

Global Outlook

A harmonised global upturn

The Global and Regional Outlook is extracted from the Asia Pacific Executive Brief, a service of IMA ASIA.

Most of the trade, production, price, and PMI data released through August continues to point to a consolidating global recovery. That's leading to a gradual lift in global forecasts from major institutions, with a recent notable comment from the OECD that all 45 of the economies it tracks will be expanding at the same time this year. That last happened in 2007, and has only occurred twice before in the last five decades (the late 1980s and before the 1973 oil price hike). That doesn't mean a boom or even a return to the 3.8 per cent

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pa average growth rate in the two decades to 2008. In July, the IMF lifted its global growth forecast to 3.5 per cent this year and 3.6 per cent for 2018. However, it does mean four things. First, the Euro zone is well into a firm recovery, and Euro zone growth could outpace US growth over the next 18 months. Second,

China has proved it can sustain 6.5 per cent+ growth. Third, big emerging markets that floundered in the last few years – notably Brazil and Russia - are growing again. And finally, there are hints of a better balance in global demand and supply, whether than be for manufactured goods, commodities, or cargo ships. That implies capacity has been removed from the market as much as demand has improved. That is a small plus for a renewed investment cycle (see, for instance, the comment in this month's Australia page on renewed growth in mining capex and jobs after a four-year slide).

Along with a synchronised global upturn has come a reduction in the headline risks of the last decade. The Euro zone is no longer in danger of fracturing or its currency collapsing. German Chancellor Merkel (likely to get a 4th term) and newly elected French President Macron have emerged as a strong and stable political core for Europe. The chance of a China fiscal crisis has also receded as Beijing has tightened its control over China's finance sector. The new risk is a

IMA Asia's forecasts (guided by IMF)

Real GDP Growth, %	2014	2015	2016	2017	2018
World – Real GDP growth, %	3.5	3.4	3.1	3.5	3.6
- US	2.4	2.6	1.6	1.9	2.0
- Euro area	1.2	2.4	2.0	2.0	1.9
- Asia/Pacific (14)	4.4	4.4	4.7	4.8	4.7
- NICs (4)	3.5	2.2	2.3	2.8	2.6
- Developing Asia (7)	6.8	6.7	6.6	6.4	6.3
- ASEAN (5)	4.4	4.5	4.6	4.9	4.8
World goods & services trade volume, % growth	3.5	2.8	2.3	3.8	4.2
Interest rates, US Fed target rate, year end, %	0.25	0.50	0.75	1.25	1.75
Inflation, CPI, US, year avg., %	1.6	0.1	1.3	2.5	2.2
Inflation, CPI, Euro area, %	0.4	0.0	0.3	1.1	1.3
Crude oil, avg of 3 spot crudes, USD	96	51	43	47	40
USD / Euro 1, year average rate	1.33	1.11	1.11	1.13	1.15
Yen / USD 1, year average rate	106	121	109	111	108

The Asia/Pacific 14 = the countries on the forecast summary page. NICs are the newly industrialised countries = Korea, Taiwan, HK, Singapore. The ASEAN 6 = Indonesia, Thailand, Malaysia, Philippines, Vietnam, + Singapore. Dev Asia = ASEAN 5 + China and India. IMA Asia forecasts.

populist US president with no coherent domestic or foreign policy. So far, we've adjusted our forecast by trimming expected US growth and forecasting a weaker USD. A government shutdown in 2H'17, which Trump threatens, would lead to a bigger cut in US growth but wouldn't necessarily end the current global expansion.

Several poorly understood developments look like remaining prominent in the next few years. Although there are hints of a better demand/supply balance (mostly via rising commodity and producer prices), inflation on the consumer price index is expected to remain low or marginal in many countries. That means a two-decade long slide in the price of money (as measured by the 10-year government bond yield for the G7) is unlikely to reverse. That contributes to many commercial trends, including the rise of private equity and activist investors (who aim to crank up equity yields) and the growing dominance of big firms (leveraging

up on cheap cash for M&A). Wage growth has also slumped in advanced economies and in many of the emerging economies covered by the Asia Brief. That has led to a steady rise in consumer debt, which at some point will start to suppress demand in many countries when households halt borrowing and start deleveraging.

By far the biggest impact on global markets over the next decade will be game changing technologies. Fracking has changed the global energy market (with electric vehicles and renewable energy becoming important). The internet is reshaping media and advertising, and changing the tastes, preferences, and behaviour of consumers and employees. Big data, AI, and the cloud are emerging as a powerful force that will restructure companies as much as entire markets. How companies manage such trends will likely have a bigger impact on performance than incremental moves in GDP growth rates and currencies. ■

hardliners. Pulling Pyongyang into line (and, at an extreme, replacing Kim) will never be easy for China, yet President Xi will have to act soon to protect his 19th Congress game plan. If he doesn't act, he'd still get a second term, but with far fewer of his supporters rising to the top.

President Duterte in the Philippines faces a make-or-break year. His violent anti-drugs campaign has been popular so far, but the public mood is shifting. If there's a significant fall in community backing, then Duterte will find it hard to retain support in Congress, and that will undermine the tax reform bills that are needed to fund his plans for a major push on infrastructure. Doubts about Duterte's course have made the Peso Asia's weakest currency in 2017. In Malaysia, PM Najib has put UMNO, his party, on an election footing. UMNO hasn't lost an election since independence, yet the next race, which has yet to be called, could be very close.

