

# GLOBAL MACRO OUTLOOK

## JANUARY 2020

### KEY FORECAST TRENDS

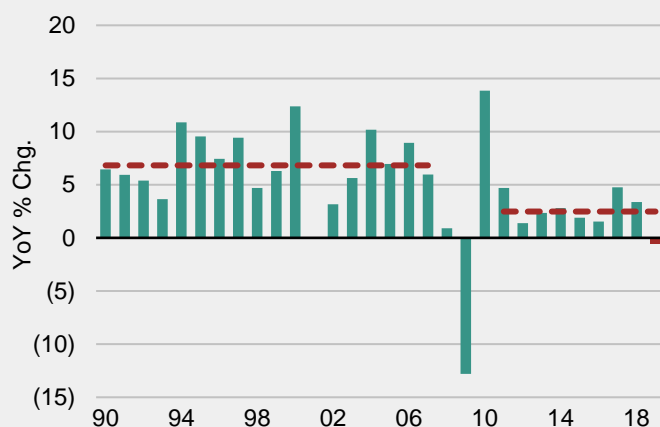
- + We have upgraded our global growth forecast to reflect more encouraging news on the trade front, looser financial conditions and signs that manufacturing may finally be starting to stabilize.
- + It would, however, be premature to think that the global economy has turned a corner and that a synchronized upswing awaits. At 2.4%, our latest forecast for 2020 growth would represent one of the weakest performances since the global financial crisis.
- + There are reasons for caution. First, the cyclical backdrop remains fragile. Yes, many key manufacturing indicators have stabilized, but they have done so at levels consistent with contracting output growth.
- + Second, the secular backdrop remains challenging. Debt, demographics, sluggish productivity growth, populism and geopolitics continue to cast long shadows over the investment landscape.
- + While we have raised our 2020 growth expectations, the main contours of our view remain unchanged. Global growth is likely to remain weak for the foreseeable future while policy rates are likely to remain at record lows or move even lower.
- + What could change this prognosis? Three things. Perhaps we're wrong on the extent to which populism and geopolitics will weigh on growth, and perhaps monetary policy will be more effective than expected. Then there's fiscal policy: while current plans continue to look unambitious, a more radical move in this direction seems inevitable.

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### De-Globalization

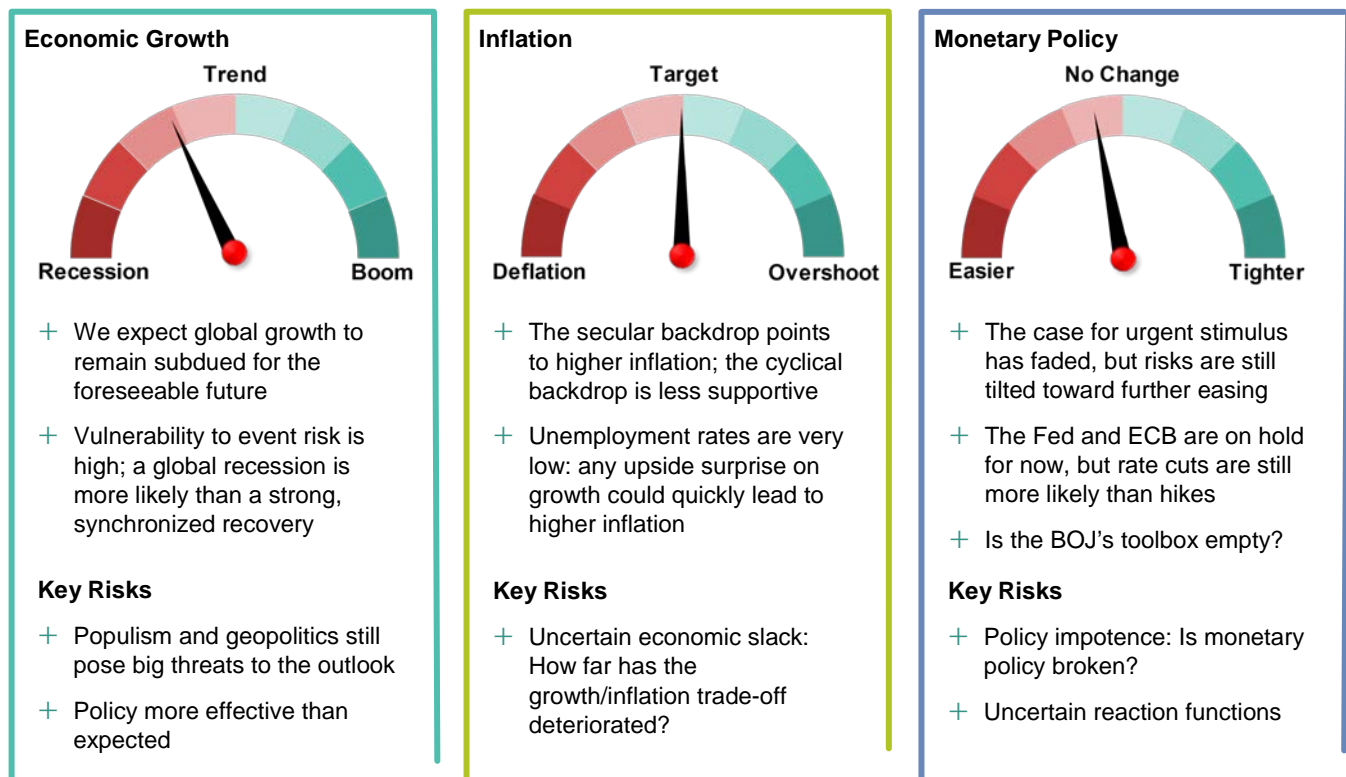
#### World Trade Growth



As of October 31, 2019. 2019 reading is January to October average.  
Source: Haver Analytics

- + World trade growth was negative last year, a rare occurrence. There were two factors at play. One is structural. Since the global financial crisis (GFC), world trade has grown by just 2.5% per annum, compared with 6.8% between 1990 and 2008.
- + But this was compounded last year by a significant increase in policy uncertainty. Even if recent trade developments lead to a decrease in policy uncertainty, a return to the growth rates seen before the GFC looks like a distant prospect.

