

# GLOBAL MACRO OUTLOOK

## NOVEMBER 2019

### KEY FORECAST TRENDS

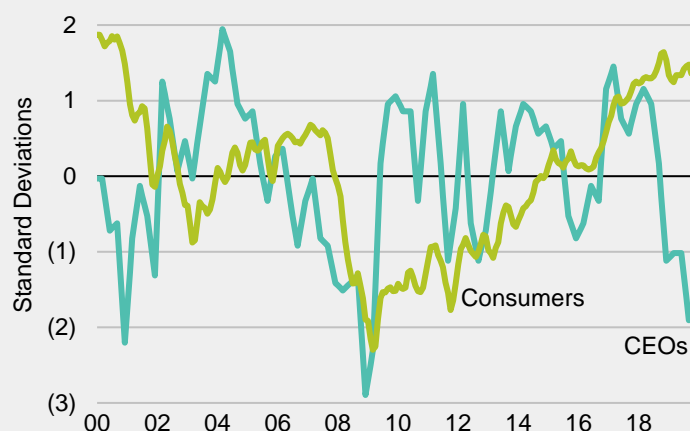
- + Financial markets have been buoyed by positive developments in the US-China trade war. While that's good news, we're not convinced it's a game-changer for the global economy.
- + That's partly because negotiations might still fail. But the main reason is that the so-called phase-one agreement is unlikely to end the uncertainty weighing on business investment, particularly at a time when other populist risks are clouding the outlook.
- + We're more inclined to regard recent developments as reducing downside risks than a reason to raise our forecasts. In fact, we've lowered our 2020 global growth forecast to 2.2% from 2.3%, largely because of a downward revision to China (5.8% from 6.0%).
- + Better news on trade needs to be tempered by less certainty on the policy front. We still expect the Fed and European Central Bank (ECB) to provide additional monetary-policy stimulus, but our conviction levels are lower than they were.
- + In the US, the Fed's decision to pause after October's rate cut has raised questions about its reaction function. In Europe, new ECB president Christine Lagarde faces stiff internal resistance to additional policy action.
- + We don't have high expectations for fiscal policy. Yes, some stimulus is likely; but based on current plans, it won't be big enough to make a material difference. Large-scale, proactive fiscal stimulus remains a pipe dream for now.

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### Glass Half Empty or Half Full?

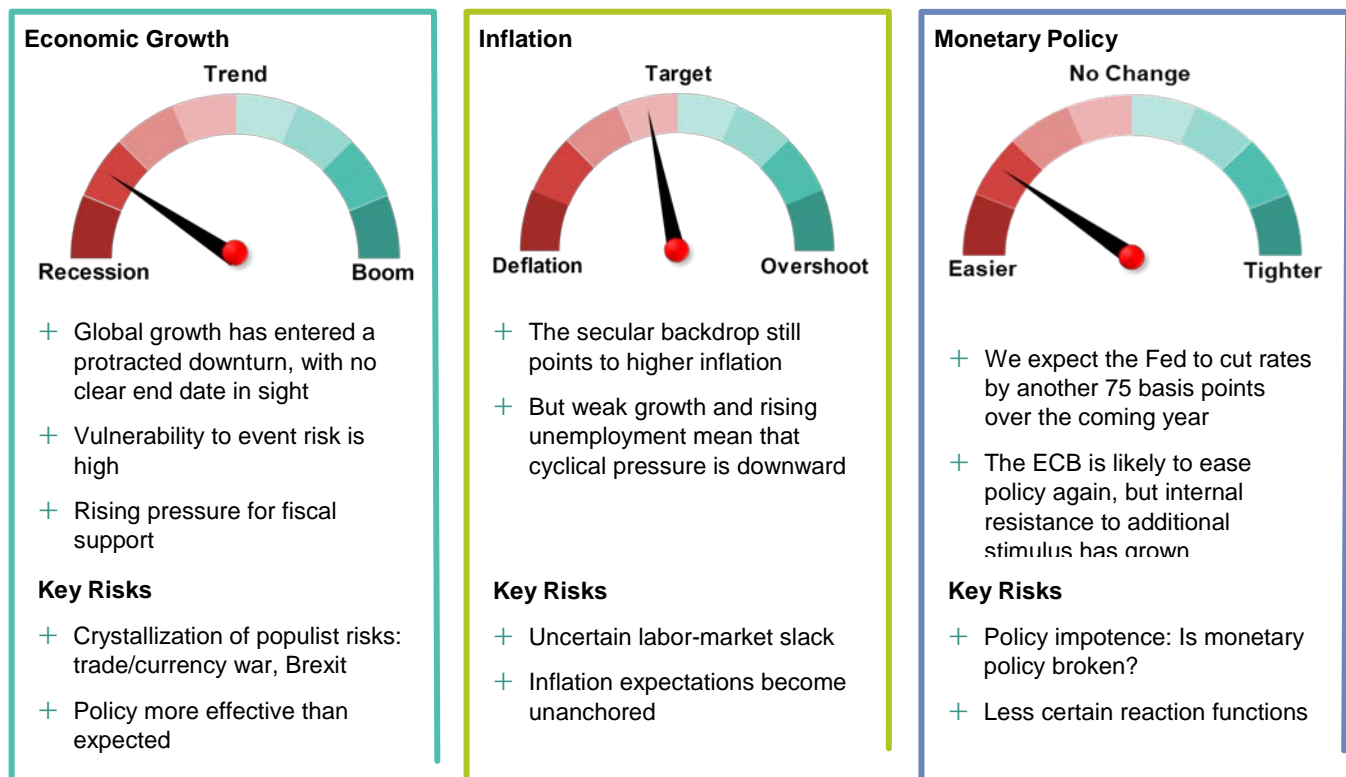
#### US CEO and Consumer Confidence



As of October 31, 2019  
Source: Haver Analytics

- + A large gap has opened between US business and consumer confidence (and the same is true in Europe). This reflects the specific nature of the global slowdown. It's all about manufacturing and trade.
- + Weak business confidence is likely to spill over into investment and jobs, dragging overall growth lower. But resilient consumer confidence represents an important buffer which should help prevent a deeper downturn.

