LIVERPOOL INVESTMENT LETTER

February 2020

Cardiff Business School
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Julian Hodge Institute of Applied Macroeconomics

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LIVERPOOL RESEARCH GROUP IN MACROECONOMICS

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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THE TRUMPET SOUNDS AN UNCERTAIN NOTE

According to the purchasing managers indices the UK economy is picking up quite sharply. The latest composite PMI has moved up to 53.3, after languishing before the election a bit below 50. This Boris Bounce is visible in other key surveys too, such as the latest CBI survey. The place where it remains invisible is in official forecasts, such as the Bank's recent one of 0.8% growth in 2020. This gloom is still shared by the private forecasting community, who remain downbeat about post-Brexit prospects.

Cognitive dissonance afflicts forecasters, private or official, just as it affects human beings generally. The economics forecasting profession was, and remains, opposed to Brexit, just like the civil service. The facts of the bounce they force into consistency with their pessimistic beliefs by implying that the business people surveyed have irrational views, and fail to appreciate the longer term damage Brexit will do.

But on the contrary, business is rightly assessing the post Brexit prospects. They know there will be more competition from world producers able to sell here at world prices once EU protection ends due to the trade agreements we will sign around the world — the main self-interested reason they opposed Brexit. They know too that they can respond to this with higher productivity in this digital age. As for their links with the EU, they can see that a UK-EU trade agreement makes sense for both sides, so that trade with the EU will face no barriers. Yes, there will now be a border, but it must be a seamless one due to WTO rules.

Add to this the prospect of business-friendly regulation by a free market UK government and essentially free movement of skilled workers from all over the world under the new proposed points system. Even allowing for the endless human propensity to complain, what in all this is 'not to like'?

If they have read our critique of the official forecasts, businesses will know that the way officials reversed these positive prospects was by making absurdly pessimistic assumptions.

So the future is both reasonably clear and bright.

Only one thing currently mars it: the Chancellor seems to have taken fright at these official forecasts and their public finance implications. He is now talking about cuts to 'stay within his fiscal rules'.

In so doing he is falling into a trap being laid by his officials, who remain hostile to the Brexit project. By forecasting doom for the finances they are attempting to force the Chancellor into fiscal contraction which could make that doom come about to some extent in the short term. As we have explained before, the proper fiscal rules relate to long term balance sheets and not to current budgets or borrowing; the Chancellor should look at the effects of his policies on the economy, public debt and revenue capacity in the long term. Given the growth-boosting changes the new policies will bring in, the long-term outlook under expansionary budgets is solidly based.

Table 1: Forecast Summary

	2019	2020	2021	2022	2023
GDP Growth[1]	1.5	1.9	1.9	2.1	2.1
Inflation CPI	1.9	2.1	2.0	2.0	2.0
Wage Growth	3.6	3.1	3.1	3.1	3.2
Unemployment (Mill.)[2]	0.9	0.8	0.7	0.7	0.6
Exchange Rate[3]	80.1	80.7	80.6	80.5	80.4
3 Month Interest Rate	0.9	1.1	1.9	2.4	3.1
5 Year Interest Rate	1.0	1.3	2.4	3.3	3.4
Current Balance (£bn)	-86.5	-41.3	-3.14	-23.3	-15.0
PSBR (£bn)	37.8	20.7	8.2	3.9	0.5

[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 = 100)

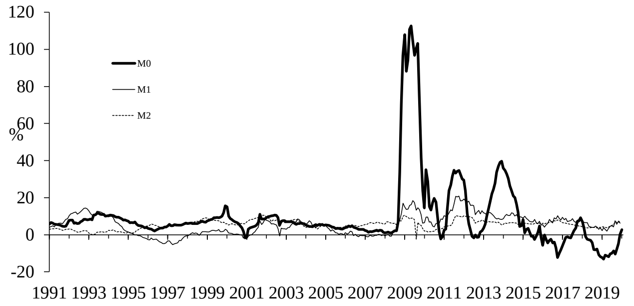
The Chancellor should take heart and think back to the last time a government was beleaguered by opposition from civil service, Bank, industry and economists — when Mrs. Thatcher was struggling to enforce her 'monetarist' cure of inflation in 1981. Geoffrey Howe and Nigel Lawson at the Treasury stood by her approach against this consensus that the policies would fail to cure inflation and instead produce a permanent recession. They did cure it — fast; and the economy was recovering strongly in 1982. Had the Chancellor then caved in to general opinion, history would have denied us our resurgence from being 'the sick man of Europe'.

Instead, the Chancellor closely coordinated policy with Mrs. Thatcher's No 10 economic strategy group led by Professor Alan Walters, whose careful economic thinking designed the policy moves.

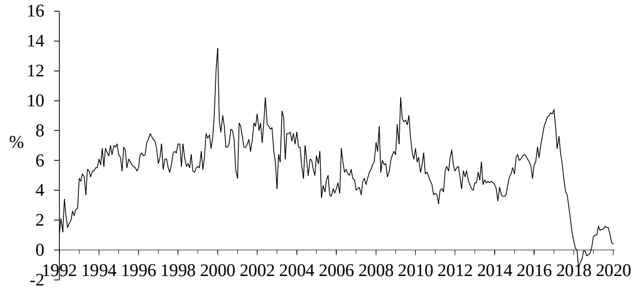
The moral of this episode is that governments embarking on innovative policies that are widely opposed by a domestic consensus need to unite in backing them in a way that is consistent across departments. They need to show faith in their own strategies, or they will be picked off by their surrounding enemies. They need also to think these strategies through with highly competent advisers at the heart of government.

The present government's trumpet sounds an uncertain note. As it embarks on an ambitious series of trade agreements, its very own Chancellor is implicitly denying they will be successful. He and his government need to get their strategy clear and back it. Furthermore, they need proper economic expertise at the heart of government in No 10.

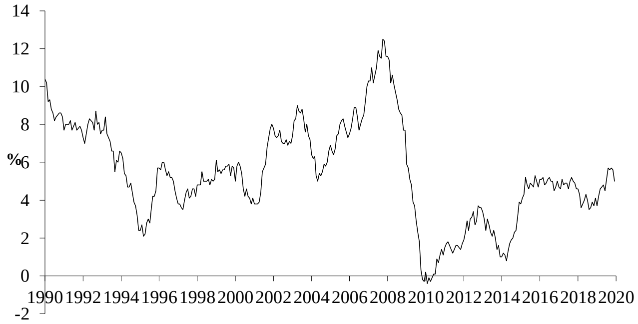
U.S.: Growth in Monetary Aggregates (Yr - on - Yr)



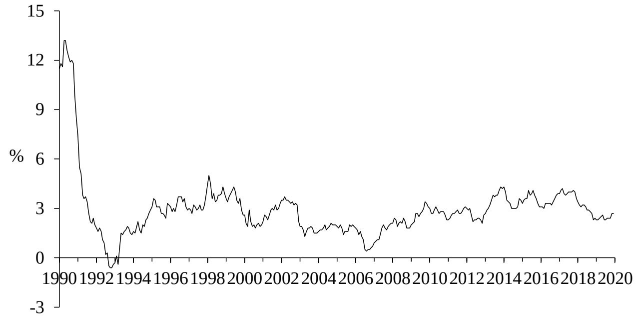
UK: Notes and Coins in Circulation Growth



Eurozone M3 Growth



Japan: Growth of M2+CD's



FOCUS ON JAPAN

Francesco Perugini

Latest news from the Bank of Japan

At the latest monetary policy meeting, the Bank of Japan (BOJ) kept monetary policy steady and nudged up its economic growth forecasts as the government's stimulus package and receding pessimism over the global outlook took some pressure off the central bank to alter course. The BOJ also signalled cautious optimism over the global economy after the US and China agreed on a preliminary deal to defuse their bitter trade war, saying that risks surrounding the outlook have "subsided somewhat."

