



Summary

Japan

Abenomics: A failure called too early

Over the latest quarters, the Japanese economy sent positive signals. Growth accelerated, supported by domestic demand. The performance is striking, with a potential rate of growth closed to zero.

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France

Labour market: late November update

Unemployment continues to improve timidly, while employment seems to be gaining strength.

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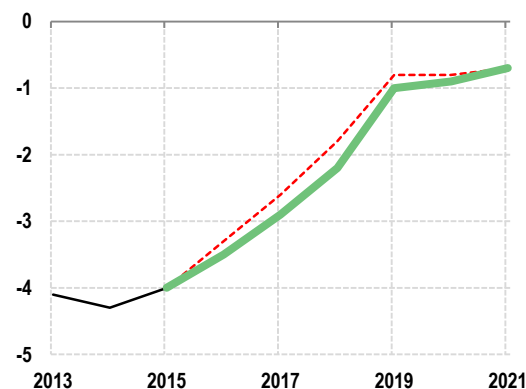
Less austerity is not easing

■ The UK government plans to borrow more ■ Fiscal austerity is loosened, not abandoned ■ Questions about credibility and opportunity

The UK government announced looser fiscal conditions over the medium-term. The Autumn Statement forecasts greater deficit over the next five years, with additional borrowing of GBP 122 bn. The commitment for a balanced budget is postponed after the current parliament, and the debt-to-GDP ratio will start decreasing later than expected. The main announcements were a higher minimum wage, an infrastructure spending plan and a stronger and faster cut in the corporate tax rate. Doubts over the plan are numerous. First, economic assumptions are quite optimistic, even though both growth forecasts and potential growth rate estimates have been revised down. Second, even if the plan is for more borrowing than previously planned, austerity is not reversed, just softened. The cyclically-adjusted deficit is still planned to be reduced, each year a bit more. Over the next five years, it would be reduced from 3.8% of GDP (FY 2015-16) to 0.7%. This remains a huge drag, especially at a time of turbulences. The question is about the credibility and/or the opportunity of such a policy. The hardest the Brexit will be, the hardest the economy will be hit. As the Bank of England might end up constrained by the value of the pound (too easy a policy would strengthen downward pressures and upward pressures on consumer prices) as its tolerance for inflation overshooting target is not infinite, fiscal policy would prove the only game in town. The choice will be whether to support a weakened economy (and abandon austerity) or to obey the sound-finances dogma and let the economy fall...

UK STRUCTURAL GOVERNMENT DEFICIT (% OF GDP)

— Actual; — Pre-Autumn Statement projections;
— Current projections



08/11/2016

09/11/2016

Source: Office for Budget Responsibility

THE WEEK ON THE MARKETS

Week 18-11-16 > 24-11-16

↗ CAC 40	4 504	► 4 543	+0.8 %
↗ S&P 500	2 182	► 2 205	+1.0 %
↘ Volatility (VIX)	12.9	► 12.4	-0.4 %
↘ Euribor 3M (%)	-0.31	► -0.31	-0.1 bp
↗ Libor \$ 3M (%)	0.92	► 0.93	+1.4 bp
↗ OAT 10y (%)	0.75	► 0.78	+3.2 bp
↘ Bund 10y (%)	0.20	► 0.18	-1.9 bp
↗ US Tr. 10y (%)	2.34	► 2.36	+1.8 bp
↘ Euro vs dollar	1.06	► 1.06	-0.1 %
↘ Gold (ounce, \$)	1 208	► 1 186	-1.8 %
↗ Oil (Brent, \$)	46.4	► 49.0	+5.7 %

Source: Thomson Reuters



Japan

Abenomics: A failure called too early

- Over the latest quarters, the Japanese economy sent positive signals. Growth accelerated, supported by domestic demand. The performance is striking, with a potential rate of growth closed to zero.
- The Bank of Japan took another step in the “irresponsibility” praised by Paul Krugman, with a commitment to significantly and lastingly overshoot its 2% inflation target.
- For some, Abenomics has reached its limits. The implementation of policy tools has proved unbalanced: insufficient structural reforms with too much weight on the monetary pedal.
- Rooms for manoeuvre are said to be diminishing, notably because the very high public debt load would limit the potential support from fiscal policy, not mentioning the opportunity to use such a policy tool.
- It appears that the high level of government debt is to be nuanced. It is even more so the case because the active BoJ policy ensures easy financing conditions.
- It remains too soon to call Abenomics effective or ineffective. On top of that, the tool box is not empty...

