Risk factors

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The table below presents risk factors with judgmental probabilities (i.e. not market based). It also develops the possible market impacts.

Risk # 1	20% probability	Major European slowdown

Analysis | The Eurozone economic momentum has been difficult to decipher since the beginning of 2019, as very weak manufacturing surveys contrasted sharply with much more robust services and labour market data that pointed to a continuation of the recovery. So far, spillovers from the manufacturing shocks (mostly related to specific difficulties in the car sector and trade uncertainties caused by US protectionism and the hard Brexit risk) to the rest of the economy have been limited. However, this situation could change should manufacturing not recover, or deteriorate further, in the coming months. One of the potential triggers for such a situation would be a hard Brexit, whose risk has however been presumably delayed to at least October 2019. On the other hand, new US tariffs on European goods are a possibility that cannot be ignored and would have very detrimental effects (through uncertainty and trade) on European industry, raising the probability of an economy-wide slowdown.

Market impact | As the ECB would be left with few tools to face a slowdown, and as a coordinated fiscal stimulus would be very difficult to decide due to the complex European institutional and political environment, a major slowdown would clearly be negative for European assets and the Euro

Risk # 2	15% probability	Renewed escalation in trade tensions between the US and China

Analysis | The US announced it would delay the tariff increase on $200bn worth of China's products, which was scheduled for 1st March. This seems to have reflected meaningful progress made in several rounds of US/China trade talks into 2019. Such talks seem to have put more focus on core topics, including structural issues and enforcement, as well as technical details. If additional progress could be achieved, there could be potentially another Trump/Xi meeting, and the probability for US/China to reach some kind of deal to avoid tariff increase and to prevent further escalation would be appreciably higher than in late 2018. This seems to be helping reduce some downside risks in the near term, and to have helped market sentiment recover somewhat. That said, uncertainty remains relatively high, and it could take much longer to ultimately solve the problems, as many complicated issues are involved. We cannot yet rule out a severe confrontation between the US and China.

Market impact | Tariffs have started to hit trade, and uncertainty has been weighing on business climate (especially in the manufacturing sector) and on the Chinese economy. Subsequently some private-investment projects have probably been postponed. Even in the absence of a large-scale trade war, global trade, which has started to slow, may thus slow down further. A chain reaction would cause a fall in global trade of goods while exacerbating local inflationary pressures in the short run (mainly in the US), putting central banks into a corner. This would cause a general rise in risk aversion (fear of a global downturn). At the end of the day, a more severe confrontation would only make losers.

Risk # 3	15% probability	No-deal Brexit

Analysis | The Heads of State reached agreement (11 April) after heated discussions on the length of the extension. The date of 31 October is presented as a deadline. We identify 3 families of scenarios (with several options in each). It is too early to say more. We must continue to closely monitor the positions taken by MPs and the government. The probabilities below are above all indicative and subject

to change insofar as the political situation can change rapidly. We see 3 scenarios (S1, S2 and S3).
S1 (50%). Deal before the new deadline (20% ratification before 22 May, 30% after 22 May and before 31 Oct). The domestic pressure to reach a deal will remain strong in the coming months. Indeed, the British are exasperated (and the MPs too). The economy has weakened due to uncertainty. If current negotiations with the Labour fail, Theresa May continues to promise "soon" (subject to Labour agreement) a series of (binding) indicative votes: this is the official 'plan B'. In that case, keep in mind that a solution might be found within just a few days or weeks. Moreover, even if the date of 30 June is not mentioned in the resolution, the end of June is politically important and symbolic for at least two reasons: (1) because progress will be reviewed at the next European council (20-21 June) and (2) because the new MEPs (if elected) would not sit in Parliament until 2 July (the date on which the MEPs will take office).

S2 (35%). Prolonged extension beyond 31 Oct. Although this option is a priori (firmly) excluded, we believe that some choices (referendum or elections for instance) – if decided late – would require an additional delay. Under new conditions, EU countries (and in particular France) would reconsider their (its) position. It's all the more likely that there's no strong rationale behind this new deadline. It was only set to maintain pressure on the UK and it is the result of compromise.

