

DEVELOPED COUNTRIES

Macroeconomic outlook

Data as of 24/05/2021						
Annual averages (%)	Real GDP growth %			Inflation (CPI, yoy, %)		
	2020	2021	2022	2020	2021	2022
			range			
World	-3.5	5.8/6.7	3.7/4.5	2.6	3.1	3.2
Developed countries	-5.2	5.1/6.0	3.2/3.9	0.7	2.1	1.8
US	-3.5	6.8/8.2	3.3/4.2	1.3	3.1	2.5
Japan	-4.9	2.5/3.1	2.8/3.4	0.0	-0.4	0.6
UK	-9.8	5.5/6.1	4.5/5.1	0.9	1.6	2.2
Eurozone	-6.7	4.0/4.6	3.1/3.8	0.3	1.8	1.5
Germany	-5.1	2.7/3.3	3.0/3.6	0.5	2.4	1.7
France	-8.2	5.6/6.2	2.9/3.5	0.5	1.5	1.6
Italy	-8.9	3.7/4.3	3.2/3.8	-0.1	1.5	1.5
Spain	-10.8	4.6/5.2	4.4/5.0	-0.3	1.4	1.3

Source: Amundi Research

- **United States:** Thanks to an extremely accommodative policy mix, the US economy continues to recover strongly, most likely retuning to pre-pandemic levels as we write. We recently revised up both our growth and inflation outlook for 2021. With strong base effects at play in the second quarter, inflation is expected to spike and then moderate while remaining very volatile in the near-term on demand/supply mismatch, amplified by low inventories and rising input costs. The Fed will most likely consider these developments in line with their goal and continue to read these inflationary pressures as temporary.
- **Eurozone:** Q1 GDP data proved stronger than expected, with a milder contraction than the extension of restrictions would have implied. Q2 should see moderate growth as restrictions are removed, followed by a stronger acceleration from the summer as restrictions are broadly lifted and vaccination campaigns progress. Governments should continue to offer fiscal support until the recovery is on track, while the ECB remains accommodative. Inflation should progress along an upward trend, remaining volatile on transitory factors, while temporarily overshooting the target in Q4 before reverting below trend in 2022.
- **Japan:** Q1 GDP came in much weaker than expected, with all sectors registering some moderation. The contraction in domestic demand, particularly in private consumption, was the main culprit amid soft restrictions on mobility. Looking ahead, Japan's slow pace of vaccination is concerning, making it vulnerable to new waves of infection and the spreading of variants. In contrast to brisk external demand, consumption is only likely to recover at a slow pace, curbing the increase in inflation.
- **United Kingdom:** With the reopening schedule and the vaccination campaigns meeting the milestones of the government plan, we expect a full reopening by June 21. Given stronger-than-expected signs of economic revival, we revised up our growth projections, expecting the economy to pick up from Q2 and enjoy strong momentum in the second half of the year. Inflation should move higher on transitory factors, while remaining broadly within target and not compromising the supportive monetary policy stance, which should work in tandem with the recently enhanced fiscal policy to steadily underpin the recovery.

Key interest rate outlook

	28-05 2021	Amundi +6M	Consensus +6M	Amundi +12M	Consensus +12M
US	0.13	0/0.25	0.15	0/0.25	0.16
Eurozone	-0.52	-0.50	-0.51	-0.50	-0.51
Japan	-0.02	-0.1	-0.03	-0.1	-0.05
UK	0.10	0.1	0.11	0.1	0.13

