The seven dwarfs of growth

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Tiny growth in 2016

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World GDP growth to remain below 3% until 2017. No marked pick-up in advanced economies (growth stable at +2.0%) while emerging markets will bottom-out (+3.8%).

GDP growth, %

	*Weights**	2014	2015	2016	2017
Global GDP growth	***100***	**2.7**	**2.6**	**2.7**	**2.9**
World trade growth		**3.6**	**2.7**	**3.6**	**4.0**
United States	22	2.4	2.4	2.3	2.2
Brazil	3	0.2	-3.7	-2.4	1.2
United Kingdom	4	2.9	2.4	2.1	1.9
Eurozone	**18**	***0.9***	***1.5***	***1.7***	***1.8***
Germany	5	1.6	1.5	1.8	1.8
France	4	0.2	1.1	1.4	1.6
Italy	3	-0.4	0.7	1.1	1.2
Spain	2	1.4	3.1	2.6	2.1
Central and Eastern Europe	**6**	**1.4**	**-0.1**	**1.5**	**2.2**
Russia	3	0.6	-3.7	-0.5	1.0
Turkey	1	2.9	3.6	3.3	3.5
Asia	**29**	**4.8**	**4.8**	**4.8**	**4.7**
China	13	7.3	6.9	6.5	6.4
Japan	7	-0.1	0.8	1.3	0.8
India	2	7.3	7.4	7.6	7.8
Middle East	4	**2.6**	**2.8**	**3.1**	**3.9**
Saudi Arabia	1	3.5	3.0	2.0	3.5
Africa	**3**	**3.4**	**3.2**	**3.9**	**4.5**
South Africa	0	1.5	1.5	2.0	2.0

The U.S. and the U.K. towards the end of the recovery cycle

Europe is clawing their way back into growth

Selectivity will be key in **China**

Emerging markets: High volatility to prevail, but the worse is behind us

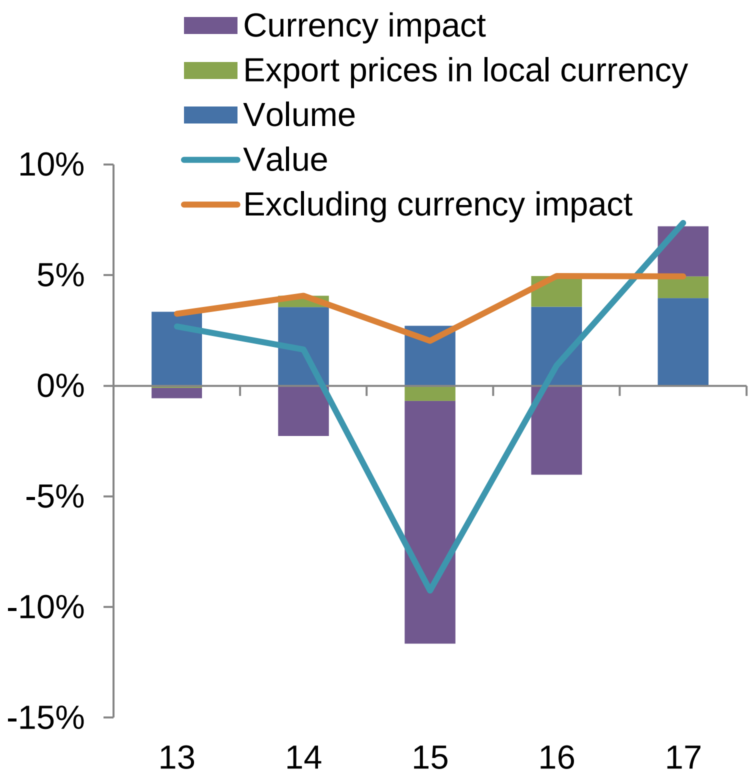
** Weights in global GDP at market price, 2014*

Sources: National sources, IHS, Euler Hermes

Dwarf #1: **Sleepy** trade to open one eye in 2016

Global trade to improve but at slow pace in 2016 and 2017. Price effect to remain a drag reflecting the end of cheap dollar and downward pressures on demand.

Global Trade simulations (growth and contributions in bars)



Reshoring

- **Bottlenecks** associated with extreme events, disappearance of the comparative advantages of low-cost countries.
- **China**, from processing center to value-creator. In 25 years, China became the largest bazar economy (USD1tn).

Service- or domestic- ization?

- Mega adjustment toward domestic demand: **services,** less trade- (and investment-) dependent.

Potential for rebound

- **Technology** is improving the ability of SMEs to participate in international trade.
- **Trade in services** could grow faster if barriers are lifted.
- Addressing global trade **financing** needs.

Sources: IHS, Euler Hermes

Dwarf #2: **Grumpy** emerging markets

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Emerging markets are not equally exposed to current external headwinds. Likewise, their initial domestic conditions are not always supportive.

#1 Adverse external environment

- Tightening external financial conditions (start of the Fed monetary tightening cycle)
- Currency depreciation and volatility
- Persistent low (and volatile) commodity prices
- Chinese slowdown

#2 Internal challenges

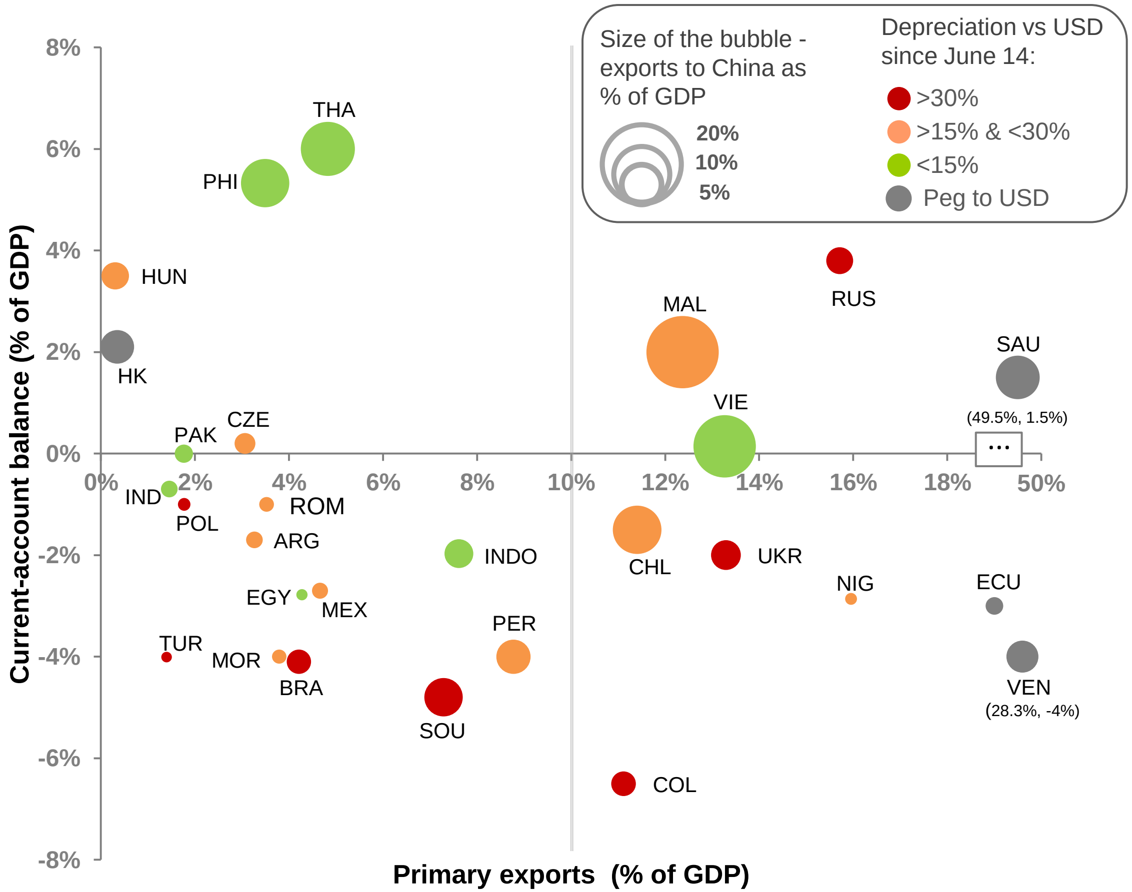
- Inflationary pressures in some countries
- Domestic demand slowdown (consumption and private investment)
- No leeway for additional public support

#3 Political and social tensions

- Political calendar and key elections
- Intensifying social tensions

Sources: IHS, Euler Hermes

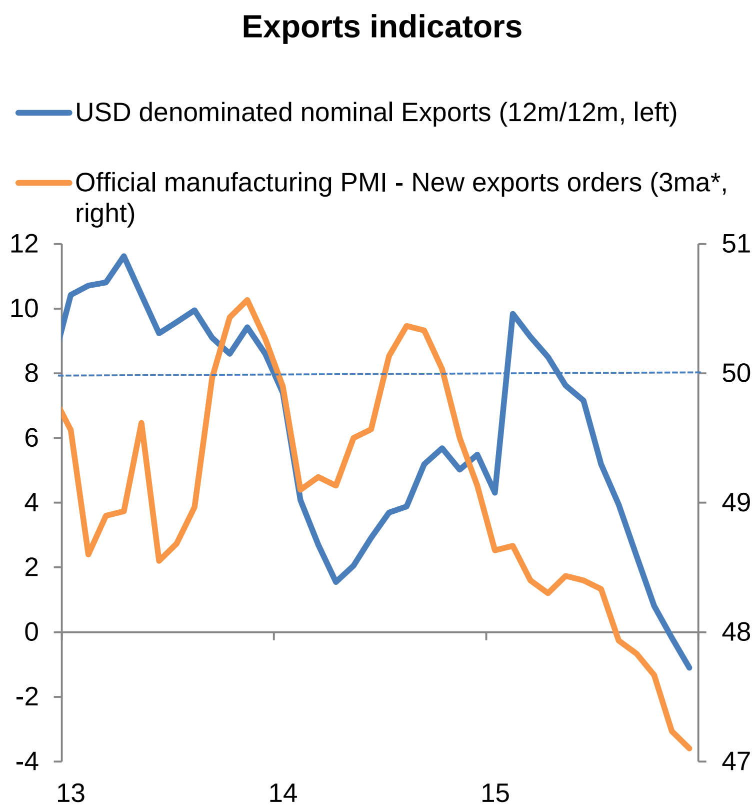
Emerging Markets exposure to China, Commodities and Fed



