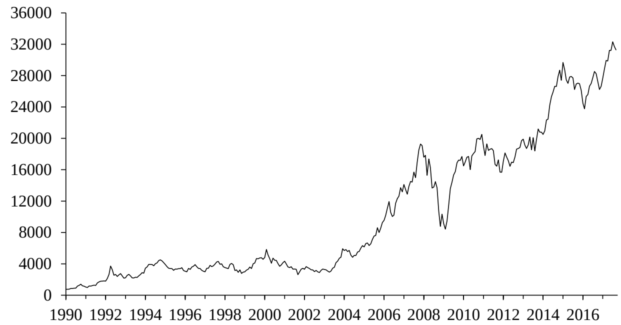
Inflation is on the upswing and we may get consumer inflation about 4% by the end of the financial year. In the first quarter, the current account deficit expanded to 2.5% after being 0.7% in the year ending March. Overall, things are not looking great on the macro side. We are watching carefully how the government will react to this temporary blip. Our hunch is that it will ride over it without losing its nerves and throw macroeconomic prudence out of window. The rollout of the goods and services tax this year is expected to increase compliance and eventually boost growth. This will also improve the government's ability to collect taxes in a much more efficient manner.

The biggest problem with Indian economy is investment. People are completely missing the point that there was no investment in the last five years. If we look at the GDP composition, roughly 30% is investment. The growth in investment in the last five years was about 3.8% on average. So, if we have 30% of GDP growing at some 4%, it is obvious that the economy cannot grow to 7.5%, no matter how much growth in consumption and government expenditure have.

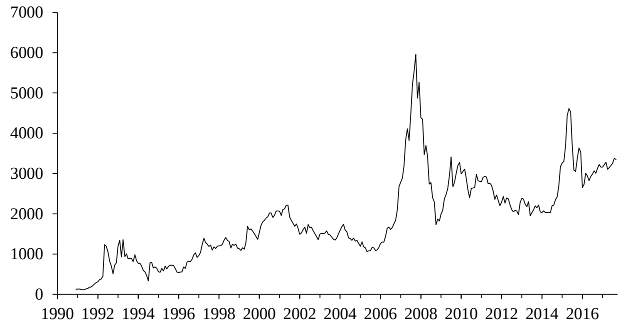
The Indian rupee was the most sought after currency in Asia until recently. The rupee had advanced more than 4% against the dollar by mid-September and has lost a couple of percent in the last one week. Foreign ownership of Indian bonds is quite low — 4.2% as of July — because of limits imposed by the country's central bank.

India's stock market has corrected 5% from its all time high after the growth figures were made public. But confidence in the country's relative economic and political stability has not got dented.

India: BSE Sensitive



China: SSE Composite Index



	15–16	**16–17**	**17–18**	**18–19**	**19–20**
GDP (%p.a.)	8.0	7.1	6.5	7.6	8.1
WPI (%p.a.)	5.2	4.5	3.5	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	65.5	66.5	67.5

China

China's GDP growth is all set to meet this year's target of about 6.5%. The government is keen to rein in housing market speculation and we may see evidence of a slowing economy in coming months. Value-added industrial output, a rough proxy for economic growth, slowed for a second straight month, rising 6.0% in August, compared with a 6.4% increase in July.

The consumer-price index increased 1.8% from a year earlier, compared with a 1.4% gain in July. But inflation numbers are well below policy makers' inflation ceiling of about 3%.

China's exports increased 5.5% from a year earlier in August, according to customs data. The growth was lower than July's 7.2% rise but it is sound enough to help the economy to grow at steady a pace. Imports expanded 13.3% in August from a year earlier, compared to the 11.0% gain in July. The faster growth of imports, coupled with a moderating rise in exports, narrowed China's surplus to $41.99 billion in August, from $46.74 billion in July.

An appreciation in the yuan, however, is likely to crimp a further expansion of China's exports. The yuan soared 2% against the U.S. dollar in August alone, marking its biggest monthly gain since July 2005. The currency has recovered from the entire 6.6% decline recorded last year.

China did not like Standard & Poor's sovereign rating downgrade. S&P has cut its rating on China to A+ from AA–, citing increased financial risks. This prompted the Ministry of Finance to criticize the downgrade as "a misreading of China's economy." The S&P's downgrade comes at a sensitive time even though the rating agency has just joined its ratings peers Fitch and Moody's.

