

Prospects

Quarterly – No. 19/223 – December 20, 2019

WORLD – Macroeconomic Scenario for 2020-2021

A delicate balance

Although nothing currently suggests that growth rates are about to plunge, a jittery climate hampered by crippling uncertainty and business investment that is declining to varying extents are contributing to a downturn. Households are holding up well, helped by low inflation and favourable financial conditions, which should help to soften the impact of the cycle, under the watchful (and benevolent) eye of central banks. From the risky economic slowdown to accommodative monetary policy, everything is pointing towards interest rates remaining at desperately low levels.

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A brief overview of the global economy reveals a scattered chorus of creaks rather than a cluster of indicators that are converging towards an impending abyss.

Although nothing currently suggests that growth rates are about to plunge, a jittery climate that remains hampered by crippling uncertainty and business investment that is declining to varying extents are contributing to a downturn.

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Leading the sources of uncertainty is the trade war between the United States and China, although blindly escalating the issue may cease to be the name of the game before long. The phase-one agreement (the details of which are far from clear) should be signed in January, a fact that Donald Trump is likely to tout on the campaign trail. With this agreement, there is some hope that we will get a break from escalating tariffs, but we are still a way off from a US-China entente. There is nothing stopping tensions simply shifting to other delicate matters, including the reform of Chinese state-owned enterprises, subsidies, intellectual property, the situation in Hong Kong or the presidential election in Taiwan.

Elsewhere, Brexit should now (finally) happen on 31 January 2020. The UK wants to hammer out the details of its future partnership with the European Union (including a free trade agreement) by the end of 2020, but such an ambitious timetable for negotiations will create doubts over the quality of the future relationship. The risk of a ‘no-trade-deal Brexit’ will replace that of a ‘no-deal Brexit’.

So, uncertainty, political and geopolitical tensions may have eased in the short term, but are not expected to disappear permanently and will continue to negatively impact trends in business investment.

Business investment has held up well until now but a downturn is becoming apparent. Warranted by uncertainty over future demand, which is largely due to concerns over global trade, the downturn is strangely both premature and still contained. Premature in the sense that it has not occurred in the wake of a classic cyclical deterioration, and contained given that it is not yet widespread or severe. The Eurozone, which is very disjointed based on the extent of countries’ exposure to global trade and the manufacturing sector, provides a good example. After several years of low investment, companies are preparing to manage the slowdown without any surplus capacity (which is corroborated by the declining but still-high capacity utilisation rate) and are adopting a wait-and-see stance. They are not combating their eroding margins either by sharply reducing their capital expenditure or drastically cutting their workforce.

However, we should not count on corporate investment (or on global trade, which is more sensitive to growth in investment than growth in consumption) to underpin growth – that responsibility clearly falls to households.

The labour market is continuing to adjust at an uneven pace, and the decline in job creations has not yet translated into a significant increase in the unemployment rate. Moreover, consumption is expected to be boosted by a slight increase in

wages and purchasing power gains in light of inflation that is still very moderate. Core inflation will remain low, while without a jump in demand for oil or an extension of the OPEC+ agreement that aims to curb production, oil prices could drop below USD60 as early as H220.

Although household consumption is providing some hope that growth will merely slow down rather than collapse, the jobs-wages-margins balance is delicate nonetheless. Against an uncertain backdrop, faced with a slowdown in productivity gains and eroding margins, will companies be able to weather a major adjustment in their costs for very long without triggering cuts to their workforce? If companies do not make this painful move in order to maintain growth, the equity markets could very well downgrade their earnings forecasts.

While the major central banks have undertaken strategic reviews of their respective policies, there is still powerful temptation to ease monetary policy.

The Federal Reserve is likely to give in to it in the end – our scenario still calls for one preventive cut limited to 25bp in 2020. The European Central Bank will not resist. We are forecasting no rate hikes, and perhaps even a 10bp drop in the deposit facility rate for 2020, with Quantitative Easing extended and the issue share limit increased from 33% to 50%, and forward guidance. The Bank of England will give in too. Only the Bank of Japan, which is already aware of the collateral damage of excess, will resist the temptation.

Once again, everything is leading towards core long rates remaining low: economic slowdowns are materialising, inflation is weak, monetary policy is accommodating and the environment is fraught with actual or potential risks. This will please ‘peripheral’ bond markets’ and equity markets’ risk premiums, on which depend the wealth effect and household consumption, an essential ingredient in a scenario where growth merely slows down, rather than collapses.

Developed countries – A highly risky slowdown

Although nothing currently suggests that growth rates are about to plunge, a jittery climate hampered by crippling uncertainty and business investment that is declining to varying extents are contributing to a downturn. Households are holding up well, helped by low inflation and favourable financial conditions, which should help to soften the impact of the cycle, under the watchful (and benevolent) eye of central banks.

United States: uncertainties to weigh on growth in 2020

Growth has been resilient despite rising headwinds in 2019, with the economy maintaining a solid pace of growth after entering its longest economic expansion on record in July. GDP growth has remained at or above 2.0% in each quarter, and for the year as a whole it is tracking at an above-potential 2.2% pace on a Q4/Q4 basis. The expansion has been driven by the consumer, supported by a healthy labour market, with unemployment near 50-year lows and wages gradually rising.

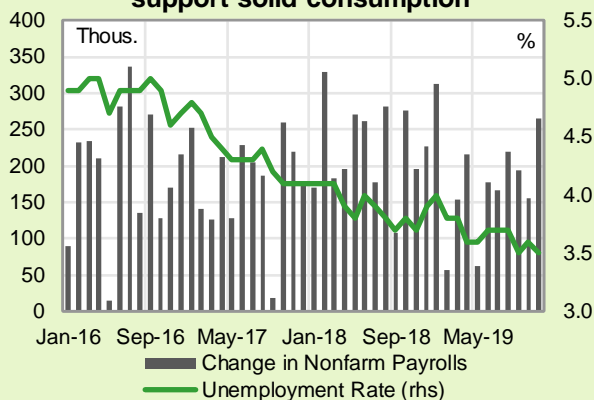
Looking ahead, we are less optimistic on the outlook compared to 2019, but have upgraded our prior expectations, mainly due to stronger-than-expected resilience of the labour market and an improvement in the tone of trade negotiations as the US and China have reached an agreement on a phase-one trade deal. Still, even if a phase-one deal leads to a pause in further tariff escalation, we believe tensions between the two sides will continue to flare up (including on issues other than trade such as technology, geopolitics, etc.), with the resulting uncertainties leading to significant headwinds for the US economy and a below-potential 1.6% pace of growth in 2020 (Q4/Q4). However, given the resilience of certain sectors of the economy, along with our expectation that the Fed will react to the slowdown with additional easing in H120, we believe the economy will be strong enough to slow relatively modestly and avoid a recession.

Despite the resilience of the economy so far in 2019, some cracks have started to show, notably in the manufacturing sector and business investment. The ISM manufacturing index has been on a gradual decline and dipped into contraction in August, remaining below 50 in each of the last four months. The decline looks to have stabilized, but at a low level, with continued weakness in manufacturing likely, in our view. Furthermore, business fixed investment has declined in each of the last two quarters despite the solid pace of GDP growth overall, the first consecutive declines since Q415 and Q116.

Although the nonmanufacturing sector has remained better supported, we look for investment to remain weak in 2020. Even with a phase-one trade deal, uncertainty is likely to remain elevated as many thorny issues await resolution in a phase-two deal, and we do not expect significant progress past phase one. As firms navigate this changing landscape, many businesses will hold off on investment outlays while taking time to figure out how they may need to reorganize supply chains, in our view.

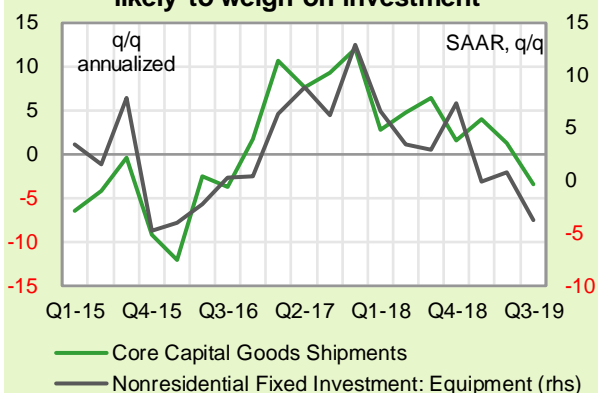
Aside from trade tensions, the upcoming presidential election will also contribute to the high levels of uncertainty weighing on investment, especially if one of the more left-wing candidates, such as Elizabeth Warren or Bernie Sanders, gains momentum. Additionally, low oil prices suggest lower investment outlays on structures for oil and gas exploration, and declining profit margins are likely to further hold back investment.

USA: a healthy labor market should support solid consumption



Sources: BLS, CA CIB

USA: elevated uncertainties likely to weigh on investment



Sources: BEA, Census Bureau, CA CIB

In contrast to the investment picture, consumption has been especially strong in recent quarters and represents the engine of growth. While momentum has slowed in the last couple of months and we expect a slightly slower pace of consumption growth next year, the resilience of the labour market and progress on a phase-one deal should limit the amount of any slowdown, allowing the consumer to maintain its position as the driving force of the economy into 2020.

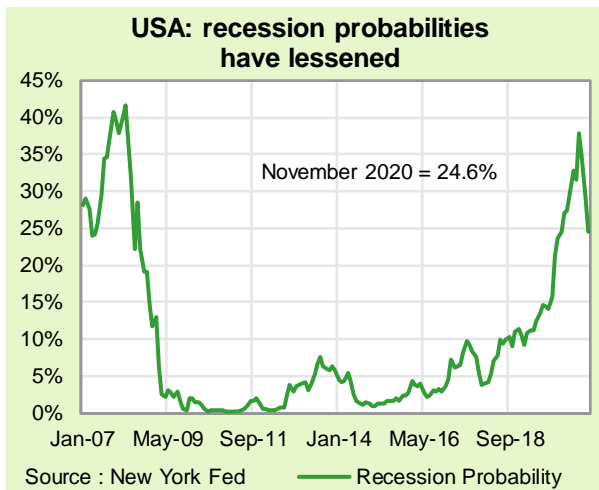
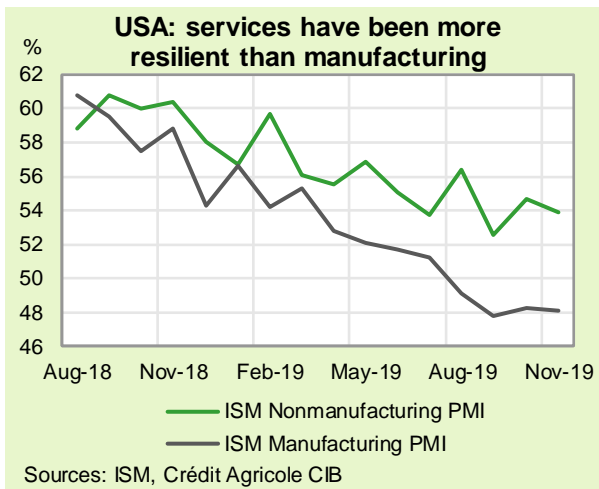
With additional tariffs on imports from China delayed as part of a phase-one deal, the consumer should face diminished headwinds compared to our previous expectations, as a larger portion of those tariffs would have fallen on consumer goods, thereby reducing consumer purchasing power.

