LIVERPOOL INVESTMENT LETTER

April 2019

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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 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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PROSPECTS FOR THE CURRENT ACCOUNT

Since the fall in the pound after the Brexit referendum, the UK current account of the balance of payments has improved from a deficit of around 7% of GDP to 4.7% of GDP in the last quarter of 2018, a big improvement of 2.3% of GDP, or around £46 billion a year. However, the deficit is still running at nearly £100 billion which is too large; a sustainable deficit would be more like £20 billion, about 1% of GDP.

Help is at hand however. If Brexit happens and we both leave the EU Customs Union and sign trade deals with the rest of the world that drive our home prices down to world levels, then the prices charged by EU exporters will have to drop in line to compete, while our exporters too will reduce the prices they charge to EU buyers. This will reduce our net EU imports bill by no less than £20 billion a year, 1% of GDP, giving us a substantial improvement in our current account. It is not widely realised that this is the cost of being in the EU customs union with protection against all other countries on food and manufactured imports. This cost is the extent to which we pay premium prices for EU imports due to the protection of the customs union. Yes, we also get these premium prices on what we sell to the EU; but as we buy about £100 billion more from them than we sell to them, there is this large net loss for us and an equal gain to them.

Eliminating this not only improves the current account, it also directly raises our GDP. As Sir Michael Caine would say, not a lot of people know this.

Table 1: Summary of Forecast

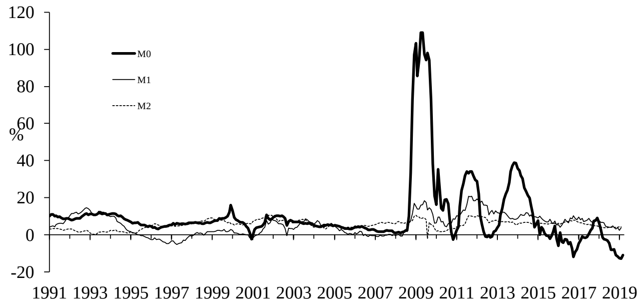
	2016	2017	2018	2019	2020	2021	2022
GDP Growth[1]	1.9	1.8	1.5	1.9	2.0	2.1	2.3
Inflation CPI	1.1	2.6	2.4	2.2	2.1	2.0	2.0
Wage Growth	2.4	2.9	2.7	2.8	2.9	2.8	2.8
Unemployment (Mill.)[2]	0.8	0.8	0.8	0.8	0.7	0.7	0.6
Exchange Rate[3]	82.1	77.4	78.5	76.6	76.1	76.3	75.6
3 Month Interest Rate	0.5	0.4	0.8	1.3	2.4	3.1	3.1
5 Year Interest Rate	0.7	0.6	1.2	2.5	3.3	3.8	3.8
Current Balance (£bn)	-90.9	-66.3	-62.9	-48.8	-41.2	-30.6	-18.4
PSBR (£bn)	45.1	39.4	30.9	22.3	6.9	-6.9	-18.5

[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 = 1

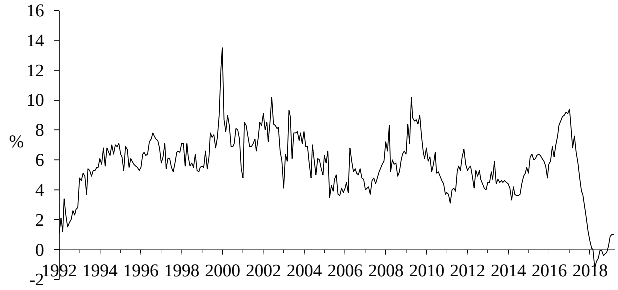
Other policies that will improve our current account will be strengthening the City of London and our other traded service industries with pro-business regulation. Our current surplus on services, which are our comparative advantage, is more than £100 billion a year. This will be the sector whose growth will bring our current account into balance.

It all goes to show that after Brexit we need to move as rapidly as possible to enact these free trade and regulative reforms. Unfortunately, it has been impossible to get a proper focus on these issues of post-Brexit policy in the continuing wars of religion over Brexit. Once Brexit actually happens it will become both possible and necessary for us to get focused analysis of the best trade and regulative policies for a Brexit Britain. Once identified it will be for a new government to pursue them firmly and clear-sightedly.

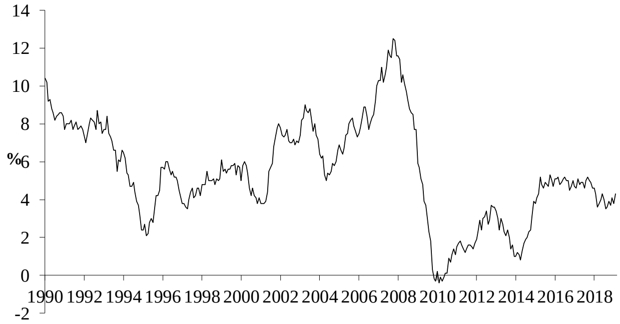
U.S.: Growth in Monetary Aggregates (Yr - on - Yr)



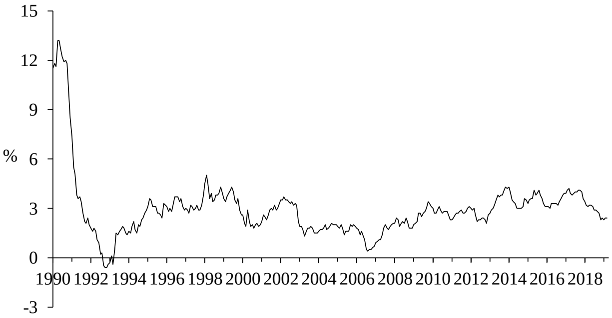
UK: Notes and Coins in Circulation Growth



Eurozone M3 Growth



Japan: Growth of M2+CD's



FOCUS ON JAPAN

Francesco Perugini

Japan's Parliament Passes Record Budget

On the 27th of March, the Lower House of the Japanese Parliament approved the government's record ¥101.5 trillion budget bill for the fiscal year starting April 1. The budget cleared the chamber in the afternoon following approval by the Upper House, which is controlled by the ruling coalition of the Liberal Democratic Party (LDP) and Komeito. Under the Constitution, the budget will automatically take effect 30 days after it is passed by the Lower House.

While the government routinely draws up supplementary budgets later in the fiscal year to cover any additional spending, this is the first time the general account budget has topped ¥100 trillion from the start — an initial budget for fiscal 2018 was ¥97.7 trillion. Key to the budget is a ¥2.03 trillion stimulus package that Prime Minister Shinzo Abe hopes will underpin domestic demand after consumption tax is increased to 10% from the current 8% in October. The package includes a rebate program for purchases made by credit cards and other cashless means, shopping vouchers for households with low incomes or small children, and public works spending to shore up infrastructure against natural disasters. As in past years, the largest chunk of the budget, a record ¥34.06 trillion, has been set aside for social security outlays including on health care and pensions, with such costs swelling amid a rapidly aging population. Defence spending accounted for a record ¥5.26 trillion, due in part to purchases of the Aegis Ashore missile defence system and six F-35A stealth fighters.

The budget has been the subject of some drama. After Abe's Cabinet signed off on a draft of the budget late last year, it came to light that government officials had been publishing faulty jobs data for nearly 15 years. This led to the underpayment of work-related benefits to more than 20 million people, necessitating the addition of ¥650 million to the budget to cover payouts. A steady rise in government spending — the initial budget has marked record highs for the past seven years — means Japan, despite higher tax revenue, remains far from consolidating its battered fiscal health — the country's fiscal health is the worst among major industrialized economies, with public debt more than twice the size of GDP. The government expects a record ¥62.50 trillion in tax revenue during fiscal 2019, with issuance of new government bonds falling slightly to ¥32.66 trillion.