As widely expected, the BOJ kept its short-term interest rate target at minus 0.1% and a pledge to guide 10-year government bond yields around 0%. It also maintained a guidance that commits to keeping rates at current low levels, or even to cut them, until risks keeping it from achieving its 2% inflation goal subside. "Given that the yen has stabilized, and other major central banks are pausing on policy, there's no reason for the BOJ to take action for the time being," said Toru Suehiro, senior market economist at Mizuho Securities. The BOJ targets rates in guiding policy under a framework dubbed yield curve control. It also continues to buy huge amounts of government bonds and risky assets in an effort to fire up inflation to its elusive target.

In a quarterly review of its forecasts, the BOJ raised its growth projection for the fiscal year beginning in April to 0.9% from an estimate of 0.7% growth made in October, helped by a boost from the government's fiscal stimulus package. The bank also upgraded its growth estimate for fiscal 2021 but largely maintained its price forecasts that show inflation missing its 2% target through early 2022. "Japan's economy is likely to continue expanding moderately as a trend" as the impact of slowing global growth on domestic demand will be limited, the BOJ said in its quarterly report. "While risks surrounding overseas economies have subsided somewhat, they remain big," it said, underscoring the BOJ's resolve to maintain its ultraloose policy.

BOJ officials hope that the government's ¥13.2 trillion fiscal package and robust capital spending will offset the hit from soft global demand and supply chain disruptions from last year's typhoons that continue to weigh on factory output. Pessimists in the BOJ, however, fret that weak global auto demand and the drag on consumption from the October consumption tax hike from 8% to 10% may mean only a modest rebound in January–March growth. While the tax increase is weighing on domestic demand, the hit to consumption is likely to be smaller than when the tax was raised to 8% from 5% in 2014, the BOJ said in the report.

In the meanwhile, there has been a change in the BOJ Policy Board with the nomination of an advocate of aggressive monetary easing by Prime Minister Shinzo Abe. The government put forward Seiji Adachi, a former Deutsche Securities economist, to replace outgoing board member Yutaka Harada, another advocate of easy money. Harada's five-year term is set to end March 25. Adachi's appointment must be approved by parliament. The appointment is seen as a message from Abe that he wants the BOJ to stay the course with the "first arrow" of his Abenomics program — a massive expansion of the money supply to reverse falling prices. The second arrow calls for heavy fiscal spending, while the third focuses on deregulation and market opening.

Abe brushed off pleas from the BOJ and some within the government that the policy board needs more input from people with business experience, rather than academics or economists. They have stressed that industrialists' views are underrepresented on the current board, with only one of its nine members — Yukitoshi Funo from Toyota Motor — having a business background. The board also includes Governor Haruhiko Kuroda and his two deputies.

Some central bank insiders have also sought to reduce the influence of easy money advocates, as the BOJ looks at moving back to a more conventional monetary policy in the future. Of the nine board members, six are aligned with Governor Kuroda, a former Ministry of Finance official who advocates aggressive monetary easing but does not want the government to print money to pay off its debts. Adachi, 54, has established his reflationist credentials by warning about the dangers of deflation for a long time. In 2013, he helped to write a book called Reflation Will Save Japan's Economy. Among his co-authors were Koichi Hamada, the Yale professor regarded as one of the main architects of Abenomics, as well as Kikuo Iwata and Mr Harada, who both went on to serve on the BOJ board.

The pick is under close scrutiny by BOJ watchers looking for clues to Abe's current stance on monetary policy amid signs that achieving the inflation target is no longer at the top of his priorities. Some 76% of economists expected Harada, a consistent dissenter to BOJ policy decisions, to be replaced by another like-minded reflationist, according to a Bloomberg survey.

Since last year, Abe has been signalling that achieving 2% inflation is not the be-all and end-all of his Abenomics policy platform to restore stable growth. For the first time since he returned to the premiership in late 2012, Abe last week didn't even mention deflation in an annual speech at the start of the legislative session. Abe has a record of sending a message to financial markets through BOJ nominations. By handpicking Kuroda in 2013, he fuelled speculation that aggressive monetary easing was in the pipeline. After almost seven years of massive easing, there are growing concerns over the side effects. Yet inflation still remains at less than half the 2% target agreed by the government and the BOJ in 2013.

As we have stressed before, the key need in Japan as elsewhere is to push the economy off the zero lower bound. This can only be done by fiscal expansion, as monetary policy cannot drive rates anywhere in the term structure any closer to zero. We need to see good effects on growth, inflation and, in the end, interest rates from the Abe government's current fiscal expansion. So far there is little sign it is enough, with the higher consumption tax leaning against the rest.

MARKET DEVELOPMENTS

As the government gets agreements done around the world in the coming year UK growth will revive, boosting stock market returns and raising interest rates, so finally starting a long bear market in government bonds.

Table 1: Market Developments

	Market Levels		Prediction for Jan/Feb 2021	
	Jan 3	**Feb 6**	**Previous Letter**	**Current View**
Share Indices				
UK (FT 100)	7622	7505	9917	9764
US (S&P 500)	3235	3346	3620	3744
Germany (DAX 30)	13219	13575	19921	20457
Japan (Tokyo New)	1721	1737	2246	2267
Bond Yields (government)				
UK	0.67	0.67	1.30	1.30
US	1.92	1.61	2.00	2.00
Germany	−0.28	−0.38	−0.40	−0.40
Japan	−0.02	−0.03	−0.10	−0.10
UK Index Linked	−1.96	−2.02	1.00	1.00
Exchange Rates				
UK ($ per £)	1.31	1.29	1.32	1.32
UK (trade weighted)	80.66	80.39	80.7	80.7
US (trade weighted)	101.17	101.94	102.5	102.5
Euro per $	0.90	0.91	0.85	0.85
Euro per £	1.17	1.18	1.12	1.12
Japan (Yen per $)	108.03	109.98	112.5	112.5
Short Term Interest Rates (3-month deposits)				
UK	0.83	0.83	2.00	2.00
US	1.88	1.77	1.80	1.80
Euro	−0.41	−0.41	−0.50	−0.50
Japan	−0.05	−0.10	−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	2.1	2.0	26.00		33.70
US	1.99	1.9	2.1	7.90	−2.09	11.80
Germany	3.30	1.0	1.7	48.00	4.75	58.75
Japan	1.90	0.3	1.2	29.00	−4.43	27.97
UK indexed[2]	−2.02		2.0	2.00		1.98
Hong Kong[3]	2.60	5.6	2.1	−15.00	−2.09	−6.79
Malaysia	3.30	4.4	2.1	39.00	−2.09	46.71
Singapore	3.50	1.0	2.1	−7.00	−2.09	−2.49
India	1.40	6.5	2.1	8.00	−2.09	15.91
Korea	1.10	1.8	2.1	−32.00	−2.09	−29.09
Indonesia	2.20	5.1	2.1	23.00	−2.09	30.31
Taiwan	2.80	2.6	2.1	14.00	−2.09	19.41
Thailand	3.20	2.1	2.1	10.00	−2.09	15.31

