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Persistent pandemic effects

A return to normalcy still thwarted

The Fed in the driver's seat

OUR ECONOMIC AND FINANCIAL SCENARIO: **GROWTH AND REMAINING DISORDERS**



■ **Dr Mathilde Lemoine**
Group Chief Economist
+41 58 818 99 66
+33 1 40 17 37 07
mathilde.lemoinesense@edr.com

**The effects of the pandemic
will continue to destabilise
economies**

**Global growth will remain
spasmodic and contrasted
in 2022**

**Persistent but potentially
deflationary inflation**

GDP, consumption and production pressures continued to evolve in line with government measures to stem the Covid-19 variant in India. Developed economies were particularly hard hit by the closure of production chains in Asia, resulting from the zero-Covid strategy in the summer. Europe was also obliged to restrict the movement of people and tighten health restrictions in response to the fifth wave of the virus. The persistence of the pandemic and the measures taken to prevent its spread have continued to cause dysfunctions, including the “overconsumption” of goods, the rise in the price of entrants, and supply and recruitment difficulties. We do not expect the situation to return to normal before 2023, leaving growth potential for sectors particularly affected by health restrictions. This is why we continue to expect above-potential growth in 2023, both in the United States and the eurozone. In China, growth is likely to remain restricted by the real estate slowdown, renewed political control and the zero-Covid strategy. **According to our forecasts, US growth will decelerate slightly with the end of household aid, coming out at 4% in 2022**

and 3.2% in 2023. Growth in the eurozone will slow to 4.4% in 2022 and 2.4% in 2023, while Chinese growth will be 5.3% in 2022 before picking up to 5.5% in 2023. According to our models, overall global growth will total 4.6% in 2022 and 3.7% in 2023, assuming the virus is contained and its effects controlled. Inflation expectations will be stabilised through reduced fiscal support in developed countries, tighter US monetary policy and key-rate hikes in many emerging countries. The end-2021 rise in energy prices has substantially eroded household purchasing power as energy is a non-discretionary expense and no substitution exists. Lastly, the capacity of companies to increase their prices remains limited by uncertainty and reduced support for household incomes. However, the persistence of the pandemic and restrictive measures should continue to fuel price increases for the most sought-after goods. Consequently, **we continue to expect a deceleration in inflation in 2022 and again in 2023, though more gradual,** given the persistence of the pandemic.

GLOBAL ECONOMY STILL UNDER PRESSURE

Numerous dysfunctions, rising commodity and intermediate goods prices, mounting consumer prices and higher wages are raising fears of inflation. **But supply and recruitment problems are in part a direct consequence of the pandemic and the ensuing administrative measures.** Production chains are disorganised, governments are storing commodities on a protective basis in case of future lockdowns, and goods have been “over-consumed” and therefore “over-produced”. Asian countries have been forced to impose new restrictions owing to the spread of the Delta variant, further disrupting the production of goods worldwide. Businesses and distributors have sought to secure their production and supply through larger-than-average inventories. In parallel, the historical distortion of the structure of household consumption and the distribution of government aid in developed countries have generated global “over-demand” for goods. To meet this exceptional demand, global manufacturing production has continued at full speed (except in the automotive sector) while value chains remained highly disrupted in the summer by the implementation of a zero-Covid strategy in many Asian countries. Up to a quarter of Malaysia’s manufacturing output remained at a standstill over this period, accentuating the shortage of electronic chips.

While the resurgence of the pandemic has postponed a return to normal, US household demand is expected to recede with the end of direct aid and the discontinuation of additional unemployment benefits in September 2021. The resulting logical assumption would be that the stock of savings will not be spent. Given the persistence of epidemic uncertainties, this is indeed our hypothesis. Furthermore, rising inflation is weighing on household purchasing power, particularly in the United States. The magnitude of this trend results in part from the rise in energy prices, energy being a non-discretionary expense. The recovery in employment may be supporting wage growth but not sufficiently to offset the end of direct aid, particularly in the United States. This is why we expect US consumption and inflation to decelerate in 2022. According to our calculations, the US infrastructure plan will support growth by 0.2 percentage points in 2022 and 2023 alike.

In the **eurozone**, the end of one-off short-time work measures will boost the volatility of household gross disposable income, but consumption will continue to be underpinned by catch-up, as well as the gradual reduction in the savings rate. Consumption in the eurozone has still not

returned to its 2019 level, in contrast to the United States, where it has exceeded that level since second-quarter 2021. However, eurozone consumption will remain limited by border restrictions, as tourism accounts for a larger share of consumption in Europe than in the US.

