THE SUTTLE REMINDER

The global and financial outlook in a shocking world

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Summary section

The global outlook in summary

changes from August in bold

(page)	US (37)	EMU (38)	Japan (39)	UK (40)	Canada (41)	Australia & NZ (42)	Scandy (43)	China (44)	Other EM Asia (45)	Lat Am (46)	East Europe (47)	Africa & ME (48)
Growth	**Above-trend growth in 23Q3**; weakness into Q4; recession in 2024	Near-stagnation in 2023, followed by dip into mild recession in 2024	Lagged recovery from C-19 complete; expect business more upbeat	Near-stagnation in 2023, followed by dip into recession in 2024	**Economy weaker in 23Q2**; will remain soft in H2; recession in 2024	NZ weaker than Australia; AUS growth helped by fewer hikes	Sweden weaker than Norway (more impact from hikes)	Private sector growth worryingly weak; trend growth much lower	Lower-income countries to continue to perform well; India is booming	Growth has held up well so far in 2023; 2024 more at risk (global drag)	Industrial weakness. Worries about Russia dampen investment.	Turkey slowing (inflation reduction); Saudi oil output lower
Inflation	Core inflation likely to remain above 3% until 25H1	Core inflation likely to remain above 3% until 25H1	Inflation will remain above BoJ forecasts; expect another mark up in Oct	Core inflation to remain above 3% until 25H1; wages a worry.	Core inflation will dip to target during 2024	Inflation will fall faster in NZ in 2024; wage inflation will be an AUS worry.	Current inflation remains high and should fall fast in 2024	Deflation now the main concern; weak goods prices helping all.	The unusual excess of high-income over low-income will persist	Near-term 12m inflation will rise in Brazil, but fall back in 2024	The CE-3 easing process will begin with inflation unusually high	Turkish official 23H2 forecast raised to 52% (38% in Jun)
Policy	Fed easing likely to start in Jun '24. Fiscal to tighten in '24.	ECB probably at peak; QT will be focus for 2024. Fiscal neutral	BoJ to tighten modestly in 2024. Fiscal neutral.	BoE easing likely to start in May '24. Fiscal to tighten in '24H1; ease in H2.	BoC easing likely to start in Mar '24. Fiscal neutral.	**RBA more dovish**. RBNZ easing to start in Feb '24; RBA in May. Fiscal neutral.	Riksbank easing to start in Apr '24; Norges in May. Fiscal neutral.	**Modest PBoC easing to continue** in 23H2 and **into 2024**	Easing likely to start in 24Q1 (23Q4 possible)	Easing cycles should last through 2024; Mexico to start in Nov.	**NBP cutting even with high inflation**.	**CBRT to hike to >30%;** SARB is done (1st easing in Mar '24)
Risk factors	Federal shut-down (Oct 1st); 2024 election (Trump legal problems)	Continued problem from Russia (winter energy); spreads at QT quickens	JPY weakness slips out of control; long-term fiscal; rising yields and banks	2024 election (likely later in year); longer-term fiscal	Wildfires have underlined climate change risks	AUS: wage inflation and new RBA framework NZ: election on Oct 14th	Housing risks in weak, over-leveraged Sweden	Weak property sector adds to credit worries; high youth unemploy ment	Thailand's political instability; **unrest from higher rice prices**	**Major risk in Argentina** ahead of (and after) election (Oct 22nd)	Ukraine conflict; Hungary/ EU tensions; **Polish populism** (elections late '23)	Another Erdogan policy reversal; stagnation in South Africa (& energy)
Markets	Short-rate peak is close; bonds and equities remain too rich; USD downside	EMU stability helped by German problems, QT will work the other way	Yield curve will shift up and steepen in 2024; JPY upside ahead	GBP should lag on sustained UK problems and election risk	CAD could gain versus USD as Canada is less cyclical in 2024	AUD should appreciate versus NZD as rate differential narrows	SEK and NOK are cheap; rallies look possible in 2024	CNY has weakened on PBoC easing, but is limited appetite for more	FX upside in 2024	Local markets rallies likely to be sustained into 2024	Rate cuts to continue. **FX downside risk.**	Upside in Turkish credit with policy shift; ZAR local FI optimism

The global economic outlook

- **The global economy continues to expand at a subdued pace, as has been the case for the past six quarters** (Chart 1). Since 21Q4, global growth has averaged just 2%q/q, saar. This is down from 5.1%, saar, in the post-pandemic recovery phase (20Q4-21Q4) when macroeconomic policies were at their most supportive. Global growth averaged 2.7%, saar, in 2017-19.
- **Headline inflation has moderated as high rates of goods price inflation have ended** (Chart 2; mostly energy, increasingly food and other core goods). Upside inflation surprises have generally ended. G7 headline inflation in July was 3.9%oya (same as June), down from a peak of 7.8%oya in June 2022. Core/services inflation remains far stickier (see page 34). DM corporate wage and price setting has shifted up, from a sub 2% clip in the 2010s to a 3%-4% range more recently. EM headline inflation has moved down to its pre-pandemic average rate; by contrast, DM inflation remains far higher than before.
- **Expectations that tighter money would bite with growing force through 2023 have so far not been met**. Crucially, major labor markets remain very tight, with the G7 unemployment rate still close to a multi-decade low (Chart 3). The rate has begun to edge up, although this reflects improved labor supply as much as reduced labor demand.
- **The near-term outlook has improved for the United States, Japan, and many emerging economies but has weakened for Europe and China** (see Chart 4 and page 20). US consumer spending began Q3 on a (very) strong note, although is expected to fade in coming months. China's post C-19 consumer rebound has been very disappointing and household savings remain very high (see Chart 96, page 44). Europe's industrial sector is floundering, led by Germany. Europe now seems to be in a mild recession, although it will take a weakening in regional labor markets in coming months to confirm that assessment.
- Two aspects of recent DM resilience stand out. First, **better control of leverage through the past decade has made the private sector more resilient to higher rates**. There are, however, growing signs of tighter bank credit. The flip side of this is that leverage has been built up substantially in the public sector, which now faces a higher interest burden. Second, DM labor markets have become far more resilient to tighter monetary policies (see Chart 69, page 37).
- Although lower inflation will allow DM central banks to pause their hiking before too long, the persistence of inflation in the 3%-4% range will not allow for any early easing in policy. **DM policy rates are likely to be maintained at a relatively high level until well into 2024** (see Chart 45, page 24). Tighter policies are evidently creating problems in Europe. Interest-sensitive speeding in the United States has recovered in recent months but looks vulnerable as rates stay high into 2024. **I have not changed my central forecast for the US economy by much in the face of a strong start to Q3** (which I see prone to reversal). **I have raised my assessed probability of a "soft-landing" over the next 18 months somewhat, to 30%** (from 25%), **although still put a 70% chance on some kind of recession in 2024-25** (see page 5).

Chart 1
Global real GDP growth
%q/q, saar

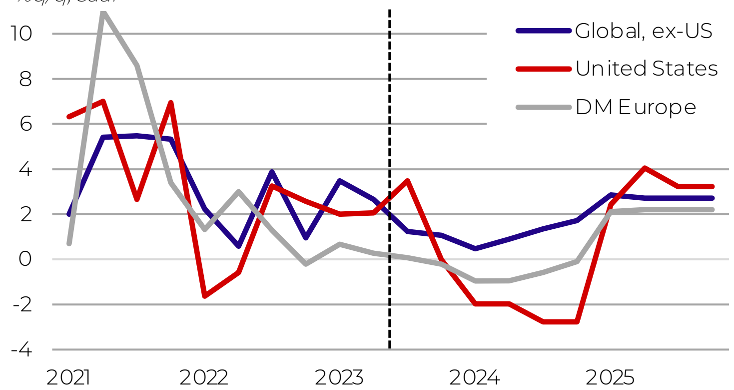


Chart 2
Global consumer prices
%oya

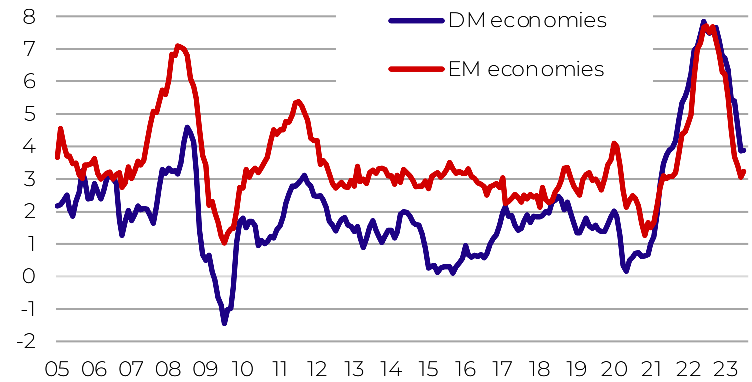


Chart 3
G7 unemployment rate
% of labor force

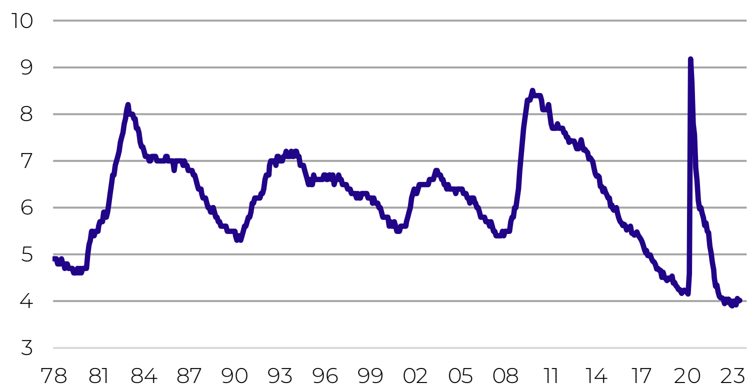
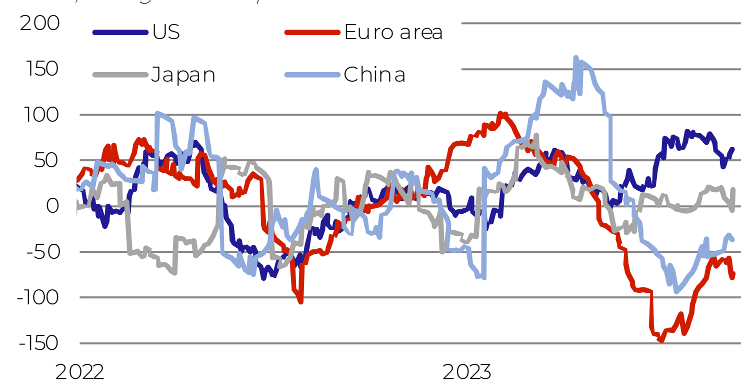


Chart 4
Citibank real activity surprise indices
index, + = high-side surprise



United States outlook scenarios

changes from Aug in bold

	23Q3	23Q4	24Q1	24Q2	24Q3	24Q4	25Q1	25Q2
Core scenario Policies for mild recession largely in place (**45%; down 5%-pts**)								
	Fed passes on further tightening **Global growth remains solid**	Interest effects cumulate in impact; profits disappoint; Labor market begins to weaken; Core inflation remains too high	Downturn begins (led by US/Europe); Labor markets and consumption weaken; Inflation still too high for comfort	Fed easing begins (Jun); US unemployment begins to rise sharply; USD weak; US political uncertainty rises	Recession at its most severe; Fed accelerates easing	Fed easing of 50bp in Oct and Nov; messy close contested US election causes risk-off move; USD very weak.	Clarity on US election outcome improves market confidence; Fed completes easing cycle (2.875%). First convincing signs of recovery	Strong expansion become evident. Significant yield curve steepening.
Jobless claims (e.o.p.)	**230k**	300k	400k	450k	500k	400k	300k	250k
Variant 1 Soft landing (**30%; up 5%-pts**)								
	Fed passes on further tightening **Global growth remains solid**	Economy continues to grow at a trend pace; Fed on hold.	Economic growth remains steady, but inflation falls towards 2% (goods weak; core services declines)	Fed easing begins (May/Jun) even as the unemployment rate remains in the 3.5%-4% range.	Fed easing helps steady growth, offsetting impact of tighter fiscal	Steady Fed easing continues at 25p per quarter. Democrats sweep.	Economy begins to accelerate as supply-side conditions improve (including stronger labor supply)	New bumps develop as inflation begins to pick up again
Jobless claims (e.o.p.)	**230k**	250k	250k	275k	250k	230k	230k	225k
Variant 2 Later, harder fall, as monetary tightening needs to be more severe and extended (**25%**)								
	Fed passes on further tightening **Global growth remains solid**	Solid growth causes a re-acceleration in inflation; energy supply problems push up oil prices. Fed hikes to 5.875%	Growth remains resilient and inflation accelerates. Fed hikes to 6.125%	Interest effects cumulate in impact; profits disappoint; Labor market begins to weaken; Core inflation remains too high	Downturn begins (led by US/Europe); Labor markets and consumption weaken quite sharply. Fed eases quickly.	Sharp Fed easing accompanied by plunge in USD. Republicans sweep Nov elections (opposite of conditions in 2009)	Fed easing at its maximum, helps stabilize confidence.	Strong expansion become evident. Significant yield curve steepening.
Jobless claims (e.o.p.)	**230k**	240k	240k	350k	450k	650k	500k	300k

The financial market outlook

- **Monetary policy outlook**: I have changed my central forecast for the Fed, and now expect the FOMC to remain on hold until June 2024. A residual last hike remains a risk (and may well be maintained in the forthcoming Fed forecast). **My Fed forecast for December 2024 (3.125%) is largely conditioned on my central forecast of a recession developing in 2024** (Chart 5). A soft-landing scenario would likely be accompanied by sustained but steady easing through 2024 (25bp per meeting from May = 125bp in total, to 4.125%). My delayed hard landing scenario (where rates peak at 6.125% in 24H1) would leave rates at 4.625% at end-24. **The probability weighted average of these three scenarios is 3.59%, 82bp below current market pricing**.
- I think the ECB and BoC are (like the RBNZ) now at a peak (ECB tightening in 2024 will focus on QT). The BoE and Norges have another 25bp to complete. Among current hikers, the Riksbank (50bp) and RBA (40bp) have furthest still to go. **The RBA has been most dovish but will likely find that domestic inflation (and wages) remain too high**.
- **The Bank of Japan remains on a very different path and will end YCC by October and push the policy rate to zero in December**. The overnight rate would then be lifted towards its "new normal" range of 1%-2% during 2024.
- **Bonds**: The DM tightening process is almost complete, but inverted DM curves already reflect a lot of rate normalization. **DM bond markets face a very different world from that of the past decade**. These are that (a) inflation has moved higher to a new range (from 1.5%-2% to about 3%); (b) that this means that policy rates in the next trough will be well above zero (in the US, closer to 3%); (c) that bonds have lost some of their 60-40 diversifier qualities; and (d) most importantly, that the net supply of DM government bonds will place a large financing requirement on the non-bank private sector, given the likely persistence of QT (Chart 6 and page 28). Given these factors, forward curves should be steeper.
- **Equities:** Global equities have rallied strongly so far in 2023 on the growing belief that a recession can be avoided. The US equity market EPS consensus now expects a sustained upturn in earnings (Chart 7). **I continue to think that earnings over-optimism for 23H2 and especially 2024 represents a significant downside risk for equities**.
- **FX**: USD has been strong in the past month, lifted by positive US growth news and a widening in the US-foreign yield differentials ((Charts 9 and 10, page 10). JPY enjoyed a limited lift from the BoJ's last YCC tweak, underlining that the major move will probably need to wait until (US-Japan) policy rate differentials are narrowed in 2024. I continue to expect DXY to depreciate in 2024 as a US downswing unfolds. **The US 2024 election is also a major USD downside risk**.
- **Emerging markets**: Argentina faces a very challenging Q4 as the election looms. A full-blown FX crisis is possible. EM credit should gain a lift into 2024 as the Fed changes direction. Turkey's policy shift will also help.
- Many EM local markets have entered a bull phase, led by Latin America (page 46). CE-3 will not be far behind (page 47).

