

COPING WITH COVID-19 IN DIFFERING WAYS

Allianz Research, 13 August 2020

Global Economic Outlook

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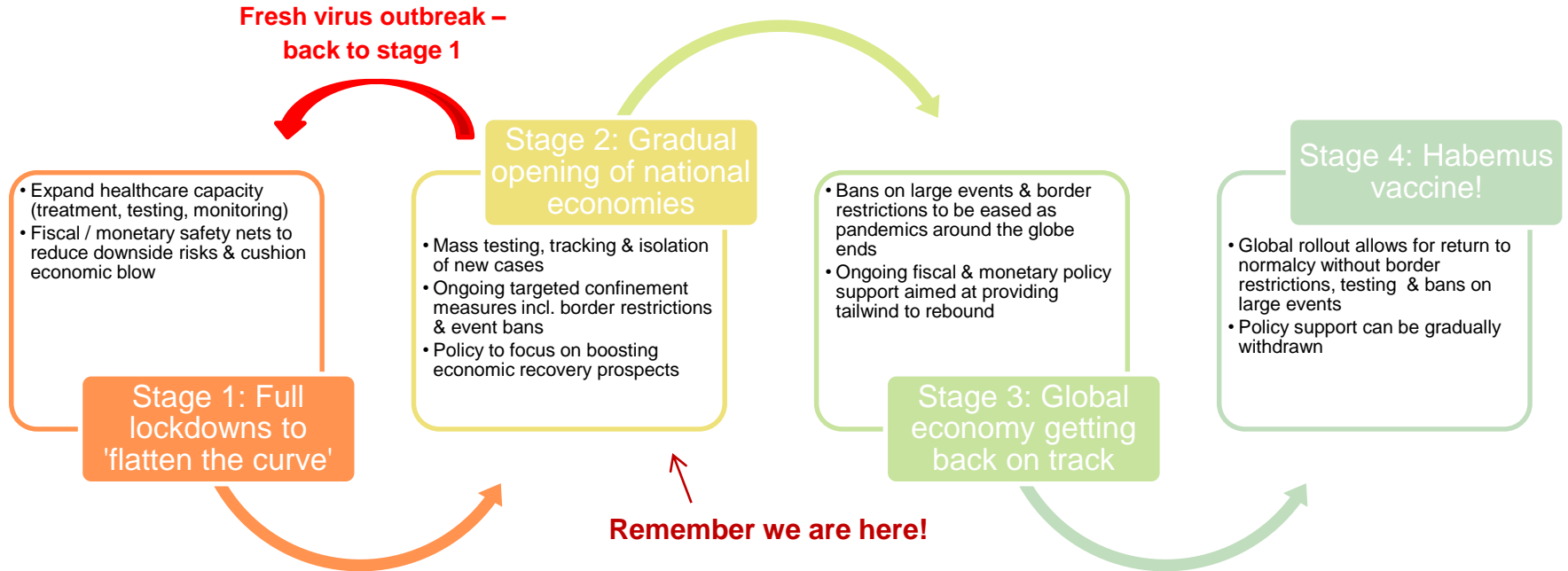


GLOBAL OUTLOOK

01

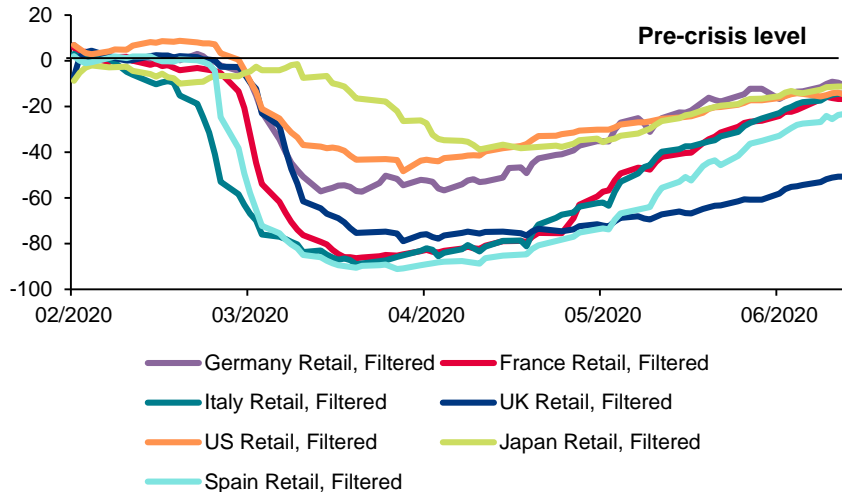


COVID-19: THE PHASE 2 MARATHON



PHASE 2 WILL BE DARWINIAN

Retail stores visits, daily*

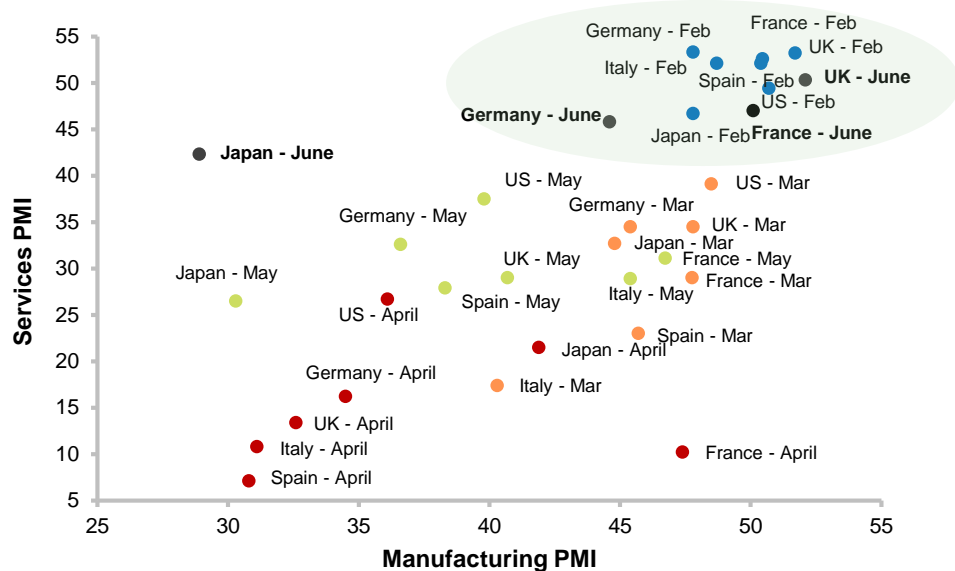


*Daily Google mobility data for „Retail“, adjusted for weekends and holidays, filtered trend

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

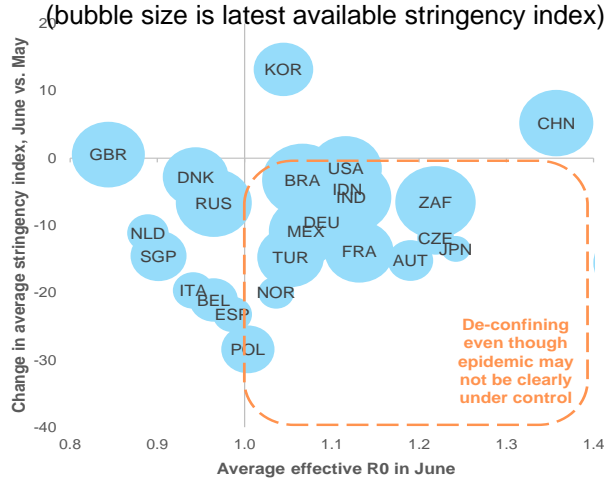


Sources: Markit, Allianz Research

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

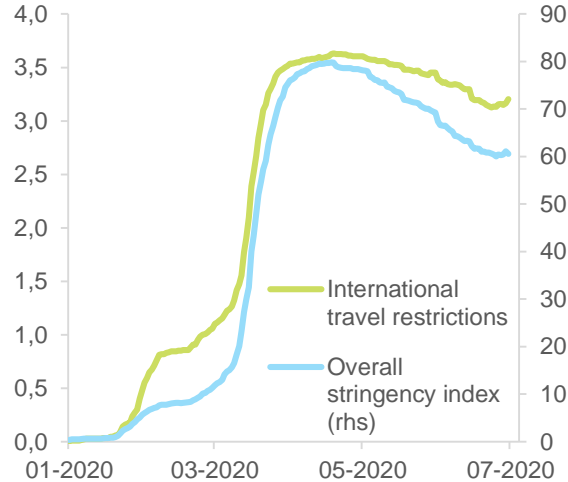
De-confining: managing the effective reproduction rate



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

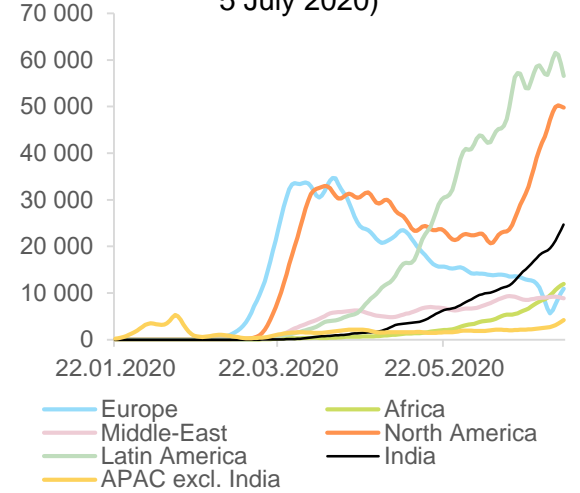
Stringency indices



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

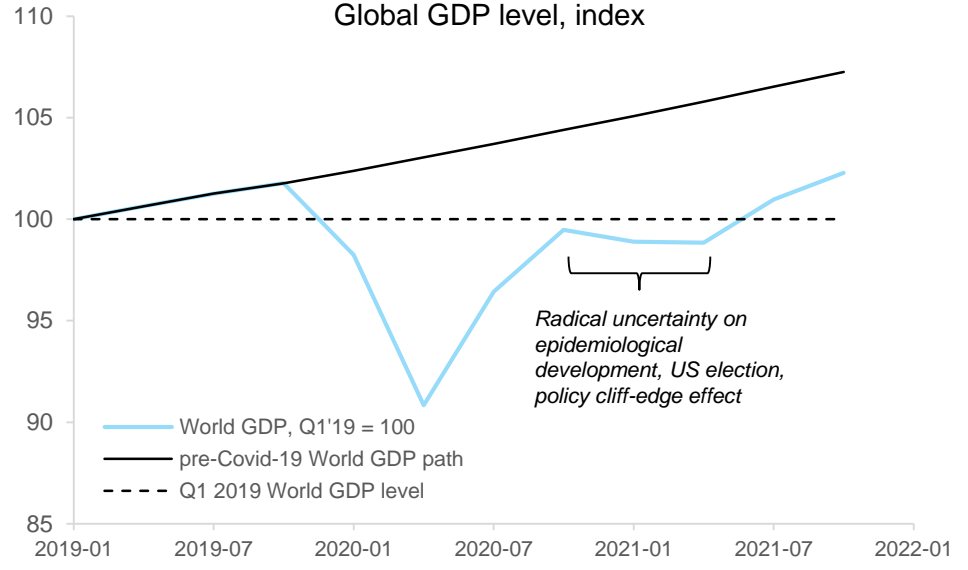
* Weights in global GDP at market price, 2019

