

ECOWEEK

No. 17-46, 15 December 2017

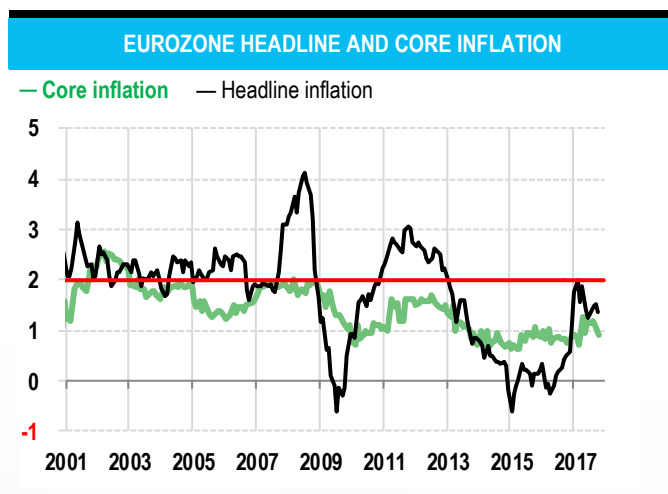
ECB forward guidance: well-intended vagueness

■ The ECB is upbeat on the growth outlook but considers that inflation remains subdued ■ Nevertheless, it still expects inflation to rise to 1.7% in 2020 ■ The refusal to label this as being sufficiently close to its objective reflects a cautious attitude as well as an effort of being vague for a good reason

Mario Draghi's press conference yesterday has added a word to the list of important yet vague words in ECB speak: "close". Is the projection of 1.7% inflation in 2020 sufficiently close to the objective of "close to but below 2%"? Unsurprisingly the answer to the journalist's thoughtful question was not clear and the ECB president has every interest in being vague. Firstly, as he explained so eloquently, it depends on the environment: is such a level of inflation sustainable in the absence of the current accommodative stance? Secondly, a point which he didn't mention, a central banker doesn't want to be locked-in: labelling 1.7% as "close enough" today would cause market anticipation of policy change well before this level would be reached thereby weighing on the effectiveness of the current policy in supporting growth and inflation dynamics.

For the very same reason that other key word is not defined either: "well past". Current policy rates will be maintained well past the end of QE. The refusal to provide a definition is again based on the idea of avoiding to tie one's hands, to precommit based on data thresholds or a specific date. Investors may feel left behind empty-handed: although risk and uncertainty generate the extra return over and above the risk-free rate they strive for, they hate uncertainty

so in their dreams guidance is clear and "close" and "well past" are precisely defined. However, such a dream could end up in a nightmare: the environment might change forcing the central bank to renege on its earlier guidance. Investors would wake up with a headache and volatility would increase structurally because everybody would understand that firmly stated guidance is of little value in a world which is rife with "known unknowns". Out would go the credibility of the central bank. At the end of the day, guidance should be sufficiently clear whilst remaining...sufficiently vague. It's in the interest of the speaker (the central bank) and his audience (markets).



William De Vijlder

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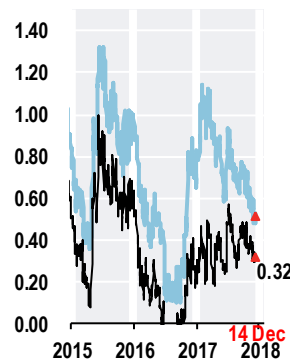
Markets overview

The essentials

Week 8-12 17 > 14-12-17

↘ CAC 40	5 399	▶ 5 357	-0.8 %
↗ S&P 500	2 652	▶ 2 652	+0.0 %
↗ Volatility (VIX)	9.6	▶ 10.5	+0.9 pb
↘ Euribor 3M (%)	-0.33	▶ -0.33	-0.5 bp
↗ Libor \$ 3M (%)	1.55	▶ 1.59	+4.0 bp
↗ OAT 10y (%)	0.49	▶ 0.51	+2.2 bp
↗ Bund 10y (%)	0.31	▶ 0.32	+1.2 bp
↘ US Tr. 10y (%)	2.38	▶ 2.35	-3.7 bp
↗ Euro vs dollar	1.18	▶ 1.18	+0.2 %
↗ Gold (ounce, \$)	1 248	▶ 1 253	+0.4 %
↘ Oil (Brent, \$)	63.3	▶ 63.2	-0.2 %