However, the markets have shrugged it off because S&P has just reiterated what others have said about the economy's reliance on debt. China is upset with S&P because the downgrade comes at a particularly sensitive time. From 18th October, China's Communist Party will hold its 19th National Congress, in which President Xi Jinping is expected to consolidate power. Financial-market stability is high on Beijing's agenda.

But the most important part of the S&P commentary about the downgrade is its assertion that compared with its similarly rated peers, China had "less transparency, and a more restricted flow of information." This implies that China is less open than it was when it earned its last upgrade in 2010. S&P has raised a valid concern about China's credit continuing to expand faster than output. That reflects more loans going into supporting loss-making firms, such as state-owned steelmakers, as opposed to more productive areas. Such continued misallocation of resources raises the spectre of a prolonged economic downturn down the line.

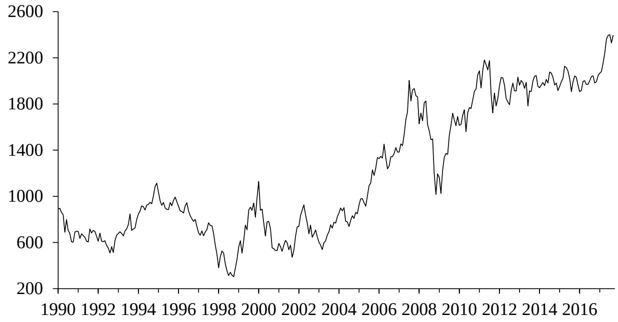
China is laying the groundwork for its first sale of U.S.-dollar sovereign bonds in more than a decade; a move toward expanding its ties with global investors as its economy improves. The government is preparing to sell $2 billion in bonds this month, and investment banks are pitching for a role in the deal. While the planned sale isn't large and is mostly symbolic, it would be China's biggest-ever U.S.-dollar bond sale and its first since October 2004, when the country raised a total of about $1.7 billion from selling dollar- and euro-denominated bonds that matured in five and 10 years.

	15	16	17	18	19
GDP (%p.a.)	6.9	6.5	6.7	6.3	6.0
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	6.6	6.5	6.6

South Korea

Even though South Korea is facing global political risk, its economy is growing well as world trade is expanding. The central bank expects South Korea's economy to expand 2.8% this year, faster than an earlier estimate of 2.6% growth. Moody's also expects gross domestic product

Korea: Composite Index



growth of 2.8% for 2017, up from its previous estimate of 2.5%. However, there is no doubt that escalation of conflict with North Korea involving limited military action on the Korean peninsula would be detrimental to the economy of South Korea.

President Moon Jae-in, who took office in May, is pushing for fiscal support for the economy. His national budget plan for next year, unveiled last month, calls for a big jump in government spending. According to the national budget plan, the Ministry of Strategy and Finance has suggested a 7.1% rise in total spending for 2018 to 429.0 trillion won ($380 billion), up from a 3.7% increase in 2017. The ministry expects revenue to grow 7.9% to 447.1 trillion won in 2018, compared with an expected 5.9% gain this year.

The budget plan reflects the Moon administration's pledge to keep its fiscal policy "expansionary" in the coming year to help finance its much-touted agenda to create public-sector jobs, expand social welfare for the public and boost household incomes in a government-led push for economic growth.

Mr. Moon has already passed a $10 billion supplementary budget this year and a 16% increase in the country's minimum wage. Despite the planned spending increase, the finance ministry expects the country's fiscal health to improve marginally next year, with the fiscal deficit likely to be 1.6% of gross domestic product — narrower from an expected 1.7% of GDP in 2017. Government debt is expected to edge down to 39.6% of GDP in 2018 from an estimated 39.7% this year.

The consumer price index rose 2.6% in August from a year earlier, accelerating from a 2.2% rise in July, and marking its fastest rise since April 2012 when the index also gained 2.6% on-year.

Korean export growth is at a six-year high and is likely to keep growing as world trade is growing. The Bank of Korea has left the base rate at a record-low 1.25%. The central bank hasn't taken action on rates since its last cut in June 2016.

