Economics

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Global outlook 2018: coping with the boom

- **Happy New Year:** Rarely has the outlook for a new year been as encouraging as it is today. We expect the synchronised global upswing to continue in 2018 at the above-trend pace reached in the last three quarters of 2017.
- **Above consensus:** Except for China, which may tackle its debt problems more energetically in 2018 than before, almost all our growth forecasts for 2018 and 2019 exceed consensus (see Table 1). Nonetheless, the risks to our calls are still tilted to the upside: buoyant sentiment indicators, strong cyclical dynamics and a US fiscal stimulus suggest that growth could accelerate even further.
- **A largely synchronised global upswing:** Most developing countries can look forward to growth at least in line with underlying trends. For most of them, stronger demand from the US, Europe and Japan will more than offset a likely deceleration in Chinese growth.
- **More inflation and faster productivity gains:** Over time, above-trend growth will put strains on the available resources. Wage gains will likely pick up modestly across the developed world in 2018. However, firmer business investment bodes well for some rebound in labour productivity. We look for a modest uptick in core inflation that will not be pronounced enough to scare central banks into tightening policy by more than is needed to prevent a premature overheating of the cycle.
- **The end of very easy money:** Major central banks – excluding the BoJ – will likely scale back their monetary stimulus over the course of the year. We expect four 25bp rate hikes from the US Fed and two such hikes from the BoE, while the ECB will likely end asset purchases in September 2018 before hiking rates in 2019.
- **The party has begun:** Strong growth at low inflation will not last forever. So far, however, neither the US nor Europe or Japan have built up serious excesses that would require a cleansing recession soon. The party can still last for a while.
- **Two kinds of risks could derail the rosy economic scenario:** (1) A huge political shock; or (2) a premature overheating of the largely synchronised global business cycle. Most importantly, could the upside surprise on real GDP growth in 2017 herald an unexpectedly strong surge in inflation in 2018? After years of ultra-low inflation, we detect no evidence yet that inflation may accelerate excessively.
- **Geopolitical risks do not seem more pronounced than usual:** Of course, we need to watch the tail risks that tensions around North Korea could trigger a confrontation between China and the US and that the various proxy wars between Iran and Saudi Arabia could lead to a wider conflict in the region. In the US, we need to watch the erratic behaviour and protectionist leanings of President Trump. In Europe, the highly uncertain political outlook for Italy tops the list of risks.

Table 1: More growth without much higher inflation – Berenberg forecasts versus consensus

	GDP		Inflation	
	2018	2019	2018	2019
US	0.3	0.6	0.3	0.2
China	-0.1	-0.1	0.0	0.0
Japan	0.2	0.0	0.1	0.0
UK	0.4	0.5	0.3	0.3
Eurozone	0.3	0.3	0.1	0.1
Germany	0.3	0.2	0.0	0.0
France	0.4	0.6	0.0	0.0
Italy	0.2	0.3	-0.1	0.1
Spain	0.3	0.5	0.3	0.3
Portugal	0.4	0.4	0.0	0.0

Difference between Berenberg forecasts and Bloomberg consensus, in ppt; green (red) colour: Berenberg above (below) consensus. Source: Bloomberg consensus taken on 2 January 2018; Berenberg projections

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Overview: the party can still last for a while

2018: an encouraging outlook

Above trend: Rarely has the outlook for a new year been as encouraging as it is today. We expect the synchronised global upswing to continue in 2018 at roughly the pace reached in the last three quarters of 2017. With the exception of the Brexit-stricken UK, the major economies of the western world look set to enjoy another year of above-trend growth.

The end of the age of caution

Back to boom and bust: 2017 marked the end of the age of caution. After an unusually restrained economic recovery as households and companies were more eager to repair their balance sheets than to borrow and spend in the wake of the mega-crisis of 2008/09, the normal cyclical pattern came to the fore again in 2017: when times are good, households and companies feel confident enough to consume and invest more. Stronger demand and the ensuing rise in employment feed the confidence which, in turn, underpins further spending. After a crisis in many emerging markets and a temporary dent in energy-related business investment in the US that had restrained demand in 2015 and 2016, growth accelerated well beyond trend in the US, the Eurozone and Japan over the course of 2017.

Revival of animal spirits

More of the same for 2018: The ongoing revival of the pro-cyclical animal spirits promises to be the major driver of demand growth in the western world in 2018. As companies raise their investment, a solid labour market and recent gains in real incomes will encourage households across most of the developed world to consume more. Most developing countries can look forward to growth at least in line with underlying trends. For many of them, stronger demand from the US, Europe and Japan will more than offset a likely deceleration in Chinese growth as China tries to tackle its debt overhang more energetically than before.

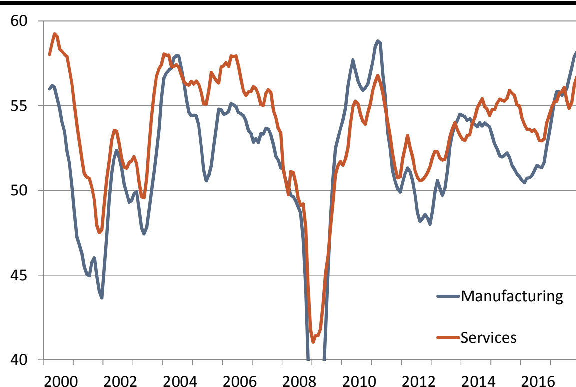
Above-consensus may well be too conservative

The risks to our calls remain tilted to the upside: Most of our growth forecasts for 2018 and 2019 exceed consensus (see Table 1 on page 1). For three reasons, our calls may still be too conservative. First, for most developed countries, we project the same pace of demand gains for 2018 that has prevailed since spring 2017. However, most confidence surveys, such as the Markit survey of purchasing managers (see Chart 1), suggest that growth could accelerate further in early 2018. Second, the recent pace of growth remains well below that of previous cyclical peaks. The cycle could have more upside as companies and households dare to exploit low financing costs to borrow and spend more. Third, a big US fiscal stimulus could boost US demand and global business even more than we expect.

The party can still last for a while

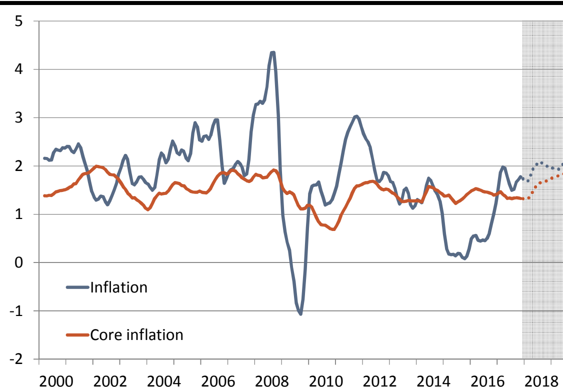
More inflation, faster productivity gains – or a bit of both? Above-trend growth will put strains on available resources. As inflation reacts with a lag to changes in the balance of aggregate demand and supply, a key question is whether the upside surprise in global demand growth in 2017 will be followed by an upside surprise in inflation in 2018. We look for a modest uptick in core inflation (see Chart 2) that will not be pronounced enough to scare central banks into tightening policy by more than is needed to keep growth on an even keel. Wage gains will likely pick up modestly across the developed world in 2018. However, firmer business investment bodes well for some rebound in labour productivity as part and parcel of a return to normal cyclical dynamics. That should help to keep inflationary pressures in check. The party has begun. Strong growth at low inflation will not last forever. But neither the US nor Europe or Japan have built up serious excesses that would require a cleansing recession in 2018 or 2019 already. The party can still last for a while.

Chart 1: PMI – weighted average of US, Eurozone, Japan and UK



3-month average; pre-2008 data excludes Japan. Sources: ISM, IHS Markit, CIPS, Nikkei, Berenberg calculations

Chart 2: Inflation – weighted average of US, Eurozone, Japan and UK



Yoy changes in %, 3-month average; core inflation excludes food and energy. Sources: BLS, ECB, ONS, Ministry of Internal Affairs and Communications, Berenberg calculations

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US: robust growth as policy changes get underway

Growth to accelerate to 2.9% in 2018 on tax reforms

Strong economic momentum will extend into 2018 as the dramatic remake of the US tax codes gives a further boost to 2017's healthy growth and elevated confidence. We forecast US real GDP to grow by 2.9% in 2018 and by 2.7% in 2019, well above consensus and the Fed's own projections. Sustained easy financial conditions, a rapid rise in household net worth, elevated business and consumer confidence, the weak dollar and a more favourable regulatory environment can provide upside surprises. We expect labour markets to tighten further, with unemployment falling below 4%, and look for inflation to drift up to 2%.

