

ECOWEEK

No. 18-15, 13 April 2018

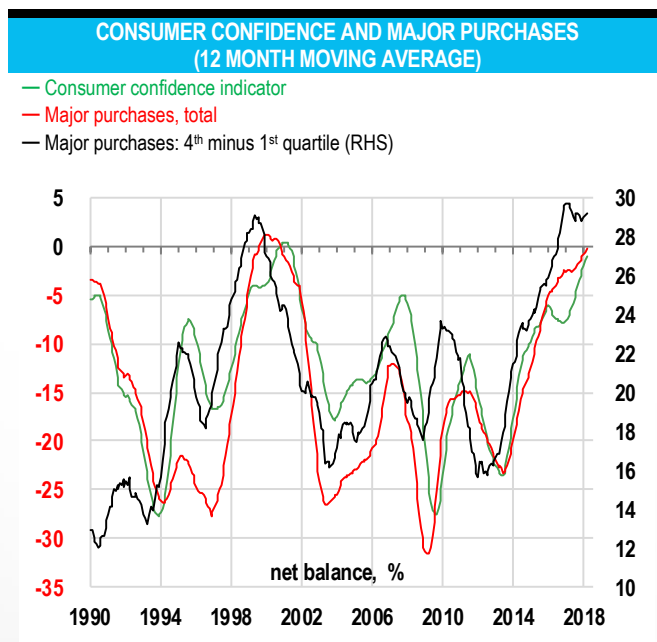
Eurozone: a peak in consumer confidence?

■ Turning points in the assessment of making major purchases lead those of the overall consumer confidence indicator ■ The difference of how top and bottom quartile income households assess their spending on major purchases is highly cyclical and its turning points lead those of consumer confidence ■ Based on recent observations, this suggests that the cyclical peak in consumer confidence is near.

Consumer confidence data play an important role in assessing the outlook for household spending: high confidence levels should *ceteris paribus* allow for strong consumption growth. The monthly European Union consumer survey also asks whether it is the right moment to make major purchases like furniture, electrical/electronic devices etc. Spending on these items can be postponed if need be and should be more cyclically sensitive.

As shown in the chart, peaks in the assessment of major purchases tend to lead peaks in overall consumer confidence. The EU also provides this information based on income groups which allows to check whether they react differently in a given phase of the cycle. The black line, which shows the difference in the assessment of major purchases by the top quartile incomes (Q4) versus the bottom quartile (Q1), shows this is indeed the case. It exhibits considerable swings which are positively correlated with the overall consumer confidence indicator.

This means that higher incomes react more significantly to changes in the cyclical environment, both during upswings and downswings. Possible explanations are 1) an improvement in the general economic climate may be perceived differently by lower income households versus higher income households, so when the environment improves the former may still display a greater caution 2) lower income households may face higher income uncertainty or at least have this perception. This might explain why the over an entire business cycle the average assessment of making major purchases is lower for these households than for the top income quartile 3) bottom quartile households could be more challenged than others to finance major purchases out of accumulated savings or via borrowing. Importantly, the cyclical turning points of the difference in the assessment of making major purchases between the top and the bottom quartile incomes are leading those of the overall major purchases series (which covers all respondents) which in turn lead those of the consumer confidence index. The recent behaviour of the difference indicator (black line) suggests that we are at or near a cyclical peak in consumer confidence. This should be taken on board in assessing the outlook for household spending.



Source: European Commission, BNP Paribas

William De Vijlder

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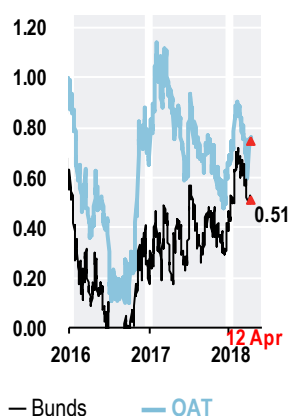
Markets overview

The essentials

Week 6-4 18 > 12-4-18

➤ CAC 40	5 258	➤ 5 309	+1.0 %
➤ S&P 500	2 604	➤ 2 664	+2.3 %
➤ Volatility (VIX)	21.5	➤ 18.5	-3.0 pb
➤ Euribor 3M (%)	-0.33	➤ -0.33	+0.0 bp
➤ Libor \$ 3M (%)	2.34	➤ 2.34	+0.4 bp
➤ OAT 10y (%)	0.73	➤ 0.75	+1.4 bp
➤ Bund 10y (%)	0.50	➤ 0.51	+1.4 bp
➤ US Tr. 10y (%)	2.78	➤ 2.84	+5.9 bp
➤ Euro vs dollar	1.23	➤ 1.23	+0.5 %
➤ Gold (ounce, \$)	1 332	➤ 1 338	+0.5 %
➤ Oil (Brent, \$)	67.5	➤ 71.6	+6.1 %

