Confidence
must be earned

Amundi
ASSET MANAGEMENT

Thematic paper | CROSS ASSET Investment Strategy

Global Macro
Outlook to 2020

Research
& Macro
Strategy

Document for the exclusive attention of professional clients, investment services providers and any other professional of the financial industry

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Our convictions and scenarios

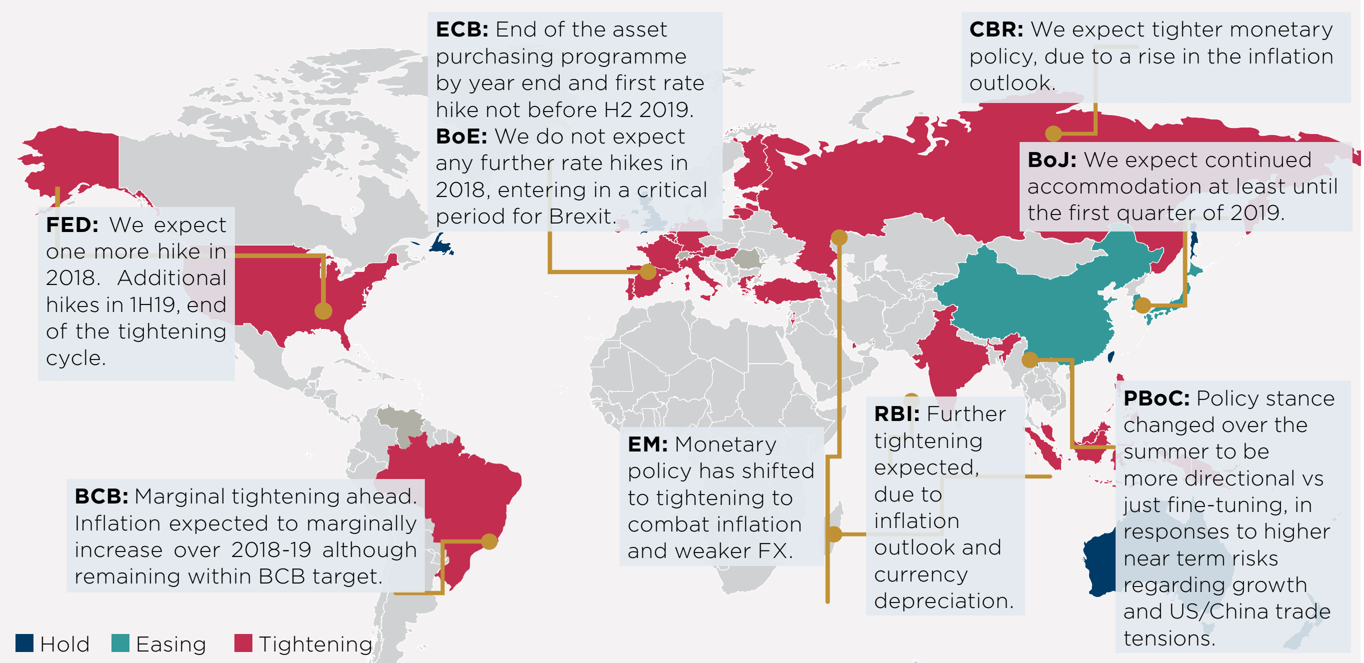
BOROWSKI DIDIER,
Head of Macroeconomic Research

Central scenario (70% probability): "multi-speed" slowdown that risks becoming a synchronised slowdown, due to the multiplication of risks

Regional views

- **In the world economy,** 2018 began based on the theme of a synchronised global recovery. But, this did not last. Since the spring, the protectionist measures taken by Donald Trump have changed the game. Emerging economies, some of which are heavily indebted in dollars, have been weakened due to the broad-based appreciation of the US currency. The depreciation of their currencies has generated local inflation and led their central banks to tighten monetary policies, which has weighed on economies already negatively affected by massive capital outflows. Advanced economies have begun to slow down. In our view, the year will end with a global economy that is evolving in a disjointed fashion, with increased downside risks.
- **In the United States,** the economy has been driven by very accommodative fiscal policy that is likely to continue to produce effects for some time; but, the fiscal multipliers should progressively erode next year. We expect growth to decelerate to its potential, but not before late 2019/ 2020, meaning that the US economy should lose 1pp of growth by 2020. This situation will have a negative impact on corporate profits, especially if inflationary pressures intensify by then, which is possible, given the fact that the economy is operating at close to full employment.
- **In Europe,** despite a recovery that started well after that in the US, national economies have begun to slow in 2018. The output gap has closed in most countries, and Italy is the only one in the Eurozone (excluding Greece) where GDP has not recovered to pre-crisis levels. Several factors have contributed to the slowdown in growth in 2018: the rise in oil prices, the slowdown in world trade, and the slowdown in emerging economies. In addition, political uncertainties have muddied the waters (Brexit, Italian budget). The possibility of a coalition change in Germany following the defeat of the two major government coalition parties (CDU and SPD) in local elections marks the end of the Merkel era. The loss of the chancellor's leadership may hinder initiatives to strengthen the integration of the Eurozone that were under consideration. It will probably be necessary to wait for European elections in May 2019 and a new parliament, a new European Commission, a new Chancellor in Germany, and clarification regarding leadership of the institutions of the EU (Commission, ECB) to make significant progress in strengthening the financial architecture of the Eurozone. The Italian government, sensitive to market pressure, seems ready to postpone some costly measures. The UK continues to see an uncertain future due to Brexit. It seems likely that the British parliament will ultimately approve the withdrawal agreement negotiated with the EU by Theresa May and endorsed by the EU on 25 November. This would allow the UK to benefit from a transition period (from March 2019 to December 2020) which is in addition likely to be extended.
- **In Japan**, the outlook remains relatively favourable. The weakness seen since mid-2018 should be short-lived. We think that Japan is relatively immune to US-China trade disputes. Exports to the US and China account for around 3% of GDP. This means that a decelerating Chinese economy on the heels of sanctions

1/ Monetary policy: more asynchrony in Central Banks actions in 2019



Source: Amundi, as of 5 October 2018. Indicative map for monetary policies. A reduction or end of QE interpreted as Tightening. Terms used: Federal Reserve (Fed), Swiss National Bank (SNB), Bank of England (BOE), People Bank of China (PBoC), Bank of Japan (BOJ), Riksbank (Swedish Central bank). BCB= Central bank of Brazil. CBR= Central Bank of Russia. European Central Bank (ECB). Emerging Markets (EM), RBI= Reserve Bank of India.

should be roughly covered by the strength of the US economy (in the short run). In addition, it is somewhat surprising that companies plan to increase investment spend at rates not seen since 2007, despite the threats to global trade. The labour market has not been this tight since 1974 and wages are growing at the highest rate in more than 20 years (+1.8% yoy in 1H18). The increase in VAT scheduled for October 2019 (from 8% to 10%) should boost consumption before weighing on household spending, once the measure is in place. However, we anticipate a 30% lower impact than that caused by the last VAT increase in 2014. Despite these factors, GDP growth should mechanically fall in late 2019 and early 2020, to well below its potential. But, we do not expect this slowdown to last.

- **In China,** the rise of protectionist threats has weakened the economy and the risk of a sharp slowdown has increased during the year. The Chinese authorities changed their policy mix during the summer, opting for a counter-cyclical stabilisation policy. China will use all the levers that are available to avoid a hard landing. Keep in mind that the local authorities have more room for manoeuvre than the US authorities. Under these conditions, we still expect a gradual and controlled slowdown in China. All eyes are, naturally, on the G20 meeting that will take place in Argentina in late November 2018, during which Presidents Trump and Xi have planned to meet. This meeting may result in an easing of the pressure on trade, at least temporarily.

- **In other emerging economies,** the deterioration of domestic conditions – particularly related to the risks posed by US protectionist measures – may continue to weigh on the business climate and investment (particularly in North Asia and Mexico). Other countries, on the other hand, are likely to continue to be able to meet their infrastructure needs (Indonesia and the Philippines, for example). Consumption should remain strong in economies with close to full employment. Although many emerging economies are fragile (Argentina, Turkey, South Africa) and/or heavily indebted, we would point out that nominal potential growth remains very much in favour of emerging economies relative to advanced economies.

Global themes

on a global scale, the macrofinancial situation remains very unbalanced. Even if the economic outlook is generally satisfactory (growth close to or even higher than potential over the next two years), the rise in the number of risk factors – especially those of a political nature – are tending to increase global uncertainty, with this potentially higher uncertainty affecting investment decisions.

United States/China trade war, US sanctions on Iran, tensions in the Middle East and political challenges in Europe are here to stay, not to mention the associated problems that persist. Indeed, growth continues to be driven largely by global debt. And, nominal potential growth is being weakened on a global scale by the aging of the population, the (observed) slowdown in productivity gains, and the structural weakening of inflation of goods and services. In other words, the current global "growth regime" seems unsustainable in the medium and long term. The world economy continues to expand, but this expansion is based on very fragile underpinnings, especially in the event of a sharp rise in interest rates (higher risk premia). This fragility is all the more worrisome since the room for manoeuvre of central banks and governments has decreased in many countries: those that still have the means to put in place stabilisation (counter-cyclical) policy mixes are becoming increasingly rare.

In particular, **in the United States, pro-cyclical fiscal policy leaves little room for manoeuvre** in the event of a turning point, especially since the Congress is now divided (with the Democrats controlling the House of Representatives and the Republicans having a majority in the Senate). In Europe, there is less room for manoeuvre in terms of both fiscal and monetary policy. The ECB has not started to normalise its policy but growth is already slowing. It is thus unlikely that the ECB will hike rates later in 2019; all the more that the Fed may decide to put an end to its tightening cycle sooner than expected (in anticipation of an economic slowdown).

The world economy operates in a scattered order. The disruptions in value chains brought about by the trade war are reshaping global trade to the benefit of China. Global trade will no longer be the engine that it has been in recent decades. That said, this is not a step backwards, in our view. Trade in services is growing, economies remain tightly intertwined, and Donald Trump is isolated internationally. Moreover, it is particularly important to note that the interests of populist/nationalist regimes do not automatically converge: there are indeed many countries where their economies are still dependent on relations with the rest of the world in order to develop (Eastern Europe, Turkey, Brazil, among others).

Against this backdrop, economies are more likely to experience more autonomous economic cycles in the future because they are more dependent on domestic demand. In a world that is increasingly unstable politically, a lasting desynchronisation of business cycles would be good news. That said, the US could well drag the world economy into recession if Donald Trump continues his trade offensive. A stronger confrontation with China on trade would only result in losers, starting with the protagonists in the conflict. **However, the world economy should continue to grow in a "scattered manner"** (i.e., expansion at different speeds, with possibly some isolated downturns)**. But, to date, the risks are clearly skewed to the downside, including the possibility of a global synchronised slowdown, leading to sub-par global growth.**

Downside risk scenario (25% probability): a significant trade war-driven economic slowdown, a geopolitical crisis

The risk of further protectionist measures from the US, followed by retaliation from the rest of the world, remains high. China and the EU are particularly exposed to this risk.

- Aggravation of geopolitical tensions in the Middle East with possible an oil price shock.
- Uncertainty regarding rising trade tensions (primarily between the US and China) against a backdrop of geopolitical risks, crises in several large emerging economies (e.g., Turkey, Argentina), political risk in Brazil, a slowdown in China, and political tensions in Europe (a deterioration in the budget situation in Italy, Brexit) is encouraging companies to remain cautious.

Consequences:

- All things being equal, a trade war would drag down global trade and trigger a synchronised 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.
- Amid the resulting financial turbulence, the end of the cycle risk would resurface in particular in the US.
- Central banks would cease recalibrating their monetary policies and, in the worst – albeit highly unlikely – case would once again resort to unconventional tools, such as expanding their balance sheets.

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 in the first half.
- Central banks would 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.

United States

Safely cruising away from uncharted waters, few clouds around

USARDI ANNALISA
Senior Economist

Introduction

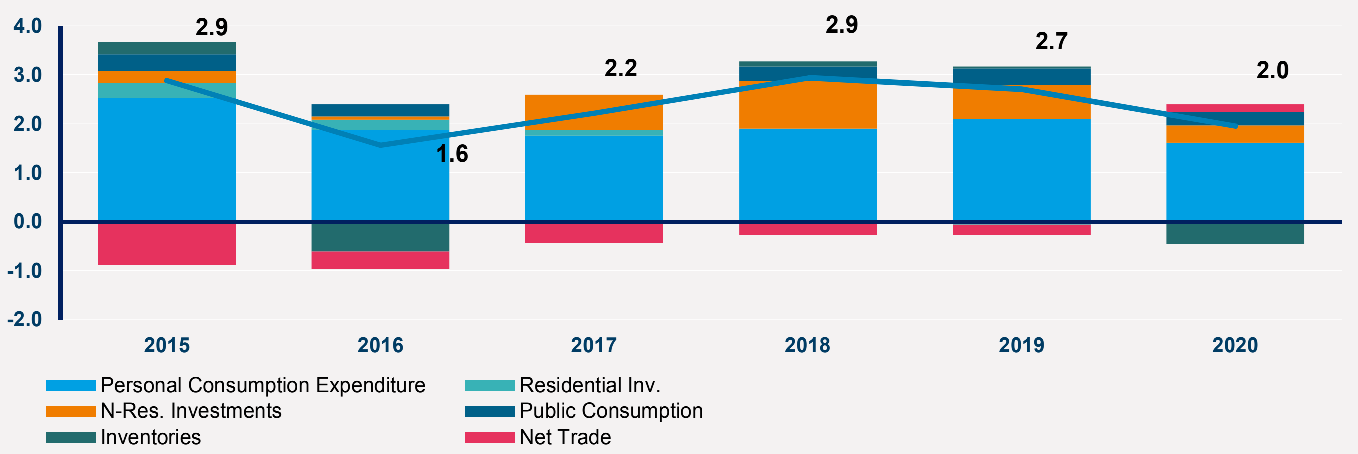
We expect the US economy to grow above potential in 2019 and to gradually converge to its long-term growth rate from 2020, as the boost provided by fiscal expansion in 2018 will gradually lose steam and domestic demand will gradually slow. With the economy running above potential and the labour market becoming tighter, the Fed will continue along the normalisation path and keep hiking rates until signs of growth deceleration materialise. In this scenario, headline inflation will remain in a range above 2%, but risks remain tilted to the upside, as production bottlenecks, higher wage dynamics, and increased production costs from tariffs could weigh on companies and some of the pressure could be transferred to consumer prices. The Fed will keep tightening until signs of a deceleration in growth or abrupt and persistent tightening of financial conditions become evident. We expect a pause in H2 2019.