Growth speeds up...

Since 2013, Abenomics has aimed to pull Japan out of the deflationary spiral by creating a growth shock. The balance between the three arrows of Abenomics – fiscal policy, monetary policy and structural reforms – has often been the target of criticism, along with the strategy's effectiveness. The Bank of Japan's latest effort has also drawn sharp criticism.

On 21 September, the Japanese central bank announced a new phase in monetary easing: the introduction of yield curve controls, notably with a 10-year bond yield target, and above all a pledge to overshoot its 2% inflation target over the long term by increasing the monetary base by as much and as long as it deemed necessary.

In recent quarters, the Japanese economy has shown signs of acceleration. In the first three quarters of 2016, the economy grew at an average quarterly rate of 0.4% (annualised growth of 1.7%). The breakdown of growth shows a shift in the contribution of final domestic demand and foreign trade, illustrating the robust momentum of household spending. After Abenomics was introduced, foreign trade was the main growth engine, fuelled by the depreciation of the yen by more than 30% (in real effective terms). Since mid-2015, however, the yen has rebounded (the cumulative depreciation since year-end 2012 narrowed to 18%), and foreign trade is no longer such a powerful growth engine. Yet thanks to the fiscal impulse and a dynamic job market, household spending was able to pick up the slack.

Activity picking up

— Year-on-year rate of growth, 4-q smoothed (%)

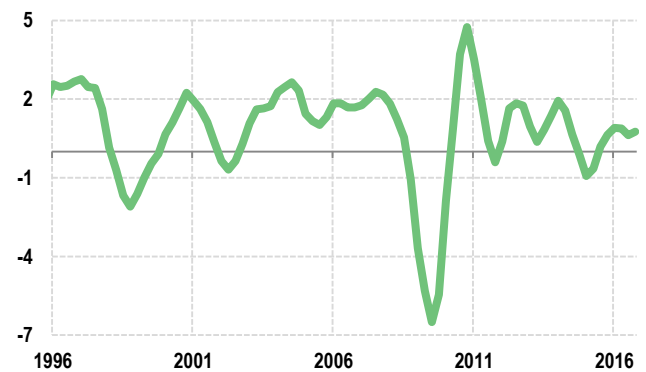


Chart 1

Source: Japanese Cabinet Office

Contributions to GDP growth

■ Final domestic demand; ■ Net exports (y/y, 4-q m.a., %)

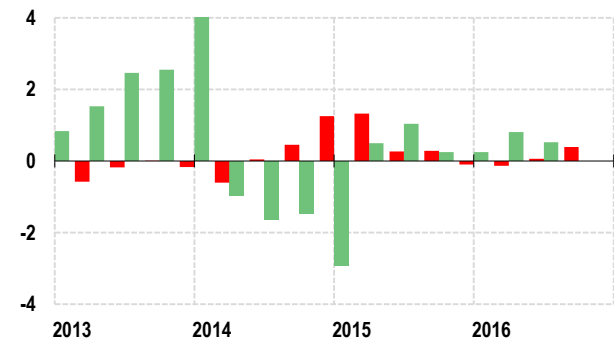


Chart 2

Source: Japanese Cabinet Office

Structural challenges

Japan's recent performances are noteworthy given the numerous structural hindrances to growth. Japanese society is aging rapidly, and despite an increase in the labour participation ratio for the 15-64 age group, the growing proportion of seniors has led to a decline in the labour force.

Japan is also suffering from decades of under investment: gross fixed capital formation as a share of potential GDP declined by more than 14 points between 1990 and 2010, while productive capital has stagnated since 2009. In addition to these two specific problems, Japan, like the other advanced countries, has also been hit by dwindling productivity gains since the 2007-2009 economic and financial crisis. All in all, Japan's potential growth rate is virtually nil.



