



Summary

United States

Who pays the ferryman? On the disappearance of the treasury market risk premium

The term premium reflects the extra reward bond investors receive for taking duration risk. In the US, this premium on treasury bills is now very negative, which is a source of concern.

► Page 2

Eurozone

ECB : the status quo, for the time being

The ECB left its policy unchanged in september. But QE changes are about to come.

► Page 4

Emerging countries

Is the restart of portfolio investments justified?

According to the IIF, portfolio investment flows to emerging markets more than doubled between March-May and June-August. Does it reflect an overreaction or rational expectations?

► Page 5

Market overview

► Page 8

Summary of forecasts

► Page 9

Also in :



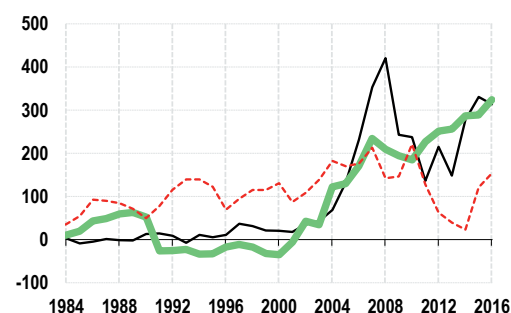
European leitmotiv

■ Monetary policy can't be the only game in town ■ Excess savings is a problem ■ Mr. Draghi favours fiscal stimulus in Germany

ECB policy is effective ("the transmission [...] has never worked better than it does today"), but it can't be the only game in town. This, in essence, is the message Mr. Draghi addressed yesterday not only to the markets, but above all to the eurozone governments. The central bank president called for further structural reforms and fiscal policies to promote growth. There is nothing new about this message, but he repeated it with special emphasis and further details. Pushed to develop his thoughts during the press conference, Mr. Draghi unambiguously stated that he supported higher wages and a fiscal stimulus in Germany, two developments that would reduce the country's current account surplus, the highest in the world. Seen from Germany, there is no justification for stimulating demand: the economy is running at full employment and the ageing population explains the build-up of assets. From a European perspective, in contrast, there is: chronically low inflation argues for more vigorous demand when it's possible. Given the absence of common fiscal tools, the stability of the eurozone continues to depend on the - necessarily difficult - coordination of national policies which therefore have to take on a European dimension. This was already the case during the debt crisis. The current situation is another reminder that macroeconomic imbalances cannot be looked at solely in terms of deficits. At a time when the G20 leaders have once again affirmed their determination to use all available instruments to achieve stronger and better balanced growth, it is clearly the global excess savings that is now a problem for the global economy and central bankers.

CURRENT ACCOUNT (USD bn)

-- Germany -- China -- Japan



Source: OECD

THE WEEK ON THE MARKETS

Week 2-9 16 > 8-9-16

➤ CAC 40	4 542	➤ 4 542	+0.0 %
➤ S&P 500	2 180	➤ 2 181	+0.1 %
➤ Volatility (VIX)	12.0	➤ 12.5	+0.5 %
➤ Euribor 3M (%)	-0.30	➤ -0.30	-0.3 bp
➤ Libor \$ 3M (%)	0.84	➤ 0.83	-0.2 bp
➤ OAT 10y (%)	0.20	➤ 0.15	-5.0 bp
➤ Bund 10y (%)	-0.10	➤ -0.13	-2.5 bp
➤ US Tr. 10y (%)	1.60	➤ 1.62	+2.0 bp
➤ Euro vs dollar	1.12	➤ 1.13	+1.0 %
➤ Gold (ounce, \$)	1 319	➤ 1 344	+2.0 %
➤ Oil (Brent, \$)	46.9	➤ 49.9	+6.3 %

Source: Thomson Reuters



United States

Who pays the ferryman? On the disappearance of the treasury market risk premium

- The term premium reflects the extra reward investors receive for taking duration risk.
- Several factors, including QE, explain the decline in the term premium in recent years.
- In the US this premium is now very negative, which is a source of concern.

In Greek mythology, Charon the ferryman is paid to transport the deceased across the river Styx. It is tempting to use this as a metaphor for the world of fixed income investing where investors are paid a risk premium to 'cross the river' between different economic regimes, literally, to move from a world of low policy rates/subdued growth to a tight monetary policy/strong growth environment or vice versa. In government bond markets, this risk premium is called the term premium. It is the extra return that an investor receives for investing in long maturity bonds rather than rolling over very short maturity investments (e.g. 3-month treasury bills). In a world with very liquid instruments and without uncertainty, the cumulative return of the two strategies should be equivalent. However, such a world doesn't exist. There is uncertainty about growth, inflation and central banks' reaction to news. In case of shocks, the longer the duration of the bond portfolio, the bigger will be the impact (a capital gain or loss). This explains the existence of a term premium as a reward for duration risk.

In recent years, central bankers have increasingly referred to the term premium in their speeches. Ben Bernanke made an extensive analysis of it in his 2013 speech on long-term interest rates. Peter Praet stated in 2015 that asset purchases by the ECB "have contributed to a compression of term premia" and very recently Janet Yellen emphasized at Jackson Hole that central bank asset purchases can push down long-term interest rates and hence stimulate the economy by reducing the term premium. This premium can indeed be considered a channel for transmission of a monetary policy aimed at influencing interest rates that is separate from the policy rate channel (rate hikes or cuts) and the so-called signalling channel¹. However, as will be explained later, the evolution of the term premium also depends on other factors.

