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ECONOMIC RESEARCH

BNP PARIBAS

The bank for a changing world

EUROZONE SOVEREIGN SPREADS: HAUNTED BY THE STYLISED FACTS

Investor behaviour is strongly influenced by stylised facts, i.e. the historical relationship between economic variables and financial markets. When Bund yields increase, the spread of certain sovereign issuers tends to widen. This positive correlation will be perpetuated when enough investors believe that the historical relationship continues to hold. This was again illustrated in recent weeks by the significant widening of certain sovereign spreads in reaction to the rise in Bund yields. It creates a challenge for governments, due to higher borrowing costs, but also for the ECB, because of its influence on monetary transmission. This explains the ECB's insistence on the flexibility offered by the PEPP reinvestments.

Stylised facts are recurring patterns between economic variables and between economic variables and financial markets. These patterns are conditioned by the economic environment or expectations about this environment. The Phillips curve is an example: a significant cumulative decline in the unemployment rate is generally associated with a pick-up in wage growth due to increasing labour market bottlenecks. Other examples are the widening of corporate bond spreads when central banks are expected to tighten policy and, in the euro area, the widening of the sovereign spread of certain countries when Bund yields increase.

This last point is illustrated in chart 1, which shows the relationship between the weekly change in Italian government bond yields and the weekly change in Bund yields when the latter is positive. Beyond a certain increase in German yields, the regression coefficient is larger than 1, which implies a spread widening[1]. This also applies to other countries, as shown in table 1[2]. Since the latest ECB Governing Council meeting, German yields have jumped and the weekly change in yields was at the top end of the distribution (chart 2), causing a significant widening of sovereign spreads in southern Europe (chart 3).

From a purely economic perspective, such a significant spread widening seems counterintuitive. It is difficult to argue that the prospect of an earlier policy tightening than hitherto expected would significantly worsen the sovereign risk profile of these countries. The market reaction rather reflects a change in sentiment with respect to sovereign risk. This is reminiscent of another stylised fact, namely that higher government bond yields cause a widening in corporate bond spreads that is larger than the increase in the expected default risk.[3] This raises the question why sentiment with respect to sovereign risk worsens when Bund yields rise.

One explanation is that, when the yield on Bunds has increased, fixed income investors who target a certain yield to maturity need to have less exposure to sovereign issuers that offer a higher yield than Germany. In that case, the portfolio rebalancing does not reflect a downward revision of the outlook for these issuers. It simply shows that the same yield target can be reached by taking less risk. Another explanation is the self-fulfilling nature of the stylised fact about changes in Bund yields and sovereign spreads. In a competitive investment management environment, a portfolio manager may decide to reduce his exposure to sovereigns with a lower credit rating if he believes that his peers will do the same. Portfolio managers are haunted by the stylised facts and act accordingly. By not doing so, they would run the risk of underperforming their peers. The positive correlation between Bund yields and sovereign spreads is thus perpetuated when enough people believe it will be so. This creates a challenge for governments – borrowing costs increase – but also for the ECB. Higher Bund yields imply a tightening of financial conditions but an increase in spreads

RELATIONSHIP BETWEEN WEEKLY CHANGE IN 10-YEAR BTP YIELD AND 10-YEAR BUND YIELD

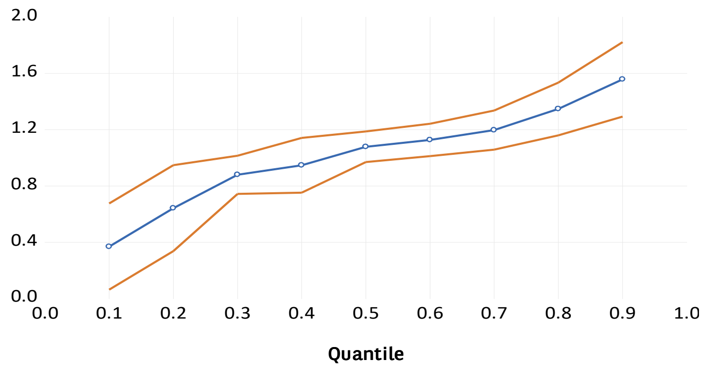


CHART 1

SOURCE: REFINITIV, BNP PARIBAS

1. The quantile regression has been estimated using daily data since 2 January 2014 until 9 February 2022. All coefficients are statistically significant.
2. The coefficient for Greece is smaller and less significant, both statistically and economically, considering that the country has been absent from international bond markets during part of the period under review.
3. This implies that spreads widen too much considering the estimated increase in default risk. This additional spread is called the excess bond premium and is a measure of investor risk appetite in the corporate bond market. See e.g. Recession Risk and the Excess Bond Premium, Giovanni Favara, Simon Gilchrist, Kurt F. Lewis, and Egon Zakrajšek, FEDS Notes, 8 April 2016.

> The positive correlation between Bund yields and sovereign spreads is perpetuated when enough people believe it will be so. This creates a challenge for governments but also for the ECB.

means that this tightening is even worse in certain countries. The ECB is aware of the issue. In a recent interview on Twitter, Isabel Schnabel, member of the executive board of the ECB, mentioned *"Sovereign spreads are a feature as long as they are reflecting economic fundamentals. They are a bug when they become subject to destabilising self-fulfilling expectations, impairing monetary policy transmission."*[4] In such case, the tool is available: *"In the event of renewed market fragmentation related to the pandemic, PEPP reinvestments can be adjusted flexibly across time, asset classes and jurisdictions at any time."*

To conclude, the recent sovereign spread widening should not come as a surprise given the historical relationship between Bund yields and spreads and the significant increase in Bund yields. Markets have now repriced the path for rate hikes by the ECB so, barring new surprises, the volatility in euro area bond markets should decline. This also depends on the developments in US Treasuries, which influence yields across the globe including in the euro area. Sovereign issuers can find comfort in the fact that the US yield curve is already pricing in several rate increases.

William De Vijlder

4. Reply to the question: *"Are euro area sovereign yield spreads a bug or a feature?"* Source: ECB, Interview on Twitter with Isabel Schnabel, Member of the Executive Board of the ECB, conducted and published on 9 February 2022.

WEEKLY CHANGE OF 10-YEAR BUND YIELD WHEN CHANGE IS POSITIVE
RED LINE SHOWS WEEK ENDING ON 9 FEBRUARY 2022

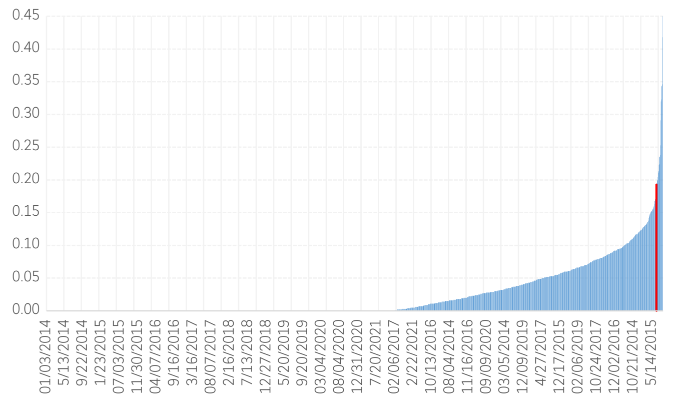


CHART 2 SOURCE: REFINITIV, BNP PARIBAS CALCULATIONS

EUROZONE : 10-YEAR SOVEREIGN SPREADS VERSUS BUND (BASIS POINTS)

