Macroeconomic picture

AMERICAS		RISK FACTORS
UNITED STATES	**Mixed economic figures, uncertainty over fiscal policy persists** > Economic figures which, for the most part, came in below expectations were not enough to call into question the continued recovery. The slowdown in job creations is normal at this stage of the cycle. Economic surveys remain solid. > Donald Trump's political problems are making it harder for him to meet his campaign promises, a significant portion of which will be abandoned. The Republicans are nonetheless likely to reach an agreement on tax cuts before the 2018 mid-terms, which should keep growth above potential in 2018. The protectionist leanings of Trump and the Republicans in the House of Representatives appear to have been reined in by heavy resistance.	**> Uncertainty surrounding the new administration's decisions** **> Growth potential stunted for the foreseeable future ("secular stagnation")** **> Erosion of corporate margins**
BRAZIL	> Inflation has receded considerably, and the BCB has undertaken a monetary easing cycle and is likely to stick to it, all other things being equal. > Economic activity indicators are slowly improving. > The recovery is being nipped in the bud by a new episode in the political crisis, which, once again, involves the president directly, and by further downgrades in the sovereign rating.	**> Easing in fiscal policy, with, in particular, a very modest pension reform.** **> Sharp drop in the real** **> Sliding into recession**
EUROPE		
EUROZONE	**The economy is improving and risk is receding** > There was much good news in H1. Economic indicators were better than expected, political risk eased and progress was made on the restructuring of the Italian banking sector. We once again increased our growth forecast (1.8% for 2017, 1.6% for 2018, compared to 1.6% and 1.5% previously). The recovery is beginning to trickle into core inflation, but only very moderately (1.1% on average in Q2 compared to 0.8% over the previous two quarters). > Political uncertainty remains in Italy (with elections set for no later than May 2018 with a heavy dose of Euroscepticism), but the most likely scenario is that Italy will continue to be governed by a pro-European coalition. General elections in Germany in September are unlikely to cause any market tensions. > One of the key points to watch in H2 will be the change in the ECB's attitude.	**> Political risk (rise of protest parties, Brexit)** **> Contagion of the emerging world's economic and/or financial hardships** **> Rise in geopolitical risk**
UNITED KINGDOM	**June's election result could complicate Brexit even more** > The Conservatives are still in power but have lost their parliamentary majority. With Brexit negotiations already underway, things could become complicated for the Prime Minister due to the fact that she will require support from all factions of her party (pro-Europeans and Eurosceptics alike) and will also have to form a coalition with another political force. > The economy is beginning to weaken with rising inflation from the depreciation of the pound and the uncertainty surrounding future prospects. Fiscal policy is slightly expansionist in 2017-18 (in contrast to the two previous years) and the government has some leeway to loosen its policy if needed.	**> Shock of uncertainty related to Brexit** **> Public and foreign deficits still very high**
ASIA		
CHINA	**China: a stabilising impact on the global economy and currencies in 2017 and likely in 2018 as well** > We believe China's economic stabilisation will continue throughout 2017 and into 2018. > The reasons for China's economic stabilisation are both bottom-up and top-down. Both private capital expenditure and public spending are experiencing expansion cycles, and are proving to be much bigger than the market had anticipated. > The longer-than-expected stabilisation of China's economy (2016 to 2018) is giving rise to a global upturn, clearly benefiting global cyclical sectors, commodities and the emerging markets.	**> Contribution to global economic and currencies stabilisation in 2017 and likely in 2018 as well** **> A longer global cycle is taking shape through the stabilisation of China's economy from 2016 to 2018**
INDIA	**India: a steady growth driver for Asia in 2017 in spite of demonetisation** > The slowdown in discretionary spending, auto sales and winter crop sowing was less severe than expected post-demonetisation. However, it was more evident in the construction sector. > Our baseline scenario points to a prolonged moderation of inflation in 2017. We believe that the demonetisation measures will have only a temporary impact on growth and inflation. > The major issues of contention surrounding the GST have been sorted out, and the GST is likely to be implemented in July 2017.	**> India's growth is positioned to be steady post-demonetisation** **> Prolonged moderation of inflation**
JAPAN	**The recovery is continuing, with growth above potential.** > The economy is benefiting from the budget stimulus and the improvement in the industrial and international trade cycles in Asia. GDP growth is expected to stay at around 1% in 2017 and 2018. Businesses are benefiting but wage growth is still lacking, despite a very low unemployment rate. A drop in wages in real terms could drag down consumption.	**> Exposure to China** **> Negative interest rate policy**