Nominal long-term interest rates are the sum of expected inflation, expected real short-term interest rates and a term premium. Models have been developed to separate the term premium from the other components. The Federal Reserve Bank of New York provides estimates for the US. Chart 1 shows the evolution of the US 10-year treasury yield, its model-based estimate ("fitted yield") and the latter's breakout into a risk-neutral yield and a term premium. This premium fluctuates quite significantly over the business cycle but has been

10-year treasury yield, fitted yield, risk neutral yield, term premium since 1962

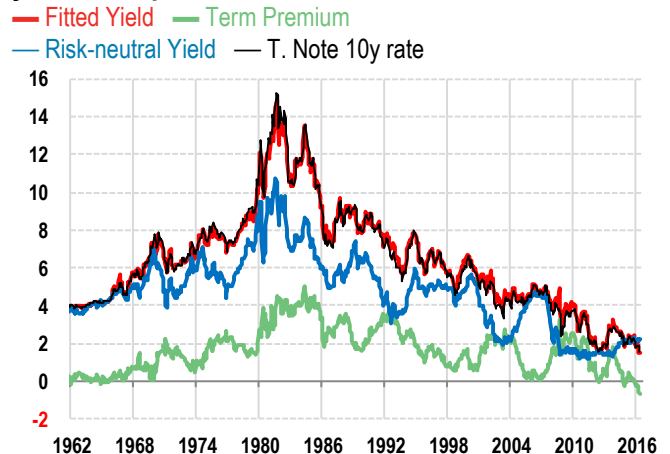


Chart 1

Sources: Federal Reserve, BNP Paribas
trending down since 2009. In recent months, it has become increasingly negative (chart 2). The Federal Reserve Bank of New York also provides estimates of the term premium for different parts of the yield curve, which allows drawing the term structure of the term premium as is shown in chart 3. The evolution in recent years has been spectacular. Normally one would expect a positively sloped curve with longer maturities to command a higher risk premium. This was indeed the case between 2007 and 2010 as well as in 2013 following the debate about the Fed scaling back its QE (taper tantrum). At the end of 2014 and 2015, the curve was flat and close to zero whereas at the end of July this year, the curve was flat and negative for all maturities.²

10-year treasury yield and term premium since 2009 and 2010

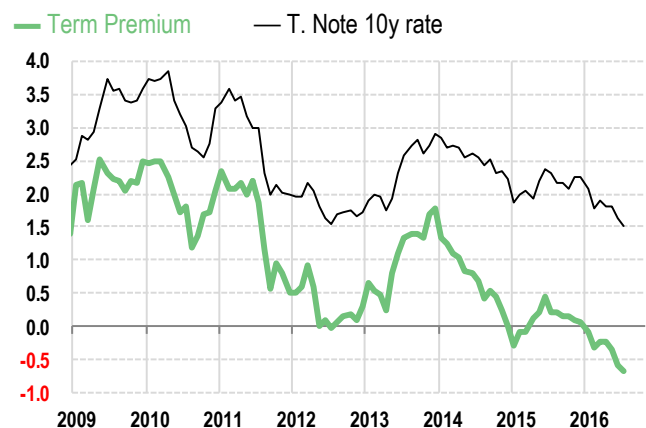


Chart 2

Sources: Federal Reserve, BNP Paribas
² <http://libertystreeteconomics.newyorkfed.org/2014/05/treasury-term-premia-1961-present.html#.V9AGmJf1zk>

¹ The signaling channel indicates the future evolution of the policy rate in order to influence expectations about monetary policy. It operates via central bank communication, forward guidance and asset purchases (which are an implicit statement that the policy rate will be kept low for a very long time).



Before going into the issues this may eventually create, it is important to discuss factors underpinning the dynamics of the term premium. According to Ben Bernanke,³ the term premium's downward trend reflects a reduction in the volatility of treasury yields because short-term interest rates are close to zero and, at the time of his speech, were expected to stay there for quite some time. Another factor is the negative correlation between bond prices and stock prices: when bad news drives down stock prices, bond prices tend to rise (bond yields to drop) because the bad news weighs on the growth and inflation outlook. Investors who are exposed to both asset classes benefit from a diversification effect that reduces the volatility of their portfolio's overall return. This implies that investors are happy to accept a lower yield on bonds, which is reflected in a lower term premium, because the negative correlation with equities makes bonds valuable as a hedge. Other factors influencing the term premium are safe haven demand for bonds in times of turmoil, demand from international reserve managers of countries with structural current account surpluses⁴ and sustained demand for safe assets because of high levels of uncertainty and/or regulation⁵. In addition, quantitative easing has also played a role whereby, as mentioned above, the compression of the term premium was an explicit objective of this policy.

Why is a very low or even negative term premium a concern? An intuitive answer would be that risk needs to be rewarded, so when the premium is negative, one actually pays to take risk. This may cause a mispricing of riskier asset classes (equities, corporate bonds, emerging debt, real estate) on the back of the strong demand of yield hungry investors, which can squeeze their respective risk premia. The existence of a low or even negative premium can be rationalized by a host of factors, as explained above, but it is difficult to see this as a permanent situation: at some point the outlook for short-term rates will change, leading to increased volatility⁶. The equity/bond correlation may also change, inflation expectations may rise causing an increase in expected inflation volatility and central banks may stop their QE programme and eventually strive to reduce the size of their balance sheets. All these factors should be reflected in an increase in the required premium to take duration risk, i.e. in an increase in the term premium. The question is whether this process goes smoothly or not. In the latter case of sudden increases in bond yields on the back of changes in the outlook for inflation, the real policy rate and the term premium, this may have consequences for other financial markets, domestically as well as abroad⁷, and eventually for the real economy. A low or negative term premium then implies the risk of a sudden increase in this premium causing yields to snap back⁸ like a rubber band that had been extended to the extreme.

³ Ben Bernanke, Long term interest rates, March 1, 2013

⁴ Ben Bernanke, The global savings glut and the US current account deficit, March 10, 2005

⁵ Laura Veldkamp, Commentary: Funding Quantitative Easing to Target Inflation, Jackson Hole 2016

⁶ Interestingly, as shown in chart 4, monetary tightening cycles have seen a decline in the term premium. It remains to be seen whether the same would happen when the term premium is negative to start with.

⁷ It is likely that equity markets would decline and corporate bond spreads would widen. The dollar could strengthen. Capital flows to developing economies could slow down.