Bonds: Contribution to £ yield of: −

	Redemption Yield	Changing Nominal Rates	Currency	Total
UK	0.67	−6.33		−5.66
US	1.61	−3.90	−2.09	−4.38
Germany	−0.38	0.16	4.75	4.52
Japan	−0.03	0.70	−4.43	−4.76

Deposits: Contribution to £ yield of:

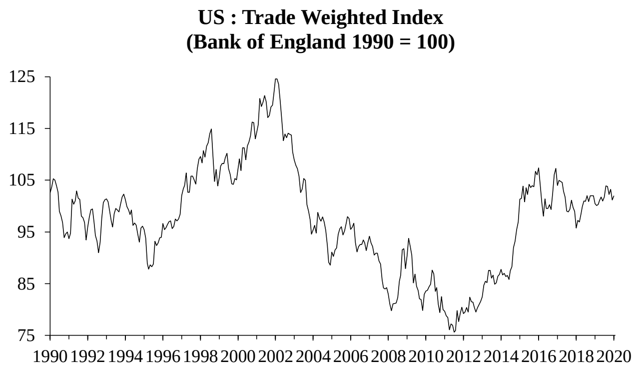
	Deposit Yield	Currency	Total
UK	0.83		0.83
US	1.77	−2.09	−0.32
Euro	−0.41	4.75	4.34
Japan	−0.10	−4.43	−4.53

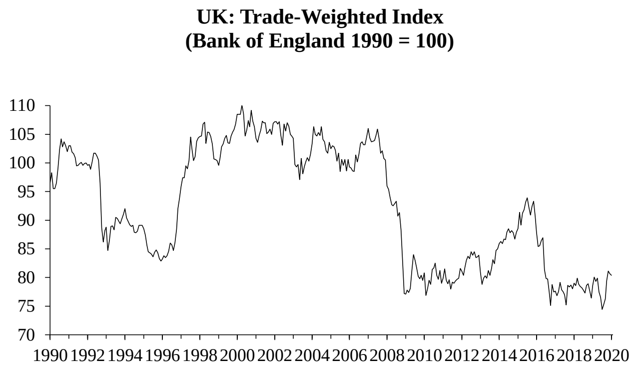
[1] Yields in terms of €s or $s can be computed by adjusting the £-based yields for the expected currency change.
[2] UK index linked bonds All Stocks
[3] Output based on China.

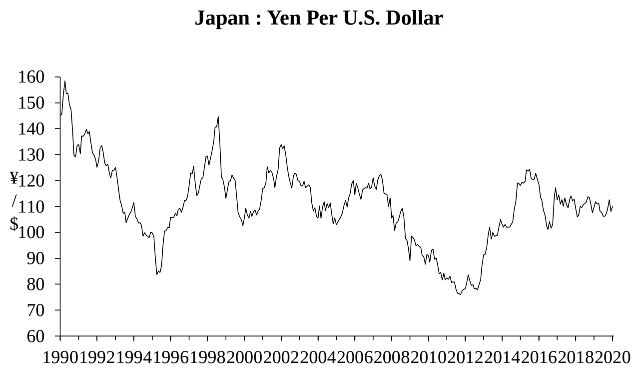
Table 3: Portfolio(%)

	Sterling Based Investor		Dollar Based Investor		Euro Based Investor	
	January Letter	Current View	January Letter	Current View	January 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



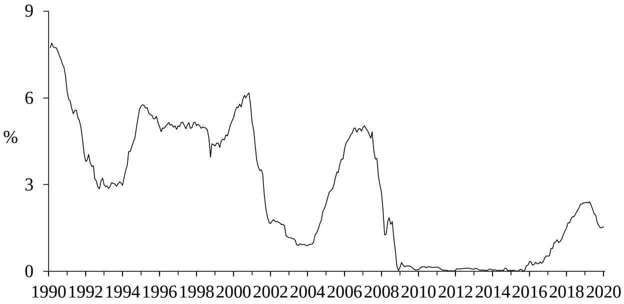




GOVERNMENT BOND MARKETS

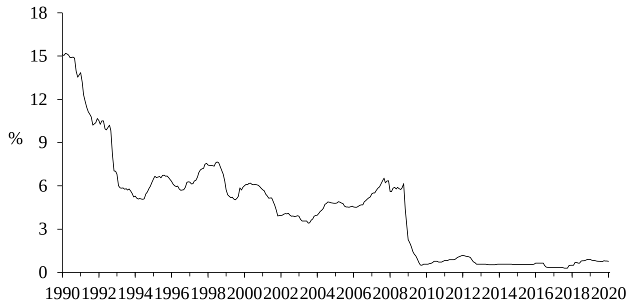
U.S.: Yield on Long-Term Government Bonds

U.S. : 3-Month Treasury Bill

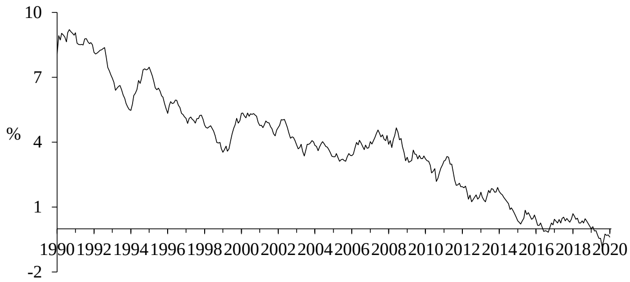


U.K.: Yield on Long-Term Government Bonds

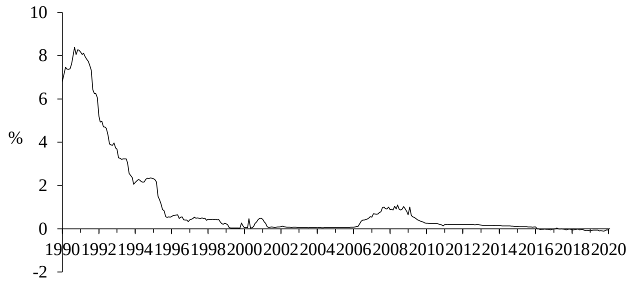
U.K. : 3-Month Certificate of Deposit Rate



