

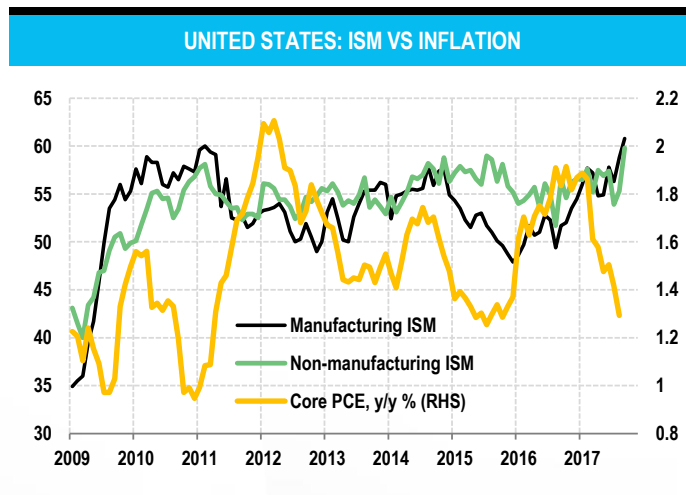
ECOWEEK

N° 17-36 // 06 October 2017

US: the better growth/lower inflation puzzle

■ Survey data released this week point to stronger US growth in September ■ This doesn't stop core inflation from declining ■ Bond and currency markets expect the FOMC to focus on the growth indicators

How good can it get? Better than you think. That's the impression one gets from key survey data released at the start of this month and which show the economic pulse for September. Although the global manufacturing PMI was stable at 53.2, the PMI for the eurozone rose to 58.1 (from 57.4). This brings us close to the 17 year high of 60.5 reached in April 2000. In the US, the ISM index for the manufacturing sector increased to 60.8 (from 58.8) with a big increase of the new orders series. The non-manufacturing ISM reached 59.8 (from 55.3 in August). As expected, this caused a jump in the real-time growth estimate ('nowcast') produced by the Federal Reserve of Atlanta. Annualised quarterly real GDP growth for Q3 is now estimated at 2.8%. Yet the year over year change in the core personal consumption expenditures price index has been on a declining trend since the start of the year. Although the monthly change has been stable for four months in a row, it has been so at a very low level (0.1%). It implies that the puzzling mix of sustained good growth and subdued inflation continues, raising the question about what it entails for monetary policy. Ongoing low inflation numbers going forward would intensify the debate with some arguing that inflation is bound to accelerate quite soon (at some point the slope of the Phillips should steepen) and others defending the view that real factors like globalisation, technological change and price sensitivity of demand imply we're in a new era. Financial markets take the view that there are enough reasons available to justify a Fed rate hike and the probability of a December move has increased to 77%. The rise in treasury yields and the stronger dollar did not stop Wall Street from beating record after record, underpinned by the growth environment, low rates, a cautious central bank. Hopes about cuts in corporate taxes are an additional factor and they also support the corporate bond market: if companies were to repatriate earnings previously kept abroad this could lower bond issuance. Whereas Wall Street didn't bother about the dollar, Frankfurt will have welcomed the strengthening. With only three weeks to go to the crucial ECB meeting which should decide on QE in 2018, the numerous references to the euro in the September meeting account released this week show the importance of this factor in the thinking of the governing council members.



