

## Global Economics Team

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Global

## The Global Macro Analyst

### Back to the 1930s? What Would a Currency War Look Like?

Japan's aggressive policy intervention to invigorate its economy is a game-changer. If a weaker yen is an important pillar of the strategy to make this export-oriented economy more competitive again, it brings into the picture something that was missing from earlier interactions among central banks of the advanced economies – competitive depreciation. This, in turn, takes us one step closer to a currency war.

The last time the world saw a fully fledged currency war was in the early 1930s. In today's note, Manoj Pradhan asks: What did that currency war look like? What lessons can we draw from it? Could such an episode repeat itself today? If it did, what would the sequence of events look like? And finally, where do we stand today?

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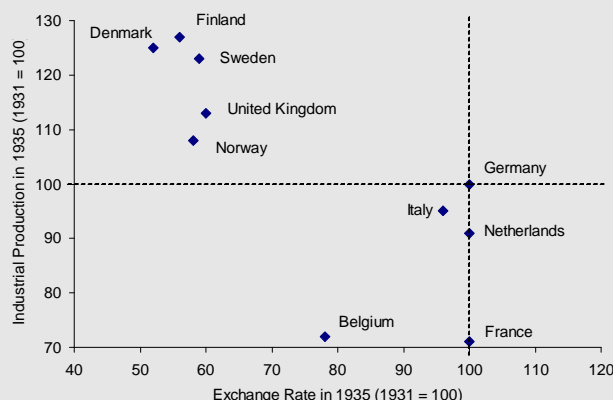
## Spotlight

### Euro Area: What if the Euro Overshoots?

A material EUR overshoot could derail the tentative stabilisation in economic activity and the recovery in market sentiment. A key policy implication would be that the debate about an ECB rate reduction would be reopened, up to and including a deposit rate cut. p 5

**The Morgan Stanley Global Economics View** p 6

## Early Movers Benefit



Source: Morgan Stanley Research calculations, based on Eichengreen and Sachs (1985)

## Global Economics Forecasts

	Real GDP (%)			CPI inflation (%)		
	2012E	2013E	2014E	2012E	2013E	2014E
<b>Global Economy</b>	3.1	3.1	4.0	3.4	3.1	3.4
<b>G10</b>	1.3	0.9	1.9	1.9	1.3	1.8
<b>Emerging Markets</b>	5.0	5.4	5.9	4.8	4.9	4.9

Source: Morgan Stanley Research forecasts

## Global Macro Watch

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For important disclosures, refer to the Disclosures Section, located at the end of this report.

## Back to the 1930s? What Would a Currency War Look Like?

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Japan's aggressive policy intervention to invigorate its economy is a game-changer. If a weaker yen is an important pillar of the strategy to make this export-oriented economy more competitive again, it brings into the picture something that was missing from earlier interactions among central banks of the advanced economies – competitive depreciation. This, in turn, takes us one step closer to a currency war.

The last time the world saw a fully fledged currency war was in the early 1930s. In today's note, we ask: What did that currency war look like? What lessons can we draw from it? Could such an episode repeat itself today? If it did, what would the sequence of events look like? And finally, where do we stand today?

**What did the currency war of the 1930s look like?**<sup>1</sup> The backdrop for the currency war of the 1930s was the Gold Standard and the Great Depression (many economists blame the former for the latter). By fixing the value of the currency to the price of gold, the Gold Standard prevented a country from printing too much money. If it did, people would simply exchange it for gold (or for other currencies pegged to gold). Yet, this rigid 'rule' also denied policy-makers any flexibility to deal with shocks to their economies. This was the reason why the UK abandoned this regime, setting off a volatile chain of events:

- On September 19, 1931, sterling was taken off the Gold Standard. It was devalued against gold and hence against the 'gold bloc' currencies (currencies that remained pegged to gold). The run-up to this event and its fallout was felt throughout the world.
- Prior to the devaluation, in June and July 1931, one prominent bank in both Austria and Germany failed, which led to capital controls being imposed in both places. Capital controls protected these economies in the near term, but exacerbated fears about the future of sterling and the Gold Standard itself.
- Following the devaluation of sterling, Norway and Sweden went off the Gold Standard on September 29. A day later, Denmark followed.

- The US economies, like other countries of the gold bloc, lost competitiveness and exports turned down. Eventually, in January 1934, the US Congress passed the 'Gold Reserve Act' to nationalise gold held by banks and monetised it by giving banks gold certificates that they could use as reserves at the Fed. More importantly, it also forced a devaluation of the US dollar against gold.
- Like the US economy, the remaining gold bloc countries (France, Germany and some smaller economies) also suffered a loss of competitiveness and poor export and industrial production growth. By 1936, they gave up and abandoned the Gold Standard as well.

### What lessons can we draw from the events of the 1930s?

We draw three pertinent lessons from that episode:

- **Lesson 1: As in every crisis, events were and will always be highly non-linear, with domestic conditions the most likely cause:** It was painfully high unemployment that was the main driver of the devaluation of sterling.<sup>2</sup> Although unemployment had been painfully high for a while, it was only a few months prior to the devaluation that market fear really ratcheted up.
- **Lesson 2: Markets punish policy uncertainty:** Needless to say, there were dramatic movements in the exchange rate of the countries that devalued. However, with the devaluation out of the way, market and economic pressure as well as policy uncertainty shifted to the 'gold bloc' economies. For investors, it became a matter of when, rather than whether, the gold bloc economies would be forced to respond.
- **Lesson 3: Early movers benefitted at the expense of the gold bloc, a 'beggar-thy-neighbour' outcome:** From an economic standpoint, the sharp improvement in competitiveness of the early movers stood them in good stead against the gold bloc economies who stuck to the regime. Exhibit 1 shows that the UK and the Scandinavian economies saw a significant improvement in industrial production by 1935, whereas the 'gold bloc' economies (France and Germany – even though the latter employed capital controls) suffered. By the time the gold bloc economies capitulated, they had lost significant ground on this front to the early movers.

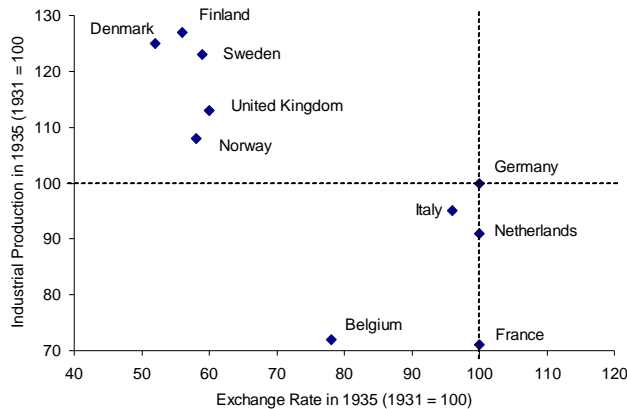
<sup>1</sup>For full details, see "Exchange Rates and Economic Recovery in the 1930s", Barry Eichengreen and Jeffrey Sachs, *The Journal of Economic History*, Vol. 45, No. 4 (December 1985).

