



Summary

United States

Time to spend

The slowdown of the US economy is confirmed, with mixed prospects. The opportunity for the Fed to hike rates is questioned. At this week meeting, the Fed indeed chose not to pre-commit to a December rate hike, as it did in 2015...

► Page 2

China

No rest for credit risks

In China, the stabilisation in industrial production growth, the upturn in the property market and monetary loosening should help reduce pressures on corporates and local governments by easing their liquidity constraints in the very short term. However, their solvency is not improving, their debt levels have become even more excessive over the last year and their capacity to service their debt remains weak. In this context, credit risks in the financial sector continue to rise.

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Market overview

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Summary of forecasts

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Also in :



Four more years

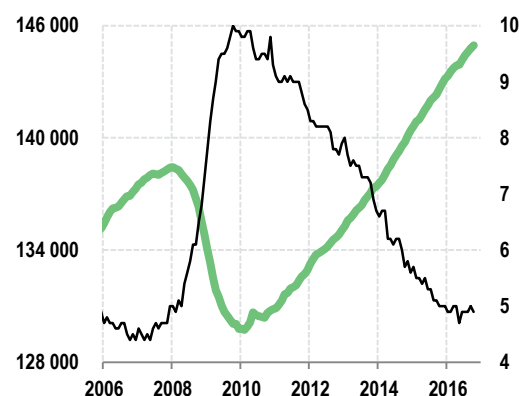
■ The labour market strength held in October ■ Above par job creations ■ Unemployment rate below 5%

Next Tuesday, Americans vote to decide who will be their next President. They also will vote for a brand new House of Representatives and renew a third of the Senate. Today was published the last economic data before Election Day, the one that everybody understands: the unemployment rate. In October, it was down below 5%. Four years ago, it was 7.8%, down from a 10% peak in end-2009. Thanks to that figure, it is possible to say that the US economy is in a good shape, that the labour market is consistent with full employment. On top of that, the most closely watched measure of wages was up 2.8% y/y in October, the fastest pace of increase since the recession. Such results should benefit the incumbent. But Barack Obama is not up for re-election, having served two mandates. The Democrat candidate should benefit indirectly, right? Well, if it were as automatic as this, Al Gore would have succeeded Bill Clinton in 2000, and we all know he did not.

This time, the story is a bit different, but the uncertainty is even higher. Admittedly, the Obama years have been the time of the recovery of the worst economic and financial crisis since the 1930s. If generally speaking the US economy is in a much better shape than when Obama became President, that truth does not hold for every Americans. They remain numerous without a job, with an involuntary part-time position, with a wage not high enough to cover their needs. America is better, but it could be much better. So that 4.9% figure everybody understands can be used by either side. No doubt it will. Actually, it already begun...

US LABOUR MARKET

— Non-farm payrolls (000s); — Unemployment rate (%; r.h.s.)



Source: US Bureau of Labor Statistics

THE WEEK ON THE MARKETS

Week 28-10-16 > 3-11-16

➤ CAC 40	4 549	► 4 412	-3.0 %
➤ S&P 500	2 126	► 2 089	-1.8 %
➤ Volatility (VIX)	16.2	► 22.1	+5.9 %
➤ Euribor 3M (%)	-0.31	► -0.31	+0.0 bp
➤ Libor 3M (%)	0.89	► 0.88	-1.0 bp
➤ OAT 10y (%)	0.41	► 0.48	+6.7 bp
➤ Bund 10y (%)	0.09	► 0.08	-0.9 bp
➤ US Tr. 10y (%)	1.84	► 1.81	-3.3 bp
➤ Euro vs dollar	1.09	► 1.11	+1.5 %
➤ Gold (ounce, \$)	1 270	► 1 299	+2.3 %
➤ Oil (Brent, \$)	50.2	► 46.4	-7.6 %

Source: Thomson Reuters



United States

Time to spend

- The US economic slowdown is getting confirmed, with not so encouraging prospects ahead.
- This raises the question of whether it is really the right time to tighten monetary policy again, and of the opportunity to use fiscal policy.

