



## Summary

## Eurozone

## Four inflation criteria

Inflation surged in January, reaching 1.8%. ECB's target is far from achieved yet.

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## China

## The threat of capital outflows

"Stability" will be the top priority of China's authorities in 2017, but it will be hard to maintain a steady course. Downside risks on economic growth are substantial and capital outflows could also be a source of instability. Beijing is tightening capital control measures in order to curb depreciation pressures on the yuan and foreign reserves.

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## Market overview

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Also in



## Wait and see

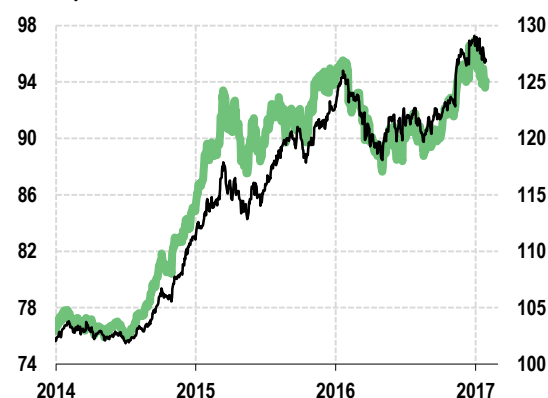
■ Fed leaves policy unchanged ■ FOMC more confident about inflation reaching target ■ Monetary path dependent on fiscal policy

Unveiling the details of its fiscal policy does not look like a top priority for the new US administration. This leaves the Fed in the dark and explains the wait-and-see mode. At the latest FOMC meeting, the Fed decided to leave rates unchanged and the rewording of the statement was more about grammar than about sense. While the strengthening in the business sentiment is noted, FOMC members also appear more confident in inflation reaching target in the medium-term. The target could actually be hit (and broken) in the very near future as the 2016 oil price rebound will feed large base effects in early 2017. Beyond the first half of 2017, however, it gets very difficult to forecast the path the US monetary policy will follow. Under the hypothesis that a large fiscal stimulus is actually implemented, the normalisation of the monetary policy would be sped up. Janet Yellen made it clear back in December that she and her colleagues viewed the output gap as closed, implying that a stimulus would overheat the economy. Absent such a fiscal stimulus, interest rates would be increased more gradually. All these remain dependent on the possible negative consequences on activity from tighter monetary and financial conditions since the November elections. In short, we do not know what the Fed will decide this year. Our only comfort is that we are definitively sure that the Fed itself does not know much more than we do...

## USD EFFECTIVE EXCHANGE RATE

-- Major currencies ; -- Broad Index (r.h.s.)

January 1<sup>st</sup>, 1999 = 100



Source: Federal Reserve

## THE WEEK ON THE MARKETS

Week 27-1 17 > 2-2-17

➤ CAC 40	4 840	► 4 794	-0.9 %
➤ S&P 500	2 295	► 2 281	-0.6 %
➤ Volatility (VIX)	10.6	► 11.9	+1.4 %
➤ Euribor 3M (%)	-0.33	► -0.33	+0.0 bp
➤ Libor \$ 3M (%)	1.04	► 1.03	-0.4 bp
➤ OAT 10y (%)	1.04	► 1.04	-0.3 bp
➤ Bund 10y (%)	0.46	► 0.43	-3.7 bp
➤ US Tr. 10y (%)	2.48	► 2.47	-1.0 bp
➤ Euro vs dollar	1.07	► 1.08	+0.9 %
➤ Gold (ounce, \$)	1 189	► 1 217	+2.4 %
➤ Oil (Brent, \$)	55.5	► 57.0	+2.8 %

Source: Thomson Reuters



## Eurozone

### Four inflation criteria

- January's rebound in inflation was essentially driven by energy prices and the euro's depreciation. At 1.8%, eurozone inflation is now close to 2%. Yet its nature prevents from considering that the ECB's mandate has been fulfilled. As the central bank points out, "there are no convincing signs yet of an upturn in core inflation."
- Mario Draghi recently described the kind of dynamics the ECB is looking for: inflation needs to return to 2% over the medium-term, the convergence must be durable, self-sustained, and concern the whole of the region. In other words, inflation must be driven by broad-based robust demand and wage growth.
- For this to happen, growth would have to maintain a rapid pace, the prospects of which seem at risk, precisely because of the rebound in oil prices.

