Economics

Global Economic Outlook – September 2018

Still Strong, But Less Synchronised

- World growth forecast cut on US-China trade battle
- Global expansion less synchronised
- US forecasts revised up; eurozone, China and other EMs down
- Policy shift in China as investment slows sharply
- Monetary policy divergence amplified, amid USD strength
- EM financing conditions deteriorating
- Global quantitative tightening to boost volatility

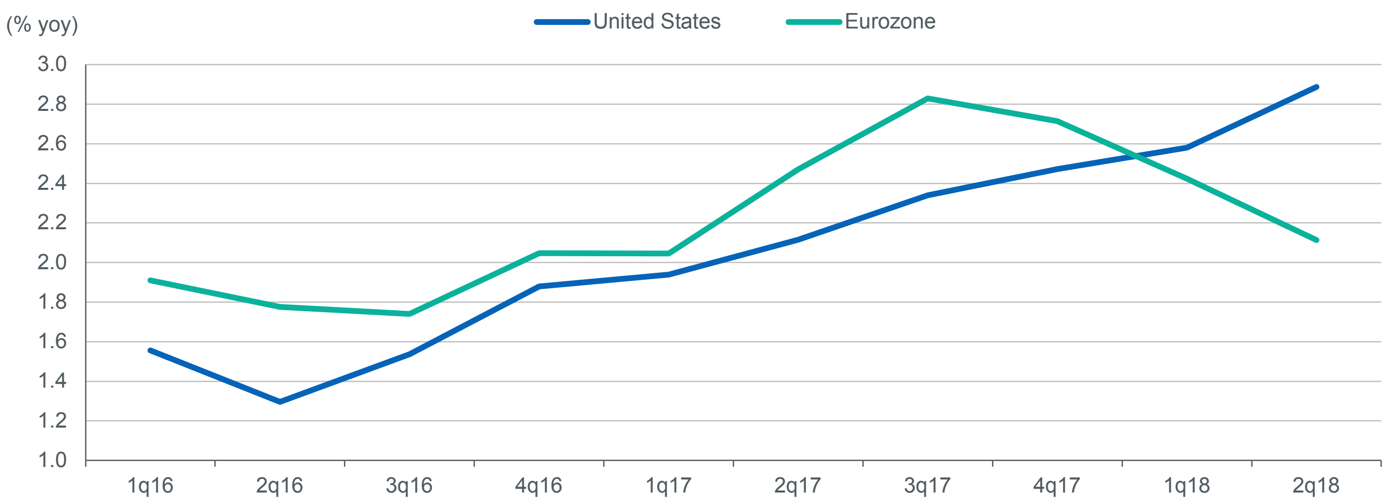
Unbalanced Growth

Near-term global growth prospects remain strong, but aggregate demand is accelerating most rapidly in the economy with the smallest margin of spare capacity, namely the US. This is intensifying the divergence of global monetary policy settings and adding to exchange rate volatility. Against a backdrop of an expected shift to global quantitative tightening (QT) next year, the rising cost of funding in US dollars is likely to continue to create pressures for borrowers in global credit markets given the dollar's outsized role in international financing. This will take a toll on emerging market (EM) growth, where our forecasts have been downgraded. Moreover, protectionist US trade policies have now reached the point where they are materially affecting the global growth outlook, with the US-China trade battle prompting us to downgrade our 2019 global GDP forecast. The impact of earlier credit tightening on domestic demand growth in China is also becoming clearer and eurozone growth appears to have peaked. While the near-term global growth picture remains strong, it has become less balanced and the downside risks have increased.

World Growth Still Strong

Global growth is still forecast to reach 3.3% this year, up from 3.2% in 2017. This is well above the long-run (post-1990) historical average of 2.6% pa and well above estimates of future global growth potential derived from Fitch's supply-side analysis (around 2.7%). The drivers of near-term strength in the advanced economies have been well-documented in previous editions of the GEO and include: the benefit of tight labour

GDP Growth in the US and Eurozone



Source: BEA, Eurostat, Datastream, Fitch

Economics

Global Forecast Summary

(%)	Annual Average 2013-2017	2017	2018f	2019f	2020f
GDP Growth					
US	2.2	2.2	2.9	2.6	2.1
Eurozone	1.5	2.4	2.0	1.8	1.6
China	7.1	6.9	6.6	6.1	6.1
Japan	1.3	1.7	1.1	0.9	0.6
UK	2.2	1.7	1.3	1.5	1.7
Developed [a]	1.8	2.1	2.3	2.0	1.7
Emerging [b]	4.8	5.2	5.2	4.8	5.0
World [c]	2.8	3.2	3.3	3.1	3.0
Inflation (end of period)					
US	1.3	2.1	2.4	2.3	2.4
Eurozone	0.7	1.4	1.6	1.7	1.9
China	1.9	1.8	2.5	2.4	2.4
Japan	0.9	1.1	1.2	2.7	1.3
UK	1.5	3.0	2.5	2.3	2.3
Interest Rates (end of period)					
US	0.48	1.50	2.50	3.25	3.50
Eurozone	0.16	0.00	0.00	0.25	0.75
China [d]	5.11	4.35	4.35	4.35	4.35
Japan	0.02	-0.10	-0.10	-0.10	-0.10
UK	0.44	0.50	0.75	1.00	1.50
US 10 Year Yield	2.28	2.43	3.10	3.75	4.10
Exchange Rates and Oil					
Oil (USD/barrel)	72.3	54.9	70.0	65.0	57.5
USDJPY (end-period)	109.1	112.7	110.0	110.0	110.0
USDEUR (end-period)	0.84	0.83	0.91	0.91	0.91
GBPUSD (end-period)	1.48	1.35	1.30	1.30	1.30
USDCNY (end-period)	6.40	6.51	7.00	7.30	7.40

[a] US, Japan, France, Germany, Italy, Spain, UK, Canada, Australia and Switzerland.

[b] Brazil, Russia, India, China, South Africa, Korea, Mexico, Indonesia, Poland and Turkey.

[c] 'Fitch 20' countries weighted by nominal GDP in USD at market exchange rates (3 year average)

[d] One year policy lending rate

Source: Fitch

markets supporting consumer incomes and confidence; momentum in business investment as capacity utilisation rises, labour resources become more scarce and global demand expands briskly; easy financial conditions as monetary policy settings remain highly accommodative even as central banks begin to normalise; and expansionary US fiscal policy. EM growth has benefited from the rebound in hard commodity prices since 2016, the emergence of Brazil and Russia from recession and the still rapid pace of expansion in China.

These drivers largely remain in place. Unemployment continues to fall in most advanced economies, investment growth has remained healthy so far in 2018, and surveys of firms' capex intentions are still quite elevated. The Chicago Fed Financial Conditions Index continues to show very easy US credit conditions by historical standards, loan officer surveys show banks in the US and eurozone continuing to ease credit standards, and credit availability remains highly accommodative in Japan. Credit to the private sector continues to grow at a solid rate across the advanced economies. And there is certainly no doubt about US fiscal largesse as the deficit (on a general government basis) widens to a forecast 6% of GDP in 2019 from 4.6% in 2017, despite strong growth.

However, headwinds from global trade tensions are rising rapidly. Annual growth in global export volumes compiled by the Dutch Policy Bureau has shown clear signs of fading in recent months, a trend corroborated by container shipping data. At this stage, the downturn in trade growth does not look out of line with the easing back of global GDP growth on a yoy basis since 4Q17. But with some anecdotal reports of recent trade flows being distorted by importers building inventories ahead of the imposition of tariffs, it is possible that trade growth may start to diverge more dramatically from GDP – signalling trade tensions having a more serious impact. Already a number of survey indicators – including Chinese consumer confidence, US firms' investment expectations and eurozone purchasing manager indexes – have responded adversely to concerns about trade protectionism. Our forecasts now encompass the recent significant escalation in US-China trade restrictions, resulting in a 0.2pp reduction in our 2019 China growth forecast and a 0.1pp reduction in our 2019 global growth forecast to 3.1% from 3.2% in the June 2018 GEO.

But Less Synchronised

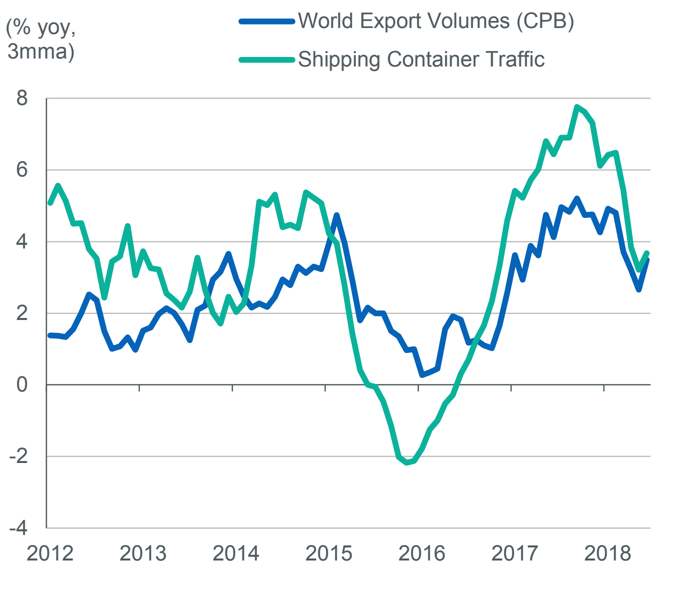
Moreover, the global growth outlook is becoming less synchronised. US growth in yoy terms rose by 0.4pp between 4Q17 and 2Q18, whereas in the eurozone it fell by 0.6pp. In terms of annual averages, US growth is now forecast to rise to 2.9% in 2018 from 2.2% in 2017, whereas eurozone growth is now expected to fall to 2.0% from 2.4% last year. Our US growth forecast for 2018 has been revised upwards by 0.1pp, while our eurozone 2018 growth forecast has seen a further markdown of 0.3pp in this GEO.

One reason for the divergence in growth prospects is fiscal policy, which is aggressively expansionary in the US but much closer to neutral in the eurozone. A measure of the fiscal impulse can be calculated from IMF estimates of cyclically adjusted primary fiscal balances (published in their April 2018 Fiscal Monitor). On this basis, US fiscal policy is expected to be eased by 1.7pp of GDP between 2017 and 2019, through a widening of the deficit to 4.2% from 2.5%. Eurozone fiscal policy, on the same measure, will be eased by just 0.4pp through a narrowing of the surplus to 0.8% from 1.2%. Fiscal easing, along with strong momentum in business investment, is supporting the near-term US growth outlook, and recent positive data surprises and a strong rebound in consumption have led us to upgrade the US 2018 forecast.

As US near-term prospects improve, it has become clearer that eurozone growth has peaked. The deterioration in business confidence witnessed at the start of this year has proven more durable than initially anticipated. The end of exceptionally cold weather failed to spur a strong rebound in activity in 2Q18 when GDP rose by 0.4% qoq, the same as in 1Q18 and 0.1pp weaker than estimated in the June 2018 GEO. The slowdown in world trade may have been a factor, with each of the four largest eurozone economies (Germany, France, Italy and Spain) seeing weaker exports and industrial production. Net trade accounted for a large part of the pick-up in eurozone growth last year but is now weakening.

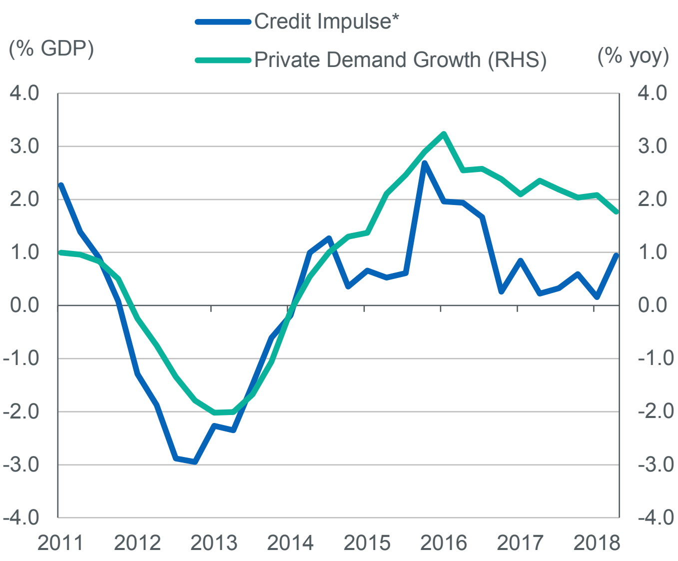
This external boost to eurozone growth through 2017 may have obscured a fading impetus to domestic demand growth from monetary policy and credit easing. Our measure of the credit impulse – the change in private sector borrowing as a share of GDP – peaked in 2016, which coincided with the peak in private domestic demand growth. The credit impulse has stabilised more recently but seems unlikely to start rising again as ECB monetary easing is phased out.

World Trade Growth



Source: CPB, RWI/ISL Datastream, Fitch

Eurozone Credit Impulse & Private Demand Growth



* Change in borrowing as % of GDP
Source: ECB, Datastream, Fitch

And while China's recent headline GDP growth numbers have held up well – recording 6.7% yoy in 2Q18 – there is increasing evidence of earlier credit tightening measures dampening domestic demand. Credit growth has continued to decline quite swiftly in the last few months and was down to 11.5% yoy in August. This represents a sharp deceleration from 15.7% in July 2017. Our credit impulse measure has turned negative in the last few quarters and in 2Q18 was in line with the previous lows seen in early 2015. The credit squeeze has been focused almost exclusively on shadow finance channels and, along with other administrative tightening measures focused on the use of private public partnership financing arrangements, has weighed heavily on infrastructure investment.

Growth in infrastructure fixed asset investment (FAI) has actually turned negative in the last few months, a development totally unprecedented since data became available in the early 2000s. With infrastructure accounting for about a quarter of total investment, this has pulled down overall investment growth despite housing starts holding up surprisingly well. The authorities have recently responded to the investment slowdown and the US tariff shock with a number of policy easing measures (see "**Fitch Ratings: China's Policy Easing to Stop Short of Credit Stimulus**"), but an aggressive credit stimulus is unlikely. The imposition of US tariffs on a further USD200 billion of imports from China (at a rate that we expect to rise to 25% in 2019) will be a drag on export growth and this will only be partially offset by additional fiscal easing and a weaker exchange rate. Our 2019 China GDP growth forecast has been revised down to 6.1% from 6.3%.

The diverging global growth picture is underlined by significant downgrades to our aggregate EM growth forecasts. EM growth in 2018 is now forecast at 5.2% – down by 0.1pp since the last GEO – and 2019 growth is forecast at 4.8%, down by 0.3pp. Brazil's 2018 growth outlook has been adversely affected by the truckers' strike and deteriorating business sentiment related to political uncertainties ahead of this October's election. In Russia, the announcement that VAT will be introduced in 2019, along with unexpected monetary tightening from the central bank, has resulted in a downgrade to our 2019 forecast. This is despite a relatively good run of recent activity data. But the biggest revisions by far have been for Turkey, where the currency crisis is likely to see a sharp contraction in credit as capital inflows dry up and the economy is forced to rapidly unwind external imbalances. Our 2019 GDP growth forecast for Turkey has been cut to 1.2% from 3.6% in the last GEO. Growth forecasts for Mexico, South Africa, Indonesia and South Korea have also been reduced, partly in response to tighter financial conditions and the weaker outlook for China.

