AllianceBernstein

GLOBAL ECONOMIC RESEARCH

GLOBAL MACRO OUTLOOK

FEBRUARY 2020

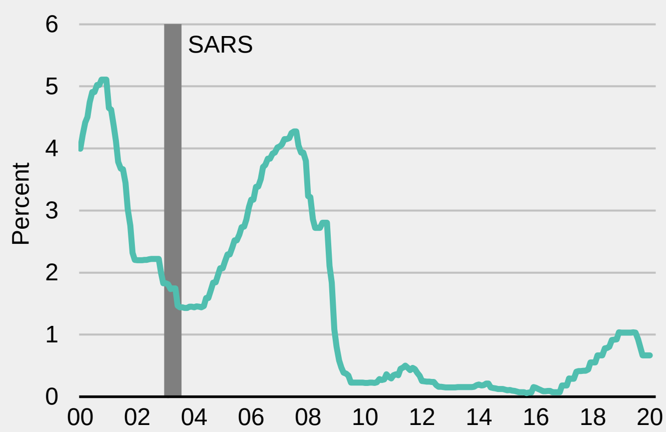
KEY FORECAST TRENDS

- The coronavirus outbreak has been the key development over the last month. While this is unlikely to have a lasting impact on the global economy, it has tilted the near-term risks more clearly to the downside.
- There is no obvious case study to use as a playbook for the new virus. SARS is the logical starting point, but China is a more critical part of the global supply chain than it was in 2003 and the cyclical backdrop is currently more fragile.
- Much will depend upon the policy response. While efforts to contain the spread of the virus are likely to depress near-term activity, the subsequent policy easing could provide a springboard for recovery later in the year.
- At this stage, we aren't making any major changes to our 2020 global growth forecast, which remains at 2.4%. That's mainly because it was already a cautious forecast, reflecting our view that several key headwinds (chiefly from populism and geopolitics) would continue to weigh on the outlook.
- But the shape of growth during the year is likely to look quite different, especially in China, with weakness early in the year giving way to a stronger second half. That's likely to complicate interpretation of the data—for markets and policymakers alike.
- It also affects the balance of risks. Last month our base case was that global growth would remain soft and that a downside surprise (recession) was more likely than an upside surprise (reflation). The coronavirus has only strengthened this conviction.

CONTENTS

Coronavirus: How Much Policy Space?

G7 Policy Interest Rate

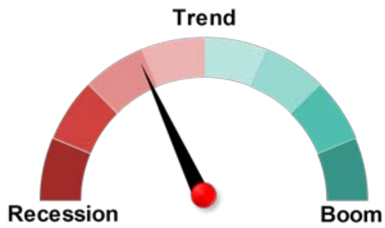


As of January 31, 2020.
Source: Haver Analytics

- While the near-term impact of the coronavirus is likely to be most acute in China, this is likely to be met by a robust policy response, thus limiting the magnitude and duration of the economic fallout.
- The virus is likely to have a smaller direct impact elsewhere. But this comes at a time when there are deep concerns about monetary-policy effectiveness—especially in Europe and Japan. If the crisis escalates, we might have to look beyond China's borders to find the most vulnerable countries, just as in the recent trade war.

GLOBAL FORECASTS

Economic Growth



- We expect global growth to remain subdued for the foreseeable future
- Vulnerability to event risk is high; a global recession is more likely than a strong, synchronized recovery

Key Risks

- Populism and geopolitics still pose big threats to the outlook
- Policy is more effective than expected

Inflation

- The secular backdrop points to higher inflation; the cyclical backdrop is less supportive
- Unemployment rates are very low: any upside surprise on growth could quickly lead to higher inflation

Key Risks

- Uncertain economic slack: How far has the growth/inflation trade-off deteriorated?

Monetary Policy

- The case for urgent stimulus has faded, but risks are still tilted toward further easing
- The Fed and ECB are on hold for now, but rate cuts are still more likely than hikes
- Is the BOJ's toolbox empty?

Key Risks

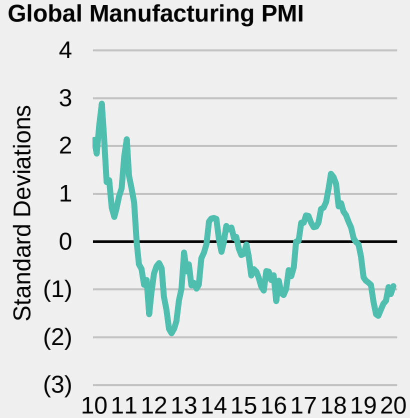
- Policy impotence: Is monetary policy broken?
- Uncertain reaction functions

OUTLOOK

- Despite a near-term hit from the coronavirus, we haven't changed our 2020 global growth forecast of 2.4%. Much will depend on the duration of the crisis and the speed and effectiveness of the policy response, especially in China.
- The impact on Chinese growth in the first half of the year is likely to be significant, with a probable reduction of 1.0% or more expected in the first quarter. But we're hopeful that aggressive policy easing will allow China to recoup much of this during the second half of the year. For now, we're maintaining our calendar-year growth forecast at 6.0%.
- Unless the crisis becomes very drawn out, the impact elsewhere is likely to be much more modest. We remain at consensus on US growth (1.8%) but are more pessimistic on the euro area (0.8% vs 1.0%) and Japan (0.0% vs 0.5%).
- We expect the Fed and ECB to keep rates on hold in coming months, but policy easing looks more likely than tightening, especially in the wake of the coronavirus outbreak.

