DEVELOPED COUNTRIES

Macroeconomic outlook

Data as of 18/06/2020

Annual averages (%)	Real GDP growth %			Inflation (CPI, yoy, %)		
	2019	2020 range	2021	2019	2020	2021
World	**3.1**	**-4.3/-2.9**	**4.0/5.1**	**3.0**	**2.4**	**2.5**
Developed countries	**1.7**	**-7.5/-5.9**	**3.6/4.8**	**1.5**	**0.7**	**1.1**
US	**2.3**	**-6.5/-4.5**	**3.0/4.0**	**1.8**	**1.0**	**1.2**
Japan	**1.2**	**-4.7/-4.1**	**2.0/2.6**	**0.7**	**0.1**	**0.5**
UK	**1.4**	**-9/-7**	**3.0/5.0**	**1.8**	**1.2**	**1.4**
Eurozone	**1.2**	**-10/-8**	**4.5/6.5**	**1.2**	**0.6**	**1.1**
Germany	0.6	-7.5/-5.5	2.5/3.5	1.5	0.7	1.2
France	1.2	-11.0/-9.0	6.4/8.4	1.3	0.6	1.1
Italy	0.3	-12.5/-10.0	3.8/5.8	0.7	0.1	1.0
Spain	2.0	-13.5/-11.5	6.5/8.5	0.7	0.3	1.0

Source: Amundi Research

- **United States:** while hard data help size the lockdown-induced impact on Q2 activity and production, soft and high-frequency data are showing a gradual pickup. As pent-up demand comes through, activity will rebound in Q3, followed by further improvement in Q4. We expect GDP to drop by 4.5%-6.5% y/y in 2020, followed by a rebound of 3.0- 4.0% y/y in 2021, and to return to its pre-Covid-19 level by mid-2022. Lockdowns have also impacted inflation, which is driven by shifts in demand and has exhibited short-term weaknesses in 2020, with reflating forecast in 2021 on base effects and a pickup in demand.
- **Eurozone:** after the trough in Q2 (GDP -13% q/q), we expect economic activity to rebound in Q3 & Q4, leading EZ growth to contract by 8-10% y/y in 2020, followed by a pickup of 4.5-6.5% in 2021. 2019 GDP levels are unlikely to be reached until late 2022. High-frequency indicators show the recovery is on track, although gradual, while confidence is not reaccelerating fast. Disinflationary pressures in 2020 are induced by shifts in demand or production shortages, although underlying components of the basket show diverging trends. In 2021, inflation is expected to normalise while remaining subdued vis-à-vis the ECB target.
- **Japan:** following a relatively short lockdown, Japan's domestic economic activities are gradually recovering. Mobility has picked up in workplace, retail and recreation areas. By mid-June, these activities were down by only 10% to 20% from March. In contrast, external demand indicators continued to weaken, with Q2 exports in their steepest fall since Q1 2009. We believe Japan is less impacted than other DM, with a better control over the Covid-19 outbreak, and forecast GDP to drop by 4.1% to 4.7% for the full year. Inflation will stay soft, as deflationary pressures persist in the services sector.
- **United Kingdom:** After a long lockdown, the UK will experience a deep and forced 2Q contraction, followed by a partial bounce-back as activity resumes in Q3. We expect a moderate subsequent recovery with a gradual pickup in domestic demand; we see a return to pre-crisis levels in 1H2023, although Brexit may further delay it. With demand restrained and high unemployment, we see deflationary pressures in the near term. Going into 2021, headline inflation will come back on base effects (oil prices), while core inflation will stay below target, while core inflation will stay below target.

Nota Bene: The uncertainty around our macroeconomic forecasts is very high, and it triggers frequent reassessments any time fresh high frequency data are available. Our forecasts at this point include a higher qualitative component, reducing the statistical accuracy and increasing the uncertainty through wider ranges around them.