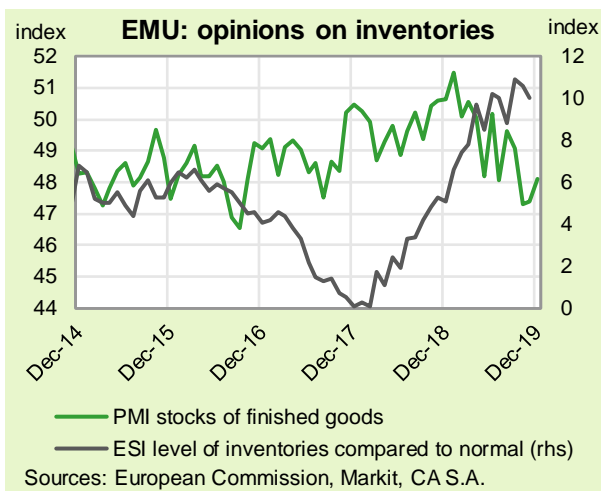
Though the labour market has slowed from 2018, the slowdown has been fairly modest and in line with the view that it is a “natural consequence of the economy being near full employment,” as indicated by the Fed in the minutes from the October FOMC meeting. The monthly average of payroll gains so far in 2019 is 180k, a relatively muted slowdown from 223k in 2018, and remains well above estimates of trend payroll gains needed to absorb growth in the labour force (around 75-115k, in our view). Momentum has increased compared to the summer (averaging almost 210k over the past four months) and we now expect minimal spillover into the labour market from the weakness in business investment, which should allow the unemployment rate to hold fairly steady and the labour market to continue to support a strong consumer.

Once appropriations bills are passed under the new spending caps agreed in July, we should see a bit of a bump from government spending, though we do not expect major fiscal stimulus to offset the negative impacts from trade uncertainty. Both political parties have expressed interest in infrastructure spending, but have different priorities within the broader umbrella of infrastructure that would make a deal difficult, and we believe the Democrats would be hesitant to reach a major agreement that President Donald Trump could claim credit for in an election year.

We look for one more 25bp ‘insurance’ cut from the Fed in Q220 in response to the expected slowdown in growth (see Fed section below for more details), but additional easing should be limited given the fairly modest slowdown in our forecast. **This cut, along with the three previous insurance cuts and a more resilient consumer than previously expected, should help cushion the impact of headwinds to the outlook, allowing the US economy to avoid a more severe slowdown.**

However, we believe that risks remain tilted to the downside. While trade negotiations have had a more positive tone recently, those can turn on a dime. If talks were to break down and result in a material escalation of new tariffs, the weakness in business investment that we already expect would likely be exacerbated and the chance of a spillover into the labour market would rise, putting at risk the solid consumer spending that is expected to propel the economy forward.

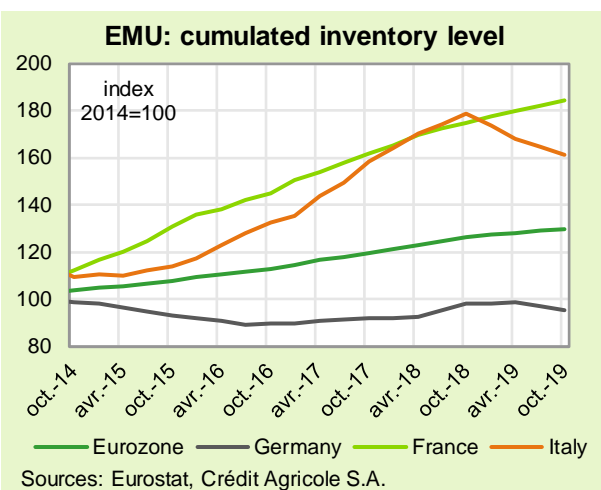




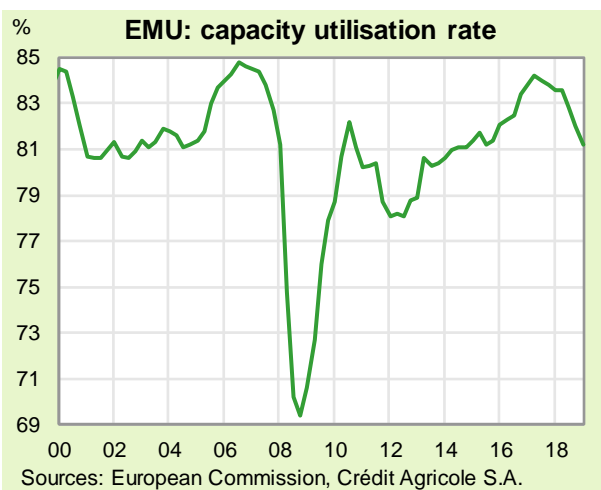
Eurozone: it's really not about returning to above-potential growth

Despite downgrading their forecasts for 2020, many observers are now beginning to price in a rebound in activity back to its potential pace, or even beyond, in 2021. This outlook means that the European economy will have experienced a soft patch associated with geopolitical risk factors and the recession in the manufacturing sector. However, once these two factors dissipate, the cycle is expected to regain momentum. This is the outlook put forth by the ECB, among others, while the OECD and the European Commission are more cautious. We share this caution and project **growth of 1.2% in 2019, 1.1% in 2020 and 1.2% in 2021**. This means that there will be no recession, but growth will not return to above-potential (estimated at 1.4%). Despite signs that global manufacturing activity is stabilising and companies are rebuilding inventories, while savings rates are normalising and thereby promoting consumption, **our growth scenario is still curbed by weak business investment and at best a zero contribution from net exports**.

Global trade growth turned positive for the first time after three quarters of decline, but we do not expect a substantial improvement in trade flows. The geopolitical risk in light of relations between the US and China, although dampened until after the US presidential election, continues to destabilise global growth.



Although global industrial output was virtually stable in Q3, it fell further in October in the Eurozone manufacturing sector (-0.5% MoM, -2.4% YoY). However, in November, confidence in the industrial sector declined further. December's PMI confirmed that the industrial sector decline is still ongoing. There are some signs that activity is stabilising, but we are still a long way from levels that would indicate a genuine recovery. Order books have filled up again since August, in particular thanks to the rebound in demand from countries outside the Eurozone and, according to purchasing managers, orders are expected to decline less in Q4, especially those from abroad. Output forecasts are up in the European Commission's survey.

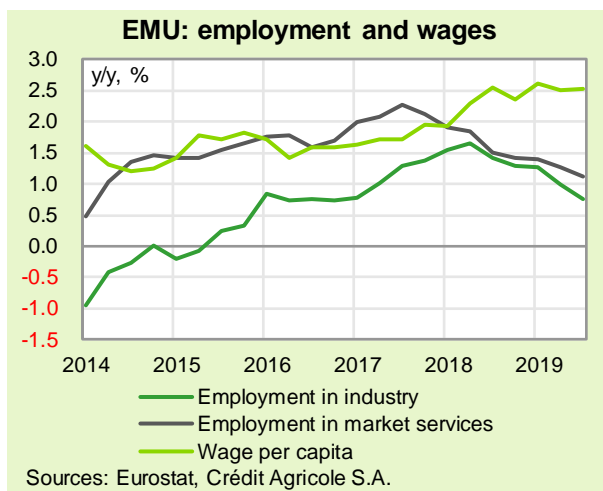


Overall, **corporate sales indicators are more robust than industrial output, which would appear to indicate** that renewed demand has been met by inventory reduction. Since Q418, inventory reduction has curbed Eurozone growth by 0.6ppt of GDP. Germany has lost 1.5ppt of GDP due to this phenomenon, while Italy has lost 0.7ppt and France 0.2ppt. In Italy, the inventory reduction process seems to be well advanced, and companies began rebuilding their inventories in Q319. Inventory reduction has occurred in Germany too since Q418, but the inventory accumulated since spring 2018 has not yet been fully used up. In contrast, inventory building is continuing in France and Spain. As such, overall inventory levels in the Eurozone are still high. The surveys of the industrial sector conducted by the European Commission show that inventory levels are still considered to be higher than normal, although declining over the past two months. Purchasing manager surveys also show that inventory reduction is ongoing but has been slowing down over the past two months. Inventory accumulation could potentially underpin growth however, although this may occur in Q419 in some countries, it seems more likely that it will happen in 2020 for the Eurozone as a whole.

Investment is holding up well and increased further in Q3. However, business investment, which had held up well until now, declined, especially in Germany, Italy and the Netherlands, while it increased further in France and Spain. It seems that companies have had to manage this slowdown phase without any surplus capacity after

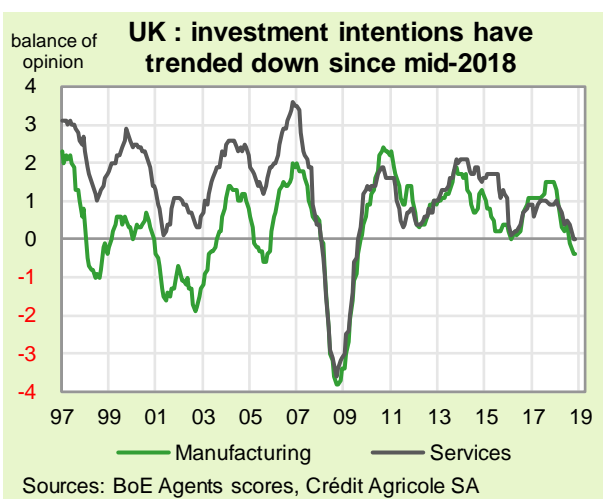
years of weak capital accumulation. This is corroborated by the capacity utilisation rate, which remains high despite its decline. As such, it is easy to understand why, despite a sharp decline in productivity and margins, companies have adopted a wait-and-see approach, including in terms of employment, and have not reduced their workforces.

