ALLIANCEBERNSTEIN

GLOBAL ECONOMIC RESEARCH

GLOBAL MACRO OUTLOOK

DECEMBER 2017

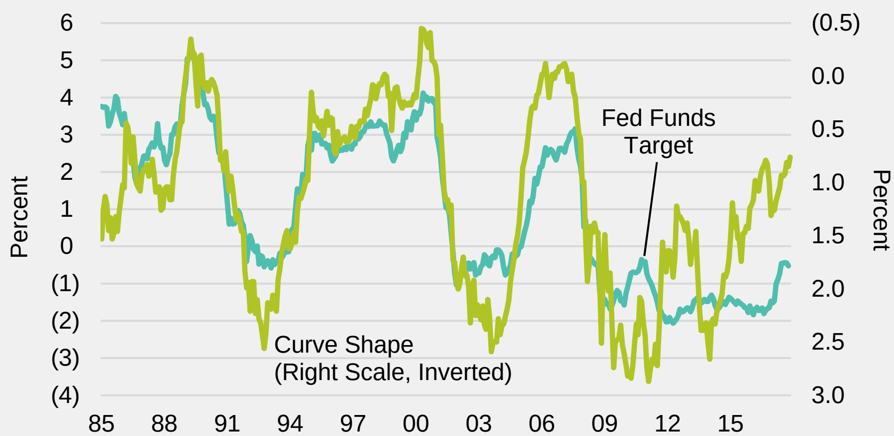
KEY FORECAST TRENDS

+ Global growth remains strong—and seems to be gaining strength and breadth as the trade cycle shifts to a higher gear.
+ As capacity use tightens further, we expect to see global inflation and wage growth gradually start to rise.
+ At the same time, there are several structural forces that should apply upward pressure to inflation in coming years, including demographics, populist policies and monetary regime shift.
+ Central banks will keep traveling the path of policy normalization, with the Fed in the lead. We expect one more US rate hike this year, and four in 2018.
+ Solid growth means the backdrop for risk assets still benign. But risks are mounting. How will the US economy respond to higher rates? How will central bank balance-sheet reduction affect asset prices? Will geopolitical risks intensify?
+ Our forecasts point to a stronger dollar and higher bond yields in the US and Europe. This is likely to create a less supportive environment for emerging markets.

CONTENTS

What to Make of a Flatter US Yield Curve?

US Curve Shape and Real Fed Funds—a Broken Linkage?

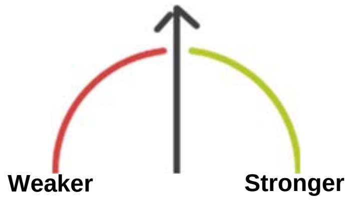


Through November 15, 2017
Source: Thomson Reuters Datastream

+ Even after recent flattening, the US yield curve is not at a level that signals true concern about the economic outlook.
+ Historically, the shape of the yield curve has sent a very similar message to the real funds rate—but that linkage has broken.
+ Quantitative easing, global factors and other structural changes may distort the signal from the shape of the curve.

GLOBAL FORECASTS

Economic Growth



- Solid, synchronized global growth likely to continue in 2018
- Strong upward momentum suggests that risks may still be tilted to the upside, particularly in the near term

Key Risks

- US response to Fed tightening
- Fiscal over/under-delivery
- China emphasis on “quality” of growth
- Politics and protectionism

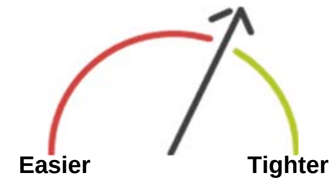
Inflation

- Structural and cyclical factors point to a gradual increase in underlying inflation pressures
- But a sharp acceleration in headline inflation is still unlikely in 2018

Key Risks

- Uncertain labor-market slack
- Can we trust the Phillips curve?
- Structural inflation pressure builds more quickly than assumed

Monetary Policy



- Fed tightening to continue: Fed funds 2.38% by end of 2018
- ECB to end bond purchases next year; first rate hike in 1H:2019Fed tightening to continue: Fed funds 2.38% by end of 2018
- BOJ to stay the course; focus on yield level, not volume of purchases

Key Risks

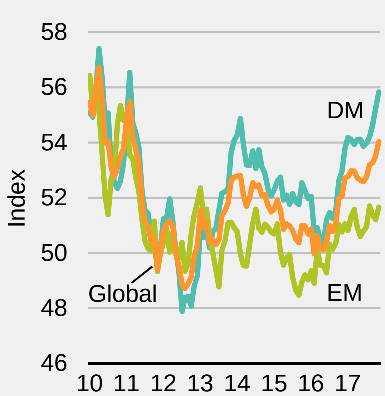
- Shift in central bank reaction functions
- More aggressive tightening

OUTLOOK

- Our global growth forecasts continue to rise as the recovery strengthens and broadens. We expect global growth of 3.1% in 2018, the same as this year.
- We are more optimistic than the consensus on 2018 growth in the euro area (2.4% versus 1.9% consensus) and Japan (1.7% versus 1.2%) but more cautious on the US (2.0% versus 2.5%) and China (6.0% versus 6.5%).
- We expect global inflation to average 2.5% this year and next. Against this backdrop, central banks are likely to withdraw monetary stimulus gradually.
- Wage and inflation developments will be important next year. Any signs of a faster-than-expected increase in either would lead to a more aggressive response from central banks. Markets are not priced for this.

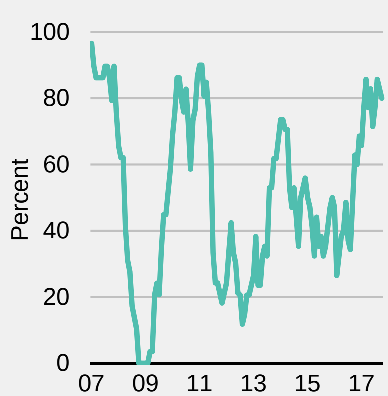
Global Manufacturing Trends: Trade Cycle Shifts to Higher Gear

Manufacturing PMIs



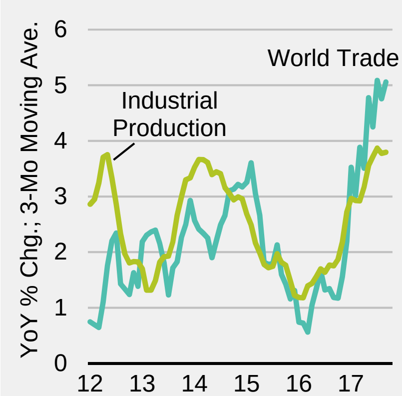
Through December 4, 2017
Source: Haver Analytics and IHS Markit