The US economic slowdown has been confirmed, despite the rebound in Q3 GDP (annualised quarterly rate of 2.9%). Given the sluggish performances of the previous three quarters, this rebound must be kept in perspective. Between Q4 2015 and H1 2016, growth was limited to 1%. To offset this weak performance and return to a trend of 2%, it would have taken Q3 GDP growth of 4.9%. As it turns out, growth fell short of this mark by 2 points, bringing the average for the past four quarters to only 1.5%. Moreover, the components of demand were not very encouraging: Q3 growth was mainly fuelled by temporary factors, notably inventory building (+0.6-point contribution to average quarterly growth) and a surge in agricultural exports. Exports of agricultural products alone contributed 0.9 points to Q3 GDP growth.

Final domestic demand actually slowed to +1.4% in Q3 (from +2.4% in Q2), an undeniably poor performance after +2.6% in 2014 and +3.1% in 2015. So far, the slowdown is mainly due to the business sector, which have cutback spending by 4.1% per quarter since early 2016, after an average increase of 4% in 2014-2015. But household consumption – and residential investment – is also showing signs of weakness, and personal income is following an alarming trend. Real disposable income per capita increased only 1.4% year-on-year in September, the slowest pace since 2013, when two points were added to the payroll tax rate. So far, households have chosen to dip into savings (5.7% of disposable income in September, vs. 6.1% in 2015). If the job market's dynamic momentum is called into question, however, we cannot rule out the risk of an even sharper slowdown in household spending.

Slowing demand generally goes hand in hand with an easing of inflationary pressures. Today, these pressures are non-existent. Energy prices have rebounded slightly, but most of the effect is concentrated on the correction of inflation expectations, while though the upturn in oil prices already seems to have run its course. The private consumption expenditure (PCE) price index, excluding energy and food products, has been perfectly steady since the beginning of the year (1.7% in September). If we use the "market price" index, which excludes free goods and services, core inflation even seems to have peaked. As to wages, the latest figures for the Employment Cost Index point to a slowdown: in the private sector, the index slowing from 2.1% in 2014 and 2015, to 1.9% year-on-year in Q3.

A less accommodating Fed and slower growth

— GDP growth (y/y, %); — Spread between the estimated natural rate and the Fed funds target rate, using the Wu-Xia shadow rate between 2008 and 2015 to take into account the different waves of QE (*inverted r.h.s.*, %)

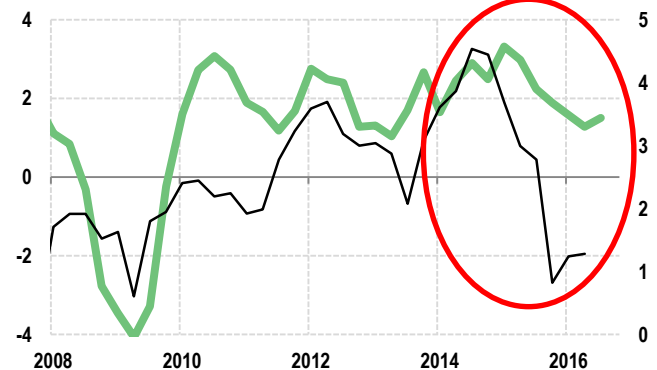


Chart 1

Sources: FOMC, Laubach-Williams, Wu-Xia, BNPP

This raises the question of whether the time is really ripe for the Fed to raise key rates. Indeed, the Fed opted not to replay the 2015 scenario in which it virtually pre-committed to a December rate increase. Following September's meeting, it had looked like we were set to see a repeat performance. Over the past six weeks, however, the battle line seems to have shifted yet again with, on the one hand, the members of the Board of Governors and their more cautious, patient approach, and on the other, the presidents of the regional Feds, who seem hard pressed to continue normalising monetary policy. Uncertainty over a December rate increase was mainly fuelled by Eric S. Rosengren's decision not to reiterate his dissenting vote in November, but also by the (slight) deterioration in the economic environment diagnosis, notably for household consumption.

The Fed's monetary policy might already be too restrictive. According to one measure of the degree of tightness that we introduced last week (see chart 1)¹, the Fed's monetary policy has been much less accommodating since fall 2014. As Janet L. Yellen declared during the September post-FOMC meeting press brief: "With the Fed funds rate modestly below the neutral rate, the current stance of monetary policy should be viewed as modestly accommodative". Some think that monetary policy has reached its limits, arguing that the Fed's extreme interventionism in recent years has actually not allowed the closing of the output gap.