Economic Conditions: growth drivers

The **US consumer** has been a stable driver of growth in this prolonged expansion phase of the US economy, as Personal Consumption Expenditure growth has averaged nearly 3% on an annual basis since 2014Q1. A combination of circumstances has provided this buoyancy:

- The **continued and impressive reabsorption of labour market slack** created by the Great Financial Crisis (the unemployment rate declined from 10% in October 2009 to 3.7% in September 2018, with a NAIRU estimate of close to 4.5%);
- The **progressive increase in labour income**, even though labour compensation measures were slow in picking up compared to past cycles and they have only shown a much clearer uptrend in late 2018.
- The **clear uptrend in consumer confidence**, now close to the decade's highs, which has led to a gradual decline in the saving rate (above pre-crisis averages but below the 2014-2015 trend).
- The **tax cuts implemented by the Tax Cuts and Jobs Act 2017**, which have lifted disposable income and provided a cushion to support increased spending on one side and balance sheet adjustment on the other.

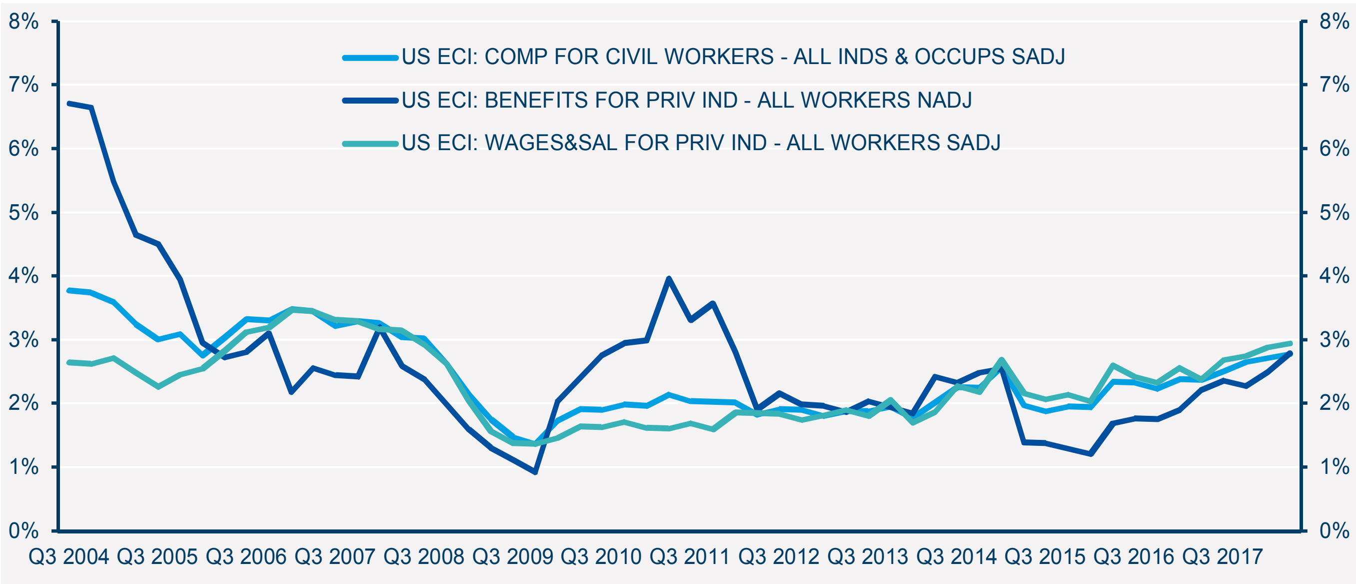
1/ **GDP Annual Growth, Contribution, %**



Source: Amundi Research, Bloomberg, Datastream

Aggregate consumer fundamentals remain supportive: as the economy continues to expand above potential and the output gap, now closed, keeps becoming ever more positive, we expect residual labour market slack to be reabsorbed and the unemployment rate to decline a few tenths further, even though it is already well below the NAIRU. With the **labour market becoming tighter and tighter we see upside potential for wages and compensation growth**: while this should boost disposable income, we see a counterbalancing effect coming from increased inflation risks, which overall could offset the gains. Even factoring in some gradual cooling of consumer optimism, we believe that there is some room for the saving rate to decline a few tenths as the beneficial impact of the TCJA becomes more evident to households. Yet, while households' balance sheets appear broadly sound and less vulnerable to interest rates overall, it is true that Household debt has reached a record level in nominal terms and a deterioration in expectations about the future could trigger some deleveraging instead of additional consumption. Overall, on consumer behaviour, we think the risks remain broadly balanced.

2/ **US employment Cost Index rising gradually**

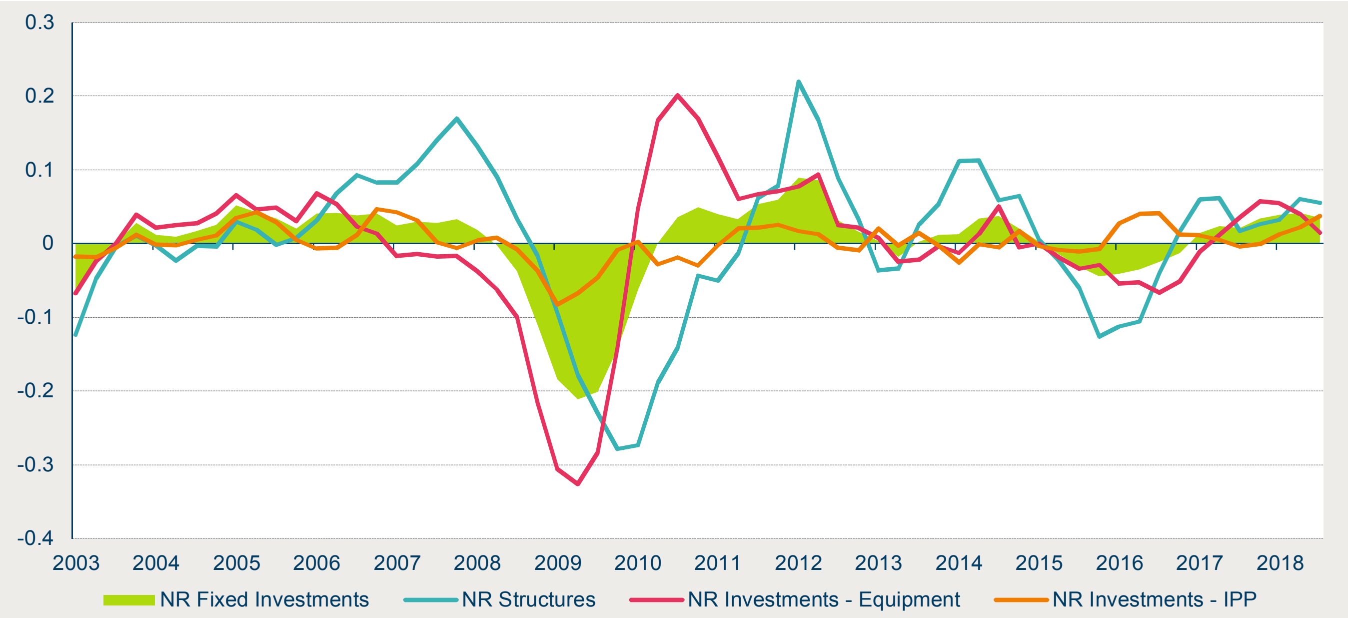


Source: Amundi Research, Bloomberg, Datastream

Non-residential fixed investments have accelerated in a quite broad-based manner in the last two years. In a longer-term perspective though, they returned to grow above their trend from 2017: a more detailed analysis of Non Residential Investments data shows that much of the recent above-trend acceleration was driven by Structures and Intellectual Property investments. On the Structures side, looking at the components, only Mining, Explorations, Shafts and Wells (linked to the new increase in oil prices which has boosted production activity) stand out, while all other sub-components of Structures investment growth remained below trend. The Intellectual Property Product trend was affected by the change in the taxation code. In fact, before the TCJA 2017, US companies had a strong incentive to claim that most of their intellectual property and profits were earned in low tax countries. The new tax code has changed the incentives by also boosting US based profits and investments. For other types of investments, however, Equipment Investment provided a positive note. It is not easy to discern how much of this is oil and energy related, but overall it stabilised around a respectable 6%. Q3 preliminary data highlighted for Non Residential investments a broad-based weak reading which bears watching to understand if it was just a weak spot, or the start of a more prolonged moderation.

Looking ahead, we expect the new tax cut to continue providing some incentives to new investments as we expect domestic demand to remain resilient, albeit slowing. The continuing positive outlook for aggregate profits supported by a resilient top line, though, is facing increasing risks: on the one hand, increasing input costs (tighter labour markets and higher unit labour costs; upside risks on imported goods due to tariffs; increase in input prices due to capacity constraints; on the other hand, tighter financial conditions due to the Fed hiking cycle and higher long-term interest rates, could change the opportunity cost of investing. Overall, business sentiment remains high as we write, but it could quickly reverse.

3/**Non Residential Investment growth vs long term trend**



Source: Amundi Research, Bloomberg, Datastream

In fact, the aggregate level of net leverage in their balance sheets makes non-financial corporations vulnerable to a potential unexpected economic slowdown, as many seem to have delayed improving their credit quality despite the protracted cycle. Given the size of aggregate corporate debt, the ability of non-financial corporations to withstand an economic downturn appears diminished.

With regards to interest rate shocks, though, overall interest coverage ratios would seem able to continue to provide a cushion against rising policy rates and long-dated yields. In fact, following the gradual Fed hiking cycle, interest coverage ratios have deteriorated only gradually over the past couple of years, supported by earnings growth, while the higher proportion of fixed-rate long-term funding structures will mean that higher rates will only progressively impact bond issuers' interest expenses.

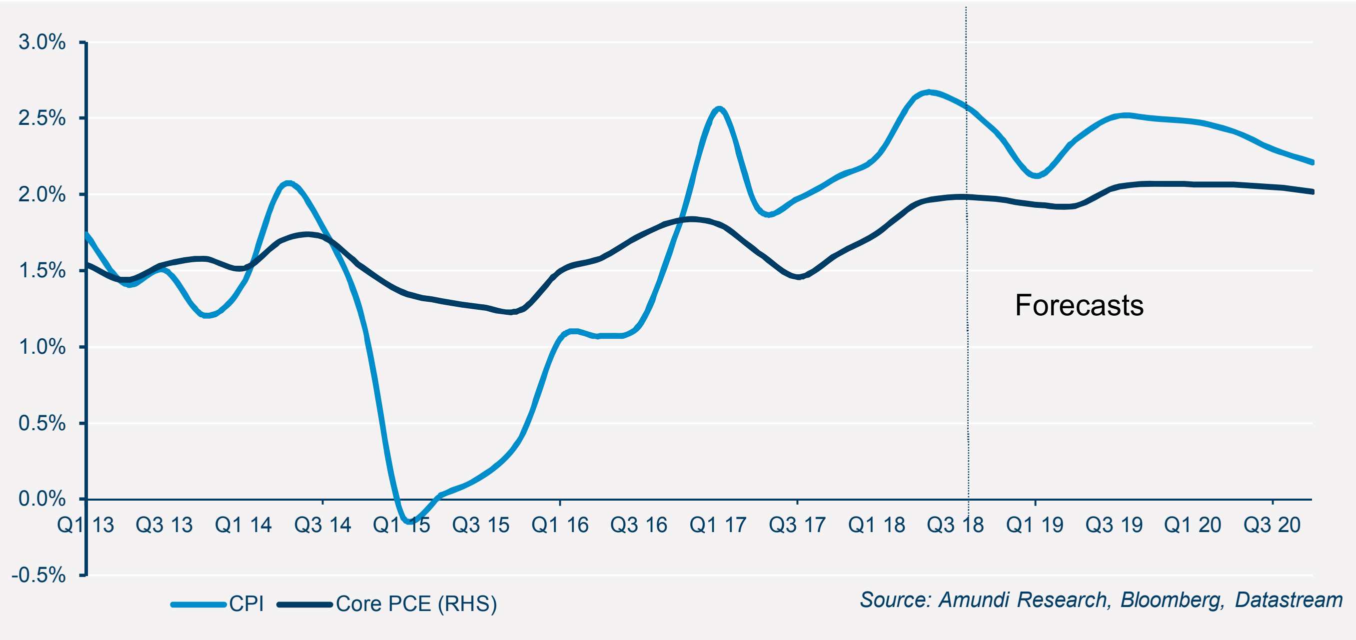
Residential Investments has been a weak spot in the US economy so far. After achieving double-digit growth in 2015 (10.2% YoY), **Residential investments** decelerated progressively into 2018, impacted by a turnaround in housing affordability and in household formation, which only recently picked up, and perhaps also thanks to the positive impact of the tax cuts. Going forward, while higher wages and salaries should also percolate down to the youngest households, supporting further household formation, the effect of higher rates on affordability could offset the positive impact of stronger growth in income. In addition, we should be wary of the declining trend in homeownership that began in 2004 and has only recently stabilised. For these reasons, we maintain a cautious outlook for residential investments going into 2019.

Weakening **inflation in 2017** raised the question of whether inflation should be considered dead or alive. In 2018, as temporary base factors and base effects disappeared, inflation has gradually returned towards the Fed target. As we write, Core CPI averages 2.2% YoY , headline CPI 2.3% (after peaking at 2.9% YoY in July), and Core PCE stands at 2.0% (data refer to September 2018).

Improving wage dynamics and rising input costs along the price chain should support the most cyclical component of inflation, which is accelerating in response to an additional year of above potential growth. More structural price dynamics also seem to have picked up, although Core Goods price dynamics still remain in deflationary territory, because strength in the USD is offsetting the rising dynamics in import prices. Some upside risks could arise from the impact of the recently implemented US tariffs on imports from China.

Going into 2019 and 2020, we expect headline CPI to remain above 2.3% with Core PCE remaining around the Fed target. On inflation, it looks like the risks are skewed to the upside: the economy keeps growing above potential with a tighter labour market, rising wages and upside risks to input costs, ranging from trade tariffs to supply shocks from oil.

4/**US CPI inflation expected dynamics, yoy% growth**



Monetary Policy: tighter, responsibly

We expect the Federal Reserve to continue the hiking cycle at the pace of one hike per quarter until evidence of slower growth materialises: according to our projections, this could happen around mid-2019. Having conference calls at every meeting starting from January 2019 will provide the Fed with an additional tool to drive market expectations and prevent any unwanted tightening of financial conditions.