	15	16	17	18	19
GDP (%p.a.)	2.6	2.8	2.8	2.5	2.5
Inflation (%p.a.)	0.7	1.0	2.0	1.8	1.8
Current A/c(US$ bill.)	90.0	88.0	88.0	86.0	80.0
Won/$(nom.)	1180	1160	1125	1140	1145

Taiwan

With the world economy looking up, we expect that Taiwan's domestic economy will grow by 2% in 2018, marginally slower than GDP growth of 2017.

Taiwan Premier Lin Chuan has decided to step down after 15 months in the role. William Lai is the new premier of Taiwan. Under him, Taiwan aims to stimulate consumer spending and spur private investment as part of measures to boost its trade-reliant economy. Lai acknowledged that the island has many challenges to overcome, including removing obstacles to investment, but he said the government aimed to push forward construction to allow the economy to expand and Taiwan to become more competitive.

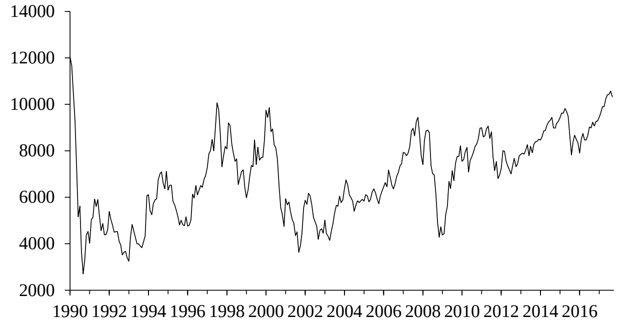
Taiwan's central bank is expected to leave its policy rate steady for a fifth straight quarter, with the economy bolstered by exports while inflationary pressures stay subdued. At present the discount rate is at 1.375%.

Taiwan's exports are likely to grow for the 11th consecutive month in August. August exports may expand 11.5% from a year earlier, slowing from 12.5% in July.

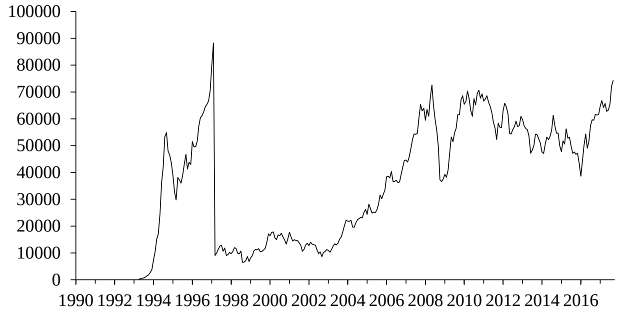
Another important agenda for Lai is to reduce taxes. He aims to reduce taxes for small and medium-size enterprises as well as start-ups and would also seek to ease the tax burden for middle to low-income workers.

	15	16	17	18	19
GDP (%p.a.)	0.8	1.4	2.2	2.0	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

Brazil seems to have turned a corner. The economy posted a second consecutive quarter of growth on the back of a rebound in consumer spending and it has reinforced hopes that the deepest recession which the country faced is over. The gross domestic product expanded 0.2% in the second quarter from the first in seasonally adjusted terms and 0.3% from a year-ago period.

Not only GDP, inflation also is under control. Consumer prices rose at a 2.46% annual rate in August, the slowest pace since 1999. The central bank forecast inflation at 3.45% by year-end and 0.5% GDP growth for 2017. We expect the central bank to follow an accommodative monetary policy. The language used by the bank after the September 6 policy meeting indicates that the bank aims to keep short-term lending rates less than 4 percentage points above inflation. Last month, the central bank cut its benchmark Selic rate to 8.25% from 9.25%, as annual inflation remained below its 4.5% target, at 2.46% in August. This was the eighth consecutive cut since October 2016. We expect the Selic will end this year at 7%, with two more rate-setting meetings to go in 2017.

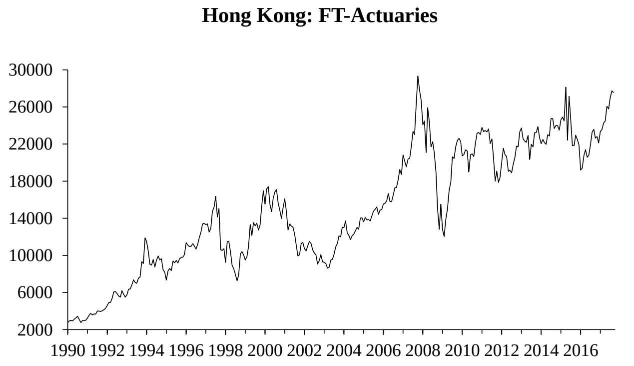
Brazil Finance Minister Henrique Meirelles expects Congress to pass major economic reforms by year-end despite recent political upheaval. The government's flagship reform to Brazil's generous pension system could be passed as early as November and overhaul of the country's bankruptcy law and tax system by the end of this year. Brazil's government has pushed through a series of market-friendly reforms since President Michel Temer took over in May last year.

