

Economic Outlook 2017

After the Brexit & Trump – Before French & German elections



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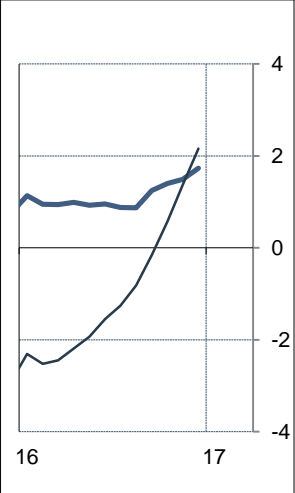
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Investor-Relations-Konferenz



The key themes of the 2017 scenario

THEME 1 – REFLATION



THEME 2 - TRUMPONOMICS



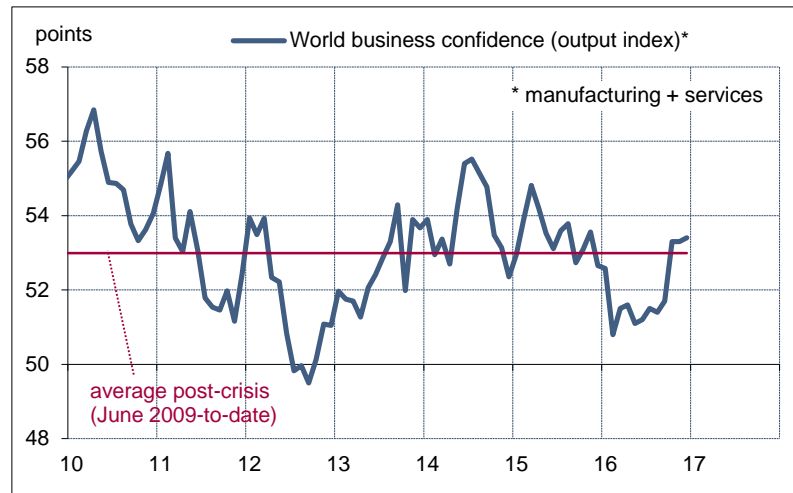
Sources: Thomson Reuters, Oddo Securities.



What is the starting point in 2017?

