

DEVELOPED COUNTRIES

Macroeconomic outlook

Data as of 16/02/2021						
Annual averages (%)	Real GDP growth %			Inflation (CPI, yoy, %)		
	2020	2021	2022	2020	2021	2022
	range					
World	-3.6/-3.4	5.2/5.9	3.5/4.3	2.6	2.8	2.9
Developed countries	-5.3/-5.3	4.3/4.9	2.7/3.3	0.7	1.5	1.8
US	-3.6/-3.6	5.7/6.3	2.7/3.3	1.3	2.4	2.4
Japan	-5.2/-4.6	3.5/4.1	0.9/1.5	0.0	0.1	0.2
UK	-9.9/-9.9	3.4/4.0	3.4/4.0	0.9	1.8	1.8
Eurozone	-6.8/-6.8	3.0/3.6	3.2/3.9	0.3	0.9	1.5
Germany	-5.0/-5.0	2.5/3.1	2.8/3.4	0.5	1.3	1.7
France	-8.3/-8.3	4.0/4.6	3.1/3.7	0.5	1.2	1.6
Italy	-8.9/-8.9	3.0/3.6	2.7/3.3	-0.1	0.8	1.6
Spain	-11.0/-11.0	3.8/4.4	4.2/4.8	-0.3	1.0	1.2

Source: Amundi Research

- **United States:** The US economy recovery will be underpinned by the combined support of the monetary and fiscal levers, as we expect an additional USD 1-1.2tn fiscal package in early 2021. We have consistently revised up our growth and inflation forecasts. This upgrade does not compromise our view of a still accommodative monetary policy stance, especially as we expect the labour market slack to reabsorb only gradually, in a context where inflation does not change regimes, but follows a temporary inflation overshoot.
- **Eurozone:** after a technical recession between Q4 2020 and Q1 2021, we expect Eurozone growth to accelerate from H2 onwards, benefiting from progress on the vaccination campaign and the deployment of NGEU. During H1, though, economic performance remains dependent on activity restrictions imposed to prevent virus spread. Inflation will progress along an upward path, very volatile on transitory factors and base effects, while remaining below target. Fiscal and monetary policy will keep accommodating the recovery.
- **Japan:** economic recovery continued in Q4 despite the winter outbreak, with all sectors managing to expand from a quarter ago. Exports were exceptionally strong, where growth strengthened further. Following this higher-than-expected Q4 number, we upgraded our Q1 2021 forecast to slightly positive, as resilient external demand is likely to cancel out weakness in private consumption. We expect inflation to climb out of negative territory on firmer demand, but the full-year average will stay subdued at close to zero.
- **United Kingdom:** based on extended restrictions on mobility and activity stretching into the first months of the year, we expect the UK economy to contract in Q1. The fast roll-out of the vaccination campaign will help to lift sentiment and anticipate reopening, but we do not expect the economy to enjoy strong momentum until H2. Inflation is expected to be supported higher, with a temporary overshoot, yet not compromising the supportive monetary policy stance, which should work in tandem with fiscal policy to steadily underpin the recovery at a moment when the economic impact of Brexit is under review.

Key interest rate outlook

	26-02 2021	Amundi Q2 2021	Consensus Q2 2021	Amundi Q4 2021	Consensus Q4 2021
US	0.13	0/0.25	0.15	0/0.25	0.15
Eurozone	-0.50	-0.50	-0.50	-0.50	-0.50
Japan	-0.10	-0.1	-0.05	-0.1	-0.07
UK	0.10	0.1	0.10	0.1	0.10

