

PANORAMA 2017
«a view of hope and delusion»

MACROECONOMIC SCENARIOS (BASELINE AND RISK)

MAPFRE Economic Research

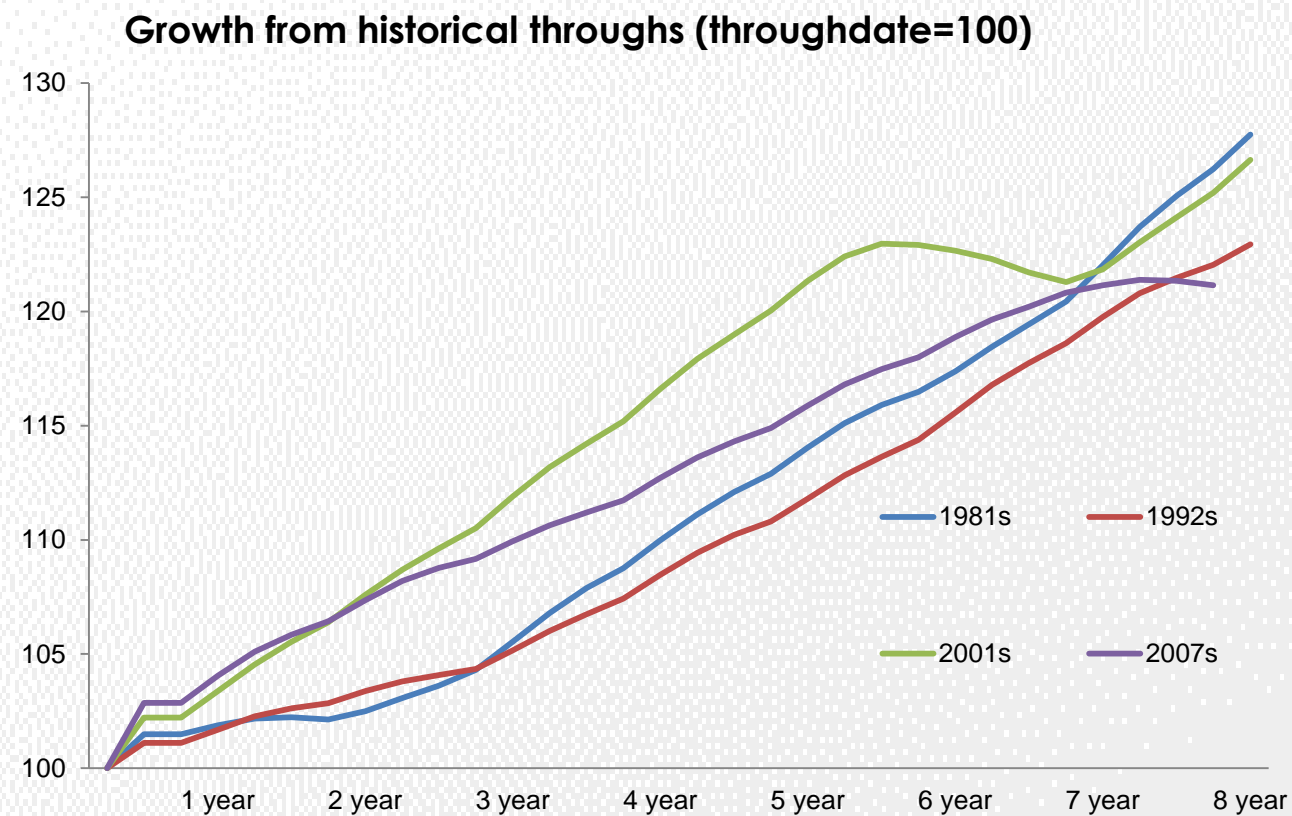
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- Panorama 2017
 - **A different recovery:** constrained & weak but steroid-free
 - **Baseline & Risk Scenarios :** firming expectations - growing risks
 - **Regional and country outlook:** policy asymmetry is king
 - USA & Mexico
 - Eurozone & Spain
 - China & EM Asia
 - Brazil & LATAM

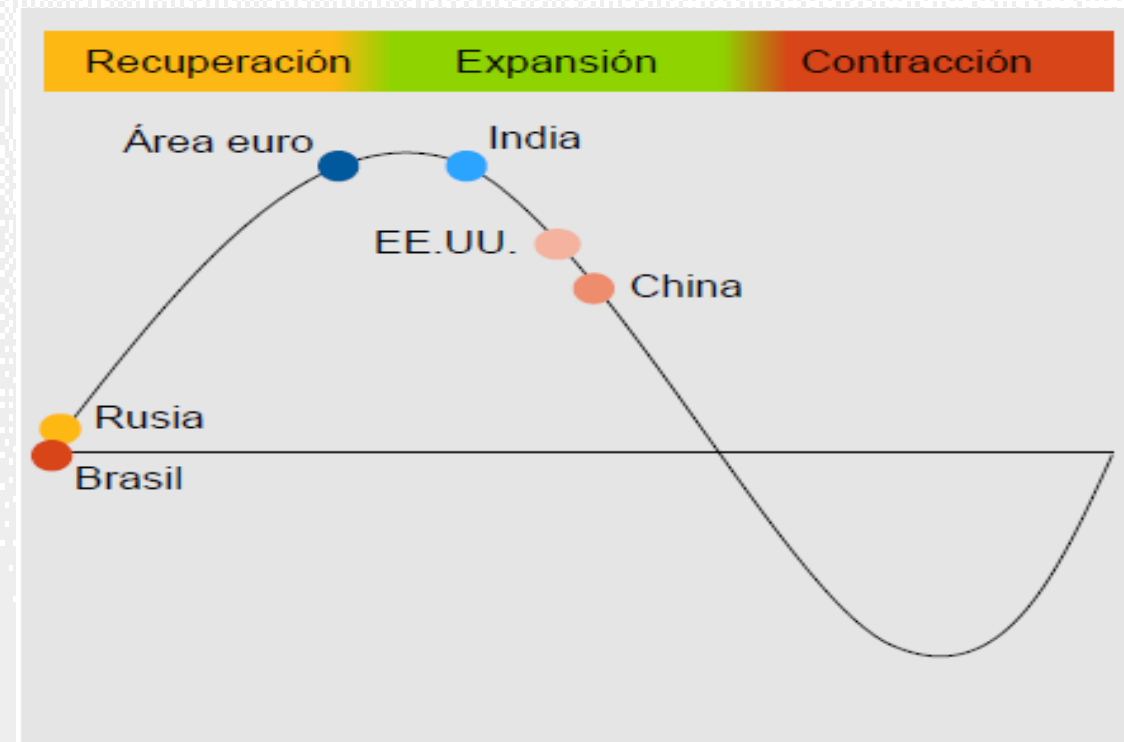
Takeaway: recovery is to take afoot & broaden. But this hope might be wishful thinking. Expectations are built on the desirable positive side effects of certain global dynamics that could be also interpreted as risks.

A different recovery

- A different recovery: diverse, fragile & weak
 - Different country cyclical positions
 - Non standard upswing thus also weaker (normally $I \rightarrow L/W \rightarrow C \rightarrow \dots$)
 - Constrained by accrued imbalances (leverage, bubbles, etc.)



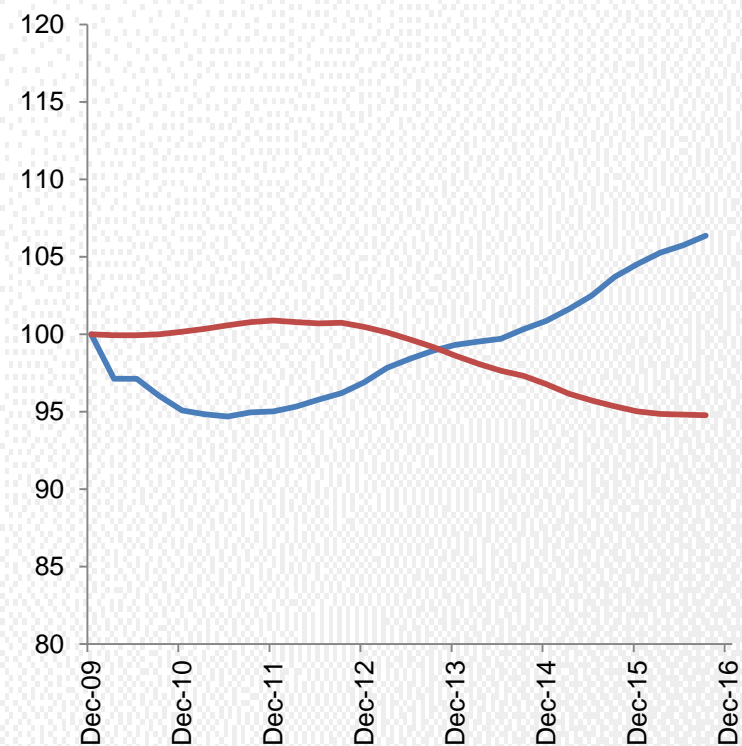
Cyclical Position



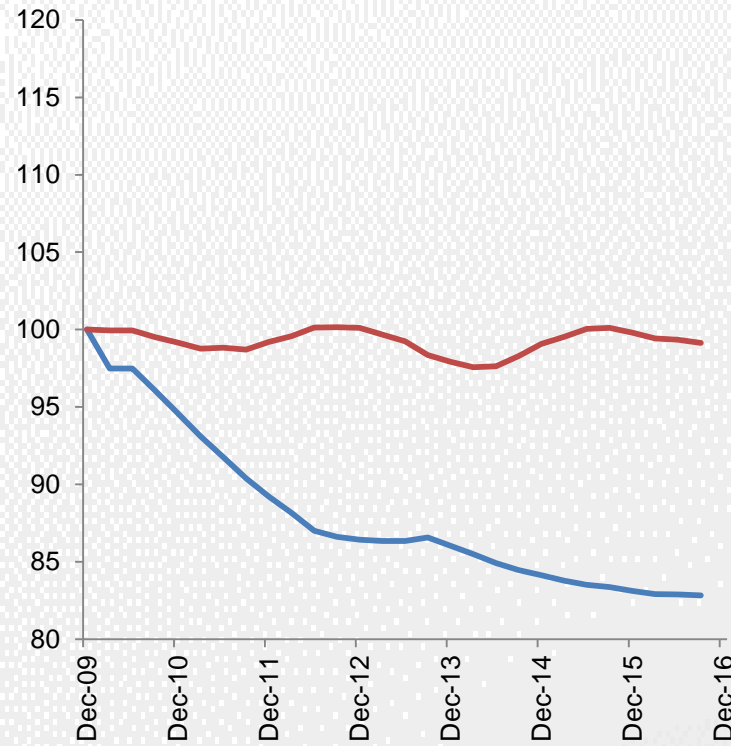
A different recovery

- A different recovery: “Steroid Free”
 - Constrained by accrued imbalances (leverage, bubbles, etc.)
 - The recovery must take place under some orthodoxy

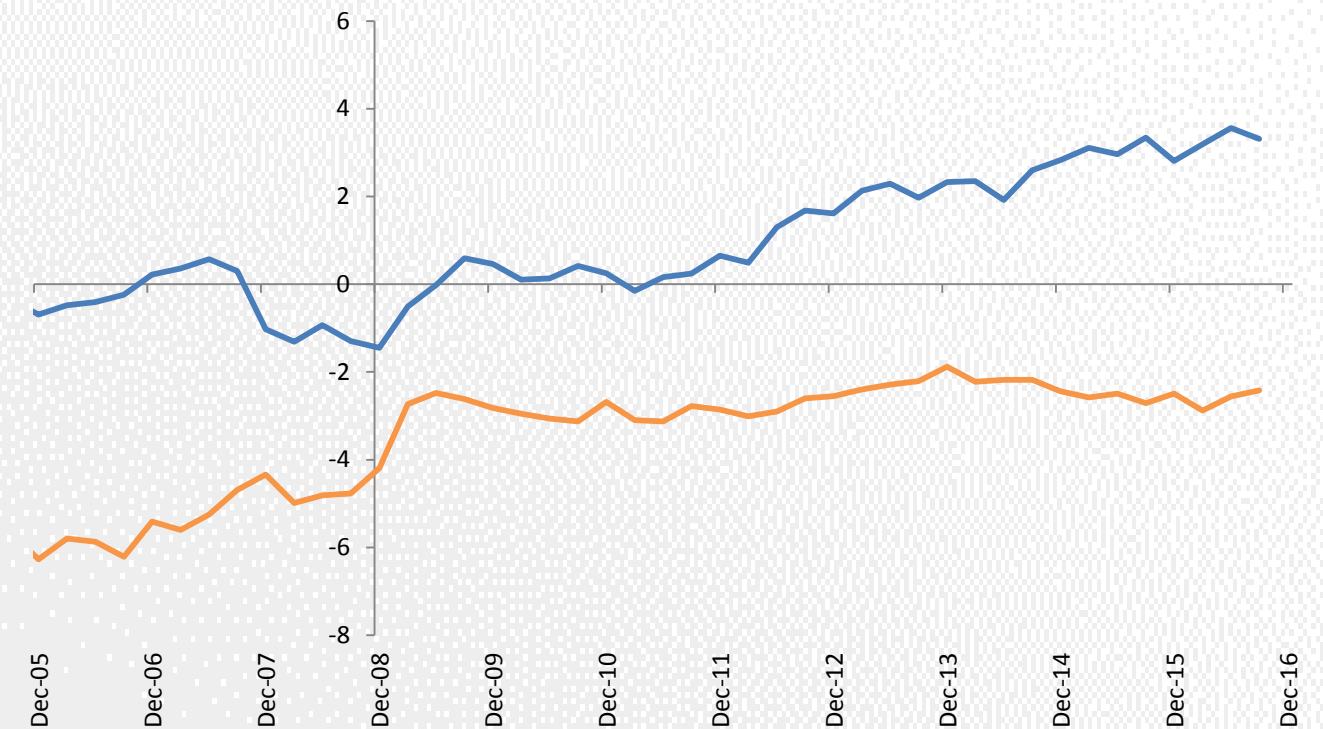
Household Debt (2019=100)



Corporate Debt (2019=100)



