KEY ECONOMIC TRENDS IN 2014

IMAS INAUGURAL REGULATORY & LEGAL ROUNDUP FORUM
FEBRUARY 20, 2014

Tamara Henderson, Bloomberg Senior Economist, PhD, CFA

Bloomberg

TAKEAWAYS:

- Similar Themes: Different Outcomes
- Today's Obstacles: Tomorrow's Opportunities

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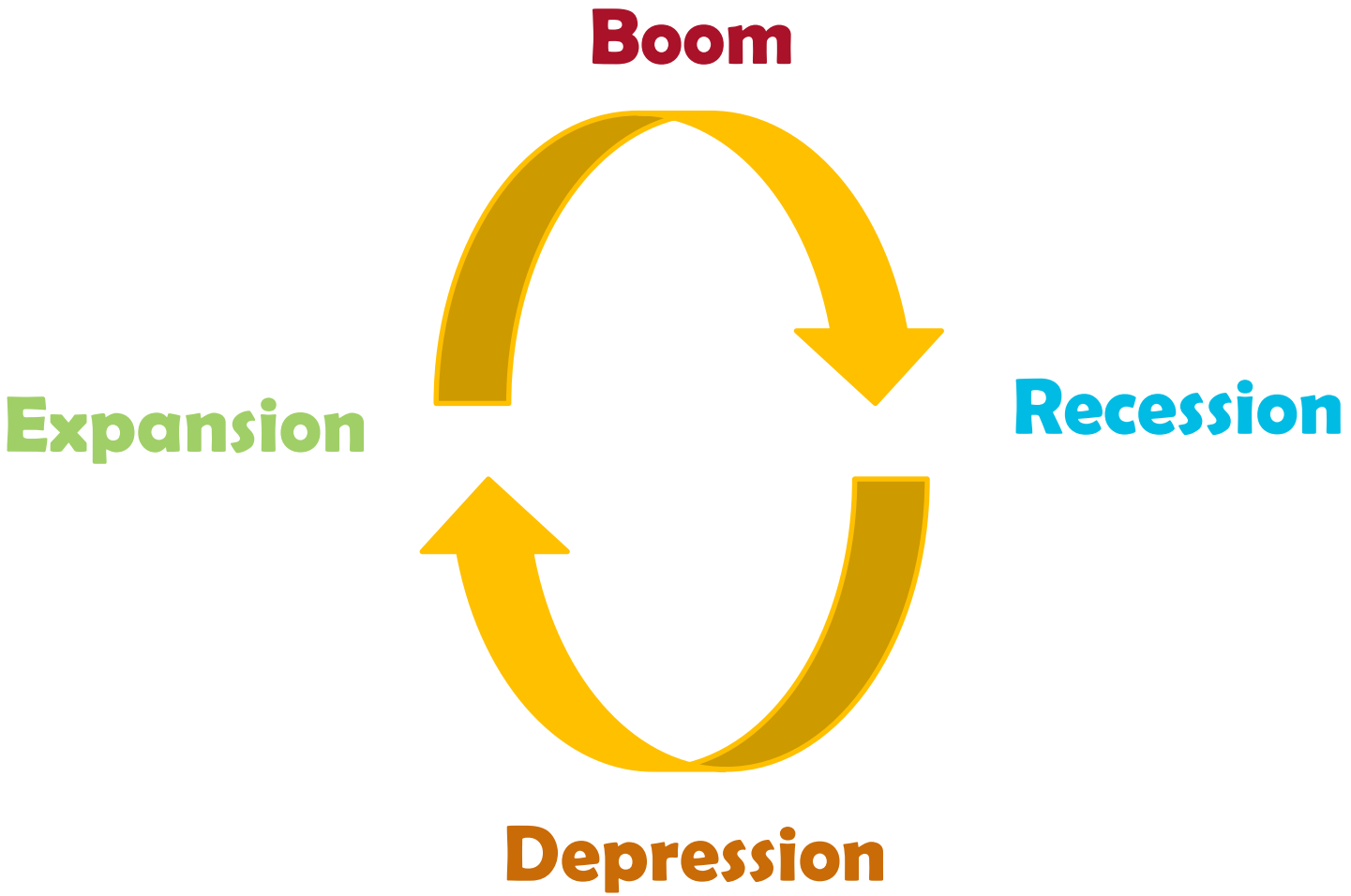
ECONOMIC FORECASTS: IT DEPENDS…

ECONOMICS: IT'S A CIRCLE



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HALF EMPTY? HALF FULL?

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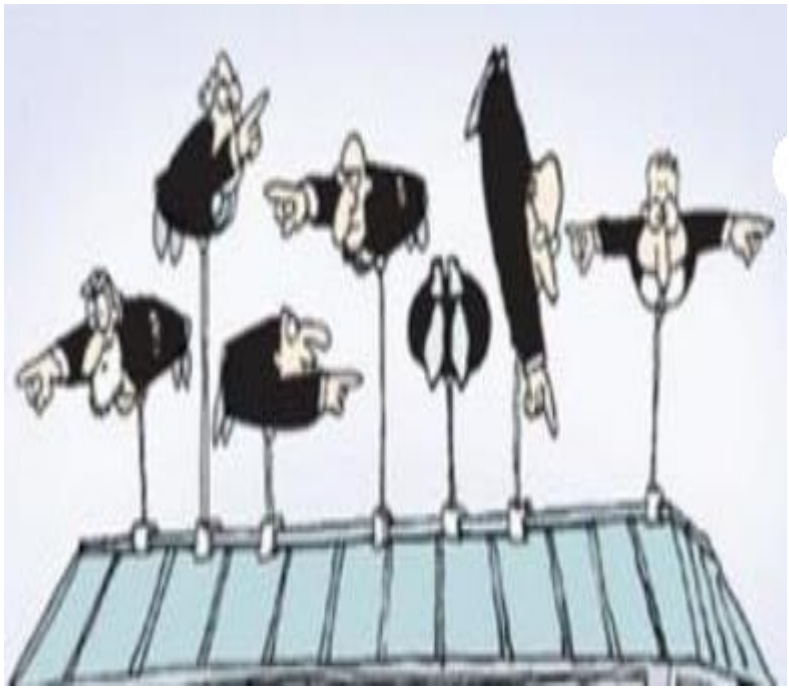
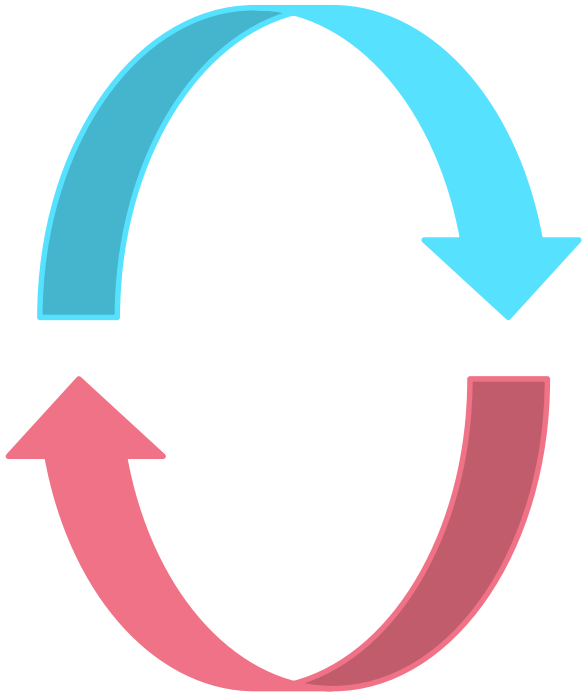
BIAS: IMPACTS STARTING POINT, NEWS FILTER & FINISH





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CHICKEN-EGG DILEMMA: SPEND OR HIRE FIRST?

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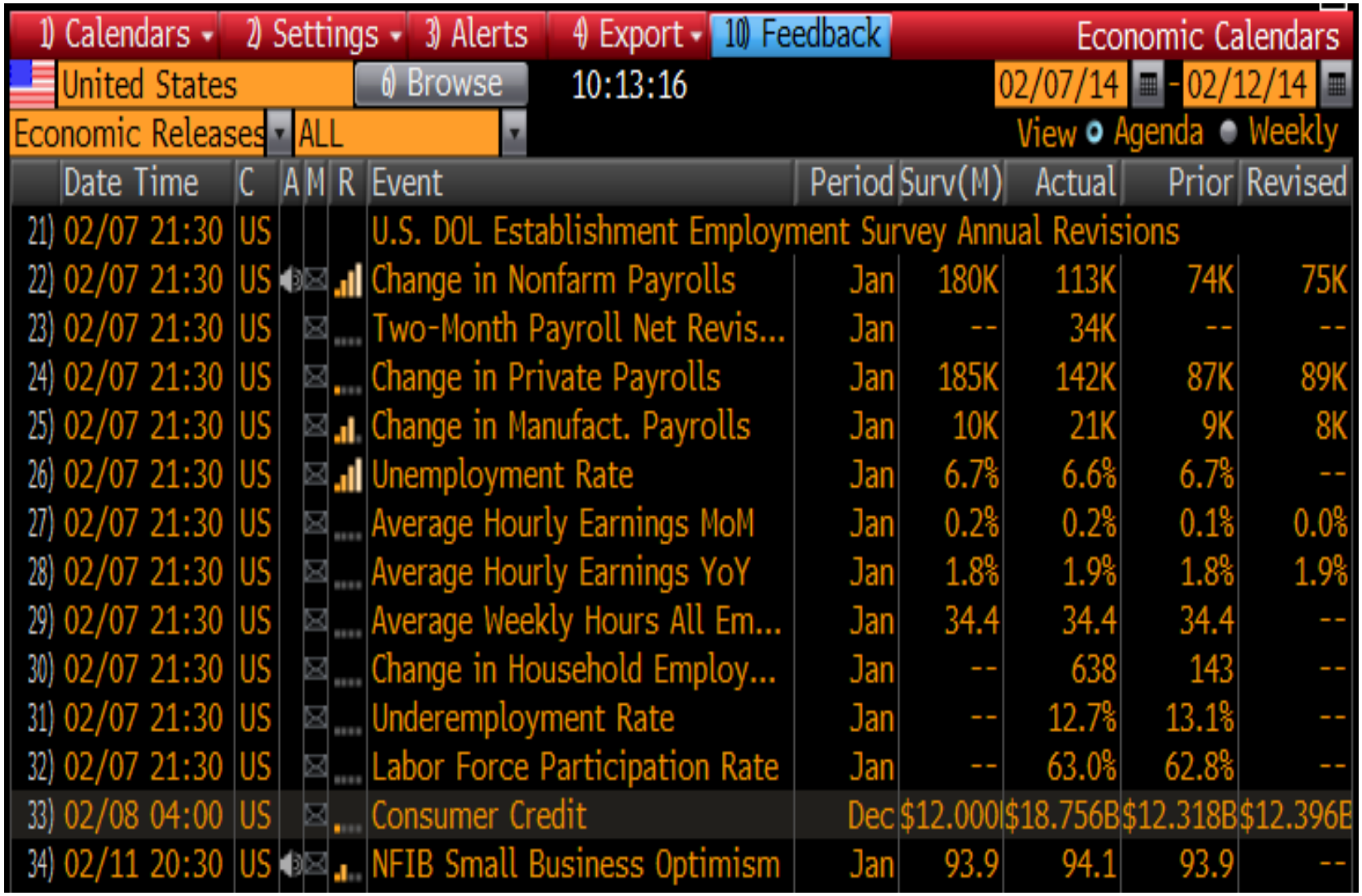
ECONOMIC NEWS: USUALLY A MIXED BAG