Sources : ISM, BEA, BNP Paribas

William De Vijlder

p. 2

Markets Overview

p. 3

Pulse

p. 4

Economic scenario

ECONOMIC RESEARCH DEPARTMENT

Eco
WEEK



BNP PARIBAS

The bank
for a changing
world

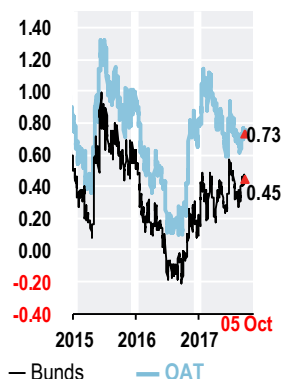
Markets overview

The essentials

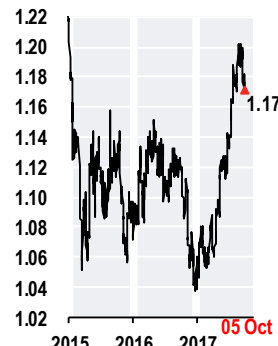
Week 29-9 17 > 5-10-17

➤ CAC 40	5 330	➤ 5 379	+0.9 %
➤ S&P 500	2 519	➤ 2 552	+1.3 %
➤ Volatility (VIX)	9.5	➤ 9.2	-0.3 %
➤ Euribor 3M (%)	-0.33	➤ -0.33	+0.0 bp
➤ Libor \$ 3M (%)	1.33	➤ 1.35	+1.3 bp
➤ OAT 10y (%)	0.75	➤ 0.73	-1.5 bp
➤ Bund 10y (%)	0.46	➤ 0.45	-1.7 bp
➤ US Tr. 10y (%)	2.33	➤ 2.35	+2.3 bp
➤ Euro vs dollar	1.18	➤ 1.17	-0.9 %
➤ Gold (ounce, \$)	1 284	➤ 1 273	-0.8 %
➤ Oil (Brent, \$)	57.6	➤ 57.1	-0.7 %

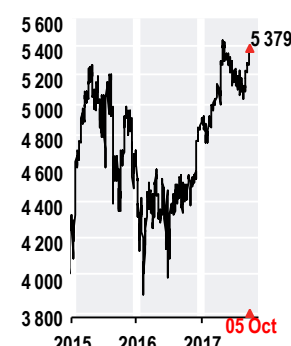
10 y bond yield, OAT vs Bund



Euro-dollar



CAC 40



Money & 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	-0.17 at 02/01	-0.17 at 28/09
\$ FED	1.25 at 15/06	0.75 at 02/01
Libor 3M	1.35 at 04/10	1.00 at 02/01
Libor 12M	1.80 at 15/03	1.68 at 06/01
£ BoE	0.25 at 02/01	0.25 at 02/01
Libor 3M	0.34 at 05/01	0.28 at 01/09
Libor 12M	0.73 at 09/01	0.59 at 06/09

At 5-10-17

Yield (%)	highest' 17	lowest' 17
€ AVG 5-7y	0.46 at 17/03	0.18 at 21/06
Bund 2y	-0.73 at 27/06	-0.96 at 24/02
Bund 10y	0.45 at 06/07	0.09 at 02/01
OAT 10y	0.73 at 06/02	0.59 at 14/06
Corp. BBB	1.31 at 01/02	1.24 at 07/09
\$ Treas. 2y	1.50 at 05/10	1.14 at 24/02
Treas. 10y	2.35 at 13/03	2.05 at 08/09
Corp. BBB	3.49 at 14/03	3.38 at 05/09
£ Treas. 2y	0.39 at 27/09	0.01 at 28/02
Treas. 10y	1.42 at 26/01	0.87 at 14/06

At 5-10-17

10y bond yield & spreads

5.43%	Greece	498 pb
2.40%	Portugal	195 pb
2.14%	Italy	169 pb
1.69%	Spain	124 pb
0.73%	France	28 pb
0.73%	Belgium	28 pb
0.71%	Ireland	26 pb
0.64%	Austria	19 pb
0.63%	Finland	18 pb
0.58%	Netherlands	13 pb
0.45%	Germany	

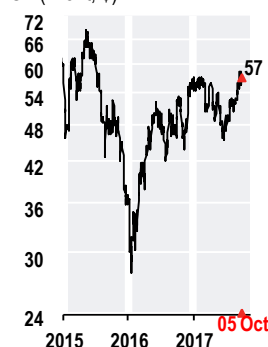
Commodities

Spot price in dollars	lowest' 17	2017(€)
Oil, Brent	57 at 26/06	-9.3%
Gold (ounce)	1 156 at 03/01	-0.9%
Metals, LMEX	2 639 at 03/01	+7.6%
Copper (ton)	5 462 at 08/05	+8.5%
CRB Foods	325 at 24/04	-11.0%
wheat (ton)	143 at 02/10	-8.2%
Corn (ton)	120 at 18/09	-16.1%