Central Banks Go Separate Ways

The widening distribution of growth forecasts is amplifying differences in the pace and direction of monetary policy by the major central banks. The Fed is gaining confidence to continue its ongoing process of rate hikes and balance sheet shrinkage. Its June rate hike announcement dropped a reference to keeping rates below their long-run level "for some time" and deleted many caveats about the need for gradualism in raising rates. Subsequent communications have used increasingly bullish language to describe the health of the economy. Against this backdrop, the Fed has been focusing more on the tightness of the labour market, and the growing threat of labour shortages and accelerating wages. Indeed, with underlying inflation at the target and the economy operating above potential, it is becoming increasingly hard for the Fed to justify maintaining rates below neutral levels. We expect the Fed to hike rates at both its September and December meetings and to follow up with three further rate hikes next year.

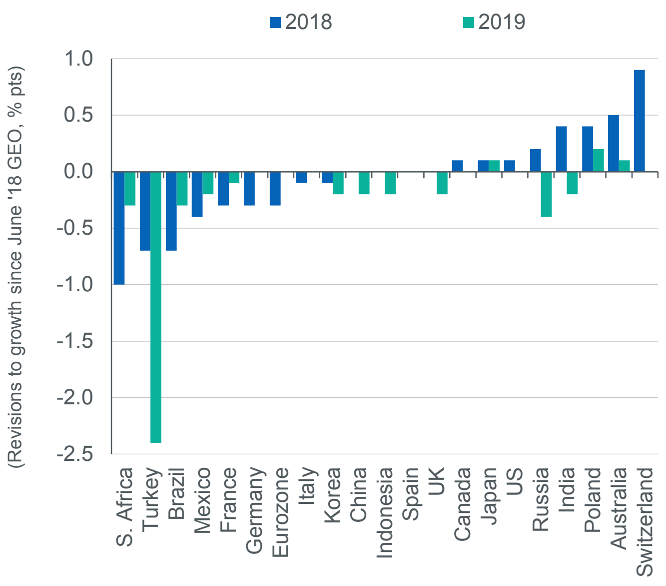
The ECB and the Bank of Japan (BoJ) continue to aggressively ease policy. The ECB announced in June that it would be extending its Asset Purchase Programme (APP) through the end of December 2018, albeit at a reduced rate of EUR15 billion of purchases per month from October (from the current rate of EUR30 billion). This implied that interest rates would not be hiked until the second half of 2019 on the basis of earlier ECB statements. However, the ECB's Governing Council introduced explicit forward guidance that interest rates would remain at present levels "at least through the summer of 2019". Therefore, the June meeting was seen as dovish even though it hailed the forthcoming end to ECB quantitative easing (QE). Activity and sentiment data have been on the soft side since the June meeting, and core inflation remains stubbornly low at 1%, suggesting a low probability of an imminent shift to less accommodative language.

China - Credit Growth*

* Aggregate Financing excluding Equity + Local Govt. Bonds

Source: PBOC, Datastream, Fitch

Revisions to Fitch GDP Growth Forecasts



Source: Fitch

The BoJ has continued to scale back the pace of asset purchases and recently introduced more flexibility in its yield target. However, it continues to expand its balance sheet at a very substantial pace and recently introduced forward guidance that short- and long-term rates would remain at current extremely low levels for an extended period.

China's monetary and credit policies have also turned less restrictive in response to the investment slowdown and US trade measures. Banks' reserve requirement ratios (RRRs) have been cut by 150bp since March, interbank rates have fallen sharply since June, there have been a number of large liquidity injections and several earlier macro prudential tightening measures have been partially reversed. The growth rate of the People's Bank of China's (PBOC) balance sheet, adjusted for the impact of RRR changes on liquidity, accelerated sharply between March and July.

These increasingly divergent monetary policy dynamics have had implications for exchange rates, with the USD continuing on the appreciation path against major currencies seen since the spring. The appreciation against the CNY has been around 7% since mid-June. This testifies to the PBOC's willingness to allow more flexibility in the USDCNY bilateral rate. CNY depreciation against the CFETS basket of currencies has been less dramatic and has taken the effective exchange rate back to mid-2017 levels. But the recent bilateral USDCNY move has been one of the sharpest on record, likely contributing to the recent rise in broader EM FX volatility. Our forecast assumes a further appreciation of the USD against both the CNY and EUR by year-end, with the yuan weakening beyond USDCNY 7.0 in 2019.

Global Quantitative Tightening Ahead

The recent increase in divergence has to be seen in the context of a broader transition under way in global monetary policy. Fitch now expects the combined QE asset holdings of the four QE central banks (Fed, ECB, BoJ and Bank of England (BoE)) to decline in 2019. This reflects the pick-up under way in the pace of Fed balance sheet reduction, the forthcoming end of ECB purchases and a likely continuation of the recent de facto tapering of asset purchases by the BoJ. With the four QE central banks having purchased over USD1 trillion of assets per annum on average since 2009, the prospect of an outright decline in central bank (CB) liquidity is likely to have significant ramifications.

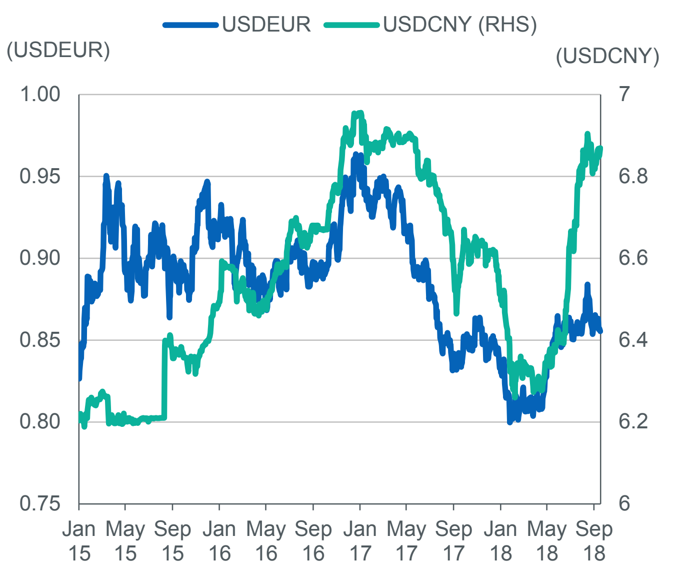
These ramifications could include upward pressures on global bond yields as the compression of term premiums that followed QE is unwound. While there is limited evidence for this occurring so far, there are important cross-border aspects to be considered. Net capital outflows from the eurozone in the form of long-term portfolio debt securities surged after the ECB commenced QE, as existing holders of eurozone sovereign debt were forced to look for alternative investments. These outflows have likely depressed US and global bond yields, but they could slow sharply once the ECB QE ends. The massive expansion in CB liquidity has also acted to dampen financial market volatility by providing a large and steady 'bid' for fixed income assets. This could reverse as CB liquidity falls – indeed, volatility has already picked up notably this year as CB purchases have slowed.

EM Exposed as the Tide Goes Out

Equity market volatility has risen and EM, high-yield and eurozone periphery bond spreads have widened since late 2017, speaking to the shifts under way in global liquidity conditions. But the most dramatic moves by far have been seen in EM FX markets. The ratio of EM FX volatility to G7 currencies has recently surged to levels last seen in the early 2000s. Argentina and Turkey have been at the forefront of the turmoil, and country-specific issues have clearly been a key driver of the severity of the sell-off in these particular markets. However, the rise in EM FX volatility also has to be seen against the backdrop of EM monetary policy settings in early 2018 that generally looked quite loose from the perspective of domestic economic conditions (see "**Fitch: EM Monetary Policy Settings on Loose Side As Fed Tightens**").

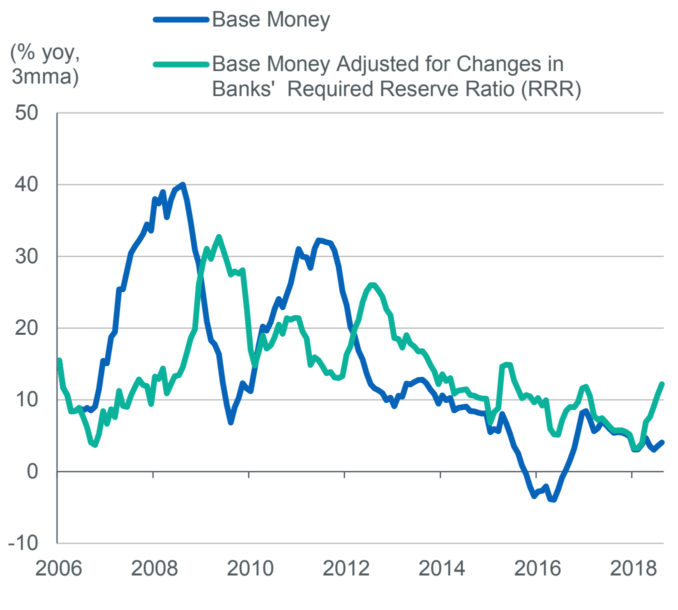
This underscores the potential for tighter monetary and credit conditions to weigh on EM growth prospects. Fitch's policy interest rate forecasts have been revised upwards for five of the 10 EMs covered in the GEO forecasts since June, with no downward revisions. The Institute of International Finance also recently reported a tightening in EM bank lending conditions in 2Q18 for the first time in a year. The three-month USD LIBOR interest rate has increased to 2.3%, pushing up USD financing costs globally. Along with the appreciation in the dollar, this is likely to discourage capital flows to EMs. The impact on EM financing conditions is likely to be exacerbated by the sharp rise in EM private sector debt/GDP ratios in recent years and a related rise in FX-denominated debt, the vast majority of which is in USD.

Exchange Rates - USD, EUR and CNY



Source: Datastream, Fitch

China- PBOC Adjusted Base Money Growth



Source: Datastream, Fitch

Trade War Now a Reality

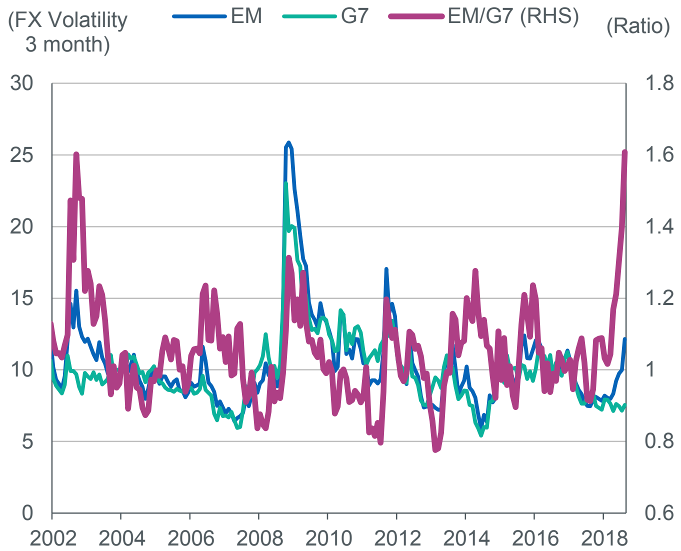
Global trade tensions have now become serious enough to start affecting our forecasts. In particular, the recently announced imposition of US tariffs on a further USD200 billion of imports from China will have a material impact on global growth. While the tariff rate has been initially set at 10%, it is scheduled to rise to 25% in 2019 unless China meets US demands on market access and intellectual property. Given how far apart the two sides appear to be, the ratchet up to 25% seems likely.

A 25% tariff rate would (assuming full pass-through) boost overall Chinese export prices by 2.2%. If Chinese export volumes were to fall by the same amount, this would reduce China's GDP by 0.4%, even before considering multiplier effects on other sectors. We would expect additional policy easing to partially offset such a shock, but constraints related to China's deleveraging agenda would likely prevent large-scale credit easing.

China has retaliated by announcing additional tariffs on a further USD60 billion of imports from the US. The direct impact on US growth through the export channel would be much less significant (a tariff rate of 18% on USD60 billion would amount to less than 0.1% of US GDP), although business and equity market confidence could be affected. However, US import prices would see a more notable impact and with many consumer goods included among the additional USD200 billion, the US CPI could rise by 0.3%. This would limit the extent to which the Fed could offset the potential drag on US growth.

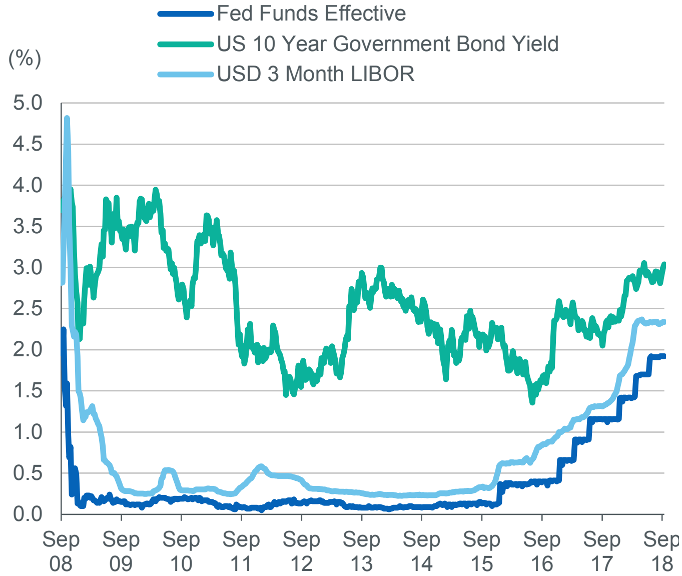
Even though we have now included the tariff shock in our GEO baseline, the downside risks to our global growth forecasts have also increased. President Trump has threatened to impose tariffs on a further USD267 billion of Chinese imports if China retaliates – this would more than double the initial impact. Moreover, the possibility of the US imposing tariffs on all auto imports remains a key risk as the Section 232 investigation proceeds. Blanket US auto tariffs at a high rate would threaten NAFTA and likely lead to aggressive retaliation from the EU, Canada and Mexico. Fitch's scenario analysis suggests this could have a large global impact, with much bigger effects on US growth than the initial China tariffs (see "**Fitch: Trade War Escalation Would Knock 0.4% off World Growth**").

EM and G7 Implied FX Volatility



Source: JP Morgan, Bloomberg, Fitch

US Dollar Interest Rates



Source: Bloomberg, Fitch

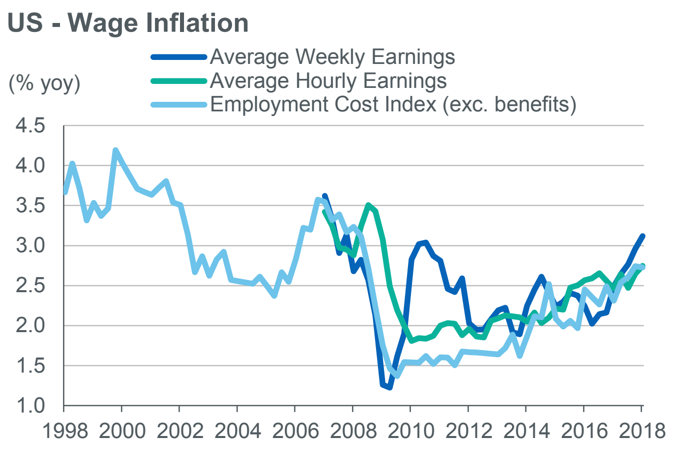
United States

US GDP grew by 4.2% annualised in 2Q18 compared to an estimate of 3.0% in the June 2018 GEO. Consumer spending grew rapidly, business investment remained strong, and net exports surged. This rate is unlikely to be sustained through the rest of the year – strength in consumer spending in 2Q18 was partly catch-up, and exports were boosted by a spike in soybean shipments ahead of anticipated tariffs. But the fundamental drivers of strong near-term growth remain intact.