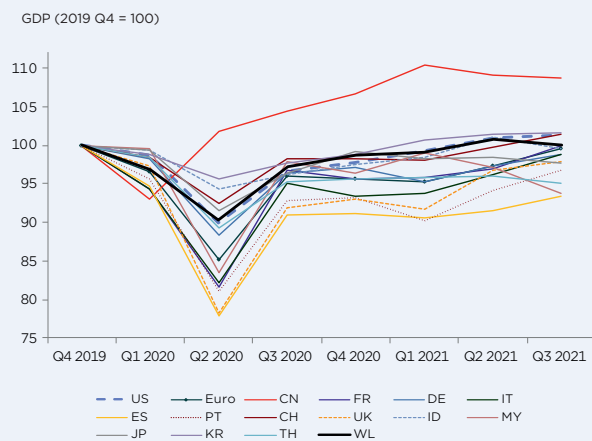
Consumption in **Asia** was negatively impacted by tighter health measures in the second half of 2021. But consumption could be supported in 2022 as these measures are eased and corridors for vaccinated people are established to reopen some regions to tourism. **Chinese growth** is expected to slow to 5.3% in 2022 and 5.5% in 2023, limited by the deflation of the real estate bubble and the country’s zero-Covid strategy. GDP is 9% higher than in 2019 but growth has been adversely affected by the zero-Covid strategy. Growth slowed to 4.9% in third-quarter 2021 on a relatively smaller contribution from consumption and investment. As in developed countries, catering, leisure and transport are the most impacted sectors each time a new Covid case is discovered. For the sixth consecutive month, car purchases were negative in October 2021. Manufacturing output has also been disrupted, as have exports. In addition, construction and real estate continue to suffer from increased macro-prudential measures aimed at slowing property price growth so as to reduce inequality and the risk of financial instability. Bank lending to the real estate sector has been less dynamic over the past year and we continue to expect a lower contribution from this sector, which accounts for 10% of GDP. This will weigh on growth and the key drivers highlighted by the 14th Five-Year Plan for 2021 to 2025, as the development of the technology sectors and the private sector is still sluggish. At the same time, the increase in regulatory measures since November 2020 (when Ant’s IPO was suspended) could restrict private investments. In August 2021, more than 40 IPOs were cancelled due to zero tolerance for financial fraud. The antitrust law ruled on in 2008 has been applicable since 2020 and fines for anti-competitive practices have increased. Three reasons are put forward to justify this policy. One, it preserves competition; two, it protects the interests of Chinese consumers; and three, it limits the “excesses of capitalism”. Contrary to our expectations, the country’s fiscal policy has not been fully ironed out despite the 20th Congress of the Communist Party of China in 2022.

World growth is expected to decelerate to 4.6% in 2022 and then to 3.7% in 2023, supported by the continuing catching-up process in most Asian countries and in Europe. Suc-

cessive waves of growth shift the timing of the closing of the output gap, except in the US, which is in a very special situation. Thanks to the stimulus plans calibrated to put the US economy under pressure, the country's GDP should return to the level it should have reached by the beginning of 2022. This overheating partly explains the exceptional inflation in the US. The disorder resulting from the pandemic around the world

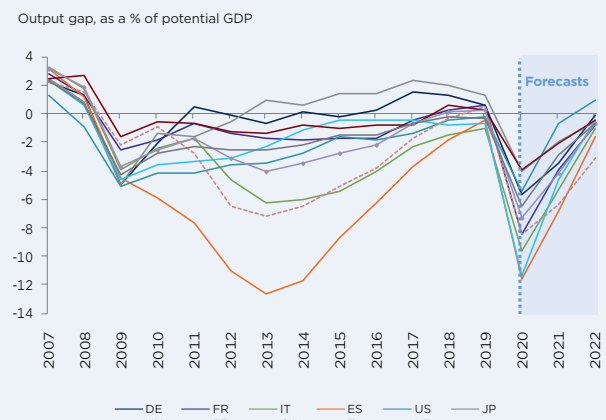
will continue to exert inflationary pressure and change the relative price of goods and services. Inflation is expected to remain high in the developed world. **We expect average global inflation to be 3.4% in 2022 and 2.8% in 2023, after 3.8% in 2021.** In addition, the prospect of mid-term elections in the US on 8 November 2022 could reinforce Sino-US tensions and measures to reduce the vulnerability of US value chains

1 Catch-up still contrasted and unstable



Source: Edmond de Rothschild Economic Research

2 US "outperformance" continues



Source: OCDE, Edmond de Rothschild Economic Research

THE RESOUNDING FAILURE OF THE G7

The emphatic statements made by US presidents and European heads of state have not given rise to an acceleration in vaccinations, particularly in Africa. A June 2021 G7 press release advocated "an intensified international effort, starting immediately, to vaccinate the world by getting as many safe vaccines to as many people as possible as fast as possible." But the Covax initiative, created and considered by Europeans as the only possible tool for stepping up the dissemination of vaccines in less developed countries, has failed to meet initial objectives. In our recent forecasts, we have stressed the risk posed by this type of strategy to global growth. Restrictive measures are looser in most countries than in spring 2020, but they remain highly restrictive, as demonstrated by the Oxford Covid-19 Government Response Tracker. The tracker's stringency index covers school and office closures, cancellations of public events, restricted access to restaurants and hotels, and cross-border travel restrictions. In the United States, the index is only 27% below its spring 2020 peak; in

France 15% and in Switzerland 20%. In China and Thailand, the improvement is only 7% and 22% respectively.

Restrictions are being eased in Asia, which could improve the functioning of value chains, but China is still leading a zero-Covid strategy and herd immunity is still well below the 80% to 85% announced by scientists. Based on current data on vaccine efficacy, immunity stands at approximately 70% in the United States and the eurozone, 55% in Latin America and 35% in the Asia-Pacific region. This means that value-chain problems will persist, even if the production of microchips returns to normal. The emergence of the new South African variant illustrates the failure of the G7 strategy and the European Union's stubborn defence of the Covax initiative. The EU has refused to consider other vaccine dissemination tools, such as the temporary lifting of patent law, a tactic that is highly supervised and already used for other pandemics. The G7 countries have gone it alone by pre-ordering doses of vaccines outside the multilateral Covax

mechanism. The latter is now intended to help poor countries. The result as of September 2021 was that 240 million vaccine doses out of the target 2 billion had been shipped to 139 countries. By comparison, nearly 5 billion doses have been administered worldwide. This means that less than 20% of people living in poor countries have received a vaccine dose, compared with 80% in high-income countries.

