Vontobel

Investors' Outlook

One virus doesn't make a winter

March 2020

Asset Management
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One virus doesn't make a winter

Dear readers,

Like an unexpected disease befalling Venice in Thomas Mann's famous novella[1], a hitherto unknown coronavirus has engulfed Europe seemingly out of the blue. What could illustrate our fears better than the Adriatic town's cancellation of part of its cherished *Carnevale?* Or, to take a broader view, Italy's closure of some of its football stadiums? As the virus is spreading, things could deteriorate further. While we expect a significant drop in global economic growth, we still expect a recovery towards the summer.

— While "Covid-19" is not yet a pandemic, it looks set to be classified as such given the rising number of confirmed cases around the world, also increasingly outside of China (see chart 1). In Europe, Italy seems particularly hard hit. While it is too early to gauge the impact on Europe's third-largest economy, it is worth noting that most cases occurred in the economically strongest Italian region of Lombardy – it accounts for 25% of the country's GDP – with Italy's financial capital Milan also affected.

— The number of affected countries seems to be growing by the day. These include Japan and South Korea, whose economies are hard-wired into China's and depend on Chinese tourists (also see Macro Highlights section on page 6 and our recent market update "Coronavirus spread points to increased volatility"). The proximity of Asian markets to China makes it the region most exposed to the virus outbreak. We have lowered our forecasts for most markets outside of Asia as well (see chart 2).

Fundamental silver lining

Before the Covid-19 outbreak, the economy was doing fine. Global and regional purchasing managers' indices (PMIs) started showing a recovery in manufacturing and services PMIs never really caught the flu. Yet there are subcomponents of the PMIs indicating stress levels in supply chains.

— Labor markets are generally going strong in the US and Europe. Inflation is under control, which leaves room for supportive monetary policies. The People's Bank of China's quick liquidity response, which helps to contain the fallout from the health crisis, is likely to feed through into the economy. We expect the US Federal Reserve, which cut the key rate by 50 basis points on March 3 in an emergency move, to cut one more time over the next 12 months. In our opinion, the European Central Bank will follow suit in lowering their key rates while additionally providing liquidity through other measures. We believe the Swiss National Bank for its part will most likely cut benchmark rates, too.

Watch Bernie Sanders surge

As far as financial markets are concerned, Donald Trump's approval ratings, remarkably closely correlated to the broad S&P500 index's moves, are on the up again. It will be interesting to watch who among the Democratic Party hopefuls will emerge as the incumbent's challenger in the November presidential elections. Currently, Vermont Senator Bernie Sanders seems to be ahead. Were he to win, America could face a socialist-tinged government program. The probable further spread of the coronavirus in the US might give the Sanders campaign another boost as he supports a strong public healthcare system.

Economic outlook tainted by Corona

While the virus volley to the global economy will hit first-quarter performance and also weaken the second quarter, our prediction of "sluggish growth" for 2020 remains valid. However, we are getting closer to a "sharp slowdown" scenario. Still, we are reaffirming a neutral stance on equities, bonds, and commodities. Within equities, we prefer the UK for its post-Brexit catch-up potential, to virus-hit Japan. Within the bond segment, we have a relative preference for US Treasuries versus European government bonds, as the pressure on the Fed to ease is increasing. Emerging-market local debt – we are slightly overweight here – may see further weakness in the near term, but could also rise on hopes for a significant economic recovery from the second quarter

[1] Death in Venice, published in 1912

The global economy has a coronavirus fever

Photo: iStockphoto

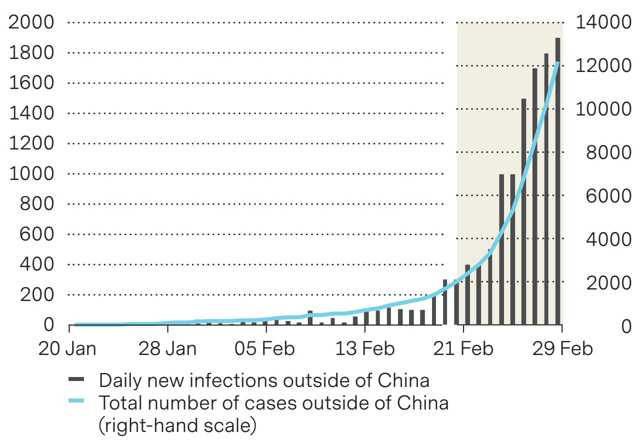
onwards. The Swiss franc is an appropriate portfolio hedge, in our opinion.

— While the outbreak of an unknown disease has brought suffering to thousands of people, it is worth noting that the common flu claims tens of thousands of lives each year. Likewise, it is probably safe to say that Covid-19 won't be the last nor the most lethal coronavirus to plague humankind. However, as a rule, the shock waves that global health crises send around world are temporary. If the past is any guide, buying opportunities should emerge.

