

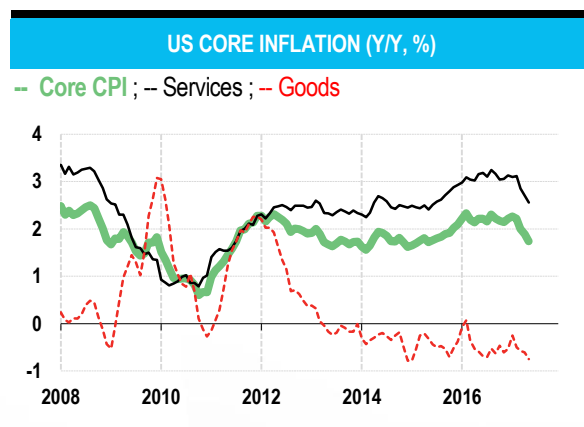
# ECOWEEK

N° 17-24// 16 June 2017

## And the question now is "When"?

■ The Fed increases the Fed Fund Target rate ■ It announces plans to downsize its securities holdings ■ Meanwhile, inflation keeps on slowing down...

This week, the FOMC increased the Fed Fund Target by 25 basis points, in the 1.00%-1.25% fluctuation range. But the main story about the June meeting was the detailed plan for the first step in the balance sheet normalization process. It was already known that, in order to reduce the Fed's holdings of Treasuries and Agencies (bought during the three waves of quantitative easing), the US central bank would stop seizing to reinvest maturing securities. We heard on Wednesday that the Fed would first decrease the amount of reinvestment. Each month, some securities do mature; the Fed used to reinvest all payments; soon, it will reinvest those payments only if they do exceed pre-set (and gradually rising) caps. At first, these caps will be set at USD 6 bn for Treasuries and USD 4 bn for Agencies, caps that will be raised each month until they reach USD 30 bn and USD 20 bn, respectively. The unanswered question is the date at which this will be launched. According to the statement this will be started once the "normalization of the level of the federal funds rate is well under way", a qualitative and vague date that Janet Yellen said she did not want to clarify. In short, the Fed is willing to retain as much flexibility as possible, as it may have to change plans were the economic outlook to deteriorate / improve unexpectedly. The uncertainty is mainly about inflation. As for now, the Fed decided to shrug off the recent deceleration in inflation: during her press brief, Janet Yellen said this was mainly due to "one-off reductions in certain categories of prices, such as wireless telephone services and prescription drugs". That diagnosis may change. Sure enough, there is a lot of truth in Janet Yellen's analysis. Still a deceleration in service prices, and even more a drop, is anything but the sign of a dynamic demand...



Source : US Bureau of Labor Statistics

Alexandra Estiot

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Chart of the week

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**Eco**  
**WEEK**

ECONOMIC RESEARCH DEPARTMENT



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## Chart of the week

### Qatar

#### The sanctions increase the vulnerability

At their current level, the consequences of the sanctions imposed on Qatar are bearable: alternative commercial channels are used and Qatar's two main strengths are preserved: LNG exports and the sovereign wealth fund (more than 200% of GDP).

