Standard Chartered

press release

Standard Chartered sees a resilient Asia, Mideast and Africa in 2012

London, 12 December, 2011 – Standard Chartered sees 2012 as a year of a two-speed global economy. The Bank, which recently topped a ranking of 354 global firms for the accuracy of its economic forecasts over the past two years, sees a slowing global economy in 2012, with a fragile West and a resilient Asia, Africa, Middle East and Latin America.

The mounting crisis in the advanced economies is expected to cause the euro area (-1.5%) and the UK (-1.3%) to fall back into recession and US growth (+1.7%) to remain below-trend.

The world economy grew strongly in 2010, expanding 4.3%, before cooling in 2011, when it grew by around 3.0%. In 2012, Standard Chartered expects a significant slowdown in the first half of the year because of the crisis in the West, slowing global growth to 2.2% for the full-year.

Gerard Lyons, Chief Economist and Group Head of Global Research, said: "This points to the continuation of a two-speed world where a fragile West contrasts with a resilient East. It is a divided and disconnected world economy facing major policy dilemmas. Yet, no region is fully decoupled from events elsewhere. During the first half of 2012, problems in Europe and the West will weigh on global growth. By the second half, stronger growth across China and other emerging economies should pull up worldwide activity. It will be a recovery made in the East and felt in the West. If ever one needed to illustrate the shift in the balance of power, this is it."

In its annual Global Focus report, the bank forecasts that Asia's gross domestic product (GDP) growth will slow to a still-robust 6.5% in 2012 from 7.3% in 2011. China is expected to cool significantly in the first few months of 2012 before rebounding, helped by a major policy boost. As a result, China's growth will decelerate from 9.2% to 8.1% next year.

Growth in India, Asia's third-largest economy, is expected to accelerate mildly to 7.4% in the fiscal year starting 1 April, 2012, from 7.0% in the current financial year. Indonesia, South East Asia's largest economy, is forecast to slow to 5.8% from 6.5%.

There are significant underlying growth drivers across the emerging world, including a rapidly expanding middle class, rising infrastructure investment and growing business ties along the

`New Trade Corridors' linking Asia, Africa, the Middle East and Latin America. These factors are likely to become more pronounced as Europe contracts and US consumers deleverage.

The Bank sees similar resilience in Africa, where growth in the two largest economies – South Africa and Nigeria – is likely to slow marginally to 3.1% and 6.9%, respectively, in 2012, from 3.2% and 7.2% this year. In Latin America, Brazil's growth is likely to slow to 2.5% from 3.0%.

Differentiation remains the key issue in the Middle East, where the resource-rich economies are expected to show resilience, with growth decelerating only moderately in 2012. Asset bubbles in the region have already burst and unsustainable credit booms are long over, providing a stable base for growth. Elevated oil prices bode well for government finances, enabling authorities to adopt counter-cyclical fiscal policies to stimulate growth as the West decelerates.

As Lyons says, "The outlook depends on the interaction between the fundamentals, policy and confidence. The policy challenges will be very apparent in 2012. Emerging economies will use fiscal and monetary policy to boost growth in the first half of the year. But, by the second half of the year, the combination of further quantitative easing in the West and firm commodity prices may cause inflation risks to re-emerge during the latter part of the year. From an investment standpoint, this also raises the potential for a shift back towards macro-prudential measures, including stricter capital controls."

For the foreign exchange markets, this points to a strengthening US dollar (USD) in the very near term as the US currency performs well in an environment of risk aversion. But on a multi-year basis, this implies a weakening USD, reflecting the significant debt overhang for the US economy and continued, gradual diversification away from the USD by governments and other international investors. The euro is also expected to weaken sharply in the first quarter of 2012 and enter a longer-term downtrend as the euro-area authorities fail to deliver a co-ordinated and credible strategy to solve the region's problems. The weaker longer-term outlook for the world's two largest reserve currencies signals the continuation of the multi-year shift into emerging-market economies and currencies, reflecting both their rising role in the global economy and their significant role in global trade. The broader trend of investing in liquid, investment-grade emerging-market currencies is expected to continue.

For commodity markets, although the fragile global backdrop may be similar to that at the start of 2009, tight supply in several raw materials as a result of the sharp drop in investment in new projects during the 2008 financial crisis is likely to put a firm floor under commodity prices, even if global demand declines significantly in the first quarter of 2012.

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Notes to Editors

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