GLOBAL ECONOMIC RESEARCH

GLOBAL MACRO OUTLOOK

APRIL 2019

KEY FORECAST TRENDS

+ Last month, we wrote that three of the key controversies shaping the global outlook were moving in a favourable direction. That's still the case today: the Fed's on hold, China's growth risks are receding, and a US-China trade deal seems to be in the pipeline.
+ That leaves Europe, where recent manufacturing data have fuelled investor concerns that the economy might be slipping into recession. We don't agree, in part because Chinese stimulus should benefit Europe's export-dependent economies.
+ But investors may also be too pessimistic on domestic-demand growth in the euro area. Job and wage growth remain strong, inflation is falling, and recent data suggest that European consumers had a strong first quarter.
+ Don't get us wrong: a material acceleration in European growth remains unlikely. But we're growing more hopeful that the worst of the slowdown is over. And if that's right, it should help keep risk assets on a firmer footing.

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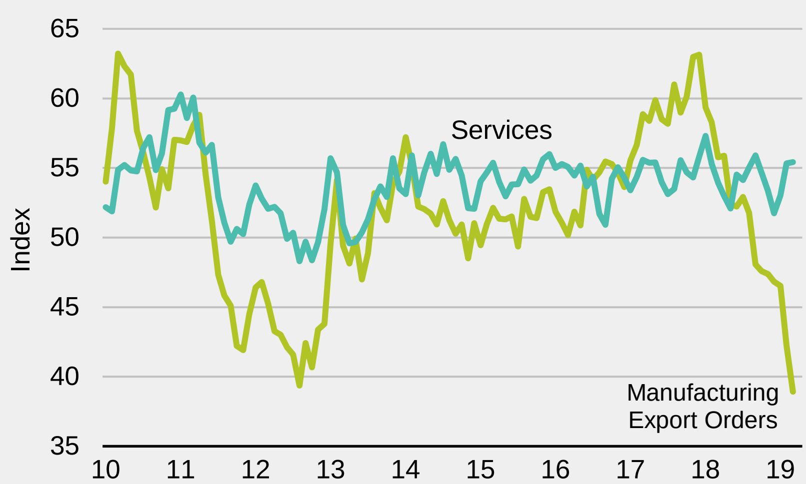
Puzzling Divergence

Germany Purchasing Managers' Index (PMI)

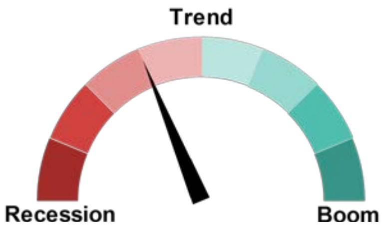


Through March 31, 2019
Source: Haver Analytics and IHS Markit

+ Germany's service sector PMI rose to 55.5 in March, suggesting the economy is in rude health.
+ But the drop in the manufacturing PMI dominated headlines, with export orders falling to 38.9, weaker than at the height of the sovereign-debt crisis in 2012.
+ Except for a short period following the global financial crisis, this is the biggest-ever gap between the two indicators. How it is resolved will have a major bearing on the performance of the global economy and asset prices in coming months.

GLOBAL FORECASTS

Economic Growth



- We expect subdued growth, in line with the weak secular trend, to continue throughout the forecast horizon
- Vulnerability to event risks remains high

Key Risks

- Trade war shifts to Europe
- China policy stimulus less effective than expected
- European politics (UK, Italy)

Inflation

- The secular backdrop still points to higher inflation over the medium term
- But subdued growth and lower oil prices present a high hurdle this year

Key Risks

- Greater nonlinearity in the Phillips curve?
- Supply constraints dominate

Monetary Policy

- Fed now firmly on hold; we expect rates to remain unchanged until the end of 2020
- The case for an ECB hike has disappeared; BOJ also set to remain on the sidelines

Key Risks

- Uncertain Fed reaction function
- Tightening more powerful than expected

OUTLOOK

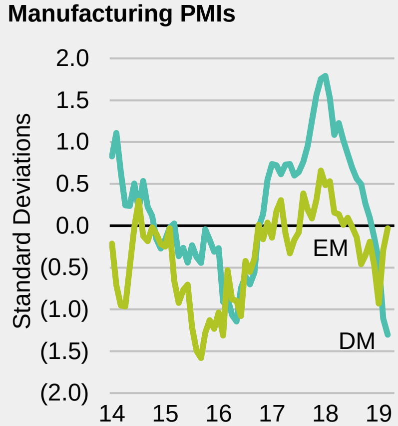
- Our first estimate for global growth in 2020 is 2.7%, marginally higher than our most recent estimate for 2019 (2.6%) but the lowest first estimate for year-ahead growth we have published since 2010.
- Looking at the major countries, we expect growth to slow slightly in the US (1.8% versus 2.0%) and China (6.0% versus 6.2%) and remain soft in the euro area (1.2% versus 1.1%) and Japan (0.5% versus 0.6%). None of these forecasts are materially different from consensus.
- That's also the case for global inflation, which we expect to hold steady at 2.6% in 2020. But we do have a different take on the US, where we expect inflation to rise to 2.5% (consensus 2.2%).
- Importantly, we think higher inflation is what the Fed wants and that US interest rates will now remain on hold until the end of 2020. That's also our view on the European Central Bank (ECB), where the near-term bias is probably tilted toward further easing.

Global Cyclical Outlook: First Signs of Stability?

Global Manufacturing PMI

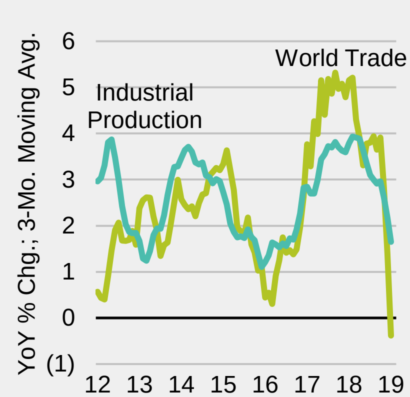
Through March 31, 2019
Source: Haver Analytics and IHS Markit

Manufacturing PMIs



As of March 31, 2019
Source: Haver Analytics and IHS Markit

Global Trade and IP Growth



Through January 31, 2019
Source: Haver Analytics

GLOBAL MARKET OUTLOOK: YIELD CURVES

GLOBAL YIELDS

Global—Developed-market (DM) yields are still very low and expected to rise, but magnitude and timing are less certain

US—The market is now starting to price in rate cuts. That's too big a shift in our view, and we expect yields to rise modestly over the coming year

Euro Area—The case for higher Bund yields has weakened, but yields remain well below our fair-value estimates and the market is too pessimistic on euro-area growth prospects.

