

# ECOWEEK

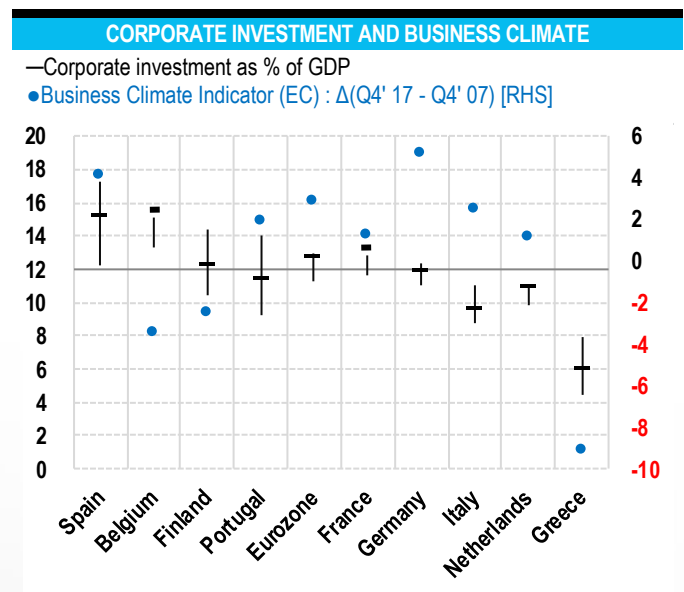
No. 18-13, 30 March 2018

## Eurozone: pent-up corporate investment demand?

■ Eurozone business investment in relation to GDP is still below the previous cyclical peak but the difference is small, implying that the argument of pent-up demand isn't that strong ■ However, the picture varies a lot depending on the country ■ In most countries, including the big four, the business climate is above the level registered at the end of 2007 ■ This means that the investment/GDP ratio still has upside potential provided that confidence is translated into spending

Rushing to the refrigerator when getting home in the evening after a day in the office without time for lunch is a manifestation of pent-up demand for food. Are we experiencing a similar situation in the eurozone with respect to final demand? That's at least the view of Mario Draghi who in a speech on 14 March stated "there are signs of pent-up demand for both consumption and investment that still needs to be satisfied". The question is important when assessing how long the upswing may last, a question which in turn is key for the ECB, companies, households, investors. Upon closer inspection, the ECB president was focussing on consumption and housing investment, considering that business investment already "stands 7% above pre-crisis levels".

It seems however more relevant to compare corporate investment to GDP: after all the latter dictates how big a capital stock is needed, which in turn drives business investment. The horizontal markers on the chart show corporate investment as a percentage of GDP in Q3 2017 (a four-quarter moving average is used considering that the data are not seasonally adjusted). The vertical lines show the previous peak and trough of investment as a percentage of GDP. For the eurozone the investment/GDP ratio is still below the previous peak but only to a very small degree. In France and Belgium it is even above the previous peak. In the Netherlands it is in line whereas Germany sees a negative gap and even more so in Finland, Spain, Portugal, Italy and Greece. All in all, the argument of pent-up business investment is solid in some countries, though not all and neither at the eurozone level as a whole. However, the European Commission business climate indicator is above the pre-crisis level in many countries including the eurozone which means that the investment rate still has upside potential provided that companies decide to translate their confidence into spending.



Sources: Eurostat, BNP Paribas, European Commission

William De Vijlder

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ECONOMIC RESEARCH DEPARTMENT

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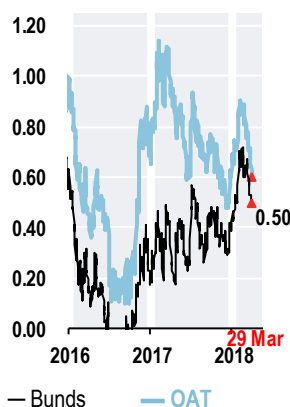
## Markets overview

### The essentials

Week 23-3 18 > 29-3-18

↗ CAC 40	5 095	▶ 5 167	+1.4 %
↗ S&P 500	2 588	▶ 2 641	+2.0 %
↘ Volatility (VIX)	24.9	▶ 20.0	-4.9 pb
↗ Euribor 3M (%)	-0.33	▶ -0.33	+0.1 bp
↗ Libor \$ 3M (%)	2.29	▶ 2.31	+1.6 bp
↘ OAT 10y (%)	0.64	▶ 0.60	-4.3 bp
↘ Bund 10y (%)	0.53	▶ 0.50	-3.2 bp
↘ US Tr. 10y (%)	2.83	▶ 2.74	-8.5 bp
↘ Euro vs dollar	1.24	▶ 1.23	-0.5 %
↘ Gold (ounce, \$)	1 349	▶ 1 323	-1.9 %
↘ Oil (Brent, \$)	70.2	▶ 70.1	-0.1 %