⁸ However, Charles Evans of the Federal Reserve Bank of Chicago is of the view that everything would go smoothly: "if inflation or term premium risks rose substantially, the alternative funds rate path for funds rate increases that might accompany a tighter-

The term structure of the term premium

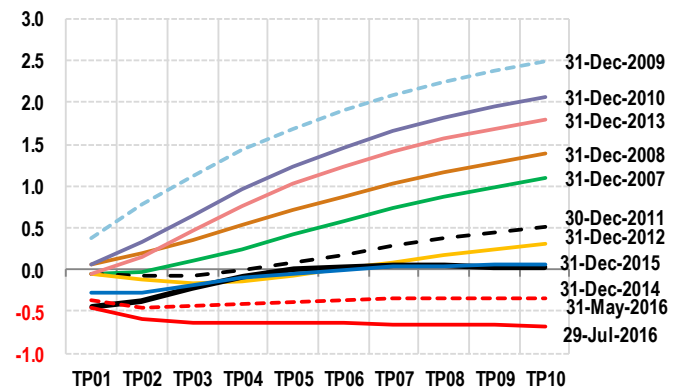


Chart 3

Sources: Federal Reserve, BNP Paribas

Federal funds rate and the term premium

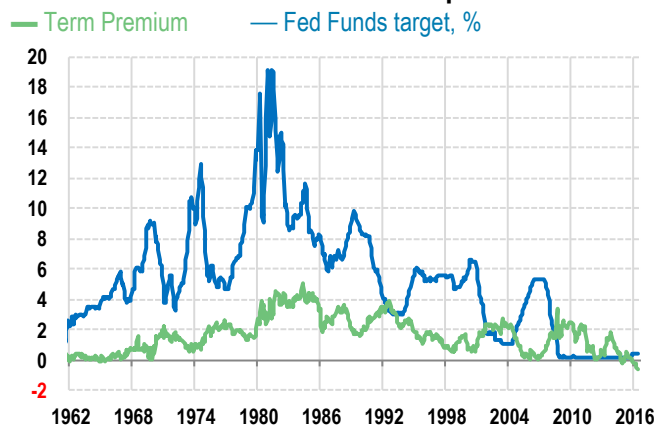


Chart 4

Sources: Federal Reserve, BNP Paribas

Another reason is that a low term premium reduces the ability of monetary policy to stimulate the economy when the next recession hits⁹. One is left with a sobering conclusion: on the one hand, an increase in the term premium would be welcome because it creates leeway for future monetary policy, but on the other, this increase could also be a source of volatility in markets and the real economy.

than-expected policy is still likely to be quite gradual... we could normalize policy much faster than currently envisioned and still keep the pace gradual enough to avoid a disorderly change in financial conditions" (Are Low Monetary Policy Rates the New Normal? August 31, 2016)

⁹ Janet Yellen at Jackson Hole last August was explicitly referring to how in a future recession, asset purchases and forward guidance are expected to push down bond yields by reducing term premiums and expectations about the policy rate.



Eurozone

ECB: the status quo, for the time being

- The ECB maintained the monetary status quo while at the same time announcing an upcoming change in the parameters of QE. Concretely, it is a matter of determining which parameters of its securities purchase programme should be modified to cope with the inevitable shortage of German securities in the future, assuming rates hold at current levels.
- Depending on the options that are chosen, changing the parameters of QE provides the ECB with an opportunity to ease monetary policy to varying degrees, without necessarily increasing the pace of monthly purchases. It appears the ECB wanted to hold onto this “card” for the year-end period, once there is much greater visibility over the scope of Brexit’s impact on European activity.
- As he has after each monetary policy meeting, although this time with greater insistence, Mario Draghi reiterated the need to adopt structural reforms and a fiscal policy that promotes growth in order to “reap the full benefits” of monetary support.

Despite the slight downward revision of growth forecasts and the persistent sluggishness of core inflation, the ECB maintained the monetary status quo in September. In particular, it maintained the indicative end date for the asset purchase programme at March 2017. During the press conference, Mario Draghi revealed that the Governing Council had not even discussed the possibility of extending the programme. The other key point from the meeting is the creation of Task Committees to assess the options for a smooth implementation of the purchase programme. Concretely, it is a matter of determining which parameters of the QE programme should be modified to cope with the inevitable scarcity issue, assuming rates hold at current levels.

This point is vital for understanding the monetary status quo. If the ECB were to announce an extension of QE, it would inevitably have raised questions about the technical constraints of its implementation, forcing the central bank to spell out its intentions in greater detail. Yet clearly the ECB is still working on a consensus view on this question. Another possibility is that the monetary institution wants to give itself time to think things through. Depending on the options that are chosen, changing the parameters of QE provides the ECB with an opportunity to ease monetary policy to varying degrees, without necessarily increasing the pace of monthly purchases. It appears that the ECB wanted to hold onto this “card” until the year-end period, once there is much greater visibility over the scope of Brexit’s impact on European activity.

A sharp slowdown in growth and inflation could give rise to a major change in the distribution key for debt purchases (which today is based on each member state’s contribution to the ECB’s capital), which would specifically target the countries experiencing the greatest difficulties, or by adopting new criteria (purchases in

proportion to the amount of public debt). This would significantly increase the effectiveness of QE. Inversely, if economic activity is more in line with forecasts, it could be accompanied by less radical changes, such as an increase in the issue share limits (from 33% to 50%), and limited deviation from the existing capital key (without calling it into question), notably by resorting to greater substitution purchases (supranational securities) in jurisdictions facing shortages.

The door is still open for an extension of QE beyond March 2017, as this horizon has always been considered as the minimum duration for securities purchases at the current pace. From Day 1, it was clearly established that the QE programme is open-ended, that is to say it would continue as long as inflation had not returned to a satisfactory trajectory. It is also worth noting that in its first draft, QE was initially supposed to end in September 2016... Unless inflation picks up more rapidly than expected by the end of the year, we continue to expect securities purchases to continue at the current pace of EUR 80bn a month beyond March 2017, and at least through September 2017.