Key interest rate outlook

	19-06 2020	Amundi + 6m.	Consensus Q4 2020	Amundi + 12m.	Consensus Q2 2021
US	**0.13**	**0/0.25**	**0.08**	**0/0.25**	**0.05**
Eurozone	**-0.50**	**-0.55**	**-0.56**	**-0.58**	**-0.58**
Japan	**-0.05**	**-0.2**	**-0.09**	**-0.2**	**-0.09**
UK	**0.10**	**0.00**	**0.06**	**0.00**	**0.03**

Source: Amundi Research

- **Fed:** The FOMC made just one policy change, by committing to maintain at least the current pace of asset purchases over coming months at $80bn in US Treasuries and $40bn in MBS per month. But it gave investors greater certainty that policy will remain on hold for a long time (through the economic projections, the dots and the reaction function). The Fed will wait to have more clarity on the path of the recovery before fine-tuning other monetary policy tools (strengthening in forward guidance, calibration of asset purchases with more clarity regarding its goal, and possibly introducing a front-end yield curve control). The median of members' projections sees near-zero federal funds rate at least through the end of 2022.
- **ECB:** The ECB has delivered a stronger than expected combination of measures:
  - PEPP increased in size: the envelope will be increased by €600 billion to a total of €1,350 billion;
  - Extended horizon of net purchases: the horizon for net purchases under the PEPP will be extended to at least the end of June 2021;
  - Long horizon fixed for reinvestments: the maturing principal payments from securities purchased under the PEPP will be reinvested until at least the end of 2022.
- **BoJ:** Following up on the government's plan to expand the no-interest/unsecured lending program, the BoJ increased its special lending program from ¥75tn to ¥110tn in mid-Jun, in addition to JGB purchases and ETF purchases at ¥12tn per year. The June meeting statement downplayed the inflation target, reducing the likelihood of further easing. Governor Kuroda also hinted the central bank will not raise interest rates in FY2021-22 before the Fed. He reiterated that the stability of the yield curve at low levels is important.
- **BoE:** At its last meeting, the BoE left rates unchanged and expanded its asset purchases by £100bn, broadly in line with the consensus of expectations. In signalling that, thanks to the latest extension, QE would see purchases run until year-end, the BoE is pointing to a slower pace of weekly asset purchases relative to the current one. Negative rates were not part of the discussion, confirming that for the time being QE remains the privileged tool of monetary policy

Monetary policy agenda

Central banks	Next meeting
Federal Reserve FOMC	**July 27**
ECB Governing Council	**July 16**
Bank of Japan MPM	**July 15**
Bank of England MPC	**August 6**

Source: Amundi Research

EMERGING COUNTRIES

Macroeconomic outlook

Data as of 18/06/2020

Annual averages (%)	Real GDP growth %			Inflation (CPI, yoy, %)		
	2019	2020 range	2021	2019	2020	2021
World	3.1	-4.3/-2.9	4.0/5.1	3.0	2.4	2.5
Emerging countries	4.1	-2.1/-0.9	4.3/5.2	4.0	3.5	3.4
Brazil	1.1	-6.4/-5.0	-0.4/0.6	3.7	2.7	3.6
Mexico	-0.1	-8.1/-7.1	-1.0/0	3.6	3.0	3.5
Russia	1.3	-6/-4	2.5/4.5	4.5	3.2	3.9
India	5.3	-2.7/-1.3	2.3/3.6	3.7	5.8	4.9
Indonesia	5.0	-1.1/-0.1	3.5/4.5	2.8	2.5	3.1
China	6.2	1.4/2.4	7.6/8.2	2.9	2.4	1.9
South Africa	0.2	-6.4/-5.4	4.0/5.0	4.6	4.0	5.0
Turkey	0.8	-6.9/-5.9	4.2/5.2	16.2	10.5	9.8

Source: Amundi Research

- **China:** Economy continued to grow above trend sequentially in May, led by public investments and a steady pick-up of consumption. Q2 growth is tracking at 2-3%yoy, with seasonally-adjusted sequential growth close to 10%qoq, reversing the fall of 9.8% in Q1. We expect sequential growth to normalize down in H2. Year-over-year growth will print at 5-6% during the same period. Inflation has dropped faster than expected, driven by declining pork prices. We expect CPI to drop to 0%yoy in 4Q with subdued inflationary pressures and high base last year.
- **India:** the economy has shown further signs of weakness with May data, although the deceleration looks like milder than in April, as a consequence of a partial easing of lockdown since the beginning of the month. Freight Traffic and Electricity Generation declined by 21.3% YoY and 17.8% from 35.3% and 25.8% previously reported. Despite the lack of communication on the complete set of figures, Inflation seemed moderating in May. The fiscal outlook remains very gloomy and Fitch has revised the sovereign ratings outlook to "negative", while maintaining the rating at BBB-.
- **Central Europe:** The European Commission proposed a simulation of key allocations according to which CEEs will win except Czechia that could be one of the losers, paying net 0.6€bn (0.3% of GDP). In % of GDP, the biggest winners would be Croatia and Bulgaria. Compared to the initial Budget planned for 2021-2027, Czechia, Poland, Hungary and Estonia will gain less. The disbursements of the recovery fund will likely start only early next year so as the positive growth impact from the recovery fund to CEEs countries is to be expected only from 2021.
- **Mexico:** overall growth remain very weak with consumptions (durable and services) and investments (particularly public) trending down. Daily data available for the end of May are showing an extremely slow recovery. Inflation in comfortably within the target range and a low level of pass through from the currency weakness is visible. Banxico still enjoys a decent easing room moving forward, relatively higher than other CBs in the EM universe. Despite Mexico remains committed to some fiscal prudence, its Government Debt on GDP is expected to increase due to the weak growth and the use of assets to deal with the Covid crisis.