Inflation's surge in January was largely predictable given the economic conditions that prevailed a year ago<sup>1</sup>, but it was nonetheless surprisingly strong: consumer price inflation rose from 0.6% in November 2016 to 1.8% in January 2017 (first estimate). This 1.2-point increase is essentially due to higher energy prices. In January, energy prices rose 8.1% y/y, after a December's 2.6% increase. After having weighted on headline inflation between July 2014 and November 2016, energy price inflation is now the source of 75% of the rebound (0.9 points out of a total of 1.2), while food price inflation (including alcohol and tobacco) accounted for 16% (chart 1).

There are at least three causes for energy inflation. First, there is a strong base effect. In first-quarter 2016, oil prices were holding at extremely low levels after the drop-off that began in summer 2015. The barrel of Brent was trading at an average of about USD36 in January 2016. At that time, the energy component was heavily weighing on headline inflation. A simple stabilisation of oil prices at January 2016 level over a year would have triggered an increase in inflation in January 2017 all things being equal. Instead, oil prices have increased from Q2 2016 and the move accelerated following the November OPEC's decision to cut back production as of January 2017. From November 2016 to January 2017, Brent crude oil prices rose 17.5%. The third and last cause is the euro's depreciation against the dollar since early November. This has increased the cost of oil prices in euros, which in turn has accentuated the rebound.

At 1.8%, eurozone inflation is close to but lower than 2% as targeted by the ECB. Yet the nature of this rebound prevents from considering that the ECB's mandate has been fulfilled. The ECB has pledged to pursue its asset purchase program until at least December 2017. There is a fundamental reason for this, which Mario Draghi reiterated

<sup>1</sup> It is worth recalling that inflation designates the increase in consumer prices over the past year. Fluctuations thus depend in part on past economic conditions, the so-called "base effect".

### Contribution to inflation

— Core inflation — Energy prices — Food prices

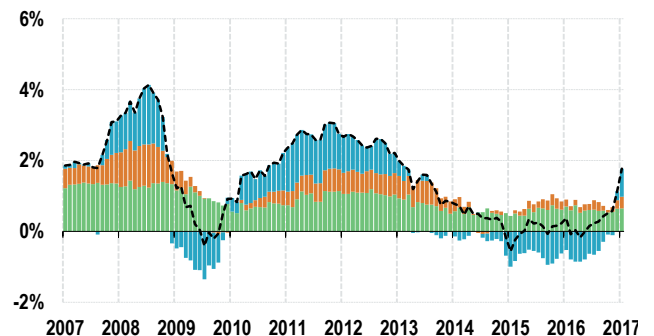


Chart 1

Source: Eurostat

at the 19 January monetary policy meeting: "there are no signs yet of a convincing upward trend in underlying inflation". In other words, the ECB members will not be satisfied with inflation that is driven essentially by higher energy prices, as is currently the case.

At the 19 January press conference, Mario Draghi described the kind of dynamics the ECB is looking for, spelling out four criteria. First, inflation has to be lower but close than 2% *in the medium term*. Second, convergence on this target must be *durable* and not transient. Third, it must be *self-sustained*: for Mr. Draghi, that means that it must not be exclusively relying on monetary support. The fourth and last criteria is that price stability must be defined for the *whole* of the Eurozone.

The ECB has set a medium-term inflation target precisely because it does not want to take into account the inevitable short-term fluctuations in prices, which are mainly associated with commodity prices, in order to ensure a certain monetary policy stability. January's strong rebound in inflation is a clear illustration of price volatility. Core inflation, which excludes the most volatile components (energy, food, alcohol and tobacco), was broadly stable at 0.9% year-on-year in January, up 0.02 points compared to December and 0.14 points compared to November. Although the ECB's mandate pertains to headline inflation and not core inflation, the emphasis on the medium term makes the latter a more pertinent indicator for judging whether the objective has been met. Unless we assume that oil prices will rise indefinitely at the current pace, then headline inflation will eventually end up declining in the medium term, unless core inflation were to accelerate.

This naturally brings us to the second criteria: convergence on the ECB's inflation target must be durable and not temporary. In other words, the ECB wants to see core inflation trend upwards to levels equivalent to around 1.5%. That does not mean that the ECB will wait until such levels have been reached before launching the



normalisation of monetary policy, but the dynamics of core inflation must be heading in that direction.

Core inflation reflects the change in prices of services and non-energy industrial goods. It mostly depends on production costs, the exchange rate and the behaviour of corporate margins. Margins are notably determined by the intensity of competition and the cyclical environment. When competition is strong, companies tend to compress margins when production costs increase. For a given degree of competition, an increase in production costs will be carried over to sales prices less strongly during periods of sluggish demand.

