

GLOBAL MACRO OUTLOOK

SEPTEMBER 2019

KEY FORECAST TRENDS

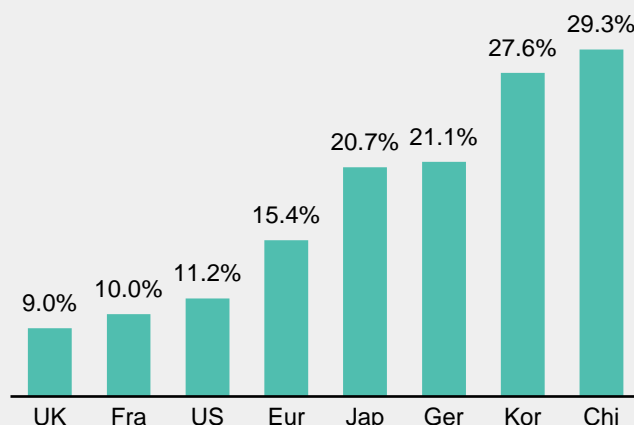
- + The outlook continues to darken. We now expect global growth to slip to 2.3% in 2020, which would be the weakest growth rate since 2009.
- + We're focused on two key questions. Will manufacturing recover before weakness spreads to investment and jobs, dragging overall growth lower? And will the policy response be big enough and effective enough to offset downward pressure on global growth?
- + We're not optimistic on a speedy turnaround in the manufacturing sector and have deep concerns about policy effectiveness in some high-income economies. Our central forecast is therefore for the global economy to move into a protracted downturn with no clear end date in sight.
- + We're particularly concerned about the outlook for trade-sensitive economies where there's limited scope to provide effective policy support. That's why we've cut our forecast for 2020 euro-area growth to 0.3% (1.1% previously) and expect Japan to contract by 0.4% (+0.5%).
- + Closed economies should fare better. We've lowered our US forecast only modestly to 1.5% (1.8% previously) and have sufficient confidence in an effective Chinese policy response to leave our China forecast unchanged at 6.0%.

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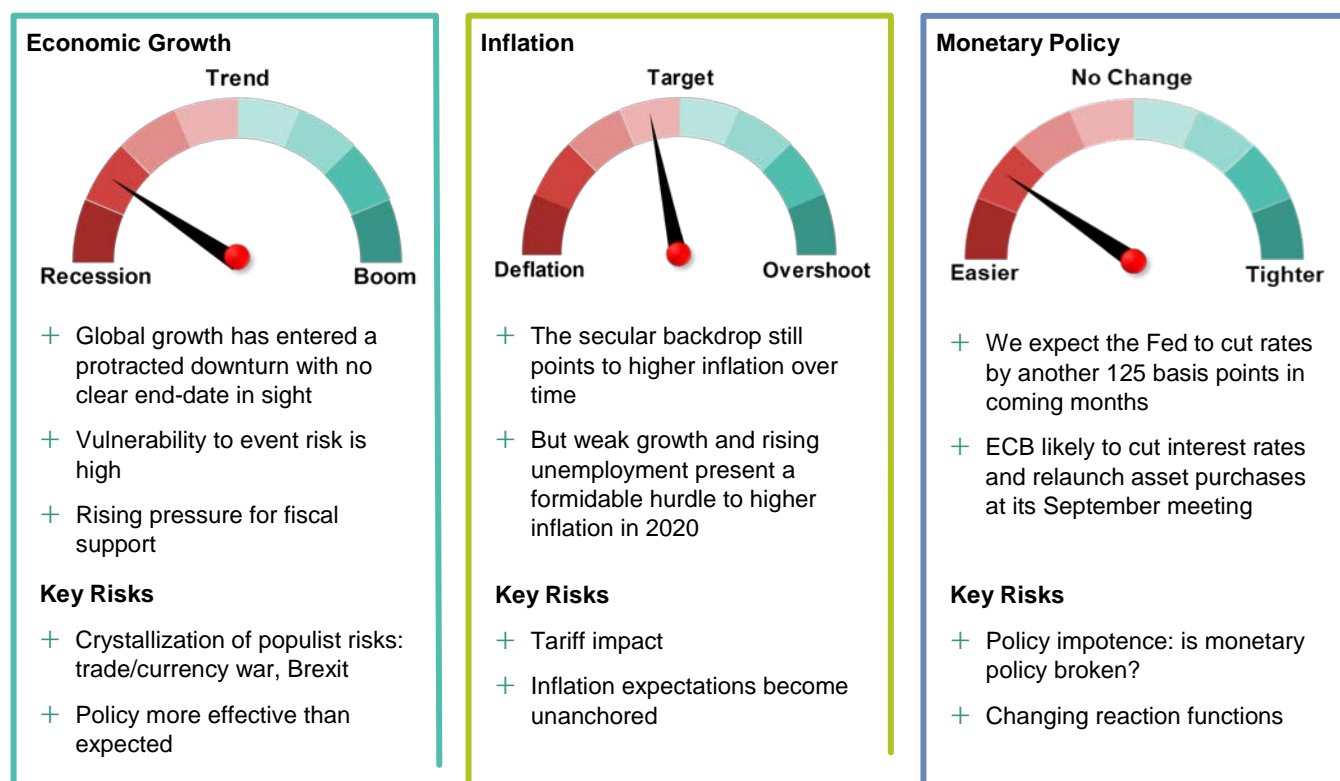
Moving into a Protracted Downturn

Manufacturing Share in GDP (2019)



- + The downturn is being driven by manufacturing, so it's not surprising that countries with a heavy exposure to this sector are being hit the hardest.
- + China has a big manufacturing base but has an important offset in the form of very aggressive policy support. That's not the case for the likes of Germany and Japan, which is why those economies are among the hardest hit.

