# DEVELOPED COUNTRIES

## Macroeconomic outlook

Data as of 23/03/2021

| Annual averages (%) | Real GDP growth % | | | Inflation (CPI, yoy, %) | | |
|---|---|---|---|---|---|---|
| | 2020 | 2021 range | 2022 | 2020 | 2021 | 2022 |
| **World** | **-3.5/-3.4** | **5.6/6.4** | **3.7/4.6** | **2.6** | **2.9** | **3.0** |
| **Developed countries** | **-5.2** | **4.7/5.6** | **3.2/3.9** | **0.7** | **1.8** | **1.8** |
| **US** | **-3.5** | **6.5/7.9** | **3.5/4.4** | **1.3** | **2.6** | **2.5** |
| **Japan** | **-4.9** | **4.0/4.6** | **1.4/2.0** | **0.0** | **0.1** | **0.2** |
| **UK** | **-9.9** | **3.8/4.4** | **4.6/5.2** | **0.9** | **1.7** | **2.0** |
| **Eurozone** | **-6.8** | **3.0/3.6** | **3.2/3.9** | **0.3** | **1.4** | **1.5** |
| Germany | -5.0 | 2.8/3.4 | 2.6/3.2 | 0.5 | 1.8 | 1.5 |
| France | -8.2 | 4.0/4.6 | 3.2/3.8 | 0.5 | 1.2 | 1.6 |
| Italy | -8.9 | 3.0/3.6 | 2.7/3.3 | -0.1 | 1.0 | 1.4 |
| Spain | -11.0 | 3.9/4.5 | 4.2/4.8 | -0.3 | 1.1 | 1.2 |

Source: Amundi Research

- **United States:** thanks to fiscal aid and still extremely accommodative monetary policy, the US economy will likely recover much of the ground lost during 2020, returning to pre-pandemic levels around mid-year, while the labour market will take longer to recover fully. Easing restrictions and broadening vaccination campaigns, plus the build-up of extra savings represent an upside risk to consumption growth. Inflation is expected to rise and overshoot in Spring 2021 on transitory factors and then to recede and stabilise in 2020 around slightly higher rates than pre-pandemic (still within comfort range).
- **Eurozone:** with winter restrictions extended or tightened into Q1, we expect the economy will contract again in 1Q after shrinking in 4Q, continuing along a very bumpy road to recovery, where the speed of vaccination campaigns remains crucial to reopening safely. Economic growth will pick up in 2Q and accelerate above trend from H2 2021. Governments will continue to offer fiscal support until the recovery is on track, while the European Central Bank is accommodating. Inflation will progress upward, volatile on transitory factors, while remaining below target on average.
- **Japan:** Although Japan's vaccinations lag Europe and the US (only started in mid-February), the retreat of winter outbreak has laid the ground for a solid recovery. Mobility data improved further in early March. Business sentiment continued to recover, with cash earnings picking up to pre-Covid levels. Exports expanded in Jan/Feb from Q4. Overall, Japan's economy may avoid a contraction in Q1, supported by business capex and exports. In light of the brighter economic outlook, we expect inflation to pick up from the negative territory and print positive for the full year.
- **United Kingdom:** based on extended restrictions as the country endures a third lockdown, we expect the UK economy to contract in Q1. Yet, the fast vaccination campaign has enabled the government to outline a plan to gradually lift all restrictions by June 21. We then expect the economy to pick up from H2 and enjoy strong momentum. Inflation is expected to move higher over the year, yet remaining broadly within target and not compromising the supportive monetary policy stance, which should work in tandem with the recently enhanced fiscal policy, to steadily underpin the recovery.