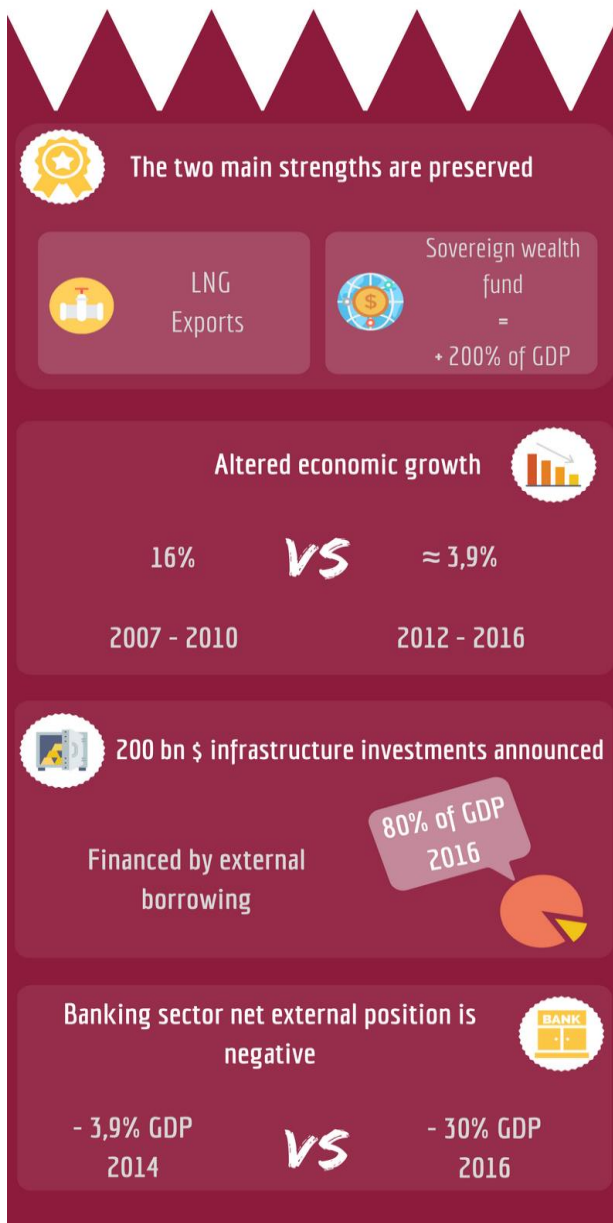
However, these tensions have arisen against a background of declining economic conditions. The stagnation of hydrocarbon output and falling oil prices have eaten into economic growth (3.9% per year since 2012, compared to 16% between 2007 and 2010).

In addition, to make the investment set out in the Vision 2030 programme and for the 2022 World Cup (some USD 200 billion announced), the emirate has made massive use of external borrowing estimated at 80% of GDP (excluding banks) in 2016. At the same time, the net external position of the banking sector is currently negative at nearly 30% of GDP, from 3.9% in 2014. Qatar's ability to retain access to external financing is therefore crucial. An extension of sanctions to the financial sector would have a significant effect on economic prospects. The use of the sovereign wealth fund might be possible, but is subject to certain constraints: some assets are relatively illiquid and a significant share of the fund consists of domestic assets.

Pascal Devaux

## QATAR

### The sanctions increase the vulnerability



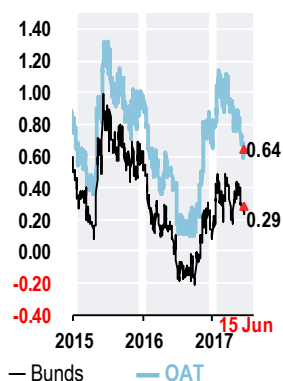
## Markets overview

## The essentials

Week 9-6 17 &gt; 15-6-17

➤ CAC 40	5 300	➤ 5 217	-1.6 %
➤ S&P 500	2 432	➤ 2 432	+0.0 %
➤ Volatility (VIX)	10.7	➤ 10.9	+0.2 %
➤ Euribor 3M (%)	-0.33	➤ -0.33	+0.2 bp
➤ Libor \$ 3M (%)	1.24	➤ 1.25	+1.4 bp
➤ OAT 10y (%)	0.65	➤ 0.64	-1.0 bp
➤ Bund 10y (%)	0.27	➤ 0.29	+1.9 bp
➤ US Tr. 10y (%)	2.20	➤ 2.16	-3.7 bp
➤ Euro vs dollar	1.12	➤ 1.12	-0.3 %
➤ Gold (ounce, \$)	1 266	➤ 1 255	-0.9 %
➤ Oil (Brent, \$)	48.4	➤ 47.0	-2.9 %

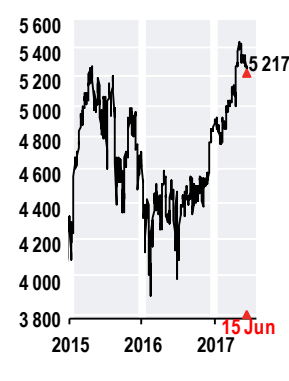
10 y bond yield, OAT vs Bund



Euro-dollar



CAC 40



## Money &amp; Bond Markets

Interest Rates	highest' 17	lowest' 17
€ ECB	0.00 at 02/01	0.00 at 02/01
Eonia	-0.36 at 02/06	-0.37 at 05/06
Euribor 3M	-0.33 at 02/01	-0.33 at 10/04
Euribor 12M	-0.15 at 02/01	-0.15 at 14/06
\$ FED	1.25 at 15/06	0.75 at 02/01
Libor 3M	1.25 at 14/06	1.00 at 02/01
Libor 12M	1.74 at 15/03	1.68 at 06/01
£ BoE	0.25 at 02/01	0.25 at 02/01
Libor 3M	0.29 at 05/01	0.29 at 12/06
Libor 12M	0.61 at 09/01	0.61 at 14/06

