

Schroders

Economic and Strategy Viewpoint

Global: Storm clouds lift

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Global: Storm clouds lift (page 2)

- Policymakers ride to the rescue again and markets have breathed a sigh of relief. The Greek can has been kicked, but only so far as the thorny thicket of debt forgiveness. Meanwhile, the Chinese authorities' efforts to stabilise the stockmarket are papering over bigger problems of overcapacity and misallocated resources
- The drop in commodity prices has heightened fears of global recession. Lower prices have several causes, but US dollar strength is significant and supply side events continue to play a role. Recession risks in the US cannot be ignored, but inflation concerns mean the balance is shifting toward the Fed being too late in tightening rather than too early

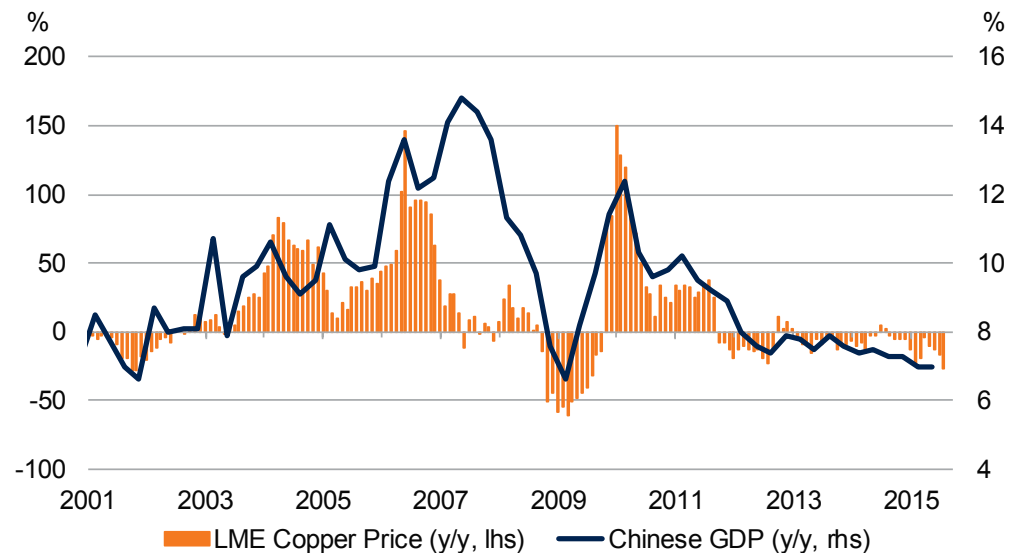
China's equity boom and bust (page 6)

- China's equity market boom and bust should have a limited immediate macro impact, but we fear the seeds of a future crisis have been sown

Views at a glance (page 10)

- A short summary of our main macro views and where we see the risks to the world economy

Chart: Copper says China weakness to persist



Source: Thomson Datastream, Schroders Economics Group, 28 July 2015.



Schroders

Global: Storm clouds lift

The mood has lifted, but recent events in China and Greece are a reminder of how markets still rely on policymakers to step in and keep the show on the road. In both episodes the can has been kicked down the road, but the underlying problems remain.

Kicking the can in Greece...

Agreement to start talks, but no one is happy

The Greek parliament's decision to pass a slew of new austerity measures on 16th July marked a turning point in the euro crisis. Recognising that the choice was between accepting the measures or leaving the Eurozone, Prime Minister Tsipras led Greek MPs to vote in favour. Only 11 days earlier he had successfully asked the country to reject many of the same measures in a national referendum. Nonetheless, approval to start talks followed from the Bundestag and following a second vote in the Greek parliament on further reforms, the way is clear for talks to begin on a new €86 billion bailout.

Markets have breathed a sigh of relief, but neither the Greek government nor its creditors are happy. Tsipras said that *"Europe's conservative forces had achieved only a Pyrrhic victory over Greece"*. On the creditor side a split has opened between the IMF, who say that the latest proposals will only lead to a sustainable path for Greece if combined with considerable debt forgiveness, and on the other side German Finance Minister Schäuble, who has ruled out any haircuts. We are in a grey area for EU law here, but even if Schäuble is correct it may be possible to square the circle by extending the maturity of loans and reducing the interest rate payable by Greece. Given that interest charges are already generous to Greece, we are gradually moving toward the zero rate perpetual.

Willingness to *"extend and pretend"* on the part of creditors will require the restoration of trust with a Greek government seen as unwilling to fulfil its promises. Hence we face several months of potentially fraught negotiation, but now that Greece is heading back into a new bailout package its banking system will have European Central Bank (ECB) support and it is even possible that Greek government bonds will be included in the central bank's quantitative easing (QE) programme.

On this basis, the next crunch point may not come until next quarter or early next year when the IMF needs to decide whether to roll over its current loan which expires in March 2016. In the absence of debt forgiveness there is a strong possibility that the IMF chooses to provide no further funding. The organisation cannot lend to nations that are on an unsustainable debt path and already faces criticism for lending to Greece (as a developed economy) in the first place.