Chart 5
United States: market pricing for the Fed funds rate
percent

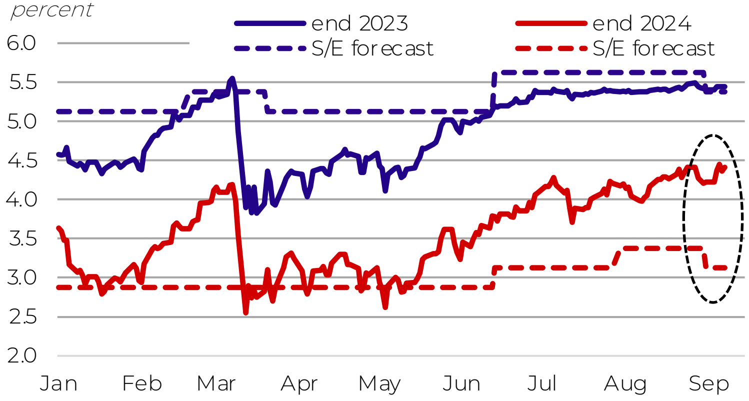


Chart 6
DM: gvt funding needs & the curve
% of GDP; dots are 2023-24 ests. *bp, annual averages; 23 is YTD*

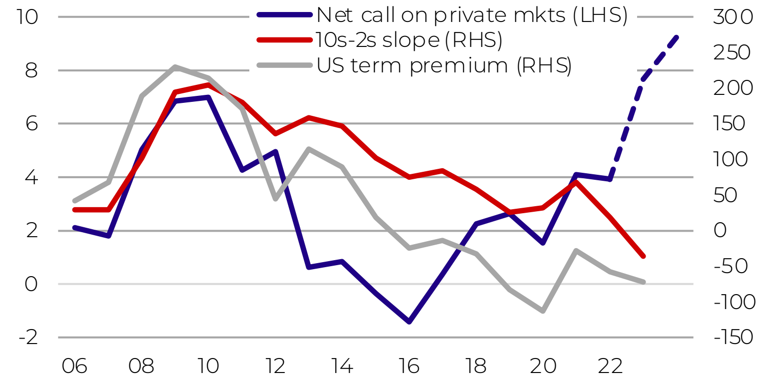


Chart 7
SPX earnings per share and the cycle
$ per share; shading denotes recessions (including S/E forecast)

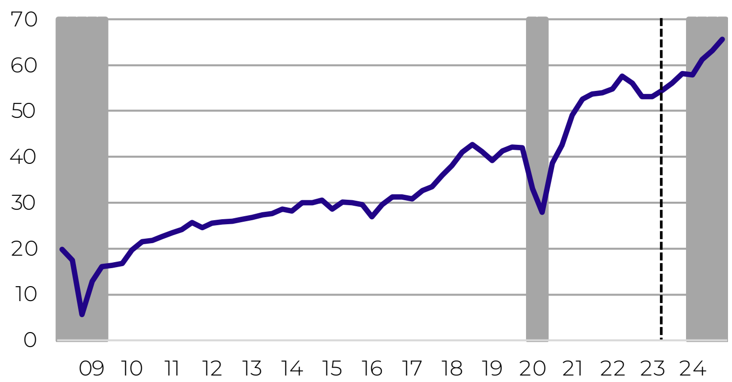
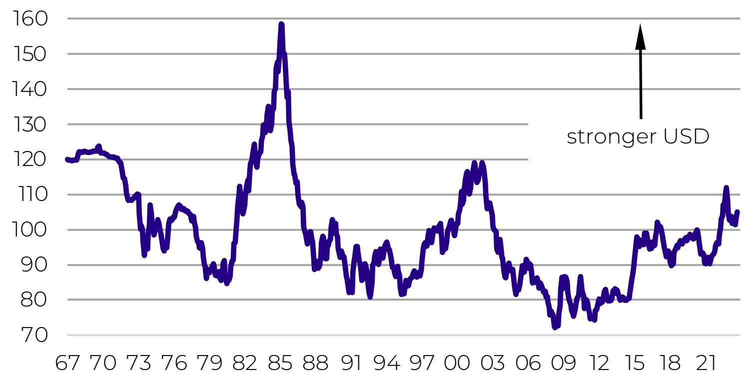


Chart 8
USD DXY index
weighted basket vs EUR (DEM and FFR pre-99), JPY, GBP, SEK, CHF



What I learned in the past month

US Q3 growth optimism and pessimism elsewhere

- US July retail sales were much stronger than expected (May and June were also solid). This left the July level of spending very elevated, adding upside to Q3 growth estimates (I revised my Q3 forecast from 2%q/q, saar, to 3.5%; see page 19). Not all recent data have been strong. August payrolls (which included significant downward revisions to June and July) were softer and the unemployment rate rose 3-ticks, to 3.8%. 1st-time jobless claims moderated which tells us that (for now) the economy remains resilient.
- Elsewhere, the cyclical news was gloomier. The market was most worried by weakness in China (see Chart 11, page 10). Hard August data there were soft, although timelier September survey data were less obviously so (see Chart 95, page 44). There were multiple slivers of policy easings announced, especially aimed at lifting the property sector.
- Canada's 23Q2 GDP surprised on the downside and there was a weak start to Q3 (Chart 83, page 41). European data have been weaker, notably August surveys (see page 13) and early Q3 hard data, especially from Germany (see page 38). EM growth has shown more resilience and most EM countries, ex-China, reported strong 23Q2 reports. Recent Indian data have been especially eye-catching (Chart 102, page 45).
- USD rebounded against most other currencies, reflecting this relative strength (see Charts 13 and 14). TRY was an (unusual) exception.

Inflation moderated broadly as expected

- Inflation rates continue to move down on a 12m basis, although July/August data reports required few changes to my forecasts (see page 35; the most notable upward revisions in forecasts were in East Asia, including for Japan).
- The US reported its 2nd straight tame core CPI reading inflation (less so for the core PCE deflator). Despite better inflation, US bond yields rose across the curve in the past month (see Charts 9 and 10) as the market marked up its estimate for the equilibrium US real rate.
- Oil prices rose by about 5% as OPEC+ extended supply restrictions through year end. Rice prices jumped as adverse weather in India (and Indian export restraints) raised fears of shortages. Extreme weather has become a consistent source of agricultural (and energy) price risk.

More pauses for thought

- The Fed had initially been reluctant to celebrate two "good" inflation readings (in the past 2 months, the core PCE deflator is up 2.6%, saar), but entered its quiet period flagging another skip is likely in September. The RBA was dovish again, happy with far less inflation progress than most of its peers (see Chart 64, page 34). The BoC was more justifiably on hold, while the Norges Bank hiked 25bp, as expected.

EM risk reversals

- In EM, Chile eased by 75bp (less than I had expected), while Poland eased 75bp, far more than anyone expected and did so straight after a high inflation reading. Policy is now in full-on pre-election populist mode (see page 47). Argentina's Presidential primary elections were won by right-wing radical Millei, forcing an immediate ARS devaluation (with more to come, see page 46). By contrast, Turkey accelerated its return to orthodoxy, with a 750bp rate hike (with more to come, see page 48).

Financial mkt developments in the past month (Sep 8th vs Aug 4th)

Chart 9
2yr bond yields
change, basis points

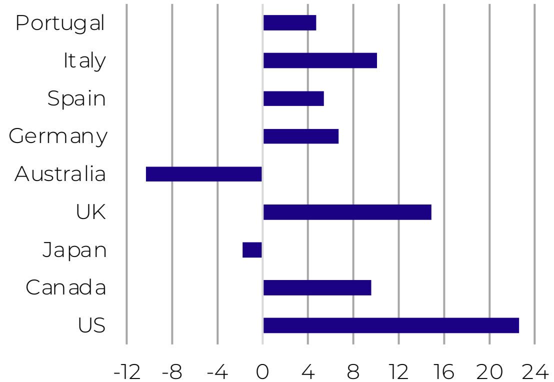


Chart 10
10yr bond yields
change, basis points

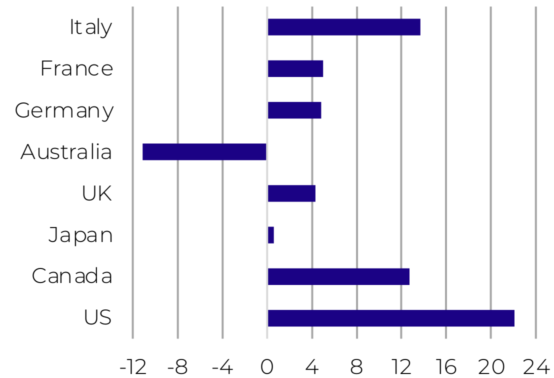


Chart 11
Equity markets
% change in local currency terms

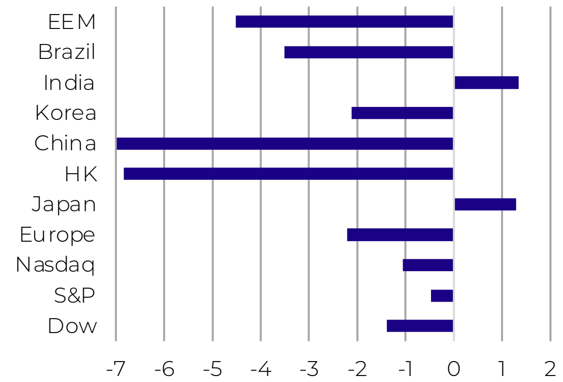


Chart 12
Commodity prices
% change, USD terms

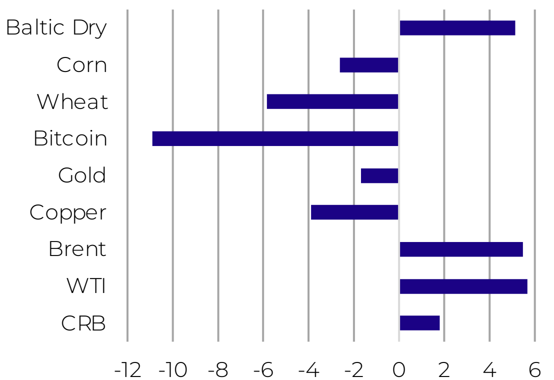


Chart 13
USD versus other DM FX
% appreciation in USD

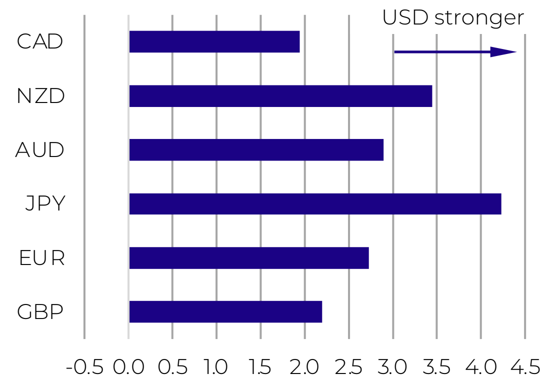
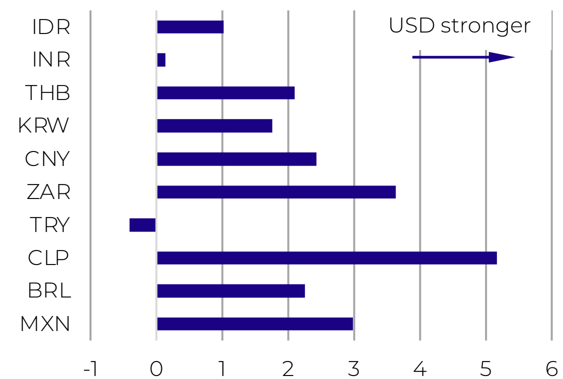


Chart 14
USD versus EM FX
% appreciation in USD



What to watch for in the near-term

A fade in US momentum heading through Q3

- US consumer demand is likely to weaken through Q3, mainly as payback for what looks to have been excessive strength in July (August retail sales are on 14th). There are other fundamental factors at work: (a) rising gasoline prices (see Chart 70, page 37); and (b) the restart of debt-service payments on student debt. August unit auto sales fell 4.4%m/m, sa. Q3 GDP growth estimates are likely to remain above 3%, but a slowing dynamic through the quarter would be a poor set-up for Q4.
- China's August activity data are due on 15th and are widely expected to be weak (especially retail sales). Early August data (surveys and auto sales) have been OK, as reflected in the improvement in China's surprise index (see Chart 1, page 5). Problems are developing in the corporate sector, especially among property developers. The August data could well be the trigger for the next round of policy easing, which will include another cut in bank reserve requirements. European data will likely continue to be weak.
- One issue is whether we will see follow through in the recent uptick in unemployment rates (see Chart 60, page 33). Given US continuing claims data, a decline in the September unemployment rate (Oct 6th) seems likely. Another important US strike looms, this time in the auto sector: the UAW contract expires on 15th, and the two sides remain far apart.

Inflation uptick from oil and rice prices

- The big decline in 12m headline inflation rates has largely played out in North America but has further to run in Europe in coming months. Core service CPIs (and wages) should remain resilient, as core goods moderate. Higher global energy prices will show in August CPIs (in September). Some global food prices (notably rice) have moved up, adding upside risk to inflation, especially in Asia.

More pausing, led by the Fed

- DM central banks are approaching their likely terminal rates for this cycle. Both the ECB (14th) and the Fed (20th) are likely to pass on hikes in September. The ECB will revise its accompanying near-term growth outlook down, helping justify the skip. By contrast, the Fed will mark its growth forecast up, although will also express greater confidence in a soft landing.
- The BoE, Riksbank and Norges Bank are all likely to hike by 25bp on 21st (the BoE less likely than the others).
- In EM, policy moves will be mixed. Another large rate hike from Turkey is likely on 21st (I project 500bp). Brazil will continue easing (50bp on 20th). Peru will likely cut 25bp (14th); Indonesia and South Africa (21st) and Mexico (28th) on hold.

Continued political noise in the Americas

- US fiscal shutdown risk (Oct 1st) will continue to build as the Republican House struggles to reach a united position.
- The campaign ahead of Argentina's election on Oct 22nd will be in full swing. Millei leads in the polls; his dollarization plans look hazy.

State of the business cycle

Surveys: lackluster all round, with DM Europe weakest

Chart 15
Global PMI diffusion indices
% of global PMI sample posting m/m increases

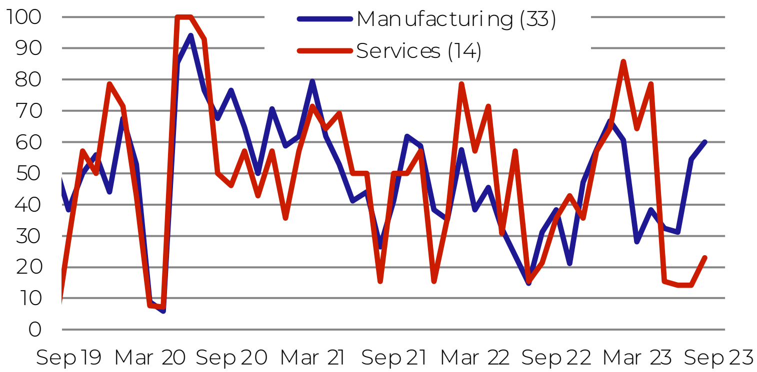


Chart 16
Manufacturing PMIs by region
50 = stable activity

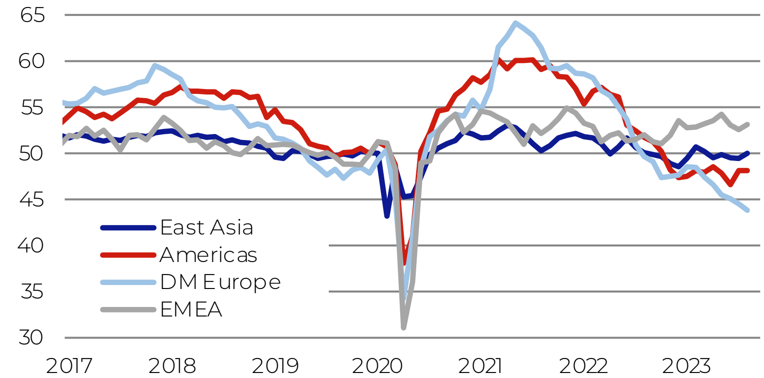


Chart 17
S&P Global service-sector PMIs
index, 50 = breakeven

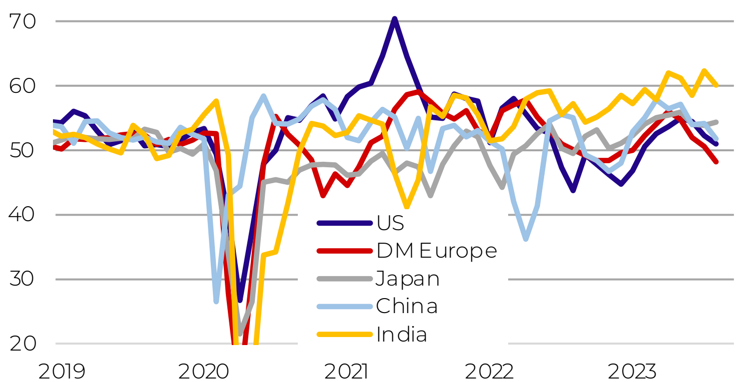
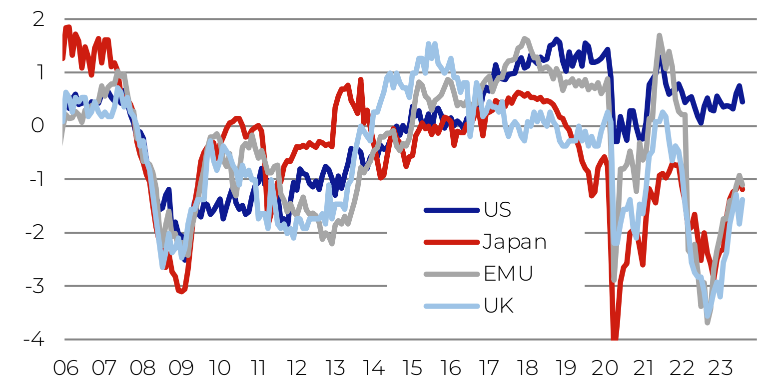


Chart 18
DM consumer confidence
z-scores, 1990-2019 window



Hard data: a dead car bounce

Chart 19
Global industrial production
%3m/3m, saar

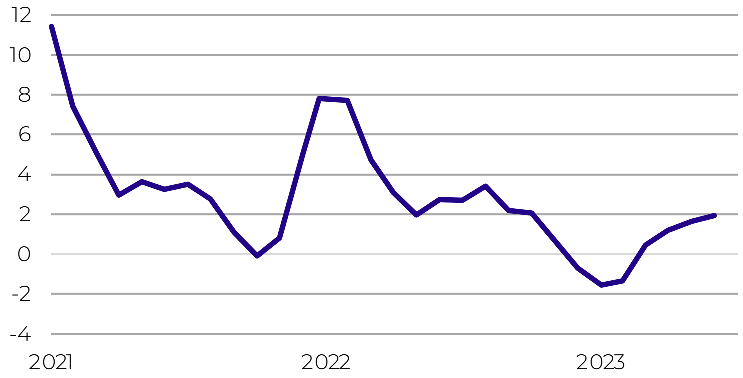


Chart 20
Global industrial production
%3m/3m, saar

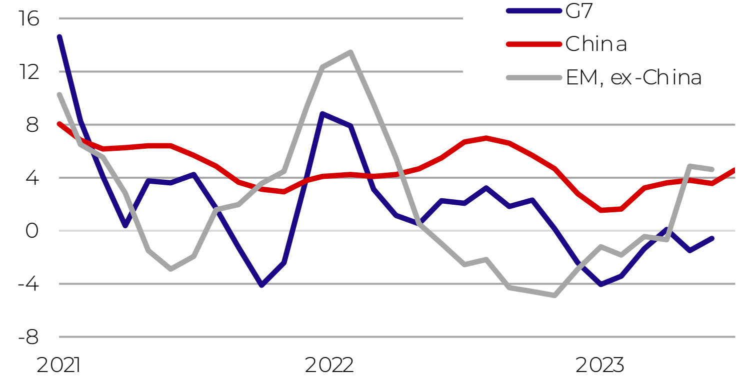


Chart 21
G3: motor vehicle production
index, January 2019 = 100, sa

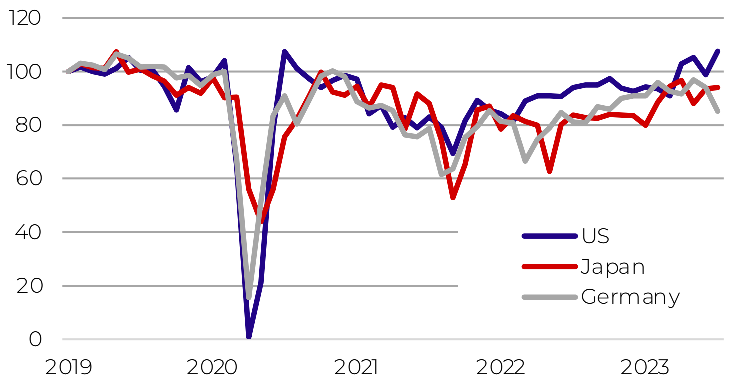
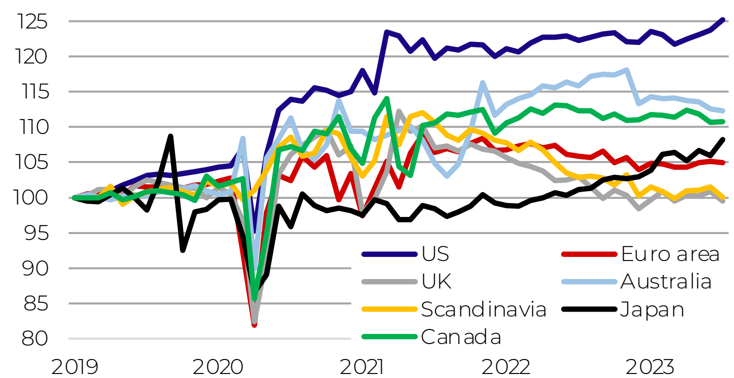