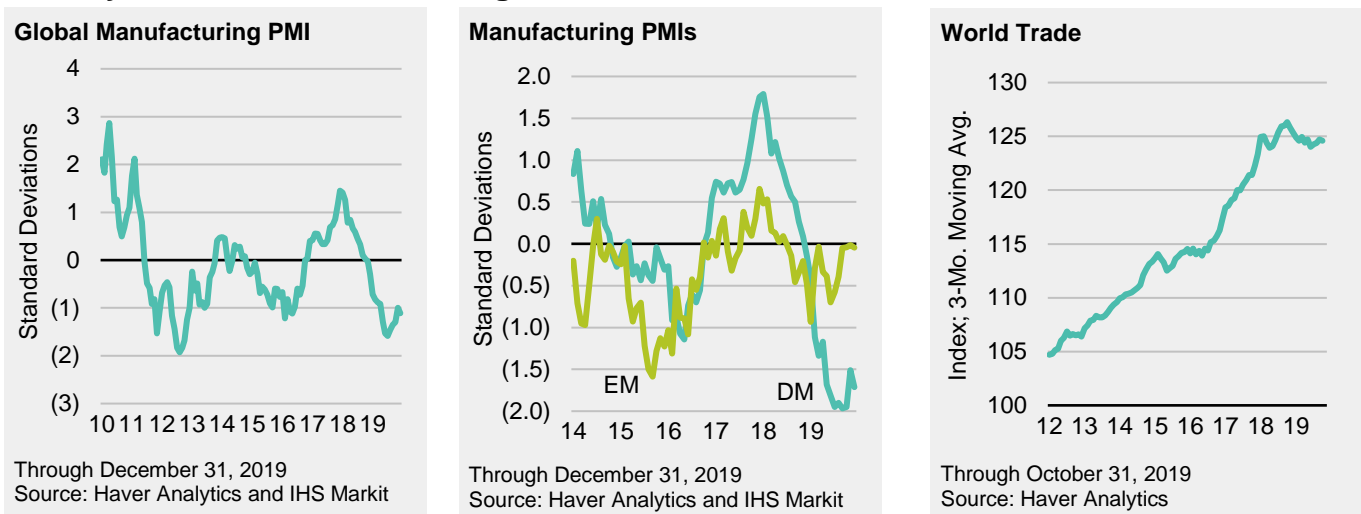
## GLOBAL FORECASTS



## OUTLOOK

- + We have upgraded our 2020 global growth forecast to 2.4% from 2.2% to reflect more encouraging news on the trade front, easier financial conditions and signs that manufacturing may be starting to stabilize.
- + Compared with consensus, we are still a touch more pessimistic on Japan (0.0% vs. +0.3%), the euro area (+0.8% vs. +1.0%) and the US (+1.7% vs. +1.8%) but are now marginally more optimistic on China (+6.0% vs. +5.9%).
- + The secular backdrop continues to point to higher inflation. Cyclical developments are less supportive, but unemployment rates remain very low in many countries so that inflation could respond quickly should growth surprise even mildly on the upside.
- + The improved global outlook has reduced the need for urgent monetary stimulus. Nonetheless, risks are still skewed in that direction, and the Fed and ECB are still more likely to ease policy in the year ahead than to tighten.

## Global Cyclical Outlook: Stabilizing at a Low Level



## GLOBAL MARKET OUTLOOK: YIELD CURVES

### GLOBAL YIELDS

**Global**—A truce in the trade war between the US and China and a scaling back of monetary-stimulus expectations in the US and Europe have helped global bond yields rebound from record lows. But with growth likely to remain weak and policy rates likely to remain at current levels or move even lower, the case for a sustained increase in bond yields is weak.

**US**—The recent backup in US yields is consistent with our view that bond yields are set to move modestly higher over the medium term. But with the Fed likely to cut rates by more than the market expects, the recent rise may be premature.

**Euro Area**—While hopes for further easing steps have faded in recent weeks, risks are still skewed in that direction and the hurdle for any withdrawal of monetary stimulus is high. Yields are expected to trade in a narrow range around current levels.

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

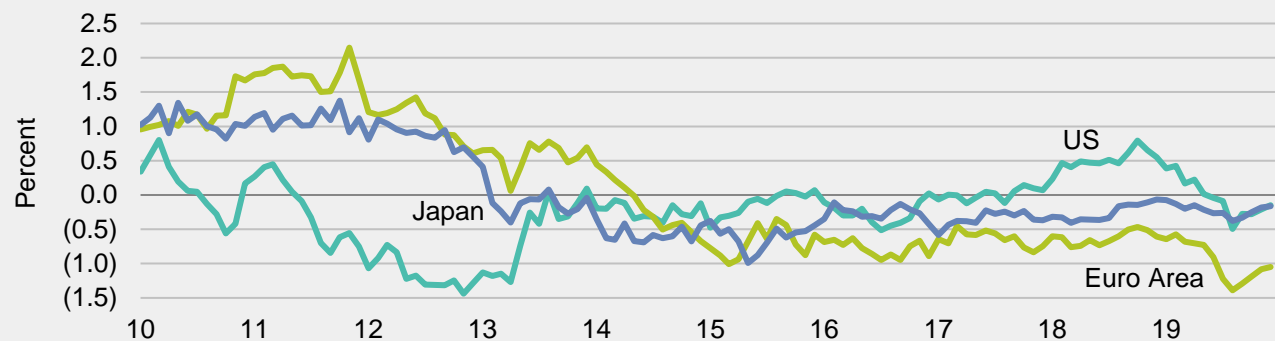
#### 10-Year Yields: AB vs. Consensus Year-End Forecasts (%)

