Risk factors

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The table below presents risk factors with judgmental probabilities (i.e. not market based). It also develops the possible market impacts.

Risk # 1 | 20% probability | Renewed escalation in trade tensions between the US and China

Analysis | The US announced it would delay the tariff increase on $200bn worth of China's products, which was scheduled for 1st March. This seems to have reflected meaningful progress made in several rounds of US/China trade talks into 2019. Such talks seem to have put more focus on core topics, including structural issues and enforcement, as well as technical details. If additional progress could be achieved, there could be potentially another Trump/Xi meeting, and the probability for US/China to reach some kind of deal to avoid tariff increase and to prevent further escalation would be appreciably higher than in late 2018. This seems to be helping reduce some downside risks in the near term, and to have helped market sentiment recover somewhat. That said, uncertainty remains relatively high, and it could take much longer to ultimately solve the problems, as many complicated issues are involved. We cannot yet rule out a severe confrontation between the US and China.

Market impact | Tariffs have started to hit trade, and uncertainty has been weighing on business climate (especially in the manufacturing sector) and on the Chinese economy. Subsequently some private-investment projects have probably been postponed. Even in the absence of a large-scale trade war, global trade, which has started to slow, may thus slow down further. A chain reaction would cause a fall in global trade of goods while exacerbating local inflationary pressures in the short run (mainly in the US), putting central banks into a corner. This would cause a general rise in risk aversion (fear of a global downturn). At the end of the day, a more severe confrontation would only make losers.

Risk # 2 | 20% probability | Major European slowdown

Analysis | Eurozone GDP growth slowed down to only 0.2% QoQ in Q3, after 0.4% in Q1 and Q2 and 0.7% in Q3 and Q4 2017. While Q3 weakness was largely the result of temporary negative factors (a sharp drop in German car production due to a new emissions testing regime), growth momentum in Q4 2018 and Q1 2019 is slower than what we had anticipated a few months ago. The central scenario remains that the economy will slowly bottom out, with GDP growth back to potential by the end of the year, but risks are clearly tilted to the downside, in particular in the short run. The combination of elevated uncertainty (Brexit, trade tensions) and external negative factors (notably the expected slowdown in the US) could cause growth to fall further. Lower oil prices are a supportive factor. However, a reversal of this trend would be another drag on the European economy.

Market impact | As the ECB would be left with few tools to face a slowdown, and as a coordinated fiscal stimulus would be very difficult to decide due to the complex European institutional and political environment, a major slowdown would clearly be negative for European assets and the Euro.

Risk # 3 | 20% probability | No-deal Brexit

Analysis | We see 3 scenarios (S1, S2 and S3).

S1 (40%). Short extension decided by 12 April and deal approved by 22 May. Reaching the new deadline of 12 April without a deal, the UK asks for an extension of Article 50 to 22 May (i.e. the UK does not participate in the EU elections in May). The option of a long extension will automatically become impossible and may force both parties to reach an agreement to avoid a no-deal exit. MPs could consider new options (e.g. Norway + customs union) that may require changes to the political declaration while remaining compatible with the Withdrawal Agreement and acceptable by the EU.

S2 (40%). Long extension (at least to end-2019) decided by 12 April. In case the deal is still not approved (with PM Theresa May probably leaving) as the new deadline of 12 April approaches, the UK could ask for a longer extension to seek new elections or a second referendum. UK would take part in the EU Parliamentary election in May (23-26).

S3 (20%). No deal. The UK exits the EU without (or with only a very limited) transition regime. Many sub-scenarios are possible: an outright "default" to a WTO regime is a risk, but mitigation measures ("managed no-deal" and "deals under no-deal"), may be agreed. Negative impact on EU GDP growth with differences across countries (Ireland would be the worst hit, followed by countries well integrated in international supply chains). Extreme uncertainty concerning the Irish border issue.

Market impact | S1: Markets pressure may persist until the deadline. **S2**: Uncertainty approaching the new deadline (12 April), followed by market relief if a long extension is secured. **S3**: Not fully priced-in by the market, negative for EU equities and GBP.
We must prepare for dense newsflow in the coming days. In the event that the outcome is ultimately unfavourable for the UK, we would see a weakening of the GBP and below-trend GDP growth. But should a deal be approved, sterling would continue to appreciate and business investment would probably benefit from a drop in uncertainty.