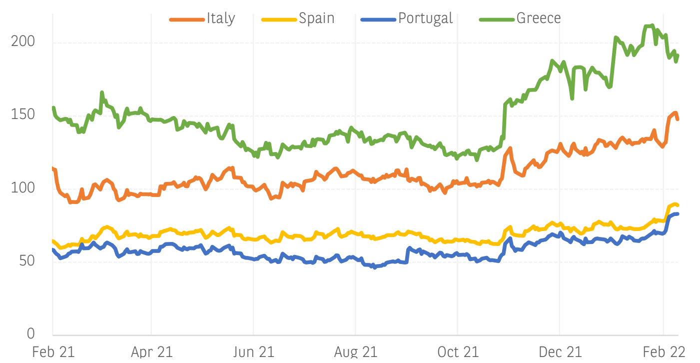


CHART 3 SOURCE: REFINITIV, BNP PARIBAS

QUANTILE REGRESSION COEFFICIENTS WHEN WEEKLY CHANGE IN 10 YEAR BUND YIELD IS POSITIVE (RESULTS FOR THE 9TH QUANTILE)

10-YEAR BOND	COEFFICIENT	T-STATISTIC
Italy	1.56	11.54
Spain	1.30	29.19
Greece	1.06	2.54
Portugal	1.43	22.40

TABLE 1 SOURCE: BNP PARIBAS CALCULATIONS

MARKETS OVERVIEW

OVERVIEW

Week 4-2 22 to 11-2-22					
CAC 40	6 951	▸	7 011	+0.9	%
S&P 500	4 501	▸	4 420	-1.8	%
Volatility (VIX)	23.2	▸	27.4	+4.1	pb
Euribor 3M (%)	-0.55	▸	-0.53	+2.5	bp
Libor $ 3M (%)	0.34	▸	0.51	+16.7	bp
OAT 10y (%)	0.52	▸	0.63	+10.7	bp
Bund 10y (%)	0.17	▸	0.26	+8.7	bp
US Tr. 10y (%)	1.89	▸	1.95	+5.5	bp
Euro vs dollar	1.14	▸	1.14	-0.3	%
Gold (ounce, $)	1 804	▸	1 834	+1.6	%
Oil (Brent, $)	93.4	▸	94.6	+1.3	%

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	-0.53	-0.52	at	10/02	-0.58	at	05/01
Euribor 12M	-0.30	-0.30	at	11/02	-0.50	at	05/01
$ FED	0.25	0.25	at	03/01	0.25	at	03/01
Libor 3M	0.51	0.51	at	11/02	0.21	at	03/01
Libor 12M	1.30	1.30	at	11/02	0.59	at	03/01
£ BoE	0.50	0.50	at	03/02	0.25	at	03/01
Libor 3M	0.86	0.88	at	10/02	0.26	at	03/01
Libor 12M	0.81	0.81	at	03/02	0.81	at	03/01
At 11-2-22							

Yield (%)		highest 22			lowest 22		
€ AVG 5-7y	0.34	0.34	at	10/02	-0.04	at	03/01
Bund 2y	-0.37	-0.36	at	04/02	-0.67	at	05/01
Bund 10y	0.26	0.28	at	10/02	-0.14	at	24/01
OAT 10y	0.63	0.63	at	10/02	0.25	at	04/01
Corp. BBB	1.62	1.62	at	10/02	0.98	at	03/01
$ Treas. 2y	1.52	1.57	at	10/02	0.78	at	04/01
Treas. 10y	1.96	2.03	at	10/02	1.63	at	03/01
High Yield	5.93	5.98	at	10/02	5.07	at	03/01
£ gilt. 2y	1.42	1.42	at	10/02	0.69	at	03/01
gilt. 10y	1.55	1.55	at	10/02	0.97	at	03/01
At 11-2-22							

EXCHANGE RATES

1€ =		Highest 22			Lowest 22			2022
USD	1.14	1.15	at	10/02	1.11	at	27/01	+0.1%
GBP	0.84	0.85	at	07/02	0.83	at	20/01	-0.2%
CHF	1.06	1.06	at	10/02	1.03	at	04/01	+1.9%
JPY	132.14	132.67	at	10/02	128.46	at	28/01	+0.9%
AUD	1.59	1.62	at	04/02	1.56	at	05/01	-1.0%
CNY	7.25	7.29	at	10/02	7.10	at	27/01	+0.1%
BRL	5.92	6.44	at	03/01	5.92	at	11/02	-6.5%
RUB	86.75	90.14	at	20/01	84.45	at	03/01	+1.7%
INR	85.94	85.56	at	11/02	85.05	at	31/01	+1.7%
At 11-2-22								Change

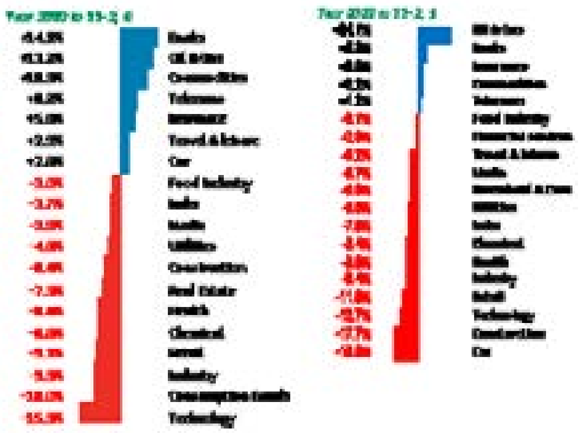
COMMODITIES

Spot price, $		Highest 22			Lowest 22			2022	2022(€)
Oil, Brent	94.6	94.6	at	11/02	78.0	at	03/01	+20.7%	+20.3%
Gold (ounce)	1 834	1 847	at	25/01	1 785	at	20/01	+0.6%	+0.7%
Metals, LMEX	4 722	4 878	at	10/02	4 423	at	03/01	+4.9%	+4.8%
Copper (ton)	9 894	10 080	at	10/02	9 143	at	28/01	+1.6%	+1.3%
wheat (ton)	295	3.1	at	25/01	283	at	14/01	+24.0%	+23.8%
Corn (ton)	251	2.5	at	11/02	228	at	03/01	+1.0%	+0.7%
At 11-2-22								Change	

EQUITY INDICES

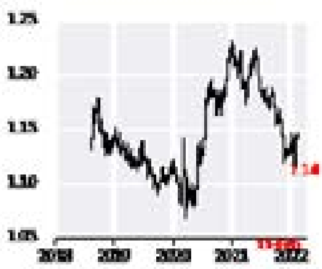
	Index	Highest 22			Lowest 22			2022
World								
MSCI World	3 019	3 248	at	04/01	2 933	at	27/01	-6.6%
North America								
S&P500	4 419	4 797	at	03/01	4 327	at	27/01	-7.3%
Europe								
EuroStoxx50	4 155	4 392	at	05/01	4 054	at	28/01	-3.3%
CAC 40	7 012	7 376	at	05/01	6 798	at	24/01	-0.2%
DAX 30	15 425	16 272	at	05/01	15 011	at	24/01	-2.9%
IBEX 35	8 790	8 808	at	10/02	8 418	at	24/01	+0.1%
FTSE100	7 661	7 672	at	10/02	7 297	at	24/01	+0.4%
Asia								
MSCI, loc.	1 130	1 165	at	05/01	1 088	at	27/01	-0.1%
Nikkei	27 696	29 332	at	05/01	26 170	at	27/01	-3.8%
Emerging								
MSCI Emerging ($)	1 241	1 267	at	10/02	1 193	at	28/01	+0.1%
China	84	88	at	20/01	79	at	28/01	+0.4%
India	873	878	at	13/01	804	at	27/01	-1.2%
Brazil	1 687	1 687	at	11/02	1 173	at	06/01	+6.7%
Russia	704	773	at	05/01	654	at	24/01	-5.5%
At 11-2-22								Change