	AB		Consensus	
	2019	2020	2019	2020
US	1.92	2.25	1.92	1.93
Euro Area	(0.19)	(0.25)	(0.19)	(0.31)
Japan	(0.01)	(0.00)	(0.01)	(0.06)
China	3.13	3.00	3.13	2.91

As of January 6, 2020

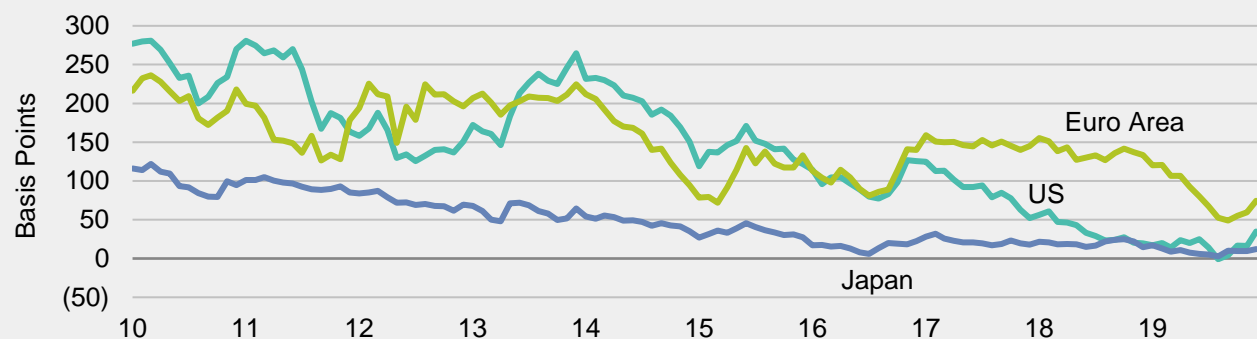
Source: Bloomberg and AB

#### Real 10-Year Bond Yields\*



\*Current 10-year bond yield less five-year/five-year forward inflation swap  
Through December 31, 2019; Source: Bloomberg and AB

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



Through December 31, 2019  
Source: Bloomberg and AB

## GLOBAL MARKET OUTLOOK: CURRENCIES

### FX FORECASTS

**USD**—The dollar traded in a very narrow range in 2019, and we see few fundamental reasons for this to change in the coming year. Likely catalysts for a big dollar move would be a synchronized trade-driven global upswing (weaker dollar) or a global recession (stronger dollar). We judge the latter more likely than the former.

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

**EUR**—Weak growth and ongoing populist risks mean that there are few reasons to buy the euro.

**CNY**—The CNY has benefited from signs of a cease-fire in the US-China trade war. Developments in that sphere will continue to set the tone for the Chinese currency.

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

	AB		Consensus	
	2019	2020	2019	2020
<b>EUR/USD</b>	1.12	1.13	1.12	1.15
<b>USD/JPY</b>	109	102	109	106
<b>USD/CNY</b>	6.96	7.00	6.96	7.02
<b>EUR/GBP</b>	0.85	0.88	0.85	0.85

As of January 6, 2020

Source: Bloomberg and AB

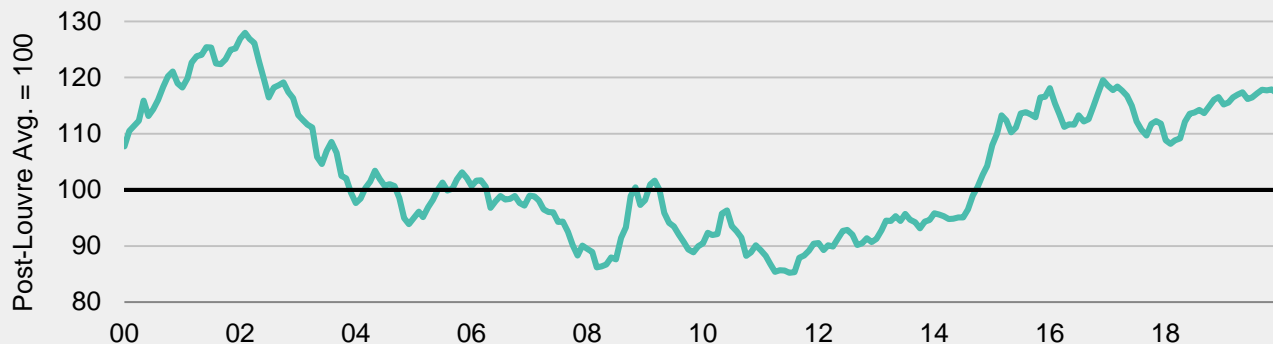
**Nominal USD Exchange Rate: US Dollar Index**



Through December 31, 2019

Source: Bloomberg and AB

**Real USD Exchange Rate**



Through December 31, 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	1.7	2.3	2.3	1.63	1.38	1.75	2.25

### OUTLOOK

- + The US economic outlook remains less clear than usual. The lingering effects of the trade war and rising political uncertainty argue for slower growth, but the strength of the labor market and easier financial conditions in the wake of 75 basis points (b.p.) of fed rate cuts suggest scope for improvement. Our forecasts split the difference, with growth in 2020 roughly similar to that of 2019.
- + Under the surface of that growth outlook is a still-wide divergence between business and consumer sentiment. Businesses remain relatively downbeat about the outlook and hesitant to invest, while consumers continue to find support from the labor market and remain optimistic. The same phenomenon is evident in financial markets, where equities are buoyant while fixed-income yields are strikingly low.
- + The Federal Open Market Committee is on hold for the time being while waiting to see which of the crosscurrents prevail. We think that cuts are more likely than not in 2020, but it is a very close call indeed.