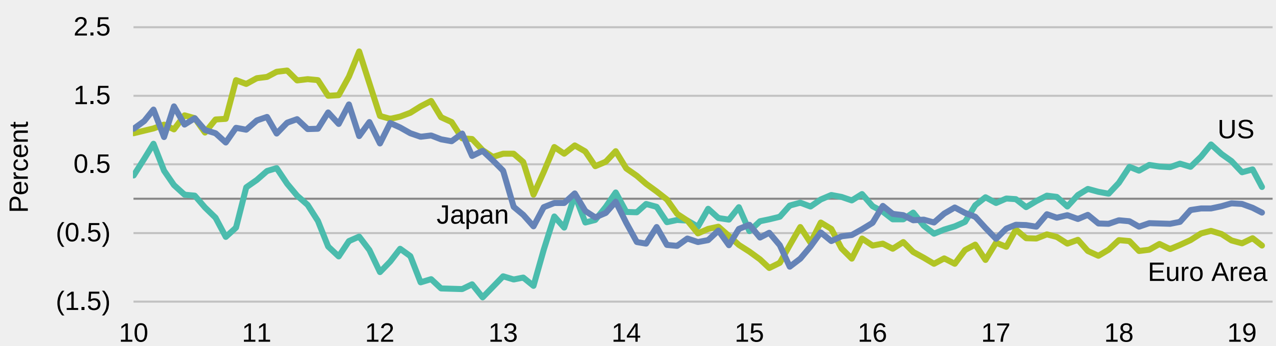
Japan—Quantitative and qualitative easing with yield curve control (QQE-YCC) to anchor 10-year yields close to zero over the forecast horizon

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

	AB		Consensus	
	2019	2020	2019	2020
US	2.75	3.00	2.96	3.02
Euro Area	0.50	0.50	0.45	0.73
Japan	0.00	0.00	0.06	0.19
China	3.00	3.00	3.06	2.94

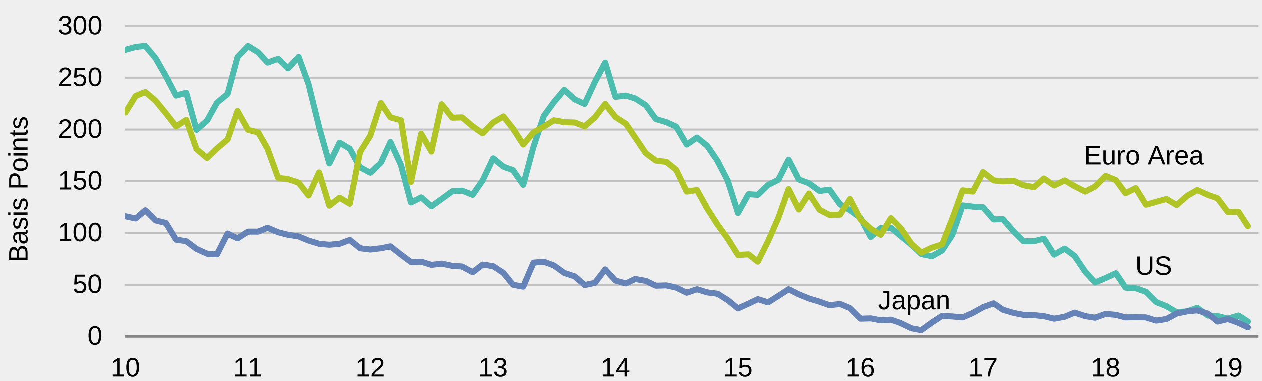
As of March 29, 2019
Source: Bloomberg and AB

Real 10-Year Bond Yields*



Through March 29, 2019
*Current 10-year bond yield less five-year/five-year forward inflation swap
Source: Bloomberg and AB

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



Through March 29, 2019
Source: Bloomberg and AB

GLOBAL MARKET OUTLOOK: CURRENCIES

FX FORECASTS

USD—The US dollar has been range bound over the past two years and we expect this to continue in coming quarters

JPY—The yen would benefit if/when risk-asset headwinds intensify

EUR—With rates on hold for the foreseeable future, we see few catalysts for a stronger euro; politics still an important downside risk (e.g., Italy, Brexit)

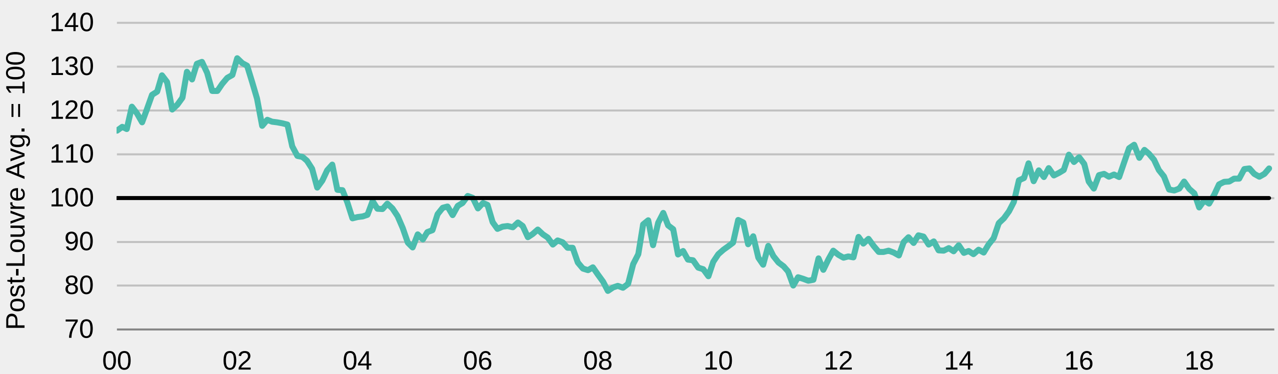
CNY—an easing of trade tension and receding downside growth risks point to a stable CNY outlook

