Risk factors

DIDIER BOROWSKI, Head of Macroeconomic Research
PHILIPPE ITHURBIDE, Global Head of Research

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

Risk # 1 | 40% probability | Renewed escalation in trade tensions between the US and China

Analysis | US and China ceased fire after a temporary deal reached by President Trump and President Xi during G20 meetings at Argentina. The planned increase of tariff rates in January 2019 paused and the risk of an additional tranche of tariffs on the rest of US imports from China ($267bn) seems to have been also delayed, while negotiations resumed, with signs of China to deliver some of commitments. This should at least help to reduce some downside risks in the near term, with direct impacts on trade to be less concerned, and market sentiment to recover slightly from being very downbeat. That said, this deal is still temporary, and it could take much longer to ultimately solve the problems, as many complicated topics are involved. We cannot rule out a severe confrontation between the US and China.

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

Risk # 2 | 20% probability | Major European slowdown

Analysis | Eurozone GDP growth slowed down to only 0.2% QoQ in Q3, after 0.4% in Q1 and Q2 and 0.7% in Q3 and Q4 2017. While Q3 weakness was largely the result of temporary negative factors (a sharp drop in German car production due to a new emission testing regime), the growth momentum in Q4 2018 and Q12019 is slower than what we had anticipated a few months ago. The central scenario remains a continuation of the recovery at a slightly above-potential pace, but risks are clearly tilted to the downside, in particular in the short run. Indeed, the combination of continuing internal political stress and external negative factors (notably a slowdown in the US and/or Chinese momentum) could cause growth to fall further. Lower oil prices are a supportive factor. However, a reversal of this trend would be another drag for the European economy.

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

Risk # 3 | 20% probability | No-deal Brexit

Analysis | A large majority of British MPs rejected on 15 January the Withdrawal agreement concluded by the EU and UK governments on November 25. However, PM T. May was conforted the following day by the failure of a non-confidence vote triggered by Labour. Parliament also backed her to renegotiate with the EU the so-called "Irish backstop" that remains the main obstacle to ratification. However, the EU's official position remains that the Withdrawal Agreement, which the backstop is part of, cannot be renegotiated. Our estimate is that there is a 50% probability that an agreement can nonetheless be ratified by March 29 (although even in this case Brexit may be postponed by a few weeks). Indeed, pressure related to an imminent "no deal" risk will increase in the coming weeks and (possibly in conjunction with a few concessions from the EU) may lead to a last minute change in the attitude of enough MPs. We also believe that there is a roughly 30% probability that Brexit will be postponed by several months, as a consequence of a decision to organize a new referendum or a new election, or following an agreement by the EU to give more time to the UK to entirely rethink its position, or if the UK unilaterally withdraws its invocation of Art. 50. The "no-deal Brexit" probability on March 29 is, in our view, of roughly 20%: While the clear majority of MPs opposed to "no-deal" is a safeguard, it remains nonetheless the default scenario if no agreement can be reached on another solution.

Market impact | We must prepare for a dense newsflow in the coming weeks. In the event that the outcome is ultimately unfavourable for the UK, we would see a weakening of the GBP and below-trend GDP growth. But should a deal be voted, the Sterling would appreciate and business investment would probably benefit from a drop in uncertainty.

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

Analysis | The government coalition in Italy (between M5S and the League) maintained very tense relations with the EU until recently. The government revised down its deficit target, with a smaller budget deterioration in 2019 (2.04% vs. 2.4%). It is not a structural adjustment, but thanks to this revision, the European Commission (EC) has decided not to launch an Excessive Deficit Procedure at this stage. The relationships with the EC have improved at least for the time being.. Incoming data on contracting economic growth in Q3 and weak coincident and leading indicators for Q4 increased the risks of another dip. With slow growth ahead (we expect GDP growth at 0.5% in 2019), tensions with the EC will inevitably resurface later in 2019.

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

Risk # 5 | 15% probability | Continuation of the contagion in the “emerging world”

Analysis | Emerging markets suffered in 2018, impacted by (1) the Fed’s rate hikes and strong USD; (2) by the trade war rhetoric; (3) by the tightening in domestic monetary conditions (many EM central banks have risen their key rates); (4) by the deterioration of the outlook in several countries at the same time (Argentina, China, Turkey and South Africa). In fact, even though the systemic risk is lower than in the past (given the lesser vulnerability of emerging countries), most EM assets dropped in 2018. The fact that the Fed is close to the end of its tightening cycle and that the USD has peaked is good news for EM markets in 2019. However an escalation in the trade war between the US and China would undoubtedly push to a larger contagion (because value chains are very integrated).

