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ASSET MANAGEMENT

MACRO RESEARCH

KEY MACRO VARIABLES ACROSS COUNTRIES

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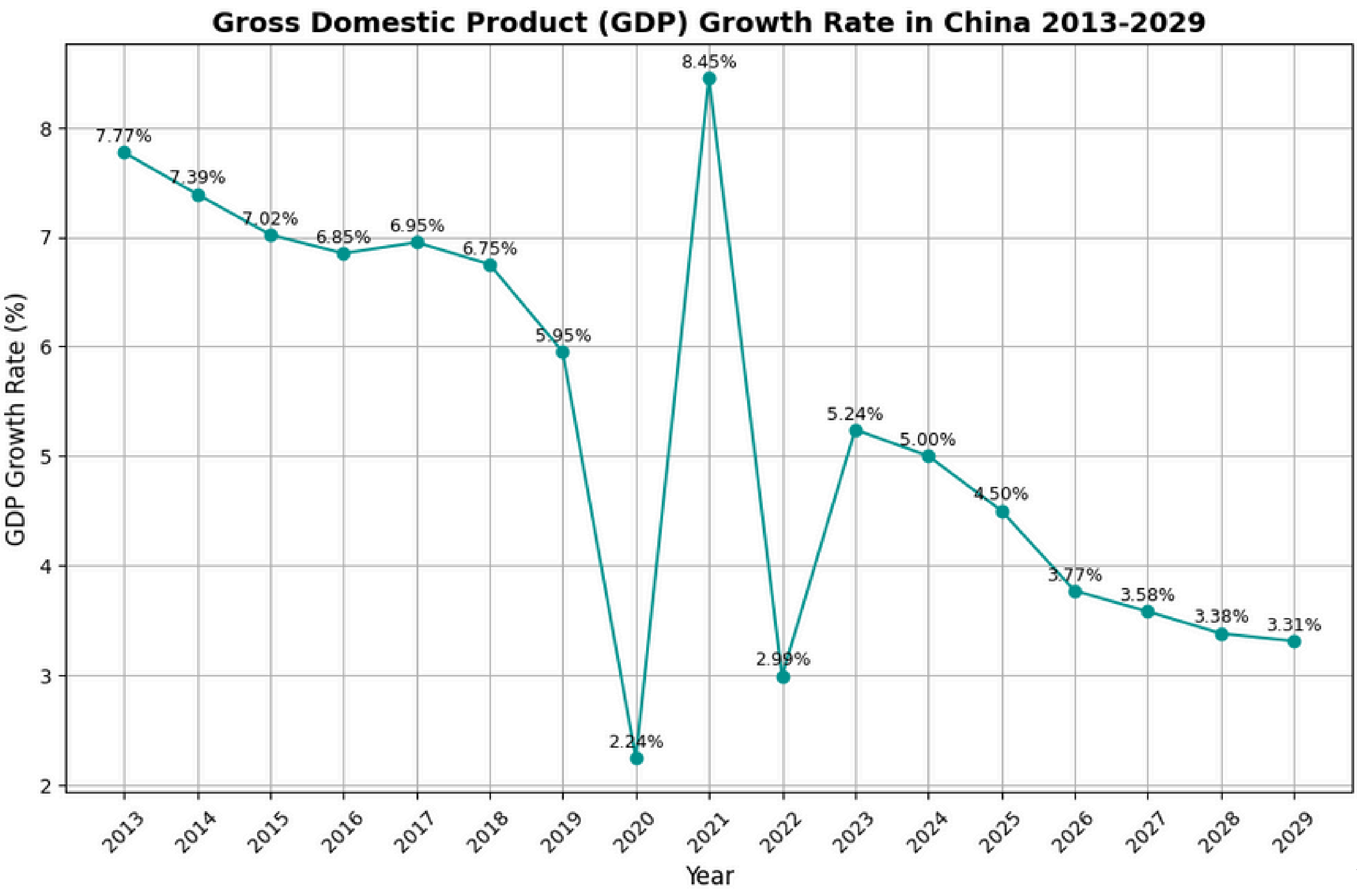
China's economic growth has been **one of the most significant stories in global economics** over the past few decades. However, **recent years have seen a deceleration**. The COVID-19 pandemic, regulatory changes, and international trade tensions have all contributed to this slowdown.

China's GDP growth rate in 2022 was 3%, as reported by the International Monetary Fund (IMF). This marked a significant slowdown influenced by stringent COVID-19 lockdowns and a crisis in the real estate sector.

The **rise of the middle class** and government policies aimed at **boosting domestic spending** are critical components of China's economic strategy. Continuous government **investment in infrastructure** is a cornerstone of China's long-term growth strategy: projects under the **Belt and Road Initiative** is a major example, supporting economic expansion both domestically and internationally. **Trade remains a vital component** of China's economy. However, ongoing trade tensions, especially with the US, create uncertainties. Despite these challenges, the Regional Comprehensive Economic Partnership (RCEP) is anticipated to **open new trade opportunities within the Asia-Pacific region**.

Among the various sectors, the **technology sector stands out as the strongest and most important current industry** in China. The country's advancements in areas such as **5G technology**, **artificial intelligence**, and **renewable energy** are not only driving domestic growth but also positioning China as a global leader in technology innovation.