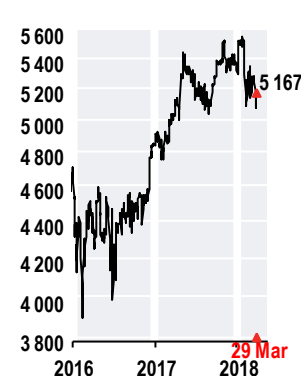
10 y bond yield, OAT vs Bund



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	-0.35 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	1.75 at 22/03	1.50 at 01/01
Libor 3M	2.31 at 28/03	1.69 at 01/01
Libor 12M	2.66 at 22/03	2.11 at 01/01
£ BoE	0.50 at 01/01	0.50 at 01/01
Libor 3M	0.69 at 28/03	0.52 at 04/01
Libor 12M	1.00 at 28/03	0.76 at 03/01

At 29-3-18

Yield (%)	highest' 18	lowest' 18
€ AVG 5-7y	0.42 at 15/02	0.42 at 29/03
Bund 2y	-0.61 at 07/03	-0.66 at 01/01
Bund 10y	0.50 at 15/02	0.42 at 01/01
OAT 10y	0.60 at 08/02	0.60 at 29/03
Corp. BBB	1.39 at 21/03	1.17 at 08/01
\$ Treas. 2y	2.27 at 20/03	1.89 at 01/01
Treas. 10y	2.74 at 21/02	2.41 at 01/01
Corp. BBB	4.07 at 21/03	3.59 at 01/01
£ Treas. 2y	0.75 at 21/03	0.40 at 01/01
Treas. 10y	1.39 at 15/02	1.23 at 01/01

At 29-3-18

10y bond yield & spreads

4.65%	Greece	415 pb
1.79%	Italy	129 pb
1.43%	Portugal	93 pb
1.16%	Spain	65 pb
0.76%	Belgium	26 pb
0.70%	Austria	20 pb
0.64%	Ireland	13 pb
0.60%	France	10 pb
0.60%	Finland	9 pb
0.53%	Netherlands	2 pb
0.50%	Germany	

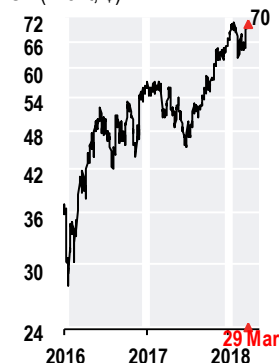
### Commodities

Spot price in dollars	lowest' 18	2018(€)
Oil, Brent	62.2 at 13/02	+2.8%
Gold (ounce)	1 303 at 01/01	-0.9%
Metals, LMEX	3 205 at 26/03	-8.5%
Copper (ton)	6 556 at 26/03	-9.5%
CRB Foods	337 at 28/03	-2.1%
wheat (ton)	166 at 16/01	+2.2%
Corn (ton)	139 at 08/01	+6.4%

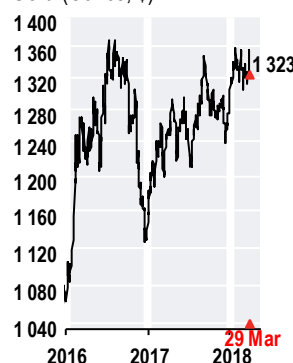
At 29-3-18

Variations

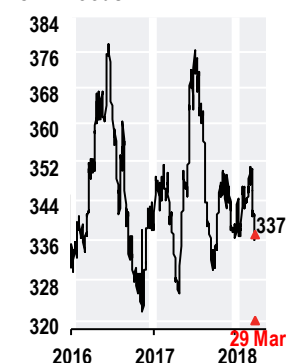
Oil (Brent, \$)



Gold (Ounce, \$)



CRB Foods



### Exchange Rates

1€ =	highest' 18	lowest' 18	2018
USD	1.25 at 25/01	1.19 at 09/01	+2.4%
GBP	0.89 at 02/03	0.87 at 24/01	-1.2%
CHF	1.18 at 15/01	1.15 at 27/02	+0.6%
JPY	130.79 at 02/02	129.63 at 23/03	-3.3%
AUD	1.61 at 26/03	1.53 at 09/01	+4.4%
CNY	7.92 at 25/01	7.70 at 07/02	-1.0%
BRL	4.13 at 27/03	3.87 at 08/01	+2.6%
RUB	71.44 at 09/02	68.06 at 09/01	+2.3%
INR	80.21 at 26/03	75.92 at 08/01	+4.7%