It is important to keep in mind that the economy reacts to the policy mix, i.e. to the combination of both monetary and fiscal policy. In terms of fiscal policy, the brakes were hit hard. Austerity measures were initially applied at the State and local government levels in response to the crisis, and in compliance with constitutional laws

¹ "United States: The sin of certainty", Alexandra Estiot, Eco Week BNP Paribas, 28 October 2016.



obliging them to pass balanced budgets. Meanwhile, the federal government launched a stimulus plan. But austerity rapidly spread to Washington, too. Excluding interest payments, the general government deficit² narrowed from 8.3% of GDP in 2009 to 0.6% in 2015. In six years, the primary deficit narrowed by 7.7 points of GDP (chart 2), including two years during which austerity was particularly fierce: 2.1 points in 2012 and 3.1 points in 2013. Household consumption was particularly hard hit, and slowed to 1.5% in 2012 and 2013. Although GDP growth was more resilient, at least in 2012, this was mainly due to fixed investment, the vigour of which cannot be totally unrelated to the Fed's stimulus policy. Of the countries that have applied restrictive fiscal policies in recent years³, the United States ranks 9th for the size of adjustments, with a reduction in the primary structural surplus of 6.4 points (vs. 3.5 points in the eurozone). It was also the only country that managed to avoid slipping back into recession despite austerity. This is another indication that the Fed's proactive policies were effective, and that the policies conducted by Ben Bernanke and Janet Yellen helped ease the austerity shock.

Today, the fiscal brakes are no longer being tightened, and they have even been eased ever so slightly. At the federal level, there is a slight easing trend: the Congressional Budget Office (CBO) foresees a slight widening of the deficit (to 3.2% of GDP, from 2.5%) over the course of the current fiscal year. At the State and local level, the procyclical nature of finances has also allowed a slight easing trend: after 5 years of cutbacks, State and local government payrolls have begun rising again since the end of summer 2014. Unless growth accelerates, however, it is unlikely that much more support will be provided.

The US economy has also had to face two other headwinds that are in the process of winding down: the drop-off in oil prices and the dollar's appreciation. Like fiscal austerity, these factors have not become growth engines, but are putting less of a drag on the economy. Assuming that the output gap still has not closed yet, and that the economy needs to grow at a faster pace than its long-term potential – which is no longer the case, even using the most pessimistic estimates of the potential growth rate⁴ – then some support is still necessary. It is extremely hard to imagine the Fed doing much more, unless one believes that signals are an important part of monetary policy, in which case by skipping the opportunity to raise rates in December, the Fed would be providing a kind of support. That leaves the fiscal option...

Although the world is suffering from a savings glut, the same analysis is less clear in the United States, where the current account balance still is a deficit. Here we must keep in mind the US dollar's status as the international reserve currency, which implies a permanent external account deficit. For the US, the equilibrium level is certainly a deficit: before the crisis, this deficit could be estimated at about 3% of GDP, but it is probably larger today. Since 2012, the external

² Table F.105-General Government Financial Accounts of the US.

³ Our measure is based on the reduction in the primary structural deficit, i.e. the fiscal balance excluding interest payments and adjusted for cyclical effects. IMF data (Fiscal Monitor).

⁴ Estimates vary. The potential growth rate is 1.6% according to the CBO and OECD, 1.8% according to FOMC members (median of long-term GDP projections) and 1.9% according to the IMF.

American-style austerity

— Primary balance of general government (% of GDP)

