

ECOWEEK

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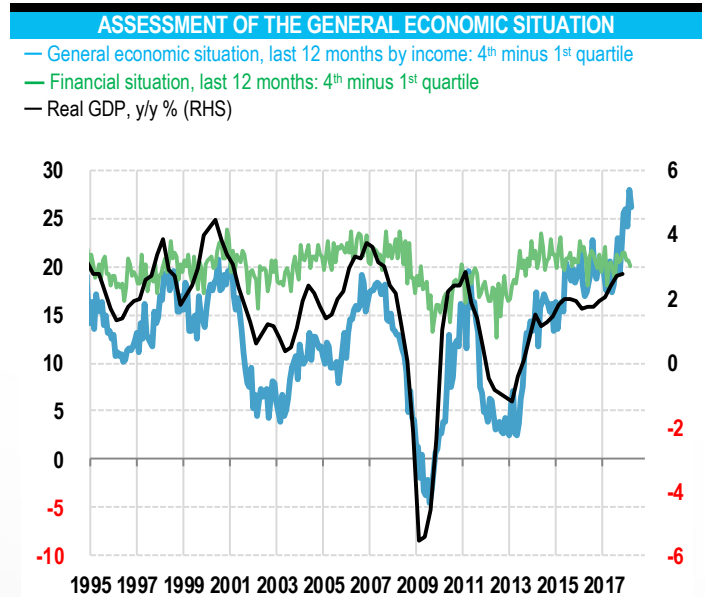
Eurozone: pockets of animal spirits?

■ The assessment of the general economic situation by the highest income quartile is more cyclically sensitive than the one by the lowest income quartile ■ The former has become particularly positive since early 2017 although the relative assessment of the financial situation has not improved ■ Possibly, 4th quartile income households feel, relatively speaking, less uncertain about the future.

Last week's editorial provided possible explanations why intended major purchases by upper income quartile households reacted more to changes in the business cycle than expenditures by lower income quartile households. As a consequence, the difference between the two was highly procyclical. A similar observation can be made based on the difference in the assessment of the general economic situation. The highest income quartile reacts more to changes in general economic conditions than the lowest. The chart shows that this difference tracks real GDP growth very well although since the start of 2017 a gap has appeared: the relative improvement in the assessment by upper quartile households has not been translated in a corresponding acceleration of GDP growth. However, it should be emphasised that the observed growth pickup was already quite sizeable. Alternatively, one could argue that, given the observed growth acceleration, upper quartile households have actually become too optimistic.

Why have wealthier households become much more optimistic about the global environment? It can hardly be explained by a more positive assessment of their financial situation. Based on the chart, this has evolved in a similar way for the 1st and 4th income quartile households. Wealth effects might play a role with upper income quartile households being more exposed to real estate and equities (both have seen significant increases in this cycle). This may not show up in the assessment of the personal financial situation, as respondents probably concentrate on their regular income, rather than their wealth.

What's puzzling as well is that the abnormally big divergence between the assessments is only a very recent phenomenon, starting early 2017. Perhaps uncertainty plays a role: although the assessment of their financial situation has evolved in line with bottom quartile households, the top quartile might simply feel more confident and less uncertain which might translate in an abnormally strong positive assessment of the overall economic conditions. It remains to be seen whether growth will slow when their relative assessment moves back in line with the historical range.



Source: European Commission, Eurostat, BNP Paribas

William De Vijlder and Raymond van der Putten

p. 2

Markets Overview

p. 3

Pulse & calendar

p. 4

Economic scenario

ECONOMIC RESEARCH DEPARTMENT

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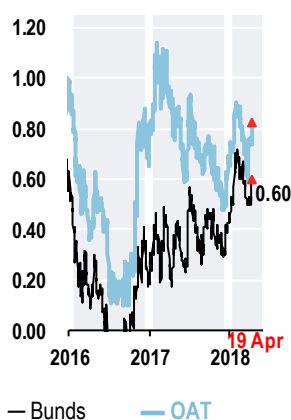
Markets overview

The essentials

Week 13-4 18 > 19-4-18

↗ CAC 40	5 315	▶ 5 392	+1.4 %
↗ S&P 500	2 656	▶ 2 693	+1.4 %
↘ Volatility (VIX)	17.4	▶ 16.0	-1.5 pb
↗ Euribor 3M (%)	-0.33	▶ -0.33	+0.1 bp
↗ Libor \$ 3M (%)	2.35	▶ 2.36	+0.6 bp
↗ OAT 10y (%)	0.74	▶ 0.83	+8.7 bp
↗ Bund 10y (%)	0.51	▶ 0.60	+8.6 bp
↗ US Tr. 10y (%)	2.83	▶ 2.91	+8.8 bp
↗ Euro vs dollar	1.23	▶ 1.24	+0.3 %
↘ Gold (ounce, \$)	1 346	▶ 1 345	-0.0 %
↗ Oil (Brent, \$)	72.7	▶ 74.7	+2.8 %