Global FX: AB vs. Consensus Year-End Forecasts

	AB		Consensus	
	2019	2020	2019	2020
EUR/USD	1.13	1.13	1.17	1.22
USD/JPY	109	109	109	105
USD/CNY	6.80	6.80	6.70	6.65
EUR/GBP	0.83	0.83	0.85	0.85

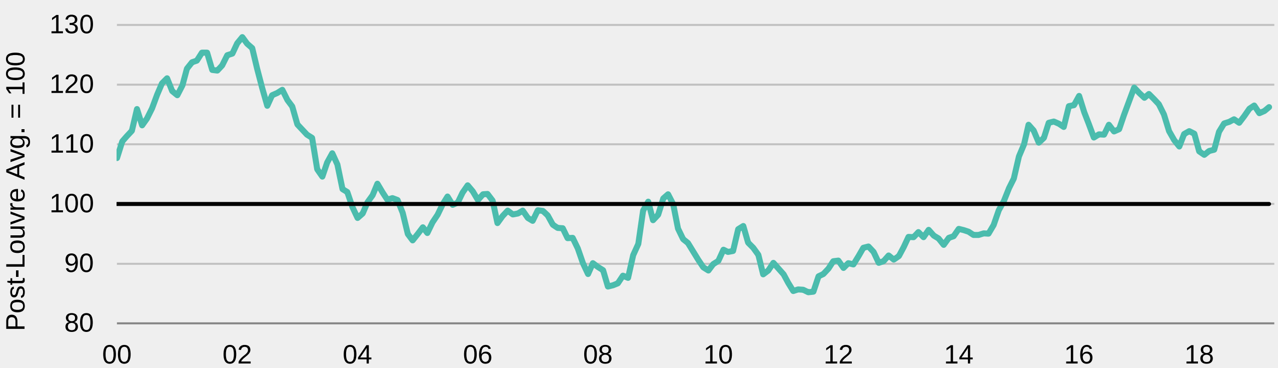
As of March 29, 2019
Source: Bloomberg and AB

Nominal USD Exchange Rate: DXY



Through March 29, 2019
Source: Bloomberg and AB

Real USD Exchange Rate



Through March 29, 2019
Source: Bloomberg and AB

US

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)	
	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F
US	2.0	1.8	2.3	2.5	2.38	2.38	2.75	3.00

OUTLOOK

- The US economy probably slowed in the first quarter, but our medium-term outlook is more favorable. A variety of one-off factors (bad weather and the government shutdown foremost among them) likely dampened activity in 1Q but are unlikely to be persistent headwinds. With the term structure of interest rates lower, renewed growth in rate-sensitive sectors like housing and auto sales should give comfort that the outlook remains solid.
- Inflation remains stable even as the labor market continues to tighten, calling into question the historical relationship between the two. We think that over time stronger job markets will push prices up, but the weakness in the global economy means we are unlikely to see a sharp rise in prices over the forecast horizon.
- Tame inflation and an uncertain growth outlook leave the Fed comfortably on hold, and we expect no move on interest rates this year.

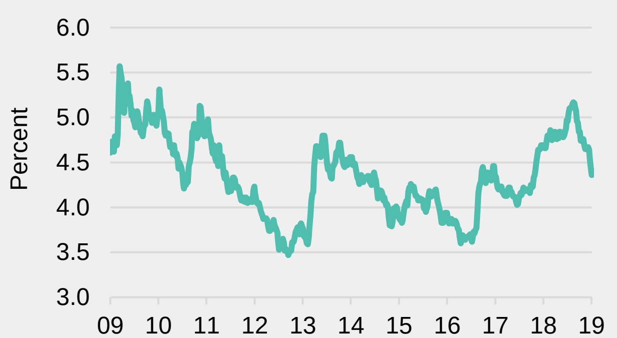
RISK FACTORS

- While there are some signs of stabilization in China and in Europe, the global economy remains weak. That is a headwind to US growth and one that is unlikely to abate in the next few months.
- The 2020 presidential election season has begun, and political risk is likely to rise over the course of the year.

OVERVIEW

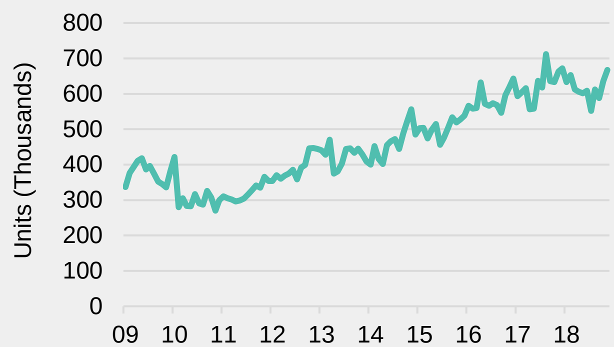
The financial media seems focused on the likelihood of a near-term recession. We are more sanguine. Yes, the economy will post slower growth in 1Q, but we expect a stabilization and rebound as the year progresses. Lower interest rates are already boosting growth in some sectors, and the strength of the labor market argues powerfully in favor of continued solid consumption. There are risks, but they remain just that: risks, rather than the base case. The Fed's pivot away from rate hikes this year will provide additional support to growth in the coming months as well. The biggest risks remain overseas, with weak growth in Europe and an uncertain Chinese outlook clouding the picture. We expect those risks to fade gradually. But uncertainty will persist, and uncertainty warrants close monitoring.

Falling 30-Year Mortgage Rates Boost Housing



Through April 3, 2019
Source: Thomson Reuters Datastream

New Homes Sales Rebound



Through January 15, 2019
Source: Thomson Reuters Datastream

Euro Area

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F
Euro Area	1.1	1.2	1.4	1.5	0.00	0.00	0.50	0.50	1.13	1.13

OUTLOOK

+ The euro-area outlook looks challenging, but we think continued soft growth is more likely than a recession. We expect the economy to grow by 1.2% in 2020, in line with 1.1% this year but weaker than the European Central Bank's (ECB) 2020 forecast (1.6%).
+ The ECB has already altered its forward guidance to push the timing of its first interest-rate hike back into 2020. That's not enough, in our view, and we expect ECB rates to remain on hold until at least 2021.