Indeed, **the increase in employment has gradually run out of steam**. As of Q319, we have witnessed a more marked slowdown in employment growth (0.1% QoQ), while GDP growth is stabilising (0.2%). Employment growth is still positive in commercial services (0.1% QoQ), with the exception of financial and real estate services, but slowing down nonetheless. However, growth has come to a halt in the industrial sector. Meanwhile, monthly unemployment figures continued to decline resolutely in October (to 7.5% after 7.6% in September and 8% one year ago), although this is no longer a widespread trend. While unemployment continues to fall in France and Italy, the decline has stopped in Germany and the Netherlands, where the unemployment rate has stabilised at a very low level. In Spain too, the decline has ground to a halt and unemployment is holding at a higher level.



Nonetheless, the wage bill continues to rise (0.9% QoQ) thanks to an increase in unit wage costs (0.7%). Households will be able to continue to count on solid gains in purchasing power, and private-sector consumption will benefit from a normalisation of saving rates after the recent increases. We have already seen a pick-up in household spending in Q3, with less precautionary saving and positive wealth effects. Savings rates will remain high to meet increased ambition for residential real estate investment against a backdrop of lower financing costs. As such, household investment will continue to drive growth in the Eurozone.

United Kingdom: political uncertainty to remain high in 2020



Attention will now shift to the trade deal negotiations that will take place during the transition period. The Conservatives' overwhelming victory in the December snap elections provides the government with a strong majority in the House of Commons and a clear mandate to "get Brexit done".

The election results pave the way for a ratification of the newly-established Withdrawal Agreement by the end of 2019 and an orderly Brexit on 31 January. This would only settle the end of the first stage of the Brexit process: the divorce.

From 1 February, the transition period will begin, during which the details of the future partnership with the EU will be negotiated, including the basic free trade agreement targeted by the current government. Such a free trade agreement would likely avoid quantitative barriers to trade between the EU and the UK, but would not avoid the emergence of no-tariff barriers to trade. This would be particularly negative for the service sector and would add costs to companies that export goods.

The attention will focus on whether the negotiators can strike a trade deal by the end of 2020, as the Conservatives promised in their electoral manifesto. **Given the extremely short timeframe, the risk of 'no trade deal' will be the new 'no deal' risk.**

Therefore, next year will remain dominated by political tensions and persistent uncertainty surrounding the terms of the new partnership, which is likely to continue to weigh on business investment. Boris

Johnson has pledged not to extend the transition period, but finalising and ratifying a trade deal in eleven months – the ratification would need the approval of all the EU’s national and regional parliaments – is extremely ambitious. The government can ask to extend the transition by one or two years before 1 July. If no trade deal is signed, the default option would be a partnership under the WTO’s rules on 31 December 2020, which would oblige the EU to impose trade tariffs on imports from the UK.

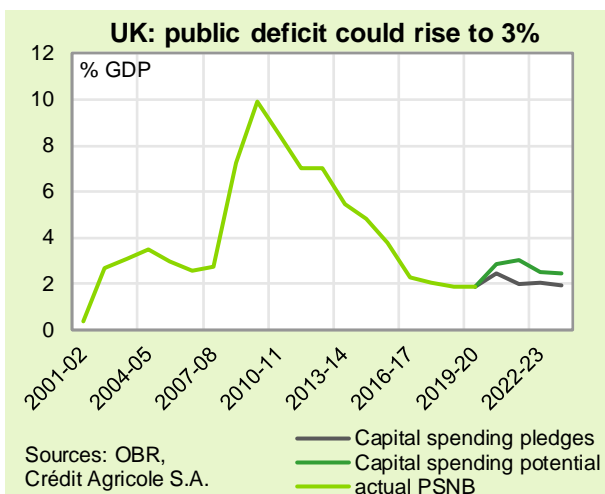
We believe that it is not in the current government’s interest to take this risk and the government will likely ask for an extension to the transition to avoid the risk, but a high degree of brinkmanship is still likely to occur in H120.

A rebound in investment and modest fiscal easing are likely to lead to a revival in growth, but headwinds will persist. Turning to the economy, growth of activity was flat in the three months to October, pulled down by the contracting industrial sector (-0.7% 3mma) and the relatively weak performance in the service sector (0.2% 3mma). Uncertainty related to Brexit and global prospects has weighed heavily on business sentiment. PMI surveys declined into contraction territory across all sectors in November as new orders fell at their fastest pace since July 2016, and collectively suggest growth of -0.1% in the final quarter of the year.

Sentiment is likely to rebound in the coming months after the conclusive result of the election, thanks to improved near-term visibility on Brexit and relief that the Labour Party’s less business-friendly policies will not materialise. Some recovery in business investment is also likely if companies that had delayed investment projects awaiting more clarity on Brexit decide to move forward. However, the precise impact is uncertain, as it could take the form of outflows of foreign direct investment of companies moving from the UK to other EU countries, or inflows of foreign direct investment, depending on where their end consumer is based.

Besides the task of implementing Brexit, the Conservative government’s next step in the near term is to enshrine its fiscal stimulus plans into law. **The government’s plan involves a small budget stimulus of around 1% of GDP by 2023-24.** Almost two-thirds of it was announced in the September Spending Review in the form of higher day-to-day departmental spending for 2020-21, amounting to GBP13.8bn. According to the Bank of England, this increase in spending is expected to raise GDP by around 0.4% during the next three years. Crucially, the government wants to increase public investment, although the precise amount remains uncertain. The Conservatives’ manifesto has outlined plans for a relatively small boost to net public investment (around GBP8bn a year by 2023-24), but the fiscal limit of 3% of GDP for public investment allows for a much bigger increase (around GBP20bn a year).

On the tax front however, the proposed measures imply a modest fiscal tightening, as the government has backtracked on some key measures such as shelving the planned cut to the corporation tax (which had been set to fall to 17% from 19% in April 2020). It remains to be seen whether Boris Johnson will be able to impose some of his campaign promises for lower taxes that have not been reiterated in the Conservatives’ manifesto. The fiscal rules and weaker-than-expected public finances since the beginning of the year suggest that tax cuts are rather unlikely.



All in all, the fiscal policy measures are expected to have a relatively small impact on growth. The fiscal multiplier is highest for public investment: 1.0 to 0.6 for spending (according to OBR estimates), which suggests that the current plans for investment could potentially add a further 0.4ppt a year to growth, but significant uncertainty remains regarding when they will be implemented in reality.

Beyond a near-term rebound of growth, we continue to anticipate an average slowdown to 1.0% in 2020 after 1.3% in 2019, as Brexit uncertainty persists during the transition period. Consumer spending fundamentals remain favourable thanks to strong real income growth, despite signs of softening in the labour market. We expect a recovery in business investment, but its growth is expected to remain lacklustre. Higher public spending is also expected to add 0.1ppt to growth next year. By contrast, global demand is likely to continue to weigh on growth prospects. Combined with a rebound in growth of domestic demand, weakness in external demand is likely to continue to weigh on net exports, and to contribute negatively to growth.

Japan: recovery to continue with risks tilted to downside

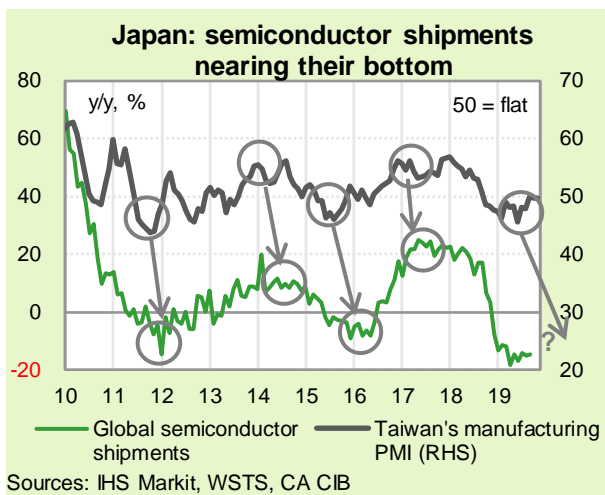
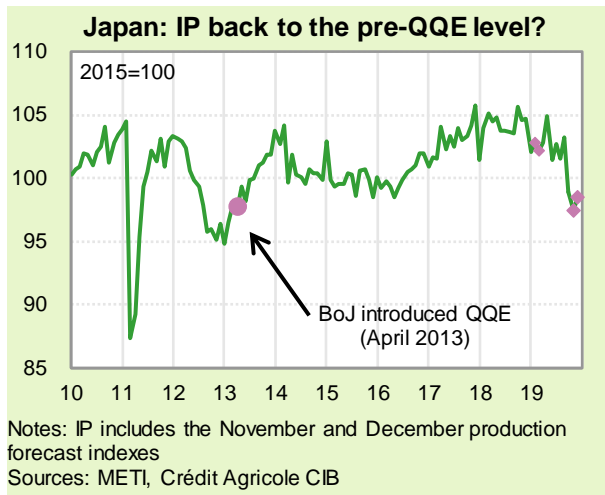
The Japanese economy is in a phase where it is difficult to make a cyclical judgement due mainly to two factors: the VAT hike and natural disasters (a typhoon), both in October. Together these two factors caused a negative surprise to the recent development of industrial production. If we extend the level of industrial production using November's production forecast index, it would only decline to the level seen before the BoJ introduced QQE in April 2013.

Barring those non-cyclical factors, however, we believe that the economy will continue the current recovery phase, with exports bottoming out around March-April 2020. We base this view on two factors: (1) possible fiscal expansion by Shinzo Abe's government in 2020 targeted at mitigating natural disasters and (2) the bottoming out of global semiconductor shipment cycles.

The Abe government and the ruling LDP are drafting an economic package of around JPY26trn, part of which will be budgeted through a FY19 supplementary budget to be submitted to the Diet in January 2020. We expect the level of Japan's GDP will be supported by 1.0-1.5% in 2020.

