

Prospects

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WORLD – Macroeconomic Scenario for 2021-2022

Lasting scars after a chaotic recovery

After a persistently anaemic H1, vaccines and 'soft lockdown' strategies along with generous – and crucial – fiscal stimulus measures are opening the door to a modest yet, like the crisis, uneven recovery. This type of environment – marked by a slow, likely chaotic recovery; multiple uncertainties; and as easy a monetary policy stance as can be sustained – is good for keeping rates extremely low.

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What will growth look like and how vigorous it will be? Will we still be governed by the pandemic and the trade-off between growth and health safety? It is a delicate bargain that we can only hope will be less radical than in 2020. Vaccines and 'soft lockdown' strategies are stirring hopes that growth can finally jump the 'stop-and-go' track of 2020. After a persistently anaemic H1, the recovery, nursed along by monetary and fiscal policy, is nonetheless expected to be modest and uneven. And then, the gradual reduction in stimulus plans will reveal the lasting scars of the economic shock wrought by this pandemic.

First off: a quick world tour by major geographic region. In the **US**, while the nature and timing of a new stimulus plan have yet to be defined, the

resurgent virus is casting the shadow of a steep decline in H121. The acceleration expected for the second part of the year should lead to a recovery of 3.1% after 2020's limited contraction of 3.6%. At end-2021, GDP in volume terms is still expected to be slightly below its pre-crisis (ie, end-2019) level. In the **Eurozone**, where the consumer and corporate stimulus pipeline is expected to stay open, growth should hover around 3.8% after its 7.4% contraction in 2020. Based on structural features (including the sector breakdown of supply and jobs, the weight of services, export capacity and the suitability of exported products) and national strategies (the health/economy trade-off, how ample and effective the support measures are), both the extent of the shock and the speed and strength of the recovery will vary dramatically. Thus,

at end-2021, although Eurozone GDP is still forecast at 2.4% below its pre-crisis level, the gap should be limited to 2.0% in Germany while remaining close to 7.4% in Spain and edging close to 2.2% and 3.9%, respectively, in France and Italy. In the **United Kingdom**, whether or not a minimum trade agreement is reached to prevent the hardest Brexit, the fallout of the pandemic will be joined by a de-nesting process. Following a major 2020 contraction estimated at 11.1%, growth is expected to approach 4.5%, leaving GDP 3.8% below its pre-crisis level at end-2021.

In **emerging countries**, the economic recovery will be more difficult and more radically uneven than 2021 growth forecasts suggest. On the heels of a scant 3% contraction in 2020 should come a recovery of close to 5.6%. Behind this figure lies a very diverse landscape: an optical illusion masking both the immediate effects of the crisis, derived from stricter and more varied monetary and budgetary constraints than in the developed universe, and its lasting consequences in the form of a deepening structural gap between emerging Asian countries and the others. Asia, especially North Asia, has suffered less, and is preparing to rebound better, with China in the lead. In **China**, growth should once again approach 8% in 2021 after having paid only very modest dues in 2020, as it slowed to 2.6% while escaping the recession. So, can we count on China's energy to whip Asia into shape and get the rest of the world back on track, based on what happened in 2009? Well, no. As most of the catching-up has been exhausted, Chinese growth has slowed, and China no longer has the torque to tow the rest of the world behind it. In addition, it no longer wants to, as evidenced by its new 'dual circulation' strategy aimed at limiting its foreign dependence.

In essence, then, each will have to fall back on its own strengths: **the large economies will be further aided** by massive fiscal stimulus packages, ultra-accommodative monetary policies and favourable financial terms, which will also relieve emerging countries' external funding constraints. In response to the crisis, **the monetary levees have actually broken**, and accommodation seems to be nearly maxed out. And while some sacred cows may yet topple (eg, the assumption of negative rates in the UK, which cannot be ruled out), it does appear that the monetary policy easing exercise has come to an end (in the sense of new tools) and that we should count on improvements/extensions to existing mechanisms. Although these mechanisms seem to be calibrated for an end to the crisis, they will have to be supplemented by fiscal policy to

consolidate the recovery, once the exceptional stimulus packages have been reduced. Looking at Japan, where monetary innovation went very far, we see that fiscal policy plays a more direct role in reducing the output gap. And the Bank of Japan supports it, acting as a 'built-in stabiliser' of long-term rates by controlling the yield curve.

This environment is marked by a slow, probably chaotic recovery; multiple uncertainties; and monetary policy easing: a good environment for keeping interest rates extremely low. Good news will have to materialise on both the health and the economic front for any recovery to take shape; but even then, it will be limited by the absence of inflation and the capacity surplus. In addition, past and future interest rate trends can only be judged on the basis of progress in the Eurozone, where clear solidarity has prevented fragmentation, risk premiums paid by the so-called peripheral countries have been reduced, and the EUR has done well. Therefore, our scenario puts end-2021 US and German ten-year sovereign yields at close to 1.25% and 0.40%, respectively, coupled with spreads of 20bp, 50bp and 100bp vs the German Bund yield for France, Spain and Italy. In line with a recovery scenario – even one that is timid and out of sync – the USD, that unbeatable counter-cyclical, could depreciate to the benefit of the EUR and currencies that are pro-cyclical or carried by risk appetite. The depreciation of the USD would, however, be limited by the resurgence of Chinese-American tensions weighing especially heavy on Asian currencies: the crisis has only temporarily eclipsed the dissensions between the US and China.

While the timetable for the 'resumption of hostilities' is uncertain (with the US transitioning to a new administration, putting out domestic fires, and rebuilding its international bridges), and while Joe Biden's presidency does promise a change in tone (less unilateral, more predictable and quieter!), the roots of American resentment remain. The bogus de-escalation of US-China trade tensions cannot hide the 'dislocation'. Rising protectionism and political risk went a long way towards slowing down hyper-globalisation. The crisis should do much to regionalise areas of growth, as evidenced by the signing of the Regional Comprehensive Economic Partnership uniting China, ASEAN member countries, and major US allies (Australia, South Korea, Japan and New Zealand). **This crisis has accelerated fragmentation and exacerbated weaknesses. It may also leave us with growing disparities in performance, growth outlook, and social indicators, especially in emerging countries.**

Developed countries – Yes, a recovery, but a wobbly one

Vaccines and 'soft lockdown' strategies are stirring hopes that growth can finally jump the 'stop-and-go' track of 2020. After a persistently anaemic first half, the recovery, nursed along by monetary and fiscal policy, is looking modest and uneven. Afterwards, we will see the scars left by the pandemic.

US: challenging H121 ahead before vaccine impact takes hold

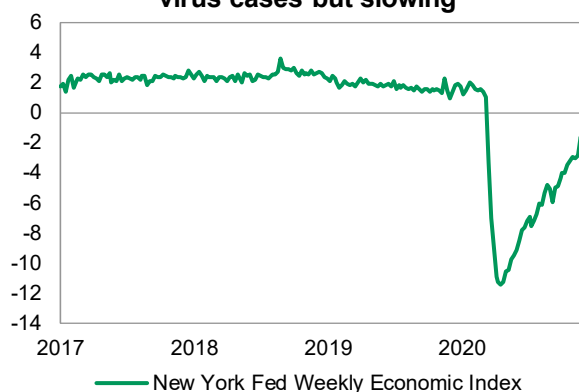
After a better-than-expected early portion of the recovery, the US economy is set to decelerate into a more challenging H121 before vaccine impacts take hold towards year-end, with GDP remaining below the pre-crisis level until around the turn of the year in 2021/2022. After a record-setting surge of 33.1% in Q320, we expect growth of around 3% in Q420, resulting in a contraction of around 3.6% for the year on an annual average basis. With the recent resurgence of the virus and failure to agree on a new stimulus package as of writing, we look for the economy to nearly stall at 0.7% in Q121 with subdued growth Q2 as well before the pace picks up in H2 as the vaccine becomes more widely distributed and restrictions are lifted, resulting in growth of around 3.1% for 2021.

The path of the recovery will depend heavily on two factors: the path of the virus along with lockdown measures in response; and the extent and timing of additional fiscal support. In terms of the virus, we believe that cases will go through some ups and downs but remain elevated through much of the winter with many people spending more time inside given the colder weather. However, we do not see the political will to implement a national lockdown anywhere near what was seen in March-April and believe stricter measures will continue to be more localised and targeted. This means that there will continue to be a divergence between different sectors of the economy, with many service businesses that require in-person contact continuing to struggle, while sectors such as housing and manufacturing can continue to rebound.

As early vaccinations will target medical workers followed by the elderly and those with underlying conditions, we expect that a sharp reduction in restrictions will not begin until August and will follow gradually throughout the rest of the year, meaning that the boost to growth from the vaccine will be limited until the latter portion of 2021.

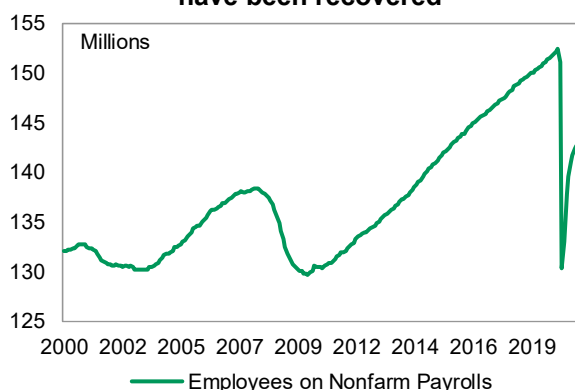
The timing of additional stimulus remains a wildcard. Negotiations had remained at an impasse for months, with neither side showing any signs of budging in the lead-up to the early-November elections. However, over the past week, momentum has been gathering around a compromise package of USD908bn put forth by a bipartisan group of senators and members of the House of Representatives Problem Solvers Caucus. However, Senate Majority Leader Mitch McConnell has not signalled his approval, so with little time left before the holiday recess, passage is not a sure thing. We expect that the deal may remain elusive until early next year, though the chances of passage prior to year-end 2020 have increased significantly. The size of the package will likely be in the neighbourhood of the compromise bill, though if Democrats are able to win both Senate run-off elections in Georgia, that would open the door for a larger package that could provide a near-term boost.

US: activity resilient to rising virus cases but slowing



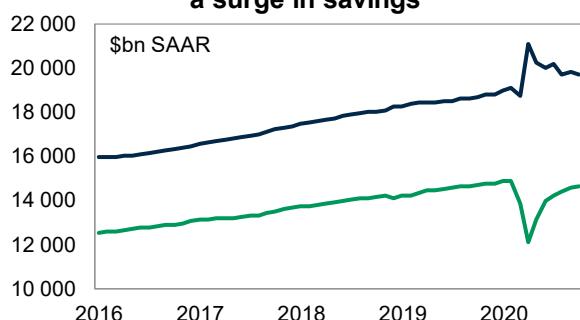
Sources: NY Fed, CA CIB

US: barely half of jobs lost have been recovered



Sources: BLS, Bloomberg, CA CIB

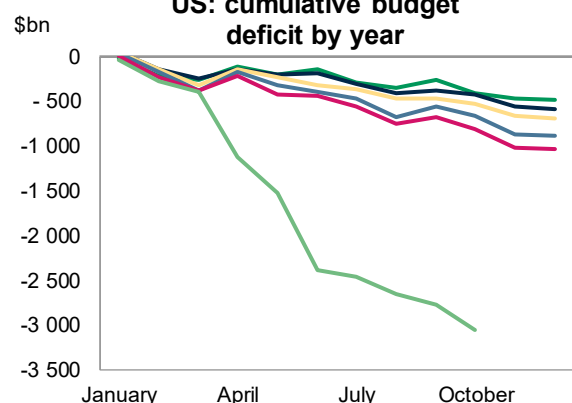
US: stimulus has supported a surge in savings



— US Personal Consumption Expenditures (rhs)
 — US Personal Income

Sources: BEA, Bloomberg, CA CIB

US: cumulative budget deficit by year



Sources: Treasury Dpt, Bloomberg, CA CIB

Additional support will be especially important in the near term as a number of prior benefits, including some of the enhanced unemployment insurance programmes, are currently scheduled to expire at year-end. When combined with the slowdown in the labour market recovery as the virus surges and with recent jobless claims figures indicating that renewed job losses are possible in the coming months, the lack of an agreement on additional relief poses a risk to consumption, which makes up 70% of the economy.

With the early fiscal response centred around the USD2.2trn CARES Act providing aggressive support in the form of direct payments to consumers and enhanced unemployment benefits, personal income saw its largest increase in history in April, driving a spike in savings. The accumulated savings should provide a buffer that will prevent the economy from dipping back into contraction, in our view. Though with savings likely concentrated among higher-income households, we expect consumption to almost stagnate in H1 before restrictions are lifted and vaccine impacts take hold.

We look for investment growth to slow as well and remain subdued in H121. Uncertainties will continue to sit at an elevated level in the near term, with those around Covid not diminishing significantly until vaccinations become more widespread, and those around the political environment lingering until early in the year as we await the Georgia run-off elections and for President-elect Joe Biden's team to work on prioritising its agenda after officially taking office.

The Fed will continue to offer support to the economy and financial markets by maintaining an accommodative stance. That said, with rates already low across the curve, we believe the Fed's actions will have a limited impact on providing further impetus to the real economy on top of what it already has provided. Fiscal policy will be more important.

Looking past 2021, we expect the recovery to continue into 2022 at pace that gradually slows from H221 back towards trend. This would result in a swoosh-shaped recovery overall, with growth for 2022 as a whole coming in at 2.9%.

Risks abound though for the first time since the economy bottomed in April; we see both upside and downside risks. On the downside, additional waves of the virus before mass vaccination could lead to further restrictions that weigh more heavily on economic activity than we expect, with a double-dip recession a possibility if the health situation deteriorates more than expected. Vaccines could also prove less effective than hoped or encounter supply-chain or other distribution problems that would result in the acceleration, which we currently see in H221, being pushed back further.

Conversely, there is a possibility that additional vaccines are approved and advances are made to improve the efficiency of mass distribution, allowing the vaccine to reach a larger portion of the population more quickly. However, even in this more optimistic upside scenario, we would not expect a significant economic impact to be felt until around the middle of 2021.

Focus: China-US relations under the Biden administration

Reasons for a likely re-escalation of tensions

We believe that markets are underestimating the impact of the US-China rivalry under President-elect Joe Biden's administration in the medium-to-long term, which will play out in the form of a 'managed hegemonic rivalry'. This means a very intense rivalry, especially in all strategic sectors (including defence, 5G, AI and pharmaceuticals) and areas of power.

