ECOWEEK

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ECONOMIC RESEARCH

BNP PARIBAS

The bank for a changing world

ECB: ENHANCED POLICY OPTIONALITY

Since its launch, the ECB's asset purchase programme has had, through various transmission channels, a significant impact on financial markets, activity and inflation. In recent months, doubts about the positive effects of additional purchases and concerns about possible negative consequences have increased. Against this background, the ECB has cut the link between the timing of the end of net asset purchases and the rate lift-off. This is a welcome decision that increases the governing council's optionality. The new staff macroeconomic projections remind us of the pervasive uncertainty we are facing. In such an environment, monetary policy can be nothing else than data-dependent.

In the press conference following last week's governing council meeting of the ECB, the words 'some time' were mentioned 14 times. It shows the importance of the decision to drop the phrase introduced in September 2019 that stated that the governing council expected net asset purchases "*to end shortly before it starts raising the key ECB interest rates*". Upon its introduction in 2019, the strict link between QE and the policy rate lift-off reinforced expectations that net asset purchases would continue for a long time, considering that hiking official interest rates was a distant prospect. In recent months, the situation has changed however. First, looking at the different transmission channels, the economic impact of additional asset purchases has become questionable. QE seeks to avoid that inflation expectations would stabilize well below the central bank's target. However, at the current juncture, the risk of de-anchoring has switched to inflation expectations moving permanently above the inflation objective. Commercial banks' excess reserves at the central bank are abundant, giving banks ample opportunity to increase their loan volume, so extra reserve creation via net asset purchases is no longer necessary. It is also doubtful that these purchases would still have a considerable additional impact on bond and equity prices. QE can also cause a depreciation of the exchange rate, but given the inflation outlook and the huge increase in commodity prices that are invoiced in US dollar, such a movement would be unwelcome from an inflation perspective. Finally, when starting net asset purchases, the central bank sends a signal that the policy rate will remain unchanged for a long time. This is no longer what the market expects[1] nor does it correspond to the message that the ECB wants to give.

Whereas doubts have grown about the positive effects of additional purchases[2] , concern about possible negative consequences has increased. "*The focus on ending net asset purchases ... reflects, at least in part, the fact that their side effects tend to increase over time[3].*" According to ECB board member Isabel Schnabel, these side effects concern the large impact on house prices, the shrinkage of the bond free float in certain countries, the possibility that ongoing asset purchases would raise concerns about fiscal dominance and the impact on the euro exchange rate[4]. Interestingly, the account of the February meeting of the governing council reveals that a number of the members "*were of the view that the forward guidance conditions were already broadly satisfied and expressed a preference for adjusting the forward guidance on the phasing-out of the APP at the present meeting.*" Against this background, dropping "to end shortly before" and replacing it with "some time after" was a welcome decision.

EURO AREA REAL GDP GROWTH (QOQ IN %) - ECB PROJECTIONS

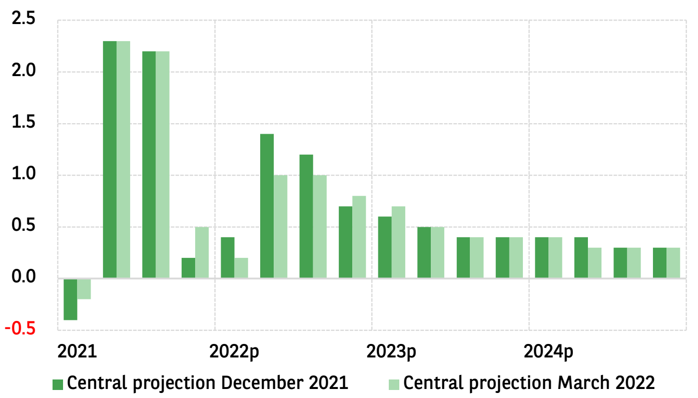


CHART 1

P: PROJECTIONS
SOURCE: ECB STAFF MACROECONOMIC PROJECTIONS MARCH 2022, EUROSYSTEM STAFF MACROECONOMIC PROJECTIONS DECEMBER 2021, BNP PARIBAS

1. In the autumn of last year, markets were already pricing a lift-off of the deposit rate by the end of 2022. For an overview of the reasons, see *Deposit rate lift-off, markets and the ECB, Ecoweek*, BNP Paribas, 8 November 2021.
2. It is important in this respect to distinguish between the stock effect of QE (the cumulative purchases) and the flow effect (the net purchases over a given time period). Research shows that the former has had a considerable impact on long-term interest rates (lower bond yields, in particular due to a compression of term premia). However, when the monthly purchases are small compared with the cumulative purchases thus far, the incremental impact on bond yields will decline significantly.
3. Source: *Finding the right sequence*, Speech by Isabel Schnabel, Member of the Executive Board of the ECB, at a virtual policy panel on "Unwinding QE" at the first annual Bank of England Agenda for Research (BEAR) conference, Frankfurt am Main, 24 February 2022.
4. *"Over the past years, these measures have contributed to large capital outflows from the euro area, thereby putting downward pressure on the euro exchange rate. The exit from these measures can thus support the currency and, for a net importer of energy, provide tangible and immediate support to euro area households and firms by improving the terms of trade."* Source: see footnote 3.

Dropping "to end shortly before" and replacing it with "some time after" was a welcome decision. The decision to hike rates will fully depend on the data. This shows how limited the visibility is.

In doing so, the ECB has cut the link between the timing of the end of net asset purchases and the rate lift-off, thereby following last year's example of the Federal Reserve[5]. This increases the governing council's optionality. Current policy rates can be maintained as long as necessary without having to worry about the side effects of QE considering that the link between the two has been cut. Moreover, net purchases are expected to end in the third quarter, based on the updated guidance. *"If the incoming data support the expectation that the medium-term inflation outlook will not weaken even after the end of our net asset purchases, the Governing Council will conclude net purchases under the APP in the third quarter*[6]*."* This change in guidance caught markets by surprise, causing a jump in bond yields and a short-lived appreciation of the euro against the US dollar.