PERFORMANCE BY SECTOR (Eurostoxx50 & S&P500)

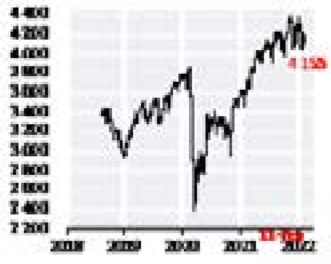


MARKETS OVERVIEW

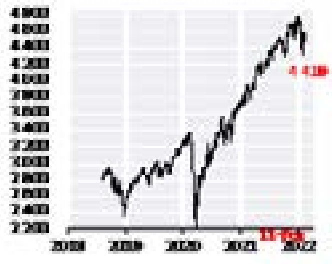
EURO-DOLLAR



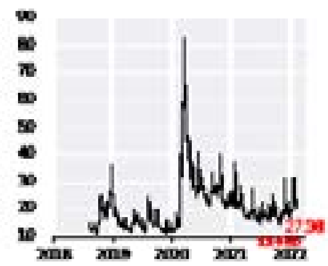
EUROSTOXX50



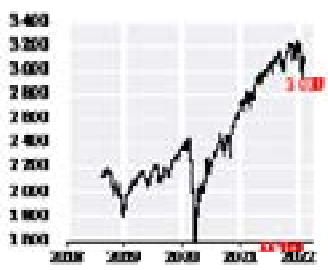
S&P500



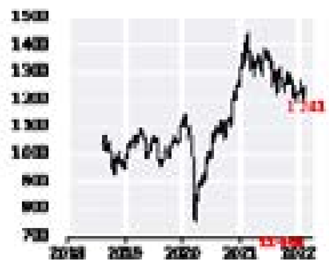
VOLATILITY (VIX, S&P500)



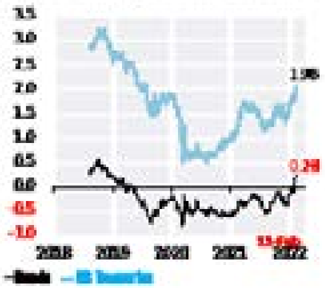
MSCI WORLD (USD)



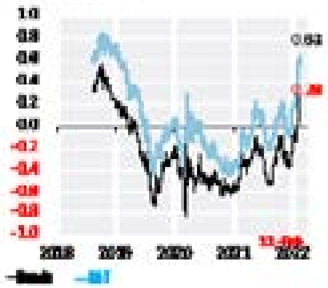
MSCI EMERGING (USD)



10Y BOND YIELD, TREASURIES VS BUND

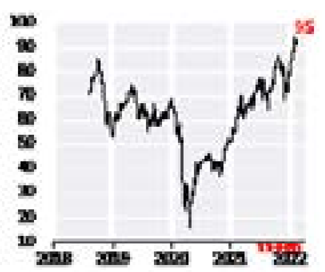


10Y BOND YIELD

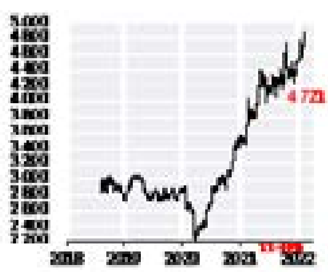


10Y BOND YIELD & SPREADS

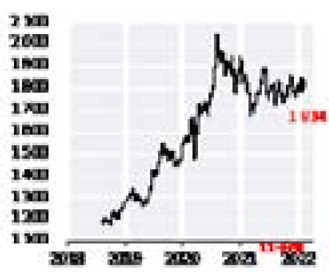
OIL (BRENT, USD)



METALS (LMEX, USD)



GOLD (OUNCE, USD)



SOURCE: REFINITIV, BNP PARIBAS

SPAIN : PRICES AND EMPLOYMENT BOTH RISE

The Spanish Minister for Employment, Yolanda Díaz, seems to be everywhere in this early part of the year. After the knife-edge vote on a decree to change labour market rules (the implementation of which was contested by the opposition due to a mistake by one of their members during an electronic voting), the Minister last week announced an increase in the minimum wage to 1,000 euros per month. This 3.7% increase will benefit nearly two million people and is retroactive to 1 January. This honours a promise made by the government in 2018 to gradually raise this 'floor' wage rate to 60% of the median salary by 2023.

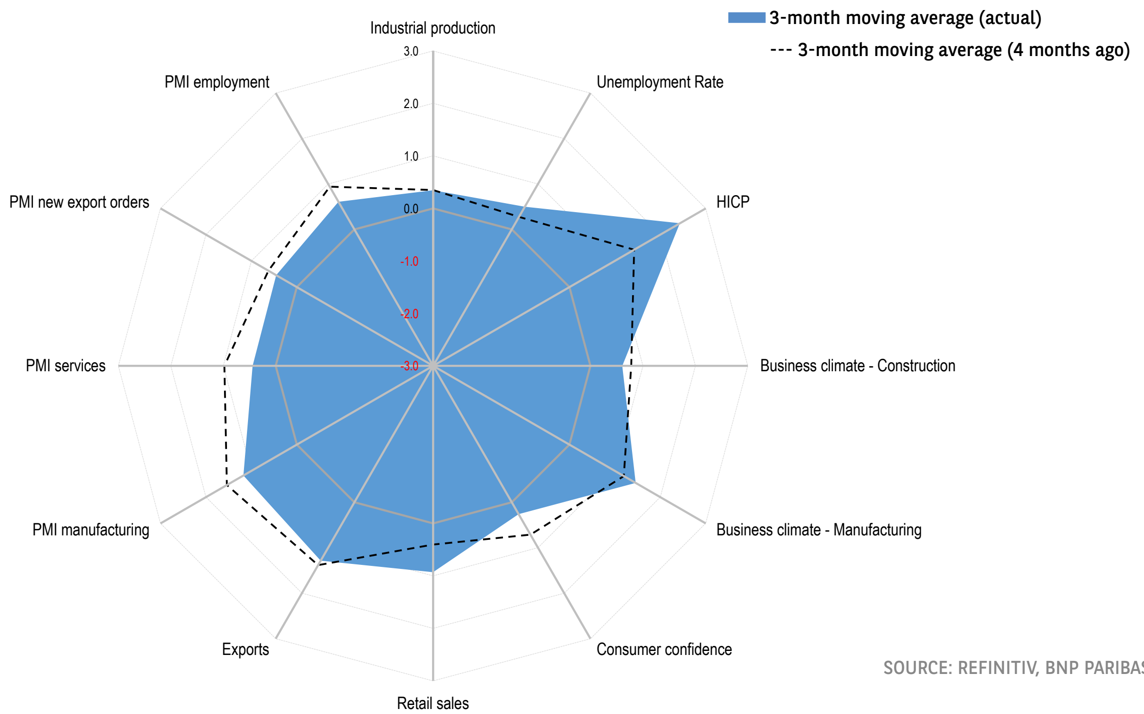
It is also a response to the rising cost of living that Spanish households are currently facing. As shown on our Pulse, the sharp increase in inflation has continued in January, with the harmonised index of consumer prices (HICP) up 6.1% y/y in January. Although the details of last month's inflation have not yet been revealed, energy prices should remain, unsurprisingly, the main driver of higher consumer prices. The energy element of the HICP recorded a jump of 40.2% y/y in December 2021, whilst the sector's production prices nearly doubled (+95.9% y/y) between December 2020 and December 2021.

