

COPING WITH COVID-19 IN DIFFERING WAYS

Allianz Research

Global Economic Outlook

July 2020



GLOBAL OUTLOOK

01



FROM MARCH TO JUNE: WHERE DO WE STAND?



March - April 2020

Second Covid-19 wave with targeted lockdowns by mid-2021 when a vaccine could be in place. Haphazard opening in several emerging economies (India, Indonesia, Brazil, Mexico, Turkey, South Africa) put them at high risk of policy mistake.

Return to business as usual, beware of false starts: The global economy would operate at 70 to 80% capacity until Q4 2020.

A return to pre-crisis GDP levels by mid-2021: For the manufacturing and construction sectors where social distancing is less of an issue the return was foreseen at the end of 2021 while the services sector is was not expected until mid-2021.

Policy bazooka during lockdowns avoid a liquidity crisis. **Insolvency wave delayed to H2 2020.**

Policy support during deconfinement (May-July): targeted relief: shifts the focus from liquidity to solvency support with targeted and increasingly conditional support.

Policy support during recovery phase (until end-2021): from debt to cash and from deflation to reflation.

Risks to our scenario (L-shape): (i) prolonged high precautionary savings (households, companies); (ii) rise in the zombification of companies; (iii) rise in NPLs and fragile banks; (iv) rise in social inequalities and political risk; (v) policy mistakes (sanitary, fiscal, monetary); (vi) rise in protectionism and shorter supply chains which could structurally dampen companies margins.

Financial markets: it can still get worse before it gets better

June 2020

Confirmed, notably in the US and the weakest emerging markets.

Confirmed as confidence effects will remain impaired for longer.
Confirmed, supply chain disruptions.

Revised to Q4 2021 / Q4 2022 depending on the economy. Trade will take a few more quarters to reach its pre-crisis given the reshoring and protectionist growing trend.

Confirmed but the changes in the insolvency laws **delays even further the insolvency wave (+33% by end-2021 vs. +20% in 2020)**

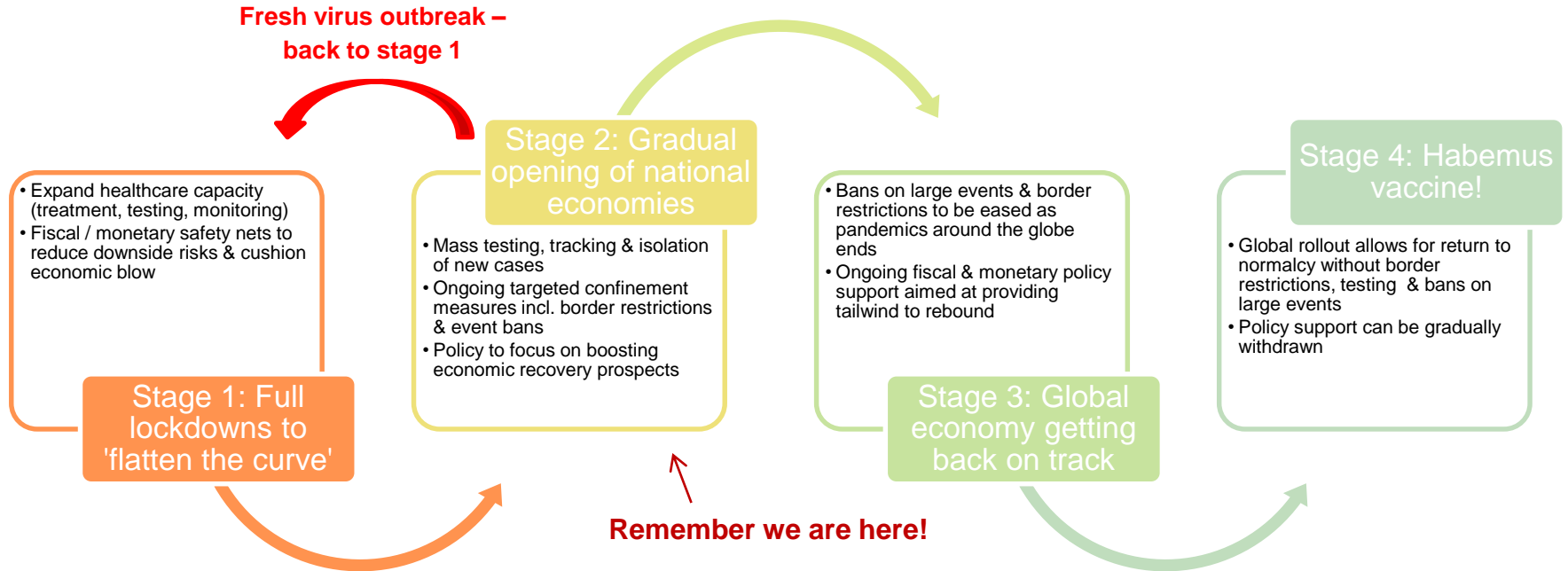
Confirmed. Several European States announced a prolongation of the relief support, mainly on partial unemployment schemes along direct loans to most hit sectors

Below expectations. Very little has been announced and no global coordination which bodes for a lower recovery in 2021. More should be announced in September but no bazooka expected.

Maintained at 30% probability.

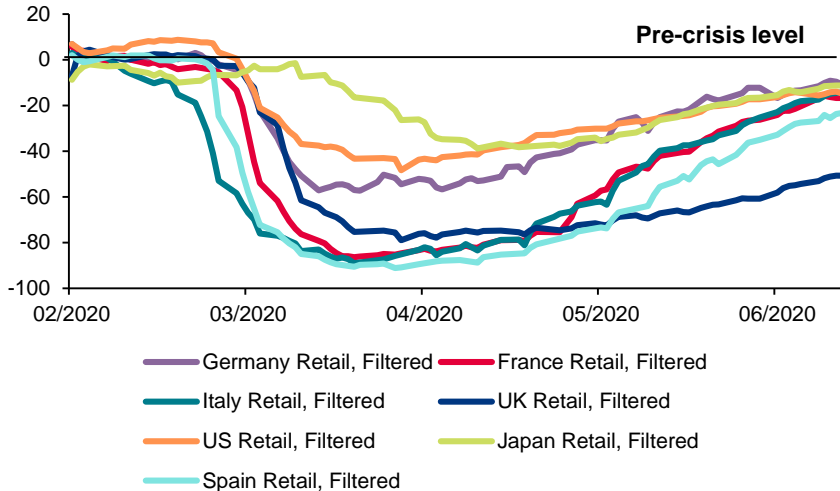
On track. Still no strong signals of reentry given the divergence between equity and bond markets. Continue to expect strong volatility.

COVID-19: THE PHASE 2 MARATHON



PHASE 2 WILL BE DARWINIAN

Retail stores visits, daily*

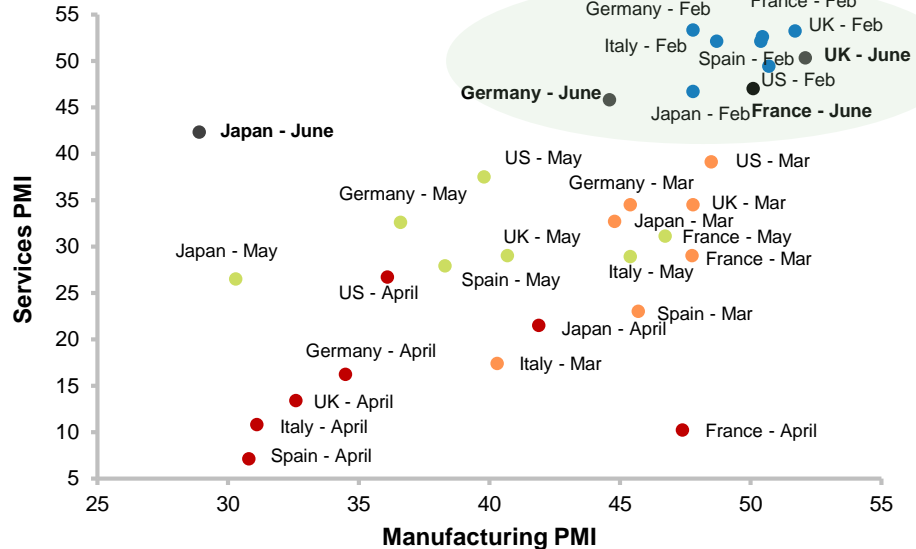


*Daily Google mobility data for „Retail“, adjusted for weekends and holidays, filtered trend

Sources: Google, Allianz Research

Retail stores visits are slowly recovering in line with the deconfinement strategies but initial conditions and lockdown stringency will push for asymmetric recoveries.

Manufacturing vs Services PMI, above 50 means expansion

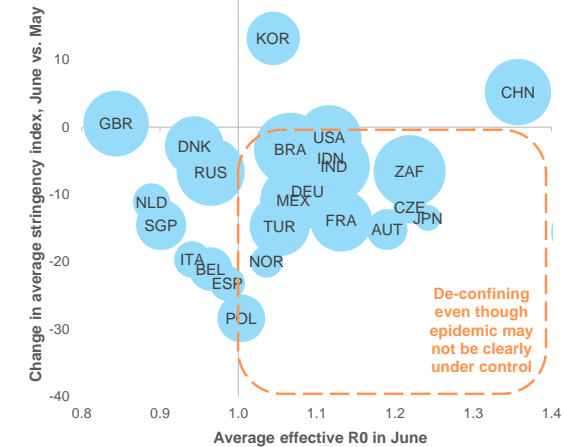


Sources: Markit, Allianz Research

An unprecedented shock in the services sector with the trough being reached in April. Some countries recover faster (Germany, US) but globally the index is plateauing below pre-crisis levels.

NEW WAVELETS: LIGHT AND LOCALIZED LOCKDOWNS

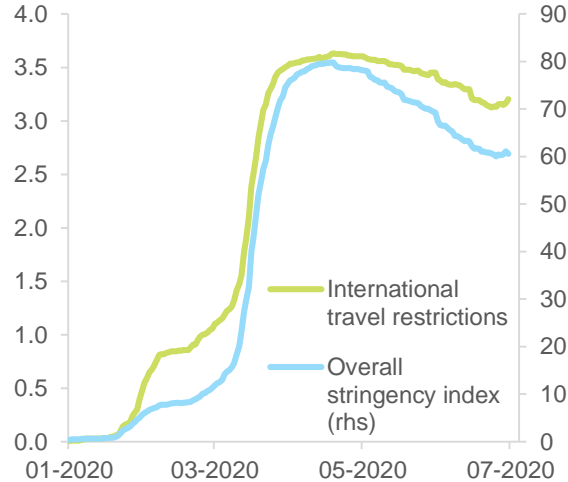
De-confining: managing the effective reproduction rate
(bubble size is latest available stringency index)



Sources: Various, Euler Hermes, Allianz Research

Many countries still battle with too high R0. Cluster management and physical distancing measures could help cap R0 for countries with previous lockdowns

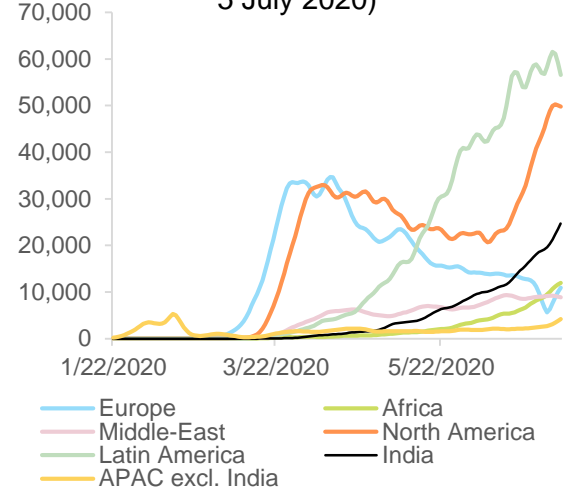
Stringency indices



Sources: Oxford University, Euler Hermes, Allianz Research

It is likely to be long before all containment measures are removed. Stringency indices have been faster to rise than decline, particularly for international travel.

Daily number of new Covid-19 cases (as of 5 July 2020)



Sources: John Hopkins University, Euler Hermes, Allianz Research

Hot spots include Latin America, the United States, United Kingdom and India

GLOBAL ECONOMY: NO RETURN TO PRE-CRISIS LEVELS BEFORE END OF 2021

Real GDP growth, %

	2017	2018	2019	2020	2021
World GDP growth	3.3	3.1	2.5	-4.7	4.8
United States	2.4	2.9	2.3	-5.3	3.7
Latin America	1.0	1.0	0.1	-6.8	3.1
Brazil	1.3	1.3	1.1	-7.0	3.0
United Kingdom	1.8	1.3	1.4	-13.3	5.0
Eurozone members	2.7	1.9	1.3	-9.0	6.0
Germany	2.8	1.5	0.6	-7.0	4.5
France	2.4	1.8	1.5	-10.8	7.4
Italy	1.7	0.7	0.3	-11.2	6.6
Spain	2.9	2.4	2.0	-11.0	7.0
Russia	1.8	2.5	1.3	-5.2	3.0
Turkey	7.5	2.8	0.9	-4.7	4.2
Asia-Pacific	5.2	4.7	4.2	-1.3	5.9
China	6.9	6.7	6.1	1.5	7.6
Japan	2.2	0.3	0.7	-5.7	2.2
India	7.0	6.1	4.7	-3.6	7.5
Middle East	1.4	0.9	0.3	-6.3	2.2
Saudi Arabia	-0.7	2.4	0.3	-4.0	2.0
Africa	3.1	2.7	1.9	-3.1	4.0
South Africa	1.4	0.8	0.3	-7.8	5.4

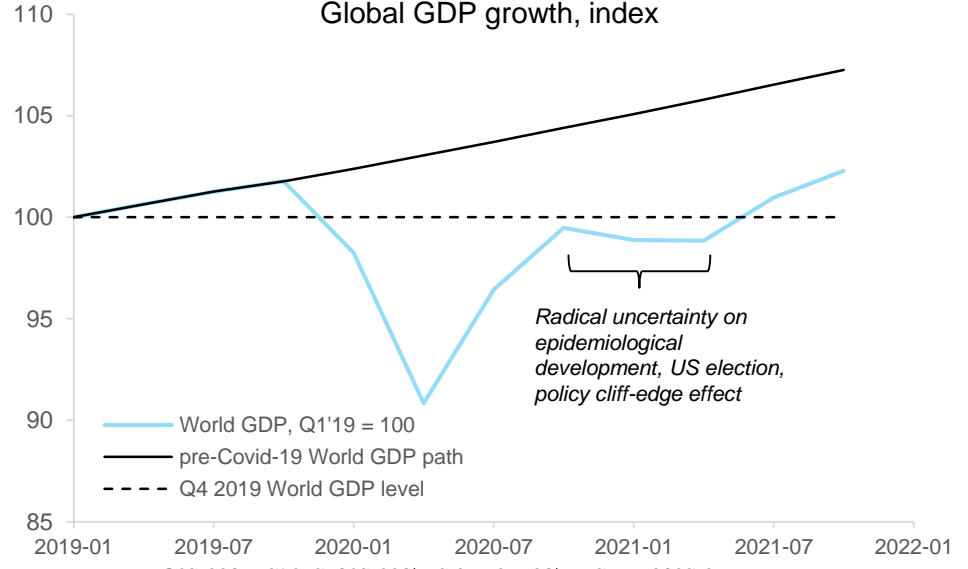
* Weights in global GDP at market price, 2019

NB: fiscal year for India

Sources: National sources, Euler Hermes, Allianz Research

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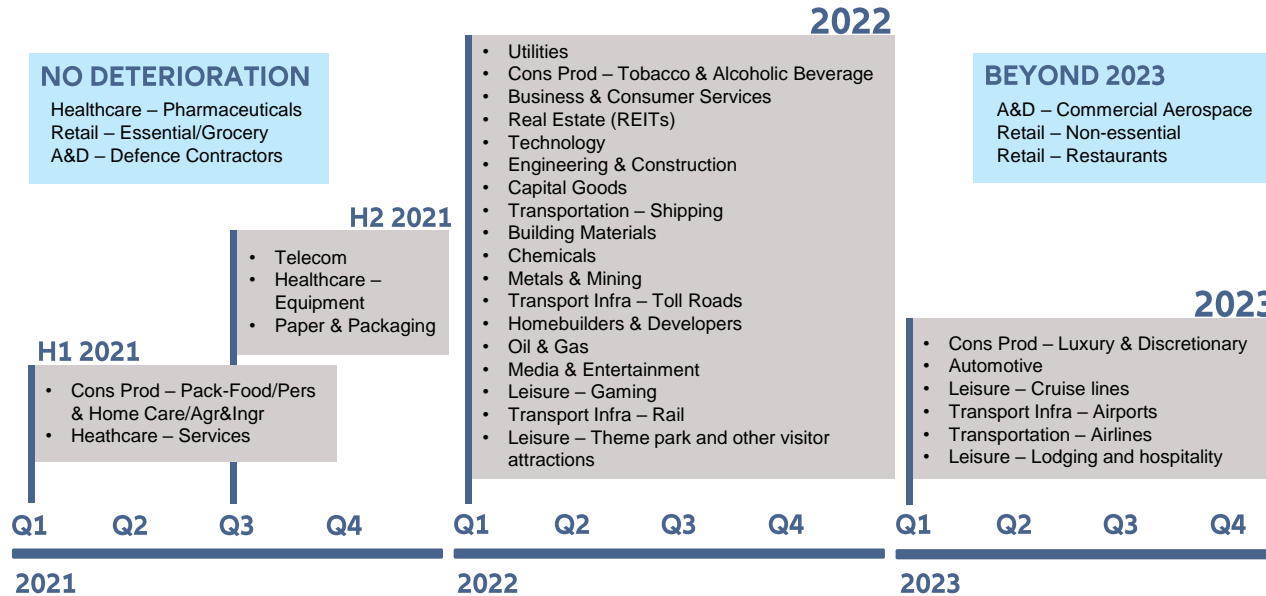
Global GDP growth, index



Which economies will drive the global recovery? United States, Germany and China (although a far cry compared to GFC). **Who are the laggards?** United Kingdom, France, Spain, Italy, vulnerable EM (e.g. Latin America, Turkey, South Africa, India)

SECTOR OUTLOOK: DIVERGENT PATH FOR THE RECOVERY

Return to pre-crisis levels of profitability by sector (EMEA)

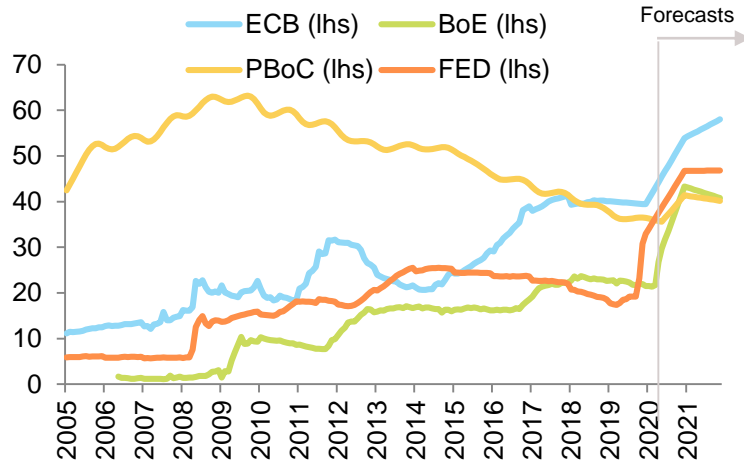


Sources: S&P, Euler Hermes, Allianz Research

As a result of Covid-19 we have downgraded a record number of sectors (325) in Q2 2020. The current crisis has led to a downgrade of 4 in 10 of our sector risk ratings since Q4 2019. In most cases, they were triggered by two factors: the demand shock and its direct and indirect impact on either the profitability or the liquidity outlook. The most downgraded sectors are those in the frontlines facing Covid-19 consequences, namely transportation, automotive and retail

MONETARY BAZOOKA: UNPRECEDENTED BALANCE SHEET EXPANSION, DIFFERENTIATED RETURNS

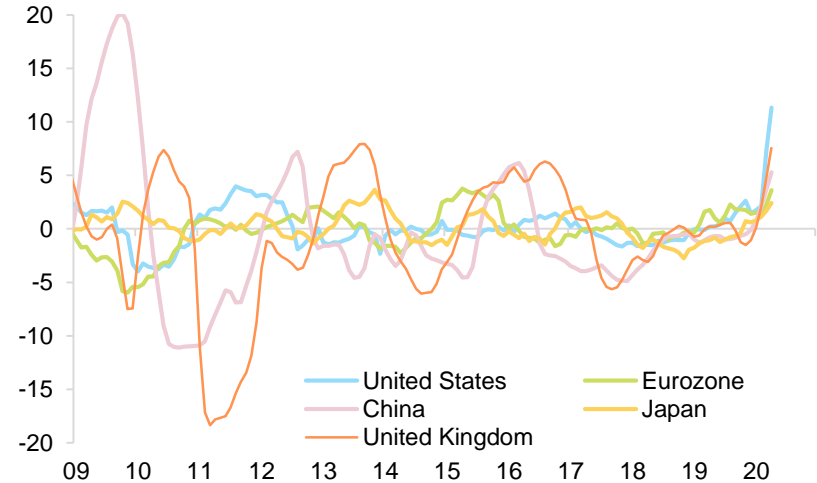
Central banks' balance sheets (% of GDP)



Sources: Refinitiv, Allianz Research.

