

ECOWEEK

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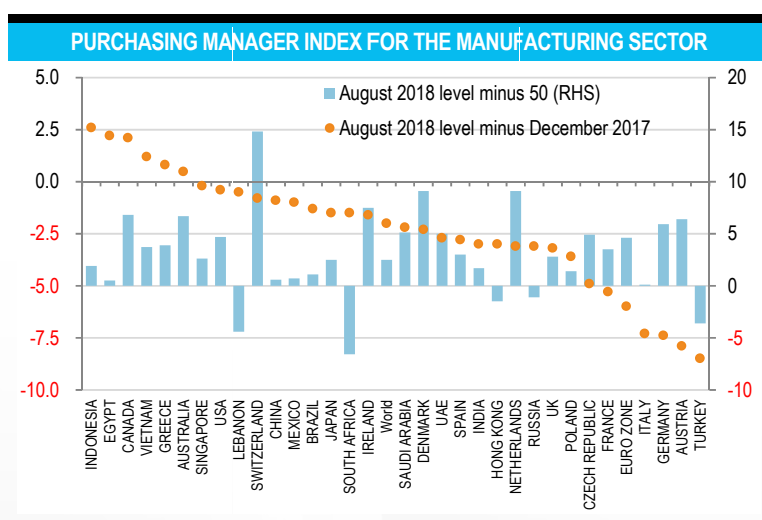
Global economy: Decline of manufacturing sentiment slows down

■ Since the end of 2017, most countries have witnessed a decline of the Markit PMI index for the manufacturing sector ■ The pace of decline is slowing however in the past 3 months compared to the previous 3 months ■ This and the still high level of the index in many countries point towards an ongoing satisfactory growth pace

Although the manufacturing sector represents a shrinking part of economic activity, its cyclical nature makes it a useful indicator in checking the pulse of the economy. To this end, the Markit PMI is an often used indicator. In the vast majority of countries, it has witnessed a decline since the end of last year. Looking at chart 1, the biggest change occurred in Turkey, which is not a surprise given the market tensions in recent months. Most eurozone countries saw a decline in manufacturing sentiment. In some cases (Germany, France, Italy, Austria) and for the eurozone as a whole, the drop was significant but this occurred after having reached very high levels towards the end of 2017. Indeed, for most eurozone countries, the current levels remain well above 50 (the borderline between expansion and contraction in the manufacturing sector). Italy is an exception with the index at 50.1. In the rest of the world, sentiment remains above 50 as well in most countries.

For the US, the commonly used indicator is provided by the Institute for Supply Management. Since December 2017, the manufacturing ISM index has been fluctuating in a rather narrow range, between 57.3 (last April) and 61.3 (August). The August number represents a 3.2 percentage points increase from July. The same can't be said for most other countries: chart 2 shows that the average monthly change in the past 3 months is still negative in most cases although less than over the past 6 months.

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Source: Markit, BNP Paribas

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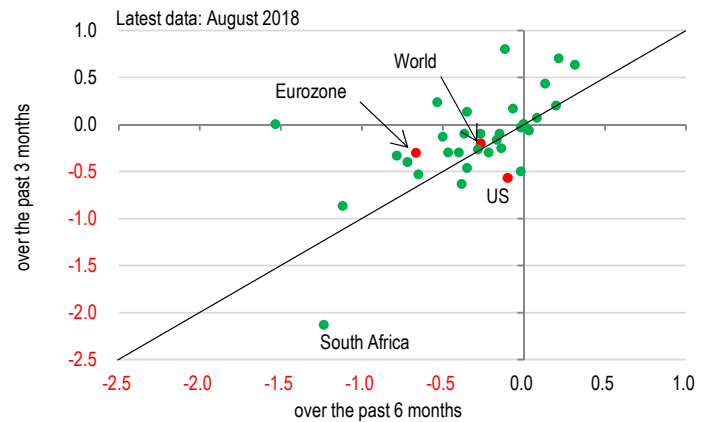
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This slowing negative momentum provides hope that manufacturing sector sentiment would stabilise although the jury is still out on this. On the positive side, in addition to the uptick in the US index, expectations of German companies have also increased as shown in the IFO index and China has taken measures to support growth. On the other hand, ongoing market tensions in developing economies cloud their economic outlook and this may end up weighing on exports of advanced economies. Most importantly however, lingering fears about a full-fledged trade war should cap the upside potential, if any, of manufacturing sentiment.

