Economics

22 August 2022

Investec
Investec Bank plc (UK)

Global Economic Overview

Growth prospects singed as gas flares

Global

Rocketing gas prices, especially in Europe – to ten times the 10-year average – have markedly worsened the terms of trade shock faced by net gas importing nations. Particularly exposed are the EU and the UK. (The US is now a net gas exporter, underpinning USD's outperformance.) Even with some government mitigation, inflation is set to rise further, and recession now looks likely in the EU19 as well as the UK. Central banks stand to deliver more rate hikes for now, we judge, but as energy prices, sustained high food prices and China's property slump squeeze demand – and supply pressures diminish – rate cuts may follow in 2023.

United States

The Federal Reserve continues to walk the tightrope of raising interest rates to rein in inflationary pressures amidst a weakening economic backdrop. Although the two negative quarters of growth reported in H1 would qualify as a technical recession (outside the US) and pushed down our 2022 growth profile to 1.7% (prior: 1.9%), this was largely a result of inventory swings. We see a more broad-based downturn on the horizon in Q2/Q3 next year, slightly later than in the UK and the Eurozone, reflecting the differences in energy vulnerabilities. Such a recession is likely to prompt the Fed to cut rates in three 25bp moves, starting from July.

Eurozone

Headwinds are mounting for the Euro area outlook given the current energy crisis and continuing supply chain disruptions, which have been added to in Germany by the extremely low water levels in the Rhine. As such we now envisage a recession in the EU19 over this winter. Our new GDP forecasts stand at 3.1% and 0.4% for 2022 and 2023, respectively. ECB policy is expected to continue on a tightening path, with the Deposit rate reaching 1.00% in December. However we anticipate that a policy hiatus will be seen over 2023 given the predicted economic downturn.

United Kingdom

Soaring gas prices imply a c. 80% rise in October's domestic energy price cap and likely a further material hike in January. Taken together with a poor 10.1% (yoy) CPI reading for July, we now forecast inflation rising to 13.4%, peaking in October and January. There are many unknowns. One is whether the ONS treats the existing (and potentially new) energy cost mitigation measures as price reductions. If so, some of these would reduce CPI inflation. Conservative leadership favourite Liz Truss had dismissed such 'handouts', favouring substantial tax cuts, but recently seems to have softened her line. In any case, UK markets now seem concerned about over generous fiscal policy – at one stage late last week rate markets were pricing in the Bank rate rising to 4.00% next year. This is undermining rather than supporting the pound, currently below $1.18, a throwback to spring 2020 when currency markets were questioning the government's herd immunity strategy in the early weeks of the pandemic.

	2022	2023
GDP Growth (%)		
Global	2.4	2.0
US	1.7	0.5
China	3.2	5.2
UK	3.8	-0.2
EU19	3.1	0.4
Key Official Interest rates (%, end-year)		
US Fed funds	3.00-3.25	2.25-2.50
ECB Deposit rate	1.00	1.00
UK Bank rate	2.50	1.50
FX rates (end-year)		
€:$	1.02	1.10
€:£	0.86	0.87
£:$	1.19	1.26
$:¥	132	125
AUD:$	0.70	0.77
€:CHF	0.98	1.05

Please click here for a summary of our economic and market forecasts

Philip Shaw
+44 (0) 20 7597 4302
philip.shaw@investec.co.uk

Ryan Djajasaputra
+44 (0) 20 7597 4039
ryan.djajasaputra@investec.co.uk

Ellie Henderson
+44 (0) 20 7597 6714
ellie.henderson@investec.co.uk

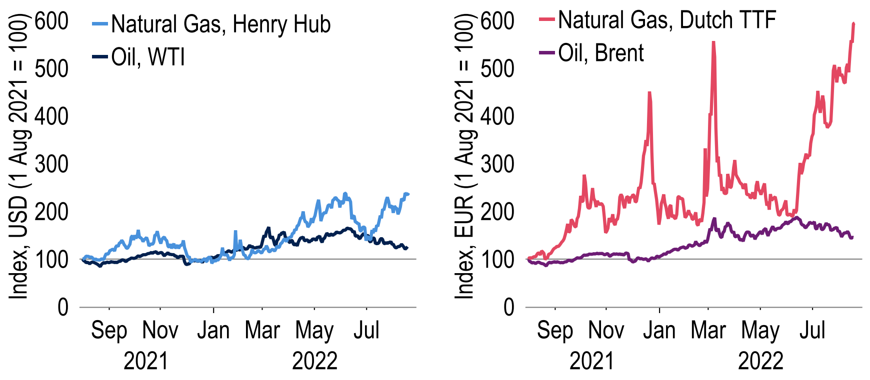
Sandra Horsfield
+44 (0) 20 7597 5882
sandra.horsfield@investec.co.uk

Tom Priscott
+44 (0) 20 7597 4695
tom.priscott@investec.co.uk

Global

Globally, a disconnect has opened up between oil prices on the one hand and gas on the other. Whereas oil prices have trended lower so far in Q3, gas prices have surged. The order of magnitude of the latter is far larger in Europe than the US (Chart 1). Underlying this is the limited availability of alternatives to Russia as a supplier of gas to Europe. Only a small part of the global pool of LNG is not under long-term contracts; and distributing it relies on infrastructure (incl. pipelines and LNG terminals) that take time to put into place. Oil is more easily substituted, so its price has dropped on recession fears (and the chance of Iranian supplies coming back onstream were its nuclear deal revived).

Chart 1: Europe's gas price surge dwarfs that in the US; oil trends are much more similar

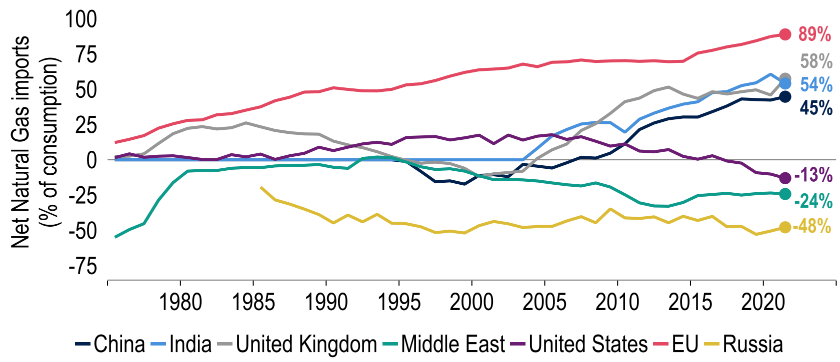


Note: Oil price is spot, Gas is 1st position future

Sources: Macrobond, Investec

As always with a relative price change, there are winners (here, net gas exporters) and losers (net gas importers). Notably, the former now also includes the US (Chart 2). But energy exporters save a significant part of the extra revenue they receive, often via sovereign wealth funds, rather than spend ('recycle') all their petrodollars (including on imports). And typically savings in energy importing nations do not fall by an equivalent amount, so aggregate global demand – world GDP – slows. This effect is now even larger than in past energy shocks, as sanctions limit the ability of Russia to purchase goods and services from abroad.