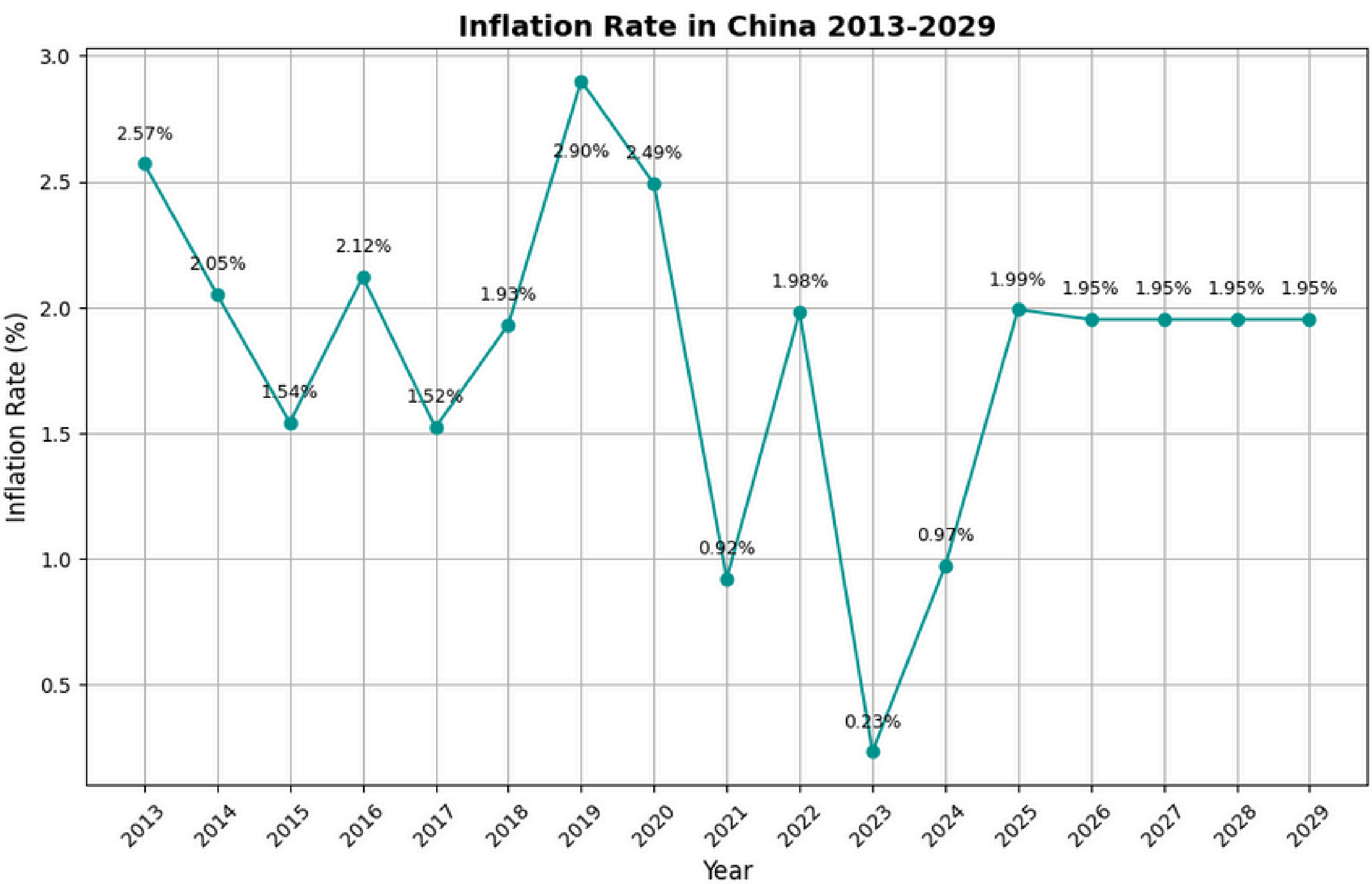


China's inflation rate has remained relatively low compared to other major economies. **As of May 2024, the inflation rate stood at 0.3%**, unchanged from the previous month and up slightly from 0.2% a year earlier, significantly below the long-term average of 1.69%.

Food prices, particularly **pork**, **oil** and **natural gas** and **transition to renewable energy** play a crucial role in influencing inflation.

The People's Bank of China (PBOC) manages inflation through various monetary policies, such as adjusting interest rates, changing reserve requirement ratios, and managing the yuan's value to control import prices. Despite low current inflation, the PBOC remains vigilant about potential inflationary pressures from increased domestic consumption and global economic changes. Their proactive and strategic planning maintains price stability and supports economic growth, mitigating significant inflationary risks.

As of December 2023, China's overall urban unemployment rate stands at approximately 5.1%. However, the youth unemployment rate for individuals aged 16-24 is significantly higher, at 14.9%. This rate marks a decline from earlier in 2023, when youth unemployment reached record highs exceeding 21%.



Fiscal Policy:

In 2023, China maintained a proactive fiscal policy aimed at supporting economic recovery while ensuring financial stability. The government focused on controlling local government debt risks, optimizing fiscal deficits, and increasing central government transfer payments to local authorities. The fiscal deficit is expected to exceed the traditional 3% of GDP ceiling to sustain growth, though caution is exercised to avoid over-leveraging, especially in the real estate sector.

Monetary Policy:

The People's Bank of China (PBOC) pursued a prudent and stable monetary policy, providing sufficient liquidity to support economic activities without stoking inflation. Interest rates were kept low to encourage borrowing and investment, while the PBOC remained vigilant about financial risks.