1) Calendars 2) Settings 3) Alerts 4) Export 10) Feedback — Economic Calendars

United States | 6) Browse | 10:13:16 | 02/07/14 - 02/12/14

Economic Releases | ALL | View: Agenda / Weekly

	Date Time	C	A	M	R	Event	Period	Surv(M)	Actual	Prior	Revised
21)	02/07 21:30	US				U.S. DOL Establishment Employment Survey Annual Revisions					
22)	02/07 21:30	US				Change in Nonfarm Payrolls	Jan	180K	113K	74K	75K
23)	02/07 21:30	US				Two-Month Payroll Net Revis...	Jan	--	34K	--	--
24)	02/07 21:30	US				Change in Private Payrolls	Jan	185K	142K	87K	89K
25)	02/07 21:30	US				Change in Manufact. Payrolls	Jan	10K	21K	9K	8K
26)	02/07 21:30	US				Unemployment Rate	Jan	6.7%	6.6%	6.7%	--
27)	02/07 21:30	US				Average Hourly Earnings MoM	Jan	0.2%	0.2%	0.1%	0.0%
28)	02/07 21:30	US				Average Hourly Earnings YoY	Jan	1.8%	1.9%	1.8%	1.9%
29)	02/07 21:30	US				Average Weekly Hours All Em...	Jan	34.4	34.4	34.4	--
30)	02/07 21:30	US				Change in Household Employ...	Jan	--	638	143	--
31)	02/07 21:30	US				Underemployment Rate	Jan	--	12.7%	13.1%	--
32)	02/07 21:30	US				Labor Force Participation Rate	Jan	--	63.0%	62.8%	--
33)	02/08 04:00	US				Consumer Credit	Dec	$12.000B	$18.756B	$12.318B	$12.396B
34)	02/11 20:30	US				NFIB Small Business Optimism	Jan	93.9	94.1	93.9	--

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TODAY: THE GLASS IS ½ EMPTY

USA

CHINA

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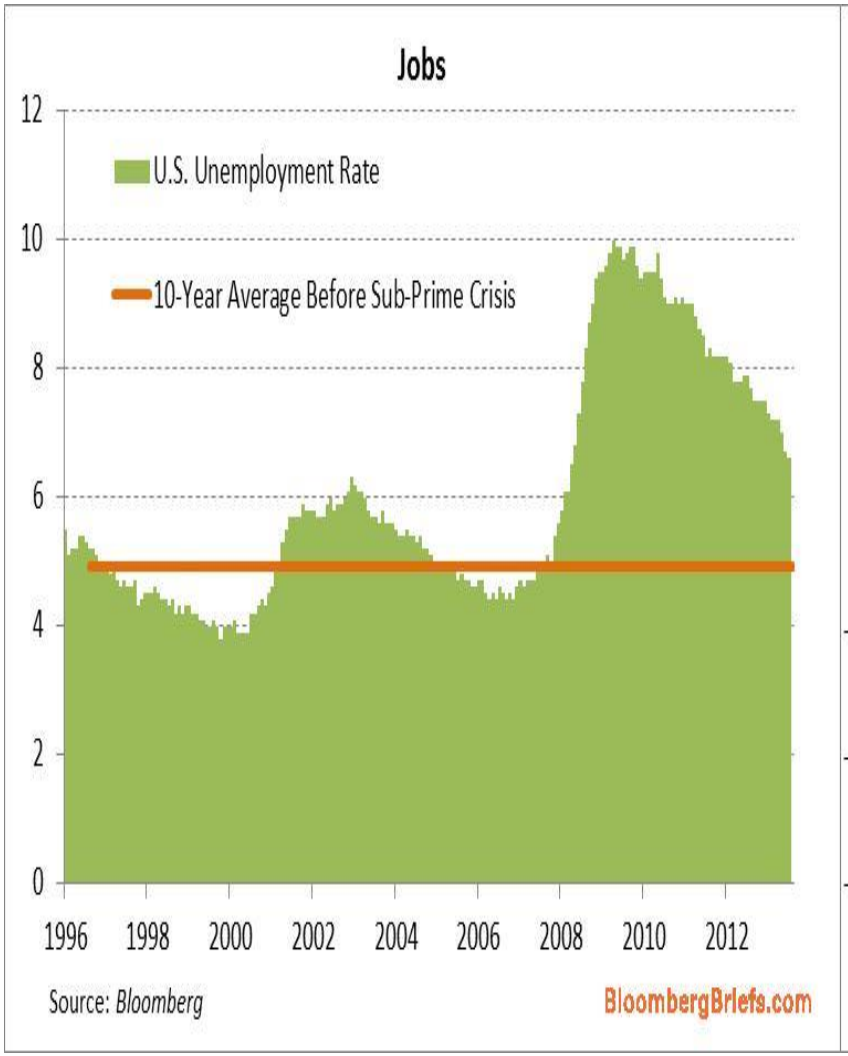
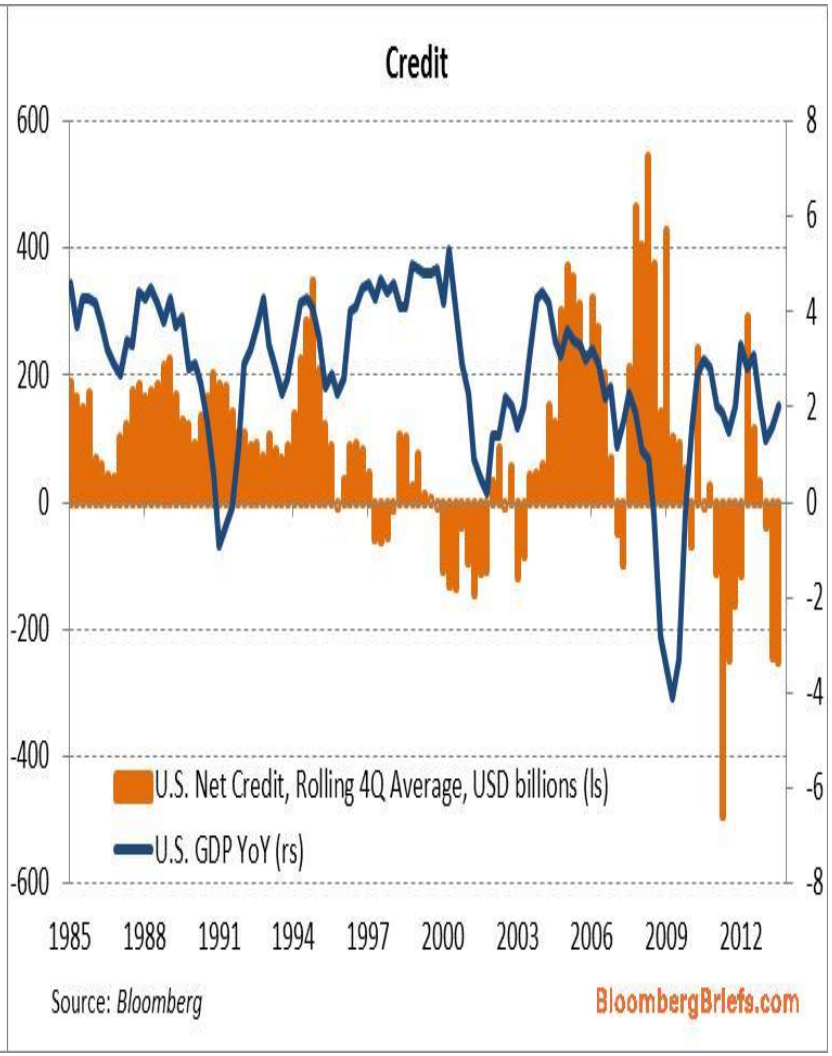
TAPERING: DIFFERENT MINDSETS

