Danske Bank
Markets

Investment Research

December 2012

Global Scenarios

The tide is turning

- The global economy is set for a moderate recovery in 2013
- Decreasing uncertainty and more forceful stimulus underpin growth
- Emerging Markets to give new impetus to global demand
- The US economy is projected to strengthen after a short-term bump
- The euro area leaves recession but growth stays weak
- Main risks are the US fiscal cliff and re-escalation of the euro crisis

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Global Scenarios is a quarterly analysis focusing on the outlook for the global economy. Read about the perspectives for and the most important risks to the global economy. The publication *Nordic Outlook* presents our expectations for the Nordic economies.

Danske Research

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Global overview

The tide is turning

- **We expect the global economy to recover in 2013 as policy uncertainty fades and global policy stimulus has become stronger.**
- **We forecast global GDP to rise 3.8% in 2013 after 3.3% in 2012. Our forecasts for next year are slightly above consensus – particularly in China. In 2014, we look for global growth to rise further to 4.0%.**
- **Emerging markets are expected to recover from a two-year slump, which will be an important impetus for global demand.**
- **Fiscal policy, tight credit in the euro area and low wage growth in advanced economies should keep the global recovery moderate.**
- **The main uncertainty still relates to policy. A failure of US politicians to avoid a fiscal cliff or renewed escalation of the euro crisis are the primary risk factors.**

Synchronous recovery to gain strength during 2013

Following a very weak global economy in 2012, we believe there is reason for more optimism about 2013. Many headwinds in 2012 are easing and policy stimulus is more forceful. We expect to see improvement in all regions and this would be the first synchronous recovery in the world since 2009.

In the short term, growth is likely to be a bit soft in the US due to nervousness over the fiscal cliff negotiations and some fiscal contraction in Q1. GDP data also suggests there was a build-up of inventories in Q3, which could provide some payback in Q4. In the euro area, GDP also looks set to decline in Q4 as orders are weak and there are anecdotal stories that some companies will reduce production in December as they send employees on an early Christmas holiday to clear inventories.

However, as we move into 2013, an increasing amount of tailwind factors are expected to pave the way for a recovery across regions. Emerging markets look set to be a driving force in the improvement.

Lower uncertainty to unleash pent-up demand

Three big uncertainties are likely to have dampened global growth in 2012 as they hampered corporate and consumer spending. However, we believe the uncertainties in all three areas will be lower in 2013.

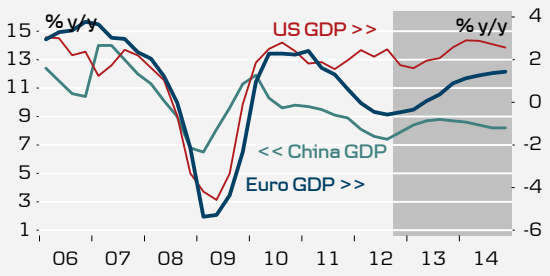
1. **The euro crisis** reached very high stress levels over the summer with fears of a euro break-up running quite high. However, following the ECB announcement of the OMT programme and improvement in the Greek situation, fears have come down again. Although more periods of stress are still likely, we believe the OMT programme will make it easier to fight future escalations and that overall uncertainty will be lower than in 2012.
2. **Fears of a Chinese hard landing** have also added to the overall uncertainty. Companies have been surprised by the extended slowdown in

Global GDP forecasts

% y/y	2013 Danske Bank	2013 Consensus	2013 OECD	2013 IMF	2014 Danske Bank	2014 Consensus	2014 OECD	2014 IMF
USA	2.1	2.0	2.0	2.1	2.8	2.8	2.8	2.9
Euro area	0.3	0.1	-0.1	0.2	1.3	1.1	1.3	1.2
Japan	0.7	0.8	0.7	1.2	1.2	1.1	0.8	1.1
China	8.6	8.1	8.5	8.2	8.3	7.9	8.9	8.5
Global	3.8	3.5		3.6	4.0	3.8		4.1

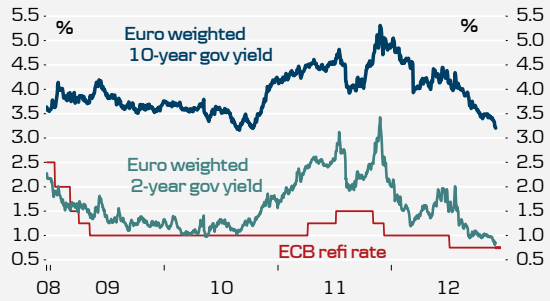
Source: Danske Bank Markets, Bloomberg, OECD, IMF

Moderate recovery in global economy



Source: Reuters Ecowin, Danske Bank Markets

Euro crisis easing – bond yields at new lows



Source: Reuters EcoWin, Danske Bank Markets

Chinese activity and talk of a housing collapse in China has created caution and put focus on cost cutting rather than investment. The recent signs of recovery in China and further improvement in coming quarters should dampen fears of a long recession in China and improve sentiment in countries with high exposure to China, not least Germany.

3. **Fears of the US fiscal cliff** has come to the forefront recently. However, this uncertainty is only expected to last through to year-end as we expect a solution that will result in a more muted tightening of fiscal policy than the worse-case scenario. This should remove some uncertainty once we get to the other side of New Year and should lift it considerably for US companies. Investment that is likely to have been held back should come through.

Widespread uncertainty and disappointing growth have kept companies in cost-cutting mode and investment spending has been held back and suffered a further setback over the summer. Higher earnings have mostly been saved, leaving companies with quite high cash buffers. Companies are also lean as reducing costs has been a strategy for some time to lift earnings.

If uncertainty fades there is potential for unleashing at least some of the pent-up demand that has still not come through. We expect companies to be cautious for some time but a gradual recovery from current depressed investment levels seems likely.

EM recovery important for global economy

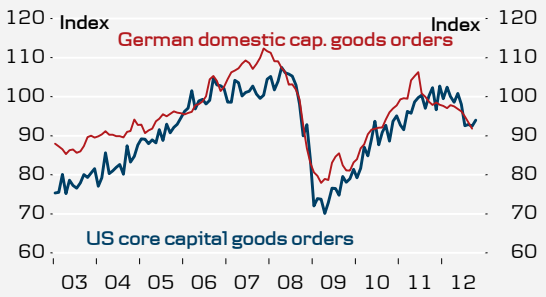
After two years of a slowdown there are finally tentative signs of a recovery in emerging markets – not least in China. Stronger activity in this region will be important for the global economy as it drives around 75% of global growth. In fact, lower growth in BRIC countries is behind around 80% of the decline we have seen in global growth this year.

A turn in emerging markets will therefore be very important for the global economy. It is one of the factors behind our expectation that the euro area will see slightly positive growth in 2013 despite the strong fiscal headwinds and tight credit conditions. It will also underpin corporate earnings growth in the US and Europe where sales to these markets play an increasing role. As can be seen in the middle chart, there is a tendency for PMIs in BRIC countries to lead the euro area by one to two months and sometimes more.

A key explanation for the emerging markets recovery is that a sharp decline in inflation has increased purchasing power and paved the way for a turn in the policy cycle from tightening to easing. Not least, China has felt this as policy was tightened quite strongly in 2011 on the back of a rise in inflation to 6.5% in summer 2011. Fears of a housing bubble added to the tightening measures in China and the effects have been felt for most of 2012. With inflation now below 2%, China has taken its foot off the break and is stepping cautiously on the gas again. The Chinese authorities have launched a new infrastructure investment programme and cut the reserve requirement ratio and interest rates. The effects have shown up in the data recently with increases in PMI, credit growth and housing activity. And we look for growth to rise further in coming quarters.

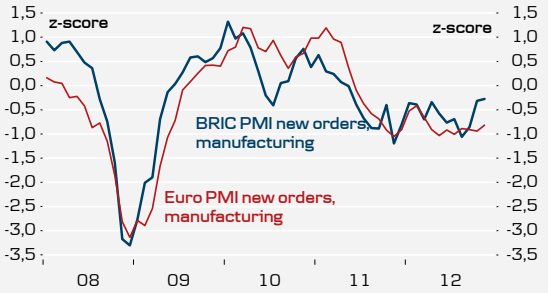
Other emerging market countries have also moved to an easing stance, giving more support to growth. Especially, Brazil has eased policy significantly, cutting the leading rate from 12.5% to 7% over the past year.

Uncertainty and weak demand led to cutbacks in investments over the summer



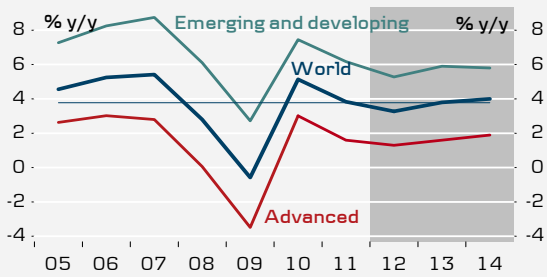
Source: Reuters EcoWin, Danske Bank Markets

Tentative signs of improvement in BRIC - should benefit euro area soon



Source: Reuters EcoWin, Danske Bank Markets

EM growth expected to recover to 6% in 2013



Source: Danske Bank Markets, IMF

Monetary stimulus starting to work

Policy stimulus in the advanced economies seems to be increasingly taking effect. The announcement of the ECB's OMT programme has led to sharp declines in peripheral bond yields and the weighted average euro yields are now close to the lowest levels ever. Money growth has also finally started to climb higher. This normally gives an early indication of economic recovery. No doubt tight credit – together with fiscal austerity – is still providing a strong headwind to growth in the euro area. However, the improved financial conditions will be positive for growth. We don't expect the ECB to ease policy further but a rate cut next year cannot be ruled out if growth disappoints again.