As a result of this failure, and the lack of willingness to develop other instruments facilitating access to vaccines and medicines in the poorest countries, the assumption of continued strong uncertainties in 2022 as to the persistence of the pandemic is central to our scenario. Even before the new South African variant was identified, Vietnam did not envis-

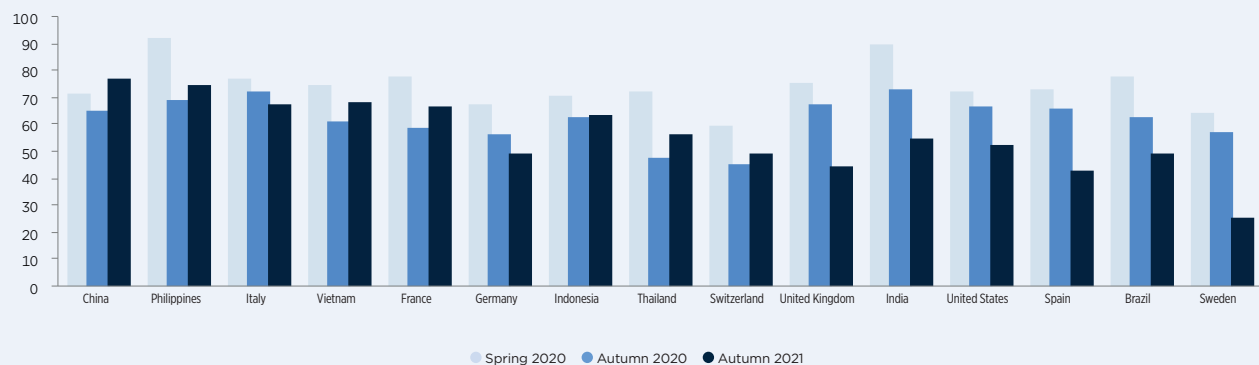
age a general opening of its borders to tourism before June 2022.

This is why we continue to expect above-potential growth in 2023, in developed and emerging countries alike. But growth will be contrasted, unequal and fluctuating as health measures are strengthened or partially lifted.

The effects clearly identified by econometric analyses of influenza pandemics are therefore expected to persist between now and 2023. These effects consist of a contraction in labour supply, an increase in the cost of doing business, a consumer shift away from pandemic-exposed sectors, and a reassessment of the quality of public debt in the light of the fiscal support implemented and its effectiveness.

3 Too many restrictive measures remain in place

Stringency index, government responses to Covid-19 (100 = strictest)

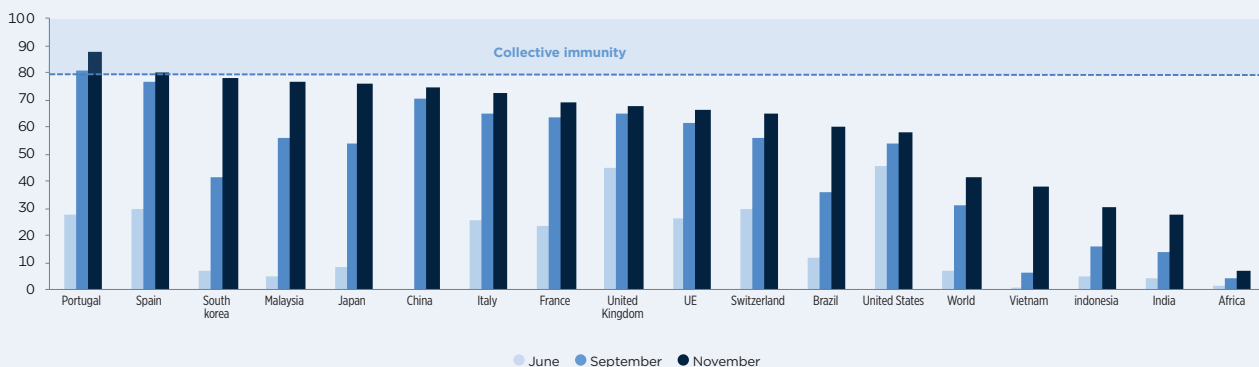


Note: The stringency index is a composite measure based on nine response indicators: the closure of schools and universities; the closure of workplaces; the cancellation of public events; limits on gatherings; the closure of public transport; the order to "shelter on site" and isolate at home; restrictions on internal movement between cities/regions; international travel bans; and public information campaigns. The index is rescaled to a value of 0 to 100 (100 = strictest).

Source: Oxford University, Edmond de Rothschild Economic Research

4 No prospect of economic normalisation within the forecast horizon

Share of the population fully vaccinated against Covid-19 in 2021 (en %)



Source: Our World in Data, Edmond de Rothschild Economic Research

DEFLATIONARY PRICE INCREASES

The surge in central bank balance sheets, the M2 increase during the pandemic peak and the scale of support plans, combined with supply disruptions due to health constraints, raised justified fears of strong price increases. And that is what happened, with inflation reaching 4.9% in the eurozone and 6.2% in the United States in November 2021. Delivery times were doubled in developed countries. In contrast, in Asia, the increase in production costs was not passed on to consumer prices, the rate standing at 1.5% in China and slightly above 3% in South Korea and Singapore in October. Delivery times deteriorated only marginally.

While many western companies are faced with shortages and higher prices for intermediate products and commodities, I think it crucial to distinguish between the situation in the United States and that in the rest of the world. Direct aid to households and additional unemployment benefits led to a sharp increase in consumption, particularly that of goods, given the persistence of health measures. US household consumption has exceeded its end-2019 level since first-quarter 2021 and is currently almost 4% higher in volume terms. Meanwhile, consumer prices are 7.5% higher than at the end of 2019. The acceleration of inflation is due 40% to the rise in rents and energy prices. The situation is extremely different in the eurozone, where household consumption has failed to return to its 2019 level, remaining almost 3% lower. Consumer prices are nearly 5% higher than at end-2019, with energy accounting for a third of the total.

The situation is likely to normalise once the virus is contained. First, the rise in prices is relative, affecting goods more than services, which will contribute to rebalancing consumption. Second, goods purchases will be curbed by the saturation of household equipment. Third, household income will be truncated by the reduction, or end, of aid programmes. Lastly, while the acceleration of inflation bolsters employment demand from companies by lowering real income, it weighs on purchasing power in the short term.

