JANUARY 2015 NUMBER 1

European Macroeconomic Network
EcoFin Survey

EMN EcoFin Survey consults economists from Geneva and Paris and provides a macroeconomic survey on economic and financial risks.

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European Macro Survey

This first cross-industry macro survey provides us with significant insights about:

- The key issues monitored by European macro specialists
- The prevailing macro & financial consensual scenario
- The probable major events impacting growth and assets prices in 2015
- The most common convictions and the most heated debated points

It appears that European macro analysts are somewhat worried about the prevailing Eurozone conditions. Nevertheless they consider that much larger forces outside their region will shape global growth and financial markets trends. China spillover effects, the US monetary policy impacts on emerging countries and the oil price level are most often cited as key issues for 2015. The prevailing consensus sees moderate global growth, mostly led by US dynamism, while Europe normalizes and avoids recession. Expectations on financial markets are in line with on-going trends.

5 key issues monitored by European macro specialists

The major innovation is this survey is the ability of respondents to assess the relevance of the questions. This brings insights on what specialists consider as the most critical upcoming issues, as well as on where these scholars focus their attention. Entering 2015, European macro specialists (economists, strategists, academics, etc) are expecting 5-6 key issues likely to have a major impact on global growth and financial markets. These are issues considered to have a major impact both on economic growth and financial markets by at least 50% of the respondents. Beginning 2015, they focus on:

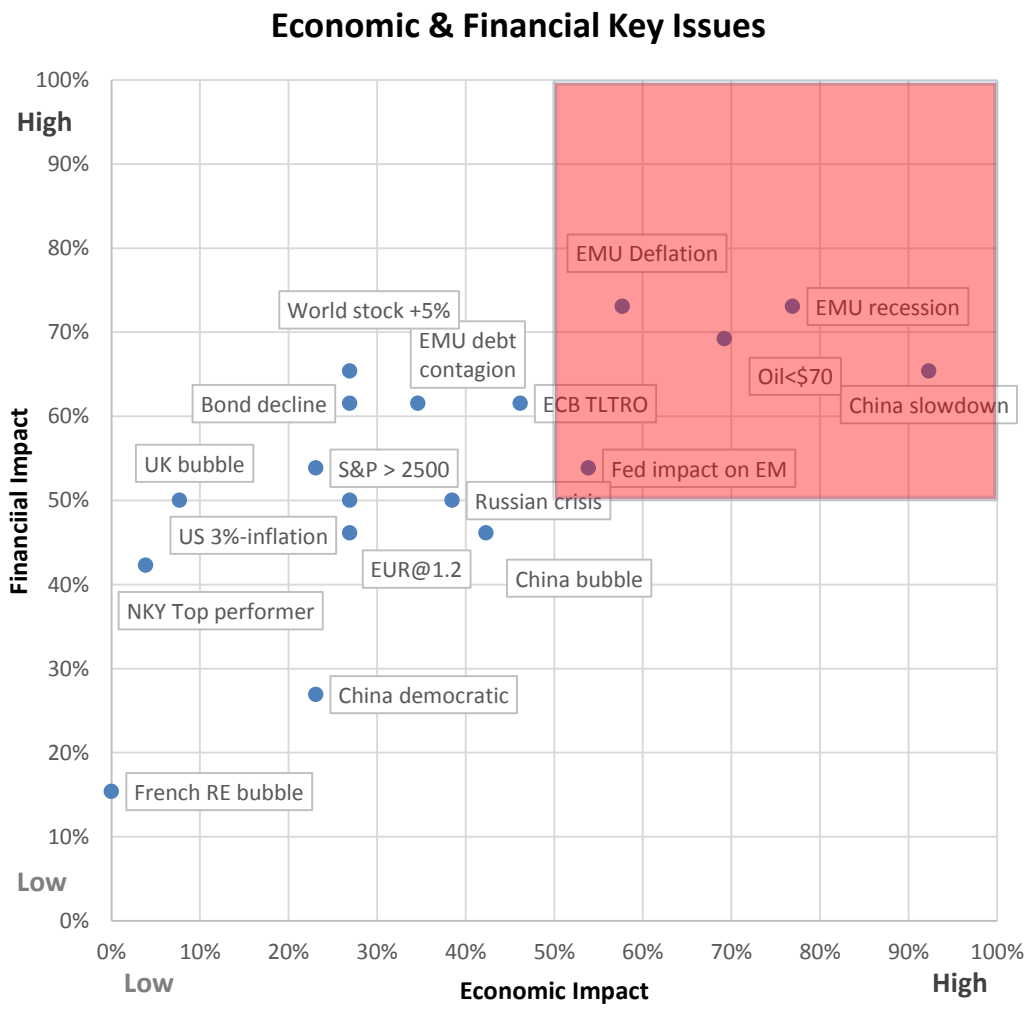
- EMU re-entering recession with deflation risks
- Oil price staying at a low level for an extended period
- Chinese economy slowing down
- Large emerging countries being hurt by US Federal Reserve monetary policy
- ECB implementing its TLTRO