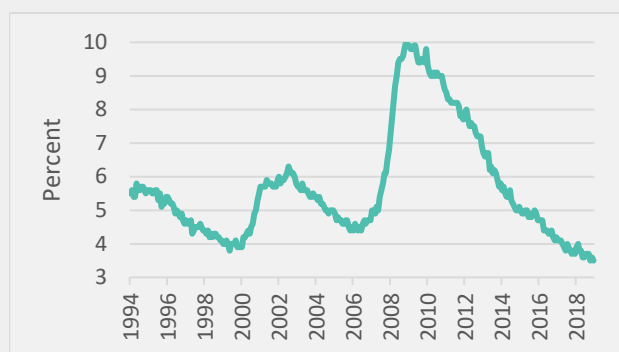
### RISK FACTORS

- + Geopolitics are once again at the forefront, with the risk of a hot war in the Middle East now rising, even as the impact of the trade war may start to fade.
- + Equity markets seem to us to be well above where the cyclical position of the economy suggests they ought to be. That can be explained by monetary-policy support, of course, but if the Fed really is on hold, financial markets may be vulnerable if the economy doesn't accelerate.

### OVERVIEW

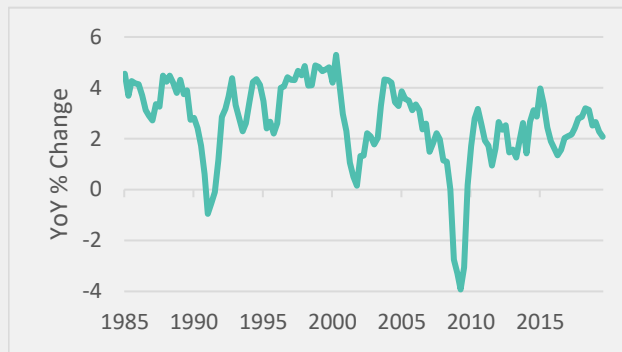
In many respects, the outlook for 2020 should be brightening. Financial conditions have eased on the back of the Fed's rate cuts, and the pause in the trade war should give businesses an opportunity to increase investment that may have been restrained by trade uncertainty. But while recent data points have showed some stabilization, there is as yet no evidence of a rebound. And just as the trade war seems to be fading, recent events in the Middle East pose new risks to the global economy and to financial markets. We have no way to handicap the eventual outcome or other risk events, such as the US election. What we can assert, however, is that policy uncertainty is set to remain high on many fronts, and history suggests that periods of high uncertainty correlate with periods of sluggish growth. So while we do think that the situation today is better than it was a few months ago, we are not ready to sound the all clear. We expect volatility to persist as 2020 progresses, which will act as a headwind for both growth and financial markets.

**US Unemployment Rate**



Through November 15, 2019  
Source: Refinitiv Datastream

**US GDP**



Through August 15, 2019  
Source: Refinitiv Datastream

## Euro Area

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

### OUTLOOK

- + We have raised our 2020 growth forecast to 0.8% from 0.3% to reflect more encouraging news on the trade front, signs that manufacturing is starting to stabilize and resilient domestic demand. The outlook remains challenging, though, and risks remain skewed to the downside.
- + We now expect the ECB to leave its policy settings on hold throughout 2020 (which means it will continue to expand its balance sheet by €20 billion a month). An easing of policy is possible but would require some darkening of the outlook.

### RISK FACTORS

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

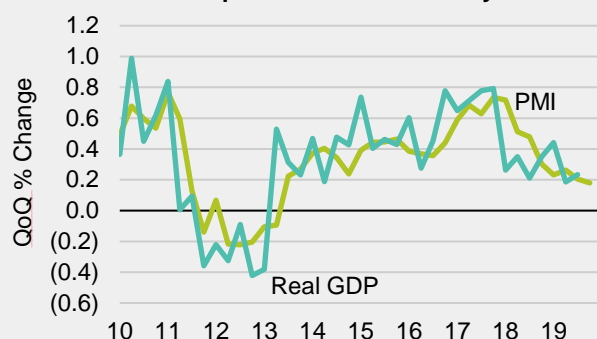
### OVERVIEW

December's survey data were mixed. The composite PMI rose to 50.9 from 50.6 in November and September's cyclical low of 50.1, but this was entirely due to an improvement in the services component. The manufacturing PMI slipped back to 46.3 from 46.9, suggesting that the road to recovery for this sector could be a long one. The only positive note was the continued improvement in the export orders index, which rose to 47.3 in December from 46.3 in November and a cyclical low of 44.2 in July.