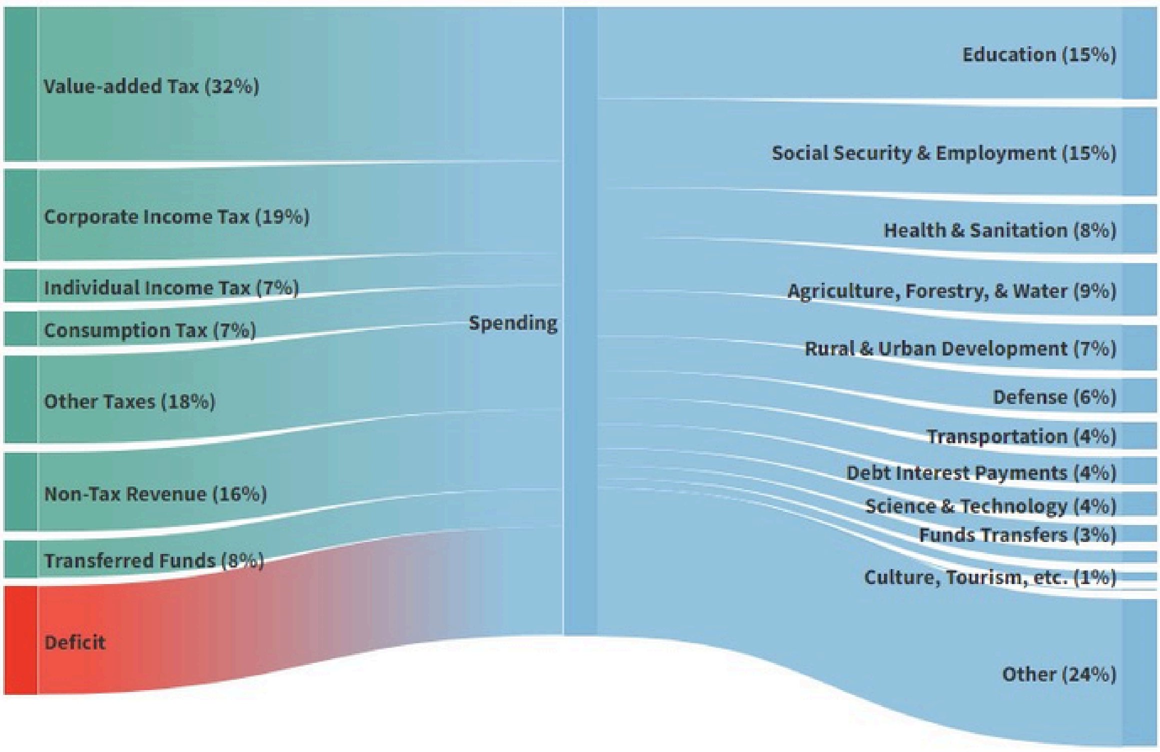
Balance of Payments: Current Account

China consistently runs a current account surplus, largely due to its substantial trade surplus. In 2023, exports continued to outpace imports, contributing positively to the current account balance. However, there is a services trade deficit, particularly in sectors like tourism and education, where Chinese citizens spend significantly abroad.

Balance of Payments: Capital Account

China remains a major destination for foreign direct investment (FDI), attracting significant inflows into high-tech and manufacturing sectors. Outbound investments by Chinese companies are also substantial, focusing on technology and natural resources. The balance of payments reflects these dynamics, with sustained trade and investment activities ensuring a healthy economic interaction with the global economy.

China's 2023 General Public Budget



This chart provides a breakdown of China's fiscal incomes and outlays within the general public budget. In 2023, China brought in RMB 23.4 trillion ($3.3 trillion) in revenue and spent RMB 28.2 trillion ($4 trillion), resulting in a deficit of RMB 4.9 trillion ($690 billion).

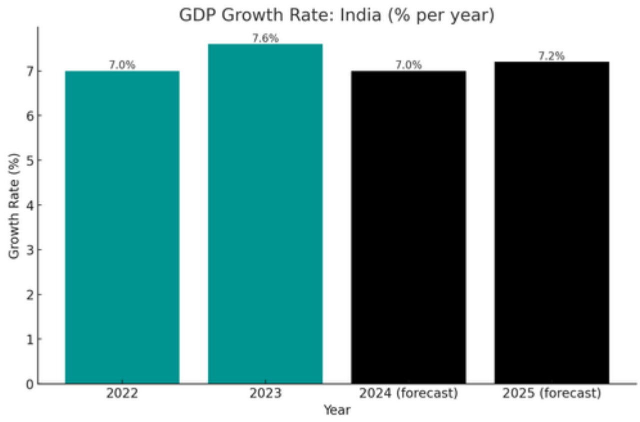
Link to the interactive chart

Source: Chinese Ministry of Finance

ChinaPower

GDP Growth and Influential Factors

India's GDP expanded by 7.8% year-over-year in the first quarter, outpacing major economies. This growth is underpinned by robust economic fundamentals, including strong profit growth and favorable demographics. India's stock market has shown robust performance, reflecting strong corporate earnings and investor confidence. **The manufacturing sector's growth and advancements in the digital economy are pivotal for future economic resilience.**

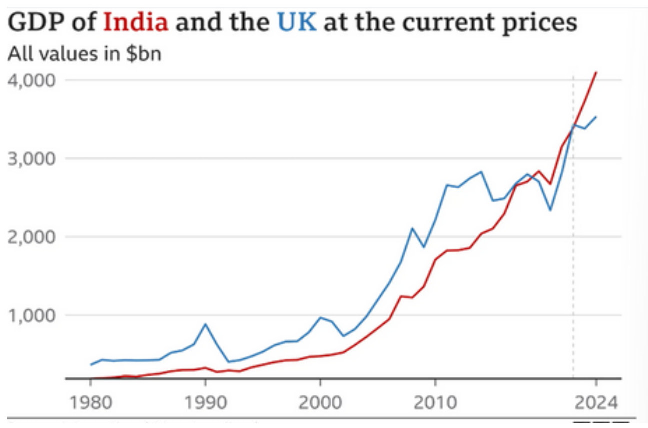


The manufacturing sector has experienced substantial growth, supported by increased investments and supply chain diversification. Agricultural output also exceeded expectations, contributing positively to overall economic expansion.

