1. Global outlook: The positive global environment tends to stabilize

Robust, steadier global growth, with some rebalancing among the major areas

The world economy accelerated in recent quarters and has approached growth rates of 1% QoQ, although it tends to stabilize. Confidence levels, especially in the advanced economies, remain high, while the recovery in world trade seems to have slowed down somewhat in April and May. In line with this, there has also been an uptick in industrial activity and global investment.

This positive dynamic responds, primarily, to the effect of the stimulus provided by China´s economic policy, which has boosted its growth and with it, that of other Asian countries and the rest of the world. In addition, the global cycle has also benefited from the extremely accommodating monetary policies of most advanced countries, fiscal policies that have recently become neutrals or expansionary and relatively modest commodity prices. All this has come amid a calm environment in the financial markets, which have not suffered in a persistent way by the sources of political stress.

The recovery, which is mainly affecting the advanced economies, is accompanied by less dynamism in the United States, offset by an improvement in Europe, both in terms of activity and the political scenario – the new American administration's difficulties in adopting measures against overcoming electoral obstacles in Europe. On the other hand, the emerging economies have dperformed less promisingly, with a slower than expected exit from the recession in Latin America (LatAm), and in a more diverse way, due to differing levels of dependence on commodity revenues.

This environment of positive growth is currently being partnered by only modest inflation levels. While the risks of deflation appear to have passed, the abundance of liquidity in the markets, as a result of very expansive monetary policies, has not been transformed into an acceleration in price increases (wages or core inflation). The remaining high level of unused capacity of resources could be behind this restraint - especially in the labour force - that seems to curb any significant acceleration of wages and core inflation, while in recent months the delay and some reversals in oil prices (7% on average between 1Q17 and 2Q17) have held back expectations and general inflation rates.

Favourable environment in financial markets and normalisation of monetary policies

The stance in the financial markets has been upbeat, with volatilities at historic lows despite the persistent economic, political and geo-political uncertainty, as well as the correction to expectations of a fiscal impulse in the USA. As a result, long term interest rates have remained anchored, and the appreciation of the dollar has slowed. This, together with a favourable economic environment, has boosted equities, which favours emerging markets. On the other hand, European assets, including the euro, have also become more appealing. Following the French elections and a context in which growth in the developed world is more favourable to Europe, capital flows into the eurozone have taken an about-turn.

The big question is whether the markets are being too accommodating, particularly bearing in mind that the major central banks are moving forwards into the normalisation process. In this context, central banks have begun to take steps to prepare the market for a gradual withdrawal of stimuli. For example, the US Federal Reserve (Fed) has twice raised interest rates during the course of the year, by a total amount of 50 basis points (bps), and has communicated and detailed a phasing-out plan for its balance sheet (another rise of 25 bps, probably in December, with the initiation of a "passive" reduction in the balance sheet, probably starting in October). However, in the absence of robust growth and with very contained price and wage inflation, market expectations are not aligned with those of the Fed (they are more bearish).

The European Central Bank (ECB) is holding interest rates unchanged (the refi rate at 0% and deposit rate at a negative level of -0.40%) and the asset purchasing programme (currently at 60bn euros a month). However, it is more confident about the strength of growth and believes that the risk of deflation has disappeared, giving rise to the first changes in communication (forward guidance). In June, the ECB eliminated the downward bias it had on Interest rates, which is interpreted as a first step in the long process of normalisation. Moving forward, it is expected that the September meeting will announce a reduction in the pace of asset purchases (tapering) that would be effective as for January 2018. Assuming that the central bank does not change the sequence in its exit process, interest rate rises will not take place until late 2018. Here, a good communications strategy is key to avoiding jitters in the financial markets, especially since they have been somewhat sceptical about any imminent normalisation.

While global growth forecasts remain at 3.3% for 2017 and 3.4% for 2018, they have been revised upwards both in China (in both years) and in Europe (in 2017) due to a better than expected first half of the year, while slightly correcting the US forecast downward. In LatAm, deteriorating commodity prices this year and increased domestic uncertainty in several countries make the exit from the recession slower than expected. These forecasts imply that in the coming quarters emerging economies should regain ground in respect to the advanced countries and China, which have spearheaded the recent upturn.

Likewise, the supports that have led to the recent acceleration will continue to be present, albeit with slight variations: monetary policies will gradually enter a process of normalisation, while fiscal policies will remain relatively neutral or expansionary; oil prices, which have delayed their progression towards long term equilibrium levels (USD60/bbl) due mainly to the rise in supply (from producer countries such as Libya, Nigeria and the US), are set to continue to chart their rising course; finally, the flurry of politically-related events (elections in Germany and Italy, Brexit negotiations, initiatives geared towards greater integration in the European Union, the political calendar in the United States, and the electoral cycle in LatAm in 2018) could influence economic confidence and the markets situation, although these seem to be having less lasting impact.

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