

# ECOWEEK

N° 17-39// 27 October 2017

## ECB: dovishly confident

- The decisions of the Governing Council were in line with expectations but markets nevertheless reacted positively
- In the spring of 2018, ECB watchers will increasingly focus on what comes after QE ■ On that matter, important questions were left unanswered during the press conference

Everybody's happy. That was the feeling at the end of Mario Draghi's press conference yesterday. The ECB president must have felt relieved about the positive market reaction which saw a slight decline in bond yields and the euro and a limited rise in the Euro Stoxx 50 index.

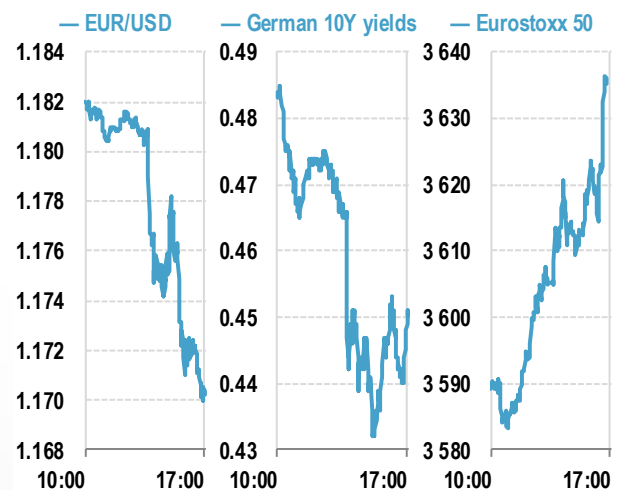
Thanks to skilful communication in the run-up to the meeting, what could have been interpreted as a hawkish reduction in the pace of buying, ended up being considered dovish. Managing expectations is key in the world of central banking. Investors were happy as the tone in Frankfurt was confident and dovish. Confidence about how good the real economy is doing triggered the comment of Mario Draghi that there was a good atmosphere in the meeting room of the Governing Council. Dovish, because of the emphasis that inflation remains too low, a justification for an open-ended 9 month extension with EUR 30bn of net purchases per month. This means a lot of extra liquidity and, importantly, a priori several quiet months.

Are we running the risk of press conferences becoming boring? A cautious, dovishly confident central bank in a robustly growing economy is probably as good at it can get for return hungry investors. However, by spring next year, nervousness will be on the rise again: what will happen at the end of September considering that yesterday's decision of keeping the extension open-ended was not unanimous? As of when will the ECB start giving hints about its intentions? For the time being markets don't seem to care: why spoil a party by fretting that at some point the bar will be closed when this is still a distant prospect? The feeling of 'eventually change will come' was palpable during the press conference. There was the insistence on the reinvestment of maturing principal, an implicit acknowledgement that when net purchases will have stopped the monetary toolkit will consist of forward guidance, policy rates, and managing the balance sheet. On this last point, the emphasis on the reinvestment sends a signal that balance sheet reduction is years away. Changing the policy rate is another story: where does "well past the end date of the net purchases" bring us if, unexpectedly, this end date would be 30 September 2018 after all? Questions about the meaning of "well past" did not lead to a better understanding. As is often the case in life, the toughest questions are often those that remain unanswered.

William De Vijlder

### MARKET EVOLUTION

Intraday at 26 October 2017



Sources: Bloomberg, BNP Paribas

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ECONOMIC RESEARCH DEPARTMENT



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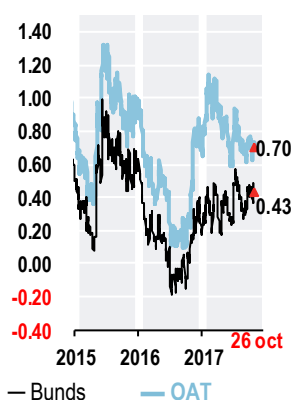
## Markets overview

### The essentials

Week 20-10-17 > 26-10-17

▲ CAC 40	5 372	► 5 455	+1.5 %
▼ S&P 500	2 575	► 2 560	-0.6 %
▲ Volatility (VIX)	10.0	► 11.3	+1.3 %
▼ Euribor 3M (%)	-0.33	► -0.33	-0.2 bp
▲ Libor \$ 3M (%)	1.36	► 1.38	+1.3 bp
▼ OAT 10y (%)	0.71	► 0.70	-0.4 bp
▼ Bund 10y (%)	0.45	► 0.43	-2.2 bp
▲ US Tr. 10y (%)	2.38	► 2.45	+7.3 bp
▼ Euro vs dollar	1.18	► 1.17	-0.7 %
▼ Gold (ounce, \$)	1 282	► 1 273	-0.8 %
▲ Oil (Brent, \$)	57.7	► 58.7	+1.7 %