<sup>2</sup>For full details, see "Currency Crisis and Unemployment: Sterling in 1931" Barry Eichengreen and Olivier Jeanne, *National Bureau of Economic Research Working Paper* 6563.

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Exhibit 1

## Early Movers Benefit



Source: Morgan Stanley Research calculations, based on Eichengreen and Sachs (1985)

**Could it happen again?** Like any historical precedent, there are differences and similarities that must be accounted for.

**What's different this time?** Unlike the Gold Standard era, most major currencies are now part of a flexible exchange rate regime, which should make such large currency moves less likely. Further, extreme tail risks that might well have precipitated such dramatic policy responses only a few years ago have also receded.

**What's similar? Domestic origins and 'beggar-thy-neighbour' effects:** Even though policy-makers battled using exchange rates, the events of the 1930s had their origins in domestic issues. As mentioned above, it was painfully high unemployment in England that led sterling off the Gold Standard. The competitive devaluations that followed were also reactions by policy-makers to protect their domestic economies.

Similarly, it is the domestic agenda that could drive competitive depreciation today. In this vein, the desire of Japan's policy-makers to revive investment in their export-oriented economy likely means that the yen will likely play an important role. However, since global demand is likely to remain sluggish, a revival of Japan's export sector on the back of yen weakness is likely to eat into the market share of other exporters – something that could well invite measures to curb significant weakening of the yen. These negative spillovers are identical in nature to the 'beggar-thy-neighbour' policies of the 1930s.

**If it did happen, what could an improbable but not implausible sequence of events look like?** In what follows, we create a plausible sequence using events that have both a reasonable probability of occurring and are already on investors' radar screens:

- **The starting point:** Japan's policy-makers initially follow a concerted plan of reflation the Japanese economy, with a weak yen as an important pillar of strengthening the export sector.
- **Further easing from the major central banks...** The ECB and/or the Fed ease further due to a deterioration in financial conditions. In the case of the euro area, euro strength or an idiosyncratic increase in risks might be responsible for a tightening in financial conditions. In the US, the obvious candidate is the risk surrounding the fiscal cliff and the debt ceiling confronting the US Congress.
- **...and/or capital controls from EM economies:** Uncomfortable with the combination of further capital inflows and yen weakness, some AXJ and LatAm economies impose capital controls.
- **Japanese policy-makers react to yen strength:** In order to ensure export competitiveness, Japanese policy-makers take further measures to weaken the yen.

There isn't much in the 'timeline' above that is news, yet the combination serves well to illustrate how a currency war could plausibly play out.

**Where are we now?** The key variable in the sequence of events above is the reaction of Japan's policy-makers. If a weaker yen is indeed an integral part of their plans and if they have a strong intent to make sure it remains so, the risk of a currency war is higher now than it has been in the past. Investors have moved beyond questioning whether EM economies will have a response and are now wondering at what point such a response is likely. At the same time, near-term risks in the US and euro area economies remain in play, as does the prospect of prolonged or even enhanced monetary stimulus.

In the EM world, Japan's export competitors in AXJ could respond with some combination of verbal intervention, FX intervention, capital controls and, with a much lower likelihood, policy rate cuts. In the particularly interesting cases of Korea and Taiwan, our economist Sharon Lam believes that verbal intervention (already under way to some extent), intervention in the foreign exchange markets and capital controls represent the most likely policy reactions. Rate cuts at a time when both economies are already expanding may

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serve to accelerate domestic growth and perversely cause even more capital inflows and currency *appreciation* rather than depreciation. For moderate moves in the yen's value, the effects on China are likely to be limited since it does not compete head-to-head with Japan's high-end electronics and car exports. However, in a currency war situation, the slow-moving USDCNY exchange rate may make restoring competitiveness tricky.

However, even as we discuss AXJ, let us not forget that other parts of the EM world are also concerned about currency appreciation. For all the talk about potential policy action in AXJ, we have already seen some of it come out of Latin America. In contrast to AXJ, Latin America is slowing, which puts rate cuts firmly on the agenda. Indeed, Colombia's recent rate cut was likely influenced by the peso's strength. Luis Arcentales, our Mexico economist, believes that concerns about the currency war have also probably been an influencing

factor in Banxico's u-turn towards a dovish stance from a hawkish one just a few weeks ago. In an innovative twist to the usual FX intervention, Peru has announced that it will buy back its international bonds and issue ones denominated in its domestic currency instead. Even Chile, one of the most advanced and stable EM economies, is discussing structural reforms to address the strength of its currency.

**In summary**, while a currency war is not our base case, the new-found commitment of Japan's policy-makers does raise the risk of retaliatory action to keep the yen weak, and brings us a step closer to a currency war. The experience of the 1930s suggests to us that such large currency crises are likely triggered by domestic issues, and that they do create distinct winners and losers. EM policy-makers are already gearing up to make sure they remain on the winning side, but the balance of power for now rests with Japan.

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## Spotlight: Euro Area: What if the Euro Overshoots?

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**We assess the implications of a material overshoot of EUR on euro area economies:** A material EUR overshoot could derail the tentative stabilisation in economic activity and the recovery in market sentiment. A key policy implication of a material EUR overshoot would be that the debate about an ECB rate reduction would be reopened, up to and including a deposit rate cut. In addition, a much stronger EUR could also challenge the positive market sentiment vis-à-vis the periphery and the structural improvements in export performance there.

**Our FX team sees a material possibility of EURUSD breaking above 1.40:** Our FX strategy team has cautioned about the possibility of EUR overshooting its near-term 1.36 target versus USD for a while (see [FX Pulse: EUR Overshoot](#), January 24, 2013). The FX team believes that there is now an increasing possibility of EURUSD overshooting to the upside and breaking above 1.40. Its valuation models, which would still put EURUSD below fair value, suggest that there is still scope for EURUSD to extend gains. In addition, Japanese investors are leading the way with a reallocation into EUR as the BoJ's easing measures create JPY liquidity that will be seeking higher returns overseas. As traditional higher yielders such as AUD no longer generate the required returns, our FX experts believe that attention will be returning to EUR and peripheral EMU. In terms of currency moves, EURJPY has been leading the way. But, as EURUSD closes the gap, this could cause a EURUSD overshoot to 1.40.

