



Summary

Eurozone

A slightly less buoyant environment

According to the most recent cyclical indicators, the strong growth reported in the Eurozone in Q1 is likely to be followed by a slowdown in Q2. We estimate Q2 growth at 0.2% q/q after 0.5% in Q1.

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Greece

A compromise will provide some relief

Negotiations over the programme's first review could be concluded soon.

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Also in :



June

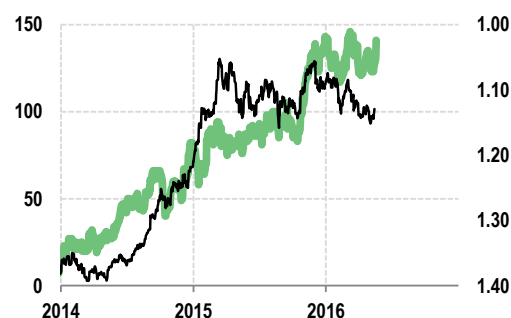
■ The Fed insists June will be a live-meeting ■ Data-dependency forbids pre-commitment ■ Maximum employment is debated

In April, the FOMC left interest rates unchanged, without signalling anything substantial as for what would come next. The minutes of that meeting, released this week, provided way more information about the sentiment of policymakers. The next meeting – i.e. on June 14th and 15th – is mentioned eight times within the minutes. Eight weeks before, the minutes comprehended only one reference to the following meeting, with none in neither January nor December. In October, though, the meeting before they decided on a rate increase, December was mentioned three times... Admittedly, when talking about the June meeting, participants were willing to leave it open, without pre-committing. But so did they in October...

The message is that June is an open meeting: with data-dependency several times reaffirmed, most FOMC members will probably not make up their mind before time has come. Still, while some Fed officials recently insisted on the "June possibility", there was another "hawkish" hit within the minutes: maximum employment. Although it was already discussed in March, the fact that current labour market conditions could be consistent with maximum employment was a more broadly shared point of view in April, the number of the believers coming up from "some participants" to "many participants"...

USD TO REBOUND?

— 2-year sovereign spread (US vs Germany, basis points)
— EUR/USD (inverted right scale)



Source: MacroBond

THE WEEK ON THE MARKETS

Week 13-5 16 > 19-5-16

▼ CAC 40	4 320	► 4 283	-0.9 %
▼ S&P 500	2 047	► 2 040	-0.3 %
↗ Volatility (VIX)	15.0	► 16.3	+1.3 %
▼ Euribor 3M (%)	-0.26	► -0.26	-0.1 bp
↗ Libor \$ 3M (%)	0.63	► 0.64	+0.8 bp
↗ OAT 10y (%)	0.48	► 0.51	+3.1 bp
↗ Bund 10y (%)	0.13	► 0.17	+4.3 bp
↗ US Tr. 10y (%)	1.72	► 1.84	+12.5 bp
▼ Euro vs dollar	1.13	► 1.12	-0.8 %
▼ Gold (ounce, \$)	1 271	► 1 249	-1.7 %
▼ Oil (Brent, \$)	48.0	► 47.9	-0.3 %

Source: Thomson Reuters



Eurozone

A slightly less buoyant environment

- According to the most recent cyclical indicators, the strong growth reported in the Eurozone in Q1 is likely to be followed by a slowdown in Q2. We estimate Q2 growth at 0.2% q/q after 0.5% in Q1.
- Industrial output and retail sales were down strongly at the end of Q1.
- The loss of momentum can also be seen in the survey data, which are trending downwards.

In order to assess the Q2 Eurozone growth outlook, after the robust Q1 figures, we review here the main economic indicators available to date, the hard data like industrial output and retail sales as well as various survey results for the soft data (see table). According to this dataflow, EMU growth is likely to be softer in Q2 than in Q1. Yet there is still a lot of uncertainty surrounding the size of the payback, given lots of data are still missing. We currently estimate Q2 GDP growth in the Eurozone at 0.2% q/q after 0.5% q/q in Q1 (the figures are the same for France).

Industrial output and retail sales ended the first quarter on a negative note, which was more pronounced for industrial output than for retail sales. Spain is the only exception, with both indicators rising in March. Germany stands out on the downside and reported the most negative carry-over of the countries under review. As often is the case, France is situated in an in-between position. However, when measured at the end of a quarter, the carry-over provides only a vague idea of the trend of the next quarter. For the moment, Q2 seems to be off to a bad start, but the accuracy of this diagnosis still needs to be confirmed. Industrial output and retail sales short-term dynamics¹ (the momentum) provide an additional indication of the cyclical state of the economy. As of now, for the Eurozone as a whole, the trend is slightly positive for industrial output and negative for retail sales (see chart).