NB: fiscal year for India

Sources: National sources, Euler Hermes, Allianz Research

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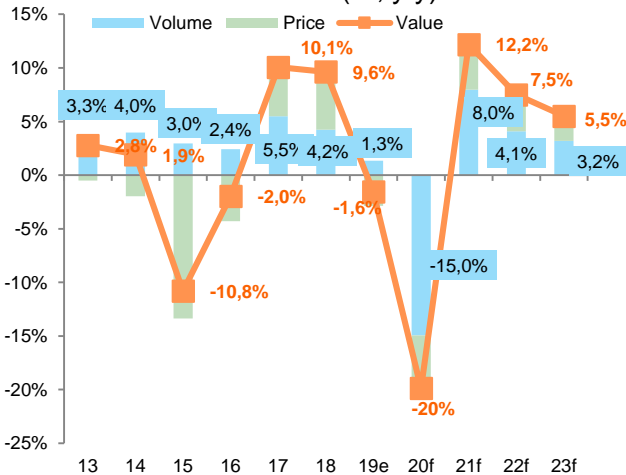
Global GDP level, index



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)

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

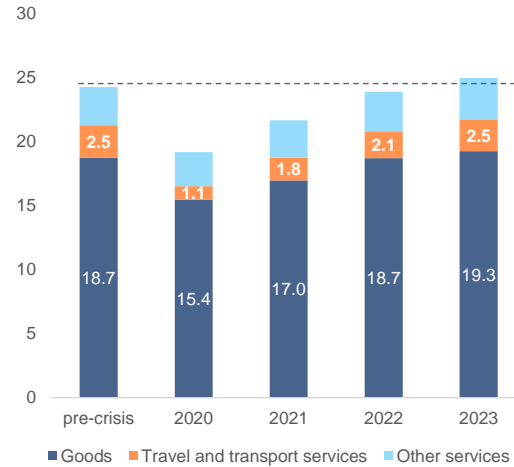
Global trade growth, in volume terms and value (% y/y)



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.

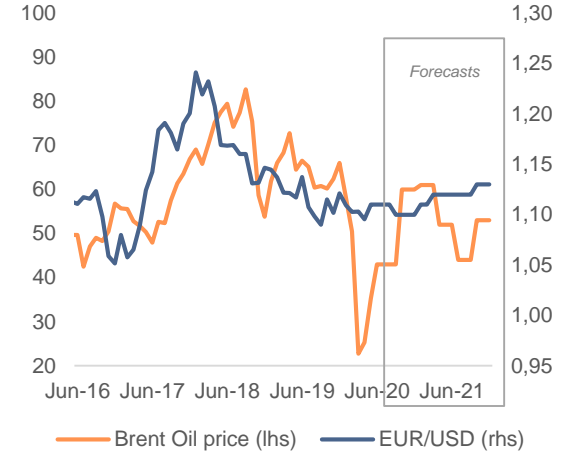
Medium-term trade in value terms (USDtn)



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

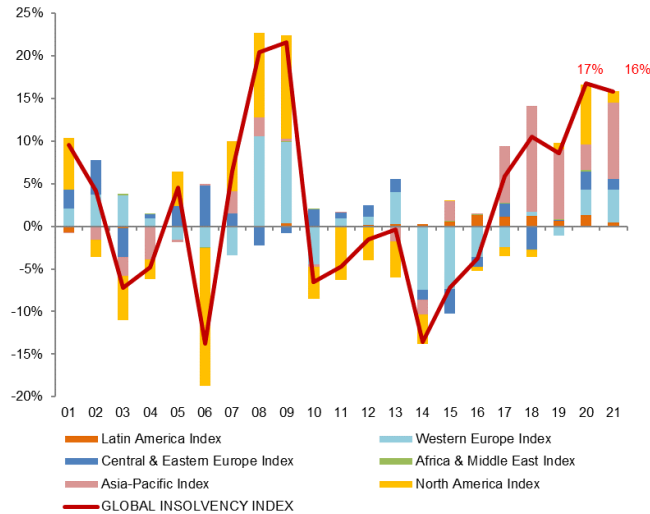


Sources: Bloomberg, Euler Hermes, Allianz Research

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.

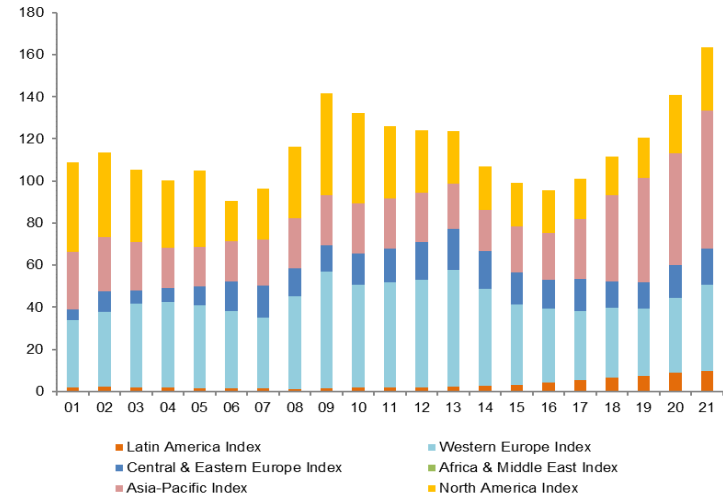
GLOBAL INSOLVENCIES ARE SET TO RISE BY +35% BY 2021

Insolvency figures and forecasts (changes)



Source: Euler Hermes, Allianz Research

Insolvency figures and forecasts (levels)



Source: Euler Hermes, Allianz Research

At a global level our insolvency index is to reach its record level of 2009 in 2020 and overall to surge by +35% by end of 2021 (after respectively +17% in 2020 and +16% in 2021). Should policy relief be withdraw too fast the rises will be +5 to +10pp higher – and should the recovery switch from U-shape to L-shape the rises will be +50 to +60pp higher. All the regions are contributing to the global rise including Latam (+24% in 2020 and +8% in 2021).

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 +35%
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

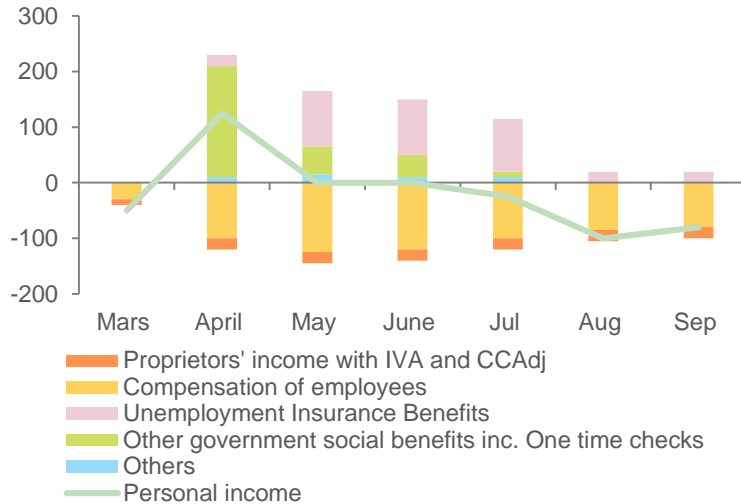
- Reinfections with generalized domestic confinement
- Borders closed again until end-2020

- 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		

USA: HOUSEHOLDS TO FACE A REVENUE CLIFF

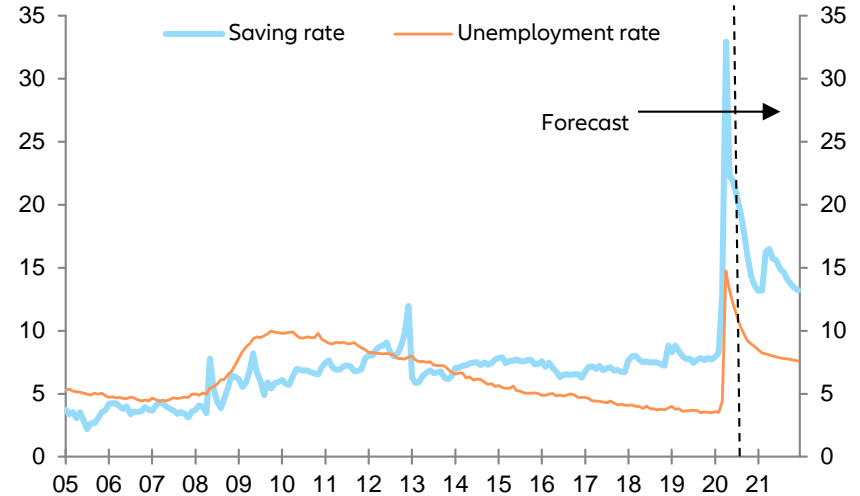
Sources of revenues for households (USD bn)



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 (%)

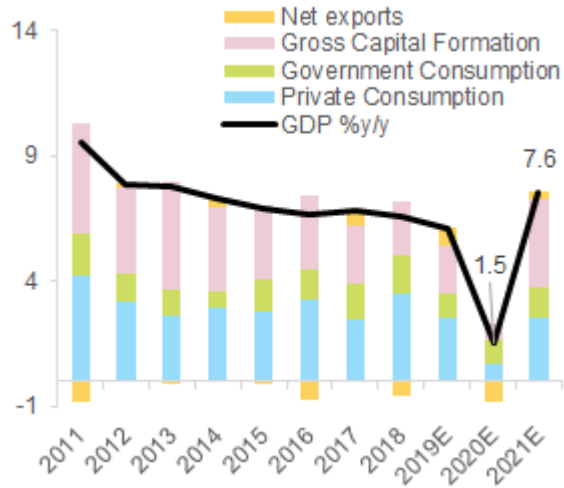


Philadelphia Fed, Euler Hermes, Allianz Research

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

CHINA GROWTH FORECAST FOR 2020 AT +1.5%

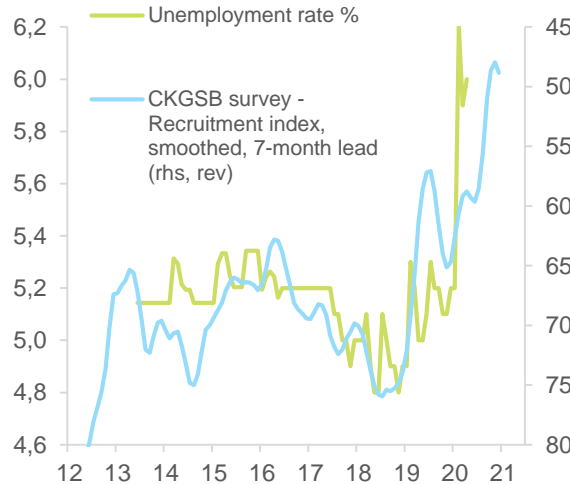
GDP growth (%) and contributions (pp)



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%.

