Global G10 analyst Olivier Desbarres reviews financial market developments in 2015 and looks ahead to 2016

In October, the International Monetary Fund's (IMF) projections for global growth in 2015 was 3.1%, 0.2% lower than the World Economic Outlook's July forecast, and marginally lower than in 2014. The decline in global growth, according to the IMF, reflects the slowdown in emerging markets, and a weaker recovery in advanced economies. With this in mind, I look back on the last twelve months, and forward to 2016.

Emerging markets

What determines a developed and developing economy became even more difficult to define in 2015. We saw both international organisations and countries being conservative in their evaluation.

The World Bank, which uses gross national income (GNI) as its metric, placed 75 countries in the high income bracket. Meanwhile the IMF, which uses no specific criteria, described only 35 as being advanced. For example, Russia is yet to be considered a developed nation by the IMF, yet the World Bank's criteria puts the country in the high-income category. At the other end of the scale, Greece's economic trajectory is taking it away from the developed universe, with GDP contracting 10% in recent years, and unemployment and poverty rocketing.

What constitutes an emerging market failed to evolve further. Despite being managed in sub-groups, emerging market categories are yet to include countries such as Thailand and the Philippines, which have been performing well in recent years, or emerging eastern European countries such as Hungry, Poland and Romania.

BRICS is the acronym used to describe the five major emerging national economies – Brazil, Russia, India, China and South Africa. The acronym, first coined in 2001, is now showing signs of ageing due, in part, to the economic performance of its countries.

Central bank reserves

In the first half of 2015, we saw global growth decline and a fall in emerging market central bank foreign exchange reserves. The US dollar-value foreign exchange reserves, which began declining at the end of 2014, fell further in January and February of this year.

This had dire implications for developed equity and bond markets – in theory. However, on analysis the US dollar's appreciation versus other reserve currencies actually exaggerated the fall in emerging market central bank reserves. In fact, more stable current account balances between developed countries and emerging markets central banks, alongside quantitative easing programmes, actually led to some currency appreciation in Asia and other emerging markets.

China

In February, China's annual trade surplus surged to a record high of $492 billion, and Chinese stocks performed well until mid-June. But weak global demand and aggressive credit growth depressed China's exports.

In August we saw a meltdown in global equities, commodity prices and emerging market currencies. The causes behind the crash are complex, but an inability of international policy-makers to engineer a more robust path for economic growth was a significant factor.

The slowdown in China is expected to continue into 2016. Chinese investors are now looking elsewhere, especially to equities, as an alternative source of return on investment.

Opportunities in Asia

After an unnerving summer, I wanted to ascertain whether the sell-off in Asian currencies had created any real value opportunities. So I created a heat map to compare non-Japan Asia currencies.

Using the heat map I was able to analyse a number of factors including: currency valuation; currency seasonality; correlation to the Chinese renminbi; the performance of merchandise exports; the economy's exposure to oil and gas prices; the performance of industrial output, and external debt.

Although no currencies stood out as either very cheap of expensive, it did tell me that both the Thai baht and Korean won were looking attractive. It also indicated that the Indonesian rupiah and Malaysian ringgit were potentially vulnerable.

Conclusion

It has been a volatile year, and despite equity and commodity markets recovering in the latter half of the year, overall global economic growth has been weak. However, we have not seen a global recession, nor the economic collapse on the scale predicted, despite the summer crash. In fact estimates by the World Bank and the IMF indicate that global GDP growth has remained slow but stable.

Next year

The IMF projects that global activity will improve in 2016, with the modest level of recovery we are seeing in advanced economies continuing, as well as growth in emerging market and developing economies. While, according to the FT, currency strategists drawing up their predictions for 2016 believe the US dollar will get stronger, emerging market currencies will stay weak and China's renminbi will depreciate gradually.

Much will depend on what the US Federal Reserve and the European Central Bank (ECB) decide to do. The two banks are due to meet this month. While the ECB is likely to ease monetary policy, the US Federal Reserve will almost certainly put tighter measures in place, and raise interest rates. If, as economists worldwide are predicting, we see further divergence, then the two banks will for first time since the global recession of 2008, move in very different directions.

What is certain, is that we should be prepared for an interesting and potentially turbulent 2016.

Olivier Desbarres currently works as an independent commentator on G10 and Emerging Markets. He is a former G10 and emerging markets economist, rates and currency strategist with over 15 years' experience with two of the world's largest investment banks.