Chart 22
DM: core retail sales
Jan 2019 = 100; volume data, except Japan (nominal)



Capital spending: DM resilience in 23H1

Chart 23
G3 core capital goods order volumes
index, Jan 2019 = 100, sa; US and Japanese data deflated by S/E

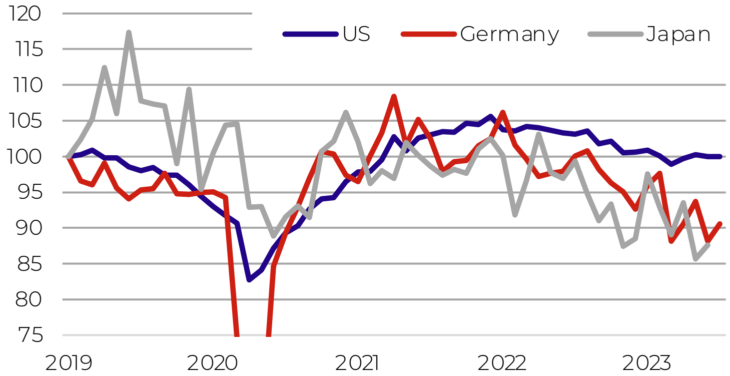


Chart 24
Real business investment since 2010
2010Q1 = 100

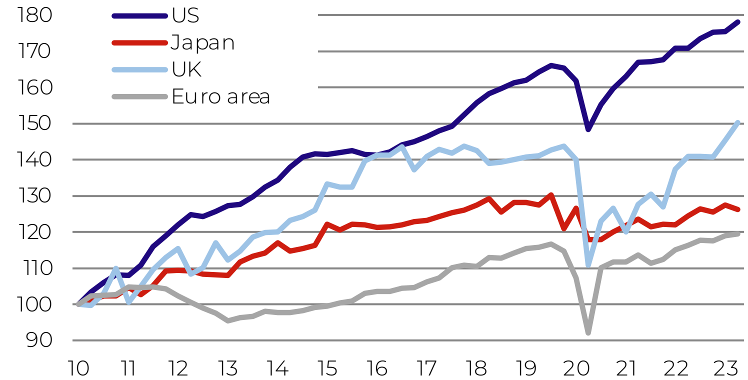


Chart 25
DM housing permits/approvals
Jan 2019 = 100, sa, 3mma

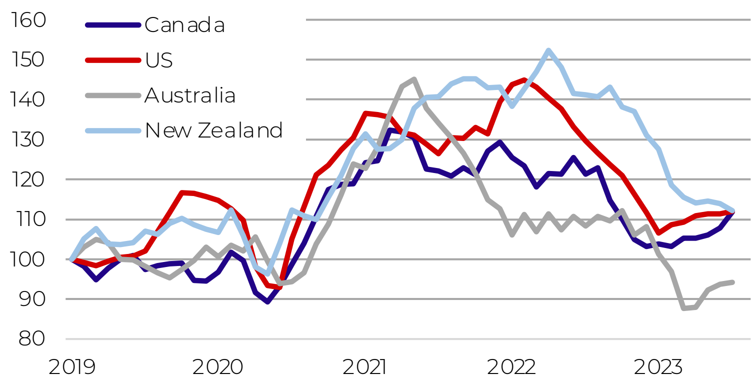
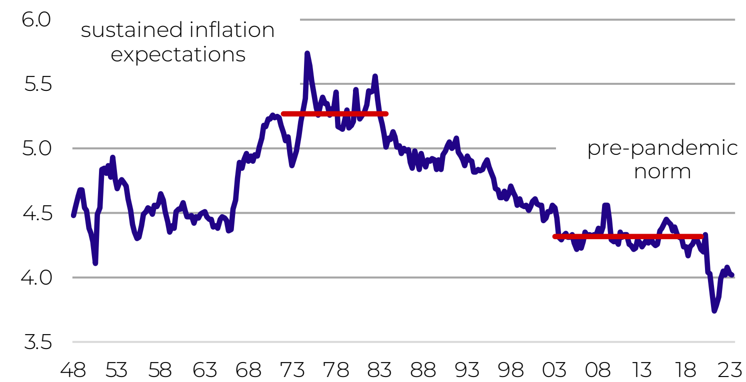


Chart 26
US real inventory-to-sales ratio
ratio, real final sales of goods and structures



World trade sluggish as goods shortages disappear

Chart 27
Alternative measures of world trade
index, sa, 2015 = 100

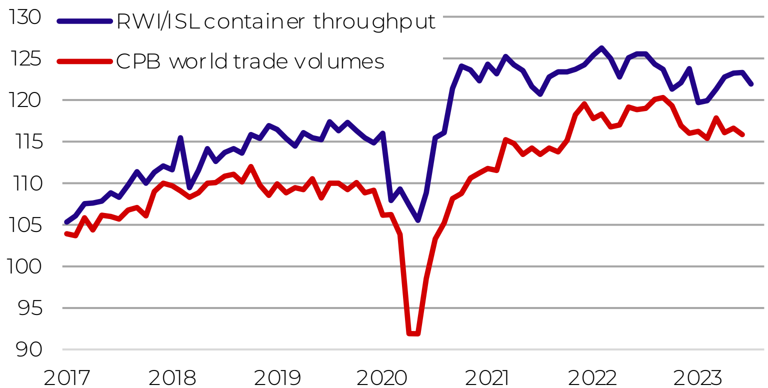


Chart 28
Measures of global container trade
RWI/ISL; index, 2015 = 100

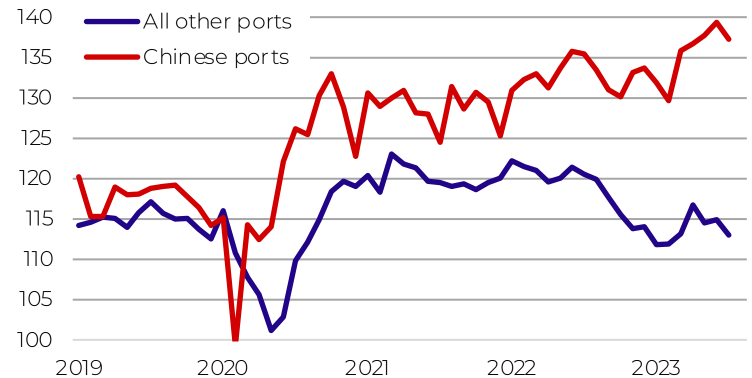


Chart 29
NY Fed global supply chain pressure index*
z-scores

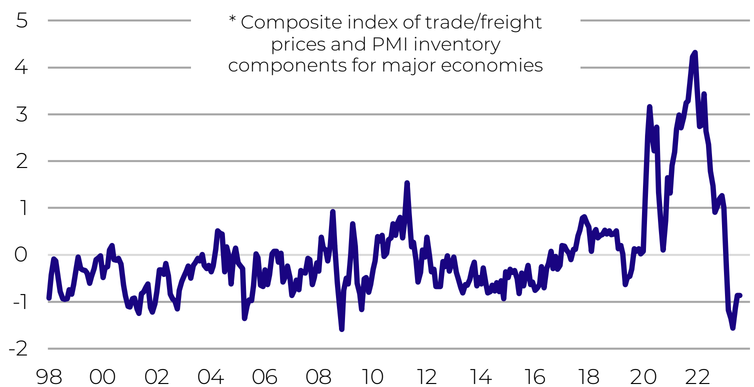
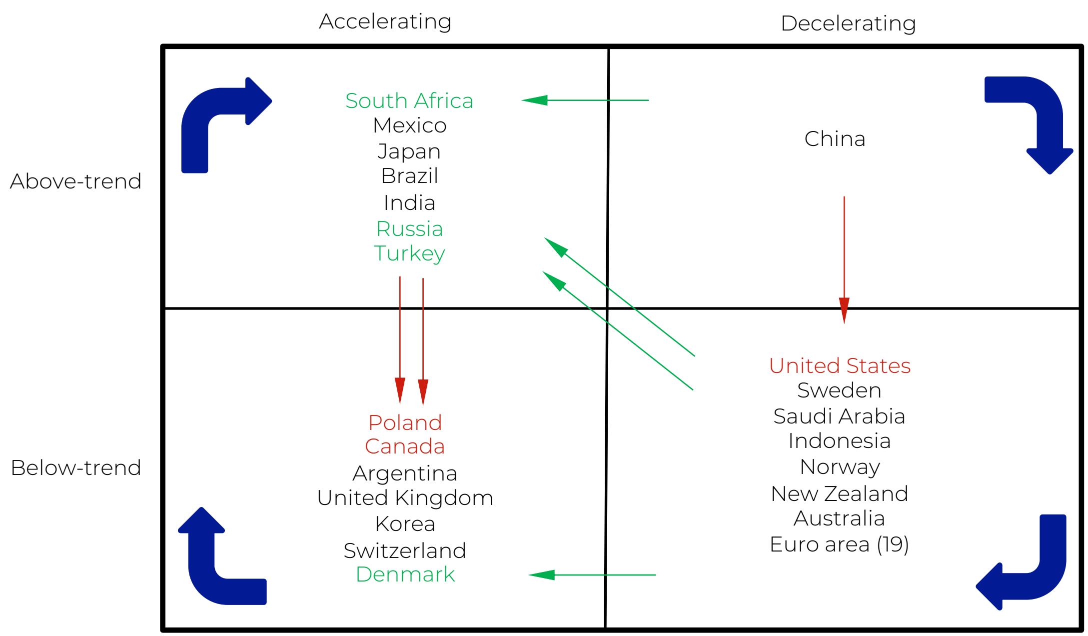


Chart 30
China: container export prices
Shanghai Shipping Exchange indices, January 1, 1998 = 1000

State of the short-run cycle: a good 23Q2 for EM, ex-China

Chart 31
Phases of the growth cycle: September 2023*

arrows denote changes since August



* Defined relative to GDP cycle: **accelerating means 23Q2-23Q1>22Q4-22Q3; above-trend is 23Q2-23Q1 > average of previous 5yrs**
** 23Q2 data are S/E estimates

State of the short-run business cycle: DM back in a bad spot

Chart 32
State of short-run business cycle: DM
Jan 18 (green) through Sep '23 (red)

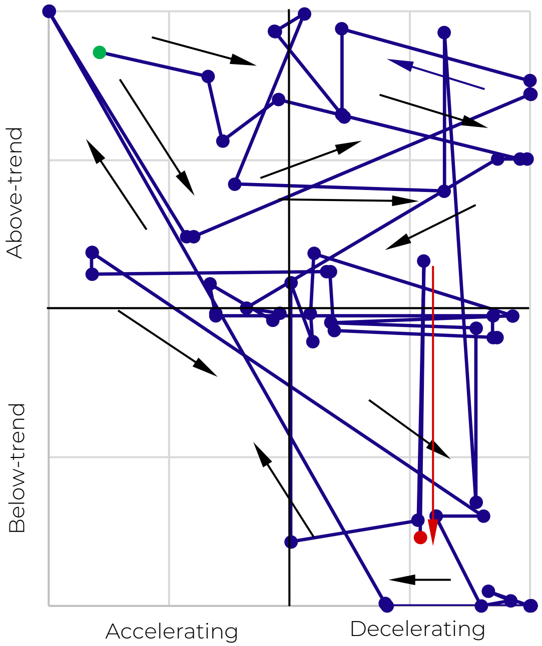


Chart 33
State of short-run business cycle: EM
Jan 18 (green) through Sep '23 (red)

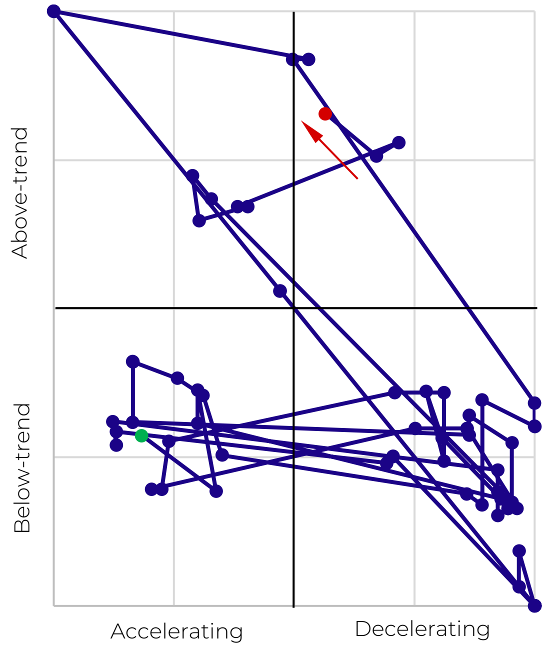
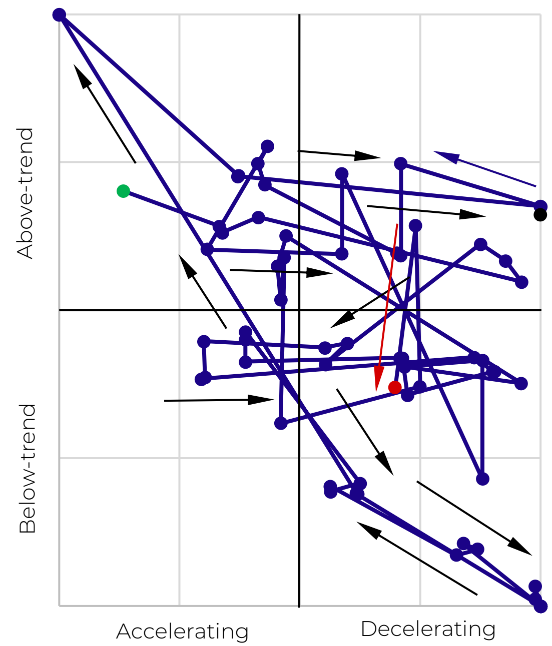


Chart 34
State of short-run global business cycle
Jan 18 (green) through Sep '23 (red)



These charts are conditioned on a view that a business cycle typically evolves as a clockwise "swirl" where the economy moves in (uneven) circles from phases of decelerating, below-trend growth (actual or growth **recession**), through accelerating but still below-trend growth (**recovery**), into accelerating, above-trend growth (**boom**), before faltering into decelerating above-trend growth (**late-cycle slowing**). For investors, the significance of these "regimes" is that each typically comes with a blend of asset prices: in a recession, stocks are weak, bond strong; in a recovery, stocks rebound while bonds fade; in a boom, stocks do well and bonds do badly; **in a late-cycle slowing, both asset classes are apt to do poorly**.