RISK FACTORS

+ Risks are evenly balanced, especially when compared with the market's low expectations. While the extreme weakness of some manufacturing indicators is a cause for concern, many domestic indicators continue to look resilient.
+ The rising probability of a trade agreement between the US and China is good news for export-dependent Europe, but not if this emboldens the US to adopt a more aggressive approach in trade negotiations with the European Union (EU).
+ A no-deal Brexit is an important downside risk for the euro area. A lack of policy flexibility means that the individual euro-area countries would not be well placed to handle the shock waves from a no-deal Brexit.

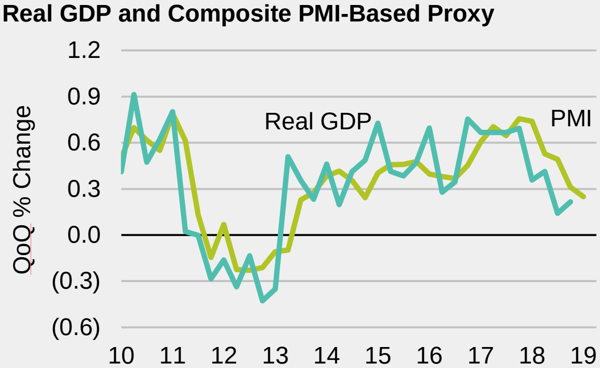
OVERVIEW

Euro-area growth has slowed sharply in recent quarters, with exports leading the decline. In March, the composite PMI for manufacturing and services eased slightly to 51.6 from 51.9 in February, but this masked a big divergence between the manufacturing PMI (down to 47.5 from 49.3) and services PMI (up to 53.3 from 52.8). The gap between the two sectors has only ever been bigger once: for a few months after the collapse of Lehman Brothers, when both indices were falling sharply. The divergence is particularly acute in Germany, where the services PMI rose to 55.4 in March, but the export orders component of the manufacturing PMI slumped to 38.9.

Despite rising market concern, we expect the euro area to avoid a recession. One of the reasons is that the manufacturing sector is likely to benefit from aggressive policy stimulus in China, which has significantly reduced downside growth risks there. But we also think investors may be too pessimistic on the outlook for domestic-demand growth in the euro area.

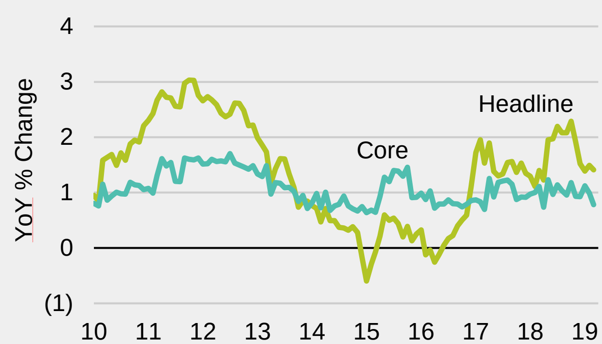
One of the anomalies in the euro-area data last year was a weakening of private consumption growth against a backdrop of solid real income growth. Nowhere was this more apparent than in Germany, where real wage and salary income was up 3.2% year over year in the second half of 2018, yet private consumption rose by just 0.4%. Fortunately, data for the opening months of this year paint a somewhat brighter story. The German retail sales series is not our favorite (it is prone to heavy revision), but the average reading for January and February is running 1.7% above the 4Q average. This brighter picture is supported by car registrations (January/February average up 16.6% on the 4Q average) and the ifo Survey, which shows current activity in the retail sector at its strongest level since the reunification boom in 1991.

Real GDP and Composite PMI-Based Proxy



Through March 31, 2019
Source: Haver Analytics and IHS Markit

CPI Inflation



Through March 31, 2019
Source: Haver Analytics

Japan

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F
Japan	0.6	0.5	0.8	1.2	(0.10)	(0.10)	0.00	0.00	109	109

OUTLOOK

- The slowdown in global trade is hitting Japan's export sector, but the domestic economy is holding up well.
- Wage inflation is already at a 20-year high and should continue to rise, putting pressure on underlying inflation. But known one-offs, such as the VAT hike, free education and telecommunications charges, will muddy the inflation picture.
- The Bank of Japan (BOJ) is likely to stay on the sidelines in 2019 unless the yen strengthens substantially.

RISK FACTORS

- Potential self-inflicted risks remain—the VAT hike and possible BOJ missteps chief among them. But external risks are more important, whether they materialize through trade or via sharp appreciation in the yen in a risk-off environment.

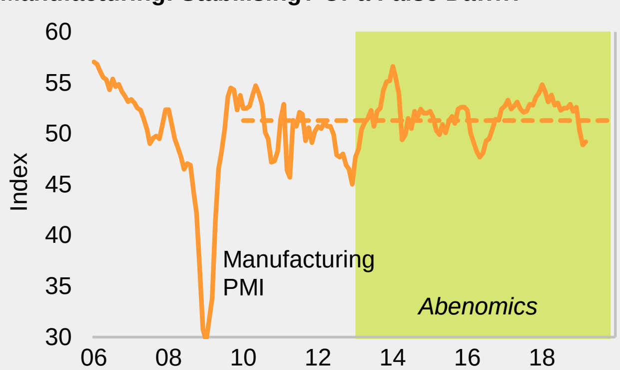
OVERVIEW

The slowdown in global trade growth continues to be a drag on the Japanese manufacturing sector. While a bounce in export volumes and industrial production in February hints at stabilization, it follows a sharp decline compared to the prior three months. And with the Tankan survey showing some deterioration in the outlook for manufacturing firms, it's too early to call this a turning point.

Even so, in the Tankan survey, non-manufacturing businesses remain relatively upbeat, with a positive capital-spending outlook. With fiscal stimulus kicking in ahead of October's VAT hike (assuming it still goes ahead), and with some spending likely ahead of the tax hike, we expect GDP growth to be somewhere around trend in 2019. Our baseline forecast is for a similar pace of growth to be maintained through 2020.