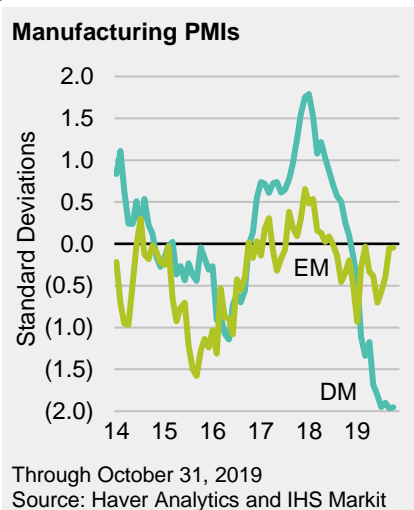
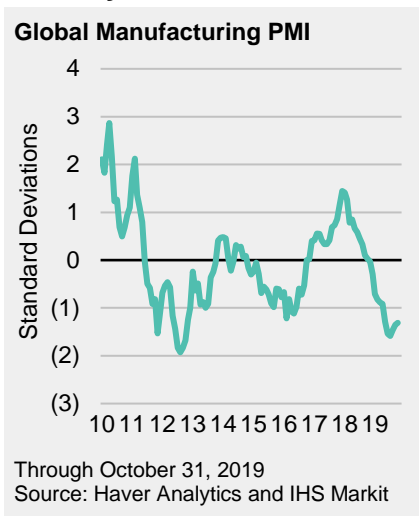
## GLOBAL FORECASTS



## OUTLOOK

- + We have lowered our 2020 global growth forecast to 2.2%, from 2.3% last month. That would make 2020 the weakest year for global growth since 2009 (when it contracted by a massive 2.0%). The main change involves China, where we have reduced our 2020 forecast to 5.8%, from 6.0% last month, slightly below the consensus expectation of 5.9%.
- + We're also a bit below consensus on the US (1.5% vs. 1.8%) but more pessimistic on the euro area (0.3% vs. 1.0%) and Japan (-0.4% vs. 0.3%), reflecting our concerns about trade-sensitive economies with limited policy flexibility.
- + The secular backdrop still points to higher inflation. But cyclical developments point in the opposite direction, and we expect global inflation to fall to 2.7% in 2020, from 2.8% this year.
- + Monetary easing is under way and likely to continue. We expect the Fed to cut rates by another 75 basis points (b.p.) and the ECB to announce an additional rate cut and more aggressive asset purchases.

## Global Cyclical Outlook: Moving into a Protracted Downturn



## GLOBAL MARKET OUTLOOK: YIELD CURVES

### GLOBAL YIELDS

**Global**—Growing optimism on US-China trade and a scaling back of monetary-stimulus expectations in the US and Europe have helped global bond yields bounce off record lows. But with the global economy entering a protracted downturn and the Fed and ECB likely to lower interest rates further, 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**—With the economy likely to undershoot the ECB's expectations and core inflation stuck well below target, there is a strong case for additional monetary stimulus. The case for higher bond yields is weak.

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

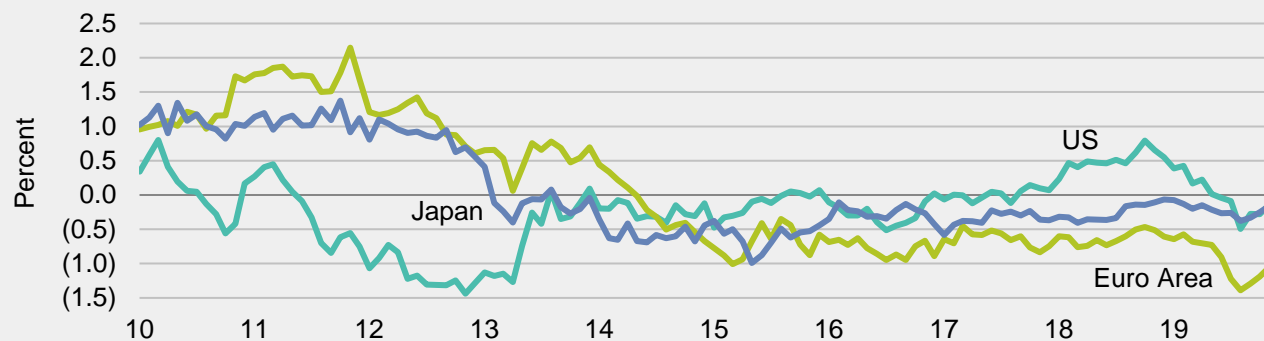
#### 10-Year Yields: AB vs. Consensus Year-End Forecasts (%)

	AB		Consensus	
	2019	2020	2019	2020
US	1.75	1.75	1.62	1.86
Euro Area	(0.45)	(0.25)	(0.61)	(0.37)
Japan	(0.10)	(0.20)	(0.19)	(0.04)
China	3.20	2.90	3.05	2.74

As of November 7, 2019

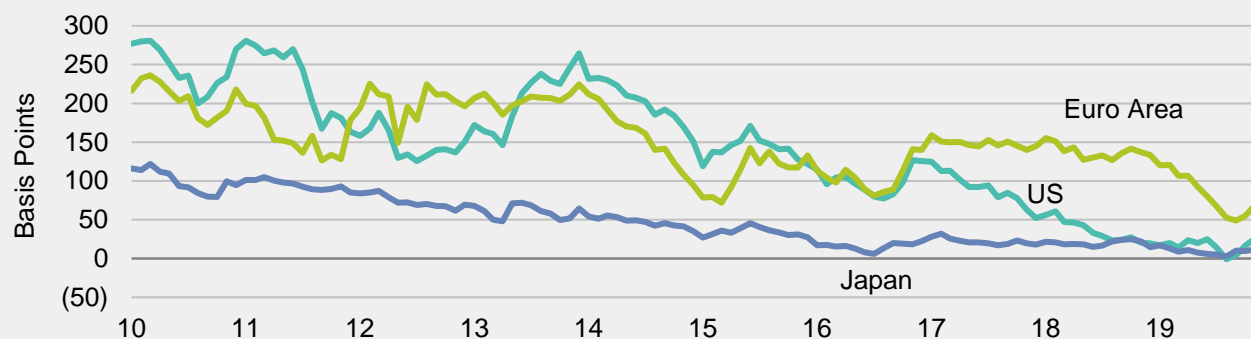
Source: Bloomberg and AB

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



\*Current 10-year bond yield less five-year/five-year forward inflation swap  
Through November 7, 2019; Source: Bloomberg and AB

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



Through November 7, 2019  
Source: Bloomberg and AB

## GLOBAL MARKET OUTLOOK: CURRENCIES

### FX FORECASTS

**USD**—The dollar has strengthened as growth has slowed more abruptly overseas than in the US. But we still expect the Fed to cut rates aggressively, making it hard to see the dollar sustaining further gains.