Heavy debt load that has to be nuanced

According to the IMF's most recent data, the public debt ratio stands at 248% of GDP. Net of assets, Japan's public debt is much smaller, but still very high at 125% of GDP. Yet we should not attach too much importance to these figures. First, Japan's debt is held domestically (non-residents hold only 10% of JGBs), and what are liabilities for some are assets for others: between 1980 and 2014, the net liabilities of the government sector increased by 130 points of GDP, while the net financial assets of Japanese households increased by 125 points of GDP.

Japan's public debt is not so much a matter of solvency, but a question of redistribution. Japan is still a net creditor, but more importantly, we should not forget that 35% of JGBs are now held by the BoJ, a proportion that should continue to rise in the years ahead, since the BoJ's plans for net purchases exceed the government's projected financing needs. It is also worth noting the relative stability of debt servicing as a share of spending (4.7% of GDP). The BoJ's new target ensures that the government will be able to continue borrowing at reduced rates.

The average maturity of Japanese debt is currently a little more than 8 years, and the yield on securities maturing in 8 years is -0.19%. Without changing its debt management policy, the Japanese government will continue borrowing at a rate below its nominal potential growth rate. Moreover, this spread is bound to widen as the BoJ approaches its inflation target. This means the apparent debt rate, currently at 0.95%, would narrow even further, thereby improving the sustainability of debt.

BoJ: wisely irresponsible

The success of Abenomics depends largely on the effectiveness of BoJ policy. Rather than jump to the conclusion that the monetary arrow has been used disproportionately, we can better understand the central bank's activism. What is crucial today is its capacity to raise inflation expectations, a challenge the BoJ willingly admits. The credibility of new measures is an essential factor, notably the stated goal of overshooting the 2% inflation target for as long as necessary.

Some may have preferred the bank to announce a new inflation target – 4% for example – as this would be synonymous with an irreversible increase in money supply. The BoJ has chosen not to be so specific, at least for the time being. Although we cannot be certain, we can imagine that the BoJ is worried about its credibility, which might be lastingly damaged if it were to fail to reach an overly ambitious target, the realisation of which also depends on such exogenous factors as energy prices and the yen's external value. There will always be time to specify a new target later, should that prove to be necessary.

Just as welcome, if not more so, is the announcement that the next consumption tax hike would be postponed from April 2017 to year-end 2019. We would even encourage further fiscal "irresponsibility", as long as it is conditioned on the BoJ respecting its inflation target, and the government abandons its increasingly unrealistic target of

Yen, real effective exchange rate

2010 = 100

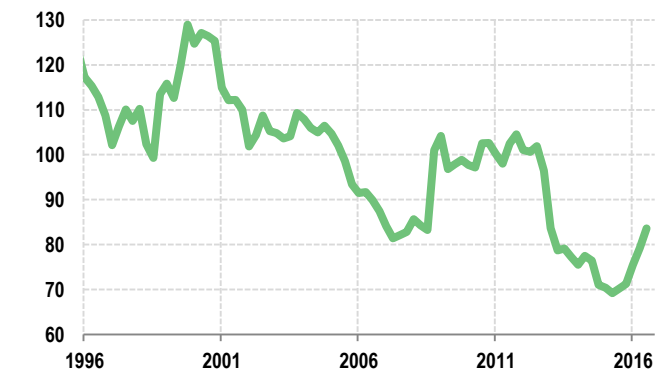


Chart 3

Source: Bank of Japan

Public finances (% of GDP)

Gross government debt ; — Gross debt service

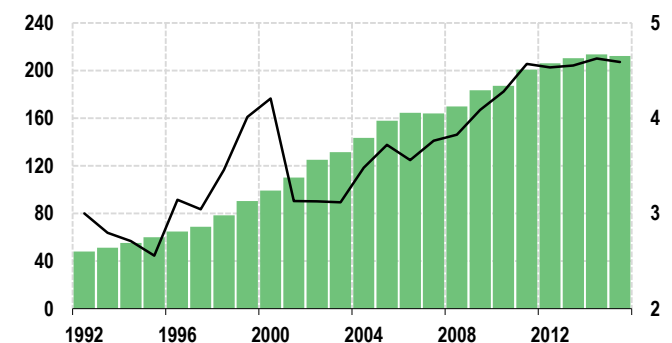


Chart 4

Source: Japanese Ministry of Finance

Japanese yield curve (%)