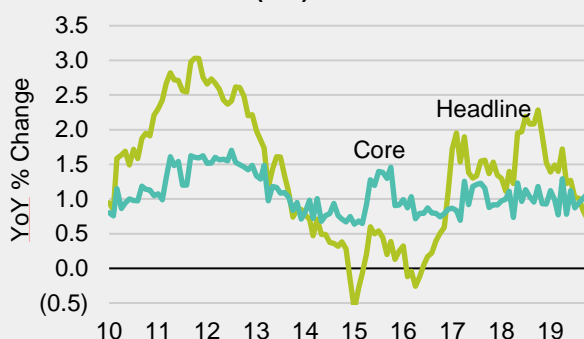
Headline inflation rose to 1.3% in December from 1.0% in November and is likely to rise further in the first quarter as higher energy prices take effect. More importantly, core inflation was stable at 1.3%, pushing the three-month average up to 1.2% for the first time since early 2017. If you look very carefully, it is just about possible to detect a faint upward trend in core inflation in the euro area. But it's modest, at best. And with growth soft and labor-market momentum slowing, it's difficult to see this upward trend being sustained in coming quarters.

The main takeaway from Christine Lagarde's first press conference as ECB president is that monetary policy is now on hold. That's partly because the outlook has improved a little but also because one of the first tasks facing Lagarde is to restore the unity of the Governing Council following the controversial easing of policy forced through by her predecessor, Mario Draghi, in September. Lagarde also announced a wide-reaching review of the ECB's monetary strategy, which, she said, could last for the whole of 2020. This review will not prevent the ECB from easing policy should that become necessary, but (at the margin) it's another argument to expect policy to remain on hold.

**Real GDP and Composite PMI-Based Proxy**



**Consumer Price Index (CPI) Inflation**



## Japan

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

### OUTLOOK

- + The global trade uncertainty continues to undermine Japan's manufacturing sector.
- + The labor market remains tight, but there are tentative signs of a turning point.
- + The Bank of Japan's (BOJ) options to ease in an effective manner remain limited.

### RISK FACTORS

- + Apart from the fallout from October's value-added tax (VAT) hike, most of the key risks are external and will likely materialize through a sharp appreciation of the yen.

### OVERVIEW

The implementation of the second VAT hike under the "Abenomics" banner took place in early October. As expected, the tax change has had a material impact on the pattern of spending. Retail sales jumped sharply in August and September, before falling back sharply in October (see chart).

The devastation delivered by Typhoon Hagibis, the costliest natural disaster since the 2011 earthquake and tsunami, is an additional factor to consider. The disruption adds further downside risk to the 4Q GDP.

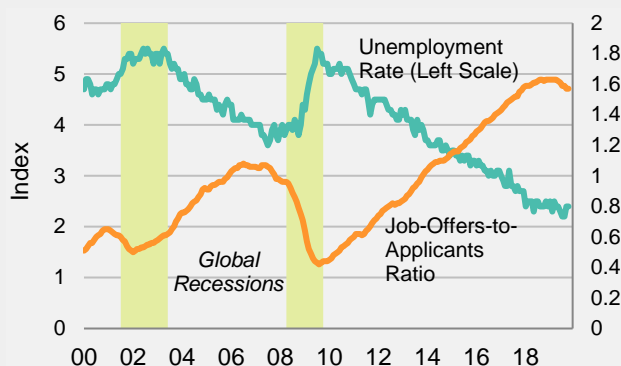
These three sources of uncertainty—global trade, ramifications of the VAT hike and natural disaster vulnerability—are driving the prospect of substantial fiscal stimulus via a supplementary budget. At more than Y25trn, the headline numbers are huge. But history teaches us that the actual fiscal impulse ("real water," in Japanese parlance) will be materially smaller than that. Reconstruction spending and other fiscal measures should add a tick or two to growth in 2020, without materially changing the narrative about the outlook. We still expect a persistent slowdown in growth over the year ahead.

Despite the growing uncertainty about the economic outlook, the BOJ is unlikely to do anything more than tweak policy. Its main policy role now is to support fiscal implementation via capping any rise in JGB yields (via its yield-curve control program).

**Retail Spending Jumps Ahead of VAT Hike, Then Falls**



**A Turn in the Labor Market?**



## China

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

### OUTLOOK

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

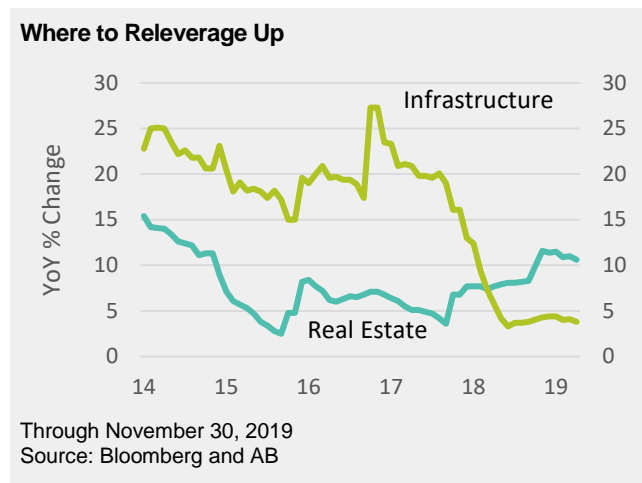
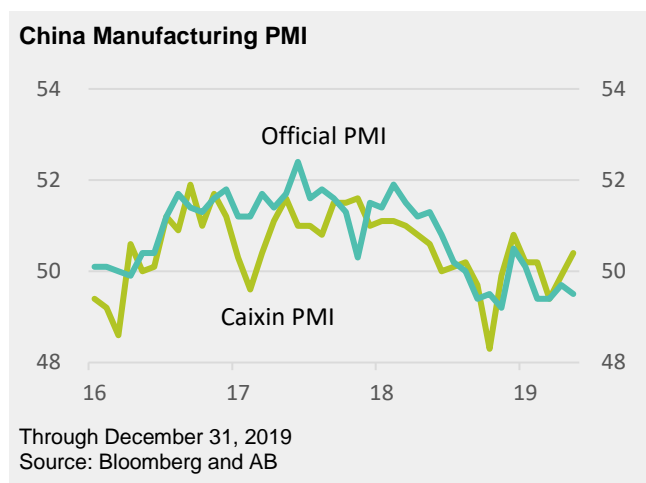
### RISK FACTORS