Source: Amundi Research

- **Fed:** Fed Chair Jerome Powell reaffirmed at the April FOMC meeting that it is not yet time to talk about tapering, stressing that they were a long way from their goals and that it would be "some time" until "substantial further progress" is made. The labour market is the priority: the timing of the tapering will depend on its evolution. They will need a string of strong employment months before they start thinking and communicating about tapering, probably at the Jackson Hole conference in August. The Fed is sticking with the view that strong inflation over the coming quarters will be transitory as it will be driven by base effects and bottlenecks.
- **ECB:** As expected, the April meeting did not deliver any policy news, but the ECB remained dovish and reconfirmed its very accommodative monetary policy stance. The ECB President dismissed any discussion on eventual tapering as premature, and stressed in relation to other jurisdictions the need to maintain monetary stimulus for quite some time, as the economy still has a long way to go until it has "crossed the pandemic bridge". The focus of the June meeting is likely to be the quarterly review of PEPP purchases.
- **BoJ:** After the BoJ's upgrade to its growth forecasts on 28 April, Japan's recovery outlook has dimmed again, with the latest growth and inflation data both surprising on the downside. With a low vaccination rate (<5 shots per 100 people), the majority of the country returned to a state of emergency amid rising infections. This development, albeit unlikely to trigger additional stimulus in the near term, suggests the BoJ will likely stay put for longer.
- **BoE:** In its last meeting, the Bank of England kept the overall target for its asset purchase programme unchanged at GBP 895bn, despite one member voting in favour of reducing the overall size. At the same time, since QE in the UK is not open-ended and since its bond buying is well ahead of schedule, the BoE announced a slowdown in its rate of bond buying. Despite a notable upward revision to the 2021 GDP forecast from 5% to 7.25%, the MPC sent an overall dovish message as tightening remains a long way off.

Monetary policy agenda

Central banks	Next meeting
Federal Reserve FOMC	June 16
ECB Governing Council	June 10
Bank of Japan MPM	June 18
Bank of England MPC	June 24

Source: Amundi Research

EMERGING COUNTRIES

Macroeconomic outlook

Annual averages (%)	Data as of 24/05/2021					
	Real GDP growth %			Inflation (CPI, yoy, %)		
	2020	2021	2022 range	2020	2021	2022
World	-3.5	5.8/6.7	3.7/4.5	2.6	3.1	3.2
Emerging countries	-2.2	6.4/7.2	4.0/5.0	4.0	3.9	4.1
Brazil	-4.1	4.2/5.2	1.0/3.0	3.2	6.5	4.1
Mexico	-8.2	5.4/6.4	2.0/4.0	3.4	4.5	3.4
Russia	-3.1	3.0/4.0	2.0/3.5	3.4	5.1	4.4
India	-7.1	9.0/10.2	5.1/6.5	6.6	5.1	6.2
Indonesia	-2.0	3.8/4.6	4.6/5.6	2.0	2.0	3.2
China	2.3	8.8/9.4	4.9/5.5	2.5	1.4	2.5
South Africa	-6.9	3.1/4.1	2.1/3.1	3.2	4.4	4.7
Turkey	1.6	3.6/4.6	3.7/4.7	12.3	15.6	11.5

Source: Amundi Research

- **China:** April data came in weaker than expected. The fall in retail sales and industrial production adds uncertainty to our sanguine outlook of a re-acceleration of sequential growth in Q2. On the bright side, vaccination has finally sped up. With a capacity of 20mn vaccines per day, China can vaccinate 70% of its population by July. Inflation wise, although the PPI is heading towards 8% yoy, it is set to lose steam in the coming months on weaker policy momentum. In contrast, CPI inflation remained soft, with food inflation dropping and core inflation strengthening slowly.
- **India:** With Covid cases finally peaking at national level, and not only in the big cities (295K in the week to 19th May from 391K in the week to 9th May), we confirm GDP growth of 9%-10% YoY in real terms in FY22. In the meantime, a favourable base effect should keep headline inflation within the RBI target range, despite the pressure on input prices, as shown by the sharp increase in the WPI to 10.5% YoY in April. Far from rushing to any early normalisation, monetary policy should remain accommodative, directing the supportive policy mix.
- **Brazil:** After a brutal April and early May, mobility and activity have rebounded fast, suggesting another soft patch on foot of a Covid wave has passed – in fact, mobility is running worryingly ahead of Covid dynamics. Annual headline inflation is set to peak way above target (around 8%Y) over the summer months but should moderate thereafter. The BCB is hiking in 75bp clips but is still determined to only partially renormalise – we think it will have to go higher. The improved Covid situation has allowed the authorities to shift some focus on to reforms, such as the privatisation of Petrobras and tax reform.
- **Central Eastern Europe:** Headline inflation surged in April, mainly driven by higher fuel and food prices. In Czech Rep. and Hungary, the excise duty hike on alcohol and tobacco also weighed on inflation. Headline inflation is expected to slow down in Q3 but remain high – close to or above the upper bound of the central banks' target ranges – while inflationary pressures should persist (supply-side shortages, high commodity prices, global recovery, wage growth). Given this trend, CB comments have become more hawkish. Monetary policy normalisation is in the pipeline, with the CNB the first to hike, while the NBP and NBH should start tapering their QE.

