



## Summary

### Eurozone

#### Patience and cautious optimism

As expected the ECB maintained its policy unchanged and continues to monitor the situation carefully.

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### Germany

#### Savings surplus harms growth potential

High savings by households and the non-financial sector pushed the current account surplus to a historical high in 2015. However, the lack of investment harms the country's growth potential.

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### Market overview

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### Summary of forecasts

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Also in :



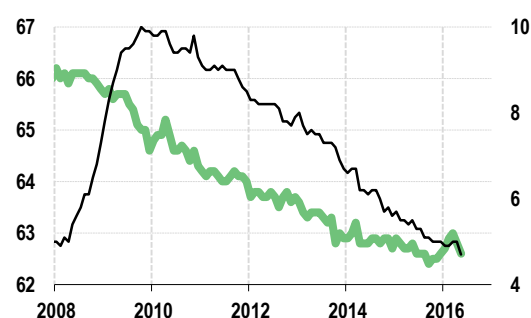
## Bye bye June

### ■ Worrying signals from the US labour market ■ Slack is up again ■ No more suspense about the June FOMC meeting

The May labour market report came as a cold shower. Non-farm payrolls grew by a very limited 38k, the smallest gain in six years. Even if part of the slowdown (from 123k in April, downward revised from a preliminary 160k) was due to strikes in the telecommunication, the slowdown is beyond that: the net effect from strikes was probably around -35k. On top of that, after a promising rise, the labour participation ratio fell back quite markedly (from 63.0% in March to 62.6%). Hence, the unemployment rate coming down to 4.7% is not necessarily good news, as being due to workers leaving the labour force. Additional worrying news comes from an increase in the share of involuntary part-timers. In short, the level of underemployment, after almost constant improvement over the last years, deteriorated in May, helping understanding the sluggishness of wages, which decelerated to 2.4%. Even if one point does not make a trend, the Fed will quite certainly not raise rates on June 15<sup>th</sup>. On Monday, Janet Yellen will speak in Philadelphia. We will have to listen carefully for her analysis of what definitely is a deterioration of the labour market conditions.

#### REVERSAL?

— Labour force participation ratio ; — Unemployment rate (r.h.s.)



Source: US Bureau of Labour Statistics

#### THE WEEK ON THE MARKETS

Week 27-5 16 > 2-6-16

▼ CAC 40	4 515	► 4 466	-1.1 %
↗ S&P 500	2 099	► 2 105	+0.3 %
↗ Volatility (VIX)	13.1	► 13.6	+0.5 %
▼ Euribor 3M (%)	-0.26	► -0.26	-0.2 bp
↗ Libor \$ 3M (%)	0.67	► 0.68	+0.8 bp
▼ OAT 10y (%)	0.48	► 0.47	-1.1 bp
▼ Bund 10y (%)	0.14	► 0.11	-3.0 bp
▼ US Tr. 10y (%)	1.83	► 1.81	-2.4 bp
↗ Euro vs dollar	1.11	► 1.12	+0.3 %
▼ Gold (ounce, \$)	1 212	► 1 211	-0.1 %
↗ Oil (Brent, \$)	49.4	► 49.9	+1.0 %

Source: Thomson Reuters



## Eurozone

### Patience and cautious optimism

- As in April, the ECB left its monetary policy unchanged, leaving the European economy time to absorb the easing measures voted in March, including one of the biggest (if not the biggest), the T-LTRO II, which has not even started yet.
- Except for an upward revision in 2016, macroeconomic forecasts were not changed. Inflation is expected to remain capped at 1.6% in 2018, the same level as in the March forecast.
- To justify the decision to maintain the current profile, Mario Draghi insisted that the easing effects of the measures announced in March have not been fully captured by the new projections.
- Although monetary policy is likely to focus on implementing previously approved measures, new measures cannot be ruled out in case of an unwanted tightening of monetary and financial conditions and/or the materialisation of second-round effects.
- Lastly, Mario Draghi also revealed the ECB's position on the Greek situation. Despite the agreement that was reached in late May, the Governing Council has yet to reintroduce the waiver that would allow Greek banks to refinance normally via the central bank.

No major decisions were expected at the ECB's June monetary policy meeting. As in April, the central bank maintained the *status quo*, leaving the European economy time to absorb the easing measures approved in March, the biggest of which, the T-LTRO II, has not even started yet. The presentation of the same inflation forecasts for 2018 supported a persistently accommodating message though.