Production costs notably depend on the cost of labour and the price of intermediate consumptions. They comprise imported goods, including energy products. Consequently, when energy prices increase and/or the exchange rate depreciates, core inflation tends to accelerate. In an article dated August 2010<sup>2</sup>, the ECB estimates that the elasticity of core inflation to oil price fluctuations is around 20%.

Yet, like the direct effects of higher oil price on inflation via the energy component, the indirect effects via the underlying component are also temporary. They influence the general level of prices, but do not have a lasting impact on the dynamics. For the convergence to be durable, inflation must be driven by wage growth. This brings us to the third inflation criteria: the upturn in inflation must be self-sustained. Convergence on the inflation target at the same time as a reduction in monetary support can only occur on the condition of wage acceleration. Stronger wage growth would contribute to more robust demand, which would make it easier for companies to carry over higher production costs to their sales prices, which in turn would fuel demand for higher wages, etc.

To trigger an inflationary price-wage loop, the job market needs to improve further. High unemployment is still restricting wage formation in the Eurozone. Even though the situation differs widely between countries average wage growth has been on a slowing trend since 2009 (chart 2). Although unemployment has been declining since early 2014, on aggregate the eurozone is still suffering from employment/output gap. Depending on the reference point used, the deficit can be estimated at 3.8 million jobs based on the most recent low point for unemployment (Q1 2008), or at 1.5 million jobs using the OECD estimate of the equilibrium unemployment rate. Under these conditions, there is little chance that imported inflation (via higher oil prices and the euro's depreciation) will trigger any second-round effects i.e. that are taken into account in the formation of wages.

All in all, the current weakness of core inflation mainly reflects insufficient aggregate demand, which justifies the ECB's monetary stimulus. The Q4 2016 upturn in eurozone GDP growth suggests that the situation is returning to normal. At 0.5% q/q (1.8% y/y), eurozone GDP growth was higher than potential, which means a closing output gap. It remains to be seen whether the eurozone will manage to maintain this pace throughout 2017: with the upturn in oil prices putting pressure on household purchasing power and corporate margins, there is a risk that domestic demand could falter. To a

## ■ Contribution to inflation

— Euro zone ; — Germany — Italy

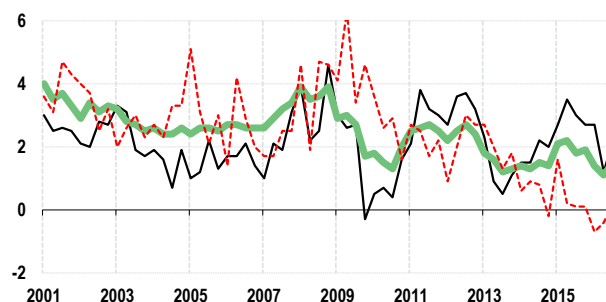


Chart 2

Source: Eurostat

certain extent, the increase in inflation following the rebound in energy prices might go in the opposite direction of what the ECB wants to see.

Mr. Draghi's fourth criterion – price stability is defined for the whole of the eurozone – means that the economic improvement must be broad based. That does not mean that all EMU member countries must reach inflation close to 2% at the same time, but that the increase in average eurozone inflation must not be accompanied by excessive differentials between countries. In other words, the ECB would not be satisfied with a raising average Eurozone inflation fuelled by strong underlying price dynamics in Germany only.

Since the beginning of the eurozone recovery, GDP growth has been broad based. But differences in cyclical phases (i.e. levels of activity) have also resulted in different wage dynamics: in Germany, wage growth has averaged 2.5% since 2015, compared to 1.6% in France and only 0.5% in Spain and 0.1% in Italy. Beyond differences in productivity gains (rather high in France and Germany, average in Spain and very low in Italy), these differentials reflect heterogeneous labour market situations.

During the press conference, when asked about the difficulties these discrepancies could cause for conducting monetary policy, M. Draghi said he was confident; esteeming the divergences will be managed and will narrow in the future. It remains that the structural heterogeneity of eurozone member states, brought to light by the debt crisis, still poses a fundamental problem. In the absence of fiscal federalism, economic convergence within the eurozone must be conducted through *relative* price adjustments, which until recently has meant deflationary policies in the southern EMU member countries. For this adjustment to continue while allowing decent and broad-based GDP growth, wages and prices increases need to be durably faster in the countries with major trade surpluses, which means accepting, in a certain sense, that the differences in wage dynamics observed today will persist.

