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ECONOMIC RESEARCH

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EDITORIAL

THE WORRISOME COST OF WORRYING ABOUT RECESSION

The global economy has been hit by multiple shocks this year: new Covid-19 cases in China, the war in Ukraine, rising interest rates. Financial market behaviour and the US Survey of Professional Forecasters point to mounting concerns about the risk of a recession. These worries come with a cost to the economy and may cause growth to slow down further. Some degree of concern is welcome because it enhances the effectiveness of a restrictive monetary policy. There is a tipping point however, beyond which slowdown fears become self-fulfilling. Addressing these would be difficult if by then inflation has not yet converged sufficiently to target.

Recession worries are mounting. In the US, the anxious index – the probability estimated by the Survey of Professional Forecasters of entering recession in the next quarter – has increased recently (chart 1). Media increasingly use the 'R-word' and prices of equities and corporate bonds have declined, suffering from rising interest rates and a jump in investor risk aversion. These developments don't come as a surprise. After all, the global economy has been hit by multiple shocks this year: drastic restrictions on mobility in China following the increase of new Covid-19 cases, the war in Ukraine, which has intensified supply disruption and caused a further increase in commodity prices as well as a jump in uncertainty. Moreover, in many countries, monetary policy has been tightened and more is to come. Rising concerns do not imply that a recession is inevitable. After all, in the past, equity and corporate bond markets have often provided false signals and the same applies to the anxious index.

However, these recession worries come with a cost, which is worrisome. Companies may prefer to adopt a wait-and-see attitude and refrain from increasing their headcount. This entails an opportunity cost for people who didn't get a job and hence remain unemployed or who couldn't move to a higher paid role. As a consequence, households may adopt a more cautious stance and increase their precautionary savings. Companies may also postpone investment decisions. This implies a reduction in shareholder value creation because projects with a positive net present value are put on hold.

The microeconomic rationale underpinning such behaviour may make perfect sense. The purpose of tightening monetary policy is to slow growth enough to bring inflation back under control. This forces companies to revise downwards their expected cash-flows. Moreover, the distribution around the median scenario widens -reflecting greater uncertainty – and becomes skewed because downside risks dominate. Tail risk – i.e. a recession – also increases. In such an environment, managers become more risk averse although they may still be confident about the medium-term outlook. They consider there is value in waiting before proceeding with planned investments, which would happen when visibility has improved.

To some degree, managerial short-term caution reflects agency problems. Managers, as agents of the shareholders – the principal – are worried of being blamed for not having shown greater caution in the run-up to a recession. Principal-agent problems may thus contribute to a growth slowdown. Similar problems exist when companies rely on external financing sources such as banks and capital markets to finance part of their investments.

Slower growth raises concern about rising credit risk, causing banks and financial markets investors to adopt a more cautious stance. This is based on the historical experience that growth and credit risk are negatively correlated. It also reflects an issue of asymmetric information between borrowers and lenders.[1] The higher financing

1. There is a potential divergence of interest between borrowers and suppliers of financing. When growth slows down, net worth of borrowers may decline, so they have less to lose when undertaking risky projects. Lenders must incur higher costs to analyse the credit quality of the borrower. Both factors cause an increase in the financing cost of borrowers.

US ANXIOUS INDEX

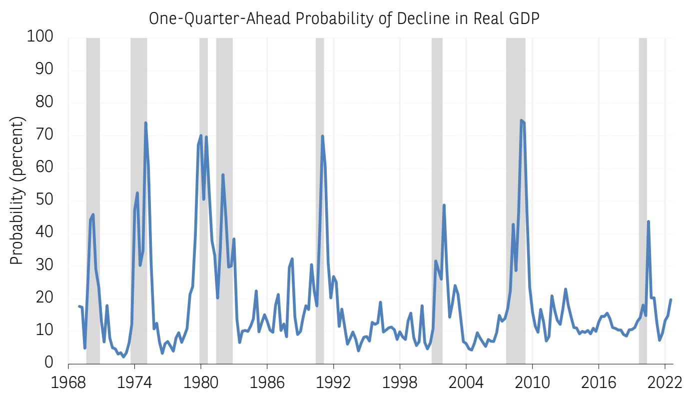


CHART 1

SOURCE: SURVEY OF PROFESSIONAL FORECASTERS, FEDERAL RESERVE OF PHILADELPHIA

> Worrying about a recession comes with a cost for the economy. This enhances the effectiveness of a tightening of monetary policy but there is a tipping point beyond which slowdown fears become self-fulfilling.

costs (chart 2) have an immediate impact - lower profitability due to higher interest charges - but may also weigh on the willingness or ability of companies to invest. Agency problems again play a key role. Managers of corporate bond funds (the agents) will worry about underperforming their peers by not reducing their risk exposure when the latter have done so. When performance is lagging the competition, asset managers may face redemptions by their clients (the principal).[2]

It is worrisome when people increasingly worry about recession risks because it comes with a cost for the economy. This may even strengthen the belief that it was appropriate to be concerned. It can be argued that some degree of concern is welcome because, by weighing on the growth outlook, it is a transmission channel of a restrictive monetary policy. There is a tipping point however, beyond which slowdown fears become self-fulfilling. Addressing these would be difficult if by then inflation has not yet converged sufficiently to target.

William De Vijlder

US: HIGH YIELD CORPORATE BONDS AND SPREAD OVER TREASURIES

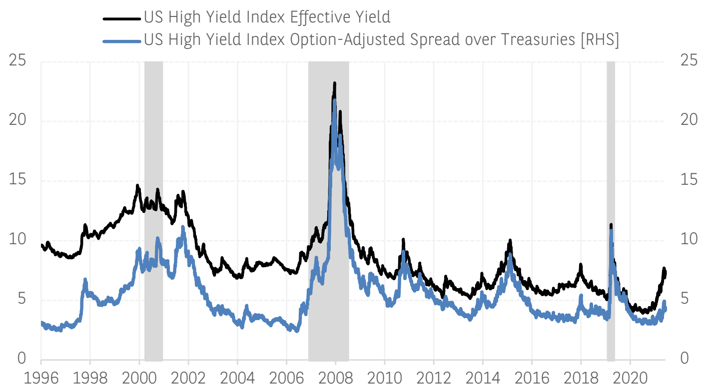


CHART 2

SOURCE: FEDERAL RESERVE BANK OF ST. LOUIS, BNP PARIBAS

This phenomenon is called the financial accelerator. Source: Ben Bernanke, Mark Gertler and Simon Gilchrist, 'The financial accelerator in a quantitative business cycle framework', NBER working paper 6455, 1998.

2. Asset owners such as insurance companies who manage their own assets will also show a lower risk appetite, having in mind that they must report to their board.

