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CONY GLOBAL MACRO STRATEGY

"A bumpy 2019"

Inflation Threat Gone?

According to global inflation forecasts, annual CPI inflation in advanced economies including US, EU and Japan, which are the main liquidity providers in the world, is expected to remain stable at around 2% level in 2019 & 2020. Annual CPI inflation in advanced economies rose from 0.5% in end-2015 to 2.0% in end-2018 and is expected to stay there at least in the next three years. If the forecasts are accurate, then, one should not foresee that FED, ECB or BoJ will be aggressive going forward when it comes to monetary policy.

Annual CPI inflation in advanced economies (%, year-end)
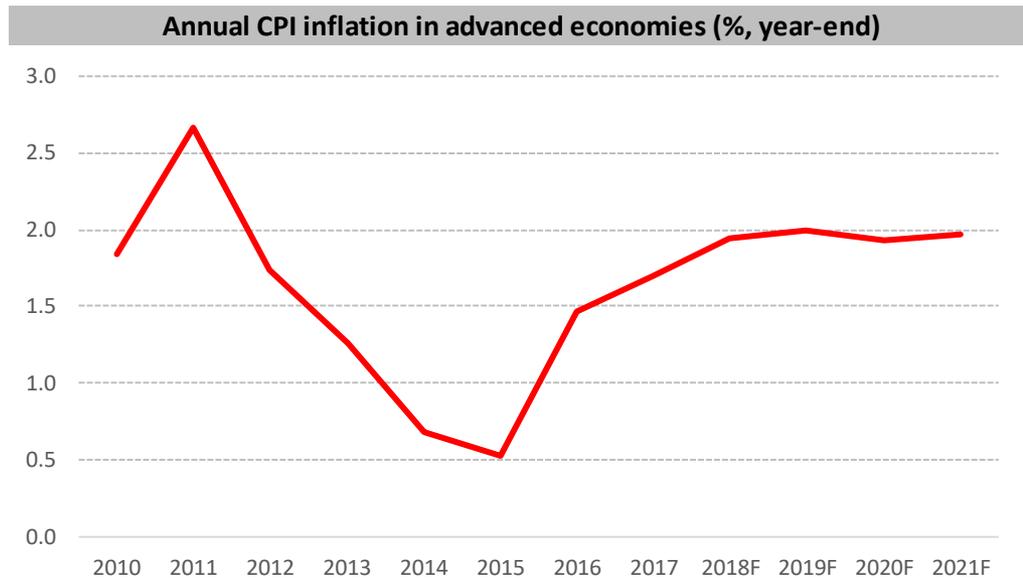
Source: IMF

Interest rates will probably rise further in 2019 but less than in 2018

Global interest rates remained low throughout 2018 except the FED's rate hikes and balance sheet tightening. ECB and BoJ did not touch anything, whereas BoE delivered a 25 bps rate hike. While ECB could hike once in 2019, FED's rate hike tightening is expected to slow down significantly in 2019. As long as China remains stable, we do not foresee a sharp recession in the world in 1H19.

Policy rates in advanced economies (%)
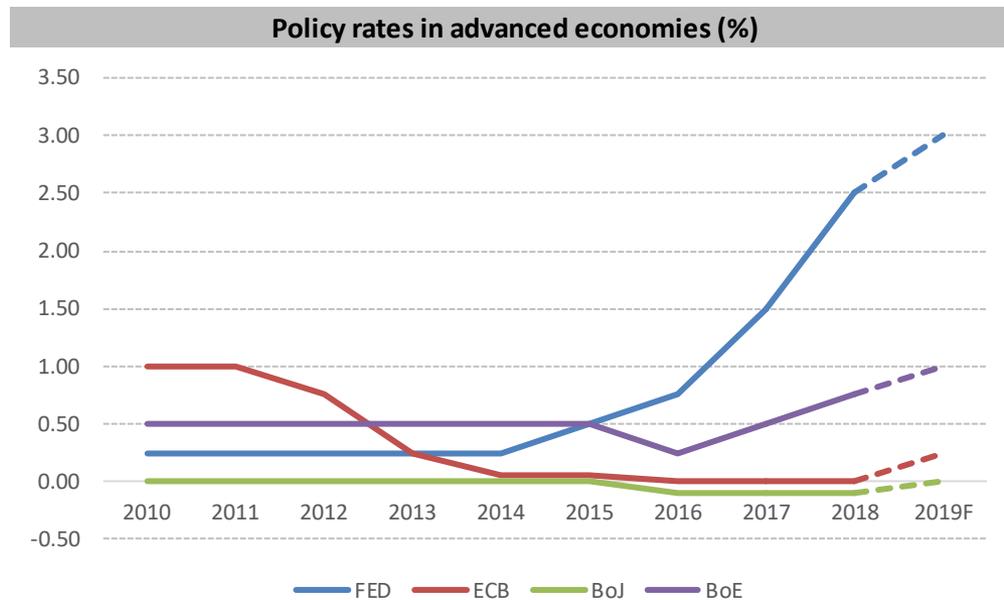
Source: Central banks, newspapers