Consumption fuelled by confidence, lower tax rates and a healthy labour market

Consumption, which accounts for almost 70% of GDP, will likely increase by 2.8%. Spending will be propelled by gains in employment, a pickup in wage gains, elevated consumer confidence that stems from the rally in equity prices and marked home price appreciation – and increasing use of consumer credit. Lower effective taxes will contribute to stronger real disposable income growth. Tighter labour markets and improved productivity gains will support spending.

Residential investment is poised for further gains

Consumers are already the most comfortable they have been during this recovery, with the personal saving rate down to 3% (see Chart 3). Residential investment, unlike other sectors, is still in the early stages of its recovery and is poised for further gains. Changes to tax policy may cause short-term disruptions to the housing market in some local markets and could limit home price appreciation, but the longer-run impact is positive.

Businesses to benefit from tax reform and lighter regulatory environment

The pickup in business fixed investment will continue as firms benefit significantly from tax reform and the lighter regulatory touch from the Trump administration and the Fed. The lower tax rates on large corporations and smaller "pass-through" businesses, along with the expensing of new equipment investment, will stimulate capital spending. Business optimism should fuel activity (see Chart 4). We expect real business fixed investment to accelerate to 6.7% in 2018, with upside risks. US businesses will also benefit from stronger exports, lower taxes on earnings generated overseas and the lagged impact of the lower US dollar.

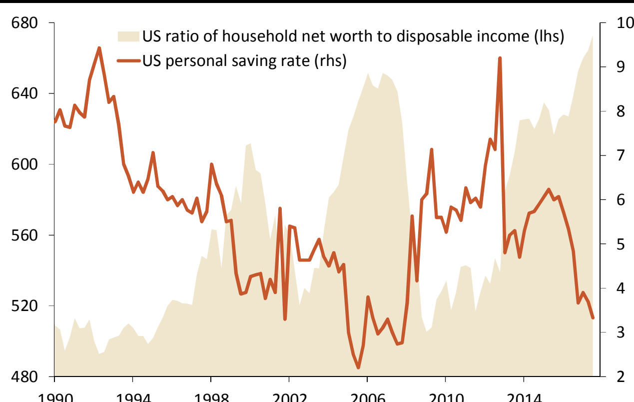
Greater flexibility will improve production and efficiency

Importantly, while businesses face a one-time tax on assets held overseas, the new flexibility to reallocate assets and activities without tax consequences will increase production and distribution efficiencies, and lead to favourable reallocations of capital. The impact from the first incidence of tax reform on business investment will be sizable. Business decisions on how to allocate the assets they repatriate from overseas is a wildcard. Firms will perform share buybacks, increase dividend payments, boost capex, and offer special one-time bonuses and higher wages – but the distribution of assets among those categories is uncertain.

Congress to focus on mid-term elections, other legislative change unlikely

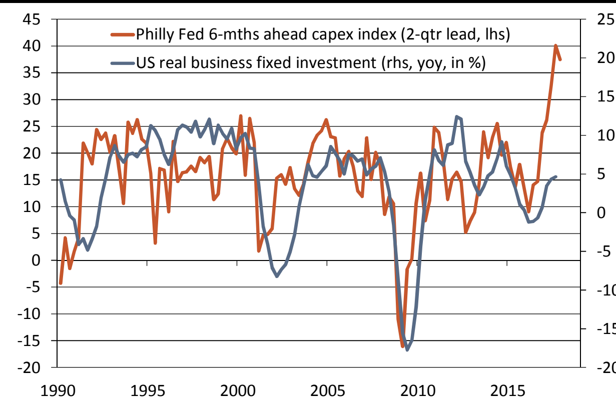
Real government consumption expenditures and gross investment picked up in H2 2017 and additional disaster relief spending will extend support in H1 2018. However, the full year spending picture is fuzzy as Congress continues to approve only short-term spending bills. After much drama, we expect Congress to eventually pass a longer-term spending bill that extends past the 2018 November mid-term elections. This will likely involve higher levels of defence spending and relatively smaller increases in non-defence spending. The chances for a large infrastructure spending package have been diminished by the sizable tax cuts, large hurricane clean-up and reconstruction costs, and higher projected deficits. We expect Congress and the administration to focus primarily on the mid-term elections this year, leaving less room for any major legislative changes. Economic growth and confidence are unlikely to be affected by the political noise surrounding the mid-term elections.

Chart 3: US – Household savings and net worth (%)



In %. Sources: Fed, Bureau of Economic Analysis

Chart 4: US – Philly Fed capex index and Real BFI



Sources: Bureau of Economic Analysis, Federal Reserve Bank of Philadelphia

Labour markets are experiencing an unprecedented period of sustained strong job growth and low unemployment (see Chart 5). Wage gains have been held down by subpar productivity growth, a higher share of entry-level workers, depressed participation rates for the prime working age population, and increasing use of non-wage compensation to retain and attract workers. We expect some of those inhibiting factors to unwind, resulting in a pickup in wage growth in 2018.

Wage growth to pick up as productivity increases

Inflation fell in 2017, but largely due to temporary factors. We expect it to drift up to 2% in 2018 as the one-time impacts roll off (see Chart 6) and as businesses experience stronger product demand that enables them to raise prices by more than in recent years. Pipeline inflationary prices (producer prices) are already picking up and the weak dollar will lift prices of imported goods and services, with a lag. Market-based inflation compensation measures seem to be slowly incorporating the effect of tax reform on prices and consumers may follow suit.

Inflation to drift up to 2% as temporary factors roll-off

The Fed's monetary policy will be driven by trends in wages as well as the economy. While the Fed currently forecasts that it will be appropriate to raise rates three times in 2018, we expect the Fed will increase its policy rate four times. After strangely leaving their Fed funds rate projections for 2018 unchanged at their December meeting, despite significantly boosting their GDP forecasts and lowering their unemployment rate estimates, Federal Open Market Committee (FOMC) participants will likely gradually upgrade their rate projections if the economy accelerates and inflation picks up, as we expect. Significant changes in the composition of the Fed's board of governors could affect its policy decisions, with the new Fed likely to favour more policy rate hikes and regulatory reform, especially for regional and smaller banks.

The Fed is likely to hike four times

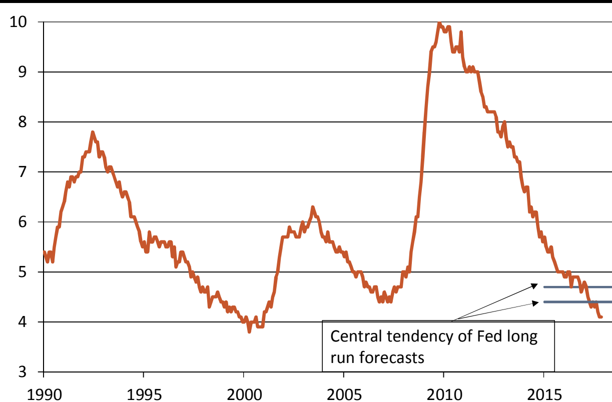
While our growth forecasts are well above consensus, we may still be underestimating the stimulus from tax reform that will accompany the continued easing of regulations for businesses and financial institutions. Considering just domestic policies, chances are that the economy may outperform. A potential negative is the Trump administration's tendency to advocate trade protection initiatives. So far, those tendencies and outsized public rhetoric have failed to materialise in the form of jarring inhibitions to trade. But amid ongoing negotiations on NAFTA and other trade initiatives, close scrutiny is warranted.

Growth could still outperform our above-consensus forecasts

On the domestic side, if the economy does show signs of overheating, there are risks that the Fed either falls behind the curve or raises rates too aggressively, which may jar markets and confidence. On the political side, Congress and the administration are likely to be constrained by the mid-term elections. We expect no major legislation to be enacted. While it is certain the political noise leading up to the November mid-term elections will capture the headlines, economic performance is unlikely to be affected.

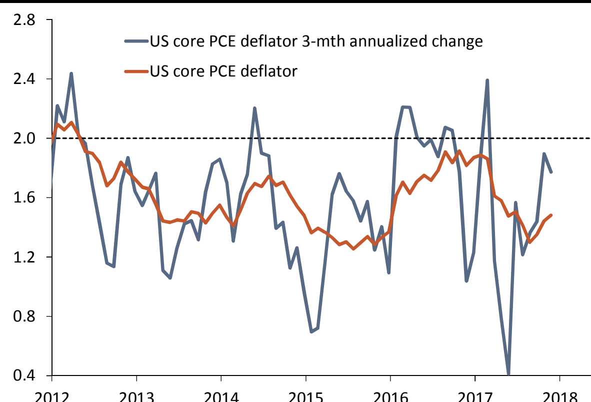
Economic performance will not be affected by political noise around the mid-terms

Chart 5: US – unemployment rate (%)



SA, in %. Sources: Fed, Bureau of Labor Statistics

Chart 6: US – core PCE deflator (% yoy)



Yoy changes in %. Source: Bureau of Economic Analysis

China: strong but slower growth in 2018

Chinese growth to moderate but remain strong

The challenges facing China's economy are well-known: high debt and government efforts to constrain leverage; unfavourable long-run demographics; and a command-and-control government that misallocates economic and financial resources. However, economic growth in 2018 is likely to remain strong, with real GDP expanding by 6.4%, only moderately slower than its 6.8% average in 2016-17. Export-related manufacturing will contribute to growth. Domestic consumption will continue to advance strongly – Chart 7. Meanwhile, investment will remain soft, reflecting the government's slower investment spending and its efforts to reduce speculation in housing. Inflation will drift up but remain modest. The renminbi, which appreciated versus the US dollar and Japanese yen in 2017, is vulnerable and will probably depreciate in 2018.

