



Global Economic & Markets Factbook

July 17, 2017 | Issue 12: 2017/17

Global Markets Team

Ilias Tsirigotakis

☎ 2103341517

✉ tsirigotakis.hlias@nbg.gr

Panagiotis Bakalis

☎ 2103341545

✉ mpakalis.pan@nbg.gr

Lazaros Ioannidis

☎ 2103341553

✉ ioannidis.lazaros@nbg.gr

Vasiliki Karagianni

☎ 2103341548

✉ karagianni.vasiliki@nbg.gr

Global growth momentum remains strong, according to leading business and consumer confidence indicators. In contrast, inflation is weaker than expected, due to lower energy prices, declining inflation expectations and modest wage pressures. European political uncertainty abated following the outcome of the French elections, but could re-surface (due to Brexit and the possibility of new UK elections, and Italy). The ongoing investigation regarding Trump-Russia-FBI could cause delays to the regulatory and fiscal agenda of the US Administration.

Regarding the short-term outlook (H2:2017), US GDP is expected to accelerate towards potential output of 2%. Accommodative fiscal policy, if it occurs, will not be before 2018. In the euro area, robust growth momentum will expand across countries. In Japan, above-trend growth will likely be sustained due to fiscal support and a favorable external environment. The UK remains a “wildcard” in the global economy, as deteriorating economic data, increasing inflation and post-election uncertainty complicate the outlook. In China, GDP is expected to remain at c. 6.5%. Moreover, stabilizing capital outflows and a strong RMB provide focus to the authorities to tackle “shadow-banking” activities and promote financial stability.

Monetary policy appears to turn more hawkish despite moderate inflation. The Fed will adhere to its gradual policy tightening, raising interest rates and reducing its balance sheet. The ECB dropped its “easing” bias on rates and is ready to reduce, and eventually terminate, its net asset purchases during 2018. The Bank of England may be tempted to remove part of the post-referendum accommodation, while the Bank of Japan will remain on “auto-pilot” with its yield-curve targeting regime. Finally, the PBOC will continue with its “regulatory tightening” unless economic data deteriorate significantly.

Equities continue to offer superior total return potential relative to fixed income, albeit remaining vulnerable, as their valuations are high and upward revisions to earnings are plateauing. We remain cautious regarding Government bonds, as nominal yields are expected to increase due to tightening by central banks. We assign a low likelihood to corporate bond spreads tightening further from current levels. O/W Cash.

Real GDP Growth (%)

	2015	2016	2017f
US	2,6	1,6	2,1
Euro Area	1,9	1,7	2,0
UK	2,2	1,8	1,6
Japan	1,1	1,0	1,5
China	6,9	6,7	6,6

*Seasonally adjusted YoY growth rate
Source: NBG Research, IMF, Bloomberg

Inflation (%)

	2015	2016	2017f
US	0,1	1,3	2,1
Euro Area	0,0	0,2	1,5
UK	0,0	0,7	2,7
Japan	0,8	-0,1	0,7
China	1,4	2,0	2,4

*Year-to-year average % change
Source: NBG Research, IMF, Bloomberg

Policy Rates (%)

	2015	2016	2017f
US	0,50	0,75	1,50
Euro Area	0,05	0,00	0,00
UK	0,50	0,25	0,25
Japan	0,10	-0,10	0,00
China	1,50	1,50	1,50

*End of period forecast
Source: NBG Research, IMF, Bloomberg

Developed Markets

United States

- 4. [Overview](#)
- 5. Economic Indicators
- 8. Labor Market
- 10. Inflation & Wages
- 11. Housing Market
- 13. External Sector
- 14. Fiscal
- 15. Monetary Policy
- 16. Financial Markets

Euro area

- 20. [Overview](#)
- 21. Economic Indicators
- 23. Germany/France/Italy/Spain
- 24. Labor Market
- 25. Inflation & Wages
- 26. Banking Sector
- 28. External Sector
- 29. Fiscal
- 30. Monetary Policy
- 32. Financial Markets

United Kingdom

- 36. [Overview](#)
- 37. Economic Indicators
- 39. Labor Market
- 40. Inflation & Wages
- 41. Housing Market
- 42. External Sector
- 43. Fiscal
- 44. Monetary Policy
- 45. Financial Markets

Japan

- 47. [Overview](#)
- 48. Economic Indicators
- 51. Labor Market
- 52. Inflation & Wages
- 53. External Sector
- 54. Fiscal
- 55. Monetary Policy
- 56. Financials Markets

Emerging Markets

China

- 58. [Overview](#)
- 59. Economic Indicators
- 60. Housing Market
- 61. Monetary Policy & Inflation
- 62. Labor Market
- 63. External & Fiscal
- 64. Financial Markets

Brazil

- 65. [Overview \(Brazil, India & Russia\)](#)
- 66. Economic Indicators
- 67. Monetary Policy & Inflation
- 68. Labor Market
- 69. External & Fiscal
- 70. Financial Markets

India

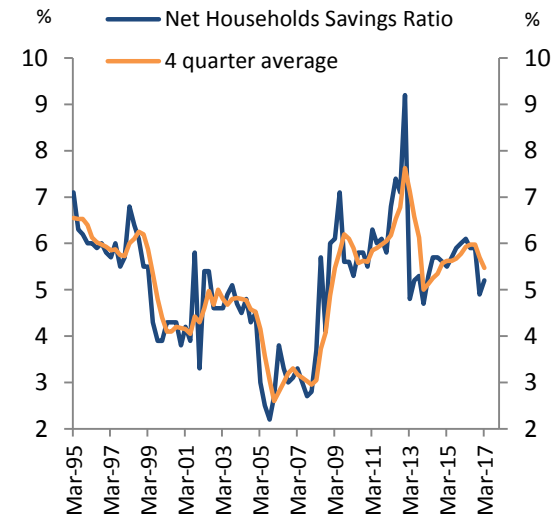
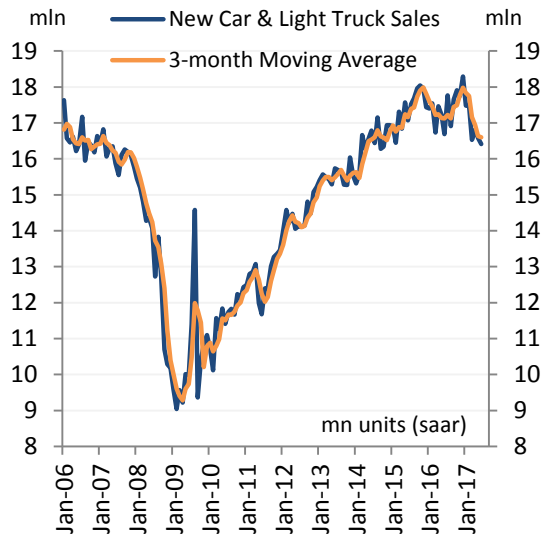
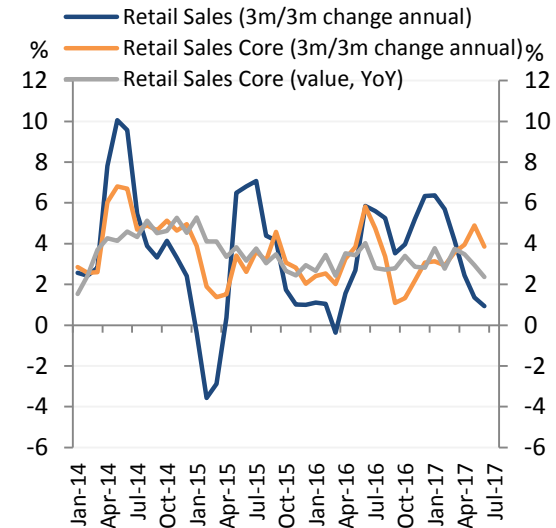
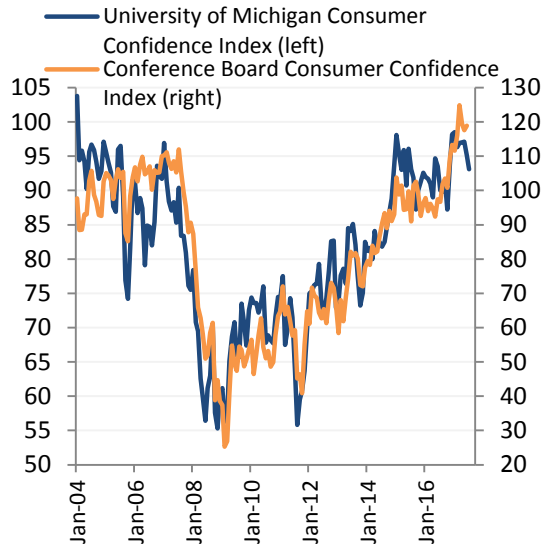
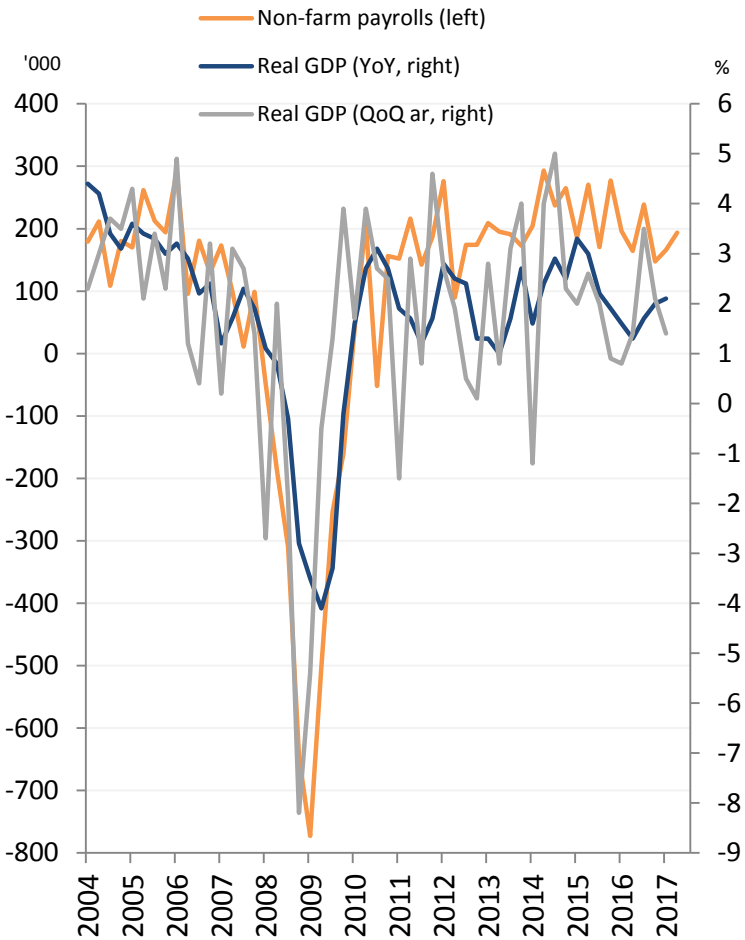
- 71. Economic Indicators
- 72. Monetary Policy & Inflation
- 73. Labor Market
- 74. External & Fiscal
- 75. Financial Markets

Russia

- 76. Economic Indicators
- 77. Monetary Policy & Inflation
- 78. Labor Market
- 79. External Sector
- 80. Fiscal Sector
- 81. Financial Markets

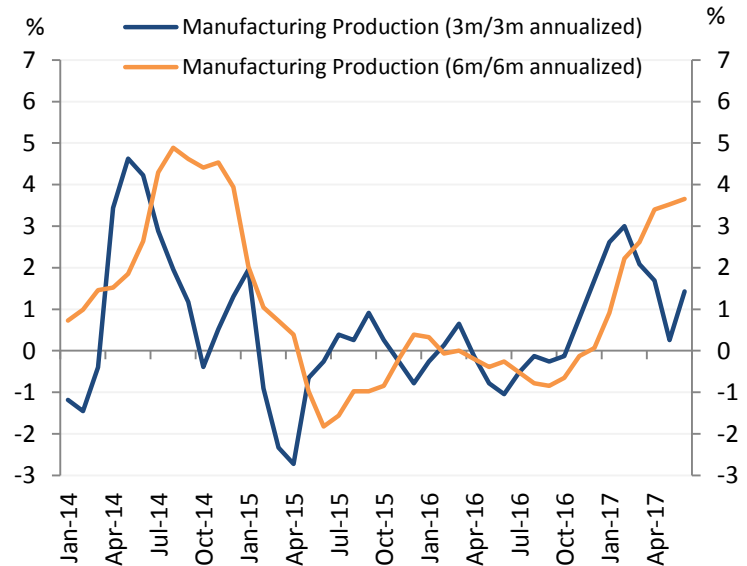
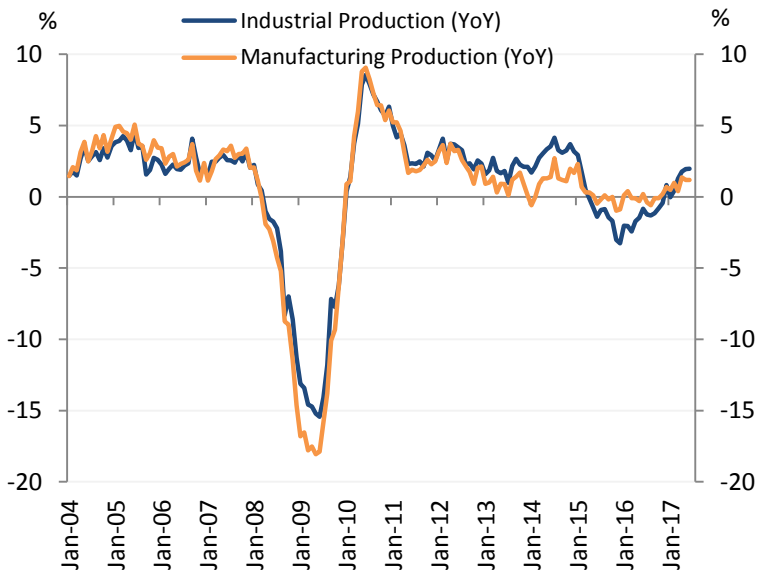
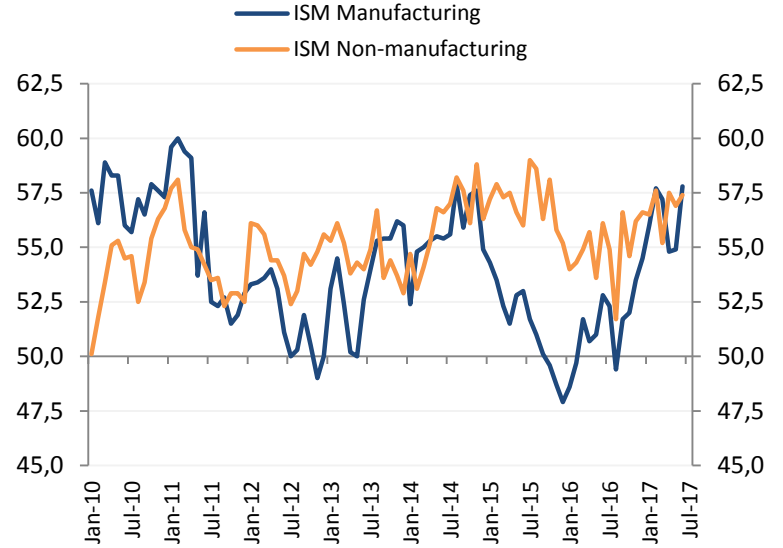
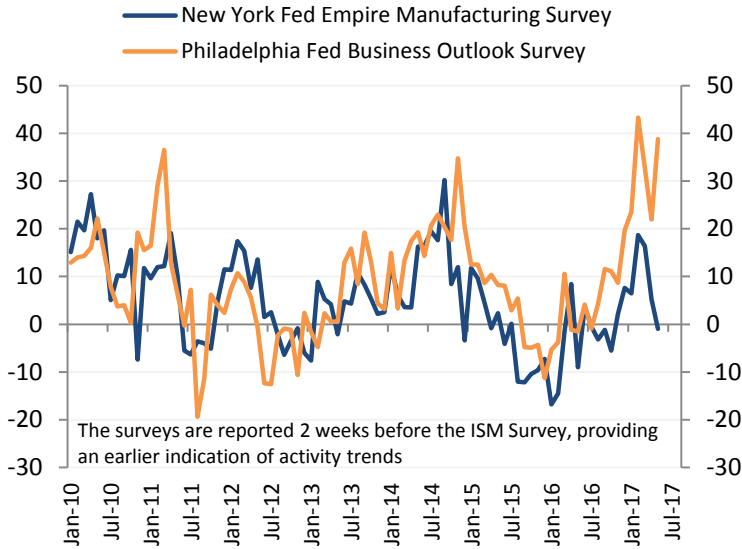
- US GDP is expected to accelerate towards 2%-2.5% in Q2:17, following a weak outcome in Q1:17 (1.4% qoq saar), mainly due to transitory factors. Indeed, private consumption recovered in recent months and consumer confidence remains robust. Furthermore, spending will continue to benefit from strong labor income and rising wealth. Households' net worth to disposable income reached an all-time high of 662% (long-term average of 528%), further arguing in favor of consumption prospects. The household saving rate has declined by 1.0 pp yoy to 5.1% in Q1:17, as households are willing to maintain spending at current levels (private consumption: +3.0% yoy in Q1:17 vs 3.1% in Q4:16) in line with improving consumer confidence.
- Moreover, business investment strengthened in Q1:17 (+11.4% qoq saar – the strongest in five years). Manufacturing output data in April/May and business surveys (ISM) suggest that the positive momentum has carried over into Q2.
- Residential investment remains solid (13.7% qoq saar – the strongest since Q2:15). The recovery of the housing market could be at risk if mortgage rates rise further (30Yr fixed mortgage rate stands at 4.22%, up 60 bps since September 2016). House prices continue to increase strongly (the S&P/Case-Shiller 20 at 5.7% yoy) and, as a result, a range of house valuation metrics appear stretched (real estate wealth to income, price to rent) (see page 12).
- Expectations for deregulation and a looser fiscal policy (via tax cuts, infrastructure spending) have reversed in recent months due to the perceived difficulty of the new Administration to pass its policy agenda. Recall that fiscal room is limited. The US Federal Debt stands at 77% of GDP, while at the level of general government, which adds the debt of the states and local authorities, the debt stands at 108% of GDP.
- Note that bank lending growth has decelerated in recent months, with banks reporting weaker demand in Q1:17 (Senior Loan Officer Opinion Survey). Indeed, total bank loans decelerated to 3.7% yoy in June, from 5.8% yoy in January and 8% yoy in September 2016.
- Labor market data remain consistent with the view of fundamental strength for the US economy. Nonfarm payrolls (NFPs) averaged 194k in Q2 (166k in Q1:17 & 187k in 2016). The unemployment rate stands at 4.4%, close to a 16-year low of 4.3% (0.2 pps below the Fed's estimate for NAIRU). However, even though labor market slack has declined, wage increases remain modest (2.5% yoy).
- In that context, inflation has moderated, down by 0.8 pps during the past three months (both Core PCE & PCE at 1.4% yoy in May). However, the Fed, whose policy is based on long-term trends, remains confident that inflation will reach the target of 2% by Q4:2018.
- As a result, the Fed increased rates in June by 25 bps to 1.25%, and confirmed the projections for the future path of the federal funds rate (3.0% by end-2019). The Fed is likely to start unwinding its balance sheet later this year, via a gradual reduction in reinvestments of its Treasury (\$2.5tn) and agency MBS holdings (\$1.8tn).
- The recovery in corporate profitability and higher risk appetite (P/E re-rating) has led the S&P500 to an all-time high in H1:2017 (+8.2%). However, the so-called "Trump trades" (Financials, Small caps, Value) have reversed some course. The US Dollar has lost ground (-5.6% in NEER terms YTD), due to diminishing hopes for aggressive fiscal policies and revised expectations for significantly lower US long-term rates (10Yr yield down by 10 bps YTD to 2.35%).

The slowdown in retail spending in Q1 is expected to prove transitory, with elevated consumer confidence



Source: US Bureau of Labor Statistics, US Bureau of Economic Analysis, Non-farm payrolls 3-month average, Real GDP QoQ seasonally adjusted annualized rate

Investment appetite remained robust in Q2

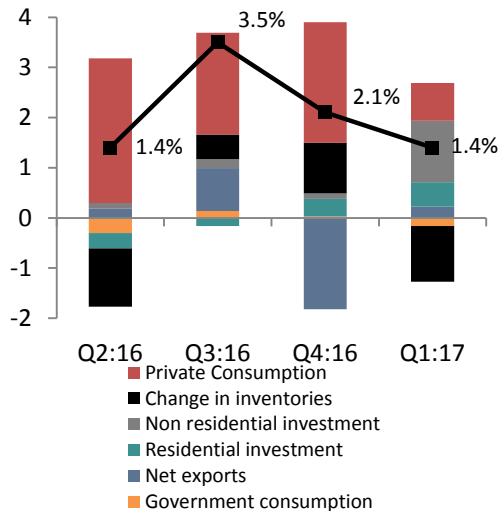


GDP picked up in Q2 on the back of a normalizing in private consumption

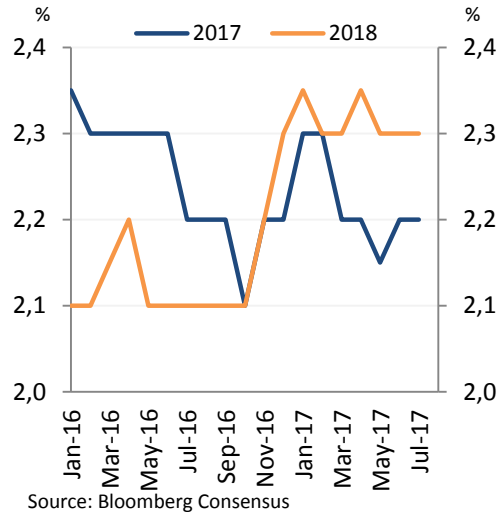
US Real GDP Growth	2015	Q1:16	Q2:16	Q3:16	Q4:16	2016	Q1:17	Q2:17e	Q3:17e	Q4:17e	2017e
GDP (YoY)	2,6	1,6	1,3	1,7	2,0	1,6	2,1	2,3	2,0	1,9	2,1
GDP (QoQ saar)	-	0,8	1,4	3,5	2,1	-	1,4	2,4	2,0	2,0	-
Private consumption (QoQ saar)	3,2	1,6	4,3	3,0	3,5	2,7	1,1	2,5	2,0	2,0	2,4
Government consumption (QoQ saar)	1,8	1,6	-1,7	0,8	0,2	0,8	-0,9	0,7	0,7	0,7	0,1
Investment (QoQ saar)	4,0	-0,9	-1,1	0,1	2,9	0,7	11,0	4,3	3,8	3,6	4,7
Residential (QoQ saar)	11,7	7,8	-7,8	-4,1	9,6	4,9	12,9	5,0	5,0	4,5	5,7
Non-residential (QoQ saar)	2,1	-3,4	1,0	1,4	0,9	-0,5	10,4	5,3	3,4	3,4	4,6
Inventories contribution (QoQ saar)	0,2	-0,4	-1,2	0,4	1,0	-0,4	-1,1	-0,1	0,2	0,2	-0,1
Net Exports contribution (QoQ saar)	-0,7	0,0	0,2	0,9	-2,0	-0,1	0,2	-0,3	-0,3	-0,4	-0,3
Exports (QoQ saar)	0,1	-0,7	1,8	10,0	-4,5	0,4	7,0	2,3	2,3	2,3	3,0
Imports (QoQ saar)	4,6	-0,6	0,2	2,2	8,9	1,1	4,0	3,9	3,8	4,0	4,4

Source: BEA, Bloomberg, NBG estimates

GDP Contributions (%)

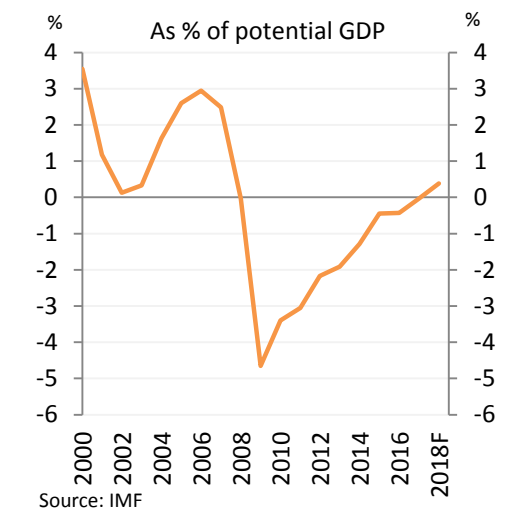


GDP Forecast Evolution



Source: Bloomberg Consensus

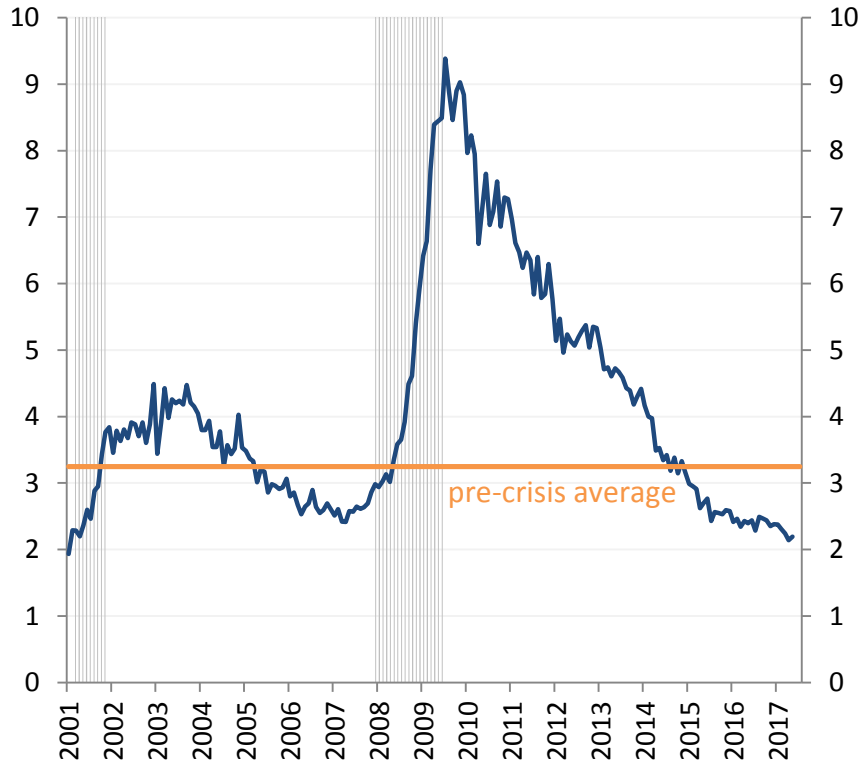
Output Gap



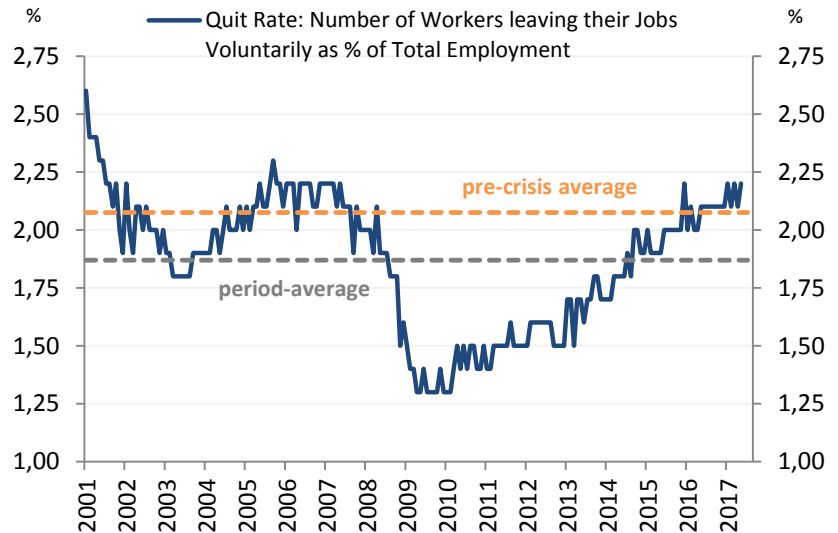
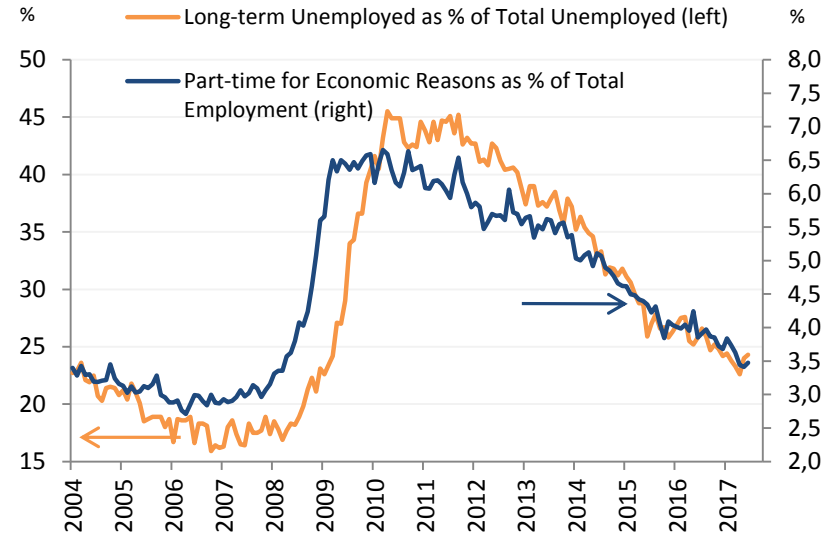
Source: IMF

Labor market tightening continues unabated

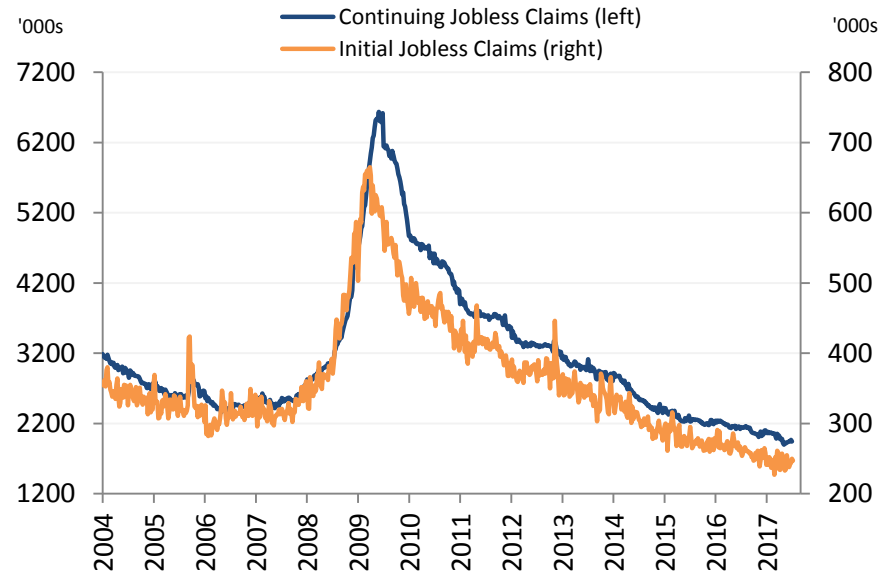
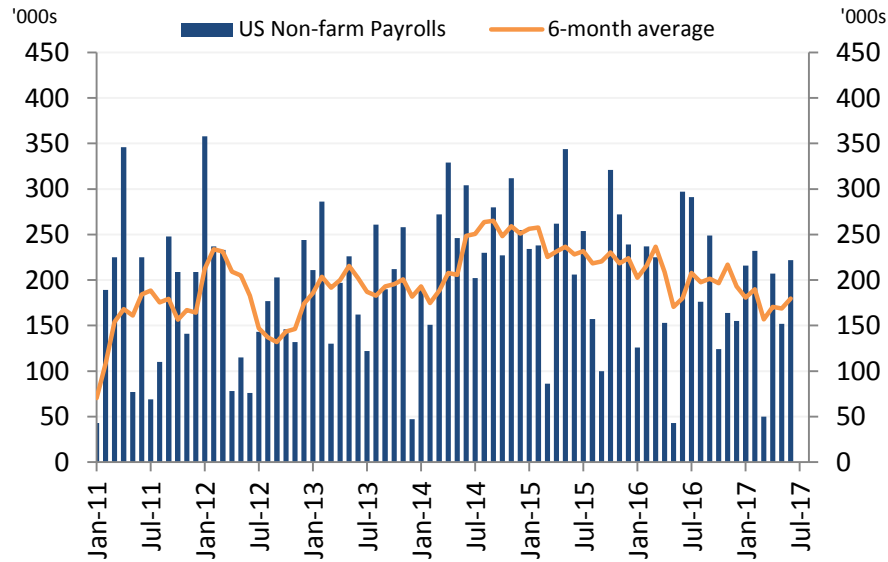
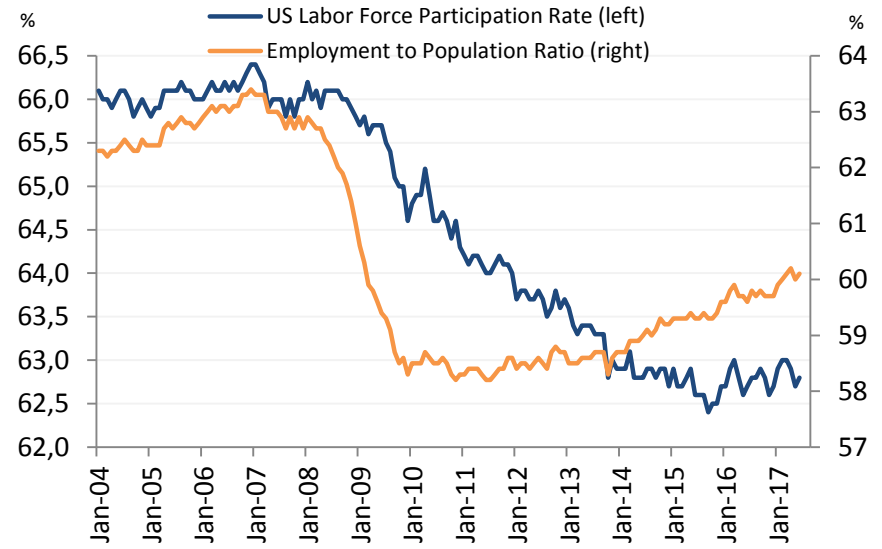
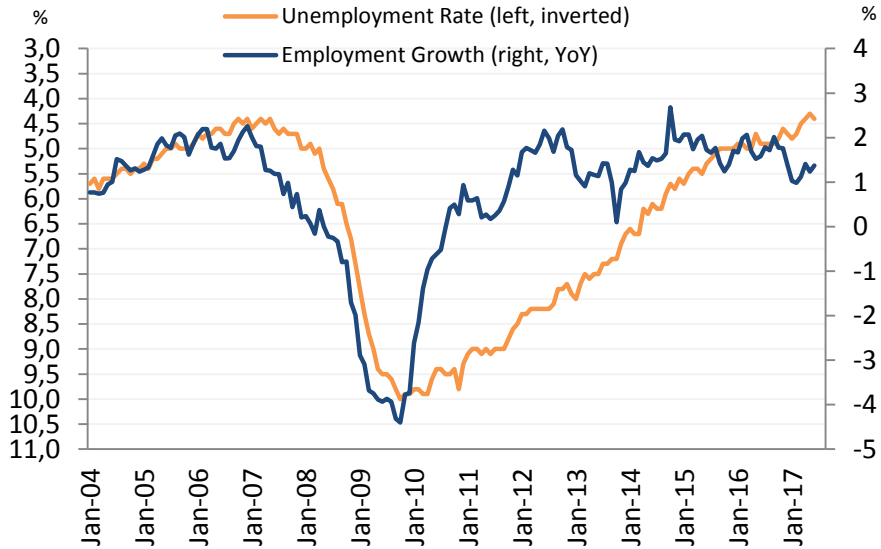
People Per Job Opening Index



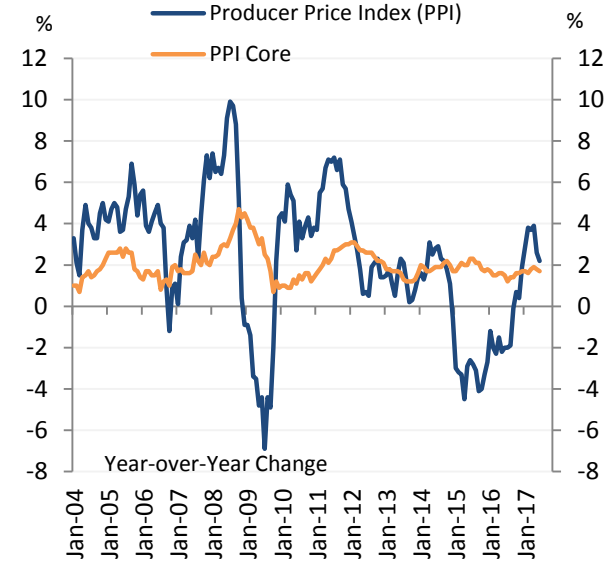
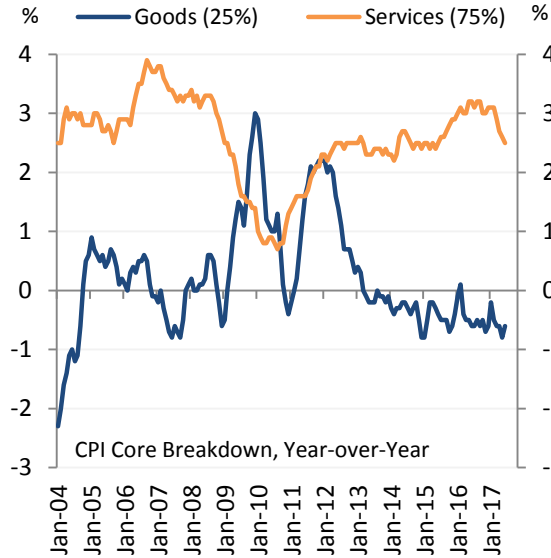
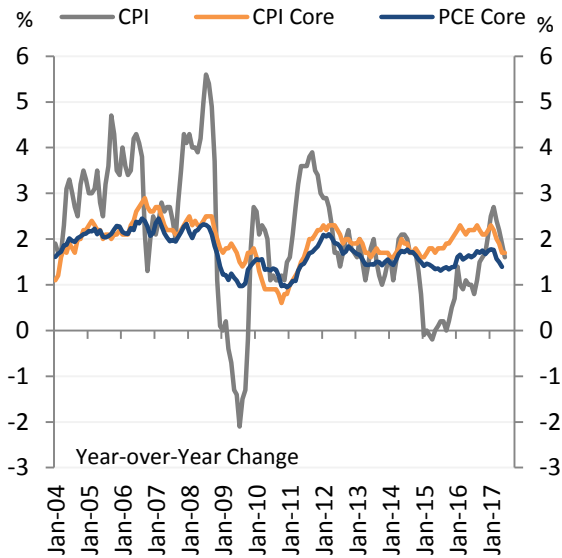
Index: Total Number of Unemployed plus People not in Labor Force but who want a job now divided by Total Number of Job Openings. US Recessions in shaded areas
 Source: US Bureau of Labor Statistics, NBER, NBG Estimates



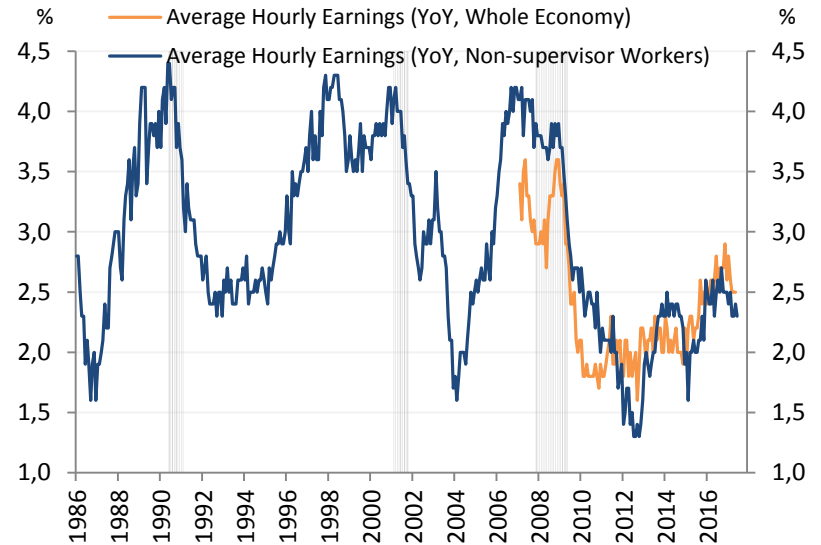
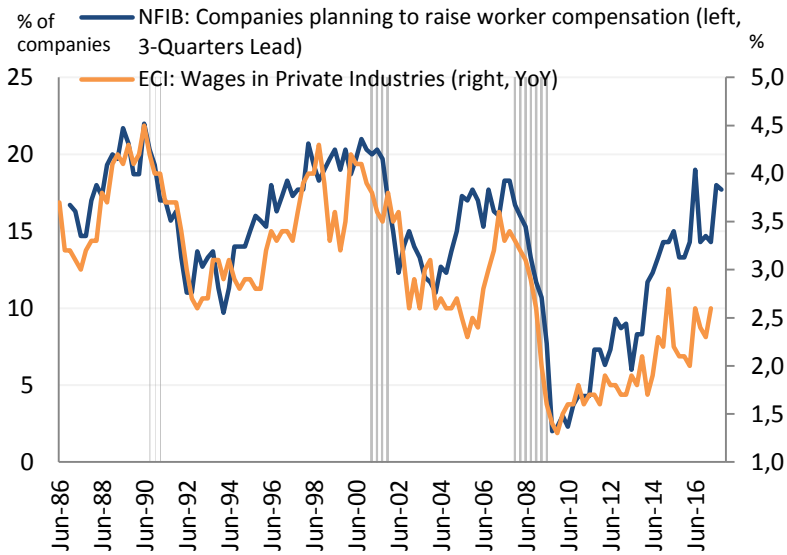
The unemployment rate is at multi year lows (4.4%)



Wage gains remain unimpressive and insufficient, so far, to boost inflation

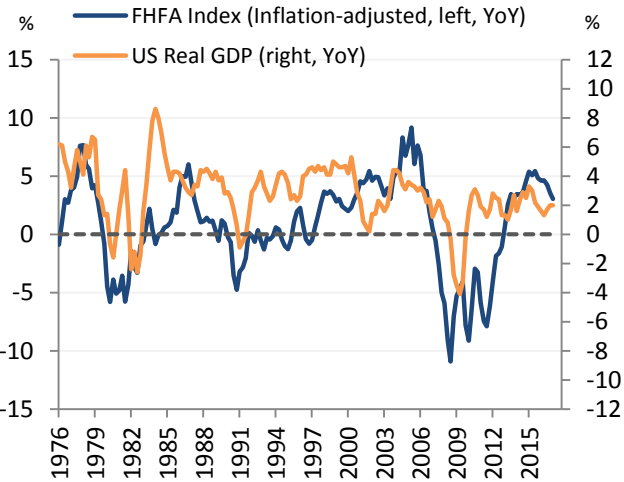
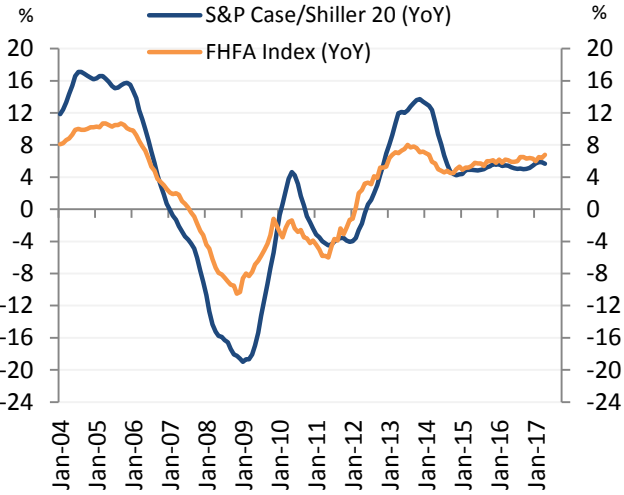


■ PCE Core: Fed's preferred measure to gauge inflation developments

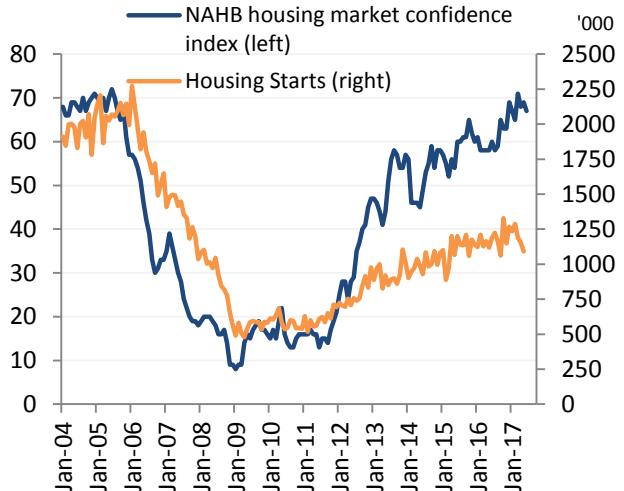
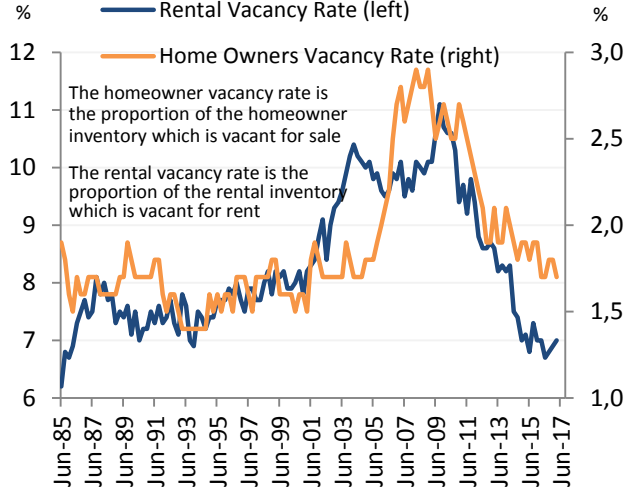


The housing market recovery remains strong, so far

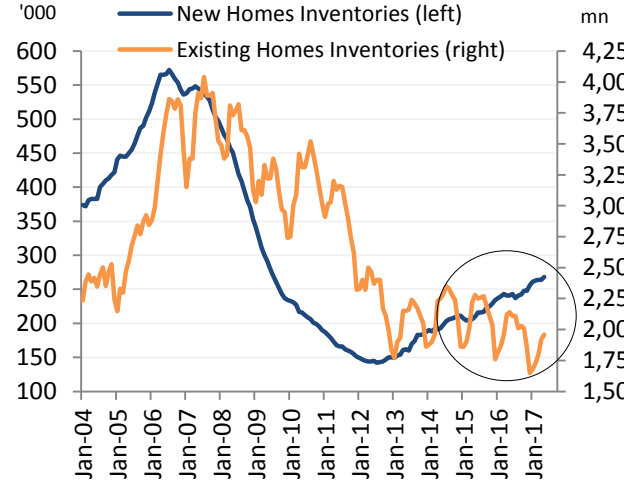
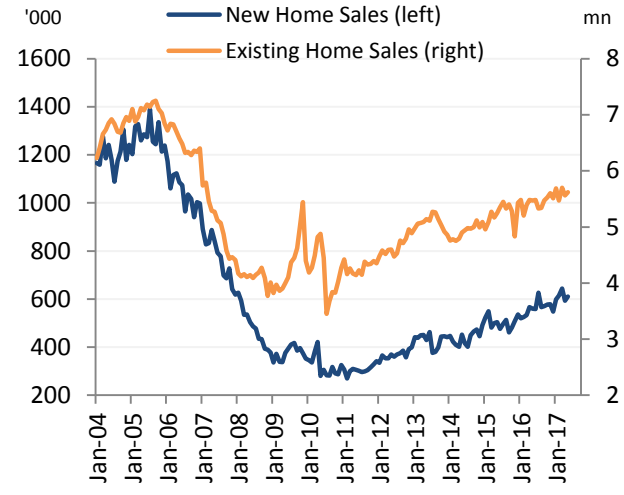
Prices



Vacancy Rates & Starts

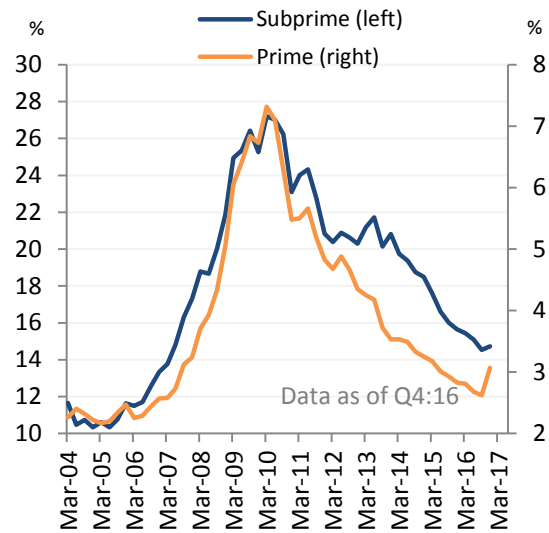


Sales & Inventories

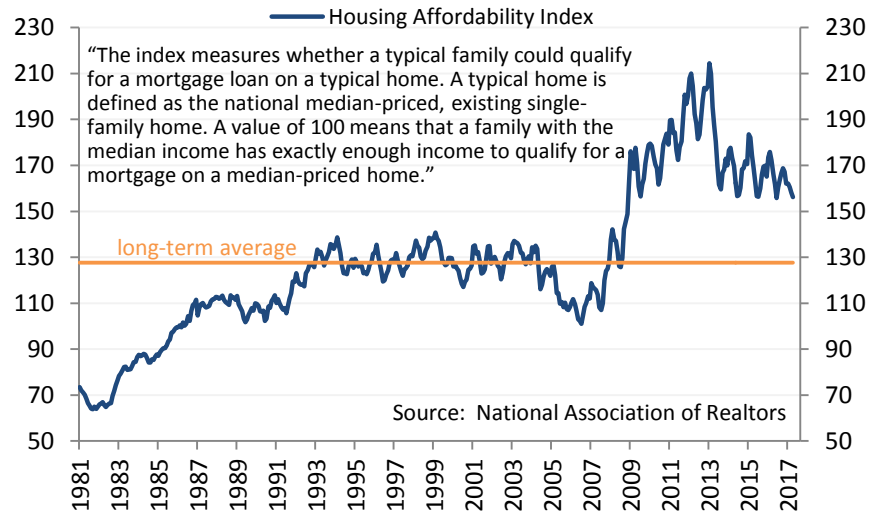
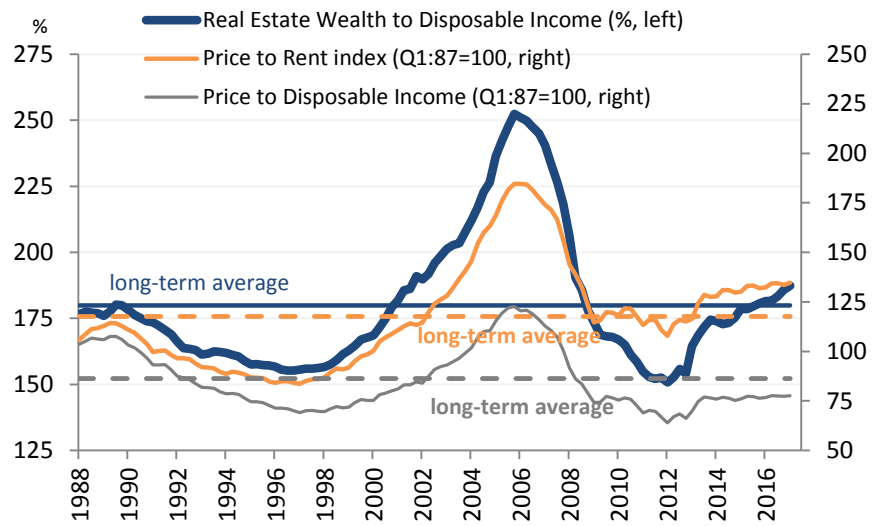
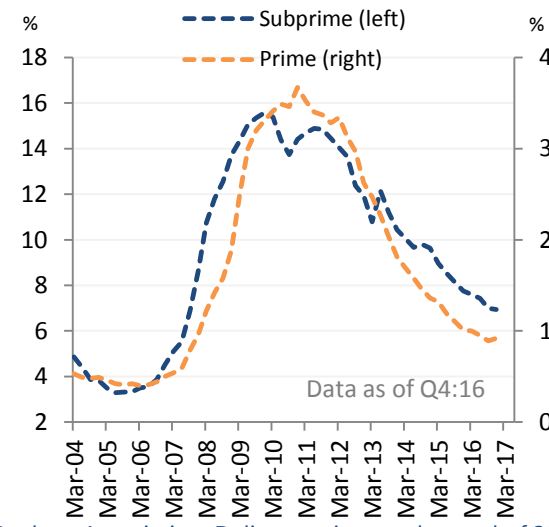


Rising house valuations and improving labor market conditions led mortgage delinquencies & foreclosures to multi-year lows