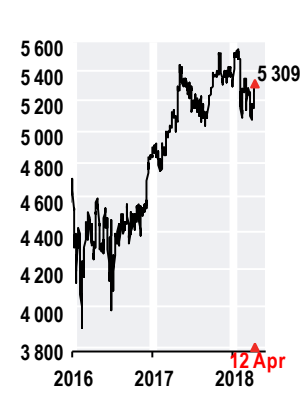
10 y bond yield, OAT vs Bund



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	-0.36 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	2.34 at 11/04	1.69 at 01/01
Libor 12M	2.71 at 11/04	2.11 at 01/01
£ BoE	0.50 at 01/01	0.50 at 01/01
Libor 3M	0.77 at 11/04	0.52 at 04/01
Libor 12M	1.04 at 11/04	0.76 at 03/01

At 12-4-18

Yield (%)	highest' 18	lowest' 18
€ AVG 5-7y	0.44 at 15/02	0.41 at 04/04
Bund 2y	-0.58 at 07/03	-0.66 at 01/01
Bund 10y	0.51 at 15/02	0.42 at 01/01
OAT 10y	0.75 at 08/02	0.60 at 30/03
Corp. BBB	1.41 at 05/04	1.17 at 08/01
\$ Treas. 2y	2.35 at 12/04	1.89 at 01/01
Treas. 10y	2.84 at 21/02	2.41 at 01/01
Corp. BBB	4.10 at 21/03	3.59 at 01/01
£ Treas. 2y	0.82 at 21/03	0.40 at 01/01
Treas. 10y	1.49 at 15/02	1.23 at 01/01

At 12-4-18

10y bond yield & spreads

4.49%	Greece	398 pb
1.81%	Italy	129 pb
1.52%	Portugal	100 pb
1.25%	Spain	74 pb
0.80%	Belgium	29 pb
0.75%	France	23 pb
0.71%	Austria	20 pb
0.66%	Netherlands	14 pb
0.64%	Ireland	12 pb
0.63%	Finland	11 pb
0.51%	Germany	

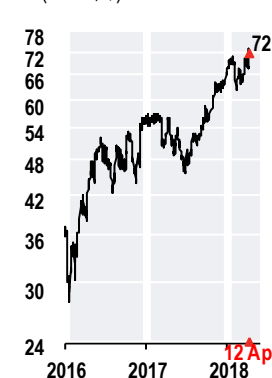
Commodities

Spot price in dollars	lowest' 18	2018(€)
Oil, Brent	62.2 at 13/02	+4.8%
Gold (ounce)	1 303 at 01/01	+0.1%
Metals, LMEX	3 351 at 26/03	-4.4%
Copper (ton)	6 556 at 26/03	-8.2%
CRB Foods	342 at 04/04	-0.7%
wheat (ton)	177 at 16/01	+8.8%
Corn (ton)	139 at 08/01	+6.8%

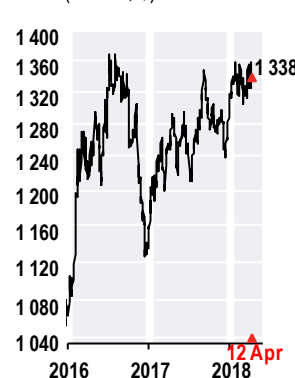
At 12-4-18

Variations

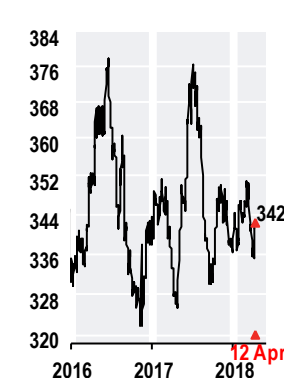
Oil (Brent, \$)



Gold (Ounce, \$)



CRB Foods



Exchange Rates

€ =	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 12/04	-2.5%
CHF	1.19 at 12/04	1.15 at 27/02	+1.3%
JPY	137.29 at 02/02	129.63 at 23/03	-2.3%
AUD	1.61 at 26/03	1.53 at 09/01	+3.4%
CNY	7.92 at 25/01	7.70 at 07/02	-1.1%
BRL	4.22 at 10/04	3.87 at 08/01	+4.7%
RUB	79.12 at 11/04	68.06 at 09/01	+10.1%
INR	80.77 at 11/04	75.92 at 08/01	+4.9%

At 12-4-18

Variations

Equity indices

Index	highest' 18	lowest' 18	2018	2018(€)
CAC 40	5 542 at 22/01	5 066 at 26/03	-0.1%	-0.1%
S&P500	2 873 at 26/01	2 581 at 08/02	-0.4%	-2.9%
DAX	13 560 at 23/01	11 787 at 26/03	-3.9%	-3.9%
Nikkei	24 124 at 23/01	20 618 at 23/03	-4.9%	-2.6%
China*	101 at 26/01	88 at 09/02	+3.6%	+0.7%
India*	642 at 29/01	563 at 23/03	-1.9%	-6.5%
Brazil*	2 205 at 26/01	2 023 at 01/01	+11.2%	+6.2%
Russia*	707 at 26/02	572 at 11/04	+4.9%	-3.9%