Sources: Chelem, IMF, IHS, Euler Hermes

China - Downside #1: The exports boost is missing

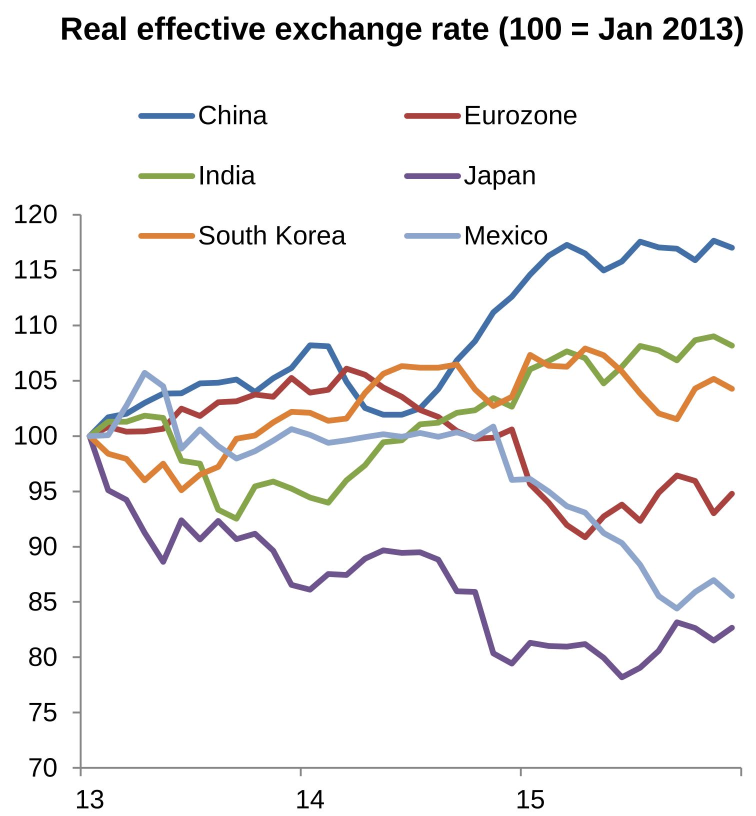
Exports and new exports orders continue to show signs of weaknesses



**3ma refers to 3 months rolling average*

Sources: IHS, Euler Hermes

Deteriorated price competiveness is acting as a drag



Sources: IHS, BIS, Euler Hermes

China - Downside #2: Private investment growth is weak as companies are faced with structural constraints

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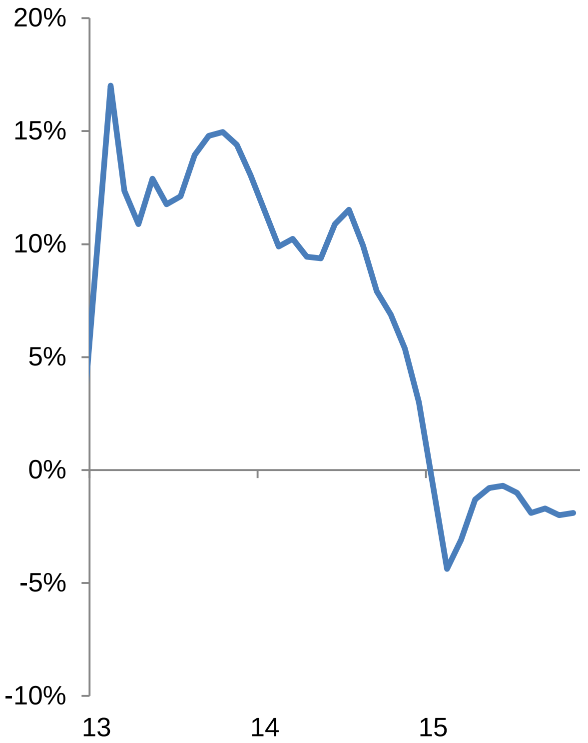
Constraint 1: lower corporate profits in the industry

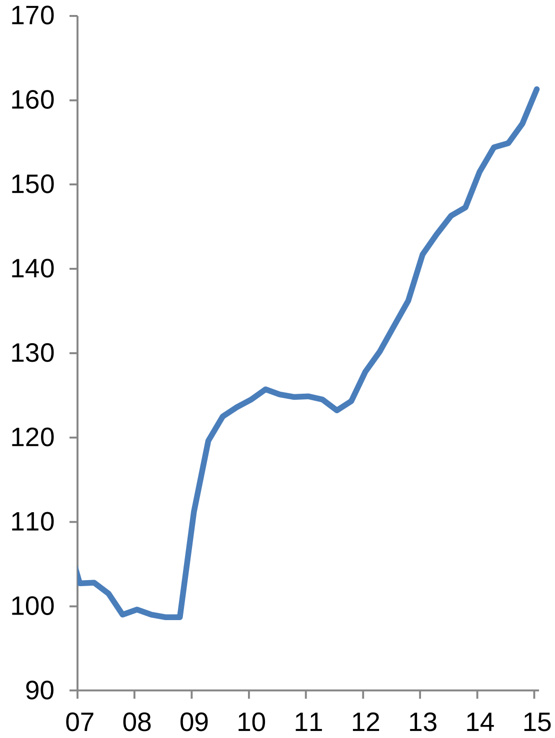
Industrial profit for largest companies (YTD, y/y)



Sources: IHS, Euler Hermes

Constraint 2: high corporate debt

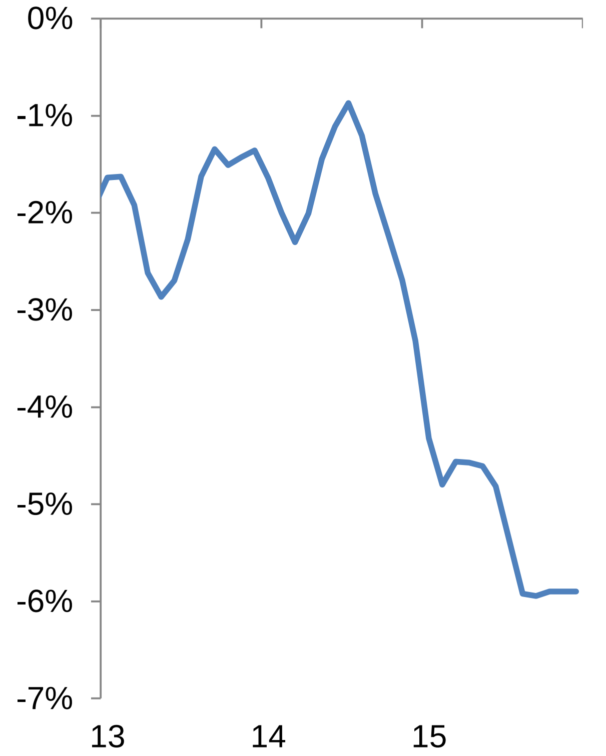
Non financial corporate debt (% GDP)



Sources: BIS, Euler Hermes

Constraint 3: deflationary pressures as overcapacity reduction is still underway

PPI (y/y)



Sources: IHS, Euler Hermes

China - Upside #1: Private consumption and services continue to show resilience

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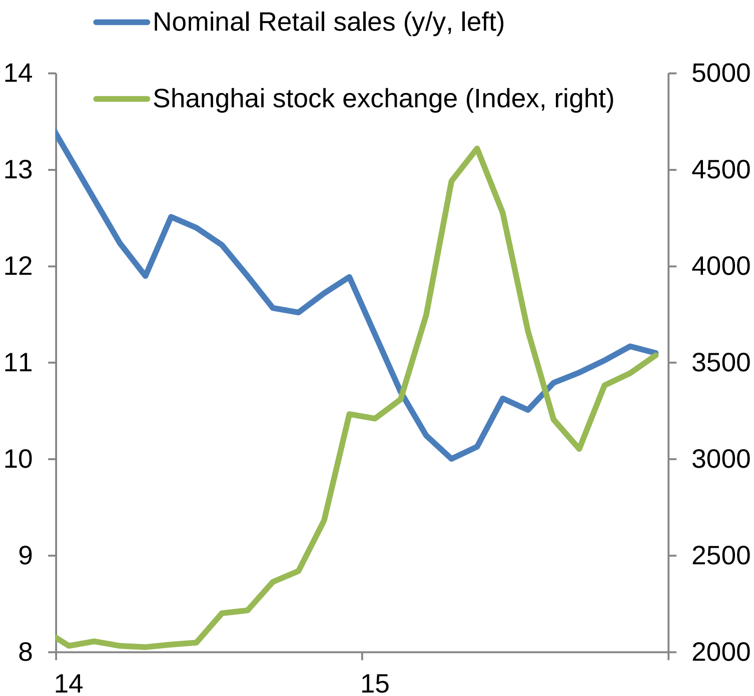
Private consumption shows resilience despite market correction