As at the end of each quarter, the ECB presented its updated macroeconomic projections for growth and inflation. In the previous two projections, in December and March, inflation estimates were revised downwards, which led to the announcement of new monetary easing measures. This time, it served more as a communication support: it helped show the effectiveness of the policy measures deployed so far, without sending an overly optimistic message that would risk fuelling premature expectations of monetary tightening.

The 2016 growth and inflation forecasts were revised slightly upwards (see table) after the year started off strongly in terms of growth (+0.5% q/q in Q1) and oil prices rebounded. At a more distant horizon, however, which is more pertinent for the central bank, the inflation forecast remains the same: inflation continues to be capped at 1.6% in 2018, the same level as in the March forecast when the ECB announced that it was lowering key rates, beefing up its quantitative easing programme, and launching a new round of long-term lending (T-LTRO II). Actually core inflation has even been revised downward, compensating for rebounding energy prices.

#### ■ ECB staff projections

	June 2016				March 2016			
	2015	2016	2017	2018	2015	2016	2017	2018
Real GDP	1.6	1.6	1.7	1.7	1.5	1.4	1.7	1.8
Unemp. rate	10.9	10.2	9.9	9.5	10.9	10.4	10.2	9.9
Inflation	0.0	0.2	1.3	1.6	0.0	0.1	1.3	1.6
Core inflation	0.8	1.0	1.2	1.5	0.8	1.1	1.3	1.6

Table

Source : ECB

To justify maintaining the same profile, Mario Draghi insisted that the new projections had not yet taken into account the full impact of the measures announced in March. This is notably due to the gradual launching of the monetary easing measures: the corporate sector purchase programme (CSPP) and T-LTRO II will not start up until 8 and 22 June, respectively. Patience is needed.

In the end, it is in qualitative terms that the ECB best accounted for the effectiveness of its action, pointing out that although risks were still skewed to the downside, they are now more balanced thanks to the monetary easing measures previously decided.

Mario Draghi used the press conference to deliver an accommodating message, in line with stubbornly sluggish forecasts. Although in the future, monetary policy is bound to concentrate on implementing previously approved measures, we should not rule out further actions in case of an unwanted tightening of financial and monetary conditions and/or the emergence of second-round effects. In our view, the absence of wage pressures and low core inflation dynamics should push the ECB to extend the duration of its quantitative easing programme beyond March 2017.

Lastly, Mario Draghi also presented the ECB's position on the Greek situation. Despite the agreement reached in late May, the Governing Council still has not reintroduced the waiver that would allow Greek government bonds to be adopted as collateral in refinancing operations. For that, we must wait until the conclusion of the first review of the third European bailout plan which requires the implementation by Greek authorities of a list of prior actions.



## Germany

### Savings surplus harms growth potential

- High savings by households and the non-financial business sector pushed the current account surplus to 8.6% of GDP in 2015, a new historical high.
- This is partly related to population ageing and the reluctance of enterprises to step up investment.
- Without change in policy, Germany's saving surplus is expected to remain high in the coming years. The lack of investment is harmful for the country's growth potential.

In 2015, the German current account surplus rose to 8.6% of GDP from 7.4% in 2014 (see Chart). This is a new historical high. The recently published Flow of Funds shows that the main contributors to the surplus are the household sector and non-financial corporations. The accounts for the government sector and the financial sector were close to balance.

Germany's high current account surplus is a rather controversial issue. Many consider it to be an important factor behind the euro zone's sluggish growth performance. Last February, in a study on macroeconomic imbalances, the European Commission attributed the high and persistent German current account surplus partly to weak investment and concluded that this poses risks for the future growth potential of the German economy. It called for further action to facilitate conditions for private investment.

#### Households: Saving for retirement

Despite the decline in interest rates in 2015, household increased their savings to 9.7% of net disposable income compared to 9.5% in 2014. The relatively high savings rate – the average savings rate in the EU is around 4% – is partly related to population ageing.

German households have traditionally been rather risk adverse. They have held almost 40% of their assets in currency and deposits. Moreover, almost 40% of household financial assets are in guaranteed benefit schemes. The guaranteed minimum rate of return for life insurance contracts – currently set at 1.25% – makes this form of saving very attractive. As interest rates have been declining – the yield on the 10-year Bund amounted to only 0.17 in May 2016 – it is virtually certain that the Finance Minister will reduce the minimum guaranteed rate once again.

Looking for higher yields, household have reduced their debt securities and saved less in deposits. This has benefited riskier asset classes such as equity that saw its share in the household portfolio rising to 19.6% in 2015, almost 1 percentage point higher than in 2014.