<sup>2</sup> [https://www.ecb.europa.eu/pub/pdf/other/art1\\_mb201008en\\_pp75-92en.pdf](https://www.ecb.europa.eu/pub/pdf/other/art1_mb201008en_pp75-92en.pdf)



## China

### The threat of capital outflows

- "Stability" will be the top priority of the Chinese authorities through the 19th Party Congress in fall 2017, but the target could prove difficult to meet.
- The risks to economic growth prospects in 2017 are substantial, and capital account dynamics could also be a source of instability. Depreciation pressures on the yuan and capital outflows, which have grown in recent months, are expected to persist in the short term.
- As a result, foreign reserves should decline further and yuan depreciation should continue. To limit these trends, Beijing will not hesitate to introduce more capital control measures.

#### Stability is the priority

The economic growth slowdown has been checked since Q2 2016 thanks to policy support. Real GDP growth stood at 6.7% in 2016 and is projected to slow down moderately in 2017. The structural factors of the weakening in export and manufacturing investment growth persist (especially the slowdown in Asian and international trade transactions, the loss of industrial competitiveness and the reduction in surplus production capacity). However, services and private consumption are struggling to pick up the slack, held back by slower wage growth and insufficient progress in structural reform. To offset the impact of these trends, the authorities should maintain an accommodative policy mix in the short term. Stability will be their top priority until the 19<sup>th</sup> Congress of the Communist Party in fall 2017, which is expected to see the replacement of a large number of Central Committee members as well as five of the seven members of the Politburo Standing Committee (President Xi Jinping and Prime Minister Li Keqiang should be the only ones to conserve their positions for another five years). Consequently, China is only expected to pursue structural reforms in 2017 when they do not threaten the country's stability, while economic policy will focus on measures that stimulate domestic demand in the short term.

The authorities do not have much manoeuvring room. In particular, monetary policy will remain very cautious due to the high credit risks looming over the financial sector and the risk of capital outflows. Moreover, though still moderate, consumer price inflation has begun to rise again in recent months (2.2% y/y in Q4 2016). Property policy (i.e. the prudential rules applied to property purchases, sales and loans) is expected to be adjusted in order to support activity while at the same time containing the risk of asset bubble, and should prove increasingly "city-specific". As a matter of fact, the upturn in the real estate market in 2016 has been characterised by divergences between big cities on the one hand, where signs of overheating have already emerged, forcing the local authorities to tighten prudential rules and, on the other hand, small and mid-sized cities, where price increases have remained more subdued. As a consequence, should additional stimulus prove necessary to boost growth, fiscal policy

#### Balance of payments

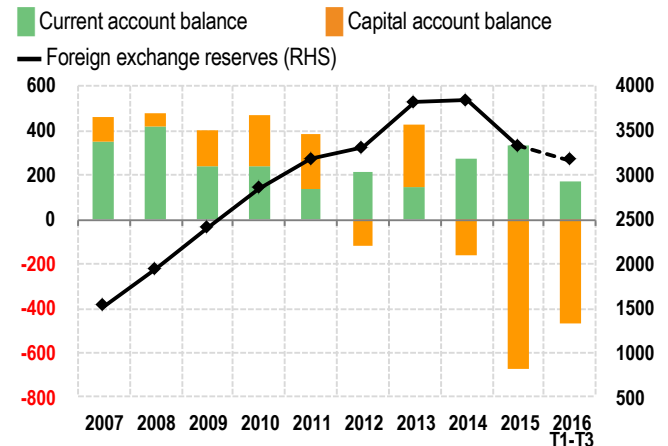


Chart 1

Sources: SAFE, IMF

(public investment, fiscal measures) is likely to be the preferred option, as it was in 2016. The authorities set their 2017 targets during the annual Economic Conference last December. In brief, monetary policy should be "cautious and neutral" and fiscal policy should remain "proactive", to promote "stability" and "continue the restructuring of the economy".

There is no doubt about the authorities' determination to meet their targets, although it will be hard to maintain a steady course. Major downside risks loom over short-term growth prospects. On the domestic front, high financial risks permanently threaten to cause disruptions in the supply of credit to the economy. Moreover, a new downturn in the real estate market is possible in 2017 in case property policy tightening measures are extended much further. On the international front, the introduction of protectionist measures and mounting tensions with the United States could handicap China's foreign trade at a time whereas the global environment is still not very growth supportive. Lastly, China's capital account balance could also be a source of instability.