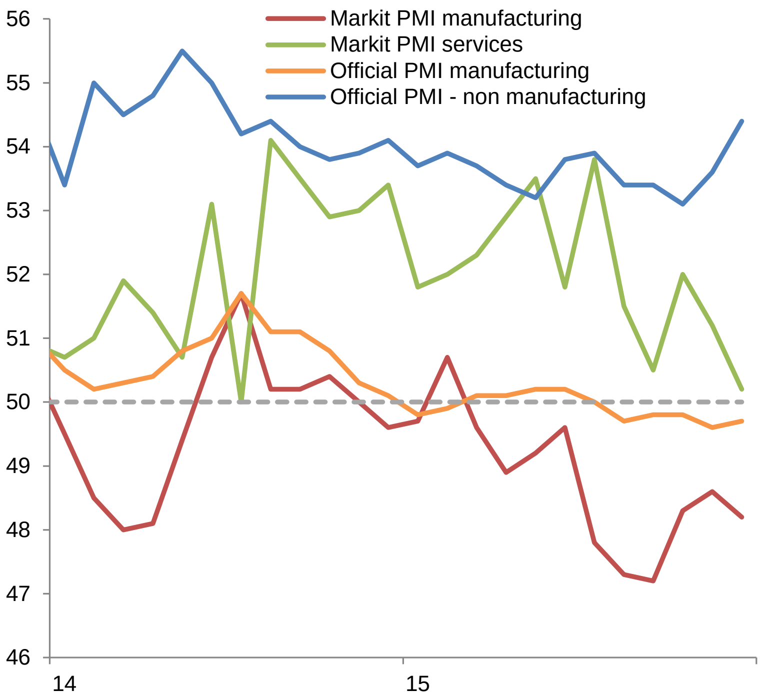
Retail sales and stock markets



Sources: IHS, Euler Hermes

Services still continue to drive growth

Purchasing Managers Index

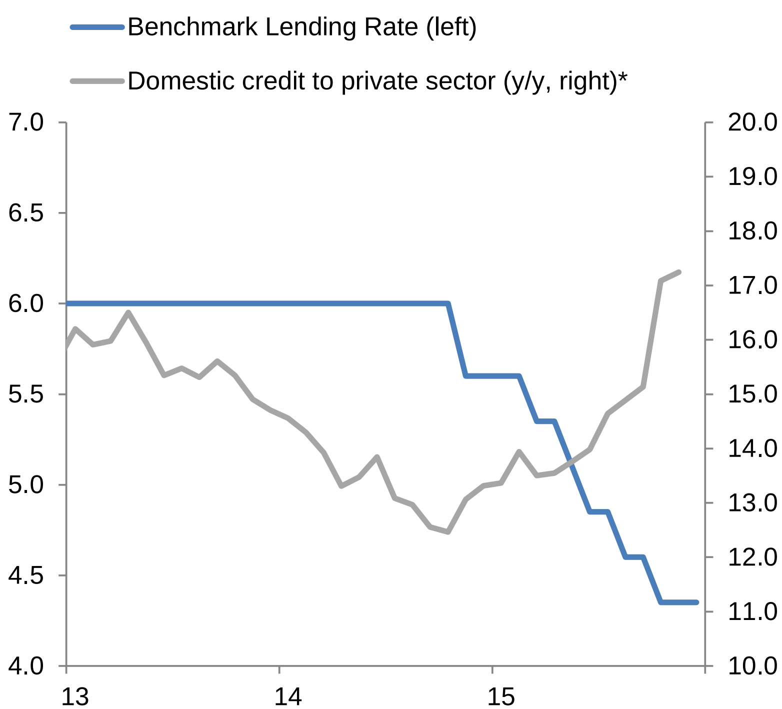


Sources: IHS, Euler Hermes

China - Upside #2: Policy mix is getting more aggressive to support growth

Monetary policy eased significantly, credit growth is picking up speed, but more action is needed

Monetary policy indicators



**Claims on private sector, Banking survey*

Sources: IMF, Euler Hermes

Fiscal support is accelerating with a pick up in infrastructure related expenditures and targeted public spending

Government expenditures and main items growth

Y/Y

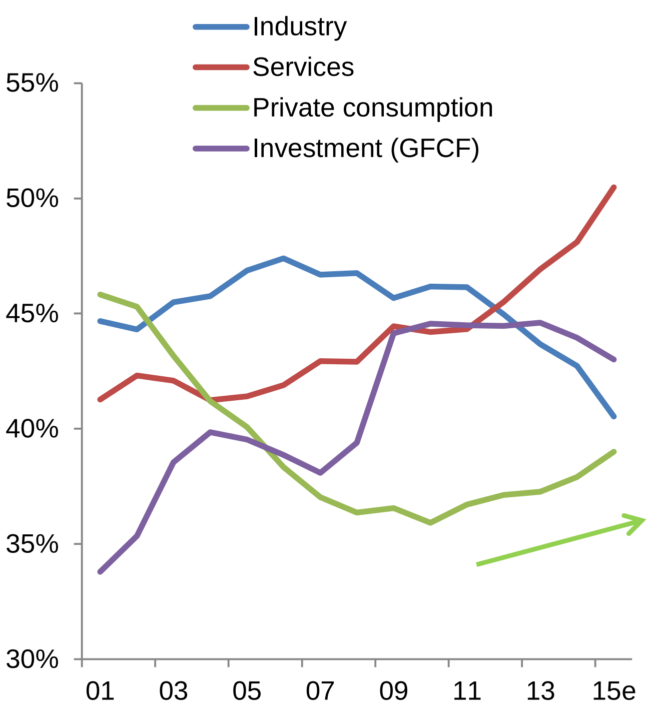
	2014	06-2015	09-2015	10-2015	11-2015
Total	8.2%	14%	27%	36%	26%
General public services	8.0%	-5%	-10%	26%	11%
Education	4.1%	20%	21%	17%	28%
Science and Technology	3.4%	32%	43%	20%	49%
Social Security and Employment	9.8%	33%	28%	12%	25%
Medical Treatment and Health	9.8%	25%	24%	27%	35%
Environment Protection	2.6%	-3%	64%	74%	42%
Urban and Rural Community Affairs	15.4%	32%	89%	53%	84%
Affairs of Agriculture, Forest and Irrigation	4.9%	16%	32%	40%	20%
Transportation	10.9%	19%	25%	44%	-3%

Sources: IHS, Euler Hermes

China - Upside #3: “Move to quality growth process” is gaining traction gradually

Item #1: The economic rebalancing is improving

GDP components (% of GDP)



Sources: IHS, Euler Hermes

Item #2: The country is making significant improvement on financial liberalization

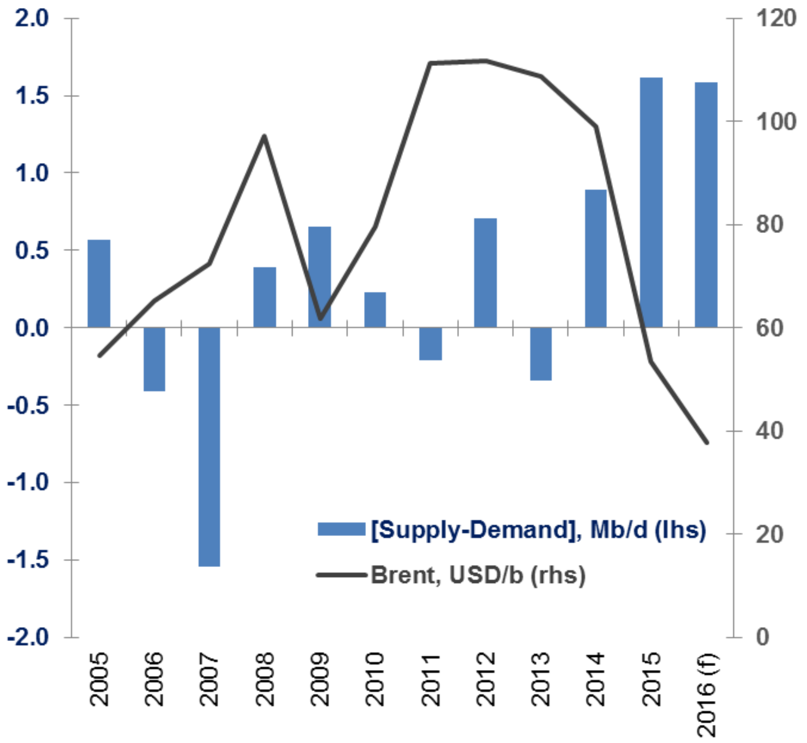
April	• IMF announces that RMB on path to inclusion in SDR basket • Mainland Chinese buying of Hong Kong share via Shanghai- Hong Kong stock connect reaches daily quota for first time
May	• Deposit insurance scheme goes live. The insurance system will guarantee deposits of up to 500,000 RMB ($81,000). • PBoC cut benchmark lending and deposit rates; the ceiling for deposit rates was raised to 1.5 times the benchmark level (fron 1.3)
July	• Chinese State Council announced that China will widen RMB trading band soon
August	• Change in exchange rate formation mechanism: the daily opening fixing rate of the RMB is based on the previous trading day’s closing • PBoC cut benchmark lending and deposit rates; abolition of the cap on deposit rates with maturities over one year • Loan to deposit-ratio scrapped (75% before)
October	• PBoC cut benchmark lending and deposit rates. Removal of the deposit rate ceiling.
November	• RMB is included in the SDR basket with a share of 10.9%
December	• Introduction of a new measure of currency development by the PBOC. The RMB will be looked at on a trade-weighted index basis rather than in USD terms.

Sources: Scotia Bank, various sources, Euler Hermes

Dwarf #3: (too) **Timid** prices

Oil supply is not expected to adjust while demand should remain weak: low oil prices for longer

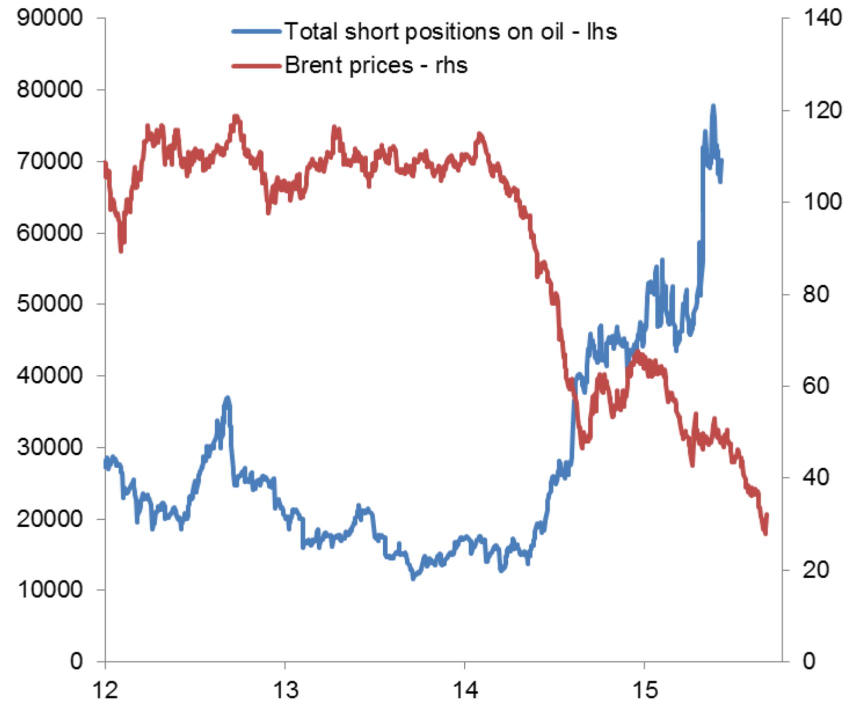
Oil supply vs. Brent prices



Sources: IHS, Euler Hermes

Speculation brings a lot of noise in fixing oil prices

Total oil short positions vs. Brent prices

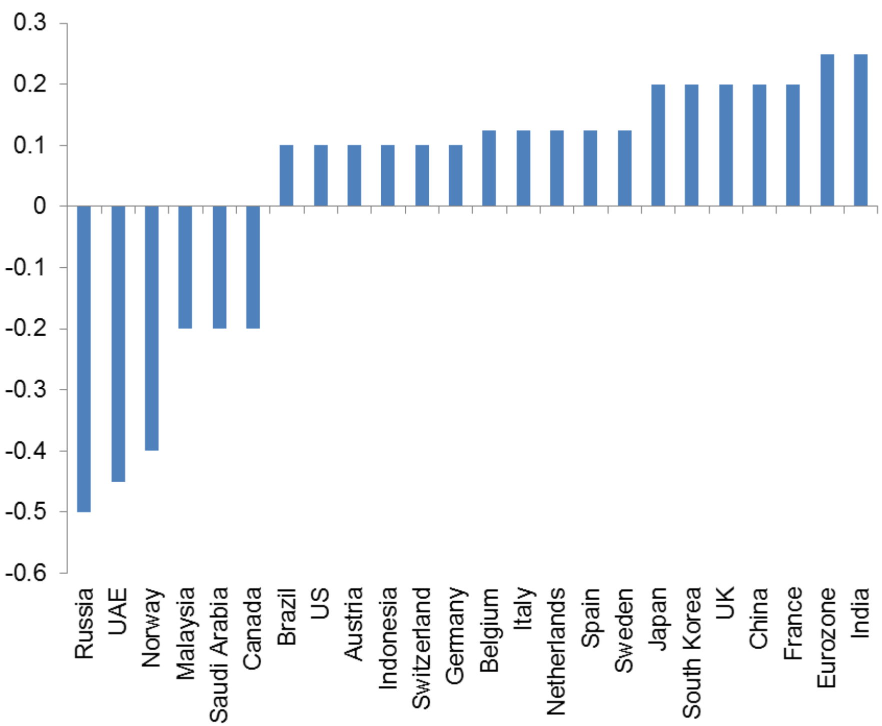


Sources: IMF, Euler Hermes

Dwarf #3: (too) **Timid** prices – *Impact on countries*

Exporters start having limited buffers but importers continue to benefit. Impact between [-0.5;0.3] GDP points for –USD10/bbl

