

May 2017

## Macroeconomic and financial forecasts

### MACROECONOMIC OUTLOOK

- United States:** despite some disappointing figures early on in the year, the recovery remains solid and the labour market continues to improve, Core inflation is still below the Fed's target. The White House announced that it would present its proposed budget blueprint to Congress in early May. From a macroeconomic standpoint, the bias is to the upside (growth, inflation) and the theme of protectionism has been dialled back. However, we should still be prepared for some disappointments because Donald Trump will find it tough to follow through with most of his promises on tax reform.
- Japan:** investment rebounded in Q4, reversing the trend seen in the first three quarters of 2016. The BoJ's quarterly Tankan index indicates solid growth in Q1. Additionally, fiscal policy remains a key growth driver. The BoJ's policy is enabling accommodative monetary conditions to remain in place.
- Eurozone:** the recovery is strengthening. Sentiment is at its strongest level since 2011, indicating that the economy strengthened in Q1 with monetary conditions remaining accommodative despite the rise in interest rates. However, political risks (France, Germany and Italy) remain the region's weak link. Keep watching.
- Brazil:** Q4's GDP figure came out at -2.5% yoy, compared to -2.9% in Q3. Brazil's economy was hit by another major recession in 2016 (-3.4%). Growth carryover for 2017 remains substantially negative (-1.1%). As such, we continue to forecast a 0.5% recession in 2017.
- Russia:** Q4 GDP was positive at +0.3% yoy. Overall, in 2016, the country suffered a 0.2% recession, which was less severe than in our scenario (-0.7%). We should point out that the Russian statistics institute revised its GDP figures. As such, in 2015, the recession would have been only 2.8% compared to 3.7% previously estimated. We are maintaining our scenario of a return to positive growth of +1% for 2017.

Annual averages (%)	Real GDP growth. %			Inflation (CPI. yoy. %)		
	2016	2017	2018	2016	2017	2018
<b>US</b>	1.6	2.0	2.2	1.3	2.5	2.3
<b>Japan</b>	1.0	1.0	1.0	-0.1	0.3	0.9
<b>Eurozone</b>	1.7	1.6	1.5	0.2	1.5	1.2
Germany	1.8	1.7	1.6	0.4	1.6	1.4
France	1.2	1.4	1.3	0.3	1.3	1.1
Italy	0.9	1.1	1.1	-0.1	1.2	1.1
Spain	3.2	2.3	1.6	-0.2	1.3	1.2
<b>UK</b>	1.8	1.5	1.3	0.6	2.5	1.9
<b>Brazil</b>	-3.6	-0.5	1.4	8.7	4.4	5.4
<b>Russia</b>	-0.2	1.0	1.8	7.0	4.5	5.1
<b>India</b>	7.5	7.6	7.6	5.4	5.2	5.2
<b>Indonesia</b>	5.0	5.2	5.2	4.5	4.5	4.5
<b>China</b>	6.7	6.4	6.0	1.2	1.5	1.4
<b>Turkey</b>	2.9	3.4	2.5	7.8	10.1	8.9
<b>Developed countries</b>	1.6	1.7	1.8	0.7	1.8	1.7
<b>Emerging countries</b>	4.0	4.3	4.4	4.1	3.9	3.5
<b>World</b>	3.0	3.2	3.3	2.6	3.0	2.7

Source: Amundi Research

### KEY INTEREST RATE OUTLOOK

- FED:** the Fed raised the fed funds target to 0.75-1.00% in March. The Fed should hike two other times in 2017. The issue of the normalization of the balance sheet is now clearly on the table.
- ECB:** the ECB extended its QE until December 2017 at a reduced pace (€60bn/month). Few concrete changes have to be expected until an acceleration of the core inflation is not observed. The communication will be gradually less dovish.
- BoJ:** she will stick to its Yield Curve Control (YCC) policy and should not change its rate targets.
- BoE:** the BoE will not hike its rate if the economic situation worsens.

	03/05/2017	Amundi + 6m.	Consensus Q3 2017	Amundi + 12m.	Consensus Q1 2018
<b>US</b>	1.00	1.25	1.40	1.50	1.65
<b>Eurozone</b>	0.00	0.00	0.00	0.00	0.00
<b>Japan</b>	-0.10	-0.10	-0.10	-0.10	-0.10
<b>UK</b>	0.25	0.25	0.25	0.25	0.30

### LONG RATE OUTLOOK

- United States:** in the short run, the rise of long-term yields will be slowed by the easing of inflation base effects, the fact that hard economic data are not confirming the substantial expectations of surveys and the doubts about the ability of the new administration to implement stimulus measures.
- Eurozone:** throughout the year, the short-end of the curve will steepen with the comeback of the idea that the ECB will normalize its rate policy in the coming years.
- United Kingdom:** the worsening of activity indicators should exert some downward pressure on UK 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					
	03/05/2017	Amundi + 6m.	Forward + 6m.	Amundi + 12m.	Forward + 12m.
<b>US</b>	1.28	1.40/1.60	1.50	1.60/1.80	1.68
<b>Germany</b>	-0.72	-0.80/-0.60	-0.66	-0.80/-0.60	-0.61
<b>Japan</b>	-0.20	-0.20/-0.00	-0.20	-0.20/-0.00	-0.17
<b>UK</b>	0.08	0.00/0.20	0.13	0.00/0.20	0.23

  

10Y. Bond yield					
	03/05/2017	Amundi + 6m.	Forward + 6m.	Amundi + 12m.	Forward + 12m.
<b>US</b>	2.29	2.40/2.60	2.44	2.40/2.60	2.55
<b>Germany</b>	0.33	0.40/0.60	0.46	0.60/0.80	0.57
<b>Japan</b>	0.02	0	0.08	0	0.14
<b>UK</b>	1.09	1.00/1.20	1.19	1.00/1.20	1.31

### CURRENCY OUTLOOK

- EUR:** with the rise of German long-term yields and the gradual exit of the ECB from its ultra-loose policies, the euro should be higher at the end of the year.
- USD:** the evolution of the USD is currently dictated by the long-term rate differential. The US authorities (Fed, new administration) would not tolerate a significant appreciation of the USD.
- JPY:** the yen became undervalued. With the BoJ's yield curve control policy, a rise of US yields triggers a yen depreciation.
- GBP:** we have a negative bias on the pound, which should continue to suffer from the gradual worsening of the economy.

	03/05/2017	Amundi + 6m.	Consensus Q1 2017	Amundi + 12m.	Consensus Q3 2017
<b>EUR/USD</b>	1.09	1.10	1.07	1.15	1.08
<b>USD/JPY</b>	112	115.00	114.00	115.00	115.00
<b>EUR/GBP</b>	0.84	0.90	0.86	0.90	0.86
<b>EUR/CHF</b>	1.08	1.05	1.08	1.00	1.08
<b>EUR/NOK</b>	9.39	8.70	8.99	8.50	8.89
<b>EUR/SEK</b>	9.63	9.20	9.41	9.00	9.19
<b>USD/CAD</b>	1.37	1.40	1.35	1.40	1.35
<b>AUD/USD</b>	0.75	0.75	0.74	0.75	0.74
<b>NZD/USD</b>	0.69	0.70	0.69	0.70	0.68



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