Crédit Agricole Group economic and sector analysis

Prospects

Quarterly – No. 20/316 – October 5, 2021

WORLD – Macroeconomic Scenario for 2021-2022

The chicken or the egg?

With supply-side tensions and/or surplus demand, inflation is accelerating. Its anticipated peak is edging ever upward and its return toward the central banks' targets looks increasingly remote. Predictions of monetary policy tightening, however, are due more to the exit from the crisis and the still-solid growth outlook than to inflation. Whether this monetary policy tightening is just being floated or already in place, whether the strategy is in development or already in use, it will be prudent. US tapering is on the way, but no storms are looming over the markets – which is good for everyone, especially the emerging countries.

Contents

Developed countries – The chicken or the egg ... 3
Emerging countries – Four themes for 2021-22 ... 12
Oil – Back to "Normal" ... 20
Monetary policy – Beginning of 'normalisation' ... 22
Interest rates – No over-reaction to monetary normalisation ... 26
Exchange rates – Momentary advantage of the dollar ... 28
Economic and financial forecasts ... 31

Demand has finally been 'freed', spurring a strong and early recovery. While supply is suffering from significant upstream constraints, cost pressures and bottlenecks are appearing. This is worrisome, but inflation still looks to be temporary, since it is unlikely to degenerate into a price/wage loop. It should ease and decelerate, just like the pace of growth.

Inventory behaviours (unintended build-up during the crisis, massive de-stocking, cautious restocking, etc) are making it especially hard to read the situation and amplifying quarterly volatility in growth. Yet overall, growth did rebound in the first half, and we are now past the high point of the recovery. In the **US**, with extraordinary income support measures withdrawn but persistently high demand for labour and accumulated savings still available, growth should decelerate, but stay at a comfortable level. Our scenario is based on an average growth rate of 6.1%, then 4% in 2022, with an upside bias that will include the impact of the new budget plan, once its outline is finally clear. In the **Eurozone**, after a solid and early rebound that has progressively evened out among the countries, growth still promises to be lively. Throughout the Eurozone, the gap between GDP and its pre-crisis level is likely to be closed by Q3 and, once the catch-up effort spent, weaker sequential growth should settle in. Nonetheless, after average growth

of 5.4% in 2021, GDP growth is only expected to drop to 4.4% in 2022, faster than the average pace for the decade leading up to the crisis. All countries in the Eurozone are expected to regain their pre-Covid business activity level by mid-2022. However, these growth scenarios assume that the constraints on supply are gradually easing, allowing it to meet demand without degenerating into virulent inflation.

With supply tensions and/or surplus demand, inflation has already accelerated very significantly. Its anticipated peak is marching relentlessly upward and its dip toward the central banks' targets looks increasingly remote.

Increased commodity prices, intermediate goods shortages, shipping congestion, supply disruptions, labour shortages, wage pressures and a powerful resurgence in demand: right now, everything is working to accelerate inflation. And inflation is particularly glaring in the US, where consumer prices were up 5.3% YoY in August, compared to 3% in the Eurozone. Yet, assuming that oil, natural gas and electricity prices remain high, at least in 2022, our central scenario[1] does not call for a new 'super-cycle' in commodities. Bottlenecks in the sectors that are especially hard hit (container shipping and microchips) are expected to normalise, but not in the near term[2]. Lastly, labour shortages will remain localised, as will wage increases (specifically in the US, where they are concentrated in low-wage jobs and not impacting the pay spectrum), and, because of a gradual reallocation to the most demand-generating sectors, they should slowly be reabsorbed.

Inflation statistics might still be alarming in Q4, with peaks estimated at 5.6% and 4%, respectively, in the US and the Eurozone. In the US, our scenario is based on average inflation of near 4.4% in 2021 (3.5% in 2022) with a twelve-month increase of 5.5% in December 2021 (2.6% in December 2022). In the Eurozone, average inflation of about 2.4% is expected to prevail in both 2021 and 2022, moving from 3.9% to 1.5% between year-end 2021 and year-end 2022. We are far from a stagflation environment of persistently flat growth and persistently high inflation.

Although the risk is clear, and cannot honestly be calibrated with any certainty, growth, more than inflation, is spurring the withdrawal of extraordinary monetary policy support measures. While ultimately, the effects are identical, normalisation, not tightening, seems to be the more appropriate term: whether normalisation is just being floated or is already in place, whether the strategy is in development or already in use, it will be prudent.

If the jobs report is reassuring, the Federal Reserve could announce it is reducing its asset purchasing in November. This tapering could extend until mid-2022 without being mechanically followed by an increase in its key rate, as long as inflation does not shoot up to a higher plateau that lasts, while de-anchoring inflation expectations. In the Eurozone, the sole adjustment announced at this stage is a reduction in the purchasing pace under the ad hoc PEPP programme. If the ECB does not want to see its credibility eroded, it should revise its inflation forecast upward and orchestrate a phase-out of its ultra-accommodating mechanism. APP and TLTRO arrangements will not be disclosed until December.

US tapering is on the way but is not warning of any storm on the financial markets. Once monetary policy normalisation has begun, the slowdown (driven by the orchestrated but also real deceleration in the Chinese economy) should assert itself once again, limiting the rise in bond yields. In the US, assuming that the key rate culminates at a lower level than in the previous tightening cycle, our scenario is based on a US 10Y yield of about 1.50% at end-2021, then about 1.25% at end-2022. In the Eurozone, we expect German yields to reach -0.15% at the end of 2021, then -0.25% at end-2022; risk premiums to widen slightly; and core yields to outperform their peripheral counterparts.

Catherine LEBOUGRE

[1] See "*Ten questions and answers on the inflation outlook*," J.F. Perrin, Inflation-linked Focus, Crédit Agricole CIB, 1 October 2021.

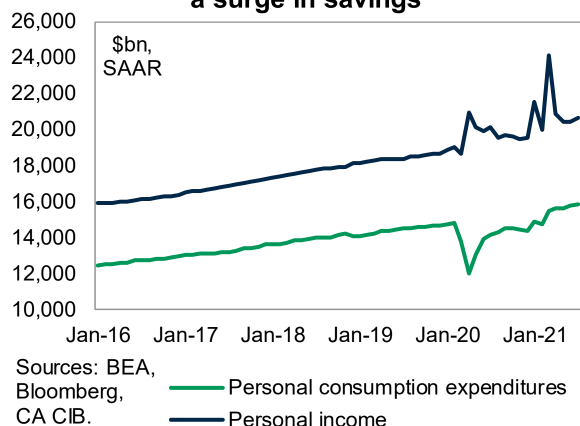
[2] See Focus: "*Indispensable semiconductors at the centre of geopolitical issues*" and "*Severe congestion and record prices for container transport*".

Developed countries – The chicken or the egg

Demand is finally 'freed up' leading to a strong and early recovery. While supply is under strong constraints upstream, bottlenecks and cost pressures are appearing. Although worrying, inflation still appears to be essentially temporary in nature as it is unlikely to degenerate into a price-wage loop. It should ease and decelerate as should the pace of growth.

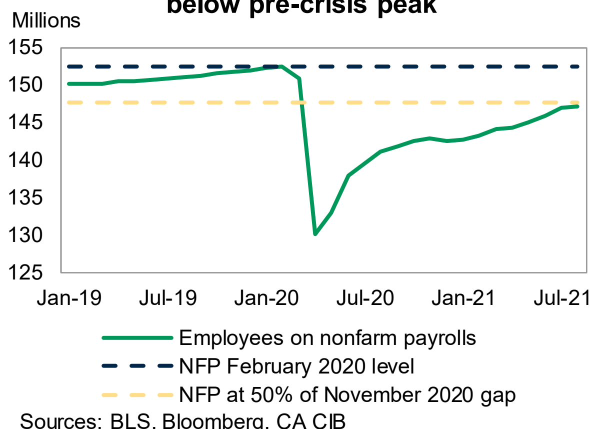
USA: recovery to slow in H2 as stimulus impact wanes

With record stimulus and a strong early pace of vaccinations, US growth surged in H1, bringing GDP above its pre-crisis level by Q2, though we expect a slowdown in H2 as stalling progress on vaccinations and a waning stimulus impact weigh on momentum. Still, despite leading to a slight downgrade to our forecast in 2021, this pattern will result in strong growth for both this year and next, with our current forecast sitting at 6.1% for 2021 and a still above-potential pace of 4.0% in 2022.



In terms of the quarterly pattern, Q3 growth may actually come in slightly above the 6.6% increase in Q2 despite slowing momentum in underlying demand, though that will largely be a function of inventories. The Q2 GDP figure unexpectedly saw a further drawdown, which means that inventories look set to provide a strong positive contribution in Q3. However, our expectations for other components of GDP were largely met in Q2, and we continue to look for a gradual slowdown in a number of other categories, most notably consumption, which will lead to a gradual deceleration in overall growth towards 2% by the end of 2022.

The modest downgrade to our forecast reflects a somewhat larger impact than previously expected from the delta variant. This has been evident in the sharp drop in consumer sentiment in recent months, with the UofM metric in August actually dipping below its April 2020 level. However, thus far the impact in terms of actual spending has been fairly modest, which we expect to continue to be the case, with consumer spending slowing a bit more sharply than in our previous outlook, but not going so far as to enter contraction.

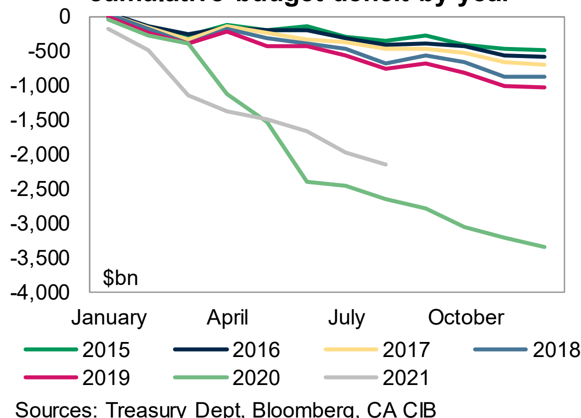


Contributing to this resilience for the consumer are both past stimulus measures and the labour market. While direct payments have been disbursed and enhanced unemployment benefits have now expired, consumers were able to amass a huge amount of savings while these policies were in place. Additionally, while the level of nonfarm payrolls remains more than 5m jobs below the pre-Covid peak, labour demand remains strong as seen in record job openings numbers.

With factors that we believe were acting as constraints on labour supply in recent months expected to ease, we believe job gains should pick up steam with the unemployment rate dipping below 5% by end-2021 and to around 4% by end-2022. Wage growth has been very strong on the lower end of the spectrum, and while we do not expect a significant pick-up overall, as the expiration of enhanced benefits could ease pressures here too, this should continue to provide support to low income consumers.

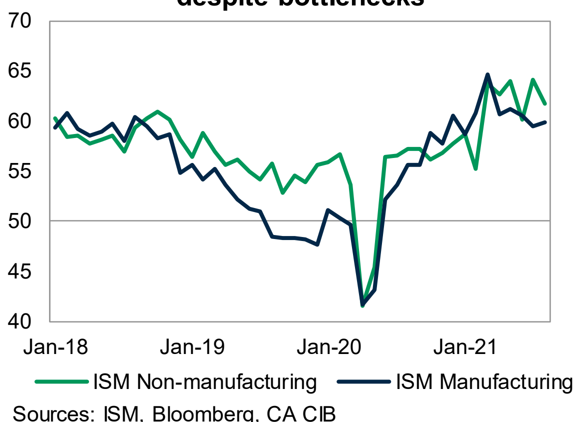
However, inflation remains a key risk for the consumer, with a persistent overshoot having the potential to cut into consumer purchasing power. While we do expect pressures to be transitory overall, we expect the overshoot to persist for more than a full year with very strong inflation readings through Q122 and a more notable

US unprecedented fiscal stimulus: cumulative budget deficit by year



Sources: Treasury Dept, Bloomberg, CA CIB

US: businesses remain confident despite bottlenecks



Sources: ISM, Bloomberg, CA CIB

moderation only in H222 (see inflation section for more details). If this were to lead to inflation expectations becoming de-anchored, or signs of a wage-price spiral emerged, consumer strength could be put under pressure.

After a strong early portion of the recovery, we look for investment growth to remain solid as well as business confidence to remain high. While businesses have anecdotally been highlighting issues with labour shortages and supply chain bottlenecks, overall optimism in the outlook has not wavered, with the manufacturing ISM still at nearly 60 and the services ISM holding above 60, including a record reading in July. While housing has cooled off after the initial surge, the sector remains strong and we look for levels of residential investment to remain strong even if growth has slowed.

With the US recovery taking off faster than many peers in H121 given stronger stimulus and earlier progress on vaccinations, imports have outpaced exports thus far. While we expect this trend to moderate with some reversal possible in 2022, for this year as a whole net exports should act as a solid drag on growth, though not nearly enough to outweigh strength elsewhere.

The Fed may begin removing accommodation by Q4 (see Fed section for more details), though it will be a gradual process with the Fed's overall stance remaining supportive for an extended period of time. That said, with rates still relatively low across the curve, we believe Fed actions will have a limited impact in providing further impetus to the real economy on top of what it already has, and fiscal policy will play a larger role.

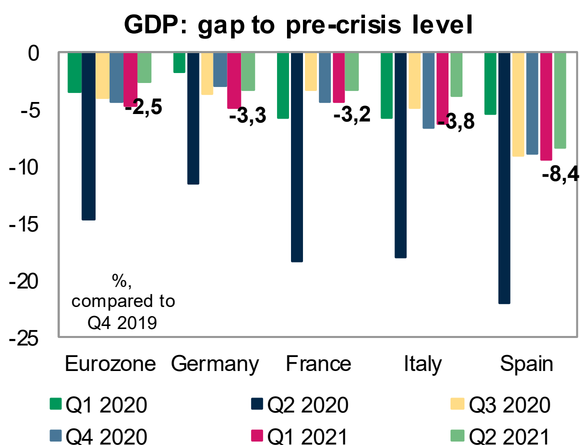
This puts a key focus on negotiations around President Joe Biden's spending proposals, with the latest iterations including a bipartisan infrastructure agreement with around USD550bn in new spending and a highly partisan reconciliation bill worth USD3.5trn. However, given the partisan nature of the latter combined with disagreements that have been evident between moderates and progressives within the Democratic Party, uncertainty remains extremely high and these packages are not incorporated in our current forecasts. We will provide an update to the outlook once more clarity is available.

That said, we would expect a much more modest overall impact compared to earlier Covid relief bills, with very little falling in 2021 as we are nearing the end of the year. For one, the size will likely have to come down for any final agreement to be reached, with some moderate Senators balking at the current price tag of the reconciliation bill. Secondly, regardless of the final size, the spending will be spread over a number of years as opposed to all at once. And finally, at least portions will likely be offset by tax increases, which could blunt some of the growth impetus.

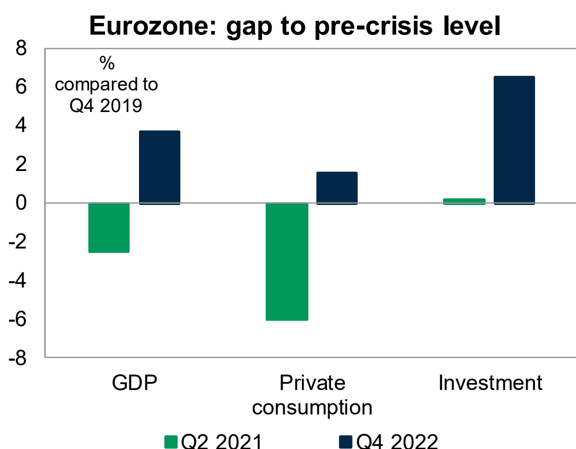
Nicholas VAN NESS

Eurozone: temporary or permanent?

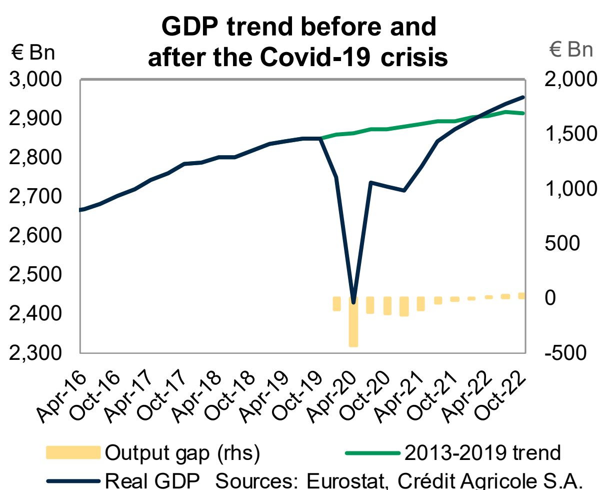
The rebound in activity after businesses reopened was early and solid. Our scenario for 2022 is characterised by lively growth in both business activity and inflation. Nonetheless, the economic climate is hard to read due to the current demand-supply surplus and resulting imbalances. Evidently, the question arises of how long these imbalances, including inflation, will last. Is this surplus demand



Sources: Eurostat, Crédit Agricole S.A.



Sources: Eurostat, Crédit Agricole S.A.