Meanwhile, evidence of an economic downturn has been stacking up for some time. Machinery orders, which are a leading indicator of capital expenditure, and industrial production have been falling for the past several months. GDP grew a 0.4% quarter-on-quarter in the October–December quarter, an uninspiring rebound after a string of natural disasters caused a contraction in July–September. "Is the economy still recovering? The truth is, it's too close to call," a senior official at the Cabinet Office admitted. This has come as China, one of the largest markets for Japanese exports, marked its slowest rate of growth in nearly three decades amid a trade war with the US. Growth in the Euro zone has also slowed and faces even more risks as the UK attempts to negotiate an exit from the bloc. Yoshimasa Maruyama, chief market economist at SMBC Nikko Securities Inc., says he believes that Japan is still in a growth phase. But he expects the global economy to lose steam in late 2019 and that Japan will be dragged down with it. "If the situation deteriorates more than expected, the government may decide to announce more fiscal stimulus" on top of the ¥2 trillion package already included in the draft budget for the year beginning in April, he said.

Worsening conditions and upcoming elections could push Abe to beef up fiscal stimulus or even postpone an upcoming increase in the consumption tax, analysts say. Recently, the Cabinet Office downgraded its headline assessment of the world's third-largest economy for the first time in three years. The move reflected a significant decline in exports to China and came after a key indicator of economic trends signalled that Japan may already be in a recession. But Toshimitsu Motegi, minister for economic and fiscal policy, denied that the latest growth phase, touted to be the country's longest since the end of World War II, has ended. "Our view that the economy is recovering moderately as a trend remains unchanged," he told a news conference.

For Abe, the issue is crucial. During his six years back in power, his Abenomics policy mix of fiscal stimulus and drastic monetary easing has been his main support driver, trumping his divisive nationalist leanings and accusations of cronyism. With elections at the local level and in the Upper House taking place this year, he needs to continue to paint a rosy picture if he hopes to secure a resounding victory for his LDP and coalition partner Komeito.

A recession would also put pressure on Abe to postpone the consumption tax hike scheduled for October 1. In 2012, the then-ruling Democratic Party of Japan (DPJ) agreed with the LDP and Komeito to raise the value-added tax in two stages from 5% to 10%. Abe implemented the first increase to 8% in April 2014, but the move caused private consumption to plummet and drained momentum for the Bank of Japan's 2% target for inflation.

Loath to repeat the mistake, Abe has postponed the second increase twice. And while he has said that only a crisis on the scale of the 2008 collapse of Lehman Brothers and ensuing global financial meltdown would warrant another delay, some analysts say such a move is still on the table. "It's clear that this criteria, a Lehman shock-scale situation, can't be taken at face value," said Naohiko Baba, chief economist at Goldman Sachs Japan Co. "The run-up to the Upper House election in July will be key. If economic indicators don't show a clear rebound, or if public sentiment toward the tax hike sours significantly, it could become a huge liability for the Abe government heading into the polls," he said.

Postponing the tax hike a third time holds its own risks. It would deprive the government of precious revenue as a rapidly aging population causes spending on social security such as pensions and health care to snowball. That would dash any hopes of improving Japan's battered fiscal health, the worst among advanced economies. The tax hike is also supposed to provide the funding for free preschool and higher education, one of the campaign promises that won Abe the 2017 Lower House election. "Depending on how things go, the Abe government could be faced with a difficult decision," Baba said.

MARKET DEVELOPMENTS

The world growth rate is in the 3–4% range with emerging markets making most of the running as usual. With raw material markets still in large excess capacity, this implies there is still a long way, up to two decades, for the world expansion to continue — a good longterm climate for equities.

Table 1: Market Developments

	Market Levels		Prediction for Dec/Jan 2019/20	
	Mar 4	Apr 10	Previous Letter	Current View
Share Indices				
UK (FT 100)	7134	7422	9432	9812
US (S&P 500)	2793	2888	3125	3232
Germany (DAX 30)	11593	11906	19047	19561
Japan (Tokyo New)	1628	1608	2078	2053
Bond Yields (government)				
UK	1.27	1.08	3.00	3.00
US	2.76	2.49	3.80	3.80
Germany	0.09	–0.10	1.00	1.00
Japan	–0.02	–0.05	0.10	0.10
UK Index Linked	–1.68	–1.88	1.00	1.00
Exchange Rates				
UK ($ per £)	1.32	1.31	1.32	1.32
UK (trade weighted)	80.06	79.34	76.1	76.1
US (trade weighted)	100.12	100.32	102.5	102.5
Euro per $	0.88	0.89	0.88	0.88
Euro per £	1.16	1.16	1.16	1.16
Japan (Yen per $)	118.85	110.94	112.5	112.5
Short Term Interest Rates (3-month deposits)				
UK	0.87	0.83	2.10	2.10
US	2.65	2.61	3.00	3.00
Euro	–0.31	–0.34	0.00	0.00
Japan	0.00	0.05	0.10	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	2.0	2.2	28.00		35.80
US	1.99	1.9	2.1	7.90	–0.85	13.04
Germany	3.30	1.6	1.7	61.00	0.40	68.00
Japan	1.90	0.5	1.2	26.00	–2.27	27.33
UK indexed[2]	–1.69		2.2	5.00		5.33
Hong Kong[3]	2.60	5.6	2.1	–15.00	–0.85	–5.55
Malaysia	3.30	4.8	2.1	43.00	–0.85	52.35
Singapore	3.50	2.7	2.1	10.00	–0.85	17.45
India	1.40	8.0	2.1	23.00	–0.85	33.65
Korea	1.10	2.9	2.1	–21.00	–0.85	–15.75
Indonesia	2.20	5.4	2.1	26.00	–0.85	34.85
Taiwan	2.80	2.1	2.1	9.00	–0.85	15.15
Thailand	3.20	3.8	2.1	27.00	–0.85	35.25

Bonds: Contribution to £ yield of: –

	Redemption Yield	Changing Nominal Rates	Currency	Total
UK	1.08	–19.20		–18.12
US	2.49	–13.10	–0.85	–11.46
Germany	–0.10	–11.00	0.40	–10.70
Japan	–0.05	–1.50	–2.27	–3.82

Deposits: Contribution to £ yield of:

	Deposit Yield	Currency	Total
UK	0.83		0.83
US	2.61	–0.85	1.76
Euro	–0.34	0.40	0.06
Japan	0.05	–2.27	–2.22

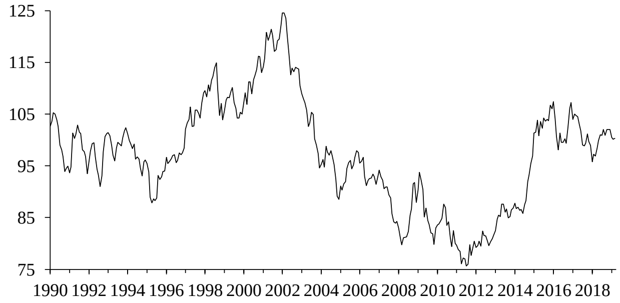
[1] Yields in terms of €s or $s can be computed by adjusting the £-based yields for the expected currency change.
[2] UK index linked bonds All Stocks
[3] Output based on China.