## Key interest rate outlook

| | 25-03 2021 | Amundi +6M | Consensus +6M | Amundi +12M | Consensus +12M |
|---|---|---|---|---|---|
| **US** | **0.13** | **0/0.25** | **0.14** | **0/0.25** | **0.14** |
| **Eurozone** | **-0.50** | **-0.50** | **-0.51** | **-0.50** | **-0.53** |
| **Japan** | **-0.10** | **-0.1** | **-0.04** | **-0.1** | **-0.08** |
| **UK** | **0.10** | **0.1** | **0.11** | **0.1** | **0.12** |

Source: Amundi Research

## Monetary policy agenda

| Central banks | Next meeting |
|---|---|
| **Federal Reserve FOMC** | **April 28** |
| **ECB Governing Council** | **April 22** |
| **Bank of Japan MPM** | **April 27** |
| **Bank of England MPC** | **May 6** |

Source: Amundi Research

- **Fed:** The FOMC upgraded its projections of economic growth, employment and inflation but showed no change in the projected path of interest rates, with still no rate hike until 2024 in the dots. The Fed was determined to signal patience, with a strong emphasis on its new reaction function and its commitment to sticking to near-zero rates until inflation is clearly headed above 2% and full employment has returned. The Fed reiterated that it will see the forthcoming strong inflation numbers as transitory, and on other hand, there was a strong focus on the full employment mandate. The growth assumption for 2021 could be revised upward if the FOMC lowers its Covid risk assessment in the next few months. It stressed the very elevated uncertainty surrounding the virus, as well as the nature of the recovery and the size of fiscal support.
- **ECB:** In March the ECB delivered no new policy action, but pledged to intensify the path of PEPP purchases, consistent with recent communication aimed at preventing unwanted monetary tightening through higher nominal and real rates induced by the global trend. The ECB's willingness to make full flexible use of its QE was confirmed by quite a step-up in volumes of net flows in the week following the meeting. The March TLTRO auction (the other main policy tool) was successful in injecting liquidity, indirectly supporting QE efforts.
- **BoJ:** The March monetary policy review confirmed that the BoJ is moving away from continuously massive monetary stimulus, and adopting a more sustained and flexible approach. The BoJ decided to widen the trading band for 10-year yield to +/-0.25% from +/-0.2%, allowing the JGB to fluctuate more with global bonds. It removed the annual ETF & J-REIT purchase target of ¥6 trillion, and kept the upper limit of ¥12 trillion, suggesting it will steer away from regular purchases and only step in when markets fall sharply. Lastly, it will rebate financial institutions to mitigate the NIRP impact.
- **BoE:** The March meeting saw no policy changes and a dovish tone persisted, although the BoE appears to be cautiously optimistic in its outlook. Like the Fed, the BoE does not look alarmed about the recent rise in bond yields, in line with Governor Bailey's comments, suggesting that the recent rise in yields reflects better growth prospects. At the same time, until the evolution of the economic picture is clearer, the BoE will keep targeting quite easy financing conditions, with the policy focus on QE rather than on other policy tools.

# EMERGING COUNTRIES

## Macroeconomic outlook

Data as of 23/03/2021

| Annual averages (%) | Real GDP growth % | | | Inflation (CPI, yoy, %) | | |
|---|---|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2020 | 2021 | 2022 |
| | | range | | | | |
| **World** | **-3.5/-3.4** | **5.6/6.4** | **3.7/4.6** | **2.6** | **2.9** | **3.0** |
| **Emerging countries** | **-2.2/-2.1** | **6.2/7.0** | **4.1/5.1** | **4.0** | **3.8** | **3.9** |
| **Brazil** | **-4.1** | **3.1/4.1** | **1.5/3.5** | **3.2** | **6.3** | **3.6** |
| **Mexico** | **-8.2** | **4.4/5.4** | **1.9/3.9** | **3.4** | **4.1** | **3.3** |
| **Russia** | **-3.1** | **2.5/3.5** | **2.0/3.5** | **3.4** | **4.6** | **4.1** |
| **India** | **-7.1** | **9.0/10.2** | **5.2/6.6** | **6.6** | **5.3** | **6.2** |
| **Indonesia** | **-2.0** | **3.8/4.6** | **4.4/5.4** | **2.0** | **2.2** | **3.3** |
| **China** | **2.3** | **8.7/9.3** | **5.1/5.7** | **2.5** | **1.4** | **2.3** |
| **South Africa** | **-6.9** | **3.1/4.1** | **2.1/3.1** | **3.2** | **3.9** | **4.5** |
| **Turkey** | **1.6** | **3.6/4.6** | **3.7/4.7** | **12.3** | **15.7** | **11.3** |