At 15-6-17

Yield (%)	highest' 17	lowest' 17
€ AVG 5-7y	0.21 at 17/03	0.18 at 12/06
Bund 2y	-0.68 at 25/01	-0.96 at 24/02
Bund 10y	0.29 at 10/03	0.09 at 02/01
OAT 10y	0.64 at 06/02	0.59 at 14/06
Corp. BBB	1.35 at 01/02	1.29 at 14/06
\$ Treas. 2y	1.36 at 14/03	1.14 at 24/02
Treas. 10y	2.16 at 13/03	2.14 at 14/06
Corp. BBB	3.48 at 14/03	3.46 at 14/06
£ Treas. 2y	0.13 at 06/01	0.01 at 28/02
Treas. 10y	0.96 at 26/01	0.87 at 14/06

At 15-6-17

10y bond yield &amp; spreads

5.88%	Greece	559 pb
2.86%	Portugal	257 pb
1.99%	Italy	170 pb
1.43%	Spain	114 pb
0.69%	Ireland	40 pb
0.64%	France	35 pb
0.63%	Belgium	34 pb
0.50%	Netherlands	21 pb
0.41%	Austria	12 pb
0.35%	Finland	6 pb
0.29%	Germany	

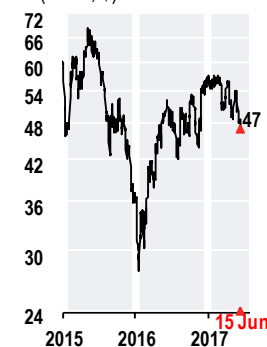
## Commodities

Spot price in dollars	lowest' 17	2017(€)
Oil, Brent	47 at 14/06	-21.6%
Gold (ounce)	1 156 at 03/01	+2.5%
Metals, LMEX	2 639 at 03/01	-3.4%
Copper (ton)	5 462 at 08/05	-3.5%
CRB Foods	325 at 24/04	+3.9%
wheat (ton)	146 at 24/04	+11.2%
Corn (ton)	130 at 23/03	-0.1%

At 15-6-17

Variations

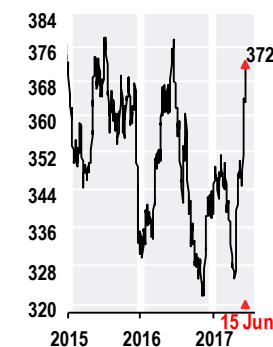
Oil (Brent, \$)



Gold (Ounce, \$)



CRB Foods



## Exchange Rates

1€ =	highest' 17	lowest' 17	2017
USD	1.13 at 14/06	1.04 at 03/01	+5.7%
GBP	0.88 at 12/06	0.84 at 19/04	+2.4%
CHF	1.10 at 10/05	1.06 at 08/02	+1.4%
JPY	123.30 at 25/05	115.57 at 17/04	+0.2%
AUD	1.52 at 01/06	1.37 at 23/02	+0.9%
CNY	7.75 at 22/05	7.22 at 03/01	+3.4%
BRL	3.72 at 13/06	3.24 at 15/02	+6.4%
RUB	64.95 at 31/01	59.66 at 17/04	+0.1%
INR	71.85 at 31/01	68.18 at 07/04	+0.4%

At 15-6-17

Variations

## Equity indices

Index	highest' 17	lowest' 17	2017	2017(€)
CAC 40	5 432 at 05/05	4 749 at 31/01	+7.3%	+7.3%
S&P500	2 440 at 13/06	2 239 at 02/01	+8.6%	+2.8%
DAX	12 823 at 02/06	11 510 at 06/02	+10.5%	+10.5%
Nikkei	20 177 at 02/06	18 336 at 14/04	+3.8%	+3.5%
China*	74 at 08/06	59 at 02/01	+22.3%	+15.2%
India*	546 at 05/06	445 at 03/01	+14.8%	+14.4%
Brazil*	2 001 at 22/02	1 654 at 02/01	+2.0%	-4.1%
Russia*	622 at 03/01	505 at 15/06	-19.9%	-20.8%