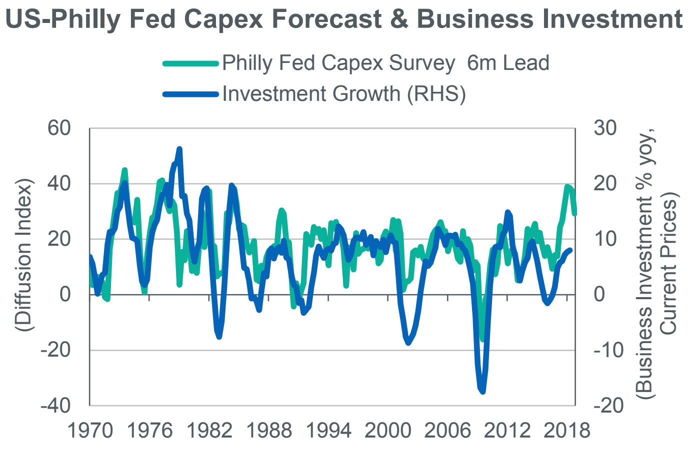
Tight labour market conditions, momentum in business investment, high business and consumer confidence, and an aggressively expansionary fiscal policy stance continue to support domestic demand. With monthly data for 3Q18 remaining strong, we now envisage the economy achieving 3.0% annualised growth in 2H18. Our 2018 GDP growth forecast has been revised up by 0.1pp to 2.9%. Incoming data flow would warrant an upgrade to 2019 as well but we have left our forecast unchanged at 2.6% due to rising trade tensions.

Trade tensions with China have ramped up significantly with the government imposing tariffs on a further USD200 billion of Chinese imports. China has responded by announcing tariffs on USD60 billion of US imports. The shock to US export competitiveness from the latter is likely to be relatively small but the impact of the new US tariffs on domestic consumer prices is likely to be more noticeable. Broader confidence could also be affected, and a number of indicators are now suggesting that US firms' investment plans are starting to be adversely affected by tariff concerns.

The Fed raised rates in June as expected but made a significant change to its messaging, deleting previous forward guidance indicating that rates would remain below long-run (neutral) levels for some time. The Fed sounded more optimistic on the economy at its August meeting and is increasingly focusing attention on tight labour market conditions, as evidence of slowly rising wage inflation becomes clearer. This cements our expectation of further rate hikes in September and December and three more hikes next year.



Source: BLS, Datastream, Fitch



Source: Philly Fed, BEA, Datastream

United States - Forecast Summary

(%)	Ann. Av.2013-17	2017	2018f	2019f	2020f
GDP	2.2	2.2	2.9	2.6	2.1
Consumer Spending	2.7	2.5	2.5	2.3	2.2
Fixed Investment	4.4	4.8	5.6	3.5	2.1
Net Trade (contribution pps.)	-0.3	-0.4	-0.1	-0.2	-0.2
CPI Inflation (end-year)	1.3	2.1	2.4	2.3	2.4
Unemployment Rate	5.6	4.4	3.8	3.4	3.4
Policy Interest Rate (end-year)	0.48	1.50	2.50	3.25	3.50
Exchange Rate, USDEUR (end-year)	0.84	0.83	0.91	0.91	0.91

Source: Fitch

Eurozone

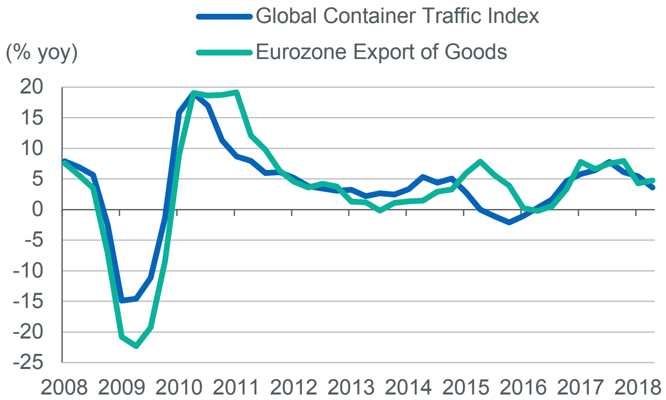
A common theme among the largest four eurozone economies in 2Q18 was the contrasting mix of strong imports, weakness in exports and outsized gains in investment. This mixture of robust domestic growth and external weakness resulted in overall growth of 0.4% in 2Q18 against our June GEO expectation of 0.5%. The softer outturn, together with a riskier external environment, has resulted in our growth forecast for this year being downgraded to 2.0% from the 2.3% we previously estimated.

The slowdown in global trade volumes, as seen in the pullback in global container throughput traffic, and the risks posed by protectionism have already had an effect on sentiment as well as actual export orders. The lagged impact of a stronger euro adds to exporters' concerns.

We expect domestic demand to provide the main support to growth this year. Near-term growth fundamentals remain favourable, boosted by easy monetary conditions, low cost of borrowing, strong employment growth and rising business profitability. Employment growth has helped to reduce the euro area unemployment rate to an almost decade low of 8.2%, and the resultant tightening of the labour market has led to a noticeable pick-up in wage growth in recent quarters. Nevertheless, we expect a moderation in consumption this year as real income growth is squeezed by higher headline inflation. Investment is expected to remain strong, supported by buoyant sentiment, tight capacity and the continued improvement in bank lending flows to non-financial corporations. In addition to spending on machinery and equipment, a number of countries are witnessing increased construction and real estate activity.

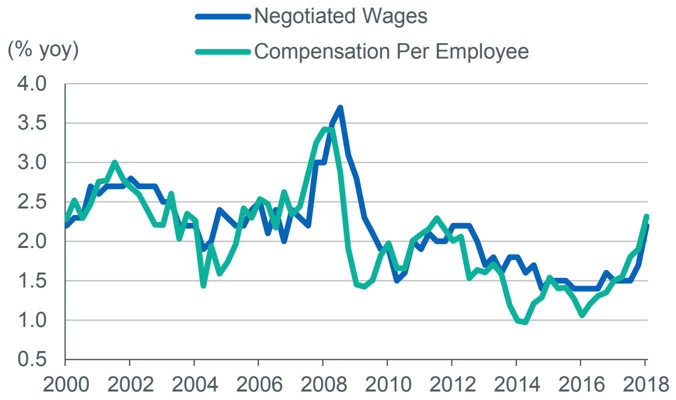
The ECB has stated that QE will end in December but has promised to keep the door open to further monetary stimulus if conditions warrant. We suspect the bar has been set quite high and a further extension is unlikely. ECB forward guidance suggests that interest rates will not rise until late summer 2019 at the earliest.

Eurozone - Global Container Traffic and EZ Exports



Source: RWI/ISL, Datastream, Fitch

Eurozone - Measures of Wage Growth



Source: ECB, Datastream, Fitch

Eurozone - Forecast Summary

(%)	Ann. Av.2013-17	2017	2018f	2019f	2020f
GDP	1.5	2.4	2.0	1.8	1.6
Consumer Spending	1.1	1.6	1.4	1.3	1.2
Fixed Investment	2.1	2.5	3.2	2.7	2.0
Net Trade (contribution pps.)	0.1	0.8	0.2	0.2	0.3
CPI Inflation (end-year)	0.7	1.4	1.6	1.7	1.9
Unemployment Rate	10.7	9.1	8.5	8.1	7.7
Policy Interest Rate (end-year)	0.16	0.00	0.00	0.25	0.75
Exchange Rate, EURUSD (end-year)	1.20	1.20	1.10	1.10	1.10

Source: Fitch

China

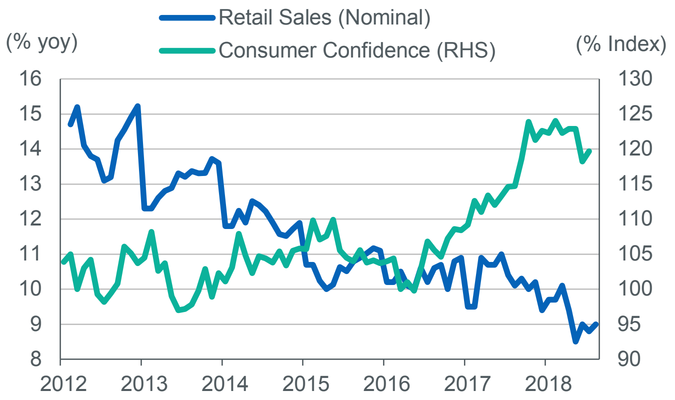
China's economy grew by 6.7% yoy in 2Q18, 0.1pp faster than estimated in the June GEO. Sequential GDP growth picked up in 2Q18 but the underlying trend in growth is downwards with increasing evidence of slowing domestic demand. Nominal retail sales growth has eased, and consumer confidence has dipped in the wake of US-China trade tensions. Moreover, FAI growth has fallen below 5% in recent months, a historical low. This has been driven by a sharp slowdown in infrastructure FAI, which is now declining in yoy terms. The housing market has been bucking the trend, however, with starts and sales recently accelerating, supported by rapid mortgage lending and low inventory ratios.

The slowdown in domestic demand is consistent with the marked weakening in credit growth seen over the last six months as earlier macro-prudential tightening measures sharply squeezed shadow financing activity. The annual growth rate in credit to the real economy has declined by over 4pp since July 2017. The negative credit impulse has taken a heavy toll on infrastructure spending.

The credit and demand slowdown has seen the authorities modify the stance of policy in recent months with cuts to RRRs, declining interbank interest rates and some marginal easing in macro-prudential restrictions. The currency has been allowed to fall sharply and fiscal policy has been eased.

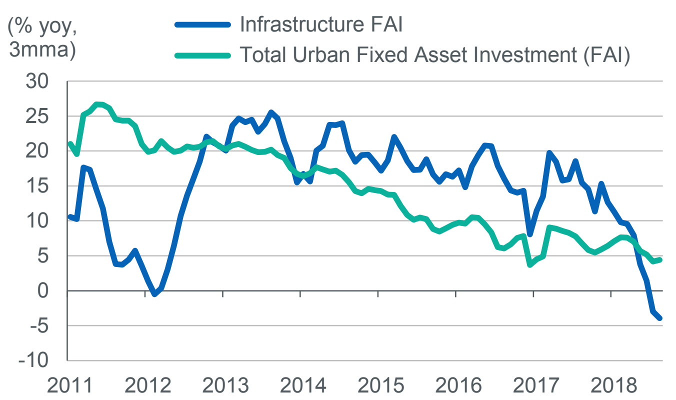
The recent announcement of new US tariffs on USD200 billion of Chinese imports – and our assumption that the associated US tariff rate will increase to 25% in 2019 – will have a much more significant impact on growth than earlier measures. There is scope for further policy easing to partially offset the shock but high debt levels and the authorities' deleveraging agenda mean that a large-scale credit stimulus is unlikely. The policy response is likely to be more targeted and with a bigger role for 'on-budget' fiscal easing – including corporate and personal tax cuts – and tolerance of some further CNY depreciation. We have reduced our 2019 growth forecast by 0.2pp to 6.1%.

China - Consumer Indicators



Source: NBS, Datastream

China - Fixed Asset Investment



Source: NBS, Datastream, Fitch

China - Forecast Summary

(%)	Ann. Av.2013-17	2017	2018f	2019f	2020f
GDP	7.1	6.9	6.6	6.1	6.1
Consumer Spending	7.8	6.6	7.0	8.1	8.2
Fixed Investment	7.0	4.6	4.2	4.8	4.8
Net Trade (contribution pps.)	-0.3	-0.2	-0.6	-0.2	-0.3
CPI Inflation (end-year)	1.9	1.8	2.5	2.4	2.4
Policy Interest Rate (end-year)	5.11	4.35	4.35	4.35	4.35
Exchange Rate, USDCNY (end-year)	6.40	6.51	7.00	7.30	7.40

Source: Fitch

Japan

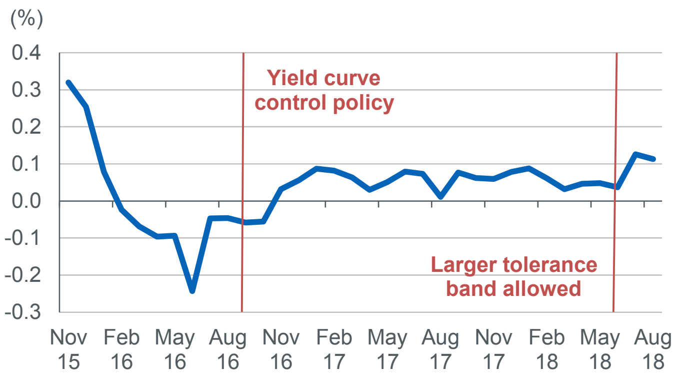
Japanese GDP bounced back by a buoyant 0.7% qoq in 2Q18 (after falling 0.2% in the previous quarter). Growth was bolstered by very solid private demand, barring residential investment, which continued to fall sharply (down 2.4% qoq and 9% yoy). Private consumption benefited from a sharp pick-up in summer bonuses, which propelled aggregate nominal earnings growth to historical highs in June, and very strong job creation. The number of people working in Japan hit a new all-time high over the quarter. Business investment gained momentum and hit its highest pace on a yoy basis in more than four years at 6%, buoyed by construction spending ahead of the 2020 Tokyo Olympics, high utilisation rates and rising labour shortages.

The adverse weather conditions experienced during the summer should contribute to slower growth in 3Q18. Surveys and forward-looking indicators also suggest that the economy is set to cool down, on softening external demand and trade protectionism fears. The economy is expected to grow at a decent pace over the forecast horizon though, supported by accommodative financial conditions, a robust labour market and stepped-up activity related to the 2020 Tokyo Olympics.

The BoJ made some relatively minor tweaks to its policy following its July meeting. The BoJ reaffirmed its commitment to keep running its extremely accommodative policy until inflation picks up above 2% and stays there. The BoJ also introduced forward guidance that short-term and long-term rates would stay extremely low for an extended period. It also increased the flexibility of its ETF and J-REIT purchasing pace and allowed a doubling of the tolerance band for the 0% 10-year yield target on JGBs (from +/-10bp to +/-20bp).

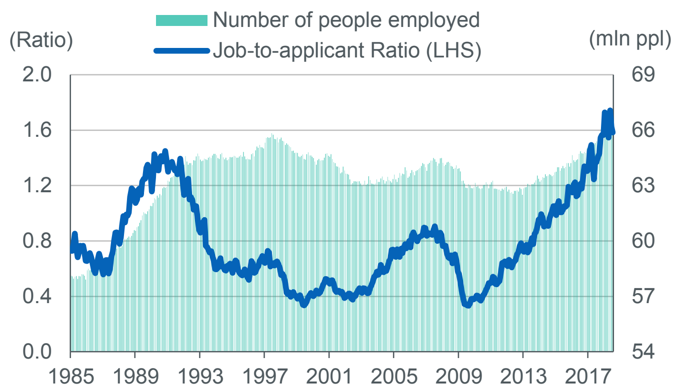
The slightly larger tolerance band for yields and forward guidance on rates should allow for a somewhat slower pace of JGB purchases in the face of global upward pressures on yields. The BoJ has already tapered its asset purchase rate and has acknowledged concerns about JGB market functioning as its ownership share of outstanding JGBs increases.

