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International macroeconomic forecasts: downward revisions for 2016

China made an impact in August 2015, and in a spectacular way! The Chinese turmoil succeeded where events in Greece failed, in prompting the first correction (a fall of more than 10%) in US equity prices in three years.

Is this impact lasting and does this signal the end of the international equity bull market seen since 2009? Everyone already seems to have an opinion, although it is still too soon to take a definitive stance. One thing that seems to have been established, however, is that the economic consequences of the ups and downs in the middle kingdom are quite negative when we try to look ahead to 2016. That is not to say that China will necessarily be faced with a hard landing. We continue to believe, in fact, that the probability of such a scenario is around 25%, which is far below our central scenario (75%), which assumes that the Chinese autho-

developed countries, while emerging economies will struggle to gain momentum.

A desynchronised cycle means an increased likelihood of global sub-optimal growth compared with the past. This is all the more true as the expansion of developed countries will also suffer the consequences of reduced activity in emerging countries, in terms of exports, for example. These conditions seem to justify ruling out any idea that a return to a «normal» worldwide expansion in 2016. In other words, the global growth outlook has already been downgraded and the probability of negative scenarios, such as recession and deflation, must be raised in any economic assessment. Although five weeks ago we had five possible scenarios in our assessment of the global economy, we are now reducing them to three (sub-optimal growth, recession and deflation). We

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rities will succeed in adopting support measures that will allow a soft landing for the economy.

That said, we need to be realistic and consider the effects of the recent shock on the global economy. By allowing the Renminbi exchange rate to float more freely, the Chinese authorities have created distrust of emerging currencies and assets. Currency volatility is not good for growth, as it disrupts the flow of international trade. The fears about countries in emerging markets also make it more difficult for these economies to meet their financing needs. Emerging markets economies, which were already facing headwinds, in Russia and Brazil for instance, should experience even more limited growth in the coming quarters. Within the global environment, economic cycles will therefore continue to be out of sync, with improving economic conditions in



nevertheless maintain that the central scenario of sub-optimal growth is highly probable (80%).

Another effect of emerging markets turbulence, especially in China, is that we are once again very dependent on growth in the US, whose GDP figures for the second half recently increased (3.7%). So much the better you might say. However at the same time, the devil is in the details. The biggest inventory build-up over two quarters since 1947 is a worrying development, for instance. All the evidence suggests that this excessive build-up will be a drag on Uncle Sam's GDP growth in the next few quarters. The US should not be expected to offset the loss of momentum in emerging markets, particularly as there is every chance that the dollar's strength on the currency market will continue.

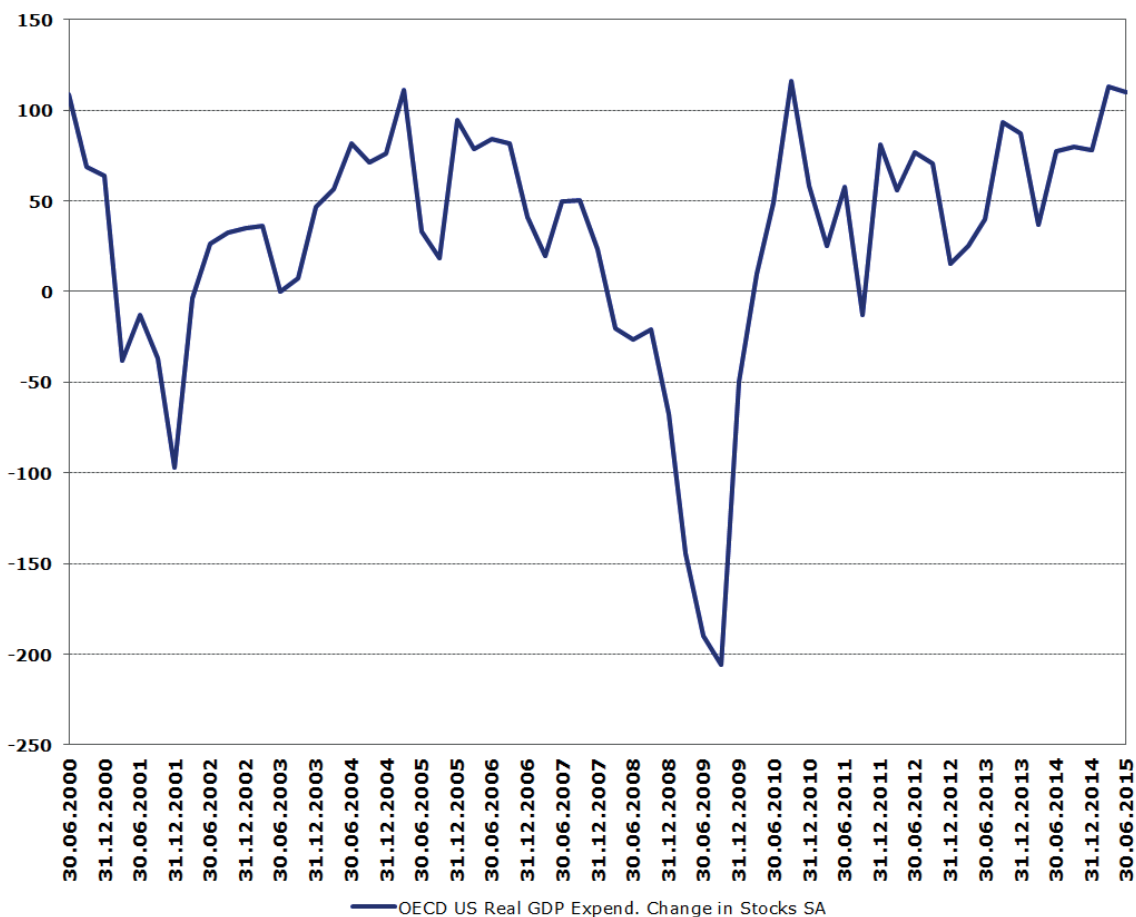
When it comes to Europe, although there is cause to

celebrate the more encouraging economic signals, we still believe that the expansion cannot gather much pace from current levels. In short, the recovery will be moderate, which isn't bad going when we consider that the threat of a recession was still looming at the end of last year.

Given the uncertainties created by the Chinese disturbances, which will take time to dissipate and whose effect on confidence is difficult to predict, economic

expectations must therefore be lowered. In our opinion, it is better to adopt a more cautious approach to equities in this general environment. We believe that a strategic overweighting in this asset class can no longer be recommended. A neutral exposure seems more advisable, until international economic developments become more legible.

The USA: is the big inventory build-up a growth risk?





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