Sources: Eurostat, Crédit Agricole S.A.

temporary, generated by spending behaviours at last unleashed, or by more fundamental changes in consumption and investment structure? These questions can also be asked on supply, which, subjected to tensions, is up against physical constraints that could ease in the short term with the normalisation of available production capacity; but is it already undergoing structural shifts with unknown cost and duration? The impact on the growth and inflation scenario will depend on the answers to these tricky questions. Our scenario's fundamental assumption is this: **despite the existence of major structural movements related to a low-carbon economy, digitalisation, and the impact of geopolitical competition on supply chains, all of which affect factor allocation in the medium- to long term, the current constraints are still largely transitory over our scenario horizon.**

Nearly back to pre-crisis levels and trend

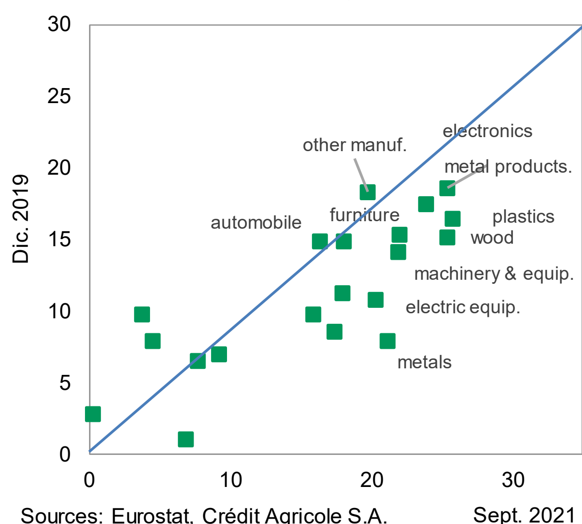
After the autumn and winter slump (-0.4% and -0.3% QoQ), **the reopening of businesses at the end of April caused GDP to rebound higher than expected in Q221** (2.2% for the quarter). Growth in private consumption has been strong (3.7%), but household spending is still 6% below pre-crisis levels. Investment has continued to trend positive (1.1%). Two separate forces are driving productive investment (+0.9%) and construction investment (1.3%): the former is still catching up, while the latter already has (3.2% below and 1.2% above their respective pre-crisis levels). Construction has been especially vigorous in France and Italy; it has benefited from stimulus funds that are strengthening pre-existing spending programmes in housing and infrastructure renovation. Eurozone GDP was not more than 2.5% lower than pre-crisis level by Q221. With the exception of Spain, which shows a more marked decline (-8.4%), this lag is now narrowing in the Eurozone's major economies (France -3.2%; Germany -3.3%; and Italy -3.8%).

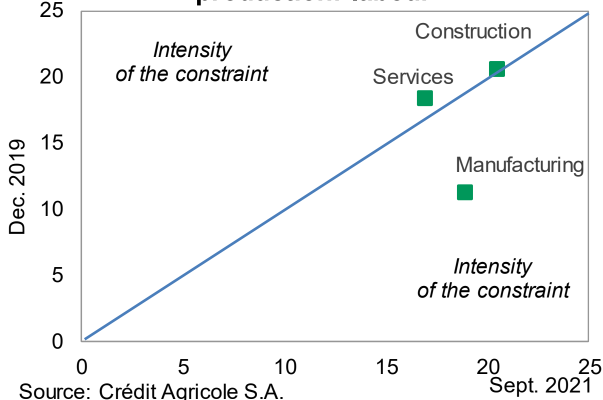
Benefiting from the consumption recovery, especially in services, and some early inventory rebuild, projected Q321 growth (2.3%) should again prove quite robust. **Taken as a whole, the Eurozone has closed the gap to pre-crisis levels in Q321.** With the bulk of the catch-up effort now spent, growth that was already evident in summer surveys is expected to slow (1.1%) in Q4. With carry-over effect of 3.8% in Q221, projected growth in 2021 is 5.4%.

In fact, the pace of growth could continue to moderate in 2022. Dissaving will keep private consumption aggressive, and stimulus funds will boost investment. Based on the average quarterly pace of 0.7%, we are counting on growth of 4.4% in 2022: more moderate, but well above the average ten-year pace pre-crisis. By mid-2022, all of the Eurozone's large economies will be back to their pre-crisis GDP.

Growing but localised constraints and tensions

Industrial output has been severely disrupted over the past few months. Although it has, on average, regained its pre-crisis levels, many sectors including automotive (-25%) and apparel (-19%) still lag behind. Virtually all sectors have experienced supply-side constraints for various reasons. Sectors in which demand had collapsed have enjoyed a faster recovery than was expected by businesses which, having cut their inventories to limit liquidity constraints, are unprepared to meet the demand now coming their way. This has created bottlenecks. Yet this has also impacted sectors that were in great demand during the crisis (pharmaceuticals, IT) and those whose production, logistics, and organisation are being constrained either by





the pandemic or by their reopening. Delivery times are long, though they have shortened a bit since May; production backlogs are still considered very high by businesses, though they were declining during the summer.

As a result of the unplanned inventory resulting from the crisis, inventory rebuild plummeted before summer. Since August, restocking has begun, and this build-up may be a powerful driver to accelerate growth during the coming months. A second driver, coupled with especially vigorous orders, supported by the demand recovery in the Eurozone and a fresh rebound in foreign demand. Ultimately, the most limiting factors are now equipment and labour, which bodes well for capital goods investment and production, and for employment.

Some indicators seem to point to the labour market being saturated. It is clear that businesses are having trouble filling some positions, judging by the increase in job vacancies resulting from the refashioned production structure and the resurgent demand for certain jobs. Labour shortages are clearly the most limiting factor in industry, services and construction. Only a few sectors experience this tightening of constraints, and most of those that report they are suffering from it were already grappling with it before the crisis. Although short-time work solutions have been helpful with job preservation, they may have kept jobs from being reallocated to sectors with higher demand.

The job market saw new growth in the spring, and the number of workers is now just 1.6% shy of pre-crisis levels. On the other hand, working hours are still lagging behind (-4.2%). Unemployment was 7.6% in July, scarcely higher than February 2020 (7.4%). In addition, the number of short-time workers has fallen from its April 2020 peak down to 22% in Germany, 7% in France, and 10% in Spain. That being said, the number of workers that are no longer in the labour market following the crisis remains high; surplus capacity on the labour market remains far above pre-crisis levels, at 10 additional points of (potential) unemployment.

Tensions on the labour market could be limited and temporary, not resulting in widespread wage increases.

More targeted fiscal action

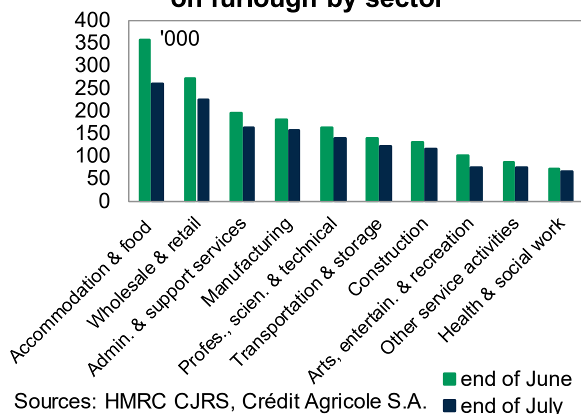
Furthermore, the impact of rising inflation on purchasing power could be softened by intervention from the fiscal authorities. Subsidies to the most vulnerable households will accompany mechanisms for regulating price increases. However, electricity and gas suppliers' margins are tight, and the operators profiting most from these increases are located outside the Eurozone. The damping effect on inflation would therefore be limited. And so a new field of action is opening up for fiscal policy as it withdraws its extraordinary support. It seems the deficit for 2021 (8.2% of GDP) is lower than was initially announced by the governments. The better-performing job market and greater growth have increased revenues and limited spending. This creates the fiscal space to implement the new measures required to preserve purchasing power, without impacting the announced timetable for reducing the deficit, projected at 4.1% of GDP in 2022.

Paola MONPERRUS-VERONI

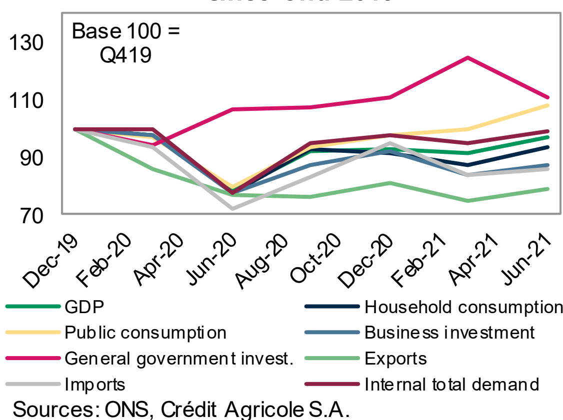
United-Kingdom: reality check

Growth is on course to slow sharply in H221. Business surveys point to a sharp deceleration of activity in the coming months. In August, PMI

surveys have registered their fourth consecutive month of declines since May, with the PMI services reaching a six-month low and the PMI manufacturing a two-month low. Rather than a demand issue (new orders in industry and new business volumes in services remain strong), the loss of momentum seems to reflect constraints on activity in relation with supply-side issues in two particular areas: the goods sector and the labour market. In industry, the disrupted supply chain creates shortages of goods amid already high demand and fuels price pressures (the CPI goods index rose by 3.3 YoY% in July, exceeding, rather unusually, services inflation for the fourth consecutive month). In line with evidence from press reports, business surveys point to acute recruitment difficulties across sectors, locations and occupations, which are likely due to a combination of factors: weakness in labour supply and shifts in demand across sectors (goods vs services) and regions (rural areas vs cities).



Sources: HMRC CJRS, Crédit Agricole S.A.



Sources: ONS, Crédit Agricole S.A.

The start to Q3 was weaker than expected, prompting us to revise our growth forecasts to the downside (from 2.9% QoQ to 1.8% QoQ for Q3 and from 7.4% to 7.2% for annual 2021 growth). A loss of momentum was already expected in our previous scenario given the fact that key government support measures, such as the Job Retention Scheme (JRS) and the Self-Employment Income Support Scheme (SEISS) were coming to an end. However, the slowdown seems more pronounced than expected, possibly due in part to rising Covid cases during the summer. The so-called 'pingdemic' caused significant disruption in July (causing GDP to almost stall over the month), with rising Covid cases triggering a surge in the number of people asked to self-isolate. Retail sales have fallen for the fourth consecutive month. However, this fall probably reflects an anticipated (and welcomed) rebalancing of consumer spending away from goods and towards services, rather than a signal of halting household consumption. The potential for rebound remains strong (household consumption is still 6.3% below its Q419 level) and consumers have accumulated large savings during the pandemic (around GBP140bn).

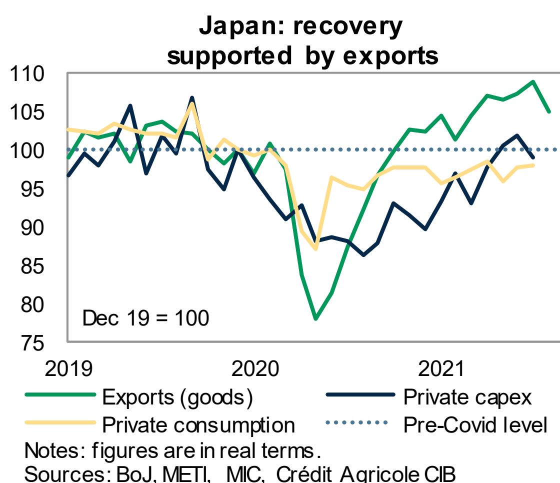
Labour market yet to be tested by the expiration of both the JRS and the SEISS at the end of September. Since the reopening of the economy, the labour market has been recovering rapidly, but its situation is far from normal given the still elevated number of employees on furlough (1.56m at the end of July, down from 3.4m in April). Hours worked are now only 2.4% below their pre-crisis level of February 2020. The unemployment rate declined to 4.4% in July (according to the single-month measure), still 0.5ppt above the pre-crisis level though. Vacancies have reached a record high (exceeding 1m in June-August). Strong demand for labour lowers the risk of a large increase in unemployment when the JRS expires. However, we expect the unemployment rate to increase in Q4, although by less than previously expected and to a level not exceeding the Q420 rate of 5.1%. The fall in furloughed rates has slowed in recent months, despite rising employer contributions since July. Furlough rates are elevated in sectors such as passenger air transport and travel agency, but also in retail sales, creative and entertainment activities, which are more at risk of operating at persistently lower capacity rates. Also, there is likely to be another fall in the economically active population (thereby lifting the unemployment rate all else equal), as some people might exit the labour market at the expiry of furlough (eg, employees over 65 who have now become the group with the highest furlough rate).

Slavena NAZAROVA

Japan: recovery to strengthen with risks shifting from domestic Covid-19 cases to those in southeast Asia resulting in restricted supply of semiconductors

We expect Japan's Q3 and Q4 real GDP growth to be +2.0% and +2.9% QoQ saar, respectively, followed by +2.8% in Q122. This gradual acceleration will mainly be due to an increase in net exports thanks to a decline in imports with a vaccine-driven surge running its course as well as the partial realisation of domestic pent-up demand, especially private consumption and public investment.

This scenario assumes that the number of new Covid-19 cases in Japan peaked in the latter half of August, hence the realisation of some of pent-up demand. However, **automakers have been announcing a further reduction of auto production both at home and abroad owing to the heavily restricted supply of parts, semiconductors in particular, due to the rising number of Covid-19 cases in the ASEAN-5 countries** such as Thailand and Malaysia, to which Japanese automakers have shifted their semiconductor supply chain over time from northeast Asia.



Notes: figures are in real terms.
Sources: BoJ, METI, MIC, Crédit Agricole CIB

In the GDP context, this could potentially translate into a surprisingly large negative contribution of private inventory investment in Q3 and Q4, which we accept as a potential downside risk to our baseline scenario of GDP growth rising toward Q421. In this sense, we are more concerned about new Covid-19 cases in the ASEAN countries than domestic cases.

Japan's ruling LDP holds a presidential election to be held on 29 September, in which incumbent PM Yoshihide Suga will not be running, followed by an extraordinary Diet session starting on 4 October. At the time of writing, it is extremely hard to predict who of the four LDP presidential candidates, Taro Kono, Sanae Takaichi, Fumio Kishida and Seiko Noda will win. While we assume Kono is the most likely winner, whoever wins the LDP election will be nominated as new PM in the following Diet session. On the macroeconomic policy front, **regardless of the result of the LDP election, the new PM will shift the central policy pillar from monetary policy to fiscal policy, in our view**, taking advantage of the ultra-low long-term rates under the BoJ's YCC.

Kyohei MORITA

Focus – Essential semiconductors at the centre of geopolitical issues

Semiconductors – also known as chips or electronic components – enable electronic equipment to perform its essential processing, storage and transmission functions. This makes them the building blocks of electronics. In a world that is rapidly going digital, data is as good as oil, run through sophisticated analyses to extract its very essence. In this respect, semiconductors are essential.

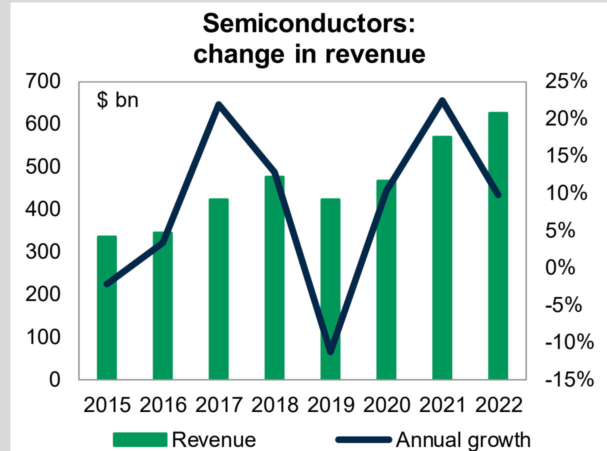
The semiconductor industry is unique in that it is global yet highly fragmented and yet interdependent. It demands highly qualified resources and specific skill sets, particularly upstream of its complex value chain, in the design and manufacturing phase. Downstream we have assembly, packaging and testing, before the components are mounted onto printed circuit boards. It is a doubly capital-intensive industry, requiring substantial investments not only in R&D but also in the foundries and equipment required to manufacture the components.

In 2020, semiconductors were a USD466bn market. General-purpose components make up the largest share of this, with 67% of revenues, while dedicated components known as ASIC (Application-Specific Integrated Circuits) make up the other 33%. In 2020, the industry's capex investments were USD111bn or 24% of revenues. Lastly, total R&D expenses have held at 16-22% of revenues per year over the past ten years – a particularly high ratio specific to this industry.

The sector has been resilient against Covid-19, posting a 10% increase in 2020 revenues compared to 2019. This trend is ongoing in 2021, with even greater growth of 22% expected, and revenues of USD571bn. In 2022, revenues should continue to grow at a lesser rate (10% compared to 2021), but reach a new milestone nonetheless by passing the USD600bn mark.