However, it is too early to forecast the calendar and precise tools of American policies, which will depend on the domestic, political, economic and health situation and the make-up of the team implementing US foreign policy.

The currently ongoing de-escalation, initially driven by the political calculus of Donald Trump's administration in the run-up to the recent presidential election, should continue in the near-to-medium term. It will reflect the time needed by the Biden administration to implement its transition to power, tackle domestic problems, rebuild international alliances, and – crucially – attempt to negotiate a solution for issues vis-à-vis China, possibly under the WTO. It will also reflect China's need to upgrade its high-tech production capacity and its military arsenal.

Re-escalation can occur at any time, with its nature and timing depending on (1) how much good Biden will want to make on his tough pre-election statements and (2) how long it will take the US to rebuild alliances and put in place a multilateral approach.

One of the main areas of risk will be the behaviour of US Congress, and especially the Senate, where a bipartisan anti-China coalition could trigger a re-escalation risk at any time. It may be politically difficult for Biden to oppose anti-China laws, in order to avoid appearing to be too soft on Beijing.

Escalation is particularly possible with regards to human rights issues or Taiwan. Such an adverse scenario could be triggered by Chinese action or fuelled by an internal political crisis in the US with its high level of polarisation. Politicians, especially in the Republican camp, can always try to find more legitimacy by promoting popular anti-China laws.

Evidence of the failure of China to meet its import obligations under the phase-one trade deal, expected in February 2021, could potentially be the earliest trigger, and some form of reaction is highly probable to ensure the US does not appear weak. However, it is likely that the situation will be partially explained by the pandemic and that no immediate drastic response will be made.

There could also be volatility points occurring at moments when negotiations become more difficult, possibly generating market stress. This would not necessarily happen in the very short term, but rather in H221 once the Biden administration begins to re-establish alliances.

Probable US position, goals and policies vis-à-vis China

Ultimately, US policies towards China under Biden are likely to become surprisingly similar to those under Trump, particularly (1) as far as its goals are concerned, with competition against China being a key driver of US actions; (2) regarding strategic issues, where the US will probably adopt a very tough stance; and (3) due to popular discontent with China in the US.

One key difference between Biden and Trump will be with respect to style, and the measures they take will diverge accordingly, although increased cooperation is possible in non-strategic areas. In particular, the US will likely try to act in a multilateral and predictable manner, and engage in more direct communication with China, which implies a more managed rivalry and less dramatic methods, with less market noise.

Specifically, we expect the continued use of tariffs, with existing ones maintained and new ones possible. Restrictions on access to technology and markets for direct and portfolio investment, some form of financial sanctions, barriers to people's movement, as well as diplomatic rivalry and a military build-up in regions neighbouring China's mainland – albeit while avoiding a crisis – will all be used to varying degrees, although probably to a lesser extent and not as publicly as under Trump.

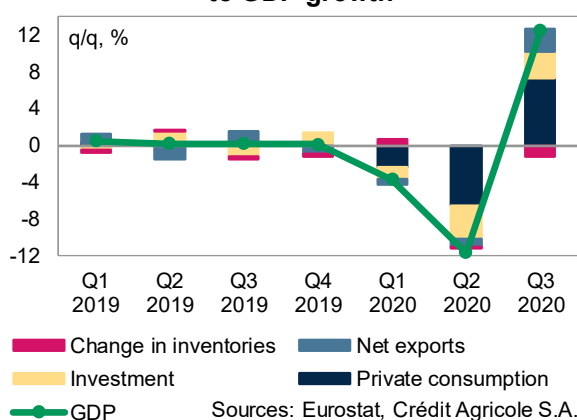
Decoupling and intense strategic rivalry will continue in terms of strategic issues, in particular with regards to technology and data. The issue of human rights and cyberespionage will be among the most important triggers for any US actions against China.

In conclusion, such a stance would mean that this cold war with China, started under Trump, will most likely continue under Biden, even if in a 'lower-noise mode'. That said, the ultimate US goal may well change from opposing China's ascent to addressing the methods used by Beijing to achieve it and containing its ambitions.

Beijing's likely reaction

The impact on China will depend on Beijing's response to US actions, but also on Chinese strategy itself, especially in its immediate periphery, and on issues related to the delicate topic of human rights. We expect at most a continued reciprocal riposte, but China will likely try to preserve as much access to US markets, capital and technology as possible. Still, economic implications will include limits on exports, less foreign direct and portfolio investment, and restricted access to external technology.

Eurozone : contributions to GDP growth



Eurozone: riding out the storm

Our 2021 outlook will largely be determined by the spread of the coronavirus. The availability of a vaccine does not alter this profile but reduces the tail risk. The pace of growth will still, crucially, depend on the degree of support from economic policies. We forecast GDP growth of 3.8% in 2021 and 3.9% in 2022.

A profile still dictated by the pandemic: our assumptions

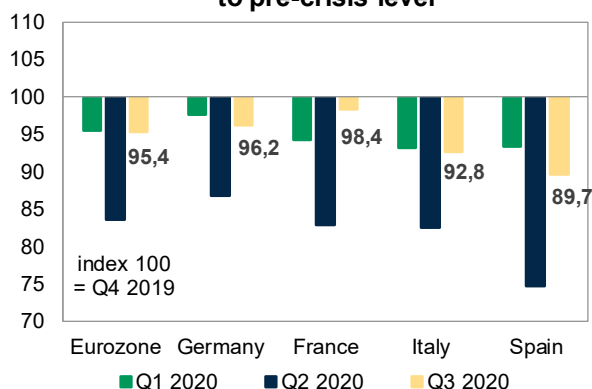
The signs of a new wave of the pandemic were already visible when we were writing our September outlook; however, we assumed – as at the time it was plausible and in line with consensus – that the spread of the virus would be limited and contained by (1) social distancing; (2) rapid identification of positive cases thanks to increased testing capacity; and (3) possibly localised lockdowns. However, the pandemic has gotten out of hand, and management of the lockdown, as 'soft' as it may be, has cruelly become central to the outlook again. For the moment, the varying timing and magnitude of the second wave have prompted countries to adopt less economically damaging strategies and even to vary their approach regionally.

The outlook must rely on scientifically plausible health assumptions. The health and mobility scenarios are both shrouded in a high degree of uncertainty and are mutually dependent on one another. It is entirely plausible that the spread of the virus could take longer to curb than it did last spring, with a 'soft lockdown' still allowing for significant freedom of movement. Although Q420 will be characterised by negative growth, the preservation of many economic activities during the 'soft lockdown' and the gradual adjustment of consumer habits are nonetheless expected to help reduce its downward impact on growth. In addition, the recovery that looks set to take shape when lockdowns end in Q121 could be more moderate than the summer 2020 recovery due to both longer-lasting social distancing measures and self-imposed restrictions on mobility. In that case, the carry-over effect to 2021 growth would be fairly weak. On this small overhang, we expect a limited pace of growth throughout H121, a time that could be characterised by recurring trade-offs each time the pandemic spikes, if indeed it does. The experience of the spring lockdown shows some new aspects of the compromise between protecting health vs fostering economic growth. One lesson in particular is that economic losses are generally 'linear' and infections 'exponential' over time, which means that taking action early could pay off.

Third quarter of 2020, or the economy/health trade-off

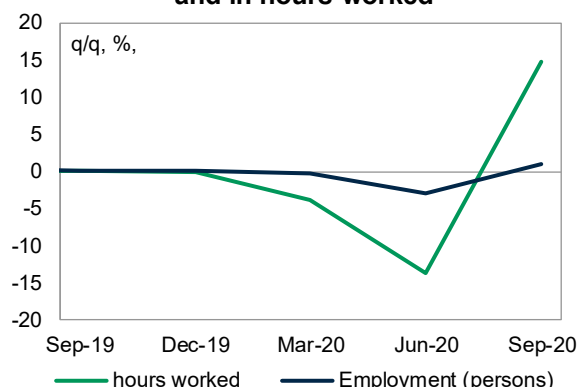
The Q3 GDP bounce was stunning and stronger than expected: +12.5% QoQ, after an 11.7% rebound in Q2. Despite this bounce, GDP is still 4.4% below its end-2019 level. The growth overhang left in 2020 remains very negative (at -6.6%).

Consumption : gap to pre-crisis level



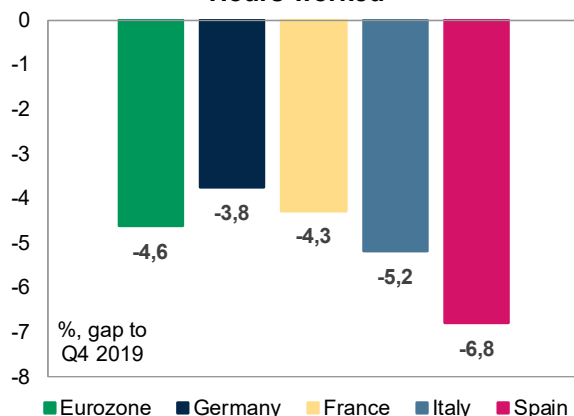
Sources: Crédit Agricole S.A.

Eurozone : recovery in employment and in hours worked



Sources: Eurostat, Crédit Agricole S.A.

Hours worked



Sources: Eurostat, Crédit Agricole S.A.

After making a -10.6ppt hit to growth in Q2, **domestic demand** made a strong positive contribution to Q3 growth (+11.3ppt). **Private consumption** (+14% in Q3 vs Q2) and **public consumption** (+4.8%) quickly recovered after their Q2 declines (-12.4% and -2.2%, respectively). Household consumption is still 4.6% below its end-2019 level. In France, the recovery was the strongest, though it remains further behind in Germany and even more so in Italy and Spain. The rebound in **investment** was also large (+13.4%) but not enough to offset the Q2 decline (-16%). Investment therefore remains further behind, at 10.2% below its pre-crisis level within the Eurozone. Lastly, **foreign trade** in goods and services contributed positively to Q3 growth (2.4ppt), putting an end to three straight quarters where it had been holding back GDP gains. Although exports are still 8.7% below their pre-crisis levels, the rebound in exports has been significant (+17.1% after -18.9% in Q2).

The resurgence was therefore very strong, but not evenly distributed among major Eurozone economies: +18.7% in France, +16.7% in Spain, +15.9% in Italy, and +8.5% in Germany. The divergence from pre-crisis levels is less uneven: in France, Germany and Italy, it has been 'contained' (about -4%), with Spain again proving to be an outlier (-9.1%). These differences in performance between countries are partly the result of sharp differences in sector-specific trends: (1) Italy and Spain saw a fast recovery in industrial activity, but France's was slower and Germany's even more so; (2) retail is still badly hurting in Spain and to a lesser extent Italy; (3) construction has exceeded its pre-crisis level in Italy, but it is still below that level in Germany, France and most of all Spain.

Optical illusion on employment

Employment grew 1% in Q3 (after -3% in Q2), but the number of people employed is 3.6m below its pre-crisis level. **The employment figure does not tell the whole story on its own, because working hours have been greatly reduced by short-time work schemes.** In Q220, the decline in hours worked reached 26.0% in Spain, 15.3% in Italy and 14.8% in France. If you were to total up the decline in the number of people employed and in the hours worked, the result is more consistent with the GDP downturn. **The rapid recovery in hours worked in Q3 (+14.8% after -13.6% in Q2) is slightly greater than the rise in GDP, but it remains partial and has left effective hours worked at 4.6% below pre-crisis levels.** Unlike GDP, this divergence is about the same in each of the bloc's major economies.

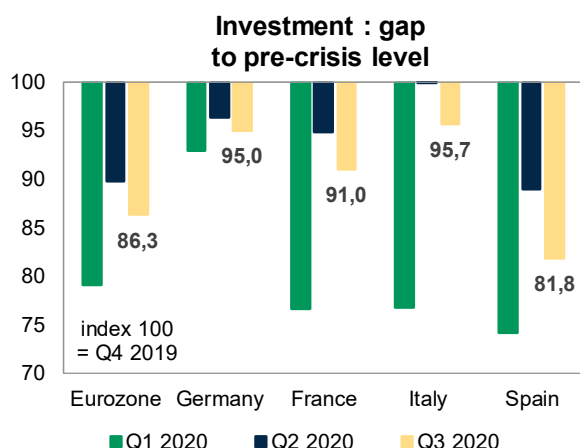
The Eurozone unemployment rate fell slightly in October to 8.4% from 8.5%, continuing the slow decline that began in August. The zone contains 1.9m more unemployed workers than in February before the spread of the pandemic, an additional 1.2ppt of unemployment. **But the unemployment figures do not tell the whole story of the crisis's impact either.** Measures taken to limit job losses have led to furloughs rather than lay-offs. Additionally, people who are unable to seek work or who were not available due to lockdowns were not counted as unemployed. A sizeable share of those who had already registered at employment agencies were no longer actively seeking jobs or were no longer available to work because, for instance, they had to take care of

their children during the period in question. **The workforce underutilisation indicator, or labour market slack, therefore greatly increased in the Eurozone during Q2.** It reached 8.3% of the (expanded) labour force in Germany, 15.3% in France, 23.6% in Italy, and 25% in Spain. These figures are not yet available for Q3 in the Eurozone. In France, however, the labour market slack sharply decreased in Q3, nearing its end-2019 level. In other major economies, GDP shortfalls are decreasing, and the labour force is approaching its pre-pandemic level. But although the labour force is 0.2% above pre-crisis levels in Germany, it was still 1.3% lower in Italy and Spain in Q3. **Despite this recovery in participation and employment, the damage to employment done by the crisis will materialise with a lag: we project increased unemployment in 2021 (10.1% after 8.2% in 2020) and stabilisation in 2022 (10.2%).**

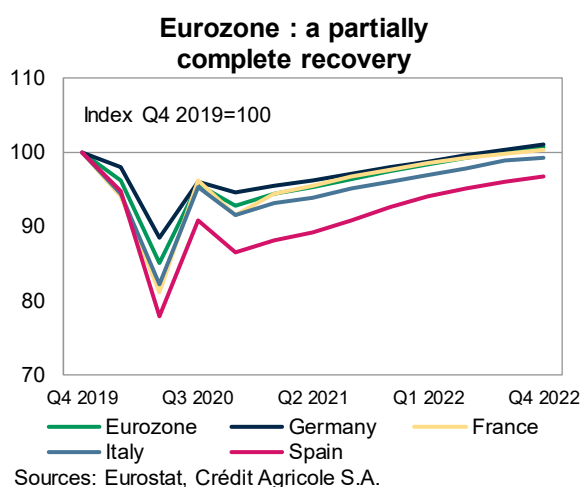
Look out for the tidal wave!

