

# ECOWEEK

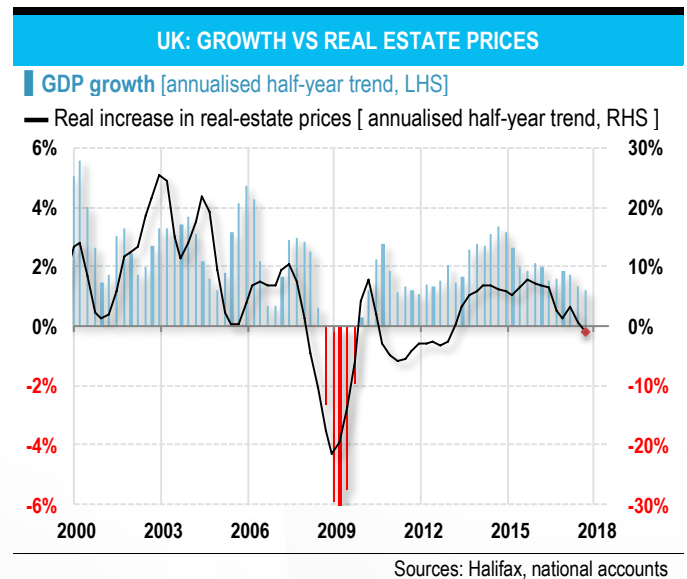
No. 17-42, 17 November 2017

## The UK: darker horizons

■ The UK's economic environment is deteriorating ■ Even so, the Bank of England raised its key rate ■ Could it be preparing for a future rate cut?

There are no happy solutions for Brexit. Since 29 March, when the UK triggered the procedure to exit the European Union (EU), the UK economy has not been running very smoothly. Briefly lifted by the drop-off in Sterling and monetary injections, it is now showing increasing signs of weakness. The upturn in inflation is eroding household purchasing power and curbing consumer spending. With little choice but to adopt a wait-and-see attitude, numerous business leaders have been cancelling or postponing investments. In October, the Confederation of British Industry warned that the business climate was deteriorating, in stark contrast with global trends. Migrant flows have come to a virtual standstill due to uncertainty over the situation for expatriates, and as a result construction has stalled, too. Real prices per square metre are falling, which is never good news for an economy that has been traditionally highly dependent on the real-estate cycle (see chart).

In this case, how should we interpret the Bank of England's key rate increase in early November? The press release issued along with the decision provides no clear explanation. Although the committee reacted in text book fashion to higher inflation figures, monetary policy committee members also explained that Brexit might lower the potential growth rate, i.e. *"the level at which the economy can grow without generating inflation."* The central bank is responding to the shift in the supply curve, even though it is supposed to act on demand. Committee members also pointed out that any further tightening was bound to be *"gradual and limited"*, although they said they were worried by the *"considerable"* downside risks to economic prospects. It looks as though the UK authorities are anticipating difficult times ahead, and are striving rebuild manoeuvring room today to be in a better position to support the economy in the near future.



Jean-Luc Proutat

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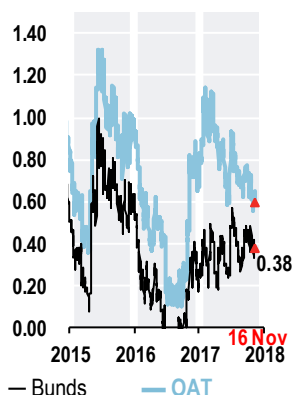
## Markets overview

### The essentials

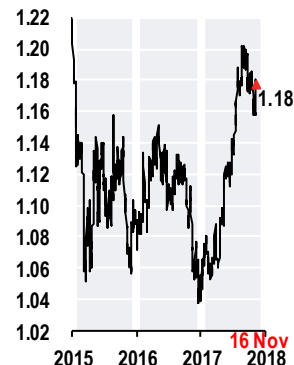
Week 10-11 17 > 16-11-17

➤ CAC 40	5 381	➤ 5 336	-0.8 %
➤ S&P 500	2 582	➤ 2 586	+0.1 %
➤ Volatility (VIX)	11.3	➤ 11.8	+0.5 pb
➤ Euribor 3M (%)	-0.33	➤ -0.33	+0.0 bp
➤ Libor \$ 3M (%)	1.41	➤ 1.42	+0.9 bp
➤ OAT 10y (%)	0.64	➤ 0.60	-4.9 bp
➤ Bund 10y (%)	0.41	➤ 0.38	-3.5 bp
➤ US Tr. 10y (%)	2.41	➤ 2.38	-3.5 bp
➤ Euro vs dollar	1.17	➤ 1.18	+0.9 %
➤ Gold (ounce, \$)	1 276	➤ 1 280	+0.3 %
➤ Oil (Brent, \$)	64.2	➤ 61.9	-3.6 %