Despite this headwind, the number of jobs in the country increased again in January (+72,000 according to SEPE[1]), after a record job creation in 2021. The unemployment rate is now likely to fall back below 13% in Q1, a level it already reached in December 2021. However, business confidence took a substantial hit last month, under the effect of the Omicron wave. The composite PMI dropped 7.5 points to 47.9, its biggest monthly fall since April 2020, the date of the country's first lockdown. The fall was concentrated in services (down 9.2 points to 46.6), while the manufacturing index was unchanged at 56.2. However, with the epidemic now regressing rapidly (infections have fallen by nearly two thirds since peaking in mid-January) and with a gradual easing of health measures, one would expect these indicators to improve from February onwards.

Guillaume Derrien

1. Spanish employment agency.

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 +3. 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.

UNITED KINGDOM: CHANGE OF DIRECTION

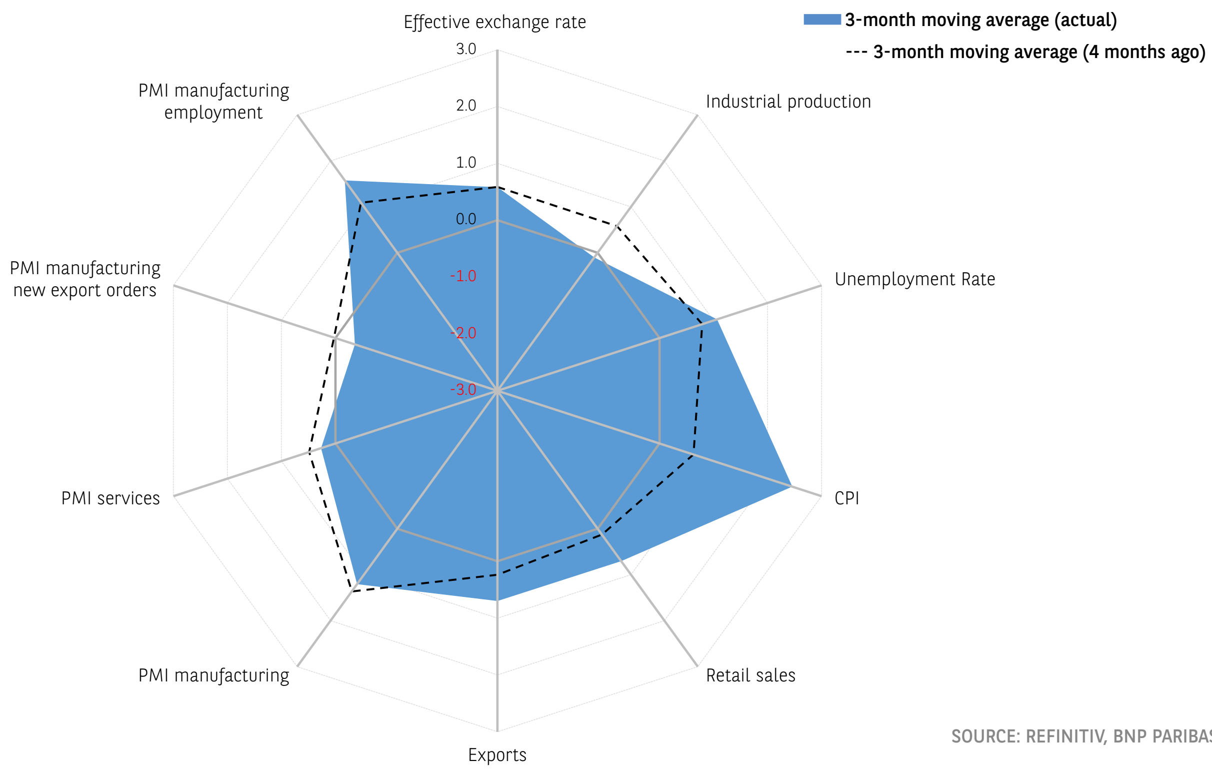
In the UK, like elsewhere, the upsurge in inflation is proving a constant source of surprise, and is prompting the central bank to act. Annual inflation is currently over 5% and the Monetary Policy Committee (MPC) expects it to hit 7% in April, its highest level for three decades. In response, the Bank of England is raising interest rates. Set at 0.1% during the crisis, its base rate was raised to 0.25% in December and then by a further quarter-point in February. Further rate hikes will follow, since the MPC, in line with market expectations, is aiming to increase the base rate to 1.50% by mid-2023.

In addition, like the US Federal Reserve, the Bank of England (BoE) will shrink its balance sheet by no longer reinvesting bonds purchased as part of its quantitative easing plan when they mature. The BoE currently has GBP 895 billion of bonds – mainly gilts – on its balance sheet, equal to around 40% of GDP. This monetary normalisation is taking place at a time when British economy is back to its late-2019 level. UK GDP was badly affected by the pandemic, since the country saw one of the world's deepest recessions in 2020. It then rebounded spectacularly in 2021 (+7.5%) in large part thanks to an aggressive "whatever it takes" approach. According to the International Monetary Fund's calculations, government transfers to households and businesses (excluding loans and guarantees) equalled 19% of GDP, practically twice the support provided in the Eurozone.

This caused the public-sector deficit to explode, and although it has since fallen as growth has returned, it remains fundamentally high: the Office for Budget Responsibility estimates that the structural deficit will be 8.3% of potential GDP in fiscal 2021/22. The government is therefore prioritising efforts to reduce it. Some or all of its Covid support measures (reduced VAT on hospitality, reduced stamp duty on property purchases etc.) have been withdrawn. The government is also planning to increase National Insurance contributions in April 2022 and corporate income tax from April 2023.

Jean-Luc Proutat

QUARTERLY CHANGES



SOURCE: REFINITIV, BNP PARIBAS

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ECONOMIC PULSE

VACCINATIONS: WORLD REACHES SYMBOLIC THRESHOLD OF 1 BILLION BOOSTER SHOTS

In the week of 2-8 February 2022, 19.9 million confirmed new cases of Covid-19 were reported worldwide, 14% less than the previous week. This is the second consecutive week of decline. All regions contributed to this decline: North America (-38%), Africa (-24%), South America (-17%) and Asia and Europe (nearly -5% each) (chart 1).