However, Germany and the European creditors are keen to have IMF involvement and insisted that the bail out would not occur unless Greece specifically requested their participation. Opposition to this condition was a key stumbling block and nearly led to the failure of the talks and Greece leaving the euro. Remember Tsipras only recently said that the IMF bears *"criminal responsibility"* for the crisis. Now we may see the Greek PM trying to persuade a reluctant IMF Managing Director Christine Lagarde that the IMF should stay involved. No doubt Schäuble will be dusting off his plan for a temporary Greek exit from the euro if the negotiations do not go as planned.

For now though, the Greek can has been kicked.

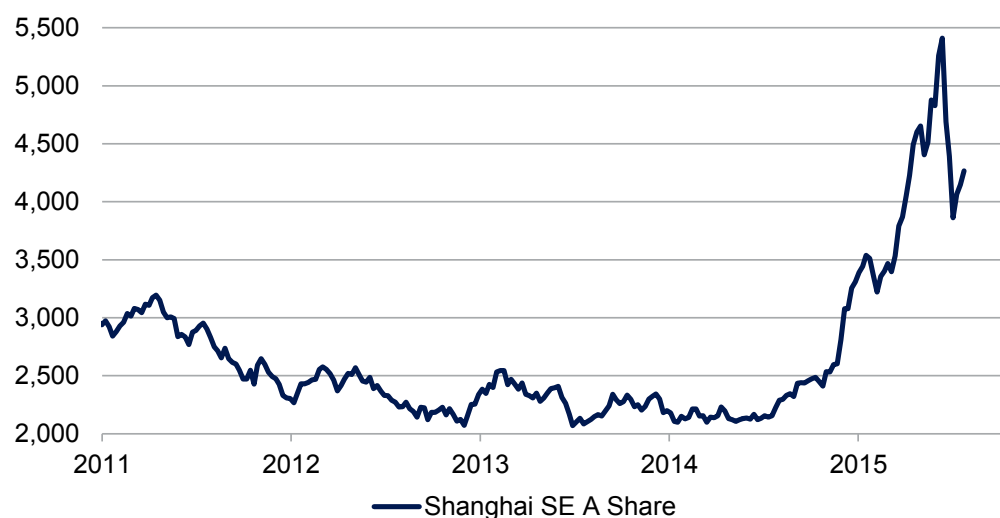
...and in China

China acts to stabilise the A-share equity market

Meanwhile, Asian storm clouds have also lifted a little as the Chinese authorities act to stabilise the A-share index. The situation is fluid but following a decline of more than one third in less than three weeks there are some signs of stabilisation (see chart 1). Reports suggest that the banks have provided some \$200 billion of

funding to prop up the market via the China Securities Finance corporation.

Chart 1: A-share market's boom and correction



Source: Thomson Datastream, Schroder Economics Group, 27 July 2015.

Figures on the amount of bad debt created by the fall in the stockmarket can only be guessed at: even after recent falls the Shanghai composite is still up 15% year to date according to Bloomberg, indicating that investors could still be sitting on substantial profits. Unfortunately it is more likely that many are now mired in margin debt as they leveraged into the bubble. Consequently, alongside measures to suspend trading in a number of stocks and police investigations into “malicious” short selling, the scale of the bank injection indicates the depth of official concern over the stability of the financial system.

It is a lack of visibility on the scale of bad debt in China's banking system that is creating caution amongst investors who continue to avoid emerging markets. We would see this as the last leg of the wider global financial crisis which has seen banking systems go through crisis, government rescue and recapitalisation in the US and Europe. China still needs to purge bad debts and recapitalise its banking system, although the process has begun through the bond swap programme and government-directed forbearance.

Meanwhile, there will be fears of a hard landing in China as investors weigh the risk of a misstep by the authorities. Recent official action by the authorities may have reduced the risk attached to this scenario, but as with Greece the can has only been kicked and the underlying problems of overcapacity and misallocated resources in China remain. For more on the China situation see the emerging markets section below.

Commodity price falls: harbinger of global recession?

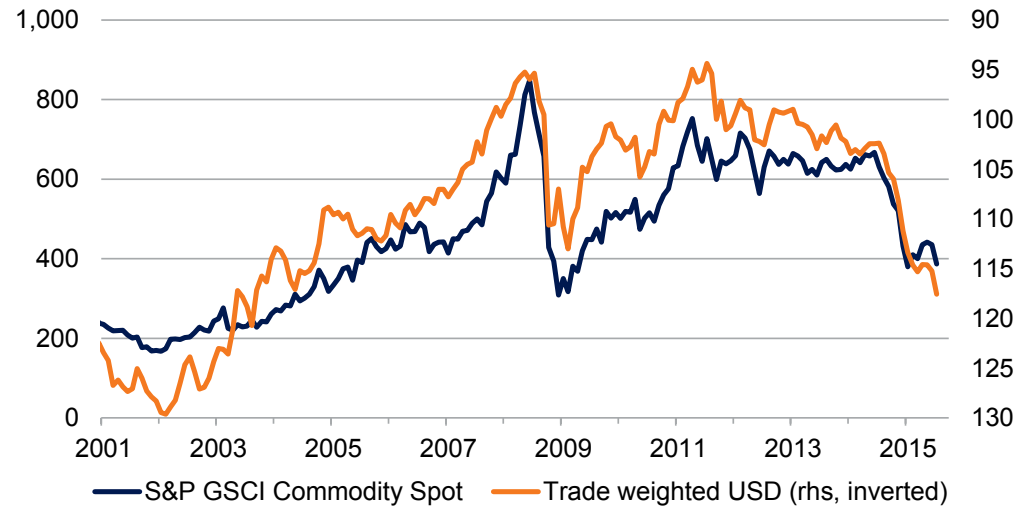
Concerns over China hard landing risk have been increased by the recent drop in commodity prices with the copper price signalling a further deceleration in growth (see chart front page). The copper price (sometimes known as “Dr Copper”) has been a useful indicator of activity in China, particularly around significant swings such as during the global financial crisis. At present though it is signalling deceleration rather than a hard landing.