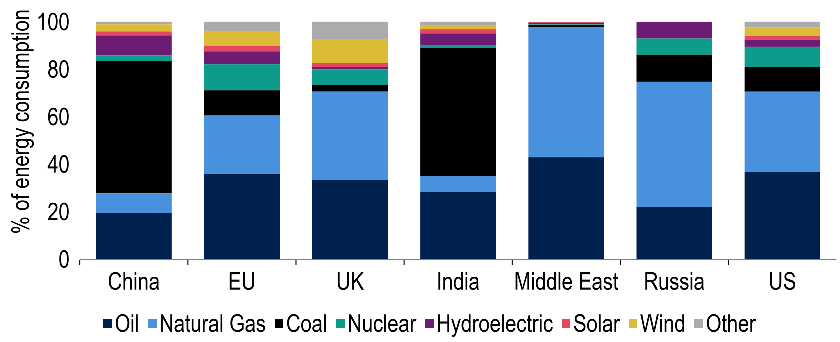
Chart 2: Thanks to shale exploration and LNG, the US is now a net exporter of natural gas



Sources: BP and Investec

The economic impact of soaring gas prices naturally depends not only on the share of gas supplies at risk but also on the proportion of the primary energy supply met by gas. China looks much better placed in this respect than Europe (Chart 3). But its economy is struggling for other reasons, namely the property sector crunch and output disruptions resulting from the strict zero-Covid policy. This adds to the drag on global GDP, with greater knock-on effects elsewhere now that China accounts for 15% of world exports (vs. 4% in 2000 and 1% in 1980). Beijing is hence easing policy, using fiscal and monetary tools, incl. this week's LPR rate cuts.

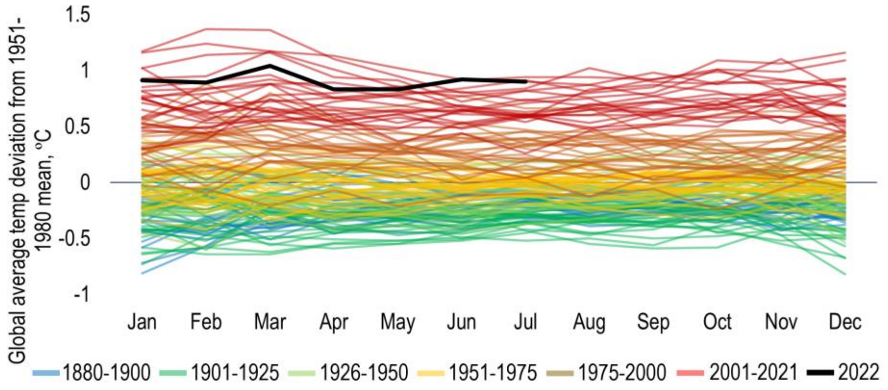
Chart 3: Natural gas meets only a small share of China and India's primary energy demand



Sources: BP, Macrobond, Investec

A separate and further issue for the world economy to grapple with is that of the risk to food supply. Part of that remains the war in Ukraine, which has not only disrupted the distribution of grain from past harvests but also reduced the crops planted this year. Grain distribution has been addressed to some extent through the deal brokered by Turkey. But the war is ongoing, and this summer's drought in Europe – a consequence of rising global temperatures (Chart 4) – may delay a normalisation of prices. This could well prolong headline price pressures in the near term. Indeed, we have raised our inflation forecasts for this year and next in the EU19 and the UK.

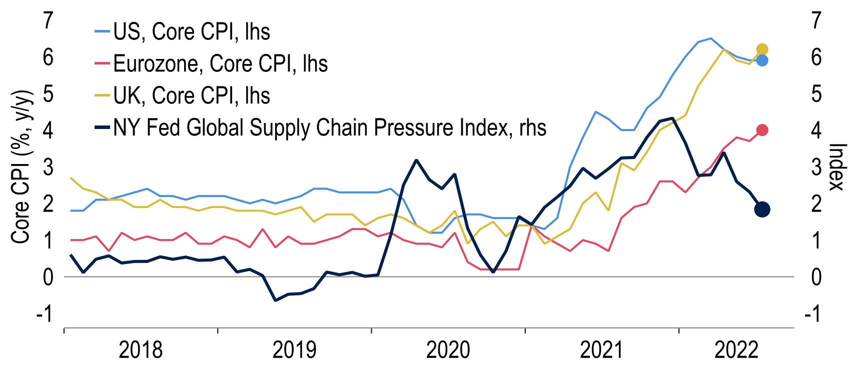
Chart 4: Feeling hot, hot, hot



Sources: NASA, Investec

But not all is doom and gloom. Fears of a global recession have led to an easing in global commodity prices – even in benchmarks for wheat and corn, as well as industrial metals. In time, that ought to help lower input price pressures. Moreover, global supply chains do appear to be improving (Chart 5), notwithstanding ongoing issues in China. The hope is therefore that 'core' inflation at least could be topping out soon. Indeed, in the US this point may already have been surpassed. But with headline inflation still so high, crucially against the backdrop of very tight labour markets, we see central banks still very hawkish in the near term. Indeed, in the UK, we…

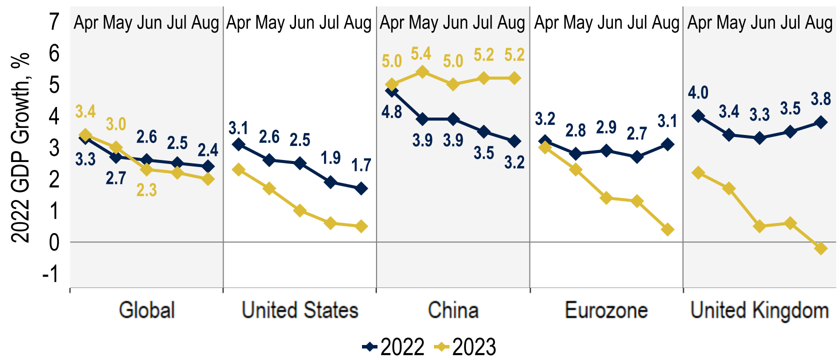
Chart 5: Do lessening supply chain pressures portend lower core inflation too?



Sources: Macrobond, Investec

…now expect that the next move in rates will be a 50bp hike, to quell the risk of wages rising to compensate for past price rises and adding to costs and future inflation in turn. Partly as a result of more hawkish central banks, but primarily as a result of what has become an exceptionally large terms of trade shock in Europe, we have cut our global GDP growth projections. Our new forecasts envisage recession extending to the Euro area too, in Q4/Q1, even if outright energy rationing is avoided (Chart 6). As inflation recedes, we see the Fed and the BoE removing some of the restrictive policy put in place by then, whereas the ECB stands pat, as policy rates hold below 'neutral'.