Nota Bene: The uncertainty around our macroeconomic forecasts is very high, and it triggers frequent reassessments any time fresh high frequency data are available. Our forecasts at this point include a higher qualitative component, reducing the statistical accuracy and increasing the uncertainty through wider ranges around them.

Key interest rate outlook

	19-06 2020	Amundi + 6m.	Consensus Q4 2020	Amundi + 12m.	Consensus Q2 2021
China	3.85	3.65	3.65	3.65	3.65
India	4	3.75	3.6	3.75	3.6
Brazil	2.75	2.25	2.25	2.25	2.5
Russia	4.5	3.75	4.25	3.75	4.25

Source: Amundi Research

- **PBoC (China):** As top financial regulators gather in Lujiazui Forum in Shanghai, their remarks on monetary policy has tilted towards the hawkish side. Easing will be selective going forward, the central bank will continue to guide borrowing costs lower but there is little tolerance for financial arbitrages. The banking sector is advised to share RMB1.5tn profits with the corporate sector, although 2/3 of it has been implemented through the easing in H1. This implies further room for lending rate cuts in H2. The State Council also vowed for more RRR cut(s) in the near term.
- **RBI (India):** for the second time in a row, in late May, the RBI reduced the policy repo rate by 40bps to 4.0% from 4.40%; the rate decision didn't surprise us in the size but maybe in the timing, ten days earlier than the regular meeting. Additional measures have been announced to improve the functioning of the markets, to provide relief on debt servicing and capital market access and to support imports and exports. Monetary Policy accommodation is going ahead together with a mild fiscal expansion.
- **BCB (Brazil):** Not done just yet? The BCB cut by another 75bps to 2.25% and indicated "remaining space (being) small" which is rather obvious in light of the long and aggressive easing cycle. Although in data dependent mode and with policy at levels compatible with the economic damage caused by the outbreak, the BCB did not shut the door to further adjustment. The CB's inflation projections running below target across the forecast horizon suggests to us there is some more easing left in the BCB's pipeline.
- **CBR (Russia):** Following the 50bps cut in April, the Central Bank of Russia cut the policy rate by 100bps on June 19th to 4,5% as disinflationary impact of factors related to Covid restrictions had been more profound than expected. The CBR said that short-term pro-inflationary risks had abated,including from weaker ruble, and that instead there was the risk that in particular in 2021 inflation may be below the 4% target. Given the drop in domestic and external demand, and inflation running at around 3% yoy, the CBR remains open to further rate cuts in order to maintain inflation close to 4%.

Monetary policy agenda

Central banks	Next communication
PBoC	July 20
RBI	August 6
BCB Brazil	August 4
CBR	July 24

Source: Amundi Research

MACRO AND MARKET FORECASTS

Macroeconomic forecasts
(18 June 2020)