Global liquidity will decline further because of FED, but the world can still live with that

The projections about developed central banks and actions of them signal clearly that global liquidity will decline further in the coming period mainly because of FED. However, the figures or the planned amounts are still far from being scary. Total assets of developed central banks are expected to decrease from US$14.9 trn in end-2018 to US$14.6 trn in end-2019. Please note that back in 2010 their total assets were US$6.8 trn.

Total assets of DM Central Banks (US trn)
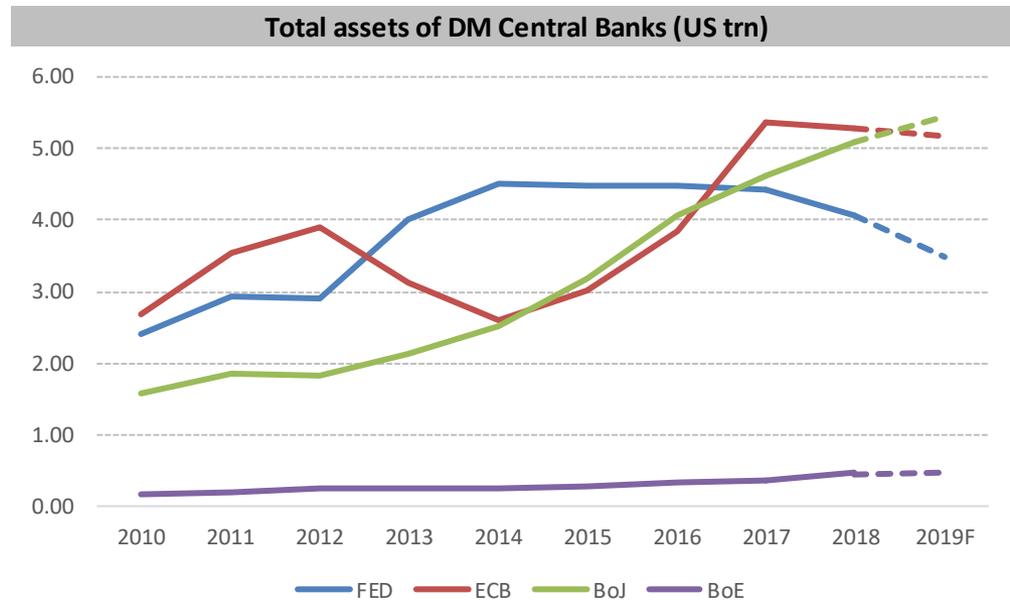
Source: Central banks

Global growth is weaker but still strong amid rate hikes, trade wars and balance sheet contraction by FED

Despite a slight decline in Purchasing Managers' Indices in China the indices in developed economies are signaling that growth continues. In other words, slightly higher interest rates, limited decline in global liquidity and trade wars between US and some other countries did not have a massive negative impact on global growth yet.

Selected PMI Indices				
Country	Last	Previous	Highest	Lowest
Australia	51.3	58.3	63.1	30.9
Canada	53.6	54.9	57.1	47.5
China	49.7	50.2	52.3	47.2
Euro Area	51.4	51.8	60.6	33.5
France	49.7	50.8	58.8	42.7
Germany	51.5	51.8	63.3	32.0
India	53.2	54.0	55.0	47.9
Italy	49.2	48.6	59.0	48.0
Japan	52.4	52.2	56.2	29.6
Norway	55.9	56.2	64.1	36.9
Singapore	51.5	51.9	53.1	48.3
Spain	51.1	52.6	56.1	41.1
Switzerland	57.7	57.4	66.9	32.9
United Kingdom	54.2	53.6	61.5	34.4
United States	53.8	55.3	57.9	50.7

Source: Tradingeconomics

Corporations of New York, Inc.