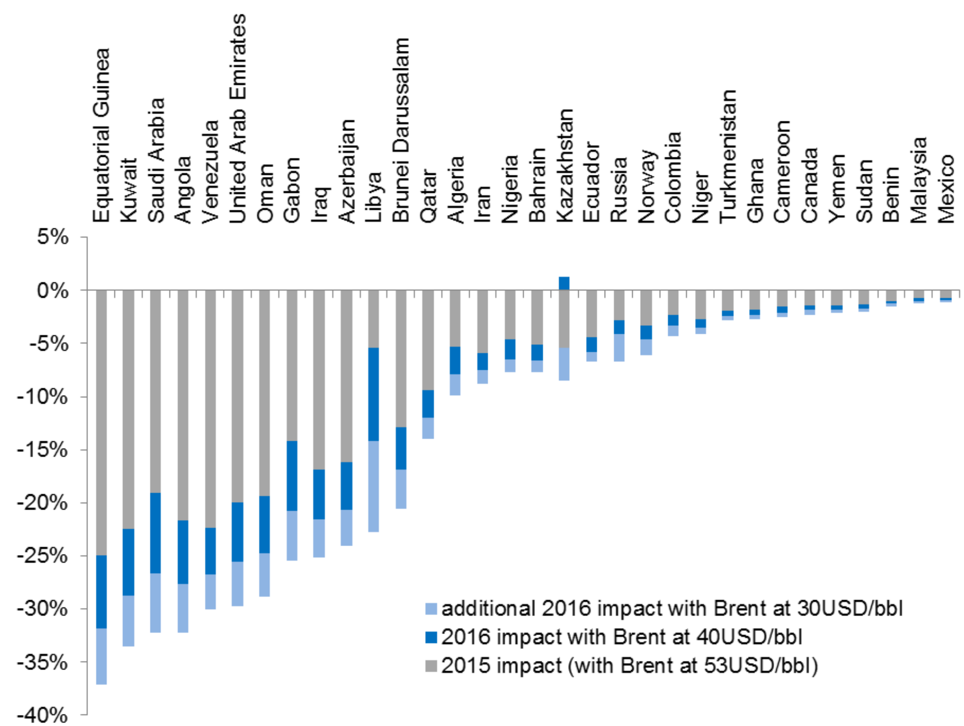
Impact on GDP growth after 1 year from a permanent USD10 decline in oil prices (full pass-through)



Sources: IMF, Euler Hermes

TOP 10 most vulnerable: Equatorial Guinea, Kuwait, Saudi Arabia, Angola, Venezuela, UAE, Oman, Gabon, Iraq and Azerbaijan

Impact on current account balance (% of GDP)

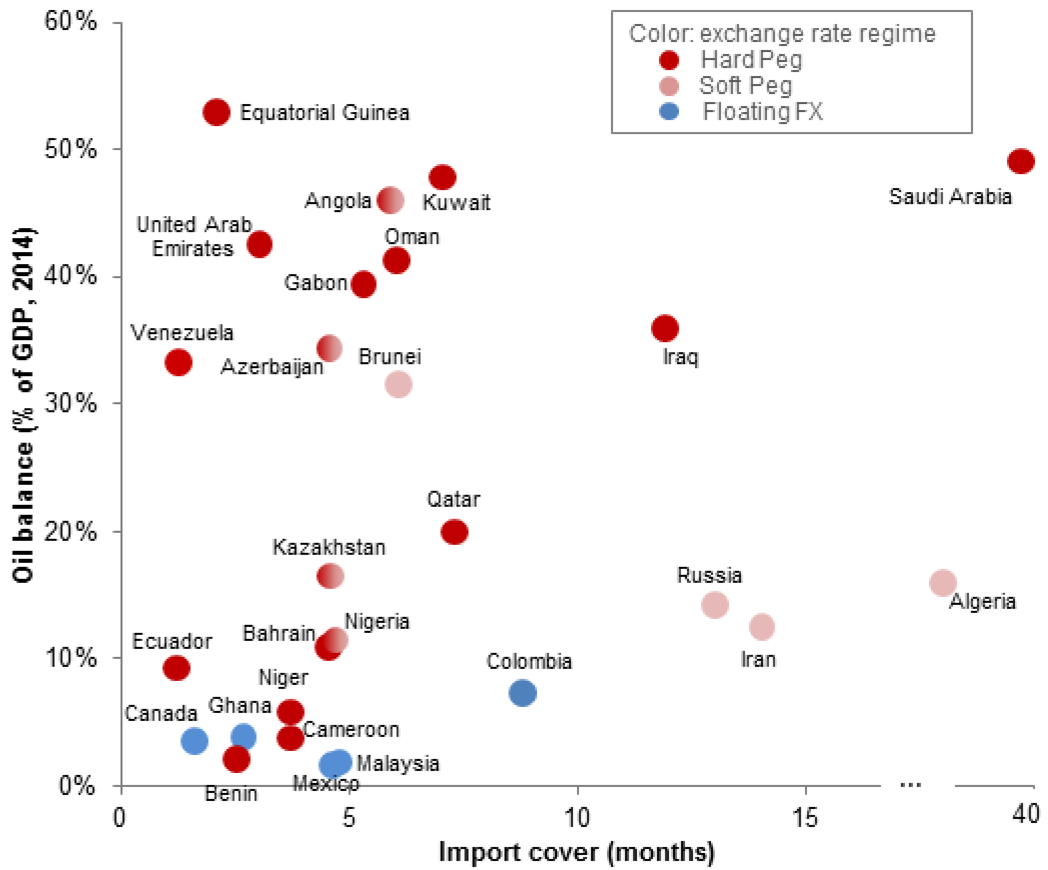


Sources: IHS Global Insight, Euler Hermes

Dwarf #3: (too) **Timid** prices – *Who is really at risk?*

Who has the buffers to resist in the medium term? The most vulnerable appear to be **Equatorial Guinea**, **Gabon**, **Angola**, **Oman** and **Venezuela**. **Kuwait** and **United Arab Emirates** have strong financing positions (Sovereign Wealth Fund).

Import cover (in months of FX reserves) vs. oil balance (% of GDP)

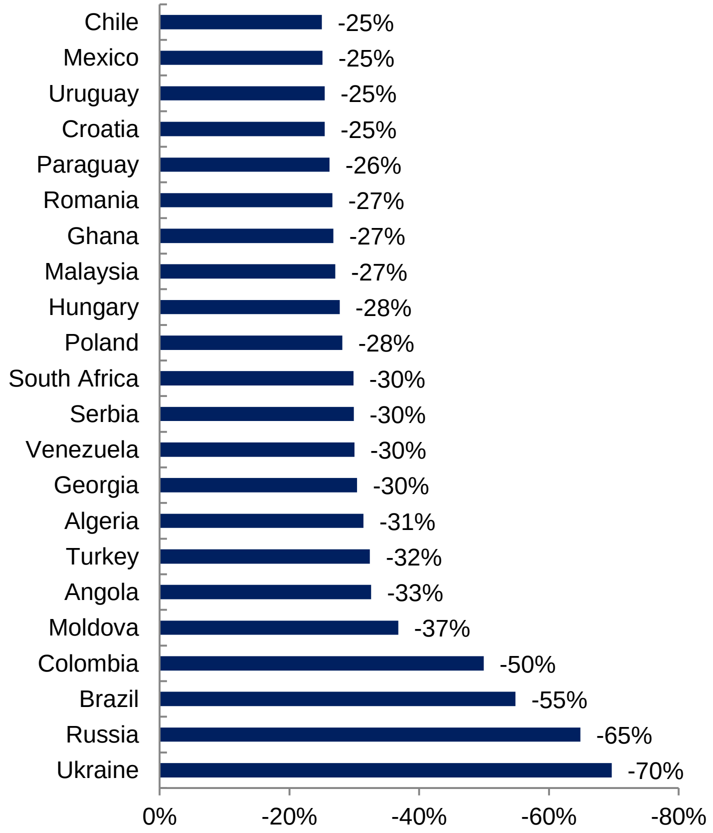


Sources: IHS Global Insight, Euler Hermes

Dwarf #4: **Sneezy** financial markets

Currency depreciations have been dramatic but are expected to moderate in 2016

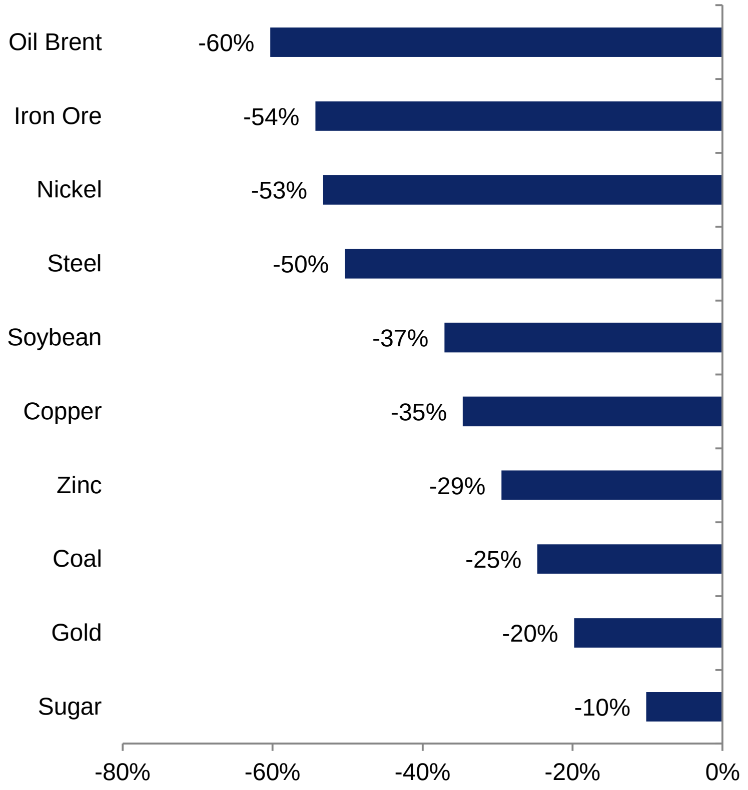
Top depreciation against the USD for big emerging markets (%, from June 2014)