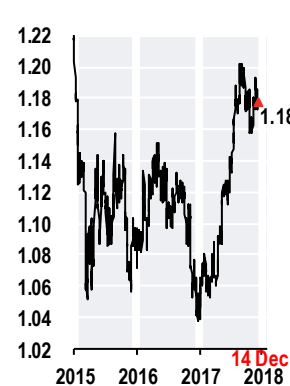
10 y bond yield, OAT vs Bund



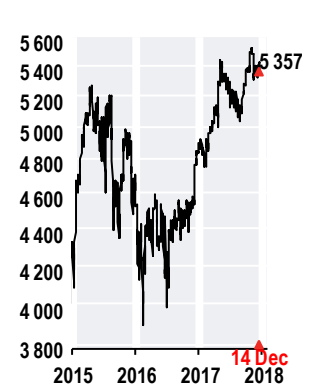
— Bunds

— OAT

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 30/11	-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	1.50 at 14/12	0.75 at 02/01
Libor 3M	1.59 at 13/12	1.00 at 02/01
Libor 12M	2.04 at 13/12	1.68 at 06/01
£ BoE	0.50 at 02/11	0.25 at 02/01
Libor 3M	0.52 at 13/11	0.28 at 01/09
Libor 12M	0.77 at 02/11	0.59 at 06/09

At 14-12-17

Yield (%)	highest' 17	lowest' 17
€ AVG 5-7y	0.32 at 17/03	0.18 at 21/06
Bund 2y	-0.76 at 27/06	-0.96 at 24/02
Bund 10y	0.32 at 06/07	0.18 at 18/04
OAT 10y	0.51 at 06/02	0.48 at 07/12
Corp. BBB	1.13 at 01/02	1.06 at 07/11
\$ Treas. 2y	1.81 at 12/12	1.14 at 24/02
Treas. 10y	2.35 at 13/03	2.05 at 08/09
Corp. BBB	3.56 at 14/03	3.38 at 05/09
£ Treas. 2y	0.40 at 29/11	0.01 at 28/02
Treas. 10y	1.21 at 26/01	0.87 at 14/06

At 14-12-17

10y bond yield & spreads

4.90%	Greece	458 pb
1.82%	Portugal	150 pb
1.75%	Italy	143 pb
1.45%	Spain	113 pb
0.53%	Ireland	20 pb
0.51%	France	19 pb
0.51%	Belgium	19 pb
0.49%	Austria	16 pb
0.48%	Finland	16 pb
0.42%	Netherlands	10 pb
0.32%	Germany	

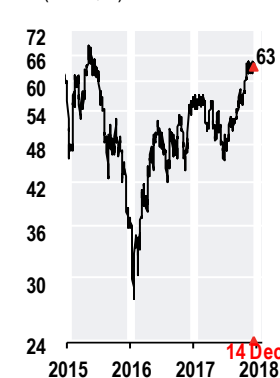
Commodities

Spot price in dollars	lowest' 17	2017(€)
Oil, Brent	63.2 at 26/06	-0.1%
Gold (ounce)	1 253 at 03/01	-3.0%
Metals, LME	2 639 at 03/01	+6.0%
Copper (ton)	5 462 at 08/05	+9.6%
CRB Foods	325 at 24/04	-10.5%
wheat (ton)	143 at 02/10	-5.0%
Corn (ton)	120 at 18/09	-15.7%

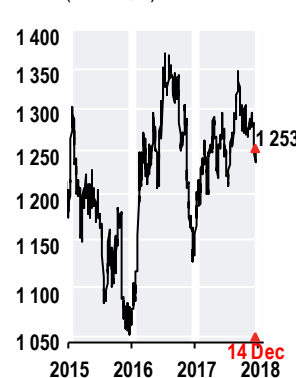
At 14-12-17

Variations

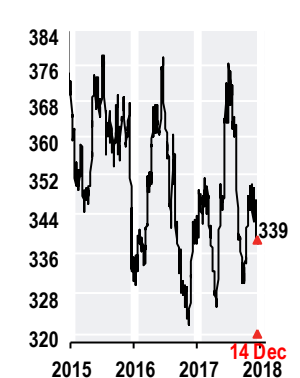
Oil (Brent, \$)



Gold (Ounce, \$)



CRB Foods



Exchange Rates

€ =	highest' 17	lowest' 17	2017
USD	1.20 at 29/08	1.04 at 03/01	+11.6%
GBP	0.93 at 29/08	0.84 at 19/04	+2.8%
CHF	1.17 at 30/11	1.06 at 08/02	+8.8%
JPY	132.62 at 25/10	115.57 at 17/04	+7.8%
AUD	1.54 at 30/11	1.37 at 23/02	+5.5%
CNY	7.99 at 03/08	7.22 at 03/01	+6.2%
BRL	3.92 at 14/12	3.24 at 15/02	+14.2%
RUB	69.29 at 02/08	59.66 at 17/04	+7.6%
INR	75.77 at 22/09	68.18 at 07/04	+5.8%