Meanwhile, we know that global semiconductor shipments tend to have three- to four-year cycles, which in turn suggests we are nearing the bottom. This is also supported by Taiwanese manufacturing PMI, which serves as a one- to two-quarter leading indicator of such cycles, with Taiwan functioning as one of the global semiconductor bases.

Since our view is based on global semiconductor shipments, this suggests that our view is subject to the impact of the White House's fourth tariff hike against China, as the major targets of the hike is semiconductor-related goods such as laptop PCs and mobile phones. Therefore, close attention needs to be paid to the global political scene to gauge the trend of the Japanese economy.



Emerging countries – Slightly better in 2020

We expect a very slight acceleration of EM growth in 2020, but the forthcoming US slowdown and the structural Chinese deceleration are capping the rebound. We see a gradual shift from monetary policy support to fiscal support.

Slight acceleration in 2020

We expect economic growth in EMs to accelerate somewhat into 2020 despite the slight slowdown in China, but only to a limited extent. We forecast EM GDP growth at 3.8% in 2020 vs 3.7% in 2019. The beginning of 2019 was marked by a strong slowdown of exports. This was a consequence of the very soft patch affecting the global manufacturing cycle. Various types of manufacturing activities – from autos to semi-conductors – have been negatively impacted. We do not expect a full recovery in 2020 – far from it. But, at least recent data releases (ie, EM PMIs, EM exports and recent Chinese data) point to a possible stabilisation or even a tiny improvement.

But the US slowdown should cap EM growth

One reason why the improvement should be modest has to do with the slight slowdown that may occur in the US in 2020. Because of the fading fiscal stimulus and the likely squeeze on profit margin (as well as the persistent trade uncertainty), we expect the US economy to slow by about 0.7ppt in 2020 compared with 2019. This will cap EM exporters' growth.

Private consumption, not investment, as the main growth engine

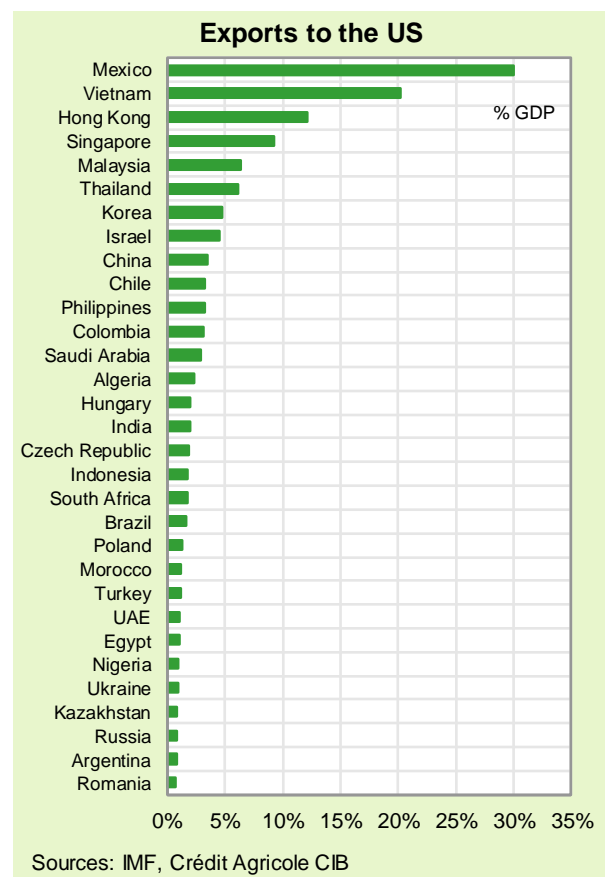
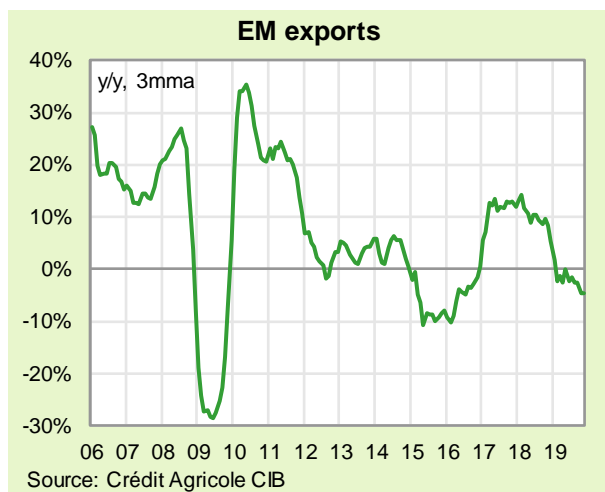
EM investment has remained correlated with exports over the past few quarters, and the slightly better trade performance may also favour a limited improvement of investment. However, we do not expect too much, though: the uncertainty related to both the US-China tensions and the US presidential election will likely cap the appetite of EM exporters to increase production capacities.

Private consumption – partly thanks to contained unemployment rates in some countries, and monetary easing measures taken in 2019 in many EMs – should remain the main pillar of economic growth in EMs.

On a country basis, the overall rate of GDP growth for EMs also better reflects performance in countries that went through episodes of low growth or even crises in 2019, and that are expected to do better (but not necessarily impressively well) in 2020. They include Brazil, Turkey, Iran and, to a lesser extent, Argentina.

Fewer rate cuts in 2020...

In terms of monetary policy, EM central banks will have to take into account the Fed's less dovish tone. Some of them will also refrain from easing in order to protect their currencies. Most EM central banks will cut rates in 2020 to a lesser extent compared with what they did in 2019. Almost two-thirds of the countries we cover will either cut by only 25bp or keep their policy rate stable, according to our forecasts.



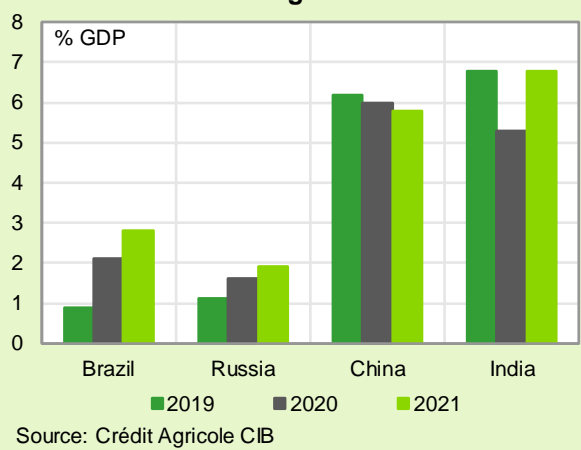
... But more fiscal support

There should be a shift in the policy mix in some EMs, from monetary policy to budget policy. Already, some countries have initiated such changes, either with tax rate cuts, or via the announcement of investment plans (including India, Mexico and Russia). Depending on the scope of such fiscal effort, their sovereign profile may come under pressure, especially in these countries where government finances are already strained. In our view, South Africa is among the countries that should be monitored closely.

China managing to smooth its structural slowdown

Our view on China's growth is also somewhat supportive for the overall EM growth outlook. China should manage to smooth the structural slowdown of its economic growth, using a mix of monetary and fiscal policy. We also believe that China will strengthen its policy aimed at making its value-added chain less dependent on other countries, particularly countries that could pressure China with tariffs or possibly sanctions. This policy would also support China's growth outlook. We expect China's GDP growth to decelerate only mildly, from an expected 6.2% in 2019 to about 6.0% in 2020.

BRIC growth



But the US-China tensions remain the wild card

When it comes to the US-China relationship, we assume the tensions will remain in place. While a phase-one agreement (which remains our baseline scenario) would provide relief – but only temporary relief, in our view – such a deal does not include many key issues outside the scope (such as the reform of State-owned enterprises, subsidies or some aspects of the intellectual property issue). Also, the risk is that the US-China tensions spread beyond the issue of tariffs, to technology and geopolitics, in particular. The Chinese government's recent decision to replace all foreign hardware and software equipment by Chinese equipment in the public sector in the next three years suggests that China, after the tensions related to Huawei, is ready to sustain the pressure (and respond to it) on the tech front. When it comes to geopolitics, there is no lack of potential issues about which the US and China could engage at least verbally (including Taiwan's presidential election in January, the issue of Hong Kong, or territorial disputes in the South China Sea).

There are three main risks to this 2020 outlook, in our view.

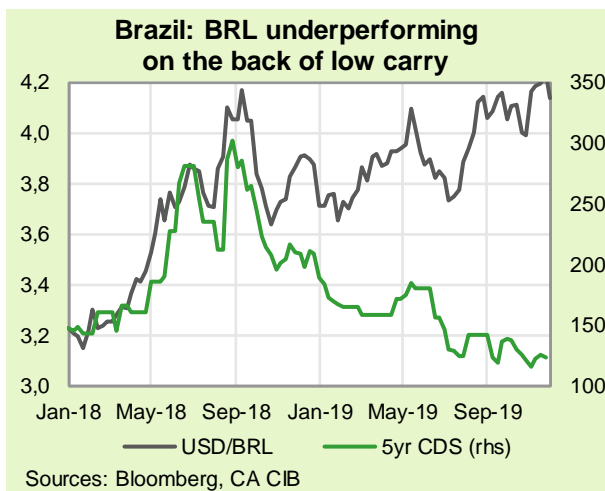
1. A stronger-than-expected slowdown in the US. An end-of-cycle margin compression combined with lesser fiscal stimulus and political uncertainty could produce a stronger-than-expected slowdown in the US, with negative consequences on EM exports and investment. That being said, should this happen, the Fed would likely come to the rescue and lower US rates would buffer the overall negative effect.
2. Negative noise emanating from the Chinese financial sector. The Chinese growth slowdown, combined with still-high leverage, has already generated pressure on part of the financial sector. We expect small- and medium-size banks and regional investment vehicles to be among the vulnerable segments. In our view, there is enough budget leeway to deal with possible issues. However, negative noise could fuel risk aversion at some point.
3. Specific pressure points. Some countries present a vulnerable profile, either on the sovereign side (South Africa) or on the external side (eg, Argentina, but also Turkey, where the pressure could

come back at some point). Political risk has also increased in many EMs, with unrest and street demonstrations. The conjunction of financial risks and political risks could potentially fuel risk aversion as well.