So far, European activity has been rather resilient. The ECB lowered its growth forecast only slightly (-0.1 pp in 2017 and 2018), and growth is still expected to exceed its long-term potential rate. Yet as Mr. Draghi has insistently repeated, this resilience is largely due to the monetary support provided by the ECB, which is the underlying assumption of all forecasting. It is essential to maintain a very accommodating monetary policy in the years ahead, and that will require changing the parameters of the assets purchase programme, which could lead to further monetary easing. According to Mr. Draghi, “the transmission of the monetary policy has never worked better than it does today”, which brushes aside any claims that the impact of the measures taken since mid-2014 are winding down.

Yet Mr. Draghi reiterated, as he has after each monetary policy meeting, but this time with extra insistence, the need to adopt structural reforms and a fiscal policy that promotes growth in order to “reap the full benefits” of monetary support. Pushed on several occasions to spell out his thoughts during the press conference, Mr. Draghi unambiguously called for a more expansionist fiscal policy in Germany: “Countries that have fiscal space should use it. Germany has fiscal space”. More generally, concerning the support expected from fiscal policy to promote growth, Mr. Draghi esteems that the composition of fiscal policy is more important than its size, a notion that could apply just as well to the ECB’s future monetary policy, in the light of the challenges of changing the parameters of QE in the future.



Emerging countries

Is the restart of portfolio investments justified?

- According to the Institute for International Finance (IIF), foreign portfolio investment flows have more than doubled between the periods March-May and June-August 2016. Asia still accounts for the lion's share of these investments, while South America continues to lag behind.
- The inflow of portfolio investments is a double-edged sword. On the one hand, by improving financing conditions, it helps ease the external debt service. On the other hand, their extreme volatility increases the country's external vulnerability. This is true not only for the emerging countries, but also for the "frontier" markets.
- On the whole, the geographic breakdown of portfolio investment flows in recent months is in keeping with their relative performances in terms of growth.
- For Africa and the Middle East, persistently low commodity prices, despite their recent consolidation, increase pressures on external accounts and public finances, which in turn fuels social unrest and political risks during elections.

Despite the aggravation of domestic political and social risks (failed coup attempt in Turkey, growing nationalist tendencies in central Europe) as well as geopolitical risks (further tensions between Russia and Ukraine, and the intensification of combat in Syria against a backdrop of persistent disagreements between the Americans and the Russians), the emerging financial markets have benefited from renewed confidence from foreign investors.

Portfolio investment makes a comeback

According to estimates by the Institute for International Finance (IIF), non-resident portfolio investment flows amounted to a cumulative total of about USD77bn in the period June-August. This is more than double the figure for March-May, when investment flows became positive again but had remained highly volatile. In June-August, Asia continued to account for the lion's share, with 62% of net investment flows in June-August, followed by Europe at 22%. In contrast, Latin America attracted only 10% of portfolio investments.

The intensification of portfolio investment flows resulted in the consolidation of the currency appreciation movement that began in early February (notably for the Brazilian real). Although investment flows were concentrated in the equity markets (70% of portfolio investment flows in June-August), the risk premium on external borrowing has fallen sharply (by about 50 basis points on average since April for sovereign and quasi-sovereign issuers, and by 100 basis points for corporate issuers, which followed on a 100 bp decline for both type of issuers between February and March). Are investors overreacting given the still fragile external economic environment - even if it has improved somewhat - or are they correctly anticipating the long-awaited recovery of growth in the

Rebound in foreign portfolio investments to emerging markets ...

USD bn

■ Equity flows ■ Bond flows (shaded areas : estimates)

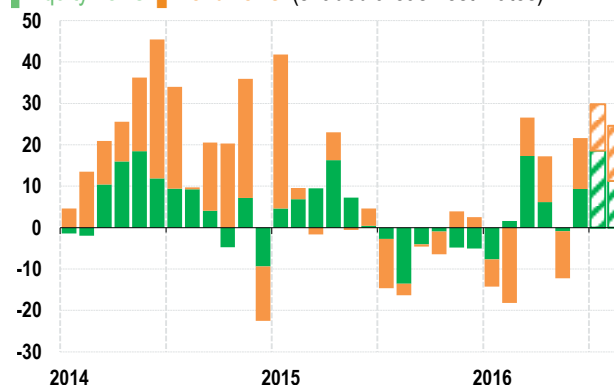


Chart 1

Source: IIF

... especially in Asia

■ Asia ■ Latin America ■ Europe ■ Africa & Middle East

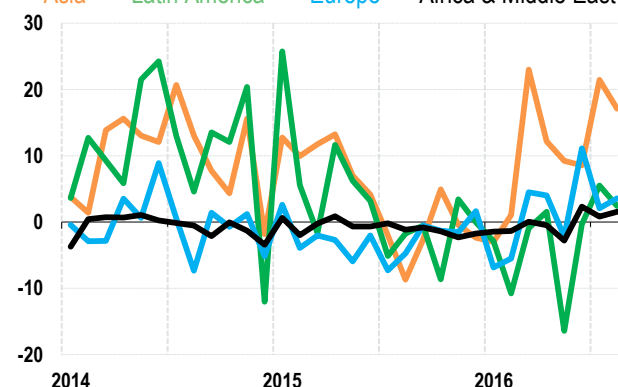


Chart 2

Source: IIF

emerging countries (or the end of recession in certain countries) after a 5-year slowdown?

In its analysis of portfolio investment flows and the key factors behind them, the IIF underscores both the appetite for risk and the improvement in domestic growth factors. In contrast, it points out the fact that changes in US monetary policy expectations have only played a secondary role. Apparently, the economic consequences of *Brexit* imply that monetary policy will remain very accommodating over the long term (*interest rates lower for longer*). This means that for a given risk premium, hard currency financing rates will remain sustainably low, a factor that eases the external debt service and facilitates refinancing. Another consequence, which may conversely be negative, is that the protracted attraction to speculative strategies (carry trades) could increase a country's external vulnerability. On



this subject, a recent IMF study¹ shows that since the financial crisis, portfolio investment flows to the so-called “frontier” countries (those with a much lower level of development and less liquid financial markets than the emerging countries, but whose growth potential is probably just as high) increased much more rapidly than inflows to the emerging countries (a normal catching-up effect). Above all, the report shows that the sensitivity of these investments to market trends (measured by beta) has become significantly positive. Consequently, the combination of these two factors implies that in recent years the frontier countries have become just as vulnerable as the emerging countries to a drying up of portfolio investment.