S3 (lowered from 20% to 15%). No deal. The flexible nature of the extension makes an accidental 'no deal' even less likely (i.e. the 'disorderly Brexit' has a lower probability). Bear in mind that the 'no deal' is still rejected by a large majority of MPs (of which a growing part of Tories) and by the vast majority of the EU countries. Subsequently, a 'no deal' would be a 'managed no deal'. Indeed, given the uncertainty, there is a strong incentive to continue to prepare for this scenario.

Market impact | Uncertainty is likely to rise approaching the new deadline (31 Oct) and to drop again if another extension is secured. In the event that the outcome is unfavourable for the UK, we would see a weakening of the GBP and below-trend GDP growth. But should a deal be approved sooner than expected, sterling would re-appreciate and business investment would probably benefit from a drop in uncertainty. The situation remains very binary and thus not very conducive to strong portfolio recommendations.

Risk # 4 | 15% probability | Political instability in Italy with renewed stress on sovereign spreads in the Eurozone

Analysis | In early April the Italian Government released the latest economic blueprint (SGP), embedding the new forecast for the 2020 budget and beyond. Projections seem to come closer to consensus, implying weaker growth and worse public finances. Growth projections expect the Italian economy to expand at 0.2% YoY in 2019, followed by 0.6% in 2020. Deficit /GDP target is now set to 2.4% for 2019, gradually declining towards 1.5% in 2022. Yet, due to the combination of worsening of growth profile, reduction in primary surplus and increase in deficit projections, the Debt to GDP ratio is expected to increase from 132.2% in 2018 to 132.6% in 2019. Target for 2022 is set to 128.9%. The path towards a reduction in deficit and debt is predicated on growth returning gradually towards potential and measures successful to contain public spending. Rating agencies recently did not change their assessment although highlighting key risks on the debt path. Even though in the short-term and before European Parliament election it may be unlikely to see a confrontation with the EC, with slow growth ahead, tensions related to debt sustainability concerns may likely arise in the future, should any fiscal slippage materialise and become evident.

Market impact | There is no systemic risk in our opinion. On the one hand, rising Italian bond yields have tightened local financial conditions, and that is weighing on GDP growth in Italy. But on the other hand, the absence of an EDP has provided some short-term relief. Yet, the long-term outlook has not changed much. We perceive risks as remaining domestic. Keep in mind that the ECB has anti-contagion tools that it could mobilise to avoid contagion to other peripheral markets. In addition, the ECB has announced new TLTROs to alleviate difficulties in the banking system. All of this should contain the contagion risk on peripheral sovereign spreads and corporate credit spreads.

Risk # 5 | 15% probability | US recession

Analysis | The US economy was stronger than expected in Q1 (+3.2% YoY, after closing 2018 at 3.0%), according to the preliminary estimate. Yet, behind the strong headline number, signs of deceleration in domestic demand confirm our outlook for a progressive slowdown in the second half of the year, as we expect the impact from the fiscal stimulus to fade. In fact, in Q1 two key drivers posted a weak reading: personal consumption expenditures (especially in the key durables goods component) and investments (in the key equipment component) decelerated. Personal Consumption momentum decreased on a quarterly basis, but the annual trend holding up well amid signs of pick-up from retail sales in March and consumer fundamentals remain still supportive to our outlook. Non-residential investments broadly decelerated and, albeit broadly in line with our outlook, the sharp deceleration in equipment investments calls for close monitoring. Net trade contributed alone to 1% of GDP growth, thanks to a contraction in imports, something that may be reversed in Q2. Finally Government consumption increased solidly as the Bipartisan Budget Act still deploys some effects. The fact that the Fed's normalisation is almost done ("wait and see" attitude, stabilisation of the balance sheet expected by the end of the year) will maintain very accommodative monetary conditions, which should sustain domestic demand. Against this backdrop the probability of recession remains low for the foreseeable future.

Market impact | Markets are likely to become more circumspect with regard to 2020 growth expectations as the deceleration could become more pronounced and economic signals are likely to become increasingly mixed as the cycle extends. The probability of a recession remains low. But as the cycle matures, the best choice for investors is to limit exposure to credit. On the equity side, selection of themes, sectors and single names will be increasingly relevant.