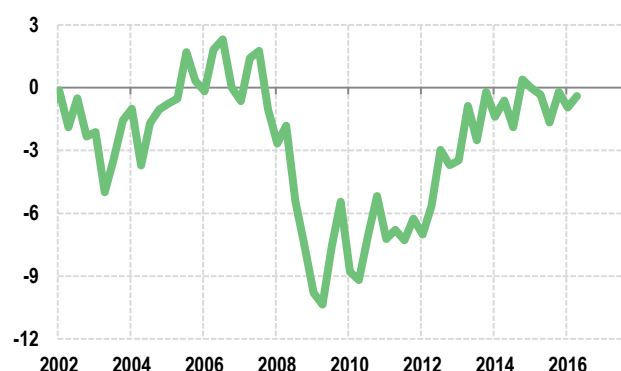


Chart 2

Source: Federal Reserve

deficit has been smaller than this threshold, but the reason has less to do with a savings glut than with an investment shortfall. Although investment surged in 2011-2012, it has slowed ever since. The net investment rate, i.e. investment minus capital consumption (as a share of GDP), which measures the increase in capital stock, has contracted since mid-2014. Granted, part of this adjustment can be attributed to the commodity sector: the drop-off in oil prices slashed investment in this industry by two thirds. Excluding this component, corporate investment has been growing again for the past two quarters⁵, albeit at a mild pace. As a share of GDP, it is only slightly lower than the Q3 2015 peak of 13%. Residential investment is still far short of its peak (3.5% of GDP, vs. 6.1% in 2005), but it is hard to see this in a negative light: its corollary is household indebtedness, and it does not generate productivity gains.

All in all, the investment shortfall can be blamed on the public sector, and the federal government in particular. Gross fixed capital formation by the Federal government has dwindled to 1.4 points of GDP, from about 5 points of GDP in the aftermath of the Second World War, and recent budget cuts have only accentuated this trend. As a share of GDP, the corporate and government GFCF ratio is currently 15.5%, two points below the average for the second half of the 1990s. Although some might doubt that the public authorities are capable of encouraging companies to increase productive investment – we should never underestimate the power of taxation, but that's a different argument – there can be no doubt that they have the capacity to close the investment gap on their own. Financing constraints are not a valid argument at a time when real interest rates are much lower than the potential growth rate, and above all, when US Treasuries are more attractive than ever in a global savings glut with high demand for secure assets. On top of that, today's spending would pay for themselves as fiscal multipliers on infrastructure expenditure are particularly high, and probably higher when interest rates are close to their effective lower bound. If only the balanced budget dogma could be thrown out and the next president be elected with a friendly Congress... A little hope never hurts.

⁵ Gross data. For capital depreciation, we do not have a detailed breakdown by type of investment.



China

No rest for credit risks

- The slowdown in China's economic growth has paused since the second quarter of 2016 thanks to stimulus policy measures.
- The stabilisation in industrial production growth, the upturn in the real estate market and monetary loosening could help reduce pressures on corporates and local governments by easing their liquidity constraints in the very short term.
- However, their solvency is not improving, their debt levels have become even more excessive over the last year and their capacity to service their debt remains weak.
- In this context, credit risks in the financial sector continue to increase and the performance of commercial banks deteriorates gradually.

Corporates breathing a little easier

Signs of economic growth stabilisation that appeared in March 2016 have persisted. After bottoming out in January and February, industrial production growth has remained above 6% in year-on-year terms (see chart 1). Although this remains very low, the improvement has been accompanied by a slight upturn in the average performance of industrial enterprises. Their aggregate profits have started rising again (+8.4% y/y in the first nine months of 2016) after falling throughout 2015 (-2.3%). Demand for industrial goods has been boosted by monetary and fiscal stimulus measures (which have especially helped infrastructure projects, the real estate market and the auto sector). Commodity prices have rebounded since the start of the year and producer price deflation has eased gradually, eventually turning slightly positive in September (+0.1% y/y vs. -5.9% in December 2015).

However, the situation in the industry remains very fragile, and there are wide variations between different sectors and different types of corporates. In particular, state-owned enterprises are much less profitable than their private-sector peers (their profits rose by only 2.6% y/y in the first nine months of 2016, after they fell by 21.9% in 2015) because of their lower productivity, higher indebtedness and greater exposure to sectors suffering from large production excess capacities. These difficulties, along with the durable weakening in China's export prospects, have continued to constrain manufacturing investment growth (+3.1% y/y in nominal terms in the first nine months of 2016, after reaching an all-time low of 2.8% in January-August 2016).

In the real estate sector, similarly, the situation has improved but remains fragile. After the authorities loosened monetary policy and macroprudential rules on property transactions and lending, growth in sales volumes has accelerated (+26.9% y/y in the first nine months of 2016 vs. 6.5% in 2015) and house prices have rebounded in a growing number of cities.