Having in the key issues EMU-related topics such as recession/deflation risks and ECB monetary effectiveness, is not really a surprise given the natural home bias of the respondents. It is more informative to observe how critical the ripple effects from the recent oil price drop are considered, especially if depressed prices prove permanent.

important are considered the ripple effects from the recent oil price fall, especially if depressed prices were to be permanent. European macro observers appear to be concerned by the large EMU sensitivity to US monetary policy normalization. Finally, the worries on the Chinese slowdown affecting OECD are hardly a recent phenomenon.

A weak Euro is considered to have a moderate economic impact

Among the least important global economic and financial issues, respondents singled out: the French real estate bubble risk, a "Chinese democratic spring". It is noticeable that a weak Euro (below 1.20) is seen by macro specialists to onlyhave a somewhat moderate economic impact. This is in contrast with the current intense media focus.



The prevailing macro & financial consensual scenario

Most of the 26 macro analysts of the panel are not expecting global economy nor financial markets to be hurt by any recession in 2015. This is close to last year's expectations, of a mild but uneven global growth.

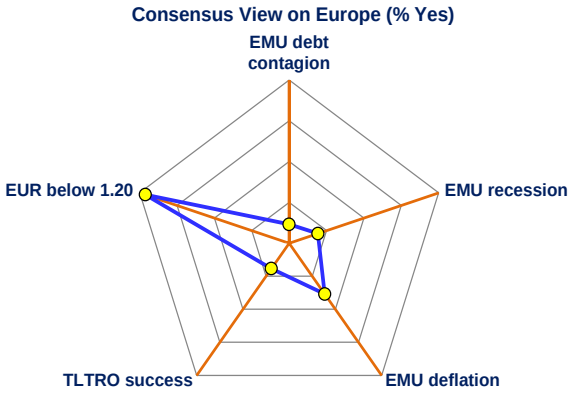
On the European front, recent figures from Eurostat seems to have given some relief on a potential full fledge deflation, now about only about 38%expect the Eurozone to enter deflation in the first half. In fact, very few analysts expect Eurozone to fall in recession again, and despite Greece financing issues resurfacing, they mostly discard the risk of contagion to other sovereigns. This moderate optimism is tempered by low expectations on ECB jumpstarting EMU growth with it asset purchase program (TLTRO) even if directed towards private credit related assets, such as Asset backed securities (ABS).

At a global level, most OECD countries should be impacted negatively by the ongoing Chinese slowdown (70% expect spillover effect from Chinese slowdown), but in the US it shall be offset by internal growth drivers. There, the "goldilocks" economic situation are likely to persist, with steady growth and "not too much and not too little inflation". Specifically, a rise of US inflation above 3% is considered improbable by a very large majority (72%). These are expectations on underlying inflation (core) as the sharp decline in oil prices should already bring the headline figures to negative territory sometimes during 2015. In the end, US monetary policy should normalize during the year, with slightly rise rates. Such tightening from the Federal Reserve is widely expected to hurt many large emerging economies that are sensitive to international funding as they are running large current account deficits, such as Brazil, South Africa, Turkey, Indonesia, etc.