Could the fall in commodity prices be telling us something more alarming about the world economy? The picture on commodities is influenced by idiosyncratic factors such as shifts in supply, often relating to geo-politics. For example, the recent nuclear deal with Iran has the potential to eventually increase global oil production, putting downward pressure on the oil forward curve. Such supply-side driven moves in prices are more growth friendly than those driven by weaker global demand.

Hard landing fears build

The breadth of commodity price weakness is a concern, but one common factor has been the strength of the US dollar. The US currency has rallied in recent months after pausing earlier in the year, thus driving commodity prices down across all sectors (chart 2). On this basis, further dollar strength could take commodity prices back to levels seen in the mid-2000s.

Chart 2: Commodity prices feel pressure from USD



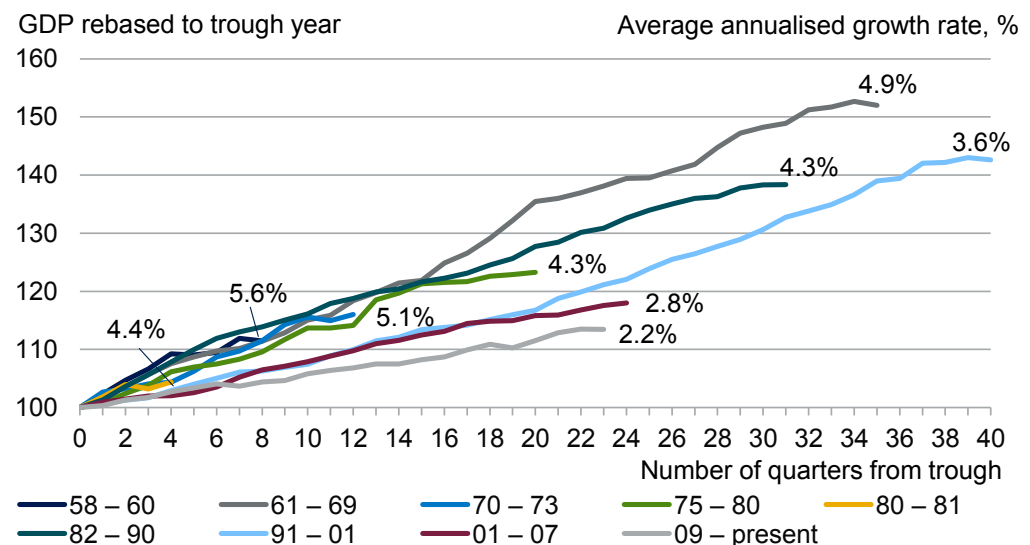
Source: Thomson Datastream, Schroder Economics Group, 27 July 2015.

Staying with the fall in commodity prices as a signal of weaker activity, could a major economy like the US be on the verge of another recession? Notwithstanding the Q1 dip in growth, Q2 has seen a reassuring bounce back. However, we have previously highlighted signs that the economy might be nearing the end of its expansion as wages begin to pick up and productivity slows. These are often seen as signs that the cycle is ageing and cycles often end in recession.

The current cycle has been one of the weakest

If we compare this expansion with previous cycles it is true that the current cycle is getting on: the US economy troughed out in June 2009 and the expansion is entering its seventh year. At 72 months it is now the fifth longest since 1958, using data from the National Bureau for Economic Research (NBER). However, it has also been the weakest over that time with an average annualised growth rate of 2.2%. The current expansion also lags considerably behind those of the 1960s, 80s and 90s in terms of longevity (see chart 3).

Chart 3: US recoveries compared



Source: Thomson Datastream, NBER, Schroders Economics Group, 23 July 2015.

On this basis the expansion has further to go; however, two factors heighten the risk of recession.

The economy is vulnerable to shocks

First, when growth is weak and the scope for further policy stimulus is limited an economy is more vulnerable to shocks. If China has a hard landing or the Eurozone drops into a deflationary spiral, for example, the impact on global activity may be enough to tip the US into recession. Some have argued that the psychological scars from the global financial crisis have made households and firms significantly more risk averse than before and more prone to retrenchment in the face of such events, thus exacerbating the initial downturn¹.

The Fed could respond with more QE, but the scope to boost growth would be limited. Fiscal policy would be more effective, but takes time to get approval and implement. By the time stimulus eventually comes through the recession could be well underway.

Trend growth is weaker

Second, there is evidence that trend growth is slower. We have focused on the slowdown in labour force growth, particularly the participation rate which has fallen as the population ages and baby boomers move into retirement. This means the economy is likely to run into supply side constraints at an earlier stage than in previous cycles. We see some evidence of this in wage behaviour as mentioned above, but not on a scale which would bring the need for a recession to control inflation.