US Macroeconomic Forecasts								
	2013	2014	2015	2016	2017	2018	2019	2020
GDP & Components	% YoY (Annual Average)							
GDP	**1.8**	**2.5**	**2.9**	**1.6**	**2.2**	**2.9**	**2.7**	**2.0**
Personal Consumption Expenditures	1.5	3.0	3.7	2.7	2.6	2.7	3.0	2.3
Government Consumption Expenditures	-2.4	-1.0	1.9	1.5	-0.1	1.7	2.0	1.6
Fixed Investment	5.5	6.3	3.3	1.6	4.9	5.5	3.6	1.8
Nonresidential	4.1	6.9	1.8	0.5	5.3	6.8	4.8	2.4
Residential	12.5	3.9	10.2	6.6	3.4	-0.1	-1.8	-1.1
Total Internal Demand								
Total Consumption + Fixed Investment+Inventories	1.6	2.6	3.6	1.7	2.5	3.1	3.0	1.7
Final Internal Demand								
Total Consumption + Fixed Investment	1.4	2.8	3.3	2.4	2.5	3.0	2.9	2.1
Exports	3.6	4.3	0.6	-0.1	3.0	4.4	4.0	3.3
Imports	1.5	5.1	5.5	1.9	4.6	4.7	4.1	1.6
GDP Contributions								
Net trade	0.2	-0.3	-0.9	-0.4	-0.4	-0.3	-0.2	0.2
Inventories changes	0.2	-0.1	0.3	-0.6	0.0	0.1	0.0	-0.4
Economic Trend (YoY)	**% YoY (Annual Average)**							
Industrial Production	2.0	3.1	-1.0	-1.9	1.6	3.7	1.7	0.7
Compensation	*1.2*	*2.9*	*3.1*	*1.1*	*1.7*	*3.1*	*3.4*	*3.3*
Unit Labour Cost	0.9	1.9	1.8	1.1	0.4	1.8	1.9	1.7
Producer Prices Index	1.4	1.6	-0.9	0.5	2.3	2.8	2.4	2.3
Consumer Prices Index	1.5	1.6	0.1	1.3	2.1	2.5	2.4	2.3
Unemployment Rate	7.3	6.2	5.3	4.9	4.4	3.9	3.6	3.6
Core PCE	1.5	1.6	1.3	1.7	1.6	1.9	2.0	2.1

Update as of 5th of November 2018;

Source: Datastream, Amundi Research

included in the forecasts:
changes from the Fiscal Bill Approved by the US Congress in December 2017
increased govt expenditure as of CBO scoring of the BIpartisan Budget Act 2018

Eurozone

The expansion continues albeit at a slower pace and amid a difficult political context

PERRIER TRISTAN
Senior Economist

USARDI ANNALISA
Senior Economist

BOROWSKI DIDIER,
Head of Macroeconomic Research

With the contribution of
VANIN GREGORIO

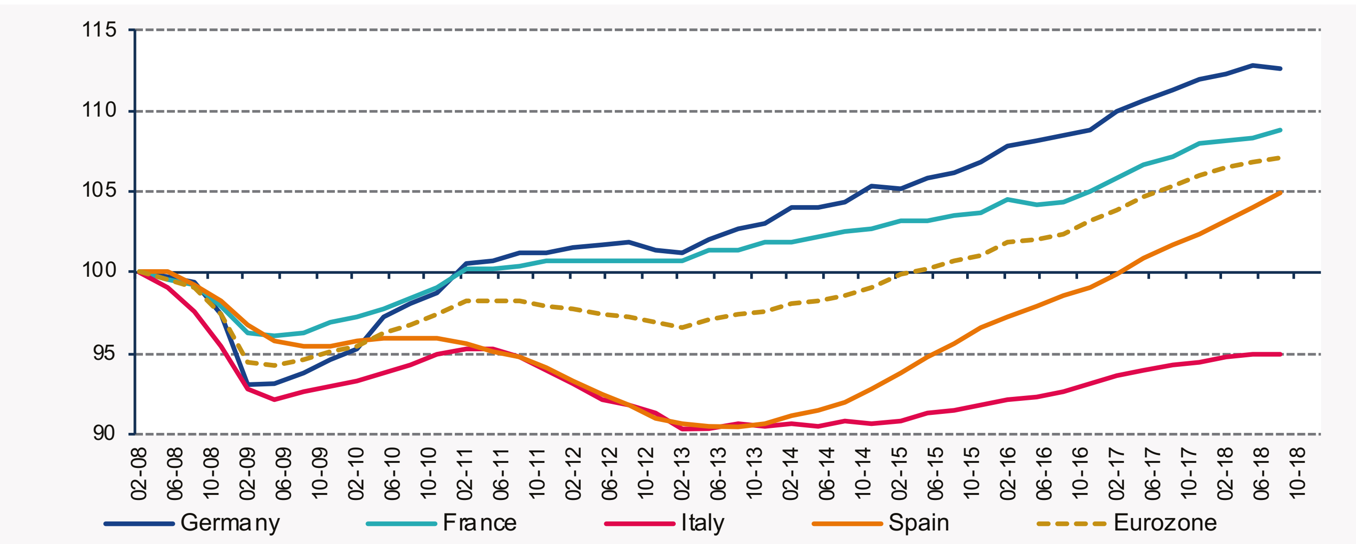
After a buoyant 2017, the Eurozone's economic trajectory has been disappointing since the start of 2018, notably in comparison with that of the US where a large fiscal stimulus was at play. GDP growth was limited to 0.4% in Q1 and Q2 and 0.2% in Q3 (vs 0.7% in Q3 and Q4 2017) with edginess caused by trade tensions, the strong euro, rising oil prices and temporary country-specific factors (in particular a heavy drag from the auto sector in Germany in Q3) being the main causes. Despite consistently positive developments on the labour market and wages (the unemployment rate retreated to 8.1% in September 2018 vs. 8.9% 12 months earlier), core inflation has failed to make a convincing advance above 1%.

Problematic political developments added to the general gloom: expectations of new initiatives to strengthen Eurozone institutions have had to be revised down or delayed, first due to considerable delays in forming a government in Germany (taking more than 5 months after the September 2017 election) and then (and above all) by the new Italian government's decision to breach European budget rules in September 2018.

Our scenario expects a continuation of the cyclical recovery at an above-potential pace of 1.6% in 2019 and 2020 (vs. potential around 1.3%) i.e. a deceleration from the pace seen in 2018. This should be driven by cyclical developments as the output gap has just closed in 2018 and the drivers of domestic demand (in particular employment and wages) remain strong. The recovery can also count on moderate support from fiscal policies (at least in Germany and, temporarily, in France, although the effect of measures taken in Italy should be at least partly wiped out by rising bond yields) and on a continuation in the uptrend in residential investment in most countries. We believe that negative pressure on external demand will remain limited, as GDP growth is still strong, albeit decelerating, in the US and China (with some improvement in the UK, conditional on a Brexit deal).

While headline inflation will decline due to the base effect on energy prices, core inflation will probably rise due to positive cyclical developments. However, strong structural disinflationary factors (mostly related to long-term changes in

1/ **GDP, basis 100 in Q1 2008**



Source : Amundi Research

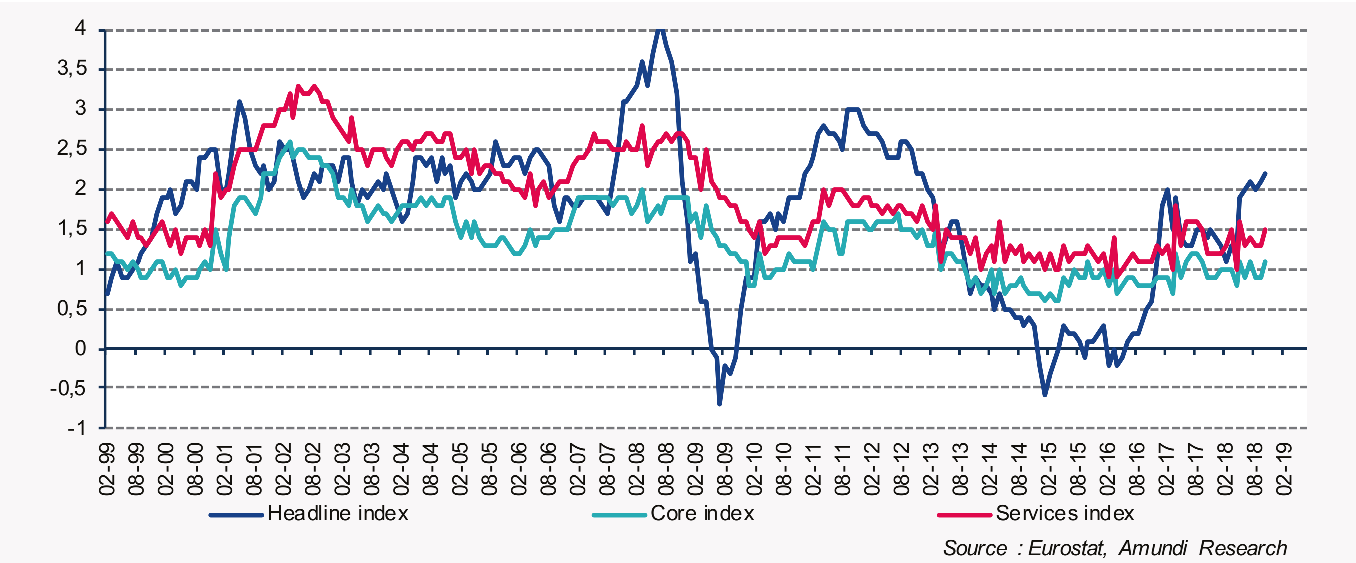
the labour, product and services markets, with changing expectations after many years of low inflation also probably playing a role) mean that this rise will probably be limited to 1.3% YoY. Moreover, following repeated downside surprises on core inflation in recent years, as inflation has failed to respond to very tangible positive labour market developments, these forecasts must be taken very cautiously.

The main short-term risks to the outlook are, in our view, external and related to 1/a sharper-than-forecast deceleration in the US economy as the effect of the 2018 fiscal stimulus fades away; 2/stronger-than-expected pressure on Chinese growth due to trade tensions; 3/a new round of trade tensions, with the Eurozone being the direct target of US measures. A no-deal Brexit would also be damaging for the Eurozone (although much less so than to the UK) but we only assign a small probability (20%) to such an event.

Domestic politics will remain noisy and may well feed market stress and long-term risks, but we believe this is unlikely to trigger a major macroeconomic (or systemic financial) shock in 2019-2020. The two main topics as we enter 2019 will be 1/the continuing confrontation between Italy and European institutions over the budget; and 2/the European elections of May 2019, where traditional parties are set to lose ground while Eurosceptic/populist forces will probably gain strength. However, we do not expect Eurosceptic/populist forces to gain a majority, either in the European Parliament or in other large countries where there could be snap elections. Moreover, other non-mainstream political forces (including the Greens and pro-market parties) are also making progress in some countries. The most probable outcome of these developments is more complex government majorities and coalitions, making decisions more difficult. Rather than causing a major short-term crisis, this could produce further missed opportunities to use the breathing space offered by the recovery to make European institutions stronger. It could therefore, over the long term, add to the difficulty of responding to the next systemic crisis, although visibility regarding when and where such a crisis could occur is low at the moment.

The push in favour of **market-friendly supply-side reforms** has weakened in recent years. However, the French government remains strongly committed to reforms and will take new steps (notably a major pension system reform) in 2019-2020. The German government appears less immediately committed, in part due to the difficult coalition situation (and the forthcoming leadership change at the head of Angela Merkel's CDU party) and also because very substantial efforts have

2/ Eurozone: inflation, YoY%



Source : Eurostat, Amundi Research

been made in the past decade. Supply-side reforms are probably not possible in 2019-20 in Spain, where the government's position in parliament is very weak (and where some minor reform reversal could actually occur as the government may have to rely on the parliamentary votes of far-left parties). The current populist Italian government has largely turned its back on market-friendly reforms.

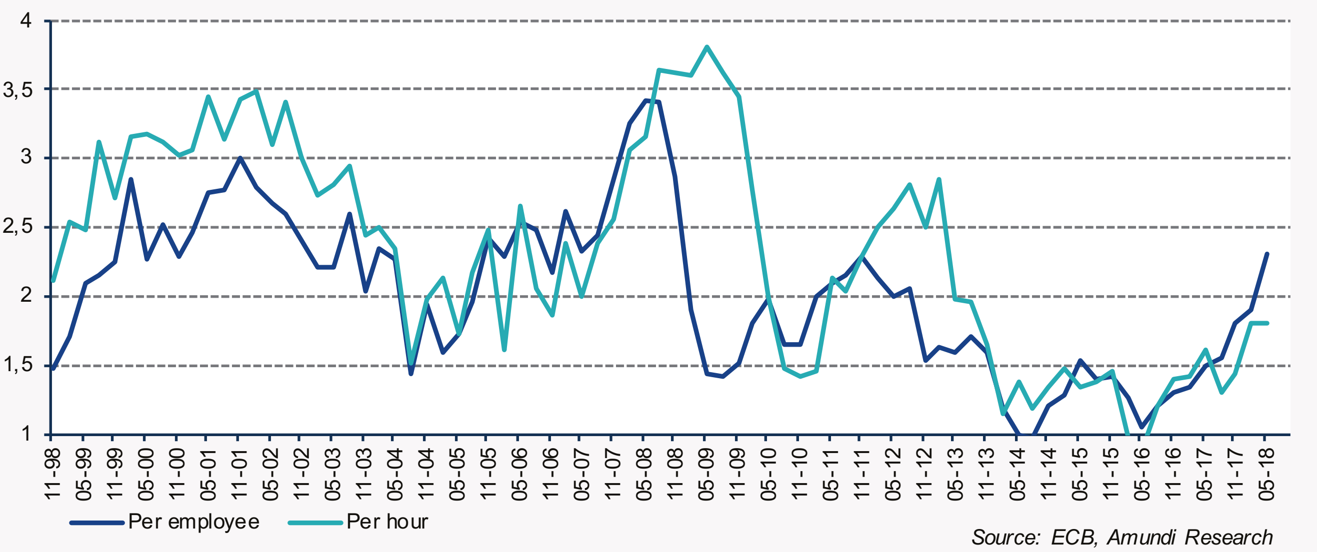
On a country-specific basis:

Germany

Economic growth will continue to be strong (1.6% in 2019 and 1.7% in 2020) with public and private domestic demand as the main engines.

- The very low unemployment rate (although it may not have much room to decline any further), ultra-low interest rates, rising wages and the positively oriented housing market will provide support.
- Public spending will also have an important role as the German budget is substantially expansionary (with spending focused on infrastructure, family support and defence).
- However, due to Germany's large manufacturing and export sectors, risks related to external developments are high. In addition to its general exposure to slower growth among key economic partners and the trade tensions that are affecting global supply chains, Germany would bear the brunt of the shock that would hit the Eurozone should the US decide to implement tariffs on auto imports (a threat that was temporarily suspended in July 2018).
- The political environment could continue to become gradually less stable than it has been, due to shrinking support for the two mainstream traditional parties and the gains of others (notably the Populist and Green parties). A change in the government majority (should the junior partner SPD party decide to leave) or snap elections cannot be fully ruled out in view of the forthcoming CDU leadership change, although our central scenario is for stability. In any case, there should be a general continuity in German policies regarding the Eurozone over the 2019-2020 horizon.

