DEVELOPED COUNTRIES

Macroeconomic outlook

Data as of 27/10/2020

Annual averages (%)	Real GDP growth %			Inflation (CPI, yoy, %)		
	2019	2020 range	2021	2019	2020	2021
World	**3.0**	**-4.5/-3.8**	**5.1;5.8**	**3.1**	**2.6**	**2.7**
Developed countries	**1.7**	**-6.2/-5.7**	**4.5;5.1**	**1.5**	**0.7**	**1.4**
US	**2.3**	**-4.6/-4.0**	**4.3;4.9**	**1.8**	**1.2**	**2.1**
Japan	**1.2**	**-5.1/-4.5**	**2.9;3.5**	**0.7**	**0.0**	**0.2**
UK	**1.4**	**-11.5/-10.5**	**7.0;9.0**	**1.8**	**0.8**	**1.5**
Eurozone	**1.2**	**-8.1/-7.5**	**5.0;5.6**	**1.2**	**0.3**	**1.0**
Germany	0.6	-6.3/-5.7	3.1;3.7	1.5	0.6	1.3
France	1.2	-10.0/-9.4	6.3;6.9	1.3	0.6	1.1
Italy	0.3	-10.0/-9.4	4.7;5.3	0.7	-0.2	0.6
Spain	2.0	-12.4/-11.7	5.9;6.5	0.7	-0.3	0.8

Source: Amundi Research

- **United States:** the US economy rebounded in Q3, exceeding our expectations and leading to a further upside revision of our 2020 GDP forecasts. However, given the signs of a progressive deceleration in several economic and behavioural indicators, influenced by the new rise in Covid-19 cases, we are more cautious about the speed at which the economy will enter 2021. After some softening in H2 2020, headline inflation should move higher, with a temporary mid-year overshoot due to reversing oil price base effects. It will then revert to the target. As November 3 approaches, policymakers' focus is shifting, with an increased risk that 2020 fiscal policy will become more diluted than expected, and with little visibility on the Phase 4 deal in particular.
- **Eurozone:** after the strong rebound in early Q3, we have revised our forecasts for 2020 slightly upwards. However, the recovery curve for the Eurozone economies has flattened significantly, affected by the second wave of Covid-19, aggravating concerns of a potential slowdown in economic activity in Q4. We expect a progressive pickup in both domestic and external demand, supported by an extraordinary easing of monetary policy and counter-cyclical fiscal policies. Inflation should remain subdued in the near term with possible downside risks before moving gradually higher in 2021, yet remaining somewhat below target. Temporary extensions of furlough schemes are preventing severe distress in the labour market, although we expect the unemployment rate to continue increasing in early 2021.
- **Japan:** the latest data confirmed our view of a slow economic recovery. The second wave of Covid-19 cast a shadow over consumption and business sentiment, while mobility and domestic tourism were less hit than in April, thanks to the government's Go To Travel scheme and less stringent restriction measures. External demand started to bottom out, but Japanese export recovery lags behind its East Asian peers. Overall, we expect investments to bounce back at a slower pace than exports and consumption, and forecast GDP remaining below pre-pandemic levels until 2022.
- **United Kingdom:** the economy grew at a sustained pace during the summer, technically rebounding from the Q2 dip. The Covid-19 resurgence and new restrictions being implemented nationwide led to a significant deceleration in economic activity from September and rising concerns of a rapid deceleration in Q4. The labour market remains under pressure, despite the new job support schemes introduced to replace the previous furlough schemes. A new round of fiscal support is more likely, together with some easing on the monetary front later in the year with additional Brexit downside risk looming as negotiations stall.

Key interest rate outlook

	28-10 2020	Amundi + 6m.	Consensus Q2 2021	Amundi + 12m.	Consensus Q4 2021
US	**0.13**	**0/0.25**	**0.08**	**0/0.25**	**0.07**
Eurozone	**-0.50**	**-0.50**	**-0.54**	**-0.50**	**-0.60**
Japan	**-0.05**	**-0.1**	**-0.06**	**-0.1**	**-0.09**
UK	**0.10**	**0.00**	**0.04**	**0.00**	**-0.04**

Source: Amundi Research

Monetary policy agenda

Central banks	Next meeting
Federal Reserve FOMC	**November 4**
ECB Governing Council	**December 10**
Bank of Japan MPM	**December 18**
Bank of England MPC	**November 5**