**JPY**—The yen is likely to benefit as global growth slows further and risk-asset headwinds intensify.

**EUR**—Weak growth, the prospect of more monetary stimulus and populist risks mean that there are few reasons to buy the euro.

**CNY**—The CNY has benefited from signs of a ceasefire in the US-China trade war, and 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>	1.13	1.13	1.10	1.15
<b>USD/JPY</b>	106	95	107	105
<b>USD/CNY</b>	7.10	7.20	7.14	7.14
<b>EUR/GBP</b>	0.87	0.88	0.88	0.88

As of November 7, 2019

Source: Bloomberg and AB

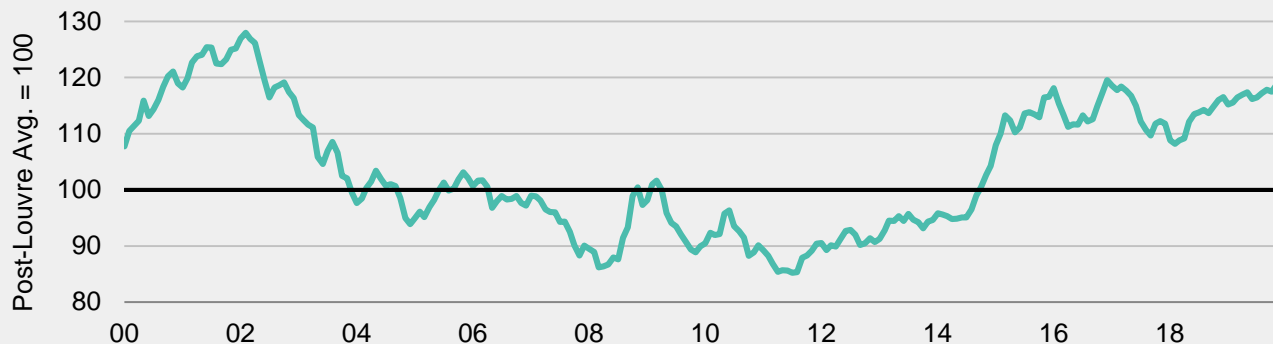
**Nominal USD Exchange Rate: US Dollar Index**



Through November 7, 2019

Source: Bloomberg and AB

**Real USD Exchange Rate**



Through November 7, 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	1.5	2.3	2.3	1.63	0.88	1.75	1.75

### OUTLOOK

- + Global risks have ebbed a bit over the last few weeks, but we view it as a temporary respite rather than a permanent change in the trend. The underlying variables behind the difficult global environment remain firmly entrenched and are likely to resurface over the coming quarters.
- + Incoming economic data remain mixed. Manufacturing and business investment are sluggish, but the labor market and the consumer remain solid. If the break in global tensions unleashes a surge in corporate activity, the outlook could brighten, but we continue to view the balance of risks as tilted to the downside: some spillover from manufacturing weakness to the labor market remains a more likely outcome than a significant acceleration in growth.
- + The Federal Open Market Committee has cut rates three times and signaled that it believes it has taken out enough insurance against the downside risks. Because we expect growth to slow in the coming months, we expect additional easing in 2020, after a brief pause while the committee assesses the impact of the easing it has already undertaken.

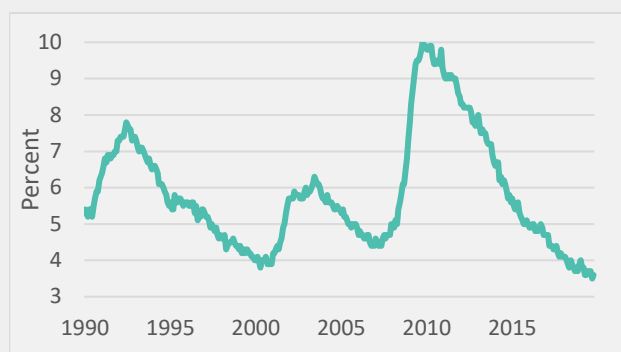
### RISK FACTORS

- + The trade war seems on pause for now, but the possibility that it could flare up again lies just below the surface. Each iteration of back-and-forth on the issues increases uncertainty, and that uncertainty could eventually lead the corporate sector to pull back even further.
- + Politics are gradually moving to center stage, with impeachment proceedings on the near-term horizon and the presidential election less than a year away. There are risks in both directions from the political environment, and it's hard to predict how things will play out over the next year.

### OVERVIEW

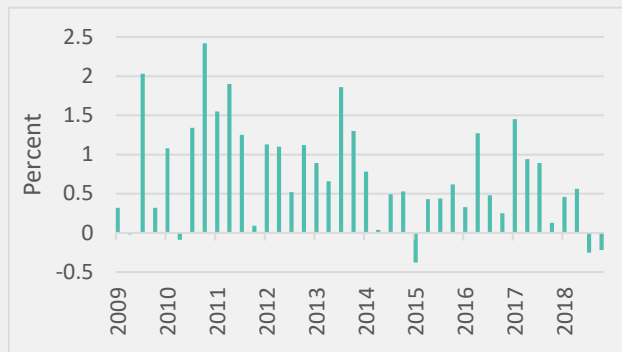
The US economy slowed in 3Q, and we expect that slowdown to persist in the coming months. The accumulated effects of global uncertainty have pushed business investment down, and that limits the scope for future growth. That said, a slowdown is not a disaster. The economy has been in expansion for more than a decade and, on our forecasts, will continue to grow, even if at a somewhat slower pace. Recent easing of trade tension is welcome, though we remain skeptical that the positive sentiment will last. The Fed has taken out insurance against a more sluggish environment in the form of rate cuts at its last three meetings and believes that it has done enough for the time being. Because our global view is more negative than consensus or than the Fed's assumptions, we disagree and expect a resumption of the easing cycle in 2020. The labor market has been remarkably resilient even as the economy has slowed. If that resilience lasts, the Fed may well be done. But we continue to expect some weakening of the job market, and that should trigger additional rate cuts. For now, our call is speculative: the unemployment rate remains low—but that is the variable to watch.

