

# Global Outlook Amid International Policy Uncertainty

## Momento Clave en Argentina y el Mundo

James McCormack

August 2019



**Fitch**Ratings

# Contents

---

Key Messages

---

Global Economic Outlook – US, China

---

Global Rating Outlook

---

China-US Trade War

---

Political and Geopolitical Risks

---

Latin America Sovereign Rating History

---

# Global Outlook – Key Messages August 2019

## Forecasts and Assumptions

## Key Risks and Considerations

### Global Economic Growth

- Slowing but no recession
- Weakness in Europe
- Risks to the downside

### Trade War

- Restrictions and uncertainty
- Momentum already weak
- What is next?

### Global Macro Policy

- Pressure on central banks
- Exchange rates?
- Fiscal space varies

### US Dollar

- USD strength is biggest EM risk globally

### Global Capital Markets

- Distorted by central banks
- Negative yielding debt

### Politics and Geopolitics

- Requires investors' ongoing attention

# Global Economic Outlook – This is Not (yet) a Recession

## Forecasts and Assumptions



- Investment spending key
- Labour market strong
- Trade/production weaker




- Growth target intact
- Credit growing again
- A lot of policy options



- Germany open to trade
- Domestic demand still ok
- ECB will act

## Eurozone is a Weak Spot

### Global Economic Forecast (as of June 2019)

	2018	2019	2020
<b>GDP Growth</b>			
World	3.2	2.8	2.7
US	2.9	2.4	1.8
China	6.6	6.2	6.0
Eurozone	1.9	1.2	1.3
Argentina 	-2.5	-1.7	1.5
Brazil	1.1	1.0	2.2
Mexico	2.0	1.0	1.8
Oil (Brent, \$/bbl)	71.6	65.0	62.5
Fed Funds (% , year-end)	2.5	2.25	2.25

### Trade War Escalation GDP Impact (not in current forecast)

If 25% tariffs are imposed on all US imports from China, 2020 growth:

- World 2.3%
- US 1.3%
- China 5.2%

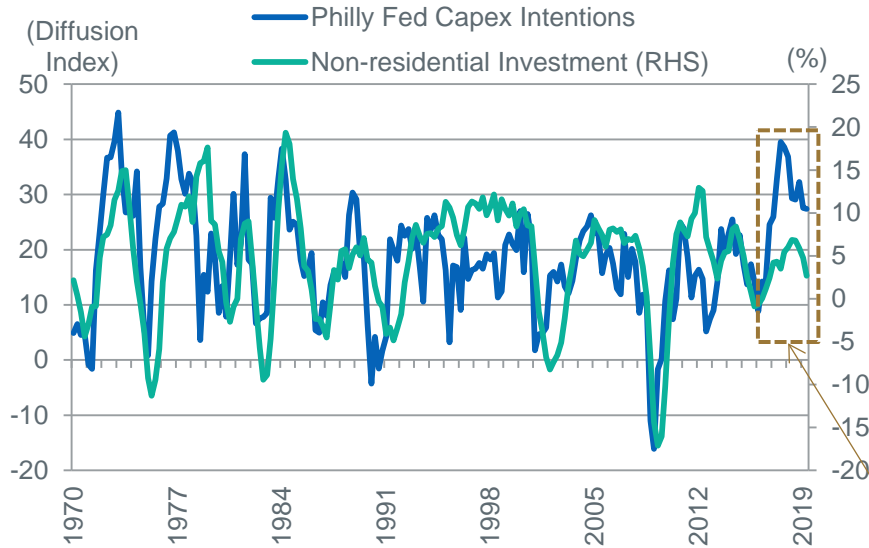
Source: Haver, Fitch Ratings, August 2019

# US – Investment Bears Watching for Slowdown Risk



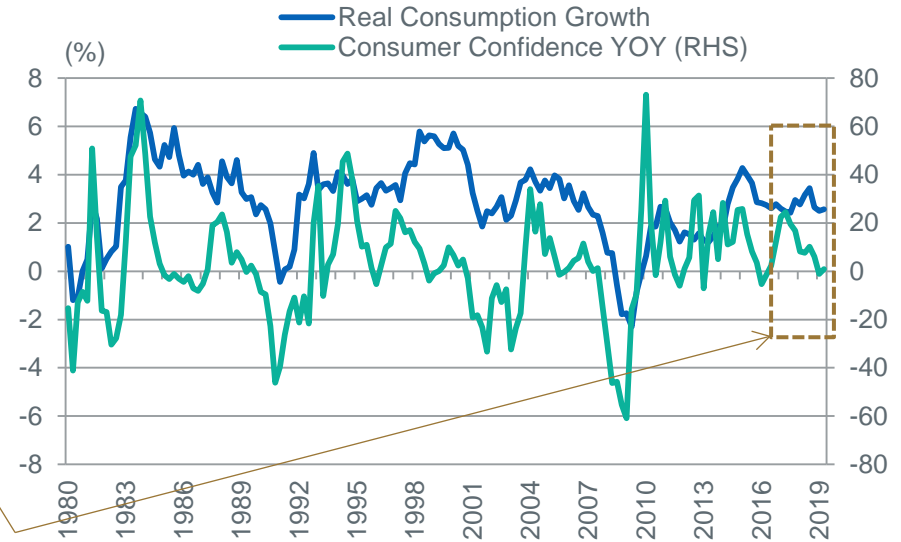
## Capex Intentions Not Matched by Spending

### Investment Intentions and Investment Spending



## No Sign of Consumption Growth Slowing Yet

### Real Consumption versus Consumer Confidence



Trump Administration

- Investment intentions are still high....
- But investment spending has fallen below its long-term average

- Consumer confidence has deteriorated
- But real spending is holding up, consistently more than 2% year/year