Yet local situations differ widely. Over the same period, several countries reported sharp declines (chart 4, black line): India (-56%), Belgium (-46%), the United States (-43%), France (-39%), Spain (-34%), Italy (-29%) and the UK (-25%). In contrast, certain countries reported big increases in the number of new cases: Indonesia (+141%), South Korea (+114%), Russia (+41%) and Japan (+20%). As to vaccinations, the world reached the symbolic threshold of 1 billion booster shots. Altogether, 10.6 billion doses of the vaccine have been administered worldwide since the beginning of the vaccination campaigns in Q4 2020, with nearly 62% of the global population receiving at least one dose of the vaccine (chart 2).

At the same time, retail and leisure footfall continues to climb in Spain, Belgium, France, Germany, Italy, the UK and the United States. In Japan, the downward trend continues, probably due to the country's health situation (chart 3, blue line).

Lastly, the OECD Weekly Tracker of GDP growth continues to trend upwards in the UK. In France, Germany, Italy, Spain and the United States, the Tracker has rebounded strongly recently. In Belgium, a slight improvement has very recently been observed, while, in Japan, the decline continues (chart 3, black line). The OECD Tracker is based on Google Trends resulting from queries on consumption, the labour market, housing, industrial activity as well as uncertainty. The change over a two-year period (y/2y) is calculated to avoid the base effect that would arise from a comparison with 2020 data.

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)

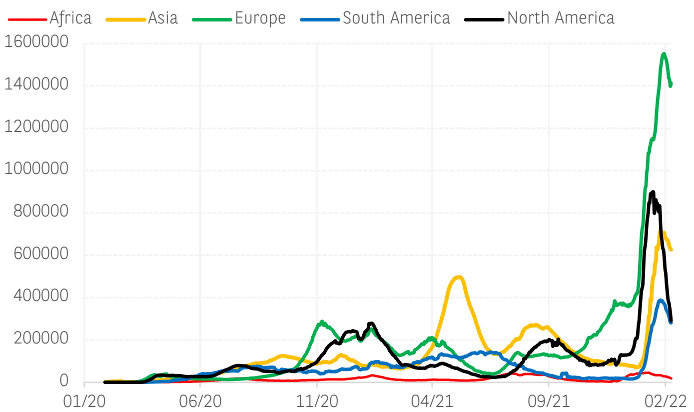


CHART 1 SOURCE: JOHNS-HOPKINS UNIVERSITY (02/09/2022), BNP PARIBAS

SHARE OF PEOPLE WHO RECEIVED AT LEAST ONE DOSE OF VACCINE

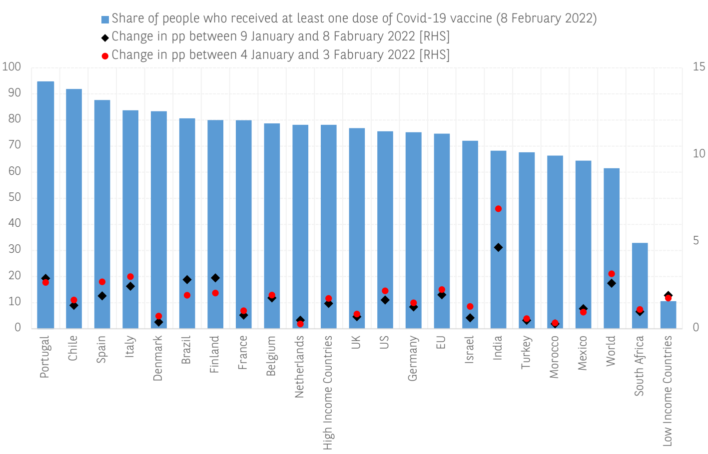
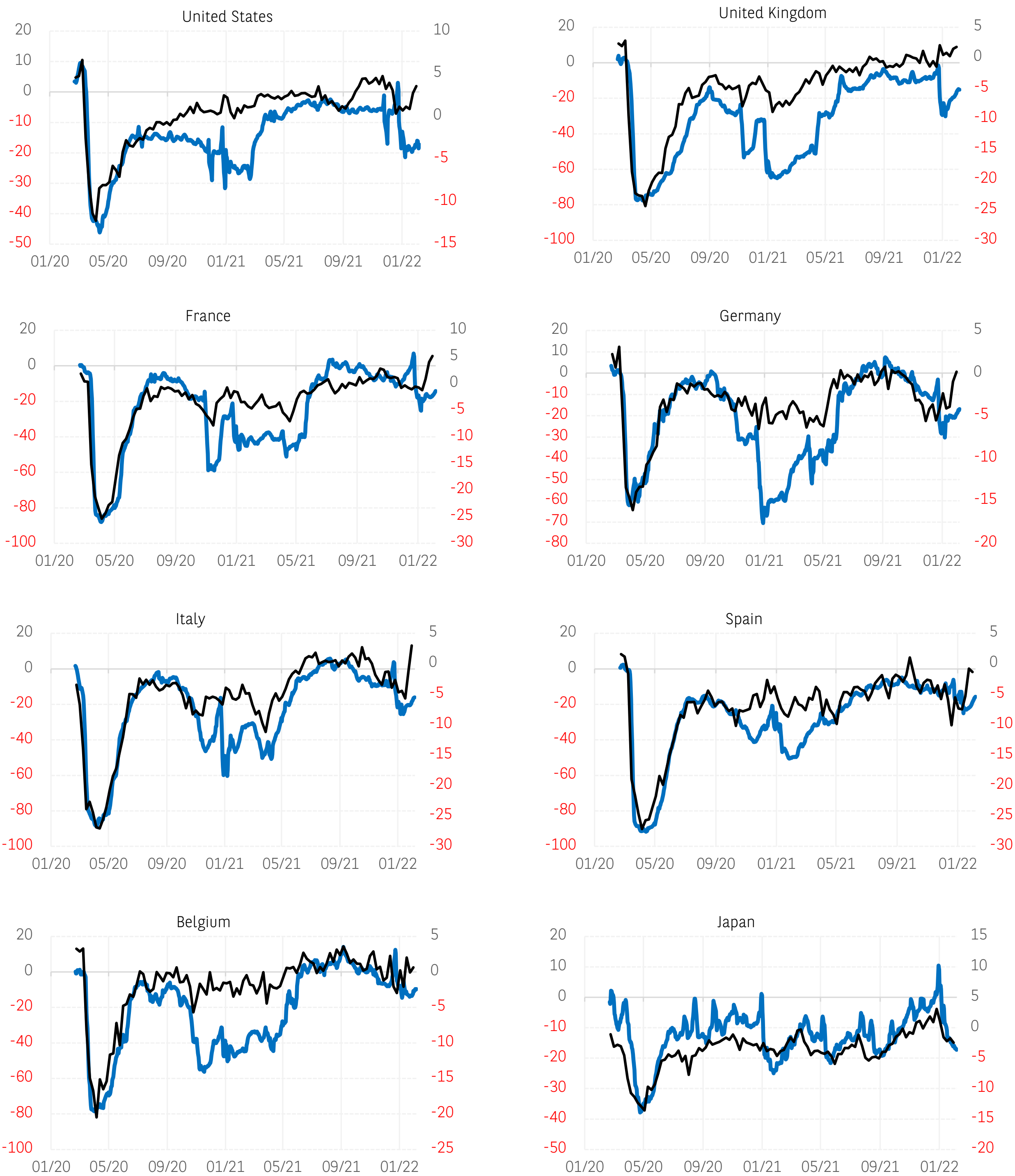