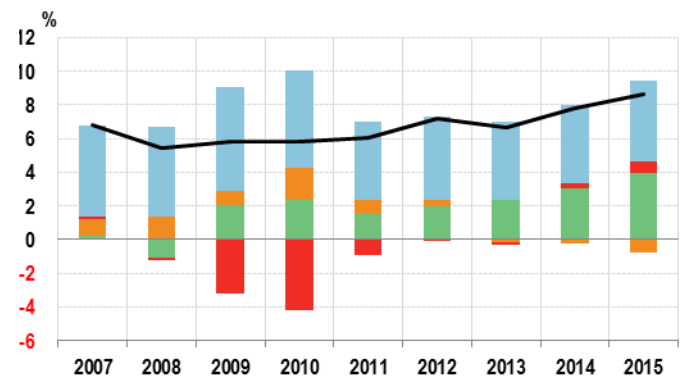
#### Non-financial corporations: A bumper year

In 2015, the financial surplus of the non-financial sector increased to 3.9% of GDP, 0.9 percentage point higher than in the preceding year. The surplus was boosted by increased sales and improved profit

#### Households and corporations are major savers

Financial surpluses (as % of GDP) of

Households Government Non-financial enterprises  
Financial Sector Current Account



Chart

Sources: Deutsche Bundesbank, Destatis

margins as companies benefited from a fall in capital costs and lower prices for primary commodities and intermediate goods. On the other hand, labour costs increased strongly, partly because of the introduction of the national minimum wage. In addition, profits were dented by one-off factors such as the substantial provisions set aside in the car industry following the diesel emission scandal.

Despite the good earnings performance and the low interest rates, German enterprises hardly increased their capital spending. Instead they have used a substantial part of their financial resources to strengthen their presence in global value chains by offshoring production to Eastern Europe and other emerging economies.

#### New policies are needed to reduce saving surplus

In 2016 and 2017, the surplus on the current account may ease only slightly although remaining close to 8% of GDP. The main question that needs addressing is why the German economy is not stepping up investment even though interest rates are so low – negative in some cases – whereas the need for new investment, in particular in public infrastructure, is so high. This calls into question the wisdom of the balanced budget policy. Fiscal pump priming in combination with structural reforms might enhance Germany's growth potential and stimulate private investment.



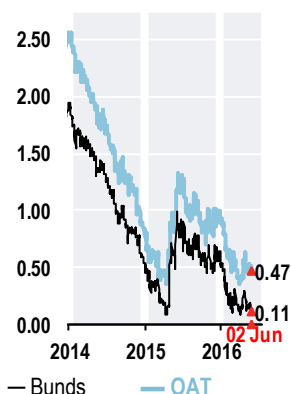
## Markets overview

## The essentials

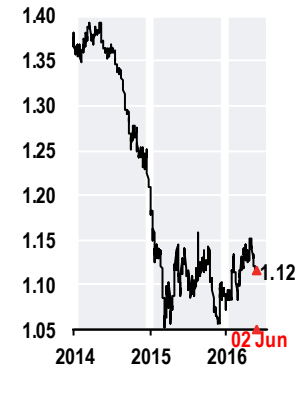
Week 27-5 16 &gt; 2-6-16

➤ CAC 40	4 515	➤ 4 466	-1.1 %
➤ S&P 500	2 099	➤ 2 105	+0.3 %
➤ Volatility (VIX)	13.1	➤ 13.6	+0.5 %
➤ Euribor 3M (%)	-0.26	➤ -0.26	-0.2 bp
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➤ OAT 10y (%)	0.48	➤ 0.47	-1.1 bp
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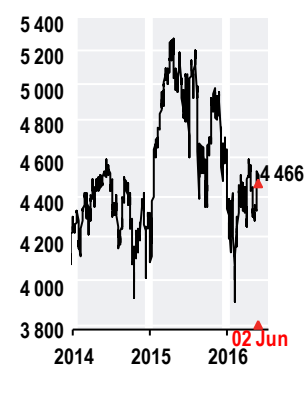
10 y bond yield, OAT vs Bund



Euro-dollar



CAC 40



## Money &amp; Bond Markets

Interest Rates		highest' 16		lowest' 16	
€ ECB	0.00	0.05	at 01/01	0.00	at 16/03
Eonia	-0.33	-0.13	at 01/01	-0.36	at 26/05
Euribor 3M	-0.26	-0.13	at 01/01	-0.26	at 02/06
Euribor 12M	-0.02	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	0.68	0.69	at 31/05	0.61	at 04/01
Libor 12M	1.33	1.34	at 31/05	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 2-6-16

