



Belt & Road (B&R) Economic Health Update – October 2017

Growth conditions remain positive as monetary conditions loosen

Key findings bullet points:

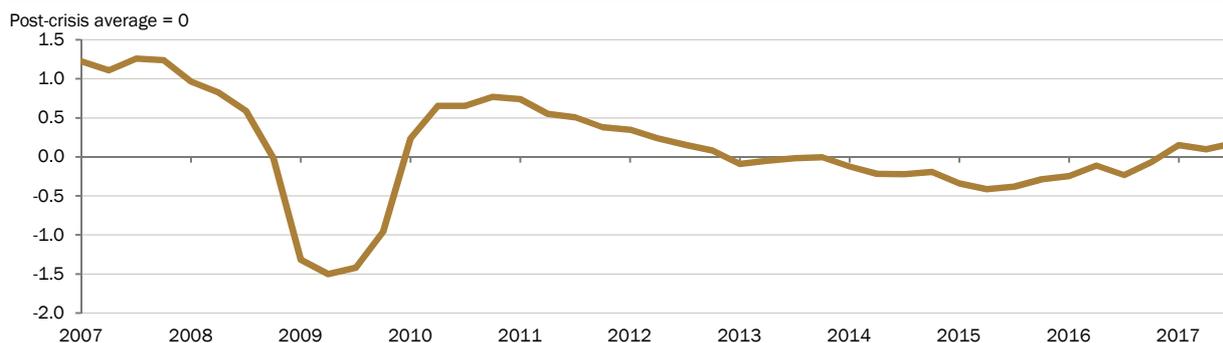
- Our tracker of total demand suggests that growth gained momentum in Q3 led by a strong pickup in domestic demand whilst external conditions remain relatively buoyant.
- The projected increase in growth is fairly broad based although the strongest quarterly movements could be found in the CEE and CIS regions.
- Monetary conditions loosened a little over the past month led by a strong pick-up in consumer lending. The rate of increase in consumer credit growth has been strongest in the CIS but much of this reflects base effects following a very weak 2016.

B&R growth forecast to pick up in Q3 as global environment remains supportive

Our bespoke monitor of total demand across the B&R picked up in Q3 on the back of projected stronger domestic demand (Figure 1). On the other hand, our measure of external demand based on trade-weighted projections of import growth in partner economies stabilised but remained at an historically high level by post-crisis standards, consistent with a general narrative which suggests that global tailwinds have strengthened notably this year. Although the quarterly increase in our measure of total demand was by no means exceptional, it is worth contextualising that this comes from an above-average base and our measure has now reached its highest point since 2012 Q2.

Digging down increasing momentum was evident across all regions of the B&R with the exception of MENA. The movement in domestic demand was particularly strong in the CEE and the CIS. In a few cases this is likely to have reflected the temporary effects of the inventory cycle which dragged on growth in Q2—Macedonia are Georgia are prominent examples here—but, in general, we anticipate that this uptick in growth had relatively solid foundations.

Figure 1: Total demand across the B&R region



Source: Oxford Economics

Monetary conditions loosen driven by faster credit growth

Monetary conditions in the B&R loosened over the past month led by a bounce in credit growth consistent with the stronger growth picture that has emerged in Q3. Consumer credit growth has led the way but there are some signs of a gradual rebound in business credit growth, after adjusting for a few outlier countries, mainly in the CIS region. On the policy front, the majority of recent moves in policy rates have been down (Belarus, Indonesia, Kazakhstan, Russia and Serbia have all cut since August), despite a backdrop of rising inflation.

Although real interest rates edged down on average across the B&R the strongest movement across our four sub-components was in consumer credit (Figure 2), with growth rising for a sixth consecutive month albeit that the size of the month-on-month increase in growth fell back slightly compared to last month. Business lending growth also picked up modestly last month but remains more subdued overall and has failed to show the same consistent momentum compared to consumer credit.

Consumer momentum strongest in the CIS although base effects at work

Focusing on consumer credit, the most striking recent trends have been centred on the CIS where since Q1 median annual growth has picked up by 7.0 percentage points in real terms with no region close to matching this dynamic (Figure 3). To some extent this momentum reflects the artificial impact of base effects—consumer credit across much of the CIS contracted sharply last year in real terms which has naturally flattered the trajectory of growth this year. Therefore, we do not expect this momentum to be sustained much beyond Q4.

