DEVELOPED COUNTRIES

Macroeconomic outlook

Data as of 20/05/2020

Annual averages (%)	Real GDP growth %			Inflation (CPI, yoy, %)		
	2019	2020 range	2021	2019	2020	2021
World	**3.1**	**-4.1/-2.7**	**3.9/5.1**	**3.0**	**2.4**	**2.5**
Developed countries	**1.7**	**-7.6/-5.8**	**3.1/4.7**	**1.5**	**0.7**	**1.0**
US	**2.3**	**-6.5/-4.5**	**2.5/4.5**	**1.8**	**1.0**	**1.0**
Japan	**1.2**	**-4.9/-4.3**	**2.0/2.6**	**0.7**	**0.1**	**0.5**
UK	**1.4**	**-9/-7**	**3.0/5.0**	**1.8**	**1.2**	**1.4**
Eurozone	**1.2**	**-10.2/-7.5**	**3.6/5.6**	**1.2**	**0.6**	**1.1**
Germany	0.6	-9.5/-7.5	3.4/5.4	1.5	0.7	1.2
France	1.2	-10.6/-7.0	4.3/6.0	1.3	0.6	1.1
Italy	0.3	-10.7/-7.8	2.9/4.9	0.7	0.1	1.0
Spain	2.0	-10.4/-7.9	3.5/5.5	0.7	0.3	1.0

Source: Amundi Research

- **United States:** The coronavirus crisis has pushed the U.S. economy into a sharp downturn, with severe disruptions of businesses and mass layoffs. Unemployment has surged into double-digit territory (14.7%); confidence on both the consumer and business sides has plummeted; and consumer inflation has started to reflect the consequences of the lockdowns, with headline CPI falling to 0.3% YoY (1.5% prior). The timing and profile of the recovery are still highly uncertain, but we expect GDP to contract between 4.5% and 6.5% YoY, with inflation remaining significantly subdued, with significant risks of moving into negative territory during the year
- **Eurozone:** The European economy has moved into a severe contraction, as witnessed by the appalling preliminary Q1 GDP data, which are even more concerning, given that in several countries the lockdown did not start until the latter weeks of the quarter. We expect the euro-area economy to shrink between -7.5% and -10% in 2020. Lockdowns have begun to be eased in some countries and will be soon in most; this should favour some rebound, as activities reopen but we don't expect a V-shaped recovery. Inflation will remain subdued and at risk of a deflationary trend, due to energy prices and weak demand. Euro-area HICP inflation has already decelerated to 0.4% yoy in April from 0.7% in March.
- **Japan:** Given slumping global demand and domestic epidemic control measures introduced in April, we expect Japan's economy to be hit hardest in Q2, with both private consumption and business investments likely contracting for the third straight quarter. That said, we expect Japan to fare better than other advanced economies, thanks to the government's better control of the Covid-19 outbreak. High-frequency data suggests the decline in Japanese mobility was shallower than the US and Europe, and similar to that of other East Asian economies.
- **United Kingdom:** Britain's economy looks set to shrink by the most in nearly a century, as lockdowns have already produced a 2% contraction in Q1. We expect the economy to contract between 6% and 8% in 2020, the biggest annual fall in GDP since 1921. The downward trend in CPI inflation since the start of the year is likely to continue in 2020 as energy prices weigh on the headline rate, and weak demand on the core component. Lingering weakness in demand and persistent uncertainty are likely to prompt further easing from the central bank.

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

Key interest rate outlook

	25-05 2020	Amundi + 6m.	Consensus Q3 2020	Amundi + 12m.	Consensus Q1 2021
US	**0.13**	**0/0.25**	**0.11**	**0/0.25**	**0.08**
Eurozone	**-0.50**	**-0.50**	**-0.56**	**-0.50**	**-0.58**
Japan	**-0.05**	**-0.2**	**-0.1**	**-0.2**	**-0.12**
UK	**0.10**	**0.00**	**0.02**	**0.00**	**-0.01**