As monetary policy continues to backstop sovereign and corporate bond markets to ensure favorable refinancing conditions, the balance sheets of all major central banks will continue to balloon in 2020/21, heading towards 50% of GDP.

Monetary impulse indices



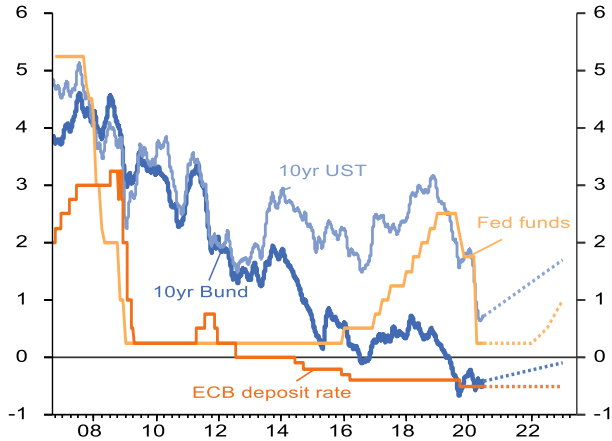
Sources: National central banks, Euler Hermes, Allianz Research

Monetary policy response to the Covid-19 crisis was strong across the world. Among major economies, we estimate that the monetary impulse is the largest in the U.S.

LOOKING FORWARD, EUROPE WILL HAVE TO CARE FOR ITS BANKS



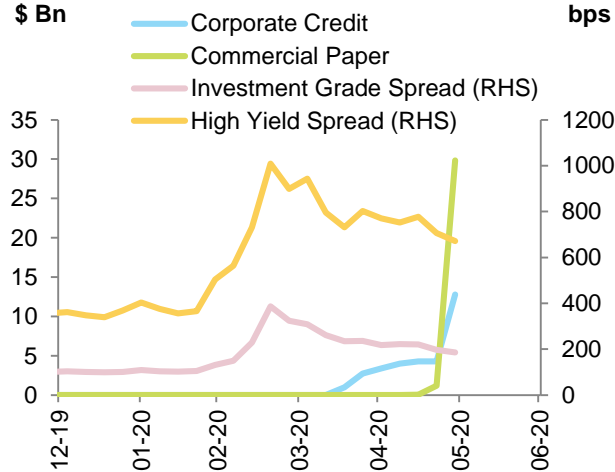
10yr yields on UST & Bund vs. Fed funds rate and ECB deposit rate (%)



Sources: Refinitiv, Allianz Research.

Fed committed to ultra forward guidance, rates near 0 through 2022: plausible. ECB provided weak forward guidance (policy pause): be aware of zombie banks

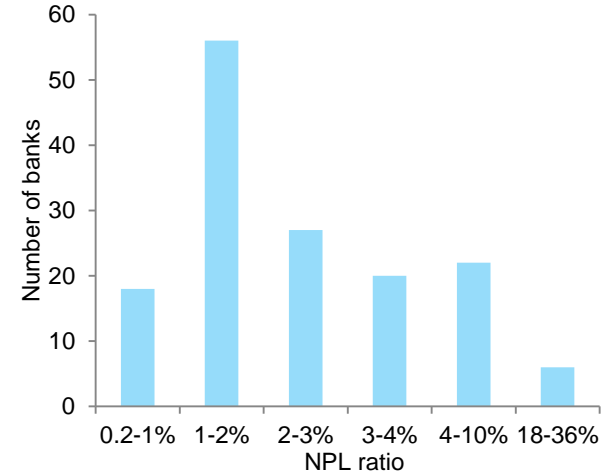
US Federal Reserve – Corporate Securities Operations



Sources: Refinitiv, Allianz Research.

The Fed has only bought ~\$15bn of traded corporate debt and provided \$30bn of commercial paper (~\$750Bn total during the GFC crisis). Due to the Fed's forward guidance, corporate spreads seem to be underestimating corporates credit risk.

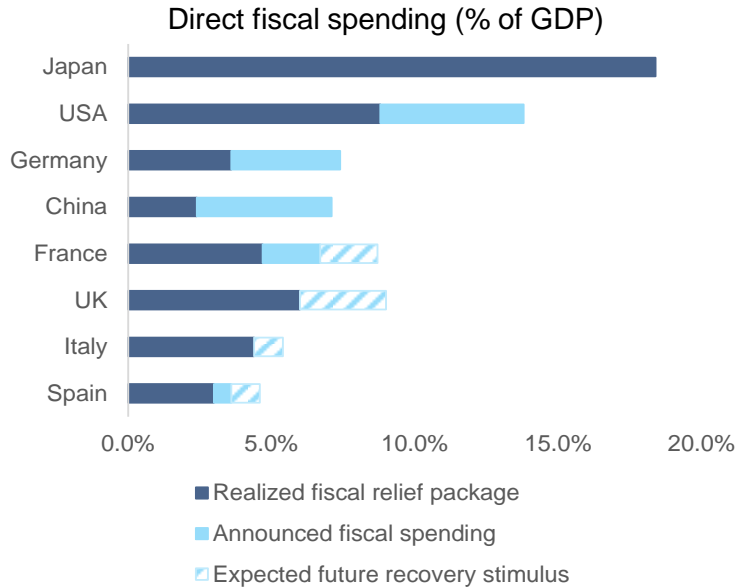
Distribution of banks across NPL ratio in the EU



Sources: EBA, Allianz Research

The most vulnerable sectors already feature elevated levels of non-performing loans and represent a high exposure for banks.

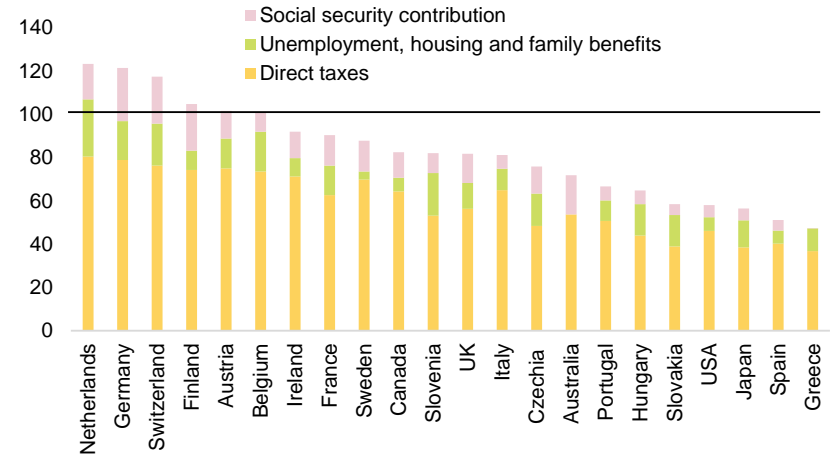
FISCAL BAZOOKA: PROMPT BUT UNEQUAL IN SIZE AND MULTIPLIERS. MORE TO COME?



Sources: Various, National sources, Euler Hermes, Allianz Research

Emergency fiscal spending ranges from 3% of GDP to 18%; the recovery stimulus effort will be a key differentiating factor in the countries' future trajectories. At the global level USD10.4tn of fiscal stimulus has been announced.

Effectiveness of automatic stabilizers one year after the shock



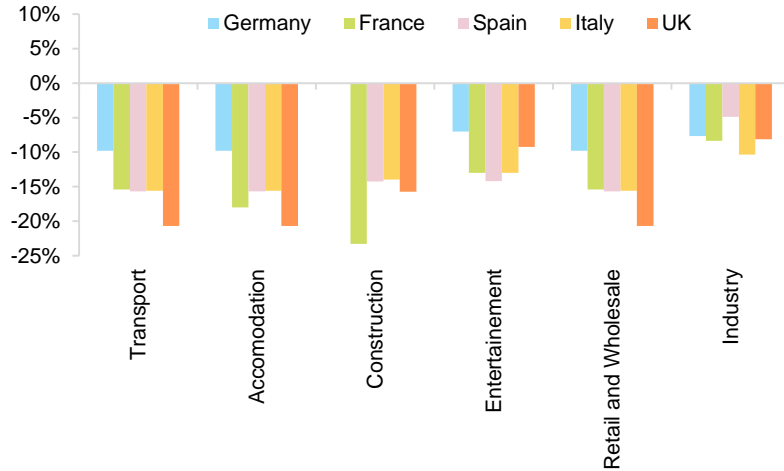
NB: the degree to which a decline in market income is offset by automatic stabilizers one year after the shock. A ratio of 100 implies that automatic stabilizers offset the shock to market income completely, leaving aggregate household disposable income unchanged

Sources: OECD, Euler Hermes, Allianz Research

The size of automatic stabilizers will matter for the size of the fiscal stimulus packages.

THE REAL SECOND WAVE: ZOMBIE JOBS WILL RESTRAIN CONSUMERS FROM SPENDING

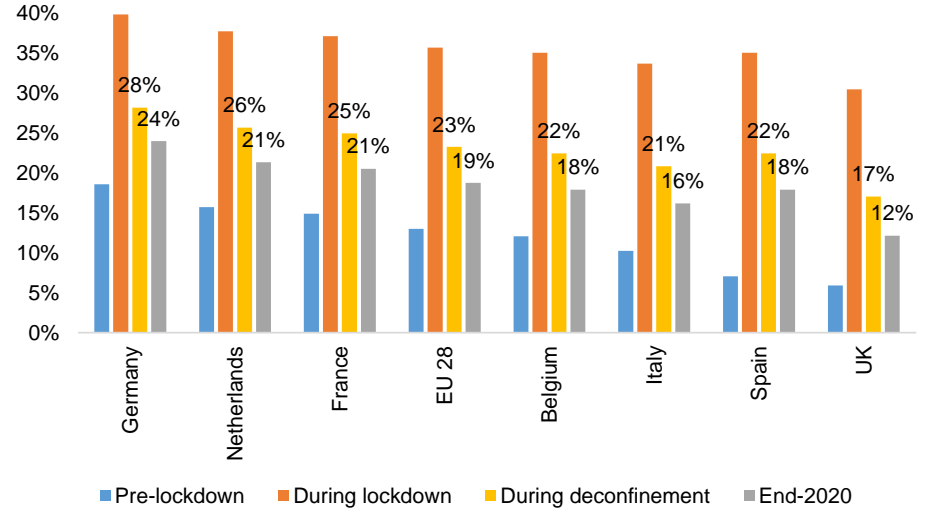
Expected loss of employment (% of sectoral employment) based on expected output loss by end 2021



Source: Allianz Research

In the 5 largest European countries, 9 million workers (20% of those currently partially unemployed) still face an elevated risk of becoming unemployed in 2021 because of the muted recovery. These “zombie jobs” require ad hoc policies to avoid postponed mass unemployment.

Savings rate, % of gross disposable income



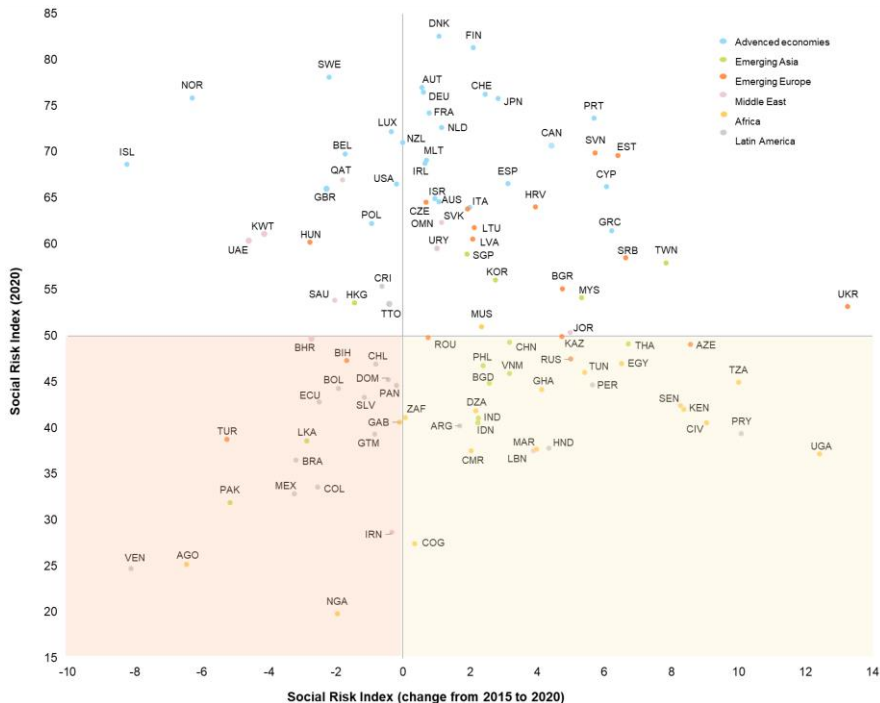
Sources: Eurostat, Allianz Research

This will continue to feed into precautionary savings. We estimate savings rate to remain +6pp above pre-crisis levels at the end of 2020 which represents EUR370bn of excess savings in the EU, or 2.5% of GDP

SOCIAL RISK ON THE RISE, FISCAL DILEMMA AHEAD?



Social risk hotspots



Taxes – companies vs households (OECD average)



Sources: OECD, Euler Hermes, Allianz Research

Sources: Euler Hermes, Allianz Research

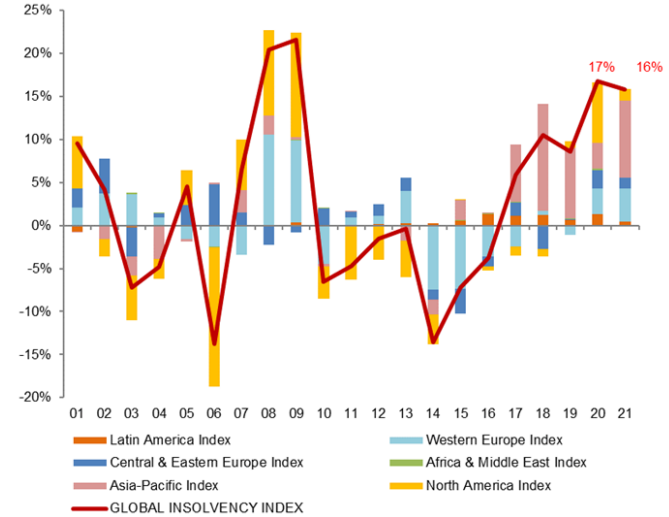
THE OTHER REAL SECOND WAVE: A SURGE IN GLOBAL INSOLVENCIES



Insolvency figures and forecasts
(selected countries)

EH Global Insolvency Index (yearly changes in %) and contribution of regional indices

	2007-2009 crisis			2020		Forecasts			
	# of years with an increase	CAGR	Changes over 2007-2009	Last point	y/y	ytd	2020 vs 2019	2021 vs 2020	2021 vs 2019
U.S.	3	45%	115%	March	4%	4%	47%	7%	57%
Canada	0	-	-14%	April	-61%	-28%	15%	9%	25%
Brazil	1	25%	-8%	April	-58%	-22%	32%	10%	45%
Germany	2	6%	12%	March	-2%	-4%	4%	8%	12%
France	3	11%	27%	May	-62%	-36%	4%	20%	25%
United Kingdom	2	22%	48%	March	-11%	-11%	8%	33%	43%
Italy	2	23%	52%				18%	8%	27%
Spain	3	76%	380%	May	-57%	-57%	20%	17%	41%
The Netherlands	2	32%	74%	May	6%	2%	29%	10%	42%
Russia	0	-	-62%	May	-54%	-15%	18%	5%	23%
Turkey	2	2%	4%	April	-1%	4%	22%	7%	31%
South Africa	3	11%	31%	March	-19%	-6%	12%	7%	20%
China	2	12%	2%	May	22%	10%	21%	16%	40%
Japan	2	9%	10%	May	-55%	-1%	8%	5%	13%
Australia	2	16%	35%	April	-42%	-18%	5%	5%	11%
South Korea	1	19%	-13%	May	-53%	-31%	14%	-6%	6%
GLOBAL INDEX	3	16%	46%				17%	16%	35%



Sources: Euler Hermes, Allianz Research

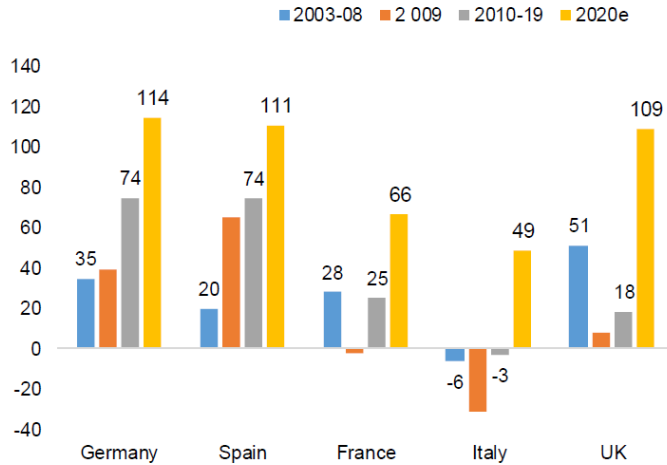
Sources: Euler Hermes, Allianz Research

Lockdowns of business courts, temporary policy measures to support companies and temporary changes in insolvency regimes are pushing down official registrations of bankruptcies for the short term – lowering the expectations for the full year 2020.

