Prospects

Quarterly – No. 20/122 – April 13, 2021

WORLD – Macroeconomic Scenario for 2021-2022

A (very) disorderly exit from the crisis

While the United States prepares to take a generous lead, the Eurozone, where each country seems to be heading down its own path to recovery, is lagging behind, and fragmentation continues in emerging markets. The Fed looks on serenely as long-term interest rates rise, but the ECB seems more concerned. Once the inflationary push dissipates, accommodating monetary policy does leave room for a less 'disordered' and more gradual increase in long-term rates, regardless of any 'reflation trade'.

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While the United States prepares to take a generous lead, the Eurozone, where each country is headed down its own path to recovery, lags behind. The path of the pandemic, progress of vaccination programmes, and the scale of government support for activity continue to drive growth forecasts.

Boosted by the adoption of a massive recovery package and progress on vaccinations, US growth could reach 5.1% in 2021 and 3.8% in 2022. If households spend a more substantial portion than expected of their forced savings, consumption and growth could exceed our projections which, moreover, do not include the impact of the Biden administration's infrastructure investment plan, which could boost the growth outlook, albeit not until 2022. Our Eurozone scenario, based on a downward revision in the first half of the year caused by the pandemic's damage, followed by a rebound in the summer, assumes more modest growth (4%) for 2021 as well as 2022 (4.1%). The growth differential between the Eurozone and the other major advanced economies is widening, and intrazone fragmentation persists. France and Germany should return to pre-crisis GDP by mid-2022; Italy and Spain are likely to still fall short at the end of 2022.

However, if there is any clear line of demarcation, it is the one separating the developed countries from the emerging world, in which the fragmentation trend is asserting itself. Thanks to unprecedented measures taken by the authorities, the IMF[1] estimates that the aftermath of the recession brought about by the Covid-19 crisis should be less severe in the advanced economies than in the wake of the 2008 global financial crisis. These repercussions are not fully visible as they remain heavily obscured by the support plans. The IMF, on the other hand, is predicting that the harder-hit emerging countries are likely to suffer greater losses in the medium term. On top of structural weaknesses (including reduced – and now largely exhausted – leeway) lie external constraints which, from the trend in US interest rates to the uncertainties on resumed tourist flows, are continually highlighting this peculiar fragility, and may work against the recovery.

Inflation "is a concern": in fact, it is rising due to the combination of a base effect and increasing oil prices. However, this has more to do with an undeniably strong but temporary push than with some lead-up to a powerful and lasting comeback. It is missing the key ingredient of powerful wage acceleration, to which the backdrop is still not conducive.

While calling for prudence given so much uncertainty, the trend in the output gap[2] indicates how fast surplus capacity is being absorbed. Many large Western economies took nearly nine years to fill the sinkhole of excess supply dating back to the end of the financial crisis in 2009. Not until 2019 did the major countries, Italy aside, post neutral (France and the United Kingdom) or positive (Germany and the United States) output gaps. According to the IMF, at the end of 2022, only the US will be trending above its potential, but its unemployment rate will still exceed pre-crisis levels (4.2% vs. 3.7%). In addition, during the lengthy post-2008 recovery, even in countries that had managed to enjoy a substantial drop (lagging behind the business improvement) in unemployment (in 2019 unemployment was 3.2% in Germany, 3.8% in the UK, and 3.7% in the US), inflation never soared (ranging from 1.5-2.1%). Lastly, while annual growth in unit labour costs rose at the end of the period (as much as 2.3% and 2.1% in the UK and US, respectively, in 2019), this isolated 'runaway' coincided with the end of the very strong growth cycle. In the OECD, the rise in unit wage costs stood at an annual average of 1.2% between 2010 and 2018, culminating at 2.4% before the shock of 2020.

Obviously, this is a backward-looking and incomplete overview, but it does illustrate the "flattening of the Phillips curve", behind which structural factors lurk justifying the slightest push that wages can get from a decline in the unemployment rate, including globalisation, automation, the rise of the service economy, 'uberisation', and the erosion of employees' negotiating power. This cropped picture means that we can count on consumer prices softening once the temporary push is over. **However, this does not dispel the risk of an "impression of returning inflation", which itself will continue to fuel the theme of reflation.**

Fuelled by the scale of the fiscal stimulus plans, the prospects for sustained growth in the United States, fears of supply saturation due to Covid-19, and the idea of a new upward cycle in commodity prices, the theme of reflation has significantly increased US long-term interest rates. Unmoved by this rebound that is seen as a sign of confidence, **the Federal Reserve is maintaining its accommodating stance, and has said it will stay there for an extended period despite the improved economic outlook and future inflation peaks**.

Deaf even to the Fed's very accommodating tone, US long-term yields continued their comeback, dragging European (and other) yields in their wake. More concerned by an untimely tightening of financial conditions, **the ECB doubled down on its quantitative easing, and could find itself forced to "do more": more communication, more support**. Once the inflationary push dies out, **monetary easing promises a less "disordered" and more gradual rise in long-term interest rates** (our outlook includes US and German sovereign rates at 1.75% and -0.20%, respectively, in late 2021), regardless of any reflation trade. Finally, boosted by US performance, with the forecast of a strong recovery pushing bond yields upward, **the USD is attractive. Beyond its obvious but temporary advantage, it should return to its long-term downtrend**, though this could be interrupted by a possible escalation in trade tensions between the US and China.

[1] World Economic Outlook, April 2021

[2] Output gap expressed as a % of potential GDP (IMF, *World Economic Outlook Database*, April 2021).

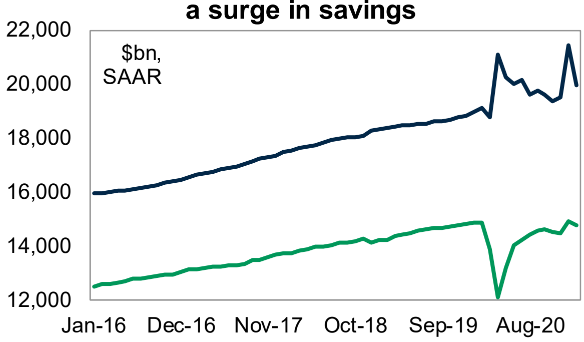
Developed countries – (Very) disorderly

While the United States prepares to take a generous lead, the Eurozone, where each country seems to be heading down its own path to recovery, is lagging behind. Inflation "is a concern": in fact, it is rising. However, this has more to do with a strong but temporary push than with some lead-up to a powerful and lasting comeback.

US: stimulus and vaccinations provide a jolt to growth

With an additional USD1.9trn in stimulus having been passed in March and solid progress on vaccinations so far this year, we expect very strong growth in the US, particularly in the middle of the year, with GDP topping its pre-crisis level by Q321. After a record-setting surge of 33.1% in Q320, growth slowed to 4.3% in Q420 and we expect a similar pace in Q121 before an acceleration in Q2 and Q3 with a peak of almost 7% QoQ SAAR in Q3 as the boost from stimulus hits and progress on vaccinations allows for a further lifting of restrictions. Following Q3, we expect a gradual deceleration towards trend through the end of 2022 that leaves annual growth at 5.1% for 2021 and 3.8% for 2022.

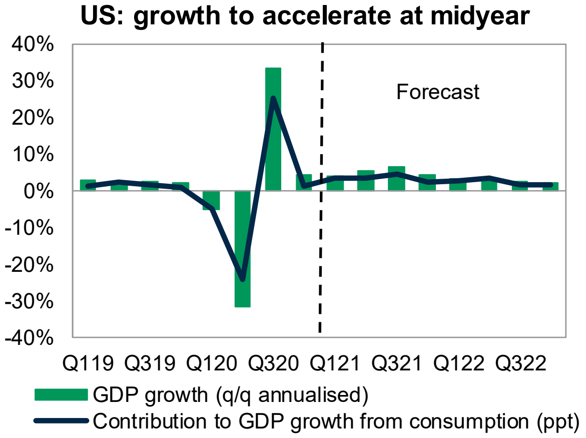
US: stimulus has driven a surge in savings



Sources: BEA, Bloomberg, CA CIB

While growth should be strong overall for the year, the quarterly pattern will likely depend on the course of the virus and vaccinations. With vaccination progress varying by state and different states taking differing stances in terms of the aggressiveness of their re-opening timelines, we currently expect a staggered process, with a number of states lifting a significant portion of their restrictions in Q2 but others moving more cautiously and only re-opening more notably by Q3. This results in growth peaking in Q3, though if the rate of vaccinations in parts of the country were to improve, allowing for restrictions to be lifted earlier, we would not be surprised to see a stronger Q2, with growth decelerating beginning in Q3.

US: growth to accelerate at midyear



Sources: BEA, Bloomberg, CACIB

The main driver of the upgrade to our forecast from last quarter is the latest USD1.9trn relief bill, which adds to the already historic amount of fiscal stimulus that has been passed over the last year. This should provide significant support to the recovery through a number of channels, including aid to consumers (in the form of additional direct payments combined with enhanced unemployment insurance), state & local governments, and small businesses, along with support for the virus response.

The key question will centre on how much of the aid to consumers flows into spending compared to savings or paying down debt. The earlier stimulus packages have led to a surge in the savings rate which will only be augmented by the recent package, creating a significant pile of accumulated savings, with some estimates putting the amount at nearly USD2trn. An NBER analysis of the first round of stimulus cheques found that the average recipient spent just 40% of the total amount, though if individuals end up dipping into the accumulated savings to a greater extent as the economy re-opens more fully, consumption could be even stronger than we expect, creating a notable upside risk to our forecast.

After a strong early portion of the recovery, we look for investment growth to remain solid and confidence to remain high. While uncertainties around the virus still exist, businesses have been confident in the outlook, with the manufacturing ISM topping 60 and the services ISM hitting levels in the high 60s as well, and we expect the further re-opening as vaccinations progress to provide support in the coming quarters. While housing has shown some signs of levelling off after the initial surge, the sector remains strong and we look for residential investment to show continued strength as well.

With the US economy expected to perform better than many peers in 2021 given stronger stimulus and faster progress on vaccinations, imports are likely to recover faster than exports, in our view. This will result in net exports providing a drag on growth this year, though the impact will be easily outweighed by strong performance in other components.

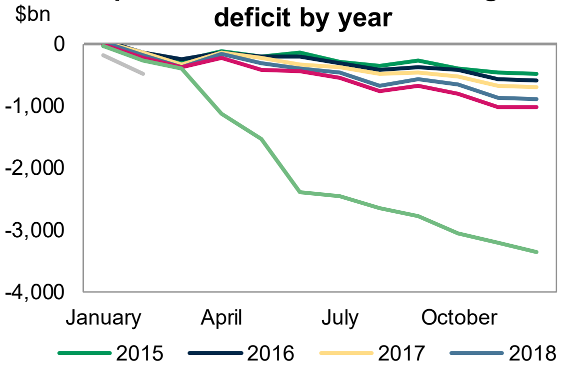
Though we expect growth to recover to the pre-pandemic level by around midyear, a full labour market recovery will take longer, in our view. We expect payroll gains to accelerate over the next couple of quarters as the economy re-opens, but there are still nearly 10m fewer jobs compared to the pre-crisis level so there is a long way to go. As more jobs return, we expect to see a recovery in labour force participation, which has dipped from pre-pandemic levels. This should slow the improvement in the headline unemployment rate, though a recovery in participation is a positive for the outlook.

The Fed will continue to offer support to the economy and financial markets by maintaining an accommodative stance. That said, with rates still relatively low despite the recent increase, we believe Fed actions will have a limited impact in providing further impetus to the real economy on top of what it already has, and fiscal policy will play a larger role.

A wild card going forward will be progress on infrastructure or any other long-term economic plans proposed by President Joe Biden's administration, with early estimates for the infrastructure portion running above USD2trn. However, these proposals are in the early stages and given the amount of uncertainty, are not incorporated in our current forecasts. While the size is significant, there is no guarantee that the final amount will come in at that level, spending may be spread out over a number of years, and it would likely be funded at least in part by tax increases which could offset some of the growth impetus.

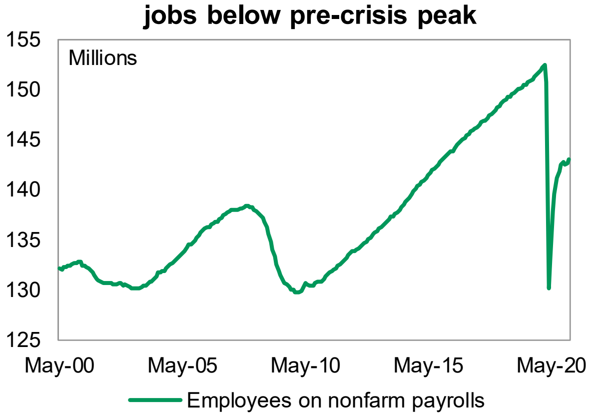
Additionally, with Republicans likely to be staunchly opposed to the package as is, the reconciliation process may be necessary, which would not be possible until the next fiscal year beginning in October. Given this, we expect the impact of any eventual proposal would be more of a 2022 story and we will wait for more clarity before incorporating any impact into our outlook.

US Fiscal stimulus has been unprecedented: cumulative budget deficit by year



Sources: Treasury Dpt, Bloomberg, CA CIB

US: payrolls remain almost 10m jobs below pre-crisis peak

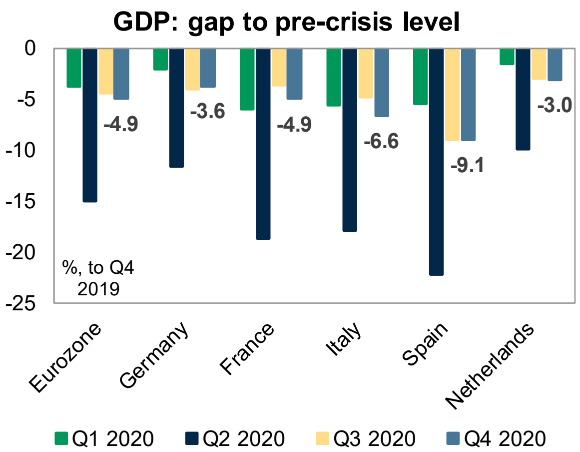


Sources: BLS, Bloomberg, CA CIB

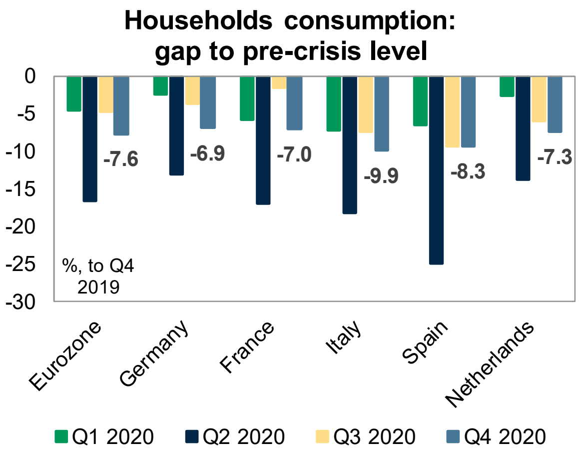
Eurozone: lagging behind

The Covid crisis widened the growth differential between the Eurozone and the other major advanced economies, with the Eurozone experiencing a more severe GDP contraction in 2020 (-6.8%), and more modest growth expected for 2021 (4%) and 2022 (4.1%). With new measures restricting mobility and activity, we are moderating our forecasts for the start of the year. Still, the better outlook for the second half of the year means we can expect **business to return to its pre-crisis level sooner (Q222) than forecast in our December scenario.**

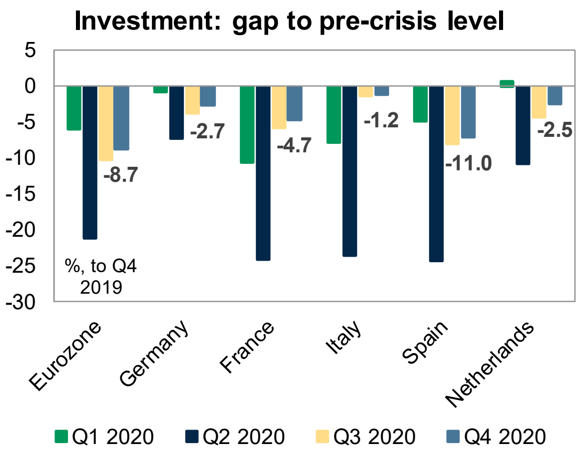
Eurozone growth has proved more resistant to the new restrictions in place since November to tame the second wave of the virus. In Q420, the decline in GDP was 0.7% QoQ; while the increase



Sources: Eurostat, Crédit Agricole S.A.