April confidence surveys also point to less buoyant cyclical dynamics, as their results have been trending downwards in recent months. This negative signal is reinforced by the deterioration of the leading components of the manufacturing PMI index, notably new orders and export orders. Yet not all of the items on the eurozone's cyclical scoreboard are in negative territory: construction orders are still in positive territory in Germany and France. Although masked by the way momentum is calculated, Italy stands out for its strong turnaround in the European Commission's economic sentiment indicator for April, which almost completely erased the decline between November and March. France reports a slightly smaller deterioration in its business climate indicators, albeit from a lower

¹ Short-term dynamic of hard (soft) data is measured herein by the change in the average for the past 6 (3) months compared to the average for the previous 6 (3) months. The momentum corresponds to the trend in the growth rates calculated on that basis: it is said to be positive (negative) when the growth is accelerating (decelerating).

Cyclical scoreboard

Hard data		EZ	GE	FR	IT*	ES
Real GDP, q/q %	Q1' 16	0.5	0.7	0.5	0.3	0.8
Industrial production, 6m/6m %	03/16	1.0	0.2	0.5	0.5	1.3
carry-over, %		-0.9	-1.0	-0.6	-0.3	0.8
Retail sales, 6m/6m %	03/16	0.9	0.9	1.3	0.4	2.0
carry-over, %		-0.3	-0.9	-0.3	na	0.3

Soft data		EZ	GE	FR	IT	ES
Economic sentiment, 3m/3m %	04/16	-2.1	-1.8	-0.6	-2.3	-2.4
PMI manufacturing, 3m/3m	04/16	-1.3	-1.8	-1.4	-1.4	-0.2
new orders, 3m/3m	04/16	-1.5	-1.2	-2.6	-2.6	-1.6
export orders, 3m/3m	04/16	-1.5	-1.8	-1.3	-1.7	-1.7
PMI services, 3m/3m	04/16	-0.8	-0.6	-0.5	-1.7	-0.6
PMI retail, value of goods ordered, 3m/3m	04/16	0.8	2.6	-0.1	-0.9	na
PMI construction, orders, 3m/3m	04/16	0.7	2.1	1.1	-2.1	na

Table Sources: Eurostat, European commission, Markit, BNP Paribas
* February is the most recent month available for retail sales in Italy.

Loss of momentum

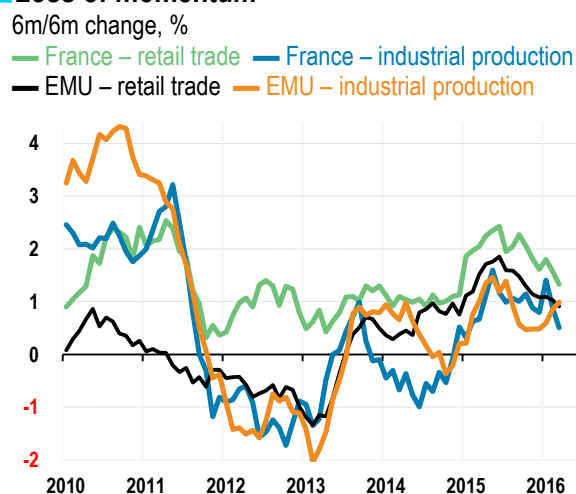


Chart Sources: Eurostat, European Commission

level than elsewhere. The national surveys (INSEE, Bank of France) are also showing mixed signals, and are currently consistent with growth of about 0.3% q/q.

In the same way that Q1 growth was too strong to last, we expect the Q2 payback to be short lived. Eurozone growth should then return to a quarterly growth rate of 0.3-0.4%. This would bring the average annual growth rate to 1.5% in 2016, the same as in 2015, followed by 1.3% in 2017. Though lacking punch, the economy will nonetheless hold above its long-term growth potential.



Greece

A compromise will provide some relief

- Negotiations over the programme's first review could be concluded soon, providing political relief both to the Greeks and the Europeans.
- Very ambitious fiscal targets were left unchanged, and discussions have begun on restructuring debt servicing costs. It is still uncertain whether the IMF will participate fully in the programme.