#### Capital control measures are tightened

Over the past three years, net capital inflows by non-residents have declined while net capital outflows by residents have increased rapidly, due to lower economic growth prospects and changing expectations over the evolution of the yuan in a context of capital account opening, exchange rate policy reform and global expansion of Chinese firms. The capital account balance, which has been negative every year since 2014, should represent close to about 6% of GDP in 2016. The current account surplus is estimated at less than 3% of GDP. Due to these external account dynamics, foreign exchange reserves have dropped by 25% since the mid-2014 peak and hit the symbolic threshold of USD 3000 bn at end-2016. Over the





same period, the renminbi (RMB) depreciated by 12% against the dollar (*charts 1 and 2*).

Net capital outflows intensified again in the last months of 2016. After the election of President Trump and the hike in the Fed's key rate in December, the general appreciation of the USD has exerted downward pressure on the RMB/USD exchange rate. In the meantime, People's Bank of China (PBOC) has increasingly made reference to the RMB's exchange rate against a basket of currencies (of its main trading partners) in the management of its fx policy. With US interest rates expected to rise in 2017, depreciation pressures on the yuan and capital outflows are expected to continue.

As in 2016, capital outflows are expected to have a restrictive impact on domestic monetary conditions as well as amplify: 1) the decline in foreign reserves, 2) the RMB's depreciation against the USD, and 3) the risk of additional capital control measures. Having made stability a priority, the authorities are bound to remain active in forex markets (both onshore and offshore) to contain the RMB's depreciation against the USD. It seems highly probable that they would prefer to impose new capital controls rather than let the RMB and/or foreign reserves decline too fast. Even though the stock of foreign reserves is still extremely comfortable, the pace of change becomes an additional source of concern for investors.

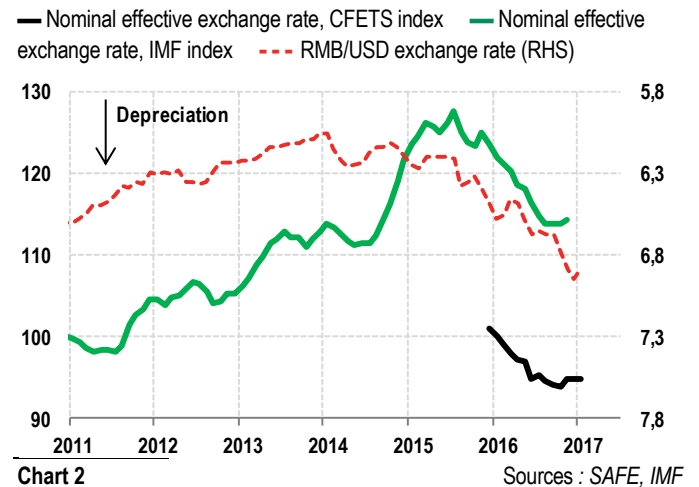
Beijing has gradually reinforced its capital control measures since mid-2015, and even more strongly in recent weeks. The measures cover an increasingly broad range of transactions and counterparties. SAFE (*State Administration of Foreign Exchange*) has significantly tightened its "scrutiny" of resident investments abroad as well as forex purchases by individuals. It has also temporarily banned the acquisition of non-industrial foreign assets, and certain programs aiming to liberalise Chinese investment flows in foreign equity markets have been suspended. Moreover, in recent days, controls on banks' overseas transfers of RMBs (which are then converted in offshore markets) have been strongly tightened.

All these measures cast a shadow on the internationalisation of the RMB and the capital account opening process. Going forward, capital account liberalization may continue, but it will be cautious and done in a very asymmetrical manner, with the authorities possibly lifting further controls on non-resident capital inflows (with an uncertain impact on investment flows) while maintaining or reintroducing controls on capital outflows.

Our baseline scenario for 2017 calls for a decline in foreign reserves and a depreciation in the RMB against the USD relatively similar to those observed in 2016. Moreover, the authorities may continue to adjust gradually their exchange rate policy regime. The most recent reform has been aimed at reducing the reference to the RMB/USD bilateral exchange rate and increasing that to the effective exchange rate. The CFETS (China Foreign Exchange Trade System)'s average exchange rate was introduced in November 2015, with a benchmark basket of currencies initially comprised of 13 currencies. The basket was then broadened on January 1<sup>st</sup>, 2017 to include the 24 currencies of China's main trading partners.