Table 3: Portfolio(%)

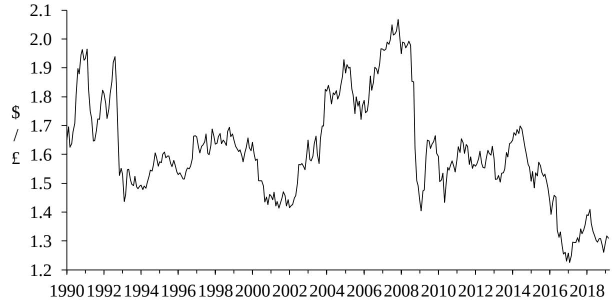
	Sterling Based Investor		Dollar Based Investor		Euro Based Investor	
	March Letter	Current View	March Letter	Current View	March Letter	Current View
UK Deposits (Cash)	5	5	5	5	1	1
US Deposits	-	-	-	-	-	-
Euro Deposits	-	-	-	-	-	-
Japanese Deposits	-	-	-	-	-	-
UK Bonds	-	-	-	-	-	-
US Bonds	-	-	-	-	-	-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

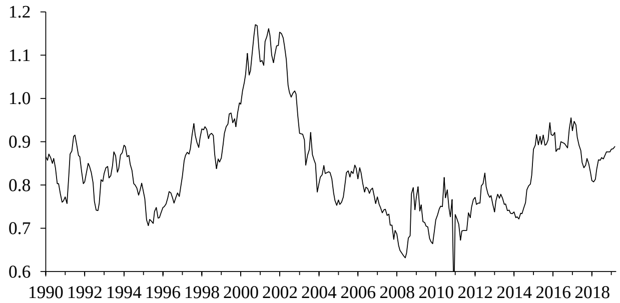
US : Trade Weighted Index
(Bank of England 1990 = 100)



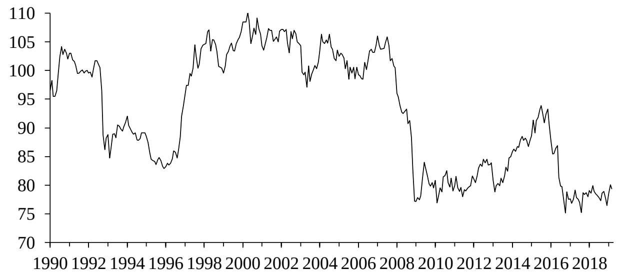
UK: Dollars Per Pound Sterling



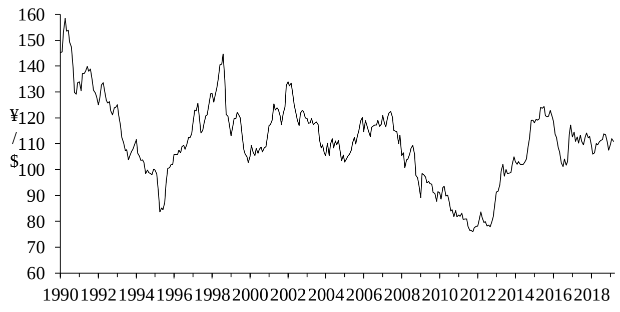
Euro per US dollar



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



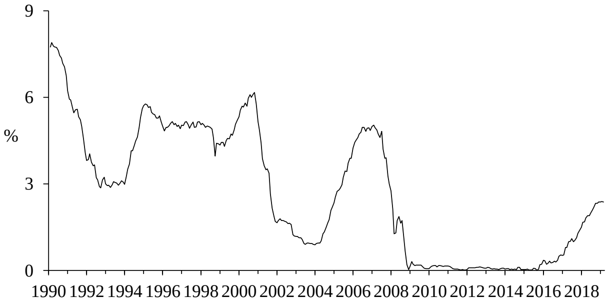
Japan : Yen Per U.S. Dollar



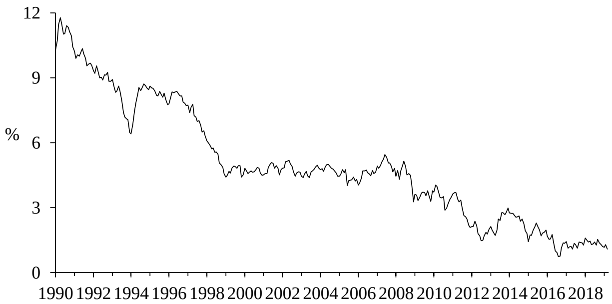
GOVERNMENT BOND MARKETS

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

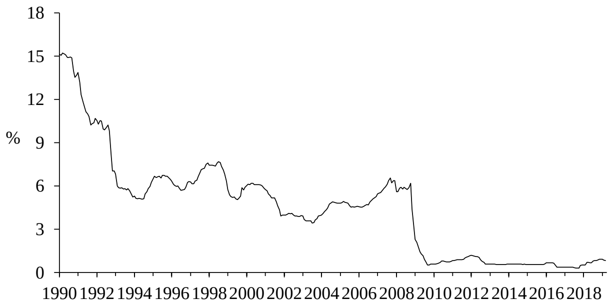
U.S. : 3-Month Treasury Bill



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

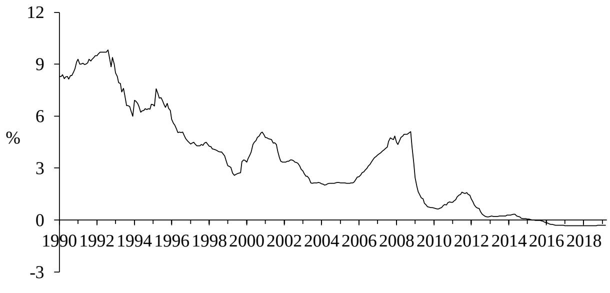


U.K. : 3-Month Certificate of Deposit Rate

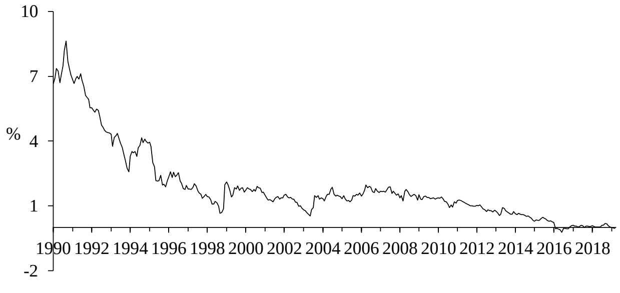


Germany: Yield on Public Authority Bonds

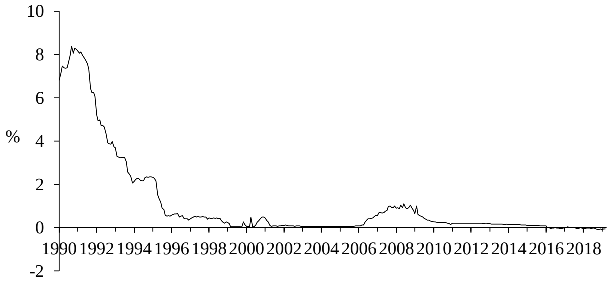
Germany : 3-Month Interbank Deposit Rate



