

Macroeconomic and financial forecasts

MACROECONOMIC OUTLOOK

- **United States:** expansion continues as does the improvement in the labour market. Donald Trump's political difficulties do not jeopardise the continuation of the cycle. Tax cuts are likely before the 2018 mid-term elections, which should help growth to stabilise at around 2%.
- **Japan:** growth provided an upside surprise in Q1 (+2.1%). This is the 5th consecutive quarter of expansion. Fiscal policy remains a growth driver and the BoJ's policy is enabling accommodative monetary conditions to remain in place. However, nominal GDP growth is very low due to a decline in prices (GDP deflator) and employees' real remuneration was lower for the 2nd consecutive quarter. Growth will probably decelerate.
- **Eurozone:** the recovery is strengthening. Sentiment is at its strongest level since 2011, indicating an improvement in the economy with monetary conditions remaining accommodative despite the rise in interest rates. It is important to continue monitoring the political risk (in Italy especially).
- **Brazil:** Q1 GDP growth came out at -0.4%, better than the previous quarter (-2.5% yoy). However, this improvement can be attributed mainly to the recomposition of inventories. We have upgraded our forecast for 2017 to 0% vs. -0.5% previously. We remain cautious given the weak demand and political uncertainty and with regard to the budgetary reforms.
- **Russia:** GDP is expected to have risen by +0.5% yoy in Q1 2017 vs. +0.3% yoy in Q4 2016 according to a preliminary estimate. This figure reinforces our scenario of a return to positive growth for 2017. However, given i) the lack of information on the components at this date and ii) the fragility of economic indicators, we maintain our growth figure of +1% yoy in 2017.

Annual averages (%)	Real GDP growth. %			Inflation (CPI. yoy. %)		
	2016	2017	2018	2016	2017	2018
US	1.6	2.0	2.0	1.3	2.5	2.3
Japan	1.0	1.2	1.0	-0.1	0.3	0.9
Eurozone	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
UK	1.8	1.5	1.3	0.6	2.5	1.9
Brazil	-3.6	0.0	1.4	8.7	4.4	5.4
Russia	-0.2	1.0	1.8	7.0	4.5	5.1
India	7.5	7.6	7.6	5.4	5.2	5.2
Indonesia	5.0	5.2	5.2	4.5	4.5	4.5
China	6.7	6.4	6.0	1.2	1.5	1.4
Turkey	2.9	3.4	2.5	7.8	10.1	8.9
Developed countries	1.6	1.8	1.7	0.7	1.8	1.7
Emerging countries	4.0	4.3	4.4	4.1	3.9	3.5
World	3.0	3.2	3.2	2.6	3.0	2.7

Source: Amundi Research

KEY INTEREST RATE OUTLOOK

- **FED:** the Fed will hike the fed funds another time in June. At the end of the year, the Fed will announce the beginning of the non-reinvestment of the maturing assets it holds.
- **ECB:** the QE will continue at a €60bn/ month pace until December 2017. The ECB should announce later this year that the QE's pace will be reduced in 2018. The communication will be gradually less dovish but few concrete changes have to be expected until an acceleration of the core inflation is observed.
- **BoJ:** it 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.

	02/06/2017	Amundi + 6m.	Consensus Q4 2017	Amundi + 12m.	Consensus Q2 2018
US	1.00	1.50	1.50	1.75	1.85
Eurozone	0.00	0.00	0.00	0.00	0.00
Japan	-0.10	-0.10	-0.10	-0.10	-0.10
UK	0.25	0.25	0.25	0.25	0.25

LONG RATE OUTLOOK

- **United States:** as the end of cycle is nearing, the yield curve will continue to flatten. The issue of the substitution between fed funds hikes and balance sheet reduction will be crucial.
- **Eurozone:** long-term rates should rise with the gradual exit of the ECB from its ultra-loose policies. Inflation break-even rates remain (too) depressed.
- **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					
	02/06/2017	Amundi + 6m.	Forward + 6m.	Amundi + 12m.	Forward + 12m.
US	1.28	1.40/1.60	1.44	1.60/1.80	1.57
Germany	-0.72	-0.80/-0.60	-0.71	-0.80/-0.60	-0.64
Japan	-0.15	-0.20/-0.00	-0.15	-0.20/-0.00	-0.13
UK	0.11	0.00/0.20	0.14	0.00/0.20	0.19

10Y. Bond yield					
	02/06/2017	Amundi + 6m.	Forward + 6m.	Amundi + 12m.	Forward + 12m.
US	2.15	2.40/2.60	2.27	2.40/2.60	2.38
Germany	0.27	0.40/0.60	0.43	0.60/0.80	0.55
Japan	0.06	0	0.09	0	0.15
UK	1.04	1.00/1.20	1.14	1.00/1.20	1.26

CURRENCY OUTLOOK

- **EUR:** with the gradual exit of the ECB from its ultra-loose policies, the euro should be higher at the end of the year.
- **USD:** the USD is back to where it was during the US election. Further disappointment about future stimulus measures would weigh further on the USD.
- **JPY:** the yen is still undervalued. Against a backdrop of very low volatility, the JPY may be interesting for risk hedging purposes.
- **GBP:** we have a negative bias on the pound, which should continue to suffer from the gradual worsening of the economy.

	02/06/2017	Amundi + 6m.	Consensus Q4 2017	Amundi + 12m.	Consensus Q2 2018
EUR/USD	1.13	1.15	1.10	1.20	1.12
USD/JPY	110	115.00	115.00	110.00	115.00
EUR/GBP	0.87	0.90	0.87	0.90	0.88
EUR/CHF	1.09	1.05	1.10	1.05	1.11
EUR/NOK	9.50	9.20	8.99	9.00	9.23
EUR/SEK	9.73	9.60	9.41	9.40	9.71
USD/CAD	1.35	1.37	1.35	1.40	1.33
AUD/USD	0.74	0.72	0.74	0.70	0.75
NZD/USD	0.71	0.70	0.68	0.70	0.71

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