Structural impediments in manufacturing, such as stringent labor laws, **infrastructure gaps, and global competitiveness issues**, require targeted reforms to attract investments and enhance productivity.

Inflation, Exchange Rates

The Reserve Bank of India (RBI) targets an annual inflation rate of 4.5%, emphasizing stable inflation management amidst global economic uncertainties.

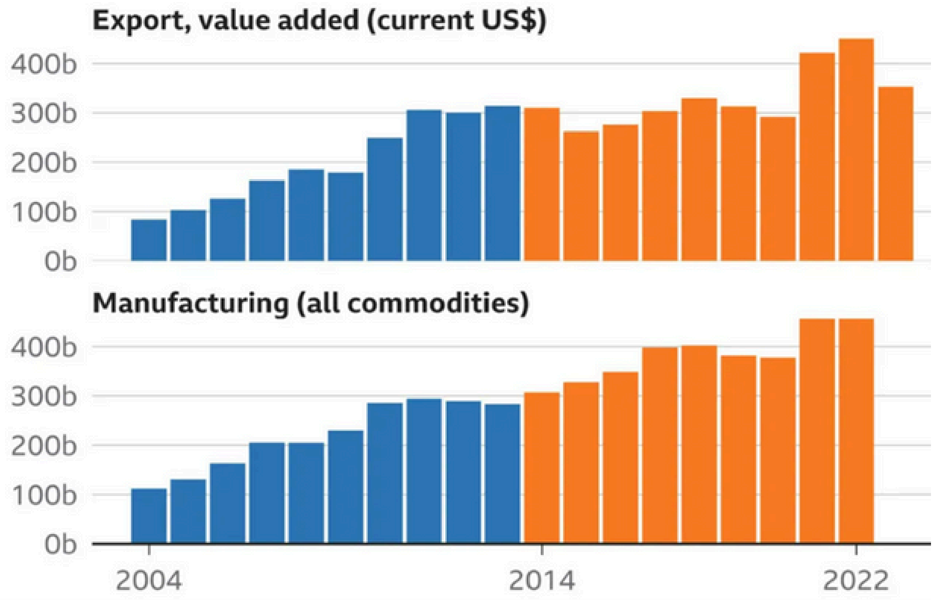


Source: BBC

Exchange rate dynamics impact India's trade balance and investment flows. **RBI policies aim to manage volatility to support exports and attract foreign direct investment.**

Recent elections reflected shifting dynamics influenced by economic concerns like unemployment and inflation. **Political stability is crucial for policy continuity and investor confidence.**

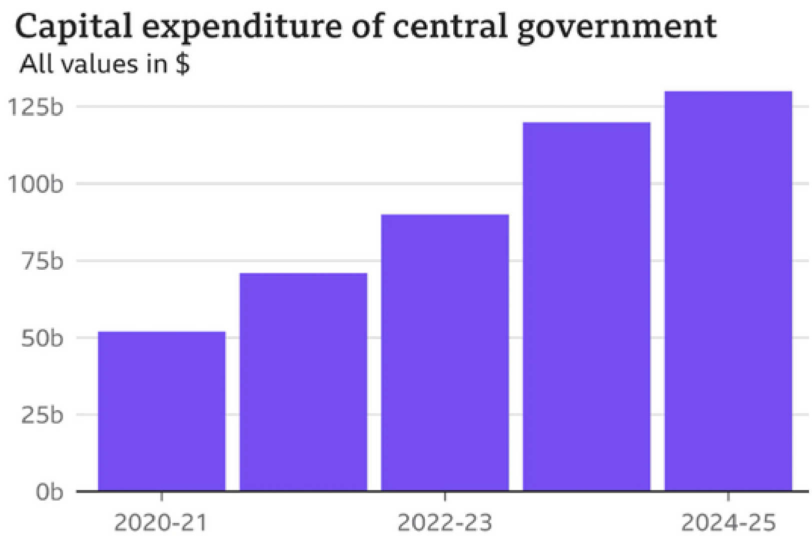
Balance of Payments:



India's balance of payments, influenced by trade balances (exports vs. imports) and financial account balances (FDI, portfolio investments), **affects currency movements and economic stability.**

Monetary and Fiscal Policies

RBI maintained a policy repo rate at **6.50%** amid **political uncertainty**, supporting economic growth while managing inflation and **global economic risks**. India navigates global geopolitical shifts impacting trade policies, energy security, and international relations, necessitating adept **management for sustainable economic growth.**



Source: BBC

Significant infrastructure spending, increased to **3.4% of GDP for FY 2024–25** from a pre-pandemic average of **1.7%**, has stimulated economic activity and generated employment opportunities. Increased government spending on infrastructure and social sectors aims to boost growth and address structural challenges. However, high **fiscal deficits pose risks, necessitating prudent fiscal management.**

