ALLIANCEBERNSTEIN

GLOBAL ECONOMIC RESEARCH

GLOBAL MACRO OUTLOOK

JUNE 2020

KEY FORECAST TRENDS

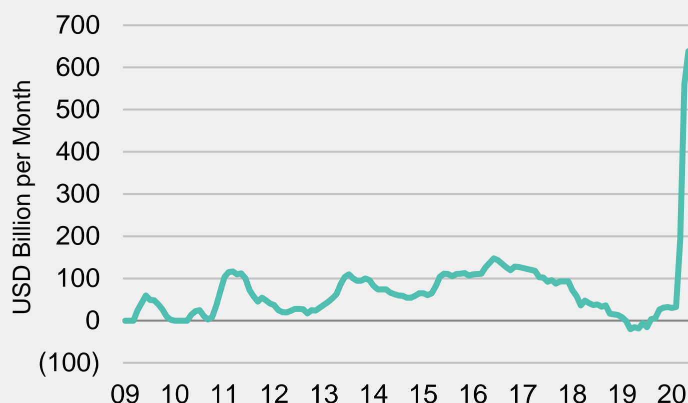
- With leading indicators bouncing off record lows and governments easing lockdowns, attention is turning to the shape of the recovery and postcrisis landscape.
- Key factors for the pace and durability of recovery will be the effectiveness of policy support for households and firms as well as the extent to which the virus can be contained as restrictions are lifted. We're generally optimistic on both.
- But even in a best-case scenario, recovery is likely to be slow and uneven, with some of the jobs and activity displaced in recent weeks likely to be permanently lost. That's why timely post-crisis fiscal stimulus is vital.
- Fiscal spending will add to the rising strain on public sector balance sheets, putting even more pressure on central banks to keep interest rates close to or below zero—which we expect for some time to come. This remains our highest-conviction view.
- Rising debt is not the only way in which COVID-19 will leave its mark on the global economy. Behavioral change is inevitable. But the crisis is also likely to give added impetus to key secular trends: populism, deglobalization and geopolitical conflict.
- Renewed tension between China and the US and growing social unrest are just the first signs of this. Not only do these represent new threats to the cyclical outlook, they're also a reminder that the secular outlook faced powerful headwinds even before COVID-19 struck.

CONTENTS

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

New Normal for Global Central Banks

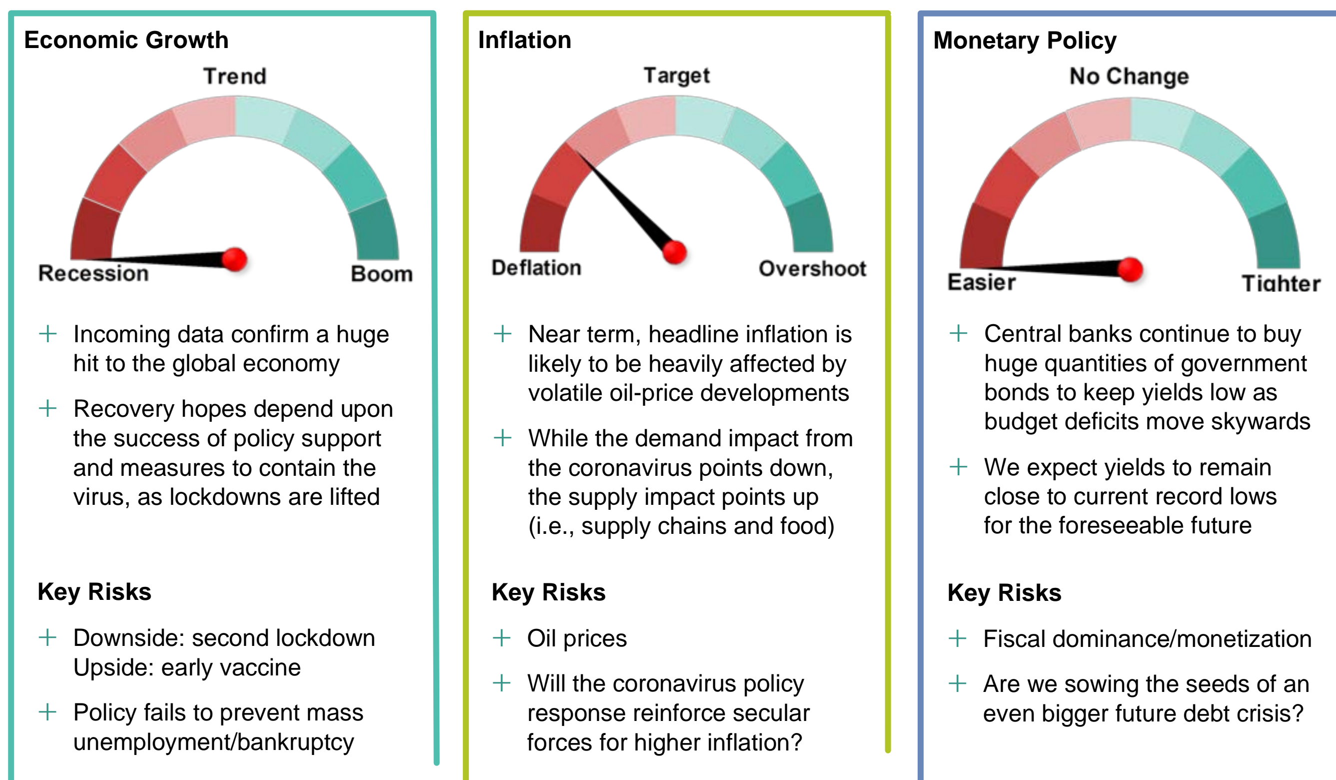
G3 Central Bank Purchases of Government Bonds[1]



As of May 31, 2020
[1]G3 is the US, euro area and Japan. Three-month rolling average
Source: Haver Analytics

- Led by the US Federal Reserve—which has bought $1.6 trillion of government bonds over the last three months—G3 central bank purchases of public sector debt have exploded since COVID-19 struck. This dwarfs anything seen during the global financial crisis.
- While purchases are unlikely to be sustained at quite the same pace in coming months, the need to create fiscal space and underwrite government solvency means that heavy central bank involvement in government debt markets is here to stay.