Even as Eurostat released its preliminary growth estimates showing that Greek GDP contracted 0.4% quarter-on-quarter in Q1 2016, i.e. a year-on-year decline of 1.3%, some notable headway has been made in recent weeks in discussions to conclude the first review of the European Stability Mechanism (ESM) financing programme. It now seems very likely that an agreement will be reached soon, maybe even by the Eurogroup's next meeting on 24 May.

An agreement would enable European creditors to temporarily close the Greek question prior to the UK referendum, without risking in early July a liquidity crisis similar to the one experienced last year. In addition, a political victory would also enable the Tsipras government to consolidate its parliamentary majority somewhat. What remains to be seen is the basis that will be used to forge this compromise, and what consequences it will have on the economy and the sustainability of Greek public finances. Not long ago, there were strong divergences, not only between Athens and its creditors, but also between the Europeans and the International Monetary Fund¹.

Fiscal targets: choosing austerity

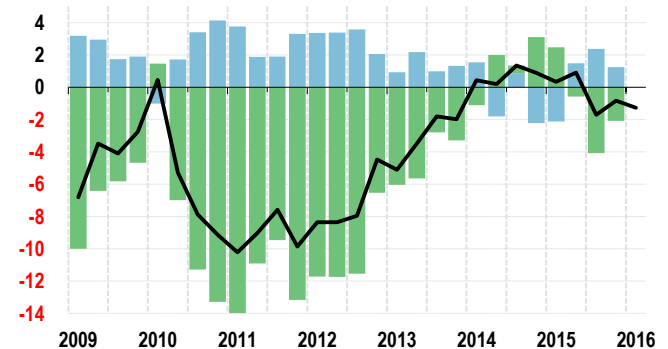
The first point of disagreement concerned the size of savings to be generated by the package of measures elaborated last summer (EUR 5.4 bn, 3% of GDP), which the Greek government finally passed in early May. In the end, the Europeans played deaf and no changes were made to the medium-term target forced on the Greek government of a primary budget surplus of 3.5% of GDP by 2018. If this target is not met, as the IMF fears – it esteems that a target of 1.5% would be more credible and reasonable – a mechanism that will be approved soon would allow for the automatic implementation of additional fiscal savings measures. A year at most after the mechanism is triggered, the temporary automatic measures would have to be replaced by structural reforms validated by the creditors, which would strengthen the budget surplus in a sustainable manner. At most, these contingent measures would amount to EUR 3.6 bn, i.e. 2% of Greek GDP.

Debt: negotiations are underway

The Europeans, under IMF pressure, finally agreed to start negotiations on restructuring debt servicing costs before the conclusion of the first programme review. At this phase, the

Growth drops back into negative territory

— GDP, % y/y; contribution of domestic demand; external trade



Chart

Sources: Eurostat, BNP Paribas

Eurogroup members are being very cautious: without admitting that restructuring is necessary to restore the sustainability of Greek public finances, they esteem that it will help the country regain access to the financial markets and smooth the debt repayment profile it will face at the end of the present programme. Yet the Eurogroup also wants to maintain incentives for the country to pursue adjustments after the programme ends.

To date, the Eurogroup has thus started negotiations based on a 3-phased process: 1) in the short term, technical measures will be explored to facilitate debt management, 2) in the medium term, if necessary and depending on the successful completion of the adjustment programme, the Europeans could agree to extend maturities and grace periods, and 3) in the long term, i.e. once the current programme is completed in August 2018, creditors have pledged to consider additional efforts, if they are still deemed necessary, once budget surplus targets have been met².

How will the IMF participate in the programme?

At this point, we are still far from any major restructuring efforts that would clear the horizon concerning Greek public finances and foster greater confidence, so vitally needed to revive investments, restore growth and ensure the success of the privatisation programme. According to the press, the IMF has asked the Europeans to push back all interest and principal repayment dates on these loans until after 2040. The negotiations have only just begun. If they were to fail, the IMF might refuse to participate in the programme as a creditor, preferring instead to play the role of institutional "technical advisor". The Europeans are also exerting strong pressure, and things have not gotten to that point yet.

¹ See, for example, "Greece: take nothing for granted", Eco Perspectives, Q2 2016, BNP Paribas.

² For the German government, this solution also has the advantage of postponing the most difficult discussions until after the next general elections.



