

Press Release

Global Focus Q4 2017: Is this as good as it gets?

World economy is having a Goldilocks moment: the temperature is just about right

08 October 2017, Dubai - As we head towards the end of 2017, the world economy is relatively strong. Growth is higher than in 2016, volatility in asset markets is low and inflation is weak. Major central banks are keeping monetary policy accommodative and although there are fears that asset markets are becoming frothy, the rebound in economic growth and market performance is not being accompanied by a credit boom.

Therefore, given the structural issues facing the world and the cyclical nature of the growth rebound, Standard Chartered's latest Global Focus asks: Is this as good as it gets?

Complacency needs to be avoided. Productivity growth is weak, especially in the West. Geopolitical risk is high, and given the problematic nature of domestic politics in the US, there is the added risk of a trade war. Debt levels are very high across developed and emerging economies, and they have increased since the global financial crisis. As a result, there is little space for fiscal policy to deal with shocks; with global interest rates low, the same is true for monetary policy.

There is a risk that markets may have become too negative, following the reflation euphoria after Donald Trump's election. In particular, there is a possibility that Trump and Congress could agree on some type of tax reform, likely to be limited in scope, providing the economy with fiscal stimulus. With a positive output gap, the US economy is operating at capacity and fiscal stimulus is more likely to push US rates and the dollar higher, but it will likely have very little impact on economic activity.

The main difference in 2017 versus previous post global financial crisis years has been the resumption of growth in Europe, which is no longer a drag on global growth. This is expected to continue in the coming months, despite still-serious underlying problems in the euro area. Debt levels in the south are high, although they probably peaked last year.

The biggest geopolitical risk lies on the Korean peninsula. Standard Chartered believes that, assuming rationality prevails, military escalation will be avoided but tensions are likely to remain elevated and rhetoric aggressive. Markets will find it difficult to incorporate this into prices. Geopolitical risks tend to have little relevance to financial markets and economic activity, until the moment they do.

In the Middle East, the focus is on the standoff involving between Qatar and the quartet of Saudi Arabia, the UAE, Bahrain and Egypt. The standoff looks set to continue for now, but a further escalation is highly unlikely. Heavy diplomatic efforts will likely mean there is some form of solution over several months, but not immediately.

Easy monetary policy is one of the key factors driving economic growth. The outlook is positive for now, as we expect major central banks to hike interest rates only gradually. China is refocusing its attention on financial stability rather than just on growth and although the relatively strong pace of US growth allows the Fed to proceed with raising interest rates, the absence of inflation indicates that these hikes should be gradual.

Marios Maratheftis, Chief Economist, commented: "We expect the world economy to end 2017 and start 2018 with good momentum, despite ongoing structural challenges. However, we do not ignore the possibility of policy shocks. We worry less about the period three to six months ahead, but think they could become more of a concern later in 2018. The positive outlook also depends on no further deterioration in global geopolitics, particularly in Korea. We assume rationality will prevail; but history demonstrates that this is not always the case."

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Note to editors:

Standard Chartered

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