Sources: Eurostat, Crédit Agricole S.A.



Sources: Eurostat, Crédit Agricole S.A.

in foreign demand held steady, and investment remained positive, this decline was mainly attributable to the drop in private consumption. **As 2020 closed out in the Eurozone, the gap in GDP compared to its pre-crisis level widened further** (-4.9% compared to Q419). **However, the scale of this activity gap varied widely according to the major economies**: lower than the Eurozone average in Germany (-3.6%) and equal in France (-4.9%), but higher in Italy (-6.6%) and especially Spain (-9%).

European economies' response to the autumn lockdown was mixed, and varied depending on the strictness of measures and on each economy's capacity to benefit from a buoyant global manufacturing cycle (see Eurozone *Focus on health assumptions*). So, while GDP fell in Italy (-1.9%) and France (-1.4%), it continued to rise in Germany (+0.3%) and Spain (+0.4%).

Overall, **the decline in household consumption was less marked than expected**, with spending behaviour gradually adapting to the new retail options available. Despite the further decline in hours worked, payrolls continued to grow, boosting disposable income, as did tax deferrals and social benefits. As such, it was the constraints on spending that triggered another increase in the savings rate. A more marked decline in household spending was seen in France (-5.6%) and Germany (-3.3%), while in Spain, private consumption was up slightly.

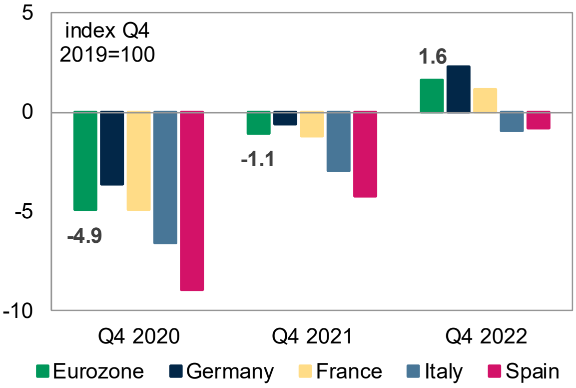
Investment growth remained positive in all major economies except Spain. Nevertheless, the dynamics at work varied by country. Business investment only grew in Italy and fell more steeply in France. In contrast, construction investment drove capital accumulation in Germany and France, while it fell in Italy (after a 41% jump in Q3) and plunged in Spain.

For 2020 as a whole, consumer spending recovered faster in Germany and France than in Spain and Italy. In fact, the household savings rate was already almost back to its pre-crisis level during the summer in France, and was once again lower in Germany, while it remained much higher in Italy and, especially, Spain. The weaker trend in disposable income in these two countries, where it had not returned to positive growth, explains this cautious behaviour, which is corroborated by a higher unemployment rate.

When restrictions on mobility were lifted in the summer, people temporarily absent from work were able to resume their jobs, and those unavailable to work or to look for work were free to return to the labour market. Thus, the under-use of labour resources declined, but stayed much higher than pre-crisis levels. Those who were available but no longer looking for work accounted for most of the return to the labour market. This reversal meant a rise in employment – but also unemployment – during the summer. The unemployment rate then started to fall again (8.1% in January) as soon as November's lockdown began, under the one-two effect of more departures from work and modest job growth (+0.3% in Q420). After another drop in Q4, the number of hours worked is still 6.5% below its pre-crisis level.

On the investment side, the recovery is further ahead overall in Italy and Germany. In construction, capital accumulation has already exceeded pre-crisis levels. Strong foreign demand at the end of the year, approaching its pre-crisis level, certainly helped support business investment in these two economies. In addition, the margin rate returned to pre-crisis levels more quickly in Italy, but remained a little lower in Germany, and lower still in France and Spain, at the end of the

Euro area: heterogeneous and delayed recovery



Sources: Eurostat, Crédit Agricole S.A.

summer. As such, business investment is lagging further behind in Germany and Spain. In all countries, the rise in labour costs continued to be moderated by short-time work compensation schemes as well as temporary layoffs, limiting the negative impact on margins. On the other hand, lending standards and the new loan terms tightened over the summer, making it harder to stay in debt, which so far has resulted in an almost equivalent rise in corporate liquid assets. However, stricter lending standards may be caused by the decline in applications for government backed loans as the government guarantee had helped considerably in relaxing lending criteria.

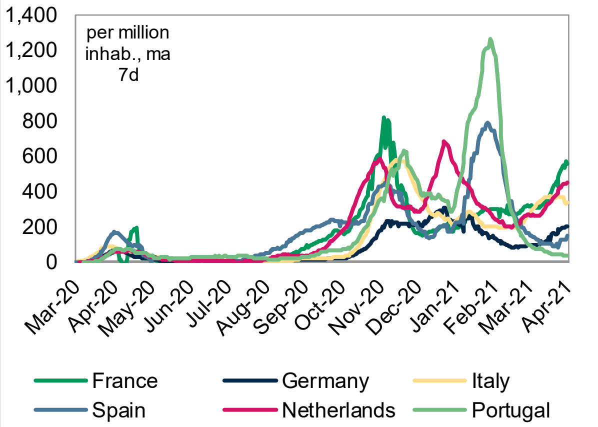
Our growth scenario (see *Eurozone* *Focus on health assumptions*) **introduces a downward revision of growth in Q121 (-0.6%) compared to our December forecasts, while the partial reopening of activities anticipated in the middle of Q2 will help boost growth for the next quarter (+1.1%). A stronger rebound in the summer is also expected (+2.4%), with consumption of services picking back up, and tourist flows heading back to Europe. France and Germany should return to pre-crisis GDP by mid-2022; Italy and Spain are likely to still fall short at the end of 2022.**

Despite the gloomy news on the current health situation and looming restrictions, the Eurozone is benefiting from the power of the global cycle and robust US activity. The overall improvement in confidence is being passed on to the Eurozone, particularly in industry, where production growth accelerated sharply in March, according to the PMI index, which climbed to its highest point since 1997. However, the capacity utilisation rate still remains low in Q1, and demand-side and supply-side production constraints are both high.

Eurozone Focus – Health Assumptions

Although the availability of several vaccines at the end of 2020 shaped expectations of a rapid exit from the crisis, those expectations soon had to be adjusted. The emergence of viral variants, coupled with delays in vaccine production and distribution, have fragmented expectations once again. Hence the (harder) bargain of suffering more permanent losses in business to gain control of a pandemic that has grown more complex. This trade-off between the economy and health has become more difficult to settle given the costs of the first lockdown, which have since become clear and have mapped out economic hierarchies among the countries. Responses to the pandemic's second and third waves have been marked by hesitancy over strategies that curb activity and movement.

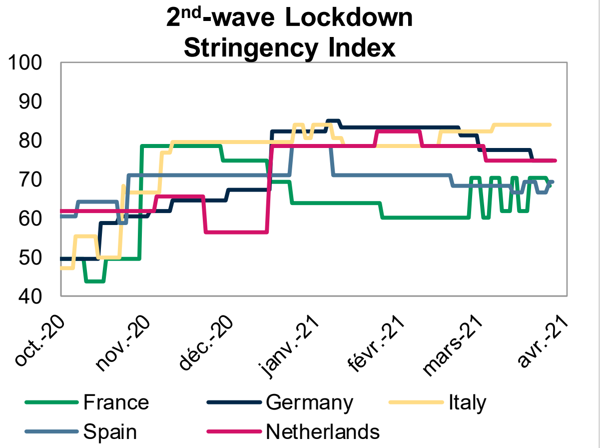
New cases



Sources: Crédit Agricole S.A., OWID

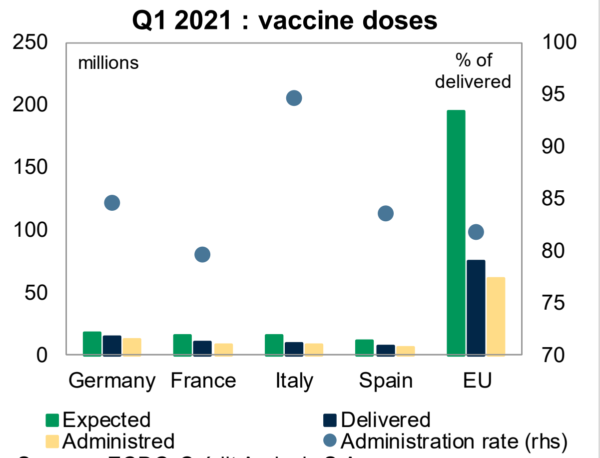
When the second lockdown began, mobility restrictions and business closures were most widespread in France and Italy, less so in Spain, and much less so in Germany. Yet starting in December, Germany and Italy further hemmed in activity, followed by Spain, while France began to relax its restraints. In January, limitations on movement and business were still quite severe in Germany, the Netherlands, Italy – though there was a degree of easing there – and Spain, where measures had been less strict since the start of the second wave. France found itself less tightly leashed. This hierarchy among countries was maintained through February, but in March, Germany and the Netherlands began to ease restrictions before backtracking, while Italy and France tightened them further still. Spain, meanwhile, did little to change the severity of the measures in place.

While these latest restrictions had been expected to stem the spread of the virus, now the focus is on vaccine strategy to set the timetable for reopening the economy. This timetable, though longer than others elsewhere, looks to be uniform among European Union (EU) countries. The EU's strategy for supplying vaccines has evolved gradually, dropping the free-for-all approach of the first weeks of the pandemic and adopting a stronger cooperative spirit in its place. This was an admirable but risky attempt, coming as it did in an area where the EU did not have delegated jurisdiction. So Europe's capitals instructed the European Commission to purchase vaccines and support a coordinated effort to distribute them. The Commission has funded and overseen the production of sufficient vaccine quantities in the EU, entering into agreements and advance purchase contracts with manufacturers on behalf of EU Member States to ensure they all have affordable and timely access to Covid-19 vaccines. Expenses are financed by the EUR2.7bn Emergency Support Instrument.



Sources: Crédit Agricole S.A., Oxford University

The Commission offered the countries the most equitable solution for allocating vaccine doses, pro-rated to the population of each Member State. However, countries decided instead to include some flexibility, to agree on dose distribution based on each country's epidemiological situation and vaccination needs. This choice was also justified by a series of differences among vaccine prices (five to ten times higher for mRNA vaccines than for AstraZeneca's), their storage conditions, and the laboratories' presumed chances of producing a vaccine. Under this system, if a country decides not to use its pro-rated allowance, its doses are redistributed among the other interested Member States. For example, some countries (Austria, Slovenia, Croatia, Czech Republic, Latvia, and Bulgaria) have chosen to participate less in the purchase of mRNA vaccines, and instead focus their vaccination campaign on AstraZeneca. Germany (83m inhabitants), meanwhile, has chosen the BioNTech/Pfizer vaccine and is expected to receive 94m doses, 64m from the EU's first purchase of 200m, and 30m from a separate bilateral agreement signed after some countries refused to buy the additional 100m doses reserved by the EU.

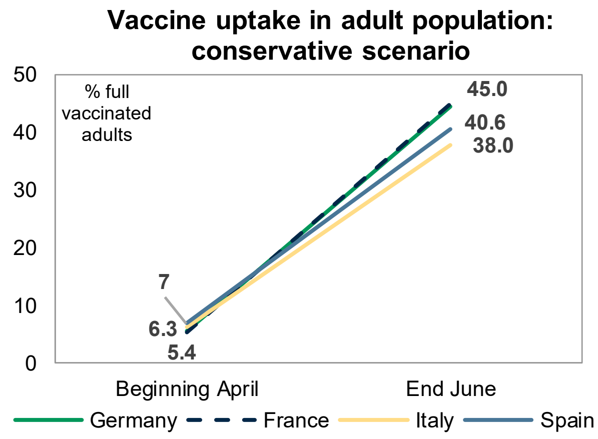


Sources: ECDC, Crédit Agricole S.A.

Delivery delays contributed to the lag in the European vaccine campaign's distribution target in Q121. The imperative now is to salvage Q2 and meet the vaccination target of 80% of healthcare and social workers, as well as those over age 80, before the end of March, and 70% of the adult population by the end of the summer. Achieving these two goals would accomplish two aims: reducing death and hospitalisation rates and relieving pressure on health care systems; and then putting Europe on the path to herd immunity, helping protect those who cannot be vaccinated and providing a bulwark against the spread of the virus and the development of variants.

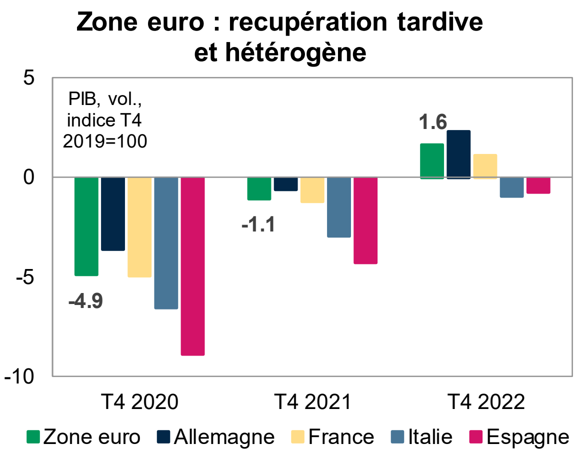
The EU first responded to delivery delays by purchasing new doses from other suppliers (10m Pfizer/BioNTech) and tightening the control and transparency mechanism imposed on vaccine exports at the end of January. This meant exports of vaccines produced in the EU could be blocked if there was any delay in a supplier's delivery, in accordance with reciprocity and proportionality principles (epidemiological situation and proportion of the population already vaccinated). However, any such blockage must not have an impact on the EU's international commitments (continuing exports under the Covax scheme) or threaten the continuity of vaccine production. With a global manufacturing chain, political coordination among countries is essential and 'vaccine nationalism' is prohibited, since it discourages public financing of production capacity at different links in the value chain that would achieve the scale necessary to meet global demand.