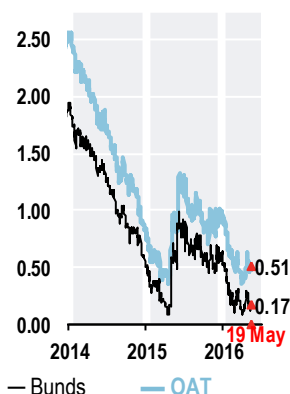
Markets overview

The essentials

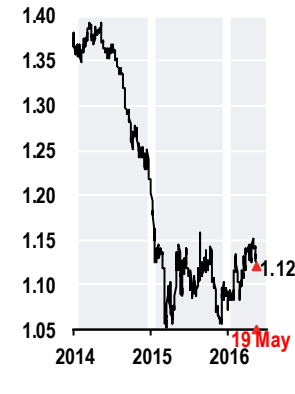
Week 13-5-16 > 19-5-16

➤ CAC 40	4 320	➤ 4 283	-0.9 %
➤ S&P 500	2 047	➤ 2 040	-0.3 %
➤ Volatility (VIX)	15.0	➤ 16.3	+1.3 %
➤ Euribor 3M (%)	-0.26	➤ -0.26	-0.1 bp
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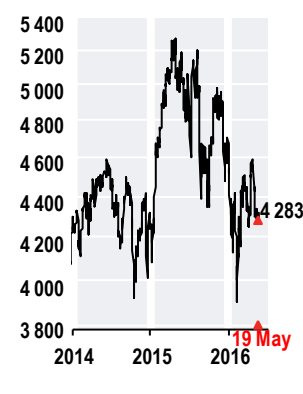
10 y bond yield, OAT vs Bund



Euro-dollar



CAC 40



Money & Bond Markets

Interest Rates		highest' 16		lowest' 16	
€ ECB	0.00	0.05	at 01/01	0.00	at 16/03
Eonia	-0.34	-0.13	at 01/01	-0.35	at 24/03
Euribor 3M	-0.26	-0.13	at 01/01	-0.26	at 10/05
Euribor 12M	-0.01	0.06	at 01/01	-0.03	at 04/03
\$ FED	0.50	0.50	at 01/01	0.50	at 01/01
Libor 3M	0.64	0.64	at 15/03	0.61	at 04/01
Libor 12M	1.27	1.27	at 18/05	1.12	at 12/02
£ BoE	0.50	0.50	at 01/01	0.50	at 01/01
Libor 3M	0.59	0.59	at 15/02	0.58	at 08/03
Libor 12M	1.00	1.07	at 01/01	0.98	at 12/02

At 19-5-16

Yield (%)		highest' 16		lowest' 16	
€ AVG 5-7y	0.23	0.49	at 12/01	0.16	at 01/03
Bund 2y	-0.49	-0.34	at 01/01	-0.56	at 03/03
Bund 10y	0.17	0.63	at 01/01	0.09	at 07/04
OAT 10y	0.51	0.98	at 01/01	0.36	at 05/04
Corp. BBB	1.79	2.50	at 20/01	1.69	at 06/05
\$ Treas. 2y	0.89	1.06	at 01/01	0.64	at 11/02
Treas. 10y	1.84	2.27	at 01/01	1.64	at 11/02
Corp. BBB	3.75	4.50	at 12/02	3.61	at 11/05
£ Treas. 2y	0.43	0.65	at 01/01	0.28	at 08/02
Treas. 10y	1.44	1.96	at 01/01	1.28	at 11/02

At 19-5-16

10y bond yield & spreads

7.48%	Greece	730 pb
3.11%	Portugal	293 pb
1.59%	Spain	142 pb
1.59%	Italy	141 pb
0.61%	Ireland	43 pb
0.56%	Belgium	38 pb
0.51%	France	33 pb
0.45%	Finland	28 pb
0.39%	Netherlands	21 pb
0.38%	Austria	20 pb
0.17%	Germany	

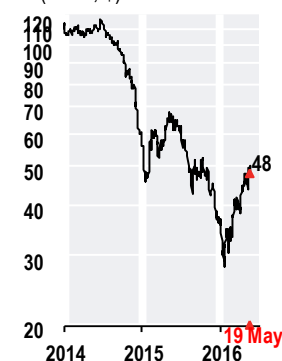
Commodities

Spot price in dollars		lowest' 16		2016(€)	
Oil, Brent	48	28	at 20/01	+30.0%	
Gold (ounce)	1 249	1 062	at 01/01	+14.0%	
Metals, LMEX	2 217	2 049	at 12/01	-2.4%	
Copper (ton)	4 594	4 328	at 15/01	-5.4%	
CRB Foods	364	329	at 11/01	+5.3%	
wheat (ton)	171	146	at 04/01	+7.3%	
Corn (ton)	147	134	at 31/03	+3.5%	