Stabilisation in the industry

Year-on-year, % change

— Industrial production, real terms — Producer prices
- - - Industrial production, nominal terms

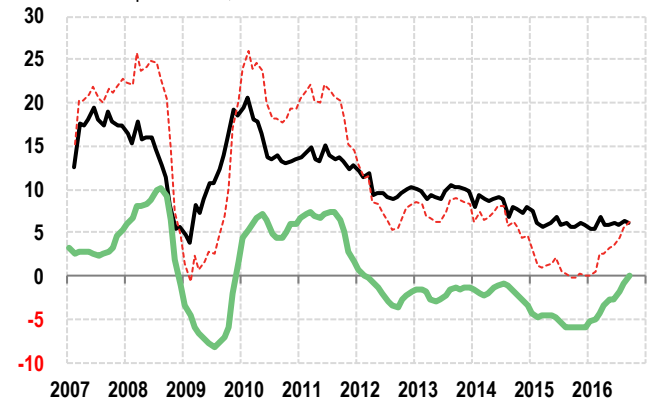


Chart 1

Sources: NBS, BNP Paribas

The average increase in house prices in China's 70 largest cities was 9% y/y in September 2016 vs. 0.2% in December 2015. Of those 70 cities, only six showed a year-on-year decline in September, vs. 48 in December 2015. In fact, major regional differences weigh on the sector's prospects. Signs of a property bubble have emerged in several large cities, prompting the authorities to tighten macroprudential rules, while smaller cities are seeing very moderate price growth and some still have a stockpile of unsold homes. In the short term, however, the upturn in activity and prices in the property market should give corporates operating in the sector some breathing space, and support real estate investment (+6.3% y/y in the first nine months of 2016 vs. +2.4% in 2015).

The market rebound has also benefited local government finances, as their proceeds from land sales increased by 14% y/y in the first eight months of 2016 after collapsing in 2015. The upturn in tax revenue from the real estate sector has also partly offset the weaker performance in other sources of tax receipts. In addition, local governments also continued their debt swap programs in 2016, increasing bond issues in the local market in order to refinance bank loans at lower interest rates and longer maturities.

However, credit risks continue to increase

The recent stabilisation in economic growth and the upturn in the real estate market, along with monetary loosening (with the weighted average interest rate on loans declining from 5.9% in 2015 to 5.3% in H1 2016), should give corporates and local governments some respite by reducing their liquidity constraints in the very short term. However, their solvency is not improving. Their debt levels have become even more excessive, with domestic credit growth accelerating again since mid-2015. This rebound has remained



moderate, and credit growth has even slowed again since Q2 2016, showing that the monetary authorities and creditors are more cautious given the excess debt of borrowers and loan quality deterioration. However, total credit outstanding still grows much faster than nominal GDP (see chart 2). This means that the domestic debt-to-GDP ratio has continued to rise; it was estimated at 210% at the end of Q3 2016 vs. 202% at end-2015 (including the private sector, local governments and their financing vehicles, but excluding the central government). Within that total ratio, household debt accounts for only 40% of GDP.

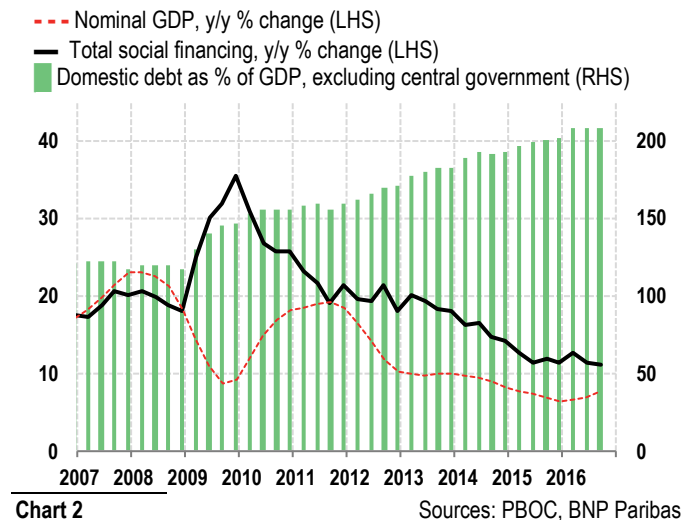
In addition, the local government and corporate sectors still have deep-seated structural weaknesses (production excess capacity, distortions in the real estate market, inefficient SOEs, governance problems, for instance) while certain reforms that are vital to shift the economy to a more balanced and less credit-dependent growth model (such as the strengthening of governance or the effective implementation of fiscal reforms) have been delayed this year as the authorities have given priority to stimulus policy measures.