Export-related manufacturing a source of strength

Following a lull in 2015-16, China's exports and imports are rising at double-digit rates (see Chart 8). Along with reinvigorated export-related manufacturing, the high-tech and digital-based sector has turned into a source of strength. Export growth has reflected firming global economies and accelerating trade volumes, while imports have benefited from higher economic activity and rising prices of energy and industrial commodities. China's strength in international trade is stimulating Asian and emerging nations' economies.

Healthy 7.5% gains in household disposable incomes are fuelling strong growth in consumption. Investment spending has been a drag on economic growth, a trend that is likely to continue.

Tighter credit policies and financial regulations are priorities

The government's top objectives include addressing high leverage, imposing stricter financial regulations, improving government finances and generating more equitable and sustainable growth. Tighter credit policies imposed by the People's Bank of China (PBoC), including slower liquidity provision, higher policy rates on various liquidity facilities and tighter regulatory measures, have slowed the pace of bank lending only modestly. However, these measures are having a more pronounced impact on non-bank financial credit and real estate prices.

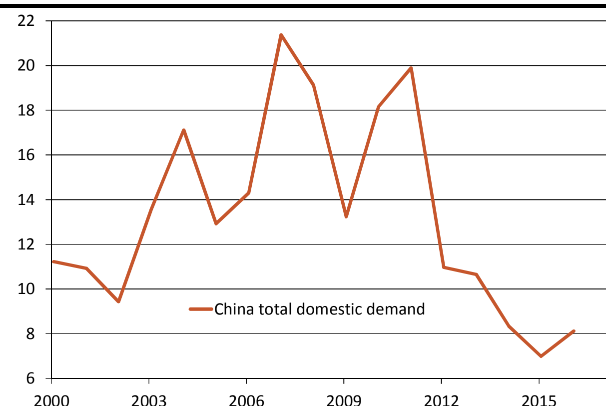
While rising debt is manageable in the short-run, it poses a long-run challenge

China's rising debt has received a lot of attention, but its debt service costs are made affordable by the rapid growth in national income (nominal GDP is up by 11.3% year-over-year) relative to interest rates (3% policy rate and sub-4% 10-year bond yield). Although China's non-financial sector debt, including the federal and local government debt, is a seemingly high 242% of GDP, it is very similar to the US's (US total government debt is 100% of GDP and non-financial corporate and household debt are 72% and 77%, respectively). While China's debt poses a longer-run challenge and involves many misallocations of resources, government policies are geared to manage the debt without unhinging its economy.

Continued currency appreciation would pose a risk to the export sector

As China's economy continues to transition toward consumption and services, slowing productivity gains and rising unit labour costs exert a natural downward pressure on the renminbi. The currency's appreciation versus the yen and US dollar, unless reversed, will eventually harm China's valuable export-related manufacturing sector.

Chart 7: China – domestic demand (% yoy)



Yoy changes in %. Source: China National Bureau of Statistics

Chart 8: China – exports (% yoy)

Yoy changes in %. Source: China Customs

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Japan: continued momentum in 2018

Robust growth to continue

Following strong growth in 2017, Japan can sustain its economic momentum in 2018. Real GDP is likely to grow by 1.5%, slower than the robust 1.8% in 2017, but well above potential growth of 0.8-1.0%. Japan will continue to benefit from strong growth in exports, while healthy gains in consumption and gross fixed capital formation lift domestic demand. Profits, employment and wage gains will continue to reinforce economic growth. Inflation is likely to drift up modestly.

Positive economic initiatives are driving growth

This highly favourable outlook reflects in large part some of the positive economic initiatives of the Abe administration – particularly the rising labour force participation rate of prime-age women – plus synchronised global growth and stronger trade. The ongoing structural reforms and production efficiencies of Japan's largest manufacturers have enhanced competitiveness and the attractiveness of Japanese products.

Aggressive monetary easing is having little impact

The BoJ's continued aggressive quantitative and qualitative easing (QQE) and yield curve control programmes are doing little to boost the economy but will likely continue to drive the Nikkei higher and further distort financial markets.

Export growth is likely to remain strong

The recent strength in Japan's exports – up by 6.4% in real terms in 2017 – is a key factor driving product demand (see Chart 9). This reflects the economic strength of Japan's largest export markets – China's continued strong growth is lifting other Asian economies, the US has favourable momentum and Europe is growing faster than its production potential – plus the weakness in the trade-weighted yen.

Low unemployment and better wage gains are driving consumption

The confluence of rising employment and wages, plus marked increases in confidence, will support continued increases in consumption. Labour markets are tight, with the unemployment rate of 2.7% the lowest since 1993 (see Chart 10). Increases in production are raising the demand for labour and beginning to push up wages, particularly of temporary workers. In the last four years, total compensation of employees has grown at an average of 2.1% annualised. Although disposable incomes have risen much more slowly, reflecting the low yields on savings, households have money to spend and rates of personal savings remain high.

Solid gains in investment

In the last year, business investment in plant and equipment has risen by 5.1%. Increasing production to meet export and domestic product demand point toward further gains.

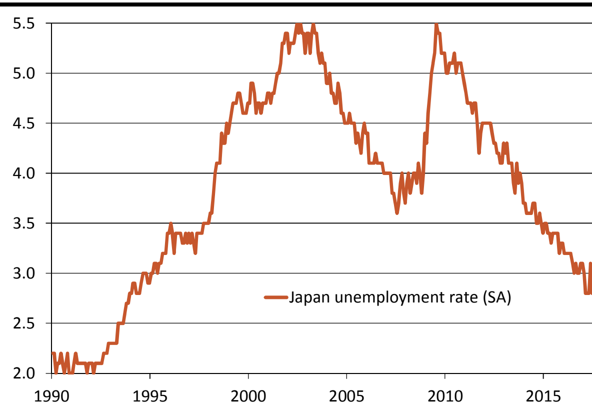
The improved performance reflects real positive underlying changes

It is important to emphasise that Japan's improved economic performance reflects real changes – increases in the labour-force participation rate of women, industrial efficiencies and strong global demand – and not the BoJ's extremely relaxed monetary stance. The BoJ's excessive asset purchases are sloshing around as excess reserves in the banking system, while the near-zero bond yields are a form of financial repression that, if anything, are a negative for the economy. This monetary policy is unnecessary for the economy, which is benefiting from positive supply-side initiatives and strong domestic and global demand dynamics.

Chart 9: Japan – exports

Yoy changes in %. Source: Bank of Japan

Chart 10: Japan – unemployment rate



In %. Source: Japanese ministry of health, labour and welfare

Eurozone: catching up with growth well above-trend

Growth well above trend, time to make up further ground

The Eurozone has come a long way. Five years after the ECB defused the euro crisis in mid-2012, the economic upswing across the Eurozone accelerated to a pace at around 2.5% in 2017. Mounting momentum at home and a healthy global upswing can keep growth well above the 1.5% trend rate for the foreseeable future without hitting inflationary bottlenecks or fuelling excesses that would require a cleansing correction. If so, the Eurozone could make up further ground it lost during the euro crisis. Since 2016, GDP per capita has expanded at a faster rate in the Eurozone than in the US and the UK (see Chart 11).

Gradual return to normal after crises and age of caution

The major underlying theme of the broad-based recovery across all countries, sectors and pillars of demand is a gradual return to normal. Following the double whammy of the financial crisis of 2008/09 and the euro crisis of 2011/12, the region had languished in an age of caution from 2013 to 2016. Over the course of 2017, companies and households have become more confident: they now dare to invest, spend and borrow a little more.

Risks to growth outlook are tilted to the upside

Leading indicators project even stronger growth ahead on the back of healthy private consumption and business investment. The risks to our calls of 2-2.5% in 2018-19 are still, therefore, tilted to the upside. But we do not expect demand growth to reach the peak rates of the previous cycles (3.3% in 2006 and 4.0% in 2000).

