Global economy: teetering on the edge

"This President is not about half measures. You can't meet the Chinese halfway..."

Peter Navarro, Assistant to the President and Director of the Office of Trade and Manufacturing Policy on Fox News, 14 August 2019

Escalation of trade wars leads to cuts in our global growth outlook

The trade wars are taking a toll on the outlook for the world economy and following the latest escalation of tensions we are downgrading our forecasts. We now expect global growth of 2.6% this year and 2.4% next (previous forecast 2.8% and 2.6% respectively). If the forecast is realised, global growth in 2020 would be similar to 2008, just before the great recession of 2009 (see chart on front page).

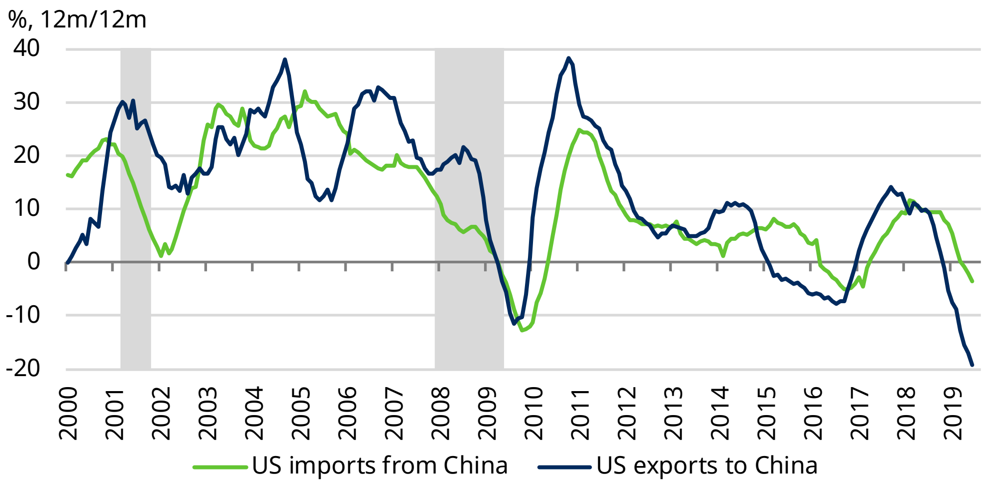
The key driver is the re-escalation of the trade wars following President Trump's decision to impose 10% tariffs on the remaining $300 billion of imports from China from 1 September. Rather than meeting China's call to withdraw all tariffs and negotiate freely, the US has taken the opposite tack. Although the US will now stagger the introduction of customs duties, China has already responded by allowing the yuan (CNY) to fall through 7.0, a level previously seen as a line in the sand, and by asking its state owned enterprises to suspend purchases of agricultural imports from the US.

Rather than expecting a boost to global growth as a trade deal between the US and China is struck at the end of the year, we now see an extended period of economic weakness as uncertainty weighs on the willingness of firms and households to make significant spending decisions. Investment plans are likely to be further delayed or cancelled particularly now that tariffs are more likely to be permanent rather than temporary.

China has cut imports from the US sharply

The Chinese and wider Asian supply chain will be most affected, but US activity will also suffer and we have cut our growth forecast from 2.6% to 2.3% this year and from 1.5% to 1.3% next. It has been noticeable that US exports to China have fallen faster in value than imports from China, and have essentially collapsed (chart 1). China's "command and control economy" has reacted faster than the market driven US.

Chart 1: US exports and imports with China



Source: Refinitiv Datastream, Schroders Economics Group. 20 August 2019.

Whilst the impact of a given fall in exports is greater for China than the US, our rough calculations suggest that the actual downswing in exports (from growing at around 10% a year ago in both countries to today) has taken just over a quarter of a percent off US GDP growth compared with half a percent off Chinese growth. China is relatively worse off, but the differential is far less than expected to the cost of the US.

The president's plan?

...and is unlikely to respond to the US tactics

From this perspective the question is why has the president chosen to pursue confrontation rather than co-operation with China; is there a plan? Our original assumption was that it would be more rational, given the upcoming election year, to strike a deal and get the benefits of lower tariffs and a recovery in growth.

Going forward it is difficult to identify the president's strategy. It is possible that supported by trade hawks such as Peter Navarro, the director of trade and manufacturing policy, he expects China to simply back down, but that seems to ignore the willingness of Beijing to withstand economic hardship and resist a loss of face.

Another possibility is that Trump really believes that tariffs will be good for US workers whose jobs will be protected from "unfair" competition and, having been frustrated at the lack of progress on reducing the bilateral deficit, is now doubling up. Of course, this doesn't allow for the loss of jobs at US exporters, or the economic cost of having to replace imports by buying from less efficient producers. Nonetheless, Trump was elected on a protectionist agenda (America First) and with the Democrats supporting his trade measures he would not wish to be seen as going soft on China.

