DEVELOPED COUNTRIES

Macroeconomic outlook

Data as of 03/03/2020

Annual averages (%)	Real GDP growth %			Inflation (CPI, yoy, %)		
	2019	2020 range	2021	2019	2020	2021
World	**3.1**	**2.7 - 3.0**	**3.3**	**3.0**	**3.5**	**2.8**
Developed countries	**1.7**	**1.1 - 1.4**	**1.5**	**1.5**	**1.7**	**1.7**
US	**2.3**	**1.7 - 1.9**	**1.7**	**1.8**	**2.2**	**2.1**
Japan	**1.2**	**0.1 - 0.3**	**0.7**	**0.7**	**0.7**	**0.6**
UK	**1.4**	**0.9 - 1.1**	**1.5**	**1.8**	**1.8**	**1.8**
Eurozone	**1.2**	**0.6 - 0.9**	**1.2**	**1.2**	**1.2**	**1.5**
Germany	0.6	0.5 - 0.70	1.1	1.5	1.5	1.5
France	1.2	0.9 - 1.1	1.3	1.3	1.3	1.5
Italy	0.2	-0.2 - 0	0.4	0.7	0.8	1.2
Spain	2.0	1.3 - 1.5	1.5	0.7	1.2	1.2

Source: Amundi Research

- **United States:** Growth is gradually sliding to potential, and inflation is close to the target. The US economy has so far been resilient, although both actual investments and future capex plans have decelerated significantly. Manufacturing, which is now trying to recover, suffered the most, while services held up. Consumption remains supported by a resilient labour market and moderate wage growth, on track with our view of gradual moderation in consumer spending. Policy framework: broadly accommodative monetary policy (one more rate cut expected); no major fiscal push in 2020; presidential elections are an additional factor of uncertainty, along with trade.
- **Eurozone:** Stabilising around potential, heavy downside risks from external demand. After a setback in 2019 linked to the considerable weakening in manufacturing, deceleration in exports and trade war concerns, we expect the Eurozone economy to stabilise to potential. The key driver is expected to be domestic demand, as consumption fundamentals remain supportive in aggregate. External demand weakness is a major downside risk, with important implications in key economies such as Germany and Italy. No major action on the monetary policy front, while some fiscal leeway could be introduced in the event of major stress.
- **Japan:** Capital investment, a principal pillar to the economy, is at serious risk. Companies had already slashed machinery orders before the Covid-19 outbreak. The epidemic scare will worsen corporate sentiment as quarantines and the suspension of assembly lines lower capacity utilisation markedly. It took three months until consumer sentiment finally stabilised after the Great Northeast Japan Earthquake in 2011, suggesting that morale could improve by May or June. The Tokyo Olympic games starting on July 24 will accentuate consumers' buying frenzy (unless they are cancelled).
- **United Kingdom:** UK GDP growth was modest in 2019, as slower global growth and elevated Brexit-related uncertainty dampened activity. This year, growth is expected to stabilise in a low gear, supported by domestic consumption, to then resume at higher speed in 2021. We expect domestic investments to remain subdued till there is more clarity on the Brexit / EU relationship details and uncertainties are removed. Upside risk to domestic demand resides in March budget, should it prove to be significantly expansionary; on the monetary policy front, we still expect BoE to stay on hold till summer at least.

Key interest rate outlook

	02-03 2020	Amundi + 6m.	Consensus Q2 2020	Amundi + 12m.	Consensus Q4 2020
US	**1.25**	**1.00**	**0.68**	**1.00**	**0.55**
Eurozone	**-0.50**	**-0.50**	**-0.64**	**-0.50**	**-0.66**
Japan	**-0.1**	**-0.1**	**-0.16**	**-0.2**	**-0.14**
UK	**0.75**	**0.50**	**0.39**	**0.50**	**0.36**

