Risk factors

Macroeconomic Research Team

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

Finalised on 27/11/2019

Risk # 1	20% probability	Major European slowdown

Analysis | Germany escaped the risk of a technical recession in Q3, posting meagre, yet positive, 0.1% quarterly growth. The French economy turned in a positive surprise in the third quarter, with +0.3% growth, the same pace as in the two previous quarters, while the Italian economy was unchanged again, at 0.1%. Spain's growth was also quite strong at 0.4%, somewhat dissipating concerns of a faster-than-expected deceleration. Preliminary data on business surveys, which in the past months have pointed to a worrying deterioration of the manufacturing sector and to the risk of contagion to the service sector, have sent out a mixed picture, with manufacturing somewhat better-off but the service sector slightly deteriorating in aggregate. The main risk at this point is that the manufacturing recession will weaken the economy further and spread to services. Many factors could aggravate the situation, particularly a new escalation in Sino-US tensions (European manufacturing is heavily exposed through its global value chains), additional US duties on the European auto sector (which have been postponed for now), and Brexit (for which uncertainty remains, although the probability of a no-deal Brexit has receded significantly). The roll-out of fiscal measures (which we envisage for now to take place at the national level) could help stabilise domestic demand amidst external uncertainties, but there seems to be little appetite for a coordinated EU effort. Against this backdrop, a significant upturn in growth in 2020 is unlikely, and risks are weighted to the downside. Moreover, in most euro zone economies the job market is still a key factor in support of household consumption and monitoring signs of deceleration is of great importance.

Market impact | A major slowdown would clearly be bad news for European assets and the euro. But in this case, the policy mix would become even more accommodative, in both monetary and fiscal terms, and that would help stabilise growth expectations. Any negative market impact (from a more serious-than-expected slowdown) is therefore likely to be of short duration, as investors would hurry to price in the policy mix's positive impact on the economy.

Risk # 2	20% probability	US recession

Analysis | The US economy is gradually slowing: growth peaked in Q2 2018 and, since then, the US economy has been gradually decelerating towards potential. Incoming data support the view that domestic demand is gradually slowing due to weakening investments and a labour market shifting into lower gear. Looking forward, we expect muted growth in investments and diminishing US consumer spending, although we do not expect any recession. Some indicators would point to a stabilization in manufacturing and therefore limited impact on the service sector, yet coincident indicators are flashing the risk of having below-par growth in Q4. Uncertainty on the trade front and persistent geopolitical issues represent key risks to our outlook, which remains tilted to the downside.

Market impact | The markets are likely to become more circumspect with regard to 2020 growth expectations, as deceleration could become more pronounced and as signals point to slower domestic demand. In this context, the Federal Reserve will keep attempting to facilitate a macroeconomic soft landing by countering the forces that could drag down US growth, and we expect a protracted dovish bias.

Risk # 3 | 15% probability | US & China: negotiations resume

Analysis | The truce announced in October, based on more purchases by China of US agricultural products and no increase in tariffs by the US is still missing relevant details, and in the meantime the bar to achieving the Phase One Deal has been raised by China's asking for the rollback of the tariffs currently in place. Once the Phase One Deal is signed, a phase two should start. Since the recent talks, the two sides have been sticking to a more constructive tone. In mid-November, the General Temporary Licences for US companies to operate with Huawei were extended by 90 days with no further developments. The risk remains sizeable because we have to bear in mind that the confrontation with China goes far beyond the Republicans. Regardless of who is elected US President next year, opposition between the two countries on strategic issues could worsen their relations in the coming years. It is therefore important not to misunderstand the context. Protectionist rhetoric will not disappear from the radar screens. The likelihood of a comprehensive agreement is very low.

Market impact | Along with the tit-for-tat approach, the most relevant impact on the markets following recent events has been the CNY depreciation above the psychological threshold of 7 against the USD. The trade-weighted dollar is now historically high, and EM currencies had a short period of instability in the aftermath of the CNY depreciation. That instability is likely to grow in the event that the CNY depreciates much further.

