DEVELOPED COUNTRIES

Macroeconomic outlook

Data as of 26/11/2021

Annual averages (%)	Real GDP growth %				Inflation (CPI, yoy, %)			
	2020	2021	2022	2023	2020	2021	2022	2023
World	**-3.3**	**5.8**	**4.0**	**3.4**	**2.6**	**3.7**	**4.2**	**3.4**
Developed countries	**-5.1**	**5.0**	**3.6**	**2.1**	**0.8**	**2.9**	**3.1**	**2.1**
US	**-3.4**	**5.8**	**3.7**	**2.1**	**1.3**	**4.6**	**4.4**	**2.5**
Japan	**-4.9**	**1.7**	**2.0**	**0.9**	**0.3**	**-0.4**	**0.6**	**0.6**
UK	**-9.7**	**6.9**	**4.3**	**1.8**	**0.9**	**2.4**	**3.6**	**2.4**
Eurozone	**-6.5**	**5.1**	**4.1**	**2.3**	**0.3**	**2.4**	**2.6**	**1.9**
Germany	-4.9	2.9	3.7	2.0	0.3	3.2	2.7	1.8
France	-8.0	6.8	4.2	2.0	0.5	2.1	2.5	2.0
Italy	-9.0	6.3	4.8	2.3	-0.1	1.9	2.5	1.8
Spain	-10.8	4.5	5.6	2.8	-0.3	3.0	2.9	1.8

Source: Amundi Research

- **United States:** after the sharper-than-expected deceleration in Q3, we expect a reacceleration in Q4, as several activity indicators are currently signalling. Looking into 2022, we expect growth to decelerate in sequential terms, while remaining above trend and eventually converging to potential in 2023. The reason for this is that the current inflation spike was generated by significant transitory factors that are expected to progressively fade into next year. And yet, it was also the result of genuinely strong demand and second-round effects, which we expect to be among the factors keeping inflation significantly above the pre-Covid trend over the course of our forecast horizon.
- **Eurozone**: we believe peak growth is now past and from here on out we expect a deceleration in sequential terms. With the reopening boost over, consumers and businesses will have to face the headwinds of higher energy prices and supply bottlenecks. Inflation is also acting as a drag on domestic demand and consumption and not yet being compensated by higher wage growth. Thus, once the transitory factors supporting the 2021 Q4 peak in inflation are over, from mid-2022 we expect the current gap between core and headline inflation to close, with a visible deceleration in inflation, although we expect it to stabilise to slightly higher than pre-Covid trends.
- **United Kingdom:** after the 2021 consumption-led rebound, we expect growth to slow sequentially on headwinds from inflation, tighter policy, Brexit adjustments, and political risks. Domestic demand will remain robust, with consumption supported by a strong labour market and investments underpinned by tax credits, but it will be facing several headwinds, especially from energy and goods inflation. Inflation will stage a slow decline from its 2021 peaks, reaching the target towards the end of the forecast horizon, as commodities and bottlenecks only progressively reduce their upside pressure on prices.
- **Japan:** Q3 GDP came in substantially below expectations, showing a broad weakening in domestic and external demand. As a result, we have lowered our 2021/2022 forecasts, but with little change in the future growth recovery profile. Kishida's stimulus package introduces upside risks to our 2022 forecasts. The state of emergency was lifted at the end of September, and mobility began to improve at a faster pace. We expect private consumption to begin rebounding in late 2021, leading the recovery. Inflation will strengthen more meaningfully in 2022, thanks to fading one-off factors.

Key interest rate outlook

	30-11 2021	Amundi +6M	Consensus +6M	Amundi +12M	Consensus +12M
US	**0.13**	**0/0.25**	**0.22**	**0.5/0.75**	**0.49**
Eurozone	**-0.50**	**-0.50**	**-0.50**	**-0.50**	**-0.46**
Japan	**-0.04**	**-0.1**	**-0.04**	**-0.1**	**-0.06**
UK	**0.10**	**0.50**	**0.64**	**0.75**	**1.06**

Source: Amundi Research

Monetary policy agenda

Central banks	Next meeting
Federal Reserve FOMC	**December 15**
Bank of England MPC	**December 16**
ECB Governing Council	**December 16**
Bank of Japan MPM	**December 17**