Source: Amundi Research

- **Fed:** The last FOMC brought no changes in monetary policy but the overall tone of the meeting was dovish, confirming the current accommodative stance. The Fed will support the economy until the recovery is fully on track, and sees the strong rebound in inflation expected in Q2 as a transient factor. For the time being, monetary policy remains mainly focused on job market recovery rather than its eventual effects on asset prices. Powell dismissed the idea of an early taper, stating that it would be some time before the conditions for tapering would be achieved.
- **ECB:** The ECB January meeting brought no changes to the policy but the tone remained dovish, as the short-term risks to the baseline scenario remain tilted to the downside. We believe the scope for further rate cuts remains limited, and the level of QE will allow enough market presence and flexibility to reach the target of preserving easy financial conditions. The symmetry of flexibility in managing QE remains fully in place, and the ECB's QE firepower looks more than adequate to cover the expected EGB net issuance in 2021.
- **BoJ:** The central bank will conclude and release its monetary policy review at the March meeting. The markets, including us, are closely following possible changes in two areas: 1) YCC guidance, in particular for 10-year and/or longer tenors, since Governor Kuroda recently reiterated that the declines in super long yields are not desirable; 2) ETF purchases: as we noted, the BoJ started reducing its purchases in May 2020, and at a much slower pace over the past three months (around JPY200bn per month versus its guidance of JPY6tn per year or JPY500bn per month).
- **BoE:** As expected, the Bank of England kept its policy unchanged at its last meeting. The downward revisions to the GDP forecast for 2021 were offset by a stronger rebound expected from 2022 onwards. Even though the MPC urges that preparations for negative rates need to be made, in order to leave the door open to them, it does not seem that this is a short-term option. Given the higher-than-consensus forecast for a rebound in economic growth and the reluctant attitude towards negative rates for the time being, the central bank is likely to remain focused on QE.

Monetary policy agenda

Central banks	Next meeting
Federal Reserve FOMC	March 17
ECB Governing Council	March 11
Bank of Japan MPM	March 19
Bank of England MPC	March 18

Source: Amundi Research

EMERGING COUNTRIES

Macroeconomic outlook

Data as of 16/02/2021						
Annual averages (%)	Real GDP growth %			Inflation (CPI, yoy, %)		
	2020	2021	2022	2020	2021	2022
	range					
World	-3.6/-3.4	5.2/5.9	3.5/4.3	2.6	2.8	2.9
Emerging countries	-2.4/-2.1	5.8/6.6	4.1/5.1	3.9	3.6	3.7
Brazil	-4.4/-4.2	3.0/4.0	1.1/3.1	3.2	5.5	3.8
Mexico	-8.3	4.1/5.1	1.5/3.5	3.4	3.3	3.3
Russia	-3.1	2.5/3.5	2.0/3.5	3.4	4.2	3.8
India	-7.6/-6.6	8.4/9.6	4.3/5.7	6.6	5.3	6.2
Indonesia	-2.0	3.8/4.6	4.4/5.4	2.0	2.3	3.3
China	2.3	8.3/8.9	5.5/6.1	2.5	1.4	1.8
South Africa	-7.8/-6.8	2.6/3.6	1.6/2.6	3.0	3.7	4.3
Turkey	0.5/1.5	2.4/3.4	3.7/4.7	12.3	13.9	11.0

Source: Amundi Research

- **China:** The latest set of high frequency data suggests China's economy has held up better than we expected amid the winter outbreak. Despite the steep decline of inter-provincial travel, local mobility and consumption was little affected. Retail sales and catering sales during the Golden Week (11-17 February) were up 28.7% from a year ago, and 4.9% higher than 2019. Also, this special staycation could be a boost to industrial production, as the return to work has been smoother than for the previous holiday season. With the ongoing recovery, we expect inflation to show an uptrend in H1.
- **India:** On February 1st, the Indian government announced a surprisingly pro-growth budget for FY22 (ending March 2022), increasing its fiscal deficit target for the current and next fiscal years and moderating the anticipated path towards more fiscal discipline. The assumptions behind the budget law seem reasonable, for instance nominal GDP growth of around 14.5% YoY. Fiscal expenditure is expected to lean towards higher capex, highlighting the government's intention to promote more sustainable growth. Debt is expected to revert thanks to high growth levels.
- **Brazil:** Growth has moderated visibly with activity likely to contract in Q1 due in particular to a Covid-related deterioration and fiscal tightening. The policymakers have made a note of the slowdown and are now in the process of extending the emergency income in a benign fashion – capped in size and duration and in return for mini fiscal reform. That, in turn, would give the economy some much needed counter-cyclical support, re-anchor the fiscal story and even take pressure off the BCB to hike beyond the emergency normalisation measures.
- **Russia:** 2020 GDP growth was better than expected at -3.1% yoy. The CBR expects GDP growth of 3–4% in 2021, and 2.5-3.5% in 2022. Inflation is temporarily trending upwards because of pass through from ruble depreciation as well as a higher food CPI and Covid-related bottlenecks. The CBR expects inflation to peak in February-March 2021 and then to start declining, with an average forecast inflation range for 2021 of 3.7-4.2%. After that, inflation should stay at around 4%, the target range. Given the inflationary pressures combined with accommodative monetary conditions, we believe that rates will remain on hold throughout 2021.