Source: Haver, Fitch Ratings, August 2019

# China – Credit Growth is Coming Back Again

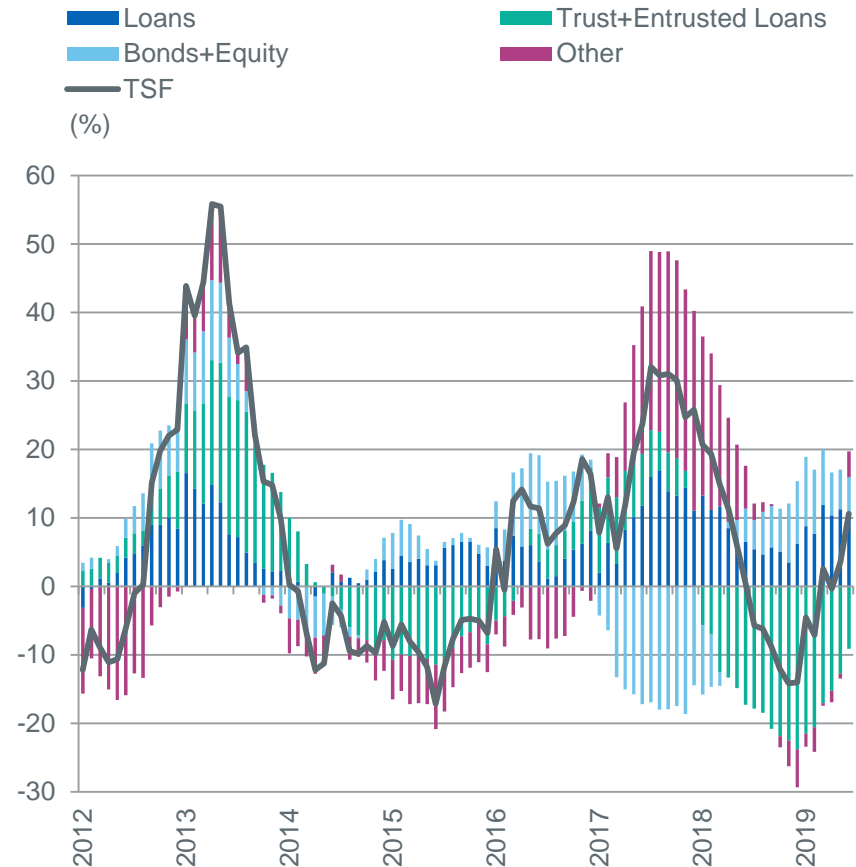


## De-leveraging Versus De-risking

- Economy-wide de-leveraging requires credit to grow slower than GDP
- Regulatory focus is now on reducing financial risk, not necessarily on slowing credit growth
  - Intention to allow growth of ‘better quality’ credit
- One consequence is more ‘on-balance-sheet’ lending by banks
- Bank lending growth picking up over the last year, much of it to the household sector
- In our view, macro imbalances associated with high credit/GDP are a rating risk

## Bank Loans Growing Faster than GDP

### Total Social Financing Growth (year/year)



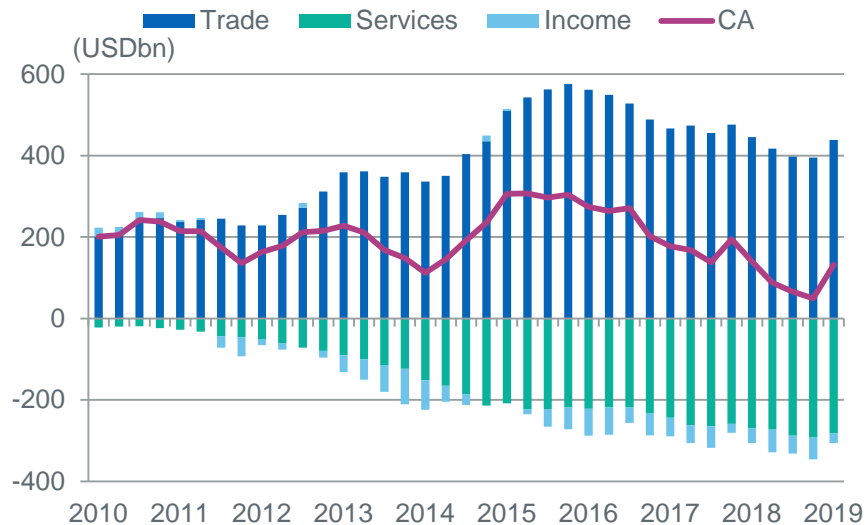
Source: Haver, Fitch Ratings, August 2019

# China – From Capital Exporter to Capital Importer, Soon



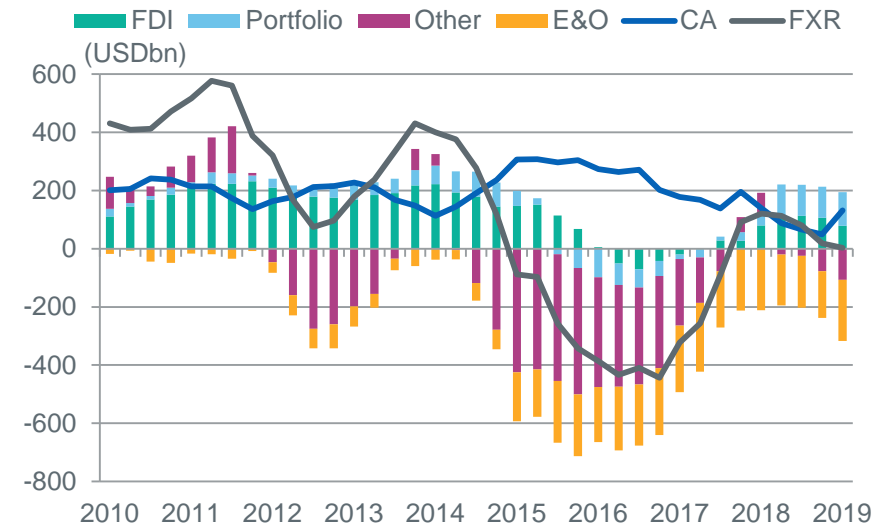
## The Current Account Surplus Soon Gone