The Fed



The Market



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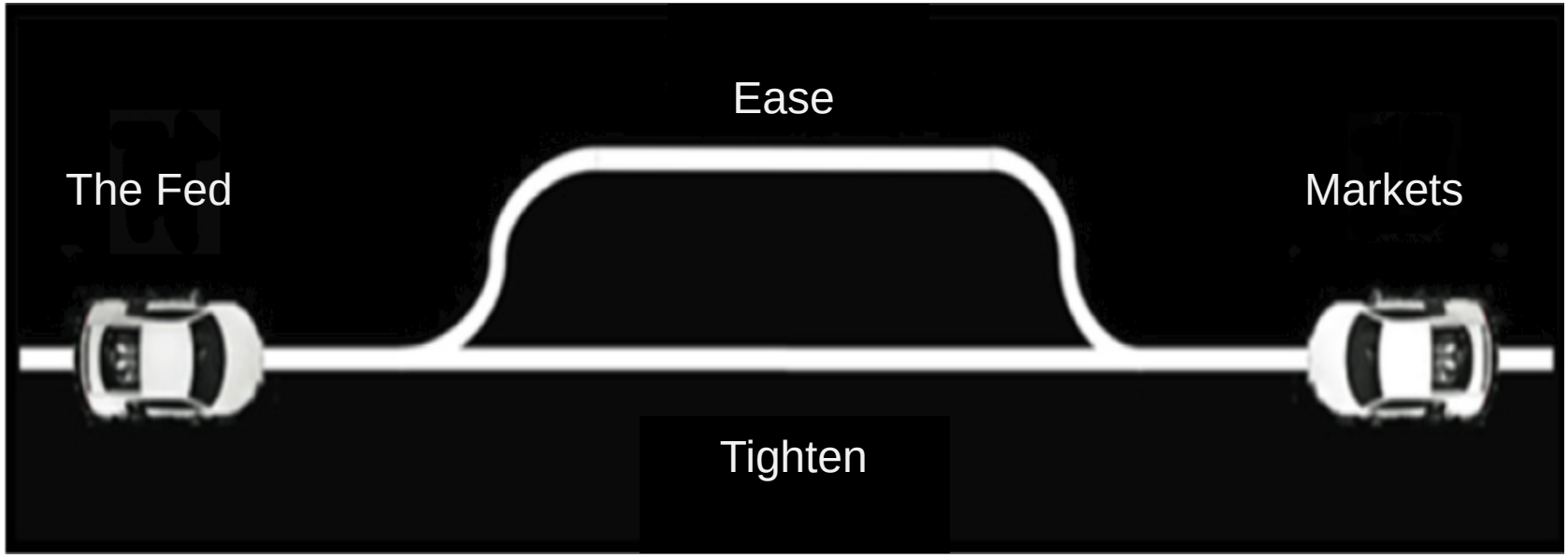
THE FED vs MARKETS: A GAME OF CHICKEN



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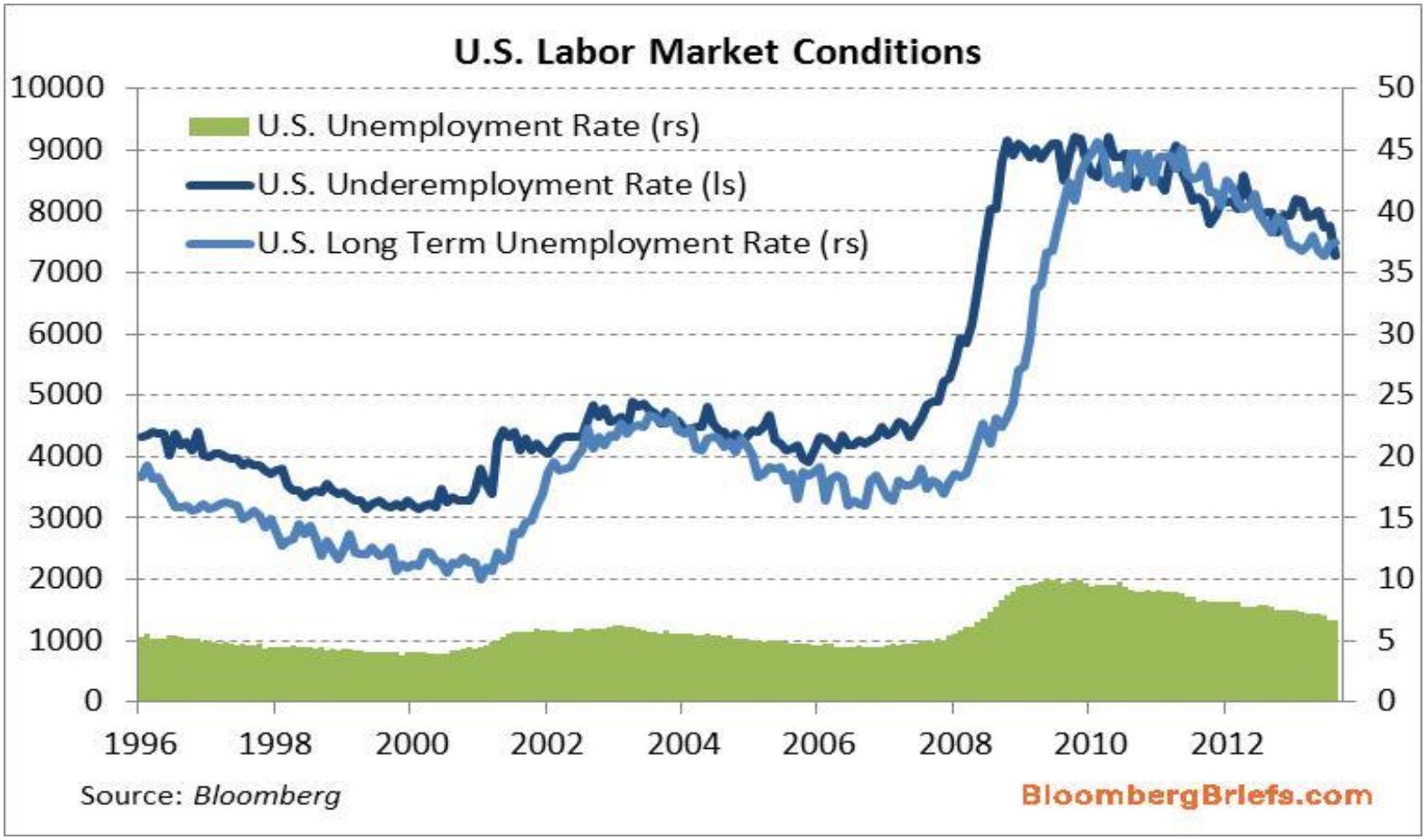
YELLEN: NARROWING THE FED-MARKET MINDSET GAP

The Fed → ← The Market



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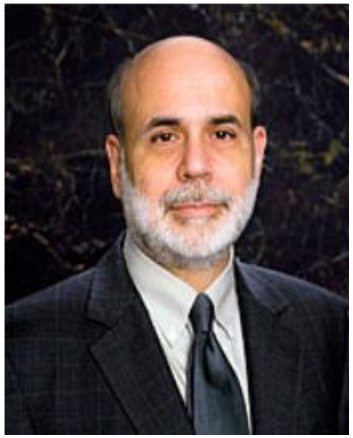
FED CHANGE: ADDED UNCERTAINTY