With debt levels worsening and profitability still hampered by structural weaknesses, corporates' capacity to service their debt remains weak (even though their cash positions could improve in the very short term). It has deteriorated sharply since 2010. On the basis of calculations made by the IMF on a sample of listed companies, the median debt/EBITDA (earnings before interest, taxes, depreciation and amortization) ratio more than doubled between 2010 and 2015. The real estate, mining and steel sectors are the most fragile, showing both the highest median debt/EBITDA ratios and the highest proportions of debt owed by loss-making companies. The IMF estimates that "debt at risk" (i.e. debt held by companies that lack sufficient revenues to cover debt interest payments, i.e. with an EBITDA/interest expense ratio of less than 1) accounted for 14% of total debt (for a sample of firms) in 2015, compared to 4% in 2010. Against this background, corporates have had growing difficulties to pay their suppliers, payables days have increased (transmitting stress across the economy), non-performing loans have grown in bank balance sheets and default risks have spread to non-bank financial institutions and to the bond markets. Equity markets are obviously also affected by the deterioration in listed companies' average solvency and the rise in credit risk (for example through the rise in share-collateralized lending).

The banking sector's performance is deteriorating

The official Non-Performing Loan (NPL) ratio for commercial banks was 1.75% in June 2016. It is still very low, but it has risen steadily since June 2012, and the total stock of NPLs has more than tripled since that date (increasing by 51% in 2015 and 32% in H1 2016). In addition, the official NPL ratio only partly reflects the true state of banks' asset quality. For example, the ratio rises to 5.5% if "special-mention loans" are included. Moreover, banks have taken a whole series of measures to prevent it from worsening further (refinancing, write-offs, transfers to asset management companies and, recently, NPL securitization). Finally, official NPL figures do not take into account the credit activities of shadow banking institutions, which equal at least a fifth of commercial banks' "formal" loans and post a lower quality on average.

Continued rise in debt ratios



The deterioration in asset quality and the rise in credit costs in the banking sector will continue. Banks' profitability is under pressure and their liquidity and solvency ratios are worsening gradually. However, these ratios remain solid. Although the risk of systemic problems spreading across the entire financial sector is higher today than it was five years ago, it is sharply mitigated by two key factors that still currently persist: firstly, the banking system still has a very comfortable liquidity position (large customer and deposit base, low loan/deposit ratios, little reliance on external financing), and secondly, the central government still provides very strong support to the main state-owned commercial banks (which account for around 60% of total bank assets).



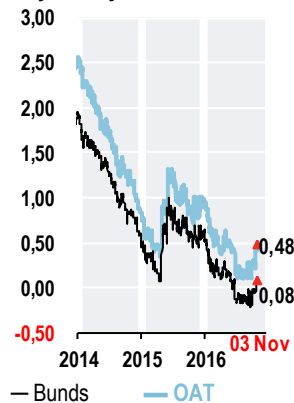
Markets overview

The essentials

Week 28-10-16 > 3-11-16

➤ CAC 40	4 549	➤ 4 412	-3.0 %
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➤ Volatility (VIX)	16.2	➤ 22.1	+5.9 %
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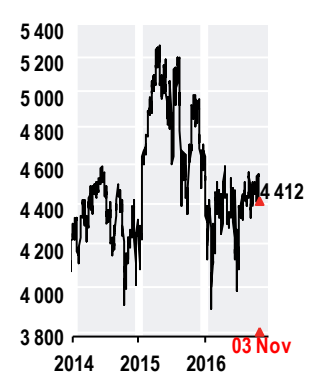
10 y bond yield, OAT vs Bund



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	-0.31	-0.13	at 01/01	-0.31	at 19/10
Euribor 12M	-0.07	0.06	at 01/01	-0.07	at 21/10
\$ FED	0.50	0.50	at 01/01	0.50	at 01/01
Libor 3M	0.88	0.89	at 26/10	0.61	at 04/01
Libor 12M	1.57	1.60	at 12/10	1.12	at 12/02
£ BoE	0.25	0.50	at 01/01	0.25	at 04/08
Libor 3M	0.40	0.59	at 15/02	0.38	at 08/09
Libor 12M	0.80	1.07	at 01/01	0.72	at 10/08