Risk # 4 | 15% probability | Major geopolitical crisis in the Middle-East

Analysis | Although there are always geopolitical risks in the Middle East, tensions between the United States and Iran have escalated this year after Donald Trump: 1/ cancelled exemptions that allowed some countries to import Iranian oil, and 2/ introduced new sanctions against Iran. Security incidents and aggressive statements from both sides have only worsened matters. However, the US President is unlikely to want to embark on an armed conflict with Iran, the consequences of which could be far-reaching, less than a year before the next US presidential election. Although the situation remains volatile and despite the large number of complex fronts in the Middle East, recent White House decisions (withdrawal of US forces from the border between Syria and Turkey) do not point towards an increased US military presence in the region. Moreover, there seem to be new indirect peace talks between Saudi Arabia and the pro-Iranian Yemeni Houthi rebels.

Market impact | Oil prices are the main thing to watch, while open confrontation between the United States and Iran could be detrimental to the most risky asset classes and could trigger a rise in safe-haven investments in the dollar. However, at this stage we are not expecting a major upsurge in oil prices, given the high level of US shale gas production and statements by Saudi Arabia and the UAE to the effect that they would make up any reduction in Iranian exports.

Risk # 5 | 15% probability | Political instability in Italy with renewed stress on BTP

Analysis | The Draft Budgetary plan has been submitted. The political situation remains challenging as the coalition stability may be undermined by local election results in January, where opposition parties seem to have the lead in polls; disputes within the government coalition are showing its fragility. Despite the sharp reduction in near-term risks relating to a potential debt crisis or a long-lasting political confrontation with the European authorities, structural issues, which are a medium-term concern (including the public debt burden and limited fiscal space), remain unresolved. In the meantime, the League seems willing to position itself differently in relation to the European theme. Its leader has recently shown a different attitude toward the euro and Europe in general. Over the past week he has publicly indicated that he could favour Draghi as the next president of Italy; that Giorgetti (a less divisive political figure) could be the next finance minister; and that the League doesn't intend to leave the euro. The League was instrumental three weeks ago in the approval of the French candidate to the European Commission (by abstaining instead of voting against), showing a more "constructive" attitude; it is also looking to enter one of the government coalition parties in the European Parliament, which would be something to watch.

Market impact | Italian financial markets welcomed the avoidance of further uncertainties that would have been inevitable in the event of a snap election. As a result, BTP vs. Bund spreads tightened strongly. A small premium for political risks is likely to remain priced in, given the latent fragility of the coalition and approaching local elections. Some volatility and widening may be possible due to short-term tactical positioning; yet overall, there is still room for yields to decline, especially at the longer end of the curve.

Risk # 6	10% probability	**Major political crisis in Europe**

Analysis | Although European elections offered a small "pro-institution" surprise (instead of the wave of Euroscepticism that had been forecast), the European Parliament is more fragmented, and European institutions and governments have been entangled in a phase of negotiations that is more protracted than usual for appointments to key EU posts (European Commission, Council, Parliament and ECB). And at the national level, political complexity seems to be increasing, with difficulties in forming governments (e.g., Spain), instability of existing governments (e.g. Italy), and increased fragmentation, which could point to future complexity, especially in the negotiations for increased integration at EU level. We believe this is unlikely to trigger a major crisis on the European level, but there is no guarantee that voter support for "anti-system' parties has peaked, and, in the near term, the presence of these parties in national parliaments is making it harder to establish government majorities. Policy-making is therefore becoming less predictable, particularly in major countries where that had previously not been the case (such as Germany and Spain).

Market impact | As the political landscape remains complex at the national and supranational levels, the difficulty that foreign investors have in understanding European institutions will not vanish easily, which means that European assets will continue to price in a specific political risk premium.

Risk # 7	10% probability	**Major slowdown in the "emerging world"**

Analysis | The recent trade war escalation has caused growth to slow once again in the EM universe and elsewhere. However, growing dovishness on the part of the main central banks (namely the Federal Reserve and the ECB) is making the global financial environment easier for emerging markets. A more pronounced USD depreciation is the missing factor. The rosier financial picture will only worsen if there is any abrupt reassessment in the very dovish Fed/ECB monetary policy stance. Having said that, the amount of dovishness announced and realistically put through should prevent idiosyncratic risks from becoming systemic, as happened in Argentina in August. In the real economy, spillover from the external demand shock to domestic demand (mainly via capex) has been considerable in Asia, more so than in other regions. In order to see the expected stabilisation in growth and not a major slowdown, an orderly solution to the trade dispute (Phase One signed at least) is needed sooner rather than later.