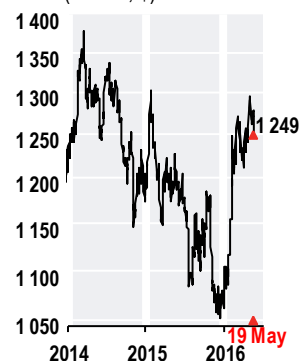
At 19-5-16

Variations

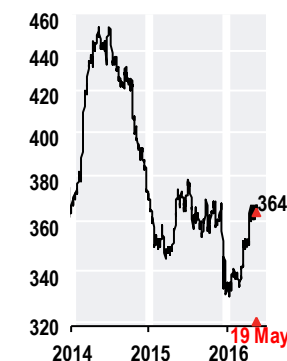
Oil (Brent, \$)



Gold (Ounce, \$)



CRB Foods



Exchange Rates

1€ =		highest' 16		lowest' 16		2016	
USD	1.12	1.15	at 03/05	1.07	at 05/01	+3.1%	
GBP	0.77	0.81	at 08/04	0.73	at 05/01	+4.2%	
CHF	1.11	1.11	at 04/02	1.08	at 29/02	+2.0%	
JPY	123.17	131.84	at 01/02	121.84	at 06/05	-5.7%	
AUD	1.56	1.60	at 11/02	1.45	at 20/04	+4.3%	
CNY	7.33	7.47	at 04/05	6.99	at 05/01	+4.0%	
BRL	4.04	4.53	at 16/02	3.94	at 14/04	-6.0%	
RUB	75.19	91.22	at 11/02	73.05	at 28/04	-5.2%	
INR	75.49	77.50	at 11/02	71.42	at 05/01	+5.0%	

At 19-5-16

Variations

Equity indices

Index		highest' 16		lowest' 16		2016	2016(€)
CAC 40	4 283	4 637	at 01/01	3 897	at 11/02	-7.6%	-7.6%
S&P500	2 040	2 102	at 20/04	1 829	at 11/02	-0.2%	-3.2%
DAX	9 796	10 743	at 01/01	8 753	at 11/02	-8.8%	-8.8%
Nikkei	16 647	19 034	at 01/01	14 953	at 12/02	-12.5%	-7.2%
China*	53	59	at 01/01	48	at 12/02	-10.9%	-13.8%
India*	439	460	at 01/01	393	at 11/02	-2.7%	-7.4%
Brazil*	1 292	1 454	at 29/04	860	at 21/01	+13.6%	+20.8%
Russia*	470	509	at 28/04	331	at 20/01	+8.5%	+12.6%

At 19-5-16

Variations

* Indices MCSI



Economic forecasts

En %	GDP Growth			Inflation			Curr. account / GDP			Fiscal balances / GDP		
	2015	2016 e	2017 e	2015	2016 e	2017 e	2015	2016 e	2017 e	2015	2016 e	2017 e
Advanced	1.9	1.6	1.4	0.3	0.6	1.7						
United States	2.4	1.6	1.5	0.1	1.2	2.1	-2.7	-2.8	-2.9	-2.5	-3.2	-3.2
Japan	0.5	0.1	0.2	0.5	0.0	0.7	3.3	3.6	3.3	-4.6	-3.7	-3.2
United Kingdom	2.3	1.7	2.0	0.1	0.6	1.8	-4.5	-4.8	-3.8	-4.1	-3.0	-2.2
Euro Area	1.5	1.3	1.4	0.0	-0.0	1.1	3.0	2.6	2.5	-2.2	-2.0	-1.7
Germany	1.4	1.4	1.5	0.1	0.1	1.6	8.1	7.7	7.6	0.7	0.3	0.3
France	1.2	1.2	1.3	0.1	0.3	1.2	-0.1	-0.1	-0.8	-3.5	-3.4	-3.2
Italy	0.6	1.0	0.9	0.1	-0.2	0.9	2.1	2.0	2.0	-2.7	-2.8	-2.3
Spain	3.2	2.6	2.1	-0.6	-0.9	1.0	0.9	0.6	0.5	-5.2	-3.8	-2.7
Netherlands	2.0	1.8	1.6	0.2	0.3	1.1	9.6	8.7	8.5	-1.8	-2.0	-1.8
Belgium	1.4	1.3	1.6	0.6	0.5	1.6	0.8	1.4	1.7	-2.7	-2.7	-2.5
Portugal	1.5	1.0	1.3	0.5	0.5	1.5	1.0	1.2	1.4	-4.1	-3.0	-2.5
Emerging	4.1	4.1	4.6	6.0	6.4	5.4						
China	6.9	6.4	6.1	1.4	1.5	1.7	2.8	3.1	2.2	-2.4	-3.0	-3.3
India	7.3	7.9	8.1	4.9	5.8	5.2	-1.3	-0.6	-0.6	-4.1	-3.9	-3.5
Brazil	-3.8	-4.0	0.0	9.0	9.1	7.3	-3.3	-1.0	-1.1	-10.3	-8.4	-8.2
Russia	-3.7	-1.8	0.6	15.6	7.9	6.8	5.4	2.8	7.4	-3.7	-5.3	-4.7
World	3.1	3.0	3.2	3.6	3.9	3.8						