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

### OVERVIEW

China's central bank began 2020 by announcing that it would cut the Reserve Requirement Ratio (RRR) by 50 b.p., effective on January 6, injecting about CNY800bn into the system. This should help ease the liquidity shortage before the Chinese New Year in late January. This confirms our view that we were witnessing accelerated policy easing in November and December, and we expect this to accelerate in the first quarter. The PBOC delivered an even bigger 100-b.p. RRR cut on January 4, 2019, and it has been interpreted by markets as a clear "risk-on" signal. Why only 50 b.p. this time? We chalk it up to inflation pressure. We expect the PBOC to deliver more easing after inflation peaks, which we expect to happen around the end of the first quarter.

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



## Canada

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

### OUTLOOK

- + The brightening of the global outlook in the past few weeks means that Canada's outlook has brightened as well, though more on an incremental basis than in any sort of dramatic way. Canada remains a taker of the global environment rather than a driving force behind defining that environment.
- + What 2020 is likely to bring for the Bank of Canada is a tough call. As long as the global economy and the US economy are steady, rates will likely be on hold. But should that change, the BOC has room to respond as necessary.

### RISK FACTOR

- + If energy prices become more volatile as tension in the Middle East rises, the Canadian economy could be buffeted by the back-and-forth.

### OVERVIEW

With the world economy appearing to be on somewhat stronger footing of late, the risks around the Canadian outlook have diminished. That has prompted the Bank of Canada to become more explicitly neutral rather than signaling a bias toward rate cuts. Because we remain skeptical that the calm in the global economy will last, we continue to think that rate cuts are more likely than not, but that is a story that isn't likely to play out for several months. In the meantime, the Canadian macroeconomy remains stable and sound, if unspectacular.

## Australia/New Zealand

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

### AUSTRALIA

- + Amid concerns about global growth and domestic economic stagnation, the Reserve Bank of Australia (RBA) has taken the cash rate to 0.75% and has discussed QE. This easing and some relaxation of macro-prudential policy have prompted a rebound in home prices and, perhaps, a bit more of a positive outlook.
- + We're inclined to fade that optimism. We still expect the housing downturn to have a material impact on overall growth, driving the unemployment rate back through the sixes. The unprecedented bushfires—at this writing, over 8m hectares are burned—represent an additional downside risk.
- + Accordingly, the RBA is likely to deliver a little more easing, and we wouldn't be shocked to see further weakness in the Australian dollar.

### NEW ZEALAND

- + The NZ economy remains better placed than Australia's, with housing construction still increasing, business confidence starting to turn and some fiscal boost in the pipeline.
- + But with persistently lower than expected inflation, the Reserve Bank of New Zealand is likely to retain its easing bias.

## UK

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F
<b>UK</b>	1.3	1.0	1.9	1.7	0.75	0.75	0.70	0.75	1.33	1.28

### OUTLOOK

- + Boris Johnson's decisive election victory represents an important step forward. It means that the UK finally has a strong government united around leaving the EU in an orderly fashion at the end of January. It also means that the risk of a radical left-wing government has receded.
- + But much remains unclear. For example, the government has promised not to extend the transition period during which the rules governing its trading relationship with the EU remain unchanged beyond the end of this year. What this means is that if the UK and the EU have not agreed to a trade deal by December (and most experts think that this will be difficult), the trading relationship between the two will revert to WTO terms. As this would essentially mean a hard Brexit, it is difficult to see a sharp rebound in capital spending until businesses have greater clarity and comfort in this area.
- + On the domestic front, the government plans to increase infrastructure spending and to prioritize more deprived areas of the country. This is a welcome development, though whether the extra spending will be enough to make a material difference to 2020 growth is an open question.

### RISK FACTORS

- + A more positive business-sector response to the government's Brexit plans and/or bigger than expected fiscal stimulus could push growth higher than expected this year.
- + A hard Brexit at the end of 2020 remains a risk and could be highly disruptive.

## 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
<b>Norway</b>	2.5	1.6	2.1	1.9	1.5	1.50	1.40	1.50	10.15	9.75
<b>Sweden</b>	1.4	1.1	1.9	1.7	0.00	0.00	0.00	0.10	10.50	10.00

### NORWAY OUTLOOK

- + Growth in the mainland economy rose to 2.9% in the third quarter, far stronger than in the rest of Europe. While it will be difficult for Norway to sustain this strong growth rate in coming quarters, it is likely to remain a regional outperformer.
- + Core inflation (adjusted for tax changes and energy prices) slipped back to 2.0% in November and now seems to have peaked. We expect Norges Bank to keep interest rates unchanged over the coming year. However, Norway is one of the only developed economies in which interest-rate risks are tilted toward the upside rather than the downside.

### RISK FACTORS

- + High household debt (currently 220% of income) and oil-price fluctuations are key risk factors.

### SWEDEN OUTLOOK

- + Survey and hard data continue to paint very different pictures of the Swedish economy. While economic growth was better than expected, at 1.7% in the third quarter, survey data remain consistent with much weaker growth rates.
- + Core inflation (the consumer price index at fixed interest rates, excluding energy) rose to 1.8% in November, from 1.7% in October. While that's below the Riksbank's 2.0% target, the underlying trend is now more visibly upward.
- + The Riksbank raised rates to zero in December but continued to show a flat profile for coming years, with the key policy rate expected to rise to just 13 basis points in the fourth quarter of 2022. December's rate move should therefore be seen more as an attempt to move out of negative interest-rate territory than the beginning of a tightening cycle.