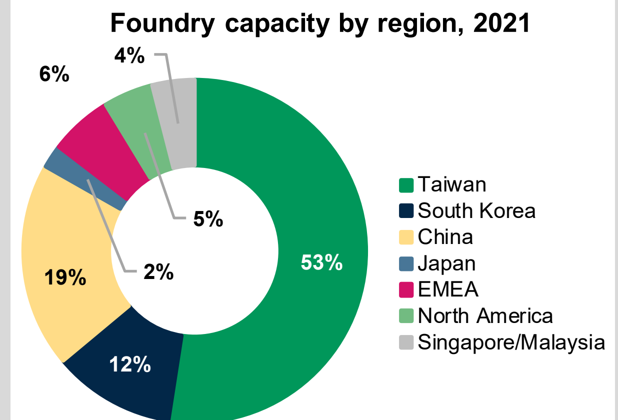
This industry's supply chain is seen as the backbone of the digital economy. It revolves around a few key players across six countries/regions – Taiwan, South Korea, Japan, China, US and Europe (Germany, France, Italy, Netherlands, UK and Sweden). Put more simply, the US and Europe to a certain extent, claim the lion's share of R&D, upstream of the supply chain. Asia is home to most of the manufacturing, assembly and testing. Taiwan and South Korea, in particular, share 65% of worldwide foundry capacity between them; Taiwan is well in the lead with 53%. China does more than 80% of the assembly and testing. Taiwan, we should note, is currently the only country to have mastered three-nanometre engraving technology for large-scale production.

Semiconductors: change in revenue



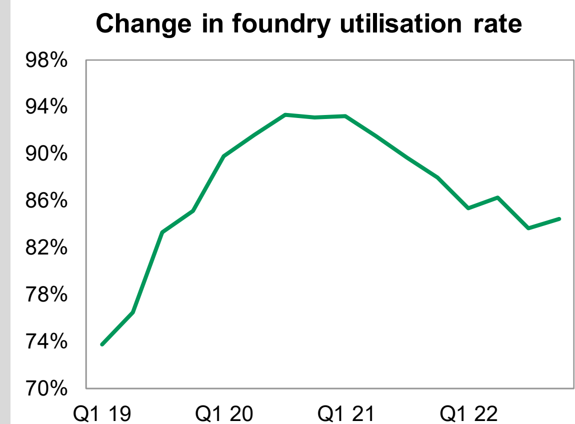
Sources: Gartner (June 2021), Crédit Agricole SA/ECO

Foundry capacity by region, 2021



Sources: Gartner (July 2021), Crédit Agricole SA/ECO

Change in foundry utilisation rate



Sources: Gartner (July 2021), Crédit Agricole SA / ECO

This concentration certainly has its downside when a crisis erupts, be it a public health crisis, as is currently the case, or a political or climate crisis. Such events combine to cause electronic component shortfalls in all industry verticals, specifically the automotive industry. Component manufacturing timelines cannot be shortened. For silicon wafers – on which transistors are mounted – the production phase alone can last 12-20 weeks. Taiwanese foundry order books are so full that delivery times are only expanding. Especially since the foundries are themselves

impacted by shortages of materials including substrates, resins and chemicals. So foundry capacity use rates remain high, above 90% since 2020. Demand is also staying high, and the shortfalls are expected to last until Q222 if not longer. Against this backdrop, we should expect the average component price to jump by 10-45% depending on the category. These increases cannot fail to impact the end-product price and thus the consumer.

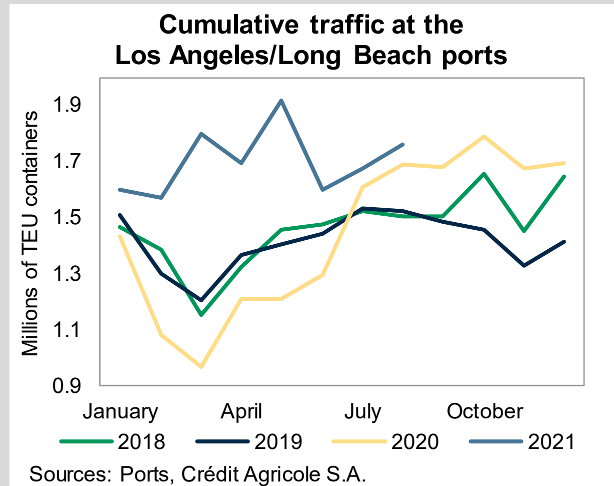
This situation has highlighted the urgent need to rebalance the production chain with centres in the US and Europe. China has also stepped up its pursuit of scientific and technological autonomy. Finally, the struggle for global leadership between the US and China inevitably involves technological supremacy along with the control of semiconductor production in a broader geopolitical battle.

Rabindra Rengaradjalou

Focus – Severe congestion and record prices for container transport

Already under pressure from resurgent traffic and the effects of the pandemic, container shipping is now facing a plethora of congestion hotspots obstructing operations and causing freight rates to escalate once again.

The spike in goods purchasing in the US is the number-one factor of tension. American imports from Asia are being boosted by e-commerce, health restrictions on services and support plans. Since the summer of 2020, major shipping capacities have been mobilised by carriers on the Transpacific route to the detriment of other routes. This has resulted in vessel and container shortages and freight rate surges, culminating in early February with the congestion of Los Angeles' ports affected by Covid. **The 'Biden Plan' has given US imports another kickstart.** Traffic at the Los Angeles/Long Beach ports jumped 42% in the first six months of the year, surpassing 2019 traffic by 24%, before again facing saturated land infrastructures.



Sources: Ports, Crédit Agricole S.A.

While the peak season is in full swing, disruptions generated at sea and on land by overloaded supply chains are now the dominant issue. On the import side, Los Angeles' ports and their connections in the hinterland can no longer keep up with the uninterrupted inflow of ships. Waiting lines have only lengthened since July, exceeding 60 vessels in mid-September compared to a record of 40 in February. **The emerging delta variant in Asia is now striking key export ports,** particularly in China, where the zero-Covid policy caused the closure of entire terminals in Yantian in May and Ningbo in August. Along with Shanghai, three of the world's top four container ports are now saturated, exporting a cascade of disruptions along many international routes. **Northern Europe's ports are facing their own storage capacity and land link bottlenecks.**

Port congestion is now responsible for 10% of the fleet being unavailable and record delays. Carriers are forced to mobilise more ships to keep up with weekly services, at the risk of stretching out those waiting lines, or cancelling departures, throwing an even bigger spanner into the supply chain works. Two out of three containerships are reaching their destination with an average of a one-week delay, casting land logistics into disarray and hampering port productivity. **Supply disruptions are threatening to become more frequent as the end-of-year holiday season approaches.**

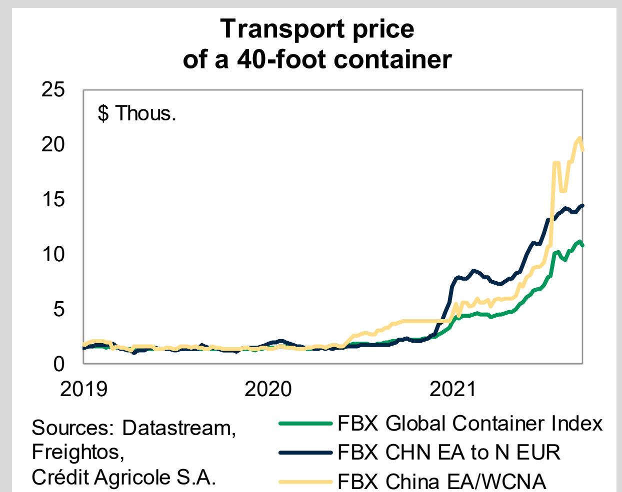
On the price front, spot freight rates started climbing again in the spring, with congestion also justifying carrier surcharges. On the Asia-Europe route, spot rates are currently seven to eight times higher than a year ago. Still, a growing share of volumes is contracted between carriers and their shipper

customers, at lower rates. These contract prices are lagging behind spot pricing, smoothing out inflationary effects. As a sign of a shift in the power balance, the largest shippers, anxious to secure their supplies and reduce their dependence, are starting to charter entire ships directly.

Shippers' distress is turning to anger since carriers' record profits are expected to edge close to the USD100bn mark in 2021. Authorities in many countries – especially the US – are raising the pressure. A bill recently introduced into Congress may help to address unreasonable surcharges. Responding to the fears stirred up by the escalation of freight charges, two carriers, France's CMA-CGM followed by Germany's Hapag-Lloyd, announced a cap on their spot rates. Whether the initiative of the world's #3 and #5 carriers will be followed and succeed in curbing soaring prices remains to be seen.

Overall, after a drop of just 1% last year, a global traffic rebound of over 7% is expected in 2021; however, it will probably be limited by the supply chain bottleneck. Today, pricing is indexed to the barometer of port congestion. In Los Angeles, the challenges will likely continue in the coming months. In Asia, much of the available port capacity hinges on future developments on the pandemic front.

Thus, the overheat should persist to some extent through 2022, before the expected lull in American imports with the easing of health restrictions unclogs the ports and sets some ships loose. There should be a rebalancing with the wave of deliveries expected in 2023, which will serve as a test for carriers.



Bertrand GAVAUDAN

Emerging countries – Four themes for 2021-22

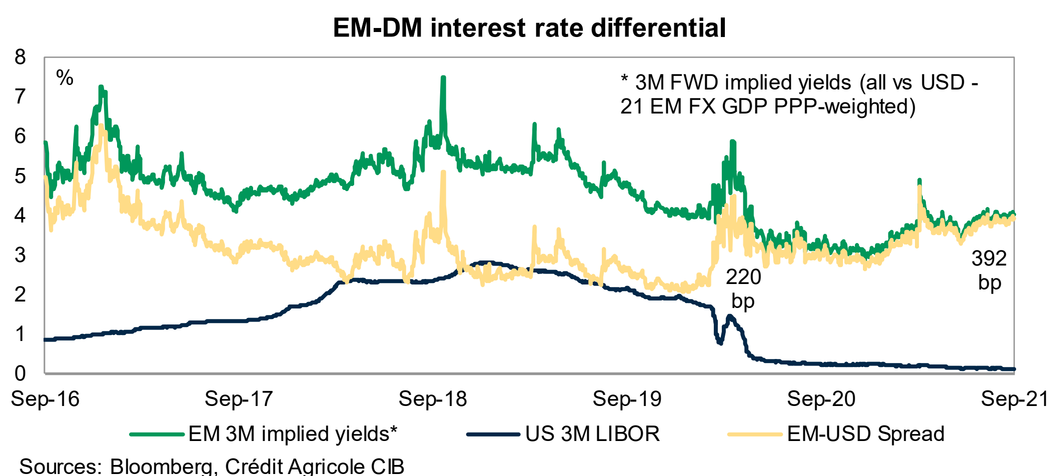
There are four main themes for EMs over the coming quarters, all being articulated around ongoing, uneven normalisation. Despite the dominant theme of rising interest rates, the main challenges come from the macro economy rather than from the markets – at least in the short term.

The rise of the EM hawks

The first theme has to do with EMs tightening monetary policy far ahead of the US or Europe. The normalisation of monetary policy is a growing theme across the globe. But, while the Fed and the ECB are still busy thinking about in how many quarters (or years…) they will begin to hike rates, in contrast, almost half of the largest EMs have already hiked rates so far this year (with Brazil and Russia the frontrunners).

Paradoxically, the impact of higher rates on economic growth will likely be moderate in the short term at least. Indeed, inflation has increased more than interest rates, on average. Hence real interest rates have decreased. The situation may change at some point in 2022. As inflation moderates, real interest rates will likely increase and constrain economic growth.

EM-DM interest rate differential



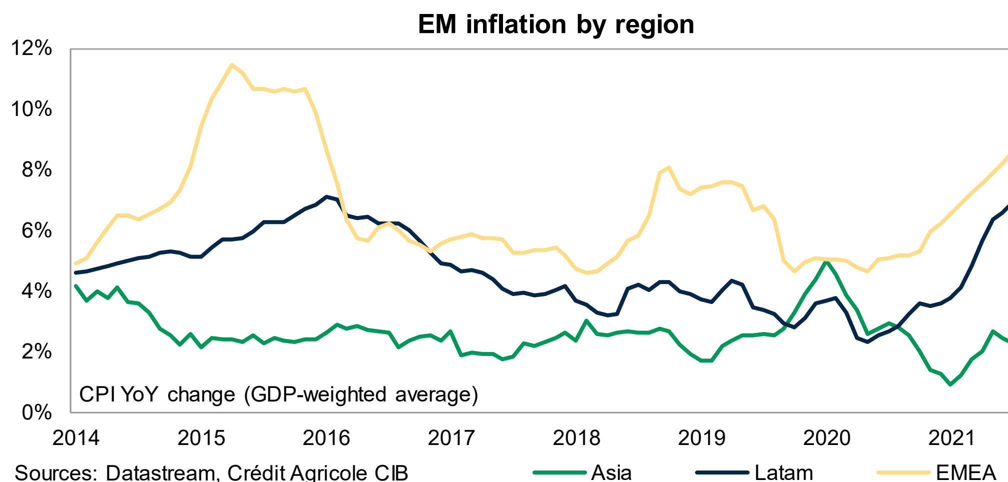
Sources: Bloomberg, Crédit Agricole CIB

This divergence between EM and DM policy rates has widened the gap between market interest rates. Hence, the average EM-USD three-month implied yield gap has widened by as much as 170bp since just before pandemic in early 2019 to about 390bp (using a GDP-weighted average for 21 large EMs). From an investment point of view, this suggests that the EM carry attractiveness has improved over the past two years (on average), which should support fixed-income flows to some EMs in the coming months.

Interestingly, there is strong regional differentiation in the way EM central banks are raising interest rates. This differentiation mirrors regional inflation outlooks. Inflation has accelerated strongly in Latin America and in EMEA, but much less so in Asia. By the same token, central banks have hiked rates much more strongly in Latin America and EMEA than in Asia (Bank of Korea is the only Asian central bank that has hiked rates YTD).

Looking forward, we expect such regional differentiation to last over the next few months. We see rate hikes in the rest of the year in many Latam and European countries (including Brazil, Chile, Colombia, Mexico, Czech Republic, Hungary, Russia and Turkey), but in Asia we expect almost no countries to hike in the coming months (Korea may

hike by 25bp). Higher rates in Latam and EMEA should support further fixed income flows to these regions.



Covid: the uneven recovery

The exit from the Covid crisis remains an obvious theme. It is an uneven process, due to large gaps in the vaccination progress, with large gaps between EMs themselves. More than 70% of the Chinese population is fully vaccinated (more than 80% in the UAE, almost 60% in Hungary). At the other end of the spectrum, the ratio is only about 15% in India and South Africa and hardly above 5% in Egypt. More generally, vaccination is lagging in Africa, South Asia and part of South East Asia compared with the rest of EMs. This results in a specific vulnerability in many of these countries, in terms of public health as well as economic growth (should new waves of the pandemic trigger renewed social distancing measures).

There is also a significant gap between vaccination in DMs and vaccination in EMs. On average, the vaccination ratio in EMs excluding China was by mid-September at the same level as that of DMs three and half months before. Hence there is a gap in the economic growth recovery as well, and thus a gap between the growth recovery in DMs and EMs.

However, from a balance of payment point of view, this is not all bad. A late recovery of domestic demand in EMs compared with DMs also suggests some support for the trade balances in EMs. The aggregated EM trade balance has actually widened strongly during the Covid crisis. This has contributed to a sharp increase in FX reserves in some EMs, therefore limiting their external financial vulnerability. Looking forward, the trade surplus of EMs will likely narrow as these economies gradually recover. However, the process will likely be protracted, and overall the EM universe may continue to post aggregated trade surpluses in the coming months. This may help EM currencies to weather the possible volatility from the US tapering in the coming months.

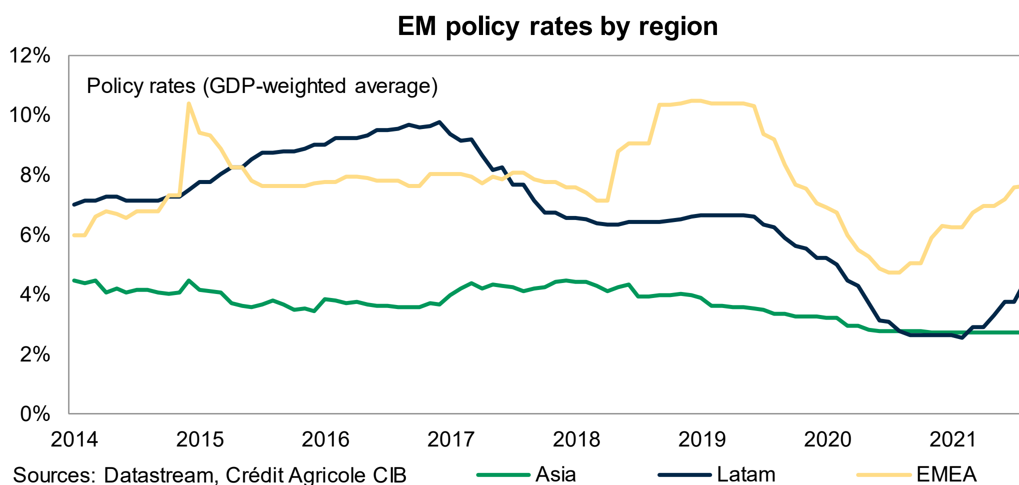
US policy normalisation: a double-edged sword

The exit from the Covid crisis also means the investment backdrop for EMs is increasingly marked by the prospect of normalisation of monetary policy in the US (and to some extent in Europe). Exceptionally supportive monetary policy, which has supported investment flows to EMs, will be scaled down.