At 5-10-17

Variations

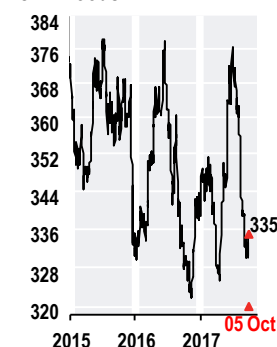
Oil (Brent, \$)



Gold (Ounce, \$)



CRB Foods



Exchange Rates

1€ =	highest' 17	lowest' 17	2017
USD	1.20 at 29/08	1.04 at 03/01	+11.1%
GBP	0.93 at 29/08	0.84 at 19/04	+4.4%
CHF	1.16 at 21/09	1.06 at 08/02	+6.9%
JPY	134.04 at 21/09	115.57 at 17/04	+7.3%
AUD	1.52 at 01/06	1.37 at 23/02	+3.1%
CNY	7.99 at 03/08	7.22 at 03/01	+6.2%
BRL	3.81 at 29/08	3.24 at 15/02	+6.7%
RUB	71.97 at 02/08	59.66 at 17/04	+4.5%
INR	77.55 at 22/09	68.18 at 07/04	+6.5%

At 5-10-17

Variations

Equity indices

Index	highest' 17	lowest' 17	2017	2017(€)
CAC 40	5 432 at 05/05	4 749 at 31/01	+10.6%	+10.6%
S&P500	2 552 at 05/10	2 239 at 02/01	+14.0%	+2.6%
DAX	12 971 at 04/10	11 510 at 06/02	+13.0%	+13.0%
Nikkei	20 629 at 05/10	18 336 at 14/04	+7.9%	+0.6%
China*	85 at 05/10	59 at 02/01	+46.3%	+31.0%
India*	557 at 18/09	445 at 03/01	+19.6%	+12.3%
Brazil*	2 168 at 05/10	1 639 at 21/06	+24.6%	+16.8%
Russia*	622 at 03/01	497 at 22/06	-6.8%	-11.9%