Chart 6: Our global GDP growth forecasts have been cut, most sharply in Europe

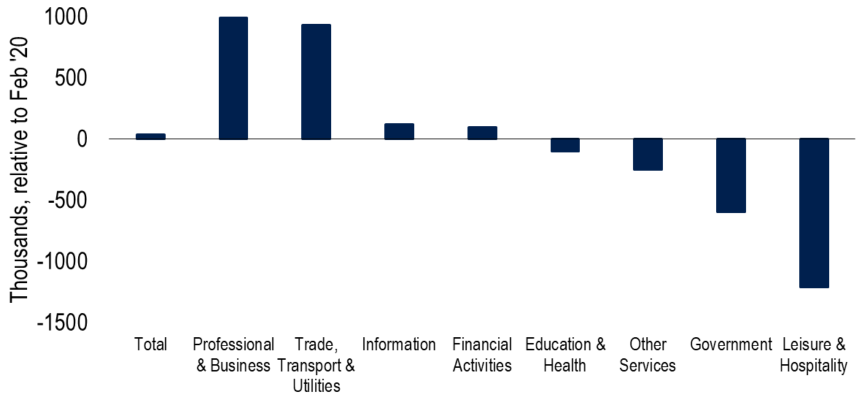


Sources: Macrobond, Investec

United States

The US labour market continues to run red hot. The July employment report was strong: monthly non-farm payroll gains far exceeded consensus at +528k, pushing total NFPs above pre-pandemic levels for the first time. The continued strength of NFPs does seem curious to us given the depressed participation rate, as per the alternative household survey. Without a recovery in participation, we find it hard to see a scenario in which these robust payroll gains are sustained, primarily due to the dwindling pool of available labour, but also as the weaker economic backdrop starts to weigh on labour demand in the coming months. However, for now, the labour market…

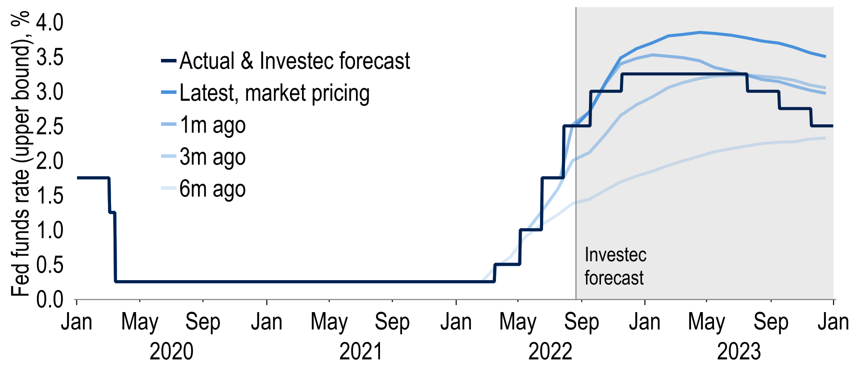
Chart 7: Another surge in non-farm payrolls (NFP) – where are the extra workers employed?



Sources: Macrobond, Investec

…remains very tight, providing support for the Fed to continue with rate hikes to quell inflationary pressures, at least for the next couple of meetings. On inflation, despite being far above the 2% target, there are glimmers of hope: in July CPI inflation pulled back to 8.5%. This was largely due to a fall in energy prices, but was accompanied by price drops in other sectors, such as used cars. Although it is not certain that 'peak' inflation has passed, we think inflation will recede next year as rate increases and QT weigh on demand, and eventually push the economy into a recession, opening the door not to just to a policy hiatus, but also rate cuts in mid-2023.

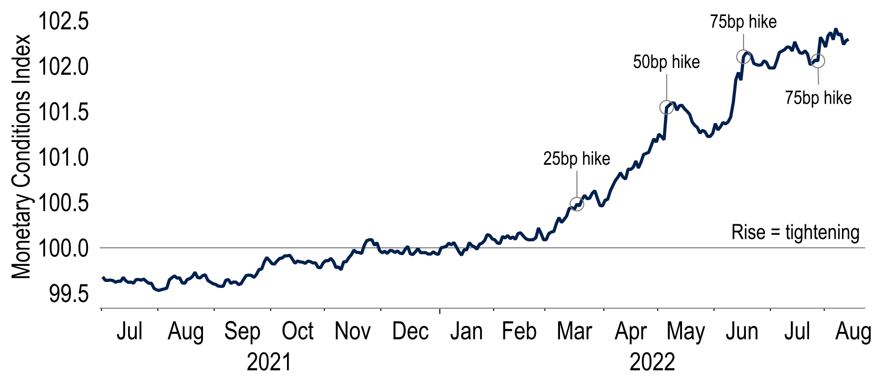
Chart 8: What goes up must come down (at least in the face of an impending recession!)



Sources: Bloomberg, Macrobond, Investec

Interest rate markets had rallied strongly. Earlier this month they were pricing rates peaking as low as 2.75%, 100bps lower than in mid-June. 10y USTs yielded 2.50% at one stage. This loosening in financial conditions went against the Fed's tightening efforts, to the displeasure of FOMC members. Indeed, a plethora of hawkish Fed comments followed July's meeting, when rates were lifted by 75bps but bonds rallied in the absence of a commitment towards further large hikes. There was a similar reaction (from markets and the Fed) on release of the minutes which highlighted Fed fears of overtightening. Overall we maintain our view for a 50bp hike in Sep (to 2.75%-3.00%), but note that more speculation over lower rates would again be met by verbal intervention by the Fed.

Chart 9: Fall in UST yields dampens impact of last 75bp hike, causing a headache for the Fed

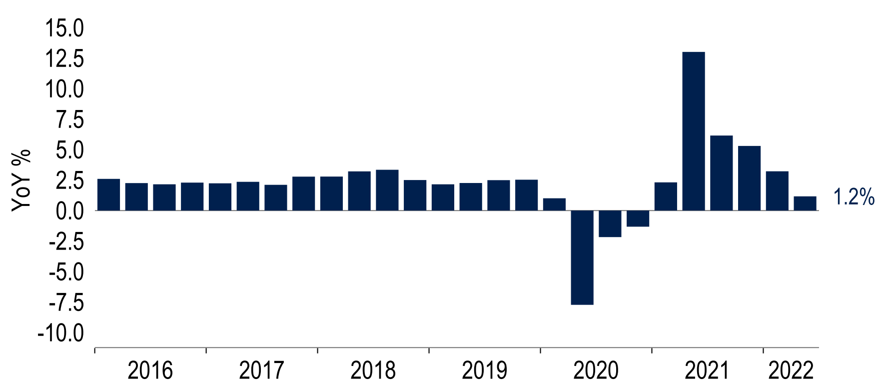


Note: The MCI is constructed by weighting policy rates and 10-year yields equally, and weighting interest rates and FX rates in the ratio of 9:1.

Sources: Macrobond, Investec calculations

The curve now sees a peak effective Fed funds rate around 3.75%, with cuts in H2 2023. Note too that the pace of QT is set to increase to $95bn per month next month, so at such a peak the stance of policy would be deep into restrictive territory. Despite the strong labour market, there are already indications that demand is slowing. Signs of housing market weakness continue to intensify. And final domestic sales growth currently (i.e. data for Q2) stands as low as 1.2% (yoy). Our call remains that a soft landing is wishful thinking and that the economy will fall into a mild recession next year with rates reaching 3.00%-3.25% before the Fed changes tack and eases policy in H2 next year.