**US Unemployment Rate**



Through October 31, 2019  
Source: Refinitiv Datastream

**Contribution of Fixed Investment to 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	1.1	0.3	1.2	1.1	(0.60)	(0.60)	(0.45)	(0.25)	1.13	1.13

### OUTLOOK

- + The euro-area outlook remains challenging, and we expect growth to slip to 0.3% in 2020, from 1.1% this year. That's well below the ECB's 1.2% projection for next year, reflecting deep concerns about the region's vulnerability to weak global growth and lack of effective policy tools.
- + Core inflation has been rooted around 1.0% for the last 18 months. With growth slowing and unemployment set to rise, we see few grounds for expecting core inflation to rise, let alone move close to the ECB's target.

### RISK FACTORS

- + Risks to growth are evenly balanced. But it is still much easier to see growth surprising materially to the downside than the upside.
- + Our forecasts assume that recessionary conditions in manufacturing gradually spill over into weaker employment and capital spending growth and that policy will be ineffective in stimulating growth and inflation. If these assumptions are wrong—perhaps because of a more aggressive fiscal response than expected—growth could surprise on the upside.
- + Brexit is still an important downside risk, particularly given our concerns about policy flexibility and effectiveness in the euro area.

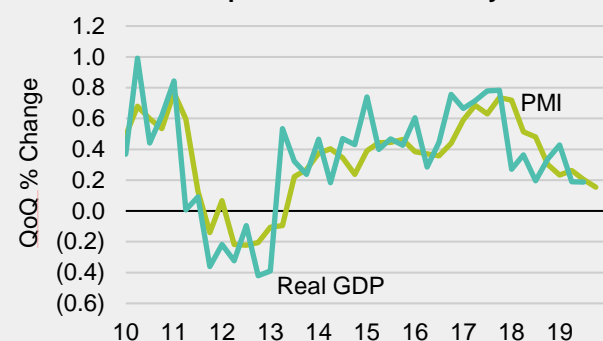
### OVERVIEW

There are tentative signs that euro-area growth is stabilizing at a low level. The composite PMI rose to 50.6 in October, from 50.1 in September, but that's still the second-lowest reading in the last six years and is consistent with annualized real GDP growth tracking only a little higher than 0.5%. The economy continues to exhibit symptoms of mild schizophrenia, with the manufacturing sector still in recession but the consumer still relatively buoyant: retail sales and car registrations were up 0.5% and 2.2%, respectively, in the third quarter.

While unemployment continues to fall, the pace of decline has clearly slowed. In the third quarter, the number of jobless fell by 87,000, far lower than the average 350,000 decline seen between the beginning of 2015 and the middle of last year. There are also signs that upward pressure on wages is beginning to fade, with negotiated wage growth slipping back to 2.0% in the second quarter, from the first quarter's 10-year high of 2.3%. Core inflation, meanwhile, rose to 1.1% in October, from 1.0% in September, but the underlying trend remains stuck at 1.0%. The ECB expects core inflation to rise to 1.2% next year and 1.5% in 2021; with growth weak and the labor market cooling, we see very little prospect of this happening.

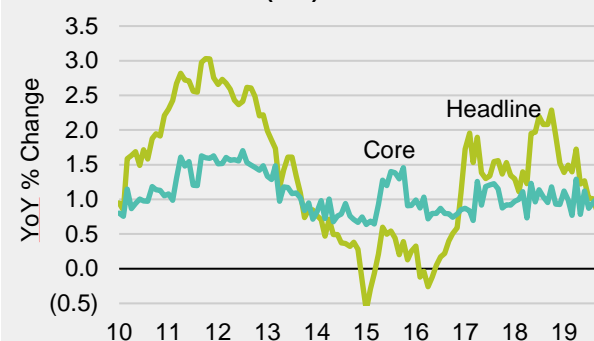
Against this backdrop, there is a strong case for the ECB to deliver additional monetary-policy stimulus in the opening months of 2020, and that's still our central forecast. However, the recent change of leadership and internal resistance to fresh stimulus mean that our conviction level is lower than it was.

Real GDP and Composite PMI-Based Proxy



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

Consumer Price Index (CPI) Inflation



Through October 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	1.1	(0.4)	0.8	0.9	(0.10)	(0.15)	(0.10)	(0.20)	106	95

### OUTLOOK

- + The global trade conflict continues to undermine Japan's manufacturing sector.
- + The labor market remains tight, but there are tentative signs of a turning point. Consumer confidence has slipped.
- + The Bank of Japan's (BOJ) options to ease in an effective manner remain limited.
- + A prolonged downturn in the global economy should lead to further yen strength.

### 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.

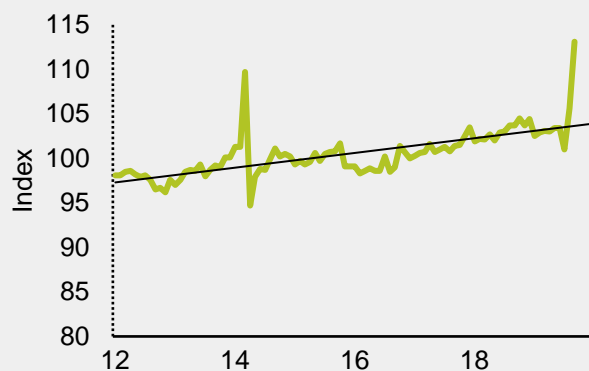
### OVERVIEW

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 (albeit more modest than that surrounding the 2015 hike). Retail sales, for example, jumped sharply in August and September: for 3Q in aggregate, sales were up 13% Q/Q (annualized). There will be an inevitable spending shortfall in 4Q.

