January / February 2020

TREASURY LETTER

Focusing on institutional and corporate investor needs for liquidity solutions

Pascal BLANQUÉ
Group Chief Investment Officer

RISK-TAKING AROUND THE 3G: GEOPOLITICS, GROWTH, GREEN

At the start of the 2020s, markets continued to be dominated by **geopolitical issues**. Now, **growth expectations are becoming the main driver of the market**. That's why the recent volatility due to the news about the spreading of the corona virus in China is higher than in the case of US-Iran tensions, as the epidemic could harm China (and global growth) if not contained soon (not our base case at the moment). **Green investing and climate change are increasingly themes to watch in 2020**. Overall, green objectives could be the catalyst for fiscal push, but they could also become the new frontier for trade wars as the European Green Deal considers the possibility of an EU carbon border tax.

From a top down perspective, the interplay between geopolitics, growth and green issues will likely be the main theme driving the risk-on/risk-off mood. From a bottom-up standpoint, credit market dynamics should be the key driver of the financial cycle. This backdrop translates into some key investment convictions:

- **It is not a time to be too defensive**. Some short-term issues related to the coronavirus may open buying opportunities to add to risk assets. If the situation in China stabilises, growth momentum may improve in a low yield environment. Beyond the short term, when US equities may prove more resilient, Europe is the market in which to play cyclical value themes.
- **In bonds, the focus remains less on the duration play and more on credit picking**. Europe, EM bonds and US securitised assets are the way to play the continuing risk-on phase.
- **Selection in focus**. Given tighter spreads, more expensive equity markets globally, and an overall exposure to the "growth factor" across the board, selection is crucial so that investors are not caught in less valuable names that could hurt returns if volatility rises.
- Finally, **ESG will be the area that sees new regulations**. This should be the case in the financial sector as well. As shareholders are becoming increasingly demanding on all ESG fronts, we expect to see a rise in the impact of ESG on market performances.

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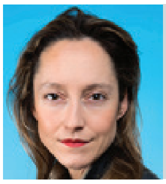
THE STRATEGIST VIEWPOINT
CENTRAL BANKS MAINTAIN DOVISH STANCE, BALANCE EXPANSION CONTINUES



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The global situation has changed dramatically over the past few weeks. The coronavirus poses new risks to stabilizing the world's economic growth. It has the potential to shock the economy via:

- **Direct impacts.** What happens in China now matters for global growth. The Chinese economy now accounts for about 40% of global economic growth. We fear lower tourism from China: the Chinese account for 20% of total global tourism spending. We also fear lower goods exports to China. China is a key trading partner for many countries, including South Korea, Japan and Germany. Last but not least, we fear global supply chain disruption.
- **Indirect impact.** We consider that tighter financing conditions due to risk-off market moves could seriously penalize global growth, especially given how late we are in the cycle.

Going forward, we expect central banks to continue to play a key role and to do everything possible to maintain accommodative financing conditions. At this stage, it is difficult to assess the magnitude of the damage the virus will do to the economy. In any case, the near-term impact is quite large. Indeed, the market is already pricing in more than two Fed rate cuts and a 10bp ECB rate cut this year. Central banks are so far in a wait-and-see mode, and the latest communications have shown no evidence of a transcendent message.

On the Fed side:

- Fed officials have shown cautious optimism on the US economy, despite new risks. Fundamentals supporting household spending have remained strong. "Job gains have been solid, on average, in recent months, and the unemployment rate has remained low." However, Jerome Powell reiterated that "business fixed investment and exports remain weak" and "market-based measures of inflation compensation remain low."
- Cleveland Fed President Loretta Mester said "we don't want to overreact to the volatility in the markets. (...) The coronavirus is hard to give a magnitude to". It is too soon to say whether any virus fallout will force a material reassessment of the economy.
- Kaplan expects the oil industry to continue "restructurings, consolidation where possible, and general belt tightening" this year, because of slower production growth.