Above-trend growth can last for 2-3 more years. Recovery not (yet) driven by credit…

The question is: how long can the good times last? Usually, upswings do not die of old age. Instead, a recession beckons if the economy needs to be cleansed of domestic excesses or if an external shock derails the expansion. Regarding domestic excesses, this recovery has been different – at least so far. Most importantly, the recovery is much less credit-driven than previous upturns (see Chart 11). That has two major advantages. First, it will take longer for dangerous excesses to develop. Second, the less any excess has been fuelled by credit, the less painful will be the following correction.

… and inflationary pressure remains subdued

Besides credit, inflation will not force the ECB to end the upswing within the next two to three years. Core inflation remains well behaved, having drifted up merely to 1% in 2017 from an average of 0.9% in 2013-16. Price pressures should pick up as the labour market tightens, but resources remain idle in most parts of the region. The unemployment rate is still about twice as high as in the US. The Eurozone's recovery has some time to run before wage inflation accelerates to a rate that puts the ECB's definition of price stability at risk.

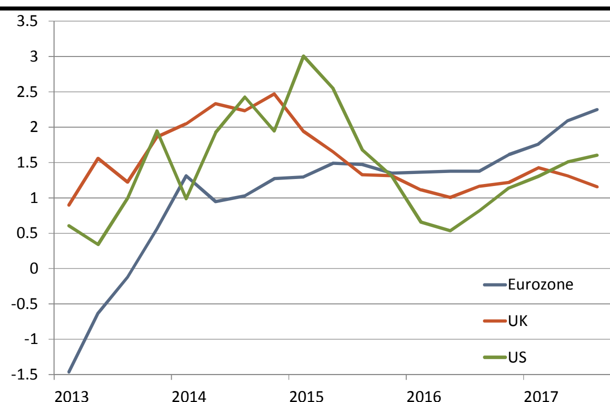
External shock most likely risk to Eurozone recovery

This leaves a potential external shock as the most likely risk to the Eurozone recovery within the next three years. The cycle is more mature in the US than the Eurozone, and the US tax cut will provide a fiscal stimulus. Therefore, the party will likely get too hot and give way to a hangover in the US well before the Eurozone itself has reached the stage of maximum exuberance.

ECB to stop net purchases in September 2018 and hike rates in 2019

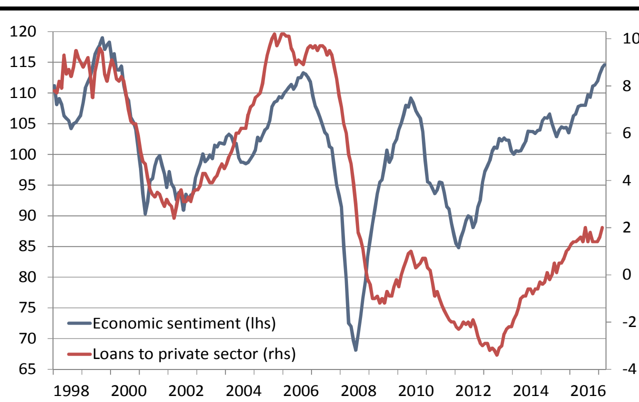
The ECB cannot do much to prevent an external shock. It can only make sure the domestic economy does not run too hot. Subdued core inflation and mediocre credit dynamics mean the ECB can stick to its current policy guidance. But with growth well above trend, even the doves at the ECB will feel uneasy about extending asset purchases beyond September 2018 and maintaining a negative deposit rate in 2019. The ECB will likely raise its refi rate for the first time in this current cycle in June 2019, followed by a further move in December 2019.

Chart 11: Robust growth – Eurozone leading (% yoy)



Annual growth rate in real GDP per capita. Sources: OECD, Eurostat.

Chart 12: Different this time – boom not (yet) credit driven



Eurozone economic sentiment, loans by Eurozone banks to private sector (adjusted), deflated by core CPI, yoy change in %. Sources: European Commission, Eurostat

Germany: enjoying the good life

Political stalemate – but growth remains robust

More than three months after the election on 24 September 2017, the centre-left SPD has yet to join chancellor Angela Merkel's centre-right CDU/CSU in a renewed "grand" coalition. Even in the unlikely case that the coalition talks collapse and a Merkel-led minority government emerges or repeat elections have to be held, Germany's political orientation would not change much as the mainstream political parties are fairly close on many issues. While a continued stalemate would slow down discussions about reforming the EU and the Eurozone, uncertainty about future economic policies would remain low. Economic confidence has reached boom levels. Thanks to robust domestic activity and firm demand for German exports abroad, the German economy is likely to run at full throttle (2.5%) in 2018, as in 2017. Mounting labour shortages will likely prevent even stronger gains.

France: off to a golden decade?

Thanks to Macron's reforms France continues to shape up

Four months after being sworn into office, President Emmanuel Macron already introduced labour market reforms last September that seem roughly as sweeping as the German "Agenda 2010" reforms 15 years ago. He is also cutting corporate tax rates. A pension system overhaul will be his next big project. The rising tide of the global cycle and some pro-growth measures of previous presidents also help. We expect French GDP growth to accelerate to 2.2% in 2018, after 1.9% in 2017. As a result of Macron's reforms, France could turn into the strongest of all major economies in Europe in the next decade. The current gap between the German and French employment rates can be seen as a measure of the potential to be unlocked by Macron's reforms (see Chart 13).

Italy: still lagging behind

Italy is the top political risk in the Eurozone, but Italexit is even less likely than a year ago

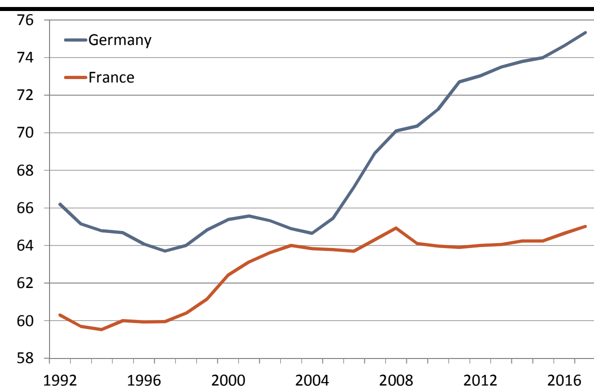
Italy tops the list of potential risks in the Eurozone. Elections will be held on 4 March. Opinion polls suggest that a tentative alliance of Silvio Berlusconi's centre-right Forza Italia and two right-wing parties (Lega Nord, FdI) would garner some 34% of the votes, ahead of the radical Five Star Movement (28%) and the centre-left Democrats (24%). Unless the election campaign yields a major surprise, Italy seems to be heading for a hung parliament. This could weigh on the growth outlook. Italy's labour market shows only a small gain (see chart 14). We expect growth to remain at rates around 1.5% in the next two years, well below the Eurozone average. In the end, the political stalemate may be resolved by some agreement between the centre-right and centre-left, possibly in the form of a technocratic or minority government. Importantly, the tail risk that Italy leaves the euro is even lower than a year ago, as many radicals have learned that campaigning against the euro does not win votes.

Spain: Catalonia conflict simmers, economy continues to do pretty well

Growing at around 3%, unless Catalonia risk turns messy

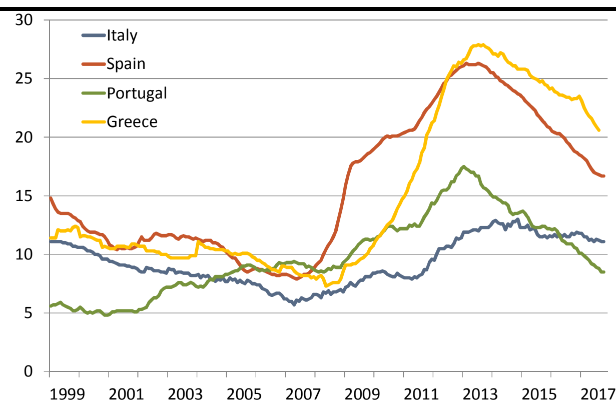
Benefiting from past supply-side reforms, the Spanish economy expanded by c3% in 2017 and outperformed the Eurozone average by more than 1ppt for the third year in a row. The unemployment rate has fallen sharply (see Chart 14). Forward-looking indicators have surged to multi-year highs. So far, Spain has defied those pundits who had worried that the economy would suffer badly from political uncertainty, such as the serious clash between Madrid and Barcelona. The regional elections on 21 December 2017 did not resolve Catalan conflict as votes were split almost equally between pro-independence and pro-Spain forces. As long as the conflict does not escalate sharply, Spain could achieve growth just below 3% in 2018. A tail risk remains that Mariano Rajoy's minority government may falter in Madrid.