Kind regards,

Frank Häusler
Chief Strategist, Vontobel

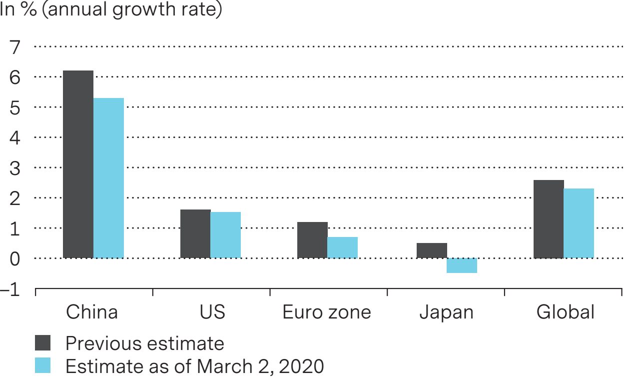
Chart 1: Confirmed Covid-19 cases outside of China rising steadily



Source: Johns Hopkins University (data as per March 3, 2020)

Chart 2: We have lowered 2020 economic forecasts for most countries, only slightly for the US

In % (annual growth rate)



Source: Vontobel

The spreading epidemic currently keeps us from overweighting equities

While spring is in the air, the new "Covid-19" strain of coronavirus has reached European shores as well. In northern Italy, 10,000s of people are now under curfew – the sort of "Chinese" scenario that Europe would have preferred to avoid.

Even so, there seems to be no serious threat to the stabilization of the global economy. We still forecast sluggish economic growth for the current year. In the past, a dip in economic growth caused by epidemics has generally been followed by a rapid recovery. What has changed, in our view, is the timing of the predicted recovery, which we now only expect to materialize towards the summer of 2020. Central banks continue to provide generous support in an effort to contain the situation. The US Federal Reserve, for its part, has cut the key rate by 50 basis points. For the time being, however, we are reaffirming our neutral positioning given the uncertainty about the effects of the coronavirus on the economy and on companies. At the same time, we are ready to build up positions in the event of significant market corrections.

	UNDERWEIGHT		NEUTRAL	OVERWEIGHT	
	significantly	slightly		slightly	significantly
1 Liquidity			→		
2 Bonds			→		
3 Equities			→		
4 Gold			→		
5 Commodities			→		
6 Alternative strategies			→		

Changes month-on-month:
same, higher, lower.

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Reto Cueni, PhD
Senior Economist, Vontobel Asset Management

Our view of global events and our risk outlook for the next 12 months

— The quick spread of the coronavirus in Italy and South Korea, and the still fragile situation in China, will weaken economic growth significantly. While more Chinese workers are returning to work and travel bans are lifted, Italy, South Korea, Japan and several other countries are putting in place new quarantine measures. These have so far harmed the economy more than the actual respiratory disease. We, of course, fully acknowledge the human misery the disease has caused.

— The virus hits in a period of growth stabilization after the preliminary trade deal between the US and China and the "orderly Brexit with an agreement" between the UK and the European Union improved the global economic sentiment. Now, we expect the pace of global growth to drop in the first and second quarter, mainly due to China's flagging economy but also other Asian countries and the euro zone. We have to postpone our view of a global growth recovery towards the summer and expect global growth to reaccelerate in the second half of the year. China, export-dependent nations of the euro zone, and Switzerland, may then power ahead. In the US, economic growth is likely to be weak in the first half, while Japan's economy will be hit particularly hard by the disease prevention measures and the increased sales tax.

— Inflation will move lower from modestly elevated levels as the health crisis will lower energy demand. In the second quarter, an additional negative base effects will kick in. However, the virus will also probably lead to a partial increase in goods and service prices once the recovery starts. Overall, the still moderate inflationary pressure in industrialized countries will enable central banks to extend their very loose monetary policy to support the ailing economy.

— The risk pendulum could swing both ways. Any worsening of the health crisis and stepped-up prevention measures would hamper global growth further. By contrast, a smooth resolution of the US-Chinese-trade dispute could stimulate the economy. Escalating tensions in the Middle East or Syria and a spike in the oil price would lead to higher inflation and lower growth rates.

	GROWTH	INFLATION	CENTRAL BANKS
US	We expect weak capital expenditure and slowing consumption to affect 1Q growth.	Core PCE rate rising gradually towards 2% Fed target. Headline inflation close to a local peak.	After emergency 50-bp cut, we expect at least one more step down in 1H 2020.
EU	Weak 4Q 2019. Coronavirus will hit 1Q/2Q significantly, but stabilization seen towards the summer.	Lower energy prices will depress headline rate, core inflation to rise further at a slow pace.	ECB to cut key rates once more and implement liquidity measures (TLTRO).
Switzerland	Leading indicators improving. Virus scare will hit 1Q/2Q, but recovery will follow.	Lower energy and import prices temporarily depress CPI outlook for 1Q and 2Q below zero.	We expect SNB to cut rates and intervene in markets to prevent CHF surge.
China	Weak 1Q on Covid-19 epidemic. Strong subsequent recovery should see 2020 GDP growing 5.3%.	Higher headline (pork prices), but core and producer prices are slowing down.	Aggressive monetary and fiscal stimulus to support economy.
Japan	GDP contracted in 4Q 2019 on VAT increase. Coronavirus breakout will affect 1Q activity.	Core inflation remains low despite VAT hike, expected to stay well below 2% target in 2020.	Case for fresh fiscal, monetary support building given the current woes.