Source: Amundi Research

- **FED:** On the back of rapidly "evolving risks" posed from the coronavirus cited by Jerome Powell, Fed signalled openness to easing policy and rapidly moved from statement to action, cutting rates by 50bp. Our central scenario for US monetary policy moved to a cumulated 75bp rate cuts in 2020 as a whole: we expect another 25 bp cut to be delivered in one of the next meetings, in order to prevent financial conditions from an unwanted tightening. Together with more activism on rates, the Fed is also likely to keep expanding the size of its balance sheet, in next months, both through T-Bill purchases and repos, in order to reach higher targeted levels of liquidity and excess reserves in the system.
- **ECB:** Mentioning risks for both the macro and financial outlook, the ECB joined other major central banks in opening the door for more accommodation to come, despite the space for further easing at disposal looks limited on rates. "Appropriate and targeted measures" cited by the central bank point to more efforts in support of liquidity and financial conditions: we expect the ECB to focus on leeway offered by more QE and by renewed measures on long term refinancing operations. A further rate cut remains an option, but it looks less effective than other measures in terms of monetary stimulus transmission.
- **BoJ:** In line with statements released by other major central banks, the BoJ communicated that it will provide ample liquidity and ensure stability in financial markets through appropriate market operations and asset purchases. We therefore expect more liquidity to be injected into the system, and we keep our previous expectations for 10 bps rate cut in the next 12 months. At the same time, we expect the central bank to keep focusing on the slope of the curve, in order to maintain the effectiveness of monetary stimulus.
- **BoE:** Within a broad turn to a more accommodative stance of G4 central banks, the Bank of England stated that it's working "to ensure all necessary steps are taken to protect financial and monetary stability". Within a sort of synchronized global easier policy scenario, therefore, markets turned to imply two rate cuts by the BoE in the next 12 months, the first of which in the short term. In our view, the probability of a rate cut has materially increased, despite in recent meetings the BoE kept rates on holds.

Monetary policy agenda

Central banks	Next meeting
Federal Reserve FOMC	**March 17-18**
ECB Governing Council	**March 12**
Bank of Japan MPM	**March 18-19**
Bank of England MPC	**March 26**

Source: Amundi Research

EMERGING COUNTRIES

Macroeconomic outlook

Data as of 03/03/2020

Annual averages (%)	Real GDP growth %			Inflation (CPI, yoy, %)		
	2019	2020 range	2021	2019	2020	2021
World	3.1	2.7 - 3.0	3.3	3.0	3.5	2.8
Emerging countries	4.1	3.8 - 4.1	4.4	4.0	4.7	3.5
Brazil	1.1	1.5 - 1.7	1.8	3.7	4.2	4.5
Mexico	-0.1	0.7 - 0.8	1.3	3.6	3.4	3.5
Russia	1.3	1.5 - 1.7	2.5	4.5	3.0	4.0
India	5.3	4.9 - 5.1	5.6	3.7	6.4	4.5
Indonesia	5.0	4.8 - 5.1	5.2	2.8	2.9	3.6
China	6.2	4.9 - 5.6	5.7	2.9	4.2	2.0
South Africa	0.2	0.6 - 0.8	1.0	4.6	4.1	4.4
Turkey	0.8	2.8 - 3.0	2.5	15.5	11.4	9.2

Source: Amundi Research

- **China:** Following the Covid-19 outbreak, we promptly revised down our GDP forecasts for 2020 to around 5.5% YoY from 5.8% YoY, with the bulk of the weakness coming in the first quarter, based on the assumptions that the virus will not survive beyond March/April and that activity will gradually resume in China. As of today, the number of cases in mainland China (outside of Hubei province) has stabilized and activity, based on daily figures, is slowly recovering. The policy mix is turning marginally more accommodative on both the monetary and fiscal side.
- **South Korea:** Initially, the outlook for South Korea deteriorated as a consequence of the trade channel and the supply chain impact from China. More recently, the sharp increase in the Covid-19 cases has shifted the focus from an exogenous shock to an endogenous one. We expect GDP to grow by less than 2% YoY in 2020 from 2.2% in 2019. The policy mix is at full speed even in consideration of the coming elections. The Bank of Korea will reduce its policy rates to historically low levels, and a supplementary budget will likely add to the already sizable fiscal stimulus approved.
- **South Africa:** The budget deficit is expected to widen to an 18-year high in 2020/21 at 6.8% of GDP. In a context of weak economic growth, the minister said that no major tax increases will be implemented. All efforts will be focused on the expenditure side, with a huge cut in the wage bill. This consolidation will be unable to stabilize gross debt (forecasted above 70% of GDP in 2022/23). Risks are skewed to the downside as these projections are based on a very unpopular measure that would be hard to implement as unions are already threatening to protest.
- **Argentina:** The economy is in deep recession, with inflation running at over 50% yoy. With the imposition of capital controls, international reserves have stabilized, but external liquidity remains very poor. Regarding debt restructuring, the government does not have a coherent strategy and various options have been mentioned. The IMF was recently in Argentina and concluded that the debt burden has become unsustainable and a debt restructuring with a meaningful contribution from private creditors was necessary. We expect the restructuring process is likely to be long and complicated.