Japan - JGB Yield (10 year)



Source: MoF, Japan

Japan - Employment and Job-to-applicant Ratio



Source: MHLW, Fitch

Japan - Forecast Summary

(%)	Ann. Av.2013-17	2017	2018f	2019f	2020f
GDP	1.3	1.7	1.1	0.9	0.6
Consumer Spending	0.5	1.0	0.7	0.6	0.0
Fixed Investment	2.7	2.5	1.9	1.2	0.5
Net Trade (contribution pps.)	0.2	0.5	0.1	0.1	0.2
CPI Inflation (end-year)	0.9	1.1	1.2	2.7	1.3
Unemployment Rate	3.4	2.8	2.5	2.4	2.3
Policy Interest Rate (end-year)	0.02	-0.10	-0.10	-0.10	-0.10
Exchange Rate, USDJPY (end-year)	109.1	112.7	110.0	110.0	110.0

Source: Fitch

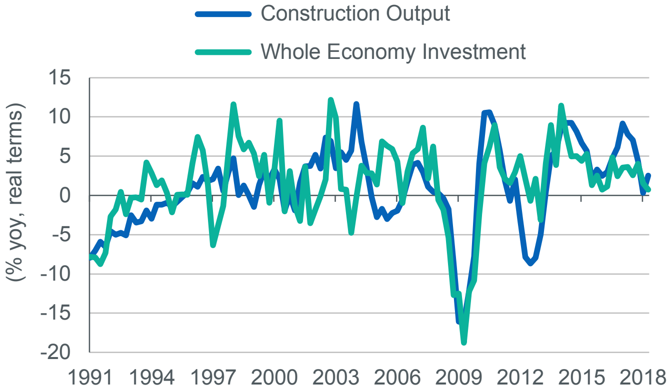
United Kingdom

UK GDP growth recovered to 0.4% in 2Q18 following weather-affected weakness in 1Q18. But 2018 is still set to see growth fall to 1.3%, from 1.7% last year. Investment remains in the doldrums, with headwinds from the construction sector and rising Brexit uncertainties likely to weigh on capex in 2H18. Consumer spending is unlikely to accelerate despite some easing in real wage pressure and a surprisingly robust job market. This reflects the deterioration in the health of consumer finances in the last couple of years as households have become net borrowers and their debt/income ratios have increased. This will put upward pressure on household saving ratios, while the pace of unsecured credit growth is declining.

Prospects for 2019 are inextricably linked to progress in the Brexit negotiations. Previous GEO forecasts have been predicated on the assumption that there would be a smooth evolution towards a future free trade agreement-type arrangement with the EU, including a transition period, a scenario that would allow for a recovery in growth in 2019. However, recent developments have raised doubts about this assumption as the likelihood of alternative outcomes – including a cliff-edge/no deal Brexit, an extension of the Article 50 deadline or even a second referendum – has increased. The forecast still assumes that cliff-edge/no deal will be avoided. But uncertainty is now expected to remain at more elevated levels through early 2019, which will weigh on investment spending. Consequently, our 2019 GDP forecast has been revised down by 0.2pp to 1.5%.

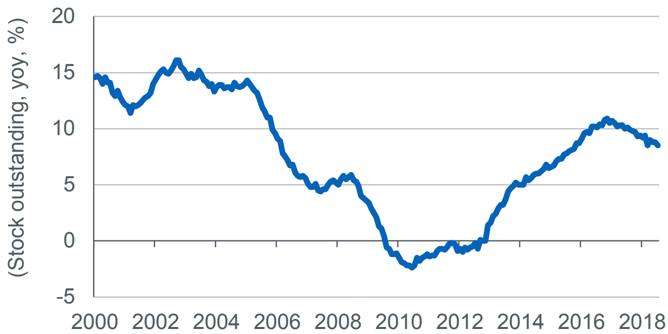
The BoE raised rates to 75bp in early August, taking rates above 50bp for the first time since March 2009. The rationale was the tightening in UK labour market conditions and concomitant risk of rising wage pressures rather than BoE optimism on growth. With our weaker growth outlook and elevated downside risks from Brexit, we now expect only one rate hike next year.

UK - Construction and Investment



Source: ONS, Datastream, Fitch

UK - Unsecured Household Borrowing



Source: BOE, Datastream, Fitch

United Kingdom - Forecast Summary

(%)	Ann. Av.2013-17	2017	2018f	2019f	2020f
GDP	2.2	1.7	1.3	1.5	1.7
Consumer Spending	2.3	1.8	1.1	1.5	2.0
Fixed Investment	3.9	3.4	0.4	1.2	2.0
Net Trade (contribution pps.)	-0.3	0.5	0.0	0.0	-0.1
CPI Inflation (end-year)	1.5	3.0	2.5	2.3	2.3
Unemployment Rate	5.4	4.3	4.2	4.4	4.5
Policy Interest Rate (end-year)	0.44	0.50	0.75	1.00	1.50
Exchange Rate, GBPUSD (end-year)	1.48	1.35	1.30	1.30	1.30

Source: Fitch

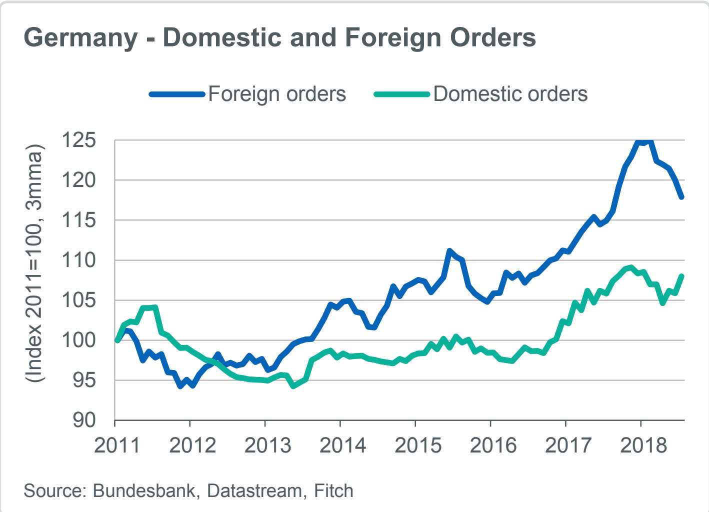
Germany

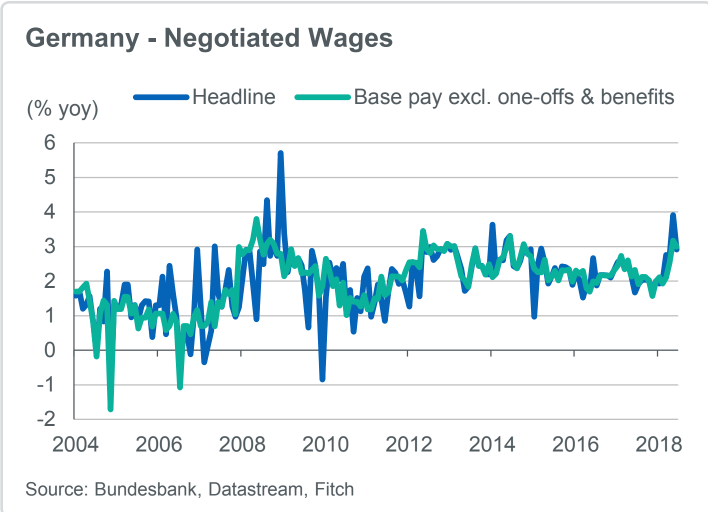
The German economy grew by 0.5% in the second quarter, below the 0.7% increase that we had expected at the time of June GEO. The breakdown into its various constituents showed that the domestic sector remained the driving force in 2Q18, while net trade had a large downward effect on overall growth as imports jumped by a significant 1.7% on the quarter. The jump in imports amid falling exports (and falling foreign orders) points to weakening overseas demand for German products, while domestic demand for foreign products remains resilient.

The slowdown in world trade growth implies a fading contribution to growth from external demand over the forecast period. This is likely to drag on the outlook for equipment investment and has prompted us to revise our 2018 growth forecast to 2.0% from 2.3% previously. We have kept our 2019 and 2020 forecasts unchanged.

There are, however, no clear signs that the domestic economy is weakening materially. Supporting factors include the strong labour market, upcoming fiscal easing and the steady expansion in the construction sector. The increase in employment has been a standout feature of the current cycle but employment growth appears to be peaking, albeit remaining at very elevated rates. Firms continue to struggle to fill the record number of vacancies as labour supply begins to dry up. European Commission data show that both industry and service sector labour shortages remain at historically high levels. Wages have responded by rising in 2018.

These domestic growth drivers have helped buttress sentiment in the face of rising external worries with the IFO leading indicator increasing noticeably in August. The US focus on China appears to be keeping US-EU trade tensions at bay for now but a renewed flare-up remains a key risk and would have particularly significant ramifications for Germany given its highly open economy, sizeable auto exports and large bilateral trade surplus with the US.





Germany - Forecast Summary

(%)	Ann. Av.2013-17	2017	2018f	2019f	2020f
GDP	1.8	2.2	2.0	1.6	1.4
Consumer Spending	1.4	1.8	1.5	1.5	1.2
Fixed Investment	2.1	2.9	3.1	2.5	2.0
Net Trade (contribution pps.)	0.1	0.3	0.0	-0.2	0.0
CPI Inflation (end-year)	0.9	1.6	1.7	1.9	2.1
Unemployment Rate	4.5	3.8	3.5	3.5	3.4
Policy Interest Rate (end-year)	0.16	0.00	0.00	0.25	0.75
Exchange Rate, EURUSD (end-year)	1.20	1.20	1.10	1.10	1.10

Source: Fitch

France

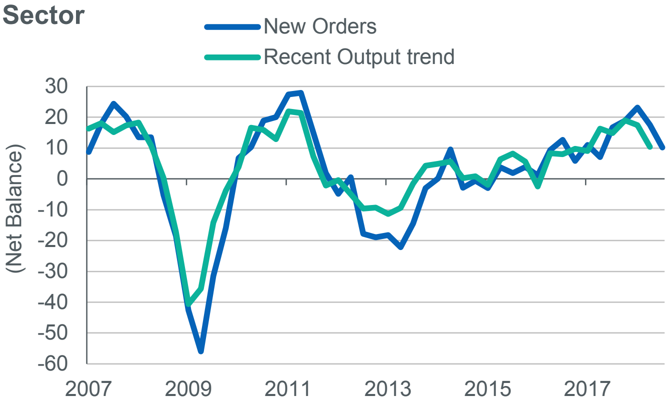
The French economy slowed significantly in the first half of this year with 1Q18 and 2Q18 registering quarterly growth of just 0.2% against an average of 0.7% in the second half of last year. Weakness in the second quarter was caused by a contraction in consumption (-0.1% qoq) and a sharp bounce-back in imports (to +1.0% from -0.4%), while fixed investment grew strongly. The slowdown has partly reflected a number of temporary factors such as an exceptionally cold spring, industrial strikes and the effect of indirect taxes and higher social contributions (CSG) on consumption. The first half of this year was also affected by weaker exports in 1Q18, as significant aircraft deliveries at the end of 2017 were not replicated in the early part of this year.

Nevertheless, the weak outturn so far this year has prompted us to revise our growth forecast for the year to 1.7% from 2.0% previously, while the 2019 forecast has been reduced by 0.1pp to 1.7%. The forecast for 2020 has been left unchanged at 1.6%.

Consumers should benefit from a cut in direct taxation in 4Q18, rapid household credit growth as well as continued increases in employment. The labour market continues to tighten with a growing number of unfilled vacancies (some 140,000 in total according to the government's employment agency) and companies continuing to state that labour shortages are a factor in limiting production. However, wage growth has yet to show a significant upward trend.

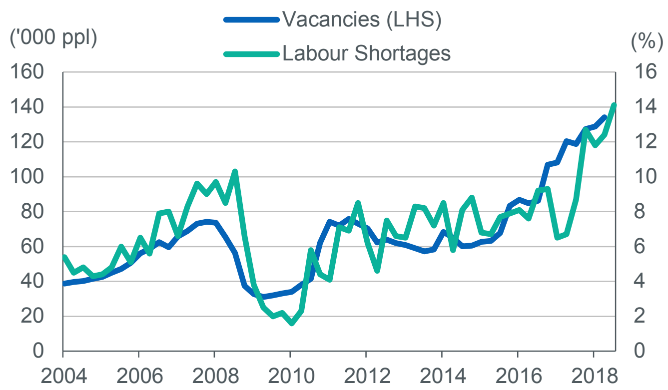
We expect investment to remain supported this year by high capacity utilisation and the government's Big Investment Plan (GPI). A reduction in the corporate tax rate should also help the recovery in corporate profit margins. Externally, the slowing in global trade volumes and the uncertainty created by the threat of tariff imposition have resulted in a reduction in new export orders, which is likely to be reflected in slower export growth this year and next.

France - New Orders & Output in the Manufacturing Sector



Source: EC, INSEE, Datastream, Fitch

France - Rising Vacancies and Labour Shortages



Source: INSEE, Datastream, Fitch

France - Forecast Summary

(%)	Ann. Av.2013-17	2017	2018f	2019f	2020f
GDP	1.2	2.2	1.7	1.7	1.6
Consumer Spending	1.2	1.0	1.0	1.5	1.3
Fixed Investment	1.5	4.5	3.0	3.1	2.2
Net Trade (contribution pps.)	-0.3	-0.1	0.3	-0.2	0.1
CPI Inflation (end-year)	0.6	1.2	1.8	1.5	1.6
Unemployment Rate	10.1	9.4	8.9	8.5	8.1
Policy Interest Rate (end-year)	0.16	0.00	0.00	0.25	0.75
Exchange Rate, EURUSD (end-year)	1.20	1.20	1.10	1.10	1.10

Source: Fitch

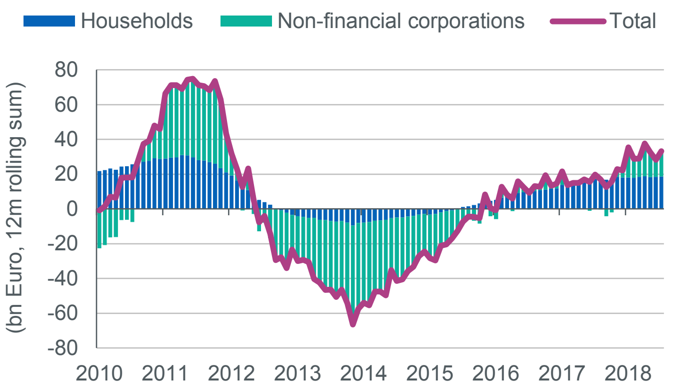
Italy

The Italian economy expanded by 0.2% in 2Q18, half the pace we forecast at the time of the June GEO. The softer outturn was caused by a significant increase in imports (+1.8%), a contraction in exports (-0.2%) and weak consumption (+0.1%). Weakness elsewhere was partially offset by a surge in investment (+2.9%), driven by machinery and equipment investment. Early 3Q18 indications do not suggest a near-term recovery in the externally facing industrial sector. July industrial production fell by 1.8% (month on month), while the manufacturing Purchasing Managers' Index (PMI) dropped to 50.1, just above the 50 reading that separates contraction from expansion. Several subcomponents of the index are already below 50, including new orders, output and backlogs of work.

As with other countries in the euro area, weakness in the external environment is being offset by the strong performance of the domestic sector. More specifically, it is investment that should be the main driver of domestic demand over the medium term. Investment dynamics have been positive recently with bank credit flows to the non-financial sector continuing to improve. That said, the uncertainty created by the ongoing trade disputes, domestic political concerns and the budgetary backdrop complicate businesses' decision-making process, which may result in more modest investment increases.