The focus has now shifted completely to the interpretation of 'some time after'. Christine Lagarde has been very clear in what it means, namely that the decision to hike rates will fully depend on the data. The use of these words "*opens sufficiently wide an interval of time so that we can review the data, determine the robustness of the data, make sure that some uncertainty has cleared a bit so that we can make a decision.*[7]" Clearly the robustness of the data –the strength of demand growth, the dynamics of wages and underlying inflation, etc.- will to a large degree be influenced by the war in Ukraine and its economic consequences. Compared to the December projection, the ECB has revised the projection for quarterly growth downwards for the first three quarters of the year but slightly upwards for the following two (chart 1). A more instructive way is to compare the profile of the level of real GDP (chart 2). In the March projection, GDP in the fourth quarter of last year was estimated to be 0.6% higher than the December estimate, but in the third quarter of this year it is projected to be 0.4% lower, implying a hit to growth of about 1 percentage point. The revised inflation path (chart 3) -with inflation moving higher and staying well above the December projection until the middle of next year- plays a key role in this respect. It is based on an assumption for the price of a barrel of Brent crude oil of USD 92.6 in 2022 (USD 71.1 on average in 2021), USD 82.3 in 2023 and USD 77.2 in 2024. However, since the projections have been finalised, energy prices have increased significantly[8]. Given the huge uncertainty, monetary policy can be nothing else than data-dependent.

William De Vijlder

ECB PROJECTIONS: DIFFERENCE IN REAL GDP LEVEL

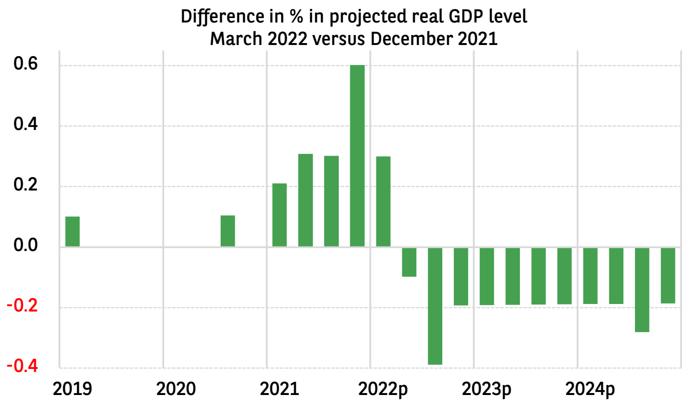


CHART 2

P: PROJECTIONS
SOURCE: ECB STAFF MACROECONOMIC PROJECTIONS MARCH 2022, EUROSYSTEM STAFF MACROECONOMIC PROJECTIONS DECEMBER 2021, BNP PARIBAS

ECB HICP INFLATION PROJECTIONS

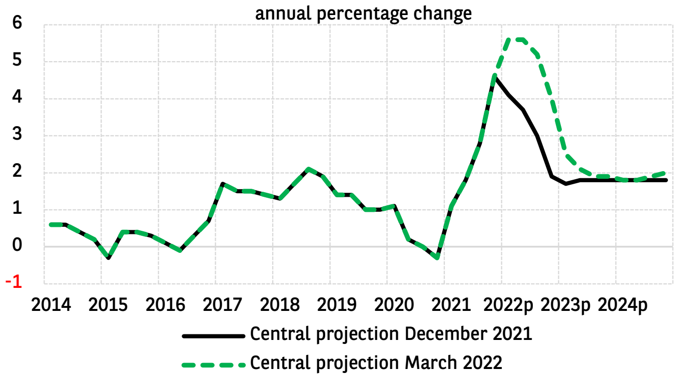


CHART 3

P: PROJECTIONS
SOURCE: ECB STAFF MACROECONOMIC PROJECTIONS MARCH 2022, EUROSYSTEM STAFF MACROECONOMIC PROJECTIONS DECEMBER 2021, BNP PARIBAS

5. In his speech at the annual Jackson Hole symposium of the Federal Reserve Bank of Kansas City, Jerome Powell had been very clear that tapering would not signal a change in the outlook for the federal funds rate: "*The timing and pace of the coming reduction in asset purchases will not be intended to carry a direct signal regarding the timing of interest rate liftoff, for which we have articulated a different and substantially more stringent test.*"Source: *FED adapts forward guidance, will ECB do the same?* Ecoweek, BNP Paribas, 6 September 2021.
6. ECB, Monetary policy statement, 10 March 2022.
7. ECB, Press conference of Christine Lagarde, President of the ECB, Luis de Guindos, Vice-President of the ECB, Frankfurt am Main, 10 March 2022
8. Under an adverse (severe) scenario, with even higher energy prices and other repercussions, the ECB staff projects growth of 2.5% (2.3%) this year and inflation at 5.9% (7.1%).

MARKETS OVERVIEW

OVERVIEW

Week 4-3 22 to 11-3-22

↗ CAC 40	6 062	▶ 6 260	+3.3	%
↘ S&P 500	4 329	▶ 4 204	-2.9	%
↘ Volatility (VIX)	32.0	▶ 30.8	-1.2	pb
↗ Euribor 3M (%)	-0.52	▶ -0.50	+1.8	bp
↗ Libor $ 3M (%)	0.61	▶ 0.83	+21.6	bp
↗ OAT 10y (%)	0.28	▶ 0.60	+32.6	bp
↗ Bund 10y (%)	-0.14	▶ 0.23	+37.0	bp
↗ US Tr. 10y (%)	1.72	▶ 2.01	+28.4	bp
↗ Euro vs dollar	1.09	▶ 1.10	+0.4	%
↗ Gold (ounce, $)	1 961	▶ 1 983	+1.1	%
↘ Oil (Brent, $)	118.3	▶ 112.7	-4.7	%

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	-0.50	-0.49	at	09/03	-0.58	at	05/01
	Euribor 12M	-0.27	-0.27	at	11/03	-0.50	at	05/01
$	FED	0.25	0.25	at	03/01	0.25	at	03/01
	Libor 3M	0.83	0.83	at	11/03	0.21	at	03/01
	Libor 12M	1.60	1.60	at	11/03	0.58	at	03/01
£	BoE	0.50	0.50	at	03/02	0.25	at	03/01
	Libor 3M	1.00	1.00	at	11/03	0.26	at	03/01
	Libor 12M	0.81	0.81	at	03/01	0.81	at	03/01