### RISK FACTOR

- + High household debt and elevated house prices continue to represent a major risk to economic and 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	5.3	5.1	2.6	2.9	3.93	3.67	3.55	3.39	—	—
Hong Kong	(1.3)	(0.8)	2.8	2.5	2.00	1.50	1.50	1.40	7.83	7.85
India	5.6	5.5	3.4	3.9	5.15	4.65	6.50	6.30	70.00	68.00
Indonesia	5.0	5.0	3.2	3.4	5.00	4.75	7.00	6.85	14,000	13,950
South Korea	1.8	1.5	0.5	1.1	1.25	1.00	1.66	1.35	1,154	1,200
Thailand	2.7	2.5	1.2	1.2	1.25	1.00	1.50	1.50	30.07	33.00

### OUTLOOK

- + The drag from global trade, uncertainty about the technology cycle and geopolitical risks continue to weigh on growth in the more trade-exposed parts of the region. But it's important to emphasize the distinction between “stabilization” and “recovery.”
- + With inflation low and exchange rates relatively stable, slowing growth allowed a broad-based easing in monetary policy across the region. But we're coming to the end of that phase.

### RISK FACTORS

- + Uncertainty over the global trade cycle and US-China trade tensions remain key risks.

### OVERVIEW

GDP growth in trade-exposed Asia slowed sharply throughout 2019, a result of the drag from the trade conflict, the tech cycle and its spillover to global growth more broadly. We expect that downward pressure to persist. This is reflected in our below-consensus view for growth across the region.

The most recent regional trade data point to some stabilization in exports. That has generated some optimism about the outlook. But there's a world of difference between “stability” and “recovery.” At this juncture, there's little evidence of the latter. Expect trade uncertainty, geopolitical pressure and populist politics to continue to exert a drag in 2020.

Disappointing growth performance in the post-GFC period has helped to underpin a very subdued inflation picture. The combination of soft growth, minimal price pressure and downside risks tied to the global economic environment has allowed central banks to embrace policy easing. Expectations have been pared back a little, but markets still expect further cuts in policy interest rates over the next year.

Apart from growth and inflation, several other factors are complicating the monetary-policy outlook. In Thailand, for example, persistent currency strength continues to cause concern for policymakers. Similarly, financial-stability risks tied to household debt are also feeding into monetary-policy decision-making. Macro-prudential policy is here to stay.

## Latin America

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F
Latin America	0.5	1.6	9.3	7.1	12.11	9.58	6.30	6.20	—	—
Argentina	(2.5)	(1.0)	50.0	35.0	60.00	45.00	—	—	62.00	80.00
Brazil	1.0	2.3	3.3	3.7	4.50	4.50	6.50	6.50	4.13	3.80
Chile	1.0	1.5	1.8	1.8	1.75	2.00	3.60	3.25	750	770
Colombia	3.2	3.2	3.6	3.5	4.25	4.50	6.10	6.20	3,350	3,500
Mexico	0.0	0.9	3.6	3.5	7.25	6.50	7.00	6.75	19.20	20.25

## OUTLOOK

- + We expect GDP growth in the region to pick up materially in 2020, driven by a recovery in Brazil and less negative growth in Argentina. In December, key leading economic indicators in Brazil were stronger than expected, including job growth and consumer confidence.
- + Monetary easing in the region is approaching its end. We expect Mexico to cut again but other central banks to remain on hold or even start to raise rates late in the year.

## RISK FACTORS

- + Political uncertainty could erode business and consumer confidence or delay necessary structural reforms. A continuation of 2019's reform momentum is key for Brazil in the new year, and Ecuador needs to approve changes to its monetary and financial codes to comply with the IMF.
- + A worsening in the global trade outlook is also a key risk for the region.

## OVERVIEW

Although the central bank didn't rule out further rate cuts, it signaled that it has likely ended its easing cycle with the 50-b.p. cut at its December meeting. Economic data are starting to show signs of recovery, with consumer spending beating expectations, acceleration in job creation and investment rates starting to pick up. These leading indicators, along with falling interest rates, create a catalyst for gradual acceleration in economic growth in 2020.

In Argentina, President Alberto Fernández announced his cabinet and made important policy announcements to begin his term. Fernández named Martín Guzmán, a 37-year-old academic from Columbia University, to lead the Ministry of Economy. During his academic career, Guzmán wrote research papers outlining an aggressive approach toward debt negotiations with private bondholders, advocating for large principal haircuts. However, since assuming the post in the cabinet, Guzmán has softened his rhetoric toward creditors but has provided little detail on what he envisions for an eventual debt restructuring. The government has also made important changes to economic policy, with the objective of stimulating aggregate demand. Initially, some of the measures will put more money into the pockets of low-income Argentines, but over time they should lead to an improvement in the government's fiscal accounts.