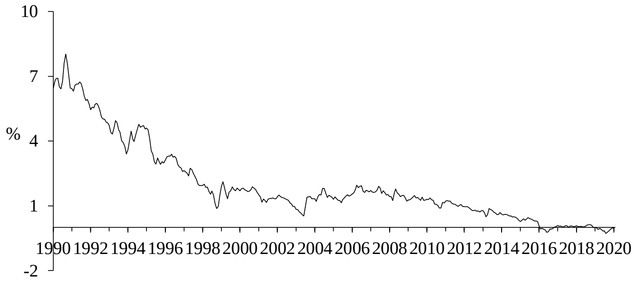
Germany: Yield on Public Authority Bonds



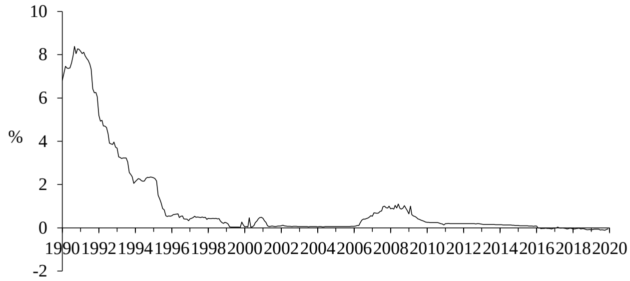
Japan : 3-Month Money Market Rate



Japan: Yield on Long-Term Government Bonds

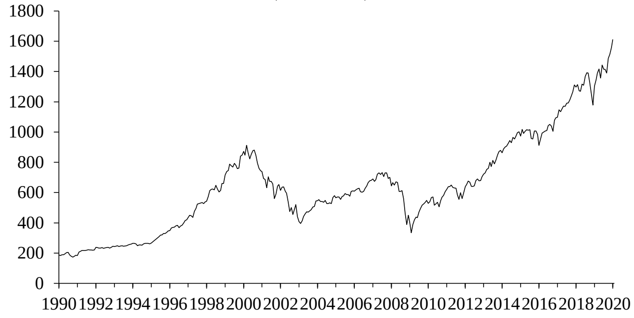


Japan : 3-Month Money Market Rate

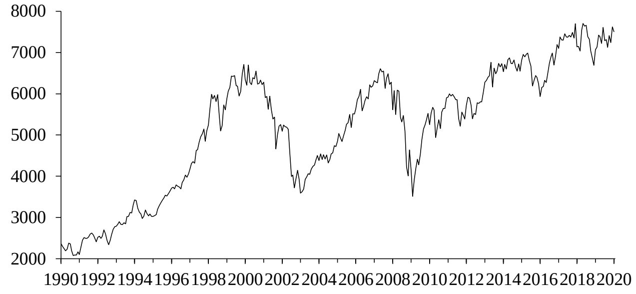


MAJOR EQUITY MARKETS

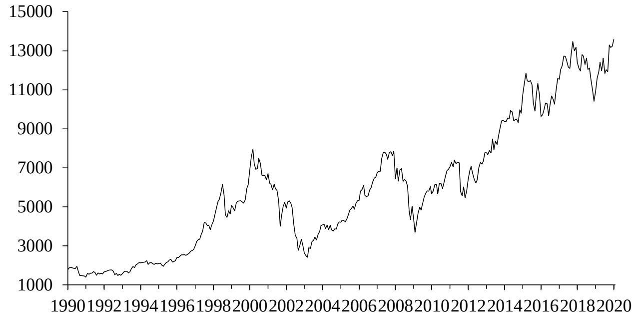
U.S. : S & P 400 Industrial (1985=100)



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



Germany : DAX 30



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

EMERGING MARKETS

Anupam Rastogi

India

Structural changes and higher crude oil prices have slowed down India's GDP growth rate a little in 2019–20, the GDP growth rate will be around 5% only. In 2020–21, we forecast growth rate of 6% as a bumper crop this year and next year pushes rural consumption and investment. In the current fiscal year, investment demand has whittled down. Only government expenditure and investment in infrastructure showed a healthy growth. However, the manufacturing Purchasing Managers' Index (PMI) in the month of January hit eight-year high of 55.3. The manufacturing PMI was at 52.7 in December. Hiring activity improved in January, with firms increasing employment at the quickest rate in the last seven-and-a-half years.

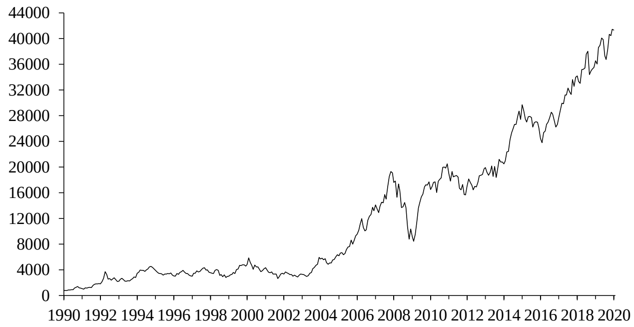
The consumer price index (CPI) rose 7.35% in December, hitting the highest since 2014 and crossing the threshold limit of 6% set by the Reserve Bank of India. Price pressures were high in both rural and urban areas, driven by food prices. While core inflation increased marginally in December to 3.7%, the real worry for the RBI and government is the rate of food (vegetable) inflation, which is the key trigger behind the steep rise in inflation in December 2019.

India's merchandise exports shrank 1.8% in December, falling for the fifth straight month, while the trade deficit narrowed to $11.25 billion from a year ago, helped by lower oil imports. Merchandise exports fell to $27.36 billion in December compared with a year earlier, while imports were down $38.61 billion, resulting in the trade deficit of $11.25 billion compared to trade deficit of $14.5 billion a year earlier.

The government hopes that growth will rebound to 6–6.5% in the next fiscal year. The fiscal gap will narrow to 3.5% next year, as the government has budgeted for gross market borrowing to rise marginally to 7.8 trillion rupees from 7.1 trillion rupees in the current year. A plan to earn 2.1 trillion rupees by selling state-owned assets in the year starting April will also help plug the deficit. India is trying to emulate a China-like, labour-intensive, export trajectory by integrating "Assemble in India for the world" into Make-in-India policy and, thus, targets to raise its export market share to 3.5 % by 2025 and 6% by 2030. Such a strategy could help to create forty million well-paid jobs by 2025 and 80 million by 2030.

The next fiscal year, scheduled to start from April 1, has muted spending plan to keep the deficit in check. The government is sticking to a conservative fiscal path. The government does not want to compromise with macro stability. The central bank is set to review monetary policy on February 6th. Given that inflation has surged to a five-year high of 7.35% December, the RBI is unlikely to lower interest rates. Governor Shaktikanta Das is likely to focus on unconventional policy tools such as the Federal Reserve-style Operation Twist — buying long-end debt while selling short-tenor bonds – to keep borrowing costs down.

India: BSE Sensitive



Finance Minister Nirmala Sitharaman, who presented the budget on February 1, said this budget was aimed to boosting incomes and enhancing purchasing power. The government has proposed cut in personal tax rates that will likely enhance purchasing power of middle class and announced tax sops for affordable housing. The government has scrapped the dividend distribution tax on companies.

Due to sky-high expectations from the budget and sell-off in the US market, the NSE Nifty 50 Index dropped 2.5% to 11,661.9 on the budget day. The market was hoping to get a full-frontal fiscal stimulus.