At 11-3-22

Yield (%)			highest 22			lowest 22		
€	AVG 5-7y	0.47	0.54	at	11/02	-0.04	at	03/01
	Bund 2y	-0.48	-0.31	at	04/02	-0.83	at	04/03
	Bund 10y	0.23	0.28	at	15/02	-0.14	at	24/01
	OAT 10y	0.60	0.67	at	15/02	0.15	at	04/01
	Corp. BBB	1.97	1.99	at	10/03	0.90	at	05/01
$	Treas. 2y	1.74	1.74	at	11/03	0.70	at	04/01
	Treas. 10y	2.01	2.06	at	16/02	1.63	at	03/01
	High Yield	6.62	6.62	at	11/03	5.07	at	03/01
£	gilt. 2y	1.37	1.55	at	15/02	0.69	at	03/01
	gilt. 10y	1.48	1.59	at	14/02	0.97	at	03/01

At 11-3-22

EXCHANGE RATES

1€ =		highest 22			lowest 22			2022
USD	1.10	1.15	at	10/02	1.09	at	07/03	-3.6%
GBP	0.84	0.85	at	07/02	0.83	at	04/03	-0.2%
CHF	1.02	1.06	at	10/02	1.00	at	04/03	-1.3%
JPY	128.30	132.97	at	10/02	125.37	at	04/03	-2.0%
AUD	1.50	1.62	at	04/02	1.48	at	07/03	-4.2%
CNY	6.93	7.29	at	10/02	6.87	at	08/03	-4.3%
BRL	5.53	6.44	at	06/01	5.51	at	07/03	-12.7%
RUB	146.81	164.76	at	07/03	84.45	at	03/01	+72.1%
INR	84.00	85.96	at	11/02	83.17	at	04/03	-0.6%

At 11-3-22 *Change*

COMMODITIES

Spot price, $		highest 22			lowest 22			2022	2022(€)
Oil, Brent	112.7	128.2	at	08/03	79.0	at	03/01	+43.8%	+49.1%
Gold (ounce)	1 983	2 056	at	08/03	1 785	at	28/01	+8.8%	+12.8%
Metals, LMEX	5 329	5 506	at	07/03	4 489	at	06/01	+18.4%	+22.7%
Copper (ton)	10 151	10 702	at	04/03	9 543	at	06/01	+4.2%	+8.1%
wheat (ton)	384	4.2	at	07/03	281	at	14/01	+61.4%	+67.3%
Corn (ton)	292	2.9	at	11/03	226	at	03/01	+2.8%	+32.7%

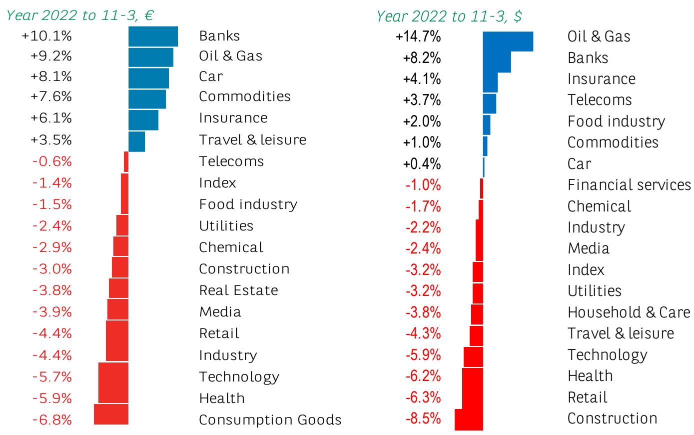
At 11-3-22 *Change*

EQUITY INDICES

	Index	highest 22			lowest 22			2022
World								
MSCI World	2 840	3 248	at	04/01	2 798	at	08/03	-12.1%
North America								
S&P500	4 204	4 797	at	03/01	4 171	at	08/03	-11.8%
Europe								
EuroStoxx50	3 687	4 392	at	05/01	3 505	at	08/03	-14.2%
CAC 40	6 260	7 376	at	05/01	5 963	at	08/03	-1.2%
DAX 30	13 628	16 272	at	05/01	12 832	at	08/03	-14.2%
IBEX 35	8 142	8 886	at	10/02	7 645	at	07/03	-0.7%
FTSE100	7 156	7 672	at	10/02	6 959	at	07/03	-0.3%
Asia								
MSCI, loc.	1 043	1 165	at	05/01	1 024	at	08/03	-0.9%
Nikkei	25 163	29 332	at	05/01	24 718	at	09/03	-12.6%
Emerging								
MSCI Emerging ($)	1 086	1 267	at	12/01	1 086	at	11/03	-1.2%
China	68	86	at	20/01	68	at	11/03	-19.0%
India	781	891	at	13/01	742	at	07/03	-4.8%
Brazil	1 706	1 766	at	03/03	1 372	at	06/01	+7.6%

At 11-3-22 *Change*

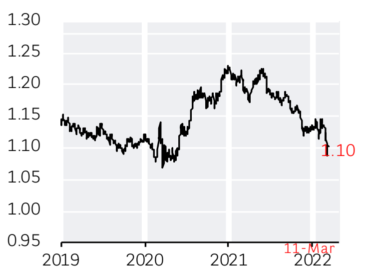
PERFORMANCE BY SECTOR (Eurostoxx50 & S&P500)