Employment performance will necessarily be tied to companies' profitability and financial health. The drop in economic activity had an immediate negative impact on business profitability. In the Eurozone, profit margins fell 6% in Q120 and 18% in Q220. However, on average, business failures were down 41.7% YoY in Q220. Meanwhile, the failure rate among the self-employed rose, though it remains close to its long-term average. However, the 28.5% drop in the number of new businesses registered in the spring should set alarm bells ringing: these changes are due to the suspension of bankruptcy declarations and to prevention measures that, if they do not remedy the fall in sales, have at least helped remedy the corresponding liquidity risks. Non-financial companies (NFCs) have been able to preserve their cash flows: their liquid assets rose 9.6% in Q1 and 18% in Q2. Short-time working schemes and the option to defer tax and social security contributions have helped limit the costs incurred by the temporary decline in activity. Government-backed loans have enabled businesses to (1) lengthen their loan maturities; (2) meet interest payments; (3) cover operating expenses; and (4) adjust output in line with the new environment. In Q220, government-backed loans accounted for 1.6% of all new loans in Germany, 4.8% in France, 5.6% in Italy and 9.2% in Spain. For large corporates, government-backed loans on average accounted for 3.8% of total new loans in the Eurozone; the equivalent figure for SMEs is 14.3%. Moratoria on loans to NFCs have also played a part, applying to 2.6% of total loans in Germany, 7.7% in France, 13.9% in Italy and 0.2% in Spain. These policies have had a greater impact in Italy and Spain, where liquidity stress seems to have arisen more quickly than in France or Germany. However, these measures are temporary and encourage increased debt. They have therefore been accompanied by a downgrade in ratings or outlooks for a number of corporate issuers; the probability of default on loans to NFCs increased from 2.0% in late 2019 to 2.6% in September 2020, with the increase being four times larger for SMEs than for larger businesses (per AnaCredit).

During the initial phase of the pandemic, businesses borrowed more from banks mainly to cover ongoing expenses, taking out loans with terms of less than one year. Bank borrowing remained high in Q2, while market-based corporate debt rose to record levels, driven by the ECB's intervention to stabilise markets. As activity bounced back over the summer, corporate bond issues and bank borrowing slowed, though continuing at a sustained pace. Meanwhile, NFCs lengthened the average maturity of their borrowings (with the average proportion of net new loans with maturities over five years up from 57% in 2019 to 100% in September 2020), thus reducing their immediate refinancing requirements and locking in prevailing highly favourable financing terms. The volume of government-backed loans exceeded the net amount of new lending, suggesting that existing loans were converted into government-backed loans, particularly in Italy and Spain. Despite an increase in underlying risk, credit conditions remain favourable. Government guarantees have lowered the risk of loss and kept a lid on upward pressure on interest rates driven by higher probabilities of default. However, lending conditions could tighten quickly as these programmes end, particularly in those sectors most affected by the crisis, where net debt has increased and the risk of refinancing has greatly increased.



Source: Crédit Agricole S.A.



Sources: Eurostat, Crédit Agricole S.A.

Countervailing forces affect the outlook

We forecast a 3% GDP decline in Q4 and annual average growth of -7.4% in 2020. Although high-frequency mobility indicators show a 2.5% Q4 decline in activity, few economic indicators are available yet for this period. But what are they telling us? The few demand indicators we have (retail sales and new car registrations) are, at the start of the period, stronger than the supply indicators. Eurozone surveys report a November decline in industry, where confidence is lower for the first time since May, and portend a slowdown in activity. In the service sector, confidence, which has been down since October, got much worse in November, and business has been contracting since September.

The expected rebound in the Q121 (+1.8%) will enable a partial recovery of the reduced year-end business. The assumption that mobility restrictions could be only partly relaxed is dragging down all of H121, with GDP growth limited to +0.9% in Q221.

Uncertainty as to how well the pandemic can be brought under control will continue to constrain spending decisions, both for consumers and investors, including in H221. The EIB survey tells us that nearly half of EU businesses are looking to delay, abandon, or cut back their investment plans. **Investment growth is expected to be moderate (2.7% in 2021 and 4.6% in 2022, after -9.6% in 2020) and primarily driven by public and construction investment.** Business investment is likely to focus on equipment replacement or innovation, and to a much lesser degree, capacity expansion. With 3.8% growth in 2021 and 3.7% in 2022 after -8.2% in 2020, **the recovery in private consumption is expected to fare better. Still, some of the savings accumulated in 2020 will likely be held back out of precaution (unemployment and withdrawing income support measures).**

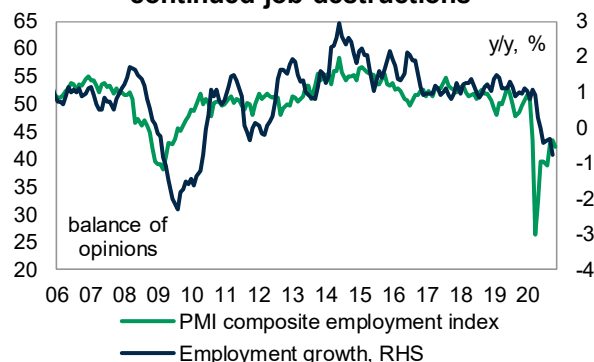
So what about economic support measures? Some general programmes will continue to favourably affect businesses¹, but the range of economic support measures currently varies by country based on whether or not they have been extended. For instance, short-time work has been extended in most countries, and the ban on lay-offs has been pushed back to Q121 in Italy and Spain, but in some countries the deferral of tax and social security contributions and government-backed loans have not as of end-2020.

End-date of support measures	France	Germany	Italy	Spain
State guarantee scheme - application window	Jun-21	Dec-20	Dec-20	Jun-21
Loan moratoria	Mar-21	Mar-21	Mar-21	Mar-21
Insolvency filing suspension	Aug-20	Dec-20	Sep-21	Mar-21
Short-time agreements	Dec-21	Dec-21	Mar-21	Jan-21
Lay-off interdiction	None	None	Mar-21	Jan-21
Taxes and contributions exemption/deferrals	Dec-20	Mar-21	Apr-21	Feb-21

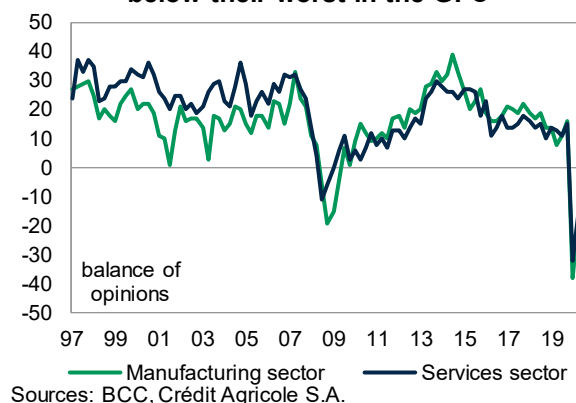
Our outlook assumes that most economic support measures will be extended, and further measures added. Many European authorities have raised red flags about the risks of withdrawing support measures too early. The ECB estimates that the various policies adopted (deferral of taxes and contributions, direct support for private agents, short-time work, moratoria and government guarantees on loans, macro-prudential policy and forbearance adjustment) will have contributed 3.4ppt to GDP growth in 2020. These measures will provide the same positive contribution in 2021.

¹ For instance, the EBA has allowed the special prudential treatment for loan moratoria to be extended to the first quarter, thereby de facto delaying defaults, including in countries where the suspension of bankruptcy declarations has not been extended.

UK: PMI survey of composite employment suggests continued job destructions



UK: Investment intentions still below their worst in the GFC



However, these measures will be gradually withdrawn in H221 as uncertainties regarding the progress of the pandemic and mobility restrictions are cleared up. The risk will be reflected in company balance sheets when business returns to normal. In peripheral countries, the risk will be mitigated by the strong positive fiscal impact enabled by the ramping-up of the EU's NGEU fund. **The increase in bankruptcies and unemployment, however, explains why we forecast a 1% smaller growth profile per quarter and +3.9% annual average growth in 2022.**

UK: Brexit must be weathered and Covid-19 brought under control before any sustained recovery can be foreseen

The second wave likely interrupted the recovery in Q4. After a brief and incomplete rebound in Q3, which left the UK economy 9.7% below its Q419 level, GDP is expected to fall again in Q420, reflecting the impact of stricter social distancing measures in October and the introduction of a national lockdown in England in November. However, the quarterly contraction of GDP will likely be much lower than the historic fall observed in Q220 as the recovery looks to have gained traction in the industry and construction sectors (as evidenced by the November PMI surveys), boosted by Brexit stockpiling ahead of the end of the transition period and by increased exports, especially towards the EU. In the services sector, PMI surveys point to a lower-than-feared impact from the lockdown on consumer spending in the sectors that are not directly impacted by the lockdown.

Regarding Brexit – deal or no deal – a long and unprecedented process of economic disintegration from the EU will only begin on 1 January. The UK will leave the EU single market and customs union at the start of 2021. We continue to expect a bare-bones free trade agreement to be found in the coming days and to come into force at the end of the transition period, which would bring a relief to investors and companies. However, some aspects of the deal could take months or even years to implement, and negotiations in certain areas may continue after 1 January. We expect GDP to fall by 2% in Q420, leading to annual GDP growth of -11.1% this year, before a rebound of 4.5% next year.

We expect a subdued recovery at the beginning of 2021. Two factors will likely continue to dampen the pace of growth in the short term. First, the risk of the pandemic's resurgence will likely persist after the easing of the lockdown. Indeed, although Covid-19 vaccination will soon begin, it will likely take several months before a sufficient percentage of the population becomes immune to the virus. Hence, social distancing measures will be maintained until at least end of March, leading to a persistent weakness of growth in the consumer-facing service sectors. Second, Brexit will further impact trade and business as the transition ends on 31 December. New barriers to trade will be introduced between the UK and the EU as of 1 January in the form of customs formalities, rules of origin, regulatory checks on goods regulatory changes hampering the provision of services. There is considerable uncertainty around the impact of the initial adjustment. The Bank of England (BoE) estimates² the direct impact on GDP of

² The MPC central projections assume an immediate move to a free trade agreement (similar in scale and depth to the FTA in place between Canada and the EU) on 1 January 2021. However, in November, the BoE appeared less convinced in its long-lasting assumption that the transition would be smooth given evidence of a lack of preparation among firms, in particular small and medium-sized enterprises. The BoE now expects trade and GDP to be lower in the near term due to Brexit, that the adjustment process will concentrate in Q1, but that it will dissipate by the end of Q2. Any implications for slack and inflation are considered to be small.

reduced exports and distorted domestic supply chains at around 1% in Q121.

Headwinds to persist. In H221, growth is expected to strengthen thanks to the effects of the vaccination and improved treatments of the disease, and as the initial impact of Brexit gradually dissipates. However, in relation to Covid-19, a degree of caution among certain age and social groups is likely to persist and is likely to continue to weigh on the recovery in the sectors where there is a high degree of physical contact (hospitality, accommodation and travel). More fundamentally, the rise of unemployment and the end of the government's furlough scheme in March will weigh on household consumption. In the corporate sector, impaired balance sheets with high levels of indebtedness will likely continue to restrain business investment.

Spare capacity is currently very large in the economy and is likely to increase further. The encouraging news that vaccination is imminent has propelled business optimism towards 2021 outlook to its highest level in more than five years. This may help limit the near-term increase in closures and redundancies among companies that are financially viable. Furthermore, the government extended the furlough scheme through Q1. Despite that, press reports suggest that massive job losses are planned in the hardest-hit sectors, ie, travel, food and accommodation, and leisure. The unemployment rate, which rose to 4.8% in Q3 from 3.9% prior to the crisis, is likely to continue to rise, potentially exceeding 7% in Q1. High unemployment means that household consumption is likely to remain weak even after the pandemic disappears.

After the pandemic, building a new economy will take time and require more support. Destruction of productive capacity alongside risks of lasting changes to spending habits will likely force a reallocation of the labour force away from the low-wage low productivity sectors that were hardest hit by the pandemic to the creation of new, more productive growth sectors. However, this process will be lengthy and will likely require more monetary and, crucially, more budgetary stimulus. It will necessitate the development of new skills among people that are made redundant and more capital to be invested, while the Covid-19 crisis will have left the private sector highly indebted.

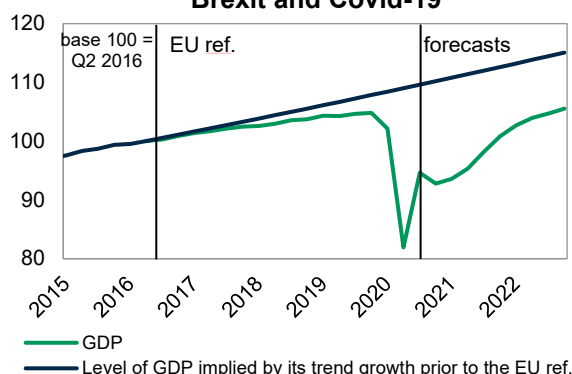
Japan: to remain on a recovery path with heightened pandemic-, event- and political-related opaqueness

After a reactionary jump of 21.4% QoQ SAAR in Q3, **Japan's real GDP is likely to grow but at a slower pace in Q420 and Q121**. This slowing will be mainly driven by private consumption and exports.

Slowing consumption is partially due to the temporary lifting of subsidies the government offers for domestic tourism and eating out as part of the lockdown measures against the current third wave of Covid-19. To compensate for the lifting of these subsidies, the government will extend the applicable period of such subsidies until June. Exports, on the other hand, will continue to be supported by exports to China while exports to the US and the EU are forced to slow down.

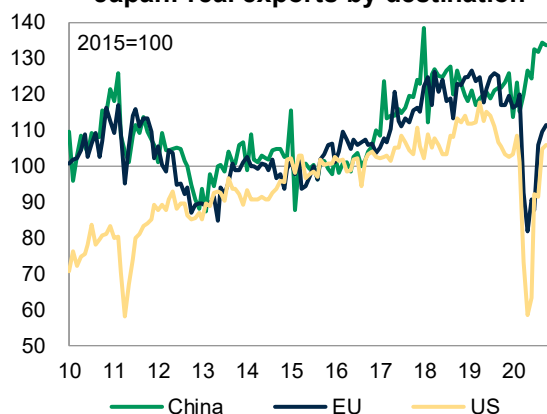
Toward the second half of 2021, we remain of the view that the Japanese economy will stay on a recovery path, which assumes that Japan will hold the Tokyo Olympic/Paralympic Games as planned in July-September.