MARKETS OVERVIEW

OVERVIEW

Week 3-6 22 to 10-6-22				
↘ CAC 40	6 485	▸ 6 187	-4.6	%
↘ S&P 500	4 109	▸ 3 901	-5.1	%
↗ Volatility (VIX)	24.8	▸ 27.8	+3.0	pb
↗ Euribor 3M (%)	-0.33	▸ -0.30	+3.0	bp
↗ Libor $ 3M (%)	1.63	▸ 1.74	+11.9	bp
↗ OAT 10y (%)	1.64	▸ 1.93	+28.5	bp
↗ Bund 10y (%)	1.26	▸ 1.50	+23.8	bp
↗ US Tr. 10y (%)	2.95	▸ 3.16	+20.2	bp
↘ Euro vs dollar	1.07	▸ 1.05	-1.8	%
↗ Gold (ounce, $)	1 857	▸ 1 858	+0.1	%
↗ Oil (Brent, $)	120.0	▸ 122.1	+1.8	%

MONEY & BOND MARKETS

Interest Rates		highest 22			lowest 22		
€ ECB	0.00	0.00	at	03/01	0.00	at	03/01
Eonia	-0.51	-0.51	at	03/01	-0.51	at	03/01
Euribor 3M	-0.30	-0.28	at	09/06	-0.58	at	05/01
Euribor 12M	0.68	0.68	at	10/06	-0.50	at	05/01
$ FED	1.00	1.00	at	05/05	0.25	at	03/01
Libor 3M	1.74	1.74	at	10/06	0.21	at	03/01
Libor 12M	3.01	3.01	at	10/06	0.58	at	03/01
£ BoE	1.00	1.00	at	05/05	0.25	at	03/01
Libor 3M	1.54	1.54	at	10/06	0.26	at	03/01
Libor 12M	0.81	0.81	at	03/01	0.81	at	03/01

At 10-6-22

Yield (%)		highest 22			lowest 22		
€ AVG 5-7y	1.83	1.83	at	10/06	-0.04	at	03/01
Bund 2y	0.78	0.78	at	10/06	-0.83	at	04/03
Bund 10y	1.50	1.50	at	10/06	-0.14	at	24/01
OAT 10y	1.93	1.93	at	10/06	0.15	at	04/01
Corp. BBB	3.46	3.46	at	10/06	0.90	at	05/01
$ Treas. 2y	3.04	3.04	at	10/06	0.70	at	04/01
Treas. 10y	3.16	3.16	at	10/06	1.63	at	03/01
High Yield	7.86	7.86	at	10/06	5.07	at	03/01
£ gilt. 2y	2.09	2.09	at	10/06	0.69	at	03/01
gilt. 10y	2.43	2.43	at	10/06	0.97	at	03/01

At 10-6-22

EXCHANGE RATES

1€ =		highest 22			lowest 22			2022
USD	1.05	1.15	at	10/02	1.04	at	13/05	-7.4%
GBP	0.85	0.86	at	06/05	0.83	at	14/04	+1.6%
CHF	1.04	1.06	at	10/02	1.00	at	04/03	+0.4%
JPY	141.36	143.63	at	08/06	125.37	at	04/03	+7.9%
AUD	1.49	1.62	at	04/02	1.43	at	05/04	-4.5%
CNY	7.05	7.29	at	10/02	6.87	at	14/04	-2.8%
BRL	5.27	6.44	at	06/01	5.01	at	21/04	-16.8%
RUB	61.47	164.76	at	07/03	61.01	at	24/05	-27.9%
INR	81.97	85.96	at	11/02	80.30	at	05/05	-3.0%

At 10-6-22 — *Change*

COMMODITIES

Spot price, $		highest 22			lowest 22			2022	2022(€)
Oil, Brent	122.1	128.2	at	08/03	79.0	at	03/01	+55.7%	+68.1%
Gold (ounce)	1 858	2 056	at	08/03	1 785	at	28/01	+2.0%	+10.1%
Metals, LMEX	4 462	5 506	at	07/03	4 369	at	12/05	-0.9%	+7.0%
Copper (ton)	9 447	10 702	at	04/03	9 104	at	12/05	-3.0%	+4.7%
wheat (ton)	391	4.7	at	17/05	281	at	14/01	+64.6%	+77.8%
Corn (ton)	307	3.2	at	16/05	226	at	03/01	+3.5%	+45.4%

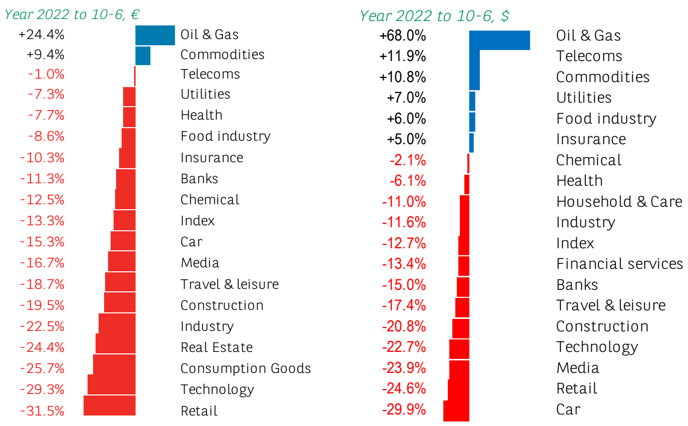
At 10-6-22 — *Change*

EQUITY INDICES

	Index	highest 22			lowest 22			2022
World								
MSCI World	2 642	3 248	at	04/01	2 640	at	12/05	-18.3%
North America								
S&P500	3 901	4 797	at	03/01	3 901	at	19/05	-18.2%
Europe								
EuroStoxx50	3 599	4 392	at	05/01	3 505	at	08/03	-16.3%
CAC 40	6 187	7 376	at	05/01	5 963	at	08/03	-1.4%
DAX 30	13 762	16 272	at	05/01	12 832	at	08/03	-13.4%
IBEX 35	8 391	8 934	at	27/05	7 645	at	07/03	-0.4%
FTSE100	7 318	7 672	at	10/02	6 959	at	07/03	-0.1%
Asia								
MSCI, loc.	1 096	1 165	at	05/01	1 024	at	08/03	-0.4%
Nikkei	27 824	29 332	at	05/01	24 718	at	09/03	-3.4%
Emerging								
MSCI Emerging ($)	1 055	1 267	at	12/01	988	at	12/05	-1.4%
China	73	86	at	20/01	59	at	15/03	-11.8%
India	743	891	at	13/01	732	at	19/05	-7.9%
Brazil	1 566	2 003	at	04/04	1 372	at	06/01	-1.9%

At 10-6-22 — *Change*

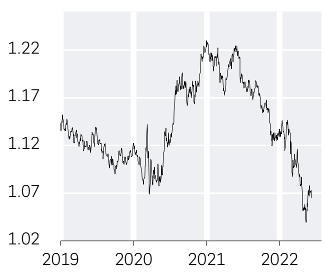
PERFORMANCE BY SECTOR (Eurostoxx50 & S&P500)



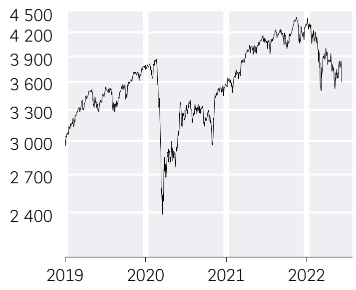
SOURCE: REFINITIV, BNP PARIBAS,

MARKETS OVERVIEW

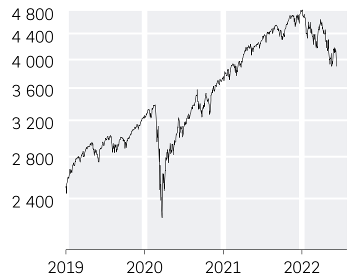
EURO-DOLLAR



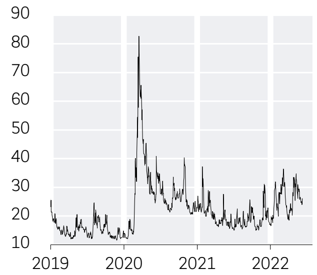
EUROSTOXX50



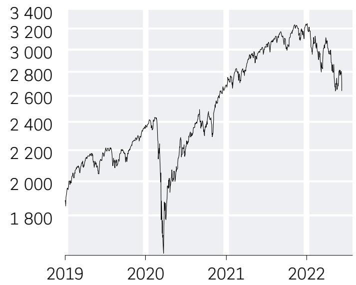
S&P500



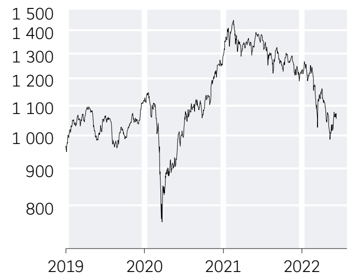
VOLATILITY (VIX, S&P500)