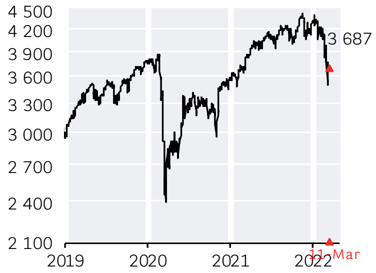
SOURCE: REFINITIV, BNP PARIBAS,

MARKETS OVERVIEW

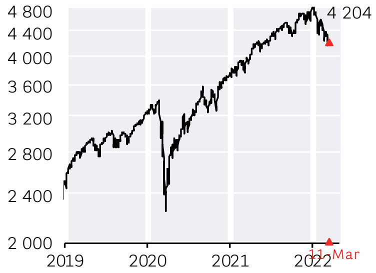
EURO-DOLLAR



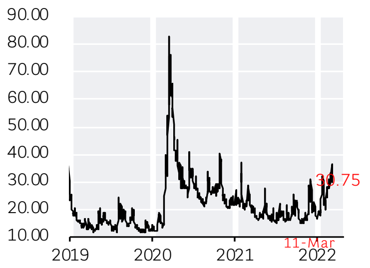
EUROSTOXX50



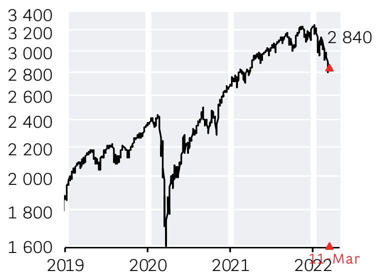
S&P500



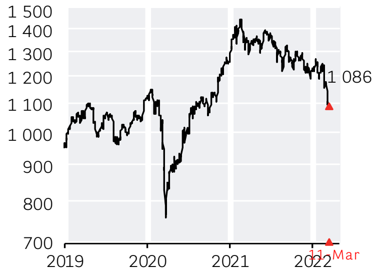
VOLATILITY (VIX, S&P500)



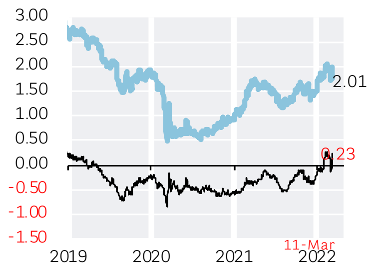
MSCI WORLD (USD)



MSCI EMERGING (USD)

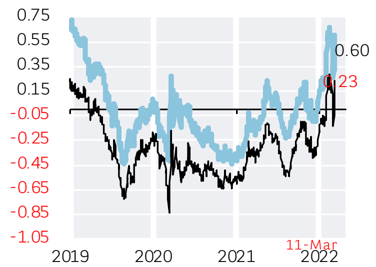


10Y BOND YIELD, TREASURIES VS BUND



—Bunds —US Treasuries

10Y BOND YIELD



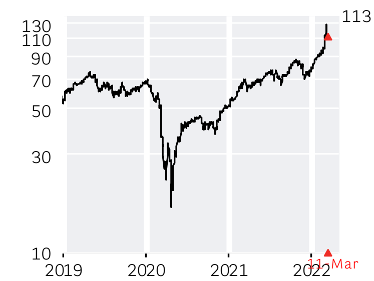
—Bunds —OAT

10Y BOND YIELD & SPREADS

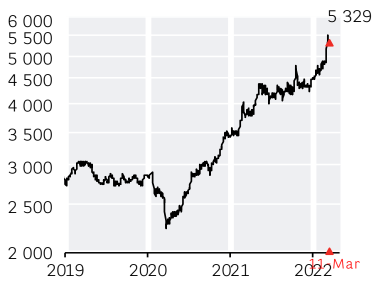
Year 2022 to 11-3

1.83%	Greece	191 bp
1.23%	Italy	131 bp
0.64%	Spain	72 bp
0.56%	Portugal	64 bp
0.21%	France	29 bp
0.20%	Belgium	28 bp
0.12%	Finland	20 bp
-0.03%	Austria	6 bp
-0.05%	Ireland	3 bp
-0.10%	Netherlands	-2 bp
-0.09%	Germany	

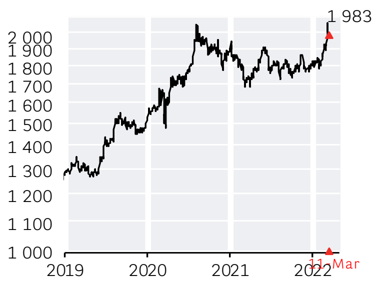
OIL (BRENT, USD)



METALS (LMEX, USD)



GOLD (OUNCE, USD)