3/ Eurozone wages, YoY%



Source: ECB, Amundi Research

France

The recovery will continue (1.5% in 2019, 1.5% in 2020), with a focus on supply-side reforms and gradual budget consolidation.

- Growth will continue to be supported by moderately positive labour market dynamics and the lagged effect of supply-side reforms made in past years. However, the phasing out of temporary fiscal support mechanisms for labour and residential construction will exert a moderate drag.
- There will be a de facto fiscal stimulus focused on corporations in 2019 as the effect of new cuts in social security contributions will combine (only in that year) with the effect of a prior tax credit scheme that will then be phased out. For the rest of the economy, the 2019 draft budget calls for a moderate tightening (additional tax cuts for households and corporations more than offset by cuts in public spending) in line with the French approach of gradually reducing deficits.
- Due to the relatively small size of its manufacturing sector, France is less exposed to potentially adverse trade developments than Germany and Italy.
- The government's parliamentary position is very solid, allowing it to proceed with its reform agenda (notably pensions and new efforts in the goods and services sector) despite its fall in popularity. However, although mainstream opposition political parties are currently very weak, populist forces remain strong.

Spain

The recovery will remain stronger than in other large Euro countries, but it will slow down (2.3% in 2019, 1.7% in 2020) due to cyclical effects after the large gains of recent years.

- The economy still has strong momentum and the positive feedback loop from the labour market and domestic demand will continue to provide support.
- Moderate fiscal tightening is planned. However, the policy mix (more taxes and more spending) could be positive for short-term growth (if the budget can be approved). A planned increase in the minimum wage could also support consumption.
- Due to the smaller size of its manufacturing sector and its export destinations, Spain is less exposed than Germany or Italy to a slowdown in growth in the US or China.
- The government's situation in parliament is precarious (it controls only a small minority of MPs), which makes the budget process very difficult and can lead to gridlock. New elections, although not the central scenario, cannot be ruled out in 2019. Importantly, populist political forces are not currently making strong gains in opinion polls in Spain (where it is rather the ruling Socialist party that has increased its popularity).

Italy

Economic growth will remain positive and above potential (0.9% in 2019 and 0.9% in 2020), having as main underlying drivers personal consumption and investments.

- The growth is expected to settle around one percentage point thanks to the contribution of personal consumption, which is itself sustained by modestly lowering saving rate and modestly rising wages. At this regards, concerns relating to slack in labor market, increased temporary work and youth unemployment rate persist.

- Expansionary policies expected to be undertaken throughout the introduction of a universal income to face increasing economic difficulties, tax cuts for small companies, the reduction of retirement age and infrastructural investments. Implementation timing uncertain and effect may be offset by rising interest rates and increased costs of lending. The implementation of the measures above may foster economic growth to 1.1% in 2019 and 1.2 in 2020 but is highly subject to the offsetting risks of market reaction.
- Investments may keep playing a supportive role in contributing to domestic demand despite their expected moderation. The extension of extraordinary amortization rules could help achieving a pick-up in small companies investment, should lending condition not deteriorate significantly. However, increasing domestic and foreign politics uncertainty and international trade tensions may weight considerably on investments and exports.
- The political environment to remain a key driver of uncertainty both in the domestic and international markets. On one side, the increasing divergence between the ruling parties in terms of politic agenda, the rising electoral consensus for the League and the first signs of discontent in the respective electoral basis (in particular for five Star Movement) may set the roots for new political developments. On the other side, the tensions with the EU Commission and the rejection of the budget plan are exposing Italy to unknown scenarios, fueling uncertainty and risk.
- As of October 2018, loans demand remains consistent scoring +1.9% YoY variation due to the stable demand for fixed investments. However, according to the last figures disclosed by the Bank of Italy and the Italian Banking Association, a slight deterioration of lending standards came out for some specific business sectors. Moreover, in October, interest rates for households and businesses scored the highest monthly rise in 2018. Despite the overall positive current situation, protracted tightening of financial conditions could have severe effects on banks lending behaviour, business confidence and real economy due to the high reliance of SMEs on bank financing, increasing downside risks. Indeed, if this trend persists the positive impact of the fiscal stimulus may be potentially offset.

Assessing Ricardian equivalence in Italy

Purposes of the analysis

- Evaluation of the relationship between savings and private consumption with government spending and debt.
- Check whether different debt/GDP levels shape households behaviour

What is Ricardian equivalence?

The Ricardian Equivalence states that on a theoretical basis increases in taxes or public debt to finance public spending have no tangible effects on private consumption decisions.

In other words, in a "Ricardian world", households would increase their propensity to save when public spending rises leaving consumption unchanged. Should it be the case, the fiscal strategy of the government could prove ultimately counterproductive.

Our main findings

With a simple econometric model, we investigated whether there was a relationship between private consumption and the dynamics of public debt; we found no evidence of Ricardian equivalence. Italians have historically been characterized by high saving rate and steady growth in disposable income.

Consumption grew remarkably during the last three decades, rising at a much higher path than disposable income. Indeed, consumption has increasingly been financed by savings and accumulated financial wealth rather than disposable income, whose contribution decreased significantly.

This trend became evident since the entry of Italy into the monetary union which triggered a slow but consistent movement from savings towards consumption.

As shown above, consumption tends to slow down as the government debt goes up. Moreover, at the same time, savings confirm their declining trend.

Summing up, these findings would suggest that Italians tend to not behave as Ricardians because:

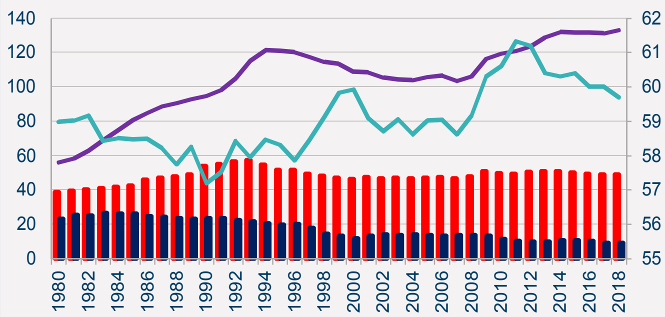
- savings decline as debt rises
- consumption tends to move in opposite direction with respect to government debt

However, this conclusion can be somehow "forced" due to some specific elements characterizing the evolution of the Italian economic system. At this regards, when evaluating consumption trends it is important to take into account specific social dynamics.

The increasing reliance on temporary forms of employment in the last decade together with their increasing temporal length clearly lead to further declines in savings and a higher dependency on accumulated wealth to fund consumption.

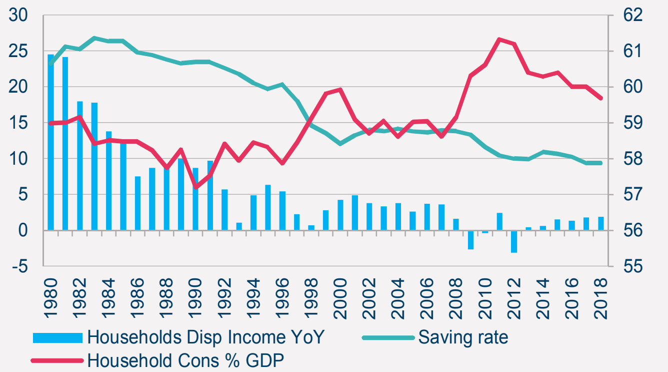
Moreover, the relationship between public debt and consumption is probably not linear. That is to say that at some point, the accumulated wealth would likely be perceived as insufficient by households, in particular if GDP growth slows while bond yields go up at the same time. Against this backdrop, households would probably want to save more, not less (expecting at some point either higher taxes or some debt restructuring mechanism). However, we believe that the "Ricardian effect" is more as a medium- to long-term threat than a short-term concern; in particular, it could materialise much later if the structural reforms that are needed to increase potential growth in Italy fail to materialise.

1/**Relationship between households consumption and government finance**



Source: Amundi Research, Bank of Italy, ISTAT

2/**Households comsumption financing**



Source: Amundi Research, Bank of Italy, ISTAT

EMU Macroeconomic Forecasts								
	2013	2014	2015	2016	2017	2018	2019	2020
GDP & Components	% YoY (Annual Average)							
GDP	-0,2	1,4	2,0	1,9	2,5	1,9	1,6	1,6
Personal Consumption Expenditure	-0,6	0,9	1,8	1,9	1,7	1,4	1,5	1,6
Government Consumption Expenditure	0,4	0,7	1,3	1,8	1,2	1,9	1,9	1,9
Fixed Investments	-2,3	1,7	4,6	4,0	2,9	2,9	2,0	1,8
Total Internal Demand	-0,8	1,5	2,5	2,6	1,9	1,5	1,4	1,8
Total Consumption + Fixed Investment+Inventories								
Final Internal Demand	-1,0	1,1	2,5	2,4	2,1	1,8	1,7	1,7
Total Consumption + Fixed Investment								
Exports	2,2	4,7	6,3	3,0	5,4	3,2	4,4	3,8
Imports	1,6	4,8	7,4	4,2	4,0	2,7	4,6	4,4
GDP Contributions								
Net trade	0,3	0,1	-0,2	-0,4	0,8	0,4	0,1	-0,1
Inventories changes	0,2	0,3	0,0	0,1	-0,1	-0,3	-0,2	0,1
Economic Trend (YoY)	% YoY (Annual Average)							
Industrial Production	-0,9	1,1	2,5	1,7	2,9	1,9	1,6	1,4
Compensations (LCI)	1,0	1,4	1,6	1,3	1,9	2,3	2,5	2,5
Unit Labour Cost	1,1	0,6	0,4	0,7	0,7	1,1	1,3	1,6
Producer Prices Index	-0,1	-1,5	-2,6	-2,1	3,0	3,2	2,1	1,6
Consumer Prices Index	1,3	0,4	0,0	0,2	1,5	1,8	1,9	2,0
Core CPI	1,1	0,8	0,8	0,9	1,0	1,0	1,3	1,7
Unemployment Rate	12,0	11,6	10,9	10,0	9,1	8,2	7,9	7,6

Source: Datastream, Amundi Research

Germany Macroeconomic Forecasts							
	2014	2015	2016	2017	2018E	2019E	2020E
GDP & Components	% YoY						
GDP	**2.2**	**1.5**	**2.2**	**2.5**	**1.7**	**1.6**	**1.7**
Personal Consumption Expenditures	1.1	1.6	1.9	2.0	1.3	1.6	1.7
Government Consumption Expenditures	1.6	2.9	4.0	1.6	1.1	1.7	1.2
Fixed Investment (Machinery and Equipment)	5.8	3.2	2.1	4.6	4.6	2.8	2.6
Exports	4.6	4.7	2.1	5.3	3.0	4.6	5.3
Imports	3.6	5.2	4.0	5.3	3.9	4.5	5.2
GDP Contributions	(% pts)						
Net trade	0.7	0.2	-0.6	0.3	-0.1	0.4	0.4
Inventories changes	0.0	-0.1	0.5	0.0	0.0	-0.3	-0.4
Inflation and employment							
Consumer Prices Index	0.9	0.2	0.5	1.7	1.9	1.7	1.6
Unemployment	6.7	6.4	6.1	5.7	5.2	4.9	4.5

Source: Datastream, Amundi Research

France Macroeconomic Forecasts							
	2014	2015	2016	2017	2018E	2019E	2020E
GDP & Components	% YoY						
GDP	**1.0**	**1.0**	**1.1**	**2.3**	**1.6**	**1.5**	**1.5**
Personal Consumption Expenditures	0.8	1.4	1.9	1.2	1.1	1.8	1.7
Government Consumption Expenditures	1.5	1.3	1.0	1.4	1.4	0.9	1.3
Fixed Investment	-0.7	0.0	0.9	2.7	4.7	3.1	2.9
Exports	3.4	4.4	1.5	4.7	3.1	3.6	3.7
Imports	4.9	5.7	3.1	4.1	1.9	3.9	4.0
GDP Contributions	(% pts)						
Net trade	-0.5	-0.4	-0.5	0.1	0.3	-0.2	-0.2
Inventories changes	0.7	0.3	-0.3	0.2	-0.2	-0.2	-0.1
Inflation and employment							
Consumer Prices Index, % YoY	0.6	0.1	0.3	1.2	2.1	1.6	1.5
Unemployment rate (%)	10.3	10.4	10.1	9.4	9.2	9.2	9.0

Source: Datastream, Amundi Research

Italy Macroeconomic Forecasts							
	2014	2015	2016	2017	2018E	2019E	2020E
GDP & Components	% YoY						
GDP	**0.2**	**0.8**	**1.3**	**1.6**	**1.0**	**0.9**	**0.9**
Personal Consumption Expenditures	0.2	1.9	1.3	1.5	0.8	0.9	1.1
Government Consumption Expenditures	-0.7	-0.6	0.3	-0.1	0.1	1.1	0.8
Fixed Investment	-2.2	1.9	3.7	4.4	4.6	2.8	1.6
Exports	2.4	4.1	2.3	6.3	0.3-	2.4	2.3
Imports	3.0	6.7	3.9	5.6	1.5	3.0	3.5
GDP Contributions	(% pts)						
Net trade	-0.1	-0.6	-0.4	0.3	-0.3	-0.2	-0.3
Inventories changes	0.7	0.0	0.2	-0.3	0.0	-0.2	0.0
Inflation and employment							
Consumer Prices Index, % YoY	0.2	-0.2	-0.1	1.2	1.2	1.5	1.7
Unemployment rate (%)	12.7	11.9	11.7	11.3	10.3	9.5	9.3

Source: Datastream, Amundi Research

Spain Macroeconomic Forecasts							
	2014	2015	2016	2017	2018E	2019E	2020E
GDP & Components	% YoY						
GDP	**1.4**	**3.4**	**3.3**	**3.1**	**2.7**	**2.3**	**1.7**
Personal Consumption Expenditures	1.5	3.0	2.9	2.4	2.3	1.9	1.0
Government Consumption Expenditures	-0.3	2.1	0.8	1.6	2.0	1.7	1.6
Fixed Investment	4.7	6.5	3.3	5.0	4.3	2.9	1.3
Exports	4.3	4.2	4.8	5.0	2.4	2.8	2.9
Imports	6.6	5.9	2.7	4.7	2.6	3.2	1.1
GDP Contributions	(% pts)						
Net trade	-0.5	-0.4	0.8	0.3	0.0	0.0	0.7
Inventories changes	0.0	0.1	-0.3	-0.2	-0.2	0.1	-0.2
Inflation and employment							
Consumer Prices Index, % YoY	-0.1	-0.5	-0.2	2.0	1.5	1.5	2.3
Unemployment rate (%)	24.4	22.1	19.6	17.2	15.5	14.4	13.8

Source: Datastream, Amundi Research

United Kingdom

It's all about politics!