In the immediate term, it looks as if the vaccination strategy's targets can be reached. The EU has already vaccinated 14.2% of its adult population with the first dose, and 6% with the second dose. Among the four major countries, Q1 deliveries compared to expected doses ranged from 56% in Italy to 79% in Germany. Countries most reliant on AstraZeneca, such as Italy and Spain, compensated for the fewer doses delivered by administering the vaccines more efficiently (with an inoculation rate from 89% in Italy to 72% in France).



Sources: ECDC, Crédit Agricole S.A.

In Q2, a higher volume of doses is expected. Both Pfizer/BioNTech and Moderna, which met their Q1 delivery commitments, are expected to increase deliveries, while AstraZeneca has committed to deliver only 70m doses of the contracted 180m. Going by the very conservative assumption that only half of the promised doses will be delivered (one-third for AstraZeneca), 38-51% of the adult population could be vaccinated by the end of June.



Sources : Eurostat, Crédit Agricole S.A.

This is why our scenario includes a full recovery of consumption and exports, but not investment, by the end of 2022. By mid-2022, household spending will have fully recovered in France and Germany, but not in Italy or Spain. Investment – specifically business investment – will not be back to its pre-crisis level by our scenario's horizon. Despite the stabilising effect of public support (see Eurozone *Focus: Fiscal impulse still largely national*), the corporate financial situation has deteriorated. Cash flow requirements allocated to paying deferred tax and social security contributions and repaying debt may curb companies' propensity to invest, and fuel their risk aversion. While the maturities and grace periods of government-backed loans have been extended, loan moratoria are coming to the end of their use as liquidity support. Extending them has become a costlier prospect, and banks will become more selective in that respect. **The harm to companies' survival has not been prevented – merely postponed. The same is true of the harm to employment.** Not all temporary withdrawals from work can be absorbed by employment recovery. This will be exacerbated by significant reallocation effects between sectors. We expect the unemployment rate to rise and peak in early 2022 (9.5%) before starting to decline.

Focus Eurozone – Fiscal stimulus still largely national

The decline in Eurozone GDP in 2020 (-6.8%) was more limited than expected when the budgets for 2021 were presented (-7.8%). The deficit came out shallower than expected (7.5% vs. 8.7% of GDP) due to a decline in the both the cyclical component and in the structural component of the budget. In fact, 2020's support measures were not used up, and the balance carried over to 2021. In 2021, growth is shaping up weaker (+4%) than initially projected when budgets were set for 2021 (+5.9%), with less improvement in the government balance due to the cycle. Above all, though, more structural erosion in the balance is expected, with both the deferral of uncommitted 2020 spending carried forward to the 2021 deficit, and additional measures taken to cushion the negative impact of the second (or even third) lockdown. As such, the deficit is not expected to improve much (7.4%) in 2021, and projected debt is expected to continue to increase from 102.8% in 2020 to 105.9% of GDP. Overall, additional measures worth 1.5 percentage points of GDP have been announced since November 2020. While the fiscal stance was to become stricter in France and Italy, and remain unchanged in Germany, it will ultimately be more expansionary in all the major Eurozone economies.

Governments have all responded to European and international institutions' calls to "do more", as not doing enough now seems riskier than doing too much. They were aided by the Commission's decision to extend the suspension of the Stability and Growth Pact (SGP) rules until at least 2022. Uncertainty persists, however, as to the future budgetary supervision framework, since discussion of a possible reform of the rules has not yet begun, though the European Fiscal Board did suggest that this reform be discussed and, preferably, approved before disabling the SGP's general escape clause. Against this backdrop, spending more carries the risks of backlash and premature budgetary restraint if European rules are reinstated as early as 2023.

Nevertheless, European funds are providing some visibility. Though they are disbursed later (by 2026), the commitment numbers are known in advance (before 2023), so that the countries can anticipate spending from the national budget. Countries are expected to be able to receive 9% of total grants in 2021, 13% in 2022, 24% in 2023, 27% in 2024, and the remainder into 2026. In addition, 15% of total NGEU loans could be available as soon as 2021, and 28% in 2022. Thanks to the benevolence of the markets, encouraged by the European plan, the most urgent financing needs will be met at low cost. That is why the average issue yield fell to 0.6% in 2020 in Italy and 0.2% in Spain. This lower cost of financing, particularly for the main beneficiary countries, eases the pressure for consolidation by 2024. Italy and Spain could receive €8bn and €7bn, respectively, in NGEU grants in 2021, and €11.8bn and €10.9bn in 2022. On top of this, €8.3bn and €3.9bn, respectively, have already been disbursed under the SURE programme to finance short-time work schemes, i.e. 0.9% of GDP in 2021 for both countries. Apart from Spain, which is relying almost entirely on European funds to give the economy a positive fiscal boost, most of the effort for other countries is still paid out of the national budget.

Focus – Inflation: brace yourself

? *Is inflation really returning?*

There are many arguments suggesting that inflation could overshoot for several years. The most commonly cited include:

- ✓ The strong fiscal stimulus put in place;
- ✓ Fears of supply gluts due to Covid-19;
- ✓ And a new strong cycle in commodity prices.

Overall, we disagree. Strong stimulus has already shown little pass-through to prices. In other words, the US government already subsidised households by USD1000bn last summer and again by around USD1000bn in January, meanwhile US core CPI barely reacted. Unless trillions and trillions of stimulus are spent every year for years, not much will happen to inflation in our view. The supply glut, which was feared last year, did not happen. With regards to strong commodity prices, only crude oil really matters to inflation, as base metals and wholesale agricultural prices do not directly impact CPI indices. Oil prices look likely to stabilise rather than strongly increase again.

Conclusion: we do not think inflation is 'really' returning, but we will not be able to prove it until mid-2022.

? *Still, won't inflation overshoot this year?*

Yes, inflation will probably strongly overshoot in 2021.

In the Eurozone, core inflation will be extremely erratic this year due to multiple technical effects which we cannot address in this short article. We expect core CPI to fall from 1.4% (January 2021) to 0.5% (summer) then to overshoot at around 1.5% in November 2021, before stabilising at around 1.0-1.1% in 2022. That means that in November, we may well have core inflation at 1.5%, headline above 2% and German harmonised inflation above 3%. Quite impressive right? But this would be very temporary (just Q4) and Eurozone inflation would likely look weak again – around 1% – in 2022.

In the US, the Q221 spike in inflation will look even more impressive: we expect headline CPI to double in three months, from 1.7% YoY to 3.5% YoY. Why? Mostly positive base effects and stronger oil prices. We expect headline inflation back to slightly above 2% in 2022 as well.

Conclusion: it will look like inflation is returning, at least this year, which in turn would 'validate' the reflation rhetoric for several months.

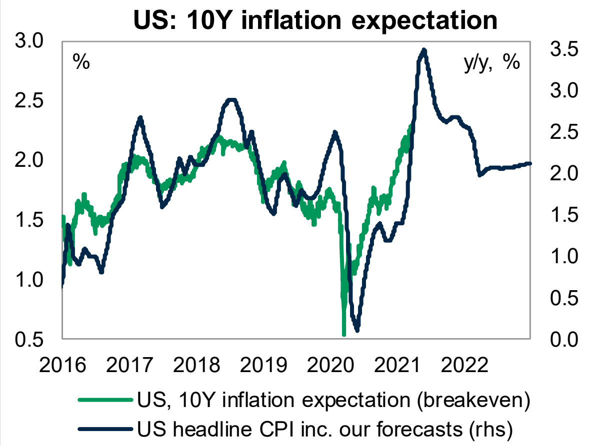
As an investor/risk manager, what should I do?

One should never underestimate the myopia in financial markets. Six months of strong oil prices and the market prices in strong inflation forever. Remember that ten years ago, the 5Y5Y forward inflation swap priced in Eurozone inflation at 2.5% over 2016-20. Well, it turned out to be 1%. A 150bp miss!

There are good chances that market-based inflation expectations rise even more later this year, especially in the Eurozone in Q421. In turn, the higher 'inflation expectations' may well create doubts about the willingness of central banks (ECB and Fed) to maintain super-accommodative policies for years. We do not think it is likely for things to calm down until early 2022.

Conclusion: be prepared for much higher inflation numbers (just in 2021), possibly even higher inflation expectations, and further bouts of rates volatility.

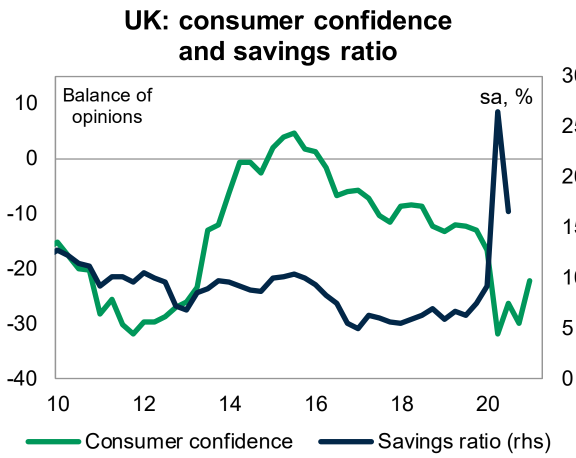
Sources: Eurostat, Bloomberg, CA CIB



Sources: BLS, Bloomberg, CA CIB

UK: near-term outlook revised to the upside

We revise our 2021 growth forecast upwards (to 5.6% from 4.5% previously) thanks to stronger-than-expected actual GDP at the turn of the year and faster-than-expected vaccination rollout. Domestically and globally businesses and consumers seem to have largely adapted to the restrictions to activity and mobility, as witnessed by the weaker relationship between economic activity for a given level of restrictions. In the UK, GDP in Q4 expanded by 1.3% QoQ in Q420 (upwardly revised from 1.0% QoQ) despite the November national lockdown in England and the social distancing measures that prevailed during the whole quarter and across the UK. Household consumption declined by 1.7% QoQ (compared to -20.8% in Q220) while business investment rose by 5.9% QoQ. Government support to businesses and consumers has been extended to September and strong fiscal incentives for this year and next have been announced in favour of business investment.



Sources: Gfk, ONS, Crédit Agricole S.A.

We expect activity to contract by 1.6% QoQ in Q1. In January, GDP came in higher than expected (-2.2% MoM) despite the government implementing a strict national lockdown similar to the one put in place in Q220 and despite acute post-Brexit trade frictions that led to exports to the EU plummeting in January (-40.5% MoM). Activity rebounded by

0.4% MoM in February as the services sector returned to growth thanks to a slight pick-up in wholesale and retail trade. Furthermore, in March consumer confidence improved to its highest since the beginning of the crisis. The services PMI reported a strong rebound in business conditions in March to 56.3 from 49.5 in February, with activity, new orders and employment all picking up ahead of the phase 2 of the lockdown easing roadmap (reopening of outdoor hospitality, non-essential businesses and personal care services on 12 April).

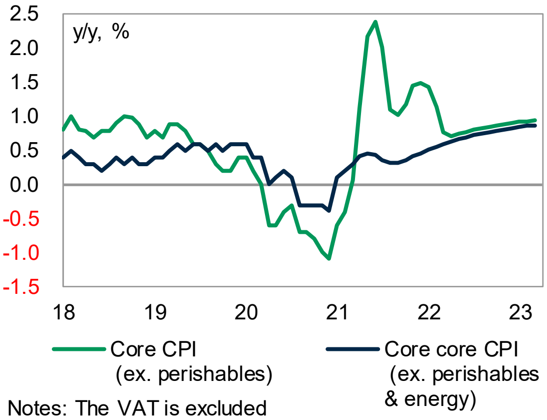
Risks to the recovery seem more balanced than before but still biased to the downside. To the upside, there is a risk that households resume normal spending behaviour earlier than expected and might decide to run down a greater proportion of their accumulated savings. To the downside, risks from Covid-19 remain substantial: delays in the vaccination programmes globally, emergence of vaccine-resistant variants of the virus and the possibility of further periods of restrictions on economic activity. Besides Covid, Brexit remains a source of uncertainty as the private sector continues to adapt to the new barriers to trade amid persistent tensions between the EU and the UK.

Japan: growth to exceed potential in Q2 and beyond with risks waiting in H2

We expect Japan's real GDP to have plummeted in Q1 due mainly to the state of emergency declared by PM Yoshihide Suga, which remained in effect for some prefectures including Tokyo until 21 March. **In Q2 and beyond, however, we expect real GDP to return to a recovery path exceeding potential (c. 1% p.a.)** mainly driven by the realisation of pent-up consumer spending and public investment as well as exports to China. <

This in turn will lead to a shrinkage of the output gap, a leading indicator of the CPI by two to three quarters. Furthermore, especially in May, June and July, we will have a large positive YoY base effect of energy prices on the core CPI, which excludes perishables but includes energy and is one of the key inflation indicators monitored by the BoJ. As a result, **core CPI inflation will approach 2% YoY on average in Q2 while core-core CPI inflation (excluding both perishables and energy) will remain well below 1% YoY** due mainly to households' 'adaptive' inflation expectations as the BoJ stressed most recently at the March MPM.

Japan: CPI (actual vs forecasts)



Notes: The VAT is excluded
Sources: MIC, Crédit Agricole CIB

The risks of our baseline scenario centre on the pace of vaccination and the stability of the Suga cabinet, both to be tested in H2. In case of a further delay in vaccination, pent-up consumer spending may not materialise as much as we expect in H2. Also PM Suga's term as the LDP president ends in September and the term of the lower house ends in October. If the government's stability is lost in the course of these political events, fiscal spending might also be delayed. Meanwhile, the Tokyo Olympic/Paralympic Games are going to be held in July-September as planned, but without spectators from abroad. This has been factored into our baseline scenario.

Emerging countries – Old wounds in a new world

While the global recovery is slowly materialising, the trend towards fragmentation in the emerging world continues. And the many external constraints, from changes in US interest rates to a hazy travel forecast, are relentlessly highlighting these countries' unique weak points and shaping their medium-term trajectories.