The policy response

The danger in the strategy is that activity weakens considerably and inflation picks up with a knock-on effect to the equity market. Firms that may have been holding off from passing on tariffs or adjusting production as they wait for a more favourable turn in the trade talks are now likely to react. The new tariffs cover a wide range of consumer goods such as electronics and toys where tariffs will be noticed by households. We have raised our forecast for core CPI inflation as a result, which is expected to pick up to 2.5% y/y in the first half of 2020.

Interest rates to fall faster and further

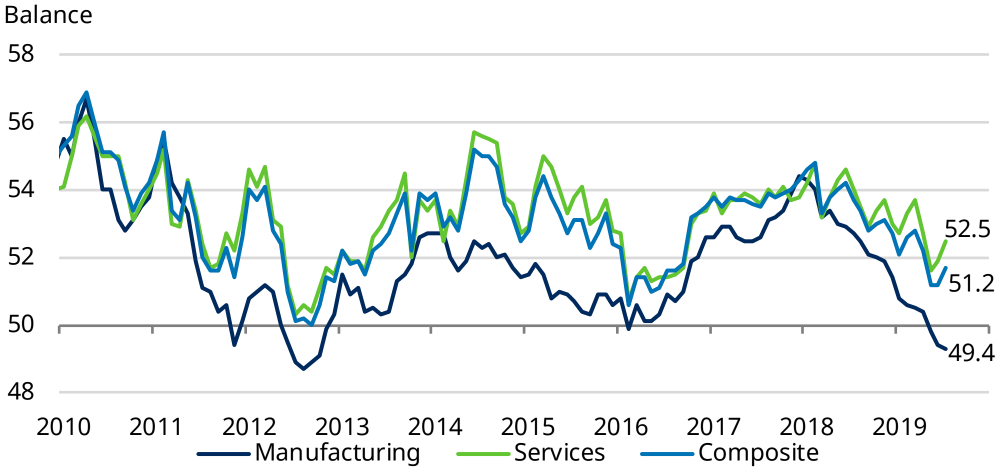
Nonetheless, the escalation in trade wars is expected to lead to more rate cuts. Although core CPI inflation is higher, we expect the Federal Reserve (Fed) to look through this, especially as headline inflation will be kept close to 2% as a result of lower oil prices. Consequently, the weaker growth profile we now forecast for the US allows the Fed to cut rates twice more this year (in September and December) and bring forward easing in 2020 (to March and June). We have taken out the pause in rates from our previous forecast and now see policy rates at 1.25% at the end of next year (previously 1.5%). What starts as insurance rate cuts morphs into a more conventional easing cycle.

We also see lower interest rates elsewhere: the European Central Bank (ECB) is now expected to cut rates in September and December 2019 and the Bank of Japan cuts in December. The Bank of England is not expected to raise rates until late in 2020 and only then on the contentious assumption that the UK achieves a Brexit deal with a transition period. In China, fiscal policy is eased more than previously expected and next year we have more interest rate cuts.

Scenarios

We have updated our scenarios to reflect the current balance of risks around the baseline. Our separate recession scenarios ("US recession 2020" and "Recession ex.US") have been rolled into one "Global recession" to reflect the synchronised slowdown in global activity. The downturn is more severe than in our baseline as corporate cut backs hit both capital spending and employment much harder, forcing a more significant adjustment in consumer spending. This would result in the service sector purchasing managers' index (PMI) converging lower toward its manufacturing counterpart which has borne the brunt of the downturn (chart 2).

Chart 2: Global PMI weakness concentrated in manufacturing



Source: Markit, Schroders Economics Group. 20 August 2019.

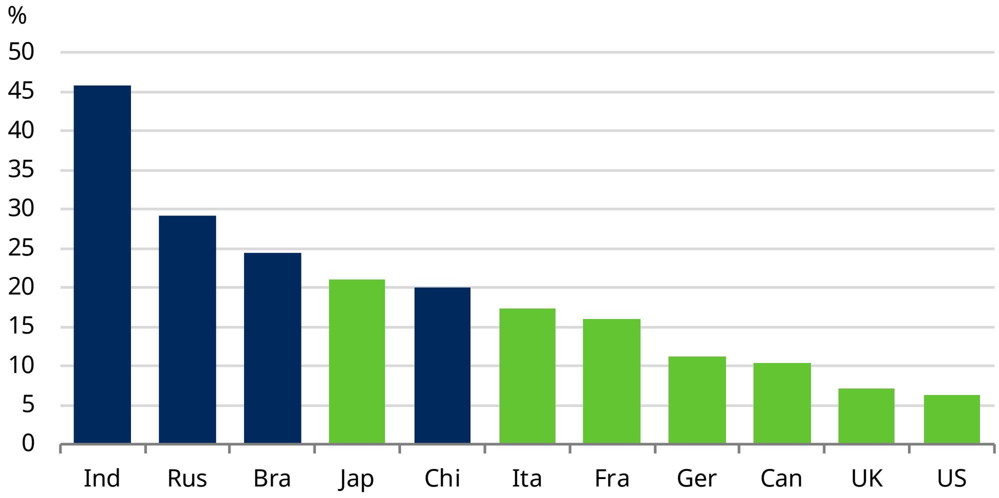
Scenarios focus on trade and currency wars

Given the change in our baseline we now have a "US-China trade deal" as a scenario where tariffs between the two nations are cut, resulting in a better growth-inflation outcome. We retain our more adverse trade scenario which becomes "Global trade war" where the US increases tariffs even further (to 50%) and opens up a new front with Europe and Japan on autos.

