

# ECOWEEK

No. 18-11, 16 March 2018

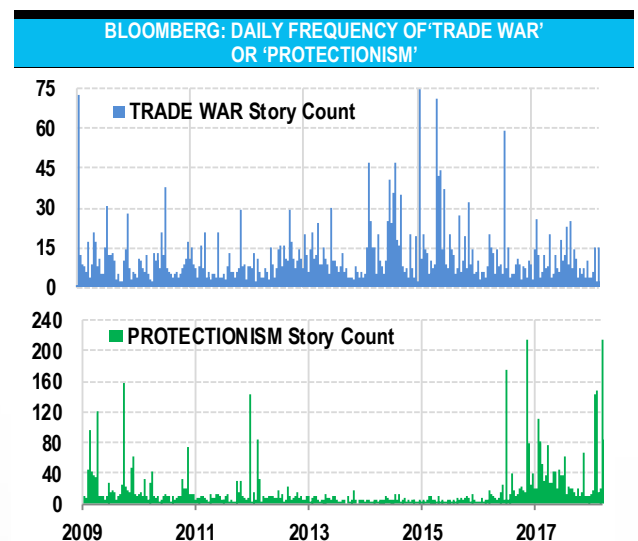
## Into the maze of trade disputes

■ The IMF and the OECD have expressed concern about rising trade tensions ■ At the macro level, tariffs create a lose-lose situation but the sector impact varies a lot ■ Beyond the direct economic effect, the impact on inflation and financial markets should also be taken into account ■ The biggest concern is the headwind coming from a structural increase in uncertainty

*"Even though the sun still shines in the global economy, there are more clouds on the horizon. Think of the growing concerns over trade tensions..."* The quote is from Christine Lagarde's contribution to the IMF Blog this week. In presenting its Interim Outlook, the OECD struck a similar chord. Trade concerns come and go. Starting in 2009, the chart shows the daily frequency of Bloomberg stories mentioning 'trade war' or 'protectionism'. It seems there is nothing new under the sun although there is a clear difference since the end of 2016 as far as the use of 'protectionism' is concerned. Looking beyond the media, one observes since the Great Recession a clear trend towards more protectionism. Moreover it is broad-based in terms of countries taking these measures.

Turning to tariffs (taxes on imports), the consequences are complex and varied depending whether one looks at the macro, the sector or the micro level. Taking US tariffs on steel products as an example, there is a substitution effect (imports are replaced with US production if it can be expanded and it fits the customer requirements) and a redistribution effect from the exporting countries (lower activity) to US producers (higher activity). There is also a redistribution effect between sectors in the US: local steel producers will see an increase in their production and profits but their clients will have to pay more than before, which weighs on their profitability. They might react by cutting costs (jobs) and investments. The consumer will also see higher prices, which could weigh on household spending. The government on the other hand should benefit from higher revenues due to the import tariffs. Steel exporting countries will suffer from their reduced price competitiveness on the US market. This will result in trade diversion to third countries, and in an oversupply on these markets. This was the recent message of European steel companies: what started as a bilateral problem becomes a multilateral one.

In the US the tariff measures could be inflationary if the switch to domestic suppliers is important, considering that the economy is at full employment. It could also be stagflationary when the supply switch is limited and the tariffs are charged to the end customer. In both cases the Federal Reserve may need to react which may end up weighing on financial markets and indirectly on domestic spending. All this also depends on the economic importance of the imports which are impacted and whether there will be retaliatory measures. The direct macro impact may very well be small but at the sector or company level it can be huge, which in turn can trigger negative indirect effects (e.g. corporate bond or stock market volatility). The biggest concern is quite simply that tariffs end up causing a lasting increase in uncertainty, something which would act as a headwind for the global economy.