GLOBAL FORECASTS



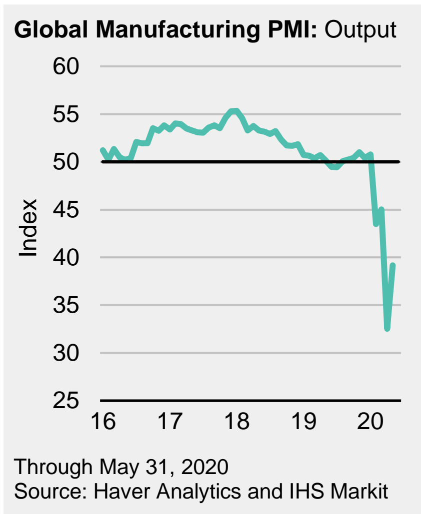
OUTLOOK

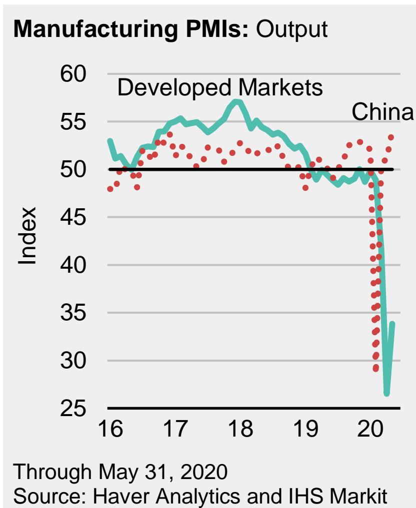
- We left our 2020 global growth forecast unchanged at –4.6% this month. Next year, we see a rebound to 5.1 % but this will depend crucially on the effectiveness of policies to dampen the economic impact of the lockdowns and the extent to which the virus can be contained as lockdowns are lifted. Given the damage already done, more fiscal stimulus will be needed to support the recovery.

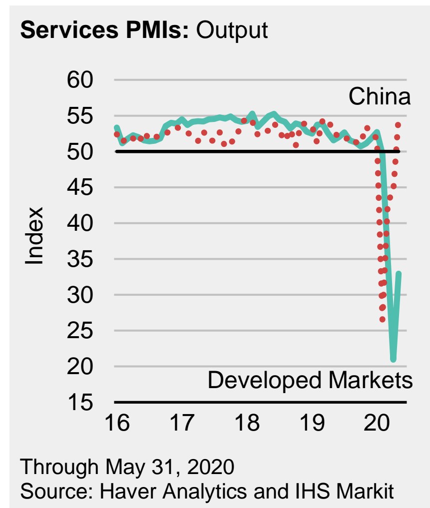
- China was the first country heavily affected by coronavirus lockdowns, but its economy is now clearly on the mend. Despite the economy contracting by roughly 10% in the first quarter, we expect China to grow by 1.1% this year (compared with a 6% trend). The US and euro area experienced mild contractions in the first quarter but face very sharp drops in the second quarter. For 2020, we expect the US and euro-area economies to contract by 5.5% and 10.0% respectively, with much of the difference explained by a less stringent US lockdown and more aggressive fiscal stimulus.

- Conventional policy is limited in the current environment. But by purchasing huge quantities of government bonds, central banks are giving governments the firepower to support their economies while keeping interest rates pinned close to zero.

Global Cyclical Outlook: Past the Trough







GLOBAL MARKET OUTLOOK: YIELD CURVES

GLOBAL YIELDS

Global—Sharply weaker economic activity and massive government stimulus packages are pushing public sector balance sheets skywards. This might normally be expected to put upward pressure on bond yields, but central banks can't and won't allow this to happen, and are buying huge quantities of government bonds. We expect yields to remain close to current lows.

US—The Federal Reserve has committed to buying Treasuries on an open-ended basis and will soon likely extend that commitment via "yield-curve control." This would be a pledge to prevent yields up to a certain maturity (likely around three years) from rising above the policy rate—and to buy however many securities are necessary to accomplish that.

Euro Area—Despite the challenge by the German Federal Constitutional Court, we expect the European Central Bank (ECB) to continue expanding its bond purchase program and place a cap on core and peripheral bond yields.

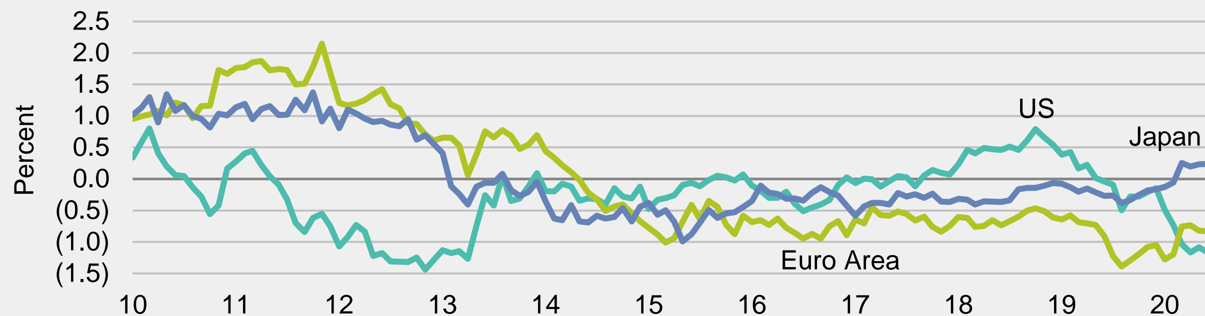
Japan—Tweaks from the Bank of Japan (BOJ)—dropping the Y80 trillion per annum purchase target—largely validate the status quo. Yield-curve control (YCC) should anchor 10-year yields close to zero for the foreseeable future.