SOURCE: REFINITIV, BNP PARIBAS

ITALY: SHARP SLOWDOWN AHEAD

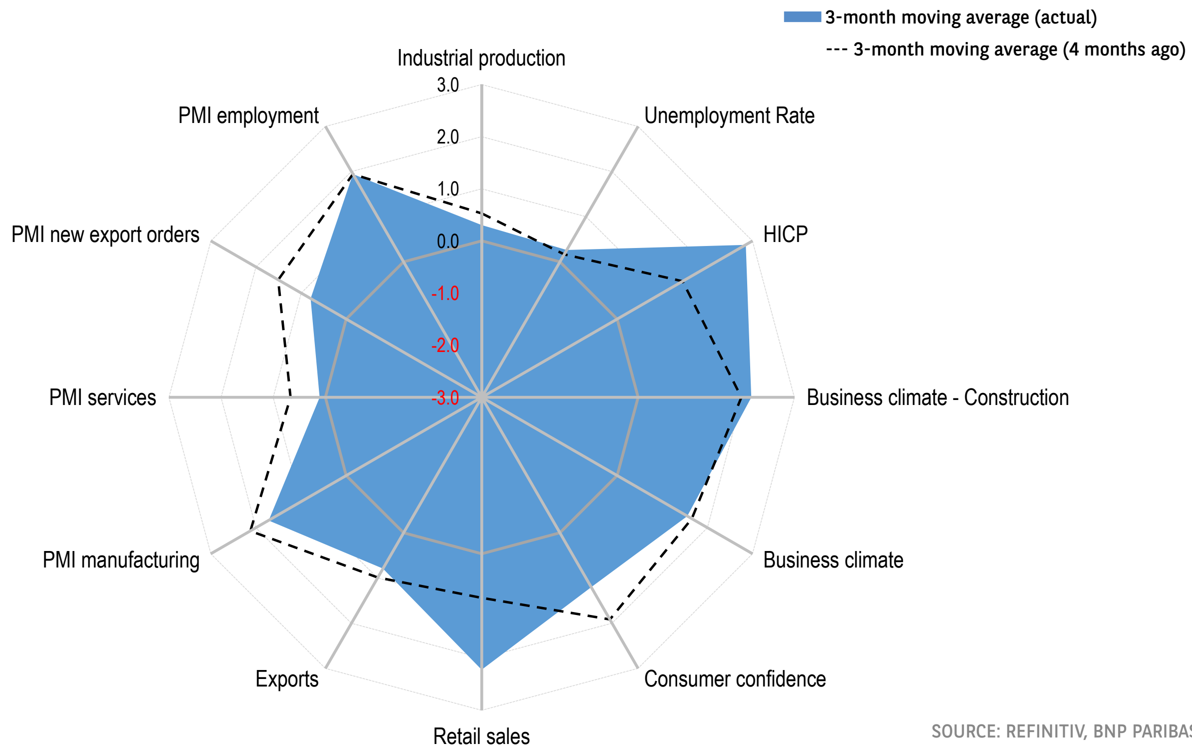
Italy's industrial output fell 3.4% month-on-month in January. There is now a high risk that GDP will contract again in Q1 because of the war in Ukraine and the impact of surging commodity prices on Italy's economy. Italy is particularly dependent on Russian gas, with almost 45% of its imports coming from this country. Even if Rome is planning to carry out a drastic shift in its gas imports – sourcing gas from other countries like Algeria and Azerbaijan – and to increase its LNG consumption, these changes will take time to materialise. As a result, inflation is likely to remain very high in 2022 and the spill over of price pressures to sectors other than energy is likely to gain traction, a trend that was already in place before the Ukraine conflict began. Inflation hit 6.2% y/y in February, primarily because of higher energy prices, but there were also significant increases in the prices of food and non-alcoholic beverages (+4.9% y/y) and hotels and restaurants (+4.0% y/y). The Italian government has announced EUR 6 billion of additional funding to ease the pain of higher energy prices, but this will not fully offset the increase in bills for consumers and businesses.

On the upside, the government will take some comfort from the latest 2021 growth estimates unveiled last week by Istat, which were better than expected. Real GDP growth was 6.6% in 2021 (versus 6.0% according to the initial estimate), although this only partly makes up for the record 9.1% contraction in 2020. The most positive aspect of the report is the increase in investment. Gross fixed capital formation (GFCF) hit a 13-year high in Q4 2021, mainly driven by high levels of expenditure in construction (13.9% higher in 2021 than in 2019[1]). That increase backs up recent strong statistics regarding business confidence surveys in the construction sector. Besides, the construction sector PMI shows that activity levels have remained strong in Q1 2022, hitting an all-time high of 68.5 in February. The construction sector is therefore, for the time being, spared from the slowdown that is affecting most areas of the industry sector.

Guillaume Derrien

1. Combined expenditure on housing and on other buildings and structures.

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 +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.

ECONOMIC PULSE

COVID-19: RISING NEW CASE NUMBERS IN ASIA

With the Omicron variant now becoming dominant in most countries, the number of new Covid-19 cases worldwide continues to fall. However, the pace of this decline has slowed during the week of March 3-9 (-2% compared to the previous week). By region, South America and Africa saw big falls, at 38%, followed by North America (-30%) and Europe (-7%). In contrast, case numbers in Asia rose by 15% (Chart 1). Meanwhile, 64% of the world's population has now received at least one dose of a Covid-19 vaccine (Chart 2).

Visits to retail and recreation facilities have bounced back recently in France, Germany, Belgium, the UK and the USA, while in Italy, Spain and Japan, the improvement has come to a halt (chart 3, blue line).

Lastly, the trend in the weekly proxy indicator of GDP has remained significantly positive in all the countries in our sample. (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 OECD calculates the tracker over a 2-year period (y/2y) to avoid the base effect of 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)