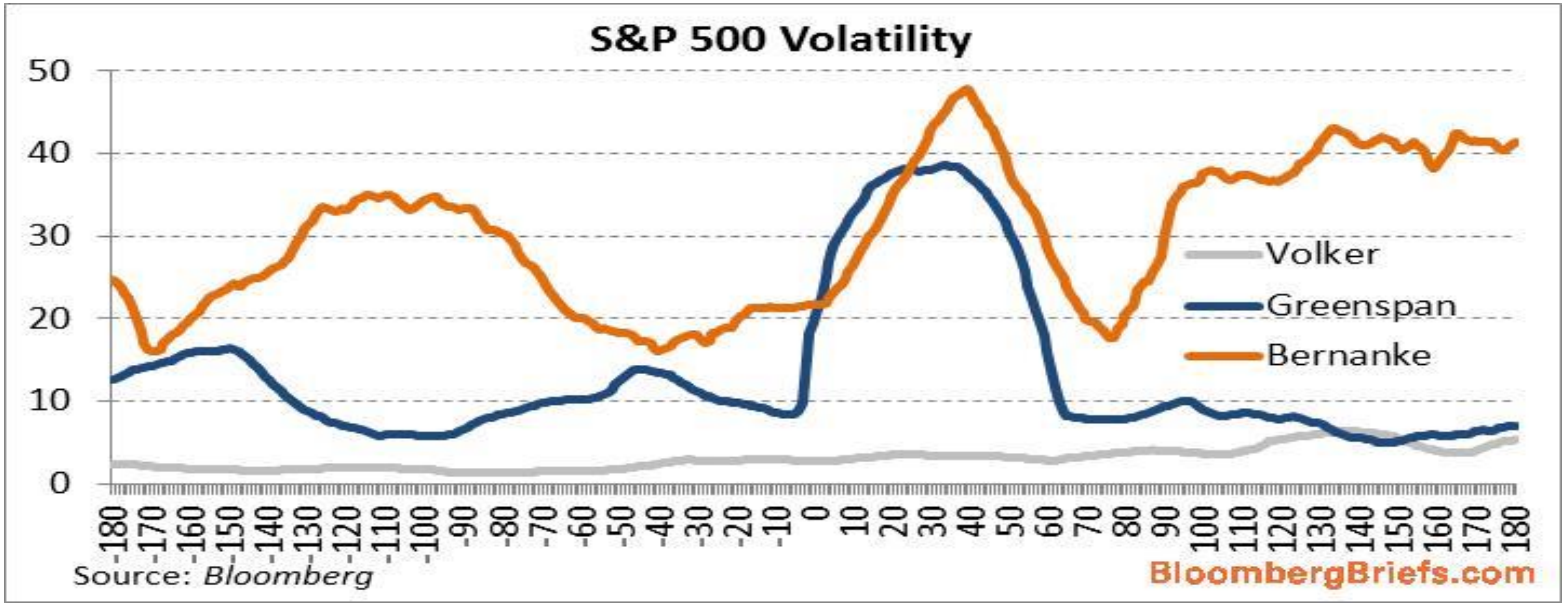
Volker
Aug 6, 1979

Greenspan
Aug 11, 1987



Bernanke
Feb 1, 2006

Yellen
Feb 1, 2014



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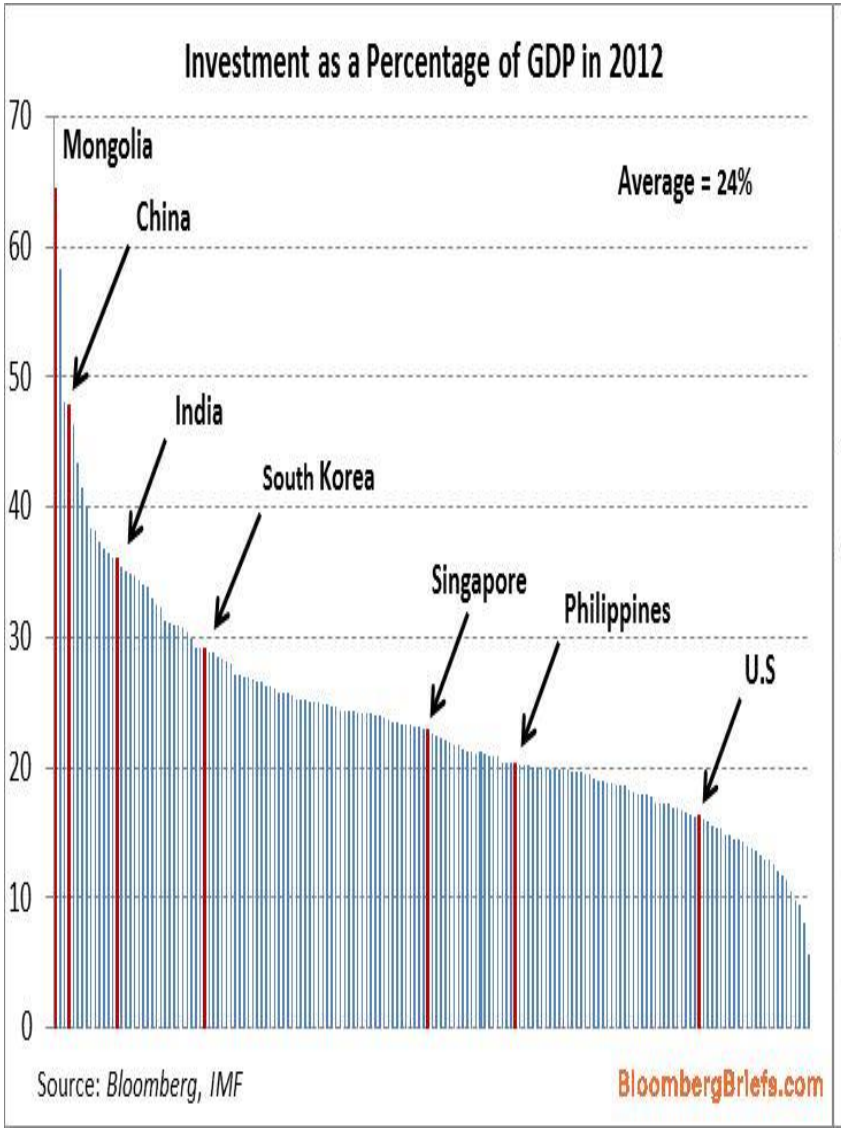
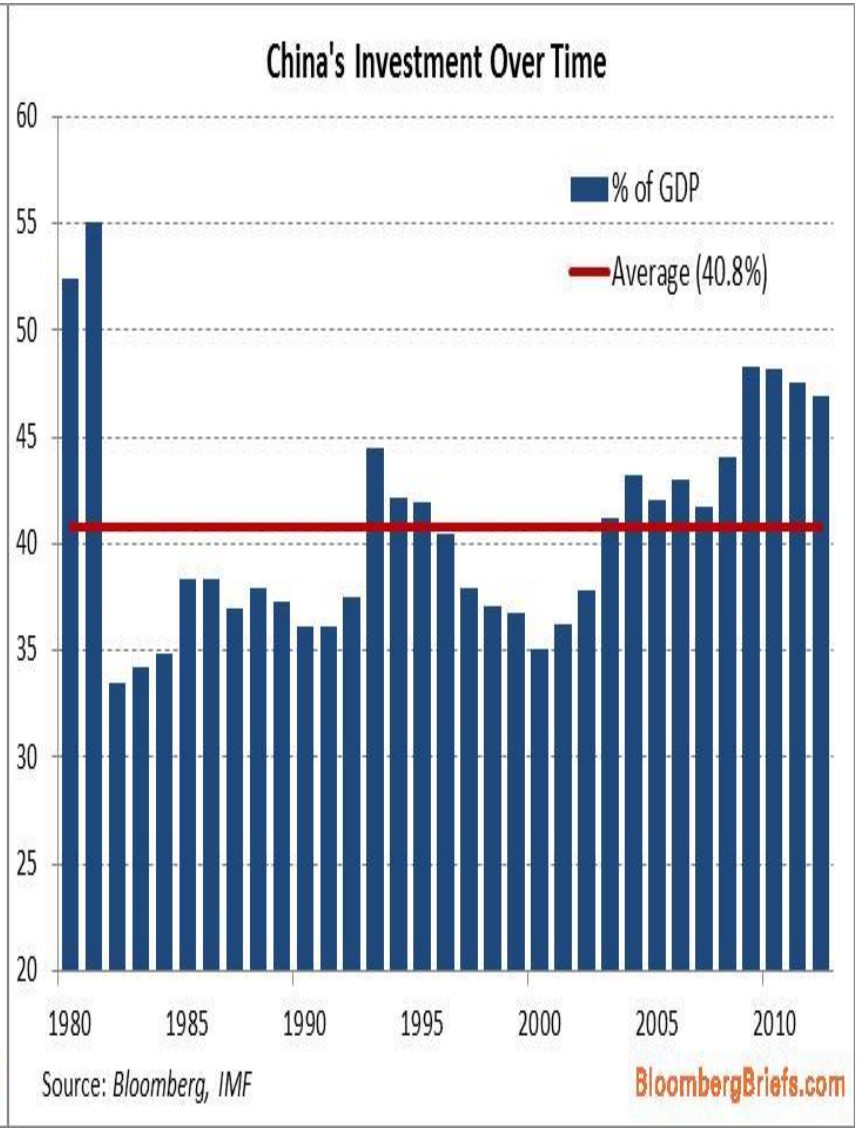
CHINA: REBALANCING





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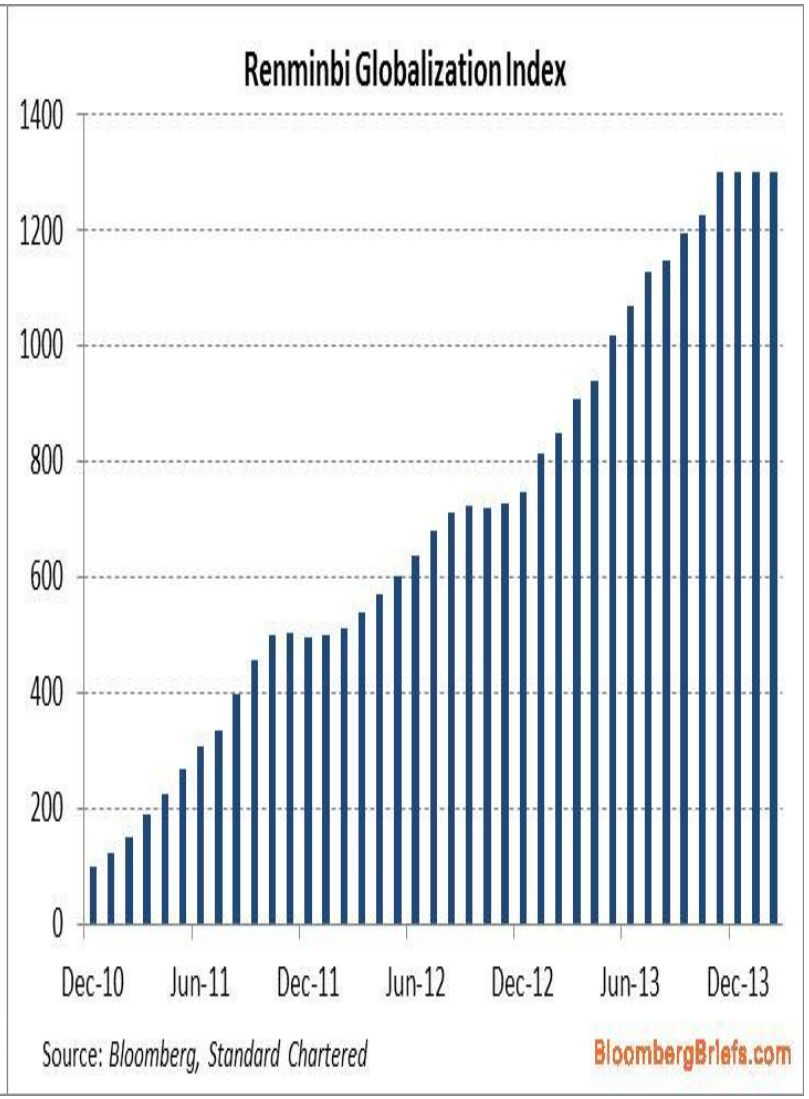
CHINA: LIBERALIZATION