Looking beyond the trade-off caused by foreign portfolio investments inflows between easing financing conditions and external vulnerability of the country, do changes in economic trends in the emerging countries justify larger inflows?

A certain consistency between regions

Based on our sample of 27 emerging countries, real GDP growth levelled off at 4.1% year-on-year in H1 (for the vast majority of these countries, statistics are available through Q2 2016). For BRIC countries as a whole, growth accelerated to 5%, after bottoming out at 4.5% in Q4 2015, but this rebound was driven solely by the easing of the recession in Brazil and Russia, and not by stronger growth in China or India. In China, economic growth continued to slow gradually (6.7% in H1 2016). Manufacturing output and exports kept on weakening while private consumption and services both stalled. Even so, the most recent economic indicators seem to point to a slight improvement in domestic demand. The authorities’ stimulus efforts have bolstered public investment and the real estate sector, but it is becoming increasingly difficult to maintain this expansionist policy. In India, private investment seems to be in no hurry to recover, but disinflation and the accompanying decline in money market and long-term rates should eventually provide a stimulus. This summer, the Senate also approved the government’s proposal to standardise the tax on goods and services. Yet the positive effects – in the form of lower interest rates and a broader indirect tax base – are likely to be very gradual since 1/ the market interest rates pass-through to lending rates takes a long time and 2/ the change in tax risks being hindered at the regional level.

For the remaining 23 countries in our selection, growth seems to have levelled off at 2.5% since Q1 2016 (vs. 3% in H2 2015). In Asia (excluding China and India), growth accelerated to 3.8% in Q2 2016, from 3.4% in Q4 2015. The dynamic momentum of domestic demand, and consumption in particular, has so far offset sluggish exports. For Indonesia and the more industrialised countries (South Korea, Taiwan and Singapore), purchasing manufacturing indexes (PMIs) remained just above 50.

In South America, the situation is radically different. Argentina will very probably enter recession in Q2 2016, the situation in Venezuela’s is worsening desperately, and in all the other countries, the slowdown continues. In Brazil, despite the severe recession, the still very high inflation has delayed the easing of monetary policy so far. Between Asia and Latin America, there is thus a certain

¹ « Changing times for frontier markets : a perspective from portfolio investment flows and financial integration » - Working Paper 16/117 August 2016

Firmer exchange rates ...

Exchange rate index against the USD of the main emerging currencies with a floating-rate regime and receiving portfolio investments

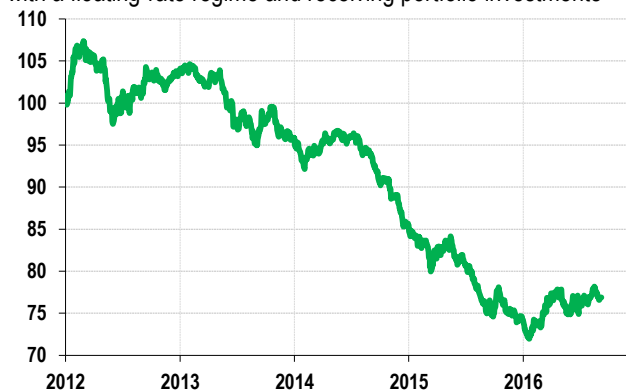


Chart 3

Sources: Datastream, BNP Paribas

... and risk premium easing

— Spread EMBIG (JP Morgan Chase index) – Basis points
— Spread corporate CEMBI (Crédit Suisse index) – Basis points



Chart 4

Source: Bloomberg

consistency between portfolio investment and relative growth performance and outlook.

Central Europe is in an intermediary situation. Growth slowed to 3.1% in H1 2016, but from a very high level (3.7% in H2 2015) due to the accelerated “consumption” of structural funds. The region’s PMIs continued to decline through the summer, raising expectations of an ongoing slowdown, especially since this is the only emerging region that is potentially vulnerable to a direct contagion effect from Brexit via the external trade channel. In Turkey, the slowdown has been milder so far than in the central European countries. Growth was still sustained through Q2 2016 (averaging 4.3% in the four quarters for which real GDP is available). But the drop in tourism activity and a tougher business environment following the failed coup attempt on July 15 should lead to a sharp slowdown or stagnation in the second half of the year. Yet the pressures on foreign exchange rates and domestic interest rates as well as risk premiums have eased again after the failed coup attempt. In the end, portfolio investment outflows and the decline in USD deposits held by residents have been



relatively mild since mid-July. The Turkish economy did not suffer a financial shock but business confidence has eroded (PMI dropped to 47), which will strain investment spending by both residents and non-residents (via direct investment). All in all, the persistently weak rebound in portfolio investment flows to Europe is in keeping with 1) specific country risks in Russia and Turkey, and 2) the easing of growth in central Europe.

Africa and the Middle East: a region in trouble

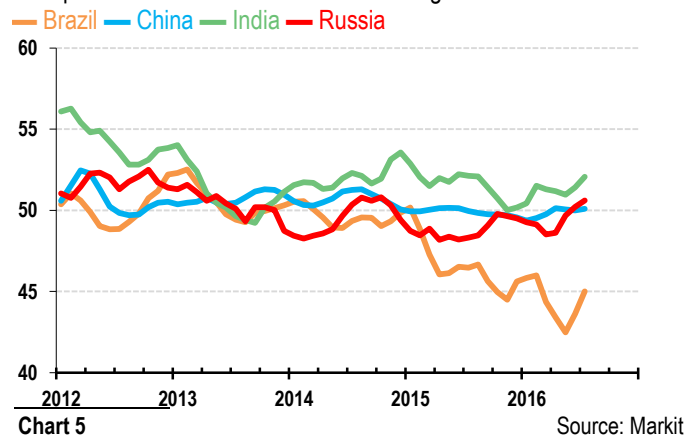
Regarding Africa and the Middle East (MEA), the remaining region, South Africa is the only country for which data are available for both capital flows and economic indicators. Portfolio investment in the country declined between March-May and June-August, but the bond component was still very upbeat. Real GDP picked up in Q2, but investment remains depressed, reflecting domestic political risks (confrontation between the president and the minister of finance) and the country's structural shortcomings (power rationing) in the midst of a very deteriorated labour market situation and potential social unrest.