Real growth outlook

underlining denotes forecasts; August estimates in parentheses

	23Q2 q/q, saar	23Q3 q/q, saar	23Q4 q/q, saar	24Q1 q/q, saar	24Q2 q/q, saar	23Q4/Q4	24Q4/Q4	25Q4/Q4	23/22 y/y	24/23 y/y	25/24 y/y
Global	**2.5 (1.9)**	**1.8 (1.5)**	**0.8 (0.7)**	**-0.2**	**0.1**	**2.0 (1.8)**	**0.2**	**2.9**	**2.3 (2.0)**	**0.6 (0.5)**	**1.9**
US	2.1 (2.4)	3.5 (2.0)	0.0	-2.0	-2.0	1.9 (1.6)	-2.4	3.2	2.2 (2.1)	-0.8 (-1.0)	0.9
Euro area	0.5 (1.1)	-0.4 (0.4)	0.4	-0.8	-1.2	0.2 (0.5)	-1.1	2.0	0.5 (0.6)	-0.6 (-0.5)	0.8
Japan	4.8 (2.0)	1.2	0.4	0.4	0.4	2.5 (1.7)	0.5	0.8	2.1 (1.5)	0.9 (0.7)	0.7
UK	0.8	0.0 (0.8)	0.0	-2.0	-2.0	0.3 (0.5)	-1.5	2.0	0.4 (0.5)	-1.1 (-1.0)	0.9
Canada	-0.2 (1.0)	1.0	0.0	-2.0	-2.0	0.8 (1.3)	-2.0	2.6	1.2 (1.6)	-1.1	0.8
Australia	1.4 (1.2)	1.2 (0.8)	0.8	0.8	0.0	1.2 (0.9)	0.5	2.6	1.9 (1.6)	0.7 (0.6)	1.8
NZ	2.0	-1.2	-3.9	-2.0	-0.4	-0.9	0.7	3.2	0.5	-0.9	2.9
Sweden	-3.3 (-6.0)	2.0	-3.9	-2.0	-0.8	-0.9 (-1.9)	-0.1	3.8	-0.4 (-1.4)	-1.2 (-1.4)	2.6
China	3.2	3.2	3.2	3.2	4.9	4.7	4.5	4.3	5.0	3.9	4.6
India	7.7 (6.1)	4.1	4.1	4.1	4.1	6.1 (5.5)	4.1	4.1	6.5 (5.9)	4.3 (4.2)	4.1
Korea	2.5 (2.4)	0.8	0.8	0.0	0.0	1.3	2.2	4.9	1.0	1.2	4.5
Brazil	3.7 (2.0)	1.2	1.2	2.0	2.8	3.4 (3.1)	2.4	2.1	3.3 (3.0)	2.1 (2.0)	2.3
Mexico	3.6 (3.7)	3.2	1.2	-2.0	-0.8	3.1 (3.2)	-0.1	3.2	3.4	0.3	2.5

GDP growth forecast revisions

Chart 35
2023 GDP forecasts: Major DM
Q4/Q4

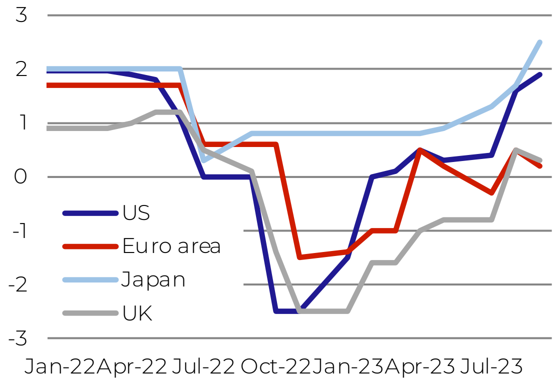


Chart 36
2023 GDP forecasts: Smaller DM
Q4/Q4

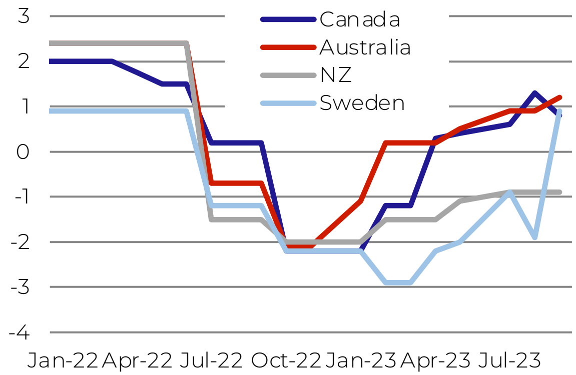


Chart 37
2023 GDP forecasts: EM economies
Q4/Q4

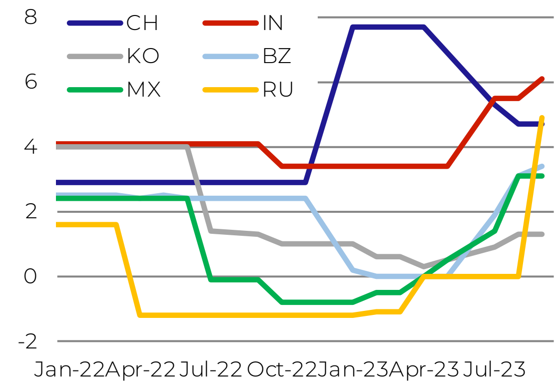


Chart 38
2024 GDP forecasts: Major DM
Q4/Q4

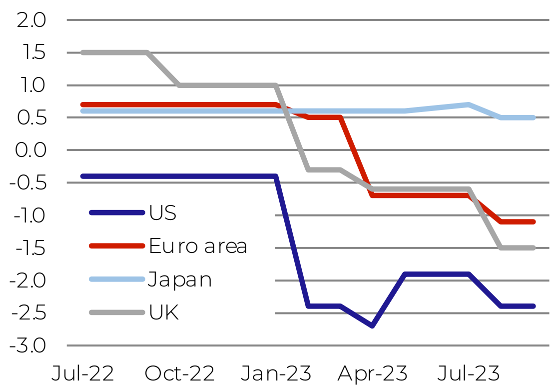


Chart 39
2024 GDP forecasts: Smaller DM
Q4/Q4

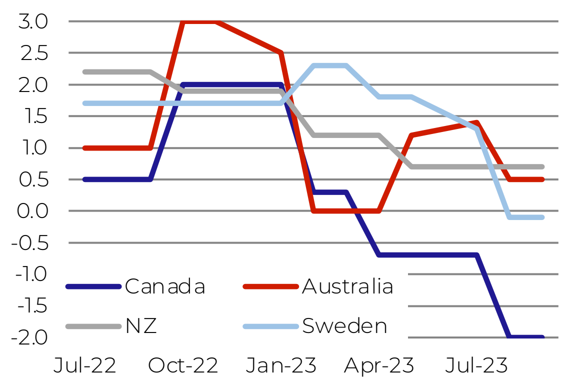
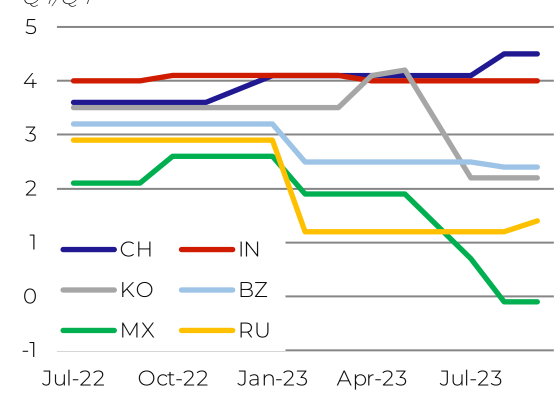


Chart 40
2024 GDP forecasts: EM economies
Q4/Q4



Economic policies

US fiscal to be contractionary in FY24 as FY23 trends reverse

Chart 41
Change in US Federal budget balance
%-pts of GDP change over a year earlier in 12m deficit sum

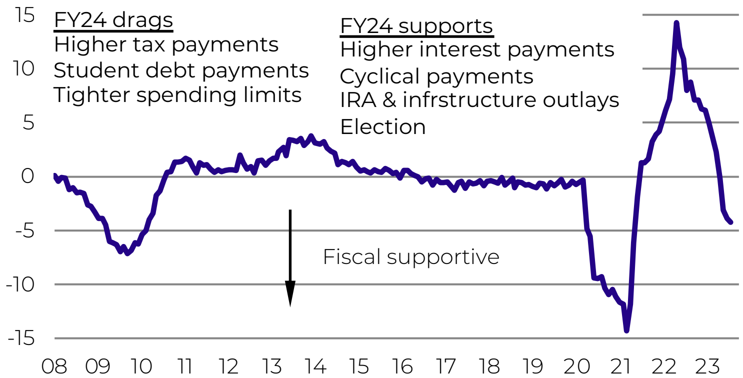


Chart 42
US Federal receipts and outlays
%oya, latest 12m

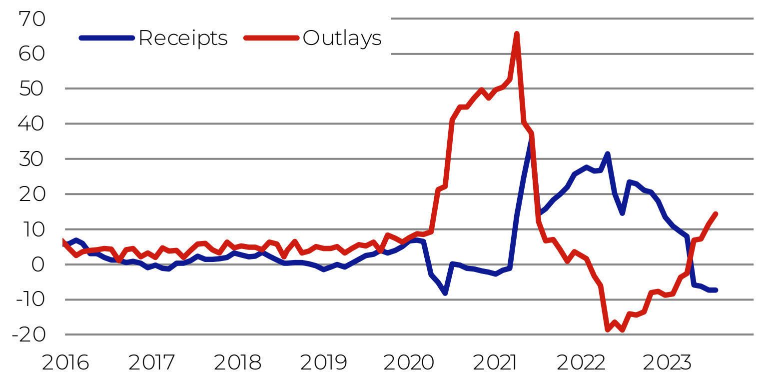


Chart 43
EMU: government budget balances
% of GDP

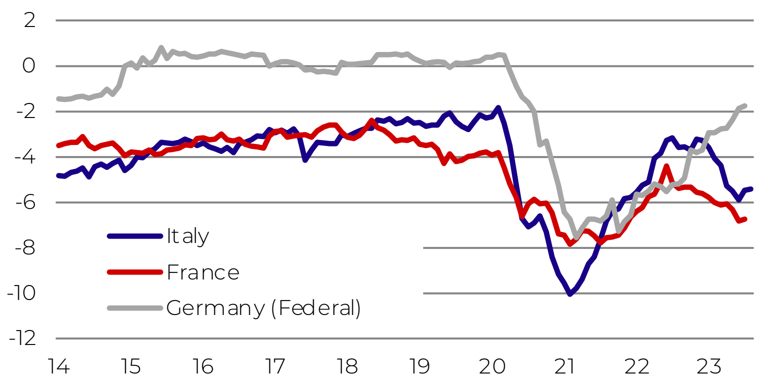
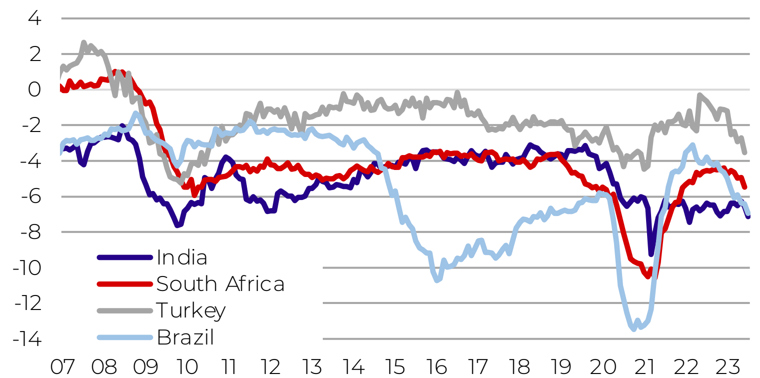


Chart 44
Key EM budget balances
% of GDP, sum of last 12m



Fiscal indicators and outlook

	Key local budget balance (%GDP) Calendar years (underline = forecast)				Gen. gvt gross debt (%GDP) IMF Fiscal Monitor (Apr 2023)			Comments
	2022	Latest 12m	2023f	2024f	2003	2013	2023	Higher interest rates and economic weakness are working to raise budget deficits in 2024
United States	-5.6	-8.6 (Jul)	-7.5	-8.5	58.6	104.5	122.2	Factors tightening policy in FY24: (a) Republican House-led spending restraint (debt ceiling caps; plus, risk of shutdown); (b) restart of student loan payments (40m); (c) higher tax payments (capital gains in 2023); see Chart 41.
Euro area	-3.6	-3.8 (23Q1)	-3.5	-4.0	69.2	92.6	89.6	Lower natural gas prices have taken stress off budgets, but pressures are building elsewhere. **The French deficit is rising most quickly in 2023** (see Chart 43).
Japan	-5.2	-5.2 (22Q3)	-5.0	-6.0	160.0	229.5	258.1	**Initial submissions for FY24 budget (24Q22-25Q1) point to continued brisk growth in spending, especially for defense.**
UK	-5.0	-5.6 (Jul)	-5.5	-5.0	35.5	84.1	106.2	Government energy subsidies being unwound as energy bills fall. Fiscal policy will be tightened modestly in the next year. **Autumn Statement due on Nov 22nd.**
Canada	-0.6	-1.3 (Jun)	-1.2	-1.8	75.9	87.6	105.1	The FY23/24 budget underlined preference to save rather than spend most of cyclical gains made in 2021-22 (modest new outlays made).
Australia	-1.4	0.2 (Jun)	-1.0	-1.8	13.2	30.5	59.4	May 9th budget subdued as expected. A small surplus was recorded in FY22-23 (ended Jun 30th).
Brazil	-4.7	-7.0 (Jul)	-7.5 (-7.0)	-6.5 (-6.0)	73.8	60.1	88.4	**The 2023 deficit is rising more sharply than I has projected, mainly because of a deterioration in the primary balance. Under the new rules, the 2024 budget will need to be tight**.
India	-6.9	-7.1 (Jul)	-6.7	-6.5	84.4	67.7	83.2	The FY23/24 budget planned a significant ramp-up in capital spending, but another big cut in current primary spending. Solid growth is helping keep the deficit stable in 2023.
South Africa	-4.4	-5.7 (Jul)	-5.0	-4.5	31.5	40.4	72.3	The government assumed ZAR 254 billion of ESKOM debt (about 3.6% of GDP) in its FY23 budget (February 22nd). The transfer will occur in stages over the next 3 years

Assessing the degree of monetary tightness

Chart 45
Global policy rates
percent, GDP-weighted, both scales

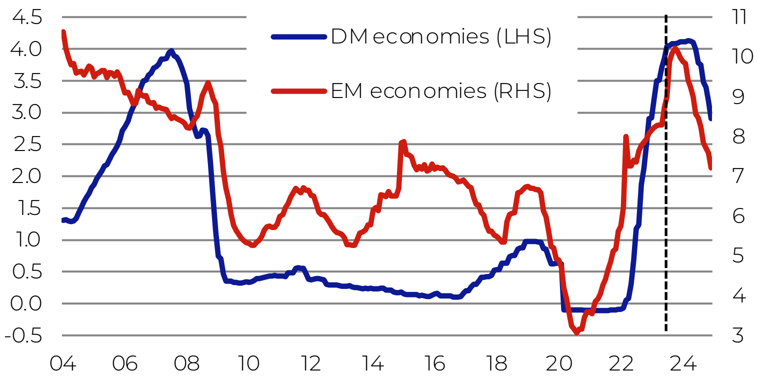


Chart 46
Major economies: broad money growth
%oya

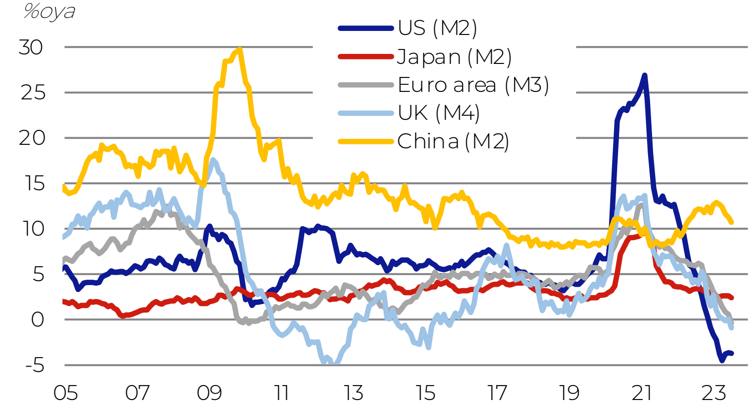


Chart 47
G7: average real policy rate
percent; official rate less CPI inflation

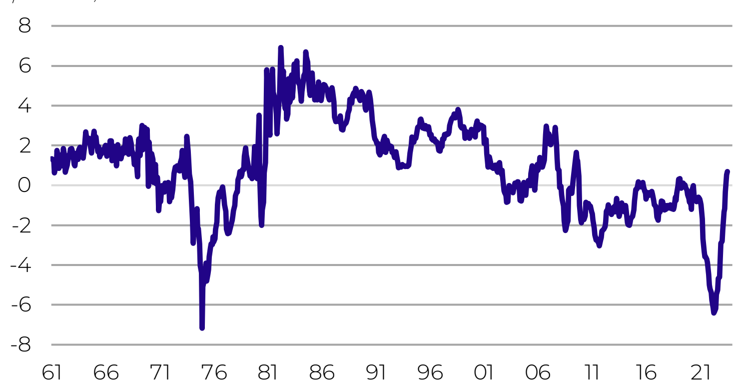
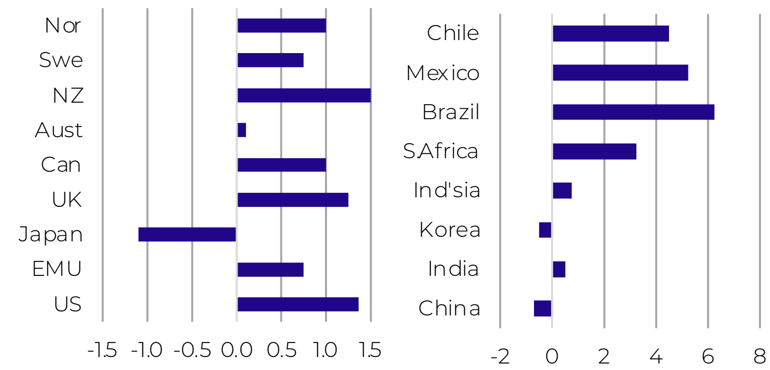


Chart 48
Nominal policy rates versus S/E assessment of neutral
basis points; current policy rate versus my assessment of neutral



Tightening in bank lending standards is the key credit risk

Chart 49
G3: net change in bank lending standards
net % tightening standards for business lending

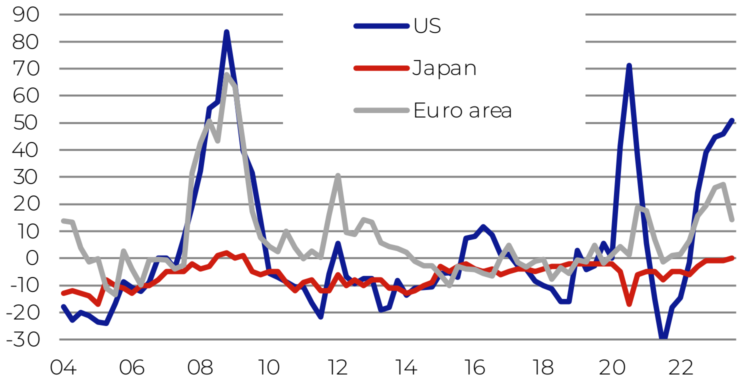


Chart 50
US and European bank equity prices
Jan 1, 2019 = 100

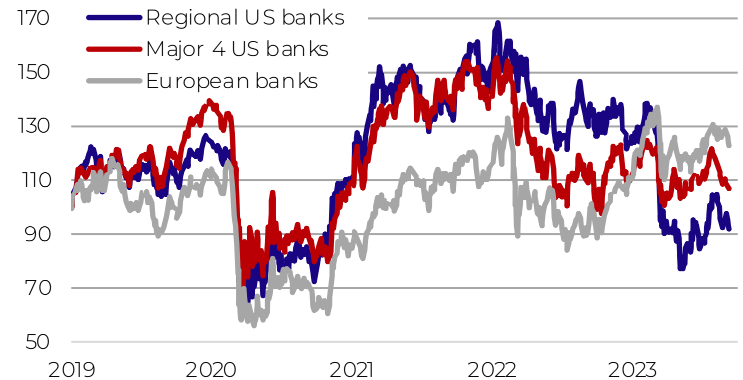


Chart 51
Bloomberg-Barclays option adjusted US corporate spreads
% over risk-free rate, both scales