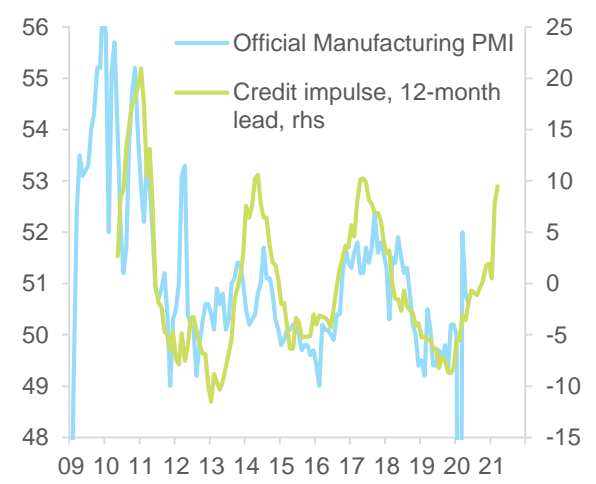
Unemployment rate and leading indicator



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.

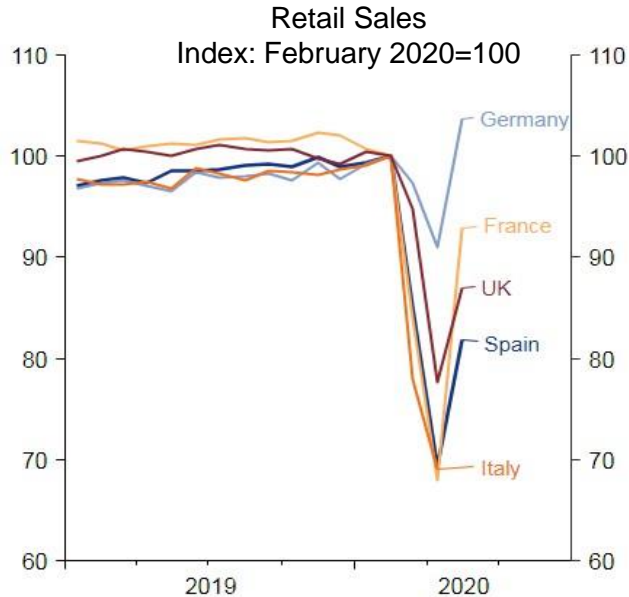
Credit impulse & PMI



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. 11

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

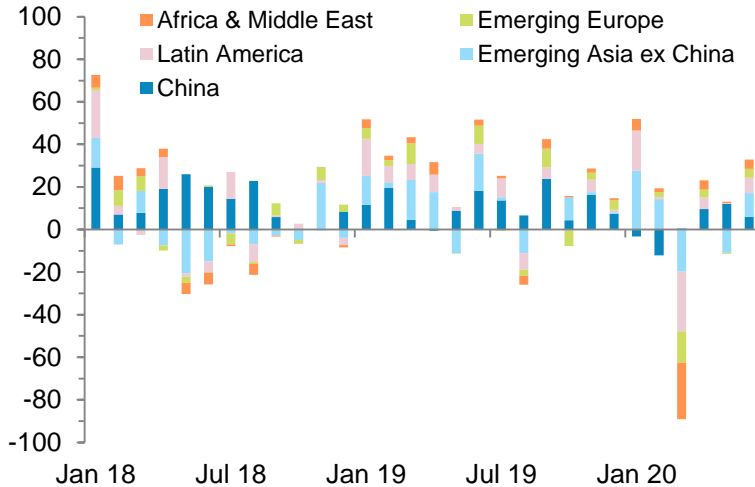
Looking at selected key drivers of divergence (policy decisions on lockdown length & strictness, fiscal response economic features such as the size of the service sector) explains which the UK, Spain and Italy will lag the other Eurozone countries and in particular Germany.

EMERGING MARKETS

02

EMERGING MARKETS: CAPITAL FLOWS BOTTOMING OUT...

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



Sources: National statistics, IIF, Allianz Research estimates

Net portfolio flows to EMs 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).

Russia: Net capital inflows/outflows by the private sector (USD bn)

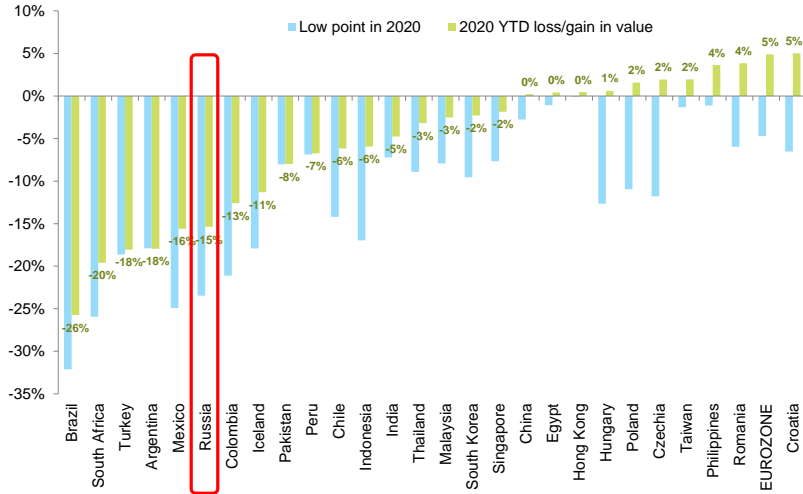


Sources: IHS Markit, Allianz Research

In Russia, net capital outflows by the private sector have been modest in the wake of Covid-19, in particular compared to the 2008-2009 and 2014-2015 crises.

EMERGING MARKETS: ...BUT RISKS OF SUDDEN STOPS STILL REMAIN

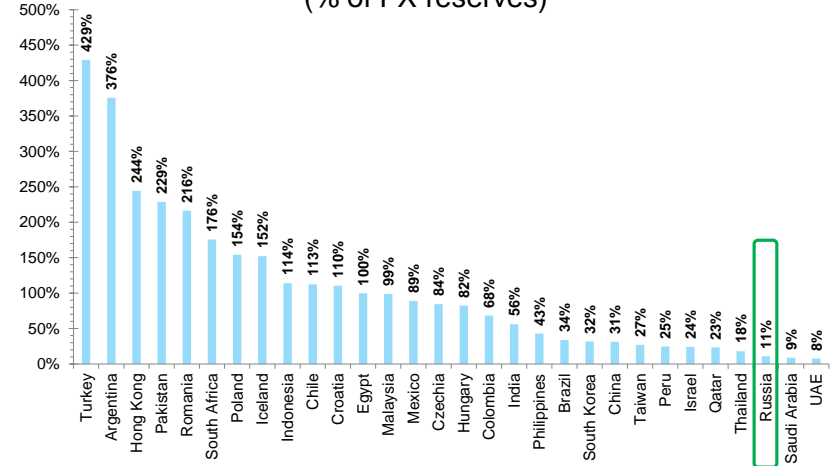
Exchange rates of selected Emerging Markets (change vs. USD, 12 August 2020)



Sources: National statistics, IIF, Allianz Research estimates

Foreign exchange selling off is past the trough for most EMs, but pressures to remain high.

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



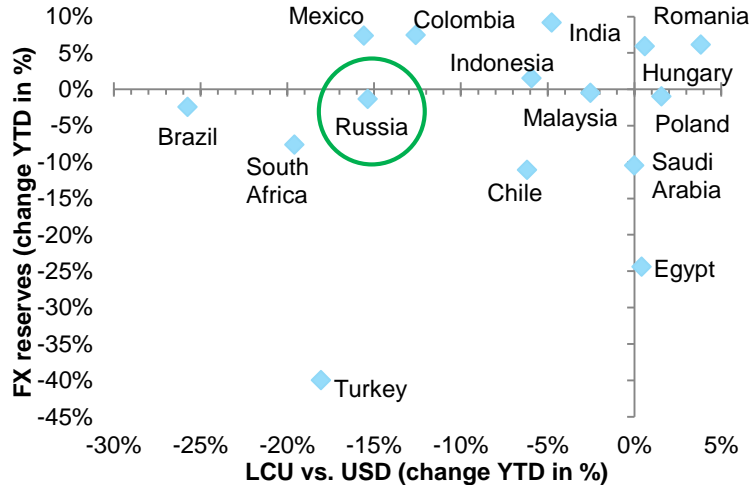
Note: Gross external financing requirement = current account balance + maturing external debt repayments in the next 12 months.

Sources: IHS Markit, Allianz Research

In Turkey and Argentina, gross external financing requirements rose further from around 250% at end-2019. **Russia's** gross external financing requirement is low thanks to current account surplus and large FX reserves⁵

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.

Russia's FX reserves have remained stable.

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%	High
Croatia	2,50%	3,4%	Secondary	na	na	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

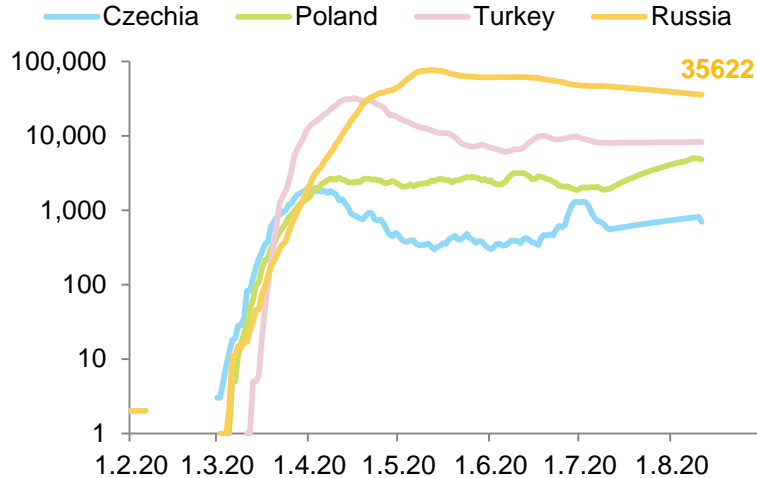
* Both public and private debt. ** Bank Indonesia already owns about 15% of tradable government bonds. *** Central Bank of Costa Rica was authorized and approved purchases of up to 0.7% of GDP.

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: COVID-19 CURVES APPEAR TO HAVE FLATTENED AND LOCKDOWNS ARE EASED

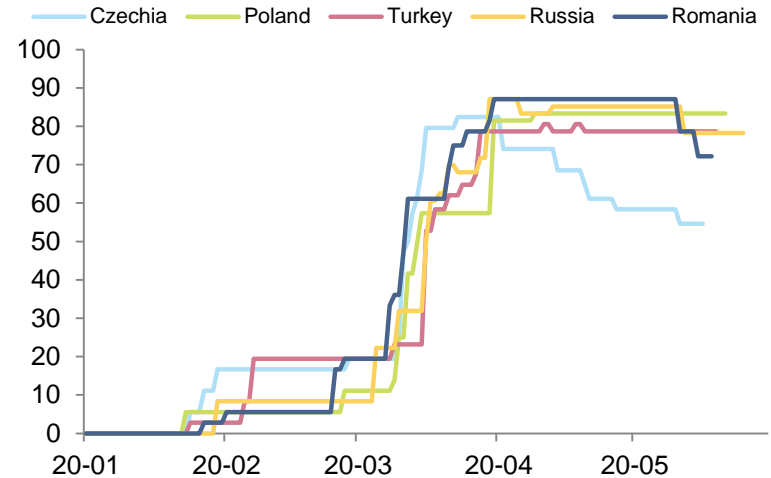
New confirmed cases of Covid-19 (7 days sum)



Sources: Various Allianz Research

Russia: weekly new Covid-19 cases have halved from about 75,000 in mid-May but are still elevated.