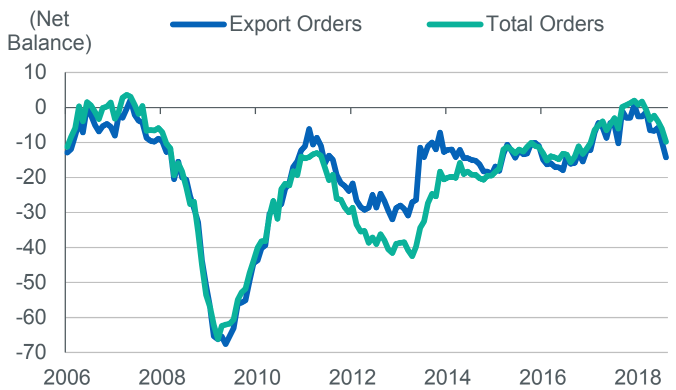
Moreover, while the labour market remains supportive of the consumer, employment fell back in June and July with the sharp drop in the unemployment rate (from 10.8% in June to 10.4% in July) largely the result of a contraction in the labour force rather than from new job creation. Employment developments will be crucial for consumption developments over the second half of this year. At the time of writing, it remains to be seen how much of the deal agreed by the coalition is implemented. The government has sent conflicting messages about its fiscal agenda, which has prompted some renewed volatility in Italian sovereign bonds. The forecast does not incorporate a large-scale fiscal easing.

Italy - Households and Corporate Loans



Source: Istat, Datastream, Fitch

Italy - Manufacturing Orders - Export and Total



Source: Istat. Datastream, Fitch

Italy - Forecast Summary

(%)	Ann. Av.2013-17	2017	2018f	2019f	2020f
GDP	0.3	1.5	1.2	1.2	0.9
Consumer Spending	0.5	1.4	1.2	1.3	0.9
Fixed Investment	0.0	3.8	4.1	2.0	1.3
Net Trade (contribution pps.)	0.0	0.1	-0.4	-0.1	0.0
CPI Inflation (end-year)	0.6	1.0	1.3	1.6	1.8
Unemployment Rate	11.9	11.3	10.9	10.5	10.2
Policy Interest Rate (end-year)	0.16	0.00	0.00	0.25	0.75
Exchange Rate, EURUSD (end-year)	1.20	1.20	1.10	1.10	1.10

Source: Fitch

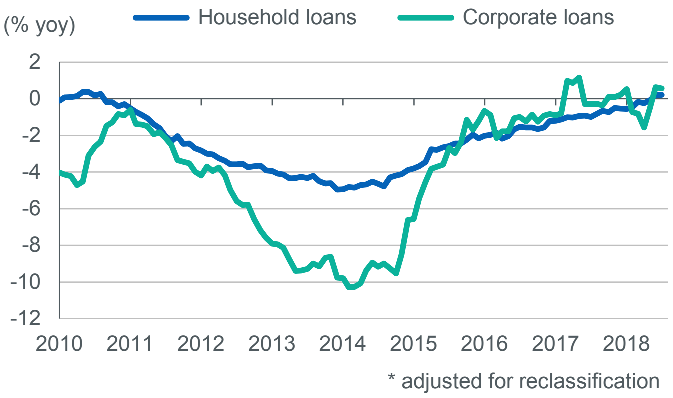
Spain

Growth in 2Q18 was in line with our forecast of 0.6% despite a sharp contraction in exports and a noticeable slowdown in consumption. The very strong outturn for investment (2.6% on the quarter) more than compensated for weakness elsewhere. The acceleration largely reflected a solid rebound in investment of machinery and equipment, which more than offset a moderation in construction investment. Government consumption also gained traction and grew 0.7% over the previous quarter, slightly above the 0.5% rate recorded in 1Q18.

Unlike the other large eurozone economies, Spain largely avoided the growth moderation at the turn of the year. As a consequence, we have left our forecasts for this year, 2019 and 2020 unchanged. Strong domestic demand and gains in employment accompanied by moderate increases in wages should continue to provide ample support to consumers. The growth in employment is also broad based; recent data show that over 80% of sectors across the economy show employment gains. But as the pace of job creation slows over time, real incomes are likely to come under pressure. Households will have limited room to offset this slowdown given that the savings rate is close to its lowest in a decade. We expect consumer spending to rise by 2.2% this year, which would represent the weakest expansion since 2014.

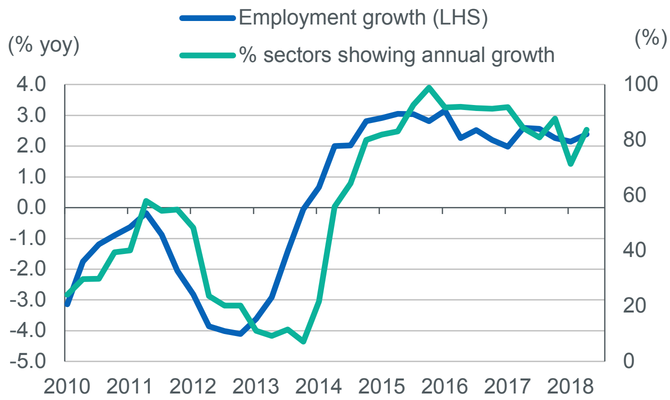
Credit growth is likely to remain modest with bank loans extended to households and corporates expected to continue to grow at the current rate of less than 1% a year. In recent years, both consumers and businesses have undergone major deleveraging but debt remains high by historical standards, while banks continue to carry a high (albeit falling) burden of NPLs. Strong business confidence, reflected through robust capital outlays, is also seen supporting economic activity. However, mounting external headwinds – including the cooling of the tourism boom of recent years and rising oil prices – somewhat cloud the near-term outlook.

Spain - Household and Corporate Loans



Source: Banco de Espana, Datastream, Fitch

Spain - Employment Growth Indicators



Source: Ministerio de Hacienda, Datastream, Fitch

Spain - Forecast Summary

(%)	Ann. Av.2013-17	2017	2018f	2019f	2020f
GDP	1.9	3.0	2.7	2.3	1.9
Consumer Spending	1.4	2.5	2.2	2.2	1.9
Fixed Investment	3.1	4.8	5.0	3.9	2.8
Net Trade (contribution pps.)	0.3	0.3	0.0	0.1	0.1
CPI Inflation (end-year)	0.5	1.2	1.8	1.6	1.8
Unemployment Rate	21.9	17.2	15.5	13.8	12.7
Policy Interest Rate (end-year)	0.16	0.00	0.00	0.25	0.75
Exchange Rate, EURUSD (end-year)	1.20	1.20	1.10	1.10	1.10

Source: Fitch

Switzerland

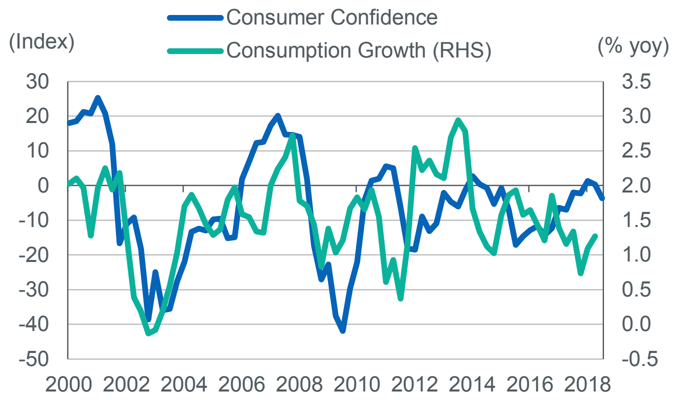
A strong first half of the year has led us to revise our growth forecast for 2018 to 3.0% from 2.1%, while the 2019 and 2020 forecasts remain unchanged at 1.9% and 1.7% respectively. 2Q18 GDP was boosted by a very strong quarterly pick-up in exports (2.4%) and a contraction in imports (-0.7%) but countered by a soft outturn for investment (+0.1%). The 1Q18 growth outturn was revised up sharply to 1.0%, from a previous estimate of 0.6%.

The growth spurt so far this year has been supported by the manufacturing sector, while the economy at large was boosted by the Winter Olympics and the Soccer World Cup held this year; both FIFA and the IOC are based in Switzerland and the pick-up in activity and other related spending (ticketing, licensing and broadcasting) is estimated to have raised growth by around 0.2pp. Adjusted for sporting events, the Swiss economy grew 0.5% in 2Q18.

The Franc's past depreciation has also helped to boost trade but exports are likely to grow at a less ebullient pace in the second half of this year. The KOF leading indicator fell to 100.3 in August from 101.7 in July, while the PMI (overall and sub-components) is also on a downward trend. Additionally, given the shift to protectionism and general uncertainty triggered by EM volatility, investors have been seeking the safety of the Swiss Franc. This is likely to drag down export growth in the coming months.

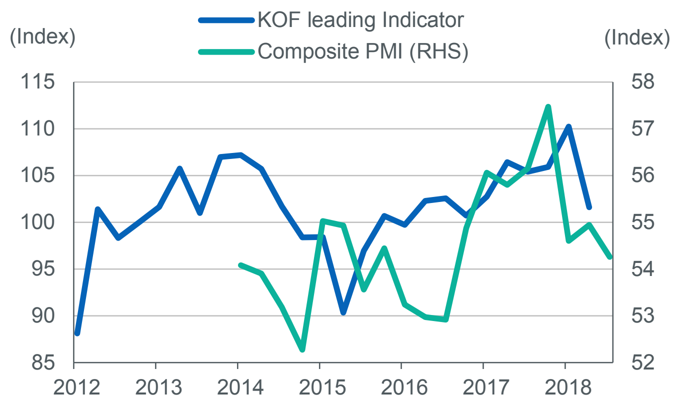
The domestic economy remains supported by ongoing decreases in the unemployment rate, which in July fell to a low of 2.6%. Companies also continue to hire people at a healthy rate. However, consumer confidence fell back to its long-term average in July, as consumers have become less optimistic about the economic outlook. Monetary policy is likely to remain supportive for an extended period with the Swiss National Bank unlikely to tighten until the ECB hikes rates.

Switzerland - Consumption & Consumer Confidence



Source: SECO, Datastream, Fitch

Switzerland - Leading Indicators



Source: KOF, Bloomberg, Datastream, Fitch

Switzerland - Forecast Summary

(%)	Ann. Av.2013-17	2017	2018f	2019f	2020f
GDP	1.8	1.7	3.0	1.9	1.7
Consumer Spending	1.7	1.2	1.2	1.6	1.6
Fixed Investment	2.5	3.3	2.9	2.2	2.2
Net Trade (contribution pps.)	0.5	0.9	1.1	0.6	0.2
CPI Inflation (end-year)	-0.1	1.1	1.2	1.4	1.3
Unemployment Rate	3.2	3.2	2.9	2.8	2.9
Policy Interest Rate (end-year)	-0.41	-0.75	-0.75	-0.50	0.00
Exchange Rate, USDCHF (end-year)	0.95	0.97	0.96	0.96	0.96

Source: Fitch

Australia

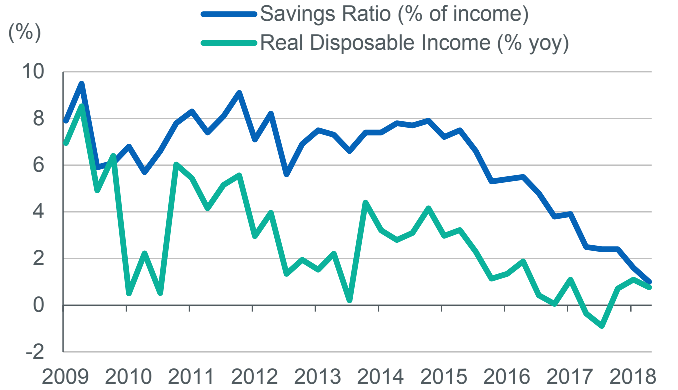
The Australian economy surprised on the upside in 2Q18, with GDP expanding by a strong 0.9% qoq, 0.3pp more than expected in the June GEO. This follows an already buoyant pace in the previous quarter, when GDP grew by an upwardly revised 1.1% qoq. Annual growth was 3.4% yoy, the strongest pace since 3Q12. Growth was underpinned by solid consumption and accelerating government spending. While private investment was weak over the quarter, it continued picking up pace on an annual basis, at 6.7% yoy.

On the back of better-than-expected momentum in 1H18, we have revised up our 2018 growth forecast by a substantial 0.5pp to 3.3%. We still see the current above-trend growth stepping down in the two subsequent years, to 2.8% in 2019 (+0.1pp from the last GEO) and 2.7% in 2020 (unchanged). The outlook should be supported by ramped-up LNG production and robust investment, both private and public. Businesses' investment intentions remain elevated, corporate profits are high and rising, and capacity utilisation is increasing. Public infrastructure is projected to rise further, particularly at the state level.

However, consumption is expected to soften, which will drag GDP growth lower. Households have been digging into their savings over the past three years, amid decelerating real disposable income growth. The scope for the savings ratio to dip further is limited, and we do not see households' real earnings growth picking up meaningfully given still elevated underemployment (ie a high proportion of people in part-time jobs) and our forecast of a slowly declining unemployment rate. The housing market is also cooling, in part driven by the Australian Prudential Regulation Authority's tightening of macro-prudential regulations on mortgage lending.

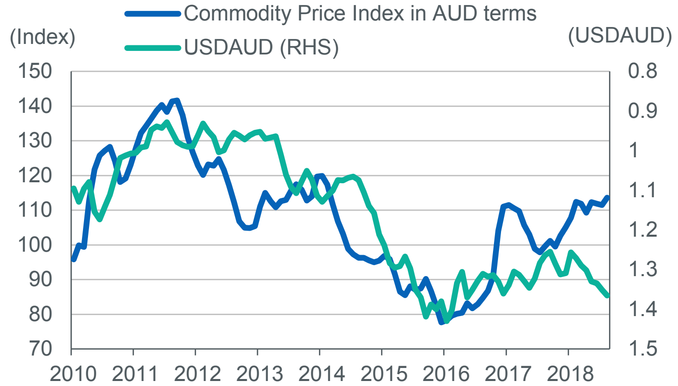
We expect the Reserve Bank of Australia (RBA) to undertake a shallow interest rate tightening cycle given muted inflationary and wage pressures. The RBA's dovishness has weighed on the Australian dollar (AUD) since 2016. This is apparent in the growing disconnect between the value of the AUD against the USD and hard commodity prices.

Australia - Income and Savings Ratio



Source: ABS, Fitch

Australia - FX and Commodity Prices



Source: RBA, Fitch

Australia - Forecast Summary

(%)	Ann. Av.2013-17	2017	2018f	2019f	2020f
GDP	2.4	2.2	3.3	2.8	2.7
Consumer Spending	2.5	2.7	2.8	2.5	2.3
Fixed Investment	-1.3	3.4	3.2	3.7	3.8
Net Trade (contribution pps.)	0.8	-0.9	-0.3	-0.2	-0.1
CPI Inflation (end-year)	1.9	1.9	2.2	2.3	2.4
Unemployment Rate	5.8	5.6	5.4	5.3	5.2
Policy Interest Rate (end-year)	2.11	1.50	1.50	1.75	2.25
Exchange Rate, USDAUD (end-year)	1.23	1.28	1.41	1.42	1.39

Source: Fitch

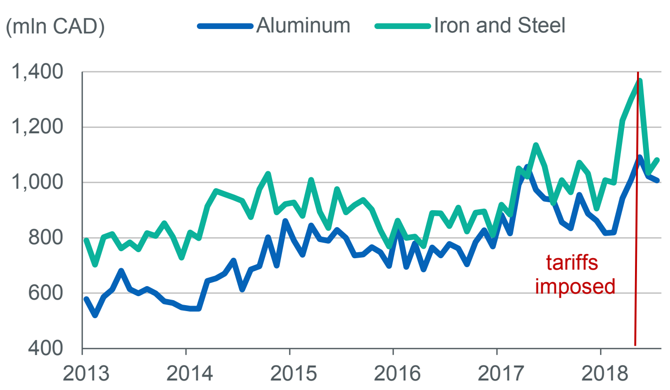
Canada

The economy grew by 2.9% annualised in 2Q18, rebounding from 1.4% in 1Q18. We expect growth to have moderated in 3Q18, but the economy is on course to grow by 2.1% in 2018. Consumer spending growth has moderated since 2017 and is no longer significantly outpacing overall GDP growth. Our forecast for overall GDP growth to slow to 1.6% in 2019 assumes that consumer spending growth will continue to decelerate. Household credit is no longer growing as quickly and housing market activity has also cooled in response to macro-prudential tightening and earlier rate hikes. Nationally, house prices are up just 1.4% yoy, according to the Teranet index for September, with Toronto prices 3.8% below their peak in July 2017 (and declining on a seasonally adjusted basis).