Annual averages (%)	Real GDP growth %			Inflation (CPI, yoy, %)		
	2019	2020 range	2021	2019	2020	2021
US	**2.3**	**-6.5/-4.5**	**3.0/4.0**	**1.8**	**1.0**	**1.2**
Japan	**1.2**	**-4.7/-4.1**	**2.0/2.6**	**0.7**	**0.1**	**0.5**
Eurozone	**1.2**	**-10/-8**	**4.5/6.5**	**1.2**	**0.6**	**1.1**
Germany	0.6	-7.5/-5.5	2.5/3.5	1.5	0.7	1.2
France	1.2	-11.0/-9.0	6.4/8.4	1.3	0.6	1.1
Italy	0.3	-12.5/-10.0	3.8/5.8	0.7	0.1	1.0
Spain	2.0	-13.5/ -11.5	6.5/8.5	0.7	0.3	1.0
UK	**1.4**	**-9/-7**	**3.0/5.0**	**1.8**	**1.2**	**1.4**
Brazil	**1.1**	**-6.4/-5.0**	**-0.4/0.6**	**3.7**	**2.7**	**3.6**
Mexico	**-0.1**	**-8.1 /-7.1**	**-1.0/0**	**3.6**	**3.0**	**3.5**
Russia	**1.3**	**-6/-4**	**2.5/4.5**	**4.5**	**3.2**	**3.9**
India	**5.3**	**-2.7/-1.3**	**2.3/3.6**	**3.7**	**5.8**	**4.9**
Indonesia	**5.0**	**-1.1 / -0.1**	**3.5 /4.5**	**2.8**	**2.5**	**3.1**
China	**6.2**	**1.4 /2.4**	**7.6 / 8.2**	**2.9**	**2.4**	**1.9**
South Africa	**0.2**	**-6.4/-5.4**	**4.0/5.0**	**4.6**	**4.0**	**5.0**
Turkey	**0.8**	**-6.9/-5.9**	**4.2/5.2**	**16.2**	**10.5**	**9.8**
Developed countries	**1.7**	**-7.5/-5.9**	**3.6/4.8**	**1.5**	**0.7**	**1.1**
Emerging countries	**4.1**	**-2.1/-0.9**	**4.3/5.2**	**4.0**	**3.5**	**3.4**
World	**3.1**	**-4.3/-2.9**	**4.0/5.1**	**3.0**	**2.4**	**2.5**

Key interest rate outlook

Developed countries

	19/06/2020	Amundi + 6m.	Consensus Q4 2020	Amundi + 12m.	Consensus Q2 2021
US	**0.13**	**0/0.25**	**0.08**	**0/0.25**	**0.05**
Eurozone	**-0.50**	**-0.55**	**-0.56**	**-0.58**	**-0.58**
Japan	**-0.05**	**-0.2**	**-0.09**	**-0.2**	**-0.09**
UK	**0.10**	**0.00**	**0.06**	**0.00**	**0.03**

Emerging countries

	19/06/2020	Amundi + 6m.	Consensus Q4 2020	Amundi + 12m.	Consensus Q2 2021
China	**3.85**	**3.65**	**3.65**	**3.65**	**3.65**
India	**4**	**3.75**	**3.6**	**3.75**	**3.6**
Brazil	**2.75**	**2.25**	**2.25**	**2.25**	**2.5**
Russia	**4.5**	**3.75**	**4.25**	**3.75**	**4.25**

Long rate outlook

2Y. Bond yield

	19/06/2020	Amundi + 6m.	Forward + 6m.	Amundi + 12m.	Forward + 12m.
US	**0.19**	**0.25/0.5**	**0.22**	**0.25/0.5**	**0.25**
Germany	**-0.673**	**-0.70/-0.50**	**-0.72**	**-0.70/-0.50**	**-0.73**
Japan	**-0.142**	**-0.30/-0.20**	**-0.14**	**-0.30/-0.20**	**-0.15**
UK	**-0.044**	**0/0.25**	**-0.04**	**0/0.25**	**-0.02**

10Y. Bond yield

	19/06/2020	Amundi + 6m.	Forward + 6m.	Amundi + 12m.	Forward + 12m.
US	**0.71**	**0.7/0.9**	**0.81**	**0.8/1**	**0.89**
Germany	**-0.41**	**-0.60/-0.40**	**-0.39**	**-0.50/-0.30**	**-0.35**
Japan	**0.02**	**-0.10/0.10**	**0.07**	**0/0.2**	**0.11**
UK	**0.24**	**0.20/0.4**	**0.29**	**0.3/0.5**	**0.36**

Currency outlook

	19/06/2020	Amundi + 6m.	Consensus Q4 2020	Amundi + 12m.	Consensus Q2 2021
EUR/USD	**1.12**	**1.11**	**1.12**	**1.14**	**1.15**
USD/JPY	**107**	**106**	**107**	**106**	**108**
EUR/GBP	**0.91**	**0.90**	**0.89**	**0.88**	**0.89**
EUR/CHF	**1.06**	**1.08**	**1.08**	**1.10**	**1.10**
EUR/NOK	**10.78**	**10.30**	**10.70**	**10.00**	**10.55**

	19/06/2020	Amundi + 6m.	Consensus Q4 2020	Amundi + 12m.	Consensus Q2 2021
EUR/SEK	**10.59**	**10.32**	**10.50**	**10.10**	**10.42**
USD/CAD	**1.36**	**1.36**	**1.35**	**1.33**	**1.34**
AUD/USD	**0.68**	**0.69**	**0.68**	**0.72**	**0.70**
NZD/USD	**0.64**	**0.62**	**0.64**	**0.63**	**0.65**
USD/CNY	**7.07**	**7.00**	**7.05**	**6.90**	**7.05**

Source: Amundi Research

DISCLAIMER TO OUR FORECASTS

The uncertainty around the macro forecasts is very high, and it triggers frequent reassessments any time fresh high frequency data are available. Our macroeconomic forecasts at this point include a higher qualitative component, reducing the statistical accuracy and increasing the uncertainty through wider ranges around them.