Clearly, the reaction of the central bank is critical in this with policy makers caught between tightening too early and plunging the economy back into recession, or leaving policy too loose for too long, and then having to precipitate a recession to bring inflation back under control.

Fed dilemma: 1937 or 1966?

This is the Fed's current dilemma and economists often draw on the comparison between 1937, when the Fed tightened too early and caused a contraction in activity, and 1966 when policy was left too loose paving the way for the inflation of the late 60s and 70s.

Which of the two risks is greater today? Is the economy still fragile and vulnerable to shocks as in 1937, or are we in 1966 on the cusp of higher inflation. Firstly we should say that although such historical comparisons are useful they can frame an issue which rules out other plausible outcomes. For example, in this case it suggests we face a binary outcome with the Fed walking a kind of monetary tightrope with disaster on either side. In practice such outcomes are extreme with many possibilities in between.

Today we see a global backdrop which is still relatively deflationary with what we have described as the "square root recovery" where global growth is well below pre-crisis levels. However, within this outlook the US, and to some extent UK, have made considerable progress in repairing their financial systems and balance sheets. They are also showing early signs of inflationary pressure. For these economies the balance of risks is tipping toward higher inflation rather than recession. The case for a normalisation of rates is building and we look for the Fed to raise rates in September this year with the Bank of England going in February next year.

More importantly, Fed chair Yellen appears to be moving in that direction judging from her recent comments to Congress where she noted there were risks for the Fed from moving too late as well as too early.

Elsewhere though, the risks are still tilted toward weaker growth so the challenge for the Fed and BoE will be to raise rates to a more neutral level without prompting a significant appreciation in their exchange rates.

¹See "Stuck" speech by Andy Haldane Bank of England 30 June 2015.

China's equity boom and bust

China's rally was disconnected from fundamentals...

China's equity market has provided perhaps the most exciting ride for investors so far this year; the composite index was at one point up almost 60% since the start of the year, easily outpacing the rest of emerging markets and indeed the rest of the world, but its fortunes have since turned. Though the immediate impact on growth should be limited, the government response may have sown the seeds of a greater crisis.

The timing of the rally – with take-off in March – suggested a disconnect from economic fundamentals. Activity data started the year poorly and then disappointed spectacularly in March; hardly the environment for earnings to perform well. But along with weak data came expectations – and promises – of policy support. Liquidity injections by the central bank in particular helped build sentiment and a mindset that said that every disappointing data point from now was a signal to buy more. While undoubtedly a bubble, in the sense that the elevation of price-to-earnings (PE) ratios is difficult to justify in an economy suffering excess capacity and weak demand, investors were arguably not behaving entirely irrationally.

...but had government backing

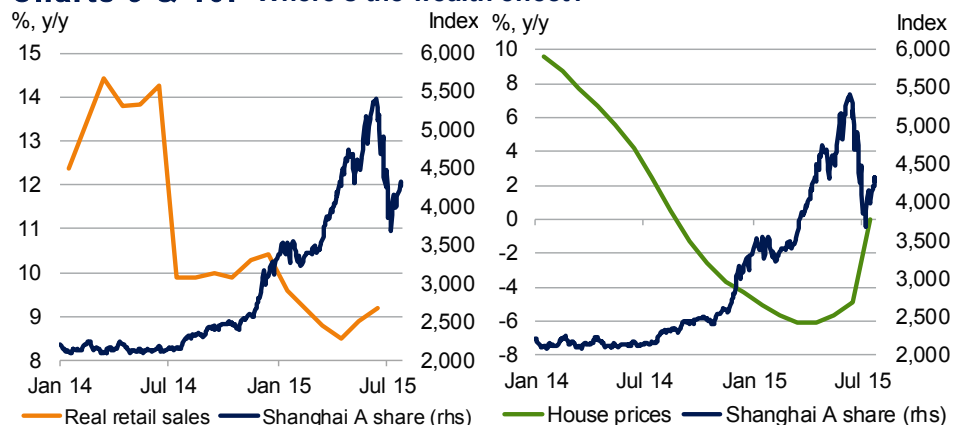
The rally had a great deal of policymaker support. The authorities were (and still are) seeking to rebalance the financing mix of corporates, away from a high reliance on debt. For this to succeed, firms will need equity finance, and a buoyant stockmarket provides the best conditions for a series of IPOs. Banks are also looking to raise equity finance as they seek to recapitalise, which will help provide demand, in turn, for local government bonds – another aspect of the country's rebalancing. The local government debt swap programme – under which short-term, expensive loans are replaced with longer term and cheaper bonds (often at near sovereign rates) – is heavily reliant upon the banks. That the market was reliant upon this support was flagged by large one-day falls when the regulator moved to reduce volatility or curb excesses. Unfortunately for investors in Chinese equities, one such action by the regulator – restricting margin financing, which had set global historic records by reaching 3.4% of GDP – prompted a widespread selloff.

Immediate macro impact should be limited

Limited evidence of wealth effects

There will be some concentrated financial pain among highly leveraged investors, but the macroeconomic consequences are less clear cut. While in the US this market rally would have been associated with strong positive wealth effects, this has been less apparent in China, where equity accounts for less than 15% of household assets. The first leg of the rally began last year, accelerating as the Hong Kong-Shanghai Connect became a reality. Retail sales continued to soften even as equities touched new heights, while property prices extended their decline (charts 9 & 10).

