

ECOWEEK

No. 17-41, 10 November 2017

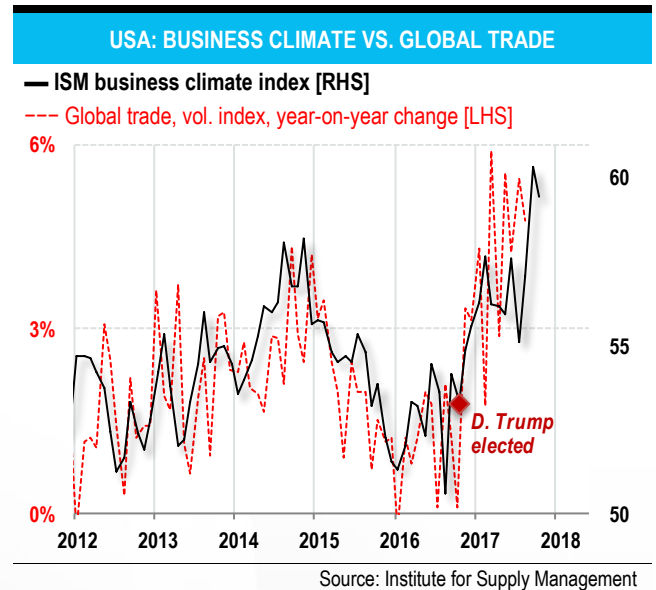
Donald Trump: the lucky president?

- A year after being elected the USA's 45th president, Donald Trump can boast a strong economic situation...
- ... although few of his own making

A year on from Donald Trump's election victory, everything has improved, but correlation does not imply causation. Since November 2016, the US economy has done well. The main business climate index compiled by the Institute for Supply Management (ISM) has risen strongly to almost 60, close to its all-time highs. GDP growth has accelerated, as has the pace of job creation. Unemployment, in both its narrow and broad definitions, has continued falling to below 4.5% of the labour force. The stockmarket, having been rather tentative in 2016, has rallied, with indexes scaling a series of new peaks.

Some see this as the market hailing the new president's promises to cut taxes and boost investment. However, no real concrete action has been taken, and Mr Trump's economic programme also has a protectionist slant that could depress activity. Overall, it is hard to say whether the problems he has experienced implementing his plans have harmed or helped the US economy.

The factors driving the economic upturn lie elsewhere, in China for example. By adopting economic stimulus measures from the spring of 2016, Chinese president Xi Jinping has done a lot to stabilise global trade, of which China alone accounts for 15%. The European Central Bank and Bank of England have also played a role, by significantly increasing the liquidity they are providing to their economies. Finally, the upturn in global oil prices has helped US oil producers, which had built up their US drilling activities long before Donald Trump was elected. By the time Mr Trump became president, the US economic situation was already more positive and global trade was recovering (see chart). For the cheerleader of America First, that represents a rather paradoxical stroke of luck.



Jean-Luc Proutat

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Macroeconomic scenario

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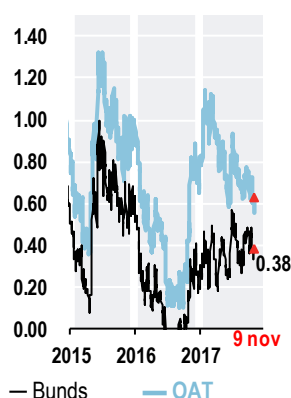
Markets overview

The essentials

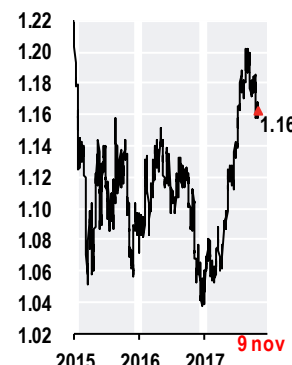
Week 3-11 17 > 9-11-17

➤ CAC 40	5 518	➤ 5 408	-2.0 %
➤ S&P 500	2 588	➤ 2 585	-0.1 %
➤ Volatility (VIX)	9.1	➤ 10.5	+1.4 pb
➤ Euribor 3M (%)	-0.33	➤ -0.33	+0.0 bp
➤ Libor \$ 3M (%)	1.39	➤ 1.41	+2.1 bp
➤ OAT 10y (%)	0.62	➤ 0.63	+0.4 bp
➤ Bund 10y (%)	0.37	➤ 0.38	+1.6 bp
➤ US Tr. 10y (%)	2.34	➤ 2.34	+0.0 bp
➤ Euro vs dollar	1.16	➤ 1.16	+0.1 %
➤ Gold (ounce, \$)	1 268	➤ 1 284	+1.3 %
➤ Oil (Brent, \$)	61.3	➤ 64.2	+4.7 %