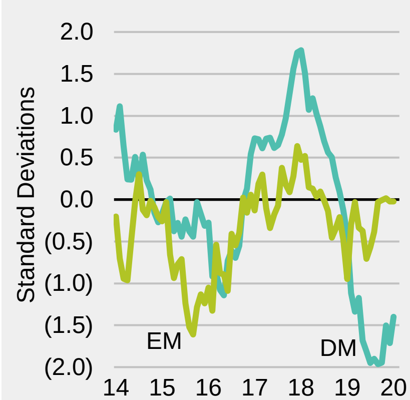
Global Cyclical Outlook: More Signs That Manufacturing Is Stabilizing

Global Manufacturing PMI



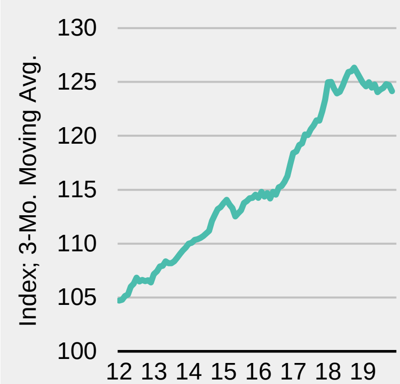
Through January 31, 2020
Source: Haver Analytics and IHS Markit

Manufacturing PMIs



Through January 31, 2020
Source: Haver Analytics and IHS Markit

World Trade



Through November 30, 2019
Source: Haver Analytics

GLOBAL MARKET OUTLOOK: YIELD CURVES

GLOBAL YIELDS

Global—Global yields have been buffeted, first by a truce in the US-China trade war and then by the coronavirus outbreak. Although we generally expect yields to remain low, they are probably close to the bottom of their current range.

US—The recent drop in US yields means they now look too low relative to both the coronavirus risks and the most likely path forward for Fed interest rates. We expect US yields to move modestly higher over the medium term.

Euro Area—Coronavirus fears have pushed euro area yields lower in recent weeks. With the recovery likely to remain sluggish, interest rates anchored in negative territory and ECB bond purchases set to continue, any increase in yields from current levels is likely to be modest.

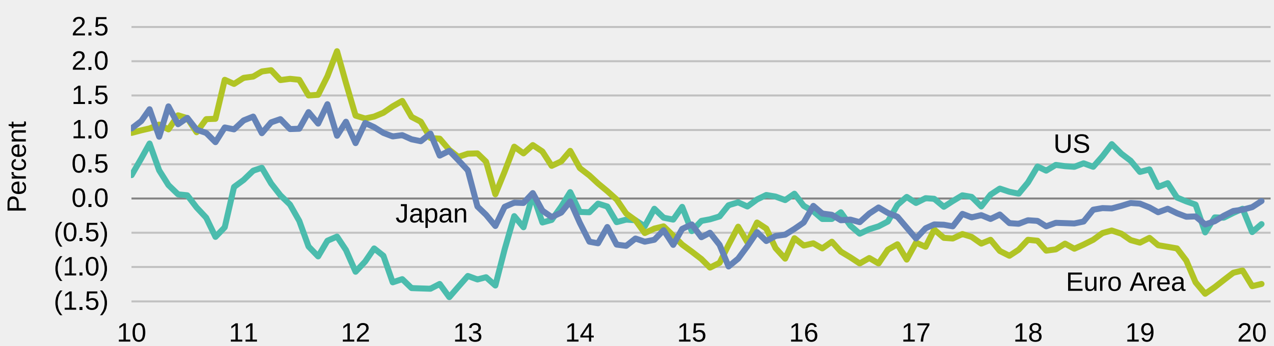
Japan—Quantitative and qualitative easing (QQE) with yield-curve control (YCC) should anchor 10-year yields close to, or even below, zero over the forecast horizon.

10-Year Yields: AB vs. Consensus Year-End Forecasts (%)

	AB		Consensus	
	2019	2020	2019	2020
US	1.92	2.25	1.92	1.94
Euro Area	(0.19)	(0.25)	(0.19)	(0.30)
Japan	(0.01)	(0.00)	(0.01)	(0.04)
China	3.13	3.00	3.13	2.99

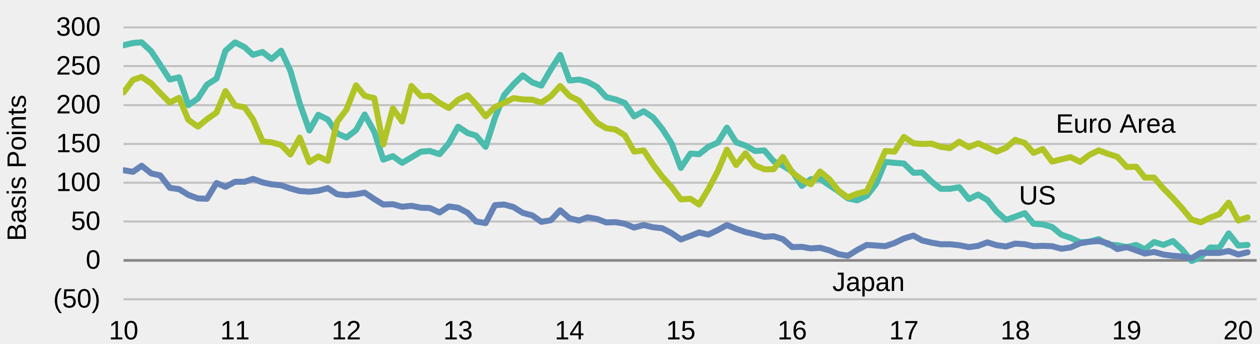
As of February 5, 2020
Source: Bloomberg and AB

Real 10-Year Bond Yields*



*Current 10-year bond yield less five-year/five-year forward inflation swap
Through February 5, 2020; Source: Bloomberg and AB

Yield Curves: 10-Year Bond Yield Less Two-Year Bond Yield



Through February 5, 2020
Source: Bloomberg and AB

GLOBAL MARKET OUTLOOK: CURRENCIES

FX FORECASTS

USD—The dollar continues to trade in a narrow range (4% over the past year) and we see few fundamental reasons for this to change over the coming year. Possible catalysts for a big dollar move would be a synchronized global upswing (weaker dollar) or global recession (stronger dollar). We continue to think the stronger dollar scenario is the more likely of the two.

JPY—The yen would benefit if global growth slows further and risk-asset headwinds intensify.

EUR—Soft growth and ongoing populist risks, including UK/EU trade talks, mean there are few reasons to buy the euro.

CNY—The CNY has benefited from a cease-fire in the US-China trade war but has softened in response to the coronavirus outbreak. Future developments in these areas will continue to set the tone for the Chinese currency.