Key interest rate outlook

	24-02 2021	Amundi Q2 2021	Consensus Q2 2021	Amundi Q4 2021	Consensus Q4 2021
China	3.85	3.85	3.85	3.85	3.85
India	4	4	3.85	4	3.8
Brazil	2.00	3.25	2.60	4.25	3.55
Russia	4.25	4.25	4.2	4.25	4.25

Source: Amundi Research

- **PBoC (China):** The unexpected liquidity tightening ahead of the Chinese New Year shows that the PBoC is normalising its policy with a tightening bias. Following this incident, we continue to believe that interbank rates will anchor around the PBoC's 7D repo rate at 2.2% and the 1-year MLF rate at 2.95% for the main part. But short-term deviation is likely. The one-year LPR will be left unchanged at 3.85% to avoid overtightening. The risk of a rate hike this year remains low as policy easing has started to withdraw on all fronts.
- **RBI (India):** On February 5th, the RBI MPC voted unanimously to leave the policy repo rate unchanged at 4%. The decision was widely expected by the market, despite headline inflation decreasing sharply in December to 4.6% YoY from 6.9% YoY, and finally within the target range. We expect inflation to trend higher from March (without breaching the target as in 2020) and therefore we expect the RBI to remain on hold for the rest of the year. The normalisation is expected to stem from the liquidity injected into the system rather than from the policy rates to counterbalance the budget inflationary push.
- **BCB (Brazil):** The BCB blinked and unwound its forward guidance already in January. It is now leading the global monetary policy peloton out of an ultra-accommodative stance. The BCB is ready to hike fairly soon to keep inflation (and expectations) in line with the target objectives. The Q1 soft patch suggests a hike is not imminent (March) but an extension of the emergency income is a big factor in the central bank's reaction function (especially if not of a malign nature). All in all, we continue to believe the BCB will hike by far less than the markets are pricing in.
- **CBR (Russia):** On February 12th, the CBR left its policy rate unchanged at 4.25%, as expected. It mentioned the acceleration in inflation in December and January due to various factors, including a faster-than-expected recovery in demand, supply-side bottlenecks related to Covid, and continued pass through from RuB depreciation. Hence, according to the CBR, disinflationary risks no longer prevail and the inflation forecast for 2021 has been revised up. In addition, monetary conditions remain accommodative. Given all of this, we expect rates to be on hold throughout 2021 (end of output gap) and a hiking cycle to start after that, with a 75-100bps hike in 2022, which would bring the policy rate to the neutral range of 5-6%.

Monetary policy agenda

Central banks	Next communication
PBoC	March 22
RBI	April 7
BCB Brazil	March 17
CBR	March 19

Source: Amundi Research

MACRO AND MARKET FORECASTS

Macroeconomic forecasts

(16 February 2021)