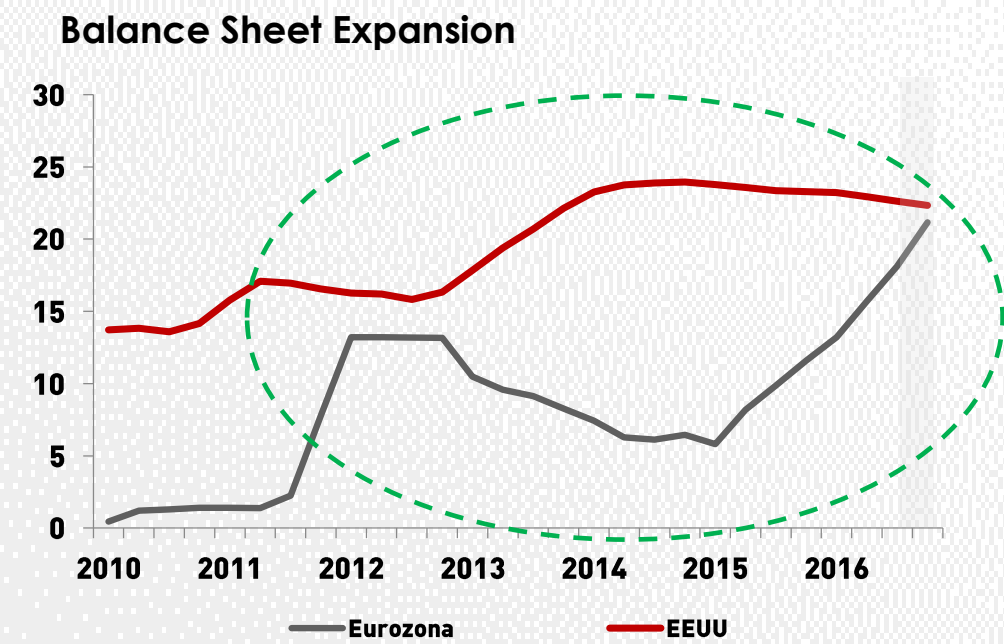
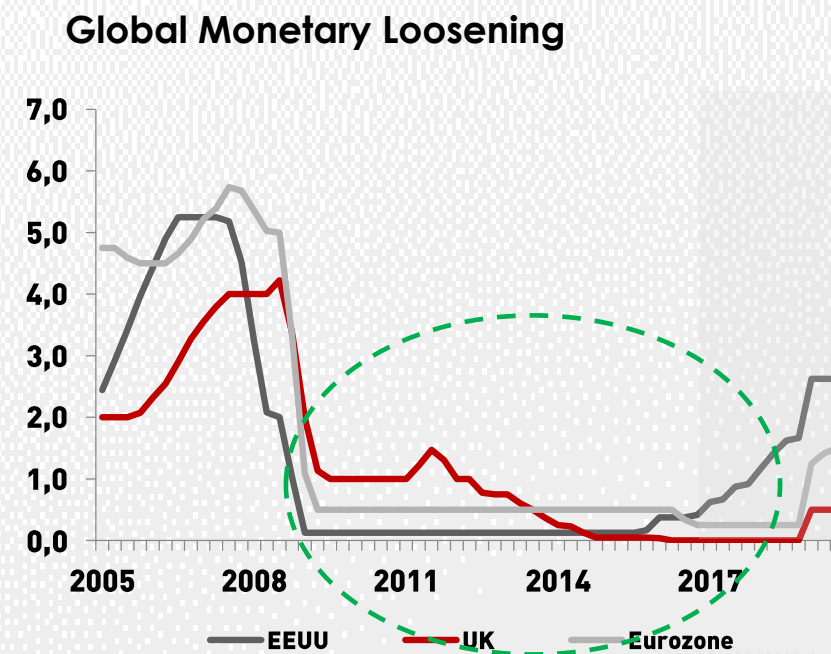
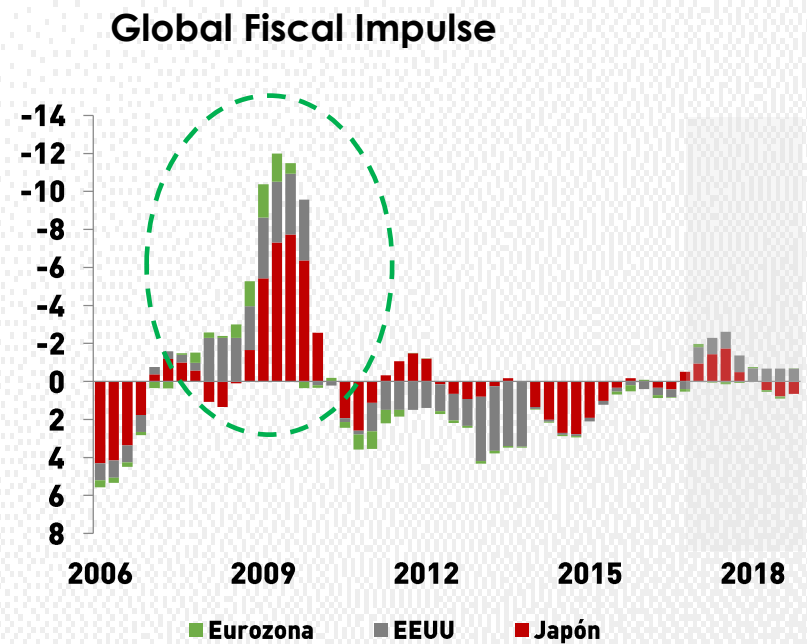
Current Account in % of GDP (2019=100)



USA & Eurozone

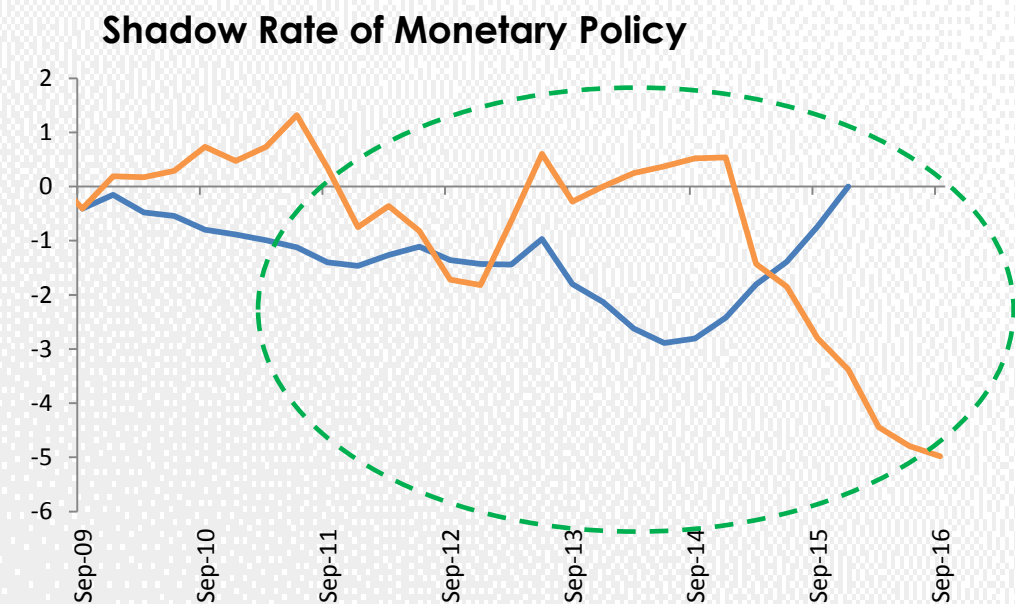
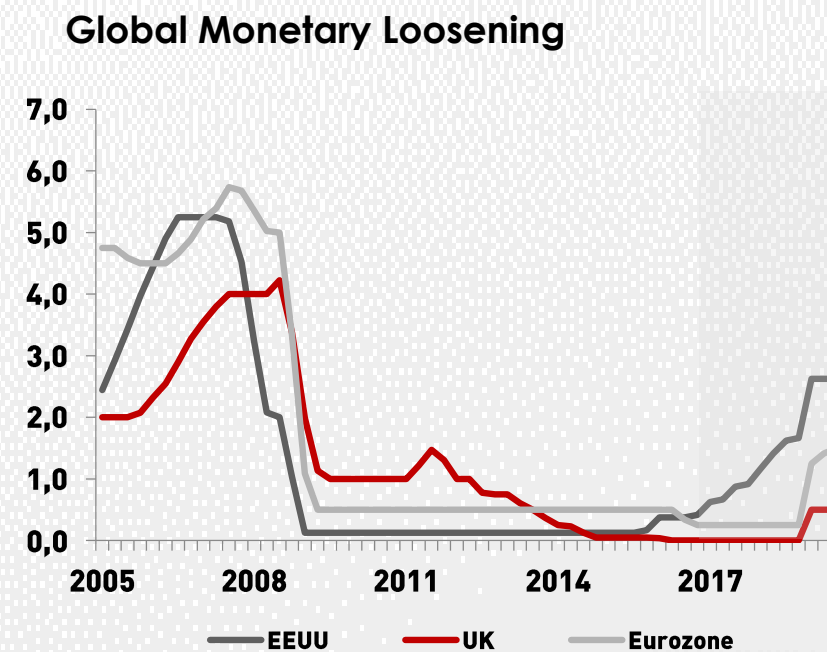
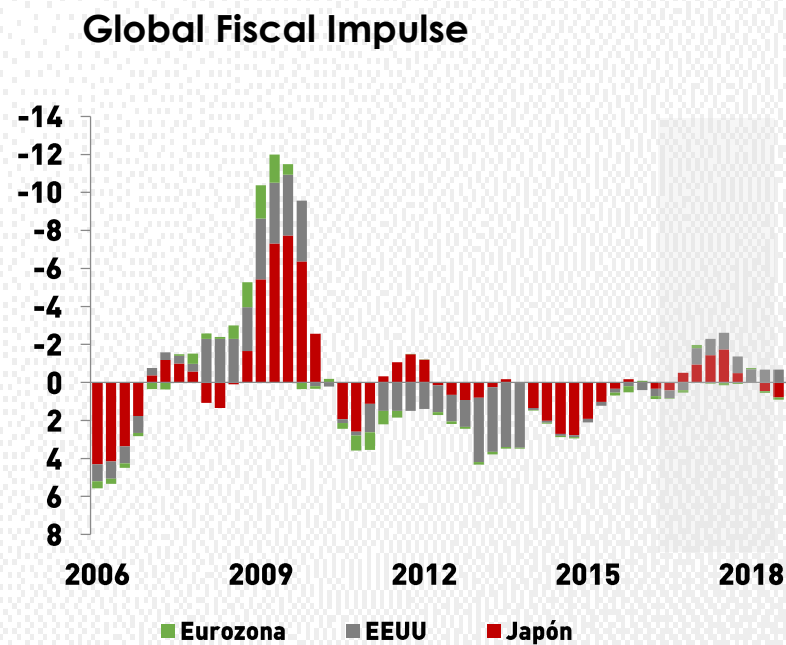
A different recovery

- Post-crisis economic policy was double
 - Stop the bleeding: strong fiscal support (current expenditure) & ultra loose financial conditions (M. policy & regulatory loosening)
 - Support life: global quantitative easing as financial market maker to compensate the void



A different recovery

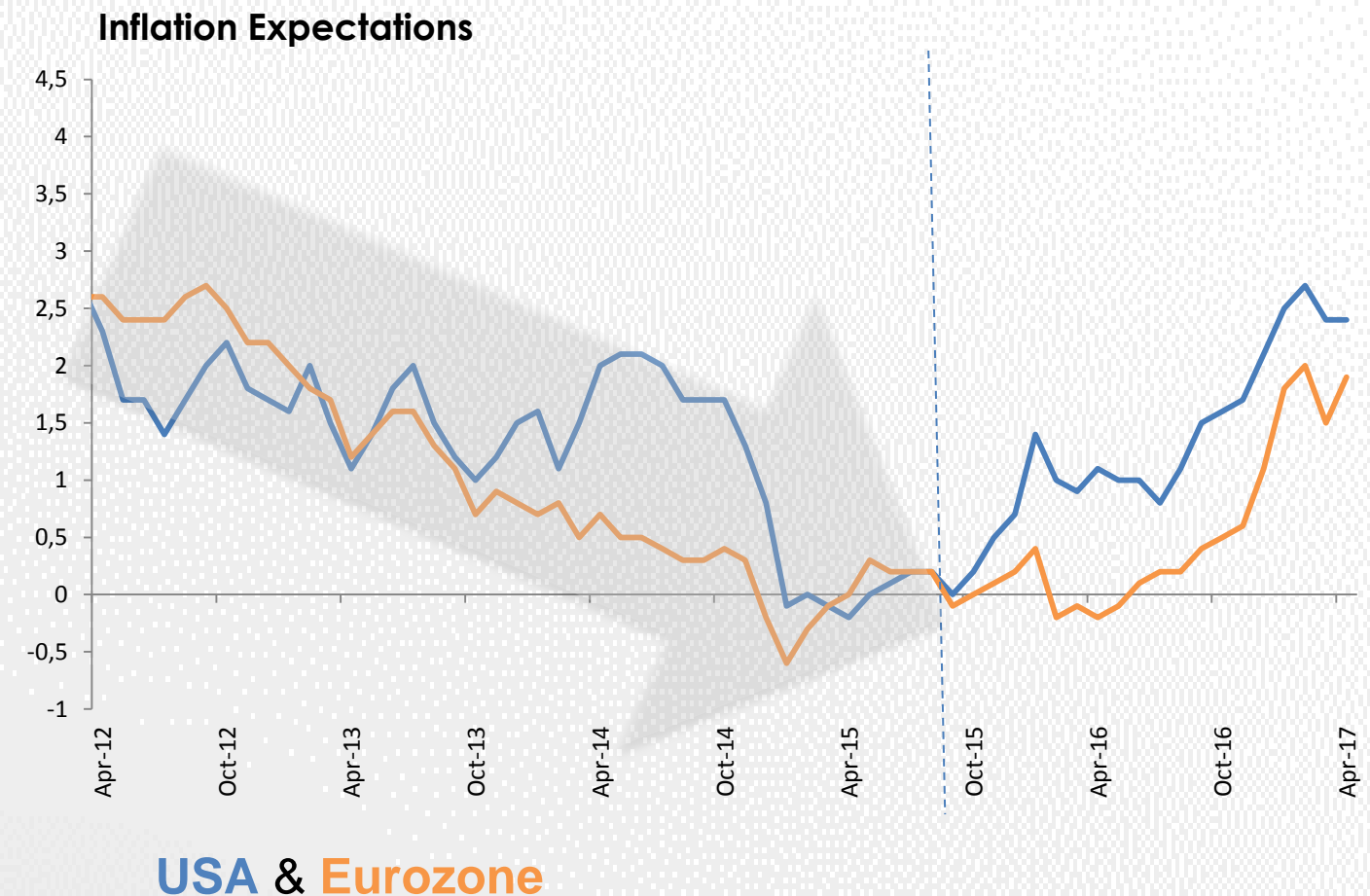
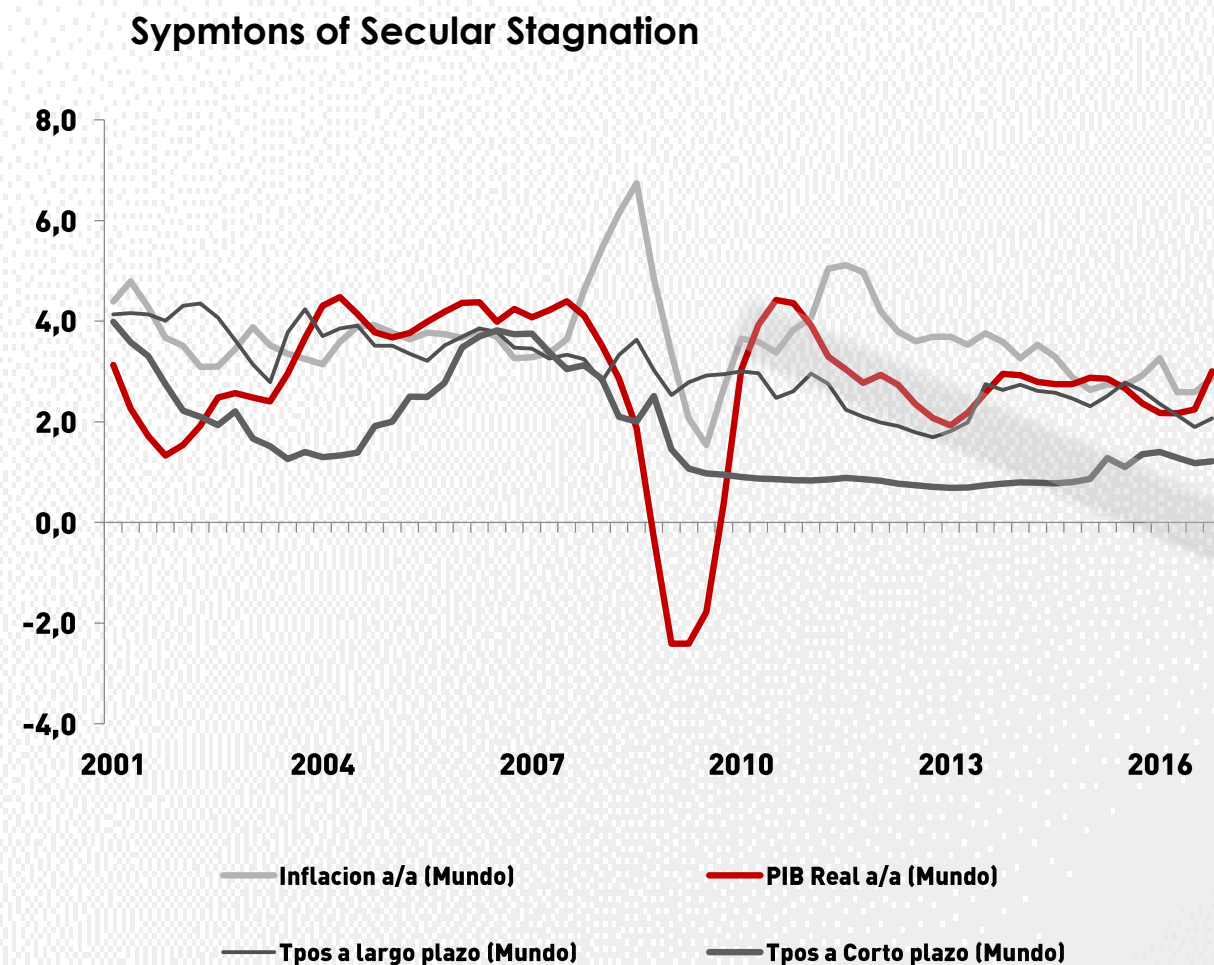
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USA & Eurozone