Our liquidity position remains unchanged amid a neutral weighting. We have reduced our US dollar short position. This is now done exclusively through a corresponding position in the USD/CHF currency pair.

Government bonds offer little return in a low yield environment but calm investors' nerves in volatile times. For emerging-market bonds, we prefer issues in local currency to those in hard currency as emerging-market currencies are likely to recover against the US dollar.

Equities would look good were it not for the coronavirus epidemic. The asset class should benefit from the expected stabilization of global economic growth and the general support provided by the major central banks in recent years. Given the circumstances, we presently stick with our neutral stance.

Precious metals are an outstanding hedge against equity market downturns, in our opinion. However, we are aware that gold is vulnerable to rising real interest rates. At the same time, the gold price is likely to benefit from a weaker US dollar in the medium term. We therefore retain a neutral stance.

Unlike other asset classes, commodity investments benefit very little from the support measures provided by central banks. As long as there is no marked economic recovery and no significant weakening of the US dollar, we are refraining from an overweight position. In the short term, commodities are also suffering from concerns about the Covid-19 virus.

In the current environment of heightened political risk, this asset class can improve portfolio diversification. However, taking the higher risk into account, the return is still modest compared to cash investments. Our weighting for alternative strategies, therefore, remains neutral.

Fear of emptied cities strikes closer to home – our growth stabilization outlook postponed

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YouTube videos of the eerily silent streets of Wuhan, the central Chinese city where it all began, remind us that life follows an unpredictable path however much we consider ourselves in control. Massive measures to fight the coronavirus outbreak will hit growth substantially, regardless of extraordinary support by government and monetary authorities in China and elsewhere. We now expect the start of a global economic recovery towards the summer. Our "sluggish growth" forecast for 2020 remains in place by our "sharp slowdown" scenario edges into view.

— China is no longer the only country where entire cities and regions are in effective lockdown due to the respiratory disease caused by a new coronavirus. The focus in Asia is now on South Korea, and in Europe, it is Italy, both of them significant economies. Assuming that the Covid-19 outbreak will hit the global economy particularly in the first quarter, we still stick to our base case of a substantial short-term contraction and a subsequent economic recovery.

— An aggregation of "flash" purchasing managers' indices (PMIs) from the US, the euro zone, Japan, and Australia, confirms expectations that a significant drop in service-sector output will lower first-quarter economic activity. Manufacturing is also just trudging along and will probably start seizing up too (see chart 1). Moreover, the PMIs point to disruptions in global supply chains and sagging demand, as the survey shows a strong increase in suppliers' delivery times and a drop in companies' orders. This increases the risk of a prolonged contraction. For now, we are looking for a significant drop in the first quarter and second quarter, followed by a recovery later on. However, a protracted standstill of parts of the economy and a loss of consumer spending bears the risk of insolvency risks, which could start a vicious circle hampering the financial sector and leading to a credit crunch for the whole economy.

Europe will be hit hard

With the virus now lapping on European and particularly Italian shores, fears of a wider spread of the disease are on the rise. It is worth noting that most cases in Italy occurred in the country's economically strongest region of Lombardy accounting for 25% of the gross domestic product. Meanwhile, we believe the European Central Bank will announce an even more generous monetary policy including a rate cut and additional unorthodox liquidity measures ("QE" or "TLTROs", for instance) at its forth-

Photo: iStockphoto

coming meeting mid-March, in our opinion, but refrain from cutting key rates further. The authority also seems to be pushing for national governments to announce economy-friendly fiscal measures. Expecting a rebound towards the summer, we have lowered our 2020 economic forecast for the euro zone down to 0.7% from 1.2% previously (see chart 2 in the Editorial on page 2).

China is slowly returning to normality

While the Chinese economy is feeling the pain of the authorities' drastic measures to contain the Covid-19 outbreak, there are signs that life is slowly getting back to normal. According to our calculations, production facilities are now running at approximately 60% to 70% of normal capacity and probably won't return to the normal utilization rate before mid-March. Even though we are likely to see a drastic economic slowdown from a previously expected first-quarter annualized rate of 6% to around 4%, we are not yet worried about a continued slowdown. In particular, the aggressive monetary policy easing cycle (see chart 2) and pledged fiscal support suggest that the Chinese economy will probably re-accelerate between the second and the fourth quarter of 2020. There is a risk, in our opinion, that China's steps to control the disease may depress corporate profits to a degree where companies face insolvencies, or loan and debt defaults. However, such a scenario appears less likely amid supportive government measures and a slow pickup in economic activity. For the whole year of 2020, we expect the world's second-biggest economy to register a growth rate of 5.3% versus a previous estimate of 6.1%.

