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ECONOMIC RESEARCH

BNP PARIBAS

The bank for a changing world

EDITORIAL

UNITED STATES: DISINFLATION HAS STARTED

The US consumer price data for October have reinforced the view that disinflation -the narrowing of the gap between observed inflation and the central bank's inflation target- has started. That conclusion seems clear as far as headline inflation is concerned -it has peaked in June- but we need confirmation that the decline in core inflation from the September peak is not a one-off. Core goods inflation has been moving down but core services inflation remains stubbornly high on the back of transportation services and shelter. What matters now for the economy and financial markets is the speed of disinflation because this will influence Fed policy, the level of the terminal rate and how long the federal funds rate will stay there. All this influences the perceived downside risks to growth.

When you have been desperately waiting for good news, the reaction can be euphoric when at long last it arrives. This was perfectly illustrated by the behaviour of financial markets last week following the positive surprise of the US consumer price inflation data: headline and core inflation were lower than expected by the consensus..

The charts that follow show the market evolution on an intraday basis on 10 November, before and after the publication of the inflation numbers.

US Treasury yields (*chart 1*) recorded a big drop -close to 20 basis points for the 10-year yield, slightly more for the 2-year yield-, reflecting an expectation that the Federal Reserve would tighten less than expected previously. The federal funds futures curve (*chart 2*), which reflects market expectations of the future policy rate, moved significantly down. Investors now expect the terminal rate to be 20 basis points lower. This caused a strengthening of the euro versus the dollar (*chart 3*). Global bond yields are highly correlated so unsurprisingly, Bund yields also recorded a huge drop (*chart 4*). Equity markets (*chart 5*) rallied in Europe and Wall Street opened significantly higher compared to the previous day's close. This reflects the usual discount rate effect -the decline in government bond yields raises the net present value of future dividends- but also a reduced concern about downside risks to growth from ever higher policy rates. Finally, the price of gold increased as well (*chart 6*). This may look counterintuitive -after all, inflation eased more than expected, which should weigh on gold as an inflation hedge- but reflects the belief that real interest rates will rise less than expected previously.

The market reaction to positive economic data surprises has much in common with watching fireworks: waiting impatiently until the fuses are lit, watching full of admiration when the arrows light the night sky, soon to be followed by the question of what happens next.

The good news is that it looks that disinflation -the narrowing of the gap between observed inflation and the central bank's inflation target- has started in the US.

Headline inflation is on a clear downward trend after peaking in June (*chart 7*). Inflation excluding food and energy has peaked in September, so we need confirmation that the decline in October was not a one-off, keeping in mind that core inflation had been moving down for four months in a row after a peak in March. Core goods inflation -commodities excluding food and energy- has seen a downward shift as of July whereas core services inflation -which excludes energy services- remains stubbornly high on the back of transportation services and shelter. The latter rose 0.8% m/m in October -the largest increase since August 1990- and contributed over half of the monthly increase in headline inflation. Over the past 12 months, it accounted for over 40 percent of the total increase in core inflation. With the correction in the housing market and the prospect of a weakening of the labour market, shelter inflation will eventually decline but this may take time.

What matters now for the economy and financial markets is the speed of disinflation because this will influence Fed policy, the level of the terminal rate and how long the federal funds rate will stay there. All this influences the perceived downside risks to growth. Financial markets worry sequentially. When fears of further significant rate hikes will have eased, recession concerns will take over as dominant topic.

William De Vijlder

US TREASURY YIELDS

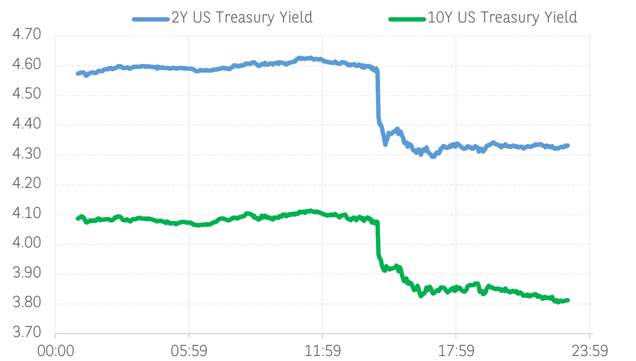


CHART 1 SOURCE: BLOOMBERG, BNP PARIBAS

> Financial markets worry sequentially. When fears of further significant rate hikes will have eased, recession concerns will take over as dominant topic.