Seeking Growth: US still stands out among DMs

Among developed economies US and some other countries (Singapore, Spain, Sweden and Norway) stand out in terms of growth performance in 2019. In fact, US and Singapore seems to be the only countries, which might manage to grow at around 2.5% in 2019 after growing by more than 2% in 2018.

GDP growth performance (real, y-o-y,%)											
	2010	2011	2012	2013	2014	2015	2016	2017	2018F	2019F	2020F
Canada	3.1	3.1	1.7	2.5	2.9	1.0	1.4	3.0	2.1	2.0	1.8
France	2.0	2.1	0.2	0.6	0.9	1.1	1.1	2.3	1.6	1.6	1.6
Germany	3.9	3.7	0.7	0.6	1.9	1.5	2.2	2.5	1.9	1.9	1.6
Italy	1.7	0.6	-2.8	-1.7	0.1	1.0	0.9	1.5	1.2	1.0	0.9
Japan	4.2	-0.1	1.5	2.0	0.4	1.4	1.0	1.7	1.1	0.9	0.3
Norway	0.7	1.0	2.7	1.0	2.0	2.0	1.1	1.9	2.1	2.1	1.9
Singapore	15.2	6.4	4.1	5.1	3.9	2.2	2.4	3.6	2.9	2.5	2.7
Spain	0.0	-1.0	-2.9	-1.7	1.4	3.4	3.2	3.0	2.7	2.2	1.9
Sweden	6.0	2.7	-0.3	1.2	2.6	4.5	2.7	2.1	2.4	2.2	2.0
Switzerland	2.9	1.8	1.0	1.9	2.5	1.2	1.6	1.7	3.0	1.8	1.7
United Kingdom	1.7	1.5	1.5	2.1	3.1	2.3	1.8	1.7	1.4	1.5	1.5
United States	2.5	1.6	2.2	1.7	2.6	2.9	1.6	2.2	2.9	2.5	1.8

Source: IMF

Seeking Growth: EMs are naturally better but less stable/reliable growth stories

As it was the case in previous years, emerging markets are expected to grow fast compared to developed countries. However, although EMs provide faster growth, they are less reliable & volatile growth stories. In 2018, Turkey and Argentina were good examples of that.

GDP growth performance (real, y-o-y,%)										
	2010	2011	2012	2013	2014	2015	2016	2017	2018F	2019F	2020F
World	5.4	4.3	3.5	3.5	3.6	3.5	3.3	3.7	3.7	3.7	3.7
Advanced economies	3.0	1.7	1.2	1.3	2.1	2.3	1.7	2.3	2.4	2.1	1.7
Euro area	2.1	1.6	-0.9	-0.2	1.3	2.1	1.9	2.4	2.0	1.9	1.7
Emerging market and developing economies	7.4	6.4	5.4	5.1	4.7	4.3	4.4	4.7	4.7	4.7	4.9
Emerging and developing Asia	9.6	7.9	7.0	6.9	6.8	6.8	6.5	6.5	6.5	6.3	6.4
Emerging and developing Europe	4.3	6.6	2.5	4.9	3.9	4.7	3.3	6.0	3.8	2.0	2.8
Latin America and the Caribbean	6.1	4.6	2.9	2.9	1.3	0.3	-0.6	1.3	1.2	2.2	2.7
Middle East and North Africa	4.9	4.4	5.1	2.5	2.6	2.4	5.2	1.8	2.0	2.5	2.9
Sub-Saharan Africa	7.0	5.1	4.4	5.3	5.1	3.4	1.4	2.7	3.1	3.8	3.9

Source: IMF

Seeking Growth: EM Asia countries look better

Not all emerging markets are equal in terms of GDP growth. In general, growth rates are impressive in EMs, but especially, growth performance in emerging Asia keeps on to be eye-catching. This year, we see India as a shining star with its faster GDP growth whereas China is set to slow down. However, India has other problems and the Government needs to address them first.