Lockdown stringency index



Sources: Oxford Economics, Allianz Research

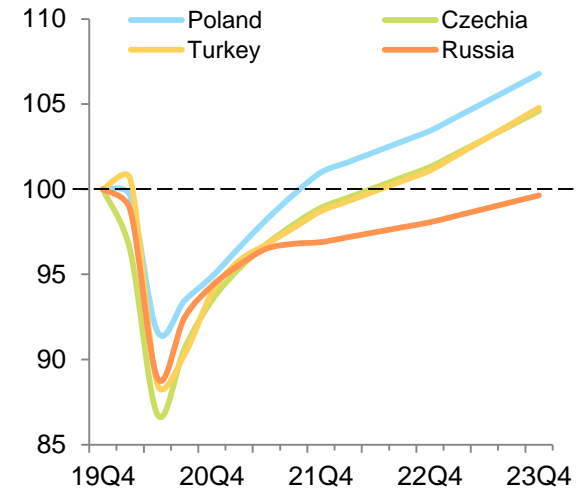
Lockdowns have been eased but continue to affect businesses.

EMERGING EUROPE: GROWTH SCENARIOS

Real GDP growth forecasts	Pre-confinement forecasts		Baseline: 2-month confinement scenario		Protracted crisis scenario	
	2019	2020	2020	2021	2020	2021
Emerging Europe	2.3	2.1	-5.3	4.0	-9.7	0.2
Poland	4.1	3.1	-4.1	4.2	-8.3	0.2
Czechia	2.6	2.2	-7.5	5.9	-14.1	-1.5
Romania	4.1	2.8	-5.5	3.9	-11.5	0.5
Hungary	4.9	3.0	-5.0	4.7	-11.0	0.5
Slovakia	2.3	2.3	-8.5	6.4	-14.5	0.5
Croatia	2.9	2.4	-7.0	6.0	-13.0	0.5
Bulgaria	3.4	2.7	-5.1	5.0	-10.5	0.5
Slovenia	2.4	2.5	-7.0	6.0	-12.0	0.5
Lithuania	3.9	2.5	-6.4	6.0	-11.8	0.5
Latvia	2.2	2.4	-7.1	6.2	-12.0	0.5
Estonia	4.3	2.7	-6.8	6.0	-12.2	0.5
Turkey	0.94	4.1	-4.7	4.2	-9.6	0.4
Serbia	4.19	2.6	-3.3	2.9	-9.6	0.5
Russia	1.34	1.9	-5.2	3.0	-8.3	0.1
Ukraine	3.17	3.0	-6.9	4.8	-11.8	0.5
Azerbaijan	2.25	2.3	-4.5	2.5	-11.0	0.5
Kazakhstan	4.50	3.5	-5.7	4.5	-9.0	0.5

Sources: National statistics, IHS Markit, Allianz Research forecasts

Real GDP forecasts (2019 Q4 = 100)



Sources: National statistics, IMF, IIF, Allianz Research

Poland should reach pre-crisis level GDP at the end of 2021, Czechia and Turkey in mid-2022.

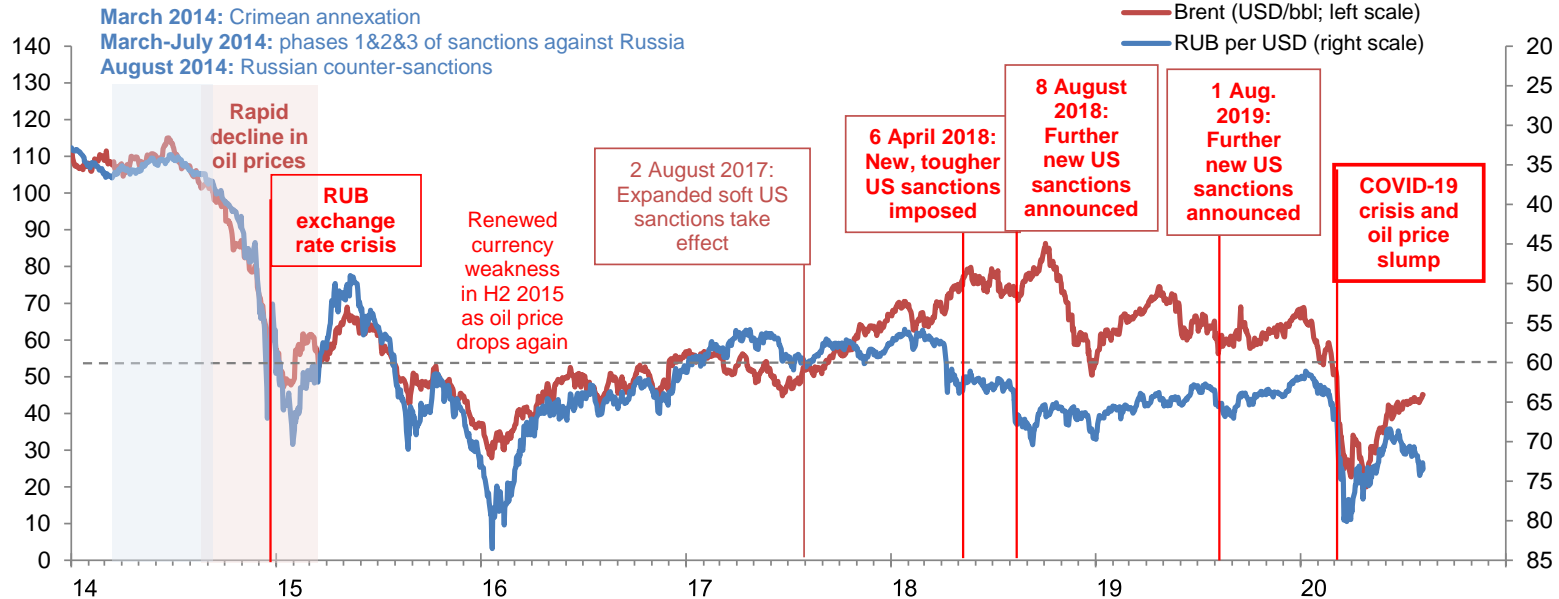
Russia only in 2024, mainly due to the generally lower growth regime.

RUSSIA FOCUS

03

RUSSIA: THE RUB IS STRONGLY LINKED TO THE OIL PRICE

RUB exchange rate and Brent oil price

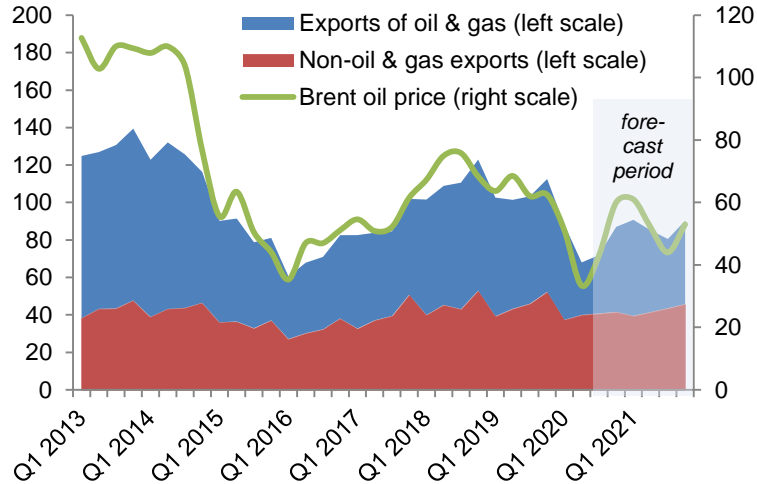


Sources: IHS Markit, Allianz Research

The oil price for benchmark Brent is forecast at 47 USD/bbl in 2020 and 52 USD/bbl in 2021. We expect the RUB to average 72:1 vs. the USD in 2020 (-10%) and about 74:1 in 2021 (-4%).

RUSSIA: THE DOUBLE SHOCK OF LOW OIL PRICES AND COVID-19 HAS HIT EXPORTS

Exports of goods (USD bn) and benchmark Brent oil price (USD/barrel)

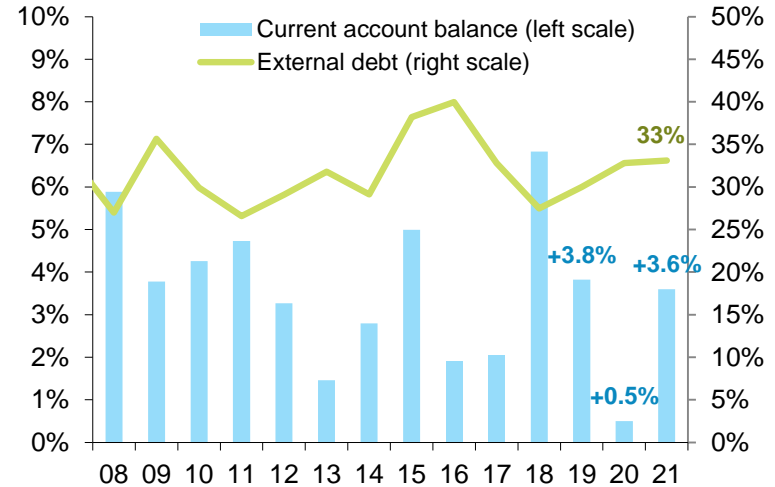


Sources: Central Bank of Russia, IHS Markit, Allianz Research

Oil-related exports dropped -47% q/q and -52% y/y in Q2 2020, as the average oil price fell to 33 USD/bbl.

Overall exports fell -23% q/q and -33% y/y accordingly and will not recover to 2019 levels before 2023, at the earliest.

Current account balance and external debt (% of GDP)



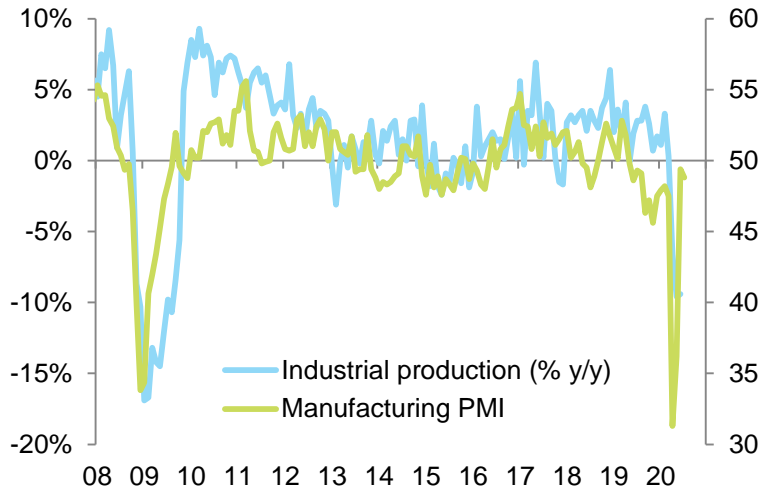
Sources: Central Bank of Russia, IHS Markit, Allianz Research

As imports fell less dramatically (-5% q/q and -14% y/y, the current account surplus narrowed to just +USD0.6bn in Q2 2020.