Risk # 4 | 15% probability | Political instability in Italy with renewed stress on sovereign spreads in the Eurozone

Analysis | The government coalition in Italy (between M5S and the League) maintained tense relations with the EU until recently. The government revised down its deficit target, with a smaller budget deterioration in 2019 (2.04% vs. 2.4%). It is not a structural adjustment, but thanks to this revision, the European Commission (EC) has decided not to launch an excessive deficit procedure. The relationships with the EC have improved at least for the time being but may resurface when the budget law is presented After contracting for two consecutive quarters in 2018 H2, weak coincident indicators for Q1 still point to a risk of another negative quarter. With slow growth ahead (we expect GDP growth at 0.1% in 2019), tensions related to debt sustainability concerns may likely arise.

Market impact | There is no systemic risk in our opinion. On the one hand, rising Italian bond yields have tightened local financial conditions, and that is weighing on GDP growth in Italy. But on the other hand, the absence of an EDP has provided some short-term relief. Yet, the long-term outlook has not changed much. We perceive risks as remaining domestic. Keep in mind that the ECB has anti-contagion tools that it could mobilise to avoid contagion to other peripheral markets. In addition, the ECB has announced new TLTROs to alleviate difficulties in the banking system. All of this should contain the contagion risk on peripheral sovereign spreads and corporate credit spreads.

Risk # 5 | 15% probability | US recession

Analysis | The US economy was stronger than expected in Q4 (+2.9% YoY), boosted in particular by business investment while personal consumption expenditures remained resilient. Incoming data related to Q1 this year, although more mixed, tend to confirm our outlook pointing to a gradual convergence towards potential growth. US growth will slow, in particular regarding investment after the remarkable performance seen in 2018, while consumption should remain resilient, given the strength of the job market and a benign inflation outlook. The fact that the Fed's normalisation is almost done ("wait and see" attitude, stabilisation of the balance sheet expected by the end of the year) will maintain very accommodative monetary conditions, which should sustain domestic demand. Against this backdrop the probability of recession remains low for the foreseeable future.

Market impact | Markets are likely to become more circumspect with regard to 2020 growth expectations as the deceleration could become more pronounced and economic signals are likely to become increasingly mixed as the cycle extends. The probability of a recession remains low. But as the cycle matures, the best choice for investors is to limit exposure to credit. . On the equity side, selection of themes, sectors and single names will be increasingly relevant.

Risk # 6 | 10% probability | Contagion in the "emerging world"

Analysis | Emerging markets asset classes started 2019 buoyantly, thanks to (1) the Fed's U-turn in communication ("wait and see" attitude on interest rates revising the dots, stabilisation of its balance sheet by Q3 2019); (2) a more negative newsflow concentrated in DM (Europe in particular); and (3) a less likely escalation in the trade war between the US and China if not a more likely proper deal between the two. Having said that, the contagion risk in the EM world remains well alive whether through real economy spillovers (overall weaker global growth will reflect in weaker global trade) or through financial markets spillovers. The Federal Reserve stance shift has been quite earlier and stronger than anticipated in our 2019 outlook and the risk of a monetary policy mistake by the main central banks has increased. Indeed, today we do see the risk of contagion through financial market higher than through the chain trade. The recent case of the Turkish lira's steep depreciation in a day reminds us that, notwithstanding the significant outperformance of EM assets on the year to date, their vulnerability to external shocks remains quite high. Moreover, although consensual from many sources, the USD hasn't started to depreciate yet.

Market impact | Spreads and equity markets would once again be highly hurt; it is all the truer that emerging currencies would be again under pressure with capital outflows. However, the emerging world is far from being a homogeneous block, and markets would deteriorate more in the most vulnerable countries, whether due to poor external positions or fragile fiscal and political conditions. Some caution on emerging markets is still required at present.

Risk # **7** | **10%** probability

A Chinese "hard landing"/ a bursting of the credit bubble

Analysis | Chinese economic growth is slowing down, but the authorities are working hard to stimulate the economy (through monetary and fiscal policies) so that the economy will remain resilient. Recent data tend to indicate that the policy mix has a noticeable positive impact on the economy. That being said, the country's economic model is fragile: the excess of credit is visible, and non-financial corporate debt has surged since the GFC. The good news is that the NFC debt-to-GDP ratio had started to drop since late 2017. We will continue to monitor the trend in Chinese private debt closely, especially if the economy slows. Meanwhile, the de-escalation in trade tensions should give China policymakers time to adjust their policy implementations and to better manage short-term risks. In the event of a hard landing or the bursting of the credit bubble, the Chinese authorities would be unable to avoid a stronger depreciation of the yuan.