At 3-11-16

Yield (%)		highest' 16		lowest' 16	
€ AVG 5-7y	0.19	0.49	at 12/01	-0.14	at 27/09
Bund 2y	-0.64	-0.34	at 01/01	-0.70	at 28/09
Bund 10y	0.08	0.63	at 01/01	-0.22	at 28/09
OAT 10y	0.48	0.98	at 01/01	0.10	at 27/09
Corp. BBB	1.42	2.50	at 20/01	1.14	at 07/09
\$ Treas. 2y	0.82	1.06	at 01/01	0.56	at 05/07
Treas. 10y	1.81	2.27	at 01/01	1.36	at 08/07
Corp. BBB	3.40	4.50	at 12/02	3.24	at 18/08
£ Treas. 2y	0.19	0.65	at 01/01	0.07	at 29/09
Treas. 10y	1.20	1.96	at 01/01	0.61	at 12/08

At 3-11-16

10y bond yield & spreads

7.82%	Greece	773 pb
3.26%	Portugal	317 pb
1.70%	Italy	162 pb
1.25%	Spain	116 pb
0.67%	Ireland	58 pb
0.48%	France	40 pb
0.42%	Belgium	34 pb
0.37%	Austria	29 pb
0.31%	Finland	23 pb
0.29%	Netherlands	21 pb
0.08%	Germany	

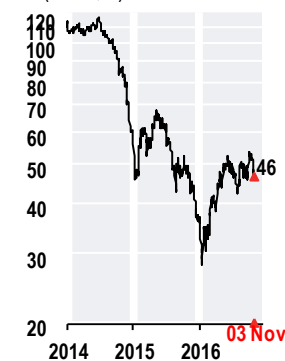
Commodities

Spot price in dollars		lowest' 16		2016(€)	
Oil, Brent	46	28	at 20/01	+27.3%	
Gold (ounce)	1 299	1 062	at 01/01	+19.7%	
Metals, LME	2 509	2 049	at 12/01	+11.5%	
Copper (ton)	4 947	4 328	at 15/01	+2.9%	
CRB Foods	327	325	at 21/10	-4.5%	
wheat (ton)	149	126	at 16/08	-5.4%	
Corn (ton)	130	113	at 31/08	-7.4%	

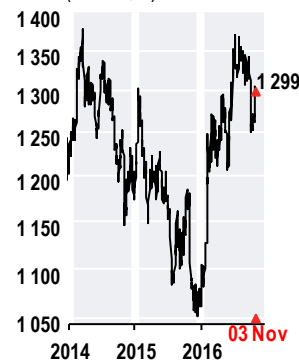
At 3-11-16

Variations

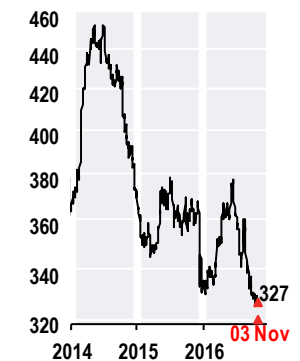
Oil (Brent, \$)



Gold (Ounce, \$)



CRB Foods



Exchange Rates

1€ =		highest' 16		lowest' 16		2016	
USD	1.11	1.15	at 03/05	1.07	at 05/01	+2.1%	
GBP	0.89	0.90	at 13/10	0.73	at 05/01	+20.9%	
CHF	1.08	1.11	at 04/02	1.08	at 24/06	-0.6%	
JPY	114.47	131.84	at 01/02	110.95	at 08/07	-12.4%	
AUD	1.44	1.60	at 11/02	1.42	at 25/10	-3.3%	
CNY	7.50	7.54	at 22/08	6.99	at 05/01	+6.3%	
BRL	3.59	4.53	at 16/02	3.39	at 25/10	-16.4%	
RUB	70.70	91.22	at 11/02	67.55	at 25/10	-10.9%	
INR	74.05	77.50	at 11/02	71.42	at 05/01	+3.0%	

At 3-11-16

Variations

Equity indices

Index		highest' 16		lowest' 16		2016		2016(€)	
CAC 40	4 412	4 637	at 01/01	3 897	at 11/02	-4.9%		-4.9%	
S&P500	2 089	2 190	at 15/08	1 829	at 11/02	+2.2%		+0.1%	
DAX	10 326	10 761	at 24/10	8 753	at 11/02	-3.9%		-3.9%	
Nikkei	17 135	19 034	at 01/01	14 952	at 24/06	-10.0%		+2.8%	
China*	61	65	at 22/09	48	at 12/02	+2.4%		+0.2%	
India*	474	504	at 08/09	393	at 11/02	+4.0%		+1.0%	
Brazil*	1 749	1 882	at 31/10	860	at 21/01	+38.2%		+65.2%	
Russia*	501	529	at 10/10	331	at 20/01	+11.1%		+21.2%	

