ALLIANCEBERNSTEIN®

GLOBAL ECONOMIC RESEARCH

GLOBAL MACRO OUTLOOK

MAY 2019

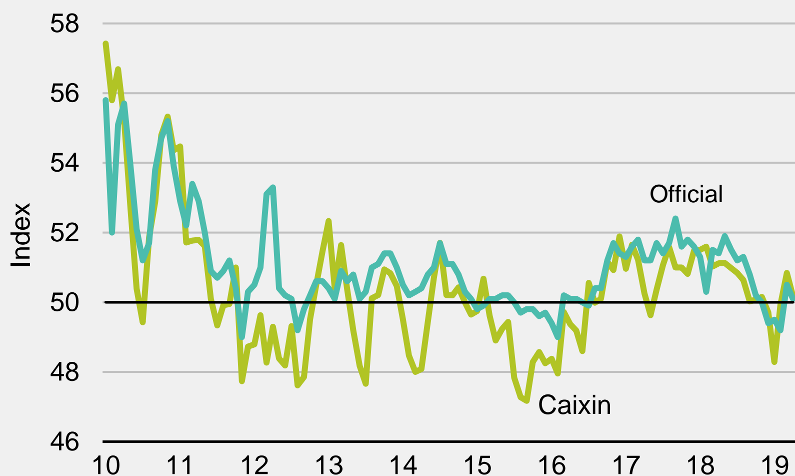
KEY FORECAST TRENDS

- There are early signs that the global slowdown that started a year ago is coming to an end. That is certainly the message from recent data out of China and, more tentatively, Europe.
- We do not, however, think a stabilization in global growth will be followed by a rapid cyclical improvement. Still, a period of soft but stable growth might not be so bad for risky assets, especially as it would help keep developed-market central banks on hold.
- A key question for investors is the extent to which this benign outlook is already discounted in asset prices, particularly at a time when the secular outlook remains challenging.
- What could give asset prices a further leg up? A positive spill-over from China to the rest of the world would help, as would clearer signs that the Fed's reaction function is shifting towards higher inflation. On the downside, there's the renewed risk of a trade-war between the US and China and the ever-present threat posed by populism in its various guises.

CONTENTS

Global Forecasts 2
Global Market Outlook
Yield Curves 3
Currencies 4
US...5
Euro Area 6
Japan...7
China 8
Canada 9
Australia/New Zealand...................9
UK...10
Norway/Sweden 10
Asia ex Japan 11
Latin America...............................12
Eastern Europe, Middle East and Africa (EEMEA) 13
Frontier Markets...........................14
Forecast Tables 15
Contributors.................................16

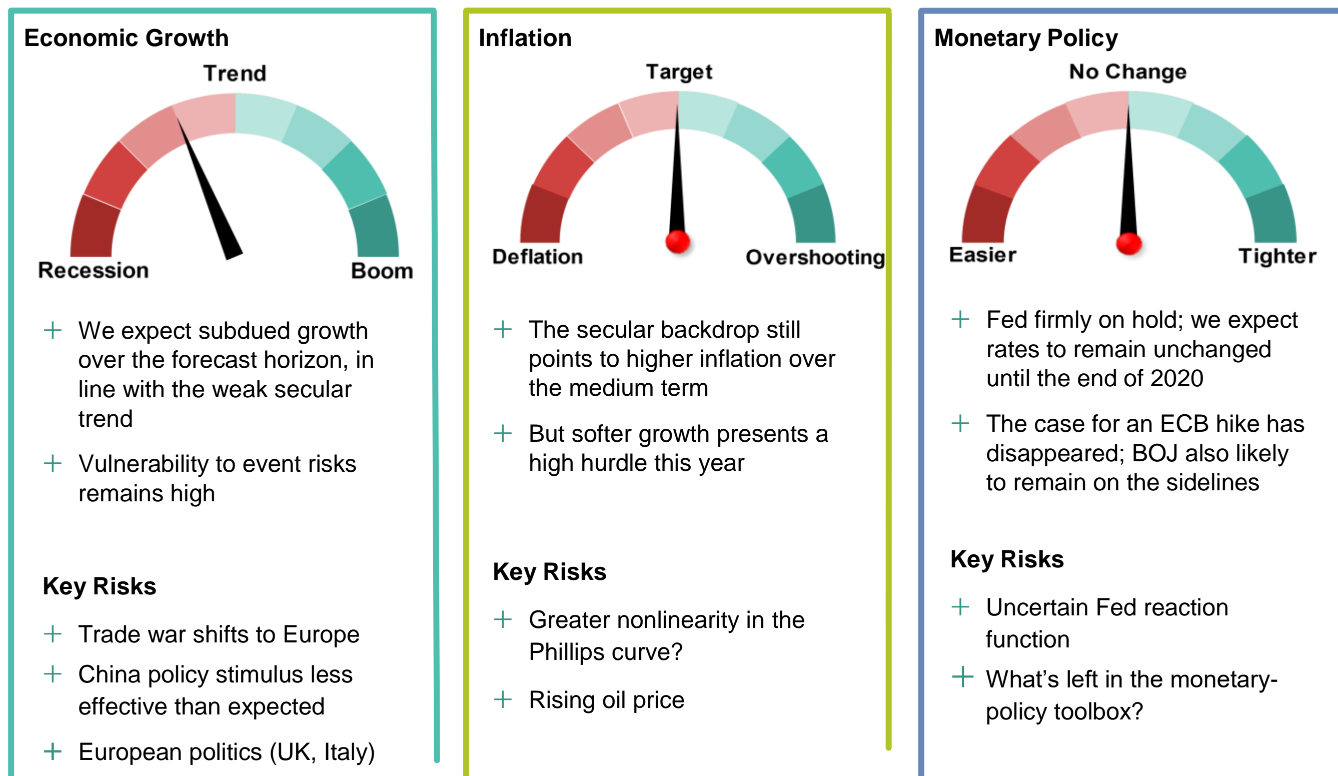
China Starts to Stabilize



Through April 30, 2019
Source: Haver Analytics and IHS Markit

- Having risen strongly in March, China's manufacturing PMI dipped in April. That's consistent with our view that recent policy easing will be effective in stabilizing the economy but that it's too soon to expect a sustained improvement in the data.
- Choppy data should not be seen as a negative at this stage. That's because it keeps the pressure on policymakers to continue easing fiscal and monetary policy. We think that's vital to combat persistent downward pressure on the economy and to ensure that the economy stabilizes for real, later in the year.

