DEVELOPED COUNTRIES

Macroeconomic outlook

Data as of 29/03/2020

Annual averages (%)	Real GDP growth %			Inflation (CPI, yoy, %)		
	2019	2020 range	2021	2019	2020	2021
World	**3.1**	**-0.9/0.3**	**3.1/3.8**	**3.0**	**3.4**	**2.8**
Developed countries	**1.7**	**-3.4/-1.9**	**2.8/3.5**	**1.5**	**1.5**	**1.6**
US	**2.3**	**-3.1/-1.9**	**3.0/4.0**	**1.8**	**1.6**	**1.6**
Japan	**1.2**	**-3.0/-1.9**	**1.0/2.0**	**0.7**	**0.7**	**0.6**
UK	**1.4**	**-5.0/-3.2**	**3.1/3.8**	**1.8**	**1.6**	**1.7**
Eurozone	**1.2**	**-5.2/-3.0**	**3.2/3.8**	**1.2**	**0.8**	**1.3**
Germany	0.6	-5.5/-3.1	3.1/3.7	1.5	1.0	1.3
France	1.2	-5/-3	3.2/3.9	1.3	0.9	1.3
Italy	0.3	-6.1/-4.9	3.1/3.6	0.7	0.3	1.0
Spain	2.0	-5.8/-4.2	3.0/3.7	0.7	0.6	1.0

Source: Amundi Research

- **United States:** Heading towards a sharp contraction in H1; H2 recovery shaped by the duration of the crisis and by the effectiveness of the unprecedented policy response, once the post-containment normalization phase starts. While a state of emergency has been declared by the President, almost all states are implementing emergency measures with various degrees of severity, from preventing gatherings to statewide quarantines. Incoming data in late March show sharp drops in business and consumer sentiment, and an unprecedented rise in weekly jobless claims (3,2 millions).
- **Eurozone:** The Eurozone economy is entering a recession as after Italy, almost European countries are facing severe Covid-19 outbreak and have implemented increasingly stricter measures of containment, with ripple effects coming via the fall in domestic demand, disruption of supply chains, and loss of external demand. Almost all sectors of economic activity have been affected. The most likely scenario is a U-shaped type of recovery, with the belly of the U dependent on the length of the public health emergency and on the effectiveness of fiscal packages delivered to support the economy once the normalisation phase starts.
- **Japan:** By the end of March the overseas pandemic risk to the economy had moved to an endogenous one with the number of cases escalating in Tokyo and large cities. After having postponed the Tokyo Olympics (likely to 2021), Abe is not yet to the point of taking the decision to implement stricter lockdown measures. The Japanese economy is expected to fall into a profound recession as most economies go through a double shock of collapses in both internal and external demand. Capital investment in Japan is narrowly linked to its export dynamics.
- **United Kingdom:** The UK economy is set to face recession this year. The total number of Covid-19 cases has risen to worrisome levels, prompting the government to implement increasing limitations on people's movement and economic activity, which will significantly drag down H1 economic growth at least. An unprecedented governmental, fiscal and monetary policy response has followed, with the goals of containing the spreading of the virus, helping households and businesses to weather the storm and preparing the ground for the recovery, once the emergency is over.

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

Key interest rate outlook

	31-03 2020	Amundi + 6m.	Consensus Q2 2020	Amundi + 12m.	Consensus Q4 2020
US	**0.13**	**0.25**	**0.13**	**0.25**	**0.15**
Eurozone	**-0.50**	**-0.50**	**-0.64**	**-0.50**	**-0.66**
Japan	**-0.1**	**-0.2**	**-0.16**	**-0.2**	**-0.28**
UK	**0.1**	**0.00**	**0.20**	**0.00**	**0.20**