Source: Amundi Research

- **China:** Since the winter outbreak was contained quickly, we expect only a small set-back in the services sector. Meanwhile, this special staycation was a moderate boost to the industrial sector and exporters, and the low base last year means the Q1 GDP figure could easily show growth in the high teens. Afterwards, we expect the economy to grow at trend, led by consumption. Inflation-wise, we expect PPI to increase from 1.7% YoY in February to above 4% YoY in Q2 then soften in H2. Recovering services consumption will help CPI to climb from -0.2% YoY in February to around 2%.
- **Indonesia:** The vaccination rollout has been speeding up in March, though the numbers remain relatively low and mobility has been showing a lacklustre economic performance in Q121. External demand remains more supportive than domestic, and the trade surplus was confirmed as robust. Inflation remained below the BI target, at 1.4% YoY with very subdued core components. BI kept its policy rate at 3.5%, signalling a sort of long pause ahead in monetary policy (the end of its easing cycle), while reiterating the message for the banking system to lower lending rates further.
- **Brazil:** Growth has moderated visibly, with activity likely to contract in Q1, due in particular to a Covid-related deterioration and fiscal tightening. Policymakers have made a note of the slowdown and are now in the process of extending 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.
- **Turkey:** The CBRT raised its key rate by 200bps to 19%. The decision was motivated by: i) the deterioration of the inflation outlook (inflation released at 15.6% YoY in February and may accelerate because of higher oil and import prices and recent weakness of the lira led by the rise of the US 10Y bond yields) and ii) surprisingly, signs of higher credit growth. While this decision was rational, Erdogan replaced the Governor with an unorthodox and market-unfriendly new one. This change will add new uncertainty to monetary policy and has already translated into a weaker Turkish lira.

## Key interest rate outlook

| | 26-03 2021 | Amundi +6M | Consensus +6M | Amundi +12 M | Consensus +12 M |
|---|---|---|---|---|---|
| **China** | **3.85** | **3.85** | **3.85** | **3.85** | **3.85** |
| **India** | **4.00** | **4.00** | **4.00** | **4.25** | **4.00** |
| **Brazil** | **2.75** | **5.50** | **3.55** | **6.00** | **4.30** |
| **Russia** | **4.50** | **5.00** | **4.50** | **5.50** | **4.70** |

Source: Amundi Research

## Monetary policy agenda

| Central banks | Next communication |
|---|---|
| **PBoC** | **April 20** |
| **RBI** | **April 7** |
| **BCB Brazil** | **May 5** |
| **CBR** | **April 23** |