GLOBAL FORECASTS

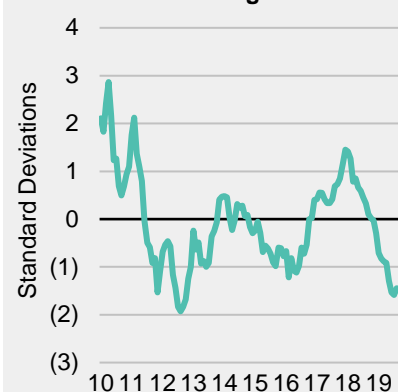


OUTLOOK

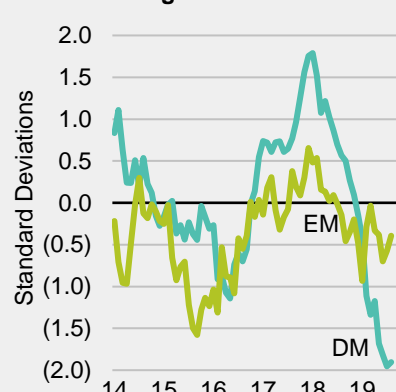
- + We have marked down our global growth forecast for 2020 to 2.3% from 2.6% previously, which would make next year the weakest year for the global economy since 2009 (when it contracted by 2.0%).
- + The biggest revisions have come in high-income, trade-sensitive economies like the euro area and Japan. We expect the euro area to grow by just 0.3% next year and Japan to contract by 0.4%. Both forecasts are well below the consensus—1.1% for the euro area and 0.4% for Japan. We are also below consensus on the US (1.5% vs 1.8%) but in line on China (6.0%).
- + The secular backdrop still points to higher inflation. But cyclical developments clearly point in the opposite direction and we expect global inflation to fall to 2.7% in 2020 from 2.9% this year.
- + Central banks have abandoned their plans for policy normalization. We expect the Fed to cut rates by another 125 basis points (b.p.) and the European Central Bank (ECB) to couple modest rate cuts with additional bond purchases. Policy effectiveness will be key.

Global Cyclical Outlook: Global Trade Growth Slips Back Again

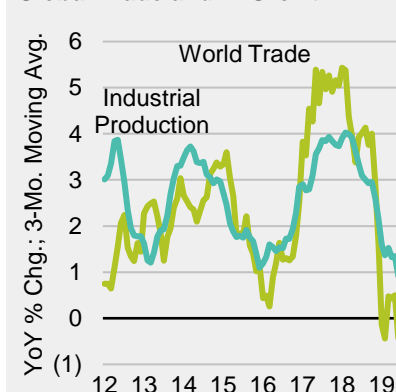
Global Manufacturing PMI



Manufacturing PMIs



Global Trade and IP Growth



GLOBAL MARKET OUTLOOK: YIELD CURVES

GLOBAL YIELDS

Global—Bond yields in many markets have fallen to record lows. But with the global economy entering a protracted downturn and central banks injecting fresh monetary stimulus, the case for a near-term increase is weak.

US—US yields have pushed even lower as concern about low inflation and poor global growth has mounted. We remain cautiously optimistic that the worst outcomes will be avoided and thus expect a modest rise in yields over the medium term. But a near-term trigger is hard to find, so it may well be some time before any increase occurs.

Euro Area—With the ECB likely to cut rates and announce additional bond purchases at its September meeting, the case for higher Bund yields has dissipated.

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

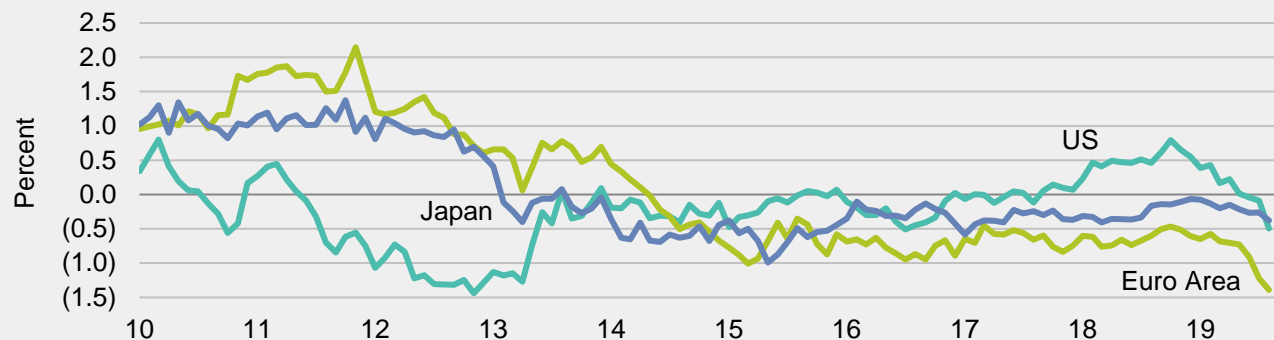
10-Year Yields: AB vs. Consensus Year-End Forecasts (%)

	AB		Consensus	
	2019	2020	2019	2020
US	1.75	1.75	1.98	2.17
Euro Area	(0.65)	(0.50)	(0.33)	(0.08)
Japan	(0.20)	(0.20)	(0.15)	(0.03)
China	3.00	2.90	2.97	2.88

As of August 30, 2019

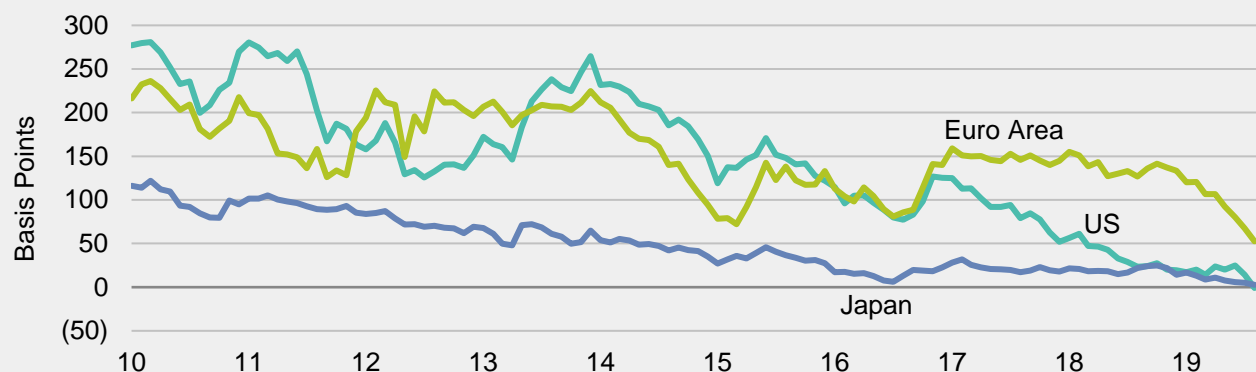
Source: Bloomberg and AB

Real 10-Year Bond Yields*



*Current 10-year bond yield less five-year/five-year forward inflation swap
Through August 30, 2019; Source: Bloomberg and AB

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



Through August 30, 2019
Source: Bloomberg and AB

GLOBAL MARKET OUTLOOK: CURRENCIES

FX FORECASTS

USD—Aggressive Fed rate cuts and possible currency intervention point to a softer dollar. But other central banks are also likely to ease policy and the prospect of a currency war clouds the outlook.