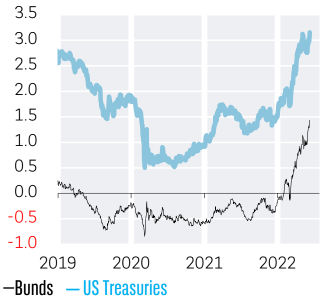
MSCI WORLD (USD)



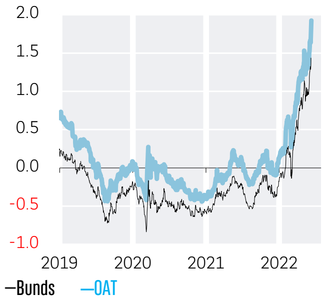
MSCI EMERGING (USD)



10Y BOND YIELD, TREASURIES VS BUND

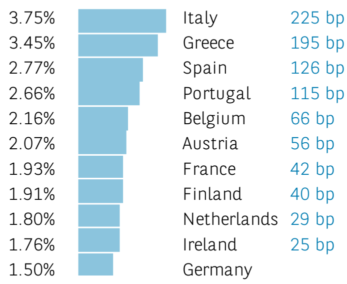


10Y BOND YIELD

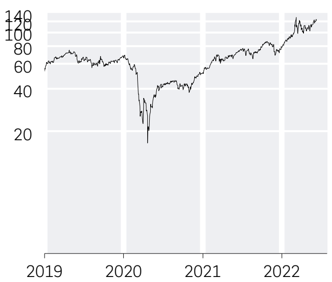


10Y BOND YIELD & SPREADS

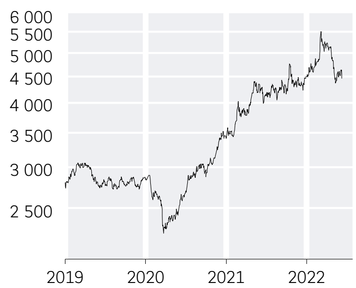
Year 2022 to 10-6



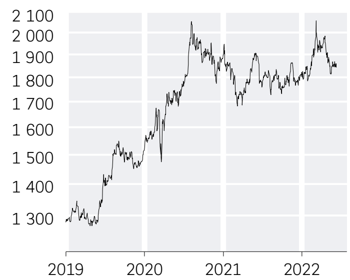
OIL (BRENT, USD)



METALS (LMEX, USD)



GOLD (OUNCE, USD)



SOURCE: REFINITIV, BNP PARIBAS

GERMANY: THE IMPACT OF THE WAR IN UKRAINE HAS BEEN MORE PRONOUNCED THAN EXPECTED

The negative prospects for the second quarter of 2022 are no longer a risk as suggested by business surveys, they are now taking concrete shape in Germany. After the very sharp worsening in the trade balance in March (a 4% decline in exports in volume terms and a symmetrical 4.1% increase in imports), it barely improved in April and remains at an extremely low level. According to the Kiel Institute's real-time forecasts, exports probably fell in May (-1.7% m/m) but will see a slight recovery in June (0.6% m/m). Over the second quarter as a whole, Germany's trade balance could shrink to its lowest level since Q2 2001.

These trade difficulties have come against a background where demand addressed to Germany by its main trading partners is falling, as indicated by another fall in orders received by industry in April (-2.7% m/m). Although order books remain satisfactory, the deterioration since February has been swift. In addition, the details of this fall are sobering as the biggest drops have come in capital goods (-4.3%), followed by consumer goods (-2.6%), a sign that consumption is not the only component to be affected but that business investment is now also suffering from the situation, with the postponement of a number of investment projects.

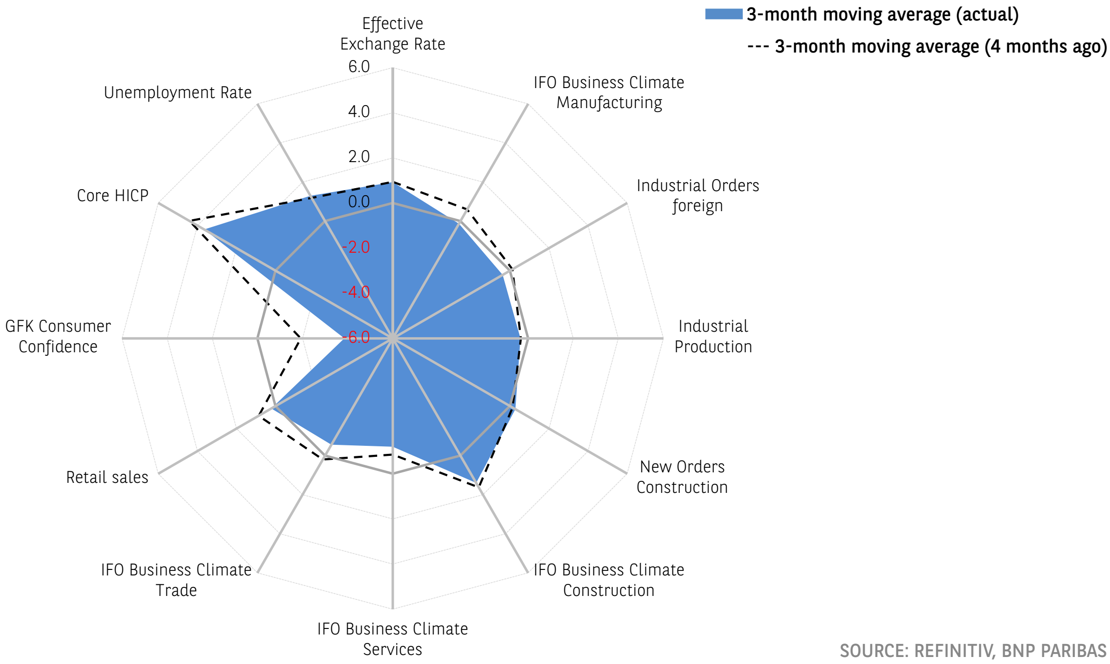
Supply difficulties also continue to weigh on manufacturing production, which struggled to recover in April (0.4% m/m) and is still well below its pre-Covid levels (-6.1% relative to Q4 2019). The biggest hit has come in the automotive sector, where, in addition to semiconductor shortages, there are now bottlenecks in the supply of cable looms which had been supplied by Ukraine. The result of this is that new car registrations continued to fall in May (-10.2% y/y). Germany's automotive industry association (VDA) is concerned about the weakness of sales: only 1 million units were sold in the first five months of the year, 33% below the 2019 figure.

Nor are we seeing better signals in the area of consumption. Although household spending on services is likely to hold up, benefiting from substantial accrued growth since the relaxation of health protection measures at the beginning of the year, consumption has slipped considerably (retail sales were down 5.4% m/m in April).

Lastly, the German economy has been hit harder than expected by the repercussions of Russia's war in Ukraine. At the beginning of the conflict, initial estimates of the impact of an embargo on Russian energy put the reduction in 2022 growth at around 2 percentage points (Bachmann et al 2022). In reality, the effect has been much more severe, even though the embargo is not yet effective. The OECD now forecasts GDP growth of only 1.9% in 2022 and 1.7 % in 2023 in its June economic outlook (compared respectively to +4.1 % and +2.4 % in December 2021).

Anthony Morlet-Lavidalie

GERMANY: QUARTERLY CHANGES



SOURCE: REFINITIV, BNP PARIBAS

The indicators in the radar are all transformed into 'z-scores' (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -6 and +6. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.

ECONOMIC PULSE

FRANCE: ECONOMIC DATA IS MORE MIXED THAN BAD

The latest economic data from INSEE have provided detail on the timing and scale of the purchasing power shock to household consumption, with three figures standing out: the 1.8% q/q fall in the purchasing power of gross disposable income over the first quarter; the revised fall of 1.5% q/q in household consumption (from -1.3% in the initial estimate); and the downgrade in GDP growth to -0.2% q/q, from 0% in the initial estimate.