Manufacturing PMI: Diffusion Index



Through December 4, 2017
Source: Haver Analytics and IHS Markit

World Trade and IP Growth



Through December 4, 2017
Source: Haver Analytics and IHS Markit

GLOBAL MARKET OUTLOOK: YIELD CURVES

GLOBAL YIELDS

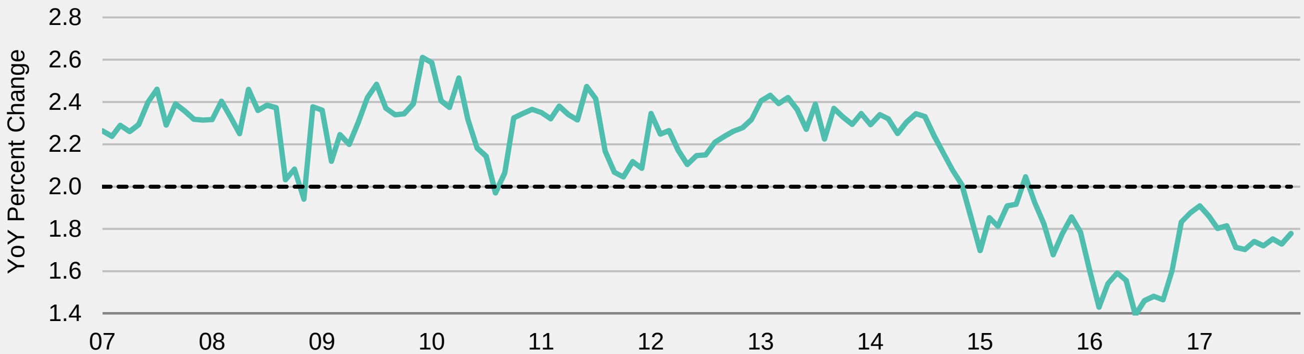
+ **Global**—Core rates still expected to trend higher; central bank balance-sheet policy is a key factor
+ **US**—With the Fed likely to raise rates more aggressively than markets expect, we look for the US 10-year yield to rise above 3.0% next year
+ **Euro Area**—Although the ECB is still communicating a dovish message, the central bank is clearly getting closer to ending quantitative easing. This is likely to put upward pressure on Bund yields in coming months
+ **Japan**—QQE-YCC policy will keep anchoring 10-year yields near zero, but the central bank's commitment to its quantity target to become fuzzier
+ **UK**—Having raised rates 25 b.p. in November, the Bank of England is likely to raise rates two more times in 2018

Global Rates: AB and Consensus Year-End Forecasts (%)

	AB		Consensus	
	2017	2018	2017	2018
US	2.60	3.25	2.39	2.86
Euro Area	0.50	1.50	0.47	0.94
UK	1.50	2.25	1.33	1.67
Japan	0.05	0.05	0.04	0.09

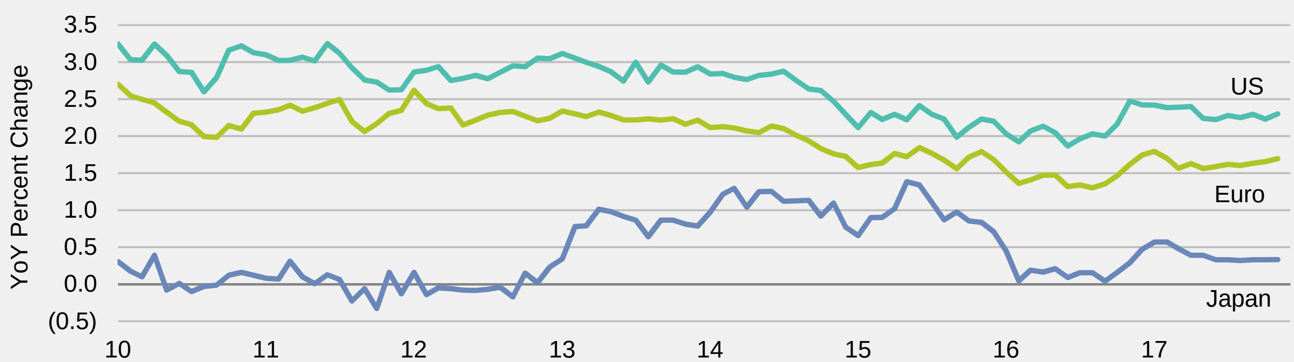
As of December 4, 2017
Source: Bloomberg and AB

G3* Medium-Term Inflation Expectations†



Through December 4, 2017
*US, euro area and Japan †Five-year forward inflation-linked swaps
Source: Bloomberg and AB

Medium-Term Inflation Expectations*



Through December 4, 2017
*Five-year forward inflation-linked swaps
Source: Bloomberg and AB

GLOBAL MARKET OUTLOOK: CURRENCIES

FX FORECASTS

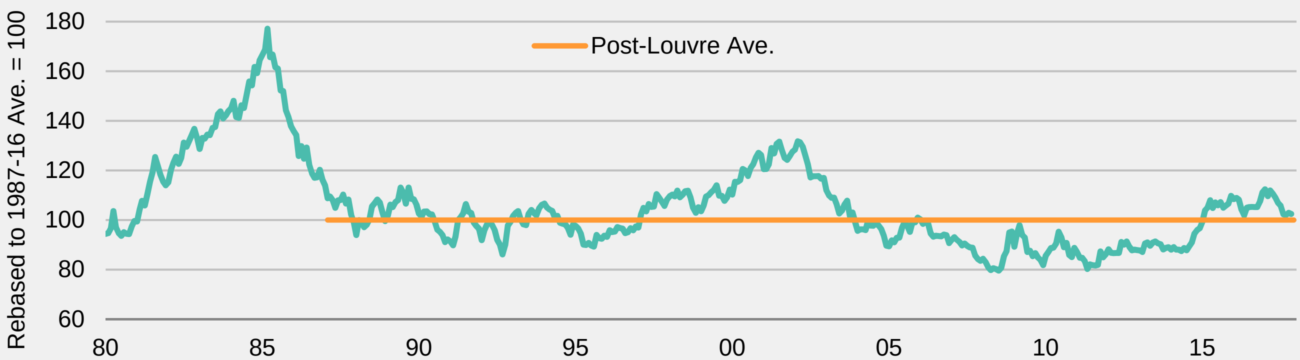
- **USD**—With the Fed likely to raise rates more than markets expect, risks are tilted toward dollar strength
- **JPY**—Expect modest JPY weakness as BOJ lags in policy normalization process
- **EUR**—Dovish ECB communication policy is likely to weigh on EUR over the near term
- **GBP**—Although Brexit remains a risk, more hawkish BOE is likely to support GBP in coming months
- **Dollar Bloc**—AUD still vulnerable as the RBA lags in the policy normalization process. NZD looks to have overreacted to the postelection political shift