JPY—The yen is likely to be a key beneficiary as global growth slows further and risk-asset headwinds intensify.

EUR—Weak growth, a new round of ECB asset purchases and the rising risk of a no-deal Brexit mean there are few reasons to buy the euro.

CNY—The CNY outlook remains heavily dependent on developments in the US/China trade war.

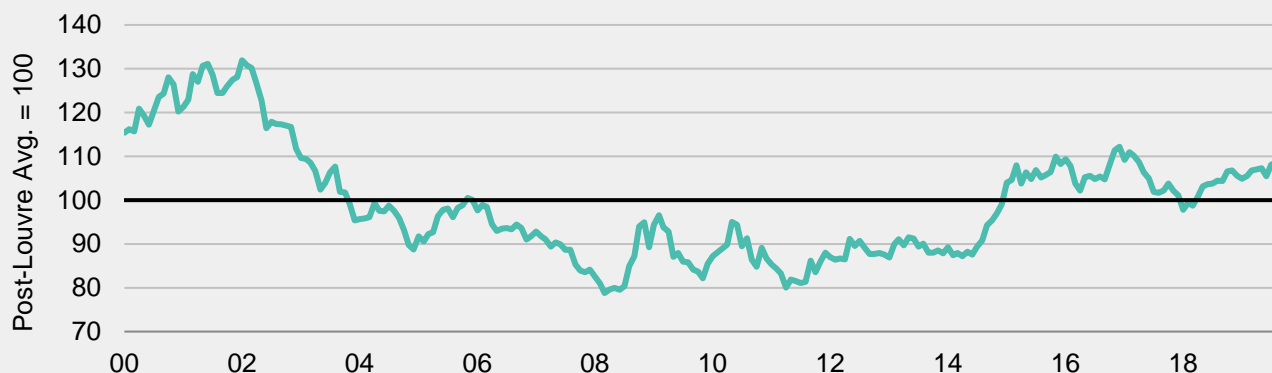
Global FX: AB vs. Consensus Year-End Forecasts (%)

	AB		Consensus	
	2019	2020	2019	2020
EUR/USD	1.13	1.13	1.12	1.17
USD/JPY	102	95	105	103
USD/CNY	7.20	7.20	7.12	7.10
EUR/GBP	0.92	0.92	0.91	0.89

As of August 30, 2019

Source: Bloomberg and AB

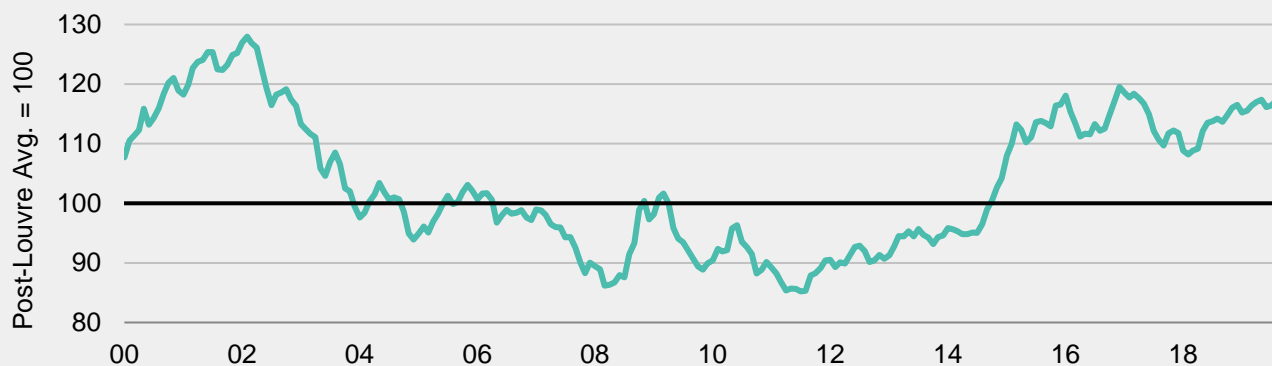
Nominal USD Exchange Rate: U.S. Dollar Index



Through August 30, 2019

Source: Bloomberg and AB

Real USD Exchange Rate



Through August 30, 2019

Source: Bloomberg and AB

US

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)	
	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F
US	2.0	1.5	2.3	2.3	1.38	0.88	1.75	1.75

OUTLOOK

- + While the US economy has been relatively insulated from the trade war, indirect effects such as deteriorating business sentiment are starting to weigh significantly on the outlook. Business investment is falling, consumer confidence has turned lower and corporate profits have flat-lined, all of which is consistent with a broader slowdown in the coming quarters.
- + The labor market remains strong, and that is supporting consumption. As long as that is the case, the scope for economic deterioration is limited to a slowdown rather than something more worrisome. We are on high alert for signs of labor market weakness, however. Should that occur, the outlook would darken considerably.
- + The Federal Open Market Committee (FOMC) has responded to the deteriorating outlook by cutting rates and is likely to continue doing so. As long as the slowdown is modest, rate cuts are likely to be gradual.

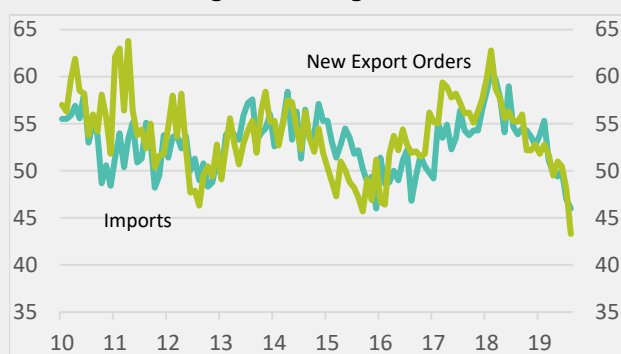
RISK FACTORS

- + The global economy is very fragile, with risks evident around the world. Those risks may have larger-than-expected impacts on the US economy, pushing growth lower.
- + The president's attacks on the Fed's independence complicate policymaking and risk undermining the central bank's credibility. And since the Fed has only limited room to ease policy, it is critical that every policy action has maximum impact. A loss of credibility or independence at this point in the cycle could make policy less effective.

