



The House View: Reopening the Global Economy

Snapshot

MACRO VIEWS

WORLD

- The short-term growth outlook remains strong thanks to (i) successful vaccine rollouts, (ii) major fiscal support, and (iii) huge accumulated savings and pent-up demand waiting to be released. We expect the world economy to expand by more than 6% this year.
- The main risks to this forecast are twofold. Firstly, from a new Covid variant that is more resistant to vaccines. Or alternatively, if inflation were higher-than-expected and central banks had to tighten earlier than anticipated.

EUROPE

- We expect Euro Area GDP to expand by 4.6% in 2021, thanks to (i) the vaccine rollout; (ii) pent-up demand; (iii) NGEU disbursements; and (iv) US export demand.
- We think the ECB will be cautious and exit its pandemic policies slowly. At the very least we expect them to implement transitional arrangements to a smooth exit from PEPP in 2022 and maintain an easy policy stance.

CHINA

- We expect the Chinese economy to grow by 9.4% this year, with output expected to gradually converge to its pre-covid path in the next few quarters.
- We expect the PBoC will hold its policy rates unchanged in 2021, with the first MLF rate hike likely in 2022.

UNITED STATES

- Thanks to massive fiscal stimulus that's projected to move GDP well above its pre-virus path, we expect annual growth of +7.0% in 2021, the strongest since 1984.
- Beyond this year, we see a significant moderation in growth as fiscal stimulus wears off.
- We anticipate an official announcement on tapering from the Fed at the December FOMC meeting.
- Inflation has risen sharply. Baseline view is it should moderate late this year and into 2022 as bottlenecks ease.

GERMANY

- For Germany, we expect 2021 to grow 4.0%, with the catalysts for a strong expansion falling into place.
- The Greens have fallen back in the opinion polls since the spring, though are still in second place ahead of September's federal election. The CDU/CSU have been the beneficiaries and have seen a rising lead over recent weeks.

EMERGING MARKETS







- EM growth has defied concerning pandemic trends. Central banks have turned more hawkish, but many are still in the early stages of normalisation.
- In Asia, growth is likely to run below G3 growth from Q3 despite an impulse from abroad.
- In LatAm, growth is surprisingly positive, and central banks are responding to rising inflation.
- In CEEMEA, there is a multi-speed growth recovery underway as CBs respond to rising inflation.

KEY DOWNSIDE RISKS

- Ⓜ Issues with Covid mutations or the vaccination rollout – Though vaccination programmes are progressing, a new mutation in the virus or issues with the rollout could set back the point at which herd immunity is reached.
- Ⓜ Higher-than-expected inflation – A persistent overshoot of inflation into the 3-4% range would elicit a strong response from the Fed. This would hit global financial markets and a number of emerging market economies hard, very possibly moving the global economy into recession.



MARKET VIEWS

	MARKET SENTIMENT	<ul style="list-style-type: none"> More positive on European assets relative to the US. We see UST 10Y at 2.25% by year-end, and a 6-10% correction in the S&P 500 as the rate of growth peaks.
	EQUITIES	<ul style="list-style-type: none"> With signs that indicators of macro cyclical growth are peaking, we look for a significant consolidation/pullback in equity markets (S&P 500 -6% to -10%).
%	RATES	<ul style="list-style-type: none"> We expect UST 10Y to end the year around 2.25% and bund yields to end the year around 0%. If inflation were to surprise enough to lead the market to completely price a shift back to the 1998-2014 inflation regime, UST10Y should be around 3%.
	FX	<ul style="list-style-type: none"> We have a neutral view on EUR/USD this year, forecasting 1.20 for Q3 and Q4. It's not just the Fed prompting a shift, but also China pushback to CNY appreciation, a "steady hand" from the ECB, the lingering risks of the delta variant to European reopening, and the reduced odds of an upside German election surprise.
	CREDIT	<ul style="list-style-type: none"> It's hard to be too bearish in 2021 given a strong economy and central banks leaning against tighter conditions. But the market could get nervous about tapering and given rich valuations, we maintain a widening bias.
	OIL	<ul style="list-style-type: none"> Brent crude is likely to break above 80/bbl this year, but retrace somewhat in 2022. Longer term on Covid, uneven vaccination and difficulty establishing international vaccine certificates may hinder long-haul air passenger traffic, while new variants may push herd immunity out of reach.
	MONETARY POLICY	<ul style="list-style-type: none"> Fed: Keep rates near zero until Q3 2023. ECB: Keep rates on hold for the foreseeable future. BoJ: Keep rates on hold. BoE: MPC to remain on the sidelines for the next two years. PBoC: Keep policy rates unchanged in 2021, with the first MLF rate hike likely in 2022

KEY MACRO & MARKETS FORECASTS

GDP growth (%)			Central Bank policy rate (%)			Key market forecasts				
	2021F	2022F		Current	Q4-21	Q2-22		Current	Q3-21	Q4-21
Global	6.3		US: Federal Funds Rate	0.125	0.125	0.125	US 10Y yield (%)	1.42	2.00	2.25
US	7.0	4.7	Eurozone: Deposit Facility Rate	-0.50	-0.50	-0.50	EUR 10Y yield (%)	-0.21	-0.08	0.00
Eurozone	4.6	4.8	Japan: Policy Balance Rate	-0.10	-0.10	-0.10	EUR/USD	1.19	1.20	1.20
Germany	4.0	4.2	UK: Bank Rate	0.10	0.10	0.10	USD/JPY	111	107	114
Japan	2.6	2.6	China: MLF 1Y Interest Rate	2.95	2.95	3.05	S&P 500	4352	4050	4100
UK	6.7	5.0					Gold (USD/oz)	1792	1750	1650
China	9.4	5.9					Oil WTI (USD/bbl)	76.4	77.0	77.0
							Oil Brent (USD/bbl)	77.2	80.0	80.0

Current prices as of 5 July, 2021

2021 MACRO EVENTS CALENDAR

July	August	September
16 JN BoJ Decision	05 UK BoE Decision	09 EZ ECB Decision
22 EZ ECB Decision	26-28 US Jackson Hole Economic Symposium	14 - UN General Assembly Opens
28 US Federal Reserve Decision		22 US Federal Reserve Decision
		22 JN BoJ Decision
		23 UK BoE Decision
		26 GE German Federal election

	RECENT EDITIONS	Reopening the Global Economy 6 July 2021
		Vaccinating the global economy 24 May 2021
		A new chapter for the global economy 24 March 2021
		Hope on the Horizon 25 November 2020