Looking beyond South Africa, economic and political risks are rising in MEA, even though oil and metal prices have consolidated after rebounding strongly earlier this year. Nigeria has slipped into recession and Angola will probably follow suit. Nigeria's foreign reserves continue to decline despite tighter currency controls. Saudi Arabia is also expected to enter recession, which has led the authorities to inject liquidity into the banking system. If Egypt manages to avoid a balance of payments crisis, it will be thanks solely to the IMF's conditioned support. Parliament must still approve the plan, which must also win commitments from the other lending countries, notably the GCC.

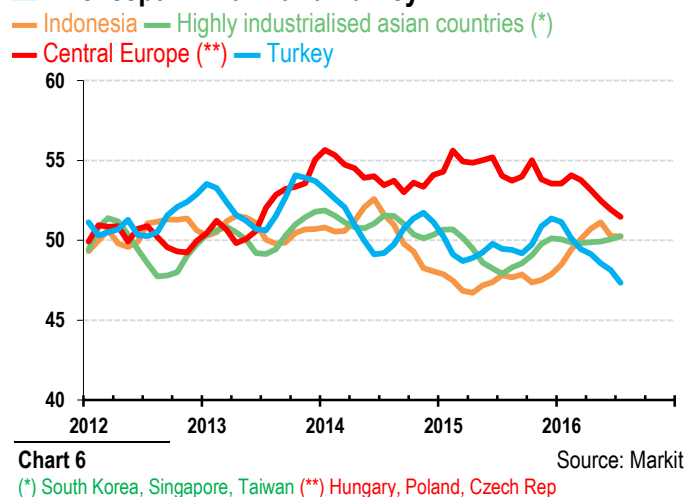
As a general rule, for a number of MEA countries, low commodity prices increase pressures on the external accounts and public finances, which in turn fuel social unrest and political risks during election periods (Gabon).

Business confidence has remained resilient ...

Composite PMI indexes in the manufacturing sector



... except in Brazil and Turkey



(*) South Korea, Singapore, Taiwan (**) Hungary, Poland, Czech Rep



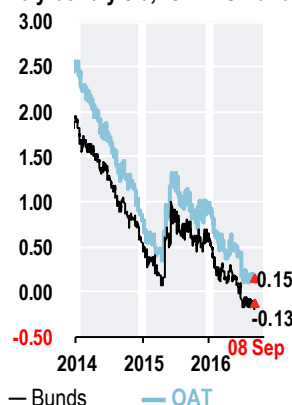
Markets overview

The essentials

Week 2-9 16 > 8-9-16

➤ CAC 40	4 542	➤ 4 542	+0.0 %
➤ S&P 500	2 180	➤ 2 181	+0.1 %
➤ Volatility (VIX)	12.0	➤ 12.5	+0.5 %
➤ Euribor 3M (%)	-0.30	➤ -0.30	-0.3 bp
➤ Libor \$ 3M (%)	0.84	➤ 0.83	-0.2 bp
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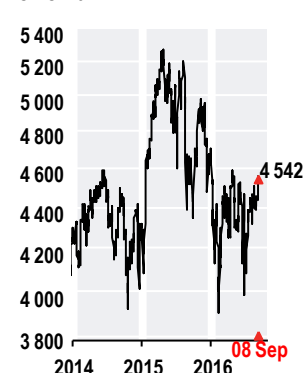
10 y bond yield, OAT vs Bund



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	-0.36 at 26/05		
Euribor 3M	-0.30	-0.13 at 01/01	-0.30 at 08/09		
Euribor 12M	-0.06	0.06 at 01/01	-0.06 at 07/07		
\$ FED	0.50	0.50 at 01/01	0.50 at 01/01		
Libor 3M	0.83	0.84 at 30/08	0.61 at 04/01		
Libor 12M	1.54	1.57 at 01/09	1.12 at 12/02		
£ BoE	0.25	0.50 at 01/01	0.25 at 04/08		
Libor 3M	0.38	0.59 at 15/02	0.38 at 07/09		
Libor 12M	0.73	1.07 at 01/01	0.72 at 10/08		

At 8-9-16

Yield (%)		highest' 16		lowest' 16	
€ AVG 5-7y	-0.13	0.49 at 12/01	-0.13 at 08/09		
Bund 2y	-0.64	-0.34 at 01/01	-0.70 at 11/07		
Bund 10y	-0.13	0.63 at 01/01	-0.19 at 07/09		
OAT 10y	0.15	0.98 at 01/01	0.10 at 07/09		
Corp. BBB	1.18	2.50 at 20/01	1.14 at 07/09		
\$ Treas. 2y	0.78	1.06 at 01/01	0.56 at 05/07		
Treas. 10y	1.62	2.27 at 01/01	1.36 at 08/07		
Corp. BBB	3.31	4.50 at 12/02	3.24 at 18/08		
£ Treas. 2y	0.15	0.65 at 01/01	0.10 at 07/09		
Treas. 10y	0.77	1.96 at 01/01	0.61 at 12/08		

At 8-9-16

10y bond yield & spreads

8.24%	Greece	837 pb
3.07%	Portugal	319 pb
1.15%	Italy	128 pb
1.07%	Spain	119 pb
0.40%	Ireland	53 pb
0.17%	Belgium	29 pb
0.15%	France	27 pb
0.11%	Austria	23 pb
0.07%	Finland	20 pb
0.03%	Netherlands	16 pb
-0.13%	Germany	