INSEE's latest economic surveys of households have indicated a relative return to normal, following an over-reaction. The sharp rise in energy prices in March (9% m/m for the 'energy' component of the consumer price index) produced a shock that was visible in the drop in consumption of goods (-1.4% m/m in March), and in the record level of the balance of household opinions on the prospects for price increases (+40 in March). This figure then fell back to 24 in April and 9 in May.

Since then, energy price increases have continued to feed through into the prices of other goods and services. This is likely to continue, and inflation will thus continue to rise (6.5% in September on our estimates, from 5.2% in May). However, the scale of the monthly consumer price increase is no longer what it was in March: 1.4% m/m in March (1% when seasonally adjusted), 0.4% in April (0.5% seasonally adjusted) and 0.6% in May.

The prospect of inflation rising increasingly high, but whose acceleration will be smoothed over time, does not augur well for consumption, which will be constrained over time. But the major share of the drop may already be behind us (the decrease in household consumption of goods was 'only' 0.4% in April). The INSEE retail survey even showed a rebound in the business climate in May, whilst the confidence index in the accommodation and catering sector has reached a very high level (121 in May, from a long-term average of 100).

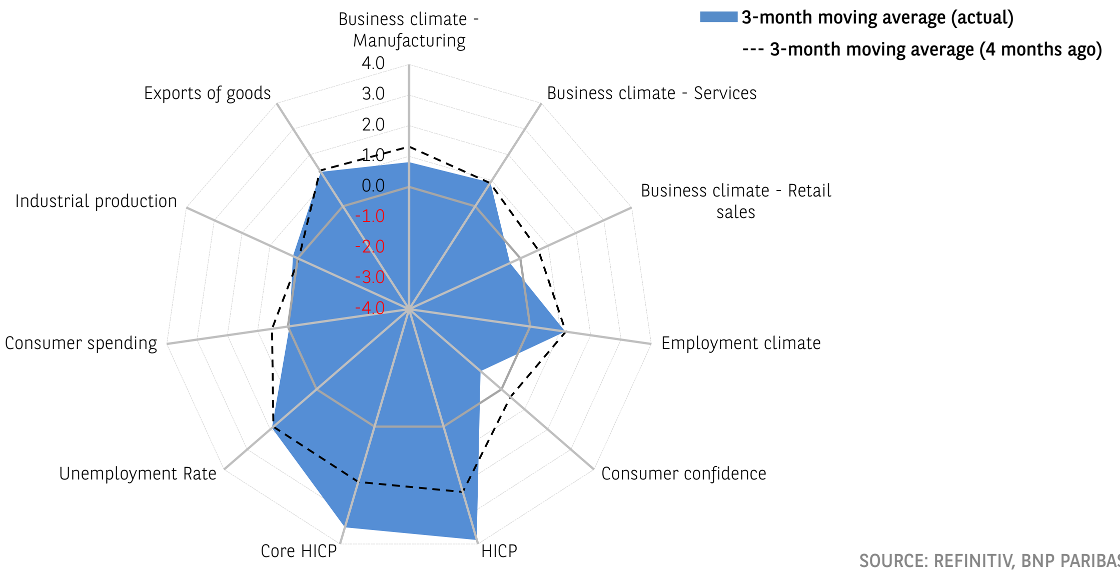
This improvement came largely thanks to the ending of Covid-19 health restrictions, which were mostly removed in February. The second quarter of 2022 will therefore be the first time the sector has operated without health restrictions for nearly two years, an effect that should boost French GDP in the second quarter.

More broadly, the reopening of European economies will have a positive effect on tourism, where depressed activity levels significantly dented French exports and whose recovery is therefore likely to support GDP growth. Thus we estimate that net exports (exports less imports) will contribute nearly half a point to GDP growth in 2022.

Regarding the second quarter, these positive factors are likely to offset the continued negative impact of inflation on growth, to the extent that we expect zero growth (rather than the negative growth in the first quarter), before a slight rebound (0.3% q/q) in the third quarter.

Stéphane Colliac

FRANCE: QUARTERLY CHANGES



SOURCE: REFINITIV, BNP PARIBAS

The indicators in the radar are all transformed into 'z-scores' (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -4 and +4. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.

ITALY: CONDITIONS WORSEN SIGNIFICANTLY

The deterioration of the business climate surveys continued in May, particularly in the manufacturing sector, even though industrial production held up until April. Output rose 1.6% m/m, to its highest level since December 2007. However, the manufacturing PMI dropped 2.6 points to 51.9 in May, its sixth consecutive monthly fall. The sharp fall in this indicator shows up clearly in our barometer. The 'new orders' component fell steeply (-5.2 points, to 47.4) but the 'input prices' component also dropped (-5.7 points, to 81.4), following a record level in April. This said, the pace of increases in production costs remains high.

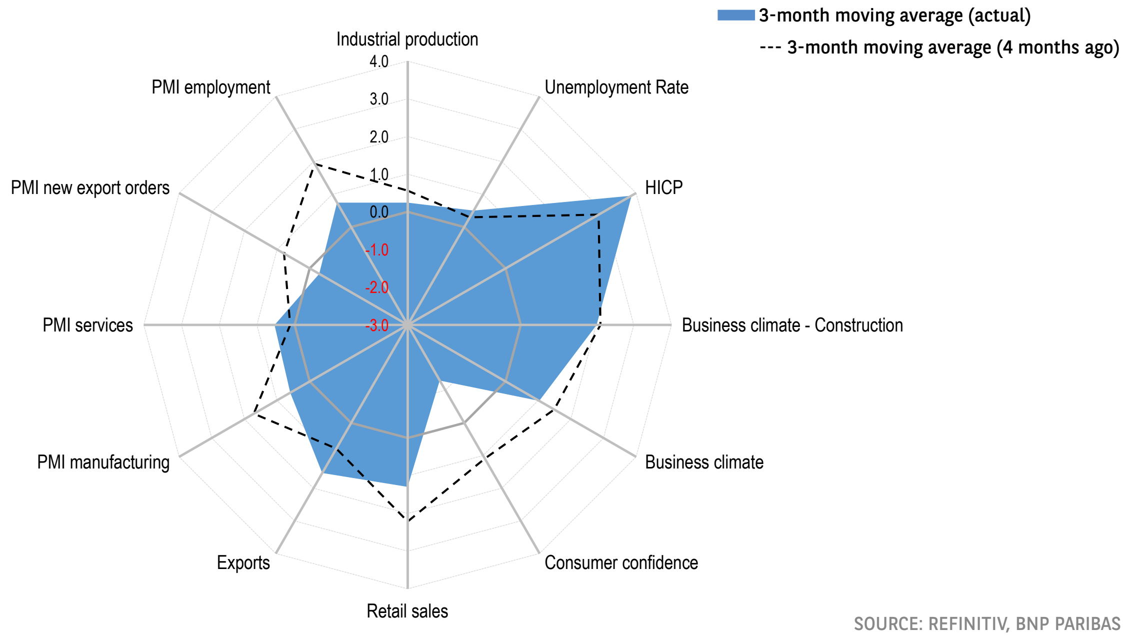
Private consumption, which had already contracted in Q1 (-0.6% q/q), is set to be fragile again in Q2. Retail sales declined for the second month running in April – and are down by a combined 1.2% during this period – while household confidence stays very low, having already plunged in the first quarter. The European Commission index recovered only slightly in May (from -23.9 in March to -22.0), pulled down by the "savings expectations" component for the next twelve months which has been at its lowest level since July 2017. This reflects consumers' concerns about the effect of inflation on their purchasing power.