PERRIER TRISTAN
Senior Economist

The Brexit-related uncertainty (and inflation due to the sterling depreciation) has weighed on confidence, the damage has been less than what was feared just after the June 2016 referendum. UK GDP has increased 3.8% since June 2016, which is only a moderate underperformance vs. the 4.9% in the Eurozone.

However, this has not prevented the output gap to close since potential growth has slowed at the same time: indeed, net migration from the EU has declined sharply since mid-2016, resulting in lower labour force and employment growth. Conditional on a Brexit deal scenario(*), there should be a slight rebound in the UK economy in 2019 and 2020. The labour market is in good shape and real wages, which are positive again after a period of high inflation, should support consumption. However the growth cycle is very mature, which pleads for a gradual BoE tightening and limits the upside potential. Our UK GDP forecasts are 1.5% for 2019 and 1.6% in 2020 (and in line with potential growth at around 1.5%). Longer term, we expect that the lesser degree of access to the EU market will be slightly negative for trend growth. In the case of a no deal Brexit, we would expect the UK economy to be severely negatively impacted in 2019, with the extent of the damage depending on the mitigation measures that can be agreed, for which there is little visibility at this stage.

(*) *Please see the investment talk; "Brexit where do we stand and what should investors expect?" released on 26 November 2018*

UK Macroeconomic Forecasts							
	2014	2015	2016	2017	2018E	2019E	2020E
GDP & Components	% YoY						
GDP	**2.9**	**2.3**	**1.8**	**1.7**	**1.3**	**1.5**	**1.6**
Personal Consumption Expenditures	2.0	2.6	3.1	1.8	1.3	1.3	1.4
Government Consumption Expenditures	2.2	1.4	0.8	-0.1	0.6	0.3	0.5
Fixed Investment	0.9	0.7	0.7	0.3	1.7	1.6	1.4
Exports	2.3	4.4	1.0	5.7	0.7	1.5	2.4
Imports	3.8	5.5	3.3	3.2	0.2	1.6	2.2
GDP Contributions	(% pts)						
Net trade	-0.4	-0.3	-0.7	0.7	0.2	0.0	0.0
Inventories changes	0.7	-0.3	0.0	-0.6	0.1	0.5	0.2
Inflation and employment							
Consumer Prices Index, % YoY	1.5	0.0	0.7	2.7	2.3	2.3	2.4
Unemployment rate (%)	6.1	5.3	4.9	4.4	4.2	4.4	4.4

Source: Datastream, Amundi Research

Japan

Expanding at near potential pace

YOSHINO AKIO
Senior Economist

Introduction

Apart from the Nikkei Stock Average breaching its 27-year high, this year is one of sorrowful remembrance with the end of the mobile phone frenzy, rounds of earthquakes, a series of typhoons and the receding Chinese shopping spree. The economy contracted in the first quarter and is highly likely to shrink again in the third quarter. Consequently, the annual growth rate is expected to be the lowest since 2014, when the hike in consumption tax derailed household spending.

Will the economy drag this weakness into next year? Here are a number of arguments why it may dodge a lingering stagnation.

Weak demand should dampen the adverse impact of protectionism

First, we reasonably expect a substantial rebound in response to the weakness seen in the middle of this year. The government quickly organised disaster relief projects. On 7 November the Diet approved the first supplementary budget for FY2018 amounting to 0.17% of nominal GDP. The first leg is primarily to provide a quick fix in the disaster-affected areas. The second leg will follow soon to make social infrastructure more resilient to natural disaster. On the private sector front, producers and retailers will restore businesses to health, trying to recoup their losses.

Second, the motivation for business investment has not been crippled at all even by the ongoing US and China tit-for-tat on tariffs. Corporate Japan plans to expand capital expenditure in 2018 at the highest pace since 2007. The execution of this should spill over into 2019. Manufacturers are modernising their factories and/or expanding production capacities. They have curtailed domestic production capacity by 7% in the last decade. Capacity expansion is indispensable as the utilisation rate has exceeded a critical 80% since Q2/2017.

While the US and China fight, Japan reaps the benefit

Thirdly, we believe Japan is relatively immune to the US-China trade dispute. Interestingly, the country's exports to the US and to China are almost equal, accounting for 2.8% of GDP. This means that the slowdown in the Chinese economy caused by sanctions will be roughly offset by prosperity in the US economy.

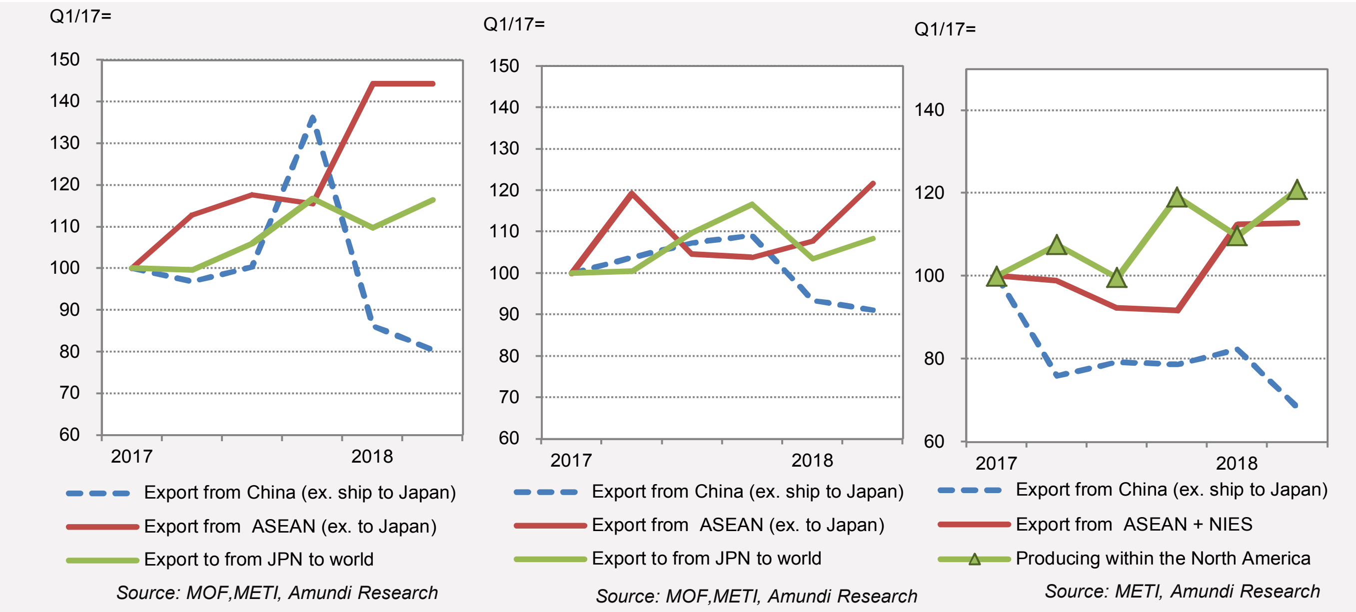
Manufacturers are resuming domestic production as production in China is at risk of higher levies imposed by the US, and experiencing non-stop increases in labour costs. Some assembly lines in China are being replaced in other Southeast Asian countries. But others are choosing to step up domestic production and ship directly to the US. Some US manufacturers have decided to choose Japan-made products rather than their Chinese equivalents.

In the meantime, non-manufacturers are substantially accumulating software investments in order to cope with the labour shortage and the forthcoming VAT hike. Labour substitution is critical for small and medium sized firms since minimum wages were raised in October by a historically large amount.

Fourthly, major mobile communication companies have announced that they will mark down monthly charges by a hefty 20% to 40% in Q2/2019. The discount will be partly offset by an increase in the price of new handsets. Yet we expect that the cost of mobile communications will fall by more than 10%, taking some 0.2% out of CPI inflation. Households will be able to use the savings in other areas.

1/ Change in activities of the Japanese producers and their overseas subsidiaries

Pulp and paper | Electric/ electronics | Industrial machinery

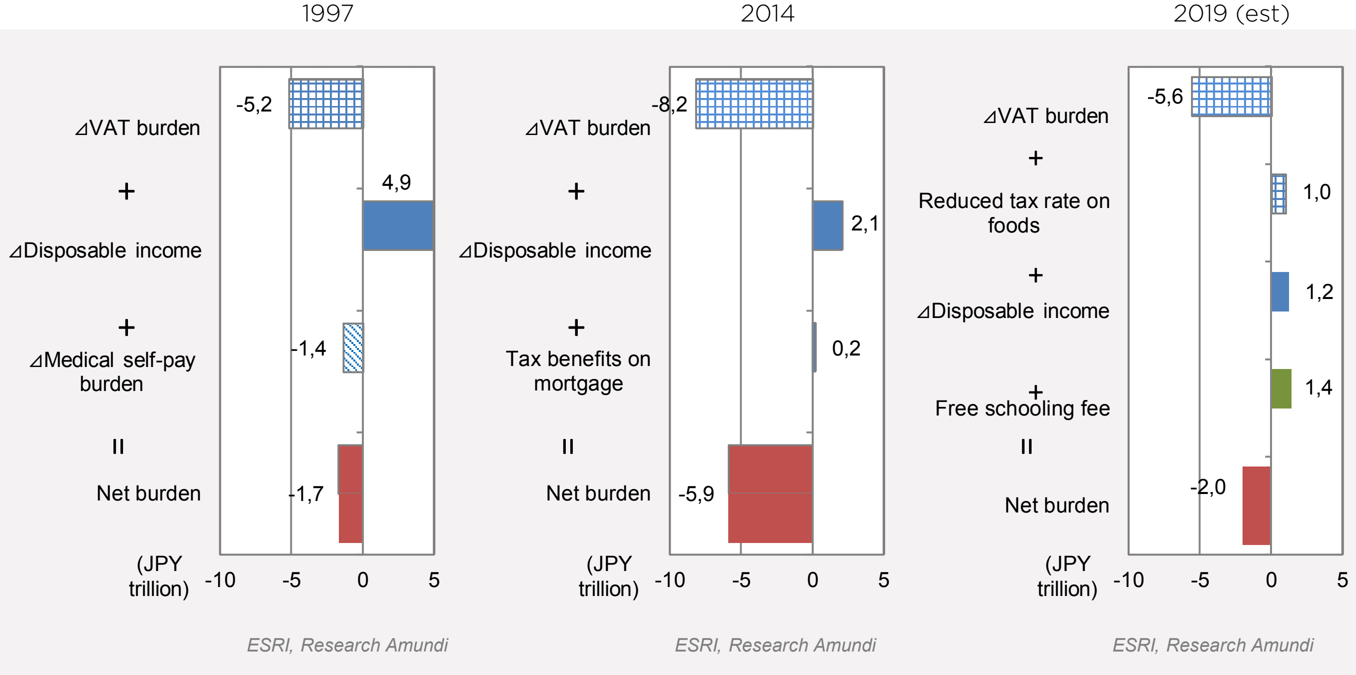


PM Abe will safely pass the second test

The government is scheduled to raise the consumption tax rate from 8% to 10% in October next year. Many investors are reminded of the mess that occurred in 2014, the last time the Abe administration raised this tax rate. Stagnation afterwards is inevitable. However, we believe that the backlash will be less intense than in the last two cases (1997 and 2014). The government will introduce lower tax rates on daily necessities. Also, fees for nursery schools and public high schools will be exempted. We believe that the net burden of the VAT hike will be one-third of the amount seen in 2014. In addition, companies will be rushing to prepare for the Olympic Games next year. Land developers will construct hotels and restaurants while transportation services will increase capacity.

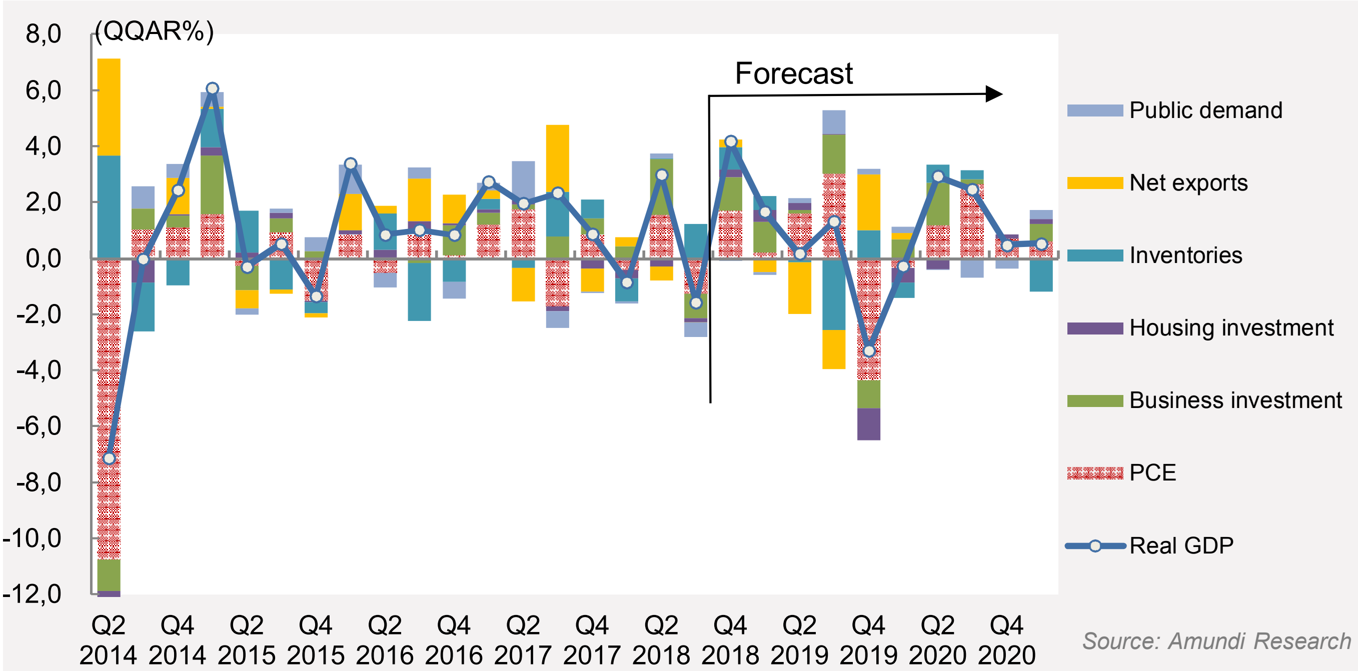
2/ Comparison in the net effect of consumption tax hikes

1997 | 2014 | 2019 (est)



Therefore we expect the economy to return to health by Q2/2020. Smoothing out fluctuations in response to the tax hike, the Japanese economy is likely to follow its potential growth rate of 0.9% until 2020. In 2020, pent-up demand related to the Tokyo Olympic and Paralympic Games should completely eclipse the adverse impact of the VAT hike.