OVERVIEW

There is an emerging gap between where the US economy is today and where it is likely to be in a few months. The strength of the labor market has kept the consumer in good shape, but forward-looking indicators suggest that the tide may be turning. Capital expenditures and manufacturing activity have fallen sharply, and corporate profits have flat-lined, both of which suggest that businesses are likely to be more cautious about hiring in the coming quarters. If that is indeed the case, then the labor market is likely to weaken and consumption to slow. Our forecast captures this, with growth likely to move lower from the current 2.5% pace over the next 18 months. We expect the FOMC to cut rates to address both the global risks and the anticipated domestic slowdown, but we have questions about how effective those cuts will be. To our eyes, business sentiment isn't suffering from overly high interest rates, it is suffering from unpredictable trade policy and a weak global economy. Monetary policy alone can't fix those problems. To be clear, we do agree that monetary easing can support financial markets for a time, but in the end it is critical that policy support the economy. If it does not, financial market gains may be short-lived. The good news is that the US economy is starting from a relatively strong position, so there is room for a slowdown without a catastrophe. It's also worth remembering that most slowdowns do not end in the sort of chaos we saw in 2008 and 2009.

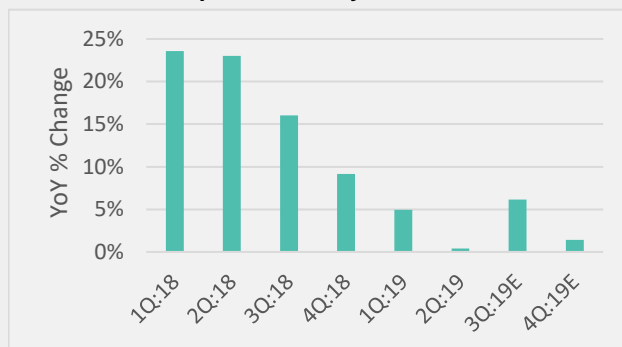
ISM Manufacturing Trade Gauges



Through August 15, 2019

Source: Refinitiv

S&P 500: YoY Capex Growth by Quarter



Through June 30, 2019

Source: FactSet and AB Research

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	(0.75)	(0.75)	(0.65)	(0.50)	1.13	1.13

OUTLOOK

- + The euro-area outlook remains challenging, and we have lowered our 2020 growth forecast from 1.1% to 0.3%. This is a big downgrade which reflects the euro area's vulnerability to weak global economic growth, lack of effective policy tools and exposure to key tail risks—a further escalation in the trade war, Brexit and a possible currency war with the US.
- + Inflation remains well below target and may move even lower next year. There is now a compelling case for fresh monetary stimulus and we expect the first installment to come at the ECB's September meeting, with the likely announcement of a 10–15 basis-point cut in the deposit rate and a new quantitative easing program.

RISK FACTORS

- + Risks to our new growth forecast are more evenly balanced. But they remain asymmetric to the extent that it is still much easier to see growth surprising materially to the downside than materially to the upside.
- + Our forecasts assume that recessionary conditions in manufacturing will gradually spill over into weaker employment and capital spending growth and that policy will be largely ineffective in stimulating growth and inflation. If these assumptions are wrong, growth could surprise on the upside.
- + The risk of a no-deal Brexit is an important downside risk for the euro area, particularly given its lack of policy flexibility.

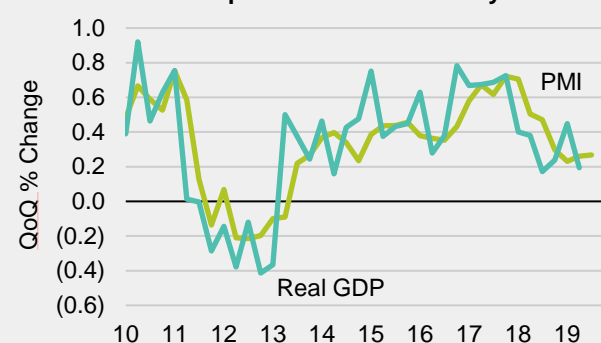
OVERVIEW

The euro area manufacturing sector is in deep recession, with Germany at the epicenter of this, though there's continued resilience elsewhere. This is evident in the unusually large gap between the manufacturing and service sector PMIs (47.0 and 53.5 respectively in August). With few signs of light for manufacturing, our concern is that this weakness will gradually seep through to affect jobs' and investment growth—dragging overall growth downwards.

Core inflation was stable at 0.9% in August, putting the average for the first eight months of the year at 1.0%, the same as in 2017 and 2018 and only marginally higher than the 0.8% recorded in 2016. There have been times over the last 18 months when it was possible to detect faint signs of an upward trend in core inflation. That's not the case today. Looking ahead, the ECB expects core inflation to rise to 1.4% next year and 1.6% in 2021. We think this is highly unlikely: if the euro area couldn't generate higher core inflation when growth was strong and unemployment falling sharply, what hope does it have with growth slowing and the labour market losing momentum?

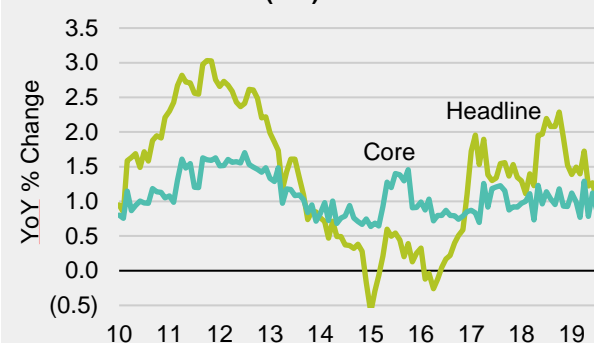
The absence of upward momentum in core inflation provides a compelling case for the ECB to provide significant monetary-policy stimulus, and we expect the first instalment to be delivered at the Council's September meeting. This is likely to involve a 10–15 basis-point cut and a commitment to buy government bonds until there are clear signs that inflation is on the rise.