William De Vijlder

MANUFACTURING PMI MOMENTUM (AVERAGE MONTHLY CHANGE OF PMI)



Source: Markit, BNP Paribas

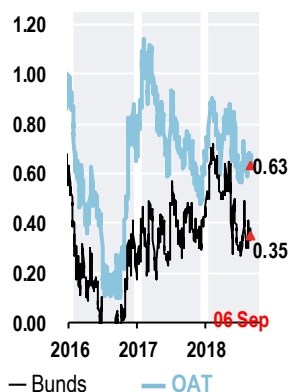
Markets overview

The essentials

Week 31-8 18 > 6-9-18

➤ CAC 40	5 407	➤ 5 244	-3.0 %
➤ S&P 500	2 902	➤ 2 878	-0.8 %
➤ Volatility (VIX)	12.9	➤ 14.7	+1.8 pb
➤ Euribor 3M (%)	-0.32	➤ -0.32	+0.0 bp
➤ Libor \$ 3M (%)	2.32	➤ 2.32	-0.4 bp
➤ OAT 10y (%)	0.63	➤ 0.63	+0.1 bp
➤ Bund 10y (%)	0.33	➤ 0.35	+1.8 bp
➤ US Tr. 10y (%)	2.86	➤ 2.88	+1.4 bp
➤ Euro vs dollar	1.16	➤ 1.16	-0.0 %
➤ Gold (ounce, \$)	1 203	➤ 1 199	-0.3 %
➤ Oil (Brent, \$)	77.7	➤ 76.5	-1.5 %

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	-0.36 at 31/08	-0.37 at 18/05
Euribor 3M	-0.32 at 30/07	-0.33 at 01/01
Euribor 12M	-0.17 at 29/08	-0.19 at 19/02
\$ FED	2.00 at 14/06	1.50 at 01/01
Libor 3M	2.32 at 04/05	1.69 at 01/01
Libor 12M	2.84 at 05/09	2.11 at 01/01
£ BoE	0.75 at 02/08	0.50 at 01/01
Libor 3M	0.80 at 06/08	0.52 at 04/01
Libor 12M	1.04 at 02/08	0.76 at 03/01

At 6-9-18

Yield (%)	highest' 18	lowest' 18
€ AVG 5-7y	0.69 at 08/06	0.41 at 18/04
Bund 2y	-0.57 at 01/08	-0.79 at 29/05
Bund 10y	0.35 at 15/02	0.27 at 19/07
OAT 10y	0.63 at 08/02	0.57 at 13/07
Corp. BBB	1.70 at 05/09	1.17 at 08/01
\$ Treas. 2y	2.65 at 26/07	1.89 at 01/01
Treas. 10y	2.88 at 17/05	2.41 at 01/01
Corp. BBB	4.31 at 17/05	3.59 at 01/01
£ Treas. 2y	0.72 at 21/03	0.40 at 01/01
Treas. 10y	1.33 at 15/02	1.23 at 01/01

At 6-9-18

10y bond yield & spreads

4.82%	Greece	446 pb
2.90%	Italy	255 pb
1.88%	Portugal	152 pb
1.47%	Spain	112 pb
0.72%	Belgium	36 pb
0.63%	France	28 pb
0.56%	Ireland	21 pb
0.55%	Austria	20 pb
0.53%	Finland	17 pb
0.47%	Netherlands	11 pb
0.35%	Germany	

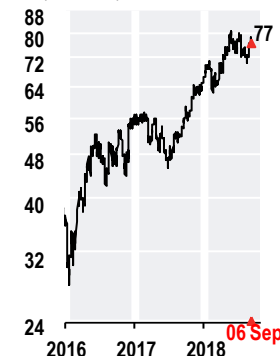
Commodities

Spot price in dollars	lowest' 18	2018(€)
Oil, Brent	76.5 at 13/02	+18.6%
Gold (ounce)	1 199 at 17/08	-5.0%
Metals, LMEX	2 868 at 15/08	-13.4%
Copper (ton)	5 904 at 15/08	-15.4%
CRB Foods	319 at 30/08	-1.9%
wheat (ton)	176 at 16/01	+14.2%
Corn (ton)	128 at 29/08	+3.6%