Sources: IHS, Euler Hermes

The fall in commodity prices is not over yet: consumption for Capex commodities will continue to adjust downwards

Commodity prices, variation since June 2014

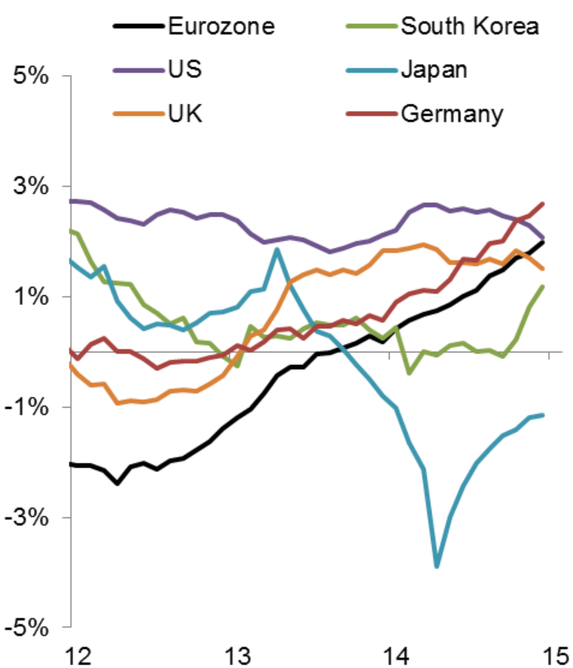


Sources: IHS, Euler Hermes

Dwarf #5: **Happy** consumer will not save the world

A visible consumption boost, especially in Europe

Retail sales (volume), 12M/12M



Sources: IHS, Euler Hermes

Inflation will slightly pick-up causing disposable income to slow down

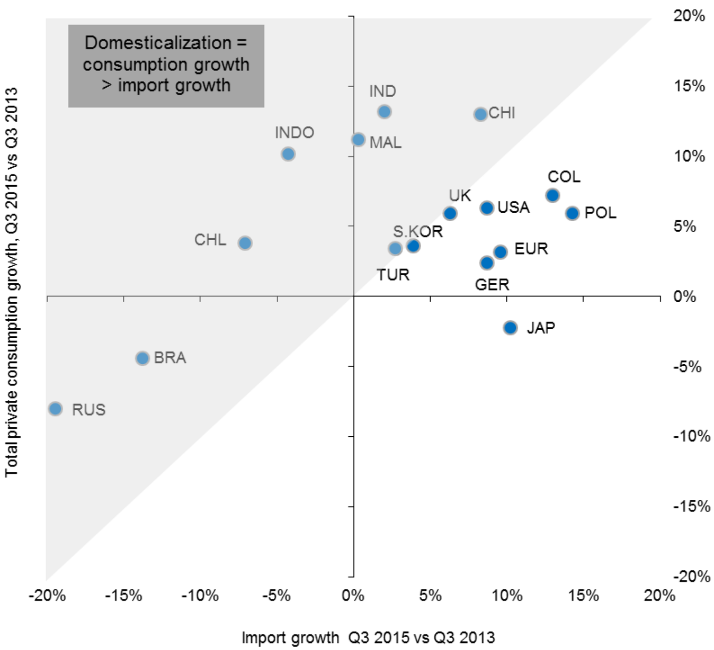
Consumer prices (y/y, %)

	2014	2015e	2016f	2017f
Eurozone	0.4	0.0	0.8	1.4
Germany	0.9	0.3	1.0	1.5
China	2.0	1.4	1.8	2.5
Japan	2.7	0.8	0.5	2.0
South Korea	1.3	0.7	1.2	1.5
UK	1.3	0.2	0.9	1.4
US	1.5	0.3	1.7	2.0

Sources: National sources, Euler Hermes

Most of the benefits are in domestic sectors (services, construction)

Imports growth vs. consumption since 2013 (real terms)

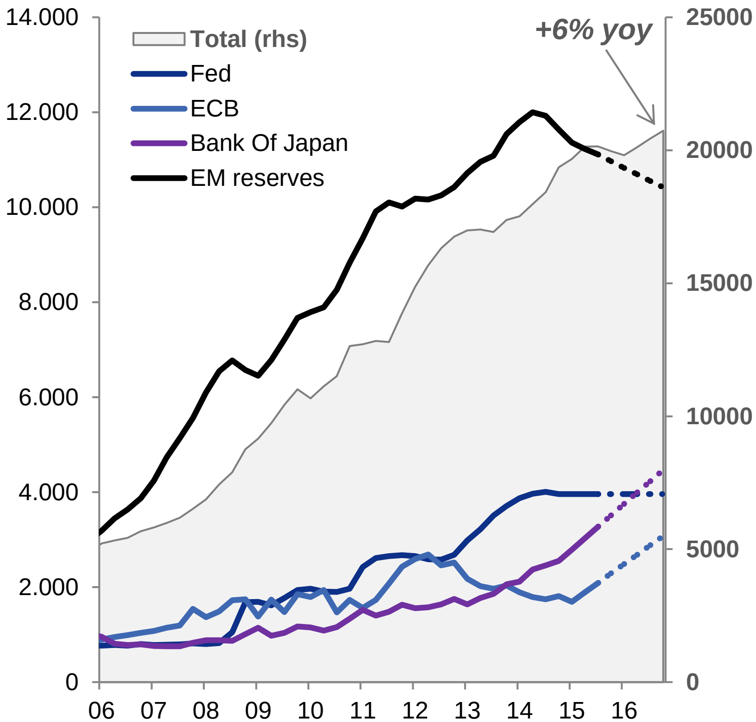


Sources: IHS, Euler Hermes

Dwarf #6: The policy-mix **Doc** is back

Despite falling emerging reserves, liquidity will remain abundant thanks to asset purchases from the Bank of Japan and ECB

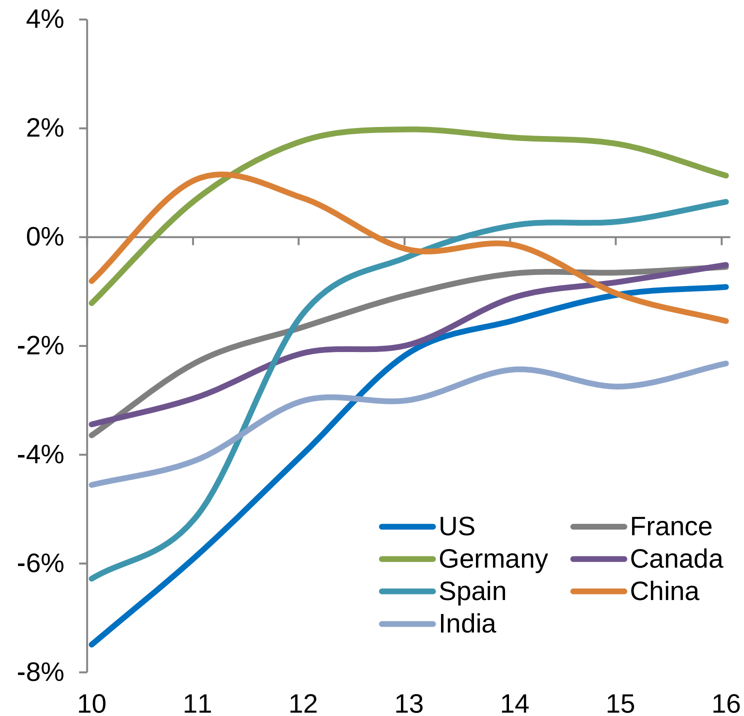
Monetary base vs. Emerging Markets reserves (USDbn)



Sources: IHS, Euler Hermes

Fiscal consolidation could become less of a concern (in spite of debt overhang) as domestic growth engines are favored

General government cyclically adjusted primary balance (% GDP)



Sources: IMF-Fiscal Monitor, Euler Hermes

USA: Services, 84% of GDP, are in good shape

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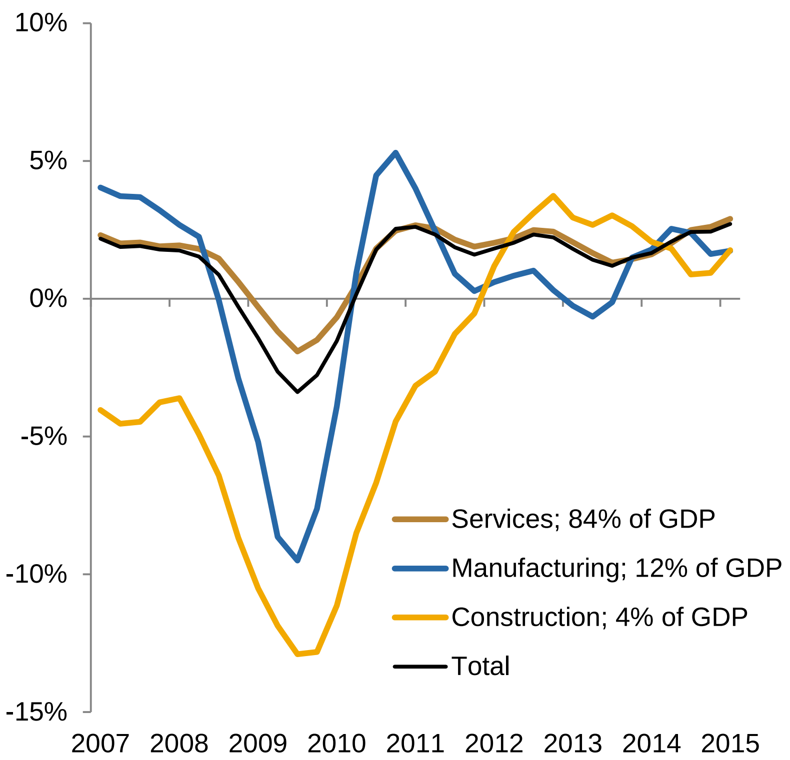
Services hold the fort: they are growing at +2.9%, faster than GDP