At 12-4-18

Variations

* MSCI index



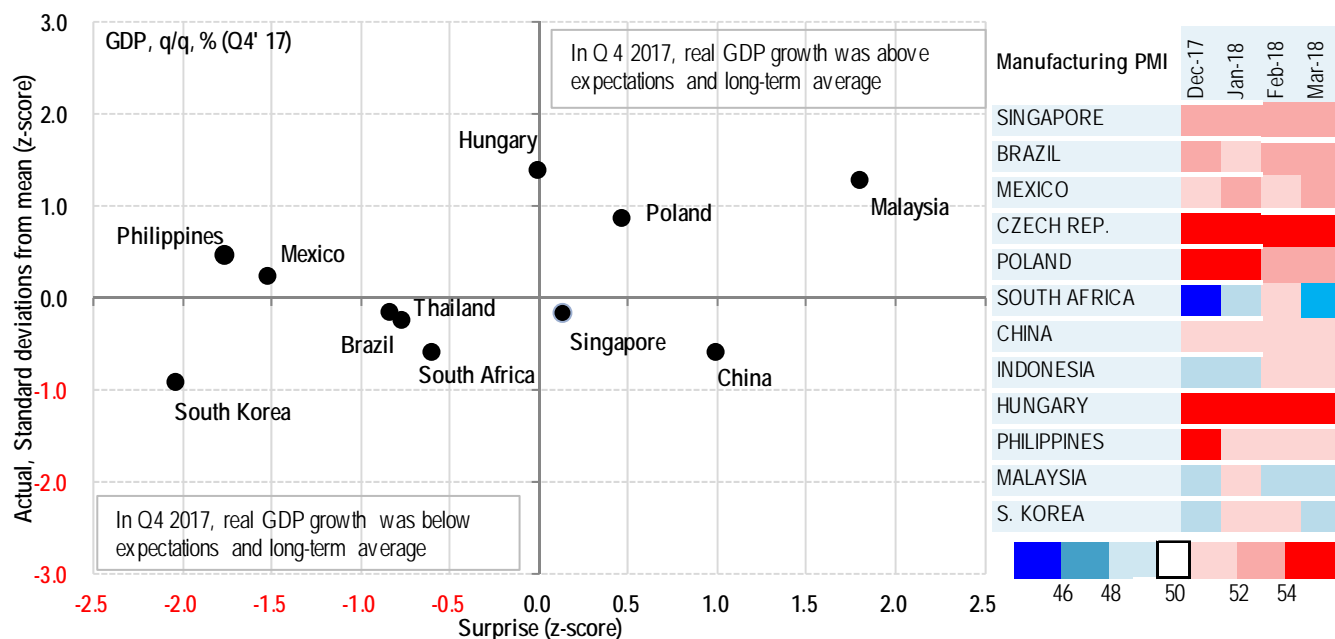
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Pulse

South Korea: Economic slowdown in the last quarter of 2017

Economic growth in Korea surprised on the downside in the last quarter of 2017, as real GDP fell by 0.2% q/q (+3.0% y/y). The poor performance is largely attributable to temporary factors (lunar holiday, auto sector strike...) which will probably be offset in the first quarter of 2018. The outlook for 2018 remains positive, real GDP growth should reach 3%.



Sources: Bloomberg, Markit, BNP Paribas

Indicators preview

A rather light week ahead of us on the data front. Highlights will be inflation in the UK, and how it will impact expectations with respect to Bank of England policy, and in the eurozone, inflation and consumer confidence.

Date	Country	Event	Period	Prior
04/16/18	United States	Empire Manufacturing	April	22.5
04/17/18	United States	Housing Starts MoM	March	--
04/17/18	United States	Building Permits MoM	March	--
04/17/18	United States	Capacity Utilization	March	--
04/18/18	United Kingdom	RPI MoM	March	--
04/18/18	Eurozone	CPI MoM	March	--
04/19/18	United Kingdom	Retail Sales Ex Auto Fuel MoM	March	--
04/19/18	United States	Philadelphia Fed Business Outlook	April	22.3
04/19/18-04/25/18	United Kingdom	CBI Trends Total Orders	April	--
04/20/18	Eurozone	Consumer Confidence	April	--

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
Advanced	2.2	2.6	1.9	1.8	1.9	1.8
United-States	2.3	3.1	2.1	2.1	2.3	2.1
Japan	1.7	1.3	0.6	0.5	0.9	0.9
United-Kingdom	1.8	1.5	1.8	2.7	2.6	2.1
Euro Area	2.5	2.6	2.1	1.5	1.7	1.7
Germany	2.5	2.4	2.0	1.7	1.8	1.9
France	2.0	2.3	1.9	1.2	1.6	1.7
Italy	1.5	1.5	1.2	1.3	1.4	1.5
Spain	3.1	2.8	2.2	2.0	1.6	1.6
Netherlands	3.3	2.3	1.7	1.3	1.7	1.8
Emerging						
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	1.0	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			
US	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
Ezone	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
UK	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
Japan	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			
USD	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
EUR	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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