Market impact | Credit spreads and equity markets would be highly hurt; it all the more true that emerging currencies would remain under pressure with more capital outflows. However, the emerging world is not a homogeneous block, and the market will deteriorate more in the most vulnerable countries, whether due to poor external positions whether due fragile fiscal and political conditions. Some caution about emerging markets is still required at present but the risk probability has reduced. Indeed, we believe EM markets have already priced in most bad news, and at some point, they should become attractive again.

Risk # 6 | 15% probability | US Recession

Analysis | Recent surveys indicate that the US economy started to slow in Q4. We think that US growth will continue to slow looking ahead, in particular regarding investment. However consumption should remain resilient given the strength of the job market. Given the shutdown, there is no compromise to expect between Democrats and Republican on infrastructure in the short term. All eyes are on the Federal Reserve which is likely to make a pause earlier than expected.

Market impact | Markets are likely to become more circumspect with regard to 2020 growth expectations as the deceleration could become more pronounced and economic signals increasingly mixed as the cycle extends. The best choice for investors is to limit exposure to credit, diversify the portfolio smartly and to take a flexible duration management (close to neutrality at this stage). On the equity side, selection of themes, sectors and single names will be increasingly relevant.

Risk # 7 | 15% 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 (monetary and fiscal policies) so that the economy is expected to remain resilient. That being said, the country’s economic model is fragile: the excess of credit is visible, non-financial corporate debt has surged since the GFC. The good news is that the NFC debt to GDP ratio had started to drop since late 2017. We will continue to monitor closely the trend in Chinese private debt, especially if the economy slows. Meanwhile, a cease of fire with US on trade tensions could gain valuable time for China to adjust their policy implementations and to better manage short-term risks. In the case of hard landing or the bursting of the credit bubble, the Chinese authorities would be unable to avoid a stronger depreciation of the Yuan.

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

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

Analysis | European politics is becoming less predictable due to the rise of various non-mainstream political forces in several countries. In September, the non-mainstream Italian government coalition announced a 2019 budget in breach of European rules, thus opening an episode of tensions with the rest of the Eurozone. Although an agreement was reached, this topic could flare up again due to more fiscal slippage in 2019. In France, where the situation had been stable since the 2017 presidential election, sudden and violent social movements caught the government off guard at the end of 2018 and could complicate the continuation of its supply-side reform agenda. Although less immediately worrying, the political outlook is also uncertain in Germany (where the stability of the government coalition could be questioned) and in Spain (due to the lack of a proper majority in Parliament and the recent rise of a far-right party). More generally, the combination of strong anti-immigrant feelings and frustration towards European institutions remains a tailwind for anti-system political forces. The May 2019 European election will be a major gauge of their progress.

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

MACROECONOMIC CONTEXT

Our convictions and our scenarios

DIDIER BOROWSKI, Head of Macroeconomic Research
PHILIPPE ITHURBIDE, Global Head of Research

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

Central scenario (75% probability): global growth slows gradually but surely

- **Growth is slowing worldwide:** 2018 had begun based on the theme of a synchronised global recovery. But this did not last. Since the spring, the protectionist measures taken by Donald Trump have changed the game. Emerging economies, some of which are heavily indebted in dollars, have been weakened due to the broad-based appreciation of the US currency. Moreover, economic activity has markedly weakened in China and in the Eurozone since Q4 2018. Hence 2019 starts with a global synchronised slowdown with predominant downside risks. However, a new factor that arrived lately in the picture has been the oil price drop (since October) that should support the European economies and the EM oil Importers such as India and Turkey.

- **World trade:** Global trade has weakened; it started 2018 at around 5% YoY and in October it has grown by 3.6% YoY. Protectionist rhetoric has pushed down business confidence, particularly in Europe. That said, global uncertainty is tending to drag down investment and disrupt value chains that have developed in lockstep with the expansion in global trade over the past 15 years. However, the truce between China and the US (after the G20 meeting in Argentina) has resulted in a more positive than expected short-term scenario, where the further increase in US tariffs towards China from 10% to 25% at the 1st of January 2019 has been postponed by 90 days (1st of March 2019). And this truce is likely to be extended in time. At the end of the day, we expect global trade growth to stabilise at the same level as global GDP growth.