Delinquent Loans as % of Total Mortgages

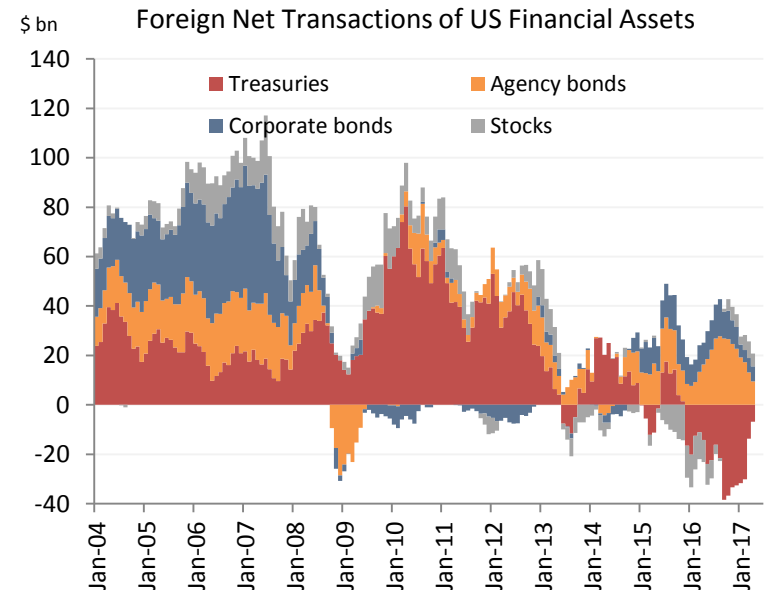
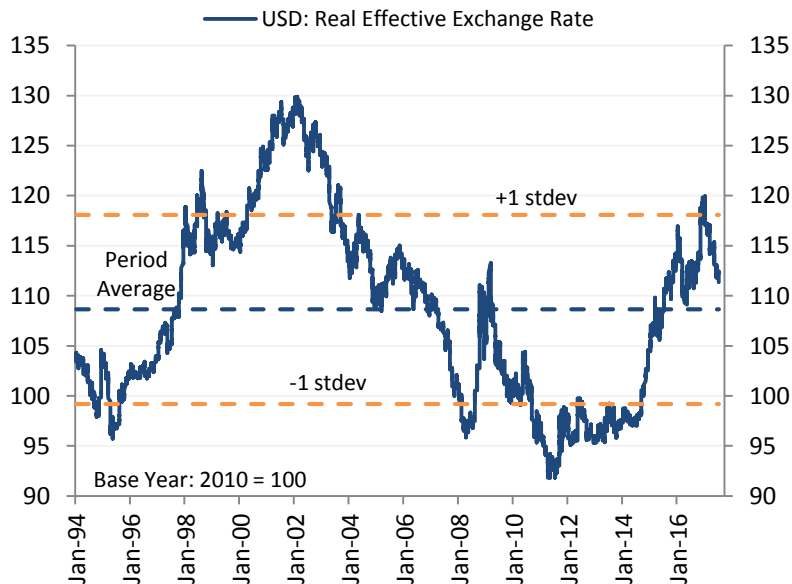
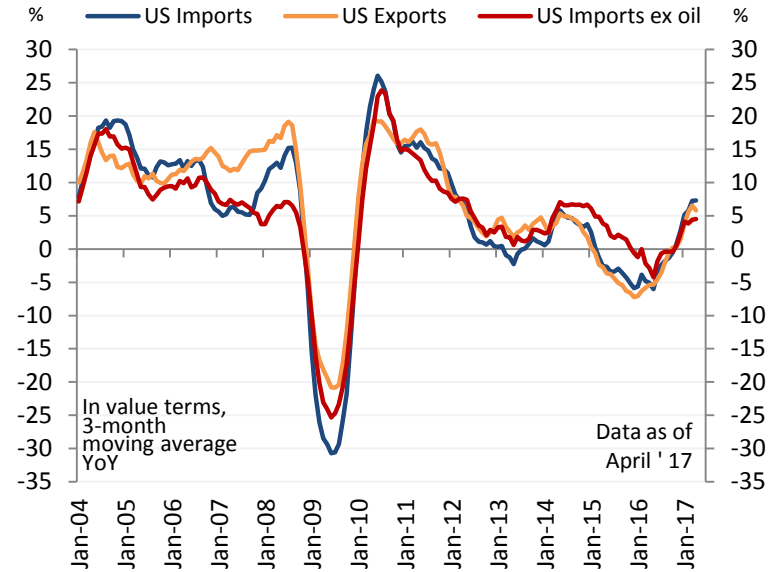
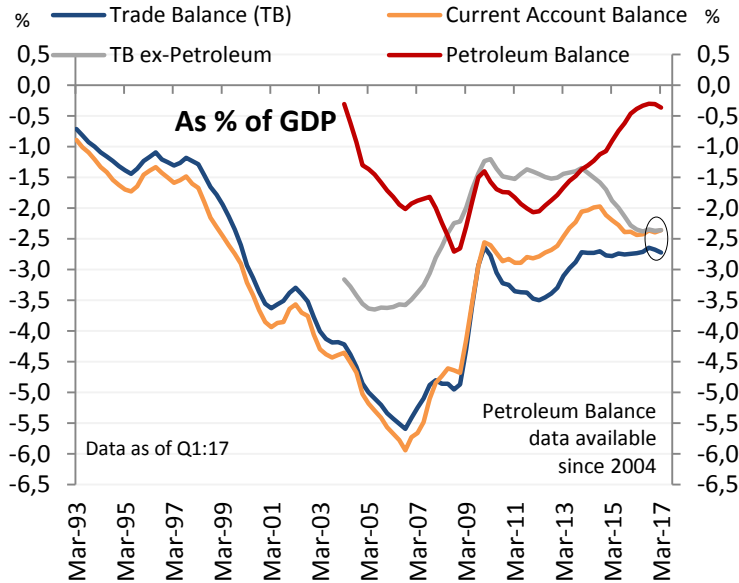


Foreclosures as % of Total Mortgages

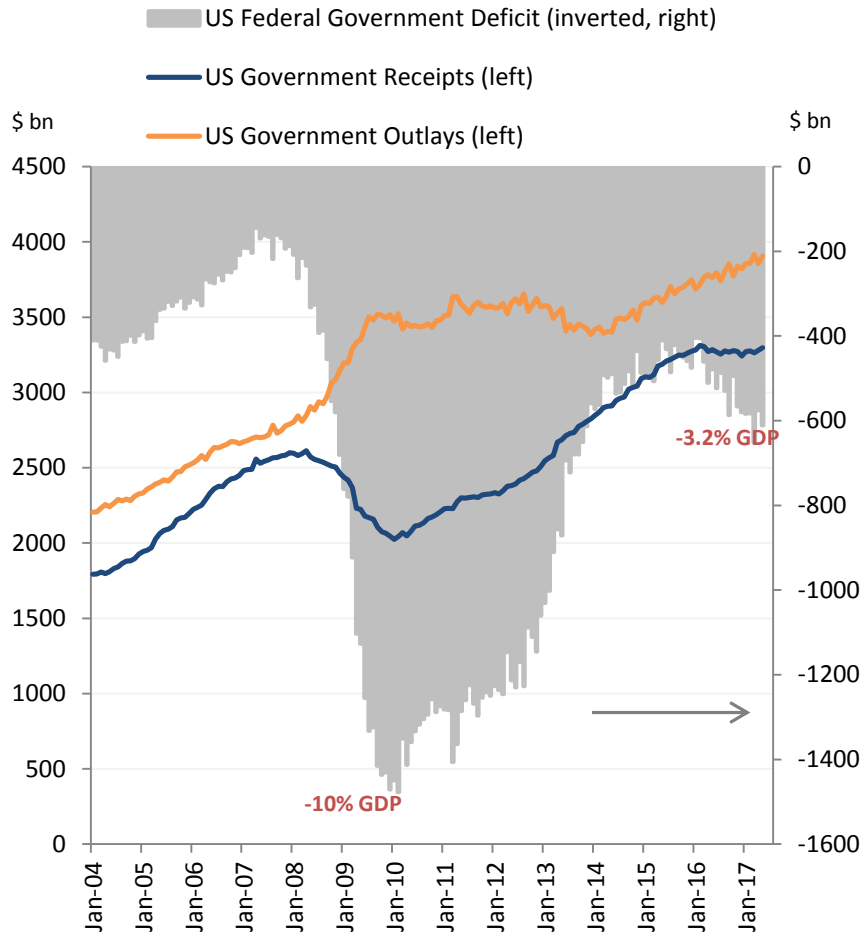


Source: Mortgage Bankers Association, Delinquencies are the total of 30, 60 and 90 days past due mortgage loans

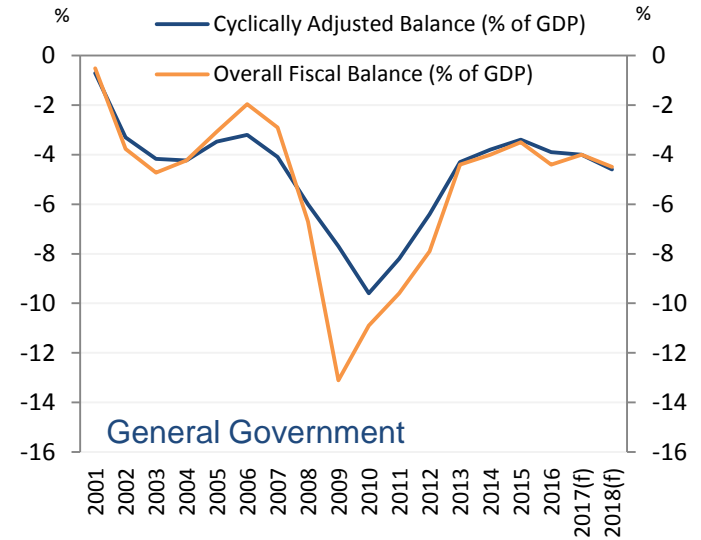
Firmer global economic activity and a weaker USD (-5.6% in NEER terms YTD) supported US exports so far in 2017



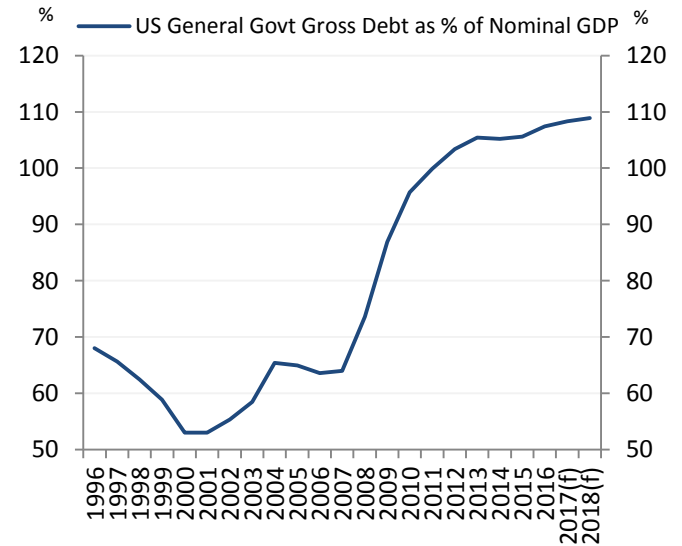
Elevated debt levels limit room for fiscal maneuver. The Federal budget deficit increased for the 1st time since 2009 in FY:16, to 3.2% of GDP and the CBO expects it to be 3.6% of GDP in FY:17



Source: Congressional Budget Office (CBO) as of May 2017, [Federal Government](#) statistics, data appear as 12-month rolling sums

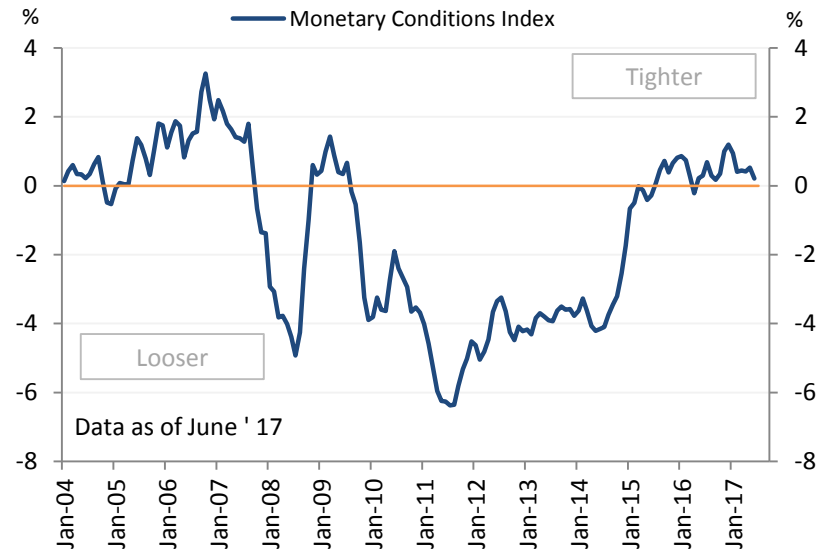
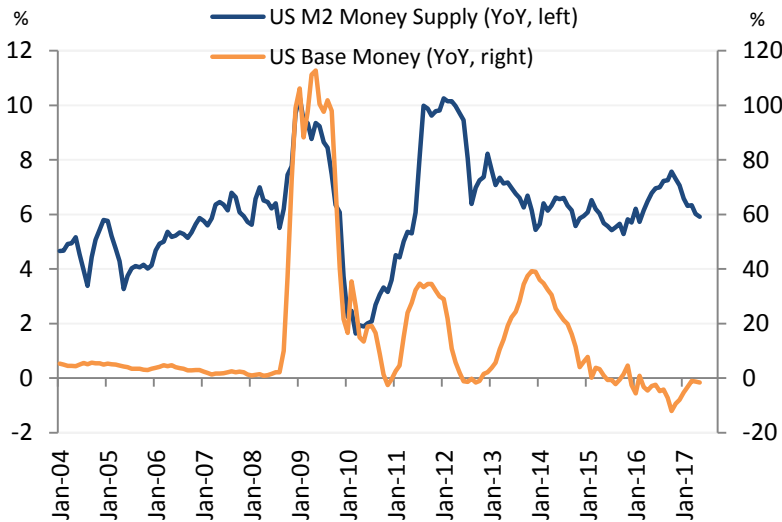
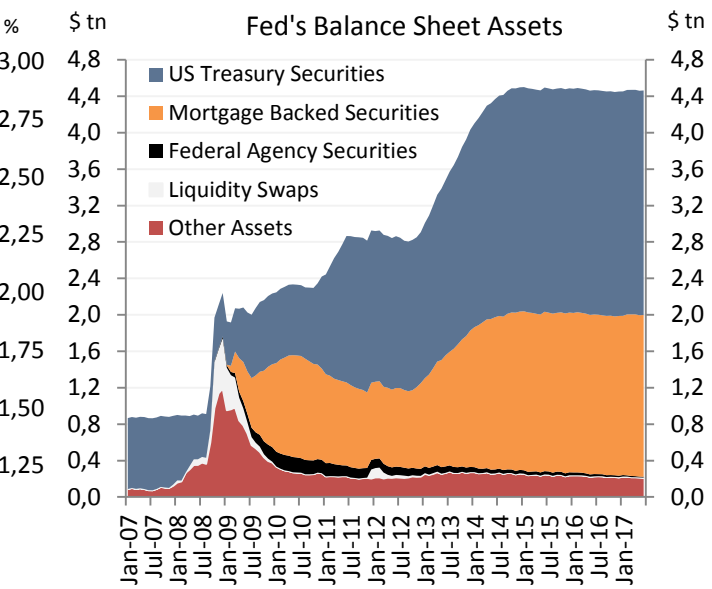
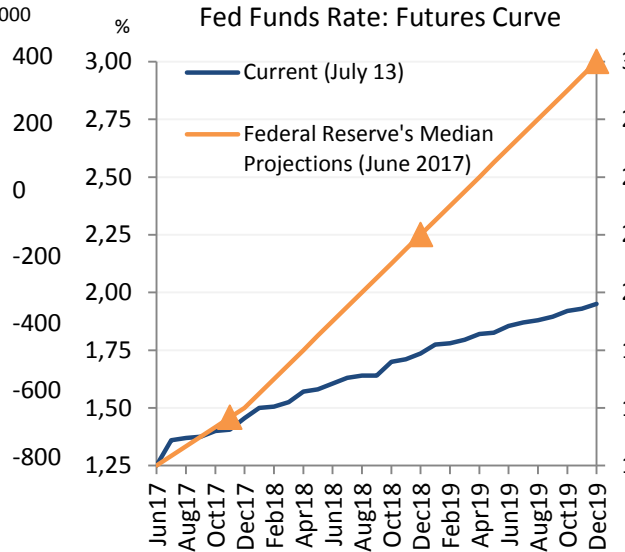
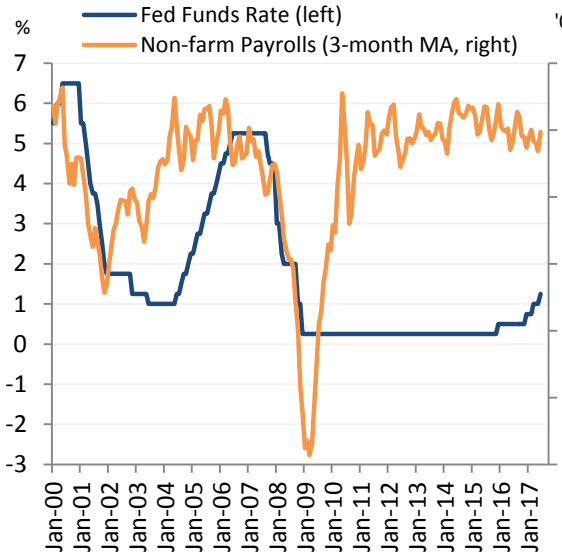


Source: IMF Fiscal Monitor, April 2017



Source: IMF Fiscal Monitor, April 2017

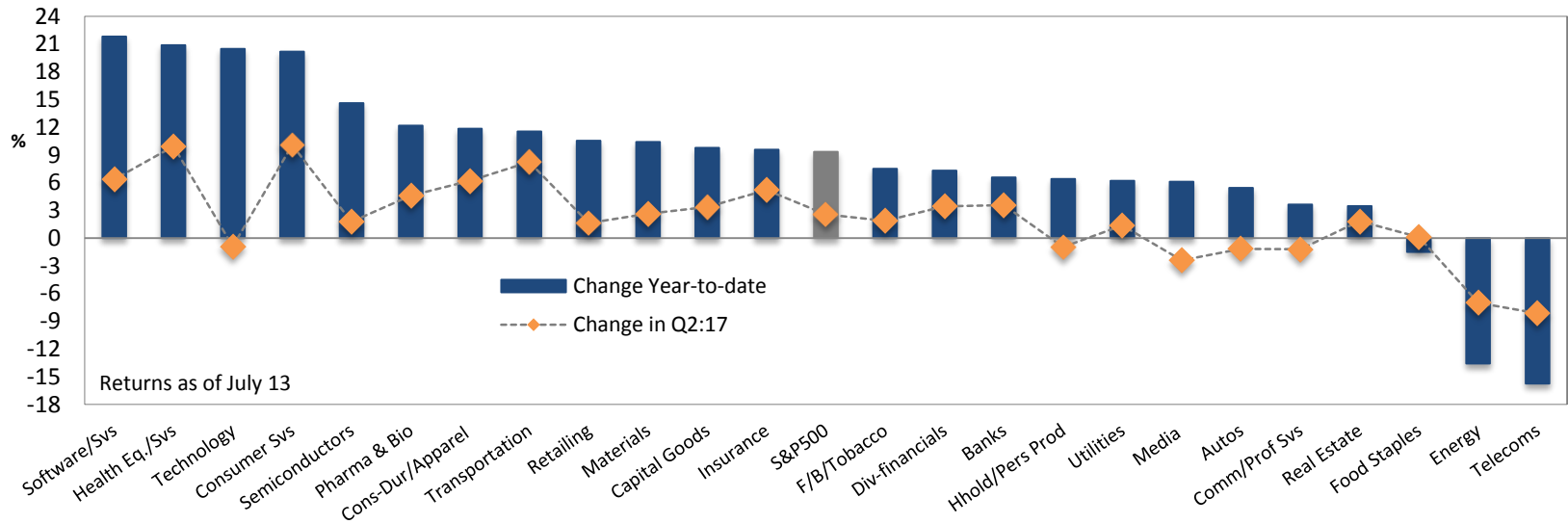
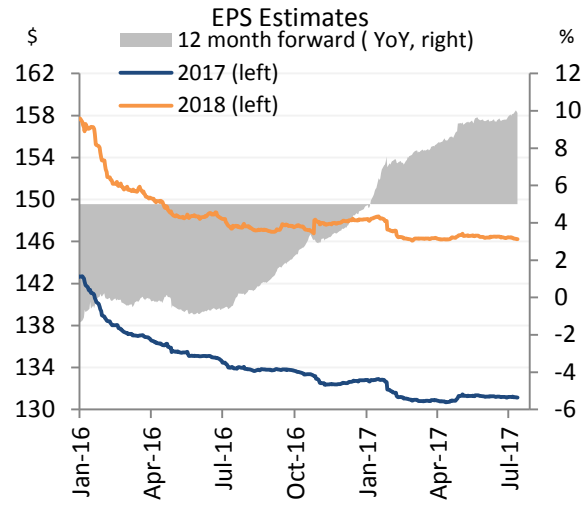
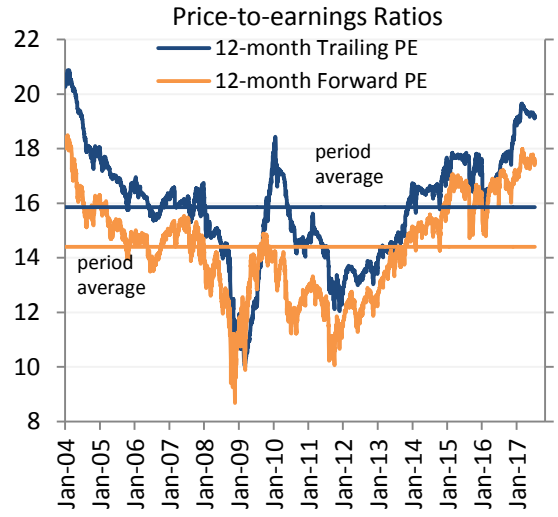
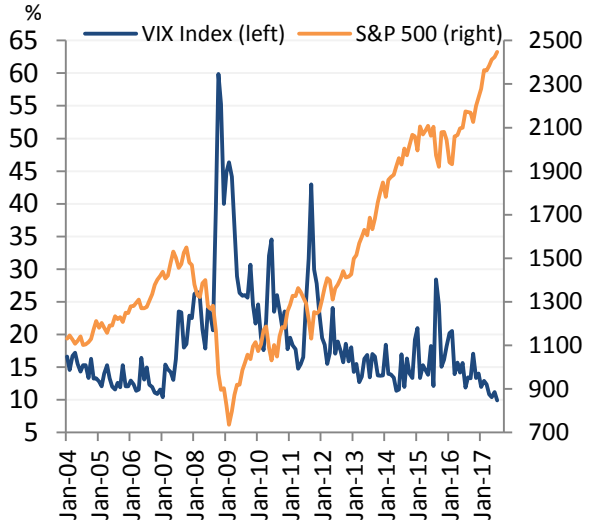
The gap between the Fed's and investors' expectations for the future path of the funds rate remains wide



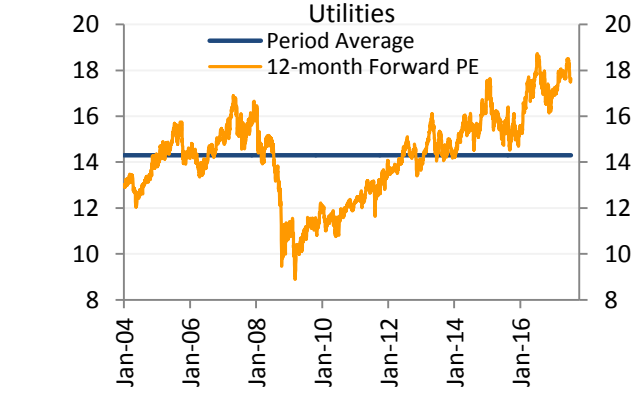
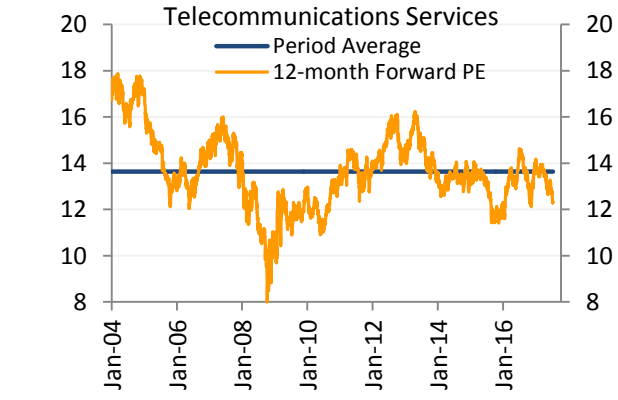
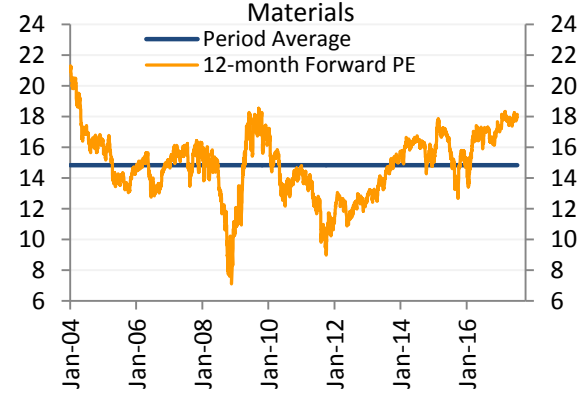
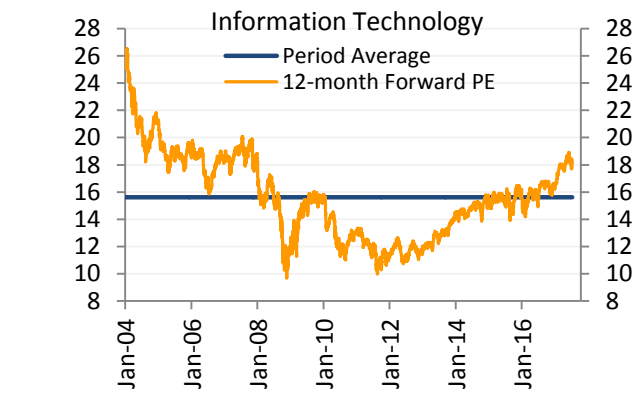
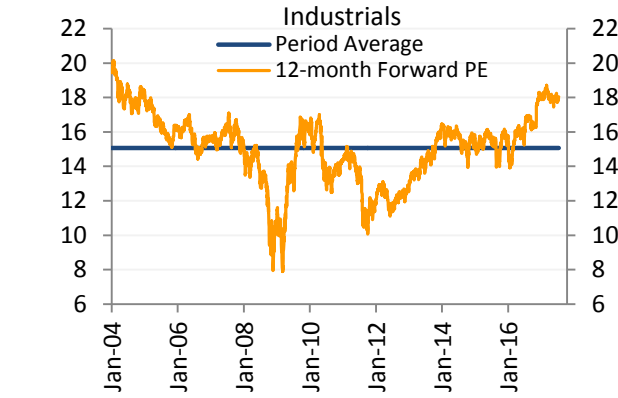
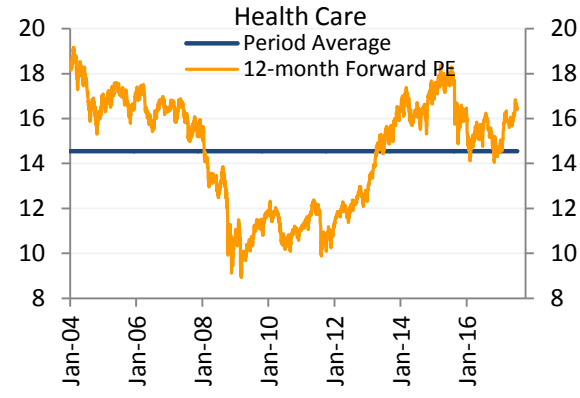
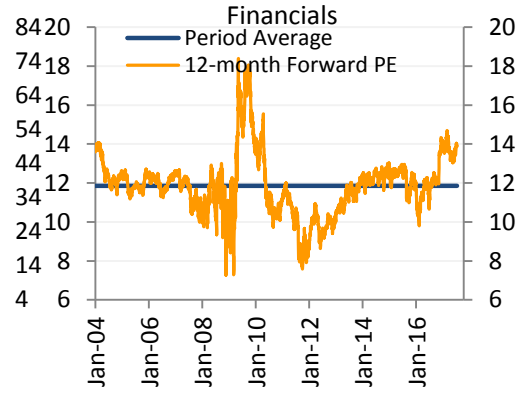
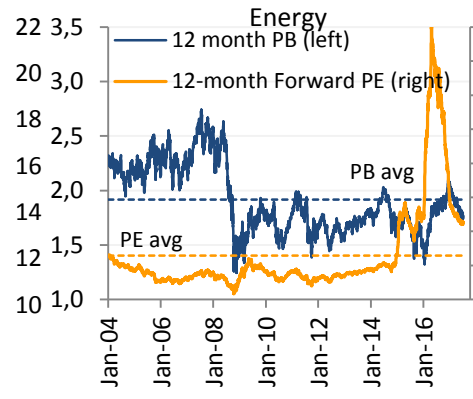
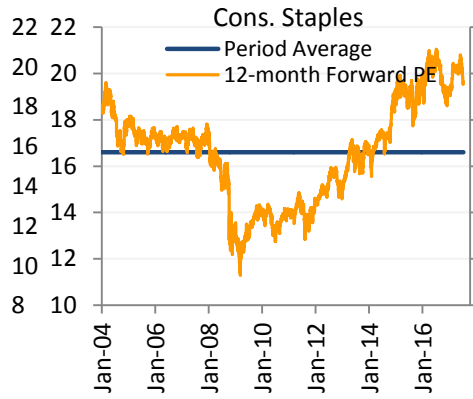
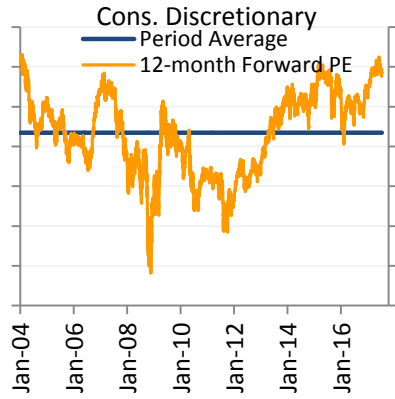
The Base Money is defined as the sum of currency in circulation and reserve balances (deposits held by banks in their accounts at the Fed)

Monetary Conditions Index is a simple composite index of Real Short Term Rates (Libor less CPI) & Real Effective Exchange Rate

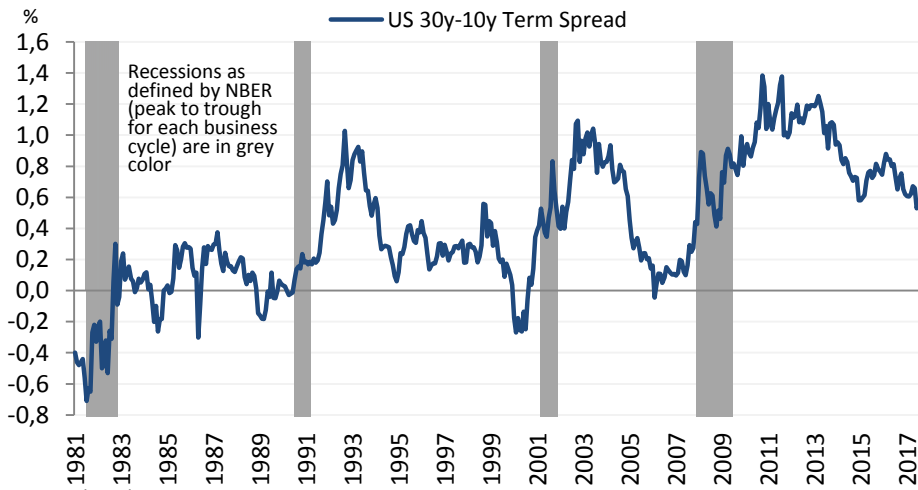
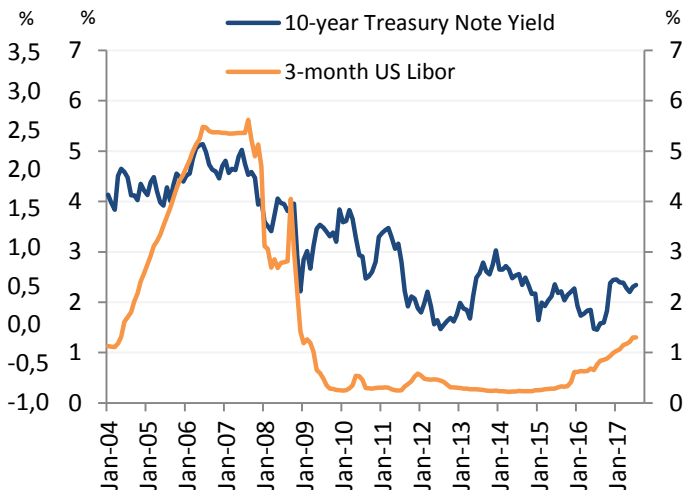
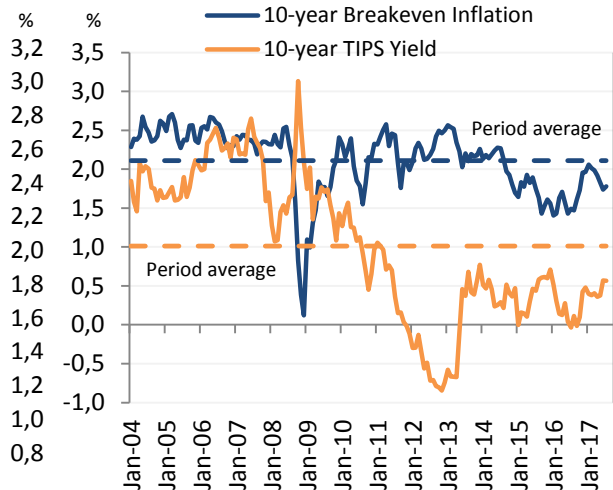
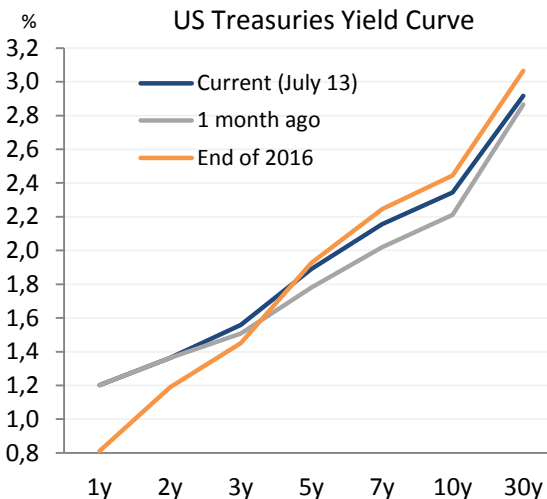
The S&P 500 is at all-time highs, with strong EPS recovery



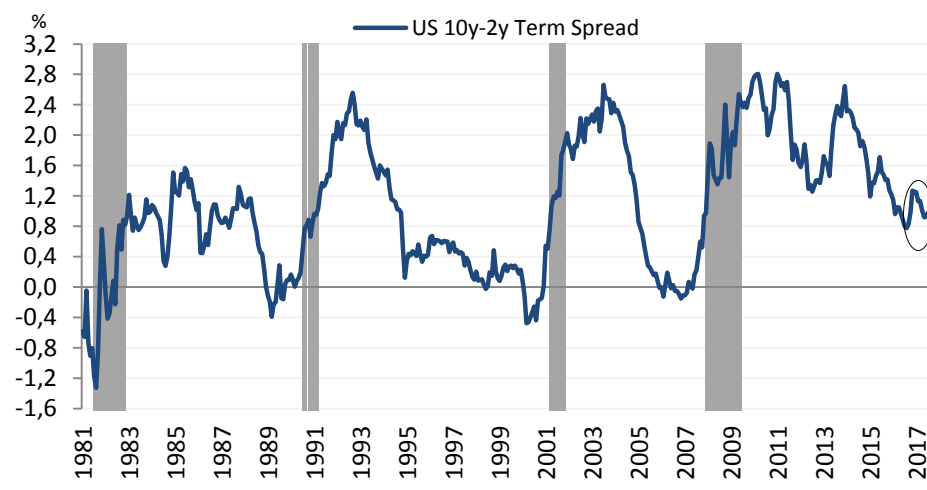
US Sectors Valuations



Monetary tightening expectations have driven up short-term yields YTD (2Yr: +18 bps to 1.4%), albeit longer-term rates have failed to pick up, leading the 10/2 spread to post US election lows (98 bps)



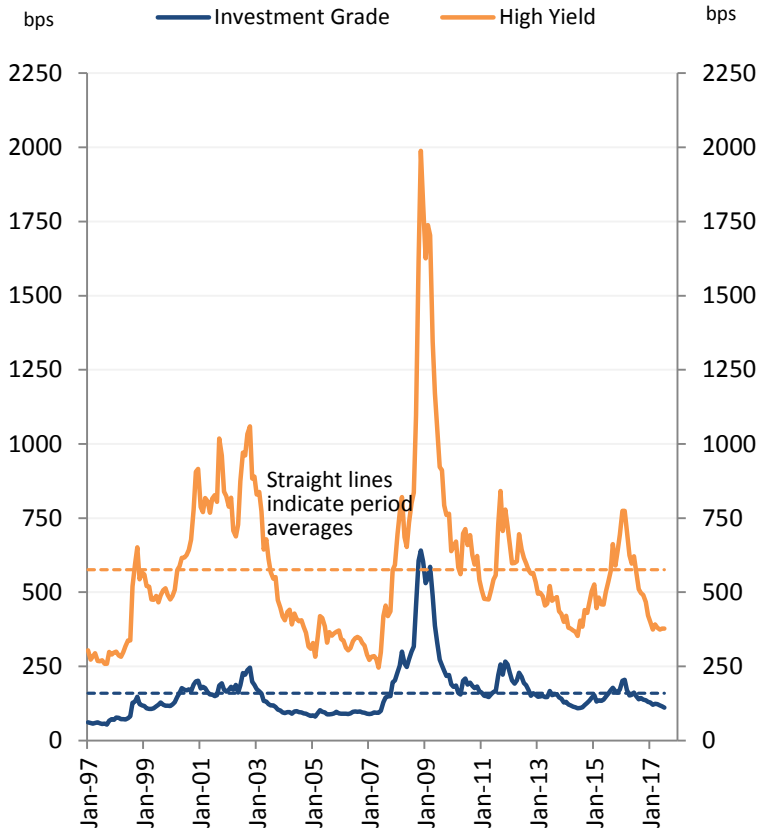
Source: Bloomberg, NBER



Source: Bloomberg, NBER

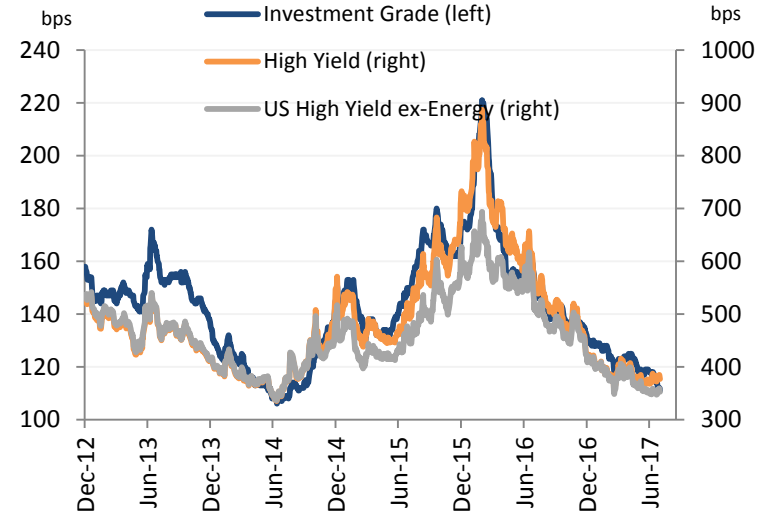
Corporate bond spreads continue to benefit from yield hunting, with HY down by 44 bps YTD despite a rise in the energy sector due to lower oil prices (+75 bps)

Corporate Bond Spreads

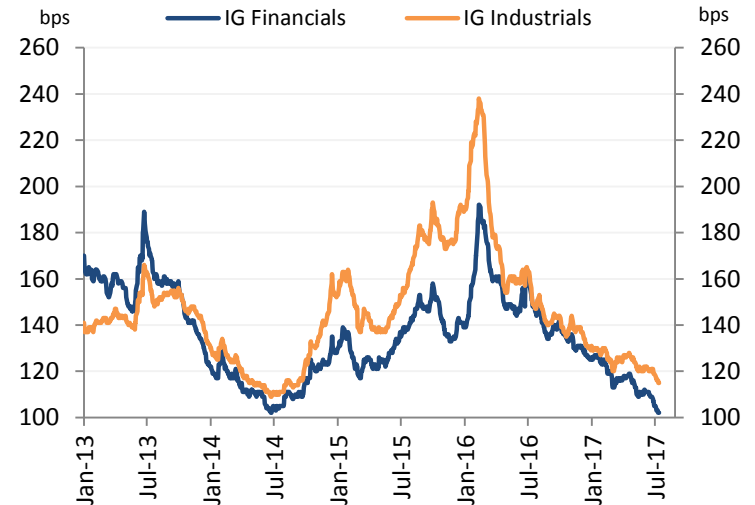


Source: Bank of America / Merrill Lynch US Corporate Bond Index (IG), US High Yield Master II (HY)

Short-term View



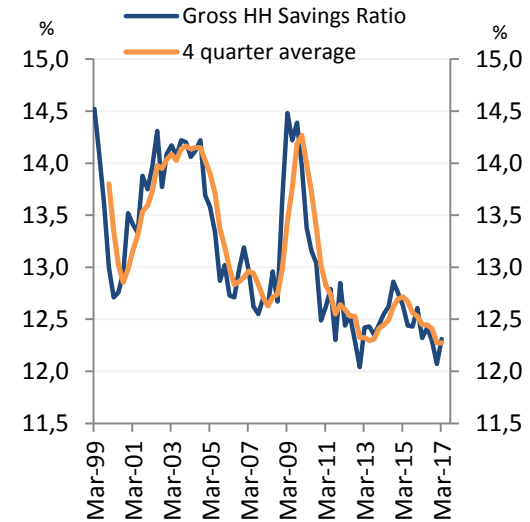
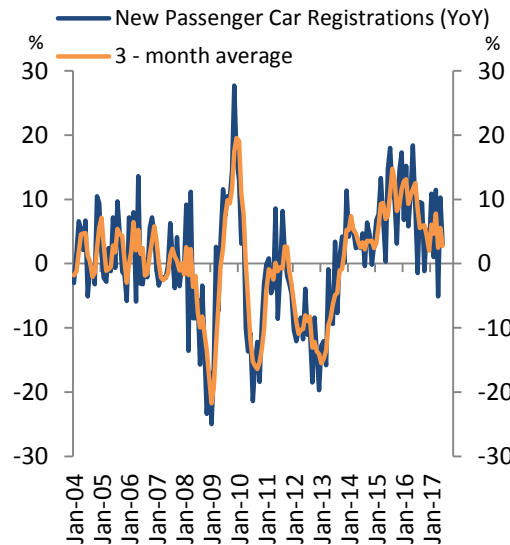
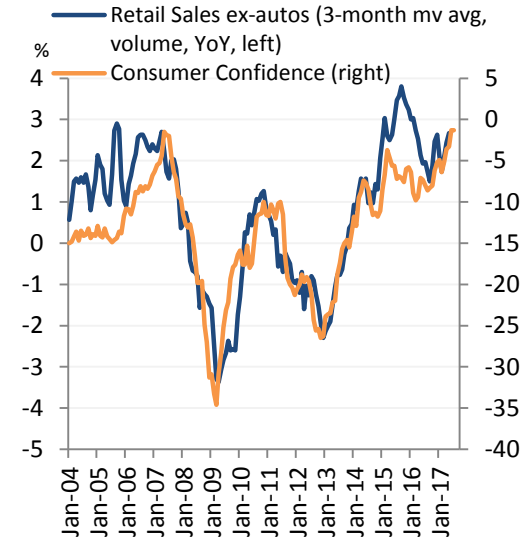
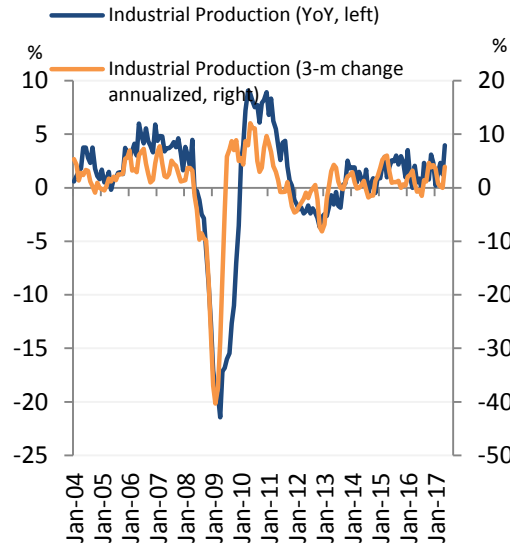
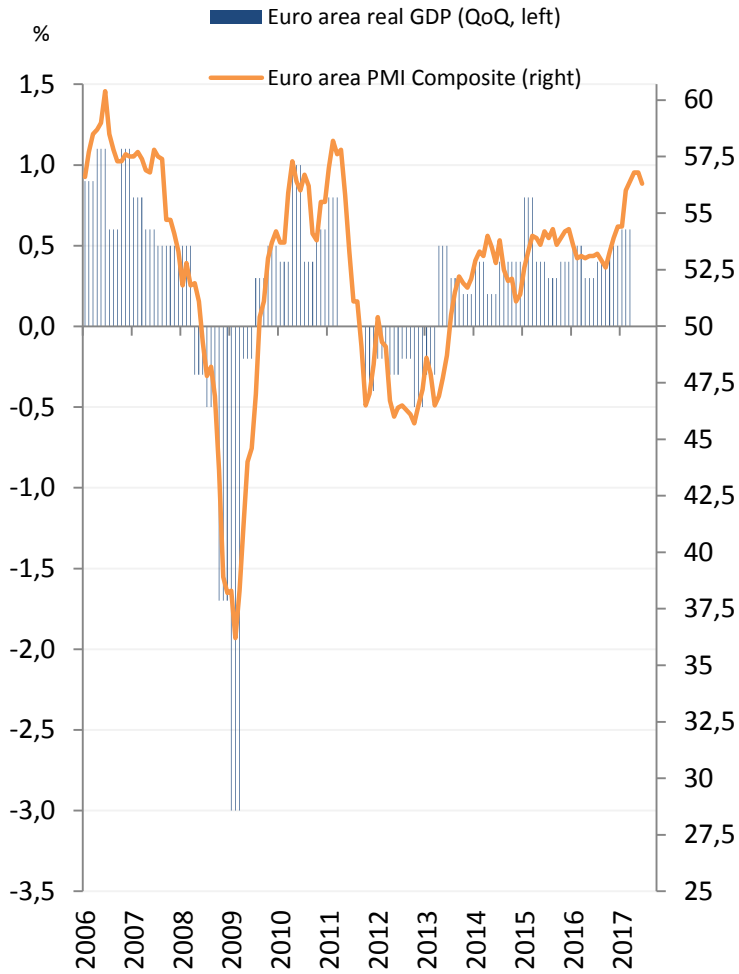
IG Financials/Industrials



Euro Area

- Euro area economy GDP increased by a robust 2.3% qoq saar in Q1:17. The recovery has broadened, with growth dispersion among countries and sectors (industry, construction, services) at very low levels.
- Growth should remain resilient on the back of solid domestic demand, against the backdrop of accommodative financial conditions and slightly expansionary fiscal policy. Favorable external demand adds to the positive outlook. Political concerns have eased considerably following the French Presidential elections. However, sources of political uncertainty remain (Italy, "Brexit" negotiations). Overall, for FY:2017, GDP growth is expected to be close to 2.0%, from 1.7% in FY:2016.
- The virtuous cycle of private consumption and job creation remains. Consumer confidence reached a 16-year high of -1.3 in June (I-t average of -13.1), while retail sales data suggest that private consumption maintains its positive momentum (0.7 pps contribution in Q1 GDP). The household saving ratio hovers close to multi-year low levels (12.3% in Q1:17), facing downward pressures mainly from low interest rate levels.
- Business investment remains strong at 5.3% qoq saar in Q1:17, following a particularly strong 14.3% qoq saar in Q4:16, on the back of favorable demand conditions and low financing costs. Elevated manufacturing PMIs (at a 6-year high in June) leave room for optimism that the momentum has carried over into Q2.
- The fiscal stance is expected to ease slightly, primarily due to a combination of policies involving personal and income tax relief, as well as higher spending initiatives in Germany, France and Italy. Specifically, the cyclically-adjusted primary surplus is expected to narrow to 0.7% in 2017 from 0.9% in 2016 and 1.0% in 2015, according to IMF estimates (April 2017).
- The recovery continues to find support from the credit cycle, with euro area bank loans to the private sector increasing by 2.6% yoy in May, close to the highest pace since May 2009. The ECB's Bank Lending Survey also suggested loan demand is expected to remain buoyant in Q2:17 across all loan categories (enterprise loans, mortgages and consumer credit), benefiting from low interest rates.
- The unemployment rate, albeit still elevated, stood at 9.3% in May, an 8-year low, having reversed more than half of the post-crisis rise (+4.8 pps, with a peak of 12.1% in mid-2013). More importantly, the declining trend continues amid rising labor force participation rates (64.2% in Q4:16 from 63.5% in Q1:13).
- Strong labor supply (resulting, ceteris paribus, in less wage-negotiating power), commodity-driven shocks and falling import prices are partly related to weak underlying price pressures. Core CPI rose by 1.1% yoy in June (CPI: 1.3% yoy) and has remained close to 1% during the past three years. Wage growth was modest at +1.5% yoy in Q1:17, unchanged from Q4:16.
- The ECB acknowledged the improved growth outlook ("balanced" risks, from "tilted to the downside) and has removed its dovish interest rate bias. It estimates that deflation is now unlikely. We expect the ECB to announce in September/October that QE will be scaled back (from €60bn/month to a lower pace during H1:2018, followed by a tapering to zero during 2018).
- Euro area equities gained ground in 2017 (+9.1% YtD), especially post-French elections, supported also by solid corporate earnings recovery (+22% yoy for 2017). The euro has appreciated significantly (+3.4% in NEER terms), supported by strong economic growth, declining political risk premia and the expectations for a tighter monetary policy.