In the US, the Federal Reserve has also turned up the stimulus. It announced in December that it would buy USD40bn of mortgage bonds each month and continue this until the labour market showed substantial improvement. The very low financing costs and sharp decline in inventory of homes for sales is likely to be behind the strong improvement seen in US housing now. The turn in the US housing market will provide important impetus to the recovery as this creates new jobs and also give consumers more optimism about the future as they see their wealth rise again.

The Bank of Japan has also stepped up policy easing by increasing asset purchases and will in Q4 buy what amounts to 8% of GDP. This is very significant. We expect this pace of easing to continue in 2013 where a more dovish shift among the members of the Bank of Japan is expected.

Recovery to be moderate as some headwinds continue

Even though we expect a recovery, it is likely to be only moderate. The main challenge for growth in the advanced economies is fiscal policy, which has been tightened significantly in the advanced economies. The headwind from fiscal policy looks set to continue in 2013 and be a drag on growth.

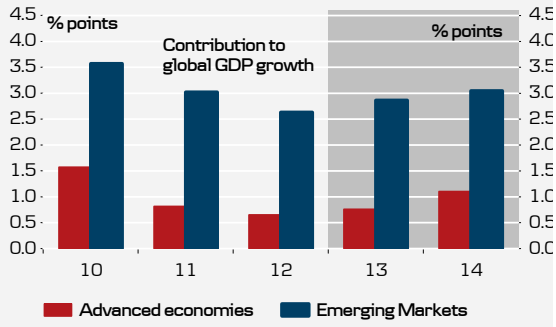
However, the fiscal headwind might actually ease slightly on a global scale as budget consolidation has already reached deep into the euro area. We expect the fiscal drain on euro area growth to ease to around 1 percentage point after being approximately above 2 percentage points in 2012. The numbers are very tentative, though, due to the uncertainty over the fiscal multipliers.

In the US, fiscal policy also continues to be a headwind. Had it not been for the fiscal contraction, the US is likely to have been able to grow above 4% as the positive dynamics from housing recovery have started to kick in. Importantly, though, as in the euro area, the drag on growth is not likely to be bigger in 2013 compared to previous years. Although it didn't gain much attention, fiscal policy was already tightened quite significantly in the US in 2011 and 2012. This is mirrored in a clear improvement in both the actual and structural budget deficit.

Euro credit and high unemployment weigh on growth

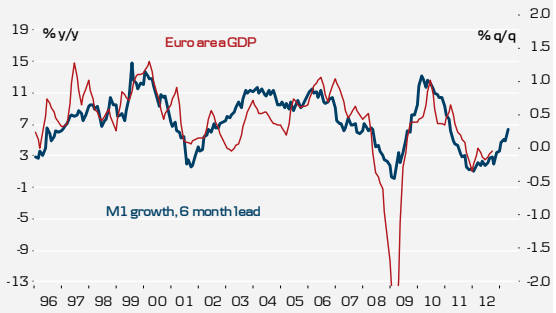
As mentioned another headwind in Europe is the tight credit standards. According to the ECB, the banks have been tightening lending standards for five years now and the pace of tightening picked up in Q3 12. This is clearly a significant obstacle for investment and spending.

Emerging markets driving global economy – and the recovery



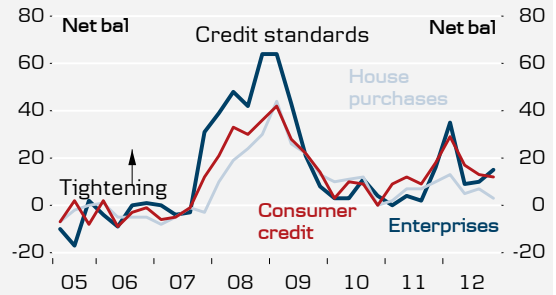
Source: Danske Bank Markets, IMF

Euro money growth points to rebound in growth



Source: Reuters EcoWin, Danske Bank Markets

Credit tightening continues in euro area



Source: Reuters EcoWin, Danske Bank Markets

Finally, a negative factor for global growth is the high unemployment in advanced economies. It works to keep wages growing at a very slow pace and holds back consumer spending. While it will improve competitiveness relative to emerging markets this positive effect will not fully compensate for the loss of consumption in the short term.

The main risk factors continue to be related to policy. If negotiations in the US fail, we will face a more substantial decline in growth. A re-escalation of the euro crisis would also raise uncertainty again and pent-up demand could then fail to come through.

Global growth expected to rise further in 2014

A first glance at 2014 points to a further increase in growth driven by advanced economies, while growth in emerging markets is expected to taper off slightly.

In the advanced economies, deleveraging is likely to ease as fiscal consolidation is likely to have come a long way by then and housing should have contributed further to growth in the US. emerging markets growth is expected to decline slightly in 2014 as these economies have less slack – and thus there is less room to grow without rising inflation.

High unemployment keeps wage growth subdued

Source: Reuters EcoWin, EU Commission, Danske Bank Markets

Expectations on key figures and central banks over coming quarter

Indicator	Comment	Measure	Latest		Feb/Q1
GDP	Growth is stuck below trend for now as businesses and consumers remain cautious	% q/q, AR	2.7%	↘	1.4%
ISM	The ISM will remain low for some months until demand recovers	Index	49.5	↗	51.0
Employment	Job growth will be sluggish	3 mth. mavg.	170K	↘	140K
Inflation	Consumer price inflation to hover around 2% and core inflation will trend gradually lower	% y/y	2.2%	↘	1.9%
Federal Reserve	Fed will scale up its pace of balance sheet expansion in January	% p.a.	0.13%	→	0.13%
GDP	We expect growth to turn positive and that the recession will end during H1 2013	% q/q, AR	-0.9%	↗	0.4%
PMI	Manufacturing PMI is expected to improve moderately in Q1	Index	46.2	↗	48.0
Inflation	Headline inflation will start edging lower	% y/y	2.2%	↘	2.1%
ECB	ECB is expected to keep rates unchanged for long	% p.a.	0.75%	→	0.75%
German ifo curr.	Germany will also embark on a moderate recovery in H1	Index	108.0	↗	110.0
GDP	Japan will return to positive growth in 2013	% q/q, AR	-3.6%	↗	2.0%
PMI	Manufacturing activity expected to start recovery in early 2013	Index	46.5	↗	49.0
Inflation	Inflation is expected to drop back into negative territory in the wake of the recession	% y/y	0.0%	↘	-0.2%
BoJ	Leading interest rate close to zero until 2014, more QE imminent	% p.a.	0.1%	→	0.1%
GDP	China has started a moderate recovery on stronger domestic demand	% y/y	7.4%	↗	8.3%
HSBC PMI	Manufacturing PMI is expected to peak in the 52-53 range in Q2	Index	50.5	↗	52.0
Inflation	Inflation will increase slightly but remain substantially below the 4% target	% y/y	1,7%	↗	2.4%
PBOC	With growth improving PBoC is expected to remain on hold	% p.a.	6.0%	→	6.0%

Source: Danske Bank Markets

The bad alternative

Over the cliff

- **Negotiations on the fiscal cliff have kicked off but the two parties are still far apart on several key issues.**
- **Although our base case is that a deal will be struck this year, there is a non-negligible risk that we will see yet another policy failure.**
- **This would send equity markets tumbling, result in US growth of close to zero and trigger more easing from the Fed.**

US politicians are currently playing a high-stake game of chicken in the negotiations to avoid the substantial fiscal contraction embedded in current legislation, the so called fiscal cliff. Although our base case is that a deal that eases the fiscal blow to growth next year will be struck before year-end, there is a non-negligible risk that politicians fail and push the economy over the cliff.

Obama and the Democratic party feel that the November election victory was also a mandate to pursue their key political issues including increasing the tax rate for the highest income brackets. Both parties have now presented their initial offers for a deal and as expected, the Democrats' proposal included virtually no concessions to the Republicans and the Republican proposal does not include any tax rate increases. Right now, politicians are playing hardball, also in the media, blaming each other for not being more willing to compromise.

The risk is that negotiations get into the same sort of gridlock that we have seen several times over the past couple of years. Some Democrats have already expressed that they are willing to go over the cliff, at least temporarily, as this would imply significant tax increases for all income brackets and a major reduction in defence spending. They expect to be able to strike a deal ex post that lowers the tax rates for the middle- and low-income brackets again.

If politicians fail to strike a deal before 31 December, it will mean a fiscal contraction of just above 3% of GDP. This will be enough to send the US economy into a mild recession if maintained throughout the year. In such a scenario, politicians will likely find a compromise that softens the direct impact on GDP sometime next year. However, the negative spill-over effects from another political catastrophe on financial markets and general uncertainty must not be underestimated. We could see US growth close to 0% in H1 next year as increased uncertainty about the size of fiscal contraction and a major setback in equities will weigh on consumers' and companies' willingness to spend. This will have negative effects for global growth and trigger more easing from the Fed, in the form of stepped-up asset purchases.