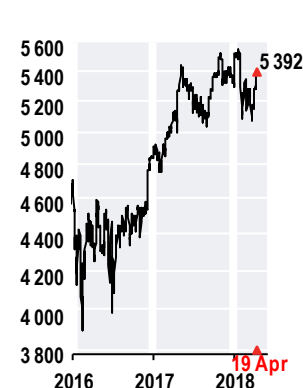
10 y bond yield, OAT vs Bund



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	1.75 at 22/03	1.50 at 01/01
Libor 3M	2.36 at 18/04	1.69 at 01/01
Libor 12M	2.75 at 18/04	2.11 at 01/01
£ BoE	0.50 at 01/01	0.50 at 01/01
Libor 3M	0.78 at 17/04	0.52 at 04/01
Libor 12M	1.04 at 17/04	0.76 at 03/01

At 19-4-18

Yield (%)	highest' 18	lowest' 18
€ AVG 5-7y	0.45 at 15/02	0.41 at 18/04
Bund 2y	-0.56 at 07/03	-0.66 at 01/01
Bund 10y	0.60 at 15/02	0.42 at 01/01
OAT 10y	0.83 at 08/02	0.60 at 30/03
Corp. BBB	1.44 at 19/04	1.17 at 08/01
\$ Treas. 2y	2.44 at 19/04	1.89 at 01/01
Treas. 10y	2.91 at 21/02	2.41 at 01/01
Corp. BBB	4.19 at 19/04	3.59 at 01/01
£ Treas. 2y	0.81 at 21/03	0.40 at 01/01
Treas. 10y	1.56 at 15/02	1.23 at 01/01

At 19-4-18

10y bond yield & spreads

4.48%	Greece	387 pb
1.78%	Italy	117 pb
1.47%	Portugal	87 pb
1.28%	Spain	68 pb
0.86%	Belgium	25 pb
0.83%	France	22 pb
0.79%	Austria	18 pb
0.74%	Netherlands	13 pb
0.70%	Finland	10 pb
0.69%	Ireland	9 pb
0.60%	Germany	

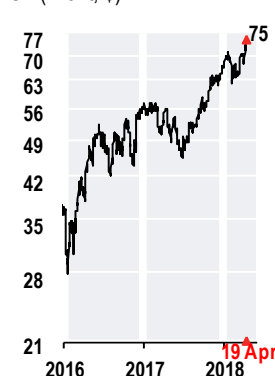
Commodities

Spot price in dollars	lowest' 18	2018(€)
Oil, Brent	62.2 at 13/02	+9.0%
Gold (ounce)	1 303 at 01/01	+0.2%
Metals, LMEX	3 184 at 26/03	-0.8%
Copper (ton)	6 556 at 26/03	-6.5%
CRB Foods	335 at 04/04	+1.7%
wheat (ton)	155 at 16/01	+6.6%
Corn (ton)	126 at 08/01	+6.1%

At 19-4-18

Variations

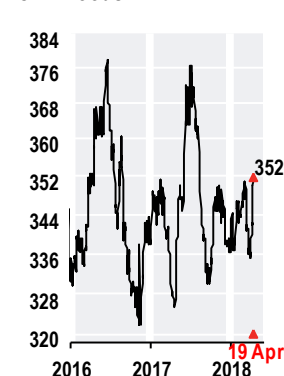
Oil (Brent, \$)



Gold (Ounce, \$)



CRB Foods



Exchange Rates

€ =	highest' 18	lowest' 18	2018
USD	1.25 at 25/01	1.19 at 09/01	+3.0%
GBP	0.89 at 02/03	0.86 at 17/04	-2.1%
CHF	1.20 at 19/04	1.15 at 27/02	+2.5%
JPY	132.74 at 02/02	129.63 at 23/03	-1.9%
AUD	1.61 at 26/03	1.53 at 09/01	+3.6%
CNY	7.92 at 25/01	7.70 at 07/02	-0.7%
BRL	4.24 at 16/04	3.87 at 08/01	+5.5%
RUB	79.12 at 11/04	68.06 at 09/01	+8.9%
INR	81.29 at 19/04	75.92 at 08/01	+6.1%