Chart 13: France: a lot of potential to catch up to Germany



Employment in percent of working age population (16-64 years). Source: Eurostat

Chart 14: Reaping benefits of reforms – Italy now the odd one out



Unemployment rates, in %. Source: Eurostat

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UK: escaping the uncertainty trap in 2018

The UK missed out on the global upswing in 2017

The UK missed out on the global upswing in 2017 as Brexit uncertainty weighed on economic activity. Annual real GDP growth came in at 1.8% in 2017, below the 2% average for the post-Lehman upswing, even though growth in the US and the Eurozone, the UK's major trading partners, accelerated to well above the average of recent years. This is highly unusual. As a medium-sized open economy, the UK's normal growth trends broadly follow the ups and downs of its major trading partners. But, then again, Brexit is highly unusual.

1.8% growth in 2018 is not bad, but it would be nearer 2.5% without Brexit

We expect real GDP growth to remain stable at 1.8% in 2018, a little above the potential growth rate the UK can manage outside of the EU. Still, as in 2017, the UK looks set to stay close to the bottom of the G7 growth league as the other major advanced countries grow well above their own potential rates again this year. As Chart 15 shows, the UK enjoyed top-of-the-league growth during the post-Lehman upswing until the Brexit vote. While c2% growth this year would not be bad, it would probably be closer to 2.5% without Brexit.

Expect more risk taking and higher investment

A gradual return to more normal behaviour: UK firms, households and markets are less worried about the risk that the UK could crash out of the EU in March 2019 without an agreed framework for future trade with the EU. They are, therefore, likely to be less risk averse than before. As the export boost from the weaker sterling fades in 2018, the more normal risk appetite should enable higher levels of investment and more consumption of long-lived goods and services. Healthy global dynamics tend to show up in production and investment. These components of the economy should enjoy stronger growth in 2018 than in 2017. We look for investment growth to accelerate to 3.3% in 2018 from 3.1% last year, and industrial production growth to advance to 2.6% from 1.6% over the same period. Meanwhile, annual real consumption growth will remain stable at 1.4% as households rely less on savings and credit to support demand as real wages increase again after the sterling related falls in 2017.

Less Brexit uncertainty should be a boon in 2018

Less Brexit uncertainty in 2018: For most of last year, no major aspect of the UK-EU divorce, or future relationship, had been settled. But as the UK and the EU managed to settle the first stage of the Brexit negotiations in late 2017 – the divorce – uncertainty about the future has receded modestly. As uncertainty was the major factor weighing on economic activity in 2017, less uncertainty this year should offer some upside risk to our 2018 growth outlook. We currently see a 20% risk of a no-deal hard-Brexit (compared to 30% this time last year).

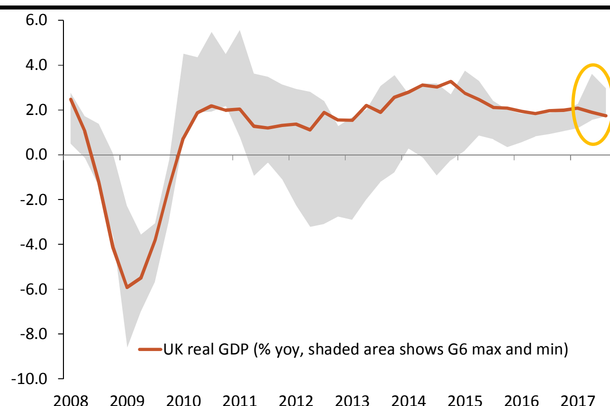
Expect the UK, in the end, to remain close to the single market and customs union

Ready for the second stage of Brexit talks? 2018 should bring even more news about future trading relations between the UK and the EU as transitional and trade talks begin in earnest. Since triggering the formal Brexit process in March 2017, the UK has gradually softened its stance on Brexit. As the need to preserve the status quo in Ireland and the potential costs of completely leaving the institutions of Europe become more obvious (see Brexit scenarios: now for the hard part), we expect the UK to agree to remain close to the single market and customs union in the end.

In our base case we expect a semi-soft Brexit

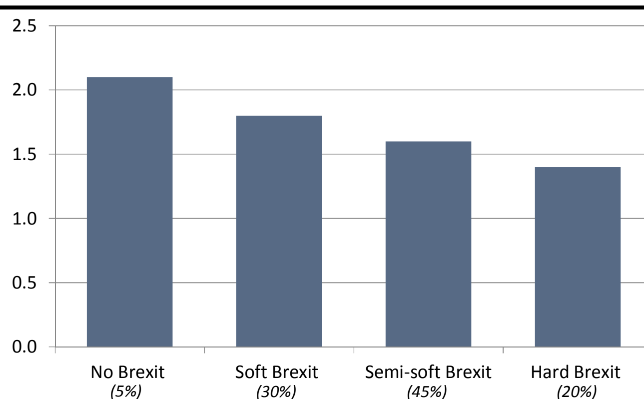
As our base case, we expect a semi-soft Brexit. In such an outcome, the UK's long-term potential growth rate could fall to c1.6%, from just over 2% inside the EU. Risks to this call are skewed a little to the upside because the UK's stance towards Brexit could soften by more than expected (30% chance of a soft Brexit, 5% chance of no Brexit).

Chart 15: UK real GDP versus G6 range (yoy, %)



Quarterly data. Source: ONS, Bureau of Economic Analysis, Statistics Canada, Eurostat, Cabinet Office of Japan, Berenberg calculations

Chart 16: Long-run UK growth in our Brexit scenarios



Trend growth in UK real GDP under various Brexit scenarios, in % per year (probability of each scenario in brackets). Source: Berenberg calculations

Emerging Europe

Russia: stable growth ahead of presidential election

GDP outlook is slowly improving

Following two years of recession, the Russian economy grew by around 1.7% in 2017. For 2018 we expect c1.9%. A 15% yoy increase in the oil price and rising credit growth due to falling interest rates are both supporting economic growth. Russian cooperation with OPEC has reduced the oil output from the latter's countries, underpinning higher oil prices. At the same time, the Russian economy, currency and government budget balance benefit from rising global demand for commodities. The Russian ruble climbed 6% versus the USD in 2017.

The central bank is very hawkish

The Central Bank of Russia (CBR) deserves some praise. The bold interest rate hike at the end of 2014 and a hawkish monetary policy laid the foundation for a ruble recovery and helped to contain inflation. November 2017 CPI rose by only 2.5% yoy, the lowest increase since at least 1992 and below the 4% central bank inflation target. As the current central bank key rate of 7.75% is significantly above the inflation rate, more rate cuts in 2018 are to be expected.

President Putin will win the March election

President Vladimir Putin will very likely win the presidential election on 18 March. He has not allowed any serious opposition candidate to run against him. According to recent opinion polls, Putin will receive c70% of all votes. But not everything is going well for Putin. Even though the aggressive resurgence of a strong Russian military posture is very popular domestically, it increases tensions with the western world. The relationship with the US is probably at its lowest point since the Cold War. Relations with the EU are not much better. Western sanctions introduced in response to Russia's role in the Ukraine conflict are still in place. If Putin wins the presidential election, he would – after the end of the new six-year tenure – be the longest reigning leader in Moscow since Stalin. In 2024, Putin would need to step aside due to constitutional limits. This entails a risk of disruptive internal power struggles in a country without a democratic mechanism for a transfer of leadership.

Turkey: how long can the party last?

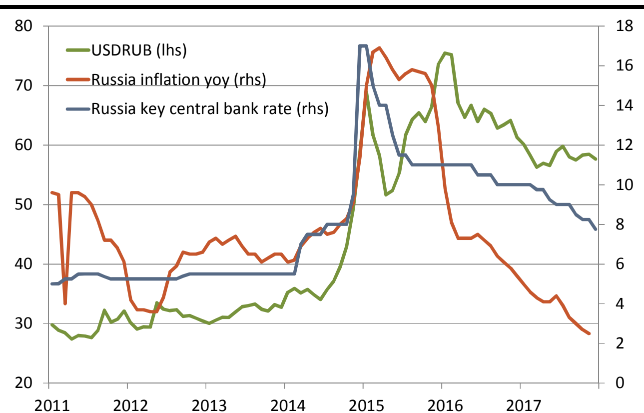
Turkey's economy profited from a large fiscal stimulus

Despite the negative impact of the failed coup d'état in summer 2016, the Turkish economy expanded by more than 5% in 2017. At the end of 2016, the Turkish economy was very close to a recession. However, a powerful fiscal stimulus – including (1) temporary tax breaks on durable goods, (2) increasing the size of its Credit Guarantee Fund more than tenfold and (3) boosting public spending – prevented this. The fading of fiscal stimulus measures will likely reduce growth to around 3.2% or less in 2018.