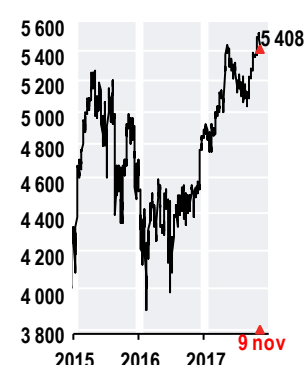
10 y bond yield, OAT vs Bund



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	-0.19 at 02/01	-0.19 at 03/11
\$ FED	1.25 at 15/06	0.75 at 02/01
Libor 3M	1.41 at 09/11	1.00 at 02/01
Libor 12M	1.88 at 09/11	1.68 at 06/01
£ BoE	0.50 at 02/11	0.25 at 02/01
Libor 3M	0.53 at 09/11	0.28 at 01/09
Libor 12M	0.77 at 02/11	0.59 at 06/09

At 9-11-17

Yield (%)	highest' 17	lowest' 17
€ AVG 5-7y	0.29 at 17/03	0.18 at 21/06
Bund 2y	-0.76 at 27/06	-0.96 at 24/02
Bund 10y	0.38 at 06/07	0.18 at 18/04
OAT 10y	0.63 at 06/02	0.56 at 08/11
Corp. BBB	1.13 at 01/02	1.06 at 07/11
\$ Treas. 2y	1.63 at 08/11	1.14 at 24/02
Treas. 10y	2.34 at 13/03	2.05 at 08/09
Corp. BBB	3.53 at 14/03	3.38 at 05/09
£ Treas. 2y	0.42 at 25/10	0.01 at 28/02
Treas. 10y	1.31 at 26/01	0.87 at 14/06

At 9-11-17

10y bond yield & spreads

5.02%	Greece	464 pb
2.06%	Portugal	167 pb
1.77%	Italy	139 pb
1.54%	Spain	115 pb
0.63%	France	24 pb
0.62%	Belgium	24 pb
0.61%	Ireland	23 pb
0.54%	Finland	15 pb
0.54%	Austria	15 pb
0.50%	Netherlands	11 pb
0.38%	Germany	

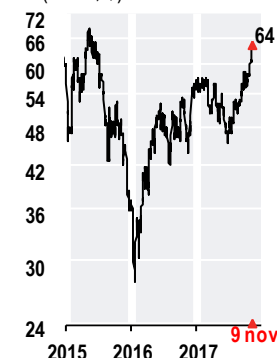
Commodities

Spot price in dollars	lowest' 17	2017(€)
Oil, Brent	64.2 at 26/06	+2.7%
Gold (ounce)	1 156 at 03/01	+0.7%
Metals, LMEX	3 227 at 03/01	+10.1%
Copper (ton)	6 778 at 08/05	+11.3%
CRB Foods	350 at 24/04	-6.4%
wheat (ton)	161 at 02/10	-0.2%
Corn (ton)	123 at 18/09	-16.0%

At 9-11-17

Variations

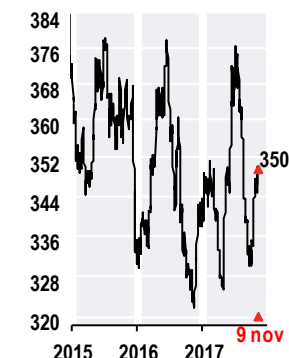
Oil (Brent, \$)



Gold (Ounce, \$)



CRB Foods



Exchange Rates

€ =	highest' 17	lowest' 17	2017
USD	1.20 at 29/08	1.04 at 03/01	+10.2%
GBP	0.89 at 29/08	0.84 at 19/04	+3.8%
CHF	1.16 at 25/10	1.06 at 08/02	+8.3%
JPY	132.15 at 25/10	115.57 at 17/04	+7.4%
AUD	1.52 at 25/10	1.37 at 23/02	+4.2%
CNY	7.72 at 03/08	7.22 at 03/01	+5.3%
BRL	3.79 at 03/11	3.24 at 15/02	+10.3%
RUB	68.84 at 02/08	59.66 at 17/04	+6.9%
INR	75.52 at 22/09	68.18 at 07/04	+5.5%

At 9-11-17

Variations

Equity indices

Index	highest' 17	lowest' 17	2017	2017(€)
CAC 40	5 518 at 03/11	4 749 at 31/01	+11.2%	+11.2%
S&P500	2 594 at 08/11	2 239 at 02/01	+15.4%	+4.7%
DAX	13 479 at 03/11	11 510 at 06/02	+14.8%	+14.8%
Nikkei	22 938 at 07/11	18 336 at 14/04	+19.6%	+11.4%
China*	89 at 09/11	59 at 02/01	+52.0%	+37.3%
India*	585 at 06/11	445 at 03/01	+25.3%	+18.8%
Brazil*	1 982 at 05/10	1 639 at 21/06	+18.7%	+7.6%
Russia*	622 at 03/01	497 at 22/06	-2.1%	-9.0%