GDP growth performance (real, y-o-y,%)											
	2010	2011	2012	2013	2014	2015	2016	2017	2018F	2019F	2020F
China	10.6	9.5	7.9	7.8	7.3	6.9	6.7	6.9	6.6	6.2	6.2
Hungary	0.7	1.7	-1.6	2.1	4.2	3.4	2.2	4.0	4.0	3.3	2.6
India	10.3	6.6	5.5	6.4	7.4	8.2	7.1	6.7	7.3	7.4	7.7
Indonesia	6.4	6.2	6.0	5.6	5.0	4.9	5.0	5.1	5.1	5.1	5.2
Malaysia	7.5	5.3	5.5	4.7	6.0	5.1	4.2	5.9	4.7	4.6	4.8
Philippines	7.6	3.7	6.7	7.1	6.1	6.1	6.9	6.7	6.5	6.6	6.6
Poland	3.6	5.0	1.6	1.4	3.3	3.8	3.0	4.7	4.4	3.5	3.0
Romania	-2.8	2.0	1.2	3.5	3.4	3.9	4.8	6.9	4.0	3.4	3.3
Thailand	7.5	0.8	7.2	2.7	1.0	3.0	3.3	3.9	4.6	3.9	3.7
Turkey	8.5	11.1	4.8	8.5	5.2	6.1	3.2	7.4	3.5	0.4	2.6

Source: IMF

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EM Heatmap 1

	Rating	GDP (US$ bn)	Real GDP growth (%)			CPI (annual av. %)			Budget Deficit to GDP (%)		Public Debt to GDP (%)		Private credit (% ch.)		Loan to Deposit (%)	CAR	NPL
		2018	12-17 av.	2018F	2019F	12-17 av.	2018F	2019F	2018F	2019F	2018F	2019F	13-17 av.	2018	2018	2018	2018
Poland	A-	589	2.6	5.1	3.8	0.7	2.0	2.5	-1.9	-2.2	48.8	48.6	5.1	7.0	106.4	19.0	6.0
Hungary	BBB-	153	2.1	4.2	3.5	1.6	3.2	3.2	-2.4	-2.0	71.6	70.1	-2.5	6.5	82.4	20.0	3.1
Romania	BBB-	236	3.4	3.5	3.2	1.3	4.7	3.3	-3.0	-3.5	35.0	36.2	0.9	6.0	87.3	20.1	5.7
Russia	BBB-	1,571	0.7	1.8	1.5	8.4	2.8	4.6	2.6	1.9	16.1	16.5	10.0	9.0	122.1	12.4	
Azerbaijan	BB+	48	1.6	1.5	3.7	4.3	3.5	3.5	4.8	4.2	21.2	22.0	9.5	4.0	114.6	18.3	21.0
Turkey	BB	762	5.5	3.5	0.6	8.1	16.9	20.7	-2.8	-2.8	31.9	31.3	22.0	10.0	138.9	15.1	3.2
Mexico	BBB+	1,210	2.8	2.2	2.1	3.5	4.9	4.3	-1.8	-1.8	42.1	41.8	13.5	9.0	108.5	15.9	
Brazil	BB-	1,904	-0.3	1.3	2.2	7.1	3.7	4.2	-8.4	-7.8	77.9	81.5	5.0	4.0	78.4	17.3	
Saudi Arabia	A+	778	3.5	2.6	1.5	2.4	2.5	2.0	-4.9	-6.9	16.9	22.8	4.2	2.5	88.6	20.9	1.8
South Africa	BB+	376	1.7	0.6	2.1	5.7	4.7	5.3	-4.0	-4.2	57.4	59.4	7.6	8.4	110.6	16.2	3.1
Korea	AA-	1,633	2.9	2.6	2.5	1.3	1.6	1.9	0.7	0.6	38.4	38.8	5.9	6.0	122.7	15.0	1.4
China	A+	13,293	7.3	6.6	6.1	2.1	2.2	2.4	-4.2	-4.5	47.7	48.5	13.2	12.0	92.8	13.6	1.8
Malaysia	A-	358	5.1	4.8	4.6	2.2	1.1	2.2	-3.7	-3.4	63.9	62.2	7.7	5.3	110.4	17.1	1.5
Thailand	BBB+	508	3.4	4.2	3.9	1.3	1.2	1.6	-0.5	-0.7	33.7	34.6	5.7	3.9	107.2	17.6	3.1
Indonesia	BBB	1,044	5.3	5.2	5.0	5.5	3.2	3.3	-2.0	-1.9	29.2	29.4	10.6	10.0	110.1	20.5	2.8
Philippines	BBB	339	6.6	6.4	6.6	2.7	5.2	3.8	-3.0	-3.0	37.5	37.3	16.4	18.0	79.7	15.4	1.8
India	BBB-	2,619	6.9	7.2	7.0	6.9	4.1	3.9	-7.1	-6.9	70.1	71.0	10.6	11.0	75.4	13.0	11.5

