

# ECOWEEK

N° 17-40// 03 November 2017

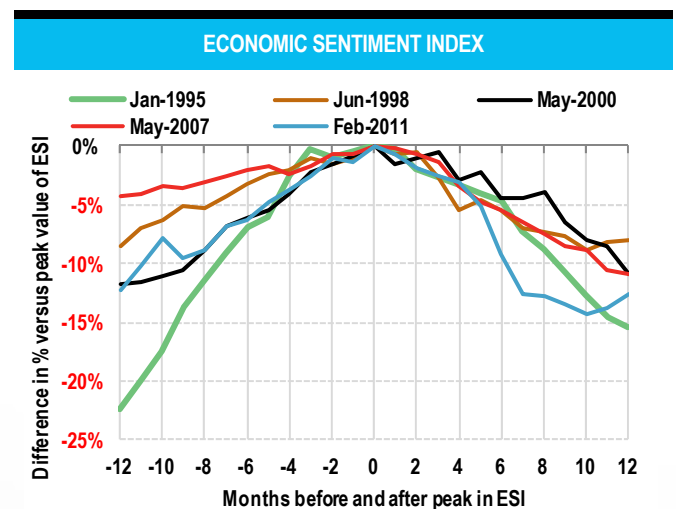
## What happens after the peak?

- The euro area Economic Sentiment Index is at its highest level since January 2001 and the growth outlook is robust.
- However, the historical experience of the ESI once the peak had been passed is quite diverse: weaker data not only reflect but also contribute to an increase in uncertainty.

Soft data reflect the assessment of households and companies of factors which influence their economic situation. Given the importance of psychological factors in spending decisions, these data are particularly useful and complement hard data like production or income. Over the past 12 months, soft data have improved significantly in the euro area. IHS Markit's manufacturing PMI reached an 80 month high in October and its employment component is at an all-time high. Another important indicator is the Economic Sentiment Index (ESI) of the European Commission. The reading for last month was 114.0 which is the highest level since January 2001 and only 5% below its historical peak of 119.0 reached in May 2000. Looking at the distribution of the data starting in January 1985, the observation for last month corresponds to the 96<sup>th</sup> percentile. How good can it get?

Clearly these data tell us nothing about the timing or the level of the next cyclical peak. New historical highs may very well be reached. This has been the case in Germany where the IFO business climate index hit a new high in October. Moreover, economic fundamentals look solid so the expansion should last. ECB policy remains expansionary, despite the scaling back of QE announced last week. The still negative output gap creates room for sustained above potential growth. The length and robustness of the expansion support confidence which in turn benefits spending. Job creation is another component of the self-reinforcing dynamics. Finally, the global environment is also a support factor.

Based on this, the case for being confident about the 2018 outlook is strong. Yet, having in mind a range of risks and uncertainties, the cautious decision maker may want to know what happens when the cycle turns. As illustrated by the chart, previous peaks of the ESI were followed in a subsequent 12 months by a decline of this indicator ranging between 8 and 15%. The difference is big and simulations based on the statistical relationship between the ESI and GDP, which admittedly is far from perfect, yield an outcome ranging between a mere slowdown towards potential growth or no growth at all. This helps to understand why a decline in soft data both reflects but also contributes to an increase in uncertainty.



Sources: European Commission, BNP Paribas

William De Vijlder

p. 2

Markets Overview

p. 3

Pulse

p. 4

Economic scenario

**Eco**  
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ECONOMIC RESEARCH DEPARTMENT



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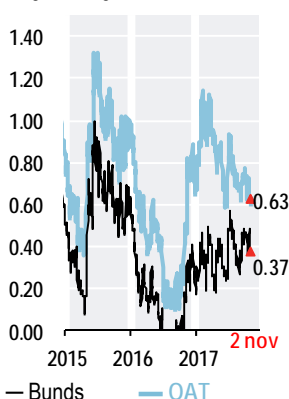
## Markets overview

## The essentials

Week 27-10 17 &gt; 2-11-17

↗ CAC 40	5 494	↗ 5 511	+0.3 %
↘ S&P 500	2 581	↗ 2 580	-0.0 %
↗ Volatility (VIX)	9.8	↗ 9.9	+0.1 %
↗ Euribor 3M (%)	-0.33	↘ -0.33	+0.2 bp
↗ Libor \$ 3M (%)	1.38	↗ 1.38	+0.5 bp
↘ OAT 10y (%)	0.64	↘ 0.63	-1.7 bp
↘ Bund 10y (%)	0.39	↘ 0.37	-1.2 bp
↘ US Tr. 10y (%)	2.43	↗ 2.35	-7.9 bp
↗ Euro vs dollar	1.16	↗ 1.17	+0.8 %
↗ Gold (ounce, \$)	1 270	↗ 1 276	+0.5 %
↗ Oil (Brent, \$)	60.3	↗ 60.6	+0.5 %