Business & consumer confidence indicators suggest the build-up of economic momentum



Above: GDP data as of Q1:2017, PMI data as of June 2017
 Right: Industrial Production & Retail Sales data as of May 2017, New Passenger Car Registrations, Consumer Confidence data as of June 2017
 Source: Eurostat, Markit, Bloomberg

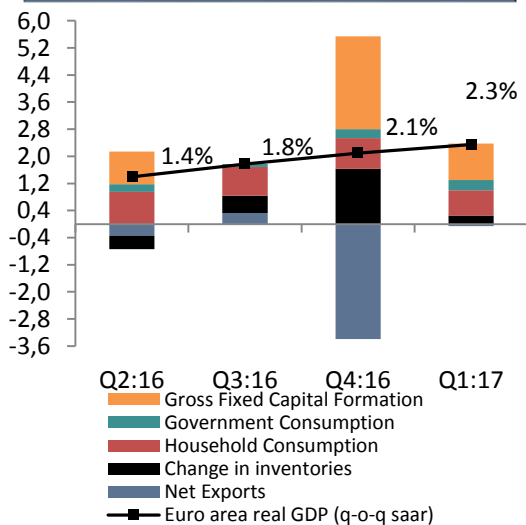
Source: Eurostat, data as of Q1:2017

GDP growth in Q2:17 is expected to have remained solid at 2-2.5% qoq saar

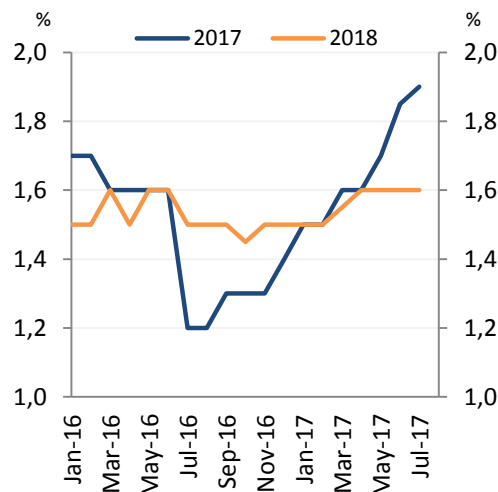
EA Real GDP Growth	2015	Q1:16	Q2:16	Q3:16	Q4:16	2016	Q1:17	Q2:17e	Q3:17e	Q4:17e	2017e
GDP (YoY)	1,9	1,7	1,6	1,8	1,8	1,7	1,9	2,1	2,1	2,1	2,0
GDP (QoQ saar)	-	2,1	1,4	1,8	2,1	-	2,3	2,2	1,8	1,9	-
Private consumption (QoQ saar)	1,8	2,9	1,7	1,6	1,7	2,0	1,4	1,8	1,8	1,8	1,6
Government consumption (QoQ saar)	1,3	3,0	1,1	0,4	1,2	1,8	1,4	1,5	1,5	1,5	1,3
Investment (QoQ saar)	3,0	1,9	4,8	-0,1	14,3	3,4	5,3	3,5	3,3	3,3	5,5
Inventories contribution (QoQ saar)	-0,1	-1,2	-0,4	0,5	1,6	0,0	0,3	0,0	0,0	0,0	0,4
Net Exports contribution (QoQ saar)	0,2	0,8	-0,3	0,3	-3,4	-0,4	-0,1	0,1	-0,2	-0,1	-0,6
Exports (QoQ saar)	6,0	1,5	5,1	1,8	6,8	2,9	4,8	4,0	3,6	3,2	4,4
Imports (QoQ saar)	6,1	-0,2	6,4	1,1	16,1	4,2	5,3	4,0	4,2	3,7	6,3

Source: Eurostat, Bloomberg, NBG Estimates

GDP Contributions (%)

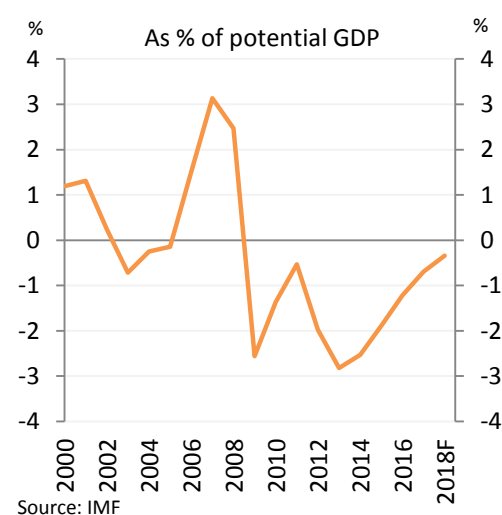


GDP Forecast Evolution



Source: Bloomberg Consensus

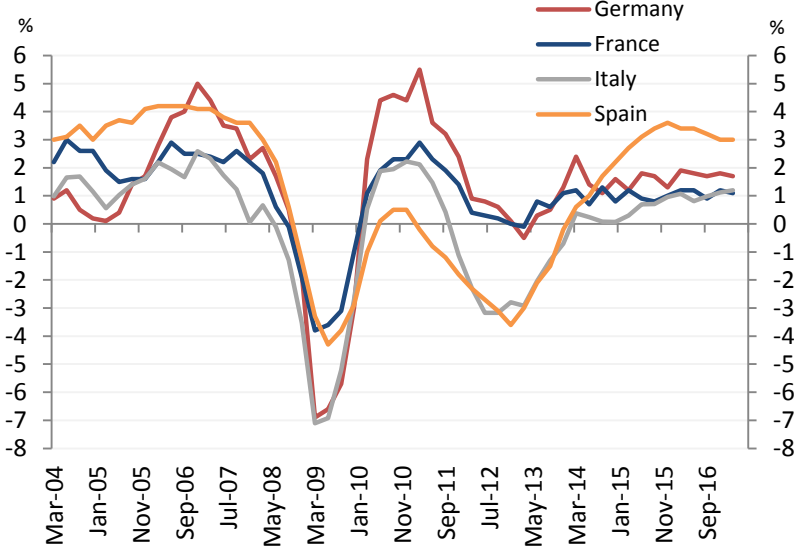
Output Gap



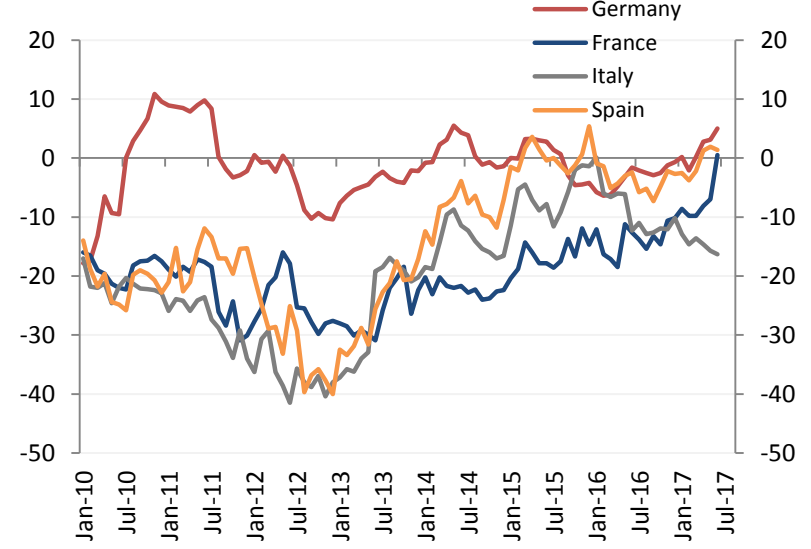
Source: IMF

Growth dispersion among EA countries is at its lowest level since the introduction of the euro

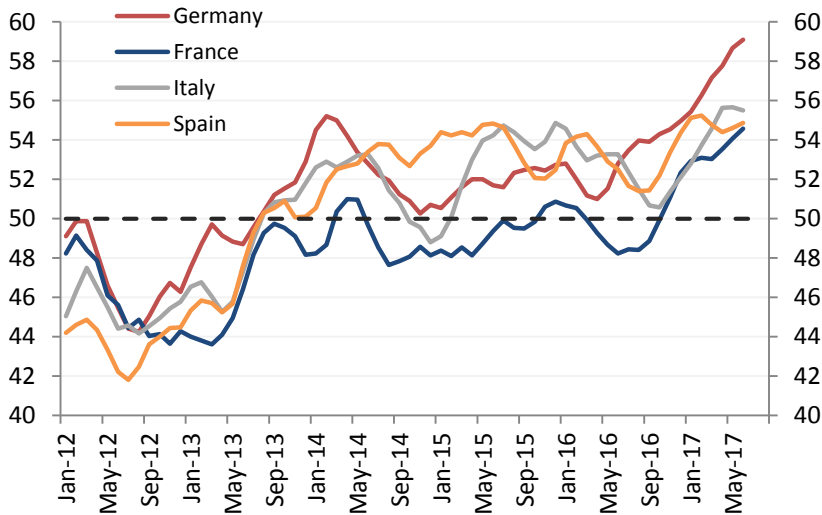
Real GDP (YoY)



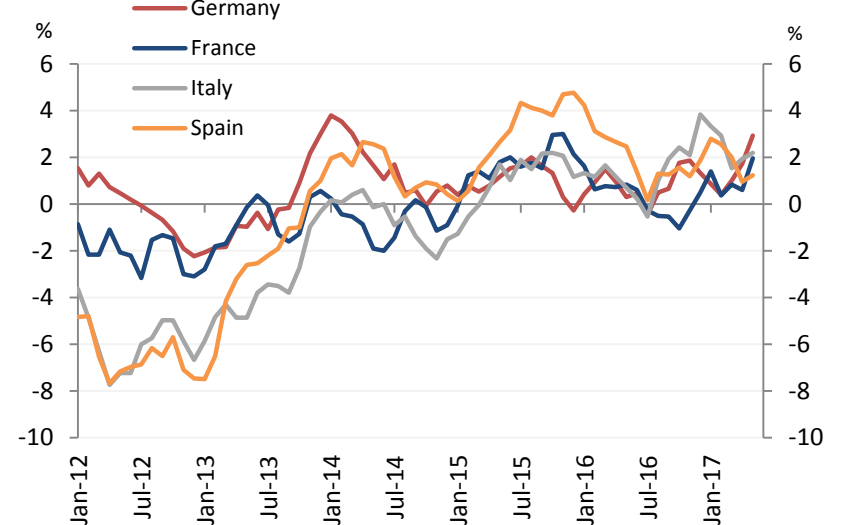
EU Commission Consumer Confidence



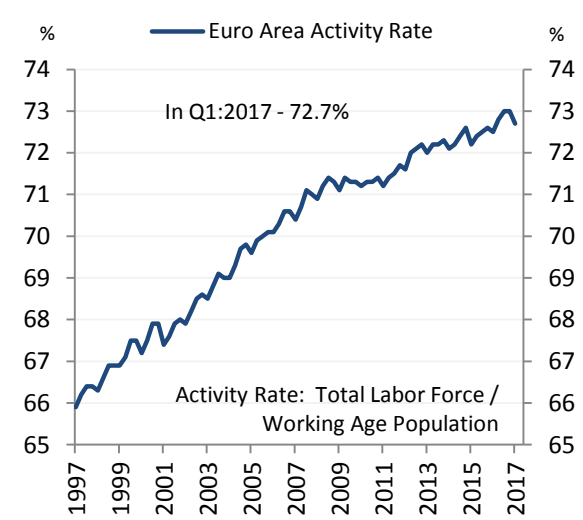
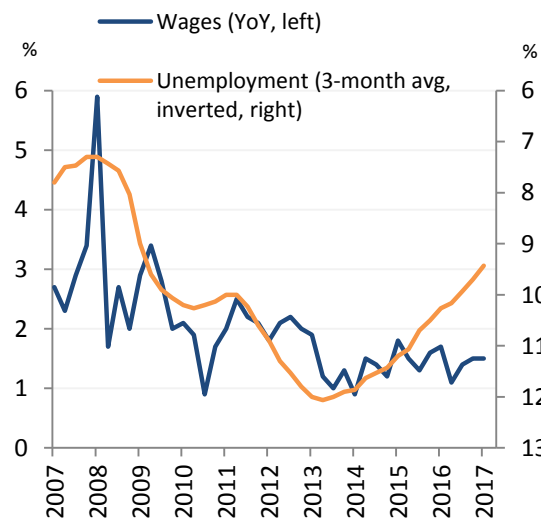
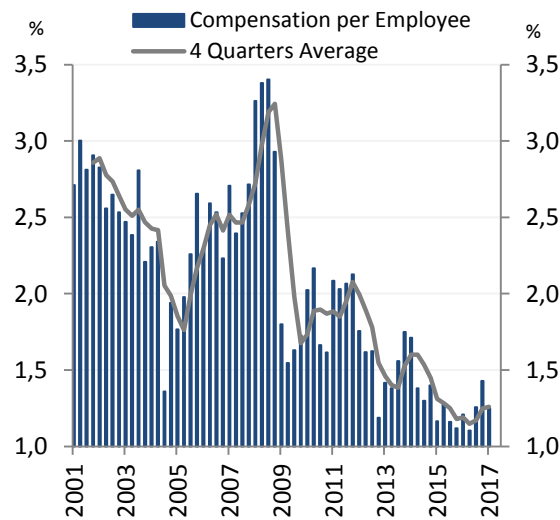
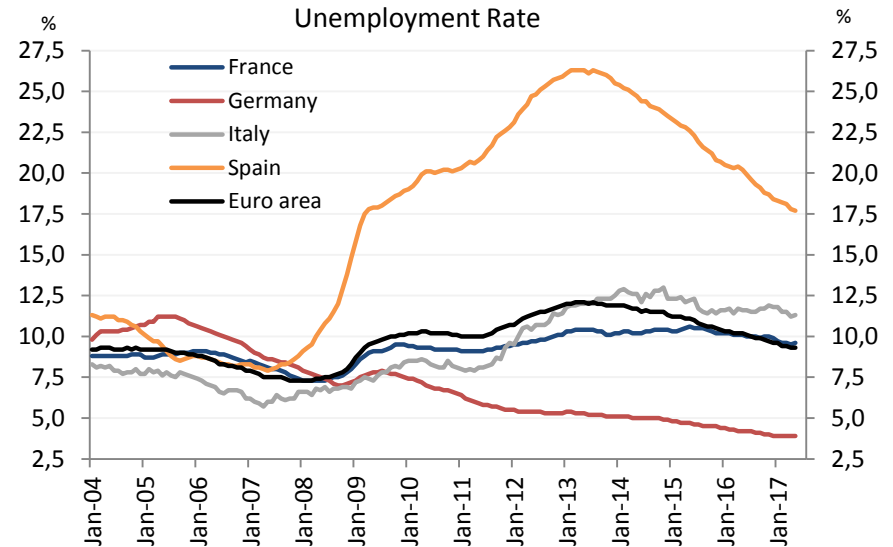
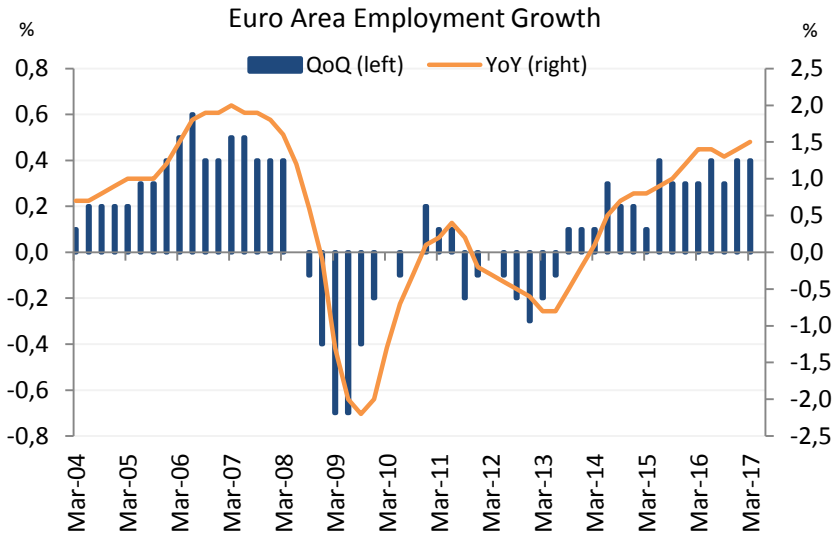
Business Surveys - Manufacturing PMIs (3-month avg)



Industrial Production (YoY, 3-month avg)



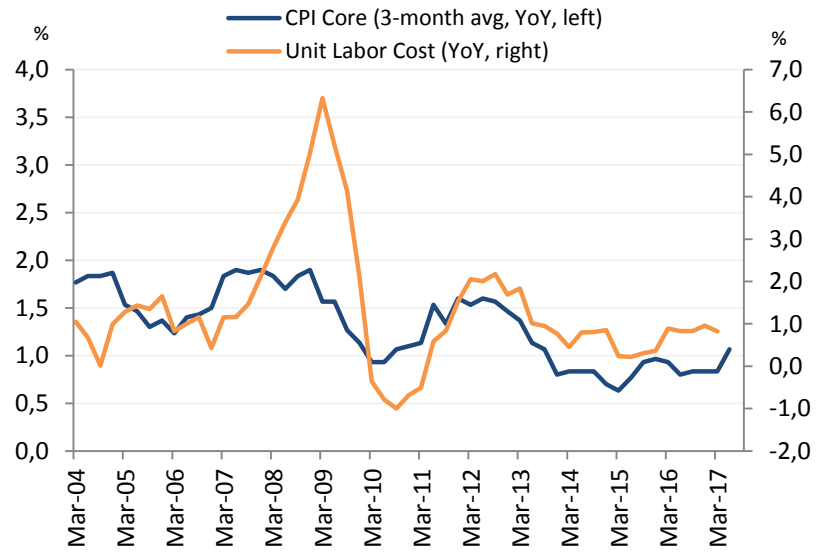
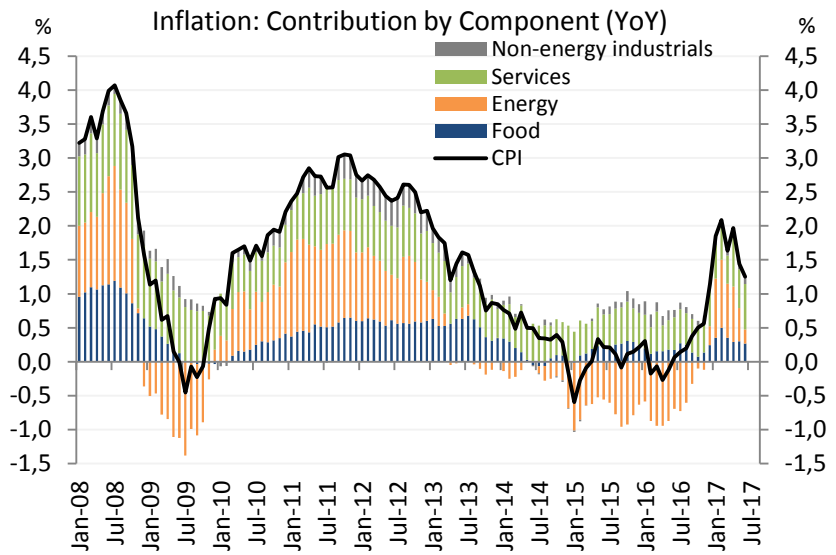
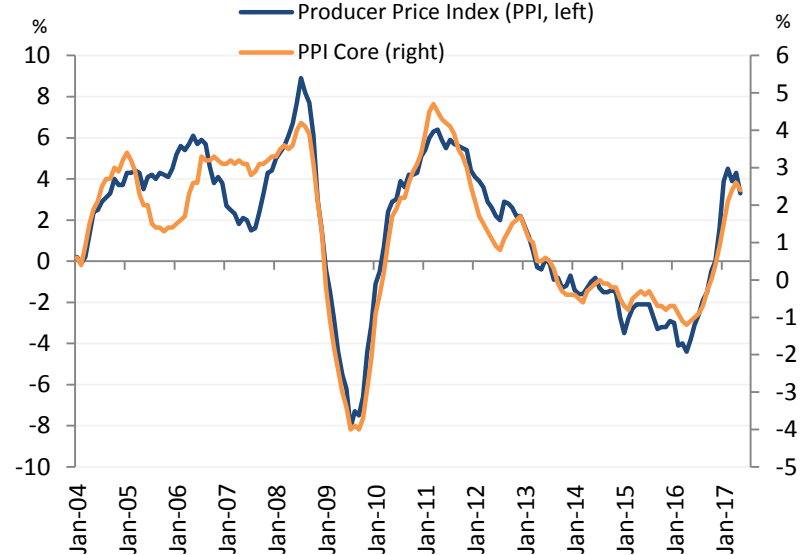
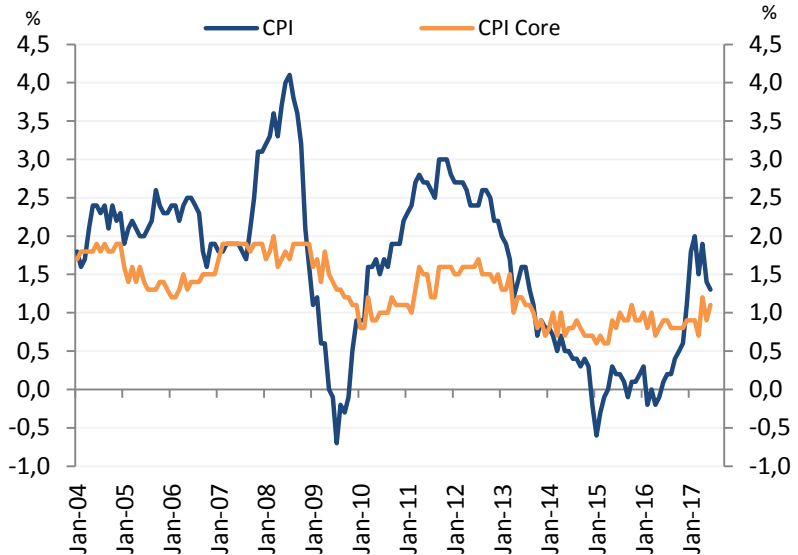
The economic recovery has led the unemployment rate to an 8-year low (9.3%). The divergence on a country-by-country basis, albeit narrowing, is still wide (Germany: 3.9%, Spain: 17.7%)



Source: ECB, Compensation per Employee: the total remuneration that is payable to employees (salaries, bonuses, overtime payments and employers' social security contributions, divided by the total number of employees / Wages: indicator of Negotiated wage rates

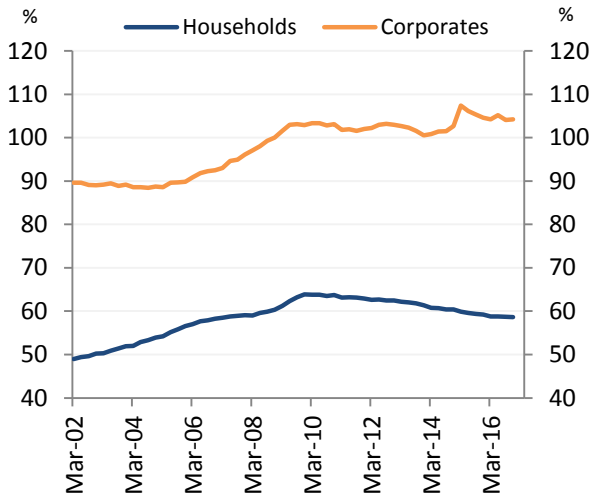
Source: ECB, Activity Rate: Total Labor Force / Working Age Population

Underlying price pressures remain subdued, with core CPI persistently close to 1.0% yoy during the past 3 years



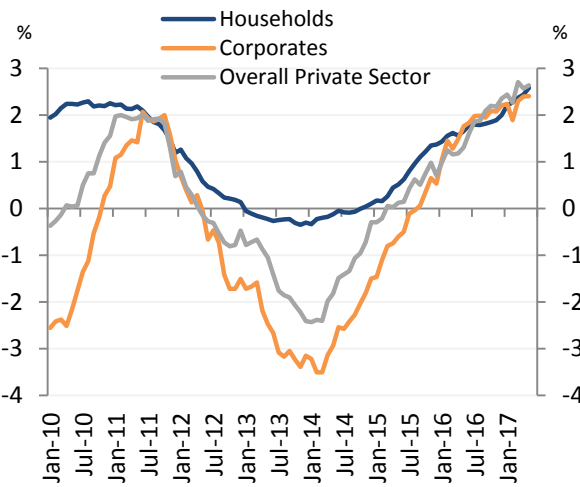
Support from the credit cycle continues, with loan growth to the private sector at 2.6% yoy in May

Private Debt* as % of GDP



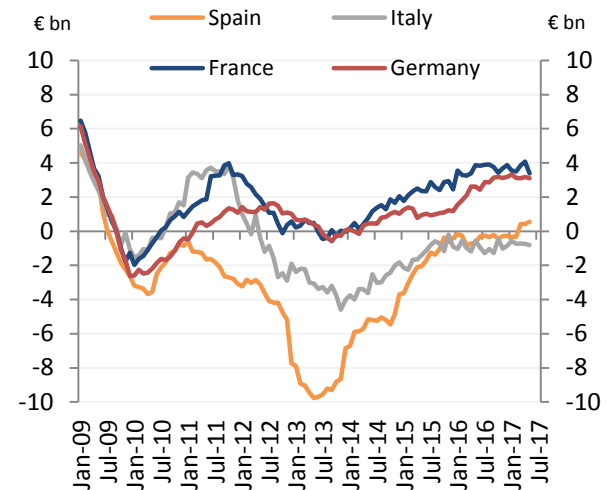
*Private sector (Households and non-financial corporations) includes bank loans & corporate bonds, data as of Q4:16
Source: Bank for International Settlements

Euro area Banks: Loans to the Private Sector



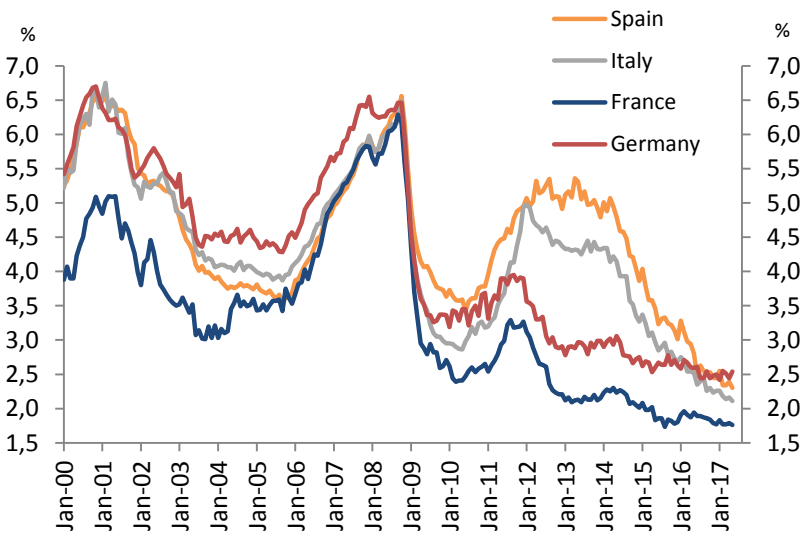
Source: ECB, data as of May 2017/ Adjusted for Sales & Securitization, YoY

Euro area Banks: Loans to Corporates



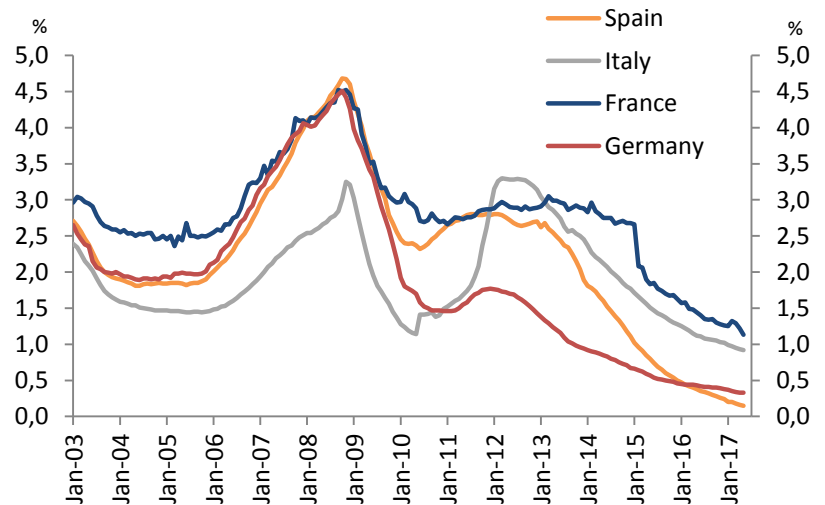
Source: ECB, data as of May 2017/ flows, 12-month moving average

Bank Interest rates on New Loans for Corporates



Source: ECB, data as of May 2017/ Interest rates on loans up to €1mn

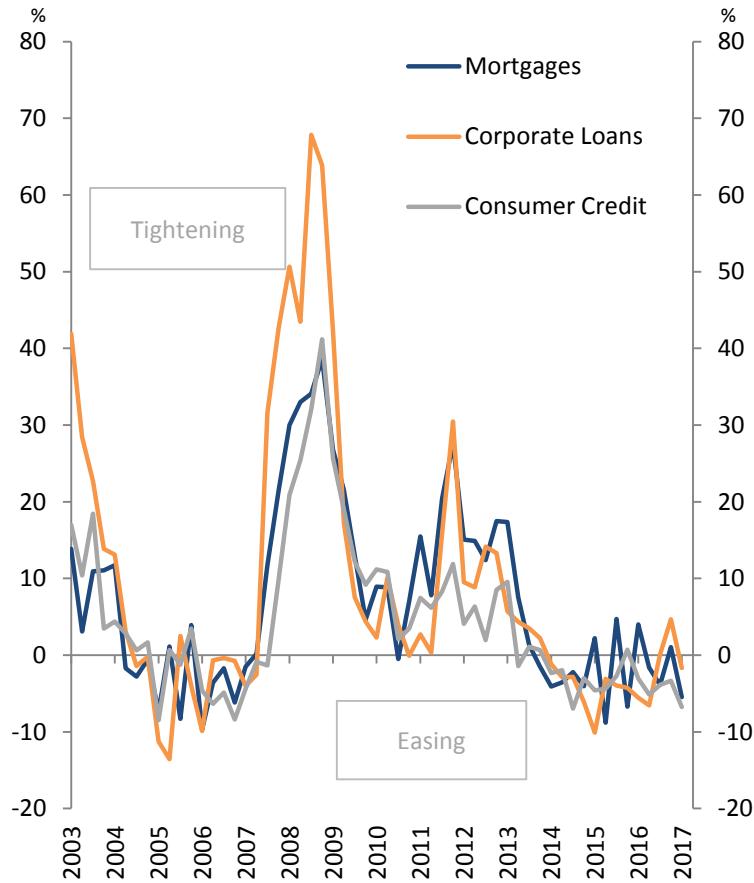
Bank Interest rates on Deposits from Households



Source: ECB, data as of May 2017/ Interest rates on deposits with agreed maturity up to 2 years

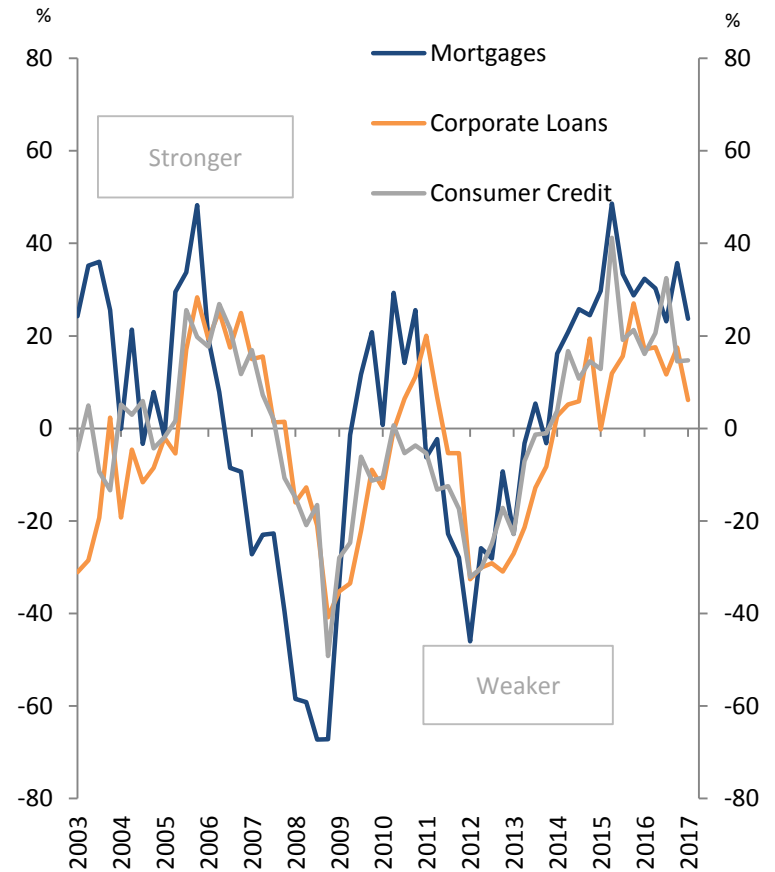
The ECB Bank Lending Survey for Q2 suggests credit appetite remains strong, due to low interest rates, with credit standards in easing mode for all types of loans

Net % of Banks reporting tightening in Credit Standards



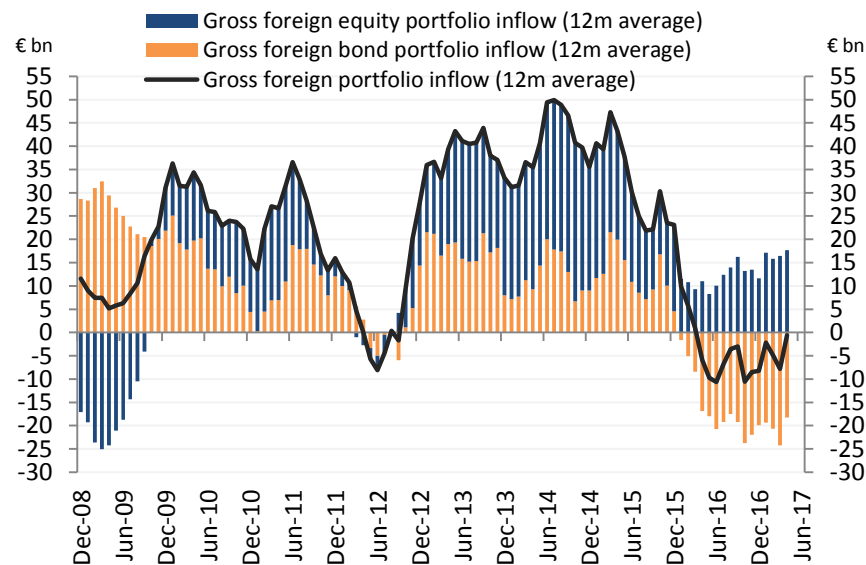
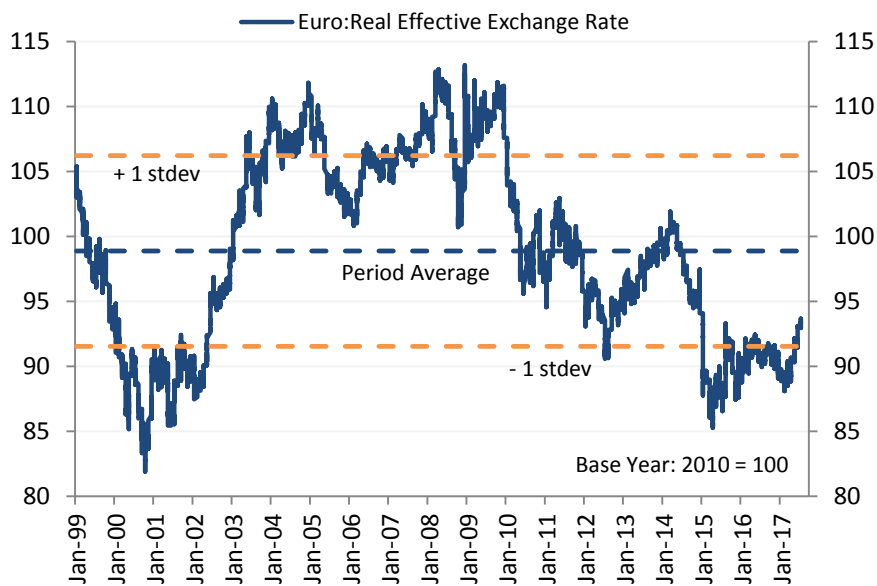
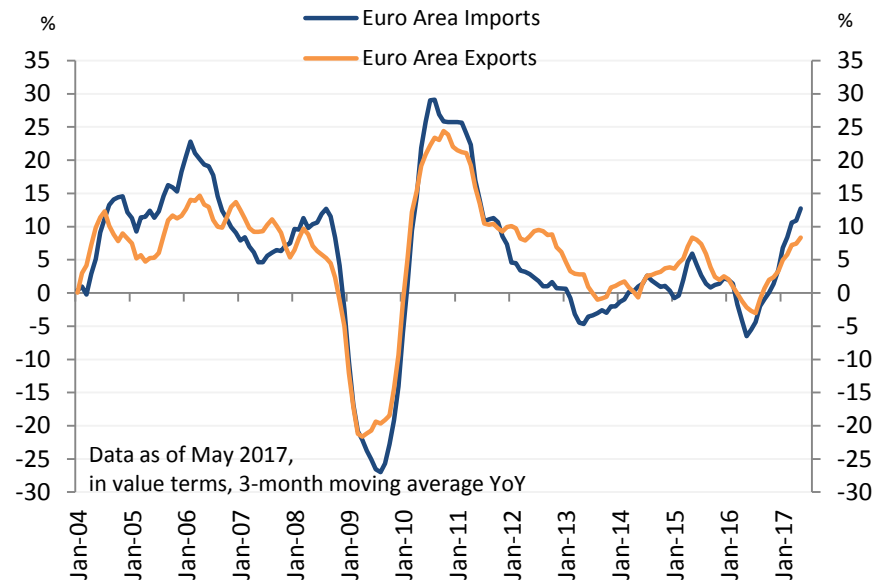
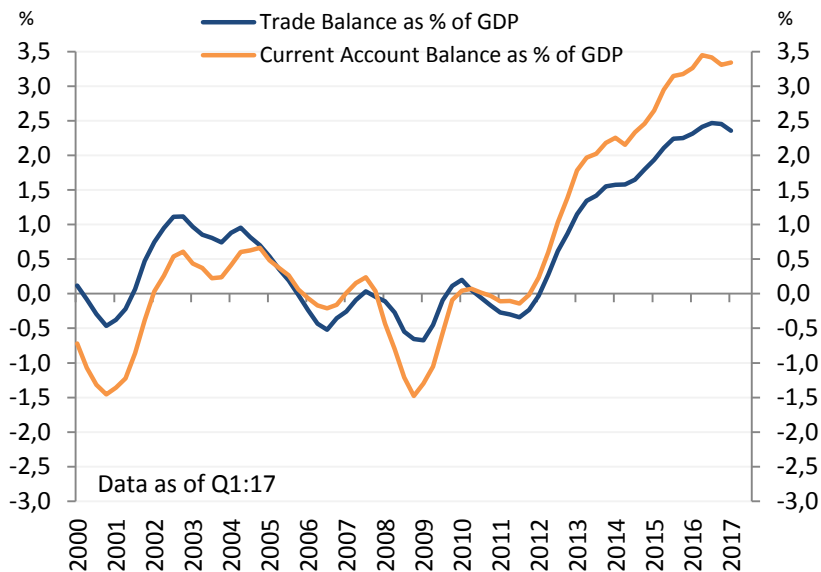
Source: ECB Bank Lending Survey

Net % of Banks reporting stronger demand for:



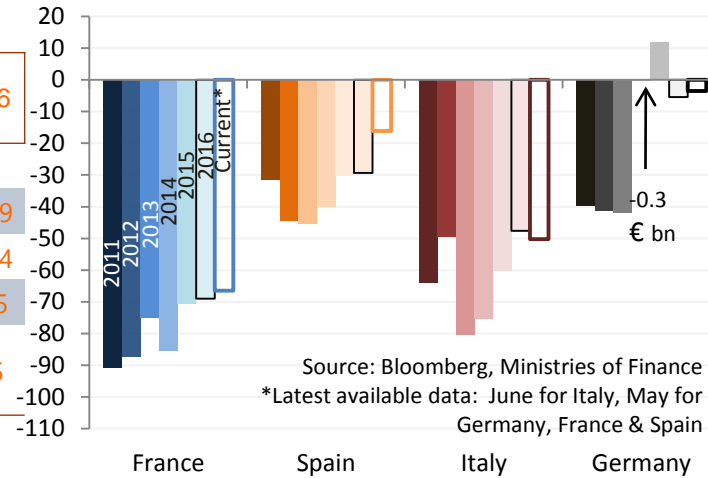
Source: ECB Bank Lending Survey

The appreciation of the euro in Q2 (+4.0% in REER terms), if sustained, could pose challenges to euro area exports



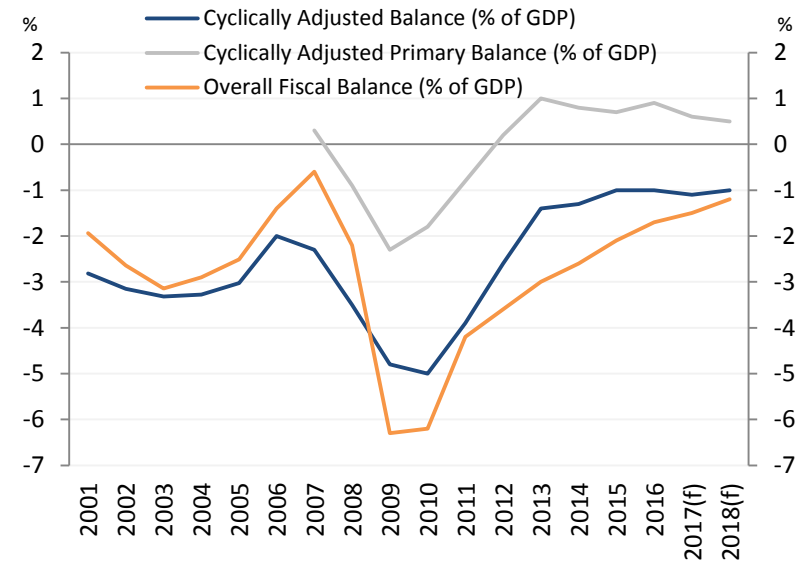
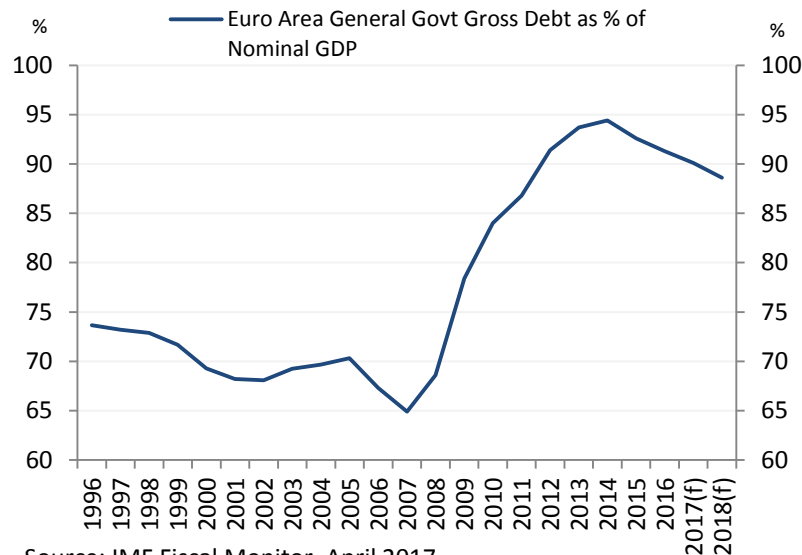
The euro area fiscal stance is expected to ease modestly in 2017, with the cyclically-adjusted primary balance at +0.6% of GDP from +0.9% of GDP in 2016, according to the IMF

EA's G4 Countries Budget Balance (in € bn)

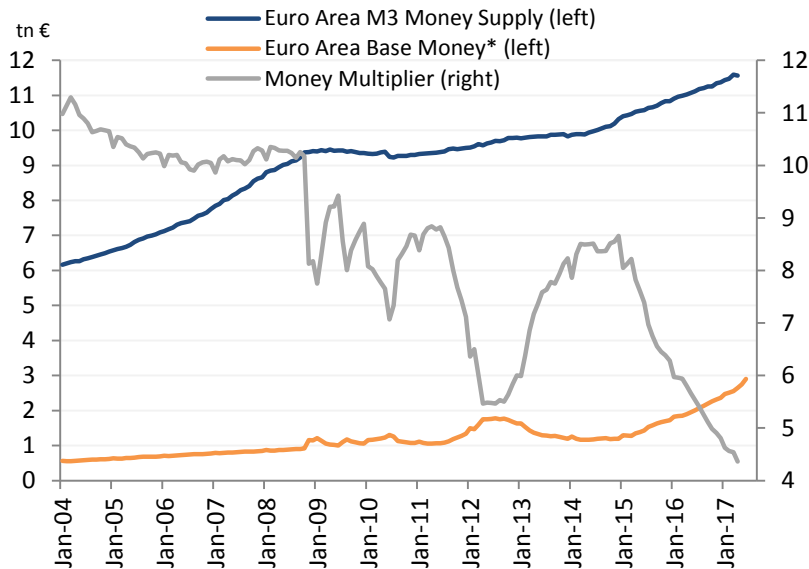
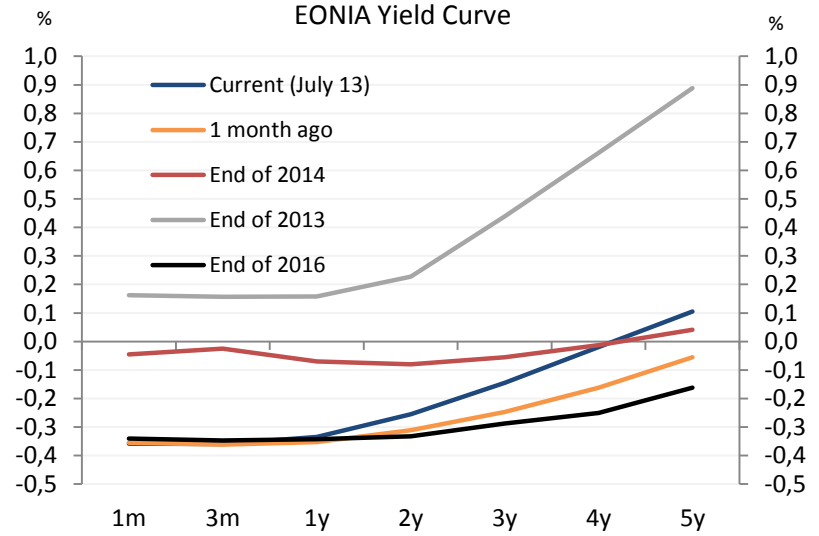
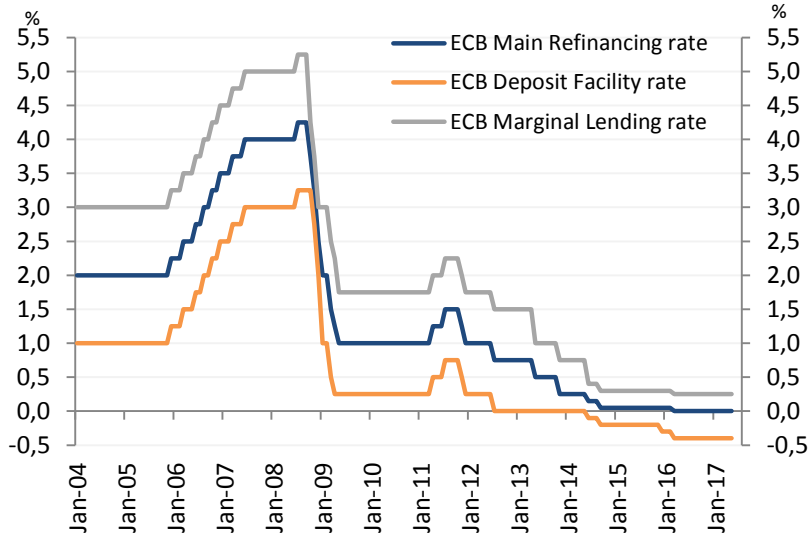


Euro area General Government Balance	2015					2016				
	Q1:15	Q2:15	Q3:15	Q4:15	2015	Q1:16	Q2:16	Q3:16	Q4:16	2016
(+) Revenues	1.202	1.209	1.216	1.231	4.858	1.231	1.241	1.247	1.250	4.969
(-) Expenditures	1.257	1.266	1.263	1.289	5.075	1.275	1.282	1.290	1.288	5.134
(=) Balance	-56	-57	-47	-57	-217	-44	-41	-43	-37	-165
General Government Balance (% GDP)	-2,1	-2,2	-1,8	-2,2	-2,1	-1,6	-1,5	-1,6	-1,4	-1,5

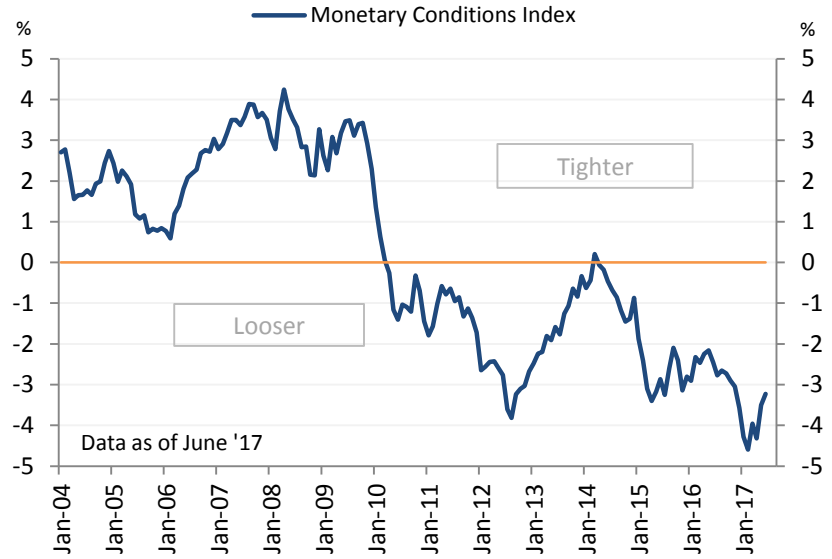
Source: Eurostat, in EUR billions unless otherwise noted



The improved economic outlook and a cautiously hawkish tilt in ECB statements has led markets to gradually revise up their expectations for interest rates in the medium term



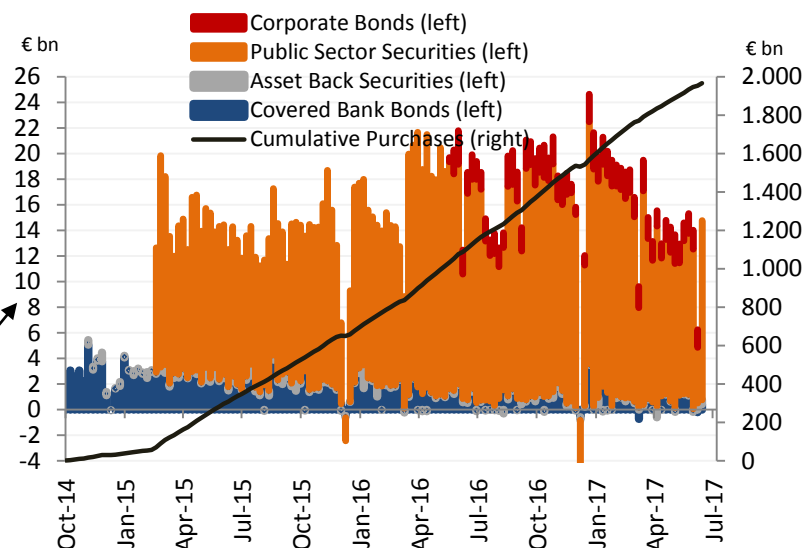
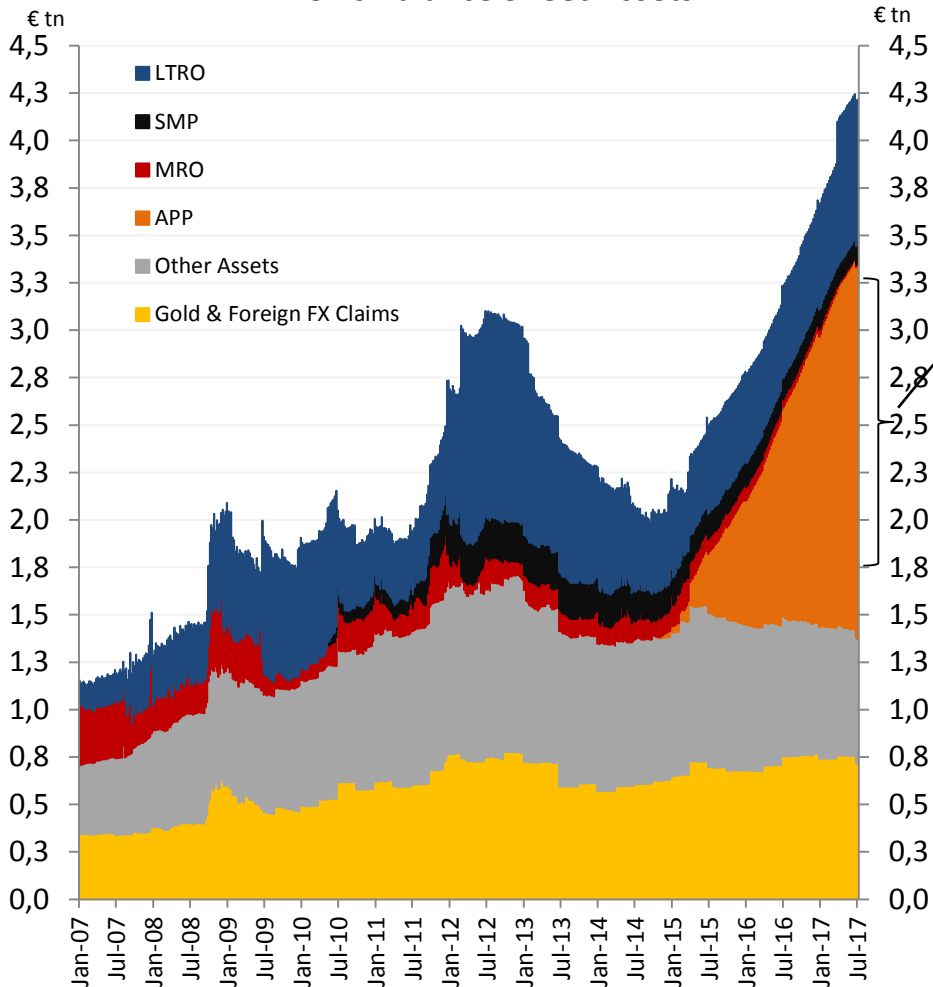
Base Money: Banknotes in circulation plus minimum required reserves & any excess reserves plus ECB's deposit facility
Source: ECB



Monetary Conditions Index is a simple composite index of Real Short Term Rates (Euribor less CPI) & Real Effective Exchange Rate

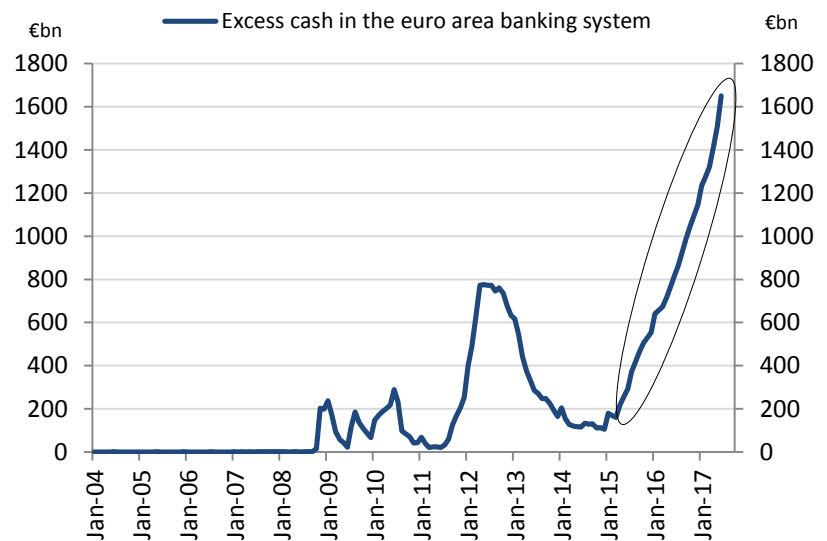
The ECB scaled back the pace of QE purchases to €60bn/month as of April 2017 (from €80bn/month, previously) and could announce a further reduction in September/October

ECB's Balance Sheet Assets



ECB New Programmes Evolution

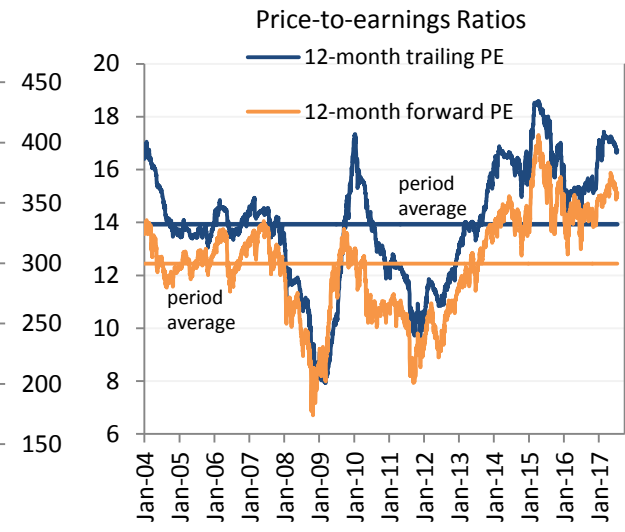
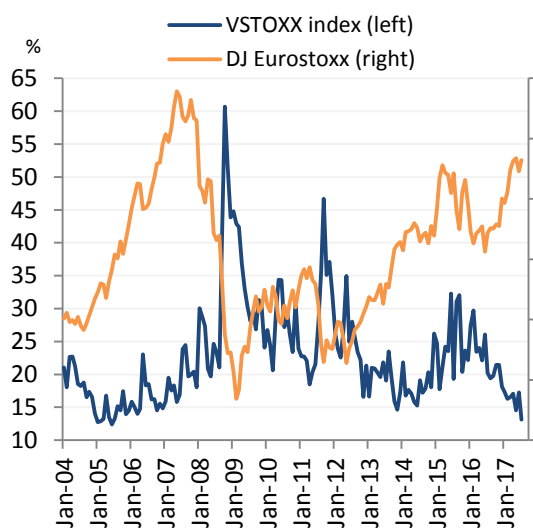
*Flows shown negative at the end of 2015 due to end-of-quarter revaluation adjustments (at market prices)



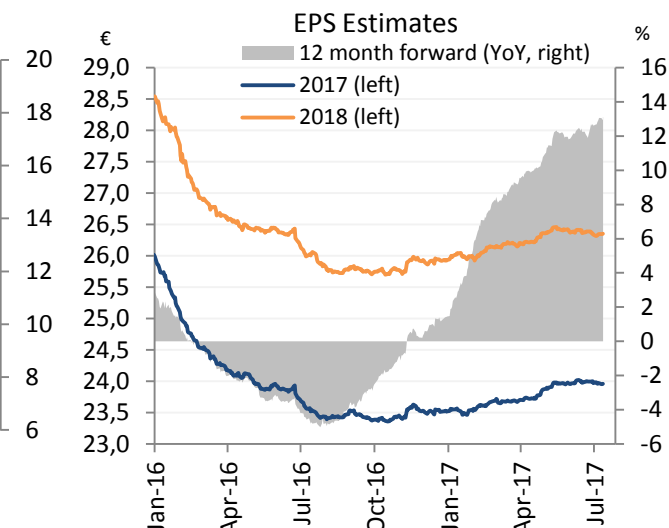
Source: ECB, Excess Liquidity: Deposit Facility minus Lending Facility + (CA reserves – Required Reserves)

LTRO: Long-term refinancing operations, MRO: Main refinancing operations, SMP: Securities Market Programme, APP: includes Corporate Bonds, ABS, CBBPP3 & PSPP programmes, please refer to upper right graph
Source: ECB