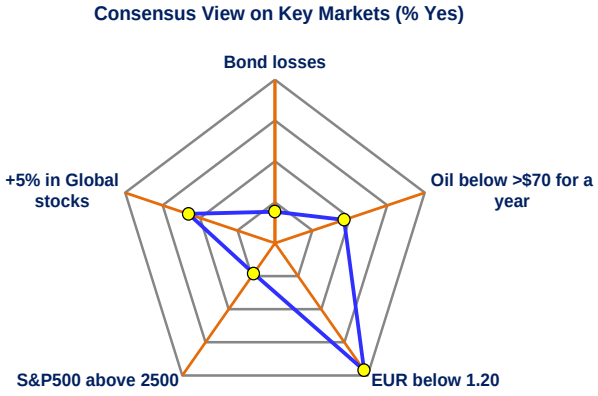
While it is expected that economic developments in 2015 would not be very different from what happened 2014, it is not the case for financial markets where a complete repeat of this year is seen as unlikely.

- On the one hand, persistence of 2014 trends are seen for broad asset classes, currencies, fixed-income and stocks. Specifically, the call for Euro to weaken further and remain below USD1.20 is now a unanimous conviction, shared by 96% of respondents. For 73% respondents, German and American 10-year bonds should still deliver a positive performance despite their record-low yields, thanks to absence of inflationary pressures in both regions. Finally, global stocks should deliver about at least 5% performance over the year to match last year performance (MSCI World in 2014: 5.5%).

- On the other hand, some rotation in leadership is expected in international stock markets. For instance, three quarters of respondents do not see another 20%-gain in US stocks or an outperformance by Japanese stocks (vs. other non-US markets) as very probable.



Source: EMN EcoFin Consensus

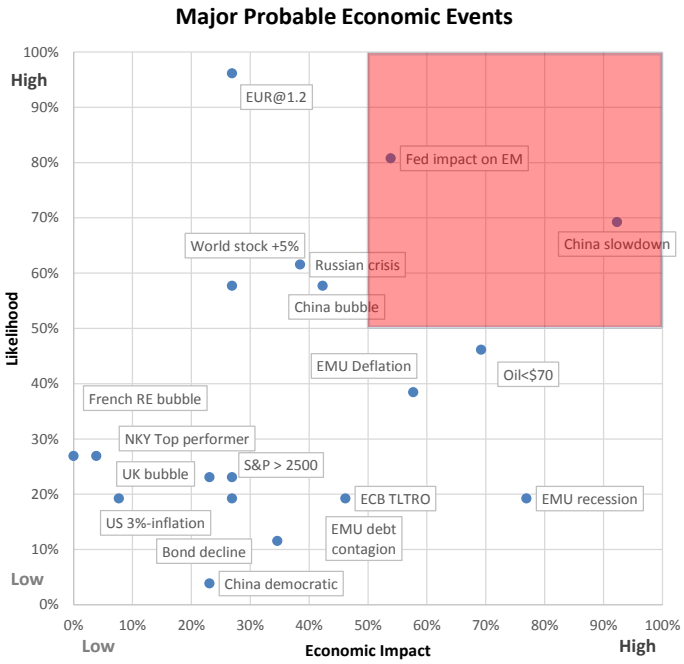


Source: EMN EcoFin Consensus

The probable major events impacting growth and assets prices in 2015

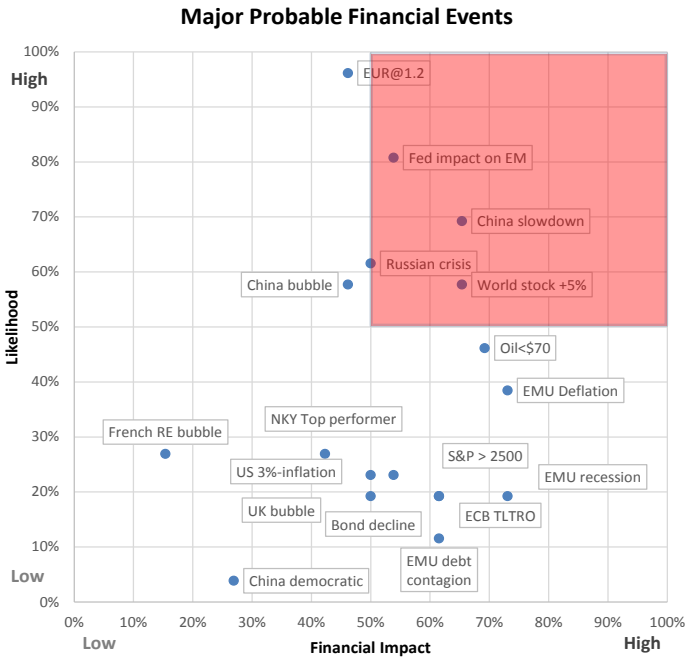
Global economic interactions are widely considered critical events for this year. Indeed, it is expected that Chinese slowdown would lower global trade, that US monetary normalization would hurt large EM stability, and that low oil prices impact affect global growth. The Russia crisis comes close as being a potential global disruption factor, whereas European issues (Deflation, recession, contagion, TLTRO success) are dismissed as disruptive factor, mostly because their probability of occurring is low. Financial events on currencies, stocks and bonds are not considered to have any major economic impact.