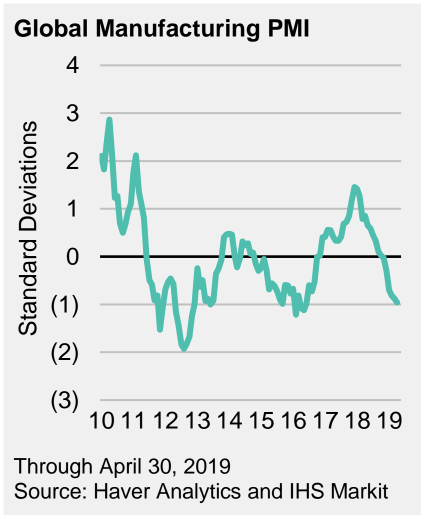
GLOBAL FORECASTS



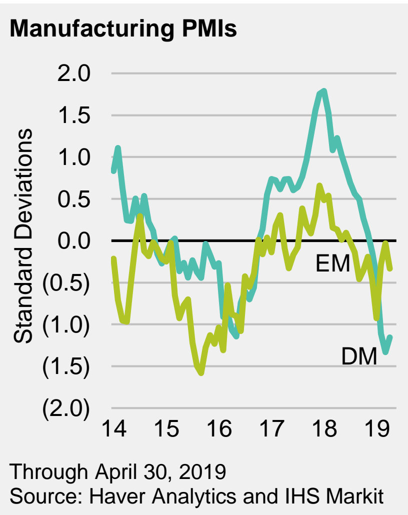
OUTLOOK

- We continue to see global growth at 2.7% next year, marginally higher than this year (2.6%) but the lowest year-ahead growth forecast we have published since 2010. This is consistent with the weak secular trend.
- 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 is materially different from consensus.
- That's also the case for global inflation, which we expect to hold steady at 2.6% in 2020. Where we do have a different take is on the US, where we expect inflation to rise to 2.5% next year (consensus 2.1%).
- Importantly, we think that 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, if anything, the near-term bias is tilted toward further easing.

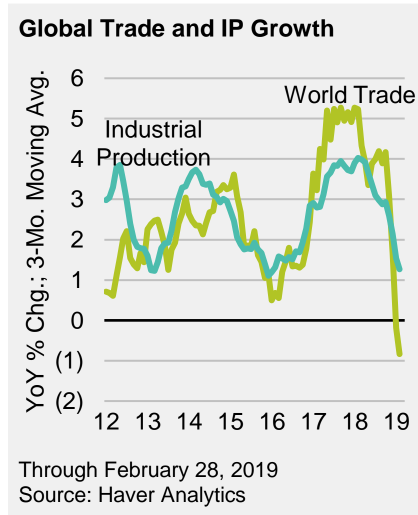
Global Cyclical Outlook: Still No Conclusive Signs of Stability



Through April 30, 2019
Source: Haver Analytics and IHS Markit



Through April 30, 2019
Source: Haver Analytics and IHS Markit



Through February 28, 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

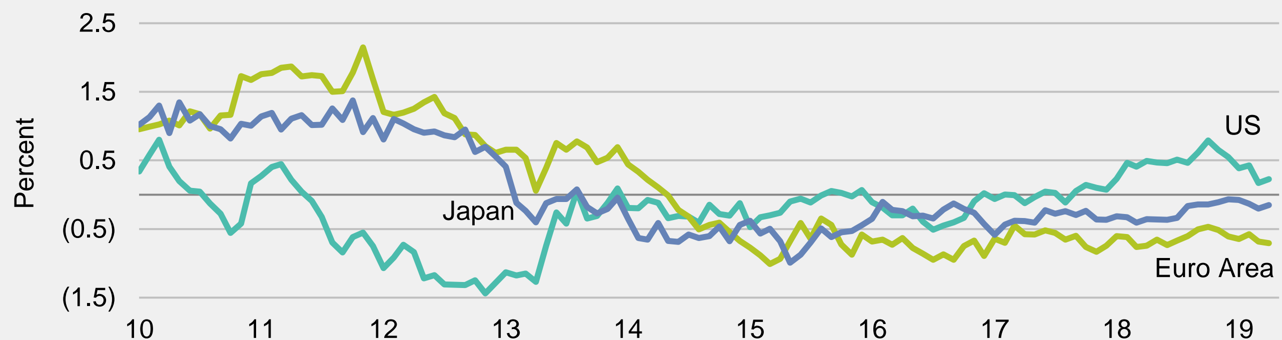
Japan—Quantitative and qualitative easing with yield-curve control (QQE-YCC) to anchor 10-year yields close to zero over the forecast horizon

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

	AB		Consensus	
	2019	**2020**	**2019**	**2020**
US	2.84	3.00	2.75	2.87
Euro Area	0.50	0.50	0.35	0.69
Japan	0.00	0.00	0.03	0.18
China	3.50	3.50	3.16	2.98