The philosophy of the present government is to present budget as a low-key, routine, and increasingly just an annual statement of accounts. The big bang policy initiatives are brought over the year as and when administratively cleared. For example, last year's corporate tax rate cut has been the most spectacular reform under Modi and would usually be described as a largesse for the richest. It was announced without discussion, debate, like just another routine administrative decision. This is how the present government runs its economic and financial policy.

US President Trump is scheduled to come to India between February 21 and February 24, with a day devoted to a joint public function with Prime Minister Narendra Modi. The central focus of Trump's India visit is expected to be a trade deal, and discussion on China, the Indo-Pacific, Afghanistan, Iran and terrorism emanating from Pakistan.

	18–19	19–20	20–21	21–22	22–23
GDP (%p.a.)	6.8	5.0	6.0	6.5	7.0
WPI (%p.a.)	3.9	3.6	3.8	3.9	4.0
Current A/c(US$ bill.)	-70.0	-52.0	-64.0	-65.0	-65.0
Rs./$(nom.)	79.5	71.0	72.0	72.5	73.5

China

The Wuhan Coronavirus outbreak is highly uncertain at this time, compared to the SARS virus, and that represents a serious threat to the Chinese, global economies and global financial markets. Some public health experts believe that draconian measures are required to restrict mobility of actual and potential carriers to contain the spread of the disease because the Wuhan Coronavirus evinces special characteristics that makes it very difficult to contain. However, China believes that it has taken enough measures to contain the virus. The economic consequences of such measures will be enormous.

Chinese officials hope that the economic effect would not be as bad as that of the SARS outbreak, which was estimated by the Asian Development Bank to lower GDP by 0.5 percentage points in the boom year of 2003 when China's GDP growth hit 10 percent.

The virus threatens to push China's economic growth to below 5% this year as it undermines domestic consumption and investment. China's growth has been on a downward trajectory for the past decade, driven largely by the declining performance of traditional heavy industry and the government's stubborn support for inefficient state-owned enterprises (SOEs). Moreover, China's electricity use is declining which points toward a prolonged slower-growth trend.

The upswing in the fourth quarter was based on expectations of a break in the trade war with Washington. Chinese economic growth slowed to 6.1% last year but it was within the government's target of 6% to 6.5% for 2019. We forecast a growth rate of 5.5% for 2020.

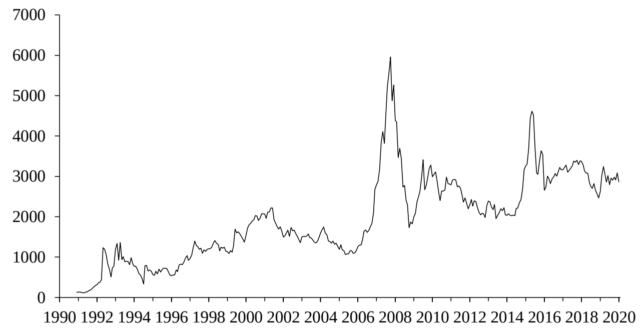
Soaring pork prices have kept China's inflation at a 7-year high. Consumer prices were up 2.9% in 2019. Only in 2011, when China's economy was red hot, China had such a high rate of inflation.

For 2019, exports rose 0.5% while imports fell 2.8%. China's surplus came in at around US$295 billion in 2019, down 8.5% from the previous year's record US$323 billion, according to customs data.

China's currency weakened just before the Lunar New Year holiday, as the spread of the Wuhan coronavirus fanned worries of a deeper economic slowdown in parts of the country. The yuan is trading just below 7-per-dollar. The spread of the coronavirus in China and its potential economic impact is weighing on the country's currency, pushing the yuan back through a level once described as a "line in the sand" in offshore trading. The government has tried to cushion the economic blow, with the central bank set to keep ample liquidity and to step up spending.

Chinese stocks kicked off the Year of the Rat with their worst day since 2015, down 8% in Shanghai on February 3rd. China's stock market decline mostly represented catching up with reality after being closed since January 23rd for the Lunar New Year holiday. We expect Beijing to step in with far more aggressive measures to support the market, more rough days are probably ahead for Chinese stocks. Two years into their trade spat, the U.S. and China got a deal, albeit a limited one. The whole thing is shadowed by the coronavirus.

China: SSE Composite Index



Korea: Composite Index

	18	**19**	**20**	**21**	**22**
GDP (%p.a.)	6.6	6.1	5.5	5.4	5.2
Inflation (%p.a.)	2.2	2.3	2.3	2.0	1.8
Trade Balance(US$ bill.)	50.0	60.0	40.0	20.0	0.0
Rmb/$(nom.)	6.8	7.0	7.1	7.1	7.2

South Korea

The coronavirus will reduce demand for Korean goods and partly slow the momentum that the U.S.-China trade deal offered to South Korea's economic recovery. We expect GDP growth rate to be just 2% in 2020. Real GDP grew 2.0% in 2019 from the previous year, after expanding 3.2% in 2017 and 2.7% in 2018 respectively. The government plans to front-load its spending this year to speed up an economic recovery. South Korea's government spending surge will help the economy to maintain its growth rate.

The country's annual inflation hit a record-low last year. The Bank of Korea's (BOK) policy board voted 5-2 to keep the base rate steady at 1.25%, as expected.

South Korea's export climbed 1.5% last year compared to 3.5% in 2018. A decline in South Korean exports worsened in January despite signs of green shoots in global trade as the Lunar New Year holiday reduced the number of working days at the end of the month. According to the government, exports shrank 6.1% from a year earlier, following a 5.2% drop in December.

Imports declined 5.3% from a year earlier, compared to a 4.6% fall in December, giving a surplus of $620 million, the smallest in seven years and compared to a $2.02 billion surplus a month earlier.

The Korean won is steady and unlikely to see much volatility. Collapse of crude oil prices are likely to keen won evenly balanced.

	18	19	20	21	22
GDP (%p.a.)	2.7	2.0	2.0	2.2	2.2
Inflation (%p.a.)	1.5	0.4	1.1	1.2	1.2
Current A/c(US$ bill.)	86.0	80.0	78.0	70.0	70.0
Won/$(nom.)	1130	1220	1240	1260	1260

Taiwan

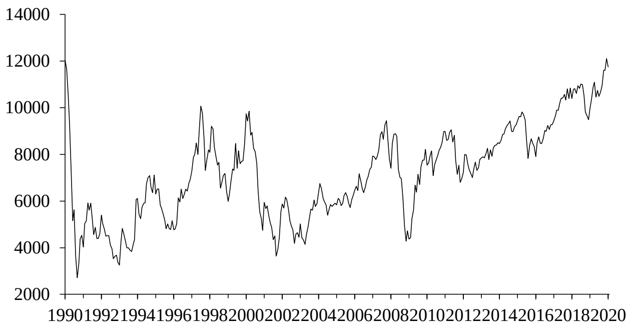
Taiwan is affected by the Wuhan virus. It reported nine cases, including two domestic cases. The possible impact of the Wuhan virus is difficult to predict at this point of time and we expect Taiwan's GDP growth to be 2.2% in 2020. While the stronger-than-expected growth momentum in the fourth quarter of 2019 justified an upward revision of Taiwan's 2020 GDP forecast, but the spread of the Wuhan virus is expected to directly impact Taiwan's consumption and tourism sectors since the public will reduce outdoor activities, as well as domestic and international travel, while confidence is also likely to take a toll from financial market jitters.

