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 30/10/2019

Risk # 1 | 20% probability | Major European slowdown

Analysis | There are significant risks that Germany slipped into a technical recession in the third quarter. The French economy, in contrast, turned in a positive surprise in the third quarter, with +0.3% growth, the same pace as in the two previous quarters, despite the downturn in manufacturing surveys. The main risk at this point is that the manufacturing recession will worsen 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 (a decision could be made in November), and Brexit. That said, there have been many signs of easing in all these areas. Although there is still some uncertainty, the new Italian government is more moderate and looks more stable than previously, and the risk of a no-deal Brexit has almost vanished. The roll-out of fiscal measures (at the national, or even EU, level) could help stabilise domestic demand vs. external uncertainties, but there seems to be little appetite for a coordinated 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. Services, which are more sensitive to domestic demand than to global trade, should continue to hold up well.

Market impact | A major slowdown would be 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 (as total labour income is decelerating somewhat and confidence in the future is worsening). Although a mini-deal is on the cards by the end of November, uncertainty on the trade front and persistent geopolitical issues represent key risks to our outlook, which still remains tilted to the downside. According to the most recent updates, both the macro and financial data we monitor are showing signs of an increased probability of recession, with the probability increasing over the 12-18 month horizon, at non-negligible levels, though still far from previous spikes (currently in the 20% region).

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 protracted dovishness, with the possible return to balance sheet expansion, in order to keep rates in the target range by keeping a higher level of liquidity in the system.

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

Analysis | A truce has recently been announced based on more purchases by China of US agricultural products and no increase in tariffs by the US. Details are still not completely out and as far as we know, the most complex issues (intellectual property rights, technology transfers, tariffs already in place, and the Huawei case) are still on the table. Talks have resumed and once the Phase One Deal is signed, a phase two should start. The two sides have approached the recent talks with a more constructive tone. Having said that, the risk remains sizeable because we have to bear in mind that hostility towards 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, tension between the United States and Iran have escalated in recent months after Donald Trump 1/ cancelled exemptions that allowed some countries to import Iranian oil, and 2/ introduced new sanctions against Iran. Recent security incidents (attack against a major Saudi oil facility) 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 outcome of which would be extremely uncertain, at the start of an election year in the USA. Although the situation remains volatile and despite the large number of complex issues in the Middle East, the White House's latest decisions (withdrawal of US forces from the border between Syria and Turkey) do not point towards an increase in US military presence in the region.

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 say they would make up any reduction in Iranian exports.

Risk # 5 | 10% probability | Political instability in Italy with renewed stress on BTP

Analysis | The new government has delivered the first and most urgent of its tasks, the Draft Budgetary Plan, which it submitted to the EU Commission on time, and in which it seeks to obtain the highest level of flexibility possible while complying with EU rules. The political situation remains complex as the majority has been undermined by local election results in favour of the opposition parties, while internal disputes 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 (public debt burden and limited fiscal space), remain unresolved. Political instability remains a key risk as local elections will be held in key regions in the next few months and could represent a further challenge to the current government coalition.

Market impact | Italian financial markets welcomed the avoidance of further uncertainties that would have been inevitable in the case of a snap election. As a result, BTP vs. Bund spreads tightened strongly, falling back to mid-May 2018 levels. Moreover, the flattening of the Italian curve confirmed that easing political uncertainties make longer Italian bonds more attractive, one of the few remaining oases in the European yield desert. While a small premium for political risks is likely to remain priced in given the latent fragility of the coalition, 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 | The European Parliament is more fragmented, although European elections offered a small "pro-institution" surprise (instead of the wave of Euroscepticism that had been forecast), and European institutions and governments were entangled in a phase of negotiations that was more protracted than usual for appointments to key EU posts (European Commission, Council, Parliament and ECB), which could point to future complexity in the negotiations for increased integration. 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. This is manageable during prosperous times but could become more challenging in the event of an economic downturn.

Market impact | With the economy still on a firm footing, we doubt that a systemic crisis is possible in Europe. Traditional political forces who are able to govern (such as in Italy) have shown that they want to challenge European political institutions but don't want to leave the euro zone. However, the difficulty that foreign investors have in understanding European institutions will not vanish overnight, 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, the 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 the emerging markets. A more pronounced USD depreciation is the missing factor. The rosier financial picture will only worsen if there is any abrupt readjustment in the very dovish market expectations if the Fed/ECB should pursue a more cautious monetary policy. 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. On the real economy side, 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 the emerging currencies would once again be under pressure due to 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 stimulate the economy (through monetary and fiscal policies), so that it remains on a manageable slowdown path. Recent data indicate that the trade war is biting and a supportive policy mix is required. The country's economic model is fragile: 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 mildly increased lately). 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, 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, 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 principle of the agreement but refused to ratify it in a fast-track procedure. This refusal obliged the British prime minister to request an extension to the Brexit deadline to 31 January 2020, a request accepted by the EU. It now seems clear that the Brexit agreement will not be ratified before early UK elections, expected to be held on 12 December. Whatever the outcome of the election (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 agreement of 17 October, even though a Conservative win was still seen as increasing risks just a few weeks ago. A win by the opposition parties could lead to a second referendum and comes with 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.