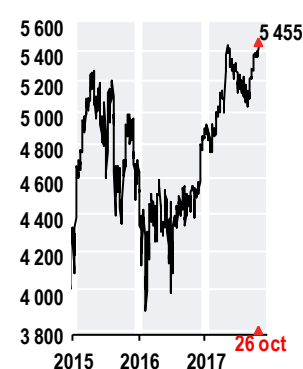
10 y bond yield, OAT vs Bund



Euro-dollar



CAC 40



### Money & Bond Markets

Interest Rates		highest' 17		lowest' 17	
€ ECB	0.00	0.00 at 02/01	0.00	at 02/01	
Eonia	-0.36	-0.33 at 02/06	-0.37	at 05/06	
Euribor 3M	-0.33	-0.32 at 02/01	-0.33	at 10/04	
Euribor 12M	-0.18	-0.08 at 02/01	-0.18	at 17/10	
\$ FED	1.25	1.25 at 15/06	0.75	at 02/01	
Libor 3M	1.38	1.38 at 26/10	1.00	at 02/01	
Libor 12M	1.84	1.84 at 25/10	1.68	at 06/01	
£ BoE	0.25	0.25 at 02/01	0.25	at 02/01	
Libor 3M	0.42	0.42 at 26/10	0.28	at 01/09	
Libor 12M	0.77	0.78 at 09/01	0.59	at 06/09	

At 26-10-17

Yield (%)		highest' 17		lowest' 17	
€ AVG 5-7y	0.41	0.68 at 17/03	0.18	at 21/06	
Bund 2y	-0.78	-0.60 at 27/06	-0.96	at 24/02	
Bund 10y	0.43	0.57 at 06/07	0.18	at 18/04	
OAT 10y	0.70	1.14 at 06/02	0.59	at 14/06	
Corp. BBB	1.22	1.65 at 01/02	1.19	at 17/10	
\$ Treas. 2y	1.61	1.61 at 26/10	1.14	at 24/02	
Treas. 10y	2.45	2.61 at 13/03	2.05	at 08/09	
Corp. BBB	3.54	3.90 at 14/03	3.38	at 05/09	
£ Treas. 2y	0.43	0.45 at 25/10	0.01	at 28/02	
Treas. 10y	1.44	1.51 at 26/01	0.87	at 14/06	

At 26-10-17

10y bond yield & spreads

5.39%	Greece	495 pb
2.26%	Portugal	182 pb
1.90%	Italy	147 pb
1.55%	Spain	111 pb
0.70%	France	27 pb
0.67%	Belgium	24 pb
0.66%	Austria	22 pb
0.65%	Ireland	21 pb
0.61%	Finland	17 pb
0.56%	Netherlands	12 pb
0.43%	Germany	

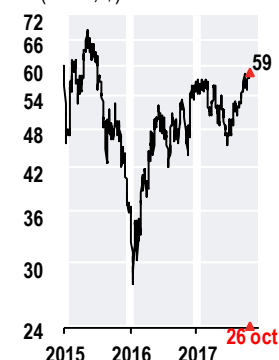
### Commodities

Spot price in dollars		lowest' 17		2017(€)	
Oil, Brent	59	46 at 26/06	-6.7%		
Gold (ounce)	1 273	1 156 at 03/01	-0.9%		
Metals, LMEX	3 303	2 639 at 03/01	+11.9%		
Copper (ton)	6 961	5 462 at 08/05	+13.6%		
CRB Foods	348	325 at 24/04	-7.5%		
wheat (ton)	156	143 at 02/10	-4.0%		
Corn (ton)	125	120 at 18/09	-15.2%		

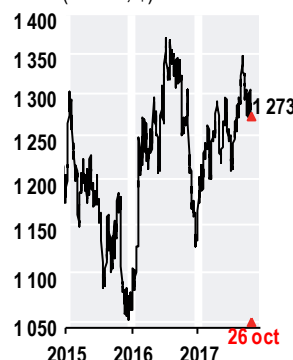
At 26-10-17

Variations

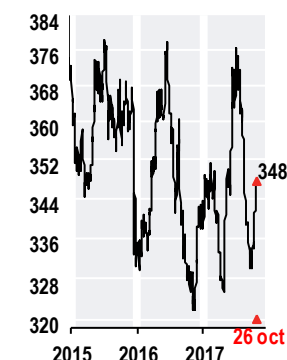
Oil (Brent, \$)