Source: Amundi Research

- **Fed:** The Fed has moved rapidly from words to deeds: 1) cutting rates (in two rounds) by a total of 150bp; 2) announcing an open-ended QE on Treasuries and MBS; 3) introducing support facilities for the CP market and primary dealers' liquidity; and 4) providing $300 billion in new financing available until the end September 2020 to support credit via three facilities: (1) Primary Market Corporate Credit Facility (PMCCF) to support new bond and loan issuance, (2) Secondary Market Corporate Credit Facility (SMCCF) to provide liquidity for outstanding corporate bonds, and (3) Term Asset-Backed Securities Loan Facility (TALF) to support issuance of asset-backed securities (ABS).
- **ECB:** The ECB acted twice: at its latest meeting it expanded QE, through additional net asset purchases of EUR 120bn, and approved liquidity tools and new long-term loans full allotment of liquidity at very preferential rates to support SME refinancing. At the same time, ECB banking supervision provided temporary capital and operational relief in reaction to the coronavirus. The ECB announced later an additional QE programme worth EUR 750bn (the new Pandemic Emergency Purchase Programme (PEPP)) with ample flexibility (no issuer limit constraints).
- **BoJ:** The BoJ joined other central banks in calling for more accommodation. In line with statements by other major central banks, the BoJ announced that it would provide ample liquidity and ensure stability in financial markets through appropriate market operations and asset purchases. The BoJ said it would inject ample funds via market operations to make sure banks have enough funding through the end of the Japanese fiscal year, on March 31 and announced measures to maintain stability of the repo market.
- **BoE:** The MPC reduced Bank Rate by 65 basis points, from 0.75% to 0.1%. It also announced an increase in the stock of asset purchases by £200 billion to a total of £645 billion. The majority of additional asset purchases will be of UK government bonds but some non-financial investment-grade corporate bonds will also be purchased. A new Term Funding scheme with additional incentives for Small and Medium-sized Enterprises (TFSME) was introduced.

Monetary policy agenda

Central banks	Next meeting
Federal Reserve FOMC	**April 29**
ECB Governing Council	**April 30**
Bank of Japan MPM	**April 27**
Bank of England MPC	**May 7**

Source: Amundi Research

EMERGING COUNTRIES

Macroeconomic outlook

Data as of 30/03/2020

Annual averages (%)	Real GDP growth %			Inflation (CPI, yoy, %)		
	2019	2020 range	2021	2019	2020	2021
World	3.1	-0.9/0.3	3.1/3.8	3.0	3.4	2.8
Emerging countries	4.1	0.8/1.7	3.3/4.0	4.0	4.6	3.5
Brazil	1.1	-3.2/-1.8	-0.1/0.9	3.7	4.2	4.5
Mexico	-0.1	-3.5/-1.5	-0.2/0.8	3.6	3.6	3.6
Russia	1.3	-1/1	1.0/2.5	4.5	3.5	4.0
India	5.3	1.2/2.6	3.6/4.9	3.7	6.4	4.4
Indonesia	5.0	3.3/4.1	4.1/5.0	2.8	2.8	3.3
China	6.2	2.3/3.3	5.0/5.6	2.9	4.0	2.0
South Africa	0.2	-5/-3	0.8/1.0	4.6	4.1	4.4
Turkey	0.8	1.3/1.8	2.3/2.5	15.5	10.9	9.2

Source: Amundi Research

- **China:** The string of data released for January and February were terribly weak across the different sectors of the economy (in household consumption, investments and trade). These data have triggered a sharp downward revision in our growth expectations for 2020, now in a range of 2.7%-3.7%. The policy mix remains accommodative, in particular on the fiscal side, with local governments allowed to retain more tax revenues and issue more than half of their annual quotas in the first months of the year. Economic activity is slowly resuming, but downside risks persist: a second wave of outbreak and vanishing external demand for Chinese products with the world in recession.
- **Mexico:** Economic performance in 2020 is expected to trend far lower than in 2019. Mexican GDP will be hit by three major shocks: the Covid-19 outbreak, the recession of its main trade partner, the US (destination of around 80% of its total exports), and low oil prices. Policy mix is turning accommodative at a very slow pace. Banxico cut its policy rates by 50bps and much more has to come. The unclear strategy in terms of outbreak containment and fiscal policy are expected to extend economic weakness. On top of that, low oil prices are darkening fiscal sustainability (already fragile, which is adding Pemex to sovereign liabilities).
- **Turkey** entered the public health emergency with strong momentum, due to a significant credit impulse and, with a debt to GDP ratio of 31%, has fiscal space. In an emergency meeting, the CBRT decided to cut rate by 100bps to 9.75%, and announced other liquidity-related measures. Erdogan unveiled a robust USD 15.4 billion economic package that will bolster the ability of businesses and the public to withstand the short-term economic fallout. The 2% of GDP in fiscal measures and monetary expansion are good first steps but more is likely to come.
- **Russia:** Record low oil prices, combined with the global slowdown expected from the Covid-19 crisis has prompted Russia to take a set of measures. While the central bank left the policy rate unchanged during the March meeting, a series of measures to support SMEs and households has been announced. The measures do not seem significant in terms of GDP, but more may come over time. Russia has substantial assets in the National Wealth Fund, which could compensate for the shortfall in oil revenues for several years. Overall public finances remain healthy with very low debt and hitherto fiscal surpluses.