Charts 9 & 10: Where's the wealth effect?



Source: Thomson Datastream, Schroders Economics Group. 28 July 2015.

Rally boosted H1 growth, raising sustainability concerns

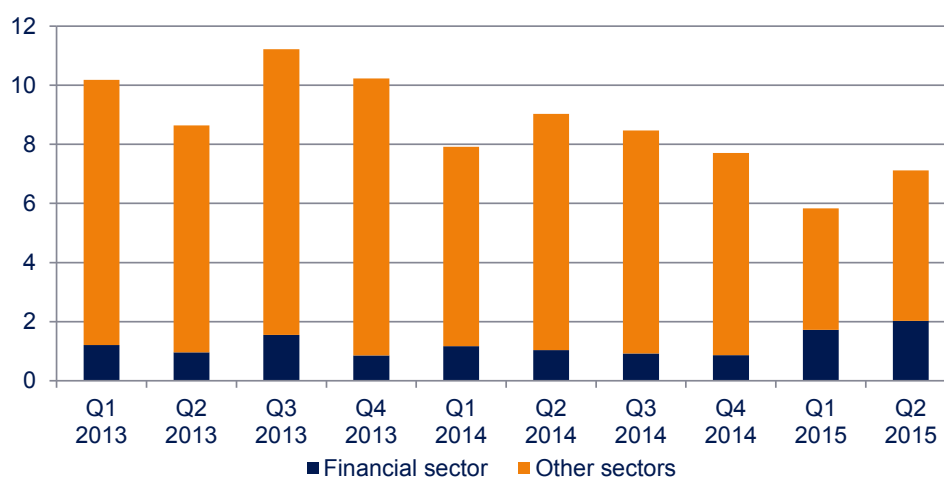
While one might, on the basis of the chart, argue that the later stages of the boom began to generate a wealth effect (or indeed that there is simply a lagged wealth effect), this is not necessarily a causal relationship. A number of stimulus measures were rolled out in the first quarter (Q1) and are likely to have provided some support to property. Still, we do not think it is impossible for the equity market boom to have prompted renewed optimism in a deflated property market. The downturn we have seen in equities since could therefore weigh on real estate, quashing the nascent recovery. Even if there is no link between the two, the slump in the market will likely hit consumer sentiment given its prominence in state-owned media.

Turning to a breakdown of GDP for the first half of the year, however, what is notable is the surge in the financial sector's contribution to nominal GDP growth, at 1.7% – 2.0% compared to its previous 1.0% – 1.2% for the first two quarters of 2014 (chart 11). This reflects a boom in brokerage business which is unlikely to be sustained in light of current market conditions and will weigh on growth in the second half of the year, particularly if efforts to shore up the markets are unsuccessful.

Where this matters more for growth concerns is its impact on the attempt by policymakers to rebalance the economy and reduce the debt burden. Firms, banks and local governments will have predicated their investment and lending plans on the expectation of successful stockmarket listings and infusions of equity capital. In the absence of these funds, investment will need to be scaled back, unless it is to be financed with additional debt. Given the large investment push in Q4 of 2014, we expect investment to be a drag on growth at the same time this year.

Chart 11: H1 boost looks unsustainable

Contributions to nominal GDP growth, y/y %



Source: Thomson Datastream, Schroders Economics Group. 28 July 2015.

We do not expect a hard landing yet...

A final question is whether a stockmarket crash could trigger a hard landing more generally. There is an argument to be made that it would undermine faith in the assumed omnipotence of the government in handling the economy, with a potential focus being the rest of the financial system. On balance though, our view would be that the real economy is still sufficiently disconnected from the equity market that the impact on growth should be limited to the effects felt from the financial firms involved and those wealthier households able to participate in the rally, and subsequent bust. Most firms are not reliant on the equity market for financing, and the People's Bank of China (PBoC) is capable of providing ample liquidity to keep credit markets going. But while the impact of the crash itself may be manageable, our concerns centre on the implications of the government's response.

Financial stability risks

In an attempt to reverse the slump in the markets, the government responded with a broad array of measures, ranging from rate cuts and additional liquidity to bans on selling by major shareholders. In addition, the state also orchestrated large-scale buying via the China Securities Finance Corporation (CSFC), which in early July invested around \$40 billion in stocks directly, and over the course of the month received \$200 billion from major Chinese banks to provide margin financing services to qualified securities companies. Other financial institutions have also been pressured to buy equities, including the sovereign wealth fund. Not content with the increase in systematic risk created by this move, the government also decided to ease off on the regulation of margin financing – which had already hit global record highs during the boom. It was reported that brokers would be able to set their own collateral requirements, extend loans beyond the previous maximum of six months, lend to individuals with less than the previously required \$80,000, and, importantly, they would be allowed to securitise their margin loan business.

...but the rescue package might have sown the seeds of one

The authorities have taken a situation where the risk was relatively well concentrated amongst the brokerages and a small number of wealthy retail investors, and done their best to spread that risk throughout the financial system and make it as opaque as possible. US subprime lending jumps out as an obvious analogy. This seems a ridiculous gamble to take when the market was still up, year on year, and the pain from the downturn was likely to be contained. So why risk it? The answer is that the government had allowed a booming stockmarket to be conflated with successful reforms, eventually to the extent of openly stating that a strong equity market was party policy. As a consequence, the reputational risk of the slump is huge, and means there is a risk (where none need otherwise have existed) of contagion from the equity market to other parts of the financial system, as questions arise about the apparently crumbling omnipotence of the Chinese state. The implicit guarantees backing the shadow financial system, for example, could be called into doubt, or indeed the explicit guarantee of the banking system. The party thus has no choice but to fight the downturn.