At 19-4-18

Variations

Equity indices

Index	highest' 18	lowest' 18	2018	2018(€)
CAC 40	5 542 at 22/01	5 066 at 26/03	+1.5%	+1.5%
S&P500	2 873 at 26/01	2 581 at 08/02	+0.7%	-2.2%
DAX	13 560 at 23/01	11 787 at 26/03	-2.7%	-2.7%
Nikkei	24 124 at 23/01	20 618 at 23/03	-2.5%	-0.7%
China*	101 at 26/01	88 at 09/02	+2.8%	-0.5%
India*	642 at 29/01	563 at 23/03	-1.0%	-6.6%
Brazil*	2 393 at 26/01	2 023 at 01/01	+11.7%	+5.9%
Russia*	707 at 26/02	571 at 16/04	+5.9%	-2.1%

At 19-4-18

Variations

* MSCI index



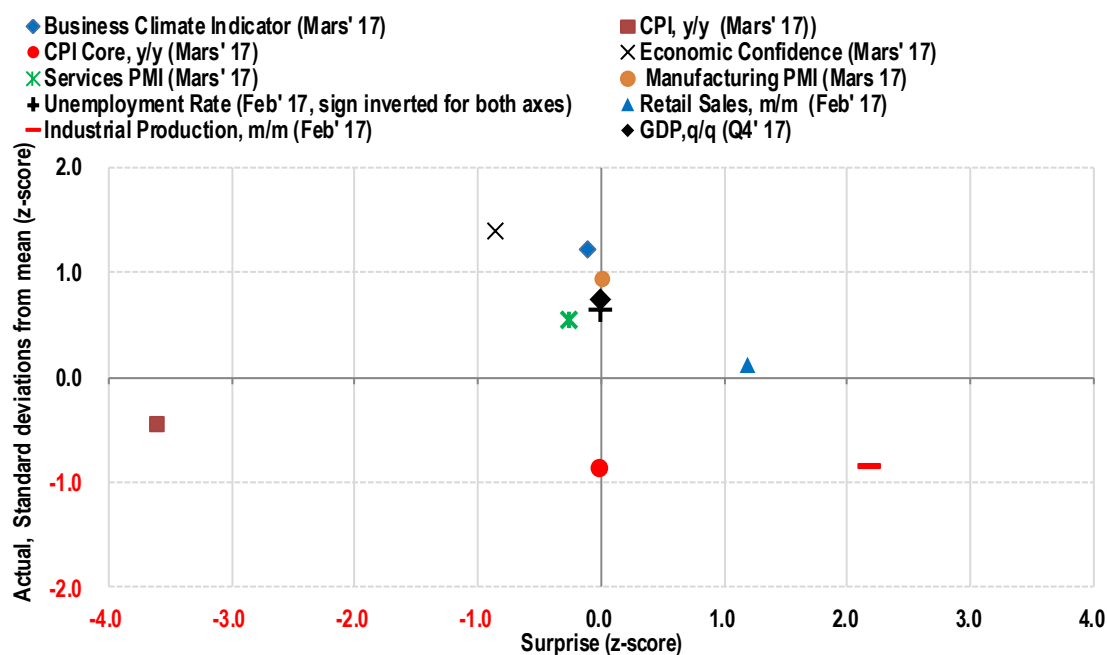
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Pulse

Eurozone: Softer sentiment data

Recent survey-based indicators have softened. As shown in the chart, the indicators for March were in line or slightly below the consensus expectations. The level remains very high though and well above the long-term average. Inflation however remains below the long-term average although the prospect of ongoing above potential growth should lead to a gradual pick-up in inflation.



Sources: Bloomberg, Markit, BNP Paribas

Indicators preview

An important week ahead of us with a lot of sentiment data for April: Markit PMI numbers in different countries, IFO (Germany), consumer confidence in France and in the US (both the Conference Board index and the University of Michigan index). Moreover Q1 GDP will be released in France, the UK and the US. Finally, we have the Bank of Japan meeting and the ECB Governing Council meeting.