However, from the EM point of view, it is key to remember that the US tapering does not mean a sudden shift from an accommodative policy

to a hawkish stance. The start of tapering means that the Fed will slow the pace of its bond purchases, but bond purchases will continue. A reasonable assumption is actually that the tapering will last about one year, in which case the Fed's balance sheet may continue to expand for a year. Our interest rate strategists expect the yield curve to flatten in 2022. As inflation moderates into next year, and as the Fed begins to remove its exceptionally accommodative policy, the inflation premium will become reduced on the long end of the curve. The fact that US fiscal policy itself becomes less accommodative following the 2021 stimulus also tends to cap long-term yields.

EM policy rates by region



Sources: Datastream, Crédit Agricole CIB

Hence, the US yield environment may not become less supportive for EMs into next year, if US yields actually decline. This would be consistent with portfolio flows continuing to come back to EMs, at least on a selective basis.

In a nutshell, the ongoing, uneven normalisation weighs on the EM growth outlook, but on the market side, the challenge seems limited in the short term. However, the benign market environment may mask the fact that some structural challenges facing EMs are returning quickly, with a possibility that these challenges will be frontloaded. Tomorrow may begin today.

Tomorrow begins today

There are several issues that were acute before the Covid crisis and which have taken a back seat over the past 18 months. However, with the health crisis continuing to recede, four of these issues will likely return to the forefront.

Imbalances

Some imbalances have intensified during the Covid crisis. This has been the case for EM government finances in particular. These sovereign weaknesses may play a larger role in investors' perception in 2022, either because the Fed tapering reduces the tolerance vis-à-vis the lack of fiscal leeway, or because of idiosyncratic factors. Among the large countries with the highest government debt-to-GDP ratios (Brazil, Egypt, India, South Africa), we believe Brazil is the most likely to come under pressure, due to the general elections due in October 2022.

Energy transition

The issue of the energy transition has not been central from an EM perspective since the beginning of 2020. However, during the pandemic, the issue has become even more crucial, especially since

some major issuers and investors have intensified their focus on it, in Europe for instance, but also because the US' attitude towards climate change has evolved with President Joe Biden replacing Donald Trump. In our view, the issue of the energy transition, which has generally been considered as a medium-term issue for EMs, could be front loaded and become a short-term one. This could make trade specialisation more of a differentiation factor, or make the energy transition a stronger priority, particularly for countries that are the most reliant on external financing.

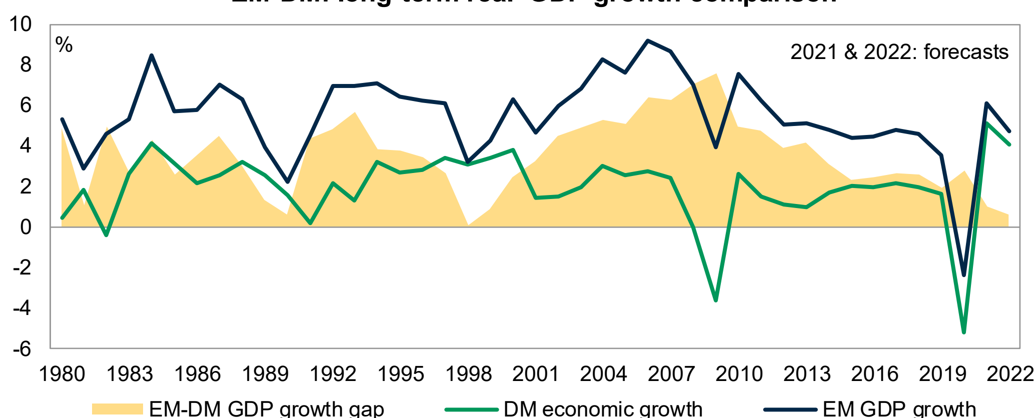
US-China tensions

US-China trade tensions have not been a central subject, since Joe Biden became President. In our view, this does not mean that the risk of US-China frictions has disappeared – far from it. Trade may not be the main focus anymore, but the issue of the US and China's respective influence in the Asia-Pacific region may become increasingly central. If anything, the AUKUS security pact between the US, Australia and the UK, suggests that the US remains keen to confront China if necessary on the issue of its geopolitical influence. We assume that the US-China rivalry still has the potential to create some negative noise in the markets.

China in transition

Finally, the issue of China's difficult transition to a more sustainable growth model, which would rely less on credit and investment, and more on private consumption, services and productivity gains, is increasingly returning to the forefront. The post-Covid exit from stimulus measures and the Chinese crackdown aimed at capping some of the excesses of the private sector, have introduced a downside risk on China's economic growth. The Evergrande situation has been the most dramatic illustration of the difficulty facing China's transition, recently (as increased constraints on the real estate sector, aimed at further controlling its activity, has created some financial stress, and will likely require action by the government to help sort out this issue).

EM-DM: long term real GDP growth comparison



Sources: IMF, Crédit Agricole CIB

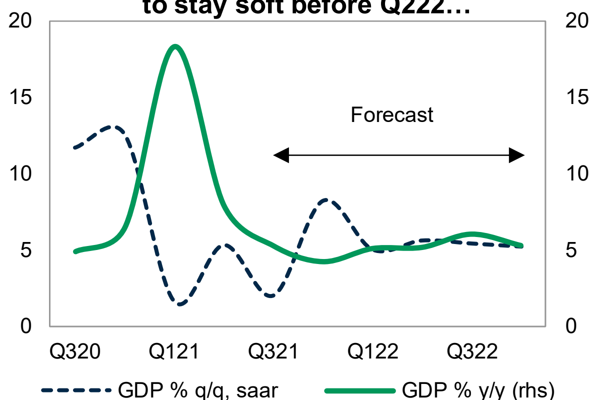
Growth outlook: the end of the EM outperformance?

These hurdles may be all **the more challenging to overcome given that EMs can rely less on their capacity to grow fast than they could in the past**. Overall, EM growth should be decent in 2021-22. In 2021, we expect it will reach 6.0% – the strongest growth level since 2011. However, the performance is less impressive than it seems. Indeed, growth benefits from a strong base effect, as well as from exceptionally strong stimulus measures in the US and Europe in

particular. In 2022, we expect EM growth to slow to 4.6%. This is actually 0.6ppt below the average for 2010-19, reflecting all the constraints and challenges mentioned above (Covid-related constraints and relatively low vaccination rates, higher interest rates into next year, reduced fiscal leeway, difficulties to upgrade development models, as well as reduced stimulus in developed markets). Furthermore, EMs will post lacklustre growth even if DM growth remains particularly strong (at 4.1%, ie, 2.3ppt above the average for 2010-19). In other words, **the expected growth outperformance of EMs over DMs** (at 1.1ppt in 2021 and only 0.5ppt in 2022) **has not been so small since 2000: the EM growth outperformance seems to have disappeared for now**.

Sébastien BARBE

China: growth momentum to stay soft before Q222…



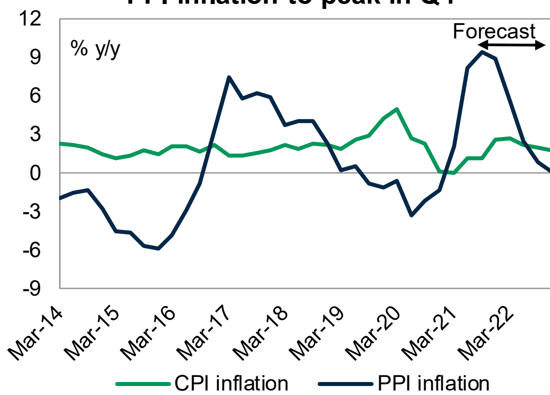
Sources: CEIC, Crédit Agricole CIB

China: turning more cautious on the growth outlook

We have revised down **our China growth outlook and now forecast growth of 8.2% and 5.4% respectively for 2021 and 2022**, from 8.5% and 5.7% previously. In our view, China's growth could remain pressurised by important factors beyond Covid, such as property sector weakness, carbon reduction initiatives and regulatory crackdowns on a number of services sectors. The recovery in growth of consumer demand has also been slow.

On a quarterly basis, we expect GDP growth to dip to 2.0% QoQ in Q3 from 5.3% in Q2, before a rebound to 8.2% in Q4 driven by a post-Covid activity recovery and faster government spending. In YoY terms, **GDP growth could ease further to 5.3% YoY in Q3 and 4.2% in Q4 from 7.7% in Q221. Looking ahead, we expect softer economic growth and the ongoing regulatory crackdown to weigh on the labour market and lead to further employment pressures**. This in turn will cause private consumer demand to remain capped. On the trade front, we think China's export growth volume could ease more notably towards end-2021 and H122, when US stimulus fades. China's real import growth could also decelerate on softer domestic demand, especially for commodities, against the backdrop of the property sector downturn and governments' carbon reduction efforts; however, overall China's export contribution to growth should ease.

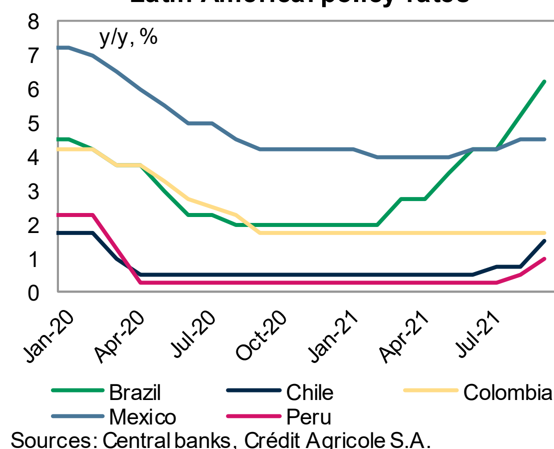
China: CPI inflation to remain mild, PPI inflation to peak in Q4



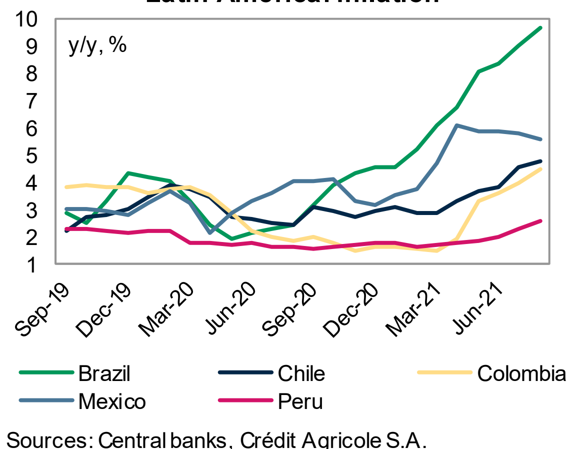
Sources: CEIC, Crédit Agricole CIB

The downside risks to our growth forecasts are two-fold: **Covid-19 uncertainty** persists and could lead to new rounds of travel restrictions as Beijing maintains its 'zero tolerance' approach at least into Q122; and **heightened credit concerns related to Evergrande** could lead to a much worse-than-expected property sector slowdown. The property sector lumping in upstream materials and downstream home appliances accounts for about 30% of GDP and therefore it is important to the stability of the Chinese economy. Our base case is that the overall macro risk around Evergrande is manageable and we expect an orderly debt restructuring. This scenario allows policymakers to achieve their goal of providing stability while also engineering a soft landing of the overall property sector.

Amid these growth concerns, policymakers have shown more willingness for macro policy adjustment. However, easing measures are unlikely to be aggressive, with a preference for a targeted approach to long-term structural considerations. As a result, it will likely take longer for those macro policy adjustment measures to show their growth impact, and the multiplier effect could be smaller compared to previous easing cycles. The government could do more on the fiscal side with infrastructure FAI growth likely to turn positive in the rest of the year. Bond supply will therefore pick up.



Sources: Central banks, Crédit Agricole S.A.



Sources: Central banks, Crédit Agricole S.A.

On the monetary side, China still has ample room for monetary policy easing, but policymakers are cautious in deploying those powerful tools like interest rate cuts, as they try to balance the needs for both achieving near-term growth stability and long-term financial system stability. Nonetheless, despite the PBoC' s reluctance to send a strong signal for easing, demand for easing could grow as economic data remains soft. There could be another 50bp universal RRR cut in Q4, considering the seasonal demand for liquidity and the large amount of MLF maturity. In the meantime, **the PBoC will likely continue to boost credit supports**, especially to targeted sectors, such as SMEs, **the green economy and high-end manufacturing, and to promote regional balances, with better funding of favourable rates**.

On the inflation front, we now forecast average CPI inflation at 1.2% in 2021 and 2.2% YoY in 2022. CPI inflation could rebound, helped by base effects but will likely stay below the government's inflation target of 3%. Meanwhile, PPI inflation could remain elevated in the coming months on supply constraints. **We see limited pass-through or spillover from energy and metal-related PPI inflation to other sectors and downstream consumer prices.**

Xiaojia ZHI

Brazil: an explosive mix of inflation, fiscal conundrum and politics

Brazil is experiencing an explosive mix of shocks, including inflation approaching double digits, a fiscal conundrum and looming elections in October 2022. All these factors are interrelated as rising inflation leads to social discontent and exacerbates fiscal pressures due to the peculiarities of Brazil's fiscal rule.

Inflation in Brazil surprised on the upside in August coming in at 9.68% YoY vs already high expectations of 9.5% YoY. The monthly increase of 0.87% in August came on the heels of 0.96% in July and signs of broad-based price pressures were evident in the breakdown, as well as the rise in the diffusion index, which measures the proportion of IPCA components with positive price changes, from 0.64 in July to 0.72 in August.

We believe that the risks to inflation are skewed to the upside. The worst drought in almost 100 years led to shortages of hydropower, which represents 60% of electricity supply in Brazil. After initial electricity surcharges were introduced at the end of June, additional increases were implemented from 1 September until 30 April. The outlook for electricity supply remains uncertain and will depend on the amount of rainfall going forward. The droughts could also put further pressure on food prices, while services inflation will likely continue to pick up as the economy still re-opens. Finally, the increase in risk premia related to domestic fiscal and political developments could further pressure the currency and lead to higher import prices.

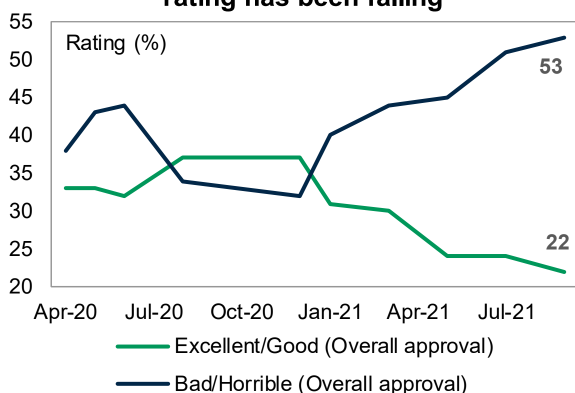
Brazil's central bank (BCB) increased the policy rate by 100bp to 6.25% in September and signalled "another adjustment of the same magnitude" at the next meeting. The accompanying statement acknowledged the broad-based nature of increasing inflation, although it also sounded balanced and measured.

In its baseline scenario, with interest rate path extracted from the Focus survey (Selic at 8.25% in 2021, 8.5% in 2022), the BCB projects inflation at 8.5% in 2021 and 3.7% in 2022. We believe the BCB's

inflation outlook for 2022 is too sanguine, although admittedly the uncertainty around the evolution of inflation next year is unusually high. We forecast inflation at 8.2% for the full year 2021, but expect 4.8% in 2022, which is above the BCB's 3.7% forecast and above the latest median forecast from BCB's focus survey of 4.1% for 2022. This compares to this year-end target of 3.75% and 3.50% next year.

The BCB indicated its intention "to advance the process of monetary tightening further into the restrictive territory". **We continue to pencil the terminal Selic rate at 8.75%, with 100bp at the next meeting, while the moderation in the headline rate by the end of the year should allow the BCB to slow the pace to two additional hikes of 75bp.** This path would bring the real policy rate into "restrictive territory", ie, above the 3% real rate that the BCB considers "neutral".

Bolsonaro's approval rating has been falling

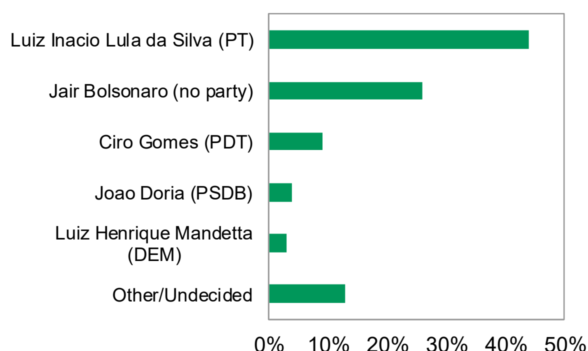


Sources: Datafohla, Crédit Agricole CIB

High inflation has added to social grievances and the president's falling popularity. **The latest Datafolha survey revealed that President Jair Bolsonaro's approval rating declined further** to 22%, while his rejection rating increased to 53%. Bolsonaro's rejection rating rose particularly among the low-income respondents, who are most concerned about economic factors, such as employment and inflation.

Also, according to Datafolha, former president Luiz Inacio Lula da Silva (Lula) remains the front-runner in the first-round presidential election scenario. Bolsonaro commands 26% of the votes, still way ahead of every other candidate. Despite the falling popularity rating, Bolsonaro's core base of support remains loyal to the president, which means chances of another candidate inching ahead of Bolsonaro remain low.