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

	AB		Consensus	
	2020	2021	2020	2021
US	0.50	1.00	0.88	1.28
Euro Area	(0.50)	(0.25)	(0.40)	(0.13)
Japan	0.00	0.00	(0.05)	(0.03)
China	2.30	2.50	2.46	2.46

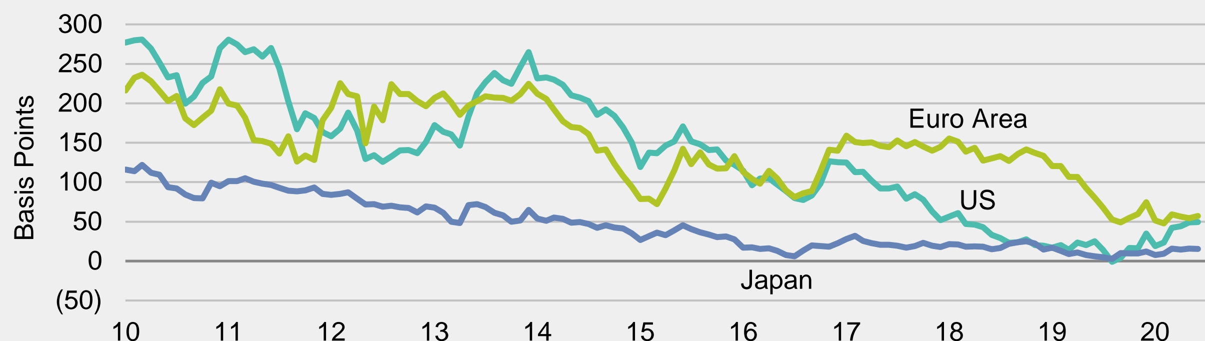
As of June 1, 2020
Source: Bloomberg and AB

Real 10-Year Bond Yields*



*Current 10-year bond yield less five-year/five-year-forward inflation swap
Through June 1, 2020
Source: Bloomberg and AB

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



Through June 1, 2020
Source: Bloomberg and AB

GLOBAL MARKET OUTLOOK: CURRENCIES

FX FORECASTS

USD—With the COVID-19 crisis boosting demand for the world's reserve currency, the dollar strengthened early. As the economy has begun to reopen, it has given back about half of those gains. We think the risks from here are balanced and we don't expect large, sustained USD moves in either direction.

EUR—German support for a European Recovery Fund, centered on €500 billion of grants, has helped lift the euro back toward the middle of its recent trading range against the USD. Given the building optimism in recent weeks, near-term risks are probably skewed to the downside, but we do not anticipate a big move in either direction.

JPY—We see few Japan-specific reasons for a big shift in the yen. Policies in developed economies have converged with those in Japan. That said, we continue to think the yen retains its risk-off characteristics.

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

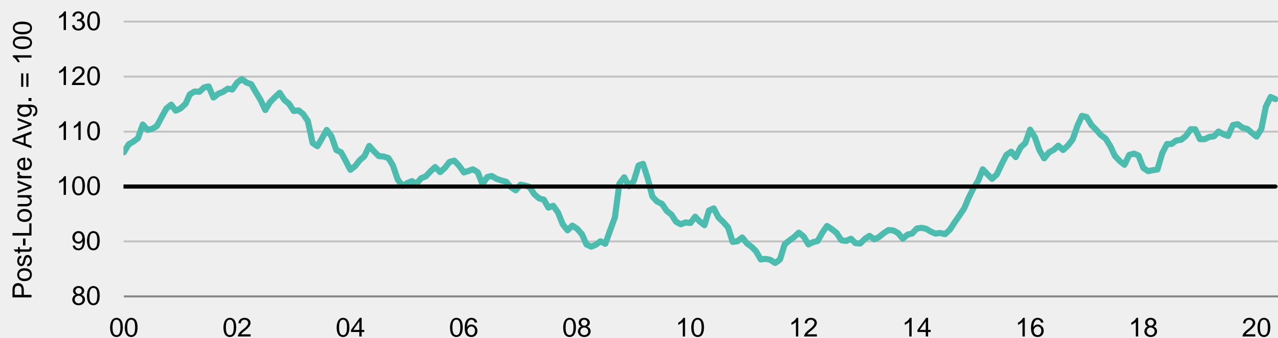
	AB		Consensus	
	2020	2021	2020	2021
EUR/USD	1.08	1.13	1.12	1.16
USD/JPY	105	105	107	110
USD/CNY	7.05	7.00	7.00	6.90
EUR/GBP	0.88	0.92	0.88	0.87

As of June 1, 2020
Source: Bloomberg and AB

Nominal USD Exchange Rate: US Dollar Index

Through June 1, 2020
Source: Bloomberg and AB

Real USD Broad Trade-Weighted Exchange Rate



Through May 31, 2020
Source: Haver Analytics and AB

US

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)	
	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F
US	(5.5)	4.4	0.5	2.5	0.13	0.13	0.50	1.00

OUTLOOK

- The reopening of the US economy appears well under way and is likely to accelerate in the next few weeks. That should generate a fairly rapid economic bounce off the bottom, with pent-up demand for goods likely to drive a period of above trend growth.
- Beyond that initial spurt of activity, however, the outlook is much less upbeat. As government stimulus fades, household incomes are going to suffer in the face of massive labor-market dislocation. We expect a durable loss of activity that leaves the economy below its previous peak for quarters, and perhaps even years, to come.
- In addition to the impact of COVID-19, geopolitical tension, social tension and the political calendar are colliding in a way that could be very disruptive to an already weak economy.

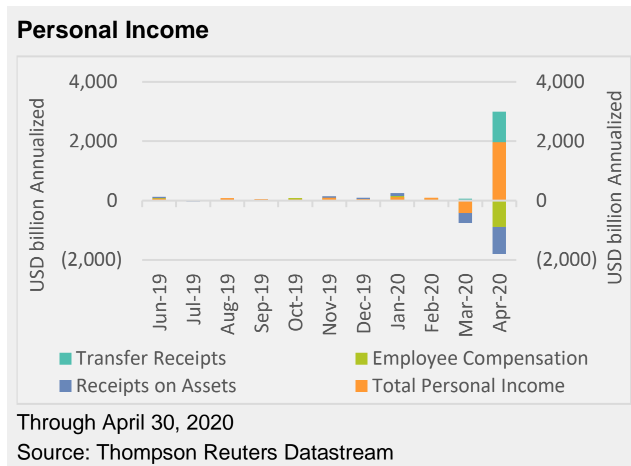
RISK FACTORS

- A renewed viral outbreak that triggers either another broad lockdown or a change in consumer behavior would be catastrophic to the outlook.
- Rising social tension within the US and rising tension between the US and China are both unwelcome potential risks to the economy.