Global FX: AB and Consensus Year-End Forecasts

	AB		Consensus	
	2017	**2018**	**2017**	**2018**
EUR/USD	1.15	1.10	1.17	1.22
USD/JPY	115	125	113	112
EUR/GBP	0.88	0.88	0.89	0.92
AUD/USD	0.75	0.73	0.77	0.80

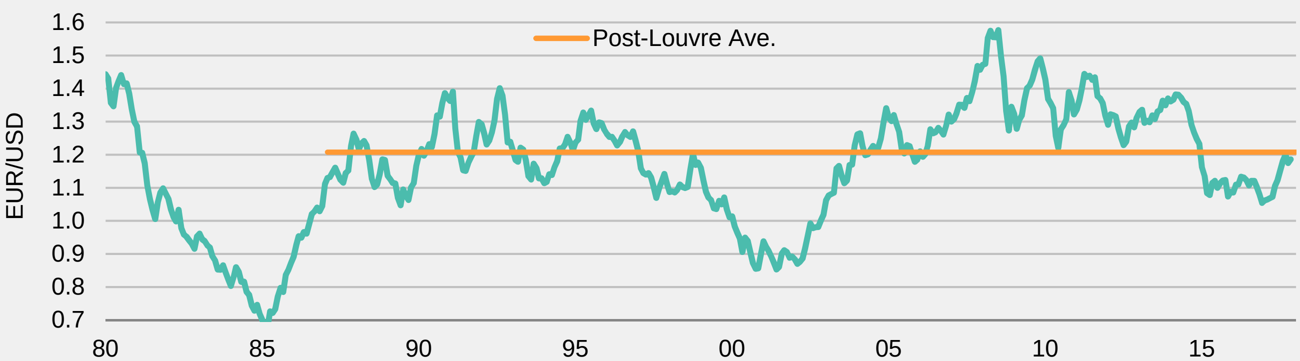
As of December 4, 2017
Source: Bloomberg and AB

USD Effective Exchange-Rate Index: Nominal



Through December 4, 2017
Source: Bloomberg and AB

USD per Euro



Through December 4, 2017
Source: Bloomberg and AB

GLOBAL MARKET OUTLOOK: CENTRAL BANK WATCH

Core/Developed Markets

	Policy Direction	Latest (%)	+6 Mo. (%)	+12 Mo. (%)	Comments/Unconventional Policy
US	⇧	1.13	1.38	2.38	The Fed’s balance sheet is shrinking, and we expect the program to run as scheduled unless economic conditions change dramatically
Euro Area	⇔⇧	0.00	0.00	0.00	ECB to end asset purchases in September 2018; first deposit rate hike in 1H:2019: refinancing rate in 2H
Japan	⇔	(0.10)	(0.10)	(0.10)	QQE-YCC policy is in play for the foreseeable future. BOJ to lag ECB and Fed in normalization process
China	⇧	2.90	3.10	3.20	Tightening on financial leverage continues, but Beijing is mindful of overtightening, which causes sharp economic slowdown
Canada	⇧	1.00	1.25	1.50	BOC paused until impact from 50 b.p. of hikes in 2H:2017 can be assessed
Australia	⇔	1.50	1.50	1.50	Optimism around domestic rebalancing offset by weak wages, household debt concerns and housing risk. RBA on hold through 2018
NZ	⇔	1.75	1.75	1.75	Successful macroprudential negates need for rate adjustment. New government set to revise RBNZ mandate, including jobs objective
UK	⇧	0.50	0.75	1.00	Unless growth slips, we look for two more rate hikes in 2018
Sweden	⇔	(0.50)	(0.50)	(0.40)	Next move likely to be up, though not well into 2018
Norway	⇔	0.50	0.50	0.50	

KEY DEVELOPED-MARKET THEMES

+ As long as growth remains on track, most developed-market (DM) central banks are likely to start withdrawing monetary accommodation gradually.
+ The market interpreted the Bank of England’s November rate increase as a dovish hike. We disagree and look for two more rate increases in 2018.

Emerging Markets

	Policy Direction	Latest (%)	+6 Mo. (%)	+12 Mo. (%)	Comments/Unconventional Policy
India	⇔	6.00	6.00	6.00	Growth-inflation mix not justified for preemptive tightening and more so as fiscal discipline is reinstated
Indonesia	⇔	4.25	4.25	4.25	A long pause after back-to-back rate easing
S. Korea	⇧	1.25	1.50	1.75	Bank of Korea (BOK) likely to be more preemptive than needed
Brazil	⇩	7.50	7.00	7.00	Aggressive easing cycle that started 4Q:2016 close to completion
Mexico	⇔	7.00	7.00	6.50	Easing not to start before 2H:2018
Chile	⇔	2.50	2.50	2.50	Easing cycle over; soft growth gave room for central bank to ease
Colombia	⇔	4.75	4.75	5.00	Inflation to decline gradually; easing cycle started in December 2016
Russia	⇩	8.25	7.50	7.00	Undershooting of inflation target opens door for bigger cuts
Turkey	⇔	8.00	8.00	8.00	The Central Bank of the Republic of Turkey will use only the upper end of the rate corridor to manage short-term lira liquidity
S. Africa	⇔	6.75	6.75	6.75	In the absence of renewed ZAR appreciation, scope for further cuts limited, given a likely rebound in CPI later in 2018
Hungary	⇔	0.90	0.90	0.90	Unconventional easing remains the key focus and rate hikes therefore very unlikely in 2018
Poland	⇧	1.50	1.50	1.75	Inflation to approach 2.5% midpoint target only by 2H:2018, which will lead to tightening later in the year

KEY EMERGING-MARKET THEME

+ In contrast to the major DM central banks, most emerging-market (EM) countries are expected to loosen monetary policy or keep it on hold in coming months.

US

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)	
	2017F	2018F	2017F	2018F	2017F	2018F	2017F	2018F
US	2.3	2.0	2.0	2.1	1.38	2.38	2.60	3.25

OUTLOOK

+ The US economy is nearing the end of the year with considerable momentum. Both consumer and business sentiment are near cycle highs, suggesting that the positive performance will continue into 2018. We expect growth to moderate over the course of the year but to remain generally solid over the forecast horizon.
+ As expected, we see signs that inflation is starting to increase gradually. That increase looks likely to remain gradual, allowing the FOMC to raise rates gradually. This should keep financial conditions relatively easy for a few months.
+ We do not think that the tax plans currently under discussion are game-changing, but any sort of deficit-financed fiscal stimulus is an incremental positive risk to the near-term outlook for growth and thus bolsters our confidence in the near-term economic outlook.