Japan: Yield on Long-Term Government Bonds

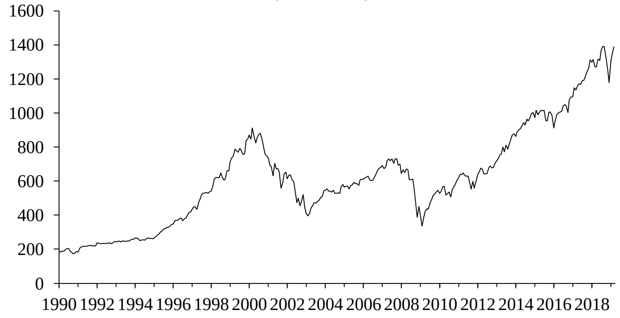


Japan : 3-Month Money Market Rate

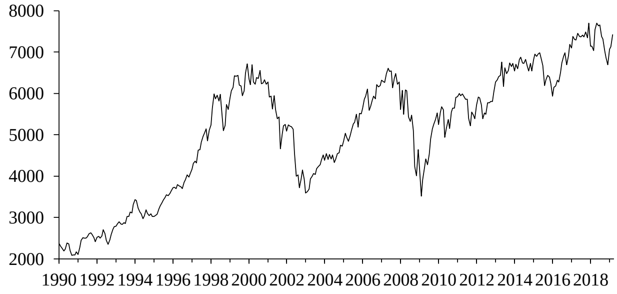


MAJOR EQUITY MARKETS

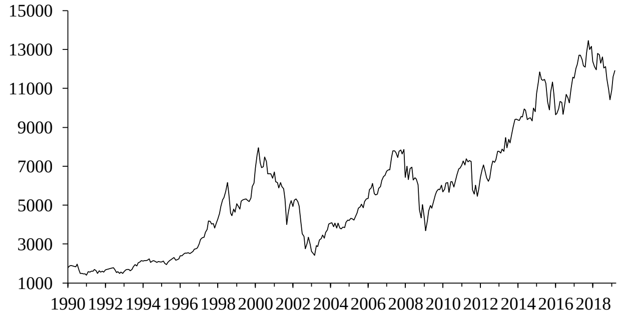
U.S. : S & P 400 Industrial
(1985=100)



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



Germany : DAX 30



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

EMERGING MARKETS

Anupam Rastogi

India

In 2018–19, the economy will expand by 7% and 7.3% in 2019–20. The International Monetary Fund said India's economy is poised to pick up to 7.5% in 2019–20, benefiting from lower oil prices and a slower pace of monetary tightening than previously expected, as inflation pressures ease.

The Reserve Bank of India (RBI) expects growth to accelerate from last fiscal's 7% to 7.2% in 2019–20, regardless of the global slowdown and its effect on the country's exports. The strongest predictor of growth has been a steady, seven quarter rise in Gross Domestic Fixed Capital formation whose ratio to GDP in nominal terms had plunged below 30% and refused to gain ground in the last five years. Capacity utilization still remains below 80%. Growth will pick up momentum as banks start lending again and, post-election, the government revives PPP in infrastructure, incorporating the right lessons learnt from the mistakes in PPP contracts of the past.

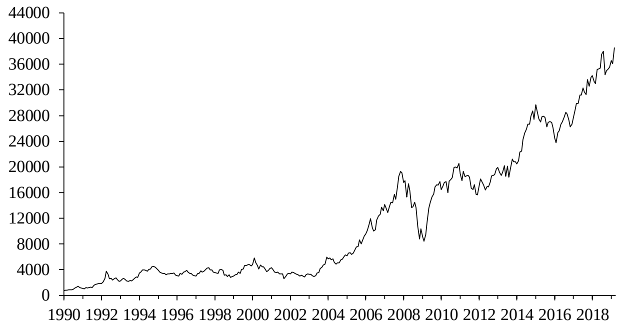
The consumer price index (CPI), a measure of retail inflation, stood at 2% in January and 2.6% in February compared to the RBI's medium-term inflation target of 4%.

Subdued inflation in India is proving to be a dilemma for Prime Minister Narendra Modi because low inflation has been driven by falling food prices, cutting farmer incomes and pushing up debt levels. Falling rural incomes and farm distress have taken the shine off one of the key achievements of the Modi government. The monsoon is expected to be below normal this year. But, pressure on consumer prices will remain under control. CPI inflation is now expected to be 2.4% in the fourth quarter of 2018–19, 2.9–3.0% in the first half of 2019–20 and 3.5–3.8% in the second half, with risks "broadly balanced".

The RBI slashed repo rate by 25 basis points (bps) to 6% in its first bi-monthly Monetary Policy Statement for financial year 2019–20 (FY20) on April 4th. The central bank, however, assumed the monsoon to be normal this year.

RBI governor Shaktikanta Das, who is seen favouring monetary policy easing, has flagged concerns about weaker growth, saying benign inflation conditions make it easier to lower rates and give a boost to investments at a time when global risks are rising.

India: BSE Sensitive



Exports rose 2.44% to $26.7 billion in February from a year earlier, while imports were down 5.41% to $36.3 billion. India's trade deficit narrowed to a 17-month low of $9.6 billion in February as merchandise imports fell on the back of lower crude oil prices. Cumulatively, during the first 11 months of the fiscal year 2019 (April–February), exports and imports grew at 8.9% and 9.8%, respectively, while the trade deficit expanded to $165.5 billion from $148.6 billion during the same period a year ago.

The brightening re-election prospects of Prime Minister Narendra Modi and his ruling Bharatiya Janata Party has translated into inflows of $6 billion so far this year into equities. Investors have ramped up their bullish positions in the Indian Rupee (INR) over the past two weeks of March. The Asia's worst-performing currency took five weeks to become its best.

India will hold elections from April to May to decide whether Prime Minister Narendra Modi wins a second term as leader of the world's largest democracy. Around 900 million voters will elect 543 lawmakers to the lower house of parliament. Voting will run in seven phases from April 11 to May 19 and counting will take place on May 23. In the eyes of Mr. Modi's supporters and many foreign investors and business leaders, he and the BJP majority in parliament have brought a welcome measure of leadership to an Indian government that has often seemed fractured and ineffectual. But opponents say an authoritative style and a tendency to push a majoritarian agenda, focused on Hindu-nationalist identity politics, has made Mr. Modi's tenure polarizing and painful, particularly for minority groups and the poor.

	17–18	18–19	19–20	20–21	21–22
GDP (%p.a.)	6.7	7.0	7.3	8.0	8.0
WPI (%p.a.)	3.5	3.9	3.9	4.0	4.0
Current A/c(US$ bill.)	-26.0	-70.0	-64.0	-64.0	-60.0
Rs./$(nom.)	65.0	70.2	71.5	72.5	73.5

China

Beijing has officially lowered its economic growth target this year to between 6% and 6.5%, as Beijing realizes that the slowdown cannot be arrested without raising already-high debt levels.

Chinese Premier Li Keqiang has suggested the following remedies to support growth: increasing deficit spending, launching new tax cuts and other fee reductions for businesses — totalling 2 trillion yuan, or 2% of China's $13 trillion economy — and boosting bank lending to small and private companies by 30%. China remains wedded to create jobs in the coming years.

Among the job-creation initiatives are an 800 billion yuan ($119 billion) investment in railway construction and 1.8 trillion yuan to build roads and waterway transportation. Help is being offered to companies to soften the impact of trade tensions with the U.S. Affected companies will receive assistance to keep them from laying off workers, according to a report issued by the National Development and Reform Commission, the country's top economic planning agency. China's military spending is going to increase by 7.5% to 1.2 trillion yuan, which is lower than last year's 8.1% increase but still faster than the overall increase in government spending.