FEDERAL FUNDS FUTURES CURVE

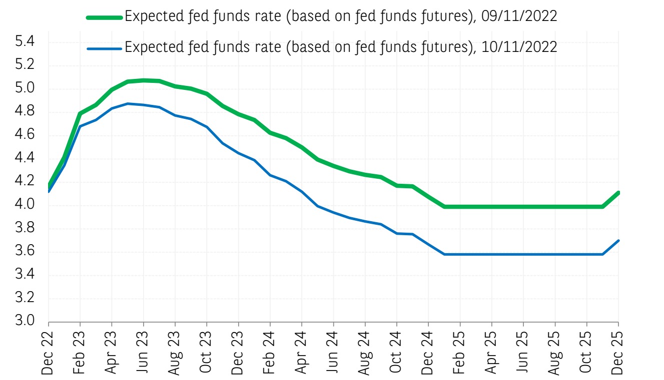


CHART 2 SOURCE: REFINITIV, BNP PARIBAS

EUR IN USD

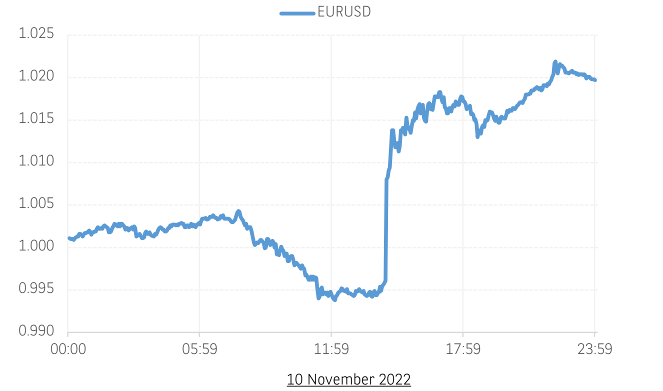


CHART 3 SOURCE: BLOOMBERG, BNP PARIBAS

10-YEAR BUND YIELD

CHART 4 SOURCE: BLOOMBERG, BNP PARIBAS

EQUITY MARKETS

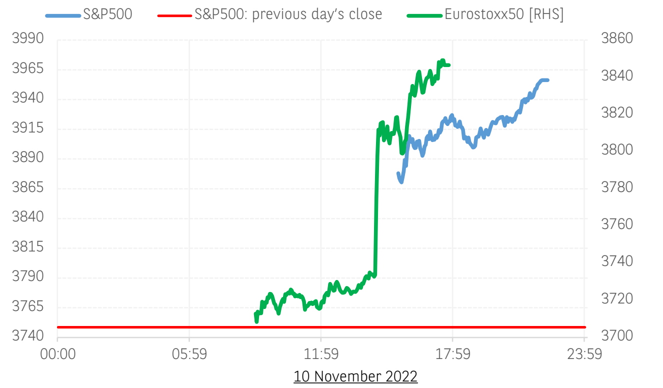


CHART 5 SOURCE: BLOOMBERG, BNP PARIBAS

GOLD IN USD

CHART 6 SOURCE: BLOOMBERG, BNP PARIBAS

US INFLATION (Y/Y IN %)

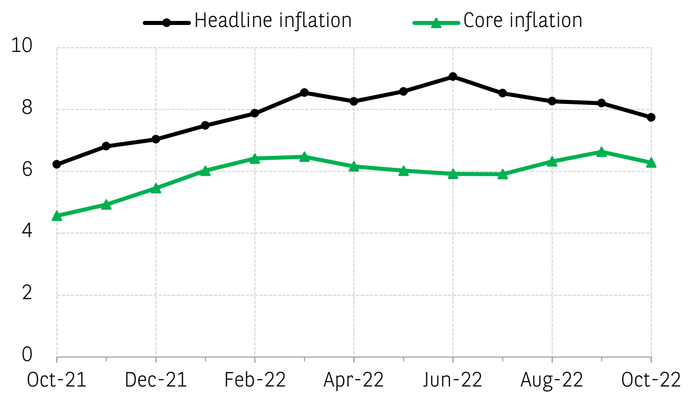


CHART 7 SOURCE: BLOOMBERG, BNP PARIBAS

MARKETS OVERVIEW

OVERVIEW

Week 4-11 22 to 11-11-22				
↗ CAC 40	6 416	▸ 6 595	+2.8	%
↗ S&P 500	3 771	▸ 3 993	+5.9	%
↘ Volatility (VIX)	24.6	▸ 22.5	-2.0	pb
↗ Euribor 3M (%)	1.73	▸ 1.76	+2.8	bp
↗ Libor $ 3M (%)	4.55	▸ 4.61	+5.6	bp
↘ OAT 10y (%)	2.84	▸ 2.66	-17.7	bp
↘ Bund 10y (%)	2.29	▸ 2.16	-13.2	bp
↘ US Tr. 10y (%)	4.16	▸ 3.86	-30.0	bp
↗ Euro vs dollar	0.99	▸ 1.03	+4.4	%
↗ Gold (ounce, $)	1 673	▸ 1 763	+5.3	%
↘ Oil (Brent, $)	98.8	▸ 96.2	-2.6	%