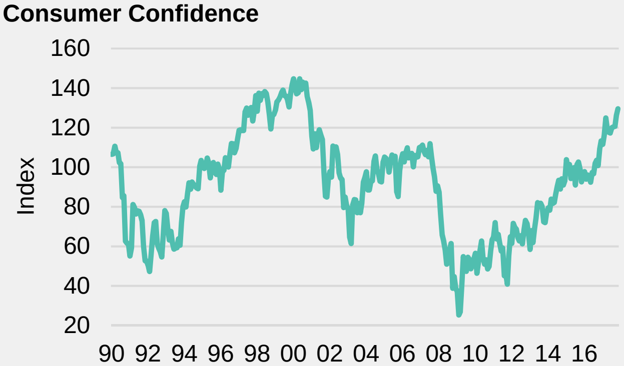
RISK FACTORS

+ The tax plans under discussion are largely financed by increased deficits; we do not think that they will generate enough growth to be revenue-neutral from a government perspective. Increased deficits could force market participants to inject additional risk premium into Treasury rates, pushing yields higher and potentially slowing the economy.
+ If the near-term increase in core inflation is sustained, the FOMC could find itself having to raise rates more aggressively than expected, which could slow the economy more rapidly and abruptly than our forecast suggests.
+ Policy uncertainty remains, with tax policy and the possibility of a government shutdown both on the front burner. In 2018, the hotly contested midterm elections as well as ongoing investigations into the Trump administration could weaken confidence in the economic outlook.

OVERVIEW

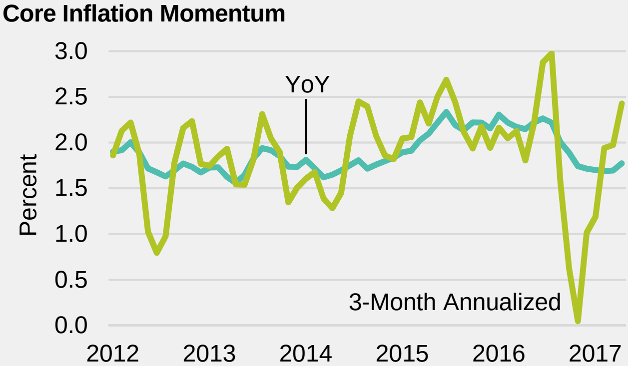
Both the US and the global economy are ending 2017 on a high note. Positive growth across the developed world is allowing financial markets to embrace strong economic performance, even in the face of political and geopolitical risk. With economic performance so strong, we still think that it would take a very large shock to derail the momentum in the near term. As we look ahead to 2018, we expect the FOMC to tighten financial conditions gradually, with asset prices unlikely to perform as well next year as they have this year. The biggest economic risk on the horizon is higher inflation. Should price pressures accelerate, the accommodative financial conditions that boosted growth in 2017 may prove unsustainable. That said, a modest slowdown into the second half of next year is part of our base-case scenario for the US and should not be viewed as a negative outcome. With the economy growing above potential, a modest slowdown should serve to prevent overheating and limit financial market instability. The outlook in general is a good one.

Consumer Confidence



Through November 15, 2017
Source: Thomson Reuters Datastream

Core Inflation Momentum



Through October 15, 2017
Source: Thomson Reuters Datastream

Euro Area

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2017F	2018F	2017F	2018F	2017F	2018F	2017F	2018F	2017F	2018F
Euro Area	2.3	2.4	1.5	1.4	0.0	0.0	0.50	1.50	1.15	1.10

OUTLOOK

+ We expect the euro area to grow by 2.4% next year, slightly below this year's expected growth rate of 2.3% and most estimates of the economy's potential growth rate.
+ With the rise in underlying inflation likely to be a slow one and oil prices subdued, we expect headline inflation to average 1.4% next year, very close to this year's 1.5%.
+ The ECB is likely to end its asset purchase program in September 2018 or possibly after some token purchases in the fourth quarter of next year. We expect the first interest-rate rise in the first quarter of 2019.

RISK FACTORS

+ Risks to the growth outlook appear evenly balanced and may continue to be to the upside in the near term.
+ Our monetary policy forecasts are driven by a gradual evolution of the ECB's reaction function to place greater weight on growth rather than on an expectation that inflation is likely to rise sharply. Should inflation surprise on the upside, the ECB would have to respond more aggressively, and the market is not priced for this.

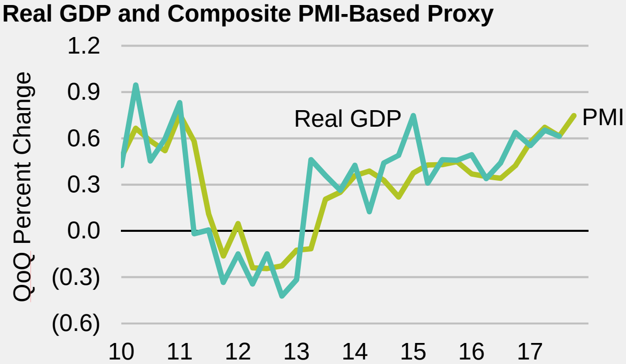
OVERVIEW

Recent data support our view that 2017 will be the best year for euro-area growth since 2007. Real GDP rose by 0.6% in the third quarter, after a 0.7% gain in the second, pushing annual growth up to 2.6%. Meanwhile, November survey data suggest that growth could be even stronger in the final quarter of the year. The good news is that the recovery is balanced, with third-quarter national accounts data showing consumer spending up 1.9% in annual terms, investment spending up 4.2%, and both exports and imports growing at a little above 5.0%.

Having surprised on the upside for much of the year, core inflation has slipped back again in recent months. As a result, what looked like a fairly strong upward trend in underlying inflation over the summer months now looks much more modest. Still, we doubt that this will have a material impact on the ECB's confidence that inflation will eventually return to target—particularly as the economy's current and projected growth rates are consistent with a rapidly closing output gap.

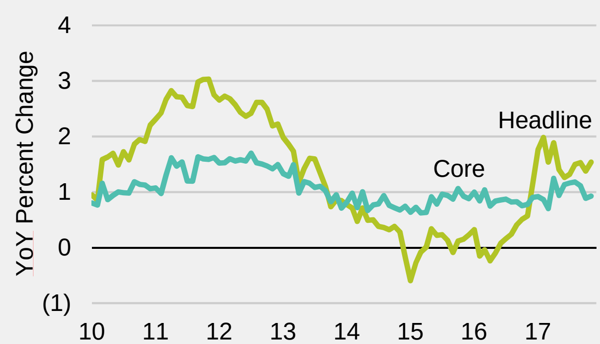
The ECB will halve the volume of its monthly asset purchases next year, but has adopted a very dovish communication strategy. While this has helped the market digest the reduction in monthly purchases, the direction of ECB policy is clear. The question is no longer whether it will withdraw monetary stimulus but how quickly it is likely to do so. And the more successful the ECB is in suppressing market expectations today, the more severe the eventual reaction could be when the full extent of the policy shift becomes clear—particularly were inflation to surprise on the upside.

