

## Central banks return to centre stage

**The central banks are setting the agenda and affecting financial sentiment.** After a relatively quiet holiday period, financial markets responded quite nervously to the accumulation of meetings by central banks in September (the ECB, Bank of England, Bank of Japan and Fed, in chronological order). The Fed's somewhat confused messages meant that a federal funds rate hike in September could not be entirely ruled out and the ECB and Bank of Japan were expected to take further steps in terms of their accommodative monetary policies. Given this situation, volatility spiked and risky assets were sold off, especially in the emerging countries. As these meetings were held it could be seen that there would not be too many changes to monetary policy: the ECB gave itself more time before taking any further decisions, the Bank of Japan focused on easing the financial pressure on banks and the Fed got ready, more unambiguously, for a federal funds rate hike at the end of the year. As a result, towards the end of September volatility eased and risky assets rallied. By the end of the month, the levels were similar to those recorded at the beginning of September in most advanced stock markets while the emerging economies had even advanced a little. This attention on central banks is partly due to the fact that purely macroeconomic data have tended to move along similar lines to those of previous months.

### **2016 is en route to achieving similar growth rates to 2015.**

As the year progresses, the pace of global activity seems to be similar to the figure posted in 2015. Nonetheless it should be noted that the composition of growth will vary a little from expectations: the US will perform slightly less well than forecast (growing by 0.2 pps less than predicted for 2016) but, on the other hand, the euro area and Japan will grow slightly more than expected (0.1 pps more in each case). The group of emerging economies is tending to recover the ground lost although commodity exporters are being penalised by a more adverse price scenario than initially expected (and, in some cases, shocks of political uncertainty). Precisely because of this situation, and after several unsuccessful attempts, OPEC has managed to agree a credible adjustment for production and, after its announcement, the price of Brent quality oil went from 46 to 49 dollars. This upswing reinforces the CaixaBank Research scenario of a recovery in the price of crude oil for the remainder of the year. Nonetheless the large stocks of oil, the resilience of unconventional supplies (shale) and lower growth in demand expected all suggest that, in the medium term, the speed at which prices will recover will be slower than predicted.

### **Equal growth in the US and euro area for 2016 as a whole.**

After a weak first six months of 2016, the US was expected

to speed up its growth rate slightly in the second half of the year. This scenario has come about but, after the figures published for the third quarter, it should be noted that the expansion will be somewhat more contained than predicted: the year will end with 1.5% growth in GDP compared with the previous forecast of 1.7%. Nonetheless the strength of the US labour market and expected rise in inflation confirm that the economy will soon require monetary normalisation and, as mentioned previously, will start to tighten up conditions at the end of 2016. Meanwhile the euro area is continuing to expand moderately with an identical growth forecast to that of the US (1.5%). However, the different rates of expansion in the medium term on both sides of the Atlantic will be borne out as time goes on: in 2017 the US will accelerate to 2.1% while the euro area's economy rate of expansion will slow down slightly (to 1.3%).

### **The Spanish economy maintains its (strong) pace.**

High frequency business indicators point to 2016 Q3 ending with activity growing at a notable rate: according to the CaixaBank Research forecast model, the quarter-on-quarter rise in GDP will be 0.8%, an increase similar to that of previous quarters. This trend confirms the growth forecast for 2016 (3.1%). The final part of the year will, however, be slightly less dynamic and a precursor to a relatively more subdued 2017 (2.4%). The pattern of growth expected over the coming months suggests that the areas underpinning the cycle will remain almost unaltered: on the supply side, services will continue to lead the expansion while this role will be played by private consumption and investment on the demand side. However, a larger contribution by the foreign sector is expected to emerge over the coming quarters, a favourable development insofar as the sustainability of growth is concerned. Given this positive situation, the public accounts need to be adjusted without delay. Although the trend so far has not been good (in July, the deficit for all public administrations as a whole was the same as one year earlier), it is true that the corrective measures announced by the government should help make up for this deviation. But although 2016 has been saved, this has not dispelled doubts regarding the country's capacity to meet its medium-term budget targets, a source of uncertainty that makes the Spanish economy more vulnerable to possible changes in international investor sentiment. Such a weakness should be corrected as quickly as possible, even more so when we remember that the favourable cyclical position of our economy will diminish slightly in the near future.