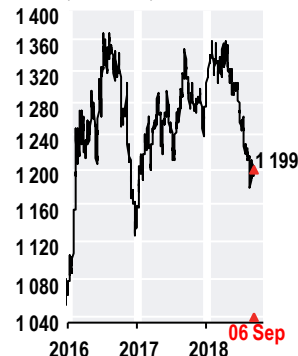
At 6-9-18

Variations

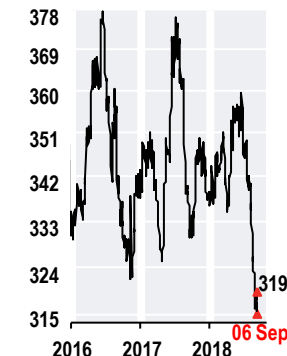
Oil (Brent, \$)



Gold (Ounce, \$)



CRB Foods



Exchange Rates

€ =	highest' 18	lowest' 18	2018
USD	1.25 at 25/01	1.13 at 15/08	-3.1%
GBP	0.91 at 28/08	0.86 at 17/04	+1.2%
CHF	1.20 at 19/04	1.12 at 15/08	-3.8%
JPY	128.99 at 02/02	124.96 at 15/08	-4.6%
AUD	1.62 at 05/09	1.53 at 09/01	+5.1%
CNY	7.95 at 24/08	7.42 at 29/05	+1.6%
BRL	4.83 at 30/08	3.87 at 08/01	+21.4%
RUB	80.48 at 06/09	68.06 at 09/01	+16.4%
INR	83.64 at 06/09	75.92 at 08/01	+9.1%

At 6-9-18

Variations

Equity indices

Index	highest' 18	lowest' 18	2018	2018(€)
CAC 40	5 640 at 22/05	5 066 at 26/03	-1.3%	-1.3%
S&P500	2 914 at 29/08	2 581 at 08/02	+7.6%	+11.1%
DAX	13 560 at 23/01	11 787 at 26/03	-7.5%	-7.5%
Nikkei	24 124 at 23/01	20 618 at 23/03	-1.2%	+3.6%
China*	101 at 26/01	76 at 06/09	-13.3%	-10.8%
India*	642 at 29/01	547 at 23/05	+7.6%	-1.4%
Brazil*	2 393 at 26/01	1 568 at 04/09	-0.7%	-18.2%
Russia*	707 at 26/02	551 at 23/08	+8.5%	-4.5%

At 6-9-18

Variations

* MSCI index



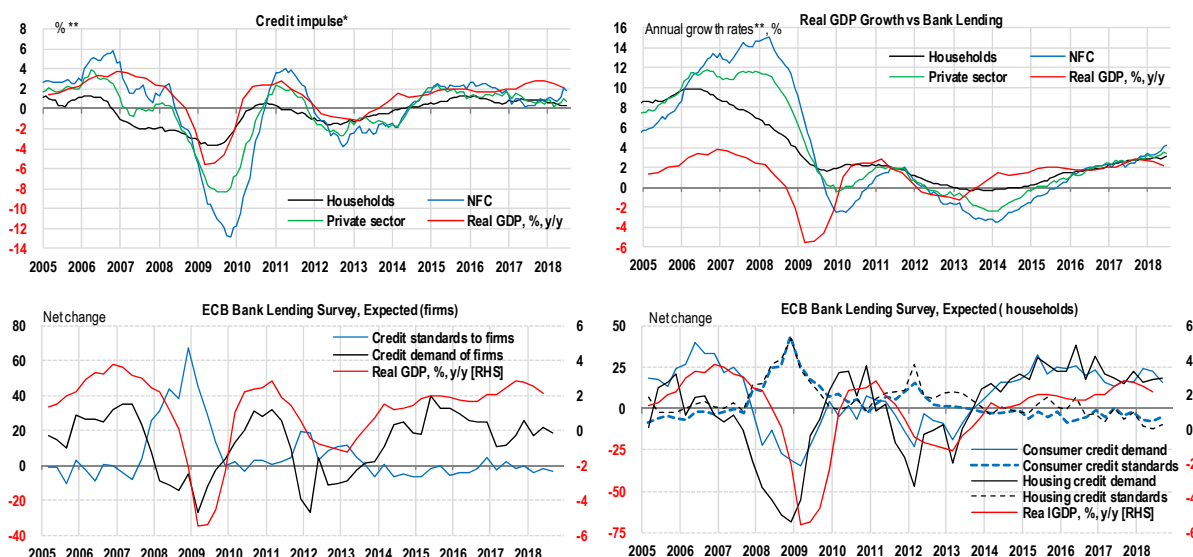
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Pulse