A global recession is our base case today

1. How deep?

- The deepness depends on the virus longevity in the countries affected and the consequent gradual to complete lockdown in most of them. Downturn is evident in domestic demand (across its components at different degree) and in trade dynamics. We assume the largest downturn in the lockdown quarter and a milder downturn to follow. We monitor outbreak developments and lockdown/resumption of the economic activity.

2. How long?

- The timeline depends on the deepness of the economic disruption together with the credit conditions and the rise of corporate default, magnifying the financial markets turbulence and therefore the impact on the economy.
- The timeline of the shock has extended, and overall a peak is expected by May to June 2020. The global economy was showing signs of growth stabilization during the 4Q2020.
- The timeline is also a function of the specific developments of the outbreak together with pre-existent fragilities.

3. The fiscal impact

- The impacts of micro and macro fiscal measures are not included in our forecasts but it’s fair to assume a normalization in the financial and liquidity conditions driven by Monetary Policy authorities

Financial targets

- Financial targets are reviewed on the same line and include policy actions implemented on a daily basis.

Amundi ASSET MANAGEMENT | Research & Macro strategy

CROSS ASSET
INVESTMENT STRATEGY

July—August 2020 #07/08

Amundi Research Center

**Find out more about
Amundi publications
research-center.amundi.com**

Emerging Private Equity
Money Markets Find Monetary Policies
Foreign Top-down Bottom-up
Exchange Corporate Equities
Sovereign Bonds High Forecasts
Fixed Income Yield Real Estate
ESG Quant Investment Strategies Asset Allocation

Document issued by Amundi, "société par actions simplifiée"- SAS with a capital of €1,086,262,605 - Portfolio manager regulated by the AMF under number GP04000036 - Head office: 90 boulevard Pasteur - 75015 Paris - France - 437 574 452 RCS Paris - www.amundi.com
Photo credit: ©MDelporte - iStock/Getty Images Plus - Lisay

Chief editor
BLANQUÉ Pascal, *Group Chief Investment Officer*

Editor
DEFEND Monica, *Global Head of Research*

Deputy-Editors
BLANCHET Pierre, *Head of Investment Intelligence*
BOROWSKI Didier, *Head of Global Views*

With Global Research contributers
AINOUZ Valentine, *Deputy Head of Developed Markets Strategy Research, CFA*
BELLAICHE Mickael, *Fixed Income Strategist*
BERARDI Alessia, *Head of Emerging Markets Macro and Strategy Research*
BERTONCINI Sergio, *Head of FI and FX Research*
BLANCHET Pierre, *Head of Investment Intelligence*
BOROWSKI Didier, *Head of Global Views*
HUANG Claire, *EM Macrostrategist*
CESARINI Federico, *Cross Asset Strategist*
DELBO' Debora, *Global EM Senior Strategist*
FUNDERBURK NOAH, *Vice President, Portfolio Manager Amundi Pioneer*
GEORGES Delphine, *Fixed Income Strategist*
HERVE Karine, *EM Senior Economist*
LEONARDI Michele, *Cross Asset Analyst*
PERRIER Tristan, *Global Views Analyst*
PORTELLI Lorenzo, *Head of Cross Asset Research*
USARDI Annalisa, *Senior Economist, CFA*
VARTANESYAN Sosi, *EM Senior Economist*

With the Amundi Insights Unit contribution
BERTINO Claudia, *Head of Amundi Investment Insights Unit*
FIOROT Laura, *Deputy Head of Amundi Investment Insights Unit*
DHINGRA Ujjwal, *Amundi Investment Insights Unit*
LICCARDO Giovanni, *Amundi Investment Insights Unit*
PANELLI Francesca, *Amundi Investment Insights Unit*

Conception & production
BERGER Pia, *Research and Macro Strategy*
PONCET Benoit, *Research and Macro Strategy*