MONEY & BOND MARKETS

Interest Rates		highest 22			lowest 22		
€ ECB	2.00	2.00	at	02/11	0.00	at	03/01
Eonia	-0.51	-0.51	at	03/01	-0.51	at	03/01
Euribor 3M	1.76	1.80	at	09/11	-0.58	at	05/01
Euribor 12M	2.81	2.87	at	09/11	-0.50	at	05/01
$ FED	4.00	4.00	at	03/11	0.25	at	03/01
Libor 3M	4.61	4.65	at	10/11	0.21	at	03/01
Libor 12M	5.45	5.67	at	04/11	0.58	at	03/01
£ BoE	3.00	3.00	at	03/11	0.25	at	03/01
Libor 3M	3.47	3.75	at	26/09	0.26	at	03/01
Libor 12M	0.81	0.81	at	03/01	0.81	at	03/01

At 11-11-22

Yield (%)		highest 22			lowest 22		
€ AVG 5-7y	2.64	2.79	at	28/09	-0.04	at	03/01
Bund 2y	2.14	2.16	at	08/11	-0.83	at	04/03
Bund 10y	2.16	2.44	at	21/10	-0.14	at	24/01
OAT 10y	2.66	3.00	at	21/10	0.15	at	04/01
Corp. BBB	4.61	5.14	at	21/10	0.90	at	05/01
$ Treas. 2y	4.42	4.78	at	07/11	0.70	at	04/01
Treas. 10y	3.86	4.23	at	24/10	1.63	at	03/01
High Yield	9.20	9.97	at	13/10	5.07	at	03/01
£ gilt. 2y	3.22	4.59	at	27/09	0.69	at	03/01
gilt. 10y	3.35	4.50	at	27/09	0.97	at	03/01

At 11-11-22

EXCHANGE RATES

1€ =		highest 22			lowest 22			2022
USD	1.03	1.15	at	10/02	0.96	at	27/09	-9.2%
GBP	0.88	0.90	at	28/09	0.83	at	14/04	+4.4%
CHF	0.98	1.06	at	10/02	0.95	at	28/09	-5.7%
JPY	143.61	147.34	at	26/10	125.37	at	04/03	+9.7%
AUD	1.54	1.62	at	04/02	1.43	at	25/08	-1.5%
CNY	7.35	7.38	at	10/11	6.75	at	14/07	+1.4%
BRL	5.44	6.44	at	06/01	4.98	at	03/11	-14.1%
RUB	62.66	164.76	at	07/03	55.60	at	26/09	-26.5%
INR	83.45	85.96	at	11/02	78.49	at	27/09	-1.3%

At 11-11-22 *Change*

COMMODITIES

Spot price, $		highest 22			lowest 22			2022	2022(€)
Oil, Brent	96.2	128.2	at	08/03	79.0	at	03/01	+22.7%	+35.2%
Gold (ounce)	1 763	2 056	at	08/03	1 628	at	03/11	-3.3%	+6.5%
Metals, LMEX	3 969	5 506	at	07/03	3 453	at	27/09	-11.8%	-2.9%
Copper (ton)	8 502	10 702	at	04/03	7 160	at	14/07	-12.7%	-3.9%
wheat (ton)	263	4.7	at	17/05	263	at	10/11	+10.7%	+21.9%
Corn (ton)	247	3.2	at	28/06	226	at	03/01	+0.8%	+19.2%

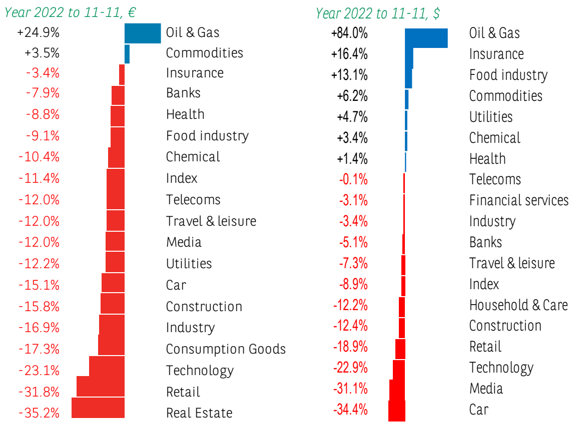
At 11-11-22 *Change*

EQUITY INDICES

	Index	highest 22			lowest 22			2022
World								
MSCI World	2 674	3 248	at	04/01	2 368	at	12/10	-17.3%
North America								
S&P500	3 993	4 797	at	03/01	3 577	at	12/10	-16.2%
Europe								
EuroStoxx50	3 869	4 392	at	05/01	3 279	at	29/09	-10.0%
CAC 40	6 595	7 376	at	05/01	5 677	at	29/09	-0.8%
DAX 30	14 225	16 272	at	05/01	11 976	at	29/09	-10.5%
IBEX 35	8 098	8 934	at	27/05	7 261	at	12/10	-0.7%
FTSE100	7 318	7 672	at	10/02	6 826	at	12/10	-0.1%
Asia								
MSCI, loc.	1 097	1 165	at	05/01	1 012	at	30/09	-0.4%
Nikkei	28 264	29 332	at	05/01	24 718	at	09/03	-1.8%
Emerging								
MSCI Emerging ($)	936	1 267	at	12/01	843	at	24/10	-2.4%
China	56	86	at	20/01	47	at	31/10	-31.6%
India	805	891	at	13/01	699	at	17/06	#N/A
Brazil	1 526	2 003	at	04/04	1 311	at	14/07	+0.6%