Market impact | In the risk case, spreads and equity markets would once again be significantly impacted. This is particularly true as emerging currencies would once again be under pressure from capital outflows. However, emerging markets are far from being a homogeneous block, and the markets would worsen more in the countries that are the weakest and most vulnerable due to their poor external positions or fragile fiscal and political conditions.

Risk # 8	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 keep the on the path of manageable slowdown path (through monetary and fiscal policies). Recent data indicate that the trade war is biting and a more supportive policy mix is required. The country's economic model is fragile, as signs of excessive credit are visible, and non-financial corporate debt has surged since the GFC. The good news is that the NFC debt-to-GDP ratio had been declining since late 2017 (although it has lately increased slightly). We will continue to monitor the trend in Chinese private debt closely, especially if the economy slows. If a harder landing looks likely, the Chinese authorities still have enough ammunition to offset the shocks, including more depreciation, an expansion of credit in the property market, and more expansionary fiscal and monetary policy.

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

Risk # **9**	**5%** probability	**No-deal Brexit**

Analysis | The UK government and the EU reached a new Brexit agreement on 17 October. The UK parliament approved the agreement in principle but refused to ratify it in a fast-track procedure. This refusal obliged the British prime minister to request and obtain an extension to the Brexit deadline to 31 January 2020. Whatever the outcome of the 12 December elections (the Conservative Party is currently clearly ahead in opinion polls), the risk of no-deal Brexit is low. Victory for the Conservatives will probably be followed by ratification of the 17 October agreement o, and therefore an orderly Brexit in January 2020. A win by the opposition parties could lead to a second referendum and the possibility that the UK will remain in the EU (though the outcome of such a referendum remains highly uncertain). A no-deal Brexit would now require a combination of problematic events (for example, failure to form a majority government after the general election, a new compulsion to renegotiate the agreement with the EU, or a rejection by voters of the choices put to them in a referendum) and the failure to find any other solution to avoid a hard exit. Yet there remains uncertainty concerning the future UK-EU trade relationship, which will have to be negotiated during the transition period (this period will follow Brexit and maintain UK access to the EU single market, yet it may end as soon as December 2020, hence the possibility of a new "Brexit cliff" risk one year from now if no comprehensive free trade agreement has been signed).

Market impact | The risk of no-deal has fallen sharply, justifying a contraction in the risk premium on UK assets and a rise in Sterling. However, it is important to remember that the Brexit process is far from being over and that there could be new periods of stress if markets fear that the UK could abruptly lose its access to the EU single market at the end of 2020.

MACROECONOMIC CONTEXT

Our convictions and our scenarios

Macroeconomic Research Team

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

CENTRAL SCENARIO (55% PROBABILITY): Resilient domestic demand and services despite uncertainty adversely affecting trade