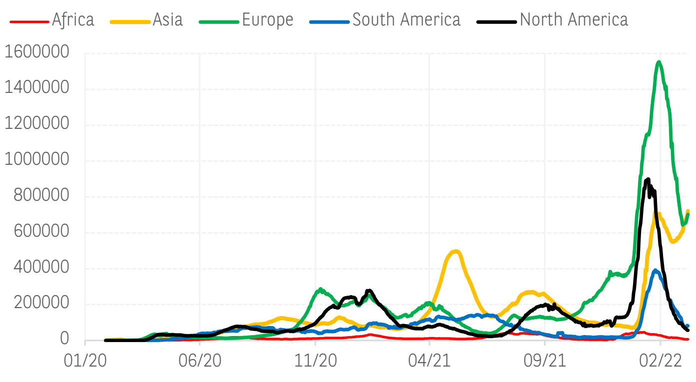


CHART 1 SOURCE: JOHNS-HOPKINS UNIVERSITY (03/10/2022), BNP PARIBAS

SHARE OF PEOPLE WHO RECEIVED AT LEAST ONE DOSE OF VACCINE

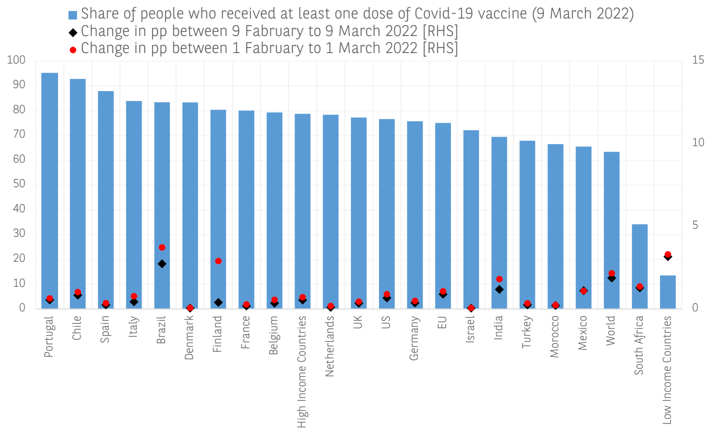
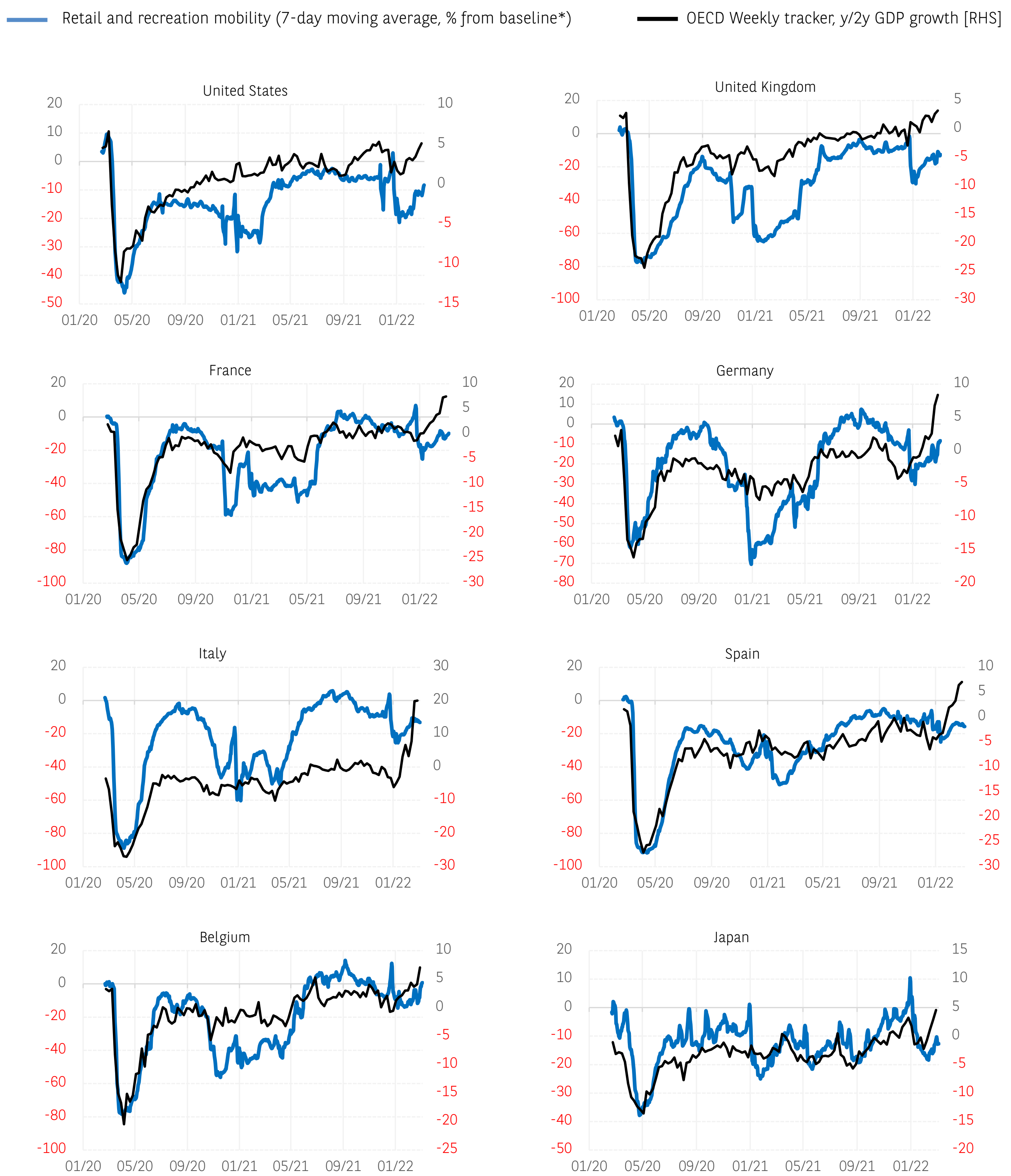