Indeed, the harmonised index of consumer prices (HICP) rose 7.3% y/y in May, the highest figure since the current statistics began in 1990. Although energy price inflation is still elevated, the rise in prices is also accelerating for food and non-alcoholic beverages (7.5% y/y), hotels, bars and restaurants (6.0%), household equipment (4.5%) and, to a lesser extent, clothing (1.6%). However, second order effects, specifically a price-wage inflation spiral, seem unlikely in Italy for the time being. According to Istat, hourly wages rose 0.8% y/y in April, suggesting a fall in real terms of 5.5% in that month, a very significant drop that explains part of the fall in consumer confidence.

Overall, the recovery in the labour market has continued during the first half of the year, but first signs of a slowdown are showing up: employment fell in April (-12,150). This said, the unemployment rate dipped to 8.4% in April, while the youth rate also dropped, to 23.8%. The latter remains high but is nevertheless the lowest since December 2008.

Guillaume Derrien

ITALY: QUARTERLY CHANGES



SOURCE: REFINITIV, BNP PARIBAS

The indicators in the radar are all transformed into 'z-scores' (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -3 and +4. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.

OECD WEEKLY INDICATOR SUGGESTS SLOWING ACTIVITY IN ADVANCED ECONOMIES

The Covid-19 pandemic continues to slow around the world. According to the latest figures from Johns Hopkins University, 3.3 million new cases were recorded around the world in the week of 1 to 7 June, a 4% drop on the previous week (Chart 1). On a regional level, the epidemic continues to ease in Africa (-24%) and Asia (-18%), whilst the number of new cases in Europe has stabilised after two months of substantial falls. New case numbers in South America continued to rise strongly (21%), whilst North America also posted a small increase. Meanwhile, 67% of the world's population has now received at least one dose of a Covid-19 vaccine (Chart 2).

Over the same period, visits to retail and leisure facilities are still running at pre-pandemic levels in France, Belgium and Germany, whilst Italy and the UK are close to returning to this level. Conversely, visit numbers remain lower than they were before the pandemic in the USA, Spain and Japan (Chart 3, blue line).

The weekly proxy indicator for year-on-year GDP growth continued to weaken in the USA, the UK and, to a lesser extent, Belgium. Conversely, it remained stable in France, Italy and Spain. In Germany and Japan, we are seeing slightly clearer signs of a downturn (Chart 3, black line). This indicator is produced by the OECD on the basis of data from Google Trends for searches relating to consumption, the labour and property markets, industrial activity and uncertainty. The indicator shown here is calculated on a moving 12-month basis.

Tarik Rharrab

** Google Mobility Reports show how visits and length of stay at different places change compared to a baseline. The baseline is the median value, for the corresponding day of the week, during the 5-week period Jan 3–Feb 6, 2020. A figure of negative 30% indicates that traffic was down 30% compared to a baseline. The reports show trends over several weeks with the most recent data representing approximately 2-3 days ago—this is how long it takes to produce the reports. In order to smooth the series, we use a seven-day moving average of the raw data in the Google Mobility Reports. Source: Google.*

DAILY CONFIRMED COVID-19 CASES
(7-DAY MOVING AVERAGE)

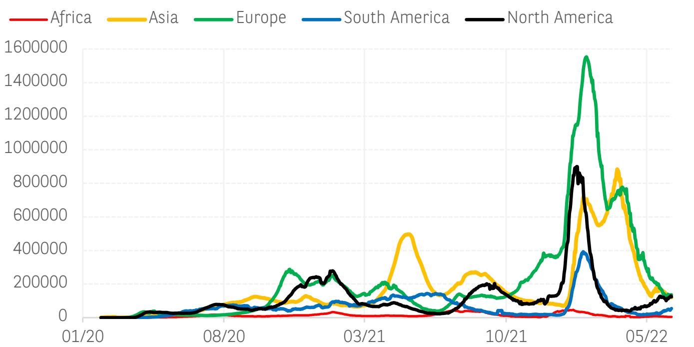


CHART 1 SOURCE: JOHNS-HOPKINS UNIVERSITY (06/08/2022), BNP PARIBAS

SHARE OF PEOPLE WHO RECEIVED AT LEAST ONE DOSE OF VACCINE

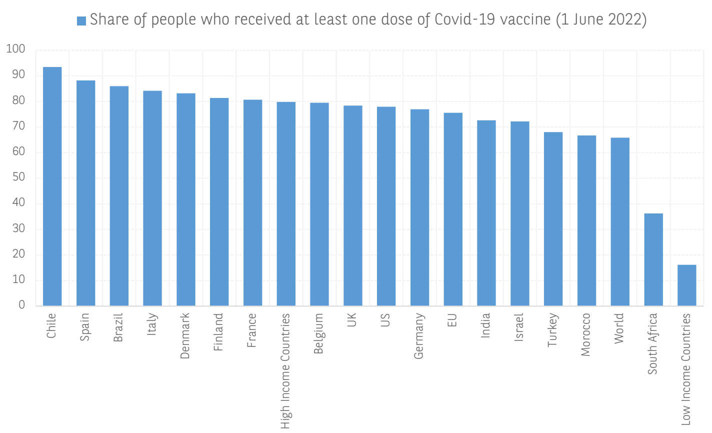
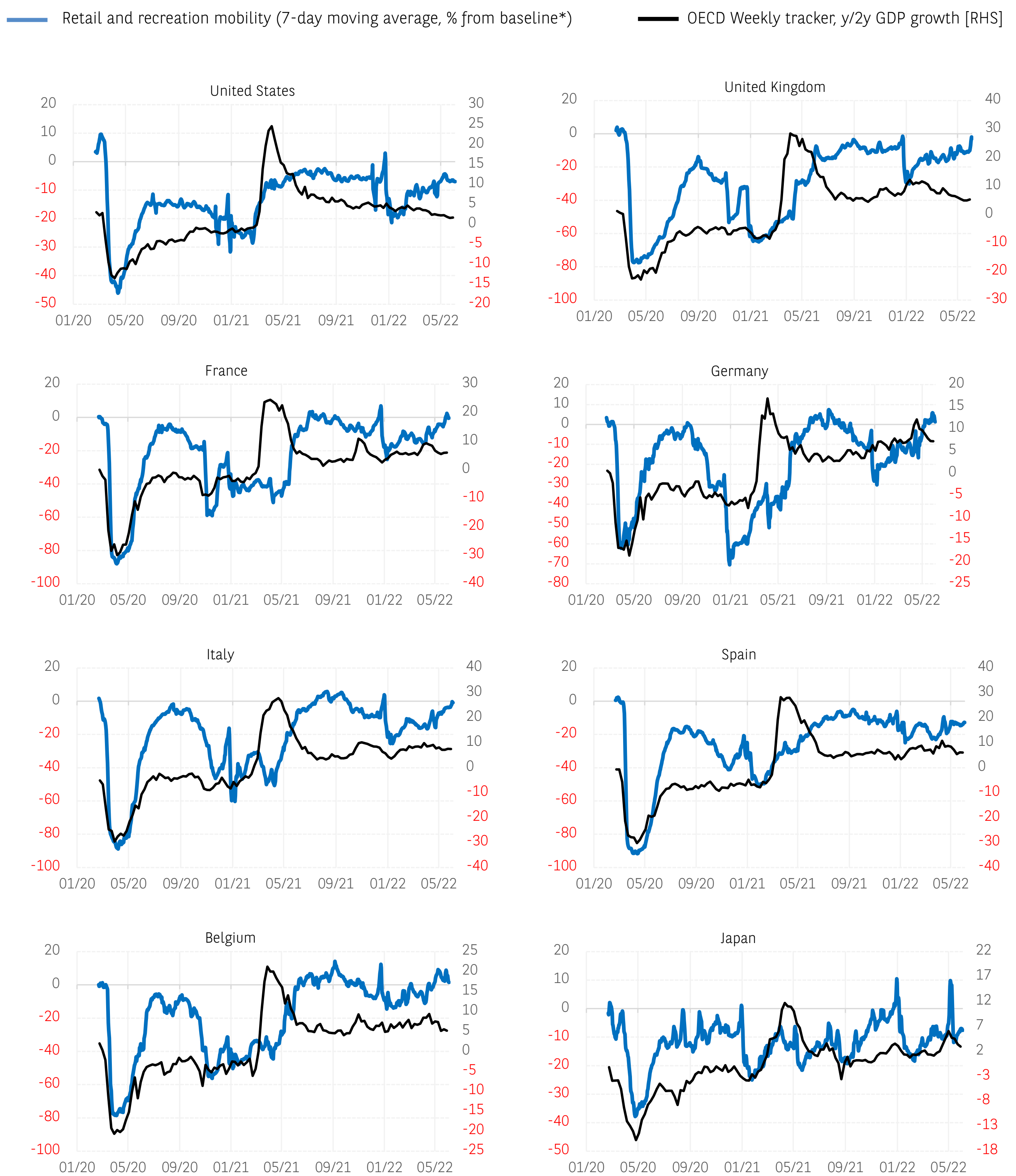