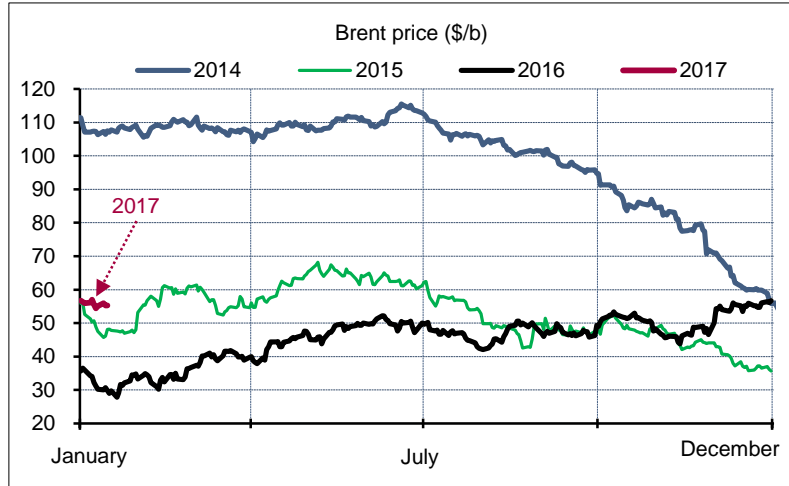


- Modest acceleration in world growth in H2 2016

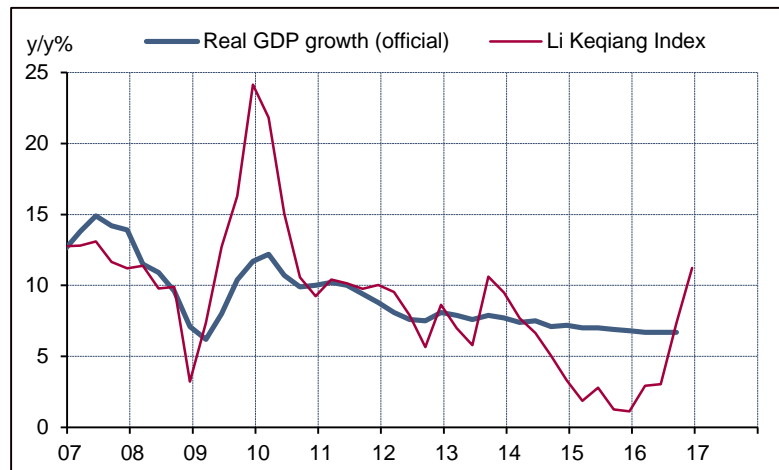


- Strong rebound in business confidence at the end of 2016

Loosening the deflationary straitjacket



- End of the oil price crash (2014-2016)



- End of the Chinese industrial price deflation

The Apprentice-President



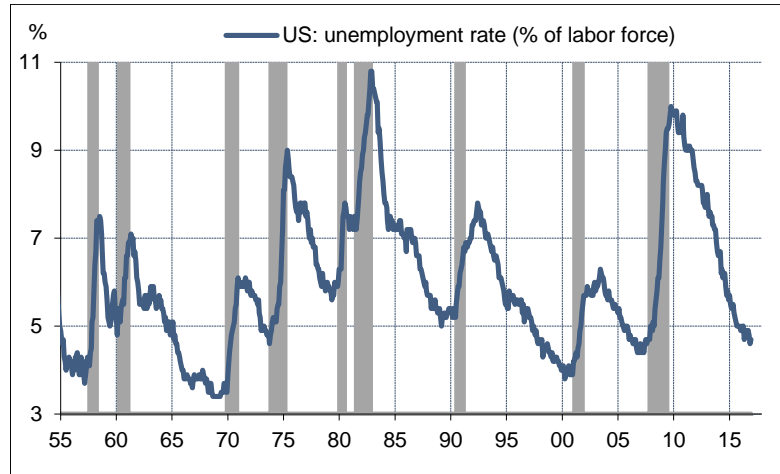
- **Trump: the works (selection)**

- The Art of the Deal (1987)
- Surviving at the Top (1990)
- The America We Deserve (2000)
- Think Like A Billionaire (2004)
- Think Like A Champion (2009)
- Time to Get Tough (2011)
- Great Again: How to Fix Our Crippled America (2016)

- **Trumponomics**

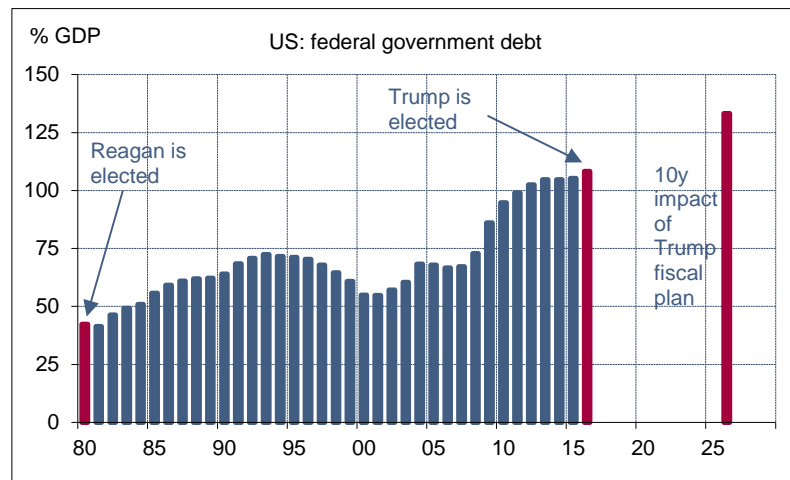
- Fiscal stimulus
- Tax reform
- Deregulation
- Protectionism
- Combining all this opens up a vast field of scenarios