A different recovery

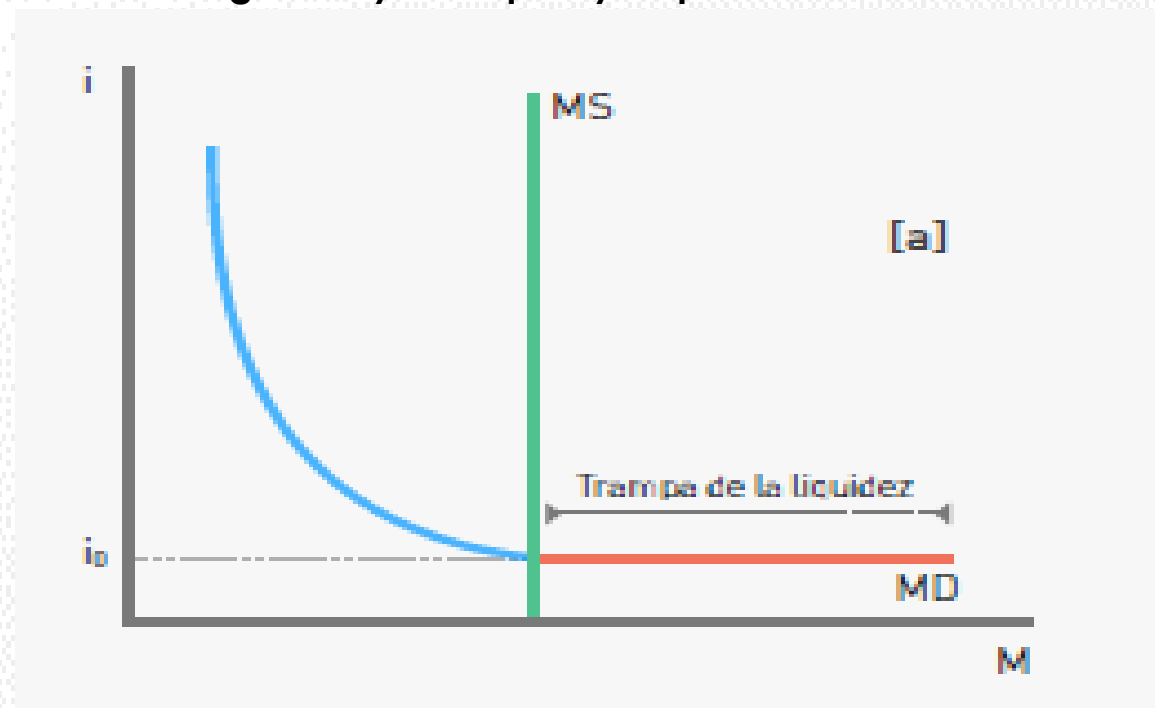
- But that brought side effects preventing a fully-fledged recovery (added to a paradigm change)
 - The -never happening- secular stagnation effects: low growth, low employment, low financial participation and resilient leverage



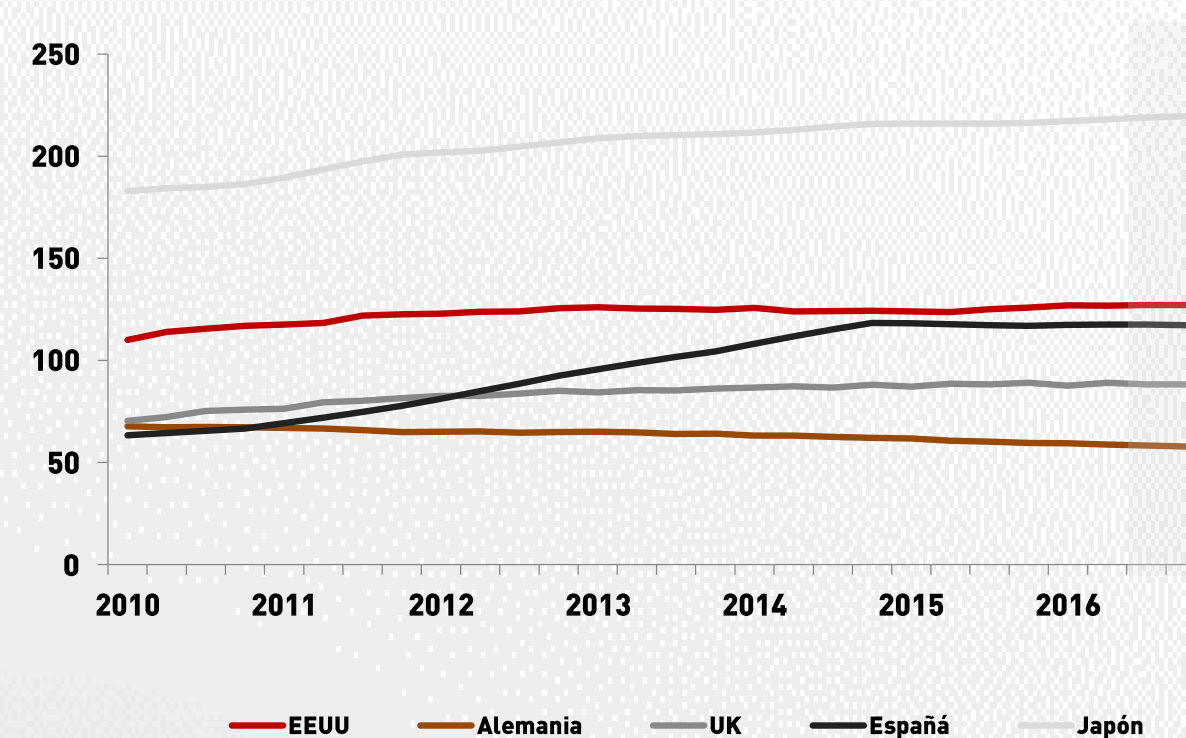
Baseline & Risk Scenarios

- And no other remedy seems at hand since...
 - Monetary Policy in its limits due to ELB
 - Fiscal policy constrained (budget depletion & dominant academic & institutional vision)

Workings of Keynes Liquidity Trap



Global Debt Levels



Baseline & Risk Scenarios

- Thus: “**hope**” is the new Base Scenario

* Hope as the wishful thought that the present negative global context may bring dominant positive side effects capable to make it through via expectations channel timely enough.

- **Hope in *global reflation*** amid Trump’s promises (not only fiscal) [increase demand, eroding debt burden, favoring S→I]
 - Assuming (+) demand side effects will outweigh (-) supply shocks
 - Assuming he delivers in time (fiscal, financial, trade etc)
- **Hope in a re-invigorated EU** after ever weakness (governance, economy, terrorism)
[convertibility risk, lower funding costs, feed growth expectations]
 - Assuming unity: less “*Rhine Divide*”, less policy & political fragmentation
 - No more disaffection & populism (migrants, Greece, inequality, income)
- **Hope *not* to poke the *global financial-sovereign bear***
[CB credibility, safe imbalance unwinding & no financial stumble]
 - Assuming Fed not under pressure, RMB allowed to depreciate, ECB credible
 - Assuming China remains pro stability (and ready to take it: reserves, debt)
 - Corporate leverage problem in EMS vs. commodity cycle & demand

Baseline & Risk Scenarios

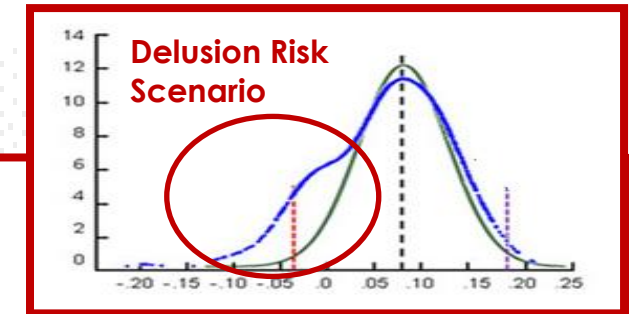
- “Hope” is the new Base Scenario **but prone to delusion**

** Hope as the wishful thought that the present negative global context may bring dominant positive side effects capable to make it through timely enough via expectations channel.*

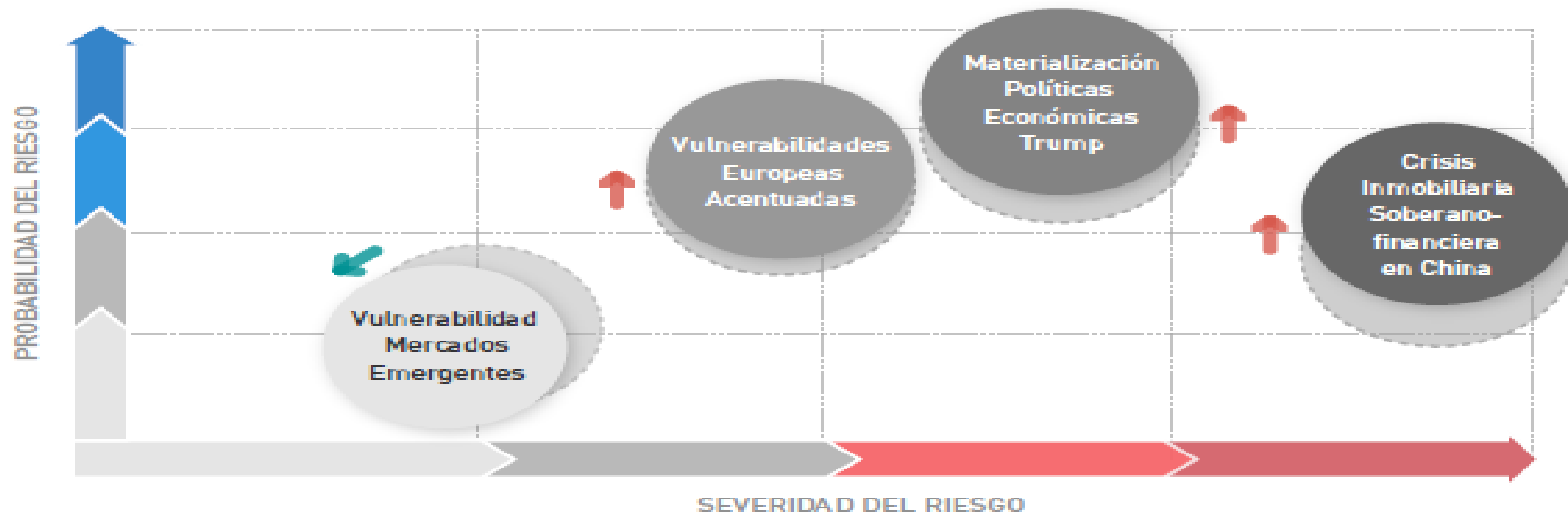
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Baseline & Risk Scenarios

- “Delusion” is the new Risk Scenario



Gráfica 1.4
Posibles riesgos y escenarios económicos*



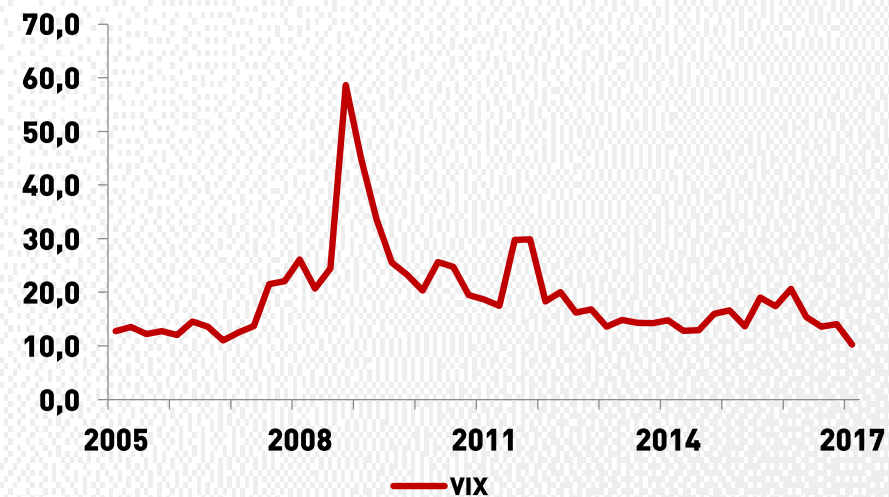
*La flecha indica el sesgo esperado del riesgo

Fuente: Servicio de Estudios de MAPFRE

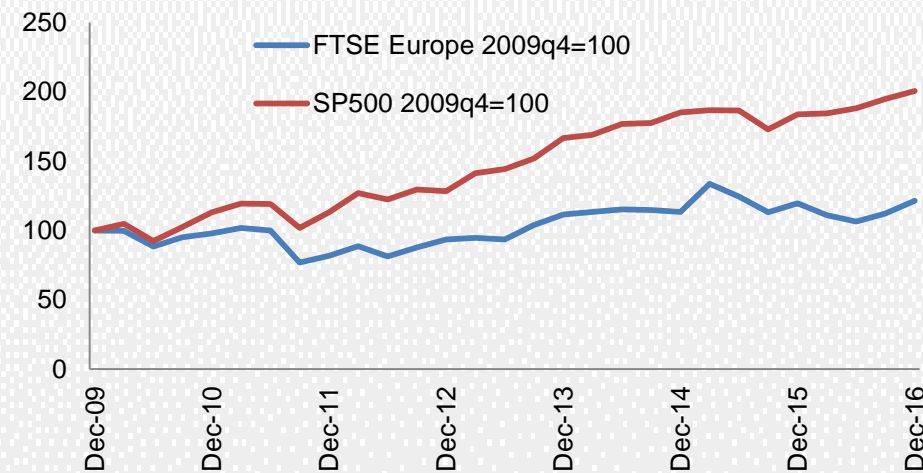
Baseline & Risk Scenarios

- So far, this is working. Hope is working,
 - The world is bullish (Risk appetite up, confidence up, inflation up)