On the ECB side:

- ECB chief economist Philip Lane said "The base case is a V-shape economic impact". He added that, as long as the impact is concentrated in "the first weeks and months of 2020, this doesn't particularly have implications for the key medium-term element of our forecast".
- We are in a late-cycle economy. The threat of a growth downturn is now exacerbated by the global health crisis, after last year's trade war, which weighed on world trade. Today, the vast majority of bonds in Europe and Japan are trading at negative yields to maturity. This leaves the ECB in a tricky situation with a lack of ammunition in the event of a more adverse scenario. It should be noted that the Fed has more leeway to support its domestic economy.

CENTRAL BANKS LIQUIDITY WATCH

Central Banks Key interest rates	
ECB	
Main Refinancing rate	0.00%
Deposit rate	-0.50%
Marginal Lending rate	0.25%

Since November 2019, Christine Lagarde, former Managing Director of IMF has taken up her duties as President of the European Central Bank (ECB). She succeeds Mario Draghi, who was President of the ECB from November 2011 to 31 October 2019.

In December 2019, Christine Lagarde confirms Mario Draghi's accommodative tone. She announced the launch of a strategic review of ECB's monetary policy in 2020. The objective is to assess ECB's missions (price stability) and its tools. The review will notably take into account the massive technological and climate changes as well as the aspects of inequality.

ECB 2019 Review

In 2019, the markets performed very well, primarily supported by the accommodative turn of the major central banks. The Fed and the ECB have taken note of the macroeconomic slowdown and have eased their monetary policy in a context of increased trade tensions.

For the ECB, the change in tone came at **the Sintra Conference in June 2019**.
It then materialized in **September** 2019 with the announcement of a new package of measures, both conventional - lowering the deposit facility rate by 10 bps **to -0.50%** - and non-conventional - reactivation of the QE (asset purchase programme) at a monthly pace of EUR 20bn with no end date, introduction of a tiering system on banks' excess reserves and easing of TRLTRO III conditions.

> ***"The Governing Council reiterated the need for monetary policy to remain highly accommodative for a prolonged period of time"***

Christine Lagarde 01/2020

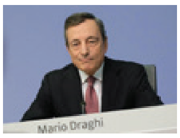
2019

01/24 — ECONOMIC SITUATION ASSESSMENT
Weaker growth & increased uncertainty

03/07 — EASING
Forward guidance & TLTRO III announcement

06/17 — SINTRA
Dovish tone
"Additional stimulus will be required"

09/12 — NEW PACKAGE
- Deposit facility rate cut to -0.50%.
- QE 2
- Tiering



10/24 — BYE BYE MARIO !
Mr Draghi's last meeting as president of the ECB

12/12 — HELLO CHRISTINE !
1st meeting of C.Lagarde
Accommodative tone

EURO SHORT TERM PRIMARY MARKET ACTIVITY

Decline of activity on the short-term primary market at the beginning of the year

In 2019, the euro short-term primary market recorded an emissions volume of €43.9 Bn, 27% lower than in 2018. The 2019 volume is also lower than in 2017, which means that not all the amounts issued in 2017 and maturing in 2019 have been renewed. Companies issued €21 Bn of debt, compared to €22.9 Bn for financial institutions, while in 2018, €27 Bn of corporate debt was issued compared to €33 Bn of financial debt. In 2019, corporate and financial issuers issued in a relatively balanced manner, both in terms of volume and number of issuers.

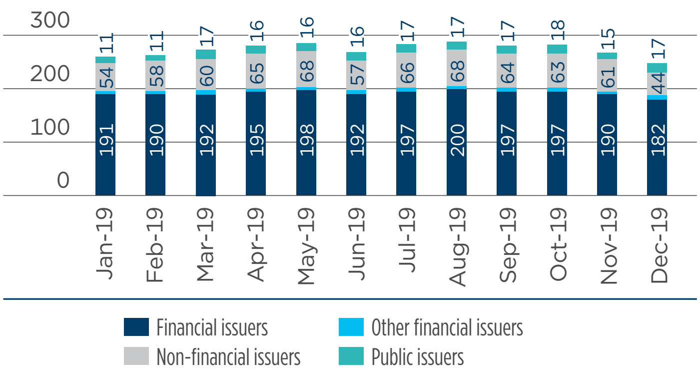
Long maturities continue to attract

Unlike short maturities, the primary market continues to be active on the longer end of the curve, with total issuance volume across all maturities of €557bn in 2019 compared to €406bn in 2018 and €445bn in 2017. The context of low interest rates (the 10-year Bund lost 43 bps in 2019 and reached the historic low of -70bps), coupled with a regulatory environment that encourages banks to finance over the long term (Basel III), and the recovery of Quantitative Easing are at the root of this phenomenon.