US – from stimulus to... overheating to... recession



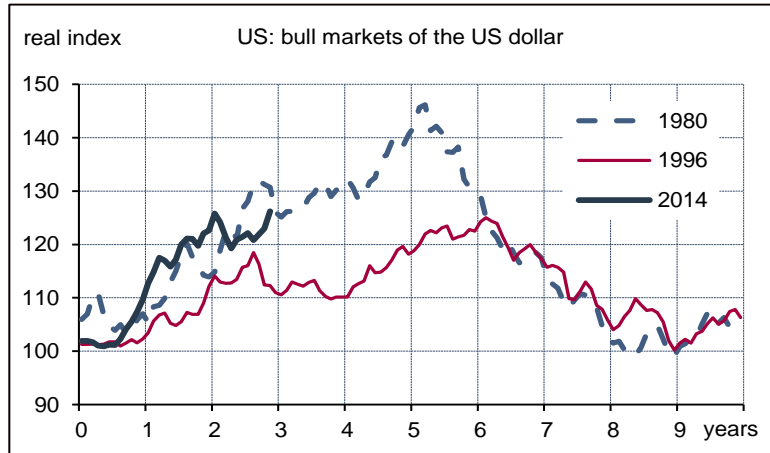
- **The US is back to full employment**

- **What then is the purpose of a fiscal stimulus?**
 - Macroeconomic stabilisation. This serves no purpose today
 - Improvement in economic potential. This takes time.



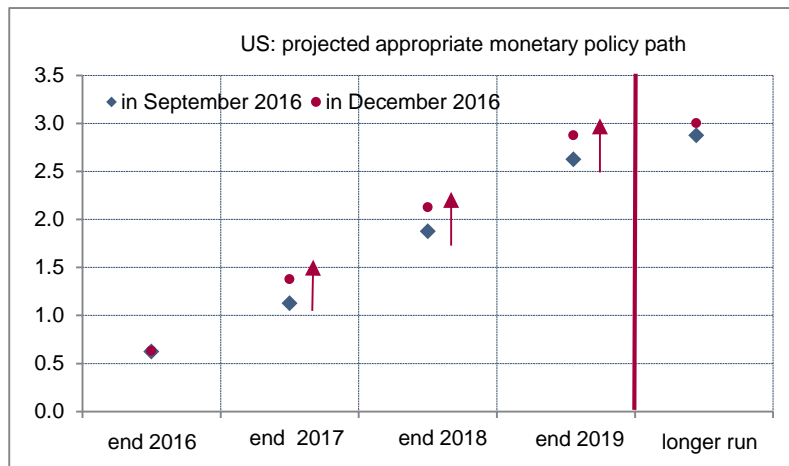
- **Pros and cons of a high-pressure economy**
 - Attract discouraged workers / Stimulate capital expenditure
 - Erode price stability / Increase financial imbalances

The Fed and the dollar



• Is there a dollar bull run ahead of us?

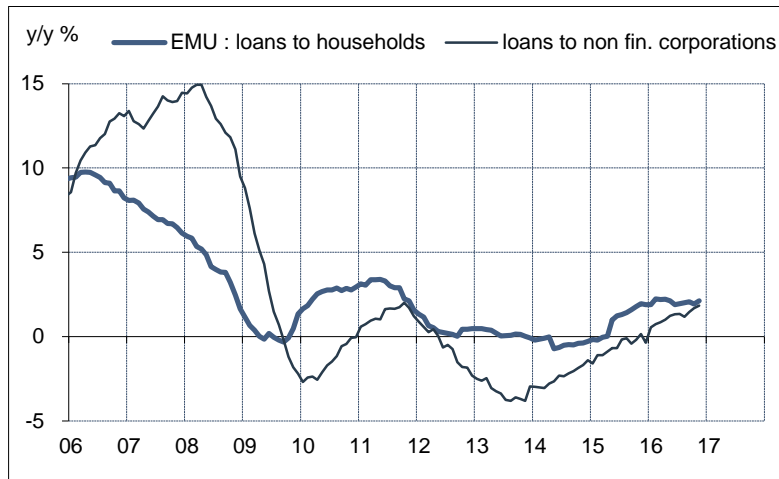
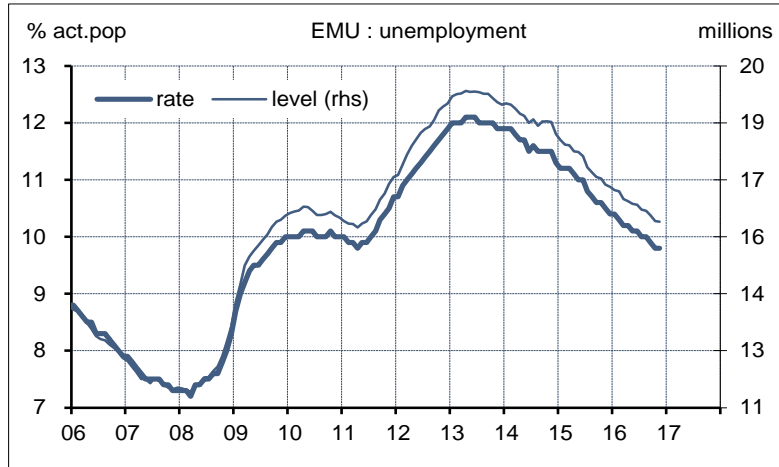
- Monetary tightening ⇒ upward factor (if unanticipated)
- Fiscal stimulus ⇒ upward factor
- Protectionism ⇒ upward factor
- Stabilisation of the oil market ⇒ neutral/downward factor
- “Bias” of Republican presidents ⇒ downward factor