Eurozone: Credit pulse

Despite the slight slowing of growth in the euro zone in the first half of 2018, the pulse of lending, which rose significantly in June under the effect of strong lending to non-financial companies (particularly securitised loans), remained in July at a level last seen in the autumn of 2016. Banks responding to the latest Bank Lending Survey (July 2018) indicated that they expected growth in demand for credit over the next three months – from both consumers and business – as well as a slight relaxation of lending conditions.



*Credit impulse is measured as the annual change of the annual growth rate of MFI loans ** Adjusted for securitizations

Source: ECB, ECB survey on the distribution of credit, BLS, BNP Paribas

Indicators preview

A heavy week ahead of us with meetings of the Bank of England and the ECB, the release of the Fed's Beige Book, describing the economic environment across the US (readers will look for comments from corporates on the protectionist threat), as well as a number of important data: machine orders, industrial production and the eco watchers survey in Japan; inflation in France and Germany; employment data in France and the eurozone; industry sentiment in France. Several data will be released in the US: small business optimism, PPI, CPI, retail sales, consumer sentiment (University of Michigan).

Date	Country/Region	Event	Period	Surv(M)
09/10/2018	Japan	GDP SA QoQ	2-Q	--
09/10/2018	France	Bank of France Ind. Sentiment	August	101
09/10/2018	Japan	Eco Watchers Survey Current SA	August	46.6
09/11/2018	France	Total Payrolls	2-Q	0.2%
09/11/2018	United Kingdom	ILO Unemployment Rate 3Mths	July	--
09/11/2018	United States	NFIB Small Business Optimism	August	--
09/12/2018	Eurozone	Employment QoQ	2-Q	0.4%
09/12/2018	United States	PPI Final Demand MoM	August	--
09/12/2018	United States	U.S. Federal Reserve Releases Beige Book	August	--
09/13/2018	Japan	Core Machine Orders MoM	July	-8.8%
09/13/2018	Germany	CPI MoM	August	--
09/13/2018	France	CPI MoM	August	--
09/13/2018	United Kingdom	Bank of England Bank Rate	Sep-13	0.750%
09/13/2018	Eurozone	ECB Main Refinancing Rate	Sep-13	0.000%
09/13/2018	United States	CPI MoM	August	--
09/14/2018	Japan	Industrial Production MoM	July	--
09/14/2018	United States	Retail Sales Advance MoM	August	--
09/14/2018	United States	Industrial Production MoM	August	--
09/14/2018	United States	Capacity Utilization	August	--
09/14/2018	United States	U. of Mich. Sentiment	Sep	--

Source: Bloomberg, BNP Paribas



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Economic scenario

UNITED STATES

- Economy is expected to expand at a 3% or so in 2018, thanks to tax cuts, booming profits and credit. However, the current weakening in external trade indexes puts the risk on the downside.
- Inflation is accelerating in the wake of higher oil prices and more evident tensions in the labour market.
- The Fed will keep on normalizing monetary conditions. We forecast the Fed Funds target rate to reach 2.75% in Q1 2019.

CHINA

- Economic growth will decelerate in 2018-2019. The export outlook is significantly darkened by US protectionist measures. Private domestic demand should be affected by the worsening performance of the export manufacturing sector and the continued moderation in the property market.
- In order to contain the slowdown, the central bank has started to ease liquidity and credit conditions. At the same time, the reduction in financial instability risks should remain a top policy priority. Fiscal policy will also be expansionary and infrastructure spending is projected to rise.