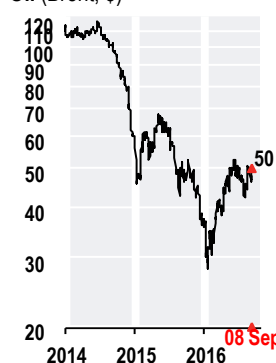
Commodities

Spot price in dollars		lowest' 16		2016(€)	
Oil, Brent	50	28 at 20/01	+34.5%		
Gold (ounce)	1 344	1 062 at 01/01	+21.9%		
Metals, LMEX	2 362	2 049 at 12/01	+3.3%		
Copper (ton)	4 647	4 328 at 15/01	-4.9%		
CRB Foods	342	329 at 11/01	-1.8%		
wheat (ton)	144	126 at 16/08	-9.8%		
Corn (ton)	124	113 at 31/08	-13.0%		

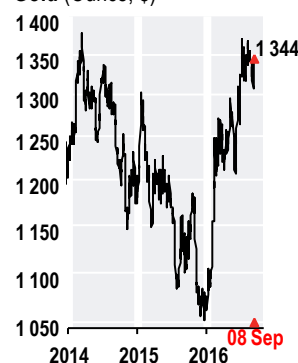
At 8-9-16

Variations

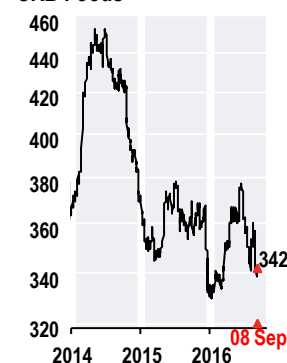
Oil (Brent, \$)



Gold (Ounce, \$)



CRB Foods



Exchange Rates

1€ =		highest' 16		lowest' 16		2016	
USD	1.13	1.15 at 03/05	1.07 at 05/01	+3.8%			
GBP	0.85	0.87 at 15/08	0.73 at 05/01	+14.9%			
CHF	1.09	1.11 at 04/02	1.08 at 24/06	+0.5%			
JPY	114.61	131.84 at 01/02	110.95 at 08/07	-12.3%			
AUD	1.47	1.60 at 11/02	1.45 at 10/08	-1.7%			
CNY	7.51	7.54 at 22/08	6.99 at 05/01	+6.5%			
BRL	3.59	4.53 at 16/02	3.49 at 09/08	-16.5%			
RUB	71.83	91.22 at 11/02	69.76 at 19/07	-9.5%			
INR	74.88	77.50 at 11/02	71.42 at 05/01	+4.2%			

At 8-9-16

Variations

Equity indices

Index		highest' 16		lowest' 16		2016	2016(€)
CAC 40	4 542	4 637 at 01/01	3 897 at 11/02	-2.0%	-2.0%		
S&P500	2 181	2 190 at 15/08	1 829 at 11/02	+6.7%	+2.8%		
DAX	10 675	10 753 at 07/09	8 753 at 11/02	-0.6%	-0.6%		
Nikkei	16 959	19 034 at 01/01	14 952 at 24/06	-10.9%	+1.6%		
China*	65	65 at 08/09	48 at 12/02	+8.7%	+4.6%		
India*	504	504 at 08/09	393 at 11/02	+10.2%	+5.7%		
Brazil*	1 746	1 746 at 08/09	860 at 21/01	+35.6%	+62.4%		
Russia*	526	526 at 08/09	331 at 20/01	+16.5%	+25.2%		

At 8-9-16

Variations

* Indices MSCI



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	1.4	1.3	0.3	0.7	1.5						
United States	2.6	1.5	1.6	0.1	1.2	2.1	-2.5	-2.6	-2.7	-2.5	-3.1	-3.1
Japan	0.5	0.4	0.1	0.8	-0.2	0.5	3.3	3.6	3.2	-4.5	-4.3	-3.9
United Kingdom	2.2	1.6	0.7	0.0	0.5	2.2	-5.4	-5.9	-4.4	-4.1	-3.6	-4.4
Euro Area	1.6	1.5	1.0	0.0	0.2	1.1	3.2	2.9	2.7	-2.1	-2.1	-1.9
Germany	1.4	1.5	1.1	0.1	0.3	1.4	8.6	8.2	7.5	0.7	0.3	0.1
France	1.2	1.3	1.0	0.1	0.4	1.1	-0.2	-0.2	-0.4	-3.6	-3.4	-3.1
Italy	0.6	0.9	0.3	0.1	-0.1	0.8	2.2	2.2	2.1	-2.6	-2.8	-2.8
Spain	3.2	2.9	1.6	-0.6	-0.4	1.2	1.4	1.2	1.0	-5.1	-4.6	-3.5
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	1.5	0.8	1.3	1.5	-2.5	-2.7	-2.3
Portugal	1.5	1.1	1.1	0.5	0.6	1.4	0.8	0.6	0.4	-4.4	-2.9	-2.7
Emerging	4.1	4.2	4.9	5.9	6.5	5.5						
China	6.9	6.6	6.3	1.4	2.0	2.2	3.1	2.6	1.9	-2.4	-3.0	-3.2
India	7.2	7.9	8.3	4.9	5.4	5.0	-1.3	-1.1	-1.3	-4.1	-3.9	-3.5
Brazil	-3.8	-3.0	2.0	9.0	8.8	5.0	-3.3	-1.0	-1.5	-10.3	-10.1	-9.4
Russia	-3.7	0.0	2.2	15.6	7.1	5.4	5.2	2.8	3.5	-2.1	-2.8	-1.6
World	3.1	3.0	3.3	3.5	4.0	3.8						