### Current Account (4-quarter sum)



## China Will Need Capital Inflows

### Capital Account (4-quarter sum)



- The trade surplus is still big, but the services deficit is large and growing
- Chinese tourists are contributing to a large services deficit
- The current account will be in deficit soon

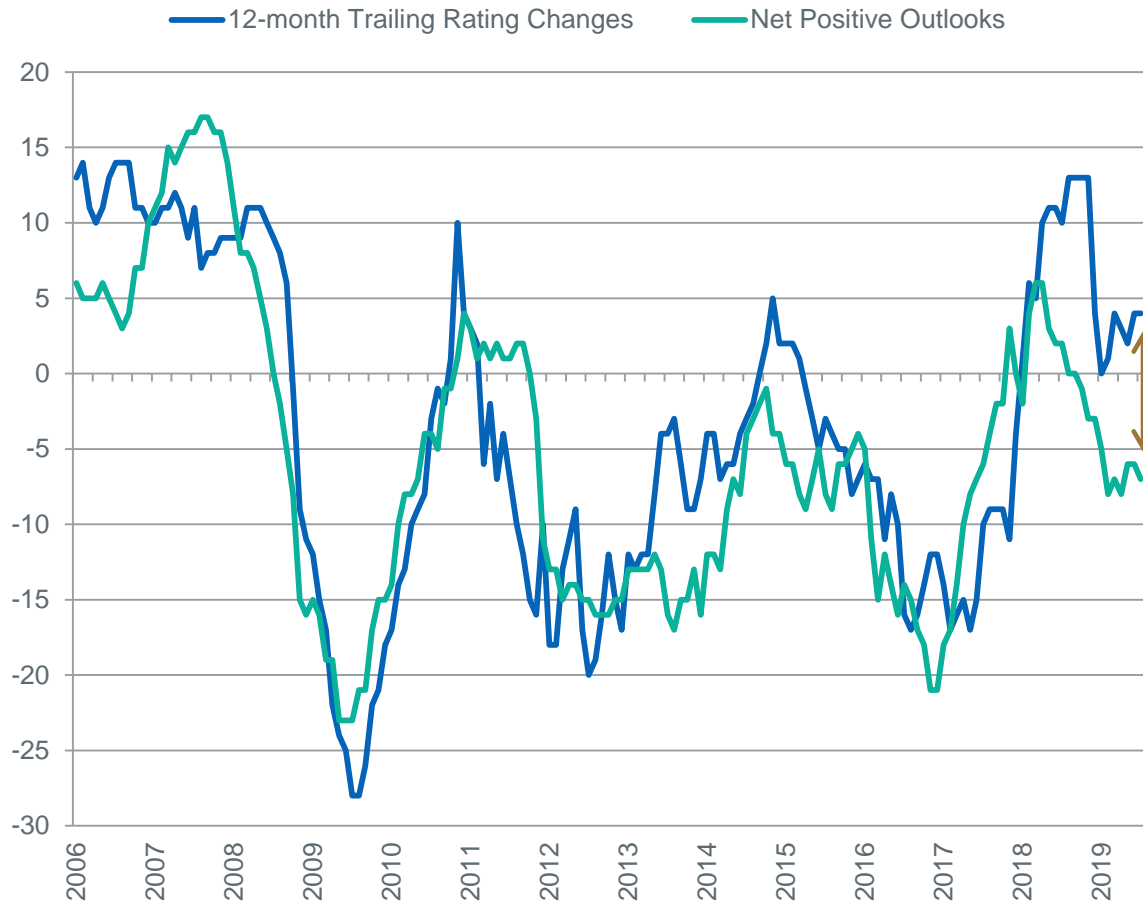
- With a current account deficit, China will need capital inflows
- Recent inflows have been in equities & bonds
- If capital inflows don't materialise, downward pressure on the exchange rate will follow

Source: Haver, Fitch Ratings, August 2019

# Global Rating Outlook – Momentum Pointing Down

## Rating Actions Positive in Last Year, But Outlooks Point Down

Rating Changes in Last 12 Months, and Net Positive Outlooks



## Current Outlooks

As of early August 2019

- 19 Negative Outlooks
- 12 Positive Outlooks

Outlook durations (average)

- Negative 8.5 months
- Positive 11.5 months

Outlook durations (current)