3/ Contribution to Real GDP growth



Source: Amundi Research

The BOJ cannot move from the current spot

The state of the economy and critical events in 2019 are likely to hamper any move by the Bank of Japan. The combination of the precarious CPI and the psychological impact of trade tensions should encourage the BOJ to stick to its current policy.

As stated earlier, a sizeable reduction in communications charges will ensure that the BOJ will not be able to achieve the inflation target of 2%. Moreover, with the enactment of the Economic Partnership Agreement with the euro area and the Trans-Pacific economic Partnership, the price of imported wine and cheese (and some other products) will fall gradually as early as mid-2019. Also, the government will implement its programme of free nursery schools and public high schools from October 2019, which may push down the CPI by 0.3% to 0.5%

The central bank may seek opportunities to tweak the yield curve control policy early next year. However, critical events will hinder attempts by the politics-neutral bank; simultaneous regional elections in April, the accession of the new emperor in May, Upper House elections in July and a VAT hike in October.

What the BOJ can do is to allow the yield on the 10-year JGBs to rise as much as 0.25% without changing its long-term target of zero percent. The monetary authority is highly unlikely to touch its short-term target, which is currently at negative 0.1%, due to fears of an appreciation in the yen.

Emerging Markets

Twin shocks on the EM Outlook

BERARDI Alessia
Deputy Head
of Macroeconomic Research

HERVÉ KARINE
Senior Economist

VARTANESYAN SOSI
Senior Economist

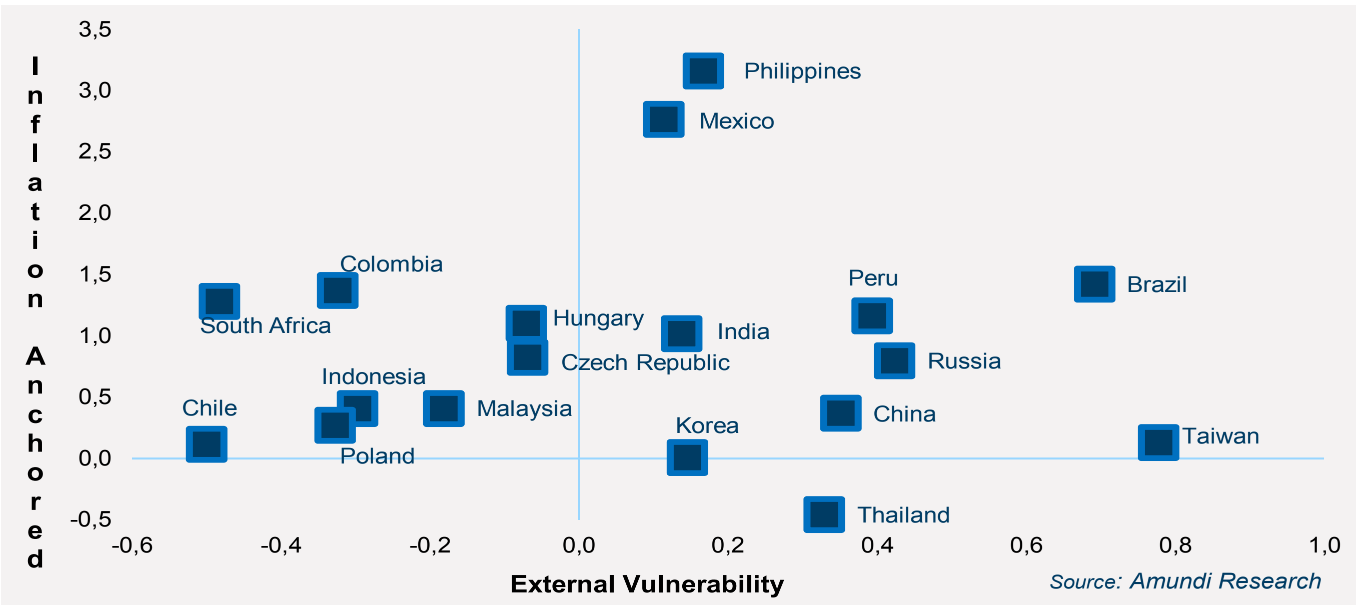
We saw more weakness than than anticipated in the EM universe since the middle of 2018. This has led the growth differential between EM and DM to turn decisively in favour of DM, thanks to a solid extended cycle in the US.

Going forward, we expect that the differential growth premium will turn in favour of EM countries in the second half of 2019 due to the expected deceleration in the US economic cycle (see the US Outlook section) **and the mild re-acceleration in the EM universe**. In relative terms, in 2018, economic performance in the EM has been mainly driven by domestic demand (household consumption and investment) more than by external demand and we expect this to continue with the same drivers composition, barring any major disruption in the US and Chinese economies caused by senseless trade policy. Moving into 2019, we expect some stabilization/ deceleration in the fixed investments component. Capex in the EM still relates to the global cycle (World Trade) even more than to the domestic cycle. Indeed, **the stabilisation will be a result of increased trade tensions (already implemented and planned) impacting business confidence and investments expenditure (for example in North Asia countries very much integrated to the Chinese Supply Chain). However, Investments projects domestically oriented such as those related to filling the infrastructure gaps – some of which have started in 2018 – will continue in 2019 (in Indonesia and the Philippines, for example)**. An overall benign inflation environment in economies running closer to their potential and reducing the slack in the labour market, should sustain household expenditure.

Commodities

In terms of countries' relative economic performance, our commodity outlook still favours commodity exporters over commodity importers, with a preference for metals exporters over oil exporters. We expect oil prices to remain relatively high but to converge to lower levels between $70br-$80br in 2019, after the current spikes caused

1/ **Monetary policy capacity (Inflation outlook vs CB target & external vulnerability)**



Source: Amundi Research

by adjustments in demand/supply dynamics (Iran has reduced exports and OPEC and non-OPEC production has increased) and geopolitical stress in the Middle East. The waivers to the Iranian sanctions, lately introduced, have already made Oil price retracing to levels closer to our Fair Value. In the broader commodity universe, further escalation in protectionist measures against commodity exporters together with any form of support for the Chinese economy should sustain non-energy commodity prices.

Trade

With regard to the contribution of external demand to EM growth, 2018 has marked a change in the globalisation process around the world. The move towards less multilateralism is ongoing, accelerated by populist and more nationalist governments in many countries. The future global trade environment is uncertain. On one side, there are still good practices to pursue to try to maintain some kind of global cooperation: WTO modernisation and enforcement in some areas is becoming more relevant today than it was in the past (e.g. services) and new/ongoing effective regional agreements to re-design a more customised multilateralism. On the other side, countries' desire to defend their own economic cycles from the recent wave of protectionism and volatility in the FX market is spurring unilateral retaliations that could produce a more disorderly situation in the future (such as the rise in import tariffs in India and Indonesia).

Developments in trade-related measures between China and the US remain highly uncertain. We believe that full escalation is possible but this is not our base case yet. The probability of further talks and a positive solution exists and has lately increased with both parties signalling the will to come back to a negotiation table. With regard to the $250bn, China's growth is likely to hold up with its current policy combo: monetary, fiscal, and RMB. If the additional $267bn is implemented, China will need to do as much as it has already done, which implies 1) further RRR cuts, and even perhaps a cut in the benchmark bank rate; 2) fiscal measures to mobilise more; 3) there is also a good chance that the RMB will be allowed to depreciate further to offset some of the potential damage. In addition, negative contagion effects could come from a possible shift of the Chinese supply chain, which is deeply integrated with other countries, mainly in the region. While we expect China to make more efforts to shift towards the middle and high end part of the manufacturing chain, the shift of the low end and part of the middle end to other EMs could speed up. There are already strategic talks in some countries in the region, such as Indonesia, for the possible relocation of production in sectors like furniture.

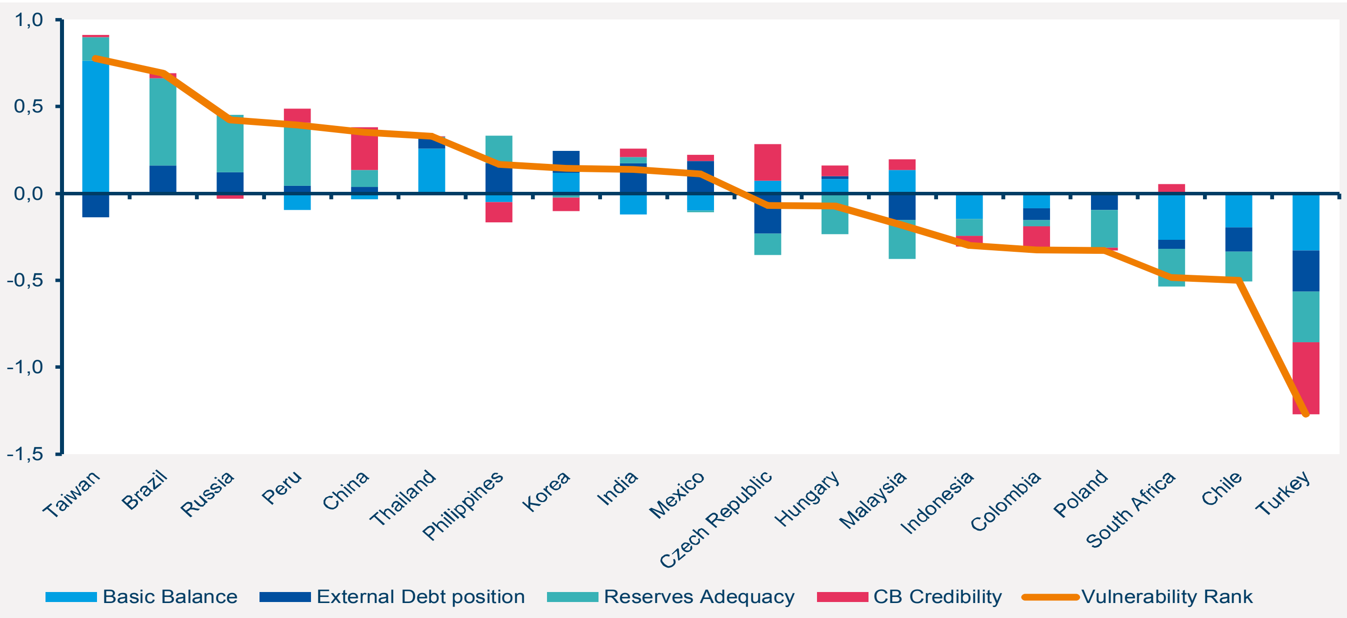
Inflation

Overall, inflation is expected to inch up moderately. Demand pressure will remain low due to some cooling down in the economy and as the output gap is narrowing/closing in many EM countries. Although inflation dynamics will remain contained, the level of dispersion among different countries is still high and dependent on many domestic factors, not least their different positions in the economic cycle. In the EM, goods represent the bulk of inflation baskets and tradeable goods prices are in many cases responsible for inflation spikes. However, CCY weakness pass-through has overall diminished in recent years, and the monetary authorities have more effectively anchored inflation expectations. Within the universe covered, Turkey is by far the country with the highest and most timely pass-through level, but the anchoring of inflation expectations process is still a work in progress for many EM.

Policies to the rescue?

During 2018, a straightforward change of perspective for EM central banks has taken place: the focus has clearly shifted from prevailing domestic considerations at the very beginning of the year, to more global/external factors driving monetary policy since April 2018 when the USD started on a more convincing strengthening path. For 2019, we expect this trend to continue for as long as the Federal Reserve's perceived hawkishness continues. However, deteriorating macroeconomic conditions (mostly externally driven) will soon start to weigh more on EM monetary policy decisions, conditioning the future MP path wherever possible. We believe that the countries where monetary policy can support the economic cycle are those that are the least externally vulnerable (safer in an environment of tighter US monetary policy), with better anchored inflation expectations (inflation outlook more stable within the CB target range). Having said that, flexibility in the FX space has to be guaranteed and FX volatility impact must be strictly monitored, leaving the exchange rate as the ultimate shock absorber; interventions in the FX market should be allowed only in very disorderly and highly volatile FX environments.

1/ **EM external vulnerability**



Source: CEIC, Bloomberg, Amundi Research, as of November 2018

With regard to the second layer of protection, the different governments should make progress in building up fiscal buffers via sustainable debt trajectories, prudent and credible fiscal targets, a higher tax base, better targeted subsidies policies (if any) and transparent fiscal rules. We do not believe that Argentina's fiscal target as set out in the revisited IMF plan is credible or affordable. At some point, it will need to be renegotiated. The fiscal buffers will allow EM to navigate better the next challenging times.

1/**EM policies room (Monetary and Fiscal Policies capacity)**

Monetary Policy capacity \ Fiscal capacity	LOW	MEDIUM	HIGH
LOW	Poland, Turkey	Philippines, South Africa	Mexico, Colombia, Indonesia, Malaysia
MEDIUM	Brazil, Hungary, India		Chile, Czech Rep., Peru, Russia
HIGH		China, South Korea	Thailand

Source: Amundi Research, as of 15th of November 2018.

2/**EM Elections 2019**

Country	Date	Event
Nigeria	16th February	General Elections
Turkey	31st March 2019	Local Elections
India	April-May 2019	General Elections
Indonesia	17th April 2019	General Elections
Philippines	13th May 2019	Midterm Elections, Houses and Gubernatorial Elections
South Africa	(August) 2019	General Elections
Argentina	27th October 2019	General Elections
Poland	within November 2019	Parliamentary Elections
Romania	November-December 2019	Presidential Elections

Country risk assessment in a nutshell

ARGENTINA
Rating: B2 stab/ B stab/ B neg (Moody's/ S&P / Fitch)

Negative rating trends

- Fitch changed the B rating outlook to negative in November
- S&P downgraded the B+ rating to B stable in November. on Watch
- Revised IMF programme allows for some breathing room; however,
- The economy is expected to be in deep recession in 2018 (-2.6% IMF) and in 2019 (-1.6%)
- Inflation is running at over 40%
- Large fiscal deficits and a growing public sector debt burden, largely denominated in foreign currency
- Large current account deficits not financed by FDI
- Large external financing needs
- High and growing external debt burden
- Very poor external liquidity and inadequate reserves

Main risks

- Inability to reduce high fiscal deficits and risk of default on external debt
- The return of populists (Kirshnerists) following the presidential October 2019 elections

BRAZIL
Rating: Ba2 stab /BB- stab/BB- stab (Moody's/ S&P / Fitch)

Negative rating trends

- Moody's rating at Ba2 since February 2016, outlook confirmed stable.
- S&P downgraded the rating to BB- stable in January 2018
- Fitch downgraded the rating to BB- stable in February 2018
- GDP growth will be around 2% in 2018-2019, below its potential.
- Fiscal deficits (General and primary) remain quite stretched and they should mildly reduce in the next year. There will be no structural adjustment on the fiscal side without the Social Security reform. Government debt is heading to 90% out of GDP.
- Brazil is not vulnerable on the external side: a small current account deficit is more than covered by FDI; reserves are healthy levels with Import Cover at around 25 months.
- Brazil remains vulnerable to EM outflows due to fiscal/politics developments.