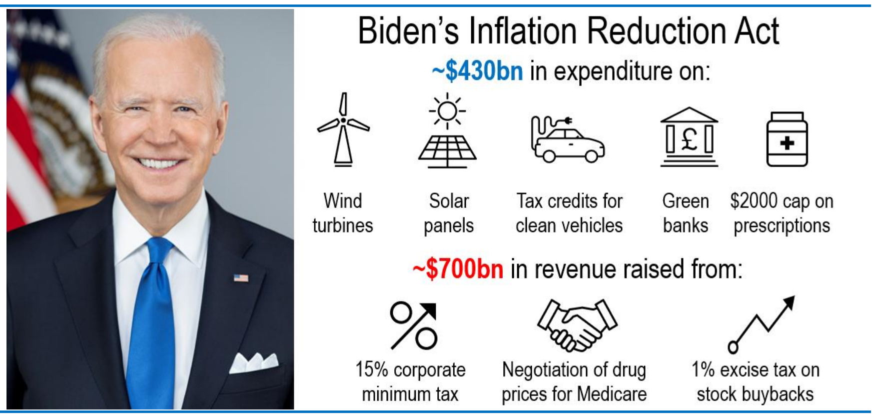
Chart 10: Final domestic sales growth highlighting weaknesses in US economy



Sources: Macrobond, Investec

In light of the weaker economic outlook but high inflationary pressures, the Biden administration has been working on a package to stimulate the economy without stoking inflation. Following infighting within his own party, the new Inflation Reduction Act finally passed legislative hurdles and was signed into law earlier this month. The name of the act, however, may be misleading. Its inflation-reducing capabilities do not seem to apply to the short term, where it is badly needed. Indeed, renewable energy plants cannot be built overnight and the Medicare negotiations, for example, will not bring about lower prices until 2026 at the earliest, two years…

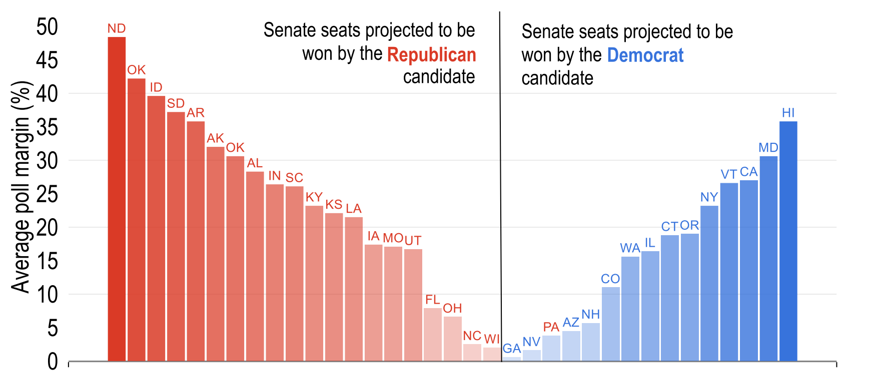
Chart 11: Biden finally receives party support for new slimmed down bill, but what is in it?



Sources: Image from US gov, illustration by Investec

… after the next Presidential election. Nevertheless, the eventual passing of the bill has helped Joe Biden and the Democrats in the polls. The overturning of the Roe vs Wade decision also boosted Democrats' support. For several months it was projected that the Republicans would take control of the Senate at the November midterms, but that tide seems to have been turned – indeed, modelling by fivethirtyeight now points to the Democrats left with at least 50 seats in the Senate. However, while their odds have shortened, the Democrats are still firmly projected to lose control of the House, which would hinder Joe Biden's chances of passing further legislation over the final two years of his term.

Chart 12: Democrats just have the edge in the swing seats for November's midterms



Notes: Colour of two-letter state code denotes incumbent party; Utah (UT) challenger is an independent; both Oklahoma (OK) seats are being contested

Sources: fivethirtyeight, Macrobond, Investec

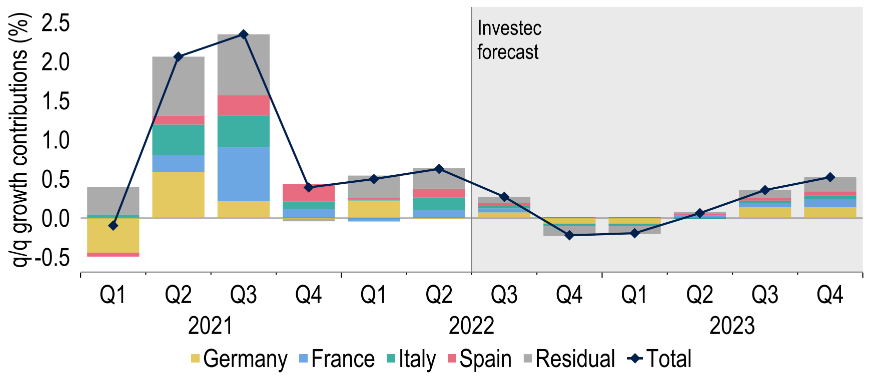
Eurozone

Q2 EU19 GDP was better than expected at +0.6% q/q, bolstered by Italy, Spain and the Netherlands outperforming forecasts. However, although Q3 may be supported by tourism, particularly in Southern Europe, the outlook is becoming bleaker. Energy supplies lie at the heart of the issue, with Russia having throttled back gas supplies via Nord Stream 1 to just 20% of capacity. The critical question is whether the Euro area can avoid gas rationing this winter. For now storage levels in Germany (79.5%) look to be on track to meet targets. Combined with efforts to reduce consumption, alternative sources being utilised and on the assumption that...

...Russian gas supplies are not halted entirely we factor in that rationing will be avoided, but clearly this is a risk. An unexpected additional headwind to the outlook has been the extreme heat in Europe this summer. One consequence is the extremely low water levels in the Rhine, particularly in Kaub, a notoriously shallow area where depths have plummeted to levels which make navigation extremely difficult. There are two issues with this. Firstly, it adds to supply chain issues, with barges only able to carry a quarter of normal loads with water at current levels. Secondly, it may exacerbate energy supply issues, given the waterway is used to transport coal to power stations up the Rhine.

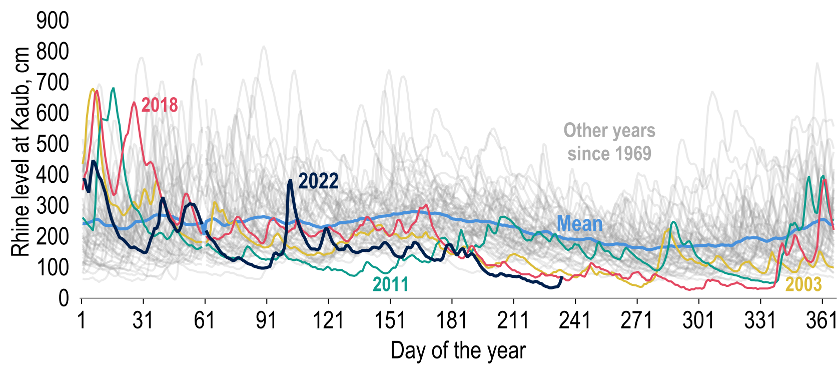
This has led to further energy price jumps, given the potential need for additional gas supplies. It is these price rises that we see hitting the economy. The effects are set to vary depending on the exposure to higher costs and the level of fiscal support. Eastern European countries are especially exposed and where there are potentially some signs of this already, with Latvia (-1.4%) and Lithuania (-0.4%) contracting in Q2. But it is the large economies which are a focus, Germany especially. Given the energy backdrop and now extra supply chain issues, we see it slipping into a recession, a view which we share for the Euro area as a whole, with negative GDP growth now expected over Q4 and Q1 '23. Our annual forecasts now stand at 3.1% 2022 and 0.4% 2023.

