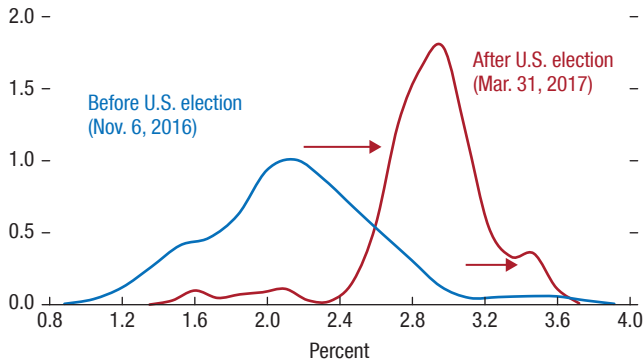


Figure 1.3. Reflation and Market Optimism

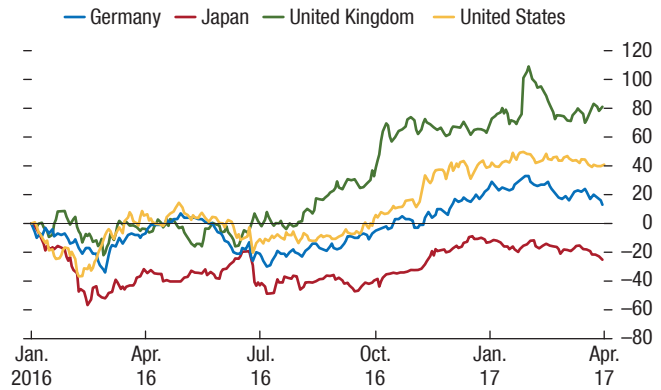
Market expectations for the U.S. economy and monetary policy normalization have improved ...

... and hopes are rising for reflation across advanced economies ...

1. Consensus Forecasts for End-2017 U.S. 10-Year Treasury Yield (Probability density)

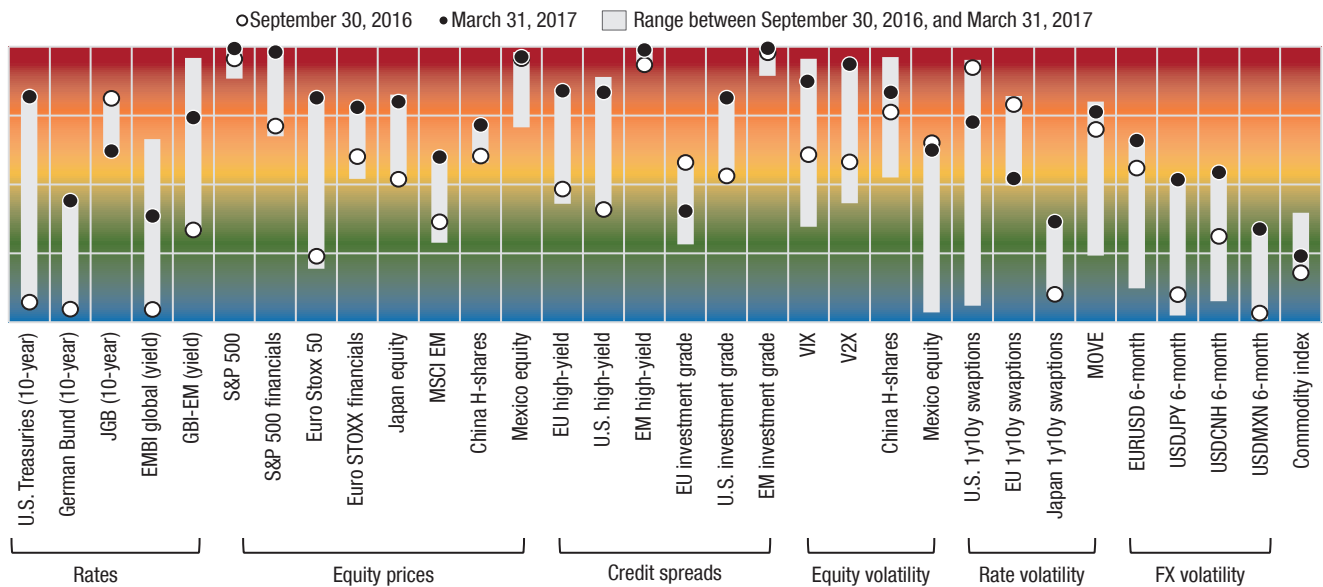


2. Ten-Year Inflation Compensation (Cumulative breakeven yield change in basis points)



... generating market optimism and a compression in volatility across a number of global markets.

3. Financial Market Risk Dashboard



Sources: Bloomberg L.P.; Consensus Economics; and IMF staff estimates.

Note: In panel 3, each marker is a 30-day moving average of daily percentile rank in relation to the asset's three-year history. Closer to red represents higher prices and interest rates and lower spreads and volatility, and closer to blue is vice versa. EM = emerging market; FX = foreign exchange; GBI = Government Bond Index; JGB = Japanese Government Bond; MOVE = Merrill Lynch Option Volatility Estimate (a yield curve-weighted index of the normalized implied volatility on one-month Treasury options); MSCI = Morgan Stanley Capital International; V2X = Dow Jones Euro STOXX 50 Volatility Index; VIX = Chicago Board Options Exchange Market Volatility Index.