After CFETS was introduced in late 2015, the RMB entered a period of depreciation in effective terms, which partially offset the strong appreciation of the previous four years (*chart 2*). With the

## Exchange rate policy



strengthening in the USD since mid-2016, PBOC has appeared to target two goals: firstly limit the depreciation of the RMB against the USD and, secondly, stabilize the CFETS. Meeting these targets can be hard and require a significant use of foreign exchange reserves; this was the case in Q4 2016 when capital outflows and depreciation pressures on the RMB intensified.

Moreover, PBOC also needs to counter RMB depreciation *expectations* (which can fuel more capital flight, which in turn can trigger self-sustaining bouts of stress). As a matter of fact, persisting doubts of local and international investors about the objectives of Beijing's exchange rate policy only add to the downward pressure on the RMB. Therefore, the authorities will need to shore up the credibility of their policy (notably via better communication) if they want to anchor investors' expectations on the RMB's effective exchange rate, and less on the bilateral USD/RMB exchange rate.



## Markets overview

## The essentials

Week 27-1 17 &gt; 2-2-17

➤ CAC 40	4 840	➤ 4 794	-0.9 %
➤ S&P 500	2 295	➤ 2 281	-0.6 %
➤ Volatility (VIX)	10.6	➤ 11.9	+1.4 %
➤ Euribor 3M (%)	-0.33	➤ -0.33	+0.0 bp
➤ Libor \$ 3M (%)	1.04	➤ 1.03	-0.4 bp
➤ OAT 10y (%)	1.04	➤ 1.04	-0.3 bp
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➤ US Tr. 10y (%)	2.48	➤ 2.47	-1.0 bp
➤ Euro vs dollar	1.07	➤ 1.08	+0.9 %
➤ Gold (ounce, \$)	1 189	➤ 1 217	+2.4 %
➤ Oil (Brent, \$)	55.5	➤ 57.0	+2.8 %

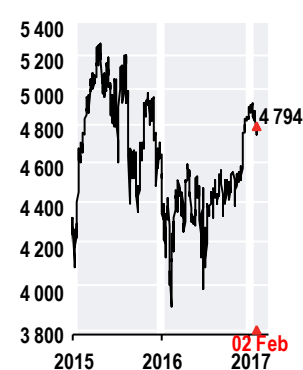
10 y bond yield, OAT vs Bund



Euro-dollar



CAC 40



## Money &amp; Bond Markets

Interest Rates		highest' 17		lowest' 17	
€ ECB	0.00	0.00 at 02/01	0.00 at 02/01		
Eonia	-0.35	-0.35 at 04/01	-0.36 at 02/01		
Euribor 3M	-0.33	-0.32 at 02/01	-0.33 at 17/01		
Euribor 12M	-0.10	-0.08 at 02/01	-0.10 at 01/02		
\$ FED	0.75	0.75 at 02/01	0.75 at 02/01		
Libor 3M	1.03	1.04 at 20/01	1.00 at 02/01		
Libor 12M	1.72	1.73 at 20/01	1.68 at 06/01		
£ BoE	0.25	0.25 at 02/01	0.25 at 02/01		
Libor 3M	0.36	0.37 at 05/01	0.36 at 19/01		
Libor 12M	0.77	0.78 at 09/01	0.77 at 16/01		

At 2-2-17

Yield (%)		highest' 17		lowest' 17	
€ AVG 5-7y	0.56	0.56 at 02/02	0.23 at 02/01		
Bund 2y	-0.75	-0.66 at 25/01	-0.79 at 02/01		
Bund 10y	0.43	0.49 at 26/01	0.09 at 02/01		
OAT 10y	1.04	1.09 at 01/02	0.67 at 02/01		
Corp. BBB	1.61	1.65 at 01/02	1.49 at 02/01		
\$ Treas. 2y	1.21	1.24 at 04/01	1.15 at 23/01		
Treas. 10y	2.47	2.52 at 25/01	2.33 at 17/01		
Corp. BBB	3.78	3.81 at 03/01	3.68 at 17/01		
£ Treas. 2y	0.12	0.22 at 06/01	0.06 at 02/01		
Treas. 10y	1.38	1.51 at 26/01	1.24 at 02/01		

At 2-2-17

10y bond yield &amp; spreads

7.52%	Greece	708 pb
4.39%	Portugal	396 pb
2.23%	Italy	180 pb
1.64%	Spain	121 pb
1.13%	Ireland	70 pb
1.04%	France	61 pb
0.96%	Belgium	53 pb
0.66%	Austria	23 pb
0.60%	Finland	17 pb
0.57%	Netherlands	14 pb
0.43%	Germany	