At 15-6-17

Variations

\* MSCI index



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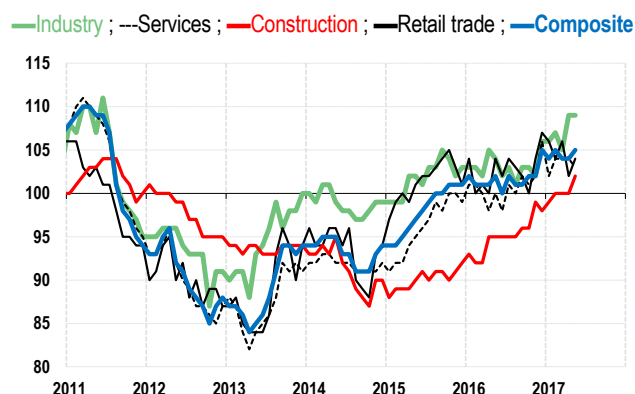
## Indicators

### Thursday 22 France, INSEE business confidence surveys (June)

May	June*	Over 3-m	Expected continuation of the improvement, supported by all sectors of activity
105	106	↗	

\* BNP Paribas forecasts

### France, Business confidence surveys



Source: INSEE

### Thursday 22 Eurozone, Consumer confidence, European Commission (June)

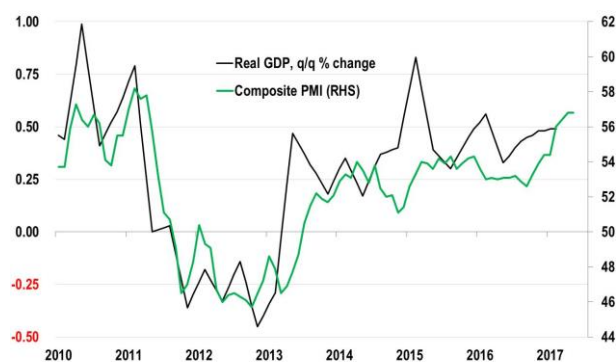
May	June*	Over 3-m	This indicator has seen a strong increase over the past 12 months, reaching the highest level in 10 years
-3.0	-3.3	↗	

### Friday 23 Eurozone, PMI Composite (June)

May	June*	Over 3-m	Confidence should somewhat temper but is likely to comfortably remain in expansionary territory
56.8	56.6	↗	

\*Consensus Bloomberg

### Eurozone: composite PMI and real GDP growth



Source: Eurostat, Markit

### Friday 23 France, PMI Composite (June)

May	June*	Over 3-m	After a strong increase, this indicator has stabilised in recent months, having reached a level which corresponds with robust growth
56.9	56.7	=	

\*Consensus Bloomberg

### Friday 23 Germany, PMI Composite (June)

May	June*	Over 3-m	The strong uptrend of this indicator has been driven by the manufacturing sector.
57.4	57.2	↗	

\*Consensus Bloomberg



## Economic scenario

### UNITED STATES

- GDP growth keeps on a decent 2% pace, however the fiscal outlook remains uncertain. A fiscal stimulus still is possible, but it would not be implemented before end-2017. Potential effects are thus uncertain.
- The labour market is buoyant than ever. Still, the support to households' disposable income is not as strong as it looks as wage inflation remains limited.
- With inflation relatively muted at this stage of the cycle, the Fed is in no rush to increase rates. Still, as the labour market slowly normalises, wages will eventually accelerate, and the Fed funds target will move towards its equilibrium rate.

Annual growth, %	2016	2017 e	2018 e
<b>GDP</b>	<b>1.6</b>	<b>2.2</b>	<b>2.6</b>
Private consumption	2.7	2.8	2.8
Gross Fixed Capital Formation	-0.5	5.0	5.5
Exports	0.4	3.0	2.6
Consumer Price Index (CPI)	1.3	2.0	2.5
CPI ex food and energy	2.2	2.1	2.7
Unemployment rate	4.9	4.6	4.2
Current account balance	-2.6	-2.8	-3.1
Fed. Govt. Budget Balance (% of GDP)	-3.1	-2.9	-3.5
Gross Fed. Govt. Debt (% GDP)	75.9	76.2	76.8

### CHINA

- After a period of stabilisation since Q2 2016, growth is expected to slow down moderately in the short term.
- Exports should continue to rebound and infrastructure projects will continue to drive investment. However the downside risks are high due to the reduction in industrial production capacity, risks of a downturn in the real estate market and greater financial instability, and slow growth of household revenues.
- The authorities are expected to maintain an expansionist fiscal policy, while the central bank continues to tighten monetary conditions very cautiously.