According to latest voter intentions, Lula is a clear frontrunner, but not all is lost for Bolsonaro



Sources: Datafohla, Crédit Agricole CIB

One of Bolsonaro's main promises and the key to his re-election is the extension of the flagship *Bolsa Familia* programme, with the revamped programme to be named Auxilio Brasil. Auxilio Brasil however looks increasingly in jeopardy due to rising inflation, which increases inflation-linked mandatory expenditures for 2022 and compresses room for discretionary spending under the constitutional spending cap in an election year; and the issue of the larger-than-budged court-mandated payments, also known in Portuguese as *precatorios* (judicial bonds). The issue arose in August when the courts increased the estimated claims owed by the federal government to other government entities in 2022 to c.BRL90bn from the BRL56bn estimated for 2021 and budgeted by the economic team for 2022.

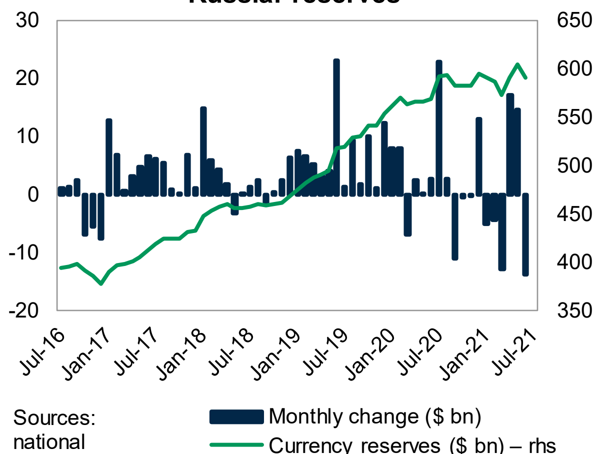
This extension of Bolsa Familia would thus only be possible if a solution to address the *precatorios* payments is found. Several alternatives are being reviewed and debated in congress. These include a constitutional amendment to stagger the court-mandated debts within the parameters of the spending cap (already approved by the constitutional affairs committee); a deal intermediated by the National Justice Council (CNJ) that would cap annual *precatorios* payments to 2016 level adjusted for inflation; and a constitutional amendment that would remove the *precatorios* from the cap altogether and recalculate the cap retroactively to 2016. Given that the last option would address a number of issues at once, including the need to free up room for *Bolsa Familia* expansion and eliminate litigation risk, it may well prove to be the one that prevails. While removing *precatorios* from the spending cap could be viewed as weakening of the fiscal rule, it can also be argued that this item should have never been included under the primary spending cap, like every other item related to debt servicing.

While we believe a constitutional amendment would be finalised in time for the 2022 budget to be approved in December, investors

will have to contend with a fragile fiscal equilibrium and political uncertainty, which will continue to put downward pressure on the currency despite the BRL's increasingly attractive carry. We should also note that there is a non-negligible risk that the legislative and judicial alternatives fail, which could prompt the government to consider unorthodox measures, risking departure of the economic team and triggering a severe market crisis.

Olga YANGOL

Russia: reserves



Sources: national

Russia: unmoveable and resilient

Russia is run like a fortress and is very resilient to sanctions. But it is struggling to stop prices from rising.

Fundamentally, the government has **two strategic priorities** that impact economic policy. The first is to **cultivate independence from the outside world**. The second is to **promote caution and stability**.

Russia has been successful when it comes to independence. Its reserves are high and driven by a comfortable current account surplus. Debt is low at 20% of GDP.

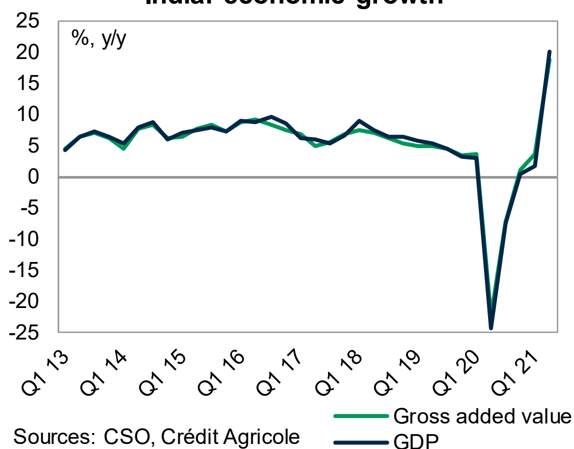
Caution is particularly apparent when it comes to fiscal policy, which is rapidly normalising. The deficit should be limited to 0.5% this year and the primary balance is already at breakeven. Russia decided to raise taxes on high earners in the middle of the pandemic, breaking away from its single tax regime.

The same caution is apparent when it comes to monetary policy. The central bank raised rates by an additional 25bp in September, to 6.75%.

However, **inflation**, at 6.7% YoY in September, **is being driven up by all of its components: (1)** external components, because 70% of the rise in food prices and 50% of non-food prices are due to global supply chain issues; and (2) domestic components, because unemployment is extremely low (4.5%) but job vacancy rates are very high. Price increases are also being driven by a 23% rise in consumer loans YoY in July and a 12.5% rise in nominal wages. For the moment, the central bank has been unable to counter high inflation expectations.

Tania SOLLOGOUB

India: economic growth



Sources: CSO, Crédit Agricole

India: gathering steam

Recovery from the second wave of the pandemic clears the way for strong annual growth. GDP growth accelerated in Q221 to 20.1% YoY from 1.6% YoY. Compared to two years prior, output contracted by 9.2%, the first decline in three quarters and the deepest one since Q220. Clearly, while positive base effects flattered the outcome, activity disruptions due to the second wave of Covid-19 weighed on sequential momentum. Private consumption is especially lagging, while private investment recovered faster. Government spending is normalising but remains higher than its pre-crisis level.

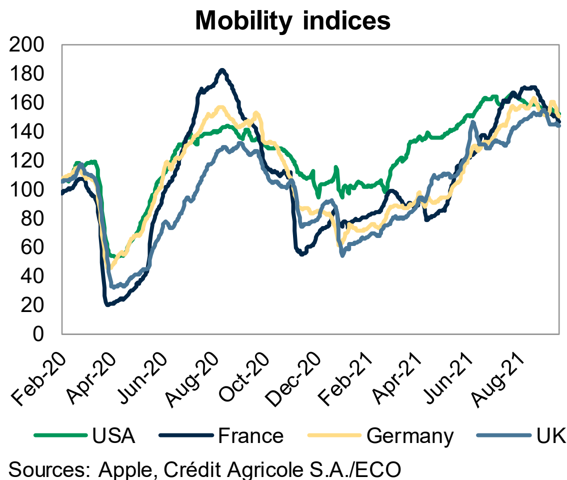
Overall, the data creates downside risks to our forecast of 9.5% annual GDP growth, but as the wave is behind us – meaning sequential momentum should pick up in H221 – the call remains attainable. At the same time, with GDP deflator jumping to a long-term high of 9.7% YoY from 7.0% YoY, and CPI inflation set to average 5.1% if not more this year, the RBI will be under pressure to gradually withdraw its accommodative stance. We expect this process to first involve liquidity drainage, and then – in H222 – the beginning of the rate hike process.

Sophie WIEVIORKA

Oil – Back to "Normal"

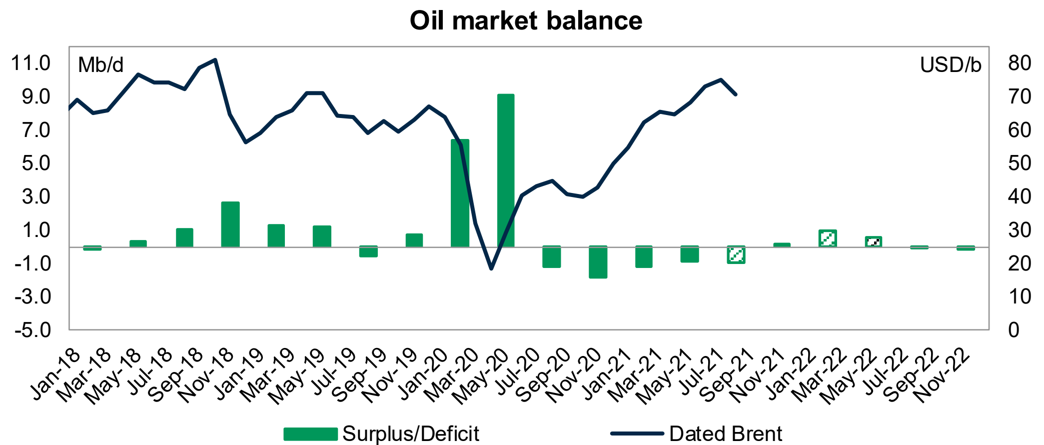
With increased production from OPEC+ and demand closing in on 2019 levels, oil prices should ease slightly in 2022.

Oil prices rose sharply during Q3. Mass mobility in OECD countries over the summer holidays exceeded that of summer 2020, sending fuel demand upward. US petrol consumption edged close to pre-pandemic levels. Traveller restrictions are still hurting air carriers and demand for kerosene. Despite a July agreement among OPEC+ members to gradually ramp up monthly oil production at the rate of 400k barrels per day, supply is not keeping up with demand. The International Energy Agency says demand increased by 2.1m barrels per day (mb/d) during Q3, although OPEC and Russia upped their output by just 1.5mb/d. For this reason, inventory is still in high demand to balance out the market, especially in Europe and Asia. While inventory levels in the US are still on the high end of historical levels, inventories in Europe are close to their lowest point of the past six years.



Sources: Apple, Crédit Agricole S.A./ECO

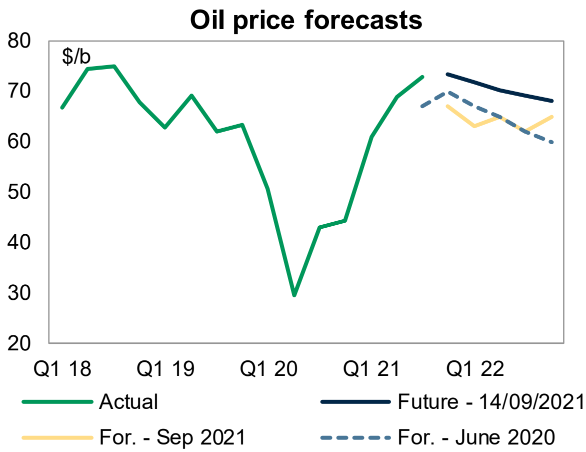
Many uncertainties persist as to short-/medium-term supply and demand. Growth in demand in 2022 is projected to be more moderate than in 2021. Demand should reach the 100mb/d mark – its pre-pandemic level – during H2. However, any emergence of a new Covid-19 variant that resists current vaccines and would force authorities to instate stricter new lockdowns would delay a full recovery in oil demand.



Sources: ©OECD/IEA, OMR, Thomson Reuters, Crédit Agricole S.A./ECO

The supply increase is happening more slowly and lagging slightly behind the rise in demand. Several signs suggest that OPEC+ could accelerate the increase in its output. OPEC's latest report puts projected demand higher than other organisations have, including the International Energy Agency and the US Department of Energy. The report may be used as justification to step up production as the United Arab Emirates have been demanding since July.

Judging oil prices to be too high and likely to affect Americans' purchasing power and the growth recovery, the US administration is calling for OPEC+, particularly Saudi Arabia, to urgently kick-start their production as soon as possible. The OECD's oil inventory levels are below the latest five-year average, a precondition often put forward by Saudi Arabia before it will ease any production quotas. Still, some countries are in for difficulty returning to their historical output levels. Nigeria and Angola have been unable to attract investments for the past several years, and could be facing a structural decline in



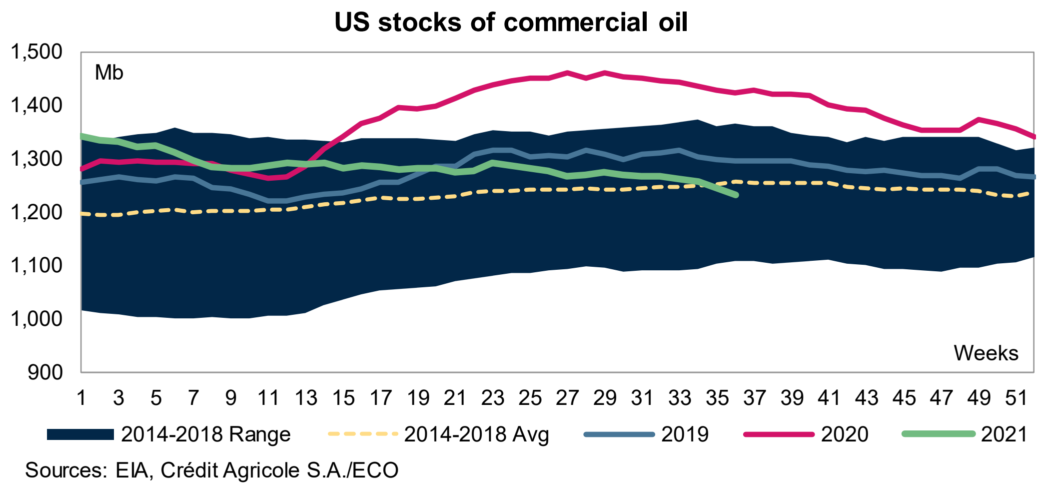
Sources: Thomson Reuters, ICE, CA SA - ECO

production. However, Saudi Arabia has enough capacities to offset Nigeria's or Angola's production losses.

Our previous scenario called for a recovery in Iranian oil exports starting in 2022; geopolitical relations have changed since then. **The new Iranian regime seems to be in less of a hurry to reach any agreement with the US than it was in June.** In our view, after its chaotic withdrawal from Afghanistan, and one year away from midterm elections, the US administration will focus more on domestic problems and its interests in the Pacific than on the hasty signature of an accord with the Iranians which the Republican Party would not fail to criticise. As a result, **our scenario no longer includes the end of US sanctions on Iranian oil**.

Thanks to the production increase by OPEC+ and weaker growth in demand in 2022, we expect oil to average USD64/barrel in 2022.

Stéphane FERDRIN



Sources: EIA, Crédit Agricole S.A./ECO

Monetary policy – Beginning of 'normalisation'

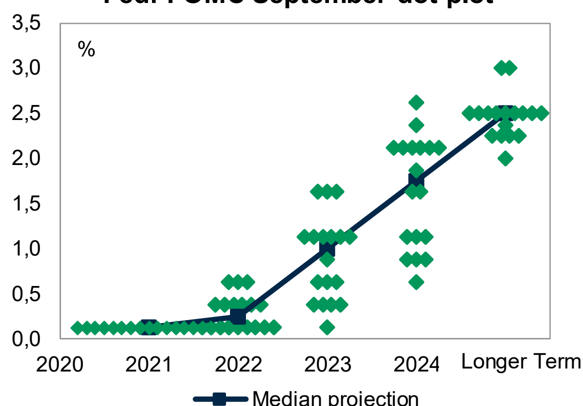
Although it constitutes a risk that is rather difficult to calibrate at present, more than inflation, it is growth that is driving the withdrawal of exceptional monetary support measures. Although the effects are the same, rather than talking about a tightening, it seems more appropriate to talk about a normalisation.

Fed: tapering to begin shortly

After a swift and aggressive response at the onset of Covid, the Fed has gradually shifted from its resolutely dovish stance to signal that it is nearing the point when it will begin removing accommodation. The first step in this process will involve tapering asset purchases, with a forthcoming announcement hinted at in the September meeting with the statement noting that a reduction in the pace of purchases "may soon we warranted". While a softer employment report for August kept the Fed on hold in September, we expect that this means a November taper announcement, barring a significant downside surprise in the September employment report.

Once the Fed begins tapering, we continue to expect a gradual process, despite a push from some hawkish Committee members for a more aggressive pace. Chair Jerome Powell highlighted mid-2022 as a timeframe for concluding the process in his press conference and we would expect this to be the eventual result. With FOMC members stressing that there is no "mechanical link" between tapering and the timing of lift-off, we do not expect a rate hike immediately following the conclusion of the taper process, but anticipate lift-off in early 2023 in our current base case, though late 2022 is also a possibility.

Fed: FOMC September dot plot

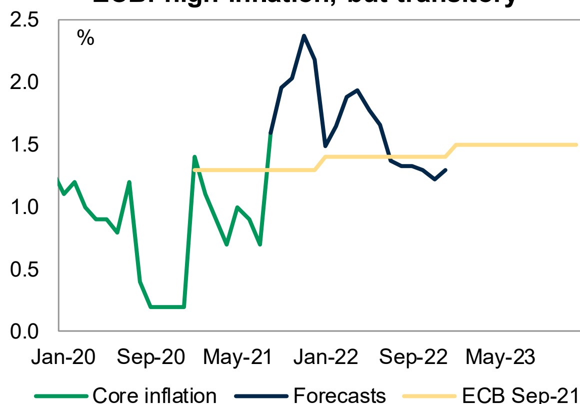


Sources: Federal Reserve, CA CIB

Of key importance in determining the eventual timing will be the evolution of the inflation outlook, in our view. While most committee members have continued to highlight that they expect the current overshoot to be transitory, with inflation moderating back towards target as re-opening related pressures ease, some have begun to stress the upside risks. If these risks play out and the overshoot begins to look like it could be more persistent, the Fed could be pushed into earlier tightening, especially if long-term inflation expectations were to become de-anchored.