Risk # 6 | 10% probability | Contagion in the "emerging world"

Analysis | Emerging markets asset classes started 2019 buoyantly, thanks to (1) the Fed's U-turn in communication ("wait and see" attitude on interest rates revising the dots, stabilisation of its balance sheet by Q3 2019); (2) a more negative news-flow concentrated in DM (Europe in particular); and (3) a less likely escalation in the trade war between the US and China with likely a deal between the two. Having said that, the contagion risk in the EM world remains well alive whether through real economy spillovers (overall weaker global growth will reflect in weaker global trade and less external demand for EM economies) or through financial markets spillovers. The Federal Reserve stance shift has been quite earlier and stronger than anticipated in our 2019 outlook and the risk of a monetary policy mistake by the main central banks remains non negligible. Indeed, today we do see the risk of contagion through financial market higher than through the chain trade. As long as the global financial environment remains dovish, the contagion risk coming from the usual fragile suspects like Turkey and Argentina remains limited; however, should the global environment change towards a tighter one, the contagion risk would increase.

Market impact | Spreads and equity markets would once again be highly hurt; it is all the truer that emerging currencies would be again under pressure with capital outflows. However, the emerging world is far from being a homogeneous block, and markets would deteriorate more in the most vulnerable countries, whether due to poor external positions or fragile fiscal and political conditions. Some caution on emerging markets is still required at present.

Risk # 7 | 10% probability | A Chinese "hard landing"/ a bursting of the credit bubble

Analysis | Chinese economic growth is slowing down, but the authorities are working hard to stimulate the economy (through monetary and fiscal policies) so that the economy will remain resilient. Recent data tend to indicate that the policy mix has a noticeable positive impact on the economy. That being said, the country's economic model is fragile: the excess of credit is visible, and non-financial corporate debt has surged since the GFC. The good news is that the NFC debt-to-GDP ratio had started to drop since late 2017. We will continue to monitor the trend in Chinese private debt closely, especially if the economy slows. Meanwhile, the de-escalation in trade tensions should give China policymakers time to adjust their policy implementations and to better manage short-term risks. In the event of a hard landing or the bursting of the credit bubble, the Chinese authorities would be unable to avoid a stronger depreciation of the yuan.

Market impact | A hard landing linked to a bursting of the credit bubble would have a very negative impact, and its cascading effects would be particularly disastrous: vulnerability of banking systems (in China and elsewhere), vulnerability of the global financial system, vulnerability linked to China's public and private debt, negative impact on regional and global trade, and thus on commodities and emerging countries, impacts on the currencies of commodity-exporting countries, advanced countries and emerging countries, etc..

Risk # **8** | **10%** probability | **Major political crisis in Europe**

Analysis | European politics is becoming less predictable, due to the rise of various non-mainstream political forces in several countries. In September, the non-mainstream Italian government coalition announced a 2019 budget in breach of European rules, thus opening an episode of tensions with the rest of the Eurozone. Although an agreement was reached, this topic could flare up again at some point due to more fiscal slippage in 2019. In France, where the situation had been stable since the 2017 presidential election, sudden and violent social movements caught the government off-guard in late 2018 and could complicate the continuation of its supply-side reform agenda. Although less immediately worrying, the political outlook is also uncertain in Germany (where the stability of the government coalition could be questioned).

In Spain, the result of the April elections was generally in line with what could be expected from the polls: The PSOE (Socialist) Party of PM Sánchez came first, securing a large increase in its number of MPs. Even though the PSOE has no majority, there is no imminent threat to political or economic stability. More generally, the combination of strong anti-immigrant feelings and frustration towards European institutions remains a tailwind for anti-system political forces. The May 2019 European election will be a major gauge of their progress. At this stage we believe, as most observers do, that far-right parties will make some progress and that the two traditional mainstream parties (the Social-Democrats and Christian-Democrats) will lose the combined majority that they have had since the creation of the European Parliament. However a "pro-institution" majority can nonetheless probably still be built, although with some additional delays and negotiations, by working with parties at the center or with the Greens. Thus, we do not see these elections as triggering a new systemic crisis in the Eurozone in 2019, although they may give even more impetus to those anti-institutional forces that will make subsequent national elections less predictable.