Global FX: AB vs. Consensus Year-End Forecasts (%)

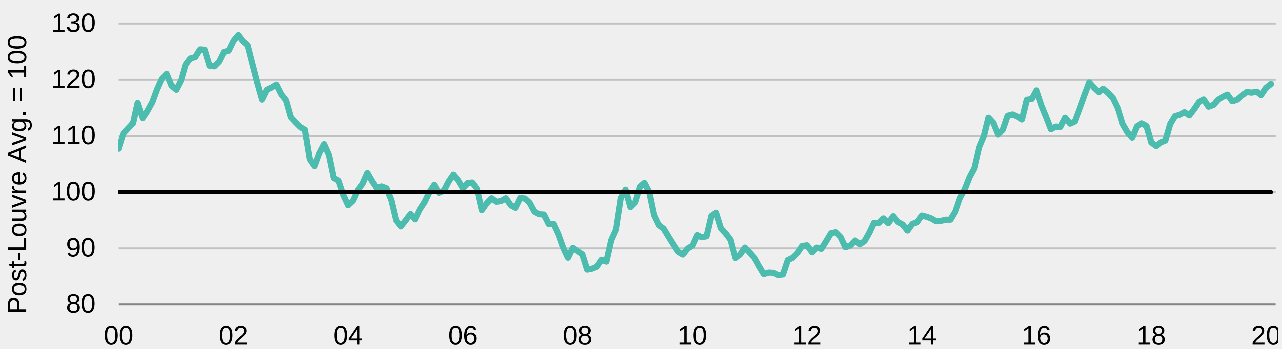
	AB		Consensus	
	2019	**2020**	**2019**	**2020**
EUR/USD	1.12	1.13	1.12	1.15
USD/JPY	109	102	109	107
USD/CNY	6.96	7.00	6.96	6.93
EUR/GBP	0.85	0.88	0.85	0.85

As of February 5, 2020
Source: Bloomberg and AB

Nominal USD Exchange Rate: US Dollar Index

Through February 5, 2020
Source: Bloomberg and AB

Real USD Exchange Rate



Through February 5, 2020
Source: Bloomberg and AB

US

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)	
	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F
US	2.0	1.7	2.3	2.3	1.63	1.38	1.75	2.25

OUTLOOK

+ Leaving aside the potential drag from the coronoavirus on the global economy, the US macro environment is largely the same as it was a month ago. There are still multiple sources of uncertainty, but the stable economy should offer some protection against unexpected shocks, such as the virus.
+ The labor market remains robust, providing consumers with ample firepower to spend, and keeping final demand running strong. Unless and until the consumer sector weakens, the economy is likely to hold up.
+ Inflation remains on the back burner. Policymakers around the world, including those in the US, are more likely to want inflation to rise than fall in 2020. This makes the prospect of rate hikes seem very distant, indeed.

RISK FACTORS

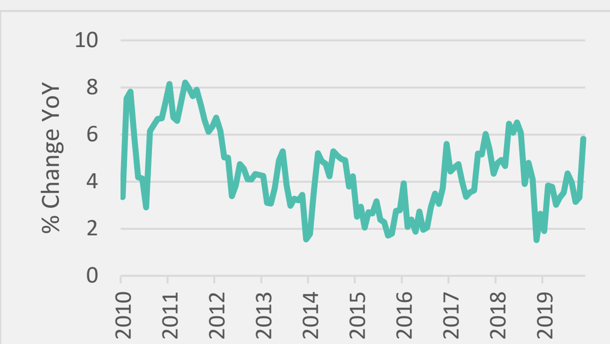
+ The impact of the coronavirus is unknowable at this point, but is very likely to alter at least the shape of growth in 2020.
+ As campaigning transitions to voting, financial markets and economic actors are likely to focus more and more on the upcoming Presidential election.

OVERVIEW

Putting aside the potential impact of the coronavirus, January was a quiet month. The split between weak manufacturing and tradable sectors and a strong labor market and consumption is still in place. We expect the gap to narrow somewhat over the course of the year as manufacturing stabilizes and thelabor market slows, the net effect likely to be one in which aggregate growth is similar in 2020 to that in 2019.

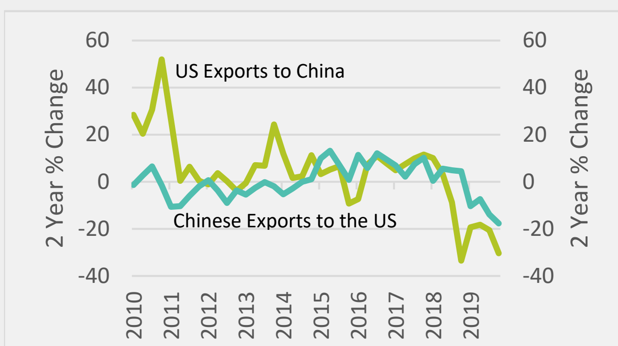
The eventual impact of the coronavirus remains uncertain, but it clearly reduces the probability of a material economic acceleration. We also think the FOMC will be ready to act if there's evidence the economy is faltering. The guardrails on both sides of the growth outlook seem firmly entrenched, leaving us with reasonably high conviction that a year of mediocre growth is the most likely outcome.

US Retail Sales



Through December 15, 2019
Source: Refinitiv Datastream

US Trade with China



Through November 15, 2019
Source: Refinitiv Datastream

Euro Area

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F
Euro Area	1.2	0.8	1.2	1.3	(0.50)	(0.50)	(0.35)	(0.25)	1.13	1.13

OUTLOOK

+ We expect the euro area to grow by 0.8% this year, down from 1.2% in 2019. While there are now clearer signs that manufacturing is starting to stabilize, the outlook remains challenging, with the coronavirus a new and unanticipated threat to the near-term outlook.
+ We expect the ECB to leave its policy settings on hold throughout 2020 (which means it will continue to expand its balance sheet by €20 billion a month). Policy easing is possible, but would require a darkening of the outlook.

RISK FACTORS

+ Our forecasts assume a more constructive near-term backdrop for global trade. But risks from populism and geopolitical tension remain elevated, representing an important downside risk to the trade-sensitive euro-area economies.
+ The near-term risk of a disorderly Brexit has receded, but the possibility that the trading relationship with the UK could revert to WTO terms at the end of December remains real—and has the potential to be highly disruptive.