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RECAP: SLOWDOWN ANGST

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@YEAREND: THE GLASS MAY BE ½ FULL

USA

CHINA

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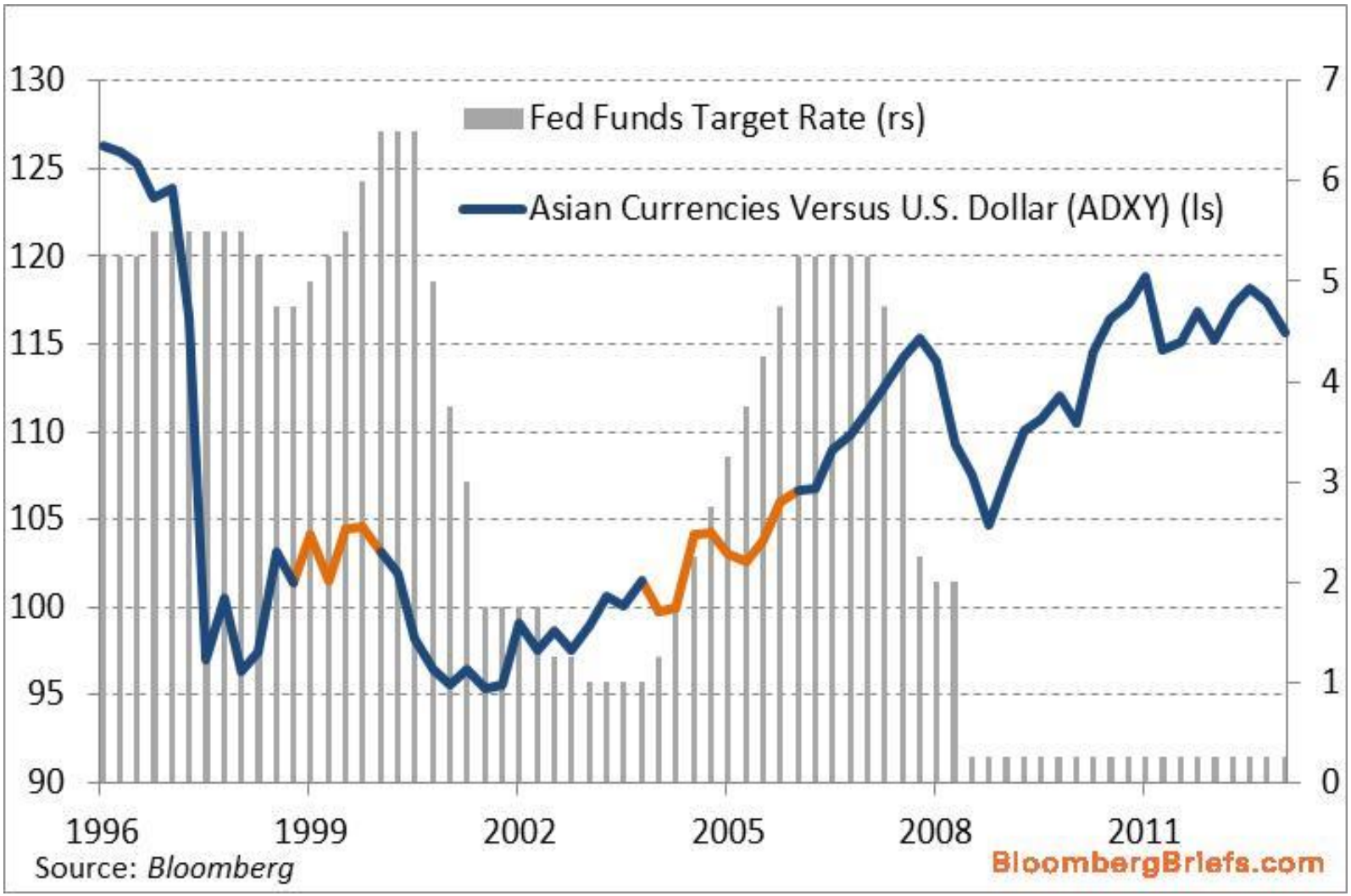
PAST TIGHTENING: TRIGGERED ANGST…INITIALLY



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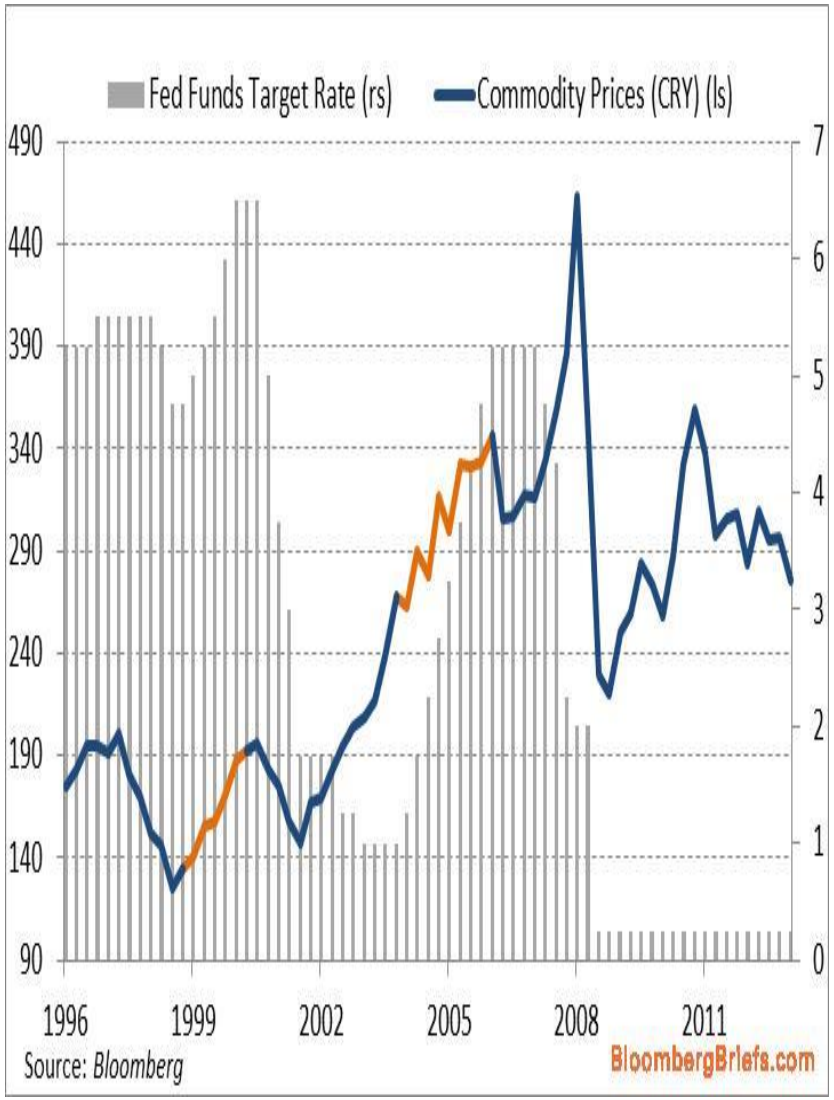
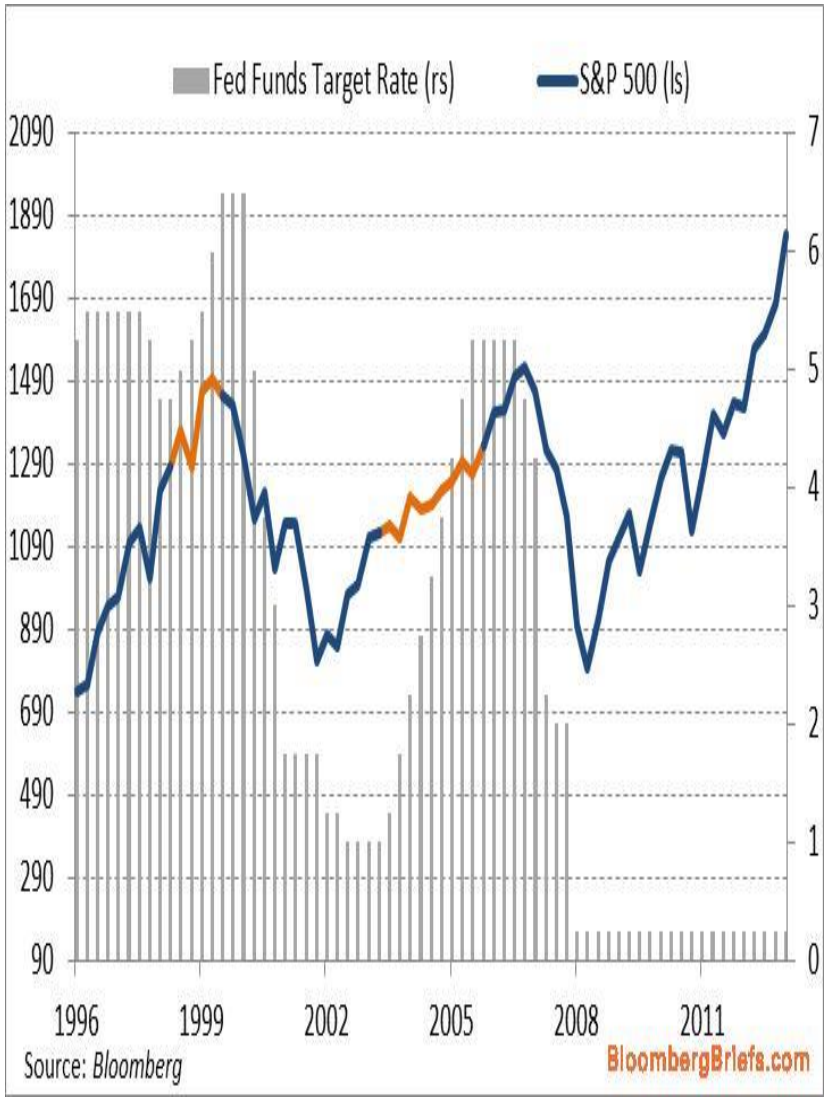
PAST TIGHTENING: LIFTED COMMODITIES, EQUITIES