At 11-11-22 *Change*

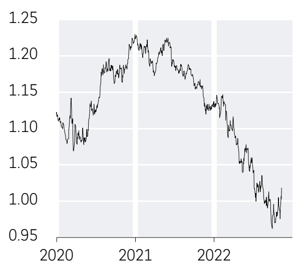
PERFORMANCE BY SECTOR (Eurostoxx50 & S&P500)



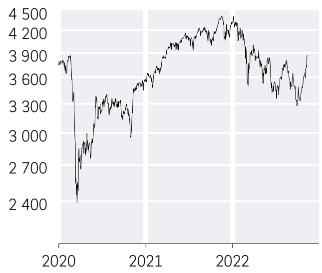
SOURCE: REFINITIV, BNP PARIBAS,

MARKETS OVERVIEW

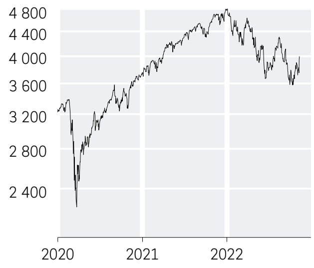
EURO-DOLLAR



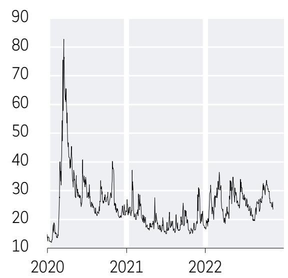
EUROSTOXX50



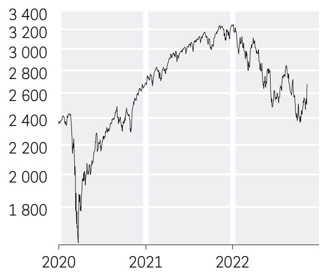
S&P500



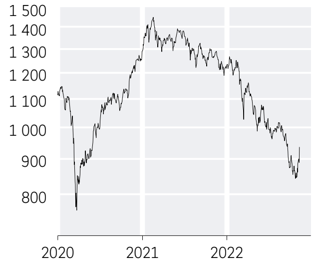
VOLATILITY (VIX, S&P500)



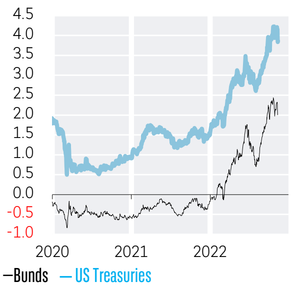
MSCI WORLD (USD)



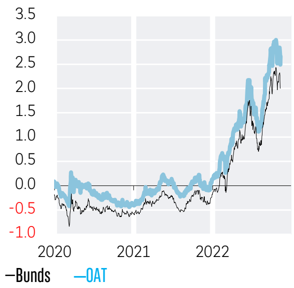
MSCI EMERGING (USD)



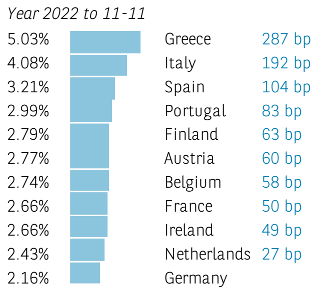
10Y BOND YIELD, TREASURIES VS BUND



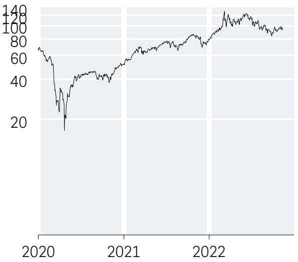
10Y BOND YIELD



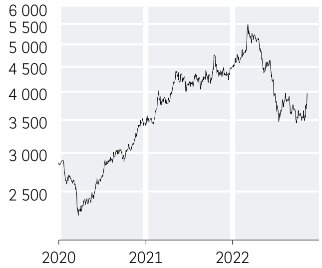
10Y BOND YIELD & SPREADS



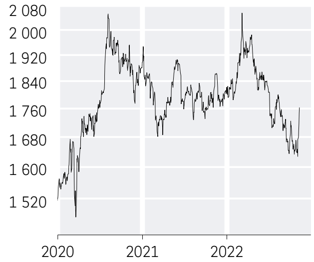
OIL (BRENT, USD)



METALS (LMEX, USD)



GOLD (OUNCE, USD)