Continuing the conflict theme we add a currency war scenario: "USD intervention" where the US sells dollars to drive its currency down by 20%. This then moderates to a 10% devaluation as policy is eased elsewhere to offset currency appreciation and tighter financial conditions. After initial volatility, global growth ends up being stronger as a result of the boost to the US, central bank easing elsewhere and the favourable effects of a weaker dollar on global trade.

On the inflation front, we drop our "Oil jumps to $100" scenario as prices have not responded to increased tensions in the Gulf as anticipated. Supply concerns have been alleviated by strong US production, whilst the demand outlook remains uncertain. Instead we introduce a "Food price shock" where the UN FAO (Food and Agriculture) index jumps by 50% on failed harvests and supply shortages which feeds directly into higher consumer inflation. The emerging markets are hit badly as food accounts for a considerably higher proportion of household consumption than in developed economies (chart 3).

Chart 3: Food as % CPI by country: emerging economies are vulnerable

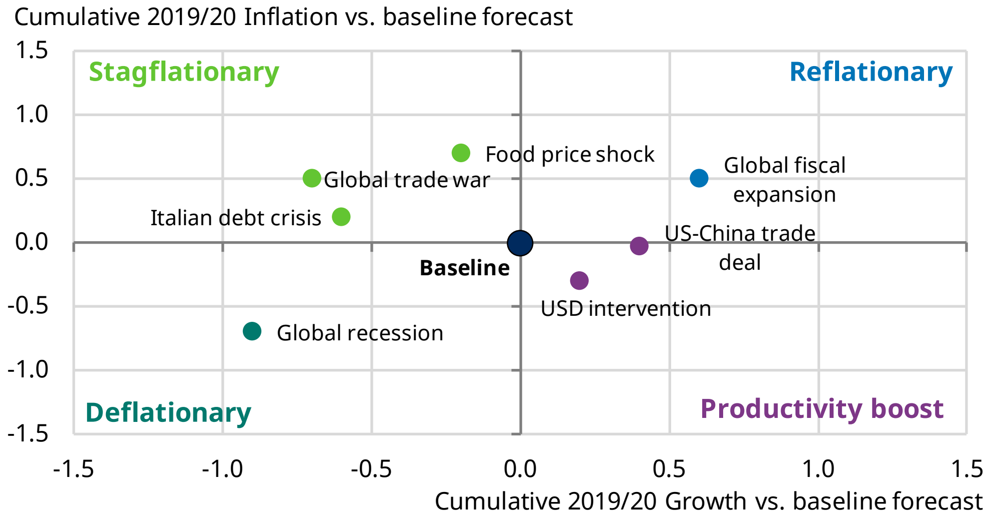


Source: Refinitiv Datastream, Statistics Bureau of Japan, Ministry of Statistics & Programme Implementation (India). Schroders Economics Group. 20 August 2019.

On the fiscal side we have extended our China stimulus scenario into a broader "Global fiscal stimulus" scenario where governments cut taxes and increase spending around the world. Finally, we have retained our "Italian debt crisis" scenario. Italy is likely to face a general election in the autumn after which a budget will be set. In this scenario, an empowered populist government puts forward a budget that contravenes European Union (EU) rules. The resulting stand-off leads to a widening of Italian bond spreads which undermines the country's debt dynamics.

The impact of the different scenarios on growth and inflation show three of the scenarios generating a more stagflationary outcome with higher inflation and lower global growth than the baseline (chart 4).

Chart 4: Scenarios: global growth and inflation versus base



Source: Schroders Economics Group. 19 August 2019. Please note the forecast warning at the back of the document.

When combined with global recession, four of our scenarios imply weaker global growth which would bring the world economy close to recession. On the upside we have three scenarios where global activity is stronger, each of which requires an active policy decision to either expand fiscal policy, end the trade wars or devalue the US dollar.

Growth risks are skewed to the downside

In the view of the economics team the scenario with the highest probability is "Global recession" at 8%, closely followed by "Global trade war" at 7%. Overall we see the balance of probabilities as being skewed toward weaker growth than the baseline (25% probability for stagflation and deflation) with stagflationary outcomes the most likely (see table 1).