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, but reconstruction spending 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.

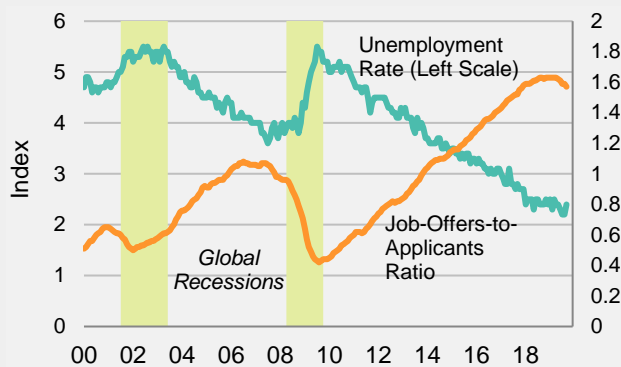
Despite the growing uncertainty about the domestic economic outlook, the BOJ meeting at October delivered no change in terms of rates or the asset purchase program. This was not a huge surprise. There were some tweaks to forward guidance. By removing the time conditions tied to low rates (previously “at least until spring 2020”), the BOJ effectively made policy a function of “momentum toward the price stability target.” But this is unlikely to move the needle. If anything, it served to emphasize that beyond a tweak here and there, there isn't much left that the BOJ can do that would be effective.

**Retail Spending Jumps Ahead of VAT Hike**



Through November 1, 2019  
Source: Bloomberg and Refinitiv Datastream

**A Turn in the Labor Market?**



Through November 1, 2019  
Source: Refinitiv 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	5.8	2.5	2.4	4.35	4.10	3.20	3.00	7.10	7.20

### OUTLOOK

- + The official Chinese real GDP growth rate will likely be about 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. 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.

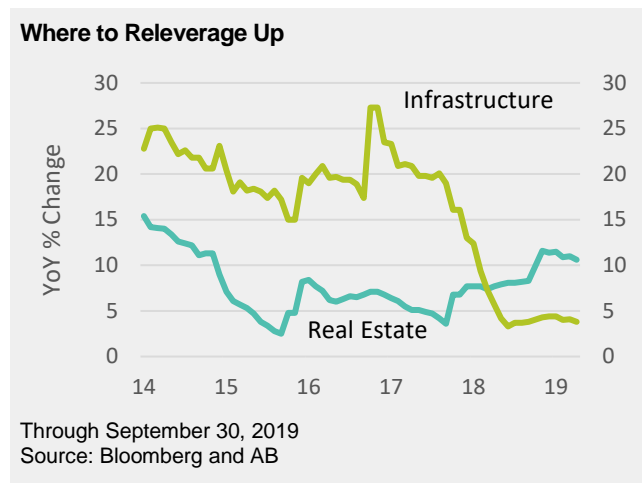
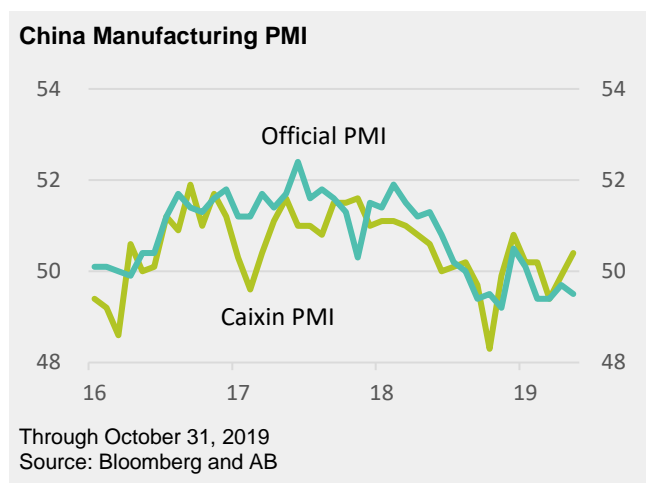
### RISK FACTORS

- + 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

Trade-related uncertainty has made Chinese capex expansion less likely. We still think that China has enough ammunition when it comes to easing policy. On the monetary side, this includes the ability to cut the reserve requirement ratio and the loan prime rate. As we expected, the central bank also guided down the medium-term lending facility rate by 5 b.p., to 3.25%. On the fiscal side, the government can issue more special local government bonds. The official target is CNY2.1 trillion for 2019, but we think that the government can do more, as infrastructure projects are most effective in stabilizing growth.

If the Chinese economy stabilizes this year—and we think that it will—China's currency should become a global currency stabilizer. A “Phase 1” trade deal between the US and China seems likely and would likely lift additional tariffs in phases. This should stabilize the Chinese currency at about the 7.0 level. We still think that persistent downward pressure on the Chinese economy requires persistent easing. China has passed an important stress test over the last year or so of rising trade tension with the US, and will continue to deliver the easing measures needed to avoid an abrupt slowdown in growth.





## Canada

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F
<b>Canada</b>	1.8	1.5	2.1	2.1	1.50	1.00	1.50	1.50	1.30	1.35

### OUTLOOK

- + Canada's election came and went without causing undue economic or financial market volatility. The relatively narrow range of political outcomes along the Canadian spectrum makes it stand out globally. So, too, does the low volatility of the domestic economy.
- + With major risks yet to materialize globally, the Bank of Canada (BOC) remained on hold at its last meeting. The BOC does have a clear easing bias, however, and with other central banks around the world cutting rates, we expect the BOC eventually to follow suit.

### RISK FACTOR

- + A resumption of trade tension globally would be unwelcomed for the local economy, which remains quite exposed to global factors.