- Negative 7.5 months
- Positive 8.5 months

Expect more downgrades than upgrades for remainder of 2019

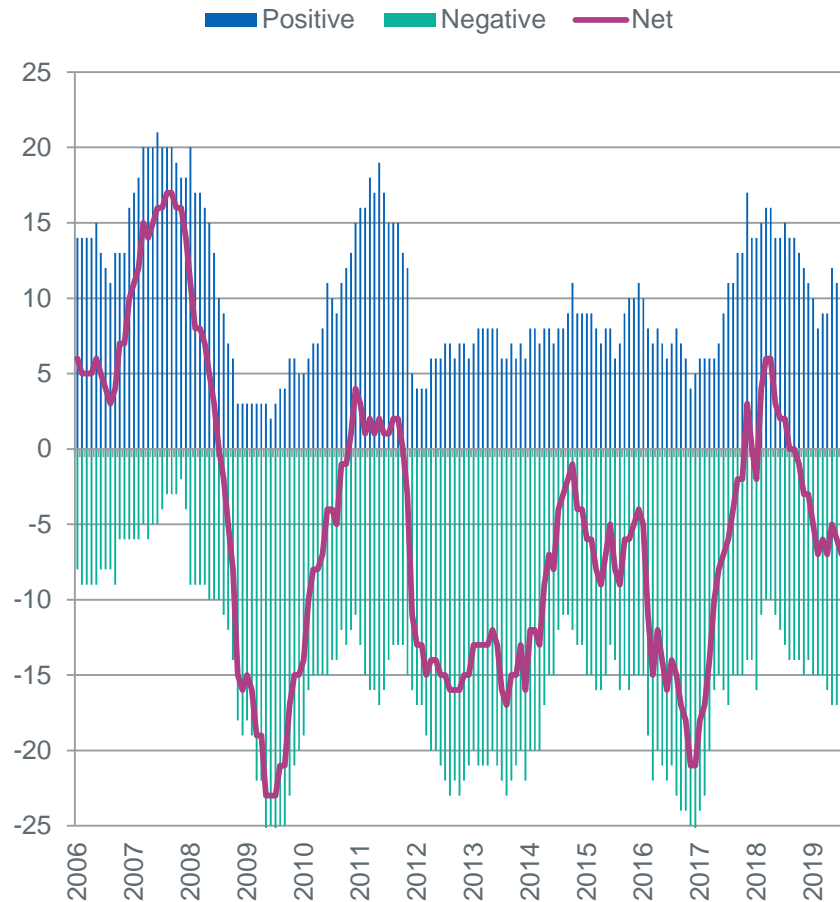
Source: Fitch Ratings, August 2019



# Global Rating Outlook – Latin America Worst Positioned

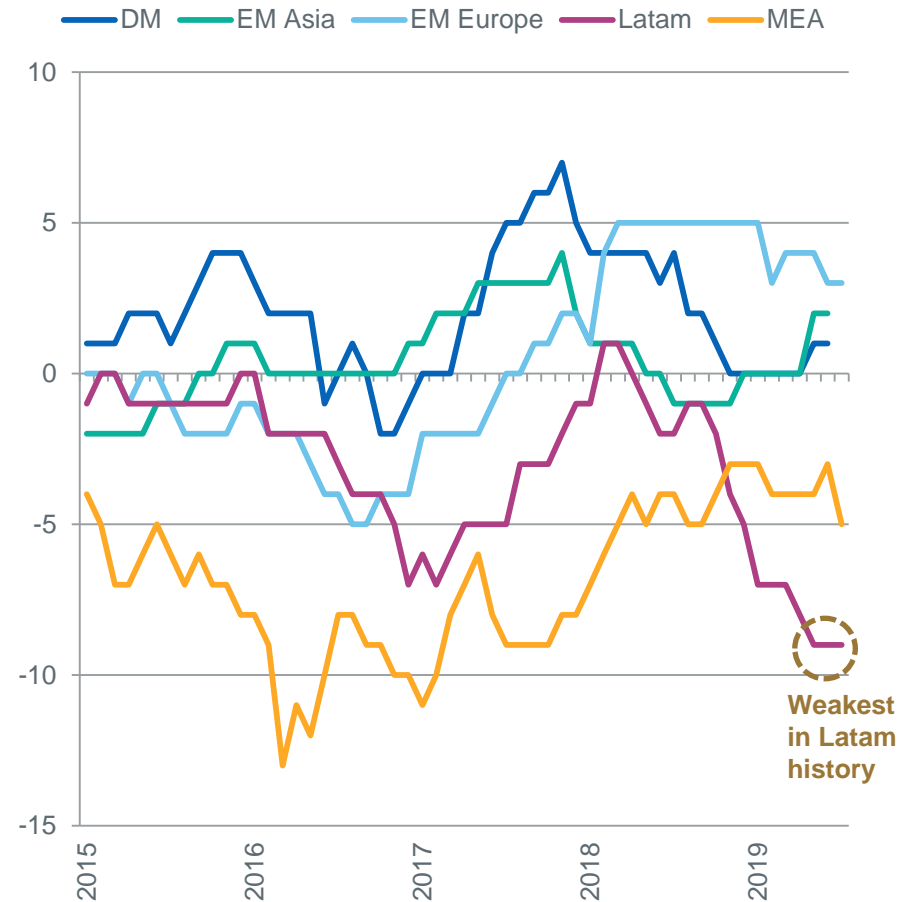
## Net Outlooks Back into Negative Territory

### Sovereigns on Positive and Negative Outlook



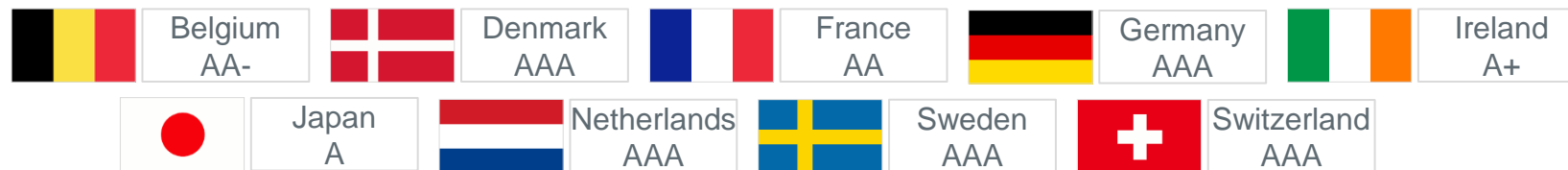
## Latin America Leads in Negative Outlooks

### Net Positive Outlooks by Region



Source: Fitch Ratings, August 2019

# Global Rating Outlook – Negative Yielding Debt



Global debt trading with negative yields to maturity is about USD15 trillion  
There are 9 sovereigns with 10-year yields at less than zero

## Positive Rating Considerations

- Lower government interest service burdens are positive for creditworthiness and reduce government spending
- Better government debt dynamics, since interest rates are lower than GDP growth

## Negative Rating Considerations

- In most cases, the interest savings have already been spent, resulting in no improvement in overall fiscal positions
- If structural factors contributing to low rates are weak productivity and unfavourable demographics, MT fiscal pressures to follow
- Encourages more borrowing, and government debt levels are already high

# China-US Trade War – What Comes Next?

## Four Developments to Watch

### 1 China will slow the negotiations

- Why rush when there is an election in the US in 2020?