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Key interest rate outlook

	31-03 2020	Amundi + 6m.	Consensus Q2 2020	Amundi + 12m.	Consensus Q4 2020
China	4.05	3.85	-	3.85	-
India	4.4	4.15	4.95	4.15	4.9
Brazil	3.75	3.5	3.4	3.5	3.6
Russia	6	5.5	5.95	5.5	5.95

Source: Amundi Research

- **PBoC (China):** PBoC Monetary Policy has been running at a pace only marginally faster since the Covid-19 outbreak, with targeted RRR cuts, and slight LPR and MLF reductions. Considering the sharp decline in economic activity in January and February, together with the gradual recovery in activity and the big risks lying ahead in terms of a second-wave outbreak and vanishing external demand for Chinese products, the PBoC is likely to intervene more aggressively. A benchmark deposit rate cut is becoming more and more likely, certainly if the March data fail to show the expected gradual improvement.
- **RBI (India):** Due to the destructive force of Covid-19, the RBI moved its bi-monthly monetary policy meeting up by one week, and cut its reference policy rate by 75bps from 5.15% to 4.4%. The RBI also lowered its reverse repo fixed rate by 90bps (4.0%) to make passive deposit funds with the RBI unattractive for banks, with the goal of expanding the credit supply. The policy mix is still being led by monetary policy, with little room ahead due to still-high headline inflation. It is clear that the RBI needs to do more to improve the transmission mechanism through the banks to the real economy.
- **BCB (Brazil):** Following 50bps in preventive rates cuts in response to the Covid-19 outbreak, the BCB has announced in late March "the highest liquidity injections and capital relief ever made" (BCB Governor): BRL 1.2 trn in liquidity. The many measures announced aim to provide liquidity to the financial system and to increase lending. The BCB was already at the end of a long and sizable easing cycle and real rates were negative. With not much easing room to work with, the BCB needs to turn to different tools in supporting the economy. Marginal further easing remains a possibility.
- **CBR (Russia):** After cutting its policy rate by 25 bps to 6% in February, the CBR left its policy rate unchanged at the March meeting. While inflation is running well below the 4% target, the CBR mentioned changes in external conditions related to the sharp drop in oil prices and the threat of global recession from the spread of coronavirus. The CBR expects a temporary acceleration in inflation resulting from the depreciation of the rouble to be offset by disinflationary pressures from slowing domestic and global demand.

Monetary policy agenda

Central banks	Next communication
PBoC	**April 20**
RBI	**June 2**
BCB Brazil	**May 5**
CBR	**April 24**

Source: Amundi Research

MACRO AND MARKET FORECASTS

Macroeconomic forecasts (29 March 2020)

Annual averages (%)	Real GDP growth %			Inflation (CPI, yoy, %)		
	2019	2020 range	2021	2019	2020	2021
US	2.3	-3.1/-1.9	3.0/4.0	1.8	1.6	1.6
Japan	1.2	-3.0/-1.9	1.0/2.0	0.7	0.7	0.6
Eurozone	1.2	-5.2/-3.0	3.2/3.8	1.2	0.8	1.3
Germany	0.6	-5.5/-3.1	3.1/3.7	1.5	1.0	1.3
France	1.2	-5/-3	3.2/3.9	1.3	0.9	1.3
Italy	0.3	-6.1/-4.9	3.1/3.6	0.7	0.3	1.0
Spain	2.0	-5.8/-4.2	3.0/3.7	0.7	0.6	1.0
UK	1.4	-5.0/-3.2	3.1/3.8	1.8	1.6	1.7
Brazil	1.1	-3.2/-1.8	-0.1/0.9	3.7	4.2	4.5
Mexico	-0.1	-3.5/-1.5	-0.2/0.8	3.6	3.6	3.6
Russia	1.3	-1/1	1.0/2.5	4.5	3.5	4.0
India	5.3	1.2/2.6	3.6/4.9	3.7	6.4	4.4
Indonesia	5.0	3.3/4.1	4.1/5.0	2.8	2.8	3.3
China	6.2	2.3/3.3	5.0/5.6	2.9	4.0	2.0
South Africa	0.2	-5/-3	0.8/1.0	4.6	4.1	4.4
Turkey	0.8	1.3/1.8	2.3/2.5	15.5	10.9	9.2
Developed countries	1.7	-3.4/-1.9	2.8/3.5	1.5	1.5	1.6
Emerging countries	4.1	0.8/1.7	3.3/4.0	4.0	4.6	3.5
World	3.1	-0.9/0.3	3.1/3.8	3.0	3.4	2.8