Market impact | A hard landing linked to a bursting of the credit bubble would have a very negative impact, and its cascading effects would be particularly disastrous: vulnerability of banking systems (in China and elsewhere), vulnerability of the global financial system, vulnerability linked to China's public and private debt, negative impact on regional and global trade, and thus on commodities and emerging countries, impacts on the currencies of commodity-exporting countries, advanced countries and emerging countries, etc..

Risk # **8** | **10%** probability

Major political crisis in Europe

Analysis | European politics is becoming less predictable, due to the rise of various non-mainstream political forces in several countries. In September, the non-mainstream Italian government coalition announced a 2019 budget in breach of European rules, thus opening an episode of tensions with the rest of the Eurozone. Although an agreement was reached, this topic could flare up again, due to more fiscal slippage in 2019. In France, where the situation had been stable since the 2017 presidential election, sudden and violent social movements caught the government off-guard in late 2018 and could complicate the continuation of its supply-side reform agenda. Although less immediately worrying, the political outlook is also uncertain in Germany (where the stability of the government coalition could be questioned) and in Spain (due to the lack of a proper majority in Parliament and the recent rise of a far-right party). More generally, the combination of strong anti-immigrant feelings and frustration towards European institutions remains a tailwind for anti-system political forces. The May 2019 European election will be a major gauge of their progress.

Market impact | Given the still positive economic backdrop, we do not believe that these events will trigger a new round of systemic crisis in Europe. Non-mainstream political forces that are in a position to rule countries (such as in Italy) have shown that they want to blame European political institutions and try to modify them, but not exit the Eurozone. However, this problematic political news flow may continue to generate market stress in 2019 while the difficulty to understand European institutions for outside investors means that European assets will continue to carry a specific political risk premium. Italian government spread vs. Bund could continue to be volatile.

MACROECONOMIC CONTEXT

Our convictions and our scenarios

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This section provides a reminder of our central scenario and alternative scenarios.

Central scenario (75% probability): slowdown in 2019 but more decoupling looking ahead

- **Growth has slowed worldwide:** 2018 had begun based on the theme of a synchronised global recovery. But this did not last. Since spring 2018, the protectionist measures taken by Donald Trump have changed the game. Emerging economies, some of which are heavily indebted in dollars, were weakened last year by the broad-based appreciation of the USD. Moreover, economic activity has weakened markedly in the Eurozone since Q4 2018. Hence, 2019 has begun with a global synchronised slowdown with risks remaining tilted to the downside.

- **Global trade:** Surprisingly, global trade has weakened markedly over the past 18 months; it started 2018 at around 5% yoy but fell sharply in Q4 (+1.4% yoy). Protectionist rhetoric has pushed uncertainty to an all-time high, dragging down investment. Global trade rebounded in January but will remain particularly weak in Q1. Having said that, the de-escalation on trade between China and the US bodes well and should lead to a stabilisation in trade. At the end of the day, we continue to expect global trade growth to stabilise at around the level of global GDP growth (i.e. we would expect global trade to return to around 3% yoy by the end of 2019).

- **United States:** The US economy has been driven by a very accommodative fiscal policy, but its impact should progressively erode this year. We expect growth to decelerate to its potential by early 2020, meaning in practice that the US economy will lose 1pp of growth by the end of the year. Indeed, we expect GDP growth at 2.4% on average in 2019 and 1.8% in 2020 (yoy growth, would thus slow from 3.1% yoy in Q4 18 to 2.1% in Q4 19). This situation will have a negative impact on corporate profits, especially if some inflationary pressures materialise by then, which is still possible, given the fact that the economy is operating at close to full employment. We do believe that a recession is highly unlikely in 2019 (household consumption should continue to benefit from higher disposable income). However, doubts about the extension of this cycle are likely to rise in the coming quarters (less support from fiscal policy, business investment expected to slow, more mixed signals from sentiment and hard data). And we must keep in mind that sub-par growth may trigger a profits recession.