Market impact | Given the still positive economic backdrop, we do not believe that these events will trigger a new round of systemic crisis in Europe. Non-mainstream political forces that are in a position to rule countries (such as in Italy) have shown that they want to blame European political institutions and try to modify them, but not exit the Eurozone. However, we cannot rule out some market stress in 2019 while the difficulty to understand European institutions for outside investors means that European assets will continue to carry a specific political risk premium. Italian government spread vs. Bund could continue to be volatile.

MACROECONOMIC CONTEXT

Our convictions and our scenarios

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This section provides a reminder of our central scenario and alternative scenarios.

Central scenario (75% probability): end of the soft patch in sight, more decoupling looking ahead

- **Growth has slowed worldwide:** 2018 had begun based on the theme of a synchronised global recovery. But this did not last. Since spring 2018, the protectionist measures taken by Donald Trump have changed the game. Emerging economies, some of which are heavily indebted in dollars, were weakened last year by the broad-based appreciation of the USD. Moreover, economic activity has weakened markedly in the Eurozone since Q4 2018. Hence, 2019 has begun with a global synchronised slowdown with risks remaining tilted to the downside. We however believe that the pronounced soft patch is over.
- **Global trade:** Global trade has fallen over the past 18 months; it started 2018 at around 5% yoy but fell sharply in Q4 2018 and slipped further in Q1 2019 (from +0.1% yoy in Jan to -1.1% yoy in Feb). The economic slowdown in China probably played a role in late 2018. But most importantly, the protectionist rhetoric has pushed uncertainty to an all-time high (with a peak in Jan), dragging down investment. On the one hand, the de-escalation on trade between China and the US bodes well, but on the other hand a trade war between the EU and the US remains a distinct possibility. At this stage, we however continue to expect global trade growth to stabilise at around the level of global GDP growth (i.e. we would expect global trade to return to around 3% yoy by early 2020).
- **United States:** The US economy has been driven by a very accommodative fiscal policy; its impact should progressively erode this year. True, real GDP growth was well above expectations in Q1 19 (3.2% qoq at annual rate after 2.2% in Q4 18). This was the third quarter the US economy grows at a rate above 3% in the last 5 quarters. GDP growth also picked on a year on year basis from 3.0% in Q4 18 to 3.2% in Q1 19. Yet, nominal GDP growth slowed from 4.1% qoq (ar) in Q4 to 3.8% in Q1. And looking at the composition of quarterly growth, domestic demand slowed sharply (both household consumption - especially in durables goods - and investment in equipment decelerated). Due to very accommodative monetary and financial conditions, we however revised slightly higher our GDP growth forecast for 2020 from 1.8% to 2.0%. We continue to expect growth to decelerate to its potential in 2020 but at a very gradual pace. Corporate profits will remain under pressure, especially if inflation re-accelerates, which is still possible, given that the economy is operating at close to full employment. We do believe that a recession is highly unlikely in 2019 and in 2020 (as household consumption should continue to benefit from higher disposable income). However, doubts about the extension of this cycle are likely to rise in the coming quarters (less support from fiscal policy, domestic demand under pressure, mixed signals from sentiment and hard data). And we must keep in mind that sub-par growth may trigger a profit recession.
- **Eurozone**: The data for Q1 has been mixed, with some figures improving, but also some persistent weakness in manufacturing. Although they began recovering well after the US, Eurozone economies began to slow in 2018, much more sharply than other economies. Several transitory factors have contributed to the slowdown in EZ growth. Germany was close to falling into recession in Q4, due to an abrupt slowdown in world trade, disruptions in the auto sector caused by new pollution tests, and weakness in the manufacturing sector. The late-2018 shock to the EZ manufacturing sector has been clearly underestimated. In France, the yellow vest movement has weighed on economic activity. And the Italian economy has suffered from tighter credit conditions. In addition, political uncertainties (Brexit, Italian budget) have muddied the waters. However, we believe the level of pessimism is excessive and we stick to the view that domestic demand (in particular consumption) will remain supported by the labour market, strong income growth, the level of monetary policy

accommodation, and a significant fiscal stimulus (especially in Germany and France). Subsequently, we believe that growth will gradually reaccelerate. The May 2019 European elections coupled with the threat of US tariffs on European autos will likely maintain uncertainty at a high level. While we believe that mainstream parties will dominate the European Parliament, populist/anti-system parties will gain ground and the level of political fragmentation will increase. As a result, it will take time to form the new Commission, and we do not expect any significant progress in strengthening the EU and the Eurozone before 2020 at the earliest.