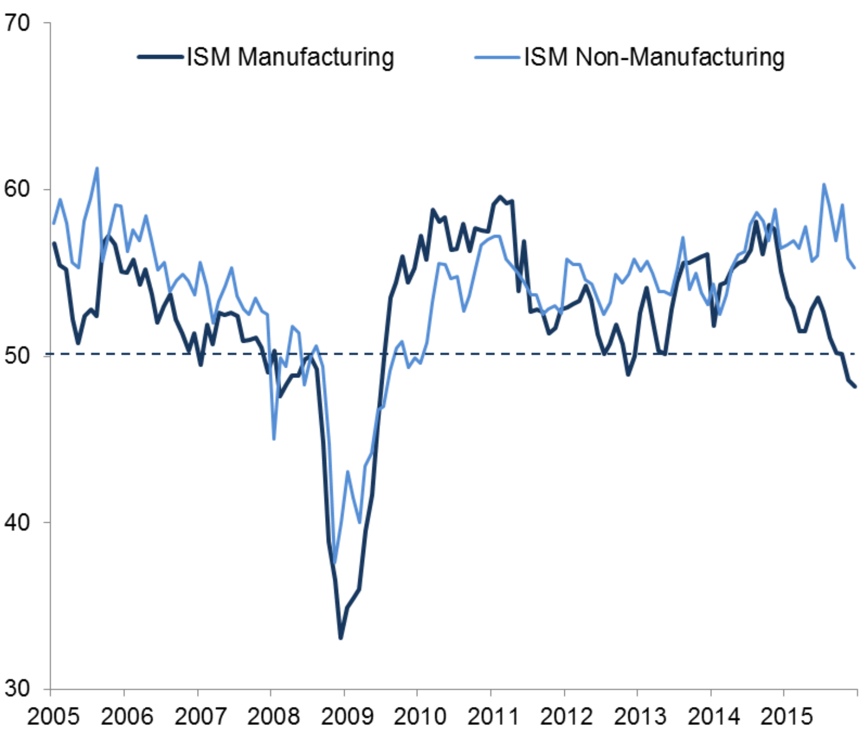
Real gross domestic product by sector, 4Q/4Q



Sources: IHS, BEA, Euler Hermes

ISM indices show a slump in manufacturing but services are strong; 9 of 10 components >50, 12 of 18 industries expanding

ISM Manufacturing and Services Indices

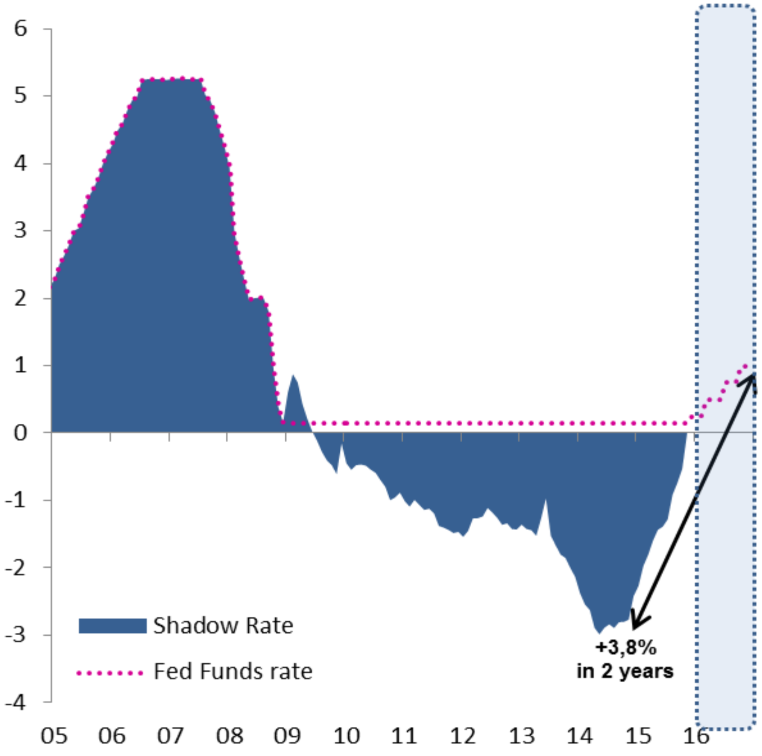


Sources: IHS, ISM, Euler Hermes

USA: A sharp tightening in financial conditions bodes ill for businesses

If the Fed were to increase rates to 1% in 2016, it would actually have tightened financial conditions by 3.8% in 2 years

Fed Funds rate: official vs "shadow"* rate

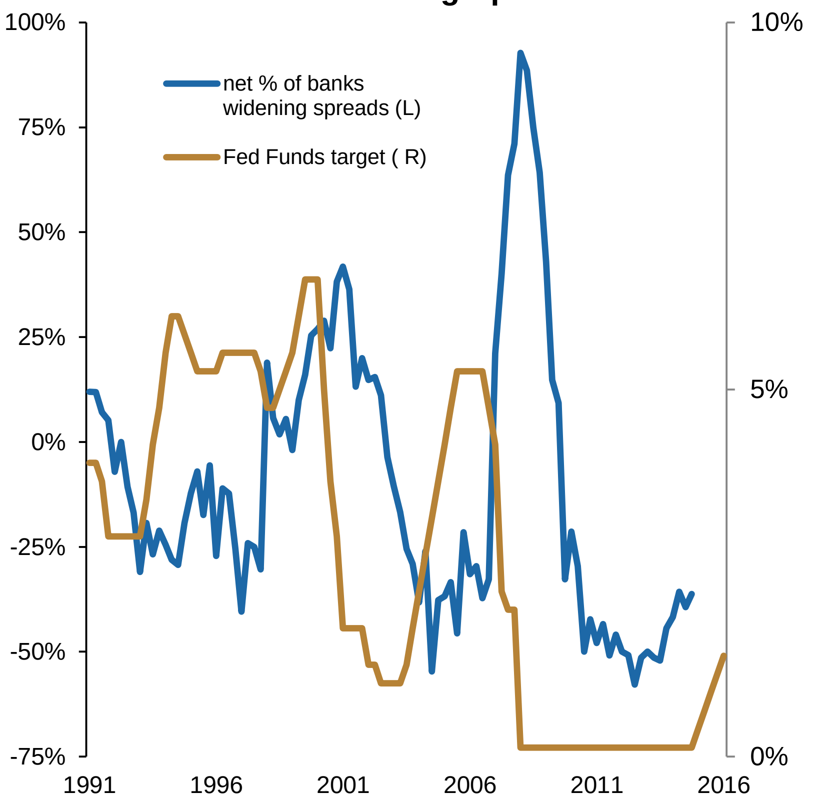


**) The shadow rate is a virtual rate that equals the Fed fed funds rate when it is positive and is lower than zero otherwise. It allows to assess the stance of monetary policy at the zero-lower bound*

Sources: IHS, Atlanta FED, Euler Hermes

Meanwhile, banks tighten lending conditions, making loans harder to get, and charge higher interest rates

Federal Reserve Target Interest Rate vs. Net % of Banks Widening Spreads

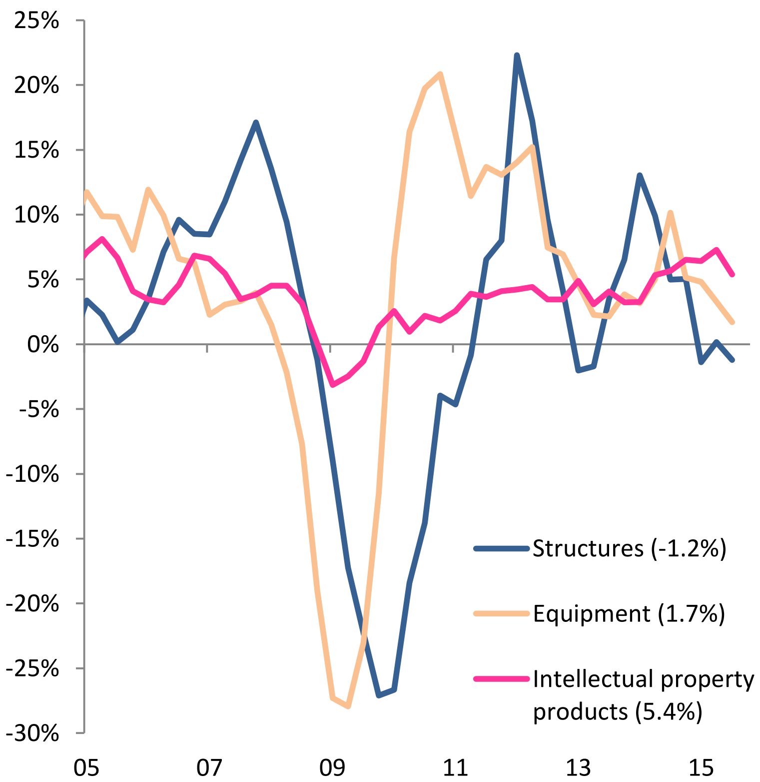


Sources: BEA, IHS, Euler Hermes

USA: Profitability and investment growth are turning sour

Business investment is slowing down, due to plummeting investment in the *Exploration & Production* sector, but not only…

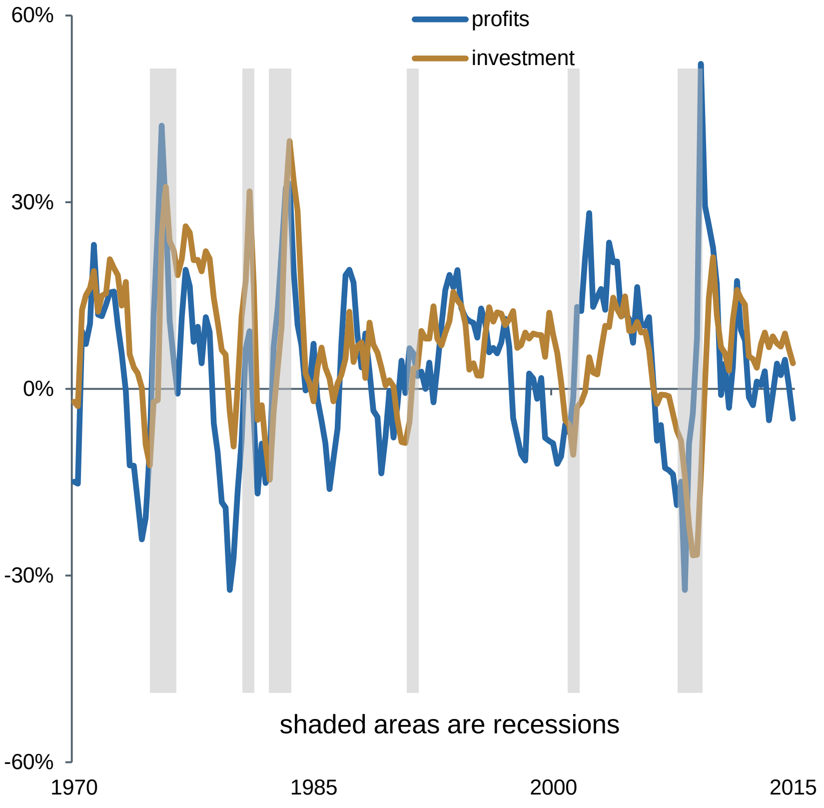
Real Fixed asset investment in Structures, Equipment and IPP (y/y %)