Source: Bloomberg, BNP Paribas

William De Vijlder

p. 2

Markets overview

p. 3

Pulse & calendar

p. 4

Economic scenario

**Eco**  
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ECONOMIC RESEARCH DEPARTMENT



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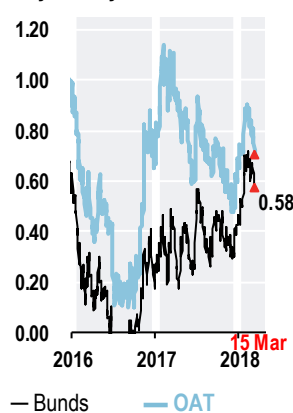
## Markets overview

### The essentials

Week 9-3 18 > 15-3-18

➤ CAC 40	5 274	➤ 5 267	-0.1 %
➤ S&P 500	2 787	➤ 2 747	-1.4 %
➤ Volatility (VIX)	14.6	➤ 16.6	+2.0 pb
➤ Euribor 3M (%)	-0.33	➤ -0.33	-0.1 bp
➤ Libor \$ 3M (%)	2.09	➤ 2.15	+5.6 bp
➤ OAT 10y (%)	0.78	➤ 0.71	-7.4 bp
➤ Bund 10y (%)	0.65	➤ 0.58	-7.7 bp
➤ US Tr. 10y (%)	2.90	➤ 2.83	-7.0 bp
➤ Euro vs dollar	1.23	➤ 1.23	+0.0 %
➤ Gold (ounce, \$)	1 322	➤ 1 317	-0.4 %
➤ Oil (Brent, \$)	65.4	➤ 65.1	-0.5 %

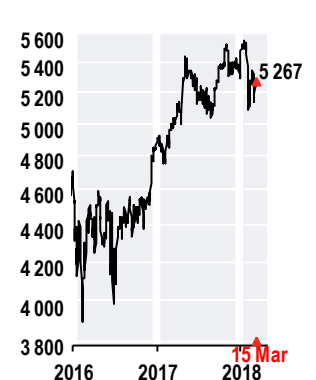
10 y bond yield, OAT vs Bund



Euro-dollar



CAC 40



### Money & Bond Markets

Interest Rates	highest' 18	lowest' 18
€ ECB	0.00 at 01/01	0.00 at 01/01
Eonia	-0.37 at 01/01	-0.37 at 02/01
Euribor 3M	-0.33 at 25/01	-0.33 at 01/01
Euribor 12M	-0.19 at 01/01	-0.19 at 19/02
\$ FED	1.50 at 01/01	1.50 at 01/01
Libor 3M	2.15 at 14/03	1.69 at 01/01
Libor 12M	2.59 at 14/03	2.11 at 01/01
£ BoE	0.50 at 01/01	0.50 at 01/01
Libor 3M	0.60 at 14/03	0.52 at 04/01
Libor 12M	0.93 at 13/03	0.76 at 03/01

At 15-3-18

Yield (%)	highest' 18	lowest' 18
€ AVG 5-7y	0.55 at 15/02	0.43 at 01/01
Bund 2y	-0.59 at 07/03	-0.66 at 01/01
Bund 10y	0.58 at 15/02	0.42 at 01/01
OAT 10y	0.71 at 08/02	0.65 at 08/01
Corp. BBB	1.37 at 14/02	1.17 at 08/01
\$ Treas. 2y	2.29 at 15/03	1.89 at 01/01
Treas. 10y	2.83 at 21/02	2.41 at 01/01
Corp. BBB	4.09 at 09/03	3.59 at 01/01
£ Treas. 2y	0.72 at 09/03	0.40 at 01/01
Treas. 10y	1.46 at 15/02	1.23 at 01/01

At 15-3-18

10y bond yield & spreads

4.74%	Greece	416 pb
1.98%	Italy	140 pb
1.61%	Portugal	103 pb
1.38%	Spain	80 pb
0.86%	Belgium	28 pb
0.78%	Austria	20 pb
0.74%	Ireland	16 pb
0.71%	France	13 pb
0.69%	Finland	11 pb
0.62%	Netherlands	4 pb
0.58%	Germany	