Brazil: the transition continues

We expect 2020 growth to be better aligned with Brazil's trend growth at 2.1% following six consecutive years of sub-par performance through 2019. This would be the first 2%-handle growth in seven years, following a long and deep recession started in 2014. We believe the more market-friendly backdrop in Brazil will gradually have a positive impact on growth in the coming years, especially as the allocation of resources in the economy shifts from the public sector to the private initiative as defended by Finance Minister Paulo Guedes and his team.

The macro outlook for Brazil will remain challenging despite the expected acceleration in growth. The economy has a long way to go before investment spending recovers to levels that are more consistent with a sounder macro situation. Under our base scenario for growth the economy should still operate with plenty of slack in goods and labour markets. In that sense, we continue to see the inflation outlook as pretty benign. We expect the BCB to deliver a final 25bp cut in its first meeting in 2020, following an expected aggressive 200bp cut in 2019. A new record-low level of nominal and real rates should be reached in 2020. We expect the long process of fiscal consolidation to continue in 2020, although growth remains a key variable for Brazil's fiscal situation to improve. The municipal elections of 2020 should make parliament more distracted in H20, leaving a much smaller window for significant changes to be discussed and possibly approved in 2020.



Overall, the dynamics between the executive and the legislative remains good, with both branches aligned and pursuing improved policy orientation. The risks are that growth remains weak in 2020 and the administration loses governability over deeper, more structural reforms. The biggest story in 2019 was the approval of the pension system reform, which was necessary but not sufficient to guarantee fiscal balance in the medium term. While the government succeeded in passing a meaningful reform, the delays and political noise associated with it almost entirely eliminated the expectation shock analysts anticipated – an important trigger for growth. Sentiment has only gradually improved, and foreigners seem to remain on the sidelines judging by the trajectory of portfolio and direct investment. Brazil's improving growth and solid balance of payments should compensate for limited carry, and we look for a small appreciation of the BRL against the USD in 2020. Once again, **we believe the risks are to the upside as a smoother political backdrop could speed up the reforms.**

Russia: time to spend the money

We expect Russia's economic growth to accelerate in 2020, but not by too much. Monetary easing implemented last year should help. However, credit distribution may not be as dynamic as last year. Moreover, President Vladimir Putin's investment plan, aimed at upgrading potential growth, may prove difficult to implement (the disbursement track record has been disappointing in 2019). The CBR should lower rates further, but cautiously. We expect GDP growth to accelerate from an estimated 1.1% in 2019 to 1.6% in 2020.



Still, assuming the oil price remains close to the current level, the backdrop should remain favourable to the currency. We anticipate that the RUB will remain resilient, supported by a solid balance of payments, a more than decent sovereign profile and attractive carry. We see USD/RUB at 63.5 by mid-2020 and 64.5 at end-2020, assuming the oil price remains roughly stable.

India: a watershed moment

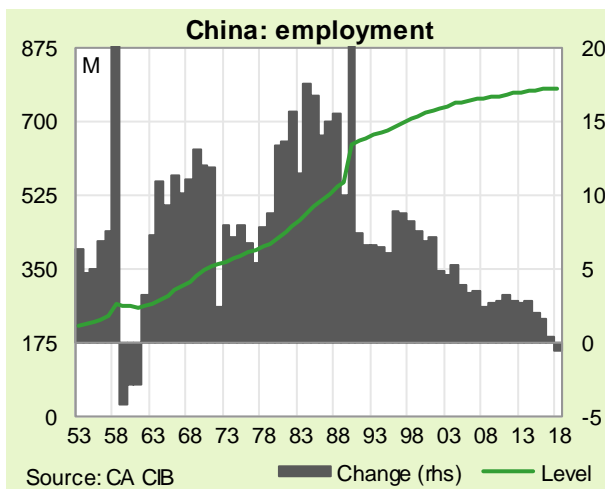
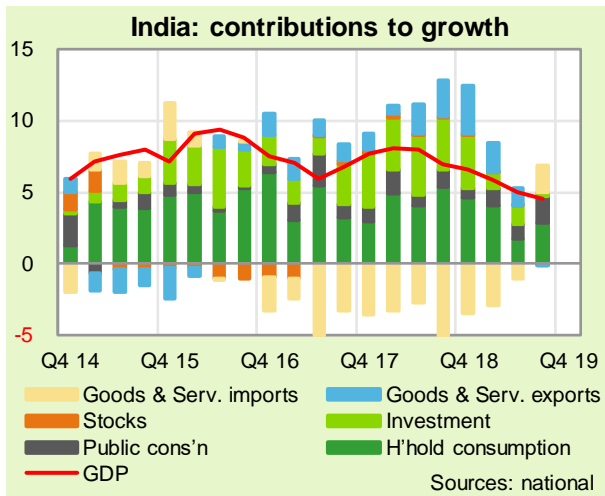
Growth continues to slow and the market is divided over the medium-term diagnosis. Indicators remained poor in Q319 with everything trending downward: investment, consumption, manufacturing activity and vehicle sales. However, since February, the Reserve Bank of India has adopted a monetary policy designed to stimulate the economy (135bp), but this policy is not being passed onto market rates, and demand remains sluggish. Non-performing loans held with banks are still high (10.3%), which explains why the latter are so skittish. In addition, high public debt (68%) is hampering fiscal policy. GDP growth could ultimately slow to 5.3% in 2020, which is not high enough to employ new entrants in the labour market.

It remains to be seen whether this is a cyclical or a structural slowdown. Rating agencies differ on this subject. S&P has not moved its sovereign rating, as it believes that India is still on a positive medium-term path, driven by its demographics, a closing technological gap and competitive labour costs. Moody's is more cautious, assigning the country a negative outlook. The growth scenario over the coming months will be a determining factor when it comes to investor confidence in India.

China: a challenging year ahead

The trade war and financial risks will require a tough policy balancing act, with 2020 likely to witness a further slowdown of GDP growth. We project 6.0%, but it is possible for markets to see a 5% handle. Pressure will come from external factors, eg, the ongoing economic conflict with the US, and domestic ones, such as the declining economically active population and shrinking employment.

Policy room for manoeuvre will be limited due to accelerating CPI inflation as well as rising financial risks in and beyond banking. We still project some, but only modest, monetary easing, in the form of 20bp in rate cuts. The required reserve ratio is likely to be lowered by 150bp. Growth of credit in the economy will probably accelerate but only modestly. The RMB will likely be guided somewhat weaker in trade-weighted terms, and depreciate to 7.25 vs the USD. Fiscal policy will become more relaxed, with a meaningful expansion of the budget deficit.



Oil – The light at the end of the tunnel is still dim

Fears of persistent excess supply and moderate growth in demand for oil have pushed OPEC+ member producers to deepen production cuts until Q120. Without a jump in demand for oil or an extension of the OPEC+ agreement, oil prices could find themselves confined below USD60/bl as early as H220.

US crude oil production



Source: EIA

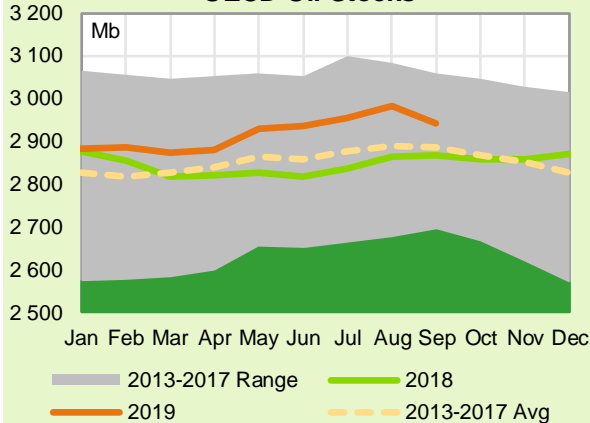
2020 and 2021 are not looking like banner years for the oil market.

Fears over weaker economic activity, exacerbated by the lack of clarity over the outcome of the US-China trade negotiations, are expected to drag down oil demand and, as a result, prices. In the short term, the start-up of one of the largest Norwegian oil fields, Johan Sverdrup, with expected production of 440k bpd, could exacerbate the oil market imbalance.

OPEC+, which committed to production cuts starting in 2017, has acknowledged the short-term risks of persistent excess supply.

It agreed to cut daily production by an additional 500k bpd (340k of which will be cut from OPEC production) in Q120, taking their total production cuts to 1.7m bpd. However, they did not agree to extend the existing agreement, on which discussions were postponed to early March.

OECD Oil Stocks

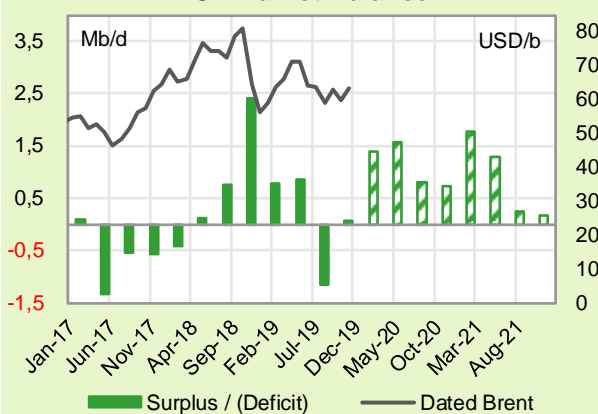


Sources: OECD, IEA, OMR

Hampered by sluggish growth in 2020 and 2021, our core scenario is therefore based on moderate annual increases in global demand up to an additional 1m bpd.

Our scenario also prices in an extension to the agreement until Q220. From H220, we expect OPEC+ producers to become less and less committed to respecting the production quotas. The first to blink will be Saudi Arabia, which will have completed the IPO of its industry behemoth Aramco, and we expect it will be reluctant to shoulder the bulk of the production efforts alone. Saudi Arabia may be tempted to limit oil price increases to avoid the wrath of US President Donald Trump during a presidential election year. We also believe that Saudi Arabia will attempt to avoid a further price-triggered increase in US oil production, as was the case in 2017, a year that saw the start of production cuts by OPEC+ and a major increase in global oil demand. Saudi Arabia needs oil at between USD70-80/bl in order to achieve a balanced budget, so the risk is that the country's budget deficit will worsen unless it is able to make cuts elsewhere. If Saudi Arabia implements such a strategy, this is likely to contain US production over the next two years of our scenario. In this scenario, we are unlikely to see US oil production rise by more than 1m bpd.

Oil market Balance



Sources: OECD, IEA, OMR, CA S.A.