Source : BNP Paribas Group Economic Research / GlobalMarkets (e: Estimates & forecasts)

Financial forecasts

Interest rates		2015				2016						
End period		Q1	Q2	Q3	Q4	Q1	Q2e	Q3e	Q4e	2015	2016e	2017e
US	Fed Funds	0.25	0.25	0.25	0.5	0.5	0.25-0.50	0.25-0.50	0.25-0.50	0.01	0.25-0.50	0.25-0.50
	3-month Libor \$	0.27	0.28	0.33	0.61	0.63	0.70	0.70	0.70	0.61	0.70	1.05
	10-year T-notes	1.93	2.35	2.03	2.27	1.79	1.75	1.65	1.50	2.27	1.50	1.75
EMU	Refinancing rate	0.05	0.05	0.05	0.05	0.00	0.00	0.00	0.00	0.05	0.00	0.00
	3-month Euribor	0.02	-0.01	-0.04	-0.13	-0.24	-0.30	-0.30	-0.30	-0.13	-0.30	-0.30
	10-year Bund	0.18	0.77	0.59	0.63	0.16	0.20	0.00	-0.20	0.63	-0.20	-0.20
	10-year OAT	0.42	1.20	0.90	0.98	0.41	0.50	0.30	0.10	0.98	0.10	0.10
	10-year BTP	1.29	2.31	1.73	1.60	1.23	1.45	1.25	0.95	1.60	0.95	0.80
UK	Base rate	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	1.00
	3-month Libor £	0.57	0.58	0.58	0.59	0.59	0.75	0.75	0.75	0.59	0.75	1.25
	10-year Gilt	1.58	2.03	1.77	1.96	1.42	1.40	1.47	1.50	1.96	1.50	1.80
Japan	Overnight call rate	0.02	0.01	0.01	0.04	-0.00	-0.30	-0.30	-0.30	0.04	-0.30	-0.50
	3-month JPY Libor	0.17	0.17	0.17	0.17	0.10	-0.30	-0.30	-0.30	0.17	-0.30	-0.50
	10-year JGB	0.40	0.44	0.35	0.25	-0.04	-0.35	-0.35	-0.35	0.25	-0.35	-0.50

Exchange rates		2015				2016						
End period		Q1	Q2	Q3	Q4	Q1	Q2e	Q3e	Q4e	2015	2016e	2017e
USD	EUR / USD	1.07	1.11	1.12	1.09	1.14	1.16	1.15	1.14	1.09	1.14	1.05
	USD / JPY	120	122	120	120	112	108	110	115	120	115	124
EUR	EUR / GBP	0.72	0.71	0.74	0.74	0.79	0.77	0.74	0.72	0.74	0.72	0.68
	EUR / CHF	1.04	1.04	1.09	1.09	1.09	1.14	1.14	1.16	1.09	1.16	0.01
	EUR/JPY	129	136	134	131	128	125	127	131	131	131	130

Source : BNP Paribas Group Economic Research / GlobalMarkets (e: Estimates & forecasts)



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	15 April	16-15	United States: Potential problem France: Fiscal targets maintained Brazil: Rebuilding confidence for a fresh start
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