UK: There would be a permanent and significant loss of output due to Brexit and Covid-19



Sources: ONS, Crédit Agricole S. A.

Japan: real exports by destination



Source: Crédit Agricole CIB

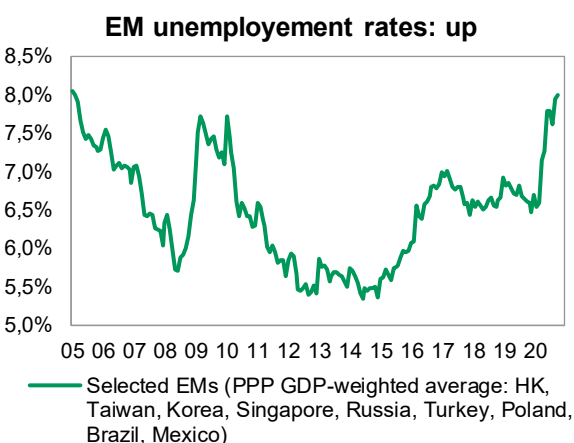
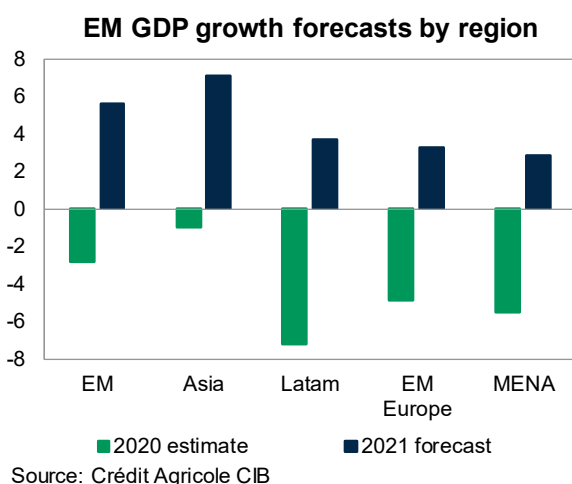
Since former PM Shinzo Abe unexpectedly resigned in September, Japan's new PM Yoshihide Suga has been well supported by the ruling coalition (LDP and Komeito) as well as by the population. Suga is preparing, for his first time, a third supplementary budget for FY20 to submit to the Diet in January – we expect its scale to be JPY15-20trn (2.5-3.5% of GDP). This shows that Japan's policy pillar has been shifting from monetary to fiscal.

That said, **2021 comes with risks including vaccine availability, the feasibility of holding the Olympics and the possibility of Suga dissolving the lower house** before his term as the LDP President (and hence PM) ends in September. We assume that:

- ✓ A vaccine will not be widely distributed in 2021;
- ✓ The Olympics will be held as planned;
- ✓ And Suga will not dissolve the lower house. If things prove otherwise, the first will be positive while the second and the third will be negative.

Emerging countries – The continental drift intensifies

The EM recovery will be more painful in 2021 than what the headline GDP figure will suggest. But the main lasting consequence of this crisis is the widening structural gap between Asia and the rest of EMs.



EM economies will likely recover further in 2021, and the actual growth numbers may look impressive. However, this would largely reflect a base effect from 2020 (a particularly weak Q2 in particular). Beyond the catch-up effect, the underlying recovery will actually be painful and difficult, and the Covid crisis will leave some lasting scars.

EMs relying on their own forces, but also on bold response from the US and Europe

The responses to the crisis have varied across the EM spectrum. Most countries have used fiscal measures and monetary easing, but to various extents. On the budget side, countries such as South Africa and Brazil will likely see their government debt-to-GDP ratio jump by 15-20ppt as a consequence of proactive measures in a context of recession, whereas the average for large EMs will be closer to 10ppt.

On the monetary side, most central banks have lowered rates. Asia has cut less than EMEA and Latam, on average. Some central banks have also implemented non-conventional measures, such as asset purchases. Countries such as the Philippines and Poland have been the most active on that front. However, on average, emerging countries have been much more frugal than developed countries when it comes to asset purchases.

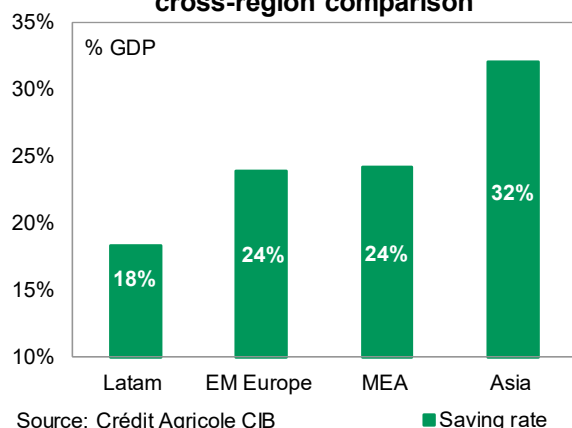
This is actually a key point: EMs have also benefited from the stimulus measures implemented in developed countries, which has supported global demand, risk appetite and global financial conditions. This will remain key in 2021.

EM recovery: more painful than it seems

EM growth will face several main difficulties in 2021. The Covid risk itself may continue to loom over EM growth. Some countries, such as China and Russia, have already kick-started their vaccination campaigns. However, more broadly for EMs, it seems realistic to expect that the vaccine will not be broadly rolled out before H221 – and maybe more Q4 than Q3. This leaves some space for the pandemic to continue putting pressure on economies during the first two or three quarters of the year, should a second, third or fourth wave materialise.

Beyond the risk of Covid itself, second-round effects of the recession have to be considered. Demand and the small- and medium-sized firms sector will feel the hit when proactive budget measures end. Also, unemployment rates have reached levels above post-2009 crisis levels, on average. Moreover, unemployment rates could continue to grow (also depending on how what happens with the pandemic), and this will constrain the recovery in household demand. Corporate balance sheet difficulties and non-performing loans are also set to increase in 2021, with a lag. This should restrain banking systems' ability to support growth. Investment will be negatively impacted. It will also suffer in some countries where strained fiscal flexibility has been reduced further by the deterioration of the government budget balance over the past three quarters (including Brazil, South Africa and India).

**Saving rates in EMs:
cross-region comparison**



On the external side, it is worth noting that exports of goods by EMs, after having collapsed around -25% YoY in value in Q2, have partly recovered and were about flat in Q4. However, exports of services will obviously take much more time to recover, including tourism and travel. The same can be said about remittances. Therefore, those countries where consumption traditionally strongly relies on private transfers will face here an additional obstacle to recover.

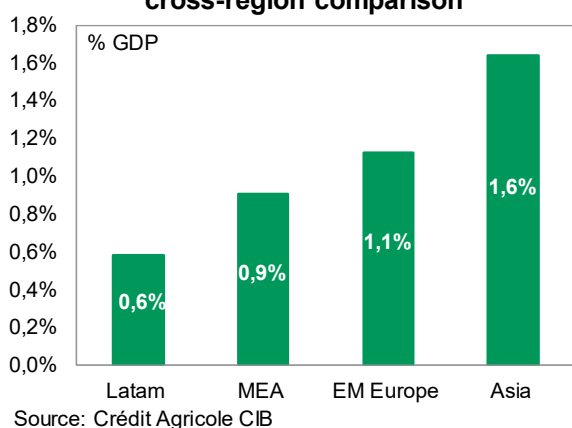
After an estimated -2.8% contraction in 2020, we expect EM GDP growth to rebound to 5.6% in 2021. However, we expect GDP growth to moderate to between 4.0% and 4.5% in 2022. From a regional point of view, Asia will continue to outperform other regions, growing by 7.1% next year (China: 8.0%), followed by Latam, EMEA and MENA (at respectively 3.7%, 3.3% and 2.9%).

Structural changes

Beyond the short-term and economic growth numbers for 2021, the Covid crisis will likely leave more pronounced and lasting marks on EMs. The crisis has shocked the development models and has somewhat widened the structural gaps among them. We see two main axes of differentiation: the leeway enjoyed (or not) by the different countries, and the way they interact with the global economy ('active' vs 'passive' development models).

Some countries enjoy large sovereign or external leeway, which allows them to spend on Covid without getting close to the sovereign cliff, or to lower rates without worrying about a possible loss of confidence from investors or inflation surge. By contrast, other countries already displayed a vulnerable sovereign or external profile before the Covid crisis. For these countries, this year's crisis has further narrowed their margins of flexibility, leaving them in a more vulnerable situation when the dust settles, when at some point investors will refocus on sovereign or external risks. Among the largest EMs, on the sovereign side, Brazil, India and South Africa belong to this group of countries. Their sovereign profiles have deteriorated further, and this may weigh sustainably on the perception investors have of their long-term outlook. On the external side, Turkey stands out, as the country's external position has deteriorated further, with its external liquidity worsening to a point where the central bank had to hike rates strongly despite the Covid shock.

**Spending in R&D in EMs:
cross-region comparison**



The way to interact with the global economy. Somewhat simplifying for the sake of the explanation, one could argue that some countries rely on more 'passive' development models (including commodity rent, tourism, remittances), whereas others rely on more 'active' development models (these countries have been more used to creating value by channelling domestic savings towards investment and innovation, also relying on education to support productivity). Here again there is a wide range of situations among EMs. However, from a regional perspective, Asia stands out as the region that is best positioned, on average, to perform well in a post-Covid world. Indeed, Asian countries benefit, on average (and excluding the Indian sub-continent), from higher saving rates, investment rates, R&D spending and education spending, than the other regions. By contrast, Latin America, which enjoy less leeway on average than the other regions, may be in the least favourable situation.

Asia stands out

In the short term, the global risk-on mood, which may continue to be fuelled by vaccine-related newsflow, could hide these structural shifts. However, over time, once the dust settles, market movements should take them into account. The consequence should be a widening of the gap between Asia (North Asia in particular) and the rest of EMs.

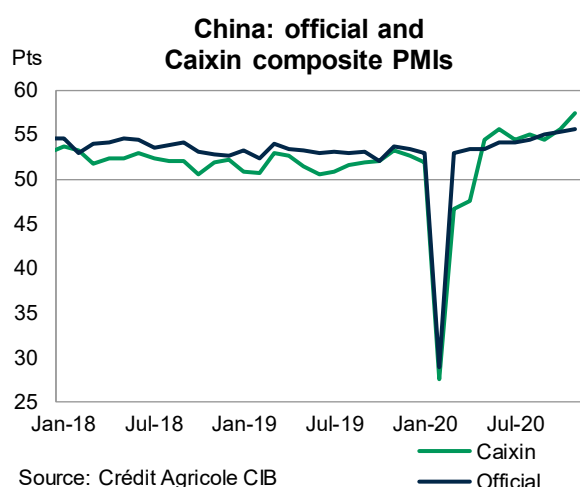
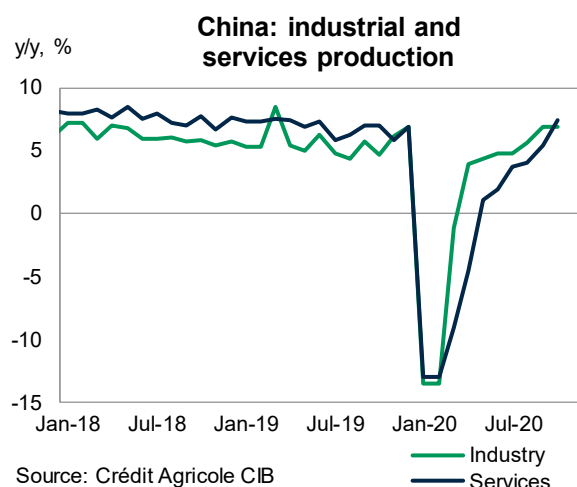
China: full steam ahead

With regards to the recovery from Covid-19 and the revival of economic activity, China has outperformed almost all other significant markets. By now industry as well as services have returned to or exceeded their pre-pandemic growth rates. Demand, while still lagging somewhat, continues to quickly catch up with output. Outlook remains strong, given that policymakers keep rolling out credit stimulus at a rapid and unabating pace and in light of unusually strong and improving business sentiment. While risks related to the pandemic, external conditions and financial leverage remain, prospects appear favourable.

Overall, we believe that in 2020 growth will be clearly positive at 2.6%. This is a bit less than our previous forecast of 3.0%, given somewhat weaker-than-anticipated YTD performance, but still an impressive result. We continue to expect an 8.0% expansion in 2021, and predict 5.1% in 2022, given a very ambitious target set by policy makers to double GDP over the next 15 years. The goal should be doable, while admittedly difficult to achieve, especially given the long-term deterioration of relations with the US, and will require another meaningful increase in economic leverage.

The strong pace of expansion is, unusually, accompanied by declining inflation, with both PPI and RPI inflation already negative and CPI inflation likely to see a half-year spell below zero. This phenomenon reflects the fact that (1) Beijing stimulated growth through investment, adding to overcapacity and focused on reviving output while demand lagged, and (2) several key food and commodity prices are down YoY. As a result, we expect CPI inflation to average only 2.5%, 0.6% and 2.2%, respectively in 2020, 2021 and 2022. Still, after CPI inflation starts rebounding in the middle of next year, we project gradual hikes in key policy rates, by 25bp next year and the year after, to normalise monetary policy settings.

Relatively strong growth is bound to narrow China's current account surplus, from 1.7% of GDP in 2020 to 0.6% of GDP in 2021 and 0.0% of GDP in 2022. Still, until 2021, its existence, combined with a large and increasing interest rate differential – supporting a growing portfolio flow surplus – should lead to the currency's continued appreciation. China Government Bonds, in particular, are likely to attract growing foreign demand, given their nearing inclusion in the WGBI index and the likely increase by the IMF of the CNY's SDR weight next year. As a result, we project further gains of the CNY against the USD, from 6.55 at the end of 2020 to 6.35 in 2021, before tensions with the US weaken it a bit in 2022, to 6.45.