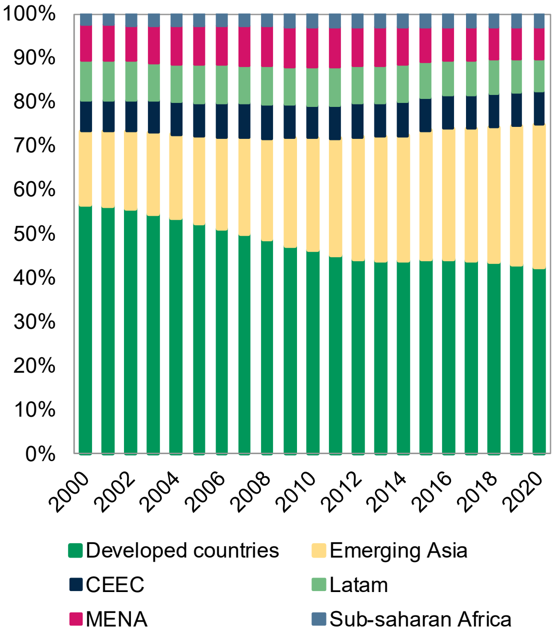
The year of the rebound and base effects

The centre of gravity continues to shift towards Asia

Emerging countries are embarking on the recovery, with an average growth rate that is expected to rise from -2.8% in 2020 to 5.8% in 2021 before falling to 4.2% in 2022, below the 2010-19 average (5.1%). Depending on the country, particularly on their respective activity lows in 2020, the base effects will be powerful, complicating performance estimates.

Let's look back at the scene in 2020. Ultimately, only four large emerging countries saw positive growth (China, Taiwan, Egypt and Turkey). The Philippines, India, Thailand, Mexico and Argentina had the unenviable record of posting the largest growth differentials between 2019 and 2020. Finally, two things appear certain: (1) the global economy's centre of gravity has continued to shift towards Asia; and (2) Latin America is the biggest loser to date in the crisis – a source of polarisation that will have an impact on the upcoming elections there.

GDP at purchasing power parity
% World total



Sources: FMI, Crédit Agricole SA

Identical overall ranking

However, the 'emerging landscape' has not completely changed. Those who were most vulnerable at the onset of the crisis are even more so today, while the richest are getting richer. As for the 'usual suspects' in the markets' eyes, they are the same, with Brazil in the lead, followed by Turkey, South Africa and, to a lesser extent, Hungary, which are always the first to see their currencies suffer in the event of a global shock, rightly reflecting their weaknesses in debt, liquidity and external accounts. So, they should exit the crisis in the same order, but the spectrum will be broader. In a sense, this is the rating agencies' message. They have made many more downgrades than during the last peak in 2012, but these decisions are focused on emerging countries, mainly the poorest ones with a high solvency risk.

Generally speaking, the IMF is, predictably, estimating that the lasting scars of the crisis – specifically on potential growth – will be deeper in the poorest countries. This will be one of the big differences from the 2009 crisis. So, the ability to avoid a systemic financial shock has cushioned the shock to developed economies, but the crisis has scored a direct hit on the real economy and sources of productivity for the poorest. Naturally, the political risk is not far behind.

A restricted recovery

Restrictions on the recovery will be numerous, including vaccination inequalities, the impact of rising US yields, slow recovery of tourism, volatile commodity prices, the effects of geopolitical sanctions and increased outstanding debt. This is a cocktail that will define the economy over the coming months – a cocktail capable of creating tensions on exchange rates and complicating central banks' trade-offs between supporting growth and stabilising monetary policy.

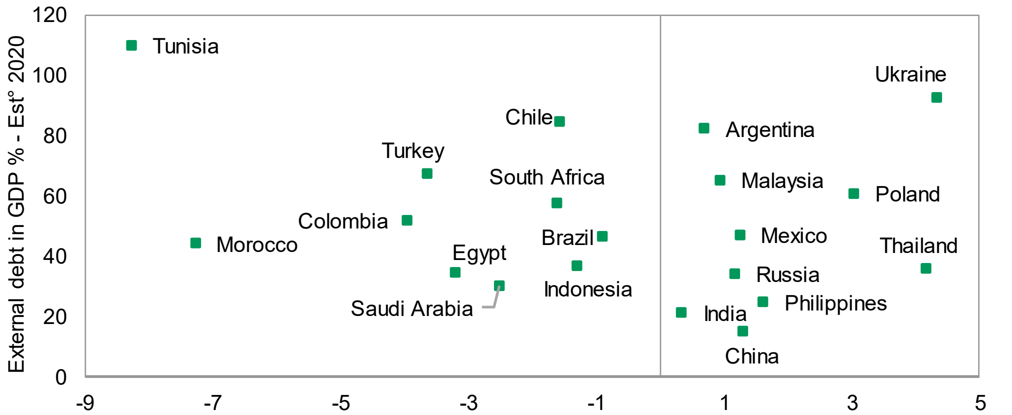
While global factors are exerting pressure on all countries, not all will be equally vulnerable; not all have the same economic, fiscal or social leeway. These two areas (risk exposure and leeway), along with how agile governments are when managing this complex recovery, will determine the performance gap in an emerging world in which the crisis has been spreading fragmentation for a year now.

Trade will be a key factor in the recovery

No great crisis comes without hysteresis

In 2020, growth (on government life support) gradually returned to its more natural drivers and cycle. The resumption of trade is helping, benefiting countries with the highest opening rates. These are the same countries that suffered the sharpest drops in growth in 2020. With a 9.2% contraction in trade in goods in 2020, the global trade scenario has been more favourable than expected by the WTO, which is now forecasting a recovery of 7.2% for 2021. However, we will not escape a hysteresis effect in 2022, meaning that trade in goods will stay below its pre-pandemic trend. International trade and the labour market still bear the deepest scars from the crises.

The external stress



Sources: IMF, Credit Agricole SA

Thus, Mexico and Vietnam will do well on the back of the US recovery (31% and 20% of their sales, respectively), while in Asia, Korea and Taiwan are already benefiting from China's rally and a boost in exports driven by an online shopping cycle bolstered by the crisis. Singapore, where inflows and outflows of goods and services equal 350% of GDP, will still be the world champion in current account surpluses in 2021 thanks to its electronics, pharmaceutical and financial services exports. Once again this year, Asia's logistics hub will offer the promise of regional growth, especially since domestic consumption has been on the receiving end of a very generous support plan worth 20% of GDP.

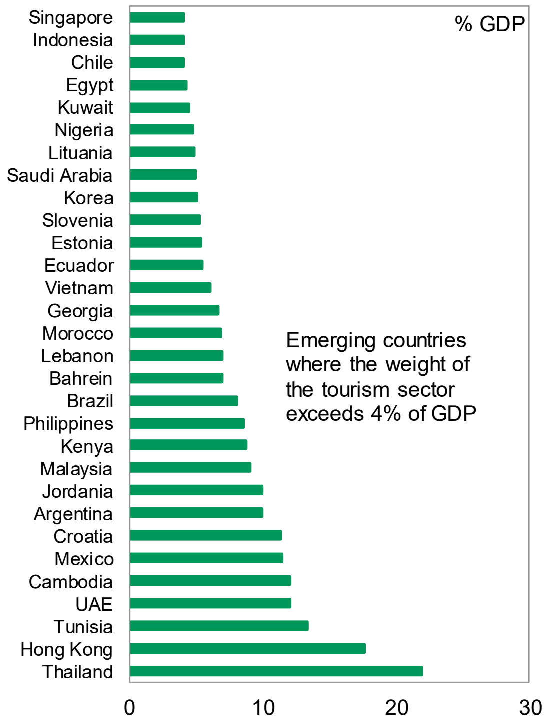
Trade balances in the oil-producing countries will reflect oil prices that have climbed close to Saudi Arabia's break-even budget. Russia also stands to gain and will post a current account surplus in 2021, as will Malaysia. These surpluses will inflate central bank and sovereign fund reserves, which will stabilise sovereign ratings.

Travel & tourism: short- and medium-term shocks?

The tourism and service industries on the front line of the crisis

Tourism will likely be one of those sectors with a very slow recovery overall, and certainly an uneven one depending on the country. As such, locations that can quickly provide reassuring protective measures will increase their share of the international customer market, which is a key determining factor for 'tourist' countries, led by Thailand, and including Morocco, Egypt, Croatia and the Philippines. There will be winners and losers: those that vaccinate quickly and adapt quickly... and those that do not. Morocco's rapid vaccination campaign is also proving just how well this small country (whose speciality sectors make it particularly vulnerable to the crisis) has understood the importance of the vaccination phase.

Tourism



Sources: WEO, Crédit Agricole S.A.

The race to adapt

The IFC[1] has listed the most decisive factors. These include factors like location (with all islands hard-hit by the air travel crisis), and the quality of hotel and road infrastructure. Hotels will have to have decent health services and a greater online presence. The system's effectiveness will also rely on new partnerships between the tourism, healthcare and insurance sectors: eg, private vaccinations in hotels in Phuket, a partnership between the UAE and airline associations and of course health passports. The revival of the Gulf's airline hubs will be contingent on this 'health transition'.

Finally, countries' ability to attract regional tourist business will be critical to the strength of their recovery. The IFC points to Asia's advantage with good sub-regional infrastructure. But other 'side zones' will appear. Morocco, for example, is counting on closer ties with Israel, which will be easier with the Abraham Accords ow signed. In the Middle East, geopolitics is moving the economy in a positive direction.

Everywhere (except in China!), the nagging question of investment

Too soon to return to fiscal discipline?

While consumption is meant to drive the recovery, it is still lagging behind in many countries and will remain uneven over the coming months, hobbled by a vaccination campaign that is underserving the poorest. In addition, special measures to boost consumption are being rescinded more quickly in most of the emerging countries than in the developed world due to a lack of fiscal margins, except in rentier states.

Many primary balances are also now in deficit. So even a low-debt state like Russia has already presented a budget normalisation plan in 2021, with lower spending. For Brazil, keeping spending in check is influencing (among other things) the scant investor confidence that remains. However, the health situation demands more support, so the equation is a difficult one to solve.

Finally, for the poorest, the budget constraint and its effects on investments will keep the catch-up trajectory in its lowest gear. As such, despite comparable per capita GDP, Ukraine and Vietnam have a 15ppt difference in GDP in terms of investment ratio. As for the Philippines, the most worrying ASEAN country, the investment rate fell from 26% of GDP in 2019 to 20% in 2020, signalling the violence of the Covid shock.

Too soon to return to monetary policy discipline?

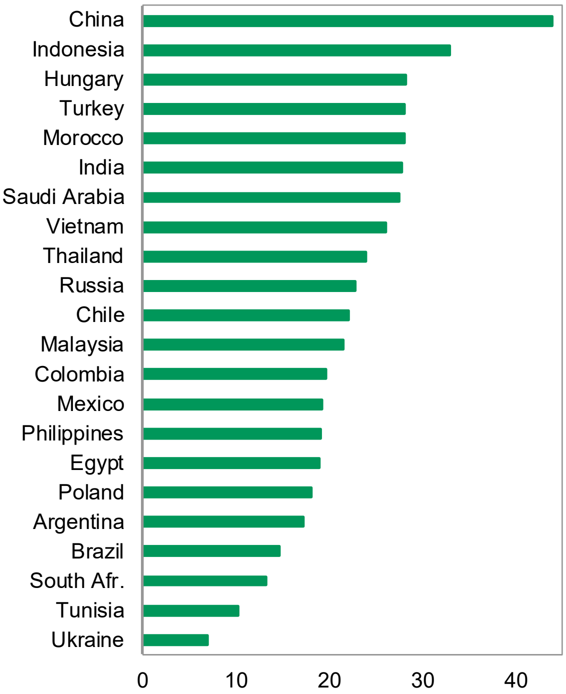
Not all countries make trade-offs at the expense of growth, whether in terms of fiscal or monetary policy, including against a more inflationary backdrop. At the end of the heterodoxy spectrum, we have Turkey, with

[1] IFC - *How the Tourism Sector in Emerging Markets is Recovering from COVID-19*, N. Mekharat, N. Traore

a monetary policy that is spreading shock. Of course, rates have been raised since the virtual liquidity crisis in November, but the brand-new Central Bank chair is a known advocate of cutting rates to fight inflation, which the markets are having a hard time swallowing. For a country whose short-term financing requirement is 20% of GDP and whose reserves have been exhausted by one currency crisis after another, the way forward is narrow indeed. In Nigeria, as in many poor countries, concomitant high inflation, low growth, and skyrocketing poverty are turning currency control into a sleepwalk, despite higher oil prices.

Finally, many central banks are being forced to be cautious because of the still-uncertain health cycle. As such, the Czech authorities are bringing up the risk of premature rate hikes. However, the central banks of Brazil and Russia are taking that risk – the former under pressure from the markets, and the second due to 'orthodoxy' at a time when it must consolidate its autonomy.

Investment rate



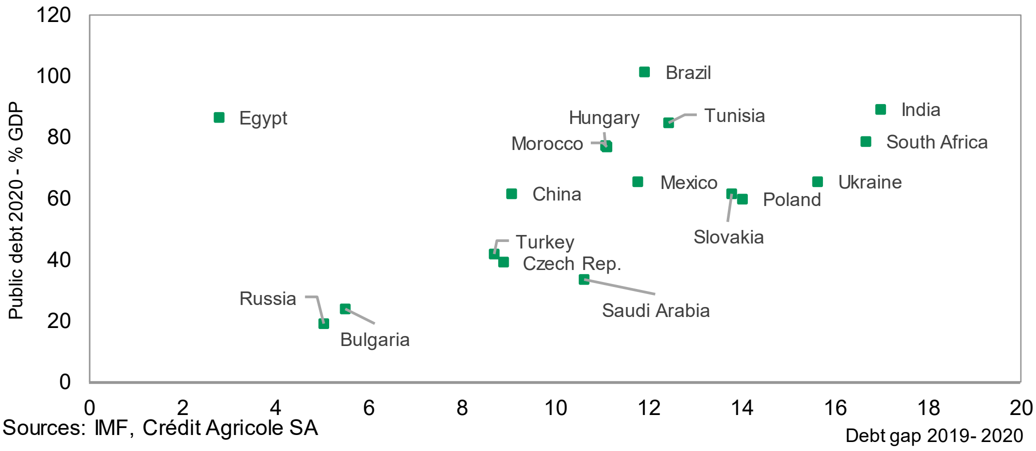
Sources: WEO, Crédit Agricole S.A.

Let's not forget the debt ratio denominator

The growth trajectory will decide what happens with the debt-to-GDP ratio. Here again, the ranking of the most indebted countries looks much like it did before the crisis, with Angola, Argentina, Brazil, India and Egypt in the leading pack. For Brazil and India, the debt is mainly in local currency, but it does threaten a negative crowding-out effect for growth, or even more fragility in the banking sector. The countries with the highest share of short-term foreign currency debt relative to their reserves also remain the same: Turkey, South Africa, Argentina, Ukraine, Romania, and Malaysia. Nevertheless, the IMF is stressing one of the differences with the 2009 crisis, which is now reducing the risk of a systemic liquidity shock: international reserves have fallen less steeply and recovered more quickly.