SOURCE: REFINITIV, BNP PARIBAS

ECONOMIC PULSE

EUROZONE: ANOTHER NEGATIVE SURPRISE ON INFLATION AND A PLEASANT ONE ON GROWTH

Harmonised inflation in the Eurozone surprised again unfavourably in October, reaching 10.7% year-on-year according to Eurostat's preliminary estimate, compared to the Bloomberg consensus forecast of 10.2%. It was the second month in a row of such a large acceleration in prices (+0.8 points). This was not the only bad news: half of this acceleration can be attributed to core inflation, 0.3 points to food inflation and 0.1 points to the energy component. Inflation therefore continues to spread and to strengthen. While the persistent and common component of inflation (PCCI) seems to have peaked in May this year (at 6.4%), its decline since then (5.5% in September, latest available figure) is not yet visible in the other measures of inflation.

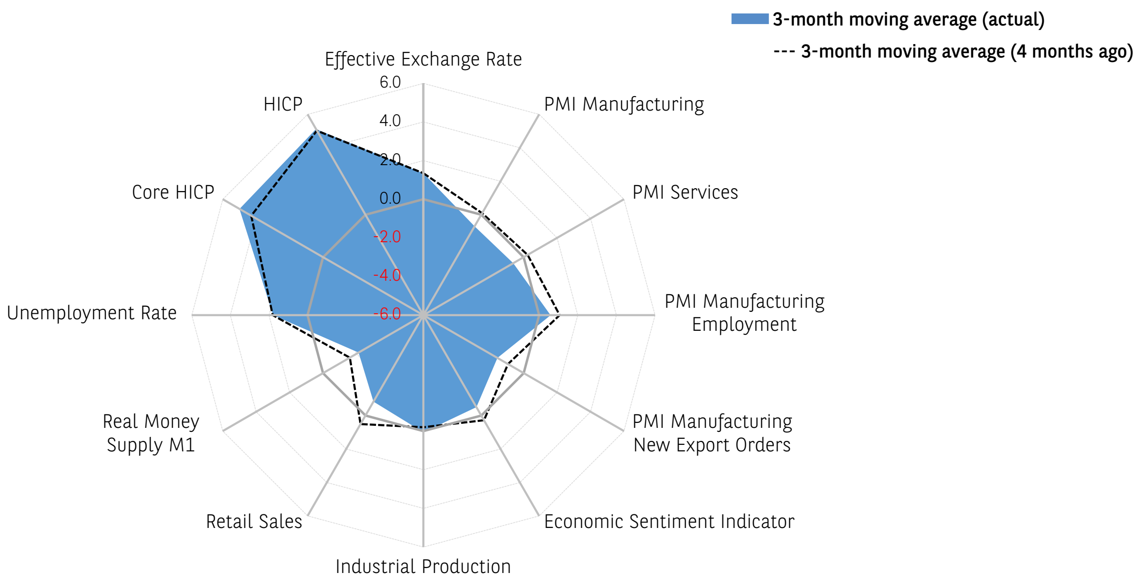
The details by country are not so negative. Indeed, the acceleration in prices is not generalised across all the Member States of the Eurozone: nine of them recorded an increase in inflation, while nine others saw a fall (inflation was stable in Luxembourg). The dispersed nature of these movements is even more striking when, on the one hand, we look at inflation in Spain (which declined by 1.7 points and fell to 7.3% year-on-year, placing it along with France (7.1%) among the countries with the lowest inflation) and, on the other, inflation in Italy, which jumped by 3.4 points to 12.8% year-on-year.

However, this latest negative surprise on inflation isn't really a surprise: the inflationary forces at work are well identified. What remains uncertain is the date and level of the peak and the extent to which inflation will decline afterwards. Regarding growth, the situation is less understandable. The growth recorded in Q3 (+0.2% q/q according to Eurostat's preliminary estimate) was weak, but it was positive, while the survey data (business climate and consumer confidence) clearly seemed to be pointing to a fall. The growth breakdown is not yet available, so we do not know what supported this positive growth outcome and the extent to which these factors are likely to continue or to reverse in Q4. But, given the deterioration in the surveys (as shown by the chart) and the negative effects of the inflationary shock and the energy crisis, which continue to build, it is unlikely that, after avoiding a contraction in GDP in Q3, the same would happen in Q4. The good news in this otherwise downbeat economic picture continues to come from the labour market and the continued fall in the unemployment rate (6.6% of the labour force in September).

For the ECB, after having once again raised its key interest rates by 75 basis points (bps) at its meeting on 27 October, it could be time to somewhat slow the tightening pace starting with its meeting on 15 December, given the rising recession fears, the progress made towards the neutral rate of interest, the other levers at work (redemptions of TLTROs, the prospect of QT in the course of next year) and the lagged effects of cumulative tightening of 200 bps thus far. We are now expecting an increase of 50 bps (compared to 75 previously), followed by two other similar increases in February and March 2023, bringing the deposit rate to 3.00%, which would be clearly in restrictive territory.