Gold (Ounce, \$)



CRB Foods



### Exchange Rates

1€ =		highest' 17		lowest' 17		2017	
USD	1.17	1.20 at 29/08	1.04	at 03/01	+11.0%		
GBP	0.89	0.93 at 29/08	0.84	at 19/04	+4.1%		
CHF	1.17	1.17 at 25/10	1.06	at 08/02	+8.8%		
JPY	133.37	134.25 at 25/10	115.57	at 17/04	+8.4%		
AUD	1.52	1.53 at 25/10	1.37	at 23/02	+4.7%		
CNY	7.77	7.99 at 03/08	7.22	at 03/01	+5.9%		
BRL	3.82	3.84 at 24/10	3.24	at 15/02	+11.2%		
RUB	67.54	71.97 at 02/08	59.66	at 17/04	+4.9%		
INR	75.87	77.55 at 22/09	68.18	at 07/04	+6.0%		

At 26-10-17

Variations

### Equity indices

Index		highest' 17		lowest' 17		2017	2017(€)
CAC 40	5 455	5 455 at 26/10	4 749	at 31/01	+12.2%	+12.2%	
S&P500	2 560	2 575 at 20/10	2 239	at 02/01	+14.4%	+3.1%	
DAX	13 133	13 133 at 26/10	11 510	at 06/02	+14.4%	+14.4%	
Nikkei	21 740	21 805 at 24/10	18 336	at 14/04	+13.7%	+4.9%	
China*	84	87 at 16/10	59	at 02/01	+45.0%	+30.0%	
India*	585	585 at 26/10	445	at 03/01	+25.1%	+18.1%	
Brazil*	2 060	2 168 at 05/10	1 639	at 21/06	+23.5%	+11.1%	
Russia*	573	622 at 03/01	497	at 22/06	-9.2%	-14.3%	

At 26-10-17

Variations

\* MSCI index



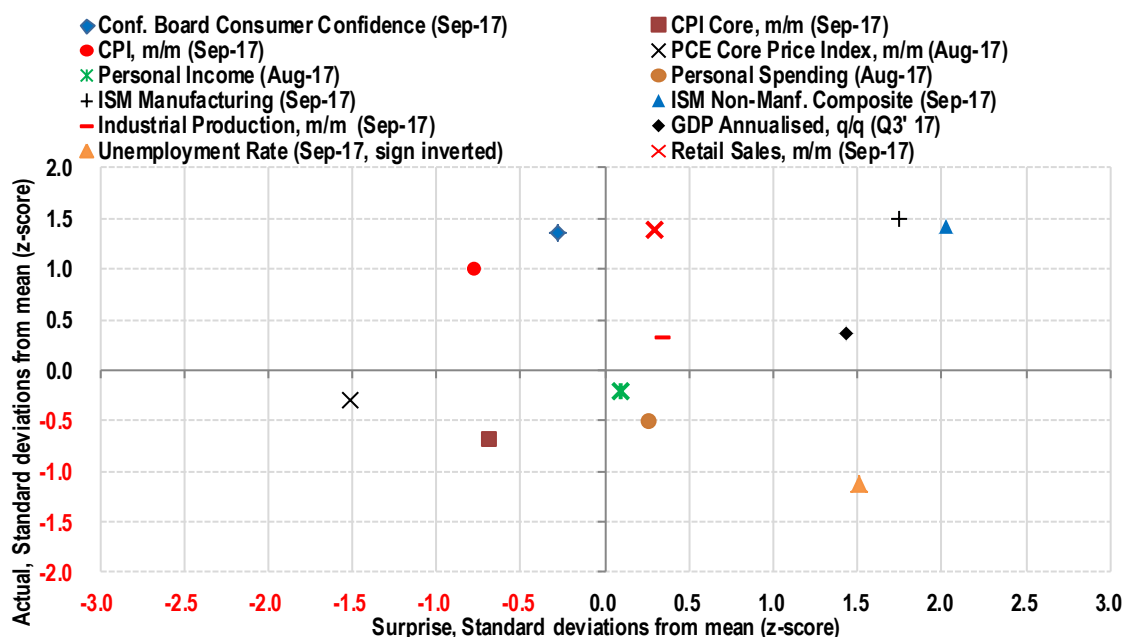
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## Pulse

## United States: Slow non-inflationary growth

At first sight, it looks like the US growth is strengthening, with two consecutive quarters above 3% (quarterly annualised rate) and a year-on-year acceleration. But details are not so rosy, as final domestic demand actually decelerated, whereas the PCE price index excluding food and energy once more decelerated (up a limited 1.3% in Q3). In short, growth is not as strong as it seems, while inflation is pretty much as weak as it is.



