



MACRO VIEWS



World

- The global economy is in a severe recession. We expect global GDP will remain well below pre-virus levels for most of next year, while 2020 as a whole will see global GDP fall by nearly 6%.
- Although the shock will fall well short of the Great Depression, it will still result in immense rises in unemployment, putting pressure on national treasuries for some time to come.
- There are significant risks around this forecast both to the downside (a second wave would put further downward pressure on activity) and upside (a vaccine is developed and social distancing subsidies).



US

- The US will experience a large contraction. We forecast GDP will shrink by 7.1% this year, with a sharp Q2 contraction (38.7% annualised), followed by growth of just 2.6% in 2021.
- Unemployment rate will peak at 18%, followed by a gradual decline, with unemployment only falling to around 7% by end-2021.
- We expect the Fed to transition to a more outcome-based version of forward guidance and reinforce this language with the adoption of front-end yield curve control.



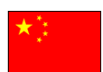
Europe

- Eurozone GDP will fall by 12.0% in 2020 (with a sharp Q2 contraction of 18.0%), before growing by 5.0% in 2021.
- The shock is asymmetric: Germany (-9.0%) shows the smallest deterioration while Spain (-15.0%), France (-14.0%) and Italy (-14.0%) perform worse.
- We expect the ECB by September to double the PEPP envelope to EUR 1.5 trillion and extend the programme at least through the first half of 2021.



Germany

- For Germany, we now see a -9.0% contraction in 2020, and a Q2 contraction of -14.0% qoq. We then see the economy expanding by around 4% in 2021.
- The fiscal response means that our baseline scenario now sees a rise in gross debt to 82.2% of GDP by end-2021.



China

- We see the Chinese economy contracting by 1.1% in 2020, before bouncing back with 9.5% growth in 2021.
- On the policy front, we continue to expect more rate cuts by the PBoC before mid-year, including a 20bps cut in the MLF rate. And on the fiscal side, we expect the central government to unveil more measures, and ultimately expect the augmented fiscal deficit to rise by 6% of GDP.



Emerging Markets

- The major emerging markets will contract this year, including Russia (-6.4%) India (-5.8%) and Brazil (-6.2%).
- In LatAm, there have been uneven policy responses. Brazil looks especially vulnerable.
- In CEEMEA, the major countries (Turkey, Russia and South Africa) face steep downturns ahead.
- However, Asia has been ahead of the curve in terms of an economic rebound.
- The EM policy response has been restrained by extreme risk aversion in international capital markets since February, which has seen downward pressure on local currencies against the dollar, and upward pressure on government bond yields.

Key
downside
risks

- **H** Covid-19 – If a second wave were to materialise, that would have further negative implications for growth, preventing a meaningful recovery for some time.
- **M** Oil prices – Oil price declines could reinforce disinflationary pressures, while a destabilising upward price shock also remains a longer term risk.
- **M** Global trade tensions – There remains the risk of a further trade dispute between the US and China, particularly as we approach the US presidential election in November.



MARKET VIEWS

Market sentiment	<ul style="list-style-type: none"> The deteriorating macro outlook as a result of the coronavirus has affected our market views. As with the economic outlook, the possibility remains of a more severe scenario than our baseline.
Equities	<ul style="list-style-type: none"> Our baseline scenario sees Q2 as the bottom in global growth and earnings, with equities recovering most of their losses by year end. If recovery doesn't begin in Q3, equities would be expected to fall further.
Rates	<ul style="list-style-type: none"> We see yields on 10-year USTs rising to 0.7% by year-end, with those on 10-year bunds rising to -0.2%.
FX	<ul style="list-style-type: none"> FX performance for 2020 is likely to be driven increasingly by economies' differing capacities to exit from lockdowns. Questions over Euro stability have prompted us to flatten our EUR/USD forecast for this year, with a 1.10 year-end target.
Credit	<ul style="list-style-type: none"> In our baseline, we think we're unlikely to reach the wides of late March, but HY spreads could still widen by as much as 100bps. A more protracted pandemic would see a more aggressive near-term widening.
Oil	<ul style="list-style-type: none"> The risk of a viral reintroduction means we don't expect global oil demand to return to its January 220 baseline until perhaps sometime in the second half of 2021. For 2021, we forecast Brent at USD 35/bbl, and WTI at USD 32/bbl.
Monetary Policy	<ul style="list-style-type: none"> Fed: We expect that the Fed will transition to a more outcome-based version of forward guidance and reinforce this language with the adoption of front-end yield curve control. ECB: We expect the ECB to announce by September that it is doubling the PEPP envelope to EUR 1.5 trillion and extending the programme at least through the first half of 2021. BoJ: We expect the policy rate to remain on hold. BoE: We expect a further £125bn of additional QE at the June meeting. PBoC: We expect another 20bps rate cut before mid-year

Key macro & markets forecasts

GDP growth (%)			Central Bank policy rate (%)			Key market metrics				
	2020F	2021F		Current	Q2-20	Q4-20	Current	Q2-20	Q4-20	
Global	-5.9	5.3	US: Federal Funds Rate	0.125	0.125	0.125	US 10Y yield (%)	0.66	0.50	0.70
US	-7.1	2.6	Eurozone: Deposit Facility Rate	-0.50	-0.50	-0.50	EUR 10Y yield (%)	-0.53	-0.40	-0.20
Eurozone	-12.0	5.0	Japan: Policy Balance Rate	-0.10	-0.10	-0.10	EUR/USD	1.08	1.08	1.10
Germany	-9.0	4.0	UK: Bank Rate	0.10	0.10	0.10	USD/JPY	107	105	100
Japan	-6.5	1.2	China: MLF 1Y Interest Rate	2.95	2.75	2.75	S&P 500	2870	2650	3250
UK	-11.5	3.0					Gold (USD/oz)	1700	1680	1800
China	-1.1	9.5					Oil WTI (USD/bbl)	25.3	22.0	32.0
							Oil Brent (USD/bbl)	29.1	25.0	35.0

Current prices as of May 13, 2020

2020 Macro Events Calendar

June			July			August		
04	EZ	ECB Decision	01	GE	Germany assumes Presidency of the Council of the EU	06	UK	Bank of England decision
10	US	Federal Reserve decision				17-20	US	Democratic National Convention
10	G7	Summit	15	JN	Bank of Japan decision	24-27	US	Republican National Convention
16	JN	Bank of Japan decision	16	EZ	ECB Decision			
18	UK	Bank of England decision	29	US	Federal Reserve decision			
18-19	EU	European Council Meeting						
30	UK	Deadline to extend Brexit transition period						

Recent editions of The House View

- [Covid-19: Health check on the global economy](#) 12 May 2020
- [The House View: 2020 Macro events calendar \(includes a calendar outlook update\)](#) 12 May 2020
- [The House View: Gaining Speed](#) 16 January 2020
- [The House View: Back on track](#) 2 December 2019