OVERVIEW

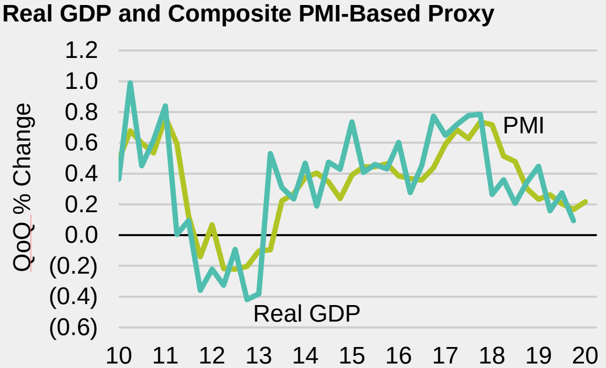
Recent data have been mixed. There are clearer signs that manufacturing is starting to stablize, with the manufacturing PMI rising from 46.3 in December to 47.9 in January, its highest level since April. Germany's improvement has been particularly marked, with the export-order reading rising to 49.6, the highest since August 2018 and up from a cyclical low of 38.2 in July. In addition, expectation indicators linked closely to financial market-performance, like the ZEW survey, have surged.

But the economy remains sluggish. Preliminary data shows that GDP rose by just 0.1% in the fourth quarter for the euro area as a whole and contracted modestly in Italy (-0.3%) and France (-0.1%). Moreover, while the composite PMI for manufacturing and services rose to 51.3 in January, that's consistent with annualized growth running below a 1% pace.

The most notable change at the ECB's January press conference was the Governing Council changing its description of the recent upward trend in core inflation to "moderate" from "mild." That's a marginal change, but it's consistent with our view that policy is now very firmly on hold.

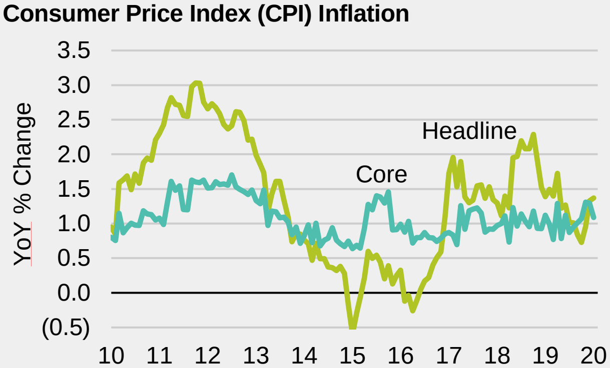
The ECB also launched its much-anticipated policy review. This review is likely to be wide-ranging, but the key issue for markets is the inflation target. The most likely outcome is that the ECB will change it to 2.0% from "below but close to 2.0%" in order to emphasize the symmetry of the target. The main alternative, favored by hawks, would be to change the target to a range (i.e., 1.0% to 3.0%). But this would be tantamount to admitting defeat in the battle against low inflation—we doubt it's a step the ECB will be willing to take right now.

Real GDP and Composite PMI-Based Proxy



Through January 31, 2020
Source: Haver Analytics and IHS Markit

Consumer Price Index (CPI) Inflation



Through January 31, 2020
Source: Haver Analytics

Japan

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F
Japan	1.1	(0.0)	0.5	07	(0.10)	(0.10)	(0.01)	0.00	109	102

OUTLOOK

- Global trade policy, coronavirus, and VAT hangover all represent headwinds for the Japanese economy in 2020.
- As in other regions, the labor market remains tight and the flow-through to core inflation is difficult to see.
- The Bank of Japan (BOJ) will likely stay on the sidelines, particularly with effective easing options limited.

RISK FACTORS

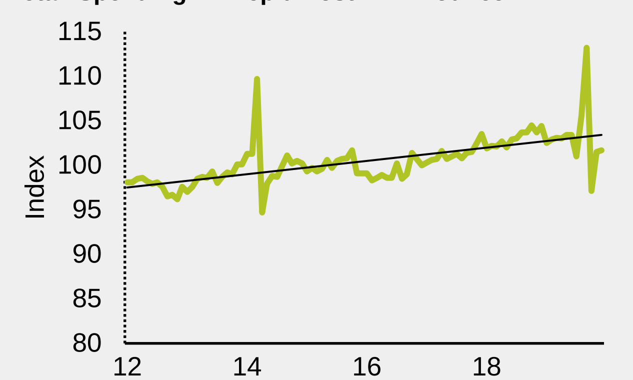
- Risks are largely external: renewed trade conflict, a hard landing in China and a sharply stronger Yen

OVERVIEW

The Summer Olympics in Tokyo will garner millions of worldwide viewers this year, but Japan's overall macroeconomic story is unlikely to be a key global focus. Yes, there are still downside risks, including uncertainties about the scale of the hangover from last year's VAT hike, the course of global trade policy and the degree of recovery (if any) in the global trade cycle. At the same time, fiscal policy is moving in a more stimulatory direction, though history has shown that the actual fiscal impulse ("real water," in Japanese parlance) will be materially smaller than the headline numbers being bandied about. Reconstruction spending and other fiscal measures should add a tick or two to growth in 2020 without materially changing the narrative about the outlook.

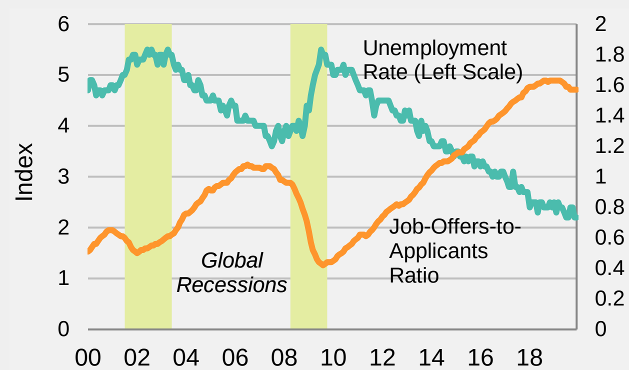
We still expect a persistent slowdown in growth and mild deterioration in labor market outcomes during the year ahead. With that backdrop, the BOJ is unlikely to do anything more than tweak policy. Its main policy role now is to support fiscal implementation by capping any rise in JGB yields (via its yield-curve control program).

Retail Spending: A Tepid Post-VAT Bounce



Through February 6, 2020
Source: Bloomberg and Refinitiv Datastream

A Turn in the Labor Market?