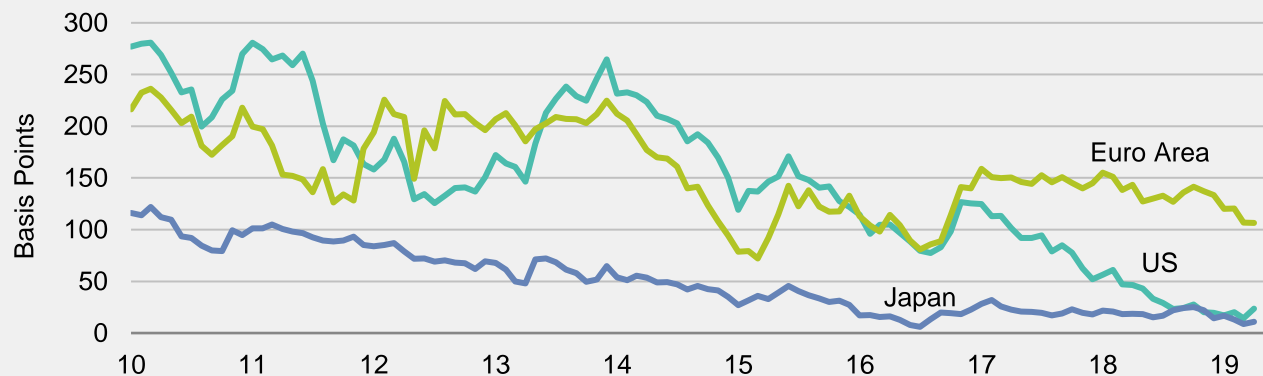
As of April 30, 2019
Source: Bloomberg and AB

Real 10-Year Bond Yields*



Through April 30, 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 April 30, 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 risk-asset headwinds intensified

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)

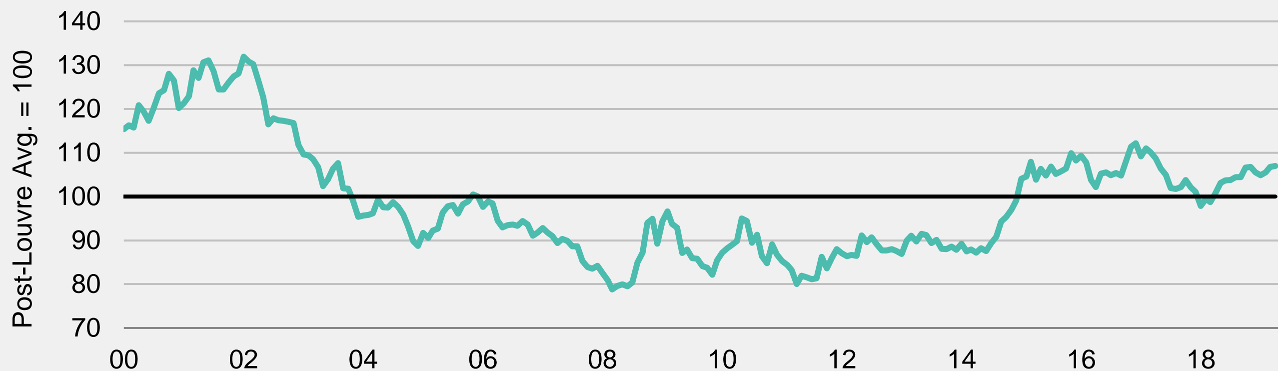
CNY—An easing of trade tension and receding downside growth risks point to a stable CNY outlook

Global FX: AB vs. Consensus Year-End Forecasts

	AB		Consensus	
	2019	**2020**	**2019**	**2020**
EUR/USD	1.13	1.13	1.16	1.22
USD/JPY	109	109	109	104
USD/CNY	6.80	6.80	6.69	6.59
EUR/GBP	0.83	0.83	0.85	0.85

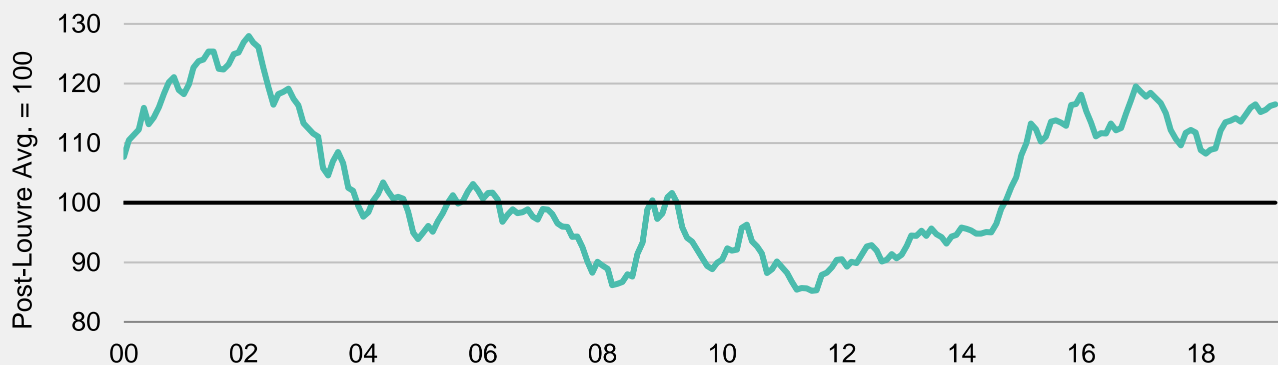
As of April 30, 2019
Source: Bloomberg and AB

Nominal USD Exchange Rate: DXY



Through April 30, 2019
Source: Bloomberg and AB

Real USD Exchange Rate



Through April 30, 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	2.84	3.00

OUTLOOK

- The economy expanded more rapidly than expected in the first quarter, a particularly impressive feat given the headwinds the quarter presented: the government shutdown, ongoing trade tensions, winter weather and financial market volatility.
- We continue to expect steady growth over the course of the year. The final pace of growth will likely be slower in 2019 than in 2018, but that has more to do with the fading of fiscal stimulus than any real concern about the underlying fundamentals, which remain strong.
- Underpinning our expectation that growth will continue is an accommodative central bank. With inflation not showing serious signs of rising, the FOMC can and will remain patient, deferring any serious discussion of changing interest rates in either direction until 2020, at the earliest.