- **Eurozone**: We have cut our 2019 GDP growth forecasts to 1.0% and left our 2020 forecast unchanged at 1.5%; The data for Q1 has been mixed, with some figures improving, but also some persistent weakness in manufacturing. Although they began recovering well after the US, Eurozone economies began to slow in 2018, much more sharply than other economies. Several transitory factors have contributed to the slowdown in EZ growth. Germany was close to falling into recession in Q4, due to an abrupt slowdown in world trade, disruptions in the auto sector caused by new pollution tests, and weakness in the manufacturing sector. The late-2018 shock to the EZ manufacturing sector has been clearly underestimated. In France, the yellow vest movement has weighed on economic activity. And the Italian economy has suffered from tighter credit conditions. In addition, political uncertainties (Brexit, Italian budget) have muddied the waters. However, we are sticking to the view that domestic demand (in particular consumption) will remain supported by the strong labour market, strong income growth, the level of monetary policy accommodation, and a significant fiscal stimulus (especially in Germany and France). Subsequently, we believe that growth will gradually reaccelerate in H2. In the short term, the May 2019 European elections, Brexit, and the threat of US tariffs on European autos will likely maintain uncertainty at a high level. While we believe that mainstream parties will dominate the European Parliament, the level of political fragmentation will increase. As a result, it will take time to form the new Commission, and we do not expect any significant progress in strengthening the EU and the Eurozone before 2020.

- **United Kingdom:** The political situation in the UK is highly unstable. Many options are still possible regarding Brexit. Everything will ultimately depend on the scenario (see section risk factors and our "investment talk" published on the subject). We continue to believe that the probability of a deal is well above the probability of a no-deal. And with a deal, we would expect a rebound in domestic demand in H2 2019.

- **China:** Chinese economic growth seems to have has stabilised in Q1 2019, thanks to a very expansionist policy mix, to the point that we cannot rule out a (short-lived) reacceleration of growth. That being said, the country's economic model remains fragile: the excess of credit is visible, and non-financial corporate debt has surged since the GFC. The de-escalation between the US and China on trade tensions should give China valuable time to adjust its policy implementations and better manage short-term risks. Keep in mind, however, that trade tensions (on intellectual property, high technology) between the US and China are here to stay.

- **Inflation:** Core inflation remains low at this stage of the cycle in advanced economies. The slowdown in inflation in recent years is primarily structural in nature, as it is tied to supply-side factors, while the cyclical component of inflation has weakened (with a flattening of the Phillips curve). Core inflation is likely to pick up only slightly in advanced economies. An "inflationary surprise" remains possible with the pick-up in wages (in the United States and the Eurozone) but would not last long, given the slowdown in global growth and the lack of pricing power (i.e., corporate margins more at risk than final sale prices). In emerging economies, inflation has recently slowed more than expected, but this was mainly due to the decline in energy and food prices. At the end of the day, with low inflation and subdued growth, most central banks have turned more dovish.
- **Oil prices:** Oil prices have decreased sharply: from $86/bbl. (Brent) in early October to $66 in late March. The main trigger at the very beginning of the decline was the large number of waivers by the US administration to different countries with regard to the sanctions imposed to Iran oil exports. A moderate OPEC and non-OPEC production cut decided in early December, together with fears of a more pronounced economic slowdown are keeping oil prices around this level.
- **Central banks on the dovish side:** The risk management approach prevails. The Fed is in a "wait and see" mode; we expect no rate hike in 2019. The ECB ended its monthly asset purchases in late December and will continue to replace maturing securities. For the ECB, we expect a status quo (regarding interest rates) in 2019 or 2020. The ECB has no room for manoeuvre to normalise its monetary policy, given the economic slowdown and the absence of inflation. The ECB announced new TLTROs in March (to come in September, with the technicalities probably announced in June) and surprised with its dovish stance: 1) Immediate decisions on TLTRO3 and rates forward guidance; 2) downward revisions to GDP growth/inflation outlook larger than expected by the consensus; and 3) balance of risk still tilted to the downside, meaning that the ECB may ease further if growth slows further. A two-tiered system is being seriously considered for the deposit rate, to alleviate the burden on banks that have very large excess reserves (Germany).

Downside risk scenario (20% probability): a marked trade-war-driven economic slowdown, a geopolitical crisis or a sudden repricing of risk premiums

- Risk of further protectionist measures from the US, followed by retaliation from the rest of the world.
- Repeated uncertainty shocks (global trade, Brexit, European elections) weigh heavily on global demand.