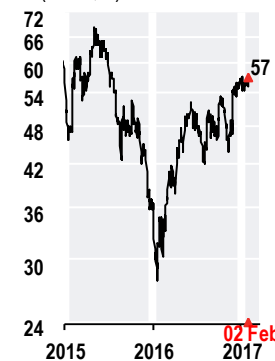
## Commodities

Spot price in dollars		lowest' 17		2017(€)	
Oil, Brent	57	54 at 19/01	-1.8%		
Gold (ounce)	1 217	1 156 at 03/01	+2.6%		
Metals, LMEX	2 849	2 639 at 03/01	+4.6%		
Copper (ton)	5 871	5 487 at 03/01	+3.7%		
CRB Foods	347	339 at 02/01	-0.1%		
wheat (ton)	160	146 at 02/01	+6.4%		
Corn (ton)	138	133 at 02/01	+1.4%		

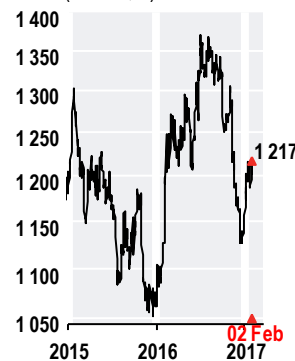
At 2-2-17

Variations

Oil (Brent, \$)



Gold (Ounce, \$)



CRB Foods



## Exchange Rates

1€ =		highest' 17		lowest' 17		2017	
USD	1.08	1.08 at 31/01	1.04 at 03/01	+2.5%			
GBP	0.86	0.88 at 16/01	0.85 at 26/01	+1.0%			
CHF	1.07	1.07 at 24/01	1.07 at 30/01	-0.3%			
JPY	121.49	123.21 at 06/01	120.85 at 17/01	-1.2%			
AUD	1.41	1.46 at 02/01	1.41 at 19/01	-3.4%			
CNY	7.43	7.43 at 31/01	7.22 at 03/01	+1.4%			
BRL	3.38	3.44 at 18/01	3.34 at 30/01	-1.6%			
RUB	64.48	64.95 at 31/01	62.88 at 06/01	+0.1%			
INR	72.85	73.32 at 31/01	70.95 at 03/01	+1.8%			

At 2-2-17

Variations

## Equity indices

Index		highest' 17		lowest' 17		2017		2017(€)
CAC 40	4 794	4 922 at 13/01	4 749 at 31/01	-1.4%				
S&P500	2 281	2 298 at 25/01	2 239 at 02/01	+1.9%				
DAX	11 628	11 849 at 26/01	11 521 at 12/01	+1.3%				
Nikkei	18 915	19 594 at 04/01	18 788 at 24/01	-1.0%				
China*	62	63 at 26/01	59 at 02/01	+6.4%				
India*	478	478 at 02/02	445 at 03/01	+6.3%				
Brazil*	1 857	1 886 at 27/01	1 654 at 02/01	+6.6%				
Russia*	602	622 at 03/01	589 at 23/01	-1.9%				