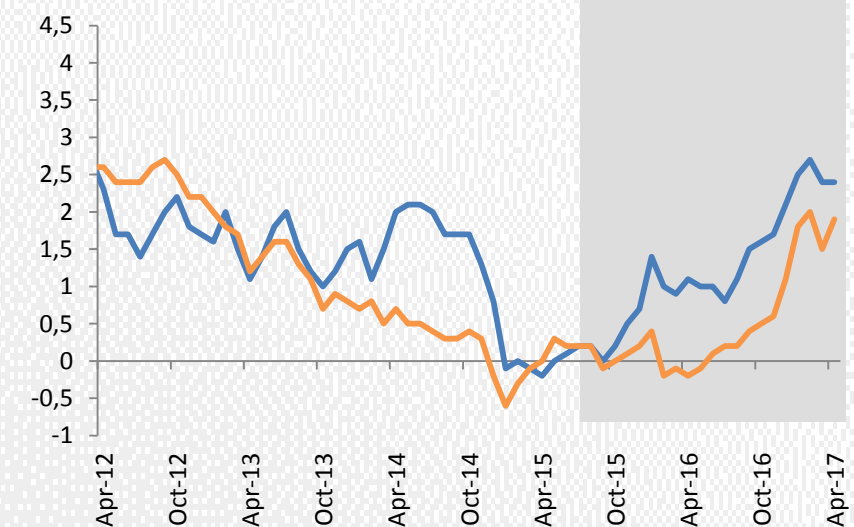
Risk Appetite (inverse of Risk Aversion from VIX)



Corporate Expectations



Inflation Expectations



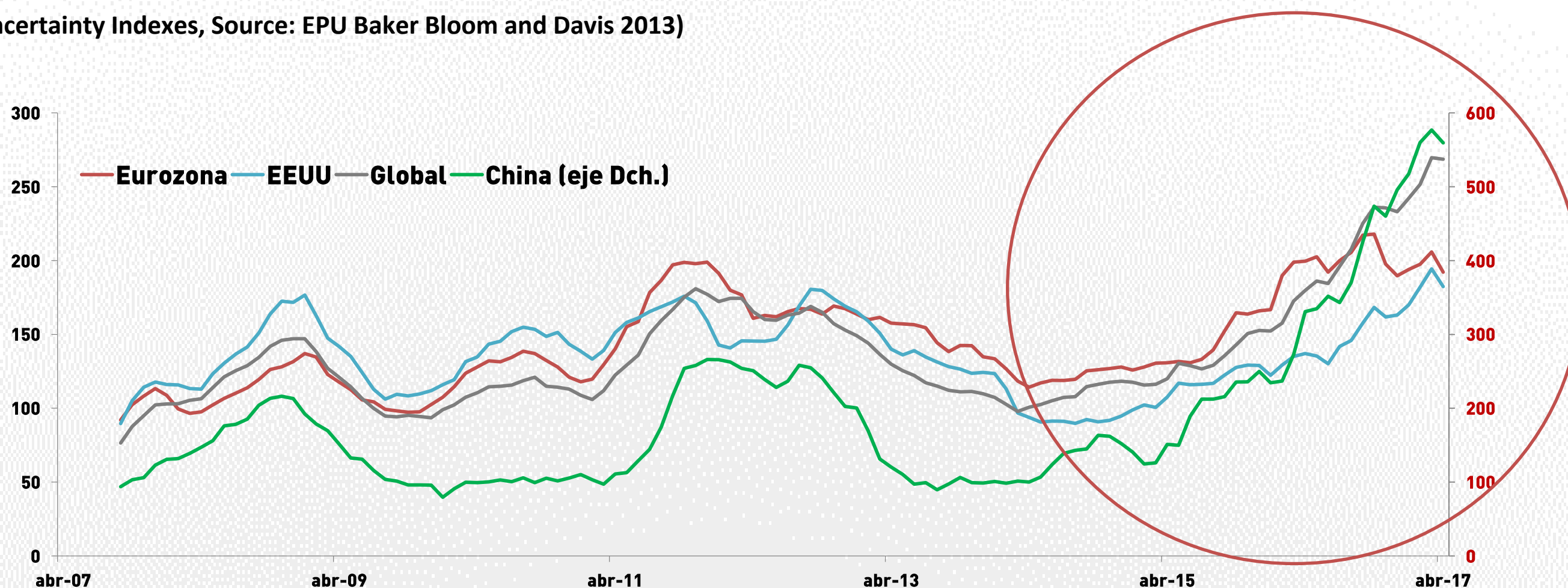
USA & Eurozone

Baseline & Risk Scenarios

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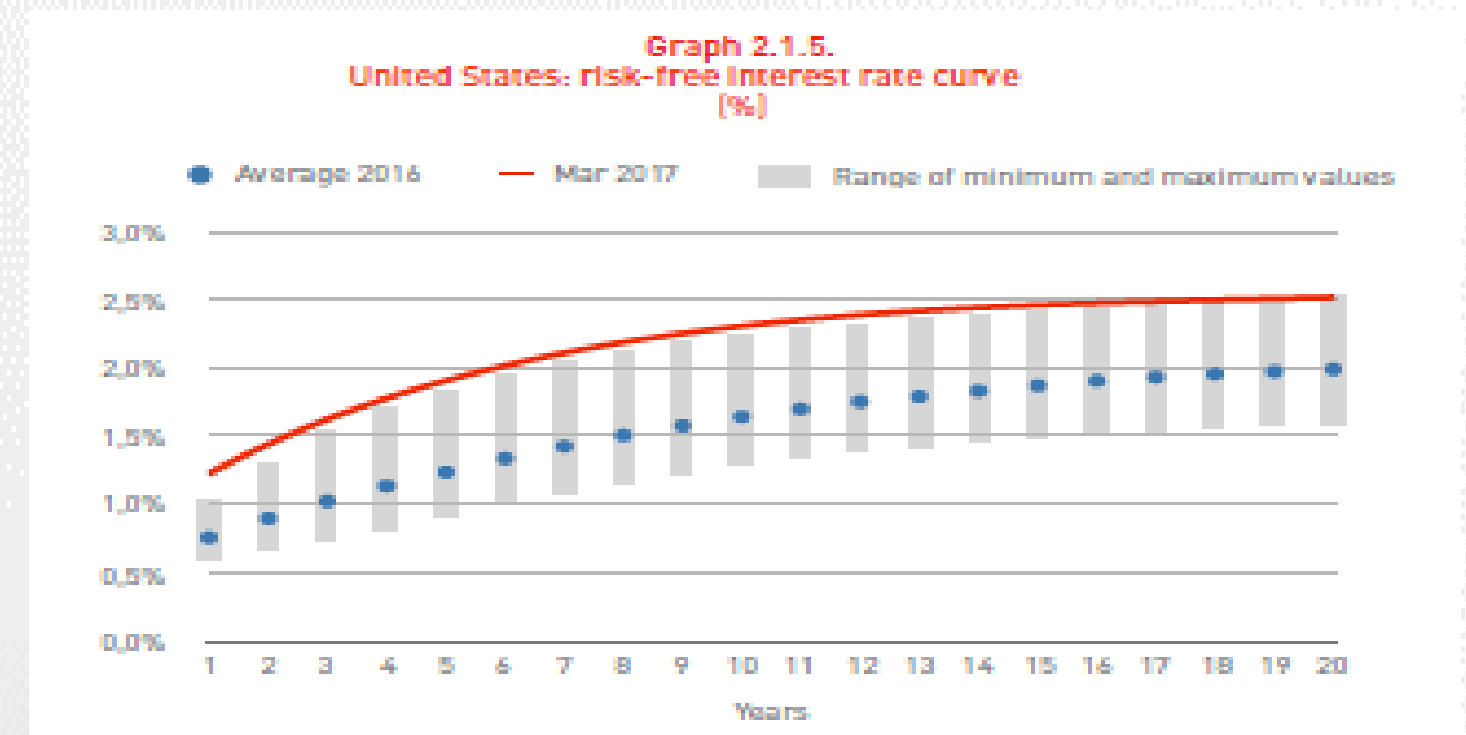
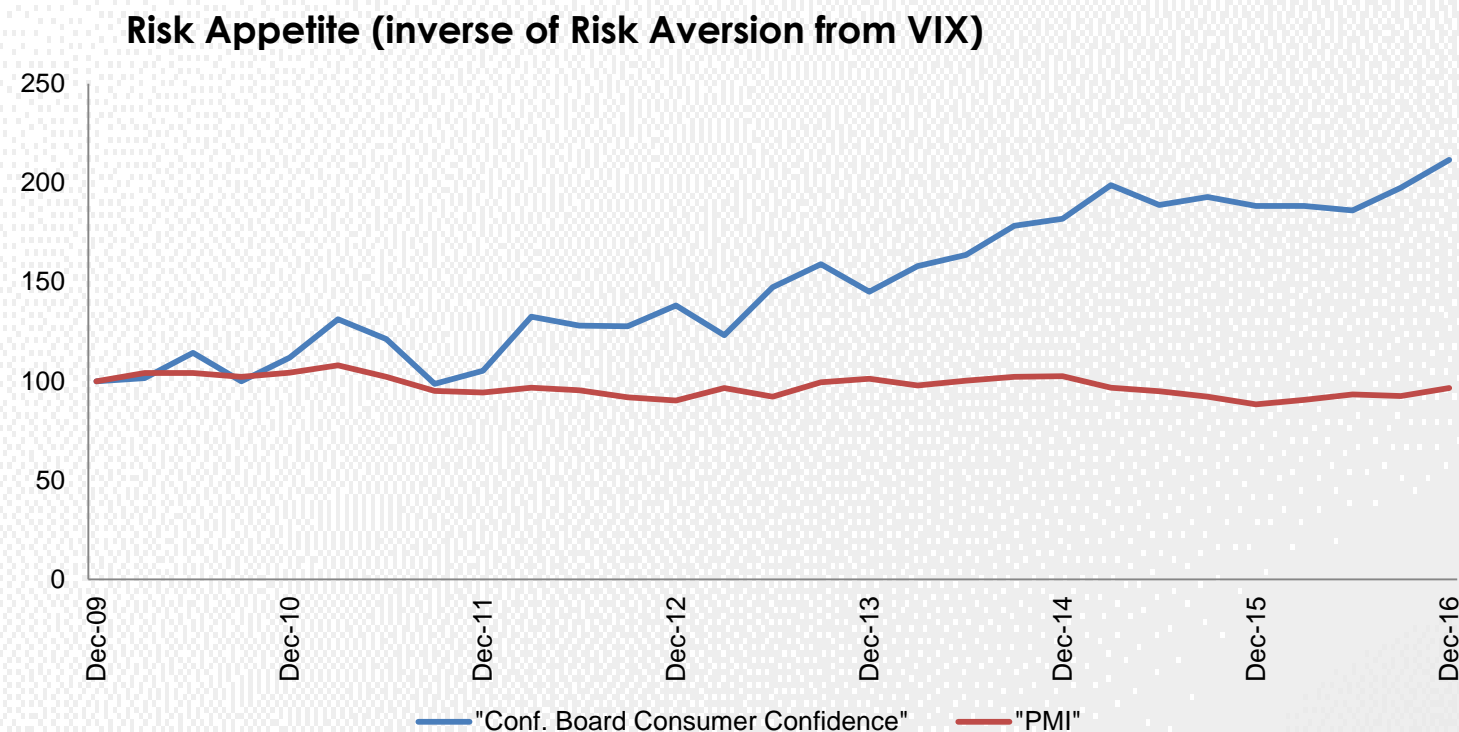
Despite of ever high ECONOMIC POLICY UNCERNITY

(Economic Policy Uncertainty Indexes, Source: EPU Baker Bloom and Davis 2013)



Baseline & Risk Scenarios

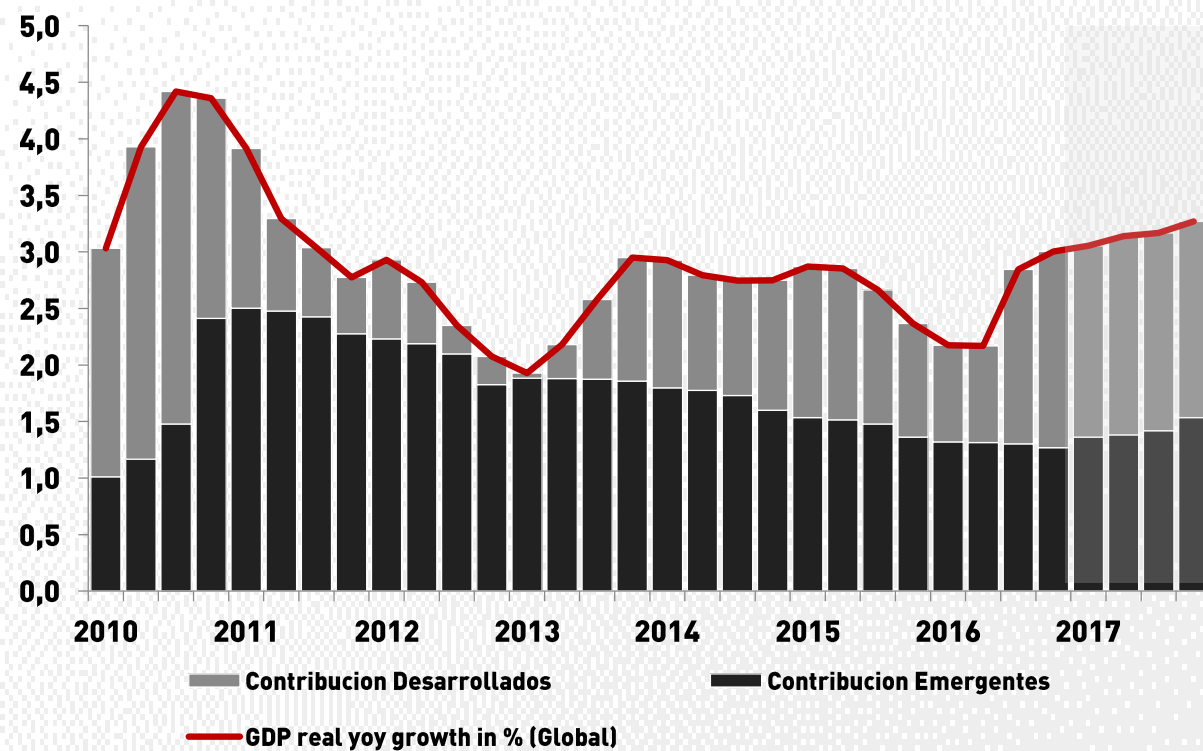
- But as said, so far its working and bringing real side effects
 - USA capitalizing expected reflation
 - EMU firming and broadening growth
 - China rolling over growth and stability efforts
 - Commodity exporters picking the price cycle (RUS, BR)
 - Financial Markets finding the sweet spot (in the yield curve)