Consequences:

- All things being equal, a trade war would drag down global trade and trigger a synchronised and sustained slowdown in growth and, in the short term, inflation. That said, a global trade war would quickly become deflationary by creating a shock to global demand.
- An abrupt repricing of risk on fixed income markets, with an across-the-board rise in government or credit spreads, for both advanced and emerging economies, and a decline in market liquidity.
- Recession fears in the US.
- Under a worst-case scenario, CBs could once again resort to unconventional tools, such as expanding their balance sheets (particularly true for the ECB).

Upside risk scenario (5% probability): a pick-up in global growth in 2019

Donald Trump makes an about turn, reducing barriers to trade and engaging in bilateral negotiations with China. Domestically, the theme of increasing infrastructure spending could return to centre stage and extend the cycle in the United States.

- Acceleration driven by business investment and a rebound in global growth.
- Pro-cyclical US fiscal policy generating a greater-than-expected acceleration in domestic growth. Growth reaccelerates in the Eurozone after a dip. Growth picks up again in China on the back of a stimulative policy mix.
- Central banks react late, initially maintaining accommodative monetary conditions.

Consequences:

- An acceleration in global growth would boost inflation expectations, forcing central banks to consider normalising their monetary policies more rapidly.
- An increase in real key rates, particularly in the US.

Macroeconomic picture by area

United States

Slowing down: patience and data dependency

- Economic growth is decelerating gradually amidst mixed data, with a shift in drivers of domestic demand away from (decelerating) investments and towards still-supported personal consumption. The fiscal boost supportive to 2018 growth will fade.
- US consumers remain broadly upbeat. Still-dynamic labour demand and wage growth, coupled with contained inflationary pressure, support resiliency in personal consumption, which is expected to be the main driver of domestic demand.
- Business confidence has moderated appreciably among small and larger businesses, while uncertainty on the growth and demand outlook seems to be driving moderation in capex intentions and investments.
- Moderate domestic and external inflationary pressures are keeping both core and headline CPI in check, within a benign inflation outlook. Lower energy prices will likely put a ceiling on the increase in annual headline inflation.
- In this context, at its March meeting the Federal Reserve signalled no further rate hikes this year, announced the end of QT, and revised economic projections significantly downward on growth and inflation.

Risk factors

- Concerns over global growth and external and domestic demand may hold back new capex plans more than expected
- Tariffs risks may negatively impact economic performance, both directly (prices and orders) and indirectly (confidence)
- Geopolitical risks linked to a more hawkish shift by the US administration

Eurozone

A gradual improvement expected despite considerable risks

- After a highly disappointing 2018, figures have so far been mixed in 2019. However, while most of the difficulties involve export-intensive (manufacturing) sectors, the job market is holding up well and is likely to support consumption and services. We expect a gradual improvement, especially beginning in the second half of the year.
- Brexit and the threat of US trade tariffs on the auto sector are significant risks. There are still some considerable political uncertainties, particularly the upcoming European elections and the situation in Italy.

Risk factors

- Stronger political protest movements
- An appreciation in the euro
- External risks (trade war, slowdown in the US and China)

United Kingdom

Major uncertainty as Brexit approaches

- Brexit is undermining confidence and investment. The United Kingdom has won an additional extension from the European Union (until at least 12 April), but there is still lots of uncertainty over whether the UK Parliament can reach a majority to approve any option in the coming weeks. Many scenarios are possible, including a long postponement. While the default option, no-deal Brexit, is not the most likely outcome, the possibility of it cannot be ruled out.
- Despite political uncertainties, the job market remains strong, and wages are increasing in real terms, driven by the receding in inflation.

Risk factors

- A no-deal Brexit
- The current account deficit remains very high

Japan

Drifting into the worst phase

- Global economic deceleration has dampened the corporate sector and finally started threatening capital spending. Shipments of capital goods and machinery orders have weakened as an increasing number of companies postpone, downsize, or cancel business investment.
- Although three quarters of corporate executives worry about the state of the Chinese economy, exports to, and machine-tool orders from, China have recently bottomed out. Exports in general remain precarious. Yet, shipments to the U.S. continue to grow while those to the EU are surprisingly resilient.
- On the domestic economy front, the government is accelerating disaster restoration projects, infrastructure investment and urban development for the 2020 Tokyo Olympic Games. A sharp mark-down in mobile phone charges scheduled in April should encourage spending on other goods and services.