Through February 6, 2020
Source: Refinitiv Datastream

China

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F
China	6.2	6.0	2.8	3.0	4.35	4.10	3.20	3.00	7.05	7.00

OUTLOOK

- The official Chinese real GDP growth rate will likely be about 6.0% in 2020, down from 6.2% in 2019, as weakness in capex spending persists along with the impact from current coronavirus epidemic. And we expect that 2021 China's real GDP growth rate may fall to about 5.8%.
- Continued monetary- and fiscal-policy easing should counter downward pressure on the economy, with the focus likely to be on infrastructure projects and property easing—the measures most likely to help stabilize the economy.
- Rising pork prices may push up inflation, but we don't think the increase will limit the central bank's policy easing.

RISK FACTORS

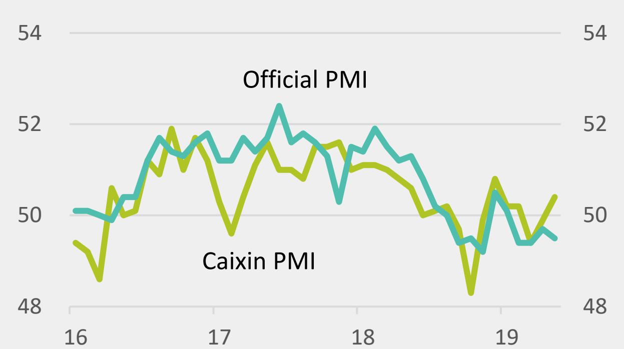
- Policy easing may be less effective than expected if economic data surprise significantly to the downside. This would put a sustained economic stabilization at risk this year and next.
- An underwhelming US-China trade deal—if one comes at all—would be another risk for China's economy.

OVERVIEW

The current coronavirus epidemic from Wuhan has raised a key question for investors: How much slower will Chinese GDP growth be in 2020? In our view, a slowdown in the first quarter is unavoidable, but we still believe the Chinese government will try to achieve 2020 GDP growth of about 6%, since they must reach the target of doubling GDP between 2010 and 2020. Markets should expect an increase in M2 (which may push up M1), RRR cuts and higher social financing. More open market operations (OMO) are also likely, including the February 2 OMO of CNY1.2 trillion (but with a net injection of only CNY130bn). There was also a February 3 10 basis point cut in reverse repo rates to 2.4% for the seven-day rate and 2.55% for the 14-day rate. Most importantly, the government should start to boost lending to infrastructure, developers and manufacturers—the main stabilizers of the slowing economy. The Ministry of Finance has also been taking fast—but not big—action, promising to cut taxes for struggling corporations. Markets are looking for large stimulus measures before reversing the current risk-off mode.

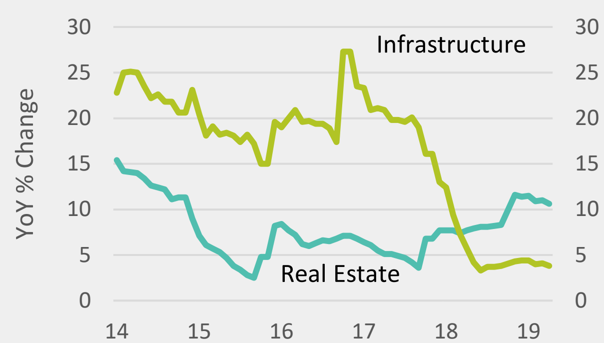
There are more policies in the pipeline aimed at boosting the manufacturing industry to help stabilize the economy and make better use of special local government bonds to finance infrastructure projects. The Phase One trade deal between China and the US should gradually help remove uncertainty in business expectations . We still think China will be a global economic stabilizer and global currency stabilizer in 2020.

China Manufacturing PMI



Through December 31, 2019
Source: Bloomberg and AB

Where to Releverage Up



Through November 30, 2019
Source: Bloomberg and AB

Canada

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F
Canada	1.8	1.8	2.1	2.2	1.75	1.50	1.50	1.50	1.30	1.35

OUTLOOK

- Canada's GDP growth decelerated in late 2019, and falling commodity prices in early 2020 pose a meaningful downside risk to both growth and inflation.
- The Bank of Canada was dovish at its last meeting, opening the door for a rate cut. We continue to forecast a rate cut, and the decline in commodity prices supports that view.

RISK FACTOR

- Falling commodity prices are a downside risk to the economy; if the coronavirus pushes commodities still lower, it could slow growth in Canada even further.

OVERVIEW

The downside risk to the Canadian economy from lower commodity prices has intensified in the past few weeks. If prices don't recover, local growth and inflation are likely to falter. The Bank of Canada has an easing bias, and we suspect it wouldn't take much evidence of local economic weakness to prompt a rate cut. If, however, commodities bounce back, it would boost the underlying economy, which is still relatively strong and stable. Given those two outcomes, we're external developments will have a key impact on the likely path forward for Canada.

Australia/New Zealand

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F
Australia	1.7	1.3	1.3	1.6	0.75	0.25	1.37	1.25	0.70	0.65
New Zealand	2.2	1.8	1.7	1.9	1.00	0.75	1.69	1.75	0.67	0.65

AUSTRALIA

- Amid concerns about global growth and domestic economic stagnation, the Reserve Bank of Australia (RBA) last year took the cash rate down to 0.75% and began to canvass the idea of QE. This easing and some relaxation of macro-prudential policy have prompted a rebound in-home prices and, perhaps, a bit more of a positive outlook.
- We're still inclined to fade that optimism. We expect the housing downturn to have a material impact on overall growth. The unprecedented bushfires represent an additional downside risk, as does the coronavirus outbreak (with travel & tourism, education exports, commodities the key channels).
- Accordingly, the RBA is likely to deliver a little more easing through the course of the year. The unemployment rate remains the key metric to watch.

NEW ZEALAND

- The NZ economy remains better placed than Australia's, with housing construction still increasing, business confidence starting to turn and some fiscal boost in the pipeline (and there's an election upcoming later this year).
- The Reserve Bank of New Zealand is likely to retain its easing bias although, like the RBA, may need to see some more concrete signs of labor market deterioration before acting on that bias.