Beside a slower growth, inflation is likely to remain below 1% and the New Taiwan dollar, which saw little volatility around the Chinese New Year, is likely to die down. Taiwan's Taiex closed 5.8% lower, the biggest plunge since October 2018, as trading reopened for the first time since January 20. However, it has recovered a little after the sell-off.

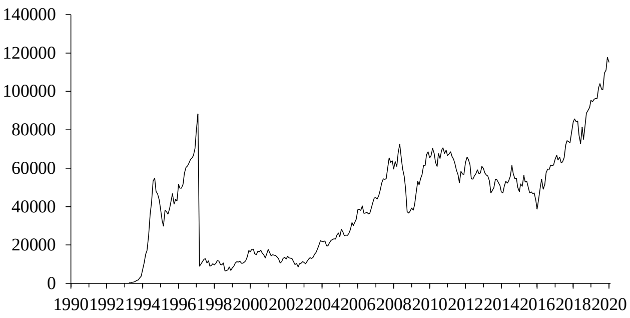
An election win for Tsai has exposed the failure of mainland China's pressure tactics during Tsai's presidency. For the past four years, China has been poaching Taiwan's diplomatic partners, blocking tour groups from the mainland, conducting military exercises on the island's doorstep and engaging in political influence operations. Last year, Chinese President Xi Jinping made clear that Beijing saw no future for Taiwan outside of the "one country, two systems" framework it used to retake Hong Kong from the British. That formula, however, is a non-starter in Taiwan.

	18	19	20	21	22
GDP (%p.a.)	2.6	2.5	2.2	2.4	2.2
Inflation (%p.a.)	1.2	1.0	1.0	1.0	1.0
Current A/c(US$ bill.)	68.0	70.0	71.0	70.0	60.0
NT$/$(nom.)	29.8	31.0	31.0	31.0	31.0

Taiwan: Weighted TAIEX Price Index



Brazil: Bovespa



Brazil

The contagion impact of the Coronavirus on the Brazilian economy is uncertain. However, Brazil's economy, which is on the path of recovery, would maintain its growth momentum. We expect the economy to grow by 2.1% in 2020. In 2019, the economy is likely to post a growth rate of 0.8%.

The 2019 rate of inflation was 4.3% compared to the inflation rate of 3.8% posted a year earlier.

Growth in consumer prices measured by the IPCA index are likely to be below the central bank's official 4% target. As food inflation is not likely to dissipate soon, we forecast CPI of 3.6% in 2020. With expect the accommodative monetary policy stance also to continue. The Brazilian central bank's benchmark interest rate is expected to fall to 4.25% by the year end

The Brazilian government will seek to strike a Mercosul-United Kingdom trade deal post Brexit that could be similar to the trade agreement signed between the South American bloc and the European Union. Brazil's Foreign Trade Secretary Marcos Troyjo said Brazil is very interested in a trade deal with the UK and plans to push for a broad agreement.

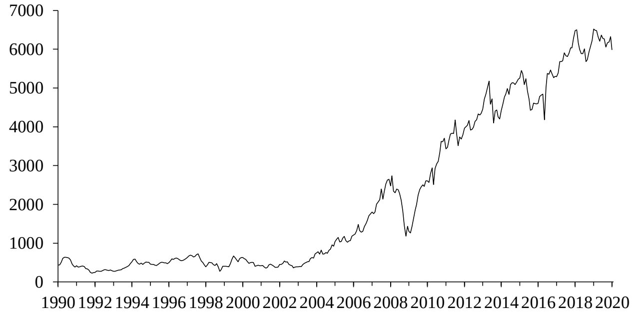
Brazilian President Jair Messias Bolsonaro was the guest of honour in the last week of January when India celebrated its Republic Day on January 26th. India and Brazil signed 15 agreements to ramp up cooperation in a wide range of areas and unveiled an action plan to further broad base strategic ties. The two countries have set specific goals for deeper cooperation in areas of defence and security, trade and commerce, agriculture, civil aviation, energy, environment, health and innovation and vowed to work together to conclude an agreement to deal with international terrorism.

	18	**19**	**20**	**21**	**22**
GDP (%p.a.)	1.1	0.8	2.1	2.5	2.5
Inflation (%p.a.)	3.8	4.3	3.6	4.0	4.0
Current A/c(US$ bill.)	-14.6	-36.0	-30.0	-26.0	-26.0
Real/$(nom.)	3.8	4.1	4.2	4.3	4.3

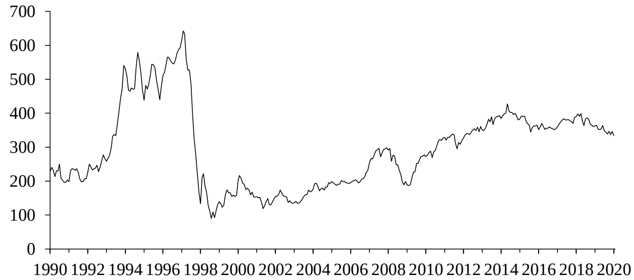
Other Emerging Markets

Hong Kong: FT-Actuaries

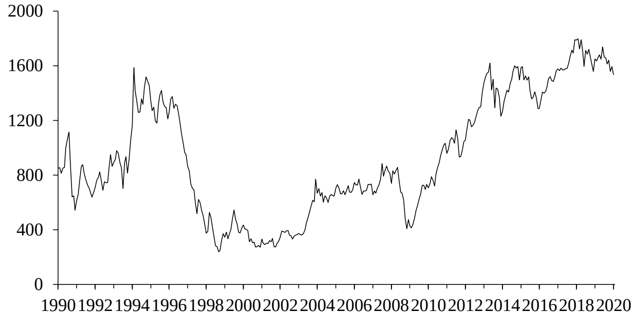
Indonesia: Jakarta Composite



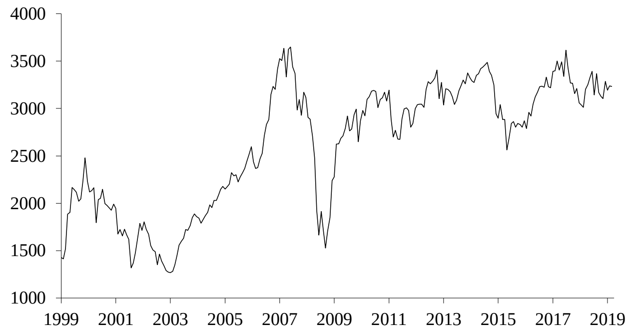
Malaysia: FT-Actuaries (US$ Index)