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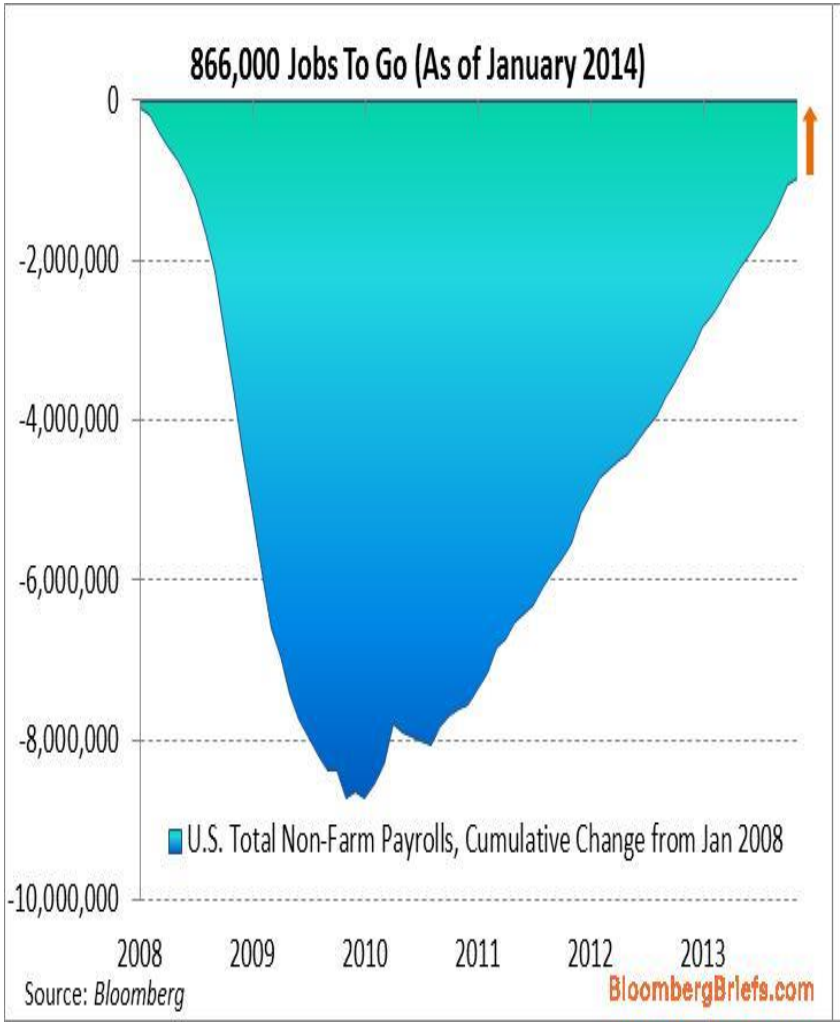
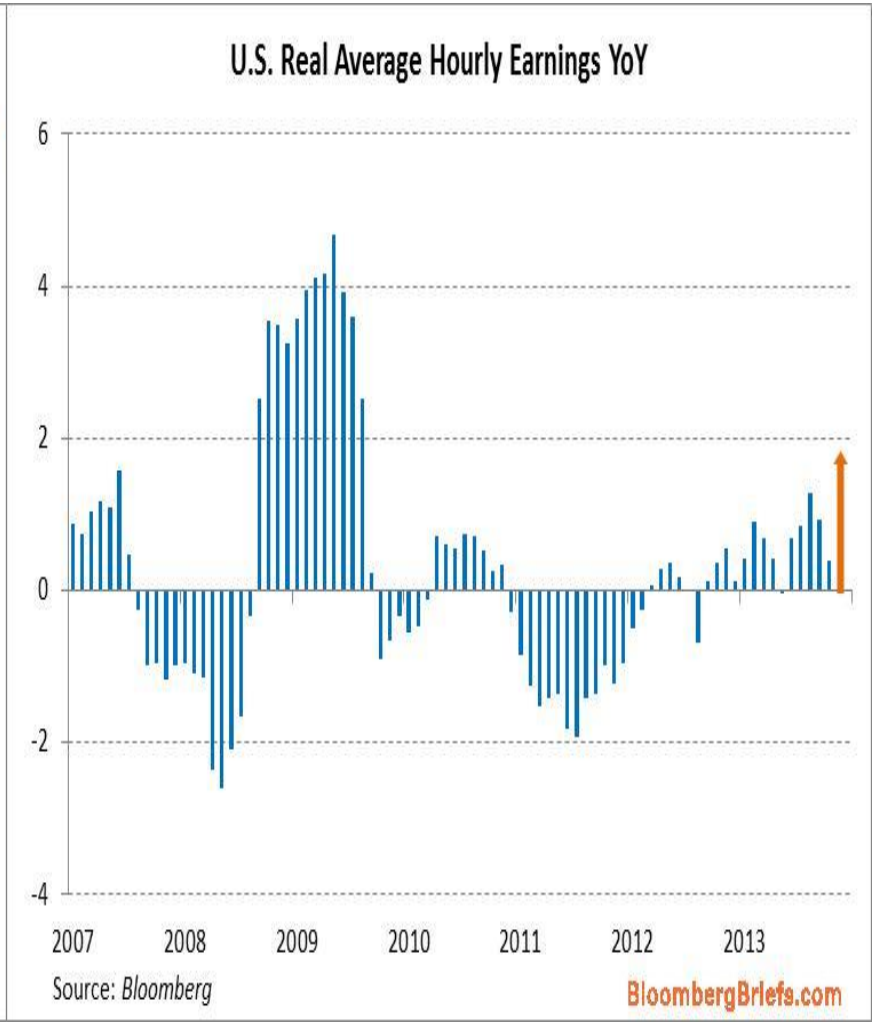
U.S.: GETTING BACK TO NORMAL

Hiring



Spending



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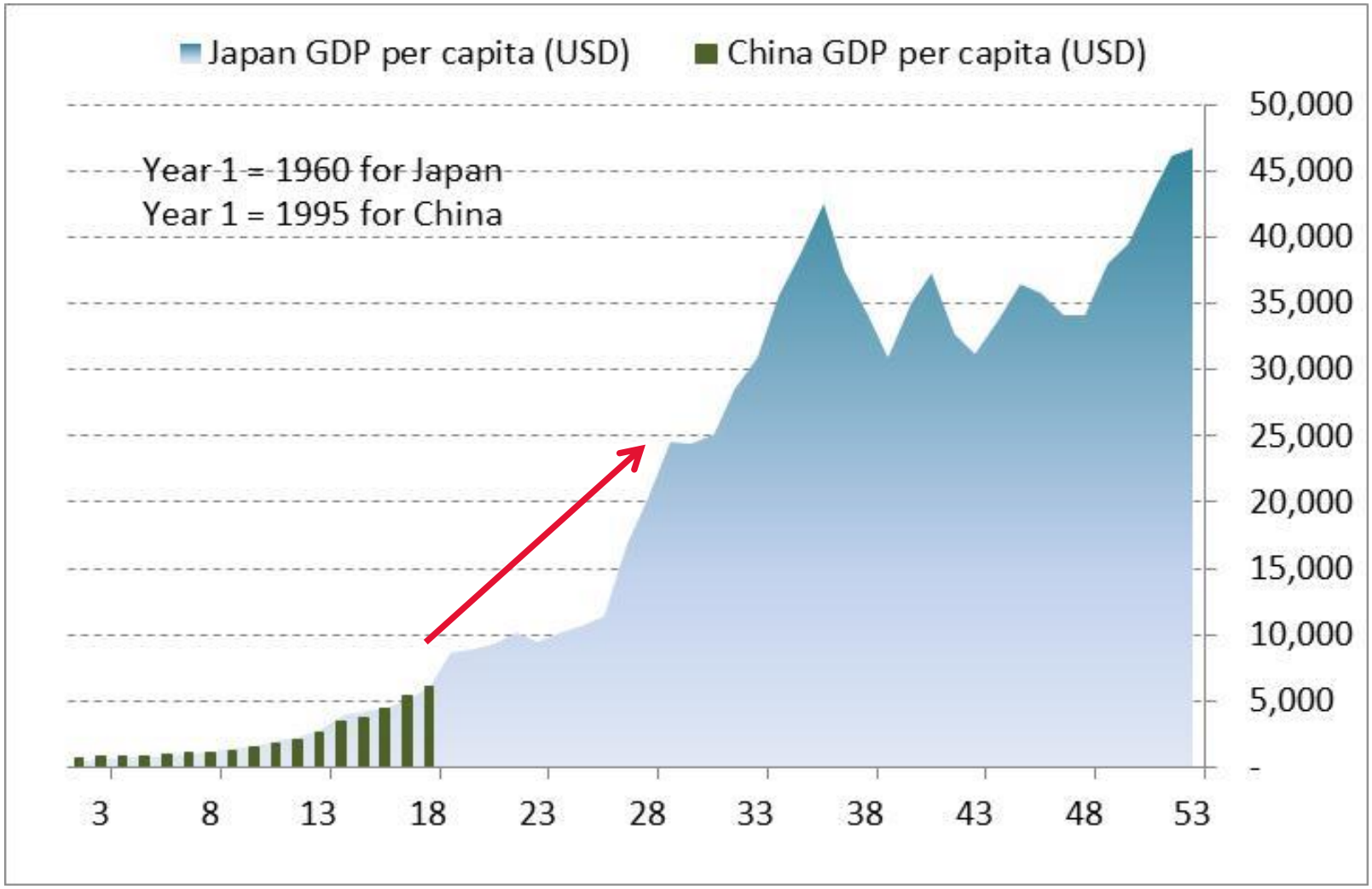
CHINA: HIGHER INCOMES SUPPORT IMPORTS, URBANIZATION