At 5-10-17

Variations

* MSCI index



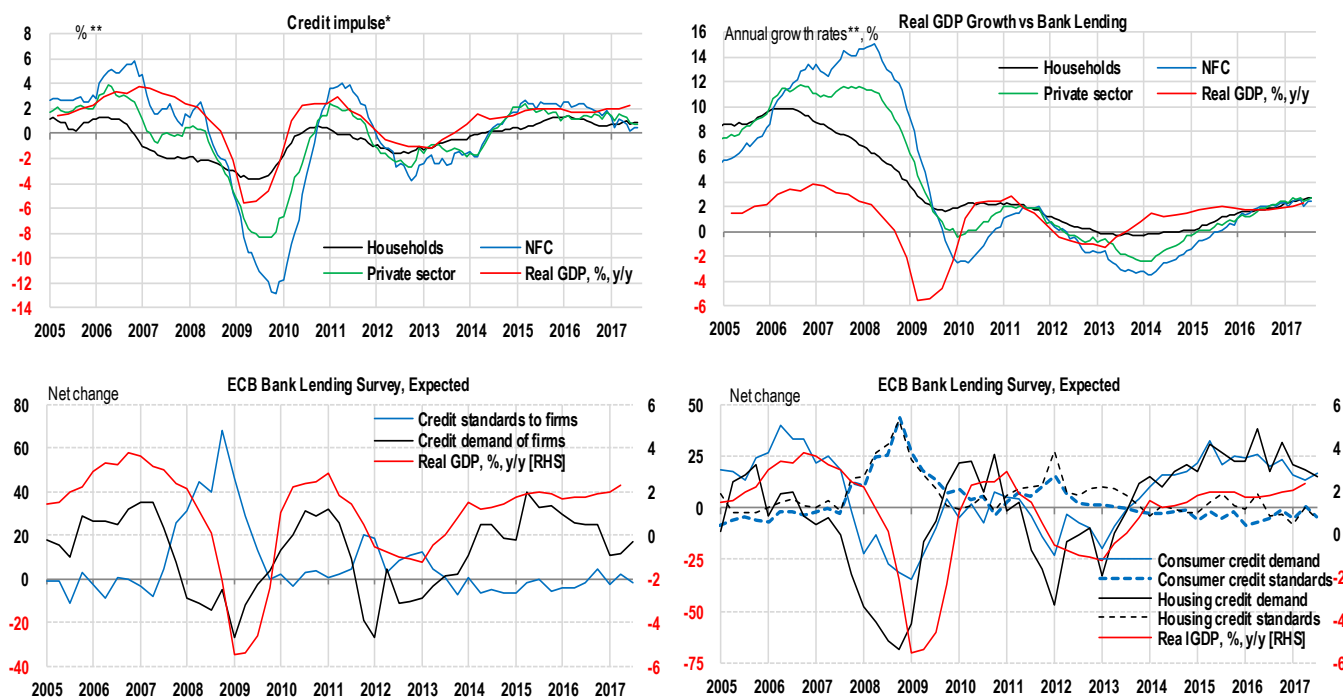
BNP PARIBAS

The bank
for a changing
world

Pulse

Eurozone: Credit environment

Bank lending environment remains favorable. The impulse stabilizes for households while demand for house purchase loans moderates somewhat and that for consumer loans slightly increases. The impulse improves marginally for non-financial corporations, which is consistent with a growing demand in a context where standards remain neutral (neither restrictive nor accommodative).



Source: ECB, ECB BLS, BNP Paribas calculations

*Credit impulse is measured as the annual change of the annual growth rate of MFI loans ** Adjusted for securitizations

Indicators preview

An important week for the US with the September FOMC minutes and the inflation numbers. They may influence market expectations about a December rate hike. Consumer confidence and retail sales will allow to assess how the US consumer is doing.

Date	Country	Event	Period	Survey	Prior
10/09/2017	Germany	Industrial Production SA MoM	Aug	--	0.0%
10/09/2017	France	Bank of France Ind. Sentiment	Sep	--	104
10/10/2017	Japan	Eco Watchers Survey Current SA	Sep	--	49.7
10/10/2017	France	Industrial Production MoM	Aug	--	0.5%
10/10/2017	United Kingdom	Industrial Production MoM	Aug	--	0.2%
10/10/2017	United Kingdom	NIESR GDP Estimate	Sep	--	0.4%
10/11/2017	United States	FOMC Meeting Minutes	Sep	--	--
10/12/2017	France	CPI EU Harmonized MoM	Sep	--	-0.1%
10/12/2017	Eurozone	Industrial Production SA MoM	Aug	--	0.1%
10/12/2017	United States	PPI Ex Food and Energy MoM	Sep	0.1%	0.1%
10/13/2017	United States	CPI Ex Food and Energy MoM	Sep	0.2%	0.2%
10/13/2017	United States	Retail Sales Advance MoM	Sep	1.2%	-0.2%
10/13/2017	United States	U. of Mich. Sentiment	Oct	95.0	95.1



Economic scenario

UNITED STATES

- GDP growth keeps on a decent 2% pace and picked-up a bit in Q2. 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 as buoyant as 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. We forecast the Fed Funds target rates to come at 1.25% by year-end, 2.00% by mid-2018.

CHINA

- After a period of stabilisation and slight recovery since Q2 2016, economic growth is expected to slow down moderately in the coming quarters.
- Exports should continue to rebound and infrastructure projects will continue to drive investment. However, downside risks are high due to the reduction in excess production capacity in the industry and given risks of a downturn in the property market and financial instability.
- The authorities will maintain an expansionist fiscal policy while the central bank should continue to tighten monetary conditions cautiously, especially to foster a deleveraging of financial institutions.

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.

FRANCE

- A clear growth acceleration is underway. 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.

SUMMARY

%	GDP Growth			Inflation		
	2016	2017 e	2018 e	2016	2017 e	2018 e
Advanced	1.6	2.0	2.1	0.8	1.7	1.6
United-States	1.5	2.1	2.7	1.7	2.1	1.8
Japan	1.0	1.4	1.1	-0.1	0.4	0.6
United-Kingdom	1.8	1.6	1.0	0.6	2.7	2.7
Euro Area	1.8	2.2	1.9	0.2	1.5	1.4
Germany	1.9	2.2	2.0	0.4	1.7	1.6
France	1.1	1.7	1.7	0.3	1.1	0.9
Italy	1.0	1.4	1.0	-0.1	1.4	1.1
Emerging						
China	6.7	6.6	6.4	2.0	1.6	2.3
India	7.5	7.3	7.8	4.9	4.9	5.2
Brazil	-3.6	1.0	3.0	8.8	3.5	3.8
Russia	-0.6	1.2	2.0	7.1	4.2	4.3