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. Even if the agreement of 17 October is ratified, the UK will still have to negotiate a permanent framework for its future trade relations with the EU during a transition period. The markets could be affected by the risk that the transition period may expire at the end of 2020 (if the UK does not request an extension), which would prevent the UK from accessing the Single European Market before a full free-trade agreement can be finalised.

MACROECONOMIC CONTEXT

Our convictions and our scenarios

Macroeconomic Research Team

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

CENTRAL SCENARIO (60% probability): resilient domestic demand and services despite the 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 a vibrant labour market. Still, services have proved more resilient than manufacturing.
- **Global trade expected to bottom out in H1 2020:** global trade has plummeted over the last 18 months, due to protectionist rhetoric. Assuming that: (1) the trade truce between China and the US is signed by mid-November and (2) the next round of tariffs planned by mid-December is delayed and remains part of an ongoing negotiation, we believe the damage to world trade dynamics at this point is done. We expect global trade to recover slowly in 2020. That said, 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 persistently 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. In the two winners of the trade war, Mexico and Vietnam, early trends are emerging. Vietnam is benefitting from small business relocation out of China, and Mexico is benefitting from import diversion by the US (ex-auto, exports to US are increasing in electrical and electronic equipment). 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. And services are less and less correlated to industry, which can be attributed to the relative importance of consumption in relation to investments and trade since the 2008 crisis.
- **United States:** a gradual return to potential, with slightly higher 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 indeed worsened and only recently stabilised somewhat, raising concerns of a sharper slowdown in domestic demand. At this stage, while the probabilities of recession have risen, we don't think a recession is likely in the near term. And yet, signals are starting to appear that the labour market is decelerating, with a slower pace of growth in payrolls and new hiring intentions supporting the view that domestic demand will keep decelerating into 2020. Even so, risks remain tilted to the downside: if trade and geopolitical tensions persist, doubts on the extension of the current cycle could intensify over the next few quarters (with less support from fiscal policy, and domestic demand under pressure with contagion from manufacturing to services). Moreover, it is important to bear in mind that below-normal growth and tighter financial conditions could trigger a contraction in profits. With this in mind, the Federal Reserve should stick to its dovish stance, signalling reasonable pragmatism and cautiousness in using its "policy ammunition", yet keeping on check financial conditions (mainly driven by the USD's trade weighted strength).

- **Eurozone:** the Eurozone economy remains under heavy pressure as trade uncertainties and manufacturing weaknesses keep undermining growth expectations. Despite the resilience of domestic demand, which is helping to keep the economy growing, signals of potential spillovers from manufacturing to services may be materializing. Spillover risks are more evident in Germany and Italy, as services are more dependent on manufacturing, and companies' significant reliance on foreign trade further increases the underlying exposure. Moreover, Germany likely slipped into technical recession in the third quarter of 2019. Risks are clearly tilted to the downside as uncertainties are not expected to fade in the coming months as further trade war escalations may become reality, and Brexit, despite the recent developments, remains overall unresolved. Uncertainty is playing a key role in shaping investments within the Eurozone. Accordingly, companies have started to rein in investments, leading to a weaker demand for intermediate and capital goods. Despite the gloomier economic outlook, the labour market is improving, as the unemployment rate continues to stabilize gradually at historical lows in several member-countries, holding up consumer consumption and confidence. Growth in smaller economies remains supported, despite the risk of potential contagion in the event that a sharp and prolonged deterioration in the core economies becomes more evident. The reiterated need for fiscal stimulus, along with already extensive monetary easing to trigger a rebound in the Eurozone economy seem to be a paper-tiger for the moment, as countries struggle to design a common and coordinated intervention plan. Countries with fiscal room announced that fiscal intervention might be pursued in the event of a sharper economic deterioration.