Nicholas VAN NESS

ECB: high inflation, but transitory



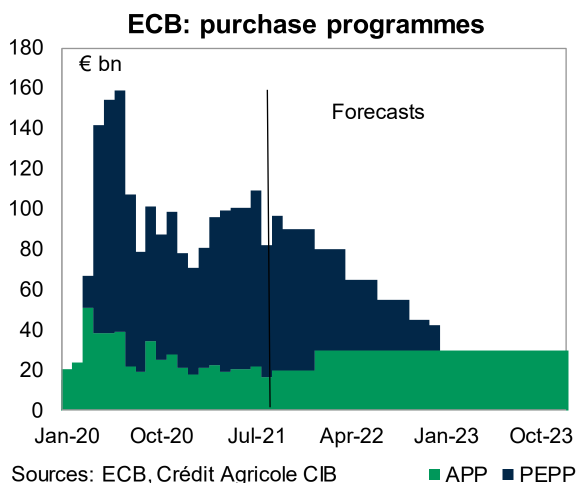
Sources: ECB, Crédit Agricole CIB

ECB: December meeting

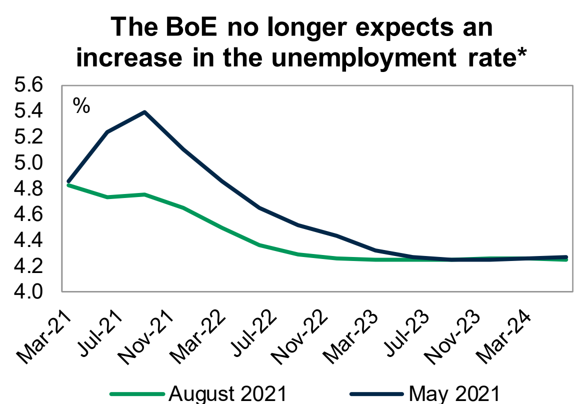
Q421 will be a major turning point in the ECB's monetary policy. This will be the moment of transition between a monetary policy that is fully immersed in the battle against the economic effects of the pandemic and a shift back to normal.

On top of this change, monetary policy is getting a new strategy; the ECB has already changed its forward guidance on rates, but has not yet touched its other monetary policy tools or made any progress on climate change issues.

In September, the ECB decided to ease back somewhat on its PEPP purchases for Q4; this is not a change in monetary policy, just a technical adjustment to ensure the right financing terms. More importantly, though, the institution has clearly prepared itself to make



Sources: ECB, Crédit Agricole CIB



* based on market expectations for a gradual tightening of the Bank rate to 0.5% by the middle of 2023
Sources: BoE monetary policy reports, Crédit Agricole S.A.

critical decisions at the end of this quarter, when it meets on 16 December.

In December, the ECB will have to make decisions that could structure its monetary policy for several years.

The end of the PEPP is a side item: whether the ECB decides to prolong it with a limited expansion of the budget to promote tapering (which we are expecting) or bring it to an abrupt end in March 2022 hardly matters.

What matters is that the ECB will have to decide on a potential change in the APP. Currently at EUR20bn per month, this programme could be expanded either to offset the end of the PEPP or to accelerate the return to price stability as defined in the ECB's new strategy. We expect a permanent increase in the APP to EUR30bn per month.

Finally, the ECB will probably announce new TLTROs. The stakes are twofold: (1) anticipating the probable repayments in June 2022; and (2) making those tools permanent.

All of the ECB's decisions – about the PEPP, APP, and TLTROs – will hinge on the central bank's economic projections. In December, the ECB will present its first forecasts for 2024: the outlook on inflation – specifically core inflation – will be a decisive factor in monetary policy decisions.

Louis HARREAU

BoE: waiting for more labour market clarity before deciding when to hike rates

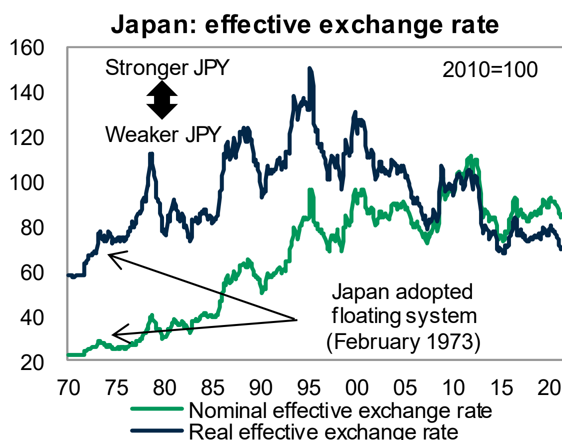
The strong post-lockdown rebound in demand and the labour market tightening since the beginning of the year prompted the BoE to signal willingness to hike rates at some point during the coming year. First, in August, it opened the door to "some modest tightening over the forecast period" should the economy evolve broadly in line with the central projections in the August Monetary Policy Report. In our interpretation, the BoE was broadly endorsing market expectations for the bank rate to be lifted towards 0.5% by the middle of 2023 with a first rate hike of 15bp to 0.25% (from 0.1% currently) intervening in Q322.

Then, at its latest MPC meeting in September, the BoE strengthened the case for an even earlier rate hike. Rather surprisingly given the downside news on near-term growth since August and greater labour market uncertainty, the BoE said that "any future initial tightening of monetary policy should be implemented by an increase in Bank Rate, even if that tightening became appropriate before the end of the existing UK government bond asset purchase programme". The end of asset purchases being scheduled for the middle of December, this final forward guidance seems therefore to not exclude a rate hike as soon as at the November meeting. The BoE will then update its new economic forecasts in light of the autumn budget (due on 27 October) and will publish a periodic assessment of the supply side of the economy. By that time, it will not have official labour market data at its disposal covering the period after the end of the furlough scheme, but probably enough evidence from surveys, including the BoE Agents survey, to be able to give a more precise forward guidance on the first rate hike.

Labour developments, in particular the unemployment rate, will be the key variable to watch. Contrary to the BoE, we do expect some modest increase in the unemployment rate in Q421 (to 5.1%). The latest news has strengthened that view. In particular, there was “a materially higher number of jobs furloughed than had been assumed at the time of the August Report” and the BoE notes the risk of some micro businesses closing permanently after the end of the Job Retention Scheme. Although some of this uncertainty (relative to the labour market) should be resolved over coming months, for most members, “there was a high option value in waiting for that additional information before deciding if and when a tightening in monetary policy might be warranted.” **We advance our forecast for the first rate hike from 2023 to Q422 which would bring the bank rate to 0.25%, reflecting our relatively cautious view on the recovery and the unemployment. Should the labour market continue to tighten however and long-term inflation expectations start to drift higher, the chances are that the first rate hike would occur early next year.**

Slavena NAZAROVA

BoJ: YCC to be left intact under the new post-Suga cabinet, contributing to more expansionary fiscal policy



Sources: BoJ, Crédit Agricole CIB

The BoJ’s monetary policy currently has three pillars: (1) YCC; (2) asset purchases of TOPIX-linked ETFs and J-REITs; and (3) loan/credit measures to fight against Covid-19. **We remain of the view that the BoJ will leave the first two intact for the foreseeable future, at least through 2023**. The third is currently scheduled to conclude at the end of March 2023 and whether or not to extend it will be an issue at the December MPM, in our view.

Unlike the Fed and the ECB, the issue of **whether to 'taper' is not a relevant question for the BoJ**. The reason is because the bank's primary policy framework has been YCC since September 2016, ie, targeting at both short- and long-term policy rates, or the IOER and 10Y JGB yield. Quantity is just a secondary parameter, for which there is no specific target, since April 2020 when the BoJ officially dropped the “JPY80trn” language describing the targeted annual pace of an increase of the holdings of JGBs.

With regards to politics, we believe whoever becomes the new PM in early October will accept what the BoJ has been doing because monetary policy has functioned as a trick for the government including the previous governments under Shinzo Abe and Yoshihide Suga to impress the people and the markets that the government has been working hard to get Japan fully out of deflation despite the policy having yet to bear fruit.

The value of the JPY does not seem to require further easing either from the viewpoint of the REER (real effective exchange rate). The current level of the JPY REER has been almost as low as in 2015, the earlier phase of the BoJ’s QQE, when the JPY REER recorded the lowest level ever since Japan shifted to the floating system in February 1973. Still Japan’s trade account has had a deficit, suggesting any incremental decline of the JPY could bring about income outflow. Therefore, we rule out the possibility of further easing going forward.

That said, **one of the events worth focusing on is the end of board member Hitoshi Suzuki’s term in July 2022**. He joined the BoJ’s policy board from the banking industry and has stressed more than any other board member the negative side effects the current policy

framework can have especially on lender banks. While it is widely believed he will be succeeded by someone in the same industry, this will still be a good occasion to gauge the stance of the new post-Suga government toward monetary policy from a medium-term perspective. Should Suzuki be replaced with another reflationist rather than someone from the banking industry, it will be a sign that the new government wants an extended period of the current easy monetary policy since five of the nine board members, ie, the majority, will be reflationist in that case.

Kyohei MORITA

Interest rates – No over-reaction to monetary normalisation

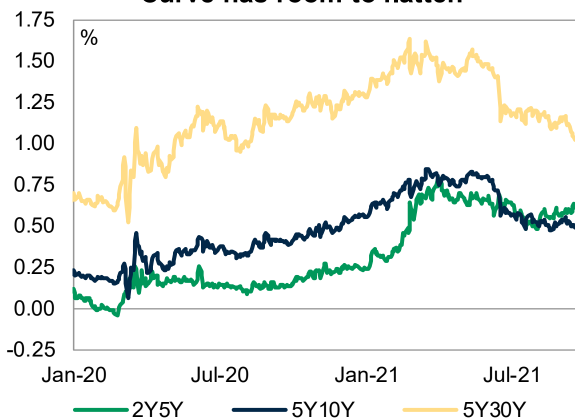
The Federal Reserve's tapering is approaching without heralding a storm in the financial markets. Once monetary normalisation has begun, the theme of slowing should once again take hold and limit the rise in bond yields.

US: Fed will taper soon, but there is no tantrum

While the Fed is on a path to taper asset purchases at the November FOMC meeting, we expect rates to move modestly higher by yearend, led by the intermediate sector. Our 10Y Treasury 2021 yearend forecast is at 1.50%, down from 1.65% in the prior forecast.

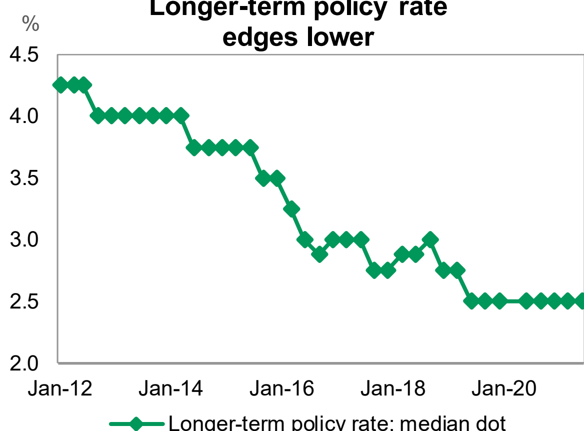
Although we see higher rates near term due to economy reopening and continued labor market recovery, the delta variant, recent spike in equity volatility and looming debt limit will likely limit any upward pressure on rates by yearend.

Our recent downward revision to the GDP forecast reflects a larger impact than previously expected from the delta variant, evident in the sharp drop in consumer sentiment in recent months. The spike in VIX in September has benefited long-end Treasuries, as the front-end rates are anchored. Bills have limited room to rally given their rate levels and looming debt ceiling. Debt ceiling needs to be raised or suspended by October or early November, as the Treasury has operated under "extraordinary measures" to avoid the debt limit. Most of late October and early November maturity bills have cheapened lately to price in the X-date of the debt limit.



Sources: Bloomberg, Crédit Agricole CIB

We expect rates to trend lower in 2022, as demand moderates and recovery slows after stimulus-driven high growth in 2021. With the Fed concludes taper around mid-2022, the market will eventually price in Fed rate hikes, leading to yield curve flattening. We expect the 10Y Treasury yield to be at around 1.25% at 2022 yearend.



Sources: Bloomberg, Crédit Agricole CIB

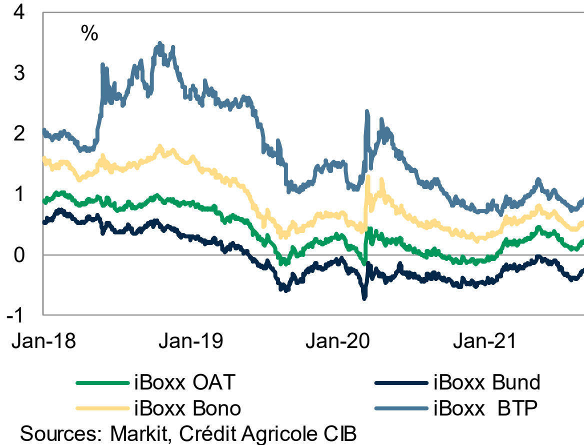
The neutral rate of interest (or R-star) has been on a downward trajectory over the past several decades, and will remain depressed in the years ahead, in our view. Lower R-star would lead to a lower terminal policy rate than in previous cycles, as evident in the downward migration of estimated longer-term policy rate in the FOMC dot plot. **We are in a stage of the rate cycle where the curve tends to flatten as the Fed proceeds with policy normalisation, first taper then rate liftoff.**

With a smaller budget deficit, slower growth, a lower R-star, and a potentially lower policy rate over the longer run, we believe the 10Y Treasury yields has room to decline in 2022, and the yield curve has room to flatten.

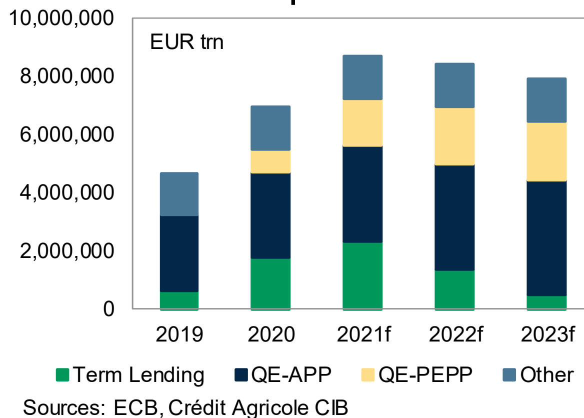
Alex LI

Eurozone: T is for Transient; C is for Credible

Over the summer we had the usual, seasonally-driven drop of yields and compression of spreads. **Aside from the usual factors of lower supply and reduced activity contributing to this, the ECB's strategy review came to a close sooner than most market**



Sources: Markit, Crédit Agricole CIB



Sources: ECB, Crédit Agricole CIB

participants had expected. Easy to interpret is a new symmetric policy objective of inflation at 2%, aligned to most central bank targets. But more forceful in terms forward guidance, the ECB will supposedly not react until its own inflation forecasts show inflation to be durably at this level at its forecasting horizon leaving some discretion to the governing council.

Given the persistently low inflation of the last decade, one would think this would more forcibly hold down yields but **there are a number of complications on the horizon for Q421 and Q122 in our view**. First, we sense the ECB will have to revise up its inflation forecasts (as we have done) in the face of the variety, depth and persistency of supply shocks. In theory, these are individually transient but we do not know for how long or to what extent, in a combined manner, they will increase household and business inflation expectations. With its single inflation mandate, this could prove to be problematic if market participants stop believing in the credibility of the ECB's forecasts, or knock-on supply chain shocks boost the perception of higher inflation for a longer period of time irrespective of its cause warranting less monetary policy accommodation and more risk premia to be priced into EGBs.

Though the Covid crisis in not entirely over, and its impact on government finances remains a key consequence, the combination of activity measures and spare capacity should result in a slowdown in the pace of QE for 2022. Currently, both the PEPP and TLTRO suggest policy cliffs that need to be managed but should in our view signal the beginning of the end of ultra-loose accommodation. With this in mind, we expect yet bigger uncertainty to contribute towards a pick-up in volatility ahead of the ECB's meeting in December and probably March. Complicating matters however are signs that activity has peaked in the Eurozone and that global slowdown signs continue to materialise as fiscal policy incrementally tightens and real wages lag. Timing is everything in markets but we believe growth concerns will take over on the second half of next year, in line with developed and developing central banks tightening policy from current levels.

Over the next few months however, we believe relative policy tightening (especially if on the back of price pressures) **should lead to markets pricing in modestly higher yields and a variety of risk premium needing to return.** This implies spread widening and an outperformance of core EGBs vs the periphery irrespective of the German election outcome. Higher yields imply we see 10Y sectors cheapening the most, with Bund yields temporarily turning positive in Q1 while BTPs should cheapen the most. Similarly, we think PGBs should cheapen vs Bonos and these should cheapen vs semi-core bonds like OATs.

With higher market volatility due to inflation reducing the ability of central banks to continue ultra-loose levels of accommodation we think the overall curve should steepen as we expect more curvature. Perhaps the greatest amount of steepening will be coming from the 5-10Y segment, followed by 2-5Y and then the 10-30Y which could remain quite flat in light of broad falling growth prospects and low Treasury long-end yields.