Hélène Baudchon

EUROZONE 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.

GERMANY: LAST STAND IN THE 3RD QUARTER

Against all odds, German GDP grew by 0.3% in the 3rd quarter (q/q). This is very surprising because the Minister for the Economy, Robert Habeck, announced on 12 October that "the German economy should contract in the third and fourth quarters of this year as well as in the first quarter of 2023". Although the detail of the GDP components is not yet available, the national institute of statistics (Destatis) points out that private consumption would have driven growth in the 3rd quarter. But this is difficult to reconcile with the 3.5% fall in retail sales (including sales of vehicles) between Q2 and Q3 2022 and that of 2.6% in wholesale trade. It would seem that it was consumption of services which increased strongly with the end of the catch-up effects in the accommodation/catering sector, which seem to have come fully into play in relation to the 16.8% q/q increase in turnover in the sector.

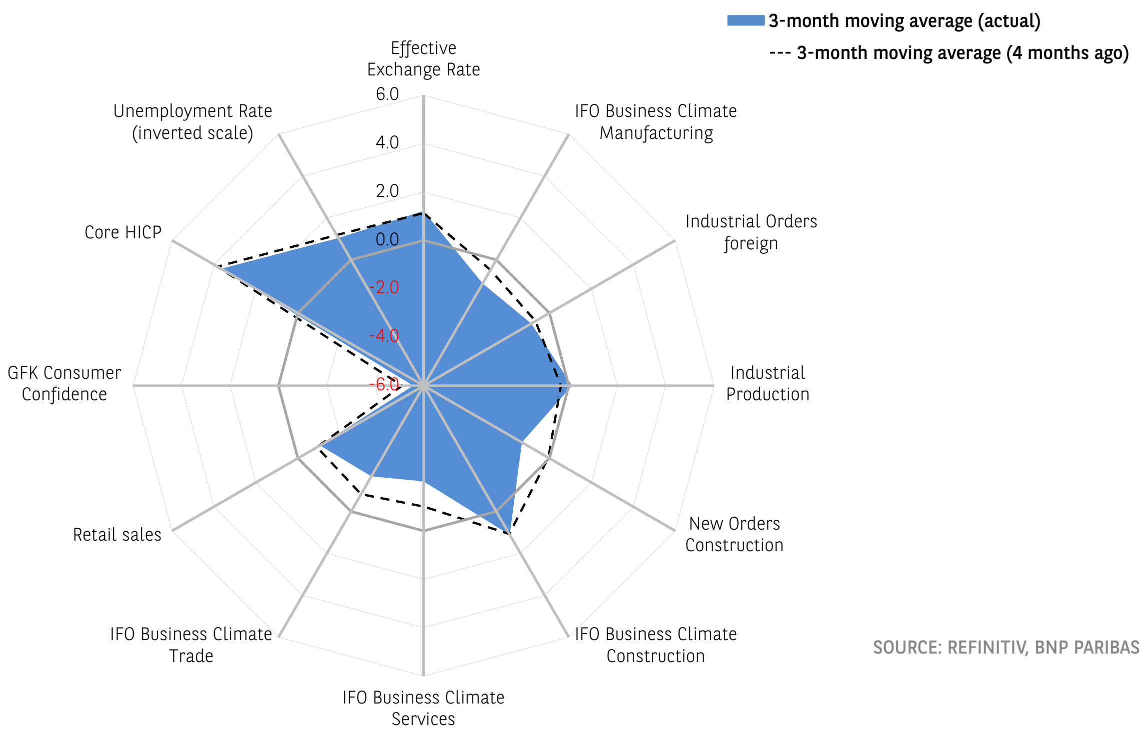
But we shouldn't be misled. This positive surprise does not call into question the difficult situation in which the German economy finds itself. Very high energy prices continue to undermine industry. Production in pharmaceuticals and chemicals was 8.3% lower in October than in January 2022. A similar fall can be seen in the wood and paper industry (-7.9%). Steel and metal manufacturers fared a little better, with the drop in their production limited to 2.6% since the beginning of the year, even though their business is energy intensive. Finally, the production in automotive sector has improved in recent months as a result of the improvement in supply side (particularly semiconductors), but it still remains at a very low level and new car registrations in October were 23.3% lower than in October 2019.

Supply is not the only aspect that is suffering. On the demand side, new orders in industry are falling. Since the start of 2022 they have fallen by 12.3% and the drop is particularly significant for foreign demand outside the Eurozone (-20.5%). However, it is partly in this market segment that Germany has based its growth over the past decade.