OVERVIEW

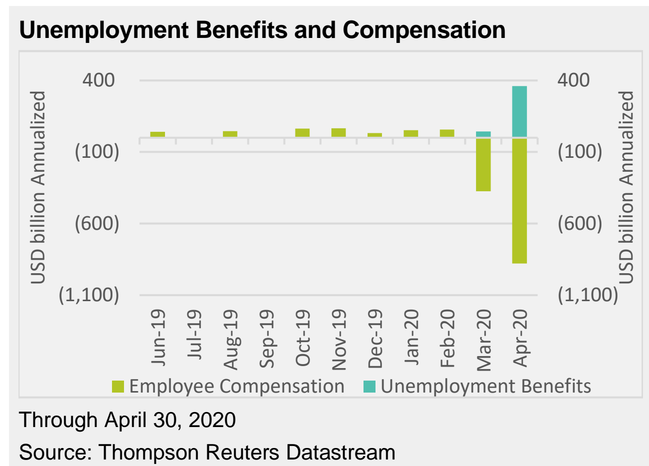
As reopening of the economy proceeds, the key driver will shift from the supply side—the extent of lockdowns—to the demand side—the ability and willingness of consumers to resume activity. There is room for both optimism and pessimism on the forward demand outlook. The good news: government stimulus has been effective at making up for income lost as jobs have disappeared. Aggregate household income rose in April despite massive layoffs, and high frequency data suggest that consumption stabilized as a result. But the channel that transfers income to households was largely direct stimulus checks, which are a one-off payment. After the boost to income and savings from those checks fades, incomes will fall rapidly. That means the labor market must recover quickly to generate enough income to support households beyond the near term. Our view remains that there is enough fuel from income transfers and the boost from partial reopenings to start a fairly quick recovery, but that the durable income hit from the crisis means an incomplete recovery. We expect to see a rapid bounce from the bottom, but it is going to be a long time before the economy gets back to its previous level.

Personal Income



Through April 30, 2020
Source: Thompson Reuters Datastream

Unemployment Benefits and Compensation



Through April 30, 2020
Source: Thompson Reuters Datastream

Euro Area

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F
Euro Area	(10.0)	5.0	0.5	1.2	(0.50)	(0.50)	(0.50)	(0.25)	1.08	1.13

OUTLOOK

- We expect the euro-area economy to shrink by 10% this year before expanding by 5% in 2021. The strength of the recovery will depend crucially on the success of government support packages and attempts to contain the virus as lockdowns are lifted. Postcrisis stimulus will also be essential.
- Although German support for the European Commission's €750 billion Recovery Fund is a welcome show of solidarity and has helped narrow peripheral yield spreads, it's not a game-changer. The outlook for peripheral bond yields still depends critically on the ECB, which will continue to underwrite the solvency of weaker euro-area sovereigns.

RISK FACTORS

- Our forecasts assume that there won't be a second wave of COVID-19 infections and another economic lockdown. Should this be wrong, growth over the next two years could be materially lower than expected.
- While the pace and extent of the policy response have been impressive, there is still a risk that government efforts will fail to prevent mass unemployment and bankruptcy, especially if there are significant lags between the announcement and effective implementation of policies needed to protect income and jobs.

OVERVIEW

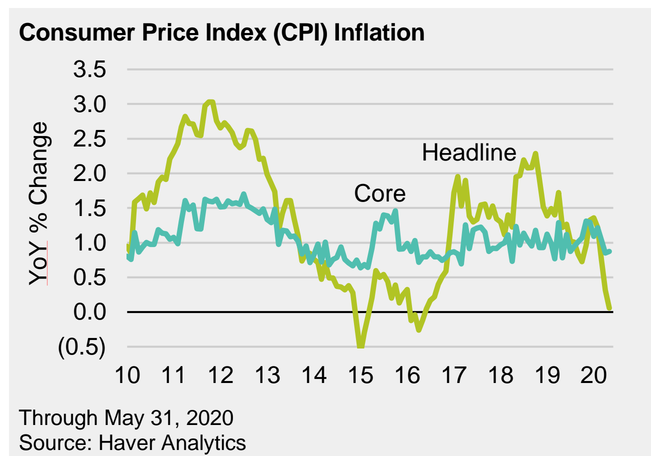
With most euro-area countries now unwinding lockdowns, cyclical indicators have started to pick up. The composite Purchasing Managers' Index (PMI) for manufacturing and services rose to 30.5 in May from a record low of 13.6 in April. Consumer confidence rose from –22 from –19 over the same period. Both readings are still extremely weak, but consistent with April being the low point for euro-area output. Care must be taken when analyzing upcoming data. The scale of the downturn has been so large that apparently strong data can mask underlying weakness. For example, the Italian employers' federation Confindustria recently reported that industrial output rose by 31% in May. But with output having fallen heavily in March and April, the May reading was still almost 30% below February's level.

One of the most important developments of recent weeks has been the European Commission's €750 billion Recovery Fund to support countries and sectors worst hit by COVID-19. The funds will be raised by the European Commission itself and have joint Franco-German support for the bulk of the funds (€500 billion) to be distributed in grants rather than loans. This is undoubtedly a welcome show of solidarity, and it is even conceivable that it will one day be viewed as the point when the euro area took a tentative step towards deeper fiscal integration. But it is not the debt mutualization that many peripheral euro-area governments crave and, in any case, it faces a difficult negotiation process. As such, the burden of underwriting the solvency of weaker euro-area sovereigns will remain firmly on the shoulders of the ECB, which recently increased its bond purchase program by an additional €600 billion.

Composite Purchasing Managers' Index

Through May 31, 2020
Source: Haver Analytics and IHS Markit

Consumer Price Index (CPI) Inflation



Through May 31, 2020
Source: Haver Analytics

China

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F
China	1.1	8.8	2.8	3.0	4.35	4.10	2.30	2.50	7.05	7.00

OUTLOOK

+ China's official real GDP growth rate will likely be about 1.1% in 2020, down from 6.1% in 2019. The main drivers: weakness in capex and the impact from the COVID-19 epidemic. We expect 2021 growth to rebound to about 8.8%.
+ Continued monetary- and fiscal-policy easing should counter downward pressure on the economy, with the focus likely 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 the increase will limit the central bank's policy easing.