- **United States:** The US economy has been driven by a very accommodative fiscal policy but its impact should progressively erode this year. We expect growth to decelerate to its potential by early 2020, meaning in practice that the US economy will lose 1pp of growth by the end of the year. Indeed, we expect GDP growth at 2.4% in 2019 and 1.8% in 2020 (yoy growth, would thus slow from 3% in Q4 18 to 2% in Q4 19). This situation will have a negative impact on corporate profits, especially if inflationary pressures materialise by then, which is possible, given the fact that the economy is operating at close to full employment. We do believe that a recession is highly unlikely in 2019, but the cycle-end story will probably return to the fore at some point by next summer, as the fiscal multiplier impact fades and as the effects of monetary policy tightening show up.

- **Eurozone:** Once again we revised down our growth forecast (from 1.5% to 1.2% in 2019); however we kept unchanged our growth forecast for 2020 at 1.5%. Despite a recovery that has started well after that in the US, Eurozone economies have begun to slow in 2018. The output gap has closed in most countries, and Italy is the only one in the Eurozone (excluding Greece) where GDP has not recovered to pre-crisis levels. In Italy, incoming data and weak coincident and leading indicators for Q4 increased the risks of another dip that prompted the Government to tone down rhetoric. Several factors have contributed to the slowdown in EZ growth in 2018: the slowdown in world trade and, until October, a high oil price have been the most relevant. No wonder, in these conditions it is Germany that has slowed the most abruptly. The possibility of a coalition change in Germany following the defeat of the two major government coalition parties (CDU and SPD) in local elections marks the end of the Merkel era. The loss of the chancellor's leadership may hinder initiatives to strengthen the integration of the Eurozone that were under consideration. In addition, political uncertainties have muddied the waters (Brexit, Italian budget). It will probably be necessary to wait for European elections in May 2019 and a new parliament, a new European Commission, a new Chancellor in Germany, and clarification regarding leadership of the institutions of the EU (Commission, ECB) to make significant progress in strengthening the EU and the Eurozone.

- **United Kingdom:** The political situation in the UK is highly unstable. Many options are still possible. Everything will ultimately depend on the scenario (see section risk factors and our "investment talk" published on the subject on 9 January).

- **China:** Chinese economic growth is slowing down but the authorities are working hard to stimulate the economy (through monetary and fiscal policies) so that the economy is expected to stabilise by mid-2019. That being said, the country's economic model is fragile: the excess of credit is visible, non-financial corporate debt has surged since the GFC. The good news is that the NFC debt to GDP ratio had started to drop since late 2017. Meanwhile, the cease of fire with US on trade tensions should gain valuable time for China to adjust its policy implementations and to better manage short-term risks. In the case of hard landing or the bursting of the credit bubble, the Chinese authorities would be unable to avoid a stronger depreciation of the Yuan.

- **Inflation:** Core inflation remains low at this stage of the cycle in advanced economies. The slowdown in inflation in recent years is primarily structural in nature, as it is tied to supply-side factors, while the cyclical component of inflation has weakened (with a flattening of the Phillips curve). Core inflation is likely to pick up only slightly in advanced economies. An "inflationary surprise" remains possible with the pick-up in wages (United States, Eurozone) but is increasingly unlikely, would not last long (due to a lack of pricing power) and would drag down corporate margins more than final sale prices, all the more so if global growth slackens. Things are somewhat different in emerging economies, where inflationary pressures are greater in many countries, in reaction to which many central banks have raised their key rates.

- **Oil prices:** Oil prices have decreased sharply: from $86/b (Brent) in early October to $60 in late January. The main trigger at the very beginning of the decline have been the large amount of waivers conceded by the US administration to different countries with regard to the sanctions imposed to Iran oil exports. A moderate OPEC and Non-OPEC production cut decided at the beginning of December together with fear of a more pronounced economic slowdown are keeping oil prices at low levels.

- **Main central banks to turn more accommodative: The Fed should stop its monetary tightening in H1 2019 (we expect at most one rate hike this year, probably not before Q2).** The ECB has ended its monthly asset purchases at the end of December but will continue to replace maturing securities (between €160 and 200 bn in 2019) without clarifying its reinvestment policy in order to retain some flexibility. We do not expect any rate hike from the ECB in 2019 or 2020.The ECB has no room for manoeuvre to normalise its monetary policy, given the economic slowdown and the absence of inflation. In order to maintain very accommodative monetary conditions, we now expect the ECB to launch a new TLTRO (H1).