**The impact of an EUR rally could be more pronounced than usual:** Normally, a short-lived EUR rally would not make a big difference for the euro area growth outlook. But at the current juncture, the impact might be more pronounced, given only a tentative stabilisation in economic indicators, the unresolved issues regarding EUR's institutional underpinnings and the ongoing rebalancing of the euro area. While a mildly stronger EUR might not necessarily be an issue for the euro area as a whole, some countries already face strong competitive pressure and don't have a domestic demand cushion to offset deteriorating export demand as austerity continues to bite. This holds in particular for Greece and Italy and, to lesser extent, France, Portugal and Spain.

**Assessing the economic impact:** From an economic point of view, the impact of a stronger EUR is determined by the pattern of international trade, the share of domestic production that is exported and the degree of import competition, as well as the extent to which imported inputs are used in domestic production. The higher the share of imported inputs contained in goods exported, the lower the domestic value-added negatively affected. In addition, exporters' pricing power, which tends to be higher for differentiated products, matters, as does the size of the export market. Together with the rate of capacity utilisation, it determines exporters' pricing strategy, where exporters could decide to absorb a stronger EUR in their profit margins and protect their market share, notably in large markets such as the US. Next to direct exports, foreign affiliate sales of euro area companies abroad are another transmission channel for currency moves. Foreign affiliate sales (FAS) account for a significant multiple of the direct exports, especially in the US. The FX impact on export demand, import competition and corporate profits also affects the wider euro area economy. The fall in output is partially offset by a fall in inflation (as imports get cheaper and unemployment starts to rise). Initially, consumer spending is sheltered via lower domestic inflation and higher affordability of imported goods, while investment spending takes a serious hit. Overall, a 10% appreciation in the euro's external value reduces GDP by ~0.5% in the first year, derailing the 2H recovery we are forecasting. Hence, a material EUR overshoot could tilt the debate on the ECB Governing Council back towards rate cuts.

### Euro Area: Stylised Impact of a Permanent EUR Overshoot

	Baseline			EUR Overshoot		
	2012E	2013E	2014E	2012E	2013E	2014E
GDP	-0.5	-0.5	0.9	-0.5	-0.9	0.7
Consumption	-0.9	-0.1	0.7	-0.9	-0.1	0.7
Investment	-3.2	-0.8	1.4	-3.2	-1.7	1.7
Domestic Demand	-1.7	-0.3	0.9	-1.7	-0.6	1.0
Merchandise exports	2.2	2.7	1.6	2.2	2.0	1.4
Merchandise imports	-0.6	2.0	1.2	-0.6	2.2	1.4
Inventory change (GDP Points)	-0.6	-0.6	-0.3	-0.6	-0.7	-0.3
Value added price	1.3	1.4	0.9	1.3	1.3	0.5
Consumer price	2.5	1.6	1.8	2.5	1.2	1.7
Nominal GDP	2.0	1.1	2.6	2.0	0.4	2.3
Wages per Employee	1.6	1.2	1.2	1.6	0.8	0.7
Unit Labour Cost	1.5	1.0	0.4	1.5	1.0	-0.2
Unemployment rate (% points)	11.2	11.9	12.0	11.2	12.1	12.3
Employment	-0.5	-0.6	0.0	-0.5	-0.6	-0.1
Current account (GDP points)	1.2	1.6	1.7	1.2	1.4	1.5
Fiscal balance (GDP points)	-3.4	-2.9	-2.8	-3.4	-3.0	-3.0

Source: INSEE, Morgan Stanley Research estimates

For full details, see [Strategy and Economics: What if the Euro Overshoots?](#) February 4, 2013.

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## The Morgan Stanley Global Economics View

### Our Core Global Views

**Global economy stuck in the 'twilight zone':** The global economy remains stuck in the twilight zone, the fuzzy region that separates sustainable growth from renewed recession. Deleveraging in the DM world, broken EM growth models and huge uncertainty around DM policy are to blame for taking us there. We will need both policy action and traction by policy-makers to get us out of this zone.

**Eurozone not out of the woods yet:** We think that resolution of the euro area sovereign and banking crisis requires both a [fiscal union](#) and a [banking union](#) coupled with the ECB being willing and able to be the [lender of last resort to governments](#). While the ECB has taken a decisive step towards fulfilling this role, progress on fiscal and banking union remains painfully slow and full of setbacks. [Eurozone break-up](#), although not our central case, remains conceivable.

**Fiscal dominance:** Don't expect DM central banks to tighten soon – they are locked into a regime of [fiscal dominance](#), where increases in the real interest rate worsen government debt sustainability, inflation targeting becomes unfeasible and monetary policy is forced to remain super-accommodative.

**Financial repression and inflation:** Part of the solution to high government debt levels can be imposing artificially low, or even negative, real returns on captive investor groups – [financial repression](#). [Inflation](#) – allowed by central banks constrained by fiscal dominance into a passive monetary stance – could be part of this solution, too.

**EM growth model broken – needs structural reform:** EM economies face external and internal challenges that render the [old, export-led model of growth defunct](#). Weak DM consumers, onshoring of DM manufacturing and risks to external funding all work against EMs externally. Internally, the focus on export-led growth has meant that important sources of domestic demand have been neglected. Aggressive policy stimulus will probably make imbalances worse. For potential output growth to rise, policy stimulus needs to go to the 'right' sources of domestic demand. There is some progress in India and to lesser extent in Brazil, but the key remains China.

### Regional Themes

**Asia ex Japan:** [India and China need internal rebalancing](#) – China needs to boost consumption, India investment. This would be part of global rebalancing, too. While China undergoes its policy transition, India's administration has unveiled some reforms that go in the right direction. However, the rebalancing is likely to be a drawn-out process in both countries.

**Latin America:** Greater divergence in Latin America, with Brazil and Mexico reaccelerating, Chile and Peru remaining resilient, Colombia slowing, and Argentina and Venezuela recently suffering from weaker domestic conditions and weaker commodity prices. [Recent policy measures](#) from Brazil and especially Mexico are encouraging, but implementation remains a key risk.

**CEEMEA:** Slowing everywhere but countries are at different stages of the cycle. Turkey is close to bottoming. Russia's performance will depend on delivery of President Putin's pro-investment economic strategy, CEE's on developments in the euro area.