RISK FACTORS

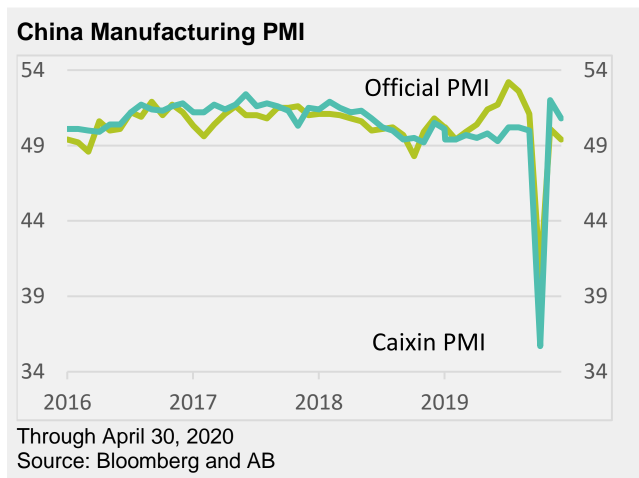
+ Policy easing may be less effective than expected if economic data surprise significantly to the downside. This would put a sustained economic stabilization at risk this year and next.
+ With COVID-19 now a global pandemic, there will be further downward pressure on the Chinese economy from imported cases, weak external demand and disruption of the supply chain from the world to China.

OVERVIEW

China hosted its National People's Congress meeting in late May, delivering a 3.6% of GDP fiscal deficit and one trillion renminbi in special Chinese government bonds to combat COVID-19. Using a broad measure, we see China's fiscal deficit reaching 11% of GDP in 2020, nearly double the 5.4% in 2019. China's central bank, the People's Bank of China, launched DCEP (Digital Currency Electronic Payment) in four cities in China (Shenzhen, Suzhou, Chengdu and Beijing's satellite city, XiongAn), attracting global attention. DCEP, whose goal is to replace M0, has three merits: lowering the cost of using cash in transactions, avoiding non-tax-payment activities and providing more anonymity than third-party payment. This move will not replace third-party payment near term, will have limited impact on monetary policy, and will offer only limited promotion of RMB internationalization, even though it should be a long-term positive.

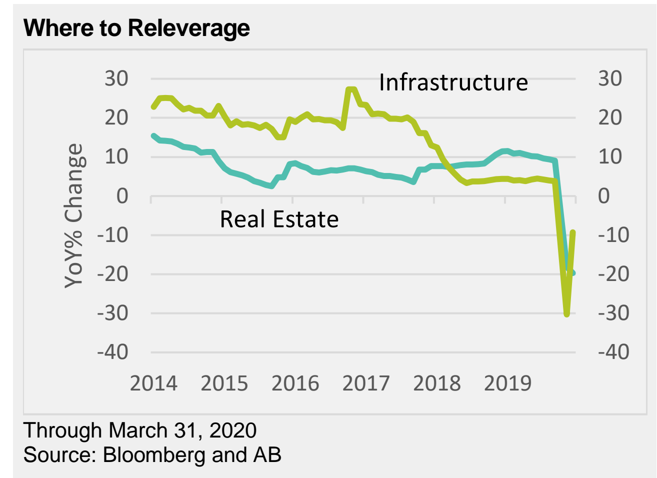
China passed the national security bill over Hong Kong in late May, and US reactions have been limited largely to trade terms, leaving dollar clearance untouched. That's better than the markets expected. Dollar clearance is key because Hong Kong is the third-largest center globally, accounting for 8% of daily dollar clearance. It's not very likely that the US will touch dollar clearance for Hong Kong, because Hong Kong has US$440 billion in foreign reserves, which include US$220 billion in liquid form. This indicates that Hong Kong has enough liquidity to defend the USD/HKD peg. In a lesson learned from 1997, China's foreign reserves are now US$3 trillion, providing strong support. We see the USD/CNY rate remaining around 7.2.

China Manufacturing PMI



Through April 30, 2020
Source: Bloomberg and AB

Where to Releverage



Through March 31, 2020
Source: Bloomberg and AB

Japan

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F
Japan	(4.0)	2.5	0.0	0.7	(0.10)	(0.10)	0.00	0.00	105	105

OUTLOOK

- The number of new COVID-19 cases in Japan continued to fall through May after spiking in the first half of April, prompting the relaxation of restrictions.
- Another round of massive fiscal stimulus has been announced to help support the post-restriction recovery.
- The collapse in global demand and confidence will also hurt Japanese growth in coming quarters.

RISK FACTORS

- A sharply stronger yen would apply an additional economic squeeze.

OVERVIEW

After a spike in new cases in the first half of April—which prompted an extension of restrictions—the COVID-19 case count in Japan continued to fall through May. The nationwide state of emergency was lifted on May 25, and restrictions have now been relaxed.

First-quarter GDP was negative (–0.9% quarter-on-quarter), as the impact of COVID-19 on private sector spending started to become apparent. But there's more to come. Japan's second-quarter GDP will fall very sharply—roughly in line with the experience in other developed economies—and would mark three consecutive quarterly GDP declines. To date, however, the spillover to the labor market has been limited compared with other developed economies, with jobs down just over one million in April, and the unemployment rate ticking up by only one-tenth of a percent to 2.6%.

To cushion the COVID-19 impact, the government announced another fiscal package in May. The headline numbers are massive—a total program size of Y117 trillion or 21% of GDP—on top of a nearly Y100 trillion package revealed in April. Not all of this is effective stimulus—"real water" in Japanese parlance—but the fiscal boost and budget-deficit blowout will nonetheless be substantial. With the BOJ dropping its JGB purchase target in April—allowing "unlimited" bond buying—the extra bond issuance should easily be absorbed. Japan remains at the forefront of fiscal-monetary cooperation: "joined-at-the-hip."