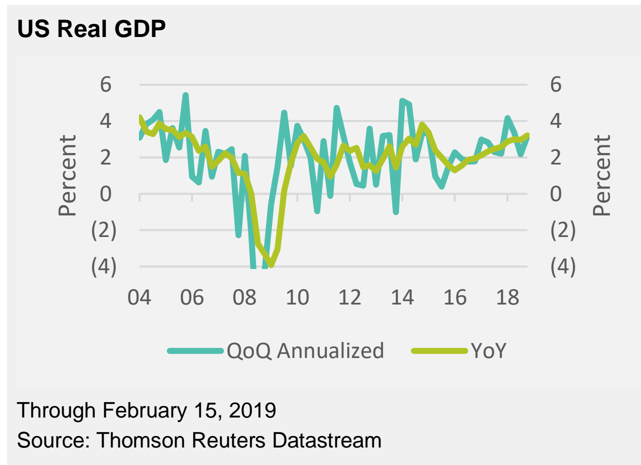
RISK FACTORS

- Inflation has declined so far in 2019, confounding most forecasts. Should this persist, the FOMC could cut interest rates to boost inflation expectations and prevent further declines. If that doesn't work, though, a sense of policy impotence could rattle financial markets.
- The first quarter brought signs of stability in China, but it is still early days. Should trade negotiations not be concluded favorably or if imbalances in the Chinese economy prove too much for policymakers to address, weakness in China could disrupt the global economy.

OVERVIEW

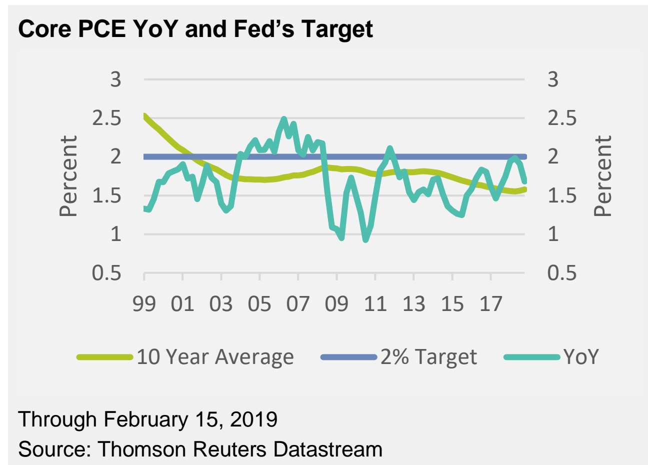
Incoming information continues to suggest a slowdown in 2019 relative to 2018, but a modest one. The reported 3.2% annualized rate of growth in the first quarter exaggerates the underlying strength of the economy—it was inflated by inventory accumulation and by swings in trade flows—but we remain confident that the underlying rate of growth is still solid. The Fed's shift to a more dovish stance will support growth over the course of the year, and strong labor markets will keep consumers on the front foot. There are risks, but most of them come from overseas rather than endogenous variables. In our view, it will take a significant shock to push the economy into a more negative place, and while that is always possible, it isn't our base-case expectation.

US Real GDP



Through February 15, 2019
Source: Thomson Reuters Datastream

Core PCE YoY and Fed's Target



Through February 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 remains challenging, but continued soft growth looks more likely than a recession. We expect the economy to grow by 1.2% in 2020, close to this year's 1.1% but significantly weaker than the ECB's 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).
- While the possibility of a no-deal Brexit has been pushed back, it remains 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 such a shock.

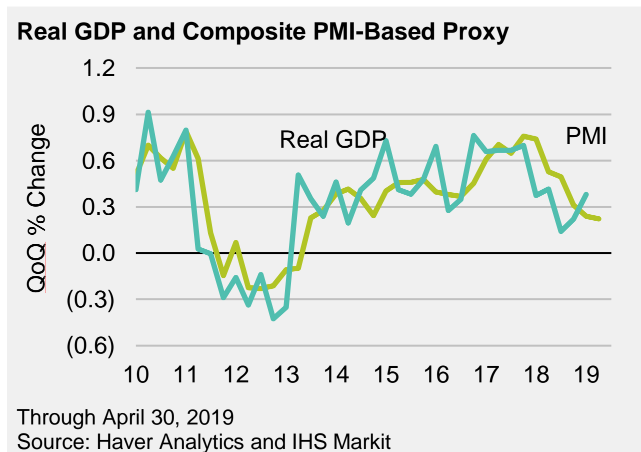
OVERVIEW

Recent data have been mixed. Eurostat's first estimate showed that real GDP rose by 0.4% in the first quarter, up from 0.1% and 0.2% in the third and fourth quarters of last year. Although a breakdown of the data is not yet available, it's likely that consumer spending played an important role in driving growth higher. That's certainly the message from car registrations (up 8.7% during the quarter) and retail sales (average level in January and February up 0.5% on the fourth-quarter average).