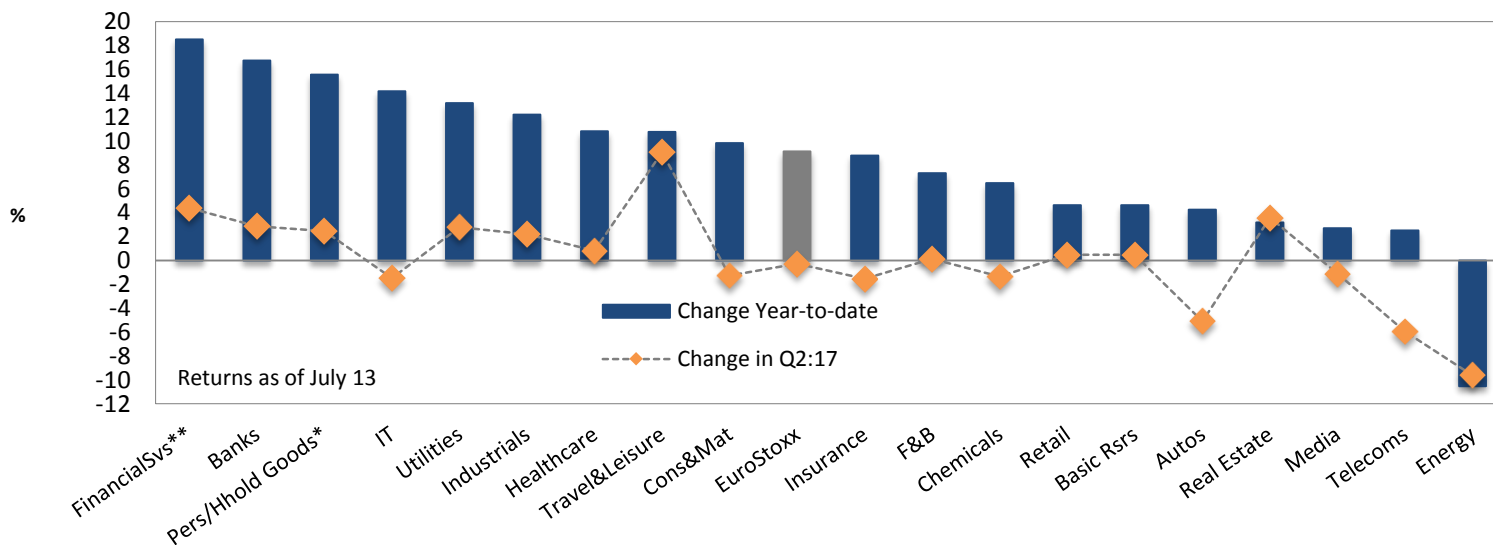
EPS recovery, economic strength and declining political uncertainty has supported equities YTD (EuroStoxx: 9.1%), with Banks overperforming (+17%)



Source: Factset

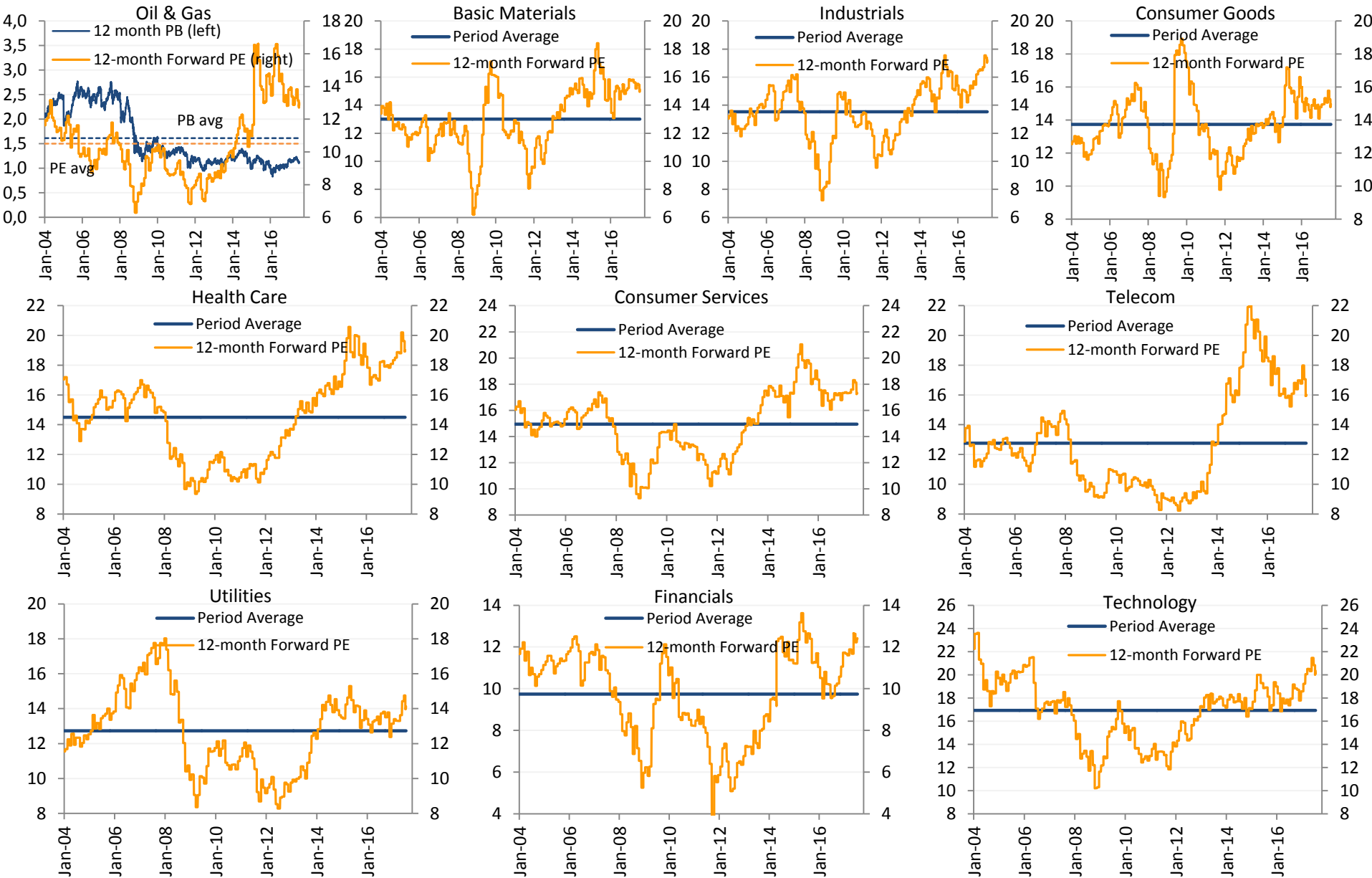


Source: Factset

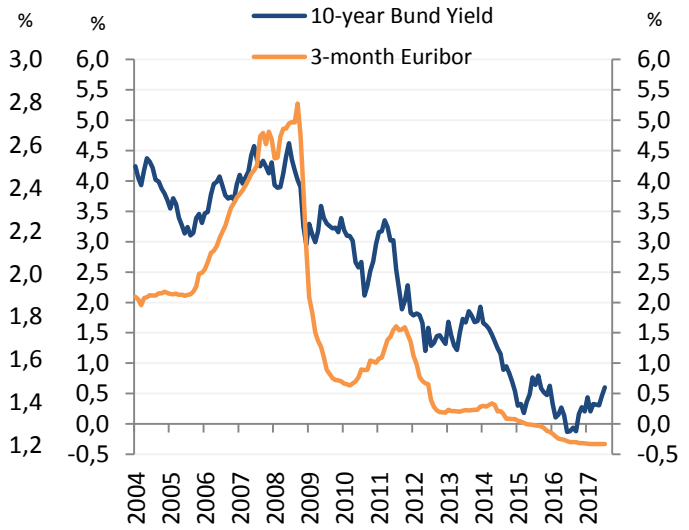
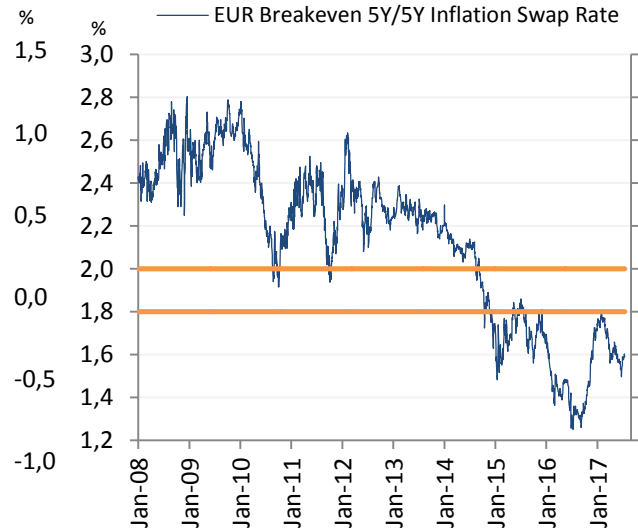
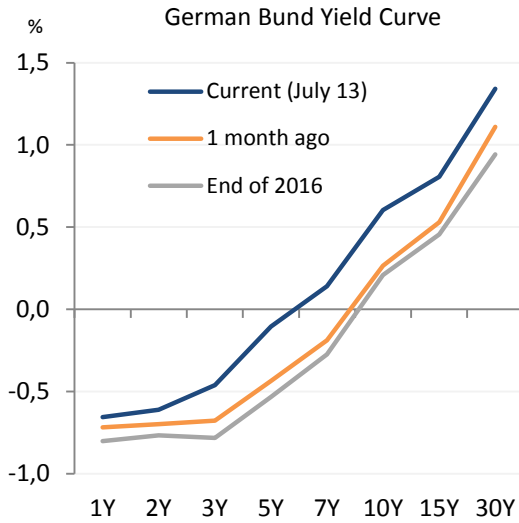


Note: *Personal & Household Goods, **Financial Services

Euro area Sectors Valuation

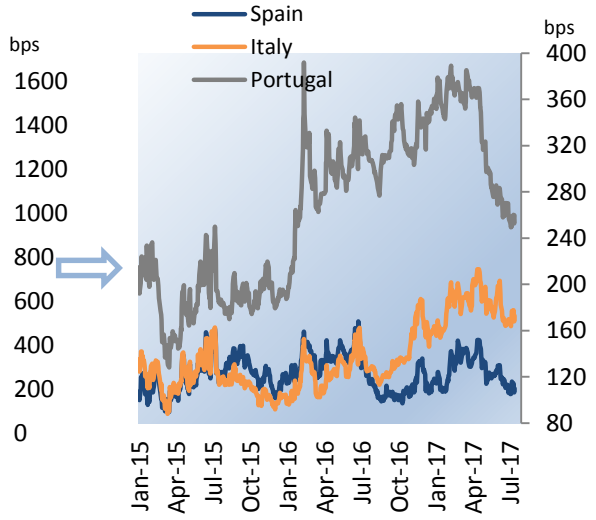
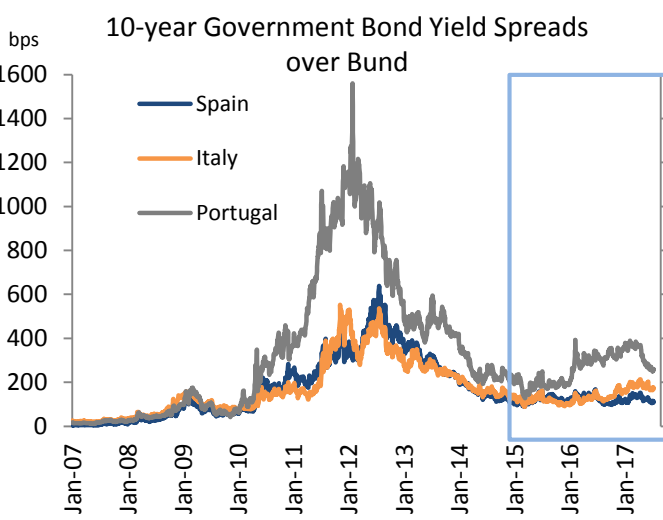


The ongoing euro area recovery and declining political risks benefited periphery bond spreads, which have narrowed markedly post-April. Meanwhile, 10Yr German Bund yields have surpassed 50bps



10-year Government Bond Yield Spreads over Bund

Sovereign Debt Ratings

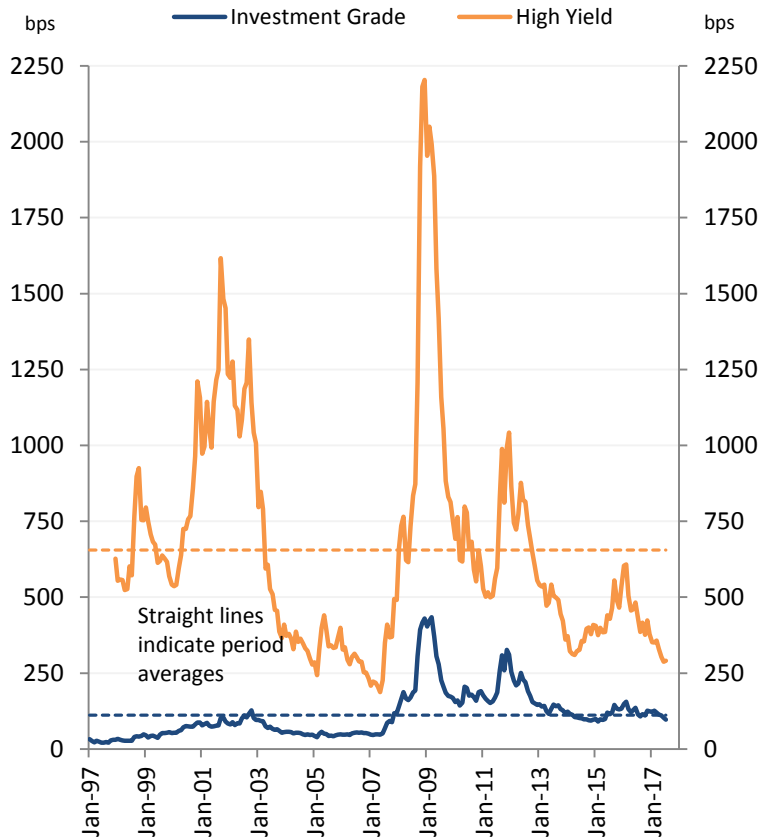


	Moody's	S&P	Fitch
Germany	Aaa s	AAA s	AAA s
France	Aa2 s	AA s	AA s
Italy	Baa2 n	BBB- s	BBB s
Spain	Baa2 s	BBB+ p	BBB+ s
Portugal	Ba1 s	BB+ s	BB+ p

Source: Ratings Agencies, Bloomberg (as of 14.07.17)
Outlook p = positive, n = negative, s = stable

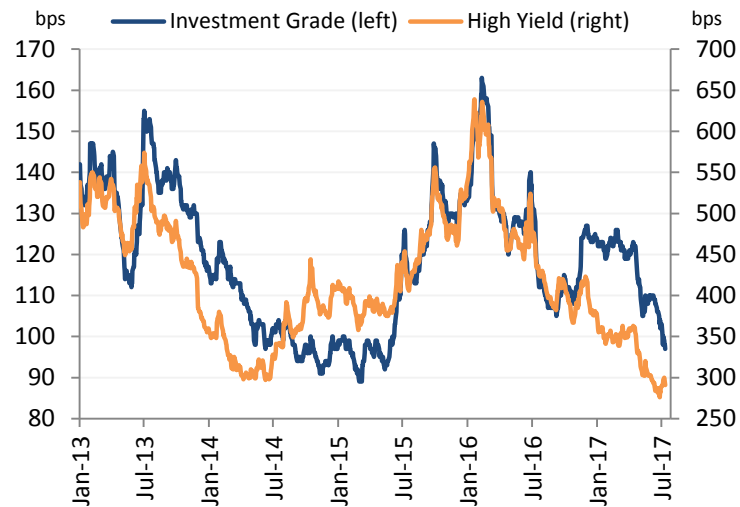
The inclusion of IG corporate bonds in the ECB's APP continues to benefit spread tightening

Corporate Bond Spreads

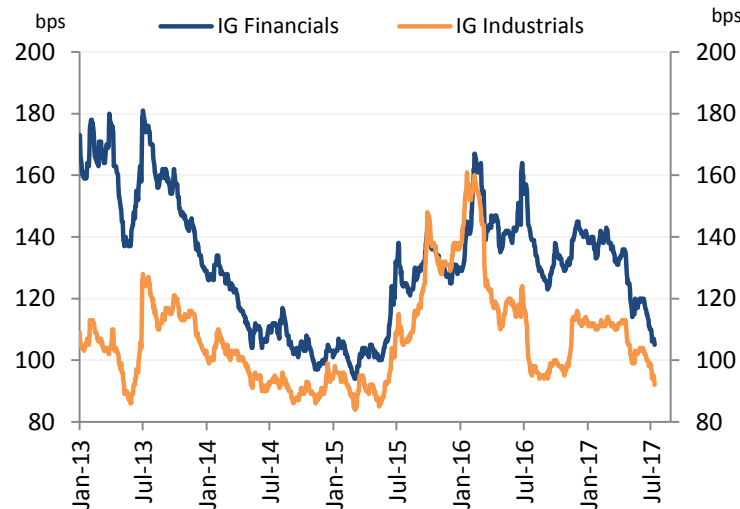


Source: Bank of America / Merrill Lynch Euro Corporate Bond Index (IG), Euro High Yield Index (HY)

Short-term View



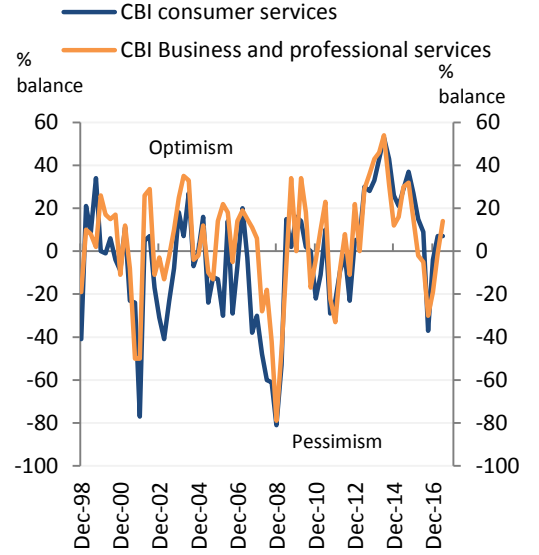
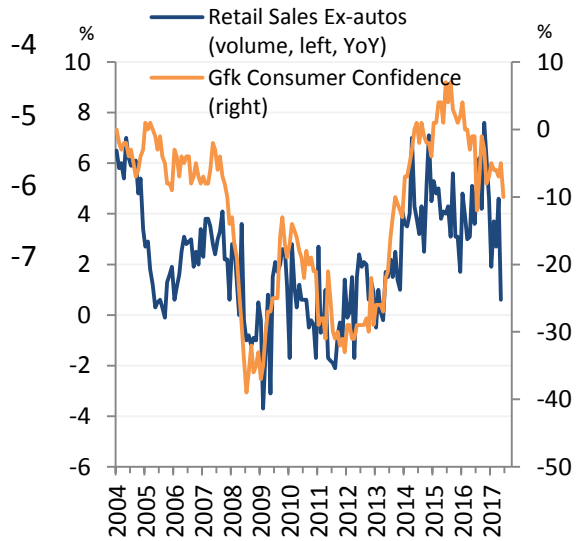
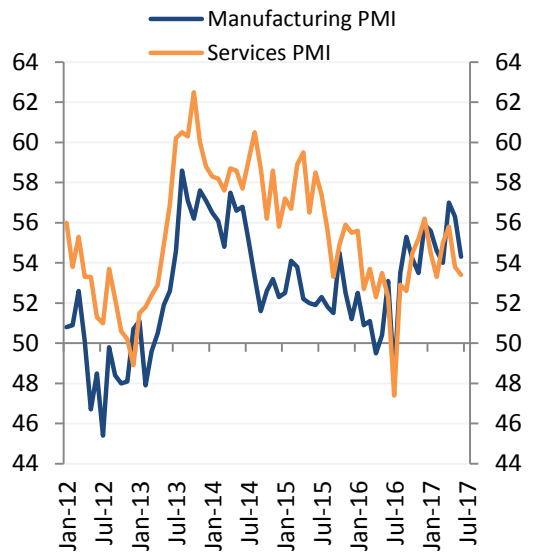
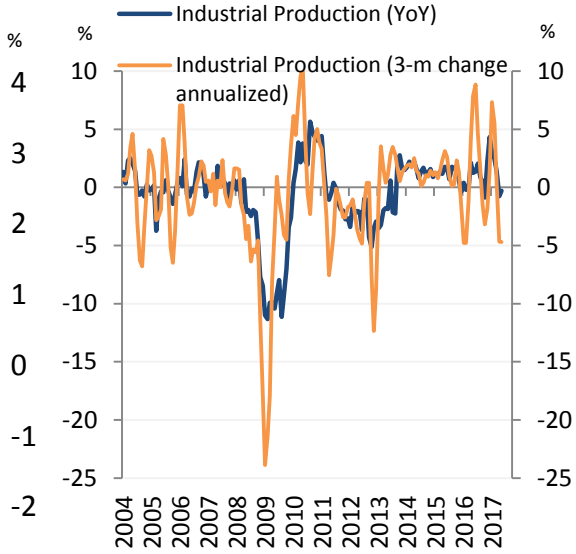
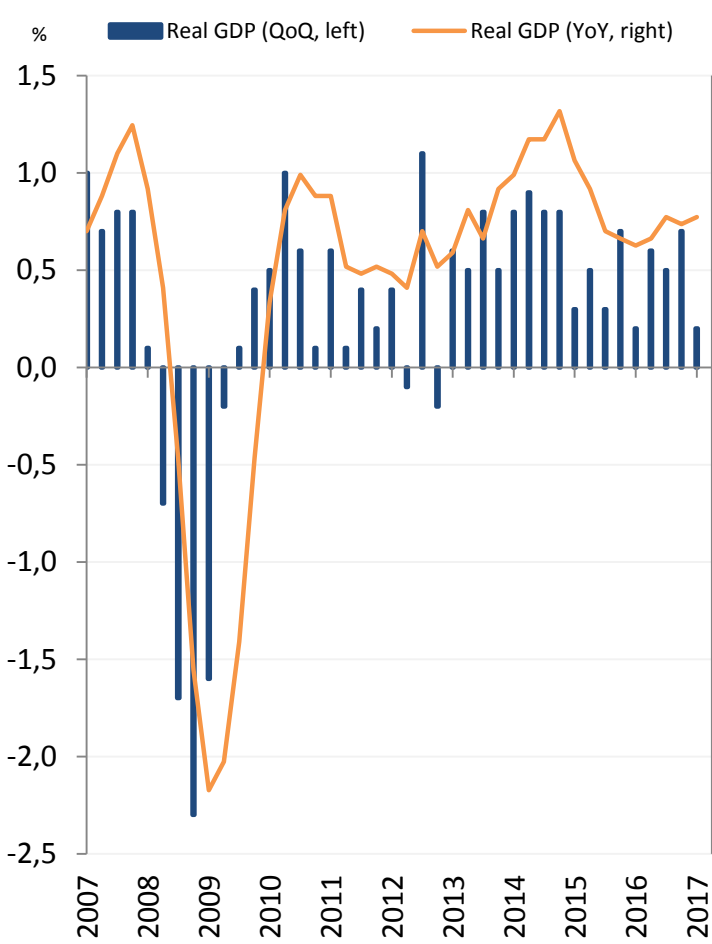
IG Financials/Industrials



United Kingdom

- UK real GDP decelerated to 0.9% qoq saar in Q1:17, suggesting a slowdown in growth following an initially impressive performance post-referendum (2.2%, on average, in H2:16). While a rebound to 1%-1.5% is expected in H2:2017, risks are skewed to the downside. The outlook is clouded by weak consumption prospects and heightened political uncertainty, due to the weak parliamentary majority of the ruling coalition (amid "Brexit negotiations").
- "Brexit" negotiations officially commenced on June 19th (currently set to conclude by March 2019). The talks on citizens' rights and the financial settlement of the UK's withdrawal from the European Union are the key issues, while the talks on future trade relationships will take place at a later stage.
- Retail sales are stagnant and car registrations are on the decline, confirming the weak prospects for private consumption. Consumer purchasing power is diluting due to squeezed real incomes, as inflation (2.9% yoy) is far higher than wage growth (1.8% yoy). Furthermore, the low household savings ratio constrains support to consumption (3.3% of disposable income in Q4:16, the lowest since 1960).
- On the other hand, business investment was robust in Q1:17 (+4.2% qoq saar / 0.7 pps contribution). According to PMIs, the prospects appear good, at least in the short term, albeit April-May hard data have not been encouraging. Note that the PMI composite index stood at 54.8 on average in Q2, from 54.6 in Q1:17, with broad-based resilience across sectors (services, manufacturing and construction). However, in the medium term, "Brexit" uncertainty may hold back private investment.
- Fiscal consolidation plans were relaxed slightly, in order to mitigate potential "Brexit" related turbulence. The target for a budget surplus by FY:2019/20 has been abandoned (from -3.8% of GDP in FY:2015/16).
- Wage growth has decelerated to 1.8% yoy in May, despite the fact that the unemployment rate is at a c. 40-year low of 4.5%. Possible explanations for this weak correlation include a declining equilibrium rate of unemployment (4.5% according to current estimate of the Bank of England, from 5.1% six months ago), as well as companies' reducing wage costs in order to offset higher uncertainty about the outlook (Brexit) and increased external costs due to the weaker GBP.
- Inflation has increased strongly, with CPI at 2.9% yoy in May, a 4-year high and 0.2 pps above the respective BoE's projection. CPI is expected to peak in Q4:17 (at c. 3%) and revert closer to the BoE's target of 2% thereafter, as the offset from the GBP depreciation gradually dissipates.
- The Bank of England (BoE) left the monetary policy unchanged in June but the recent spike in inflation led to a surprisingly close vote on the rate decision (5-3). Lately, hawkish comments outweigh dovish ones and, as a result, markets assign a 50% likelihood for an interest rate increase in November 2017. Note that the BoE increased the counter-cyclical capital buffer (CCyB) of UK banks from 0.0% to 0.5% (that had been lowered in July 2016), in order to supplement the banks' (already substantial) ability to absorb potential losses.
- The FTSE 100 has underperformed its developed peers on a YTD basis (+3.8% vs +8.6% for the MSCI DM excluding the UK). The GBP has lost -0.8% in NEER terms YTD, 12% below its pre-referendum levels (June 2016).

GDP growth posted a consumer-led deceleration in Q1:17



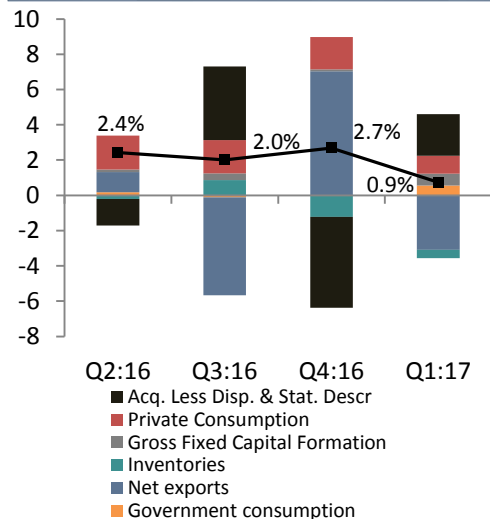
Above: GDP data as of Q1:2017
 Right: Industrial Production data as of April 2017, Retail Sales, Manufacturing PMI, Services PMI & Consumer Confidence data as of June 2017, CBI survey data as of Q2:2017
 Source: ONS, Markit, Bloomberg

Real GDP growth is expected to average c. 1.2% qoq saar in 2017 (average of 1.9% qoq saar in 2016)

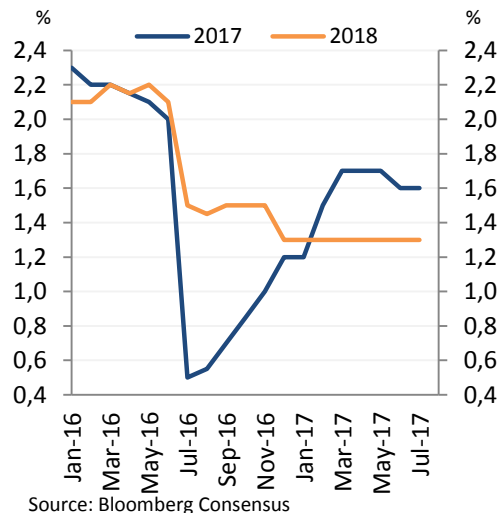
UK Real GDP Growth	2015	Q1:16	Q2:16	Q3:16	Q4:16	2016	Q1:17	Q2:17e	Q3:17e	Q4:17e	2017e
GDP (YoY)	2,2	1,6	1,7	2,0	1,9	1,8	2,0	1,8	1,5	1,2	1,6
GDP (QoQ saar)	-	0,6	2,4	2,0	2,7	-	0,9	1,5	1,2	1,2	-
Households consumption (QoQ saar)	2,4	3,0	3,0	2,9	2,8	2,8	1,5	1,3	1,0	0,9	1,9
Government consumption (QoQ saar)	1,3	1,5	0,9	-0,6	-0,1	0,8	2,9	0,5	0,5	0,5	0,9
Gross Fixed Capital Formation (QoQ saar)	3,4	0,1	0,9	2,3	0,6	0,5	4,2	1,5	1,6	2,5	2,1
Inventories contribution (QoQ saar)	-0,2	-1,0	-0,2	0,9	-1,2	-0,5	-0,5	0,6	-0,1	-0,3	-0,2
Net Exports contribution (QoQ saar)	0,0	-4,2	1,1	-5,6	7,0	-0,4	-3,1	1,1	1,2	1,2	0,3
Exports (QoQ saar)	6,1	-11,2	5,2	-8,3	19,8	1,8	-2,9	6,0	5,0	5,0	4,0
Imports (QoQ saar)	5,5	1,8	1,2	9,7	-4,1	2,8	7,0	2,0	1,0	1,0	2,7

Source: Office for National Statistics, Bloomberg

GDP Contributions (%)

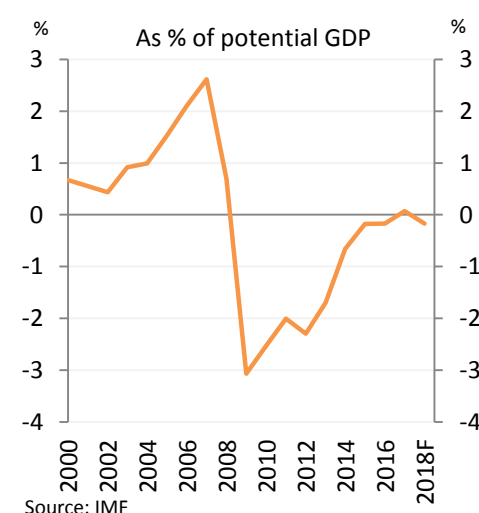


GDP Forecast Evolution



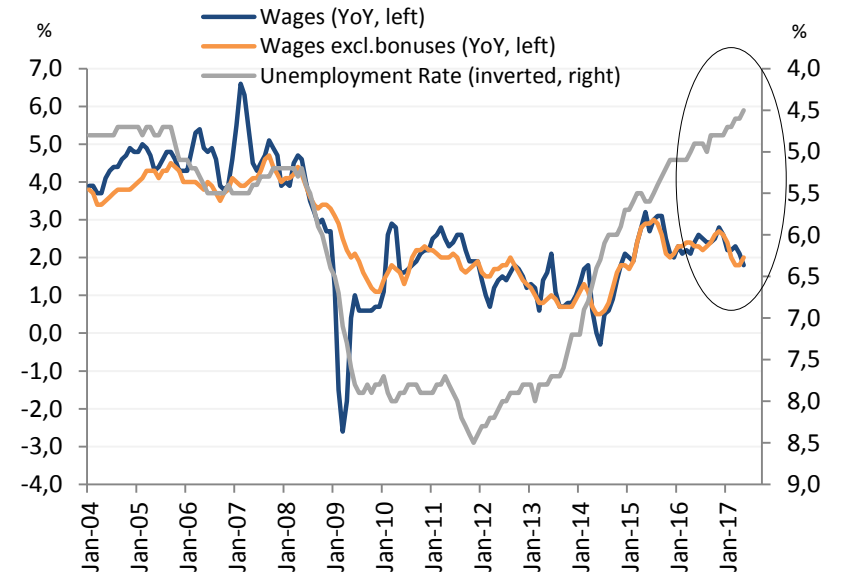
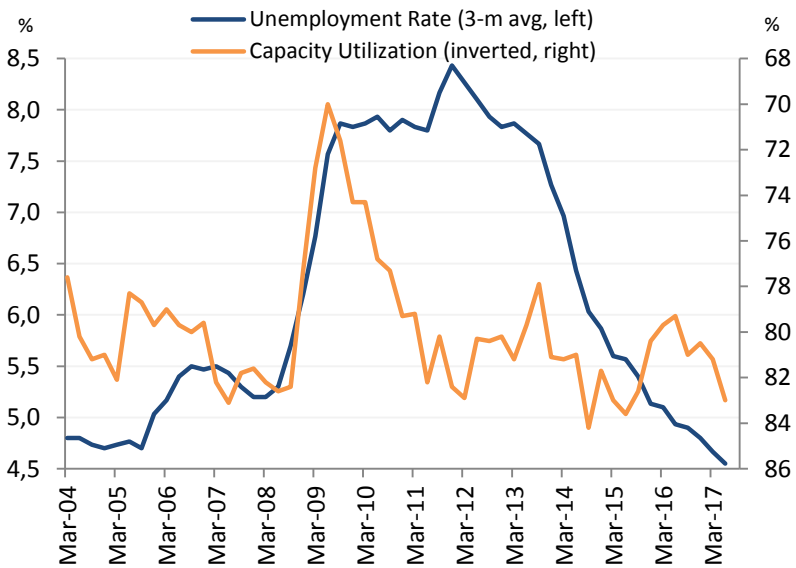
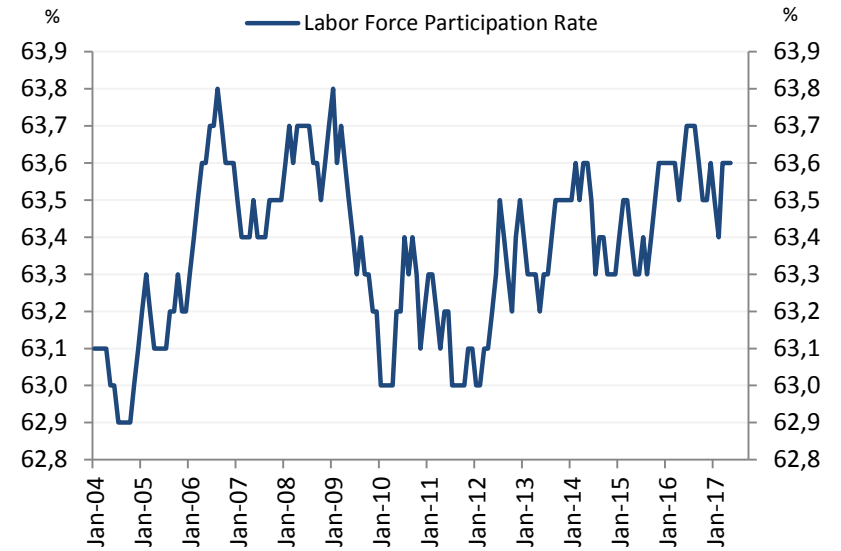
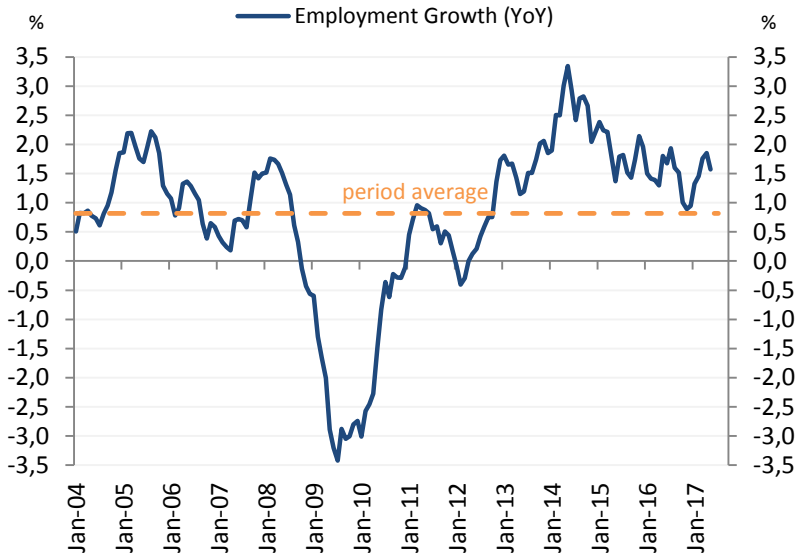
Source: Bloomberg Consensus

Output Gap

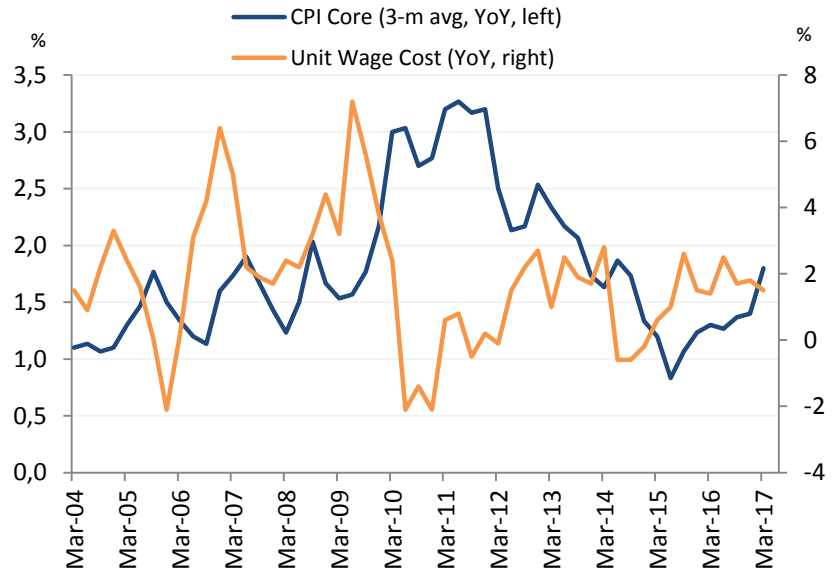
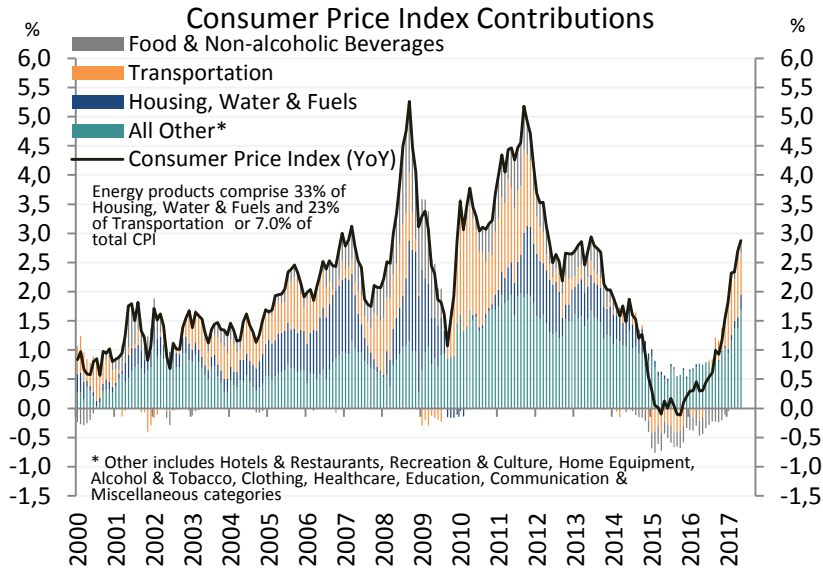
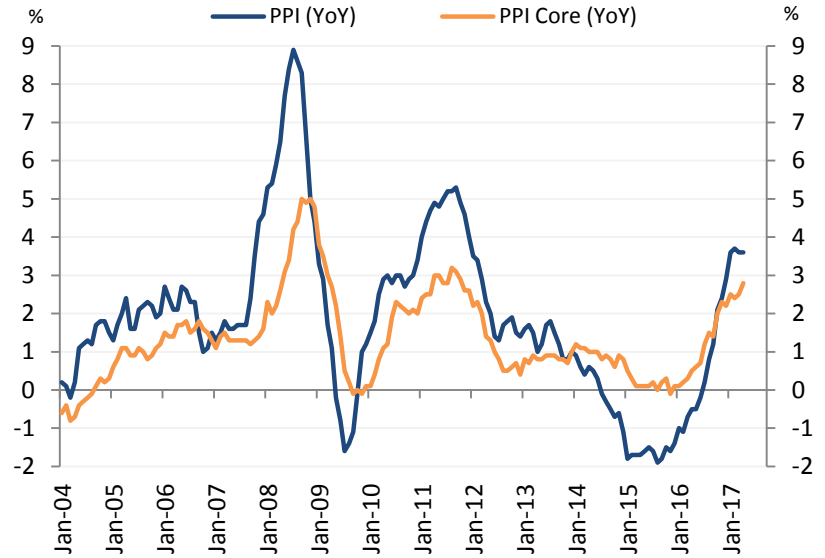
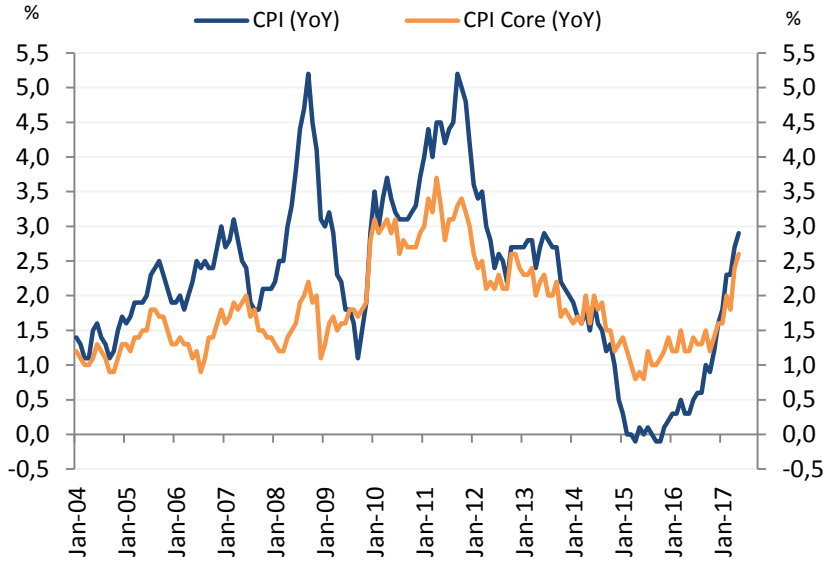


Source: IMF

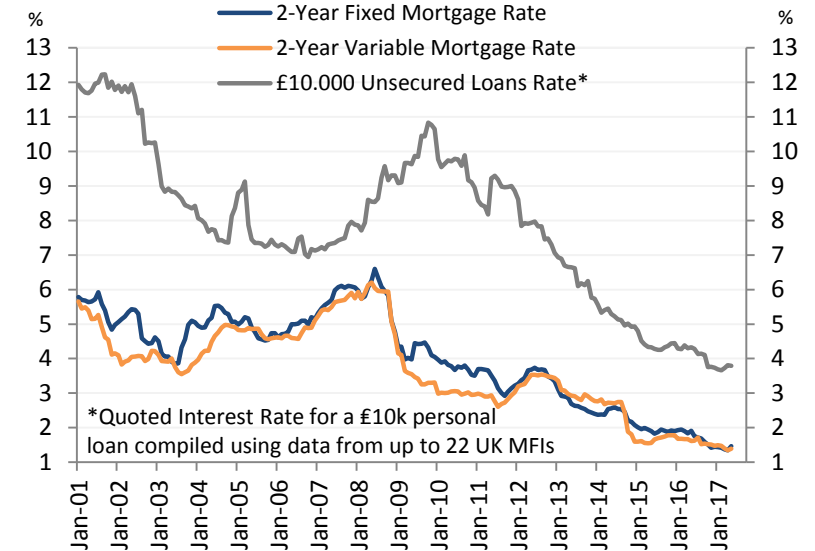
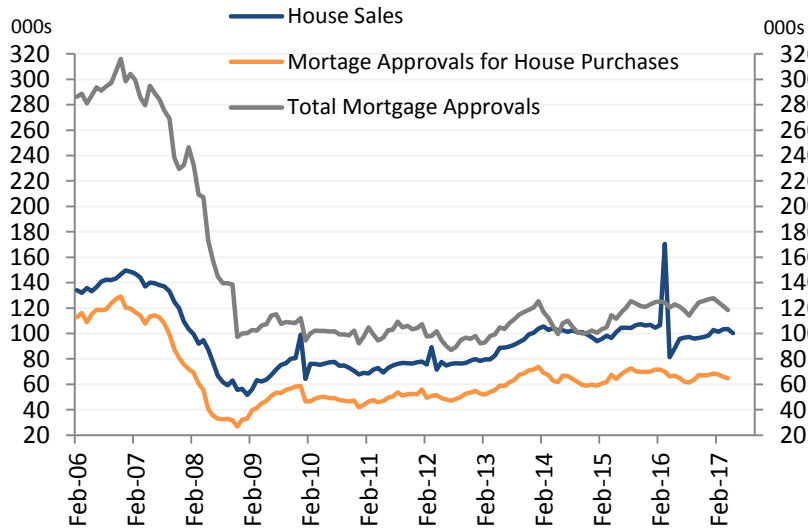
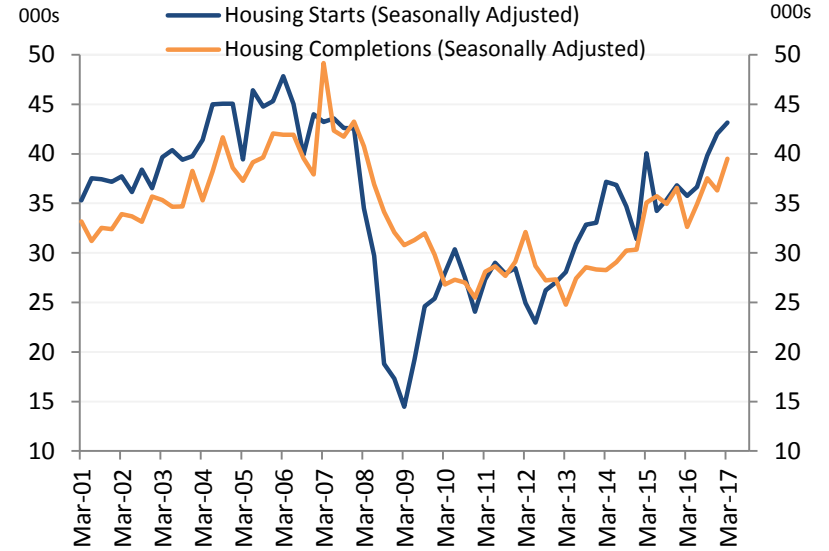
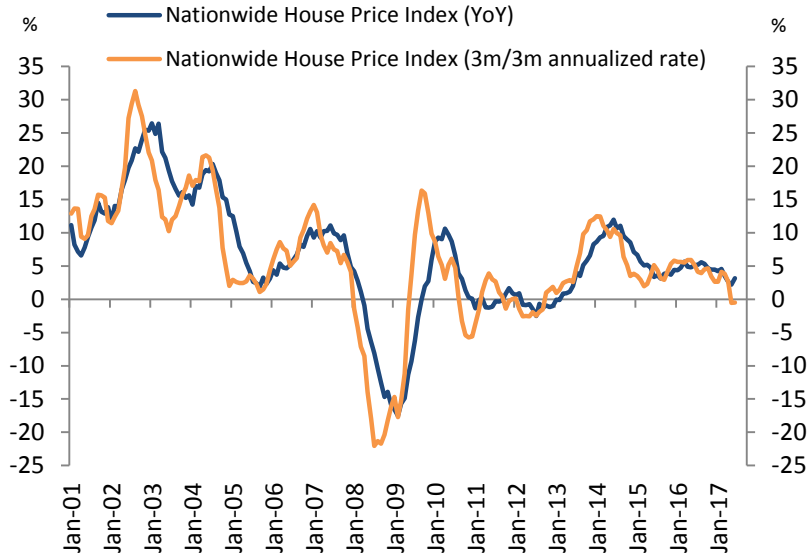
Employment gains are solid and the unemployment rate stands at multi-year lows (4.5%). Nevertheless, wage growth remains subdued



Inflation reached 2.9%, as the depreciation of the GBP passes through (via higher import prices). The BoE expects inflation to near its target (2%), after peaking at c. 3% in Q4:17, as domestic price pressures are weak



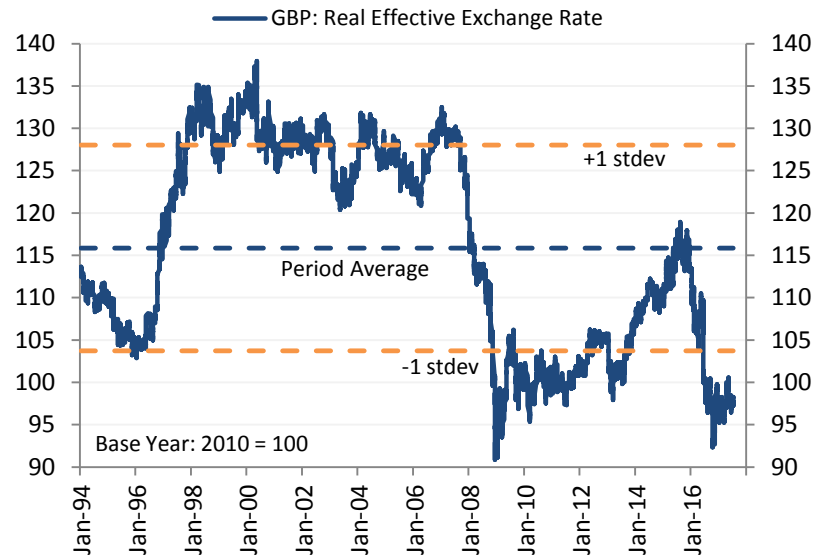
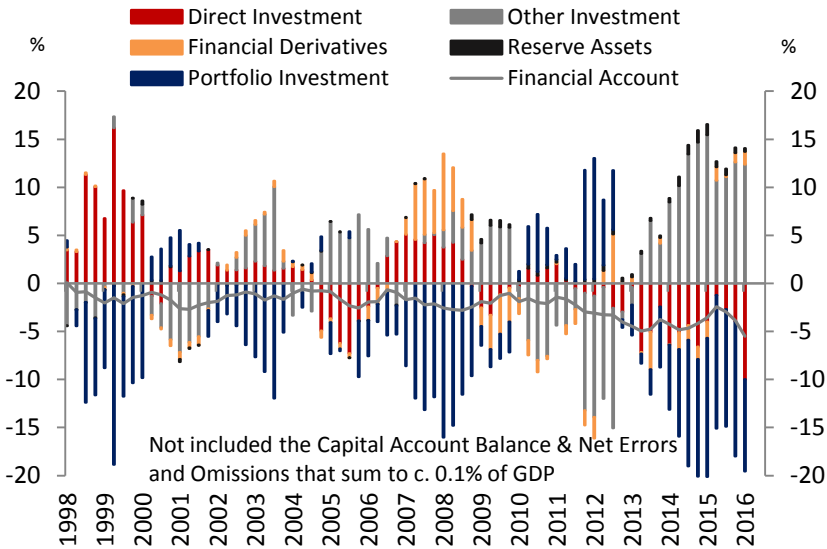
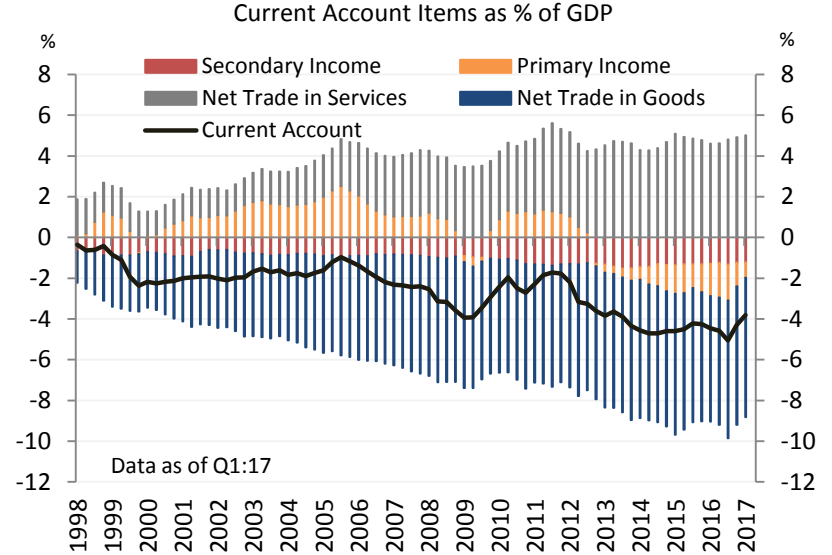
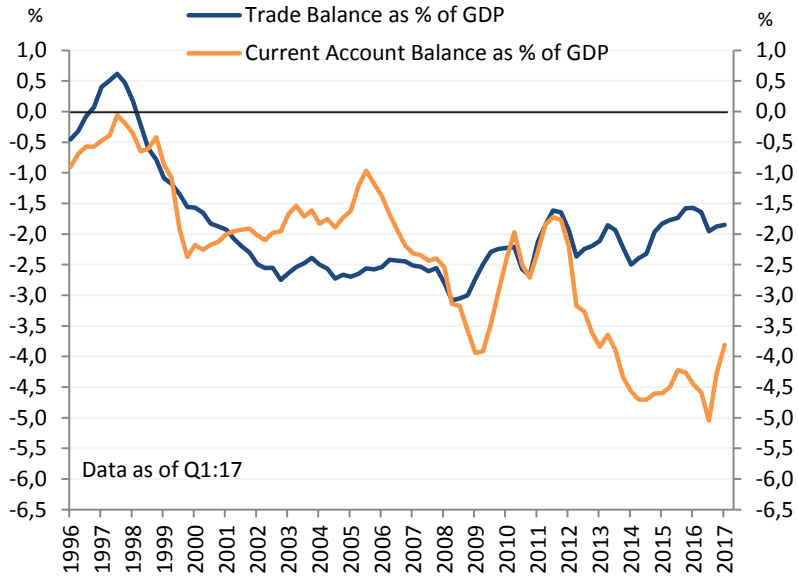
The housing market remains resilient, supported by multi-year low mortgage rates