Macroeconomic and financial forecasts

MACROECONOMIC OUTLOOK

- **United States:** expansion continues despite a slightly disappointing H1. 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:** fiscal policy and the positive cycle of industry and trade remain growth drivers. 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.
- **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% year-on-year, better than the previous quarter (-2.5%). 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 rose +0.5% yoy in Q1. This figure reinforces our scenario of a Russian economic recovery. With growth carryover of 0.9% and rising economic indicators in the second quarter, we are revising our 2017 growth forecast up to 1.5% vs. 1% previously.

KEY INTEREST RATE OUTLOOK

- **FED:** the Fed raised the fed funds target to 1.00-1.25% in June. The Fed will announce soon that it starts the non-reinvestment of the maturing assets it holds. The market underestimates the ability to hike its rates thereafter.
- **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.
- **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 but MPC members will continue to send mixed signals while inflation remains elevated.

	19/07/2017	Amundi + 6m.	Consensus Q4 2017	Amundi + 12m.	Consensus Q2 2018
US	1.25	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	0.30	0.25	0.35

LONG RATE OUTLOOK

- **United States:** markets are too pessimistic with regards to the inflation outlook and the ability of the Fed to hike the fed funds in 2018. As a consequence, long-term rates should rise slightly in the coming months.
- **Eurozone:** long-term rates should rise in the coming quarters 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					
	19/07/2017	Amundi + 6m.	Forward + 6m.	Amundi + 12m.	Forward + 12m.
US	1.35	1.40/1.60	1.55	1.60/1.80	1.68
Germany	-0.64	-0.60/-0.40	-0.51	-0.60/-0.40	-0.42
Japan	-0.11	-0.20/-0.00	-0.10	-0.20/-0.00	-0.07
UK	0.27	0.00/0.20	0.31	0.00/0.20	0.34

10Y. Bond yield					
	19/07/2017	Amundi + 6m.	Forward + 6m.	Amundi + 12m.	Forward + 12m.
US	2.26	2.40/2.60	2.39	2.40/2.60	2.49
Germany	0.54	0.60/0.80	0.65	0.80/1.00	0.78
Japan	0.08	0	0.13	0	0.18
UK	1.19	1.00/1.20	1.31	1.00/1.20	1.43

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 its September levels and is far less overvalued than in January. Further disappointment about future stimulus measures would weigh further on the USD.
- **JPY:** the yen is undervalued and will lose further ground if long-term rates rise in other zones. This being said, against a backdrop of very low volatility, the JPY may be interesting for risk hedging purposes.
- **GBP:** we keep a negative view on the pound, which should continue to suffer from the gradual worsening of the economy.

	19/07/2017	Amundi + 6m.	Consensus Q4 2017	Amundi + 12m.	Consensus Q2 2018
EUR/USD	1.15	1.15	1.14	1.20	1.14
USD/JPY	112	115.00	114.00	115.00	114.00
EUR/GBP	0.88	0.90	0.89	0.90	0.89
EUR/CHF	1.10	1.10	1.12	1.10	1.11
EUR/NOK	9.28	9.20	9.26	9.00	9.03
EUR/SEK	9.54	9.50	9.50	9.30	9.31
USD/CAD	1.26	1.25	1.30	1.25	1.31
AUD/USD	0.79	0.72	0.75	0.70	0.76
NZD/USD	0.74	0.70	0.71	0.70	0.72

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