Sources: BEA, IHS, Euler Hermes

Profit growth is turning negative (eg., strong dollar, forthcoming pickup in wages, credit spreads), investment will bear the brunt

Real Corporate Profits and Investment, y/y % growth

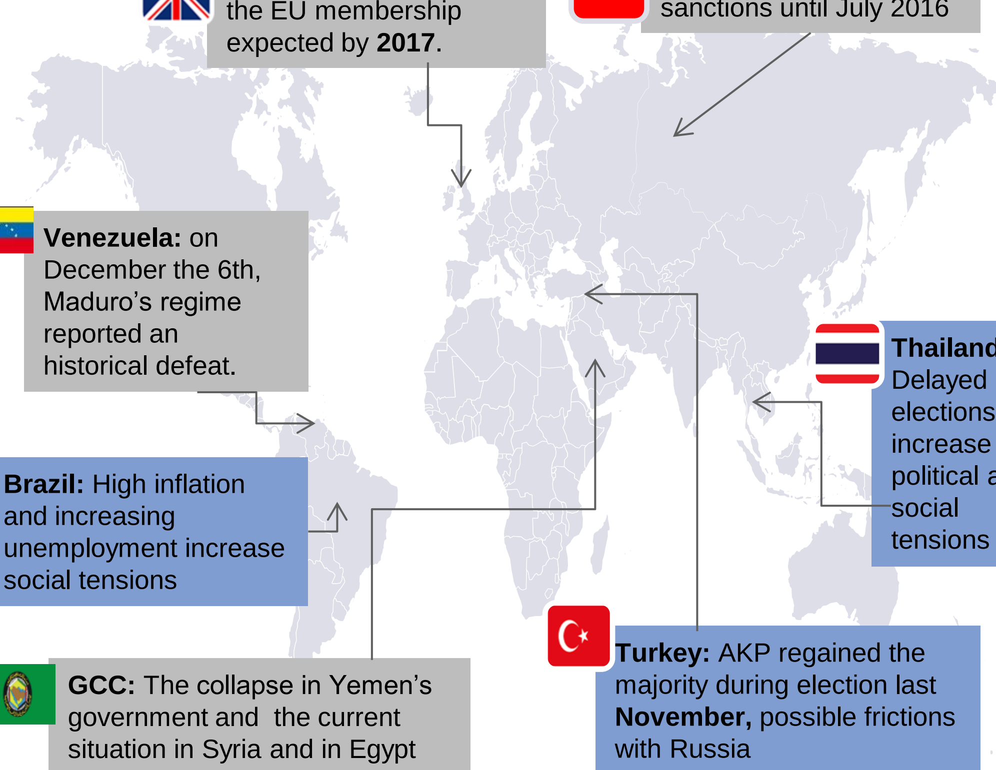


Sources: BEA, IHS, Euler Hermes

Dwarf #7: **Dopey**, loose cannons and short-termism

High political and institutional uncertainties going forward

Political or Institutional Crisis | Social Distress



The UK: Referendum on the EU membership expected by **2017**.

Russia: Extension of sanctions until July 2016

Venezuela: on December the 6th, Maduro’s regime reported an historical defeat.

Thailand: Delayed elections increase political and social tensions

Brazil: High inflation and increasing unemployment increase social tensions

GCC: The collapse in Yemen’s government and the current situation in Syria and in Egypt perpetuate the risk of conflicts in this area.

Turkey: AKP regained the majority during election last **November,** possible frictions with Russia

Sources: GTA, Euler Hermes

2016 Election Calendar

January:
- 16th, Taiwan (President & Congress);

February:
- 26th , Iran: Legislative elections

April:
- 3rd, Ireland (Parliament);
- 10th, Peru (President & Parliament)
- 13th, South Korea (Parliament)

May:
- 9th, Philippines (President & Parliament)

July:
- 12th, Congo (President)

September:
- 18th, Russia (Parliament)
- TBD, Hong Kong legislative council election

October:
- Czech Republic, Lithuania
- Italy: Referendum

November:

-8th, U.S. (President, House of Representative & Senate)

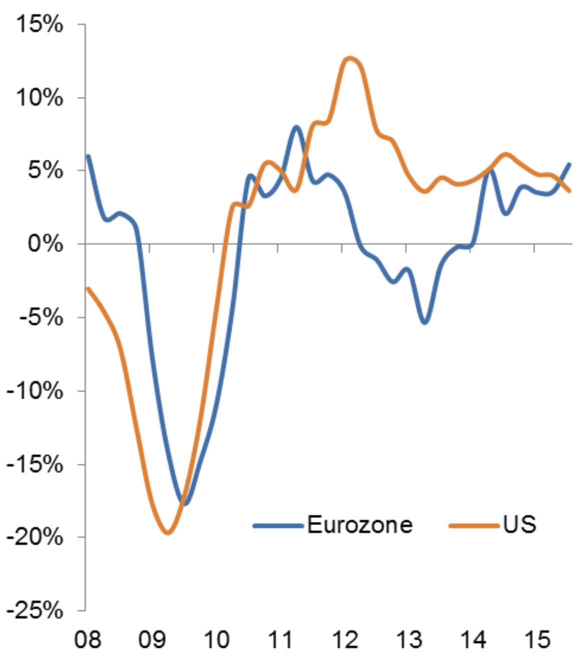
December:
- 7th, Ghana (President & Parliament)

TBC:
- Thailand (general, by 31 December 2016)

Bonus: **Snow White** is waking up, just like the investment cycle

Corporate investment in Europe is slowly back

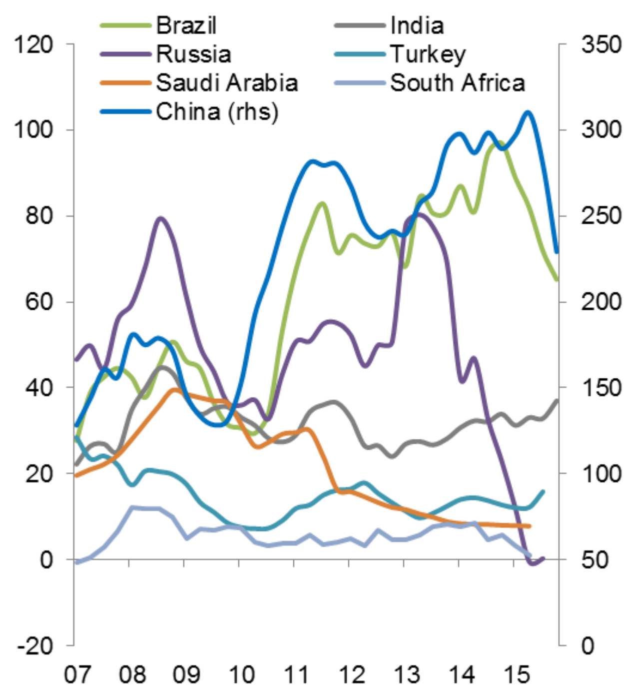
Real business investment (y/y)



Sources: IHS, Euler Hermes

Foreign investors remain selective when investing in EM

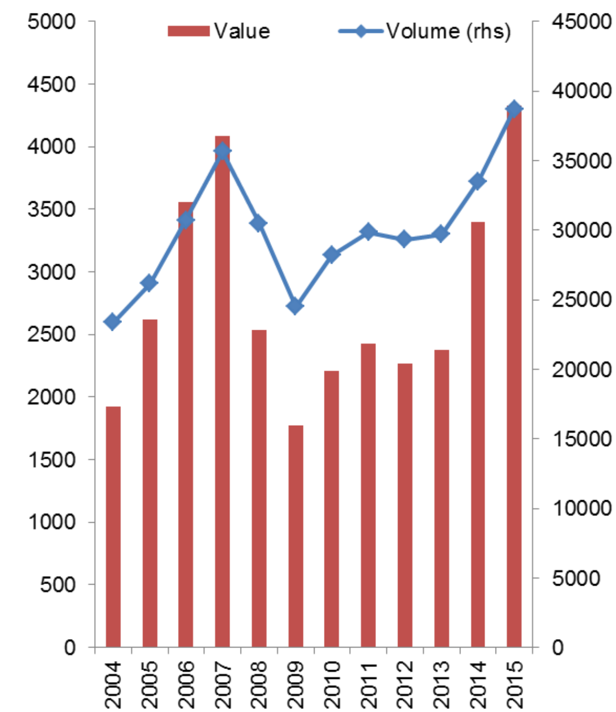
FDI inflows in selected Emerging Markets (USD bn, annual)



Sources: IHS, Euler Hermes

After a record 2015, M&A are set to remain elevated this year

M&A activity

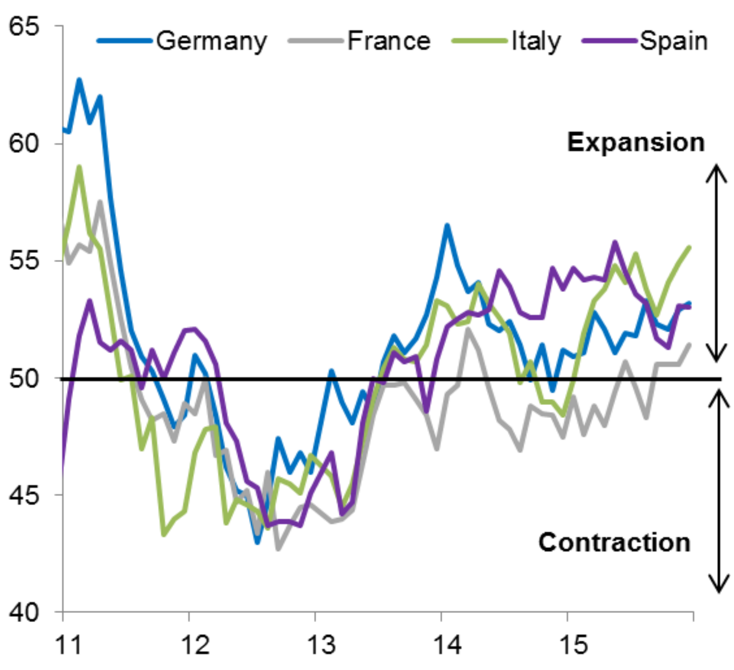


Sources: Bloomberg, Euler Hermes

Eurozone: Why should corporate investment pick-up in 2016? (1)