CHART 2 SOURCE: OUR WORLD IN DATA (06/08/2022), BNP PARIBAS

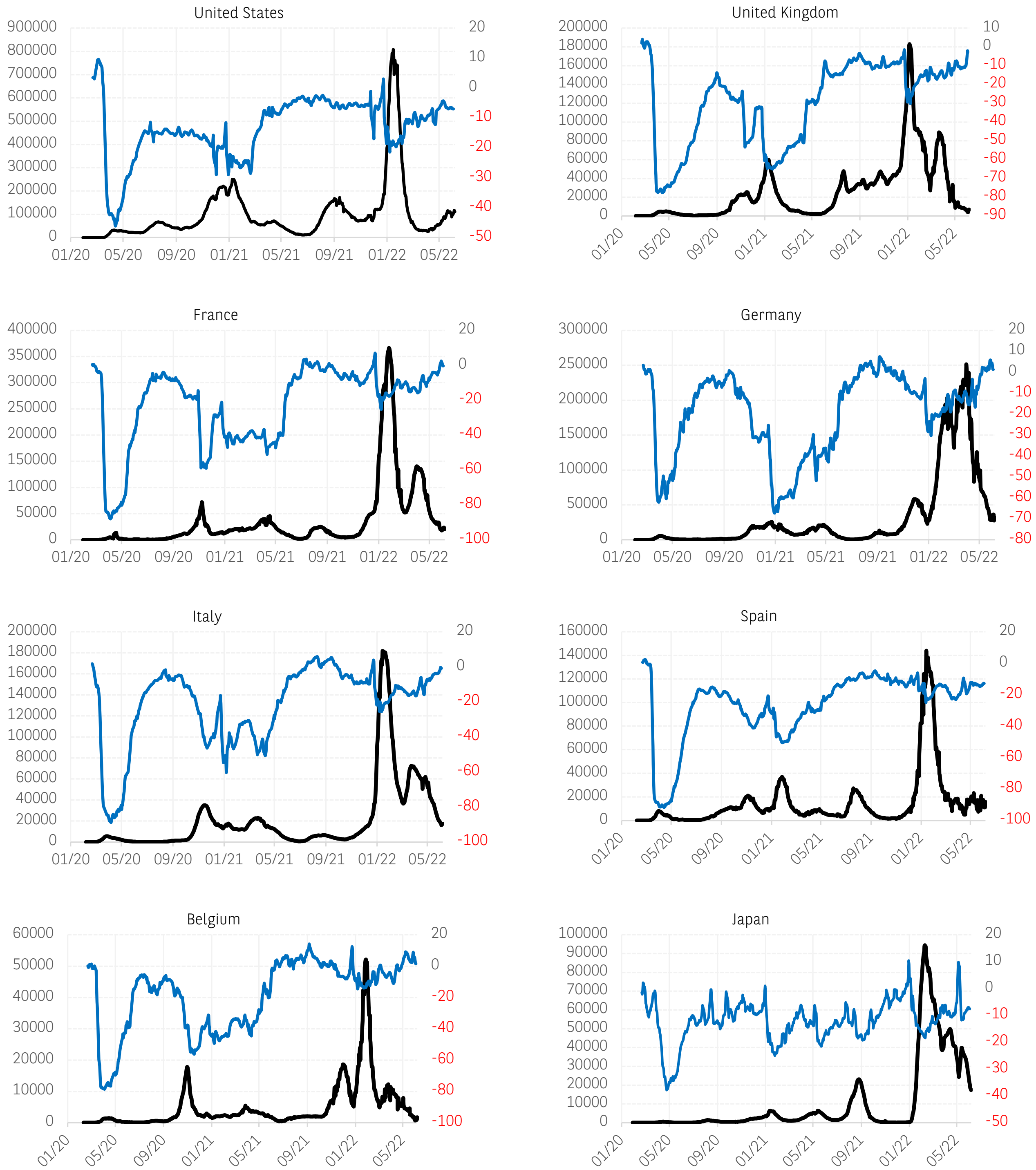
RETAIL AND RECREATION MOBILITY & OECD WEEKLY TRACKER



SOURCE: OECD (06/08/2022), GOOGLE (06/08/2022), BNP PARIBAS

DAILY NEW CASES & RETAIL AND RECREATION MOBILITY

- Daily new confirmed cases of Covid-19 (7-day moving average)
- Retail and recreation mobility (7-day moving average, % from baseline*)[RHS]



SOURCE: JOHNS-HOPKINS UNIVERSITY (06/08/2022), GOOGLE (06/08/2022), BNP PARIBAS

ECONOMIC SCENARIO

UNITED STATES

Despite a surprising contraction in Q1 2022, the US economy remains dynamic and well supported by household consumption and business investment. The robustness of the labour market which is at full employment, bolsters wages and household consumption. However, inflation, at its highest for four decades, causes a decline in purchasing power. As inflation is higher and more persistent than anticipated, the Federal Reserve is raising sharply the fed funds rate and shrinking its balance sheet. The downward revision of the government's fiscal ambitions, especially its social welfare and environmental plans, may also contribute to moderate growth. Against this background, despite avoiding a recession, the U.S. economy is expected to slow down clearly.

CHINA

Economic activity contracted in April due to the lockdowns imposed in large industrial regions such as Shanghai. This has led us to revise down our real GDP projection for 2022. Economic growth has rebounded since May and the authorities are enhancing fiscal and monetary easing measures. However, short-term downside risks remain high: exports will suffer from the slowdown in global demand, the correction in the property sector should continue, and the recent deterioration in the labour market should weigh on private consumption. Consumer price inflation is accelerating only moderately.

EUROZONE

The surge in inflation that began in early 2021 has morphed into an inflationary shock. Inflation continues to be driven primarily by energy prices but it is also becoming more widespread and thus more persistent. The deterioration of business climate surveys remained limited up until May but consumer confidence has worsened more noticeably. We expect growth to remain positive but weak in the coming quarters. The risk of a recession in the short term is increasing but, should there be one, it would only be technical (limited in duration and extent). The labour market remains robust and the economy still benefits from the cyclical momentum that existed prior to the war in Ukraine, fiscal measures that seek to cushion the impact of inflation on purchasing power, excess savings which are still available and the need to invest. In our scenario (no recession), we expect eurozone growth to reach 2.5% on average over 2022 and 2.3% in 2023.