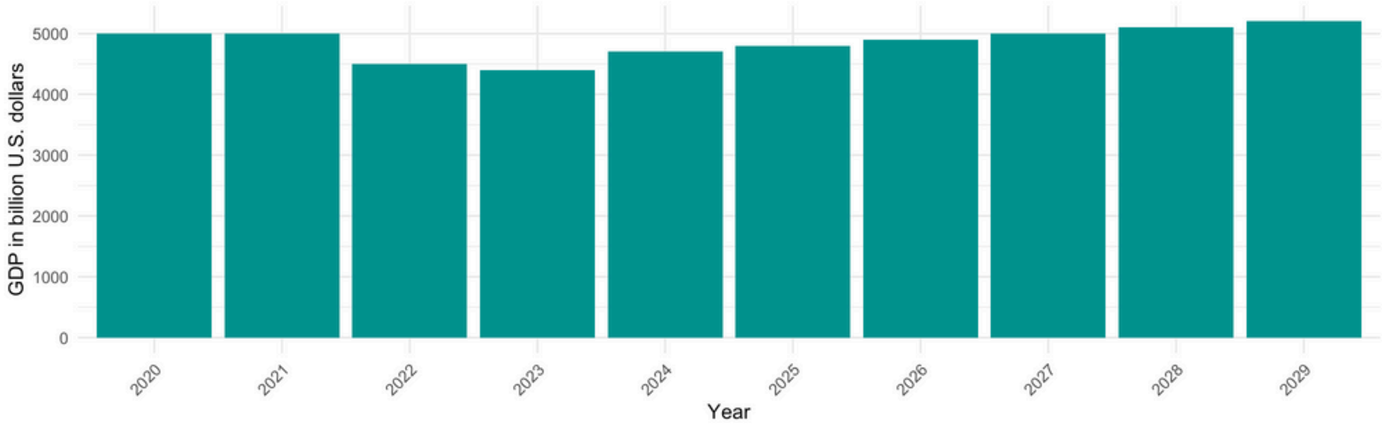
India's economic outlook remains optimistic, buoyed by strong fundamentals and strategic policies. Addressing structural challenges, enhancing private sector participation, and navigating global uncertainties are imperative for sustaining high growth rates. **Reforms in infrastructure, manufacturing, and fiscal management will be pivotal in realizing India's economic potential and fostering inclusive growth across society.**

Overview of **Japan**'s Economy

We believe that Japan is set to witness substantial growth in the upcoming years. The analysis of Japan's economy will primarily revolve around crucial indicators, including **Gross Domestic Product (GDP) across multiple sectors, Inflation and Monetary Policy, and Balance of Payments.**

Gross Domestic Product

In the previous three years, Japan has slipped from its position as the third-largest economy in the world to Germany, mainly due to a substantial drop in its GDP. Specifically, **GDP shrank at an annualized pace of 0.4%** in the last three months of 2023. The situation in Q1 of 2024 did not witness any improvement, with **Japan's GDP contracting by 0.5%** on a quarter-over-quarter basis. This contraction was mainly driven by a **decrease in capital spending and a decline in private consumption**, as highlighted by investing.com. Nevertheless, there is optimism that this situation will undergo a positive shift in the next few years. Thanks to a very **weak exchange rate**, exports grew strongly, and **business investments rebounded** in 2023. Japan's GDP is forecasted to grow in the next 4 years, pulled by the **car sector, technology sector**, and fast-growing **service sector**. In fact, based on a report by Reuters, the service sector in Japan experienced notable growth in March, reaching its **highest level in seven months**. This expansion was primarily driven by a **robust demand**, especially in the field of inbound tourism. The Jibun Bank Service Purchasing Managers' Index (PMI), which measures the economic performance of Japan's service sector through monthly surveys of private companies, **increased to 54.1 in March** from 52.9 in February. This marks the 19th consecutive month of growth, as reported by S&P Global Market Intelligence, the index publisher.

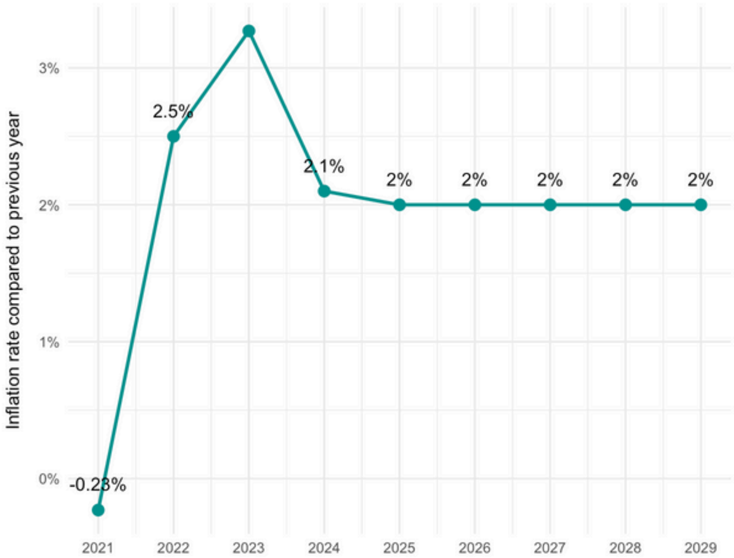


Inflation and Monetary Policy

Various factors, such as the worldwide COVID-19 crisis and Russia's incursion into Ukraine, contributed to elevated inflation rates across numerous nations starting in late 2021. In contrast, Japan's economy displayed a delayed response, registering **negative inflation in 2021** but subsequently transitioning to inflationary pressures from 2022 onwards, culminating in historically high levels.

The most recent data released on Friday, June 21, indicates that the **inflation rate in Japan stands at 2.8%**. This marks the first increase in inflation over the past three months, primarily attributed to the rise in **electricity prices**. With Japan **importing 94% of its base energy needs and 63% of its food**, the significant increase in the cost of living over the past year can be largely attributed to the weak exchange rate (CNN).