Real GDP and Composite PMI-Based Proxy



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

Consumer Price Index (CPI) Inflation



Through August 30, 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)	(0.20)	(0.20)	102	95

OUTLOOK

- + The global trade conflict is undermining Japan's manufacturing sector, prompting us to cut our growth forecasts.
- + The labor market remains tight, but there are tentative signs of a turning point.
- + As other global central banks ease, the Bank of Japan's options remain limited.
- + A prolonged downturn in the global economy is likely to see the yen strengthen further.

RISK FACTORS

- + Apart 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

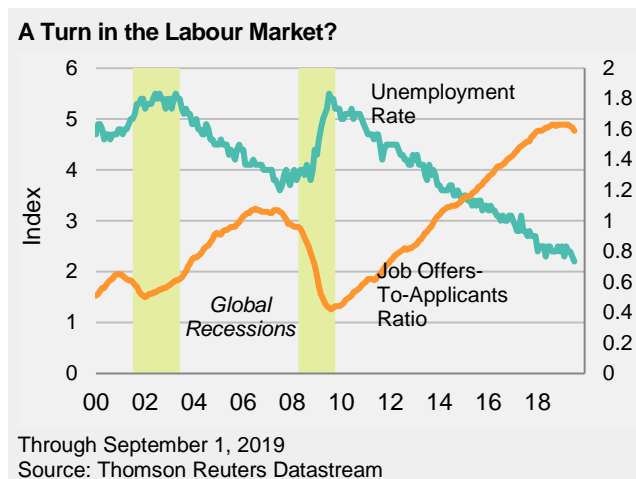
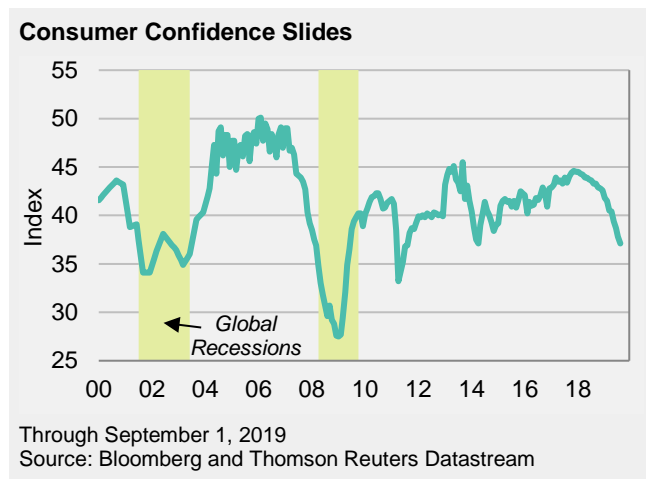
We've made a significant downgrade to Japan's growth outlook for 2020 and now expect to see a mild contraction in GDP. There are three key factors behind that revision.

First, the better-than-expected GDP outcome for 2Q, plus the bring-forward/payback profile of spending around October's VAT hike, means that there's some reshuffling of growth between 2019 and 2020. In other words, stronger now, weaker later. This explains the simultaneous upgrade of 2019 and downgrade of 2020.

Second, we've become more pessimistic about the global backdrop and expect a prolonged downturn phase, driven by the increase in uncertainties around global trade, geopolitics, crystallization of populist political risks and so on. The sensitivity of the Japanese economy to the global macro environment remains high, as we can see in the damage the trade war is doing to the manufacturing sector and exports. That drag is likely to continue.

Third, there are now tentative signs that the manufacturing slump is starting to spill over into domestic activity. Consumer confidence has slid sharply over recent months. And leading indicators of the labor market, like the job offers-to-applicants ratio, look to have peaked.

The bottom line is that a more challenging growth phase lies ahead: a stronger yen and a central bank with no room left to maneuver further complicates the picture.



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	2.5	2.4	4.35	4.10	3.00	2.90	7.20	7.20

OUTLOOKS

- + The official Chinese real GDP growth rate will likely be around 6.2% in 2019, down from 6.6% in 2018, as weakness in capex spending persists.
- + We expect continued monetary and fiscal policy easing to counter downward pressure on the economy. 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 the increase will limit the central bank's policy easing.

RISK FACTORS

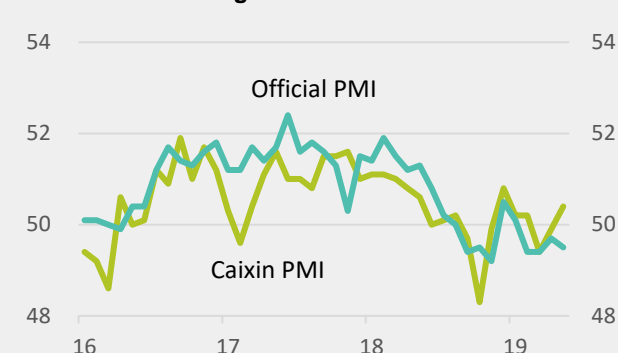
- + Policy easing may be less effective than expected if economic data surprise significantly to the downside. This would put sustained economic stabilization at risk this year and next.
- + An underwhelming US-China trade deal—if one comes at all—would be another risk for China's economy.

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, that includes the ability to cut the reserve requirement ratio or the loan prime rate by 6 b.p. to 4.25b.p. in August, and we expect the central bank to guide down the medium-term lending facility rate in the next month or so. On the fiscal side, the government can issue more special local government bonds. The official target is CNY 2.1 trillion for 2019, but we think the government can do more, as infrastructure projects are most effective in stabilizing growth.

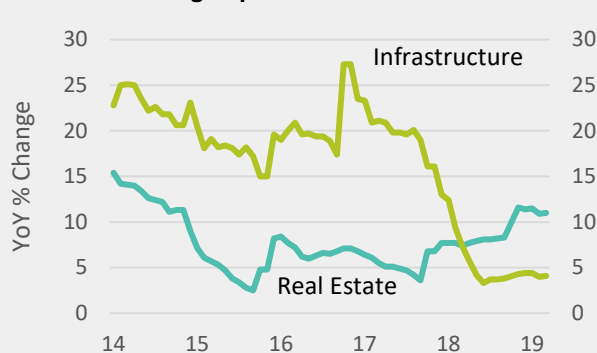
If the Chinese economy stabilizes this year—and we think that it will—China's currency should become a global currency stabilizer. Even so, we cannot ignore the ongoing trade tensions between China and the US. In early August, the US escalated the conflict with an additional 10% tariff on the remaining US\$300 billion of Chinese goods—pushing USD/CNY above the 7.0 level. Further escalation to 30% on US\$250 billion imported Chinese goods and 15% on US\$300 billion imported Chinese goods have pushed the exchange rate to nearly 7.2. CNY depreciation will help Chinese exporters weather the impact of tariffs to some extent. Further escalation of a 30% tariff on all US\$550 billion imported Chinese goods would pose a bigger risk to China and the global economy, and we think it would push the USD/CNY toward 7.5.

