press release

Global Focus: Hawks, doves and parrots

05 April 2015, London – Standard Chartered's economic theme for 2015 – "Rekindling animal spirits" – is still very much in play as the second quarter approaches. Our Global Research team believes this is a year where growth will improve, although in many parts of the world it may not feel that way; the risk of a policy mistake that could derail progress remains.

Global growth forecasts from the World Bank and the IMF were revised lower earlier this year, but our economists are not revising their forecasts significantly, with market consensus now moving closer to our view.

The rapid drop in the value of the euro is a significant development in Q1 this year. Although positive for the euro area, this will have broader implications for the world economy. The euro area is already running a significant current account surplus and a weaker euro could widen this surplus further, raising the risk of lower growth elsewhere.

Our economists believed that the ECB was going to go ahead with QE this year and as a result had an above-consensus growth forecast of 1.5 percent for 2015. We believe this is still on track, and with market expectations changing, the ECB is revising its own growth forecasts from 1.0 percent to 1.5 percent, in line with ours.

Emerging markets could respond to this challenge by reducing rates; indeed this has been the case in Q1 so far - 24 countries have eased monetary policy this year. Our in-house *Asian Macro Trackers*, which are leading indicators for Asian economies, show that there is room for further monetary easing in many parts of Asia, especially in China and the ASEAN region.

Interest-rate hikes in the US could hinder the ability of emerging markets to use lower rates to support growth. We have always expected that the Fed would be very gradual and careful when it came to hiking interest rates; while the US economy is strengthening, inflation is low. Hiking too much too soon could risk derailing the US recovery but our economists believe this will not happen, and that the terminal fed funds rates will only be 2.0 percent in 2017, which is below market consensus at the moment.

Our economists stated at the start of the year that India could be one of the positive surprises in 2015. The flexibility policy makers have is a positive, and so is the latest budget. India faces the opposite type of rebalancing than China. Whereas China needs and is trying to raise consumption versus investment, India needs to do exactly the opposite. Growth has been mainly consumption-driven, and there is a need to improve infrastructure. This year, we expect investment to outgrow consumption, with the budget doing a good job of balancing limited resources and the needs of the economy, with the focus being on key infrastructure projects such as railways and roads, which are key growth drivers.

China's rebalancing continues. Our view that growth in 2015 will reach 7.1 percent but will probably feel slower still holds. The labour market in China is softening and although softness in manufacturing is to be expected as China moves to increase the economic importance of services, the decline in services jobs is more worrisome. There is room for monetary easing, and we expect to see further easing later this year.

Marios Maratheftis, Head of Macro Research, commented: "The many moving parts in the world economy are creating a relatively risky and somewhat uncomfortable environment. The weakness of the euro and the possibility that this could widen the euro-area's current account surplus is an additional complication. Policy will play a key role, especially interest-rate policy in the US. We expect the Fed to be very careful with hiking interest rates, and this should be supportive of our view that growth this year should actually improve compared to 2014."

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Notes to Editors

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