Risk factors

- A lop-sided appreciation of the yen could threaten companies, leading to further downward revisions in capex plans

China

- Overall economic activity looks to slow further in Q1, while policymakers have reaffirmed their supportive stance. The annual NPC sent a clear signal that growth is the top priority this year. The fiscal package came out larger than widely expected, with confirmation of a meaningful corporate VAT cut and heavier issuance of local government special bonds.
- While exports are suffering and the property sector is softening, drag from the auto sector is becoming smaller, and the state sector has begun stabilisation efforts, helped by policy supports. Overall credit growth seems to be bottoming out.
- US/China trade negotiations remain a key uncertainty. Recent signs have shown meaningful progress, with planned tariff increases being postponed for now.
- Stress in RMB and capital outflows have remained under control, helped by a more dovish Fed and a softer dollar, as well as improving market sentiment.

Risk factors

- **Uncertainty in US/China trade talks**
- **Policy mistakes in managing near-term risks and the structural transition**
- **Geopolitical noise regarding North Korea**

Asia (ex JP & CH)

- The full set of GDP releases for Q4 2018 confirmed some resilience in the region, driven mainly by domestic demand. The first two months of 2019 confirmed very weak export dynamics across the region.
- The region's inflation figures remained very benign. Oil and food prices pushed inflation to levels lower than expected. In the Philippines February inflation finally went down within the BSP range, at 3.8% yoy.
- Overall, CBs in the region are in a wait-and-see mode before shifting towards a more dovish stance, thanks to a more favourable global financial environment. India cut its policy rates by 25bps.
- In Thailand, House of Representatives elections have been held. 95% of the votes have been counted, while the remaining 5% is under investigation for irregularities. Currently, no parties or alliances (as per the information available) have any majority. Final results will be announced after the 9th of May.

Risk factors

- **Exports dynamics still very weak in early 2019**
- **Inflation still very benign. In the Philippines and finally within CB target range**
- **Central banks in the region in wait-and-see mode**
- **Election outcome in Thailand is not showing any clear victory by parties or current alliances**

Latam

- Q4-18 GDP figures have confirmed better economic conditions in mid-sized and smaller countries in the region than in the largest countries. Latin America is the region with the most mixed dynamics between domestic and external demand, as exports have been less heavily negative in Argentina and Brazil.
- On the inflation front, the overall environment remained benign. Finally, in February Mexican inflation came in at a level just within Banxico's target range at 3.9% YoY, continuing to decline from the 4.4% figure of January.
- The region's main central banks left their monetary policy rates unchanged. We have changed our monetary policy outlook for Banxico to an easier one.
- In Brazil, the new president and his economic team decided to present a very bold pension reform plan to Congress. The first vote by the Constitution and Justice Committee in the lower house is scheduled to take place by April but will probably be further delayed.

Risk factors

- **Better economic conditions in smaller countries**
- **Inflation is benign overall, with Mexican inflation back within Banxico's target range**
- **We do expect Banxico to ease earlier than anticipated**
- **The very bold pension reform announced in Brazil is at risk of delay**

EMEA (Europe Middle East & Africa)

Russia: real GDP growth is expected to be around 2% in 2018 and slightly lower in 2019, but growth is expected to accelerate over the medium-term, thanks to a significant infrastructure spending programme from 2019 to 2024

- Despite the threat of potential US sanctions down the road, the macroeconomic scenario remains supportive. Russia will be among the few emerging market sovereigns with "twin surpluses" in 2019, while accumulating assets in the National Wealth Fund.
- The central bank is likely to stay on hold for the time being.

Risk factors

- **Drop in oil prices, stepped-up US sanctions and further geopolitical tensions**

South Africa: exit from recession but no miracle

- South Africa Q4 2018 GDP figure released higher than expected, at 1.1% YoY. Overall, 2018 GDP growth was 0.7% YoY (yearly average), instead of the 0.5% YoY forecast. Better-than-expected GDP figures should not distract from the fact that investment performance (mainly in public SOEs) remains very poor. We expect higher growth in 2019 +1.7% YoY.
- Growth data, along with more benign inflation could dictate easier monetary policy; however, a certain degree of cautious is in order, due to the deteriorating fiscal outlook. Due to the government's support for the national electricity company, Eskom, the fiscal outlook is worse than forecast for 2019.