Real GDP and Composite PMI-Based Proxy



Through December 4, 2017
Source: Haver Analytics and IHS Markit

Consumer Price Inflation



Through December 4, 2017
Source: Haver Analytics and IHS Markit

Japan

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2017F	2018F	2017F	2018F	2017F	2018F	2017F	2018F	2017F	2018F
Japan	1.6	1.7	0.4	0.8	(0.10)	(0.10)	0.05	0.05	115	125

OUTLOOK

- We still expect fiscal and monetary stimulus, along with improved private sector demand, to produce above-trend growth over the next couple of years.
- With capacity continuing to tighten, we expect to see more concrete signs that inflation is rising. The upcoming Shunto wage-setting round is a key event to watch. Still, CPI inflation is likely to remain shy of the BOJ's 2% target.
- In this environment, we find it difficult to see the BOJ starting the policy normalization process. Instead, the BOJ will probably maintain its QQE-YCC program, designed to cap 10-year yields at zero well into 2018, and probably beyond.

RISK FACTOR

- The prospect of a monetary policy misstep remains a key risk—a premature move to normalize policy would likely see a sharp appreciation in the yen, undermine the equity market and economic growth, and reverse the limited progress on the inflation front.

OVERVIEW

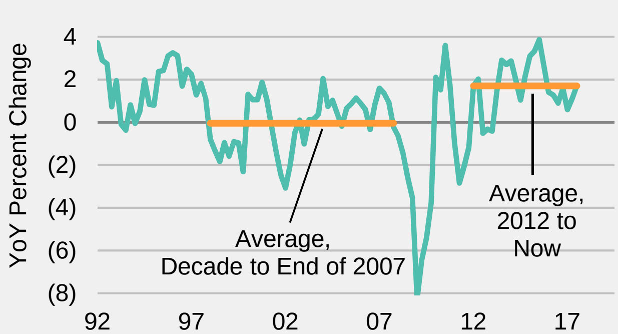
Japan's 3Q GDP confirmed that there's still solid momentum behind economic activity. At 1.6% year over year, growth is running well above most reasonable estimates of potential. Accordingly, the output gap continues to close. That's clear, whether we look at survey-based measures of spare capacity (like that from the Tankan survey) or more formal calculations of the output gap from the Cabinet Office or the BOJ. With the yen at competitive levels, monetary policy accommodative and more fiscal stimulus in the pipeline, it's difficult to see that picture changing dramatically in 2018.

The focus should remain, then, on whether these capacity pressures end up spilling over into higher inflation. To date, progress has been limited. Both inflation and wages (particularly for part-timers) have moved up a bit but are well shy of levels needed to declare "success" in reaching the BOJ's 2% inflation target.

Over the next few months, there are a couple of key events to watch for. The first is the next formal annual wage-bargaining round (Shunto). The fundamental backdrop remains supportive of a more substantial rise in wages, with the labor market increasingly tight and with the profit share making new highs. Despite this, businesses have been reluctant to grant larger pay increases. PM Abe is attempting to shift this reluctance through a combination of moral suasion and changing tax law to incentivize granting larger pay increases. Our guess is that there will be more progress this time around.

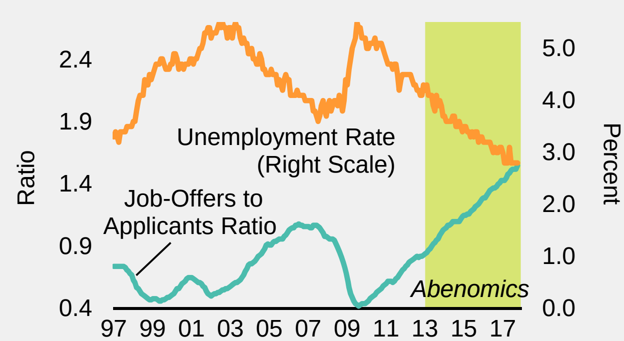
The second event will be the nomination of a candidate to succeed BOJ governor Haruhiko Kuroda, whose term ends in April. Markets are betting that Kuroda will be given a second term and that the BOJ will be on track to begin the exit by late next year. We're not so sure. Markets are underestimating the chances of someone more aligned with the "reflationist" camp, such as prime ministerial advisor Etsuro Honda. If Honda did get the nod, it would reinforce a policy bent toward higher inflation.

Japan Nominal GDP Growth in a Different Regime…



Through December 4, 2017
Source: Thomson Reuters Datastream

…While the Labor Market Continues to Tighten



Through December 4, 2017
Source: Thomson Reuters Datastream

China

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2017F	2018F	2017F	2018F	2017F	2018F	2017F	2018F	2017F	2018F
China	6.7	6.0	1.6	2.5	2.80	3.20	4.10	3.60	6.61	6.80

OUTLOOK

+ China's growth will moderate somewhat in 2018, the result of tighter regulations on off-balance-sheet credits, fintech financing, local government debt financing and environmental control.
+ A push for more technology production and improved exports should help, though, to limit the scope of the slowdown.
+ We expect the renminbi to depreciate by about 2% against the US dollar over the next six months.

RISK FACTORS

+ Overtightening of shadow credit and its hidden third-party risk in the credit chain
+ US trade sanctions against China and its association with North Korea

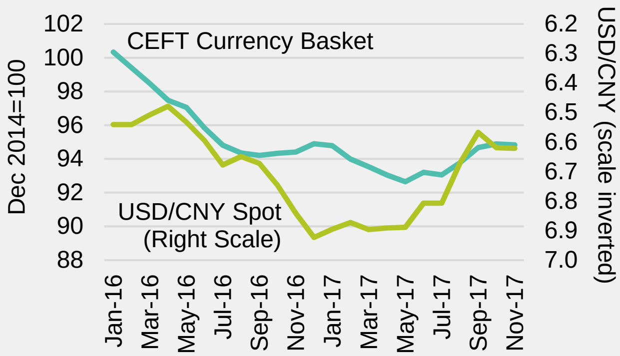
OVERVIEW

After the 19th Party Congress, the new administration began to tighten regulations to reduce structural risks and problems. The crackdown on shadow credits extended into local government debt and fintech financing. Overcapacity cuts are going ahead as planned, and environment protection has deepened and is likely to become a permanent feature of core economic policy. The tightening of the rules will be a drag on investment and consumption growth, even though the export and technology production sectors have fared better than expected.

As for the 2018 growth outlook, we think that it's a story of moderation rather than a sharp downturn. We see little risk that the government will overtighten conditions and create a crisis. The new administration's prime objective is to clean up some of the messes and contain the associated risks that would become more severe if left unchecked.