Australia/New Zealand

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F
Australia	(4.4)	3.1	1.0	1.6	0.25	0.25	0.88	0.88	0.64	0.64
New Zealand	(6.0)	4.5	1.3	1.9	0.25	0.25	0.88	0.88	0.62	0.62

AUSTRALIA/NEW ZEALAND

- COVID-19 remains well under control in both Australia and New Zealand—virtually eliminated in New Zealand. As a result, lockdowns and other restriction are now being lifted, and activity is recovering quite smartly.
- Substantial stimulus—including a range of support measures such as wage subsidies—had been put in place to cushion the economies through the shutdown. There are question marks—over the Australian government's Jobkeeper program, for example—but policy seems to have done a reasonable job at preventing a downward spiral. That said, there will be structural damage: aside from the scars left by the lockdowns, sectors such as international tourism and education will not be back to "normal" any time soon. We're watching the risk that early "success" leads to a premature unwind of support measures.
- Both antipodean central banks will continue to anchor yields for an extended period via their quantitative easing/yield-curve control programs.

Canada

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F
Canada	(5.0)	3.5	0.5	2.5	0.25	0.25	0.50	1.00	1.40	1.35

OUTLOOK

+ The COVID-19 shock will cause a deep recession in Canada. Massive fiscal and monetary policy support should help limit the damage, but all depends on public health progress.
+ The Bank of Canada (BOC) appointed Tiff Macklem as governor, replacing the outgoing Stephen Poloz. Macklem has vast experience and was a key player at the BOC during the GFC; we see no near-term policy impact from the change.

RISK FACTORS

+ In addition to the obvious uncertainty around COVID-19 and the associated public health response, oil-price volatility is another worry for Canada.

OVERVIEW

Canada's recession has a certain cause—COVID-19—and uncertain depth and duration. Policymakers have responded aggressively and, we believe, effectively enough to lay the groundwork for an eventual recovery. But until the public health situation stabilizes and economic restrictions are eased, that recovery won't start. Once it does, Canada's economic trajectory will likely mirror that of the US and global economies.

UK

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F
UK	(10.0)	6.5	0.8	1.7	0.10	0.10	0.25	0.75	1.23	1.23

OUTLOOK

+ The UK government has responded forcefully to support households and firms during the COVID-19 lockdown. But these efforts risk being undermined by a hesitant withdrawal of restrictions and inconsistent communication.
+ The government will soon have to decide if wants to extend the transition period governing its exit from the EU. Even though negotiations on a future trading relationship have made little progress, extension is unlikely.
+ With the budget deficit likely to reach at least 15% of GDP this year, there is intense pressure on the Bank of England to increase its asset purchases. We expect it to do this at its June meeting, probably by another £200 billion (9% of GDP). The Bank also looks more open to negative interest rates, but probably not until later in the year.

RISK FACTORS

+ Given the huge margin of error surrounding the output hit from COVID-19, we have not incorporated another hit from a hard Brexit into our forecast. But it's starting to look more and more likely, and could worsen the economic outcome.

OVERVIEW

While it may still be too early to make meaningful cross-country comparisons, current data suggest that the UK will have one of the worst public health outcomes from COVID-19. Largely as a result of this, the government is being cautious in unwinding restrictions on activity, which increases the risk of being near the bottom of the COVID-19 league table for public health and economic outcomes. Adding to the gloom, trade negotiations with the EU have made little progress and the risk is rising that the trading relationship between the UK and its biggest trading partner will default to WTO terms at the beginning of next year. The most likely casualty of this would be the British pound.

Asia ex Japan

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F
Asia ex Jap/Ch	**0.4**	**4.0**	**2.0**	**2.5**	**2.01**	**1.78**	**3.77**	**3.91**	**—**	**—**
Hong Kong	(2.5)	(0.5)	2.8	2.5	1.00	0.90	0.76	0.77	7.78	7.80
India	2.5	4.5	3.4	3.9	3.00	2.50	5.80	6.00	77.00	76.00
Indonesia	3.5	4.5	3.0	3.2	4.00	3.50	7.80	8.00	15,000	14,500
South Korea	(0.2)	3.0	0.3	1.0	0.50	0.50	1.25	1.25	1,250	1,250
Thailand	(6.5)	3.5	0.2	0.8	0.50	0.50	1.00	1.00	34.00	34.50

OUTLOOK

+ The economic impact of COVID-19—travel restrictions, lockdowns, supply-chain disruption, weaker global demand and impaired confidence—remains the dominant driver.
+ Policymakers have, in general, responded quickly, but challenges remain, particularly with the blowback of weaker developed-market demand only now starting to unfold.

RISK FACTORS

+ COVID-19, US-China tensions

OVERVIEW

COVID-19 is the only factor influencing the outlook in Asia ex-Japan right now. Responses to the virus itself—including lockdowns, testing and case tracking—have been relatively successful. Taiwan and Korea stand out on this front. But in Thailand, Vietnam and Malaysia the case counts also remain low. The explosion of cases in Singapore—due to clusters in migrant-worker hostels—has been declining since late April. But it remains a reminder that even the best test/track/isolate regimes can have blind spots. Cases in the Philippines have spiked—in part because of reporting delays with older cases. Trends in India and, to a lesser extent, Indonesia remain a concern.

The policy response to date has been positive—with monetary easing and substantial fiscal support being delivered across the board. This should help underpin recovery as restrictions begin to be lifted.

That said, the anticipated headwind of weaker domestic demand from the US and Europe remains, as they endure the worst parts of their economic sudden stop. This dynamic will be a further drag—one that is now starting to show in economic data. Manufacturing PMIs for May, as an example, were mainly going sideways from April—with sharp contractions in new export orders a key theme. It's a reminder that even as COVID-19-related uncertainty begins to clear, the headwinds from other factors—deglobalization and the US-China conflict—will remain stiff.