Main risks

- Slow and disappointing reforms implementation (mainly on the fiscal side); USD strengthening further.

MEXICO
Rating: A3 stab /BBB+ stab/BBB+ neg (Moody's/ S&P / Fitch)

Stable rating trends

- Moody's outlook upgraded to stable in April 2018.
- S&P upgraded to outlook to stable in July 2017
- Fitch downgraded the outlook to negative in October 2018
- GDP growth will be around 2% in 2018-2019, below its potential.
- Fiscal Primary Balance remains positive although deteriorating from the peak in 2017. After the serious fiscal consolidation effort put in place in recent years, Mexico is expected to somehow relax its fiscal policy in 2019.
- Mexico Basic Balance is mildly positive, with its Current Account Deficit mildly compensated by FDI. Decent External Debt dynamics and Reserves Adequacy Ratios make the country not that vulnerable on the external side.
- Mexican Peso is one of the most liquid currencies among the Ems, that makes inflation dynamics for tradable goods very dependent on external factors. Banxico is a very orthodox Central Bank and it will keep a hawkish stance until inflation will get at the target.

Main risks

- New administration policies reverting the recent effort in terms of reforms and fiscal consolidation; nationalistic approach towards Pemex (banning the entrance of foreign private capitals on specific projects); Fed more hawkish than what market is expecting.

Country risk assessment in a nutshell

TURKEY Rating: Ba3 neg / B + u stab / BB neg (Moody's/ S&P / Fitch)

Negative rating trend

- In August 2018, Moody's downgraded the rating to Ba3 with a negative outlook
- S & P lowered its rating to B + u in August 2018
- Fitch lowered its rating to BB neg in July 2018
- Very weak growth or recession in 2019 according to our forecasts.
- Double-digit inflation (more than 20% in the first quarter) that would constrain the central bank to stay on hawkish at least on H1. In H2, all things equal, the contraction of the economy should translate into slower inflation giving room to the central bank to cut rates which are currently at 24%.
- Increase in the fiscal deficit even though fiscal consolidation announcement of 1% of GDP.
- Reduction of the current account deficit due to the sharp drop in domestic demand but high external vulnerability linked to funding by highly volatile capital flows and reserve levels covering barely 50% of external financing needs.
- Banking sector under tension.

Main risks

- High uncertainties about the conduct of the policy mix (fiscal slippage, accommodative monetary policy, etc.) with strong questions about the independence of the CBRT.
- In case of massive capital outflows, a balance of payments crisis can not be ruled out.
- Although tensions with the United States have dissipated following the release of Pastor Brunson, (geo) -political tensions remain high

SOUTH AFRICA Rating: Baa3 stab / BB stab / BB + stab (Moody's/ S&P / Fitch)

Negative rating trend

- In March 2018, Moody's maintained its rating at Baa3 and past the outlook at stable
- S & P lowered its rating to BB in November 2017
- Fitch lowered its rating to BB + in April 2017
- Growth is expected to be low (1.5%) in the next two years.
- Inflation is contained but highly dependent on the volatility of the rand and new downside pressures on emerging currencies can not be ruled out in today's global environment.
- Monetary policy will have to deal with external factors such as US monetary policy but also with domestic factor such as low growth.
- With a public deficit of more than 4.5%, the South African authorities have no room for maneuver to support growth.
- The current account deficit (4% of GDP in Q2-2018) could widen further due to a higher energy bill and a slowdown in exports along with slowing global growth.

Main risks

- Portfolio flows are a major source of funding for the economy. Reducing these flows could force monetary policy to tighten and penalize growth.
- Political developments and uncertainty over a number of reforms, including the expropriation of some landowners, could further constrain domestic and foreign investment.

Central European countries*

Entering the downward phase in their cycle

HERVÉ KARINE
Senior Economist

In 2017 bullish environment, Central European countries outperformed with growth rates of over 4% and over 6% in Romania. In a two years horizon, their economy is expected to slow down. However, unless there is a major external shock, growth should be above potential from now to 2020 (estimated at around 2.5%-3% in the different countries).

1-Growth will remain robust and mainly driven by domestic demand

Consumer spending and private investment are these countries' main growth drivers and will remain so through to 2020, even if their rate of growth slows. Since unemployment rates are low in all of these countries, households will continue to benefit from nominal wage rises. However, the rise in consumer purchasing power is set to lose momentum in 2019-2020 as domestic inflation increases and nominal wage growth slows. Pressure on corporate margins (Czech Republic), reduced government support for minimum wages (Romania) and rising economic immigration (Poland) will increasingly curb nominal wage growth. Investment should continue to rise until 2020 in Hungary, Poland and the Czech Republic as we do not expect a sharp drop in global demand, and as consumer spending is strong, supply is not likely to encounter demand constraints. In addition, some countries are likely to increase their investment as they are confronted with growing labour shortages and extremely high capacity utilisation rates. Investment growth will, however, be limited in some countries as public investment slows following the massive use of European funds in 2017 and 2018 (Czech Republic, Hungary), and also because of the risks in terms of foreign private investment arising from tensions with the European Union[1] (Hungary, Poland). Romania is an exception in this scenario as from now to 2020, we are not expecting a significant recovery in investment and growth will be entirely driven by private consumption. One of the country's major problems seems to lie in its inability to use European Union funds for investment spending. Net exports are expected to continue to make a low or slightly negative contribution to growth. Strong domestic demand should continue to drive imports, while exports stagnate due to the slowdown in global demand forecast in our core scenario.

2-Inflationary pressure will increase but should be controllable

Inflation has risen in these countries in 2018 and should continue to climb in 2019-2020. Several forces are at work both domestically (rising nominal wages due to a very tight labour market, sharp rise in property prices in some countries like the Czech Republic, and an acceleration in food prices) and externally (pressure on emerging currencies causing an exchange rate pass-through effect via imported goods and high oil prices). As key interest rates are extremely low in these countries, their central banks could take action if necessary. In Hungary, inflation could close in on the upper limit of the central bank's target (4%), but the bank is likely to keep key interest rates unchanged. However, the Czech central bank, which has a lower target (2%) should continue to tighten monetary policy, in particular to limit the growth in home loans, which are fuelling a property market bubble. In Romania, inflation

[1] *Due to these countries' right of veto, there is little likelihood that the European Union will be able to apply the sanctions it has threatened to countries that violate the "Rule of Law." However, problems will arise with the 2021-2027 budget, when the funding allocated to these countries could be cut by more than 20%.*

* *In this document, we limit our review to four countries - Hungary, Poland, the Czech Republic and Romania.*

A previous version of this outlook that is more detailed has been released in a thematic paper named "Central European countries: Outlook to 2020".

should remain above the central bank's target (3.5%) at least until the end of 2019. Therefore, although the central bank seems to have paused its monetary tightening cycle, it is unlikely to keep things on hold indefinitely. There is less inflationary pressure in Poland, and inflation should remain well below the central bank's upper limit (3.5%), meaning that the bank is not likely to adjust its key interest rate before the end of 2019.

3- Overall public finances will hold healthy but have to be monitored

The slowdown in growth is likely to reduce tax revenues. However, Hungary and Poland are not likely to exceed the public deficit target of 3% of GDP imposed by the European Union, despite the various measures already taken and to come, namely major tax cuts in Hungary and a lowering of the retirement age in Poland, combined with increasing welfare spending. The Czech Republic should continue to post a budget surplus through to 2020. However, the surplus could narrow permanently due to the decision to index public sector wages and pensions to inflation. In this sense, the IMF's forecast of a surplus of 0.8% of GDP in 2020 seems slightly optimistic. The situation is more complex in Romania. The expansionary fiscal policy it has pursued by raising public sector wages and pensions will affect public finances. The deficit is expected to substantially exceed the limit of 3% of GDP. As elections are due to be held in 2019 and 2020, the government is unlikely to cut public spending or investment, which has already declined over the past five years. With a decline in GDP growth and no measures announced to improve tax collection, Romania's public deficit is unlikely to be eliminated in the next two years. In this situation, Poland and the Czech Republic, whose debt is less than 50% of GDP, have sufficient room for manoeuvre to stimulate growth if necessary. With debt levels of over 70% of GDP, Hungary's room for manoeuvre is much more limited. As for Romania, while its debt is no more than 40% of GDP, the size of its public deficit means it has no room for manoeuvre. In addition, this country could have difficulty meeting its financing requirements if investors' appetite for emerging assets dries up any more.

4-External financing levels should be stable while current accounts will deteriorate

The slowdown in global trade that has begun to take hold and which is likely to continue will dampen Central European countries' exports. Their imports may slow, but not by as much, as domestic demand remains very strong. Overall, these countries are therefore expected to see deterioration in their current accounts. Their initial position will therefore be a decisive factor. As such, Hungary, which had a current account surplus of over 3% in 2017, should remain in positive territory the next two years. In addition, although foreign direct investment (FDI) flows towards this country are relatively low - they account for less than 1% of GDP - and despite its high foreign debt (80% of GDP, though this figure has been falling for nearly 10 years), Hungary is not a high-risk country. With relatively low current account surpluses in 2017, the Czech Republic and Poland could show a deficit as of this year, according to the IMF. However, this situation is not alarming for now, because the Czech Republic is the biggest recipient of FDI in Central Europe and Poland is the largest beneficiary of European Union funding. The situation is more worrisome in Romania. Until now, it managed to finance part of its current account deficit with FDI (2%-3% of GDP on average depending on the year), portfolio flows (1%-1.5% of GDP) and European funds (2% of GDP). However, funding from the European Union was halved this summer (i.e. just 1% of GDP) since the Romanian government cut its infrastructure spending. In addition, in the second quarter, the current account deficit exceeded 3.5% of GDP, and nothing suggests it will improve in the short term, in particular as the harvest was poor this year. The markets may begin to worry about this situation and we could see an outflow of capital.

China

From risks to opportunities "危/机"*

WANG Qinwei
Senior Economist

Key messages

- China's economy is facing **two challenges**, with previous deleveraging efforts weighing on part of the economy, and strong headwinds from US/China trade tensions. Looking ahead, **uncertainty** remains high in **how aggressive** of US trade policy on China.
- That said, there are increasing signs suggesting **US overall policy stance** to China is perhaps shifting towards the tough side, which could have profound impacts into long term.
- In near term, we continue to believe China will utilise **all possible policy measures when necessary** to avoid a hard-landing of its economy.
- Regarding the potential long term challenges, we think China's fate will be determined more by its own rather than US, **if** acting towards the right direction.
- China has made meaningful progress in certain **key factors** to unlock its long term growth potential, by steadily catching up in **R&D** spending and improving its **labour quality**.
- But further **Reforms and Opening** are also needed to facilitate its structural transition. For now, it looks that US pressures are pushing China to step up efforts on this direction.
- Such efforts could help China **to further climb along value chain** from low/middle end towards middle/high end. Our bottom-up analysis suggested such shifts already underway, while US tariff threats could speed up this process, which would have different **implications for the region**.

Further details

China's economy is facing **two major challenges**. Deleveraging efforts have been putting downward pressure on the economy, while US tariffs are set to hit exports perhaps more heavily in 2019.

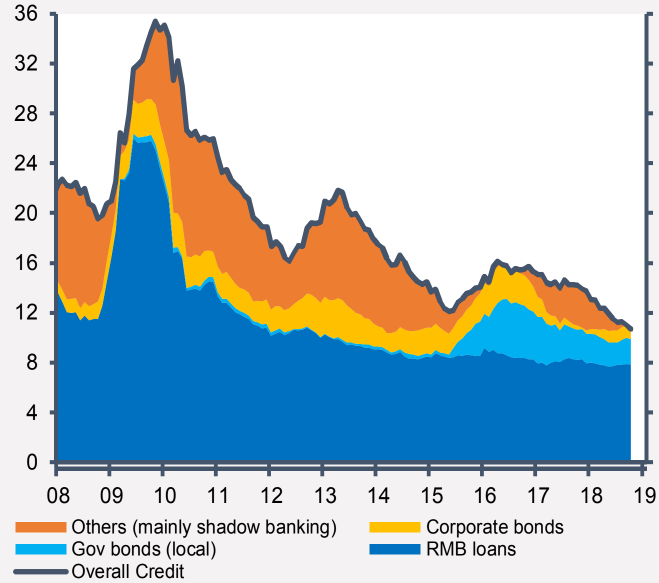
Policymakers have already responded with a directional change in their broad policy stance, which has been more supportive since the early summer of 2018 and policy supports have since been getting stronger with new efforts to unlock pass-through into real economy, particularly to private sector. Looking ahead, all tools are on the table to use when necessary, to avoid a hard-landing.

Monetary policy: China will continue to maintain "sufficient liquidity" through multiple measures, including further RRR cuts, MLF and open market operations, to guide interbank rates towards relatively low levels, to support lending, and it could even cut benchmark bank rates if necessary. This should help credit growth to stop falling much further.

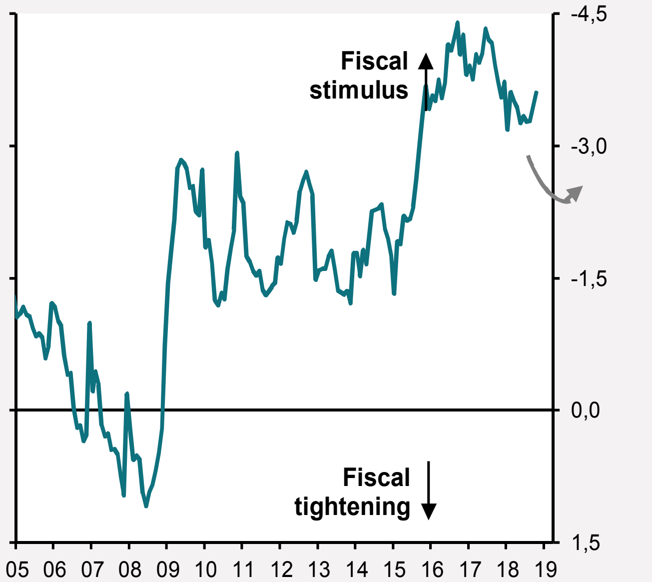
Fiscal policy: we expect a larger budget deficit, to support infrastructural spending and to introduce more tax cuts, while regulations were tightened on local government borrowing through shadow channels.

* *Chinese way to say risks and opportunities in one word.*

1/**Contribution to Credit Growth (incl. local gov bonds, pp)**



2/**China Budget Fiscal Balance (% of GDP, 12m rolling)**



Sources: CEIC, Amundi Research. Data as of 15th November 2018.