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

Financial forecasts

Interest rates		2015				2016				2015	2016e	2017e
End period		Q1	Q2	Q3	Q4	Q1	Q2	Q3e	Q4e			
US	Fed Funds	0.25	0.25	0.25	0.5	0.5	0.5	0.50-0.75	0.50-0.75	0.01	0.50-0.75	0.50-0.75
	3-month Libor \$	0.27	0.28	0.33	0.61	0.63	0.65	0.65	0.85	0.61	0.85	0.95
	10-year T-notes	1.93	2.35	2.03	2.27	1.79	1.49	1.60	1.60	2.27	1.60	1.50
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	-0.29	-0.30	-0.30	-0.13	-0.30	-0.30
	10-year Bund	0.18	0.77	0.59	0.63	0.16	-0.13	0.00	-0.20	0.63	-0.20	-0.20
	10-year OAT	0.42	1.20	0.90	0.98	0.41	0.20	0.30	0.10	0.98	0.10	0.10
	10-year BTP	1.29	2.31	1.73	1.60	1.23	1.35	1.40	0.90	1.60	0.90	0.80
UK	Base rate	0.50	0.50	0.50	0.50	0.50	0.50	0.25	0.10	0.50	0.10	0.10
	3-month Libor £	0.57	0.58	0.58	0.59	0.59	0.56	0.35	0.20	0.59	0.20	0.35
	10-year Gilt	1.58	2.03	1.77	1.96	1.42	1.02	0.65	0.65	1.96	0.65	0.80
Japan	Overnight call rate	0.02	0.01	0.01	0.04	-0.00	-0.06	-0.10	-0.10	0.04	-0.10	-0.10
	3-month JPY Libor	0.17	0.17	0.17	0.17	0.10	0.06	0.05	0.05	0.17	0.05	0.05
	10-year JGB	0.40	0.44	0.35	0.25	-0.04	-0.23	-0.15	-0.10	0.25	-0.10	-0.15

Exchange rates		2015				2016				2015	2016e	2017e
End period		Q1	Q2	Q3	Q4	Q1	Q2	Q3e	Q4e			
USD	EUR / USD	1.07	1.11	1.12	1.09	1.14	1.11	1.07	1.08	1.09	1.08	1.05
	USD / JPY	120	122	120	120	112	103	111	108	120	108	120
EUR	EUR / GBP	0.72	0.71	0.74	0.74	0.79	0.83	0.86	0.84	0.74	0.84	0.77
	EUR / CHF	1.04	1.04	1.09	1.09	1.09	1.08	1.14	1.12	1.09	1.12	1.16
	EUR/JPY	129	136	134	131	128	114	119	117	131	117	126

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



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Group Economic Research

■ **William DE VIJDER**
Chief Economist

+33(0)1 55 77 47 31

william.devijlder@bnpparibas.com

ADVANCED ECONOMIES AND STATISTICS

■ **Jean-Luc PROUTAT**
Head

+33(0)1.58.16.73.32

jean-luc.proutat@bnpparibas.com

■ **Alexandra ESTIOT**
Works coordination - United States - United Kingdom - Globalisation

+33(0)1.58.16.81.69

alexandra.estiot@bnpparibas.com

■ **Hélène BAUDCHON**
France (short-term outlook and forecasts) - Labour markets

+33(0)1.58.16.03.63

helene.baudchon@bnpparibas.com

■ **Frédérique CERISIER**
Euro Area - European Institutions and governance - Public finances

+33(0)1.43.16.95.52

frederique.cerisier@bnpparibas.com

■ **Thibault MERCIER**
France (structural reforms) - European central bank

+33(0)1.57.43.02.91

thibault.mercier@bnpparibas.com

■ **Manuel NUNEZ**
Japan, Ireland - Projects

+33(0)1.42.98.27.62

manuel.a.nunez@bnpparibas.com

■ **Catherine STEPHAN**
Spain, Portugal - World trade - Education, health, social conditions

+33(0)1.55.77.71.89

catherine.stephan@bnpparibas.com

■ **Raymond VAN DER PUTTEN**
Germany, Netherlands, Austria, Switzerland - Energy, climate - Long-term projections

+33(0)1.42.98.53.99

raymond.vanderputten@bnpparibas.com

■ **Tarik RHARRAB**
Statistics and Modelling

+33(0)1.43.16.95.56

tarik.rharab@bnpparibas.com

BANKING ECONOMICS

■ **Laurent QUIGNON**
Head

+33(0)1.42.98.56.54

laurent.quignon@bnpparibas.com

■ **Céline CHOULET**

+33(0)1.43.16.95.54

celine.choulet@bnpparibas.com

■ **Laurent NAHMIA**

+33(0)1.42.98.44.24

laurent.nahmias@bnpparibas.com

■ **Thomas HUMBLLOT**

+33(0)1.40.14.30.77

thomas.humblot@bnpparibas.com

EMERGING ECONOMIES AND COUNTRY RISK

■ **François FAURE**
Head

+33(0)1 42 98 79 82

francois.faure@bnpparibas.com

■ **Christine PELTIER**
Deputy Head - Greater China, Vietnam - Methodology

+33(0)1.42.98.56.27

christine.peltier@bnpparibas.com

■ **Stéphane ALBY**
Africa (French-speaking countries)

+33(0)1.42.98.02.04

stephane.alby@bnpparibas.com

■ **Sylvain BELLEFONTAINE**
Turkey, Brazil, Mexico, Central America - Methodology

+33(0)1.42.98.26.77

sylvain.bellefontaine@bnpparibas.com

■ **Sara CONFALONIERI**
Africa (English and Portuguese speaking countries)

+33(0)1.42.98.74.26

sara.confalonieri@bnpparibas.com

■ **Pascal DEVAUX**
Middle East, Balkan countries - Scoring

+33(0)1.43.16.95.51

pascal.devaux@bnpparibas.com

■ **Anna DORBEC**
CIS, Central European countries

+33(0)1.42.98.48.45

anna.dorbec@bnpparibas.com

■ **Hélène DROUOT**
Asia

+33(0)1.42.98.33.00

helene.drouot@bnpparibas.com

■ **Johanna MELKA**
Asia, Russia

+33(0)1.58.16.05.84

johanna.melka@bnpparibas.com

■ **Alexandra WENTZINGER**
South America, Caribbean countries

+33(0)1.42.98.74.26

alexandra.wentzinger@bnpparibas.com

■ **Michel BERNARDINI**
Public Relation Officer

+33(0)1.42.98.05.71

michel.bernardini@bnpparibas.com



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Registered Office: 16 boulevard des Italiens – 75009 PARIS

Tel : +33 (0) 1.42.98.12.34

Internet : www.group.bnpparibas.com - www.economic-research.bnpparibas.com

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