As for the business surveys, all are pointing in the direction of a marked deterioration in activity in the 4th quarter, which is clearly visible on our barometer. Household confidence remains at very low levels. The composite PMI declined for the eighth month in a row and the 6-monthly business outlook as seen by business leaders surveyed by the IFO is not recovering. After the surprise of GDP growth in the third quarter, it is difficult to imagine the German economy continuing to grow over the last three months of the year.

Anthony Morlet-Lavidalie

GERMANY QUARTERLY CHANGES



SOURCE: REFINITIV, BNP PARIBAS

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FRANCE: A POSITIVE SURPRISE IN 3RD QUARTER GROWTH, WHICH MAKES A DOWNTURN IN Q4 MORE LIKELY

The French economy saw GDP rise by 0.2% q/q in the 3rd quarter, a performance which indicates a high level of activity, following on from the previous positive growth figure in the 2nd quarter (+0.5%). After tourism and catering/accommodation in the 2nd quarter, the positive surprises in the 3rd quarter were corporate investment and manufacturing production. While the automotive sector is one of the sectors that is suffering most from supply problems, which implies a mismatch between production lower than before Covid compared with a strong order book, some of the lag was caught up in the summer, resulting in an increase in manufacturing production (+0.6% q/q), which contributed to significant growth in corporate investment (+2.3% q/q).

Employment in particular benefited from this continued favourable economic context, with the creation of around 90,000 jobs according to Insee's flash estimate in the 3rd quarter, a dynamic which benefited sectors reporting labour shortages, in particular market services and industry, and which is further evidence of catch-up momentum in terms of the employment trends seen pre-Covid. A sign of quite a favourable economic climate in the 3rd quarter, the interim even participated in this momentum (+18,000), compensating for around half of the fall seen in the 1st half of the year.

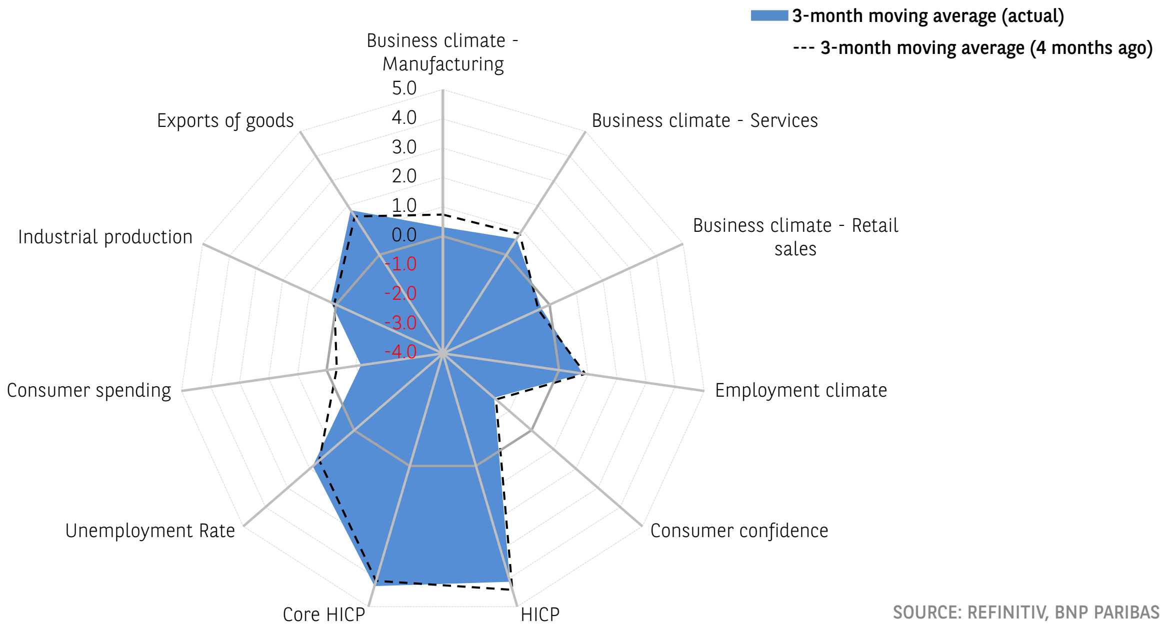
However, there were also negative elements in play at the same time and these are likely to have an adverse effect on momentum in the French economy in the coming months. While order books remain strong, they have shown a decline in recent surveys. The fact that companies in industry and construction are behind schedule on demand, due to the bottlenecks they face, has allowed this to be smoothed out. However, it seems that companies have now significantly restocked (contribution of 0.2 points to growth in the 3rd quarter and 0.5 points for the year as a whole), which suggests that the pockets of growth which existed due to previous understocking have largely been exploited.

The extent of the rise in inflation in October (6.2% y/y) was a surprise, providing an upturn that was earlier than previously expected. Food inflation (11.8% y/y) has recorded an increase of at least 1% m/m over the last 4 months, driven by shortages which followed the very dry summer (milk and water in particular). Following the 15% increase in regulated gas and electricity tariffs at the beginning of 2023, inflation is likely to rise further and to be slightly above 7% in February 2023.