Key interest rate outlook

	31-05 2021	Amundi +6M	Consensus +6M	Amundi +12 M	Consensus +12 M
China	3.85	3.85	3.85	3.95	3.85
India	4.00	4.00	4.00	4.25	4.20
Brazil	3.50	6.50	5.15	6.50	5.85
Russia	5.00	5.75	5.50	6.00	5.50

Source: Amundi Research

- **PBoC (China):** Total growth in social financing was lower than expected at 11.7% yoy in April, another downside surprise following March's fall. Following these two negative data reports, we have further downgraded our year-end target for TSF from 11% to 10.5%, assuming a moderate reduction in the debt to GDP ratio in 2021. The decline should come from slower bank lending and smaller corporate bond issuance, as the government limits incremental lending to the housing market and LGFVs. As deleveraging is already underway, we expect the PBoC to stay behind the curve and to leave LPR unchanged.
- **RBI (India):** After leaving the policy rate unchanged in early April (at 4.0%), the subsequent resurgence of the pandemic prompted the RBI to adopt additional measures on 5th May, in addition to the liquidity and credit support and the debt restructuring in the banking system. Notwithstanding the fact that the inflation rate has been declining more comfortably within the target range (4.3% YoY in April from 5.5% in March), and given that the pandemic is expected to peak between May/June, we do not expect the RBI to resume its easing cycle in 2021.
- **BCB (Brazil):** The central bank is on a mission to 'partially' renormalise rates in a front-loaded fashion. In line with that strategy, the BCB hiked rates again in May by 75bps (to 3.50%) and pre-announced another hike of the same size at the next meeting in June. But the statement was slightly on the dovish side, highlighting the fact that anything more than a partial withdrawal of monetary stimulus would risk putting inflation below target in 2022. We are more worried about international commodity prices and their impact on inflation and believe that a full normalisation of monetary policy will be necessary already this year (6.50%).
- **CBR (Russia):** On 24 April, the Central Bank of Russia cut its policy rate by 50bps to 5.5% and announced that it had switched to an accommodative monetary policy. It remains open to further rate cuts. The disinflationary pressures from weak demand outweigh temporary pro-inflationary factors such as the weakening rouble. Annual inflation is expected to reach 3.8-4.8% by year-end, and then fall to 4%, which is the target. The CBR also revised its macro forecasts for 2020-21. Given the expected deceleration in economic activity, we expect the CBR to cut rates by 100bps by year-end.

Monetary policy agenda

Central banks	Next communication
PBoC	June 21
RBI	June 4
BCB Brazil	June 16
CBR	June 11

Source: Amundi Research

MACRO AND MARKET FORECASTS

Macroeconomic forecasts

(24 May 2021)