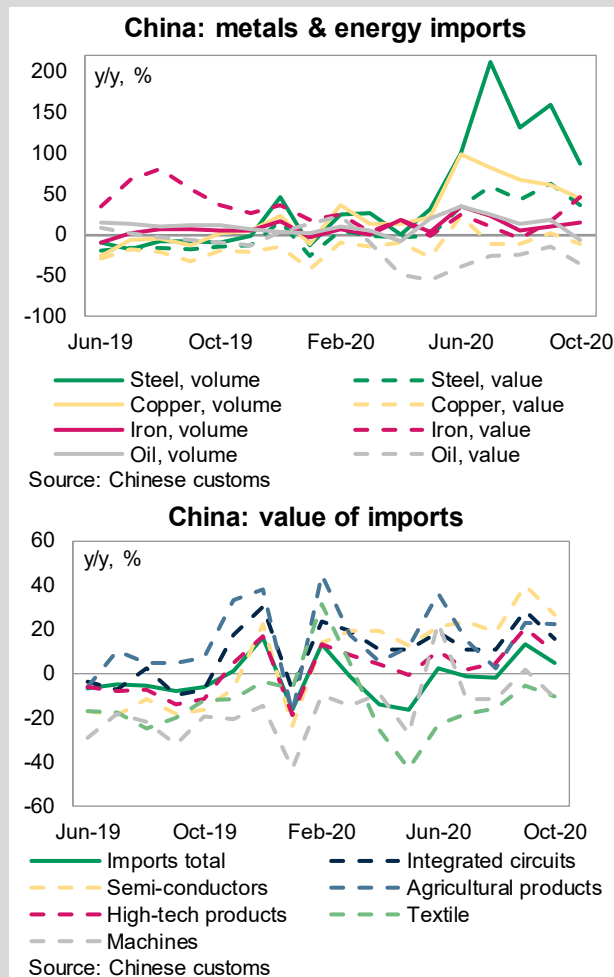
Focus: Will China be the driver of global growth?

The Chinese recovery is a reality that is growing more solid with each monthly data release. Its steady, upward trajectory contrasts with other regions of the world, particularly Europe, where performance is still tracking the cycle of the health crisis. In 2009, the verve of China, then in full catch-up mode (10% growth), supported the growth of all of Asia. Ten years later, the backdrop has changed quite a bit. Firstly, because the coronavirus has plunged the entire world into a much deeper crisis, and in many countries, simply picking up again with foreign trade will not erase the scars of the recession. Secondly, because Chinese growth has slowed, and China has neither the means nor the desire to pull the rest of the world along with it. This, in any case, is the message of its new 'dual-circulation' strategy aimed at limiting its dependence on the outside world, especially in the most strategic areas, eg, new technology and artificial intelligence.

While China is aware of its limits and eager to secure its supplies of mineral, energy, and agricultural commodities, it has just signed the world's largest free-trade agreement (RCEP) with 14 other countries in the region, including major US allies (Australia, South Korea and Japan), representing more than two billion people and 30% of global GDP. The signature of this partnership was able to withstand major current geopolitical tensions, in particular between China and Australia, showing that for now economic considerations still come first for China and that China's partners know they cannot do without it. These two factors give us an overview of what could happen to China's foreign trade in the next few years, including low-added-value imports, primary goods, or resources being unavailable on Chinese soil. In any case, this is what the Chinese authorities want, because this scenario will require considerable investment and an accelerated technology catch-up that will take more time.

In the shorter term, Chinese import data can tell us which countries and sectors are most likely to come out ahead in the next few months. In its present state, China's recovery features stimulus through supply and industrial output, with slower private consumption to resume except, perhaps, in the luxury goods segments that are profiting from closed borders and a 'captive' populace – all in a context of low energy commodity prices and overall price moderation due to sluggish global demand. So, it is not surprising to see a significant increase in imports of commodities used to generate industrial output (steel, copper and iron), whose falling prices mask the import trend, similar to what is happening for oil. Agricultural products are having their own boom, driven by imports of meat – even as the pork crisis finally draws to a close – and grain. As for manufactured goods, electronics – regardless of their added value (from integrated circuits to high-tech) – are posting steady high growth, showing that China's dependence in this area is not an issue yet. For goods more directly related to private consumption and services, excluding high-tech products (textiles and clothing, but also transport equipment), these are still below the recovery trajectory for total imports.

This means that commodity-producing countries (whether agricultural or mining) would still be in the best position to gain from China's recovery, if the price effect were not working against them so much. The other winners in the current situation are the Asian countries (South Korea, Thailand and Vietnam) that make electronic components, as well as European countries producing machines and industrial equipment (Germany). Lastly, although China has yet to fully comply with the trade agreement ('phase one') with the United States, which requires China to increase its US imports by at least USD200bn in 2020 and 2021 so that a portion of the customs tariffs are lifted, Chinese purchases from the US (grain in particular) have increased since last year.



Brazil: low hopes for 2021

The economic rebound gathered pace in the final months of 2020, suggesting the unprecedented fiscal and monetary stimulus injected in the economy is starting to produce results. **Brazil's rebound seems to be one of the strongest in the region.** Nonetheless, uncertainty regarding the dynamics of the pandemic remains high and the risk of a second wave is still alive and well, despite significant progress on vaccination plans around the world. We remain constructive on growth for 2021, but we highlight that the rebound should not be mistaken for fast growth. Once growth trends stabilise from the low levels due to the pandemic, Brazil will still have to deal with weak consumption and subpar private investment.

Brazil's public accounts will remain under market and rating agency scrutiny as the level of public debt is expected to jump to close to 95% of GDP in 2020. The biggest challenge will be for the government to comply with Brazil's public expenditure ceiling rule law while still delivering on the extension of emergency programmes for 2021. The 2021 budget remains a significant source of uncertainty for markets and any attempt by the government to cut corners on complying with targets could be the source of renewed market jitters.

Political tension is likely to remain elevated as both the lower and upper houses of the National Congress of Brazil elect new presidents. The biggest challenge in 2021 will be to revert back to a fiscally sustainable trajectory after the Covid-19 crisis, while also refocusing on the reform agenda. There is a rising risk that the policy orientation could take a less orthodox and more populist course. We expect the BCB to keep rates low for the good part of 2021 as recent pressure on inflation will prove to be transitory and likely compensate for still-wide slack in several sectors of the economy. Brazil's structural challenges should put a cap on Brazilian assets' attractiveness once they fully recover from the deeply undervalued levels seen at the peak of the crisis. That being said, the BRL has room for further appreciation against the USD as it benefits from a favourable backdrop for risk assets.

Russia: watch out for political risks

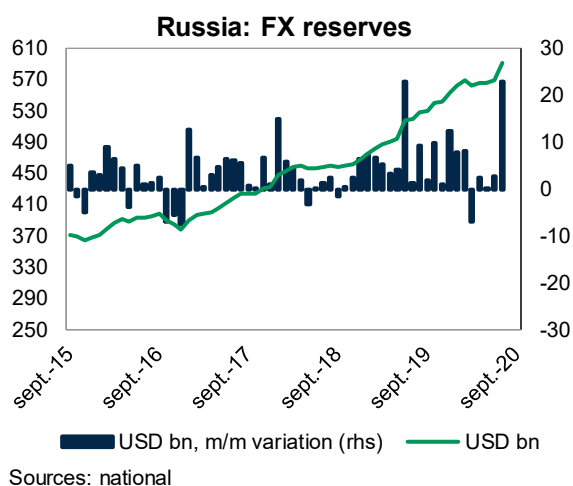
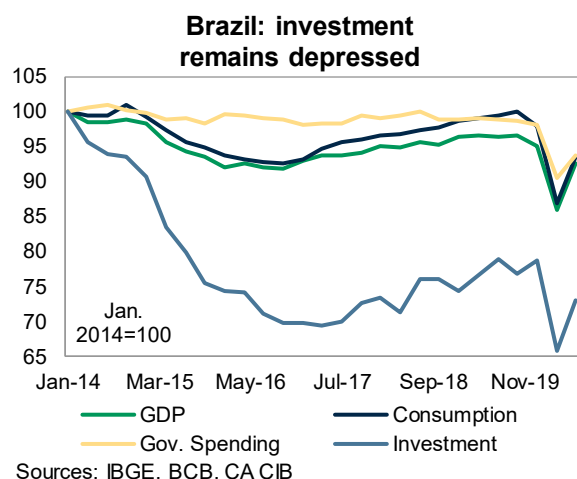
A smaller growth shock than in 2009

The health situation is not good, with a fairly powerful second wave. Still, the authorities are ruling out a second lockdown for the time being. This limited the pandemic's impact on growth in the autumn, curbing both a drop in retail sales (-4.8% YoY over eight months) and the rise in unemployment (6.3%). Household spending is being underpinned by robust consumer credit (+14.7% YoY in October). In terms of exports, Russia's sales have benefitted from the business recovery in China, but everything hinges on energy prices in the next few months.

Still, we know that Russia's fiscal breakeven (energy prices that balance the budget) **is lower than that of most of the Gulf's oil-producing countries,** and that Russia's flexible exchange rate can absorb some of the external shocks. The bottom line is that the Covid shock is having less of an immediate impact (GDP -3.6% over 10 months) than the 2009 crisis, but it will be felt more sharply in the medium term, especially politically and socially.

Fiscal and monetary prudence

Faced with the growth shock, there is still some monetary and fiscal leeway, in contrast with several other countries. The Central



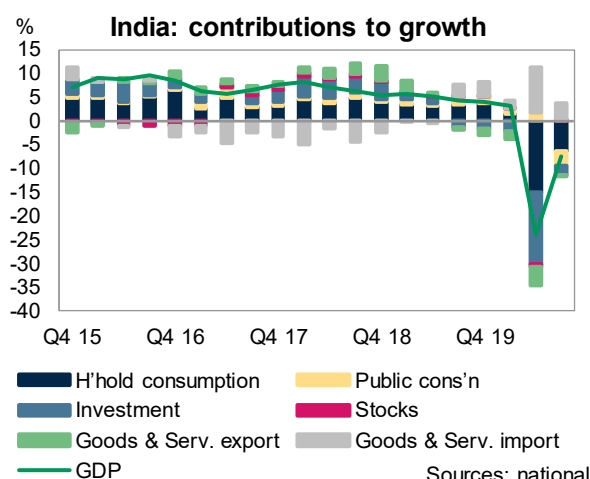
Bank is very cautious, but there could be another rate cut if one is needed to support growth. In fact, an increase in prices is one of the Bank's targets, and inflationary expectations are limited. In fiscal matters, the Russians have also been fairly conservative throughout the crisis. Tax-deferral measures will be abolished quickly, and budget spending cuts are slated to start in 2021, to bring the deficit down to -2.4% in 2021, compared to the -4.4% forecast this year. However, the crisis is also postponing the major public investment programme meant to support medium-term growth.

We find this to be an overestimate in official GDP assumptions that does not account for the structural effects of public investment cuts on potential growth: the investment/GDP ratio will decline again to 18.6% in 2021. This will be one of Russia's main problems in the years to come, and post-Covid activity levels will probably not return until 2023.

Sovereign profile preserved, but there are political risks

In conclusion, for now the sovereign profile has been scarcely affected by the crisis: solvency indicators are low with public debt under control, and liquidity indicators are good with reserves still high. Yet the RUB remains fragile for two reasons: geopolitical risk and uncertainties about oil prices.

The main risks are indisputably political and geopolitical. Externally, there is the impact of sanctions and the gradual destabilisation of the Russian border states (eg, Belarus, Karabakh, Kyrgyzstan). Then there is the obvious problem of internal power fatigue, the underlying question of who will succeed Vladimir Putin and the growing discontent of a middle class for whom Covid is one more shock on top of many (including sanctions in the wake of the Crimean crisis and the 2015 energy crisis). Lastly, the recent US elections could have a significant impact on sanctions, since Democrats have consistently spearheaded such a strategy in recent years.



India: stepping up the recovery to erase the impacts of the crisis as quickly as possible

India has been extremely hard hit by the Covid-19 crisis and will end 2020 in a historic recession that we estimate at 7.7% of GDP. After activity collapsed in Q2, when GDP declined by -23.9%, the recovery began in Q3. Growth continues to contract year on year (-7.5%) but has increased on a quarterly basis (+23.2%). The key now is to support this growth and help it to last, in order to erase the effects of the crisis as quickly as possible.

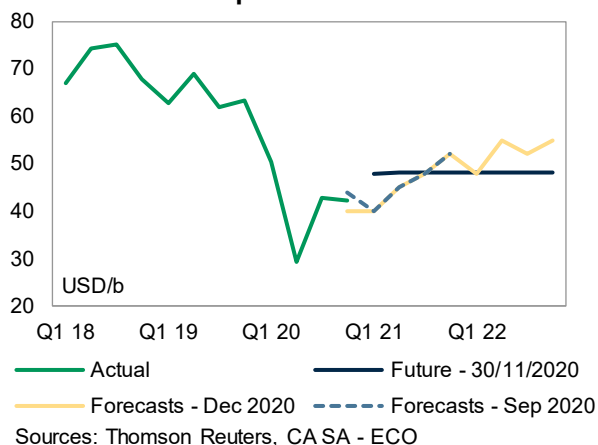
This will be an arduous task because the recession has caused irreversible damage to the economy, particularly to the labour market that was already highly precarious and informal. India is emerging from the crisis with its public finances in an even worse situation (debt is estimated at 90% of GDP and its deficit is above 10% of GDP), not because of increased spending but the collapse in tax revenue. It is adding to an extreme lack of leeway in terms of monetary policy. Unlike most other emerging countries and despite the sharp contraction in domestic demand, India must contend with inflation that is well above target and expected to hit 6.7% in 2020.

Growth is expected to rebound in 2021 to 7.9%, driven by consumption and – unusually for this country which is generally accustomed to trade deficits –external trade. As such, India could continue to benefit from weak oil prices, in addition to becoming the largest manufacturer of coronavirus vaccines that it will export on a massive scale.

Oil – Status quo

Despite the vaccination campaigns that will be starting in 2021, demand for oil products in OECD countries is expected to remain below pre-pandemic levels. Thanks to renewed demand for oil from Asia, global demand is expected to return to its late-2019 levels in mid-2022. Despite the risks of OPEC+ breaking up and a possible new price war, the scenario is still based on OPEC+ managing supply so that American production can remain stable at close to current levels. Those assumptions will let oil prices rise gradually.