At 14-12-17

Variations

Equity indices

Index	highest' 17	lowest' 17	2017	2017(€)
CAC 40	5 518 at 03/11	4 749 at 31/01	+10.2%	+10.2%
S&P500	2 664 at 12/12	2 239 at 02/01	+18.5%	+6.1%
DAX	13 479 at 03/11	11 510 at 06/02	+13.8%	+13.8%
Nikkei	22 939 at 11/12	18 336 at 14/04	+18.7%	+10.1%
China*	91 at 22/11	59 at 02/01	+48.9%	+32.7%
India*	596 at 06/11	445 at 03/01	+24.4%	+17.5%
Brazil*	1 923 at 05/10	1 639 at 21/06	+17.7%	+3.0%
Russia*	622 at 03/01	497 at 22/06	-2.2%	-9.8%

At 14-12-17

Variations

* MSCI index



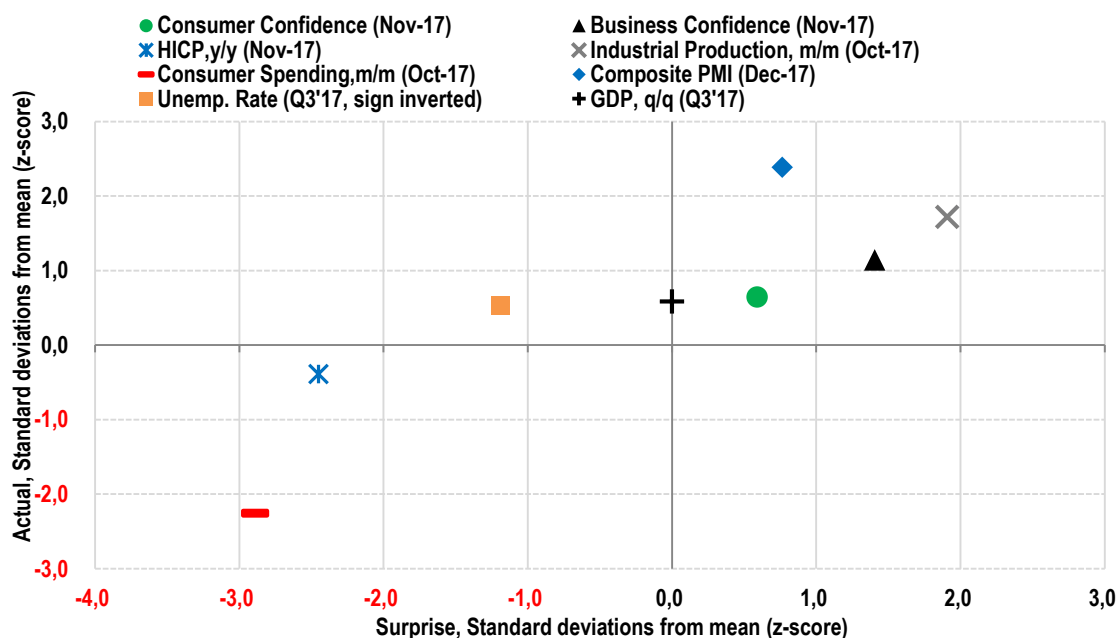
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Pulse

France: Rising confidence

The last business and consumer confidence surveys not only improved but also surprised on the upside. This bodes well for Q4 growth and inflation too, whose pick-up is still missing.



Sources : Markit, Bloomberg, BNP Paribas calculations

Indicators preview

Next week will see a lot of US data related to the housing market (starts, permits, sales). Also to be noted: capital goods orders, University of Michigan sentiment and several regional manufacturing indexes. Important to assess the environment in the eurozone in December will be business confidence in France, the IFO index in Germany and eurozone consumer confidence.