Japan on the brink of recession

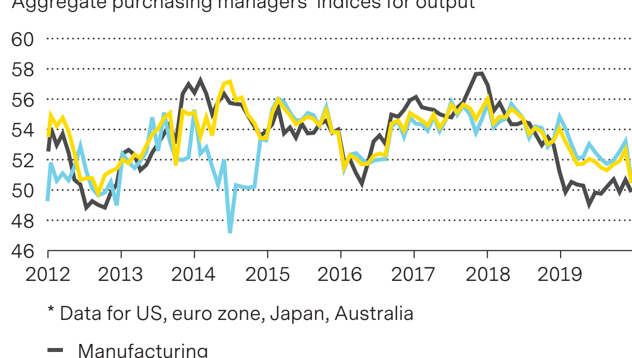
The Japanese economy was expected to suffer a weak growth in the fourth quarter of 2019 due to last October's hike in the value-added tax (VAT). Preliminary fourth-quarter figures show a quarter-on-quarter annualized contraction of 6.3%, a larger-than-expected drop and the sharpest fall since the previous VAT hike in 2014. With its close economic links to China and the domestic "quarantine" measures to stop the outbreak of the virus, we believe a technical recession – two consecutive quarters of contraction – is now very likely. We now forecast the Japanese economy to contract by 0.5% for the whole 2020 (previous estimate +0.5%).

US economy set to slow, then rebound

We have downgraded our US 2020 growth estimate to 1.5% from 1.6%, which is below consensus expectations. This is due to weak expected growth in Q1 and Q2 – due to economic disruptions and slowing consumption – before a growth rebound should materialize in the second half. Hard data for January such as retail sales point to

Chart 1: Global "flash" PMIs for February points to 1Q slowdown

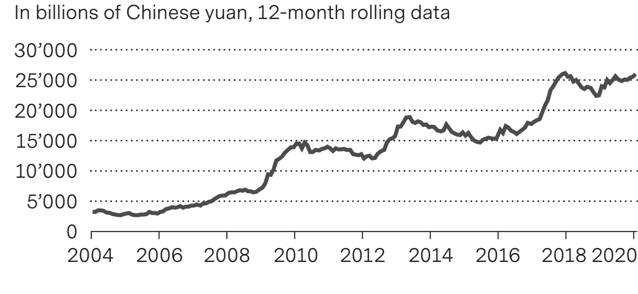
Aggregate purchasing managers' indices for output *



Source: HIS Markit, Refinitiv Datastream, Vontobel

Chart 2: Chinese central bank has opened the floodgates

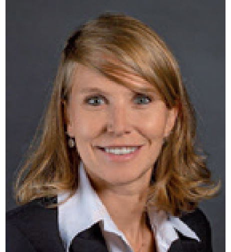
In billions of Chinese yuan, 12-month rolling data



Source: People's Bank of China, Refinitiv Datastream, Vontobel

slowing consumer spending and the Markit PMIs for February show a large drop in services-sector activity. The Federal Reserve in an emergency move announced a 50-basis-point rate cut on March 3, and US futures have repriced expectations of more interest rate cuts by the central bank this year given current market stress and global uncertainty. Fed Chairman Jerome Powell has highlighted the central bank's readiness to act and support the economy. The shift towards a more dovish stance will continue in coming months, in our view. We expect at least one more rate cut in the US.

Yields drift lower as virus fears continue to spread



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Sandrine Perret
Senior Economist,
Fixed Income Strategist,
Vontobel Asset Management

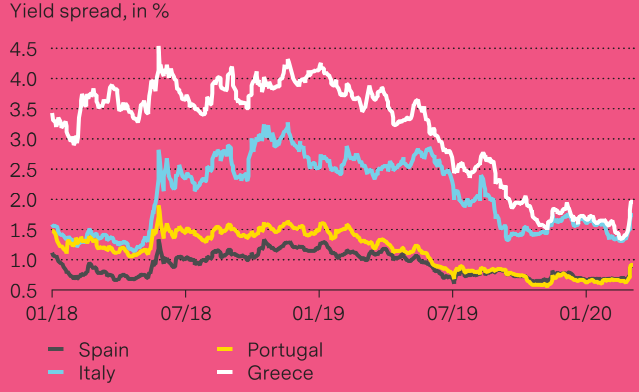
Growing concerns about the economic fallout of the current health crisis has shone a light on government bonds' protective values. Should the Covid-19 virus outbreak continue unabated, US Treasuries are the best asset to hedge portfolios, in our opinion. Higher-yielding "peripheral" bonds from southern Europe have remained resilient so far but could widen on a sustained fiscal response.