China Manufacturing PMI



Through August 30, 2019
Source: Bloomberg and AB

Where to Releverage Up



Through July 31, 2019
Source: Bloomberg and AB

Canada

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

OUTLOOK

- + Canadian growth surprised to the upside in 2Q, and inflation remains at the central bank's target.
- + As a result, the central bank left rates on hold even while most other major central banks are easing policy.

RISK FACTORS

- + Exposure to global trade is likely to slow growth later this year, even more so if the Bank of Canada's comparatively high policy rate puts upward pressure on the Canadian dollar.

OVERVIEW

Were Canada an island, isolated from the broader global economy, there would be little reason for concern. Both growth and inflation are at or near equilibrium and the Bank of Canada would be comfortably on hold. But Canada is not an island, leaving it exposed to the vicissitudes of global trade. With the global backdrop worsening, Canada is unlikely to be spared from the economic downdraft we expect to intensify in coming quarters. The Bank of Canada can see the storm coming and it seems prepared to cut rates, but not until the bad weather arrives. We expect that to happen later this year and into next, leaving us biased to expect multiple rate cuts even though the cycle has yet to begin. In the meantime, Canada will continue to watch events, over which it has little influence, unfold and hope that the turmoil isn't too severe.

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	0.50	0.50	1.00	1.25	0.65	0.62
New Zealand	2.2	1.8	1.7	1.9	0.75	0.50	1.15	1.15	0.64	0.62

AUSTRALIA

- + 2Q GDP in Australia, slowed to 1.4% (negative in per capita terms), the weakest since 2009. Extraordinarily strong government spending has been the only factor keeping growth in positive territory; private sector spending is going backwards.
- + What happens to unemployment is critical. Despite some post-election 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 Reserve Bank of Australia should deliver more cuts, and we wouldn't be shocked to see AUD/USD revisiting the 0.62-0.64 region, particularly as iron ore prices pull back from recent highs.

NEW ZEALAND

- + The shift to incorporate a weaker global backdrop into our forecasts, along with the continued slide in NZ business confidence, has driven a substantial downgrade in our NZ growth outlook for 2020.
- + 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 now 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	0.2	1.9	1.7	0.50	0.25	0.35	0.50	1.23	1.23

OUTLOOK

- + Brexit continues to dominate the headlines. Prime Minister Boris Johnson is currently locked in a battle with Parliament over his plans to leave the European Union (EU) on October 31, even if that means leaving without a deal. While a no-deal Brexit should not be ruled out, the most likely outcome is a further postponement of the Article 50 withdrawal date. Either way, an early general election now looks unavoidable. That in turn would lead either to a speedy EU exit (if Johnson's position was strengthened) or delay and second referendum (if a stable government could not be formed).
- + We have lowered our 2020 economic growth forecast to 0.2% from 1.2%. This is a big adjustment which reflects an accumulation of adverse domestic news and accompanying downgrades to our global and euro-area growth forecasts. This forecast assumes that a speedy Brexit resolution is not forthcoming and that uncertainty continues to weigh on the outlook. Growth could easily be stronger than this (if there's a deal) or considerably weaker (if there's a no-deal Brexit).
- + Until recently, we had taken the view that the Bank of England would want greater clarity on the Brexit endgame before deciding to move interest rates. But the economy has weakened further in recent weeks and, with growth now expected to be significantly weaker than previously thought, we think the Bank of England will push interest rates back close to zero over the coming months.

RISK FACTORS

- + In addition to the risk of a no-deal Brexit, domestic political risk is now very high.

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	2.1	1.1	2.2	1.7	1.25	1.25	1.25	1.25	10.00	10.00
Sweden	1.7	0.7	1.9	1.7	(0.25)	(0.50)	(0.30)	(0.15)	10.50	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, and we expect growth to slow to 1.1% in 2020.
- + Core inflation (adjusted for tax changes and energy prices) remained above target at 2.2% in July. While the Norges Bank's future rate path continues to point to gradual rate hikes over the coming year, weaker growth and lower rates elsewhere suggest that these will be difficult to deliver.

RISK FACTORS

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

SWEDEN OUTLOOK

- + Economic growth slowed to 1.4% in the second quarter, with domestic demand growth now negative. This is consistent with recent survey data, as the Economic Tendency Indicator is now at its lowest since early 2012.
- + Core inflation (Consumer Priced Index with a Fixed Interest Rate, excluding energy) fell to 1.7% in July and has now been below the Sveriges Riksbank's 2.0% target for two years. On a harmonized basis, core inflation (excluding food and energy) is running at just 1.1%.
- + The Sveriges Riksbank has scaled back its projections for the key policy rate, indicating a move back to zero around the turn of the year. Even this might prove difficult at a time when the Fed and ECB are easing monetary policy.

RISK FACTORS

- + High household debt and elevated house prices continue to represent a major risk to financial stability.

Asia ex Japan

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F
Asia ex Japan	5.5	5.4	2.5	2.5	3.95	3.70	3.48	3.41	—	—
Hong Kong	1.5	1.5	2.2	2.2	2.75	2.50	1.40	1.35	7.83	7.85
India	7.2	7.0	3.6	3.8	5.15	4.65	6.90	6.80	69.00	68.00
Indonesia	5.1	5.1	3.2	3.0	5.25	4.75	7.30	7.20	14,000	13,950
South Korea	1.8	1.5	0.9	1.1	1.00	1.00	1.35	1.35	1,250	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

Growth in the more trade-exposed parts of Asia—South Korea, Taiwan, Singapore, Malaysia, Thailand—has already slowed considerably over the last year and is currently running close to a full percentage point below trend. With trade conflict and broader geopolitical uncertainty intensifying, the outlook continues to darken.

To date, the spillover of external weakness and geopolitical shocks to domestic economies has been limited. But there are signs of that now happening. In South Korea, for example, capital spending has collapsed, and the labor market has started to weaken. Hong Kong's GDP report for 2Q was particularly weak (and we are watching development in the demonstrations very closely).