The persistence of the pandemic will nevertheless continue to generate imbalances in production and demand. As a result, relative property prices are likely to remain disrupted. Moreover, the decline in labour supply caused by the pandemic, which we have highlighted for two years as one of the main consequences of flu outbreaks, has led to recruitment tensions and wage increases. Indexation is a further issue.

However, to trigger a wage-price loop, companies need to be able to increase their prices and wages, regardless of productivity gains. Aid and short-time work may well have kept cash flow levels high, but the situation is unsustainable now that these measures have been suspended. At the same time, persistent uncertainties are undermining the reduction in the stock of savings and the persistence of “over-consumption” in the United States. In addition, companies over-stocked ahead of the holiday season. As the pandemic has spelled the end of occupational training for two-thirds of companies and led to an increase in the capital-to-worker ratio, productivity is expected to slow down.

Accordingly, our central scenario at this stage remains a deceleration in inflation, consistent with the normalisation of relative prices between goods and services, the decline in government aid and the erosion of purchasing power resulting from 2021 price increases. The slowdown in China – and in particular the implementation of macro-prudential measures to cool down the housing market – should limit the cyclical rise in commodity prices. Lastly, while inflation is also a monetary phenomenon, M2 growth has normalised with the end of aid and the reduction in support measures for households and businesses.

These cyclical phenomena should not lead us to underestimate the more structural forces at work. I have identified two such forces that could fuel inflation, i.e. generate a rate of inflation durably higher than that in 2010-2019. The first is the **change in the Federal Reserve’s strategy**; the second is the **energy transition and climate effects**, particularly on the price of agricultural commodities.

The Fed’s switch to average inflation targeting leads to a “rebasing” of US nominal growth. But given the Fed’s credibility, a rise in short-term rates may be expected, limiting the steepening of the yield curve. The possibility of such a tightening will also contain inflation expectations and limit a second-round effect on consumer prices. Indeed, there is a direct link between these inflation expectations and household consumer prices, as confirmed in 2014 by Mario Draghi, former President of the European Central Bank.

Concerning energy prices, the increase stems from a sharp rise in demand combined with low inventories (of gas in particular), together with geopolitical tensions and a lack of visibility on the implementation of the energy transition. As forecast in our most recent macroeconomic

scenario, China has not specified how it aims to reduce CO₂ emissions by at least 65% by 2030 compared with 2005. This aspect has led to price increases for some energies. In addition, the country's heavy-handed management of supply sources and the meeting of environmental objectives has exacerbated price volatility.

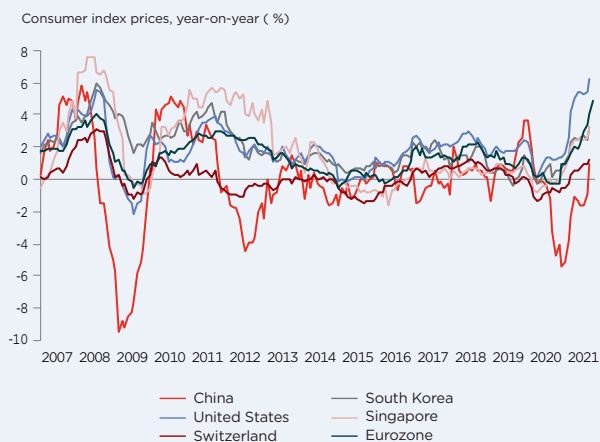
The United States and the European Union are also faced with the issue of transitioning from a carbon economy to a zero-carbon economy, calling for a large-scale change in decarbonised supply sources that is not yet on the agenda. Owing to this “uncertainty premium”, we expect energy prices to be higher than before the pandemic given the commitments made by governments.

However, the effect of rising energy prices differs substantially from that of a rise in relative prices, and in particular prices of manufactured goods. Because energy is a non-discretionary expense constraint, an increase in its price weighs more

on purchasing power, particularly that of the most modest households. In short, it reduces purchasing power.

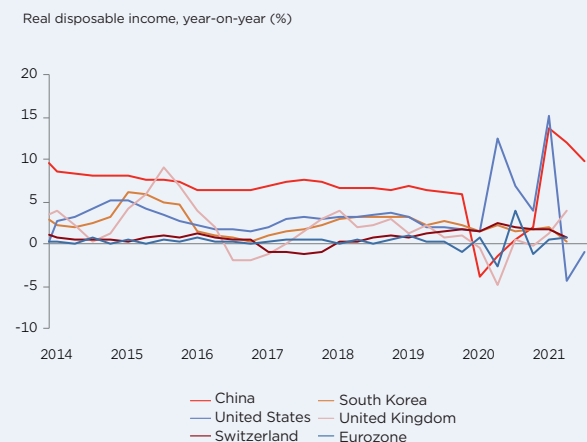
According to our calculations, the average 11% increase in energy prices for eurozone households since the beginning of the year could increase inflation by 0.7 percentage points and shave 0.4 percentage points off eurozone GDP growth by 2022. The recessive effect stems from the fact that the rise in energy prices results not only from the acceleration in global growth, but also from supply problems, particularly in Europe. Nevertheless, the choice of many European governments to subsidise the increase in energy prices will limit the negative impact of rising prices on demand and thus the restoring force. Consequently, energy prices will remain higher in 2022 than at the end of 2019, particularly in Europe. **More broadly, a 10% increase in energy prices could reduce global growth by nearly 0.4 growth points in 2022.**