### Key Macro Risk Events

**February 24-25, 2013**

Italian parliamentary elections

**February 2013**

Successor to Bank of Japan Governor Shirakawa announced

**April 8, 2013**

Shirakawa's tenure as Bank of Japan governor ends

**September 2013**

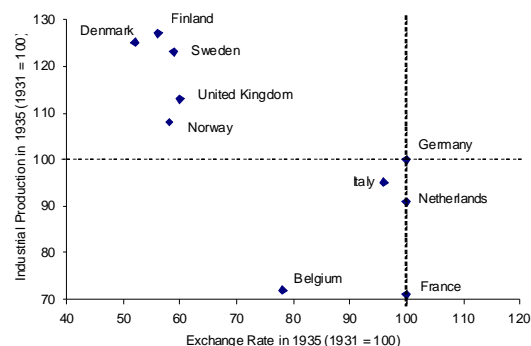
German parliamentary elections

**March 1, 2014**

ECB expected to assume supervisory tasks within Single Supervisory Mechanism by March 1, 2014

### Chart of the Week

#### Early Movers Benefit



Source: Morgan Stanley Research calculations, based on Eichengreen and Sachs (1985)

For our global forecasts, see [The Global Macro Analyst: 2013 Outlook: Stuck in the Twilight Zone](#), November 19, 2012.

For our cross-asset views, see [Global Debates Playbook: 2013! The Mayans Got It Wrong](#), December 21, 2012.

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## Key Forecast Profile

Global Economics Team

	Quarterly												Annual		
	2012				2013				2014				2012E	2013E	2014E
Real GDP (%Q, SAAR)	1Q	2Q	3Q	4QE	1QE	2QE	3QE	4QE	1QE	2QE	3QE	4QE			
<b>Global**</b>	<b>2.9</b>	<b>2.3</b>	<b>3.0</b>	<b>2.3</b>	<b>3.2</b>	<b>3.4</b>	<b>3.9</b>	<b>3.9</b>	<b>4.0</b>	<b>3.8</b>	<b>3.8</b>	<b>3.6</b>	<b>3.1</b>	<b>3.1</b>	<b>4.0</b>
<b>G10</b>	<b>1.7</b>	<b>0.4</b>	<b>1.1</b>	<b>-0.5</b>	<b>1.0</b>	<b>1.3</b>	<b>2.0</b>	<b>2.1</b>	<b>2.1</b>	<b>1.6</b>	<b>1.9</b>	<b>2.0</b>	<b>1.3</b>	<b>0.9</b>	<b>1.9</b>
US	2.0	1.3	2.8	-0.1	1.6*	1.2	2.2	2.8	2.8	2.9	2.9	2.9	2.2	1.4	2.7
Euro Area	-0.1	-0.7	-0.3	-1.6	-0.8	0.0	0.6	1.0	1.0	1.0	1.0	1.0	-0.5	-0.5	0.9
Japan	5.7	-0.1	-3.5	0.0	2.6	4.2	4.3	2.0	1.8	-2.4	0.2	1.3	2.0	1.6	1.3
UK	-1.0	-1.5	3.9	-1.2	1.2	0.0	1.6	1.6	1.9	2.0	1.2	1.2	0.0	0.8	1.6
<b>EM (%Y)</b>	<b>5.3</b>	<b>4.9</b>	<b>4.6</b>	<b>5.0</b>	<b>5.1</b>	<b>5.3</b>	<b>5.6</b>	<b>5.6</b>	<b>5.8</b>	<b>5.9</b>	<b>5.9</b>	<b>5.9</b>	<b>5.0</b>	<b>5.4</b>	<b>5.9</b>
China (%Y)	8.1	7.6	7.4	7.9	8.0	8.2	8.4	8.2	8.1	8.1	7.9	7.7	7.8	8.2	8.0
India (%Y)	5.3	5.5	5.3	5.1	5.8	6.0	6.2	6.3	6.4	6.9	7.1	7.1	5.3	6.1	6.9
Brazil (%Y)	0.8	0.5	0.9	1.8	2.3	2.5	3.3	2.9	3.1	3.1	3.9	3.6	1.0	2.8	3.4
Russia (%Y)	4.9	4.0	2.9	2.7	2.6	3.0	3.1	3.5	4.0	4.3	4.3	4.1	3.6	3.1	3.7
<b>Consumer price inflation (%Y)</b>															
<b>Global</b>	<b>3.7</b>	<b>3.3</b>	<b>3.2</b>	<b>3.3</b>	<b>3.0</b>	<b>3.2</b>	<b>3.4</b>	<b>3.3</b>	<b>3.3</b>	<b>3.4</b>	<b>3.4</b>	<b>3.3</b>	<b>3.4</b>	<b>3.1</b>	<b>3.4</b>
<b>G10</b>	<b>2.4</b>	<b>1.8</b>	<b>1.7</b>	<b>1.9</b>	<b>1.5</b>	<b>1.7</b>	<b>1.6</b>	<b>1.6</b>	<b>1.5</b>	<b>1.7</b>	<b>1.7</b>	<b>1.8</b>	<b>1.9</b>	<b>1.3</b>	<b>1.8</b>
US	2.8	1.9	1.7	1.9	1.6	2.1	1.9	1.7	1.4	1.4	1.5	1.7	2.1	1.3	1.6
Euro Area	2.7	2.5	2.5	2.5	1.8	1.5	1.5	1.7	1.8	1.9	1.6	1.5	2.5	1.5	1.8
Japan	0.1	0.0	-0.2	-0.1	-0.3	-0.1	0.2	0.4	0.6	2.1	2.1	2.2	-0.1	0.0	1.7
UK	3.5	2.8	2.4	2.7	2.8	2.9	2.9	2.4	2.3	2.4	2.5	2.3	2.8	2.8	2.4
<b>EM</b>	<b>5.0</b>	<b>4.9</b>	<b>4.6</b>	<b>4.7</b>	<b>4.4</b>	<b>4.8</b>	<b>5.2</b>	<b>5.0</b>	<b>4.9</b>	<b>4.9</b>	<b>4.9</b>	<b>4.7</b>	<b>4.8</b>	<b>4.9</b>	<b>4.9</b>
China	3.8	2.9	1.9	2.1	1.6	2.8	3.8	3.9	3.6	3.9	3.9	3.2	2.6	3.0	3.6
India	7.2	10.1	9.8	10.1	8.9	7.7	7.2	7.1	6.9	6.6	6.8	7.0	9.3	7.7	6.8
Brazil	5.8	5.0	5.2	5.6	6.2	6.3	6.3	5.8	5.7	5.7	5.7	6.1	5.4	6.1	5.8
Russia	3.9	3.8	6.0	6.5	6.8	6.9	6.2	5.9	5.5	5.1	5.2	5.4	5.1	6.7	5.3
<b>Monetary policy rate (% p.a.)</b>															
<b>Global</b>	<b>3.2</b>	<b>3.1</b>	<b>3.0</b>	<b>2.9</b>	<b>3.0</b>	<b>2.9</b>	<b>2.9</b>	<b>2.9</b>	<b>3.0</b>	<b>3.1</b>	<b>3.2</b>	<b>3.2</b>	<b>2.9</b>	<b>2.9</b>	<b>3.2</b>
<b>G10</b>	<b>0.6</b>	<b>0.6</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>
US	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15
Euro Area	1.00	1.00	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Japan	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
UK	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	1.00	1.00	0.50	0.50	1.00
<b>EM</b>	<b>6.1</b>	<b>5.9</b>	<b>5.7</b>	<b>5.6</b>	<b>5.6</b>	<b>5.5</b>	<b>5.5</b>	<b>5.5</b>	<b>5.6</b>	<b>5.7</b>	<b>5.9</b>	<b>5.9</b>	<b>5.6</b>	<b>5.5</b>	<b>5.9</b>
China	6.56	6.31	6.00	6.00	6.00	6.00	6.00	6.00	6.25	6.50	6.75	6.75	6.00	6.00	6.75
India	8.50	8.00	8.00	8.00	7.75	7.25	7.25	7.25	7.00	7.00	7.00	7.00	8.00	7.25	7.00
Brazil	9.75	8.50	7.50	7.25	7.25	7.25	7.25	7.25	8.25	8.25	8.25	8.25	7.25	7.25	8.25
Russia	5.25	5.25	5.50	5.50	5.75	5.75	5.75	5.50	5.25	5.00	4.75	4.75	5.50	5.50	4.75