On this basis, oil prices will decline gradually starting in H220 and throughout 2021. As such, our forecasts are for Brent at USD59.50 in 2020 and USD56.00 in 2021.

Monetary policy – From the benevolent status quo to inevitable easing

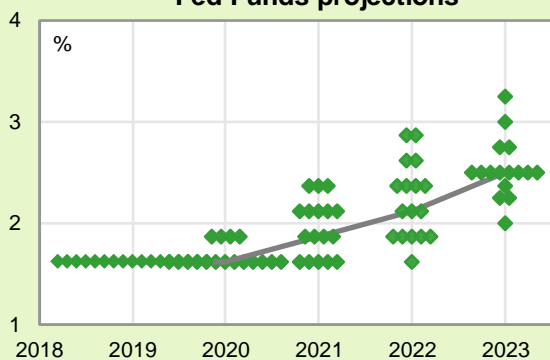
There is a powerful temptation to ease monetary policy, and the Federal Reserve is likely to give in to it in the end. The European Central Bank will not resist and neither will the Bank of England. Only the Bank of Japan, which is already aware of the collateral damage of excess, will resist the temptation.

Fed: higher bar for additional easing

After three consecutive insurance cuts from July to October, the Fed has indicated a preference for leaving rates on hold while highlighting the importance of data dependence going forward. As first indicated by Chair Jerome Powell in his October press conference, the Fed believes its monetary policy stance will “remain appropriate” barring a “material reassessment” of the outlook, leaving the door ajar but indicating a higher bar for additional easing. Subsequent communications from other FOMC members have revealed that, despite a period of elevated divisions within the committee in recent months, a strong consensus is building around this view.

What exactly would constitute a “material reassessment” has not been outlined explicitly, but in our view, factors could include a continued slowdown in global growth, a downward shift in inflation, a re-escalation of trade tensions, or evidence of any slowdown in the labour market that could weigh on the consumer. Given our expectations that economic activity will slow down in 2020, we believe the Fed will resume easing in Q220, but taking into account the modest nature of the expected slowdown along with the higher bar for future cuts indicated by the Fed, we expect the amount of easing to be limited to one additional 25bp insurance cut.

FOMC December:
Fed Funds projections



	2019	2020	2021	2022	Longer run
Median	1,675%	1,675%	1,875%	2,125%	2,500%
	+0bps	+0bps	+25bps	+25bps	

Each shaded circle indicates the value (rounded to the nearest 1/8 percentage point) of an individual participant's judgment of the midpoint of the appropriate target range for the federal funds rate or the appropriate target level for the federal funds rate at the end of the specified calendar year or over the longer run.

Sources: Federal Reserve, CA CIB — Median projection

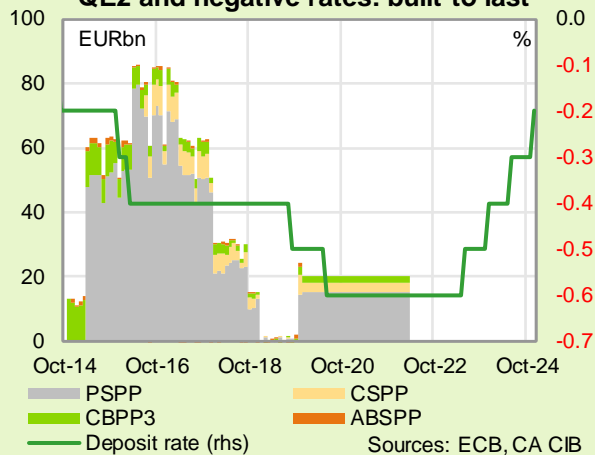
ECB: it doesn't really have a choice

In light of the deteriorating international environment, weak growth in the Eurozone and continuously disappointing inflation, the ECB has been forced to maintain a very accommodative monetary policy.

Not only will its monetary policy have to stay very accommodative throughout 2020 (ie, no rate hikes, QE2 to continue all year), the ECB will also have to engage in accommodative monetary policy long after next year to influence lending conditions on the longest possible maturities. This is the intention of the central bank's enhanced forward guidance: QE2 and negative rates are here for the long term.

The ECB will carry out a strategic review of its monetary policy in 2020 – we expect conclusions to be drawn at the ECB Forum on Central Banking in Sintra. The main outcome is expected to be a redefined inflation target, towards a symmetrical target of around 2%. However, we cannot rule out that other factors, specifically the use of policy tools, will also be reviewed. The ECB's challenge will be to maintain the strength of its guidance, while conducting this review that could hamper said guidance.

QE2 and negative rates: built to last



Sources: ECB, CA CIB

BoE: expected to shift to a dovish stance

Despite the Conservative Party's large victory in the December general election and the positive reaction by financial markets, we expect the BoE to cut rates in H120, probably in May. The probability of a rate cut has increased significantly after the monetary policy meeting in November unexpectedly showed that two MPC members voted for immediate monetary policy easing.

The data has deteriorated further since then, with PMI surveys falling below the 50-threshold across all sectors and the labour market showing signs of softening. However, the majority of MPC members will probably decide to wait to see the impact of the election on business and consumer sentiment before deciding to react.

We believe that any rebound in business sentiment owing to the election result will be short-lived. While the most negative scenario of a hung parliament has not materialised, this does not mean that political uncertainty has disappeared. Difficult negotiations on the future relationship with the EU will dominate the political agenda in 2020 in a climate of uncertainty regarding any extension of the transition period.

Weak prospects for global growth and geopolitical uncertainties will also likely continue to weigh on activity. The BoE expects a modest recovery in global growth in 2020, while our scenario is for continued slowdown. On the domestic side, fiscal easing by the Conservative government will provide only a slight boost to growth. Therefore, the economy's slight excess capacity is likely to persist in the coming quarters and even widen further. As a result, risks appear tilted to the downside on the inflation outlook. The BoE already expects CPI inflation to fall to an average of 1.2% in Q220, mostly due to lower regulated energy and utilities prices.

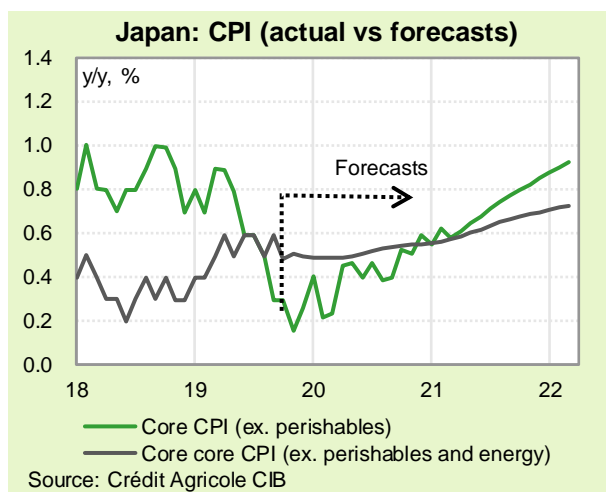
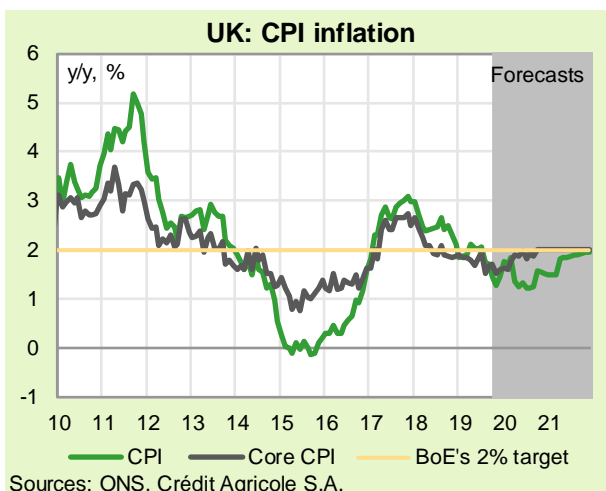
The recent GBP appreciation will likely weigh on import prices and may lead to a more pronounced moderation in CPI inflation. Wage growth, which has reached its fastest pace since 2008, may also cool over the coming months as some slack opens up in the labour market. All in all, we expect CPI inflation below target for most of our forecast period.

BoJ: no further easing not because it's unnecessary but because it comes with negative side effects

We believe the BoJ will leave the current structure and its key parameters of the YCC (yield curve control) intact throughout 2020. This, however, does not mean that Japan's CPI will continue to rise, meeting the bank's target of 2% YoY. We actually believe that the 2% inflation target will remain as elusive as ever, as shown by our CPI forecasts.

Why then would the BoJ not want to ease further when there remains a need to do so? It is due to the negative side effects of such easing, which mainly take the form of the narrower policy transmission due to banks' reduced profitability and risk-taking and suppressed consumer sentiment arising from the lack of financial investment opportunities for life insurers and public pensions.

Under these circumstances, we expect the BoJ to stay put – barring one exceptional case, the appreciation of the JPY. If USD/JPY falls to around 102, the BoJ will be under strong pressure from the market for further easing, most likely by cutting the negative IOER (currently -0.1%).



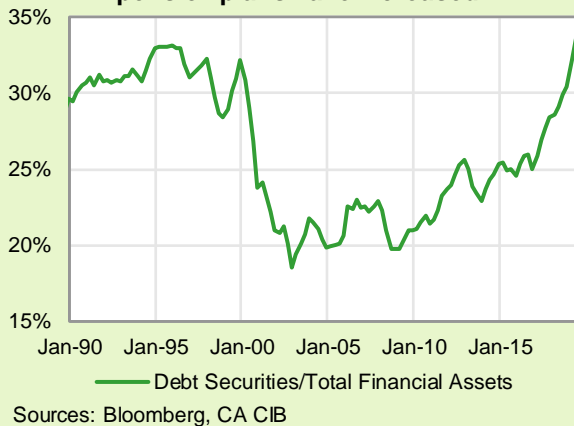
Interest rates –Repeat as needed

Once again, everything is leading towards core long rates remaining low: economic slowdowns are materialising, inflation is weak, monetary policy is accommodative and the environment is fraught with actual or potential risks. This will please ‘peripheral’ bond markets’ and equity markets’ risk premiums.