CHART 2 SOURCE: OUR WORLD IN DATA (03/10/2022), BNP PARIBAS

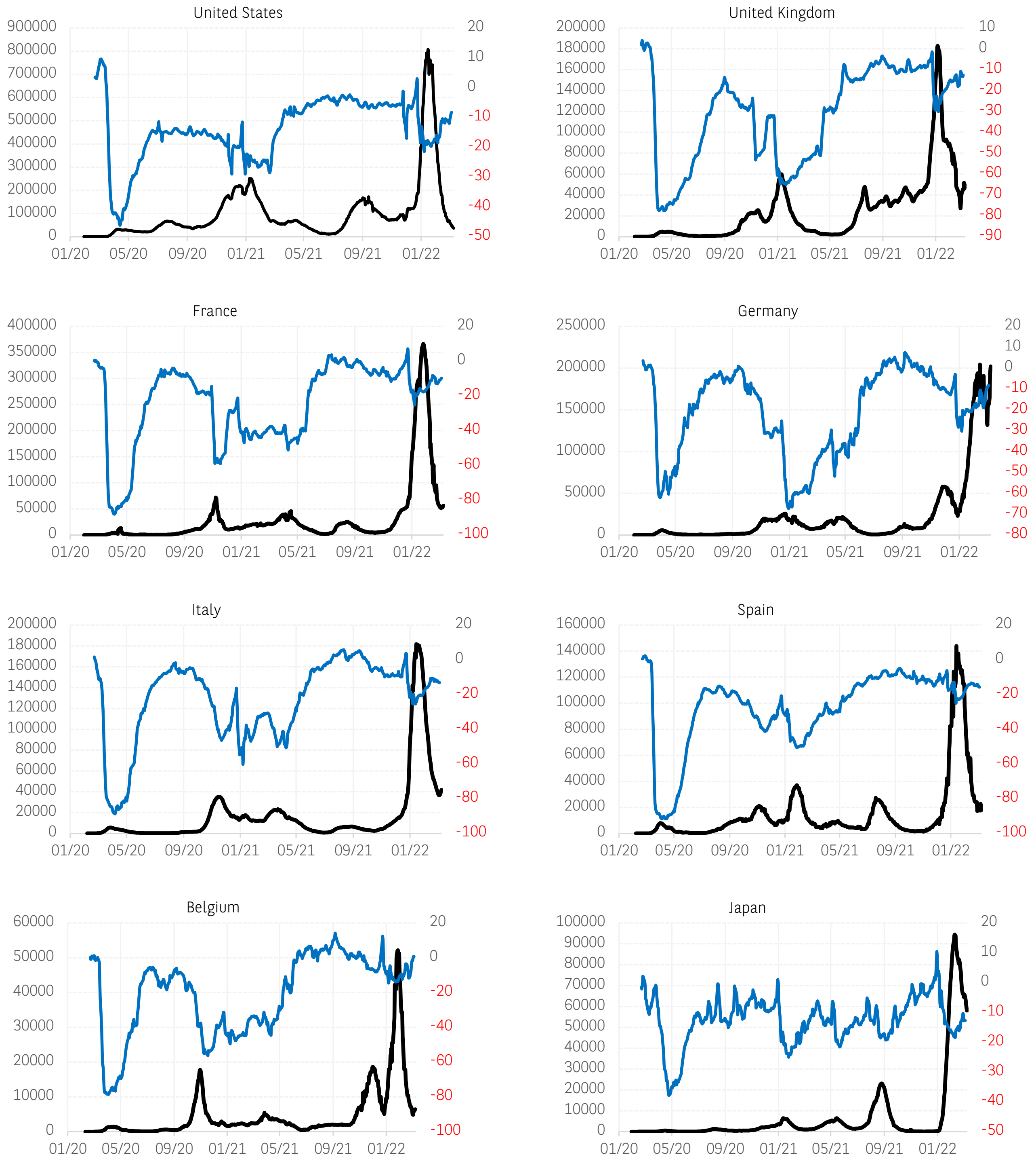
RETAIL AND RECREATION MOBILITY & OECD WEEKLY TRACKER



SOURCE: OECD (10/03/2022), GOOGLE (10/03/2022), 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 (10/03/2022), GOOGLE (10/03/2022), 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 were forecasting a first hike in the deposit rate of 25 bp on the occasion of the September meeting, followed by another hike in December. However, due to the economic consequences of the war in Ukraine, this now seems far less likely. One rate hike this year, but later than September, is still a possibility. 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 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.

GDP GROWTH

%	2021	2022 e	2023 e
United-States**	5.7	3.7	2.5
Japan**	1.7	1.6	2.0
United-Kingdom**	7.5	3.6	1.7
Euro Area**	5.3	2.8	2.7
Germany	2.9	-	-
France	7.0	-	-
Italy	6.6	-	-
Spain	5.0	-	-
China**	7.7	4.9	5.5
India*	8.1	-	-
Brazil	5.0	-	-
Russia	4.5	-	-

The growth projections in the table are based on the assumption that there is no further escalation of the war in Ukraine, that there is a prolonged period of uncertainty with sanctions remaining in place and that the price of oil would peak at USD 150/bbl and drop to about USD 120/bbl by year end.

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 13/03/2022

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, data for February show that export growth versus last year since the start of this year did better than expected but the opposite holds for imports. Producer price inflation edged down to 8.8% and consumer price inflation was stable at 0.9%. In the eurozone, the updated estimate of 4th quarter growth confirmed the numbers of the previous estimate. The ECB governing council separated its guidance for the net asset purchases from that on its policy rates. The latter could be increased some time after the ending of the former but that will depend entirely on the data. In Japan, the Eco Watchers survey showed an improvement in terms of the outlook and a quasi-stabilisation of the assessment of the current situation. The estimate for 4th quarter growth was revised downwards to 1.1%, which is well below the consensus forecast of 1.4%. In the UK, the monthly estimate for GDP growth in January was far stronger than expected. In the US, headline as well as core inflation accelerated, both on a monthly basis and versus last year. The numbers were in line with the consensus. The job openings data increased and beat expectations. Finally, University of Michigan sentiment weakened, in particular in terms of outlook. This is related to inflation expectations, which for the next 12 months, recorded a jump to 5.4%, much more than anticipated.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	ACTUAL	PREVIOUS
03/07/2022	China	Exports YTD YoY	Feb	14.0%	16.3%	60.6%
03/07/2022	China	Imports YTD YoY	Feb	17.0%	15.5%	22.2%
03/08/2022	Japan	Eco Watchers Survey Outlook SA	Feb	43.0	44.4	42.5
03/08/2022	Japan	Eco Watchers Survey Current SA	Feb	38.0	37.7	37.9
03/08/2022	Eurozone	GDP SA QoQ	4Q	0.3%	0.3%	0.3%
03/08/2022	Eurozone	GDP SA YoY	4Q	4.6%	4.6%	4.6%
03/08/2022	United States	NFIB Small Business Optimism	Feb	97.3	95.7	97.1
03/09/2022	Japan	GDP SA QoQ	4Q	1.4%	1.1%	1.3%
03/09/2022	China	PPI YoY	Feb	8.6%	8.8%	9.1%
03/09/2022	China	CPI YoY	Feb	0.9%	0.9%	0.9%
03/09/2022	France	Private Sector Payrolls QoQ	4Q	0.5%	0.6%	0.5%
03/09/2022	United States	JOLTS Job Openings	Jan	10950k	11263k	11448k
03/10/2022	Eurozone	ECB Deposit Facility Rate	Mar	-0.5%	-0.5%	-0.5%
03/10/2022	United States	CPI MoM	Feb	0.8%	0.8%	0.6%
03/10/2022	United States	CPI Ex Food and Energy MoM	Feb	0.5%	0.5%	0.6%
03/10/2022	United States	CPI YoY	Feb	7.9%	7.9%	7.5%
03/10/2022	United States	Initial Jobless Claims	Mar	217k	227k	216k
03/10/2022	United States	CPI Ex Food and Energy YoY	Feb	6.4%	6.4%	6.0%
03/11/2022	Germany	CPI EU Harmonized MoM	Feb	0.9%	0.9%	0.9%
03/11/2022	Germany	CPI EU Harmonized YoY	Feb	5.5%	5.5%	5.5%
03/11/2022	United Kingdom	Monthly GDP (MoM)	Jan	0.1%	0.8%	-0.2%
03/11/2022	United States	U. of Mich. Sentiment	Mar	61.0	59.7	62.8
03/11/2022	United States	U. of Mich. Current Conditions	Mar	65.8	67.8	68.2
03/11/2022	United States	U. of Mich. Expectations	Mar	57.0	54.4	59.4
03/11/2022	United States	U. of Mich. 1 Yr Inflation	Mar	5.1%	5.4%	4.9%
03/11/2022	United States	U. of Mich. 5-10 Yr Inflation	Mar	--	3.0%	3.0%
03/11/2022	France	Bank of France Ind. Sentiment	Feb	--		106