Scenarios for fiscal contraction next year

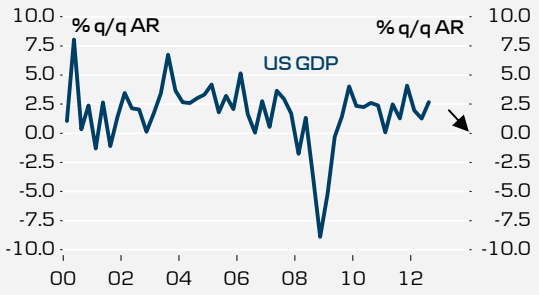
	USDbn, cal. year 2013	% of GDP
Best case	76	0.5
Most likely	179	1.1
Plausible downside	231	1.4
Worst case	514	3.2

Source: CBO, Danske Bank Markets

Drop in equities could mirror that of the debt ceiling crisis last year

Source: Reuters EcoWin

US growth would head towards zero



Source: Reuters EcoWin, Danske Bank Markets

The good alternative

Fears fade away

- **The global recovery after the subprime crisis has been dampened by negative sentiment caused by an apparently endless number of crisis themes from Greek lies to fiscal cliff.**
- **In our positive scenario, the string of economic and political crises finally comes to an end and investors and consumers alike quickly shift their focus from crisis dynamics to economic fundamentals, which reveal a brighter future.**
- **As a result, substantial pent-up demand is released early next year giving the recovery firmer ground. An improved outlook for labour and housing markets then gives a boost to private consumption. Positive feedback effects quickly lift growth above trend.**

In the US, politicians might succeed in making a sensible deal on the budget so that the fiscal cliff is avoided. Thus a major hurdle would be removed and anxious economic agents can begin to regain confidence. If the US budget ceiling is lifted and long-term sustainability issues are dealt with as well, this could lay the foundation for a significant boost to confidence.

In this scenario, Chinese growth picks up to around 9% in early 2013 – thus proving that concerns about whether the Chinese growth potential had fallen sharply to be groundless. Fears of a Chinese housing market collapse also quickly evaporate as the Chinese recovery gains further momentum.

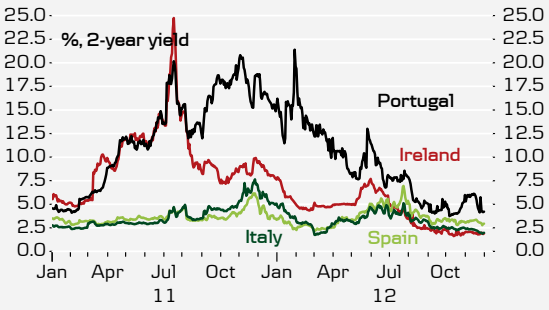
In the euro area, the deal on Greek debt removes focus from Greece. The ECB safety net for Spain and Italy continues to work well without being activated which calms fears about a new escalation of the debt crisis. Confidence in peripheral countries returns more firmly as Spanish, Italian and French fundamentals begin to improve.

With all these risks gone (and no new risks emerging), a lot of investors will finally give the green light for initiating investments that had been postponed as well as a substantial amount of new investments. Private consumption gets a boost as consumers gain more confidence in both the labour market and the housing market. The pick-up in demand is most visible for major new purchases such as cars where there is substantial pent-up demand. Housing markets also see a sharp rise in activity. The pick-up in demand reduces the risk of new crises and causes a positive feedback loop.

In this scenario, growth quickly rises to above trend. Nevertheless, central bankers are cautious and keep rates at very low levels even though inflation begins to pick up, adding further fuel to the recovery. Monetary policy will not be tightened before the recovery has gained firm ground in 2014.

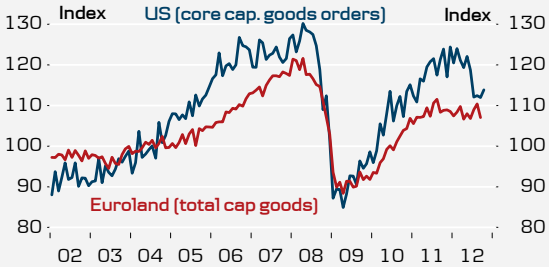
Euro area peripheral countries begin to grow out of the crisis, reducing the need for painful cost-cutting. This again gives an extra boost to confidence.

Crisis sentiment in decline



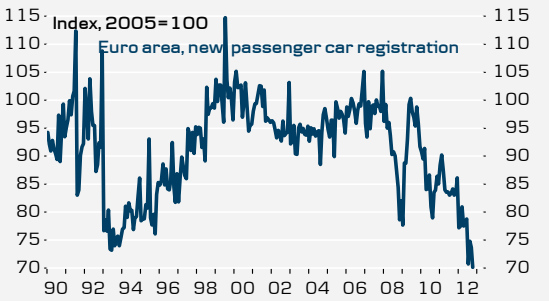
Source: Reuters EcoWin, Danske Bank Markets

Pent-up demand – investments



Source: Reuters EcoWin, Danske Bank Markets

Pent-up demand – consumers



Source: Reuters EcoWin, Danske Bank Markets

US

Tug of war

- **We expect the bumpy road to continue in the short term as a tug of war between improved fundamentals and short-term headwinds continue. Looking further into next year, we see good reasons why the economy should finally be able to reach sustained growth above trend.**
- **A payback from the inventory build-up in Q3, high policy uncertainty and negative effects from Sandy will depress growth in Q4. These factors should ease next year but households will see a significant tax increase, which will weigh on Q1 growth.**
- **From Q2 next year, we expect growth to recover. Fundamentals in the private sector have improved, the housing market should be a significant positive factor and business cautiousness this year has left pent-up demand in investments. Further, oil supply should ensure that the recovery is not derailed by an oil price shock.**
- **We expect the current twist programme to be replaced by unsterilised purchases of treasuries next year, adding more policy easing. We also expect the Fed to move forward with its numerical threshold framework. In terms of inflation, both core and headline inflation should stay below 2% in coming years.**

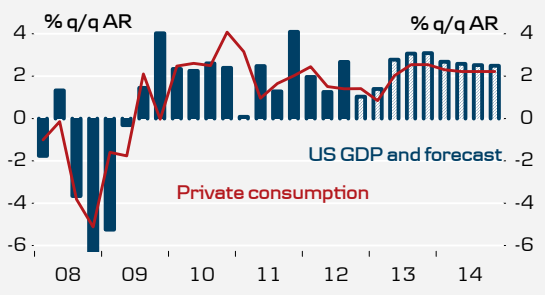
A bumpy road to recovery

Growth has been on an uneven track over the past two years and this is likely to continue for a while yet. In the current and coming quarter we expect to see a new setback in growth from the 2.7% q/q AR pace in Q3. The reasons are threefold: first, inventories were a significant factor behind the above trend growth rate in Q3 and we expect some payback in the current quarter. Second, the super storm Sandy, which hit the US in late October, is likely to affect employment, spending and production negatively in Q4. Finally, although we expect politicians to find a solution on the fiscal cliff, which should ease the fiscal contraction next year, households will still see a significant tax increase, which is likely to send disposable income growth close to zero early next year.

Looking beyond these short-term negative factors, we are fundamentally optimistic on the US economy. Private sector balance sheets have improved markedly over the past few years and monetary policy, and financial conditions in general, are providing important support to growth. We expect a turn in confidence and higher global economic activity to unleash pent-up demand next year and send US growth above trend in H2 13.

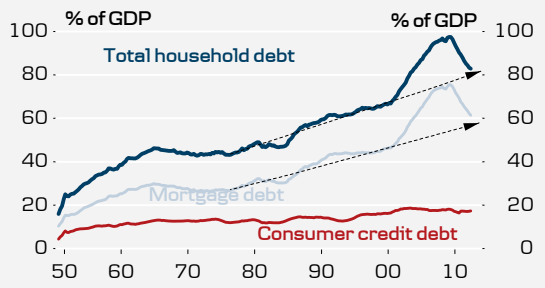
Overall, we expect GDP growth to reach 2.2% this year, 2.1% in 2013 and 2.8% in 2014. Employment growth should gradually recover in 2013 and private employment growth is likely to reach 2.3% annualised in H2, corresponding to 270,000 new jobs being added each month. Unemployment has peaked and we expect the unemployment rate to decline to 7.1% by the end of next year and 6.6% by end-2014.

Growth on an uneven track



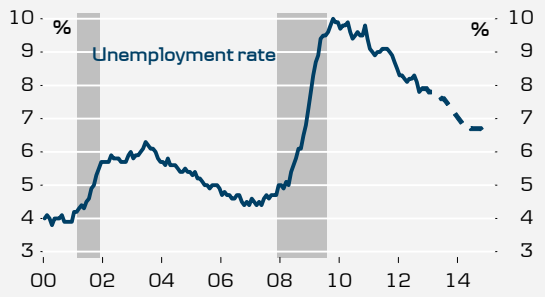
Source: Reuters EcoWin and Danske Bank Markets

Better private sector balance sheets



Source: Reuters EcoWin and Danske Bank Markets

Unemployment to trend lower



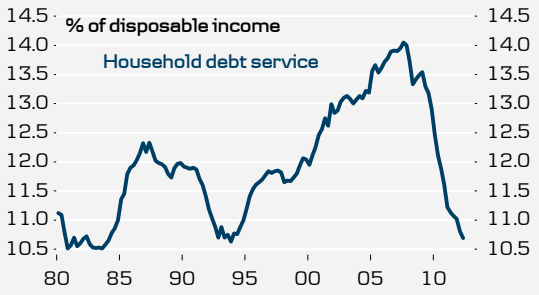
Source: Reuters EcoWin and Danske Bank Markets

Private sector deleveraging has peaked

Aggressive monetary policy easing and government stimulus have allowed the private sector to rebuild its balance sheet over the past years. The ongoing deleveraging in households and the financial sector has been a significant constraint on growth but the drag is now diminishing.