The brighter picture painted by first-quarter GDP growth is not yet evident in key survey data. The composite PMI was little changed, at 51.3 in April, in line with the average for the previous four months and consistent with quarterly GDP growth in the 0.2%–0.3% range. The manufacturing component remains particularly weak (47.8 in April) with the services PMI (52.5 in April) hinting at greater domestic resilience. That's also the message from consumer confidence, which eased in April but remains comfortably above its long-run average.

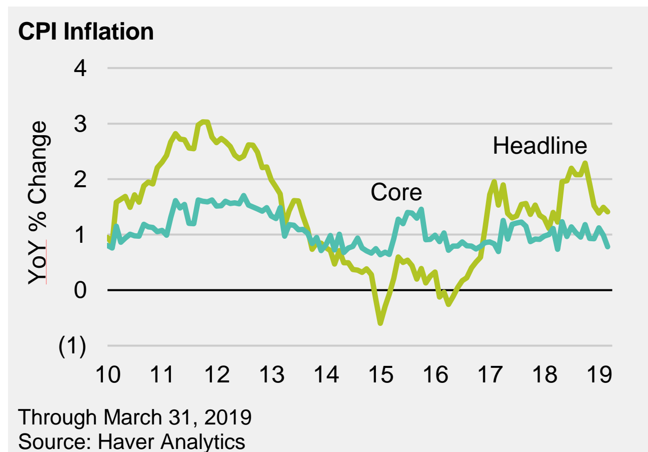
The ECB's April press conference was mildly dovish. But the central bank's messaging was lacking in direction. That could be because the Governing Council (GC) is genuinely puzzled by recent developments. But it might also reflect important changes to the ECB's senior leadership: President Draghi will leave at the end of October, and the April meeting was Chief Economist Peter Praet's last. We expect the ECB to keep interest rates on hold until at least the end of 2020; but should the economy deteriorate further in coming months, the GC's messaging will have to become much more decisive. If not, the market might begin to question what's left in the ECB's policy toolbox, running the risk that deflationary expectations could again set in.

Real GDP and Composite PMI-Based Proxy



Through April 30, 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 has hit Japan's export sector, but the domestic economy is holding up well.
- The labor market is extremely tight, and there's little spare capacity. Still, inflation continues to disappoint. Progress toward the 2% inflation target remains slow.
- The Bank of Japan (BOJ) enhanced forward guidance at its last meeting, signaling that target interest rates (on overnight and 10-year JGBs) would remain unchanged until at the least the spring of 2020.

RISK FACTORS

- Apart from October's VAT hike, most of the key risks are external and could materialize through trade or via a sharp appreciation in the yen in a risk-off environment.

OVERVIEW

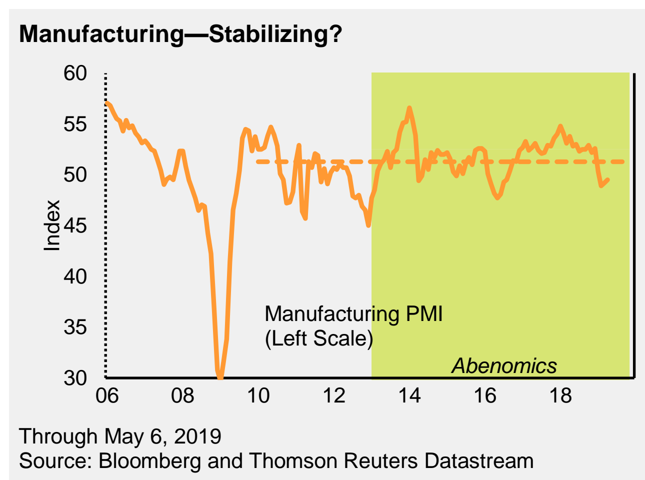
The slowdown in global trade growth is still dragging on the Japanese manufacturing sector. Industrial production slipped again in March and is now down 3.0% year over year on a seasonally-adjusted basis, the weakest reading since early 2015 (in the wake of the April 2014 VAT hike).

But the latest data suggest that the pace of deterioration in manufacturing is moderating; the PMI is hovering around the 49 level. Beyond manufacturing, surveys show that businesses remain reasonably positive. With fiscal stimulus kicking in ahead of October's VAT hike (assuming that it still goes ahead), 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.

Business surveys also illustrate the ongoing impact of capacity constraints. The BOJ's estimate of the output gap for 1Q climbed further into positive territory. Cost pressures have clearly intensified. But whether this shows up in higher headline Consumer Price Index (CPI) inflation remains unclear. Core inflation remains broadly stable, at around 0.5% year over year (although the leading Tokyo CPI core index is a bit more positive).

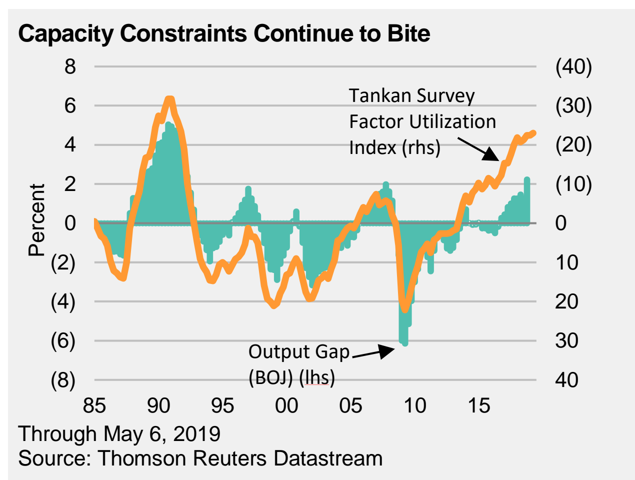
The uncertainty around the inflation outlook was a key driver of the BOJ's clarification of forward guidance for policy rates, signaling that the low levels of short- and long-term interest rates would be maintained "at least through spring 2020." That should end speculation about an early start to policy normalization. It also removes the risk of a BOJ policy mistake.