- **United Kingdom:** October was an eventful month with 1/ a new Brexit agreement with the EU, 2/ the UK parliament's refusal to apply a fast-track procedure to ratify the agreement, 3/ a further extension to the withdrawal date to 31 January 2020, and 4/ the announcement of an early general election on 12 December. While the Brexit agreement will now not be ratified until the very end of 2019 or the beginning of 2020, the risk of no-deal Brexit has considerably diminished since there is now a solution acceptable to both the UK Conservative Party (well ahead in opinion polls) and the EU, which was not the case before. Victory by the opposition parties would probably be followed by a second referendum, with the possibility that the UK will remain in the EU (although at this stage it is unclear what alternatives would be put to voters). So there is unlikely to be a major trade crisis in the months to come, and this should benefit the UK economy. However, we cannot rule out a renewed rise in uncertainty when the matter of extending the transition period that will follow Brexit arises (the transition could expire at the end of 2020, which allows a very short amount of time to finalise a free-trade agreement).

- **China:** September's string of data (released in October) confirmed the weak economic conditions, but the economy hasn't decelerated any further since the summer 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 determination to keep growth above 6% in 2019. Again, the latest data haven't shown a uniformly gloomy picture. Housing, retail sales (included auto) and infrastructure investments have been resilient or moderately growing. The authorities have very mildly ramped up their stimulus to accommodate the deceleration mentioned above. More stimulus has to come in the form of monetary policy easing (RRR), and the PBoC has recently kept the LPR on hold. Credit growth has bottomed out, while local government generic and special bonds didn't contribute to the Total Social Financing increase because the annual quota allowed by the Government has almost been met. China has agreed to buy more agricultural products by the US in the new truce announced.

- **Inflation:** core inflation is still very low in advanced economies, despite continued improvements in labour markets (unemployment rates are low in relation to historical averages in both the United States and the euro zone). There are many reasons why inflation is low. First, there is a problem with the quality of most job creations (low-paid and/or part time jobs), and those employed in these jobs are not in a position of strength to obtain wage increases. Second, structural changes in goods and services markets (new technologies in trade, in particular) can 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 euro zone, 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 the volatility recently caused by geopolitical events (September's attack against Saudi oil facilities), fears of a global slowdown and the increase in US production are still putting downward pressure on prices. Having said that, efforts at coordination by OPEC+ members (production cut agreements in July) should limit supply. As a result, on balance we are upholding our scenario of almost no change in prices, with a target of $60-$70/barrel for Brent and $55-$65/barrel for WTI.

- **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 less 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 on 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., Middle East), 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 (10%): modest reacceleration of global growth in 2020

- We have substantially revised down our growth forecasts 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 (pro-European coalition in Italy, possible trade de-escalation, a hard Brexit scenario that has became 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 30/10/2019

United States

US growth gradually decelerates; monetary policy easing continues

- The drivers of domestic demand keep slowing, so far with investment spending hit worse than private consumption. Business climate surveys are showing a weak spot in manufacturing and services.
- Consumer confidence signals are mixed, but, on average, suggest that confidence is worsening. Softening growth in payrolls, weaker new-hiring intentions, wages and salary growth moderating are all pointing to a gradual deceleration in consumption. On the investment front, spending plans are shrinking. Inflation remains low (1.7% overall and 2.4% for core inflation) but remains close to the Federal Reserve's target.
- The Fed delivered a third cut in October FOMC, remaining open to act. The Fed also announced it will buy Treasury bills each month at least into Q2 2020, initially at a rate of $60bn/month, to maintain an appropriate level of reserves, produce rapidly supportive effects on money markets, and create some leeway and flexibility for the future.

Risk factors

- **While a mini-deal with China is in sight, uncertainty remains high, and domestic demand and confidence is worsening. The longer the list of goods included in tariffs, the higher the impact on U.S. domestic demand**
- **Geopolitical risks and tariffs could pose an upside risk to oil prices and to our inflation outlook.**

Eurozone

The economy is still sputtering along

- Manufacturing indicators are still sending out no signal of rebounding. Depending on the weight of manufacturing in their respective economies, the slowdown's impact on member-states has varied widely (with France and Spain holding up better than Germany and Italy).
- Manufacturing's difficulties are spilling over into services to an increasing, albeit still limited, extent.

Risk factors

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

United Kingdom

No-deal Brexit risk has receded markedly

- Although the agreement reached on 17 October between the UK and the EU will probably not be ratified until after the December elections, the risk of a no-deal Brexit now looks very low. The Conservatives are leading in the polls.
- After the Q2 contraction in the economy (with a 0.2% decline in GDP), figures improved in Q3. Real wages are being supported by the combination of a solid job market and the receding of inflation.