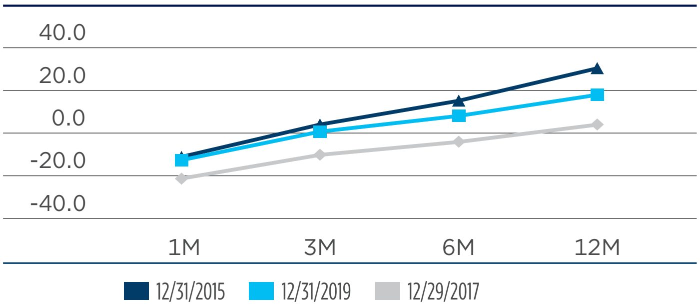
The dynamism of the NEU CP market

On the NEU CP market, outstandings remained stable over 2019 with an outstanding amount at the end of December of €249.5 bn. The breakdown between financial debt (75%) and corporate debt (18%) remained fairly constant over the year. However, the number of corporate issuers exceeded the number of financial issuers, with an average of 104 corporate issuers for 77 financial issuers over the year. Banks tend to issue on the long side of the money market curve (1 year), while corporate issuers were more present on the 0-3 month segment.

NEU CP outstandings

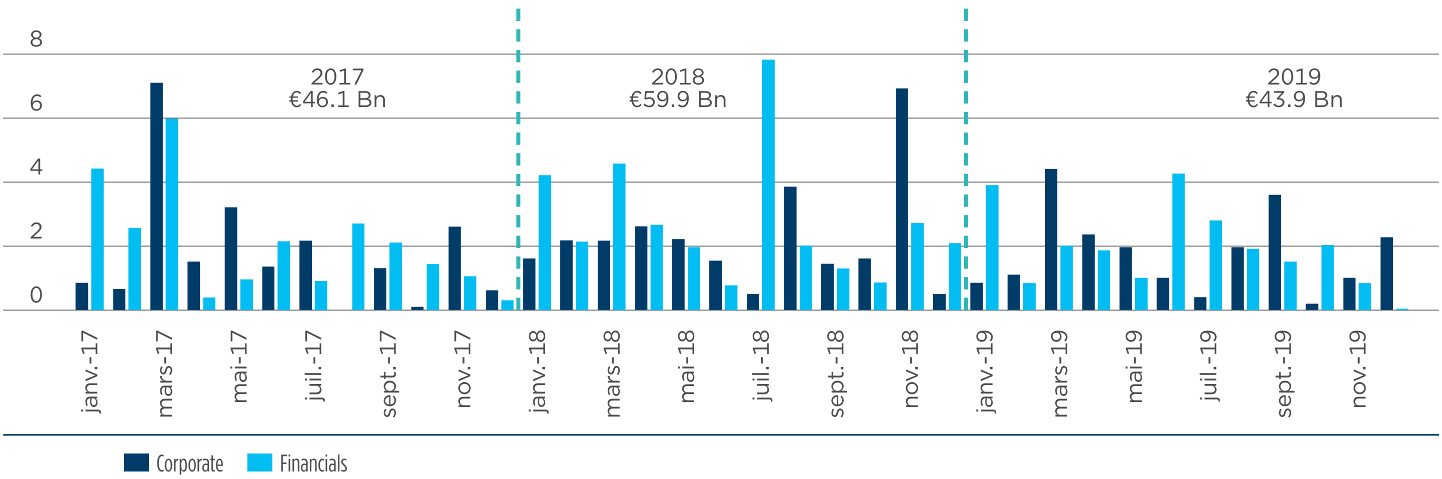


Source: Amundi, Banque de France. Données au 31/12/2019.



Source: Amundi Trading Desk as of 31/12/2019.
Illustration with French Banks rated A1/P1.