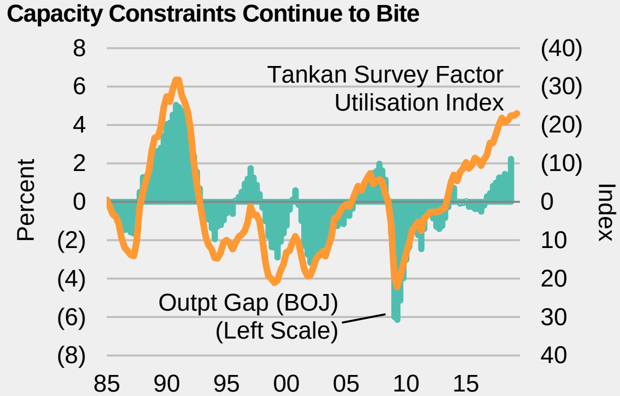
The Tankan survey also highlights that capacity constraints continue to bite. And the BOJ's estimate of the output gap for 1Q climbed further into positive territory. Cost pressures have clearly intensified—labor is scarce, and wages are rising. But whether that shows up in higher headline Consumer Price Index (CPI) inflation remains unclear. Core inflation remains broadly stable at around 0.4% year over year. And one-offs such as the VAT hike, the introduction of free education and a sharp drop in telecommunications charges will cloud the picture. The bottom line is that the BOJ will sit pat in 2019 and well into 2020, maintaining the YCC framework (targeting 10-year yields at around zero) and continuing to slowly taper Japanese government bond purchases.

Manufacturing: Stabilising? Or a False Dawn?



Through April 4, 2019
Source: Bloomberg and Thomson Reuters Datastream

Capacity Constraints Continue to Bite



Through April 4, 2019
Source: Thomson Reuters Datastream

China

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F
China	6.2	6.0	2.2	2.2	4.35	4.35	3.00	3.00	6.80	6.80

OUTLOOK

+ The official Chinese real GDP growth rate will likely be around 6.2% in 2019, down from 6.6% in 2018, as weakness in capex spending persists.
+ We expect continued aggressive monetary and fiscal policy easing to counter downward pressure on the economy, with a focus on infrastructure projects and property easing—the measures most likely to help stabilize the economy.
+ Inflation should rise to about 2.2%, well below the government's target of 3%, as the upcoming trade deal and slower currency depreciation may reduce food prices even further.

RISK FACTORS

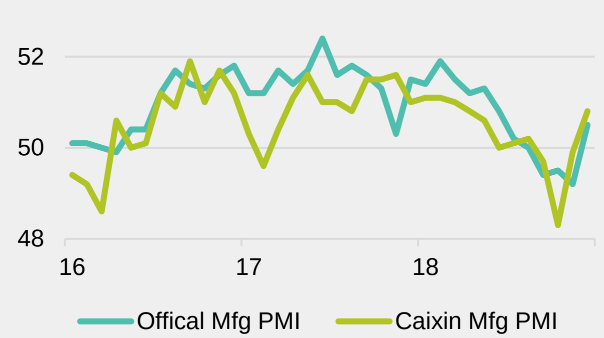
+ Policy easing may be less aggressive than expected if economic data surprise significantly to the upside. This would put sustained economic stabilization this year and next at risk.
+ An underwhelming US-China trade deal would also be a risk for China's economy.
+ Failure to appreciate how much China is compromising to achieve a trade deal with the US may lead markets to underestimate how much other major exporters around the globe will have to compromise in the future.

OVERVIEW

Better-than-expected official manufacturing data have been good for global asset prices. But it's important to monitor forthcoming data releases to determine how sustainable this manufacturing revival really is. There are three things to be aware of. First, it usually takes anywhere from six to nine months for policy to have an effect, and China started aggressive easing just two months ago. Second, the government wants to restore business confidence, and strong manufacturing data will help it do that. Third, a much better official PMI reading can be a bargaining chip for US-China trade negotiations, allowing China to argue that domestic stimulus has put it in a better position to weather trade uncertainty.

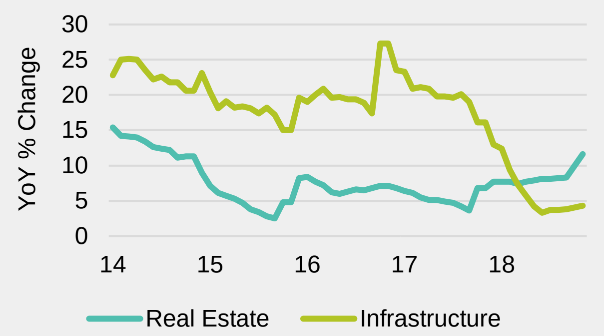
Downward pressure on the real economy is still substantial, so we expect the government to stick with aggressive monetary and fiscal easing even though we're seeing signs of stabilization. As such, expect China to be a global economic stabilizer in 2019, and the yuan to act as a global currency stabilizer.

China Manufacturing PMI



Through March 31, 2019
Source: Bloomberg and AB

Where to Re-Leverage Up



Through February 28, 2019
Source: Bloomberg and AB

Canada

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F
Canada	1.8	1.8	2.1	2.2	1.75	2.00	2.00	2.25	1.36	1.35

OUTLOOK

+ Growth is decent, and inflation has moved sideways during the last few months on a core basis, signaling neither dynamism nor a meaningful deterioration.
+ The weak global economy is a headwind, making early signs of stabilization in China welcome news.
+ The Bank of Canada (BoC) has signaled that rates will hold steady for a while, similar to the path laid out by the Federal Reserve. We expect no change in rates for at least the next 12 months, though we continue to believe the next move will eventually be a hike.

RISK FACTORS

+ Canada's three points of potential friction are commodities, the US and China. But the domestic economy does not appear to be generating idiosyncratic risks, and that's good news.

OVERVIEW

The Canadian economy appears to be operating at something like a near-term equilibrium, with growth and inflation both steady and risks of overheating in property markets having faded significantly. The BoC still likes to remind the market that only interest rates remain out of line with forecasts; the policy rate is still below what the BoC considers to be neutral. But there is no urgency to move rates higher, absent either domestic pressures or the easing of international risks. For now, that means that the macro picture is one of low-volatility stability.

Australia/New Zealand

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F
Australia	1.5	1.8	1.4	1.6	1.25	1.00	2.00	2.00	0.65	0.67
New Zealand	3.0	2.8	2.1	2.3	1.25	1.75	2.25	2.65	0.69	0.71

AUSTRALIA

+ The market has been reassessing the policy outlook and is now pricing in two interest-rate cuts over the next 12 months.
+ A key factor is the housing downturn, including declining prices and construction, but the global policy reassessment and continued undershoot in wages play a role, too.
+ While the rates story may have played out, we think there's still further currency weakness to come and wouldn't be shocked to see AUD/USD revisiting the 0.65 area over the next three to six months.