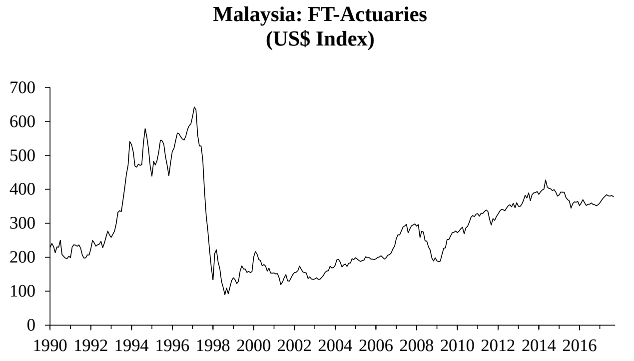
The government wants to push through economic reforms before Congress gets busy next year with presidential elections. As well as passing a constitutional amendment to cap future spending, Mr. Temer's government has simplified labour laws to spur hiring and reduced restriction to private-sector investment in the oil industry and launched a massive privatization drive. This plan seeks to open up energy sector and auction-off highway, rail and airport concessions as the government embarks on a $45bn infrastructure programme aimed at hauling the country out of deep recession and improving its productivity.

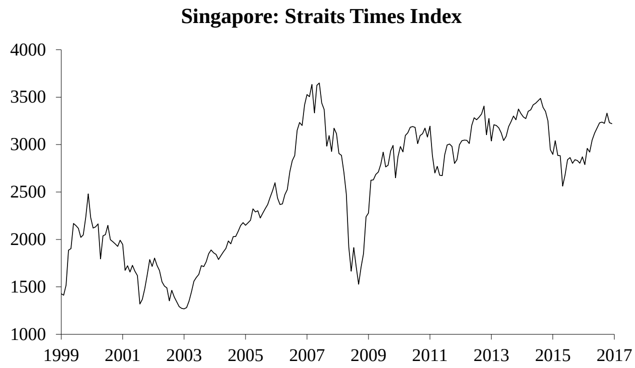
President Michel Temer recently showed he has the support of enough lawmakers to get at least some of his market-friendly agenda of economic reforms approved. Last month, Congress voted to shelve corruption charges that could have toppled Mr. Temer, an outcome that could have resulted in Brazil having as many as five presidents in less than three years.

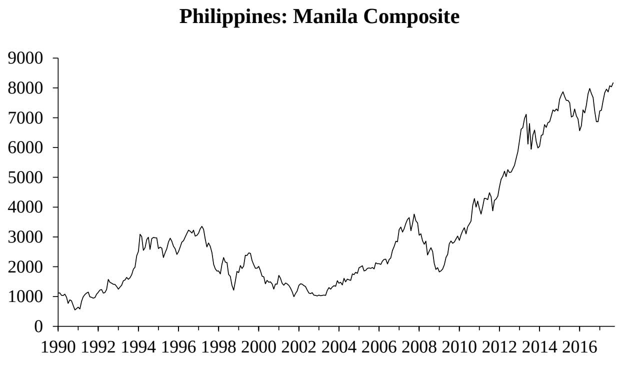
	15	**16**	**17**	**18**	**19**
GDP (%p.a.)	-3.8	-3.6	0.5	1.5	3.0
Inflation (%p.a.)	10.7	6.3	4.4	4.5	4.0
Current A/c(US$ bill.)	-70.0	-28.0	-25.0	-25.0	-32.0
Real/$(nom.)	3.9	3.5	3.2	3.2	3.2