Date	Country	Event	Period	Survey	Prior
12/18/17	Eurozone	CPI MoM	Nov	--	0.1%
12/18/17	United Kingdom	CBI Trends Total Orders	Dec	--	17
12/19/17	Germany	IFO Business Climate	Dec	--	117.5
12/19/17	United States	Housing Starts MoM	Nov	-3.1%	13.7%
12/19/17	United States	Building Permits MoM	Nov	-3.3%	5.9%
12/20/17	United States	Existing Home Sales MoM	Nov	0.7%	2.0%
12/21/17	United Kingdom	GfK Consumer Confidence	Dec	--	-12
12/21/17	France	Business Confidence	Dec	--	111
12/21/17	France	Manufacturing Confidence	Dec	--	112
12/21/17	United States	GDP Annualized QoQ	3Q	3.3%	3.3%
12/21/17	United States	Philadelphia Fed Business Outlook	Dec	22.0	22.7
12/21/17	United States	Core PCE QoQ	3Q	--	1.4%
12/21/17	United States	Chicago Fed Nat Activity Index	Nov	--	0.65
12/21/17	Eurozone	Consumer Confidence	Dec	--	0.1
12/21/17	Japan	BOJ Policy Balance Rate	Dec 21	--	-0.100%
12/21/17	Japan	BOJ 10-Yr Yield Target	Dec 21	--	0.000%
12/22/17	France	GDP QoQ	3Q	--	0.5%
12/22/17	United Kingdom	GDP QoQ	3Q	--	0.4%
12/22/17	United States	Cap Goods Orders Nondef Ex Air	Nov	--	0.3%
12/22/17	United States	New Home Sales MoM	Nov	-5.1%	6.2%
12/22/17	United States	U. of Mich. Sentiment	Dec	97.3	96.8
12/22/17	United States	Kansas City Fed Manf. Activity	Dec	--	16

Sources: Bloomberg, BNP Paribas



Economic scenario

UNITED STATES

- GDP growth is accelerating along with the recovery in the emerging countries and reinforcing world trade. However the fiscal outlook remains uncertain. A fiscal stimulus still is possible, but it would not be implemented very rapidly. 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 1.50% by year-end, 2.00% by mid-2018.

CHINA

- Economic growth has started to moderate during the fall and this trend should continue in the coming quarters.
- Despite the slowdown, the central bank will have to continue to act to encourage the deleveraging of financial institutions and corporates and reduce financial instability risks. The authorities should maintain an expansionist fiscal policy in the short term.
- The tightening of domestic credit conditions, restructuring measures in the industry and the correction in the property market will weigh on economic activity. Meanwhile, exports and private consumption should be supporting factors.

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	2,1	2,4	1,7	1,7	1,7	1,9
United-States	2,3	2,9	1,9	2,1	2,0	2,2
Japan	1,5	1,3	0,6	0,3	0,6	0,8
United-Kingdom	1,5	1,2	1,8	2,7	2,7	2,4
Euro Area	2,3	2,4	1,8	1,5	1,6	1,7
Germany	2,6	2,8	2,1	1,7	1,7	1,8
France	1,8	2,0	1,6	1,2	1,6	1,8
Italy	1,6	1,5	1,1	1,4	1,4	1,5
Spain	3,1	2,6	2,2	2,1	1,8	1,6
Belgium	1,6	1,6	1,5	2,1	1,9	1,9
Emerging	4,5	4,8	4,9	4,0	4,2	4,2
China	6,8	6,4	6,5	1,6	2,3	2,5
India	7,0	7,6	7,8	3,4	4,5	4,9
Brazil	1,0	3,0	2,5	3,5	3,5	3,9
Russia	1,8	1,6	1,5	4,0	4,3	4,5

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
US	Fed Funds	1,50	1,75	2,00	2,25	2,25
	Libor 3m \$	1,40	1,55	1,70	1,80	1,85
	T-Notes 10y	2,35	2,60	2,75	2,75	3,00
Ezone	ECB Refi	0,00	0,00	0,00	0,00	0,00
	Euribor 3m	-0,30	-0,30	-0,30	-0,30	-0,30
	Bund 10y	0,36	0,65	0,75	1,10	1,50
	OAT 10y	0,70	0,95	1,00	1,30	1,70
UK	Base rate	0,50	0,50	0,50	0,50	0,75
	Gilts 10y	1,30	1,45	1,55	1,90	2,30
Japan	BoJ Rate	-0,10	-0,10	-0,10	-0,10	-0,10
	JGB 10y	0,03	0,08	0,08	0,08	0,08

Exchange Rates		2017	2018			
End of period		Q4e	Q1e	Q2e	Q3e	Q4e
USD	EUR / USD	1,15	1,14	1,13	1,18	1,22
	USD / JPY	115	116	117	115	112
	GBP / USD	1,28	1,25	1,26	1,33	1,39
	USD / CHF	1,01	1,03	1,04	1,01	0,98
EUR	EUR / GBP	0,90	0,91	0,90	0,89	0,88
	EUR / CHF	1,16	1,17	1,18	1,19	1,20
	EUR / JPY	132	132	132	136	137

Source : GlobalMarkets (e: Estimates & forecasts)



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