Manufacturing—Stabilizing?



Through May 6, 2019
Source: Bloomberg and Thomson Reuters Datastream

Capacity Constraints Continue to Bite



Through May 6, 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	3.50	3.50	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 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

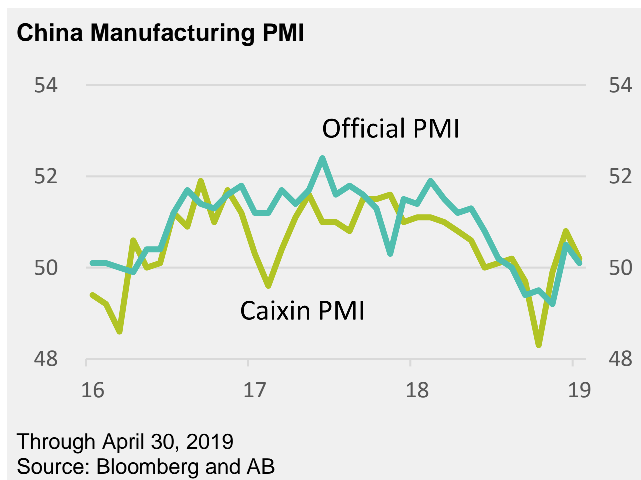
+ Policy easing may be less robust than expected if economic data surprise big to the upside. This would put sustained economic stabilization this year and next at risk.
+ An underwhelming US–China trade deal would also be a risk for China's economy.
+ A potential rise in pork prices—the result of swine flu—would put pressure on the inflation outlook.

OVERVIEW

A slightly weaker manufacturing PMI reading in April confirms our suspicion that the economy is still under pressure. That means that policy easing will continue, with monetary policymakers ready to inject liquidity. We also expect the government to ratchet up fiscal stimulus over the rest of the year. The data are on their way back to normal levels, but the spillover effects of Chinese stabilization on other countries will need more time to show up. We still think that we will see more positive Chinese data in June, with a global trade recovery possible in the third quarter, once the effect of policy easing starts to show. We remain confident that China will be a global economic stabilizer in 2019 and that the yuan will be a global currency stabilizer.

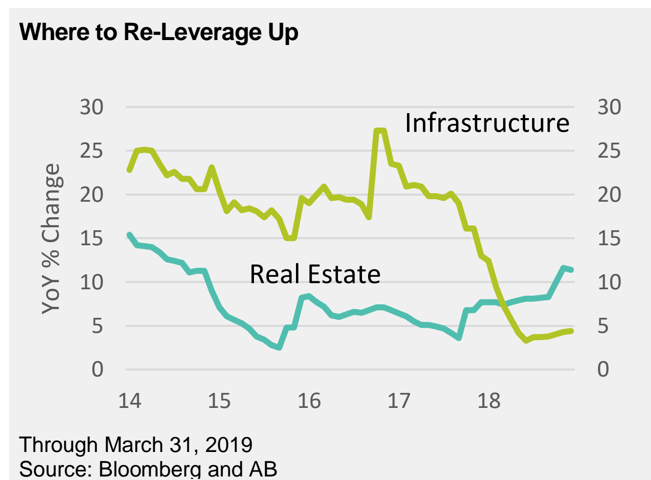
Pork prices are expected to keep rising, though, which will put pressure on inflation. Does that mean that a rising CPI will be a binding constraint for further monetary easing? We doubt it. Chinese CPI was as high as 27.4% in September 1994, 8.3% in March 2008, and 6.4% in June 2011. Today, it's below 3%—a new normal that has persisted since late 2012. We think that higher pork prices will only, at most, bring CPI to about 3%, the government's target. Our understanding is that a 4% CPI reading would concern the government and central bank, but it would take a rise to 6% to really upset policymakers.

China Manufacturing PMI



Through April 30, 2019
Source: Bloomberg and AB

Where to Re-Leverage Up



Through March 31, 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

- Canada's growth has been sluggish to start the year. We believe that there is only limited downside, however, and we expect a sustained period of stability going forward.
- Inflation has not moved meaningfully in either direction of late, leaving the impression of an economy that is in balance.
- With no domestic imbalances to confront, the Bank of Canada is comfortably on hold for the time being.

RISK FACTORS

- Canada's three points of potential friction are commodities, the US and China. Improvement in the last two suggests little reason for concern about the first, meaning that the risks appear manageable for the time being, especially with the domestic economy stable.

OVERVIEW

The Canadian economy appears to be operating at something like a near-term equilibrium, with growth and inflation both staying steady and risks of overheating in property markets having faded significantly. The Bank of Canada is following the trend among global central banks by emphasizing that it can be patient in moving interest rates; with inflation stable, there is little imperative for them to do otherwise. The macro environment is characterized by low volatility and stability rather than dynamic change.

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	1.00	1.00	2.00	2.25	0.65	0.67
New Zealand	3.0	2.8	1.9	2.2	1.25	1.25	2.25	2.50	0.69	0.71

AUSTRALIA

- The market has been reassessing the policy outlook and is now pricing in two interest-rate cuts before year-end.
- 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 that there's still further currency weakness to come, and we 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. We continue to think that 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	1.65	1.65	1.35	1.35

OUTLOOK

+ The UK continues to limp along as it awaits the outcome of Brexit negotiations. In the three months to February, the economy grew by 0.3%, in line with its recent quarterly growth rate. It's difficult, though, to know just how indicative this is of the underlying strength of the economy. Manufacturing has grown strongly in recent months, but survey data suggest that this has been driven in large part by Brexit-related inventory accumulation. Elsewhere, there are signs of greater softness—the services PMI is at its second-lowest level since December 2012, and official data suggest that growth in business services and finance has ground to a halt in recent months.
+ How long the British economy remains in this state depends in large part on the outcome of Brexit negotiations. The good news is that the threat of a disruptive no-deal Brexit has been pushed back to October, at the earliest. The bad news is that this prolongs the uncertainty that is weighing on investment and growth.
+ Although the labor market remains tight and wage growth is now running above 3%, there is no pressing need for the Bank of England to tighten policy, and we expect it to keep rates on hold until Brexit uncertainty fades.