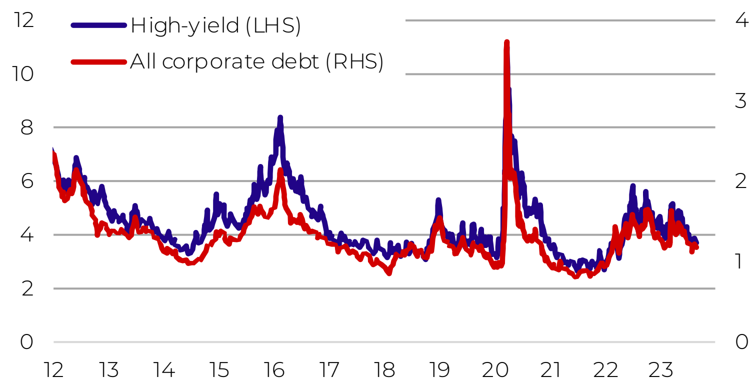
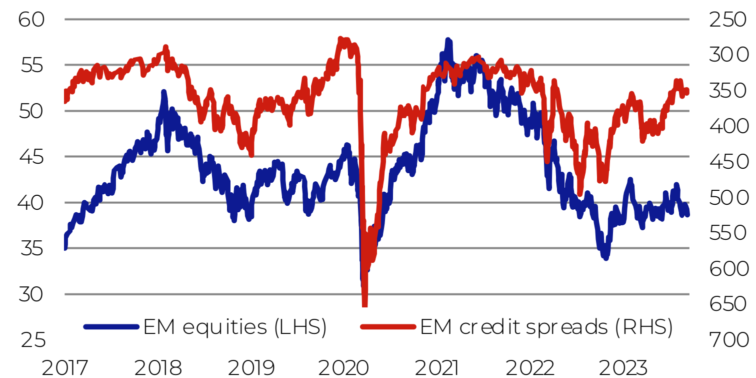


Chart 52
Emerging market asset prices
$ per share *bp spread over UST, inv. scale*



DM central bank meetings: projected moves through 24Q2

bold denotes view change on that specific meeting from August (direction: blue hawkish, red dovish)

(meetings per year)	Fed (8)	ECB (8)	BoJ (8)	BoE (8)	BoC (8)	RBA (11; 8 from'24)	RBNZ (7)	Riksbank (5)	Norges (8)
September (my Aug view)	20th: **no change**	14th: no change	22nd: no change	21st: 25bp hike	6th: no change	5th: no change (25bp hike)		21st: 25bp hike	21st: 25bp hike
October		26th: no change	31st: YCC ended		25th: no change	3rd: no change	3rd: no change		
November	1st: no change			2nd: no change		7th: **25bp hike**	28th: no change	23rd: 25bp hike	2nd: no change
December	13th: no change	14th: no change	19th: 10bp hike	14th: no change	6th: no change	5th: **15bp hike**			14th: no change
January	31st: no change	25th: no change	23rd: no change		Jan 24th: no change				no change
February				1st: no change		6th: no change	28th: 25bp cut	8th: no change	
March	20th: no change	7th: no change	19th: 25bp hike	21st: no change	6th: 25bp cut	19th: no change			no change
24Q2	May 1st: no change June 12th: 25bp cut	no change	Jun 14th: 25bp hike	May 9th: 25bp cut Jun 20th: 25bp cut	Jun 5th: 25bp cut	May 7th: 25bp cut Jun 18th: 25bp cut	Apr 10th: 25bp cut May 22nd: 50bp cut	Apr 25th: 25bp cut Jun 27th 25bp cut	May 25bp cut

DM monetary policy rate outlook

August estimates in parentheses; view changes in bold

	Policy rate Sep 8th (Aug 4th)	23Q3	23Q4	24Q1	24Q2	24Q3	24Q4	S/E view on neutral rate
Fed	5.375%	**5.375% (5.625%)**	5.375% (5.625%)	5.375% (5.625%)	5.125% (5.375%)	4.125% (4.375%)	3.125% (3.375%)	4%
ECB	3.75%	3.75%	3.75%	3.75%	3.75%	3.5%	3%	3%
BoJ	-0.1%	-0.1%	0%	0.25%	0.5%	0.75%	1%	1%
BoE	5.25%	5.5%	5.5%	5.5%	5%	4.5%	4%	4%
BoC	5%	5%	5%	4.75%	4.5%	4%	3.75%	4%
RBA	4.1%	4.1% (4.35%)	4.5%	4.5%	4%	3.75%	3.75%	4%
RBNZ	5.5%	5.5%	5.5%	5.25%	4.5%	4%	3.5%	4%
Riksbank	3.75%	4%	4.25%	4.25%	3.75%	3.5%	3.25%	3%
Norges	4% (3.75%)	4.25%	4.25%	4.25%	4%	3.75%	3.5%	3%

DM monetary policy QT outlook

Passive = not replacing maturing debt
Active = selling holdings, in addition to allowing debt to mature

	Securities holdings (%/GDP)	Current QT strategy	QT outlook/issues
Fed	28.6%	**Partial passive** Target asset run off $95bn/month ($60bn UST; $35bn MBS). Annual drawdown plan is 4.5% of GDP.	UST on target: MBS still falling short (Chart 53). Fed Chair signaled that QT likely to continue in 2024-25, even as rates fall.
ECB	34.6%	**Partial passive** Full run-off of APP maturities since Jul. PEPP maturities reinvested until at least the end of 2024.	APP run-off will avg €28bn/m from Jul '23-May '24. Large TLTRO prepayments made in late Jun. Expect BUBA pressure for PEPP run-off to build into 2024.
BoJ	110%	"Flexible" YCC introduced at the end of Jul. Previous "hard" cap lifted from 50bp to 1%, with plans to slow rise from one to the other.	YCC likely to be ended in Oct (new BoJ forecasts due then). BoJ net purchases in 2023 down, but not out (Chart 54)
BoE	32.5%	**Active** BoE began active asset sales in Nov '22, with a view to let gilt holdings run off at £80bn per year.	Current planned annual drawdown is 3.2% of GDP. **The MPC will set the size for the next 12m at its Sep meeting**.
BoC	12.3%	**Passive** QT started on Apr 25th, 2022	Holdings of gvt debt at end-Jul down C$139bn from peak (4.9% of GDP)
RBA	13.6%	**Passive** QT started on May 3rd, 2022	Holdings of AG debt down A$19 bn (0.7% of GDP) since Jun '22
RBNZ	12.3%	**Active** QT started in Jul '22; selling selling long-term debt direct to DMO	LSAP holdings down NZ$14.8bn (3.9% of GDP) since Jun '22.
Riksbank	13.6%	**Active** Active sales of SEK3.5bn of gvt debt per month (ex-Jul & Aug) began in Apr; will be raised to SEK5bn per month from Sep	Maturities will be about SEK490bn over the next 3 years (about 2.7% of GDP per yr.), SEK290bn of which are MBS.

Chart 53
Fed net securities purchases
$ billion; last 13 weeks at a monthly rate

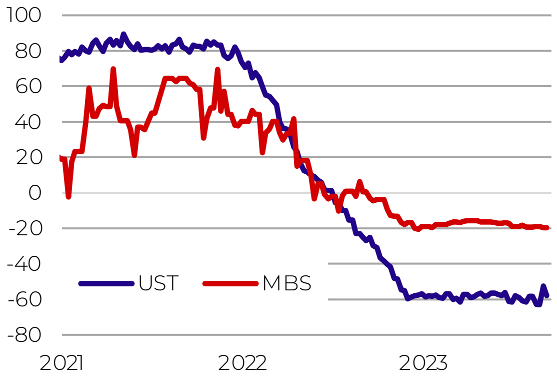
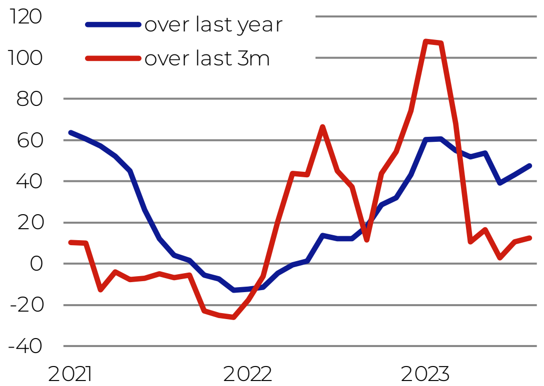


Chart 54
BoJ: net securities purchases
¥ trillion, ar



EM central bank meetings: projected moves through 24Q2

bold denotes view change on that specific meeting from August (direction: blue hawkish, red dovish)

(meetings per year)	RBI (6)	BoK (8)	BI (12)	CBRT (12)	SARB (6)	BCB (8)	Banxico (8)	BCCh (8)
September (my Aug view)			21st: no change	**21st: 500bp hike**	21st: no change	20th: 50bp cut	28th: no change	5th: 75bp cut (100bp)
October	6th: no change	19th: no change	19th: no change	**26th: 250bp hike**				26th: 75bp cut
November		30th: no change	23rd: no change	23rd: no change	23rd: no change	1st 50bp cut	9th: 25bp cut	
December	8th: no change		21st: no change	21st: no change		13th: 50bp cut	14th: 25bp cut	**19th: 50bp cut**
January		no change	no change	no change	no change	31st: 50bp cut		
February	8th: no change	no change	no change	no change			25bp cut	50bp cut
March			25bp cut	200bp cut	25bp cut	20th: 50bp cut	25bp cut	
24Q2	June: 25bp cut	Apr: 25bp cut	April 25bp cut Jun 25bp cut	**cumulative 500bp cut**	May 50bp cut	May 50bp cut Jun 50bp cut	May 25bp cut Jun 50bp cut	cumulative 150bp (likely 50bp in Apr, May. Jun)

EM monetary policy outlook

August estimates in parentheses; view changes in bold

	Policy rate Sept 8th (August 4th)	23Q3	23Q4	24Q1	24Q2	24Q3	24Q4	S/E view on neutral rate
PBoC	1.8% (1.9%)	1.8%	**1.6% (1.75%)**	**1.5% (1.75%)**	1.5% (1.75%)	1.5% (1.75%)	1.5% (1.75%)	2.5%
RBI	6.5%	6.5%	6.5%	6.5%	6.25%	6.25%	5.75%	6%
BoK	3.5%	3.5%	3.5%	3.5%	3.25%	3%	3%	4%
BI	5.75%	5.75%	5.75%	5.5%	5%	4.75%	4.5%	5%
CBRT	25% (17.5%)	**30% (22.5%)**	**32.5% (25%)**	30.5% (23%)	26.5% (19%)	23.5% (16%)	22.5% (15%)	n/a
SARB	8.25%	8.25%	8.25%	8%	7.5%	6.75%	6.5%	5%
BCB	13.25%	12.75%	11.75%	10.75%	9.75%	8.75%	7.75%	7%
Banxico	11.25%	11.25%	10.75%	10.25%	9.5%	8.5%	7.5%	6%
BCCh	10.25%	**9.5% (9.25%)**	**8.25% (7.75%)**	7.75% (7.25%)	6.25% (5.75%)	5.75% (5.25%)	5.25% (4.75%)	5%

The inflation outlook

Goods pricing: energy up, food stabilizing, but core weaker

Chart 55
G7 CPI inflation and the oil price

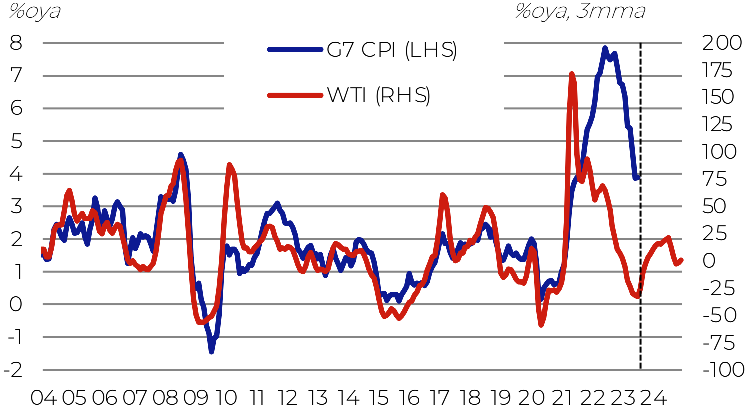


Chart 56
Wholesale food prices by category

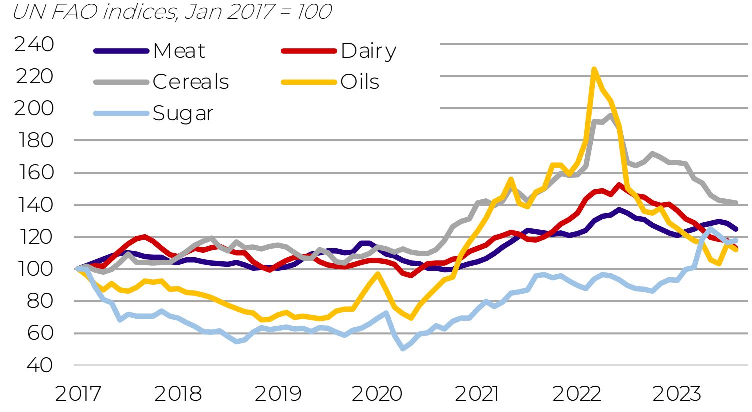


Chart 57
US: key core goods PPI components

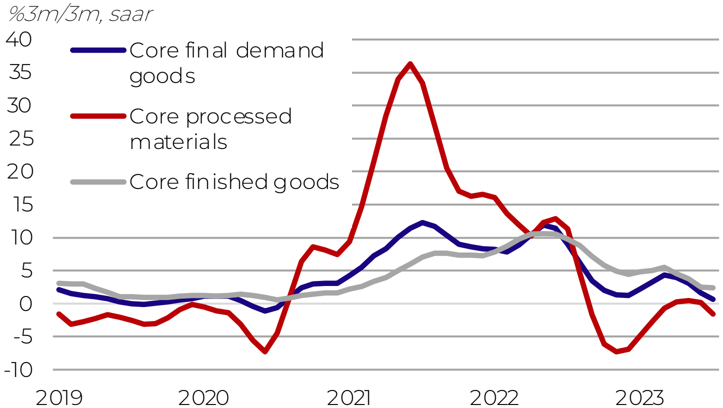
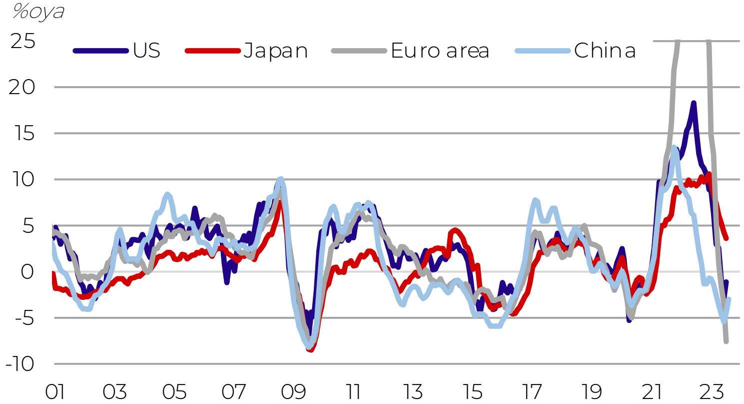


Chart 58
Producer prices



Tight labor markets remain the key inflation worry

Chart 59
DM wage growth
%oya

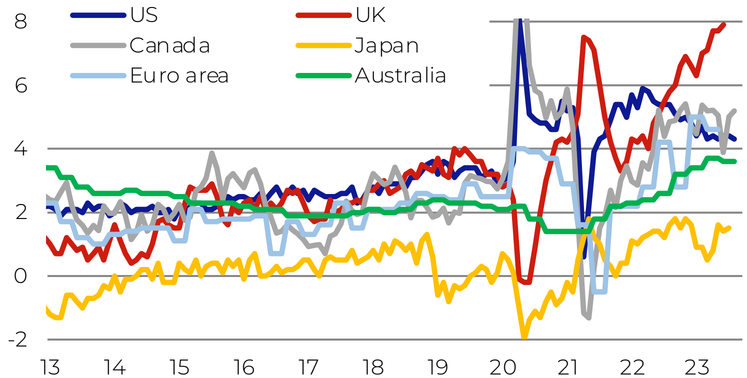


Chart 60
Regional unemployment rates
% of labor force

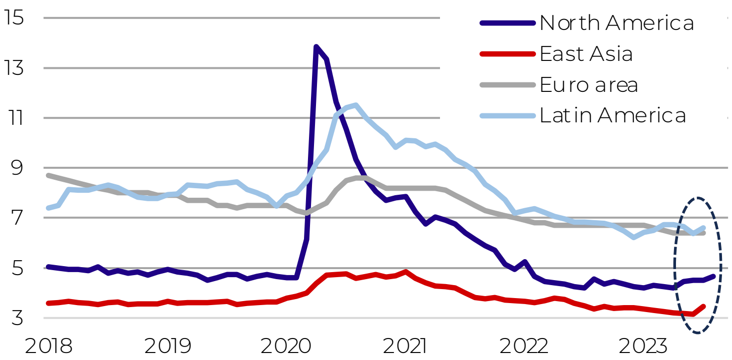


Chart 61
DM: whole economy employment
Feb 2020 = 100, sa

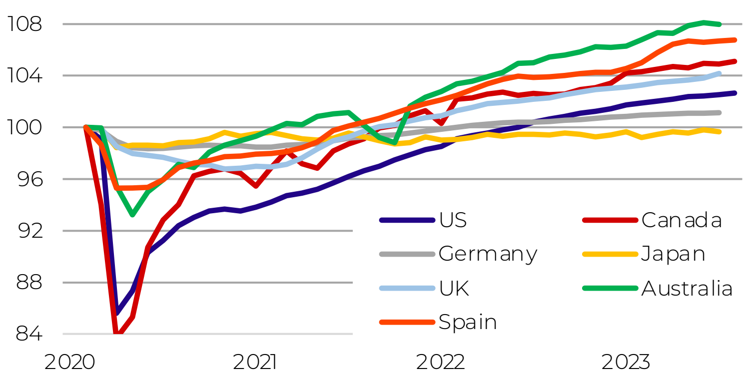
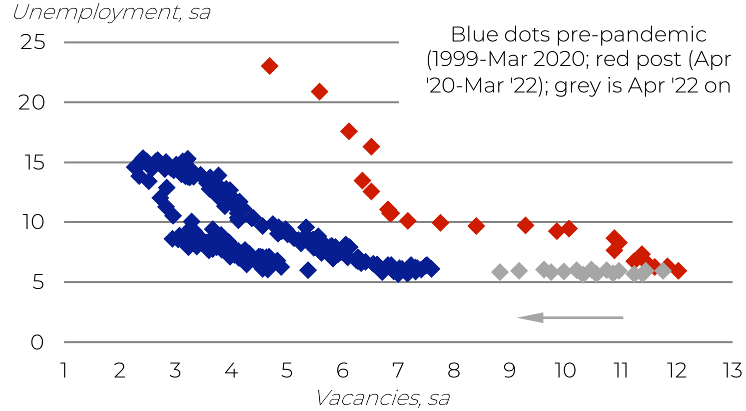