Annual growth, %	2016	2017 e	2018 e
<b>GDP</b>	<b>6.7</b>	<b>6.6</b>	<b>6.4</b>
Industrial output	6.0	6.5	6.0
Gross Fixed Capital Formation (nominal)	8.1	8.5	8.0
Exports (nominal)	-7.7	6.0	5.0
Consumer Price Index (CPI)	2.0	1.8	2.3
Producer Price Index (PPI)	6.0	6.5	6.0
Current account (% GDP)	1.8	1.4	1.1
Gen. Govt. Balance (% of GDP)	-3.8	-3.2	-3.0
Foreign reserves (\$bn)	3 011	3 024	3 072

### EUROZONE

- The recovery is getting stronger and broader: the dispersion of economic performances among member states is receding.
- Despite the cyclical recovery, core inflation still shows no sign of a convincing upward trend. For the recovery to enter its inflationary phase the economy has to improve further, until the point at which wages will tend to increase.
- The level of slack remains uncertain though. Broader measures of labor underutilization reach 18%, double the level of the current unemployment rate. The ECB is expected to remain cautious.

Annual growth, %	2016	2017 e	2018 e
<b>GDP</b>	<b>1.7</b>	<b>1.9</b>	<b>1.6</b>
Private consumption	1.9	1.5	1.4
Gross Fixed Capital Formation	3.5	1.9	2.6
Exports	2.9	4.5	3.9
Consumer Price Index (CPI)	0.2	1.6	1.4
CPI ex food and energy	0.9	1.1	1.4
Unemployment rate	10.0	9.3	8.8
Current account balance	3.3	3.6	3.5
Gen. Govt. Balance (% of GDP)	-1.5	-1.4	-1.3
Public Debt (% GDP)	91.3	90.3	89.0

### FRANCE

- A slow growth acceleration is underway. Slightly higher rates of growth should resume. Households' consumption is supported by the jobs recovery but restrained by the upturn in inflation. Investment and exports dynamics are favourable. Risks lie slightly on the upside.
- We expect the output gap to slowly narrow and the unemployment rate to progressively decline, containing the rise in inflation.
- Fiscal policy should continue to combine growth supportive measures and consolidation ones. The fiscal deficit should not be a lot more reduced but it should remain below the 3% threshold.

Annual growth, %	2016	2017 e	2018 e
<b>GDP</b>	<b>1.1</b>	<b>1.6</b>	<b>1.6</b>
Private consumption	1.8	1.4	1.6
Gross Fixed Capital Formation	2.7	2.4	3.1
Exports	1.2	2.9	3.7
Consumer Price Index (HCPI)	0.3	1.3	1.0
CPI ex food and energy	0.6	0.7	0.9
Unemployment rate	10.1	9.6	9.3
Current account balance	-0.9	-1.1	-0.9
Gen. Govt. Balance (% of GDP)	-3.4	-3.0	-2.8
Public Debt (% GDP)	96.3	96.3	96.2

Sources: BNP Paribas Group Economic Research, European Commission ; e: Estimates and forecasts