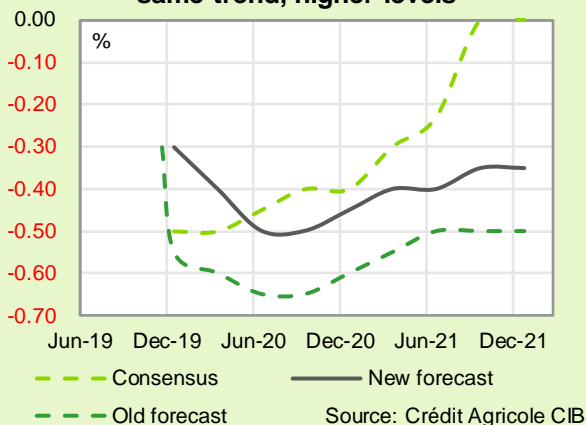
Wide interest rate differential between Treasuries and bunds supports demand for US rates



Debt securities held by defined benefit pension plans have increased



10Y Bund forecasts: same trend, higher levels



US: Downside risks prevail

We believe fundamentals are bullish for risk assets following the phase-one US-China trade deal and the UK elections. Treasuries look vulnerable near-term with the 10Y yield near 2.00%, if stocks keep posting record highs. However, the selloff should be limited, and rates could resume their downward trend in the second quarter, when we anticipate a slowdown in the economy, prompting the Fed to return to an easing mode. In our base case, 10Y Treasury yield will decline back towards 1.60% around mid-year.

There is limited upside in rates as long as the Fed remains dovish and other global central banks, such as the ECB and the BoJ, keep easing bias. There are about USD11trn negative yielding bonds globally. The wide interest rate differential between Treasuries and government bonds in Europe and Japan will likely support demand for US rates.

We expect the front-end yield curve to remain anchored, with the Fed on hold in Q1. Dovish Fed comments and weak data will likely drive intermediate- to long-end rates lower. Conversely, any hawkish Fed speeches and strong data will likely push intermediate- to long-end rates higher, in our view.

Aging demographics and a changing pension asset allocation strategy have increased pension demand for fixed income over the recent years, a trend we expect to continue in the foreseeable future that will likely continue putting downward pressure on rates. While lower discount rates have increased the liability of pensions through the summer of 2019, rising equity prices have helped to boost asset value over the past three months. Large pensions are nearly 90% funded.

Holdings of fixed income securities by defined benefit pension plans in the US have doubled over the past nine years to USD1.26trn, with most of the increases in corporate bonds. Fixed income assets now account for roughly one-third of defined benefit pension plan assets, up from about one-fifth nine years ago. The increase has come at the expense of their equity holdings.

Eurozone: year two of low rates

Trade talks and reassuring economic data have relieved some pressure on safe asset premium over the past quarter. That said, we maintain our view for very low rates in 2020.

In our view, accommodative central banks, long-lasting political uncertainties, a lack of inflationary pressures and the economic slowdown should maintain EUR rates around or below current levels in 2020. We discuss below some of the key themes for the coming months and for 2020.

Inflation: We expect headline inflation to come out relatively strong at 1.3% in Q120, before stabilising close to 1.0-1.1% for the rest of the year. We would not be surprised if there were some over-optimism on

**Reach for yield to support flatteners
and peripherals**

Yield, %	2Y	5Y	7Y	10Y	15Y	30Y
AT	-0.58	-0.43	-0.27	-0.08	0.18	0.50
BE	-0.62	-0.38	-0.25	0.00	0.28	0.82
FI	-0.63	-0.47	-0.29	-0.05	0.17	0.42
FR	-0.59	-0.36	-0.23	0.02	0.28	0.79
GE	-0.63	-0.55	-0.48	-0.30	-0.15	0.22
IE		-0.39	-0.19	0.05	0.34	0.86
IT	0.09	0.67	1.03	1.36	1.93	2.49
NL	-0.63	-0.51	-0.38	-0.16	-0.03	0.22
PT	-0.55	-0.09	0.18	0.42	0.80	1.35
SP	-0.38	-0.04	0.21	0.49	0.88	1.35

Sources: Bloomberg, Crédit Agricole CIB

inflation at the beginning of 2020, but this should quickly fade. Overall, inflation will remain uncomfortably below the ECB’s target and will show limited acceleration.

ECB: Downside risks to the growth outlook should remain significant and could push the Fed, and in turn the ECB, to cut rates again in mid-2020. We also think the ECB is likely to raise the issuer limit to allow QE2 to run until the end of 2021 (as a small QE could hurt the ECB’s efficiency and credibility, in our view).

Bund trajectory: We expect core rates to show some resilience in Q120 due to slightly stronger core inflation prints and the potential ratification of a US-China phase-one trade deal. We then expect core rates to reach a low point in Q2-Q320 when (1) US data releases will be at their worst; (2) the Fed and the ECB will likely embark on another rate cut; and (3) trade optimism will have evaporated.

Search for yield: The low-rate environment should drive investors back into carry trades supporting flatteners and peripheral spreads. We see Spain, Portugal and Ireland as the potential big winners of 2020 due to supply/demand dynamics. We are more cautious on Italy due to shaky Italian politics.

Exchange rates – The dollar’s advantage is weakening

Once boosted by a favourable yield spread, the USD’s advantage is expected to weaken. As the US slowdown materialises, the oversold EUR could appreciate, although this gain may be limited by the markets’ perception of the risk of ‘Japanification’.

2020 FX outlook: the year of living dangerously

We expect the global economy to continue to slow down in H120 before consolidating later on and into 2021. This partly reflects the view that US-China trade tensions could resurface, following a successful completion of the phase-one deal in the coming months. Crédit Agricole CIB’s economists further think that, compared with 2019, the main contributor to the global economic slowdown will be the US. Indeed, they expect the economy to decelerate sharply in H120 due to the abating positive impact from past fiscal stimulus, softer business sentiment and consumer confidence, and growing political uncertainty ahead of the US presidential election.

Elsewhere, our economists expect the European growth outlook to stabilise in 2020, thanks to the monetary and fiscal stimulus as well as abating political risks (eg, Brexit). The European growth rates should remain rather subdued, however. Furthermore, monetary and fiscal stimulus should help stabilise Chinese economic growth at a historically low level as well. While Japan, Australia and New Zealand could benefit from easier domestic financial conditions, the risk of further RBA and RBNZ easing should remain material in our view.

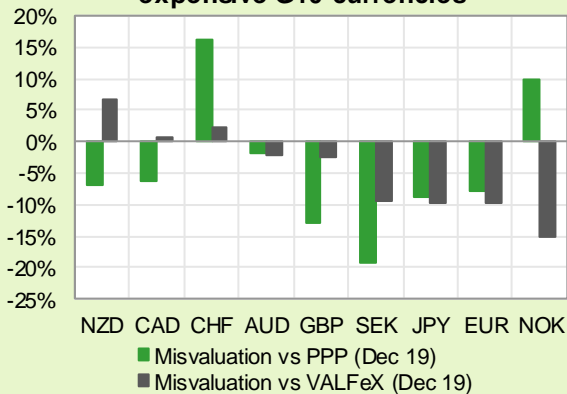
A cyclical convergence between the US and other major economies in 2020 should spur monetary policy convergence according to Crédit Agricole CIB’s economists. We expect the Fed to cut rates again in Q220. Meanwhile, the ECB and the BoJ may not be that far from the bottom of their respective easing cycles. We further believe that unstable global risk sentiment in 2020, against the backdrop of a weak global growth outlook and persistent geopolitical risks, could add to the pressure on the Fed to ease further as well.

2020 G10 FX outlook

The USD remains the currency with the greatest rate and yield advantage in G10, and this makes us constructive in the near-term especially if more progress towards a US-China trade deal boosts demand for USD carry trades. That said, the cyclical and policy convergence between the US and the rest of the G10 could intensify, as the US economy slows down further in H120 and political risks intensify ahead of the US presidential election. Another Fed rate cut and a balance sheet extension could add to the **downside risks for the overvalued and overbought USD in the next six to nine months as investors unwind USD carry trades**. Our expectation of lacklustre USD performance is further consistent with the FX price action in the wake of the previous “mid-cycle rate adjustment” that the Fed delivered in Q498 and that was followed by an extended pause in rates for most of 1999.

We forecast **a modest EUR recovery in the next six to nine months**. The view reflects the fact that the currency remains very oversold and undervalued – all factors that could help it recover as EUR-funded carry trades are unwound in the face of a stabilising Eurozone and a deteriorating US outlook. The risk of “Japanification” of the Eurozone

The USD remains one of the most expensive G10 currencies



USD: lacklustre performance in 2020 before some recovery in 2021



should contain any EUR gains over the long-term, however, by keeping the domestic investors invested abroad for longer.

The JPY has relinquished some of its recent gains as 2019 draws to a close, as risk sentiment improved on the back of hopes that the US and China are moving close to a trade deal. This has little impact on our **constructive longer-term outlook** for the currency, however. Indeed, market concerns that the Bank of Japan is at the rock bottom of its easing cycle as well as significant JPY undervaluation and market shorts (JPY-funded carry trades) seem to all point to **renewed JPY gains in the next six to nine months**.

Our economists expect no-deal Brexit risks to abate after the 12 December general election. This should help support the **GBP** and make it the **best-performing G10 currency in 2020**. The CHF remains very overvalued while the Swiss National Bank's dovish stance looks to be here to stay, painting a **bearish picture for the CHF in 2020**. The **SEK and NOK should recover gradually in 2020**, as the Riksbank normalises rates and the Norges Bank remains among the few G10 central banks with a neutral policy stance.

We expect the **AUD and NZD to remain vulnerable in 2020** as a dovish RBA and RBNZ add to global headwinds. We expect trade war concerns to resurface in the coming quarters and add to the headwinds for the two currencies. Compared to the other G10 commodity currencies, the **CAD should remain relatively more resilient in 2020**, supported by BoC policy outlook, oil prices and the ratification of USMCA. We remain bullish gold going into 2020 and beyond.

Emerging countries: a flat year keeping the door open to carry trades

We look for EM currencies to be flattish on average vs the USD in 2020. The mix of supportive and unsupportive factors is as follows.