- **United Kingdom:** The political situation in the UK is highly unstable. The UK government and the EU have agreed on a new deadline (31 Oct) to fix the problem; all options remain on the table. Everything will ultimately depend on the scenario (see the 'risk factors' section for scenarios with indicative probabilities). We continue to believe that the probability of a deal is far above the probability of a no-deal. And with a deal, we would expect a rebound in domestic demand with diminishing uncertainty.

- **China:** China's headline data for March and Q1 broadly surprised on the upside, even more than we had expected. When coupled with recent credit and trade data, we do see enough positive signs to revise our forecasts. We revised up our GDP growth forecast from 6.2% to 6.3% (2019), and from 6.1% to 6.2% (2020). We also revised up slightly our inflation forecasts. In other words, we are close to bottom for both real and nominal GDP growth. Policymakers are not likely to ease further, but they are still working on targeted measures to support SMEs and consumers, which are slower to take effects and supposed to be healthier. That said, all measures are still on the table if and when necessary. Indeed the country's economic model remains fragile: the excess of credit is visible, and non-financial corporate debt has surged since the GFC.

- **Inflation:** Core inflation remains low in advanced economies. The slowdown in inflation in recent years is primarily structural in nature, as it is tied to supply-side factors, while the cyclical component of inflation has weakened (with a flattening of the Phillips curve). Core inflation is likely to pick up only slightly in advanced economies. In theory, an "inflationary surprise" remains possible with the pick-up in wages (in the US and the Eurozone) but it is striking to see that inflation slowed in the US in Q1 19 just as real GDP growth accelerated! In the Eurozone, in a low inflation environment, we consider that corporates have almost no pricing power (i.e., corporate margins more at risk than final sale prices). In emerging economies, inflation had recently slowed more than expected, but this was mainly due to the decline in energy and food prices. The recent rebound in oil prices should not last long. At the end of the day, with low inflation and subdued growth, most central banks have turned more dovish since the start of the year.

- **Oil prices:** Rollercoaster has continued after OPEC cut production by 3 million barrels a day, the most significant cut since the GFC. Oil is still mainly driven by supply factors. On the one hand, OPEC and supply disruption concerns in Venezuela, Iran and lately Libya support oil prices in the short run, on the other hand, the expected rise in US shale oil production should weigh on oil prices. The surprise announcement by the US administration that the US is ending waivers allowing several countries to keep importing Iranian crude has pushed up oil prices to $75 (Brent). True, the objective of the US administration is to drive Iran's oil exports down from the current level of around 1.5 million barrels a day to close to zero and the waivers expire on 2 May. However, the White House also announced a close coordination with Saudi Arabia and the United Arab Emirates to avoid market disruption (they have the means to compensate for the fall in Iranian exports). In addition, OECD oil inventories (end of February 2019) were at 2.9 million barrels, which is above the five-year average. All in all, we are thus sticking to our range target of $60-70 (Brent). Oil prices may remain however volatile.

- **Central banks on the dovish side:** The risk management approach prevails. The Fed is in a "wait and see" mode; we expect no rate hike in 2019. The ECB ended its monthly asset purchases in late December and will continue to replace maturing securities. For the ECB, we expect a status quo (regarding interest rates) in 2019 and 2020. The ECB has no room for manoeuvre to normalise its monetary policy, given the economic slowdown and the absence of inflation. The ECB announced new TLTROs in March (to come in September, with the technicalities probably announced in June) and surprised with its dovish stance: The ECB may ease further if growth slows further. A two-tiered system is being seriously considered for the deposit rate, to alleviate the burden on banks that have very large excess reserves (Germany).

