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

Growth momentum evident as MENA remains countercyclical

Key findings bullet points:

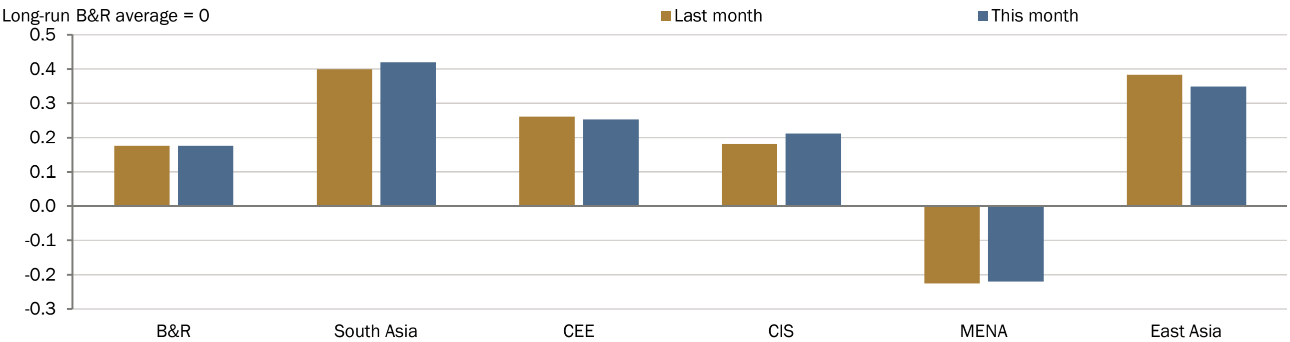
- Data releases over the past month have reinforced our view that growth picked up on average in Q3 across the B&R, led by stronger domestic demand.
- Monetary conditions loosened further over the past month with the biggest single month movement since March. The loosening was driven by a continued uptick in lending growth, particularly on the consumer side where growth reached its highest point for over 2 ½ years.
- Recent data releases point to a renewed acceleration in MENA divergence with all other regions displaying signs of strengthening activity.

Further evidence of strengthening growth

Further data releases including a batch of GDP expenditure releases have reinforced our view that growth picked up in the B&R during Q3 led by domestic demand. Our bespoke tracker of external demand still points to the most buoyant trading conditions since 2011 whilst we broadly retain our view that domestic demand growth picked up by approximately 0.5 percentage points across the B&R compared to Q2.

The outlook for growth overall remains largely unchanged with modest upgrades on average in South Asia and the CIS being offset by slight downgrades in the CEE and East Asia. Meanwhile, we still expect MENA to emerge as a significant regional laggard, a trend that is validated by significant differences in credit growth (described in more detail below).

Figure 1: Change in projected total demand growth in the B&R in Q3

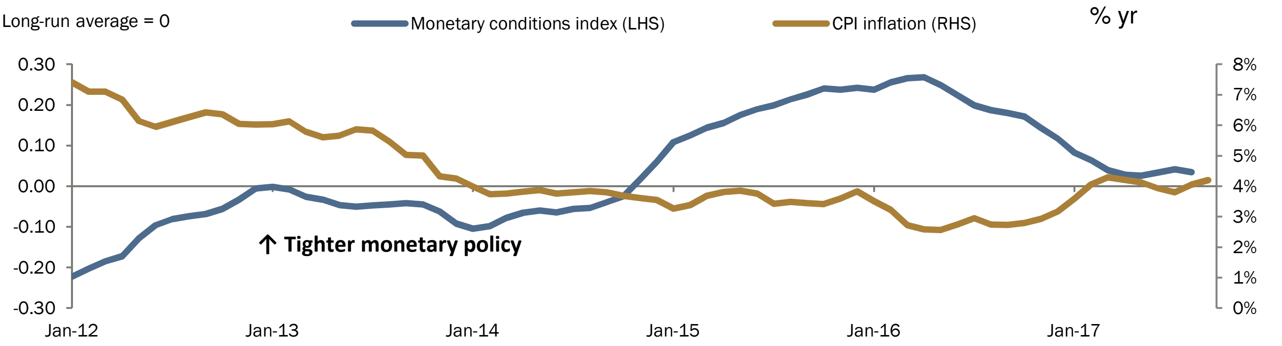


Source: Oxford Economics, Haver Analytics

Monetary conditions loosen modestly led by consumer credit growth

High frequency data on both consumer and business credit corroborate the predicted pickup in domestic demand growth in Q3. Growth of both measures has risen consistently in recent months consistent with the strengthening of activity captured in our domestic demand tracker. The data suggests that this has been more of a demand side phenomenon with relatively little active assistance from policymakers—overall monetary growth has remained stable in recent months whilst the very modest decline in real interest rates has been led by a pickup in inflation rather than active policy. Consumer credit again led the way reaching its highest growth rate in over 2 ½ years.

Figure 2: Monetary conditions and CPI inflation in B&R



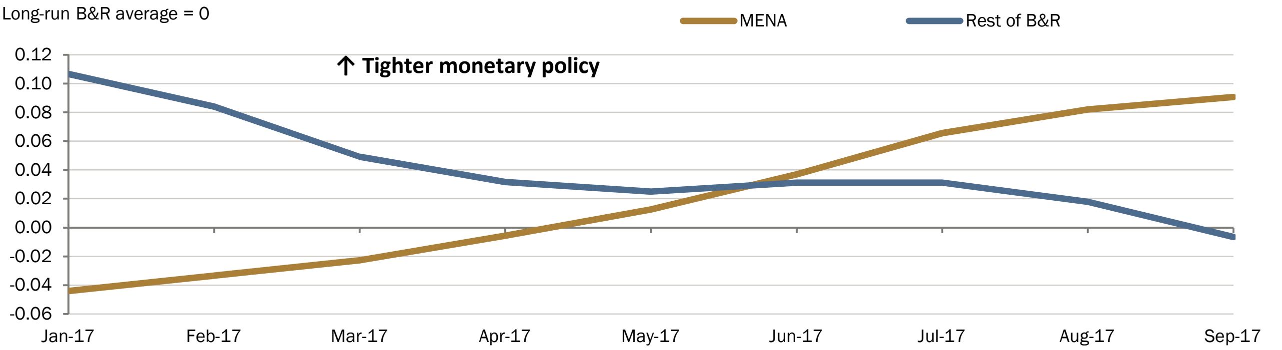
Source: Oxford Economics, Haver Analytics

MENA continues to diverge from the rest of the B&R

Although the overall shift in monetary conditions over the past month was modest, this concealed accelerated regional divergence. As Figure 2 makes clear, the trend in monetary conditions in MENA has diverged sharply from the rest of the region this year. This is in sharp contrast to the post-crisis pattern—since 2011, up until this year, there has been a strong co-movement between conditions in MENA and the rest of B&R.

Much of this divergence reflects differences in credit cycles reflecting the relative trajectories of growth. However, policy has also accentuated this trend. Policy rates have risen in over 2/3 of MENA economies covered in our tracker this year. In contrast, following a period of relative stability monetary conditions loosened sharply over the past month in the rest of the B&R with policy rate cuts in a diverse range of countries including Bangladesh, Indonesia, Russia and Serbia.

Figure 2: Monetary conditions this year, MENA vs rest of B&R



Source: Oxford Economics, Haver Analytics

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

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.

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").