Chart 13: Euro area GDP is expected to contract this winter



Sources: Macrobond, Investec

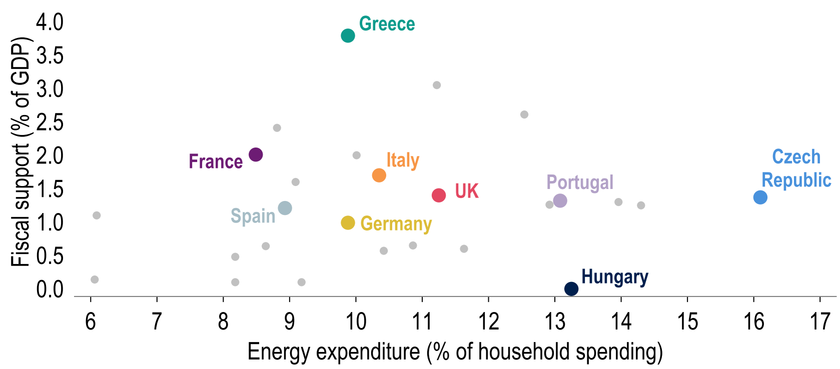
Chart 14: Rhine water levels are at record lows* for this time of year



* for data going back to 1969

Sources: Bundesanstalt für Gewässerkunde, Macrobond, Investec

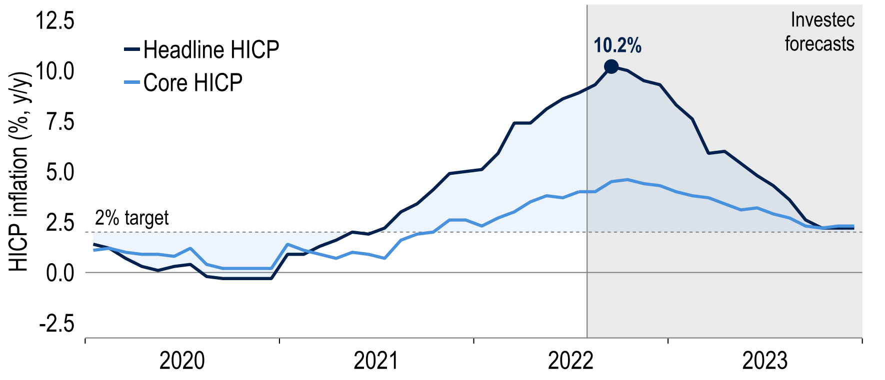
Chart 15: Fiscal support and household energy expenditure to be key factors in 2023



Sources: Macrobond, IMF, Investec

How the ECB responds will be an important determinant of 2023's outlook. Given the inflation backdrop – we see HICP reaching 10.2% – we expect continued tightening through the rest of 2022, our end-year Deposit rate forecast standing at 1.00%. But looking into 2023 we predict the ECB to freeze policy tightening on account of the economic downturn. A cut in rates cannot be ruled out, but it is not our central case. To our mind a factor here is that we expect ECB policy never to enter a restrictive stance (ECB estimates of the neutral rate are around 1-2%), so arguably there will not be the same degree of pressure to cut rates as in the US and UK.

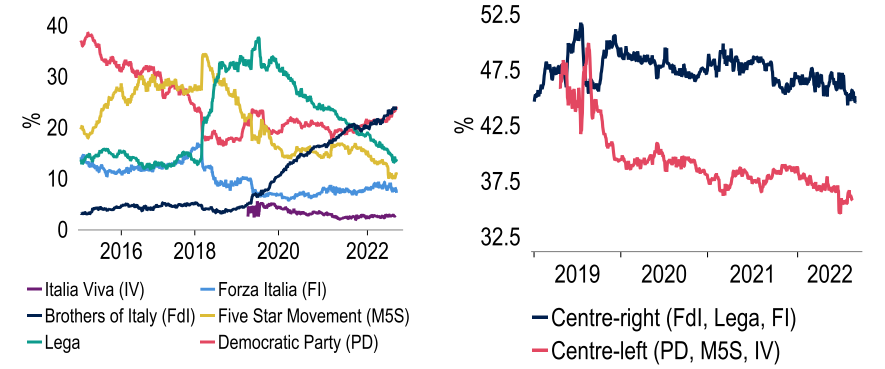
Chart 16: EU19 inflation to peak in September before falling sharply in 2023



Sources: Macrobond, Investec

The ECB's other focus is fragmentation risks, where July saw the first instance of 'flexible reinvestment' in PEPP assets with peripheral* holdings rising €17bn, against a fall of €18bn in core bonds**. Italy remains the key focus, but the 10yr yield spread has retreated to 228bps from a peak of 238bps in July. This comes ahead of next month's election, where the CR grouping continues to hold a material lead over the CL, which has in recent weeks seen Italia Viva and Azione breaking away. Primarily markets had been concerned about the potential direction of Italy under a centre-right government led by the Brothers of Italy. But comments by Giorgia Meloni have eased some fears, particularly over redenomination risks given commitments to the EU and its budgetary rules.

Chart 17: The Centre-right continues to lead in the polls

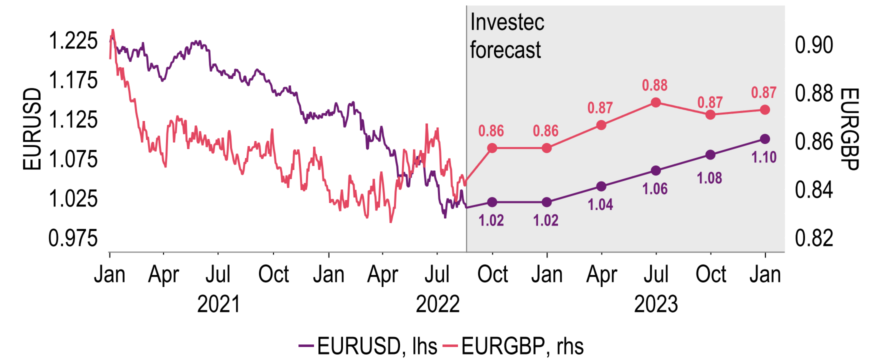


* Italy, Spain, Portugal, Greece
** Germany, France, Netherlands

Sources: Macrobond, Investec

This has done little by way of supporting the euro however, which has slipped back below parity against the USD once again. Dollar dominance continues to ring through globally, as the energy outlook and derived economic woes paint a particularly gloomy picture for both the euro and sterling. Yet ECB interest rates are unlikely to move into 'restrictive' territory before the economy turns, and so unlike for GBP, monetary policy should offer some support as other central banks cut rates. Our end-'22 and -'23 targets for the euro are unchanged, we expect EUR to remain weak at $1.02 until the end this year but rise to $1.10 through the course of next year.