Bert LOURENCO

Exchange rates – Momentary advantage of the dollar

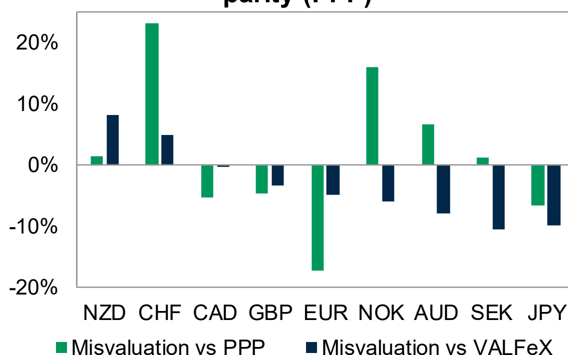
The US economy's outperformance and the Fed's monetary normalisation are, in the short term, factors supporting the USD. Beyond that, our scenario envisages a decline in the USD.

FX: the return of high-yielding, safe-haven USD

We expect the USD to remain supported in the near term by the US economic outperformance and the Fed's QE taper that could boost its rate and yield advantage. The USD can also benefit from its role as a liquid safe-haven currency during bouts of risk aversion. We maintain our bearish outlook on the currency in the medium term, however.

While, at present, the dominant USD driver seems to be the recurrent bouts of weak global risk sentiment on the back of concerns about the negative growth impact of the delta variant, the growing return on USD-denominated assets could boost the currency's appeal as well once the Fed starts normalising policy in the coming months. Indeed, Crédit Agricole CIB's rate strategists expect UST yields to recover more ground going into year-end and thus boost the investment appeal of the USD vs low-yielders like the EUR, JPY and CHF. The US economic outlook and the attractiveness of USD assets could be further underpinned by another aggressive fiscal stimulus package from President Joe Biden's administration and the US congress (that includes raising the debt ceiling) in Q421.

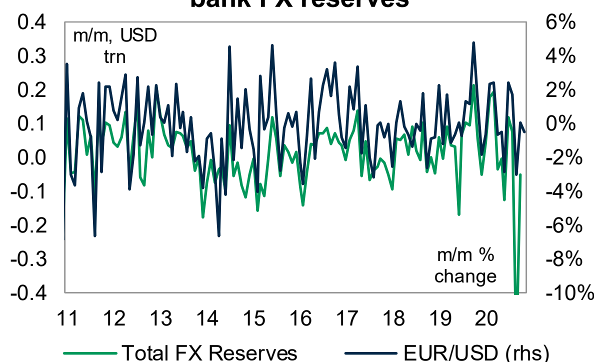
Misvaluation of FX spot vs G10 VALFex and purchasing power parity (PPP)



Sources: Bloomberg, Crédit Agricole CIB

The policy mix of looser fiscal and tighter monetary policy in the US can cement the USD's position as a relative high-yielder and keep it supported in the near term. In addition, lingering concerns about the negative impact of the delta variant, the tighter global financial conditions – eg, stronger USD and higher UST yields – and the recent crack-down on the private sector by Chinese officials on the still fragile global economic recovery could exacerbate market anxiety. In turn, the safe-haven USD could continue to benefit from recurrent bouts of risk aversion vs risk-correlated and commodity currencies in the near term. As a result, we upgrade our USD outlook across the board.

Monthly changes of EUR/USD seem to follows changes in global central bank FX reserves



Sources: Bloomberg, Crédit Agricole CIB

In the medium to long term, we expect the steadily growing number of vaccinated people to underscore the resilience of the global economy to the current as well as future variants of the Covid virus. In turn, we expect a growing number of economies, especially in Europe, to start opening up in a boost to their outlook. Vaccination laggards, such as the Antipodeans, will also catch up and exit lockdowns, which will lead to rate hikes in NZ and a tapering of asset purchases in Australia. In the US, an aggressive fiscal stimulus could boost the economic outlook in the near term but exacerbate the recent deterioration of its external imbalances. This development, coupled with recovering global trade flows could weigh on the USD more broadly. Moreover, worries about planned tax hikes could dampen both the long-term US economic outlook and fuel diversification flows out of the USD, which remains one of the most overvalued G10 currencies at present according to our long-term fair value model G10 VALFeX.

Furthermore, we expect **that the current market concerns about the detrimental impact on the global outlook from the tighter US and global financial conditions would ultimately fade**, especially as the Fed embarks on a very gradual QE taper that leaves the real UST yields very negative and thus less damaging for global risk sentiment and

supportive for the safe-haven USD. In addition, favourable risk sentiment could fuel demand for FX carry trades with investors diversifying out of the USD and into other high-yielding G10 currencies. These flows will likely intensify as other G10 central banks – eg, Norges Bank, RBNZ, BoC, BoE and even the RBA – start normalising their monetary policy alongside the Fed in the coming months and quarters. In turn, this could support the NOK, NZD, CAD and AUD vs the USD.

In the case of EUR/USD, we believe that **the ongoing debate at the Governing Council about the need to put an end to the central bank's 'crisis mode' amid the Eurozone's economic recovery can gradually reduce the appeal of the EUR as a funding currency**. Moreover, foreign equity and fixed income flows into the EUR could pick up again and thus help improve the Eurozone's weak broad basic balance especially as the issuance of EUR-denominated EU recovery bonds picks in the medium term. It would help the fact that EUR/USD remains quite undervalued according to our long-term fair value model G10 VALFeX.

We also expect **the EUR to emerge as one of the biggest beneficiaries from the continuing recovery of global trade** that could result in EUR-buying by both Eurozone exporters and global central banks that diversify their growing FX reserves from here. Indeed, historically, global central banks kept only about 60% of their reserves in USD and diversified the rest into liquid proxies like the EUR. As a result, there is a well-established historic correlation between growing central bank FX reserves and appreciating EUR/USD.

Valentin MARINOV

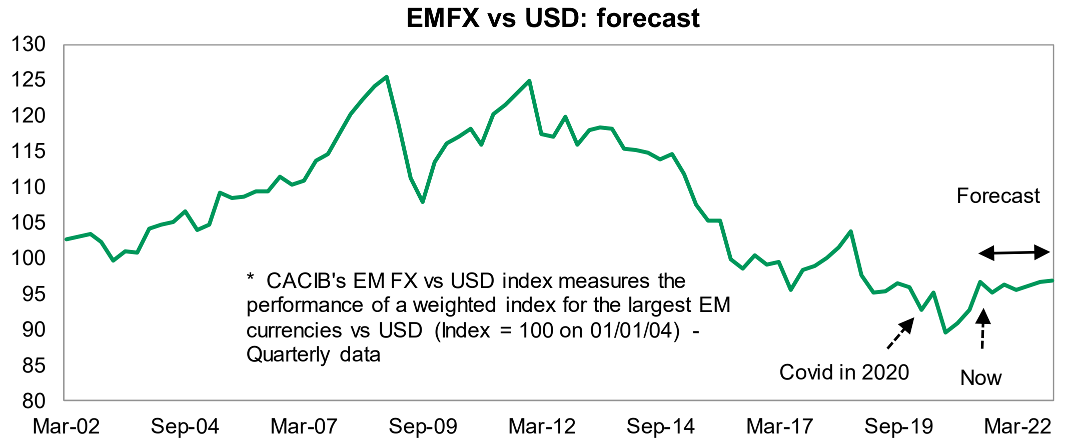
Emerging countries: regional rotation

Based on the fundamentals explained in the EM macro section of this report, **we look for a stability, or a slight appreciation of EMFX vs USD, in coming quarters, on average**. This is related to a benign global rate environment: US yields may increase as the Fed tappers, but only in a limited way, and they may actually decrease next year once the ignition of the tapering has been digested by the markets, and on the back of a moderation in US inflation, together with a US growth slowdown. This would leave the door open to EM carry trades (as the EM-DM carry gap has widened further).

However, there is a significant case for some regional differentiation. We expect the CNY to depreciate in Q4 (in a limited way). This is the corollary of a tarnished growth outlook in the short term, on the back of the Evergrande situation and as the government has carried on with the crackdown on parts of the private sector. Thanks to strong current account balance, the CNY depreciation should be limited. Still we expect USD/CNY at 6.50 in December, which is close to the lower band of its last 6-month range.The CNY softness should cap Asian currencies in relative terms vs other EM currencies.

In addition, the Health relative situation of Asia vs EMEA and Latin America has deteriorated compared with the beginning of the year. It used to be the least infected region; it is not anymore. And some countries are lagging behind in terms of vaccination. This should cap equity flows, but also fixed income flows, as Asian central banks have been much less hawkish than EMEA and Latam central banks – and in our view it will remain so in the next two quarters.

By contrast, the carry has substantially increased in EMEA and Latin America. However, Latin America faces a challenge which may also cap exchange rates: the political climate has deteriorated in this region, and the uncertainty should remain relatively high, ahead of the elections in Chile, Colombia and Brazil in the next twelve months. In a nutshell, we believe the regional rotation supports EMEA FX rather than Asia or Latam FX, in relative in the coming quarters.



Source: Crédit Agricole CIB

Sébastien BARBE

Economic and financial forecasts

Interest rate

Short-term interest rates		1-Oct	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Etats-Unis	Fed funds	0.25	0.25	0.25	0.25	0.25	0.25
	3M	0.86	0.18	0.16	0.20	0.25	0.30
Japon	Call rate	0.00	-0.02	-0.02	-0.02	-0.02	-0.02
	3M	0.00	-0.10	0.00	0.00	0.00	0.00
Eurozone	Deposit	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
	3M	-0.55	-0.55	-0.55	-0.55	-0.55	-0.55
United-Kin	Base rate	0.10	0.10	0.10	0.10	0.10	0.25
	3M	0.08	0.08	0.08	0.08	0.10	0.30
Sweden	Repo	0.00	0.00	0.00	0.00	0.00	0.00
Norway	Deposit	0.50	0.50	0.75	1.00	1.00	1.25
Canada	Overnight	0.25	0.25	0.25	0.25	0.25	0.25

10Y rates	1-Oct	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
USA	1.48	1.50	1.45	1.40	1.35	1.25
Japan	0.05	0.09	0.10	0.10	0.11	0.11
Eurozone (Germany)	-0.23	-0.15	0.05	-0.05	-0.20	-0.25
Spread 10 ans / Bund						
France	0.35	0.45	0.55	0.55	0.55	0.50
Italy	1.04	1.25	1.45	1.40	1.35	1.30
Spain	0.65	0.85	1.00	1.00	1.00	0.95

Asia		1-Oct	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
China	1Y deposit rate	1.50	1.50	1.50	1.50	1.50	1.50
Hong Kong	Base rate	0.50	0.50	0.50	0.50	0.50	0.50
India	Repo rate	4.00	4.00	4.00	4.00	4.00	4.25
Indonesia	7D (reverse) repo rate	3.50	3.50	3.50	3.50	3.75	4.00
Korea	Base rate	0.75	1.00	1.00	1.00	1.25	1.25
Malaysia	OPR	1.75	1.75	1.75	1.75	1.75	2.00
Philippines	Repo rate	2.00	2.00	2.25	2.25	2.25	2.25
Singapore	6M SOR	0.31	0.35	0.40	0.42	0.44	0.44
Taiwan	Redisc	1.13	1.13	1.13	1.13	1.13	1.13
Thailand	Repo	0.25	0.25	0.25	0.25	0.25	0.25
Vietnam	Refinancing rate	4.00	4.50	4.50	4.50	5.00	5.50
Latin America							
Brazil	Overnight/Selic	6.25	8.00	8.75	8.75	8.75	8.75
Mexico	Overnight rate	4.75	5.25	5.25	5.25	5.25	5.25
Emerging Europe							
Czech Rep.	14D repo	1.00	1.25	1.50	1.50	1.75	1.75
Hungary	Base rate	1.65	2.10	2.25	2.25	2.25	2.25
Poland	7D repo	0.10	0.10	0.10	0.10	0.10	0.10
Romania	2W repo	1.25	1.25	1.25	1.25	1.25	1.50
Russia	1W auction rate	6.75	7.00	7.00	6.50	6.25	6.00
Turkey	1W repo rate	19.00	17.00	15.00	15.00	15.00	15.00
Africa & Middle East							
South Africa	Repo	3.50	3.50	4.00	5.00	5.00	5.00
UAE	Repo	0.60	0.60	0.60	0.60	0.60	0.60
Saudi Arabia	Repo	1.00	1.00	1.00	1.00	1.00	1.00

Exchange rate

USD Exchange rate Industrialised countries		30-Sep	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Euro	EUR/USD	1.16	1.20	1.20	1.21	1.22	1.24
Japan	USD/JPY	111.7	115.0	112.0	112.0	110.0	110.0
United Kingdom	GBP/USD	1.35	1.40	1.40	1.41	1.43	1.45
Sw itzerland	USD/CHF	0.93	0.92	0.93	0.93	0.93	0.92
Canada	USD/CAD	1.27	1.25	1.23	1.22	1.21	1.20
Australia	AUD/USD	0.72	0.75	0.77	0.77	0.78	0.78
New Zealand	NZD/USD	0.69	0.73	0.74	0.76	0.77	0.78
Euro Cross rates							
Industrialised countries							
Japan	EUR/JPY	129	138	134	136	134	136
United Kingdom	EUR/GBP	0.86	0.86	0.86	0.86	0.85	0.85
Sw itzerland	EUR/CHF	1.08	1.10	1.11	1.12	1.13	1.14
Sw eden	EUR/SEK	10.15	10.00	9.90	9.80	9.80	9.75
Norw ay	EUR/NOK	10.13	9.90	9.80	9.70	9.60	9.60
Asia							
China	USD/CNY	6.45	6.50	6.43	6.40	6.35	6.30
Hong Kong	USD/HKD	7.79	7.76	7.76	7.76	7.76	7.76
India	USD/INR	74.17	74.00	74.25	74.50	74.75	75.00
Indonesia	USD/IDR	14310	14200	14000	14200	14300	14500
Malaysia	USD/MYR	4.19	4.10	4.05	4.05	4.10	4.10
Philippines	USD/PHP	51.0	49.6	49.2	48.8	48.5	48.0
Singapore	USD/SGD	1.36	1.33	1.33	1.32	1.32	1.32
South Korea	USD/KRW	1183	1130	1120	1110	1100	1100
Taiw an	USD/TWD	27.8	27.9	27.8	27.7	27.6	27.5
Thailand	USD/THB	33.7	33.8	33.5	33.2	32.9	32.5
Vietnam	USD/VND	22750	23200	23250	23300	23350	23400
Latin America							
Brazil	USD/BRL	5.45	5.20	5.25	5.30	5.40	5.50
Mexico	USD/MXN	20.55	20.50	20.20	20.10	20.00	20.00
Africa							
South Africa	USD/ZAR	15.07	14.00	14.20	14.50	14.70	15.00
Emerging europe							
Poland	USD/PLN	3.96	3.79	3.75	3.64	3.57	3.47
Russia	USD/RUB	72.77	70.00	70.00	72.00	73.00	74.00
Turkey	USD/TRY	8.87	8.25	8.30	8.40	8.50	8.60
Central Europe							
Czech Rep.	EUR/CZK	25.27	25.00	24.90	24.80	24.70	24.60
Hungary	EUR/HUF	359	340	335	330	325	320
Poland	EUR/PLN	4.59	4.55	4.50	4.40	4.35	4.30
Romania	EUR/RON	4.95	4.90	4.89	4.88	4.87	4.86