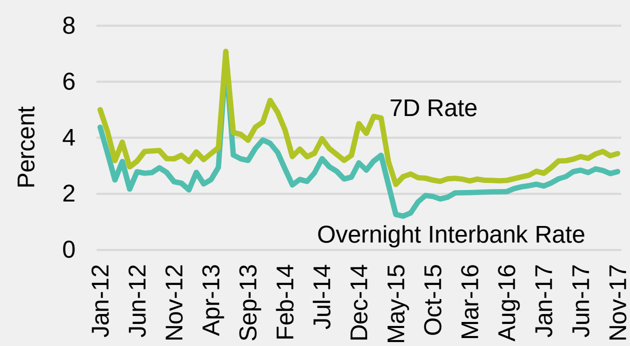
Though we don't think it's necessary for China to follow the Fed in 2018, we think that the RMB could decline against the USD (about 2% over next six months) as China tries to maintain a stable currency basket in the face of dollar appreciation. Still, the Chinese currency should remain relatively firm against other major global currencies and currencies across emerging markets. If dollar strength peaks earlier than we envisage, the RMB is likely to quickly resume its underlying strength. We see that the current CNY/USD exchange-rate level is around fair value and there should be no major policy realignment risk in the foreseeable future.

RMB Likely to Weaken Modestly on Further USD Strength



Through November 30, 2017
Source: CEIC Data and AB

Short-Term Interest Rates Have Risen but Not Drastically



Through November 30, 2017
Source: CEIC Data and AB

Canada

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2017F	2018F	2017F	2018F	2017F	2018F	2017F	2018F	2017F	2018F
Canada	3.2	2.2	1.8	2.0	1.00	1.75	2.15	2.50	1.27	1.30

OUTLOOK

+ Real growth is slowing a bit, as expected, from its high 2Q level. But the economy is still growing above its potential.
+ The BOC held its policy rate at 1% in December and reiterated its cautious and data-dependent approach toward future rate hikes. We expect the strength of the economy to force the BOC to increase its policy rate by 25 b.p. in 1Q:2018.

RISK FACTORS

+ Macroprudential policies aimed at cooling the market and changes to Office of the Superintendent of Financial Institution's mortgage lending standards that will take effect in January are affecting supply-and-demand dynamics in the Toronto housing market. Both are increasing, keeping the market loose and causing prices in select market segments to correct. Elevated household debt metrics create risk, but we still expect a soft market correction.
+ Uncertainty surrounding the outcome of NAFTA renegotiations could hurt investment. Businesses are unlikely to invest in their Canadian operations if they think that the US could adopt protectionist trade policies.

OVERVIEW

The BOC continues to sound dovish, but the economic data are improving. Growth is still robust and above potential. The labor market added 79,500 jobs in November, the largest monthly gain since April 2012, and pushed the unemployment rate down to 5.9%, a precrisis level. Wage growth has started to respond to the tightening labor market, but policymakers still believe that there's more slack in the labor force. Inflation is trending below the 2% target, but core measures are moving up. These positive data points should imply a more hawkish BOC stance. However, there are two important risks: the effect of higher rates on the housing market and consumption, given high household debt levels; and the possibility of increased trade protectionism in the US. The path of Fed rate hikes will also be an important factor in the BOC's calculus because the Canadian dollar will be affected if US–Canada policy rates diverge.

Australia/New Zealand

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2017F	2018F	2017F	2018F	2017F	2018F	2017F	2018F	2017F	2018F
Australia	2.3	2.4	1.9	2.0	1.50	1.50	2.75	3.45	0.75	0.73
New Zealand	2.6	2.7	2.0	1.9	1.75	1.75	3.00	3.50	0.68	0.72

AUSTRALIA

+ The schism in economic indicators remains. Business sentiment continues to be robust. The end of the mining bust, signs of a turn in non-mining capex and exposure to booming public sector infrastructure spending have all helped. Businesses have responding by hiring workers at a faster pace.
+ Even so, households are clearly under pressure. Wage growth remains at record lows, undermining income growth. Consumption remains weak. And now house prices are clearly starting to soften.
+ There are few signs that this tension will be easily resolved. Expect the central bank to remain on hold through 2018, making it a laggard in the global policy normalization process.

NEW ZEALAND

+ Our outlook has barely changed despite the increased political and policy uncertainty. Growth remains respectable and inflation subdued. The housing sector has cooled enough to allow the central bank to modestly ease macroprudential restrictions.
+ However, markets are still awaiting clarity on the direction that the new government will take. The ANZ's monthly business survey showed a large decline in confidence—a reflection of that uncertainty. We don't expect radical policy change. But more restrictions on immigration are likely, as is a fiscal boost and changes to the Reserve Bank of New Zealand's mandate (policy committee; employment target).

UK

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2017F	2018F	2017F	2018F	2017F	2018F	2017F	2018F	2017F	2018F
UK	1.5	1.6	2.7	2.3	0.50	1.00	1.50	2.25	1.30	1.25

OUTLOOK

+ Modest growth in real incomes and Brexit-related uncertainty have weighed on the economy in recent quarters. Nonetheless, third-quarter GDP data and recent survey data suggest that growth has stabilized and may be improving.
+ At 3.0% in October, inflation is still well above target but is likely to move closer to 2.0% in 2018.
+ The market viewed the Bank of England's October rate rise as a dovish hike. We disagree and expect two more 25-basis-point rate increases in 2018.

RISK FACTORS

+ UK household finances still look stretched. This could make the economy unusually vulnerable to higher rates.
+ Brexit continues to cloud the outlook. Indeed, the government's recent mishandling of negotiations with the EU have led to a marked increase in domestic political risk. An early election is not our central case but should not be ruled out.

Norway/Sweden

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2017F	2018F	2017F	2018F	2017F	2018F	2017F	2018F	2017F	2018F
Norway	1.9	2.5	1.9	1.6	0.50	0.75	1.50	2.25	8.35	8.40
Sweden	3.1	2.9	2.0	1.8	(0.50)	(0.40)	0.75	1.50	8.50	8.50

NORWAY OUTLOOK

+ The outlook is positive, with growth in the mainland economy expected at 1.9% this year and 2.5% in 2018. These forecasts, like our forecasts for the rest of Europe, are slightly more optimistic than consensus forecasts.
+ Inflation remained low at 1.9%, far below the 2.5% target. Weak wage growth, lower oil prices and subdued inflation in the rest of Europe are likely to keep it below target over the forecast horizon.
+ We expect Norges Bank to hold its policy rate at 0.5% at its December meeting and throughout most of 2018.

RISK FACTORS

+ The main risk factor in Norway is rising household debt (currently above 210% of income). The economy would also be vulnerable to a rapid decline in the oil price.