UK

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F
UK	1.3	0.8	1.8	1.6	0.75	0.25	0.70	0.50	1.33	1.3

OUTLOOK

- The UK has left the EU, and the focus is now on the future trading relationship. We expect the trade talks to be difficult. Moreover, there's a rising probability that the outcome will have a negative impact on the economy—i.e., trade between the UK and the EU defaults to WTO terms or there's only a limited agreement, involving a zero-tariff regime for goods but with no agreement on services and the UK leaving the EU customs union.
- The economy slowed sharply at the end of 2019 but data so far this year point to a strong rebound. The most obvious example of this is the four-point increase in the composite PMI to 53.3, its highest reading since September 2018. But there are also signs that the housing market has responded to the reduction of domestic political uncertainty following Boris Johnson's comprehensive general election victory in December.
- In our view, the Bank of England was right not to cut interest rates at its January meeting. That's partly because of signs that the economy has picked up speed since the election—especially housing, the most interest rate-sensitive sector of the economy. And it's partly because the economy may be in much greater need of lower rates later in the year.
- With Brexit again likely to have a disruptive influence later in the year, we have pencilled in two 25 basis point rate cuts in the second half of the year. We also expect the pound to come under renewed pressure.

RISK FACTORS

- The range of outcomes surrounding the Brexit trade talks is large and could have a much bigger impact than currently factored into our forecasts—in either direction.
- A bigger than expected fiscal stimulus in March's budget could lead to stronger growth than we are forecasting, reducing the need for lower rates.

Norway/Sweden

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F
Norway	2.5	1.6	1.8	20	1.5	1.5	1.4	1.5	10.15	9.75
Sweden	1.2	1.1	1.8	1.7	0.00	0.00	0.00	0.10	10.50	10.25

NORWAY OUTLOOK

- Growth in the mainland economy rose to 2.9% in the third quarter, far stronger than in the rest of Europe. While it will be difficult for Norway to sustain this strong growth rate in coming quarters, it is likely to remain a regional outperformer.
- Core inflation (adjusted for tax changes and energy prices) eased towards the end of 2019, slipping back to 1.8% in December from a peak of 2.7% in March. We expect interest rates to remain on hold, with risks tilted to the upside.

RISK FACTORS

- High household debt (currently 220% of income) and oil-price fluctuations

SWEDEN OUTLOOK

- The gap between survey and hard data has started to close, with the composite PMI rising sharply to 52.2 in January from 48.7 in December.
- Core inflation seems to have leveled off in recent months, with December's 1.7% print being close to last year's calendar-year average of 1.6%. We expect interest rates to remain close to zero across the forecast horizon.

RISK FACTOR

- High household debt and elevated house prices

Asia ex Japan

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F
Asia ex Japan	**5.3**	**5.2**	**2.6**	**2.9**	**3.94**	**3.69**	**3.54**	**3.40**	—	—
Hong Kong	(1.3)	(0.8)	2.8	2.5	2.00	1.50	1.50	1.40	7.83	7.85
India	5.6	5.5	3.4	3.9	5.15	4.65	6.50	6.30	70.00	68.00
Indonesia	5.0	5.0	3.2	3.4	5.00	4.75	7.00	6.85	14,000	13,950
South Korea	1.8	1.5	0.5	1.1	1.25	1.00	1.45	1.35	1,200	1,275
Thailand	2.7	2.5	1.2	1.2	1.25	1.00	1.50	1.50	30.50	33.00

OUTLOOK

+ Uncertainty about trade policy and the pace of recovery in the trade cycle continue to weigh on growth in the more trade-exposed parts of the region. The economic impact of coronavirus—via travel restrictions, supply chain disruption and confidence effects—could be material in the first half of the year.
+ With inflation low and exchange rates relatively stable, slowing growth enabled a broad-based easing in monetary policy across the region. Where there is scope, further easing may be delivered.

RISK FACTORS

+ Uncertainty over the global trade cycle, US-China tensions, and coronavirus

OVERVIEW

The most recent regional trade data and PMIs suggest there was some stabilization in exports and manufacturing heading through year end, which had generated some optimism about the outlook. But, as we noted before, there's a world of difference between "stability" and "recovery." At this juncture, there's little evidence of recovery.

That was before the coronavirus risks emerged, which could spur more accommodative policies. The health-related risks and the economic risks of restrictions to prevent transmission (including travel bans and supply chain disruption) are risks to the Asian region, which remains highly exposed to both channels.

Accordingly, with inflation in general subdued, there is some scope for further monetary policy easing that could bring additional economic support. We've already seen central banks in Malaysia and Thailand deliver cuts; the Monetary Authority of Singapore has also raised the prospect of easier policy.

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Latin America

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F
Latin America	**0.5**	**1.5**	**8.8**	**6.6**	**11.53**	**9.03**	**6.29**	**6.21**	**—**	**—**
Argentina	(2.5)	(1.0)	50.0	35.0	60.00	45.00	—	—	62.00	90.00
Brazil	1.0	2.3	3.3	3.7	4.50	4.50	6.50	6.50	4.13	3.80
Chile	1.0	1.5	1.8	1.8	1.75	2.00	3.60	3.50	750	775
Colombia	3.2	3.2	3.8	3.5	4.25	4.50	6.10	6.20	3,350	3,500
Mexico	0.0	0.5	3.6	3.3	7.25	6.50	7.00	6.75	19.20	20.25

OUTLOOK

+ We expect GDP growth in the region to pick up materially in 2020, driven by a recovery in Brazil and less-negative growth in Argentina.
+ Monetary easing in the region is approaching its end. We expect Mexico to cut rates again but other central banks to remain on hold—or even start to raise rates late in the year.

RISK FACTORS

+ Political uncertainty and the risk of renewed protests in the region could weigh on consumer and business confidence.
+ Although no coronavirus cases have been confirmed in Latin America, it could be a risk to GDP growth by reducing trade. Brazil has the most direct connection to China through this channel—with over 25% of Brazilian exports sent to that nation. Other countries in the region could be impacted by a general slowdown in global growth.