Euro Short Term Primary market (<2 years, >€100 million, IG private issuers, unsecured issuance) in EUR Billion



Source: Amundi Investment Management, Bloomberg . Data as of 31/12/2019. IG issuers, below 2 years except govies and quasi-govies.

MARKET SNAPSHOT AND KEY INDICATORS

MONEY MARKET

	SPOT	LOW	1M RANGE	HIGH
EURO	bp			
EONIA*	**-45.3**	-47.0		-25.2
OIS 1 M*	**-45.2**	-47.9		-35.4
OIS 3 M*	**-45.6**	-51.3		-35.2
OIS 6 M*	**-46.8**	-56.3		-34.7
OIS 12 M*	**-48.8**	-63.6		-33.4
EURIBOR 3M	**-40.2**	-44.8		-30.6

	SPOT	LOW	1M RANGE	HIGH
US	bp			
FedFunds*	**159**	154		245
OIS 1 M	**158**	155		243
OIS 3 M	**156**	154		242
OIS 6 M	**151**	147		246
OIS 12 M	**140**	131		264
ICE LIBOR USD 3M	**1.70**	1.69		2.82

	SPOT	LOW	1M RANGE	HIGH
GBP	bp			
SONIA*	**71.0**	44.0		71.3
OIS 1 M*	**71.1**	45.0		71.3
OIS 3 M*	**69.3**	46.0		71.8
OIS 6 M*	**65.6**	50.3		75.6
OIS 12 M*	**59.7**	44.5		84.8
LIBOR 3M	**75.4**	60.5		93.1

FOREX MAJORS

	SPOT	LOW	1M RANGE	HIGH
EUR/USD	**1.08**	1.08		1.2380
EUR/GBP	**0.84**	0.83		0.9312
EUR/JPY	**120.35**	116.26		133.1100
GBP/USD	**1.29**	1.20		1.4339
USD/JPY	**111.37**	105.30		114.5300

GOV RELATED BONDS

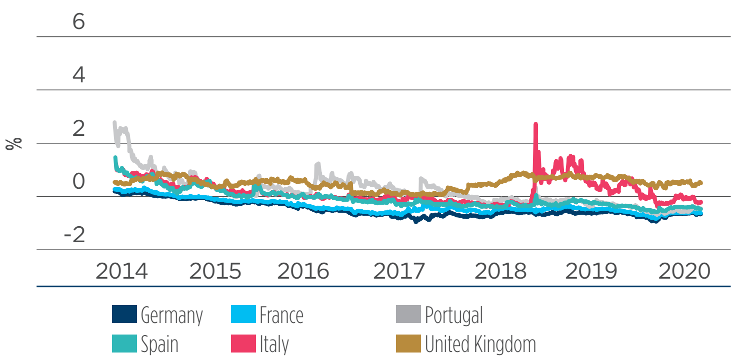
	SPOT	LOW	1M RANGE	HIGH
Bunds	%			
2 Y	**-0.64**	-0.93		-0.49
5 Y	**-0.62**	-0.93		0.01
10 Y	**-0.42**	-0.71		0.65
30 Y	**0.10**	-0.27		1.34
UK Govt. Bonds	%			
2 Y	**0.52**	0.32		0.93
5 Y	**0.47**	0.22		1.29
10 Y	**0.60**	0.41		1.73
30 Y	**1.09**	0.92		2.09

	SPOT	LOW	1M RANGE	HIGH
US Govt. Bonds	%			
2 Y	**1.42**	1.31		2.97
5 Y	**1.41**	1.31		3.09
10 Y	**1.57**	1.46		3.24
30 Y	**2.01**	1.95		3.45
Japanese Govt. Bonds	%			
2 Y	**-0.15**	-0.34		-0.09
5 Y	**-0.15**	-0.38		-0.05
10 Y	**-0.05**	-0.29		0.16
30 Y	**0.37**	0.11		0.96