Risk factors

- **Increased risk aversion, risk of sovereign rating downgrading, and rising social demands in the run-up to elections**

Turkey: we expect double-digit inflation and a recession in 2019

- The aggressive tightening of interest rates, the rebound in the pound, the drop in oil prices and the implementation of discretionary measures on certain goods have given little respite to inflation. However, it should not fall below 20% for another several months, thus limiting the central bank's margins of manoeuvre. In this context, household purchasing power and corporate margins are at their lowest. We therefore expect a GDP recession for 2019 of at least 1%.

Risk factors

- **A too rapid easing of the central bank, a cooling of budgetary policy, and a slowdown in activity in the Eurozone**

Macro and **Market forecasts**

Macroeconomic forecasts
(28 March 2019)

Annual averages (%)	Real GDP growth %			Inflation (CPI, yoy, %)		
	2018	2019	2020	2018	2019	2020
US	**2.9**	**2.4**	**1.8**	**2.4**	**2.2**	**2.3**
Japan	**0.8**	**1.0**	**0.7**	**1.0**	**0.7**	**1.3**
Eurozone	**1.8**	**1.0**	**1.5**	**1.8**	**1.2**	**1.5**
Germany	1.4	0.8	1.5	1.7	1.5	1.5
France	1.5	1.3	1.5	2.1	1.3	1.5
Italy	0.8	0.1	0.6	1.1	1.0	1.5
Spain	2.5	2.0	1.8	1.7	1.6	1.9
UK	**1.4**	**1.1**	**1.4**	**2.3**	**2.2**	**2.2**
Brazil	1.1	2.0	2.3	3.7	3.9	4.4
Russia	1.7	1.5	1.7	2.9	5.0	4.0
India	7.3	6.4	6.9	4.0	3.6	4.7
Indonesia	5.2	5.3	5.3	3.2	3.2	4.0
China	6.6	6.2	6.1	2.1	2.0	2.4
Turkey	2.9	-1.0	1.5	16.2	15.4	12.9
Developed countries	**2.2**	**1.7**	**1.6**	**2.0**	**1.7**	**1.9**
Emerging countries	**4.9**	**4.5**	**4.7**	**4.1**	**3.7**	**3.8**
World	**3.8**	**3.4**	**3.5**	**3.2**	**2.9**	**3.0**

Source: Amundi Research

Key interest rate outlook

	29/03/2019	Amundi + 6m.	Consensus Q3 2019	Amundi + 12m.	Consensus Q1 2020
US	2.50	2.50	2.50	2.50	2.75
Eurozone	0	0	0	0	0
Japan	-0.1	-0.1	-0.1	-0.1	-0.1
UK	0.75	0.75	0.75	1.00	1.00

Long rate outlook

2Y. Bond yield

	29/03/2019	Amundi + 6m.	Forward + 6m.	Amundi + 12m.	Forward + 12m.
US	2.25	2.40/2.60	2.18	2.20/2.40	2.12
Germany	-0.6	-0.60/-0.40	-0.61	-0.60/-0.40	-0.60
Japan	-0.18	-0.20/0.00	-0.19	-0.20/0.00	-0.19
UK	0.64	0.60/0.80	0.6	0.70/0.90	0.62

10Y. Bond yield

	29/03/2019	Amundi + 6m.	Forward + 6m.	Amundi + 12m.	Forward + 12m.
US	2.40	2.50/2.70	2.42	2.40/2.60	2.44
Germany	-0.07	0.10/0.25	-0.02	0.10/0.25	0.03
Japan	-0.09	0.00/0.10	-0.06	0.00/0.10	-0.03
UK	0.99	1.10/1.30	1.07	1.15/1.35	1.13

Currency outlook

	29/03/2019	Amundi + 6m.	Consensus Q3 2019	Amundi + 12m.	Consensus Q1 2020
EUR/USD	1.12	1.14	1.15	1.17	1.18
USD/JPY	111	109	110	106.5	108
EUR/GBP	0.86	0.87	0.85	0.86	0.86
EUR/CHF	1.12	1.14	1.14	1.15	1.16
EUR/NOK	9.68	9.40	9.50	9.30	9.40
EUR/SEK	10.42	10.25	10.30	10.10	10.20
USD/CAD	1.33	1.31	1.31	1.30	1.31
AUD/USD	0.71	0.72	0.72	0.70	0.73
NZD/USD	0.68	0.68	0.68	0.69	0.69
USD/CNY	6.71	6.70	6.73	6.70	6.70

Amundi ASSET MANAGEMENT
Research & Macro Strategy

April 2019 #04

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