Expectations for financial market movers are quite close to economic factors listed above. There is the same emphasis on global interactions, with China, the Federal Reserve and Russia getting most attention. Euro and oil price fluctuations are evidently considered significant market factors to affect other assets prices.



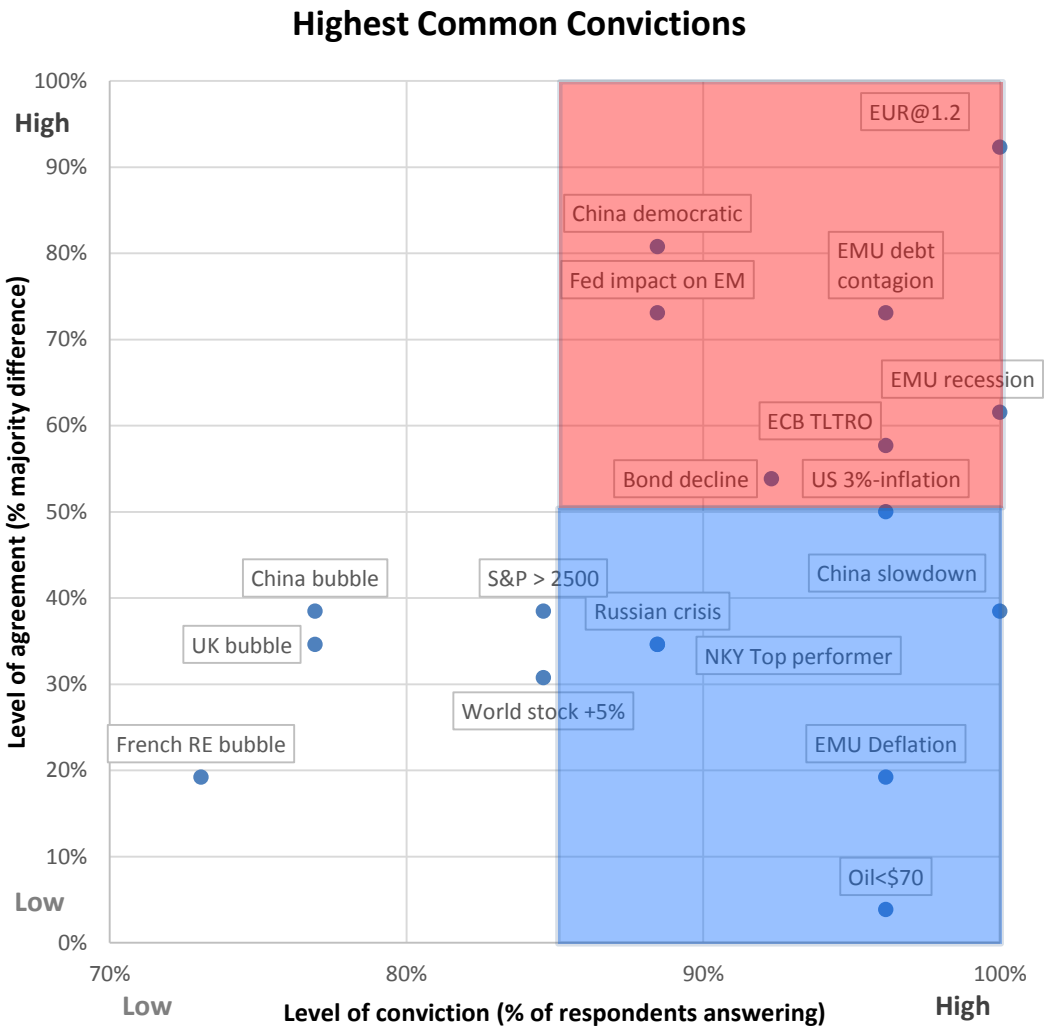
The most common convictions and the most heated debated point