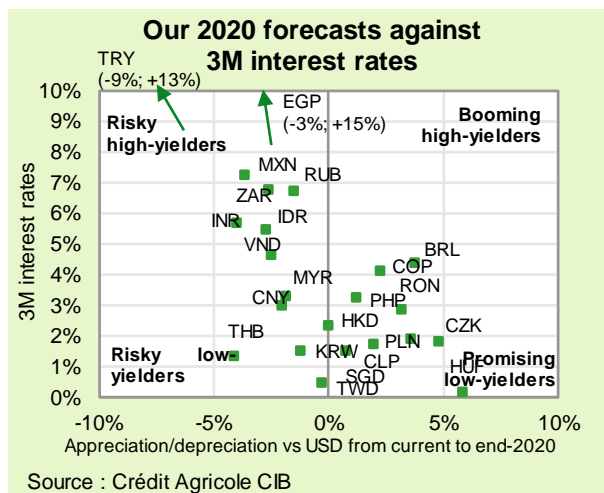
On the positive side, resilient EM GDP growth (even if it should remain rather low) should somewhat benefit flows to EMs. 2019 was marked by a strong deceleration of EM exports – this should not be the case in 2020 (see the Emerging Countries section of this report).

Also, the gap between the average interest rate in EMs and the USD rates should remain at a decent level. On the one hand, the Fed should drastically slow its pace of monetary easing in 2020 (if it even cuts at all), but on the other hand EMs will also slow their pace of rate cuts (with some exceptions, such as Turkey or Mexico). Hence a fairly stable average US-EM rate gap.

On the negative side, the resumption of US-China tensions, which we expect to occur once the positive effects of a likely phase-one deal signature dissipate, should open the door to CNY depreciation, in our view. We look for USD/CNY to reach 7.25 in Q320. This should weigh on the other EM currencies, particularly Asian and commodity currencies.

The good thing with the roughly stable trend we expect for EM currencies vs the USD is that it keeps the door open to carry trades. It also makes it necessary to discriminate in order to pick the most promising currencies. The chart above indicates our forecast for EM FX performance vs the USD together with the current 3M interest rates. The mix provides an idea of where we see the most promising performances for 2020.

We are rather bullish on the RUB, EGP, BRL and COP. We also expect a strong performance from the CE4 currencies vs the USD, but partly on the back of the expected EUR/USD appreciation. We are much more cautious on the THB, ZAR, MXN, TRY and, to some extent, INR.



Source : Crédit Agricole CIB

Economic and financial forecasts

Interest rate

		18-Dec	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
USA	Fed funds	1.71	1.50	1.70	1.45	1.45	1.50	1.50	1.50	1.55	1.65
	10Y	1.93	1.75	1.95	1.60	1.60	1.75	1.75	1.75	1.85	1.95
Eurozone	Depo	-0.50	-0.50	-0.50	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60
	10Y (Germany)	-0.25	-0.30	-0.40	-0.50	-0.50	-0.45	-0.40	-0.40	-0.35	-0.35
10Y Spread vs. EUR	France	0.31	0.30	0.25	0.20	0.20	0.45	0.40	0.40	0.35	0.15
	Italy	1.59	1.60	1.50	1.30	1.30	0.45	0.40	0.40	0.35	1.30

Exchange Rate

USD Exchange rate		18-Dec	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Industrialised countries											
Euro	EUR/USD	1.11	1.12	1.12	1.15	1.18	1.16	1.16	1.15	1.14	1.13
Japan	USD/JPY	109.60	108.00	106.00	104.00	104.00	105.00	106.00	108.00	108.00	110.00
United Kingdom	GBP/USD	1.31	1.32	1.33	1.37	1.40	1.40	1.40	1.39	1.37	1.37
Switzerland	USD/CHF	0.98	0.98	0.99	0.98	0.97	0.99	1.00	1.01	1.01	1.02
Asia											
China	USD/CNY	7.00	7.00	7.05	7.15	7.25	7.25	7.25	7.23	7.23	7.20
Hong Kong	USD/HKD	7.79	7.80	7.80	7.80	7.80	7.80	7.80	7.80	7.80	7.80
India	USD/INR	71.00	71.75	72.50	73.25	74.00	74.75	75.50	76.00	76.25	76.50
South Korea	USD/KRW	1165	1185	1200	1210	1220	1200	1190	1175	1160	1150
Latin America											
Brazil	USD/BRL	4.06	4.15	4.10	4.05	4.00	4.00	4.00	4.05	4.05	4.05
Mexico	USD/MXN	18.95	19.75	20.00	20.25	20.50	20.50	20.50	20.75	21.00	21.00
Emerging Europe											
Poland	USD/PLN	3.84	3.83	3.83	3.73	3.64	3.70	3.69	3.71	3.74	3.76
Russia	USD/RUB	62.69	63.50	63.00	63.50	64.00	64.50	65.00	65.50	66.00	67.00
Turkey	USD/TRY	5.91	6.10	6.20	6.40	6.50	6.70	7.00	7.00	7.00	7.00

Commodities

		18-Dec	2019	2020				2021			
Precious metals			Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gold	USD/oz	1,475	1,530	1,530	1,550	1,570	1,580	1,610	1,590	1,580	1,570
Av. quarter price		18-Dec	2019	2020				2021			
			Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Brent	USD/BBL	66	62	62	60	58	58	55	57	55	56

Economic Forecasts

	GDP (yoy, %)			Consumer prices (yoy, %)			Current account (% of GDP)		
	2019	2020	2021	2019	2020	2021	2019	2020	2021
United States	2.3	1.6	1.8	1.8	1.9	1.9	-2.6	-2.6	-2.7
Japan	1.2	0.8	1.0	0.7	0.6	0.7	2.9	3.3	3.1
Eurozone	1.2	1.1	1.2	1.2	1.1	1.2	2.8	3.0	3.0
Germany	0.6	0.8	1.1	1.4	1.5	1.5	7.2	6.9	6.7
France	1.3	1.2	1.3	1.3	1.2	1.1	-1.3	-1.0	-0.9
Italy	0.2	0.4	0.6	0.7	0.7	0.7	2.0	1.8	1.8
Spain	2.0	1.6	1.4	0.8	0.7	1.0	1.2	1.7	1.6
Netherlands	1.7	1.5	1.6	2.7	1.6	1.5	9.4	9.9	9.9
Other advanced									
United Kingdom	1.3	1.0	1.4	1.8	1.5	1.8	-5.2	-4.9	-6.3
Canada	1.5	1.7	1.8	1.7	2.0	2.0	-2.6	-2.5	-2.5
Australia	1.7	2.3	2.6	1.6	1.8	2.0	-0.3	-1.7	-1.6
Switzerland	0.8	1.3	1.6	0.6	0.6	0.9	9.6	9.9	9.8
Asia	5.6	5.1	5.4	2.7	3.2	2.7	1.2	0.9	0.7
China	6.2	6.0	5.8	2.9	3.5	2.2	1.3	0.5	0.4
India	6.8	5.0	6.2	3.4	4.2	4.4	-2.1	-1.2	-1.5
South Korea	1.8	2.1	2.5	0.7	1.2	1.4	4.3	4.0	3.7
Latin America	0.5	1.4	2.2	11.2	9.2	7.4	-1.8	-1.8	-1.9
Brazil	0.9	2.1	2.8	3.5	3.8	3.7	-2.1	-2.5	-2.6
Mexico	0.1	1.1	1.8	2.9	3.2	3.0	-0.8	-1.0	-1.2
Emerging Europe	1.8	2.4	2.4	6.4	5.5	5.2	2.2	1.0	1.1
Russia	1.1	1.6	1.9	4.4	3.5	4.0	5.0	4.0	3.5
Turkey	0.5	3.3	2.6	15.5	14.0	12.0	0.6	-2.9	-2.3
Poland	4.2	3.0	3.3	2.3	2.3	2.0	0.0	-0.6	-1.0
Africa, Middle East	0.3	1.5	2.4	8.7	6.6	6.8	0.8	1.1	1.3
Saudi Arabia	0.6	1.8	2.2	-1.4	1.5	2.1	5.0	5.1	5.5
United Arab Emirates	2.2	2.5	2.5	-2.0	0.9	1.5	7.3	7.3	6.9
Egypt	5.3	5.4	5.2	9.6	8.5	8.0	-1.9	-1.5	0.0
Morocco	2.8	3.1	3.8	0.3	1.2	1.8	-4.5	-4.0	-3.5
Total	2.8	2.7	3.0	3.5	3.3	3.0			
Advanced economies	1.7	1.3	1.5	1.5	1.5	1.5			
Emerging countries	3.7	3.8	4.2	5.1	4.8	4.2			

Public accounts

	Government balance (% of GDP)			Public debt (% of GDP)		
	2019	2020	2021	2019	2020	2021
United States	-4.5	-4.6	-4.6	78.9	80.7	82.4
Japan	-2.5	-3.2	-3.0	225.6	226.1	226.3
Eurozone	-0.8	-0.8	-0.7	86.6	85.3	84.2
Germany	1.0	0.8	0.5	58.8	56.5	54.8
France	-3.1	-2.2	-1.8	98.8	98.6	98.1
Italy	-2.2	-2.2	-2.0	135.4	135.9	135.9
Spain	-2.2	-1.9	-1.9	96.6	95.7	94.2
Netherlands	1.5	0.5	0.4	49.1	47.1	45.7
Belgium	-1.7	-2.3	-2.5	99.5	99.6	100.0
Greece	1.3	1.0	1.2	175.9	170.5	165.8
Ireland	0.7	0.2	-0.2	58.0	53.4	53.3
Portugal	-0.1	0.0	0.6	119.1	116.6	114.6
United Kingdom	-1.9	-2.4	-2.5	84.8	84.6	84.2

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Crédit Agricole S.A. – Economic Research Department

12 place des États-Unis – 92127 Montrouge Cedex

Publication Manager: Isabelle JOB-BAZILLE

Editor-in-Chief: Catherine LBOUGRE – 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 LBOUGRE – 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 / Dariusz KOWALCZYK – dariusz.kowalczyk@ca-cib.com

Olivier LE CABELLECC – olivier.lecabellecc@credit-agricole-sa.fr / Italo LOMBARDI – italo.lombardi@ca-cib.com

Tania SOLLOGOUB – tania.sollogoub@credit-agricole-sa.fr / Ada ZAN – ada.zan@credit-agricole-sa.fr

Financial Markets: Orlando GREEN – orlando.green@ca-cib.com / Alex LI – alex.li@ca-cib.com

Valentin MARINOV – valentin.marinov@ca-cib.com / Manuel OLIVIERI – manuel.olivieri@ca-cib.com

Information centre: Dominique PETIT – **Statistics:** Robin MOURIER

Production and Sub-Editor: Fabienne PESTY

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

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