The ending of temporary factors will lead to a massive trend reversal starting in Q3 or Q4 depending on countries. Our global insolvency index would surge by +35% by end of 2021 i.e. +by 16% in annual average. Should policy relief be withdrawn too fast the rises will be +5 to +10pp higher.

MIND THE INVESTMENT CYCLE: CONFIDENCE MATTERS

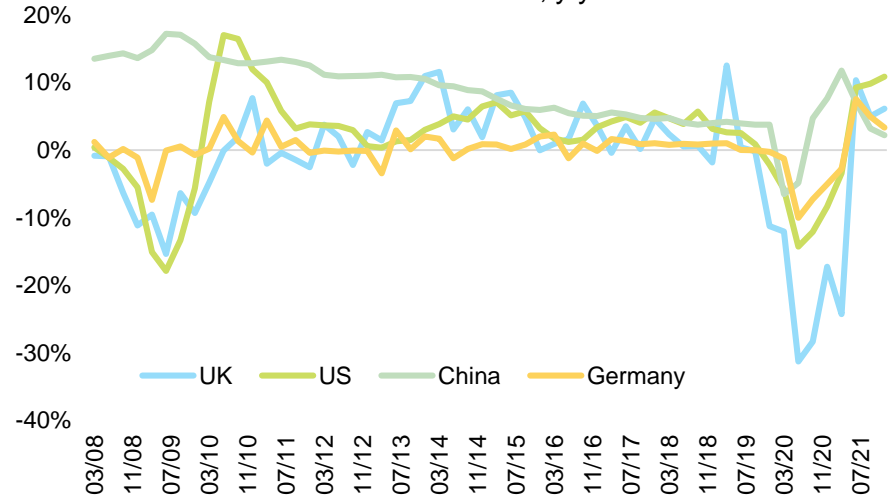
Annual net savings by country, EURbn



Sources: Eurostat, Euler Hermes, Allianz Research

Companies are in a position to increase their investments during the recovery phase. Increases in net savings in 2020 are the highest in Italy, the UK and France. But this will be dependent on renewed confidence in a lasting restart of growth in Europe.

Total investment, y/y

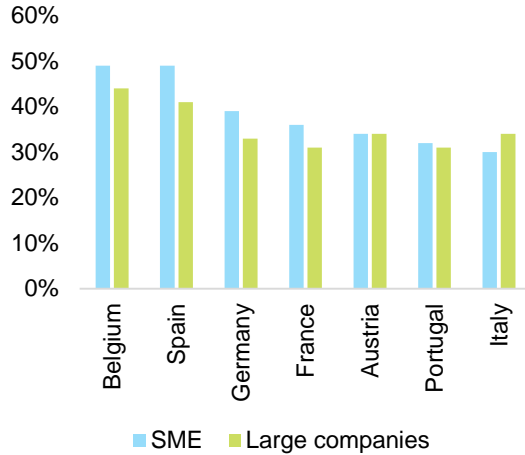


Sources: National sources, Euler Hermes, Allianz Research

Public support to reduce companies' fixed costs (lower social contributions, lower corporate taxes and/or fiscal incentives to invest) will be key. Expanding the state guaranteed loan schemes into 2021 could also be supportive for future company investment.

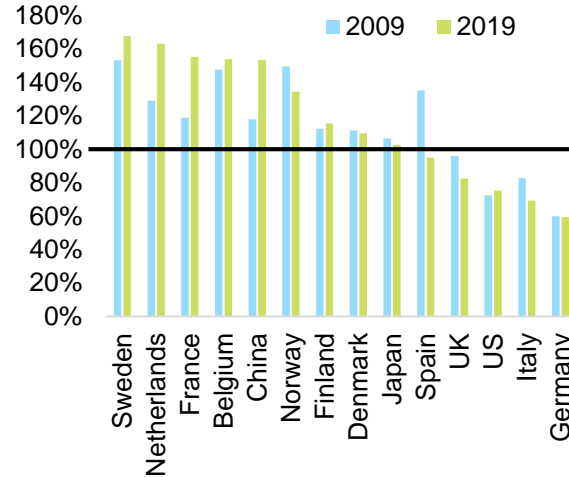
ACCELERATING TREND IN ZOMBIFICATION OF COMPANIES COULD WEIGH ON THE RECOVERY

Equity ratios % of total assets



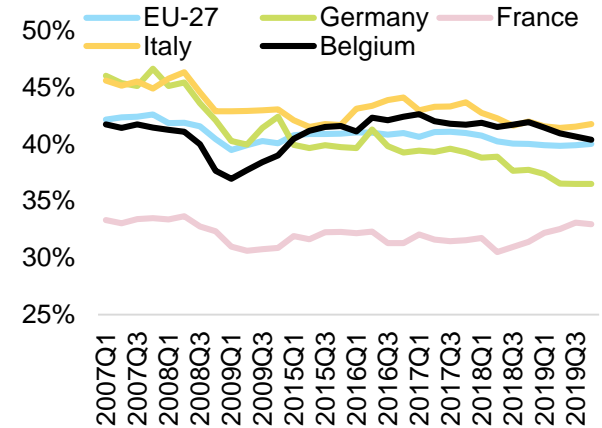
Sources: Bank of France, Allianz Research

Non-financial corporations' debt, % of GDP



Sources: BIS, Allianz Research

Non-financial corporations' margins, % of value added



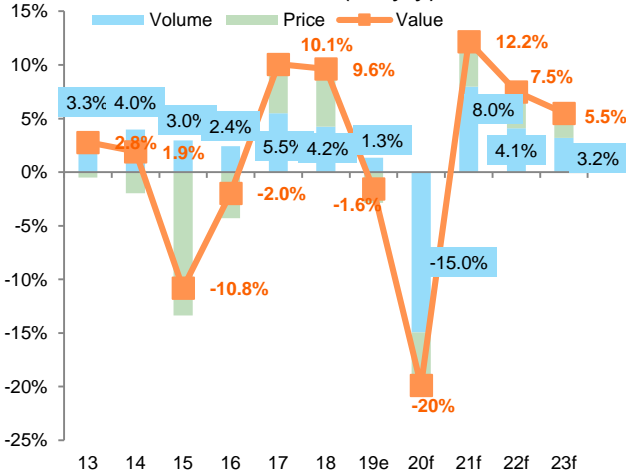
Sources: Eurostat, Allianz Research

We find that more than 13,000 SMEs & MidCaps (7% of total) in the six biggest Eurozone countries were classified zombies before Covid-19 crisis. Low equity ratios for some companies has pushed them into high indebtedness since 2009, which will continue to increase thanks to State Guaranteed Loans.

This coupled with already fragile company margins increases the zombification of the corporate sector.

TRADE: RETURN TO PRE-CRISIS LEVELS IN 2022/ 2023

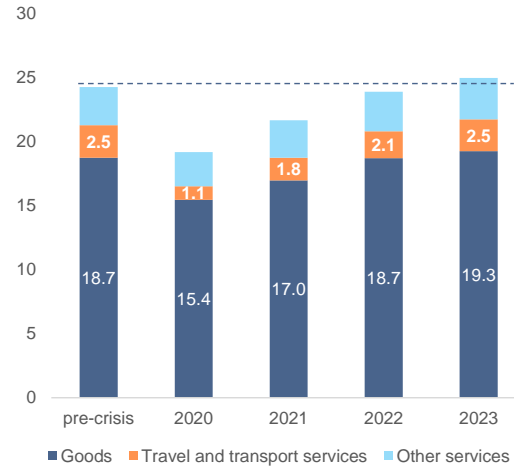
Global trade growth, in volume terms and value (% y/y)



Sources: Sources: IHS Markit, Allianz Research

Trade could plummet by -15% in volume terms (-20% in value) due to the Covid-19 shock on goods and – for the first time – on services.

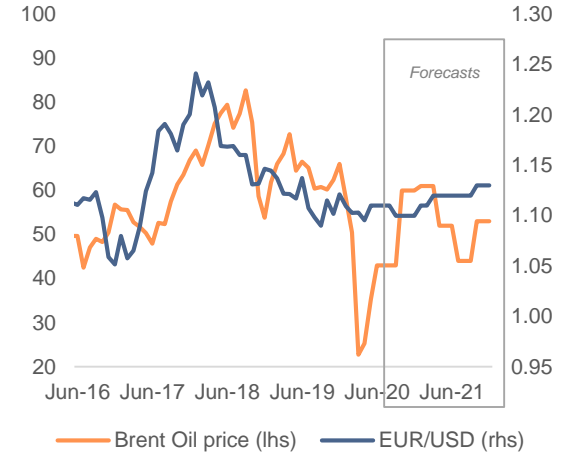
Medium-term trade in value terms (USDtn)



Sources: International Trade Center, Allianz Research

Assumptions medium-term: reduced US-China uncertainty but stable tariffs, no immediate threat of massive reshoring, air transport back to pre-crisis in 2023.

Oil prices and EUR/USD

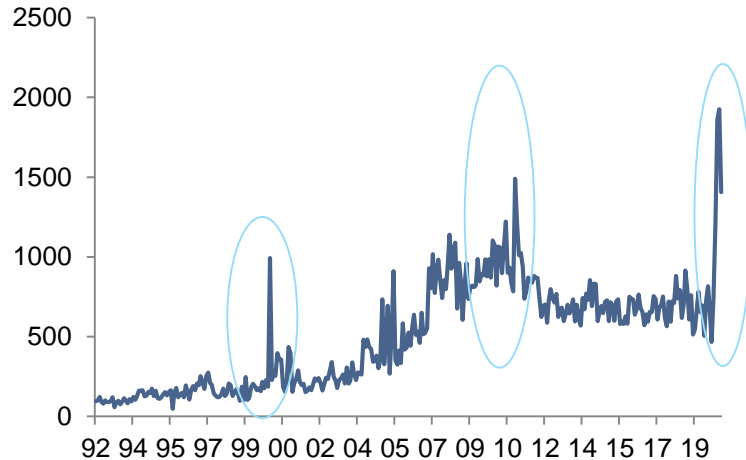


Sources: Bloomberg, Euler Hermes, Allianz Research

The oil and commodity price shock will lead to a negative price effect on trade in 2020. 2021 will see a return to 52.5 after an average of 47 in 2020.

TRADE AND RESHORING: TALKING THE TALK BUT NOT WALKING THE WALK

Number of mentions of “supply chains” in the media



Sources: Bloomberg, Euler Hermes, Allianz Research

Around each recession, supply chains become a concern. This time around, the concern has peaked among companies and policy makers. Building resilience and reshoring are the new rhetoric.

Arguments in favor of reshoring	Arguments against reshoring
<p>Resilience : Reshoring creates resilience due to lower risks, and shorter lead times</p>	<p>Social discontent: Growing social discontent could be incompatible with reshoring, as it would entail high labor costs passed down to the consumer</p>
<p>Strategic sectors: Reshoring specific supply chains for key strategic sectors such as the medical sector, similarly to the military sector, could make sense</p>	<p>Risk assessment complexity: Reshoring does not necessarily mean de-risking: it can also mean putting all your eggs in the same basket, leading to excess concentration</p>
<p>Flexibility: More local supply can also enhance agility, as companies can be more responsive to changes in local demand.</p>	<p>Cost effectiveness and incentives: Reshoring is hardly reversible for many sectors, or at a high cost for companies. Moreover, Incentives for businesses to reshore are still lacking</p>
<p>Innovation: Reshoring for cost-competitiveness reasons is unlikely, but race for product innovation is better</p>	<p>Creative destruction: Reshoring is not only job creation... it's job destruction through innovation, for instance robotization.</p>

RISKS TO OUR OUTLOOK



	H2 2020	2021	Beyond 2021
Upside risks	<p>Better-than-expected trade flows, tourism receipts and recovery in the services sector (exports-exposed economies benefit, e.g. Germany)</p> <p>Stronger policy support and stimulus (e.g. European bad bank, UK, China, etc.)</p> <p>Declining financial risks in domestic financial system, markets, external financing, etc. (e.g. Italy, Turkey, China, India, etc.)</p> <p>Appeased socio-political risks, restoring domestic and external confidence (e.g. Brazil, Hong Kong, etc.)</p>	<p>Vaccine available earlier than expected, tourism returns to pre-crisis levels</p> <p>Stronger policy stimulus, notably improving investment and the labour market (e.g. China, France, United Kingdom, Italy, etc.)</p> <p>Oil and commodities prices rebound (benefitting e.g. Russia, Kazakhstan, Azerbaijan, the GCC, Latin America, etc.)</p>	<p>Stronger policy stimulus and policy coordination, resolving structural issues and supporting potential growth (e.g. EU, Italy, China)</p> <p>Exports competitiveness improving, notably on supply chains reshoring (Central Europe, UK, etc.)</p>
Downside risks	<p>Strong lockdowns to fight a second Covid-19 wave</p> <p>Protectionism and slow global trade recovery (e.g. Germany, UK, trade hubs, etc.)</p> <p>Sustained risk aversion limiting capital flows to EMs and pressuring economies with large external financing needs</p> <p>Policy mistake (e.g. EU, France, Italy, China, India, etc.)</p> <p>Domestic imbalances correction (e.g. German real estate, Indian financial sector)</p> <p>Social risks and protests worsen</p>	<p>Protectionism intensifies and global trade does not recover</p> <p>Strong lockdowns to fight waves of Covid-19 outbreaks</p> <p>Political risk, policy mistakes (e.g. Italy, EU, UK, India, HK)</p> <p>Sustainably higher unemployment rate, threatening the consumer-led recovery (Germany, China)</p> <p>Deteriorating bank asset quality, sometimes leading to bailouts and feedback loop (e.g. Italy, France, China, India)</p> <p>Debt distress and currency crises (some emerging countries, e.g. in Central Europe, Africa, Latin America)</p>	<p>Protectionism intensifies and calls into question growth models (Germany, trade hubs, China, etc.)</p> <p>Debt sustainability and banking sector concerns worsen (France, Italy, China, India, some countries in Africa, etc.)</p> <p>Lack of structural reforms or missed opportunities cap productivity (China, India, UK, Central Europe, etc.)</p> <p>Fiscal consolidation (U.S., China, etc.)</p> <p>Socio-political risks heighten</p>

PROTRACTED CRISIS SCENARIO (30%)

U-SHAPED RECOVERY

BASE CASE

SCENARIO

- Drastic confinement measures, taking heavy toll on economy & markets
- Sharp recession in H1 20 across DMs & several large EMs, followed by weak recovery

HEALTH POLICY

- Belated & uncoordinated policies
- Persistent localized containment measures; incl. targeted travel restrictions

ECONOMIC POLICY

- Aggressive fiscal & monetary easing
- Direct support measures

ECONOMIC IMPACT

GDP growth, %	2020	2021		
World	-4.7	+4.8	Global trade volume	2020 -15%
US	-5.3	+3.7		
China	+1.5	+7.6	Insolvencies	2020-21 +33%
Eurozone	-9.0	+6.0		
UK ¹	-13.3	+5.0		

PROTRACTED CRISIS

WORST CASE

- Longer health crisis triggers brutal market dive
- Systemic credit event leads to liquidity crisis
- Policymakers unable to restart growth

- Reinfections with generalized domestic confinement
- Borders closed again until end-2020

- Even more aggressive fiscal & monetary policy
- Not very effective

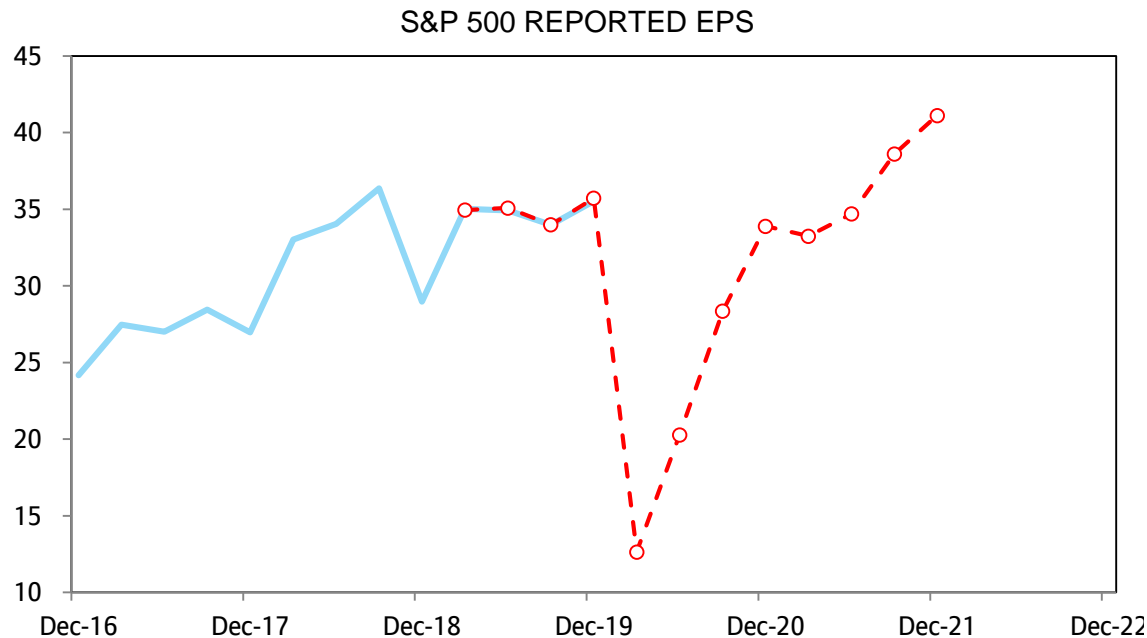
GDP growth, %	2020	2021		
World	-9.4	-0.5	Global trade volume	2020 -30%
US	-12.0	-2.0		
China	-6.6	+1.8	Insolvencies	2020-21 +90%
Eurozone	-20.0	-2.5		
UK ¹	-24.0	-5.0		

CAPITAL MARKETS

02



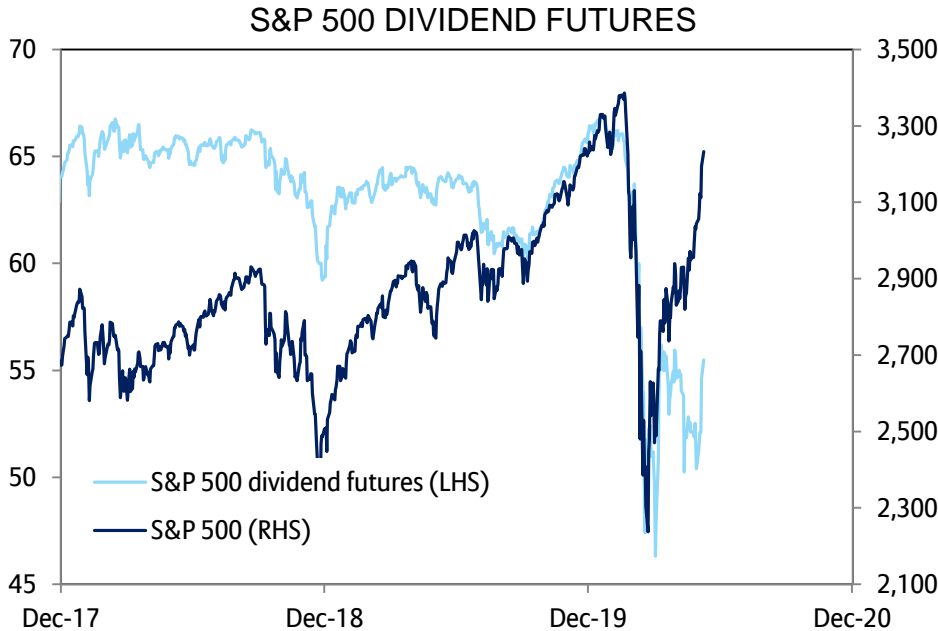
EQUITY MARKETS: A V-SHAPE RECOVERY PRICED IN



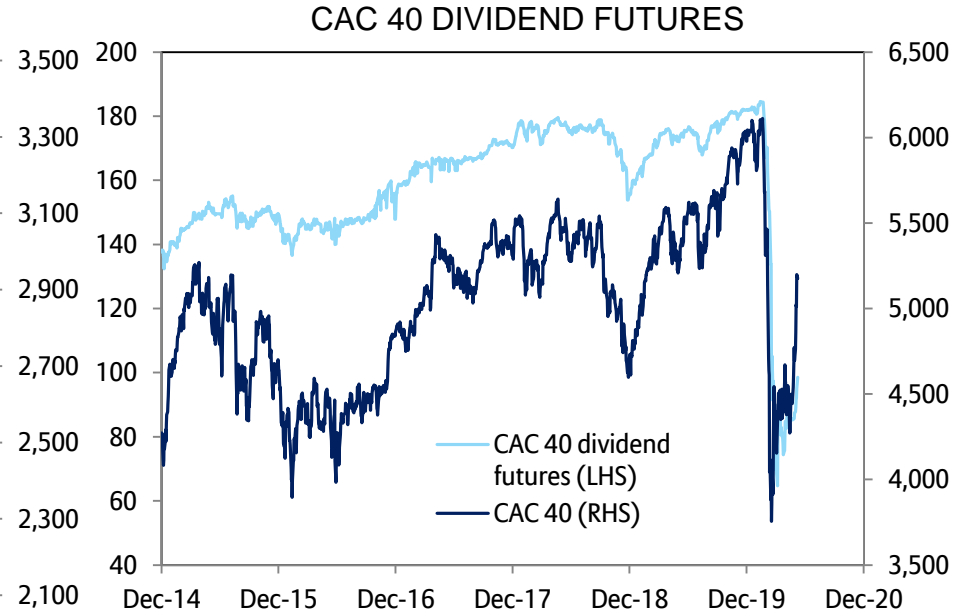
Source: DataStream, Allianz Research

The consensus is expecting a V-shape recovery of EPS in 2020, followed by a 'normal' rise in 2021. It proves the detachment between the markets and economic data. The same trend remains across the globe.