Key interest rate outlook

Developed countries

	31/03/2020	Amundi + 6m.	Consensus Q2 2020	Amundi + 12m.	Consensus Q4 2020
US	0.13	0.25	0.13	0.25	0.15
Eurozone	-0.50	-0.50	-0.64	-0.50	-0.66
Japan	-0.1	-0.2	-0.16	-0.2	-0.28
UK	0.1	0.00	0.20	0.00	0.20

Emerging countries

	30/03/2020	Amundi + 6m.	Consensus Q2 2020	Amundi + 12m.	Consensus Q4 2020
China	4.05	3.85	-	3.85	-
India	4.4	4.15	4.95	4.15	4.9
Brazil	3.75	3.5	3.4	3.5	3.6
Russia	6	5.5	5.95	5.5	5.95

Long rate outlook

2Y. Bond yield

	31/03/2020	Amundi + 6m.	Forward + 6m.	Amundi + 12m.	Forward + 12m.
US	0.23	0.25/0.5	0.30	0.25/0.5	0.35
Germany	-0.69	-0.8/-0.60	-0.74	-0.70/-0.50	-0.75
Japan	-0.14	-0.30/-0.20	-0.13	-0.30/-0.20	-0.13
UK	0.15	0/0.25	0.15	0/0.25	0.14

10Y. Bond yield

	31/03/2020	Amundi + 6m.	Forward + 6m.	Amundi + 12m.	Forward + 12m.
US	0.69	0.5/0.7	0.79	0.8/1	0.86
Germany	-0.48	-0.8/-0.5	-0.45	-0.50/-0.30	-0.42
Japan	0.02	-0.10/0.10	0.09	0/0.2	0.13
UK	0.37	0.20/0.4	0.36	0.4/0.6	0.43

Currency outlook

	30/03/2020	Amundi + 6m.	Consensus Q3 2020	Amundi + 12m.	Consensus Q1 2021
EUR/USD	1.107	1.06	1.12	1.15	1.14
USD/JPY	108	106	107	105	106
EUR/GBP	0.89	0.92	0.86	0.85	0.86
EUR/CHF	1.06	1.05	1.07	1.10	1.07
EUR/NOK	11.69	11.83	10.27	11.01	10.65

	30/03/2020	Amundi + 6m.	Consensus Q3 2020	Amundi + 12m.	Consensus Q1 2021
EUR/SEK	11.02	11.55	10.59	10.25	10.54
USD/CAD	1.41	1.46	1.35	1.30	1.36
AUD/USD	0.61	0.59	0.67	0.72	0.65
NZD/USD	0.60	0.55	0.64	0.68	0.63
USD/CNY	7.10	7.10	6.97	7.10	6.99

Source: Amundi Research

DISCLAIMER TO OUR FORECASTS

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A global recession is our base case today

1. How deep?

- The deepness depends on the virus longevity in the countries affected and the consequent gradual to complete lockdown in most of them. Downturn is evident in domestic demand (across its components at different degree) and in trade dynamics. We assume the largest downturn in the lockdown quarter and a milder downturn to follow. We monitor outbreak developments and lockdown/resumption of the economic activity.

2. How long?

- The timeline depends on the deepness of the economic disruption together with the credit conditions and the rise of corporate default, magnifying the financial markets turbulence and therefore the impact on the economy.
- The timeline of the shock has extended, and overall a peak is expected by May to June 2020. The global economy was showing signs of growth stabilization during the 4Q2020.
- The timeline is also a function of the specific developments of the outbreak together with pre-existent fragilities.

3. The fiscal impact

- The impacts of micro and macro fiscal measures are not included in our forecasts but it's fair to assume a normalization in the financial and liquidity conditions driven by Monetary Policy authorities

Financial targets

- Financial targets are reviewed on the same line and include policy actions implemented on a daily basis.

Amundi Research Center

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