Chart 12: An additional unit of credit produces less GDP than it used to

Nominal GDP/credit ratio



Source: Thomson Datastream, Schroders Economics Group. 28 July 2015. Credit measured by total social financing.

Another negative side effect of these rescue attempts is that typical result of government intervention: resource misallocation. Specifically, bank credit is increasingly directed towards financing equity purchases. Returns on these loans

are reportedly as high as 7% - 8%, a great boon to banks being forced to acquire local government bonds yielding 500 bps less. Not only does this add leverage to an already highly leveraged market, it draws liquidity away from the credit markets and potentially economically productive uses. This will further weaken the impact of credit growth on investment and GDP, at a time when all three metrics are struggling, and credit is having an ever smaller effect on GDP (chart 12).

So far, the rescue package has not led to the sustained rebound that was hoped for. The recovery reversed sharply on the 27th of July, following weaker-than-expected economic data, and was reportedly driven by those stocks which saw the greatest intervention by the government. Our interpretation is that there was a massive bout of profit taking because market participants have little faith in the government-sponsored rally, and that absent heavy intervention the market has not yet settled. We expect further efforts from the government – as discussed, the reputational risk is too great to concede just yet – but we think this will ultimately prove to be an expensive mistake.

Schroder Economics Group: Views at a glance

Macro summary – July 2015

Key points

Baseline

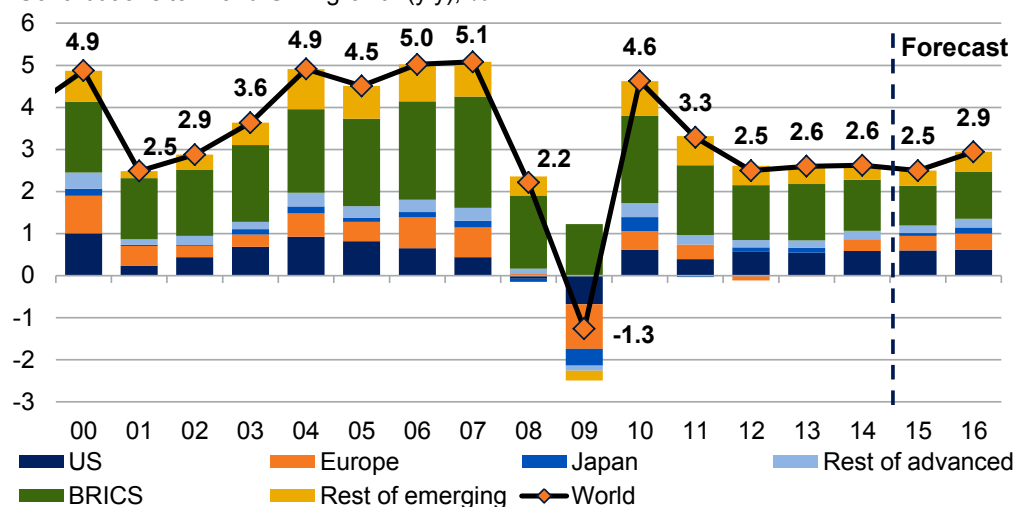
- After a poor start to the year global growth is now forecast at 2.5% for 2015, similar to 2014. Activity is still expected to pick-up as we move through the year, but the world economy is taking longer than expected to respond to the fall in energy costs.
- Despite a weak first quarter, the US economy is on a self sustaining path with unemployment set to fall below the NAIURU in 2015, prompting greater inflationary pressure and Fed tightening. First rate rise expected in September 2015 with rates rising to 1% by year end. Policy rates to peak at 2.5% in 2016.
- UK recovery to continue, but to moderate in 2016 with cooling housing market and resumption of austerity. Interest rate normalisation to begin with first rate rise in February 2016 after the trough in CPI inflation. BoE to move cautiously with rates at 1.5% by end 2016 and peaking at around 2.5% in 2017.
- Eurozone recovery picks up as fiscal austerity and credit conditions ease whilst lower euro and energy prices support activity. Inflation to remain close to zero throughout 2015, but to turn positive again in 2016. ECB to keep rates on hold and continue sovereign QE through to September 2016.
- Japanese growth supported by weaker Yen, lower oil prices and absence of fiscal tightening in 2015. Momentum to be maintained in 2016 as labour market continues to tighten, but Abenomics faces considerable challenge over the medium term to balance recovery with fiscal consolidation.
- US still leading the cycle, but Japan and Europe begin to close the gap in 2015. Dollar to remain firm as the Fed tightens, but to appreciate less than in recent months as ECB and BoJ policy is mostly priced in.
- Emerging economies benefit from advanced economy upswing, but tighter US monetary policy, a firm dollar and weak commodity prices weigh on growth. China growth downshifting as the equity and property markets cool. Further easing from the PBoC to follow.