Data as of 20/02/2020. *Data as of last tradable end of day

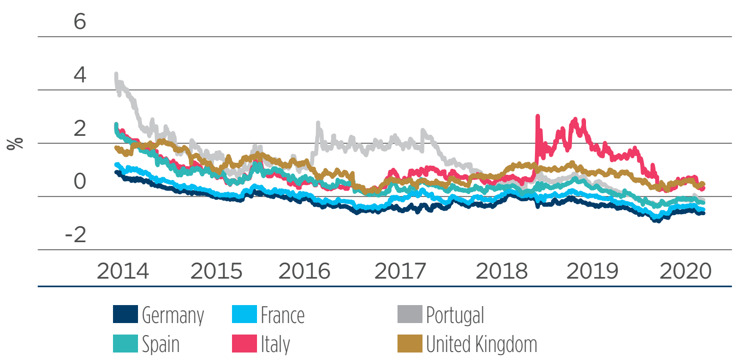
Spot

Sovereign 2 Years



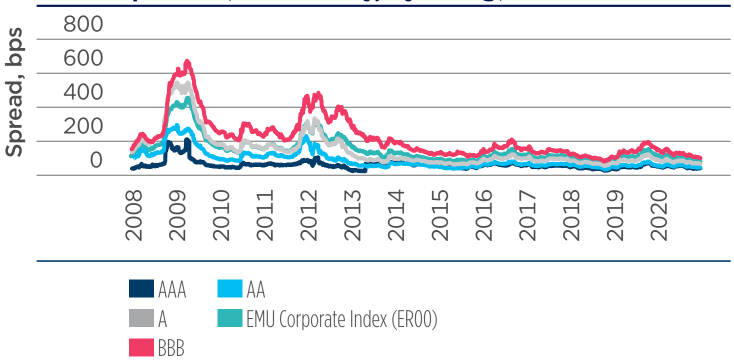
Source: Amundi, Merrill Lynch (20/02/2020)

Sovereign 5 Years



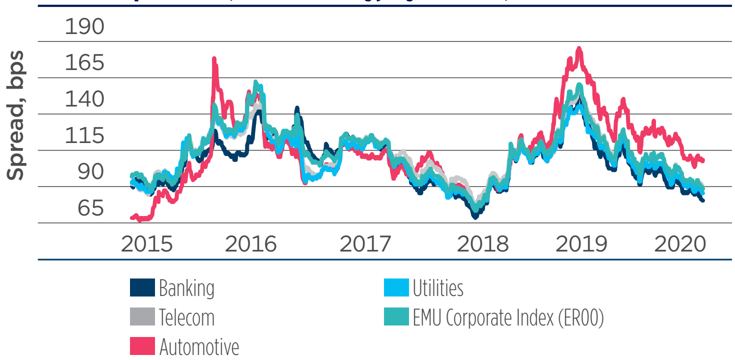
Source: Amundi, Merrill Lynch (20/02/2020)

Credit spreads (vs Germany, by rating)



Source: Amundi, Merrill Lynch (20/02/2020)

Credit spreads (vs Germany, by sector)



Source: Amundi, Merrill Lynch (20/02/2020)

MACROECONOMIC PICTURE BY AREA

Americas

UNITED STATES

US growth slows, Uncertainty switches from trade to politics

- Domestic demand keeps slowing, with investment spending hit worse than private consumption. Business climate surveys show resilient services and still suffering manufacturing, but recently signs of a tentative bottoming-out are appearing.
- Seasonal factors and base effects lifted December retail sales, but overall consumption should continue to moderate gradually. Consumer confidence is compatible with decent consumption growth in the near future but softening signs for aggregate income growth coming in tell us consumption should moderate going forward. On the investment front, spending plans have significantly moderated, although there have been few signs of tentative bottoming.
- Inflation remains benign, although in the near term some upside movement is materialising (2.3% core and headline inflation); yet core PCE (1.6% YoY) remains close to, but below, the Federal Reserve's target.
- The Fed considers its policy stance appropriate and well calibrated to support moderate growth and resilience on the labour market. Yet, as we expect some disappointment to come on growth, we are pencilling in another cut in 2020.

