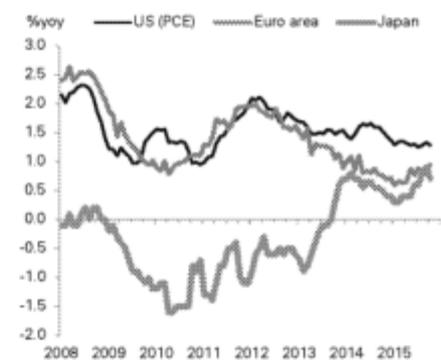




Inflation is expected to rebound sharply in 2016 and rise modestly further in 2017. The initial acceleration is driven primarily by the stabilization of energy price, removing what has been a considerable downward force on broad price indexes. Hence, the gap between headline and core inflation will close in the coming year. In addition, core inflation rates in the G3 economies have already begun to rise gently, and our expectation is that even after the commodity price effect lifts headline inflation, the underlying rising trend in core inflation will continue to push inflation higher. Advanced economy inflation is projected to rise by 1 percentage point next year and 0.6 percentage points in 2017. On the other hand, inflation in emerging market economies – less influenced in most cases by energy prices – is expected to rise modestly next year and remain stable in 2017. Upside risks to inflation from food prices are a concern – this year has seen the most pronounced El Nino cycle on record and weather patterns may be equally disruptive next year. As yet, however, food prices globally are not showing any upward momentum.

Figure 6: G3 core inflation



Note: Japan "core core" inflation, net of the consumption tax increase.
Source: CEIC, Deutsche Bank Research

Figure 7: Global inflation revised up led by emerging market economies

Inflation forecast & revision

% yoy	Forecast level			Forecast change since		
	Current			June 15 WO Update		
	2015F	2016F	2017F	2015F	2016F	2017F
G7	0.3	1.5	2.1	-0.1	-0.5	n.a
US	0.2	1.9	2.3	0.0	-0.6	-0.3
Japan	0.8	0.7	2.1	-0.1	-0.3	0.2
Euro area	0.1	0.9	1.6	-0.2	-0.5	-0.1
Asia (ex-Japan)	2.4	2.9	2.9	-0.2	-0.6	n.a
China	1.4	1.8	1.8	-0.2	-0.9	-1.2
India	4.9	5.4	5.0	-0.2	-0.3	-0.5
EEMEA	8.7	6.7	5.9	0.2	1.0	n.a
Russia	15.6	9.2	7.1	0.4	2.2	0.3
Latin America	15.2	18.8	19.4	2.2	6.2	n.a
Brazil	9.0	8.5	6.2	0.5	2.6	1.2
Advanced economies	0.3	1.4	2.0	-0.1	-0.5	n.a
EM economies	5.6	5.9	5.7	0.2	0.7	n.a
Global	3.4	4.0	4.2	0.1	0.2	n.a

Note: June 15 World Outlook update forecasts have been recalculated using IMF WEO October -15 PPP weights
Source: Deutsche Bank Research

Our inflation forecasts have undergone significant revisions since the June update. Global inflation expectations have been revised up by 0.1 and 0.2 percentage points for 2015 and 2016. The impetus for this revision is higher inflation in emerging market economies resulting from greater-than-expected currency depreciation. This is most pronounced in Latin America, where forecast inflation has been revised up by 2.2 and 6.2 percentage points for 2015 and 2016, respectively. Inflation has been marked down broadly across advanced economies and emerging Asia, with forecasts falling by a few tenths for 2015 and by about one-half of a percentage point for next year.