OVERVIEW

In Brazil, it’s full steam ahead for the government’s reform agenda following last year’s historic passage of social security reform. President Jair Bolsonaro announced his priorities for the year, which include measures designed to continue to reduce the size of the state, limit bureaucracy, create flexibility within the federal budget and fight corruption. Implementing structural reforms will help strengthen confidence among economic participants: companies will begin to invest and create more jobs in the formal sector, and individuals will increase consumption. The central bank of Brazil has cut rates to historic lows, creating an environment that favors borrowers and is primed for growth. However, general uncertainty, the depreciation of the BRL and lack of economic momentum may slow the recovery.

In Argentina, the focus for economic policymakers and investors has turned to debt restructuring. Finance Minister Guzman announced an aggressive timeline for negotiations with bondholders and the IMF, aiming to finalize a deal by the end of March. Prioritizing a quick negotiation process may imply a better outcome for creditors. But the timeline isn’t set in stone, so the process could be drawn out much longer if there’s no agreement. The Province of Buenos Aires created noise during the critical restructuring period, making a $250mm amortization payment to bondholders after one large investor blocked the consent offer for partial payment and extension. This event was important, potentially setting a precedent for full principal repayment by a government entity to creditors, which may be used as rationale for better terms during the sovereign restructuring.

Fiscal concerns have been at the forefront for Mexico and Colombia. Both Moody’s (A3) and S&P (BBB+) gave a negative outlook to Mexico last year, while Fitch (BBB) did the same to Colombia earlier in 2019. In January, both finance ministries released fiscal results for 2019 and 2020 targets that would imply less likelihood of near-term downgrades. The Mexican government announced primary surplus targets of 1.1% of GDP for 2019 and 0.7% for 2020. Colombia closed 2019 with a 0.6% primary surplus and targets a similar level for 2020. As government revenues remain heavily dependent on oil income, risks to the downside remain. However, we expect rating agencies will delay their decision to act until later in the year.

Eastern Europe, Middle East and Africa (EEMEA)

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F
EEMEA	**2.1**	**2.5**	**7.7**	**6.4**	**6.57**	**5.79**	**7.22**	**7.02**	**—**	**—**
Hungary	4.8	3.8	3.4	3.3	0.90	1.25	1.80	2.00	330	330
Poland	4.3	3.1	2.3	2.5	1.50	1.50	2.10	2.25	4.30	4.30
Russia	1.2	1.7	4.3	3.5	6.25	5.75	6.30	6.40	64.00	65.00
South Africa	0.4	0.7	4.1	4.4	6.50	6.00	9.00	9.20	14.90	15.20
Turkey	0.1	3.0	15.5	11.5	12.00	10.00	13.00	12.00	6.00	6.30

OUTLOOK

+ Real GDP growth is expected to pick up in 2020, particularly in Turkey.
+ While headline CPI is rebounding in most Central and Eastern European (CEE) economies, price pressures are still expected to ease in Russia. Inflation in South Africa is expected to remain close to the midpoint of the target band. Following significant declines during the second half of 2019, Turkish headline inflation has reached an inflection point and will likely remain in low double digits for the remainder of 2020.
+ CEE central banks are mostly expected to keep interest-rate moves on hold, while Russia, South Africa and Turkey have room to cut.

RISK FACTOR

+ Softer-than-expected global growth would impact CEE export-driven economies, although strong domestic demand continues to provide an important offset.

OVERVIEW

Russia started 2020 with a government reshuffle, although overall ministerial changes were limited and we’re unlikely to see a significant shift in Russia’s overall orthodox macroeconomic policy making. Most high-profile ministerial portfolios—such as finance, foreign affairs, defense, internal affairs and energy—have been retained by their incumbents. The most important changes were the appointment of Mikhail Mishustin as prime minister and Andrey Belousov as First Deputy Prime Minister. Belousov replaces Anton Siluanov (although Siluanov retains his position of Finance Minister). Belousov is likely to drive a greater focus on fiscal spending, in particular state investment and poverty reduction, coinciding with the 2021 parliamentary elections. With a fiscal surplus of 1.5% of GDP in 2019, the government can afford to raise spending ahead of the elections without triggering a meaningful deterioration in the fiscal matrix. That said, higher fiscal spending will likely make the central bank more cautious on rate cuts as we move through 2020. We still forecast another 25bp cut this year, although the risks are increasingly skewed toward less monetary policy easing.

The South African Reserve Bank (SARB) surprised the market somewhat in January, cutting the repo rate by 25 bps (6.25%). Many market participants thought the SARB would wait for the tabling of the 2020 Budget (26 February) and the reaction from rating agencies (Moody’s in particular) before cutting. We think the SARB is slightly behind the curve considering the weakness of the economy. But in our view, it would also take more than monetary easing to stop the contraction of GDP per capita. Power outages have become more frequent and will continue to trip up economic activity over the next two years, if not longer. Eskom, the embattled state-owned power utility, is a key component of our low growth expectation. But general disappointment about the pace of reform under President Ramaphosa, and the prospect of more political brinkmanship ahead of the ANC’s five-yearly National General Council (NGC) in June, also weigh on the economic outlook. The ANC’s NGC is not a platform for leadership change, but a challenge to President Ramaphosa’s authority would raise concerns about the likelihood of his reelection in 2022. Binding constraints to economic growth and political risks continue to curtail our enthusiasm about South African asset prices.

Frontier Markets

Angola's reform momentum is slowing but remains on track, delivering fiscal and current account surpluses, liberalization of the FX market and the gradual opening of the capital account. But the process has been painful, with real GDP contracting in each of the past two years and the debt-to-GDP ratio surging past 100% in 2019. The debt ratio is expected to remain north of 100% in 2020, and debt-service cost is estimated to be higher in 2020 than in 2019 (at more than 100% of government revenues). So, Angola is still in a difficult position, and it may not be too surprising that its dollar debt continues to trade at spreads higher than those of most other African countries. Oil-price changes will continue to drive the economy and asset prices, but we're cautiously optimistic that the benefits of reform could start to trickle through the economy and support asset prices over the medium term.