Investment and exports are making more of a contribution to growth, helped by a strong US performance and the energy sector. Exports spiked in June ahead of tariffs on aluminium and steel. Investment growth and business confidence would, however, be stronger were it not for uncertainty over NAFTA. Canada and the US have yet to resolve their outstanding issues over trade, with the risk that President Trump could abrogate NAFTA, attempt to strike a bilateral deal with Mexico or impose tariffs of up to 25% on auto exports from Canada to exert leverage in talks. In the short term, auto tariffs are the biggest risk to our forecast.

The Bank of Canada kept its policy rate at 1.5% at the September meeting. We have revised our rates forecast and now expect the bank to raise rates by another 25bp before the end of the year. Headline inflation hit 3% in August, influenced by a sharp rise in airfares, with core inflation closer to 2%. Average hourly wage growth topped 3% in June and July but has since dipped to 2.9%, and real wage growth is mild. Unemployment is fluctuating around 6%, close to pre-crisis lows.

Canada - Aluminium and Steel Exports to US



Source: StatCan, Datastream, Fich

Canada - Household Credit

Source: Bank of Canada, Fitch

Canada - Forecast Summary

(%)	Ann. Av.2013-17	2017	2018f	2019f	2020f
GDP	2.2	3.0	2.1	1.6	1.4
Consumer Spending	2.6	3.5	2.2	1.7	1.5
Fixed Investment	-0.3	2.8	4.1	2.7	2.0
Net Trade (contribution pps.)	0.4	-0.8	-0.6	-0.3	-0.3
CPI Inflation (end-year)	1.4	1.9	2.4	2.1	2.2
Unemployment Rate	6.8	6.3	5.8	5.6	5.6
Policy Interest Rate (end-year)	0.77	1.00	1.75	2.00	2.50
Exchange Rate, USDCAD (end-year)	1.21	1.25	1.30	1.30	1.30

Source: Fitch

Brazil

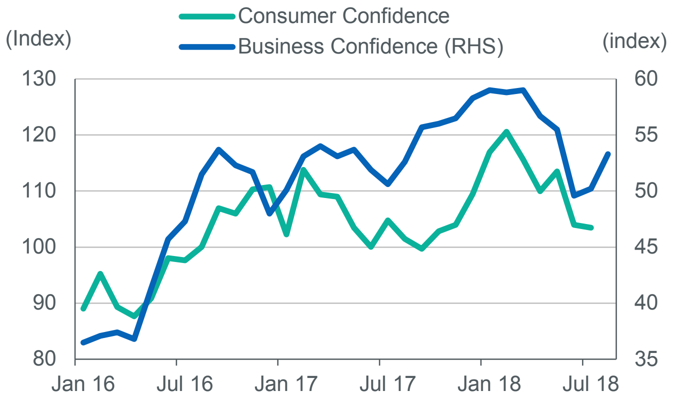
Fitch has lowered its GDP growth forecasts for Brazil to 1.3% for 2018 and 2.2% for 2019, from the last GEO forecasts of 2.0% and 2.5% respectively. Economic activity data have remained disappointing and have been adversely affected by the disruptive May truckers' strike and continued policy and political uncertainties. In 2Q18, the economy grew by only 0.2% qoq. Investment contracted by 1.8% qoq after recording a quarterly average increase of 1.2% in the preceding four quarters, while consumption also weakened at the margin.

Fitch expects that supportive external demand and easing of political and policy uncertainties will support a gradual economic recovery in 2019-2020. Low inflation and continued accommodative (albeit tighter) monetary policy will be growth-supportive. Downside risks to our forecasts include tighter external financing conditions and/or an election outcome that is less conducive to reforms or leads to deterioration in the overall policy environment, thereby prompting greater financial market volatility.

An output gap and slow economic recovery held down price pressures in early 2018. However, the IPCA inflation rate jumped to 4.4% in June, largely reflecting supply disruptions related to the truckers' strike. The month-on-month inflation rate subsequently slowed in July and August and in annual terms is now at 4.19%, below the 4.5% inflation target. Fitch expects inflation to end 2018 slightly below the target. Inflation expectations for 2018-2019 remain well anchored around the target.

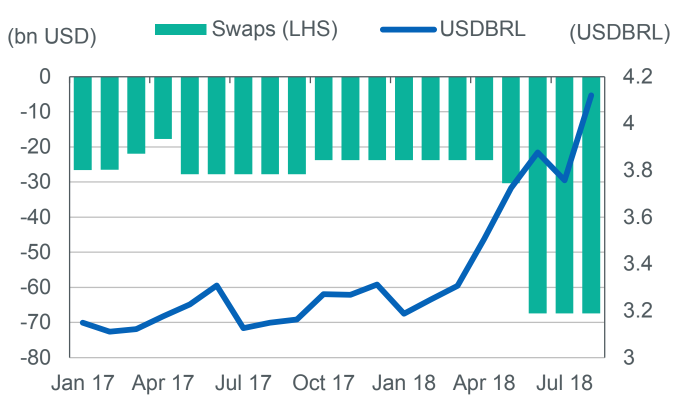
After cutting interest rates by a cumulative 775bp since late 2016, the central bank halted the monetary easing cycle in May and kept rates on hold in June and August despite periodic bouts of BRL pressure. Fitch expects the bank to remain on hold during the remainder of the year but the risks are skewed towards a hike. While inflation expectations are well anchored, sustained BRL pressure and a more complex external and/or domestic election scenario could lead the central bank to increase interest rates. In recent months, it has opted to use FX interventions by offering FX swaps to smooth FX volatility.

Brazil - Confidence Indicators



Source: BCB, Fitch

Brazil - FX Swaps and BRL



Source: BCB, Bloomberg, Fitch

Brazil - Forecast Summary

(%)	Ann. Av.2013-17	2017	2018f	2019f	2020f
GDP	-0.5	1.0	1.3	2.2	2.7
Consumer Spending	-0.2	1.0	2.0	2.5	3.3
Fixed Investment	-4.9	-1.8	2.1	2.5	3.0
Net Trade (contribution pps.)	0.8	0.1	-0.6	-0.2	0.0
CPI Inflation (end-year)	6.8	2.9	4.1	4.3	4.0
Policy Interest Rate (end-year)	11.41	7.00	6.50	8.00	8.00
Exchange Rate, USDBRL (end-year)	2.91	3.32	3.90	3.90	3.90

Source: Fitch

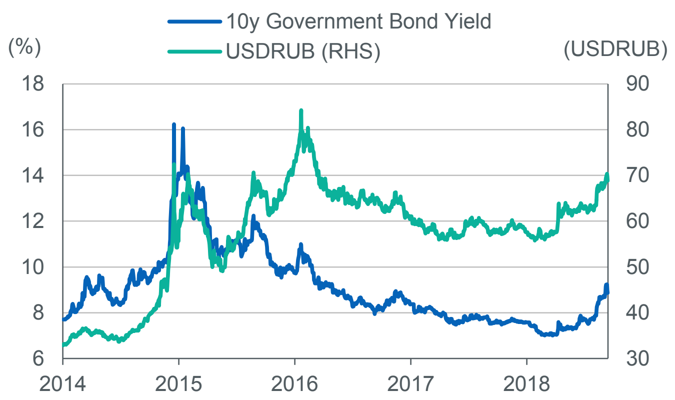
Russia

We have upgraded our Russian GDP growth forecast for 2018 to 2.0% (from 1.8% in June) given the strength of 2Q18 growth (1.9% on an annual basis), which points towards strong momentum on a qoq basis. Household consumption will be the main growth engine, supported by real wage increases and retail lending, with investment moderating after the completion of large infrastructure projects. We expect growth to decelerate to 1.5% in 2019 due to tighter-than-anticipated monetary policy, a weaker RUB and the scheduled VAT increase, which will impact private consumption. The slowdown could be mitigated by higher pension payments derived from the potential implementation of pension reform and the start of the execution of the government's priority spending programme. The economy will regain momentum in 2020, growing at 1.9%, driven by still supportive private consumption and faster execution of spending – within the current fiscal rule – in education, health and infrastructure.

After the surprise 25bp increase in September, we expect the central bank (CBR) to maintain its policy rate at 7.5% through 2018 and to increase it by a further 25bp in 2019 given increased volatility in financial markets, higher household inflation expectations and the risk of further tightening of US sanctions. With no rate cuts expected until 2020, this is a big change in the monetary policy outlook compared to the June GEO. Annual inflation will approach the CBR's target (4%) by year-end, rising to 3.9%, and increase to 5.2% in 2019, reflecting a weaker RUB, the 2019 VAT increase and volatile inflation expectations. End-2020 inflation will approach the bank's target as the effect of tax hikes wanes.

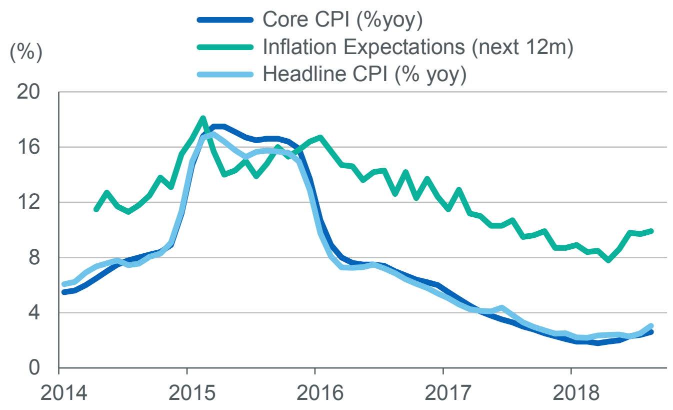
The correlation between the rouble and oil prices has weakened due to Ministry of Finance's FX intervention and sanctions risk. We expect the exchange rate to remain volatile. We now forecast a weaker RUB/USD at 68 for end-2018, remaining close to 67 in 2019-2020, as still high oil prices are balanced by our expectation of reduced financing inflows, increased global risk aversion and uncertainty related to US sanctions.

Russia - FX and 10y Government Bond Yield



Source: Thomson Reuters, Datastream, Fitch

Russia - Inflation



Source: Rosstat, Datastream, Fitch

Russia - Forecast Summary

(%)	Ann. Av.2013-17	2017	2018f	2019f	2020f
GDP	0.3	1.5	2.0	1.5	1.9
Consumer Spending	-0.3	3.4	3.9	3.2	3.0
Fixed Investment	-1.3	4.3	2.6	2.4	3.1
Net Trade (contribution pps.)	1.6	-2.1	-0.1	-0.9	-0.6
CPI Inflation (end-year)	8.2	2.5	3.9	5.2	4.0
Policy Interest Rate (end-year)	9.17	7.75	7.50	7.75	7.25
Exchange Rate, USDRUB (end-year)	51.42	57.57	68.00	67.00	67.00

Source: Fitch

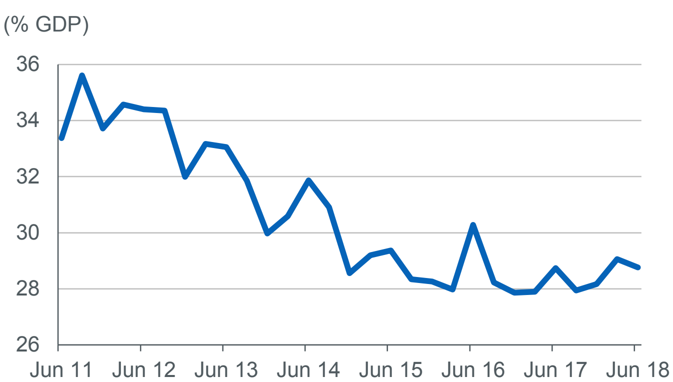
India

India's GDP grew at a very fast clip in 2Q18 (first quarter of FY2018-2019) at 8.2% yoy, sharply exceeding our expectation of 7.7% yoy. This robust performance was partly attributable to a powerful base effect, with GDP growth dampened in 2Q17 by companies de-stocking ahead of the rollout of the goods and services tax. Underlying activity was robust though, led by a quickening in the manufacturing sector amid surging exports. Exports are partly benefiting from a rapidly depreciating real exchange rate. This follows four years of continued real appreciation, which weighed on India's manufacturing export performance.

We have revised up our forecast for FY2018-2019 growth to 7.8% from 7.4% on the back of the better-than-expected 2Q18 outturn. India's growth likely peaked in 2Q18 though. The economic outlook is subject to several headwinds including tightening of financial conditions, a rising oil bill and weak bank balance sheets. The Indian rupee (INR) has been the worst-performing major Asian currency so far this year. And despite the central bank's greater tolerance for currency depreciation, interest rates have been raised by more than anticipated. Tighter financial conditions come against a backdrop of strained banking sector health with NPLs at 10% of loans. Our forecasts for FY2019-2020 and FY2020-2021 growth have both been shaved by 0.2pp to 7.3%.

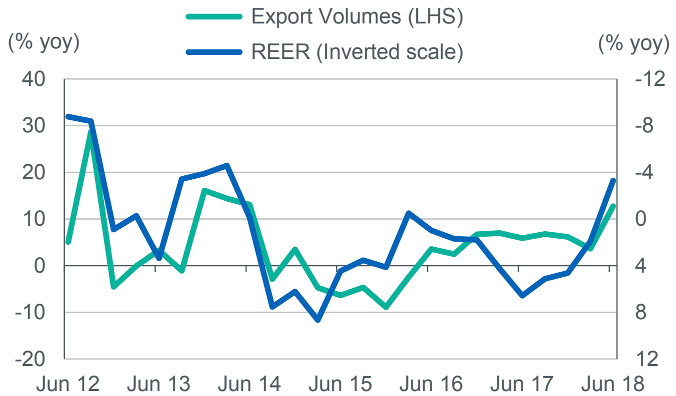
Fiscal policy should remain quite supportive of growth in the run-up to elections likely to be held in early 2019. The investment/GDP ratio has stopped trending down, helped by ramped-up public infrastructure outlays, in particular by state-owned enterprises (SOEs). The government has also rolled out measured to support low-income earners and rural demand. Despite some recent softening in prices, Fitch sees inflation picking up to the upper part of the central bank's target band (4%+/-2%) within the forecast horizon on relatively high demand-pull pressures and INR depreciation.