INCREASING DIVERGENCE BETWEEN EQUITY PRICES AND DIVIDEND FUTURES



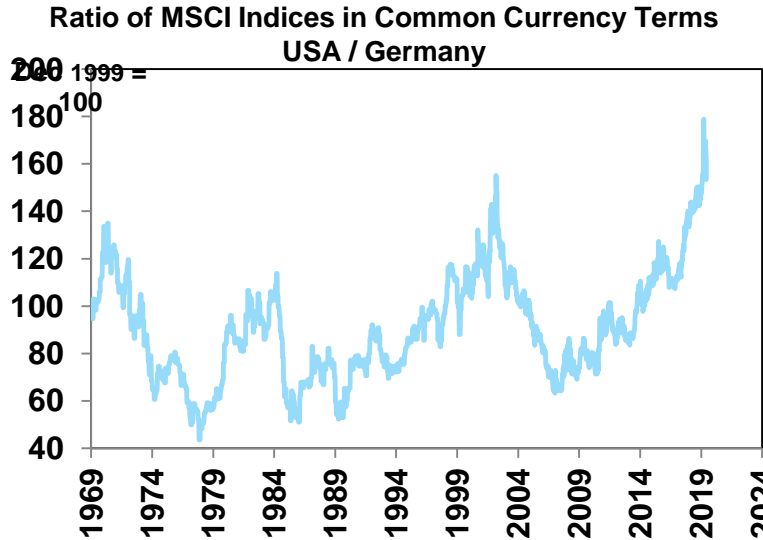
Source: DataStream, Allianz Research



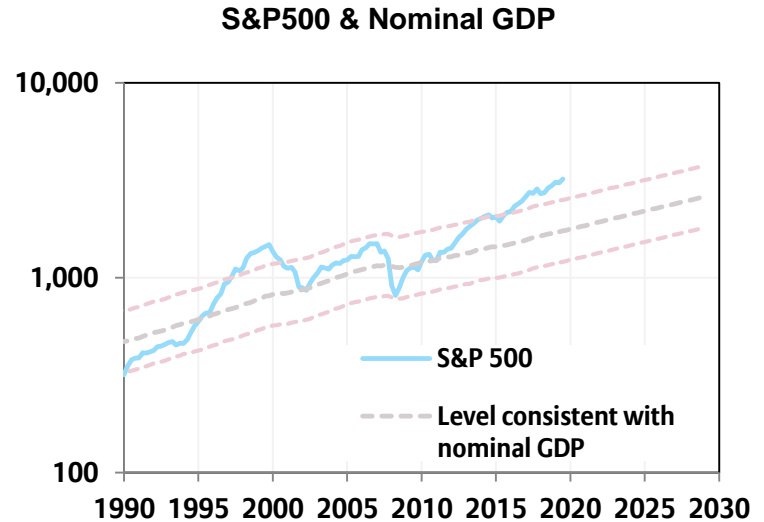
Source: DataStream, Allianz Research

The path of the dividend futures follows different directions in the US and Europe. The divergence between the S&P 500 and its' dividend futures hints that the market galloped too fast.

EQUITY MARKETS: US REMAINS EXPENSIVE



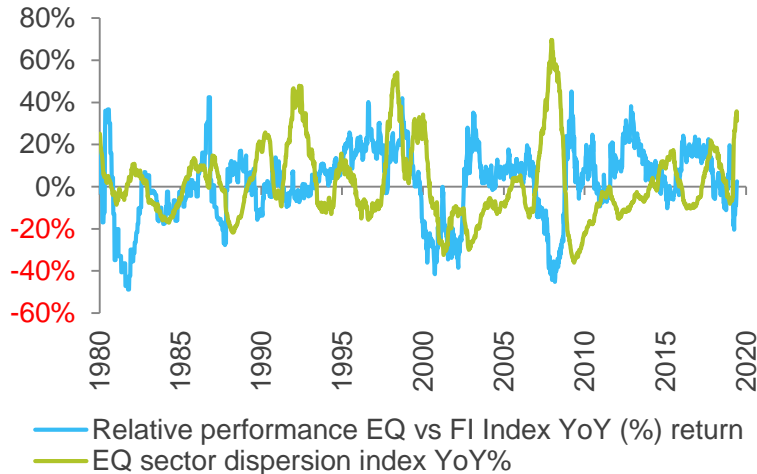
Source: DataStream, Allianz Research



The overvaluation of the US equity market relative to the German equity market has reached unseen highs. A recent rally in European equity markets has slightly diminished this overvaluation. However, the US market overvaluation remains acute.

RE-ENTERING THE MARKET: NOT YET!

US – EQ Sector Dispersion Index

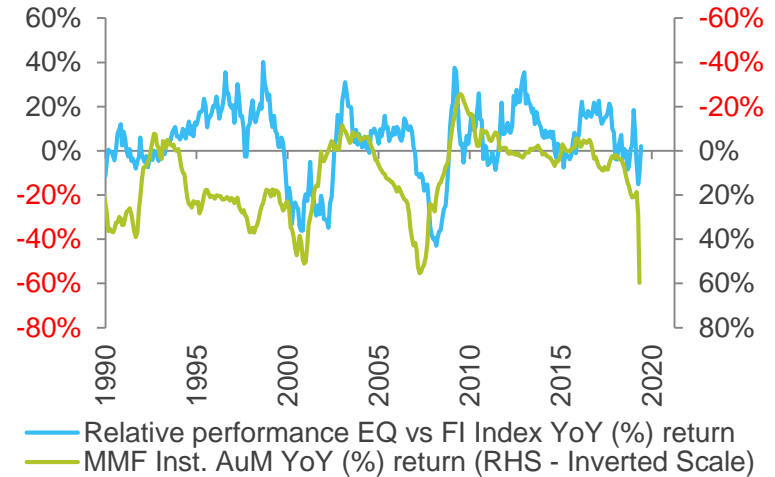


Source: Refinitiv, Allianz Research

EQ Dispersion index: Proxy for diverting returns between EQ sectors

Several structural leading indicators show that the downturn market trough has not yet been reached. Looking at our proprietary EQ sector dispersion index as an example, the current value and trend of the indicator does not show any strong signs of improvement and thus it does not warrant shifting towards a re-risking strategy.

US - Institutional Money Markets Funds

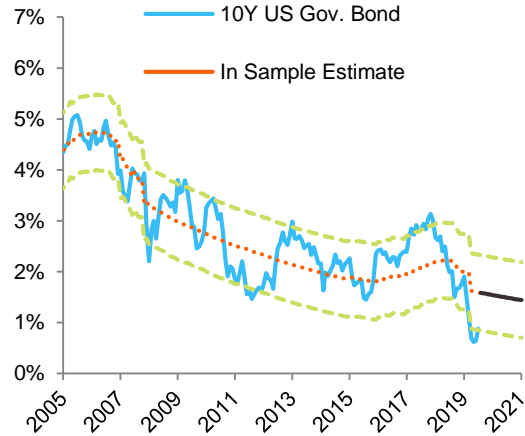


Source: Refinitiv, Allianz Research

As another example, institutional inflows into MM Funds have historically started declining before markets bottomed. This precondition has not yet been fulfilled. Consequently, this indicator (as it is still increasing or flat) suggests that markets have not yet reached their bottom. At this point in time, daily and weekly indicators (sentiment driven) are showing that the market trough is already behind us. However, structural indicators (Monthly and Quarterly) have not yet shown any signs of improvement. ²⁵

GOVERNMENT BONDS: NO INFLATION IN SIGHT?

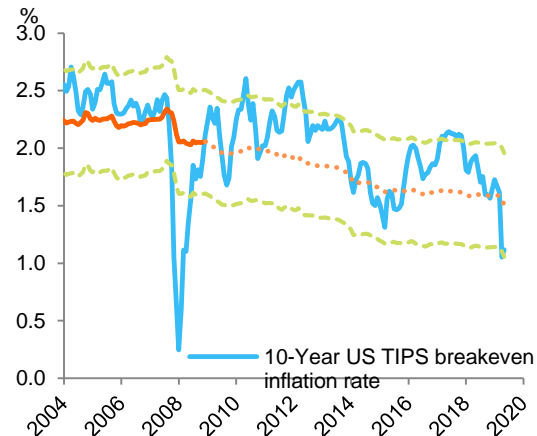
US 10y Treasury yields



Sources: Refinitiv, Allianz Research
 Model: central bank rates, smoothed central bank rates

In the context of lower for longer central bank rates, yields are expected to remain on fundamental negative sloping trend. Our proprietary model suggests that 10y USTs will reach 1.4% by the end of 2021, inline with our current forecast. For 2020, we still expect 10y USTs to finish the year at 1.0%.

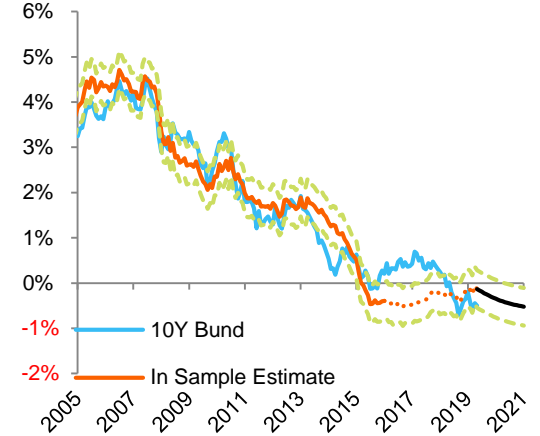
US 10y Inflation Expectations



Sources: Refinitiv, Allianz Research
 Model: CPI, smoothed CPI

At current valuation levels we believe inflation expectations to play the key role moving forward, as real yields are expected to remain subdued. Both US and EUR inflation expectations are currently close to the lower range of our models. **At current levels, it is possible to buy inflation protection at a low price.**

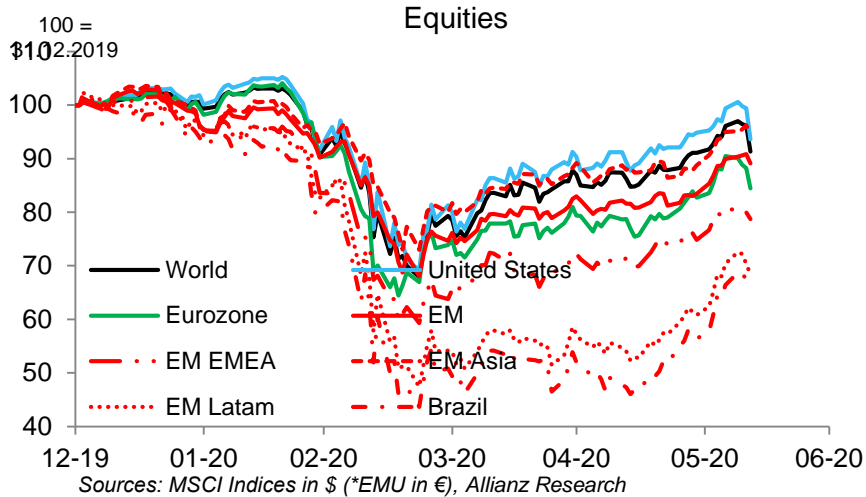
German 10y Bund yields



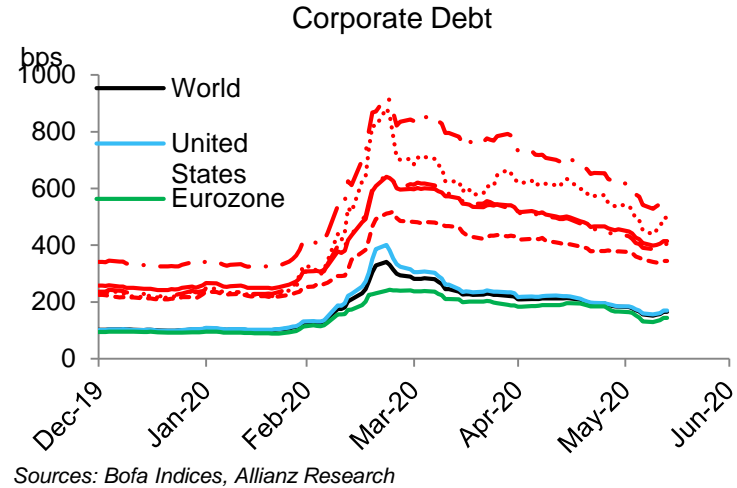
Sources: Refinitiv, Allianz Research
 Model: central bank, smoothed central bank rates, 10y JGB, QE

If the bond market is still a market, it is currently pricing a global recession and a prolonged absence of global inflation. In the case of the bund, we still expect 10y bunds to finish the current year at -0.5% and to perform a timid climb by the end of 2021 (-0.3%).

EM MARKETS: AVOIDING THE LAGGARDS

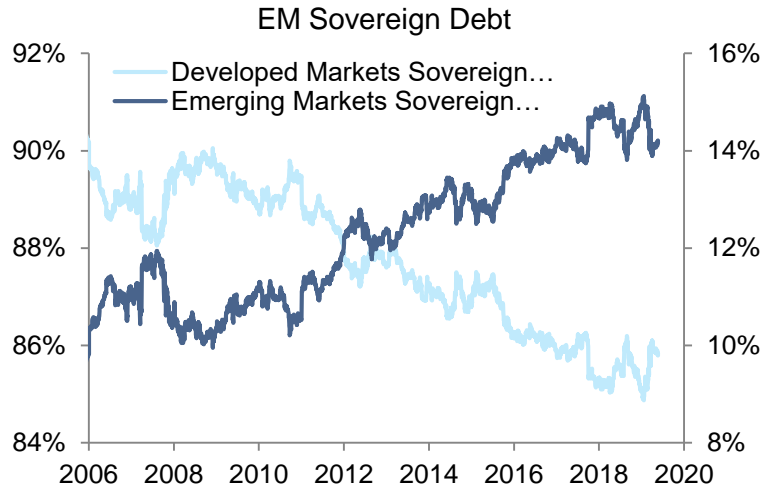


With equity markets ready for a V-shaped scenario, we still expect 2020 performance to be on the bearish side. We believe global equity markets will end 2020 with an ~ -20% yearly performance. With our forecasts in mind, we understand that a second market correction could be in the pipeline (specially in the US). Moving forward, we expect the most vulnerable countries to remain the laggards of the current economic downturn. (e.g. Brazil)



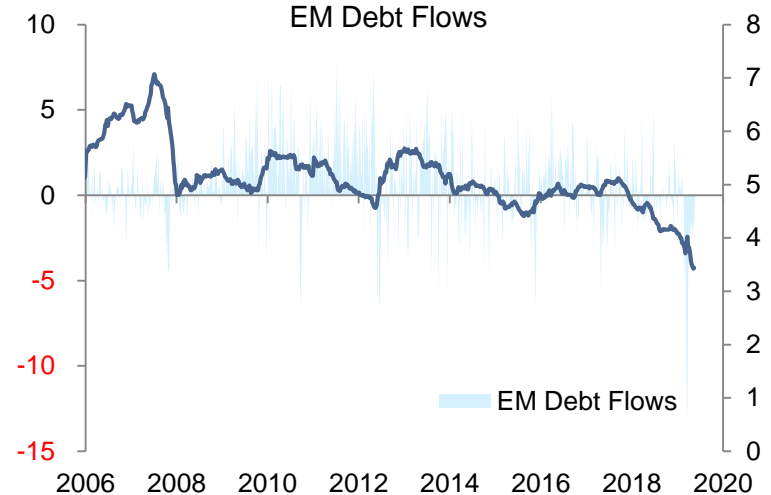
Even if not all central banks have announced their willingness to take credit risk in their balance sheets, global corporate IG & HY markets have enjoyed a period of declining financing costs since the peak in mid-march. At this point, we expect corporate spreads to finish the year close to current levels but we acknowledge that corporate spreads are vulnerable to second wave of strong widening should the economic and pandemic data further deteriorate .

EM DEBT: AT THE MERCY OF SPECULATORS



Sources: BofA Indices, Allianz Research

While it is true that emerging market sovereign debt has been gaining weight within the global sovereign market universe over the past years, its consideration (from an international investor perspective) remains that of a mid to high risk asset. Because of that, it is subject to be sold in high uncertainty environments. As of today, we still expect a second wave of EM debt and equity sell-off.



Sources: IIF, Allianz Research

The capital outflows experienced in March led to a rapid depreciation of emerging markets currencies paired with a quick increase in long-term sovereign yields. Due to this embedded volatility, we believe that both exchange and long-term interest rates will keep wandering erratically throughout 2020 remaining an unwanted casualty of the currently unsettled short-term market sentiment.