- **Slower global growth:** the economic weakness seen worldwide during the summer has continued into the fall with very few exceptions. Industrial surveys and data continue to show that the global manufacturing sector is in recession. However, domestic demand remains more resilient, due primarily to household consumption, which continues to be buoyed by very low inflation and in certain economies by strong labour markets. Still, services have proved more resilient than manufacturing.
- **Global trade expected to bottom out in H1 2020:** global trade has plummeted over the past 18 months, due to protectionist rhetoric. Even assuming that: (1) the Phase-One deal between China and the US is signed sooner than later, and (2) the next round of tariffs planned by mid-December is delayed while remaining part of an ongoing negotiation, we believe the damage to world trade dynamics at this point is done. We expect global trade to recover very slowly in 2020. Indeed, global trade is expected to remain under pressure in the short run and to grow at a slower pace than global GDP next year. Note that the impact on economies differs from one region to another. European exports are being hit strongly by generally weak intra-EU demand and declining ex-EU demand for intermediate and capital goods (Italy and Germany). The US is advancing steadily on the path of import substitution (imports of industrial supplies and materials have decreased from 27% in 2007 to 18% out of total imports in 2019). EMs are trying to transform the challenges posed by trade tensions into opportunities. Taiwan is one of the economies in Asia benefitting the most from the trade diversion from China to the US, and it has been the only EM economy, among the ones covered, that is seeing its growth performance upgraded during 2019. In addition, we must not underestimate the resilience of domestic demand at the global level. While global trade has indeed made a strong contribution to global growth over the last few decades, this is less and less so, as global growth is now being driven primarily by domestic demand.
- **United States:** a gradual return to potential, with slightly greater downside risks. The US economy, boosted by very accommodative fiscal policy in 2018, began decelerating in H2 2018 and continued to do so in the following quarters. After peaking at 3.2% YoY in Q2 2018, GDP growth gradually slowed to 2.0% YoY in Q3 2019. Fixed investments have been trending down markedly since the second half of 2019, while personal consumption expenditures have remained resilient overall. Protracted weakness in global trade and manufacturing, coupled with uncertainty over the implementation of tariffs, may have played a role in discouraging investments, partially offsetting the benefits of fiscal policy. Corporate and consumer confidence have indeed worsened and only recently stabilised somewhat. Signals are starting to appear that the labour market is decelerating, supporting the view that domestic demand will keep slowing into 2020. Risks remain tilted to the downside: although a truce on the trade front may be reached, geopolitical tensions will persist and political uncertainty may be added to the framework as the presidential elections approach. Although we do not expect a recession to occur, doubts on the extension of the current cycle could intensify over the next few quarters (with less support from fiscal policy, and domestic demand decelerating). The Federal Reserve is expected to stick to its dovish bias, signalling reasonable pragmatism and cautiousness in using its "policy ammunition", yet continuing to check financial conditions (mainly driven by the USD's trade weighted strength).
- **Eurozone:** The Eurozone economy remains under pressure, as uncertainty continues to characterize the global economy. The Eurozone has seen a deterioration in external demand and the manufacturing sector has been hit severely, questioning whether spillovers into services and other important economic sectors were materializing. However, despite the persistence of major uncertainty hotbeds globally, expectations

on economic fundamentals have progressively turned towards a more constructive outlook. Accordingly, the Eurozone economy is expected to stabilize heading towards 2020 and 2021 as the manufacturing sector is potentially bottoming out, clustering expectations for a very gradual and mild recovery, supported also by a more constructive global trade outlook. Moreover, the labor market is sound in aggregate terms, the unemployment rate remains low, and wage growth is moderate. Household consumption should be the main driver of growth in Eurozone, playing a pivotal role in shaping its way along the recovery process. Conversely, signals of expansionary fiscal policies remain limited to country-level implementation but have not taken shape so far as a coordinated effort. A further push remains theoretically possible in particular should the economy worsen and struggle to rebound.

- **United Kingdom:** The UK government reached a new Brexit agreement with the EU in October. However, ratification by the UK Parliament could not be secured in time to avoid another extension of the Brexit deadline from October 31, 2019 to January 31, 2020. Before this new deadline, a general election will take place in the UK on December 12. Polls currently give a strong advantage to the Tories. Should they win a majority, a ratification of the October agreement, and thus an orderly Brexit in January, would become by far the most probable scenario. A victory by opposition parties, on the other hand, would open the door either to a softer deal or to a new Brexit referendum. Thus, there remain only residual paths to a hard Brexit, which would require a sequence of problematic events (for instance, another hung Parliament and the failure of any alternative solution to resolve the continuing Brexit gridlock that would follow). Note, however, that even after an orderly Brexit, there would remain many uncertainties regarding the future UK-EU trade relationship, including the possibility of another Brexit "cliff" risk if the transition period is not extended and if the UK loses its access to the EU single market at the end of 2020.

- **China:** October's string of data confirmed the weak economic conditions, with further deterioration since the previous months. At this point, we confirm our view of a GDP decelerating at the range floor of 6% YoY in H2 2019 (Q3 GDP released at 6% as expected) and below 6% YoY in 2020 (at 5.8% YoY). Chinese authorities have signalled their difficulty to keep real growth above 6% YoY. Again, the latest data haven't shown a uniformly gloomy picture. Property sector and some components of industrial production have been resilient, while infrastructure investments have continued to decelerate in the private sector and managed to stabilize in the public sector. The authorities have ramped up their stimulus very mildly to accommodate the deceleration mentioned above in particular on the monetary policy side (with cuts in MLF and LPR in November). Credit growth has very mildly decreased again, driven by RMB loans and local government generic and special bonds. China's surplus with the US is narrowing on the back of marginally higher Imports (as agreed in the Phase One deal) and weaker and weaker exports.

