



Dollar bloc

Canada

It appears likely that the significant erosion of investor confidence due to volatile commodity prices and the heightened concerns about the global economy will dampen investment well into the second half of the year. Despite this drag, overall growth should benefit from a further strengthening of non-commodity exports fuelled by an expanding US economy as well as by the impact of an increase in spending on infrastructure promised by the recently elected Liberal government. Based on this scenario we expect the output gap to gradually narrow over the course of the year causing the Bank of Canada to begin to tighten late in the final quarter of this year or early in the first quarter of 2017.

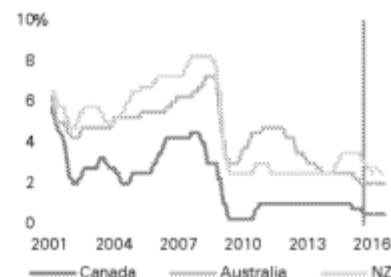
Australia

Our expectation of a broadly stable unemployment rate over 2016, with some prospect of a modest decline further down the track should see the RBA cash rate end 2016 at its current level of 2.00%. That said, the prospect of another low CPI in late January could see some risk of an RBA rate cut in February. It appears, however, that the RBA will look through another soft inflation print, given the improvement in the labour market and business conditions.

New Zealand

Our central view remains that 2.5% will remain the low-point for the OCR this cycle, not least due to the RBNZ's reluctance to move the OCR lower. However, we certainly do not rule out the possibility of further easing in H1-16, with domestic drought conditions, unexpected exchange rate strength, further commodity price weakness, global financial volatility, disappointing global growth outcomes and geopolitical risks all capable of driving such an outcome.

Figure 3: Dollar bloc policy rates



%	Current	Mar-16	Jun-16	Sep-16	Dec-16
BoC	0.50	0.50	0.50	0.50	0.75
RBA	2.00	2.00	2.00	2.00	2.00
RBNZ	2.75	2.75	2.50	2.50	2.50

Source: Deutsche Bank Research

BRICs

China

We expect GDP to grow 7.0% in 2016Q1, before the effect of policy easing in 2015 start to peter out. With PBoC's focus shifting from the RMB-USD rate to a currency basket, we expect USDCNY to depreciate some 8% in 2016 and be around 7.0 at year end. We expect four RRR cuts and two benchmark interest cuts in 2016.

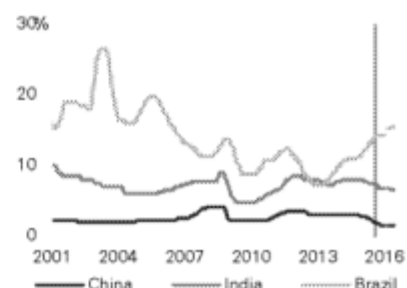
India

RBI's near term target of achieving 5.8% CPI inflation by early 2016, is likely to be met. But achieving the medium-term target of pushing inflation below 5% by early 2017 is going to be an uphill task given the various risks from fiscal, food supply, and services sector inflation, which probably will lead RBI to maintain a cautious stance. Consequently, we expect only one 25bps rate cut in 1H2016.

Brazil

The BCB has signaled that it will initiate another tightening cycle in order to make inflation converge to the 4.5% target in 2017, so we now expect a short cycle of 125bps starting with a 50bp hike in January.

Figure 4: BRICs policy rates



%	Current	Mar-16	Jun-16	Sep-16	Dec-16
PBoC	1.50	1.50	1.50	1.25	1.00
RBI	6.75	6.75	6.50	6.50	6.50
BCB	14.25	15.25	15.50	15.50	15.50

Source: Deutsche Bank Research