Table 1: Balance of probabilities

Scenario	Probability August 2019, %	Probability May 2019, %	Change, (May vs. Feb) pp
Stagflationary	17	16	+1
Deflationary	8	14	-6
Reflationary	6	10	-4
Productivity boost	9	0	+9
Baseline	60	60	0

Source: Schroders Economics Group. 19 August 2019. Previous forecast from May 2019. Please note the forecast warning at the back of the document.

Keeping the wobbly bike on the road

Expect a long wait for monetary and fiscal policy to come to the rescue

At the time of our last forecast we described the world economy as a "wobbly bike": fragile and easily knocked over by a bump in the road. Our latest forecast reflects this with the additional challenge of a more protracted trade war behind the downgrade to growth.

We are not ignoring the effects of potential changes in monetary and fiscal policy. Both will provide some offset to weaker activity with interest rates falling and governments looking to cut taxes and raise spending.

Rate cuts will help and have boosted markets, but the economic stimulus will come through slowly. The normal lag from policy easing to stronger activity is around 12 months so a boost to growth would not come through until the second half of 2020. In the current environment there are reasons to believe that the lags may be longer.

Firstly, this is the first easing cycle since the global financial crisis and a more cautious banking sector will take longer to expand credit whilst households will be wary of re-leveraging. Second, interest rate cuts do little to offset the headwind created by economic uncertainty. Both geopolitical risk and policy uncertainty are high and will not be shifted by a lower cost of credit. Instead, an end to the trade wars or successful resolution of Brexit are needed.

Consequently, as rates fall and activity remains sluggish, we expect an active debate about whether central banks are simply "pushing on a string". Against this backdrop, there is likely to be more of a focus on fiscal policy as politicians look for ways to strengthen activity. UK Prime Minister Boris Johnson is actually in the vanguard here with regular public spending announcements on his travels around the country. China will also provide fiscal support. However, the political process in the US and Europe moves slowly so we expect a long delay before the fiscal cavalry truly arrives.