- **Inflation:** core inflation is still moderate in the US and very low in the Eurozone, despite continued improvements in labour markets. While the causes of this "lowflation" may not be entirely understood, many explanations have been proposed. First, there is a problem with the quality of many of the jobs that have been created in the current cycle (low-paid and/or part time jobs), with employees not in a position of strength to obtain wage increases. Second, structural changes in goods and services markets (new technologies in trade, in particular, and, more generally, the "uberization" of the economy) may also have a disinflationary impact. In addition, after years of very low inflation, inflation expectations are low, which can be a self-fulfilling prophecy. Lastly, in the Eurozone, recent reforms (to the labour market and goods and services markets) have created a more competitive environment. Despite these hindrances, and while the growth cycle has not come to an end, we still believe that inflation should rise, driven by wage rises. However, the increase will be very gradual and the ECB's target ("below, but close to, 2%") seems out of reach for the time being.

- **Oil prices:** Despite idiosyncratic risks and geopolitical tensions in the Middle East, global demand, US oil production and OPEC strategy will be the key drivers for 2020. Uncertainty over global demand abounds for several good reasons. The trade war escalation has exacerbated downside risks to the overall economic picture slowdown, while China's transition to a new economic growth model and GDP deceleration is weighing on global oil demand. On top of that, US oil production has proven very resilient and oil seems less vulnerable than in the past to supply disruption concerns. Recent events in the Middle East (Iran's oil exports slide after US sanctions and the attack on Aramco production) did not structurally affect energy prices. Crude oil looks less sensitive to geopolitical risks, due to the unprecedented jump in US production. The US has steadily become a net exporter this year, eroding a significant OPEC production share. Therefore, US shale oil production will remain the long-term crucial factor and will affect OPEC decisions in 2020. We maintain our target range of $55-$65 for WTI and $60-$70 for Brent, even if we acknowledge the risks are skewed to the downside due to global oil demand cooling and sluggish Chinese growth.

- **Central banks:** back to a “wait and see” attitude in AEs. As expected, the Fed lowered the fed funds rate to 1.5-1.75% for the third consecutive time at the October FOMC. This decision was taken in response to continued uncertainty about the trade war and the global manufacturing recession, in a context where inflation remains low. President Powell basically said that the current monetary policy stance was now appropriate given the moderate growth outlook, which means that the Fed's decisions will depend on the data. We expect the Fed to cut its key rates further by 25bp over the next 12 months, slightly more than currently priced-in by markets. The bottom of the cycle has not yet been reached, which will probably keep the Fed under pressure next year. A pause is widely expected in December given recent positive trade news (an agreement between the US and China seems to be about to be concluded). In addition, we expect the Fed to continue to manage its balance sheet very actively. For the ECB, the situation is quite different. There have been strong disagreements on the restart of the QE and Christine Lagarde will have to rebuild a broad consensus. We expect little additional accommodations unless some downside risks materialise. We however continue to expect a final rate cut (-10 bp to -0.6%) by mid-2020 due to (1) subpar growth, (2) inflation that is consistently below the ECB's target and (3) downside risks.

DOWNSIDE RISK SCENARIO (30%): full-blown contagion to domestic demand

Two “families” of risks with different conclusions on monetary policies and scenarios

1. **Trade-related risks:** global trade takes longer to “normalise”, additional escalation in the trade war, and full-blown contagion into consumption:
   - **Growth falls further, profit recession /** the global recession comes back to the forefront
   - **Central banks:** even more accommodative monetary policies than what are currently priced in by markets
   - **Fiscal policies:** would gradually take over from monetary policy to support growth
2. **Market-related risks:** sudden repricing of risk premia with a large impact on financial conditions, exacerbated by low liquidity (various triggers: wars (e.g., the Middle East), the crisis in HK, credit event (HY) etc.)
   - **The policy mix** (fiscal & monetary) would become much more proactive (i.e. pre-emptive) in that case, while it would likely come somewhat later with trade tensions alone.