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, the risk of a no-deal Brexit should still not be dismissed. Moreover, domestic political risk has risen sharply in recent months, with a collapse in support for the governing Conservative Party raising the risk that the next election could see a transfer of power to a left-wing Labour government.

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	(0.25)	0.00	0.76	0.85	9.33	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 2.9% in March from 3.5% late last year, but core inflation (excluding energy and indirect taxes) is moving in the opposite direction and is now at a two-year high of 2.7%.
+ Against this backdrop, Norges Bank continues to signal its intention to continue gradually raising interest rates over coming years, with the next move likely in the third quarter.

RISK FACTORS

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

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) rose slightly to 1.5% in February and continues to move in a narrow range just below the Riksbank's target.
+ The Riksbank recently scaled back its projections for the key policy rate, indicating a move back to zero around the turn of the year and with rates still slightly below 1.0% at the three-year forecast horizon.

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**	**4.24**	**4.18**	**4.04**	**4.02**	**—**	**—**
Hong Kong	2.2	2.0	2.2	2.2	2.75	2.50	1.80	1.80	7.83	7.85
India	7.2	7.0	3.6	3.8	6.50	6.00	7.60	7.30	69.58	70.00
Indonesia	5.1	5.1	3.4	3.5	6.00	6.00	7.80	7.60	14,400	13,950
South Korea	2.2	2.2	1.5	1.7	1.75	1.75	2.15	2.35	1,150	1,150
Thailand	3.5	3.5	1.0	1.4	1.75	1.75	2.50	2.75	32.50	32.70

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 and Taiwan).
+ Inflation generally continues to decline across the region, and with exchange rates relatively stable, speculation has turned to policy easing.
+ Elections in Indonesia and Thailand seem to have produced results close to expectations (official results yet to come); India is next up.

RISK FACTORS

+ Uncertainty over the global trade cycle and US–China trade tension remains key.

OVERVIEW

PMIs for bellwether exporters South Korea and Taiwan have stabilized but are certainly not signaling a robust recovery. The harder data, in general, are consistent with that picture: exports and export orders made a sequential recovery in March but are still well below 4Q's levels. 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. We 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	**1.5**	**2.4**	**8.0**	**6.2**	**10.60**	**9.43**	**7.57**	**7.54**	**—**	**—**
Argentina	(1.0)	1.5	37.5	25.0	40.00	30.00	—	—	48.00	56.00
Brazil	1.3	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	3.00	3.50	4.00	4.20	650	650
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 affecting 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

Uncertainty has risen in Argentina, with opinion polls showing that former president Cristina Fernández de Kirchner's chances of winning the presidential vote in October have improved. If she were to win, Kirchner would likely impose populist policies, abandon many of the structural reforms included in Argentina's IMF agreement and restructure external debt. The increased probability of unfavorable policies caused a sharp sell-off of the Argentine peso in mid-April and led the government and Banco Central de la República Argentina (BCRA) to introduce a new set of measures aimed at reducing inflation and instilling confidence in the government's economic adjustment plan. These new policies, which include price controls on a basket of basic goods and discretionary FX intervention by the central bank, should help to anchor expectations and limit dollarization of local deposits in the near term.

In Venezuela, interim president Juan Guaidó organized a large-scale military uprising on April 30, attempting, yet again, to topple the Maduro regime. This was the sixth event of this type to occur in Caracas over the past few months, and although Maduro was able to retain control, the fragility of the relationship between military leaders and Maduro was exposed. More, and higher-ranking, members of the National Guard have shifted allegiance to Guaidó. Military loyalty is a key indicator to watch and should help assess the likelihood of a regime change. The conditions necessary for a regime change are present, but the catalyst for change may take time to materialize.

Stabilization in the US economy is good news for Mexico and removes one downside risk from the economic outlook. That said, growth remains sluggish, and we expect that the central bank will need to cut rates to boost growth. Risks remain primarily to the downside. Domestically, the poor performance of PEMEX means that the government is likely to have to pay in new capital one way or another; that limits the capacity of fiscal authorities to support the broader economy. That process could also result in a sovereign downgrade, though such a move would not be a shock to financial markets and should not have a large domestic impact. Externally, it's worth remembering that the trade deal reached with the US last year has yet to be ratified. Should that process fall apart, renewed trade tension could be a downside risk as well.

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	**1.9**	**2.5**	**6.2**	**5.6**	**9.34**	**8.05**	**10.17**	**9.38**	**—**	**—**
Hungary	3.0	2.8	3.1	3.2	1.25	1.25	3.40	3.40	284	284
Poland	3.4	3.6	1.9	2.5	1.50	1.50	3.15	3.15	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	0.9	1.3	4.9	5.2	6.75	6.75	9.50	9.40	15.00	15.10
Turkey	(3.0)	0.5	16.5	14.3	21.00	17.00	20.00	18.00	6.40	6.20

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 is a risk for current account deficit countries such as Turkey and, to a lesser extent, South Africa.