Source: Amundi Research

- **Fed:** The Fed unveiled its new forward guidance associated with the recent changes to its longer-run goals and monetary policy strategy. The current rate will be maintained "until labour market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time". The new economic projections show that rates will stay at zero at least through to the end of 2023. The Fed made no changes to the asset purchase programme and showed no urgency in transitioning to a more traditional QE that tilts purchases toward longer maturities. The QE will remain at the current pace "over the coming months".
- **ECB:** In September, the pace of ECB purchases failed to return to July levels, with technical factors and the market environment supportive to Euro government bonds. The central bank is likely to increase the weight of its currently limited purchases of supras given the size of forthcoming EU issuance. A broad consensus expects the ECB to increase the size and extend the horizon of its QE programme into the second half of next year. The downside risks to the macro outlook and the upside risks to next year's sovereign financing needs due to the recent pandemic trends, together with low inflation expectations support this eventual move before the end of the year.
- **BoJ:** We expect the central bank to continue its accommodative policy stance into 2021, in the form of asset purchasing, YCC and a special funding programme for SMEs. Meanwhile, Suga's Cabinet has hinted at a third supplementary budget for FY2020 (due early next year), and an expansive fiscal stance for FY2021. This reduces the odds on the BoJ adding stimulus measures, despite a soft economic recovery. In the risk scenario of a fresh, deadly pandemic outbreak, a combination of strengthened forward guidance and increased special funding is more likely in our view.
- **BoE:** As broadly expected, the Bank of England left its policy rates unchanged. It also acknowledged the risks to future economic growth posed by the recent pandemic trends and by the Brexit outcome. The BoE is still expected to extend its QE before the year-end, when the current programme is scheduled to end. In the short-term, the QE policy package and the forward guidance are likely to remain as preferred rather than the introduction of new tools, despite the recent decision to explore the negative rates option in the future.

EMERGING COUNTRIES

Macroeconomic outlook

Data as of 27/10/2020

Annual averages (%)	Real GDP growth %			Inflation (CPI, yoy, %)		
	2019	2020 range	2021	2019	2020	2021
World	3.0	-4.5/-3.8	5.1;5.8	3.1	2.6	2.7
Emerging countries	3.9	-3.3/-2.5	5.5;6.3	4.3	3.9	3.6
Brazil	1.1	-4.9/-4.4	3.4;4.4	3.7	3.0	3.4
Mexico	-0.3	-8.8/-8.3	3.8;4.8	3.6	3.5	3.3
Russia	1.3	-4.0/-3.7	2.5;4.0	4.5	3.2	3.75
India	4.9	-9.3/-8.3	7.0;8.2	3.7	6.6	6.1
Indonesia	5.0	-3.4/-2.8	2.8;3.6	2.8	2.1	2.9
China	6.2	-1.5/-2.1	7.9;8.5	2.9	2.6	1.8
South Africa	0.2	-9.1/-8.1	1.9;2.9	4.1	3.1	3.8
Turkey	0.8	-5.2/-4.2	4.0;5.0	15.5	11.5	11.0

Source: Amundi Research

- **China:** after the initial v-shaped rebound, economic recovery slowed sequentially in Q3,increasingly driven by the private sector. Consumption made a larger contribution to growth than investments, following a further normalisation of services activities. As policy tilted towards neutral, state-led stimulus started to ease, with infrastructure investments slowing for the third consecutive month in September. In light of this policy adjustment, we expect the Chinese economy to recover at a slower but more sustained pace.
- **Brazil:** Brazil lead the regional race from the bottom with growth continuing to expand robustly driven by normalising mobility and an aggressive policy response - GDP will still contract by around 4.5% in 2020. Going forward, the economy will have to digest 8% of GDP as part of the unwinding of fiscal stimulus if the spending cap is fully complied with. A better outcome would be a trade-off of a temporary cap circumvention for fiscal reform and a more sustainable fiscal story – something we believe the markets and the BCB would be happy with. It would also allow the administration to shift the focus to its reform agenda.
- **Turkey:** the CBRT surprised the markets again by only increasing its Late Liquidity Window Lending Rate. According to the press release, the decision was motivated by three positive developments: a normalisation of commercial and consumer loans, an improvement in the current account, and previous tightening which was significant enough to anchor inflation expectations. The CBRT will likely continue to tighten monetary conditions solely through liquidity measures, focusing on increasing the Average Cost of Funding which is now at 12.5% and could theoretically rise to 14.75% by the end of the year.
- **South Africa:** after a sharp contraction of real GDP in Q2 (-17%yoy), high frequency indicators rebounded in Q3. Nevertheless, most sectors remain below pre-crisis levels and uncertainties surrounding the pandemic remain high. Risks are skewed to the downside. Even though inflation is expected to remain subdued, the SARB is restricted because of fiscal deterioration. Indeed, the budget deficit is expected to widen to more than 15% of GDP this year and debt sustainability is at risk. However, if the economic situation worsens, we cannot rule out another cut by the SARB.