Schroders Economics Group: Views at a glance

Macro summary – September 2019

Key points

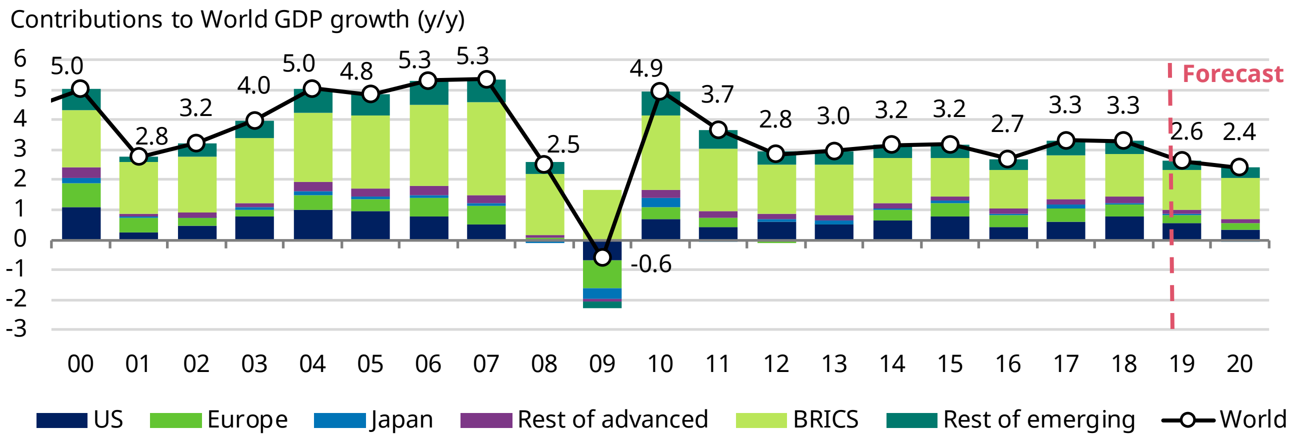
Baseline

- After expanding by 3.3% in 2018, global growth is expected to moderate to 2.6% in 2019 and 2.4% in 2020 – the slowest` rate of growth since the Global Financial Crisis. Inflation is forecast to decline to 2.5% this year after 2.7% in 2018 and then rise to 2.6% in 2020. Following the latest escalation in the US-China trade war, we no longer expect a resolution but a further escalation where the US increases the soon to be applied 10% tariff to 25% by the end of the year. The impact of actions so far will still be felt in 2019 and 2020.
- US growth is forecast to slow to 2.1% in 2019 and 1.3% in 2020. Following recent statements from the Fed, we now expect two more rate cuts this year in September and December. As the economy slows from fading fiscal stimulus and the impact of the trade war, the Fed is forecast to cut rates twice more in the first half of 2020.
- Eurozone growth is forecast to moderate from 2% in 2018 to 1.1% in 2019 as the full effects from the US-China trade war and Brexit hit European exporters. Inflation is expected to disappoint, remaining well below target as lower oil prices contribute to lower energy inflation, while core inflation fails to rise due to weaker GDP growth. The ECB is forecast to cut the deposit rate to -0.6% by the end of 2019, and restart QE in January, lasting all of 2020.
- UK growth is likely to fall to 1.1% this year from 1.4% in 2018. Following a small delay, we assume that a Brexit deal with the EU passes parliament in Q1 2020 ahead of a transition period that preserves the status quo of single market and customs union membership. Growth is then expected to slow to 1% in 2020. Inflation is expected to fall to 1.8% in 2019 due to lower energy prices, but weaker growth and a recovery in sterling after Brexit will keep inflation subdued at 1.9% in 2020. Meanwhile the BoE is forecast to hike rates to 1% in Q3 2020.
- Growth in Japan should rise to 1.2% in 2019 from 1.1% in 2018, however the path of activity should be volatile owing to the consumption tax hike in October this year. A slow recovery should follow resulting in -0.1% growth in 2020. Although inflation remains well under 2% in our forecast horizon, we expect the BoJ to cut rates by 30bps in December following an appreciation in the yen and escalation in trade war.
- Emerging market economies should slow to 4.2% in 2019 after 4.8% in 2018, led by China, but pick-up slightly to 4.5% in 2020 as other BRIC economies see a recovery. China suffers from continued trade tensions with the US and allows the currency to fall further alongside an easing from the PBoC, while dovish developed market central banks provide cover for more easing from their other emerging market counterparts.

Risks

- Risks are tilted toward deflation with the highest individual risk going on the global recession scenario where the economy proves more fragile than expected. We also see a risk of an escalation in the US-China dispute with the US extending the trade war to Europe.

Chart: World GDP forecast



Source: Schroders Economics Group, August 2019. Please note the forecast warning at the back of the document.