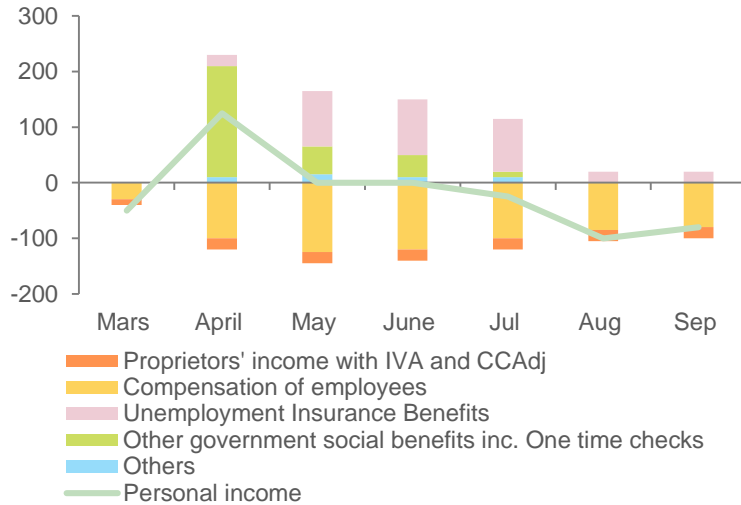
U.S. – CHINA – EUROZONE

03



USA: HOUSEHOLDS TO FACE A REVENUE CLIFF

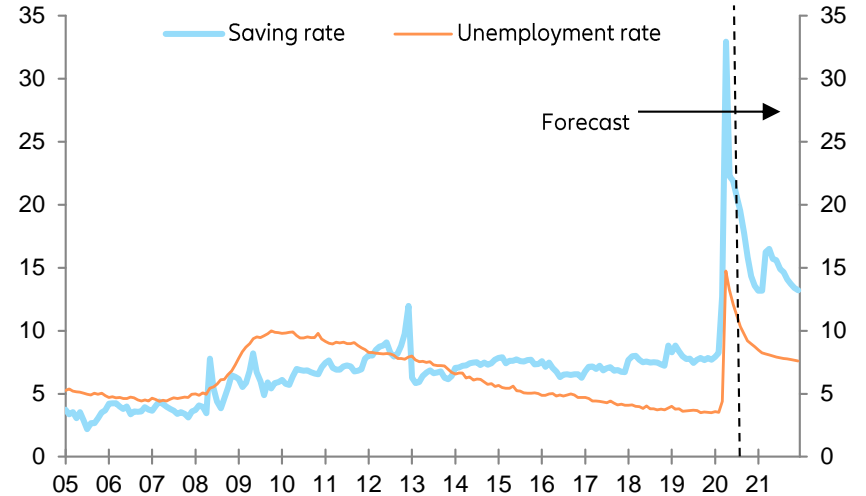
Sources of revenues for households (USD bn)



Sources: Nomura, Allianz Research

The termination of helps dedicated to absorbing the shock at a labor market level, will represent a so-called revenue – cliff.

US unemployment and saving rates (%)



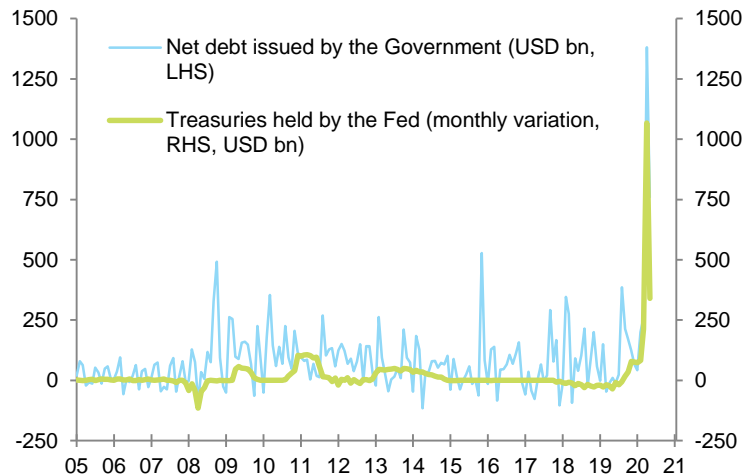
Philadelphia Fed, Euler Hermes, Allianz Research

High uncertainty and conviction that public debt will need to be reimbursed in the future will weigh long-lastingly on households' savings rate.

USA: THE FED WILL REMAIN A DEBT ABSORBER



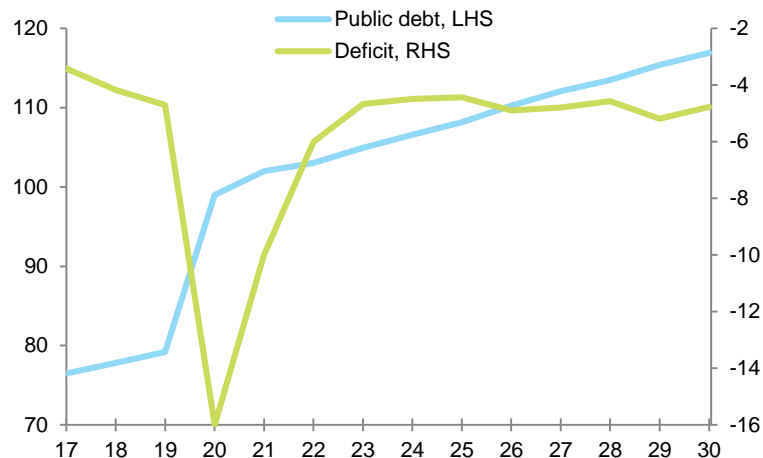
US debt held by the public and Fed assets



Sources: Euler Hermes, Allianz Research

The Fed has absorbed the bulk of debt newly issued by the US government, even if it not directly intervenes on the primary market.

US Public debt and deficit (% of GDP)



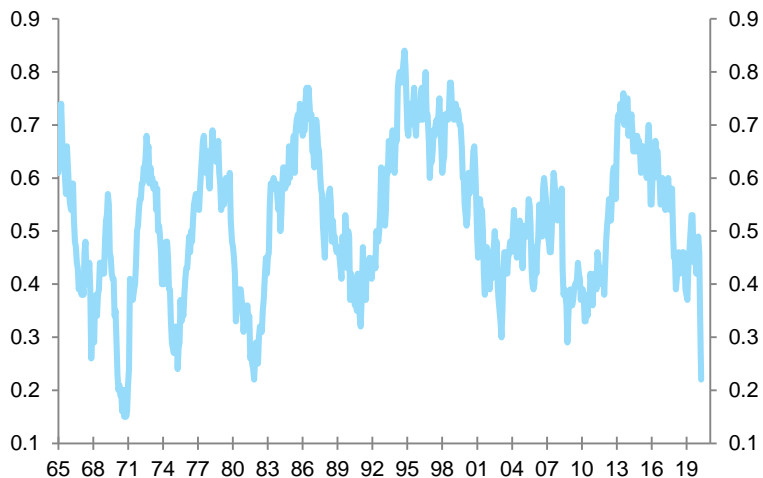
Sources: Euler Hermes, Allianz Research

We expect the US public deficit to be close to 16% of GDP in 2020 and close to 10% of GDP in 2021. Over the long-term, the US public debt is expected to steadily increase whatever the outcome of the election.

US ELECTIONS: WHAT IS AT STAKE?



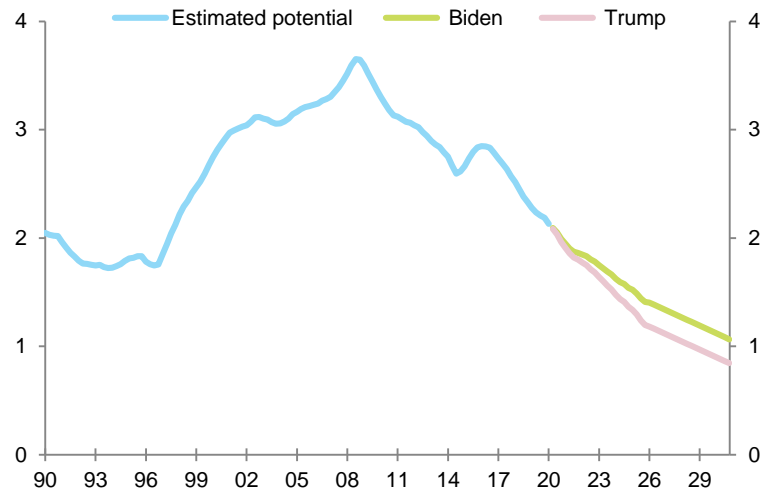
Probability to win US elections for incumbent President's party (%)



Sources: Euler Hermes, Allianz Research

Taking into account the regime of performance of 10 different macroeconomic indicators, our model suggests that President Trump has a 22% probability only to win the next election.



US potential growth rate (y/y, %)



Sources: Euler Hermes, Allianz Research

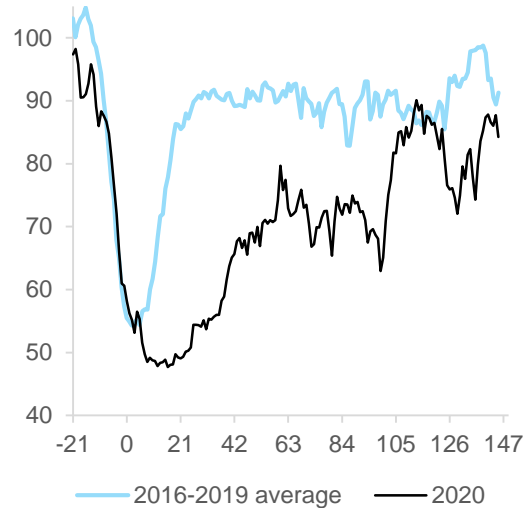
Model studying the potential of growth shows the negative impact of (much higher) public debt. To this regard, differences between Trump and Biden are not significant (higher fiscal support to productivity for Trump versus active population for Biden)

TRUMP VS BIDEN ECONOMIC PLAN

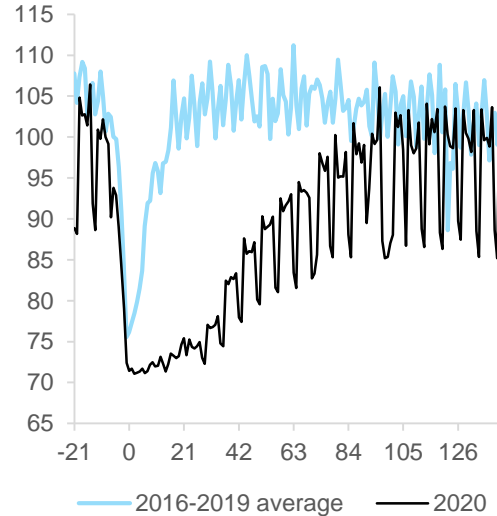
	Infrastructure	Taxes	Health care	Jobs & wages	Student debt	Climate change	Trade
 Donald Trump	<ul style="list-style-type: none"> • USD2tn "very big and bold plan" 	<ul style="list-style-type: none"> • Extend 2017 tax overhaul for individuals (USD1.5tn) • Repeal renewable energy tax credits • Tax credits for U.S. education • Raise the Internal Revenue Service (IRS) budget by about USD15bn 	<ul style="list-style-type: none"> • Deep health care spending cuts to Medicaid (USD900bn) and Medicare (USD450bn) • 10% cut from the 2020 enacted level for the Department of Health and Human Services • Cut in drug prices 	<ul style="list-style-type: none"> • Spur job creation through the USD2tn infrastructure plan • USD1tn of cuts in social, education and assistance spending 	<ul style="list-style-type: none"> • 7.8% budget decrease for Dpt of Education in 2021 • Eliminate Public Service Loan Forgiveness and subsidized loans • Forgive undergrad loans after 15 y instead of 20 y and raise period for graduate loans repayment to 30 from 25 y. 	<ul style="list-style-type: none"> • No sizable government policy on climate change 	<ul style="list-style-type: none"> • Pursue "America First" policy. Continuity of current trade policy
 Joe Biden	<ul style="list-style-type: none"> • 10-year USD1.3tn infrastructure plan • Plan focuses on climate change (\$400bn for clean energy, research and innovation) 	<ul style="list-style-type: none"> • Raise top income tax rate back at 39.6% from 37% and top corporate income rate to 28% from 21% • Apply Social Security taxes to earnings > USD400,000 • Tax capital gains and dividends at ordinary rates for those with annual incomes > USD 1mn • 15% minimum tax on book income of large firms • Double tax rate (to 21%) on profits earned by foreign subsidiaries of U.S. firms 	<ul style="list-style-type: none"> • Eliminate the 400% income cap on tax credit eligibility and lower the limit on the cost of coverage to 8.5% of income • Create a public health insurance • Lower eligibility age for Medicare to 60 from 65. • This plan will insure more than an 97% of Americans and cost USD750bn 	<ul style="list-style-type: none"> • Create "millions of middle-class jobs" through infrastructure plan • Increase the federal minimum wage to \$15 • increase employment-based green cards from 140,000 each year 	<ul style="list-style-type: none"> • Cancel a minimum of USD10,000 of student debt per person • Forgive all undergraduate, tuition-related federal student debt for low-income and middle class individuals (earning up to USD125,000) 	<ul style="list-style-type: none"> • Achieve 100% clean energy economy and reach net-zero emissions no later than 2050. • Join Paris Agreement + ban fossil fuel subsidies • Install 500,000 EV charging stations nationwide by 2030 • Ban new permits for oil and gas drilling on federal land and offshore 	<ul style="list-style-type: none"> • Investing in innovation and the middle classes • Best way to confront China on IP + tech transfers is by forming a coalition w/ allies and partners, not through tariffs.

CHINA RECOVERY UNEVEN AND CAPPED?

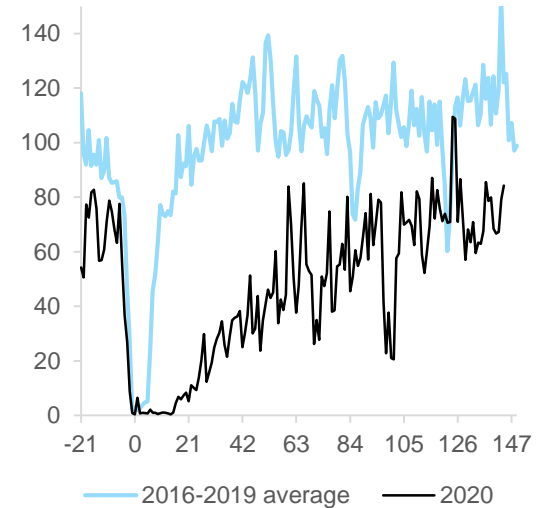
Daily average coal consumption at major power generation groups, base 100



Traffic congestion index (across 100 cities), base 100



Property transaction volume (across 30 cities), base 100



Source: Wind, Allianz Research

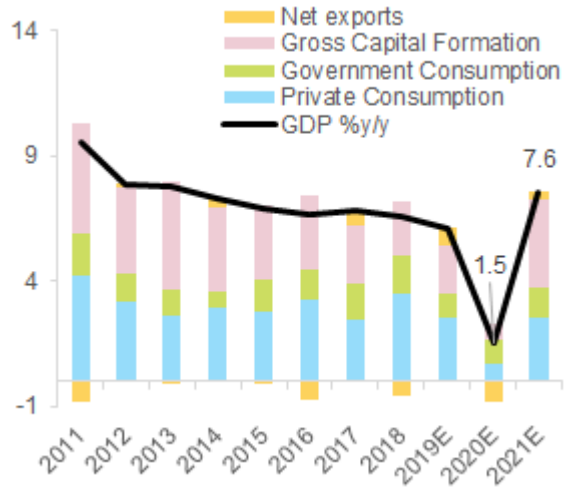
Source: Wind, Allianz Research

Source: Wind, Allianz Research

Industrial activity is now probably c.5% below usual levels. On the consumption and services side, it could take longer for confidence and households behaviours to return to normal: property transactions remain -34% below usual volumes, dining bills (including take-outs) are c.-40% below pre-outbreak and household disposable income declined by -3.9% y/y in real terms in Q1 2020 (vs. +5.8% in 2019).

CHINA GROWTH FORECAST FOR 2020 AT +1.5%

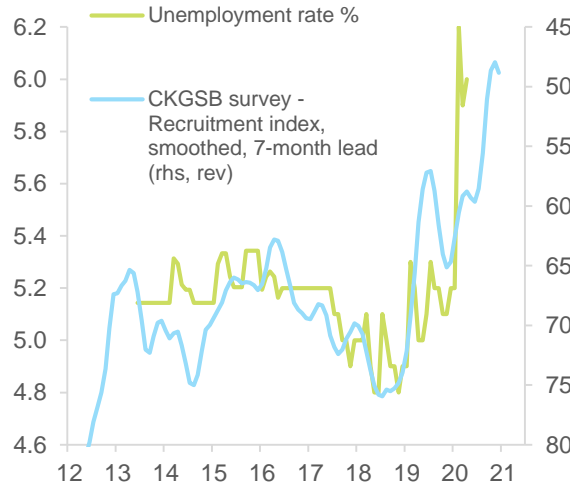
GDP growth (%) and contributions (pp)



Sources: National sources, Euler Hermes, Allianz Research

After the slump in GDP growth in Q1 (at -6.8% y/y), we expect a gradual recovery, becoming more visible in H2. We expect 2020 GDP growth at +1.5%.

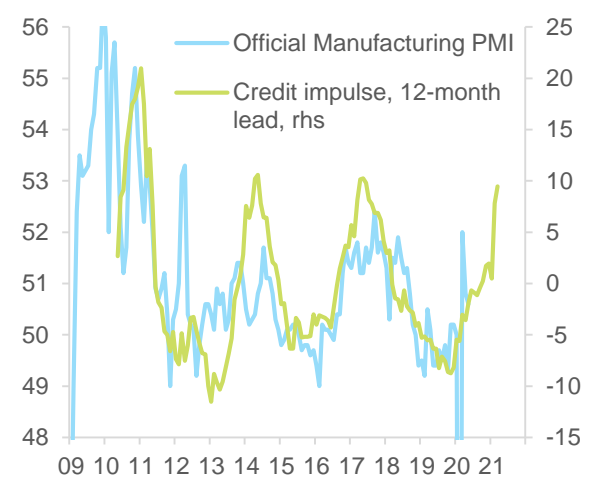
Unemployment rate and leading indicator



Sources: Wind, Euler Hermes, Allianz Research

Leading indicators point to the unemployment rate remaining at elevated levels (around 1pp above long-term average) for the rest of 2020.

Credit impulse & PMI



Sources: PBOC, Euler Hermes, Allianz Research

We expect fiscal support amounting to 7.1% of GDP (up from 2.7% forecast before the COVID-19 crisis). In terms of monetary policy, further injections of liquidity and policy rate cuts are likely.

HONG KONG SCENARIOS AS OF JULY 2020

Improving environment (10%)

Triggers:

- No further sanctions and retaliations between China and the U.S.
- Mainland China sends clear signals that business regulatory environment in Hong Kong will not change, and significantly increases investment in Hong Kong to help recovery

Economic impact:

- In the short-term: stronger recovery of Hong Kong economy, with GDP growth forecasts in 2020 and 2021 increasing to -4.2% and +7.9% respectively.
- In the medium-term: back to pre-Covid-19 and pre-2019 protests normal.