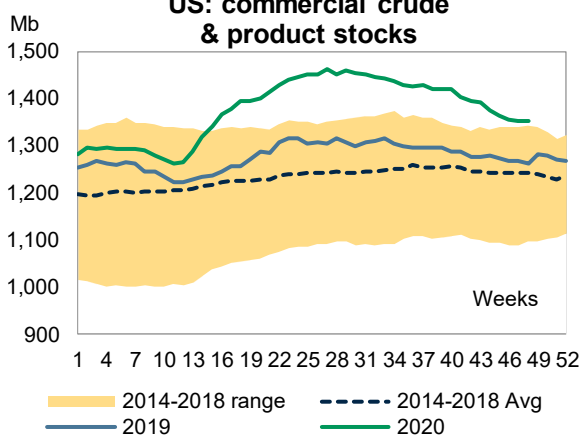
Oil: price forecasts



Despite a drop in inventories, especially in the US, **the oil market remains vulnerable to the economic risks of Covid-19 as well as any geopolitical risks** following a possible shift in US policy in the Middle East. The market's fragility and the lack of clarity on whether consumption will recover when the first vaccines arrive were undoubtedly the focus of OPEC+ discussions at the beginning of December. With a schism between those producers confident of the recovery in demand, and a more circumspect Saudi Arabia, OPEC+ took several days to reach a compromise on new quotas.

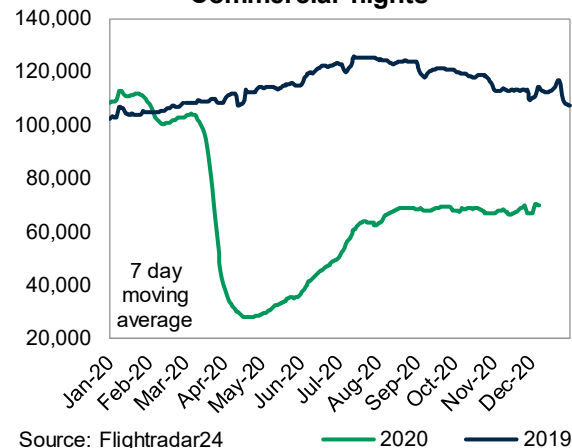
Several indices point to a rebound in oil consumption supported by the recovery in global economy and trade. China's oil demand and its domestic air traffic are back at their end-2019 levels, as is diesel consumption in the United States. Finally, the mass vaccinations supposed to begin in early 2021 are raising high hopes for an end to lockdowns and their impact on oil demand.

US: commercial crude & product stocks

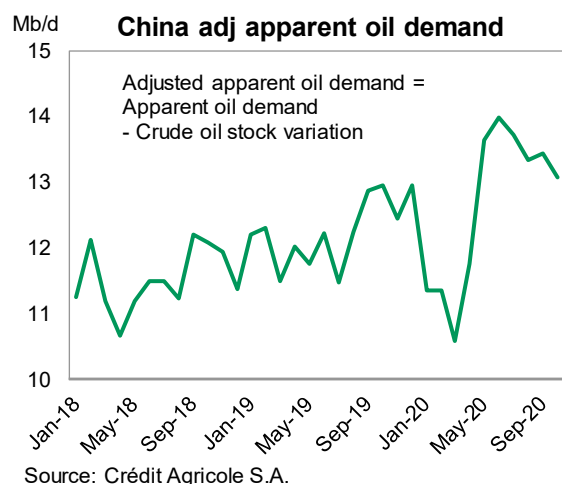


Unfortunately, other indices like petrol and kerosene jet fuel consumption, which are still stuck below pre-pandemic levels, inspire caution. American refineries are far below capacity, and, in this gloomy environment, Shell has just announced the closure of its Convent refinery, one of Louisiana's largest (211k bpd). Half the decline in demand for oil products is due to the sharp drop in passenger air traffic, particularly on international flights, compared to 2019. While many Chinese domestic flights have resumed the same frequency as in 2019, international flights to and from China have scarcely increased since April 2020. It is unclear whether these flights will return to their previous pace before the entire population is vaccinated. In addition, the vaccination campaigns are certainly not expected to stave off a highly likely third wave in many OECD countries in early 2021.

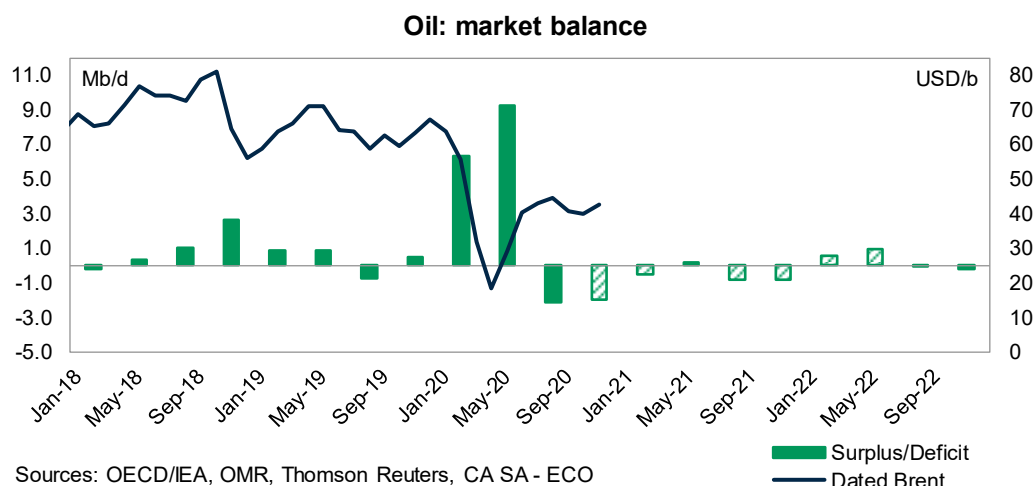
Commercial flights



The OPEC+ production cuts should continue to maintain the oil market's equilibrium. Although OPEC+ has, until now, been honouring its quota reduction commitments, thanks mainly to its most important and influential members, there is some uncertainty as to whether the group is still unified in its agreement. And though they are Saudi Arabia's allies, some producers like Iraq, Russia and even the UAE could be tempted to exceed their output quotas. So will Saudi Arabia decide to throw open the valves, as it has often done before in retaliation or as a warning to producers who fail to follow its orders? Or will it restrain itself, awaiting new US diplomacy in the Middle East? If the US sought to rejoin the Iran nuclear agreement and allow Iranian oil quickly back onto the market, then Saudi Arabia and Russia would very likely increase production to preserve their market shares, at the expense of US prices and producers. Output of US oil, at between USD40-50/bl, has stabilised at about 16m bpd, thanks to resilient production in the Permian Basin in Texas. A further drop in prices below USD40 or USD30/bl would be another shock to even the most solid US producers.



Our scenario is based on the absence of a price war between the major producers, and Iranian production still constrained by US sanctions, despite a few waivers that the future administration might grant certain allies. Besides, we do not believe that President-elect Joe Biden will have a comfortable enough majority in Congress before the mid-term elections in November 2022 to put an end to sanctions against Iran. A price war before 2022 would jeopardise any chance for Democrats to win additional Senate seats in oil-producing US states. OPEC+ production is expected to stay relatively quota-friendly, despite a decline since 2020. Oil demand is expected to return to end-2019 levels starting in mid-2022, driven by Asia. **In 2022, demand for oil from OECD countries is still expected to be lower than in 2019. Our forecast is for oil prices at USD46/bl in 2021 and USD53/bl in 2022.** With these prices, US oil output should remain stable at slightly above 16m bpd.



Monetary policy – Accommodation set to maximum

This crisis has broken the monetary levees. While some sacred cows may yet topple (eg, the assumption of negative rates in the UK), it does appear that the monetary policy easing exercise has come to an end in terms of new tools, and we should count on improvements to existing mechanisms. Although these mechanisms seem to be calibrated for an end to the crisis, they will have to be supplemented by fiscal policy to consolidate the recovery.

Fed is years away from lift-off

Following an aggressive, multi-pronged response early in the crisis that involved slashing rates to the ZLB, announcing open-ended asset purchases and creating a number of lending facilities to support a variety of markets, the Fed has been clear that it will maintain an accommodative stance with rates at the ZLB for an extended period of time. This has been reinforced in recent Fed communications and in the latest dot plot, with the median projection pointing to unchanged rates through at least 2023.

The dovish stance was further strengthened by the adoption of an average inflation targeting framework that will explicitly allow for above-target inflation following periods when inflation has been persistently below 2%, as outlined in new forward guidance adopted in the September statement. In conjunction with an asymmetric approach to the full employment mandate, the results of the framework review further raise the bar for the Fed to hike, resulting in a multi-year period before the Fed is ready for lift-off.

At its December meeting, the Fed made no change to its Quantitative Easing parameters but provided enhanced guidance on asset purchases, indicating that they will continue at USD80bn Treasuries and USD40bn MBS per month “until substantial further progress has been made” towards the Fed’s dual mandate. Chair Powell made clear that the Fed would not specify markers of “substantial further progress,” allowing more flexibility on the asset purchase guidance, and added that the Fed would give warning well before tapering asset purchases.

While being still comfortable with the current stance, the Fed stands ready to act further (more bond purchases and/or a maturity extension) if needed. Given our expectations for a challenging period over the winter, we expect **it will eventually move first by extending the maturity of Treasury purchases**. However, **the Fed could consider strengthening its QE if the fiscal policy is not sufficiently supportive or in case of an unwarranted tightening of the monetary or financial conditions** (higher yields or spreads).

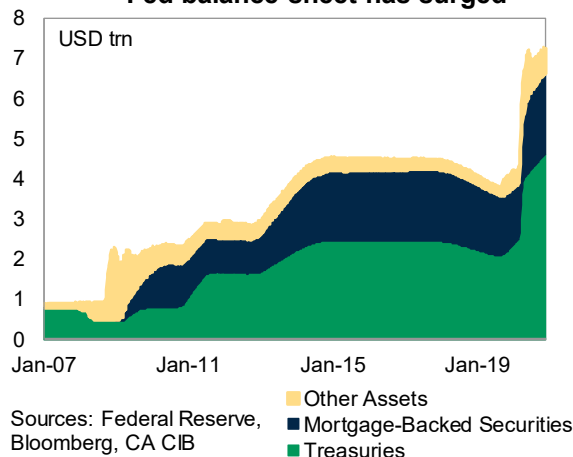
European Central Bank: on the right track in 2021

The ECB’s recalibration of its tools at its December 2020 meeting is expected to structure its monetary policy throughout 2021 and probably beyond.

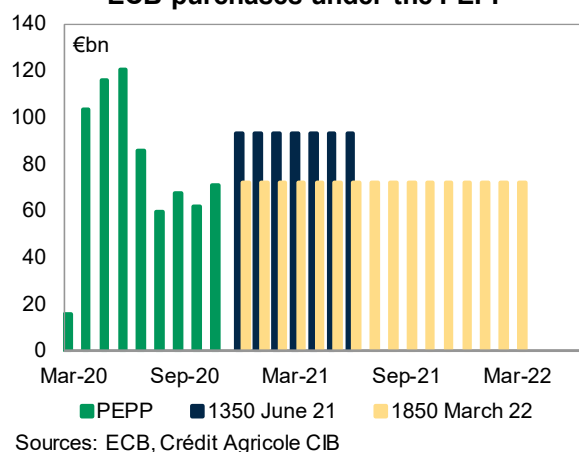
The EUR500bn expansion of the PEPP and its extension to March 2022 gives the ECB sufficient room to maintain extremely favourable financing terms throughout 2021. The ECB will probably have to further extend the programme and increase its budget in the future, but it can wait until end-2021 to provide any further information.

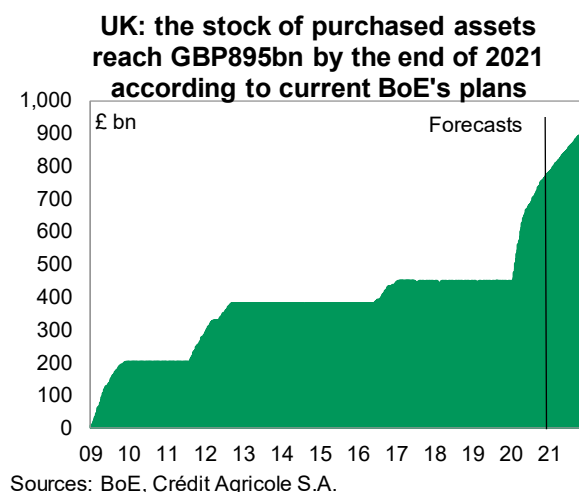
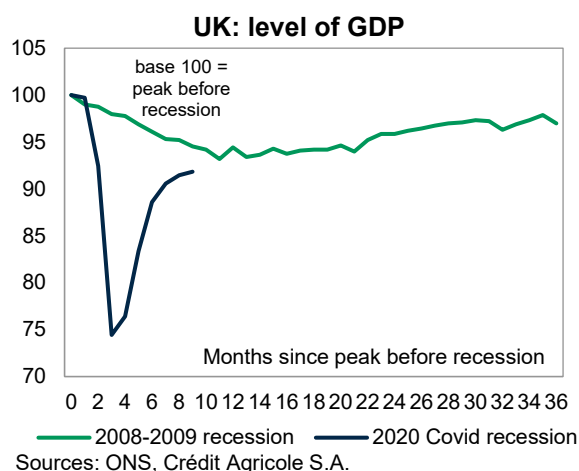
The change to the terms of the TLTRO (extension of the highly favourable rates until June 2022) is expected to encourage banks not

Fed balance sheet has surged



ECB purchases under the PEPP





only to maintain extremely favourable lending terms for the next 18 months, but also to accumulate collateral in order to secure as much liquidity as possible for these transactions.

Following these decisions, **the ECB is not expected to make any further changes to its monetary policy in 2021**. The PEPP's flexibility means that the ECB still has some room for manoeuvre in order to accurately determine what constitutes adequate monetary conditions.

At the same time, it seems increasingly evident that **fiscal policy needs to complement this accommodative monetary policy to promote a quicker recovery and lessen the ECB's burden**.