But inflation is far too high

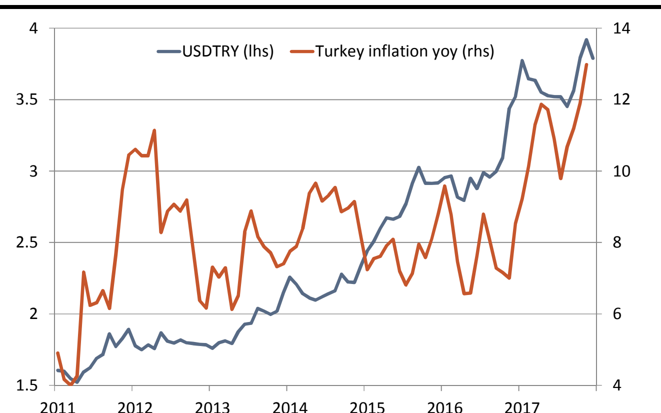
The fiscal stimulus of 2017 has its downsides. The Turkish economy is caught up in a spiral of a falling exchange rate, high inflation and high interest rates. Consumer prices surged by 13% yoy in November, far above the 5% central bank (CBT) inflation target. Furthermore, worsening diplomatic relationships with the EU and the US, as well as a rising current account deficit, had a significant negative impact on the Turkish lira, which lost more than 15% versus the euro. It does not help either that the Central Bank of Turkey – due to political pressure from President Recep Tayyip Erdoğan – is not increasing interest rates fast enough. Despite a 12.75% interest rate, the real yield is still negative.

Chart 17: Russia – inflation at record low



Source: Bloomberg

Chart 18: Turkey – Inflation at multi-year high



Source: Bloomberg

Economics

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Poland: strong economic growth and a new prime minister

Economy performs better than expected

Poland's economy exceeded all expectations in 2017. GDP growth accelerated to more than 4% due to strong gains in private consumption and exports. At the beginning of 2017, investment growth was still weak, but it accelerated in the recent months thanks to better EU cohesion fund absorption rates. Fast-rising employment levels (4.4% yoy), increasing wages (7.4% yoy) and stable credit growth of around 5% yoy (all data as of October 2017) provide a good basis for another year of strong growth in 2018. We expect 3.8% GDP growth for 2018. The new Prime Minister Mateusz Morawiecki is an ex-banker who, as finance minister, kept Poland's budget deficit under control in recent years. However, his new task will be more difficult. Trying to improve the relationship with the EU while at the same time dealing with an EU-critical PiS party that follows a populist agenda will be a major challenge.

The Czech Republic: performing very well

The role model for the CEE region

The Czech economy had an outstanding year in 2017, growing by 4.7% yoy in Q3 2017, the fastest yoy gain since the end of 2015. The economy is firing on almost all cylinders. Investments and private consumption growth are both accelerating. The positive trend is likely to continue as leading indicators, such as the PMI Manufacturing Index, remained very strong in November, jumping to the highest level since April 2011. We expect 3.8% GDP growth in 2018. The fiscal budget balance is set to remain positive in 2018. The Czech National Bank increased its interest rate by 25bp to 0.5% in November. More rate hikes are to be expected in 2018 as inflation rose to 2.9% yoy in October 2017, above the 2.0% CNB target.

Hungary: the central bank is adding fuel to the fire

Large fiscal boost elevated GDP growth ahead of elections in 2018, but overheating risk not to be underestimated

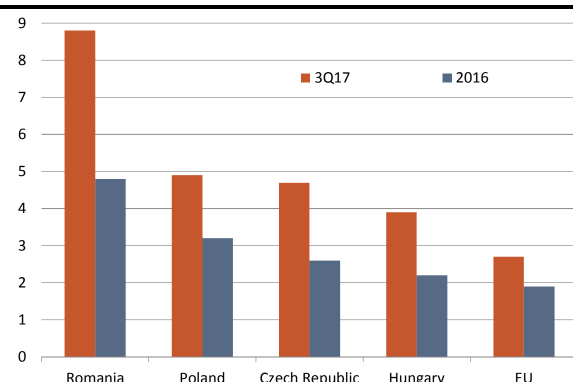
Ahead of the 2018 spring parliamentary elections, Hungary introduced the largest fiscal stimulus package in Europe in 2017, including a cut in the corporate income tax rate to the lowest level in Europe, a significant rise in the minimum wage and a 5ppt cut in payroll taxes. This resulted in around 3.7% GDP in 2017 after 2.2% in 2016. In Q3 2017, GDP rose by 3.9% yoy. Construction output and investment increased by more than 20% yoy. Private consumption is also booming amid double-digit gains in wages and a record low unemployment rate. However, this seems not to be good enough for the central bank. It announced that it will start buying mortgage-backed securities (HUF500bn) to drive down mortgage rates and to boost growth ahead of the parliamentary elections in spring 2018. This stance differs from that of most other regional central banks, which are considering tightening their monetary policy. This increases the risk that the Hungarian economy may overheat.

Romania: probably the fastest-growing economy in Europe

Very impressive GDP growth, but budget deficit needs to be watched

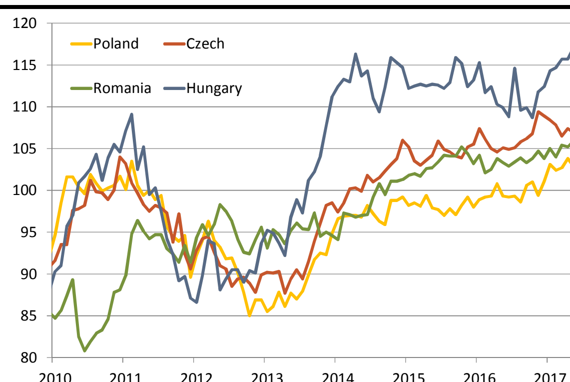
The economy continues to boom, with wages rising by 13.5% yoy in October, retail sales jumping by 12.9% yoy and industrial sales increasing by 17.2% yoy in the same month. Q3 2017 GDP growth beat all expectations, with a surge of 8.8% yoy, even faster than Chinese GDP growth. Private consumption was the main driver, up by 3.6% qoq, followed by a 3.0% qoq increase in government spending and a 1.2% qoq rise in investments. The strong growth and rising inflation – CPI increased to 3.2% yoy in November – puts pressure on the central bank to raise interest rates. Social Democrat leader and kingmaker Liviu Dragnea faces a new anti-corruption probe that could disrupt the ruling party. We expect 4.7% GDP growth in 2018 after 5.7% in 2017. However, we see a serious risk that the budget deficit will breach the 3% threshold in 2018, which could lead, in the worst case, to a freezing of EU cohesion funds.

Chart 19 – CEE real GDP growth versus EU



Yoy changes in %. CEE: Central and Eastern Europe. Source: Bloomberg

Chart 20 – Economic sentiment index on the up



Source: Bloomberg, European Commission

Goodbye low inflation, hello tighter monetary policy

Inflation has not yet reared its ugly head in most advanced economies

In almost all major advanced countries, core consumer price inflation in 2017 remained close to or below the rates that central banks deem desirable (see Chart 21). Two major forces have shaped inflationary trends during the post-Lehman upswing. First, the decades-long disinflationary effect of globalisation and technological change, which reflects positive global supply side developments, has continued. Second, the spare capacity resulting from the post-Lehman mega-recession and the cautious demand gains thereafter have dampened any serious demand side inflation.

Expect the positive disinflationary supply-side trend to persist

We discussed the global disinflationary forces in detail in Notes on the inflation puzzle (6 October 2017). On the supply-side, these include: 1) the expansion of global supply chains and other aspects of globalisation that enhance productive efficiency through a deeper division of labour across regions; and 2) technological changes that dampen gains in wages and prices by increasing competition. Automation, robots and the ability to shift production abroad more easily than before constrain inflationary pressures. As the biggest component of GDP for all advanced economies is consumption – usually between a half to two-thirds of total GDP – low rates of consumer price inflation caused by improvements in the supply-side of the global economy are overwhelmingly positive for major advanced economies. We expect the supply-driven disinflationary trend to persist in 2018.

Economies with advanced upswing will experience more inflation in 2018

However, as key major economies are likely to run at close to full capacity in 2018 (see Chart 22) amid the synchronised global upswing in demand, we project stronger signs of demand-driven inflation. Economies with more mature upswings, such as the US and the UK, should begin to show faster rises in unit labour costs and domestic-oriented services price inflation.

Inflation in the Eurozone and Japan will remain below central bank targets

Stronger demand helped by the Trump fiscal stimulus should push headline US inflation to 2.4 % in 2018, from 2.1% in 2017. In the UK, we expect inflation to hit 2.8% in 2018, from 2.7% in 2017. In the Eurozone, where the upswing is less advanced than in the US and the UK, headline inflation will likely oscillate around its 2017 rate of 1.5%. In Japan, where inflation expectations are anchored well below the BoJ's 2% target, we look for headline inflation to rise only a little, from 0.4% to 0.9%.