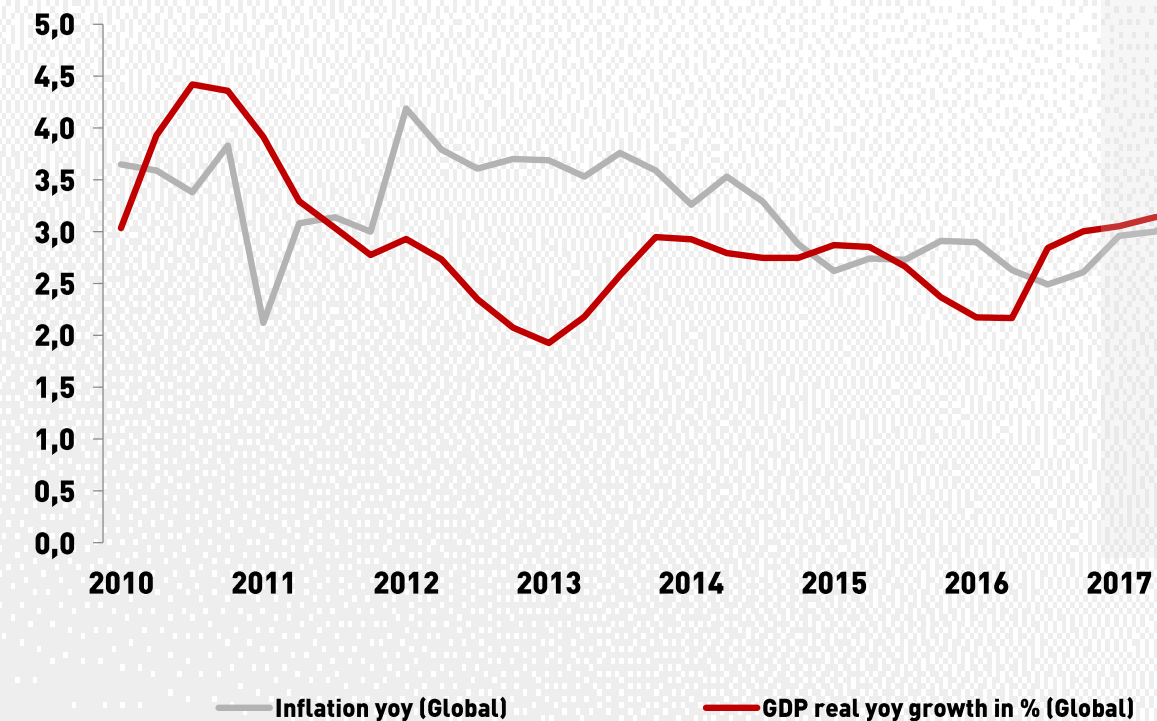
Baseline & Risk Scenarios

- Thus we now have a more benign central outlook but full of downside risks on inflation and growth globally

GDP growth yoy and regional contribution



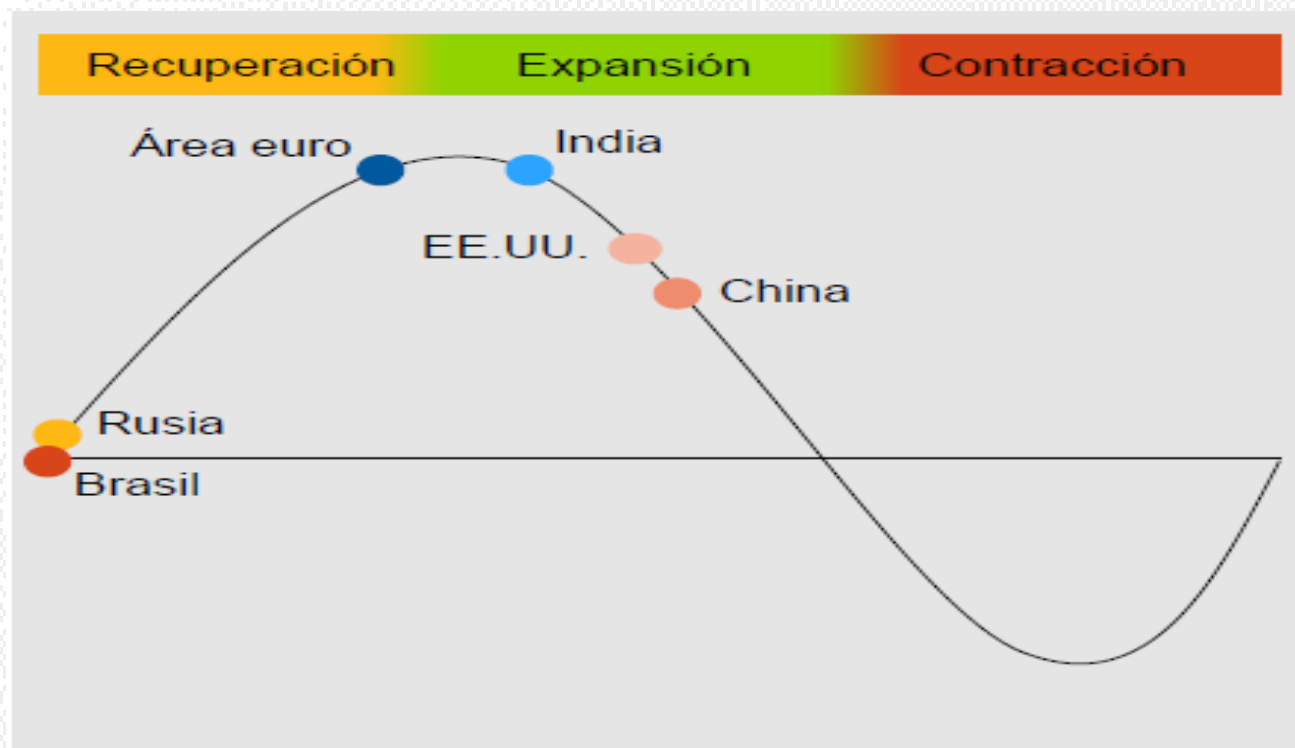
GDP growth yoy and inflation



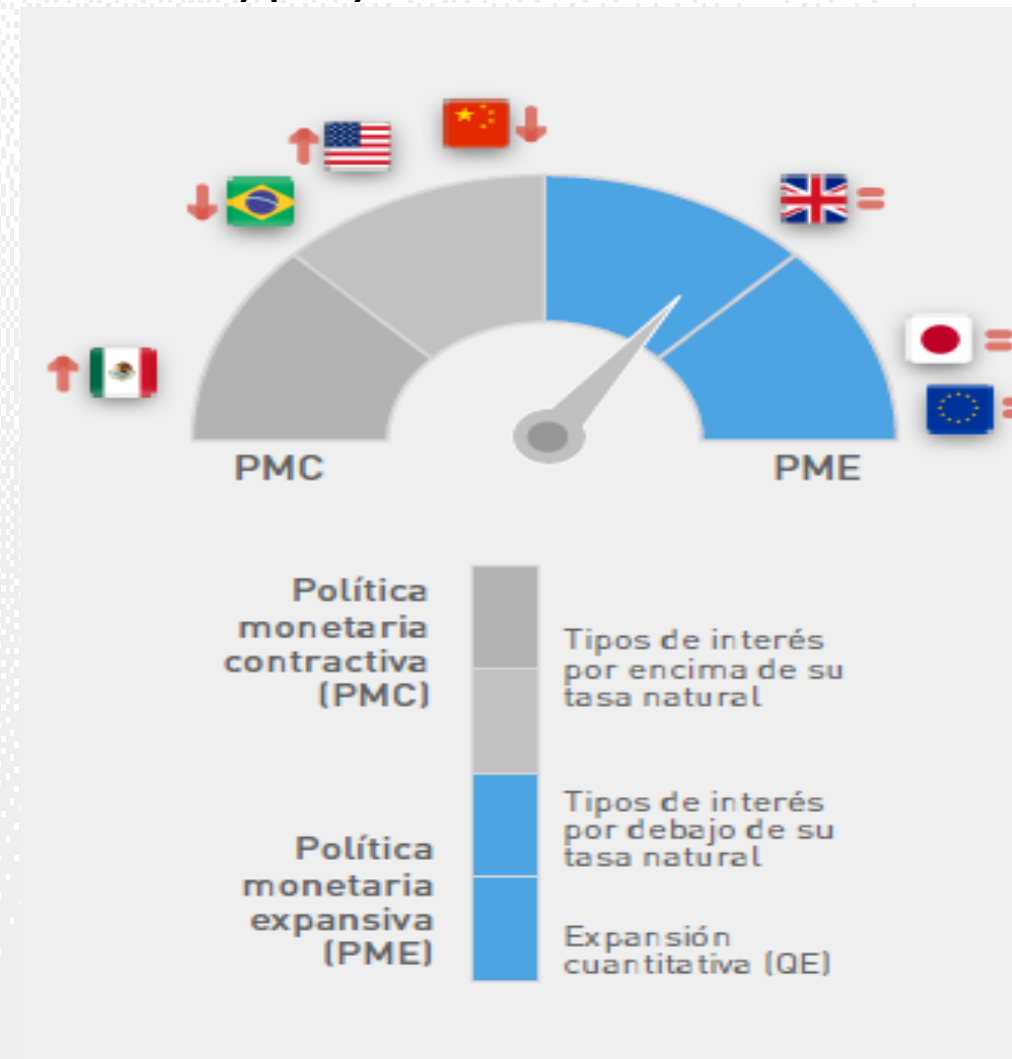
Regional and country outlook

- Growth and Inflation asymmetry in our outlook due to
 - Cyclical Position
 - Differences in Monetary Policy Bias
 - Limits to fiscal space
 - Accrued Imbalances

Ciclical positions of various countries

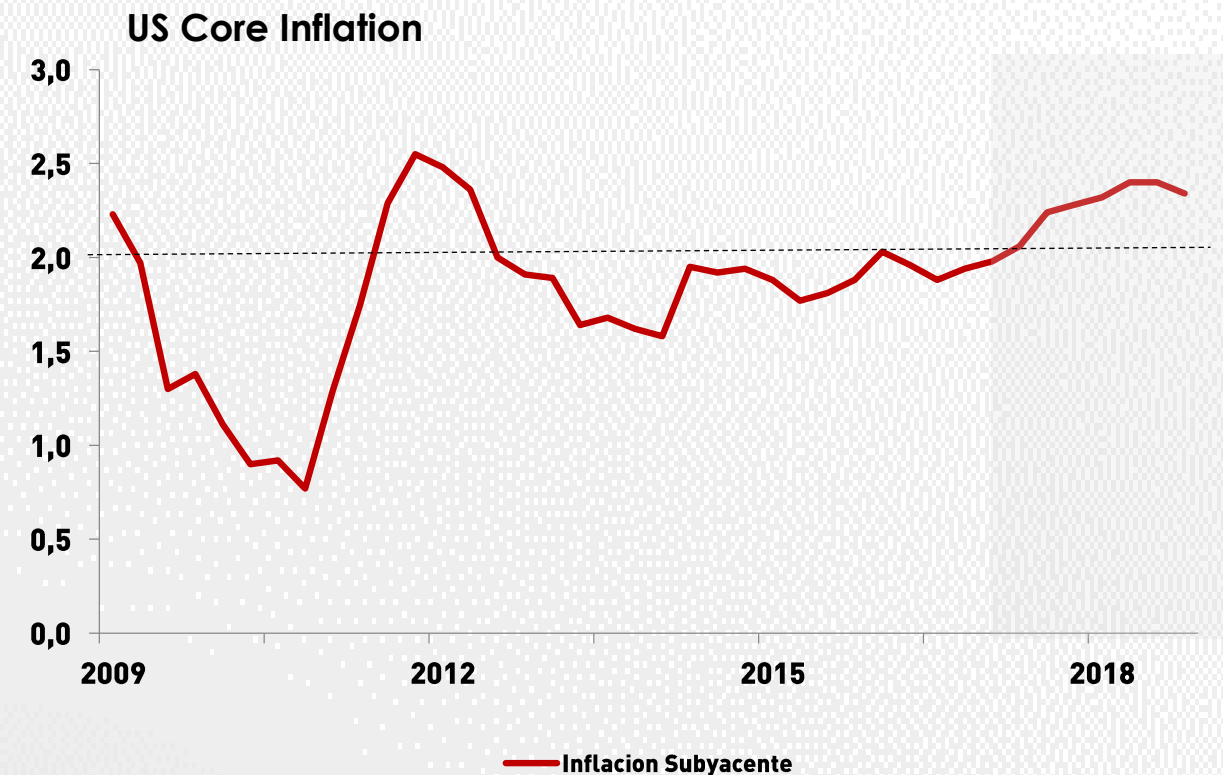
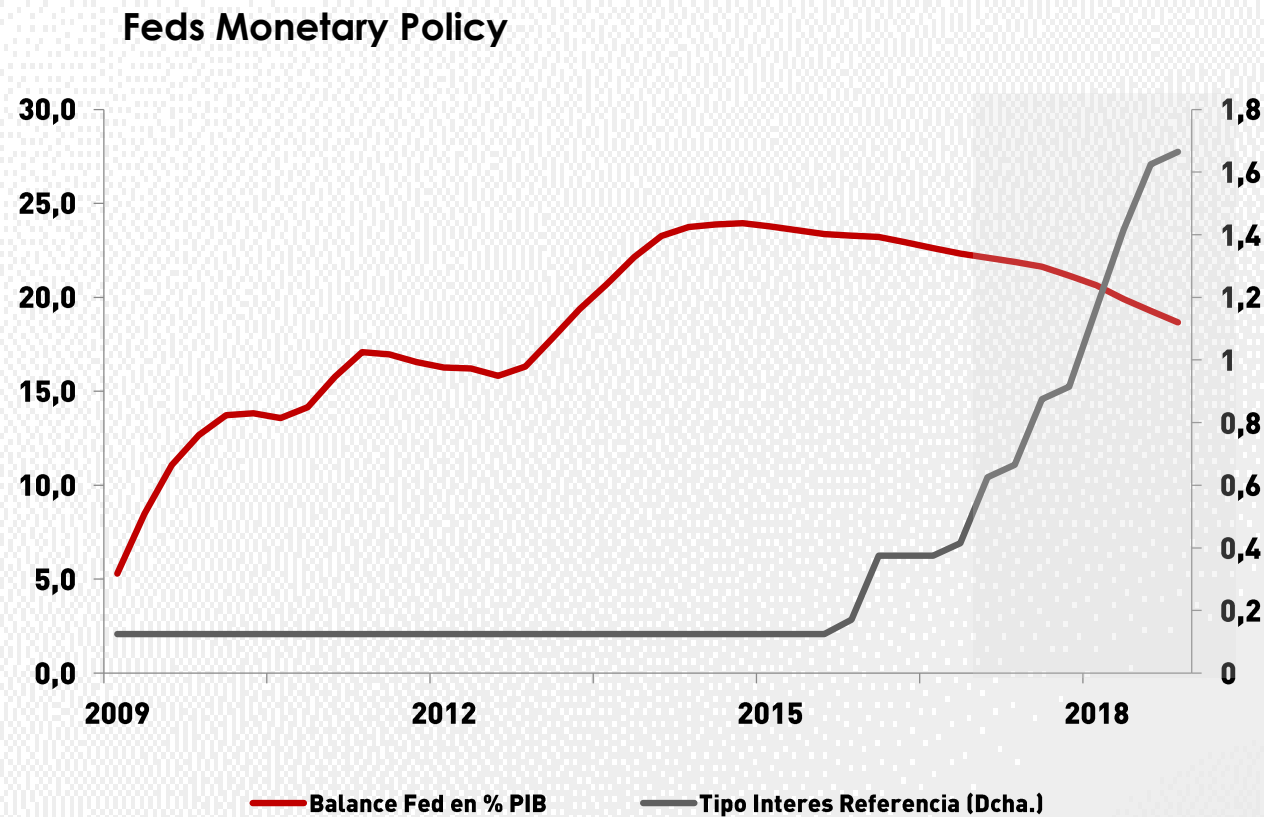