Source: Bank of England, HM Revenue & Customs

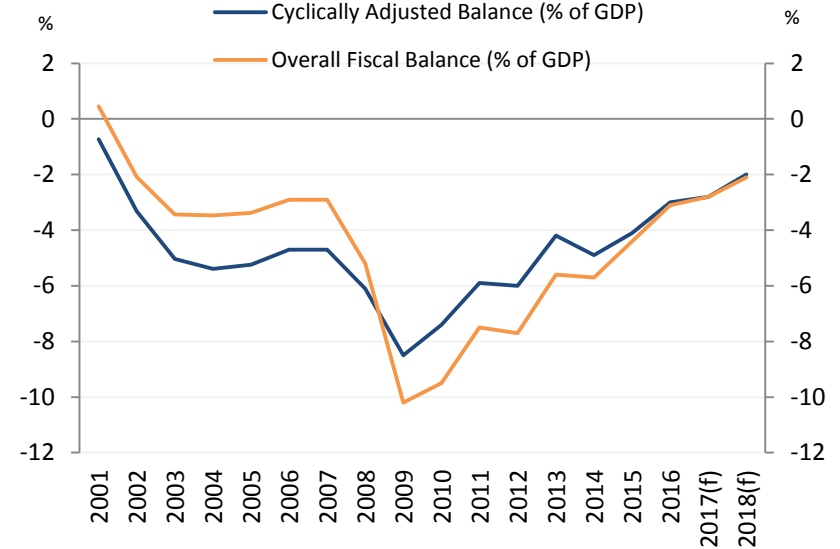
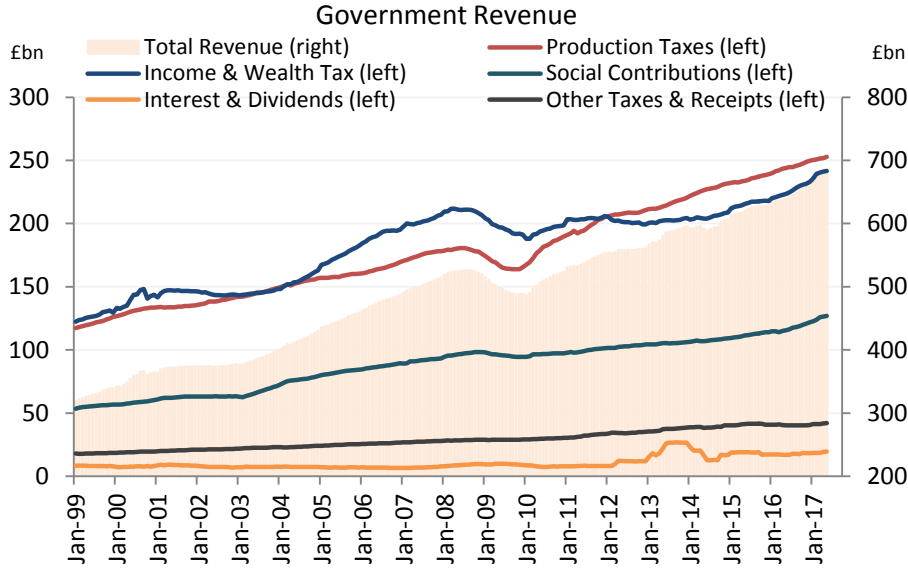
Source: Bank of England

The depreciation of GDP since the referendum (-12% in NEER terms since June 23) has led to a significant narrowing of the current account deficit

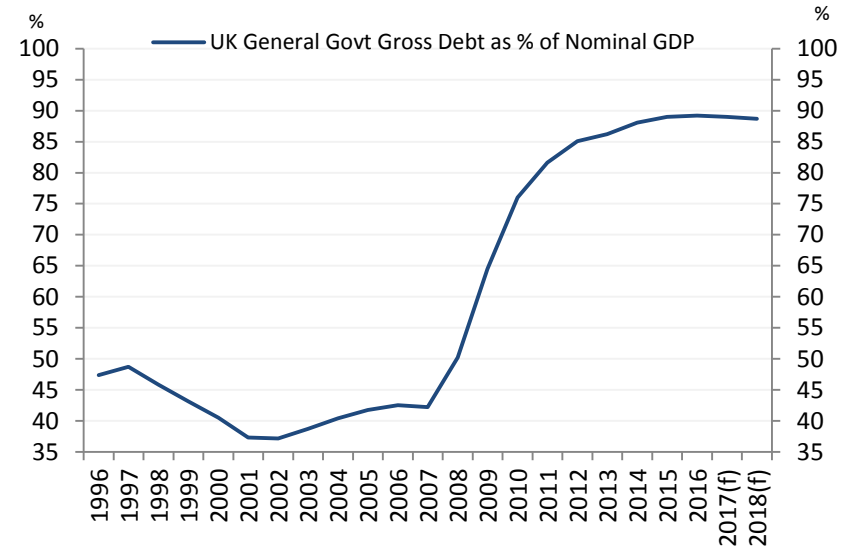
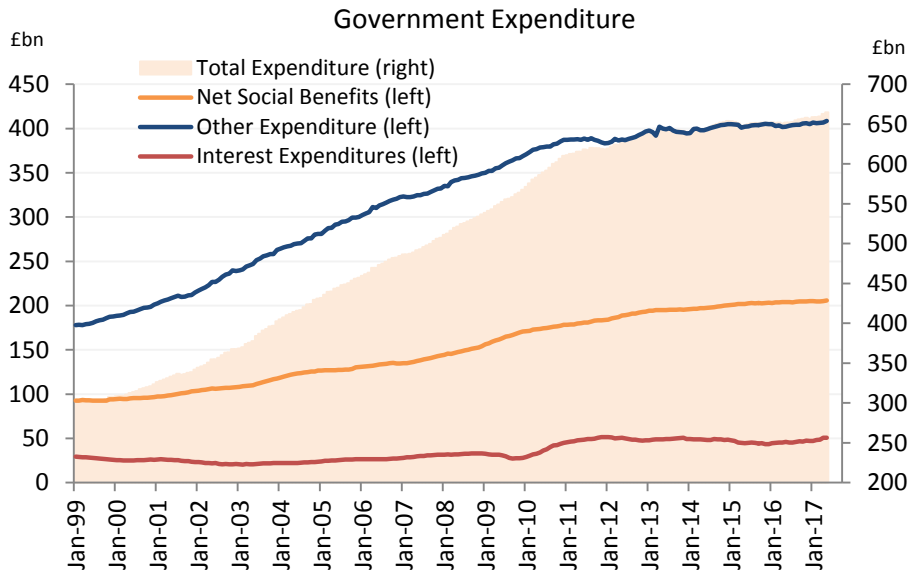


Source: Bloomberg

UK fiscal policy has relaxed slightly, to mitigate potential "Brexit" related turbulence



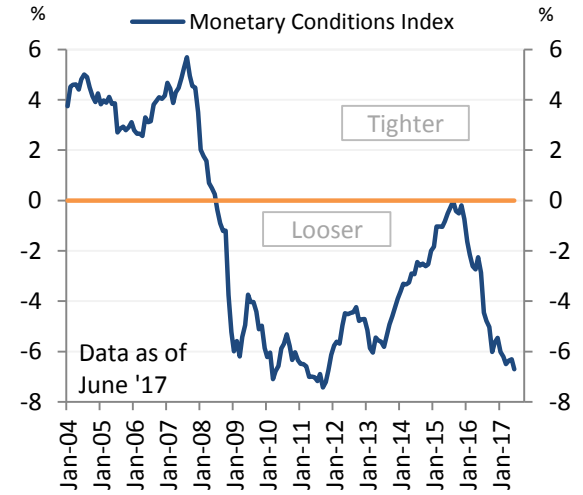
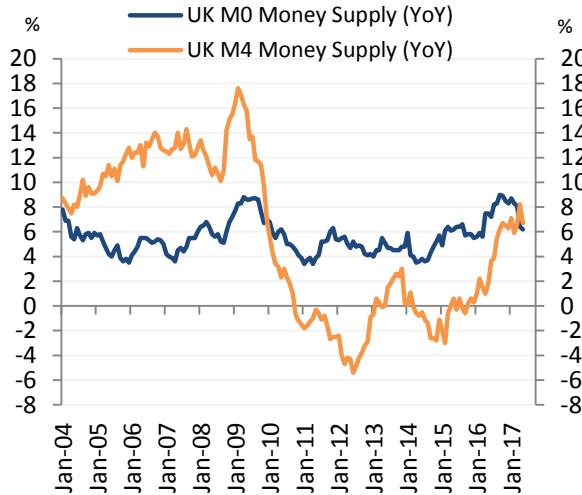
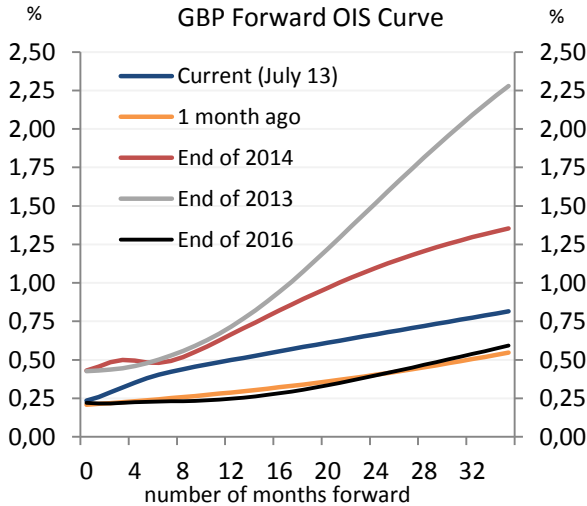
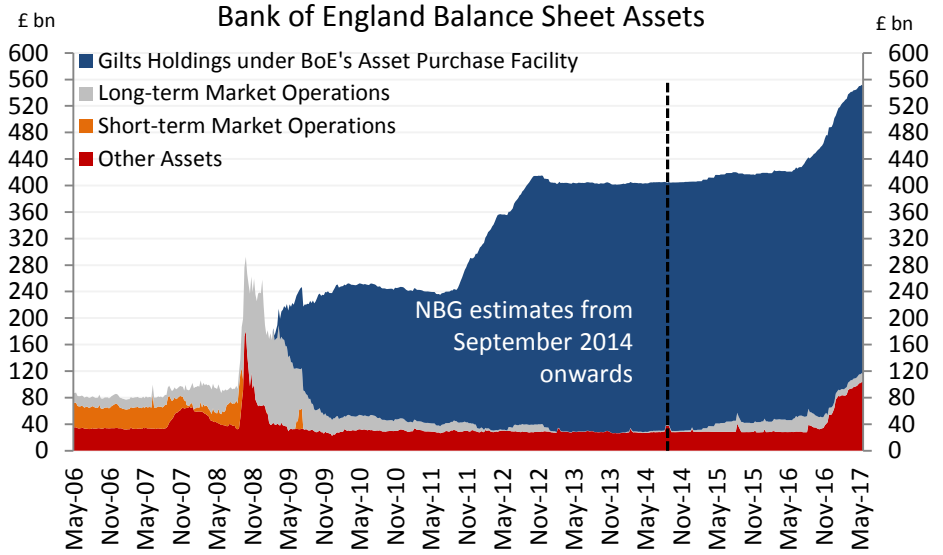
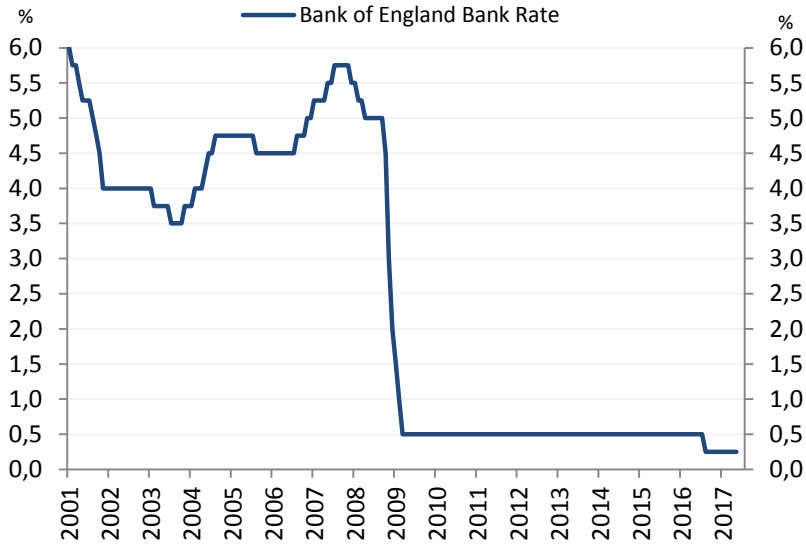
Source: IMF Fiscal Monitor, April 2017



Source: IMF Fiscal Monitor, April 2017

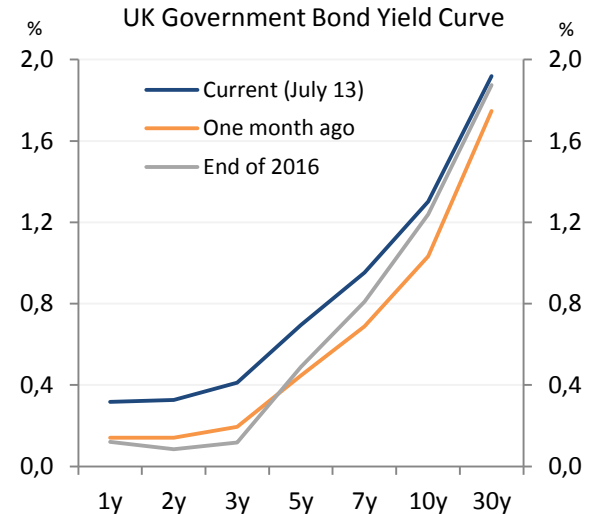
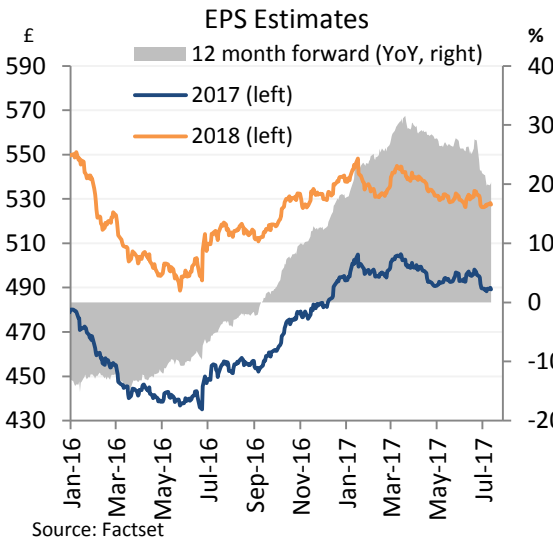
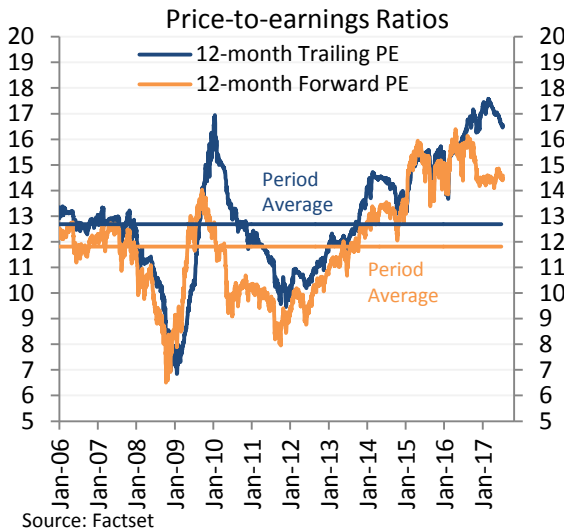
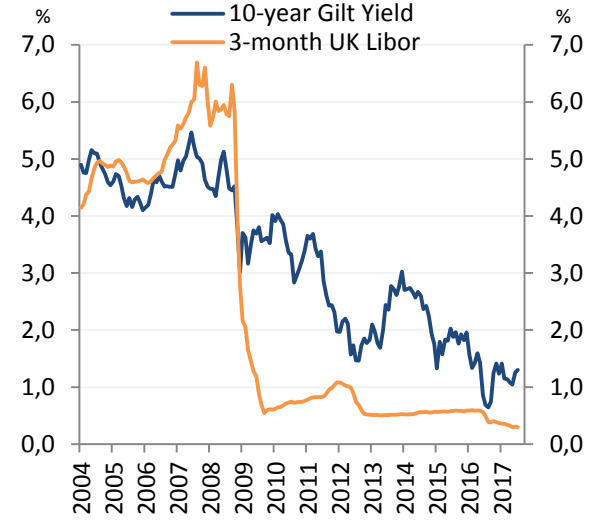
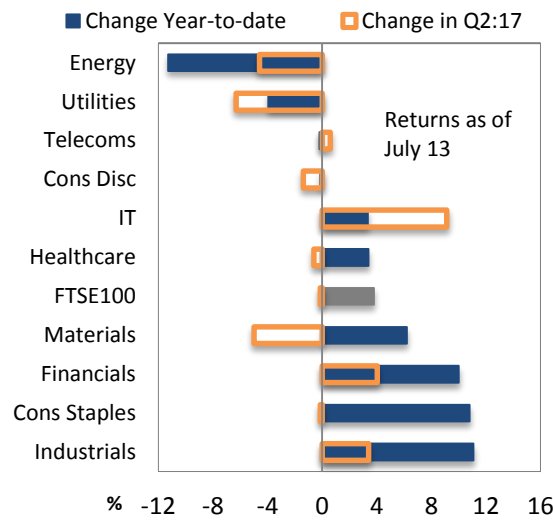
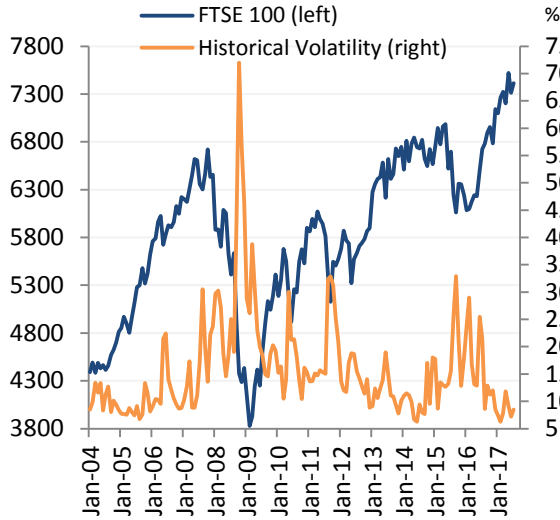
Government Revenues and Expenditures are 12 month rolling sums

The BoE appears to be contemplating a partial removal of post-referendum policy stimulus. Thus, a once-off rate hike by end-2017 is on the table

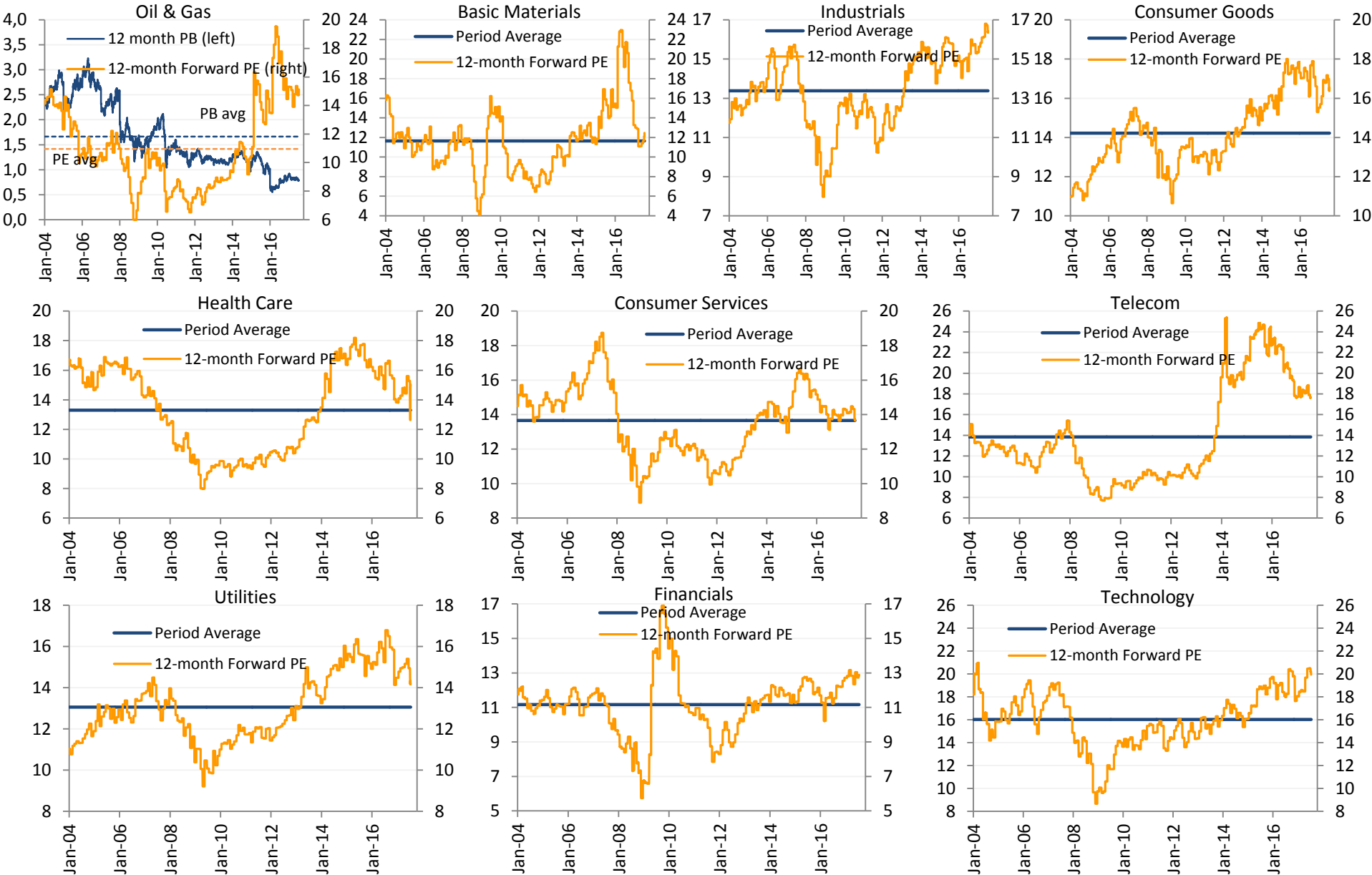


Monetary Conditions Index is a simple composite index of Real Short Term Rates (GBP Libor less CPI) & Real Effective Exchange Rate

EPS recovery supports UK equities, while the export-oriented FTSE 100 companies benefit from the weaker GBP

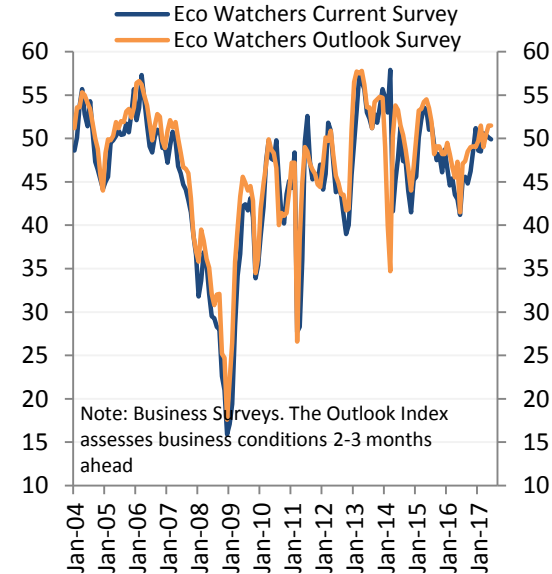
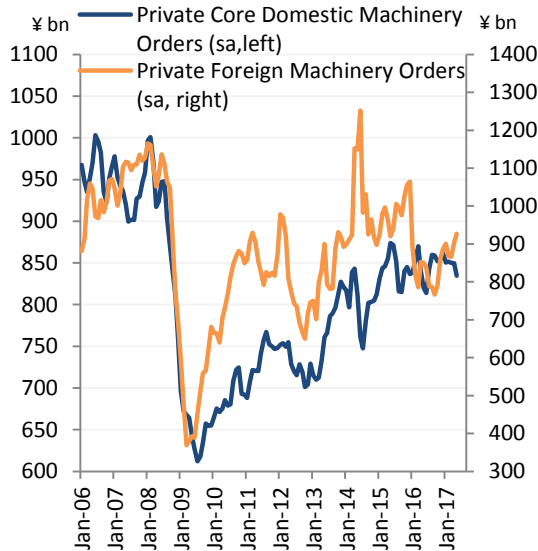
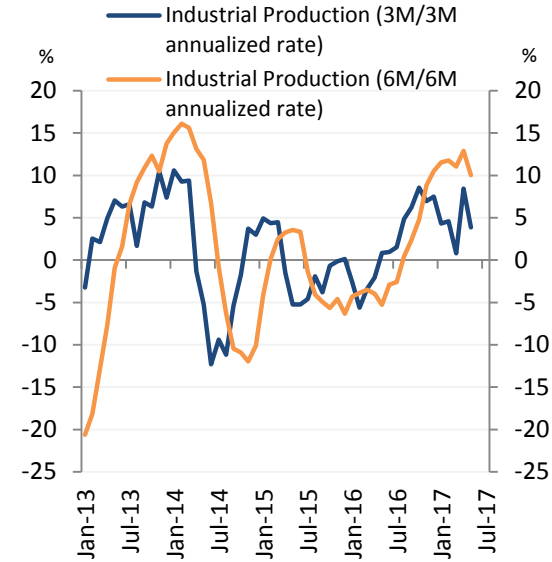
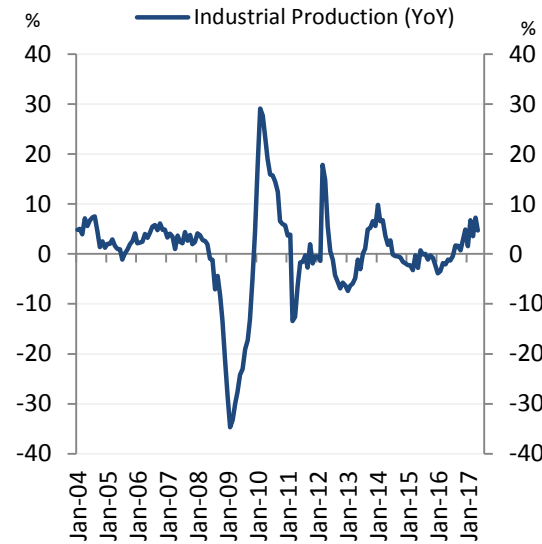
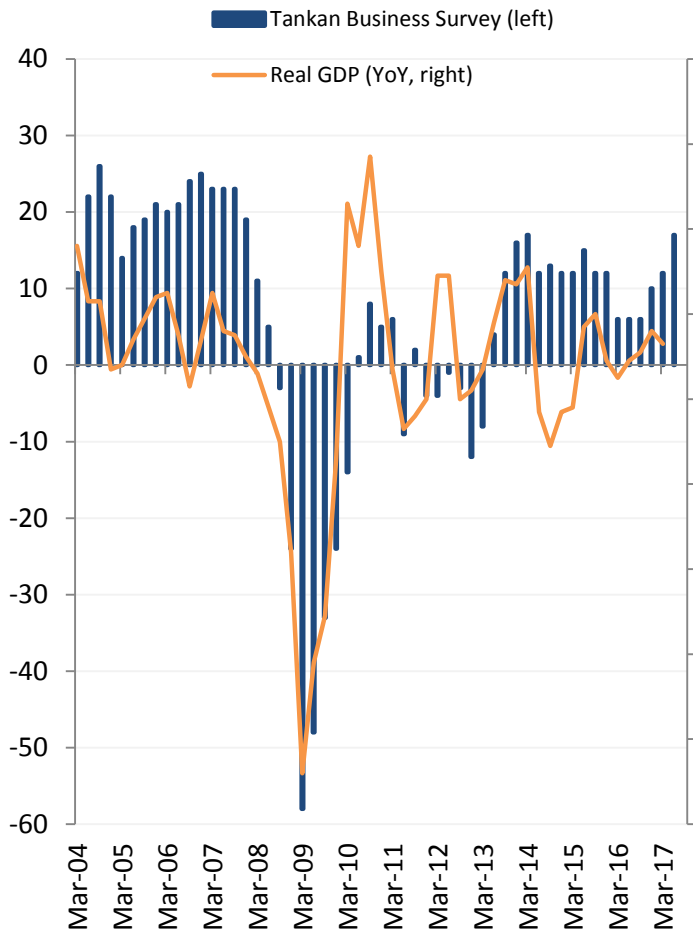


UK Sectors Valuation



- The Japanese economy grew by 1.0% qoq saar in Q1:17, recording five consecutive quarterly gains for the 1st time in 11 years. For FY:2017, GDP growth is expected to be 1.2% yoy according to the IMF, above the potential growth rate of +0.7%.
- Private consumption supported growth in Q1, albeit the trend in real compensation of employees (-0.2% qoq in Q4:16 and 0.0% qoq in Q1:17) will need to improve for positive dynamics in consumption to gain momentum.
- Business investment rose by 2.5% qoq saar in Q1:17, following particularly strong readings in Q4:16 (+7.6%). Looking forward, the PMI manufacturing index stood at a healthy 52.7 on average in Q2:17 (52.8 in Q1:17). Moreover, fixed investment plans remain bullish for April 2017-March 2018, according to the Tankan business survey.
- Net exports also added to GDP growth, on the back of a weaker Yen (-3.5% qoq in Q1:17 in NEER terms) and the recovery in global manufacturing and trade. Note that the trade balance continues to improve and has reached a surplus of 0.7% of GDP (on a 12-month rolling basis) from a trough of -3% in 2014. Furthermore, the risk of a shift towards protectionism in global trade, a potential threat to the economic outlook, appears to have receded lately.
- Fiscal policy is supportive of the positive economic momentum, as the effects from the set of stimulus measures announced in 2016 (especially in August) gradually take hold and 2020 Olympic Games-related investment takes effect.
- Meanwhile, labor market tightening continues, with the jobs-to-applicants ratio at 1.49 in May, the highest since February 1974, implying that labor demand is strong. The unemployment rate stands at 3.1%. However, the trend in nominal wages remains weak (+0.4% yoy on average so far in 2017 from +0.5 yoy on average in 2016), due to idiosyncratic bottlenecks (e.g. employee preference for stronger job security vs wage increases, low mobility, increasing part-time workers).
- Inflation pressures remain subdued, with the CPI (excluding fresh food) at 0.4% yoy, well below the target of 2% due to a weak pass-through of monetary policy and persistent backward-looking expectations; a protracted period of low or negative inflation is likely to be exacerbated by “backward-lookingness” in wage and price formation (IMF).
- As a result, the Bank of Japan (BoJ) will remain on “auto-pilot” maintaining the “yield curve control” policy framework (short-term policy rate at -0.1% and a target for 10-Year JGB yields at “around current levels of 0%”). The BoJ also appears reluctant to taper its JGB purchases (“more or less” at about ¥80tn per year), with its balance sheet expected to reach 100% of GDP by end-2017.
- The Nikkei 225 has underperformed its peers on a YTD basis (+5.2% vs +10.8% for the MSCI DM excluding Japan). Improved corporate profitability and a positive global and domestic growth momentum will support Japanese equities in the course of 2017. In addition, valuation metrics (PEs) are less stretched compared with peers.

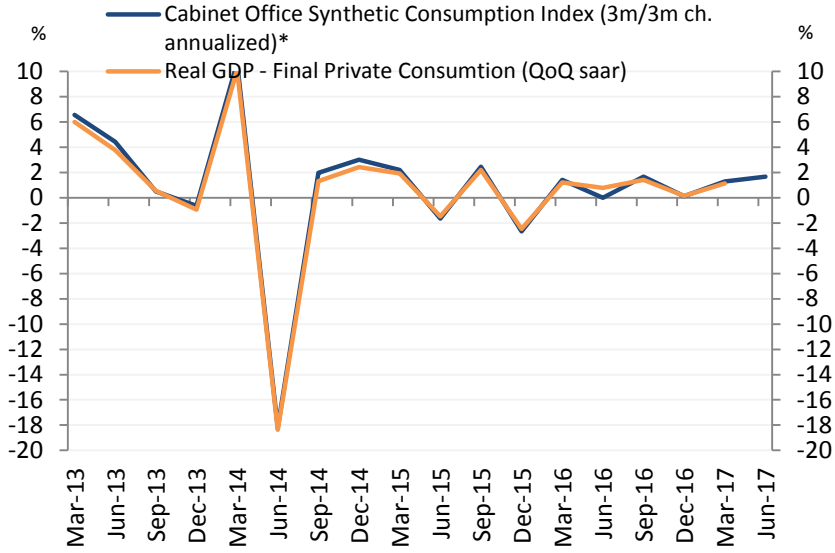
Momentum in the business sector has firmed



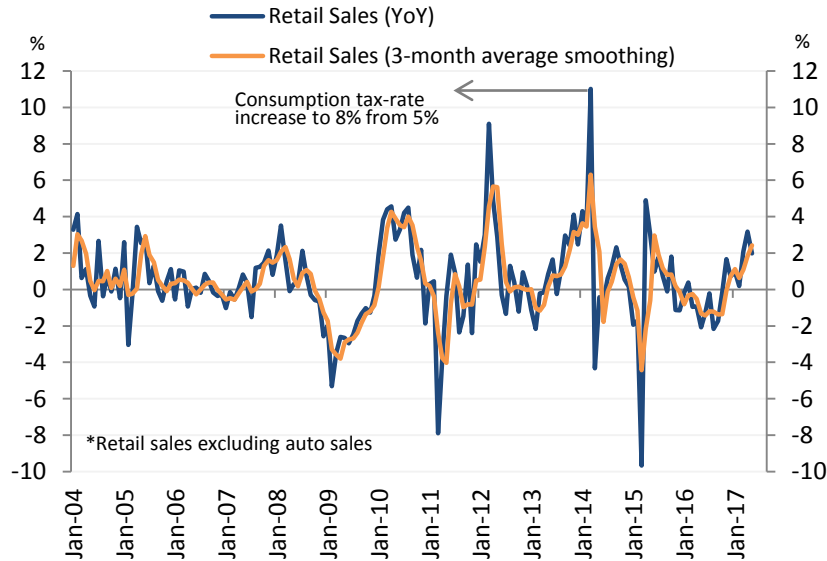
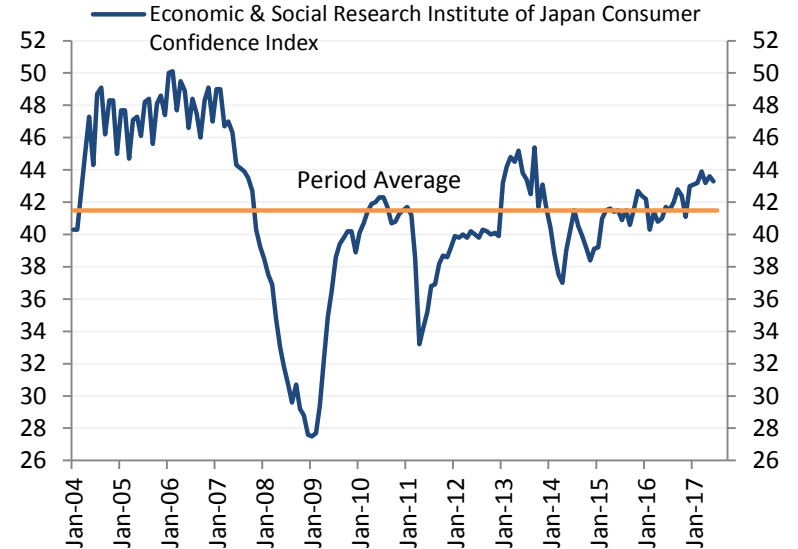
Above: GDP as of Q1:2017 & Tankan data as of Q2:2017
 Right: Industrial Production & Machinery Orders data as of May 2017, Eco Watchers data as of June 2017

Source: Bloomberg

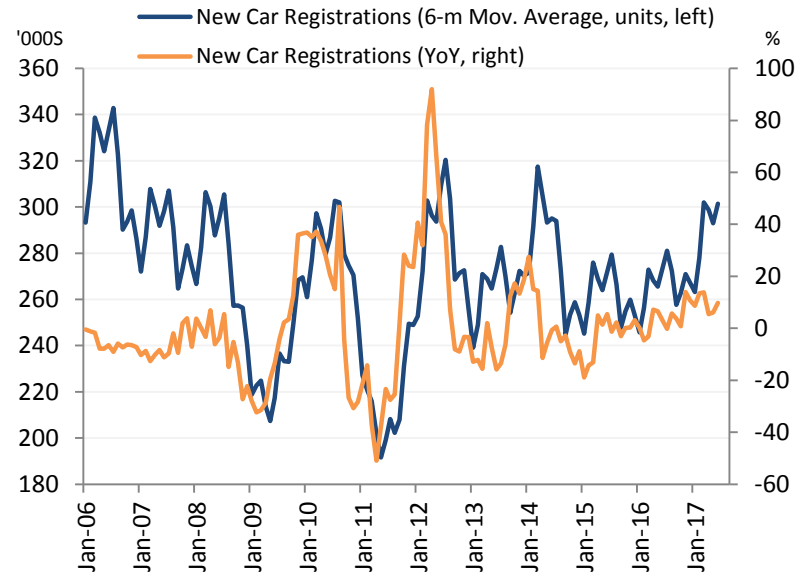
Consumption growth is expected to remain in slightly positive territory



* last observation refers to May data compared to Q1:17 average



*Retail sales excluding auto sales

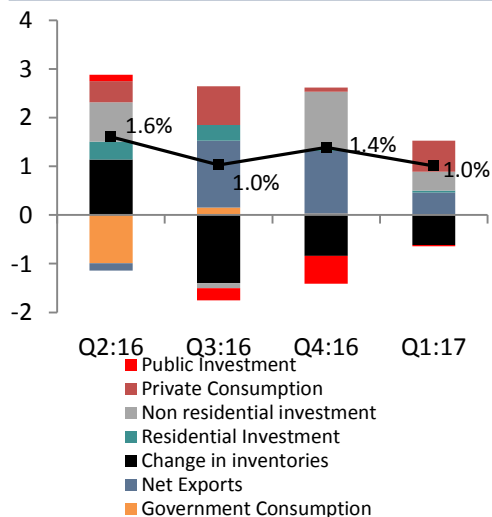


Real GDP growth expected to be strong in Q2:17, supported, *inter alia*, by significant inventory destocking since Q3:16

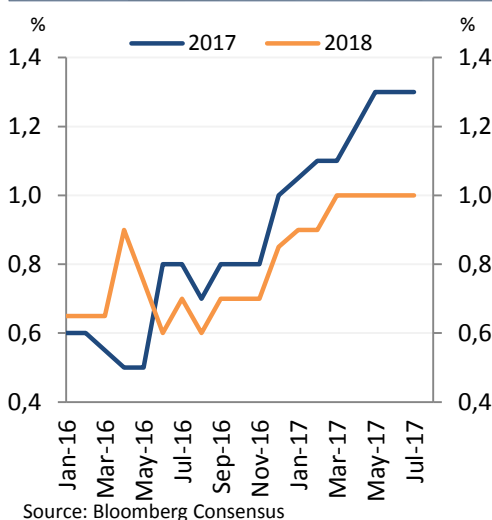
Japan Real GDP Growth	2015	Q1:16	Q2:16	Q3:16	Q4:16	2016	Q1:17	Q2:17e	Q3:17e	Q4:17e	2017e
GDP (YoY)	1,1	0,5	0,9	1,0	1,6	1,0	1,3	1,5	1,6	1,7	1,5
GDP (QoQ saar)	-	2,5	1,6	1,0	1,4	-	1,0	2,5	1,6	1,6	-
Private consumption (QoQ saar)	-0,4	1,2	0,8	1,4	0,1	0,3	1,1	1,8	0,9	0,9	1,1
Government consumption (QoQ saar)	1,7	5,6	-4,8	0,8	0,2	1,3	0,0	1,2	1,0	1,0	0,2
Private residential investment (QoQ saar)	-1,8	4,9	13,2	11,0	0,8	5,5	1,1	-4,0	-2,0	2,0	1,6
Business investment (QoQ saar)	1,1	-0,3	5,4	-0,7	7,9	1,4	2,5	5,0	2,2	2,2	3,7
Public investment (QoQ saar)	-1,7	-1,2	2,7	-5,0	-11,5	-2,9	-0,6	15,0	10,0	2,0	1,1
Private Inventories contribution (QoQ saar)	0,6	-1,3	1,1	-1,4	-0,8	-0,3	-0,6	1,3	0,2	-0,1	-0,1
Net Exports contribution (QoQ saar)	0,3	1,7	-0,1	1,4	1,3	0,6	0,5	-1,4	-0,1	0,5	0,3
Exports (QoQ saar)	3,0	2,1	-5,6	8,0	14,1	1,1	8,7	-0,5	5,0	4,0	6,1
Imports (QoQ saar)	0,7	-7,7	-4,4	-0,9	5,3	-2,3	5,6	8,0	5,5	1,2	4,2

Source: Cabinet Office, Department of National Accounts, Bloomberg

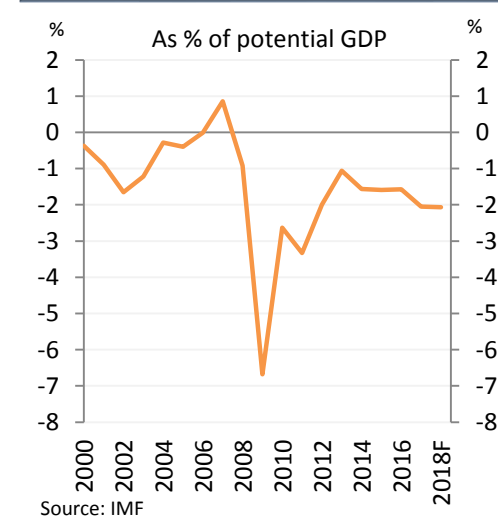
GDP Contributions (%)



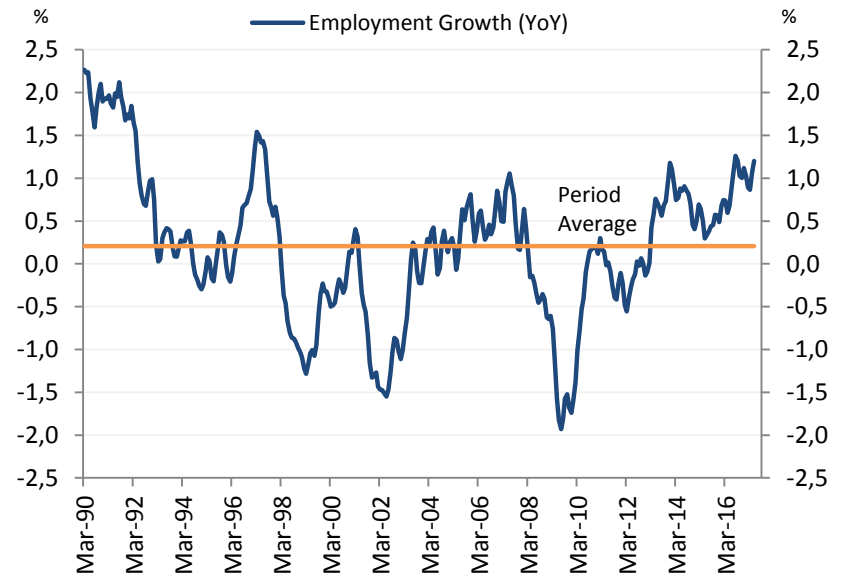
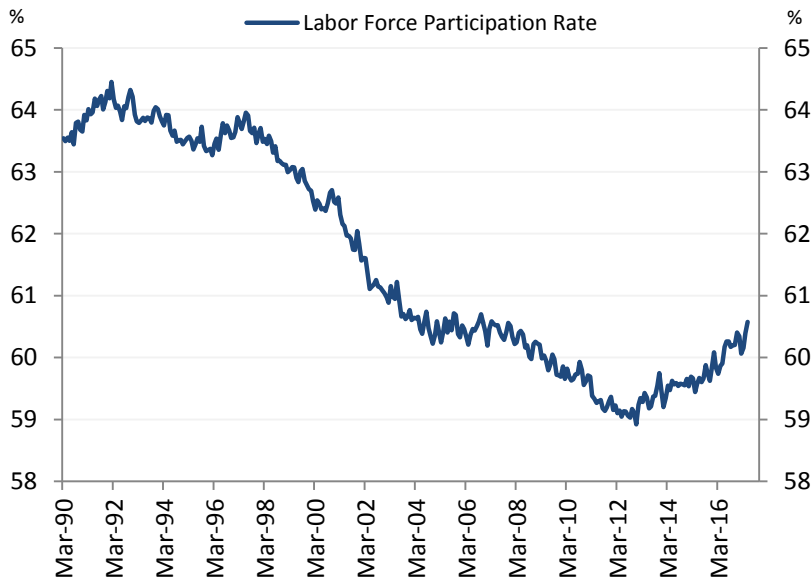
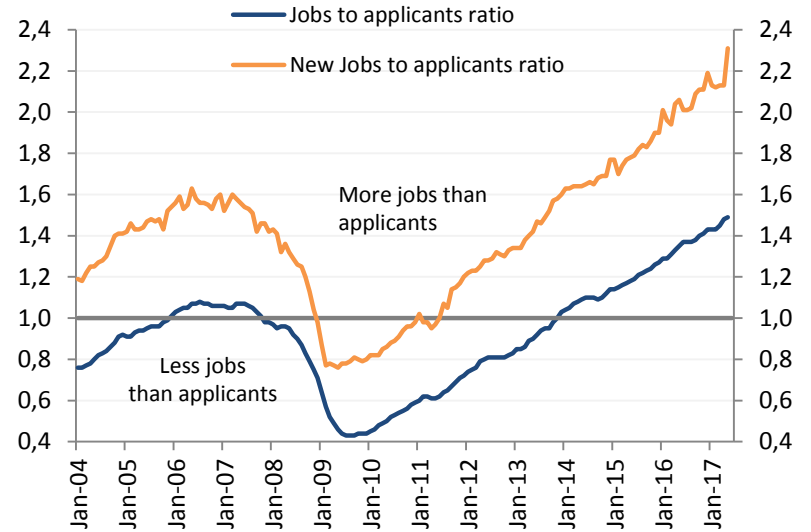
GDP Forecast Evolution



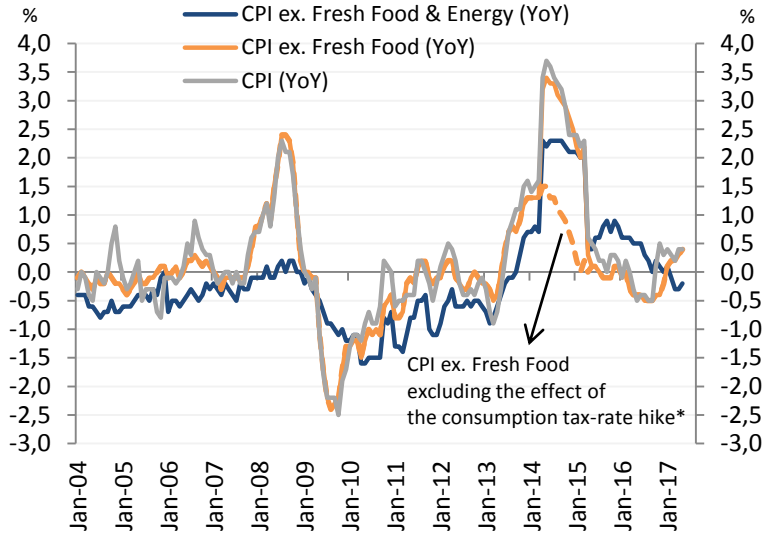
Output Gap



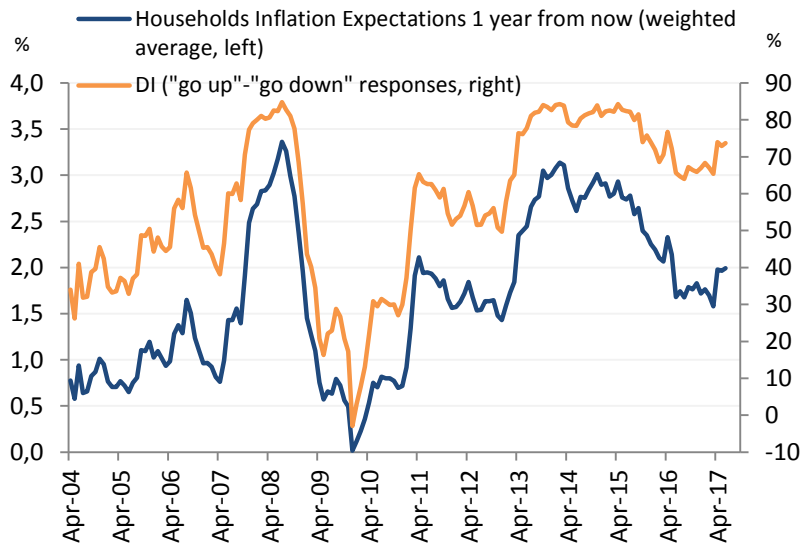
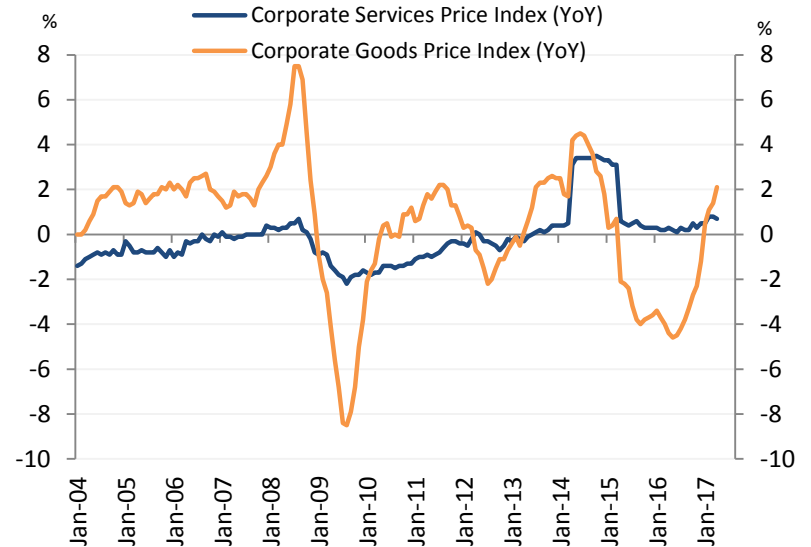
Solid employment gains in recent years have allowed for a considerable decline in the unemployment rate, as well as a rising labor force participation rate



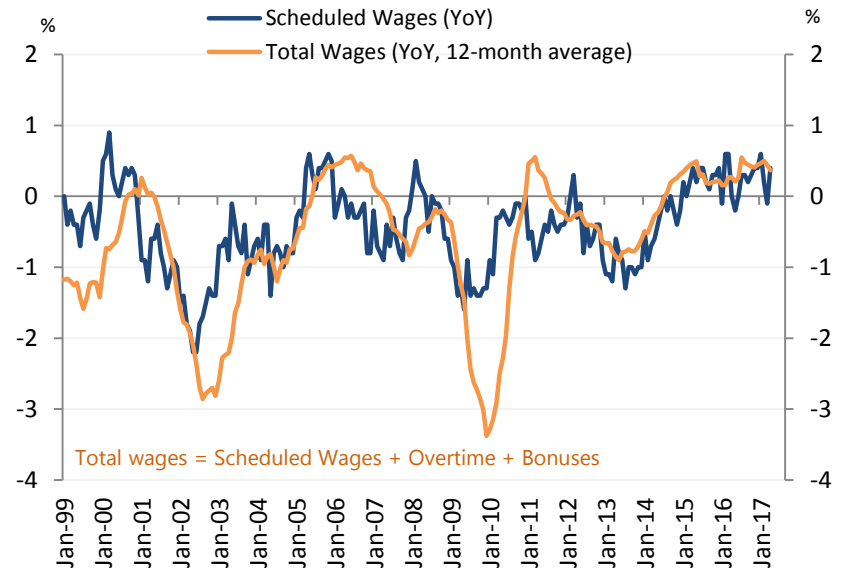
Inflation remains far below the Bank of Japan's target (2% yoy), due to still subdued wage growth