Figure 2: Change in monetary conditions by component – B&R

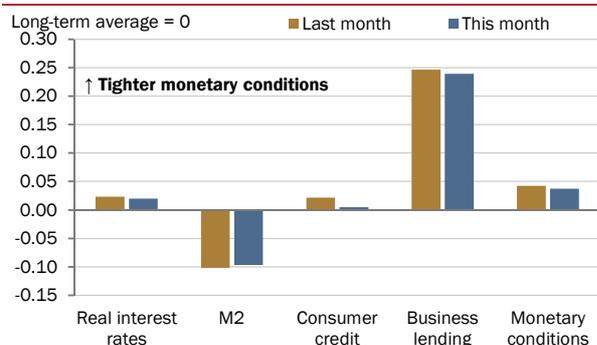
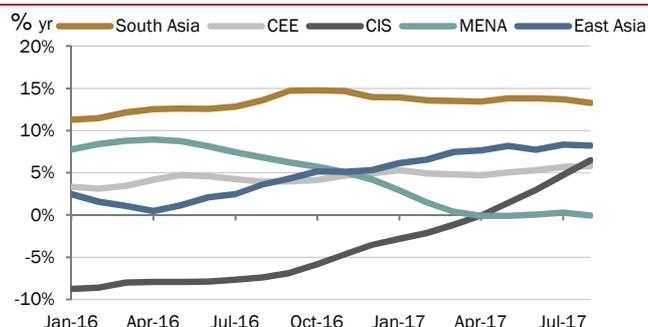


Figure 3: Average real consumer credit growth by B&R region¹



Source: Oxford Economics

About ICBC Standard Bank Plc

ICBC Standard Bank is a leading financial markets and commodities bank operating across both developed and emerging economies. ICBC Standard Bank Plc was formed in February 2015 when Industrial and Commercial Bank of China Limited (ICBC) acquired a 60% stake in Standard Bank Plc’s Global Markets business. As a result, a compelling strategic platform was formed, one that benefits from a unique Chinese and African parentage and an unrivalled global network and level of expertise.

ICBC Standard Bank Plc is a strategic platform for serving the growing demands of our clients in Global Markets products. We specialise in global commodities, fixed income, currencies and equities.

Headquartered in London, ICBC Standard Bank Plc also has operations in Dubai, Hong Kong, Shanghai, Singapore, New York, and Tokyo.

For general queries related to the results please contact:
 Gary Licht, gary.Licht@icbcstandard.com, +44(0) 203 145 6704
 Helena Huang, helena.huang@icbcstandard.com, +44(0)203 145 6511

For technical queries related to the modelling please contact
 Henry Worthington, hworthington@oxfordeconomics.com, +44(0) 203 910 8061

¹ CIS numbers exclude Azerbaijan and Ukraine due to distortionary outlier effects.

Disclaimer

This is a marketing communication which has been prepared by ICBC Standard Bank Plc (ICBCS) working in conjunction with Oxford Economics, and is provided for informational purposes only.

The Belt and Road Economic Health Index and China Connectivity Index (“Indexes”) are non-financial custom indexes designed and calculated by Oxford Economics for, and as requested by ICBCS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of ICBCS, and in particular may not be used as a basis for or a component of any financial instruments or products or indices. The material does not constitute, nor should it be regarded as, investment research. It has not been prepared in accordance with the full legal requirements designed to promote independence of research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

Additional information with respect to any data modelling or analysis referred to herein may be made available on request. This material is for the general information of institutional and market professional clients of ICBCS and should not be considered to be investment advice. The information, tools and material presented in this marketing communication are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities, commodities or other financial instruments, or to participate in any particular trading strategy, nor shall it, or the fact of its distribution, form the basis of, or be relied upon in connection with, any contract relating to such action. This material is based on information that we consider reliable, but ICBCS does not warrant or represent (expressly or impliedly) that it is accurate, complete, not misleading or as to its fitness for the purpose intended and it should not be relied upon as such. ICBCS accepts no liability for loss, either directly or indirectly, arising from the use of the material presented in this communication, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to ICBCS. The information and opinions contained in this document were produced by ICBCS as per the date stated and may be subject to change without prior notification. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update the material in this report on a timely basis, but regulatory compliance or other reasons may prevent us from doing so.

All trademarks, service marks and logos used in this communication are trademarks or service marks or registered trademarks or service marks of ICBCS or Oxford Economics.

This communication is distributed by ICBC Standard Bank Plc, 20 Gresham Street, London EC2V 7JE which is authorised by the Prudential Regulation Authority (“PRA”) and regulated by the PRA and the Financial Conduct Authority (“FCA”).

Copyright 2017 ICBC Standard. All rights reserved.