Risk Factors

- The Phase One deal may help sentiment in the short run, yet we think past trade actions have materially impacted the economy and will gradually be more visible
- Political uncertainty to rise around the Democratic candidate's program
- Geopolitical developments could pose an upside risk to oil prices if they generate a persistent supply shock, impacting our inflation outlook

LATAM

- Macro momentum in the region remained stable and mildly positive. Brazil macro momentum has, in a way, stabilized but remains on the positive side, followed by Colombia. Mexico GDP decelerated in Q4 less than expected, at -0.3% YoY vs -0.5% YoY forecast.
- Inflation spiked in Brazil in December to 4.3% YoY from 3.3% YoY in November. The main driver was the food component, contributing by 1.3% YoY out of 4.3%. After two months of readings below 50% YoY, inflation in Argentina rose again in December to 50.6% YoY.
- Central banks in the region remained on hold, while the BCB Governor opened the door to further mild easing ahead.
- Talks between the Argentina government and the IMF began to deal with debt restructuring to avoid a default. A detailed timeline is expected to be released by February. On the 29th of January, the US president signed the USMCA, the trade deal replacing NAFTA.

Risk Factors

- Economic momentum overall mildly positive
- Inflation is overall benign. Brazilian CPI spiked on high food prices
- CBs in the region on hold
- USMCA signed and Argentina has begun talks with the IMF

Europe

EUROZONE

Bottoming out

- Q3 GDP growth (+0.2% QoQ, 1.2% YoY) was slightly better than expected; economic activity was supported by personal consumption, while fixed investments moderated after a very strong performance in Q2.
- The Q4 bank lending survey confirms the relative strength of the consumer sector, with strong net demand from households across the board; though, while conditions and standards remain broadly unchanged, lending demand from corporates remains weak in aggregate.
- Preliminary Euro Area composite PMI in January remained steady, resulting from an improvement in manufacturing and a softening in services, which warrants monitoring.
- While remaining subdued, the year ended with an upside note on inflation, as both core and headline moved to 1.3 YoY.
- With this backdrop, we expect the ECB to remain on hold this year, as long as the economies develop according to a gradual recovery/stabilisation scenario while financial conditions remain accommodative.

Risk Factors

- The signature of the Phase One deal should provide support to sentiment, but data on global trade flows are still having a hard time finding a bottom. The external sector may still be a drag
- Domestic political tensions may still resurface during the year
- Lack of strategic plans/ reforms implementation and design, due to political fragmentation
- While the hard Brexit risk have been removed, the risks of Brexit "cliffs" persists

UNITED KINGDOM

Growth is being driven by public expenditure but slowed by the uncertainty as to what will happen after 2020

- Brexit went smoothly on 31 January 2020. The latest economic signals are mixed.
- The increased public expenditure planned by the Conservative government should provide a boost to growth.
- Uncertainty surrounding the future trade framework with the EU (after the transition period expires at the end of 2020) will nonetheless continue to impede investment.

Risk Factors

- A trade shock at the end of 2020 if a free-trade agreement cannot be signed with the EU by then

Asia

JAPAN

Virus concerns to hamper a reacceleration from the Q4/19 trough

- Consumer spending has finally started showing signs of recovery from the VAT hike-induced weakness, once households had realized fiscal compensation to disperse cashless settlements and to assist child-raising. Exports stopped falling, as demand for electronic devices from China gained momentum.
- The Diet approved the FY19 supplementary budget, which contains a part of the recent sizable economic package. Meanwhile, base money growth has accelerated, as the BOJ has suspended its tapering of JGB buying since December.
- However, inbound tourism into Japan is bearing the brunt of the outbreak of the coronavirus, now that one-third of foreign visitors come from Greater China, which normally celebrates the Lunar New Year holidays. Disruption of supply chains could exacerbate problems in the auto industry, which is already struggling with poor sales.

Risk Factors

- The depth, duration and dispersion of the outbreak of the coronavirus
- The Japanese yen soars by attracting risk-averse money
- Consumer demand fails to recover on an anaemic spring wage negotiation

CHINA

- Most of the economic data monitored rebounded in December (stable property sector and infrastructure Investments). GDP figures for Q4 2019 released as expected at 6.0% YoY. Notwithstanding the rebound, the sudden spreading of the coronavirus out of Wuhan is posing serious downside risk to growth in China.
- Headline inflation remained stable at 4.5% YoY in December and food prices shifted slightly.
- The policy mix once again proved only marginally supportive: 50bps RRR cut at the beginning of the year, and LPR on hold in January at 4.15%.
- Even so, it’s rational to expect that the virus impact will fade away getting out from the winter season, the incremental lock-down/travel ban and their duration will determine how much Chinese growth and, to a far greater extent than in 2003, global growth, slows.

