

January 2017

Macroeconomic and financial forecasts

MACROECONOMIC OUTLOOK

- United States:** the economy rebounded in H2 2016. The labour market continues to improve and wages are increasing. Donald Trump's election generated significant expectations for stimulus measures, but also concerns over potential protectionist decisions.
- Japan:** wage increases are the key to a lasting recovery, given the sluggishness of global trade. Fiscal policy will remain a key growth driver. The BoJ's new policy which aims to keep the 10-year rate at zero for the foreseeable future will give the government additional room for manoeuvre. It's a situation worth watching.
- Eurozone:** the recovery is continuing, even though investment remains disappointing. Domestic cyclical factors are favourable, but the temporary drivers (decline in the euro and oil prices) are sputtering and risks (political uncertainties, exposure to the emerging market slowdown) are increasing.
- Brazil:** Q3's GDP figure came out at -2.9% yoy, compared to -3.6% in Q2. Investment, which returned to positive territory in Q2, contracted once again. Industrial output contracted again in November (-1.1% yoy), which was the 33rd consecutive month of decline. As such, we continue to forecast a 0.5% recession in 2017.
- Russia:** Q3 GDP (-0.4% yoy) contracted less than in Q2Q2 (-0.6%). We are maintaining our scenario of an exit from crisis in 2017 and are forecasting growth of 1%.

Annual averages (%)	Real GDP growth. %			Inflation (CPI. yoy. %)		
	2015	2016	2017	2015	2016	2017
US	2.6	1.5	2.0	0.1	1.3	2.2
Japan	0.5	0.6	0.7	0.8	-0.1	0.7
Eurozone	2.0	1.5	1.3	0.0	0.3	1.3
Germany	1.7	1.7	1.4	0.1	0.4	1.5
France	1.3	1.3	1.2	0.1	0.3	1.2
Italy	0.8	0.9	1.1	0.1	0.0	1.0
Spain	3.2	2.8	1.3	-0.5	-0.4	1.2
UK	2.2	2.0	0.5	0.1	0.7	2.2
Brazil	-3.8	-2.5	-0.5	9.0	6.8	6.0
Russia	-3.7	-0.7	1.0	15.5	10.0	8.5
India	7.6	7.5	7.6	5.2	5.4	5.2
Indonesia	4.8	5.0	5.1	6.4	4.5	4.5
China	6.9	6.7	6.5	1.4	1.2	1.2
Turkey	3.8	2.6	3.0	7.7	7.5	7.0
Developed countries	1.9	1.5	1.6	0.2	0.8	1.7
Emerging countries	4.1	4.1	4.4	4.0	4.2	3.7
World	3.2	3.0	3.2	2.4	2.7	2.8

Source: Amundi Research

KEY INTEREST RATE OUTLOOK

- FED:** it Fed raised the fed funds target to 0.50-0.75%. The Fed should hike two other times in 2017. The normalization of the balance sheet may become a market theme.
- ECB:** it extended its QE until Dec. 2017 at a reduced pace (€60bn/ month). Few changes have to be expected in the short-run but divergences within the governing council will be more and more clear.
- BoJ:** after it announced it would target the long-end of the yield curve, it is likely that the BoJ will lower further the short-term rates.
- BoE:** it cut its key rates to 0.25% and resumed its QE policy. It will be torn between the rise of inflation and the worsening of growth prospects.

	10/01/2017	Amundi + 6m.	Consensus Q2 2017	Amundi + 12m.	Consensus Q4 2017
US	0.75	1.00	0.95	1.25	1.30
Eurozone	0.00	0.00	0.00	0.00	0.00
Japan	-0.10	-0.20	-0.10	-0.30	-0.10
UK	0.25	0.25	0.25	0.25	0.25

LONG RATE OUTLOOK

- United States:** inflation base effects will be significant during the two first months of the year and will push up inflation expectations. Doubts about the prospect of a fiscal stimulus boosting growth would be negative for real yields.
- Eurozone:** the ECB announcements favor a steepening of the yield curve. The PSPP purchases will be redirected towards the short-end of the curve.
- United Kingdom:** the potential for a rise UK yields is limited as the economic outlook is worsening and as BoE purchases will weigh on yields.
- Japan:** the BoJ controls the long-end of the curve and is probably in favour of a decline of short-term bond yields.

2Y. Bond yield					
	10/01/2017	Amundi + 6m.	Forward + 6m.	Amundi + 12m.	Forward + 12m.
US	1.19	1.20/1.40	1.55	1.60/1.80	1.82
Germany	-0.73	-0.80/-0.60	-0.71	-0.80/-0.60	-0.68
Japan	-0.25	-0.40/-0.20	-0.18	-0.40/-0.20	-0.12
UK	0.19	0.00/0.20	0.26	0.00/0.20	0.45

10Y. Bond yield					
	10/01/2017	Amundi + 6m.	Forward + 6m.	Amundi + 12m.	Forward + 12m.
US	2.38	2.40/2.60	2.53	2.20/2.40	2.65
Germany	0.29	0.20/0.40	0.44	0.20/0.40	0.55
Japan	0.06	0	0.12	0	0.18
UK	1.35	1.40/1.60	1.53	1.40/1.60	1.65

CURRENCY OUTLOOK

- EUR:** we expect a relative stability of the euro in effective terms in the coming months. The new ECB measures limit the upside for the euro during the coming semester. But market talks of a QE tapering would push up the euro.
- USD:** the trade-weighted USD has risen sharply with the divergence between the US rates and that of other developed countries. This will be a limiting factor for the rise of long-term yields. The USD may appreciate slightly in the short-run but is now very expensive.
- JPY:** the yen became undervalued again. With the BoJ's yield curve control policy, a rise of US yields triggers a yen depreciation.
- GBP:** the pound's evolution will be dictated by political developments. A progression towards a 'soft Brexit' would be positive for the currency.

	10/01/2017	Amundi + 6m.	Consensus Q2 2017	Amundi + 12m.	Consensus Q4 2017
EUR/USD	1.06	1.05	1.03	1.10	1.05
USD/JPY	116	115	116	110	115
EUR/GBP	0.87	0.90	0.85	0.90	0.84
EUR/CHF	1.07	1.05	1.07	1.00	1.09
EUR/NOK	9.06	8.70	8.74	8.50	8.83
EUR/SEK	9.57	9.40	9.46	9.20	9.39
USD/CAD	1.32	1.40	1.35	1.45	1.35
AUD/USD	0.74	0.75	0.73	0.70	0.73
NZD/USD	0.70	0.70	0.68	0.67	0.68

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