Economic forecasts

	GDP (yoy, %)			Consumer prices (yoy, %)			Current account (% of GDP)		
	2020	2021	2022	2020	2021	2022	2020	2021	2022
United States	-3.5	6.1	4.0	1.2	4.4	3.5	-2.6	-2.6	-2.7
Japan	-4.6	2.2	2.4	-0.5	-0.2	0.8	3.3	3.8	4.3
Eurozone	-6.5	5.4	4.4	0.3	2.4	2.4	2.9	3.0	2.8
Germany	-4.9	3.2	4.3	0.4	3.1	2.6	6.9	6.6	6.0
France	-8.0	6.4	3.9	0.5	2.0	2.1	-1.9	-1.0	-1.1
Italy	-8.9	6.0	4.1	-0.2	1.9	2.0	3.6	3.1	3.6
Spain	-10.8	4.7	6.0	-0.3	2.7	2.4	2.0	1.9	1.8
Netherlands	-3.8	3.6	3.2	1.1	2.3	2.5	7.0	8.9	8.4
Belgium	-6.3	5.8	3.3	0.4	2.8	3.1	-0.3	-0.8	-0.8
Other advanced									
United Kingdom	-9.7	7.2	4.9	0.9	2.3	3.0	-2.6	-1.5	-3.7
Canada	-5.6	4.5	3.4	0.7	1.7	2.0	-2.1	-2.3	-2.0
Australia	-2.4	4.5	2.8	0.9	1.7	1.6	2.5	2.4	1.0
Switzerland	-3.0	3.5	2.8	-0.7	0.1	0.3	3.8	6.7	7.5
Sweden	-2.9	4.5	3.4	0.5	3.3	2.4	5.7	5.7	5.4
Norway	-1.3	2.7	2.7	1.3	3.3	2.4	1.9	1.9	1.8
Asia	-1.0	7.3	5.5	2.9	2.2	2.9	2.2	1.6	1.0
China	2.3	8.2	5.4	2.5	1.2	2.2	1.9	1.6	1.0
India	-7.0	9.6	7.6	6.6	5.1	5.5	1.2	-1.0	-2.2
South Korea	-0.9	4.1	3.3	0.6	1.8	1.4	4.0	4.2	4.0
Indonesia	-2.0	3.5	5.0	1.5	2.0	3.0	-2.0	-1.0	-1.5
Taiwan	2.5	5.4	2.9	-0.2	1.6	1.3	11.4	14.2	13.6
Thailand	-5.8	0.5	3.5	-0.9	0.6	1.0	3.2	-1.5	0.2
Malaysia	-4.5	3.5	4.0	-0.5	2.0	2.5	1.0	3.0	2.5
Singapore	-6.0	6.2	3.8	-0.4	1.6	1.3	16.5	18.6	16.8
Hongkong	-5.8	6.5	3.0	0.1	1.5	2.1	5.1	7.6	4.5
Philippines	-8.3	4.2	6.9	2.3	4.0	3.0	3.5	1.8	0.0
Vietnam	3.1	5.0	6.5	2.9	3.8	3.5	4.6	1.5	2.2
Latin America	-6.6	5.7	2.3	8.5	11.7	8.7	0.2	-0.3	-0.4
Brazil	-4.1	5.0	1.5	4.5	8.2	4.8	-0.9	-0.8	-0.6
Mexico	-8.2	6.5	3.2	3.2	5.8	3.4	2.5	1.5	1.0
Argentina	-11.9	4.0	2.2	41.0	45.0	40.0	1.2	1.0	0.0
Colombia	-6.8	7.1	3.4	1.6	4.5	3.2	-3.5	-4.5	-4.0
Emerging Europe	-2.5	4.3	3.5	5.1	7.8	5.6	0.5	0.9	0.8
Russia	-3.0	3.5	2.7	3.4	6.3	4.0	2.2	3.0	3.0
Turkey	1.6	6.0	3.8	11.9	16.6	12.0	-5.1	-3.0	-3.0
Poland	-3.9	4.9	4.7	3.4	4.8	4.9	2.9	1.7	1.5
Czech Republic	-5.6	3.1	4.5	3.2	2.3	2.1	3.0	1.0	0.5
Romania	-3.9	5.0	4.7	2.6	3.2	2.9	-5.2	-4.8	-4.5
Hungary	-5.0	4.5	5.0	3.3	3.8	3.2	0.1	0.5	0.6
Ukraine	-4.0	3.7	3.9	5.0	8.2	5.4	4.0	-0.7	-1.9
Africa, Middle East	-3.9	3.0	3.6	9.2	21.5	5.8	-2.4	0.8	1.1
Saudi Arabia	-4.1	2.0	3.5	3.5	2.9	1.9	-2.8	3.9	3.6
United Arab Emirates	-6.1	2.2	4.2	-2.1	0.3	1.8	5.8	8.5	9.8
South Africa	-7.0	4.0	2.0	3.3	3.5	4.0	-0.8	-1.5	-2.0
Egypt	1.5	4.5	5.0	5.1	57.0	6.3	-4.5	-4.0	-3.5
Algeria	-5.5	3.0	2.5	2.1	54.0	5.9	-12.6	-8.3	-6.9
Qatar	-3.7	2.5	3.6	-2.6	1.4	2.5	-2.5	5.0	3.1
Koweit	-8.9	2.1	4.5	2.1	3.2	2.5	0.8	11.0	13.0
Morocco	-6.3	5.4	3.9	0.6	1.1	1.5	-1.5	-3.2	-3.5
Tunisia	-9.3	3.5	3.2	5.6	5.0	5.1	-6.4	-5.9	-5.5
Total	-3.5	5.8	4.3	2.9	5.0	3.6			
Advanced economies	-5.0	5.3	3.9	0.6	2.9	2.6			
Emerging countries	-2.3	6.1	4.6	4.7	6.7	4.4			

	2020				2021				2022			
Real GDP growth, QoQ %	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
USA (annualised)	-5.0	-31.4	33.4	4.3	6.3	6.6	7.0	3.9	3.4	3.2	2.5	2.1
Japan	-0.6	-7.9	5.4	2.8	-1.1	0.5	0.5	0.7	0.7	0.7	0.5	0.3
Eurozone	-3.5	-11.7	12.6	-0.4	-0.3	2.2	2.3	1.1	0.7	0.7	0.7	0.6
Germany	-1.8	-10.0	9.0	0.7	-2.0	1.6	3.0	1.3	0.6	0.6	0.6	0.6
France	-5.7	-13.5	18.6	-1.1	0.0	1.1	2.5	0.9	0.7	0.7	0.6	0.5
Italy	-5.6	-13.1	16.0	-1.8	0.2	2.7	1.8	1.0	0.5	0.8	0.9	0.6
Spain	-5.4	-17.7	16.8	0.2	-0.6	1.1	2.4	1.8	1.7	1.0	0.9	0.8
United Kingdom	-2.7	-19.6	17.4	1.1	-1.4	5.5	1.8	1.3	0.9	0.5	0.5	0.4

	2020				2021				2022			
Consumer prices, YoY %	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
USA	2.1	0.4	1.2	1.2	1.9	4.8	5.3	5.3	5.1	3.7	2.6	2.5
Japan	0.3	-0.4	-0.7	-1.0	-0.5	-0.6	0.1	0.5	0.4	0.7	1.1	1.2
Eurozone	1.1	0.2	0.0	-0.3	1.1	1.8	2.8	3.9	3.1	2.7	2.0	1.5
Germany	1.5	0.7	-0.2	-0.6	1.7	2.2	3.5	4.8	3.4	2.9	2.2	1.9
France	1.3	0.3	0.4	0.1	1.0	1.8	2.3	3.1	2.6	2.4	1.9	1.4
Italy	0.2	-0.2	-0.2	-0.4	0.8	1.2	2.2	3.5	2.8	2.7	1.8	0.9
Spain	0.7	-0.6	-0.6	-0.8	0.5	2.3	3.4	4.7	3.7	2.9	2.0	1.2
United Kingdom	1.7	0.6	0.6	0.5	0.6	2.1	2.7	3.8	3.8	3.4	2.7	2.2

	2020				2021				2022			
Unemployment rate, %	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
USA	3.8	13.0	8.8	6.8	6.2	5.9	5.2	4.9	4.6	4.4	4.2	4.0
Japan	2.4	2.7	3.0	3.0	2.8	2.9	3.0	3.0	2.9	2.8	2.8	2.7
Eurozone	7.5	7.8	8.7	8.4	8.3	8.1	8.6	8.9	8.9	8.7	8.8	8.7
Germany	3.5	3.8	4.1	4.1	3.9	3.7	4.5	4.5	4.6	4.6	4.7	4.7
France	7.8	7.3	8.9	8.0	8.0	8.2	8.2	8.4	8.5	8.6	8.5	8.5
Italy	8.9	8.5	10.0	9.8	10.1	9.8	9.6	10.4	10.9	11.3	11.6	11.4
Spain	14.0	15.4	16.5	16.2	15.6	15.3	17.3	17.8	17.8	16.2	16.1	16.2
United Kingdom	4.0	4.3	5.0	5.1	4.8	4.7	4.6	5.1	4.9	4.7	4.6	4.5

	GDP (b)	Private consump-tion (b)	Public consump-tion (b)	Investment (b)	Exports (b)	Imports (b)	Net exports (a)	Changes in inventories (a)
Eurozone								
2020	-6.5	-8.0	1.4	-7.5	-9.3	-9.2	-0.4	0.2
2021	5.4	3.7	3.3	4.6	9.6	7.3	1.3	0.5
2022	4.4	5.7	1.3	5.6	6.0	6.4	0.1	0.4
Q1 2021	-0.3	-2.1	-0.5	-0.2	0.7	0.4	0.1	0.7
Q2 2021	2.2	3.5	1.1	1.0	2.3	2.4	0.1	0.5
Q3 2021	2.3	3.8	0.3	1.4	2.5	2.7	0.0	0.4
Q4 2021	1.1	1.2	0.4	1.5	1.6	1.7	0.1	0.5
Germany								
2020	-4.9	-6.1	3.5	-3.0	-10.1	-9.2	-0.9	-0.8
2021	3.2	0.3	2.5	2.6	9.4	9.3	0.5	1.5
2022	4.3	6.1	1.5	3.0	5.7	5.8	0.2	-0.1
Q1 2021	-2.0	-5.2	-0.7	-0.7	1.4	4.2	-1.1	2.2
Q2 2021	1.6	3.2	1.8	0.5	0.5	2.1	-0.7	0.2
Q3 2021	3.0	5.4	0.2	1.0	2.7	2.5	0.2	-0.2
Q4 2021	1.3	1.5	0.2	1.2	1.6	1.4	0.2	0.0
France								
2020	-8.0	-7.2	-3.2	-8.9	-16.1	-12.2	-1.1	-0.2
2021	6.4	4.7	5.1	12.4	8.1	8.2	-0.3	0.0
2022	3.9	5.9	1.2	4.0	6.3	5.6	0.0	-0.5
Q1 2021	0.0	0.0	-0.4	0.4	0.0	1.2	-0.4	0.4
Q2 2021	1.1	1.0	0.6	2.4	1.0	1.7	-0.3	0.1
Q3 2021	2.5	5.2	0.4	1.2	3.2	3.4	-0.2	-0.5
Q4 2021	0.9	1.2	0.4	1.0	1.8	1.3	0.1	-0.2
Italy								
2020	-8.9	-10.7	1.6	-9.2	-14.5	-13.1	-0.8	-0.2
2021	6.0	4.8	0.3	15.3	12.7	12.4	0.4	-0.1
2022	4.1	5.2	-0.8	5.1	7.7	7.7	0.2	0.0
Q1 2021	0.2	-1.1	-0.5	3.8	0.6	2.5	-0.5	0.7
Q2 2021	2.7	5.0	-0.9	2.4	3.2	2.3	0.3	-0.8
Q3 2021	1.8	2.2	-0.2	1.1	2.8	2.5	0.2	0.2
Q4 2021	1.0	0.9	-0.1	0.9	2.0	2.4	-0.1	0.4
Spain								
2020	-10.8	-12.0	3.3	-9.5	-20.1	-15.2	-2.3	-0.5
2021	4.7	6.2	3.7	3.6	10.3	12.7	-0.4	0.1
2022	6.0	5.9	2.8	10.0	7.4	7.6	0.1	0.0
Q1 2021	-0.6	-2.1	0.4	0.1	0.3	0.4	0.0	0.4
Q2 2021	1.1	4.6	0.9	-2.2	0.9	4.2	-1.0	-0.1
Q3 2021	2.4	2.9	1.0	1.0	4.1	3.2	0.3	0.0
Q4 2021	1.8	1.5	1.1	3.0	2.3	2.0	0.1	0.0
United Kingdom								
2020	-9.8	-10.6	-6.5	-8.8	-16.4	-17.8	0.7	-0.5
2021	6.4	4.6	15.4	4.4	-2.1	0.5	-0.8	0.4
2022	4.7	6.4	5.8	6.1	5.6	10.9	-1.6	0.1
Q1 2021	-1.6	-4.6	1.5	-1.7	-5.9	-13.5	2.6	-0.8
Q2 2021	4.8	7.3	6.1	-0.5	4.0	6.5	-0.7	0.3
Q3 2021	1.8	3.6	2.0	0.5	-1.0	2.0	-0.8	-0.1
Q4 2021	1.3	2.0	1.0	2.0	2.0	4.0	0.0	0.1
Netherlands								
2020	-3.8	-6.6	1.0	-4.2	-4.8	-5.5	0.1	-0.4
2021	3.6	1.7	2.7	4.0	6.5	4.7	2.1	-0.8
2022	3.2	3.8	2.0	1.2	4.8	4.2	1.0	-0.2
Q1 2021	-0.8	-3.5	-2.0	3.0	1.1	0.8	0.4	0.1
Q2 2021	3.1	5.7	2.6	-1.8	4.0	2.6	1.5	-0.9
Q3 2021	0.9	1.6	0.5	0.1	1.0	1.0	0.1	0.0
Q4 2021	0.6	0.5	0.5	0.5	1.0	1.0	0.1	0.0

(a) contribution to GDP growth (%, q/q) (b) q/q, %

Commodities

Precious metals		30-Sep	2021	2022			
			Q4	Q1	Q2	Q3	Q4
Gold	USD/oz	1,760	1,850	1,900	1,950	2,000	2,000

Av. quarter price		30-Sep	2021	2022			
			Q4	Q1	Q2	Q3	Q4
Brent	USD/BBL	79	67	63	65	62	65

Public accounts

	Government balance (% of GDP)			Public debt (% of GDP)		
	2020	2021	2022	2020	2021	2022
United States	**-16.0**	**-9.9**	**-6.1**	**98.2**	**104.5**	**105.6**
Japan	**-10.1**	**-6.7**	**-4.0**	**238.0**	**241.2**	**241.4**
Eurozone	**-7.2**	**-8.0**	**-3.9**	**100.5**	**102.2**	**100.7**
Germany	-4.2	-8.6	-3.1	69.8	74.5	74.0
France	-9.1	-8.4	-4.8	115.2	116.1	114.3
Italy	-9.5	-10.0	-5.9	154.8	153.4	150.0
Spain	-11.0	-8.4	-5.0	123.2	126.0	123.8
Netherlands	-4.7	-5.9	-1.7	54.4	58.6	56.9
Belgium	-9.4	-6.8	-4.5	114.1	114.4	114.5
Greece	-9.7	-10.0	-3.0	205.6	194.8	193.7
Ireland	-5.0	-5.4	-3.4	59.5	53.8	51.2
Portugal	-5.7	-4.5	-3.2	132.5	125.0	118.7
United Kingdom	**-12.3**	**-6.5**	**-2.0**	**102.1**	**99.0**	**93.2**

Copy deadline October 5, 2021

Crédit Agricole S.A. – Economic Research Department
12 place des États-Unis – 92127 Montrouge Cedex

Publication Manager: Isabelle JOB-BAZILLE

Editor-in-Chief: Catherine LEBOUGRE – Armelle SARDA – Jean François PAREN

Editorial committee:

Developed Economies: Ticiano BRUNELLO – ticiano.brunello@credit-agricole-sa.fr
Pierre BENADJAOUD – pierre.benadjaoud@credit-agricole-sa.fr / Olivier ELUERE – olivier.eluere@credit-agricole-sa.fr
Louis HARREAU – louis.harreau@ca-cib.com / Catherine LEBOUGRE – catherine.lebougre@credit-agricole-sa.fr
Paola MONPERRUS-VERONI – paola.monperrus-veroni@credit-agricole-sa.fr / Kyohei MORITA – kyohei.morita@ca-cib.com
Slavena NAZAROVA slavena.nazarova@credit-agricole-sa.fr / Jean-François PERRIN – jean-françois.perrin@ca-cib.com
Sofia TOZY – sofia.tozy@credit-agricole-sa.fr / Philippe VILAS-BOAS – philippe.vilasboas@credit-agricole-sa.fr
Nicholas VAN NESS – nicholas.vanness@ca-cib.com

Emerging markets: Sébastien BARBE – sebastien.barbe@ca-cib.com / Xiaojia ZHI – xiaojia.zhi@ca-cib.com
Olivier LE CABELLEC – olivier.lecabellec@credit-agricole-sa.fr / Tania SOLLOGOUB – tania.sollogoub@credit-agricole-sa.fr
Olga YANGOL – olga.yangol@ca-cib.com / Sophie WIEVIORKA – sophie.wieviorka@credit-agricole-sa.fr
Ada ZAN – ada.zan@credit-agricole-sa.fr

Financial Markets: Xavier CHAPARD – xavier.chapard@ca-cib.com / Orlando GREEN – orlando.green@ca-cib.com
Alex LI – alex.li@ca-cib.com / Valentin MARINOV – valentin.marinov@ca-cib.com
Marine MAZET – marine.mazet@ca-cib.com / Manuel OLIVIERI – manuel.olivieri@ca-cib.com

Oil: Stéphane FERDRIN – stephane.ferdrin@credit-agricole-sa.fr

Information centre: Dominique PETIT – **Statistics:** Robin MOURIER, Alexis MAYER

Production and Editor: Fabienne PESTY

Contact: publication.eco@credit-agricole-sa.fr

This publication reflects the opinion of Crédit Agricole S.A. on the date of publication, unless otherwise specified (in the case of outside contributors). Such opinion is subject to change without notice. This publication is provided for informational purposes only. The information and analyses contained herein are not to be construed as an offer to sell or as a solicitation whatsoever. Crédit Agricole S.A. and its affiliates shall not be responsible in any manner for direct, indirect, special or consequential damages, however caused, arising therefrom. Crédit Agricole does not warrant the accuracy or completeness of such opinions, nor of the sources of information upon which they are based, although such sources of information are considered reliable. Crédit Agricole S.A. or its affiliates therefore shall not be responsible in any manner for direct, indirect, special or consequential damages, however caused, arising from the disclosure or use of the information contained in this publication.

Consult Economic Research website and subscribe to our free online publications:

Website: https://etudes-economiques.credit-agricole.com/en
Etudes ECO App available on App store & on Google Play