For the household sector, the pace of deleveraging has slowed as debt levels have come down close to the pre-crisis trend level. Further, low interest rates combined with lower debt levels have sent the debt service ratio (the amount of money spent on servicing debt in percent of disposable income) to its lowest level in 18 years. This suggests that the incentive to bring down debt levels further is not great. A further positive is the turn in home prices which supports both household and banks balance sheets. According to the Fed's Senior Loan Officer survey, banks have already eased lending standards on average for eight consecutive quarters and this is reflected in higher credit growth. We expect the drag from deleveraging to continue to diminish over the coming years.

Household debt service at a very low level



Source: Reuters EcoWin and Danske Bank Markets

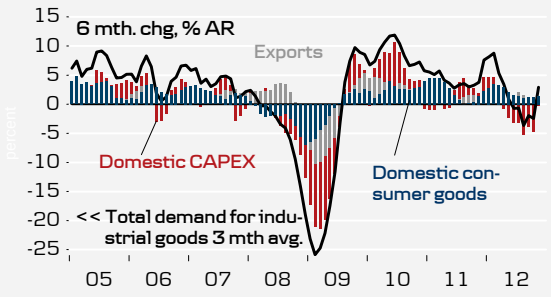
Short-term weakness – medium-term potential

Manufacturing production has been extraordinarily weak over the past three months, declining 4.1% annualised. This weakness is evident in orders on core capital goods as well, which is usually a good leading indicator for business capital expenditures. Indeed business spending on equipment and software plunged 2.7% q/q AR in Q3 and looks set to post negative growth in Q4 as well.

Demand for consumer goods has held up better and aggregated demand has outpaced production recently which should imply a decline in inventories. Indeed, this was evident in the November ISM, which showed a noticeable drop in the inventory index. The upshot is that the manufacturing sector will enter into the new year with lean inventories suggesting that once demand picks up speed next year, production should follow.

The short term will remain challenging though, as distortions from Sandy and fiscal cliff worries are holding back activity at the moment. The weakness is likely to continue into next year, as consumption will be depressed by the expiry of the payrolls tax cut. Hence, we do not expect much improvement in the ISM index over the coming three months but expect the ISM to start rising in the spring and reach 56 by summer 2013.

Demand for industrial goods dragged down by weak CAPEX



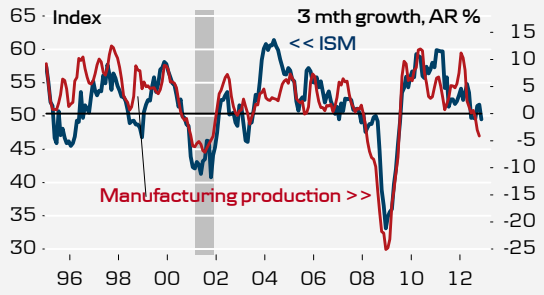
Source: Reuters EcoWin and Danske Bank Markets

Housing market turnaround

Home sales, residential construction and house prices have shown convincing progress over the past six months and we see several reasons why the turn in the housing market should continue. A general feature of housing cycles is that they are mean-reverting. This follows from the fact that there is a natural demand for new homes from population growth and replacement of housing units lost from demolition, damages, conversions and other changes. Housing starts are running well below this average demand, which leaves upside potential. In addition, we expect demand to run above the average for some time as deferred household formations (i.e. young people living at home, unemployed moving in with family members etc.) come on stream.

Other fundamentals are supportive as well. Affordability is close to the all-time high reached in spring this year, construction as a percent of GDP

Not much short-term potential in ISM

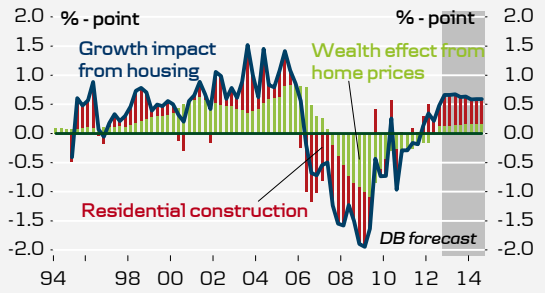


Source: Reuters EcoWin and Danske Bank Markets

remains depressed and the inventory of new and existing homes for sale is low. The elevated shadow inventory of homes in foreclosure will continue to put a dampener on prices but we expect 5-6% in annual price increases over the coming two years.

The housing market has already turned from a negative into a positive factor for growth. We estimate that the aggregated impact from rising home prices (via its impact in consumption) and residential construction will lift GDP growth on average 0.6 percentage points next year and in 2014. This compares to a drag of on average 0.8 percentage points each quarter from 2006 to end-2011.

Housing market turnaround gives a boost to growth



Source: Reuters EcoWin and Danske Bank Markets

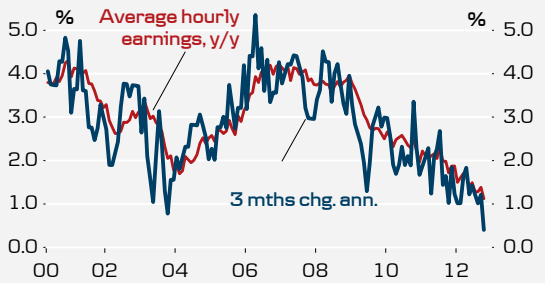
Household incomes under pressure

Lacklustre growth following the recession has meant continued high unemployment and a significant decline in wage inflation from above 4% annually to close to 1% currently. This is putting household income growth under pressure and households will get an additional blow to their incomes in January next year, when we expect the payrolls tax cut to expire. This should bring disposable income growth close to zero in Q1 and is the key reason why we expect private consumption growth to post only an 0.8% q/q AR increase in that quarter.

There is also positive news for households though. As highlighted above, the turn in the housing market is supporting household wealth. This implies that households are more willing to temporarily bring down their savings rate to cushion some of the drag on private consumption from the expiring tax cut. Another important difference from past years is oil prices. The supply balance has shifted significantly in a more positive direction, which should ensure that rising oil prices should not again derail the recovery. In general, we expect inflation to remain muted over coming years with both headline and core inflation at 1.7% in 2013.

In the course of next year, disposable income growth should be back at 5% and along with easing financial conditions, lower unemployment and rising home prices, private consumption should rebound in Q2 and grow 2.5% in H2. From late 2013, the savings rate will start to increase, which should leave households better positioned to withstand new shocks.

Wage inflation has plunged



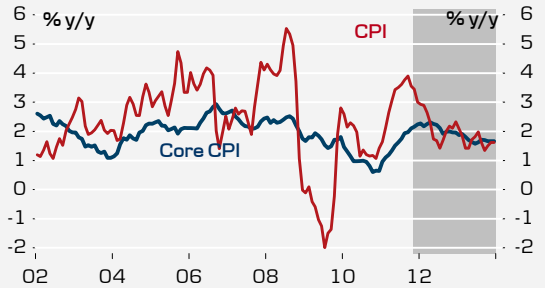
Source: Reuters EcoWin and Danske Bank Markets

Deal or no deal – fiscal policy to be a drag on growth

It remains our base case that politicians agree on a deal to soften the fiscal contraction embedded in current legislation, the so-called fiscal cliff. This does not mean that there will not be a negative impact on growth from fiscal consolidation. As mentioned above, we expect a fiscal cliff deal to leave the payrolls tax cut to expire next year and on top of this, stimulus from the rescue packages introduced over the past years is fading. In sum, we expect a fiscal contraction of 1.0-1.5 % of GDP to hit the economy next year, which is likely to drag down growth by around 1.3percentage points. Politicians have so far agreed on the layout for a deal which would be a two-step plan. The first step targets the immediate fiscal cliff issues, which need to be handled before 1 January.

The second step instructs the congressional committees to draft tax, spending and entitlement legislation to save around USD4trn over the next decade. This part will also include some form of fallback deficit plan in case

Inflation to remain modest



Source: Reuters EcoWin and Danske Bank Markets

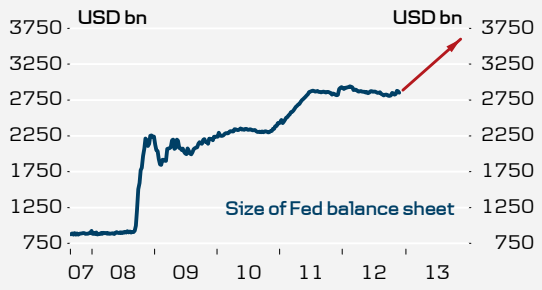
Congress fails to pass those changes, much like the Budget Control Act passed last year. This means that policy uncertainty will stay with us next year but on a much smaller scale than currently.