At 3-11-16

Variations

* MSCI index



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	1.3	2.3	-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	0.1	0.6	2.4	-5.4	-5.9	-4.4	-4.1	-3.6	-4.4
Euro Area	1.9	1.5	1.1	0.0	0.2	1.0	3.2	2.9	2.7	-2.1	-2.1	-1.9
Germany	1.5	1.8	1.3	0.1	0.3	1.1	8.6	8.2	7.5	0.7	0.3	0.1
France	1.2	1.3	1.0	0.1	0.4	1.2	-0.2	-0.2	-0.4	-3.5	-3.4	-3.1
Italy	0.6	0.8	0.3	0.1	-0.1	0.9	2.2	2.2	2.1	-2.6	-2.8	-2.8
Spain	3.2	3.1	1.9	-0.6	-0.4	1.2	1.4	1.2	1.0	-5.1	-4.6	-3.5
Netherlands	2.0	1.8	1.3	0.2	0.1	0.8	8.5	8.5	8.1	-1.9	-1.2	-0.8
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	1.6	1.0	1.1	0.5	0.8	1.2	0.8	0.6	0.4	-4.2	-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	-2.4	-3.4	-2.2
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		2016				2017				2015	2016e	2017e
End period		Q1	Q2	Q3	Q4e	Q1e	Q2e	Q3e	Q4e			
US	Fed Funds	0.25-0.5	0.25-0.5	0.25-0.5	0.50-0.75	0.50-0.75	0.50-0.75	0.50-0.75	0.50-0.75	0.25-0.5	0.50-0.75	0.50-0.75
	3-month Libor \$	0.63	0.65	0.85	0.85	0.90	0.90	0.95	0.95	0.61	0.85	0.95
	10-year T-notes	1.79	1.49	1.61	1.60	1.60	1.55	1.55	1.50	2.27	1.60	1.50
EMU	Refinancing rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.05	0.00	0.00
	3-month Euribor	-0.24	-0.29	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.13	-0.30	-0.30
	10-year Bund	0.16	-0.13	-0.19	-0.20	-0.20	-0.20	-0.20	-0.20	0.63	-0.20	-0.20
	10-year OAT	0.41	0.20	0.12	0.10	0.20	0.10	0.10	0.10	0.98	0.10	0.10
	10-year BTP	1.23	1.35	1.19	0.90	0.90	0.90	0.80	0.80	1.60	0.90	0.80
UK	Base rate	0.50	0.50	0.25	0.10	0.10	0.10	0.10	0.10	0.50	0.10	0.10
	3-month Libor £	0.59	0.56	0.38	0.20	0.30	0.35	0.35	0.35	0.59	0.20	0.35
	10-year Gilt	1.42	1.02	0.76	0.65	0.65	0.65	0.70	0.80	1.96	0.65	0.80
Japan	Overnight call rate	-0.00	-0.06	-0.06	-0.10	-0.10	-0.10	-0.10	-0.10	0.04	-0.10	-0.10
	3-month JPY Libor	0.10	0.06	0.06	0.05	0.05	0.05	0.05	0.05	0.17	0.05	0.05
	10-year JGB	-0.04	-0.23	-0.08	-0.10	-0.15	-0.15	-0.15	-0.15	0.25	-0.10	-0.15

Exchange rates		2016				2017				2015	2016e	2017e
End period		Q1	Q2	Q3	Q4e	Q1e	Q2e	Q3e	Q4e			
USD	EUR / USD	1.14	1.11	1.12	1.08	1.12	1.10	1.07	1.05	1.09	1.08	1.05
	USD / JPY	112	103	101	108	106	108	115	120	120	108	120
EUR	EUR / GBP	0.79	0.83	0.87	0.84	0.86	0.84	0.79	0.77	0.74	0.84	0.77
	EUR / CHF	1.09	1.08	1.09	1.12	1.13	1.14	1.15	1.16	1.09	1.12	1.16
	EUR/JPY	128	114	114	117	119	119	123	126	131	117	126

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



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