NEW ZEALAND

+ The market has been even more abrupt in reassessing New Zealand's monetary policy outlook. Despite soft readings on business sentiment, we continue to think there is a clear divergence in fundamentals between the two economies, with New Zealand on much firmer footing (in part, a reflection of the housing sector outlook).
+ Expectations for central bank easing are driven primarily by the big shift in rhetoric from Reserve Bank of New Zealand Governor Orr. His last statement as sole decision-maker clearly signaled that the next move should be a rate cut.

UK

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F
UK	1.2	1.5	1.8	2.0	0.75	1.00	1.50	1.50	1.35	1.35

OUTLOOK

- The UK economy is beginning to show signs of Brexit stress. Although the manufacturing PMI rose strongly to stand at 55.1 in March, the readings for stocks of purchases and finished goods both rose to record highs, suggesting that this was partly due to Brexit-related stockpiling. At the same time, the services PMI fell to 48.9. Except for July 2016, the month after the Brexit referendum, that's the lowest reading since December 2012.
- How long the British economy remains in the doldrums depends in large part on the outcome of Brexit negotiations with the EU. The good news is that Parliament is trying to steer the UK toward the softest form of Brexit and wants to avoid a disruptive no-deal Brexit at any cost. The bad news is that the probability of a long extension of the Article 50 timetable is beginning to rise and that patience with the UK is beginning to run short in the rest of the EU. So while a no-deal Brexit remains unlikely, it is not yet possible to rule it out entirely.
- Against this backdrop, it is unlikely that the Bank of England will look to raise interest rates this year. If Brexit uncertainty fades, interest rates could still move modestly higher in 2020. If anything, though, near-term risks are probably skewed to the downside (i.e., if the UK left the EU without a deal).

RISK FACTORS

- While the most likely outcome is that the UK will eventually ratify the EU withdrawal agreement or choose not to leave the EU at all, the risk of a no-deal Brexit should still not be dismissed. And it would have a disruptive impact in the UK and the rest of Europe.

Norway/Sweden

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F
Norway	2.0	1.8	2.0	2.0	1.25	1.25	2.00	2.00	8.44	8.44
Sweden	1.8	1.8	2.0	2.0	0.00	0.00	0.76	0.85	9.12	9.11

NORWAY OUTLOOK

- Growth in the mainland economy picked up slightly to 2.5% in the fourth quarter of last year. This year, we expect growth to ease gently back to 2.0% before slowing a little further to 1.8% in 2020.
- Headline inflation fell to 3.0% in February from 3.5% late last year. However, core inflation (excluding energy and indirect taxes) is moving in the opposite direction and is now running at a two-year high of 2.7%.
- Against this backdrop, Norges Bank has signaled its intention to continue gradually raising interest rates over coming years, with the next move expected to come in the third quarter.

RISK FACTORS

- The main risk factors for Norway are rising household debt (currently well above 200% of income) and the price of oil.

SWEDEN OUTLOOK

- Economic growth picked up to 2.4% in the fourth quarter of last year from 1.6% in the third quarter. We expect the economy to slow a little over the forecast horizon, to 1.8% for both 2019 and 2020.
- Core inflation (CPIF, excluding energy) was unchanged at 1.4% in February and continues to move in a narrow range, well below the Riksbank's target and projections for the early months of 2019.
- The Riksbank expects to raise its key policy rate in the second half of the year, bringing it back close to zero. In our view, the risks are that this hike will ultimately be pushed back into 2020.

RISK FACTORS

- High household debt and elevated house prices continue to represent a major risk to financial stability.

Asia ex Japan

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F
Asia ex Japan	**5.6**	**5.5**	**2.4**	**2.5**	**4.16**	**4.17**	**3.67**	**3.69**	**—**	**—**
Hong Kong	2.3	2.2	2.3	2.2	2.75	2.75	1.50	1.50	7.83	7.85
India	7.2	7.3	3.6	4.1	6.00	6.00	7.40	7.30	69.00	70.00
Indonesia	5.1	5.1	3.4	3.6	6.00	6.00	7.60	7.40	14,200	14,200
South Korea	2.2	2.2	1.5	1.7	1.75	1.75	2.25	2.45	1,150	1,150
Thailand	3.5	3.5	1.0	1.4	1.75	1.75	2.50	2.75	32.70	33.00

OUTLOOK

+ The drag from global trade and the technology cycle should continue to weigh on growth in the more trade-exposed parts of the region (such as South Korea, Singapore and Taiwan).
+ Inflation generally continues to decline across the region, and with exchange rates relatively stable, speculation has turned to policy easing.
+ Political events—including elections in India and Indonesia—remain important risk factors to monitor.

RISK FACTORS

+ Uncertainty over the global trade cycle and the resolution of US-China trade tension remains key.

OVERVIEW

PMIs for bellwether exporters South Korea and Taiwan recovered a little in March, but the picture is not all rosy, as both indicators remained below the 50 level that separates expansion from contraction. Harder data, such as Taiwanese export orders (down 11% year over year in February) or South Korean exports (down 8.2% year over year in 1Q), still provide plenty to be gloomy about. To be clear, there are a lot of moving parts here. The trade war is but one element. China's growth outlook, the new product cycle in tech and excess semiconductor inventory remain important, too. Accordingly, we remain biased toward seeing further softness in growth in the more trade-exposed economies in the region (such as South Korea, Singapore and Taiwan).

At the same time, inflation has printed lower across the region. In part this reflects the pass-through from lower oil prices last year. But in general, food prices and core inflation have also been falling. Along with the Fed's more dovish outlook, this has helped drive a reassessment of the policy outlook across the region. The Reserve Bank of India delivered another 25-b.p. rate cut in April, following the easing in February. And with currencies remaining broadly stable, we now expect central banks in Malaysia and the Philippines to cut policy rates within the next six months.

Latin America

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F
Latin America	**1.3**	**2.4**	**7.0**	**5.3**	**9.88**	**8.66**	**7.57**	**7.54**	**—**	**—**
Argentina	(0.8)	2.0	33.0	20.0	35.00	25.00	—	—	46.00	56.00
Brazil	2.1	2.5	3.9	4.0	6.50	7.50	8.45	8.50	3.75	3.75
Chile	3.3	3.3	2.5	3.0	3.25	3.50	4.00	4.20	650	640
Colombia	3.1	3.3	3.3	3.3	4.25	4.75	7.00	7.15	3,125	3,050
Mexico	1.8	2.0	3.8	3.5	7.75	7.00	7.50	7.25	19.68	20.00

OUTLOOK

+ Economic growth in Brazil and Argentina is recovering more slowly than expected. Brazilian politics are weighing on confidence and impacting consumption. In Argentina, high inflation, peso volatility and election uncertainty are slowing the cyclical recovery.
+ Global central banks' more dovish bent will reduce pressures on Latin American policymakers to hike rates in line with the Fed. Many regional central banks have likewise shifted rhetoric.