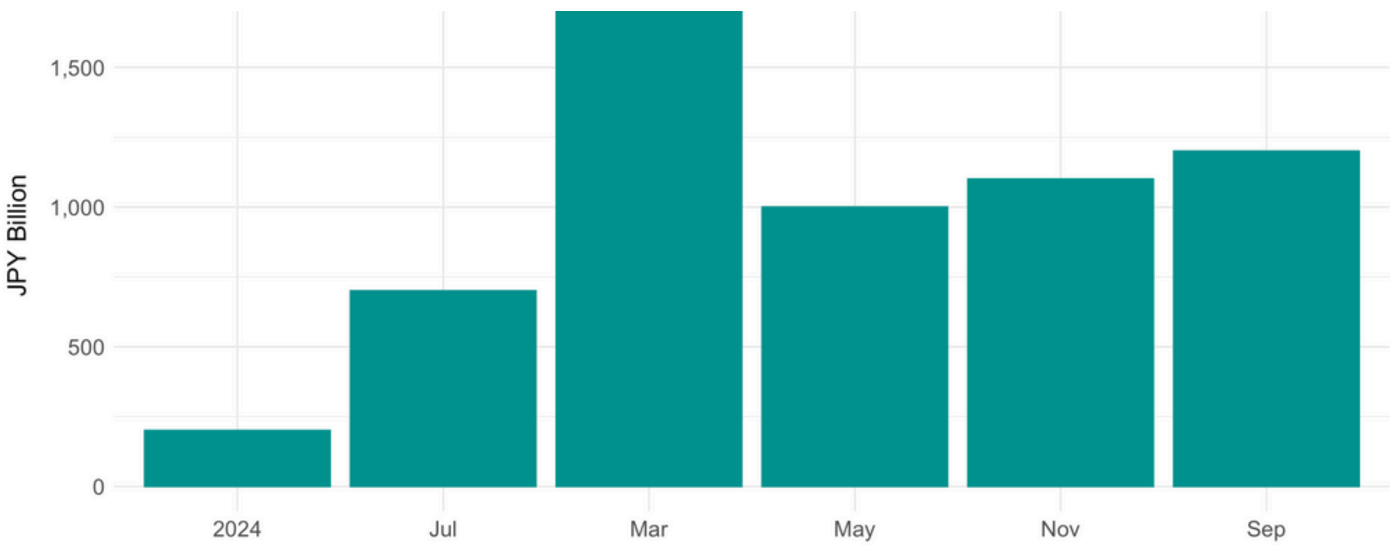
To help the population, the Bank of Japan has **increased the interest rates for the first time in 17 years to 0.0 per cent to 0.1 per cent** in order to help the yen appreciate reducing the cost of living. Usually, when a country raises interest rates, its currency appreciates. In the case of Japan's Yen, it did not happen; in late April, **it slipped to a 34-year low against the dollar**, trading at 160. Investor expectations are believed to be a significant factor contributing to the problem, according to a Deloitte



study. **The market had already factored in the rate increase** in Japan before the meeting, as it was widely anticipated. Also, US central bankers indicated that they anticipate fewer rate cuts than previously projected due to the unexpectedly strong US economy and inflation. These factors have likely played a role in the yen's decline. To bolster the yen, the BOJ may consider raising rates further. However, this approach risks excessively curbing inflation and potentially pushing Japan into a deflationary state once again.

<u>Balance of Payments</u>

In April 2024, Japan's Ministry of Finance reported a notable **rise in the country's current account surplus, reaching JPY 2,050.5 billion**. This surpassed the projected surplus of JPY 1,737.6 billion and marked the **15th consecutive month of surplus**. However, the **goods account recorded a deficit** of JPY 661.5 billion, with imports (JPY 9,089.7 billion) surpassing exports (JPY 8,428.2 billion). Additionally, the services account also exhibited a deficit of JPY 721.5 billion, which was worse than the deficit of JPY 557.8 billion reported during the same period last year. On the other hand, the primary income surplus witnessed a significant annual increase of 26.7%, totalling JPY 3,832.8 billion, while the secondary income incurred a deficit of JPY 399.3 billion (Trading economics).