Yield (%)		highest' 16		lowest' 16	
€ AVG 5-7y	0.17	0.49	at 12/01	0.14	at 27/05
Bund 2y	-0.51	-0.34	at 01/01	-0.56	at 03/03
Bund 10y	0.11	0.63	at 01/01	0.09	at 07/04
OAT 10y	0.47	0.98	at 01/01	0.36	at 05/04
Corp. BBB	1.72	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	1.81	2.27	at 01/01	1.64	at 11/02
Corp. BBB	3.71	4.50	at 12/02	3.61	at 11/05
£ Treas. 2y	0.38	0.65	at 01/01	0.28	at 08/02
Treas. 10y	1.47	1.96	at 01/01	1.28	at 11/02

At 2-6-16

10y bond yield &amp; spreads

7.29%	Greece	717 pb
3.17%	Portugal	306 pb
1.49%	Spain	137 pb
1.49%	Italy	137 pb
0.78%	Ireland	67 pb
0.51%	Belgium	39 pb
0.47%	France	35 pb
0.39%	Finland	27 pb
0.34%	Netherlands	22 pb
0.31%	Austria	19 pb
0.11%	Germany	

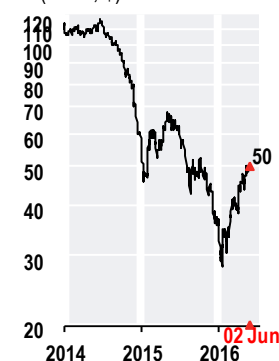
## Commodities

Spot price in dollars		lowest' 16		2016(€)	
Oil, Brent	50	28	at 20/01	+36.0%	
Gold (ounce)	1 211	1 062	at 01/01	+10.9%	
Metals, LMEX	2 244	2 049	at 12/01	-0.9%	
Copper (ton)	4 617	4 328	at 15/01	-4.5%	
CRB Foods	367	329	at 11/01	+6.5%	
wheat (ton)	179	146	at 04/01	+13.1%	
Corn (ton)	157	134	at 31/03	+10.7%	

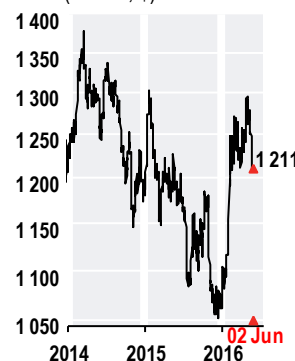
At 2-6-16

Variations

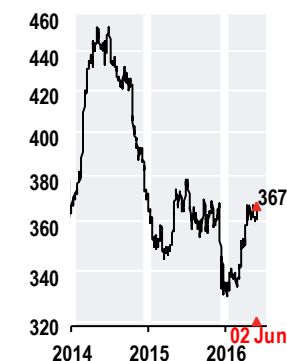
Oil (Brent, \$)



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	+2.7%	
GBP	0.77	0.81	at 08/04	0.73	at 05/01	+4.8%	
CHF	1.10	1.11	at 04/02	1.08	at 29/02	+1.6%	
JPY	121.16	131.84	at 01/02	121.16	at 02/06	-7.3%	
AUD	1.54	1.60	at 11/02	1.45	at 20/04	+3.4%	
CNY	7.34	7.47	at 04/05	6.99	at 05/01	+4.1%	
BRL	4.01	4.53	at 16/02	3.94	at 14/04	-6.8%	
RUB	75.36	91.22	at 11/02	73.05	at 28/04	-5.0%	
INR	75.10	77.50	at 11/02	71.42	at 05/01	+4.5%	

At 2-6-16

Variations

## Equity indices

Index		highest' 16		lowest' 16		2016	2016(€)
CAC 40	4 466	4 637	at 01/01	3 897	at 11/02	-3.7%	-3.7%
S&P500	2 105	2 105	at 02/06	1 829	at 11/02	+3.0%	+0.3%
DAX	10 208	10 743	at 01/01	8 753	at 11/02	-5.0%	-5.0%
Nikkei	16 563	19 034	at 01/01	14 953	at 12/02	-13.0%	-6.1%
China*	56	59	at 01/01	48	at 12/02	-6.3%	-9.0%
India*	460	460	at 02/06	393	at 11/02	+1.9%	-2.5%
Brazil*	1 291	1 454	at 29/04	860	at 21/01	+13.0%	+21.3%
Russia*	463	509	at 28/04	331	at 20/01	+7.5%	+11.4%