India - Investment as % GDP



Source: CSO, Fitch

India - Export Volumes and Real Exchange Rate



Source: CSO, RBI, Fitch

India - Forecast Summary

(%) FY starting April	Ann. Av.2013-17	FY17-18	FY18-19f	FY19-20f	FY20-21f
GDP	7.1	6.7	7.8	7.3	7.3
Consumer Spending	7.0	6.6	8.4	7.7	7.5
Fixed Investment	5.4	7.6	7.1	7.0	7.5
Net Trade (contribution pps.)	0.7	-1.5	-0.5	0.0	0.0
CPI Inflation (end-cal. year)	6.1	5.2	4.2	4.4	4.3
Policy Interest Rate (end-cal. year)	7.08	6.00	6.75	7.00	7.00
Exchange Rate, USDINR (end-cal. year)	63.22	63.83	72.00	73.00	73.00

Source: Fitch

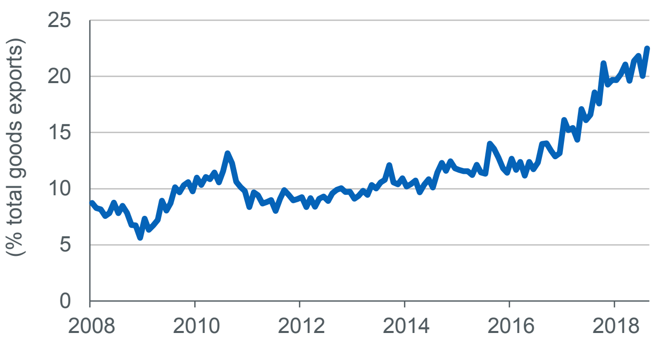
Korea

The Korean economy grew slightly less than expected in 2Q18, at 0.6% qoq (2.8% yoy). This marks a slowdown from 1Q18, when GDP expanded 1.0% qoq. Activity was bolstered by a strong performance of the external sector, with total exports growing at their fastest clip on a yoy basis in the last five years, at 4.8%. Korean goods exports have benefited from greater demand for semiconductors, which have grown very rapidly since early 2017. Services exports have also been bolstered by a recovery in the number of Chinese tourists, following the partial lifting by the Chinese authorities of the ban on group tours imposed in the summer of 2017.

However, investment spending has continued to cool markedly, down 1.2% yoy, from a historical high of 10.8% yoy only a little more than a year ago. The investment cycle has been mainly driven by swings in construction activity. The current slump reflects a correction from past strong growth in construction output amidst a boom in real estate prices. This partly reflects the authorities' macro-prudential measures in recent years to cool the housing sector and address systemic housing risks.

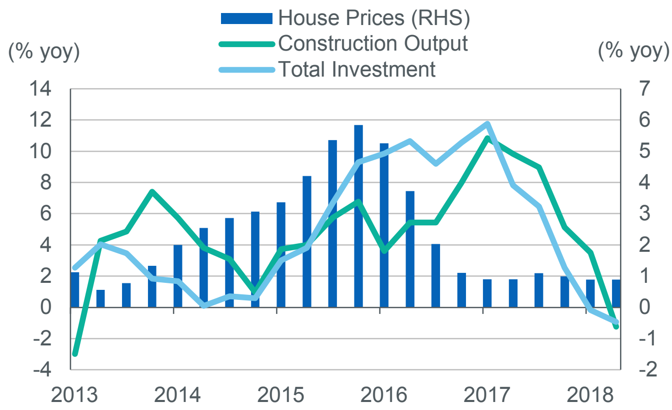
Accommodative fiscal and monetary policies and strong growth in wages should continue to support the outlook in the near term. The recent depreciation of the won (KRW) – amid global market turbulence – could also support exports despite the expected softening in external demand. Nonetheless, with job creation losing steam since early this year, the unemployment rate at its highest since 2010, rising US-China trade tensions and our forecast of a slowdown in China, Korean growth is expected to slow. China is Korea's largest trading partner, and the economy is highly integrated in Chinese supply chains. We have nudged down our 2018 and 2019 growth forecasts to 2.7%, and 2.5% respectively. We still see GDP expanding 2.5% in 2020.

Korea - Share of Semiconductors in Exports



Source: MKE, Fitch

Korea - Real Estate Indicators



Source: Bank of Korea, Kookmin Bank, Fitch

Korea - Forecast Summary

(%)	Ann. Av.2013-17	2017	2018f	2019f	2020f
GDP	3.0	3.1	2.7	2.5	2.5
Consumer Spending	2.2	2.6	2.8	2.6	2.4
Fixed Investment	5.2	8.6	0.5	1.7	1.9
Net Trade (contribution pps.)	-0.5	-2.5	0.4	0.3	0.3
CPI Inflation (end-year)	1.2	1.5	1.7	2.0	2.0
Policy Interest Rate (end-year)	1.84	1.50	1.75	2.00	2.25
Exchange Rate, USDKRW (end-year)	1114	1071	1220	1150	1150

Source: Fitch

Indonesia

Indonesian GDP unexpectedly picked up pace in 2Q18, growing by 5.3% yoy (after 5.1% growth in 1Q18) compared to an estimate of 5.1% in the June 2018 GEO. This is the strongest performance in more than four years. Growth was bolstered by strengthening public and private consumption amid elevated consumer confidence, a tight labour market, low inflation and a ramp-up in government expenditure ahead of the June regional elections. Imports gained traction on the back of strong investment growth.

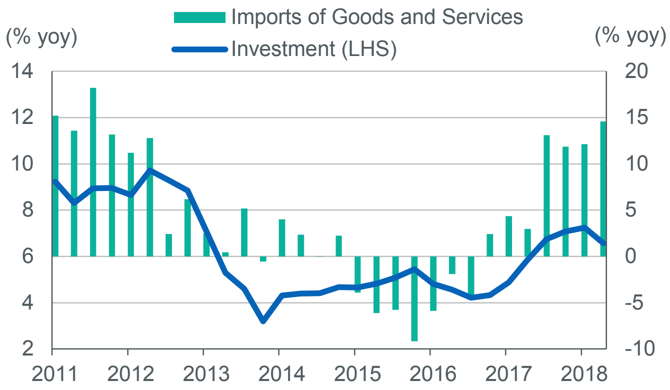
Looking ahead, we do not think that Indonesia's economy will maintain its current pace of expansion as tighter macroeconomic policies and financial conditions and an easing in Chinese demand will take a toll on growth. We still expect GDP to grow at only 5.1% over the whole of 2018.

On the monetary policy side, Bank Indonesia proceeded with a further rate hike at its August meeting, confounding expectations of no change in monetary policy. The decision marked the fourth rate hike since May, in a bid to stem the sharp depreciation of the rupiah (IDR).

Fiscal tightening will put downward pressure on real GDP growth. The government aims to reduce the fiscal deficit to 2.1% of GDP in 2018 and 1.8% in 2019, from 2.5% in 2017, in particular by enhancing scrutiny on spending. Public infrastructure investment should remain quite solid, carried out by SOEs, but the government recently announced measures to curb the rapid rise of imports in order to bring down the current account deficit. These measures will negatively affect expenditure with a high import content – mainly capital expenditure such as construction projects carried out by SOEs.

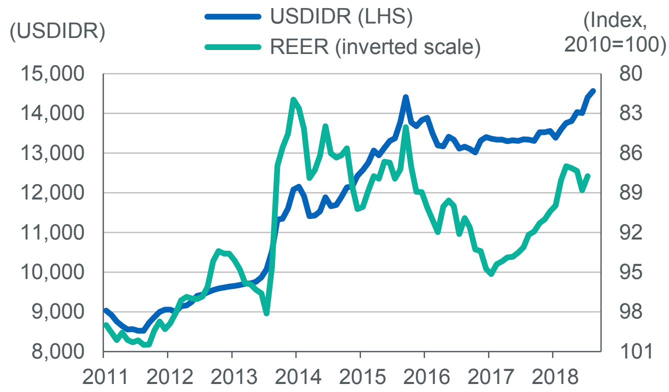
We have reduced our GDP growth forecasts for both 2019 and 2020 by 0.2pp, to 5.1% and 5.2% respectively. The economy should still benefit from good supply-side fundamentals (such as healthy total factor productivity growth compared to other large EMs), and managed inflation and inflation expectations, but will grow below potential in the next couple of years.

Indonesia - Investment and Imports Growth



Source: OECD, Fitch

Indonesia - Exchange Rates



Source: WM/Reuters, OECD, Datastream, Fitch

Indonesia - Forecast Summary

(%)	Ann. Av.2013-17	2017	2018f	2019f	2020f
GDP	5.1	5.1	5.1	5.1	5.2
Consumer Spending	5.1	5.0	5.2	5.2	5.3
Fixed Investment	5.0	6.2	6.3	5.4	5.6
Net Trade (contribution pps.)	0.3	0.3	-1.1	-0.1	0.1
CPI Inflation (end-year)	5.3	3.6	3.7	3.7	3.5
Policy Interest Rate (end-year)	6.42	4.25	5.75	6.25	6.50
Exchange Rate, USDIDR (end-year)	12477	13568	15300	15500	15500

Source: Fitch

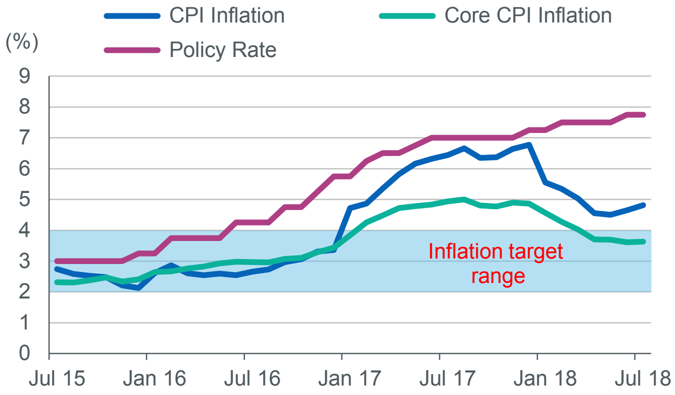
Mexico

Fitch has lowered its growth forecasts for Mexico for 2018-2020. We expect growth to reach 2.0% in 2018, compared to our previous forecast of 2.4%, and to average 2.4% during 2019-2020. The revisions come on the back of a weaker-than-expected 2Q18 economic performance, when the economy contracted by 0.2% and weakness was quite widespread across sectors. Industrial performance was affected by the continued weakness in the mining sector, a renewed contraction in the construction sector and some softening in manufacturing. The contraction in construction sector output reflects the fading effect of the reconstruction efforts in the aftermath of the natural disasters of last year.

Fitch projects a slight recovery in 2019 due to the supportive economic performance of the US as well as the receding headwinds from political and trade-related uncertainties. The late August announcement on the preliminary trade agreement between the US and Mexico helps reduce an important element of uncertainty over NAFTA. Lower inflation and a projected interest rate cut in 2019 could support domestic demand as well. However, downside risks remain given the uncertainties associated with the policy orientation of the incoming administration of Mr Lopez Obrador. In 2020, Fitch forecasts the US economy to slow, which will constrain the economic rebound in Mexico.

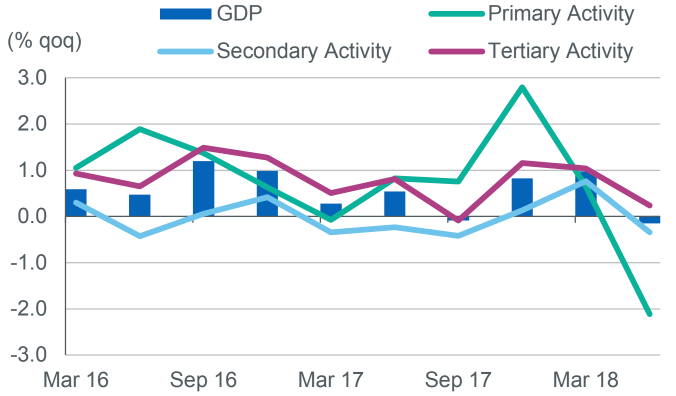
After falling in the early months of 2018, headline inflation has been under pressure since June. It reached 4.81% in July, up from 4.5% in May. The pressure is largely emanating from higher domestic energy prices, while core inflation and inflation expectations remain low. After increasing interest rates in June by 25bp to 7.75%, the central bank remained on hold in its August meeting despite the recent pressure on headline inflation. Banxico views the recent upward pressure on inflation as temporary and has emphasised the absence of demand-side price pressures. Fitch does not expect any further rate hikes this year.

Mexico - Inflation and Interest Rate



Source: Banxico, INEGI, Fitch

Mexico - GDP Growth



Source: INEGI, Fitch

Mexico - Forecast Summary

(%)	Ann. Av.2013-17	2017	2018f	2019f	2020f
GDP	2.5	2.0	2.0	2.3	2.5
Consumer Spending	2.7	3.0	2.9	2.1	2.6
Fixed Investment	0.9	-1.5	3.5	2.7	3.3
Net Trade (contribution pps.)	0.0	-0.9	-0.7	0.1	0.0
CPI Inflation (end-year)	3.9	6.8	4.3	3.6	3.5
Policy Interest Rate (end-year)	4.24	7.25	7.75	7.00	6.50
Exchange Rate, USDMXN (end-year)	15.91	19.57	19.50	19.50	19.50

Source: Fitch

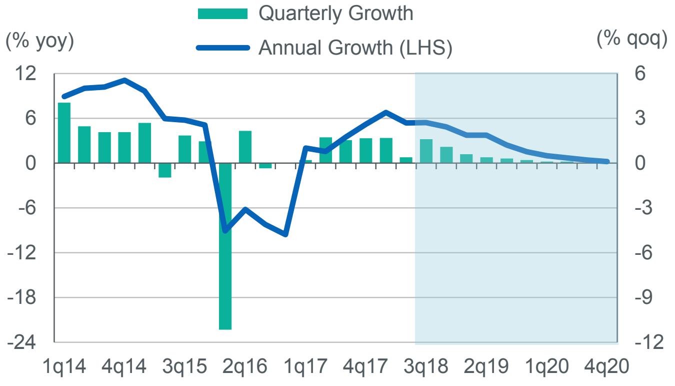
Poland

Poland's real GDP growth held steady in 2Q18, at a solid 5.1% yoy (1% qoq), driven in a sharp drop primarily by consumption. Household consumption grew by 4.9%, assisted by strong nominal wage growth (7.5% yoy, compared to 6.7% in 1Q18) and declining unemployment (5.9%, compared to 6.6% in 1Q18). High-frequency data such as retail sales (7.1% yoy in July 2018) suggest that robust consumption growth and strong labour market conditions have persisted into 3Q18. Government policies should also support consumption. However, investment should take over as the main engine of growth in 2H18, despite surprising on the downside in 2Q18 (4.5% yoy). This reflects the likely stepped-up use of EU funds, consistent with the current position in the funding cycle. The dip in investment likely contributed to a positive contribution from net trade in 2Q18.

Growth is forecast to slow over 2019 and 2020. Investment is likely to ease as the pace of growth in EU funds disbursements slows. Import-intensive growth and the slowdown in major trading partners in the EU that Fitch is forecasting will weigh on net trade. A tighter labour market is likely to erode corporate margins and will help prompt monetary policy tightening that will slow consumption growth.

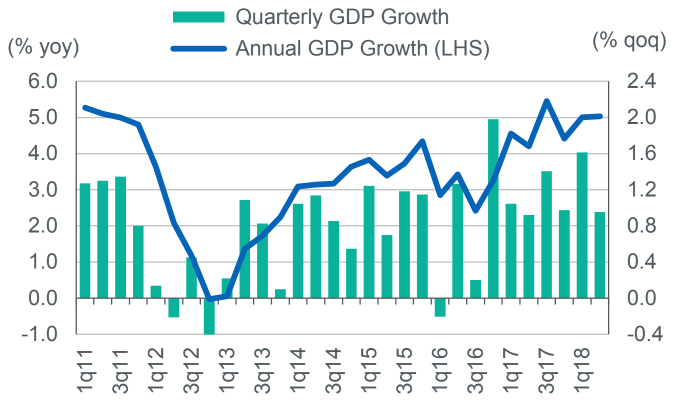
Driven by robust wage growth and fuel prices (15.3% yoy), headline inflation continues to edge up, reaching 2% yoy in August. However, core inflation remains weak at 0.6%. The increasingly tight labour market and modest exchange rate weakness are likely to push up inflation, causing the central bank to hike rates during the second half of 2019 (the policy rate has remained at 1.5% since March 2015). The hiking cycle will continue in 2020, partly reflecting forecast moves in ECB rates. This should support the currency, which has recently been hit by EM tensions.