Annual averages (%)	Real GDP growth %			Inflation (CPI, yoy, %)		
	2020	2021	2022	2020	2021	2022
	range					
US	-3.6/-3.6	5.7/6.3	2.7/3.3	1.3	2.4	2.4
Japan	-5.2/-4.6	3.5/4.1	0.9/1.5	0.0	0.1	0.2
Eurozone	-6.8/-6.8	3.0/3.6	3.2/3.9	0.3	0.9	1.5
Germany	-5.0/-5.0	2.5/3.1	2.8/3.4	0.5	1.3	1.7
France	-8.3/-8.3	4.0/4.6	3.1/3.7	0.5	1.2	1.6
Italy	-8.9/-8.9	3.0/3.6	2.7/3.3	-0.1	0.8	1.6
Spain	-11.0/-11.0	3.8/4.4	4.2/4.8	-0.3	1.0	1.2
UK	-9.9/-9.9	3.4/4.0	3.4/4.0	0.9	1.8	1.8
Brazil	-4.4/-4.2	3.0/4.0	1.1/3.1	3.2	5.5	3.8
Mexico	-8.3	4.1/5.1	1.5/3.5	3.4	3.3	3.3
Russia	-3.1	2.5/3.5	2.0/3.5	3.4	4.2	3.8
India	-7.6/-6.6	8.4/9.6	4.3/5.7	6.6	5.3	6.2
Indonesia	-2.0	3.8/4.6	4.4/5.4	2.0	2.3	3.3
China	2.3	8.3/8.9	5.5/6.1	2.5	1.4	1.8
South Africa	-7.8/-6.8	2.6/3.6	1.6/2.6	3.0	3.7	4.3
Turkey	0.5/1.5	2.4/3.4	3.7/4.7	12.3	13.9	11.0
Developed countries	-5.3/-5.3	4.3/4.9	2.7/3.3	0.7	1.5	1.8
Emerging countries	-2.4/-2.1	5.8/6.6	4.1/5.1	3.9	3.6	3.7
World	-3.6/-3.4	5.2/5.9	3.5/4.3	2.6	2.8	2.9

Key interest rate outlook

Developed countries

	26/02/2021	Amundi Q2 2021	Consensus Q2 2021	Amundi Q4 2021	Consensus Q4 2021
US	0.13	0/0.25	0.15	0/0.25	0.15
Eurozone	-0.50	-0.50	-0.50	-0.50	-0.50
Japan	-0.10	-0.1	-0.05	-0.1	-0.07
UK	0.10	0.1	0.10	0.1	0.10

Emerging countries

	24/02/2021	Amundi Q2 2021	Consensus Q2 2021	Amundi Q4 2021	Consensus Q4 2021
China	3.85	3.85	3.85	3.85	3.85
India	4	4	3.85	4	3.8
Brazil	2.00	3.25	2.60	4.25	3.55
Russia	4.25	4.25	4.2	4.25	4.25

Long rate outlook

2Y. Bond yield

	26/02/2021	Amundi Q2 2021	Forward Q2 2021	Amundi Q4 2021	Forward Q4 2021
US	0.15	0.15/0.25	0.24	0.20/0.35	0.39
Germany	-0.65	-0.70/-0.50	-0.66	-0.70/-0.50	-0.66
Japan	-0.12	-0.20/-0.10	-0.12	-0.20/-0.10	-0.11
UK	0.13	0/0.25	0.18	0/0.25	0.27

10Y. Bond yield

	26/02/2021	Amundi Q2 2021	Forward Q2 2021	Amundi Q4 2021	Forward Q4 2021
US	1.48	1.4/1.7	1.55	1.5/1.8	1.66
Germany	-0.25	-0.50/-0.30	-0.23	-0.40/-0.20	-0.20
Japan	0.16	0/0.20	0.18	0/0.20	0.21
UK	0.81	0.7/0.9	0.86	0.9/1.1	0.93

Currency outlook

	22/02/2021	Amundi Q2 2021	Consensus Q2 2021	Amundi Q4 2021	Consensus Q4 2021
EUR/USD	1.22	1.23	1.23	1.18	1.24
USD/JPY	105	106	104	109	104
EUR/GBP	0.86	0.87	0.88	0.88	0.89
EUR/CHF	1.09	1.11	1.09	1.09	1.10
EUR/NOK	10.32	9.83	10.22	10.25	10.03
EUR/SEK	10.05	9.97	10.00	10.00	9.86
USD/CAD	1.26	1.24	1.27	1.25	1.25
AUD/USD	0.79	0.80	0.77	0.76	0.78
NZD/USD	0.73	0.72	0.72	0.70	0.73
USD/CNY	6.46	6.39	6.45	6.50	6.38

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.

METHODOLOGY

– Scenarios

The probabilities reflect the likelihood of financial regimes (central, downside and upside scenario) which are conditioned and defined by our macro-financial forecasts.

– Risks

The probabilities of risks are the outcome of an internal survey. Risks to monitor are clustered in three categories: Economic, Financial and (Geo)politics. While the three categories are interconnected, they have specific epicentres related to their three drivers. The weights (percentages) are the composition of highest impact scenarios derived by the quarterly survey run on the investment floor.

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