In addition to the overall increase in global sovereign risk caused by an increase in outstanding public debt, the IMF is issuing warnings about private debt in the non-financial sector – which had already increased significantly after the 2009 crisis, to 152% of emerging countries' GDP, and has jumped again with Covid. However, while there has clearly been a shift in risk in certain large emerging countries to the private sector (Turkey in particular, but also Chile and Poland), this shift is being mitigated by the behaviour of large companies, which are paying close attention to the management of their currency and liquidity risk. In fact, the management of the crisis by private players has played a considerable and rather positive role everywhere.

Public debt: more outstanding debt, greater risk



Sources: IMF, Crédit Agricole SA

Brazil: finding one single reason for hope

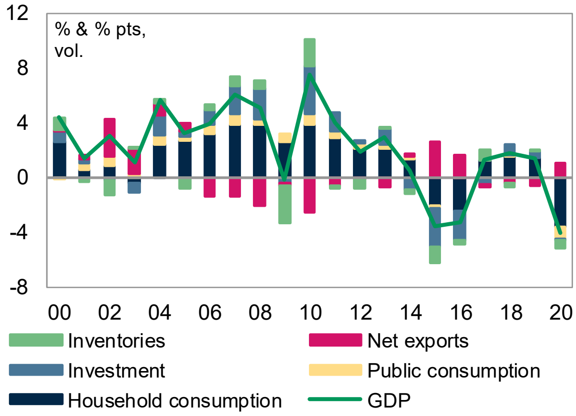
In 2020, fiscal and monetary activism limited the recession to 'only' about 4%. With the trade balance holding steady (domestic demand contracting, global demand for commodities recovering along with China, commodity prices rising from the summer onward), the current account deficit fell to 0.9% of GDP. That deficit was still financed by declining – though substantial – direct investment (2.4% of GDP). Obviously, the recovery seen late in the year could not continue apace, with the mismanaged second wave of a severe pandemic (case numbers, mortality rate, hospital saturation, slow vaccination, etc), depleted fiscal margins, and monetary policy tightening.

In 2020, declaring a state of emergency, **the government** sidestepped the 'spending cap' rule limiting spending growth (to the previous year's inflation), the most effective anchor for keeping federal debt on a path that is supposed to remain tenable. The government **was able to adopt a massive support policy at the cost of an increase in the gross (net) federal debt** by 14.6 (9.6) percentage points of GDP to 88.8% (66.8%) of GDP[1]. Before the budget was approved, and in the face of a social emergency, (off-budget) aid limited to just BRL44bn (0.5% of GDP) was approved in early March 2021.

Meanwhile, **inflation accelerated** (to 5.2% in February) and **the central bank** (with the target inflation at 3.75% +/-1.5 percentage points) **raised the key interest rate (Selic) by 75 basis points (bp) to 2.75%**. While the impact of the spike in energy prices is sure to disappear 'statistically', even the modest new fiscal support and past depreciation of the exchange rate (like its current fragility) will add to the upward pressure on prices until the end of the summer, at best. The BCB has made it clear: a further 75bp increase will take place at its next meeting. However, this does not preclude monetary policy tightening continuing throughout the year; the BCB is not overly aggressive. After showing its tolerance, it has reacted 'legitimately', and could take a break in the second half of the year at the earliest. There is no need to worry overly about the impact of the credit crunch – the State will be penalised first (an increase of one percentage point over a full year increases the need for public financing by 0.4% of GDP), and it must also deal with a rise in 10-year government bond yields, from a low of 6.20% in July to 9.40% currently.

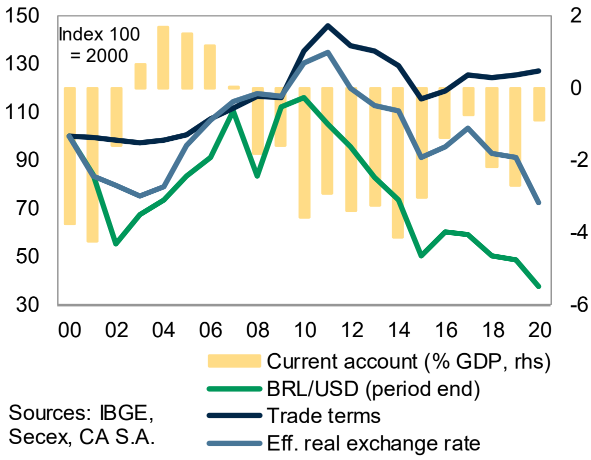
While growth forecasts crumble (3.5% maximum in 2021), **monetary and fiscal supports have been drained; reforms, though decisive, have at best been deferred; and the rise (and volatility) of US interest rates is contributing to tightening financial conditions and supporting the USD. So, where can we find even a single reason for hope?** In the strength of external accounts[2] and the adjustment to trade terms, which, thanks to export prices that have risen much more than import prices (25.2% compared with 9.2% since May 2020), reached peaks at the start of the year that had not been seen since October 2013, and were just c.7% lower than their all-time high in

Brazil: growth and contributions



Sources: IBGE, CA S.A.

Brazil: external imbalances



Sources: IBGE, Secex, CA S.A.

[1] The difference between net and gross debts points mainly to assets held by the federal government (23% of GDP) consisting of cash from the BCB. The IMF does not deduct outstanding debt held on the assets side by the central bank (net of repos), and places total gross public debt at 101% of GDP (in February, compared to 90% stated by the Brazilian authorities).

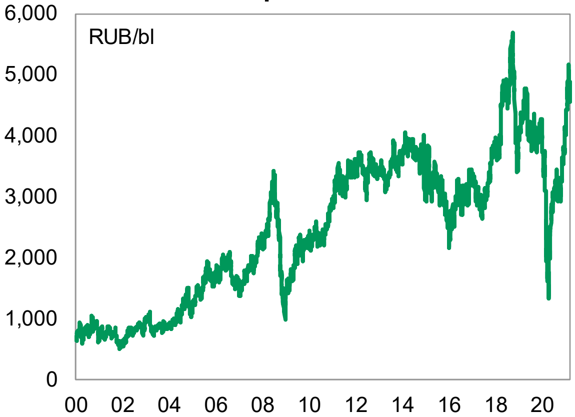
[2] The structure of trade is (currently) particularly auspicious, with imports of manufactured goods, exports of mining and agricultural products, and China (nearly 40% of the world's demand for commodities) as the top destination, by far, for exported products (32% of total Brazilian exports including 95% commodities, far ahead of the US which claims 10%).

September 2011. Without drawing simplistic parallels, this brings back memories of the 'super-cycle' of commodities in the 2000s. While it did help to boost growth, its ending was just as sad as it was sudden. Then, the decline in international commodity prices revealed the damage done by growth becoming 'unsustainable' because it was too greedy for imports; the damage was veiled by that same improvement in trade terms. In short, such improvement creates real imbalances that it also conceals, and that only become fully visible once it ends. The only comfort here is that the public debt is essentially domestic. At the end of February, it reached 90% of GDP, of which 11.5% of GDP was 'foreign debt, including just under 6% of the GDP of local debt held by non-residents.

Russia: from a limited contraction to limited expansion

The Russian economy has been fairly resilient in past quarters, despite the fact it faced not one, but two shocks in 2020: the pandemic and the fall in the oil price at the beginning of last year. In 2020, the Russian GDP contracted by "only" 3.0%. Among the 50 largest countries of the world, only 20% did better.

The oil price in RUB



Sources: Bloomberg, Crédit Agricole CIB

Such decent growth performance reflects different features. First, **the role of small and medium sized enterprises is smaller in Russia than in most other countries**. This has made easier to maintain the access to credit and to channel the government assistance to the corporate fabric. Second, **the prices of oil and metals have rebounded strongly from 2Q 2020**. Third, the central bank has suspended its structurally hawkish stance; real policy rates decreased strongly from more than 3.5% at the beginning of last year to less than 1% at the beginning of 2021.

The economic momentum is gradually strengthening. Retail sales are almost back to their level at the beginning of last year. After having deteriorated until September, the unemployment rate has consistently decreased since then, contributing to supporting consumer demand (although it is still about 1 pp above its pre-Covid level, at 5.7% vs 4.7% in March 2020). The closed borders also benefit to consumer demand. Investment has contracted less strongly than during the previous recession in 2015. Looking forward, we expect a decent recovery with GDP growing by 3.0% in 2021.

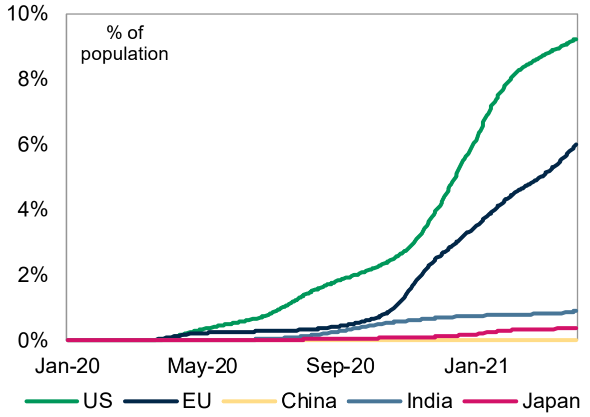
However, the upside risk is limited. Russian potential growth remains low. Reforms toward diversifying and modernising the economy have been limited these past few years (and nothing happened obviously since the beginning of the pandemic). In addition, the government remains committed to fiscal control. Even if, in 2020 and into the first months of 2021, government spending has increased strongly (+22% YoY over the past six months), the government will likely gradually normalise its spending policy as the health situation normalises (and particularly after the legislative election, due in September 2021). Against such a backdrop, investment could gain momentum, but gradually.

In terms of interest rates, **the central bank's recent hawkish move suggests it will continue to tighten monetary conditions in coming quarters**. The CBR indicated it favours a gradual return to a neutral rate (ie, 5-6%). This suggest further tightening of at least 50bp is in the pipeline for the forthcoming meetings.

It looks like **the central bank is back to its structural hawkishness**. It tolerated the decrease in real policy rates into negative territory in past quarters because of the Covid crisis. But this is likely over. Looking ahead, it makes sense to expect the central bank to drive the real policy rate towards a positive 1% by the end of this year. As we expect inflation to gradually decrease to close to the 4% target at the end of 2021, the 1W repo rate at or slightly above 5% in H2 makes sense.

India: pandemic creates risks to growth, the INR and G-Secs

Infection rates



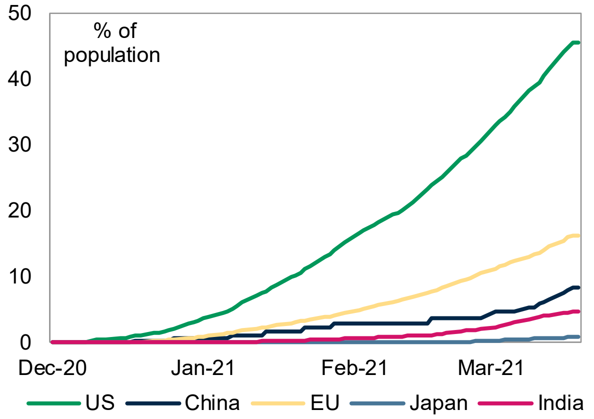
Sources: Bloomberg, Crédit Agricole CIB

Economy on the rebound but risks remain. India's economy has made significant progress in recovery from the pandemic, thanks to a collapse in infections until February, a large-scale rollout of its vaccination campaign, as well as fiscal and monetary easing. The infection rate, at 0.9%, remains low by global standards.

On the other hand, while a large number of people, over 64m, have been vaccinated, the huge population count means that the vaccination ratio, 4.7%, is relatively low. Moreover, most recently, daily vaccination numbers have peaked and are running under 2m, while a second wave of infections arrived, with daily numbers back above 70k. The developments suggest that **the negative impact of Covid-19 on economic activity will likely persist for some time**.

Finally, the government is planning relatively **steep fiscal consolidation**, and **credit expansion remains limited by the high level of non-performing loans**, which will reduce upside for aggregate demand. On the output side, India's structural challenges will provide a ceiling, including excessive reliance on agriculture, elevated unemployment and underemployment, insufficient investment in manufacturing capacity and in infrastructure, and uneven distribution of access to education.

Vaccination rates



Sources: Bloomberg, Crédit Agricole CIB

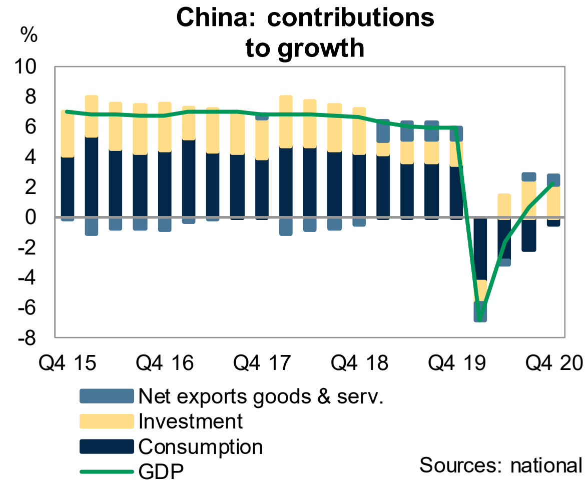
As a result, we have revised our calendar 2021 GDP growth forecast to 7.4% from 7.9% on less favourable base effects and a second wave of the pandemic. We also see **the C/A deficit higher than previously expected this year** (2.2% of GDP vs 0.5% of GDP), on rebounding imports while exports lag. With CPI inflation in the upper half of the policy target band, at 5.1%, we no longer expect a 25bp RBI rate cut. Union Budget deficit in FY 2022 is likely to exceed target and reach 7.5% of GDP.

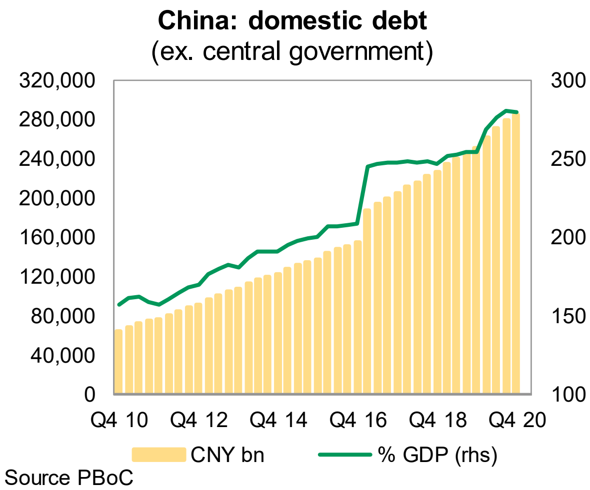
INR OIS / ND OIS rates and G-Sec yields are likely to rebound later in 2021 as (1) monetary policy posture turns neutral; (2) G-Sec issuance exceeds plans; (3) economic growth rebounds strongly while price pressures stay elevated; and (4) USD rates / UST yields rise. We expect the 5Y INR OIS rate to end 2021 at 5.40% and the 10Y G-Sec yield at 7.00%.