Other Emerging Markets



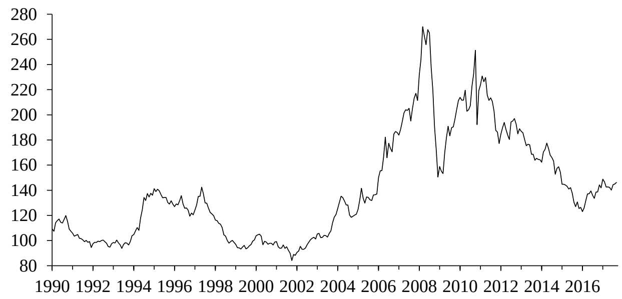




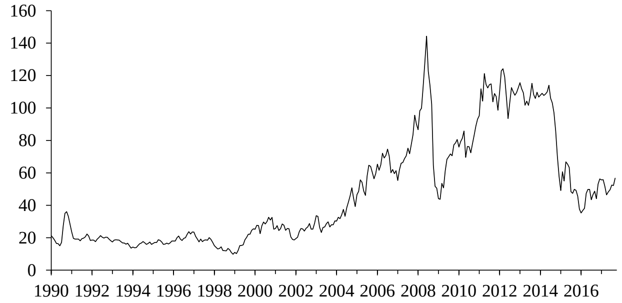


COMMODITY MARKETS

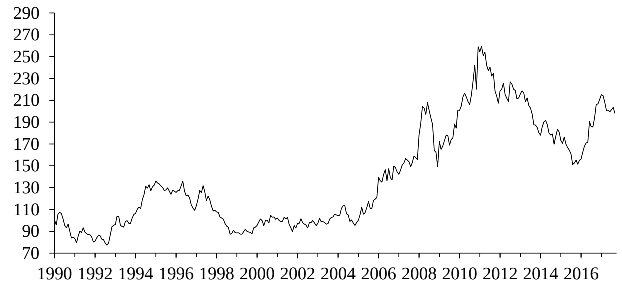
Commodity Price Index (Dollar)
(Economist, 2000=100)



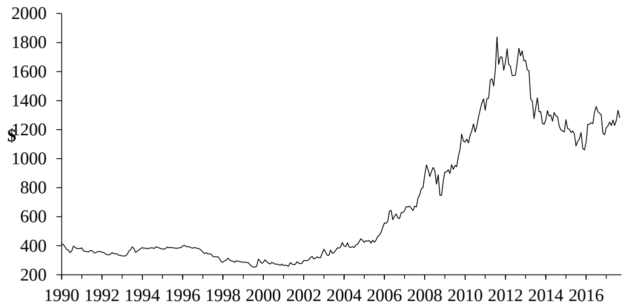
Oil Price: North Sea Brent (in Dollars)



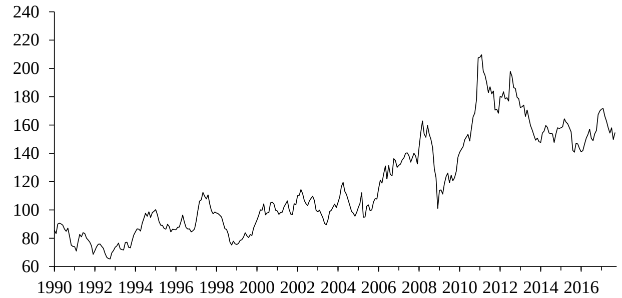
Commodity Price Index (Sterling)
(Economist, 2000=100)



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	0.5	1.0	-1.0
2016	1.2	0.9	0.4	81.5	80.4	-1.5	2.1	-1.6
2017	2.6	1.1	0.4	77.0	74.9	-2.2	3.3	-1.7
2018	2.7	1.5	0.6	76.3	75.1	-2.4	3.2	-1.3
2019	3.0	2.5	1.1	74.9	74.6	-1.9	3.5	0.0
2020	3.0	3.0	2.8	73.7	74.3	0.3	3.5	0.9
2016:1	0.3	0.9	0.7	87.2	86.8	-1.1	1.4	-0.7
2016:2	1.3	0.9	0.5	81.8	81.2	-1.3	2.2	-0.9
2016:3	1.5	0.9	0.2	79.4	77.8	-1.7	2.3	-1.0
2016:4	1.8	0.9	0.2	77.6	75.9	-1.8	2.5	-1.2
2017:1	1.9	0.6	0.3	76.8	73.9	-2.1	3.3	-2.1
2017:2	2.7	1.2	0.4	77.3	75.2	-2.0	3.2	-1.6
2017:3	2.9	1.2	0.4	77.2	75.3	-2.5	3.3	-1.6
2017:4	3.0	1.2	0.5	76.9	75.3	-2.3	3.5	-1.6
2018:1	2.5	1.3	0.5	77.2	75.3	-2.5	3.1	-1.6
2018:2	2.5	1.5	0.5	76.7	75.3	-2.5	3.0	-1.5
2018:3	2.9	1.5	0.6	75.5	74.3	-2.4	3.3	-1.5
2018:4	2.9	1.5	0.6	75.9	75.3	-2.4	3.3	-1.5