Risk factors

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

Japan

Problem is not the VAT hike but awful weather

- Weaker foreign demand has filtered through the domestic economy. In the BoJ's Tankan survey large manufacturers' business outlook slipped to a six-year low. However, exports finally started narrowing the scope of the y/y decline in Q3/19, thanks to a stabilization in global manufacturing PMI. The Tankan survey also illustrated that the service sector is successfully dodging a spill-over of the global economic slowdown.

Risk factors

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

Macroeconomic picture by area

Finalised on 30/10/2019

Japan

- Nevertheless, the economy will stall in Q4/19, not because the consumption tax was raised but because disastrous typhoons and subsequent floods disrupted business activity and consumer spending. Despite the tax hike, Tokyo CPI did not accelerate in October when the government set the preschool free. Heavy price discounts by retailers are underpinning consumer demand. The government is considering a sizable supplementary budget.

Risk factors

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

China

- At the end of the latest round of negotiations, a truce was announced between China and the US, based on more agriculture product purchases by China and no tariffs rate increase by the US. The truce details are not out yet, and a joint statement is expected to be signed in the second half of November.
- Chinese macroeconomic data showed some stabilization in September in households consumption. The private manufacturing sector has been suffering, while SOE infrastructure decoupled towards higher growth.
- The policy mix continues to support the economy in a limited way, through both the monetary and fiscal levers. The PBoC left the LPR on hold in September.
- Credit growth data bottomed out in September, driven by the Core component of RMB Loans. Local Government Bonds almost met their annual quota in August and September.

Risk factors

- **A truce announced by the US and China delegations is likely to be signed in the second half of November**
- **No further deterioration in macroeconomic conditions**
- **The policy mix is still mildly supportive**

Asia (ex JP & CH)

- Economic conditions in the region remained quite weak in September but didn't worsen any further. External demand has been stabilizing at low growth levels. The outlook for exports is still poor, due to the number of tariffs in place. The latest round of negotiations between China and the US offered some hopes of an interim agreement soon.
- The region's inflation figures have remained very benign. Noteworthy September figures came from India and China, with higher-than-expected food basket components (pork prices in particular for China), at 4.0% YoY and 3.0% YoY, respectively.
- In October, the Bank of Indonesia continued its easing with a 25bps rate cut, while the Bank of Philippines lower its RRR by 400bps to 14%.
- Malaysia's 2020 budget has projected a FD at 3.2% of GDP, lower than 3.4% in 2019 but higher than envisaged in the country's fiscal consolidation plan.

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 slightly in Colombia and Brazil, but both countries still have marginally positive momentum. We reduced our growth projections for Mexico for 2019 to 0.3% from 0.5% and for 2020 to 1.2% from 1.3%, based on very weak domestic demand.
- On the inflation front, the overall environment remains benign. Mexican inflation has converged nicely towards the central value of the target, with its latest figure at 3% YoY, marginally down from 3.2% YoY. Argentina inflation is still above 50%, and will not converge soon.

Risk factors

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

Macroeconomic picture by area

Finalised on 30/10/2019

Latam

- Banxico started its easing cycle, cutting the Policy Rates by 25bps. An inflation more comfortably within the target range will open up more monetary policy space.
- Pension reform In Brazil has finally been approved. Fiscal reform will take time. The $5.4bn tranche of disbursement by the IMF to Argentina is definitely off the table pending debt restructuring and the new IMF plan definition.

Risk factors

- **Banxico started to cut the policy rates by 25bps.**
- **Argentina is heading towards restructuring its debt.**

EMEA (Europe Middle East & Africa)

Russia: Real GDP growth is expected to slow down 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: exit from recession, but no miracle

- Recently released Q2 GDP showed more resilience than the market was expecting mainly thanks to post strike recovery in mining. We confirm our 2019 GDP forecast of 0.8% YoY with downside risks.
- Given weak GDP growth and inflation surprising to the downside, and despite deteriorating fiscal dynamics, we expect the SARB to adopt a more accommodative stance.