A monetary boost

Although the labour market has improved in recent months, the unemployment rate is still far from Fed's comfort zone and the economic recovery remains fragile. Fiscal policy looks set to remain a drag on growth and we think the Fed will not risk derailing the fragile improvement with a premature removal of stimulus. Hence, we expect the Fed to provide an additional monetary boost to the economy next year by replacing the twist programme with unsterilised treasury purchases.

Another 'work in progress' is to improve communication with the public. The latest idea is to guide the public by announcing numerical thresholds for some measures of the labour market and inflation which need to be achieved before the Fed increase interest rates. Although there has been a lot of talk about this idea from several members of the FOMC, there is still disagreement within the committee on key issues. The most likely outcome seems to be a watered-down version of the framework which only uses the thresholds as guidance in the monetary policy setting. We expect such a new regime to be announced around spring/summer next year.

Fed to increase the pace of its balance sheet expansion



Source: Danske Bank Markets, Bloomberg, OECD, IMF

Macro forecast - US

% Change q/q AR	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	Calendar year average 2012	Calendar year average 2013	Calendar year average 2014
GDP	2.0	1.3	2.7	1.1	1.4	2.7	3.2	3.1	2.2	2.1	2.8
Private Consumption	2.4	1.5	1.4	1.4	0.8	2.0	2.5	2.5	1.8	1.6	2.3
Private Fixed Investments	9.8	4.5	0.7	3.9	6.1	9.3	9.1	9.1	8.0	6.1	8.9
Residential	20.6	8.4	14.3	21.6	21.6	21.6	19.3	19.3	12.4	19.4	17.9
Non-residential	7.5	3.6	-2.2	-0.2	2.3	6.1	6.3	6.3	7.0	2.8	6.3
Change in inventories ($bn, rea	70.5	56.9	41.4	61.3	46.0	42.0	42.0	52.0	51.4	47.5	60.8
Change in inventories [1]	0.2	0.1	0.5	-0.2	-0.1	0.0	-0.1	0.1	0.2	0.0	0.1
Public Consumption	-3.0	-0.7	3.5	-2.0	-0.8	-0.8	-0.8	-0.8	-1.4	-0.5	-0.8
Exports	4.4	5.2	1.1	4.1	4.1	6.1	8.2	8.2	3.7	4.9	6.8
Imports	3.1	2.8	0.1	0.8	2.0	4.1	7.0	6.1	2.9	2.8	6.1
Net exports [1]	0.0	-0.1	0.0	0.2	0.3	0.2	0.2	0.1	0.0	0.2	-0.1
Unemployment rate (%)	8.2	8.2	8.1	7.9	7.8	7.7	7.5	7.2	8.1	7.5	6.8
CPI (y/y)	2.8	1.9	1.7	2.2	1.8	1.7	1.7	1.6	2.2	1.7	1.7
Core CPI (y/y)	2.2	2.3	2.0	2.0	1.9	1.6	1.7	1.7	2.1	1.7	1.7
Public Budget [2]									-8.6	-7.7	-6.3
Public Gross Debt [2]									100	102	102
Current Account [2]									-3.0	-2.5	-2.5
Fed funds rate [3]	0-0.25	0-0.25	0-0.25	0-0.25	0-0.25	0-0.25	0-0.25	0-0.25	0-0.25	0-0.25	0-0.25

1: Contribution to GDP growth, 2: Pct. of GDP, 3:End of period

Source: Reuters EcoWin, CBO and Danske Bank Markets

Euro area

Return from the abyss

- **The euro area recession is set to deepen in the current quarter despite the absence of new negative shocks. The deepening is partly caused by a general attempt to reduce inventories.**
- **In 2013, headwinds from fiscal tightening should ease, inventory reduction should come to an end and a gradual recovery in global growth would help the euro area to return to moderate growth.**
- **The peripheral euro area countries are undergoing important structural reforms, unit labour costs are declining and all sectors are deleveraging. This process is set to continue albeit at a slowing pace.**
- **At the end of this process, we could see a sudden boost to growth as confidence returns and economies have become much more competitive. The timing is uncertain.**
- **In our main scenario, the ECB will keep its monetary policy on hold until 2015. The ECB OMT will only be activated if financial markets lose confidence in Spain or the ECB.**
- **The main risk factors are political unrest in peripheral countries or a significant worsening of the economic situation in France, Spain or Italy, which could reignite break-up concerns.**

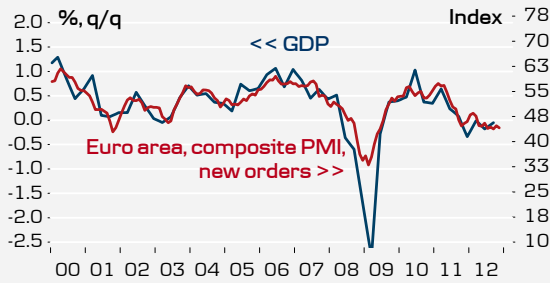
Recession deepens in Q4

Euro area GDP contracted 0.05% q/q annualised in Q3 12, which was better than feared. However, industrial production fell significantly and retail sales declined slightly in September signalling a worsening of the economic situation at the end of the quarter. This is confirmed by a decline in manufacturing goods orders in September driven in particular by a sharp decline in orders from within the euro area. German intermediate goods orders from the rest of the euro area literally fell off a cliff in September with the second biggest monthly decline in a decade.

German data indicates that the contraction in Q3 was to a large extent caused by inventory reductions. Anecdotal evidence suggests that this has continued in Q4. The decline in inventories and production in Q4 might be deepened by enterprises choosing to close down for Christmas earlier than usual either due to a slowdown in incoming orders and/or in an attempt to reduce inventories further.

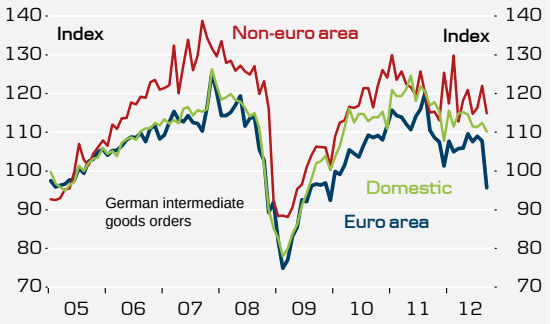
Soft indicators signal that the recession has continued in Q4. Our soft data model currently points to growth around -0.3% q/q in Q4. Both euro area manufacturing PMI and the reliable German Ifo expectations indicate that sentiment bottomed out in October and has shown decent increases in November. In the absence of new negative shocks we expect the rebound in confidence to gain firmer ground in December. All in all, GDP growth in Q4 12 is estimated to be -0.2% q/q.

Soft data indicates continuation of recession in Q4



Source: Reuters EcoWin and Danske Bank Markets

German orders points to euro area softness



Source: Reuters EcoWin and Danske Bank Markets

Ifo expectations signal improvement next year

Source: Reuters EcoWin and Danske Bank Markets

Headwinds are fading

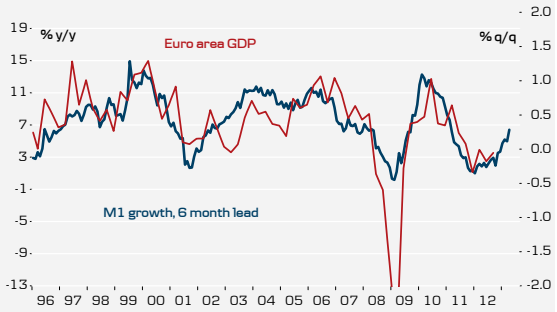
We expect the euro area recession to come to an end in early 2013. Several headwinds have faded or are likely to fade:

- Fiscal tightening, which the IMF has found to cause much more headwind than previously assumed, is set to continue next year but the pace should slow (see details below).
- Financial sector deleveraging is expected to continue at a slowing pace. Credit tightening continues but has slowed in 2012 and is expected to slow further albeit slowly, according to the ECB's bank lending survey.
- Monetary conditions have improved as interest rates have come down; the real effective exchange rate has been on a weakening trend since 2008 (despite having increased in the last couple of months).
- Sovereign spreads have tightened and the negative tail risk from the debt crisis appears to have declined as a result of the ECB providing a safety net for Spain. The deal on Greece has kicked that problem further down the road.
- The global downturn has come to an end and growth is expected to strengthen in both the US, China and other emerging markets with a positive impact on euro area exports.

Money growth (M1), which is usually a good indicator of growth on a 6-12 month horizon, has increased sharply in recent months hinting that we could be in for a positive surprise. Nevertheless, growth is only expected to pick up gradually as headwinds and uncertainty only appear to be fading slowly. Due to the negative base effect, we project GDP growth to be just 0.3% in 2013 increasing to 1.3% in 2014.

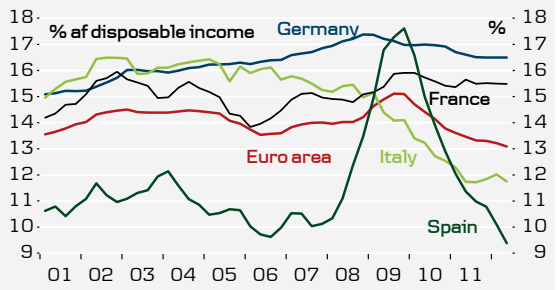
We may eventually see a sudden boost to growth as confidence returns and southern European economies become more competitive but the timing is uncertain and the scope is probably limited. The amount of pent-up demand in the euro area appears to be modest both from private consumption and investments. Household saving ratios have actually declined during the crisis and there is plenty of spare capacity in most sectors.