First positive signs, business confidence is recovering

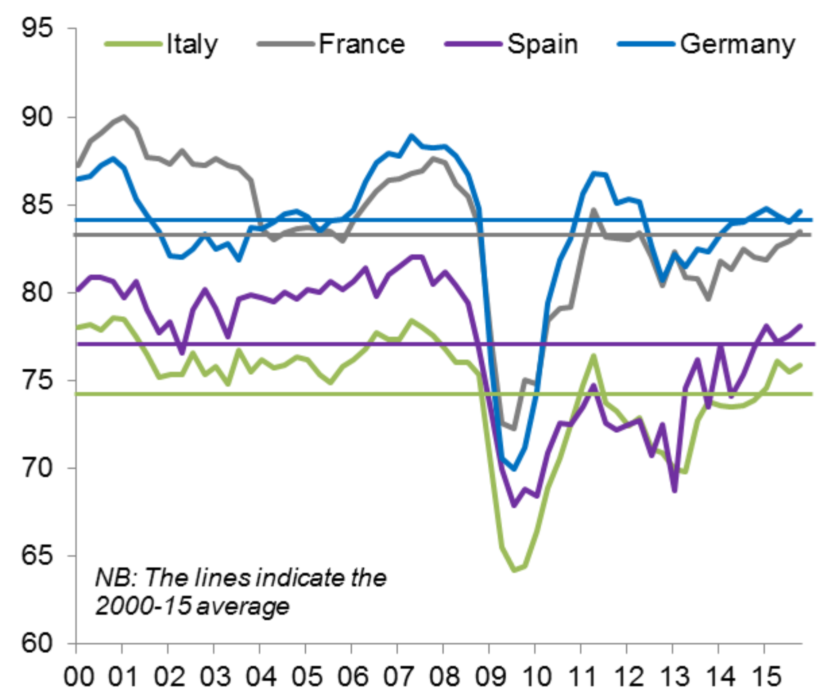
Manufacturing PMI index



Sources: Markit, Euler Hermes

Capacity utilization rates stand above LT average

Capacity utilization rates, %

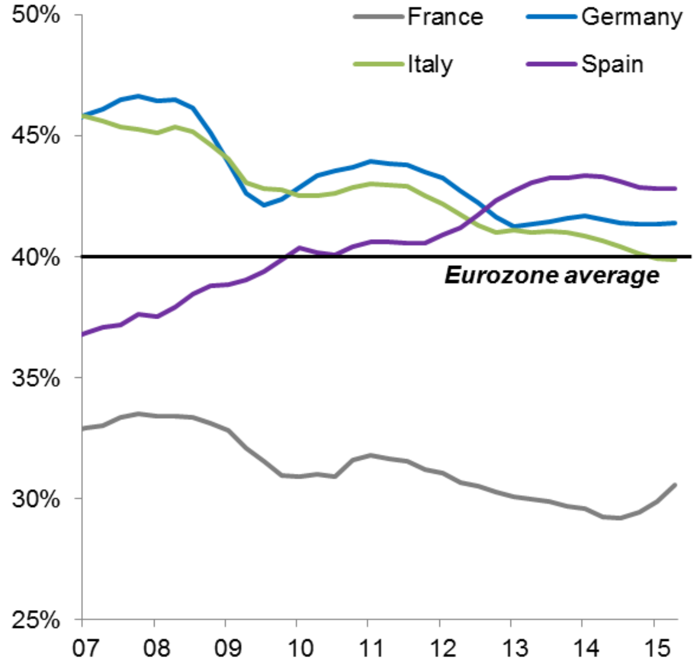


Sources: Eurostat, Euler Hermes

Eurozone: Why should corporate investment pick-up in 2016? (2)

Firms' profitability starts to benefit from lower oil prices …

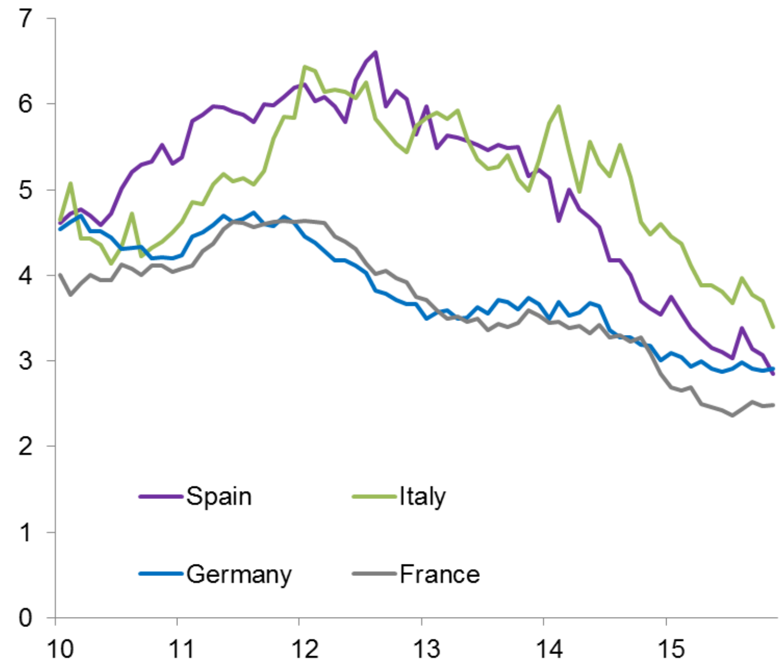
Non-financial corporations' margins (% of value added)



Sources: Eurostat, Euler Hermes

…and lower financing costs. Further ECB action expected in Q2 2016

Interest rates on banks' loans to SMEs (1 to 5 year maturity, %)



Sources: Bloomberg, Euler Hermes

Bonus: Beware of the **Evil Queen's** insolvency (rotten) apples

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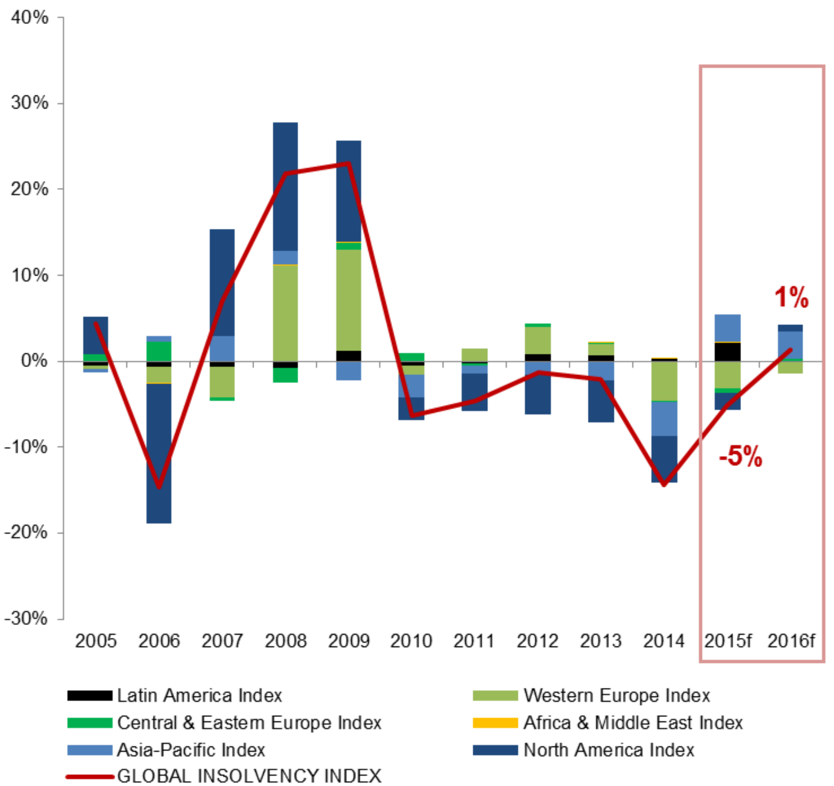
In 2015, steady decrease of insolvencies in the U.S. and Western Europe offsets turmoil in Asia and Latin America

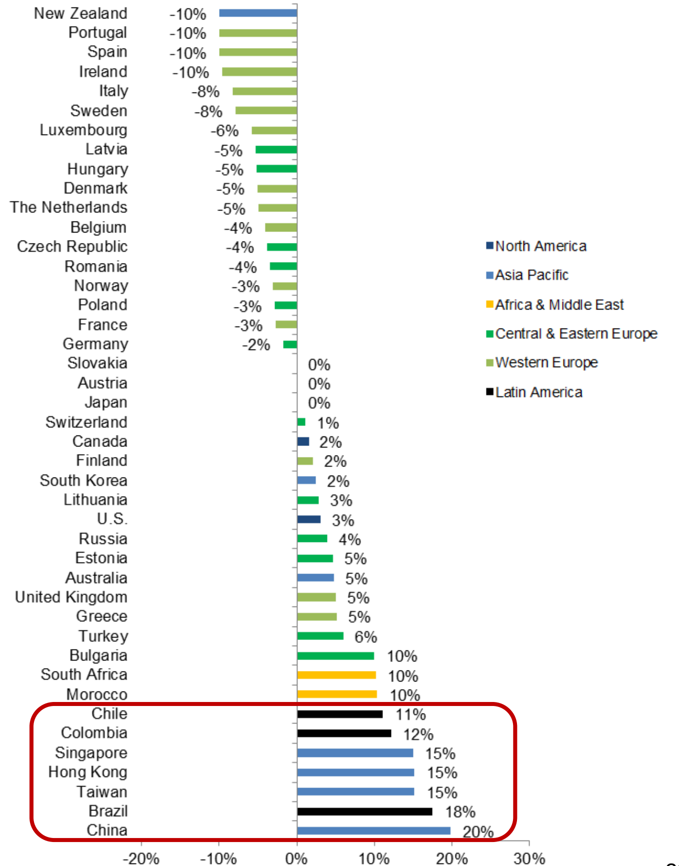
EH Global Insolvency Index and Regional Indices (yearly level basis 100 = 2000)



Sources: National figures, Euler Hermes

In 2016, the later coupled with a rebound in the U.S. will lead to a stabilization in worldwide insolvencies

2016 Insolvencies Forecasts (% change compared to 2015)



Sources: National figures, Euler Hermes

Thank you for your attention!

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