UPSIDE RISK SCENARIO (15%): modest reacceleration of global growth in 2020

- We have revised down our growth forecasts substantially since the start of the summer by embedding part of the downside risk scenario into the central scenario. By definition, this means that it’s now much easier to be “positively surprised”. For instance, on the political level the most recent news flow is more positive (with a pro-European coalition in Italy, a possible trade de-escalation, and a hard Brexit scenario that has become highly unlikely).
- Subsequently, going forward, we may see at the same time lower (political) risks and a more expansionist policy mix worldwide, which would pave the way for a rebound in confidence and a quicker normalisation of global trade.
- A modest reacceleration of growth (slightly above potential) – vs. subpar growth in the base case – is a distinct possibility.

Macroeconomic picture by area

Macroeconomic Research Team

Finalised on 2/12/2019

United States

US growth gliding along, supported by monetary policy

- Domestic demand keep slowing, with investment spending hit worse than private consumption. Business climate surveys have worsened over the past few months but have recently shown signs of a tentative bottoming-out.
- Consumer confidence indicators are mixed, on average suggesting that US households are less upbeat about the future. With softer gains in both payrolls and salaries, consumption should moderate and post an average year. On the investment front, spending plans are slowing. Inflation remains low (1.8% headline and 2.3% for core inflation); core PCE (1.7% YoY) remains close to, but below, the Federal Reserve's target.
- The Fed flagged that it considers its policy stance appropriate and well calibrated to support moderate growth and resilience on the labour market, and that another cut would require a "material reassessment of the economic outlook". Yet, as we expect some disappointment to come on growth, we are still pencilling another cut for H1 2020.

Risk factors

- While a mini-deal with China is in sight, uncertainty remains high; past uncertainty has already impacted the real economy in part.
- A mid-December step-up in tariffs has not been ruled out yet. If implemented, it might impact U.S. domestic demand more extensively
- Geopolitical risks and tariffs could pose an upside risk to oil prices and to our inflation outlook

Eurozone

Some improvement

- Q3 GDP growth (+0.2% qoq) was slightly better than forecast and Germany avoided recession. Moreover, November manufacturing surveys (notably IFO and PMI) either stabilised or improved from low levels.
- The formation of the new European Commission was not without uneasy episodes while the Spanish November election was inconclusive. However, the risks that have weighed the most on short term economic developments (Brexit and trade tensions) in 2019 have eased since October.

Risk factors

- Trade war and the threat handing over the European automotive sector from US customs duties
- A no-deal Brexit

United Kingdom

Towards election and, probably, an orderly Brexit

- Polls currently give an advantage to Tories at the Dec 12 elections. If they indeed win, the UK Parliament will then probably ratify the October Brexit deal with the EU. The UK will then leave the EU in January 2020. If, on the other hand, opposition parties win, the consequence will probably be another referendum to either confirm or cancel Brexit.
- After the Q2 contraction in the economy (with a -0.2% decline in GDP), figures improved in Q3 (+0.3%). However, October retail sales were disappointing.

Risk factors

- Uncertainty on the future framework of trade relations with the EU

Japan

Q4/19 will be the worst, and a re-acceleration is around the corner

- A sombre global economic landscape continues to take a toll on exports. Along with listless shipments to Europe and Asia, exports to the US are exacerbating the downbeat trend in total shipping. Demand for general machinery has shrunk markedly, reflecting companies' reluctance to undertake capex amid uncertainties in global trade.

Risk factors

- Delay in recovery in Southeast Asian economies may hamper capital investment by export-oriented firms

Macroeconomic picture by area

Finalised on 2/12/2019

Japan

- However, exports of electronics have recovered as the global semiconductor cycle eventually turned around. Consequently, producers' inventories have peaked out. Consumers managed to retain purchasing power even after the VAT hike. The government's decision to make preschool free of charge offset the impact of tax hike by far.
- The government is planning a sizable economic stimulus, primarily to cope with rounds of natural disasters. The size of the package will exceed 1% of GDP.

Risk factors

- **Stagnant global vehicle sales spoil the broad pyramidal structure of the automobile industry**

China

- At the end of the latest round of negotiations, a truce was announced between China and the US, based on more agricultural product purchases by China and no tariff rate increases by the US. The truce details are not out yet and in the meantime the bar for the Phase One deal has been raised by China's asking for a rollback on the tariffs in place.
- Chinese macroeconomic data showed some further deterioration in October in Fixed Assets Investments and Manufacturing Production. The trade data are showing some narrowing in the surplus with the US. On the back of an acceleration in land sales, Floor space started jumped more than expected in October.
- The policy mix continues to support the economy in a limited way, through both the monetary and fiscal levers. The PBoC cut the LPR and the MLF by 5bps.
- Credit growth data decreased in October marginally, driven by the core component of RMB Loans and Local Government Bonds.