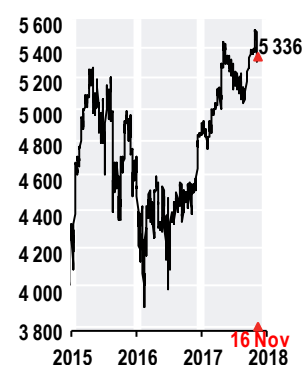
10 y bond yield, OAT vs Bund



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 15/11
\$ FED	1.25 at 15/06	0.75 at 02/01
Libor 3M	1.42 at 15/11	1.00 at 02/01
Libor 12M	1.89 at 14/11	1.68 at 06/01
£ BoE	0.50 at 02/11	0.25 at 02/01
Libor 3M	0.53 at 13/11	0.28 at 01/09
Libor 12M	0.78 at 02/11	0.59 at 06/09

At 16-11-17

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	0.38 at 06/07	0.18 at 18/04
OAT 10y	0.60 at 06/02	0.56 at 08/11
Corp. BBB	1.18 at 01/02	1.06 at 07/11
\$ Treas. 2y	1.70 at 16/11	1.14 at 24/02
Treas. 10y	2.38 at 13/03	2.05 at 08/09
Corp. BBB	3.59 at 14/03	3.38 at 05/09
£ Treas. 2y	0.44 at 13/11	0.01 at 28/02
Treas. 10y	1.35 at 26/01	0.87 at 14/06

At 16-11-17

10y bond yield & spreads

5.07%	Greece	469 pb
1.99%	Portugal	161 pb
1.80%	Italy	141 pb
1.54%	Spain	116 pb
0.60%	France	21 pb
0.59%	Ireland	21 pb
0.59%	Belgium	21 pb
0.53%	Finland	15 pb
0.52%	Austria	14 pb
0.47%	Netherlands	9 pb
0.38%	Germany	

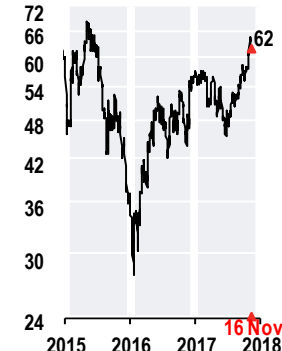
### Commodities

Spot price in dollars	lowest' 17	2017(€)
Oil, Brent	61.9 at 26/06	-2.3%
Gold (ounce)	1 280 at 03/01	-0.9%
Metals, LMEX	3 186 at 03/01	+7.3%
Copper (ton)	6 703 at 08/05	+8.7%
CRB Foods	345 at 24/04	-8.9%
wheat (ton)	159 at 02/10	-2.8%
Corn (ton)	122 at 18/09	-17.6%

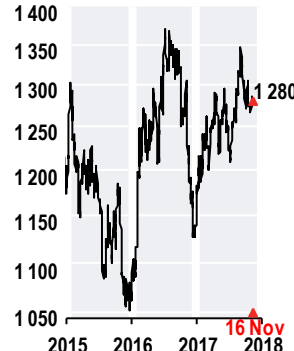
At 16-11-17

Variations

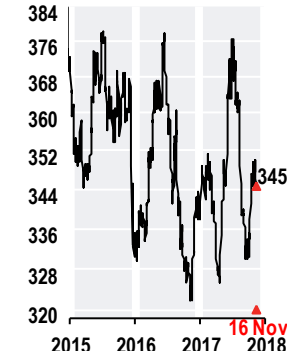
Oil (Brent, \$)



Gold (Ounce, \$)



CRB Foods



### Exchange Rates

1€ =	highest' 17	lowest' 17	2017
USD	1.18 at 29/08	1.04 at 03/01	+11.6%
GBP	0.89 at 29/08	0.84 at 19/04	+4.5%
CHF	1.17 at 16/11	1.06 at 08/02	+9.1%
JPY	132.80 at 25/10	115.57 at 17/04	+7.9%
AUD	1.55 at 15/11	1.37 at 23/02	+6.4%
CNY	7.81 at 03/08	7.22 at 03/01	+6.5%
BRL	3.86 at 15/11	3.24 at 15/02	+12.5%
RUB	70.24 at 02/08	59.66 at 17/04	+9.1%
INR	76.84 at 22/09	68.18 at 07/04	+7.3%

At 16-11-17

Variations

### Equity indices

Index	highest' 17	lowest' 17	2017	2017(€)
CAC 40	5 518 at 03/11	4 749 at 31/01	+9.8%	+9.8%
S&P500	2 594 at 08/11	2 239 at 02/01	+15.5%	+3.5%
DAX	13 479 at 03/11	11 510 at 06/02	+13.6%	+13.6%
Nikkei	22 938 at 07/11	18 336 at 14/04	+16.9%	+8.3%
China*	89 at 09/11	59 at 02/01	+51.4%	+34.9%
India*	574 at 06/11	445 at 03/01	+23.6%	+15.2%
Brazil*	1 958 at 05/10	1 639 at 21/06	+18.0%	+5.0%
Russia*	622 at 03/01	497 at 22/06	-4.2%	-12.7%