Risks

- Risks are skewed towards deflation on fears of Eurozone deflationary spiral, China hard landing and secular stagnation. The risk that Fed rate hikes lead to a tightening tantrum (similar to 2013) would also push the world economy in a deflationary direction as higher bond yields tighten financial conditions. Inflationary risks stem from a delay to Fed tightening, or a global push toward reflation by policymakers. Although disruptive in the near term, further falls in oil prices would boost output and reduce inflation.

Chart: World GDP forecast

Contributions to World GDP growth (y/y), %



Source: Thomson Datastream, Schrodgers Economics Group 27 May 2015 forecast. Please note the forecast warning at the back of the document.

Schroders Baseline Forecast

Real GDP

y/y%	Wt (%)	2014	2015	Prev.	Consensus	2016	Prev.	Consensus
World	100	2.6	2.5	↓ (2.8)	2.5	2.9	↓ (3.0)	3.0
Advanced*	63.2	1.7	1.9	↓ (2.2)	1.9	2.1	↓ (2.2)	2.3
US	24.5	2.4	2.4	↓ (3.2)	2.4	2.5	↓ (2.7)	2.8
Eurozone	19.2	0.9	1.4	↑ (1.3)	1.5	1.6	(1.6)	1.8
Germany	5.4	1.6	1.6	(1.6)	1.9	2.1	↑ (2.0)	1.9
UK	3.9	2.8	2.2	↓ (2.6)	2.5	1.9	↓ (2.0)	2.4
Japan	7.2	-0.1	0.9	↓ (1.6)	1.0	2.0	↓ (2.2)	1.7
Total Emerging**	36.8	4.3	3.6	↓ (3.7)	3.6	4.3	↓ (4.4)	4.3
BRICs	22.6	5.4	4.2	(4.2)	4.3	4.9	(4.9)	5.1
China	13.5	7.4	6.8	(6.8)	6.8	6.5	(6.5)	6.7

Inflation CPI

y/y%	Wt (%)	2014	2015	Prev.	Consensus	2016	Prev.	Consensus
World	100	2.8	2.8	↑ (2.5)	2.7	3.1	↑ (3.0)	3.3
Advanced*	63.2	1.4	0.6	↑ (0.5)	0.4	1.7	↓ (1.8)	1.7
US	24.5	1.6	0.9	↑ (0.7)	0.2	2.3	↑ (2.2)	2.2
Eurozone	19.2	0.4	0.2	↑ (0.1)	0.2	1.2	(1.2)	1.3
Germany	5.4	0.8	0.5	↑ (0.4)	0.6	1.7	(1.7)	1.6
UK	3.9	1.5	0.4	↓ (0.6)	0.2	1.8	↓ (2.1)	1.6
Japan	7.2	2.7	0.8	↑ (0.6)	0.8	1.1	↓ (1.3)	1.1
Total Emerging**	36.8	5.1	6.4	↑ (5.9)	6.7	5.4	↑ (5.0)	6.0
BRICs	22.6	4.0	4.7	↑ (4.5)	4.4	3.6	(3.6)	3.6
China	13.5	2.0	1.4	↓ (1.7)	1.4	2.0	(2.0)	1.9

Interest rates

% (Month of Dec)	Current	2014	2015	Prev.	Market	2016	Prev.	Market
US	0.25	0.25	1.00	(1.00)	0.56	2.50	(2.50)	1.43
UK	0.50	0.50	0.50	↓ (0.75)	0.72	1.50	(1.50)	1.32
Eurozone	0.05	0.05	0.05	(0.05)	0.01	0.05	(0.05)	0.11
Japan	0.10	0.10	0.10	(0.10)	0.01	0.10	(0.10)	0.11
China	4.85	5.60	4.60	↓ (5.00)	-	4.00	↓ (4.50)	-

Other monetary policy

(Over year or by Dec)	Current	2014	2015	Prev.	2016	Prev.
US QE (\$Bn)	4481	4498	4494	↓ (4562)	4512	↓ (4617)
EZ QE (€Bn)	68	31	649	↑ (600)	1189	↑ (1140)
UK QE (£Bn)	375	375	375	(375)	375	(375)
JP QE (¥Tn)	323	300	389	(389)	406	(406)
China RRR (%)	19.50	20.00	18.00	↓ 19.00	17.00	↓ 18.00

Key variables

FX (Month of Dec)	Current	2014	2015	Prev.	Y/Y(%)	2016	Prev.	Y/Y(%)
USD/GBP	1.57	1.53	1.52	↓ (1.53)	1.5	1.54	↑ (1.52)	1.5
USD/EUR	1.14	1.09	1.09	↓ (1.11)	1.1	1.13	↑ (1.11)	1.1
JPY/USD	119.1	123.8	124.5	↑ (124)	124.1	124.5	↓ (126)	125.3
GBP/EUR	0.72	0.71	0.72	↓ (0.73)	0.7	0.73	↑ (0.73)	0.7
RMB/USD	6.20	6.20	6.20	↑ (6.20)	6.2	6.20	↓ (6.20)	6.2
Commodities (over year)								
Brent Crude	67.4	62.6	63.9	↓ (65)	63.8	61.6	↑ (61)	62.4

Source: Schroders, Thomson Datastream, Consensus Economics, July 2015

Consensus inflation numbers for Emerging Markets is for end of period, and is not directly comparable.