SOURCE: BLOOMBERG

CALENDAR: THE WEEK AHEAD

COMING INDICATORS

The highlight of the week is the FOMC meeting. A rate hike is widely expected so the focus will be on the press conference and the insights it provides on the future pace oof tightening. The monetary policy committee of the Bank of England is also meeting, as well as the Bank of Japan. As usual around this time of the month, China will publish several important data. In the US, we will have data on the housing market and construction activity, retail sales, producer prices and the Philadelphia Fed index. For the eurozone we have inflation numbers, new car registrations and the ZEW index. This index will also be releashed for Germany. In France, we have the Banque de France industrial sentiment index.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	PREVIOUS
03/14/2022	France	Bank of France Ind. Sentiment	Feb	106	106
03/15/2022	China	Property Investment YTD YoY	Feb	-7.00%	4.40%
03/15/2022	China	Industrial Production YTD YoY	Feb	4.00%	9.60%
03/15/2022	China	Fixed Assets Ex Rural YTD YoY	Feb	5.00%	4.90%
03/15/2022	China	Retail Sales YTD YoY	Feb	3.00%	12.50%
03/15/2022	China	Surveyed Jobless Rate	Feb	5.10%	5.10%
03/15/2022	United Kingdom	Payrolled Employees Monthly Change	Feb	--	108k
03/15/2022	United Kingdom	ILO Unemployment Rate 3Mths	Jan	4.00%	4.10%
03/15/2022	France	CPI EU Harmonized MoM	Feb	0.80%	0.80%
03/15/2022	France	CPI EU Harmonized YoY	Feb	4.10%	4.10%
03/15/2022	Germany	ZEW Survey Expectations	Mar	5	54.3
03/15/2022	Germany	ZEW Survey Current Situation	Mar	-33	-8.1
03/15/2022	Eurozone	ZEW Survey Expectations	Mar	--	48.6
03/15/2022	United States	PPI Ex Food and Energy YoY	Feb	8.70%	8.30%
03/15/2022	United States	PPI Final Demand MoM	Feb	1.00%	1.00%
03/15/2022	United States	PPI Ex Food and Energy MoM	Feb	0.60%	0.80%
03/15/2022	United States	PPI Final Demand YoY	Feb	10.00%	9.70%
03/16/2022	China	New Home Prices MoM	Feb	--	-0.04%
03/16/2022	United States	Retail Sales Advance MoM	Feb	0.40%	3.80%
03/16/2022	United States	Retail Sales Control Group	Feb	0.40%	4.80%
03/16/2022	United States	NAHB Housing Market Index	Mar	81	82
03/16/2022	United States	FOMC Rate Decision (Upper Bound)	Mar	0.50%	0.25%
03/17/2022	Japan	Core Machine Orders YoY	Jan	8.70%	5.10%
03/17/2022	Eurozone	EU27 New Car Registrations	Feb	--	-6.00%
03/17/2022	Eurozone	CPI YoY	Feb	5.80%	5.10%
03/17/2022	Eurozone	CPI MoM	Feb	0.90%	0.90%
03/17/2022	Eurozone	CPI Core YoY	Feb	2.70%	2.70%
03/17/2022	United Kingdom	Bank of England Bank Rate	Mar	0.75%	0.50%
03/17/2022	United States	Building Permits MoM	Feb	-1.60%	0.70%
03/17/2022	United States	Housing Starts MoM	Feb	3.50%	-4.10%
03/17/2022	United States	Philadelphia Fed Business Outlook	Mar	15	16
03/17/2022	United States	Initial Jobless Claims	Mar	--	227k
03/18/2022	Japan	BOJ Policy Balance Rate	Mar	--	-0.10%
03/18/2022	Japan	BOJ 10-Yr Yield Target	Mar	--	0.00%

SOURCE: BLOOMBERG

FURTHER READING

Eurozone : Eurozone: dynamism and tensions of the labour market	EcoFlash	11 March 2022
ECB: new forecasts, new challenges	EcoTVWeek	11 March 2022
North America : Contrasting LCR trends in Europe and North America	Chart of the Week	9 March 2022
Global : Are markets pricing in an increase in stagflation risk?	EcoWeek	7 March 2022
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Eurozone : Radical geopolitical uncertainty	EcoWeek	28 February 2022
Rise in sovereign rates and Italian debt: can we draw parallels with the situation in 2010/11?	EcoTVWeek	25 February 2022
France : French households: purchasing power is under pressure	EcoFlash	25 February 2022
Japan : Deflation intensifies in the services sector	Chart of the Week	23 February 2022
Global : Companies' pricing power and the inflation outlook	EcoWeek	21 February 2022
Chile: new President takes office	EcoTVWeek	18 February 2022
France: sharp acceleration in contactless card payments	Chart of the Week	16 February 2022
French industry: a challenge of scale	EcoFlash	15 February 2022
Eurozone sovereign spreads: haunted by the stylised facts	EcoWeek	14 February 2022
France: Towards a EUR 100 bn trade deficit in 2022?	EcoTVWeek	11 February 2022
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ECB: rules and a lot of discretion	EcoWeek	7 February 2022
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