Monetary policy outlook



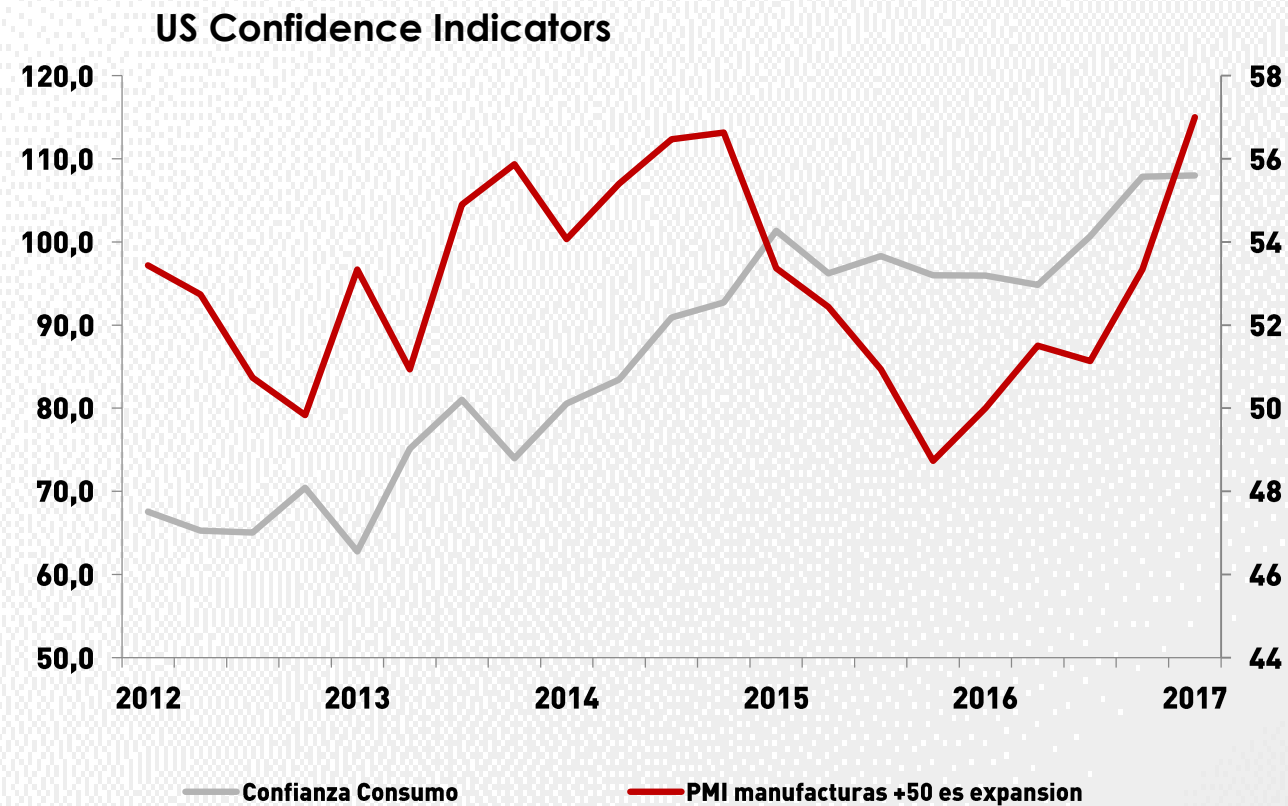
Regional and country outlook

- **USA & Mexico:** politics-policy & undelivered expectations
 - **HOPE:** USA in a mature cyclical position yet *just about*
 - to reflate in full employment | kick-start corp. invs. | Stretch cycle
 - **RISK:** fail to deliver & Trump at face value (trade & immigration)
 - High frequency indicators: momentum to remain so far



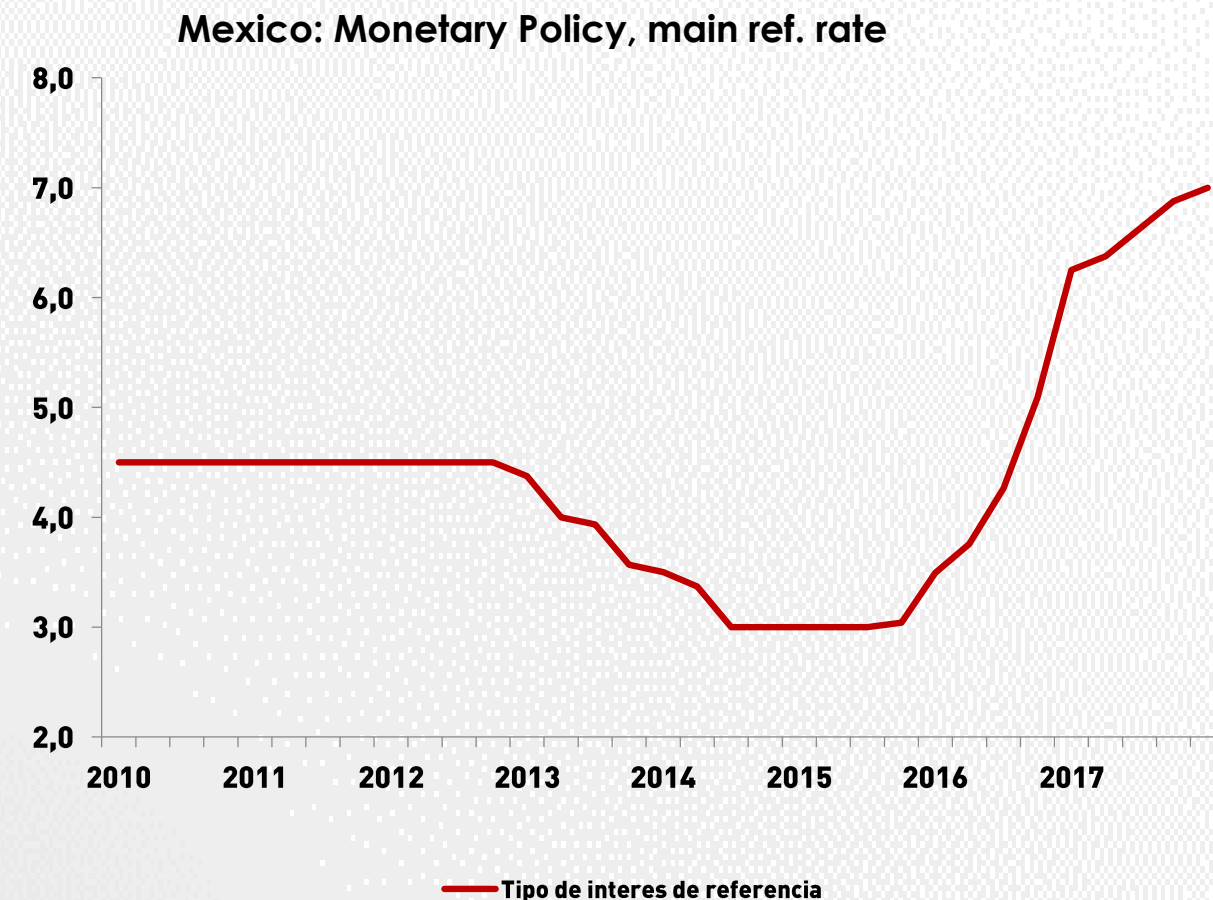
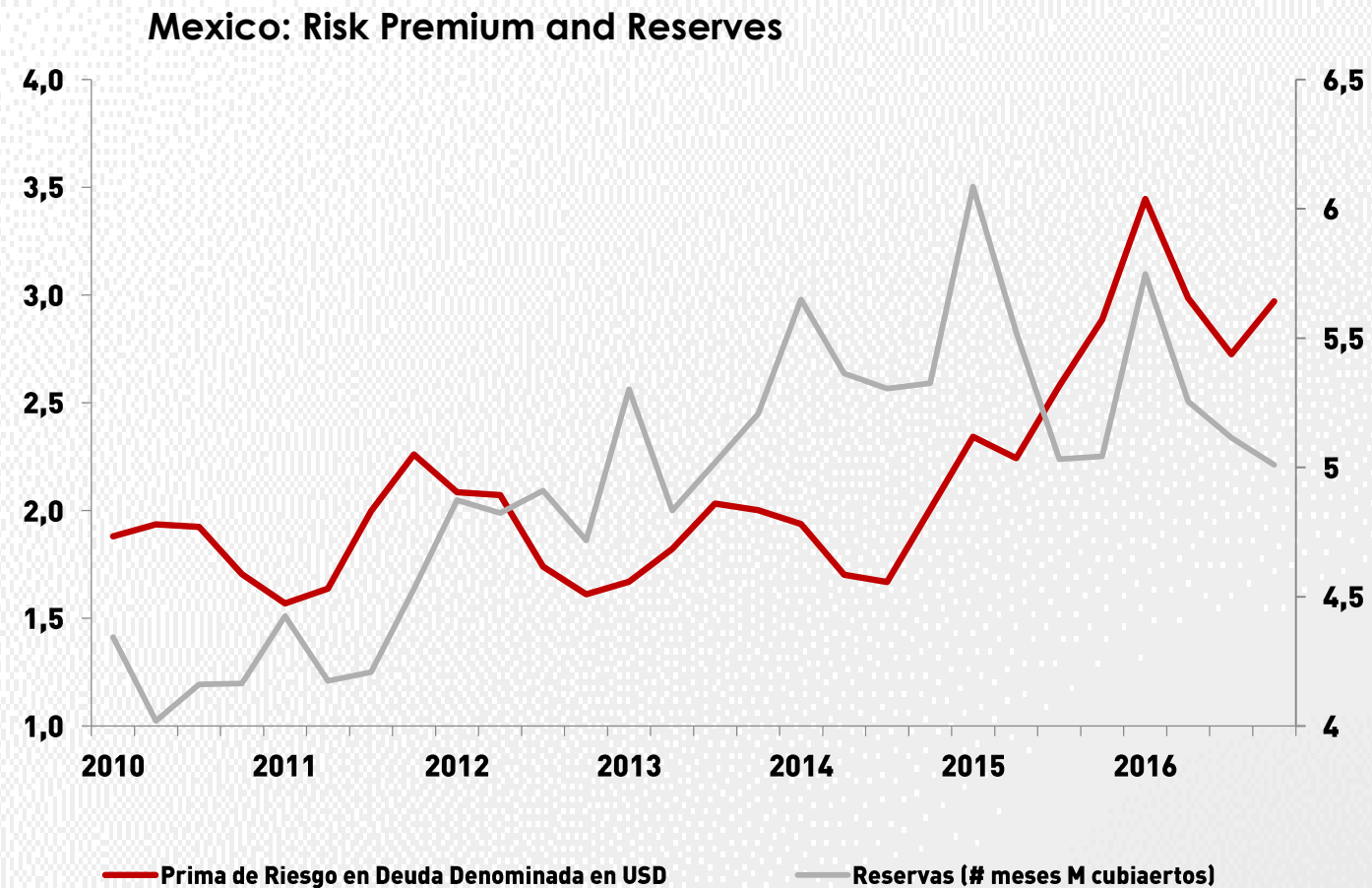
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Regional and country outlook

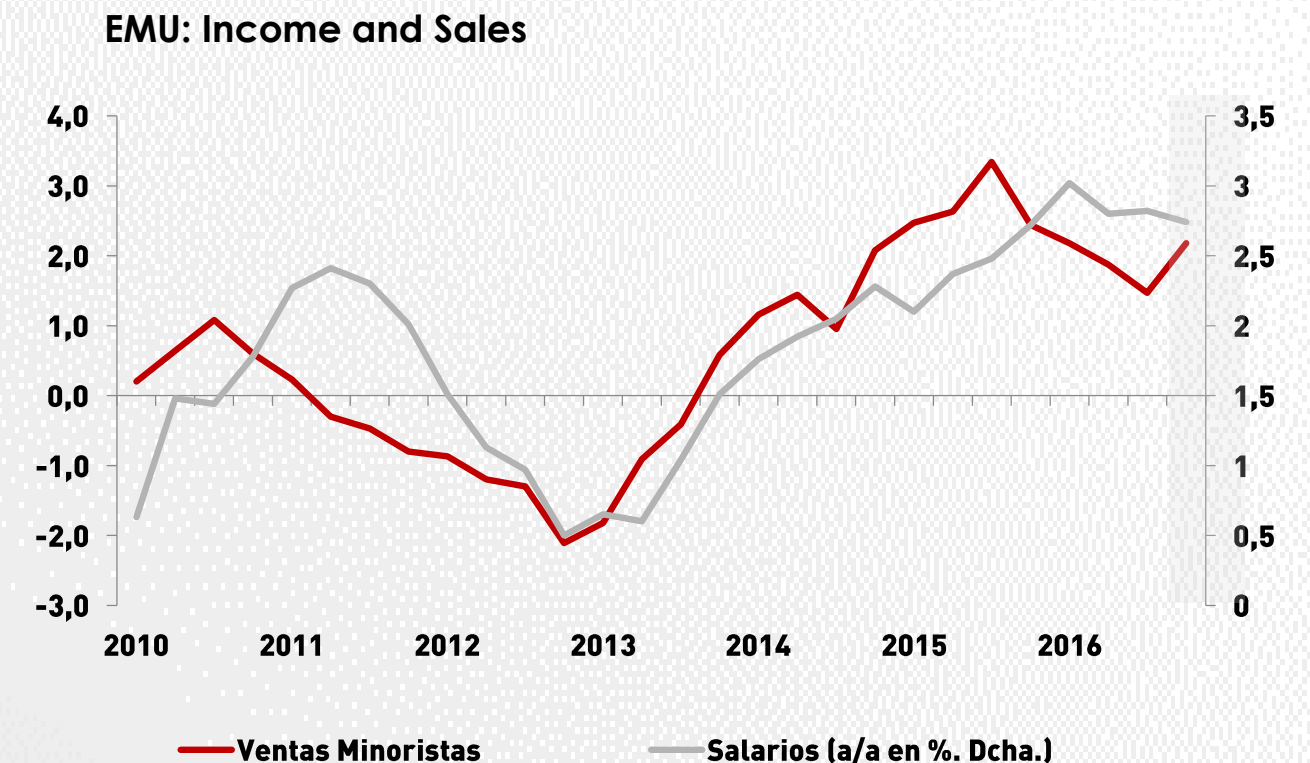
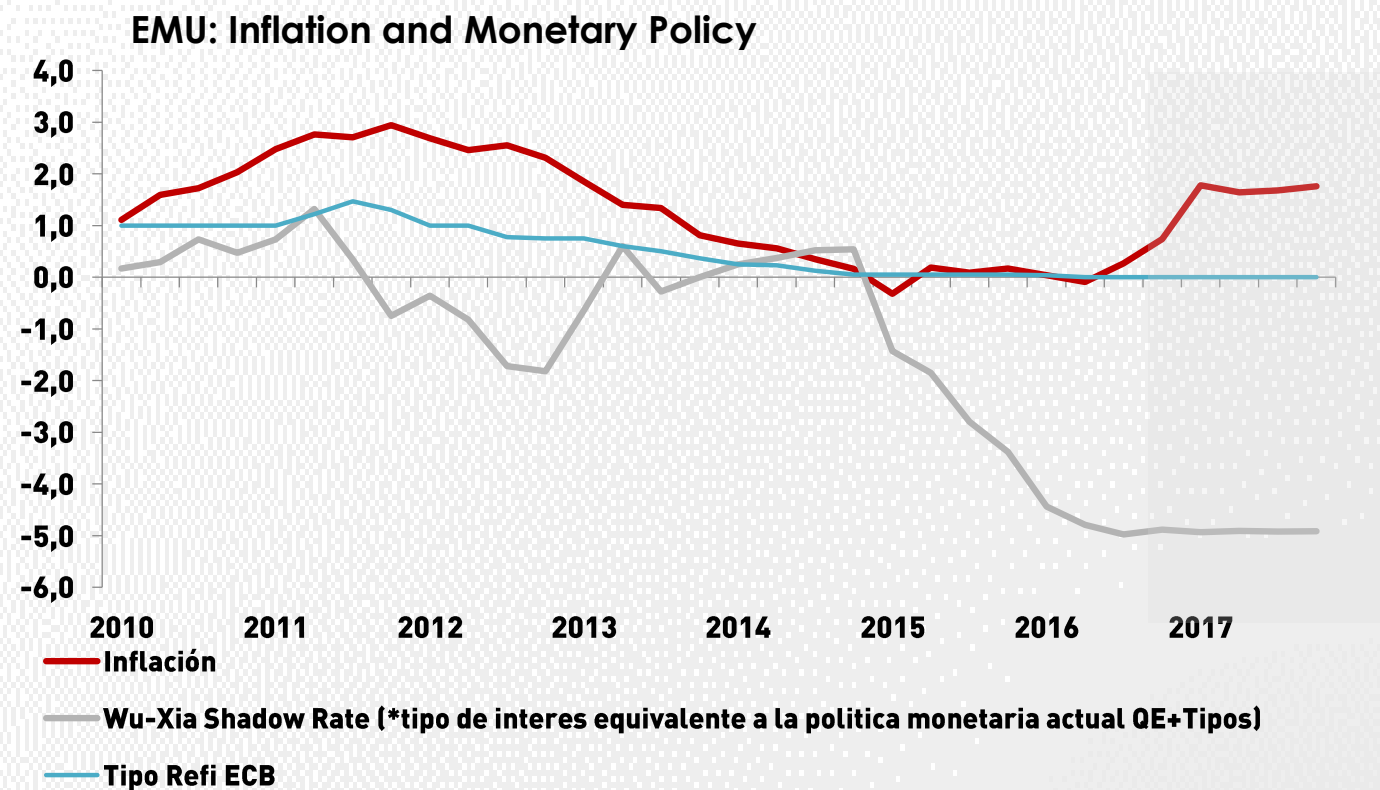
- **USA & Mexico:** politics-policy & undelivered expectations
 - **HOPE:** Mexico more resilient than envisaged
 - No trade setbacks so far, activity somehow resilient so far
 - **RISK:** following suit to US Monetary Policy to erode income and consumption in a context of limited US trade. Politics.