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

INTEREST RATES & FX RATES

Interest rates, %		2017	2018					
End of period		Q4e	Q1e	Q2e	Q3e	Q4e	2017e	2018e
US	Fed Funds	1.25	1.50	1.75	2.00	2.00	1.25	2.00
	Libor 3m \$	1.50	1.55	1.70	1.80	1.85	1.50	1.85
	T-Notes 10y	2.25	2.35	2.50	2.65	2.75	2.25	2.75
Ezone	ECB Refi Rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Euribor 3m	-0.32	-0.32	-0.32	-0.32	-0.05	-0.32	-0.05
	Bund 10y	0.70	0.80	1.00	1.10	1.25	0.70	1.25
	OAT 10y	1.15	1.25	1.45	1.60	1.65	1.15	1.65
UK	Base rate	0.25	0.25	0.25	0.25	0.50	0.25	0.50
	Gilts 10y	1.20	1.35	1.50	1.75	1.95	1.20	1.95
Japan	BoJ Rate	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
	JGB 10y	0.04	0.08	0.08	0.08	0.05	0.04	0.05

Exchange Rates		2017	2018					
End of period		Q4e	Q1e	Q2e	Q3e	Q4e	2017e	2018e
USD	EUR / USD	1.17	1.15	1.16	1.19	1.23	1.17	1.23
	USD / JPY	112	115	115	111	109	112	109
	GBP / USD	1.29	1.25	1.29	1.34	1.40	1.29	1.40
	USD / CHF	0.98	1.01	1.01	0.99	0.97	0.98	0.97
EUR	EUR / GBP	0.91	0.92	0.90	0.89	0.88	0.91	0.88
	EUR / CHF	1.15	1.16	1.17	1.18	1.19	1.15	1.19
	EUR / JPY	131	132	133	132	134	131	134

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



GROUP ECONOMIC RESEARCH

■ **William DE VIJDER**
Chief Economist

+33.(0)1 55 77 47 31

william.devijlder@bnpparibas.com

ADVANCED ECONOMIES AND STATISTICS

■ **Jean-Luc PROUTAT**
Head

+33.(0)1.58.16.73.32

jean-luc.proutat@bnpparibas.com

■ **Alexandra ESTIOT**

Works coordination - United States - United Kingdom - Globalisation

+33.(0)1.58.16.81.69

alexandra.estiot@bnpparibas.com

■ **Hélène BAUDCHON**

France (short-term outlook and forecasts) - Labour markets

+33.(0)1.58.16.03.63

helene.baudchon@bnpparibas.com

■ **Frédérique CERISIER**

Euro Area (European governance and public finances), Spain, Portugal

+33.(0)1.43.16.95.52

frederique.cerisier@bnpparibas.com

■ **Thibault MERCIER**

Euro Area (short-term outlook and monetary policy), France (structural reforms)

+33.(0)1.57.43.02.91

thibault.mercier@bnpparibas.com

■ **Catherine STEPHAN**

Nordic countries - World trade - Education, health, social conditions

+33.(0)1.55.77.71.89

catherine.stephan@bnpparibas.com

■ **Raymond VAN DER PUTTEN**

Germany, Netherlands, Austria, Switzerland - Energy, climate - Long-term projections

+33.(0)1.42.98.53.99

raymond.vanderputten@bnpparibas.com

■ **Tarik RHARRAB**

Statistics and Modelling

+33.(0)1.43.16.95.56

tarik.rharrab@bnpparibas.com

BANKING ECONOMICS

■ **Laurent QUIGNON**
Head

+33.(0)1.42.98.56.54

laurent.quignon@bnpparibas.com

■ **Céline CHOULET**

+33.(0)1.43.16.95.54

celine.choulet@bnpparibas.com

■ **Thomas HUMBLLOT**

+33.(0)1.40.14.30.77

thomas.humblot@bnpparibas.com

EMERGING ECONOMIES AND COUNTRY RISK

■ **François FAURE**
Head - Argentina

+33.(0)1 42 98 79 82

francois.faure@bnpparibas.com

■ **Christine PELTIER**

Deputy Head - Greater China, Vietnam, other North Asian countries, South Africa

+33.(0)1.42.98.56.27

christine.peltier@bnpparibas.com

■ **Stéphane ALBY**

Africa (French-speaking countries)