Money growth signal GDP picking up next year



Source: Reuters EcoWin and Danske Bank

Saving rates have fallen in the euro area



Source: Reuters EcoWin and Danske Bank

Fiscal multipliers killed growth

The fiscal drag in the euro area has been substantial, but at this stage we are past the harshest fiscal belt tightening. The maximum drag was in 2011 and 2012. A simple approach to estimate the fiscal effect is to use the change in the cyclically-adjusted primary budget balance. Fiscal tightening, as measured by the improvement in the cyclically-adjusted primary balance, will decrease from 1.3% of GDP in 2012 to 1.0% of GDP in 2013. The fiscal consolidation peaked in 2011 with an improvement in the cyclically-adjusted primary balance of 1.6% of GDP. Note though that in Spain the belt tightening is expected to peak in 2013.

The deeper-than-expected downturn in the debt stricken countries which are already under an EU/IMF programme has sparked an intense debate on the size of fiscal multipliers, and thereby the adverse effect on growth. The IMF suggests in the autumn World Economic Outlook that the fiscal multiplier is in the range 0.9 to 1.6, somewhat higher than the multiplier suggested by the European Commission in its most recent growth outlook.

Fiscal tightening is now decreasing in most euro area countries

	Cyclically-adjusted primary bal, % of GDP, change			
	2011	2012E	2013E	2014E
Spain	0,5	2,2	2,9	-1,2
Italy	0,8	2,3	0,9	-0,1
Greece	4,6	2,2	2,0	0,2
Portugal	7,0	0,6	0,7	1,9
Ireland	16,9	5,1	2,1	1,9
France	1,8	1,0	1,2	-0,1
Germany	2,6	0,9	0,2	-0,2
Euro area	1,9	1,3	1,0	-0,2

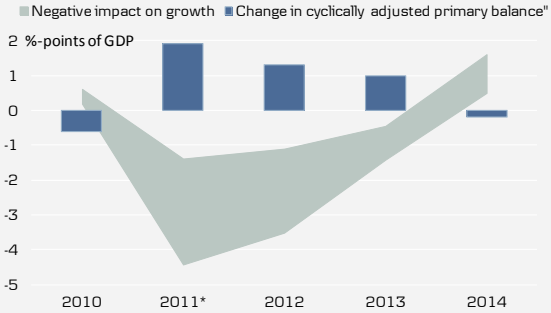
Source: The European Commission and Danske Bank

Note: The improvement in the cyclical adjusted primary balance in 2011 is affected by the bank rescue packages

The Commission suggests an average multiplier of 0.5-0.7, in an environment where interest rates are constrained by the zero rate floor and where there is a global fiscal retrenchment, as is currently the case. The OECD suggests in its autumn outlook that its standard multiplier, which in the short term is around 0.8, could in the current environment be up to two-thirds higher due to the spill overs that arise from simultaneous consolidation in many countries and the limited scope for monetary policy to react. Note that these multipliers can differ across countries and over time.

We have estimated the fiscal drag on GDP using a span of multipliers suggested in the recent analysis described above. We find that the drag in 2012 will be in the range of 1.1-3.5% of GDP, falling to 0.4-1.4% of GDP in 2013. The fiscal consolidation was substantial in 2012 and the negative impact on growth has been significant. The estimates for 2014 (+0.5% - +1.6% of GDP) most likely underestimates the negative impact as our calculations only include measures that are already announced, and we know that the programme countries will have to present additional fiscal tightening. Nevertheless, it is clear that the fiscal drag is fading going forward.

The drag on fiscal growth is fading going forward



Source: The European Commission, IMF, OECD and Danske Bank

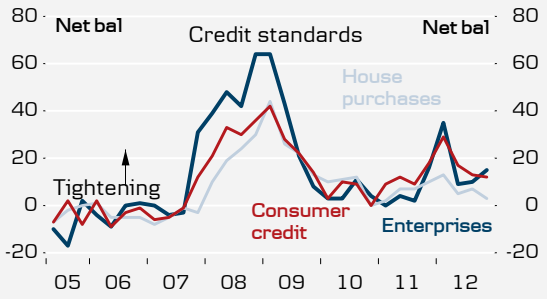
*Note: * The negative impact on growth is most likely exaggerated in 2011 as the calculations are based on the improvement in the cyclical adjusted primary balance which in 2010 and 2011 was affected by the bank rescue facilities.*

Headwinds from credit tightening ease

The euro area banks' continued tightening of credit standards in Q3 12 and their outlook for Q4 indicates further tightening at a slightly slowing pace, according to the latest Bank Lending Survey. Thus, credit tightening will continue to be a drag on growth. However, the most recent survey also stated that banks' access to retail and wholesale funding in Q3 improved, which is in contrast to the deterioration seen in Q2. Looking forward to Q4, banks expect funding conditions to keep improving. Also, improved sentiment following the ECB's announcement of the OMT has caused a considerable moderation in the impact of sovereign debt tensions on banks' funding conditions, which is also an improvement versus Q2. Improved market conditions have led to an increase in corporate issuance in H2. The Bank Lending Survey is in line with the decline in the cost of funds reported, as well as lower balance sheet constraints on banks' credit standards for loans to enterprises and households.

The tightening credit standards will continue to weigh down on growth in Q4. We expect this headwind to taper off gradually over coming years. However, the pace of implementation of new regulation is likely to influence banks lending activity.

Euro area banks continued tightening credit standards in Q3



Source: ECB and Danske Bank Markets

Large growth dispersions continue

The diverging growth trends within the euro area remain substantial as Italy and Spain are implementing their planned belt tightening.

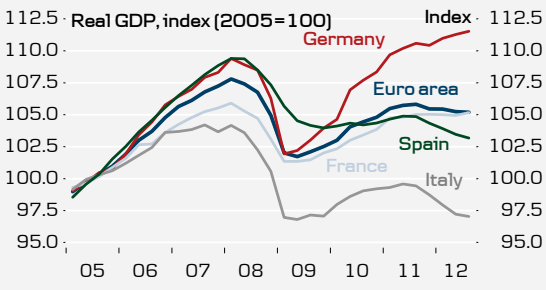
Germany avoided recession in Q3 with GDP increasing 0.2% q/q but is most likely heading for very close to an unchanged GDP print in Q4. Nevertheless, Germany remains the positive story in the euro area. Increasing wage growth, slowly rising house prices, little need for deleveraging and very low funding costs should support domestic demand. We expect German growth to improve as we enter 2013. We forecast the German economy to grow 1.1% in 2013 and 1.9% in 2014.

Monetary Condition Index is improving

Source: Macrobond and Danske Bank Markets

Among the major euro area countries, Italy has so far experienced the sharpest drop in GDP. Italian GDP dropped 3% annualised in H1, while the pace of decline slowed to 0.2% q/q in Q3. The decreases in Spain have been more modest with drops in the range of 0.3-0.4% in the first three quarters this year. Looking forward, we expect to see the sharpest contraction in Spain. The fiscal consolidation in Spain is gaining pace and combined with a continued decrease in house prises and further deleveraging in the financial sector this will lead to a 1.5% drop in Spanish GDP in 2013 – slightly worse than the 1.3% decline we expect this year. Also, the outlook for Italy is downbeat, with an expected 0.4% decline in GDP in 2013. Note though that this is a substantial improvement compared with the drop of around 2% this year.

Diverging growth trends

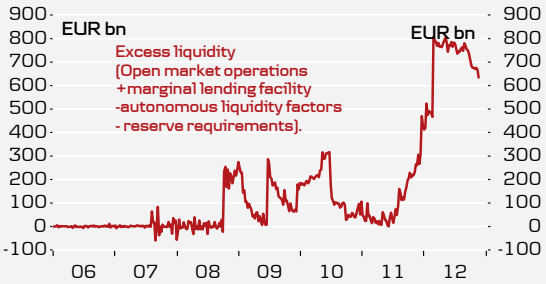


Source: ECB and Danske Bank Markets

ECB on hold... like forever

The ECB remains on an easing bias but with tentative signs that soft data has begun to improve, peripheral spread tightening and money growth picking up the ECB governing council will save its ammunition for a more rainy day. Given our expectation of a gradual economic recovery, the ECB could be on hold for a very long time. There is one caveat though. Excess liquidity will decline when banks have the opportunity to return liquidity from the 3Y LTROs. The first date for early repayment is 30 January 2013. If excess liquidity drops sharply the ECB could counter this with further easing in February or March. If the economic situation begins to deteriorate significantly, the ECB may consider introducing a funding for lending programme rather than further rate cuts. We believe policy rates will be on hold until 2015.