5 The overheat results in part from the pandemic



Source: Refinitiv, Edmond de Rothschild Economic Research

6 Inflation can be deflationary in a context of uncertainty



Source: Refinitiv, Edmond de Rothschild Economic Research

THE FEDERAL RESERVE AT WORK: DISORDERLY MONETARY POLICY TIGHTENING

The latest trends in interest-rate differentials bear out our assumption that the Federal Reserve had regained the upper hand in global monetary policy, after making coordinated efforts following the major financial crisis. The US central bank is cautious about, not to say entirely opposed to, the policy of negative nominal rates. It has definitively turned its back on this policy, being the first to change its strategy to tolerate long-term average inflation above 2%. This move signified that the Fed intended to stimulate the economy not by lowering nominal rates but by lowering real rates. The combined effect of an economic stimulus plan and historically low real interest rates led to a sharp acceleration in GDP growth, which returned to its 2019 level in the second quarter of 2021. The output gap is expected to be closed in second-quarter 2022. Which means that the Fed can theoretically increase its key rate accordingly. But it will bear inflation of above 2% over a longer period for the same level of growth. The result is an increase in the inflation differential, particularly relative to European partners. This places upward pressure on the US dollar's already extremely high real effective exchange rate, further reducing the country's competitiveness. As such, momentum in US imports from Asia will remain strong, despite the slowdown in consumption, combined with the beneficial effect of dollar appreciation on import prices.

In a further aspect, by breaking away from yield-curve management, the US central bank is decoupling from its counterpart developed countries. The European Central Bank is in a unique situation, with rate-hike possibilities limited by the policy of negative nominal rates. One of the potential sources of loss for the Eurosystem (and in particular for national central banks) lies in the low rate of return on their asset portfolio, the AuM totals of which are increasing constantly as a result of asset purchase programmes (Asset Purchase Programme and Pandemic Emergency Purchase Programme). These modest returns have not proved problematic thus far, because bank reserves on the liabilities side of the Eurosystem constitute an additional source of income, minimum reserves being remunerated by the ECB at the refinancing rate (0.00%) and excess reserves at the deposit rate (-0.50%). But if the ECB were to initiate a cycle of key-rate hikes, it would expose the Eurosystem to the risk of financial losses, since it would then have to remunerate these deposits, despite

an extremely low return on its assets. In other words, income from assets would no longer suffice to finance liabilities. These losses would reoccur and increase in a monetary tightening cycle, potentially undermining the credibility of the ECB and its ability to achieve its price stability objective. As a result, we favour a scenario of an exit from monetary policy through an extremely gradual reduction in asset purchases, continued reinvestment of bond maturities and, possibly, a cautious increase in the deposit rate. In our view, the issue of the refinancing rate will only be a last resort. Several members of the ECB Governing Council have advocated decoupling the management of the refinancing rate and the deposit rate, without waiting for the end of the quantitative easing programme. But the ECB's biggest challenge will be to manage the rise in US rates while the eurozone output gap fails to close. The ECB will be obliged to continue managing the yield curve for the greatest happiness of heads of state and government, free from any interest rate constraints. It should be borne in mind here that the Eurosystem has already announced the reinvestment of PEPP securities through end-2023 and for as long as necessary regarding the APP. Fiscal policy will continue to lord it over monetary policy in the eurozone, a phenomenon referred to as "fiscal dominance". The consequences can be inflationary, particularly via currency depreciation and imported inflation. But the fragmentation of the eurozone makes resolving the issue more complicated, as not all countries have a current account surplus. This increases the risk of intra-European tensions and a negative "euro" risk premium.

The Federal Reserve's great strength therefore remains its credibility, underscored by its ability to change its interest rate policy in an unconventional manner consistent with macroeconomic data. Naturally, its inclusion in the field of inequality makes it less independent, but most central banks, by purchasing corporate and government bonds, have invested in industrial policy and redistribution¹.

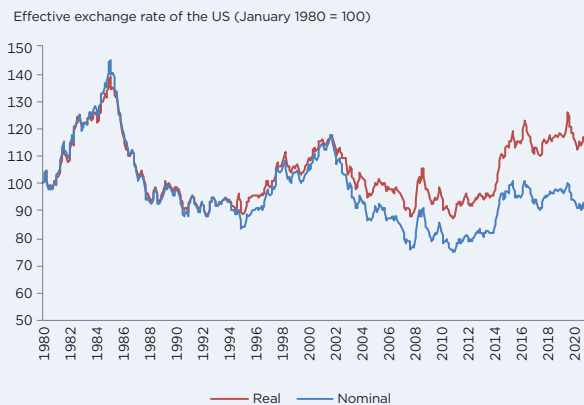
We continue to expect the US Federal Reserve to raise its key rate starting in the second half of 2022. Meanwhile, the European Central Bank is expected to stop its Pandemic Stock Purchase Programme as planned in March but complete its traditional programme (APP). However, the impact on sovereign yields will be very limited as the Eurosystem will continue to buy nearly 90% of government net bond issues in 2022.

¹: For a full analysis of the inflationary risks resulting from the balance-sheet expansion policies of central banks, see Mathilde Lemoine, "The problem is growth, not inflation", May 2021

In the longer term, the nominal equilibrium rate is challenging forecasts of a sharp rise in interest rates. Population ageing in Europe and China and the contraction in US immigration are weighing on the growth outlook, as estimated by the Federal Reserve. While the PCE inflation target remains 2%, the US Monetary Policy Committee has revised US real long-term growth downwards to 1.8%, compared with 1.9% in March 2019 and 2% in March 2016. The US central bank therefore expects the same rate of inflation for

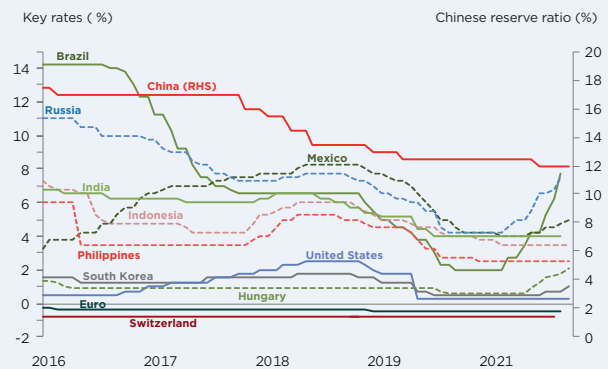
a lower GDP growth rate. I interpret this as an expectation of a lower nominal long-term interest rate, as well as a lower real rate. Furthermore, according to econometric models, flu pandemics have the effect of reducing the labour supply relative to capital. The result is a higher capital ratio per worker and a lower equilibrium interest rate. **Accordingly, our theoretical analyses lead us to be cautious about the trend increase in nominal interest rates.**