At the start of February, it seemed increasingly likely that Lebanon's new government will honor its 2020 obligations, which provides a short-term market positive. One way or another, we strongly believe that the government will have to implement a comprehensive restructuring of government debt, which ended the year at around 150% of GDP in 2019. Without adjustment, it would likely stand at around 170% to 185% of GDP in 2020, depending on how challenging growth, inflation and fiscal dynamics turn out to be. There has been a credible narrative that the government—if it were to do everything right—could address its debt-sustainability issue by restructuring domestic debt and implementing voluntary US$ debt exchanges with local banks, avoiding a formal restructuring with external bondholders. Indeed, the central bank's purchase of local government debt at 1% yields, as well as last week's plans to start voluntary exchanges of the US$20s with local banks, suggested that authorities are trying to move in that direction. With significant implementation risks, in our view this is a potential path but with only a certain probability.

In our view, Finance Minister Wazni and his team may be more inclined to pursue a more comprehensive debt restructuring that would also involve external bondholders. There's an open question: If, and when, will Wazni and his team become fully convinced that it's needed and act on it? They still face domestic political resistance, yet public opinion and a resurgence of protests could play an important role, especially on the back of a growing campaign calling for a comprehensive restructuring initiative amid capital controls, a potential haircut on deposits and domestic medicine shortages.

Costa Rica's fiscal performance in 2019 was worse than expected: a total deficit of 7.0% of GDP and a primary deficit of 2.8% of GDP. Tax reform passed in 2018 raised income taxes for some groups and transitioned from a sales tax to a VAT, bolstering revenues. The heart of the fiscal problem is a rigid structure of expenditures and an inability to cut spending tactically. The country approved a fiscal responsibility law (FRL) in 2018, but it wasn't in effect in 2019. If it had been in place, Costa Rica would have missed its target. The FRL mandates that expenditure growth stay below nominal GDP growth, with a lower expenditure-growth cap as debt/GDP rises. When debt/GDP is below 60%, the fiscal rule applies to current expenditure growth. When debt/GDP surpasses 60%, the fiscal rule applies to the growth of *total* expenditures. What's more, the growth rate tolerance declines by another 10%. Debt/GDP is forecasted to top this threshold in the next few months, which could impact fiscal management and urgent needs for further fiscal reforms to liberalize constitutionally mandated expenditures. Missing self-imposed fiscal targets in the coming years may not be a shock to the economy, but it will likely have implications on ratings and market support for Costa Rican bonds—well in advance of a missed target.

	Real Growth (%)		Inflation (%)		Official Rates (%)		Long Rates (%)		FX Rates vs USD	
	2019F	2020F	2019F	2020F	2019	2020F	2019	2020F	2019	2020F
Global	2.6	2.4	2.8	2.7	2.56	2.20	2.20	2.30	-	-
Industrial Countries	1.6	1.2	1.6	1.7	0.76	0.60	0.88	1.11	-	-
Emerging Countries	4.2	4.4	4.8	4.4	5.91	5.12	4.72	4.52	-	-
United States	2.0	1.7	2.3	2.3	1.63	1.38	1.75	2.25	-	-
Canada	1.8	1.8	2.1	2.2	1.75	1.50	1.50	1.50	1.30	1.35
Europe	1.3	0.9	1.3	1.4	(0.20)	(0.28)	(0.10)	(0.05)	-	-
Euro Area	1.2	0.8	1.2	1.3	(0.50)	(0.50)	(0.35)	(0.25)	1.13	1.13
United Kingdom	1.3	0.8	1.8	1.6	0.75	0.25	0.70	0.50	1.33	1.23
Sweden	1.2	1.1	1.8	1.7	0.00	0.00	0.00	0.10	10.50	10.25
Norway	2.3	1.6	1.8	2.0	1.50	1.50	1.40	1.50	10.15	9.75
Japan	1.1	(0.0)	0.5	0.7	(0.10)	(0.10)	(0.01)	0.00	109	102
Australia	1.7	1.3	1.3	1.6	0.75	0.25	1.37	1.25	0.70	0.65
New Zealand	2.2	1.8	1.7	1.9	1.00	0.75	1.69	1.75	0.67	0.65
Asia ex Japan	5.3	5.2	2.6	2.9	3.94	3.69	3.54	3.40	-	-
China	6.2	6.0	2.8	3.0	4.35	4.10	3.20	3.00	7.05	7.00
Hong Kong	(1.3)	(0.8)	2.8	2.5	2.00	1.50	1.50	1.40	7.83	7.85
India	5.6	5.5	3.4	3.9	5.15	4.65	6.50	6.30	70.00	68.00
Indonesia	5.0	5.0	3.2	3.4	5.00	4.75	7.00	6.85	14,000	13,950
Korea	1.8	1.5	0.5	1.1	1.25	1.00	1.45	1.35	1,200	1,275
Thailand	2.7	2.5	1.2	1.2	1.25	1.00	1.50	1.50	30.50	33.00
Latin America	0.5	1.5	8.8	6.6	11.53	9.03	6.29	6.21	-	-
Argentina	(2.5)	(1.0)	50.0	35.0	60.00	45.00	-	-	62.00	90.00
Brazil	1.0	2.3	3.3	3.7	4.50	4.50	6.50	6.50	4.13	3.80
Chile	1.0	1.5	1.8	1.8	1.75	2.00	3.60	3.50	750	775
Colombia	3.2	3.2	3.8	3.5	4.25	4.50	6.10	6.20	3,350	3,500
Mexico	0.0	0.5	3.6	3.3	7.25	6.50	7.00	6.75	19.20	20.25
EEMEA	2.1	2.5	7.5	6.4	6.57	5.79	7.22	7.02	-	-
Hungary	4.8	3.8	3.4	3.3	0.90	1.25	1.80	2.00	330	330
Poland	4.3	3.1	2.3	2.5	1.50	1.50	2.10	2.25	4.30	4.30
Russia	1.2	1.7	4.3	3.5	6.25	5.75	6.30	6.40	64.00	65.00
South Africa	0.4	0.7	4.1	4.4	6.50	6.00	9.00	9.20	14.90	15.20
Turkey	0.1	3.0	15.5	11.5	12.00	10.00	13.00	12.00	6.00	6.30

Growth and inflation forecasts are calendar year averages.
Interest rate and FX rates are year end forecasts.
Long rates are 10-year yields unless otherwise indicated.
Latin American Rates include Brazil, Chile, Colombia and Mexico
Real growth aggregates represent 48 country forecasts not all of which are shown
Blanks in Argentina are due to distorted domestic financial system so are not forecast.

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