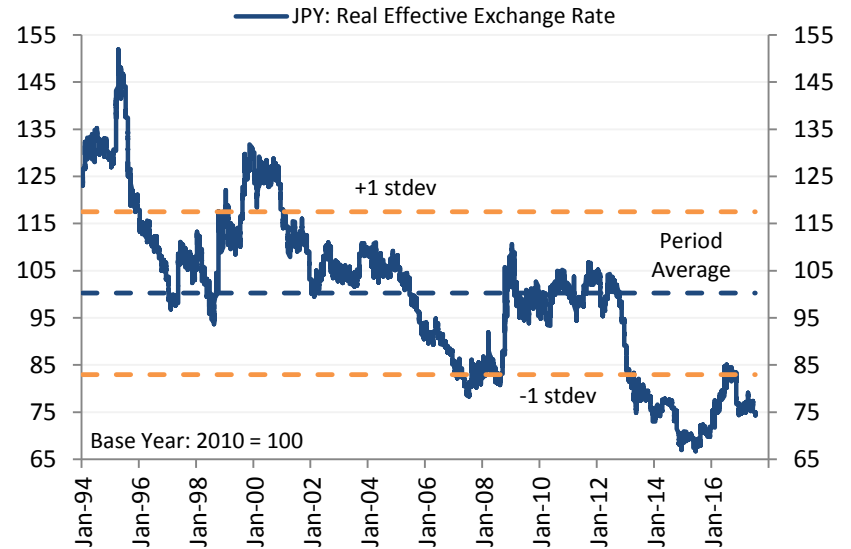
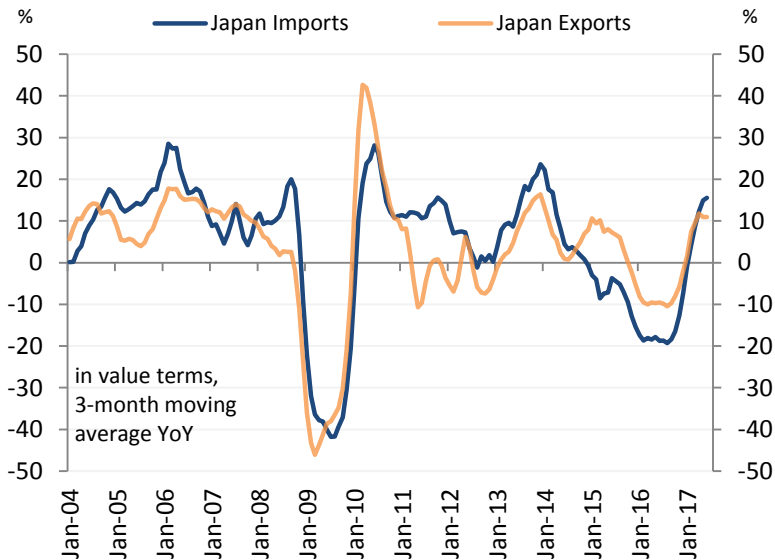
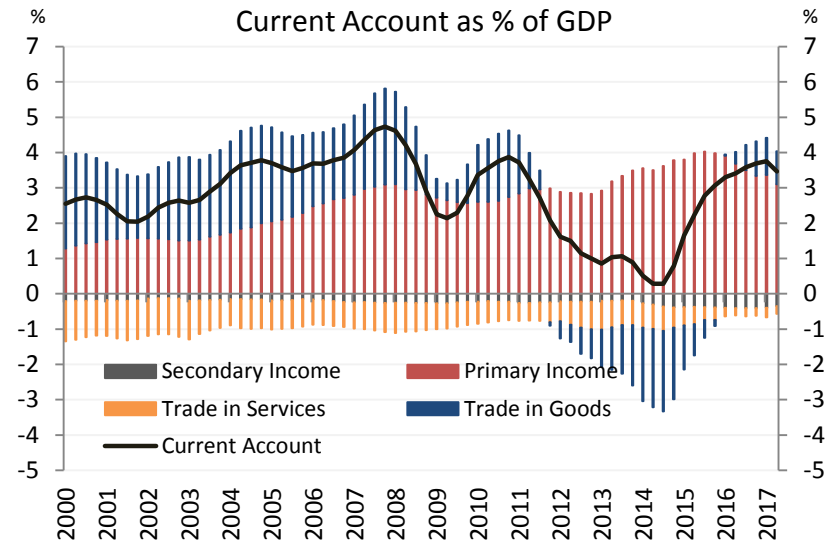
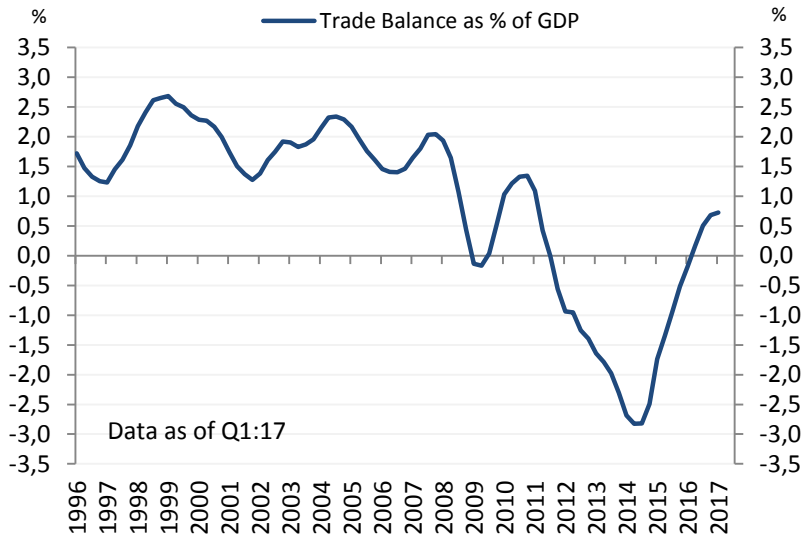
Consumption tax rate hike effect: 1.8%-2% up to March 2015, 0.3% for April 2015, no effect from May 2015, Source: Bank of Japan



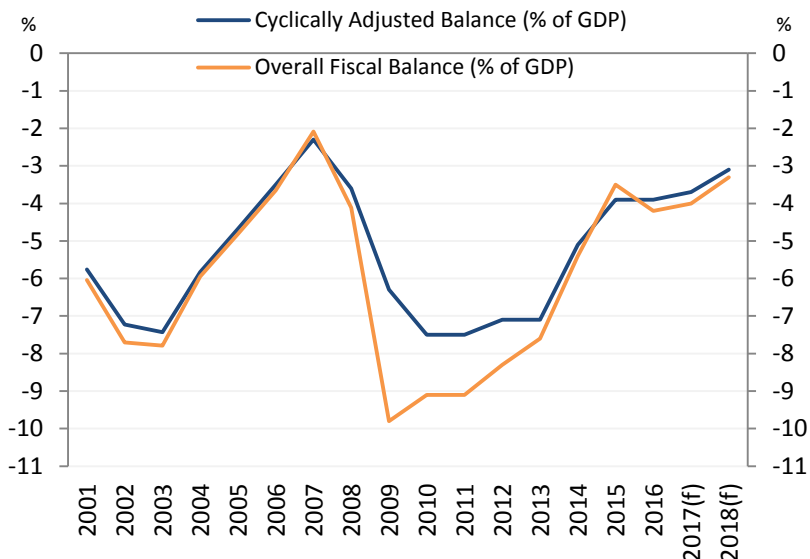
Source: Cabinet Office (September Consumer Confidence Survey)



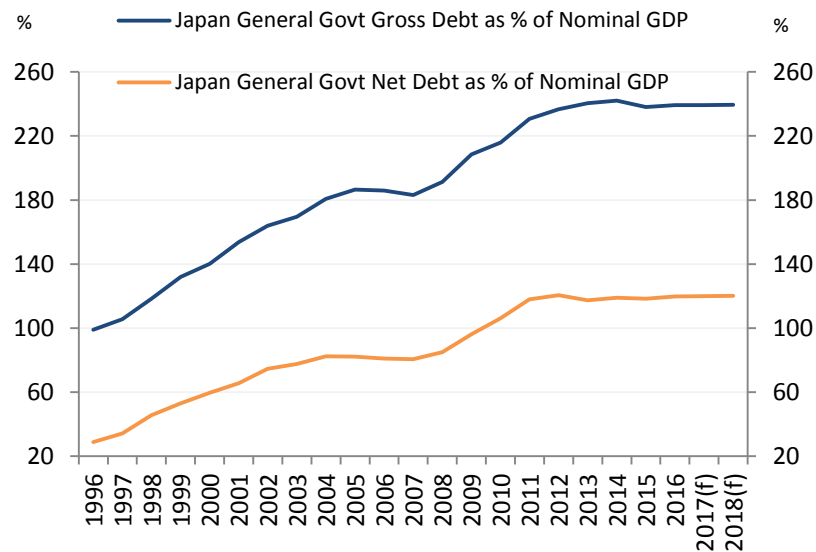
The relative weakness of the Yen in recent years supported the substantial improvement in the trade balance (12-month rolling balance: +0.7% of GDP in Q1:17 vs -2.8% in Q3:14)



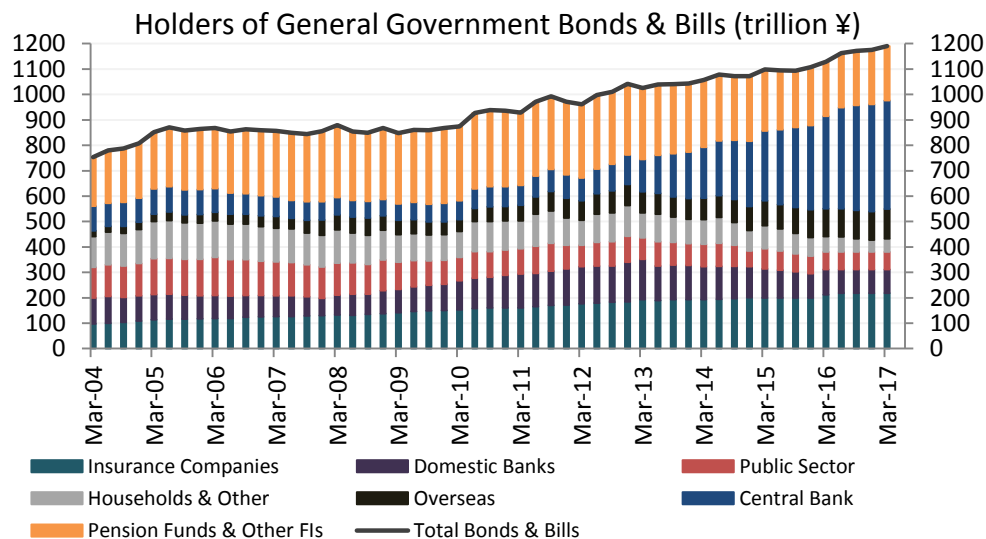
Fiscal consolidation has eased, so as to support the economic recovery, while 2020 Olympic Games' related investment will gradually kick in



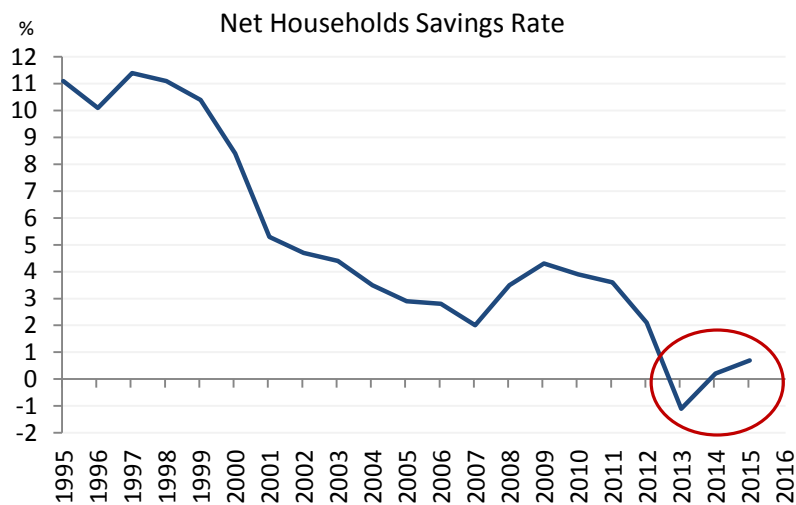
Source: IMF Fiscal Monitor, April 2017



Source: IMF Fiscal Monitor, April 2017

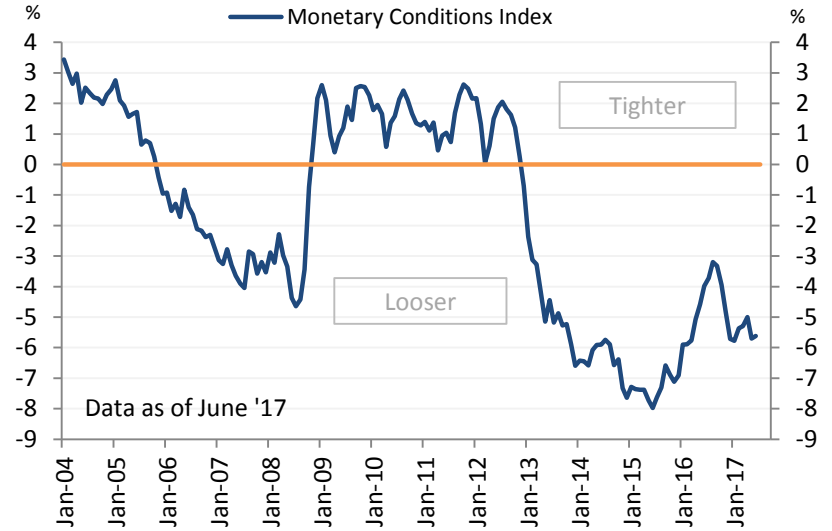
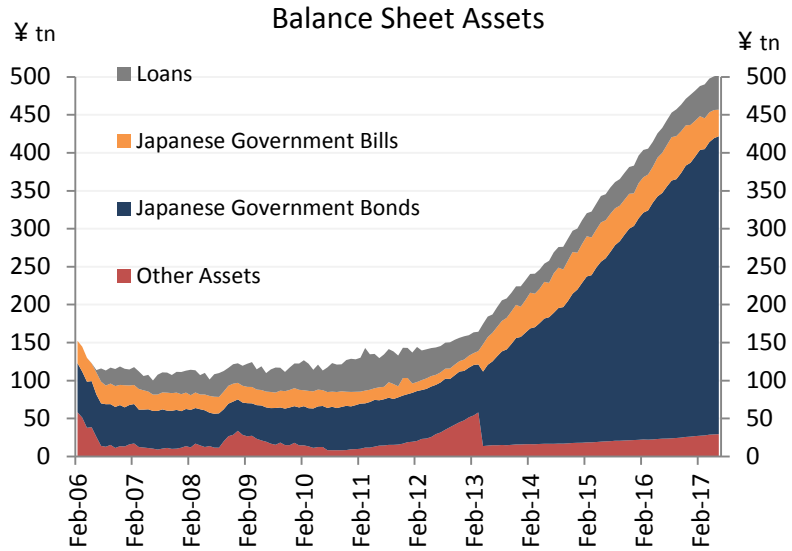


Source: Bank of Japan, Bloomberg (quarterly data, as of Q1:17)

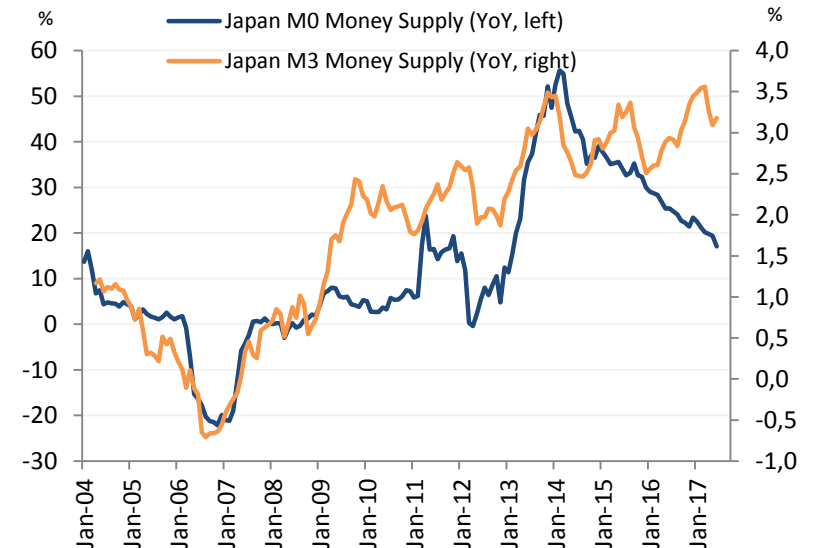
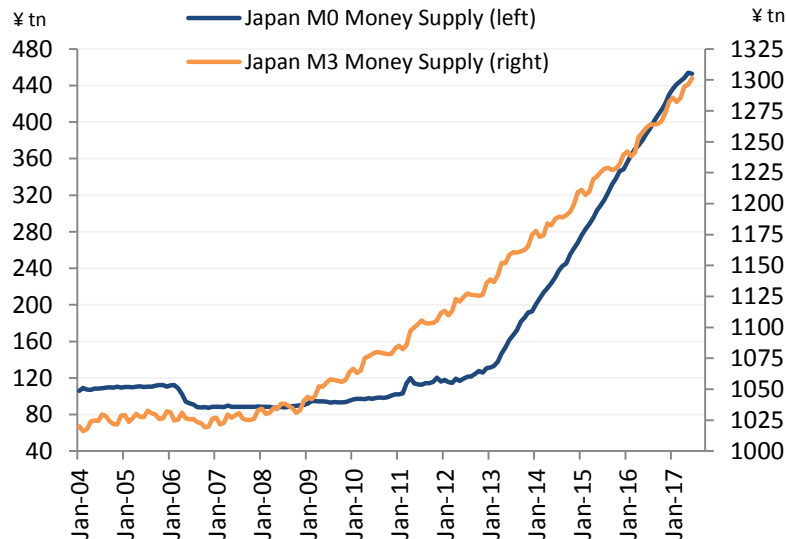


Source: Cabinet Office, Note: Data appear for Fiscal Years, i.e. from April 1 of mentioned year to March 31 of the next year (e.g. 2013 accounts for 1/4/2013 - 31/3/2014)

The Bank of Japan maintains its flat “yield curve control” policy framework

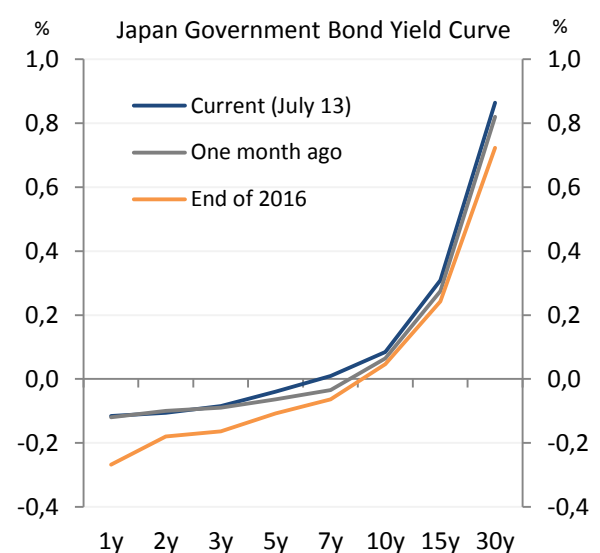
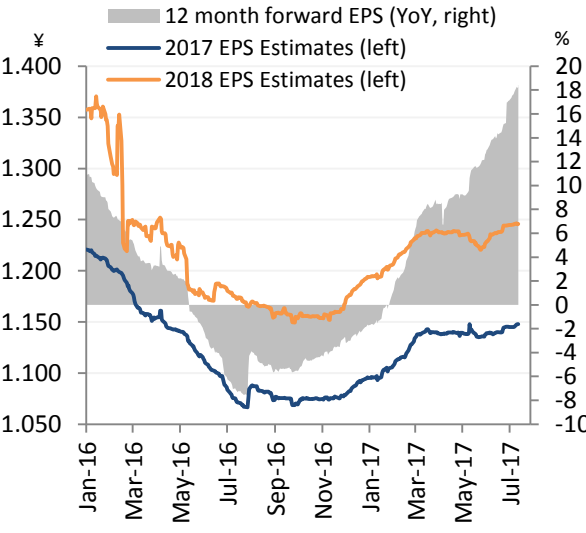
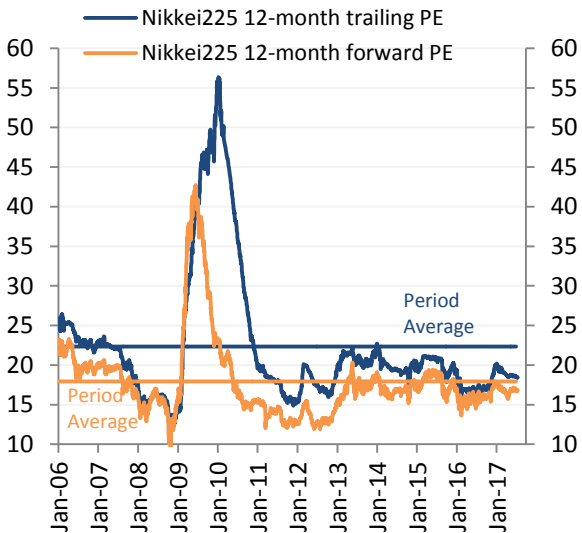
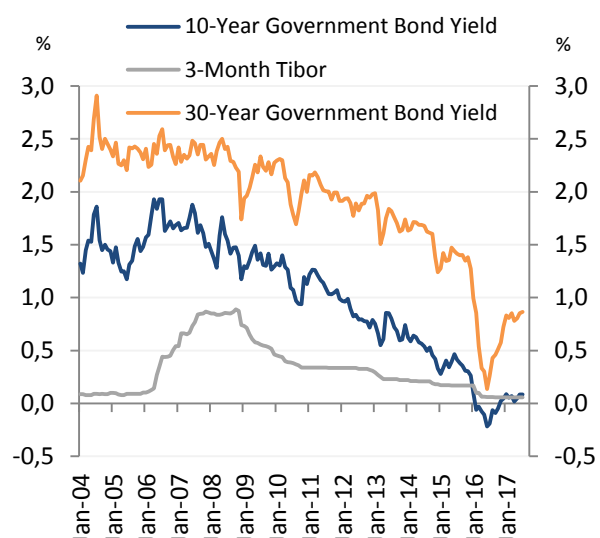
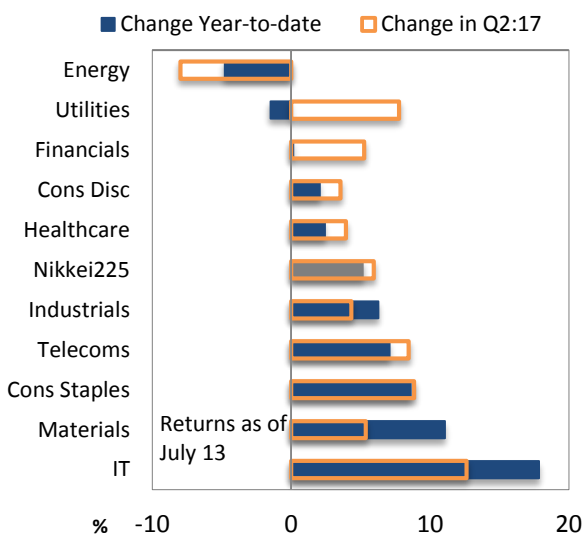
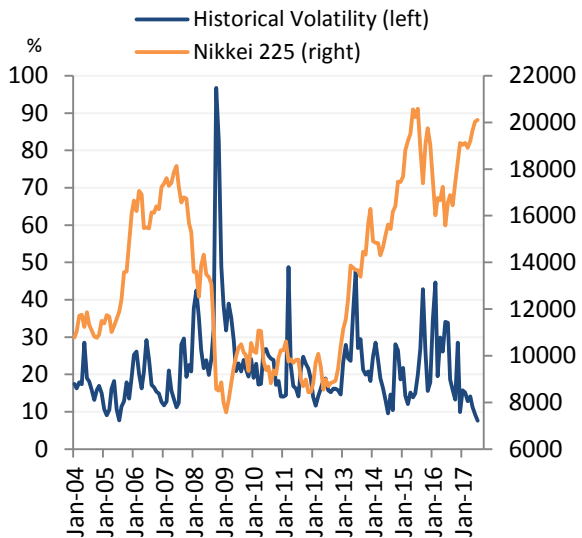


Monetary Conditions Index is a simple composite index of Real Short Term Rates (Tibor less CPI) & Real Effective Exchange Rate



The Bank of Japan targets Monetary Base (M0) expansion of ¥80tn per annum

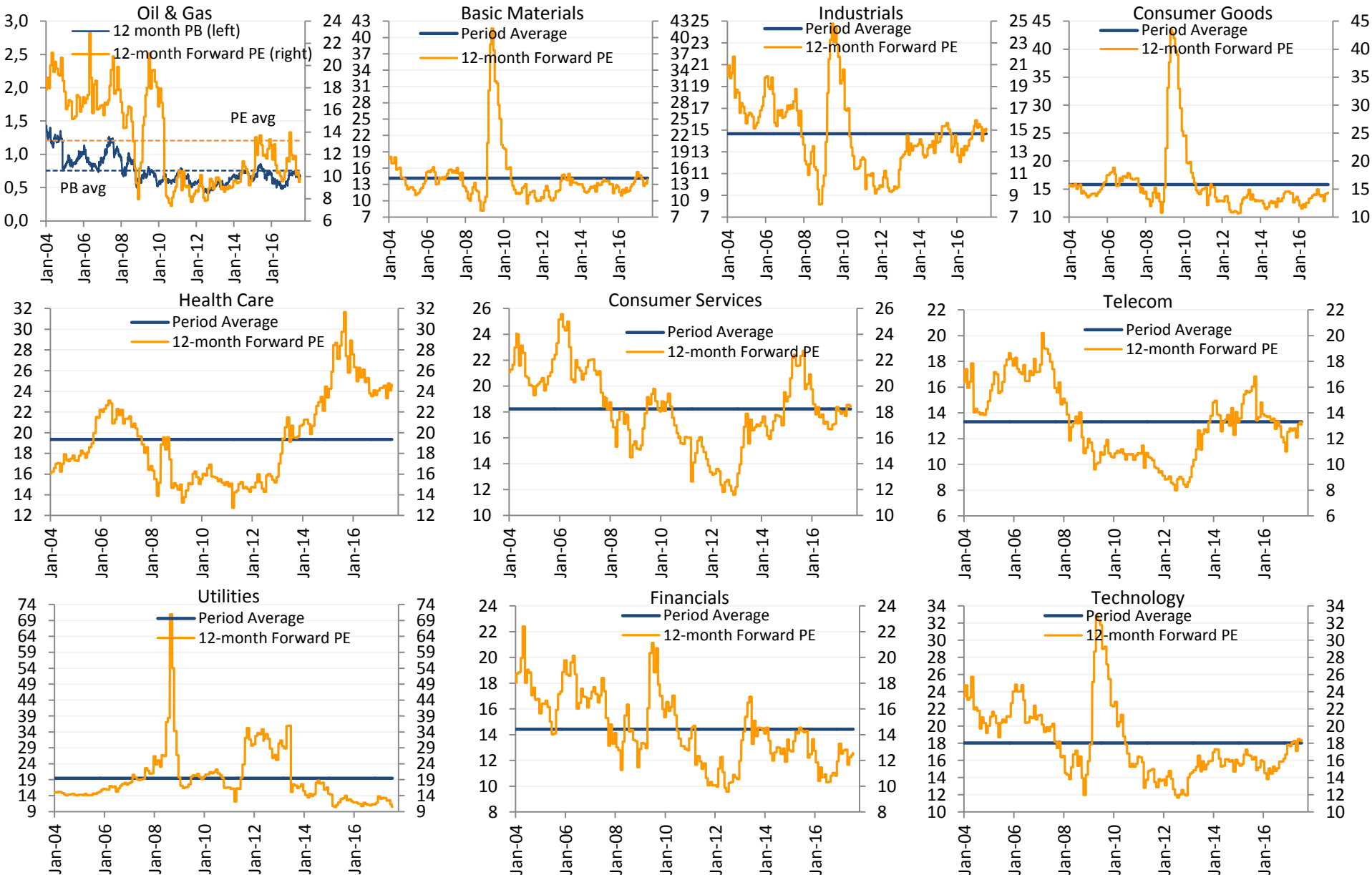
The Nikkei 225 has gained 5.2% YTD, due to improving corporate profitability. Valuations favor Japanese equities compared with peers, with P/E metrics below l-t averages



Source: Factset

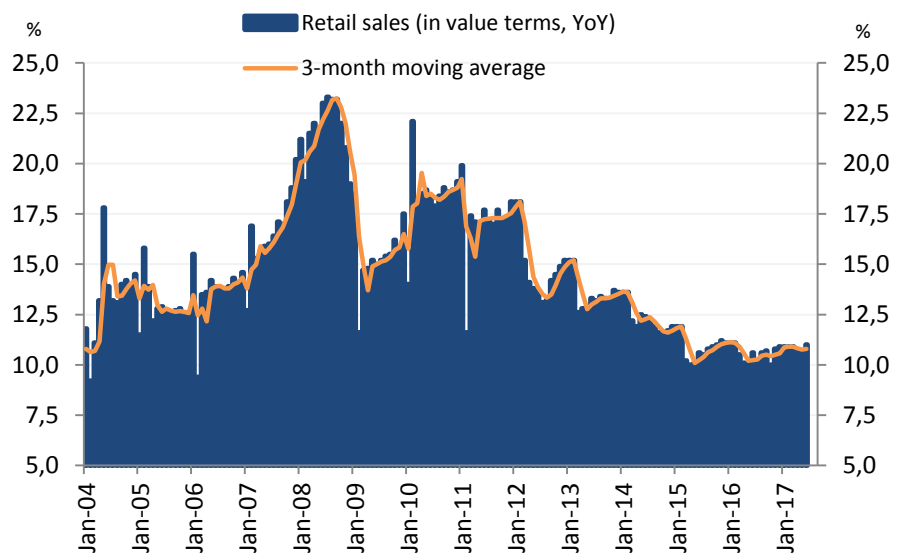
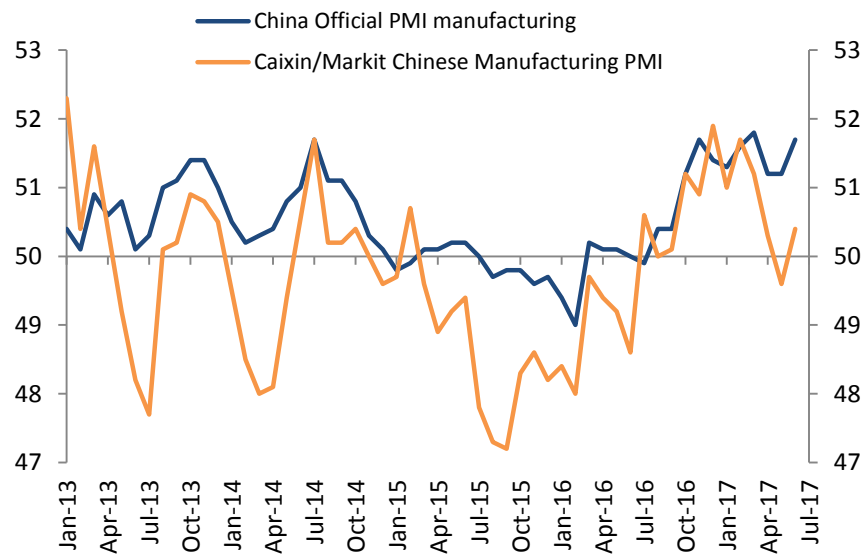
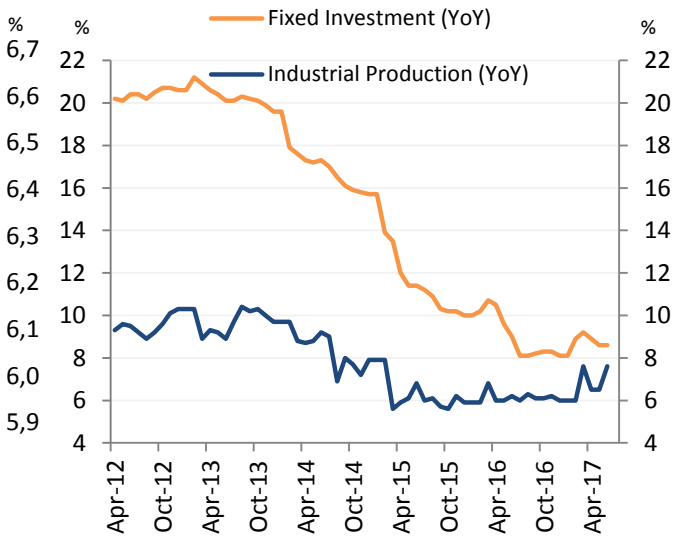
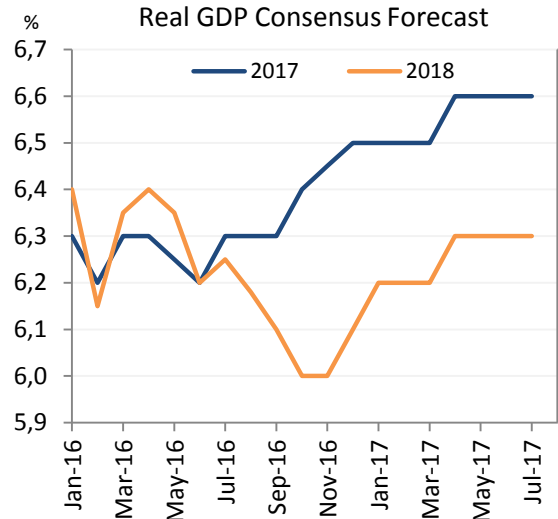
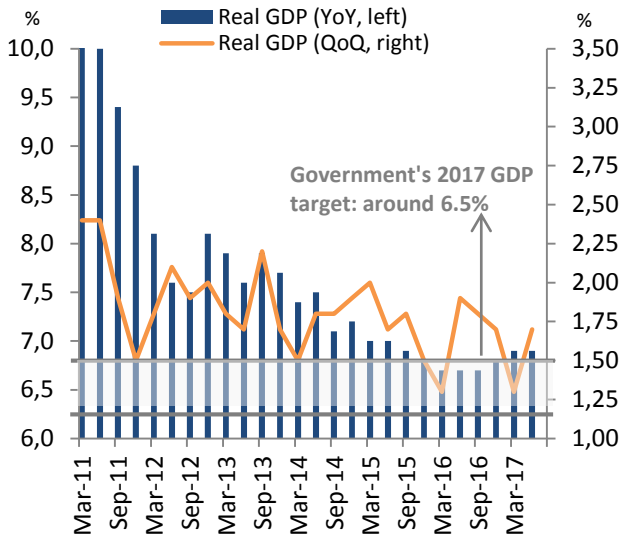
Source: Factset

Japan Sectors Valuation



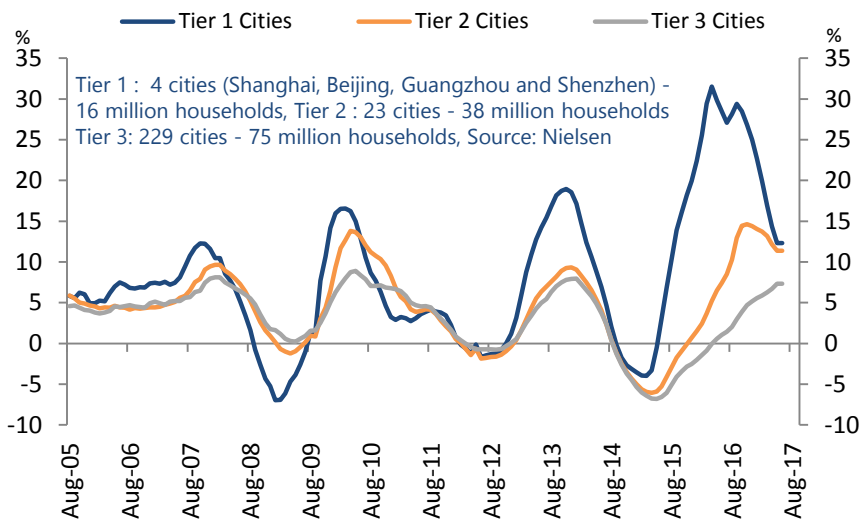
- Chinese economic growth was robust in H1:17 (6.9% yoy) from 6.8% yoy in H2:16, demonstrating broad-based strength (consumption, manufacturing). Fixed-asset investment rose by 8.7% yoy, on average, in H1:17, mainly on the back of solid infrastructure (+22.2% yoy), suggesting that growth was boosted by increased (and possibly front-loaded) public spending.
- The PBoC has adopted a “gentle tightening” approach since end-2016, gradually pushing up money market rates (7-day repo) at +3.3% on average in June from 2.8% in December 2016 (while keeping policy rates including RRR unchanged) and strengthening macroprudential regulation. As a result, GDP growth could experience a mild slowdown in H2:2017. For FY:2017, the IMF expects GDP growth at 6.7% (having raised its estimates by 0.5 pps since October 2016), the same pace as in 2016 and, at the upper range of the Government’s target for 2017, of “around 6.5% or higher if possible”.
- The economic strength, so far, comes at the cost of not addressing the imbalances of: i) skyrocketing private debt growth of 211% of GDP in Q1:17 that led to the downgrade of China’s credit rating for the first time since 1989; and ii) an overheated property sector. The longer these issues continue, the greater the risk of a more disorderly impact on economic activity in the medium term.
- Financial stability tightening by the PBoC appears to have had only a modest impact on credit dynamics. Note that overall domestic credit growth, as measured by total social financing (TSF -- 221% of 2016 GDP), stood at 12.8% yoy in June (12.8% in Q2:17), down slightly from a peak of 13.4% yoy in H1:16. It should be noted that deleveraging efforts aim mainly to slow shadow banking activities included in the official TSF data (trust loans, entrust loans, bank acceptance or 16% of TSF), as well as shadow banking components (which stand at 70% of GDP).
- House price growth remains strong (+9.5% yoy). It should be noted that the authorities’ policy approach is region-specific. It aims to address potential asset bubbles in the cities that have witnessed the largest rise, while continuing to encourage sales in those cities facing a high stock of unsold properties. In the event, price growth in the 15 (large) cities that the NBS has marked as of special attention to track (since September 2016) eased to 14.1% yoy, (21.9% in 2016).
- On a positive note, corporate profitability has improved due to higher producers’ prices (5.5% yoy in May from a trough of -5.9% yoy in end-2015, on the back of continuing efforts to reduce excess industrial capacity. Consumer inflation returned to an upward trend (+1.5% yoy in June), remaining though well below the government’s target (3.0% for 2017).
- Moreover, capital outflows have moderated significantly, supporting a stronger RMB (+2.4% ytd against the USD to RMB6.78/\$). FX reserves have stabilized at \$3.06tn in June (3.8% of GDP), following outflows of \$332bn during 2016 and early 2017.
- The MSCI decided to include onshore Chinese equities (A-shares) in its MSCI EM Index. Despite the limited number of firms chosen, relative to the total onshore market, the decision highlights progress by the authorities to open up China’s capital markets and supports commitment to future reforms. In conjunction with the positive macro momentum in China, as well as improved corporate profitability, Chinese equities have risen YTD, with the CSI300 index (onshore) up 11.4%.

Real GDP growth was robust in H1:17 (6.9% yoy)

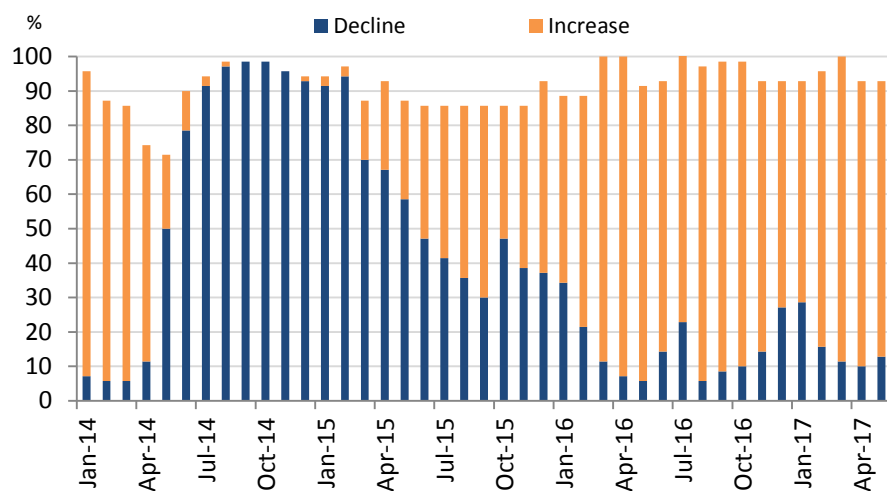


House price growth has eased lately in overheated (mostly large) cities, and picked up in smaller cities, reflecting the authorities' policy approach

House Prices: Annual Growth Rate

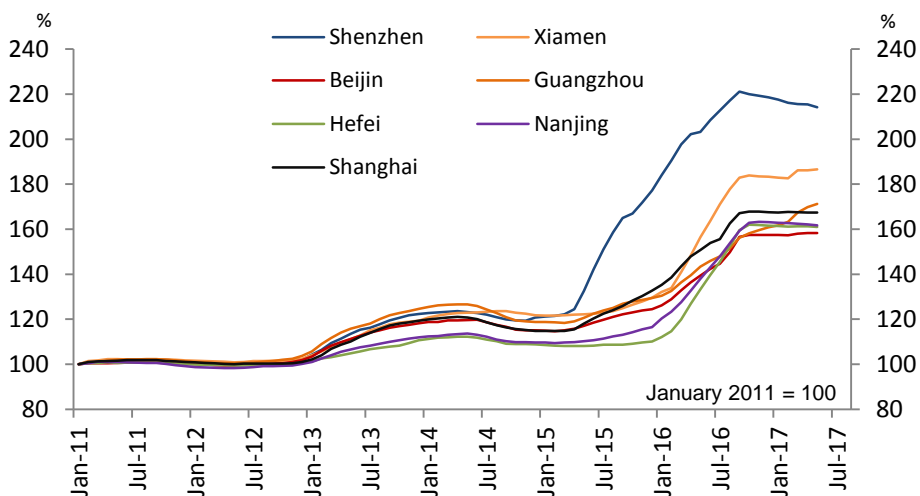


House Prices: Monthly Increases/Declines as % of Total*

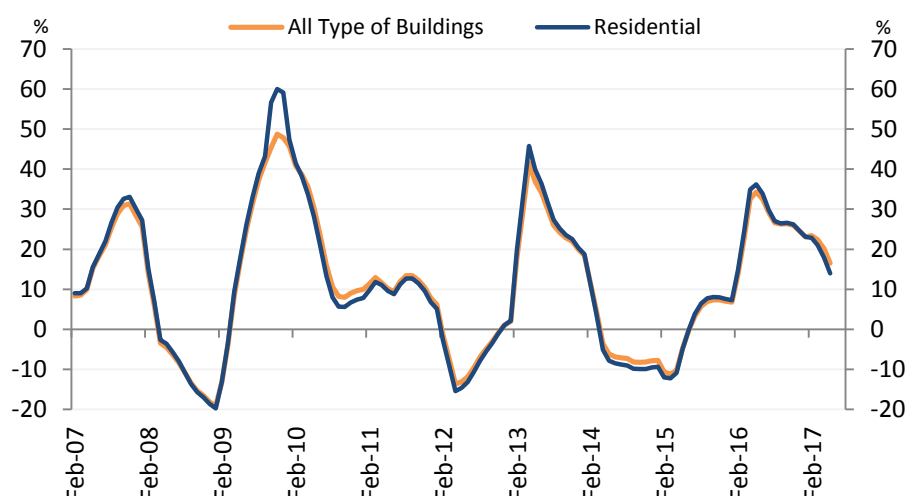


*% of cities (out of 70) where new residential apartments' prices either declined or increased

House Prices Indices in Major Cities

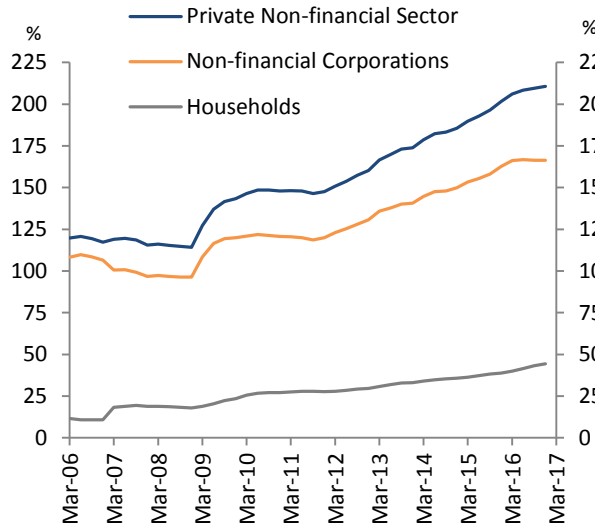


Housing Transactions: Volumes, YoY

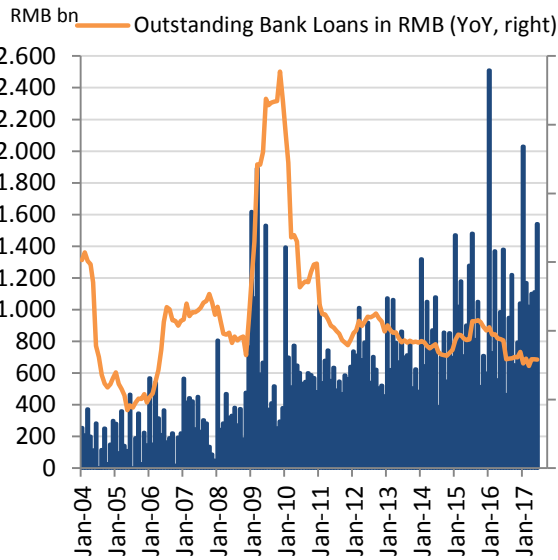


High private debt levels remain a major source of concern for the medium-to-long term growth outlook

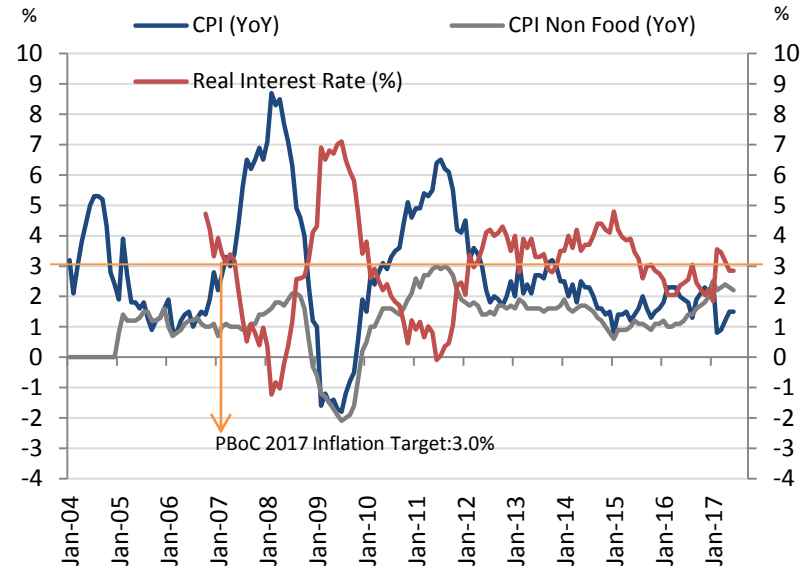
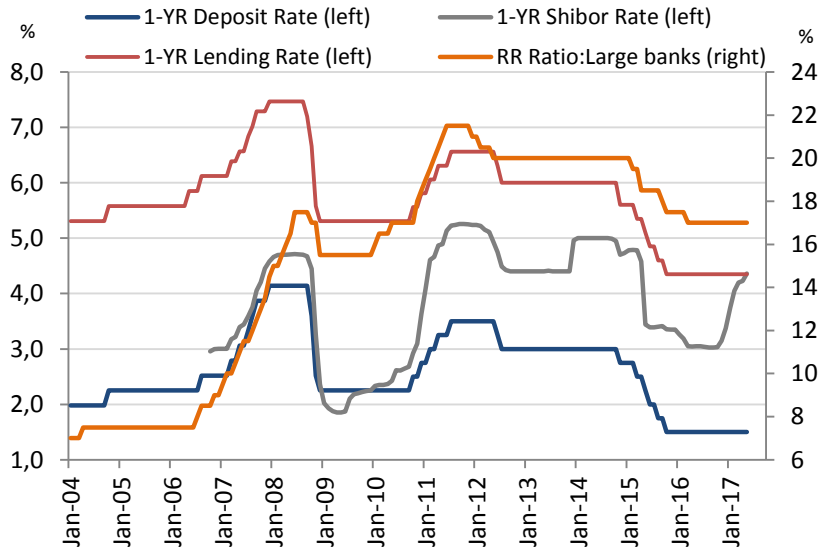
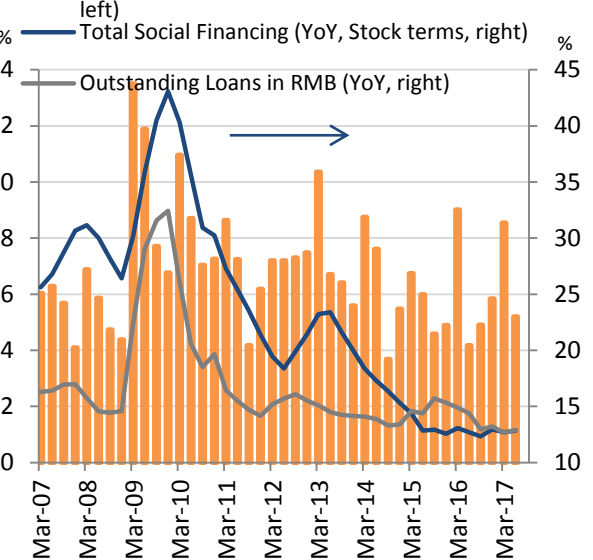
Private Debt as % of GDP:



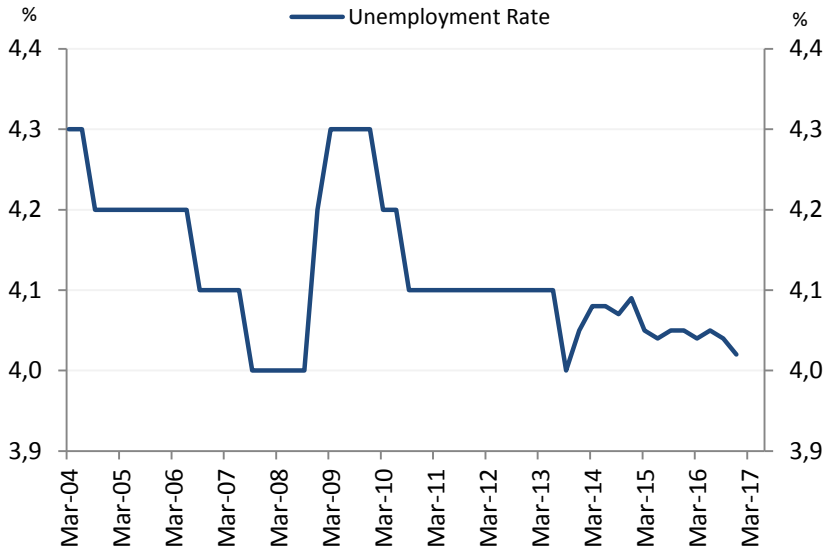
New Bank Loans in RMBbn (left) Outstanding Bank Loans in RMB (YoY, right) %



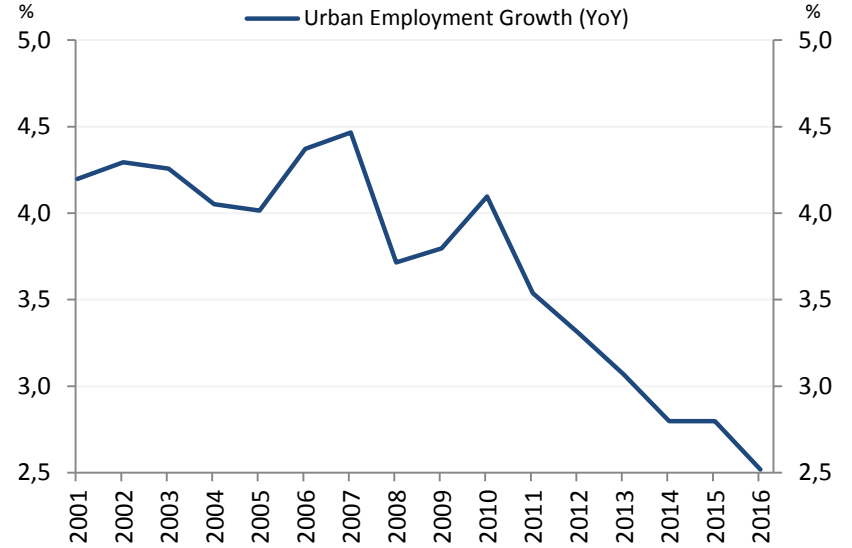
Total Social Financing (New Flows as % of GDP, left) Total Social Financing (YoY, Stock terms, right) %