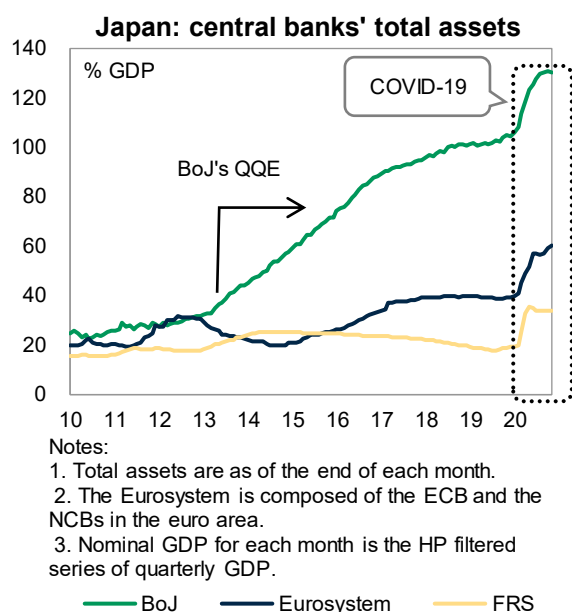
BoE: negative interest rate will be possible next year

More stimulus is more likely to be needed than not. The challenges implied by the Covid-19 crisis and Brexit will continue to necessitate more monetary and budgetary stimulus in the coming quarters in our view. Our scenario does foresee progress on Covid vaccinations by the middle of next year and a reduction in social restrictions, which will pave the way for a more sustained recovery, but in H221. Nevertheless, the worst is still to come in the near term in terms of the pandemic's consequences for the economy, especially the labour market, and in terms of Brexit's impact as the transition period ends on 31 December and regulatory changes become effective.

We expect monetary policy to be loosened again in H121. We expect one rate cut to 0% in Q2 and an increase by GBP50bn of the target of asset purchases. The economic backdrop could be one with (1) an elevated unemployment rate (set to peak at 7.5% in Q2); (2) expiring government support measures (the Coronavirus Job Retention Scheme set to expire as of the end of March); and (3) a continued adjustment of the corporate sector to the post-Brexit arrangements.

Two questions make the decision a difficult one: the inflation outlook and the choice of the appropriate monetary policy tool. The BoE (and we) expect a sharp rebound in CPI inflation next year (it is actually expected to return back to the 2% target by the end of 2021), as the temporary factors which weighed on inflation in 2020 dissipate. Energy prices will rise as demand recovers, and the 20% VAT rate in the hospitality sector will be restored in Q2. Meanwhile, the medium-term equilibrium rate of unemployment will likely increase due to the skills mismatch of the labour force that has been made redundant, meaning that the downside pressure on prices would likely be more modest than implied by the official unemployment figures. While this configuration will increase the divergence of views within the BoE, a majority of members will likely judge that, given the high level of unemployment, more monetary policy would be needed to ensure that inflation is maintained close to target in the medium term.

Questions around QE headroom and state contingency for the effectiveness of asset purchases have made the case for a cut in the BoE's rate, when/if more stimulus is needed. Negative interest rates are now a part of the BoE's toolbox. However, the BoE has so far decided that the appropriate time for them has not yet come, and any such decision is likely to take months given ongoing consultations with the banking sector. QE has become the marginal tool. In November, the BoE expanded its asset purchase target by an additional GBP150bn, on top of the GBP300bn announced earlier this year, taking the total stock of government bond purchases to GBP875bn. Alongside purchases of corporate bonds, assets held by the BoE are due to reach



Sources: BoJ, ECB, Fed, CA CIB

GBP895bn by end-2021. On current plans and based on the November OBR forecasts for the nominal value of outstanding conventional gilts, the BoE is likely to hold close to 60% of the conventional gilts in free float by early 2022, against its self-imposed limit of 70% of the free float. Besides the headroom issue, the BoE's Monetary Policy Committee (MPC) members have become more vocal (BoE Governor Andrew Bailey and MPC member Michael Saunders) about the state contingency for the various transmission channels for the asset purchases. Saunders argues that currently another expansion of asset purchases is unlikely to be efficient "unless accompanied by a cut in Bank rate (or guidance that such a cut is likely)".

BoJ: to leave YCC and asset purchases intact with a fiscal shift in the policy pillar

While the previous PM Abe often talked about the 2% CPI inflation target, we have almost never heard PM Suga mention it since he took office in September. This makes us believe that, unlike the previous government, little noise, if any, will reach the BoJ from the government under Suga's premiership.

The BoJ has been expanding its balance sheet rapidly this year throughout the Covid-19 pandemic by increasing the purchases of short-term JGBs to avoid a flattening of the JGB curve and a surge in Covid-19-related loan/credit measures.

That said, we remain of the view that the BoJ will leave intact both YCC and asset purchases of equity-linked ETFs and J-REITs. **We will maintain this view even if USD/JPY falls to or below 100**, unless it stays there for long enough to convince the BoJ that it does have a deflationary impact on the economy.

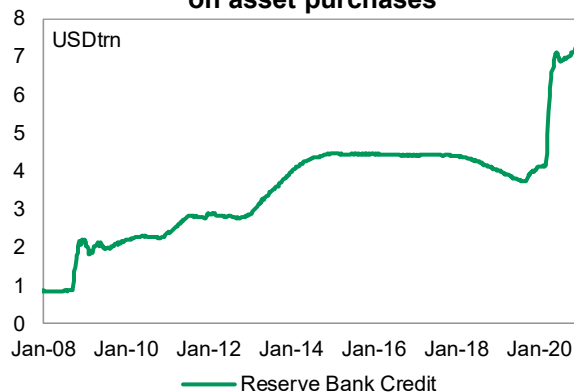
On the back of this view is **the growing awareness, in our opinion, on the BoJ board that a rate cut under YCC might well come with more negative side effects and fewer positive effects**. In this regard, we can note one action the BoJ took in November, which was to apply a positive – rather than a negative – rate of 0.1% to excess reserves of regional financial institutions that satisfy two conditions: (1) a commitment to the development of regional economies; and (2) the strengthening of business foundations, either by businesses themselves or through mergers, acquisitions or business integrations. These measures were introduced not as monetary policy but as prudence policy, but we believe this implies that the BoJ is now aware that negative rates have been among the factors to have dampened financial institutions' business foundations, thereby narrowing policy transmission channels.

Under these circumstances, **the issue the BoJ faces in 2021 is how to enhance the sustainability and flexibility of monetary policy, especially YCC. With the fiscal shift in Japan's policy pillar, the role the BoJ is expected to play is a built-in stabiliser of long-term rates through YCC, while fiscal policy plays a more direct role in shrinking the output gap.**

Interest rates – In a bubble

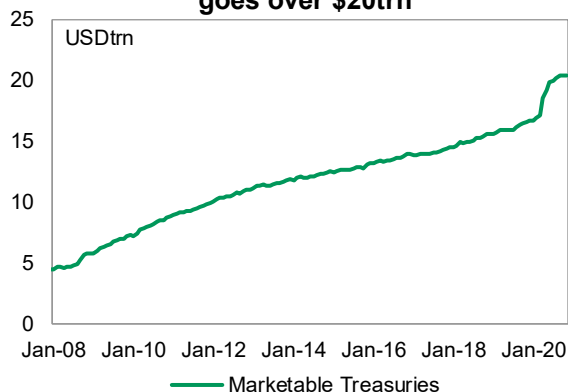
A slow, probably chaotic recovery, multiple uncertainties, and monetary policy easing: this kind of environment is good for maintaining extremely low rates. Good news will have to materialise on both the health and the economic front for any recovery to take shape; but even then, it will be limited by the absence of inflation and the capacity surplus.

Fed balance sheet explodes on asset purchases



Sources: Bloomberg, CA CIB

Marketable Treasury debt goes over \$20trn



Sources: Bloomberg, CA CIB

US: rates face limited upside

We expect rates to grind modestly higher in 2021. While vaccine news has a positive impact on growth, rates are unlikely to rise significantly higher next year, especially in Q1, due to surging virus cases and the next stimulus bill being in limbo. Although the latest USD908bn bipartisan stimulus plan has gained support from Democratic leadership, the timing of its passage remains far from certain.

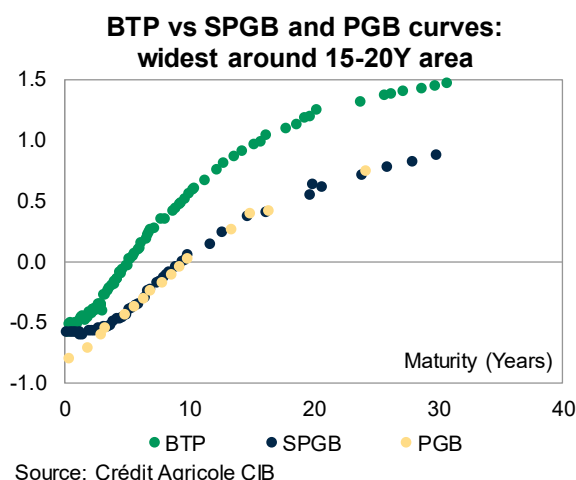
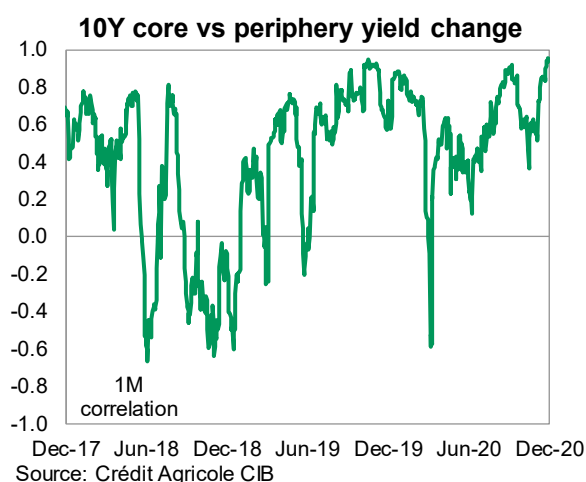
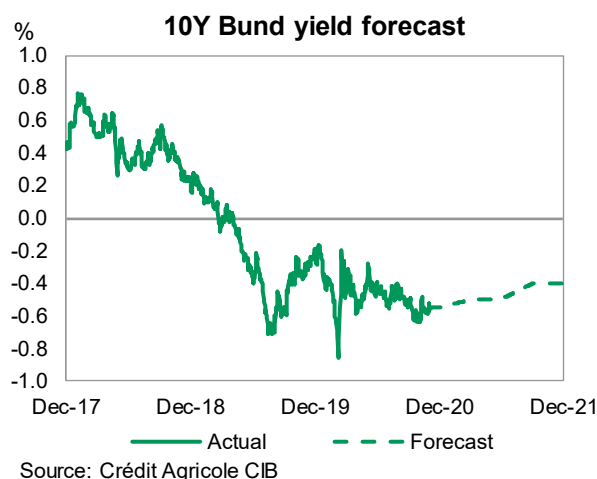
On growth, we forecast GDP to slow down drastically to 0.7% in Q121 from 3.0% in Q420, with rising virus cases stalling economic activity, weak consumption, and vaccines not yet widely distributed. Rates will likely stay in a range in the near term, with a bearish steepening bias on any positive stimulus and vaccine headlines.

We expect the rise in long rates to outpace the front end, as the Fed stays on hold at least through year-end 2023, based on the infamous dot plot. We have 1.25% as the 10Y target for year-end 2021.

We expect the Fed to remain dovish in the foreseeable future. The Fed will likely provide enhanced guidance on asset purchases soon, although officials may not be ready to make changes to asset purchases yet, eg, extend durations or increase sizes.

While Fed officials are cognizant that extending the duration of asset purchases is a tool that lowers long-end rates, how much positive impact it would have on the economy remains to be seen as rates are already low by historical standards. The higher the long rates and the steeper the yield curve, the more likely the Fed will step in to extend the duration of purchases, in our view.

Treasury supply next year will be driven by the federal government's ongoing response to the virus and tax receipts, including potential new legislation. We believe the lion's share of the issuance increase already took place in 2020. The Treasury will probably taper or halt nominal coupon increases in early 2021, while increasing TIPS issuance modestly across all tenors. We expect gross coupon issuance to total about USD4.6trn in 2021.



Eurozone: rising yields in the slow lane

Greater transparency and higher yield, but minimal inflation: The longevity of the pandemic has resulted in a lack of economic visibility, which has kept EUR interest rates broadly depressed. However, hopes have risen significantly in recent weeks that effective vaccines are in the pipeline, but this potentially good news has not been enough to substantially lift core Eurozone government bond (EGB) yields. This could be attributed to the uncertainty over the strength of a recovery given the unprecedented damage the outbreak of the virus has had on the Eurozone economy.

At the very least the roll-out of vaccines over the coming months, coupled with an effective test-and-trace system, should provide some visibility on the timing of a sustained recovery. Once the containment of the virus seems clear, this should translate into higher core EGB yields. However, moves to the upside are likely to be very slow due to (1) the ongoing absence of inflationary pressures; and (2) favourable supply/demand flows, especially when taking into account ECB asset purchases next year. Hence, we forecast the 10Y Bund yield to rise modestly to around -40bp by end-2021.

ECB purchases to offset net supply: In 2021, the eleven biggest issuers' gross EGB supply is likely to be lower than this year's, but issuance per month will still be close to EUR100bn. This is historically large when compared to pre-pandemic volumes, such as an average of around EUR70bn per month in 2019. When taking into account redemptions, net EGB supply should remain elevated at around EUR500bn in 2021, but we expect this to be fully absorbed by ECB asset purchases that could be in the range of EUR650-700bn in total next year.

EGB market solidarity to remain intact: Support from the ECB's huge liquidity measures (including the size and flexibility of the PEPP) and the EU Recovery Fund (ERF) agreement have resulted in a reduced level of market volatility and tightening of EGB spreads. Moreover, there is a sense of solidarity in the EGB market between core and periphery issuers, as the one-month correlation of daily 10Y yield changes is as high as it has been since the outbreak of the pandemic. The commitment for policy support to continue next year and also in 2022, especially the fiscal transfers between EUR sovereigns through the ERF, should help maintain EGB market solidarity.

Hunting for yields: Notwithstanding some bouts of risk sentiment moves during the coming quarters, the magnitude of policy support along with greater economic transparency should be the main theme driving EGBs next year. The low-yield environment should result in investors looking for yield enhancement by increasing duration and credit exposure.

We see value in extending the duration in the 15-30Y region of curves, such as in France, Italy and Spain. Moreover, the threat of a credit downgrade has diminished due to policy measures. This should be beneficial to Italian bonds, which still enjoy sizeable yield pick-ups compared to their nearest EGB peers, especially at the long-end of the curve. Hence, we see potential for the 10Y BTP-Bund spread tightening to around 100bp by end-2021.