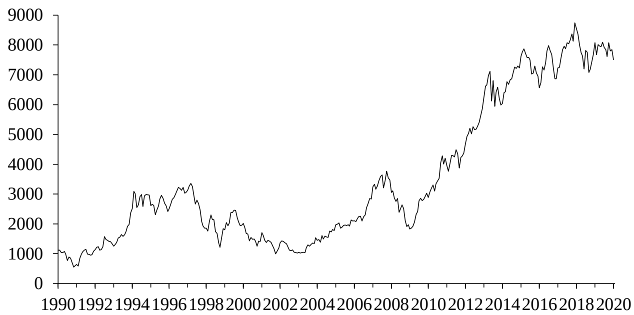
Thailand: Composite Index



Singapore: Straits Times Index

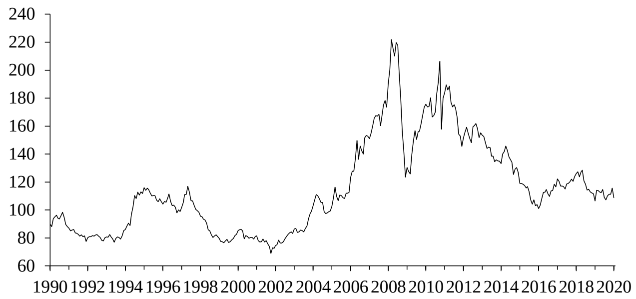


Philippines: Manila Composite

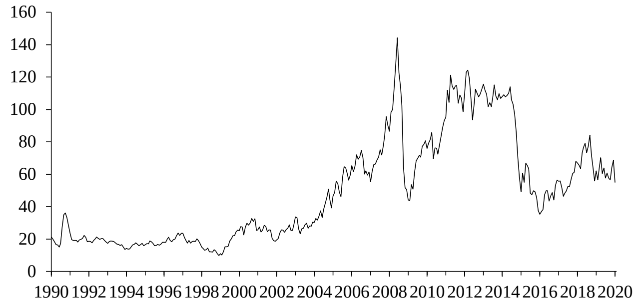


COMMODITY MARKETS

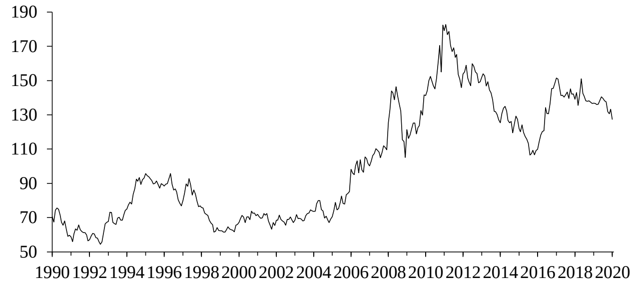
Commodity Price Index (Dollar)
(Economist, 2015 = 100)



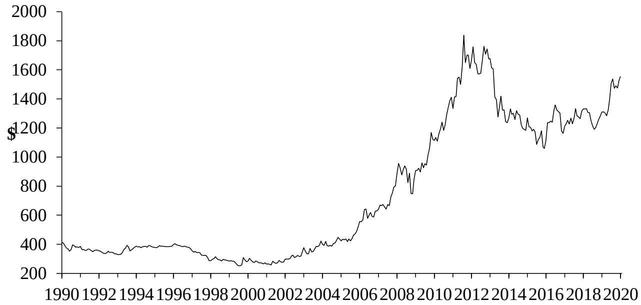
Oil Price: North Sea Brent (in Dollars)



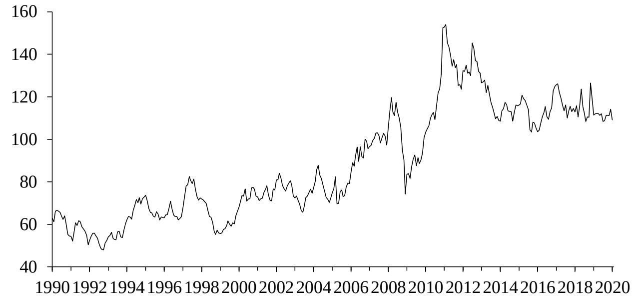
Commodity Price Index (Sterling)
(Economist, 2015 = 100)



Gold Price (in Dollars)



Commodity Price Index (Euro)
(Economist, 2015 = 100)



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]
2018	2.5	1.0	0.7	78.6	76.5	-1.3	3.3	-1.0
2019	1.9	1.0	0.9	80.1	74.7	-1.0	2.6	-1.0
2020	2.1	1.3	1.1	80.7	76.0	-1.1	2.9	-0.7
2021	2.0	2.4	1.9	80.6	76.3	-1.0	2.8	0.4
2022	2.0	3.3	2.4	80.5	76.6	0.1	2.7	0.4
2023	2.0	3.4	3.1	80.4	76.8	1.0	2.7	0.4
2019:1	1.9	0.9	0.8	79.0	72.8	-0.6	2.4	-1.1
2019:2	2.0	1.0	0.8	80.4	75.3	-1.2	2.7	-1.0
2019:3	2.0	1.1	1.0	80.3	75.3	-1.2	2.6	-0.9
2019:4	1.9	1.1	1.0	80.6	75.5	-1.1	2.6	-0.9
2020:1	2.1	1.1	1.0	80.7	75.5	-1.0	2.9	-0.9
2020:2	2.0	1.2	1.1	80.9	76.3	-1.0	2.8	-0.8
2020:3	2.0	1.3	1.1	80.7	76.2	-1.0	2.8	-0.7
2020:4	2.1	1.7	1.2	80.6	76.1	-1.4	3.0	-0.3
2021:1	2.0	2.3	1.8	80.7	76.0	-0.8	2.7	0.3
2021:2	2.0	2.5	1.9	80.8	76.5	-0.9	2.7	0.5
2021:3	2.0	2.4	2.0	80.6	76.5	-1.2	2.7	0.4
2021:4	2.1	2.5	2.0	80.4	76.3	-1.0	2.8	0.5

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)
2018	266.6	3.1	2.5	0.9	142.8
2019	275.8	3.6	2.4	0.9	145.2
2020	284.4	3.1	2.2	0.8	146.7
2021	293.3	3.1	1.9	0.7	148.4
2022	302.4	3.1	1.8	0.7	150.0
2023	312.2	3.2	1.6	0.6	151.9
2019:1	273.4	3.9	2.9	1.0	145.4
2019:2	273.4	3.8	2.2	0.8	144.1
2019:3	276.9	3.3	2.2	0.8	145.2
2019:4	279.3	3.4	2.2	0.8	146.1
2020:1	282.1	3.2	2.3	0.9	147.0
2020:2	281.8	3.1	2.2	0.8	145.6
2020:3	285.5	3.1	2.2	0.8	146.7
2020:4	288.2	3.2	2.2	0.8	147.6
2021:1	290.7	3.1	2.0	0.8	148.6
2021:2	290.9	3.2	2.0	0.8	147.4
2021:3	294.5	3.2	1.9	0.7	148.5
2021:4	297.1	3.1	1.9	0.7	149.1