We expect the annual current account to post a small surplus of +0.5% in 2020, followed by +3.6% in 2021.

RUSSIA: ECONOMIC ACTIVITY SLUMPED IN Q2... BUT IT WAS LIKELY THE TROUGH

Industrial production growth and manufacturing PMI

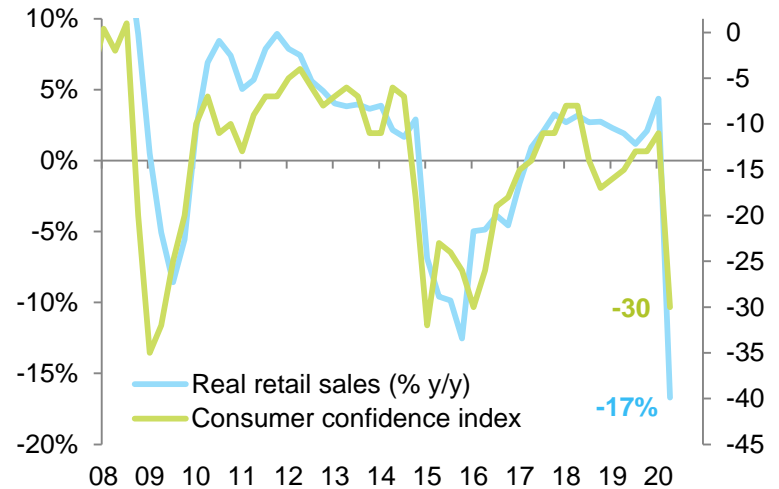


Sources: IHS Markit, Allianz Research

Industrial production fell -8.5% y/y in Q2 – much more than in 2014-2015 but less than in 2009.

The rebounding manufacturing PMI in May-July suggests that Q2 was the trough.

Retail sales growth and consumer confidence



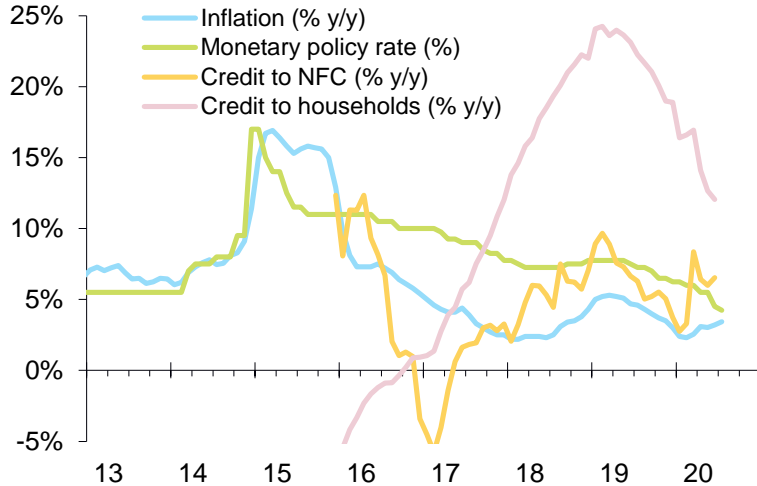
Sources: IHS Markit, Allianz Research

Real retail sales nosedived -17% y/y in Q2 – more than in 2014-2015 and 2009 – as consumer spending was heavily constrained by the lockdown.

As the lockdown measures will be gradually lifted, consumption and retail should moderately recover.

RUSSIA: CREDIBLE MONETARY POLICY EASING SHOULD SUPPORT RECOVERY VIA CREDIT GROWTH

Inflation, monetary policy and credit growth

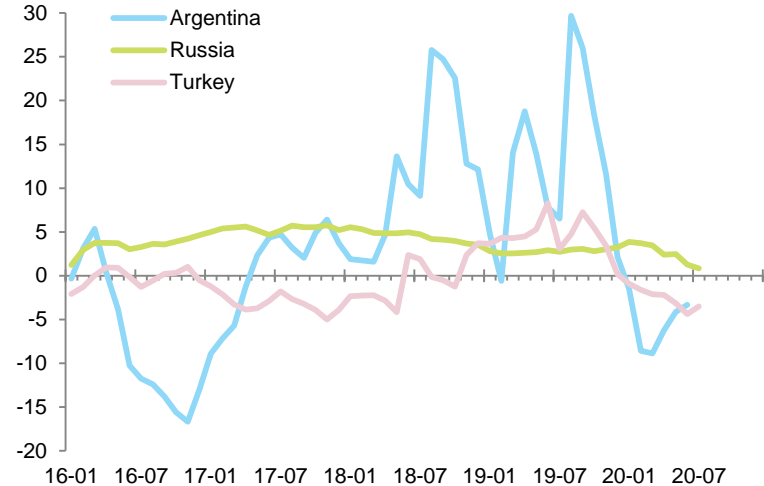


Sources: National statistics, IHS Markit, Allianz Research

Credit to NFC picked up in H1 2020 and is still at a moderate level.

Credit to households appeared to high in 2018-2019 but is now at a reasonable level.

Real interest rate (%): Russia vs. Argentina and Turkey

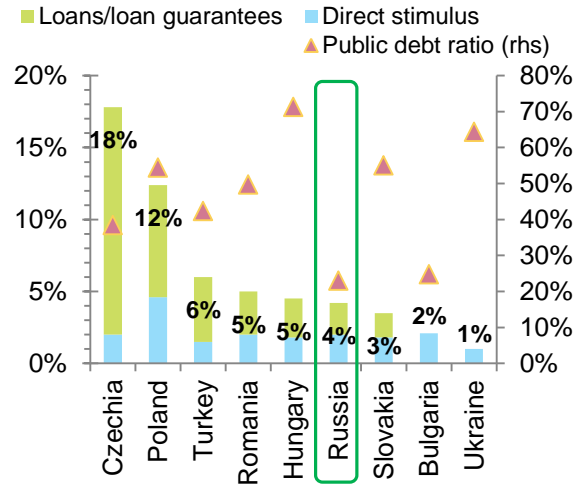


Sources: National statistics, IHS Markit, Allianz Research

Credible monetary policy easing has kept real interest rate in positive territory.

RUSSIA: DILIGENT FISCAL POLICY IN THE PAST PROVIDES ROOM FOR POLICY MANOEUVRE NOW

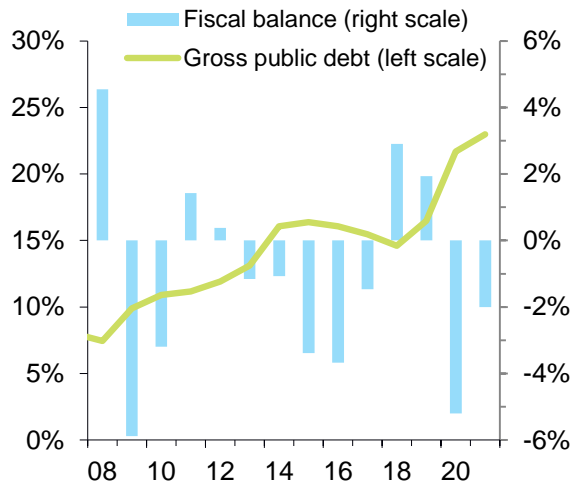
Fiscal stimulus and public debt (% of GDP)



Sources: National statistics, IMF, IIF, Allianz Research

Fiscal stimulus is comparatively modest in Russia.

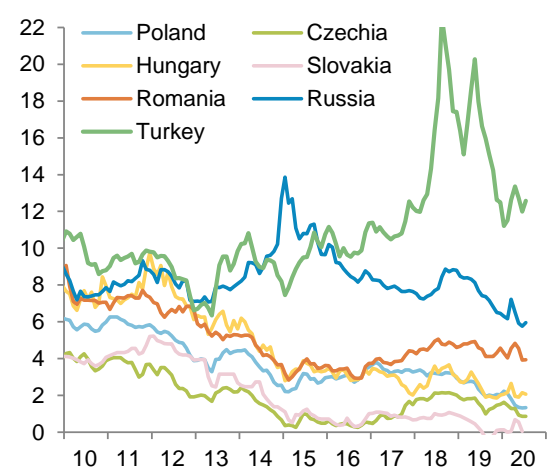
Public finances (% of GDP)



Sources: National statistics, IMF, Allianz Research

Public finances will nonetheless deteriorate but remain manageable overall thanks to a low level of public debt in Russia.

Long-term government bond yields (%)



Sources: IHS Markit, Allianz Research

Financing of deficits is still doable at a reasonable rate for Russia.

Domestic debt has also been issued successfully and is preferred by most countries.

RUSSIA: ECONOMIC SCENARIOS AS OF AUGUST 2020

RUSSIA: Key forecasts	2017	2018	2019	U-shaped recovery scenario		Protracted crisis scenario	
				2020	2021	2020	2021
GDP	1.8	2.5	1.3	-5.2	3.0	-8.3	0.1
Consumer Spending	3.7	3.3	2.5	-6.0	3.5	-11.0	-3.0
Public Spending	2.5	1.3	2.2	2.0	1.0	1.5	2.0
Investment	4.7	0.1	1.5	-12.0	5.0	-15.0	1.0
Stocks	*	0.7	-0.6	0.8	0.0	-0.1	0.0
Real Exports G&S	5.0	5.5	-2.3	-10.0	5.0	-20.0	3.0
Real Imports G&S	17.3	2.6	3.4	-15.0	7.0	-30.0	-0.5
Net exports	*	-2.3	1.2	-1.4	0.1	0.1	1.0

Change over the period, unless otherwise indicated. * contribution to GDP growth

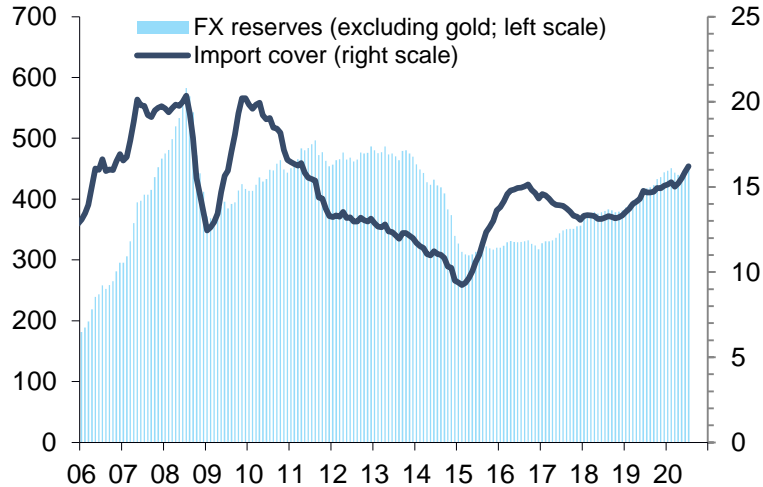
Sources: IHS Markit, national statistics, IMF, Allianz Research

The Balance of risks to our baseline U-shaped recovery scenario is to the downside. Triggers for a protracted crisis include:

- Longer health crisis / 2nd wave triggers new / more stringent lockdowns and drastic market dive
- Borders closed again until end-2020
- Systemic credit event leads to liquidity crisis
- Policymakers unable to restart growth (ineffective or too aggressive fiscal & monetary policies)

RUSSIA: EXTERNAL LIQUIDITY IS NOT A BIG PROBLEM FROM A MACRO PERSPECTIVE...