• Fed’s policy in uncertain times

- The economy is on target (5% unemployment and 2% inflation)
- Monetary policy is far from normal

Make Europe Great Again – why not?



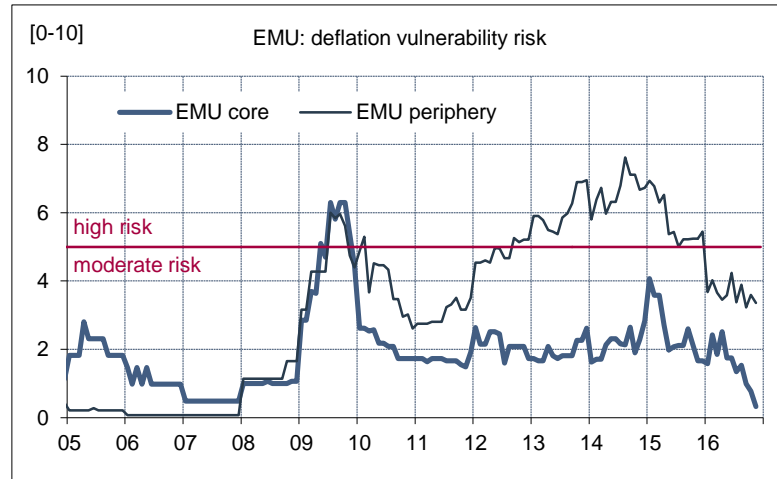
- **Doom-mongers 0 – Eurozone recovery: 3**

- The recovery is ongoing
- Above expectations
- Resilient to political volatility

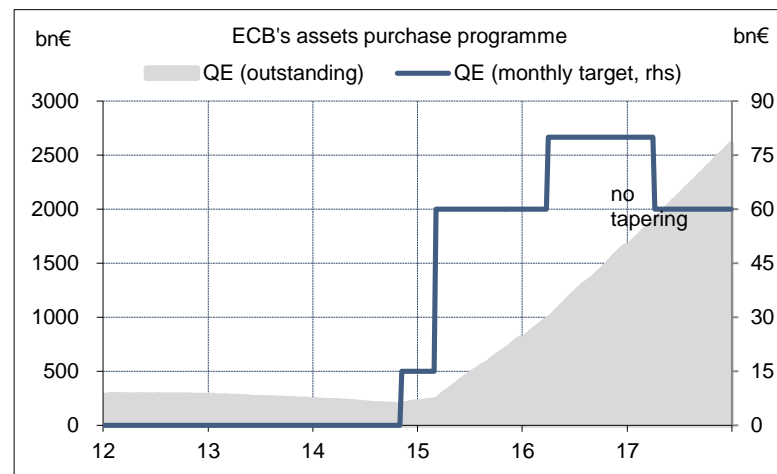
- **Contribution to growth in 2017**

- Robust consumption
- Catch-up by investment in construction
- Some fiscal stimulus in an electoral year
- Upturn in global demand