Market data as at 13/05/2015

Previous forecast refers to February 2015

* **Advanced markets:** Australia, Canada, Denmark, Euro area, Israel, Japan, New Zealand, Singapore, Sweden, Switzerland, Sweden, Switzerland, United Kingdom, United States.** **Emerging markets:** Argentina, Brazil, Chile, Colombia, Mexico, Peru, Venezuela, 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

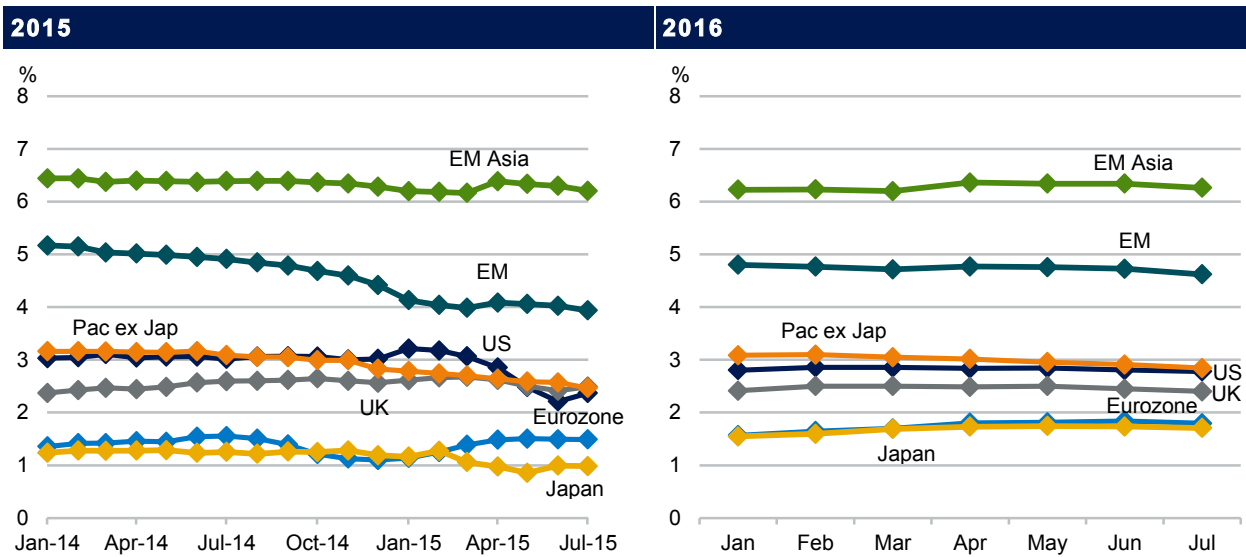
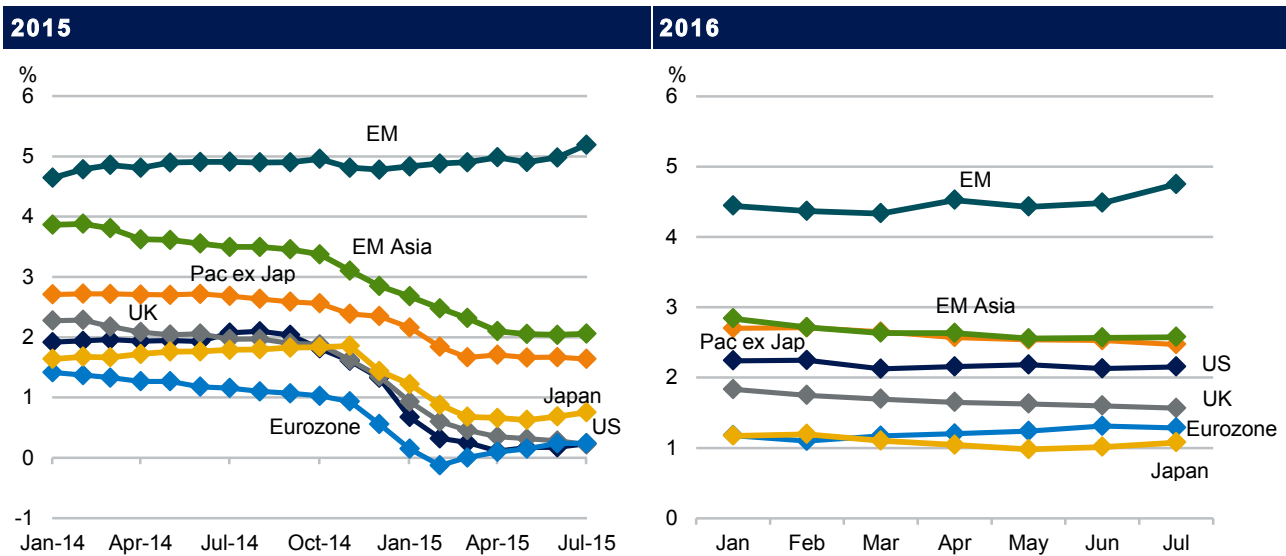


Chart B: Inflation consensus forecasts



Source: Consensus Economics (July 2015), Schroders Economics Group.

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, Venezuela, South Africa, Czech Republic, Hungary, Poland, Romania, Russia, Turkey, Ukraine, Bulgaria, Croatia, Estonia, Latvia, Lithuania.

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