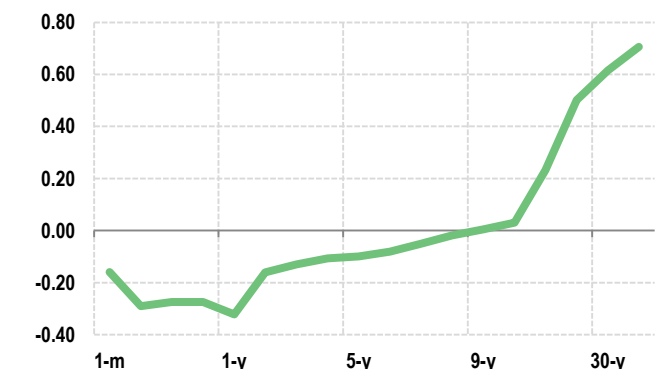
November 24th, 2016

Chart 5

Source: Macrobond

generating a primary surplus by 2020. It would simply suffice to admit that the debt problem is not one, or at least, that it can best be resolved by pulling out of the deflationary spiral.



France

Labour market: late November update

- In Q3 2016, the French economy created 52,000 non-farm payroll jobs. This brings net job creations for the past year to 145,000.
- At 10% of the labour force, the unemployment rate is 0.1 points higher than in Q2, but a half-point lower than in the year-earlier period.
- In October, the number of category A jobseekers registered with Pôle Emploi declined by 0.3% m/m. In year-on-year terms, the fall is close to 3%, corresponding to a diminution of 101,000 in the number of jobseekers.

Based on statistics available at the end of November, the French labour market is in a very similar situation to the one described in our September and March updates¹: unemployment continues to improve timidly, while employment seems to be gaining strength.

According to the INSEE's preliminary estimates for Q3 2016, there were 52,000 net job creations in the non-farm payroll sector. This is the highest figure since 2007. Moreover, for the first time since early 2012, the construction sector did not destroy jobs. The sector is even expected to begin creating jobs again, thanks to the upturn in activity that is taking shape. Industry is still the weak spot and continues to destroy jobs, with an average of 9,000 job losses per quarter since early 2015 (see chart 1).

Over the past year, employment has increased 0.9%, with a total of 209,000 job gains since Q2 2015. This is certainly a far cry from the previous period of strong job creations in 1998-2001, which serves as a reference with a 2.9% average annual rate of growth in employment. At the time, however, the labour market was supported by much more buoyant growth. The average annual growth rate was 3.2% then, compared to 1.2% in 2015, with only a slight improvement in 2016, estimated at 1.3%. However, although GDP and employment growth rates are very different, apparent labour productivity gains are identical, and in both periods particularly squeezed. Growth might not be very strong today, but at least it is creating as many jobs.

As to unemployment, the situation is more mixed. The number of category A jobseekers seems to have begun to decline. But this trend is still mild, restrained by the volatility of data. However, the new decline, -0.3% m/m in October, of the number of category A jobseekers registered with Pôle Emploi – the national unemployment agency – helps accentuate the downtrend. In year-on-year terms, the fall is close to 3% and corresponds to a diminution of 101,000 of the number of jobseekers.

Unemployment is still too high, but it is more clearly trending downwards (see chart 2). In Q3 2016, the unemployment rate in France, as measured by the INSEE using the ILO definition, was

Quarterly change in payroll employment

Non-farm payroll employment, '000s

Services excluding temporary employment ■ Construction ■ Industry
Temporary employment — Total

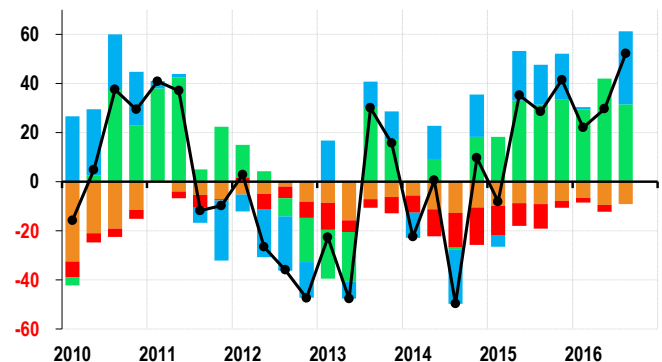


Chart 1

Source: INSEE

Metropolitan France: unemployed vs. jobseekers

Number of category A jobseekers ('000s, LHS)