OVERVIEW

Robert Mueller's report on Russian election interference isn't likely to lead to bipartisan calls for new US sanctions against Russia. But developments in Venezuela, a flashpoint for US–Russia relations, just might. Mueller's report highlighted contacts between the Russian government and the Trump campaign but did not uncover sufficient proof of collusion. That suggests that we won't see new bipartisan momentum to push existing legislation, such as the DETER Act or DASKAA, through both the House and Senate. We may get an announcement soon about sanctions to punish Russia for its alleged use of chemical weapons—President Trump has yet to sign the bill—but we think they would be relatively light. But Russian involvement in Venezuela could incrementally raise the risk of harsher measures, such as restrictions on sovereign debt.

A month after local elections in Turkey, we feel that policymakers have done little to convince investors that a more pragmatic policy approach will be pursued. Aside from the fact that the Istanbul results remain contested at the time of writing, the latest structural reform announcements, as well as the Central Bank's April MPC meeting and the Q2Q inflation report, provided limited reassurance. Turkish economy minister Albayrak's "economic road map" provided some positive steps regarding the banking system, although no details were provided on fiscal performance, with limited and unrealistic targets on structural reforms. The 2019 and 2020 fiscal deficit targets and underlying assumptions weren't even mentioned, and the minister simply rehashed the savings and revenue measures already outlined in the National Program presentation in September of last year.

On the monetary-policy front, the Turkish Central Bank unexpectedly removed the tightening bias at its April MPC meeting, although, in our view, the bank's own inflation outlook, as well as underlying macro risks, did not justify such a step. Central Bank governor Çetinkaya emphasized that the change in language is not about "short-term policy direction" but "more structural" in nature. At the same time, he stressed that the central bank could start a new hiking cycle. The main concerns we have are that we don't really know what "structural" means in that context, which thus felt like an unsatisfactory explanation. The apparent back-and-forth on the true extent of the tightening bias leaves us again having to second-guess what the central bank is really thinking, which, in our view, raises the risk of questionable inflation forecasts and battered policy credibility.

Frontier Markets

OUTLOOK

- Zambian assets will struggle to reverse losses until the country's leaders show that they have the political will for fiscal reform.

RISK FACTORS

- Zambia remains at high risk of debt distress, and there might be further credit-rating downgrades before year-end.

OVERVIEW

Zambia is not out of the woods. In fact, the IMF recently highlighted the country's rather precarious economic growth and debt dynamics and said that it discussed the options to lower debt-related vulnerabilities with the authorities in a visit to the country. Economic growth is slowing, and inflation is picking up while public and publicly guaranteed debt (including domestic arrears) has been rising and now sits north of 70% of GDP. Local drought conditions are making matters worse, and there is not much of a buffer against additional shocks, with reserves covering less than two months of imports. The fiscally induced fragility has been long in the making, and with external debt service cost for 2019 approximately equal to current reserves, Zambia's debt underperformance so far this year is not surprising.

Zambia urgently needs to arrest the accumulation of debt and arrears to avoid further underperformance in the bond market. But it would require a reversal of debt-related vulnerabilities for Zambian bonds to recover from current distressed levels. A first step could be the restructuring of Chinese loans, as that might be a requirement for more constructive engagement with the IMF. Restructured Chinese loans will address Zambia's liquidity concerns while an IMF program on top of that should pull Zambian bonds well away from the precipice. The Zambian authorities' recent "frank and collaborative" discussions with the IMF bring a bit of hope, which should put a floor under bond prices in the near term. But Zambian assets will, in our view, struggle to sustainably reverse losses until there is evidence of political will for fiscal reform.

AB Global Economic Forecast

May-19

	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	2.7	2.7	2.99	2.88	3.05	3.08	-	-
Industrial Countries	1.6	1.5	1.7	2.0	1.22	1.25	1.69	1.79	-	-
Emerging Countries	4.5	4.7	4.3	3.8	6.37	5.89	5.70	5.52	-	-
United States	2.0	1.8	2.3	2.5	2.38	2.38	2.84	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	0.76	0.76	-	-
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	1.65	1.65	1.35	1.35
Sweden	1.8	1.8	2.0	2.0	(0.25)	0.00	0.76	0.85	9.33	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	1.00	1.00	2.00	2.25	0.65	0.67
New Zealand	3.0	2.8	1.9	2.2	1.25	1.25	2.25	2.50	0.69	0.71
Asia ex Japan	5.6	5.5	2.4	2.5	4.24	4.18	4.04	4.02	-	-
China	6.2	6.0	2.2	2.2	4.35	4.35	3.50	3.50	6.80	6.80
Hong Kong	2.2	2.0	2.2	2.2	2.75	2.50	1.80	1.80	7.83	7.85
India	7.2	7.0	3.6	3.8	6.50	6.00	7.60	7.30	69.58	70.00
Indonesia	5.1	5.1	3.4	3.5	6.00	6.00	7.80	7.60	14,000	13,950
Korea	2.2	2.2	1.5	1.7	1.75	1.75	2.15	2.35	1,150	1,150
Thailand	3.5	3.5	1.0	1.4	1.75	1.75	2.50	2.75	32.50	32.70
Latin America	1.5	2.4	8.0	6.2	10.60	9.43	7.57	7.54	-	-
Argentina	(1.0)	1.5	37.5	25.0	40.00	30.00	-	-	48.00	56.00
Brazil	1.3	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	3.00	3.50	4.00	4.20	650	650
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	1.9	2.5	6.2	5.6	9.34	8.05	10.17	9.38	-	-
Hungary	3.0	2.8	3.1	3.2	1.25	1.25	3.40	3.40	284	284
Poland	3.4	3.6	1.9	2.5	1.50	1.50	3.15	3.15	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	0.9	1.3	4.9	5.2	6.75	6.75	9.50	9.40	15.00	15.10
Turkey	(3.0)	0.5	16.5	14.3	21.00	17.00	20.00	18.00	6.40	6.20

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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