Schroders Forecast Scenarios

Scenario	Summary	Macro impact	Probability*	Cumulative 2019/20 global vs. baseline: Growth	Inflation
Baseline	Our forecast for global GDP growth in 2019 has been lowered from 2.8% to 2.6%, and from 2.6% to 2.4% for 2020. Almost every country has been downgraded to reflect the slowdown in global manufacturing. Following the latest escalation in the US-China trade war, we no longer expect a resolution at the end of this year. In fact, a further escalation, where the US increases the soon to be applied 10% tariff to 25% is now factored in to the baseline. The result is reduced trade between the two, and an indirect hit to Asia, Europe and Japan. The inflation forecast has been lowered in part to reflect weaker growth, but also due to lower oil prices. US core inflation is a little higher due to the tariffs, but a stronger dollar and lower growth offset this.	The US Federal Reserve's first "insurance" cut is expected to turn into an easing cycle. Weaker growth is likely to trigger two further (25bps) cuts in 2019 and two more in the first half of 2020. This takes the target range set by the Fed to 1-1.25%. The ECB is now expected to lower its deposit rate to -0.60% by the end of 2019, and restart QE at a pace of €15bn per month from the start of 2020. The BoJ is forecast to also join the cutting club, as its policy rate falls to -0.30% by the end of 2019. In contrast to the cutters, the BoE is expected to remain on hold until after Brexit is complete (now assumed March 2020 with a transition deal), then raising rates in Q2 2020. China is still forecast to lower its rates to 3.5% by the end of 2020, but the RRR is now expected to fall to 9% (previously 10%). The USD is expected to remain firm in the near term but to weaken in 2020. GBP is also boosted by our assumption that the economy enters a transition period in March 2020 rather than crashing out of the EU.	60%	-	-
1. Italian debt crisis	Although Italy has reached an agreement with the European Commission on its budget for this year, we would expect renewed tension between Rome and Brussels in the autumn as the next budget is formulated. Markets fear another more serious dispute, pushing the 10yr BTP yield up to 6%. After a couple of failed auctions, the government is forced to seek help from the rest of the EU in the form of a bail-out. There is some knock-on effect to other peripheral bond markets. A technocrat is installed as Italian PM, and the ECB's OMT programme is activated. QE is also restarted in 2019 as the Eurozone faces a deep recession. The threat of restructuring/default on Italian debt remains, but yields return to more manageable levels thanks to the ECB and change in domestic policy.	Stagflationary. The principal impact is weaker global growth with all regions affected as Italy drags Eurozone growth lower and the increase in uncertainty weighs on confidence and spending around the world. On inflation the picture is more mixed: for the eurozone, this is a stagflationary scenario due to EUR falling to 0.99. The US and Japan see their currencies appreciate, and combined with lower oil prices and a shock to financial markets, both see lower growth and inflation compared to the base. The impact on EM is more mixed. China intervenes to prop up the CNY, but Brazil, India and Russia all see FX depreciation as global risk aversion rises, making this a stagflationary scenario in EM.	6%	-0.6%	+0.2%
2. Global fiscal expansion	Following the populist expansion in fiscal policy in the US, other countries decide to follow its lead either due to changes in governments, or in response to populist movements. The G7 and BRIC economies all loosen fiscal policy significantly through a combination of tax cuts and spending increases.	Reflationary: Fiscal loosening boosts confidence, along with GDP growth. Some economies with low rates of unemployment see wage pressures rise, causing domestically generated inflation, while others with slack remaining, still see higher inflation through commodities and higher import prices. Central banks respond by tightening monetary policy quickly, which eventually cools activity.	6%	+0.6%	+0.5%
3. Global trade war	The US administration decides to impose tariffs on auto imports from the rest of the world thus extending the trade war into new territory. Meanwhile the dispute with China worsens as trade talks fail and the US increases tariffs on imports from China.	Stagflationary. Higher import prices push inflation higher whilst weaker trade weighs on growth. Capex is also hit by the increase in uncertainty and the need for firms to review their supply chains. Central banks are expected to focus on the weakness of activity and ease policy by more than in the baseline.	7%	-0.7%	+0.5%
4. Food price shock	A continuation of the year's extreme weather combined with African Swine Flu decimating pig populations across Asia leads to a spike in food prices, with crop and meat prices both impacted. In this scenario, a broad measure of global food prices sees a 50% rise in by the end of this year in USD terms. This is particularly painful for emerging markets where food constitutes one third to one half of consumer price baskets	Stagflationary: Higher food prices feed through rapidly into inflation putting a squeeze on consumers world wide, with more pronounced effects in emerging markets. Policy tightening by the Fed and other central banks is limited as policymakers weigh higher inflation against weaker growth.	4%	-0.2%	+0.7%
5. USD intervention	Unhappy about the strength of the US Dollar, President Trump decides to intervene in the FX market, directly, devaluing the trade weighted dollar by 20%. The depreciation is achieved against most currencies including many EM currencies that typically track the USD. Central banks around the world react by lowering interest rates to try to reverse the move, but this is only partially achieved over the course of 2020.	Productivity boost: A weaker dollar helps boost global trade thanks to cheaper export financing. Looser credit conditions lift activity, particularly in emerging markets. Inflation outside of the US falls, boosting purchasing power of households.	4%	+0.2%	-0.3%
6. US-China trade deal	The US and China agree a trade deal including the removal of all tariffs and non-tariff barriers. Business confidence is lifted and global trade increases as a share of GDP, with the most competitive benefiting the most.	Productivity boost: More integrated global supply chains boost productivity and lowers costs in manufacturing. Savings are passed on thanks to new intense competition, helping to lower global inflation. Lower prices mean increased demand for goods, helping to boost GDP growth.	5%	+0.4%	-0.0%
7. Global recession	The slowdown in Europe, China and Japan gathers momentum as contracting export growth undermines business confidence causing capital spending to contract. Meanwhile, the US economy proves to be more fragile than expected and cause business and households to retrench. Output begins to contract at the start of 2020 thus bringing an end to the cycle whilst commodity prices and inflation fall. The Fed eases, but markets slump on fears of a wider global recession.	Deflationary: Weaker growth drags global trade lower, hitting the US which is also affected by increased market volatility and tighter financial conditions. The USD is expected to strengthen putting added pressure on EM. Monetary policy is eased around the world.	8%	-0.9%	-0.7%
8. Other			0%	-	-

*Scenario probabilities are based on mutually exclusive scenarios. Please note the forecast warning at the back of the document.

Schroders Baseline Forecast

Real GDP

y/y%	Wt (%)	2018	2019		Prev.	Consensus	2020		Prev.	Consensus
World	100	3.3	2.6	↓	(2.8)	2.7	2.4	↓	(2.6)	2.6
Advanced*	61.4	2.3	1.6	↓	(1.8)	1.7	1.1	↓	(1.4)	1.5
US	26.5	2.9	2.1	↓	(2.6)	2.3	1.3	↓	(1.5)	1.9
Eurozone	17.2	2.0	1.1	↓	(1.2)	1.1	0.9	↓	(1.4)	1.2
Germany	5.0	1.9	0.5	↓	(0.9)	0.6	0.8	↓	(1.2)	1.2
UK	3.6	1.4	1.1	↓	(1.4)	1.2	1.0	↓	(1.4)	1.2
Japan	6.7	1.1	1.2	↑	(0.9)	0.9	-0.1	↓	(0.2)	0.3
Total Emerging**	38.6	4.8	4.2	↓	(4.4)	4.2	4.5	↓	(4.6)	4.5
BRICs	25.3	5.7	5.2	↓	(5.5)	5.3	5.4	↓	(5.5)	5.3
China	16.7	6.6	6.2	↓	(6.3)	6.2	6.0		(6.0)	6.0