Unemployment rate using the ILO definition (% of labour force, RHS)

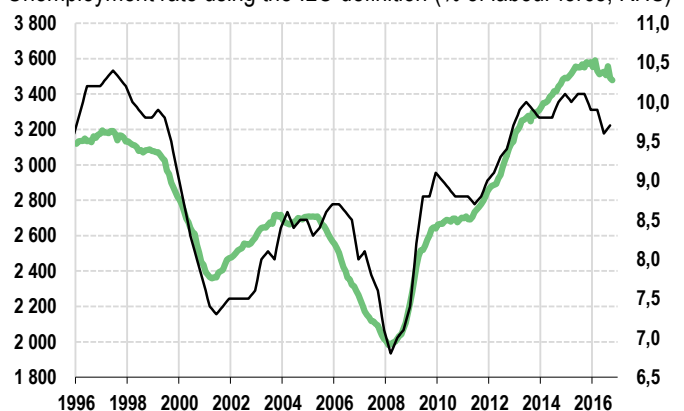


Chart 2

Sources: INSEE, Pôle Emploi

10% of the labour force (9.7% in metropolitan France). This is 0.1 points higher than in the previous quarter, but a half-point lower compared to the year-earlier period. Although the number of unemployed increased during the quarter (+31,000 to 2.8 million in metropolitan France), underemployment and the unemployment halo declined (underemployment decreased by 94,000 to 1.7 million, and the unemployment halo diminished by 26,000 to 1.5 million). In contrast, the situation has not yet improved in terms of youth unemployment, which increased to 25.1%, 1.2 points higher than in the previous quarter and 0.8 points higher than in the year-earlier period.

¹ See Ecweek n°16-31 (France: labour market – a mild but virtuous improvement) and no. 16-09 (France: unemployment declines: the first in a series?)



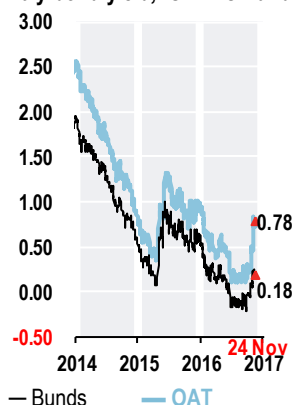
Markets overview

The essentials

Week 18-11-16 > 24-11-16

➤ CAC 40	4 504	➤ 4 543	+0.8 %
➤ S&P 500	2 182	➤ 2 205	+1.0 %
➤ Volatility (VIX)	12.9	➤ 12.4	-0.4 %
➤ Euribor 3M (%)	-0.31	➤ -0.31	-0.1 bp
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➤ OAT 10y (%)	0.75	➤ 0.78	+3.2 bp
➤ Bund 10y (%)	0.20	➤ 0.18	-1.9 bp
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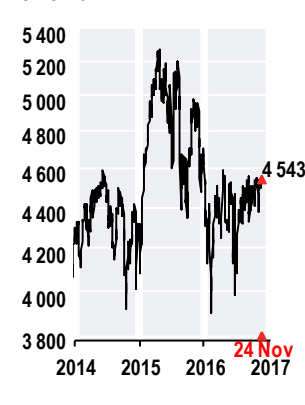
10 y bond yield, OAT vs Bund



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	-0.35	-0.13	at 01/01	-0.36	at 26/05
Euribor 3M	-0.31	-0.13	at 01/01	-0.31	at 24/11
Euribor 12M	-0.08	0.06	at 01/01	-0.08	at 22/11
\$ FED	0.50	0.50	at 01/01	0.50	at 01/01
Libor 3M	0.93	0.93	at 23/11	0.61	at 04/01
Libor 12M	1.63	1.63	at 23/11	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 24-11-16