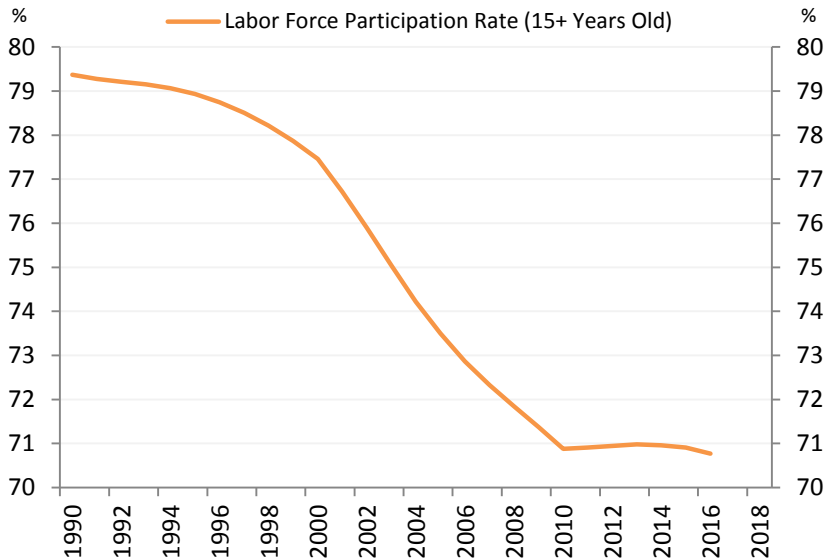
Labor market remains solid



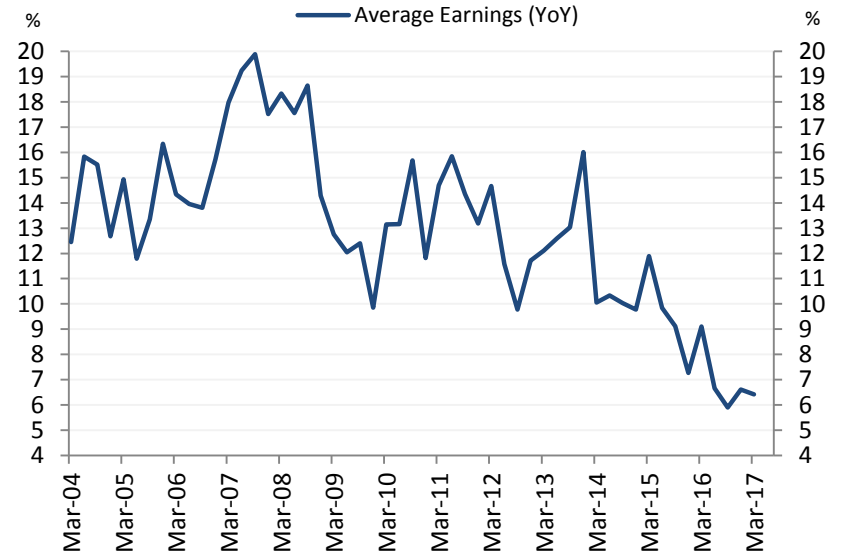
Source: Bloomberg



Source: National Bureau of Statistics, Datastream

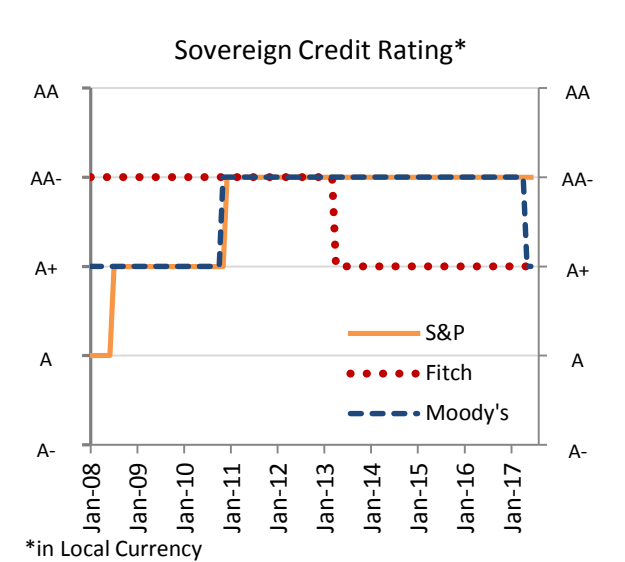
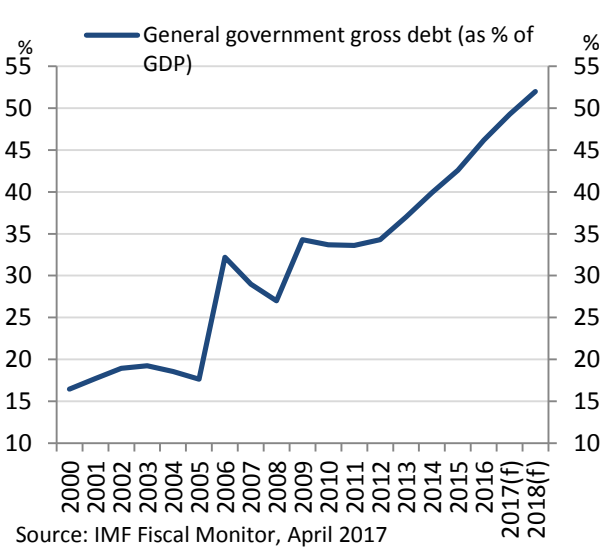
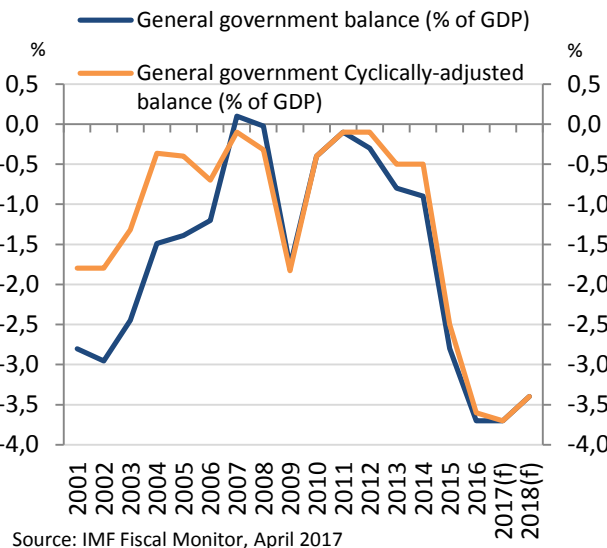
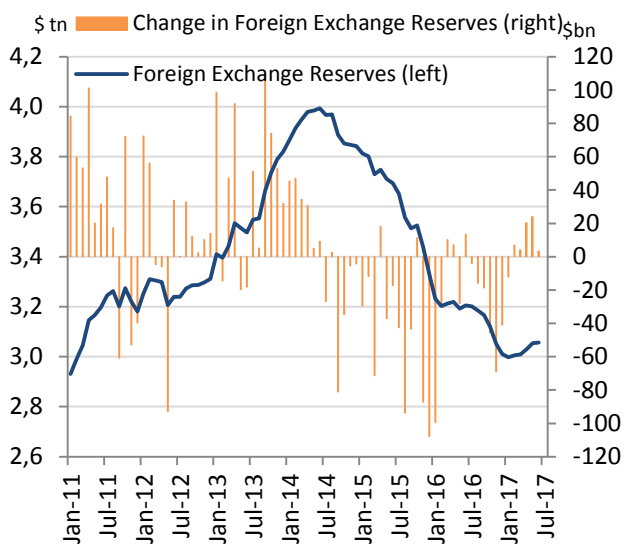
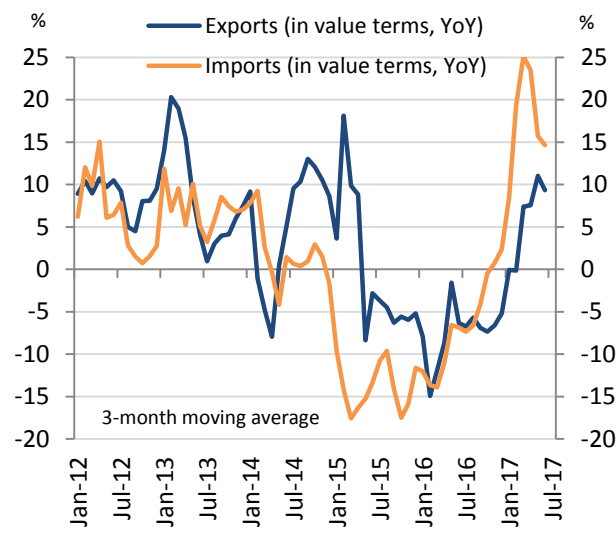
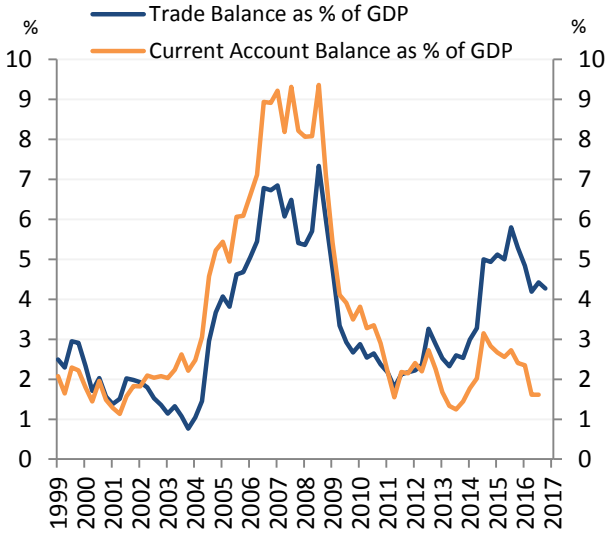


Source: World Bank (annual data, as of 2016)



Source: National Bureau of Statistics, Bloomberg

Capital outflows ceased in recent months, with FX reserves stabilizing at \$3.06tn in June, from a trough of \$3.00tn in January 2017



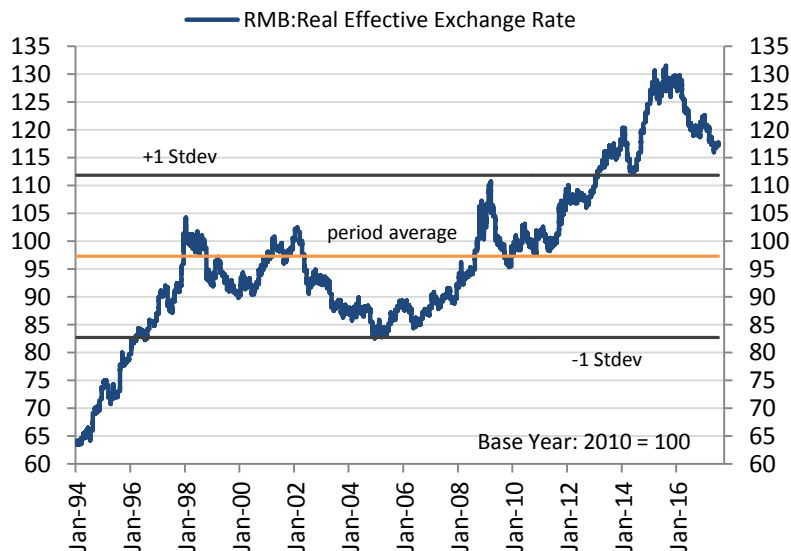
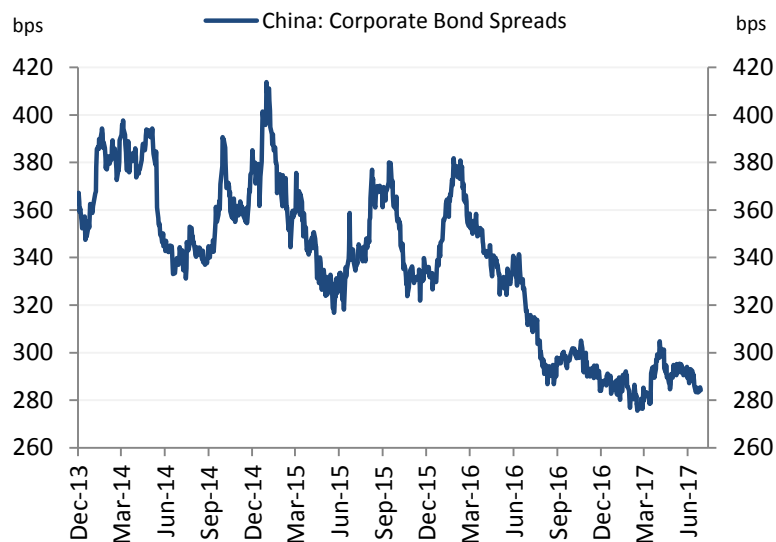
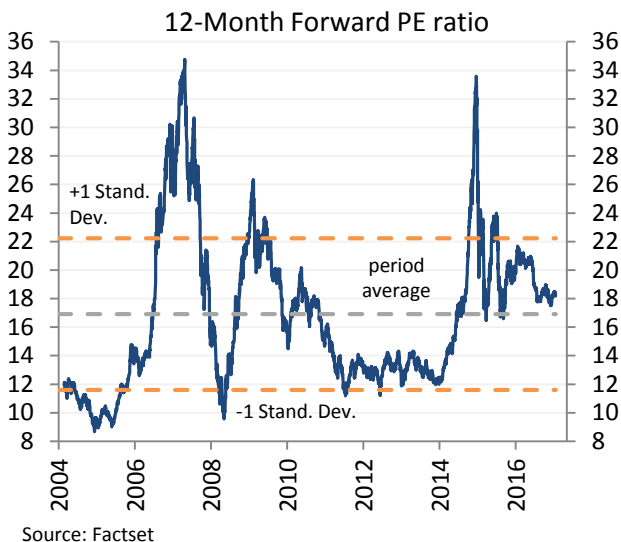
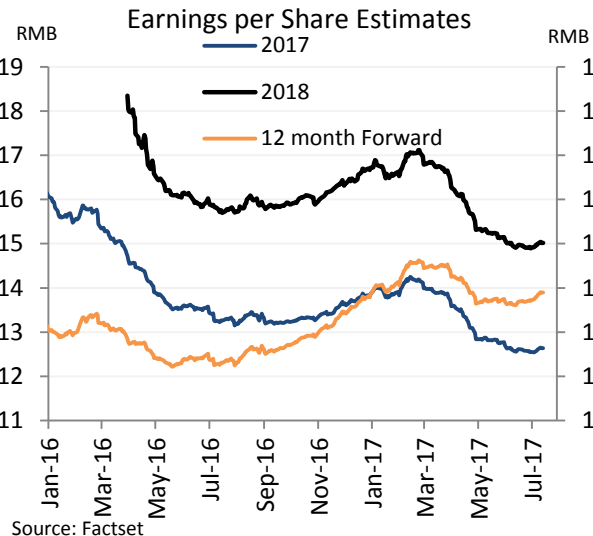
Source: IMF Fiscal Monitor, April 2017

Source: IMF Fiscal Monitor, April 2017

Offshore Chinese equities (MSCI China: +28.5% YTD in 1c) overperformed onshore ones (A-shares / CSI 300: +11.4% YTD), as the latter are restrained by limited accessibility by foreign investors



*Shanghai B-shares are eligible for foreign investors - Shanghai A-shares are available for purchase by mainland investors



Brazil

- In Q1:17, GDP returned to expansionary territory (+1.0% qoq), following 2 years of deep recession (GDP declined by c. 8% cumulatively in 2015 and 2016), while the IMF expects growth at 0.2% in 2017. Pushing forward with structural and fiscal reforms has been a key focus in previous months, contributing to a rise in economic confidence. In the event, the pension reform under debate in the legislature is of high importance. The political environment, however, remains fragile, with President Temer being indicted recently by the general prosecutor for corruption.
- The sharp decline in inflationary pressures (3.0% yoy in June versus a peak of 10.7% yoy in January 2016 and below the official target of 4.5% yoy), allows for rapid monetary policy easing to continue. Recall that the Central Bank has cut the benchmark Selic rate 6 times by a cumulative 400 bps since October 2016, to 10.25%, and expects it to decline further to 8.50% by end-year.

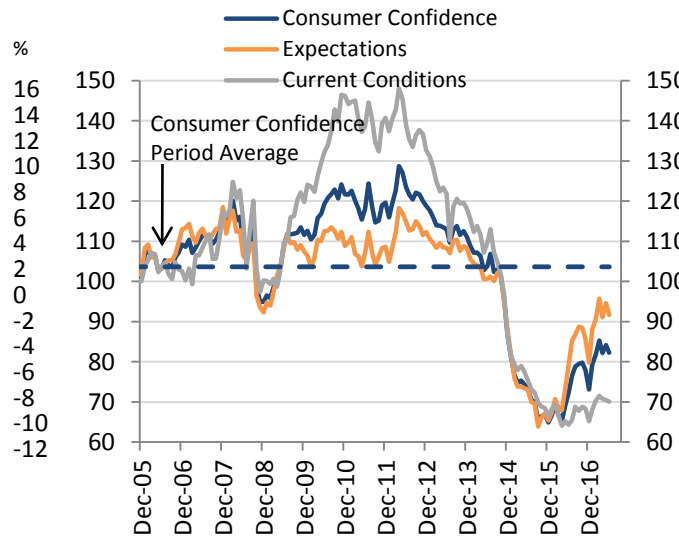
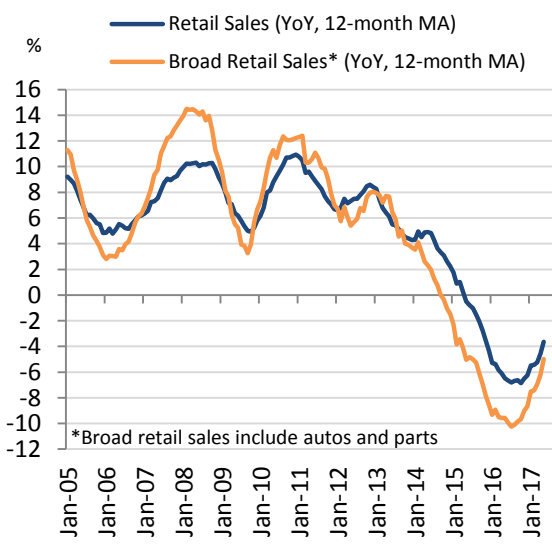
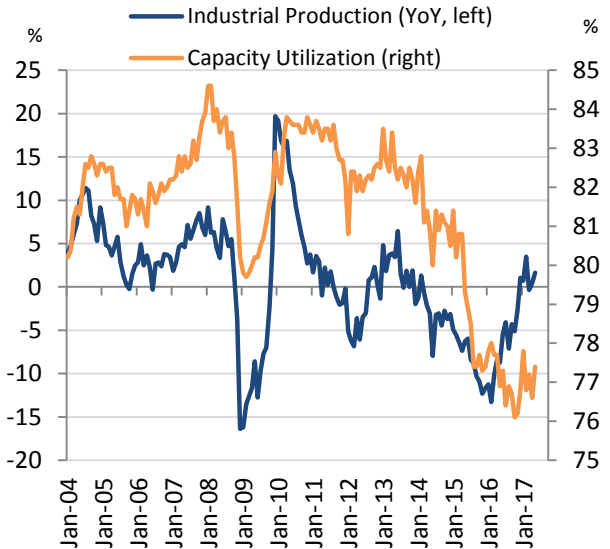
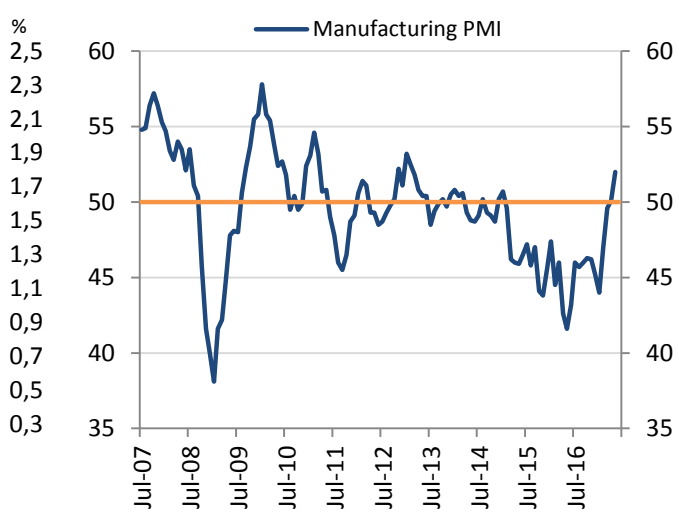
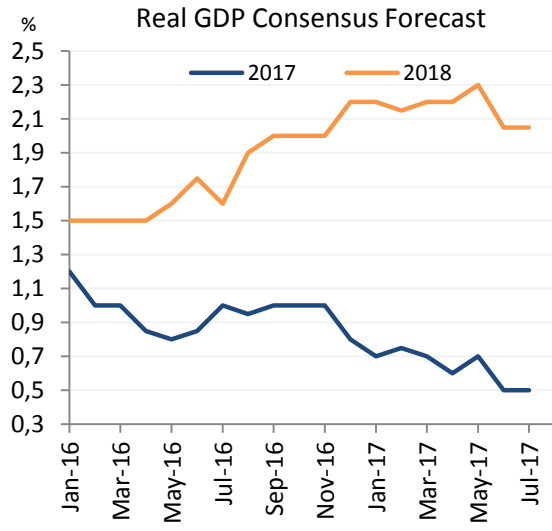
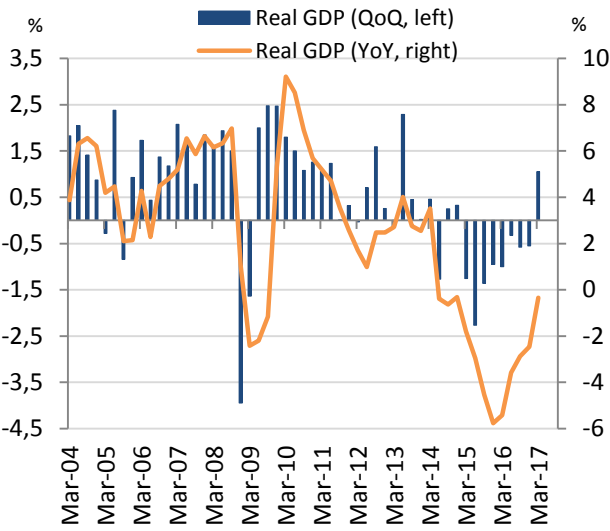
India

- Economic activity is expected to normalize after a transitory shock from the demonetization of high value banknotes in November 2016 (aiming at curtailing the shadow economy and the use of counterfeit cash), which had led to temporary cash shortages and payment disruptions. GDP growth was 6.1% yoy in Q1:17 (7.0% in Q4:16 and 7.5% in Q3:16), while consensus expects it to rise to 7.3% yoy by Q4:17.
- The outlook is supported by crucial structural reforms, amid a broadly neutral monetary policy and modest fiscal consolidation. In the event, the Goods and Services Tax (GST) system, applicable as of July 2017, will merge many individually applied by the central and state governments taxes into a single tax. GST is expected to mitigate cascading or double taxation, facilitate the movement of goods and lead to easier and more efficient administration and tax collection. Supply side reforms aiming, inter alia, at employing the abundant pool of labor (Labor Force Participation Rate at 53.8% in 2016) are also high on the policy agenda.

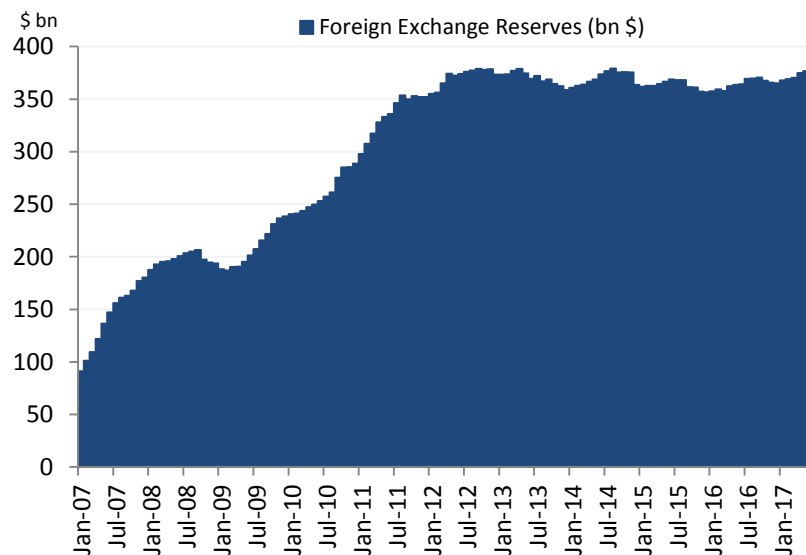
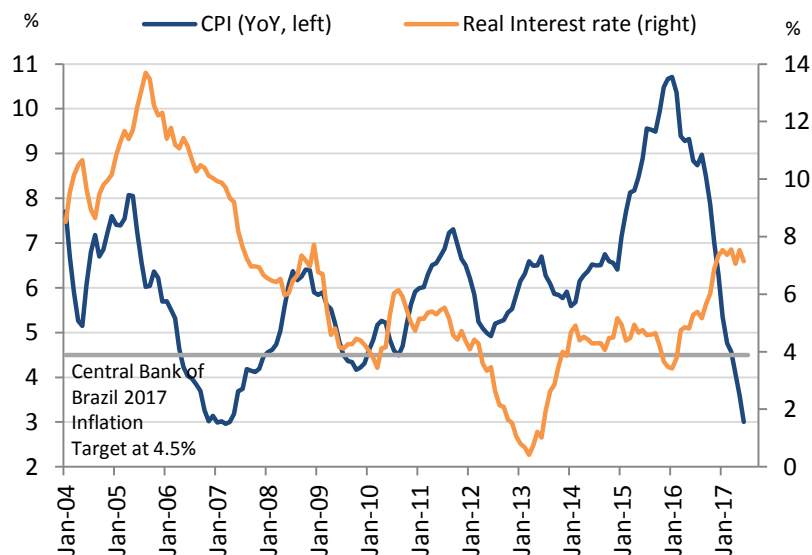
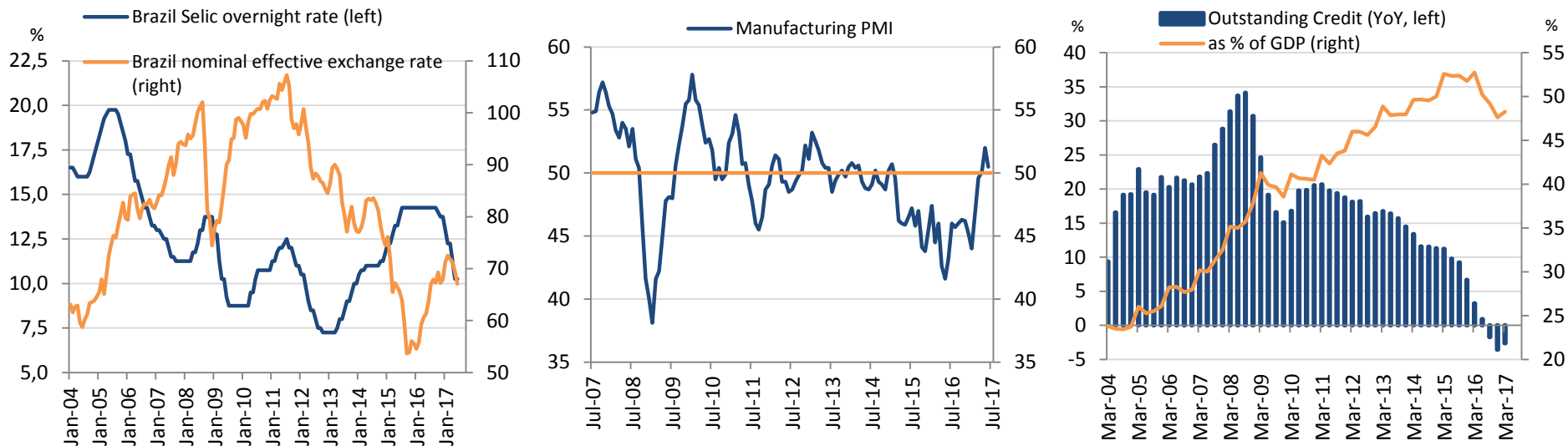
Russia

- The economy continues to recover, after a contraction in GDP by 2.8% in 2015 and stabilizing in 2016 (-0.2%), on the back of firmer oil prices and improved confidence. GDP grew by 0.5% yoy in Q1:17, while overall, the IMF expects growth at +1.4% yoy both in 2017 and 2018. Structural reforms and economic diversification (less dependence on oil revenue) will be crucial in the medium term, while the evolution of international trade sanctions remains critical for economic prospects.
- Easing financial conditions support the outlook, with the central bank resuming policy rate cuts recently (3 times by a cumulative 100 bps, since March, to 9.00%), on the back of a sharp fall in inflation. It expects further cuts, probably in the range of 8.25% - 8.50% by end-year. Recall that CPI stood at 4.2% yoy on average in Q2:17 from 7.5% yoy in June 2016 and close to the end-2017 target of 4%. Meanwhile, the RUB has demonstrated increased resilience YTD (+2.7% versus the USD to 60 RUB/\$), despite oil prices moderating by c. 13%.

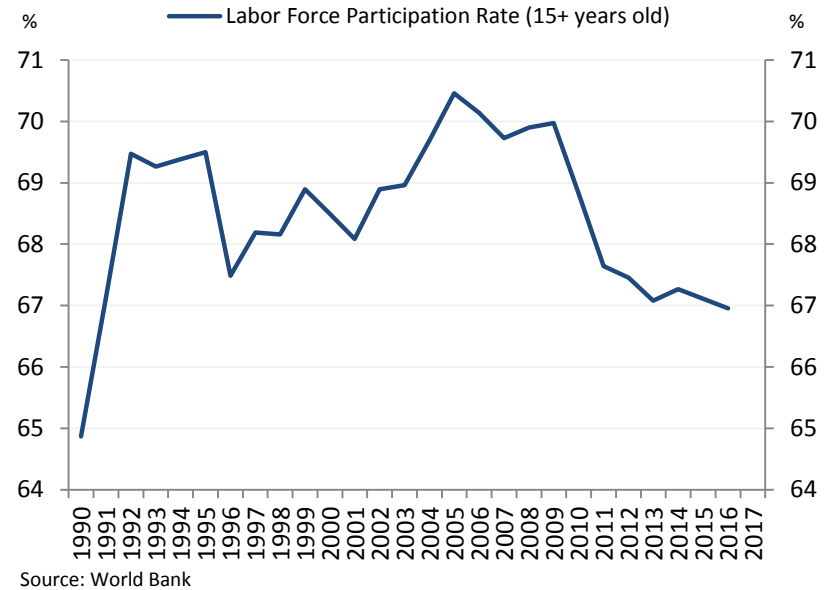
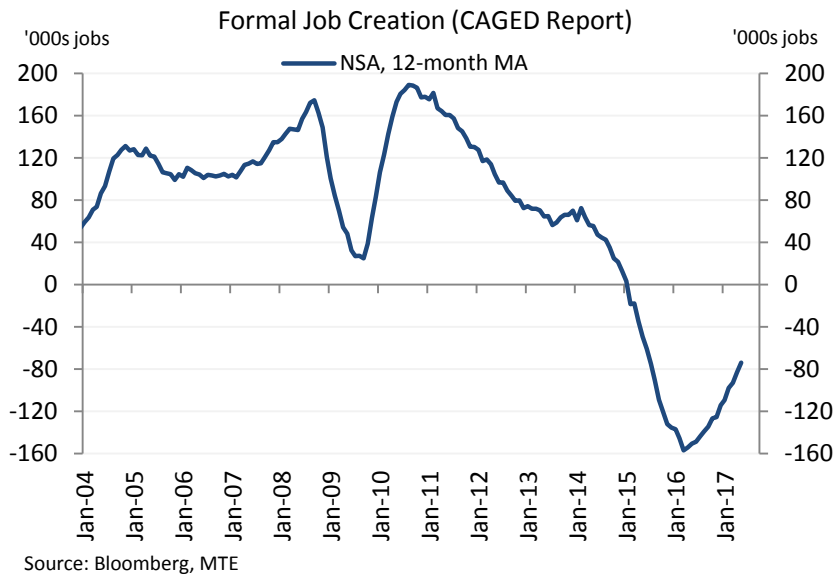
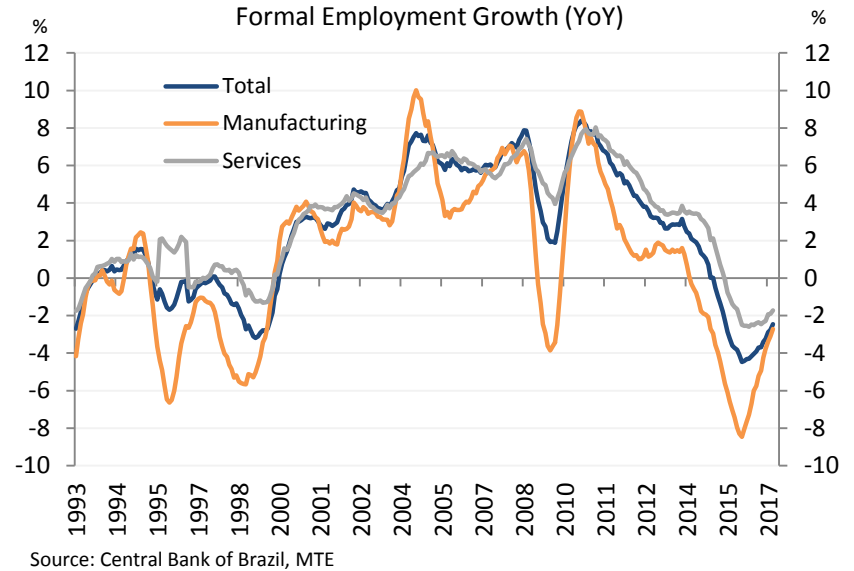
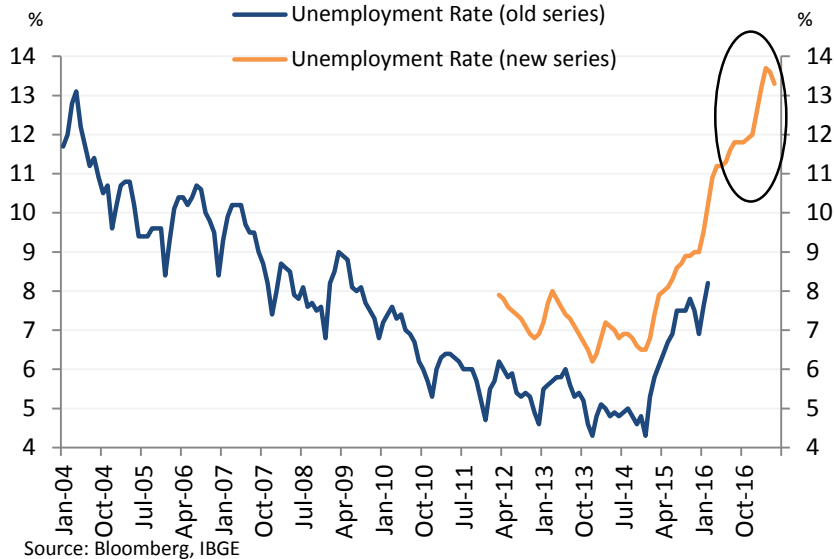
Brazil: Following 2 years of recession, GDP growth entered positive territory in Q1:17 (+1.0% qoq), due to improved economic confidence



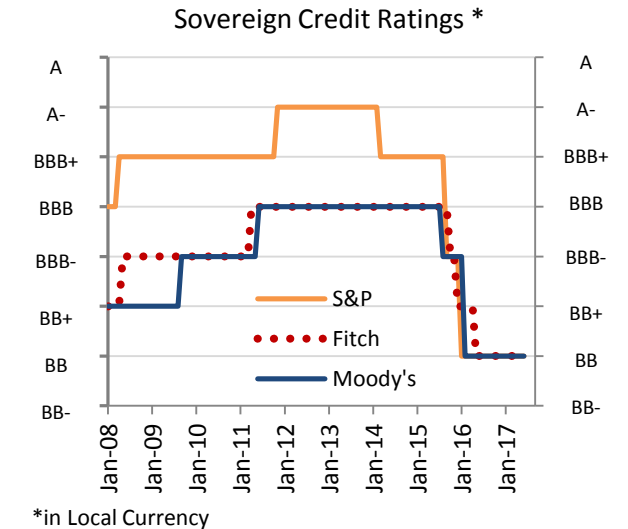
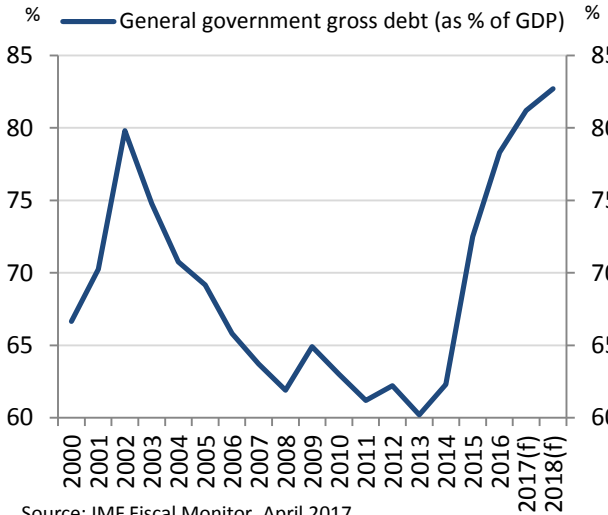
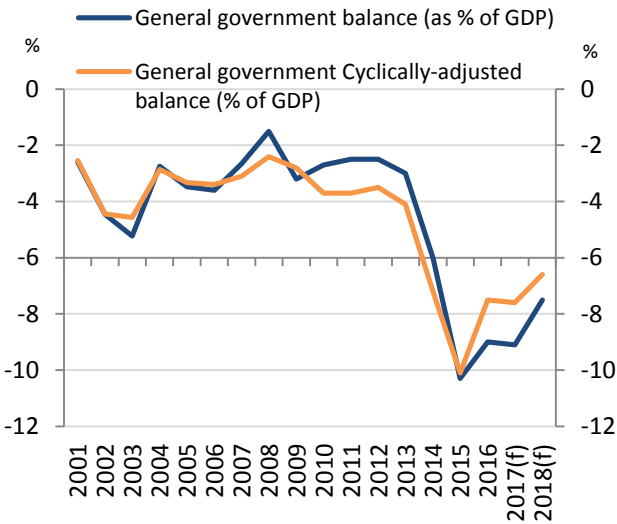
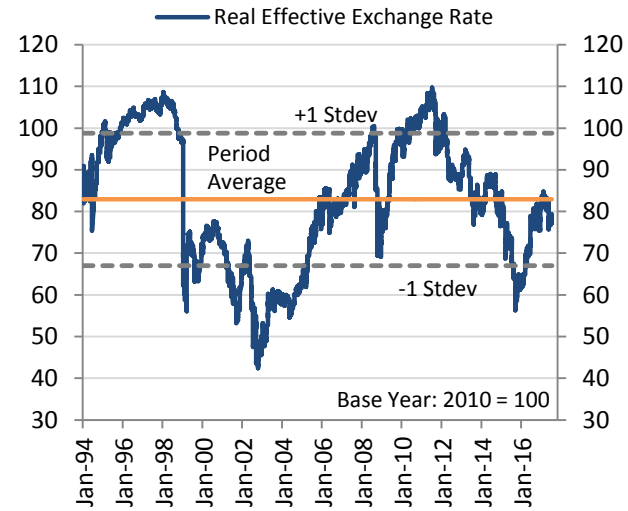
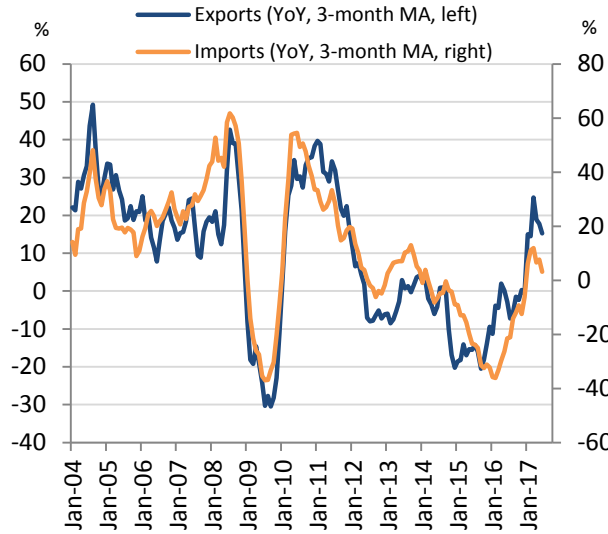
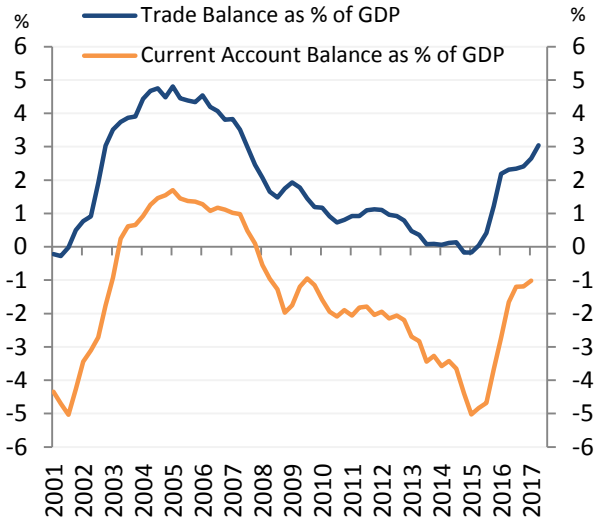
The Central Bank's policy rate has come down markedly (current: 10.25%), on the back of the sharp fall in inflation



The stabilization of the economy leaves room for optimism for a reversal of the unemployment rate



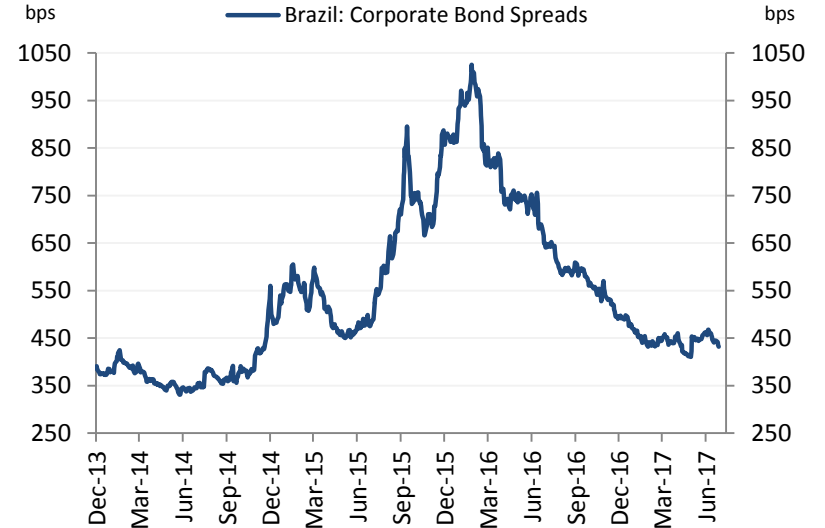
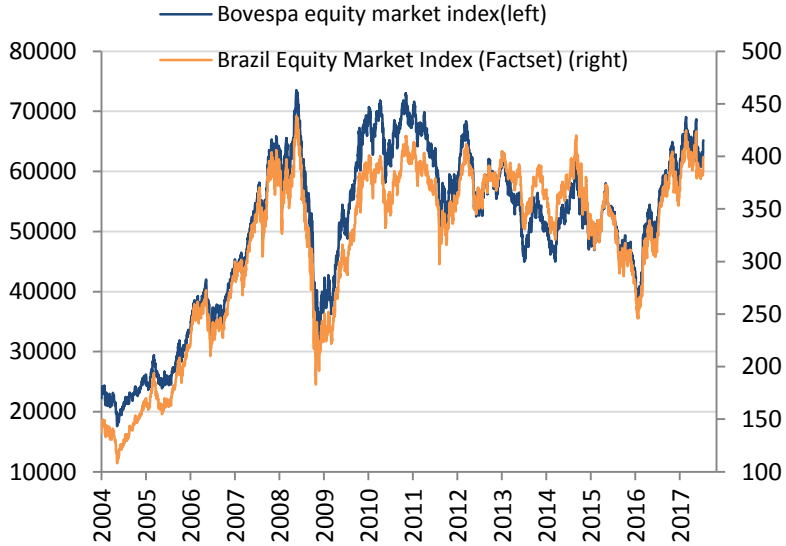
Fiscal consolidation is high on the policy agenda, with the fragile political environment a concern



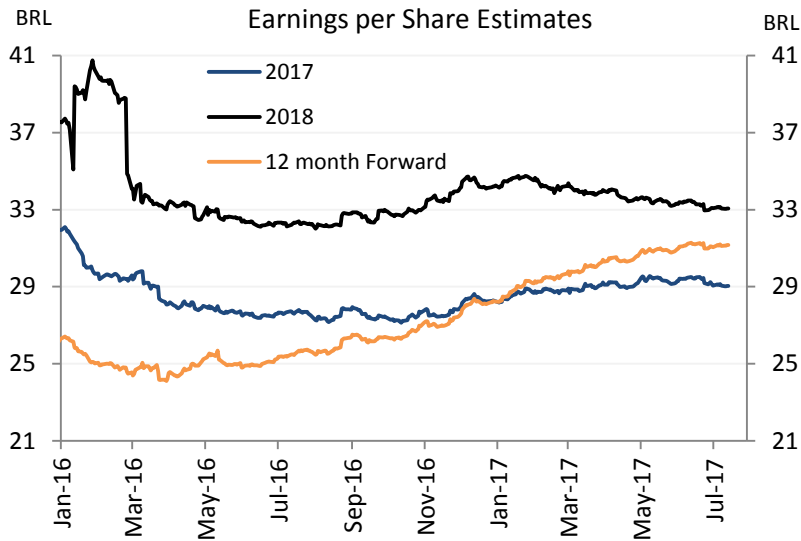
Source: IMF Fiscal Monitor, April 2017

Source: IMF Fiscal Monitor, April 2017

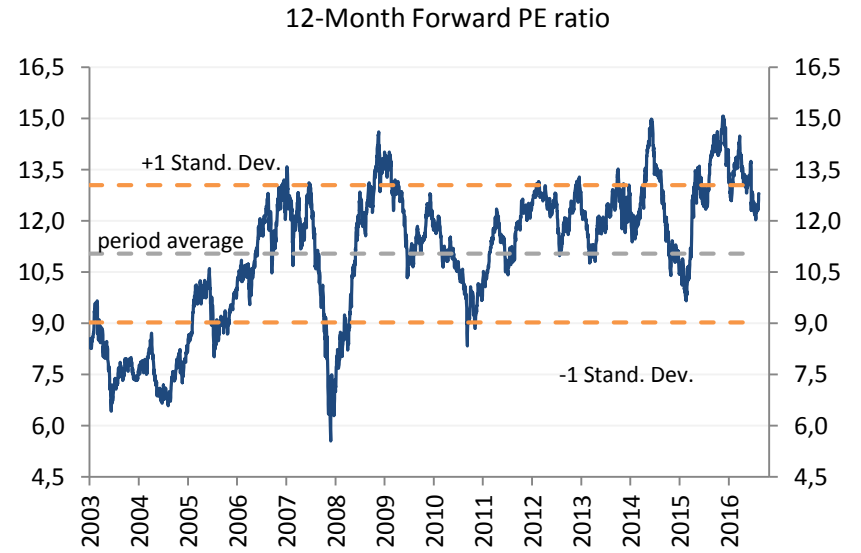
The improvement of the economic outlook supported Brazilian equities (+8.2% YTD), although the recent resurgence in political uncertainty interrupted the positive trend beginning in mid-May



Source: JP Morgan Corporate EM Bond Index (CEMBI)

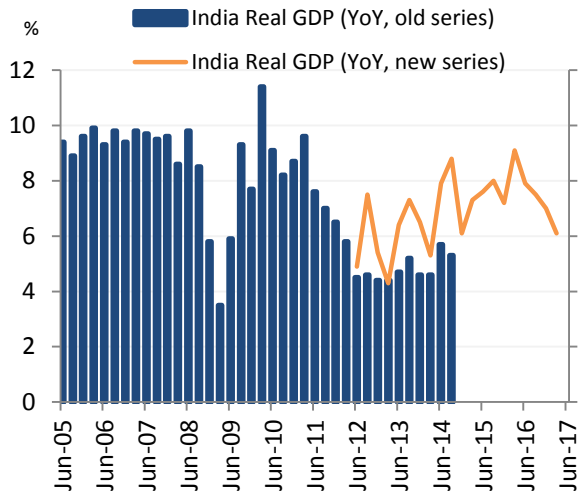


Source: Factset

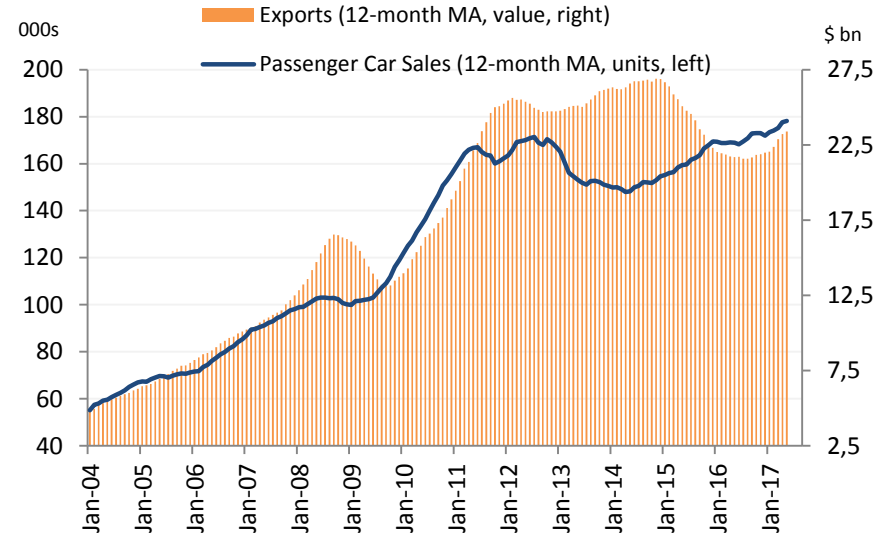
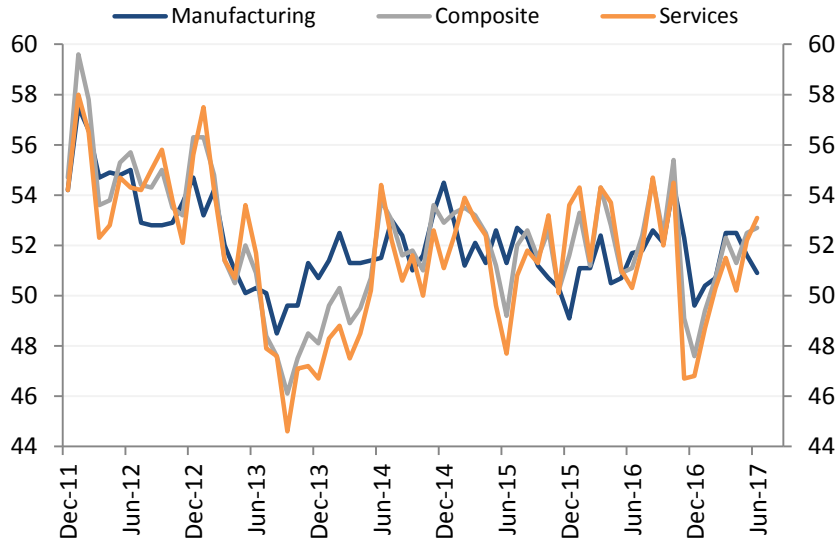
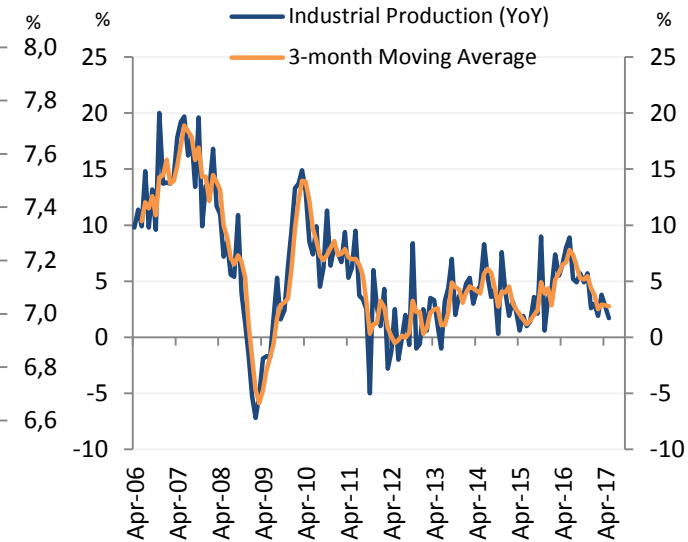
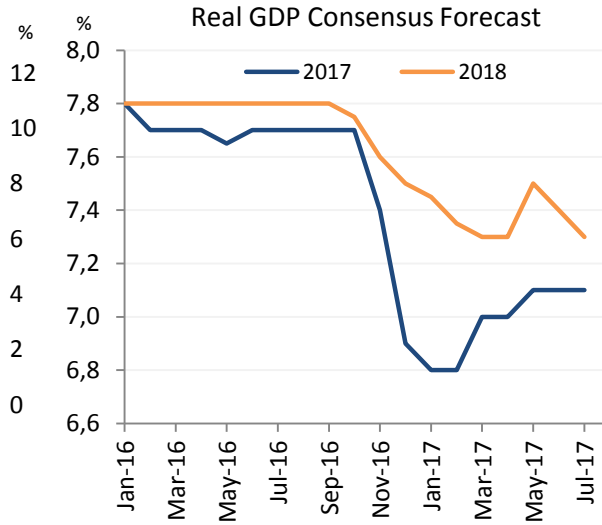


Source: Factset

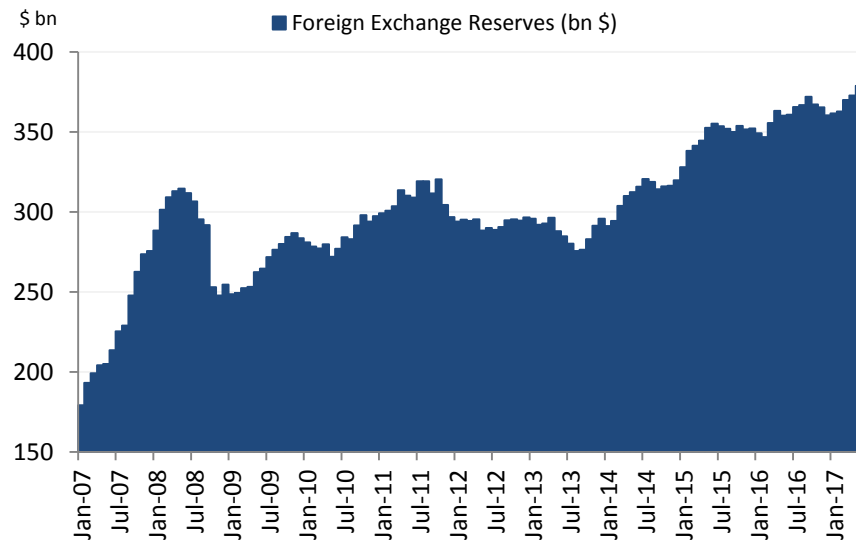
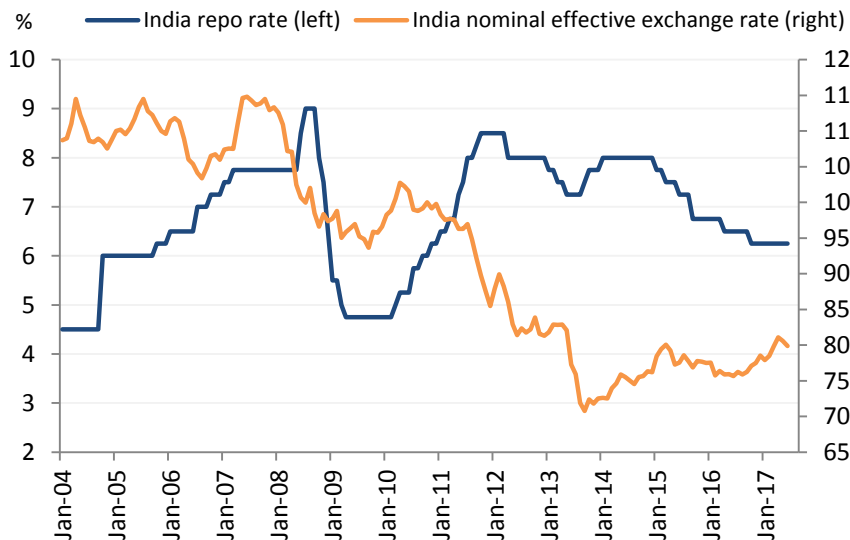
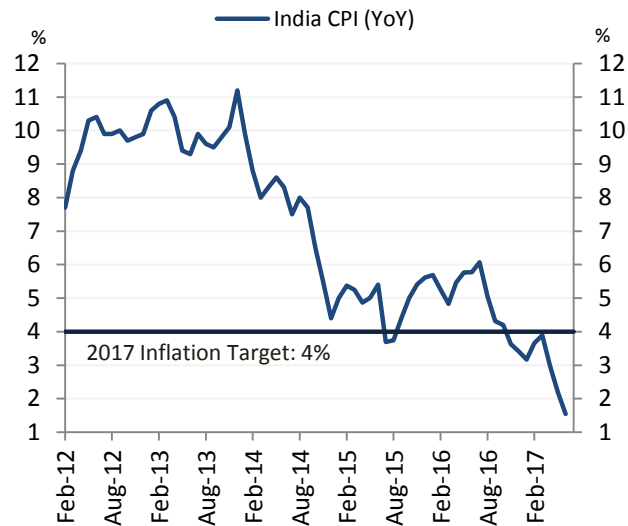
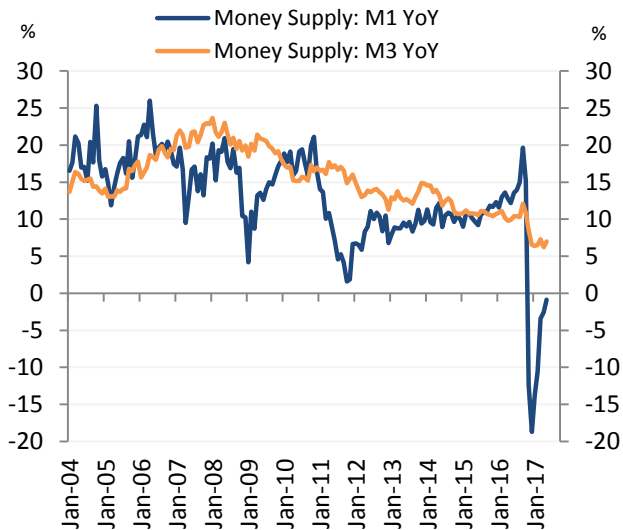
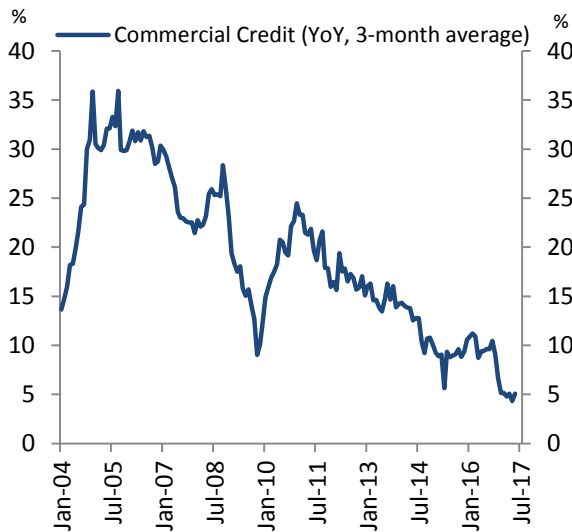
India: GDP growth posted a transitory decline to 6.1% yoy in Q1:17 (7.0% yoy in Q4:16), but is expected to return to the range of 7.0% - 7.5% yoy by end-year