FRANCE

Real GDP growth entered into negative territory in the 1st quarter of 2022 (-0.2% q/q after +0.4% in the 4th quarter of 2021), as a result of a decrease in household consumption (-1.5% q/q). Higher inflation has pressured households' purchasing power and should also weigh on Q2 expectations. In parallel, corporate investment maintained its growth (+0.4% q/q), as corporates have to cope with output capacity constraints. Overall, in 2022, GDP growth should ease to 2.3% (6.8% in 2021), against a background of higher inflation (5.4% expected in 2022 after 1.6% in 2021).

RATES AND EXCHANGE RATES

In the US, the Federal Reserve will continue its tightening policy at a swift pace. We expect 50bp hikes at the June, July and September meetings, followed by 25bp moves from November. The terminal rate of 3.25% (upper end of the target range) should be reached in 2023 Q1. The Fed's hawkish stance is motivated by still very low policy rates against a background of particularly elevated inflation and a strong labour market. When the economy slows down and inflation will be on a downward path, the Federal Reserve should adapt its guidance in an effort to achieve a soft landing. To a very large degree, US Treasury yields already reflect the prospect of monetary policy tightening. This means that year-end levels shouldn't be that different from current levels. For next year we expect somewhat lower yields as growth slows and inflation declines.

The ECB has announced to end its asset purchases at the start of July and to raise its deposit rate later that month. We expect 50bp rate hikes at its September and October meetings, to be followed by five further 25bp hikes between December 2022 and September 2023. This should cause an increase in Bund yields and a widening of sovereign spreads in the euro area.

The Bank of Japan is expected to maintain its current policy stance, at least until Governor Kuroda's term ends in the spring of 2023. Thereafter, we expect the negative interest rate policy to be scrapped and the 10-year rate target to be hiked.

We expect the dollar to weaken significantly versus the euro. The dollar's valuation is expensive, positioning in the market is very long and the long-term interest rate differential should narrow. The yen has already weakened significantly versus the dollar, reflecting the prospect of increased policy divergence between the Fed and the Bank of Japan. We expect the exchange rate to remain around current levels for the remainder of the year. In 2023, the yen should appreciate considering that the federal funds rate should have reached its terminal rate and that the Bank of Japan is expected to tighten policy.

GDP GROWTH & INFLATION

	GDP Growth				Inflation			
%	2021	2022 e	2023 e	2024 e	2021	2022 e	2023 e	2024 e
United-States	5.7	2.6	1.9	1.7	4.7	7.5	3.9	2.4
Japan	1.7	1.4	1.1	0.6	-0.2	1.9	1.0	0.7
United-Kingdom	7.4	3.6	1.5	1.6	2.6	8.0	4.4	2.1
Euro Area	5.3	2.5	2.3	2.2	2.6	7.9	4.1	2.0
Germany	2.9	1.3	2.2	2.3	3.2	8.1	4.6	2.1
France	6.8	2.3	2.1	2.0	2.1	5.9	3.6	1.8
Italy	6.6	2.8	2.0	1.8	1.9	7.7	4.5	1.8
Spain	5.1	4.1	2.5	2.2	3.0	8.0	3.6	1.7
China	8.1	3.7	5.7	5.0	0.9	2.3	3.4	2.5
India*	9.3	8.3	6.2	6.5	5.4	7.9	5.9	5.5
Brazil	4.6	1.5	0.0	1.2	8.3	11.0	7.1	4.3
Russia	4.5	-7.0	0.8	0.3	7.1	14.0	10.5	7.6

SOURCE: BNP PARIBAS GROUP ECONOMIC RESEARCH (E: ESTIMATES & FORECASTS)
*FISCAL YEAR FROM 1st APRIL OF YEAR N TO MARCH 31st OF YEAR N+1
** LAST UPDATE 06/13/2022

INTEREST & EXCHANGE RATES

Interest rates, %						
End of period		10/06/2022	Q3 2022 e	Q4 2022 e	Q2 2023 e	Q4 2023 e
US	Fed Funds (upper limit)	1.50	2.50	3.00	3.25	3.25
	T-Note 10y	3.17	3.10	3.20	3.10	3.00
Ezone	Deposit rate	-0.50	0.25	1.00	1.75	2.00
	Bund 10y	1.51	1.60	1.80	2.25	2.25
	OAT 10y	2.09	2.15	2.38	2.85	2.85
	BTP 10y	3.75	3.85	4.40	4.65	4.75
	BONO 10y	2.77	2.95	3.40	3.75	3.75
UK	Base rate	1.00	1.50	1.75	2.25	2.25
	Gilts 10y	2.45	2.30	2.50	2.65	2.50
Japan	BoJ Rate	-0.10	-0.10	-0.10	-0.10	0.00
	JGB 10y	0.25	0.24	0.25	0.25	0.45

Exchange Rates						
End of period		10/06/2022	Q3 2022 e	Q4 2022 e	Q2 2023 e	Q4 2023 e
USD	EUR / USD	1.05	1.09	1.12	1.16	1.20
	USD / JPY	134	131	130	125	120
	GBP / USD	1.23	1.25	1.27	1.32	1.36
EUR	EUR / GBP	0.85	0.87	0.88	0.88	0.88
	EUR / JPY	141	143	146	145	144

Brent						
End of period		10/06/2022	Q3 2022 e	Q4 2022 e	Q2 2023 e	Q4 2023 e
Brent	USD/bbl	122	120	122	125	125

FORECASTS PRODUCED ON 2 MAY 2022. SOURCE: BNP PARIBAS (E: ESTIMATES & FORECASTS) (MARKET ECONOMICS, INTEREST RATE STRATEGY, FX STRATEGY, COMMODITIES DESK STRATEGY * BASE CASE ** LAST UPDATE 06/13/2022)

CALENDAR

LATEST INDICATORS

In China, the easing of mobility restrictions has led to a rebound in the PMIs although, as far as services are concerned, less than expected. Exports growth was particularly strong and improved much more than anticipated. Producer price inflation eased and consumer price inflation was stable. The euro area saw a significant and unexpected upward revision of first quarter GDP growth (+0.6% instead of the earlier estimate of +0.3%). The contributions of household final consumption and government final expenditure were negative and that of gross fixed capital formation was negligible. This implies that growth was driven by net exports (+0.4 pp contribution) and inventory build-up (+0.6 pp contribution). The ECB's governing council has announced the end of its net asset purchases on 1 July, to be followed by rate hikes at the July and September meetings. In France, employment growth continued in the first quarter (+0.3%). In Japan, the first quarter saw a marginal contraction of real GDP (-0.1%). The EcoWatchers Survey improved more than expected. In the UK, the improvement of the services PMI created a positive surprise. In the US, mortgage applications dropped and initial unemployment claims increased more than expected. The headline inflation data disappointed by moving significantly higher. Monthly core inflation was stable. University of Michigan sentiment plunged and long-term inflation expectations increased to 3.3%.