At 2-6-16

Variations

\* Indices MCSI



## Economic forecasts

%	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
<b>Advanced</b>	<b>1.9</b>	<b>1.5</b>	<b>1.5</b>	<b>0.3</b>	<b>0.7</b>	<b>1.6</b>						
United States	2.4	1.6	1.5	0.1	1.2	2.1	-2.7	-2.8	-2.9	-2.5	-3.1	-3.1
Japan	0.6	0.2	0.2	0.8	0.0	0.7	3.3	3.6	3.3	-4.6	-4.3	-4.2
United Kingdom	2.3	1.7	2.1	0.1	0.6	1.8	-5.2	-5.0	-4.0	-3.9	-3.2	-2.2
<b>Euro Area</b>	<b>1.5</b>	<b>1.5</b>	<b>1.3</b>	<b>0.0</b>	<b>0.0</b>	<b>1.3</b>	<b>3.2</b>	<b>2.9</b>	<b>2.7</b>	<b>-2.1</b>	<b>-2.0</b>	<b>-1.8</b>
Germany	1.4	1.5	1.3	0.1	0.2	1.6	8.6	8.4	7.8	0.7	0.2	0.2
France	1.2	1.4	1.3	0.1	0.2	1.1	-0.2	-0.1	-0.7	-3.5	-3.3	-3.0
Italy	0.6	1.0	0.7	0.1	-0.2	0.9	2.2	1.9	1.8	-2.6	-2.7	-2.5
Spain	3.2	2.8	2.0	-0.6	-0.7	1.3	1.4	1.2	1.1	-5.1	-4.0	-3.1
Netherlands	2.0	1.8	1.6	0.2	0.4	0.9	9.4	9.5	9.2	-1.8	-1.8	-1.6
Belgium	1.4	1.2	1.5	0.6	1.5	1.4	0.8	1.6	1.9	-2.6	-2.6	-2.4
<b>Emerging</b>	<b>4.1</b>	<b>4.1</b>	<b>4.9</b>	<b>6.1</b>	<b>6.4</b>	<b>5.5</b>						
China	6.9	6.6	6.3	1.4	1.9	2.2	3.1	3.2	2.4	-2.4	-3.0	-3.2
India	7.3	7.8	8.4	4.9	5.6	5.0	-1.3	-0.9	-1.3	-4.1	-3.9	-3.5
Brazil	-3.8	-4.0	2.0	9.0	8.6	5.0	-3.3	-1.1	-1.6	-10.3	-8.7	-7.0
Russia	-3.7	-0.5	2.0	15.6	7.4	6.4	5.3	3.5	3.6	-3.7	-4.5	-3.8
<b>World</b>	<b>3.1</b>	<b>3.0</b>	<b>3.4</b>	<b>3.6</b>	<b>4.0</b>	<b>3.8</b>						

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

## Financial forecasts

Interest rates		2015				2016						
End of period, %		Q1	Q2	Q3	Q4	Q1	Q2e	Q3e	Q4e	2015	2016e	2017e
\$	Fed Funds	0.25	0.25	0.25	0.50	0.50	0.25-0.50	0.25-0.50	0.25-0.50	0.50	0.25-0.50	0.25-0.50
	Libor 3m \$	0.27	0.28	0.33	0.61	0.63	0.66	0.65	0.70	0.61	0.70	1.05
	T-Notes 10y	1.93	2.35	2.03	2.27	1.79	1.84	1.55	1.60	2.27	1.60	1.75
€	ECB "Refi"	0.05	0.05	0.05	0.05	0.00	0.00	0.00	0.00	0.05	0.00	0.00
	Euribor 3m	0.02	-0.01	-0.04	-0.13	-0.24	-0.26	-0.30	-0.30	-0.13	-0.30	-0.30
	Bund 10y	0.18	0.77	0.59	0.63	0.16	0.17	0.00	-0.20	0.63	-0.20	-0.20
£	OAT 10y	0.42	1.20	0.90	0.98	0.41	0.51	0.30	0.10	0.98	0.10	0.10
	BTP 10y	1.29	2.31	1.73	1.60	1.23	1.49	1.10	0.80	1.60	0.80	0.80
	BoE Base rate	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	1.00
¥	Gilts 10y	1.58	2.03	1.77	1.96	1.42	1.46	1.35	1.50	1.96	1.50	1.80
	BoJ Overnight	0.02	0.01	0.01	0.04	-0.00	-0.30	-0.30	-0.30	0.04	-0.30	-0.50
	JGB 10y	0.40	0.44	0.35	0.25	-0.04	-0.12	-0.20	-0.20	0.25	-0.20	-0.30
Exchange rates		2015				2016						
End of period		Q1	Q2	Q3	Q4	Q1	Q2e	Q3e	Q4e	2015	2016e	2017e
\$	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	108	110	120	110	124
€	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	1.20
	EUR / JPY	129	136	134	131	128	125	124	125	131	125	130

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





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