Key interest rate outlook

	27-02 2020	Amundi + 6m.	Consensus Q2 2020	Amundi + 12m.	Consensus Q4 2020
China	4.05	3.85	-	3.85	-
India	5.15	5.15	5.15	4.9	5.15
Brazil	4.25	4.25	4.25	4.25	4.25
Russia	6	5.75	5.75	5.5	5.75

Source: Amundi Research

- **PBoC (China):** Although the PBoC had already adopted a marginal dovish stance, the pandemic risk and its impact on the economy are increasing the need for a more accommodative stance going forward. After the 50bps RRR cut by the end of 2019, in February, the PBoC cut the MLF and the 1-year LPR by 10bps (5-year LPR by 5bps). We do expect more to come on the monetary policy easing as long as the crisis is in place and the economy doesn't return to a more comfortable growth path.
- **RBI (India):** Given the evolving growth-inflation dynamic, the MPC felt it appropriate to maintain the status quo on the policy repo rate. However, the MPC also recognised that there is monetary policy space for future action. Shortly after the Budget Law announced on 1st February, we pencilled in more easing to come by the RBI, albeit limited by the inflation path in terms of timing and size. Well aware of its constraints, the RBI has highlighted other ways to revive growth, such as incentivising bank credit to specific productive sectors or extending the one-time restructuring scheme for MSME advances.
- **BCB (Brazil):** The BCB has lately changed its stance, opening up to a further easing after letting the market understand that the easing cycle had finished at the end of last year. As clearly stated in the statement, the BCB is now ready to interrupt its easing cycle and monitor the trend in economic activity and the balance of risk, focusing more and more on 2021.
- **CBR (Russia):** January headline inflation fell to 2.4% yoy from 3% yoy in December 2019, with the decline mainly driven by food disinflation and lower import prices. The CBR sees limited inflation risk from the recently announced budgetary social spending measures, but rather sees disinflationary risks on a short-term horizon. With inflation trending well below the 4% target, we expect a total of two 25bps cuts in the next twelve months.

Monetary policy agenda

Central banks	Next communication
PBoC	**March 20**
RBI	**April 3**
BCB Brazil	**March 13**
CBR	**April 24**

Source: Amundi Research

MACRO AND MARKET FORECASTS

Macroeconomic forecasts (3 March 2020)

Annual averages (%)	Real GDP growth %			Inflation (CPI, yoy, %)		
	2019	2020 range	2021	2019	2020	2021
US	**2.3**	**1.7 - 1.9**	**1.7**	**1.8**	**2.2**	**2.1**
Japan	**1.2**	**0.1 - 0.3**	**0.7**	**0.7**	**0.7**	**0.6**
Eurozone	**1.2**	**0.6 - 0.9**	**1.2**	**1.2**	**1.2**	**1.5**
Germany	0.6	0.5 - 0.70	1.1	1.5	1.5	1.5
France	1.2	0.9 - 1.1	1.3	1.3	1.3	1.5
Italy	0.2	-0.2 - 0	0.4	0.7	0.8	1.2
Spain	2.0	1.3 - 1.5	1.5	0.7	1.2	1.2
UK	**1.4**	**0.9 - 1.1**	**1.5**	**1.8**	**1.8**	**1.8**
Brazil	**1.1**	**1.5 - 1.7**	**1.8**	**3.7**	**4.2**	**4.5**
Mexico	**-0.1**	**0.7 - 0.8**	**1.3**	**3.6**	**3.4**	**3.5**
Russia	**1.3**	**1.5 - 1.7**	**2.5**	**4.5**	**3.0**	**4.0**
India	**5.3**	**4.9 - 5.1**	**5.6**	**3.7**	**6.4**	**4.5**
Indonesia	**5.0**	**4.8 - 5.1**	**5.2**	**2.8**	**2.9**	**3.6**
China	**6.2**	**4.9 - 5.6**	**5.7**	**2.9**	**4.2**	**2.0**
South Africa	**0.2**	**0.6 - 0.8**	**1.0**	**4.6**	**4.1**	**4.4**
Turkey	**0.8**	**2.8 - 3.0**	**2.5**	**15.5**	**11.4**	**9.2**
Developed countries	**1.7**	**1.1- 1.4**	**1.5**	**1.5**	**1.7**	**1.7**
Emerging countries	**4.1**	**3.8- 4.1**	**4.4**	**4.0**	**4.7**	**3.5**
World	**3.1**	**2.7 - 3.0**	**3.3**	**3.0**	**3.5**	**2.8**