Excess liquidity may decline sharply next year



Source: Reuters EcoWin and Danske Bank Markets

Euro area macro forecast

% Change q/q Annualised rate	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	Calendar year average 2012	2013	2014
GDP	0,0	-0,7	-0,2	-0,9	0,4	0,9	1,1	1,3	-0,4	0,3	1,3
Private Consumption	-0,8	-1,4	-0,2	-0,6	-0,1	0,1	0,2	0,3	-0,9	-0,2	0,4
Private Fixed Investments	-4,7	-5,7	-1,0	-4,0	0,5	0,8	1,5	2,0	-3,3	-0,7	2,2
Change in inventories [1]	-0,2	-0,1	-0,1	-0,2	0,0	0,3	0,2	0,2	-0,6	0,0	0,1
Public Consumption	0,6	0,0	-0,1	-0,4	-0,4	-0,4	-0,3	-0,3	0,0	-0,3	-0,3
Exports	2,7	5,1	0,0	-0,6	2,0	3,0	3,5	4,0	2,4	1,9	4,4
Imports	-0,6	2,4	-0,5	-1,9	1,0	2,2	2,5	3,0	-0,7	0,9	3,1
Net exports [1]	1,4	1,3	0,2	0,5	0,5	0,5	0,6	0,6	0,9	0,5	0,8
Unemployment rate (%)	10,9	11,3	11,5	11,7	11,9	12,0	12,1	12,2	11,4	12,1	12,2
CPI (y/y)	2,7	2,5	2,5	2,3	2,0	1,9	1,8	1,7	2,7	1,8	1,8
Core CPI (y/y)	1,5	1,6	1,6	1,5	1,6	1,4	1,5	1,5	1,5	1,5	1,5
Public Budget [2]									-3,4	-2,5	-2,6
Public Gross Debt [2]									90,1	92,2	93,5
Current Account [2]									1,1	1,5	1,6
ECB refi rate [3]	1,00	1,00	0,75	0,75	0,75	0,75	0,75	0,75	0,75	0,75	0,75

Source: Danske Bank Markets *1. Contribution to GDP growth, 2. Pct of GDP, 3. End of Period*

Asia

Moderate recovery

- **China finally appears to have bottomed out and we expect it to recover moderately in the coming quarters supported by stronger domestic demand and some improvements in exports. The property market has continued its recovery and the tail-risk of a collapse has declined substantially.**
- **Japan is in recession but we expect it to return to moderate growth in H1 13 supported by aggressive monetary and fiscal easing and a gradual recovery in exports. However, the Japanese economy will face severe headwinds in 2014 when the consumption tax is scheduled to be raised and the impact from reconstruction after the earthquake starts to wane.**
- **In the short term, the biggest risk for China and Japan now appears to be the external development in Europe and the US. Longer term, the main risk for China is the pace of the long-term decline in China's growth potential.**

Finally signs of moderate recovery in China

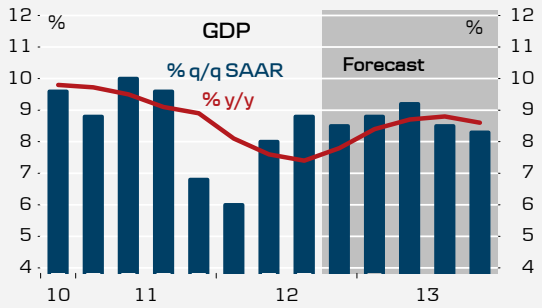
After a prolonged slowdown, signs have finally started to emerge in recent months that the Chinese economy has bottomed out and has started to recover. As no substantial output gap appears to have opened during the slowdown, the recovery is also likely to be moderate. An important question is whether the recent slowdown has been mainly cyclical or structural in the sense that it has been driven by a decline in China's long-term growth potential. If the slowdown has been mainly structural, then there is little reason to expect a substantial recovery, and any attempt to counter the lower GDP growth with stimulus will prove futile and just end up boosting inflation.

Lower potential growth will be the biggest challenge facing China in the coming years. This has already been acknowledged by the new Chinese leadership with focus set to be on productivity boosting long-term structural economic reforms. With more focus on structural economic reforms, China might also have entered a new phase with greater tolerance for slower growth, particularly if there are longer-term efficiency costs with traditional macroeconomic stimulus. However, the sharp drop in inflation from 6.5% y/y in late summer 2011 to currently less than 2% y/y suggests that the slowdown has to a large degree been cyclical, albeit China's potential GDP is in long-term decline (we estimate potential GDP growth to be in the 8.5-9.0% range).

Property market continues to stabilise

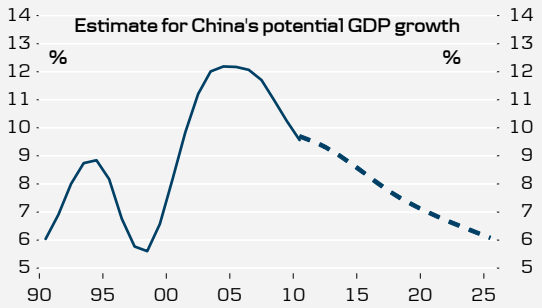
Sales of new homes have, in recent months, continued the recovery that started in May. Completions of new homes have dropped markedly as a lagged response to the sharp decline in housing starts late last year. Consequently, the demand-supply balance in the property market has improved substantially and our indicator for the market balance measured as the difference between new homes sales and completions of new homes is

China appears to have bottomed out in Q3



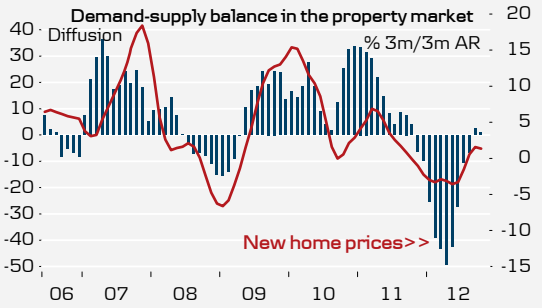
Source: Reuters EcoWin, Danske Bank Markets

China faces decline in long-term growth potential



Source: Danske Bank Markets

Demand-supply balance in the property market has improved markedly



Source: Reuters EcoWin, Danske Bank Markets

now in neutral territory. House prices have also stated to increase moderately since May on the back of the improved demand-supply balance. However, housing starts have so far only recovered moderately from the bottom reached in early 2012, indicating that high inventories of unsold homes continue to weigh on housing construction. While housing construction no longer appears to be subtracting from growth, housing construction does not appear to have been a substantial boost to growth in the nascent recovery.

It has been a conscious political decision to keep a lid on the property market and mainly target infrastructure spending in fiscal stimulus. All regulatory tightening targeting the property market introduced in recent years largely remains in place and there is even talk of extending a trial property tax in Shanghai and Chongqing to the rest of the country. Overall monetary policy remains largely neutral despite two interest rate cuts in 2012. Instead the government has eased fiscal policy through another round of infrastructure spending. There is little transparency in the actual size of planned new infrastructure spending. However, it is increasingly evident there is now a substantial impact as fixed asset investment within transport and public utilities has improved markedly in recent months.

Based on the development in retail sales, private consumption also appears to have picked up some pace in recent months with home sales related consumption in particular (such as building materials and furniture) showing strength. Auto sales have remained relatively subdued in recent months as the consumer boycott of Japanese-branded cars appears to have weighed on overall auto sales.

Exports surprisingly resilient in Q4

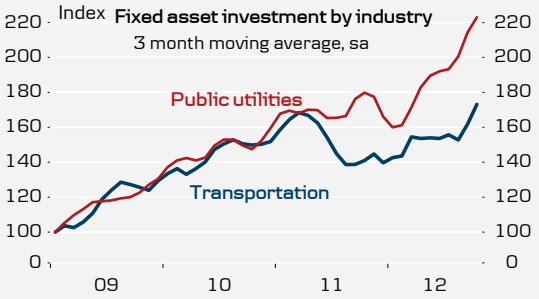
After contracting markedly for Q3 as a whole, exports have been surprisingly resilient since September. Improvements in export orders in the manufacturing PMIs suggest growth in China's exports are improving during Q4 as stronger exports to other Asian emerging markets in particular appear to have offset weaker exports to Europe.

Despite signs that China's domestic demand is improving, it has so far not been evident in China imports that have stayed remained relatively subdued, underscoring that inventories are probably still being cut – particularly commodity inventories. However, China's two manufacturing PMIs both suggest that inventory cuts should start to ease in the coming months and the recent improvement in domestic demand in China should soon start to benefit exports to China.

Recovery is expected to gain strength in coming quarters

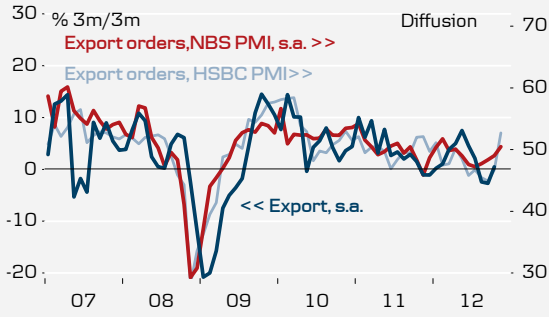
Looking ahead, we think it is now relatively safe to say that the Chinese economy bottomed out in Q3 12 and is poised to improve in the coming quarters. Our leading indicators like real M2 money supply growth and broad credit growth (total social finance) continue to give relatively bullish growth signals and we expect the improvement in domestic demand evident in recent hard data to continue in the coming quarters. In addition, exports should also gradually pick up further – particularly from Q2 13 and inventory cuts should also gradually weigh less on growth. With the impact from fiscal easing expected to wane in late 2013, we expect GDP growth to peak in mid-2013 above 9% q/q AR in Q2.