— Covid-19's rapid spread outside of China, and the authorities' drastic measures to contain its progression, will hit the global economy in the short-term (also see Macro Highlights on page 6). Financial markets, always quick to react to negative news, have been discounting these risks throughout February. Traditional safe-haven bonds, in particular, were in high demand and developed-market government bonds rallied massively with yields dropping to all-time lows.

"European periphery" spreads widen, remain resilient
The current risk-off and higher-volatility environment impacted euro-zone "peripheral" spreads with Italian, Spanish and Greek bond yields increasing over their German counterparts. This was due to ongoing uncertainty as well as expectations of a fiscal response to the virus outbreak – similar to the Italian government's recent measures (see chart 1). While the sudden outbreak of the coronavirus in Italy's northern regions did affect Italian ten-year spreads, the overall impact has remained relatively contained. Unless we see a longstanding economic slowdown due to the epidemic, spreads should remain supported by European investors looking for positive yields and the European Central Bank's expected easing measures. Greece's debt has benefited from ratings upgrades and the country's improving economy outlook. Once volatility decreases, holding peripheral debt may again be considered attractive.

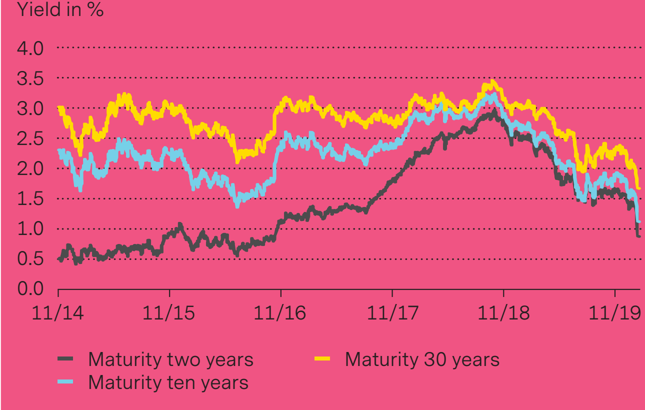
US Treasuries as a "short-term" hedge
Rising demand for US government bonds has depressed the ten-year yield to a record low of close to 1.00% from around 1.85% at the beginning of the year. Treasuries with a 30-year maturity even fell below 1.60%, also a new all-time low level (see chart 2). The Federal Reserve delivered an emergency 50-basis-point rate cut on March 3. Bond futures are still pricing in at least two more US rate cuts by September, given the virus disruptions and current market volatility. While government bond valuations are generally unappealing at these exceedingly low yield levels, US Treasuries remain attractive as a hedge against continued market volatility, in our opinion. This also holds true when comparing them with other developed-market government paper. A continued worsening of the health crisis and a more protracted economic impact would probably depress Treasury yields further.

Chart 1: Spreads of Southern European bonds to Germany show some widening



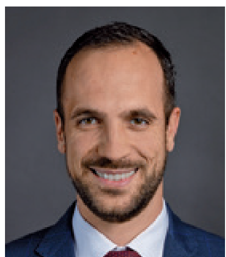
Source: Refinitiv Datastream, Vontobel

Chart 2: US ten-year and 30-year Treasuries hit new all-time lows



Source: Refinitiv Datastream, Vontobel

Central banks roll out the big guns against the coronavirus



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Stefan Eppenberger
Equity & Commodity Strategist,
Vontobel Asset Management

Central banks are providing most of the ammunition, in the form of liquidity, to combat the market panic created by the spread of the coronavirus. Although their actions are likely to be very effective, we retain a neutral positioning in this asset class for the time being.

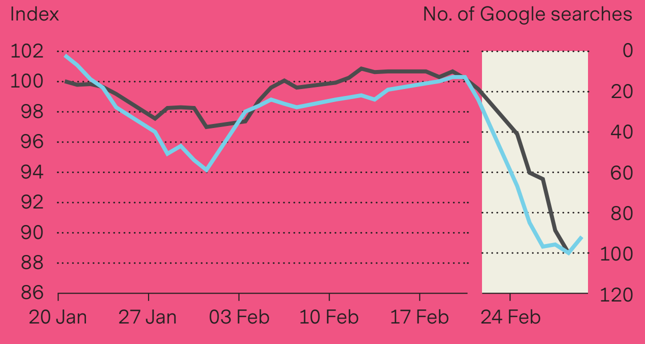
— The coronavirus is currently sending shockwaves through financial markets. By the end of February, the handsome profits that equities had notched up since the start of the year had crumbled away again. The extent to which prices reflect concerns about the outbreak of the new strain of coronavirus in China can be seen in an index showing the number of Google searches on this topic (see chart 1).