Latin America

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F
Latin America	**(6.0)**	**2.6**	**8.2**	**6.6**	6.82	**6.34**	6.29	6.72	—	—
Argentina	(6.5)	2.5	45.0	35.0	35.00	30.00	—	—	75.00	80.00
Brazil	(5.8)	3.0	3.4	3.6	2.25	3.25	6.80	7.50	5.25	5.00
Chile	(3.6)	4.1	2.2	2.0	0.50	1.00	3.10	3.00	830	850
Colombia	(5.0)	3.2	2.8	3.0	3.00	3.25	5.75	6.50	4,000	4,100
Mexico	(7.0)	0.9	3.5	3.5	5.00	5.00	6.75	7.00	23.00	24.00

OUTLOOK

+ The epicenter of COVID-19 has shifted to Latin America, a region seeing rapid increases in infections despite varied approaches to contain the virus. Countries with early lockdowns (Chile and Peru), and those with less restrictive approaches (Brazil and Mexico), have not been able to "flatten the curve." The difference might be the extent of testing, which has been more widespread in early lockdown adopters while still thin in the second group.
+ A more benign global risk outlook, buoyed by the rapid increase in liquidity, stabilized financial markets across Latin America. But the compounded effect of decelerating economic activity, collapsing global demand and increasing credit risk will remain a risk if global risk conditions deteriorate.

RISK FACTORS

+ The major economies of the region seem to be out of policy space to withstand longer lockdowns or a second wave of increase in infections.
+ The collapse in growth and deterioration in labor markets will likely reignite demand for populist policies in coming years, increasing the likelihood of social upheaval.

OVERVIEW

In Brazil, the health crisis is worsening, with the second-highest case totals globally behind the US. First-quarter GDP declined 1.5% quarter-on-quarter, driven mainly by a slowing private consumption and increasing imports. Investment was strong, which is promising for the postcrisis recovery. The government is considering additional stimulus measures to boost consumption in the second half of the year if the health crisis becomes prolonged. Brazil has already delivered a record amount of stimulus, but more may be warranted given the expected economic impact. Although the fiscal deficit will be a record high in 2020, Brazil has structured the stimulus to be contained in the calendar year, which will allow the fiscal consolidation to resume in 2021.

In Mexico, the federal government has not implemented a country-wide lockdown to contain the virus, in contrast to other countries of the region. Traffic congestion patterns show that Mexico's slowdown has been at least 10%–20% less extreme than in other countries. Starting June 1, the administration will begin implementing its plan to gradually reopen the economy, giving local governments discretion on specific measures. Recent economic data point to a strong shock in activity: we expect a –7% GDP growth number in 2020 and a timid 1% recovery in 2021. A protracted decline in economic activity, big drops in manufacturing production and exports, and a weak countercyclical response will be the main reasons.

In Chile, April activity numbers show a deep recession. The monthly economic activity index fell by 14% year-on-year, because of strong contractions in the retail and services sectors. These sectors were among the hardest hit by the protests last year. The monetary and fiscal policy response has been large, and we expect a strong recovery in economic activity starting in the second half of the year.

On May 22, Argentina officially defaulted on external debt for the ninth time in its history. The debt restructuring effort continues during the COVID-19 crisis, and economic activity is expected to contract for a third consecutive year. In our view, the government can restore debt sustainability while also honoring its commitments to bondholders.

Eastern Europe, Middle East and Africa (EEMEA)

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F
EEMEA	**(5.3)**	**4.0**	**4.6**	**5.2**	**4.19**	**4.71**	**6.22**	**6.19**	**—**	**—**
Hungary	(7.6)	6.2	2.5	3.3	0.90	0.90	1.40	2.10	375	345
Poland	(6.0)	6.6	2.8	3.1	0.10	0.10	1.20	1.65	4.65	4.45
Russia	(4.3)	2.9	3.4	3.8	5.00	5.00	5.30	5.60	72.00	68.00
South Africa	(8.0)	2.7	3.4	3.9	3.50	4.25	8.90	9.10	17.00	17.80
Turkey	(4.2)	3.9	10.0	11.5	7.50	10.00	13.00	12.00	7.40	7.00

OUTLOOK

+ EEMEA real growth prospects have deteriorated markedly for 2020, because of weaker external demand (a large euro-area recession) and domestic lockdown measures to contain COVID-19. Lower energy prices also weigh on real GDP growth for the region's oil exporters.
+ Given a challenging growth outlook, most central banks will continue to ease monetary policy and increasingly consider more unorthodox policy measures, such as bond purchases, to support domestic financial liquidity.

RISK FACTORS

+ While the extent of the economic downturn in 2020 is becoming clearer, the shape of the recovery beyond this year remains highly uncertain. Governments' exit strategies from current lockdown measures and their ability to prevent a second spike in infections will play big roles.

OVERVIEW

We continue to monitor Turkey's economic and policy trajectory closely and believe that, on balance, risks continue to build, which will pose headwinds for asset prices medium term, in our view. The external debt amortization schedule for the private sector will be lighter in third quarter 2020 (US$7.8 billion) compared with the second quarter (US$16.8 billion), a dynamic which may temporarily ease pressures on foreign currency reserves. That said, the amortization burden will be larger again in the last quarter of the year (US$14 billion). We're more concerned that the Turkish Central Bank (CBRT) continued to see a significant decline in its USD cash reserves—to the tune of US$16 billion over the course of May, after adjusting for swap agreement with local banks and the Qatari Central Bank. The Qatari Central Bank increased its swap facilities to the CBRT from US$5 billion to US$15 billion. Yet these swap lines do not provide direct access to USD. They're QAR/TRY swaps, with the main objective to "facilitate bilateral trade between the two countries," which would not help to defend the currency. Turkey's trade deficit with Qatar appears to be small, so the overall financing effect for the current account and the balance of payments is likely to be small.

Another dynamic we watch closely with concern is the huge TRY liquidity injections—part of CBRT monetary policy to support growth, purchases of local government bonds and the aforementioned swap agreement with local banks. Base-money growth accelerated to 70% year-on-year in May, having increased by 50% during the first five months of the year. It's necessary to go back to the early 2000s to observe similar growth rates in Turkey's base money supply. Other emerging markets have also provided local-currency liquidity during the COVID-19 crisis to support the domestic financial system, but the rate of expansion (averaging 15%–20% year-on-year in recent months) has been nowhere near as significant as Turkey's. We believe risks point toward this continuing to have negative implications for domestic US dollar demand (and hence the currency), as well as for the CBRT's objective to bring headline inflation towards 7% year-on-year by the end of 2020.