Exchange rates – Slight pressure on the dollar

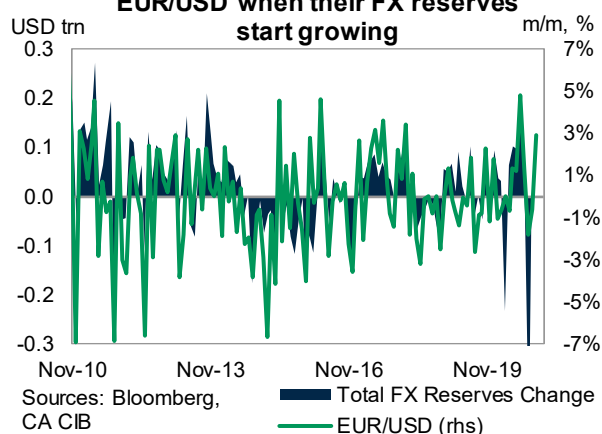
In line with a recovery scenario – albeit a timid and probably chaotic one – the USD, that unbeatable counter-cyclical, could depreciate, to the benefit of pro-cyclical currencies like the EUR or carried by risk appetite. However, any USD depreciation would be kept in check by the likely resurgence of Chinese-American tensions weighing especially heavy on Asian currencies.

The USD TWI tended to suffer during periods of recovering global trade



Sources: Bloomberg, CA CIB

Global central banks tend to buy EUR/USD when their FX reserves start growing



Sources: Bloomberg, CA CIB

2021 FX outlook: buy the cyclical recovery, sell the USD

The USD remains the ultimate countercyclical currency and should remain under pressure as the global economy and the global trade recover in 2021 and corporates and central banks sell the USD and buy pro-cyclical currencies like the EUR. The Biden presidency and a divided US Congress could further translate into a less assertive trade protectionism abroad as well as less aggressive fiscal stimulus at home. In turn, this should continue to weigh on the USD vs risk-correlated and pro-cyclical currencies. A potential 'blue wave' in the wake of the Senate run-off elections in January could steepen the UST yield curve and boost the USD vs the JPY and the CHF. Furthermore, downside risks to the US growth outlook (in part because of insufficient fiscal stimulus) and a dovish Fed policy stance could result in lower USD-hedging costs and depress US real rates and yields. These combined with lingering concerns about the widening US twin deficits and FX overvaluation could encourage diversification out of the USD in 2021.

The EUR could emerge as one of the biggest beneficiaries from the downtrend in the USD over the medium-to-long term. The EU recovery fund should strengthen fiscal solidarity and attract inflows into the undervalued EUR and thus more than outweigh the impact of still-subdued Eurozone growth and inflation outlook on the single currency. In addition, a continuing global trade recovery could fuel EUR buying by exporters. In the near term, more neutral outlook could be warranted given that the post-Covid-19 Eurozone rebound has stalled and could force the ECB to ease in December.

USD/JPY to remain under pressure in the near-term given lingering concerns about the US economic outlook and the dovish Fed policy stance. That said, we doubt that USD/JPY will break sustainably lower given that Japanese investors continue to pile into USTs unhedged. USD/JPY should start recovering in H121 as Japan is expected to be the slowest growing G10 economy and dampen the appeal of the JPY. In addition, a return of US-China tensions in H221 could weigh on the JPY in tandem with the CNH.

Turning to the **GBP**, our central case remains that a 'bare-bones' Free Trade Agreement (FTA) between the UK and the EU will be agreed and that this will support the GBP across the board. We doubt that the Brexit-deal-inspired moves will pave the way for further sustained gains into 2021, however. Indeed, the UK economy remains very weak and while the mass deployment of Covid vaccines in H121 could help the economy emerge from the lockdown measures, progress could be slow. The BoE topped up its QE programme in November, and we believe that that the threat of negative rates could linger in 2021 and thus cap any GBP gains.

In the case of the **CHF**, the Swiss National Bank's dovish policy stance and persistent FX overvaluation point to downside risks over the long term. In the case of **the SEK and the NOK**, we expect continuing appreciation vs the EUR and the USD as Europe emerges from the

Covid-19 recession. In that, the relatively more hawkish Norges Bank policy stance could give the NOK an edge over the SEK.

The AUD and the NZD should continue to appreciate as the global economy and trade improve further and this supports commodity prices in 2021. The relative growth outperformance of the Asian economies should continue for now and the two antipodeans should remain the relative outperformers in G10 FX, in tandem with the rest of Asia FX. **The CAD** could be disadvantaged by a potential rethink of US foreign policy towards Iran as well as its approach towards green energy and environmental protection, after the new president takes office. We remain **bullish on gold**.

Emerging countries: Carry is king (for now)

In the EM economic section of this report, we argue that the Covid crisis is having structural consequences on EMs, and that this may benefit the least vulnerable markets (including Asian markets) in the medium terms. The paradox is: this logic should not fully play out in the short term.

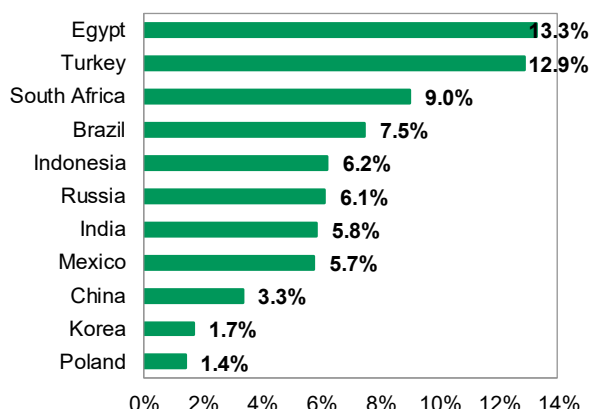
We expect the investment mood to be favourable to risk and to EMs, at least in 1H 2021, fuelled by the vaccine-related news flow, and a particularly accommodative policy mix in the US and Europe. This should favour the carry trades. Even currencies that are vulnerable on the paper could perform relatively well, as they also provide attractive carry. The likes of ZAR, BRL, RUB, IDR, MXN, EGP, which display high government bond yields, could benefit. The fact some of these currencies, such as the BRL or the TRY are significantly below their long term average in terms of real effective exchange rate, also suggest they could benefit from some appreciation leeway (although the TRY's fate will remain highly dependent on the CBRT's fragile credibility).

This story, however, may be more valid for the first half of the year. In the second half (and the precise timing obviously depends of the vaccine-related development and the pace at which it is digested by the market) may see a gradual rotation from the carry trade logic to a story telling that may be more related to the structural gap between EMs, and that may be more favourable to Asia in relative terms.

We also expect FX volatility to continue to decrease into 2021. And this may be the case for Asia in particular, as Asian central banks seem increasingly adverse to excess FX appreciation, and ready to intervene further on FX markets. Incidentally, lower Asian FX volatility would also boost Asia's attractiveness in terms of vol-adjusted carry.

That being said, one of the main risks to this rotation has to do with possible developments when it comes to the US-China relationship. Our base-case scenario assumes that, even if the US-China rivalry will remain strong, the style of the Biden administration will be more fluid and tilted towards negotiations and multilateralism. However, the failure of China to meet its import obligations under the phase-one trade deal could at some point fuel frictions. There could also be volatility points at moments when negotiations become more difficult, likely in H221. Such jitters could cap the CNY and in turn Asian currencies.

10Y government yields (4 Dec.)



Sources: Bloomberg, CA CIB

Economic and financial forecasts

Interest rate

		15-Dec	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
USA	Fed funds	0,25	0,25	0,25	0,25	0,25	0,25	0,25	0,25	0,25	0,25
	10Y	0,91	0,90	1,00	1,05	1,15	1,25	1,30	1,35	1,40	1,45
Eurozone	Deposit	-0,50	-0,50	-0,50	-0,50	-0,50	-0,50	-0,50	-0,50	-0,50	-0,50
	10Y (Germany)	-0,62	-0,55	-0,50	-0,50	-0,40	-0,40	-0,35	-0,35	-0,30	-0,30
10Y Spread vs. EUR	France	0,24	0,25	0,20	0,20	0,20	0,20	0,35	0,25	0,25	0,30
	Italy	1,10	1,20	1,15	1,10	1,00	1,00	1,10	1,00	1,00	1,10

Exchange Rate

USD Exchange rate Industrialised countries		15-Dec	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Euro	EUR/USD	1,22	1,19	1,19	1,20	1,21	1,22	1,22	1,23	1,24	1,25
Japan	USD/JPY	103,70	104,00	104,00	104,00	105,00	106,00	106,00	108,00	108,00	108,00
United Kingdom	GBP/USD	1,34	1,33	1,33	1,34	1,35	1,36	1,38	1,39	1,40	1,41
Switzerland	USD/CHF	0,89	0,92	0,92	0,92	0,92	0,92	0,92	0,92	0,92	0,92
Asia											
China	USD/CNY	6,54	6,50	6,40	6,35	6,30	6,35	6,38	6,40	6,43	6,45
Hong Kong	USD/HKD	7,75	7,75	7,75	7,75	7,75	7,75	7,76	7,76	7,76	7,76
India	USD/INR	73,56	73,75	74,00	74,25	74,50	75,00	75,50	76,00	76,50	77,00
South Korea	USD/KRW	1094	1100	1090	1080	1070	1060	1060	1060	1070	1080
Latin America											
Brazil	USD/BRL	5,11	5,15	5,00	4,75	4,85	5,00	5,00	5,00	5,00	5,00
Mexico	USD/MXN	20,18	20,00	19,75	19,50	19,75	20,00	20,25	20,50	20,75	21,00
Emerging Europe											
Poland	USD/PLN	3,65	3,72	3,70	3,66	3,61	3,57	3,55	3,50	3,46	3,42
Russia	USD/RUB	73,60	74,00	72,00	72,00	73,00	75,00	75,00	76,00	77,00	78,00
Turkey	USD/TRY	7,84	7,90	7,70	7,50	7,50	7,80	7,80	8,00	8,10	8,20

Commodities

		15-Dec	2020	2021				2022			
Precious metals			Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gold	USD/oz	1 851	1 940	1 940	1 960	1 980	2 020	2 040	2 080	2 120	2 140

		15-Dec	2020	2021				2021			
Av. quarter price			Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Brent	USD/BBL	51	40	40	45	48	52	48	55	52	55

Economic Forecasts

	GDP (yoy, %)			Consumer prices (yoy, %)			Current account (% of GDP)		
	2020	2021	2022	2020	2021	2022	2020	2021	2022
United States	-3,6	3,1	2,9	1,2	1,9	1,9	-2,6	-2,6	-2,7
Japan	-5,2	2,1	1,8	0,0	0,1	0,6	2,9	3,3	3,6
Eurozone	-7,4	3,8	3,8	0,3	0,8	1,0	2,6	3,3	3,0
Germany	-5,7	2,5	3,4	0,4	1,5	1,4	6,1	6,7	6,6
France	-9,2	5,9	3,6	0,5	0,5	0,8	-2,0	-1,0	-1,0
Italy	-9,2	4,0	3,9	-0,2	0,1	0,5	2,6	3,7	3,7
Spain	-12,0	3,0	5,9	-0,3	0,2	0,7	2,0	1,9	1,8
Netherlands	-4,1	3,1	3,3	1,1	1,2	1,4	9,2	10,3	10,2
Other advanced									
United Kingdom	-11,1	4,5	7,5	0,8	1,3	2,3	-1,2	-1,4	-1,2
Canada	-5,6	4,5	3,4	0,7	1,7	2,0	-2,1	-2,3	-2,0
Australia	-4,2	3,0	2,8	0,7	1,3	1,5	1,8	-0,1	-1,4
Switzerland	-5,3	3,6	2,1	-0,8	0,0	0,3	8,5	9,0	9,6
Asia	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
China	2,6	8,0	5,1	2,5	0,6	2,2	1,7	0,6	0,0
India	-7,7	7,9	7,4	6,7	5,7	4,2	1,7	-0,5	-1,7
South Korea	-0,9	3,4	2,7	0,6	1,0	1,4	4,0	3,8	3,7
Latin America	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Brazil	-4,9	3,3	2,4	3,5	3,2	3,0	-0,1	0,1	-0,6
Mexico	-9,0	3,8	2,1	3,9	3,2	3,2	0,9	0,2	0,3
Emerging Europe	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Russia	-4,0	2,5	2,5	3,3	3,5	3,9	2,0	2,0	2,0
Turkey	0,0	2,0	4,0	11,9	9,0	9,0	-3,0	-2,5	-3,5
Poland	-3,1	3,6	4,9	3,4	2,6	2,2	2,9	2,7	2,3
Africa, Middle East	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Saudi Arabia	-6,0	3,2	3,1	3,4	2,6	2,1	-4,0	-2,5	1,2
United Arab Emirates	-5,5	2,2	3,2	-1,1	1,0	2,1	-0,3	1,1	3,5
Egypt	1,2	2,5	5,0	5,8	7,8	7,1	-4,5	-4,0	-3,8
Morocco	-7,0	3,9	3,2	0,5	1,1	1,5	-7,0	-4,2	-4,1
Total	-2,4	1,4	1,5	0,3	0,5	0,6			
Advanced economies	-5,5	3,3	3,4	0,7	1,3	1,5			
Emerging countries	0,0	0,0	0,0	0,0	0,0	0,0			

Public accounts

	Government balance (% of GDP)			Public debt (% of GDP)		
	2020	2021	2022	2020	2021	2022
United States	-16,0	-9,9	-6,1	98,2	104,5	105,6
Japan	-17,9	-8,4	-4,6	248,5	258,3	263,2
Eurozone	-9,1	-7,0	-4,4	102,4	104,0	102,7
Germany	-6,3	-6,9	-2,3	71,0	72,7	71,5
France	-11,3	-7,8	-6,2	119,8	121,2	121,1
Italy	-11,0	-7,8	-4,7	156,9	158,7	155,6
Spain	-11,3	-7,7	-7,0	118,1	121,6	120,4
Netherlands	-7,2	-5,5	-3,9	59,1	61,1	60,0
Belgium	-11,2	-7,1	-6,3	117,7	117,8	118,6
Greece	-6,4	-2,1	1,4	206,1	196,7	182,9
Ireland	-6,8	-3,9	-4,1	59,9	58,5	58,6
Portugal	-7,3	-3,6	-3,1	134,4	131,6	128,7
United Kingdom	-18,8	-8,5	-4,1	108,0	113,7	109,3

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