At 29-3-18

Variations

### Equity indices

Index	highest' 18	lowest' 18	2018	2018(€)
CAC 40	5 542 at 22/01	5 066 at 26/03	-2.7%	-2.7%
S&P500	2 873 at 26/01	2 581 at 08/02	-1.2%	-3.6%
DAX	13 560 at 23/01	11 787 at 26/03	-6.4%	-6.4%
Nikkei	24 124 at 23/01	20 618 at 23/03	-7.1%	-3.9%
China*	101 at 26/01	88 at 09/02	+2.1%	-0.6%
India*	642 at 29/01	563 at 23/03	-5.3%	-9.5%
Brazil*	2 393 at 26/01	2 023 at 01/01	+11.4%	+8.6%
Russia*	707 at 26/02	604 at 01/01	+9.4%	+6.9%

At 29-3-18

Variations

\* MSCI index



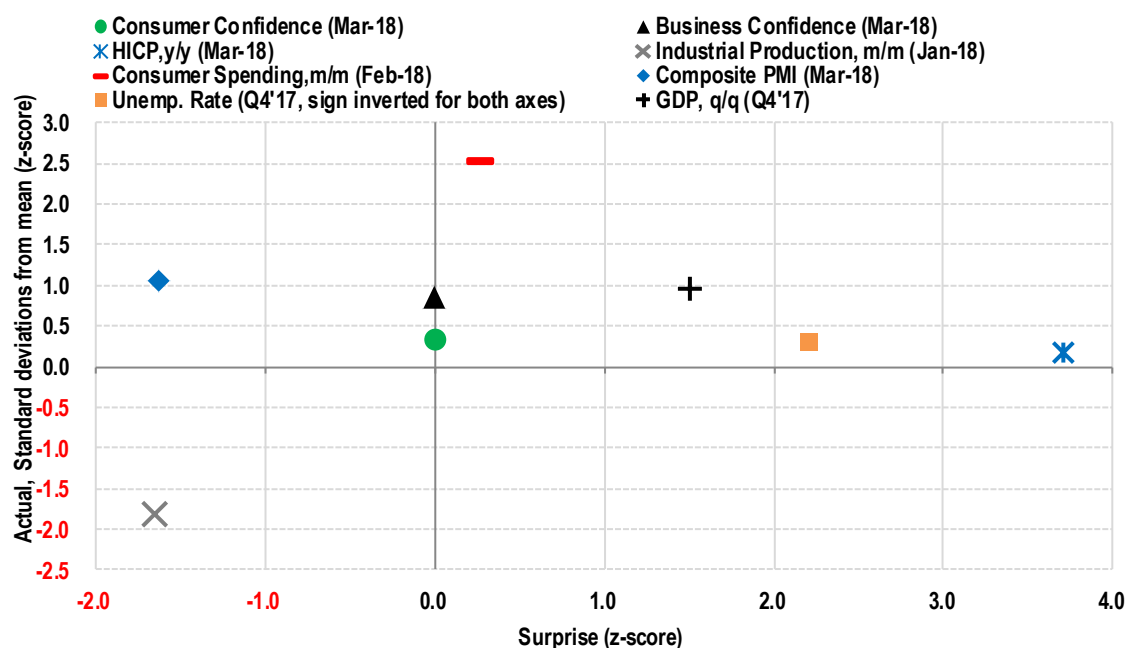
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## Pulse

## France: What is the growth outlook for Q1 2018?

After another slight upward revision, Q4 2017 GDP growth is now estimated at 0.7% q/q. We expect growth to run at the same pace in Q1 2018 but there is a downside risk around this forecast given the available data to date. Indeed, over the quarter, business and consumer confidence surveys are a tad below their average level of the previous quarter, pointing to a growth deceleration (to 0.4% q/q according to our nowcast model). And the carry-over of consumer spending on goods remained slightly negative in February, their big rebound coming after two months of sharp decline.



Sources: Bloomberg, Markit, BNP Paribas

## Indicators preview

The first week of the month is the most important one to assess how economies are doing based on the publication of important sentiment indicators (manufacturing, services and composite PMIs in different countries; ISM in the US). Next Friday will see the all-important US labour market data. Also worth noting: the Tankan survey in Japan and the trade balance in France.

Date	Country	Event	Period	Prior
04/02/18	Japan	Tankan Large Mfg Index	1Q	25
04/02/18	United States	ISM Manufacturing	Mar	60.8
04/03/18	France	Markit France Manufacturing PMI	Mar	--
04/03/18	Eurozone	Markit Eurozone Manufacturing PMI	Mar	--
04/04/18	Eurozone	Unemployment Rate	Feb	8.6%
04/04/18	United States	ISM Non-Manf. Composite	Mar	59.5
04/04/18	United States	Cap Goods Orders Nondef Ex Air	Feb	--
04/05/18	France	Markit France Composite PMI	Mar	--
04/05/18	Eurozone	Markit Eurozone Composite PMI	Mar	--
04/06/18	France	Trade Balance	Feb	-5.56e+09
04/06/18	United States	Change in Nonfarm Payrolls	Mar	313 000

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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