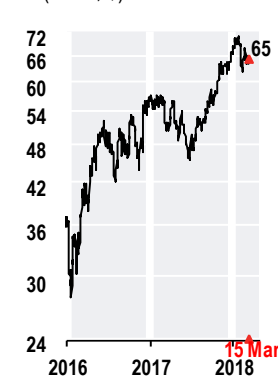
### Commodities

Spot price in dollars	lowest' 18	2018(€)
Oil, Brent	62.2 at 13/02	-4.7%
Gold (ounce)	1 303 at 01/01	-1.6%
Metals, LME	3 258 at 08/03	-6.4%
Copper (ton)	6 712 at 09/02	-6.9%
CRB Foods	336 at 01/01	+1.0%
wheat (ton)	155 at 16/01	+7.6%
Corn (ton)	126 at 08/01	+6.2%

At 15-3-18

Variations

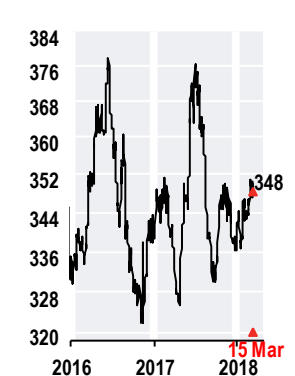
Oil (Brent, \$)



Gold (Ounce, \$)



CRB Foods



### Exchange Rates

1€ =	highest' 18	lowest' 18	2018
USD	1.25 at 25/01	1.19 at 09/01	+2.6%
GBP	0.89 at 02/03	0.87 at 24/01	-0.5%
CHF	1.18 at 15/01	1.15 at 27/02	+0.1%
JPY	137.29 at 02/02	129.85 at 02/03	-3.4%
AUD	1.59 at 05/03	1.53 at 09/01	+2.7%
CNY	7.92 at 25/01	7.70 at 07/02	-0.4%
BRL	4.08 at 13/02	3.87 at 08/01	+1.6%
RUB	71.44 at 09/02	68.06 at 09/01	+2.3%
INR	80.70 at 06/03	75.92 at 08/01	+4.4%

At 15-3-18

Variations

### Equity indices

Index	highest' 18	lowest' 18	2018	2018(€)
CAC 40	5 542 at 22/01	5 079 at 09/02	-0.9%	-0.9%
S&P500	2 873 at 26/01	2 581 at 08/02	+2.8%	+0.2%
DAX	13 560 at 23/01	11 914 at 02/03	-4.4%	-4.4%
Nikkei	24 124 at 23/01	21 042 at 05/03	-4.2%	-0.9%
China*	101 at 26/01	88 at 09/02	+9.7%	+6.7%
India*	642 at 29/01	571 at 07/03	-3.0%	-7.0%
Brazil*	2 393 at 26/01	2 023 at 01/01	+10.7%	+9.0%
Russia*	707 at 26/02	604 at 01/01	+8.8%	+6.3%

At 15-3-18

Variations

\* MSCI index



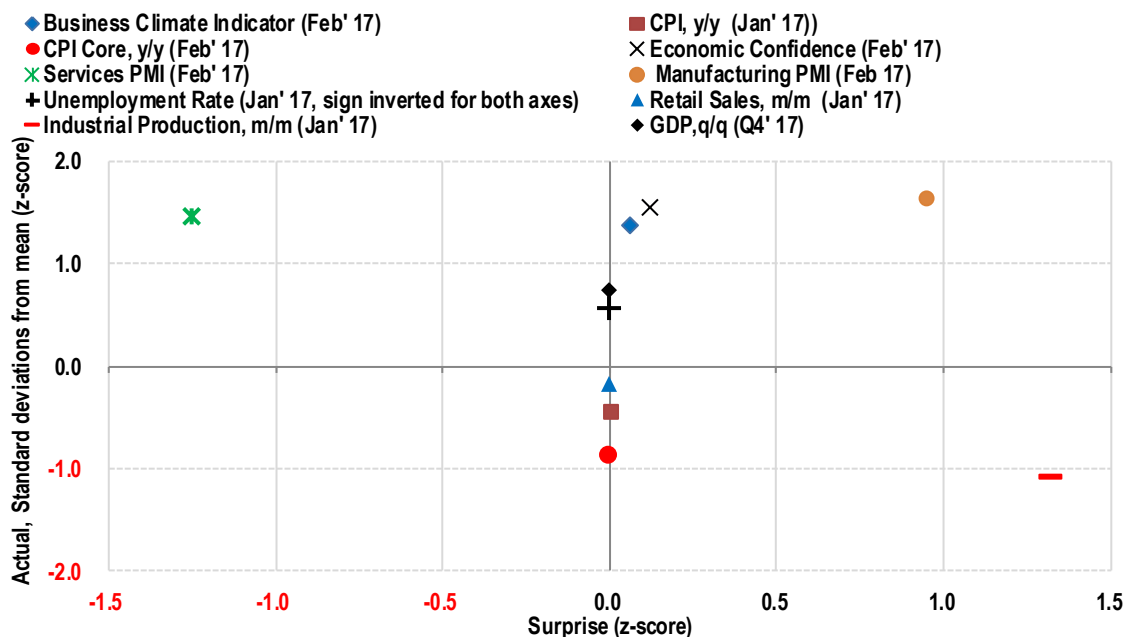
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## Pulse