Risk factors

- **Bar raised for the Phase One deal on Chinese request for a rollback of the existing tariffs**
- **Some further deterioration in macroeconomic conditions**
- **The policy mix is still very mildly supportive**

Asia (ex JP & CH)

- Economic conditions in the region remained quite weak in November, with macroeconomic momentum slowing the most in China and Malaysia. The outlook for exports has deteriorated marginally: the first 20 days of exports in South Korea, a sort of leading indicator, have picked up (always in negative double digit growth), due mainly to a base effect kicking in.
- The region's inflation figures have remained very benign. Noteworthy October figures came once again from India and China, with higher-than-expected food basket components (pork prices, in particular, in the case of China), at 4.6% YoY and 3.8% YoY, respectively.
- In November, the Bank of Thailand cut its policy rates by 25bps for the second time in a few months.
- India announced an ambitious divestment plan to complete by the end of the current fiscal year to support poor revenues performance.

Risk factors

- **Still weak macro momentum in the region. A trade deal is crucial**
- **Inflation still very benign, with a pick-up in China and India**
- **Central banks in the region still accommodative**
- **Malaysia's 2020 budget moderately less consolidating**

Latam

- Macro momentum in the region has been deteriorating, mainly in Chile and Brazil, while Chile has moved to broadly negative momentum. Following the final release of Q3 2019 Mexican GDP, we again reduced our 2020 growth projections to 0.4% from 0.6%. We also reduced our Chile growth forecasts to around 2.0% for 2019-20.
- On the inflation front, the overall environment remains benign. We revised up our inflation forecasts for Chile marginally, to 3.7% YoY for 2020 following the ongoing currency weakness. Argentina inflation fell slightly below 50%, at 49.7% for the first time since January 2019.

Risk factors

- **Economic conditions continued to weaken; Mexico growth revised down**
- **Inflation is overall benign but in Argentina**

Macroeconomic picture by area

Finalised on 2/12/2019

Latam

- The easing stance is continuing with Banxico cutting its policy rates again by 25 bps at 7.50% and Peru by the same amount, to 2.25%.
- Following the violent street protests, President Pinera decided to hold a referendum to replace the Constitution by April 2020. The referendum will decide if and who is going to change the chart.

Risk factors

- **Banxico and the Central Bank of Peru cut their policy rates by 25bps**
- **Protests in Chile pushed the President to hold a referendum to change the constitution**

EMEA (Europe Middle East & Africa)

Russia: Real GDP growth is expected to slow to 1.2% in 2019. However, growth is expected to accelerate in 2020 and over the medium term on the back of a significant infrastructure spending programme from 2019 to 2024 and a lower-interest-rate environment.

- Despite the threat of potential US sanctions down the road, the macroeconomic scenario remains supportive. Russia is one of the few emerging market sovereigns with "twin surpluses" in 2019, while accumulating assets in its National Wealth Fund.
- The CBR cut its policy rate again in October by 50bps to 6.5%. We expect another 50bp cut in the next twelve months, given decelerating inflation.

South Africa: strong headwinds with a challenging political and social backdrop

- Q2 GDP showed more resilience than the market was expecting, thanks mainly to a post-strike recovery in mining. We expect GDP growth of 0.5% YoY in 2019, with a slight pickup in 2020.
- Despite a negative output gap and declining inflation expectations (but above midpoint), the SARB remains cautious regarding capital outflows and the impact on the exchange rate, hence, upside risks to inflation. Fiscal reforms and risk sentiment will determine whether the SARB cuts rates going forward. We expect the SARB to remain on hold in 2020.

Turkey: inflation is on the decline and GDP growth picked up in Q3- 2019

- The third-quarter growth report showed +0.9% GDP growth YoY, relative to a negative release from the previous two quarters. We expect GDP growth to be flat or slightly negative in 2019, and a rebound in 2020, accompanied by a lax fiscal stance.
- The Central Bank of Turkey cut its policy rate significantly in October, by 250bps to 14%. We expect some more easing to come in support of weak economic conditions.