Downside risk scenario (20% probability): a marked trade-war-driven economic slowdown, a geopolitical crisis or a sudden repricing of risk premiums

- Risk of further protectionist measures from the US, followed by retaliation from the rest of the world.
- Repeated uncertainty shocks (global trade, Brexit, European elections) weigh heavily on global demand.

Consequences:

- All things being equal, a trade war would drag down global trade and trigger a synchronised and sustained 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.
- Recession fears in the US.
- Under a worst-case scenario, CBs could once again resort to unconventional tools, such as expanding their balance sheets (particularly true for the ECB).

Upside risk scenario (5% probability): a pick-up in global growth in 2019

Donald Trump makes an about-turn, reducing barriers to trade. 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 pronounced soft patch. Growth picks up again in China on the back of a stimulative policy mix.
- Central banks 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.

Macroeconomic picture by area

United States

Normalisation progresses

- As the fiscal boost fades, key drivers of domestic demand are slowing progressively and getting closer to long-term trends gradually, as monetary policy and financial conditions smooth and accompany this normalisation.
- US consumers remain upbeat in general. Still-dynamic labour demand and wage growth, coupled with contained inflationary pressures, support resiliency in personal consumption, which is expected to be the main driver of domestic demand.
- Business confidence has moderated appreciably compared to last year among small and larger businesses, and this reflects a moderation in capex intentions and investments, which anyhow remain in line with our outlook.
- Moderate domestic and external inflationary pressures are keeping both core and headline CPI in check and somewhat subdued, composing a benign inflation outlook. The Federal Reserve is not expected to deliver further rate hikes this year, will end QT, and will remain alert to any changes in financial conditions, economic outlook and inflation dynamics

Risk factors

- Concerns over global growth and external and domestic demand may hold back new capex plans more than expected
- Tariffs risks may negatively impact economic performance, both directly (in prices and orders) and indirectly (in confidence)
- Geopolitical risks linked to a more hawkish shift by the US administration

Eurozone

A gradual improvement expected despite considerable risks

- After a highly disappointing 2018, figures have so far been mixed in 2019. However, while most of the difficulties involve export-intensive (manufacturing) sectors, the job market is holding up well and is likely to support consumption and services. We expect a gradual improvement during the rest of 2019.
- The risk of a no-deal Brexit has become less imminent, but there is still the threat of US trade measures against Europe. Moreover, there are still some considerable political uncertainties, particularly the upcoming European elections and the situation in Italy.

Risk factors

- Stronger political protest movements
- External risks (trade war, slowdown in the US and China)

United Kingdom

Major uncertainty as Brexit approaches

- Brexit is undermining confidence and investment. The United Kingdom has won an additional Brexit extension from the European Union (till 31 October), but the domestic political situation could be volatile in the coming months. The UK's participation in European elections could generate tensions, and a change of government, new elections or the holding of a new referendum are all possible scenarios.
- Despite political uncertainties, the job market remains strong, and wages are increasing in real terms, driven by the receding in inflation.

Risk factors

- A no-deal Brexit
- The current account deficit remains very high

Japan

Out of the woods, but still on a bumpy road

- Global economic stagnancy has crippled manufacturers, with exports marking a y/y fall for four months. The BoJ corporate survey points to decent capital spending plans for 2019. In fact, sluggish shipments are undermining investment. Machinery orders showed only a meagre gain in February after three months of contraction.
- However, non-manufacturers held up well on urban redevelopment, job placement and the coming 5G Telecom standard. Despite the weak export snapshot, shipments are likely to gather strength as the Chinese economy rebounds solidly.
- On the consumer front, settled pay raises are slightly higher than last year. Nonetheless, a 2% increase in disposable income is being partly offset by a higher savings rate, reflecting households' apprehension over corporate earnings and the upcoming VAT tax hike. They are also being discouraged by higher consumer staple prices.