### OVERVIEW

Canada enjoyed another month of political uncertainty around the electoral cycle. With the vote out of the way, domestic risks appear minimal. The housing market, which has long been the predominant local concern, appears unlikely to become a macro issue in the medium term. That means that it is still the global economy that poses the biggest risk to the otherwise stable outlook. Canada is a taker of global volatility, not a maker, and that means that we should look outside the country's borders to determine the economic outlook. We think that the global outlook will remain challenging, which keeps risks to the Canadian economy skewed to the downside. But they are risks at this point, not realities, and that means more watchful waiting for Canada.

## 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
<b>Australia</b>	1.7	1.3	1.3	1.6	0.75	0.50	1.10	1.25	0.65	0.62
<b>New Zealand</b>	2.2	1.8	1.7	1.9	1.00	0.50	1.25	1.15	0.64	0.62

### AUSTRALIA

- + Amid concerns about global growth and domestic economic stagnation, the Reserve Bank of Australia (RBA) has kept lowering interest rates, taking the cash rate to 0.75%. This easing and some relaxation of macro-prudential policy have prompted a rebound in home prices and, perhaps, a bit more of a positive view about the outlook.
- + We're inclined to fade that optimism. Despite this postelection relief, we still expect the housing downturn to have a material impact on overall growth, driving the unemployment rate back through the sixes.
- + 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 slide in New Zealand business confidence has started to make its presence felt in the labor market, with jobs growth slowing and the unemployment rate ticking higher, to 4.2%.
- + Along with persistently lower-than-expected inflation, a policy rethink by the central bank (including a dovish 50-b.p. cut in August) has also driven a further shift lower in the policy-rate outlook. We expect the overnight cash rate to hit 0.50% in 2020.

## 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	1.0	0.4	1.9	1.7	0.75	0.50	0.55	0.75	1.30	1.28

### OUTLOOK

- + With the UK's EU-exit date pushed back to January 31, Parliament finally acquiesced to Prime Minister Boris Johnson's wishes and voted for an early election on December 12. This will be a pivotal vote. The most likely outcome, based on recent opinion polls, is that Johnson will be returned with a workable majority, in which case he would be able to push his Brexit deal through Parliament and the UK would leave the EU early next year. The only other plausible outcome at this stage looks to be a hung Parliament, which would almost certainly lead to a second referendum, at which voters would probably choose to remain in the UK.
- + If the UK does leave the EU with a deal early next year, it's important to remember that this wouldn't be the end of the Brexit process. The government would then have to enter trade negotiations with the EU. If it wasn't able to reach agreement by the end of next year, or agree to extend the transition period, there would be a hard Brexit in December 2020. The bottom line is that uncertainty with respect to Brexit is likely to remain high, making a rebound in the economy next year unlikely.

### RISK FACTOR

- + A no-deal Brexit, while highly unlikely at this stage, would push the economy into recession.

## 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	2.5	1.5	2.2	1.8	1.50	1.50	1.30	1.50	10.15	10.00
Sweden	1.5	1.0	1.9	1.7	(0.25)	(0.50)	(0.10)	0.10	10.75	10.50

### NORWAY OUTLOOK

- + Growth in the mainland economy remained resilient, at 2.5% in the second quarter, much stronger than in the rest of Europe. Looking ahead, we doubt that Norway will be able to buck the global and regional trend, so we expect growth to slow to 1.5% in 2020.
- + Core inflation (adjusted for tax changes and energy prices) was slightly above target, at 2.2% in September. Norges Bank raised its key rate to 1.50% in September. We expect that to be the last increase in the current tightening cycle.

### RISK FACTORS

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

### SWEDEN OUTLOOK

- + Recent data have surprised significantly to the downside. The composite PMI fell again to 48.6 in October, with the manufacturing component dropping to 46.0, the lowest reading since December 2012.
- + Core inflation (consumer price index with a fixed interest rate, excluding energy) was little changed, at 1.7% in September, and has now been below Sveriges Riksbank's 2.0% target for two years.
- + The Riksbank has scaled back its projections for the key policy rate but still expects a gradual tightening over the coming year. In our view, the risks to this view are skewed to the downside.

### RISK FACTOR

- + 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	5.4	5.1	2.4	2.4	3.91	3.67	3.53	3.39	—	—
Hong Kong	0.5	1.0	2.5	2.3	2.00	1.50	1.50	1.40	7.83	7.85
India	6.2	6.0	3.2	3.0	5.15	4.65	6.50	6.30	70.00	68.00
Indonesia	5.0	5.0	3.2	3.0	5.00	4.75	7.00	6.85	14,000	13,950
South Korea	1.8	1.5	0.5	1.1	1.00	1.00	1.35	1.35	1,200	1,300
Thailand	2.7	2.5	1.2	1.2	1.25	1.00	1.50	1.50	32.00	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.
- + With inflation low and exchange rates relatively stable, slowing growth is driving a broad-based easing in monetary policy across the region. The debate around the potential for fiscal stimulus is also picking up steam.

### RISK FACTORS

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

### OVERVIEW

GDP growth in trade-exposed Asia has slowed sharply, a reflection of the continuing drag from the trade conflict, the tech cycle and its spillover to global growth more broadly. We expect that downward pressure to persist, given the chance of protracted weakness in the global economy. This is reflected in our below-consensus view for growth across the region.

The most recent data on trade across the region point to some stabilization in exports. But there's little evidence of a bounce. The same is true for manufacturing indicators like the PMIs. Expect trade conflict, 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
<b>Latin America</b>	<b>0.4</b>	<b>1.7</b>	<b>9.2</b>	<b>7.2</b>	<b>12.09</b>	<b>9.74</b>	<b>6.12</b>	<b>6.47</b>	<b>—</b>	<b>—</b>
Argentina	(2.5)	0.0	50.0	35.0	60.00	45.00	—	—	65.00	80.00
Brazil	0.6	2.0	3.3	3.8	4.50	5.00	6.50	7.00	4.05	3.80
Chile	2.0	3.0	2.8	2.6	1.50	1.75	2.50	2.75	730	720
Colombia	3.2	3.2	3.6	3.2	4.25	4.00	5.80	6.00	3,400	3,500
Mexico	(0.1)	0.8	3.1	3.5	7.25	6.50	6.80	7.00	19.50	20.25

## OUTLOOK

- + In Argentina, Alberto Fernández beat incumbent president Mauricio Macri, as expected, with Fernández and his running mate, former president Cristina Fernández de Kirchner, set to begin a four-year term on December 10. While the market remains concerned about the economic-policy approach, recent comments from the incoming administration have highlighted how they would like to renegotiate government debt payments with external, domestic and institutional creditors in a cooperative manner that addresses the country's needs.
- + The Brazilian Senate approved the much-awaited pension reform that is expected to bring stability to Brazil's public finances. The Bolsonaro administration is now shifting to other reforms to tackle structural rigidities.
- + Ongoing protests in Chile are likely to push the government to compromise and establish a road map for a new constitution and increased social spending.