CHART 2 SOURCE: OUR WORLD IN DATA (02/09/2022), BNP PARIBAS

RETAIL AND RECREATION MOBILITY & OECD WEEKLY TRACKER

Retail and recreation mobility (7-day moving average, % from baseline*)   OECD Weekly tracker, y/2y GDP growth [RHS]

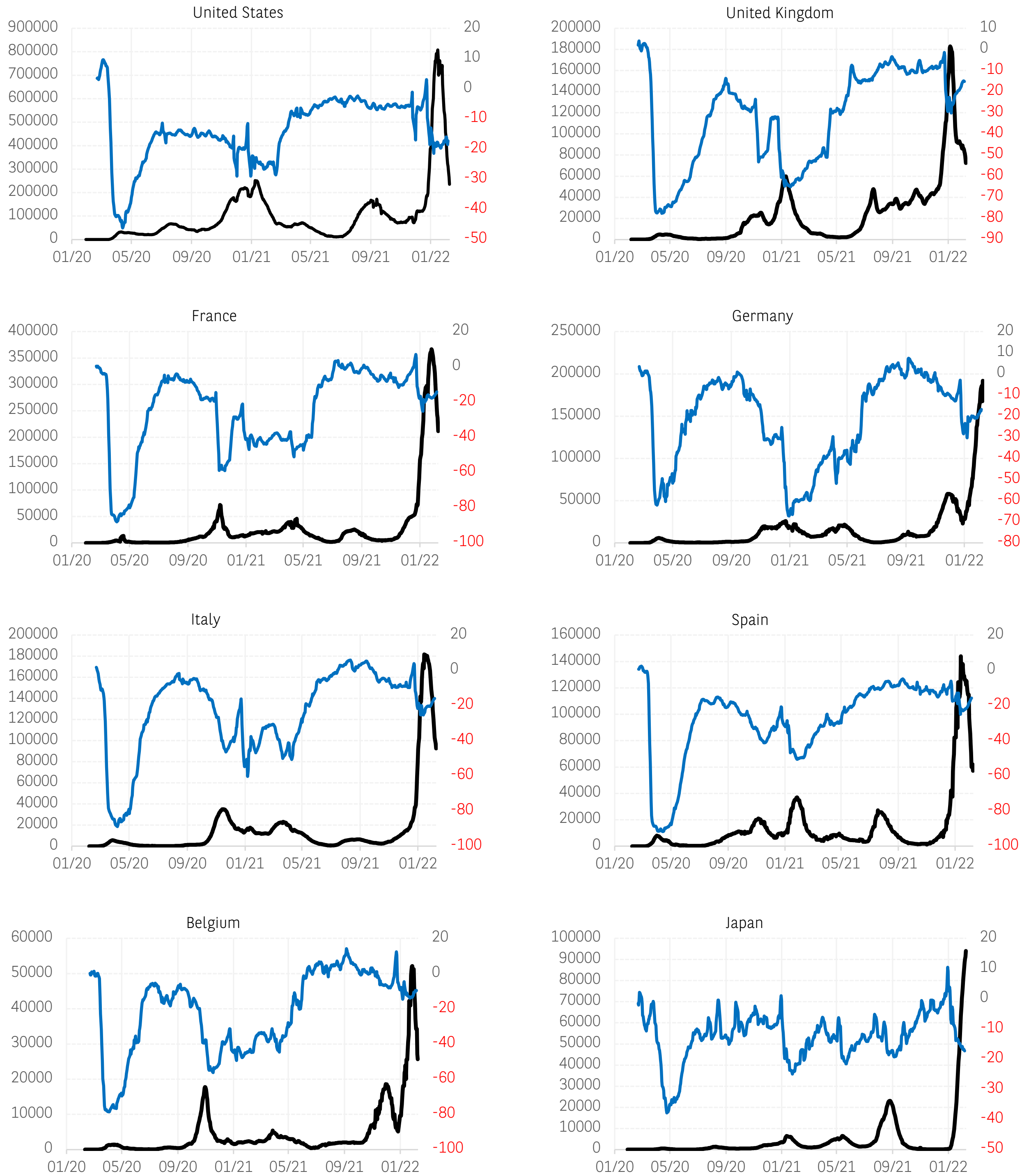


SOURCE: OECD (02/10/2022), GOOGLE (02/09/2022), BNP PARIBAS

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 (02/09/2022), GOOGLE (02/09/2022), BNP PARIBAS

ECONOMIC SCENARIO

UNITED STATES

The US economy has returned to its pre-pandemic trajectory, and with the unemployment rate at 4%, it is now close to potential. Inflation has risen above 7%, the highest level in forty years, and the Federal Reserve is expected to raise its key rates by at least 100 basis points in 2022. Buoyed by job creations, household consumption is however penalised by the decline in real wages. The downward revision of the government's fiscal ambitions, notably its social welfare plans, may also contribute to calm down private demand. GDP growth will slowdown at around 4%, inflation is expected to remain very high through the end of spring, before easing by the second half of 2022.

CHINA

Economic growth has slowed markedly since last summer. The crisis in the real estate and construction sectors, the authorities' zero-Covid strategy and the persisting weakness of household consumption have heavily weighed on activity. These factors are likely to persist in the short term, even though the government increases fiscal policy support and the central bank enhances monetary easing measures. At the same time, the authorities are expected to continue to act to clean up the property market and tighten the regulatory framework. The export industry, which has remained buoyant in recent months, could start to lose growth momentum in the short term.

EUROZONE

After a strong Q3, growth in Q4 2021 was, as expected, significantly weaker (+0.3% t/t according to the first Eurostat estimate). In addition to the expected normalization, headwinds have increased (supply-side problems, surging inflation and uncertainties arising from the new wave of the pandemic). However, business climate surveys continue to show some resilience. Although the downside risks have intensified, leading, mid-February, to a 0.6 ppts downward revision to our growth forecast for 2022 (to 3.6%), we continue to see the recovery as resilient. A number of tailwinds remain at work – still supportive (albeit less so) policy mix, a build-up of forced savings, scope for the service sector to catch-up, the need for companies to invest and rebuild inventories. Despite a more meaningful slowdown, growth is expected to remain well above its trend rate in 2022. Meanwhile, inflation continues to surge, postponing the expected peak. This is still mainly an energy story but more sustained and widespread factors are also gaining traction. We expect average inflation to spike at 5% in 2022 in annual average terms (after 2.6% in 2021), masking an expected decline over the course of the year.

FRANCE

What is happening at the aggregate eurozone level is representative of what is happening in France, and vice-versa. Although the figures are different, our analysis and view of the economic outlook are identical. In Germany, the headwinds are stronger, while France is less exposed. French growth surprised on the upside in Q4 2021 (0.7% q/q according to INSEE's initial estimate) and reached 7% in 2021 as a whole. In 2022, GDP growth would ease to 4.2%, against a background of higher inflation (3.5% expected in 2022 after 1.8% in 2021).