Key interest rate outlook

	26-10 2020	Amundi + 6m.	Consensus Q2 2021	Amundi + 12m.	Consensus Q4 2021
China	3.85	3.85	3.8	3.85	3.8
India	4	4	3.7	4	3.7
Brazil	2	2	2	2	2.4
Russia	4.25	4.00	4.15	4.25	4.35

Source: Amundi Research

- **PBoC (China):** the Loan Prime Rate (LPR) remained unchanged for the sixth consecutive month in October, as we had expected. On 21 October, Governor Yi said he expected China's macro leverage ratio to stabilise in 2021, after rising by 21ppt to 266% at the end of H1 2020 from end-2019 to mitigate the damage caused by the pandemic. The latest focus by policymakers on balancing growth and risk prevention signals a shift away from a loose regulatory environment. In light of this policy adjustment, we expect total social financing growth – the proxy for credit impulse – to stabilise and peak.
- **RBI (India):** in its latest meeting, the RBI left its policy rates unchanged, as expected. The appointment of three new members (aimed at increasing the RBI's dovish bias) did not bring any change in policy rate levels while a major dovish tilt was anticipated by the Governor in the form of possibly stronger QE going forward. Should the RBI adopt less orthodox monetary policy measures, a stronger fiscal strategy would need to be in place in coordination with the Ministry of Finance. A dovish stance was confirmed though inflation should offer little room for easing in the short term (0/-25bps).
- **BCB (Brazil):** The easing cycle ended in September when the BCB stayed on hold at 2% and removed references to further easing (any leeway being limited) in the QIR. The focus has since shifted to forward guidance (FG) - rates are to stay on hold until inflation gets sufficiently close to the target. The FG, however, is also a function of spending cap (SC) compliance and will be unwound if the latter is breached - the CB will not tolerate inflationary risks emanating from the markets and raising questions as to the country's fiscal credibility. We think a temporary SC breach for fiscal reform would satisfy the markets and the BCB, and also give growth some necessary support.
- **CBR (Russia):** The CBR left the policy rate unchanged at 4,25% at the October 23rd meeting, as was the case on September 18th. The CBR mentioned a set of factors impacting inflation in different directions, including an increase in inflation expectations, a slowdown in the economic recovery, increased market volatility and its potential negative impact on the rouble. The CBR expects inflation to end up very near the target of 4% at year-end. Nonetheless, the central bank still sees room for a rate cut especially in the medium-term due to disinflationary risks.

Monetary policy agenda

Central banks	Next communication
PBoC	November 20
RBI	December 4
BCB Brazil	November 4
CBR	November 2

Source: Amundi Research

MACRO AND MARKET FORECASTS

Macroeconomic forecasts (27 October 2020)