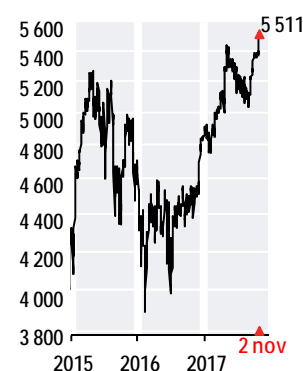
10y bond yield, OAT vs Bund



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	-0.35 at 02/06	-0.37 at 05/06
Euribor 3M	-0.33 at 02/01	-0.33 at 10/04
Euribor 12M	-0.19 at 02/01	-0.19 at 02/11
\$ FED	1.25 at 15/06	0.75 at 02/01
Libor 3M	1.38 at 01/11	1.00 at 02/01
Libor 12M	1.86 at 01/11	1.68 at 06/01
£ BoE	0.50 at 02/11	0.25 at 02/01
Libor 3M	0.45 at 01/11	0.28 at 01/09
Libor 12M	0.78 at 09/01	0.59 at 06/09

At 2-11-17

Yield (%)	highest' 17	lowest' 17
€ AVG 5-7y	0.33 at 17/03	0.18 at 21/06
Bund 2y	-0.75 at 27/06	-0.96 at 24/02
Bund 10y	0.37 at 06/07	0.18 at 18/04
OAT 10y	0.63 at 06/02	0.59 at 14/06
Corp. BBB	1.10 at 01/02	1.10 at 02/11
\$ Treas. 2y	1.61 at 01/11	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	0.36 at 25/10	0.01 at 28/02
Treas. 10y	1.30 at 26/01	0.87 at 14/06

At 2-11-17

10y bond yield &amp; spreads

4.96%	Greece	458 pb
2.11%	Portugal	173 pb
1.74%	Italy	137 pb
1.49%	Spain	111 pb
0.63%	France	25 pb
0.61%	Belgium	23 pb
0.59%	Ireland	21 pb
0.54%	Austria	16 pb
0.53%	Finland	15 pb
0.48%	Netherlands	10 pb
0.37%	Germany	

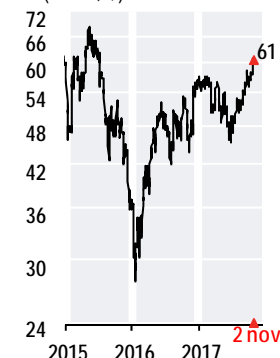
## Commodities

Spot price in dollars	lowest' 17	2017(€)
Oil, Brent	61 at 26/06	-3.5%
Gold (ounce)	1 156 at 03/01	-0.4%
Metals, LMEX	2 639 at 03/01	+11.9%
Copper (ton)	5 462 at 08/05	+12.8%
CRB Foods	325 at 24/04	-6.7%
wheat (ton)	143 at 02/10	-1.5%
Corn (ton)	120 at 18/09	-6.2%

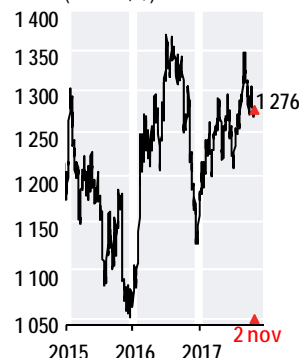
At 2-11-17

Variations

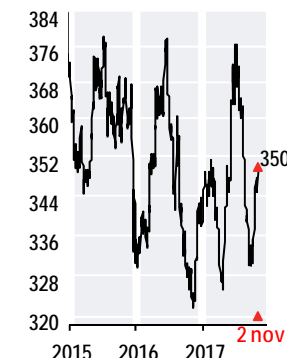
Oil (Brent, \$)



Gold (Ounce, \$)



CRB Foods



## Exchange Rates

1€ =	highest' 17	lowest' 17	2017
USD	1.20 at 29/08	1.04 at 03/01	+10.7%
GBP	0.93 at 29/08	0.84 at 19/04	+4.7%
CHF	1.17 at 25/10	1.06 at 08/02	+8.6%
JPY	132.90 at 25/10	115.57 at 17/04	+8.0%
AUD	1.51 at 25/10	1.37 at 23/02	+3.8%
CNY	7.99 at 03/08	7.22 at 03/01	+5.2%
BRL	3.81 at 24/10	3.24 at 15/02	+11.1%
RUB	71.97 at 02/08	59.66 at 17/04	+5.7%
INR	77.58 at 22/09	68.18 at 07/04	+5.4%

At 2-11-17

Variations

## Equity indices

Index	highest' 17	lowest' 17	2017	2017(€)
CAC 40	5 511 at 01/11	4 749 at 31/01	+13.3%	+13.3%
S&P500	2 581 at 27/10	2 239 at 02/01	+15.2%	+4.1%
DAX	13 466 at 01/11	11 510 at 06/02	+17.1%	+17.1%
Nikkei	22 539 at 02/11	18 336 at 14/04	+17.9%	+9.2%
China*	86 at 16/10	59 at 02/01	+47.9%	+33.0%
India*	595 at 01/11	445 at 03/01	+26.9%	+20.4%
Brazil*	2 001 at 05/10	1 639 at 21/06	+20.2%	+8.1%
Russia*	622 at 03/01	497 at 22/06	-7.7%	-13.5%