Risk factors

- **Drop in oil prices, stepped-up US sanctions and further geopolitical tensions**
- **Increased risk aversion, risk of sovereign rating downgrades, rising social demands, and continued fiscal slippage in the absence of reforms**
- **Excessive easing by the central bank, a loose fiscal stance, escalation of geopolitical tensions, and a slowdown in Eurozone activity.**

Macro and Market forecasts

Macroeconomic forecasts (4 December 2019)

Annual averages (%)	Real GDP growth %			Inflation (CPI, yoy, %)		
	2019	2020	2021	2019	2020	2021
US	**2.3**	**1.7**	**1.7**	**1.8**	**2.3**	**2.1**
Japan	**1.0**	**0.5**	**0.0**	**0.8**	**1.0**	**0.0**
Eurozone	**1.1**	**1.1**	**1.3**	**1.3**	**1.3**	**1.4**
Germany	0.6	0.8	1.2	1.5	1.5	1.5
France	1.3	1.3	1.2	1.4	1.4	1.3
Italy	0.2	0.4	0.6	0.6	1.0	1.3
Spain	2.0	1.6	1.6	0.9	1.3	1.4
UK	**1.3**	**1.1**	**1.4**	**1.8**	**2.2**	**2.1**
Brazil	0.9	1.6	1.7	3.7	3.9	4.2
Mexico	-0.2	0.4	1.2	3.6	3.4	3.6
Russia	1.2	1.7	2.5	4.0	3.5	4.0
India	5.2	5.8	6.4	3.4	4.3	4.1
Indonesia	5.0	5.1	5.3	3.0	3.1	3.8
China	6.2	5.8	5.8	2.6	2.6	2.0
Turkey	-1.8	1.5	2.3	15.6	11.6	10.8
Developed countries	**1.7**	**1.4**	**1.4**	**1.5**	**1.8**	**1.6**
Emerging countries	**4.1**	**4.3**	**4.6**	**4.0**	**3.9**	**3.6**
World	**3.1**	**3.1**	**3.3**	**3.0**	**3.1**	**2.8**

Source: Amundi Research

Key interest rate outlook

	29/11/2019	Amundi + 6m.	Consensus Q2 2020	Amundi + 12m.	Consensus Q4 2020
US	1,75	1,50	1,60	1,50	1,60
Eurozone	-0,50	-0,50	-0,50	-0,50	-0,50
Japan	-0,1	-0,2	-0,16	-0,2	-0,05
UK	0,75	0,75	0,87	0,75	0,96

Long rate outlook

2Y. Bond yield

	29/11/2019	Amundi + 6m.	Forward + 6m.	Amundi + 12m.	Forward + 12m.
US	1.62	1.30/1.50	1.61	1.30/1.50	1.62
Germany	-0.629	-0.70/-0.50	-0.66	-0.70/-0.50	-0.67
Japan	-0.169	-0.30/-0.20	-0.19	-0.30/-0.20	-0.21
UK	0.532	0.30/0.50	0.40	0.30/0.50	0.38

10Y. Bond yield

	29/11/2019	Amundi + 6m.	Forward + 6m.	Amundi + 12m.	Forward + 12m.
US	1.77	1.60/1.80	1.80	1.50/1.70	1.85
Germany	-0.36	-0.30/-0.10	-0.31	-0.40/-0.20	-0.27
Japan	-0.07	-0.20/0.00	-0.04	-0.20/0.00	-0.01
UK	0.68	0.70/0.90	0.71	0.70/0.90	0.76

Currency outlook

	28/11/2019	Amundi + 6m.	Consensus Q2 2020	Amundi + 12m.	Consensus Q4 2020
EUR/USD	1.10	1.10	1.13	1.13	1.16
USD/JPY	110	106	107	104	105
EUR/GBP	0.85	0.85	0.86	0.86	0.86
EUR/CHF	1.10	1.12	1.12	1.11	1.13
EUR/NOK	10.09	9.89	9.88	10.07	9.80
EUR/SEK	10.52	10.65	10.65	10.56	10.50
USD/CAD	1.33	1.30	1.31	1.28	1.30
AUD/USD	0.68	0.69	0.69	0.70	0.70
NZD/USD	0.64	0.64	0.64	0.65	0.65
USD/CNY	7.04	7.10	7.13	7.15	7.10

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