Regional and country outlook

- **Eurozone & Spain**

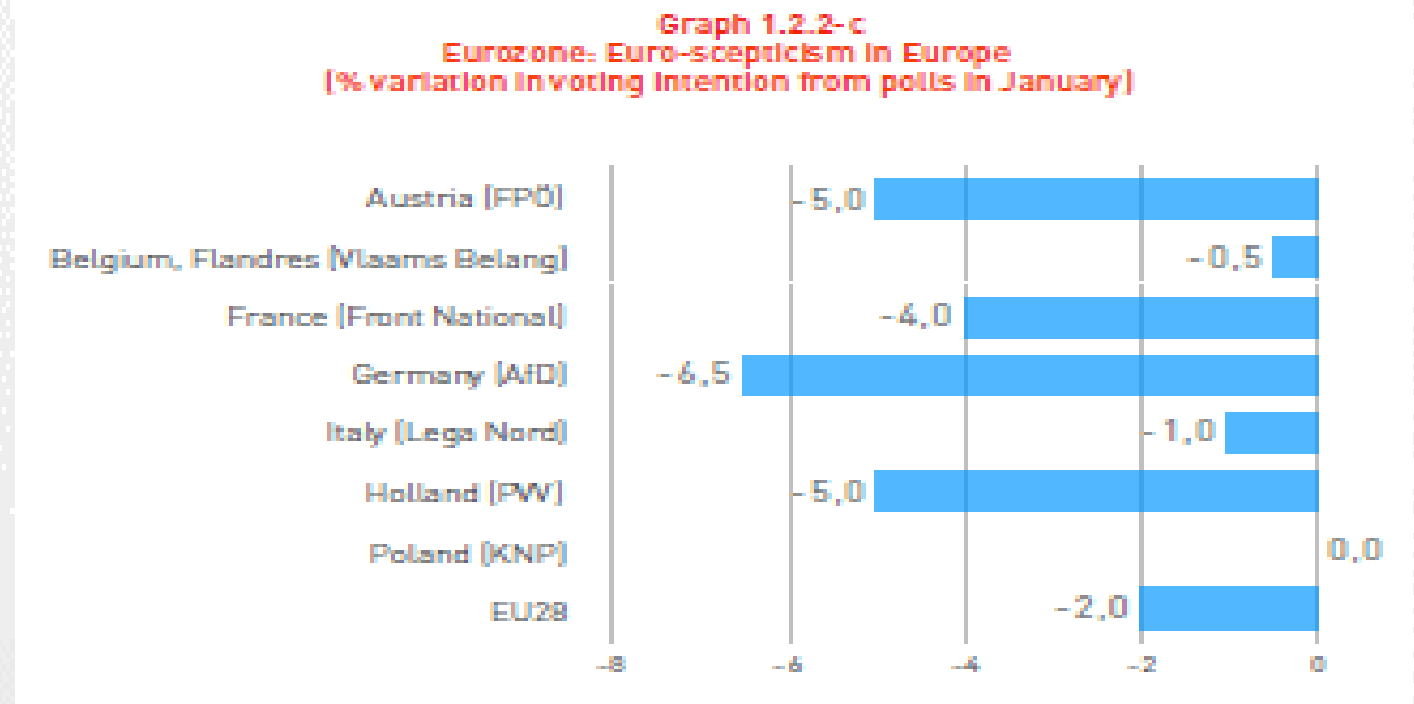
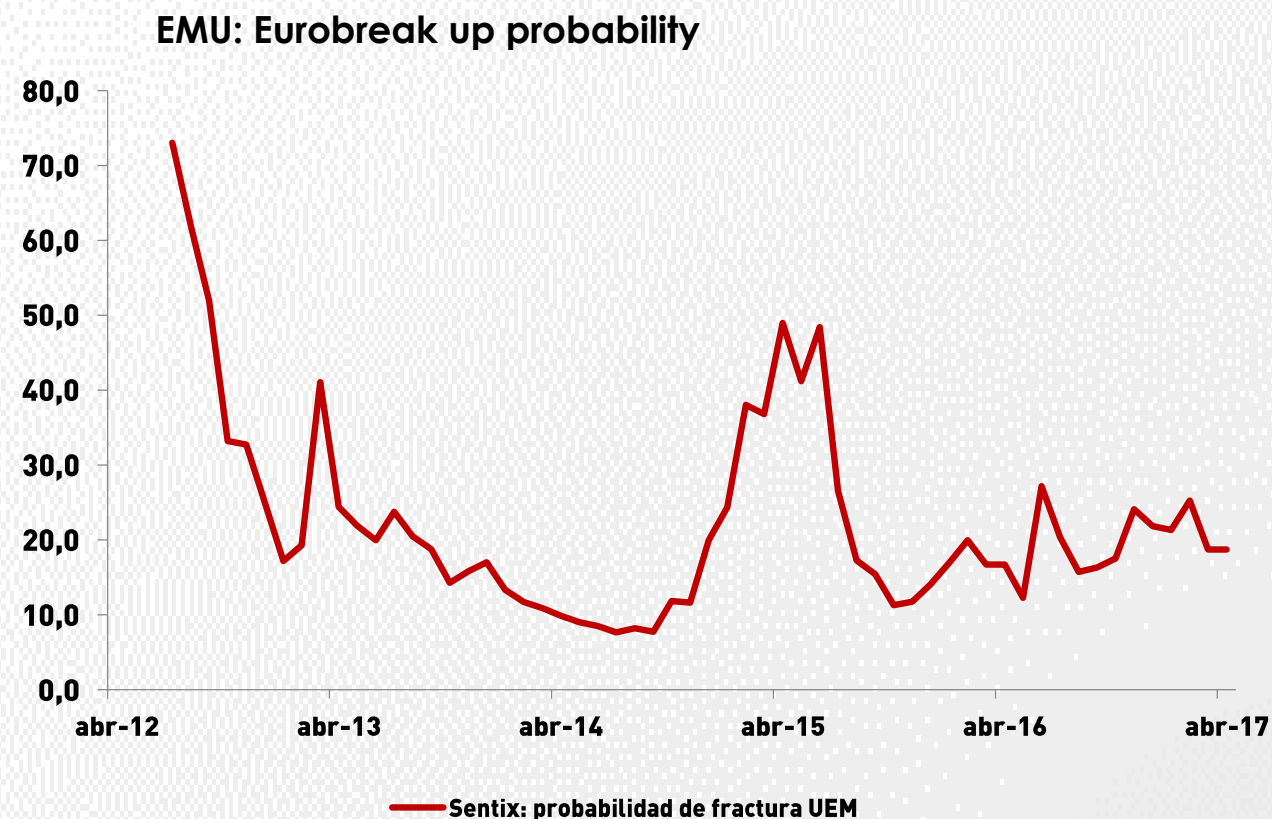
- **Eurozone:** firming broad-based growth and inflation towards ECBs comfort zones (potential and inflation target)
- Unchanged monetary policy support & improved expectations bring momentum to domestic demand and trade. Last Fx view.
- “Convertibility risk” remains in spite of renewed “euro-philia”



Regional and country outlook

- **Eurozone & Spain**

- **Eurozone:** firming broad-based growth and inflation towards ECBs comfort zones (potential and inflation target)
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- **“Convertibility risk” remains in spite of renewed “europhilism”**

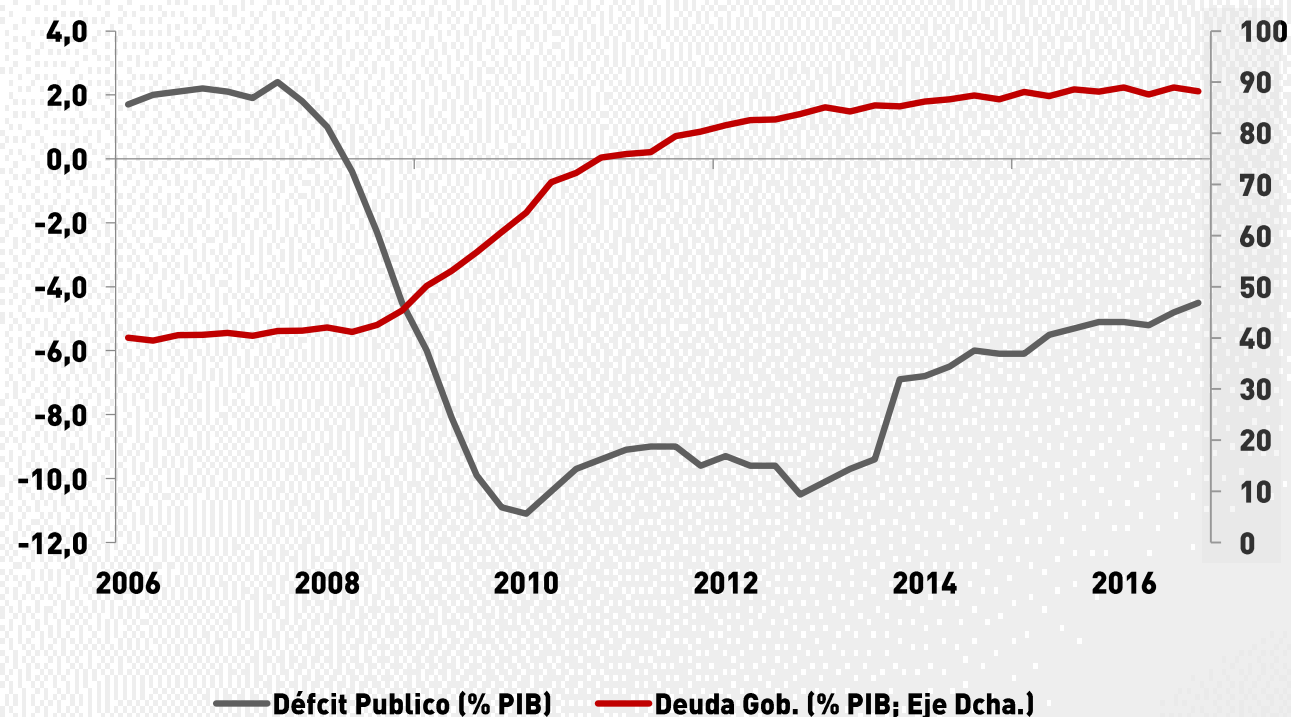


Regional and country outlook

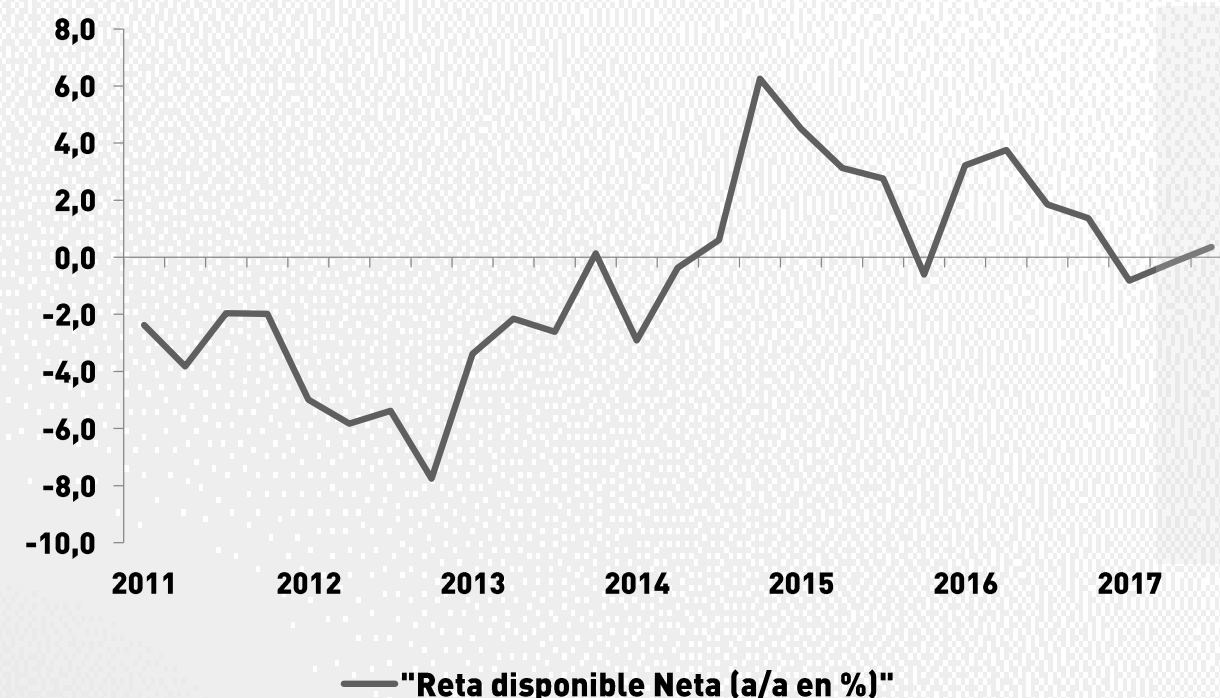
- **Eurozone & Spain**

- **Spain:** moderation of tail winds (oil, financial costs, fiscal impulse) renders activity towards more investment based
- Export based thrive to remain (beyond tourism) thanks to diversification and a stronger EMU
- **Risks:** politics, household leverage, cyclical depletion