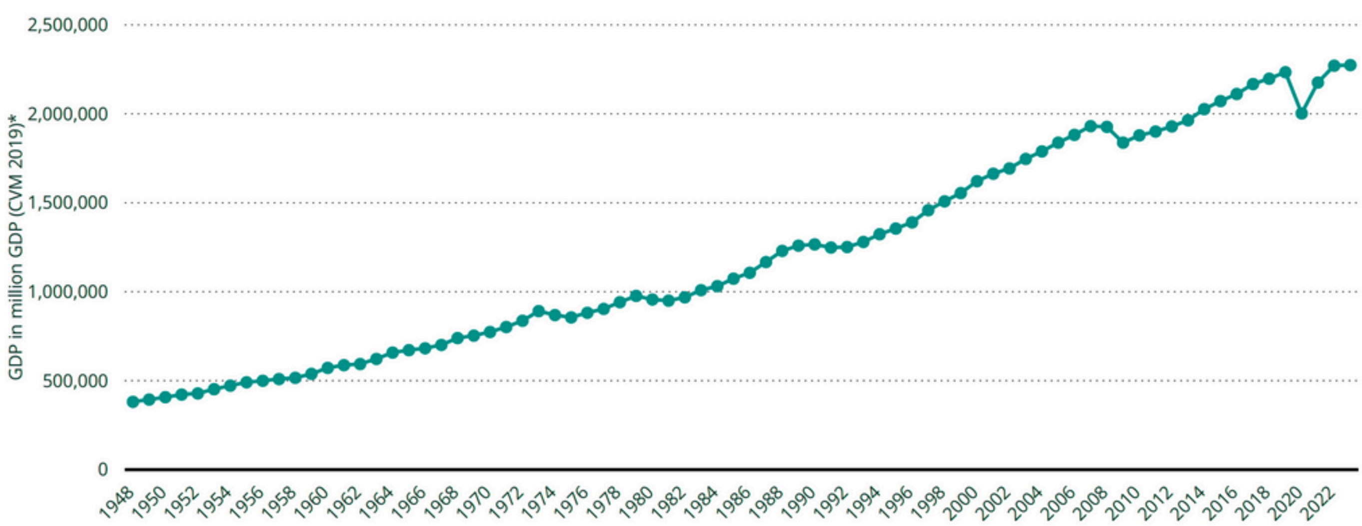


Overview on **UK**'s Economy

GDP growth rate

The UK's economic growth has been characterized by both strengths and challenges. In 2023, the UK's GDP per capita in terms of purchasing power parity was $57,214.5, reflecting its position as one of the largest and most developed economies in the EU. However, the economy faced a recession in the fourth quarter of 2023, with a 0.3% contraction following a 0.1% decline in the third quarter. The contraction was driven by decreases in the services and industrial sectors and lower household spending. The COVID-19 pandemic had a profound impact, causing a 10.4% contraction in 2020. The GDP for 2023 was 2.274 trillion GBP, a slight increase from the previous year. London remains the most economically productive region, with a GDP of over 508 billion GBP in 2022. Future forecasts predict a moderate GDP growth of 0.8% in 2024 and 1.9% in 2025.

GDP of the UK 1948-2023



GDP growth forecast for the UK 2000-2028

Inflation and Exchange Rates

Inflation in the UK has been volatile, peaking at 11.1% in October 2022 and decreasing to 2.5% in May 2024. This slowdown was evident in most sectors, although alcoholic beverages and tobacco remained the highest at 7.8%. The Bank of England has maintained a restrictive monetary policy, keeping the Bank Rate at 5.25% to control inflation.

Annual inflation rate of the Consumer Price Index UK 2000-2028

Unemployment

The UK's unemployment rate was 4.4% in March 2024, an increase from 3.9% in 2023. Employment has seen fluctuations, with around 33 million people employed in early 2024. Youth unemployment remains a concern, with the highest rate among 16-17 year-olds at 27.2% in April 2024. The employment rate was 74.3% in April 2024, slightly down from the previous year.

Fiscal and Monetary Policy

The UK government has implemented significant fiscal measures, including a GBP10 billion tax reduction to stimulate the economy. Government spending is projected to remain substantial to support various sectors, including infrastructure and green energy projects like the Inch Cape Offshore Wind Farm and Birmingham Logistic Complex, to drive economic growth and job creation. Monetary policy remains tight, with the Bank of England maintaining a high Bank Rate to control inflation

Overview on **UK**'s Economy

Balance of Payments

The UK's trade deficit decreased to GBP3.1 billion in January 2024. Despite this improvement, the high level of government debt poses a risk to economic stability. The national debt as a percentage of GDP is expected to remain elevated, requiring ongoing attention to avoid exacerbating macroeconomic imbalances. Public debt is forecasted to average 107.6% of GDP during 2024-2028.

Key Industries

The UK's economy is bolstered by robust sectors such as finance, technology, and manufacturing. London is a global financial hub, contributing significantly to the national GDP. The UK's innovation capacity is highlighted by its fourth-place ranking in the Global Innovation Index 2023. The technology sector is expanding rapidly, with significant investments like Microsoft's GBP2.5 billion in AI infrastructure. High-tech manufacturing also plays a critical role, supported by innovative advancements and skilled labour.

Developments and Forecasts

Ongoing infrastructure projects, trade agreements, and investments in renewable energy are expected to drive economic growth. The UK aims to diversify its trade partners to mitigate risks associated with economic dependencies. Additionally, efforts to reduce carbon emissions and promote green technologies are integral part of future economic strategies.

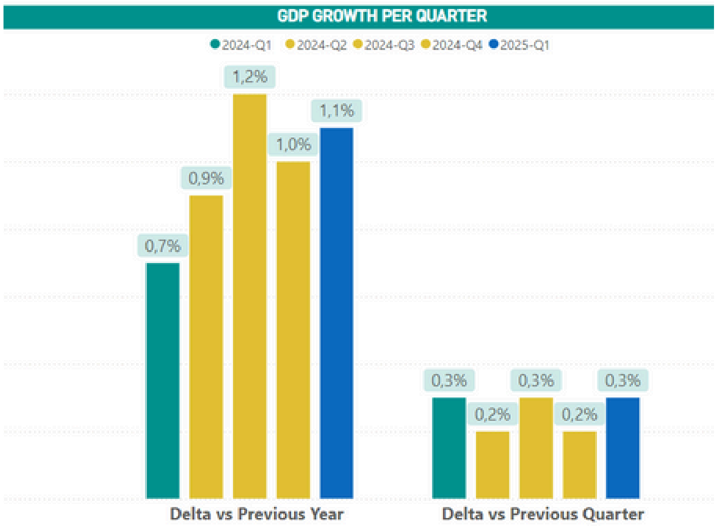
Our outlook

The UK's economy demonstrates resilience but faces challenges such as high public debt, inflation, and unemployment, especially among the youth. Strategic investments in technology and infrastructure, along with prudent fiscal and monetary policies, are crucial for sustained growth. Diversifying trade relationships and focusing on green technologies will support the UK's transition to a more resilient and sustainable economy.