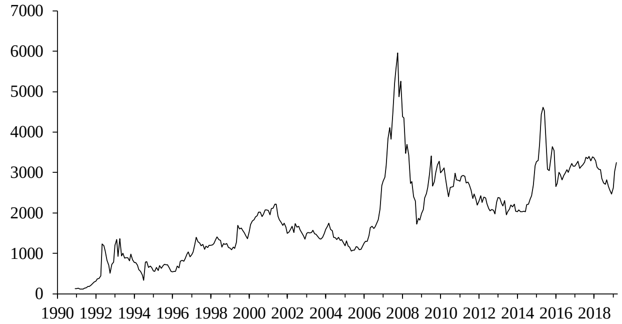
In the meantime, US economist Michael Pettis of Peking University, has once again questioned the GDP estimates. According to him, China's gross domestic product is overestimated as bad debt is not written down. The existence of "zombie companies" is perpetuated by ever greening these companies' loans. Banks, in turn, treat these companies as creditworthy, whereas in reality they should be written off as bad debt. The central bank expects credit to grow in line with the growth of the nominal economy and suggests that monetary policy this year will focus primarily on driving down borrowing costs for small businesses.

CPI rose 1.5% in February from a year earlier, down from 1.7% a month earlier. Producer prices have increased only by 0.1%. Price pressures for manufacturers and other producers are non-existent, which is a sign of the weakness across 40% of the economy.

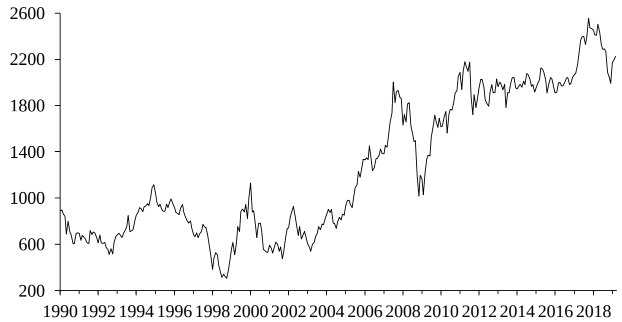
The timing of the New Year holiday had a big impact on China's February trade data. The broader picture still isn't very encouraging. China's apparently frightening drop in exports in February — down 20.7% on the year — is to do with the Lunar New Year holidays which makes the statistics erratic. Hence, we look at the two months figures together. China's exports and imports fell 4.6% and 3.1%, respectively, leading to a trade surplus of $43.7 billion in the first two months of 2019. Exports will probably grow by low single digits this year, posing a major risk to the Chinese economy.

Beijing and Washington are getting close to reaching a currency deal as part of their continuing negotiations to settle a yearlong trade battle. As part of the accord, China won't engage in competitive devaluation to give Chinese exporters a leg up in foreign markets. A "neutral" monetary stance means that China will keep its overall leverage ratio for banks stable. In the past year, the central bank cut the amount of cash banks must keep in reserve five times, in a bid to unleash more funds for lenders to make loans. In the past few months the yuan has remained around 6.7 per dollar

China: SSE Composite Index



Korea: Composite Index



Italy will become the first Group of Seven nation to sign up to China's Belt and Road Initiative. Prime Minister Giuseppe Conte's signing of the memorandum will be the centerpiece of Chinese President Xi Jinping's visit to Europe. European allies see the Belt and Road initiative as a threat to sovereignty and the U.S. has flagged the risks of Beijing's growing influence through this initiative.

A meeting between President Donald Trump and President Xi Jinping to sign an agreement to end their trade war may happen in late April. China is pressing for a formal state visit, which traditionally takes place in Washington, and President Trump wants it to be a low-key affair just to sign a trade deal.

	17	**18**	**19**	**20**	**21**
GDP (%p.a.)	6.8	6.6	6.0	5.6	5.4
Inflation (%p.a.)	1.6	2.2	2.3	2.3	2.0
Trade Balance(US$ bill.)	400	300	300	300	260
Rmb/$(nom.)	6.6	6.8	7.0	7.1	7.1

South Korea

The Bank of Korea (BOK) has downgraded its earlier GDP growth estimate to 2.6% in 2019 and hopes that the economy would pick up in the second half. It hopes that the US-North

Korea talk concludes with some positive news which would benefit South Korea.

Following the failure of the Hanoi summit between North Korean leader Kim Jong Un and US President Donald Trump, the South Korea's President Moon Jae is going to face an uphill struggle pushing forward its flagship policy, which has been North Korean engagement. But without sanctions relief, the South is unable to proceed to economically engage North Korea.

South Korea's President Moon Jae-in will meet with President Trump at the White House on April 11. It will be the first meeting between the two leaders since Mr. Trump's failed summit with North Korean Chairman Kim Jong Un in February. The two leaders will discuss their efforts to denuclearize the Korean Peninsula at the meeting on April 11. President Moon Jae is hopeful that he may be able to intermediate between the US and North Korea and revive his North Korea policy and help the country economically.

Another key initiative of Mr. Moon of raising minimum wage rates is hurting small and medium-sized enterprises and it is too expensive for them to hire and retain staff.

South Korea's headline inflation index rose 0.4% in March from a year earlier, its weakest pace since July 2016 on declines in food prices and weaker service costs growth. The BOK's current annual inflation target is at 2%.

If the weakness in consumer price growth persist, the BOK may be forced to cut its inflation forecasts again at its next rate review on April 18, from current 1.4% for 2019.

As the U.S.-China trade tensions have eased and the Fed has stopped raising interest rates, the currencies of emerging markets have strengthened. But, the won has been the odd one out, it has depreciated by 1.3% due to geo-political reasons.

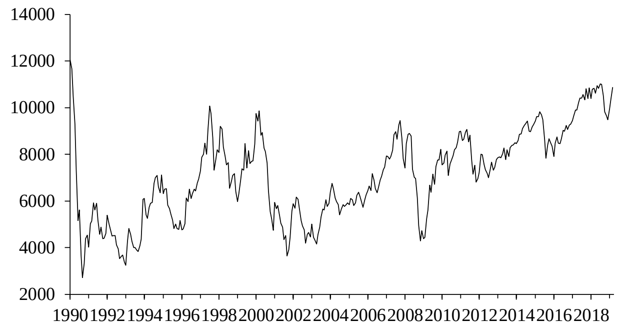
	17	18	19	20	21
GDP (%p.a.)	3.1	2.7	2.6	2.6	2.7
Inflation (%p.a.)	1.9	1.5	1.6	1.6	1.7
Current A/c(US$ bill.)	88.0	86.0	80.0	78.0	70.0
Won/$(nom.)	1100	1130	1120	1120	1160

Taiwan

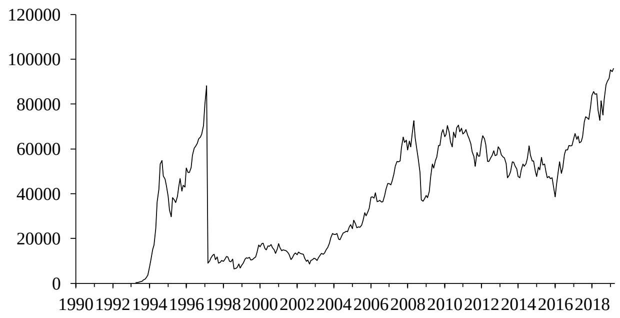
Taiwan's GDP forecast is lowered by the government to 2.13%, citing lower domestic demand, trade conflicts and restructuring of global supply chains. Taiwan's growth is facing collateral damage due to Sino-US trade frictions. Taiwan's technology sector has been hit by slowing demand for consumer electronics, China's cooling economy and a trade war between the China and the United States, its two biggest export markets.