When the C/A shortfall returns in 2021 – amid a recovery in imports consistent with rebounding domestic demand – and as an elevated REER limits exports, we expect **USD/INR to rise, to 75.00 at year-end**.

China: it will all come down to balance

A year has passed since Wuhan came out of lockdown. It has been a very unusual year, during which the Chinese economy fumbled its way forward with no official growth target to guide it; where every release of data was hotly anticipated, then more carefully picked apart than ever before.





Looking back on 2020

If 2020 gave us just **three takeaways**, they would be:

- ✓ Besides Turkey, **China is the only G20 country that did not fall into a recession** (2.3% growth).
- ✓ As in 2009, it was a **supply-side recovery**, with massive support to businesses through the release of credit lines and public investment.
- ✓ China **has not emerged entirely unscathed from the crisis** and must continue to deal with **flagging consumption**, resulting in very low inflation and **a sharp rise in its debt ratio**, particularly in the public sector.

2021: managing economic policy and setting a growth target

The general opinion is that **the growth target** ("above 6%") revealed during the "two sessions" is, **unusually, below consensus**, and below our own forecast of 8.5%. Although it does fit with the rhetoric on "dual circulation" and "qualitative growth" in recent months, this target really seems too low, even **incompatible with certain others** (3% inflation and 11m new urban jobs, to name just two).

And this is because China must solve **a difficult equation: rebalancing supply and demand by stimulating private consumption** – not one of its strongest subjects – so that consumption can **offset the slowdown in exports** (which had underpinned growth in 2020) expected in H2. As such, last year China returned to **trade surplus levels** it had not seen in five years.

Of course, **consumption is expected to drive growth in 2021,** and we are forecasting a contribution of around 6.0-6.5ppt of GDP. But this performance, largely fuelled by **high base effects** (for the first time in more than forty years, consumption made a negative contribution to growth in 2020), is unlikely to obscure **the structural challenges** of the Chinese economy: its ageing population, social protection and the overshot middle income trap, to which **the new Five-Year Plan (2021-25)** ultimately provides few answers.

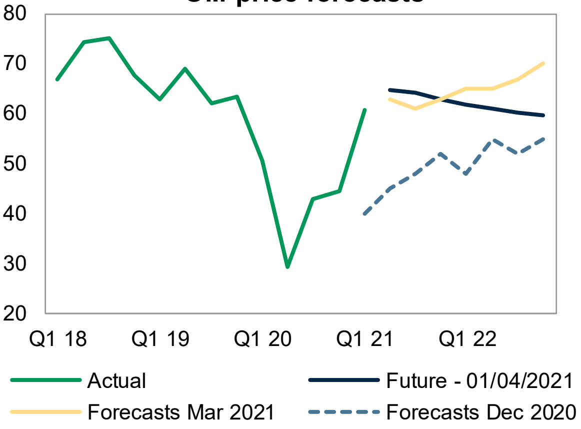
Therefore, in the short term it is a question of **finding the right level** – and above all, the right allocation – **of public spending**. This is the way to avoid crashing the recovery while limiting the risks of excessive debt. So we expect **a slight consolidation of the central government's deficit**, as announced by the end of exceptional bond issues, which are expected to drop from 3.6% to 3.1% of GDP. The same goes for **monetary policy**, which must deal with **a substantial increase in lending in 2020** but **unusually low inflation** (China even had a brief episode of deflation, over three of the past six months). Our scenario assumes **a slight increase in rates in H2**, once activity has stabilised; and **a slowdown in lending starting in Q2**.

Oil – OPEC+ is still vital

Oil prices rose substantially in early 2021 on the back of increased and widespread production cuts. While the outlook for growth in oil demand remains uncertain, our scenario is pricing in an extension of the OPEC+ group's current policy, which will help keep the oil market in a slight deficit for the rest of 2021 and H122. This scenario is expected to keep oil prices between USD60-70/bl.

Oil prices rose sharply in January and February, with Dated Brent increasing from USD50/bl in December 2020 to USD62/bl in February. Although oil consumption rebounded after the first lockdown in the spring of 2020, we did not see an increase in consumption between December and February. Commuting between homes and workplaces remains well below pre-pandemic levels in the US and several other OECD countries. While the sharp recovery in shipping, especially container ships, has clearly bolstered consumption of marine fuel, air traffic remains severely disrupted by limits and restrictions on passenger travel. Commercial flight numbers and kerosene jet fuel consumption are still well below normal sector levels. **The sharp rise in oil prices in recent months is primarily due to the OPEC+ bloc diligently respecting its production quotas, combined with Saudi Arabia's additional reduction of 1m bpd in February and March, which has been extended to April.**

Oil: price forecasts

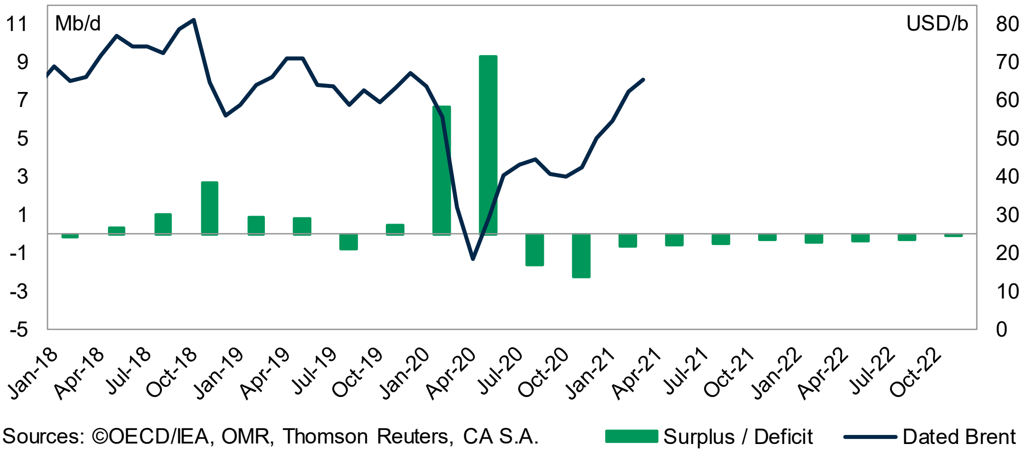


Sources: Thomson Reuters, ICE, Crédit Agricole S.A.

Oil consumption is expected to gradually recover as vaccination campaigns pick up and become more widespread. **However, oil demand may not exceed its pre-crisis level (100m bpd in Q419) before the end of 2022.** In fact, oil demand may have already peaked in several OECD countries in light of the rise in working from home, a sharp drop in employment compared to the pre-Covid period and the development of electric vehicles. Asia and EMs will therefore be the main drivers of growth in demand for oil products.

Demand for oil remains uncertain and will be contingent on the path of the Covid-19 pandemic. As such, balance in the oil market will depend on the ability of OPEC+ to tailor its production to fluctuations in demand. Saudi Arabia, the leader of this group, will have to ensure cohesion and that reduction efforts are shared fairly between members. Maintaining this unity, and particularly Russia's buy-in to the OPEC+ policy, will come at a price that will certainly be paid by Saudi Arabia, given that the country will be required to shoulder most of the reduction effort. Saudi Arabia has already agreed to reduce its output by an additional 1m bpd, without requiring anything in return from Russia.

Oil: market balance



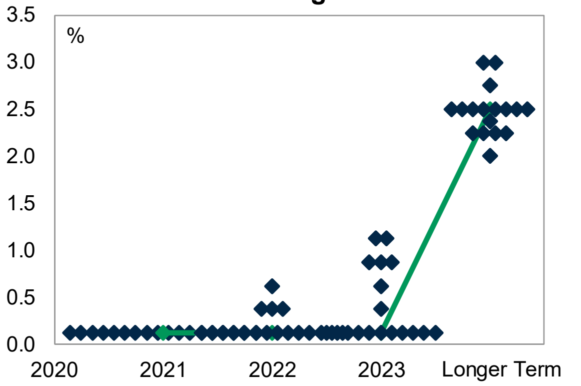
Sources: ©OECD/IEA, OMR, Thomson Reuters, CA S.A.

Our oil price scenario is based on OPEC+ voluntarily ensuring market balance through supply levels in 2021 and H122. Saudi Arabia and its main partners are expected to tailor their production levels in order to maintain a slight market deficit that will gradually reduce inventories. This strategy should enable OPEC+ members to keep oil prices in the USD60-70 range, which is reasonable for their public finances, while limiting the risk of unchecked US oil production. **In an environment of moderate prices and an uncertain market backdrop, our scenario assumes that US producers will be keen to favour profitability over volumes.** As such, we are forecasting average oil prices of USD62/bl and USD67/bl respectively in 2021 and 2022.

Monetary policy – Flexibility is still the name of the game

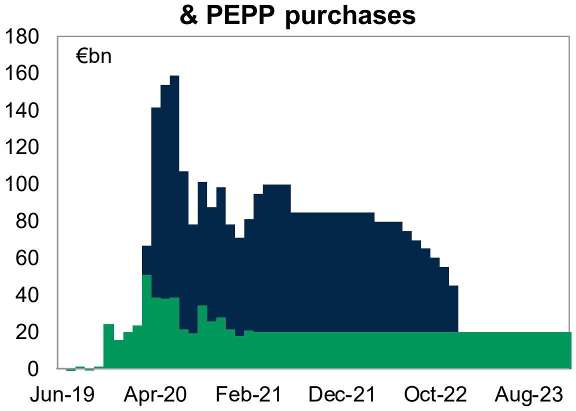
Unmoved by the rise in long-term interest rates, the Fed is staying accommodating in spite of the improved economic outlook and imminent inflation spikes. The ECB, more frustrated by tightening financial conditions, could find itself having to "do more" with it: more messaging, more support.

Fed: dot plot shows unchanged rates through 2023



Sources: Federal Reserve, CA CIB

ECB: monthly APP & PEPP purchases



Sources: BCE, Crédit Agricole CIB

Fed remains dovish despite improved outlook

Despite an improved outlook given progress on vaccinations and additional stimulus, the Fed has maintained a resolutely dovish stance indicating that it will remain accommodative for an extended period of time. Fed speakers have been quick to point out that the recovery remains incomplete and that it will take "some time" for "substantial further progress" towards the dual mandate goals. This was reinforced in the latest 'dot plot' in which the median dot showed unchanged rates through 2023, in line with our current expectations. We look for tapering to begin earlier, but not until early 2022, with asset purchases continuing at the current pace through year-end.

Consistent with its updated framework that allows for some overshooting following periods of below-target inflation, the Fed has been clear that it plans to look through any temporary inflation pressures. While the Fed does expect some spikes in inflation later in the year, including a base-effects driven one in Q2, it projects those as transient and not persistent, and we expect no change to the monetary policy stance as a result.

Fed speakers have also indicated little concern about the recent backup in yields, instead arguing that they reflect the improved outlook. Given this view, we believe that the rise in yields alone will not be enough to spur the Fed into action, but if we were to see any disorderly market conditions or a broader tightening of financial conditions, action such as a maturity extension remains on the table.

European Central Bank: more of the same, but better

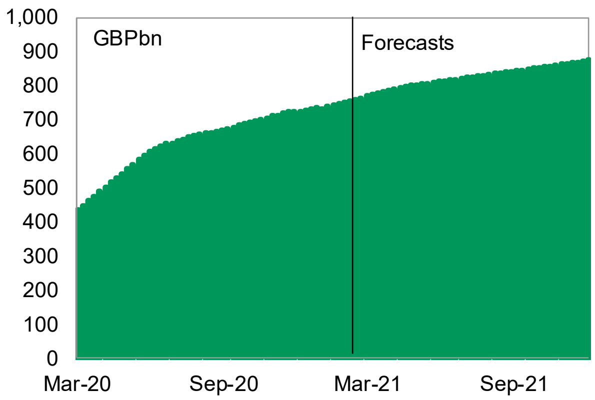
The ECB has little reason to adjust its monetary policy tools in the short term. Indeed, the PEPP budget (EUR1.85trn between now and March 2022) means that it has sufficient latitude to implement its desired degree of monetary policy accommodation. In addition, the three TLTROs that will run up to the end of 2021 are expected to support financing conditions.

However, **if financing conditions were to deteriorate**, due to a reassessment of the inflation outlook or contagion from the US markets to European assets, the ECB may have to change the way it administers the PEPP, and above all the way it communicates about it.

While its communication on the subject is currently very much at its own discretion, **the ECB may be required to be more explicit about its targets when it comes to market rates** (sovereign yields and risk-free rates).

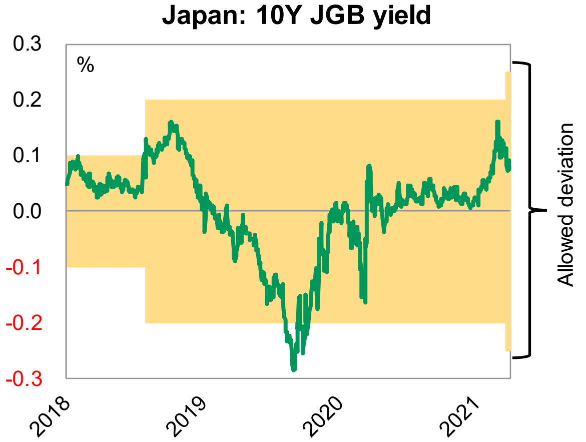
In any case, **the ECB will have to extend its support measures beyond what it has announced so far**. We expect the PEPP to be extended until the end of 2022 (vs its current end date of March 2022) and the budget to be increased to EUR2.25trn (EUR1.85trn currently). Furthermore, the ECB will likely have to **set up new TLTROs in 2022**.

UK: purchases of gilts by the BoE



Sources: BoE, Crédit Agricole S.A.

Japan: 10Y JGB yield



Sources: Bloomberg, CA CIB

BoE: on the hawkish end of the global central bank spectrum

No more QE expected in May, but more action not ruled out later this year. The BoE delivered a hawkish surprise at its March meeting, by deciding not to push against market expectations for higher interest rates. It is more confident in the near-term outlook, which is understandable: the news has been largely positive since December (stronger-than-expected global growth witnessing apparent economic resilience to the lockdown, a more-rapid-than-expected vaccination rollout in the UK, a bigger-than-expected US stimulus plan and further near-term stimulus announced in the 3 March UK Budget). The BoE confirmed its intentions to complete its asset purchase programme at the end of this year. Consequently, we no longer expect more QE to be announced in May at the next MPC meeting. However, we still see a non-negligible probability that the BoE will decide to expand its asset purchases later in the year. Indeed, if the BoE sticks to its current plan, it will need to almost halve the pace of purchases after the May meeting (from GBP4.4bn per week to GBP2.3bn per week) or cut them even further later on. If the "reflation trade" continues, the combination of market optimism and BoE tapering could result in unwarranted tightening of financial conditions, which in turn will weigh on prospects for CPI inflation (which, for the time being, the BoE continues to see close to 2% on a two- to three-year horizon).