Overview on **Italian**'s Economy

GDP Forecasts

The European Commission forecasts a growth of **Italy's GDP** by **0.7% in 2024** and **1.1% in 2025**. These values have been revised down from previous forecasts due to **geopolitical uncertainty**, **rising shipping costs**, and **supply chain bottlenecks**. Additionally, the investments planned within the framework of the National Recovery and Resilience Plan (PNRR) will play a significant role in supporting growth



Labor Market

The unemployment rate in Italy is expected to decrease, from **7.7%** in **2023** to **7.5%** in **2024** and **7.3%** in **2025**. Employment is expected to grow by **0.8%** in **2024** and by **0.4%** in **2025**, indicating a moderate recovery in the labor market. According to ISTAT, the **unemployment rate** already dropped to **6.9%** in **April 2024**, reflecting a positive trend in the labor market.

Fiscal and Monetary Policy

Italy's **fiscal policy** anticipates a reduction in the **deficit** from **7.4% of GDP** in **2023** to **4.4%** in **2024**, before rising again to **4.7%** in **2025**. **Public debt** is expected to increase from **137.3% of GDP** in **2023** to **138.6%** in **2024** and **141.7%** in **2025**. Monetarily, the ECB may begin cutting interest rates to control inflation, which is expected to remain around the 2% target

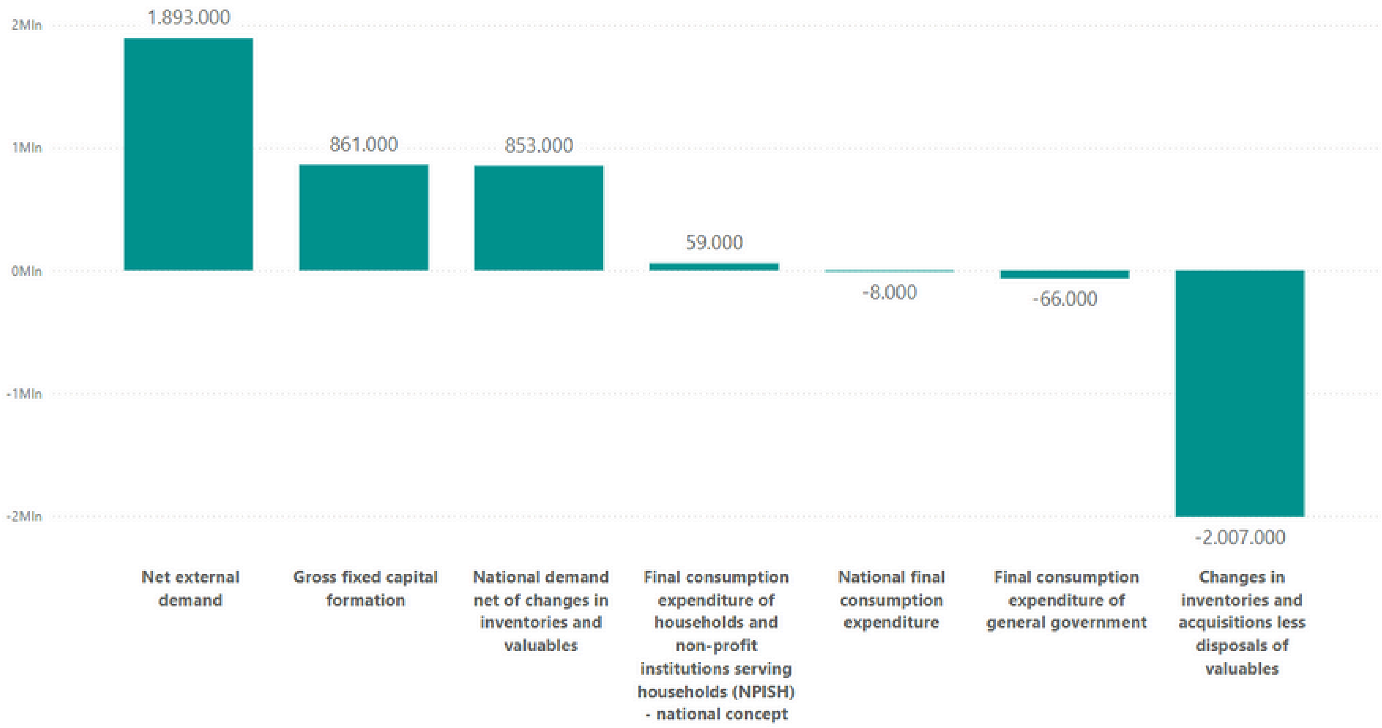
Inflation Rates

Inflation in Italy is expected to decline from the high levels of 2023. For **2024**, a rate of **2%** is anticipated, while for **2025**, a slight increase to **2.3%** is expected, mainly due to anticipated **wage increases**, especially in the public sector. According to ISTAT, inflation reached **5.2%** in **2023**, but is expected to gradually return to levels closer to the ECB's targets in 2024 and 2025.

Trade Balance

Italy's trade balance has shown a **positive balance** in recent months. In April 2024, the trade surplus was **4.807 billion euros**, exceeding expectations. This result was achieved thanks to a **3.4% increase** in **exports** compared to the previous month, while **imports decreased by 0.6%**. According to ISTAT, the positive trade balance reflects robust foreign demand for Italian products despite global challenges.

GROWTH/DECLINE OF REAL GDP vs Q1 PREVIOUS YEAR- VARIABLES



GROWTH/DECLINE OF REAL GDP vs PREVIOUS QUARTER- VARIABLES

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Overview of Italian's Economy:

ISTAT - GDP Growth Forecasts
ISTAT - Inflation Situation
ISTAT - Labor Market
ISTAT - Fiscal and Monetary Policy
ISTAT - Trade Balance

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