## RISK FACTORS

- + Idiosyncratic weaknesses and political developments may keep weighing on investment and domestic consumption across the region, magnifying worries about a deeper global deceleration than currently expected.

## OVERVIEW

Alberto Fernández was elected president of Argentina with 48.1% of the vote, versus 40.4% for the incumbent, Mauricio Macri. The election results were closer than expected. President Macri gained more votes than he did in the primaries in August, indicating that a larger percentage of Argentinians support orthodox economic policies. While no party secured a majority in the lower house, Cambiemos will lead the largest minority in the chamber. Frente de Todos will lead in the Senate by a small margin through its own bloc and likely alliances. The split Congress configuration will likely limit the possibility of populist policies in the short to medium term. Both candidates called for unity to face the enormous challenges ahead and briefly met to discuss the political transition until the new president's inauguration on December 10. The market is now waiting for the announcement of the economic team and indications that the incoming government appreciates the urgency of the situation and proactively deals with the IMF and bondholders. President-elect Fernández named the heads of his transition team but has not hinted at who will head key cabinet positions in economic policymaking.

The Brazilian Senate passed a landmark social security reform that is expected to save an estimated BRL800 billion over the next 10 years. Momentum now shifts to other reforms that address the structural rigidities in Brazil's budget: reducing public sector salaries, de-indexing mandatory expenditures, and providing more flexibility to constitutionally assigned health and education spending. Savings from these measures will take time to show up in the fiscal accounts. But if approved, they will represent a significant improvement in fiscal management and will create automatic triggers that ensure compliance with the country's spending cap. Banco Central do Brasil (BCB) cut the Selic rate 50 b.p., to 5.0% in October. Although the success of the government's reform agenda is boosting confidence, this increased optimism hasn't been realized in the economy yet. Easier monetary conditions are intended to incentivize companies to invest. We're optimistic about growth picking up in 2020. Brazil is one of the only countries globally where we are forecasting growth to accelerate next year.

Massive protests in Chile drove asset prices lower as market participants weighed the likelihood of a regime change, or at least a drastic change in policy that endangers macroeconomic stability. In our view, President Piñera will likely be able to compromise with protesters regarding their most important requests: a road map for a new constitution, increased pension benefits and larger fiscal social spending. In the short term, the increased uncertainty and disruptions will likely impair growth and imply an uptick in inflation. But further out, we see the macroeconomic deterioration from increased expenditure as limited, given the strong current position and government assets.

## 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>7.3</b>	<b>7.1</b>	<b>6.92</b>	<b>6.20</b>	<b>7.48</b>	<b>7.53</b>	<b>—</b>	<b>—</b>
Hungary	3.8	2.3	3.1	3.2	0.90	1.25	1.80	1.80	330	325
Poland	3.9	3.1	1.9	2.5	1.50	1.50	2.00	2.20	4.30	4.30
Russia	1.2	1.7	4.3	3.7	6.75	6.50	6.30	6.40	65.50	63.00
South Africa	0.5	0.9	4.2	4.6	6.25	6.00	8.95	9.20	15.30	16.00
Turkey	(1.0)	1.5	16.5	13.0	12.00	10.00	13.50	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 expected to ease in Russia and Turkey, following fading tax and exchange-rate pass-throughs. Inflation in South Africa is expected to remain close to the midpoint of the target band.
- + CEE central banks are mostly expected to remain on hold, while Russia, South Africa and Turkey have room to cut interest rates in 2019 and potentially into 2020.

### 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

US sanctions risks for Turkey have subsided for now. That puts the focus back on the Turkish Treasury's 2020 financing program. While net domestic issuance will remain relatively contained, the huge increase in gross issuance could still pressure local yields, especially in the absence of foreign inflows to the local bond market. It also makes the government's aim of significantly increasing domestic credit growth incompatible and threatens the growth target. Treasury's program for next year is predicated on 5% real growth and a nominal fiscal deficit assumption of 3.0% of GDP. We think that it's unlikely that Turkey will achieve 5% real growth next year, and we expect the fiscal deficit to be closer to 3.5%–4.0% of GDP. Every 0.1-ppt deviation of the deficit increases issuance needs of almost US\$1bn; so a 4% deficit would increase issuance of US\$9–\$10bn next year, compared with a 3% shortfall.

Treasury's financing plan will require domestic banks to roll over large amounts of existing treasury holdings (almost 20% of the existing domestic debt stock) and buy additional domestic debt. Given already high loan/deposit ratios, this is incompatible with the government's plan to significantly accelerate credit growth in state and private banks. It also threatens to crowd out the private sector. Credit growth has been close to zero recently (deeply negative in real terms), and we'd have to see monthly credit growth of 1.0%mm over the coming 12 months to reach 10%–15%yy, and 1.5%mm to hit 15%–20%yy. Considering that the five-year monthly growth rate has been 1.0%mm, this is an ambitious target that may be difficult to achieve, given the public financing plans for next year.

Another big question is whether banks will be willing to roll over domestic debt at current levels and demand higher yields, especially if Treasury intends to issue longer maturities (5–6 years, versus the previous 12–18 months). With an increase in foreign fixed-income inflows unlikely, we expect to see upward pressure on borrowing costs. If Treasury continues to issue short-term paper next year, it will just perpetuate the large redemption problem into 2021 and beyond.