RATES AND EXCHANGE RATES

In the US, the Federal Reserve has started tapering and this should lead to net asset purchases ending in March this year. The tone of the minutes of the December meeting of the FOMC was hawkish. Given current particularly elevated inflation, the inflation outlook and the strength of the labour market, as reflected in the unemployment rate that has dropped below 4.0%, we expect a first rate hike in March, followed by five additional hikes in 2022 and three more in 2023. In addition, we expect the reduction of the balance sheet (quantitative tightening) to start in July this year. These policy changes should put upward pressure on Treasury yields

In the eurozone, the ECB will stop net purchases under the PEPP in March and will temporarily increase the monthly volume under the traditional asset purchase program. It insists on the risk that inflation will continue to surprise to the upside, in particular in the short run. Against this background and considering the expected path of inflation, we now forecast a first hike in the deposit rate of 25 bp on the occasion of the September meeting, followed by another hike in December. Two more hikes of 25 bp would follow in 2023. The change in message of the ECB has caused a rise in euro area bond yields. Further increases are to be expected given the outlook for monetary policy monetary policy and the influence from higher US Treasury yields. We also expect a widening of certain sovereign spreads.

The Bank of Japan is expected to maintain its current policy stance over the forecast horizon, whilst allowing the 10-year JGB yield to drift higher under the influence of globally rising yields, towards about 20bp.

We expect the dollar to weaken versus the euro, considering that both the Federal Reserve and the ECB will tighten policy and that the euro is undervalued versus the dollar. The increased policy divergence between the Fed and the Bank of Japan should cause an e appreciation of the dollar versus the yen but in the latter part of 2023, there is a potential for yen appreciation as we get closer to the cyclical peak in US Treasury yields.

GROWTH & INFLATION

	GDP Growth			Inflation		
%	2021 e	2022 e	2023 e	2021 e	2022 e	2023 e
United-States	5.5	4.1	2.4	4.7	5.4	2.5
Japan	1.7	2.6	1.8	-0.2	1.0	0.8
United-Kingdom	7.1	4.1	2.1	2.5	5.8	2.6
Euro Area	5.0	3.6	2.5	2.5	5.0	2.1
Germany	2.6	3.6	3.6	3.1	4.7	2.4
France	6.7	4.2	2.5	2.0	3.8	2.4
Italy	6.3	4.9	3.0	1.8	5.5	1.7
Spain	4.3	5.4	3.5	3.0	5.2	1.8
China	7.9	4.9	5.5	0.9	2.1	2.5
India*	8.0	11.0	6.0	5.4	5.7	5.0
Brazil	4.8	0.5	2.0	8.3	8.3	4.3
Russia	4.5	3.0	1.8	7.0	6.3	4.1

SOURCE: BNP PARIBAS GROUP ECONOMIC RESEARCH (E: ESTIMATES & FORECASTS)
*FISCAL YEAR FROM 1ST APRIL OF YEAR N TO MARCH 31ST OF YEAR N+1

INTEREST & EXCHANGE RATES

Interest rates, % End of period		Q1 2022 e	Q2 2022 e	Q3 2022 e	Q4 2022 e	Q4 2023 e
US	Fed Funds (upper limit)	0.50	1.00	1.50	1.75	2.50
	T-Note 10y	2.00	2.10	2.20	2.30	2.30
Ezone	Deposit rate	-0.50	-0.50	-0.25	0.00	0.50
	Bund 10y	0.35	0.45	0.50	0.60	0.70
	OAT 10y	0.90	0.90	1.00	1.10	1.20
	BTP 10y	2.10	2.20	2.40	2.60	2.70
	BONO 10y	1.40	1.50	1.65	1.80	1.90
UK	Base rate	0.75	1.00	1.25	1.25	1.75
	Gilts 10y	1.50	1.55	1.60	1.75	2.00
Japan	BoJ Rate	-0.10	-0.10	-0.10	-0.10	-0.10
	JGB 10y	0.20	0.20	0.20	0.22	0.25

Exchange Rates End of period		Q1 2022 e	Q2 2022 e	Q3 2022 e	Q4 2022 e	Q4 2023 e
USD	EUR / USD	1.15	1.16	1.17	1.18	1.20
	USD / JPY	115	116	117	118	115
	GBP / USD	1.35	1.35	1.36	1.37	1.40
EUR	EUR / GBP	0.85	0.86	0.86	0.86	0.86
	EUR / JPY	132	135	137	139	138

Brent End of period		Q1 2022 e	Q2 2022 e	Q3 2022 e	Q4 2022 e	Q4 2023 e
Brent	USD/bbl	87	84	87	92	97

FORECASTS PRODUCED ON 10 FEBRUARY. SOURCE: BNP PARIBAS (E: ESTIMATES & FORECASTS)
(MARKET ECONOMICS, INTEREST RATE STRATEGY, FX STRATEG, COMMODITIES DESK STRATEGY)

CALENDAR

LATEST INDICATORS

In China, the services PMI declined in January, although less than expected, and pulled along the composite PMI. In its Winter Forecast, the European Commission stated that growth is expected to regain traction after the winter slowdown. The Banque de France industrial sentiment declined in January whereas the consensus had expected an improvement. In Japan, the Eco Watchers' survey disappointed by declining far more than anticipated. In the US, inflation picked up further, more than anticipated. Initial jobless claims declined and were better than expected. University of Michigan sentiment dropped, both in terms of current conditions and the outlook. The consensus had expected a status quo.

DATE	COUNTRY	INDICATOR	PERIOD	SURVEY	ACTUAL	PREVIOUS
02/07/2022	China	Caixin China PMI Composite	Jan	--	50.1	53.0
02/07/2022	China	Caixin China PMI Services	Jan	50.5	51.4	53.1
02/08/2022	Japan	Eco Watchers Survey Current SA	Jan	48.2	37.9	56.4
02/08/2022	Japan	Eco Watchers Survey Outlook SA	Jan	45.8	42.5	49.4
02/09/2022	Germany	Exports SA MoM	Dec	-0.5%	0.9%	1.7%
02/09/2022	Germany	Imports SA MoM	Dec	-2.1%	4.7%	3.3%
02/09/2022	France	Bank of France Ind. Sentiment	Jan	109.0	106.0	108.0
02/10/2022	Eurozone	Economic Forecasts (European Commission)				
02/10/2022	United States	CPI MoM	Jan	0.4%	0.6%	0.5%
02/10/2022	United States	CPI Ex Food and Energy MoM	Jan	0.5%	0.6%	0.6%
02/10/2022	United States	CPI YoY	Jan	7.3%	7.5%	7.0%
02/10/2022	United States	Initial Jobless Claims	Feb	230k	223k	238k
02/10/2022	United States	CPI Ex Food and Energy YoY	Jan	5.9%	6.0%	5.5%
02/11/2022	Germany	CPI EU Harmonized YoY	Jan	5.1%	5.1%	5.1%
02/11/2022	Germany	CPI EU Harmonized MoM	Jan	0.9%	0.9%	0.9%
02/11/2022	United Kingdom	GDP QoQ	4Q	1.1%	1.0%	1.1%
02/11/2022	United Kingdom	GDP YoY	4Q	6.4%	6.5%	6.8%
02/11/2022	United Kingdom	Private Consumption QoQ	4Q	0.8%	1.2%	2.7%
02/11/2022	United Kingdom	Government Spending QoQ	4Q	1.6%	1.9%	-0.5%
02/11/2022	United Kingdom	Gross Fixed Capital Formation QoQ	4Q	1.3%	2.2%	-0.9%
02/11/2022	United Kingdom	Exports QoQ	4Q	6.3%	4.9%	-3.5%
02/11/2022	United Kingdom	Imports QoQ	4Q	2.4%	-1.5%	1.1%
02/11/2022	United States	U. of Mich. Sentiment	Feb	67.0	61.7	67.2
02/11/2022	United States	U. of Mich. Current Conditions	Feb	72.1	68.5	72.0
02/11/2022	United States	U. of Mich. Expectations	Feb	64.5	57.4	64.1
02/11/2022	United States	U. of Mich. 1 Yr Inflation	Feb	5.0%	5.0%	4.9%
02/11/2022	United States	U. of Mich. 5-10 Yr Inflation	Feb	--	3.1%	3.1%