Note: Global and regional aggregates are GDP-weighted averages, using PPPs. Japan policy rate is a range from 0.00-0.10%, with 0.05% as the midpoint; CPI numbers are period averages. \*US GDP forecast for the current quarter is a tracking estimate. \*\*G10+BRICs+Korea  
Source: Morgan Stanley Research forecasts



## Global Macro Watch

### US: Fed Focus: Weird Science

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**There was not much meat for market participants to chew over from the January meeting of the FOMC:** Officials took a breather, electing to repeat most of their prior statement. That is not too surprising. Both data and financial conditions were mixed over the intermeeting period. Moreover, describing the many moving parts to monetary policy crowds out the space in the FOMC statement to reflect on the state of the economy. What remains is only a boilerplate acknowledgement that it looked at employment and inflation.

**We will not know until the minutes of this meeting are published in three weeks whether the Fed made progress in tying up the loose ends of its communications policies:** The commitment language on its policy instruments is out of sync. Guidance on the zero-rate regime is couched in terms of thresholds for the unemployment and inflation rates, but quantitative easing is still linked to the calendar. It also has some work to do truing up those new thresholds with its strategic mission statement.

**Federal Reserve officials appear to be trying hard to make monetary policy more scientific:** The impulse shows through in the dual thresholds introduced in December and the numerical simulations peppered through recent speeches. Indeed, a core set of policy-makers seem to be in a rush to adopt academic best practices by quantifying the path of policy as much as they can. It was left to few reluctant fellow travelers to note, as relayed in the minutes of the December meeting, that “a few participants expressed a preference for using a qualitative description of the economic indicators influencing the Committee’s thinking”. We will only know in five years, when the minutes of that meeting are published, if any of the true believers quoted Dr. Peter Venkman in response, “Back off man, I am a scientist.”

**We recognise that the application of this science relies on the same economic models that failed us during the bubble, the crisis and the hesitant recovery and expansion:** Those models embed judgment in the various factors required to make them tolerable descriptions of the current situation. As long as notions of the natural rate of unemployment and equilibrium real federal funds rate are moving targets, there will remain scope for “a qualitative description of the economic indicators influencing the Committee’s thinking”.

For full details, see [Fed Focus: Weird Science](#), January 30, 2013.

### UK: Have We Seen the Last of QE?

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**We no longer expect the MPC to extend QE on February 7:** The recent MPC commentary, resilient labour market data and positive *underlying* GDP growth were the ‘last straw’ (see [After 4Q Preliminary GDP, February QE Unlikely](#), January 25, 2013). Something similar happened to our forecasts ahead of the November MPC meeting too. We expect the MPC to pause QE in February for six reasons:

- 1) More upbeat bank funding cost indicators; weaker GBP.
- 2) Labour market resilience.
- 3) The MPC seem to be taking a ‘glass half-full’ view of the data.
- 4) MPC scepticism continues to grow faster than we’d expected on the effectiveness of QE.
- 5) Inflation remains sticky at above-target levels.
- 6) Funding for Lending appears to be gaining more traction (so far) than we’d expected.

**Is it about time we gave up on expecting more QE altogether?** There are two questions that need answering first: 1) Will the economy perform well enough for the MPC to be content not to add more monetary stimulus? 2) Has the MPC given up on QE?

1) If the MPC doesn’t do more QE now, when activity is broadly flat, it isn’t clear to us that it’ll do more QE at any point this year. We and the MPC expect the UK outlook to improve; 2) The MPC hasn’t *completely* given up on QE as a policy tool.

**As a central case, we no longer expect additional QE from the BoE:** We expect it to maintain its existing stock of asset purchases at £375 billion throughout 2013. If the economy does not improve, we’d expect more QE. Still, the probability of more QE in the near term is higher than the market has priced in, in our view.

**The arrival of Mark Carney on July 1 means additional uncertainty for the QE forecast:** However, if the economy significantly underperforms, we’d expect more QE no matter who is governor (plus non-gilt asset purchases under a Carney governorship).

For full details, see “Have We Seen the Last of QE?” [The Gilt Edge](#), January 31, 2013.



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## Global Macro Watch

### Russia: Stability to Trump Stimulus

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**Rates in the spotlight:** There is a public policy debate among officials under way, focused on rates. First Deputy Governor Ulukayev has said that monetary easing would be counterproductive in a situation where growth is running at potential, while Finance Minister Siluanov and First Deputy PM Shuvalov have called for monetary easing to support growth.

**For a cut...** In 2012, growth slowed to 3.6%Y from 4.3%Y in 2011, led by decelerating IP and investment. Further action is needed to achieve the government's objective of at least 5%Y growth per year, and the effect from structural reforms is too slow. The banks can continue extending credit and support growth if they secure longer-term funding at cheaper rates – which is a job for the CBR.

**...and against:** With unemployment at historical lows and inflation above target, there is little scope to push up growth without higher inflation. Last year growth slowed, despite a strong fiscal and credit expansion, showing the limits of policy stimulus. Higher growth over time requires lower inflation (which means sticking now to the inflation target in order to lower inflation expectations) and delivery of structural reforms, to attract more investment.

**Majority expect a cut – but we stick to our hike call:** Most economists and, we think, most investors expect a cut. However, we stick to our minority call for a 1H hike since we expect inflation to rise above 7%Y and stay above target through 1H, and we expect the authorities to remain committed to their 2013 inflation target of 5-6%Y.