Chart 18: Renewed euro weakness now, but there is still good reason for a rise next year

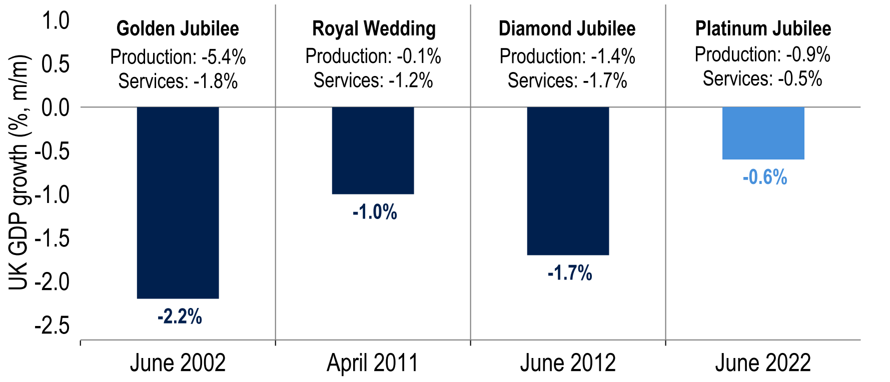


Sources: Macrobond, Investec

United Kingdom

Additional Bank Holidays, such as June's Diamond Jubilee, reduce GDP due to the lower number of working days. But is this effect waning? GDP fell by 0.6% in June, a more modest drop than over equivalent holidays in the past 20 years (Chart 19). The economy may be less sensitive to such events, thanks in part to more domestic tourism. But economic resilience may not persist for long given surging estimates of the path of the domestic energy price cap, which will put household incomes under huge strain. We now expect a longer recession (Q4 '22 to Q2 '23) with a peak-to-trough drop in GDP of 1%. Our 2022 GDP forecast is a touch firmer (3.8% from 3.5%) but that for 2023 is now -0.2% from +0.6%, as…

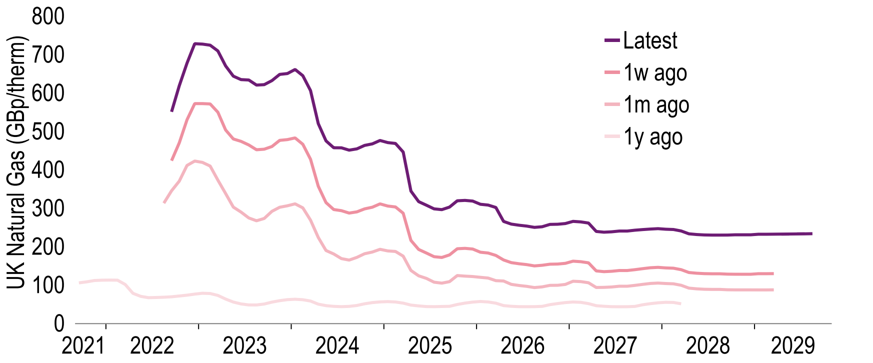
Chart 19: Is the UK economy becoming more resilient to off-cycle Bank Holidays?



Sources: Macrobond, Investec

…rising demand for stored gas across Europe has put unrelenting upward pressure on medium-term gas contracts. Accordingly our Utilities team calculates that the October cap will rise by 80% above £3.5k and at current market prices warns there would be a further 20% hike in January (*Ofgem* now resets the cap quarterly). Such a rise on top of April's 54% hike would lift annual household gas & electricity bills by £62.5bn, some 4% of disposable incomes, presenting the new PM with tough decisions on the extent and shape of any additional mitigation measures. Our forecasts do not embody any new policies of this type, which would of course support demand, with implications for monetary policy.

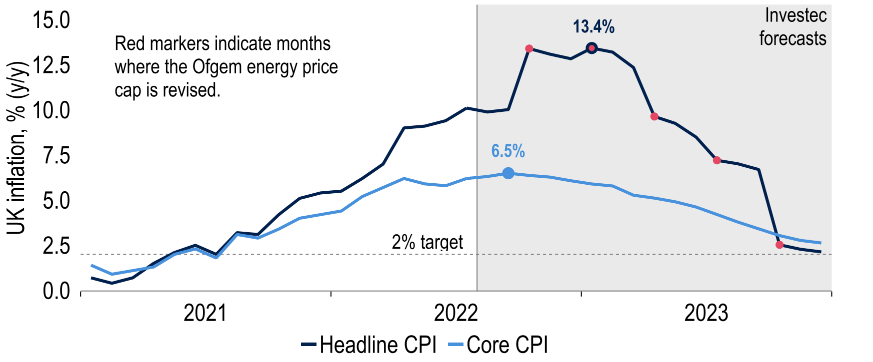
Chart 20: UK natural gas prices continue to soar – and are expected to stay very high



Sources: Bloomberg, Macrobond, Investec

CPI inflation soared to 10.1% in July and although the main driver this time was food prices, utility costs will continue to be the leading influence over the coming months. An unresolved issue is how the current (and presumably forthcoming) mitigation measures are treated in the economic data, namely whether as a price reduction (therefore cutting inflation) or whether as adding to income (the way we are treating them, for now). An official decision on this is due on 31 August. As things stand we now expect a 'twin peaks' shape for the inflation profile at 13.4% in October and January, before lower energy costs result in inflation falling closer to 2% in Q4 next year.

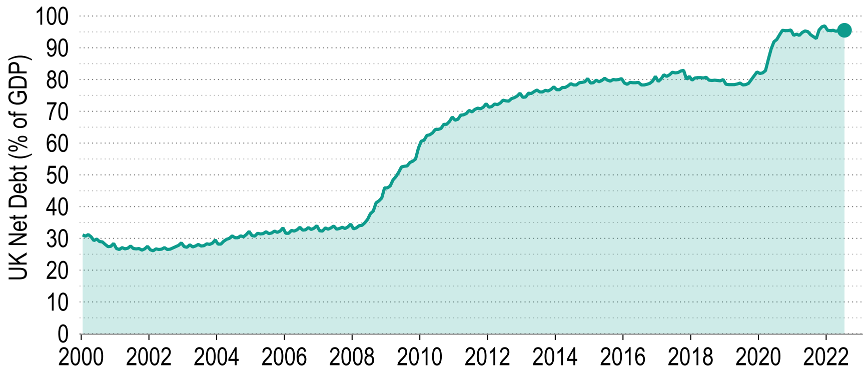
Chart 21: Twin peaks in UK CPI inflation as high energy prices feed through



Sources: Macrobond, Investec

Liz Truss is 1/16 favourite to beat Rishi Sunak in the Tory leadership race. She has previously dismissed 'handouts' in the shape of further help to households to mitigate soaring energy bills in favour of substantial tax cuts. Ms Truss has since softened her line on energy relief, which raises a possibility of still greater fiscal expansion. This sits uneasily with interest rates which the MPC is raising to quell demand to lower inflation. Fiscal prudence is an issue too, bearing in mind that public borrowing looks set to exceed £100bn this year and that debt exceeds 95% of GDP. An emergency Budget is rumoured for 21 September. How fiscally responsible it is may be harder to assess if updated OBR forecasts are not sought.