SOURCE: BLOOMBERG

CALENDAR: THE WEEK AHEAD

COMING INDICATORS

This week Japan will publish 4th quarter GDP data. In the UK we have the labour market report as well as inflation and retail sales. The ZEW survey will be released for Germany and the euro area. For the latter, we also have data on the trade balance, employment, car registrations, consumer confidence as well as an updated estimate of 4th quarter GDP growth. The ECB will publish its economic bulletin. For France we will have the unemployment rate and inflation. China will publish inflation numbers (producer prices and consumer prices). In the US we will have producer price inflation, several releases concerning the housing market, retail sales as well as the minutes of the latest FOMC meeting.

DATE	COUNTRY/REGION	INDICATOR	PERIOD	SURVEY	PRIOR
02/15/22	Japan	GDP SA QoQ	4Q	1.50%	-0.90%
02/15/22	Japan	GDP Private Consumption QoQ	4Q	2.20%	-1.30%
02/15/22	Japan	GDP Business Spending QoQ	4Q	0.50%	-2.30%
02/15/22	Japan	Inventory Contribution % GDP	4Q	0.00%	0.10%
02/15/22	Japan	Net Exports Contribution % GDP	4Q	0.30%	0.00%
02/15/22	United Kingdom	Average Weekly Earnings 3M/YoY	Dec	--	4.20%
02/15/22	United Kingdom	ILO Unemployment Rate 3Mths	Dec	--	4.10%
02/15/22	United Kingdom	Employment Change 3M/3M	Dec	--	60k
02/15/22	Germany	ZEW Survey Expectations	Feb	--	51.7
02/15/22	Germany	ZEW Survey Current Situation	Feb	--	-10.2
02/15/22	Eurozone	ZEW Survey Expectations	Feb	--	49.4
02/15/22	Eurozone	Trade Balance SA	Dec	--	-1.3b
02/15/22	Eurozone	Trade Balance NSA	Dec	--	-1.5b
02/15/22	Eurozone	Employment QoQ	4Q	--	0.90%
02/15/22	Eurozone	Employment YoY	4Q	--	2.10%
02/15/22	Eurozone	GDP SA QoQ	4Q	--	0.30%
02/15/22	Eurozone	GDP SA YoY	4Q	--	4.60%
02/15/22	United States	PPI Ex Food and Energy YoY	Jan	--	8.30%
02/15/22	United States	PPI Final Demand MoM	Jan	0.40%	0.20%
02/15/22	United States	PPI Ex Food and Energy MoM	Jan	0.40%	0.50%
02/15/22	United States	PPI Final Demand YoY	Jan	--	9.70%
02/16/22	China	PPI YoY	Jan	9.50%	10.30%
02/16/22	China	CPI YoY	Jan	1.00%	1.50%
02/16/22	United Kingdom	CPIH YoY	Jan	--	4.80%
02/16/22 08:00	United Kingdom	CPI Core YoY	Jan	--	4.20%
02/16/22 14:30	United States	Retail Sales Advance MoM	Jan	1.70%	-1.90%
02/16/22 14:30	United States	Retail Sales Control Group	Jan	0.40%	-3.10%
02/16/22 16:00	United States	NAHB Housing Market Index	Feb	83	83
02/16/22 20:00	United States	FOMC Meeting Minutes	26-janv	--	--

SOURCE: BLOOMBERG

DATE	COUNTRY/REGION	INDICATOR	PERIOD	SURVEY	PRIOR
02/17/22	Japan	Core Machine Orders MoM	Dec	-2.00%	3.40%
02/17/22	Eurozone	EU27 New Car Registrations	Jan	--	-22.80%
02/17/22	Eurozone	ECB Publishes Economic Bulletin			
02/17/22	United States	Building Permits MoM	Jan	-7.40%	9.10%
02/17/22	United States	Initial Jobless Claims	12-Feb	--	--
02/17/22	United States	Housing Starts MoM	Jan	-1.60%	1.40%
02/17/22	United States	Philadelphia Fed Business Outlook	Feb	19.7	23.2
02/18/22	France	ILO Unemployment Rate	4Q	--	8.10%
02/18/22	United Kingdom	Retail Sales Ex Auto Fuel MoM	Jan	--	-3.60%
02/18/22	United Kingdom	Retail Sales Ex Auto Fuel YoY	Jan	--	-3.00%
02/18/22	France	CPI EU Harmonized MoM	Jan	--	0.10%
02/18/22	France	CPI EU Harmonized YoY	Jan	--	3.30%
02/18/22	Eurozone	Consumer Confidence	Feb	--	-8.5

SOURCE: BLOOMBERG

FURTHER READING

France: Towards a EUR 100 bn trade deficit in 2022?	EcoTVWeek	11 February 2022
Egypt: pressure on foreign currency liquidity	Chart of the Week	9 February 2022
ECB: rules and a lot of discretion	EcoWeek	7 February 2022
Inflation: a cycle in the three phases	EcoTVWeek	4 February 2022
European Union: Inflation in France and Germany: an unusual gap	Chart of the Week	2 February 2022
US: US monetary policy outlook: more questions than answers	EcoWeek	31 January 2022
The new Turkish economic policy	EcoTVWeek	28 January 2022
France: Shortages in industry – less acute but not gone	Chart of the Week	26 January 2022
Economic analyses and economic forecasts for a selection of emerging countries	EcoEmerging	26 January 2022
10-year Bund yield back at zero percent. What are the drivers?	EcoWeek	24 January 2022
Euro zone: An economic assessment in early 2022	EcoTVWeek	21 January 2022
Ghana: debt concerns	Chart of the Week	19 January 2022
US: Bye bye QE, here comes QT	EcoWeek	17 January 2022
US: monetary policy at a turning point	EcoTVWeek	14 January 2022
US: The Bank of Japan is the main counterparty in the Fed's FRRP facility	Chart of the Week	12 January 2022
French Economy Pocket Atlas - January issue	Pocket Atlas	11 January 2022
Global: Supply side disruption, some hopeful signs	EcoWeek	10 January 2022
Euros in our pockets: looking back, looking ahead	EcoTVWeek	7 January 2022
European Union : New year, new fiscal rules for Europe?	Chart of the Week	5 January 2022
Global: 2022: assessing upside and downside risks	EcoWeek	3 January 2022

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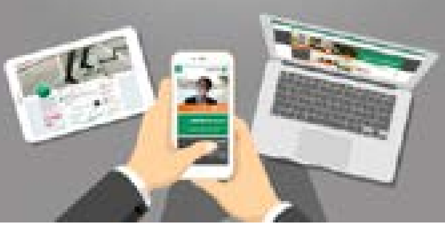

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