**Wider credibility of economic policy on the line:** Russia has a new economic policy framework with *macroeconomic policy* for stability, based on inflation-targeting and a balanced budget; and *micro/structural reforms* for growth, to attract higher investment. The rate debate tests commitment to this new framework.

**No change of course, we think:** We think Putin and Medvedev will stick to the new policy framework. This implies delivery of micro reforms to support investment, and nomination of a credible new CBR governor in March. Also, with inflation rising, we see a hike not a cut. We do see a 'growth package' as possible – but focused on policy action to support off-budget public investment.

For full details, see [Russia Economics: Stability to Trump Stimulus](#), January 28, 2013.

### Hungary: How Unorthodox Can the NBH Get?

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**Another cut, another tight vote:** In a widely anticipated decision, the NBH cut rates for the sixth consecutive meeting, to 5.50% on January 29. Based on Governor Simor's post-meeting comments, this was another tight decision (4-3 vote). The minutes will be published on February 13.

**Still constructive on disinflation:** The January statement is quite relaxed on inflation: the Council thinks that there is still a significant output gap in the economy, and that inflation will return to the 3% target as soon as the temporary impact of cost shocks wanes. Recent trends in core inflation as well as government decisions on regulated prices support this benign inflation view.

**NBH reassures on 'unconventional' tools...** The communiqué also stressed that the policy instruments currently available allow enough room for manoeuvre, and that unconventional policy tools may provide effective support only during times of acute financial market stress. Governor Simor added in the press conference that this was a unanimous view on the MPC.

**...and keeps an easing bias:** The statement said that risk premia have not moved in either direction (the recent move weaker in HUF was not mentioned), and ended by restating the same easing bias as last month: "the Council will only consider a further reduction in the policy rate if the medium-term outlook for inflation remains consistent with the bank's target and the improvement in financial market sentiment is sustained". In other words, not a lot has changed in the MPC's mind, and more easing seems to be in store.

**Bottom line:** The NBH's relaxed attitude towards HUF at the January meeting confirms that the 'pain threshold' for EURHUF has moved higher and the MPC is willing to look through weakness. This argues for more easing in the coming months. More broadly, there are reasons to be concerned as we approach the appointment of the new governor (early March). When we look at the various 'unorthodox' policy options the NBH could undertake, we would expect the central bank to probably stay away from the most radical ones. The worst-case scenario would be an even *more explicit* move to a bias in favour of a weak HUF, in which the new management explicitly suggests that it is willing to accept a much weaker currency as it deems that the growth benefits will outweigh the inflation and financial stability concerns.

For full details, see [Hungary Economics: How Unorthodox Can the NBH Get?](#) January 31, 2013.

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## Global Macro Watch

### Korea: Likely More Macroprudential Policies to Curb KRW Appreciation

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**Instead of a rate cut, macroprudential measures are likely to slow excessive capital inflows:** We believe that Korea will not use monetary policies to curb KRW appreciation, because such measures may not work. However, we think that the government is likely to use macroprudential measures to slow capital inflows. We hesitate to call it capital control because the government is not shutting down capital flows in and out of the country, but rather imposing regulations to ensure the stability of its FX and financial markets.

**We see the possibility of three kinds of measures, with the likelihood ranked as follows:** i) Lowering banks' external debt positions; ii) Taxing bond transactions; and iii) A kind of Tobin tax on FX transactions. We examine these in more details in our full report.

**Other than macroprudential measures, should we expect to see monetary intervention?** The BoK could directly intervene in the FX market or change its interest rate, but we think these measures would be less effective than those above for the following reasons:

- The BoK is loaded with Monetary Stabilisation Bonds (MSB), so the cost of intervention is becoming higher and higher.
- Cutting interest rates would not slow down KRW appreciation – it might in fact trigger the opposite.

Foreigners own more Korean equities than bonds. If the BoK were to cut interest rates in an environment of mildly improving macro conditions, the lower rates could lead to stronger inflows into the equity market, which could offset the potential outflow from bond market.

Besides, there might not even be outflows from the bond market because Korea's bond yield would remain higher than yields in countries with 0% interest rates, and the sound fiscal conditions in Korea should continue to make Korean bonds look attractive no matter what.

This is why we are maintaining our call of no rate cut this year.

For full details, see [Korea: Likely More Macroprudential Policies to Curb KRW Appreciation](#), February 4, 2013.

### Brazil: Currency War Tension

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**With BRL trading below 2.0 for the first time in over six months, many are beginning to wonder if the authorities are now pursuing a policy of currency strength in an attempt to reduce inflationary pressures:** We doubt that this is the case. Inflation is a concern for policy-makers and for us – we see annual rates rising to the 6.5% upper limit in the coming months, but the authorities are also focused on the weakness in Brazilian output which would likely intensify if BRL were allowed to strengthen measurably.

**In many ways, Brazil remains caught in the tensions brought on by the currency war:** Accommodative policy around the world is pressuring the currency stronger. But while a stronger currency might help on the margin on the inflation front, it would likely do significant damage to output.

**Of course, the key challenge for Brazil lies not in trying to adjust the path of BRL, but in tackling the structural challenges that have left Brazil with the mismatch between weakened output and strong demand:** The good news is that, after two years of attempting to boost growth through lower interest rates, the authorities appear to have come to the conclusion that Brazil has a supply problem, and that monetary policy is not effective in stimulating growth under these circumstances. Getting the diagnosis right is the first step, but only one step towards helping Brazil resolve its Growth Mismatch.

**Brazil's inflation problem is a serious one and is partially a consequence of the excessively loose monetary policy that boosted demand but not output:** Nevertheless, we do not see the inflation outlook derailing in 2013 unless there is a supply shock in the food sector that is even stronger than the one in 2012. In addition, the administration still has some tools, including tax cuts and postponements, which could yield a material deflationary impact.

**Although theoretically one of the most effective solutions to curb inflationary pressures would be to let BRL appreciate, we doubt the authorities will use this channel:** Although the inflation fight is important, the industrial sector competitiveness-boosting battle seems to be a more important one. Moreover, although the fiscal policy approach to control inflation is clearly not sustainable in the medium term, we believe there is still some room in 2013 to use this approach rather than compromise the industrial sector even further.

For full details, see "Brazil: Currency War Tension", [Week Ahead in Latin America](#), February 1, 2013.