Annual averages (%)	Real GDP growth %			Inflation (CPI, yoy, %)		
	2020	2021	2022	2020	2021	2022
	range					
US	-3.5	6.8/8.2	3.3/4.2	1.3	3.1	2.5
Japan	-4.9	2.5/3.1	2.8/3.4	0.0	-0.4	0.6
Eurozone	-6.7	4.0/4.6	3.1/3.8	0.3	1.8	1.5
Germany	-5.1	2.7/3.3	3.0/3.6	0.5	2.4	1.7
France	-8.2	5.6/6.2	2.9/3.5	0.5	1.5	1.6
Italy	-8.9	3.7/4.3	3.2/3.8	-0.1	1.5	1.5
Spain	-10.8	4.6/5.2	4.4/5.0	-0.3	1.4	1.3
UK	-9.8	5.5/6.1	4.5/5.1	0.9	1.6	2.2
Brazil	-4.1	4.2/5.2	1.0/3.0	3.2	6.5	4.1
Mexico	-8.2	5.4/6.4	2.0/4.0	3.4	4.5	3.4
Russia	-3.1	3.0/4.0	2.0/3.5	3.4	5.1	4.4
India	-7.1	9.0/10.2	5.1/6.5	6.6	5.1	6.2
Indonesia	-2.0	3.8/4.6	4.6/5.6	2.0	2.0	3.2
China	2.3	8.8/9.4	4.9/5.5	2.5	1.4	2.5
South Africa	-6.9	3.1/4.1	2.1/3.1	3.2	4.4	4.7
Turkey	1.6	3.6/4.6	3.7/4.7	12.3	15.6	11.5
Developed countries	-5.2	5.1/6.0	3.2/3.9	0.7	2.1	1.8
Emerging countries	-2.2	6.4/7.2	4.0/5.0	4.0	3.9	4.1
World	-3.5	5.8/6.7	3.7/4.5	2.6	3.1	3.2

Key interest rate outlook

Developed countries

	28/05/2021	Amundi +6M	Consensus +6M	Amundi +12 M	Consensus +12 M
US	0.13	0/0.25	0.15	0/0.25	0.16
Eurozone	-0.52	-0.50	-0.51	-0.50	-0.51
Japan	-0.02	-0.1	-0.03	-0.1	-0.05
UK	0.10	0.1	0.11	0.1	0.13

Emerging countries

	31/05/2021	Amundi +6M	Consensus +6M	Amundi +12 M	Consensus +12 M
China	3.85	3.85	3.85	3.95	3.85
India	4.00	4.00	4.00	4.25	4.20
Brazil	3.50	6.50	5.15	6.50	5.85
Russia	5.00	5.75	5.50	6.00	5.50

Long rate outlook

2Y. Bond yield

	28/05/2021	Amundi +6M	Forward +6M	Amundi +12 M	Forward +12 M
US	0.14	0.20/0.35	0.29	0.35/0.50	0.46
Germany	-0.66	-0.70/-0.50	-0.68	-0.70/-0.50	-0.68
Japan	-0.12	-0.20/-0.10	-0.12	-0.20/-0.10	-0.14
UK	0.05	0/0.25	0.16	0.25/0.5	0.25

10Y. Bond yield

	28/05/2021	Amundi +6M	Forward +6M	Amundi +12 M	Forward +12 M
US	1.59	1.8/2.0	1.75	2.1/2.3	1.89
Germany	-0.19	-0.20/0.0	-0.09	-0.10/+0.1	-0.02
Japan	0.08	0/0.20	0.13	0/0.20	0.17
UK	0.79	0.9/1.1	0.98	1.1/1.3	1.08

Currency outlook

	28/05/2021	Amundi Q3 2021	Consensus Q3 2021	Amundi Q1 2022	Consensus Q1 2022
EUR/USD	1.219	1.186	1.21	1.16	1.21
USD/JPY	110	112	109	114	110
EUR/GBP	0.86	0.84	0.86	0.85	0.85
EUR/CHF	1.10	1.12	1.11	1.12	1.12
EUR/NOK	10.20	9.73	9.89	10.11	9.80
EUR/SEK	10.13	9.88	10.00	10.06	9.90
USD/CAD	1.21	1.19	1.22	1.24	1.23
AUD/USD	0.77	0.80	0.78	0.75	0.79
NZD/USD	0.73	0.73	0.72	0.69	0.73
USD/CNY	6.37	6.50	6.47	6.60	6.42

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.

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