7 US inflation differential pushes the dollar higher



Source: BIS, Edmond de Rothschild Economic Research

8 Emerging central banks initiate rate-hike cycles



Source: Refinitiv, Edmond de Rothschild Economic Research

THE POTENTIAL DESTABILISING EFFECTS OF PUBLIC INTERVENTION ARE MULTIPLYING

The pandemic has led to increased state intervention in the economy and the suspension of certain rules aimed at ensuring competition, such as those on state aid in Europe. The combined effect of the revelation of dependence on China during the pandemic and Xi Jinping's determination to dominate trade and technology have led US and European governments to support the development of national and regional value chains and the production of inputs and strategic goods. In parallel, China's management of the economy through successive five-year plans, with heightened control by Xi Jinping and the party, makes the idea of an economic cycle less relevant. The zero-carbon objective shared by the United States, Europe and China is accentuating tensions over the management of scarcity.

Central bankers have also chosen to intervene directly in industrial and redistribution policy by modifying the relative price of assets and influencing the liquidity premium.

The persistence of the pandemic and the effectiveness with which governments in developed countries have avoided a deterioration in the situation of households and a liquidity crisis should not obscure the collateral effects of the increase in interventionism.

In this respect, Xi Jinping's implementation of the energy transition is so centralised that it helps us to understand the new risks heightened by the duration of the pandemic, the energy transition and the global battle for the appropriation of natural resources. The Chinese government's stated objective to reduce CO₂ emissions by at least 65% by 2030 compared with 2005 has generated brutal shutdowns in electricity generation and the production of energy-intensive industries. For example, the National Development and Reform Commission (NDRC), responsible for implementing the reduction in energy intensity and total energy consumption, imposed sudden closures after observing in

August that 19 provinces would not be able to meet the target. This adversely affected Chinese industrial production and interfered with energy prices, particularly coal and gas, which account for 57% and nearly 9%, respectively, of total energy consumption. Price is of little importance but generally speaking constitutes “broadly accessible information on the relative conditions of production and management that an individual or even a team could not collect” as defined by Henri Le Page in his extensive writing on the right of ownership. Rather than challenging the objective, the vital aspect here is the opacity and unpredictability of implementation.

Looking beyond the emblematic example of the energy transition, we are seeing an increase in direct intervention in production volumes. And these decisions are often taken without providing information on their sustainability and stability.

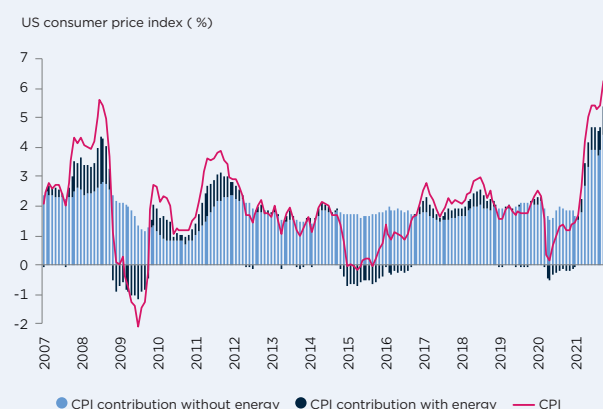
The risk of an increase in conflicts to access and control resources having become more scarce as a result of zero-carbon objectives should continue to underpin demand for risk-free assets in the short term. Governments are giving themselves the means to organise their own solvency to increase their scope of intervention in the economy. What is the cost? Many would say inflation. Admittedly, the collective management of resources can lead production to contract while demand remains high, particularly in countries with ageing populations, as in Europe and China. But falling productiv-

ity and lower per capita GDP growth can also lead to lower equilibrium nominal interest rates. An increase in conflicts can negatively impact investment, increase savings and further weigh on equilibrium interest rates.

Despite the beginning of a tightening of US monetary policy, central bankers will continue to buy government debt and reinvest bond maturities. The Federal Reserve has clearly regained control, with much greater room for manoeuvre than the other major central banks in developed countries. Despite an unfavourable inflation differential for the United States, the prospect of more dynamic potential growth could help the US government to impose its block logic. In his re-election speech in autumn 2017, Xi Jinping brandished GDP growth as a means of achieving global leadership. But he now appears to favour an economic policy aimed at consolidating his movement in the Chinese Communist Party. The decline already observed in the economically active population is weighing on growth prospects.

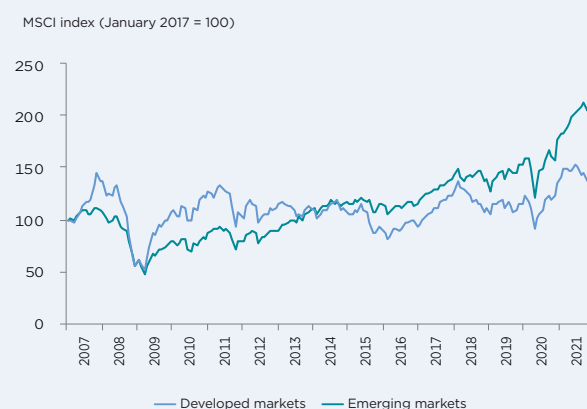
The persistence of the pandemic reinforces the need to invest in human capital, since one of the effects we have demonstrated, based on extensive research on the impacts of flu epidemics, is a decrease in the labour supply. The challenge, then, is not to make those who have a job work more, but to return individuals to the labour market. Failing an active policy on this issue, the pandemic is likely to have deflationary effects.