Chart 62
US: Beveridge curve
Unemployment, sa



DM core inflation remains sticky

Chart 63
G3 core consumer price inflation
%3m/3m, saar

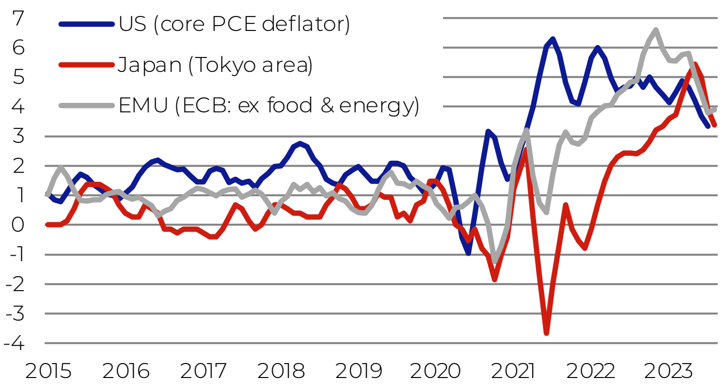


Chart 64
DM economies: core consumer prices
%oya

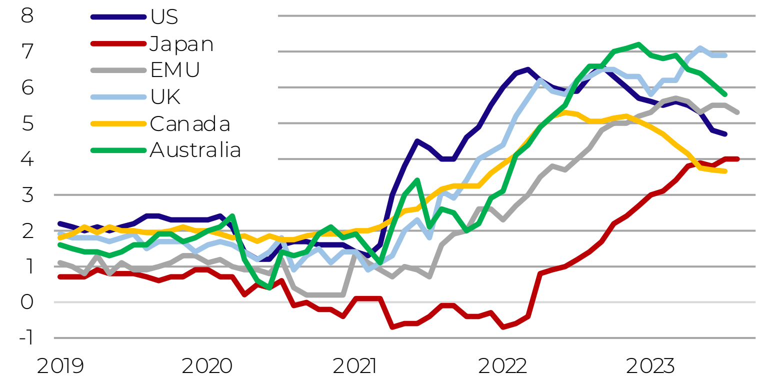


Chart 65
DM economies: surveys of inflation expectations
%, 1yr ahead

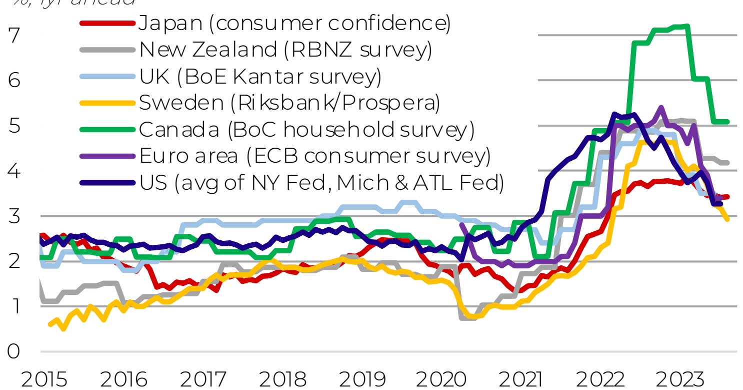
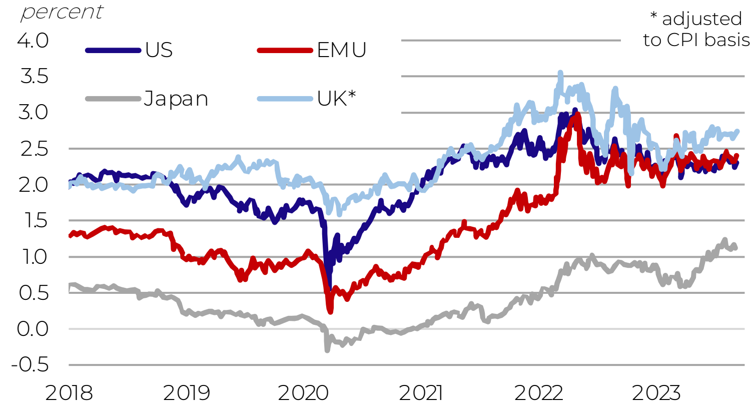


Chart 66
DM economies: 10yr bond market breakevens
percent



Inflation outlook

underlining denotes forecasts; August estimates in parentheses

	Latest		Inflation target	22Q4/21Q4	23Q2/22Q2	23Q4/22Q4	24Q2/23Q2	24Q4/23Q4
United States (core PCE deflator)	4.2 (Jul)	>	2%	4.7	4.4	3.8	3.3	3.0
Euro area (core HICP)	5.3 (Aug)	>	2%	5.1	5.4	4.2	3.3	3.0
Japan (CPI x fresh food & energy)	4.3 (Jul)	>	2%	2.8	4.2	3.6 (3.2)	2.5 (2.3)	2.0
United Kingdom (core CPI)	6.9 (Jul)	>	2%	6.4	6.9	5.0	3.5	3.3
Canada (avg of 2 BoC measures)	3.7 (Jul)	>	2%, +/- 1%	5.3	4.0	3.5	2.8	2.5
Australia (monthly CPI)	4.9 (Jul)	>	2%-3%	7.6	5.9	4.5 (4.7)	3.8	3.3
New Zealand (CPI)	6.0 (Q2)	>	2%	7.2	6.0	4.5	3.5	3.0
Sweden (CPIF, ex-energy)	8.0 (Jul)	>	2%	8.1	8.2	6.0	4.4	3.2
China (CPI)	0.1 (Aug)		n/a	1.8	0.1	1.0	1.7	2.0
India (CPI)	7.4 (Jul)	>	4% +/- 2%	6.1	4.6	5.5 (4.7)	4.7	4.5
Korea (CPI)	3.4 (Aug)	>	2%	5.2	2.8	3.5 (3.0)	3.0	3.0
Brazil (IPCA)	4.0 (Jul)	=	3.25% +/- 1.5%	6.1	3.8	5.5	4.5	3.5
Mexico (core CPI)	6.1 (Aug)	>	3% +/- 1%	8.4	7.3	5.0	4.3	4.0

Country/regional pages

US: near-term growth resilience, but 2024 weakness looms

Chart 67
US: components of real retail sales
Jan 2019 = 100, sa, both scales

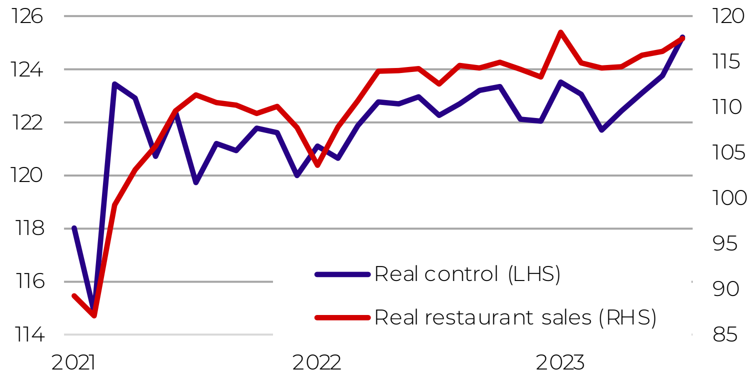


Chart 68
United States: indices of hours worked
%3m/3m, saar

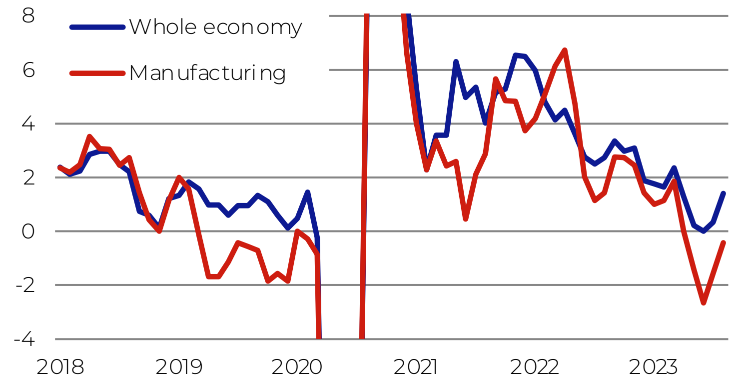


Chart 69
US: jobless claims and LEI
'000, weekly rate, sa. 4wkma *%3m/3m, saar*

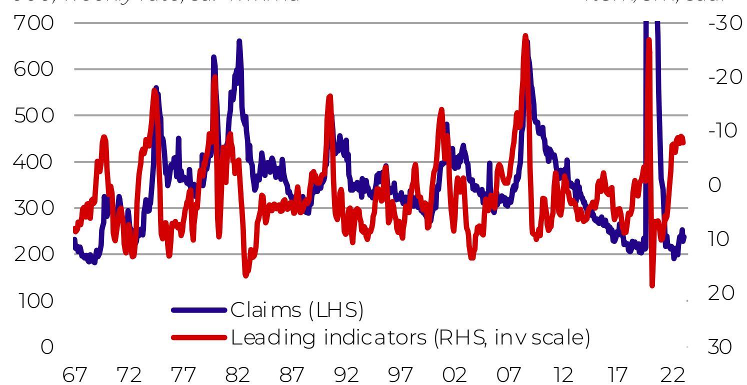
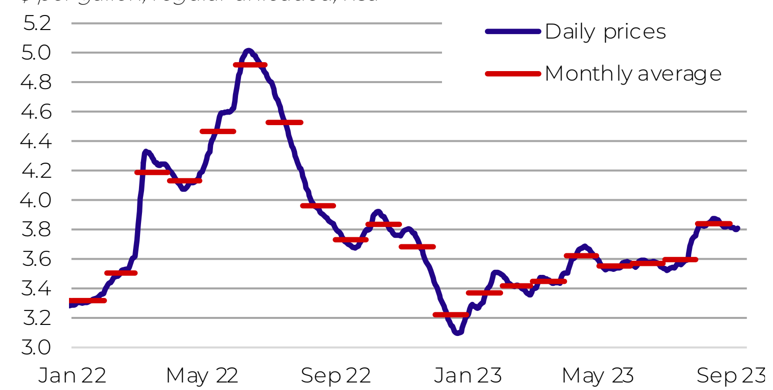


Chart 70
US: retail gasoline prices
$ per gallon, regular unleaded, nsa



Euro area: the on-again, off-again recession is on again

Chart 71
Euro area IP and GDP
%q/q, saar, both scales; 2020 scales suppressed

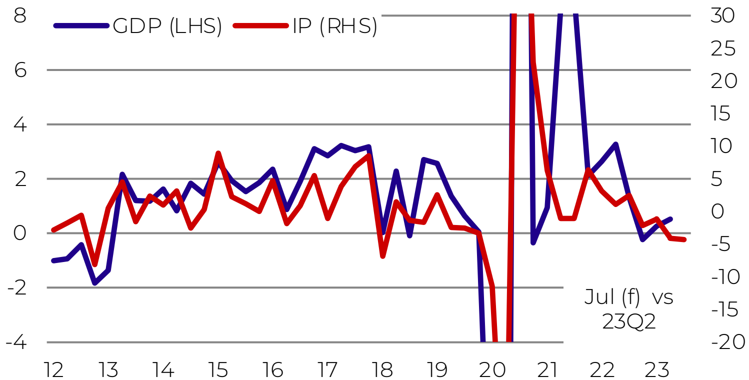


Chart 72
Change in Euro area unemployment
'000m/m

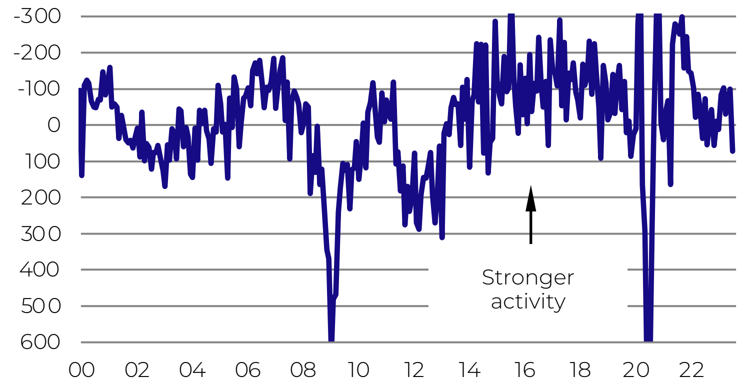
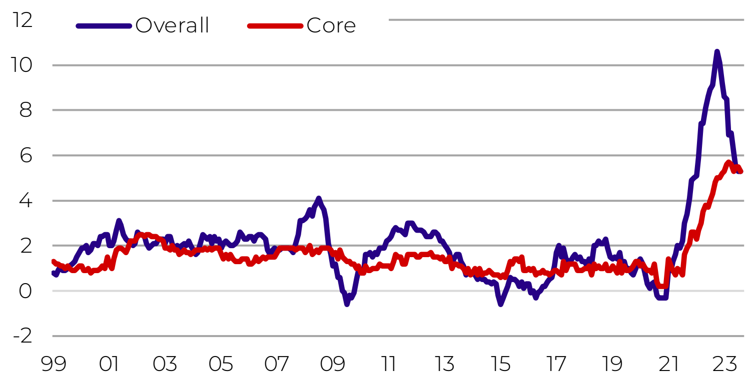


Chart 73
Euro area: bank lending to businesses
%oya

Chart 74
Euro area: consumer prices
%oya



Japanese nominal income is booming

Chart 75
Japan: nominal GDP growth
% change over last 2 quarters, saar

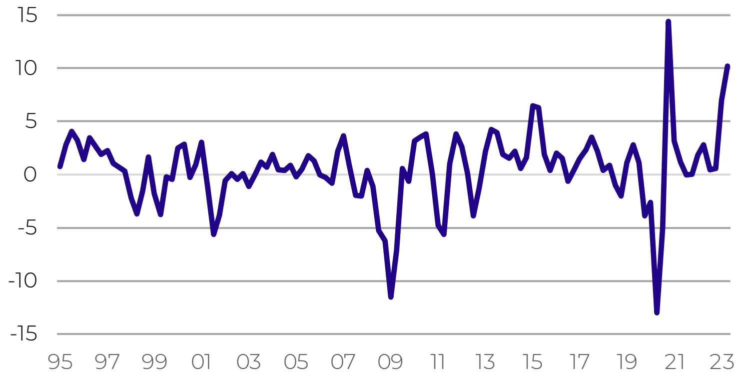


Chart 76
Corporate profits: NIPA basis
as % of GDP, last 4 quarters

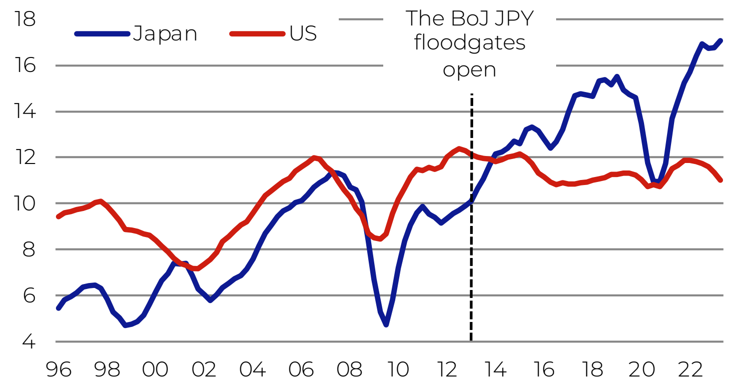


Chart 77
Japan: real consumption outlays
BoJ indices, sa, 2011 = 100, both scales

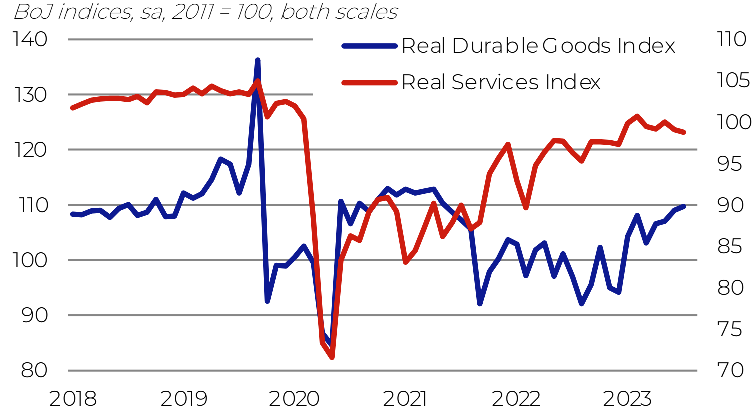
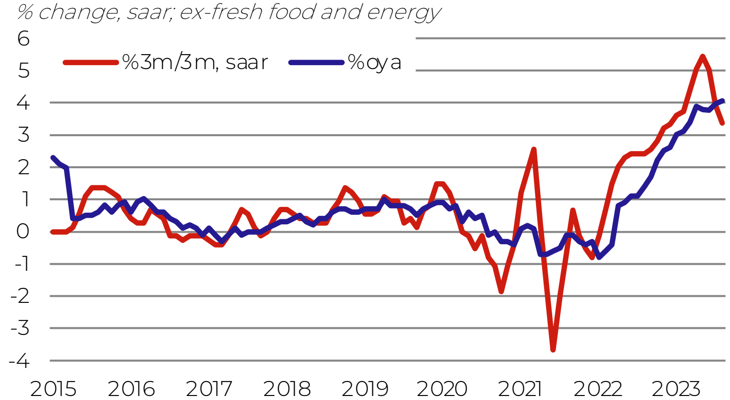