At 16-11-17

Variations

\* MSCI index



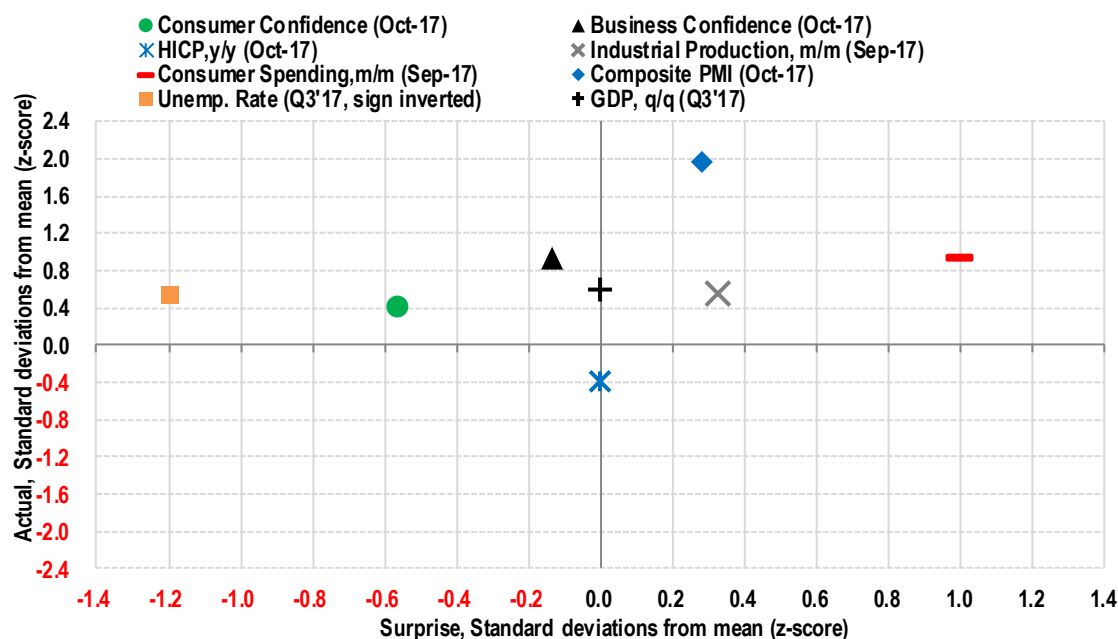
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## Pulse

## France: The positives outweigh the negatives

Among the eight indicators of our economic barometer, three of them surprised on the upside (composite PMI, industrial production, household consumption expenditure on goods), three on the downside (INSEE business confidence index, consumer confidence, unemployment rate) and two were in line with expectations (inflation and growth). However, favorable changes, especially the rate of growth that maintained its healthy pace of 2% in annualized terms in Q3, prevail over the unfavorable ones, in particular the increase in Q3 unemployment rate, from 9.5% to 9.7%. This rise is also put into perspective by the fact that it takes place in a downtrend dating back to 2015 (almost -1 pp in total).



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

A busy week ahead with on the economic policy front the Autumn Statement in the UK, the FOMC minutes and ECB account of the monetary policy meeting. In terms of data, highlights of the week are the PMI in several countries, the IFO index in Germany, business confidence in France, eurozone consumer confidence and the University of Michigan sentiment index.

Date	Country	Event	Period	Surv(M)	Prior
11/22/17	United Kingdom	U.K. Chancellor Hammond Makes Autumn Statement to Parliament			
11/22/17	United States	Durables Ex Transportation	Oct	--	0.7%
11/22/17	Eurozone	Consumer Confidence	Nov	--	-1.0
11/22/17	United States	University of Michigan Sentiment	Nov	--	--
11/22/17	United States	University of Michigan 5-10 year inflation	Nov	--	--
11/22/17	United States	FOMC Meeting Minutes	Nov	--	--
11/23/17	Germany	GDP SA QoQ	3Q	--	--
11/23/17	France	Business Confidence	Nov	--	109
11/23/17	France	Markit France Composite PMI	Nov	--	57.4
11/23/17	Germany	Markit/BME Germany Composite PMI	Nov	--	56.6
11/23/17	Eurozone	Markit Eurozone Composite PMI	Nov	--	56.0
11/23/17	Eurozone	ECB account of the monetary policy meeting			
11/24/17	Germany	IFO Business Climate	Nov	--	116.7

Sources: Bloomberg, BNP Paribas



## 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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 Tel: +33 (0) 1.42.98.12.34 – Internet :  
[www.group.bnpparibas.com](http://www.group.bnpparibas.com)  
 Publisher: Jean Lemierre. Editor: William De Vijlder



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