EUROZONE

- The recovery is continuing, although it has been weaker than expected at the start of the year. Intra-EU trade grows with domestic demand, especially corporate investment.
- Inflation has rebounded in the wake of higher oil prices, but the core CPI trend remains subdued. Along with renewed tensions over sovereign debt spreads (Italy) this argues for the ECB to maintain the status quo on the refinancing rate for a long period of time.

FRANCE

- Growth slows down but remains above potential. Households' consumption should get a boost from the planned tax cuts and the jobs recovery but inflation reduces purchasing power gains. Business investment dynamics remain favourable. The global backdrop is less supportive. A slight rise in core 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 more rate hikes. We expect 2 more this year and 1 in the first half of 2019 after which the Fed will want to see how the economy reacts. As a consequence, US treasury yields should increase, although to a limited degree: the market expects that the tightening cycle is already well advanced. The ECB has announced it intends to stop its net asset purchases at the end of 2018. A first hike of the deposit rate is expected after the summer of 2019. As a consequence, bond yields should increase. 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	2.2	1.5	1.8	2.1	1.9
United-States	2.2	2.8	1.8	2.1	2.5	2.1
Japan	1.7	0.9	0.6	0.5	1.0	1.0
United-Kingdom	1.7	1.3	1.6	2.7	2.4	2.1
Euro Area	2.5	2.0	1.5	1.5	1.9	1.9
Germany	2.5	1.9	1.6	1.7	1.9	2.1
France	2.3	1.7	1.6	1.2	2.2	1.8
Italy	1.6	1.2	1.0	1.3	1.5	1.9
Spain	3.1	2.7	2.0	2.0	1.8	1.8
Netherlands	3.0	2.3	1.7	1.3	1.7	1.8
Emerging	5.9	5.8	5.8	2.4	2.9	2.8
China	6.9	6.4	6.1	1.6	2.1	1.9
India	6.7	7.4	7.6	3.6	4.5	4.4
Brazil	1.0	1.5	3.0	3.4	3.7	3.7
Russia	1.5	1.8	1.6	3.7	2.6	3.5

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

INTEREST RATES & FX RATES

Interest rates, %		2018	2019						
End of period		Q4e	Q1e	Q2e	Q3e	Q4e	2017	2018e	2019e
US	Fed Funds	2.50	2.75	2.75	2.75	2.75	1.50	2.50	2.75
	Libor 3m \$	2.36	2.80	2.85	2.65	2.55	1.69	2.36	2.55
	T-Notes 10y	3.10	3.15	3.20	3.10	3.00	2.41	3.10	3.00
Ezone	ECB Refi	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Euribor 3m	-0.30	-0.30	-0.25	-0.20	-0.15	-0.33	-0.30	-0.15
	Bund 10y	0.75	0.85	1.00	1.10	1.20	0.42	0.75	1.20
	OAT 10y	1.00	1.10	1.25	1.35	1.45	0.66	1.00	1.45
UK	Base rate	0.75	0.75	1.00	1.00	1.25	0.50	0.75	1.25
	Gilts 10y	1.55	1.70	1.80	1.90	2.00	1.23	1.55	2.00
Japan	BoJ Rate	-0.10	-0.10	-0.10	-0.10	-0.10	-0.04	-0.10	-0.10
	JGB 10y	0.14	0.12	0.10	0.04	0.02	0.05	0.14	0.02

Exchange Rates		2019							
End of period		Q4e	Q1e	Q2e	Q3e	Q4e	2017	2018e	2019e
USD	EUR / USD	1.20	1.22	1.25	1.28	1.30	1.20	1.20	1.30
	USD / JPY	106	102	100	99	98	113	106	98
	GBP / USD	1.30	1.34	1.40	1.45	1.49	1.35	1.30	1.49
	USD / CHF	0.97	0.97	0.96	0.95	0.94	0.97	0.97	0.94
EUR	EUR / GBP	0.92	0.91	0.89	0.88	0.87	0.89	0.92	0.87
	EUR / CHF	1.16	1.18	1.20	1.22	1.22	1.17	1.16	1.22
	EUR / JPY	127	124	125	127	127	135	127	127

Source : GlobalMarkets (e: Estimates & forecasts)



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