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

- The risk of further protectionist measures from the US (even after the 90 days agreed during last G20 meeting), followed by retaliation from the rest of the world, remains high. China and the EU are particularly exposed to this risk.
- Uncertainty regarding rising trade tensions (primarily between the US and China) against a backdrop of geopolitical risks, crises in several large emerging economies (e.g., Turkey, Argentina), political risk in Brazil, a slowdown in China, and political tensions in Europe (a deterioration in the budget situation in Italy, Brexit) is encouraging companies to remain cautious.

Consequences:

- All things being equal, a trade war would drag down global trade and trigger a synchronised and durable slowdown in growth and, in the short term, inflation. That said, a global trade war would quickly become deflationary by creating a shock to global demand.
- An abrupt repricing of risk on fixed income markets, with an across-the-board rise in government or credit spreads, for both advanced and emerging economies, and a decline in market liquidity.
- Recession fear in the US.
- In the worst - albeit highly unlikely - case would once again resort to unconventional tools, such as expanding their balance sheets.

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

Donald Trump makes an about turn, reducing barriers to trade and engaging in bilateral negotiations with China. Domestically, the theme of increasing infrastructure spending could return to centre stage and extend the cycle in the United States.

- Acceleration driven by business investment and a rebound in global growth.
- Pro-cyclical US fiscal policy generating a greater-than-expected acceleration in domestic growth. Growth is reaccelerating in the Eurozone after a dip. Growth picks up again in China on the back of a stimulative policy mix.
- Central banks would react late, initially maintaining accommodative monetary conditions.

Consequences:

- An acceleration in global growth would boost inflation expectations, forcing central banks to consider normalising their monetary policies more rapidly.
- An increase in real key rates, particularly in the US.

Macroeconomic picture by area

United States

Slowing down amid policy uncertainty

- Economic growth is still above potential and consistent with a gradual slowdown, but downside risks are rising. Reported difficulties in reaching a lasting trade deal with China and the government shutdown extension are increasing policy uncertainty and may impact the real economy.
- Personal consumption resilience will become a key factor in sustaining growth in domestic demand, amid risks of a deceleration in investments that are more pronounced than previously expected.
- Business confidence recently declined among small and larger businesses; uncertainty on growth and demand outlook may drive a moderation in capex intentions.
- The labour market remains strong overall in terms of employment and wage growth, underpinning the view of resilient consumer demand.
- The inflation outlook remains benign, with modest inflationary pressures keeping both core and headline CPI in check.
- Fed key change of tone: The Fed will be "patient" and "flexible" on rates; it is open to changing the balance-sheet runoff policy and is listening carefully to market's risk concerns. We expect one more hike 1H19.

Risk factors

- Concerns over global growth, external and domestic demand are holding back new capex plans
- Tariffs and retaliation are negatively impacting economic performance, both directly (prices) and indirectly (confidence)
- Fed tightening is having a stronger-than-expected impact and with trailing interest rate-sensitive segments (i.e. policy mistake)
- Geopolitical risks linked to a more hawkish shift by the US administration

Eurozone

The recovery continues despite disappointing figures and rising political risks

- Growth was very disappointing in 2018. Temporary negative factors (auto sector in Germany) played a role, but cannot be the only reason behind the deterioration in the economic environment. Rising oil prices (until October), tension over trade and political risks also dragged down growth. Weakness could continue into early 2019 ahead of a moderate rebound (growth forecast for 2019 lowered further from 1.5% to 1.2%).
- While an agreement was reached on the Italian budget, France saw major social unrest in Q4. Political risk will remain high in 2019.

Risk factors

- Stronger political protest movements
- Euro appreciates
- External risks (trade war, slowdown in United States and China)

United Kingdom

Major uncertainty as Brexit approaches

- Despite the lack of visibility on Brexit, the labour market remains strong and real wages are rising, boosted by lower inflation.
- However, Brexit is dragging down confidence and investment. It is very uncertain as to whether the UK Parliament will ratify the withdrawal agreement reached with the EU in November. There are many possible outcomes, including postponing Brexit to well after 29 March. A No Deal seems unlikely, but it cannot be ruled out entirely.