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	247.1	2.4	2.3	0.8	141.1
2016	254.3	2.9	2.1	0.7	143.5
2017	257.3	2.2	2.2	0.8	142.5
2018	268.7	2.7	2.1	0.8	144.3
2019	275.6	3.2	2.0	0.7	143.7
2020	283.7	3.5	1.9	0.7	145.0
2016:1	252.0	2.1	2.1	0.7	143.2
2016:2	252.1	2.5	2.2	0.8	142.7
2016:3	254.4	2.4	2.2	0.8	143.5
2016:4	254.3	2.5	2.3	0.8	142.5
2017:1	255.8	2.4	2.1	0.75	144.0
2017:2	257.0	2.0	2.2	0.79	141.8
2017:3	260.0	2.2	2.2	0.78	142.6
2017:4	259.8	2.2	2.2	0.78	141.3
2018:1	262.0	2.4	2.1	0.77	143.9
2018:2	263.8	2.6	2.1	0.76	142.0
2018:3	266.9	2.6	2.1	0.75	142.2
2018:4	267.6	3.0	2.0	0.74	141.5

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	156.6	749967.5	431566.6	302272.7	196715.2	-55478.9	125108.2
2016	159.4	763130.9	440238.4	297248.0	198473.7	-55145.2	117683.9
2017	162.8	779503.7	447129.1	294837.8	200378.8	-47979.4	115414.0
2018	166.9	799242.7	455346.1	297328.4	202045.3	-36926.0	118548.5
2019	171.8	822594.8	465272.4	305534.8	206495.7	-32481.6	122225.6
2020	177.9	851997.5	475937.7	320453.0	210383.9	-27942.6	126832.3
2015/14	2.2		1.4	3.8	1.1		-2.3
2016/15	2.3		2.3	-6.3	1..0		-3.7
2017/16	2.1		1.6	0.7	1.0		2.0
2018/17	2.6		1.8	0.8	0.9		2.7
2019/18	2.9		2.2	2.8	2.2		3.1
2020/19	3.5		2.3	4.9	1.9		3.8
2016:1	158.1	189138.4	108678.4	72398.4	50736.1	-13542	29132.6
2016:2	158.9	190275.7	109825.3	73785.0	48907.3	-12813.4	29428.6
2016:3	159.7	191226.4	110456.6	75298.0	49388.4	-16711.1	27205.5
2016:4	160.8	192490.5	111278.1	75766.5	49441.8	-12078.7	31917.3
2017:1	161.6	193453.0	111073.9	73556.2	51435.0	-14278.1	28888.6
2017:2	162.4	194410.6	111468.9	73625.5	49462.3	-11502.3	28644.4
2017:3	163.2	195400.1	111916.5	73833.9	49636.1	-11233.9	28751.2
2017:4	163.9	196240.1	112669.9	73822.1	49845.4	-10965.1	29129.9
2018:1	165.1	197636.6	112796.0	73615.4	50354.4	-9784.9	29345.9
2018:2	166.5	199357.8	113486.2	74811.3	49863.7	-9260.8	29541.3
2018:3	167.2	200125.4	114181.2	73873.7	50679.7	-8946.9	29660.8
2018:4	168.8	202122.9	114882.7	75028.0	51147.5	-8933.4	30000.5