Source: Amundi Research

- **PBoC (China):** We expect PBoC to leave its headline OMO rates (7d at 2.2%, 1yr at 2.95%), LPR (1yr at 3.85%) and RRR unchanged, while anchoring interbank market rates around its OMO rates for most of 2021. That said, its bare minimum liquidity injection since end-January suggests its policy carries a tightening bias with concerns over bubbly asset prices. Effective lending rates will likely increase, especially for mortgage rates. In light of tighter global financial conditions, and de facto tightening in domestic macro prudential policies, risks of policy rate hikes remain low in 2021.
- **RBI (India):** On February 5, the RBI MPC left its policy repo rate unchanged at 4%. The decision was widely expected by the market. Since then, inflation figures have risen to 5.0% YoY on the headline in February (from 4.1% YoY) and to 5.9% YoY on the core. Consistent with our expectations of inflation trending higher (without breaching the target as in 2020), we reiterate the view of RBI remaining on hold for the rest of the year. Around mid-February, the RBI conducted new OMOs and confirmed its commitment in supporting government financing needs.
- **BCB (Brazil):** The bigger-than-expected hike by in March (75bps vs 50bps) to 2.75% was accompanied by another pre-announced hike of the same size at the next meeting in May. The front-loading, according to the Bank, is needed to prevent fast-rising inflation (base- and energy-driven mostly) from moving above the target in 2022. Importantly, however, the BCB sees the current adjustment as part of partial renormalisation only. We instead see rates rising faster and closer to neutral this year (5.50% or higher) on account of more persistent inflationary pressures than currently anticipated.
- **CBR (Russia):** On March 19, the CBR hiked the policy rate by 25bps to 4,5% slightly earlier than expected. The CBR mentioned a number of factors leading to this decision: a faster than expected recovery in domestic demand, better external demand prospects with fiscal support and vaccinations, and elevated inflationary expectations and pro-inflationary risks. February inflation was 5,7% YoY and March is expected to be at 5.8%. The CBR remains open to further increases in the policy rate. They now expect inflation to return to the 4% target in H1-2022. We expect 75-100bps hikes over the next 12 months.

# MACRO AND MARKET FORECASTS

## Macroeconomic forecasts (23 March 2021)

| Annual averages (%) | Real GDP growth % 2020 | 2021 range | 2022 | Inflation (CPI, yoy, %) 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|
| **US** | **-3.5** | **6.5/7.9** | **3.5/4.4** | **1.3** | **2.6** | **2.5** |
| **Japan** | **-4.9** | **4.0/4.6** | **1.4/2.0** | **0.0** | **0.1** | **0.2** |
| **Eurozone** | **-6.8** | **3.0/3.6** | **3.2/3.9** | **0.3** | **1.4** | **1.5** |
| Germany | -5.0 | 2.8/3.4 | 2.6/3.2 | 0.5 | 1.8 | 1.5 |
| France | -8.2 | 4.0/4.6 | 3.2/3.8 | 0.5 | 1.2 | 1.6 |
| Italy | -8.9 | 3.0/3.6 | 2.7/3.3 | -0.1 | 1.0 | 1.4 |
| Spain | -11.0 | 3.9/4.5 | 4.2/4.8 | -0.3 | 1.1 | 1.2 |
| **UK** | **-9.9** | **3.8/4.4** | **4.6/5.2** | **0.9** | **1.7** | **2.0** |
| **Brazil** | **-4.1** | **3.1/4.1** | **1.5/3.5** | **3.2** | **6.3** | **3.6** |
| **Mexico** | **-8.2** | **4.4/5.4** | **1.9/3.9** | **3.4** | **4.1** | **3.3** |
| **Russia** | **-3.1** | **2.5/3.5** | **2.0/3.5** | **3.4** | **4.6** | **4.1** |
| **India** | **-7.1** | **9.0/10.2** | **5.2/6.6** | **6.6** | **5.3** | **6.2** |
| **Indonesia** | **-2.0** | **3.8/4.6** | **4.4/5.4** | **2.0** | **2.2** | **3.3** |
| **China** | **2.3** | **8.7/9.3** | **5.1/5.7** | **2.5** | **1.4** | **2.3** |
| **South Africa** | **-6.9** | **3.1/4.1** | **2.1/3.1** | **3.2** | **3.9** | **4.5** |
| **Turkey** | **1.6** | **3.6/4.6** | **3.7/4.7** | **12.3** | **15.7** | **11.3** |
| **Developed countries** | **-5.2** | **4.7/5.6** | **3.2/3.9** | **0.7** | **1.8** | **1.8** |
| **Emerging countries** | **-2.2/-2.1** | **6.2/7.0** | **4.1/5.1** | **4.0** | **3.8** | **3.9** |
| **World** | **-3.5/-3.4** | **5.6/6.4** | **3.7/4.6** | **2.6** | **2.9** | **3.0** |