At 2-2-17

Variations

\* MSCI index



## Economic forecasts

En %	GDP Growth			Inflation			Curr. account / GDP			Fiscal balances / GDP		
	2016 e	2017 e	2018 e	2016 e	2017 e	2018 e	2016 e	2017 e	2018 e	2016 e	2017 e	2018 e
<b>Advanced</b>	<b>1.6</b>	<b>1.7</b>	<b>2.1</b>	<b>0.8</b>	<b>1.7</b>	<b>1.9</b>						
<b>United States</b>	<b>1.6</b>	<b>2.4</b>	<b>2.8</b>	<b>1.3</b>	<b>2.4</b>	<b>2.5</b>	<b>-2.5</b>	<b>-2.4</b>	<b>-2.4</b>	<b>-3.4</b>	<b>-4.2</b>	<b>-5.0</b>
Japan	1.0	1.1	0.8	-0.1	0.7	1.0	3.6	3.8	4.1	-4.6	-4.2	-4.1
United Kingdom	2.1	1.1	1.6	0.6	2.4	2.6	-5.5	-4.6	-3.5	-3.7	-4.0	-4.1
<b>Euro Area</b>	<b>1.7</b>	<b>1.5</b>	<b>1.5</b>	<b>0.2</b>	<b>1.6</b>	<b>1.2</b>	<b>3.2</b>	<b>2.9</b>	<b>2.9</b>	<b>-1.8</b>	<b>-1.6</b>	<b>-1.4</b>
Germany	1.8	1.8	1.9	0.4	1.6	1.5	8.9	8.1	8.4	0.6	0.6	0.5
France	1.1	1.3	1.5	0.3	1.0	0.9	-0.9	-0.6	-0.8	-3.4	-3.0	-2.7
Italy	0.9	0.6	0.7	-0.1	1.1	0.9	2.0	2.2	2.0	-2.5	-2.6	-2.6
Spain	3.3	2.4	2.0	-0.3	2.2	1.4	1.1	1.6	1.6	-4.6	-3.8	-3.2
Netherlands	2.2	2.0	1.6	0.1	1.0	1.4	8.5	8.3	8.0	-1.1	-0.5	-0.2
Belgium	1.4	1.2	1.4	1.8	1.6	1.6	0.8	0.6	0.6	-2.9	-1.6	-1.9
<b>Emerging</b>	<b>4.3</b>	<b>4.6</b>	<b>5.1</b>	<b>4.8</b>	<b>4.4</b>	<b>4.2</b>						
China	6.7	6.2	6.4	2.0	2.3	2.5	2.2	1.7	1.5	-3.0	-3.3	-3.5
India	7.5	8.1	8.3	5.0	5.7	4.9	-1.1	-0.5	-1.3	-3.9	-3.5	-3.5
Brazil	-3.5	1.0	3.0	8.2	4.5	4.4	-1.1	-1.4	-2.1	-9.6	-9.3	-7.4
Russia	-0.5	1.0	2.5	7.0	4.6	4.2	2.5	2.7	3.2	-3.7	-2.9	-1.8
<b>World</b>	<b>3.1</b>	<b>3.3</b>	<b>3.8</b>	<b>3.1</b>	<b>3.3</b>	<b>3.3</b>						

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

## Financial forecasts

Interest rates		2016				2017				2016	2017e	2018e
End period		Q1	Q2	Q3	Q4	Q1e	Q2e	Q3e	Q4e			
<b>US</b>	Fed Funds	0.25-0.5	0.25-0.5	0.25-0.5	0.75	0.50-0.75	0.50-0.75	0.75-1.00	1.00-1.25	0.25-0.75	1.00-1.25	2.00-2.25
	3-month Libor \$	0.63	0.65	0.85	1.00	0.90	0.90	0.95	1.10	1.00	1.10	2.45
	10-year T-notes	1.79	1.49	1.61	2.45	2.55	2.75	2.85	3.00	2.45	3.00	3.50
<b>EMU</b>	Refinancing rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	3-month Euribor	-0.24	-0.29	-0.30	-0.32	-0.30	-0.30	-0.30	-0.30	-0.32	-0.30	-0.15
	10-year Bund	0.16	-0.13	-0.19	0.11	0.40	0.50	0.60	0.70	0.11	0.70	1.20
	10-year OAT	0.41	0.20	0.12	0.69	0.90	0.90	1.00	1.10	0.69	1.10	1.70
	10-year BTP	1.23	1.35	1.19	1.84	1.90	2.10	2.30	2.50	1.84	2.50	3.00
<b>UK</b>	Base rate	0.50	0.50	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
	3-month Libor £	0.59	0.56	0.38	0.37	0.40	0.40	0.40	0.40	0.37	0.40	0.40
	10-year Gilt	1.42	1.02	0.76	1.24	1.70	1.65	1.75	1.90	1.24	1.90	2.15
<b>Japan</b>	Overnight call rate	-0.00	-0.06	-0.06	-0.06	-0.10	-0.10	-0.10	-0.10	-0.06	-0.10	-0.10
	3-month JPY Libor	0.10	0.06	0.06	0.06	-0.10	-0.10	-0.10	-0.10	0.06	-0.10	0.05
	10-year JGB	-0.04	-0.23	-0.08	0.05	-0.06	-0.05	-0.02	0.00	0.05	0.00	0.15

Exchange rates		2016				2017				2016	2017e	2018e
End period		Q1	Q2	Q3	Q4	Q1e	Q2e	Q3e	Q4e			
<b>USD</b>	EUR / USD	1.14	1.11	1.12	1.05	1.04	1.02	1.02	1.00	1.05	1.00	1.09
	USD / JPY	112	103	101	117	115	120	125	128	117	128	135
<b>EUR</b>	EUR / GBP	0.79	0.83	0.87	0.85	0.84	0.82	0.82	0.80	0.85	0.80	0.76
	EUR / CHF	1.09	1.08	1.09	1.07	1.08	1.10	1.12	1.12	1.07	1.12	1.15
	EUR/JPY	128	114	114	123	120	122	128	128	123	128	147

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



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