Risk Factors

- Improving macro momentum in China is offset by negative news related to the spread of the coronavirus
- Still high inflation with a deflecting food contribution
- The policy mix is still mildly supportive

AMUNDI'S RESEARCH FORECAST

Macroeconomic forecasts (4 February 2020)						
Annual average (%)	Real GDP growth %			Inflation (CPI, yoy, %)		
	2019	2020	2021	2019	2020	2021
US	2.3	1.9	1.8	1.8	2.2	2.1
Japan	1.2	0.7	0.8	0.7	0.7	0.6
Eurozone	1.2	1.0	1.2	1.2	1.2	1.5
Germany	0.6	0.7	1.1	1.5	1.5	1.5
France	1.2	1.1	1.3	1.3	1.3	1.5
Italy	0.2	0.2	0.4	0.7	0.8	1.2
Spain	2.0	1.5	1.5	0.7	1.2	1.2
UK	1.3	1.1	1.4	1.8	2.2	2.1
Brazil	1.1	1.7	1.8	3.7	4.6	4.6
Russia	1.3	1.7	2.5	4.7	3.2	4.0
India	5.1	5.1	5.6	3.7	5.9	4.2
Indonesia	5.0	5.0	5.1	3.0	3.1	3.8
China	6.2	5.6	5.7	2.9	3.4	1.7
Turkey	0.2	1.8	2.2	15.6	11.3	9.8
Developed countries	1.7	1.4	1.5	1.5	1.7	1.7
Emerging countries	4.1	4.1	4.4	4.0	4.4	3.4
World	3.1	3.0	3.3	3.0	3.3	2.8

Key interest rate outlook					
	20/02/20	Amundi + 6m.	Cons Q2 /20	Amundi + 12m.	Cons. Q4/20
US	1.75	1.50	1.60	1.50	1.55
Eurozone	-0.50	-0.50	-0.50	-0.50	-0.50
Japan	-0.10	-0.20	-0.11	-0.20	-0.06
UK	0.75	0.75	0.81	0.75	0.95

Long rate outlook

2Y. Bond yield	20/02/2020	Amundi + 6m.	Forward + 6m.	Amundi + 12m.	Forward +12m.
US	1.39	1.30/1.50	1.60	1.30/1.50	1.63
Germany	-0.66	-0.70/-0.50	-0.58	-0.70/-0.50	-0.57
Japan	-0.16	-0.30/-0.20	-0.13	-0.30/-0.20	-0.14
UK	0.50	0.40/0.60	0.39	0.40/0.60	0.44

10Y. Bond yield	20/02/2020	Amundi + 6m.	Forward + 6m.	Amundi + 12m.	Forward +12m.
US	1.52	1.70/1.90	1.90	1.50/1.70	1.96
Germany	-0.45	-0.20/0.00	-0.13	-0.40/-0.20	-0.08
Japan	-0.05	-0.10/0.10	0.03	-0.10/0.10	0.06
UK	0.57	0.80/1.00	0.81	0.80/1.00	0.87

Currency outlook					
	20/02/2020	Amundi + 6m.	Consensus Q2 2020	Amundi + 12m.	Consensus Q4 2020
EUR/USD	1.08	1.13	1.13	1.14	1.16
USD/JPY	112	107	108	105	107
EUR/GBP	0.84	0.86	0.85	0.86	0.85
EUR/CHF	1.06	1.12	1.11	1.10	1.12
EUR/NOK	10.06	9.79	9.83	9.91	9.70
EUR/SEK	10.59	10.50	10.50	10.44	10.40
USD/CAD	1.32	1.30	1.31	1.27	1.30
AUD/USD	0.66	0.69	0.69	0.69	0.70
NZD/USD	0.63	0.65	0.66	0.67	0.67
USD/CNY	7.02	7.05	7.00	7.10	6.93

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