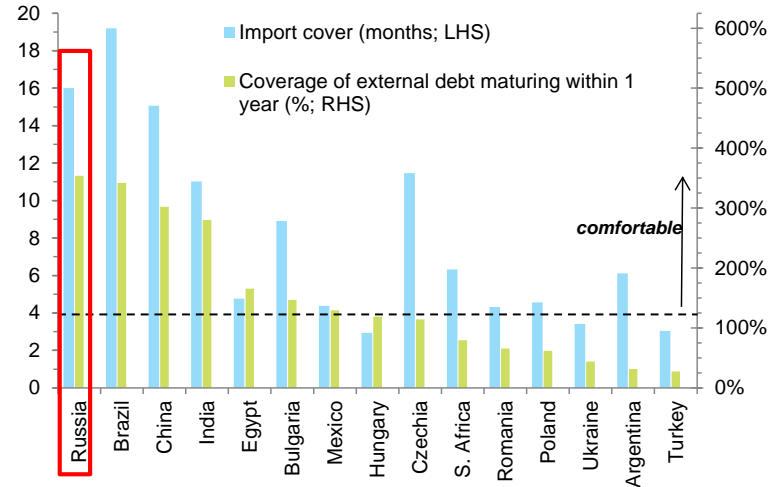
FX reserves (USD bn) and import cover (months)



Sources: Central Bank of Russia, Allianz Research

Russia's FX reserves have stabilized after the dive in 2015-2016, now providing approximately 16 months of import cover...

FX reserves in relation to short-term debt (on a maturing basis) and imports



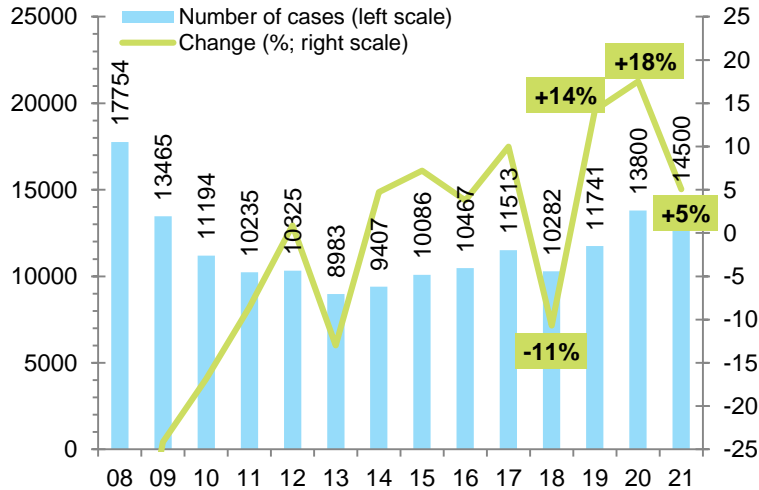
Sources: National statistics, Allianz Research

...or, in other terms, 350% of external debt falling due in the next 12 months.

These are comfortable levels, also compared to peers.

RUSSIA: ...BUT IT IS FROM A CORPORATE PERSPECTIVE

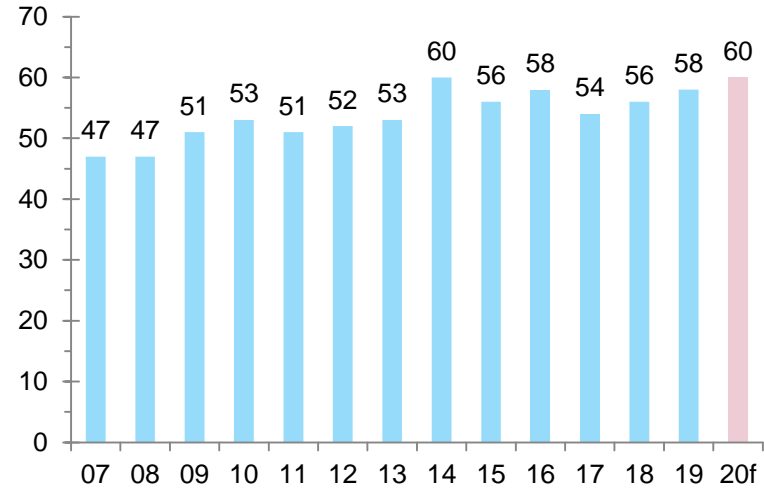
Corporate insolvencies (number and annual change)



Sources: National statistics, Euler Hermes

Corporate insolvencies forecast to rise by a cumulative +23% in 2020-2021.

Average Days Sales Outstanding (DSO) of listed companies (number of days)



Sources: Bloomberg, Euler Hermes

Average DSO in Russia increased already by 2 days to 58 days in 2019. It is expected to rise further in 2020-2021.

Although still below the global average (64 days in 2019), it signals rising difficulties to pay creditors.

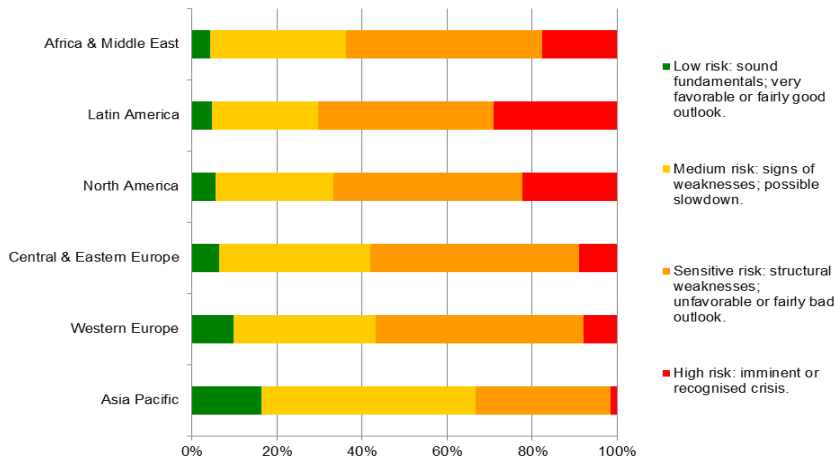
SECTOR OUTLOOK

04

GLOBAL PICTURE OF SECTOR RATINGS IN EULER HERMES: A TOTAL MONITORING OF 18 SECTORS IN 69 COUNTRIES

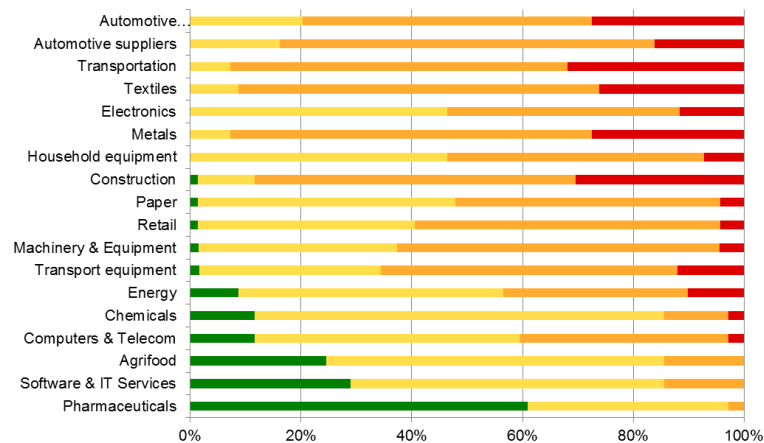


Sector risk ratings as of Q2 2020
(in number of sectors, by level of risk)



Source: Euler Hermes

Sector risk ratings as of Q2 2020
(in number of countries, by level of risk)



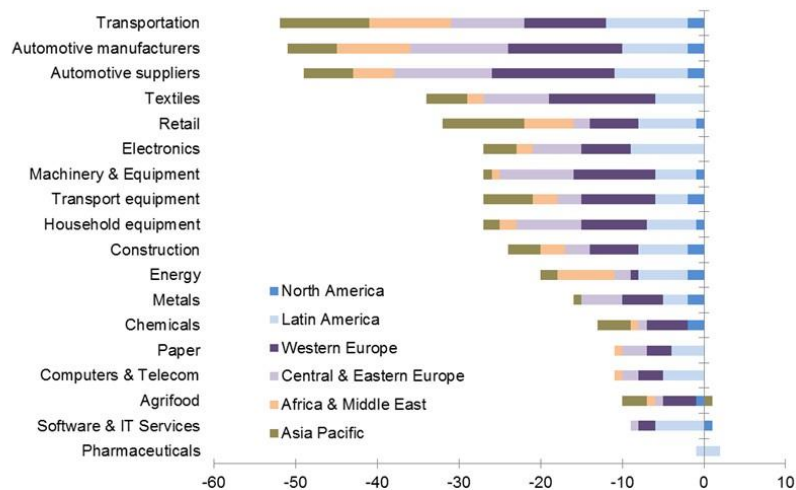
Source: Euler Hermes

Between Q4 2019 and Q2 2020, **Low risk** ratings fell from 12% to 9% of the total number of sector ratings (1,242). **Medium risk** ratings are now accounting for 36% of the total compared to 50% prior to the Covid-19 outbreak. On the opposite, **Sensitive risk** ratings have gone up from 33% to 44%, and **High risk** ones from 9% to 12%.

SECTORS MOST DOWNGRADED WORLDWIDE AS OF H1 2020: TRANSPORTATION, CARS, TEXTILES AND (NON-FOOD) RETAIL



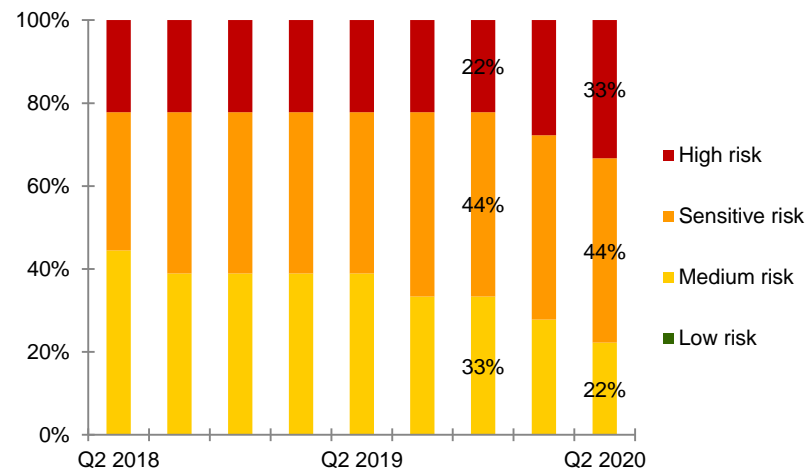
Changes in sector risk ratings, by sector and by region



Source: Euler Hermes

Sectors in the front-line of the Covid-19 outbreak were massively downgraded. Agrifood, IT Services and Pharma offer resilience. Most of **downgrades across Central and Eastern Europe** have dealt with transport-related sectors (Automotive and Transportation) in H1 2020.

Changes in the distribution of the 18 sector ratings in **Russia** (by type of risk level)



Source: Euler Hermes

In Q4 2019 before the Covid-19 outbreak, Russia had 4 sectors rated in 'High risk', 8 sectors in 'Sensitive risk' and 6 sectors in 'Medium risk'. **Two quarters later in Q2 2020**, 6 sectors were rated 'High risk', 8 sectors in 'Sensitive risk' and 4 sectors in 'Medium risk'.