Infrastructure investments have improved markedly in recent months



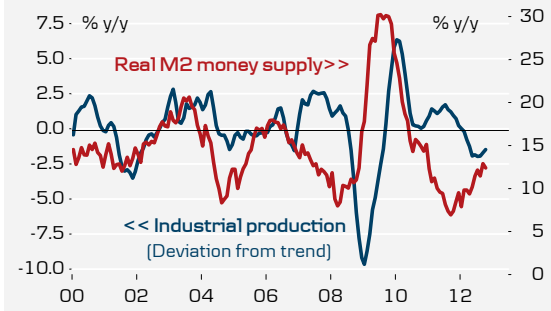
Source: Reuters EcoWin, Danske Bank Markets

PMIs suggest China's exports poised to improve in the coming months



Source: Reuters EcoWin, Danske Bank Markets

Real money supply growth have indicated looming recovery for some time



Source: Reuters EcoWin, Danske Bank Markets

Policy-wise, monetary policy is expected to stay neutral with no more interest rate cuts expected. That said, monetary policy will still have a slight easing bias and we cannot completely rule out the possibility that the reserve requirement for commercial banks will be cut at some stage – particularly because intervention in the FX market no longer boosts liquidity. We do not expect any major impact from the leadership transition in the Communist Party of China, although we acknowledge that the removal of the political uncertainty could be a slight boost to investment – particularly at the provincial level. Overall, we expect economic structural reforms to be accelerated with particular attention on liberalisation of the financial sector. We expect the growth impact from fiscal policy to turn slightly negative from H2 13 as the impact from the latest round of infrastructure stimulus starts to wane.

In the short term, external developments in Europe and the US now appear to be the biggest risk. The tail-risk from the Chinese property market has declined substantially. Longer term, the pace of the decline in China's long-term growth potential appears to be the biggest risk and sensibly, in our view, this now appears to be the main focus for the Chinese leadership.

With inflation contained, China's policy flexibility remains a considerable and China remains in a position where it can ease both monetary and fiscal policy if needed, although there may be greater reluctance to use the major stimulus.

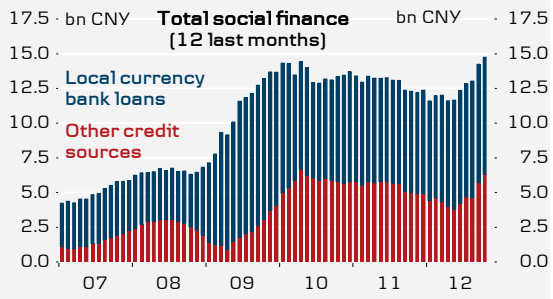
Japan likely to avoid prolonged recession

Japan appears to have entered recession in H2 12 as exports dropped markedly in the wake of slower global growth which has increasingly weighed on domestic demand through lower private capital expenditures and weaker private consumption. The expiry of subsidies for purchase of eco-friendly autos in September has added substantially to the weakness in private consumption. In addition, Japanese exports have been hit extraordinarily hard by the Chinese consumer boycott of Japanese-branded goods in the wake of the current political tensions between Japan and China. The consumer boycott has hit the auto industry particularly hard, resulting in an extremely challenging H2 12 and ultimately a sharp cut in production. However, the negative impact from the abolishment of the eco-subsidy and the impact from the consumer boycott in China should prove temporary and hence contribute to gradual stabilisation.

Fiscal policy and reconstruction after the earthquake and tsunami in March 2011 continues to add to growth. In addition, it is now likely that there will be further fiscal easing after the election for the Lower House on 16 December. The main opposition party – the Liberal Democratic Party (LDP) – is expected to return to power and it has promised a new stimulus package (mainly construction projects). We expect the new stimulus package to add 0.25% to GDP growth in 2013 with the largest impact in Q2 and Q3. In addition, a new LDP-government is expected to intensify the political pressure on Bank of Japan (BoJ) for more aggressive monetary easing. BoJ has already stepped up monetary easing substantially with the pace of its asset purchases reaching close to 8% of GDP in Q4 12.

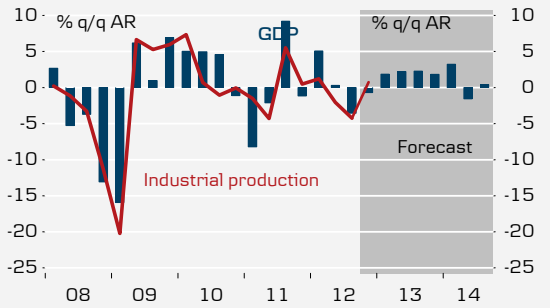
We expect BoJ to raise its inflation target from 1% currently to 2% at some stage after April when the current BoJ governor Shirakawa will be replaced

Broad credit has expanded substantially faster in recent months



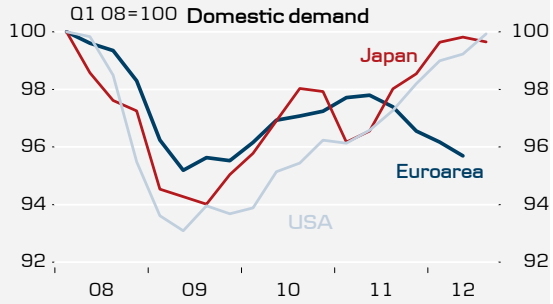
Source: Reuters EcoWin, Danske Bank Markets

Japan in recession but not expected to be prolonged



Source: Reuters EcoWin, Danske Bank Markets

Better than its reputation



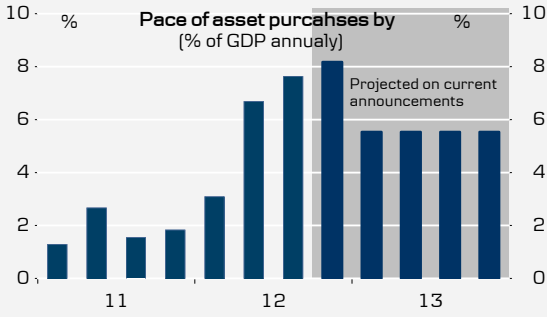
Source: Reuters EcoWin, Danske Bank Markets

by a new and probably much more dovish individual. The implication will be that the current relatively aggressive pace of asset purchases will be maintained at least into 2014. How effective BoJ's QE will be in boosting growth is questionable, but at least it should give some support to the economy through a weaker JPY.

Japan faces severe headwinds in 2014

With exports also expected to pick up gradually (particularly from Q2 13), Japan should be able to avoid a prolonged recession. Japan is expected to return to moderate positive growth in Q1 13 and gain further strength in the following quarters. However, from late 2013, Japan's growth will again start to face considerable headwinds. First, the impact from fiscal stimulus and particularly reconstruction will start to wane from late 2013. Second, it has already been approved that the consumption tax will be doubled from 5% to 10% from April 2014 to October 2015 as part of Japan's long-term plan to approve its public finances. LDP has already indicated that the higher consumption tax could be postponed if it turns out to be a threat to the recovery in Japan. If it happens, we think Japan will probably be downgraded. In 2014 Japan will be extremely dependent on resilient global growth and BoJ will probably have to maintain an extremely accommodative monetary policy.

Bank of Japan has stepped up its asset purchases substantially



Source: Reuters EcoWin, Danske Bank Markets

Macro forecasts for Asia

	GDP				CPI inflation				Current account			
% Change y/y	2011	2012	2013	2014	2011	2012	2013	2014	2011	2012	2013	2014
Asia	6.0	5.3	6.0	6.1	5.3	3.8	3.8	3.7	2.3	1.4	1.7	2.0
Japan	-0.8	1.6	0.7	1.2	-0.3	-0.2	0.1	0.2	3.5	1.6	2.3	1.9
China	9.2	7.7	8.6	8.3	5.4	2.7	2.9	3.1	2.8	2.5	2.9	3.4
Asia excl. Japan & China	5.4	4.2	5.2	5.5	7.4	6.5	6.3	5.8	1.3	0.1	0.2	0.4
India	6.8	4.9	6.0	6.4	10.4	10.3	9.6	8.3	-3.4	-3.8	-3.3	-2.3
NIC	4.0	2.1	3.7	4.1	3.6	2.7	2.7	2.8	6.5	5.5	5.4	5.1
South Korea	3.6	2.7	3.6	4.0	4.0	2.2	2.7	3.0	2.4	1.9	1.7	1.4
Taiwan	4.0	1.3	3.9	4.5	1.4	2.5	2.0	2.0	8.9	6.9	7.3	7.0
Hong Kong	5.0	1.8	4.4	4.3	5.3	3.8	3.0	3.0	5.3	4.1	3.8	4.1
Singapore	4.9	2.1	2.9	3.6	5.2	4.5	4.3	4.0	21.9	21.0	20.7	19.7
ASEAN	5.0	5.4	5.8	5.8	6.0	4.0	4.3	4.0	3.0	0.8	0.4	0.5
Indonesia	6.5	6.0	6.3	6.5	5.4	4.4	5.1	4.9	0.2	-2.1	-2.4	-2.3
Thailand	0.1	5.6	6.0	4.8	3.8	3.2	3.3	2.6	3.4	-0.2	0.1	0.8
Philippines	7.6	4.8	4.8	4.7	4.7	3.5	4.5	4.0	3.1	3.0	2.6	2.5
Malaysia	5.1	4.4	4.7	5.5	3.2	2.0	2.4	2.5	11.0	7.5	6.9	6.4

Source: Danske Bank Markets and, IMF

Disclosure

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