DATE	COUNTRY	INDICATOR	PERIOD	ACTUAL	CONSENSUS	PREVIOUS
06/06/2022	China	Caixin China PMI Composite	May	42.2	--	37.2
06/06/2022	China	Caixin China PMI Services	May	41.4	46.0	36.2
06/07/2022	Germany	S&P Global Germany Construction PMI	May	45.4	--	46.0
06/07/2022	Eurozone	Sentix Investor Confidence	Jun	-15.8	-21.2	-22.6
06/07/2022	United Kingdom	S&P Global/CIPS UK Services PMI	May	53.4	51.8	51.8
06/07/2022	United Kingdom	S&P Global/CIPS UK Composite PMI	May	53.1	51.8	51.8
06/08/2022	Japan	GDP SA QoQ	1Q	-0.1%	-0.3%	-0.2%
06/08/2022	Japan	Eco Watchers Survey Current SA	May	54.0	52.0	50.4
06/08/2022	Japan	Eco Watchers Survey Outlook SA	May	52.5	51.5	50.3
06/08/2022	Germany	Industrial Production SA MoM	Apr	0.7%	1.2%	-3.7%
06/08/2022	United Kingdom	S&P Global/CIPS UK Construction PMI	May	56.4	56.6	58.2
06/08/2022	Eurozone	OECD Publishes Economic Outlook				
06/08/2022	Eurozone	Gross Fix Cap QoQ	1Q	0.1%	1.1%	3.1%
06/08/2022	Eurozone	Household Cons QoQ	1Q	-0.7%	-0.8%	-0.3%
06/08/2022	Eurozone	Employment QoQ	1Q	0.6%	--	0.5%
06/08/2022	Eurozone	Employment YoY	1Q	2.9%	--	2.6%
06/08/2022	Eurozone	GDP SA QoQ	1Q	0.6%	0.3%	0.3%
06/08/2022	Eurozone	GDP SA YoY	1Q	5.4%	5.1%	5.1%
06/08/2022	Eurozone	Govt Expend QoQ	1Q	-0.3%	0.4%	0.4%
06/08/2022	United States	MBA Mortgage Applications	Jun	-6.5%	--	-2.3%
06/09/2022	France	Private Sector Payrolls QoQ	1Q	0.3%	0.3%	0.3%
06/09/2022	Eurozone	ECB Deposit Facility Rate	Jun	-1%	-1%	-1%
06/09/2022	United States	Initial Jobless Claims	Jun	229k	206k	202k

DATE	COUNTRY	INDICATOR	PERIOD	ACTUAL	CONSENSUS	PREVIOUS
06/09/2022	China	Trade Balance	May	$78.76b	$57.70b	$51.12b
06/09/2022	China	Exports YoY	May	16.9%	8.0%	3.9%
06/09/2022	China	Imports YoY	May	4.1%	2.8%	0.0%
06/09/2022	China	Exports YoY CNY	May	15.3%	9.2%	1.9%
06/09/2022	China	Imports YoY CNY	May	2.8%	4.2%	-2.0%
06/09/2022	China	Trade Balance CNY	May	502.89b	400.00b	325.08b
06/10/2022	China	PPI YoY	May	6.4%	6.4%	8.0%
06/10/2022	China	CPI YoY	May	2.1%	2.2%	2.1%
06/10/2022	United States	CPI MoM	May	1.0%	0.7%	0.3%
06/10/2022	United States	CPI Ex Food and Energy MoM	May	0.6%	0.5%	0.6%
06/10/2022	United States	CPI YoY	May	8.6%	8.3%	8.3%
06/10/2022	United States	CPI Ex Food and Energy YoY	May	6.0%	5.9%	6.2%
06/10/2022	United States	U. of Mich. Sentiment	Jun	50.2	58.1	58.4
06/10/2022	United States	U. of Mich. Current Conditions	Jun	55.4	62.9	63.3
06/10/2022	United States	U. of Mich. Expectations	Jun	46.8	55.3	55.2
06/10/2022	United States	U. of Mich. 1 Yr Inflation	Jun	5.4%	5.3%	5.3%
06/10/2022	United States	U. of Mich. 5-10 Yr Inflation	Jun	3.3%	--	3.0%

SOURCE: BLOOMBERG

CALENDAR: THE WEEK AHEAD

COMING INDICATORS

It's central bank week with monetary policy committee meetings of the Federal Reserve, the Bank of England and the Bank of Japan. In terms of data, the focus will be on China with releases on industrial production, retail sales, investments and the unemployment rate. The ZEW survey will be published for Germany and the euro area. In the US we will have several releases, such as producer price inflation, retail sales, several data related to the housing market and construction activity as well as the index of leading indicators.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	PREVIOUS
06/13/2022	United Kingdom	Monthly GDP (MoM)	Apr	--	-0.10%
06/14/2022	Germany	ZEW Survey Expectations	Jun	--	-34.3
06/14/2022	Germany	ZEW Survey Current Situation	Jun	--	-36.5
06/14/2022	Eurozone	ZEW Survey Expectations	Jun	--	-29.5
06/14/2022	United States	NFIB Small Business Optimism	May	--	93.2
06/14/2022	United States	PPI Ex Food and Energy YoY	May	--	8.80%
06/15/2022	China	Industrial Production YoY	May	-1.00%	-2.90%
06/15/2022	China	Retail Sales YoY	May	-7.10%	-11.10%
06/15/2022	China	Fixed Assets Ex Rural YTD YoY	May	6.10%	6.80%
06/15/2022	China	Property Investment YTD YoY	May	-4.00%	-2.70%
06/15/2022	China	Surveyed Jobless Rate	May	6.10%	6.10%
06/15/2022	United States	Retail Sales Advance MoM	May	0.20%	0.90%
06/15/2022	United States	NAHB Housing Market Index	Jun	69	69
06/15/2022	United States	FOMC Rate Decision (Upper Bound)	Jun	1.50%	1.00%
06/16/2022	United Kingdom	Bank of England Bank Rate	Jun	--	1.00%
06/16/2022	United States	Building Permits MoM	May	-1.20%	-3.20%
06/16/2022	United States	Housing Starts MoM	May	-0.20%	-0.20%
06/16/2022	United States	Initial Jobless Claims	Jun	--	--
06/17/2022	United Kingdom	Retail Sales Ex Auto Fuel MoM	May	--	1.40%
06/17/2022	Eurozone	CPI YoY	May	--	7.40%
06/17/2022	United States	Leading Index	May	-0.40%	-0.30%
06/17/2022	Japan	BOJ Policy Balance Rate	Jun	--	-0.10%

SOURCE: BLOOMBERG

FURTHER READING

Italy: banks' net income sharply declined in the first quarter of 2022	EcoTVWeek	10 June 2022
Japan: Foreign subsidiaries, a key driver of the Japanese industry	EcoFlash	8 June 2022
France: housing development and food head the list of retail price rises	Chart of the Week	8 June 2022
US: The recession narrative	EcoWeek	6 June 2022
Let's talk about climate change, often	EcoTVWeek	3 June 2022
Italy: The ratio of new non-performing loans of NFCs has started to rise again	Chart of the Week	1 June 2022
Global: Inflation: shifting focus, shifting concerns	EcoWeek	30 May 2022
United Arab Emirates: Favourable economic prospects	EcoTVWeek	27 May 2022
Colombia: recent behaviour of capital flows ahead of the presidential election	Chart of the Week	25 May 2022
European Union : The reaction of uncertainty to Covid-19 and the war in Ukraine	EcoWeek	23 May 2022
China: new economic slowdown, new rise in credit risks	EcoTV Week	20 May 2022
Energy price inflation in the Eurozone: government responses and impact on household purchasing power	EcoFlash	20 May 2022
On the need to restate Manufacturing PMI in order to understand the shock to German industry	Chart of the Week	18 May 2022
Eurozone : Inflation and the sustainability of public sector debt	EcoWeek	16 May 2022
Eurozone : Wage-price loop: low risk but one to watch	EcoTV Week	13 May 2022
United States: money supply losing steam	Chart of the Week	11 May 2022
Central banks: the need and courage to act	EcoWeek	9 May 2022
The complex relationship between financial conditions, nominal and real interest rates	EcoTVWeek	06 May 2022
ECB: the weaker euro, a blessing or a headache?	EcoWeek	02 May 2022
Chinese exports: a major growth slowdown is expected	Chart of the Week	29 April 2022

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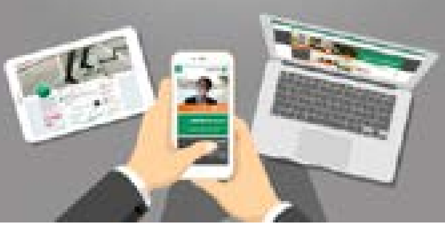

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