Source: Amundi Research

- **Fed:** At the current pace, tapering is expected to end in June, but some participants are starting to suggest that an acceleration could be warranted. It will be hard to argue that the Fed should not speed up tapering if the labour market reports and inflation show continued strength over the next few months. Regarding the timing of the first rate hike, the debate on labour participation and on what full employment will be like in this cycle will be critical as, according to forward guidance, a necessary condition before the first hike is to reach full employment. We expect a first rate hike in June 2022.
- **ECB:** President Lagarde reiterated the dovish message on prospects for rates stability for 2022, with a pushback against recent market pricing. The ECB only moderately reduced its QE path in Q4 vs the previous two quarters, but PEPP is likely to end by March 2022, following recent communication by the ECB President. We expect the ECB to keep its stimulus persisting into 2022, calibrating its size in order to cover for (lower) expected EGB net issuance and to support EU new bonds, as well. The December meeting is likely to provide guidance on stimulus deployment in 2022
- **BoJ:** With inflation at bay, we don't expect the BoJ to change its policy stance to join the camp of policy normalisation. But de facto tapering has been underway for a while, as ETF and JGB purchases declined. In addition, an important discussion for 2022 is whether the BoJ will seize the opportunity of reasonably higher inflation (at around 1%) to make some technical adjustment to its YCC framework. The most-discussed option is a shift of yield target from 10y to 5y, given the latter is more linked to the asset maturities of Japanese banks.
- **BoE:** Strongly surprising markets in under-delivering after having built lift-off expectations, rates were left unchanged at the last meeting with quite a majority of 7-2, including Governor Bailey, recently among the most vocal hawkish members of the MPC contributing to build expectations. However, the prospect of a move in coming months leaves the BOE much further down the road to tightening than its major peers. The latest better-than-expected employment figures released and high inflation prints support the view that the door remains open for a first rate hike in December meeting.

EMERGING COUNTRIES

Macroeconomic outlook

Data as of 26/11/2021

Annual averages (%)	Real GDP growth %				Inflation (CPI, yoy, %)			
	2020	2021	2022	2023	2020	2021	2022	2023
World	-3.3	5.8	4.0	3.4	2.6	3.7	4.2	3.4
Emerging countries	-2.0	6.4	4.3	4.3	3.9	4.3	4.9	4.2
China	2.3	7.7	4.7	4.8	2.5	0.9	2.1	2.0
Brazil	-4.1	4.9	0.5	1.6	3.2	8.3	8.2	3.7
Mexico	-8.2	5.8	2.7	2.2	3.4	5.6	5.2	4.1
Russia	-3.1	4.3	2.6	2.5	3.4	6.6	5.8	4.2
India	-7.1	8.3	6.4	6.4	6.6	5.1	5.8	5.8
Indonesia	-2.0	3.2	4.8	4.9	2.0	1.6	2.8	3.4
South Africa	-6.4	6.9	3.2	2.3	3.3	4.5	5.3	5.1
Turkey	1.6	7.8	4.4	4.0	12.3	18.2	19.1	15.0

Source: Amundi Research

- **China:** October data shows the recovery is still in a fragile stage. The rebound in retail sales was driven mainly by stronger inflation, while the housing slowdown was more acute. In our view, the major culprits behind this round of slowdowns were self-imposed policy constraints, most of which are still in place. In 2022, we expect the overall economy to restart its engine slowly. Once the policy constraints (energy use control, zero-tolerance policy, and sector tightening policies) are removed, one by one, the economy will regain strength on its own without any broad easing.
- **Indonesia:** the acute economic weakness experienced in Q3-21, driven by the new pandemic wave as well as enforced strict lockdowns, has once again led the way to an external rebalancing, resulting in a positive current account (1.5% of GDP). In order to see the external position deteriorating, we need to wait for a more robust rebound and more substantial infra expenditure. Relatively sound external accounts, together with still-subdued inflation (headline at 1.7% YoY and core at 1.3% YoY in October) are allowing the BI to keep its accommodative stance for longer. We don't expect the first rate hike until the second half of next year.
- **Brazil:** while the Covid situation looks to be under control and the economy as a whole has returned to pre-Covid levels, the recovery is facing multiple headwinds. Inflationary pressures are not abating, with volatile one-offs but also spill-overs leading to higher policy rates. As double-digit inflation deteriorates, disposable income and social demands are growing, to which the administration is responding with additional welfare spending that it is fitting under the cap via creative accounting. The markets, unsure of the credibility of the fiscal anchor, are reacting harshly to the news, adding momentum to the vicious cycle dynamic. And while we continue to expect a somehow benign resolution of the 'fiscal trilemma', cyclical damage being done to the economy not likely to grow much next year.
- **CEE-3:** because of semiconductor shortages and new virus waves, we expect growth to decline towards 4% in 2022 from higher levels in 2021. Major risks are weighing on Hungary and Poland as their EU funds approval (NGEU) are still pending, due to some disputes with EU. Upward inflation prints have kept the hiking cycle going on (CNB 125bp, NBP 75bp), with NBH adopting a less orthodox policy framework, with its 1-week depo rate (70bps to 2.5%) above the base rate (30bps to 2.1%). We see the hiking cycle continuing, due to ongoing inflationary pressures and closing output gaps through continuing fiscal support.