### 2 US domestic criticism will grow

- More frustrations as growth slows; like Brexit, domestic disagreements affect sentiment

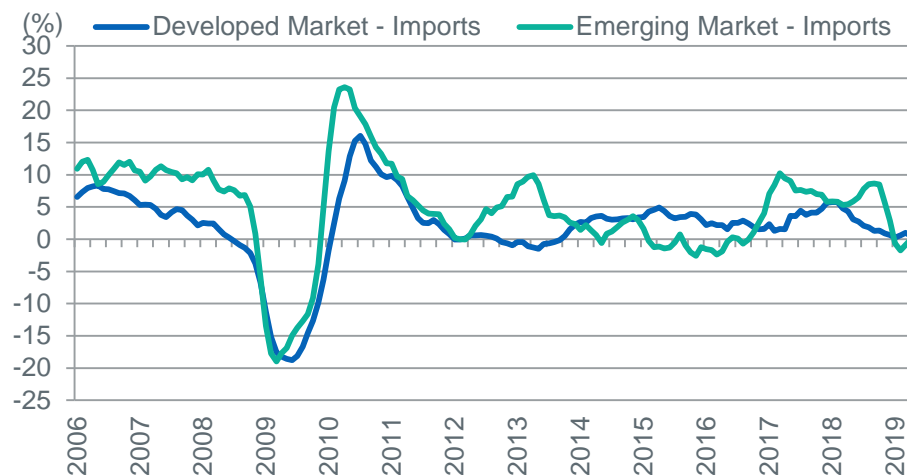
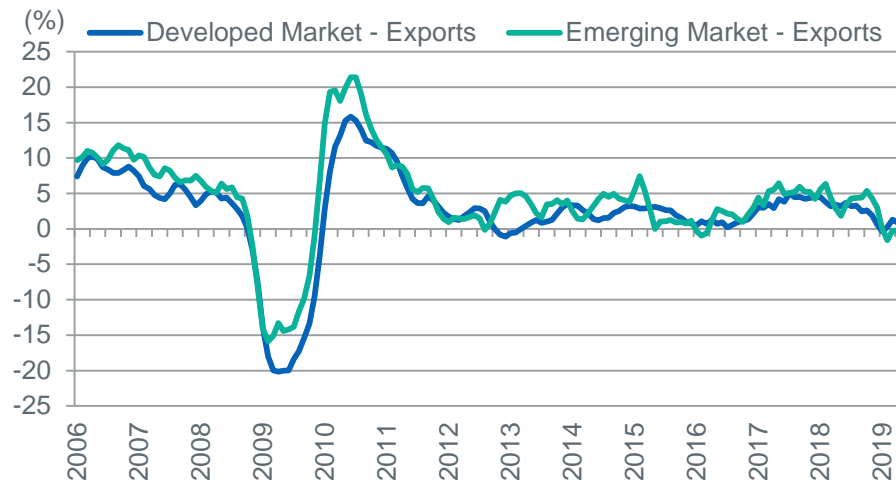
### 3 More talk about exchange rate intervention

- Treasury (and thus President) exerts more control over policy than the Federal Reserve

### 4 Global trade relations follow the US example

- Trade policy caught up in nationalism and populism; an instrument of foreign policy