Spain: Fiscal Discipline



Spain: Nominal Growth

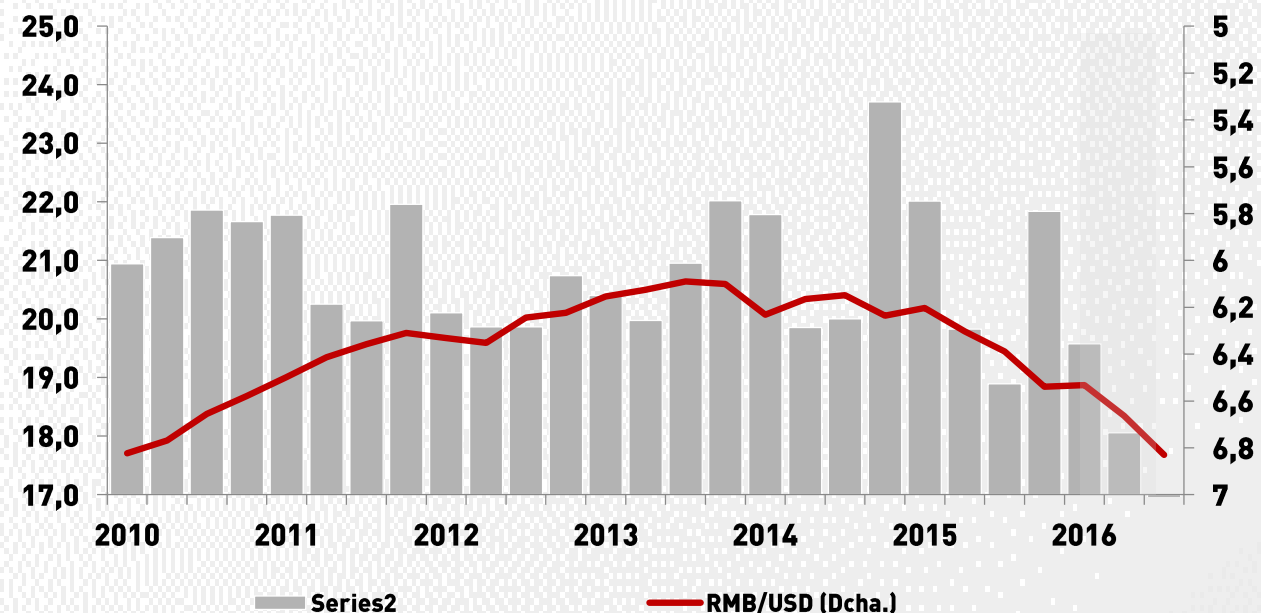


Regional and country outlook

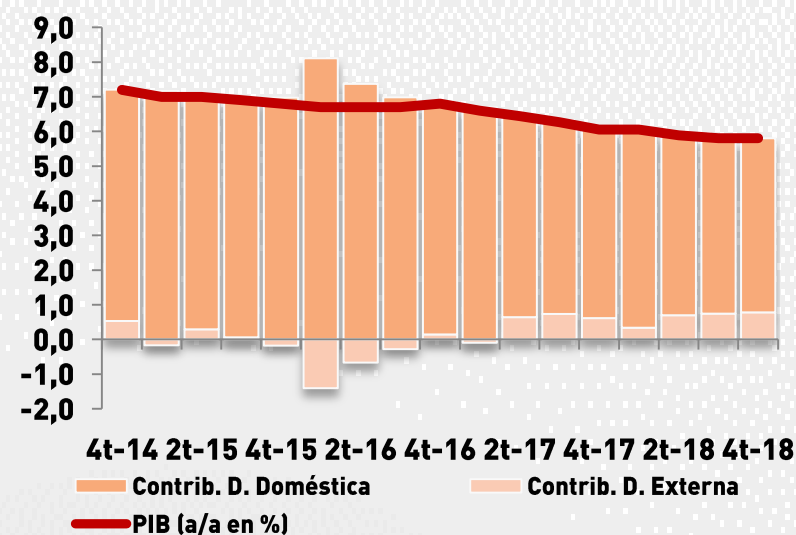
- **China & EM Asia**

- **China:** orderly and targeted winding down of growth (above target) favoring nominal stability (RMB, and Financial).
- **“Peoples Risks”** are global risks: state deeply involved in extreme imbalances (house prices, SOE leverage , debt, RMB manag).
 - To trigger global financial, portfolio, mon. effects globally
 - To trigger real side (trade and commodity prices) regionally.
- Absence of reforms & milder growth weight on Grade (Moody’s)

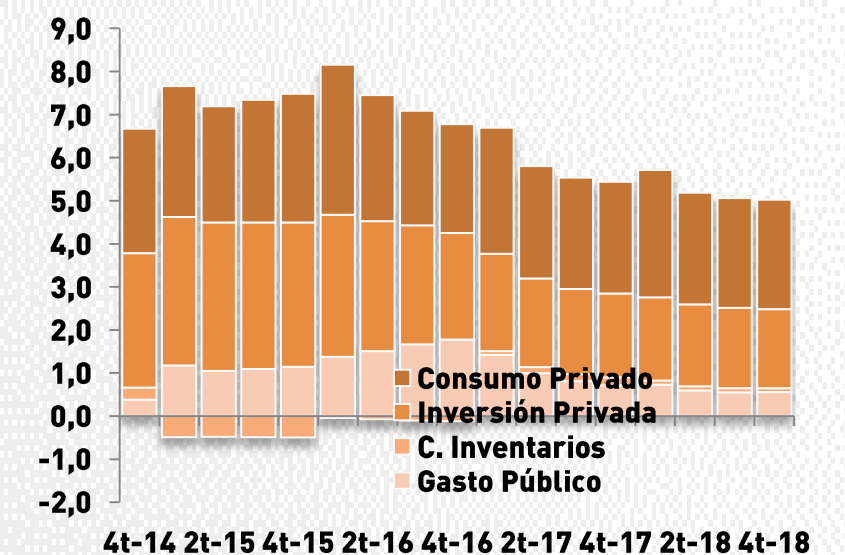
China: Reserves in Import Months vs RMB



China: GDP Growth Components



China: Domestic Demand Growth Components

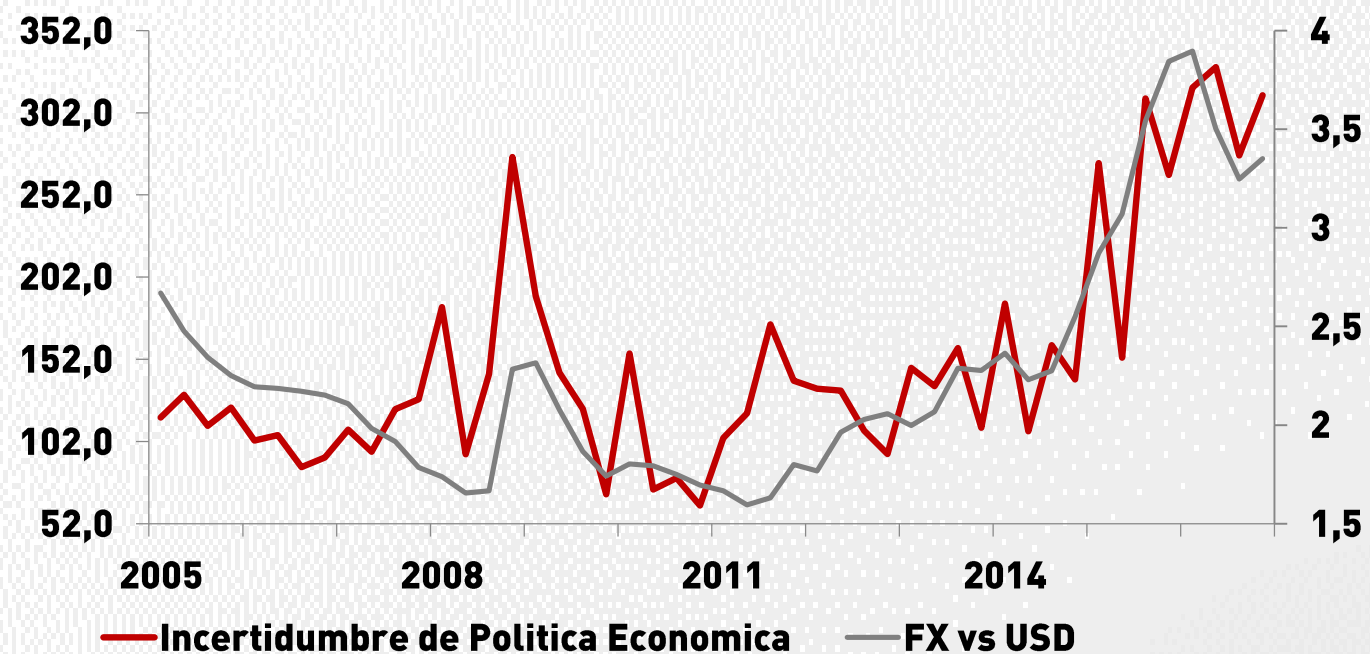


Regional and country outlook

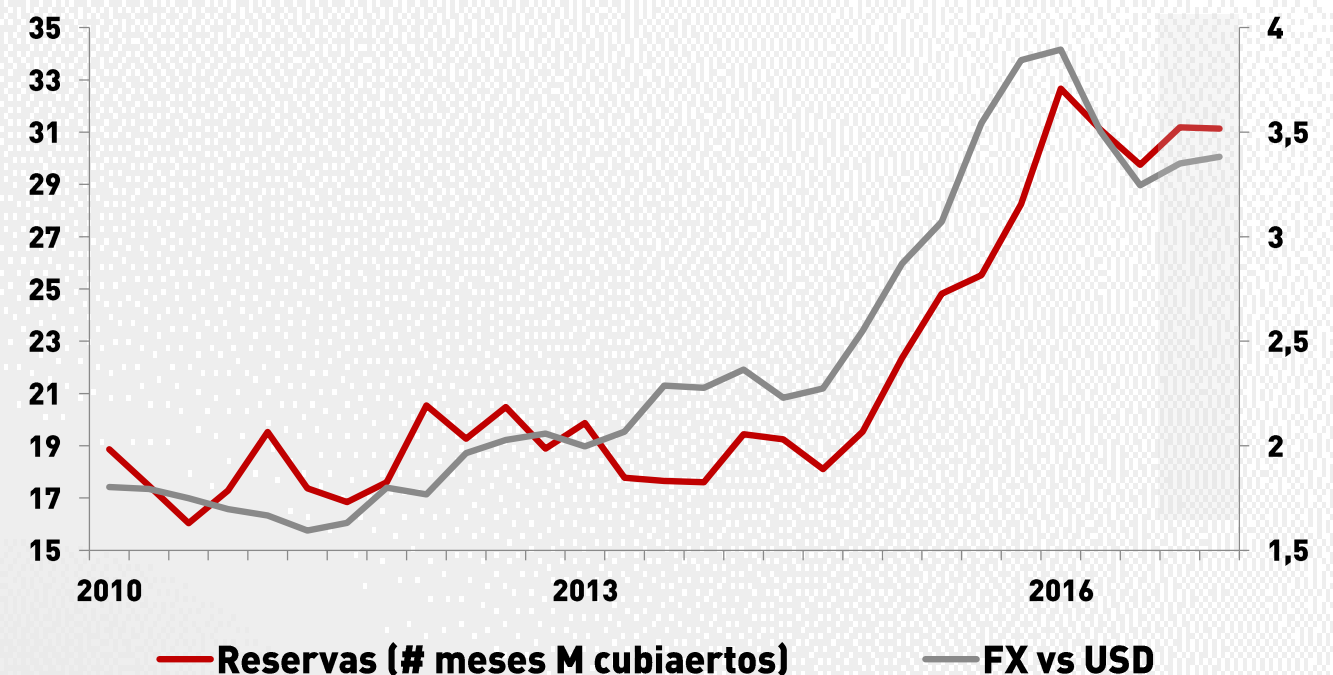
- **Latam & Brazil**

- Growth out of recession yet in a very weak and fragile foot
- Monetary and fiscal support & higher real income/consumption
- The real problem: institutional credibility only to be regained after draining problems unleashing structural reforms
- Strengths rely on: solid external position, low USD leverage
- To benefit from a stronger China and US via commodities

Brazil: Uncertainty and Exchange Rate



Brazil: Reserve Adequacy and Exchange Rate



Activity (GDP yoy growth in %)

	2013	2014	2015	2016	2017	2018
EEUU	1,7	2,5	2,6	1,6	2,3	2,5
Eurozona	0,8	1,5	1,8	1,7	1,5	1,5
Alemania	0,6	1,6	1,5	1,8	1,5	1,4
Francia	0,6	0,6	1,3	1,3	1,3	1,6
Italia	-0,4	0,3	0,8	0,9	0,9	1,1
España	-1,7	1,4	3,2	3,2	2,5	2,1
Reino Unido	1,9	3,1	2,2	1,8	1,6	1,3
Japón	2,0	0,3	1,3	1,0	1,2	1,0
Emergentes	5,1	4,7	4,2	4,1	4,6	4,8
Latam	2,9	1,0	0,0	-0,6	1,6	2,1
México	1,6	2,3	2,6	2,3	1,9	2,0
Brasil	3,0	0,5	-3,8	-3,6	0,3	1,9
Argentina	2,4	-2,5	2,6	-2,3	2,5	3,8
EM Europa	2,8	2,8	3,6	3,3	3,1	3,2
Turquía	8,5	5,3	6,0	2,9	2,3	3,2
Asia Pacífico	5,8	5,6	5,5	5,8	5,6	5,6
China	7,8	7,3	6,9	6,7	6,3	5,9
Indonesia	5,3	4,9	5,0	5,0	5,2	5,2
Filipinas	6,3	5,8	6,6	6,7	6,0	6,0
Mundo	3,4	3,5	3,4	3,1	3,1	3,2

Inflation (CPI yoy growth in %)

	2013	2014	2015	2016	2017	2018
EEUU	1,2	1,2	0,4	1,8	2,1	2,4
Eurozona	0,6	0,2	-0,1	1,6	1,1	1,0
Alemania	1,3	0,5	0,3	0,9	1,3	1,4
Francia	1,0	0,6	0,1	0,3	0,9	0,9
Italia	0,5	0,1	-0,4	1,5	0,5	0,8
España	0,1	-0,5	-0,3	1,0	1,0	1,0
Reino Unido	2,1	0,9	0,1	1,2	2,4	1,6
Japón	1,5	2,5	0,2	0,3	0,0	0,3
Emergentes	5,5	4,7	4,7	4,5	4,4	4,2
Latam	4,6	4,9	5,5	5,8	4,2	3,8
México	3,7	4,2	2,3	3,2	4,2	5,1
Brasil	6,4	8,5	9,1	4,8	5,4	4,4
Argentina	21,9	38,0	26,7	41,2	25,5	16,8
EM Europa	4,3	3,8	2,9	3,1	2,8	2,5
Turquía	7,5	8,8	8,2	7,6	7,4	6,6
Asia Pacífico	5,8	5,6	2,2	3,0	4,5	4,4
China	2,9	1,5	1,5	2,2	2,4	3,0
Indonesia	7,7	6,1	4,9	3,4	5,3	5,2
Filipinas	3,6	3,1	1,1	2,6	3,7	3,6
Mundo	3,7	3,2	2,8	2,5	2,9	3,0

10y Interest Rates

	2013	2014	2015	2016	2017	2018
EEUU	0,3	0,3	0,3	0,8	0,9	1,7
Eurozone	0,3	0,1	0,1	0,1	0,0	0,0
China	2,25	2,00	2,00	2,00	2,00	2,00

Monetary Policy Rates

	2013	2014	2015	2016	2017	2018
EEUU	2,34	2,53	2,13	1,80	2,6	2,9
Eurozone	1,63	1,25	0,54	0,86	1,2	1,6

Exchange Rate (average values)

	2013	2014	2015	2016	2017	2018
USD-EUR	0,73	0,80	0,91	0,9	0,99	0,98
EUR-USD	1,36	1,25	1,10	1,09	1,01	1,02
GBP-USD	1,62	1,58	1,52	1,24	1,25	1,22
USD-JPY	136,75	142,83	133,01	118,01	123,47	129,84
USD-CNY	6,09	6,15	6,39	6,83	7,15	7,03