At 9-11-17

Variations

* MSCI index



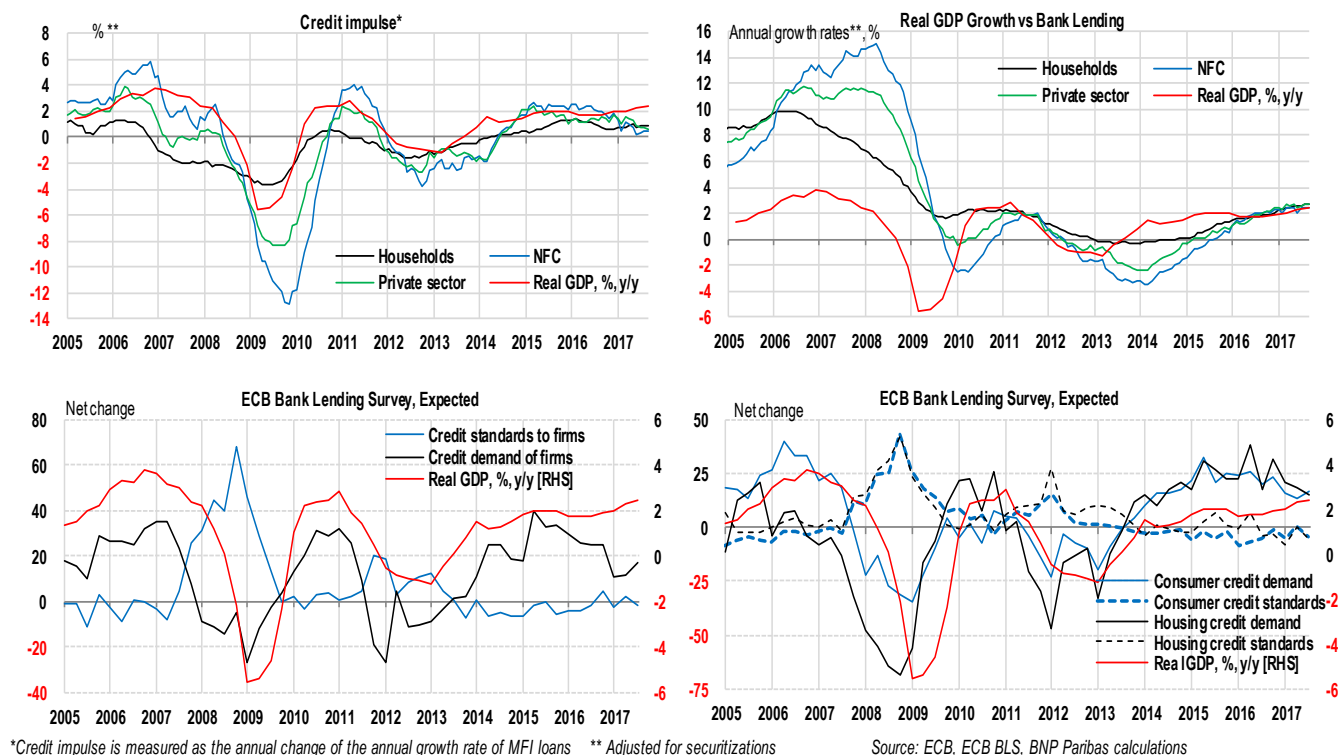
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Pulse

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).



Indicators preview

Next week will see inflation numbers in the eurozone, Germany, France and the UK as well as a new estimate for Q3 growth in the eurozone. The ZEW (Germany), Empire Manufacturing (New York) and the NAHB index (US) will give an indication of how November is doing. In France we will also have the unemployment rate for Q3.

Date	Country	Event	Period	Survey (M)	Prior
11/14/17	Germany	GDP SA QoQ	3Q P	--	0.6%
11/14/17	Germany	CPI EU Harmonized MoM	Oct F	--	-0.1%
11/14/17	United Kingdom	RPI MoM	Oct	0.2%	0.1%
11/14/17	Germany	ZEW Survey Current Situation	Nov	--	87.0
11/14/17	Eurozone	GDP SA QoQ	3Q P	--	0.6%
11/14/17	United States	NFIB Small Business Optimism	Oct	104.5	103.0
11/15/17	Japan	GDP SA QoQ	3Q P	0.4%	0.6%
11/15/17	France	CPI EU Harmonized MoM	Oct F	--	0.1%
11/15/17	United States	CPI Ex Food and Energy MoM	Oct	0.2%	0.1%
11/15/17	United States	Empire Manufacturing	Nov	25.8	30.2
11/15/17	United States	Retail Sales Ex Auto MoM	Oct	0.2%	1.0%
11/16/17	France	ILO Unemployment Rate	3Q	--	9.5%
11/16/17	Eurozone	CPI MoM	Oct	--	0.4%
11/16/17	United States	Industrial Production MoM	Oct	0.5%	0.3%
11/16/17	United States	NAHB Housing Market Index	Nov	68	68
11/17/17	United States	Housing Starts MoM	Oct	4.7%	-4.7%
11/17/17	United States	Building Permits MoM	Oct	1.1%	-4.5%

Sources: 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
Advanced	2.0	2.1	1.6	1.8	1.7	1.9
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
Euro Area	2.2	1.9	1.4	1.5	1.4	1.6
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
Emerging	4.7	4.9	4.9	3.0	3.3	3.6
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	
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)



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