Regional Outlook

North Korea and its antics

North Korea's missile launch across Japan at the end of August is an unusually dangerous step for the country's leader, Kim Jong Un, as it is a direct threat to the political future of Chinese President Xi Jinping. President Xi is in the final run up to the Chinese Communist Party's 19th Congress, at which he'll get a second 5-year term, while his supporters are expected to sweep top party posts. That is unless he blots his copy book. That blot could

come from Pyongyang's missile antics. They have swung popular support in South Korea behind the installation of a US THAAD anti-missile system. They have boosted PM Abe's popularity in Japan, and will help him amend his country's constitution to allow for a more active offshore military role. Finally, they've given US President Trump the sort of leverage he likes in extracting a deal from China on trade. None of that will look smart to Beijing's generals or party

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The opposition Labour Party in New Zealand has substantially improved its position under a new leader with populist policies in the approach to the September 23rd election. That could see the National Party government tumbled out of office after nine years in

GDP (Expenditure)

Real growth, %	2014	2015	2016	2017	2018
Japan	0.3	1.1	1.0	1.7	1.3
China	7.3	6.9	6.7	6.7	6.4
Hong Kong	2.8	2.4	1.9	3.4	3.3
Taiwan	4.0	0.7	1.5	2.3	2.1
South Korea	3.3	2.8	2.8	2.9	2.7
Indonesia	5.0	4.9	5.0	5.4	5.6
Malaysia	6.0	5.0	4.2	5.2	4.3
Philippines	6.1	6.1	6.9	6.5	6.2
Singapore	3.6	1.9	2.0	2.7	2.7
Thailand	0.9	2.9	3.2	3.3	3.3
Vietnam	6.0	6.7	6.2	6.3	6.3
India (CY)	7.0	7.5	7.9	6.3	6.9
Australia	2.8	2.4	2.5	2.5	2.6
New Zealand	2.8	3.2	3.6	3.0	3.0

Inflation

CPI year average, %	2014	2015	2016	2017	2018
Japan	2.8	0.8	-0.2	0.4	0.6
China	2.0	1.4	2.0	1.6	2.3
Hong Kong (composite CPI)	4.5	3.0	2.4	1.7	2.2
Taiwan	1.2	-0.3	1.4	0.9	1.2
South Korea	1.3	0.7	1.0	2.1	2.5
Indonesia	6.4	6.4	3.5	3.8	3.8
Malaysia	3.2	2.1	2.1	3.9	3.6
Philippines	4.1	1.4	1.8	3.4	4.3
Singapore	1.0	-0.5	-0.5	1.1	1.5
Thailand	1.9	-0.9	0.2	0.7	1.4
Vietnam	4.1	0.6	2.7	3.9	4.0
India (CY CPI urban non-manual workers)	6.7	4.9	5.0	3.4	4.9
Australia	2.5	1.5	1.3	2.1	2.3
New Zealand	1.2	0.3	0.6	2.1	2.5

Exchange Rate

To USD1, year avg.	2014	2015	2016	2017	2018
Japan	106	121	109	111	108
China	6.16	6.28	6.64	6.87	6.65
Hong Kong	7.75	7.75	7.76	7.80	7.80
Taiwan	30.4	31.9	32.3	30.5	29.6
South Korea	1,053	1,131	1,160	1,126	1,083
Indonesia	11,868	13,389	13,308	13,262	13,388
Malaysia	3.27	3.90	4.14	4.34	4.24
Philippines	44.4	45.5	47.5	50.0	50.8
Singapore	1.27	1.37	1.38	1.39	1.35
Thailand	32.5	34.2	35.3	34.2	33.9
Vietnam	21,148	21,677	21,932	22,496	23,203
India (FY)	61.0	64.1	67.2	64.9	65.5
Australia	1.11	1.33	1.35	1.29	1.23
New Zealand	1.20	1.43	1.43	1.37	1.31

Sources: CEIC, central banks, and national statistics offices. Forecasts are by IMA Asia.

power. In Australia, PM Turnbull's government has struggled to survive with a single seat majority in the lower house. He could be deposed within his party or he could lose government to the Labor Party, either via by-elections or being forced into an early general election. We'll know the outcome in NZ in weeks, but prolonged uncertainty is possible in Australia, and that's not good for policy or investment.

In Malaysia, PM Najib has put UMNO, his party, on an election footing. UMNO hasn't lost an election since independence, yet the next race, which has yet to be called, could be very close.

As in the last two months, our forecast growth for the 14 main markets in Asia/Pacific continues to edge up, with 4.8 per cent growth now expected in 2017 (previously 4.7 per cent) and 4.7 per cent now forecast for 2016 (previously 4.5 per cent). The upgrade reflects two broad forces. First, the global recovery is gradually picking up pace, and that has led to stronger export growth in 2H'17 than we were expecting. Second, the conditions for future growth are good. Inflation is low, oil and food prices are stable, exports are strong, and prices have risen for hard commodities like iron ore, copper, and coal. ■



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