At the same time, inflation has been lower than expected across the region—both headline and core. Central banks have started to deliver on the easing that markets have priced, with cuts in Korea, Malaysia, Indonesia, India and the Philippines. We expect more easing to come, most of which is priced in. But there may be surprises in Korea (where the Japan-Korea trade spat is supplying an additional drag), Thailand and Malaysia, as well as in the scale of adjustment in the nominal effective exchange rate slope in Singapore.

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	0.7	2.1	9.5	6.7	13.26	10.30	6.52	6.70	—	—
Argentina	(1.3)	1.5	50.0	30.0	65.00	45.00	—	—	50.00	60.00
Brazil	0.6	2.5	3.9	4.0	5.50	6.00	7.15	7.50	4.18	4.23
Chile	2.7	2.5	2.0	2.3	2.00	2.00	2.50	2.75	730	700
Colombia	2.9	3.3	3.6	3.4	4.25	4.25	6.00	6.50	3,500	3,600
Mexico	0.3	1.1	3.3	3.2	7.50	6.75	7.00	6.80	20.25	20.75

OUTLOOK

- + Capital controls recently imposed in Argentina may help slow the decline of foreign exchange reserves, but the uncertain policy agenda of the next administration will feed volatility.
- + Global central banks' more dovish bent gives regional counterparts the room to cut rates to offset external headwinds. Chile began the trend with a surprise 50 b.p. cut to its policy rate. Brazil followed suit and cut rates by 50 b.p. in July, and many other regional central banks have become more dovish and are likely to cut rates later this year.

RISK FACTORS

- + Concerns about global growth and other external risks, specifically regarding trade, may be keeping investment on the sidelines across the region. Growth expectations are likewise slowing in much of the region.

OVERVIEW

In Argentina, the outcome of the primary elections surprised market participants and pollsters as President Macri's chances for reelection fell dramatically, putting in question policy continuity and financial stability. Alberto Fernandez, the candidate from the Frente de Todos movement who shares the ticket with former President Cristina Fernandez de Kirchner, is now the clear favorite to win in the October 27 election. Mr. Fernandez has criticized the current administration's policy approach and the important agreement with the IMF while discarding the possibility of an external debt default. The ARS has depreciated by 19% since the results, while the local equity indices and bond prices have fallen by 47% and 50% respectively. After failing to rollover short-term bills, Minister of Finance Hernan Lacunza announced the reprofiling of these securities and the need to reprofile longer-term bonds both in external and domestic law jurisdictions. To stop the currency from depreciating further and avoid the depletion of foreign exchange reserves, the central bank imposed capital control measures to be in effect until December 31. The situation remains volatile and the likelihood of a bank and currency run is not negligible.

Although Brazilian policymakers have made significant strides in advancing pension reform and coordinating an ambitious reform agenda that will help to improve the country's structural ecosystem over time, the economy has yet to respond. Confidence expectations have improved, but actual conditions are still weak. Inflation also continues to be below trend, which led the Central Bank of Brazil to cut rates by 50 b.p. in August and keep the door open to further cuts later this year. Monetary easing and the passing of policy changes to the real economy should help to boost growth during the second half of the year and into 2020.

The slowdown in economic activity in Mexico intensified over the past month. From the demand side, consumption decelerated, investment and exports remained lackluster and government expenditure recently added to the slowdown. However, a more benign inflation print and the Fed's rate cut allowed the central bank to deliver a policy rate cut of its own. Real rates remain high, precluding the possibility of a pickup in activity. A deep cutting cycle will depend on the MXN's stability, global financial conditions and near term fiscal expectations. Changes to the trade relationship with the US, credibility in fiscal targets and the evolution of energy sector policy amid falling oil production remain key risks.

Eastern Europe, Middle East and Africa (EEMEA)

	Real GDP (%)		Inflation (%)		Policy Rate (%)		10-Yr. Bond Yield (%)		FX Rates vs. USD	
	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F
EEMEA	1.3	2.4	7.9	7.4	7.85	7.18	8.81	8.84	—	—
Hungary	3.8	2.3	3.1	3.2	0.90	1.25	1.80	1.80	325	320
Poland	3.9	3.1	1.9	2.5	1.50	1.50	2.20	2.20	4.30	4.30
Russia	1.2	1.7	4.3	4.0	6.75	6.50	7.25	7.15	67.00	65.50
South Africa	0.5	0.9	4.2	4.6	6.25	6.00	8.95	9.10	15.70	16.00
Turkey	(2.0)	0.5	16.5	14.3	15.75	14.50	17.00	18.50	6.10	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 FACTORS

- + The potential for higher core yields is a risk for current account deficit countries such as Turkey and, to a lesser extent, South Africa.

OVERVIEW

Turkey's latest data releases point toward a marginally better macro backdrop in the short run, although medium-term uncertainties, especially with regards to external financing and domestic policy making, persist. August headline inflation surprised to the downside, increasing by 0.9% month-on-month (mm) and 15.0% year-on-year (yy) versus expectations of 1.3% mm (15.6% yy) and down from 1.4% mm (16.7% yy) in the previous month. Month-on-month core inflation saw a significant deceleration in August. This was partly due to sequential base effects following last month's tax hikes on white goods, but the print looks very good optically. Year-on-year base effects will push headline inflation towards 10% yy over the next two months, before retracting back towards 15% yy by the end of the year. We expect the central bank to cut rates by another 400 b.p. during the remainder of 2019, starting with 250–300 b.p. at the September 12 MPC meeting. We don't think the latest print constitutes a significant downside surprise for the central bank as their own forecasts suggested a sub-15% yy increase for August.

Aside from latest CPI data, 2Q real GDP growth also surprised meaningfully, increasing by 1.2% quarter-to-quarter sa (-1.5% yy) versus expectations of 0.4% qq sa (-2.2% yy). Stronger than expected exports and private consumption were the main contributors to the upside surprise. We don't believe that those dynamics will be repeated during the second half of the year, as continued fiscal stimulus will likely increase domestic import growth, while a weaker growth outlook for the eurozone risks weighing on export demand going into 2020. The sequential upside surprise necessitates an upward revision in our full-year 2019 growth forecast to -2.0% from -3% (followed by a meager recovery of 0.5% in 2020).