9 Inflation premium stemming from the disorderly implementation of the energy transition



Source: Refinitiv, Edmond de Rothschild Economic Research

10 Xi Jinping prepares for the 20th Communist Party Congress and continues his zero-Covid strategy



Source: Refinitiv, Edmond de Rothschild Economic Research

OUR FORECASTS 2022 - 2023

Our GDP growth forecasts

Annual %	2016	2017	2018	2019	2020	2021		2021f	C*	2022				2022f	C*	2023f	C*
						Q3f	Q4f			Q1f	Q2f	Q3f	Q4f				
World	2.8	3.4	3.3	2.6	-3	-	-	5.2	5.8	-	-	-	-	4.6	4.4	3.7	3.5
United States	1.7	2.3	3.0	2.3	-3.5	4.9	5.4	5.8	5.5	4.9	3.8	4.2	3.1	4.0	4.2	3.2	2.5
Eurozone	1.9	2.6	1.8	1.6	-6.5	3.7	4.1	5.2	5.1	5.3	4.4	3.4	4.4	4.4	4.3	2.4	2.2
Germany	2.2	2.6	1.1	1.1	-4.9	2.5	2.0	2.9	2.8	4.8	4.3	4.2	4.5	4.5	4.4	2.1	2.0
France	1.1	2.3	1.8	1.8	-8.0	3.3	4.6	7.1	6.7	5.4	5.2	3.3	3.0	4.2	4.1	2.0	2.1
Italy	1.3	1.7	0.8	0.4	-9.0	3.8	5.8	6.5	6.2	6.3	4.5	2.4	2.7	4.0	4.4	1.6	1.9
Spain	3.0	2.9	2.3	2.1	-10.8	2.7	2.7	4.7	4.8	4.1	4.7	3.8	6.6	4.8	5.9	3.1	3.1
Portugal	2.0	3.5	2.8	2.7	-8.4	4.2	4.2	4.7	4.4	8.6	5.3	3.2	3.7	5.2	5.0	2.0	2.4
Europe ex Eurozone	1.9	2.5	1.9	1.6	-6.3	-	-	5.6	5.3	-	-	-	-	4.2	4.3	2.7	2.2
United Kingdom	2.3	2.1	1.6	1.7	-9.7	6.6	5.3	7.3	6.9	8.3	4.6	3.8	2.6	4.8	4.9	2.6	2.1
Switzerland	2.0	1.7	3.0	1.2	-2.5	2.6	3.3	3.2	3.5	4.2	2.7	1.8	1.8	2.6	2.9	1.9	1.7
Japan	0.8	1.7	0.5	0.0	-4.7	1.4	2.8	2.6	2.0	2.5	2.1	2.8	1.9	2.3	2.7	0.8	1.3
Emerging Markets	4.4	4.9	4.8	4.0	-1.3	-	-	4.6	6.5	-	-	-	-	5.3	5.0	4.6	4.8
China	6.8	6.9	6.7	6.1	2.1	4.9	5.8	9.2	8.0	5.1	5.0	5.8	5.1	5.3	5.3	5.5	5.3
ASEAN	4.8	5.3	5.0	4.2	-4.6	-	-	4.8	5.5	-	-	-	-	5.6	4.8	5.6	4.6
Brazil	-3.3	1.3	1.8	1.4	-4.1	5.0	2.5	5.2	5.0	2.5	1.6	1.5	1.2	1.7	1.3	2.0	2.2

*Consensus | **(Indonésie, Malaisie, Philippines, Singapour, Thaïlande, Vietnam)

Our inflation forecasts

Inflation % (Consumer price index)	2016	2017	2018	2019	2020	2021		2021f	C*	2022				2022f	C*	2023f	C*
						Q3f	Q4f			Q1f	Q2f	Q3f	Q4f				
World	2.8	2.8	3.2	3.1	2.6	-	-	3.8	3.7	-	-	-	-	3.4	3.5	2.8	2.9
United States	1.3	2.1	2.4	1.8	1.2	5.4	5.4	4.4	4.5	4.3	3.2	2.4	2.7	3.2	3.6	2.4	2.3
Eurozone	0.2	1.5	1.8	1.2	0.3	2.8	4.6	2.6	2.4	2.8	2.0	2.1	1.9	2.2	2.1	1.8	1.5
Germany	0.4	1.7	1.9	1.4	0.4	3.5	5.5	3.2	3.0	2.8	1.9	2.3	1.8	2.2	2.3	1.8	1.7
France	0.3	1.2	2.1	1.3	0.5	2.2	3.5	2.1	2.0	2.4	1.9	2.0	1.8	2.0	1.9	1.7	1.5
Italy	-0.1	1.3	1.2	0.6	-0.1	2.1	3.7	1.9	1.8	2.4	1.6	1.8	1.6	1.9	1.8	1.3	1.2
Spain	-0.3	2.0	1.7	0.8	-0.3	3.4	5.5	2.9	2.8	3.0	2.1	2.3	1.9	2.4	2.3	1.9	1.4
Portugal	0.6	1.4	1.2	0.3	-0.1	1.2	2.8	1.1	0.9	1.4	0.8	1.0	0.8	1.0	1.3	1.4	1.3
Europe ex Eurozone	0.4	1.7	1.9	1.3	0.4	-	-	2.3	2.3	-	-	-	-	2.5	2.3	2.3	1.6
United Kingdom	0.7	2.7	2.5	1.8	0.8	2.8	3.6	2.3	2.4	3.2	2.8	2.8	2.6	2.9	3.6	2.6	2.1
Switzerland	-0.4	0.5	0.9	0.3	-0.7	0.8	1.2	0.4	0.5	0.8	0.6	0.5	0.5	0.6	0.7	0.7	0.6
Japan	-0.1	0.5	1.0	0.5	0.0	-0.2	0.3	-0.4	-0.2	0.2	0.9	0.4	0.4	0.5	0.7	0.4	0.7
Emerging Markets	4.3	3.6	4.0	4.2	3.8	-	-	4.5	3.5	-	-	-	-	4.2	4.0	3.5	3.5
China	2.0	1.6	2.1	2.9	2.5	0.8	1.6	0.9	1.0	1.5	1.3	1.7	2.0	1.6	2.2	2.3	2.2
ASEAN	1.7	2.3	2.2	1.5	0.8	-	-	2.2	1.8	-	-	-	-	2.5	2.2	2.3	2.1
Brazil	8.8	3.5	3.7	3.7	3.2	5.20	5.50	5.4	8.3	8.0	7.0	5.5	4.8	6.3	5.7	4.0	3.6

