

press release

The Year Ahead 2014 – “Rising East, emerging West”

3 December 2013, London – Standard Chartered has today published its annual Global Focus report. Entitled “Rising East, emerging West”, the report forecasts the world economy is likely to accelerate to a 3.5% growth in 2014, up from 2.7% this year, as a pick-up in economic activity in the US and Europe, following years of recession and sub-par growth, helps Asia and other emerging markets maintain their decade-long outperformance.

Against a backdrop of benign inflation and low interest rates, the Western recovery should provide additional impetus to international trade, bolstering the more export-oriented economies across the emerging world. Standard Chartered sees emerging economies outgrowing the Group of Seven developed economies by almost 4% in 2014, even with the US accelerating to 2.4% from 1.7% in 2013 and the euro area emerging from two straight years of contraction to post a 1.3% growth in 2014.

Within this, external demand-driven economies with strong links to the global manufacturing cycle, such as Singapore and Thailand, are likely to benefit the most. More domestically-driven economies such as India, Indonesia and Brazil will face headwinds. While global growth would typically support a sustained rebound in commodity prices, the Bank expects the supply overhang to depress prices in 2014.

Typically, this would suggest that equity-dominated markets should outperform bond-dominated markets but the Bank anticipates that this pattern will not be uniform, once economies’ domestic-versus-external orientation is factored in.

2014 will be another challenging year for fixed income securities and markets with larger pools of domestic savings in insurance and pension funds are likely to be better insulated. Credit markets will also face significant challenges, with broad outperformance in high-yield bonds as faster growth supports corporates’ internal cash-flow generation.

Risks remain in the form political instability and regulation; the heavy election calendar in 2014 across emerging markets explains only part of the risk dynamic.

The broader global economic recovery should make it easier for the US Federal Reserve to start normalising monetary conditions, the report said, reiterating the Bank's expectation for the Fed to start tapering its quantitative easing programme by June 2014. Although markets could become more volatile in the first half of the year in the run-up to the tapering decision, growth in the second half should pick up once the decision is made; the Bank expects the first Fed rate hike in 2016.

The forecasts show Asia will remain strong, with growth likely to pick up across most of the region supported by the upturn in the West. China should remain stable, growing at around 7.4%, as it rebalances its economy away from large-scale investments and exports to one which is more dependent on domestic consumer demand; the Bank expects stronger push for land and state-enterprise reforms starting in 2014, a further opening up of the capital account, and less intervention in the currency markets.

In Southeast Asia, ASEAN economies are likely to benefit from their growing competitiveness against China as a manufacturing centre, enabling them to attract increased foreign direct investments. Urbanisation, a strong driver of growth in the region, has a long way to go with the build up of infrastructure and increased industrial activity.

Sub-Saharan Africa is likely to stand out once again as the global growth champion in the New Year. The report forecasts solid growth across the region in 2014, with the exception of South Africa where domestic economic momentum remains weak.

The Middle East continues to be a tale of two worlds: the resource-rich Gulf Cooperation Council economies are using their fiscal strength to drive near-term growth and diversify their economies while the energy import-dependent economies are constrained by high domestic subsidy bills and weak investment, which in turn is hampering economic growth.

Marios Maratheftis, Global Head of Macro Research, said: "We expect a better 2014 compared to 2013. The economic recovery has so far been limited to emerging economies, and we expect growth to be broader next year. This is also good news for emerging markets, and we expect them to sustain their outperformance relative to G7 economies. The road will not, however, be free of risks and challenges. The Fed's expected tapering of quantitative easing is likely to cause market volatility."

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Note to Editors:

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