Source: Fitch, CONY

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EM Heatmap 2

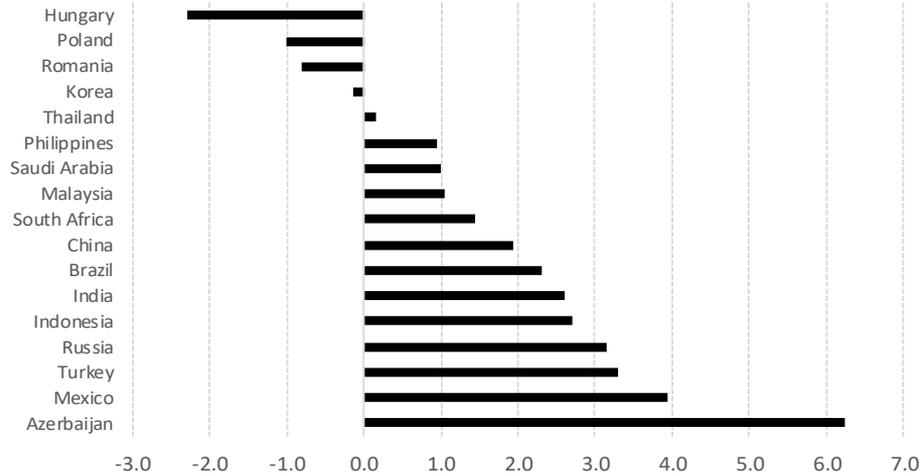|	CAB to GDP (%) 2019F	External Debt to GDP (%) 2018F	Gross ST External Debt to GDP (%) 2018F	Gross FX reserves to GDP (%) 2018	REER 2018	GDP per capita 2018F	Population (mn) 2018	Unemployment Rate (%) 2018F
			Heatmap for selected emerging economies -2-					
Poland	-0.7	65.0	26.7	19	103.2	15,432	38.1	3.9
Hungary	1.8	107.4	30.2	20	129.6	15,780	9.7	3.7
Romania	-4.3	50.3	18.7	18	122.7	12,033	19.6	4.3
Russia	4.8	29.2	3.5	30	165.5	10,704	146.8	4.8
Azerbaijan	7.1	44.6	17.0	18	98.0	4,817	9.9	5.0
Turkey	-1.9	59.7	12.9	12	72.2	9,287	82.0	12.1
Mexico	-1.9	37.6	17.2	15	75.2	9,246	130.8	3.6
Brazil	-1.6	35.6	10.2	20	108.6	9,025	211.0	12.2
Saudi Arabia	5.3	51.8	10.0	68	95.0	23,264	33.5	13.0
South Africa	-3.6	52.6	21.8	13	87.5	6,507	57.7	27.7
Korea	4.1	27.6	6.3	25	147.7	31,635	51.6	4.0
China	0.0	14.6	1.5	23	127.2	9,387	1,416.0	4.8
Malaysia	2.1	62.1	20.7	29	85.9	11,149	32.1	3.6
Thailand	6.0	30.0	6.5	40	128.3	7,494	67.9	1.1
Indonesia	-2.3	35.1	18.1	11	128.1	3,913	266.9	5.4
Philippines	-1.9	31.5	11.7	22	115.6	3,179	106.7	5.4
India	-2.8	21.1	3.7	15	101.8	1,933	1,354.9	4.0

Source: Fitch, CONY

Outcome of heatmap analysis in emerging market universe

❑ Best emerging market economies seem to be South Korea, Philippines, Thailand and China (if it avoids a major slowdown).

❑ Second best cluster seems to be Mexico, Malaysia, Indonesia, Poland and Russia (currency protection is higher in that cluster as the graph below suggests)

❑ Most risky emerging markets from a macro perspective are South Africa, Brazil, Azerbaijan, and Romania

❑ Saudi Arabia looks like an interesting story in near future but is trying to sort out political problems nowadays.

❑ Interestingly, Turkey does not look as vulnerable as it looked in 2018 anymore. Moreover, currency seems to be protected.

Differential between policy rate and expected average 2019 CPI inflation (pps)

Source: Reuters, Fitch, CONY