What are the options if Treasury struggles to issue the given amounts in the local market? Increased US\$ issuance in international markets and directly to domestic banks would be an option. There are also concerns that the central bank could start some form of monetization of the fiscal balance, or resort to more unorthodox measures of transferring its unrealized profits on its balance sheet.

## Frontier Markets

### OUTLOOK

- + El Salvador has shifted its reputation from a crime-ridden country to one with significant investment opportunities. Growth is expected to pick up as investment projects are executed.

### RISK FACTOR

- + US policy toward Central American countries like El Salvador tends to change quickly. Measures limiting aid to El Salvador or imposing taxes on workers' remittances would have a negative impact on El Salvador's economy and balance of payments position.

### OVERVIEW

El Salvador's millennial president, Nayib Bukele, is shifting the way the world views his country. His agenda focuses on improving security, improving relations with the United States and increasing private investment. On security, the data are positive: The homicide rate has decreased from nine per day in 2018 to 3.6 per day in October. That's quite a feat for a country that has been plagued by gang violence for decades. Bilateral relations with the US have also improved. After signing a migration assistance plan with President Trump, which requires migrants passing through El Salvador to request amnesty in the country instead of continuing north, the US State Department downgraded the security risk for US travelers and extended Temporary Protected Status (TPS) for members of the Salvadoran diaspora living in the US. In addition, OPIC and other US government agencies have announced investment projects in El Salvador. Less crime and a better reputation should help to attract private investment.

President Bukele's popularity—at roughly 90%—is also impressive. With almost no representation in Congress, strong approval ratings are helping to improve governability. The opposition parties have committed to being “good opposition” and will be hard-pressed to go against the will of the people. This dynamic is good for debt authorization, which has been a point of conflict and market uncertainty in the past, but negative if Bukele begins to propose populist policies that aren't kept in check by a strong opposition.

	Real Growth (%)		Inflation (%)		Official Rates (%)		Long Rates (%)		FX Rates vs USD	
	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F
<b>Global</b>	2.5	2.2	2.8	2.7	2.56	2.10	2.14	2.18	-	-
<b>Industrial Countries</b>	1.6	0.9	1.7	1.7	0.71	0.35	0.81	0.88	-	-
<b>Emerging Countries</b>	4.0	4.3	4.8	4.4	6.12	5.35	4.76	4.67	-	-
<b>United States</b>	2.0	1.5	2.3	2.3	1.63	0.88	1.75	1.75	-	-
<b>Canada</b>	1.8	1.5	2.1	2.1	1.50	1.00	1.50	1.50	1.30	1.35
<b>Europe</b>	1.1	0.4	1.3	1.2	(0.28)	(0.33)	(0.21)	(0.01)	-	-
Euro Area	1.1	0.3	1.2	1.1	(0.60)	(0.60)	(0.45)	(0.25)	1.13	1.13
United Kingdom	1.0	0.4	1.9	1.7	0.75	0.50	0.55	0.75	1.30	1.28
Sweden	1.5	1.0	1.9	1.7	(0.25)	(0.25)	(0.10)	0.10	10.75	10.50
Norway	2.5	1.5	2.2	1.8	1.50	1.50	1.30	1.50	10.15	10.00
<b>Japan</b>	1.1	(0.4)	0.8	0.9	(0.10)	(0.15)	(0.10)	(0.20)	106	95
<b>Australia</b>	1.7	1.3	1.3	1.6	0.75	0.50	1.10	1.25	0.65	0.62
<b>New Zealand</b>	2.2	1.8	1.7	1.9	1.00	0.50	1.25	1.15	0.64	0.62
<b>Asia ex Japan</b>	5.4	5.1	2.4	2.4	3.91	3.67	3.53	3.39	-	-
China	6.2	5.8	2.5	2.4	4.35	4.10	3.20	3.00	7.10	7.20
Hong Kong	0.5	1.0	2.5	2.3	2.00	1.50	1.50	1.40	7.83	7.85
India	6.2	6.0	3.2	3.4	5.15	4.65	6.50	6.30	70.00	68.00
Indonesia	5.0	5.0	3.2	3.0	5.00	4.75	7.00	6.85	14,000	13,950
Korea	1.8	1.5	0.5	1.1	1.00	1.00	1.35	1.35	1,200	1,300
Thailand	2.7	2.5	1.2	1.2	1.25	1.00	1.50	1.50	32.00	33.00
<b>Latin America</b>	0.4	1.7	9.2	7.2	12.09	9.74	6.12	6.47	-	-
Argentina	(2.5)	0.0	50.0	35.0	60.00	45.00	-	-	65.00	80.00
Brazil	0.6	2.0	3.3	3.8	4.50	5.00	6.50	7.00	4.05	3.80
Chile	2.0	3.0	2.8	2.6	1.50	1.75	2.50	2.75	730	720
Colombia	3.2	3.2	3.6	3.2	4.25	4.00	5.80	6.00	3,400	3,500
Mexico	(0.1)	0.8	3.1	3.5	7.25	6.50	6.80	7.00	19.50	20.25
<b>EEMEA</b>	1.1	2.4	7.3	7.1	6.92	6.20	7.48	7.53	-	-
Hungary	3.8	2.3	3.1	3.2	0.90	1.25	1.80	1.80	330	325
Poland	3.9	3.1	1.9	2.5	1.50	1.50	2.00	2.20	4.30	4.30
Russia	1.2	1.7	4.3	3.7	6.75	6.50	6.30	6.40	65.50	63.00
South Africa	0.5	0.9	4.2	4.6	6.25	6.00	8.95	9.20	15.30	16.00
Turkey	(1.0)	1.5	16.5	13.0	12.00	10.00	13.50	14.00	6.00	6.25

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.

## Contributors

Armando Armenta armando.armenta@alliancebernstein.com	Adriaan Du Toit adriaan.dutoit@alliancebernstein.com	Darren Williams darren.williams@alliancebernstein.com
Guy Bruten guy.bruten@alliancebernstein.com	Mo Ji mo.ji@alliancebernstein.com	Eric Winograd eric.winograd@alliancebernstein.com
Katrina Butt katrina.butt@alliancebernstein.com	Markus Schneider markus.schneider@alliancebernstein.com	

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