There is quite a large consensus around the turn of events for Europe. European issues on TLTRO success, debt contagion and recession risks brings the highest degree of conviction (i.e. Low % of "no idea"), and the highest level of agreement (at least 50% lead for the majority). It is widely considered that the Eurozone will avoid both a recession and a debt crisis contagion, even if the upcoming TLTRO from the ECB should have little success in reviving credit, but pushing the Euro below 1.20. At a global level, a large majority dismiss: democratic movements spilling from HK to mainland China, US inflation reaching 3%, and government bonds losing value. Although, it is widely feared that large Emerging countries with financial imbalances such as Brazil, South Africa, Turkey, etc. would suffer from normalizing US monetary policy.



Future of oil price is the most heated debate, with no clear majority view on whether or not oil price will remain below $70 for at least a year. Interestingly, 62% of respondents focusing on economic analysis expect oil to revert higher (maybe towards a "fundamental value"), while 60% of the ones focusing on investment analysis tend to expect durable weakness and are not yet going "against the trend". Respondents are also quite evenly split along the same line about the possibility for deflation in the Eurozone in the first half, with investment professionals being on the cautious side. Lastly, little convictions are found on bubble assessments, regardless of the region (UK, France, and China), most analysts have no opinions and/or consider these as secondary issues.

No clear majority view on oil Price below $70



Appendix – Table and answers

	Will this event happen or not?			If it happens, will this event have a global economic impact ?			If it happens, will it have a significative impact on world stocks' prices?		
EUROPE									
EMU recession in 2015?	19%	81%	0%	77%	12%	12%	73%	15%	8%
Deflation in EMU in Q1 2015?	38%	58%	4%	58%	31%	12%	73%	15%	8%
Sovereign debt contagion in peripheral EMU countries?	12%	85%	4%	35%	46%	19%	62%	19%	15%
Housing bubble in France?	27%	46%	27%	0%	69%	31%	15%	54%	27%
Success of TLTRO and ABS purchases by ECB to restore credit?	19%	77%	4%	46%	35%	19%	62%	19%	15%
Market bubble in UK?	19%	54%	23%	8%	62%	35%	50%	19%	27%
INTERNATIONAL									
Democratic movements spilling from HK to mainland China in 2015?	4%	85%	12%	23%	50%	27%	27%	35%	35%
Will chinese slowdown have spillover effects on developed countries?	69%	31%	0%	92%	0%	8%	65%	23%	8%
An inflation above 3% in USA in 2015?	23%	73%	4%	27%	54%	19%	50%	27%	19%
Financial Crisis in Russia in 2015?	62%	27%	12%	38%	50%	12%	50%	35%	12%
The FeD's monetary policy leads stress on fragiles 5 (Brazil, India, Indonesia, Turkey, South Africa)?	81%	8%	12%	54%	27%	19%	54%	19%	23%
Housing bubble in China?	58%	19%	23%	42%	31%	27%	46%	15%	35%
Financial Markets									
€ = $1,20 for the 2015 Q1?	96%	4%	0%	27%	73%	0%	46%	46%	4%
Growth of 5% for World Stocks in 2015?	58%	27%	15%	27%	58%	15%	65%	15%	15%
S&P500>2500 at the end of 2015?	23%	62%	15%	23%	50%	27%	54%	15%	27%
Top performance for NIKKEI in 2015?	27%	62%	12%	4%	73%	23%	42%	31%	23%
Price of oil per barrel steady below $70?	46%	50%	4%	69%	15%	15%	69%	12%	15%
Negative performance for german and american 10 years- governemnts bonds in 2015?	19%	73%	8%	27%	50%	23%	62%	12%	23%

About the EMN EcoFin Consensus

The European Macroeconomic Network is a federation of BSI Economics association (France) and ISAG (Switzerland). One of its aims is to provide a survey of European macroeconomists.

In this first survey, economists from Geneva (31% of specialists) and from Paris (69%) have answered questions between the 10th and the 15th December 2014. Economists from Geneva are affiliated to ISAG, Investment Strategists Association of Geneva. Economists from Paris are affiliated to BSI Economics.

The economists who took part to this survey are professionals (80%) and academics (20%). 40% of those professionals work in non-financial private sectors, 24% in the financial private sector, 24% in the public sector and 10% in international or non-governmental international organizations.

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