## Exports Similar; EM Imports Slowing More

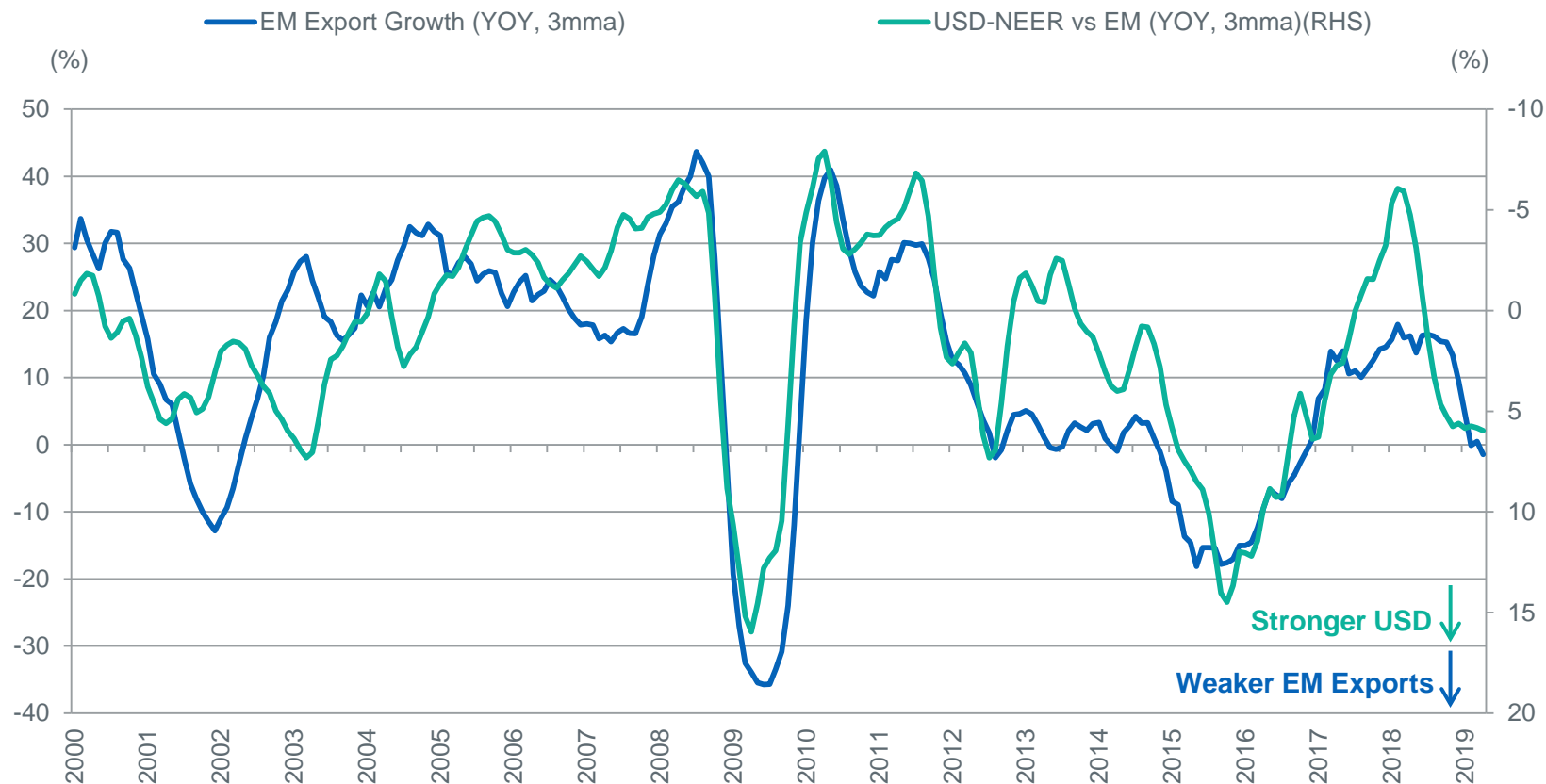


Source: Haver, Fitch Ratings, August 2019

# China-US Trade War – What Matters for EM?

## Weaker Export Growth Correlated With Weaker EM Currencies vs US Dollar

### Growth of EM Exports (in USD) and the USD versus EM Currencies

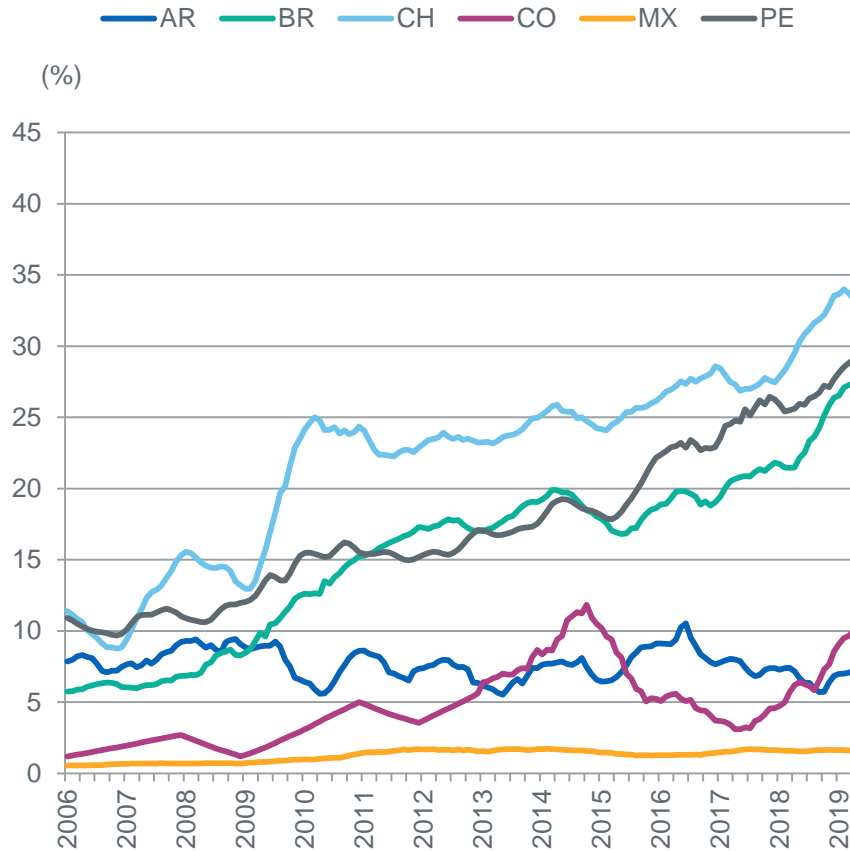


Source: Haver, Fitch Ratings, August 2019

# China-US Trade War – What Matters for Latin America?

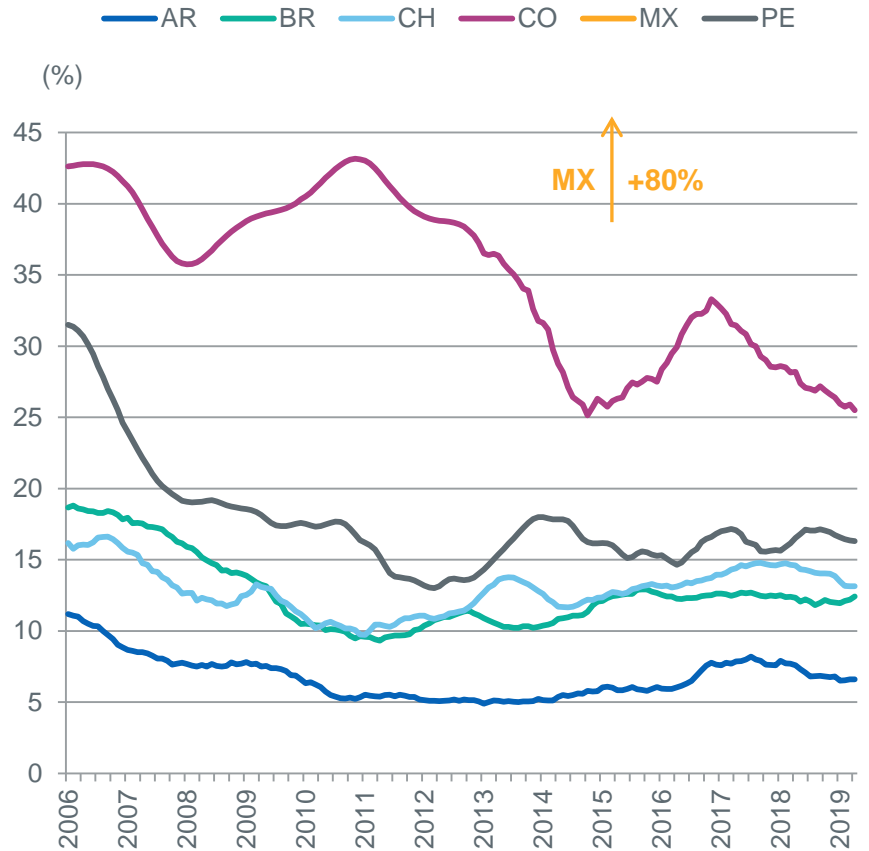
## China is Critical For Chile, Brazil & Peru