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	2.4	1866.5	45.1	52.0	-87.4
2017	2.6	1964.1	51.6	54.1	-64.3
2018	2.2	2076.5	45.4	56.6	-45.0
2019	0.9	2204.1	21.1	60.8	-37.3
2020	1.0	1748.4	22.7	50.8	-28.6
2016:1	-0.6	458.0	-2.7	13.1	-26.6
2016:2	4.8	460.4	22.0	13.1	-21.7
2016:3	3.1	460.1	14.1	12.9	-26.6
2016:4	5.0	471.8	23.7	12.9	-12.5
2017:1	-3.1	474.1	-14.6	13.1	-17.5
2017:2	2.8	482.0	13.3	13.3	-18.8
2017:3	3.0	487.5	14.4	13.4	-17.2
2017:4	2.6	494.4	12.6	13.7	-10.8
2018:1	2.5	497.2	12.4	13.7	-9.7
2018:2	2.6	507.1	13.0	13.9	-14.9
2018:3	2.6	514.3	13.4	14.1	-13.3
2018:4	2.2	524.1	11.6	14.2	-7.1

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	2.2	2.4
U.K.	2.2	2.9	2.2	2.3	2.1	2.6
Japan	1.4	–0.1	0.5	1.0	1.6	1.2
Germany	0.3	1.6	1.7	1.8	1.9	1.9
France	0.7	0.2	1.1	1.4	1.6	1.6
Italy	–1.7	–0.3	0.8	1.1	1.3	1.1

Real Short-Term Interest Rates

	2013	2014	2015	2016	2017	2018
U.S.A.	–1.5	–0.1	–1.1	–1.4	–0.7	–0.2
U.K.	–0.8	–2.2	-0.5	–1.5	–2.2	–2.4
Japan	–2.5	–0.6	0.0	–0.7	–0.7	–0.8
Germany	–0.6	–0.2	–0.6	–2.0	–1.9	–1.8
France	–0.2	0.1	–0.5	–1.5	–1.4	–1.3
Italy	0.1	0.0	–0.3	–1.6	–1.5	–1.4

Real Long-Term Interest Rates

	2013	2014	2015	2016	2017	2018
U.S.A.	1.6	0.7	0.3	0.3	0.6	1.1
U.K.	–0.8	–0.7	–1.0	–1.5	–1.7	–1.0
Japan	–0.8	–1.1	–1.3	–1.2	–0.7	–0.8
Germany	0.8	–0.8	–1.0	–1.6	–1.1	–0.8
France	1.1	–0.5	–0.8	–1.4	–0.2	0.1
Italy	1.2	–0.5	–0.7	–1.3	1.1	1.4

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	80.4	74.9	75.1
Japan	63.5	59.8	56.0	58.4	58.3	58.1
Germany	99.0	99.9	94.7	95.0	94.3	94.9
France	100.7	100.8	96.2	96.0	95.3	95.1
Italy	106.9	107.5	102.1	102.0	101.2	101.1

[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.

Growth Of Consumer Prices

	2013	2014	2015	2016	2017	2018
U.S.A.	1.5	1.6	0.1	1.3	2.0	1.9
U.K.	2.3	1.7	0.2	1.2	2.6	2.7
Japan	0.4	2.7	0.8	0.2	0.5	0.8
Germany	1.5	0.9	0.3	0.5	1.7	1.6
France	0.9	0.5	0.0	0.4	1.0	1.1
Italy	1.2	0.2	0.1	0.2	1.4	1.2

Nominal Short-Term Interest Rates

	2013	2014	2015	2016	2017	2018
U.S.A.	0.1	0.0	0.2	1.0	1.2	1.8
U.K.	0.6	0.6	0.6	0.4	0.4	0.6
Japan	0.2	0.2	0.2	0.0	0.1	0.1
Germany	0.3	0.1	–0.1	–0.2	–0.3	–0.2
France	0.3	0.1	–0.1	–0.2	–0.3	–0.2
Italy	0.3	0.1	–0.1	–0.2	–0.3	–0.2

Nominal Long-Term Interest Rates

	2013	2014	2015	2016	2017	2018
U.S.A.	3.0	2.2	2.2	2.4	2.5	3.0
U.K.	1.3	1.8	1.3	0.9	1.1	1.5
Japan	0.7	0.3	0.3	0.0	0.1	0.0
Germany	1.9	0.5	0.6	0.4	0.5	0.8
France	1.9	0.5	0.6	0.4	0.9	1.2
Italy	1.9	0.5	0.6	0.4	2.3	2.6

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	1.28	1.27
Japan	98.20	106.70	120.00	118.40	112.60	114.10
Eurozone	0.75	0.76	0.90	0.95	0.86	0.85

[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