Inflation CPI

y/y%	Wt (%)	2018	2019		Prev.	Consensus	2020		Prev.	Consensus
World	100	2.7	2.5	↓	(2.6)	2.5	2.6	↓	(2.7)	2.5
Advanced*	61.4	2.0	1.5	↓	(1.8)	1.5	1.7	↓	(2.0)	1.7
US	26.5	2.4	1.9	↓	(2.3)	1.8	2.2	↓	(2.4)	2.1
Eurozone	17.2	1.7	1.3	↓	(1.7)	1.3	1.3	↓	(1.6)	1.4
Germany	5.0	1.8	1.4	↓	(1.8)	1.5	1.5	↓	(1.7)	1.6
UK	3.6	2.5	1.8	↓	(2.0)	1.9	1.9	↓	(2.3)	2.1
Japan	6.7	1.2	0.7	↑	(0.3)	0.7	1.0	↓	(1.2)	0.8
Total Emerging**	38.6	3.8	4.1	↑	(3.9)	4.0	3.9	↑	(3.8)	3.7
BRICs	25.3	2.8	3.1	↑	(2.8)	2.9	3.2	↑	(3.1)	2.9
China	16.7	2.2	2.7	↑	(2.4)	2.4	2.8	↑	(2.7)	2.3

Interest rates

% (Month of Dec)	Current	2018	2019		Prev.	Market	2020		Prev.	Market
US	2.25	2.50	1.75	↓	(2.50)	1.81	1.25	↓	(2.00)	1.35
UK	0.75	0.75	0.75	↓	(1.00)	0.70	1.00	↓	(1.50)	0.55
Eurozone (Refi)	0.00	0.00	0.00		(0.00)	-0.55	0.00	↓	(0.50)	-0.64
Eurozone (Depo)	-0.40	-0.40	-0.60	↓	(-0.40)		-0.60	↓	(0.00)	
Japan	-0.10	-0.10	-0.30	↓	(-0.10)	-0.03	-0.30	↓	(-0.10)	-0.08
China	4.35	4.35	4.00		(4.00)	-	3.50		(3.50)	-

Other monetary policy

(Over year or by Dec)	Current	2018	2019		Prev.	Y/Y(%)	2020		Prev.	Y/Y(%)
US QE ($Tn)	4.0	4.1	3.8	↑	(3.7)	-7.3%	3.8	↑	(3.7)	0.0%
EZ QE (€Tn)	2.4	2.4	2.4		(2.4)	0.0%	2.6	↑	(2.4)	8.3%
UK QE (£Bn)	422	435	445		(445)	2.3%	445		(445)	0.0%
JP QE (¥Tn)	557	552	583	↑	(573)	5.6%	623	↑	(593)	6.9%
China RRR (%)	13.50	14.50	12.00		12.00	-	9.00	↓	10.00	-

Key variables

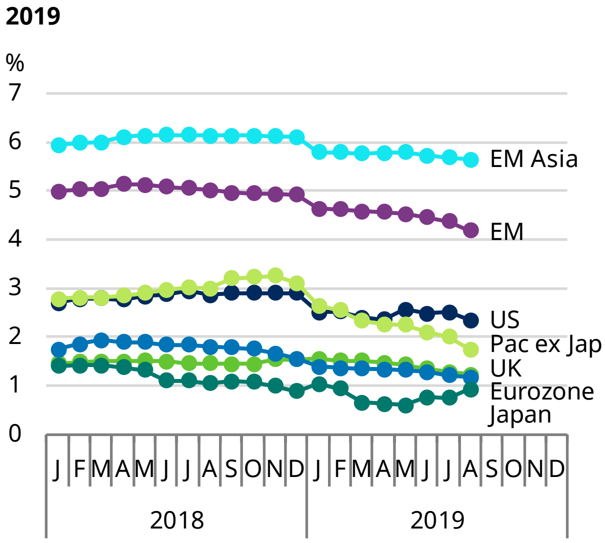
FX (Month of Dec)	Current	2018	2019		Prev.	Y/Y(%)	2020		Prev.	Y/Y(%)
USD/GBP	1.21	1.27	1.24	↓	(1.34)	-2.6	1.32	↓	(1.38)	6.5
USD/EUR	1.12	1.14	1.08	↓	(1.14)	-5.5	1.14	↓	(1.18)	5.6
JPY/USD	105.8	109.7	103	↓	(110)	-6.1	105	↓	(108)	1.9
GBP/EUR	0.92	0.90	0.87	↑	(0.85)	-3.0	0.86	↑	(0.86)	-0.8
RMB/USD	7.02	6.87	7.20	↑	(6.85)	4.9	7.30	↑	(7.00)	1.4
Commodities (over year)										
Brent Crude	58.7	71.6	64.2	↓	(70.2)	-10.3	59.5	↓	(69.1)	-7.3