Key interest rate outlook

Developed countries

	02/03/2020	Amundi + 6m.	Consensus Q2 2020	Amundi + 12m.	Consensus Q4 2020
US	**1.25**	**1.00**	**0.68**	**1.00**	**0.55**
Eurozone	**-0.50**	**-0.50**	**-0.64**	**-0.50**	**-0.66**
Japan	**-0.1**	**-0.1**	**-0.16**	**-0.2**	**-0.14**
UK	**0.75**	**0.50**	**0.39**	**0.50**	**0.36**

Emerging countries

	27/02/2020	Amundi + 6m.	Consensus Q2 2020	Amundi + 12m.	Consensus Q4 2020
China	**4.05**	**3.85**	**-**	**3.85**	**-**
India	**5.15**	**5.15**	**5.15**	**4.9**	**5.15**
Brazil	**4.25**	**4.25**	**4.25**	**4.25**	**4.25**
Russia	**6**	**5.75**	**5.75**	**5.5**	**5.75**

Long rate outlook

2Y. Bond yield

	02/03/2020	Amundi + 6m.	Forward + 6m.	Amundi + 12m.	Forward + 12m.
US	**0.82**	**1.0/1.2**	**0.73**	**1.0/1.2**	**0.76**
Germany	**-0.824**	**-0.70/-0.50**	**-0.89**	**-0.70/-0.50**	**-0.88**
Japan	**-0.242**	**-0.30/-0.20**	**-0.28**	**-0.30/-0.20**	**-0.29**
UK	**0.262**	**0.40/0.60**	**0.20**	**0.40/0.60**	**0.20**

10Y. Bond yield

	02/03/2020	Amundi + 6m.	Forward + 6m.	Amundi + 12m.	Forward + 12m.
US	**1.10**	**1.3/1.5**	**1.13**	**1.4/1.6**	**1.19**
Germany	**-0.62**	**-0.6/0.4**	**-0.60**	**-0.50/-0.30**	**-0.56**
Japan	**-0.12**	**-0.10/0.10**	**-0.09**	**-0.10/0.10**	**-0.06**
UK	**0.41**	**0.50/0.70**	**0.42**	**0.6/0.8**	**0.46**

Currency outlook

	02/03/2020	Amundi + 6m.	Consensus Q2 2020	Amundi + 12m.	Consensus Q4 2020
EUR/USD	**1.113**	**1.12**	**1.110**	**1.14**	**1.130**
USD/JPY	**108**	**107**	**108**	**105**	**107**
EUR/GBP	**0.87**	**0.85**	**0.85**	**0.84**	**0.85**
EUR/CHF	**1.07**	**1.08**	**1.08**	**1.09**	**1.10**
EUR/NOK	**10.34**	**10.00**	**10.03**	**9.95**	**10.00**

	02/03/2020	Amundi + 6m.	Consensus Q2 2020	Amundi + 12m.	Consensus Q4 2020
EUR/SEK	**10.62**	**10.53**	**10.54**	**10.69**	**10.49**
USD/CAD	**1.33**	**1.30**	**1.31**	**1.28**	**1.31**
AUD/USD	**0.65**	**0.67**	**0.67**	**0.70**	**0.68**
NZD/USD	**0.63**	**0.64**	**0.65**	**0.64**	**0.65**
USD/CNY	**6.96**	**7.10**	**7.00**	**7.10**	**6.98**

Source: Amundi Research

Amundi Research Center

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