The 'New Normal' (65%)

Scenario:

- China's national security law theoretically threatens the independence of Hong Kong's legal system, but its implementation does not disrupt the business environment
- U.S. actions include financial sanctions on Chinese officials involved in the national security law, tightening of visa requirements, exports restrictions to Hong Kong

Economic impact :

- In the short-term: continued small-scale protests in Hong Kong. Impact of trade sanctions is limited (less than 1% of Hong Kong GDP if same tariff hikes as those applied to mainland China over 2018-19). Hong Kong's 2020 and 2021 GDP growth forecasts revised down to -5.9% and +4.1% from -4.7% and +4.5% respectively.
- In the medium-term: U.S. FDI to Hong Kong slows, but without divestment. FDI from mainland China accelerates.

Deteriorating environment (25%)

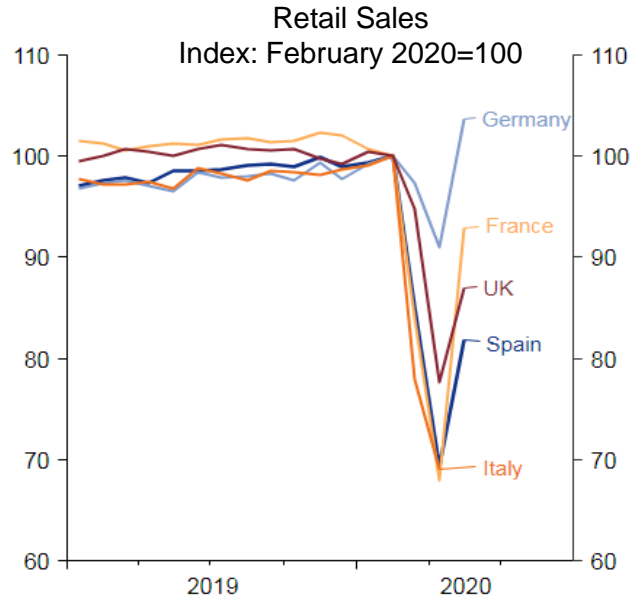
Triggers:

- Disruption of business environment due to China's national security law in Hong Kong, strong retaliation against U.S. actions (e.g. on U.S. FDI into Hong Kong), along with long term trend of developing regional trade and financial hubs in the mainland.
- The U.S. treats Hong Kong as mainland China for trade and direct investment, and is followed by other developed countries

Economic impact:

- In the short-term: damaged business and consumer sentiment jeopardize the recovery. GDP growth forecasts in 2020 and 2021 falling to -6.6% and +0.8% respectively.
- In the medium- to long-term: Divestment of U.S. firms, stock of FDI could decline by almost half in coming five years (nearly USD20bn). Not necessarily compensated by FDI from mainland China, as focus is on domestic hubs.

EUROZONE: UNITED THEY FELL, DIVIDED THEY WILL RISE -9% IN 2020, +6% IN 2021



Sources: Refinitiv, Allianz Research

The Eurozone economy has passed the trough, but high-frequency indicators are suggesting that the recovery will be gradual, drawn-out and uneven across countries. On average pre-crisis GDP will not be reached before 2023.

Key factors driving short-term economic performance

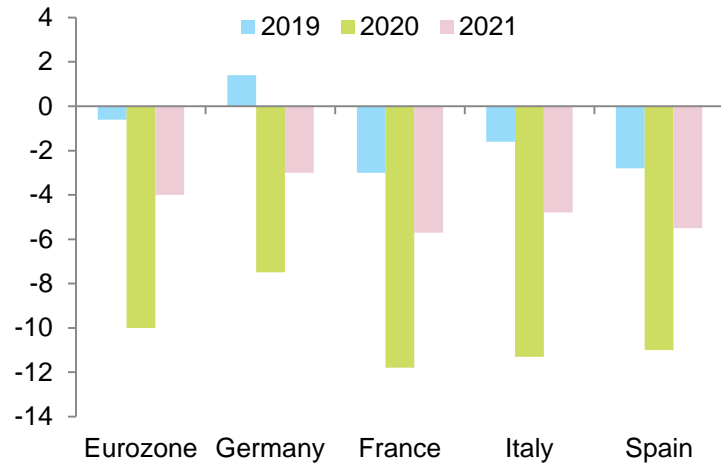
	Germany	France	Italy	Spain	UK
Lockdown lengths (weeks)	6	8	10	10	12
Lockdown strictness*	73	89	87	81	73
Lockdown strictness x length	439	713	866	806	874
Fiscal stimulus (% of GDP)	7.5%	6.7%	4.5%	2.5%	5%
Services (% total gross value added)	69.3%	78.9%	73.9%	74.8%	79.8%

Sources: Allianz Research. *Note: Oxford stringency index

Looking at selected key drivers of divergence (policy decisions on lockdown length & strictness, fiscal response economic features such as the size of the service sector) explains which the UK, Spain and Italy will lag the other Eurozone countries and in particular Germany.

EUROZONE: FISCAL POLICY NOW FIRING FROM TWO CYLINDERS – PLUS 0.4% PER YEAR

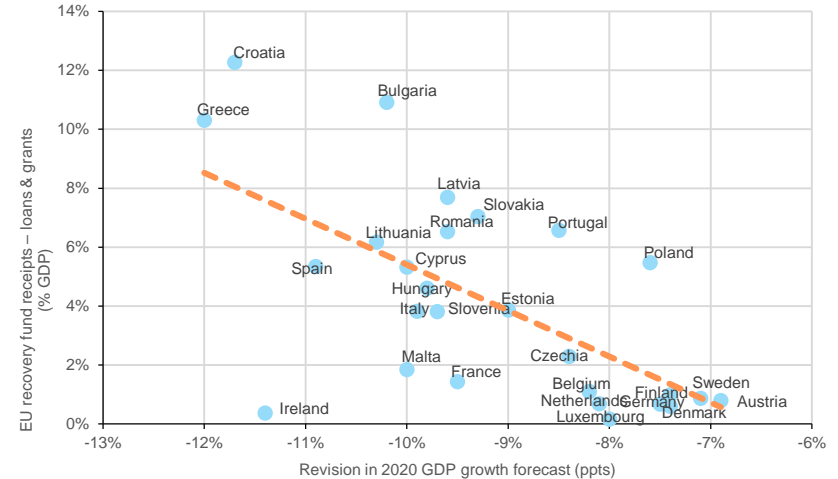
Government balance (% of GDP)



Sources: Refinitiv, Allianz Research

National fiscal policy continues to lead the policy response in the Eurozone. The Eurozone budget deficit will rise to 10% in 2020 and still come in at 4% in 2021, with none of the large Eurozone countries complying with the Maastricht 3% limit over the forecast horizon.

Growth shock vs. net transfers from EU recovery fund

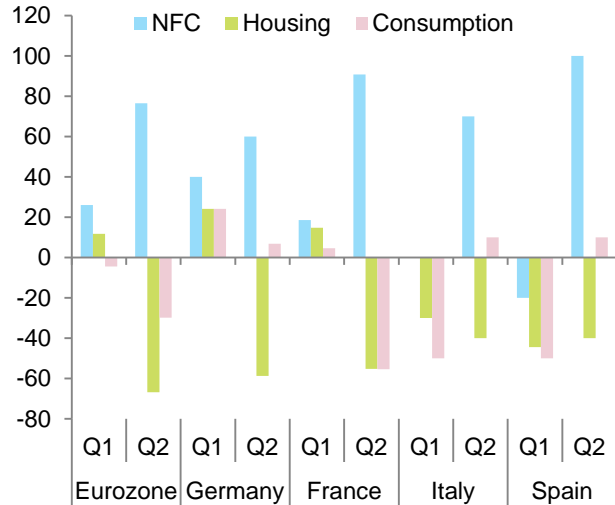


Sources: EU Commission, Refinitiv, Allianz Research

In addition the economies most affected by the Covid-19 crisis – as well as those with lower GDP per capita – look set to receive some much needed fiscal tailwind for investment from the EU recovery fund. We estimate that GDP levels on average could be boosted by 0.4% per year over the next 5 years.

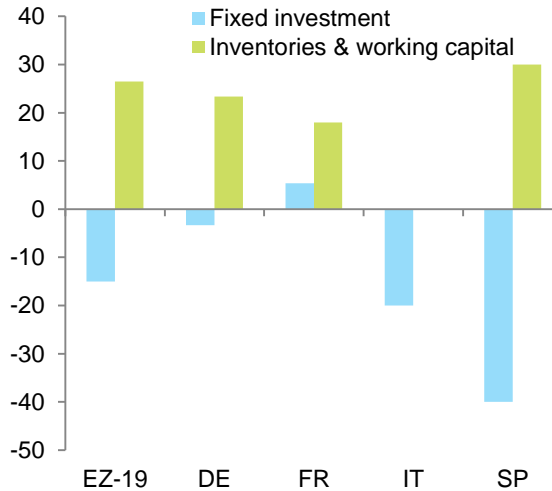
EUROZONE: FIRMS' LOAN DEMAND DRIVEN BY LIQUIDITY NEEDS, INVESTMENT ON THE BACKBURNER

ECB Q2 Bank Lending Survey: Overall demand for loans & credit lines by enterprises (Net balance)



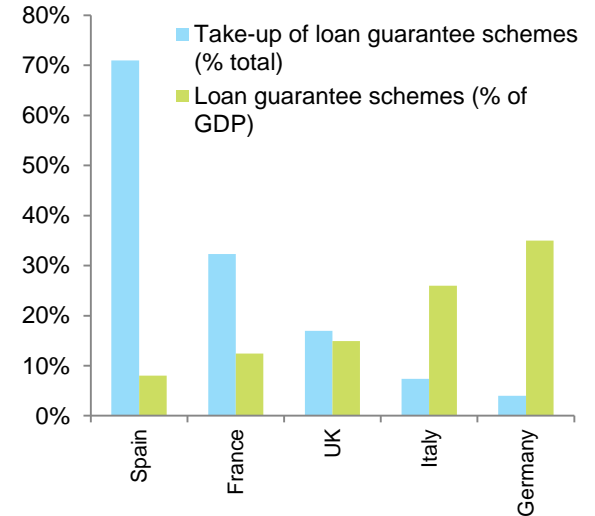
Sources: ECB, Refinitiv, Allianz Research

ECB Q2 Bank Lending Survey: Drivers for loan demand by enterprises



Sources: ECB, Refinitiv, Allianz Research

Loans given under State Guarantees



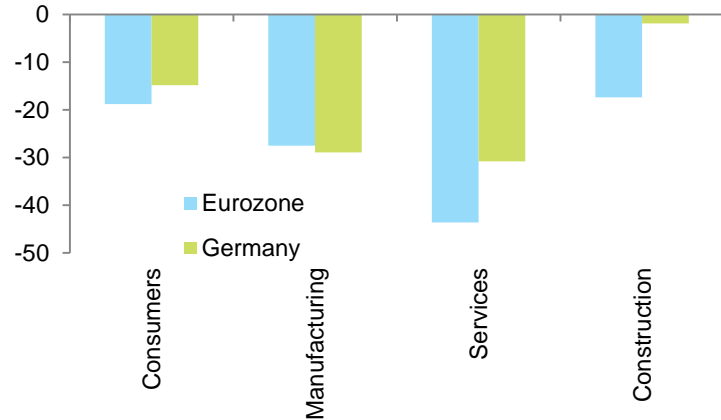
Sources: National sources, Allianz Research

Firms' appetite for loans has risen dramatically in H1 2020 – thanks to governments extending generous state guarantees. Meanwhile the demand for housing and consumer loans is hinting at an anemic recovery.

Loan take up is for now driven mostly by imminent liquidity needs in the face of sharply lower business revenues. Investment for now is not a priority – especially in the more affected Southern Eurozone countries.

GERMANY: LEADING THE RECOVERY BUT MIND INDUSTRIAL & TRADE HEADWINDS

Germany vs. Eurozone: Economic confidence in May



Sources: EU Commission, Refinitiv, Allianz Research.

Germany is an early-opener however a subdued growth outlook for its key trading partners – EU & non-EU – will keep a lid on the recovery, particularly in manufacturing. The consumer however appears more resilient, and construction is a key trump. After a -7% contraction in 2020, GDP will grow 4.5% in 2021.

Germany: Strong & timely tailwind for the imminent recovery (fiscal stimulus: **announced**, **expected**, **unlikely**)

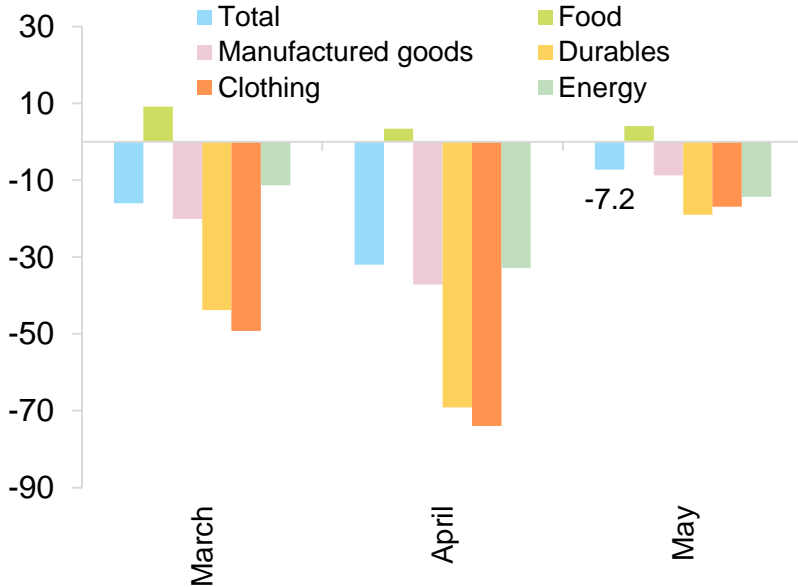
	DE	FR	IT	ES	UK
Taxes					
VAT	✓	✗	✗	✗	✓
Income	✗	✗	✗	✗	✗
Corporate	✓	✗	✓	✓	✓
Spending					
Household cash transfers	✓	✓	✗	✗	✗
Job rentention scheme	✓	✓	✓	✓	✓
Car scrappage scheme	✓	✓	✓	✓	✓
Vulnerable sector support	✓	✓	✓	✓	✓
Public investment	✓	✓	✓	✗	✓

Source: Allianz Research

German fiscal policy is playing in a league of its own in size, timing and composition. The latest stimulus package aimed at providing tailwind to the recovery should add around 1ppts to GDP growth in 2020 and another 0.5ppts in 2021.

FRANCE: WILL THE CONSUMER SAVE THE DAY?

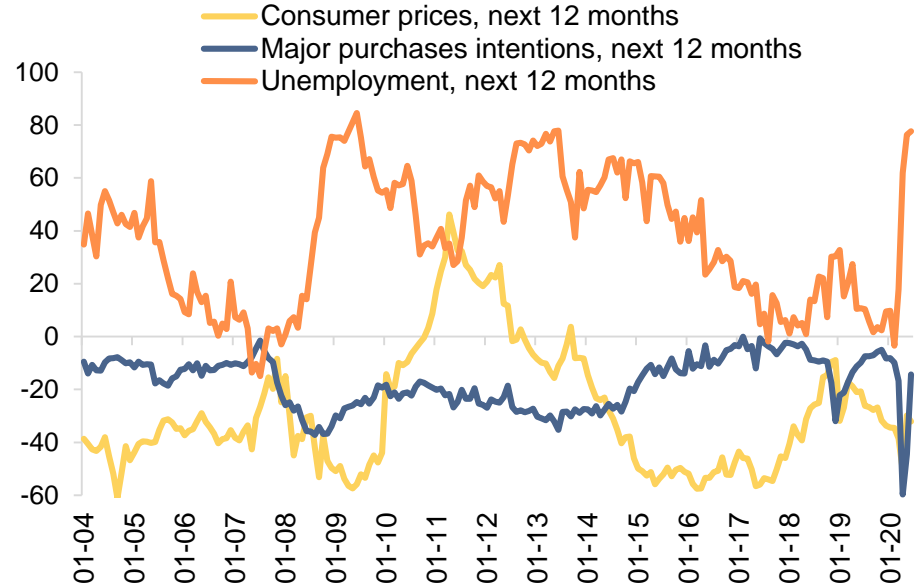
Private consumption (% change vs. Feb 2020)



Sources: INSEE, Allianz Research

Consumer spending is recovering in May, relatively stronger than in other European countries.

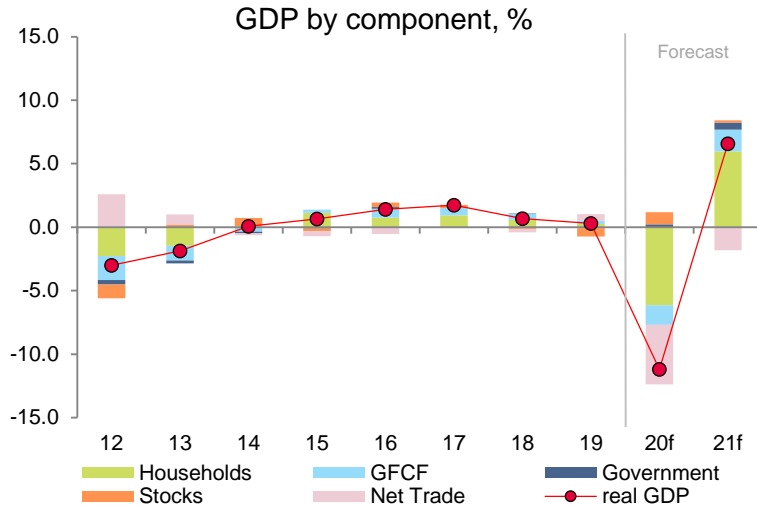
Consumer confidence



Sources: INSEE, Allianz Research

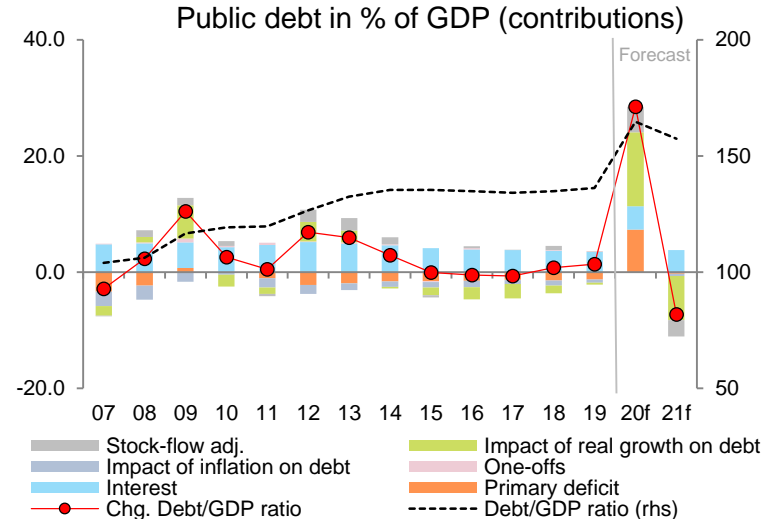
However, there are doubts that this would be sustainable given rising in unemployment fears

ITALY: NO REPEAT OF 2012-14, WATCH OUT FOR POLITICAL AND MARKET HEADWINDS



Sources: Refinitiv, Allianz Research

Major consumption shock in H1, investment still suffering from uncertainty and funding constraints due to banking vulnerability. Trade balance worsening due to strong decline in tourism receipts and world trade. Relative moderate rebound in 2021 due with GDP remaining 3% below pre-crisis level.