SWEDEN OUTLOOK

+ The outlook for economic growth in Sweden remains positive, with the economy still expected to expand by 3.1% this year and by 2.9% in 2018.
+ Latest inflation print came at 1.8%—the first below the target rate of 2.0% in the last few months. We expect it to remain below target in 2018.
+ We expect the Riksbank to hold its repo rate at (0.5)% in the near term. An extension of the central bank's asset purchase program into 2018 has become more likely, although probably at a slower pace.

RISK FACTOR

+ High household debt and elevated house prices continue to represent a major risk to financial stability.

Asia ex Japan

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2017F	2018F	2017F	2018F	2017F	2018F	2017F	2018F	2017F	2018F
Asia ex Japan	**5.9**	**5.6**	**2.0**	**2.7**	**3.03**	**3.34**	**4.29**	**3.91**	**—**	**—**
Hong Kong	3.7	3.0	1.6	2.4	1.75	2.25	2.10	1.90	7.81	7.80
India	5.7	6.7	3.1	3.9	6.00	6.00	6.90	6.50	64.46	66.50
Indonesia	5.1	5.6	3.8	3.8	4.25	4.25	6.80	6.60	13,544	13,900
South Korea	3.2	2.7	2.1	2.3	1.50	1.75	2.70	2.40	1,088	1,135
Thailand	4.0	4.0	0.5	1.4	1.50	1.50	2.50	2.60	32.68	36.60

OUTLOOK

+ Steady growth and tame inflation should prevent regional policymakers from tightening policy in lockstep with the Fed.
+ Malaysia and the Philippines are exceptions; both are likely to follow in South Korea's footsteps and hike rates. China is likely to proceed cautiously with its own monetary tightening to avoid a self-created crisis.
+ Strong domestic factors should keep policy rates stable for longer in Indonesia, Thailand and, possibly, India.

RISK FACTORS

+ More aggressive Fed tightening would strengthen the US dollar and threaten regional currencies and portfolio flows.
+ Geopolitical risk from North Korea and threats of US trade sanctions are also high on the list.

OVERVIEW

Asia's overall GDP growth is currently running at about 5.7% year-on-year, and inflation remains benign, below 2%. Excluding China, growth is about two percentage points slower while inflation is only a touch higher. This growth and inflation mix should not change drastically in the coming six to 12 months.

South Korea's central bank hiked its policy rate in November for the first time in eight years. But we expect only Malaysia and the Philippines to follow Seoul's lead in the short run. The rest of the region should have room to stand pat on rates.

We think that China will hold steady with its financial deleveraging despite stronger policy rhetoric. In Indonesia, Thailand and India, the growth and inflation mix adds up to rates on hold.

Latin America

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2017F	2018F	2017F	2018F	2017F	2018F	2017F	2018F	2017F	2018F
Latin America	**1.0**	**2.1**	**5.9**	**5.0**	**9.22**	**8.01**	**8.31**	**8.08**	**—**	**—**
Argentina	2.9	3.6	22.0	16.0	28.75	19.00	—	—	17.60	19.50
Brazil	0.7	2.6	3.0	3.7	7.00	7.00	9.90	9.30	3.27	3.60
Chile	1.4	2.7	2.5	3.0	2.50	3.00	4.55	4.70	640	665
Colombia	1.6	2.3	4.2	4.0	4.75	5.00	6.70	7.20	3,030	3,100
Mexico	2.0	1.9	5.7	3.6	7.00	6.50	7.30	7.40	18.90	19.00

OUTLOOK

+ Inflows into EM asset funds, including local-currency portfolios, continued in November.
+ Tighter DM monetary policy and a stronger US dollar will be the biggest challenges for EM countries in the months ahead.
+ Uncertainty regarding US trade policy remains, while global geopolitical concerns are still high.

RISK FACTORS

+ Tighter global monetary policies, Asia–US geopolitical concerns, heightened US protectionism, uncertainty related to US tax policy, and idiosyncratic political shocks in Chile, Venezuela, Brazil and Mexico are all worth watching.

OVERVIEW

Economic activity continues to accelerate, especially in Brazil and Argentina. Mexico, on the other hand, appears to be slowing down. Inflation remains subdued in many countries, save Argentina and Venezuela, which has entered hyperinflationary territory. Regional central banks remain on hold or in easing mode since output gaps are mostly negative, although tighter DM monetary policy is shrinking their room for maneuver.

In Brazil, the economy is starting to grow again and inflation may be bottoming out. The central bank is nearing the end of an aggressive easing cycle that started in September 2016. The government has made progress with several reforms, including changes to electoral rules, labor-market deregulation and the establishment of market-determined interest rates at the Brazilian Development Bank. It has yet to change the social-security system, which it needs to do to improve medium-term fiscal sustainability. At the time of publication, the government was still negotiating with different groups in congress to gather the necessary quorum to endorse pension reform before year-end.

In Mexico, a new finance minister and a new central bank governor were appointed in November. Former finance minister José Meade stepped down, presumably to become the ruling party's presidential candidate next year. Meade is seen as an honest technocrat who will be a market favorite and will become the PRI's best hope to defeat leftist Andrés López Obrador. Meade's good relationship with other political groups (he was energy minister in former president Felipe Calderón's administration) would be an asset with a divided congress. Meanwhile, there was little progress in the latest round of NAFTA negotiations. But dialogue continues, and the US remains at the table.

In Chile, market favorite Sebastián Piñera topped leftist senator Alejandro Guillier in the first round of the presidential election but by a smaller-than-expected margin. The second-round vote is scheduled to take place on December 17, and although Piñera is a slight favorite, the race is close since other left-of-center parties did better than expected in the first round and could rally behind Guillier. Economic activity is strengthening, thanks in part to stronger copper prices and expansive monetary policy.

Eastern Europe, Middle East and Africa (EEMEA)

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2017F	2018F	2017F	2018F	2017F	2018F	2017F	2018F	2017F	2018F
EEMEA	**2.6**	**2.6**	**6.3**	**6.0**	**6.66**	**6.19**	**8.04**	**8.65**	**—**	**—**
Hungary	3.9	3.3	2.5	2.7	0.90	0.90	2.40	3.00	315	312
Poland	4.4	3.5	2.0	2.6	1.50	1.75	3.50	4.10	4.20	4.15
Russia	1.8	1.8	4.2	5.2	8.00	7.00	7.60	8.00	59.00	59.00
South Africa	0.5	1.0	5.4	5.3	6.75	6.75	9.25	9.50	14.50	14.50
Turkey	5.2	4.0	9.6	9.2	8.00	8.00	11.75	12.80	3.90	4.25

OUTLOOK

+ Real GDP growth may lose some momentum after a strong 2017 but will remain robust in most of the EEMEA region in 2018. South Africa's recovery is likely to remain tepid, with even a market-friendly outcome at the ANC elective conference not likely to improve sentiment, given ongoing fiscal and ratings risks.
+ Most CEE economies are experiencing a rebound in headline CPI, which is likely to peak in mid-2018. Turkish inflation is likely to peak at the end of 2017 but remain above 9% for most of 2018. Modest disinflation should persist in Russia and South Africa, especially in the earlier parts of 2018.
+ Despite the CPI rebound, central banks in several CEE countries—such as Poland—will not tighten monetary policy significantly in the near term. Hungary remains firmly in easing mode via unconventional tools, and Russia also has scope to cut interest rates in 2018.
+ Political risks still loom large in some EEMEA countries, especially in South Africa, going into the ANC elective conference at the end of December.