Key interest rate outlook

	30-11 2021	Amundi +6M	Consensus +6M	Amundi +12 M	Consensus +12 M
China	3.85	3.85	3.85	3.85	3.85
India	4.00	4.25	4.15	4.75	4.50
Brazil	7.75	10.75	11.25	10.75	10.95
Russia	7.50	8.50	8.15	7.50	7.20

Source: Amundi Research

- **PBoC (China):** in 2022, we expect the PBoC to continue its targeted monetary easing. We expect no policy rate cut or broad RRR cut, especially after the introduction of a special funding tool to support carbon emissions reductions. In its latest monetary policy report, the central bank reiterates its goal to stabilise the macro leverage ratio, implying that broad credit growth will likely be consistent with nominal GDP growth and normalise down further in 2022, albeit at a slower rate than in 2021. We expect overall credit conditions to be less tight moving forward.
- **RBI (India):** the October inflation figure included an increase in headline CPI at 4.5% YoY from 4.3%, still at a very comfortable level for the RBI. In contrast, core CPI (5.9% YoY) and even more the WPI (12.5% YoY) could force the RBI to start its normalisation process at its December meeting, hiking the reverse repo rate to 3.75% (+40bps) and returning to a symmetric corridor around the policy rate (4.0%). A proper hiking cycle through the policy rate is not expected to begin until April 2022. We do expect a gradual tightening in 2022 as long as inflation fluctuates around the RBI's upper range.
- **BCB (Brazil):** the CB hiked rates by 150bps (to 7.75%) and pre-announced another hike of similar magnitude in December. In addition, the CB tightened its forward guidance, stating that policy rates needed to rise "even further" into contractionary territory as a response to rising fiscal concerns. These were driven by the administration's announcement that the spending cap, the ultimate fiscal anchor, would be 'bent' to create the fiscal room needed to alleviate pressing social demands – and additional upside risks to inflation. We see the BCB taking SELIC into double digits in the new year and a terminal rate around 11%, a nearly five-year high.
- **CBR (Russia):** following the October hike of 75bps to 7.5% and the October YoY inflation of 8.1%, we are expecting another hike at the December meeting. In October, the CBR had mentioned faster growth in domestic demand than in supply capacity, leading to increasing inflationary expectations, and had left the door open to further hikes. According to the revised medium-term forecasts, the CBR expects year-end inflation to be in the 7.4-7.9% range, higher than its previous forecasts, and to decline to 4-4.5% by the end of 2022. We expect December inflation to be close to 8% YoY.

Monetary policy agenda

Central banks	Next communication
RBI	December 8
BCB Brazil	December 8
CBR	December 17
PBoC	December 20

Source: Amundi Research

MACRO AND MARKET FORECASTS

Macroeconomic forecasts

(26 November 2021)