BoJ: to leave policy rates under YCC intact even after the "assessment" made public at the March MPM

We continue to believe that **the BoJ will leave policy rates intact for the foreseeable future (at least through 2023)** even after the policy "assessment" the bank made public at the March MPM. While we believe Japan's core CPI inflation will approach 2% YoY in Q2, it will be overlooked by the bank without signalling any possibility of policy normalisation.

The assessment the bank made has four pillars. First, **the allowed range of fluctuations of the 10Y JGB yield from the target (currently "approximately 0%") was slightly expanded from +/-20bp to +/-25bp with a view to generating more volatility (or activity) in the JGB market**. Furthermore, this new band of +/-25bp was officially written in the policy decision statement, suggesting the band is now more explicitly among the parameters of YCC.

Second, **the bank decided to introduce a new scheme called the "Interest Scheme to Promote Lending."** In this scheme, banks receive "positive" interest on their current account deposits at the BoJ, corresponding to the balance of the amount of the BoJ's various fund-provisioning measures used by those banks. More importantly, the level of "positive" interest rates the banks receive are linked with the "absolute value" of the negative IOER, **therefore generating room, at least institutionally, for rate cuts including a cut of the already negative IOER**.

Third, the bank decided to shift from the "dual" targets of the equity-linked ETFs and J-REITs purchasing operations to a "single" target by dropping the "purchasing targets in principle", leaving only the "maximum purchasing targets". **This gives more flexibility to the BoJ since it can reduce the amount of purchases of these risk assets when the markets are strong**.

Fourth, regarding the equity-linked ETF purchases, **the bank decided to buy only TOPIX-linked ETFs** and no longer buy ETFs linked to, say, Nikkei 225 to be more neutral to the equity market.

Interest rates – The markets' (temporary) hearing loss

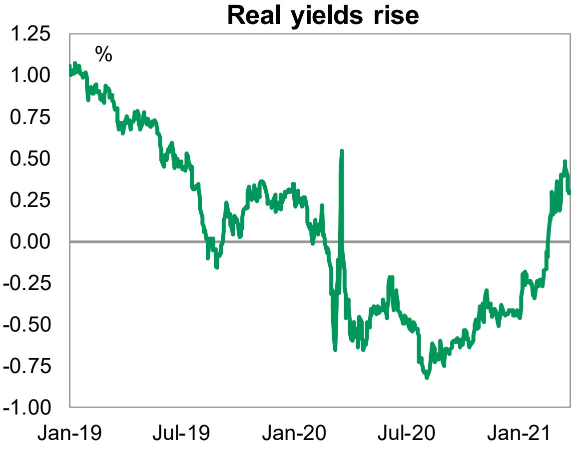
Deaf to the Fed's very accommodating tone, US long-term yields made a strong comeback, dragging European (and other) yields in their wake. Once the inflationary push dissipates, accommodating monetary policy leaves room for a less 'disordered' and more gradual increase in long-term rates, regardless of any 'reflation trade'.

US: rates market challenges the Fed's dovish policy

We expect the selloff in US rates to continue in 2021 given our macro forecast of higher inflation and stronger growth in Q2 and Q3, with the additional stimulus package passed by Congress in March providing further support and vaccinations continuing to progress. We expect the 10Y Treasury to be around 1.75% by year-end. However, the selloff will likely not be a straight-line, given our growth and inflation forecast. The 10Y yield could overshoot to 1.85% in Q2, before coming down to 1.75% by year-end.

Although most investors had expected higher Treasury rates and a steeper yield curve at the start of the year, the US bond market selloff over the past couple of months well exceeded market expectations, mostly driven by stronger growth, larger stimulus and improving health data, consistent with the sharp rise in real yields since the start of the year.

Real yields rise

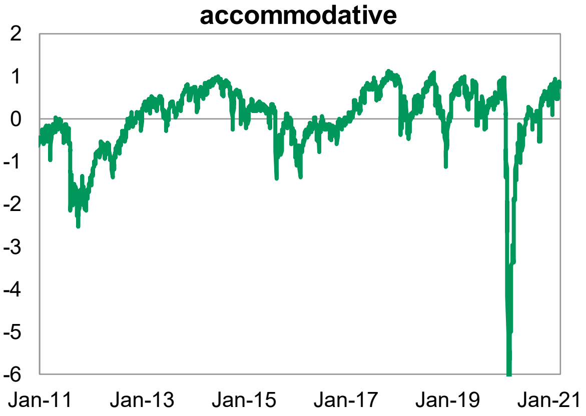


Sources: Bloomberg, CA CIB

The 5Y5Y real yields have jumped. Reflation trades have been a theme, evident in higher TIPS breakevens. Investors are challenging the Fed's 'low for long' dovish policy.

One interesting observation has been that US rates have seen higher volatility during Asia and European trading hours recently, eg, reacting more to news out of Asia. The year-to-date volatility in AUD bonds has been massive. Many investors in Australia put on AUD vs USD spread trades. The year-to-date selloff in Treasuries has made Treasury to JGB spreads attractive, especially for long-end investors in Asia, such as lifers and insurance companies.

Financial conditions remain accommodative



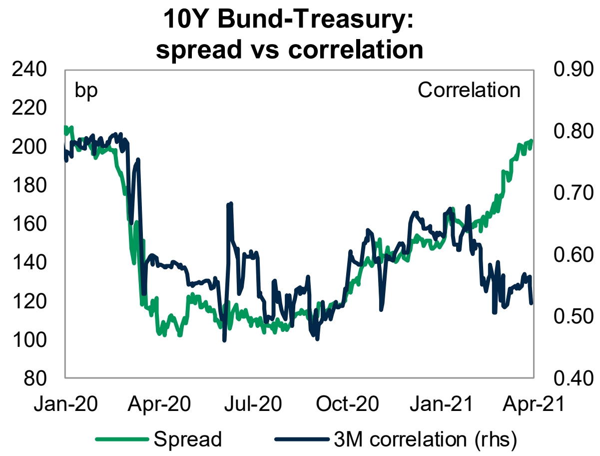
Sources: Bloomberg, CA CIB

Fed officials have shown little concern about higher yields, as they pointed out that the rising yields are a "statement of confidence" in the improving outlook and represent higher growth expectations. We do not expect the Fed to taper asset purchases until early 2022. Financial conditions have remained broadly accommodative. However, a broader tightening of financial conditions could prompt the Fed into action. Possibilities would include a maturity extension or yield curve control.

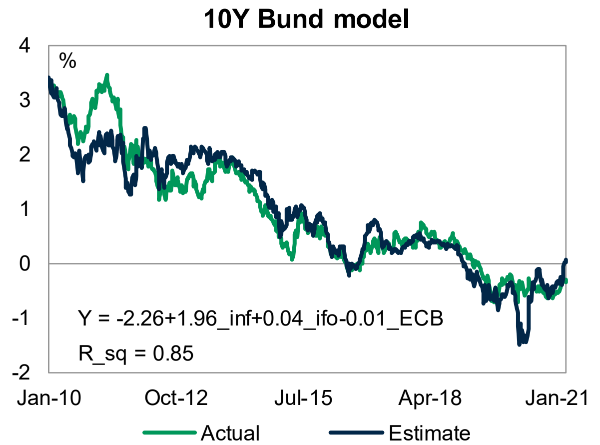
Eurozone: the push and pull forces on bond yields

Global push vs domestic pull

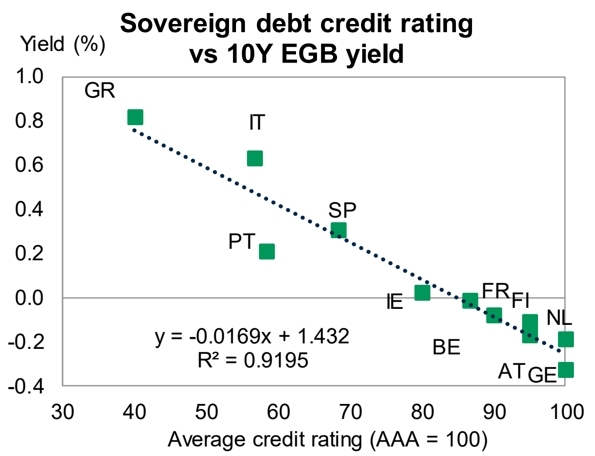
The Q1 market dynamic can be summed up as global forces, led by US Treasuries, pushing Euro government bond (EGB) yields higher while domestic forces, mainly ECB policy, are pulling yields lower. How this theme of opposing forces evolves will largely depend on EGBs' – especially Bunds' – sensitivity to US Treasuries and the extent of the ECB's ultra-loose measures.



Source: Crédit Agricole CIB



Source: Crédit Agricole CIB



Sources: S&P, Moody's, Fitch, CA CIB

US Treasuries 'push' influence

Regarding Bunds' sensitivity to US Treasuries, the three-month correlation of daily yield changes was high (ie, 0.8) just prior to the pandemic when the 10Y Bund-Treasury spread was above 200bp, but the relationship declined (sub-0.5) along with the spread (ie, 100bp) as Treasury yields moved towards the Bunds'. Thereafter and against the backdrop of reduced infections and vaccine hopes, the spread and correlation began to rise during the latter part of last year, but in recent months the correlation reversed again when there was an upward surge in Treasury yields. This can be justified by the contrasting language of the ECB (yield rise "must be resisted") and Fed (yield rise "a statement of confidence") as well as the US's relative progress in the vaccine rollout and its recently signed stimulus package.

In recent weeks, the Bund/Treasury three-month correlation stabilised and even slightly increased within the 0.5-0.6 range. This highlights that the correlation has likely bottomed out and is susceptible to rising, especially when 10Y spread trades above 200bp. This reinforces our view that there is unlikely to be a disconnect between Bunds and Treasuries, as their economic cycles broadly overlap, particularly in this instance as the containment of the virus will require a collective international effort. Hence, the risk is for the relationship to moderately rise going forward, all else being equal, though to what extent will largely depend on domestic factors – in particular the ECB.

The ECB is the 'pull' X-factor

On the domestic side, a key driver pulling down EGB yields is the ECB's accommodative stance, which it acted on by increasing PEPP activity from mid-March for the next three months. Before the increase in purchases, the YTD weekly purchases averaged EUR14bn per week, but this average should rise to around EUR20-25bn per week over the three-month period. However, it is debatable whether the increase in purchases will be sufficient to prevent yields from resisting another strong rise in US yields. Indeed, there is a question mark over the degree of appetite on the Governing Council to deploy huge firepower to cap bond yields.

Economic caution despite encouraging data

Improvements in the Eurozone PMI survey and HICP may not be sustained due to a spike in infections as well as technicalities in the case of inflation. Our Bund model (5Y5Y inflation swap, German Ifo and the ECB balance sheet as independent variables) shows fair value of around 0bp. Hence, the ECB may need to show greater purchasing appetite to prevent yields from rising. We expect the ECB to deploy more force if needed and we only see a gradual, but volatile, rise in the 10Y Bund yield to -20bp by year-end.

EGB spread tightening on reduced political tail risk

Since a volatile start to the year (the collapse of the Italian government, the satisfactory resolution to this crisis and ultra-loose monetary/fiscal policy measures), EGB spreads have pushed tighter. Looking ahead, demand/supply flows for non-core issuers remain favourable, as new bonds continue to be significantly oversubscribed, ie, averaging eight times YTD. In the case of Italy, fundamentals and risk, as encompassed by its credit rating, imply it looks attractive vs peers. We target a 10Y BTP-Bund spread of 80bp by year-end.

Exchange rates – The dollar's circumstantial advantage

Boosted by US performance, with the forecast of a strong recovery pushing bond yields upward, the USD is attractive. Beyond its obvious but temporary advantage, it should return to its long-term downtrend, though this could be interrupted by a possible escalation in trade tensions between the US and China.

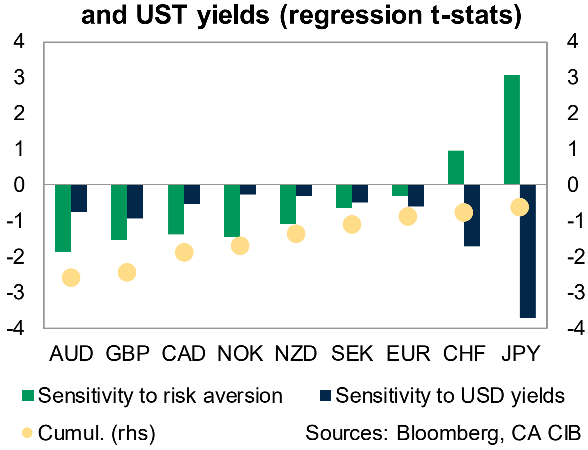
G10 FX: the secular USD downtrend revisited

The recent sharp improvement of the US economic outlook and the rally in UST yields made us revisit our bearish USD outlook across the board.

The start of 2021 saw a significant improvement in the relative fundamentals of the USD vis a vis the rest of G10. The key drivers of that improvement were the huge fiscal stimulus and the better control over the Covid pandemic which will likely become the hallmarks of the first hundred days of Joe Biden's administration. On the back of these developments, **we have upgraded their growth projections as well as the UST yield forecasts**. In turn, the upgrade has made us revisit our forecast that **the USD is on a secular downtrend which could push it significantly lower across the board**.

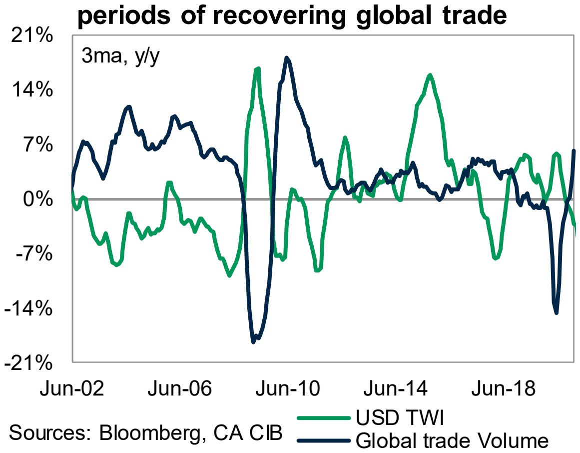
Following our reassessment, we now think that the above macroeconomic drivers in the US could support the USD in the next 3M-6M. Indeed, **higher UST yields should continue to boost the rate appeal of the USD in particular vs low-yielding currencies like the JPY, CHF and EUR**. In addition, the recent spike of UST yields could contribute to a potential, unwarranted tightening of the global financial conditions over time and thus trigger a spike in risk aversion, potentially as soon as Q2. In the left-hand side chart below, we show a ranking of G10 US crosses depending on their sensitivity with respect to the two key drivers of FX markets at present: risk sentiment and UST yields. Our results suggest that the AUD and GBP would be the most vulnerable G10 currencies to a potential further rally in UST yields that is accompanied by a spike in risk aversion.