Source: Schroders, Thomson Datastream, Consensus Economics, August 2019
Consensus inflation numbers for Emerging Markets is for end of period, and is not directly comparable.
Market data as at 14/08/2019
Previous forecast refers to May 2019
* **Advanced markets:** Australia, Canada, Denmark, Euro area, Israel, Japan, New Zealand, Singapore, Sweden, Switzerland, United Kingdom, United States.
** **Emerging markets**: Argentina, Brazil, Chile, Colombia, Mexico, Peru, China, India, Indonesia, Malaysia, Philippines, South Korea, Taiwan, Thailand, South Africa, Russia, Czech Rep., Hungary, Poland, Romania, Turkey, Ukraine, Bulgaria, Croatia, Latvia, Lithuania.

Updated forecast charts – Consensus Economics

For the EM, EM Asia and Pacific ex Japan, growth and inflation forecasts are GDP weighted and calculated using Consensus Economics forecasts of individual countries.

Chart A: GDP consensus forecasts



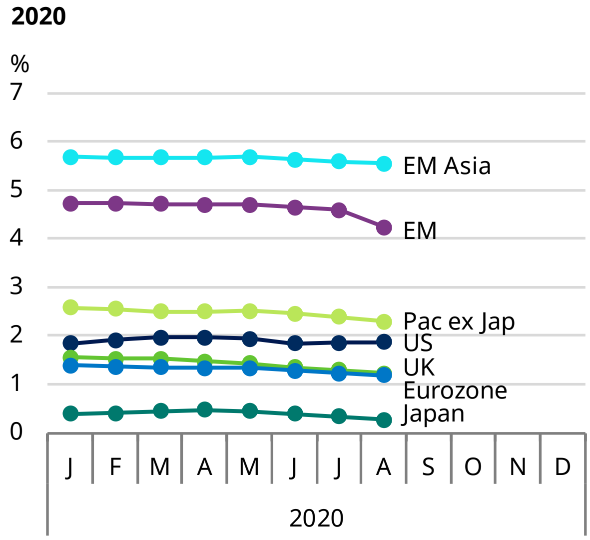
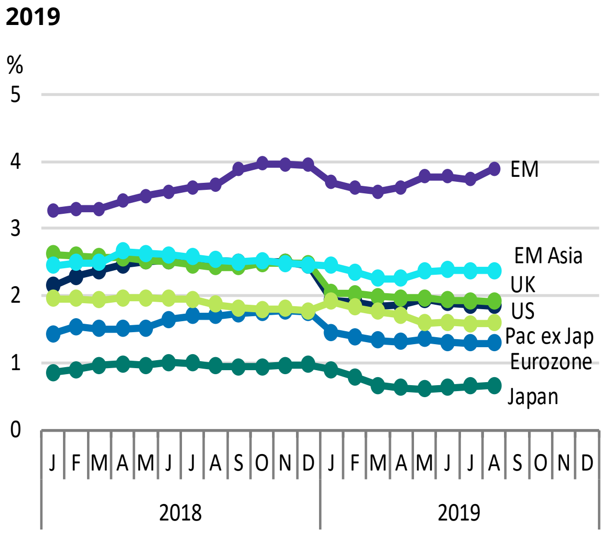
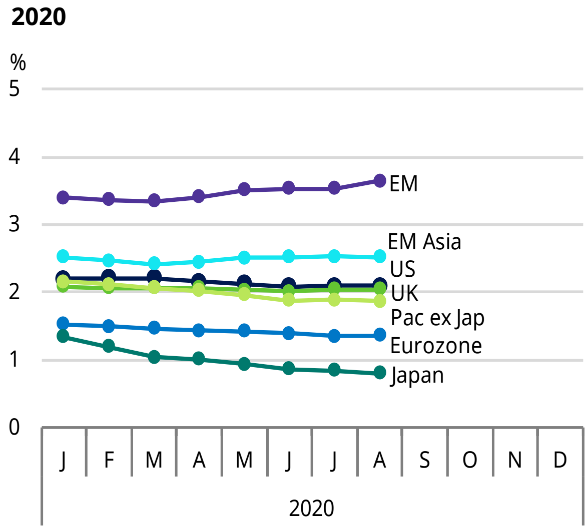


Chart B: Inflation consensus forecasts





Source: Consensus Economics (23/08/2019), Schroders.
Pacific ex. Japan: Australia, Hong Kong, New Zealand, Singapore.
Emerging Asia: China, India, Indonesia, Malaysia, Philippines, South Korea, Taiwan, Thailand.
Emerging markets: China, India, Indonesia, Malaysia, Philippines, South Korea, Taiwan, Thailand, Argentina, Brazil, Colombia, Chile, Mexico, Peru, South Africa, Czech Republic, Hungary, Poland, Romania, Russia, Turkey, Ukraine, Bulgaria, Croatia, Estonia, Latvia, Lithuania.