Taiwan's annual inflation rate in March was at 0.65%, compared with 0.23% in February. The central bank expects 2019 core inflation to be 0.78%, down from 0.93% forecast in December. Taiwan's monetary authority kept its key interest rates unchanged for the 11th straight quarter. It has maintained the discount rate at the existing level of 1.37%. Policymakers would continue a moderately loose monetary policy, and future adjustment would depend on inflationary levels — which remained subdued and there is no pressure on prices to rise in near future.

Taiwan: Weighted TAIEX Price Index



Brazil: Bovespa



Taiwan's exports are expected to have contracted 8.3% in March from a year earlier, logging a fifth consecutive month of decline. Weak exports are heralding more pain for the economy. Thanks to its large current account surplus and substantial foreign exchange reserves, Taiwan is better placed to withstand capital outflows as investors shift funds to more high-yielding assets and enjoy more monetary policy flexibility.

	17	18	19	20	21
GDP (%p.a.)	3.1	2.6	2.2	2.1	2.1
Inflation (%p.a.)	0.6	1.2	1.2	1.2	1.0
Current A/c(US$ bill.)	68.0	68.0	70.0	71.0	70.0
NT$/$(nom.)	31.0	29.8	31.0	31.0	31.5

Brazil

Gross domestic product increased 1.1% during 2018, and grew just 0.1% after adjusting for seasonality in the fourth quarter from the previous period, compared with revised growth of 0.5% in the third quarter. A healthy rebound in GDP growth did not materialize due to the crippling truckers strike in the second quarter of 2018. We are not surprised by the central bank's forecast of 2.0% growth this year. Domestic demand, the main driver of Brazilian economic growth, is showing signs of cooling down which may persist for some time to come. Weaker exports have not helped the growth either.

Brazil's inflation in February rose 0.43% from January. The twelve-month inflation accelerated to 3.9%, but remained comfortably below the official target of 4.25%.

Brazil's central bank held its benchmark interest rate at its all-time low at 6.5% for the eighth consecutive meeting as financial markets await the outcome of the government's efforts to get a pension overhaul proposal through Congress. The bank is maintaining a comparative stable monetary policy and believes that the progress of economic reforms are vital to maintaining low inflation in the medium- and long-term. The central bank's monetary policy committee is scheduled to make its next decision on May 8. There is a pressure on the bank's new president, Roberto Campos Neto to lower Selic rate to boost private-sector investment, fuelling growth and creating jobs without pressuring prices, but we expect the central bank to stay put. We expect the benchmark Selic rate to be at 7.00% by the end of 2020. The Selic rate has been at a record low 6.50% since March last year. The pension reforms are critical to keeping inflation down, maintaining low interest rates and supporting the economic recovery.

Export growth is lower due to a deteriorating global picture, notable economic uncertainty in major trading partner, Argentina, a lower harvest in Brazil and the fallout from the Brumadinho dam burst tragedy in January. Brazil posted a trade surplus of $3.7 billion in February. Imports totalled $12.6 billion, a 21.2% drop from the same month a year ago, while exports fell by 15.8% to $16.3 billion.

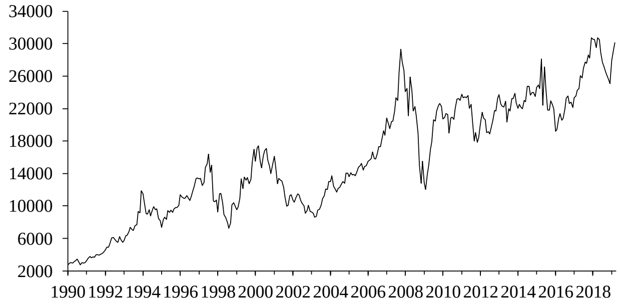
Brazil's government sent lawmakers a plan to save a net 10.45 billion reais ($2.8 billion) over 10 years with tougher retirement rules for the country's military. The changes would hit not only the armed forces, but also military police and firefighters, who are a separate group managed by Brazil's state governments, but are included in the military-pension system. But the unpopular bill, which amends the constitution and requires at least three-fifths of votes in both houses of Congress to pass, is under fire. The political battle is expected to go on for months and would keep the economy below its potential.

Brazilian financial markets have slumped recently as the social security reform process has run into political quicksand, with the Brazilian real falling below 4.00 per dollar in the last week of March for the first time in six months. The outlook for Brazil's real has weakened for the first time since President Jair Bolsonaro took office at the start of the year as an eruption of political tension cast doubts on his pension reform drive now. If lawmakers back the bill, which aims to fix Brazil's broken social-security system by imposing a higher minimum retirement age and steeper contributions, it could pave the way for even lower interest rates.

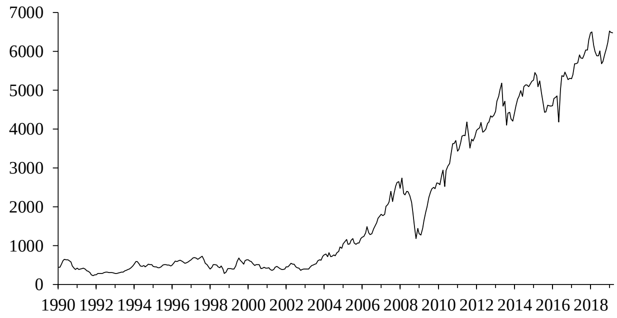
	17	**18**	**19**	**20**	**21**
GDP (%p.a.)	1.0	1.1	2.0	2.5	2.5
Inflation (%p.a.)	3.0	3.8	4.0	4.0	4.0
Current A/c(US$ bill.)	-7.3	-14.6	-16.0	-16.0	-16.0
Real/$(nom.)	3.2	3.8	3.7	3.7	3.8

Other Emerging Markets

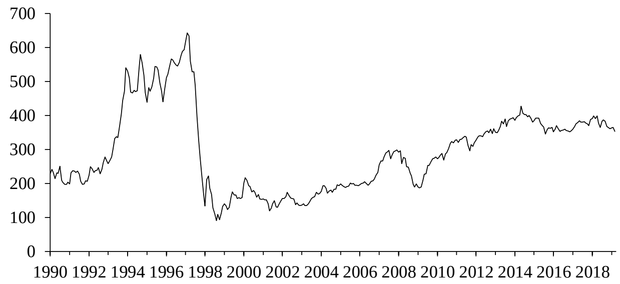
Hong Kong: FT-Actuaries



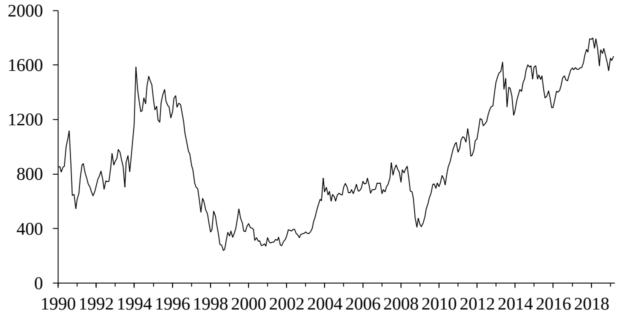
Indonesia: Jakarta Composite



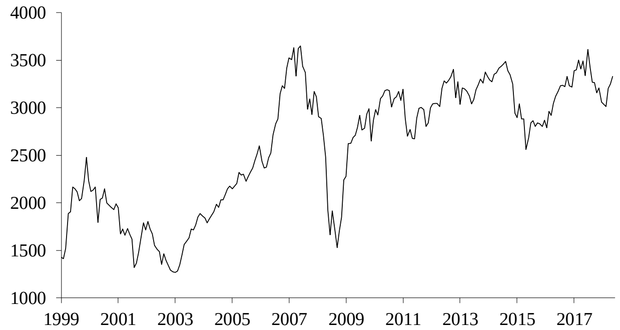
Malaysia: FT-Actuaries
(US$ Index)