In Poland, the country's Swiss franc mortgage exposure has come back into focus recently because a European court ruling may open up the possibility for an increase in litigation by Polish households against Polish banks. At face value, if all households immediately and successfully litigated against the banks, this would constitute a significant cost for the industry. That said, even if the court ruled in favor for households, the litigation process is likely to be drawn out and the costs spread over time. All in all, we do not expect litigation to constitute a systemic risk, and if it occurred on a larger scale, it would reduce FX mortgage exposure over time.

Frontier Markets

OUTLOOK

- + We think that the Central Bank of Nigeria (CBN) will prioritize naira stability even if it means higher interest rates.
- + The Dominican Republic's tourism industry may continue to suffer in the aftermath of negative US media coverage.

RISK FACTORS

- + A dip in oil prices would weigh on Nigeria's growth trajectory and challenge the CBN's resolve to keep USD/NGN steady at around 360.
- + More press coverage of negative tourist experiences at hotels and resorts in the Dominican Republic would exacerbate the negative trend in tourist arrivals and impact the economy poorly.

OVERVIEW

The CBN keeps trying to spur economic growth through unconventional policies. In addition to strict liquidity management via open market operations, the CBN recently instructed banks to maintain a loan-to-deposit ratio of at least 60% (effective at the end of September 2019). Banks that fail to meet this minimum lending requirement will have to pay a levy equal to 50% of the lending shortfall. We are skeptical about the efficacy of this regulatory change. GDP growth has been oscillating around 2% over the past year or so and we expect this trajectory to be sustained if oil prices drift sideways. A dip in oil prices would, however, weigh on economic growth and challenge the CBN's resolve to keep USD/NGN steady at around 360. Our baseline view of a protracted global economic slowdown implies downside risk for commodity prices, including the price of oil. If that plays out, we think that the CBN will prioritize naira stability even if it means higher interest rates. With Brent crude around \$60/bbl versus the CBN's 'pain threshold' of approximately \$45/bbl and reserves at US\$43 billion versus a 'pain threshold' of around US\$30 billion, the alarm bells are not ringing yet.

The Dominican Republic's tourism sector is starting to feel the impact from a series of American tourist deaths that generated significant US media attention in May and June. The media coverage, which focused on the potentially dangerous conditions at popular hotels and resorts, tarnished the country's reputation as a high-quality tourist destination. In July, nonresident tourist arrivals from the US were down nearly 25% year-over-year and overall tourism declined 11%, in a period when tourism growth to the Caribbean region continues to climb. Tourism directly accounts for 8% of the Dominican economy, but there are linkages to other sectors that are much more broad reaching. The FBI's forthcoming toxicology report may exonerate the Dominican hospitality industry, but in the meantime, the sector may continue to suffer.

	Real Growth (%)		Inflation (%)		Official Rates (%)		Long Rates (%)		FX Rates vs USD	
	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F	2019F	2020F
Global	2.5	2.3	2.9	2.7	2.58	2.14	2.16	2.20	-	-
Industrial Countries	1.6	0.9	1.7	1.7	0.54	0.29	0.72	0.79	-	-
Emerging Countries	4.2	4.6	5.0	4.4	6.46	5.59	4.96	4.90	-	-
United States	2.0	1.5	2.3	2.3	1.38	0.88	1.75	1.75	-	-
Canada	1.8	1.5	2.1	2.1	1.50	1.00	1.50	1.50	1.30	1.35
Europe	1.2	0.4	1.3	1.2	(0.45)	(0.50)	(0.41)	(0.26)	-	-
Euro Area	1.1	0.3	1.2	1.1	(0.75)	(0.75)	(0.65)	(0.50)	1.13	1.13
United Kingdom	1.0	0.2	1.9	1.7	0.50	0.25	0.35	0.50	1.23	1.23
Sweden	1.7	0.7	1.9	1.7	(0.25)	(0.50)	(0.30)	(0.15)	10.50	10.50
Norway	2.1	1.1	2.2	1.7	1.25	1.25	1.25	1.25	10.00	10.00
Japan	1.1	(0.4)	0.8	0.9	(0.10)	(0.15)	(0.20)	(0.20)	102	95
Australia	1.7	1.3	1.3	1.6	0.50	0.50	1.00	1.25	0.65	0.62
New Zealand	2.2	1.8	1.7	1.9	0.75	0.50	1.15	1.15	0.64	0.62
Asia ex Japan	5.5	5.4	2.5	2.5	3.95	3.70	3.48	3.41	-	-
China	6.2	6.0	2.5	2.4	4.35	4.10	3.00	2.90	7.20	7.20
Hong Kong	1.5	1.5	2.2	2.2	2.75	2.50	1.40	1.35	7.83	7.85
India	7.2	7.0	3.6	3.8	5.15	4.65	6.90	6.80	69.00	68.00
Indonesia	5.1	5.1	3.2	3.0	5.25	4.75	7.30	7.20	14,000	13,950
Korea	1.8	1.5	0.9	1.1	1.00	1.00	1.35	1.35	1,250	1,300
Thailand	2.7	2.5	1.2	1.2	1.25	1.00	1.50	1.50	32.00	33.00
Latin America	0.7	2.1	9.5	6.7	13.26	10.30	6.52	6.70	-	-
Argentina	(1.3)	1.5	50.0	30.0	65.00	45.00	-	-	50.00	60.00
Brazil	0.6	2.5	3.9	4.0	5.50	6.00	7.15	7.50	4.18	4.23
Chile	2.7	2.5	2.0	2.3	2.00	2.00	2.50	2.75	730	700
Colombia	2.9	3.3	3.6	3.4	4.25	4.25	6.00	6.50	3,500	3,600
Mexico	0.3	1.1	3.3	3.2	7.50	6.75	7.00	6.80	20.25	20.75
EEMEA	1.3	2.4	7.9	7.4	7.85	7.18	8.81	8.84	-	-
Hungary	3.8	2.3	3.1	3.2	0.90	1.25	1.80	1.80	325	320
Poland	3.9	3.1	1.9	2.5	1.50	1.50	2.20	2.20	4.30	4.30
Russia	1.2	1.7	4.3	4.0	6.75	6.50	7.25	7.15	67.00	65.50
South Africa	0.5	0.9	4.2	4.6	6.25	6.00	8.95	9.10	15.70	16.00
Turkey	(3.0)	0.5	16.5	14.3	15.75	14.50	17.00	18.50	6.10	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.

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