Source: *Bloomberg*

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ASIA TODAY: A FOCUS ON VULNERABILITIES

FICKLE, CAUTIOUS INVESTORS

DEFICITS

LOW RETURNS

FALLING CURRENCIES

POLITICAL UNCERTAINTY

VULNERABILITY TO SHOCKS

CHINA REBALANCING

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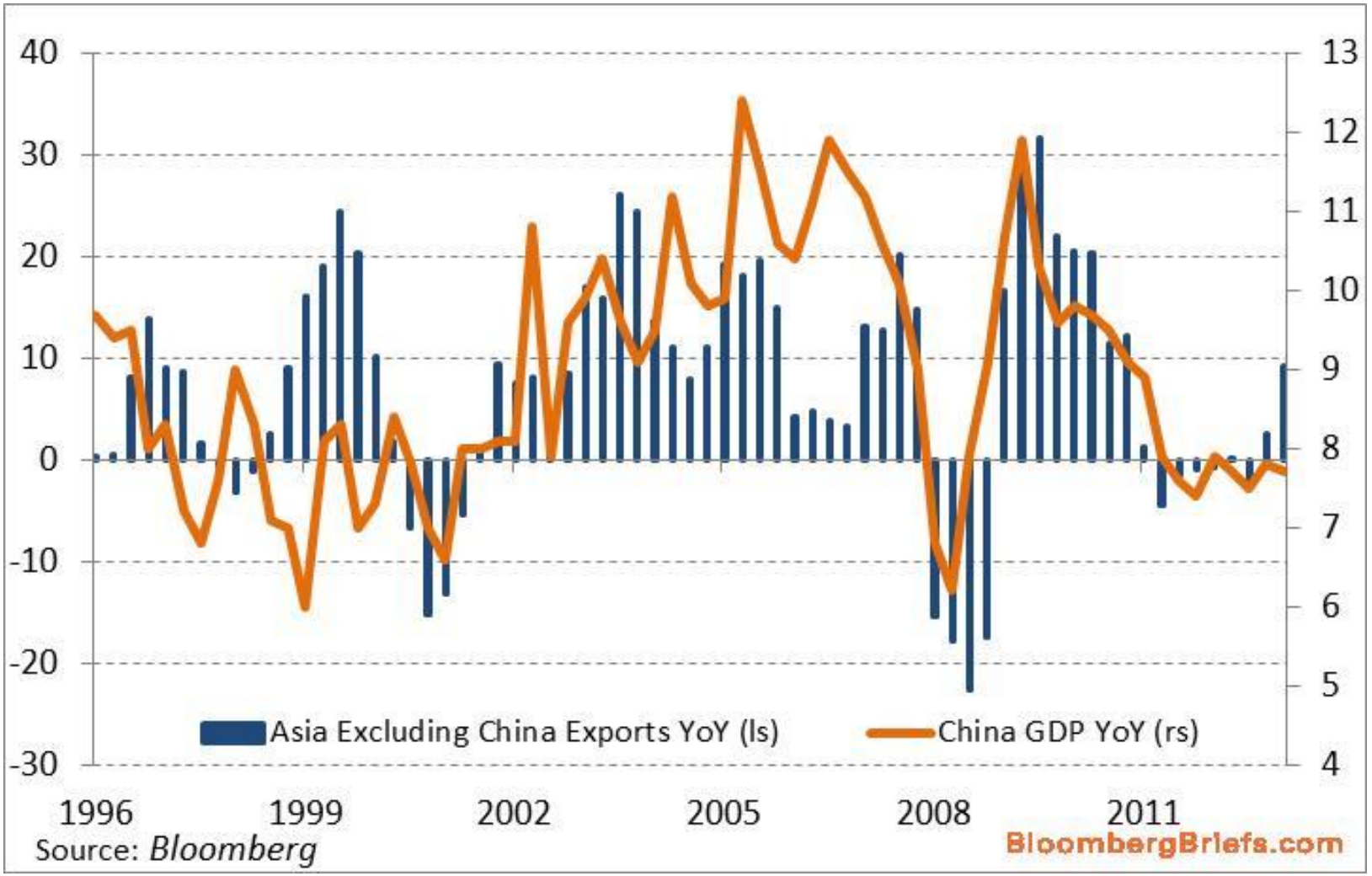
ASIA: RELIANCE ON CHINA



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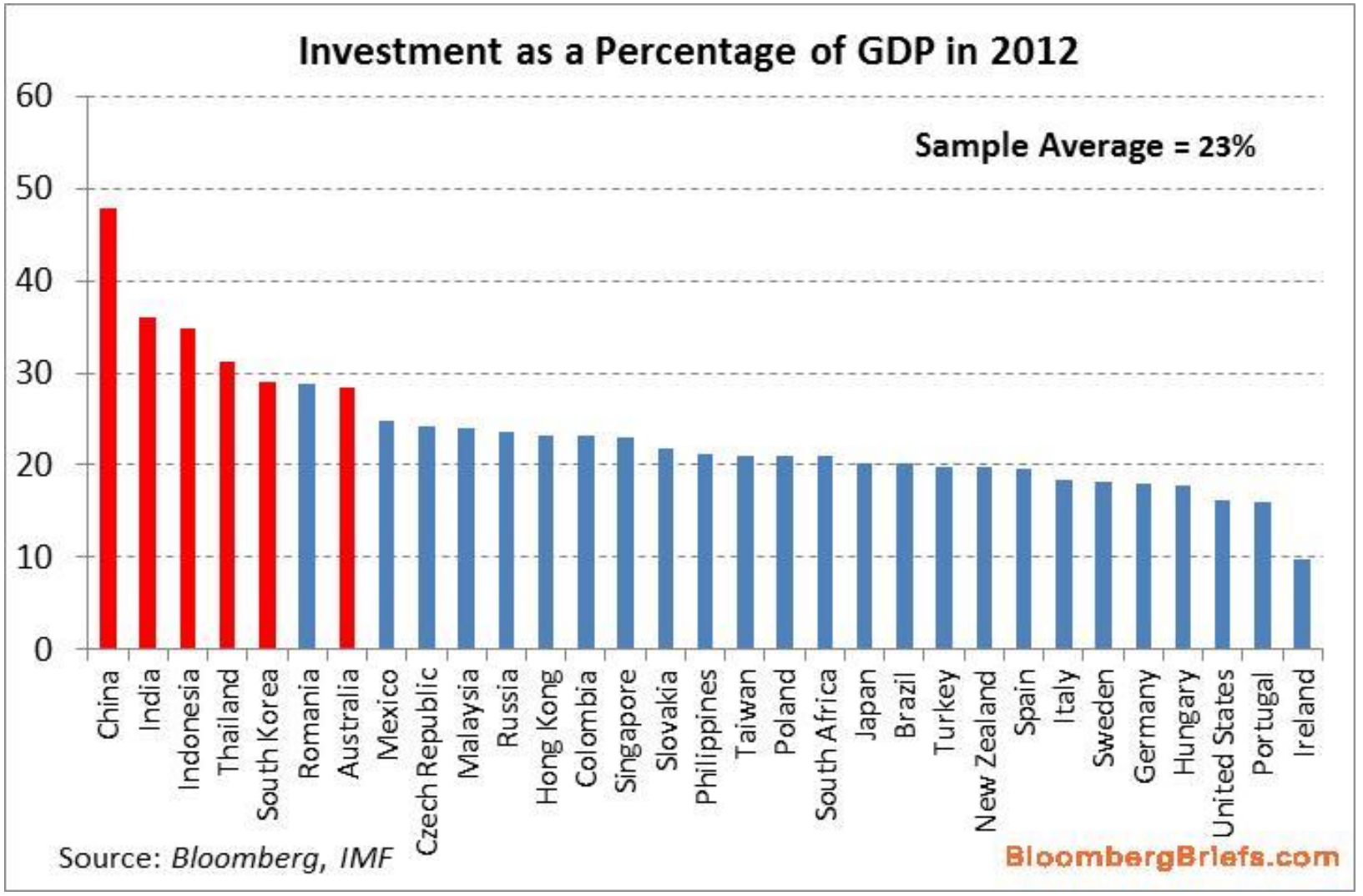
ASIA: INVESTMENT DEPENDENCE