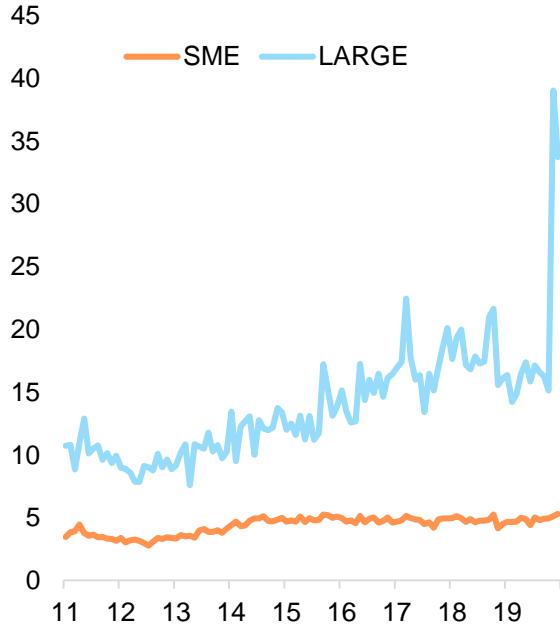


Sources: Refinitiv, Allianz Research

Public debt will increase strongly in 2020 due to fiscal measures and GDP drop (165% GDP). Debt sustainability is not at risk in the short term as ECB contains risk of rising yield/spreads. Debt/GDP will remain above 140% for long period of time (~10y).

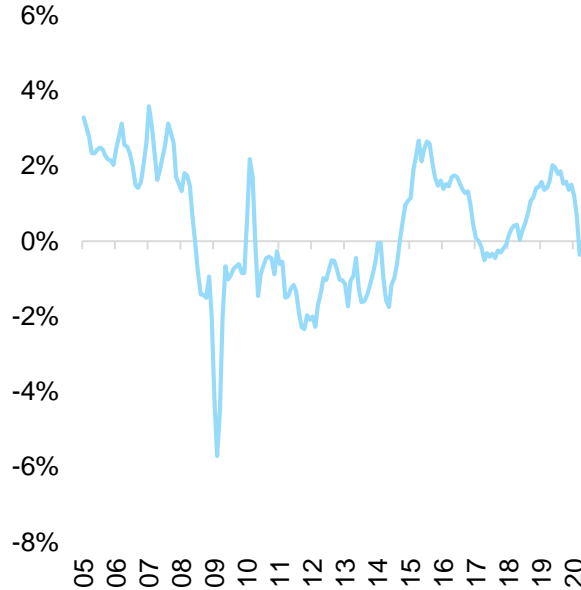
THE UK: SMALL IS THE “NEW DEAL”, BREXIT-CONSTRAINED*?

New loans to corporates, GBPbn



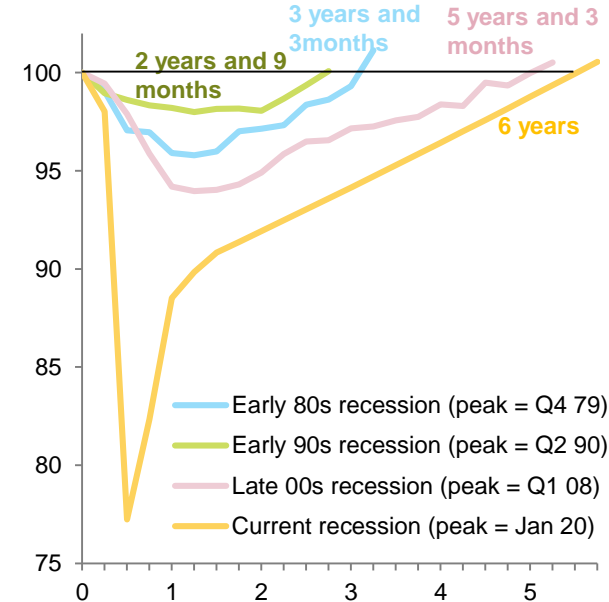
Sources: ONS, Allianz Research

Real wage growth, y/y



Sources: ONS, Allianz Research

Real GDP during the recession, 100 = pre-recession peak



Sources: ONS, Allianz Research

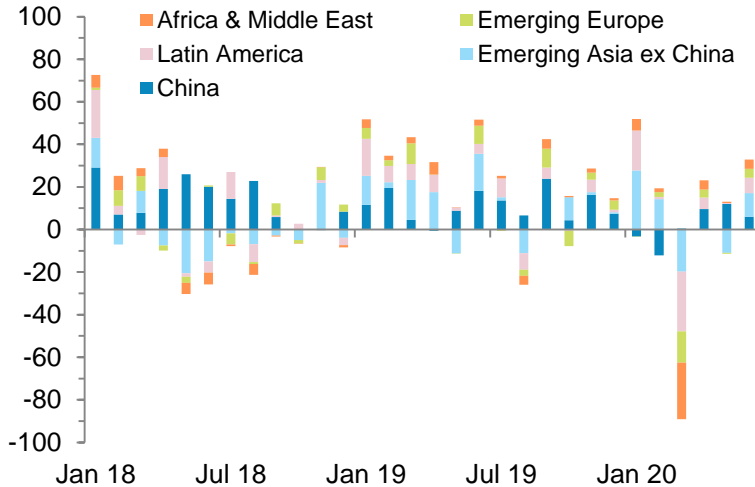
EMERGING MARKETS

04



EMERGING MARKETS: CAPITAL FLOWS BOTTOMING OUT BUT RISKS OF SUDDEN STOPS STILL REMAIN

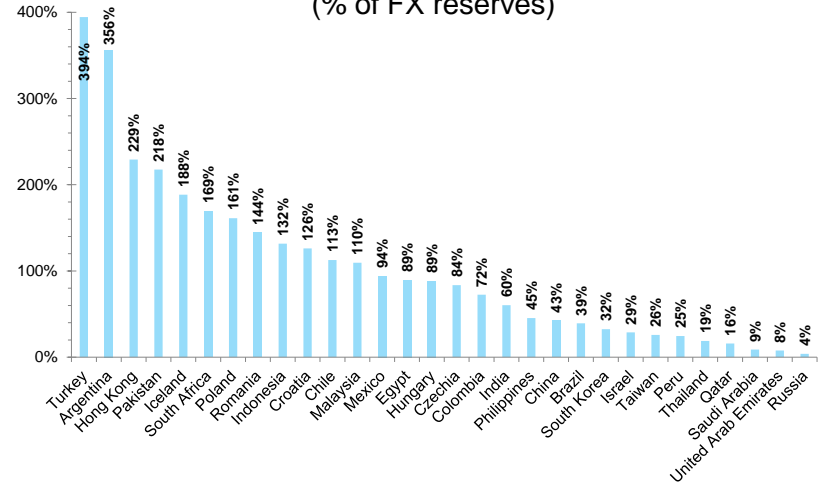
Emerging Markets: Net portfolio flows by region (USD bn)



Sources: National statistics, IIF, Allianz Research estimates

Net portfolio flows to EM dropped sharply to a record low of -USD 89 bn in March. But moderate rebound already in April (+USD23bn), May (+USD2bn) and June (first estimate +USD33bn).

Emerging Markets: Gross external financing requirement (% of FX reserves)

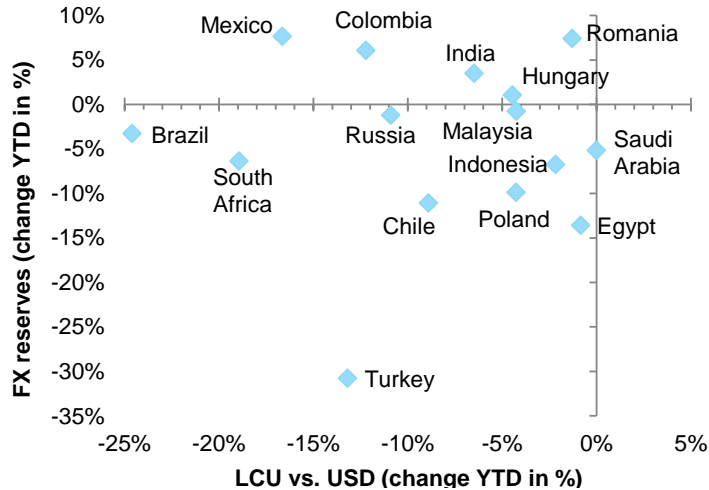


Sources: IHS Markit, Allianz Research

In Turkey and Argentina, gross external financing requirements rose further from around 250% at end-2019.

EMERGING MARKETS: THE COVID-19 QE PROGRAMS COULD ENDANGER CENTRAL BANKS' CREDIBILITY

Exchange rate changes vs. FX reserves changes



Sources: IHS Markit, Allianz Research

Turkey has by far burned the most FX reserves this year to defend its currency – albeit with limited success. Net FX reserves dangerously low now. Watch out for Brazil, South Africa and Mexico.

Government bond purchase programs in EMs

Country	Policy rate	Gov. bond purchases by Central Bank		Foreign-owned local gov. bonds (% of total)	Total FX-denominated debt (% of GDP) *	Inflationary risk
		Size (% of GDP, purchased since March)	Primary / secondary market?			
Turkey	8,25%	9,4%	Secondary	10,1%	63,8%	High
Indonesia	4,25%	2,8% **	Primary & secondary	38,6%	21,3%	High
Poland	0,10%	4,2%	Secondary	23,4%	49,5%	Medium-High
Croatia	2,50%	3,4%	Secondary	na	na	Medium-High
Thailand	0,50%	2,4%	Secondary	17,2%	14,5%	Medium
Philippines	3,25%	1,6%	Secondary	na	na	Medium
Colombia	3,25%	1,1%	Secondary	24,5%	27,9%	Medium
India	4,00%	0,8%	Secondary	3,6%	12,1%	Medium
South Africa	3,80%	0,7%	Secondary	37,2%	35,3%	Medium
Hungary	0,75%	0,3%	Secondary	18,6%	62,1%	Medium
Romania	1,75%	0,2%	Secondary	19,3%	na	Medium
Costa Rica	0,75%	Has started ***	Secondary	na	na	Medium
Brazil	2,25%	Announced, not started	Secondary	10,4%	29,4%	Medium
Chile	0,50%	Announced, not started	Secondary	na	52,6%	Medium
Czechia	0,25%	Announced, not started	Secondary	40,6%	34,5%	Medium
Malaysia	2,00%	Announced, not started	Unspecified	25,3%	32,5%	Medium

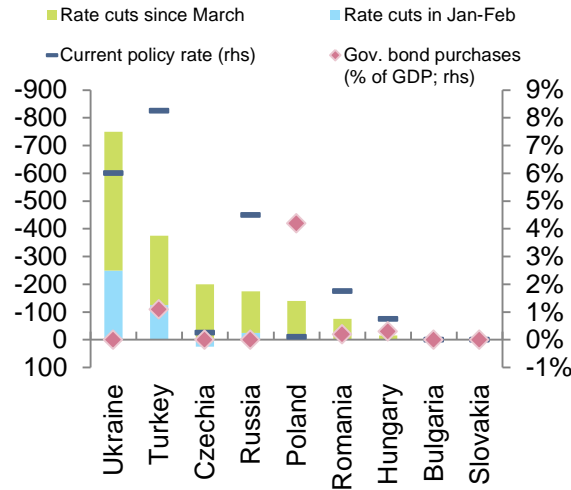
* Both public and private debt. ** Bank Indonesia already owns about 15% of tradable government bonds. *** Central Bank of Costa Rica was authorized and approved purchases of up to 0.7% of GDP.

Sources: National statistics, IHS Markit, Allianz Research

Some EMs have begun to purchase government bonds to ensure smooth functioning of bond markets and sufficient liquidity for banks to support private sector credit. This is mostly different from QE in AEs and much smaller in scale. Indonesia, Turkey, Brazil, Poland and Croatia require monitoring.

EMERGING EUROPE: UNEVEN ROOM FOR POLICY MANOEUVRE

Monetary policy accommodation

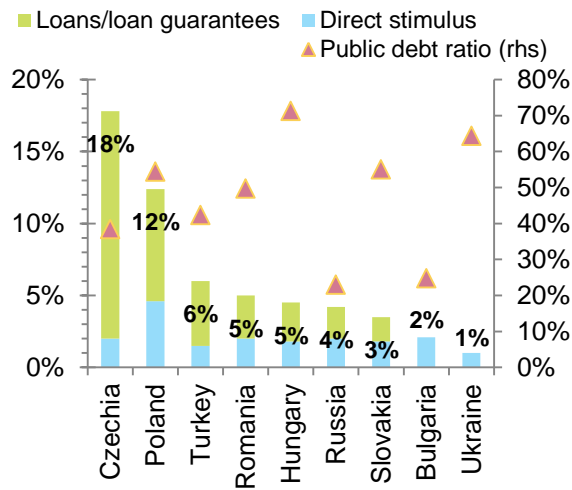


Sources: National statistics, IMF, IIF, Allianz Research

Easing currency pressures allowed rate cuts.

CBs in PL, TR, HU and RO began to purchase government bonds to ensure smooth functioning of bond markets and sufficient liquidity for banks to support private sector credit. This is different from QE in AEs and much smaller in scale.

Fiscal stimulus and public debt (% of GDP)



Sources: National statistics, IMF, IIF, Allianz Research

Direct fiscal stimulus is still modest.

Public finances will deteriorate but remain manageable overall.

Real GDP growth (%)

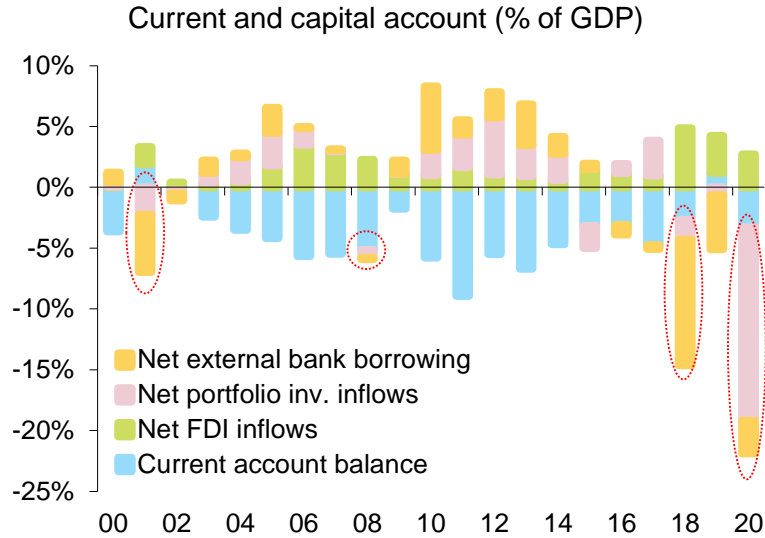
	2019	2020	2021
Emerging Europe	2.3	-5.3	4.0
Poland	4.1	-4.1	4.2
Czechia	2.6	-7.5	5.9
Romania	4.1	-5.5	3.9
Hungary	4.9	-5.0	4.7
Slovakia	2.3	-8.5	6.4
Croatia	2.9	-7.0	6.0
Bulgaria	3.4	-5.1	5.0
Slovenia	2.4	-7.0	6.0
Lithuania	3.9	-6.4	6.0
Latvia	2.2	-7.1	6.2
Estonia	4.3	-6.8	6.0
Turkey	0.9	-4.7	4.2
Russia	1.3	-5.2	3.0
Ukraine	3.2	-6.9	4.8

Sources: National statistics, IMF, Allianz Research

All economies in the region will be in recession.

The depth of recession is influenced by the size and efficiency of policy measures (lockdowns and stimulus) and, importantly, the dependence on export of goods and services.

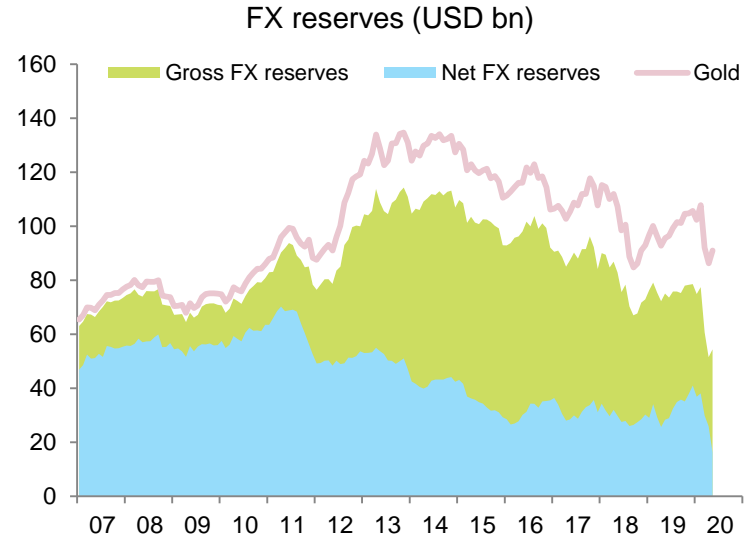
TURKEY: ANOTHER BOP CRISIS ON THE HORIZON?



Note: 2020 data refer to January-April 2018.

Sources: National statistics, IMF, Allianz Research estimates

Huge net portfolio investment outflows in Jan-Apr 2020. Plus significant net bank debt outflows (which were already negative in the previous four full years).



Sources: National statistics, IMF, Allianz Research

Net FX reserves dwindled to less than USD20bn in May 2020 as the CB burned reserves to defend the lira – with limited success. Expect currency turbulences in H2 2020.

LATAM: DEEP RECESSION, STIMULUS AT WORK, BUT LARGE JOB LOSSES AHEAD

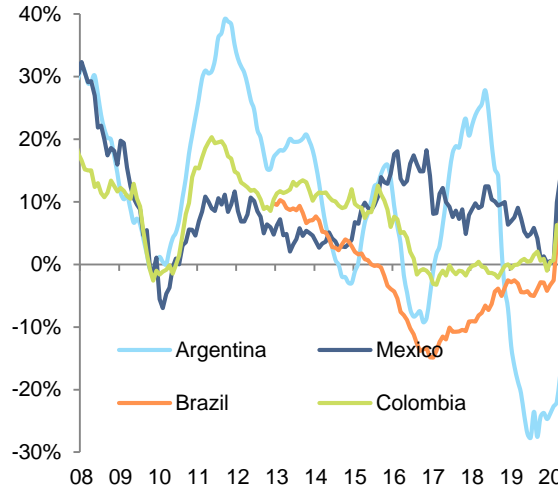
GDP growth, y/y, %

	2016	2017	2018	2019	2020	2021
Argentina	-2.1	2.7	-2.5	-2.2	-8.1	5.5
Brazil	-3.3	1.3	1.3	1.1	-7.0	3.0
Chile	1.7	1.2	3.9	1.0	-5.2	2.2
Colombia	2.1	1.4	2.5	3.3	-5.3	3.7
Mexico	2.9	2.1	2.1	-0.3	-7.5	2.6
Peru	4.1	2.5	4.0	2.2	-9.0	6.0
Latin America	-0.1	1.8	1.5	0.7	-6.5	3.1

Sources: IMF, Euler Hermes,

No country will escape recession, due to the stringent lockdowns (esp. Argentina, Peru and Chile), exposure to commodities & global trade integration.