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## Inflation Target Monitor & Next Rate Move

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	Inflation target	Latest month	12M MS fcast	Next rate decision	Current rate	Market expects (bp)	MS expects (bp)	Risks to our call
US	2.0% PCE Price Index	1.9%	1.7%*	20 Mar	0.15	0	0	No risks, same through mid-2015
Euro Area	< 2% HICP (u)	2.0%	1.8%	07 Feb	0.75	2	0	ECB could reconsider rate cut later this year
Japan	1% CPI (u)	-0.1%	-0.5%	14 Feb	0.05	0	0	-
UK	2%	2.7%	2.4%	07 Feb	0.50	0	0	Unchanged policy, but some risk of QE
Canada	1-3%	1.4%	1.8%	06 Mar	1.00	0	0	-
Switzerland	<2% CPI (u)	-0.4%	0.2%	14 Mar	0.00	-	0	-
Sweden	2.0% CPI	-0.1%	0.9%	13 Feb	1.00	-10	0	Balanced risks
Norway	2.5% CPI	0.5%	-	14 Mar	1.50	0	0	Balanced risks
Australia	2-3% over the cycle	2.2%	2.3%	05 Mar	3.00	-14	0	-
New Zealand	1-3% CPI	0.9%	-	14 Mar	2.50	0	0	-
Russia	5-6% CPI	7.1%	6.0%	12 Feb	5.50	-	0	-
Poland	2.5% (+/- 1%) CPI	2.4%	2.3%	06 Mar	3.75	-	0	-
Czech Rep.	2.0% (+/-1%) CPI	2.4%	2.6%	28 Mar	0.05	-	0	-
Hungary	3.0% CPI	5.0%	3.8%	28 Feb	5.50	-	-25	-
Romania	3.0% (+/-1%) CPI	5.4%	4.9%	26 Mar	5.25	-	0	-
Turkey	5%	7.3%	6.3%	19 Feb	5.50	-	0	-
Israel	1-3%	1.6%	2.0%	25 Feb	1.75	-	-25	-
S. Africa	3-6%	5.7%	5.8%	20 Mar	5.00	-	0	SARB GDP downgrade ushers in rate cut
Nigeria	-	12.0%	10.7%	19 Mar	12.00	-	-100	Sticky inflation outlook postpones easing
Ghana	8.7% CPI	9.2%	10.0%	-	15.00	-	0	-
China	-	2.5%	3.0%	N/A	6.00	-	0	Premature policy tightening and external demand weakening
India	-	7.2%	6.6%	19 Mar	7.75	5	-	Faster-than-expected moderation in inflation (CPI)
Hong Kong	-	3.8%	5.6%	-	0.50	-	-	-
S. Korea	2.5-3.5%	1.5%	3.0%	14 Feb	2.75	-	0	Rate cut due to weak domestic demand
Taiwan	-	1.1%	1.5%	21 Mar	1.875	-	0	Rate cut due to weak business and consumer sentiment
Indonesia	4.5% +/- 1.0%	4.6%	5.4%	12 Feb	5.75	-	0	Evenly balanced
Malaysia	-	1.2%	2.7%	07 Mar	3.00	-	0	Downside risks
Thailand	0.5-3.0% core CPI	3.4%	3.2%	20 Feb	2.75	-	0	Downside risks
Brazil	4.5% +/-2.0% IPCA	5.8%	6.0%	06 Mar	7.25	9	0	Global double-dip recession
Mexico	3% +/-1% CPI	3.6%	3.6%	08 Mar	4.50	-12	0	Banxico signaled potential one-off cut
Argentina	15.5-24.2% M2 growth	10.8%	10.0%	NA	12.07	-	-	-
Chile	3% +/-1% CPI	1.5%	3.3%	14 Feb	5.00	1	0	-
Peru	2% +/-1% CPI	2.9%	2.6%	07 Feb	4.25	-	0	-
Colombia	3% +/-1% CPI	2.0%	3.0%	22 Feb	4.00	-8	-25	-

(u) = unofficial

Notes: Inflation numbers in red indicate values above target; MS expectations in red (green) indicate our rate forecasts are above (below) market expectations. Japan policy rate is an interval of 0.00-0.10%; \*Core measure.

Source: National central banks, Morgan Stanley Research

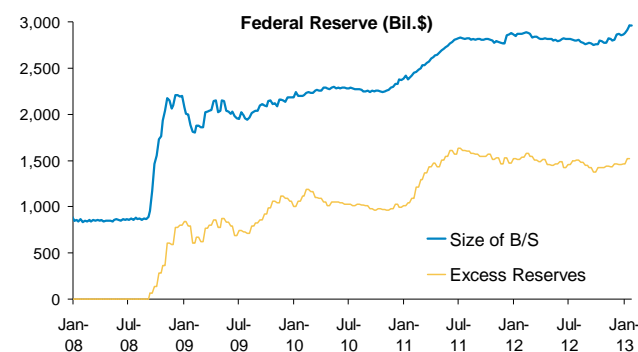
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## Global Monetary Policy Rate Forecasts

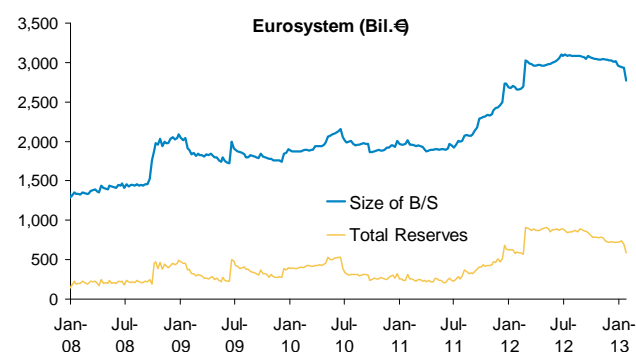
	Current	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	Expected Unconventional Measures
United States	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	Outright purchases of Treasuries/MBS at \$85bn/month in 2013
Euro Area	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	-
Japan	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	-
United Kingdom	0.50	0.50	0.50	0.50	0.50	0.50	0.75	1.00	1.00	Unchanged QE, but can't totally rule it out
Canada	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	-
Switzerland	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.50	-
Sweden	1.00	1.00	1.00	1.00	1.00	1.25	1.50	1.50	1.50	-
Norway	1.50	1.50	1.50	1.75	2.00	2.00	2.25	2.50	2.75	-
Australia	3.00	3.00	2.50	2.50	2.50	2.50	2.50	2.75	3.00	-
New Zealand	2.50	2.50	2.50	2.75	3.00	3.25	3.25	3.25	3.25	-
Russia	5.50	5.75	5.75	5.75	5.50	5.25	5.00	4.75	4.75	-
Poland	3.75	3.75	3.25	3.25	3.25	3.25	3.25	3.25	3.50	-
Czech Republic	0.05	0.05	0.05	0.05	0.05	0.25	0.50	0.75	1.00	-
Hungary	5.50	5.25	5.00	5.00	5.00	5.00	5.00	5.00	5.00	-
Romania	5.25	5.25	5.25	5.25	5.25	5.50	5.75	6.00	6.00	-
Turkey	5.50	5.50	5.25	5.25	5.25	5.50	5.75	5.75	5.75	O/N rate might be cut, RRR and ROC to rise
Israel	1.75	1.50	1.50	1.50	1.75	2.25	2.50	2.75	2.75	-
South Africa	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	-
Nigeria	12.00	11.00	11.00	11.00	9.50	9.50	9.50	9.50	9.50	Possible tweaks to liquidity requirements
Ghana	15.00	14.00	13.00	12.00	12.00	12.00	12.00	12.00	12.00	-
China	6.00	6.00	6.00	6.00	6.00	6.25	6.50	6.75	6.75	-
India	7.75	7.75	7.25	7.25	7.25	7.00	7.00	7.00	7.00	-
Hong Kong	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	-
S. Korea	2.75	2.75	2.75	2.75	2.75	3.00	3.25	3.50	3.50	-
Taiwan	1.875	1.875	1.875	1.875	2.00	2.125	2.25	2.375	2.375	-
Indonesia	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75	-
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	-
Thailand	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	-
Brazil	7.25	7.25	7.25	7.25	7.25	8.25	8.25	8.25	8.25	-
Mexico	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	-
Chile	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.50	5.50	-
Peru	4.25	4.25	4.25	4.25	4.25	4.50	4.75	4.75	4.75	-
Colombia	4.00	3.75	3.75	3.75	3.75	4.00	4.50	4.75	5.00	-