Risk factors

- "No Deal Brexit"
- The current account deficit remains very high

Japan

Fiscal policy and private demand will eclipse tainted export landscape

- Exports in general have weakened, with exports to China (22% of total exports) plunging due to US bans on the China-made products. Meanwhile, demand from the US and Europe remains healthy.
- In contrast, domestic demand is supported by steady income growth and companies' aspirations to cope with the labour shortage. Global uncertainties appear to be dragging down corporate morale. Yet capex is likely to simply slow its ascent rather than decrease. Moreover, public investment in light of rebuilding in disaster-affected areas should mitigate contagion of the trade dispute.
- As a consequence, inventory adjustment has finally come to an end. The decline in imported oil prices will improve companies' terms of trade, while a sharp mark-down in mobile communication charges scheduled for April will encourage spending in other areas.

Risk factors

- The US administration is set to take a tough line on trade talks with Japan, starting January

China

- Near-term risks to the economy are high, while policymakers seem determined to use cyclical measures to prevent a hard landing.
- Exports look to be suffering and the property sector could soften somewhat going forward but drag from the auto sector will perhaps be smaller.
- More policy measures are under way. There was a strong push of fiscal spending in late 2018, followed by a full RRR cut in early January. The next focus is on further tax cuts and larger local government special bond issuance as announced.
- With policy gradually passing through, overall credit growth looks set to bottom out in coming months.
- US/China trade tensions remain a major uncertainty. While talks in early January showed marginally positive signs, eyes are on the next round of talks scheduled for end-January.
- Downward pressures on RMB have eased somewhat helped by the more dovish FED and softer dollar.

Risk factors

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

Asia (ex JP & CH)

- The first Q4 2018 GDP releases in the area continue to show a mildly decelerating trajectory. China reported its weakest GDP at 6.4% YoY. Philippine GDP has remained stable at 6.0% YoY, growing less than expected, while South Korea surprised on the upside. Overall, domestic demand is proving to be more resilient than external demand.
- The region's inflation figures remained benign. Inflation in the Philippines continued to decline significantly, to 5.1% YoY from 6.0% YoY.
- The BSP and BI recently took a break in their aggressive hiking cycle. Overall, CBs in the region are in a wait-and-see mood, but we do expect some easing in India in the next future.
- The electoral cycle is beginning in the region: the date of 24 March at last been set in Thailand, along with 17 April in Indonesia and between April and May in India. The most "fragmented" outcome is expected in India.

- **Growth outlook decelerating but still decent**
- **Inflation still very benign. In the Philippines, it continues to decline significantly**
- **BSP and BI recently paused in their hiking cycle**
- **The election cycle in the region will be starting soon**

Latam

- More frequent economic figures have confirmed an improvement in economic conditions in mid-sized and smaller countries in the region in comparison with the largest countries. In Colombia, retail sales and industrial production came in better than expected at 10.8% YoY and 4.7% YoY, respectively.
- On the inflation front, the overall environment remained benign. In Mexico, inflation recently paused in its converging path, rising to 4.8% YoY from 4.7%.
- The region's main central banks kept their monetary policy rates unchanged at their recent meetings.
- In Venezuela, the much-awaited regime change may be happening. Juan Guaido, the president of the new opposition-led National Assembly, proclaimed himself as interim president, arguing that President Maduro had usurped the presidency. Meanwhile, Maduro started his second six-year term, following a victory deemed fraudulent.

- **Smaller countries are better positioned for recovery**
- **Inflation is overall benign, with Mexico pausing on its declining path**
- **No changes in monetary policy**
- **Change of regime in Venezuela may be happening**

EMEA (Europe Middle East & Africa)

Russia: we forecast 1.7% YoY growth for 2018 and slightly lower for 2019

- Despite the threat of potential US sanctions down the road, the macroeconomic scenario remains supportive. Russia will be among the few emerging market sovereigns with the "twin surpluses" in 2019, while accumulating assets at the National Wealth Fund.
- The Central Bank may hike again in Q1- 2019 depending on rouble weakness, inflation expectations and external risks.

- **Drop in the price of oil, stepped-up US sanctions and further geopolitical tensions**

South Africa: exit of recession but no miracle

- South Africa emerged from recession in Q3 thanks to the recovery of manufacturing and services. On the expenditure side, household consumption rebounded as well as inventories while private and public investment declined. The contribution of net exports was also negative.
- In terms of policy mix, there is very little room for manoeuvre. The SARB remained on holdbut it is not excluded that it still has to hike in 2019.