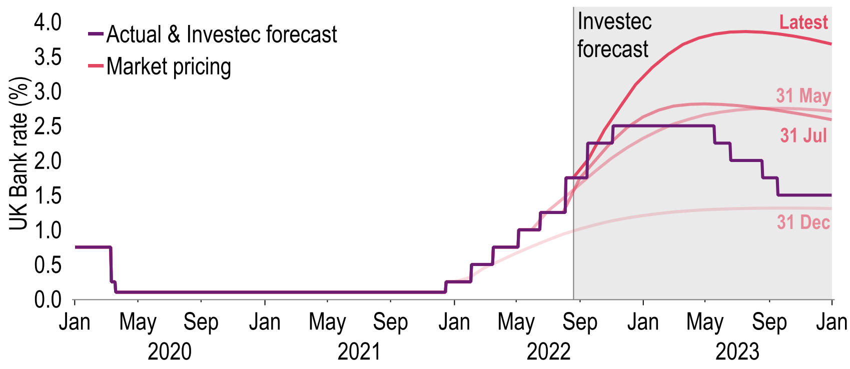
Chart 22: Public net debt of over 95% of GDP reiterates the need for fiscal responsibility



Sources: Macrobond, Investec

Following the inflation data we now expect a second successive 50bp hike in the Bank rate to 2.25% in Sep. Our profile still includes a final 25bp rise in Nov but now four (previously three) cuts next year, taking the Bank rate to 1.50% by end-2023. Recently the UK forward curve has risen sharply – at one stage last week it was pricing in the Bank rate rising to 4% and remaining there for most of next year. This is not totally infeasible. For example, a vast fiscal package could bolster demand for longer, necessitating a hawkish pivot from the MPC. Or, wage growth could spike, resulting in the committee slamming on the brakes. For now though this is not our base case.

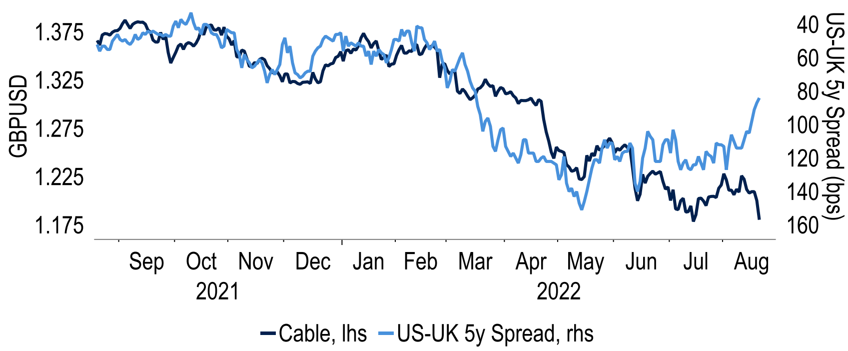
Chart 23: Markets now expect the Bank rate to rise to nearly 4.00%



Sources: Macrobond, Investec

Over the past week, mid-2023 market Bank rate expectations have risen by 60bps. This direction has been shared by other markets, but the UK curve has moved more sharply. Typically this would result in a rise in sterling, but instead the pound has dipped to a new low for the year below $1.18. This disconnect probably reflects: i) discomfort with UK inflation (the first double-digit rate in the G7); ii) the UK's exposure to gas prices; iii) angst over a *gung ho* fiscal package, if and when Liz Truss becomes PM. Over the next year our profile sees cable around $1.20 as the UK avoids these risks, but sterling is vulnerable to testing 2020's lows of $1.14 if the government is irresponsible or unlucky.

Chart 24: Fears over the UK outlook are now driving sterling, as opposed to rate differentials



Note: 5y sovereign yield spreads are a reliable proxy for medium-term short rate expectations

Sources: Macrobond, Investec

This page is intentionally left blank.

Disclaimer

For the purposes of this disclaimer, "Investec Securities" shall mean: (i) Investec Bank plc ("IBP"); (ii) Investec Europe Limited; (iii) Investec Bank Limited ("IBL"); (iv) Investec Capital Asia Limited ("ICAL"); (v) Investec Capital Services (India) Private Limited; (vi) Investec Singapore Pte. Ltd ("ISPL") and from time to time, in relation to any of the forgoing entities, the ultimate holding company of that entity, a subsidiary (or a subsidiary of a subsidiary) of that entity, a holding company of that entity or any other subsidiary of that holding company, and any affiliated entity of any such entities. "Investec Affiliates" shall mean any directors, officers, representatives, employees, advisers or agents of any part of Investec Securities. This document has been issued solely for general information and should not be considered as an offer or solicitation of an offer to sell, buy or subscribe to any securities or any derivative instrument or any other rights pertaining thereto. This document may have been issued to you by one entity within Investec Securities in the fulfilment of another Investec Securities entity's agreement to do so. In doing so, the entity providing this document is in no way acting as agent of the entity with whom you have any such agreement and in no way is standing as principal or a party to that arrangement.

The information in this document has been compiled by Investec Securities from sources believed to be reliable, but neither Investec Securities nor any Investec Affiliates accept liability for any loss arising from the use hereof or makes any representations as to its accuracy and completeness. Any opinions, forecasts or estimates herein constitute a judgement as at the date of this document. There can be no assurance that future results or events will be consistent with any such opinions, forecasts or estimates. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied is made regarding future performance. The information in this document and the document itself is subject to change without notice. This document as well as any other related documents or information may be incomplete, condensed and/or may not contain all material information: its accuracy cannot be guaranteed. There is no obligation of any kind on Investec Securities or any Investec Affiliates to update this document or any of the information, opinions, forecasts or estimates contained herein. Investec Securities (or its directors, officers or employees) may, to the extent permitted by law, act upon or use the information or opinions presented herein, or research or analysis on which they are based prior to the material being published. Investec Securities may have issued other documents or reports that are inconsistent with, and reach different conclusions from, the information presented in this document. Those reports and/or documents reflect the different assumptions, views and analytical methods of the analysts who prepared them. This document does not contain advice. Specifically, it does not take into account the objectives, financial situation or needs of any particular person. Investors should not do anything or forebear to do anything on the basis of this document. Before entering into any arrangement or transaction, investors must consider whether it is appropriate to do so based on their personal objectives, financial situation and needs and seek financial advice where needed. No representation or warranty, express or implied, is or will be made in relation to, and no responsibility or liability is or will be accepted by Investec Securities or any Investec Affiliates as to, or in relation to, the accuracy, reliability, or completeness of the contents of this document and each entity within Investec Securities (for itself and on behalf of all Investec Affiliates) hereby expressly disclaims any and all responsibility or liability for the accuracy, reliability and completeness of such information or this document generally.

The distribution of this document in other jurisdictions may be prohibited by rules, regulations and/or laws of such jurisdiction. Any failure to comply with such restrictions may constitute a violation of United States securities laws or the laws of any such other jurisdiction. By accepting this document, you confirm that you are an "institutional investor" and agree to be bound by the foregoing limitations. This publication is confidential for the information of the addressee only and may not be reproduced in whole or in part, copies circulated, or disclosed to another party, without the prior written consent of an entity within Investec Securities. In the event that you contact any representative of Investec Securities in connection with receipt of this document, including any analyst, you should be advised that this disclaimer applies to any conversation or correspondence that occurs as a result, which is also engaged in by Investec Securities and any relevant Investec Affiliate solely for the purposes of providing general information only. Any subsequent business you choose to transact shall be subject to the relevant terms thereof. We may monitor e-mail traffic data and the content of email. Calls may be monitored and recorded. Investec Securities does not allow the redistribution of this document to non-professional investors or persons outside the jurisdictions referred to above and Investec Securities cannot be held responsible in any way for third parties who effect such redistribution or recipients thereof.