Source: Amundi Research

- **Fed:** Last FOMC Meeting Statement was a non-event: the current policy stance is judged as appropriate while the ultra easy stance and forward guidance were confirmed.
  Warning of "considerable risks to the economic outlook over the medium term", the Fed pledged to do more if needed and to push its powers to their limit to help the economy, keeping rates low and channeling credit into critical areas.
  No major concerns were expressed on inflation side. What matter is inflation expectations and the size of stimulus from Fed and Congress should keep them anchored.
  The Fed will continue to play its role in the link with fiscal measures: in particular the treasury has equity to increase the size of the facilities put in place by the Fed on the private sectors.
- **ECB:** The ECB concentrated its action on liquidity measures rather than on the QE programmes in its last meeting, and more precisely through:
  - the cheapening of conditions attached to previously announced TLTROs operations (interest rate reduced to 50 basis points below the current -50bp rate),
  - the introduction of a "new series of non-targeted pandemic emergency longer-term refinancing operations (PELTROs)" at -25bp fixed rate.
- **BoJ:** The BoJ continued to strengthen its easing in April and May. After doubling ETF purchases, it increased QE by removing the annual soft target of JPY80tn for JGBs (current actual JPY14tn), to accommodate the increase of fiscal stimulus. It announced to add a significant amount of commercial papers and corporate bonds. In addition, BoJ unveiled a new fund-provisioning program to support financing of SMEs. The new programme will add JPY30tn ($280bn) to existing supports for business, bringing the total amount to JPY75tn ($700bn), with an extension of deadline to end-Mar 2021. For the existing special fund operations, BoJ has expanded the eligible collateral range to include all private debts.
- **BoE:** The BoE kept Bank Rate on hold at 10bp and the size of asset purchases unchanged at £645bn although two dissenting members voted for an immediate £100bn extension.
  Both the minutes and the Monetary Policy Report were dovish implying that further monetary stimulus via asset purchases are likely in the near future, given "downside risks around all aspects of the medium-term outlook".

Monetary policy agenda

Central banks	Next meeting
Federal Reserve FOMC	**June 10**
ECB Governing Council	**June 4**
Bank of Japan MPM	**June 16**
Bank of England MPC	**June 18**

Source: Amundi Research

EMERGING COUNTRIES

Macroeconomic outlook

Data as of 20/05/2020

Annual averages (%)	Real GDP growth %			Inflation (CPI, yoy, %)		
	2019	2020 range	2021	2019	2020	2021
World	**3.1**	**-4.1/-2.7**	**3.9/ 5.1**	**3.0**	**2.4**	**2.5**
Emerging countries	**4.1**	**-1.8/-0.7**	**4.4/5.3**	**4.0**	**3.6**	**3.4**
Brazil	**1.1**	**-4.6/-3.2**	**0/1.0**	**3.7**	**2.9**	**3.7**
Mexico	**-0.1**	**-5.3/-4.3**	**-0.9/0.1**	**3.6**	**2.5**	**3.2**
Russia	**1.3**	**-6/-4**	**2.5/5**	**4.5**	**3.3**	**3.9**
India	**5.3**	**-2.5/-1.1**	**3.0/4.3**	**3.7**	**5.9**	**4.9**
Indonesia	**5.0**	**0.2/1.2**	**3.5/4.5**	**2.8**	**2.6**	**3.2**
China	**6.2**	**1.4/2.4**	**7.6/8.2**	**2.9**	**2.6**	**1.9**
South Africa	**0.2**	**-6.4/-5.4**	**4.0/5.0**	**4.1**	**4.0**	**5.0**
Turkey	**0.8**	**-7.2/-6.2**	**4.2/5.2**	**15.5**	**9.8**	**10.1**