Regarding US/China, we continue to think China would be reluctant to use extreme measures, in order **to avoid** a serious escalation in the trade war or an extension to other areas. China's retaliation so far seems relatively contained, intended to push the US to agree to more meaningful talks.

While uncertainty remains high in **how aggressive** of US trade policy, there are increasing signs that the overall US policy stance towards China may be **toughening**, and this could last into the long term, with the US mid-term election results making little difference.

As a result, in addition to short-term policy supports, it is becoming **more urgent for China to push through Reforms and Opening, which could:** 1) facilitate its own structural transition, which is the fundamental driver of its long-term outlook; 2) resolve some issues identified by the US and therefore help defuse the tensions; 3) offset downside pressures by enabling closer integration with the rest of the world.

There are increasing signs that China's policymakers are moving in this direction no matter what Mr Trump decides to do, and we are waiting for more concrete developments.

If China could push through **more meaningful domestic reforms and become more open**, we think there is a good chance that China will move further **up the production chain from the low/middle end to the middle/high end**, while expanding its **market shares in the rest of the world** other than US.

This is supported by our case studies on the global production chain, which suggest:

- **Low-end (textile)**: easiest parts to shift away. Already moving since 2010, worse during TPP period 2014-16; could speed up; to benefit ASEAN most, depending on their local conditions.
- **Middle-end (washing machine in home appliance)**: Domestic markets and rest of the world are the key; Chinese names are strong and unlikely to shift; even if, likely to stay in Asia

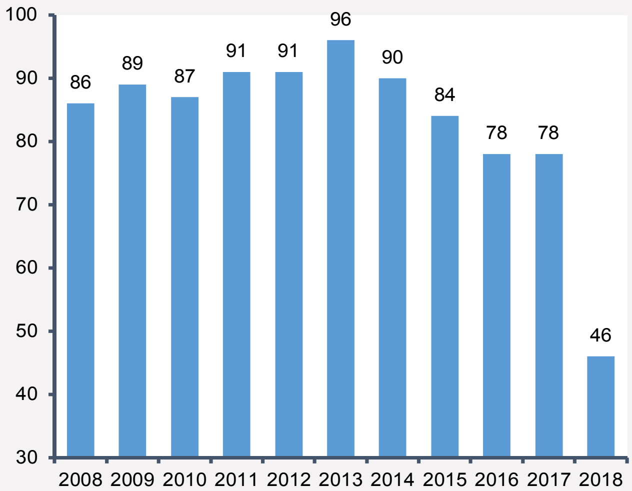
- **High-end (Apple in tech)**: difficult to shift due to complexity and size. Chinese already produced more than widely thought, while majority of sites belong to foreign names.

In addition, China is ready to catch up in certain key areas:

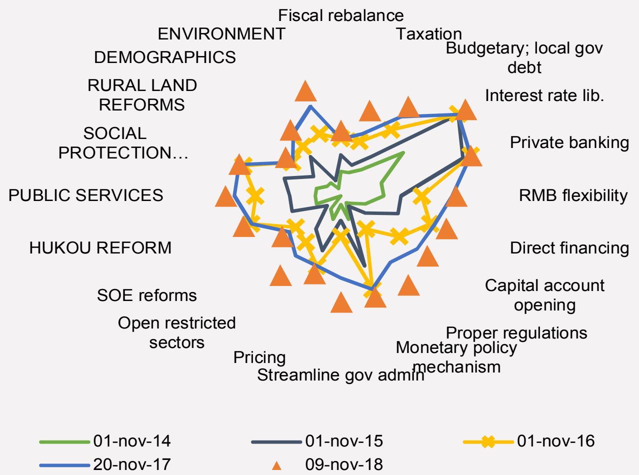
- **R&D:** steadily catching up, and already see results. Chinese patents listed in US (so quality patents) increase steadily. The number of Chinese academic paper published in top journals, measured by Nature, increases steadily, already 2nd largest in the world.
- **Labour quality**: improving steadily and to continue, with the largest pool of international students and engineer graduates

In fact, China has already made meaningful progresses in its structural reforms, according to our own reform tracker and World Bank. The latest Ease of Doing Businesses report showed that China is among top 3 of improvements, with a big jump of its ranking to 46th in 2018, and a steady improvement from 96th since 2014.

1/**China's Ranking in Ease of Doing Business (World Banks)**



2/**Reform Tracker (%)**



Sources: CEIC, State Council, NDRC, Xinhua, World Bank, Amundi Research. Data as of 9th November 2018.

As such, we expect the **real economy** to slow to below 6.5% y/y in coming quarters, but it could still reach around 6.0-6.5% range in 2019 and 2020, with nominal growth to achieve high single-digit figures.

RMB: the PBOC seems to have become more comfortable with there being more flexibility in the RMB's daily moves in both directions. If the US were to add more aggressive measures against China, there is a chance that CNY might be allowed to further depreciate meaningfully against the dollar. However, for the announced tariffs on $250bn of Chinese goods, we think policy supports already in place are enough to help the RMB hold up around recent levels. In any case, the PBOC has sent relatively clear messages that it would take action when necessary to avoid systematic risks.

Inflation: We expect CPI **inflation** to stay in the PBOC's comfortable range. Weak demand should help keep core inflation relatively low, although food inflation could reach higher levels. PPI inflation is expected to move in the low-single-digit range after cooling in Q4 2018 due to base effects.

In the medium term, the continued shifting of the production chain should help keep inflation under control, although there are worries about the fast increase in China's labour costs.

Impacts of Tariffs
Along the Production Chain

China: Short-term Pain vs Long-term Gain

US tariffs are set to hurt China and others along the production chain in the region, which are already deeply integrated to achieve best efficiency.

Longer concerns are in possible disruption to capex decisions in the region and the shift of production chain, given uncertainty linked to US/China trade tensions

We analysed three typical cases based mainly on bottom-up evidence, to allow us to better understand the potential impacts in coming years.

Key findings:

- 3 case studies showed different perspectives:
  - **Low-end (textile):** the easiest type of production to shift out, already ongoing since 2010, worse during TPP period 2014-16, could speed up; will mostly benefit ASEAN countries, depending on their own capacity.
  - **Middle-end (washing machines in home appliances):** domestic markets and the rest of the world are the key; Chinese names are strong and unlikely to shift; even if they do, they are likely to stay in Asia.
  - **High-end (Apple in tech):** difficult to shift due to size and complexity. Chinese produces much more than widely thought, but the majority of production sites are owned by foreign companies.

Overall, the impacts on China could be manageable, if it moves in the right direction, because:

- **The size of China's local markets is large enough** relative to exports, unlike in other small open economies. This could 1) provide an important buffer, 2) ensure that global investors stay.
- **Domestic reforms are the key.** Low-end production is mostly certain to move out of China, and the hope is that China will move further up the production chain, taking more middle- and high-end shares. A series of domestic reforms is critical.
- **Further opening is important, as the rest of the world other than the US** is becoming more meaninggul. Even if the tough US stance continues, closer integration with the rest of the world could help offset the damage. The **"Belt and Road Initiative"** could be more than just talks.

- Impacts on inflation: Perhaps different to what you might expect

- **Pass-through of tariffs:** for the **25%** tariff, roughly **6-10%** on retail prices (**on average 1/3**) Based on case studies of Nike/Adidas and Apple, their imported prices are around **25-40%** of final retail prices. This means the **25%** tariff on imported prices could pass through into retail prices at 6-10%.
- **Medium term: good inflation could be under control, due to:**
- The continued shift of low-end production to ASEAN countries with low labour costs;
- The catching-up of Chinese firms in **middle- and high-end** production, to reduce costs.

Overall, despite short-term pains, the only way for China is move up the production chain to the middle and high end, while the low end is almost certain to move to other, cheaper, regions. US pressure is simply accelerating this process.

The key is further **domestic reforms** and more **opening**, to facilitate the country's structural transition to become more market-driven, with rule by law and therefore be more efficient and sustainable.

There are signs that China is moving in this direction. Potential measures include corporate tax cuts, SOE reforms, further reductions in import tariffs and lowering barriers for foreign and private investors.

Tables

GDP and Inflation forecasts

	GDP growth (YoY%)			Inflation (CPI, YoY%)		
	2018	**2019**	**2020**	**2018**	**2019**	**2020**
US	**2.9**	**2.7**	**2.0**	**2.5**	**2.4**	**2.3**
Japan	**0.9**	**1.2**	**0.4**	**1.0**	**1.0**	**1.2**
Eurozone	**1.9**	**1.6**	**1.6**	**1.8**	**1.9**	**2.0**
Germany	1.7	1.6	1.7	1.9	1.7	1.6
France	1.6	1.5	1.5	2.1	1.6	1.5
Italy	1.0	0.9	0.9	1.2	1.5	1.7
Spain	2.7	2.3	1.7	1.5	1.5	2.3
UK	**1.3**	**1.5**	**1.6**	**2.4**	**2.3**	**2.4**
Brazil	**1.2**	**2.0**	**1.8**	**3.8**	**5.1**	**4.8**
Russia	**1.8**	**1.7**	**1.7**	**2.8**	**4.4**	**4.0**
India	**7.7**	**6.8**	**7.0**	**4.2**	**4.6**	**5.1**
Indonesia	**5.1**	**5.3**	**5.4**	**3.2**	**3.8**	**4.2**
China	**6.6**	**6.2**	**6.1**	**2.1**	**2.5**	**2.7**
Turkey	**2.3**	**-1.0**	**1.5**	**16.8**	**18.4**	**11.0**
Developed countries	**2.2**	**2.1**	**1.7**	**2.0**	**2.0**	**2.0**
Emerging countries	**4.9**	**4.7**	**4.7**	**4.0**	**4.2**	**3.9**
World	**3.8**	**3.6**	**3.5**	**3.2**	**3.3**	**3.1**

Updated on 7 November 2018

Central Bank Rates forecasts

	End 2015	End 2016	End 2017	30/10/2018	Amundi + 6m.	Consensus Q2 2019	Amundi + 12m.	Consensus Q4 2019
US	0.50	0.75	1.50	2.25	3.00	3.00	3.00	3.00
Eurozone	0.05	0.00	0.00	0.00	0.00	0.00	0.00	0.15
Japan	0.10	-0.10	-0.10	-0.10	-0.10	0.00	-0.10	0.00
UK	0.50	0.25	0.50	0.75	1.00	1.00	1.00	1.00
China	4.35	4.35	4.35	4.35	4.35	4.30	4.35	4.30
India	6.75	6.25	6.00	6.50	6.75	6.75	7.00	7.00
Brazil	14.25	13.75	7.00	6.50	6.50	6.65	6.75	8.20
Mexico	3.25	5.75	7.25	7.75	8.00	7.25	7.75	6.85
Russia	11.00	10.00	7.75	7.50	7.50	7.55	7.75	7.40
Turkey	7.50	8.00	8.00	24.00	24.00	24.50	24.00	21.80
South Africa	6.25	7.00	6.75	6.50	6.75	6.80	7.00	6.85

Source: Amundi Research

Amundi ASSET MANAGEMENT

2 y. bond yield forecasts	End 2015	End 2016	End 2017	30/10/2018	Amundi + 6m.	Consensus Q2 2019	Forward + 6m.	Amundi + 12m.	Consensus Q4 2019	Forward + 12m.
US	1.04	1.18	1.9	2.84	**2.90/3.1**	3.13	3.01	**2.9/3.1**	3.26	3.06
Germany	-0.34	-0.8	-0.63	-0.62	**-0.4/-0.3**	-0.34	-0.5	**-0.3/-0.2**	-0.07	-0.37
Japan	-0.05	-0.19	-0.13	-0.13	**-0.2/0.0**	-0.07	-0.1	**-0.1/0.1**	-0.04	-0.1
UK	0.65	0.08	0.44	0.72	**0.8/1.0**	1.14	0.71	**0.9/1.1**	1.43	0.77

10 y. bond yield forecasts	End 2015	End 2016	End 2017	30/10/2018	Amundi + 6m.	Consensus Q2 2019	Forward + 6m.	Amundi + 12m.	Consensus Q4 2019	Forward + 12m.
US	2.27	2.45	2.42	3.11	**3.10/3.25**	3.33	3.17	**3.10/3.20**	3.41	3.19
Germany	0.63	0.11	0.43	0.39	**0.55/0.65**	0.87	0.49	**0.55/0.65**	1.07	0.57
Japan	0.25	0.05	0.05	0.12	**0.15/0.25**	0.15	0.17	**0.10/0.20**	0.16	0.21
UK	1.96	1.24	1.19	1.41	**1.50/1.70**	1.82	1.49	**1.50/1.70**	2.01	1.56

Exchange rates forecasts vs USD	End 2015	End 2016	End 2017	30/10/2018	Amundi + 6m.	Consensus Q2 2019	Amundi + 12m.	Consensus Q4 2019
EUR/USD	1.09	1.05	1.20	1.13	1.19	1.20	1.24	1.25
USD/JPY	120.3	116.6	113	113	109	110	105	108
GBP/USD	1.47	1.24	1.35	1.27	1.33	1.35	1.40	1.40
USD/CHF	1.00	1.02	0.97	1.01	0.98	0.97	0.93	0.96
USD/NOK	8.85	8.61	8.20	8.41	7.75	7.71	7.44	7.16
USD/SEK	8.43	9.08	8.18	9.18	8.40	8.39	7.60	7.84
USD/CAD	1.39	1.34	1.26	1.31	1.25	1.26	1.23	1.25
AUD/USD	0.73	0.72	0.78	0.71	0.75	0.73	0.76	0.75
NZD/USD	0.68	0.70	0.71	0.66	0.68	0.66	0.68	0.70

Exchange rates forecasts vs EUR	End 2015	End 2016	End 2017	30/10/2018	Amundi + 6m.	Consensus Q2 2019	Amundi + 12m.	Consensus Q4 2019
EUR/USD	1.09	1.05	1.20	1.13	1.20	1.20	1.24	1.25
EUR/JPY	130.68	123.02	135	128	130	133	130	135
EUR/GBP	0.74	0.85	0.89	0.89	0.89	0.89	0.89	0.89
EUR/CHF	1.09	1.07	1.17	1.14	1.17	1.16	1.18	1.20
EUR/NOK	9.62	9.08	9.84	9.55	9.20	9.25	9.30	8.95
EUR/SEK	9.16	9.58	9.83	10.41	10.00	10.07	9.50	9.80
EUR/CAD	1.51	1.41	1.51	1.49	1.49	1.51	1.53	1.56
EUR/AUD	1.49	1.46	1.54	1.60	1.59	1.64	1.68	1.67
EUR/NZD	1.59	1.51	1.69	1.73	1.77	1.82	1.82	1.79

** Please note that consensus for EUR/CAD, EUR/AUD and EUR/NZD is calculated indirectly as no Bloomberg forecasts are available*

Source: Amundi Research

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