Chart 78
Japan: Tokyo area core CPI
% change, saar; ex-fresh food and energy



The UK: stagflation now, recession next

Chart 79
UK: real GDP
2018 = 100, sa

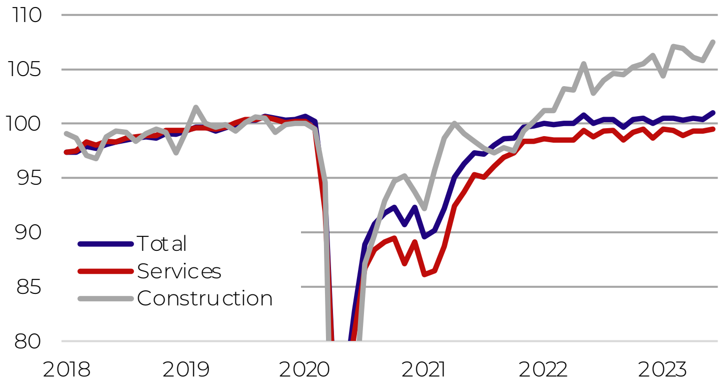


Chart 80
UK: auto production
sa, 2019 = 100

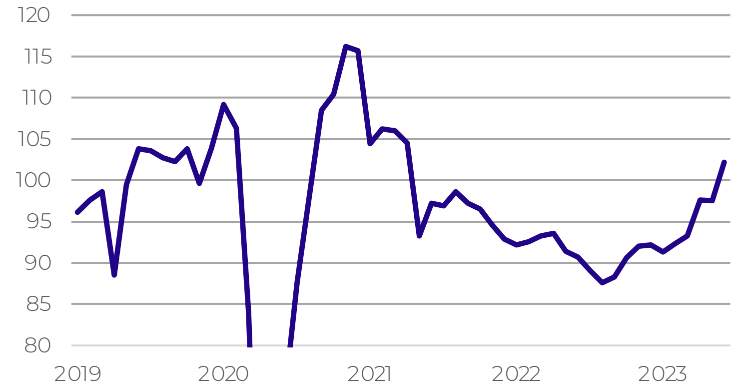


Chart 81
UK: household mortgage debt-service ratio
interest + principal as % of disposable income

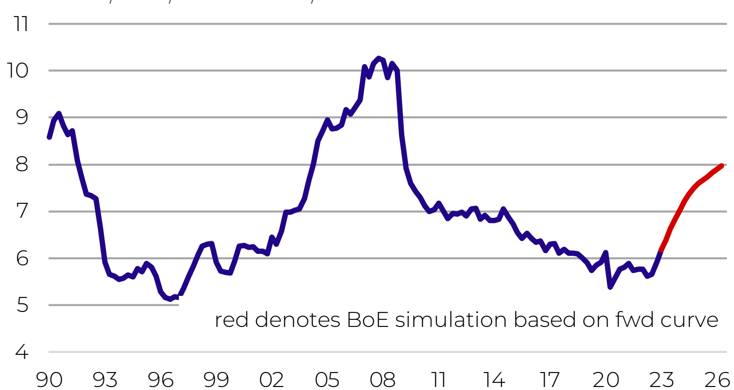
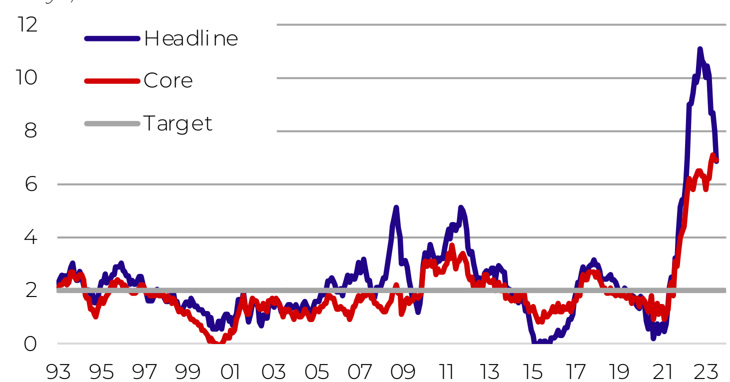


Chart 82
UK consumer prices
%oya;



Canada: this BoC pause looks more like a peak

Chart 83
Canada: alternative measures of GDP
%q/q, saar; 23Q3 is Jul vs Q2

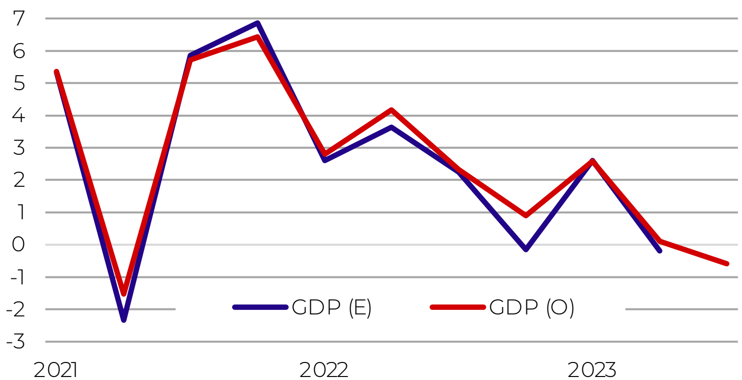


Chart 84
North America: unemployment rates
% of labor force

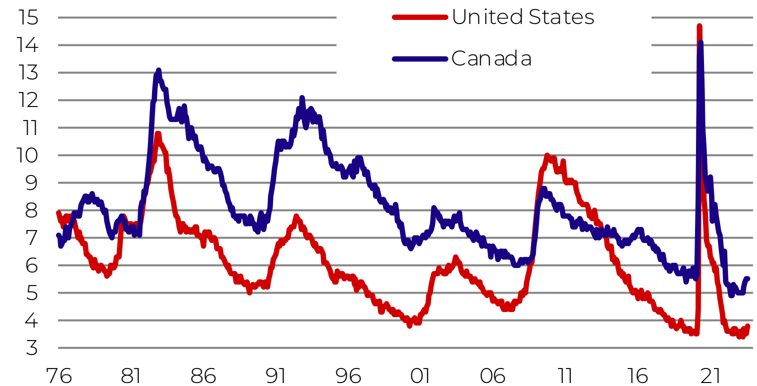


Chart 85
Canada: headline & (US-method) core CPI
%3m/3m, saar

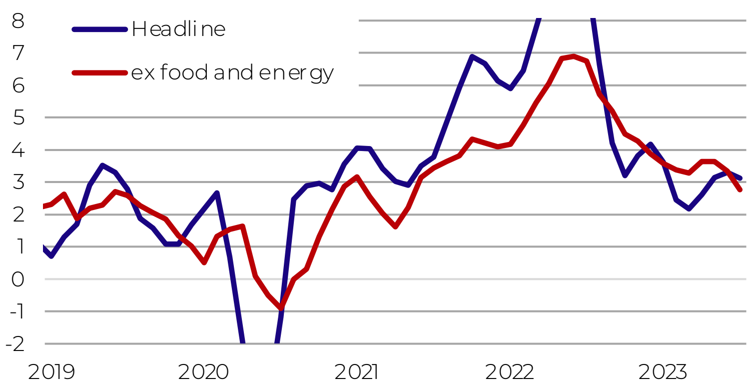
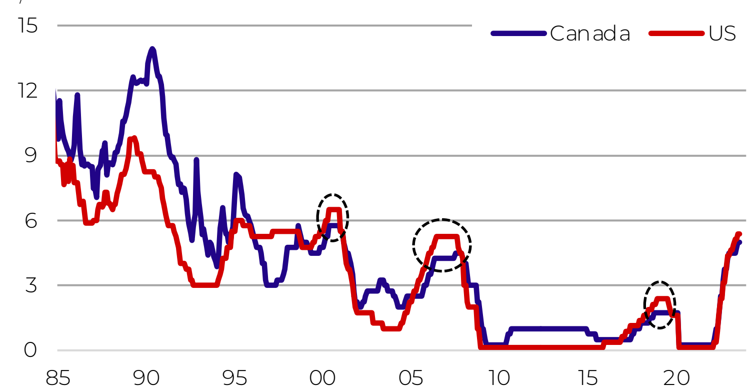


Chart 86
Canada and US: policy rates
percent



Australia & NZ: the NZ market looks ahead to the Oct election

Chart 87
Australia and NZ: business confidence
z-scores, window March 1997-Dec 2019

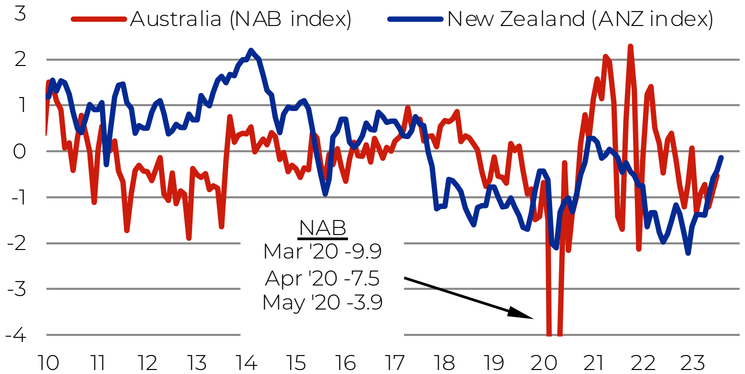


Chart 88
Australia: official monthly CPI measure
%oya,

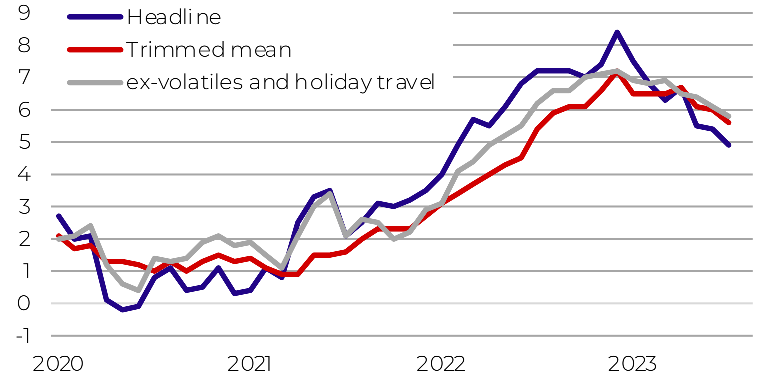


Chart 89
Australia and NZ: unemployment rates
% of labor force

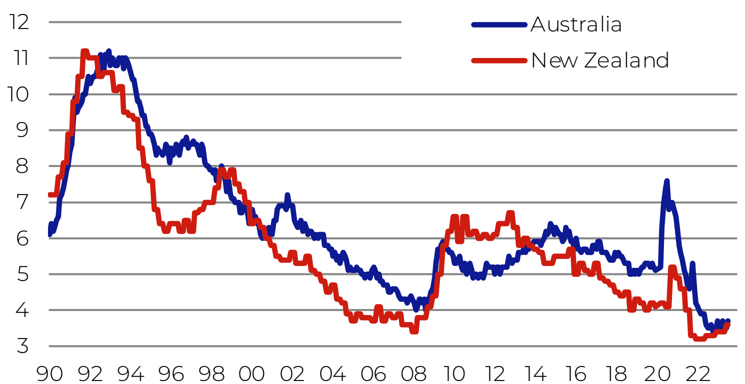
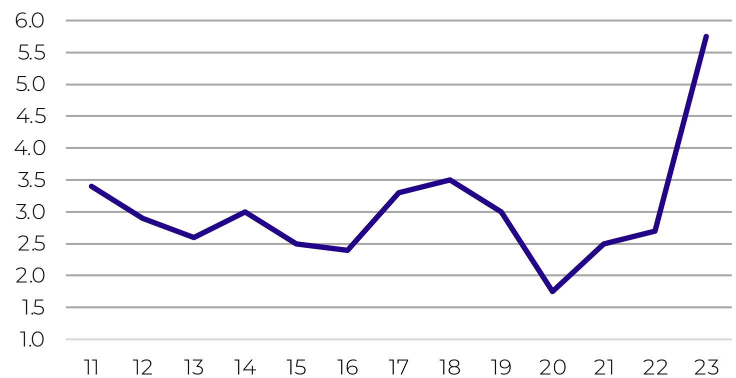


Chart 90
Australia: annual rise in minimum wage
%, increase awarded as of Jun 30th



Scandinavia: Sweden in recession, albeit mild to date

Chart 91
Sweden and Norway: real GDP
Jan 2016 = 100, sa

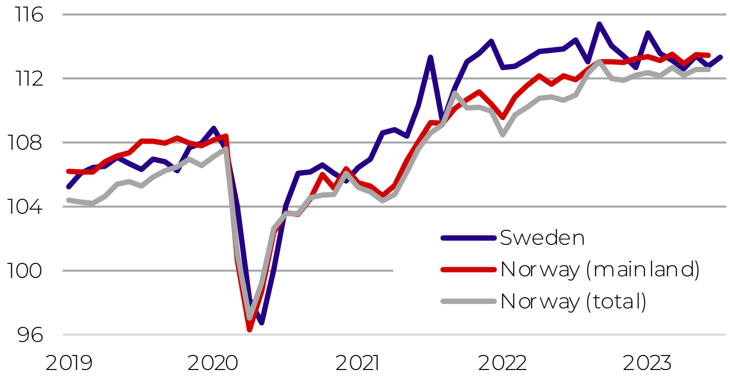


Chart 92
European economic confidence
z-scores, 1997-2019 window

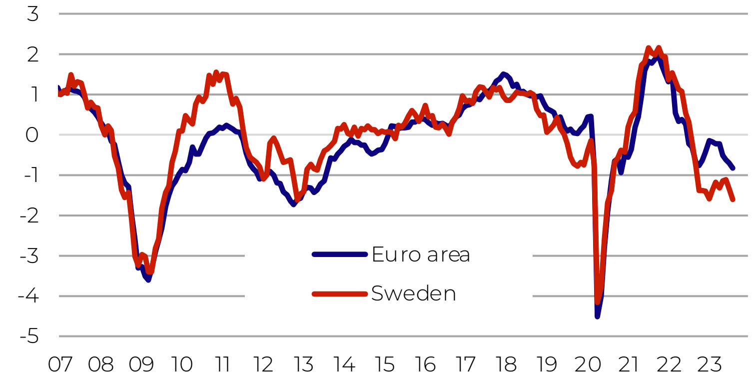


Chart 93
Sweden and Norway: unemployment rates
% of labor force

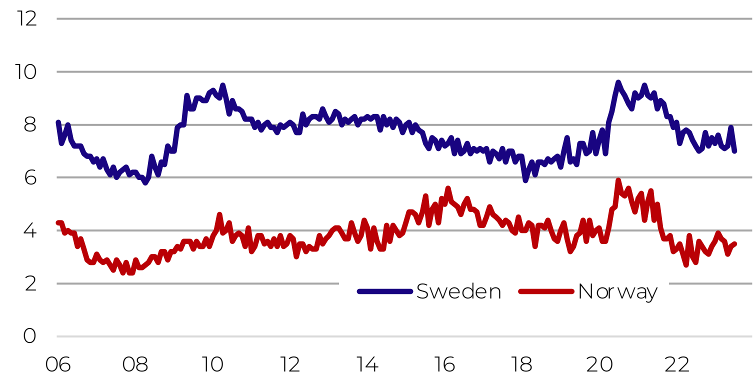
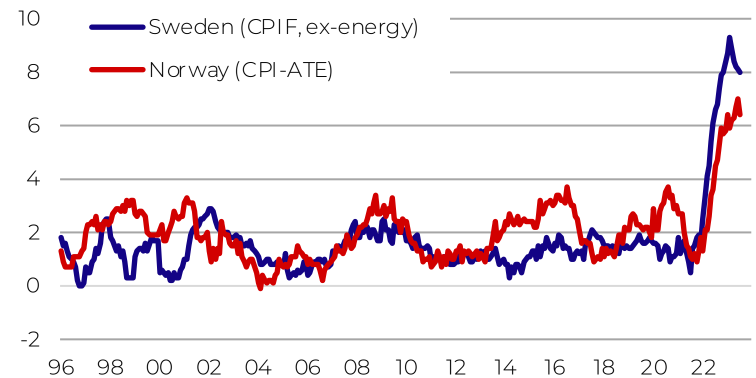


Chart 94
Sweden and Norway: core CPI
%oya



China: growth and property debt worries linger

Chart 95
China: official and private sector PMIs
50 = stable activity, both scales

