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This week's issue of "Our Economy and the World" includes:

Key Global and Regional Developments over the Past Week

Bloomberg: Investors underestimate risk of a financial shock, IMF warns

Investors may be ignoring the risk that financial conditions could tighten sharply and send tremors through the global economy, the International Monetary Fund warned. "Asset valuations appear to be relatively high in some markets, notably in the United States," the IMF said Wednesday in its latest Global Financial Stability Report. "Overall, market participants appear complacent about the risk of a sharp tightening of financial conditions."

Read the full article

Bloomberg: IMF sees deeper recession in Argentina, slower growth in Brazil

The International Monetary Fund forecast that a deeper-than-expected recession in Argentina and slower growth in Brazil will weigh on the economic performance of Latin America this year and next. The region will grow 1.2 percent in 2018 and 2.2 percent in 2019, according to the IMF's World Economic Outlook released early Tuesday in Bali, where the Fund holds its biannual meeting this week. Both estimates are 0.4 percentage points lower than the prior forecasts in July. Latin America's gross domestic product expanded 1.3 percent in 2017.

Read the full article

Reuters: IMF Lagarde urges China to keep moving toward flexible yuan system

International Monetary Fund Managing Director Christine Lagarde said on Thursday she hopes China follows through on the IMF's recommendation to continue moving toward a system that allows the yuan to move flexibly. "We're seeing more and more countries, China included, let their currencies fluctuate," Lagarde told a news conference.

Read the full article

Reuters: World Bank's Kim sees 'clear' economic slowdown if trade war escalates

World Bank President Jim Yong Kim said on Thursday he is very concerned about the trade tensions between China and the United States and warned of a clear hit to global growth if all countries escalated their tariff threats.

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Special Analysis: IMF World Economic Outlook, October 2018

Global growth is projected at 3.7 percent for 2018– 19—0.2 percentage point lower for both years than forecast in April. In the United States, momentum is still strong as fiscal stimulus continues to increase, but the forecast for 2019 has been revised down due to recently announced trade measures, including the tariffs imposed on $200 billion of US imports from China. Growth projections have been marked down for the euro area and the United Kingdom, following surprises that suppressed activity in early 2018. Among emerging market and developing economies, the growth prospects of many energy exporters have been lifted by higher oil prices, but growth was revised down for Argentina, Brazil, Iran, and Turkey, among others, reflecting country-specific factors, tighter financial conditions, geopolitical tensions, and higher oil import bills. China and a number of Asian economies are also projected to experience somewhat weaker growth in 2019 in the aftermath of the recently announced trade measures. Beyond the next couple of years, as output gaps close and monetary policy settings continue to normalize, growth in most advanced economies is expected to decline to potential rates—well below the averages reached before the global financial crisis of a decade ago. Slower expansion in working-age populations and projected lackluster productivity gains are the prime drivers of lower medium-term growth rates. US growth will decline as fiscal stimulus begins to unwind in 2020, at a time when the monetary tightening cycle is expected to be at its peak. Growth in China will remain strong but is projected to decline gradually, and prospects remain subpar in some emerging market and developing economies, especially for per capita growth, including in commodity exporters that continue to face substantial fiscal consolidation needs or are mired in war and conflict.

Risks to global growth skew to the downside in a context of elevated policy uncertainty. Several of the downside risks highlighted in the April 2018 World Economic Outlook (WEO)—such as rising trade barriers and a reversal of capital flows to emerging market economies with weaker fundamentals and higher political risk—have become more pronounced or have partially materialized. While financial market conditions remain accommodative in advanced economies, they could tighten rapidly if, for example, trade tensions and policy uncertainty were to intensify. Monetary policy is another potential trigger. The US economy is above full employment, yet the path of interest rate increases that markets anticipate is less steep than that projected by the Federal Reserve. Unexpectedly high inflation readings in the United States could therefore lead investors to abruptly reassess risks. Tighter financial conditions in advanced economies could cause disruptive portfolio adjustments, sharp exchange rate movements, and further reductions in capital inflows to emerging markets, particularly those with greater vulnerabilities.

Read the full report

Recent Developments in Financial and Commodity Markets

Reuters: Oil extends losses as other markets fall, stockpiles climb

Oil prices fell to two-week lows on Thursday as they extended big losses from the previous session amid a rout in global stock markets, with oil also taking a hit from an industry report showing U.S. crude inventories rose more than expected.
Read the full article

Reuters: Asia shares shattered by Wall Street rout

Asian share markets sank in a sea of red on Thursday after Wall Street suffered its worst drubbing in eight months, a conflagration of wealth that could threaten business confidence and investment across the globe. It also raised the stakes for U.S. inflation figures due later on Thursday as a high outcome would only stoke speculation of more aggressive rate hikes from the Federal Reserve.
Read the full article

Reuters: Euro, sterling rise on hopes for Brexit deal

The euro and sterling rose on Wednesday, underpinned by optimism for a Brexit deal, while the dollar lost ground against a basket of currencies even as U.S. bond yields hovered at multiyear peaks. The common currency's gains were limited by worries about the sustainability of Italy's public finances, though Italian Economy Minister Giovanni Tria reiterated on Wednesday that the government would do everything in its power to regain the confidence of financial markets.
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