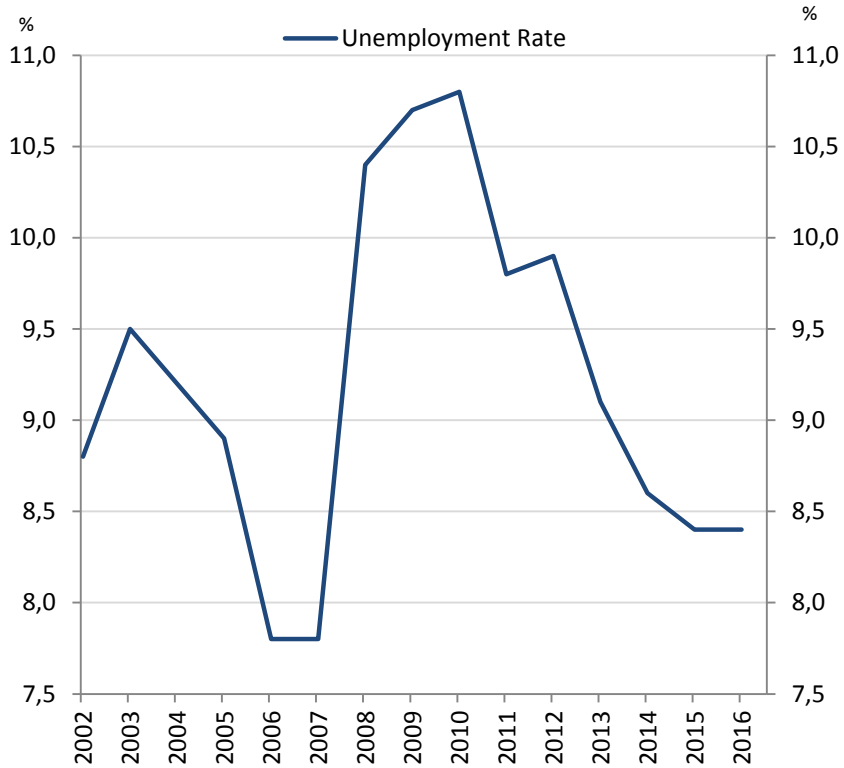
Source: India Central Statistical Organisation



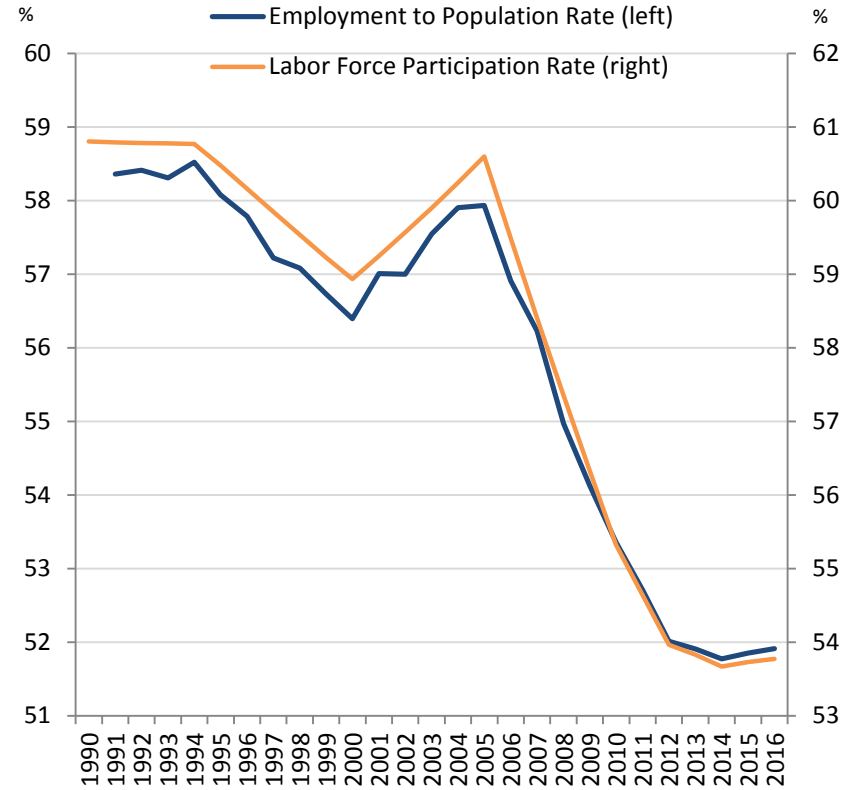
The Central Bank stood pat since October, viewing the inflation undershoot (2.2% yoy in April) as transient and emphasizing macro prudential issues (corporate indebtedness & stressed bank loans)



Increasing the labor force participation rate is of significant importance for the medium to long-term economic outlook and high on the Government's agenda

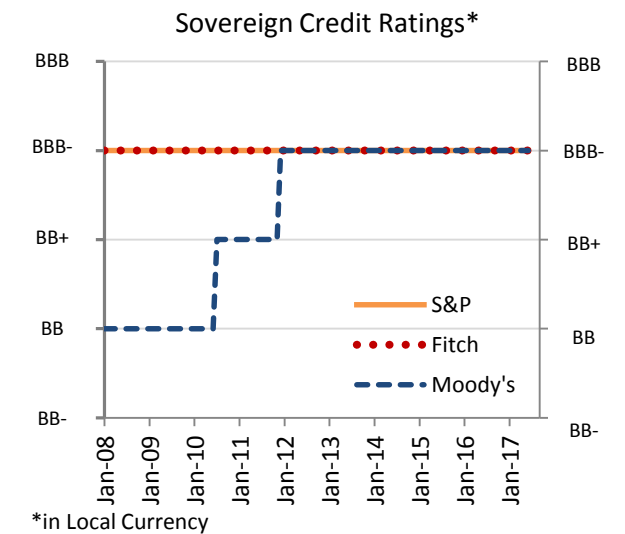
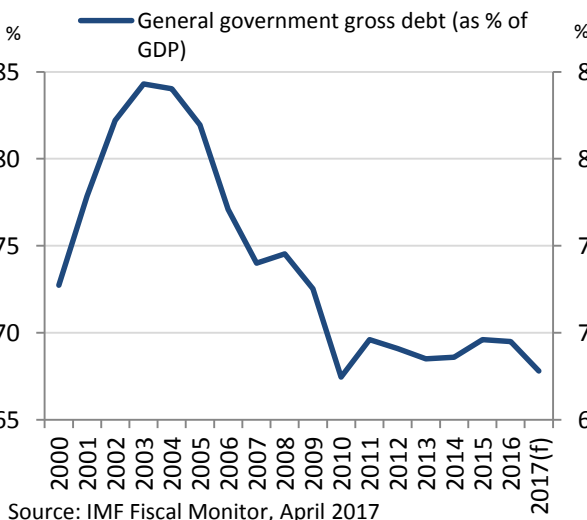
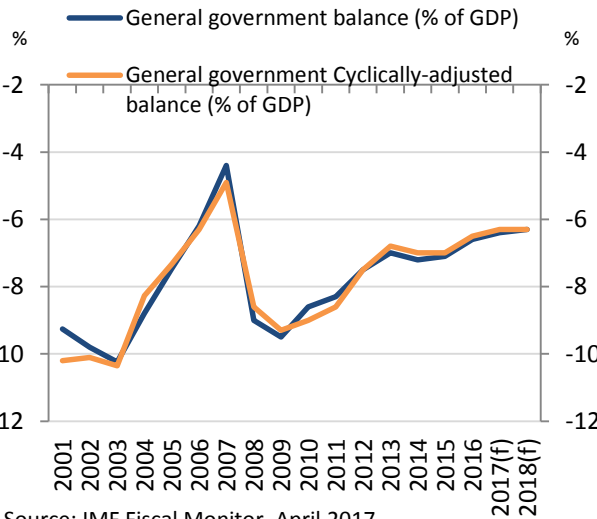
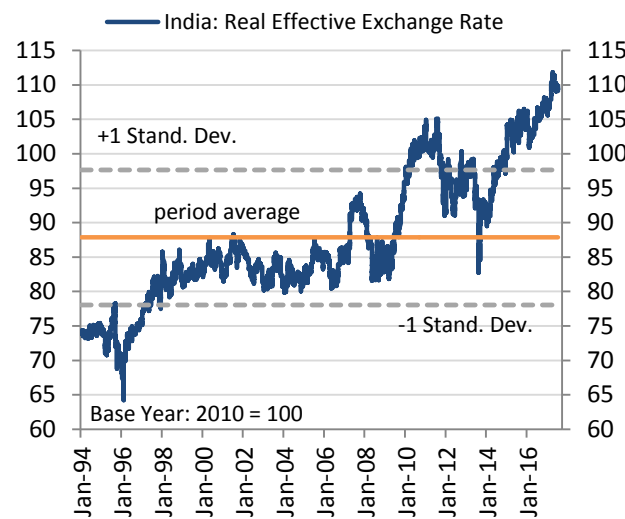
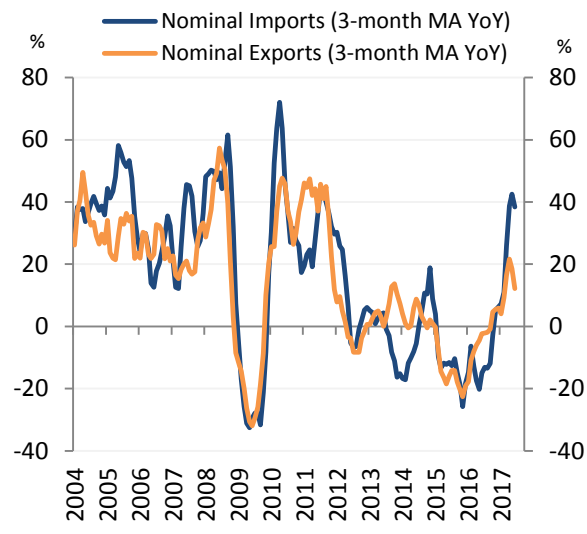
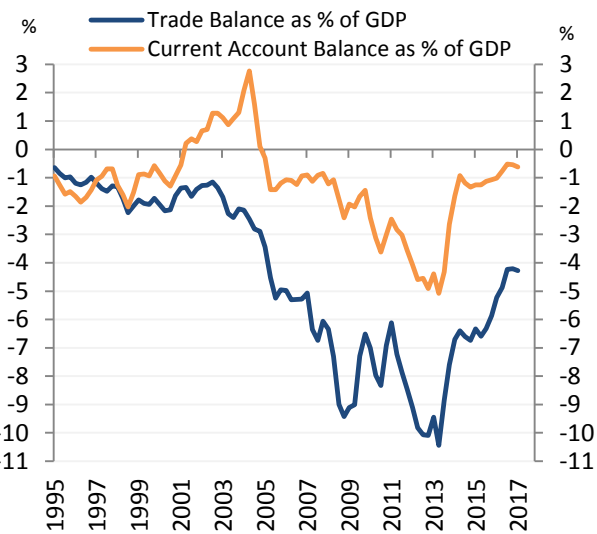


Source: Bloomberg (data as of 2016)



Source: World Bank (annual data, as of 2016)

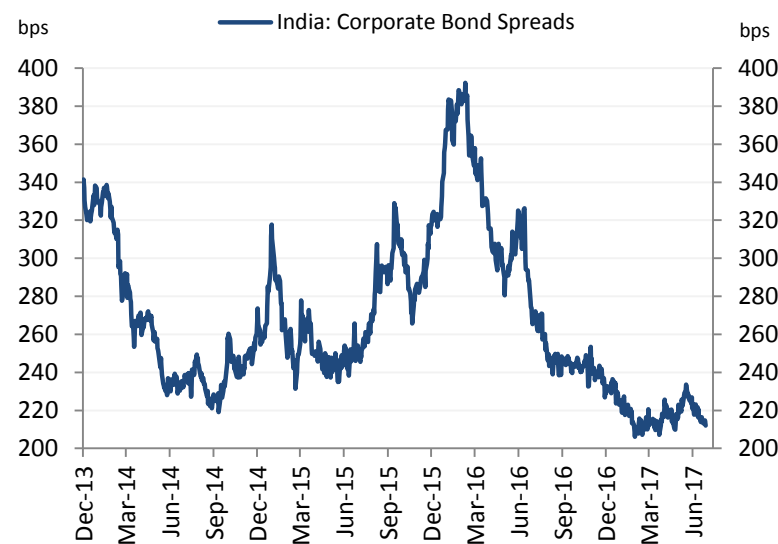
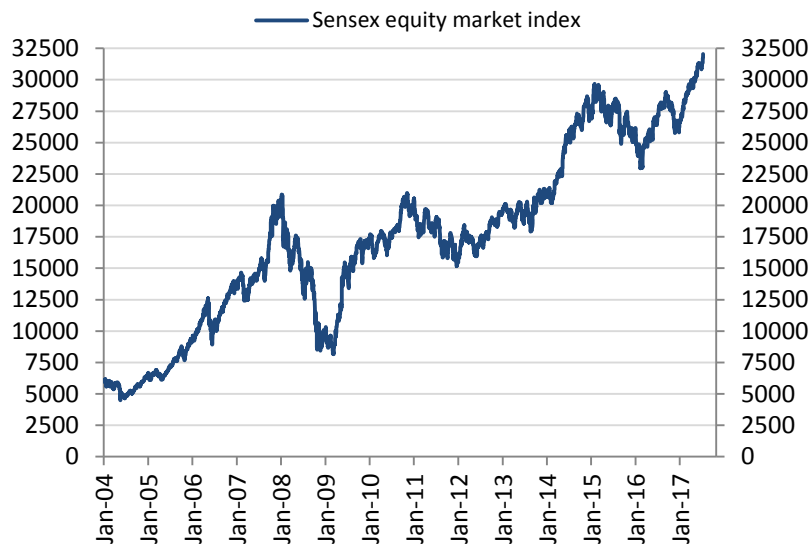
Fiscal consolidation to continue, with the Fiscal Responsibility and Budget Management Committee recommendations, if fully applied, leading the General Government Debt to c. 60% of GDP by 2023 from 70% of GDP currently



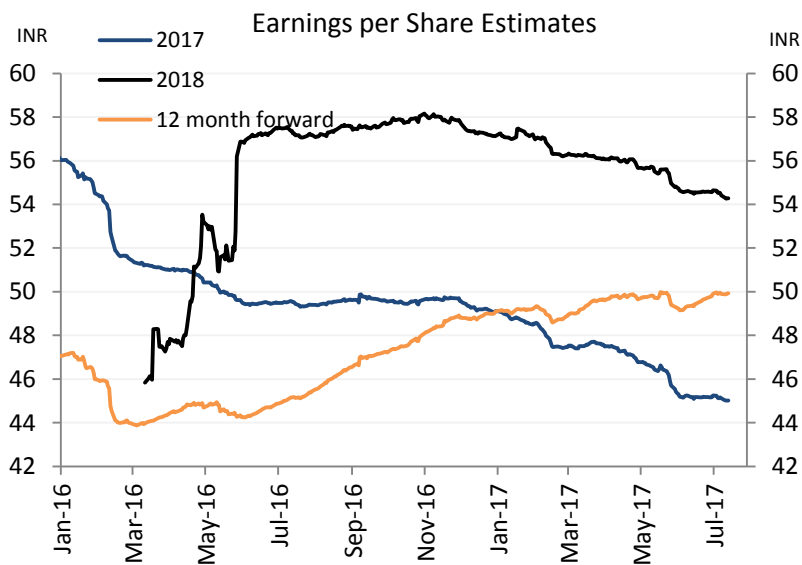
Source: IMF Fiscal Monitor, April 2017

Source: IMF Fiscal Monitor, April 2017

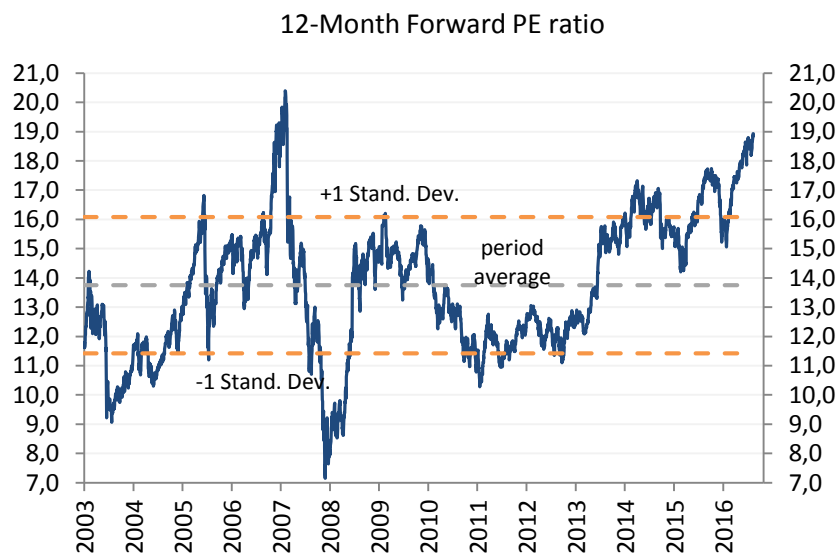
So far in 2017, equities (+20.3%) overperform their EM peers (+16.6%), although P/E valuations appear stretched



Source: JP Morgan Corporate EM Bond Index (CEMBI)

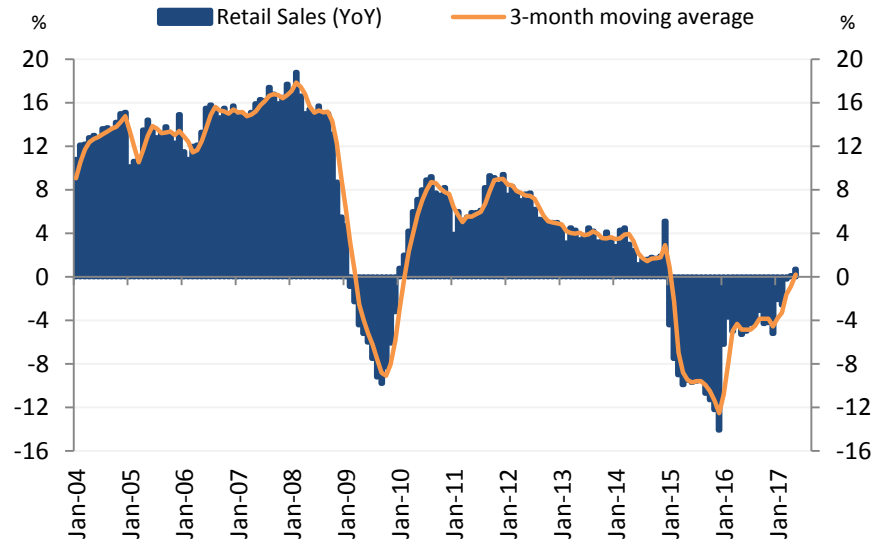
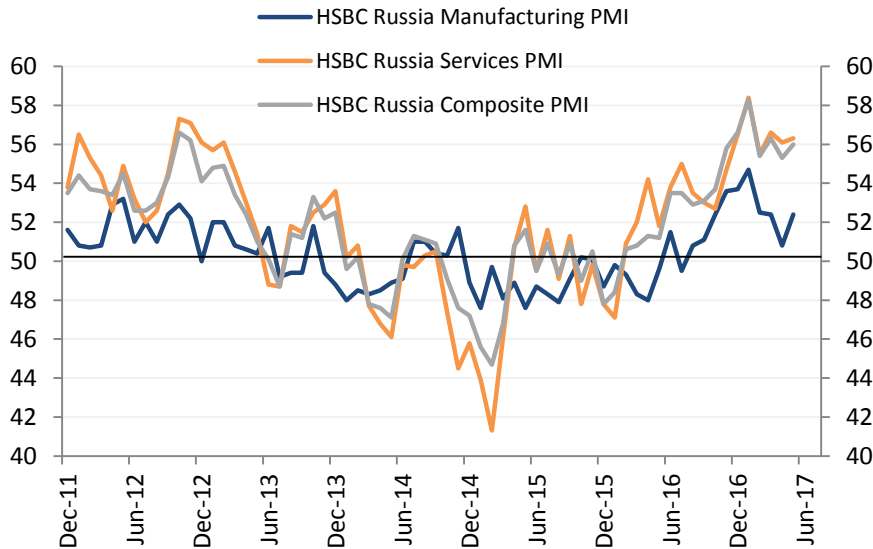
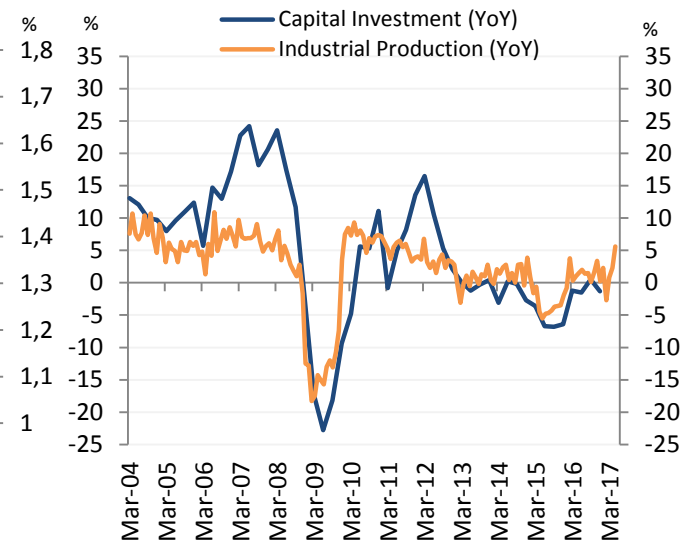
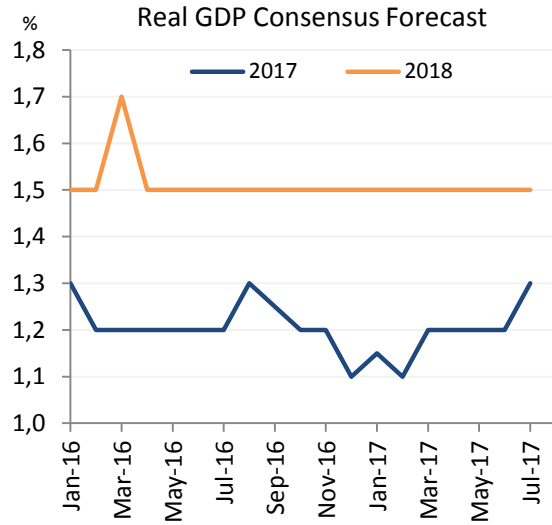


Source: Factset

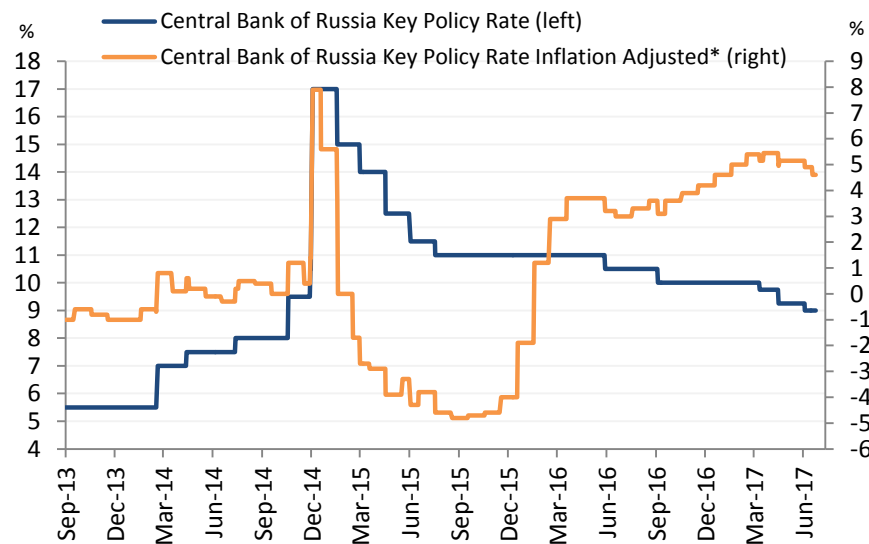
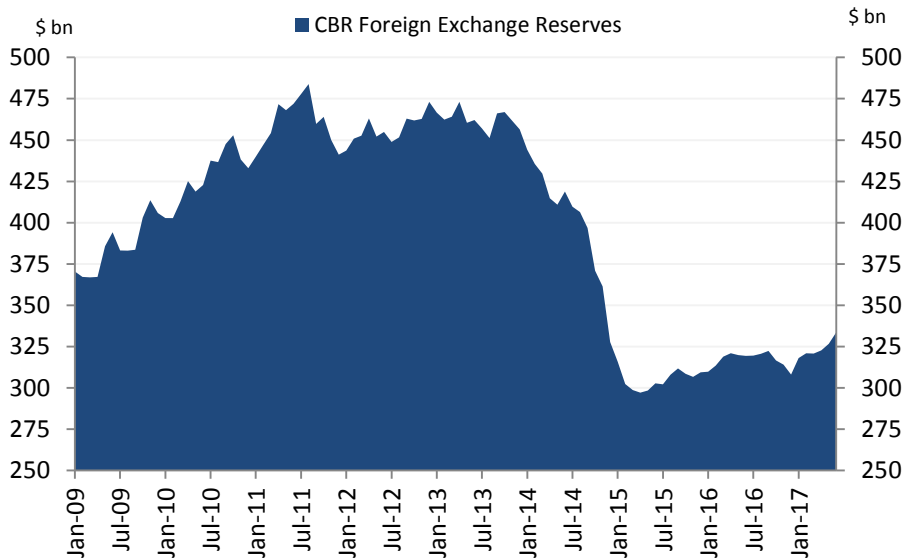
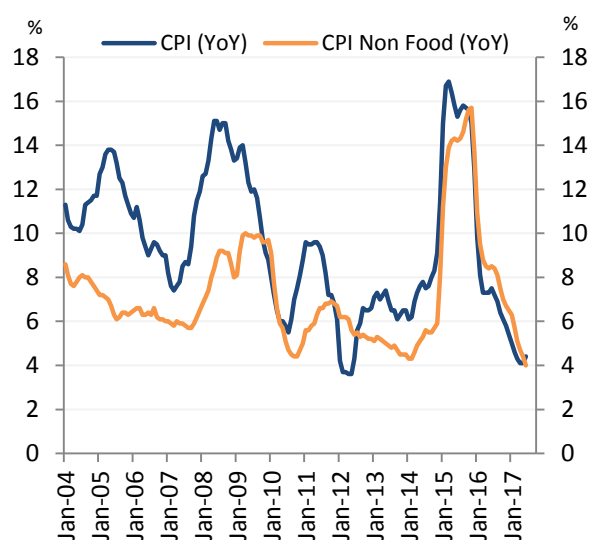
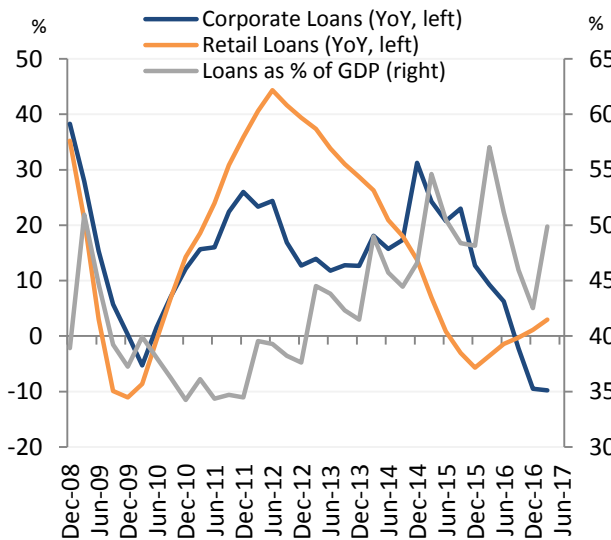


Source: Factset

Russia: The annual growth of GDP has turned positive since Q4:16 (+0.3% yoy in Q4:16 & +0.5% yoy in Q1:17), after 7 quarters of negative readings. High frequency indicators suggest further improvement looking forward

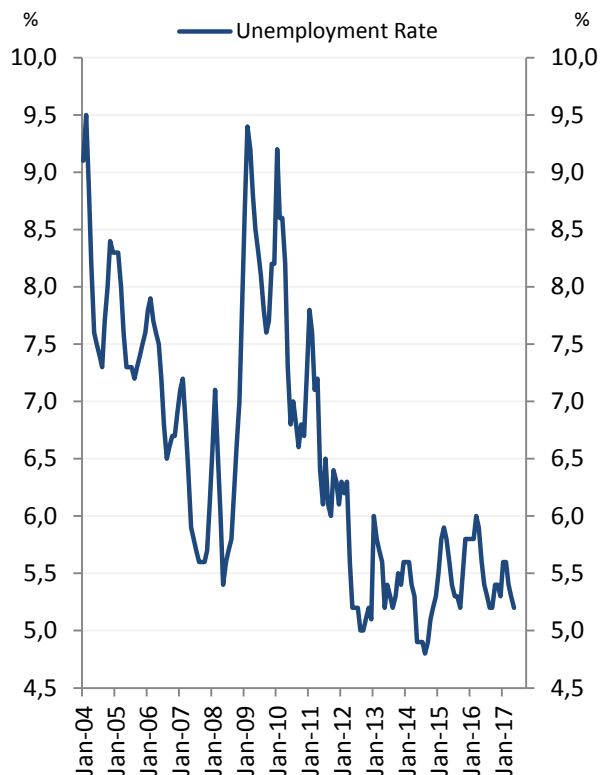


The sharp fall in inflation, albeit partly due to base effects relating to food prices, prompted the central bank to resume interest rate cuts

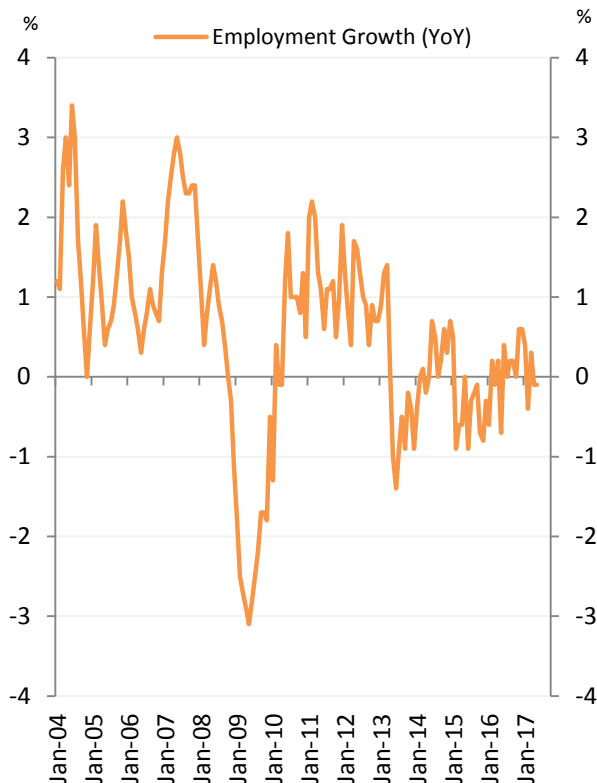


*: Using realized CPI Inflation

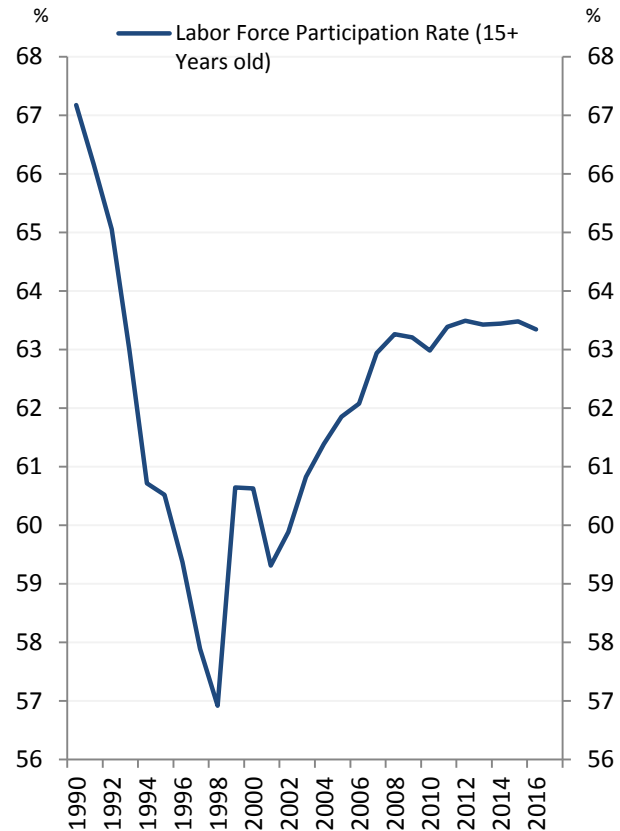
The unemployment rate has stabilized in the range of 5.2% - 5.6% since mid-2016



Source: Federal State Statistics Service, Bloomberg (monthly data as of May 2017)

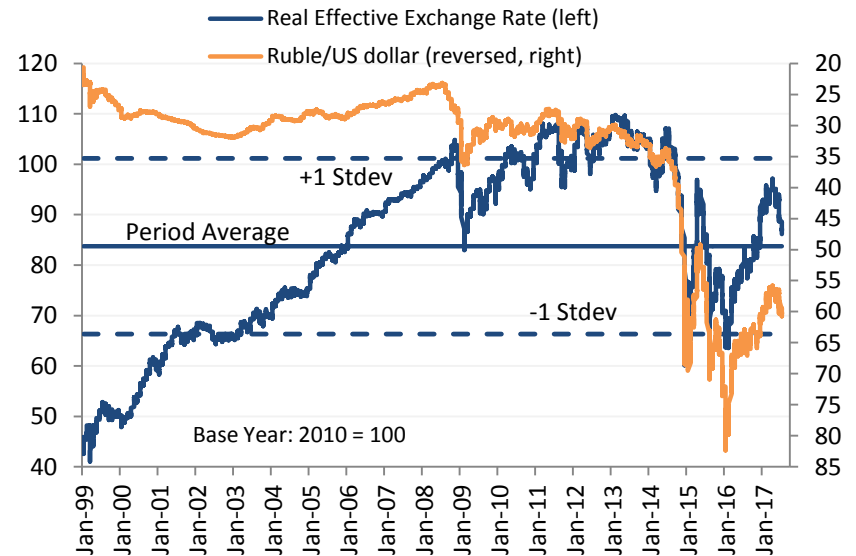
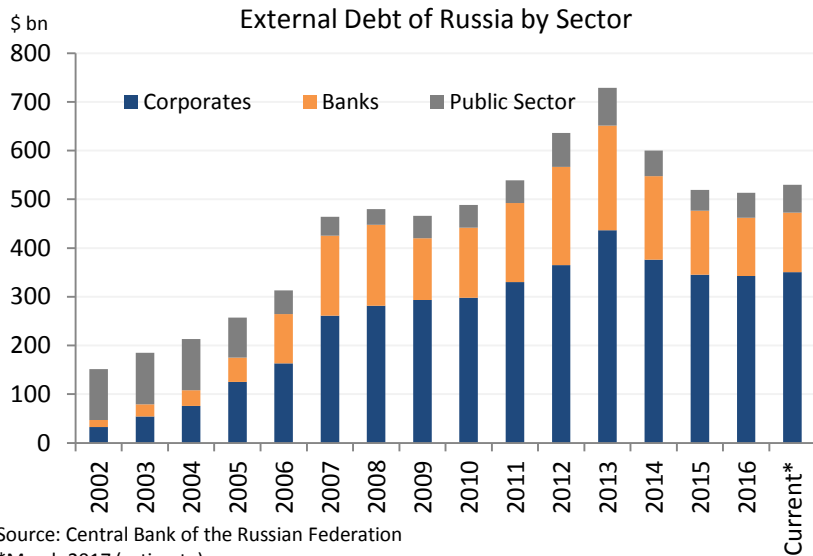
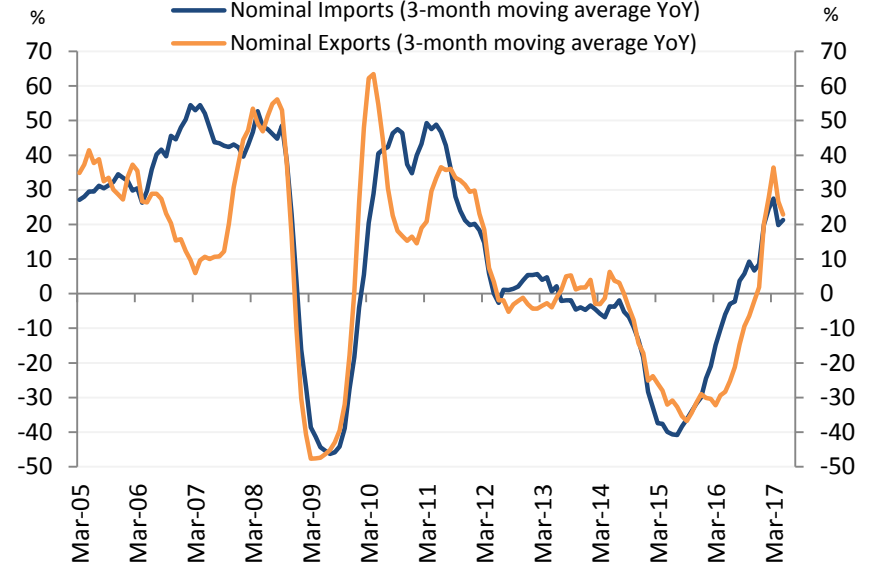
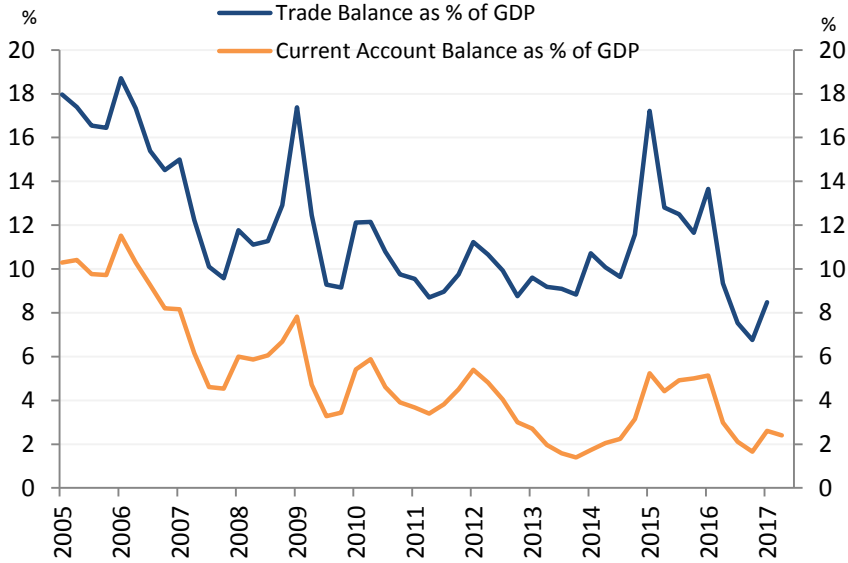


Source: Federal State Statistics Service, Bloomberg (monthly data as of May 2017)



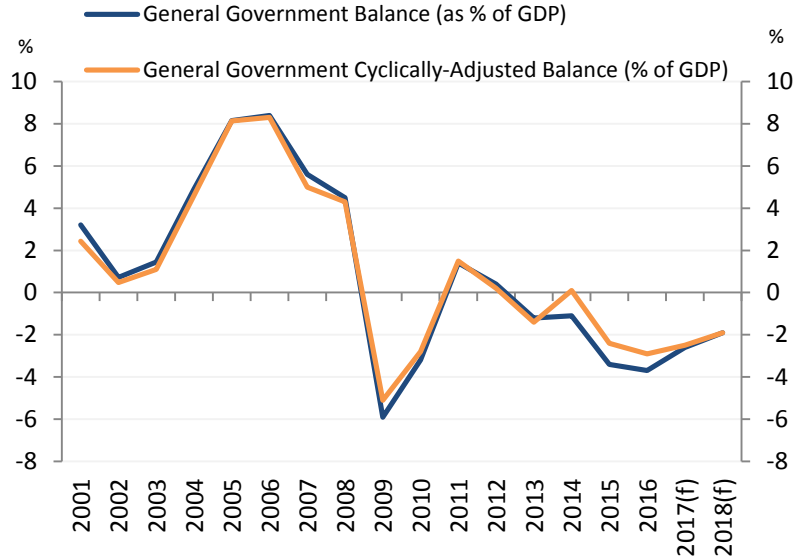
Source: World Bank (annual data, as of 2016)

The improved economic outlook supports the Ruble, which has increased +2.7% YTD versus the USD to 60 RUB/\$, despite oil prices moderating by c. 13%

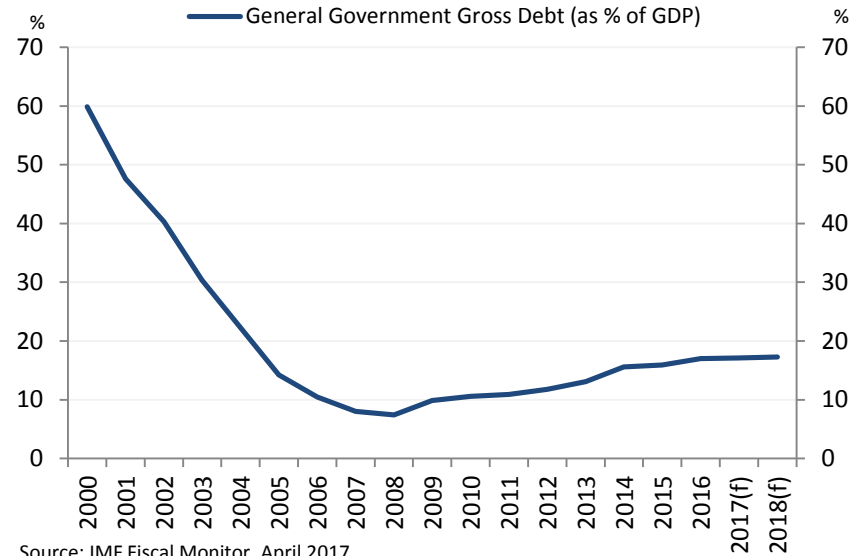


Source: Central Bank of the Russian Federation
*March 2017 (estimate)

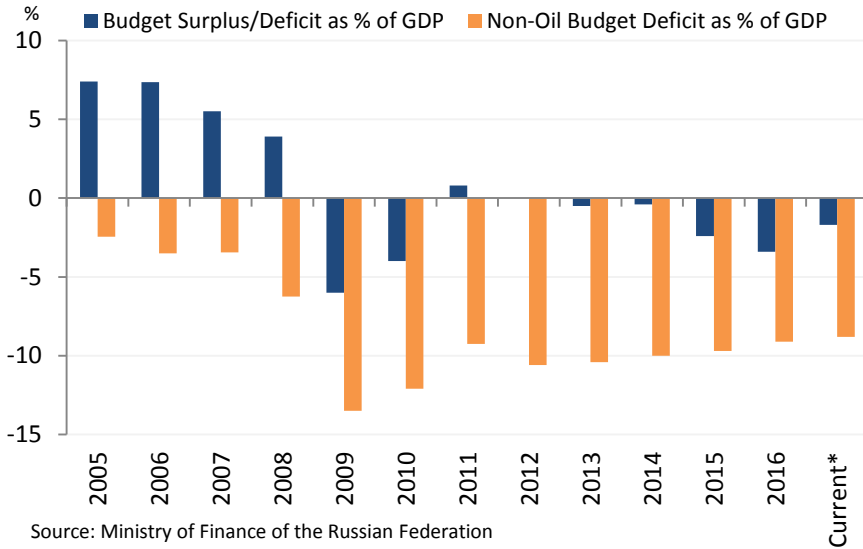
The Government targets a balanced budget by 2020, while the goal for the budget deficit in 2017 was recently revised down to 2.1% of GDP (initial: 3.2%), from 3.4% of GDP in 2016



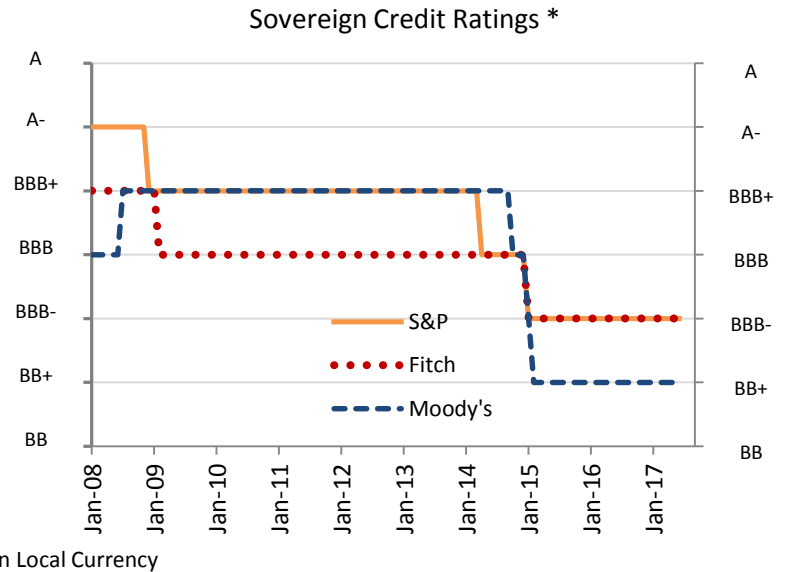
Source: IMF Fiscal Monitor, April 2017



Source: IMF Fiscal Monitor, April 2017

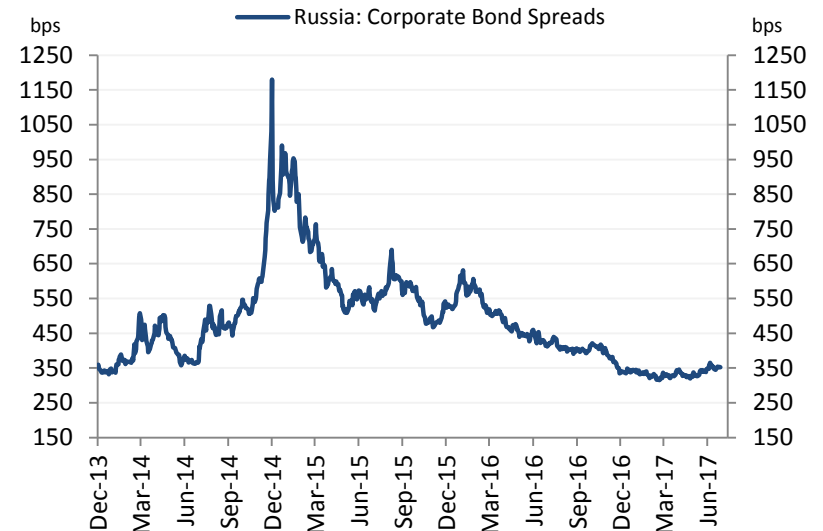
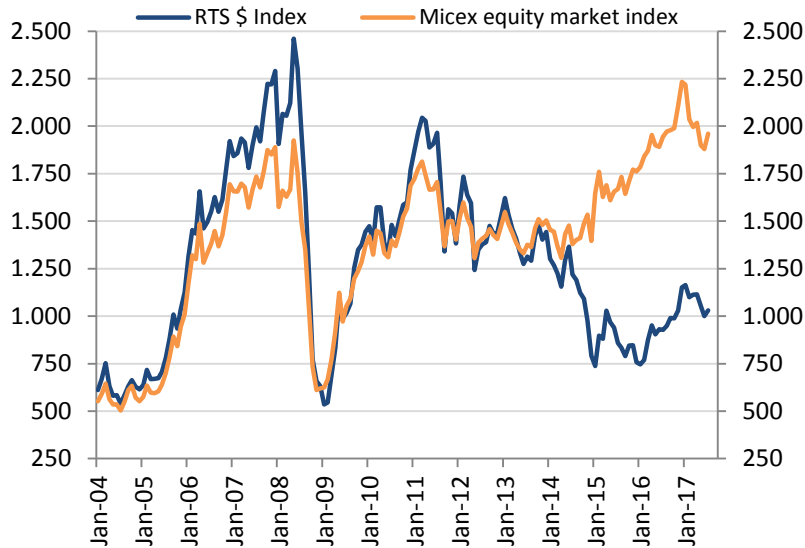


Source: Ministry of Finance of the Russian Federation
* May 2017 YtD

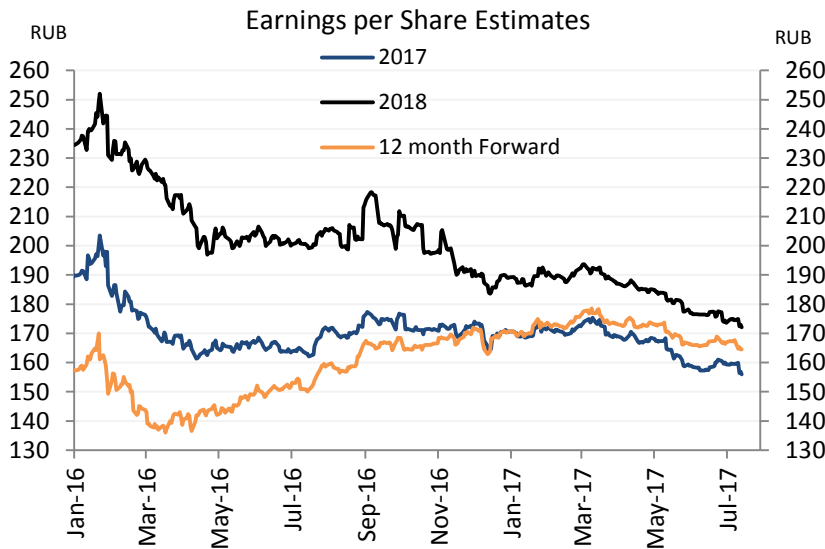


*in Local Currency

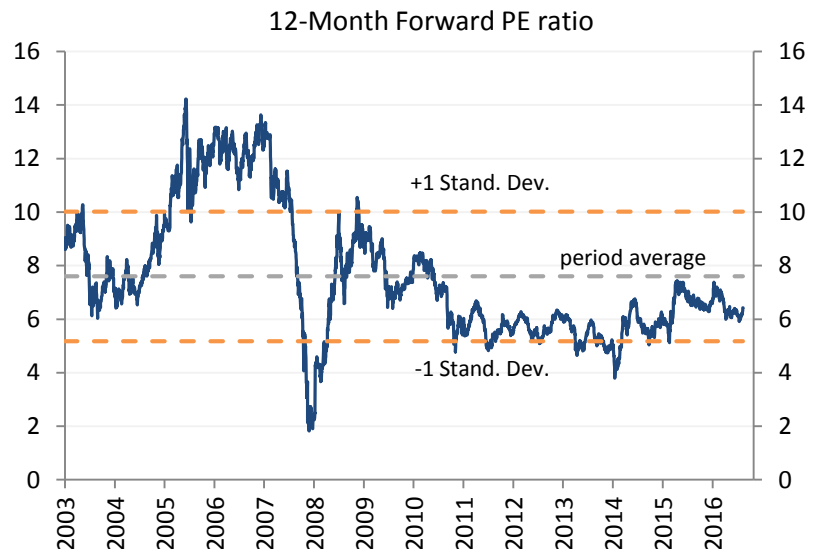
Despite the improved economic prospects, Russian equities declined by 12% YTD, in line with the fall in oil prices (13% YTD), as the Energy sector represents c. half of total market capitalization



Source: JP Morgan Corporate EM Bond Index (CEMBI)



Source: Factset



Source: Factset

DISCLOSURES:

This report is provided solely as a sheer reference for the information of experienced and sophisticated investors who are expected and considered to be fully able to make their own investment decisions without reliance on its contents, i.e. only after effecting their own independent enquiry from sources of the investors' sole choice. . The information contained in this report does not constitute the provision of investment advice and under no circumstances is it to be used or considered as an offer or an invitation to buy or sell or a solicitation of an offer or invitation to buy or sell or enter into any agreement with respect to any security, product, service or investment. No information or opinion contained in this report shall constitute any representation or warranty as to future performance of any financial instrument, credit, currency rate or other market or economic measure. Past performance is not necessarily a reliable guide to future performance. National Bank of Greece and/or its affiliates shall not be liable in any matter whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance on or usage of this report and accepts no legal responsibility to any investor who directly or indirectly receives this report. The final investment decision must be made by the investor and the responsibility for the investment must be taken by the investor.

Any data provided in this report has been obtained from sources believed to be reliable but has not been independently verified. Because of the possibility of error on the part of such sources, National Bank of Greece does not guarantee the accuracy, timeliness or usefulness of any information. Information and opinions contained in this report are subject to change without notice and there is no obligation to update the information and opinions contained in this report. The National Bank of Greece and its affiliate companies, its representatives, its managers and/or its personnel or other persons related to it, accept no responsibility, or liability as to the accuracy, or completeness of the information contained in this report, or for any loss in general arising from any use of this report including investment decisions based on this report. This report does not constitute investment research or a research recommendation and as such it has not been prepared in accordance with legal requirements designed to promote investment research independence. This report does not purport to contain all the information that a prospective investor may require. Recipients of this report should independently evaluate particular information and opinions and seek the advice of their own professional and financial advisers in relation to any investment, financial, legal, business, tax, accounting or regulatory issues before making any investment or entering into any transaction in relation to information and opinions discussed herein.

National Bank of Greece has prepared and published this report wholly independently of any of its affiliates and thus any commitments, views, outlook, ratings or target prices expressed in these reports may differ substantially from any similar reports issued by affiliates which may be based upon different sources and methodologies.

This report is not directed to, or intended for distribution to use or use by, any person or entity that is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to any law, regulation or rule.

This report is protected under intellectual property laws and may not be altered, reproduced or redistributed, or passed on directly or indirectly, to any other party, in whole or in part, without the prior written consent of National Bank of Greece.

ANALYST CERTIFICATION:

Each individual contributing to this report and whose name is listed on page 1 hereby certifies that all of the views expressed in this report accurately reflect his or her personal views solely, about any and all of the subject issues. Further, each of these individuals also certifies that no part of any of the report analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this report. Also, all opinions and estimates are subject to change without notice and there is no obligation for update.