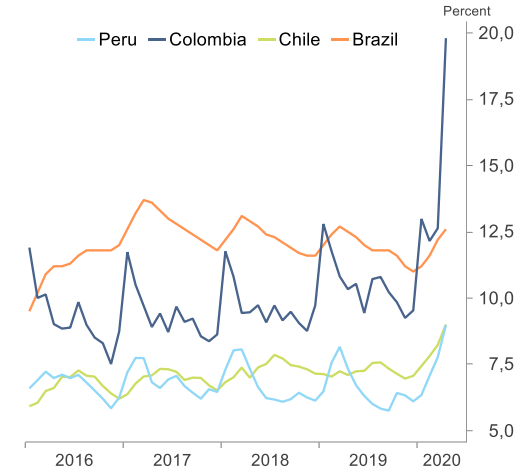
Real credit to the private sector (% y/y)



Sources: Macrobond, Euler Hermes

As money supply (M2, a measure of liquidity) has shot up, so has credit to the private sector, indicating the pass-through of the stimulus to companies.

Unemployment rate (%)

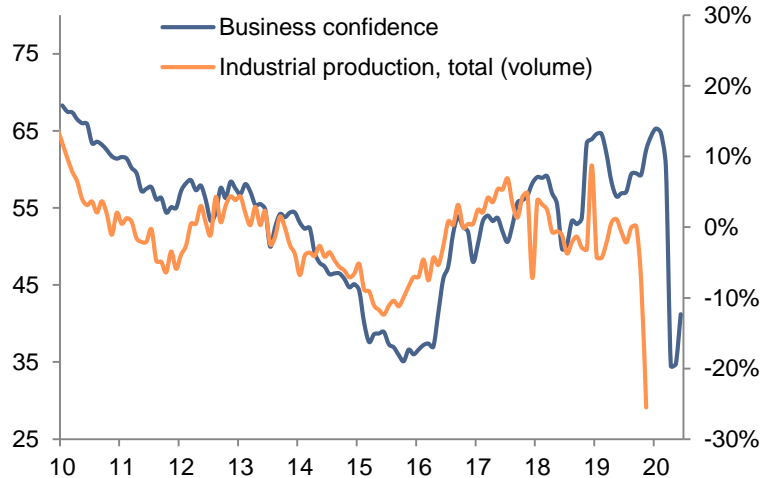


Sources: Macrobond, Euler Hermes, Allianz Research

The policy focus was on debt finance rather than unemployment support. We expect significant informal and formal job losses in Latin America as a result.

BRAZIL: CRISIS MISMANAGEMENT AMPLIFIES RECESSION; POLITICAL RISK HEIGHTENED

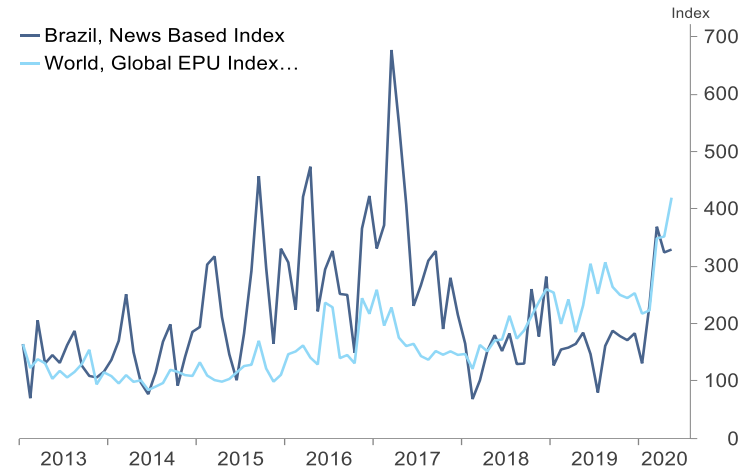
Business confidence and industrial production (%/y)



Sources: IHS Markit, Euler Hermes, Allianz Research

As of June, despite easing of lockdowns, confidence has barely recovered; this bodes ill for industrial production; overall, activity is still 26% below pre-crisis levels, which signals a sluggish recovery.

Economic Policy Uncertainty Index



Sources: Macrobond, EPU, Euler Hermes, Allianz Research

The Economic Policy Uncertainty index is at its highest since early 2017. At the exit of the crisis, further tensions between the central administration and Congress + local governors could halt reforms.

ASIA-PACIFIC: PRAGMATICALLY RESYNCHING WITH CHINA?

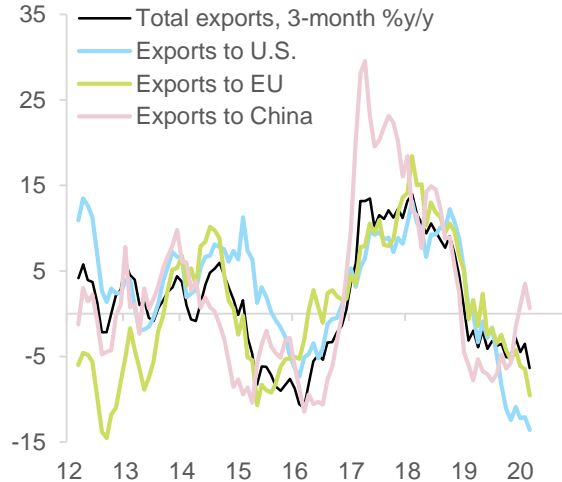
Real GDP growth (%)

	2019	New forecasts		Old forecasts	
		2020	2021	2020	2021
Asia-Pacific	4.3	-1.3	5.9	-0.6	6.5
Australia	1.8	-4.3	3.3	-5.0	3.5
China	6.2	1.5	7.6	1.8	8.5
Hong Kong	-1.3	-5.9	4.1	-4.7	4.5
India	4.2	-3.1	7.3	1.1	7.5
Indonesia	5.0	-1.5	6.2	0.9	6.7
Japan	0.7	-5.7	2.2	-5.7	2.2
Malaysia	4.3	-3.3	5.9	-3.2	6.2
New Zealand	2.2	-4.8	3.9	-5.2	3.0
Philippines	6.1	-2.7	7.6	-2.6	7.7
Singapore	0.7	-5.1	4.5	-4.1	4.9
South Korea	2.0	-1.5	3.6	-2.5	4.5
Taiwan	2.7	-0.3	3.4	-2.0	4.7
Thailand	2.4	-6.0	5.4	-4.1	6.6
Vietnam	6.9	2.3	6.0	3.1	6.7

Source: National Statistics, Euler Hermes, Allianz Research

We have revised down GDP growth for the Asia-Pacific region from +4.2% prior to the global pandemic to -1.3% in 2020 (after 4.3% in 2019).

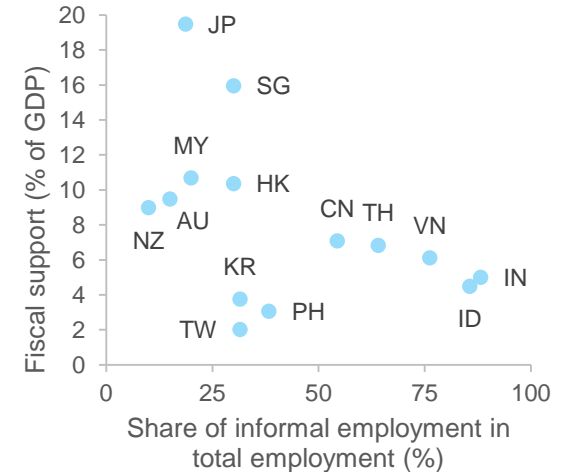
Exports of main 14 economies in APAC



Sources: IMF, Euler Hermes, Allianz Research

Global trade should overall remain under pressure this year, but exposure to China could be comparatively supportive.

Fiscal stimulus (% of GDP)

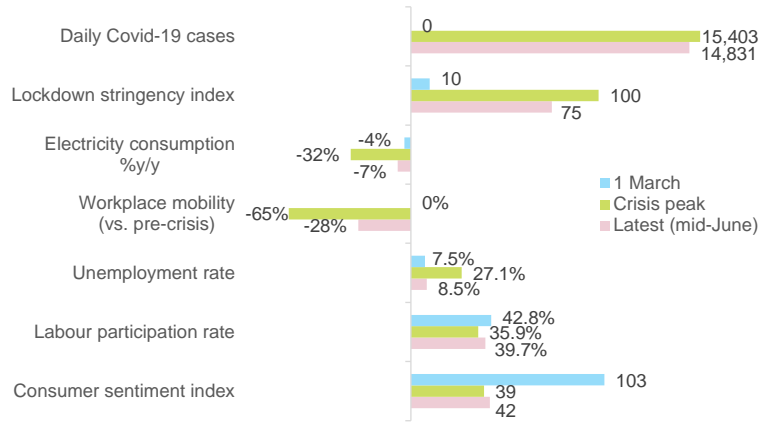


Source: World Bank, Euler Hermes, Allianz Research

Different initial conditions and economic structures require varying levels of policy supports. India, Indonesia, Vietnam and Thailand could do more to protect employment.

INDIA: -3.1% GDP GROWTH IN FY2020-21, WITH DOWNSIDE RISKS

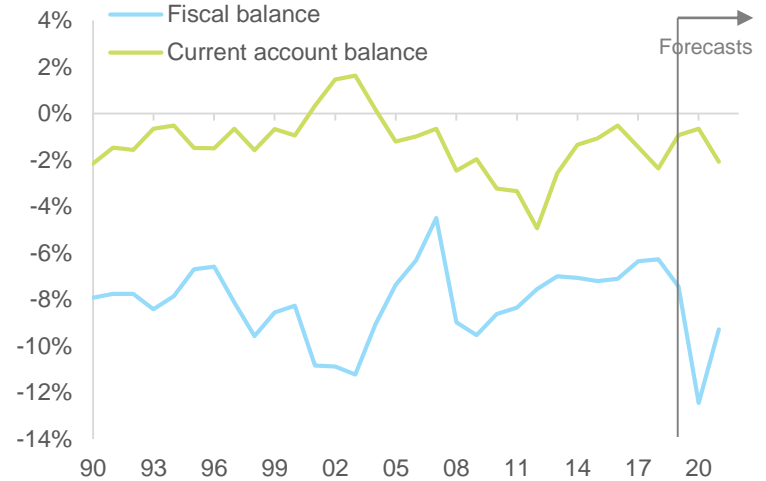
High frequency indicators



Sources: Bloomberg, National statistics, Euler Hermes, Allianz Research

India has started to de-confine, even though data suggest the epidemic is not yet controlled. This means that activity resumption could be even slower than in other economies.

Twin deficits (as % of GDP)

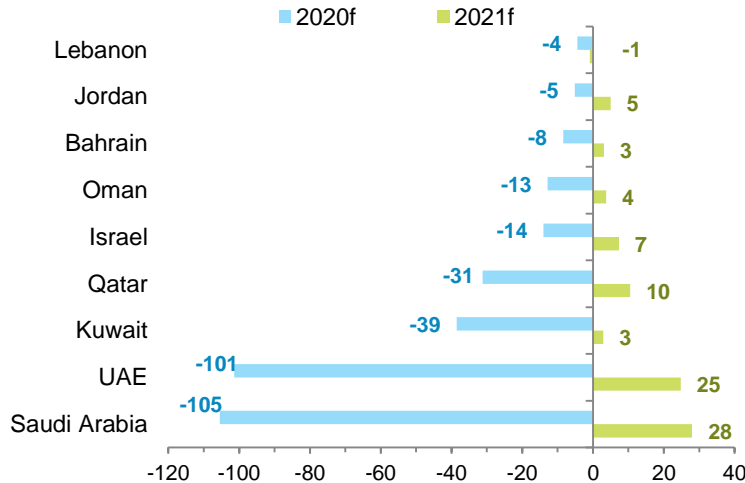


Sources: IHS, Euler Hermes, Allianz Research

Risks are skewed on the downside. Policy leeway is limited by twin deficits, and a vulnerable financial system. In the medium run, we are more concerned about India's financing requirements.

MIDDLE EAST: TRIPLE SHOCK OF COVID-19, OIL PRICE SLUMP AND OUTPUT CUTS HITS EXPORTS AND GROWTH

Potential export changes in 2020-21 (goods and services, USD bn)



Sources: IMF, Celem, IHS Markit, Allianz Research

Huge export losses to be expected across the region in 2020, in particular in oil exporting countries. Only moderate recovery in 2021 as oil output is unlikely to be ramped up.

Real GDP growth (%)

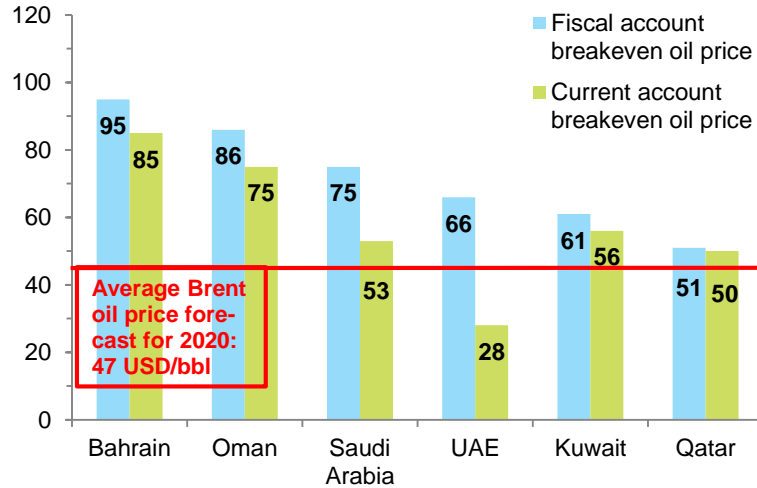
	2009	2019	2020	2021
Middle East	0.1	-0.2	-6.8	2.2
GCC	-1.1	0.7	-4.6	1.8
Saudi A.	-2.1	0.3	-4.0	2.0
UAE	-5.2	1.7	-6.0	1.5
Qatar	12.0	-0.2	-2.3	2.0
Kuwait	-7.1	0.4	-6.2	1.5
Oman	6.1	0.5	-6.5	2.2
Bahrain	2.5	1.8	-4.4	2.0
Non-GCC	1.8	-1.4	-9.9	2.7
Iran	0.0	-7.6	-15.0	3.0
Israel	1.0	3.3	-4.5	3.3
Iraq	3.4	3.9	-10.0	3.0
Lebanon	10.2	-6.5	-13.0	-2.0
Jordan	4.5	2.0	-3.0	2.4

Sources: National statistics, IHS Markit, Allianz Research forecasts

All economies in the region will be in recession in 2020, at diverging degrees. The slowdown/recession will be much stronger than in 2009.

GCC: FISCAL AND EXTERNAL POSITIONS WILL MARKEDLY WORSEEN AGAIN, AS IN 2015-2016

Fiscal and current account breakeven oil prices 2020f (USD/bbl)



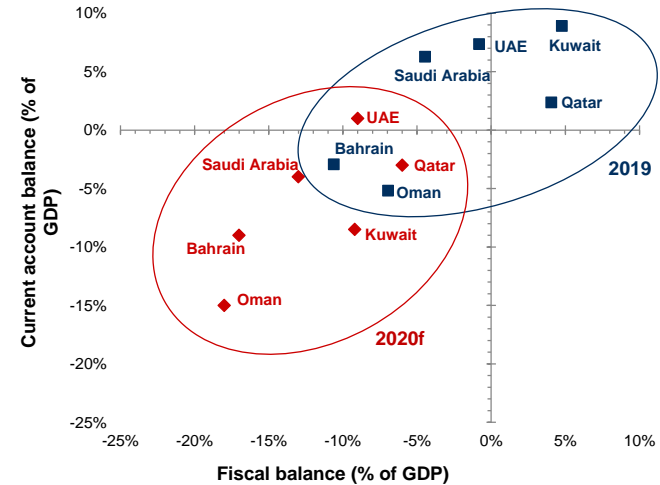
Sources: IMF, IIF, Allianz Research

The currency pegs limit both monetary and fiscal policy leeway.

The oil price slump translates directly into lower fiscal revenues in local currencies since the exchange rate does not work as an automatic stabilizer.

Hence, all GCC economies except the UAE will run twin deficits in 2020.

Fiscal and external balances in the GCC



Sources: IMF, IHS Markit, Allianz Research

Saudi Arabia, the UAE, Qatar and Kuwait have large SWFs, which can act as buffers against the revenue shocks and softening the risk of non-payment. But Bahrain and Oman have relatively small SWFs.

Bahrain ran already out of policy buffers in 2017 and has since “survived” thanks to financial support from Saudi Arabia and UAE.

Oman is likely to follow in the next years. => Downgrade to C3.

AFRICA: -3.1% RECESSION, FIRST IN 25 YEARS

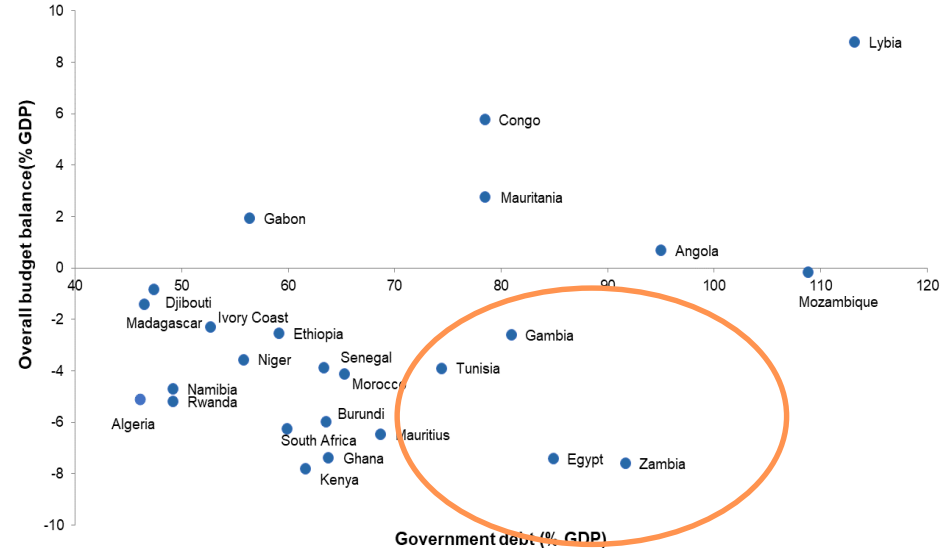
GDP growth (%)

		2019	2020	2021
	Africa	1.9	-3.1	4.0
	Angola	-0.5	-4.7	2.5
Commodity exports > 75%	Algeria	1	-6.7	4.9
	Nigeria	2	-3	2.5
	Gabon	1.7	-1	3
	Mozambique	-2	-1.2	5
	Tunisia	1.2	-3.9	2.7
Services exports > 35%	Namibia	-1	-1.5	2.5
	Morocco	2.4	-3.9	5
	South Africa	0.3	-7.8	5.4
Combined external and domestic shocks	Cote d'Ivoire	7	-1.1	5.7
	Kenya	5.4	1.5	5.4
	Ghana	6.5	-2.5	5
	Egypt	5.6	-0.5	2.2

Source: Euler Hermes, Allianz Research, National statistics

In 2020 we expect the continent to enter into recession - 3.1%, for the first time in 25 years. In 2021, we expect the GDP to rebound by +4%.

Government debt and overall budget balance (% GDP)



Source: Euler Hermes, Allianz Research, IMF

Angola, Mozambique and Egypt were already strongly indebted in 2019. On the other hand, Zambia, Egypt, Kenya, Ghana and Mauritius already had high budget deficits before the COVID-19 outbreak.

THANK YOU

Allianz Research

Global Economic Outlook

July 2020