Date	Country	Event	Period	Prior
04/23/18	France	Markit France Composite PMI	April	--
04/23/18	Eurozone	Markit Eurozone Manufacturing PMI	April	--
04/23/18	Eurozone	Markit Eurozone Services PMI	April	--
04/23/18	Eurozone	Markit Eurozone Composite PMI	April	--
04/24/18	France	Business Confidence	April	--
04/24/18	Germany	IFO Business Climate	April	--
04/24/18	United States	New Home Sales MoM	March	--
04/24/18	United States	Richmond Fed Manufact. Index	April	--
04/24/18	United States	Conf. Board Consumer Confidence	April	--
04/25/18	France	Consumer Confidence	April	--
04/26/18	Eurozone	ECB Main Refinancing Rate	April 26	0.000%
04/26/18	United States	Cap Goods Orders Nondef Ex Air	March	--
04/27/18	United Kingdom	GfK Consumer Confidence	April	--
04/27/18	France	GDP QoQ	1Q	--
04/27/18	France	CPI EU Harmonized MoM	April	--
04/27/18	United Kingdom	GDP QoQ	1Q	--
04/27/18	Eurozone	Economic Confidence	April	--
04/27/18	United States	GDP Annualized QoQ	1Q	--
04/27/18	United States	U. of Mich. Sentiment	April	--
04/27/18	Japan	BOJ 10-Yr Yield Target	April 27	0.000%

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
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)



GROUP ECONOMIC RESEARCH

■ **William DE VIJDER**
Chief Economist

+33.(0)1 55 77 47 31

william.devijlder@bnpparibas.com

ADVANCED ECONOMIES AND STATISTICS

■ **Jean-Luc PROUTAT**
Head

+33.(0)1.58.16.73.32

jean-luc.proutat@bnpparibas.com

■ **Alexandra ESTIOT**
Works coordination - United States - United Kingdom - Globalisation

+33.(0)1.58.16.81.69

alexandra.estiot@bnpparibas.com

■ **Hélène BAUDCHON**
France (short-term outlook and forecasts) - Labour markets

+33.(0)1.58.16.03.63

helene.baudchon@bnpparibas.com

■ **Frédérique CERISIER**
Euro Area (European governance and public finances), Spain, Portugal

+33.(0)1.43.16.95.52

frederique.cerisier@bnpparibas.com

■ **Thibault MERCIER**
Euro Area (short-term outlook and monetary policy), France (structural reforms)

+33.(0)1.57.43.02.91

thibault.mercier@bnpparibas.com

■ **Catherine STEPHAN**
Nordic countries - World trade - Education, health, social conditions

+33.(0)1.55.77.71.89

catherine.stephan@bnpparibas.com

■ **Raymond VAN DER PUTTEN**
Germany, Netherlands, Austria, Switzerland - Energy, climate - Long-term projections

+33.(0)1.42.98.53.99

raymond.vanderputten@bnpparibas.com

■ **Tarik RHARRAB**
Statistics and Modelling

+33.(0)1.43.16.95.56

tarik.rharrab@bnpparibas.com

BANKING ECONOMICS

■ **Laurent QUIGNON**
Head

+33.(0)1.42.98.56.54

laurent.quignon@bnpparibas.com

■ **Céline CHOLET**

+33.(0)1.43.16.95.54

celine.choulet@bnpparibas.com

■ **Thomas HUMBLLOT**

+33.(0)1.40.14.30.77

thomas.humblot@bnpparibas.com

EMERGING ECONOMIES AND COUNTRY RISK

■ **François FAURE**
Head - Argentina

+33.(0)1 42 98 79 82

francois.faure@bnpparibas.com

■ **Christine PELTIER**
Deputy Head - Greater China, Vietnam, other North Asian countries, South Africa

+33.(0)1.42.98.56.27

christine.peltier@bnpparibas.com

■ **Stéphane ALBY**
Africa (French-speaking countries)

+33.(0)1.42.98.02.04

stephane.alby@bnpparibas.com

■ **Sylvain BELLEFONTAINE**
Turkey, Latin America

+33.(0)1.42.98.26.77

sylvain.bellefontaine@bnpparibas.com

■ **Sara CONFALONIERI**
Africa (Portuguese & English-speaking countries)

+33.(0)1.42.98.43.86

sara.confalonieri@bnpparibas.com

■ **Pascal DEVAUX**
Middle East, Balkan countries

+33.(0)1.43.16.95.51

pascal.devau@bnpparibas.com

■ **Anna DORBEC**
CIS, Central European countries

+33.(0)1.42.98.48.45

anna.dorbec@bnpparibas.com

■ **Hélène DROUOT**
Korea, Thailand, Philippines, Andean countries

+33.(0)1.42.98.33.00

helene.drouot@bnpparibas.com

■ **Johanna MELKA**
India, South Asia, Russia

+33.(0)1.58.16.05.84

johanna.melka@bnpparibas.com

■ **Michel BERNARDINI**
Contact Média

+33.(0)1.42.98.05.71

michel.bernardini@bnpparibas.com



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 Registered Office: 16 boulevard des Italiens – 75009 PARIS
 Tel: +33 (0) 1.42.98.12.34 – Internet :
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