Source: National Central Banks, Morgan Stanley Research forecasts; Note: Japan policy rate is an interval of 0.00-0.10%.

## Fed and Eurosystem Balance Sheet Monitor



Source: Haver Analytics



Source: Haver Analytics

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## Global GDP and Inflation Forecasts

	Real GDP (%)				CPI inflation (%)			
	2011	2012E	2013E	2014E	2011	2012E	2013E	2014E
<b>Global Economy</b>	<b>3.9</b>	<b>3.1</b>	<b>3.1</b>	<b>4.0</b>	<b>4.4</b>	<b>3.4</b>	<b>3.1</b>	<b>3.4</b>
<b>G10</b>	<b>1.4</b>	<b>1.3</b>	<b>0.9</b>	<b>1.9</b>	<b>2.7</b>	<b>1.9</b>	<b>1.3</b>	<b>1.8</b>
US	1.8	2.2	1.4	2.7	3.1	2.1	1.3	1.6
Euro Area	1.5	-0.5	-0.5	0.9	2.7	2.5	1.5	1.8
Germany	3.0	0.8	0.3	1.3	2.3	2.0	1.9	1.6
France	1.7	0.1	-0.1	0.8	2.1	2.0	1.2	1.7
Italy	0.6	-2.1	-1.2	0.5	2.8	3.0	1.5	1.5
Spain	0.4	-1.5	-1.5	0.8	3.2	2.4	2.6	1.7
Japan	-0.6	2.0	1.6	1.3	-0.3	-0.1	0.0	1.7
UK	0.9	0.0	0.8	1.6	4.5	2.8	2.8	2.4
Canada	2.4	2.0	1.8	2.5	2.9	1.7	1.7	2.0
Sweden	3.8	0.8	1.4	2.3	3.0	0.9	0.5	1.8
Australia	2.4	3.5	3.3	3.8	3.3	1.8	2.6	2.4
<b>Emerging Markets</b>	<b>6.6</b>	<b>5.0</b>	<b>5.4</b>	<b>5.9</b>	<b>6.2</b>	<b>4.8</b>	<b>4.9</b>	<b>4.9</b>
<b>CEEMEA</b>	<b>5.1</b>	<b>2.9</b>	<b>3.1</b>	<b>4.1</b>	<b>6.9</b>	<b>5.7</b>	<b>5.9</b>	<b>5.4</b>
Russia	4.3	3.6	3.1	3.7	8.5	5.1	6.7	5.3
Poland	4.3	2.0	1.5	2.7	4.3	3.7	2.3	2.0
Czech Rep	1.7	-1.0	0.0	1.9	1.9	3.4	2.6	1.7
Hungary	1.7	-1.3	0.0	1.3	3.9	5.8	5.3	3.6
Ukraine	5.2	0.2	0.8	4.0	8.4	0.6	7.0	8.8
Kazakhstan	7.5	4.5	5.8	6.5	8.4	5.1	7.2	7.3
Turkey	8.5	3.0	4.0	5.0	6.5	8.9	6.2	6.1
Israel	4.7	2.8	3.0	3.4	3.5	1.8	2.1	2.1
South Africa	3.1	2.5	2.5	3.3	5.0	5.7	5.8	5.6
Nigeria	7.4	6.6	7.5	8.2	10.9	12.0	10.5	10.6
Ghana	14.4	7.0	7.5	7.0	8.7	9.2	9.0	10.2
<b>Asia ex-Japan</b>	<b>7.6</b>	<b>6.2</b>	<b>6.8</b>	<b>7.0</b>	<b>5.8</b>	<b>4.1</b>	<b>4.1</b>	<b>4.2</b>
China	9.3	7.8	8.2	8.0	5.4	2.6	3.0	3.6
India	7.5	5.3	6.1	6.9	8.9	9.3	7.7	6.8
Hong Kong	4.9	1.2	3.8	4.5	5.3	4.1	5.6	4.7
Korea	3.6	2.3	3.7	4.2	4.0	2.5	3.0	3.2
Taiwan	4.0	1.2	2.9	4.0	1.4	1.9	1.5	1.8
Singapore	4.9	1.5	2.3	4.0	5.2	4.7	3.6	3.6
Indonesia	6.5	6.2	5.6	5.9	5.4	4.4	5.4	5.4
Malaysia	5.1	5.1	4.0	4.5	3.2	1.7	2.5	2.5
Thailand	0.1	5.2	4.0	4.7	3.8	3.0	3.4	3.2
<b>Latin America</b>	<b>4.5</b>	<b>2.8</b>	<b>2.9</b>	<b>3.8</b>	<b>6.7</b>	<b>6.2</b>	<b>6.5</b>	<b>6.6</b>
Brazil	2.7	1.0	2.8	3.4	6.6	5.4	6.1	5.8
Mexico	3.9	3.8	3.2	4.2	3.4	4.1	3.5	3.8
Chile	6.0	5.6	4.2	4.7	3.3	3.0	3.2	3.2
Peru	6.9	6.4	5.5	5.8	3.4	3.8	3.0	2.5
Colombia	5.9	4.9	4.4	5.1	3.4	3.2	3.2	3.1
Argentina	8.9	1.1	0.5	2.5	9.8	10.1	10.1	10.1
Venezuela	4.2	4.8	2.1	1.7	26.1	20.8	24.9	28.0

Source: IMF, Morgan Stanley Research forecasts

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