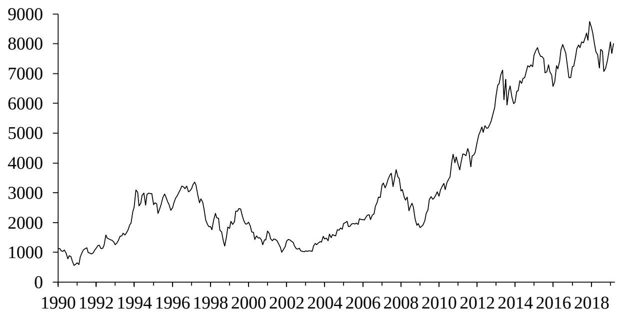
Thailand: Composite Index



Singapore: Straits Times Index

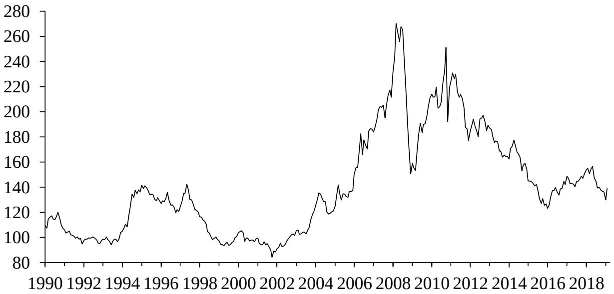


Philippines: Manila Composite

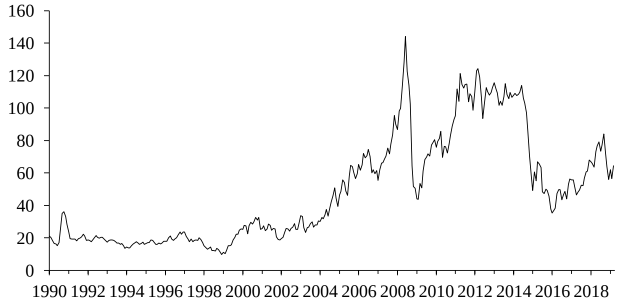


COMMODITY MARKETS

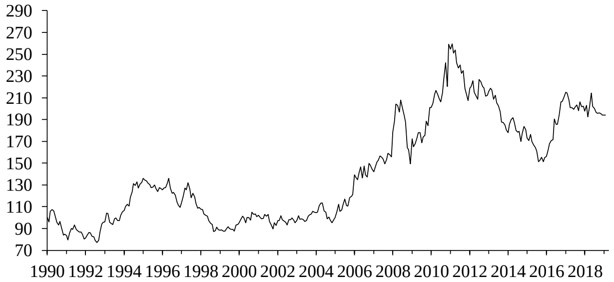
Commodity Price Index (Dollar)
(Economist, 2000=100)



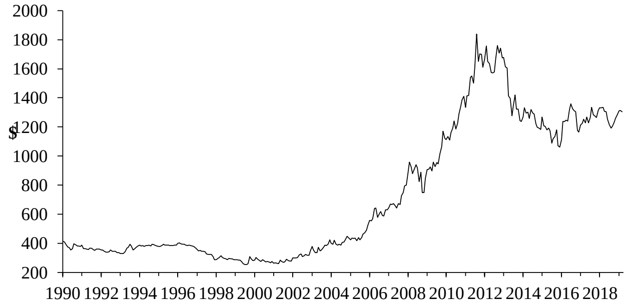
Oil Price: North Sea Brent (in Dollars)



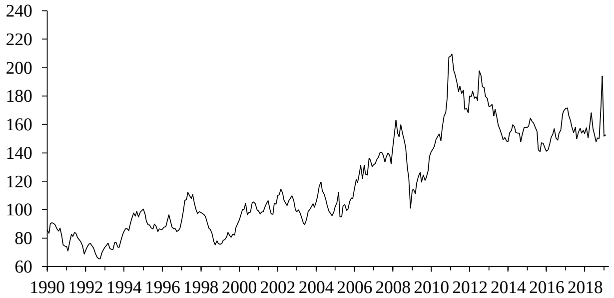
Commodity Price Index (Sterling)
(Economist, 2000=100)



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]
2017	2.6	0.6	0.4	77.4	75.5	-1.6	3.8	-1.5
2018	2.4	1.2	0.8	78.5	76.7	-1.5	3.4	-0.5
2019	2.2	2.5	1.3	76.6	74.6	-0.7	2.9	0.5
2020	2.1	3.3	2.4	76.1	74.3	0.4	2.7	1.4
2021	2.0	3.8	3.1	76.3	75.1	1.1	2.6	0.9
2022	2.0	3.8	3.1	75.6	74.6	1.1	2.5	0.6
2018:1	2.5	1.0	0.5	79.2	77.9	-1.7	3.7	-1.1
2018:2	2.4	1.0	0.7	79.3	77.7	-1.7	3.4	-1.1
2018:3	2.5	1.0	0.9	78.0	75.9	-1.3	3.3	-1.1
2018:4	2.3	1.8	1.0	77.6	75.4	-1.2	3.1	-0.3
2019:1	2.2	2.5	1.1	77.2	75.4	-1.0	2.9	0.5
2019:2	2.2	2.5	1.3	76.6	74.4	-0.8	2.9	0.5
2019:3	2.2	2.5	1.4	76.4	74.4	-0.6	2.9	0.5
2019:4	2.2	2.5	1.5	76.3	74.3	-0.5	3.0	0.5
2020:1	2.1	3.0	2.1	76.1	74.3	0.1	2.8	1.0
2020:2	2.1	3.0	2.1	76.2	74.3	0.1	2.8	1.0
2020:3	2.0	3.5	2.1	76.1	74.3	0.1	2.6	1.5
2020:4	2.0	3.8	3.3	76.0	74.3	1.3	2.5	1.8

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)
2017	259.1	2.9	2.2	0.8	142.2
2018	265.9	2.7	2.2	0.8	142.6
2019	273.2	2.8	2.1	0.8	143.4
2020	281.0	2.9	1.9	0.7	144.6
2021	288.9	2.8	1.6	0.7	145.7
2022	297.0	2.8	1.3	0.6	146.9
2018:1	264.6	3.0	2.3	0.8	142.9
2018:2	263.4	2.6	2.2	0.8	141.8
2018:3	268.4	3.1	2.1	0.8	143.5
2018:4	267.0	2.3	2.1	0.7	142.3
2019:1	272.0	2.8	2.0	0.7	143.7
2019:2	270.7	2.8	2.0	0.7	142.6
2019:3	275.8	2.8	2.0	0.7	144.3
2019:4	274.5	2.8	2.0	0.7	143.0
2020:1	279.9	2.9	2.0	0.7	144.8
2020:2	278.6	2.9	2.0	0.7	143.8
2020:3	283.5	2.8	2.0	0.7	145.5
2020:4	282.1	2.8	1.9	0.7	144.2