- **Increased risk aversion, risk of sovereign notation downgrading, rising social demands in the run-up of elections**

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

- The strong tightening of interest rates, the rebound in the Turkish lira, the fall in the price of oil and the implementation of discretionary measures on some goods, have provided some respite to inflation. However, it should not fall below 20% for several months.
- In this context, household purchasing power and corporate margins are at their lowest. We therefore expect a sharp drop in activity in the second half of 2018 and a GDP recession of 1% in 2019.

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

Macro and Market forecasts

Macroeconomic forecasts
(30 January 2019)

Annual averages (%)	Real GDP growth %			Inflation (CPI, yoy, %)		
	2018	2019	2020	2018	2019	2020
US	**2.9**	**2.4**	**1.8**	**2.4**	**2.3**	**2.3**
Japan	**0.7**	**1.0**	**0.6**	**1.0**	**0.7**	**1.3**
Eurozone	**1.8**	**1.2**	**1.5**	**1.8**	**1.5**	**1.7**
Germany	1.5	1.2	1.5	2.0	1.6	1.7
France	1.5	1.3	1.5	2.1	1.5	1.7
Italy	0.9	0.4	0.8	1.1	1.3	1.6
Spain	2.5	2.0	1.8	1.7	1.6	1.9
UK	**1.4**	**1.5**	**1.6**	**2.3**	**2.3**	**2.3**
Brazil	1.3	2.2	2.1	3.7	4.2	4.3
Russia	1.7	1.5	1.7	2.9	5.0	4.3
India	7.8	6.9	7.1	4.0	3.8	4.9
Indonesia	5.1	5.3	5.4	3.2	3.4	4.2
China	6.6	6.2	6.1	2.1	2.0	2.4
Turkey	2.8	-1.0	1.5	16.2	16.5	13.3
Developed countries	**2.2**	**1.8**	**1.6**	**2.0**	**1.8**	**2.0**
Emerging countries	**4.9**	**4.6**	**4.8**	**4.1**	**3.8**	**3.9**
World	**3.8**	**3.5**	**3.5**	**3.2**	**3.0**	**3.1**

Source: Amundi Research

Key interest rate outlook

	31/01/2019	Amundi + 6m.	Consensus Q2 2019	Amundi + 12m.	Consensus Q4 2019
US	2.50	2.75	2.75	2.75	3.00
Eurozone	0	0	0	0	0.1
Japan	-0.1	-0.1	-0.1	-0.1	-0.1
UK	0.75	1.0	1.0	1.0	1.0

Long rate outlook

2Y. Bond yield

	31/01/2019	Amundi + 6m.	Forward + 6m.	Amundi + 12m.	Forward + 12m.
US	2.49	2,80/2,90	2.5	2,70/2,80	2.45
Germany	-0.56	-0,50/-0,40	-0.53	-0,50/-0,40	-0.49
Japan	-0.17	-0,20/0,00	-0.16	-0,10/0,10	-0.16
UK	0.75	0,80/1,00	0.75	0,80/1,00	0.76

10Y. Bond yield

	31/01/2019	Amundi + 6m.	Forward + 6m.	Amundi + 12m.	Forward + 12m.
US	2.67	2,90/3,00	2.7	2,80/2,90	2.71
Germany	0.17	0,25/0,45	0.22	0,25/0,45	0.27
Japan	0.00	0,10/0,20	0.03	0,10/0,20	0.06
UK	1.23	1.40/1.60	1.27	1,40/1.60	1.32

Currency outlook

	30/01/2019	Amundi + 6m.	Consensus Q2 2019	Amundi + 12m.	Consensus Q4 2019
EUR/USD	1.14	1.17	1.17	1.20	1.20
USD/JPY	110	109.0	110.0	105	108.0
EUR/GBP	0.87	0.89	0.88	0.88	0.88
EUR/CHF	1.14	1.16	1.15	1.18	1.16
EUR/NOK	9.68	9.30	9.50	9.20	9.40
EUR/SEK	10.39	10.05	10.14	9.80	9.95
USD/CAD	1.32	1.30	1.31	1.29	1.29
AUD/USD	0.72	0.72	0.73	0.70	0.74
NZD/USD	0.68	0.68	0.68	0.69	0.69
USD/CNY	6.71	6.8	6.85	6.7	6.75

Amundi ASSET MANAGEMENT

Research & Macro Strategy

February 2019 #02

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High Yield

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