## Eurozone: growth is robust but it's no longer a surprise

Most activity and sentiment indicators continue to be above the long term average, which is a reflection of the robust growth environment. However most indicators have been in line with expectations: analysts have caught up with reality. This does not mean that a slowdown is around the corner, it just suggests that it will be increasingly difficult to be positively surprised.



Sources: Bloomberg, Markit, BNP Paribas

## Indicators preview

A heavy week ahead of us with the FOMC meeting (will the tone get more hawkish?) and the meeting of the monetary policy committee of the Bank of England. The ECB publishes its bulletin. A lot of survey-based data for March: PMI in several countries, French business confidence, eurozone consumer confidence, ZEW index.

Date	Country	Event	Period	Surv(M)	Prior
03/20/18	United Kingdom	RPI MoM	February	0.7%	-0.8%
03/20/18	Germany	ZEW Survey Current Situation	March	90.9	92.3
03/20/18	Eurozone	Consumer Confidence	March	0.1	0.1
03/21/18	United Kingdom	ILO Unemployment Rate 3Mths	January	4.4%	4.4%
03/21/18	United States	Existing Home Sales MoM	February	0.9%	-3.2%
03/21/18	United States	FOMC Rate Decision (Upper Bound)	March	1.75%	1.50%
03/22/18	France	Business Confidence	March	--	109
03/22/18	France	Markit France Manufacturing PMI	March	--	55.9
03/22/18	France	Markit France Services PMI	March	--	57.4
03/22/18	Eurozone	Markit Eurozone Manufacturing PMI	March	58.2	58.6
03/22/18	Germany	IFO Business Climate	March	114.6	115.4
03/22/18	Germany	IFO Expectations	March	104.4	105.4
03/22/18	Eurozone	ECB Publishes Economic Bulletin			
03/22/18	Eurozone	Markit Eurozone Services PMI	March	56.0	56.2
03/22/18	United Kingdom	Bank of England Bank Rate	March	0.500%	0.500%
03/23/18	United States	Durables Ex Transportation	February	0.5%	-0.3%
03/23/18	United States	New Home Sales MoM	February	4.6%	-7.8%

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. Tax cuts would add +0.5 pp to the GDP growth this year, that would trend near 3%.
- The labour market is as buoyant as ever, showing its first signs of tension (participation rates and real wages are up).
- Fed Funds rates: 1.75% in Q1 2018, 2% by mid-2018.

### CHINA

- Economic growth will decelerate in 2018. 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. Fiscal policy should remain expansionist.
- The outlook for exports and household spending is rather favourable in the short term, but the tightening of domestic credit conditions, restructuring measures in the industry and less buoyant property market will weigh on economic activity.

### 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 ECB is expected to remain cautious. Possible extension of APP after Sept. no rates hike before mid-2019.

### FRANCE

- A clear growth acceleration is underway. Households' consumption is supported by the jobs recovery but restrained by the upturn in inflation. Investment and exports dynamics are favourable.
- A slight rise in inflation is appearing but remains to be confirmed.