SECTOR RISK RATINGS AS OF JUNE 2020: WATCH OUT FOR DIVERGENCES ACROSS CENTRAL AND EASTERN EUROPE

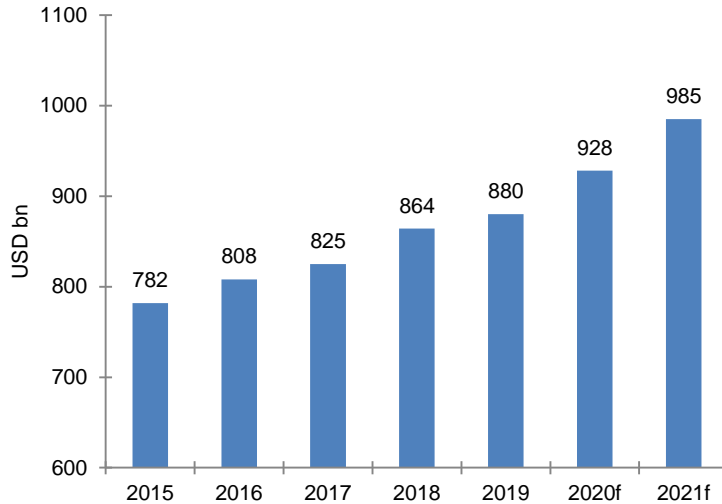


	Automotive manufacturers	Automotive suppliers	Construction	Transportation	Chemicals	Pharmaceuticals	Agrifood	Textiles	Paper	Electronics	Metals	Retail	Machinery & Equipment	Transport equipment	Software & IT Services	Household equipment	Computers & Telecom	Energy	
Russia	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Turkey	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Poland	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Czech Republic	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Romania	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Hungary	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Croatia	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Bulgaria	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Slovenia	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Lithuania	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Latvia	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Estonia	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Slovakia	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●

- Low risk: sound fundamentals; very favorable or fairly good outlook.
- Sensitive risk: structural weaknesses; unfavorable or fairly bad outlook.
- Medium risk: signs of weaknesses; possible slowdown.
- High risk: imminent or recognised crisis.

PHARMACEUTICALS: BROADLY IMMUNE WORLDWIDE

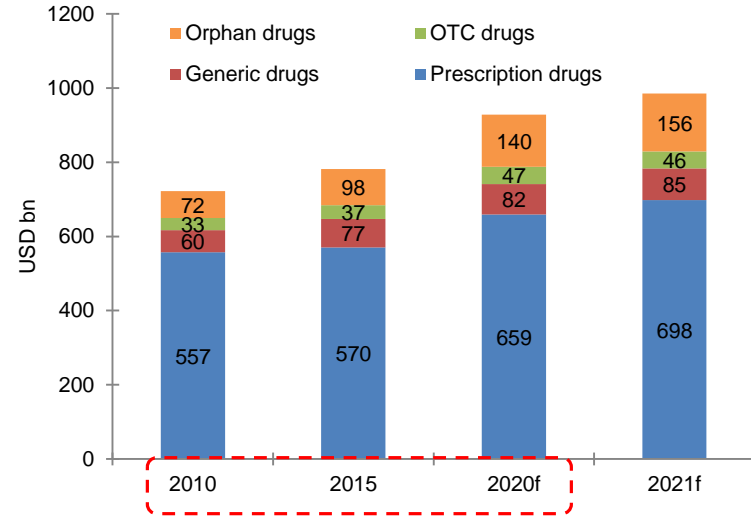
Global drug sales



Sources: Evaluate Pharma, Allianz Research, Euler Hermes

Pharma revenue have risen at a **ten-year CAGR of 3%** since 2010. **Global drug sales** expected to grow twice as much in 2021 (around +6%) due to momentum in healthcare policies.

Pharmaceutical sales worldwide (by type of medication)



Sources: Evaluate Pharma, Allianz Research, Euler Hermes

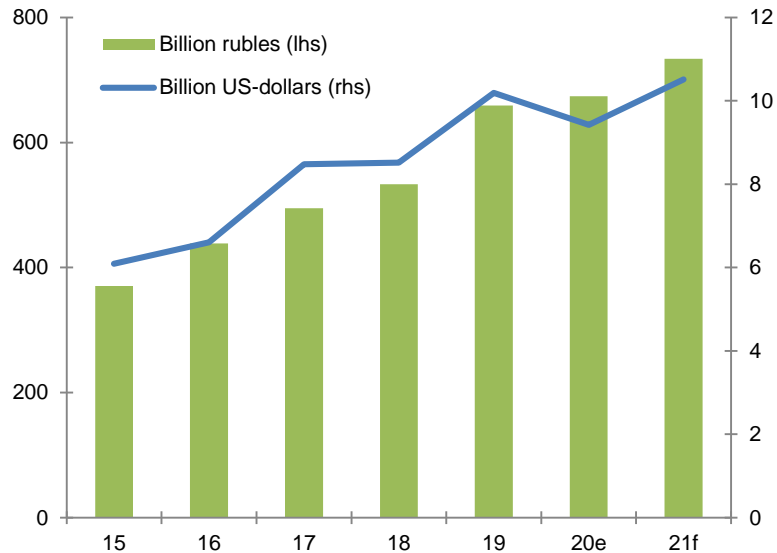
Drug sales growth rate expected at +6% in 2021 fueled by:

- The faster growth in very profitable **orphan drugs** for Big Pharma.
- A spurt in **prescription drug** sales, especially vaccines.

PHARMACEUTICALS: RUSSIA'S MINOR WEIGHT IN THE SECTOR



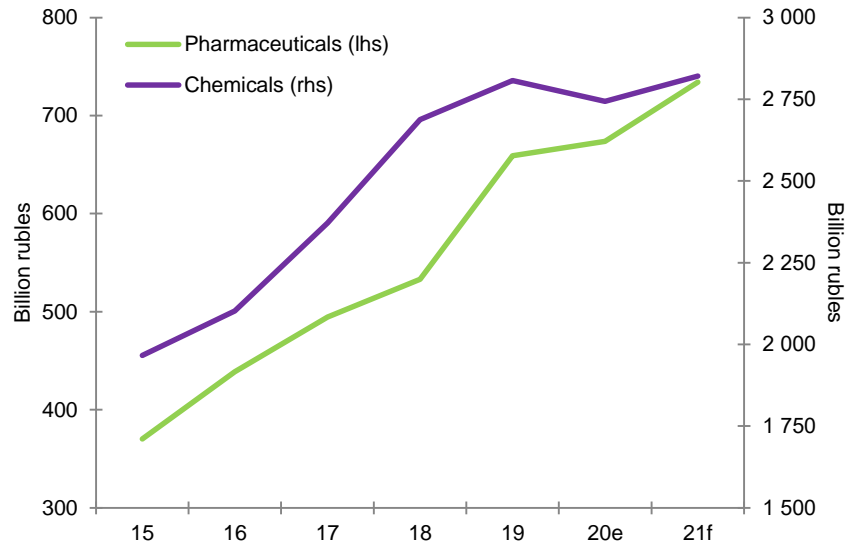
Russian pharmaceutical sales, by currency



Sources: Oxford Economics, Allianz Research, Euler Hermes

Denominated in US dollars, **Russian drug sales** account for a tiny **1.1% of global pharmaceutical sales**.

Russian sales (RUB bn), by sector



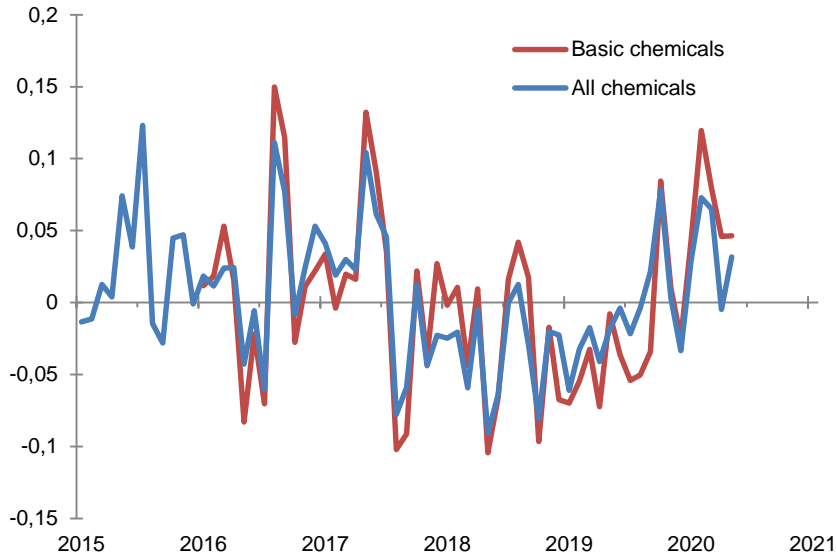
Sources: Oxford Economics, Allianz Research, Euler Hermes

Russian **pharmaceutical** sales account for **hardly a quarter** of Russian sales in whole **chemicals**.

CHEMICALS: RUSSIAN SALES GROWTH AT A STANDSTILL



Change (y/y) in Russian chemical output

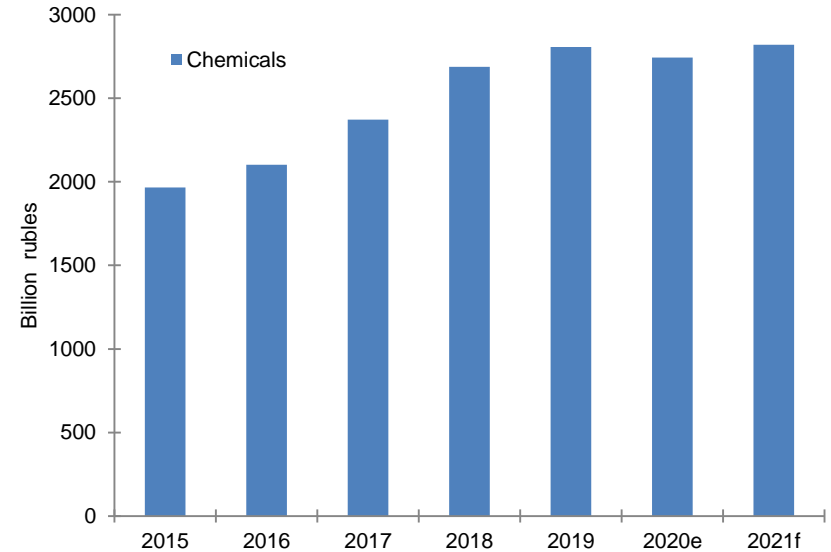


Sources: Global Insight, Allianz Research, Euler Hermes

Volumes of **basic chemicals** (all chemicals) were up +5% m/m (respectively +3%) in Russia at the end of last May.

Russia's chemicals is **more positioned in upstream production chain** characterized by large volumes of lower value adding products.