Exports to China as Share of Total Exports (12 month sum)



## Only Mexico and Colombia More Exposed to US

Exports to US as Share of Total Exports (12 month sum)

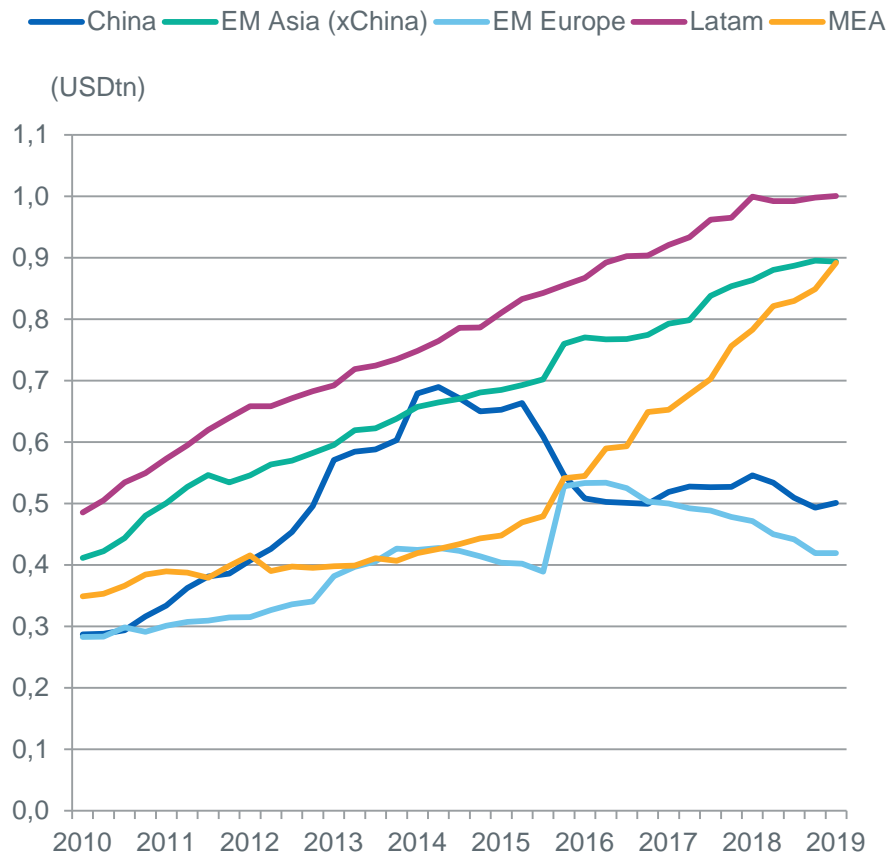


Source: Haver, Fitch Ratings, August 2019

# China-US Trade War – Latin America Exposed to Strong USD

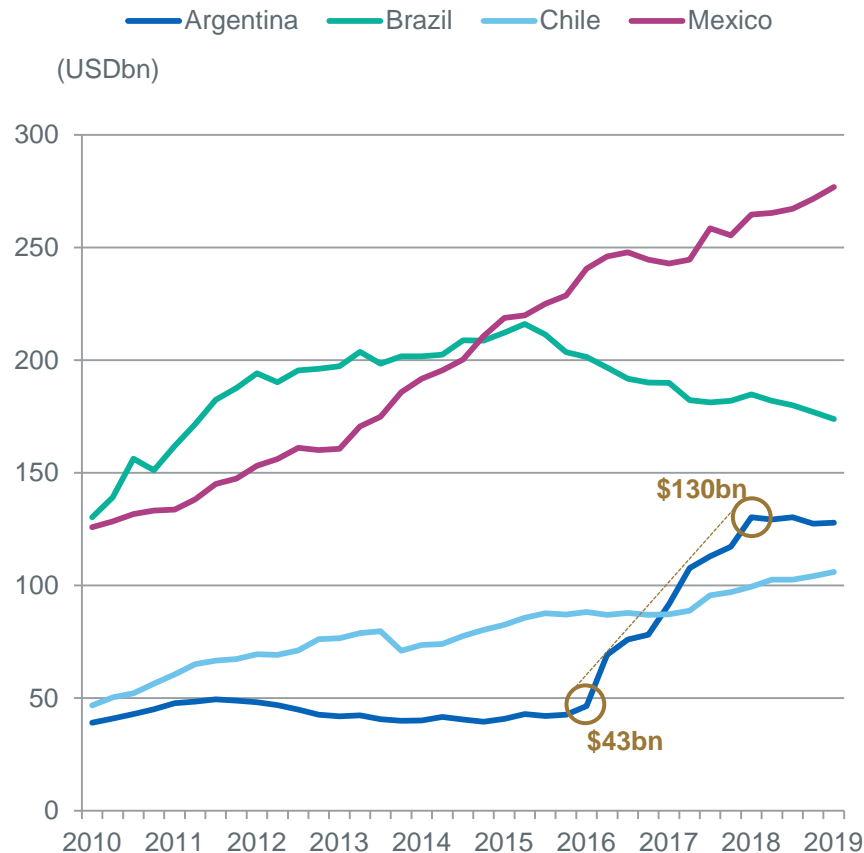
## Latam Leads EM Regions in Private USD Debt\*