## Key interest rate outlook

### Developed countries

| | 25/03/2021 | Amundi +6M | Consensus +6M | Amundi +12 M | Consensus +12 M |
|---|---|---|---|---|---|
| **US** | 0.13 | 0/0.25 | 0.14 | 0/0.25 | 0.14 |
| **Eurozone** | -0.50 | -0.50 | -0.51 | -0.50 | -0.53 |
| **Japan** | -0.10 | -0.1 | -0.04 | -0.1 | -0.08 |
| **UK** | 0.10 | 0.1 | 0.11 | 0.1 | 0.12 |

### Emerging countries

| | 26/03/2021 | Amundi +6M | Consensus +6M | Amundi +12 M | Consensus +12 M |
|---|---|---|---|---|---|
| **China** | 3.85 | 3.85 | 3.85 | 3.85 | 3.85 |
| **India** | 4.00 | 4.00 | 4.00 | 4.25 | 4.00 |
| **Brazil** | 2.75 | 5.50 | 3.55 | 6.00 | 4.30 |
| **Russia** | 4.50 | 5.00 | 4.50 | 5.50 | 4.70 |

## Long rate outlook

### 2Y. Bond yield

| | 25/03/2021 | Amundi +6M | Forward +6M | Amundi +12 M | Forward +12 M |
|---|---|---|---|---|---|
| **US** | 0.14 | 0.15/0.25 | 0.29 | 0.20/0.35 | 0.44 |
| **Germany** | -0.71 | -0.70/-0.50 | -0.76 | -0.70/-0.50 | -0.80 |
| **Japan** | -0.14 | -0.20/-0.10 | -0.14 | -0.20/-0.10 | -0.13 |
| **UK** | 0.06 | 0/0.25 | 0.12 | 0/0.25 | 0.22 |

### 10Y. Bond yield

| | 25/03/2021 | Amundi +6M | Forward +6M | Amundi +12 M | Forward +12 M |
|---|---|---|---|---|---|
| **US** | 1.64 | 1.5/1.8 | 1.77 | 1.8/2.0 | 1.91 |
| **Germany** | -0.35 | -0.40/-0.20 | -0.29 | -0.20/-0.0 | -0.23 |
| **Japan** | 0.07 | 0/0.20 | 0.12 | 0/0.20 | 0.16 |
| **UK** | 0.76 | 0.7/0.9 | 0.91 | 0.9/1.1 | 1.01 |

## Currency outlook

| | 26/03/2021 | Amundi Q3 2021 | Consensus Q3 2021 | Amundi Q1 2022 | Consensus Q1 2022 |
|---|---|---|---|---|---|
| **EUR/USD** | 1.18 | 1.18 | 1.22 | 1.16 | 1.22 |
| **USD/JPY** | 110 | 112 | 106 | 114 | 107 |
| **EUR/GBP** | 0.86 | 0.84 | 0.86 | 0.86 | 0.86 |
| **EUR/CHF** | 1.11 | 1.12 | 1.11 | 1.12 | 1.12 |
| **EUR/NOK** | 10.11 | 9.64 | 10.10 | 10.16 | 9.90 |

| | 26/03/2021 | Amundi Q3 2021 | Consensus Q3 2021 | Amundi Q1 2022 | Consensus Q1 2022 |
|---|---|---|---|---|---|
| **EUR/SEK** | 10.19 | 9.97 | 10.00 | 10.31 | 9.80 |
| **USD/CAD** | 1.26 | 1.24 | 1.25 | 1.27 | 1.25 |
| **AUD/USD** | 0.76 | 0.80 | 0.78 | 0.75 | 0.78 |
| **NZD/USD** | 0.70 | 0.72 | 0.73 | 0.68 | 0.74 |
| **USD/CNY** | 6.54 | 6.50 | 6.40 | 6.60 | 6.35 |

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.

Amundi ASSET MANAGEMENT | Research

CROSS ASSET
INVESTMENT STRATEGY

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