Major central banks to turn less expansionary

As core inflation rates finally creep up in 2018 amid stronger demand and falling levels of spare capacity, major central banks – excluding the BoJ – are likely to reduce their degree of monetary accommodation over the course of 2018.

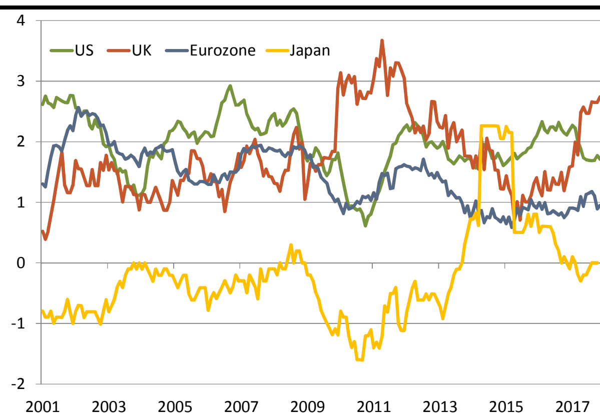
The Fed's tightening cycle is the most advanced of the major central banks

US Fed – steady rate hikes and balance sheet unwind: The Fed was the first of the major central banks to begin its exit from its extraordinary post-Lehman monetary policy when it hiked the Fed funds rate for the first time in December 2015. Having raised rates by a total of 125bp since the first rate hike, taking the current funds rate to 1.25-1.5%, the Fed's tightening cycle is the most advanced of the major central banks.

The Fed is likely to accelerate its pace of tightening in 2018

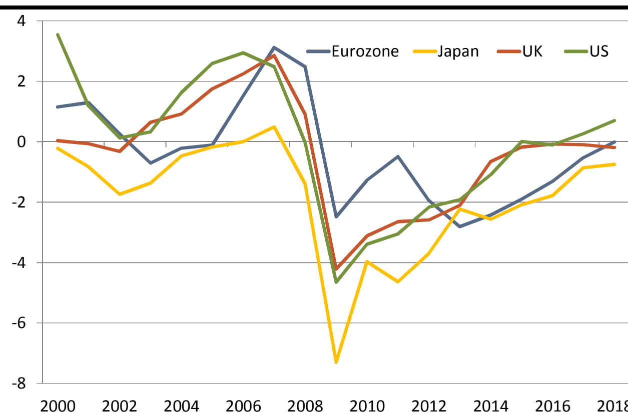
In 2018 the US economy is likely to expand by 2.9%, well above the Fed's long-run estimate of potential growth (1.8%). Meanwhile, unemployment (currently 4.1%) is likely to remain below the Fed's 4.6% estimate of full employment. We thus look for the Fed to modestly accelerate its pace of tightening in 2018. Following three hikes in the Fed funds rate in 2017, we expect four hikes this year. Meanwhile, the Fed looks set to continue with its policy of gradual balance sheet normalisation, which will operate in the background.

Chart 21: Core inflation still low in most of the advanced world



Monthly data. Source: BLS, Eurostat, ONS, Berenberg calculations

Chart 22: Output gap estimates in the advanced world (% GDP)



Annual data. Source: International Monetary Fund

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ECB – creeping towards the exit: With growth likely to be well above trend for the ECB's entire forecast horizon, including 2020, even the ECB doves will find it increasingly difficult to justify the central bank's very accommodative stance. In 2018, we expect the ECB to pave the way for a smooth exit by gradually moving to a more hawkish guidance before eventually altering its policy stance. More precisely, we look for the ECB to drop the notion that it may increase its asset purchases in size and duration in March 2018, before announcing in June 2018 that it expects to end asset purchases in September 2018.

It is getting harder for the ECB doves to justify such an accommodative stance

Could the ECB hike rates in 2018? That seems unlikely. Given the ECB's strong guidance that it will only raise its rates "well past" the end of its asset purchases, it would take a major inflation surprise to trigger an early rate hike. As long as inflation remains well behaved, the ECB is likely to keep all of its key interest rates at their current levels throughout 2018: deposit rate at -0.4%; main refinancing rate at 0.0%; and the marginal lending facility at 0.25%. We look for the ECB to raise its deposit rate to 0.25% and its refi rate to 0.5% in various steps over the course of 2019.

Could the ECB hike in 2018? That seems unlikely

BoE – between a rock and a hard place: On the one hand, the BoE is concerned that the short-term risks to demand from Brexit uncertainty could begin to manifest themselves more seriously. On the other hand, as growth has held up better than the BoE had initially expected since the Brexit vote while underlying inflationary pressures have risen, the data indicates that the UK economy seems ready for modestly tighter monetary policy.

Data indicates the UK is ready for modestly tighter monetary policy

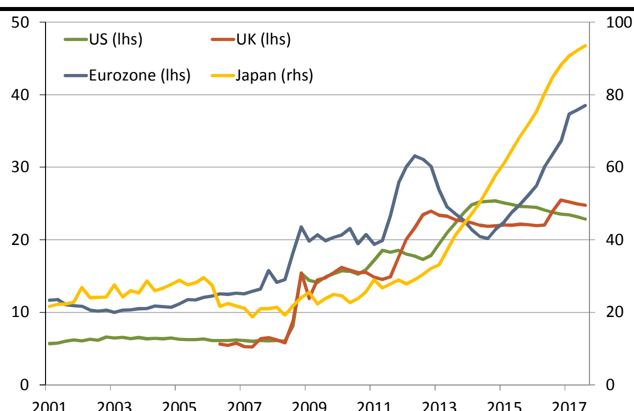
While the BoE had initially responded to the risks to demand from the Brexit vote by easing its policy in August 2016, the BoE became increasingly data dependent over the course of 2017, eventually hiking its main policy rate by 25bp in November. The labour market is above the BoE's estimate of full employment (4.5% unemployment versus current 4.3%). Meanwhile the UK is set to grow at close to its potential rate over the medium-term. We look for two hikes of 25bp in 2018, one in Q2 and one in Q4.

We look for the BoE to hike twice in 2018, once in Q2 and again in Q4

BoJ – still doggedly pursuing 2% inflation: The BoJ remains committed to its unprecedented monetary stance, particularly its QQE asset purchases, until it achieves its goal of 2% inflation and inflationary expectations rise. Its QQE programme involves massive purchases of government bonds (JGBs) – it currently owns 40% of total government debt outstanding. The BoJ is also purchasing ETFs on the stock market as well as select corporate bonds. At the same time, the BoJ maintains a policy rate of -10bp and is imposing its yield curve policy that effectively constrains 10-year JGB yields to zero, with a 10bp variance (presently yields are 0.05%). We expect the BoJ to maintain such policies in 2018 until key measures of underlying inflation begin to show sustained rises towards 2%.

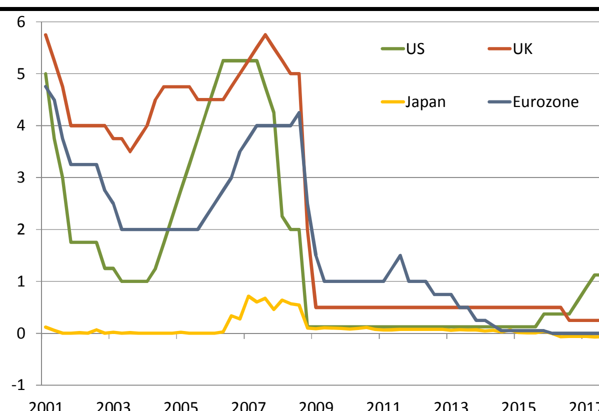
BoJ remains committed to its unprecedented monetary stance

Chart 23: Central bank balance sheets as a % of GDP



Quarterly data. Source: Federal Reserve Board, ECB, BoE, BoJ.

Chart 24: Central bank main policy rates (%)



Quarterly data. US Fed Target Rate, ECB main refi rate, BoE Bank Rate, BoJ Overnight Call Rate. Source: US Fed, ECB, BoE, BoJ.

Key risks: political shocks or premature overheating

Two key risks: politics and overheating

Two kinds of risks could derail our rosy economic scenario: a huge political shock or a premature overheating of the largely synchronised global business cycle.

Political risks loom less large than in 2017

Political risks continue to loom large, but less so than a year ago. In the US, Trump did not start a trade war with either China or Mexico. In Europe, the contrast between the empty promises of the anti-EU Brexiteers and the harsh reality of the UK's weak bargaining position versus the big EU27 has helped to keep the anti-EU populists in check. After right-wing Marine Le Pen lost votes in France with her demand to ditch the euro, populists across the continent have toned down their earlier anti-European rhetoric.