+33.(0)1.42.98.02.04

stephane.alby@bnpparibas.com

■ **Sylvain BELLEFONTAINE**

Turkey, Latin America

+33.(0)1.42.98.26.77

sylvain.bellefontaine@bnpparibas.com

■ **Sara CONFALONIERI**

Africa (Portuguese & English-speaking countries)

+33.(0)1.42.98.43.86

sara.confaloneri@bnpparibas.com

■ **Pascal DEVAUX**

Middle East, Balkan countries

+33.(0)1.43.16.95.51

pascal.devaux@bnpparibas.com

■ **Anna DORBEC**

CIS, Central European countries

+33.(0)1.42.98.48.45

anna.dorbec@bnpparibas.com

■ **Hélène DROUOT**

Korea, Thailand, Philippines, Andean countries

+33.(0)1.42.98.33.00

helene.drouot@bnpparibas.com

■ **Johanna MELKA**

India, South Asia, Russia

+33.(0)1.58.16.05.84

johanna.melka@bnpparibas.com

■ **Michel BERNARDINI**
Contact Média

+33.(0)1.42.98.05.71

michel.bernardini@bnpparibas.com



BNP PARIBAS

**The bank
for a changing
world**

OUR PUBLICATIONS



CONJUNCTURE

Structural or in news flow, two issues analysed in depth



EMERGING

Analyses and forecasts for a selection of emerging economies



PERSPECTIVES

Analyses and forecasts for the main countries, emerging or developed



ECOFASH

Data releases, major economic events. Our detailed views...



ECOWEEK

Weekly economic news and much more...



ECOTV

In this monthly web TV, our economists make sense of economic news



ECOTV WEEK

What is the main event this week? The answer is in your two minutes of economy

The information and opinions contained in this report have been obtained from, or are based on, public sources believed to be reliable, but no representation or warranty, express or implied, is made that such information is accurate, complete or up to date and it should not be relied upon as such. This report does not constitute an offer or solicitation to buy or sell any securities or other investment. It does not constitute investment advice, nor financial research or analysis. Information and opinions contained in the report are not to be relied upon as authoritative or taken in substitution for the exercise of judgement by any recipient; they are subject to change without notice and not intended to provide the sole basis of any evaluation of the instruments discussed herein. Any reference to past performance should not be taken as an indication of future performance. To the fullest extent permitted by law, no BNP Paribas group company accepts any liability whatsoever (including in negligence) for any direct or consequential loss arising from any use of or reliance on material contained in this report. All estimates and opinions included in this report are made as of the date of this report. Unless otherwise indicated in this report there is no intention to update this report. BNP Paribas SA and its affiliates (collectively "BNP Paribas") may make a market in, or may, as principal or agent, buy or sell securities of any issuer or person mentioned in this report or derivatives thereon. BNP Paribas may have a financial interest in any issuer or person mentioned in this report, including a long or short position in their securities and/or options, futures or other derivative instruments based thereon. Prices, yields and other similar information included in this report are included for information purposes. Numerous factors will affect market pricing and there is no certainty that transactions could be executed at these prices. BNP Paribas, including its officers and employees may serve or have served as an officer, director or in an advisory capacity for any person mentioned in this report. BNP Paribas may, from time to time, solicit, perform or have performed investment banking, underwriting or other services (including acting as adviser, manager, underwriter or lender) within the last 12 months for any person referred to in this report. BNP Paribas may be a party to an agreement with any person relating to the production of this report. BNP Paribas may, to the extent permitted by law, have added upon or used the information contained herein, or the research or analysis on which it was based, before its publication. BNP Paribas may receive or intend to seek compensation for investment banking services in the next three months from or in relation to any person mentioned in this report. Any person mentioned in this report may have been provided with sections of this report prior to its publication in order to verify its factual accuracy.