### Private Non-bank USD Debt (domestic + external)



## Mexico and Argentina (2016-2018) Stand Out

### Private Non-bank USD Debt (domestic + external)



\* Private debt includes corporates and households  
 Source: Haver, Fitch Ratings, August 2019

# Political and Geopolitical Risks

## Sovereign Rating Implications Focused on Economic and Policy Implications

### UNITED KINGDOM AA/RATING WATCH NEGATIVE



- Persistent Brexit uncertainty
- Unclear economic path

### ITALY BBB/NEGATIVE



- Unstable coalition
- High government debt limits flexibility

### TURKEY BB/NEGATIVE



- No elections coming
- But President still being challenged

### MEXICO BBB/STABLE



- AMLO popular with households not business
- Weak economy

### ARGENTINA CCC



- All eyes on election
- Risk of change in policy direction

### HONG KONG AA+/STABLE



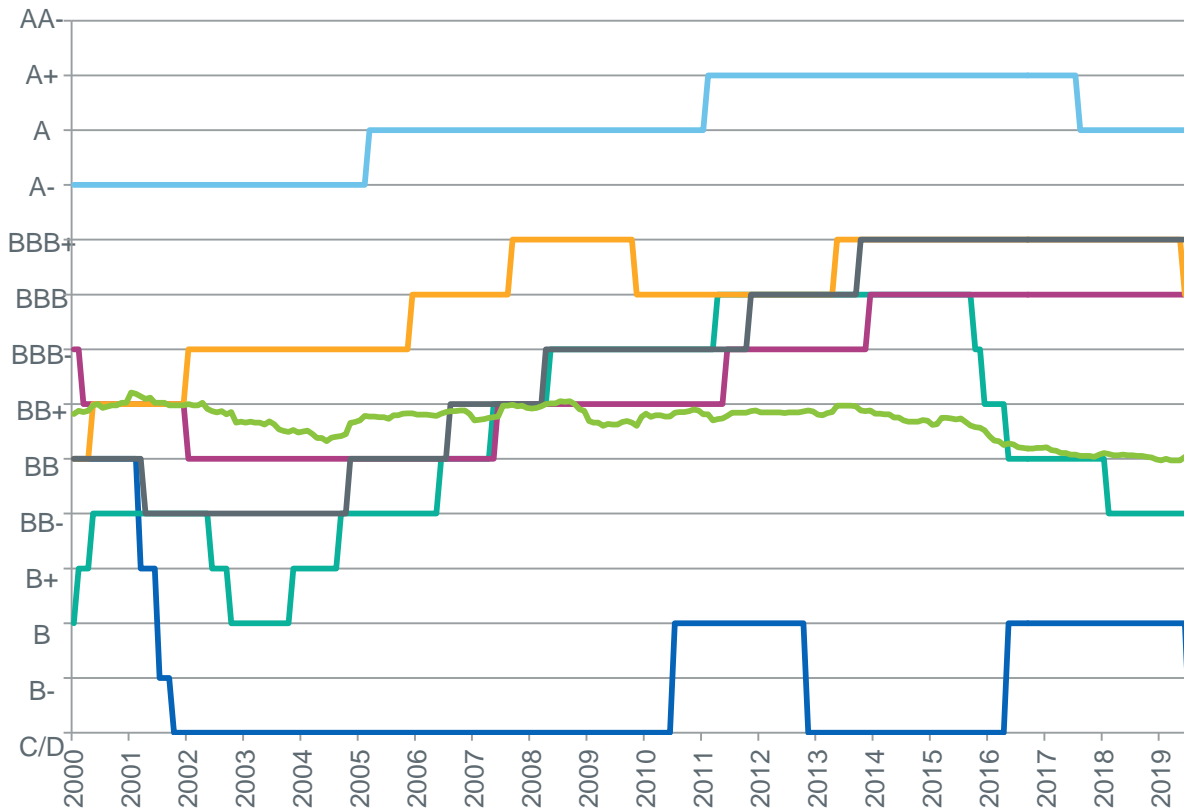
- Damage already done
- Future as financial centre jeopardised

# Latin America Sovereign Rating History

## Latin America Ratings Moving Lower Since 2016

### Select Latin America Sovereign Rating History

— Argentina    — Brazil    — Chile    — Colombia  
— Mexico    — Peru    — EM Average



Source: Fitch Ratings, August 2019

## Argentina (CCC)

- Downgrade due to:
  1. Heightened policy uncertainty following PASO elections
  2. Expected deterioration in the economic environment that increases the likelihood of default or restructuring

### Depreciation and Downgrades

- Since 2000, 16 depreciations 30% or more, of 12-months or longer
- 5 defaults
- Average 2-notch downgrade



Fitch Ratings' credit ratings rely on factual information received from issuers and other sources.

Fitch Ratings cannot ensure that all such information will be accurate and complete. Further, ratings are inherently forward-looking, embody assumptions and predictions that by their nature cannot be verified as facts, and can be affected by future events or conditions that were not anticipated at the time a rating was issued or affirmed.

The information in this presentation is provided "as is" without any representation or warranty. A Fitch Ratings credit rating is an opinion as to the creditworthiness of a security and does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. A Fitch Ratings report is not a substitute for information provided to investors by the issuer and its agents in connection with a sale of securities.

Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch Ratings. The agency does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security.

**ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS AND THE TERMS OF USE OF SUCH RATINGS AT [WWW.FITCHRATINGS.COM](http://WWW.FITCHRATINGS.COM).**



## Hong Kong

19/F Man Yee Building  
68 Des Voeux Road Central  
Hong Kong

## New York

33 Whitehall Street  
New York, NY 10004

## London

30 North Colonnade  
Canary Wharf  
London, E14 5GN

[fitchratings.com](http://fitchratings.com)

 [@fitchratings](https://twitter.com/fitchratings)

**Fitch**Ratings