Yield (%)		highest' 16		lowest' 16	
€ AVG 5-7y	0.38	0.49	at 12/01	-0.14	at 27/09
Bund 2y	-0.76	-0.34	at 01/01	-0.76	at 24/11
Bund 10y	0.18	0.63	at 01/01	-0.22	at 28/09
OAT 10y	0.78	0.98	at 01/01	0.10	at 27/09
Corp. BBB	1.66	2.50	at 20/01	1.14	at 07/09
\$ Treas. 2y	1.14	1.14	at 24/11	0.56	at 05/07
Treas. 10y	2.36	2.36	at 23/11	1.36	at 08/07
Corp. BBB	#N/A	#N/A	at #N/A	#N/A	at #N/A
£ Treas. 2y	0.13	0.65	at 01/01	0.07	at 29/09
Treas. 10y	1.44	1.96	at 01/01	0.61	at 12/08

At 24-11-16

10y bond yield & spreads

6.92%	Greece	673 pb
3.67%	Portugal	348 pb
2.11%	Italy	192 pb
1.59%	Spain	140 pb
0.96%	Ireland	77 pb
0.78%	France	59 pb
0.67%	Belgium	48 pb
0.55%	Austria	36 pb
0.47%	Finland	28 pb
0.41%	Netherlands	22 pb
0.18%	Germany	

Commodities

Spot price in dollars		lowest' 16		2016(€)	
Oil, Brent	49	28	at 20/01	+41.3%	
Gold (ounce)	1 186	1 062	at 01/01	+14.8%	
Metals, LMEX	2 826	2 049	at 12/01	+31.9%	
Copper (ton)	5 854	4 328	at 15/01	+27.9%	
CRB Foods	330	322	at 09/11	+1.2%	
wheat (ton)	149	126	at 16/08	-0.8%	
Corn (ton)	132	113	at 31/08	-1.6%	

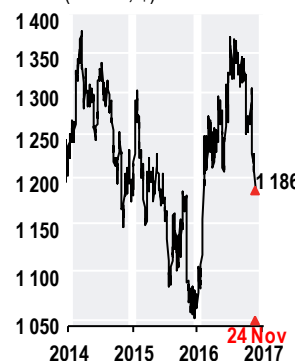
At 24-11-16

Variations

Oil (Brent, \$)



Gold (Ounce, \$)



CRB Foods



Exchange Rates

1€ =		highest' 16		lowest' 16		2016	
USD	1.06	1.15	at 03/05	1.05	at 23/11	-2.8%	
GBP	0.85	0.90	at 13/10	0.73	at 05/01	+15.0%	
CHF	1.07	1.11	at 04/02	1.07	at 18/11	-1.3%	
JPY	119.62	131.84	at 01/02	110.95	at 08/07	-8.5%	
AUD	1.43	1.60	at 11/02	1.42	at 15/11	-4.5%	
CNY	7.31	7.54	at 22/08	6.99	at 05/01	+3.6%	
BRL	3.58	4.53	at 16/02	3.39	at 25/10	-16.6%	
RUB	68.01	91.22	at 11/02	67.55	at 25/10	-14.3%	
INR	72.62	77.50	at 11/02	71.42	at 05/01	+1.0%	

At 24-11-16

Variations

Equity indices

Index		highest' 16		lowest' 16		2016	2016(€)
CAC 40	4 543	4 637	at 01/01	3 897	at 11/02	-2.0%	-2.0%
S&P500	2 205	2 205	at 23/11	1 829	at 11/02	+7.9%	+10.9%
DAX	10 689	10 761	at 24/10	8 753	at 11/02	-0.5%	-0.5%
Nikkei	18 333	19 034	at 01/01	14 952	at 24/06	-3.7%	+5.2%
China*	60	65	at 22/09	48	at 12/02	+1.7%	+4.5%
India*	430	504	at 08/09	393	at 11/02	-2.8%	-3.8%
Brazil*	1 650	1 882	at 31/10	860	at 21/01	+36.5%	+63.7%
Russia*	538	538	at 24/11	331	at 20/01	+20.3%	+36.7%

At 24-11-16

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	1.07	1.04	1.02	1.02	1.00	1.09	1.07	1.00
	USD / JPY	112	103	101	110	115	120	125	128	120	110	128
EUR	EUR / GBP	0.79	0.83	0.87	0.86	0.84	0.82	0.82	0.80	0.74	0.86	0.80
	EUR / CHF	1.09	1.08	1.09	1.07	1.08	1.10	1.12	1.12	1.09	1.07	1.12
	EUR/JPY	128	114	114	118	120	122	128	128	131	118	128

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

* Under revision with the exception of exchange rates



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