Source: Amundi Research

- **China:** In April, China's economy continued to grow above trend sequentially. Investments turned positive led by buoyant land sales and public led infrastructure projects. Services consumption was lagging behind goods consumption. Inflation eased further with the fast-sliding food prices and recovering pork supply. The NPC meeting didn't highlight any growth target for 2020 and reported a less ambitious labour market targets: 2mn less new urban employment. Fiscal deficit will expand driven by a sharp pick-up in spending from govt fund. Credit growth is guided to pick up notably from last year.
- **India:** In the last couple of months, economic conditions kept sharply deteriorating. The limited information concerning April (Q2 2020) is giving a much more awful picture than the one anticipated by March data. In April, Freight Traffic and Exports have collapsed. We did revise down our GDP growth expectations for 2020 in the range of -2.5%/-1.0% YoY CY20 from the previous 0%/1.5% YoY. The Government has recently announced a stimulus package of fiscal and monetary policy measures. The sharp recession is going to significantly deteriorate the fiscal metrics.
- **Central Europe:** In Q1 2020, GDP growth halved in Poland, Hungary and Romania compared to Q4 2019, though it remained positive (between 1.9% and 2.4% year on year). However, in the Czech Republic, GDP shrank by 2.2% year on year. These figures must be treated with caution, i) due to data collection problems, and ii) because the lockdown measures were applied in March and therefore only impacted growth at the end of the quarter. We expect GDP to contract in these countries in the second quarter, before picking up gradually in the second half of the year. These forecasts remain tentative due to the uncertainties that remain regarding the extent and the length of the pandemic.
- **Colombia:** With the sharp drop in oil prices and the economic slowdown from Covid-19, Colombia has been facing serious headwinds and deterioration in credit metrics. GDP growth is estimated to drop by close to 5% in 2020, while the fiscal deficit could be as high as 6% of GDP. This would imply that public debt could jump to close to 60% of GDP in 2020 from 44% in 2019. The external accounts are also a cause for concern, with the current account deficit for 2020 estimated at close to 5% of GDP within a context of declining FDI and reduced financial flows and lending to EM.

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Key interest rate outlook

	22-05 2020	Amundi + 6m.	Consensus Q3 2020	Amundi + 12m.	Consensus Q1 2021
China	**3.85**	**3.65**	**3.65**	**3.65**	**3.65**
India	**4**	**3.75**	**3.85**	**3.75**	**3.8**
Brazil	**3**	**2.5**	**2.8**	**2.5**	**3.1**
Russia	**5.5**	**4.5**	**4.7**	**4.5**	**4.8**

Source: Amundi Research

- **PBoC (China):** PBOC suspended rate cut in May, after a series of easing in the prior months. At the NPC, policymakers vow to adopt a prudent monetary policy in a more flexible and appropriate way, by deploying rate cut and RRR cuts. It will also guide aggregate financing growth to pick up notably from last year. With these continuous easing signals, we expect additional 20bp cut to the LPR. RRR cuts are also likely to free up some bank funding for government bond purchases.
- **RBI (India):** For the second time in a row, RBI cut its Policy rate in an extra schedule meeting by 40bps to 4.0%. The MPC also decided to continue with the accommodative stance as long as it is necessary. The rate decision didn't surprise us in the size but maybe in the timing, ten days earlier than the regular meeting. Additional measures have been announced to improve the functioning of the markets, to provide relief on debt servicing and capital market access and to support imports and exports.
- **BCB (Brazil):** The BCB reduced its policy rate by 75 bps from 3.75% to 3%, its largest cut since October 2017. The prevalent view was that, in light of the elevated uncertainty domestically, the remaining scope for monetary policy is unknown and may be small. In the meeting minutes the Committee reiterated that next Monetary Policy decision will depend on the fiscal scenario and economic data and the final stimulus will not be larger than the latest done.
- **CBR (Russia):** On 24 April, the Central Bank of Russia cut its policy rate by 50bps to 5.5% and announced that it had switched to an accommodative monetary policy. It remains open to further rate cuts. The disinflationary pressures from weak demand outweigh temporary pro-inflationary factors such as the weakening rouble. Annual inflation is expected to reach 3.8-4.8% by year-end, and then fall to 4%, which is the target. The CBR also revised its macro forecasts for 2020-21. Given the expected deceleration in economic activity, we expect the CBR to cut rates by 100bps by year-end.

Monetary policy agenda

Central banks	Next communication
PBoC	**June 22**
RBI	**June 5**
BCB Brazil	**June 16**
CBR	**June 19**

Source: Amundi Research

MACRO AND MARKET FORECASTS

Macroeconomic forecasts (20 May 2020)