RISK FACTORS

+ Concerns about global growth and other external risks, specifically regarding trade dynamics, may be keeping investment on the sidelines across the region.

OVERVIEW

In Argentina, economic activity continues to slow and inflation remains high. The Banco Central de la República Argentina (BCRA) has maintained its tight monetary stance in hopes of reining in inflation and stabilizing the peso ahead of the presidential election in October 2019. BCRA's reference rate, Leliq, which is set endogenously through the monetary base targeting framework, is at its highest level since the height of the currency crisis in November of 2018. New central bank measures are an attempt to increase the pass-through of monetary policy decisions to interest rates, curb the risk of bank deposit dollarization and slow peso depreciation in the run-up to the election. Although these measures, in theory, should help to bring inflation down, headwinds from regulated price hikes, real wage adjustments and the lingering pass-through of last year's peso depreciation will persist.

In Brazil, political tension between the president and the lower house leader over pension reform has stoked market volatility. But we still expect some version of pension reform to become law. Congressional negotiations have only just begun, but the government's ability to build a coalition has been more challenging than expected because of personal attacks and antagonistic comments by the president and his allies. Government interactions with lawmakers since the beginning of the year have been tense, which has limited the ability of the government to foster support for the reform. However, both the government and lawmakers have a strong commitment to reforming the social security system, only differing in views on the parameters. Negotiations over the coming months will be tough and will dilute the savings expected from the proposal, but our base case remains that a deal will be passed this year. The Brazilian economy has been affected by these political discussions, leading to a slower recovery of economic growth and a more dovish stance by the central bank.

Mexico's economy is sluggish and we expect policy support will be forthcoming. Growth is not disastrous, but with upside inflationary risks fading, the central bank should have room to cut rates in the coming quarters, and we expect that it will do so. The primary impediment is financial-market risk due to the need for the government to prop up the local oil company (PEMEX). That process could result in a sovereign downgrade later this year. Unless that leads to a disorderly move in the peso, however, we do not expect it to have significant implications for the local economy.

Eastern Europe, Middle East and Africa (EEMEA)

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F
EEMEA	**2.0**	**2.4**	**6.2**	**5.6**	**8.82**	**7.97**	**9.88**	**9.13**	**—**	**—**
Hungary	3.0	2.8	3.1	3.2	1.25	1.25	3.00	3.20	272	282
Poland	3.4	3.6	1.9	2.5	1.50	1.50	3.10	3.35	4.25	4.23
Russia	1.4	1.7	4.3	4.0	7.00	7.00	8.00	8.00	65.00	65.00
South Africa	1.0	1.4	4.9	5.2	6.75	6.75	9.50	9.50	14.95	15.10
Turkey	(3.0)	0.5	16.5	14.3	19.00	17.00	19.00	17.00	6.30	5.80

OUTLOOK

+ Real GDP growth is expected to pick up in 2020, particularly in Turkey and South Africa, although downside surprises are possible in the latter.
+ While headline CPI is rebounding in most Central and Eastern European (CEE) economies, price pressures are expected to ease in Russia and Turkey following fading tax and exchange rate pass-throughs.
+ CEE central banks and the South African Reserve Bank (SARB) are mostly expected to remain on hold, while Russia and Turkey have room to cut interest rates later in 2019 and potentially into 2020.

RISK FACTORS

+ The potential for higher core yields are risks for current account deficit countries such as Turkey and, to a lesser extent, South Africa.

OVERVIEW

Moody's didn't change South Africa's credit rating or the outlook (Baa3 Stable) in late March, but the rating agency did publish a credit opinion a few days later reiterating its previous concerns about the government's debt trajectory and the risks associated with contingent liabilities from state-owned enterprises. It also highlighted worse-than-expected economic growth and fiscal performance. Still, Moody's decision not to change the rating was in line with our expectations, and with credit-rating risk out of the way until November, risk premia in South African rand (ZAR) asset prices could continue to compress. The next key event will be the national and provincial elections in May, but we think the balance of risks is supportive of ZAR assets. Once the election is over, we suspect that the market will more aggressively price in interest-rate cuts from the SARB. We expect the SARB to stay steady throughout 2019, but local economic growth is very soggy; and when combined with the easing-bias in emerging markets, a few monetary policy committee (MPC) members could put their hands up for a rate cut as early as the May MPC meeting. The short-term outlook for South African government bonds is thus very favorable, in our view.

Local elections in Turkey produced a few surprises. One of the biggest was the how well the AKP fared on a national level. The AKP/MHP alliance maintained 51.6% of the overall vote, compared to 53.7% in last year's general elections. Voter turnout was high at 83.9%—that's remarkable for a local election. At face value, AKP's support increased from last year's elections, while its alliance partner— the MHP—seems to have fallen below the 10% threshold level again. That said, we cannot make inferences about MHP support from local-election results because it didn't put forward candidates in large cities such as Istanbul (supporting AKP), which distorts stated national support level. All in all, we believe the alliance between AKP and MHP remains intact, which should significantly reduce the risk for early elections.

On a city level, both AKP and MHP suffered important losses, losing control of Ankara and most likely Istanbul. While potentially weakening AKP's hold on power in the longer term, the government seems to take comfort from the fact that its overall national support levels have remained strong. In our view, this should reduce the risk of a sudden more populist shift going forward in an effort to maintain popular support, especially now that the risk of early elections has faded.

There is no doubt that Turkey's macro- and asset-price performance remains hugely contingent on macro policies. Economy Minister Albayrak and President Erdoğan have suggested that a new economic plan could be announced in coming weeks, with a focus on free-market principles. After months of heavy intervention, this would be a welcome step though few expect a meaningful reform package.

Frontier Markets

OUTLOOK

- Ghanaian asset-price swings are likely to be contained with the help of a favorable global backdrop.
- Lebanese policymakers appear to be more willing and able to implement necessary fiscal and structural reforms to stabilize debt dynamics.