Annual averages (%)	Real GDP growth %			Inflation (CPI, yoy, %)		
	2019	2020 range	2021	2019	2020	2021
US	2.3	-4.6/-4.0	4.3/4.9	1.8	1.2	2.1
Japan	1.2	-5.1/-4.5	2.9/3.5	0.7	0.0	0.2
Eurozone	1.2	-8.1/-7.5	5.0/5.6	1.2	0.3	1.0
Germany	0.6	-6.3/-5.7	3.1/3.7	1.5	0.6	1.3
France	1.2	-10.0/-9.4	6.3/6.9	1.3	0.6	1.1
Italy	0.3	-10.0/-9.4	4.7/5.3	0.7	-0.2	0.6
Spain	2.0	-12.4/-11.7	5.9/6.5	0.7	-0.3	0.8
UK	1.4	-11.5/-10.5	7.0/9.0	1.8	0.8	1.5
Brazil	1.1	-4.9/-4.4	3.4/4.4	3.7	3.0	3.4
Mexico	-0.3	-8.8/-8.3	3.8/4.8	3.6	3.5	3.3
Russia	1.3	-4.0/-3.7	2.5/4.0	4.5	3.2	3.75
India	4.9	-9.3/-8.3	7.0/8.2	3.7	6.6	6.1
Indonesia	5.0	-3.4/-2.8	2.8/3.6	2.8	2.1	2.9
China	6.2	1.5/2.1	7.9/8.5	2.9	2.6	1.8
South Africa	0.2	-9.1/-8.1	1.9/2.9	4.1	3.1	3.8
Turkey	0.8	-5.2/-4.2	4.0/5.0	15.5	11.5	11.0
Developed countries	1.7	-6.2/-5.7	4.5/5.1	1.5	0.7	1.4
Emerging countries	3.9	-3.3/-2.5	5.5/6.3	4.3	3.9	3.6
World	3.0	-4.5/-3.8	5.1/5.8	3.1	2.6	2.7

Key interest rate outlook

Developed countries

	28/10/2020	Amundi + 6m.	Consensus Q2 2021	Amundi + 12m.	Consensus Q4 2021
US	0.13	0/0.25	0.08	0/0.25	0.07
Eurozone	-0.50	-0.50	-0.54	-0.50	-0.60
Japan	-0.05	-0.1	-0.06	-0.1	-0.09
UK	0.10	0.00	0.04	0.00	-0.04

Emerging countries

	26/10/2020	Amundi + 6m.	Consensus Q2 2021	Amundi + 12m.	Consensus Q4 2021
China	3.85	3.85	3.8	3.85	3.8
India	4	4	3.7	4	3.7
Brazil	2	2	2	2	2.4
Russia	4.25	4.00	4.15	4.25	4.35

Long rate outlook

2Y. Bond yield

	28/10/2020	Amundi + 6m.	Forward + 6m.	Amundi + 12m.	Forward + 12m.
US	0.15	0.10/0.3	0.18	0.1/0.3	0.21
Germany	-0.787	-0.70/-0.50	-0.84	-0.70/-0.50	-0.89
Japan	-0.12	-0.20/-0.10	-0.13	-0.20/-0.10	-0.12
UK	-0.052	0/0.25	-0.11	0/0.25	-0.13

10Y. Bond yield

	28/10/2020	Amundi + 6m.	Forward + 6m.	Amundi + 12m.	Forward + 12m.
US	0.77	0.7/0.9	0.87	0.9/1.1	0.96
Germany	-0.62	-0.60/-0.40	-0.58	-0.50/-0.30	-0.55
Japan	0.03	-0.10/0.10	0.07	0/0.2	0.11
UK	0.22	0.20/0.4	0.30	0.3/0.5	0.36

Currency outlook

	23/10/2020	Amundi Q2 2021	Consensus Q2 2021	Amundi Q4 2021	Consensus Q4 2021
EUR/USD	1.186	1.195	1.20	1.21	1.22
USD/JPY	105	104	105	106	105
EUR/GBP	0.91	0.91	0.90	0.90	0.90
EUR/CHF	1.07	1.09	1.09	1.12	1.11
EUR/NOK	10.96	10.44	10.40	10.30	10.20

	23/10/2020	Amundi Q2 2021	Consensus Q2 2021	Amundi Q4 2021	Consensus Q4 2021
EUR/SEK	10.38	10.25	10.30	9.99	10.23
USD/CAD	1.31	1.30	1.30	1.28	1.29
AUD/USD	0.71	0.74	0.73	0.76	0.75
NZD/USD	0.67	0.67	0.68	0.68	0.70
USD/CNY	6.69	6.55	6.75	6.40	6.75

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

November 2020 #11

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 - Sensay

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, *Senior Fixed Income Strategist*
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*
DROZDZIK Patryk, *EM Economist*
GEORGES Delphine, *Fixed Income Strategist*
HERVE Karine, *EM Senior Economist*
LEONARDI Michele, *Cross Asset 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*
PONCET Benoit, *Research*