*Consensus | **(Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam)

Our underlying oil assumption : 69 dollars a barrel at the end of 2022 and 68 dollars average in 2023

Our monetary policy and yield forecasts

Interest rates (%)**	2017	2018	2019	2020	2021		2021f	2022f				2022f	2023f
					Q3f	Q4f		Q1f	Q2f	Q3f	Q4f		
United States													
Benchmark rate	1.13	1.96	2.25	0.50	0.25	0.25	0.25	0.25	0.25	0.50	0.75	0.44	1.25
2-year Schatz yield	1.38	2.49	1.98	0.43	0.21	0.39	0.20	0.55	0.60	0.85	1.00	0.75	1.55
10-year Bund yield	2.34	2.88	2.16	0.90	1.32	1.52	1.39	1.70	1.80	1.80	1.90	1.80	2.20
Eurozone													
Deposit rate	-0.40	1.96	2.25	0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
2-year Schatz yield	-0.74	-0.62	-0.67	-0.70	-0.74	-0.70	-0.71	-0.67	-0.65	-0.60	-0.60	-0.63	-0.55
10-year Bund yield	0.37	0.44	-0.22	-0.48	-0.40	-0.19	-0.33	-0.20	-0.20	-0.15	-0.15	-0.18	-0.05
French gov. bond 2-year	-0.50	-0.45	-0.60	-0.61	-0.68	-0.68	-0.66	-0.70	-0.70	-0.65	-0.65	-0.68	-0.55
French gov. bond 10-year	0.78	0.72	0.11	-0.14	-0.03	0.16	0.00	0.00	0.10	0.00	0.00	0.03	0.20
United Kingdom													
Benchmark rate	0.29	0.60	0.75	0.21	0.10	0.10	0.10	0.20	0.20	0.40	0.40	0.30	0.75
2-year Schatz yield	0.22	0.71	0.60	0.07	0.12	0.50	0.14	0.60	0.65	0.65	0.70	0.65	0.80
10-year Bund yield	1.19	1.38	0.87	0.29	0.70	1.03	0.75	1.10	1.10	1.15	1.20	1.14	1.35
Switzerland													
Benchmark rate	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75
2-year Schatz yield	-0.78	-0.71	-0.79	-0.74	-0.77	-0.67	-0.75	-0.60	-0.55	-0.55	-0.55	-0.56	-0.65
10-year Bund yield	-0.12	-0.02	-0.57	-0.51	-0.31	-0.12	-0.28	-0.10	-0.08	-0.08	-0.06	-0.08	-0.05
Japan													
Benchmark rate	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
2-year Schatz yield	-0.17	-0.13	-0.20	-0.15	-0.13	-0.12	-0.13	-0.11	-0.10	-0.10	-0.10	-0.10	-0.10
10-year Bund yield	0.05	0.07	-0.10	0.00	0.02	0.07	0.06	0.07	0.08	0.08	0.10	0.08	0.10
Emerging Markets													
China													
1-year lending rate	3.17	3.28	3.30	3.03	2.95	2.95	2.95	2.95	2.95	3.00	3.01	2.98	3.10
Reserve requirement ratio***	17.00	15.85	13.40	12.51	12.00	11.50	12.20	10.50	10.50	11.00	11.00	10.75	12.00
Brazil													
Benchmark rate Brazil	10.17	6.58	6.04	2.89	4.96	7.37	4.53	11.30	10.70	10.00	8.75	10.19	5.00

*Consensus | **Sovereign bond yields shown are averages for the annual periods and period-end figures for the quarterly periods. ***major banks

Our FX forecasts

Exchange rate**	2017	2018	2019	2020	2021		2021f	2022f				2022f	2023f
					Q3f	Q4f		Q1f	Q2f	Q3f	Q4f		
Dollar													
EUR/USD	1.13	1.18	1.12	1.14	1.18	1.14	1.19	1.12	1.13	1.14	1.15	1.14	1.17
USD/JPY	112	110	109	107	110	114	109	116	114	112	112	114	110
GBP/USD	1.29	1.34	1.28	1.28	1.38	1.36	1.38	1.31	1.32	1.33	1.35	1.33	1.35
USD/CHF	0.98	0.98	0.99	0.94	0.92	0.92	0.91	0.94	0.94	0.94	0.93	0.93	0.85
USD/CNY	6.76	6.62	6.91	6.90	6.47	6.41	6.46	6.50	6.50	6.45	6.40	6.46	6.60
USD/BRL	3.19	3.65	3.94	5.15	5.23	5.55	5.35	5.70	5.80	5.50	5.40	5.60	5.40
Euro													
EUR/GBP	0.88	0.88	0.88	0.89	0.86	0.85	0.86	0.85	0.85	0.85	0.85	0.84	0.86
EUR/CHF	1.11	1.15	1.11	1.07	1.08	1.06	1.09	1.05	1.06	1.07	1.07	1.06	1.09

*Consensus | **Period average

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