RISK FACTORS

- In Ghana, the possibility of further policy loosening could curtail investor optimism.
- The risk that the Lebanese government does not follow through on its intention to implement key macro measures is high given its track record of limited reform.

OVERVIEW

Ghanaian asset prices have been on a roller-coaster ride, struggling early in the year amid investor concerns about fiscal loosening and the end of International Monetary Fund oversight. But the weakness was really fueled by the Bank of Ghana's surprising decision to cut the policy rate by 100 b.p. (to 16.0%) in January. The Ghanaian cedi tumbled, and the authorities got somewhat defensive—pointing to speculative flows as one of the reasons for the currency's depreciation. But eurobond issuance in March was successful. The apparent improvement in sentiment, which was probably driven by global risk appetite, combined with a boost in reserves, calmed things down somewhat. The Bank of Ghana kept the policy rate unchanged in April, but we are not ruling out further monetary easing later in 2019 and we suspect that market concerns about excessive policy easing will linger. Those concerns could sustain the decline in foreign holdings of local debt, which would complicate Ghana's fiscal consolidation efforts and put pressure on reserves. Ghanaian asset-price swings are likely to be contained over the next quarter or so, but policymakers are sailing close to the wind.

Lebanon's macroeconomic backdrop remains as fragile as ever, with gross government debt at around 155% of GDP (more than 45% of which is owned by the Lebanese central bank). Against the large debt burden, the 2018 fiscal deficit is expected to have hit 11.5% of GDP (versus a budgeted 8%). With real growth close to zero, inflation around 4% and market borrowing costs in the teens, debt dynamics remain very challenging. At the same time, the current account deficit remains near 20% of GDP, as the country simply does not have a viable export sector and continues to import almost everything it requires. This is unlikely to change soon, as the infrastructure investment projects earmarked by CEDRE, the economic conference for development, will likely require significant capital goods' imports over the coming years. The latter will be financed by loans and grants to the tune of US$11 billion. But Lebanon will remain dependent on foreign deposit inflows to cover the remaining unfinanced current account deficit. FX inflows have remained remarkably resilient during the January crisis, but non-resident Lebanese-pound deposits took a significant hit.

We think urgent action is needed to change course. The good news is that Lebanon has, for the first time in years, a relatively unified government, with the prime minister, president and speaker of the parliament in agreement on the urgency for structural reform. The new government includes several technocrats with the technical knowledge to kick-start some of the most urgent measures, such as the restructuring of the electricity sector and necessary increases in tariffs. On a recent visit, we heard the same message from multiple government departments—that the government intends to commit to the reform agenda laid out by CEDRE, which includes a 2019 budget that would reduce the fiscal deficit to 8%–9% of GDP. But the government has a poor track record of reform, and implementation risk remains high.

	Real Growth (%)		Inflation (%)		Official Rates (%)		Long Rates (%)		FX Rates vs USD	
	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F
Global	2.6	2.7	2.6	2.6	2.90	2.81	2.90	2.95	-	-
Industrial Countries	1.6	1.5	1.7	1.9	1.23	1.25	1.65	1.77	-	-
Emerging Countries	4.4	4.7	4.1	3.7	6.11	5.74	5.36	5.21	-	-
United States	2.0	1.8	2.3	2.5	2.38	2.38	2.75	3.00	-	-
Canada	1.8	1.8	2.1	2.2	1.75	2.00	2.00	2.25	1.36	1.35
Europe	1.2	1.3	1.5	1.6	0.15	0.19	0.73	0.73	-	-
Euro Area	1.1	1.2	1.4	1.5	0.00	0.00	0.50	0.50	1.13	1.13
United Kingdom	1.2	1.5	1.8	2.0	0.75	1.00	1.50	1.50	1.35	1.35
Sweden	1.8	1.8	2.0	2.0	0.00	0.00	0.76	0.85	9.12	9.11
Norway	2.0	1.8	2.0	2.0	1.25	1.25	2.00	2.00	8.44	8.44
Japan	0.6	0.5	0.8	1.2	(0.10)	(0.10)	0.00	0.00	109	109
Australia	1.5	1.8	1.4	1.6	1.25	1.00	2.00	2.00	0.65	0.67
New Zealand	3.0	2.8	2.1	2.3	1.25	1.75	2.25	2.65	0.69	0.71
Asia ex Japan	5.6	5.5	2.4	2.5	4.16	4.17	3.67	3.69	-	-
China	6.2	6.0	2.2	2.2	4.35	4.35	3.00	3.00	6.80	6.80
Hong Kong	2.3	2.2	2.3	2.2	2.75	2.75	1.50	1.50	7.83	7.85
India	7.2	7.3	3.6	4.1	6.00	6.00	7.40	7.30	69.00	70.00
Indonesia	5.1	5.1	3.4	3.6	6.00	6.00	7.60	7.40	14,200	14,200
Korea	2.2	2.2	1.5	1.7	1.75	1.75	2.25	2.45	1,150	1,150
Thailand	3.5	3.5	1.0	1.4	1.75	1.75	2.50	2.75	32.70	33.00
Latin America	1.3	2.4	7.0	5.3	9.88	8.66	7.57	7.54	-	-
Argentina	(0.8)	2.0	33.0	20.0	35.00	25.00	-	-	46.00	56.00
Brazil	2.1	2.5	3.9	4.0	6.50	7.50	8.45	8.50	3.75	3.75
Chile	3.3	3.3	2.5	3.0	3.25	3.50	4.00	4.20	650	640
Colombia	3.1	3.3	3.3	3.3	4.25	4.75	7.00	7.15	3,125	3,050
Mexico	1.8	2.0	3.8	3.5	7.75	7.00	7.50	7.25	19.68	20.00
EEMEA	2.0	2.4	6.2	5.6	8.82	7.97	9.88	9.13	-	-
Hungary	3.0	2.8	3.1	3.2	1.25	1.25	3.00	3.20	272	282
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Russia	1.4	1.7	4.3	4.0	7.00	7.00	8.00	8.00	65.00	65.00
South Africa	1.0	1.4	4.9	5.2	6.75	6.75	9.50	9.50	14.95	15.10
Turkey	(3.0)	0.5	16.5	14.3	19.00	17.00	19.00	17.00	6.30	5.80

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

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