Risk factors

- Further rise in oil price could hamper corporate and consumer activities
- Companies may reduce / postpone business investment on a slow recovery in corporate earnings

China

- Economic activity recovered some strength after a poor performance ahead of the Chinese New Year. With policy gradually taking effect, growth seems to be near bottom. Credit growth is bottoming out, while fiscal spending has been accelerating.
- Already, local orders are recovering, as PMI data implied. The latest data also suggested that the auto and smartphone sectors, which were major drags in H2 2018, are past the worst time.
- The property sector is holding up better than expected and the slowdown ahead could be manageable, with further relaxation of Hukou and policy easing at a local level.
- Meanwhile, exports in the region have avoided another sharp slowdown for now, after a bad Q4.
- The RMB is seeing slight upward pressures, helped by a resilient growth outlook and a dovish Fed.
- US/China trade negotiations showed further positive progress, with possible results in the next few weeks.

Risk factors

- **Uncertainty in US/China trade talks**
- **Policy mistakes in managing near-term risks and the structural transition**
- **Geopolitical noise regarding North Korea**

Asia (ex JP & CH)

- Growth dynamics continued to be very weak, mainly in the first two months of the year. On the exports side, figures have been less negative since March (in South Korea, India and Indonesia).
- The region's inflation figures remained very benign. Oil and food prices pushed inflation to levels lower than expected. In India, inflation remains very benign (2.9% YoY), but March data showed some inversion towards higher food prices.
- Overall, CBs in the region are in a wait-and-see mode before shifting towards a more dovish stance, thanks to a more favourable global financial environment. India cut its policy rates by a further 25bps.
- While waiting for final elections results in Thailand (announced after the 9th of May), the region is holding new electoral campaigns (India just started and Indonesia).

Risk factors

- **Export dynamics weakness eased in March**
- **Inflation still very benign. India inflation increased in food prices.**
- **Central banks in the region in wait-and-see mode. India cut rates again.**
- **Election outcome in Thailand not final yet. India and Indonesia holding elections.**

Latam

- Mexico and Brazil continue to experience two soft patches in terms of economic growth. However, differently from each other. Mexico is expected to decelerate in 2019 versus 2018 while Brazil is expected to slightly accelerate.
- On the inflation front, the overall environment remains benign. In March, Mexican inflation went back up to 4% from the 3.9% previously published (Banxico target range is 2%-4%). In Brazil, inflation jumped to 4.6% YoY from 3.9%.
- The region's main central banks left their monetary policy rates unchanged. We see Banxico starting the easing process if the domestic policy uncertainty reduces.
- In Brazil, the new president and his economic team decided to present a very bold pension reform plan to Congress. The first vote by the Constitution and Justice Committee in the lower house is scheduled to take place by April but will probably be further delayed.

Risk factors

- **Better economic conditions in smaller countries**
- **Inflation is benign overall, with Mexican inflation back within Banxico's target range**
- **We expect Banxico to ease if there is less policy uncertainty**
- **The very bold pension reform announced in Brazil is at risk of delay**

EMEA (Europe Middle East & Africa)

Russia: Real GDP growth was 2,3% in 2018 and should be slightly lower in 2019. However, growth is expected to accelerate over the medium-term, thanks to a significant infrastructure spending programme from 2019 to 2024.

- Despite the threat of potential US sanctions down the road, the macroeconomic scenario remains supportive. Russia will be among the few emerging market sovereigns with "twin surpluses" in 2019, while accumulating assets in the National Wealth Fund.
- The central bank has kept its key rates on hold, but we expect a rate cut in Q4.

Risk factors

- **Drop in oil prices, stepped-up US sanctions and further geopolitical tensions**

South Africa: exit from recession but no miracle

- This month Moody's decided not to downgrade the Sovereign note which gives some respite to South Africa at least until November. However, due to the weakness of high frequency data and the slowdown of global growth, we have downgraded our forecast for this year (2019) to 1.4% yoy from 1.7% previously.
- Despite a weak economic and subdued inflation environment and a dovish Fed, we expect the SARB to remain cautious and to keep a neutral stance at least for the first half of the year.

Risk factors

- **Increased risk aversion, risk of sovereign rating downgrading, rising social demands in the run-up to elections and risk of fiscal slippage**

Turkey: we expect double-digit inflation and a recession in 2019

- High Frequency Data released so far for Q1 2019 are still very weak. However, some improvements have materialised in manufacturing PMI, industrial production, retail sales etc. The worst could be behind us. We forecast real GDP growth to be -1.5% in 2019 and +1.5% in 2020.
- The CBRT is still under pressure, with CPI inflation set to remain high and pressures on the currency to continue in an unfavourable political environment.