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
2018	165.5	792730.9	445869.9	310567.1	201139.6	-41308.9	106758.3
2019	168.0	804347.9	451568.4	303830.7	204617.4	-52551.8	103116.9
2020	171.2	820012.3	457805.4	294079.0	207575.4	-30702.2	108745.3
2021	174.6	835951.9	464216.7	297988.4	210896.4	-25838.3	111311.2
2022	178.3	853622.4	470251.4	305835.5	214271.0	-22730.0	114005.6
2023	182.0	871244.7	476835.8	312486.6	217699.0	-19317.0	116459.8
2018/17	1.4		1.0	3.2	0.3		22.7
2019/18	1.5		1.3	-1.8	1.7		-18.0
2020/19	1.9		1.4	-3.0	1.5		6.0
2021/20	1.9		1.4	1.3	1.6		2.3
2022/21	2.1		1.3	2.6	1.6		2.1
2023/22	2.1		1.4	2.2	1.6		2.1
2019:1	167.6	200618.5	111589.5	85538.7	52691.8	-27678.5	21523.0
2019:2	167.8	200870.1	113657.2	74871.8	50827.1	-14036.4	24449.6
2019:3	167.9	201001.6	113170.0	70256.8	50222.0	-5107.9	27539.3
2019:4	168.6	201857.7	113151.8	73163.4	50876.5	-5729.0	29605.0
2020:1	170.9	204650.4	113061.1	79372.3	53218.7	-14821.9	26179.8
2020:2	170.6	204203.2	115141.3	70795.9	51640.8	-7012.1	26362.7
2020:3	171.3	205098.3	114754.0	70595.7	51025.1	-4284.8	26991.7
2020:4	172.1	206060.4	114849.0	73315.1	51690.8	-4583.4	29211.1
2021:1	174.3	208707.0	114530.9	79879.0	54070.2	-12598.7	27174.4
2021:2	173.8	208060.4	116753.6	71214.3	52466.7	-5258.2	27116.0
2021:3	174.7	209116.9	116475.3	72045.6	51841.5	-3856.3	27389.2
2021:4	175.4	210067.6	116456.9	74849.5	52517.9	-4125.1	29631.6

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)
2018	1.9	2111.8	40.8	23.4	-81.3
2019	1.8	2177.6	37.8	26.5	-86.5
2020	0.9	2268.0	20.7	28.9	-41.3
2021	0.4	2358.8	8.2	33.1	-31.4
2022	0.2	2457.4	3.9	36.9	-23.3
2023	0.0	2558.3	0.5	39.5	-15.0
2019:1	-3.6	527.1	-18.8	6.3	-37.8
2019:2	2.9	535.6	15.5	6.4	-25.4
2019:3	2.9	540.4	15.6	6.7	-10.1
2019:4	2.7	548.5	15.0	6.7	-13.2
2020:1	-1.5	553.0	-8.4	6.7	-11.3
2020:2	1.9	557.1	10.5	6.9	-11.0
2020:3	1.5	562.6	8.3	7.0	-8.3
2020:4	1.3	572.3	7.3	7.1	-10.7
2021:1	-0.9	575.9	-5.3	7.9	-6.8
2021:2	1.1	579.5	6.5	8.1	-7.6
2021:3	0.7	585.1	4.4	8.3	-7.5
2021:4	0.7	595.3	4.3	8.3	-9.5

1 GDP at market prices (Financial Year)

WORLD FORECAST DETAIL

Growth Of Real GNP

	2017	2018	2019	2020	2021	2022
U.S.A.	2.2	2.9	2.3	1.9	1.9	2.0
U.K.	1.8	1.4	1.5	1.9	1.9	2.1
Japan	2.2	0.3	1.0	0.3	0.8	1.0
Germany	2.5	1.5	0.5	0.9	1.1	1.2
France	2.4	1.7	1.3	1.2	1.3	1.4
Italy	1.7	0.8	0.2	0.4	0.5	0.6

Growth Of Consumer Prices

	2017	2018	2019	2020	2021	2022
U.S.A.	2.1	2.4	1.8	2.0	2.0	2.0
U.K.	2.6	2.5	1.9	2.1	2.0	2.0
Japan	0.5	1.0	0.6	0.7	0.5	0.5
Germany	1.5	1.8	1.4	1.4	1.5	1.7
France	1.0	1.9	1.2	1.2	1.3	1.5
Italy	1.2	1.2	0.7	0.9	1.0	1.3

Real Short-Term Interest Rates

	2017	2018	2019	2020	2021	2022
U.S.A.	–1.5	0.1	0.1	–0.3	0.0	0.0
U.K.	–1.7	–1.3	–1.0	–1.1	–1.0	0.1
Japan	–1.0	–0.7	–0.8	–0.5	–0.4	–0.4
Germany	–2.1	–1.7	–1.8	–1.9	–2.0	–2.0
France	–2.2	–1.5	–1.7	–1.7	–1.8	–1.9
Italy	–1.5	–1.0	–1.4	–1.4	–1.6	–1.7

Nominal Short-Term Interest Rates

	2017	2018	2019	2020	2021	2022
U.S.A.	0.9	1.9	2.1	1.7	2.0	2.0
U.K.	0.4	0.7	0.9	1.1	1.9	2.4
Japan	0.0	–0.1	–0.1	0.0	0.1	0.1
Germany	–0.3	–0.3	–0.4	–0.4	–0.3	–0.1
France	–0.3	–0.3	–0.5	–0.4	–0.3	–0.1
Italy	–0.3	–0.3	–0.5	–0.4	–0.3	–0.1

Real Long-Term Interest Rates

	2017	2018	2019	2020	2021	2022
U.S.A.	0.4	0.9	0.1	0.3	0.8	1.0
U.K.	–1.5	–0.5	0.5	1.4	0.9	0.6
Japan	–0.6	–0.5	–0.6	–0.6	–0.5	–0.4
Germany	–1.3	–1.1	–1.9	–2.1	–1.9	–1.7
France	–0.6	–0.5	–1.2	–1.5	–1.4	–1.3
Italy	1.1	1.6	0.9	0.1	0.1	0.2

Nominal Long-Term Interest Rates

	2017	2018	2019	2020	2021	2022
U.S.A.	2.4	2.9	2.1	2.3	2.8	3.0
U.K.	0.6	1.0	1.0	1.3	2.4	3.4
Japan	0.1	0.1	–0.1	–0.1	0.0	0.1
Germany	0.3	0.4	–0.3	–0.4	–0.2	0.0
France	0.8	0.8	0.2	0.0	0.1	0.2
Italy	2.1	2.6	2.1	1.3	1.4	1.5

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

	2017	2018	2019	2020	2021	2022
U.S.A.	94.5	93.6	94.0	94.2	94.1	94.4
U.K.	75.5	76.9	77.0	77.2	77.5	77.7
Japan	58.3	57.8	56.3	54.2	51.4	48.0
Germany	94.3	96.5	95.6	94.1	92.2	90.0
France	95.3	97.4	96.3	94.5	92.1	89.4
Italy	101.2	102.8	104.5	105.2	103.8	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)

	2017	2018	2019	2020	2021	2022
U.S.A.[1]	101.68	99.38	102.74	103.56	103.04	103.56
U.K.	1.30	1.33	1.28	1.31	1.33	1.35
Japan	112.18	110.00	109.10	111.20	111.50	111.30
Eurozone	0.87	0.85	0.89	0.88	0.89	0.88

[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