BNP Paribas is incorporated in France with limited liability. Registered Office 16 Boulevard des Italiens, 75009 Paris. This report was produced by a BNP Paribas group company. This report is for the use of intended recipients and may not be reproduced (in whole or in part) or delivered or transmitted to any other person without the prior written consent of BNP Paribas. By accepting this document you agree to be bound by the foregoing limitations.

Certain countries within the European Economic Area:

This report has been approved for publication in the United Kingdom by BNP Paribas London Branch. BNP Paribas London Branch is authorised and supervised by the Autorité de Contrôle Prudentiel and authorised and subject to limited regulation by the Financial Services Authority. Details of the extent of our authorisation and regulation by the Financial Services Authority are available from us on request.

This report has been approved for publication in France by BNP Paribas SA. BNP Paribas SA is incorporated in France with Limited Liability and is authorised by the Autorité de Contrôle Prudentiel (ACP) and regulated by the Autorité des Marchés Financiers (AMF). Its head office is 16, boulevard des Italiens 75009 Paris, France.

This report is being distributed in Germany either by BNP Paribas London Branch or by BNP Paribas Niederlassung Frankfurt am Main, a branch of BNP Paribas S.A. whose head office is in Paris, France. BNP Paribas S.A. – Niederlassung Frankfurt am Main, Europa Allee 12, 60327 Frankfurt is authorised and supervised by the Autorité de Contrôle Prudentiel and it is authorised and subject to limited regulation by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin).

United States: This report is being distributed to US persons by BNP Paribas Securities Corp., or by a subsidiary or affiliate of BNP Paribas that is not registered as a US broker-dealer. BNP Paribas Securities Corp., a subsidiary of BNP Paribas, is a broker-dealer registered with the U.S. Securities and Exchange Commission and a member of the Financial Industry Regulatory Authority and other principal exchanges. BNP Paribas Securities Corp. accepts responsibility for the content of a report prepared by another non-U.S. affiliate only when distributed to U.S. persons by BNP Paribas Securities Corp.

Japan: This report is being distributed in Japan by BNP Paribas Securities (Japan) Limited or by a subsidiary or affiliate of BNP Paribas that is not registered as a financial instruments firm in Japan, to certain financial institutions defined by article 17-3, item 1 of the Financial Instruments and Exchange Law Enforcement Order. BNP Paribas Securities (Japan) Limited is a financial instruments firm registered according to the Financial Instruments and Exchange Law of Japan and a member of the Japan Securities Dealers Association and the Financial Futures Association of Japan. BNP Paribas Securities (Japan) Limited accepts responsibility for the content of a report prepared by another non-Japan affiliate only when distributed to Japanese based firms by BNP Paribas Securities (Japan) Limited. Some of the foreign securities stated on this report are not disclosed according to the Financial Instruments and Exchange Law of Japan.

Hong Kong: This report is being distributed in Hong Kong by BNP Paribas Hong Kong Branch, a branch of BNP Paribas whose head office is in Paris, France. BNP Paribas Hong Kong Branch is registered as a Licensed Bank under the Banking Ordinance and regulated by the Hong Kong Monetary Authority. BNP Paribas Hong Kong Branch is also a Registered Institution regulated by the Securities and Futures Commission for the conduct of Regulated Activity Types 1, 4 and 6 under the Securities and Futures Ordinance.

Some or all the information reported in this document may already have been published on <https://globalmarkets.bnpparibas.com>

© BNP Paribas (2015). All rights reserved.

YOU WANT TO RECEIVE OUR PUBLICATIONS?

SUBSCRIBE ON OUR WEBSITE
<http://economic-research.bnpparibas.com>

OR

READ AND WATCH OUR ANALYSES ON ECO NEWS, OUR IPAD AND ANDROID APPLICATION

© BNP Paribas (2015). All rights reserved.
 Prepared by Economic Research – BNP PARIBAS
 Registered Office: 16 boulevard des Italiens – 75009 PARIS
 Tel: +33 (0) 1.42.98.12.34 – Internet :
www.group.bnpparibas.com
 Publisher: Jean Lemierre. Editor: William De Vijlder



BNP PARIBAS

The bank
for a changing
world