Risk factors

- **A too rapid easing of the central bank, a cooling of budgetary policy, and a slowdown in activity in the Eurozone**

Macro and Market forecasts

Macroeconomic forecasts
(25 April 2019)

Annual averages (%)	Real GDP growth %			Inflation (CPI, yoy, %)		
	2018	2019	2020	2018	2019	2020
US	**2.9**	**2.4**	**2.0**	**2.4**	**2.0**	**2.4**
Japan	**0.8**	**1.0**	**0.7**	**1.0**	**0.7**	**1.3**
Eurozone	**1.8**	**1.0**	**1.5**	**1.8**	**1.2**	**1.5**
Germany	1.4	0.8	1.5	1.7	1.5	1.5
France	1.5	1.3	1.5	2.1	1.3	1.5
Italy	0.8	0.1	0.6	1.1	1.0	1.5
Spain	2.5	2.0	1.8	1.7	1.6	1.9
UK	**1.4**	**1.1**	**1.4**	**2.4**	**2.2**	**2.2**
Brazil	1.1	2.0	2.3	3.7	4.2	4.6
Russia	2.2	1.5	1.7	2.9	4.8	4.0
India	7.3	6.4	6.9	4.0	3.6	4.6
Indonesia	5.2	5.3	5.3	3.2	3.2	4.0
China	6.6	6.3	6.2	2.1	2.2	2.5
Turkey	2.9	-1.5	1.5	16.2	15.4	12.9
Developed countries	**2.2**	**1.7**	**1.7**	**2.0**	**1.6**	**2.0**
Emerging countries	**4.9**	**4.6**	**4.8**	**4.1**	**3.7**	**3.8**
World	**3.8**	**3.4**	**3.6**	**3.2**	**2.9**	**3.1**

Source: Amundi Research

Key interest rate outlook

	26/04/2019	Amundi + 6m.	Consensus Q3 2019	Amundi + 12m.	Consensus Q1 2020
US	2.50	2.50	2.50	2.50	2.50
Eurozone	0	0	0	0	0
Japan	-0.1	-0.1	-0.1	-0.1	-0.1
UK	0.75	0.75	0.75	1.00	1.00

Long rate outlook

2Y. Bond yield

	26/04/2019	Amundi + 6m.	Forward + 6m.	Amundi + 12m.	Forward + 12m.
US	2.31	2.20/2.40	2.24	2.20/2.40	2.22
Germany	-0.6	-0.60/-0.40	-0.60	-0.60/-0.40	-0.58
Japan	-0.16	-0.20/0.00	-0.15	-0.20/0.00	-0.17
UK	0.73	0.60/0.80	0.72	0.70/0.90	0.75

10Y. Bond yield

	26/04/2019	Amundi + 6m.	Forward + 6m.	Amundi + 12m.	Forward + 12m.
US	2.52	2.50/2.70	2.55	2.40/2.60	2.58
Germany	-0.02	0.05/0.20	0.04	0.05/0.20	0.10
Japan	-0.05	0.00/0.10	-0.06	0.00/0.10	-0.03
UK	1.14	1.10/1.30	1.26	1.15/1.35	1.31

Currency outlook

	19/04/2019	Amundi + 6m.	Consensus Q3 2019	Amundi + 12m.	Consensus Q1 2020
EUR/USD	1.12	1.14	1.14	1.17	1.18
USD/JPY	112	110	110	106.5	108
EUR/GBP	0.86	0.86	0.85	0.85	0.85
EUR/CHF	1.14	1.14	1.13	1.15	1.15
EUR/NOK	9.56	9.45	9.50	9.40	9.40
EUR/SEK	10.46	10.30	10.33	10.20	10.17
USD/CAD	1.34	1.32	1.32	1.30	1.30
AUD/USD	0.72	0.72	0.72	0.70	0.73
NZD/USD	0.67	0.67	0.67	0.66	0.68
USD/CNY	6.71	6.70	6.70	6.60	6.66

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