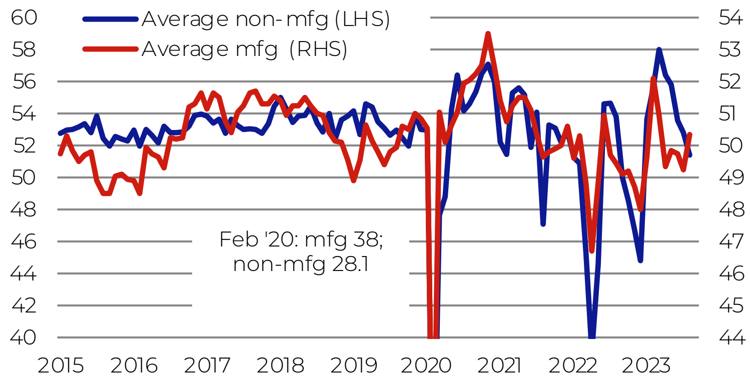


Chart 96
Household saving rates
saving as % of disposable income, both scales

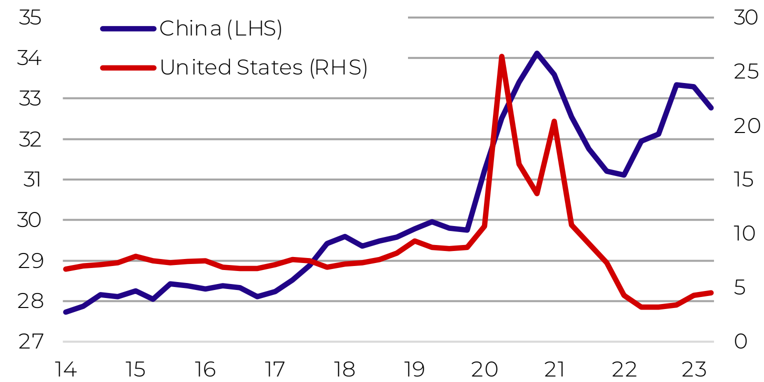


Chart 97
China: imports by country
$ billion per month

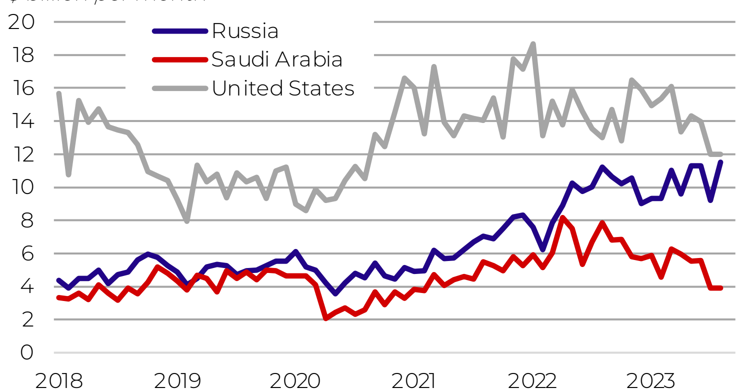
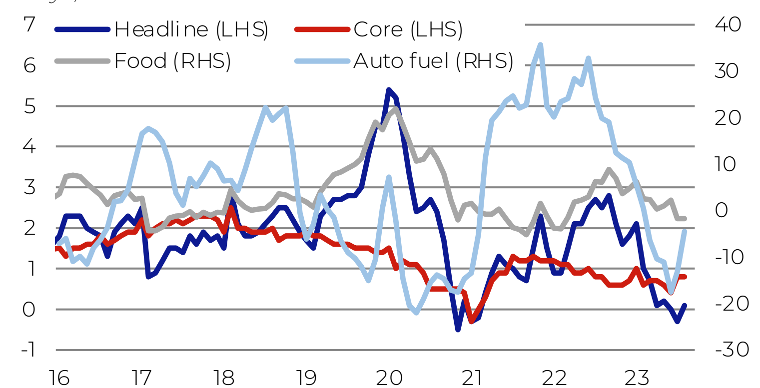


Chart 98
China consumer prices
%oya, both scales



Emerging Asia, ex-China: Impressive Indian strength

Chart 99
EM Asia: manufacturing PMIs
index, 50 = stable activity

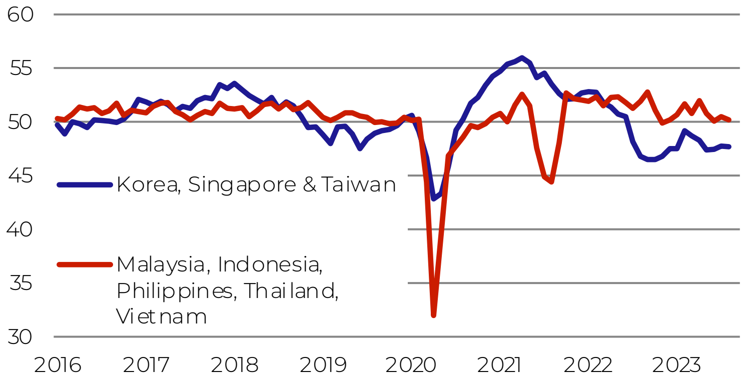


Chart 100
Emerging East Asia: real GDP
%oya

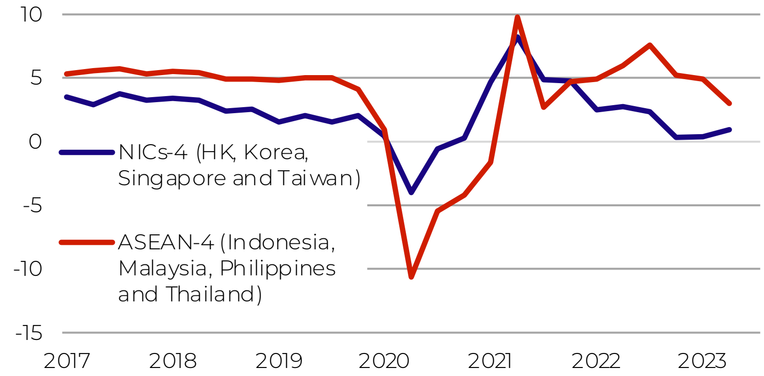


Chart 101
Emerging Asia, ex-China: consumer prices
%oya

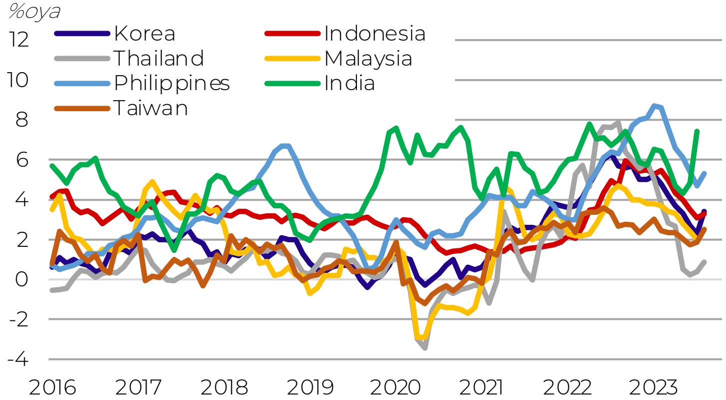
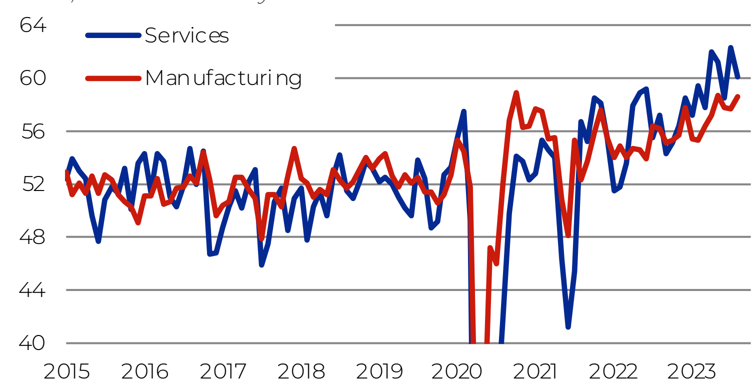


Chart 102
India: purchasing managers' indices
index, 50 = stable activity



Latin America: Argentina faces a difficult election season

Chart 103
Argentine peso
ARS per USD

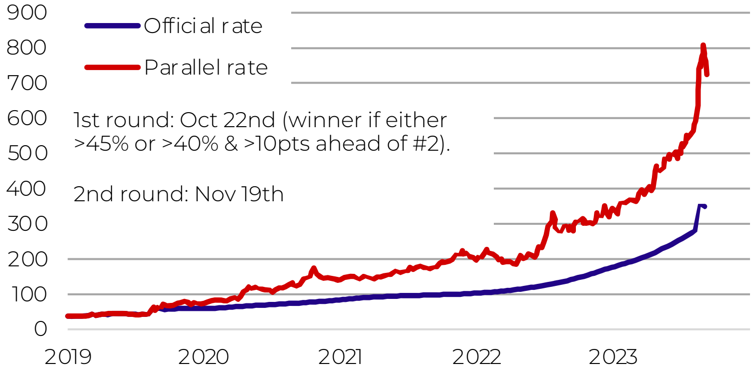


Chart 104
Latin America: consumer prices
%oya

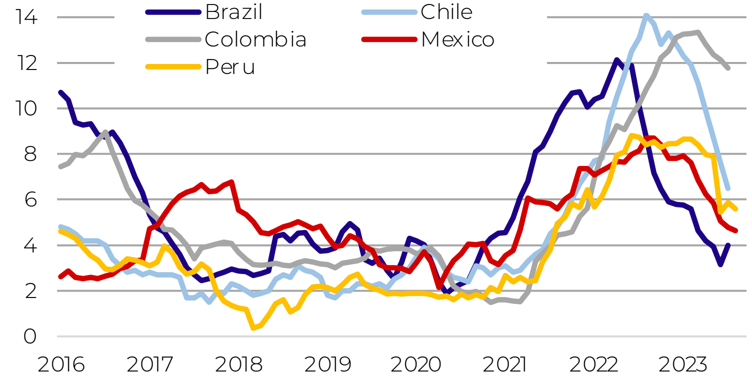


Chart 105
Latin America: unemployment rates
% of labor force, nsa

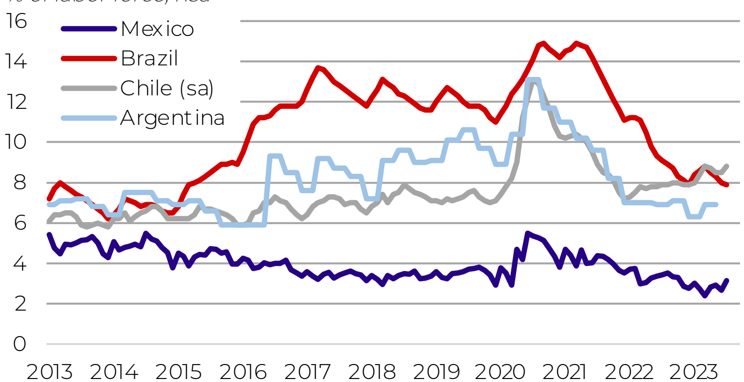
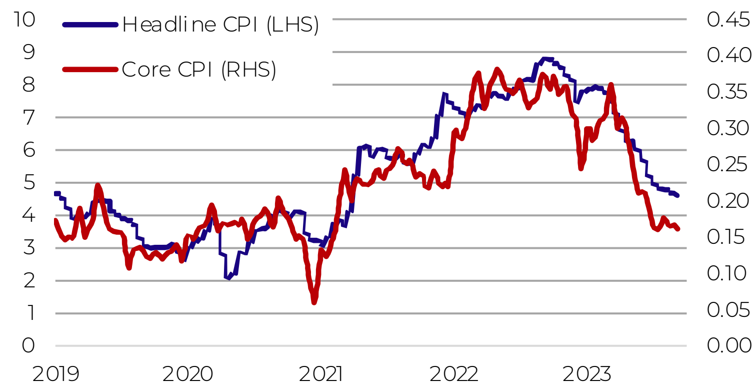


Chart 106
Mexico: bi-weekly CPI inflation
%oya *%2w/2w, nsa, 60-day rolling avg*



Eastern Europe: uneasy CE-3 easing now underway

Chart 107
Holy Roman Empire: manufacturing PMIs
index, 50 = stable

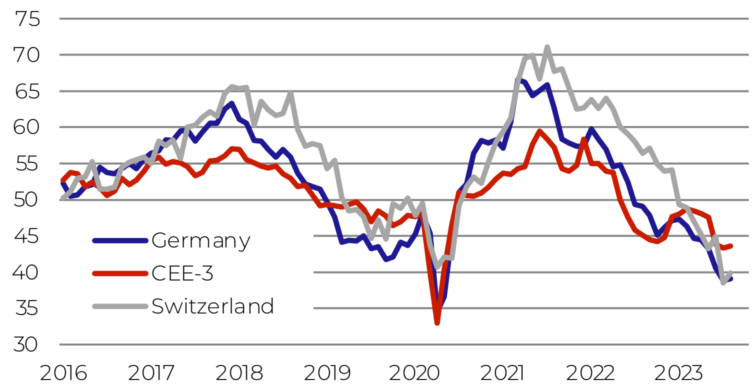


Chart 108
CEE: consumer prices
%oya

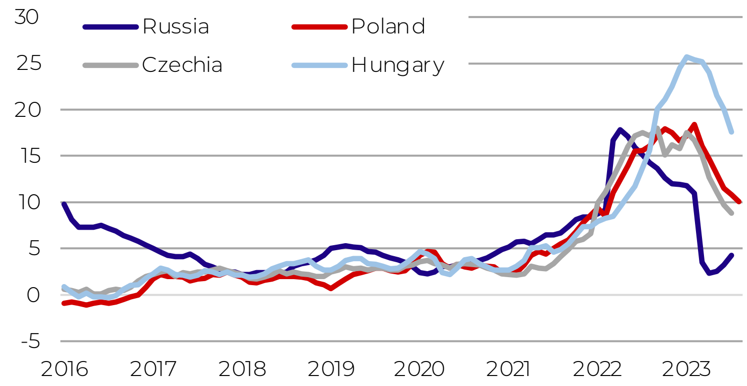


Chart 109
Poland and Chile: real policy rates
percent; key policy rate less CPI %oya

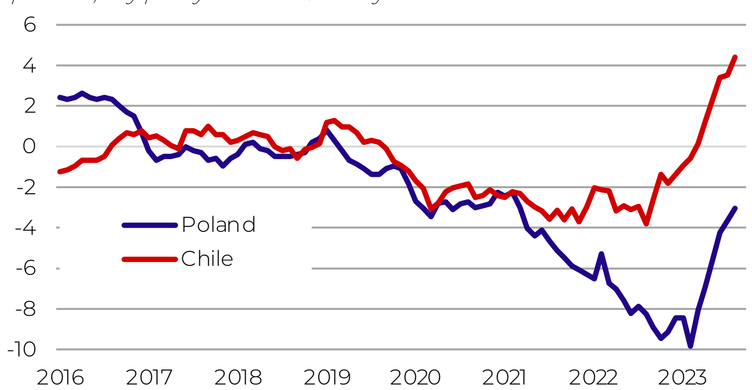
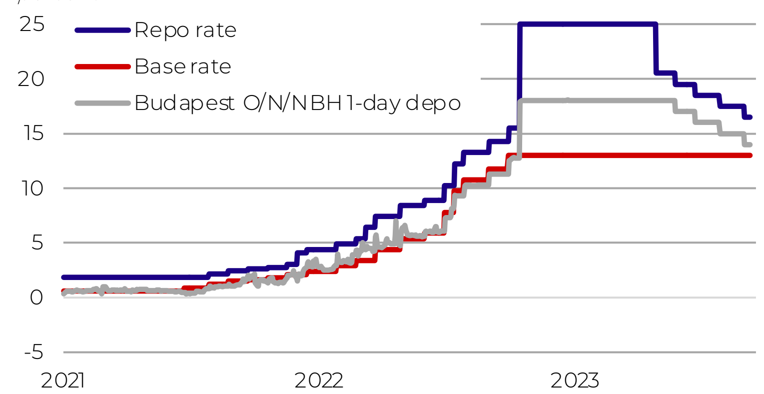


Chart 110
Hungary: interest rate corridor
percent



Middle East and Africa: Turkey's move back to orthodoxy

Chart 111
Turkey: CPI inflation and the FX rate
%oya, both scales

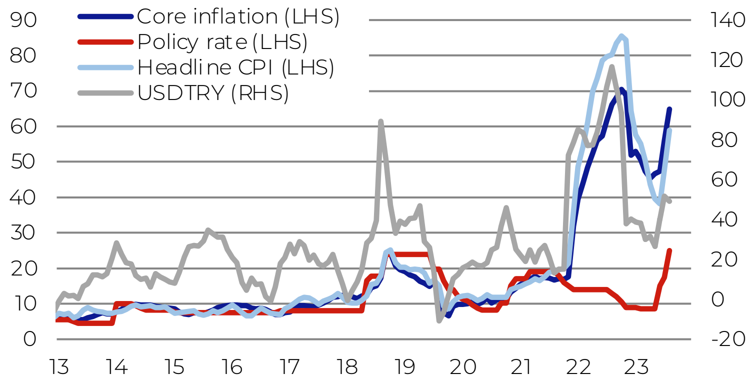


Chart 112
Turkey: bank deposit and CBRT rates
percent

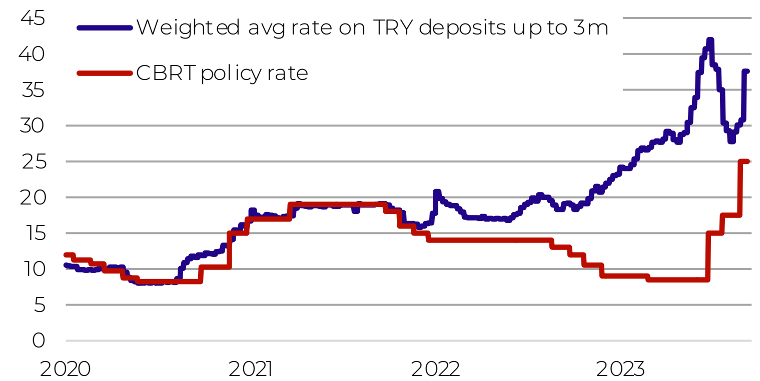


Chart 113
Middle East and Africa: real GDP
2017Q1 = 100, sa

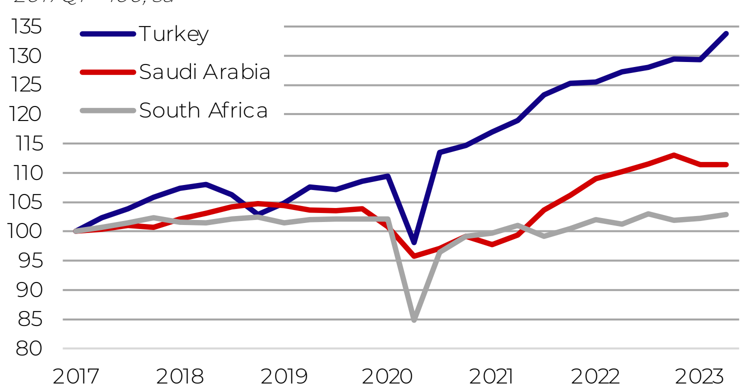


Chart 114
South Africa: consumer prices & SARB rate
%oya and percent