G10 FX sensitivity to risk aversion and UST yields (regression t-stats)



Sources: Bloomberg, CA CIB

USD TWI tended to suffer during periods of recovering global trade



Sources: Bloomberg, CA CIB

The above being said, **we stick with our view for a USD secular downtrend over the next 6M-12**M. Indeed, we believe that the Fed remains very dovish and will likely look through the latest improvement of US data and especially the temporary spike in US inflation which we expect in Q2. This could further mean that the FOMC could announce measures (such as operation twist 2.0) to contain 'disruptive' moves in UST yields that weigh on the global risk sentiment and even jeopardise the US economic recovery. We therefore think that the dovish Fed would ultimately make sure that UST real yields remain deeply negative in a foreseeable future and thus continue to hurt the investment appeal of the USD across the board. The negative USD impact from low real rate and yields could be further compounded by the policy mix of higher taxes and overregulation that the Biden administration is planning for the coming quarters and that could reduce the attractiveness of US stocks as well.

Last but not least, we think that **a big chunk of President Joe Biden's USD1.9trn fiscal stimulus would be spent on imported goods**. In turn, this could lead to **further deterioration of the already weak US external imbalances and weigh on the USD in H221**. The development would further underscore the very strong negative correlation between the USD and global trade, which is highlighted in the right-hand side chart below. Indeed, the USD TWI tends to selloff during periods when global trade is recovering and vice versa. We expect global trade volumes to pick up further in H221 and 2022 as the post-Covid recovery broadens and deepens across the board. Subsequently, the global exporters will be converting a growing share of their USD trade revenues into their home currencies while their respective central banks will be diversifying their growing FX reserves by selling USD and buying liquid proxies like the EUR for example.

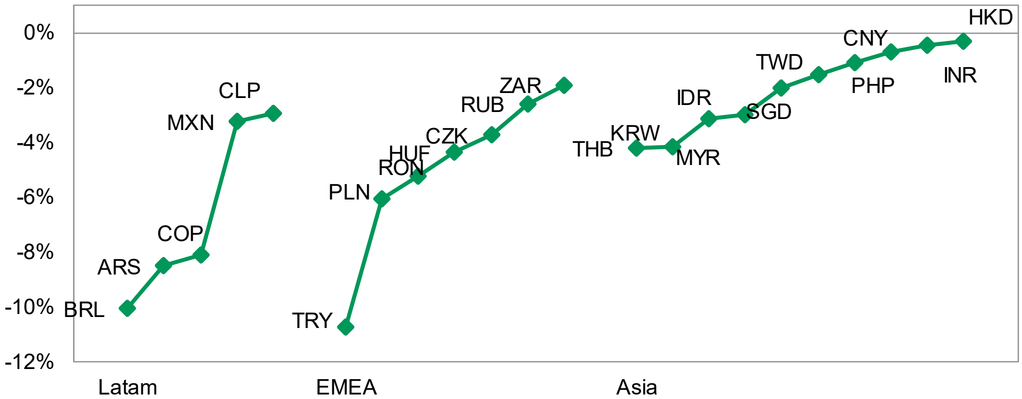
Turning to the risks to our FX market outlook, we think that **the key threat to our bearish long-term outlook for the USD is a potential escalation of the trade tensions between the US and China**. This could severely undermine any tentative recovery of global trade and thus could boost the USD especially vs Asian G10 currencies. This would be consistent with the experience from 2018-19 when the protectionist policies of the Donald Trump administration propelled the currency to multi-year highs. Another risk to our central case would be **a potential escalation of idiosyncratic political risks like Brexit, which could weigh on the GBP and to a lesser degree, the EUR vs the USD**.

Emerging countries: after a weak Q1, what next?

The first quarter has been choppy for EM currencies, which have weakened across the board vs the USD. Pegged currencies aside, the INR and the CNY have been the most resilient, whereas the TRY and the BRL have depreciated the most. From a regional standpoint, Asian currencies have been the most resilient, Latin American currencies have depreciated the most, whereas EMEA currencies have been in between.

The main common factor of depreciation has been the surprising increase in US yields on the back of intensifying reflation expectations. 10Y US yields have increased by as much 84bp in Q1. The surprise component in that move came for a large part from US politics. As Democrats managed to get the majority in the Senate in January, President Joe Biden was able to pass his gigantic stimulus package, and this has fuelled inflation expectations (on top of base effects and higher commodity prices).

EM currencies vs USD: appreciation or depreciation in 1Q



Sources: Bloomberg, Crédit Agricole CIB

What's next? In our view, **the rest of the year could be a two-step story**. First step: we think **the market is not yet done with the increase in US yield**s. The addition of a second US stimulus to the first one, even if it is expected to be financed through tax increases more than fresh bond issuance, is likely to further support inflation expectations. **The continuing increase in commodity prices** (+15% YTD; +5% in March) **should also fuel inflation expectations**. Our inflation strategist expects the increase in the headline inflation measure to take place mostly in Q2, which should leave EM currencies vulnerable to further depreciation. **EM currencies will likely remain on a defensive footing until the summer.**

In terms of relative value among the EM complex, we make the four following observations:

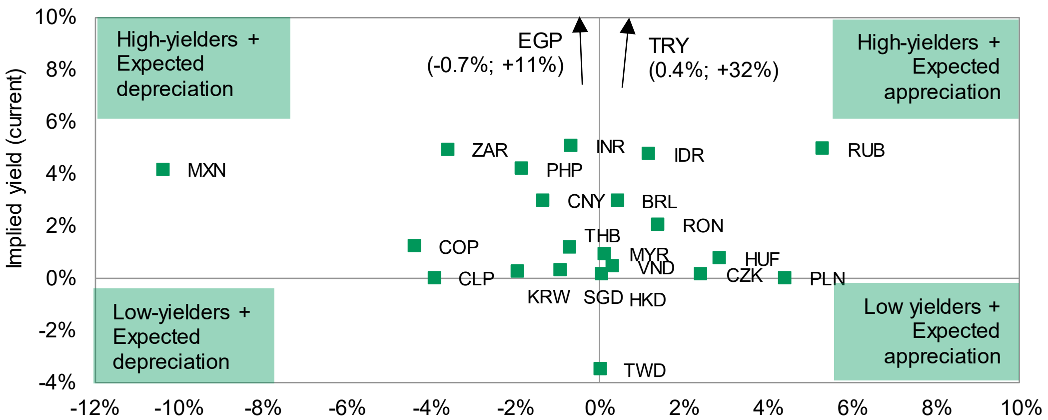
1 - **Three currencies stand out as promising: the RUB, the IDR and the EGP.** These three currencies display relatively high carry, and we see them either being roughly stable (the EGP and IDR) or appreciating (the RUB, supported by OPEC+ coordination, see below).

2 - **Some high-yielders are more risky, in our view.** The TRY may appreciate from its current level according to our forecast (as the imbalances will likely be reduced over time due to past tightening of monetary conditions), but the degree of conviction we have in this base-case scenario is not very high. Given the CBRT's credibility issue, the TRY's fate may well get worse before it gets better. The ZAR may actually depreciate when US yields rise further, from relatively high current levels. The BRL also looks vulnerable, on the back of President Jair Bolsonaro's challenged management of the Covid crisis, and on rising sovereign risk – but the central bank seems willing to intervene and put a floor under the BRL if necessary. We also expect the MXN to depreciate (we note crowded positioning, a risk of partial decorrelation vs the US economy and Banxico's reluctance to hike rates, contrary to Brazil's central bank for instance).

3 - **The group of Asian currencies seems 'calmer' and more clustered** around the centre of the chart (limited change in exchange rates forecasted and lower implied yields on average than other EMs). This reflects (1) lower risk/better fundamentals compared to other EMs on average; (2) Asian central banks' reluctance to tolerate FX appreciation; and (3) our view that the CNY will depreciate gradually in Q2.

4 - **Our constructive view on the CE4 relies on the expectation that Europe's health situation will improve in the coming months**, which should warrant a return of exchange rates towards their long-term

Our EM FX forecasts for 2021



Sources: Bloomberg, CACIB

Then, by mid-year, EM currencies may move to a second step. In our view, what matters for EMs is not so much the absolute level of US yields, but the pace of their increase. **When inflation stabilises (by mid-2021) and US yields with it, EM currencies may feel some relief.** The interesting thing with the US package is that it will not only support yields, but also US demand. As US and global demand pick up, also thanks to the vaccination process, EM exports should benefit. EM currencies may benefit via the current account balances (exports) and the capital account balance (equity flows), in addition to the carry attractiveness when it comes to high yielders.

Economic and financial forecasts

Interest rate

		13-Apr	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
	10Y	1.66	1.85	1.80	1.75	1.85	1.95	2.05	2.15
Eurozone	Deposit	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
	10Y (Germany)	-0.29	-0.25	-0.25	-0.20	-0.15	-0.15	-0.10	-0.10
10Y Spread vs. EUR	France	0.26	0.20	0.20	0.30	0.45	0.25	0.30	0.30
	Italy	1.05	0.85	0.80	0.90	1.00	0.85	0.95	0.95

Exchange Rate

USD Exchange rate Industrialised countries		13-Apr	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Euro	EUR/USD	1.19	1.17	1.19	1.20	1.21	1.22	1.23	1.24
Japan	USD/JPY	109.20	108.00	108.00	110.00	110.00	110.00	110.00	110.00
United Kingdom	GBP/USD	1.37	1.35	1.38	1.40	1.42	1.43	1.44	1.45
Switzerland	USD/CHF	0.92	0.94	0.93	0.93	0.93	0.93	0.93	0.93
Asia									
China	USD/CNY	6.54	6.65	6.55	6.45	6.45	6.45	6.45	6.45
Hong Kong	USD/HKD	7.77	7.77	7.76	7.76	7.76	7.76	7.76	7.76
India	USD/INR	75.28	74.00	74.50	75.00	75.50	76.00	76.50	77.00
South Korea	USD/KRW	1123	1155	1145	1135	1130	1125	1120	1110
Latin America									
Brazil	USD/BRL	5.73	5.75	5.60	5.50	5.75	5.90	5.90	5.90
Mexico	USD/MXN	20.10	23.00	22.00	21.50	21.00	20.50	20.00	20.00
Emerging Europe									
Poland	USD/PLN	3.82	3.81	3.71	3.64	3.58	3.53	3.49	3.44
Russia	USD/RUB	76.99	72.00	73.00	75.00	75.00	76.00	77.00	78.00
Turkey	USD/TRY	8.14	8.30	8.20	7.90	7.80	7.80	7.80	8.00

Commodities

		13-Apr	2021			2022			
Precious metals			Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gold	USD/oz	64	1,960	1,980	2,020	2,040	2,080	2,120	2,140

Av. quarter price		13-Apr	2021			2022			
			Q2	Q3	Q4	Q1	Q2	Q3	Q4
Brent	USD/BBL	64	63	61	63	65	65	67	70

Economic Forecasts

	GDP (yoy, %)			Consumer prices (yoy, %)			Current account (% of GDP)		
	2020	2021	2022	2020	2021	2022	2020	2021	2022
United States	-3.5	5.1	3.8	1.2	2.4	2.0	-2.6	-2.6	-2.7
Japan	-4.8	2.4	2.5	-0.2	1.1	0.9	2.9	3.3	3.7
Eurozone	-6.8	4.0	4.1	0.3	1.4	1.0	2.8	3.2	2.9
Germany	-5.3	2.9	3.9	0.4	2.1	1.3	6.9	6.8	6.6
France	-8.2	5.4	3.6	0.5	1.2	0.8	-2.3	-1.0	-1.0
Italy	-8.9	3.8	3.9	-0.2	0.8	0.3	3.0	2.8	2.6
Spain	-11.0	4.9	5.3	-0.3	0.9	0.6	1.9	1.9	1.7
Netherlands	-3.8	2.7	3.4	1.1	1.5	1.5	8.6	10.3	10.2
Other advanced									
United Kingdom	-9.8	5.5	7.4	1.4	1.5	2.0	-3.5	-5.3	-4.6
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	-1.0	7.3	5.4	2.9	2.2	2.7	2.3	1.7	1.4
China	2.3	8.5	5.1	2.5	1.3	1.9	1.9	2.0	1.7
India	-7.0	7.4	7.4	6.6	5.1	5.5	1.2	-2.2	-2.7
South Korea	-0.9	3.4	2.7	0.6	1.0	1.4	4.0	3.8	3.7
Latin America	-6.6	3.9	2.8	8.5	9.3	8.3	0.2	-0.1	-0.7
Brazil	-4.1	3.5	2.8	4.5	4.6	3.8	-0.9	-0.5	-1.0
Mexico	-8.2	4.2	3.0	3.2	3.8	3.6	2.5	1.0	0.5
Emerging Europe	-2.5	3.5	3.4	5.1	6.2	4.9	0.6	0.7	0.7
Russia	-3.0	3.0	2.5	3.4	5.2	4.0	2.2	2.5	2.5
Turkey	1.6	4.5	4.0	11.9	13.5	10.5	-5.1	-3.0	-2.5
Poland	-2.8	3.6	4.9	3.4	2.6	2.2	3.5	2.9	2.3
Africa, Middle East	-4.7	3.4	3.4	8.0	7.7	6.2	-3.5	-1.8	-0.5
Saudi Arabia	-4.1	3.2	3.1	3.5	2.9	2.1	-4.0	-0.9	1.2
United Arab Emirates	-5.5	3.2	3.2	-2.1	1.0	2.1	-0.3	1.1	3.5
Egypt	1.0	3.9	5.0	5.1	6.5	6.9	-4.5	-4.0	-3.5
Morocco	-7.0	3.9	3.2	0.6	1.1	1.5	-7.0	-4.2	-3.5
Total	-3.6	5.2	4.2	2.9	3.3	3.0			
Advanced economies	-5.2	4.3	3.9	0.7	1.8	1.5			
Emerging countries	-2.4	5.8	4.5	4.6	4.4	4.2			

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	**-13.5**	**-6.7**	**-4.1**	**242.4**	**244.7**	**245.9**
Eurozone	**-7.5**	**-7.5**	**-4.2**	**101.1**	**104.2**	**100.3**
Germany	-3.7	-6.8	-2.2	69.5	75.0	75.3
France	-9.2	-7.2	-5.7	115.6	117.3	118.0
Italy	-9.5	-9.9	-4.7	155.7	159.6	156.5
Spain	-11.0	-9.6	-6.8	120.0	122.4	121.5
Netherlands	-7.0	-5.5	-3.9	59.1	61.4	63.0
Belgium	-10.6	-7.1	-6.3	116.0	117.8	118.6
Greece	-6.4	-7.6	1.4	203.6	191.8	0.0
Ireland	-5.5	-5.1	-3.6	59.0	60.2	59.1
Portugal	-7.3	-5.2	-3.1	134.5	133.0	131.0
United Kingdom	**-14.1**	**-9.3**	**-4.1**	**102.1**	**107.5**	**103.5**

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