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

- The growth report for the second quarter of the year showed only a marginal improvement in the recessionary phase that Turkey is going through. We expect GDP growth of -1.8% 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 very 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 the risk of fiscal slippage**
- **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 November 2019)

Annual averages (%)	Real GDP growth %			Inflation (CPI, yoy, %)		
	2018	2019	2020	2018	2019	2020
US	**2.9**	**2.3**	**1.7**	**2.4**	**1.8**	**2.3**
Japan	**0.8**	**1.0**	**0.5**	**1.0**	**0.6**	**0.8**
Eurozone	**1.9**	**1.1**	**1.1**	**1.8**	**1.3**	**1.3**
Germany	1.5	0.5	0.8	1.7	1.6	1.7
France	1.7	1.3	1.3	2.1	1.4	1.4
Italy	0.7	0.1	0.4	1.1	0.6	0.9
Spain	2.4	2.0	1.6	1.7	0.9	1.3
UK	**1.4**	**1.2**	**1.1**	**2.5**	**1.9**	**2.0**
Brazil	1.1	0.9	1.6	3.7	3.7	3.9
Russia	2.2	1.2	1.7	2.9	4.0	3.5
India	7.4	5.6	6.5	4.0	3.4	4.3
Indonesia	5.2	5.0	5.1	3.3	3.0	3.1
China	6.6	6.2	5.8	2.1	2.6	2.6
Turkey	3.1	-1.8	1.5	16.2	15.6	12.1
Developed countries	**2.2**	**1.7**	**1.4**	**2.0**	**1.6**	**1.8**
Emerging countries	**4.9**	**4.2**	**4.4**	**4.0**	**4.0**	**3.9**
World	**3.8**	**3.2**	**3.2**	**3.2**	**3.0**	**3.1**

Source: Amundi Research

Key interest rate outlook

	25/10/2019	Amundi + 6m.	Consensus Q2 2020	Amundi + 12m.	Consensus Q4 2020
US	2,00	1,50	1,50	1,50	1,50
Eurozone	-0,50	-0,60	-0,60	-0,60	-0,60
Japan	-0,1	-0,2	-0,1	-0,2	-0,1
UK	0,75	0,75	0,75	0,75	0,70

Long rate outlook

2Y. Bond yield

	25/10/2019	Amundi + 6m.	Forward + 6m.	Amundi + 12m.	Forward + 12m.
US	1,56	1.30/1.50	1,54	1.30/1.50	1,56
Germany	-0,657	-0.80/-0.60	-0,71	-0.80/-0.60	-0,73
Japan	-0,244	-0.30/-0.20	-0,27	-0.30/-0.20	-0,27
UK	0,523	0.30/0.50	0,39	0.30/0.50	0,36

10Y. Bond yield

	25/10/2019	Amundi + 6m.	Forward + 6m.	Amundi + 12m.	Forward + 12m.
US	1,74	1.50/1.70	1,80	1.50/1.70	1,85
Germany	-0,40	-0.50/-0.30	-0,35	-0.50/-0.30	-0,31
Japan	-0,14	-0.20/0.00	-0,10	-0.20/0.00	-0,05
UK	0,68	0.60/0.80	0,72	0.60/0.80	0,77

Currency outlook

	23/10/2019	Amundi + 6m.	Consensus Q2 2020	Amundi + 12m.	Consensus Q4 2020
EUR/USD	1.11	1.10	1.13	1.13	1.15
USD/JPY	109	105	105	104	105
EUR/GBP	0.86	0.85	0.89	0.86	0.88
EUR/CHF	1.10	1.11	1.10	1.11	1.13
EUR/NOK	10.16	9.95	9.87	10.07	9.70
EUR/SEK	10.73	10.65	10.70	10.56	10.50
USD/CAD	1.31	1.30	1.31	1.28	1.30
AUD/USD	0.69	0.69	0.68	0.70	0.70
NZD/USD	0.64	0.64	0.64	0.65	0.65
USD/CNY	7.07	7.20	7.20	7.10	7.11

Amundi ASSET MANAGEMENT

Research & Macro Strategy

Amundi Research Center

Top-down

Asset Allocation

Bottom-up

Corporate Bonds

Fixed Income

Foreign Exchange

Money Markets

Equities

Find out more about Amundi research team

research-center.amundi.com

Monetary Policies

Forecasts

Investment Strategies

Quant

Emerging Markets

Sovereign Bonds

Private Equity

Real Estate

High Yield

November 2019 #11

Document issued by Amundi, "société par actions simplifiée"- SAS with a capital of €1,086,262,605 - Portfolio manager regulated by the AMF under number GP04000036 – Head office: 90 boulevard Pasteur – 75015 Paris – France – 437 574 452 RCS Paris – www.amundi.com

Photo credit: iStock/Getty Images Plus - Pliene

Chief editor

BLANQUÉ Pascal, Group Chief Investment Officer

Editor

DEFEND Monica, Global Head of Research

Deputy-Editor

BOROWSKI Didier, Head of Macroeconomic Research

Conception & production

BERGER Pia, Research and Macro Strategy

PONCET Benoit, Research and Macro Strategy