Market Update

- Growth
- Inflation
- Financial Markets
- Potential risk factors (in 2016)
GDP annual growth (IMF Outlook)

<table>
<thead>
<tr>
<th>IMF outlook 2015</th>
<th>April</th>
<th>October</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>+3.5%</td>
<td>+3.1%</td>
</tr>
<tr>
<td>U.S.</td>
<td>+3.1%</td>
<td>+2.6%</td>
</tr>
<tr>
<td>Brazil</td>
<td>-1%</td>
<td>-3%</td>
</tr>
<tr>
<td>Eurozone</td>
<td>1.5%</td>
<td>1.5%</td>
</tr>
<tr>
<td>China</td>
<td>7.0%</td>
<td>6.8%</td>
</tr>
<tr>
<td>Japan</td>
<td>1.0%</td>
<td>0.6%</td>
</tr>
</tbody>
</table>

During the summer most forecasters downgraded their forecast for global GDP growth due to the slowdown in China and other emerging economies.

Source: IMF
Growth

Q2-Q3 GDP in the eurozone: towards a broader based recovery

Source: Factset
Export growth has stalled in September

Source: Factset
Lending growth is firmly back in positive territory

Source: Factset
Finally positive job growth in the majority of EA countries

Source: Factset
Growth

Growth of real wages to support consumer spending going forward

Source: Factset
Capacity utilisation: the slack is slowly shrinking

Source: Factset
EZ/U.S.: direct impact of the China slowdown on GDP should be limited...

**Graph 1:** Top 20 exports markets of the EU (% of total)

- Germany 18%
- France 10%
- Spain 5%
- China 5%
- Italy 6%
- US 9%
- UK 8%
- Nether 6%
- Belgium 7%
- Others 26%

**Graph 2:** Most important contributors to US exports

- Canada 25%
- Mexico 19%
- Brazil 4%
- UK 4%
- Germany 4%
- South Korea 4%
- China 14%
- Japan 7%
- Others 19%

**Graph 3:** Evolution of Eurozone exports to China

**Graph 4:** Evolution of US exports to China

*Source: Bloomberg, Belfius Capital Market Research*
Market Update

- Growth
- Inflation
- Financial Markets
- Potential risk factors (in 2016)
Inflation

... but the slowdown in China is weighing on inflation through import prices.

Source: Factset
Inflation expectations in the U.S. are rising gently but surely.

The latest U.S. labor report showed growth in hourly earnings rising to a +2.5% yoy pace in October.

Source: Factset
In the eurozone, inflation expectations have settled lower in Q4.

Medium-term inflation expectations have slipped lower since the summer on the back of weak Chinese growth data and low commodity prices.
Market Update

- Growth
- Inflation
- Financial Markets
- Potential risk factors (in 2016)
Financial Markets

FRAs already pricing in a lower deposit facility

Source: Factset
The positive correlation between excess liquidity and negative interest rates has weakened somewhat lately but is still significant.
Financial Markets

Monetary policy divergence between ECB and FED - Futures

Source: Bloomberg
Financial Markets

Monetary policy divergence between ECB and FED – FX swaps

FX Swap 3M EUR/USD moved higher

Source: Bloomberg
Financial Markets

Monetary policy divergence between ECB and FED – XCCY 5YR EUR USD

Source: Bloomberg
Monetary policy divergence between ECB and FED – XCCY 5YR EUR USD

Source: Bloomberg
Financial Markets

€ cheapens to July levels on the back of Paris attacks and Fed policy outlook

Source: Factset
Monetary conditions in the eurozone have eased in 2015 on the back of the weaker euro but the contribution of real short-term interest rates is roughly the same as in 2014.
Financial Markets

European Government Bonds anticipated new measures

Source: Bloomberg
Financial Markets

Monetary policy divergence US vs Eurozone translates to lower bond correlation

Source: Factset
Financial Markets

Stock markets in Japan and Europe performed better this year

Source: Bloomberg
Financial Markets

Oil price outlook remains weak but impact on inflation is fading fast

Source: Factset
Market Update

- Growth
- Inflation
- Financial Markets
- Potential risk factors (in 2016)
Potential risk factors (in 2016)

Can the Fed reduce its balance sheet in a controlled and orderly fashion?

Source: Factset
Potential risk factors (in 2016)

China: too high too fast?

Source: Factset
Potential risk factors (in 2016)

Will Chinese and emerging Asia GDP growth be strong enough to service debt?

Source: Factset