## 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
<b>EEMEA</b>	<b>1.1</b>	<b>2.4</b>	<b>7.2</b>	<b>6.9</b>	<b>6.72</b>	<b>5.85</b>	<b>7.38</b>	<b>7.44</b>	<b>—</b>	<b>—</b>
Hungary	3.8	2.3	3.1	3.2	0.90	1.25	1.80	1.90	330	325
Poland	3.9	3.1	1.9	2.5	1.50	1.50	2.10	2.20	4.30	4.30
Russia	1.2	1.7	4.3	3.7	6.25	5.75	6.30	6.20	64.00	65.00
South Africa	0.4	0.7	4.1	4.4	6.50	6.00	9.00	9.20	14.90	15.20
Turkey	(0.2)	3.0	15.5	11.5	12.00	10.00	13.00	14.00	6.00	6.25

### OUTLOOK

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

### RISK FACTOR

- + 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

At its December monetary-policy meeting, the Turkish Central Bank (CBRT) reverted to its pre-crisis policy setting of running a real policy rate of practically zero. With December headline inflation surprising to the upside, the CBRT's real weighted average cost of funding (WACF) stood at (0.4)% and is expected to decline toward (1)% in 1Q:2020 as inflation is likely to move toward 12.5%yy, with risks to the upside in the event of further FX weakness and further oil-price rises.

One of our key concerns is that historically, the lack of a real rate buffer has left Turkish assets vulnerable to policy mistakes or other shocks, particularly geopolitical shocks. Turkey's vulnerabilities have shifted, but the overall risk levels have remained elevated. A smaller current account deficit (or even a small surplus at the moment) is certainly a positive; yet it is largely offset by its inability to attract foreign inflows at this juncture. The lack of international participation in local debt markets has been self-inflicted and is a major policy constraint. This forces domestic banks, which are also facing NPL constraints, to assume the risk of servicing Turkey's expansionary fiscal policy. Also, the CBRT has effectively started to monetize fiscal policy through CBRT equity and potentially its revaluation account. The government's growth policy remains expansionary, and loan growth continues to be one of the engines of stimulus, aside from CBRT monetization and fiscal support. At the same time, inflation has not improved, compared with its pre-crisis level: Headline inflation has declined, but sequential service and core inflation have remained sticky. The CBRT forecasts inflation to end 2020 at around 8%, although stimulus efforts (unlikely to cause a decline in core inflation) and unfavorable base effects in 2H will make this quite unlikely, in our view.

	Real Growth (%)		Inflation (%)		Official Rates (%)		Long Rates (%)		FX Rates vs USD	
	2019F	2020F	2019F	2020F	2019	2020F	2019	2020F	2019	2020F
<b>Global</b>	2.5	2.4	2.8	2.8	2.59	2.25	2.19	2.32	-	-
<b>Industrial Countries</b>	1.6	1.2	1.6	1.7	0.75	0.62	0.88	1.11	-	-
<b>Emerging Countries</b>	3.9	4.4	4.9	4.6	6.09	5.28	4.77	4.61	-	-
<b>United States</b>	2.0	1.7	2.3	2.3	1.63	1.38	1.75	2.25	-	-
<b>Canada</b>	1.8	1.8	2.1	2.2	1.75	1.50	1.50	1.50	1.30	1.35
<b>Europe</b>	1.3	0.9	1.3	1.4	(0.20)	(0.20)	(0.10)	(0.01)	-	-
Euro Area	1.2	0.8	1.2	1.3	(0.50)	(0.50)	(0.35)	(0.25)	1.13	1.13
United Kingdom	1.3	1.0	1.9	1.8	0.75	0.75	0.70	0.75	1.33	1.28
Sweden	1.4	1.1	1.9	1.7	0.00	0.00	0.00	0.10	10.50	10.00
Norway	2.5	1.6	2.1	1.9	1.50	1.50	1.40	1.50	10.15	9.75
<b>Japan</b>	1.1	(0.0)	0.5	0.7	(0.10)	(0.10)	(0.01)	0.00	109	102
<b>Australia</b>	1.7	1.3	1.3	1.6	0.75	0.25	1.37	1.25	0.70	0.65
<b>New Zealand</b>	2.2	1.8	1.7	1.9	1.00	0.75	1.69	1.75	0.67	0.65
<b>Asia ex Japan</b>	5.3	5.1	2.6	2.9	3.93	3.67	3.55	3.39	-	-
China	6.2	6.0	2.8	3.0	4.35	4.10	3.20	3.00	7.05	7.00
Hong Kong	(1.3)	(0.8)	2.8	2.5	2.00	1.50	1.50	1.40	7.83	7.85
India	5.6	5.5	3.4	3.9	5.15	4.65	6.50	6.30	70.00	68.00
Indonesia	5.0	5.0	3.2	3.4	5.00	4.75	7.00	6.85	14,000	13,950
Korea	1.8	1.5	0.5	1.1	1.25	1.00	1.66	1.35	1,154	1,200
Thailand	2.7	2.5	1.2	1.2	1.25	1.00	1.50	1.50	30.07	33.00
<b>Latin America</b>	0.5	1.6	9.3	7.1	12.11	9.58	6.30	6.20	-	-
Argentina	(2.5)	(1.0)	50.0	35.0	60.00	45.00	-	-	62.00	80.00
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<b>EEMEA</b>	1.1	2.4	7.2	6.9	6.72	5.85	7.38	7.44	-	-
Hungary	3.8	2.3	3.1	3.2	0.90	1.25	1.80	1.90	330	325
Poland	3.9	3.1	1.9	2.5	1.50	1.50	2.10	2.20	4.30	4.30
Russia	1.2	1.7	4.3	3.7	6.25	5.75	6.30	6.20	64.00	65.00
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Turkey	(0.2)	3.0	15.5	11.5	12.00	10.00	13.00	14.00	6.00	6.25

Growth and inflation forecasts are calendar year averages.

Interest rate and FX rates are year end forecasts.

Long rates are 10-year yields unless otherwise indicated.

Latin American Rates include Brazil, Chile, Colombia and Mexico

Real growth aggregates represent 48 country forecasts not all of which are shown

Blanks in Argentina are due to distorted domestic financial system so are not forecast.

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