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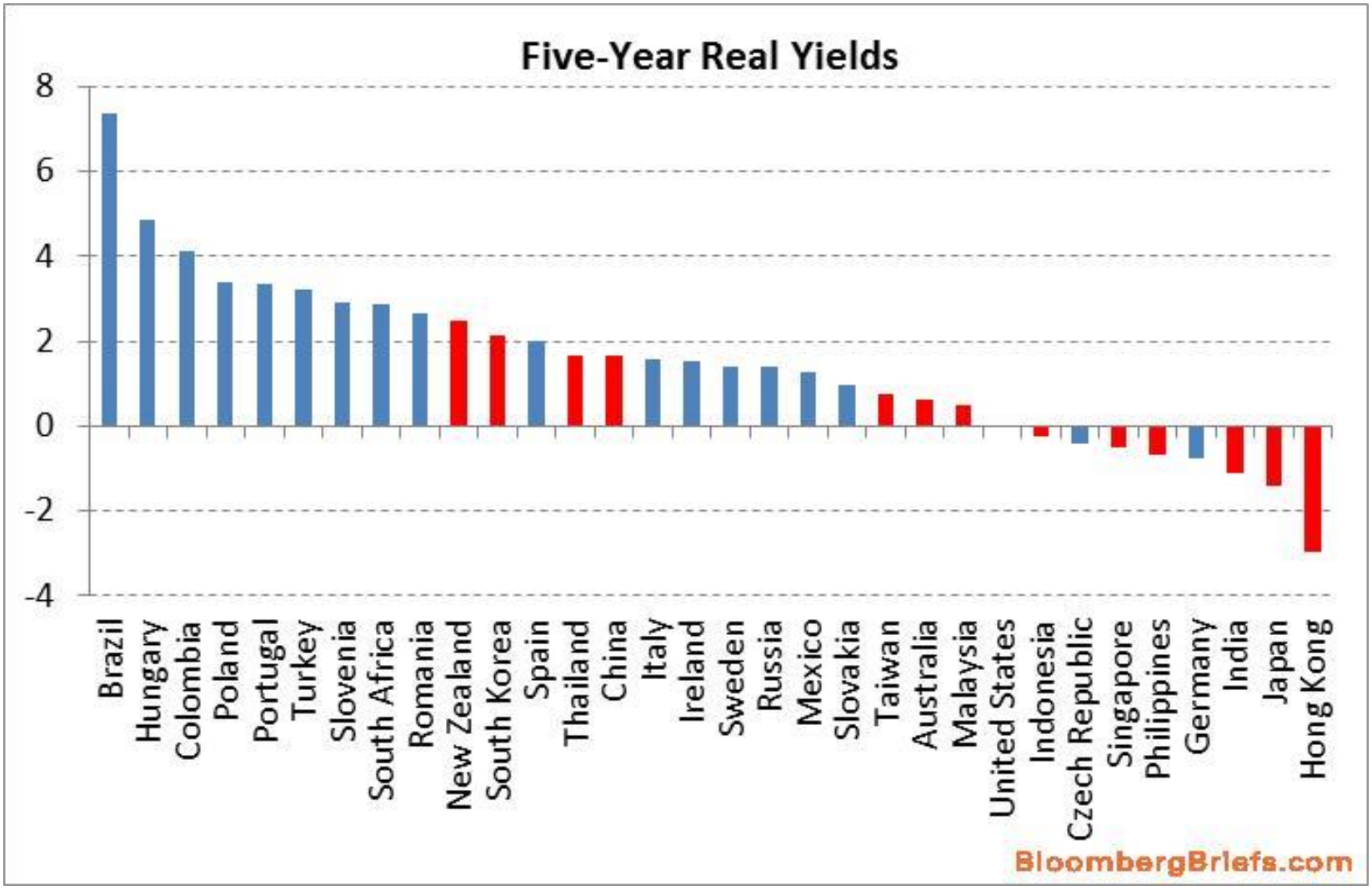
ASIA: LIMITED REAL YIELD APPEAL



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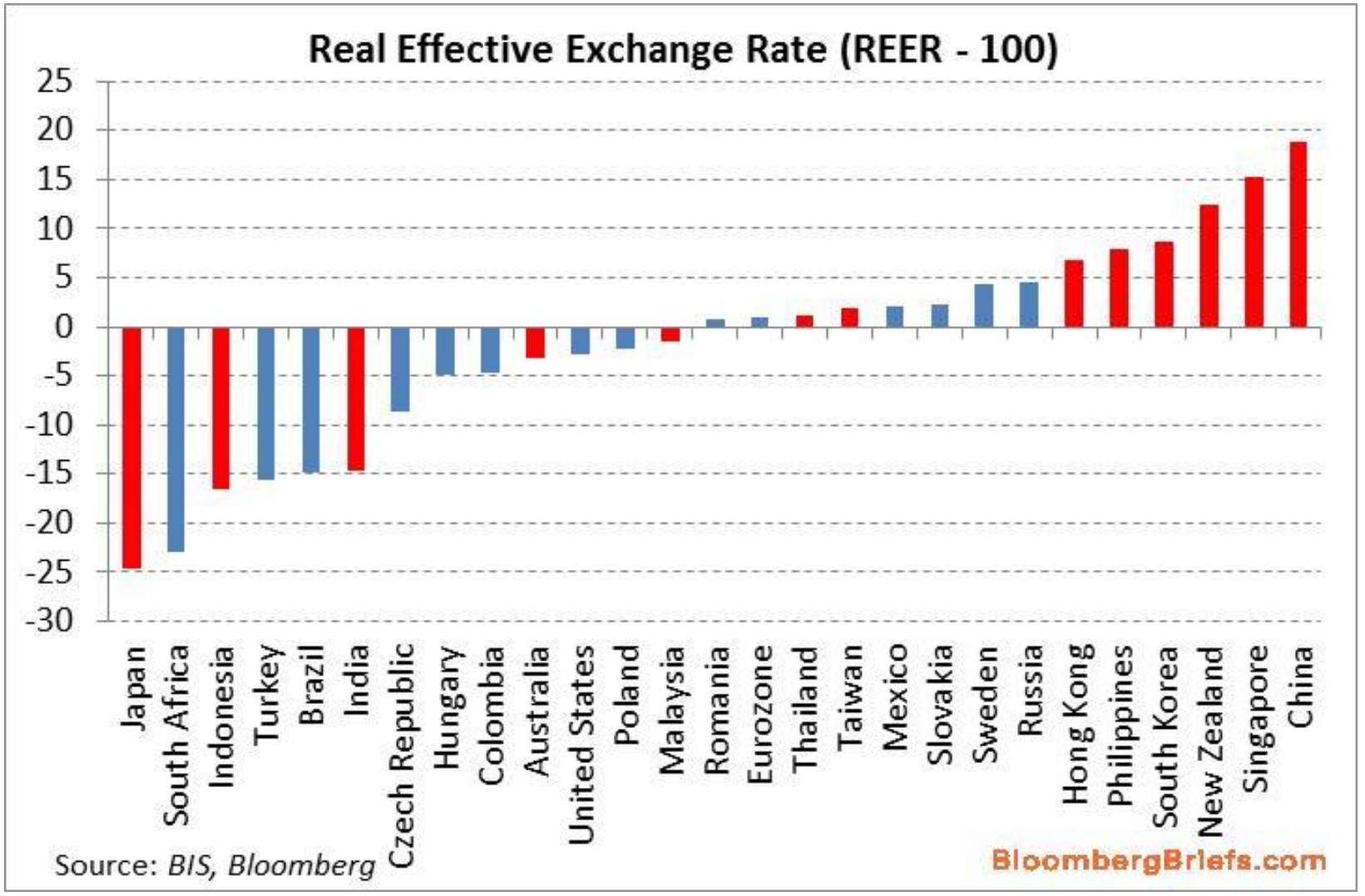
ASIA: EXPENSIVE CURRENCIES



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ASIA @YEAREND: REFOCUS ON OPPORTUNITIES

LOW DEBT

ABUNDANT RESOURCES

ANCHORED INFLATION EXPECTATIONS

STRONG GROWTH

ELECTIONS

CURRENT ACCOUNT SURPLUSES

INVESTMENT GRADE

MORE DIVERSIFIED GROWTH DRIVERS

FISCAL PRUDENCE

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"HALF-EMPTY" BIAS: UNDER-PERFORMERS

Investor Perspective:

- Risk averse
- Seek capital preservation
- Require liquidity
- Abhor current account deficits
- Abhor political/policy uncertainty
- Fear/Worry (sell all risky assets)

Asian Stand-Outs:

- India
- Indonesia
- Thailand

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"HALF-FULL" BIAS: OUT-PERFORMERS

Investor Perspective:

- Risk taking
- Seek capital gains
- Require sufficient reward for risk
- Like carry trades, high yields
- Abhor political/policy uncertainty
- Greed /Confidence (buy selectively)

Asian Stand-Outs:

- India (post-election)
- Indonesia (post-election)
- Thailand (?)

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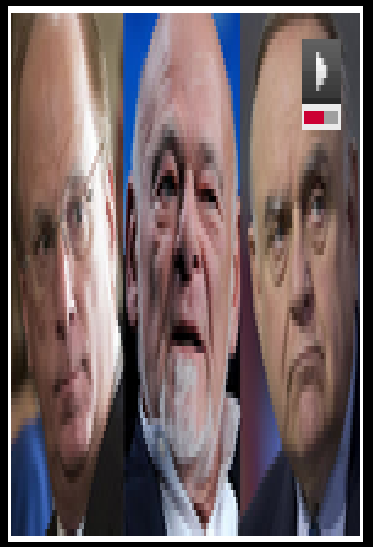
PERCEPTIONS: STARTING TO SHIFT

S&P 500 Caps First Weekly Gain in Four Amid Earnings, Jobs Data

By Lu Wang

Feb. 8 (Bloomberg) -- U.S. stocks rose for the week, halting three straight drops for the Standard & Poor's 500 Index, amid better-than-forecast earnings and optimism that economic growth is strong enough to weather stimulus cuts.



PRIMARY RISK: TIMING

SUMMARY:

Similar Themes	Different Outcomes
Fed Tapering	Risk Off
China Rebalancing	Risk On

Today's Obstacles	Tomorrow's Opportunities
Valuations	Valuations
Yields	Yields
Elections	Elections

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$ Track Record

G-10, EM Coverage

Economics, FX & Rates

Buy & Sell-Side Experience