1 Whole Economy
2 Average Earnings
3 Wholly unemployed excluding school leavers as a 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
2017	162.3	777336.9	443745.6	302292.1	198857.7	-65371.5	102187.0
2018	164.6	788057.2	447703.5	309777.2	199983.9	-71893.1	97213.6
2019	167.6	802696.2	454303.6	310600.3	200602.7	-62943.8	99862.6
2020	171.0	818972.8	460685.5	316674.7	201938.2	-58117.3	102210.3
2021	174.6	836108.1	467804.4	321816.8	203070.4	-52020.5	104566.0
2022	178.6	855103.2	475356.9	327523.1	204308.6	-44936.8	107148.0
2017/16	1.8		0.6	0.8	0.4		0.6
2018/17	1.4		0.9	3.2	0.6		-2.8
2019/18	1.9		1.5	0.3	0.3		2.8
2020/19	2.0		1.4	2.0	0.7		2.4
2021/20	2.1		1.5	1.6	0.6		2.3
2022/21	2.3		1.6	1.8	0.6		2.5
2018:1	163.4	195600.5	111071.3	74328.3	51436.3	-17532.1	23703.2
2018:2	164.1	196413.8	111520.6	78149.0	49061.0	-18806.3	23510.5
2018:3	165.1	197609.1	112343.6	79434.8	49642.5	-18437.4	25074.5
2018:4	165.7	198433.9	112768.1	77865.2	49844.0	-17117.3	24925.4
2019:1	166.4	199235.8	112806.5	76347.5	50526.0	-15756.7	24688.2
2019:2	167.1	200032.9	113132.9	77285.3	50009.7	-15591.0	24802.8
2019:3	168.1	201273.4	113952.7	78293.8	50056.5	-15900.9	25126.9
2019:4	168.9	202154.1	114411.5	78673.8	50010.4	-15695.2	25244.6
2020:1	169.9	203369.8	114363.4	78191.7	50860.0	-14689.5	25354.4
2020:2	170.5	204186.2	114717.5	79020.4	50335.5	-14421.8	25465.2
2020:3	171.4	205199.1	115569.5	79774.3	50315.1	-14836.7	25624.4
2020:4	172.2	206217.7	116035.1	79688.3	50427.6	-14169.3	25766.2

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)
2017	2.0	2047.3	39.4	79.9	-66.3
2018	1.5	2117.0	30.9	80.0	-62.9
2019	1.0	2206.6	22.3	84.7	-48.8
2020	0.3	2297.2	6.9	91.0	-41.2
2021	-0.3	2394.8	-6.9	94.2	-30.6
2022	-0.7	2500.2	-18.5	95.4	-18.4
2018:1	-2.8	515.6	-14.3	20.2	-16.7
2018:2	3.3	518.6	16.9	19.7	-18.7
2018:3	0.7	527.9	3.8	19.8	-13.5
2018:4	1.9	532.3	10.2	20.1	-14.0
2019:1	0.0	538.2	0.1	20.4	-13.7
2019:2	2.2	541.9	11.9	20.7	-13.8
2019:3	1.7	548.8	9.2	20.9	-9.4
2019:4	1.5	554.3	8.3	21.2	-11.9
2020:1	-1.3	561.6	-7.1	21.9	-12.2
2020:2	1.3	565.4	7.5	22.0	-12.0
2020:3	0.9	570.9	5.1	22.1	-7.6
2020:4	1.0	576.9	5.5	23.5	-9.4

1 GDP at market prices (Financial Year)

WORLD FORECAST DETAIL

Growth Of Real GNP

	2015	2016	2017	2018	2019	2020
U.S.A.	2.9	1.6	2.2	2.9	2.6	1.9
U.K.	2.3	1.9	1.8	1.4	1.9	2.0
Japan	1.3	0.6	1.9	0.8	1.1	0.5
Germany	1.7	2.2	2.2	1.5	1.4	1.6
France	1.1	1.1	2.3	1.5	1.5	1.4
Italy	0.9	1.1	1.6	0.9	0.5	0.7

Growth Of Consumer Prices

	2015	2016	2017	2018	2019	2020
U.S.A.	0.1	1.3	2.1	2.4	2.1	2.2
U.K.	0.2	1.1	2.6	2.4	2.0	2.1
Japan	0.8	–0.1	0.5	1.0	1.1	1.2
Germany	0.3	0.5	1.8	1.8	1.8	1.7
France	0.0	0.2	1.0	1.3	1.3	1.5
Italy	0.1	–0.1	1.2	1.2	1.2	1.4

Real Short-Term Interest Rates

	2015	2016	2017	2018	2019	2020
U.S.A.	–1.1	–1.6	–1.0	0.3	0.4	0.8
U.K.	–0.5	–2.1	–2.0	–1.2	–0.8	0.3
Japan	0.3	–0.4	–0.9	–1.0	–1.1	–1.1
Germany	–0.6	–2.1	–2.2	–2.1	–2.0	–1.7
France	–0.3	–1.3	–2.2	–1.6	–1.8	–1.5
Italy	0.0	–1.5	–1.5	–1.5	–1.7	–1.4

Nominal Short-Term Interest Rates

	2015	2016	2017	2018	2019	2020
U.S.A.	0.2	0.5	1.4	2.4	2.6	3.0
U.K.	0.6	0.5	0.4	0.8	1.3	2.4
Japan	0.2	0.1	0.1	0.1	0.1	0.1
Germany	–0.1	–0.3	–0.3	–0.3	–0.3	0.0
France	–0.1	–0.3	–0.3	–0.3	–0.3	0.0
Italy	–0.1	–0.3	–0.3	–0.3	–0.3	0.0

Real Long-Term Interest Rates

	2015	2016	2017	2018	2019	2020
U.S.A.	0.2	0.3	0.6	0.8	1.2	1.4
U.K.	–0.7	–1.5	–1.5	–0.8	0.5	1.3
Japan	–0.4	–1.0	–1.1	–1.4	–1.4	–1.6
Germany	–0.9	–1.7	–1.5	–1.7	–1.3	–1.0
France	–0.2	–0.8	–0.8	–0.9	–0.8	–0.7
Italy	0.6	0.4	0.5	1.2	1.5	1.6

Nominal Long-Term Interest Rates

	2015	2016	2017	2018	2019	2020
U.S.A.	2.2	2.5	2.8	3.0	3.5	3.8
U.K.	1.3	0.7	0.6	1.2	2.5	3.3
Japan	0.3	0.0	0.1	0.0	0.1	0.1
Germany	0.6	0.1	0.4	0.2	0.6	1.0
France	1.0	0.7	0.8	0.7	1.0	1.2
Italy	1.6	1.7	1.9	2.8	3.3	3.5

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

	2015	2016	2017	2018	2019	2020
U.S.A.	93.0	94.0	94.5	94.8	95.0	95.2
U.K.	92.2	81.4	75.5	75.8	74.9	74.3
Japan	56.0	58.4	58.3	58.1	58.4	58.3
Germany	94.7	95.0	94.3	94.9	95.1	95.0
France	96.2	96.0	95.3	95.1	95.5	95.4
Italy	102.1	102.0	101.2	101.1	101.1	101.0

[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)

	2015	2016	2017	2018	2019	2020
U.S.A.[1]	103.08	101.91	102.20	102.40	102.50	102.50
U.K.	1.53	1.35	1.30	1.29	1.30	1.32
Japan	121.11	108.61	112.18	114.10	112.00	112.50
Eurozone	0.90	0.90	0.88	0.85	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