The South African Reserve Bank (SARB) cut the nation's policy rate by 100 basis points (b.p.) in March and by 100 b.p. at an unscheduled April meeting, but only by 50 b.p. in May (two of the five Monetary Policy Committee members voted for a smaller 25 b.p. cut). We think the signal from last month's reduced rate cut is clear: monetary easing could end soon. If long-standing fiscal fragilities had not been exacerbated by COVID-19, there would have been more room for the SARB to maneuver. The Bank's credible response to the virus crisis (rate cuts and disciplined buying of government bonds) headed off the prospect of a financial crisis. The successful economic reopening and revised fiscal profile will be key drivers of asset prices in the second half of the year. Risks remain, but we are encouraged by some of the government's plans to reduce contingent liabilities and plug the financing gap.

Frontier Markets

The Ukraine government managed to pass a bank insolvency reform bill in parliament during May, enabling authorities to finalize a new 18-month stand-by agreement with the IMF to the tune US$5 billion. IMF support will also unlock other multilateral financing from the World Bank and the EU, amounting to an additional US$2–2.5 billion. This will go a long way to cover Ukraine's external financing requirements over the coming year, providing necessary budget support to address the COVID-19 health crisis. A funded IMF program is a significant credit positive, which we believe will continue to underpin asset prices over the medium term. A key risk we are watching is potential opposition attempts to overturn the bank insolvency reform bill at the Constitutional Court. If the opposition succeeds, it would certainly be negative for Ukraine's relations with the IMF. That said, we believe that this likely long legal battle does not pose an immediate risk.

The COVID-19 crisis and falling oil prices have hurt Ecuador in recent months. Even before the crisis, Ecuador faced a challenging liquidity situation, relying heavily on multilateral lending and reprofiling of Chinese loans and domestic debt. The crisis has made the situation unmanageable. Ecuador issued a consent solicitation to bondholders in April to defer interest payments until August. It was an effort to provide additional liquidity to cover health-related expenditures and allow time to discuss a comprehensive restructuring with bondholders without an official missed payment. Rating agencies view this type of event as a default and have reduced Ecuador's rating to "selective default." The government has begun the restructuring process and is scheduled to finish by the end of August—a fairly aggressive timeline relative to historical emerging market restructurings.

	Real Growth (%)		Inflation (%)		Official Rates (%)		Long Rates (%)		FX Rates vs USD	
	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F	2020F	2021F
Global	(4.6)	5.1	1.7	2.6	1.55	1.49	1.55	1.83	-	-
Industrial Countries	(6.9)	4.4	0.5	1.8	(0.07)	(0.06)	0.15	0.50	-	-
Emerging Countries	(1.0)	6.0	3.6	3.7	4.08	3.87	3.76	3.90	-	-
EM ex China	(2.7)	3.7	4.3	4.3	3.92	3.74	5.09	5.25	-	-
United States	(5.5)	4.4	0.5	2.5	0.13	0.13	0.50	1.00	-	-
Canada	(5.0)	3.5	0.5	2.5	0.25	0.25	0.50	1.00	1.40	1.35
Europe	(9.8)	5.2	0.6	1.3	(0.38)	(0.36)	(0.33)	(0.05)	1.64	1.66
Euro Area	(10.0)	5.0	0.5	1.2	(0.50)	(0.50)	(0.50)	(0.25)	1.08	1.13
United Kingdom	(10.0)	6.5	0.8	1.7	0.10	0.10	0.25	0.75	1.23	1.23
Sweden	(6.5)	5.0	0.8	1.3	(0.25)	0.00	(0.25)	0.00	10.5	10.3
Norway	(7.5)	4.5	1.1	1.7	0.25	0.75	1.00	1.25	10.8	10.5
Japan	(4.0)	2.5	0.0	0.7	(0.10)	(0.10)	0.00	0.00	105	105
Australia	(4.4)	3.1	1.0	1.6	0.25	0.25	0.88	0.88	0.64	0.64
New Zealand	(6.0)	4.5	1.3	1.9	0.25	0.25	0.88	0.88	0.62	0.62
China	1.1	8.8	2.8	3.0	4.35	4.10	2.30	2.50	7.05	7.00
Asia ex Japan & China	0.4	4.0	2.0	2.5	2.01	1.78	3.77	3.91	-	-
Hong Kong	(2.5)	(0.5)	2.8	2.5	1.00	0.90	0.76	0.77	7.78	7.80
India	2.5	4.5	3.4	3.9	3.00	2.50	5.80	6.00	77.0	76.0
Indonesia	3.5	4.5	3.0	3.2	4.00	3.50	7.80	8.00	15,000	14,500
Korea	(0.2)	3.0	0.3	1.0	0.50	0.50	1.25	1.25	1,250	1,250
Thailand	(6.5)	3.5	0.2	0.8	0.50	0.50	1.00	1.00	34.0	34.5
Latin America	(6.0)	2.6	8.2	6.6	6.82	6.34	6.29	6.72	-	-
Argentina	(6.5)	2.5	45.0	35.0	35.00	30.00	0.00	0.00	75.0	80.0
Brazil	(5.8)	3.0	3.4	3.6	2.25	3.25	6.80	7.50	5.25	5.00
Chile	(3.6)	4.1	2.2	2.0	0.50	1.00	3.10	3.00	830	850
Colombia	(5.0)	3.2	2.8	3.0	3.00	3.25	5.75	6.50	4,000	4,100
Mexico	(7.0)	0.9	3.5	3.5	5.00	5.00	6.75	7.00	23.0	24.0
EEMEA	(5.3)	4.0	4.6	5.2	4.19	4.71	6.22	6.19	-	-
Hungary	(7.6)	6.2	2.5	3.3	0.90	0.90	1.40	2.10	375	345
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South Africa	(8.0)	2.7	3.4	3.9	3.50	4.25	8.90	9.10	17.0	17.8
Turkey	(4.2)	3.9	10.0	11.5	7.50	10.00	13.00	12.00	7.40	7.00

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.
The long rates aggregate excludes Argentina; Argentina is not forecasted due to distortions in the local financial market.
Real growth aggregates represent 31 country forecasts not all of which are shown

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