— In hindsight, it is fair to say that things could have turned out much worse given the alarming headlines. The comparative resilience of the markets owes much to the special measures taken by central banks. China's central bank, for example, has responded to the epidemic by increasing the supply of liquidity. In a similar vein, the US Federal Reserve has for some time now been inflating its balance sheet by more than 50 billion US dollars a month. This entails the purchase of securities, effectively flooding the markets with money. Since the financial crisis, inflated central bank balance sheets have gone hand in hand with higher equity valuations (see chart 2). As long as the world's central banks continue to supply generous liquidity to the markets – and everything supports that – the relatively solid support for share prices should continue.

Corporate profits under pressure
Despite all the unorthodox measures taken by central banks, investors must continue to keep an eye on the fundamental data. Companies showed positive earnings prospects before the coronavirus outbreak. In our economic outlook, we had expected corporate profits to grow between five and ten percent in the current year. This seems out of reach now given the current health crisis. A zero-growth scenario seems a more realistic option.

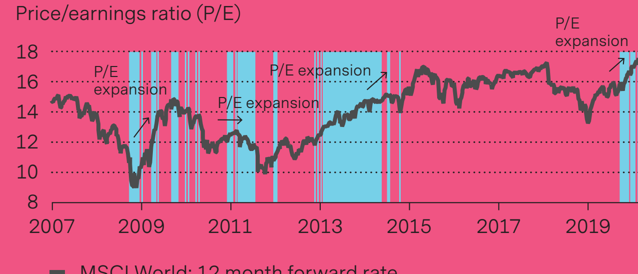
Socialist program following the US presidential elections?
In addition to the coronavirus crisis, there is another major risk appearing on the horizon: US presidential elections in November. Bernard ("Bernie") Sanders, the US senator for Vermont, currently seems to be gathering the most support among Democratic party members. Should he pose a serious challenge to Donald Trump and win the election, he might possibly introduce a Socialist program under the new administration. His chances of victory should not be dismissed, and markets should not underestimate this "risk".

Chart 1: share prices fall as the number of Google searches for coronavirus increases



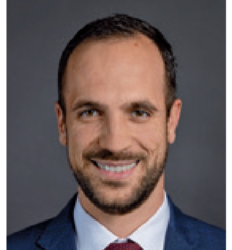
Source: Google Trends, Refinitiv Datastream, Vontobel

Chart 2: By inflating its balance sheet, US Fed shores up the equity market



Source: Refinitiv Datastream, Vontobel

Shock-induced paralysis in China puts temporary pressure on oil and copper prices



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Stefan Eppenberger
Equity & Commodity Strategist,
Vontobel Asset Management

The shock caused by the outbreak of the coronavirus epidemic, a new strain of virus, has temporarily paralyzed China's economy. But this is only likely to slightly delay, rather than prevent, the stabilization of global economic growth that we expect. Although commodity prices have retreated sharply in the near term, we expect them to recover over the course of the year.

— Global economic cycles determine demand for commodities (see chart 1), and as the world's workshop, China especially has a significant influence on the price of oil and industrial metals such as copper. Given that the Chinese economy is starting to falter, there are signs of a dip in economic growth. Experience shows, however, that the economy tends to rebound from such crises thanks to catch-up effects. For example, Chinese energy demand rose sharply after the Chinese authorities brought the crisis under control created by SARS, a viral lung disease that spread through Asia in 2002-2003 (see chart 2). Nevertheless, the consequences of these two epidemics are only comparable to a limited extent. First, the Chinese economy was far less affected then than today, and second, China had a far less dominant place in the global economy almost 20 years ago.

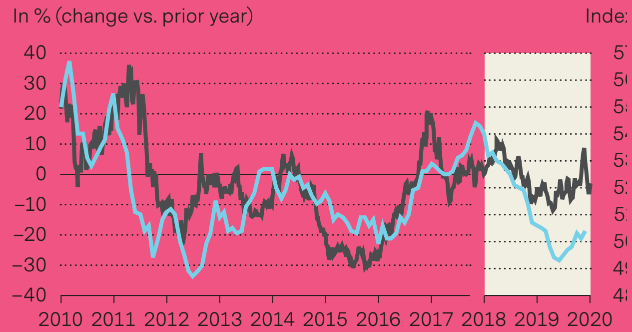
— In addition to changes in demand, fluctuations in the supply of raw materials play a major role. The keywords here are, for example, attacks on production plants or strikes in mines. International agreements on shortages or increases in supply are also very important. The Organization of Petroleum Exporting Countries (OPEC) is likely to respond to the demand shock by cutting production again. Such measures have been taken by the cartels of many major oil-producing nations in the face of every major slump in demand, such as after the attacks on the World Trade Center in New York in 2001, the SARS outbreak in 2003, the financial crisis of 2008 and the eurozone debt crisis of 2012.