### INTEREST RATES AND FX RATES

- In the US, ongoing strong growth and a very low unemployment rate pave the way for several rate hikes (we expect 4 this year and 1 next). This will put upward pressure on bond yields in 2018. The ECB is expected to stop its QE programme at the end of 2018 and to hike its rates by the middle of 2019. As a consequence, bond yields should follow a rising trend, including in 2019. No change expected in Japan
- The narrowing bond yield differential between the US and the eurozone should cause a strengthening of the euro, all the more so considering it is still below its long-term fair value (around 1.34).

### SUMMARY

%	GDP Growth			Inflation		
	2017	2018 e	2019 e	2017	2018 e	2019 e
<b>Advanced</b>	<b>2.2</b>	<b>2.7</b>	<b>1.9</b>	<b>1.7</b>	<b>2.0</b>	<b>1.8</b>
United-States	2.3	3.1	2.1	2.1	2.3	2.1
Japan	1.7	1.3	0.6	0.5	1.1	1.0
United-Kingdom	1.7	1.5	1.8	2.7	2.6	2.1
<b>Euro Area</b>	<b>2.5</b>	<b>2.8</b>	<b>2.1</b>	<b>1.5</b>	<b>1.7</b>	<b>1.7</b>
Germany	2.5	3.1	2.1	1.7	1.8	1.9
France	2.0	2.4	1.9	1.2	1.6	1.7
Italy	1.5	1.7	1.2	1.3	1.4	1.5
Spain	3.1	2.9	2.2	2.0	1.6	1.6
Netherlands	3.2	2.3	1.7	1.4	1.7	1.8
<b>Emerging</b>						
China	6.9	6.4	6.4	1.6	2.3	2.5
India	6.6	7.4	7.6	3.6	4.5	4.2
Brazil	1.1	3.0	3.5	3.4	3.3	3.8
Russia	1.7	1.6	1.5	3.7	4.0	4.4

Source : BNP Paribas Group Economic Research (e: Estimates & forecasts)

### INTEREST RATES & FX RATES

Interest rates, %		2018				2017	2018e	2019e
End of period		Q1e	Q2e	Q3e	Q4e			
<b>US</b>	Fed Funds	1.75	2.00	2.25	2.50	1.50	2.50	2.75
	Libor 3m \$	2.01	2.15	2.35	2.55	1.69	2.55	2.55
	T-Notes 10y	3.00	3.10	3.20	3.25	2.41	3.25	3.00
<b>Ezone</b>	ECB Refi	0.00	0.00	0.00	0.00	0.00	0.00	0.25
	Euribor 3m	-0.33	-0.33	-0.33	-0.33	-0.33	-0.33	0.07
	Bund 10y	0.70	0.85	1.20	1.50	0.42	1.50	1.80
	OAT 10y	1.00	1.10	1.40	1.70	0.66	1.70	2.05
<b>UK</b>	Base rate	0.50	0.75	0.75	1.00	0.50	1.00	1.50
	Gilts 10y	1.55	1.65	1.75	1.90	1.23	1.90	2.25
<b>Japan</b>	BoJ Rate	-0.10	-0.10	-0.10	-0.10	-0.04	-0.10	-0.10
	JGB 10y	0.06	0.08	0.08	0.08	0.05	0.08	0.00

Exchange Rates		2018				2017	2018e	2019e
End of period		Q1e	Q2e	Q3e	Q4e			
<b>USD</b>	EUR / USD	1.26	1.27	1.28	1.28	1.20	1.28	1.34
	USD / JPY	106	105	104	102	113	102	98
	GBP / USD	1.38	1.41	1.44	1.45	1.35	1.45	1.52
	USD / CHF	0.93	0.93	0.93	0.94	0.97	0.94	0.93
<b>EUR</b>	EUR / GBP	0.91	0.90	0.89	0.88	0.89	0.88	0.88
	EUR / CHF	1.17	1.18	1.19	1.20	1.17	1.20	1.25
	EUR / JPY	134	133	133	131	135	131	131

Source: GlobalMarkets BNP Paribas (e: estimates & forecasts)



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