The protectionist risk is not over yet

Still, the political risks remain serious. Negotiations to modernise the NAFTA agreement between Canada, the US and Mexico may possibly falter. Small-scale US protectionism threatens to undermine the global trading order. In Europe, Italy is heading for an uncertain political future. Opinion polls suggest that the election on 4 March will result in a stalemate. While that is not unusual for Italy, it does entail a residual risk that euro-sceptic radicals from the political left and right may join forces with an anti-EU or anti-euro agenda.

Geopolitics: North Korea and the Saudi-Iran rivalry

In the geopolitical arena, the conflict with North Korea should not be a major issue for the global economy unless North Korea's leader turns suicidal by starting a genuine war with the US or the tensions were to morph into an open confrontation between China and the US. We detect no sign that this may happen. We also need to watch the rivalry between Saudi Arabia and Iran. As long as they restrain themselves to proxy wars abroad instead of attacking each other directly, global energy flows and the global economy should not be affected much.

The party cannot last forever

How long can the party last? Eight years after the global economy started to recover from the Great Financial Crisis in spring 2009, growth accelerated to an above-trend pace in 2017. The combination of strong growth with still-modest inflation cannot last forever. Eventually, a need to correct credit-fuelled excesses in household or business spending or fight a surge in inflation will cause a new recession. But this may not happen before 2020 or 2021.

No major credit-fuelled excesses yet

Fortunately, there is no clear sign yet that the major economies in the western world are approaching a potential tipping point. By historical standards, credit growth in the US and the Eurozone remains very modest (see Chart 26). While select parts of the credit market may look problematic, in the US more so than in the Eurozone, the rise in mortgage borrowing, the dominant form of household credit, remains modest on both sides of the Atlantic. After years of subdued investment, the US and Europe show no signs of overinvestment or an oversupply of houses that would require a major correction in 2018 or 2019 already.

Productivity gains can partly offset a modest rise in wage inflation

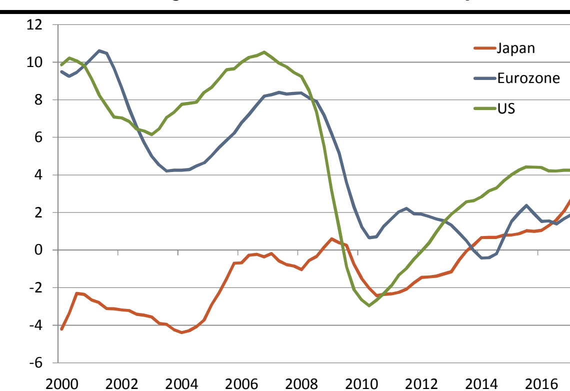
Following stronger demand growth, attention has shifted from deflation to inflation risks. So far, the ease of re-locating production to cheaper areas, technological innovations including the rise of robots and some structural changes in labour markets have prevented a major increase in wage and consumer price inflation. Core inflation advanced by less in 2017 than we had expected a year ago. For 2018, we look for a gain in productivity driven by cyclical factors (more investment) and the ongoing dissipation of technological advances to largely offset a likely modest advance in wage inflation. We do not yet see any significant evidence that core inflation may surge more than projected in 2018. While this is the major economic risk to watch, we expect this to be more of a story for 2019 and 2020 than for 2018.

Table 25: Key political events in 2018

21 Jan	German SPD congress to decide on coalition talks
04 Mrz	Italian general election
18 Mrz	Russian presidential election
28-29 Jun	EU summit to decide on first batch of EU reforms
21 Aug	Greece leaves its bailout programmes
Sep	Brexit negotiations to be wrapped up
07 and 28 Oct	Brazilian general election
06 Nov	US midterm elections

Source: Bloomberg, Reuters

Chart 26: Credit growth in US, Eurozone and Japan



Credit to non-financial private sector, including debt securities, quarterly data, yoy change in %. Source: BIS

Global economic forecasts

		GDP				Inflation				Unemployment				Fiscal balance			
	Weight	2016	2017	2018	2019	2016	2017	2018	2019	2016	2017	2018	2019	2016	2017	2018	2019
World*	100.0	2.4	2.8	3.0	2.9												
US	24.7	1.5	2.2	2.9	2.7	1.3	2.1	2.4	2.4	4.9	4.4	4.0	3.8	-3.2	-3.6	-4.1	-4.5
China	14.9	6.7	6.8	6.4	6.1	2.0	1.6	2.3	2.2	4.0	4.0	4.1	4.1	-3.0	-3.0	-3.0	-3.2
Japan	6.6	0.9	1.8	1.5	1.0	-0.1	0.4	0.9	1.0	3.1	2.8	2.7	2.6	-6.3	-5.0	-5.1	-5.3
India	3.0	7.9	6.4	7.5	7.9	4.9	3.1	4.0	4.8					-5.0	-4.0	-3.6	-3.3
Latin America	6.6	-1.2	1.2	2.3	2.7	6.9	25.8	15.3	9.6					-6.9	-6.5	-6.0	-5.4
Europe	25.4	1.7	2.4	2.3	2.2												
Eurozone	15.8	1.8	2.4	2.4	2.1	0.2	1.5	1.5	1.7	10.0	9.1	8.3	7.7	-1.5	-1.2	-1.0	-0.8
Germany	4.6	1.9	2.5	2.5	2.0	0.4	1.7	1.7	1.8	4.2	3.8	3.6	3.8	0.8	1.1	1.0	0.7
France	3.3	1.1	1.9	2.2	2.3	0.3	1.2	1.3	1.5	10.3	9.5	9.0	8.4	-3.4	-3.0	-2.7	-2.6
Italy	2.5	0.9	1.5	1.6	1.5	0.0	1.3	1.1	1.4	11.7	11.3	10.7	10.1	-2.5	-2.3	-2.2	-2.1
Spain	1.6	3.3	3.1	2.8	2.7	-0.3	2.1	1.8	2.0	19.6	17.2	15.9	14.7	-4.5	-3.3	-2.9	-2.4
Portugal	0.3	1.5	2.7	2.4	2.3	0.6	1.6	1.4	1.6	11.2	9.1	8.1	7.5	-2.0	-1.6	-1.3	-1.1
Other Western Europe																	
UK	3.5	1.9	1.8	1.8	1.9	0.6	2.7	2.8	2.4	4.9	4.4	4.3	4.3	-3.0	-2.7	-2.5	-2.3
Switzerland	0.9	1.4	0.9	1.9	1.8	-0.4	0.4	0.4	1.0	3.4	3.4	3.3	3.2	-0.2	-0.1	0.4	0.2
Sweden	0.7	3.1	3.0	2.8	2.5	1.0	1.6	1.8	2.0	6.9	6.5	6.1	5.8	-0.5	0.1	0.3	0.4
Eastern Europe																	
Russia	1.7	-0.2	1.7	1.9	1.9	7.1	3.8	4.0	4.0	5.5	5.3	5.2	5.1	-3.9	-1.9	-1.7	-1.7
Turkey	1.1	2.9	5.3	3.2	3.1	7.8	10.9	9.5	9.0	10.9	10.9	11.0	11.0	-1.1	-2.6	-2.7	-2.9

Unemployment rate: Harmonised definition (ILO/Eurostat); fiscal balance: general government deficit in % of GDP excluding one-off bank support.
*At current exchange rates, not purchasing power parity. PPP estimates give more weight to fast-growing emerging markets and inflate global GDP.
Weights based on IMF World Economic Outlook statistics 2016 GDP figures. Source: Berenberg

Key financial forecasts

	Current[1]	Mid-2018	End-2018	Mid-2019	End-2019
Central bank rates					
US Fed	1.25-1.50%	1.75-2.00%	2.25-2.50%	2.50-2.75%	2.75-3.00%
ECB	0.00%	0.00%	0.00%	0.25%	0.50%
BoE	0.50%	0.75%	1.00%	1.25%	1.25%
BoJ	-0.10%	0.00%	0.00%	0.00%	0.00%
10-year bond yields					
US	2.43%	2.80%	3.00%	3.10%	3.30%
Germany	0.45%	0.80%	1.10%	1.25%	1.40%
UK	1.26%	1.60%	1.80%	1.90%	2.00%
Currencies					
EUR-USD	1.21	1.19	1.20	1.21	1.23
EUR-GBP	0.89	0.88	0.87	0.86	0.86
GBP-USD	1.36	1.35	1.38	1.41	1.43
USD-JPY	112	115	115	115	115
EUR-JPY	135	137	138	139	141
EUR-CHF	1.17	1.18	1.20	1.21	1.22

[1] *Taken on 2 January 2018 at 12:00h UK time. Currency forecasts may not add up due to rounding.*

For a full set of detailed forecasts, please see: Forecasts at a glance – firm growth, no exuberance yet

Forecasts and comments for US, China and Japan supplied by Berenberg Capital Markets

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