— At first, the global economy seemed to have performed broadly in line with our early-2020 economic forecasts and our main scenario of "sluggish growth" based on an expected stabilization. The coronavirus outbreak now changed our view, which now takes into account significant monetary easing in China and elsewhere. Such steps will benefit the economy and also underpin commodity prices.

Oil price forecasts revised downwards

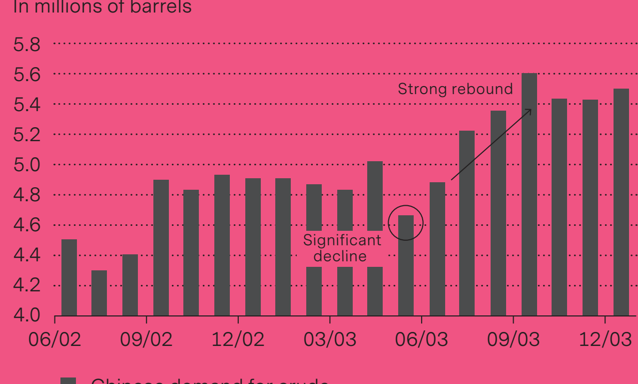
We maintain our positive outlook for commodities, but significantly downgrade our forecasts for the oil price. Over the next three months, we believe the price will move in the direction of 60 US dollars per barrel, compared with our previous forecast of USD 70. Later, however, we think a price of more than 70 US dollars is realistic again as a result of the expected countermeasures from Opec. Following a temporary dip, industrial metals should be able to benefit from accelerating global economic growth.

Chart 1: Improving economic growth will boost commodity prices



Commodity prices (mainly oil and industrial metals)
Global Purchasing Managers Index (PMI) for the manufacturing industry (RHS)
Source: Refinitiv Datastream, Vontobel

Chart 2: Lessons from the past – SARS outbreak had very little impact on oil demand



Source: Bloomberg, Vontobel

Coronavirus infects export/ commodity-sensitive currencies

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Sven Schubert, PhD
Head of Strategy Currencies,
Vontobel Asset Management

Over the past weeks the coronavirus has weighed heavily on cyclical currencies – the currencies of those economies exposed on the one hand to exports or commodity prices, and on the other reliant on demand from China. In particular, the Swedish krona, as well as the Australian and New Zealand dollar, came under pressure. Attractive levels for buying back into the cyclical currencies are only likely to materialize once the crisis has been brought under control.

— The US dollar only managed to make moderate gains against emerging-market currencies and the euro, mainly due to weaker data on US economic growth and the associated expectation of interest-rate cuts. As a result, the greenback is being restrained by the fact that US yields are falling much more sharply than in Europe. This situation is even likely to result in a weaker dollar in the coming months (see chart 1). While the US economy is set to lose some of its dynamism – we only expect it to bottom out in the latter part of the year – the European economy should be able to recover as soon as the coronavirus crisis has been contained. In the coming weeks, however, we still expect some negative news flow on the economic front, as global supply chains have been disrupted (see also Macro Highlights, page 6). This is likely to curb the euro's potential in the short term.

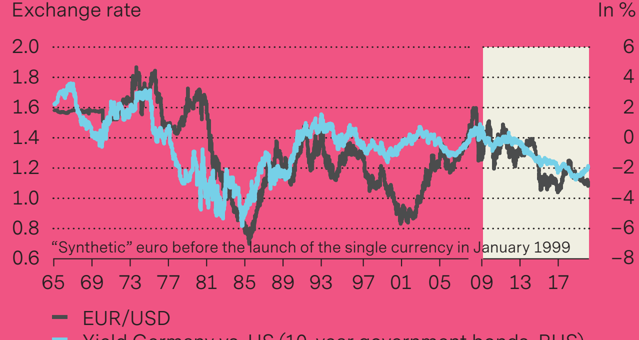
Swiss franc and yen as ports in the storm

The economic data currently coming out of Japan are also weak, as the country suffers from its close integration with the Chinese production process and its reliance on Chinese tourists. The Japanese yen is now slowly assuming its traditional role as a safe-haven currency. This also holds true for the Swiss franc. Although its upside potential versus the US dollar seems limited in the short term, it may still benefit in the longer term alongside European currencies, which we expect to gain ground. Even more so, now that the Swiss National Bank (SNB) has recently started to intervene in the currency market with the Swiss franc hitting the level of 1.06 to the euro (see chart 2). At the moment, the SNB seems to be intent on damage limitation. If the EUR/CHF exchange rate slips below 1.05, however, this is likely to give SNB Chairman Thomas Jordan a few sleepless nights.