Poland - Real Investment Growth



Source: Eurostat, Datastream, Fitch

Poland - Real GDP Growth



Source: Eurostat, Datastream, Fitch

Poland - Forecast Summary

(%)	Ann. Av.2013-17	2017	2018f	2019f	2020f
GDP	3.2	4.6	4.8	3.6	2.9
Consumer Spending	2.9	4.7	4.5	4.0	3.5
Fixed Investment	2.1	3.4	5.6	2.8	0.6
Net Trade (contribution pps.)	0.4	-0.2	-0.1	0.4	0.4
CPI Inflation (end-year)	0.4	2.1	2.5	2.8	2.5
Policy Interest Rate (end-year)	1.98	1.50	1.50	2.00	2.50
Exchange Rate, USDPLN (end-year)	3.56	3.47	3.75	3.75	3.75

Source: Fitch

Turkey

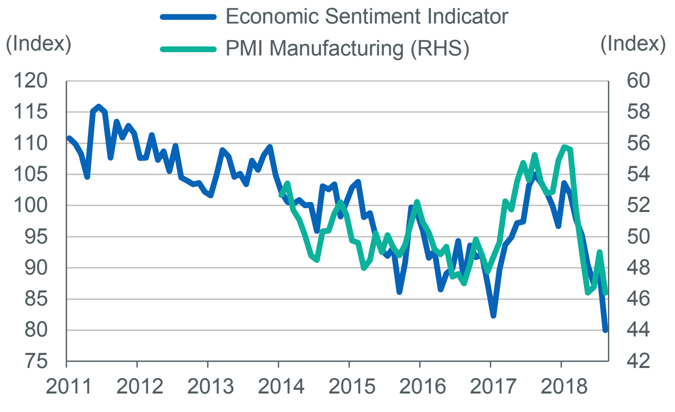
Fitch has reduced its GDP growth forecasts for Turkey significantly to reflect the macroeconomic fallout from the plunge in the lira. Long-standing external finance vulnerabilities were exposed by tighter external financing conditions and exacerbated by deteriorating economic data, post-election economic policy uncertainty and US sanctions. This is feeding self-reinforcing concerns about the private sector's vulnerability to currency weakness. Fitch's baseline is that the lira will stabilise around USDTRY 6.2 and hold at this level over our forecast period, though this is subject to major uncertainty.

Currency weakness will strain the private sector, which has a large open net FX position, and will put pressure on the banks through various channels, resulting in reduced availability of credit. In addition, inflation will dent purchasing power, and confidence effects will undermine private consumption and investment. While growth data in 2Q18 were reasonably solid, at 5.2% yoy (0.9% qoq), high-frequency data show a clear slowdown at the end of the quarter, and survey data for July and August point to a contraction in 3Q18. Fitch assumes the economy will be in recession in 2H18, with the yoy effects most pronounced in 2019, and that growth will remain below trend throughout our forecast period.

Lira depreciation will push inflation to 20% at the end of 2018, up from a 14-year high of 15.8% in July. We now expect inflation to remain in double digits though the forecast period, despite the significant slowing of economic activity. Inflation expectations are unanchored, and monetary policy credibility has been severely eroded. The 625bp hike in policy rates on 13 September should ease near-term currency pressure, but rates will need to stay high for a prolonged period to lower inflation on a sustained basis. A premature loosening domestic policy setting could lead to renewed market pressure on the currency.

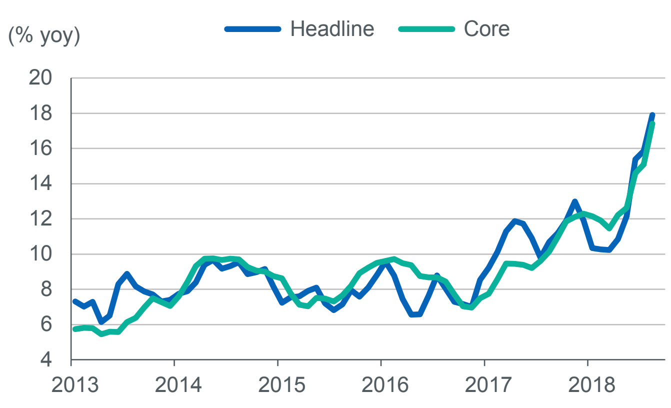
Fitch's baseline does not assume an IMF programme, due to domestic political stigma, or the introduction of capital controls, as this would likely force an even sharper adjustment with unpredictable spillovers, and would contradict long-standing and consistent policy statements.

Turkey - Confidence Indicators



Source: Bloomberg, EC, Datastream, Fitch

Turkey - Inflation



Source: TurkStat, Fitch

Turkey - Forecast Summary

(%)	Ann. Av.2013-17	2017	2018f	2019f	2020f
GDP	6.1	7.4	3.8	1.2	3.9
Consumer Spending	5.2	6.1	5.0	-1.7	3.5
Fixed Investment	7.7	7.8	2.9	-5.5	2.9
Net Trade (contribution pps.)	-0.2	0.1	1.7	3.4	0.4
CPI Inflation (end-year)	8.6	11.9	20.0	15.0	10.0
Policy Interest Rate (end-year)	7.38	8.00	24.00	22.00	16.00
Exchange Rate, USDTRY (end-year)	2.70	3.79	6.20	6.20	6.20

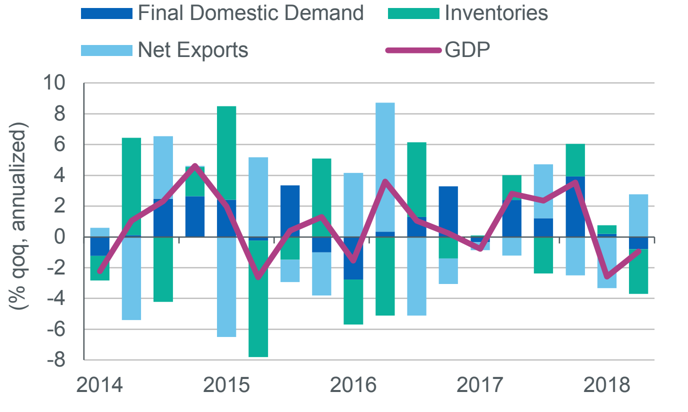
Source: Fitch

South Africa

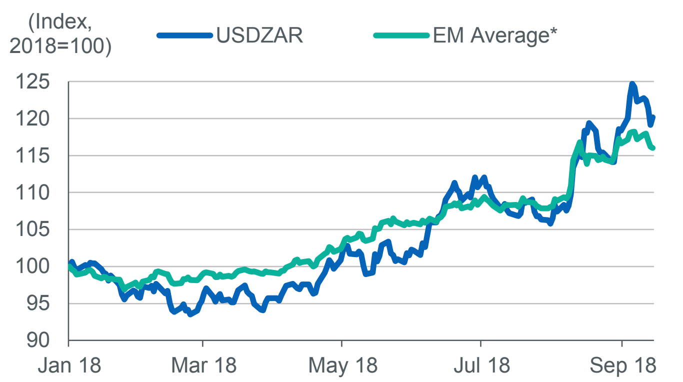
South Africa's 2Q18 GDP came in well below expectations, with a 0.7% supply-side contraction in seasonally adjusted and annualised terms. As this followed a 2.6% contraction in the first quarter, South Africa was in technical recession during the first half of the year. The 2Q18 contraction was driven by a sharp drop in inventories (with a contribution of -2.9pp) and relatively weak final domestic demand, not fully offset by a strong positive contribution from net exports. While we see a mild recovery in the second half of 2018, initial indicators for the third quarter remain subdued and we have revised our GDP growth forecasts for 2018 and 2019 down to 0.7% and 2.1%, respectively.

The expected mild recovery will be driven by a moderate strengthening of investment growth, as private fixed investment already strengthened in the second quarter and investment has been at very low levels for some time, leading to rising pressure for maintenance investment. The government's investment drive, with a target of USD100 billion by local and international companies over the next five years, is likely to make only a moderate immediate impact, although significant commitments have been achieved. A stimulus package under preparation is also unlikely to change prospects significantly, as it will be financed within existing expenditure ceilings.

The rand has depreciated substantially in recent months, reflecting primarily a broader risk aversion combined with the rand's prominent role as a proxy for EM currencies, but also domestic factors including the low GDP numbers. The discussion about land reform – including expropriation without compensation – has also contributed to outflows, although this is unlikely to cause substantial direct economic problems in the near term. While we expect a mild recovery, rand weakness will contribute to slightly higher inflation. Although the central bank will largely look through the direct impact on inflation, it will still tighten monetary policy more than previously expected, raising rates twice next year and once in 2020.



Source: Statistics SA, Fitch



* Unweighted average of Fitch 10 EMs FX versus USD
Source: Datastream, Fitch

South Africa - Forecast Summary

(%)	Ann. Av.2013-17	2017	2018f	2019f	2020f
GDP	1.5	1.3	0.7	2.1	2.1
Consumer Spending	1.5	2.2	1.7	2.3	2.3
Fixed Investment	1.5	0.4	0.5	3.4	3.8
Net Trade (contribution pps.)	0.2	-0.5	-0.5	-0.1	-0.3
CPI Inflation (end-year)	5.6	4.7	4.9	5.2	5.1
Policy Interest Rate (end-year)	6.08	6.75	6.50	7.00	7.25
Exchange Rate, USDZAR (end-year)	12.25	12.38	14.80	15.23	15.64

Source: Fitch

Appendix 1: Quarterly GDP Q/Q

(%)	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18	Q4 18	Q1 19	Q2 19
US	0.4	0.7	0.7	0.6	0.5	1.0	0.7	0.7	0.6	0.6
Euro area	0.7	0.7	0.7	0.7	0.4	0.4	0.4	0.5	0.5	0.4
China	1.5	1.9	1.8	1.6	1.4	1.8	1.4	1.5	1.5	1.5
Japan	0.7	0.5	0.6	0.2	-0.2	0.7	0.3	0.3	0.2	0.1
UK	0.4	0.2	0.4	0.4	0.2	0.4	0.3	0.3	0.3	0.3
Germany	1.1	0.5	0.6	0.5	0.4	0.5	0.5	0.6	0.3	0.3
France	0.8	0.6	0.7	0.7	0.2	0.2	0.5	0.5	0.3	0.4
Italy	0.5	0.4	0.4	0.3	0.3	0.2	0.5	0.3	0.3	0.3
Spain	0.8	0.9	0.7	0.7	0.7	0.6	0.7	0.6	0.6	0.5
Switzerland	0.4	0.7	0.7	0.8	1.0	0.7	0.4	0.4	0.5	0.5
Australia	0.4	0.7	0.7	0.7	1.1	0.9	0.6	0.6	0.7	0.7
Canada	1.0	1.1	0.4	0.4	0.4	0.7	0.5	0.5	0.3	0.3
Brazil	1.0	0.4	0.6	0.0	0.1	0.2	0.9	0.6	0.5	0.5
Russia	0.6	0.7	0.1	-0.3	0.9	1.2	0.4	0.2	0.3	0.3
India	1.8	1.4	1.9	1.8	2.4	1.9	1.7	1.6	1.7	1.8
Korea	1.0	0.6	1.4	-0.2	1.0	0.6	0.7	0.7	0.6	0.6
Mexico	0.3	0.5	-0.1	0.8	1.0	-0.2	0.6	0.6	0.7	0.6
Indonesia	1.3	1.3	1.3	1.3	1.3	1.3	1.2	1.2	1.3	1.3
Turkey	1.8	2.5	1.3	1.6	1.5	0.9	-1.6	-0.6	0.8	0.8
Poland	1.0	0.9	1.4	1.0	1.6	1.0	1.0	0.7	0.9	0.8
South Africa	-0.1	0.7	0.6	0.8	-0.7	-0.2	0.6	0.6	0.6	0.6
Developed [a]	0.6	0.6	0.6	0.5	0.4	0.8	0.6	0.6	0.5	0.4
Emerging [b]	1.4	1.4	1.3	1.1	1.4	1.3	1.1	1.1	1.2	1.2
World [c]	0.9	0.9	0.9	0.7	0.8	1.0	0.8	0.8	0.7	0.7

[a] US, Japan, France, Germany, Italy, Spain, UK, Canada, Australia and Switzerland.

[b] Brazil, Russia, India, China, South Africa, Korea, Mexico, Indonesia, Poland and Turkey.

[c] 'Fitch 20' countries weighted by nominal GDP in USD at market exchange rates (3 year average)

Source: Fitch

Appendix 2: Quarterly GDP Y/Y

(%)	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18	Q4 18	Q1 19	Q2 19
US	1.9	2.1	2.3	2.5	2.6	2.9	2.9	3.1	3.1	2.6
Euro area	2.0	2.5	2.8	2.7	2.4	2.1	1.9	1.8	1.8	1.9
China	6.9	6.9	6.8	6.8	6.8	6.7	6.5	6.3	6.2	6.0
Japan	1.4	1.6	2.0	2.0	1.1	1.3	1.0	1.1	1.5	0.9
UK	1.8	1.8	1.7	1.3	1.2	1.3	1.3	1.3	1.4	1.3
Germany	2.1	2.2	2.7	2.8	2.0	1.9	1.9	1.9	1.8	1.7
France	1.4	2.3	2.7	2.8	2.1	1.7	1.5	1.4	1.5	1.8
Italy	1.3	1.6	1.7	1.6	1.4	1.2	1.3	1.2	1.2	1.3
Spain	3.0	3.1	3.1	3.1	3.0	2.7	2.6	2.5	2.4	2.4
Switzerland	1.2	1.0	1.7	2.5	2.9	3.2	3.0	2.6	2.1	1.8
Australia	1.9	1.9	2.7	2.4	3.2	3.4	3.3	3.3	2.8	2.7
Canada	2.3	3.8	3.1	3.0	2.3	1.9	2.0	2.2	2.1	1.7
Brazil	0.0	0.4	1.4	2.1	1.2	1.0	1.3	1.8	2.1	2.5
Russia	0.6	2.5	2.2	0.9	1.3	1.9	2.1	2.6	2.1	1.2
India	6.1	5.6	6.3	7.0	7.7	8.2	8.0	7.8	7.1	7.0
Korea	2.9	2.8	3.8	2.8	2.8	2.8	2.1	3.0	2.6	2.6
Mexico	3.3	1.8	1.6	1.5	1.4	2.6	2.2	2.0	1.7	2.4
Indonesia	5.0	5.0	5.1	5.2	5.1	5.3	5.1	5.1	5.1	5.1
Turkey	5.3	5.3	11.5	7.3	7.3	5.2	2.5	0.3	-0.4	-0.5
Poland	4.4	4.0	5.2	4.9	5.2	5.1	4.7	4.4	3.7	3.6
South Africa	1.0	1.2	1.6	1.4	0.8	0.0	0.5	0.3	1.6	2.3
Developed [a]	1.8	2.1	2.3	2.4	2.2	2.3	2.3	2.3	2.4	2.1
Emerging [b]	5.0	5.1	5.5	5.3	5.4	5.3	5.1	5.0	4.8	4.8
World [c]	3.0	3.2	3.5	3.4	3.4	3.4	3.3	3.3	3.3	3.1

[a] US, Japan, France, Germany, Italy, Spain, UK, Canada, Australia and Switzerland.

[b] Brazil, Russia, India, China, South Africa, Korea, Mexico, Indonesia, Poland and Turkey.

[c] 'Fitch 20' countries weighted by nominal GDP in USD at market exchange rates (3 year average)

Source: Fitch

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