Russian chemical sales (RUB bn)



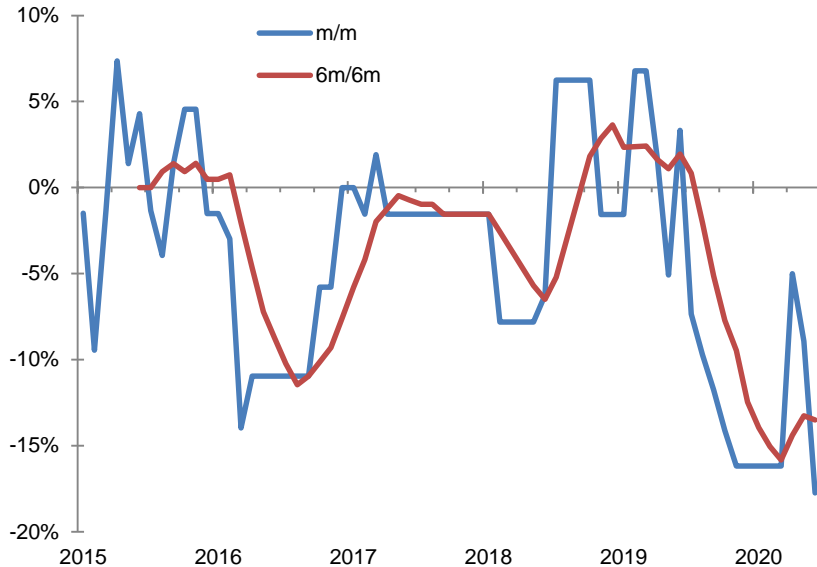
Sources: Oxford Economics, Allianz Research, Euler Hermes

Downward pressure on prices has started curtailing Russian sales growth in chemicals since the beginning of the year.

CHEMICALS: PRICING PRESSURE IN THE UPSTREAM SECTOR

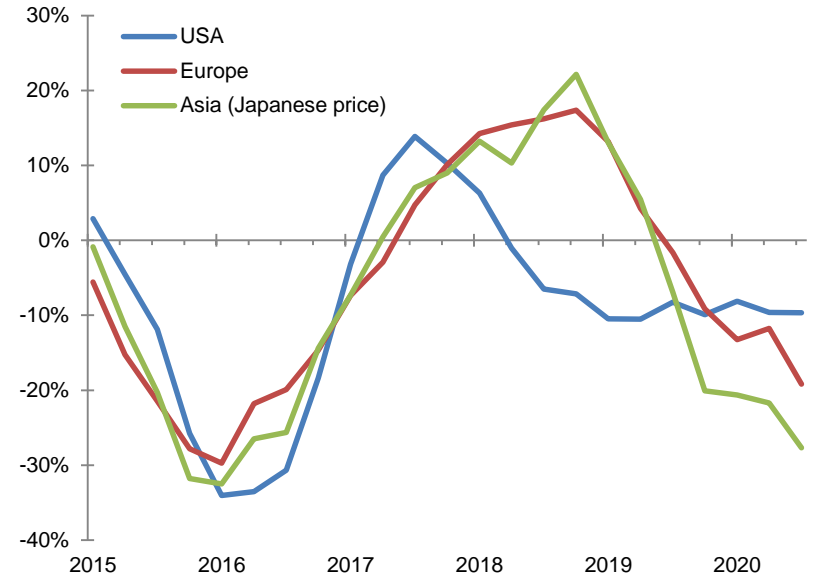


Change in NPK (Black Sea) fertilizer price



Sources: Bloomberg, Allianz Research, Euler Hermes

Change (4q/4q) in ethylene price, by region



Sources: Nexant, Bloomberg, Euler Hermes

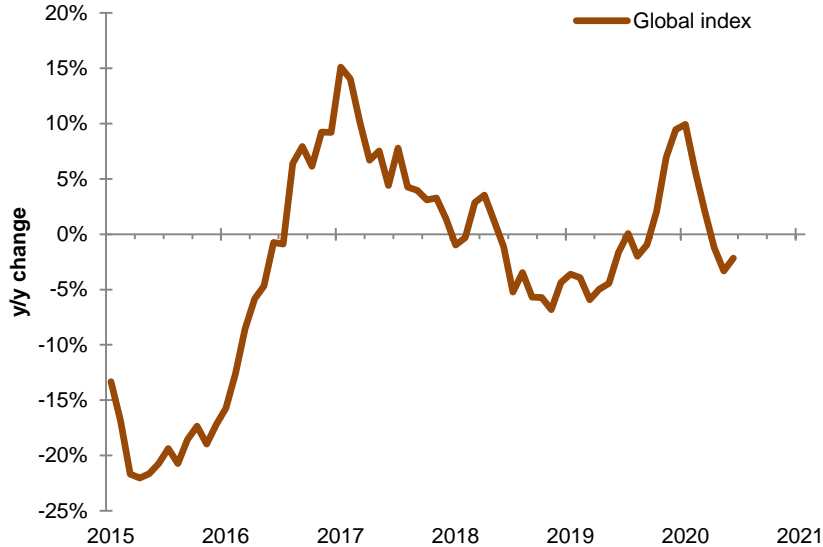
Russia's agrochemicals has coped with plummeting prices in fertilizers, down -13% (6m/6m) at the end of June, compounded by the struggling farming outlet.

Falling European (as much as Asian) ethylene price has been weighing on Russian sales in upstream chemicals.

AGRIFOOD (UPSTREAM): WORLD PRICES UNDER PRESSURE



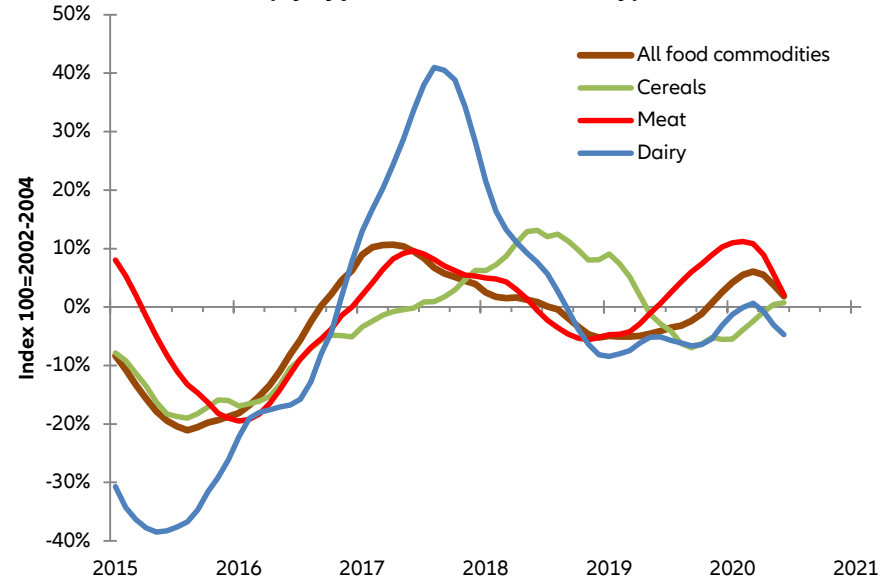
Global commodity food price index (change %, y/y)



Sources: FAO, Bloomberg, Allianz Research, Euler Hermes

The rebound in the global commodity food price that had begun last fall was put suddenly to a halt by the Covid-19 outbreak. It has turned back into negative growth since then.

Change (% 6m/6m) in commodity food prices (by type of food commodity)

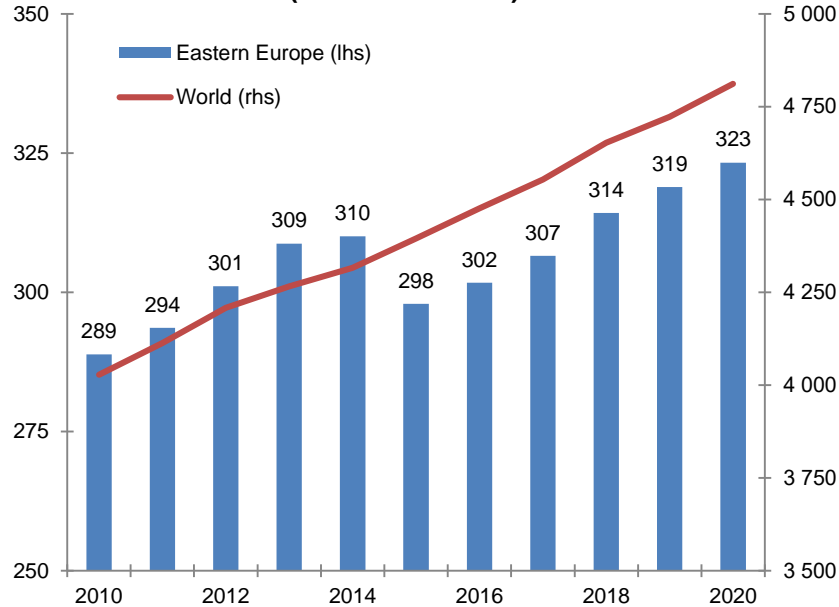


Sources: FAO, Bloomberg, Allianz Research, Euler Hermes

Low commodity food prices again are likely to hit sales of largest agricultural producing countries in the year ahead, among which stands out Russia.

AGRIFOOD (DOWNSTREAM): SALES ON THE UPSIDE IN 2020

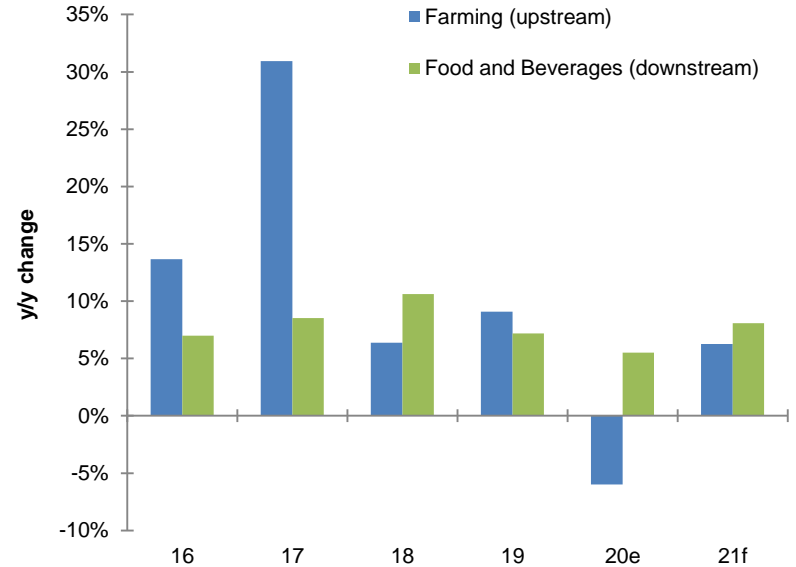
**Market size of the agrifood* sector
(value in USD bn)**



*Agrifood: Manufacturing of food and beverages

🔮 Expected growth rate of the agrifood market in 2020 vs. 2019: +1.9% worldwide and **+1.2% in Eastern Europe (Russia incl.)**

**Russian agrifood sales growth
(by segment, RUB bn)**



- ✓ Farming sales on a downtrend: -6% y/y expected in 2020
- ✓ **Agrifood sales on an uptrend: +5.5% y/y expected in 2020**

THANK YOU

Allianz Research

Global Economic Outlook

August 2020