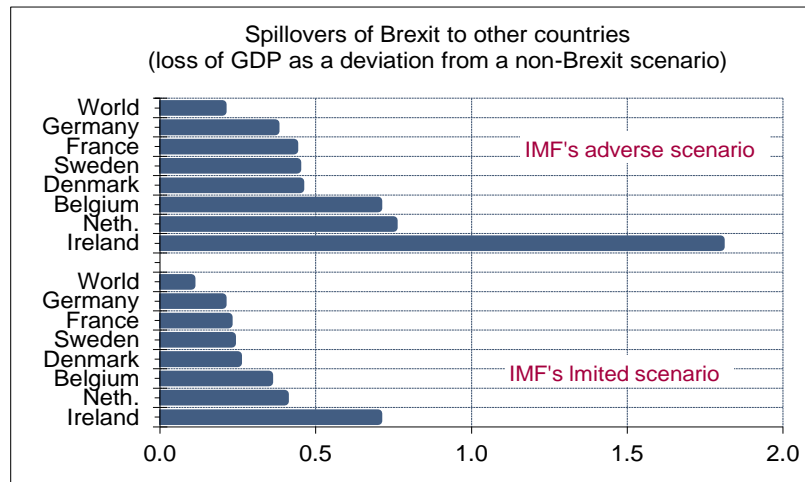
Make the ECB Orthodox Again – not yet



- The risk of deflation has fallen sharply
- Inflation remains low, output gap remains large
- Tapering to come in 2018, no rate hikes



No benefits from Brexit for European populists



Sources: Official White House Photo, IMF, Oddo Securities

- **Brexit**

- A local political shock, not a global financial shock.
- The negative impact on trade looks manageable for the Eurozone.

- **General elections are not referenda**

- Netherlands
- France
- Germany
- Maybe Italy

- **European populists/Eurosceptics**

- Brexit has not boosted populist parties in opinion polls
- Brexit has not strengthened hostility to the EU

An opportunity to correct the French-German macro gap

		1992	1999	2007	2016
		Maastricht	Euro	pre-crisis	today
Unemployment rate (%)	Germany (a)	6.6	8.6	8.6	4.2
	France (b)	9.4	10.4	8.0	10.0
	(b)-(a)	2.9	1.9	-0.6	5.8
Government debt (% GDP)	Germany (a)	42	61	65	71
	France (b)	40	59	66	98
	(b) - (a)	-2	-2	1	27

Yearly average for harmonised unemployment rate (Eurostat) and government debt ratio (Eurostat, IMF before 2000)

Voting intentions in the first round of the presidential elections					
	Fillon centre-right	Le Pen far-right	Macron centre-left	Mélenchon far-left	Socialist candidate** left
November*	28-31%	23-25%	13-18%	11-13%	5-11%
December*	23-29%	24-25%	13-19%	13-14%	4-13%
January*	23-28%	22-26%	16-24%	12-15%	3-13%

* average over several opinion polls ** yet to be selected

Voting intentions in the second round of the presidential elections					
	Fillon	Le Pen	Macron	Mélenchon	Valls*
scenario 1	65%	35%	-	-	-
scenario 2	-	35%	65%	-	-
scenario 3	-	40%	-	-	60%
scenario 4	48%	-	52%	-	-

* if selected as the Socialist candidate

- **A cyclical view of France**

- Modestly lagging the Eurozone recovery
- Unemployment has begun falling (eventually!)

- **A structural view of France**

- Wide gap with Germany: unemployment and debt

- **The “Le Pen scenario” is overrated**

- **What’s good for France is good for Europe**

- France and Germany, the backbone of the Eurozone

Our key macro forecasts

- **Global GDP Growth**

2015	2016	2017e	2018e
3.1%	3%	3.2%	3.4%

- **US GDP Growth**

2015	2016	2017e	2018e
2.6%	1.6%	2.1%	2.3%

- **Eurozone GDP Growth**

2015	2016	2017e	2018e
1.9%	1.7%	2.1%	2.3%

- **Monetary policy**

- 2 (maybe 3) rate hikes from the Fed
- No rate hike from the ECB

- **Rates**

- Euro/USD to remain soft in H1, than recover in H2
- 10-year US government yield: 3% by year-end
- 10-year German government yield: 0.7% by year-end