Note: z-score is a score which indicates how many standard deviations an observation is from the mean:  $z = (x - \mu) / \sigma$  where  $x$ : observation,  $\mu$ : mean,  $\sigma$ : standard deviation. On the X-axis,  $x$  corresponds at the last known surprise for each indicator represented on the graph,  $\mu$  and  $\sigma$  corresponds respectively to the mean and the standard deviation of the last 24 value for monthly data and the last 8 quarters for quarterly data. On the Y-axis,  $x$  corresponds at the last known value of indicator,  $\mu$  and  $\sigma$  corresponds respectively to the mean and the standard deviation for this indicator since 2000.

Sources: Bloomberg, BNP Paribas calculations

## Indicators preview

Many important data releases in the coming week with Q3 GDP growth in the eurozone and France. The US will see the publication of the ISM index and the labour market data. In addition there is the meeting of the Federal Reserve and the Bank of England.

Date	Country	Event	Period	Survey	Prior
10/30/17	Eurozone	Economic Confidence	Oct	113.3	113.0
10/30/17	United States	Real Personal Spending	Sep	0.4%	-0.1%
10/30/17	United States	PCE Core MoM	Sep	0.1%	0.1%
10/31/17	United Kingdom	GfK Consumer Confidence	Oct	-10	-9
10/31/17	France	GDP QoQ	3Q	0.5%	0.5%
10/31/17	France	CPI EU Harmonized MoM	Oct	--	-0.2%
10/31/17	Eurozone	GDP SA QoQ	3Q	0.5%	0.6%
10/31/17	United States	Conf. Board Consumer Confidence	Oct	121.0	119.8
11/01/17	United States	ISM Manufacturing	Oct	59.1	60.8
11/01/17	United States	FOMC Rate Decision (Upper Bound)	nov-01	1.25%	1.25%
11/02/17	Eurozone	Markit Eurozone Manufacturing PMI	Oct	58.6	58.6
11/02/17	United Kingdom	Bank of England Bank Rate	nov-02	0,005	0.250%
11/02/17	United Kingdom	Bank of England Inflation Report			
11/03/17	United States	Change in Nonfarm Payrolls	Oct	310000	-33000
11/03/17	United States	Unemployment Rate	Oct	4.2%	4.2%
11/03/17	United States	ISM Non-Manf. Composite	Oct	58.0	59.8

Source: Bloomberg



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## 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		
	2017 e	2018 e	2019 e	2017 e	2018 e	2019 e
<b>Advanced</b>	<b>2.0</b>	<b>2.1</b>	<b>1.6</b>	<b>1.8</b>	<b>1.7</b>	<b>1.9</b>
United-States	2.1	2.7	1.9	2.2	2.1	2.5
Japan	1.4	1.1	0.5	0.4	0.6	0.5
United-Kingdom	1.6	1.0	2.0	2.7	2.7	2.4
<b>Euro Area</b>	<b>2.2</b>	<b>1.9</b>	<b>1.4</b>	<b>1.5</b>	<b>1.4</b>	<b>1.6</b>
Germany	2.2	2.0	1.5	1.7	1.6	1.9
France	1.7	1.7	1.4	1.1	0.9	1.4
Italy	1.4	1.0	0.6	1.4	1.1	1.4
Spain	3.2	2.6	1.9	2.0	1.3	1.6
Belgium	1.6	1.6	1.5	2.1	1.9	1.9
<b>Emerging</b>	<b>4.7</b>	<b>4.9</b>	<b>4.9</b>	<b>3.0</b>	<b>3.3</b>	<b>3.6</b>
China	6.6	6.4	6.5	1.6	2.3	2.5
India	7.1	7.0	7.6	4.5	3.4	4.5
Brazil	1.0	3.0	2.5	3.5	3.8	4.1
Russia	1.8	1.8	1.5	4.5	4.8	4.8

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	
<b>US</b>	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	
<b>Ezone</b>	ECB Ref 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	
<b>UK</b>	Base rate	0.25	0.25	0.25	0.25	0.50	0.25	0.50	
	Gilt 10y	1.20	1.35	1.50	1.75	1.95	1.20	1.95	
<b>Japan</b>	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	
<b>USD</b>	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	
<b>EUR</b>	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)



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