Tailwind for local currencies

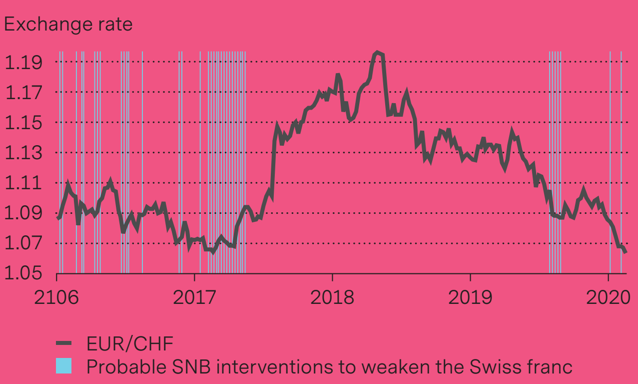
Even though emerging-market currencies have weakened against the US dollar since the start of the year, bonds denominated in local currencies have held up relatively well against those denominated in US dollars and euros, mainly due to the global decline in interest-rate levels. This development is now enabling emerging-market countries to significantly relax their monetary policy as well, with a knock-on effect of higher bond prices. Given the moderate inflationary pressure, speculation on interest-rate cuts and the comfortable level of real interest rates in emerging markets, we have an optimistic stance on bonds denominated in local currency once we move into the latter part of the year.

Chart 1: Greater interest-rate support for the euro against the US dollar



Source: Refinitiv Datastream, Vontobel

Chart 2: Swiss National Bank has intervened in the currency market around the EUR/CHF 1.06 rate



Source: Refinitiv Datastream, Vontobel

Economy and financial markets 2018 – 2021

The following list shows the actual values, exchange rates and prices from 2018 to 2019 and our forecasts for 2020 and 2021 for gross domestic product (GDP), inflation/inflationary expectations, key central bank interest rates, ten-year government bonds, exchange rates and commodities.

	2018	2019	CURRENT	FORECAST 2020	FORECAST 2021
GDP (IN %)					
Euro zone	1.9	1.2	0.9	0.7	1.5
U.S.	2.9	2.3	2.3	1.5	2.1
Japan	0.3	0.8	–0.4	–0.5	1.2
United Kingdom	1.3	1.4	1.1	1.1	1.5
Switzerland	2.7	0.9	1.5	1.1	1.3
China	6.6	6.1	6.0	5.3	6.0
INFLATION (IN %)					
Euro zone	1.8	1.2	1.3	1.2	1.7
U.S.	2.4	1.8	2.5	1.9	2.1
Japan	1.0	0.5	0.6	0.7	0.6
United Kingdom	2.5	1.8	1.8	1.8	2.1
Switzerland	0.9	0.4	–0.1	0.2	0.8
China	2.1	2.9	4.5	3.5	2.3

	2018	2019	CURRENT	FORECAST 3 MONTHS	FORECAST 12 MONTHS
KEY INTEREST RATES (IN %)					
EUR	–0.40	–0.50	–0.50	–0.60	–0.60
USD	2.50	1.75	1.25	1.00	0.75
JPY	–0.10	–0.10	–0.10	–0.20	–0.20
GBP	0.75	0.75	0.75	0.50	0.50
CHF	–0.71	–0.69	–0.75	–1.00	–1.00
AUD	1.50	0.75	0.75	0.40	0.35
CNY	4.35	4.35	4.35	3.75	3.75
10-YEAR GOVERNMENT-BOND YIELD (IN %)					
EUR (Germany)	0.2	–0.2	–0.6	–0.6	–0.3
EUR (GIPSI)	2.2	0.9	0.6	0.9	1.6
USD	2.7	1.9	1.0	1.4	1.8
JPY	0.0	0.0	–0.1	–0.2	–0.2
GBP	1.3	0.8	0.4	0.5	0.8
CHF	–0.2	–0.5	–0.8	–1.0	–0.8
AUD	2.3	1.4	0.8	0.9	1.0
EXCHANGE RATES					
CHF per EUR	1.13	1.09	1.07	1.08	1.09
CHF per USD	0.99	0.97	0.96	0.94	0.93
CHF per 100 JPY	0.90	0.89	0.89	0.89	0.89
CHF per GBP	1.26	1.28	1.22	1.33	1.36
CHF per AUD	0.69	0.68	0.63	0.67	0.68
USD per EUR	1.14	1.12	1.12	1.14	1.15
JPY per USD	110	109	108	107	105
USD per AUD	0.70	0.70	0.66	0.68	0.71
CNY per USD	6.95	6.51	6.86	6.85	7.00
COMMODITIES					
Crude oil (Brent, USD/barrel)	53	66	52	60	70
Gold (USD/troy ounce)	1281	1521	1638	1600	1800
Copper (USD/metric ton)	5949	6149	5647	6250	6750

Source: Thomson Reuters Datastream, Vontobel; closing prices for all data: March 3, 2020

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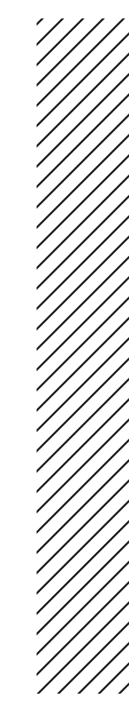

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