Third party research disclosures

This report has been produced by a non-member affiliate of Investec Securities US (LLC) and is being distributed as third party research by Investec Securities (US) LLC in the United States. In the United States, this report is not intended for use by or distribution to entities that do not meet the definition of a Major US Institutional Investor, as defined under SEC Rule 15a-6, or an Institutional Investor, as defined under FINRA Rule 4512 (c), or for use by or distribution to any individuals who are citizens or residents of the United States. Investec Securities (US) LLC accepts responsibility for the issuance of this report when distributed in the United States to entities who meet the definition of a US Major Institutional Investor or an Institutional Investor.

Investec Securities:

In the United Kingdom refers to Investec Securities a division of Investec Bank plc.

Investec Bank plc is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority and is a member of the London Stock Exchange.

Registered in England No. 489604

Registered Office Address:
30 Gresham Street London EC2V 7QP

In the EEA refers to Investec Europe Limited

Investec Europe Limited trading as Investec Europe is regulated by the Central Bank of Ireland. Registration No. 222173

Registered Office Address:
The Harcourt Building, Harcourt Street, Dublin 2, Ireland

In South Africa refers to:

Investec Bank Limited an authorised financial services provider and a member of the JSE Limited.

Registered in South Africa No. 1969/004763/06

Investec Markets (Pty) Limited a member of JSE Limited.

Registered in South Africa No. 2018/243092/07

Registered Office Address:
100 Grayston Drive
Sandown, Sandton
2196, South Africa

In Hong Kong refers to Investec Capital Asia Limited a Securities and Futures Commission licensed corporation (Central Entity Number AFT069).

Registered Office Address:
Suites 3901-08, 39/F, Jardine House
1 Connaught Place, Central, Hong Kong

In India refers to Investec Capital Services (India) Private Limited which is registered with the Securities and Exchange Board of India, the Capital Market regulator in India as a research analyst, Registration number INH000000263.

Registered Office Address:
Parinee Crescenzo, C 38 & 39, "G" Block, 11th flr , B Wing , Unit No 1103 & 1104
Bandra Kurla Complex, Mumbai - 400 051, India

In Singapore refers to Investec Singapore Pte. Ltd. an exempt financial adviser which is regulated by the Monetary Authority of Singapore as a capital markets services licence holder.
Registration No. 201634931E

Registered Office Address:
80 Raffles Place
#36-09, UOB Plaza
Singapore 048624

In the United States refers to Investec Securities (US) LLC.

Registered Office Address:
10 East 53rd Street, 22nd Floor
New York, NY 10022

Further details of Investec office locations, including postal addresses and telephone/fax contact details:
https://www.investec.com/en_gb/welcome-to-investec/contact-us.html

Global Forecasts

GDP Growth (%)

	Global	US	Japan	China	UK*	EU19	Germany	France	Italy
2017	3.7	2.3	1.7	7.0	2.4	2.8	3.0	2.4	1.7
2018	3.6	2.9	0.6	6.7	1.7	1.8	1.0	1.8	0.8
2019	2.9	2.3	-0.4	6.0	1.6	1.6	1.1	1.9	0.5
2020	-3.1	-3.4	-4.6	2.3	-11.0	-6.5	-4.1	-7.9	-9.1
2021	6.1	5.7	1.7	8.1	7.4	5.3	2.6	6.8	6.6
2022	2.4	1.7	1.2	3.2	3.8	3.1	1.7	2.6	3.4
2023	2.0	0.5	0.7	5.2	-0.2	0.4	0.1	0.6	0.1

*Includes new Blue Book revisions to UK growth estimates

Sources: IMF, Macrobond, Investec forecasts

Key Official Interest rates (%, end quarter):

	US Fed funds	Eurozone refi rate	Eurozone deposit rate	UK Bank rate	Australia cash rate
Current	2.25-2.50	0.50	0.00	1.75	1.85
2022					
Q1	0.25-0.50	0.00	-0.50	0.75	0.10
Q2	1.50-1.75	0.00	-0.50	1.25	0.85
Q3	2.75-3.00	0.75	0.50	2.25	2.35
Q4	3.00-3.25	1.25	1.00	2.50	2.75
2023					
Q1	3.00-3.25	1.25	1.00	2.50	2.75
Q2	3.00-3.25	1.25	1.00	2.00	2.75
Q3	2.50-2.75	1.25	1.00	1.50	2.75
Q4	2.25-2.50	1.25	1.00	1.50	2.75

Sources: Macrobond, Investec

10-year government bond yields (%, end quarter):

	US	Germany	UK
Current	3.02	1.31	2.52
2022			
Q2	2.98	1.44	2.26
Q4	2.75	1.25	2.00
2023			
Q2	2.50	1.25	1.50
Q4	2.50	1.25	1.50

Sources: Refinitiv, Investec

FX rates (end quarter/ annual averages)

		Current	2022				2023				2021	2022	2023
		22-Aug	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	average	average	average
Euro	€:$	0.993	1.11	1.05	1.02	1.02	1.04	1.06	1.08	1.10	1.18	1.06	1.06
Sterling	€:£	0.845	0.84	0.86	0.86	0.86	0.87	0.88	0.87	0.87	0.86	0.85	0.87
	(£:€)	1.183	1.18	1.16	1.17	1.17	1.15	1.14	1.15	1.15	1.16	1.18	1.15
	£:$	1.175	1.32	1.21	1.19	1.19	1.20	1.21	1.24	1.26	1.38	1.25	1.22
Yen	$	137.6	121	136	135	132	130	128	126	125	110	129	128
	€	136.6	135	142	138	135	135	136	136	138	130	136	136
	£	161.7	160	165	161	157	156	155	156	158	151	160	156
Aussie Dollar	$	0.686	0.75	0.69	0.70	0.70	0.73	0.75	0.76	0.77	0.75	0.71	0.74
	€:AUD	1.448	1.48	1.52	1.46	1.46	1.42	1.41	1.42	1.43	1.57	1.49	1.43
	¥	94.39	91.1	93.4	94.5	92.4	94.9	96.0	95.8	96.3	82.5	91.1	95.3
	£:AUD	1.713	1.75	1.77	1.70	1.70	1.64	1.61	1.63	1.64	1.83	1.76	1.64
Swiss Franc	€	0.959	1.03	1.00	0.98	0.98	0.98	1.00	1.02	1.05	1.08	1.00	1.00
	$	0.965	0.92	0.95	0.96	0.96	0.94	0.94	0.94	0.95	0.91	0.95	0.95
	£	1.134	1.22	1.16	1.14	1.14	1.13	1.14	1.17	1.20	1.26	1.19	1.15

Sources: Refinitiv, Investec