Annual averages (%)	Real GDP growth %				Inflation (CPI, yoy, %)			
	2020	2021	2022	2023	2020	2021	2022	2023
US	-3.4	5.8	3.7	2.1	1.3	4.6	4.4	2.5
Japan	-4.9	1.7	2.0	0.9	0.3	-0.4	0.6	0.6
Eurozone	-6.5	5.1	4.1	2.3	0.3	2.4	2.6	1.9
Germany	-4.9	2.9	3.7	2.0	0.3	3.2	2.7	1.8
France	-8.0	6.8	4.2	2.0	0.5	2.1	2.5	2.0
Italy	-9.0	6.3	4.8	2.3	-0.1	1.9	2.5	1.8
Spain	-10.8	4.5	5.6	2.8	-0.3	3.0	2.9	1.8
UK	-9.7	6.9	4.3	1.8	0.9	2.4	3.6	2.4
China	2.3	7.7	4.7	4.8	2.5	0.9	2.1	2.0
Brazil	-4.1	4.9	0.5	1.6	3.2	8.3	8.2	3.7
Mexico	-8.2	5.8	2.7	2.2	3.4	5.6	5.2	4.1
Russia	-3.1	4.3	2.6	2.5	3.4	6.6	5.8	4.2
India	-7.1	8.3	6.4	6.4	6.6	5.1	5.8	5.8
Indonesia	-2.0	3.2	4.8	4.9	2.0	1.6	2.8	3.4
South Africa	-6.4	6.9	3.2	2.3	3.3	4.5	5.3	5.1
Turkey	1.6	7.8	4.4	4.0	12.3	18.2	19.1	15.0
Developed countries	-5.1	5.0	3.6	2.1	0.8	2.9	3.1	2.1
Emerging countries	-2.0	6.4	4.3	4.3	3.9	4.3	4.9	4.2
World	-3.3	5.8	4.0	3.4	2.6	3.7	4.2	3.4

Key interest rate outlook

Developed countries

	30/11/2021	Amundi +6M	Consensus +6M	Amundi +12 M	Consensus +12 M
US	0.13	0/0.25	0.22	0.5/0.75	0.49
Eurozone	-0.50	-0.50	-0.50	-0.50	-0.46
Japan	-0.04	-0.1	-0.04	-0.1	-0.06
UK	0.10	0.50	0.64	0.75	1.06

Emerging countries

	30/11/2021	Amundi +6M	Consensus +6M	Amundi +12 M	Consensus +12 M
China	3.85	3.85	3.85	3.85	3.85
India	4.00	4.25	4.15	4.75	4.50
Brazil	7.75	10.75	11.25	10.75	10.95
Russia	7.50	8.50	8.15	7.50	7.20

Long rate outlook

2Y. Bond yield

	30/11/2021	Amundi +6M	Forward +6M	Amundi +12 M	Forward +12 M
US	0.46	0.8/1.0	0.79	1/1.2	1.05
Germany	-0.76	-0.70/-0.50	-0.74	-0.70/-0.50	-0.74
Japan	-0.12	-0.20/-0.10	-0.13	-0.20/-0.10	-0.13
UK	0.45	0.50/0.7	0.59	0.7/0.8	0.64

10Y. Bond yield

	30/11/2021	Amundi +6M	Forward +6M	Amundi +12 M	Forward +12 M
US	1.42	1.6/1.8	1.57	1.8/2.0	1.67
Germany	-0.35	-0.3/-0.1	-0.27	-0.3/-0.1	-0.22
Japan	0.06	0/0.20	0.11	0/0.20	0.15
UK	0.79	1.0/1.2	0.90	1.2/1.4	0.95

Currency outlook

	30/11/2021	Amundi Q2 2022	Consensus Q2 2022	Amundi Q4 2022	Consensus Q4 2022
EUR/USD	1.13	1.10	1.15	1.14	1.17
USD/JPY	114	113	114	117	115
EUR/GBP	0.85	0.84	0.84	0.83	0.84
EUR/CHF	1.04	1.05	1.08	1.09	1.10
EUR/NOK	10.19	10.30	9.70	9.46	9.65

	30/11/2021	Amundi Q2 2022	Consensus Q2 2022	Amundi Q4 2022	Consensus Q4 2022
EUR/SEK	10.24	10.48	9.90	9.98	9.75
USD/CAD	1.27	1.31	1.24	1.23	1.22
AUD/USD	0.71	0.70	0.75	0.76	0.77
NZD/USD	0.68	0.66	0.72	0.69	0.73
USD/CNY	6.39	6.45	6.44	6.50	6.40

Source: Amundi Research

DISCLAIMER TO OUR FORECASTS

The uncertainty around the macro forecasts is very high, and it triggers frequent reassessments any time fresh high frequency data are available. Our macroeconomic forecasts at this point include a higher qualitative component, reducing the statistical accuracy and increasing the uncertainty through wider ranges around them.

METHODOLOGY

— Scenarios

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

— Risks

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

Amundi ASSET MANAGEMENT | Research

CROSS ASSET
INVESTMENT STRATEGY

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