RISK FACTORS

+ Balance-sheet normalization at DM central banks and the potential for higher core yields are risks for current account deficit countries such as Turkey and, to a lesser extent, South Africa.

OVERVIEW

Turkish headline inflation and the central bank's policy response will be a key focus over the near term. November saw another meaningful upside surprise in headline inflation, increasing by 13.0% year over year (1.5%mm) versus consensus expectations of 12.5% (1.1%mm) and up from 11.9% YoY in the previous month, although the composition of price pressures seems to be improving marginally. The increase in the headline figure was mostly driven by a spike in food prices as well as transportation costs, reflecting higher oil prices and FX pass-through. Core inflation came in slightly below expectations (12.1% YoY vs. 12.3% YoY consensus but up from 11.8% YoY), with the momentum in month-on-month seasonal-adjusted core price pressures easing to the weakest level in five months. The latest CPI print and prospects for elevated price pressures near-term means that the central bank will increase the weighted average cost of funding at its next MPC meeting, most likely via a hike in the late liquidity window rate of about 100 b.p.

In South Africa, political risk is likely to persist even after the ANC's elective conference (December 16–20, 2017), even though the most probable outcomes—an outright victory by the Ramaphosa faction or a Ramaphosa victory with a unified National Executive Committee—should compress risk premiums on ZAR assets. An outright victory by the Dlamini-Zuma faction would be negative for ZAR assets because of a potential market-negative policy shift and because markets would assume that President Jacob Zuma would continue to wield power. But it could also lead to a derating of ZAR assets because the market has inferred from the nominations from the ANC's provincial general council meetings (1,862 branch nominations for Ramaphosa and 1,301 for Dlamini-Zuma) that Ramaphosa has effectively secured the top position. While Ramaphosa is indeed officially in the lead, it is important to bear in mind that not all delegates have cast their votes clearly and that the branch delegates can adjust their views at the conference. The outcome of this month's ANC conference will shape the economy and asset prices in 2018, but South Africa's fiscal position is weak, another credit-rating downgrade looms, and political brinkmanship could continue to weigh on the economy as the new ANC leaders position the party for the 2019 national elections.

	Real Growth (%)		Inflation (%)		Official Rates (%)		Long Rates (%)		FX Rates vs USD	
	2017F	2018F	2017F	2018F	2017F	2018F	2017F	2018F	2017F	2018F
Global	3.1	3.1	2.5	2.5	2.18	2.46	3.01	3.34	-	-
Industrial Countries	2.2	2.1	1.7	1.7	0.74	1.25	1.62	2.27	-	-
Emerging Countries	4.5	4.6	3.8	3.9	4.98	4.80	5.80	5.47	-	-
United States	2.3	2.0	2.0	2.1	1.38	2.38	2.60	3.25	-	-
Canada	3.2	2.2	1.8	2.0	1.00	1.75	2.15	2.50	1.27	1.30
Europe	2.1	2.2	1.7	1.5	0.08	0.18	0.71	1.65	-	-
Euro Area	2.3	2.4	1.5	1.4	0.00	0.00	0.50	1.50	1.15	1.10
United Kingdom	1.5	1.6	2.7	2.3	0.50	1.00	1.50	2.25	1.30	1.25
Sweden	3.1	2.9	2.0	1.8	(0.50)	(0.40)	0.75	1.50	8.50	8.50
Norway	1.9	2.5	1.9	1.6	0.50	0.75	1.50	2.25	8.35	8.40
Japan	1.6	1.7	0.4	0.8	(0.10)	(0.10)	0.05	0.05	115	125
Australia	2.3	2.4	1.9	2.0	1.50	1.50	2.75	3.45	0.75	0.73
New Zealand	2.6	2.7	2.0	1.9	1.75	1.75	3.00	3.50	0.68	0.72
Asia ex Japan	5.9	5.6	2.0	2.7	3.03	3.34	4.29	3.91	-	-
China	6.7	6.0	1.6	2.5	2.80	3.20	4.10	3.60	6.61	6.80
Hong Kong	3.7	3.0	1.6	2.4	1.75	2.25	2.10	1.90	7.81	7.80
India	5.7	6.7	3.1	3.9	6.00	6.00	6.90	6.50	64.46	65.50
Indonesia	5.1	5.6	3.8	3.8	4.25	4.25	6.80	6.60	13,544	13,900
Korea	3.2	2.7	2.1	2.3	1.50	1.75	2.70	2.40	1,088	1,135
Thailand	4.0	4.0	0.5	1.4	1.50	1.50	2.50	2.60	32.68	33.60
Latin America	1.0	2.1	5.9	5.0	9.22	8.01	8.31	8.08	-	-
Argentina	2.9	3.6	22.0	16.0	28.75	19.00	-	-	17.60	19.50
Brazil	0.7	2.6	3.0	3.7	7.00	7.00	9.90	9.30	3.27	3.60
Chile	1.4	2.7	2.5	3.0	2.50	3.00	4.55	4.70	640	665
Colombia	1.6	2.3	4.2	4.0	4.75	5.00	6.70	7.20	3,030	3,100
Mexico	2.0	1.9	5.7	3.6	7.00	6.50	7.30	7.40	18.90	19.00
EEMEA	2.6	2.6	6.3	6.0	6.66	6.19	8.04	8.65	-	-
Hungary	3.9	3.3	2.5	2.7	0.90	0.90	2.40	3.00	315	312
Poland	4.4	3.5	2.0	2.6	1.50	1.75	3.50	4.10	4.20	4.15
Russia	1.8	1.8	4.2	5.2	8.00	7.00	7.60	8.00	59.00	59.00
South Africa	0.5	1.0	5.4	5.3	6.75	6.75	9.25	9.50	14.50	14.50
Turkey	5.2	4.0	9.6	9.2	8.00	8.00	11.75	12.80	3.90	4.25

Long rates are 10-year yields unless otherwise indicated.
Latin American Rates include Brazil, Chile, Colombia and Mexico
Real growth aggregates represent 48 country forecasts not all of which are shown
Blanks in Argentina are due to distorted domestic financial system so are not forecast.

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