## Economic forecasts

%	GDP Growth			Inflation			Curr. Account / GDP			Gen. Govt. Balance / GDP		
	2016	2017 e	2018 e	2016	2017 e	2018 e	2016	2017 e	2018 e	2016	2017 e	2018 e
<b>Advanced</b>	<b>1.7</b>	<b>2.0</b>	<b>1.9</b>	<b>0.8</b>	<b>1.7</b>	<b>1.9</b>						
United-States	1.6	2.2	2.6	1.3	2.0	2.5	-2.6	-2.8	-3.1	-3.1	-2.9	-3.5
Japan	1.0	1.4	1.0	-0.1	0.6	0.7	3.8	4.0	4.4	-4.7	-4.4	-4.1
United-Kingdom	1.8	1.8	1.1	0.6	2.6	2.6	-4.4	-3.4	-2.5	-3.0	-2.9	-2.3
<b>Euro Area</b>	<b>1.7</b>	<b>1.9</b>	<b>1.6</b>	<b>0.2</b>	<b>1.6</b>	<b>1.4</b>	<b>3.3</b>	<b>3.6</b>	<b>3.5</b>	<b>-1.5</b>	<b>-1.4</b>	<b>-1.3</b>
Germany	1.8	2.0	1.9	0.4	1.8	1.7	8.3	8.1	8.2	0.8	0.5	0.3
France	1.1	1.6	1.6	0.3	1.3	1.0	-0.9	-1.1	-0.9	-3.4	-3.0	-2.8
Italy	1.0	1.2	0.6	-0.1	1.6	1.2	1.6	2.1	2.2	-2.4	-2.3	-2.3
Spain	3.2	2.8	2.2	-0.3	2.1	1.6	1.8	2.1	2.1	-4.5	-3.2	-2.6
<b>Emerging</b>	<b>4.1</b>	<b>4.5</b>	<b>5.0</b>	<b>4.4</b>	<b>3.1</b>	<b>3.5</b>						
China	6.7	6.6	6.4	2.0	1.8	2.3	1.8	1.4	1.1	-3.8	-3.2	-3.0
India	7.5	7.3	7.8	4.9	4.9	5.2	-1.1	-0.8	-1.6	-3.8	-3.5	-3.2
Brazil	-3.6	0.5	3.0	8.8	4.0	4.4	-1.3	-1.3	-2.5	-8.9	-8.8	-7.7
Russia	-0.6	1.2	2.0	7.1	4.2	4.3	1.7	2.4	2.0	-3.5	-3.1	-2.8
<b>World</b>	<b>3.1</b>	<b>3.5</b>	<b>3.7</b>	<b>2.8</b>	<b>2.5</b>	<b>2.8</b>						

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

## Financial forecasts

Interest rates, %		2017				2018				2016	2017e	2018e
End of period		Q1	Q2e	Q3e	Q4e	Q1e	Q2e	Q3e	Q4e			
<b>US</b>	Fed Funds	1.00	1.25	1.25	1.50	1.75	2.00	2.25	2.50	0.75	1.50	2.50
	Libor 3m \$	1.15	1.20	1.50	1.75	1.90	2.05	2.25	2.45	1.00	1.75	2.45
	T-Notes 10y	2.40	2.20	2.60	3.00	3.10	3.25	3.25	3.25	2.45	3.00	3.25
<b>Ezone</b>	Taux "refi" BCE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.00	0.00	0.25
	Euribor 3 mois	-0.33	-0.33	-0.36	-0.36	-0.36	-0.36	-0.16	0.05	-0.32	-0.36	0.05
	Bund 10y	0.33	0.29	0.60	0.80	1.00	1.20	1.40	1.50	0.11	0.80	1.50
	OAT 10y	0.97	0.74	1.05	1.25	1.45	1.65	1.80	1.90	0.69	1.25	1.90
<b>UK</b>	Base rate	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.25	0.25	0.50
	Gilts 10y	1.07	1.00	1.10	1.25	1.40	1.55	1.80	2.00	1.24	1.25	2.00
<b>Japan</b>	BoJ Rate	-0.06	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.06	-0.10	-0.10
	JGB 10y	0.07	0.06	0.07	0.08	0.08	0.08	0.08	0.08	0.05	0.08	0.08

Exchange Rates		2017				2018				2016	2017e	2018e
End of period		Q1	Q2e	Q3e	Q4e	Q1e	Q2e	Q3e	Q4e			
<b>USD</b>	EUR / USD	1.07	1.10	1.07	1.04	1.05	1.06	1.08	1.10	1.05	1.04	1.10
	USD / JPY	111	115	117	120	118	116	114	112	117	120	112
	GBP / USD	1.25	1.31	1.30	1.30	1.30	1.29	1.29	1.29	1.24	1.30	1.29
	USD / CHF	1.00	1.00	1.05	1.08	1.07	1.06	1.04	1.05	1.02	1.08	1.05
<b>EUR</b>	EUR / GBP	0.86	0.84	0.82	0.80	0.81	0.82	0.84	0.85	0.85	0.80	0.85
	EUR / CHF	1.07	1.10	1.12	1.12	1.12	1.12	1.12	1.15	1.07	1.12	1.15
	EUR / JPY	119	127	125	125	124	123	123	123	123	125	123

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





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