At 2-11-17

Variations

\* MSCI index

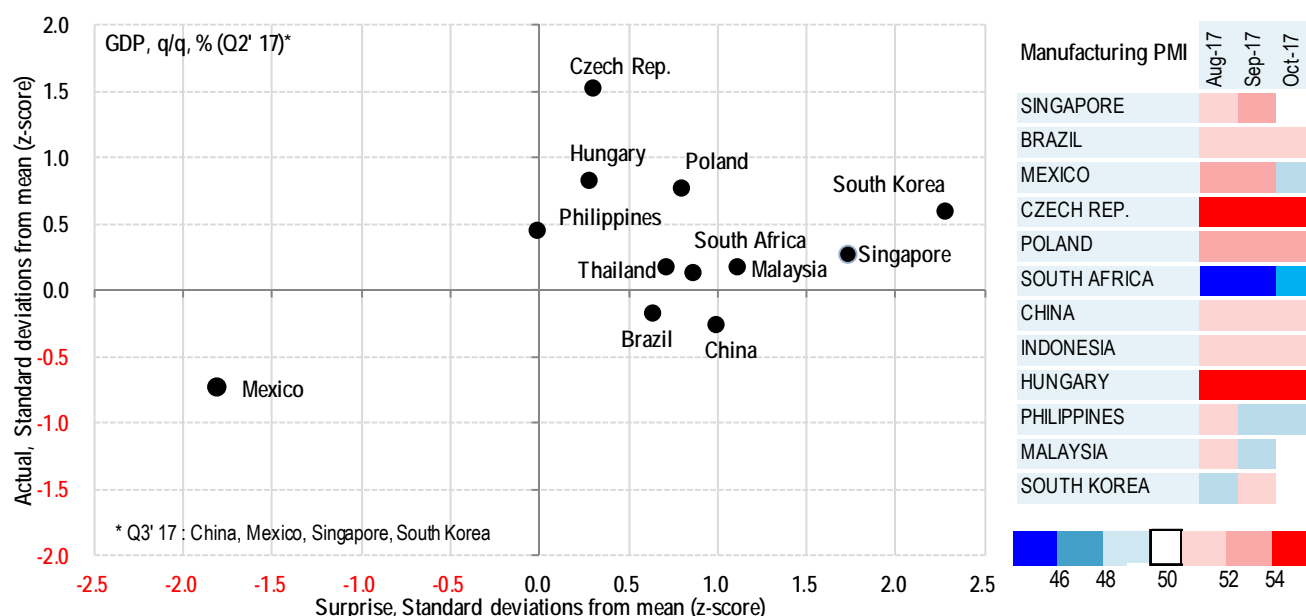


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## Pulse

**Emerging countries:** The Mexican economy is now lagging behind the other main emerging economies. Sequential real GDP growth has continued to slow because of the weakness of investment. The fourth quarter may continue to disappoint with 1/ the lagging impact of higher interest rates and 2/ the wait-and-see attitude of investors in search of greater economic and political visibility.



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, Markit, BNP Paribas calculations

## Indicators preview

The publication next week of the Market Services PMI in several countries will improve our economic assessment for the month of October. Other highlights are the European Commission economic forecasts, the Q3 employment report in France and in the US the University of Michigan report for November.

Date	Country	Event	Period	Survey	Prior
11/06/2017	France	Markit France Composite PMI	Oct.	--	57.5
11/06/2017	Germany	Markit/BME Germany Composite PMI	Oct.	--	56.9
11/06/2017	Eurozone	Markit Eurozone Composite PMI	Oct.	--	55.9
11/07/2017	Germany	Industrial Production SA MoM	Sep.	--	2.6%
11/07/2017	Germany	Markit Germany Retail PMI	Oct.	--	52.8
11/07/2017	Eurozone	Markit Eurozone Retail PMI	Oct.	--	52.3
11/07/2017	France	Markit France Retail PMI	Oct.	--	53.3
11/07/2017	Eurozone	Retail Sales MoM	Sep.	--	-0.5%
11/09/2017	France	Bank of France Ind. Sentiment	Oct.	--	104
11/09/2017	Eurozone	ECB Publishes Economic Bulletin			
11/09/2017	Eurozone	European Commission Economic Forecasts			
11/09/2017	Japan	Eco Watchers Survey Outlook SA	Oct.	51.2	51.0
11/10/2017	France	Private Sector Payrolls QoQ	3Q	--	0.4%
11/10/2017	United States	University of Michigan Sentiment	Nov.	100.0	100.7

Source: Bloomberg, BNP Paribas



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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 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
<b>UK</b>	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
<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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