Annual averages (%)	Real GDP growth %			Inflation (CPI, yoy, %)		
	2019	2020 range	2021	2019	2020	2021
US	2.3	-6.5/-4.5	2.5/4.5	1.8	1.0	1.0
Japan	1.2	-4.9/-4.3	2.0/2.6	0.7	0.1	0.5
Eurozone	1.2	-10.2/-7.5	3.6/5.6	1.2	0.6	1.1
Germany	0.6	-9.5/-7.5	3.4/5.4	1.5	0.7	1.2
France	1.2	-10.6/-7.0	4.3/6.0	1.3	0.6	1.1
Italy	0.3	-10.7/-7.8	2.9/4.9	0.7	0.1	1.0
Spain	2.0	-10.4/ -7.9	3.5/5.5	0.7	0.3	1.0
UK	1.4	-9/-7	3.0/5.0	1.8	1.2	1.4
Brazil	1.1	-4.6/-3.2	0/1.0	3.7	2.9	3.7
Mexico	-0.1	-5.3/-4.3	-0.9/0.1	3.6	2.5	3.2
Russia	1.3	-6/-4	2.5/5	4.5	3.3	3.9
India	5.3	-2.5/-1.1	3.0/4.3	3.7	5.9	4.9
Indonesia	5.0	0.2/1.2	3.5/4.5	2.8	2.6	3.2
China	6.2	1.4/2.4	7.6/8.2	2.9	2.6	1.9
South Africa	0.2	-6.4/-5.4	4.0/5.0	4.1	4.0	5.0
Turkey	0.8	-7.2/-6.2	4.2/5.2	15.5	9.8	10.1
Developed countries	1.7	-7.6/-5.8	3.1/4.7	1.5	0.7	1.0
Emerging countries	4.1	-1.8/-0.7	4.4/5.3	4.0	3.6	3.4
World	3.1	-4.1/-2.7	3.9/ 5.1	3.0	2.4	2.5

Key interest rate outlook

Developed countries

	25/05/2020	Amundi + 6m.	Consensus Q3 2020	Amundi + 12m.	Consensus Q1 2021
US	0.13	0/0.25	0.11	0/0.25	0.08
Eurozone	-0.50	-0.50	-0.56	-0.50	-0.58
Japan	-0.05	-0.2	-0.1	-0.2	-0.12
UK	0.10	0.00	0.02	0.00	-0.01

Emerging countries

	22/05/2020	Amundi + 6m.	Consensus Q3 2020	Amundi + 12m.	Consensus Q1 2021
China	3.85	3.65	3.65	3.65	3.65
India	4	3.75	3.85	3.75	3.8
Brazil	3	2.5	2.8	2.5	3.1
Russia	5.5	4.5	4.7	4.5	4.8

Long rate outlook

2Y. Bond yield

	25/05/2020	Amundi + 6m.	Forward + 6m.	Amundi + 12m.	Forward + 12m.
US	0.17	0.25/0.5	0.21	0.25/0.5	0.23
Germany	-0.681	-0.70/-0.50	-0.74	-0.70/-0.50	-0.76
Japan	-0.144	-0.30/-0.20	-0.17	-0.30/-0.20	-0.17
UK	-0.051	0/0.25	-0.08	0/0.25	-0.06

10Y. Bond yield

	25/05/2020	Amundi + 6m.	Forward + 6m.	Amundi + 12m.	Forward + 12m.
US	0.66	0.5/0.7	0.74	0.8/1	0.81
Germany	-0.49	-0.8/-0.5	-0.45	-0.50/-0.30	-0.41
Japan	0.00	-0.10/0.10	0.06	0/0.2	0.10
UK	0.17	0.20/0.4	0.21	0.3/0.5	0.27

Currency outlook

	22/05/2020	Amundi + 6m.	Consensus Q3 2020	Amundi + 12m.	Consensus Q1 2021
EUR/USD	1.090	1.07	1.10	1.14	1.13
USD/JPY	108	107	107	105	108
EUR/GBP	0.90	0.92	0.89	0.87	0.87
EUR/CHF	1.06	1.05	1.06	1.10	1.08
EUR/NOK	10.90	11.48	11.10	10.40	10.70

	22/05/2020	Amundi + 6m.	Consensus Q3 2020	Amundi + 12m.	Consensus Q1 2021
EUR/SEK	10.54	11.20	10.75	10.03	10.59
USD/CAD	1.40	1.42	1.39	1.28	1.37
AUD/USD	0.65	0.65	0.64	0.75	0.66
NZD/USD	0.61	0.57	0.60	0.65	0.63
USD/CNY	7.14	7.15	7.05	6.95	7.00

Source: Amundi Research

DISCLAIMER TO OUR FORECASTS

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

A global recession is our base case today

1. How deep?

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

2. How long?

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

3. The fiscal impact

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

Financial targets

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

Amundi Research Center

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