Finally, the prospect of electricity generation remaining below normal levels by the end of the year is becoming more likely. Many nuclear reactors are still undergoing maintenance and EDF now expects nuclear power generation to fall by more than 20% in 2022 compared to 2021. Although to a large extent energy consumption depends on temperatures and therefore can be somewhat of an unknown factor, the risk of constraints on this consumption appears to be quite significant. With regard to the 4th quarter, we expect this series of negative elements to take precedence, which would imply negative growth (-0.3% q/q), although for the moment Insee is anticipating stagnation (forecast published on 6 October).

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 +5. 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.

SPAIN: ENCOURAGING NEWS ON THE INFLATION FRONT

Inflation in Spain fell in October for the third consecutive month, from 10.7% in July to 7.3% in year-on-year terms. At the time of writing these lines, the detailed figures were not yet revealed. However, it is likely that, once again, the main driver behind this fall was energy prices, whose pace of increase has slowed noticeably this summer, although remaining high (22.4% y/y in September). The "Iberian exception", which has been in place since the spring, and the capping of regulated prices on the energy market are paying off. The Spanish government has decided to extend these measures, along with the social bonus which allows electricity bills to be reduced by up to 80% for the least well-off households, until the end of 2023. That said, the inflationary pressures emanating from other items of consumption – food, recreational and cultural services and household goods in particular – remain high and until September have slowed down only very slightly.

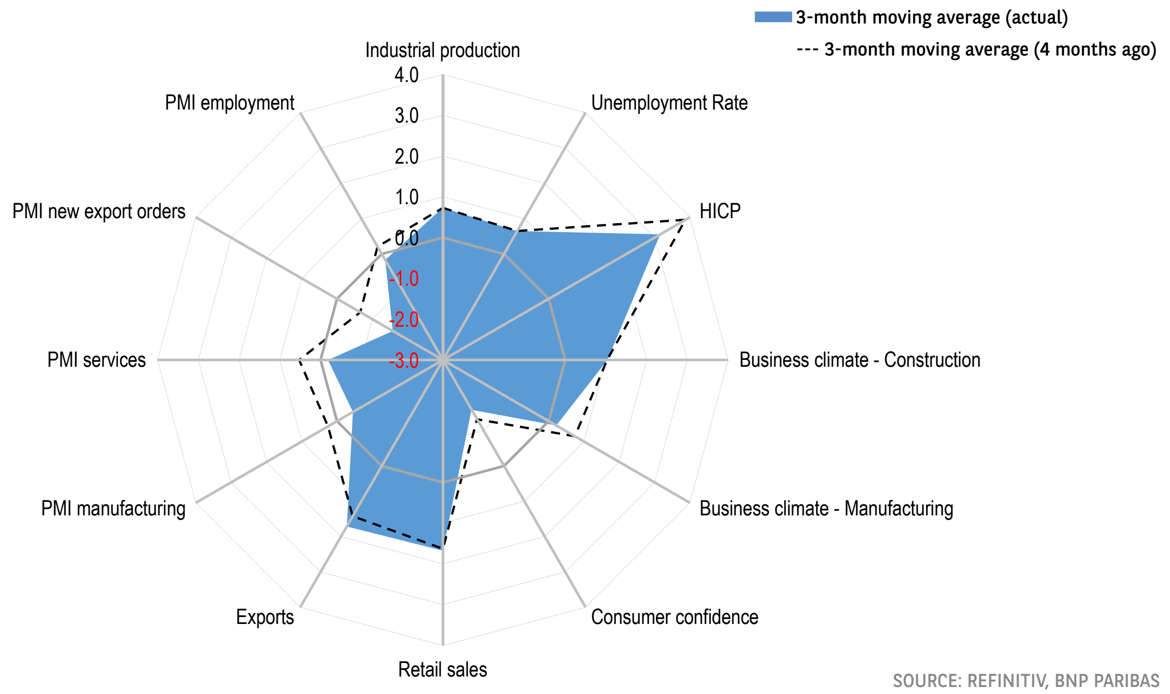
Conversely, the rise in property prices is accelerating, suggesting that until now the impact of the rise in borrowing rates on activity in the sector has been very moderate. According to Tinsa, property prices jumped 1.7% m/m and 9.1% y/y in October, the highest annual rate for over 15 years.

The labour market is still surprisingly resilient and continues to defy the less-than-encouraging trends coming out of confidence surveys. According to the Spanish state public employment service (SEPE), employment continued to rise in October, by 16,100 (seasonally adjusted figure), and the number of unemployed people fell sharply (-104,914), reaching its lowest level for fourteen years. At the same time, the number of permanent contracts (part-time and full-time contracts combined) increased by 149,870 and now represents more than 70% of total employment. This percentage was only 62% at the end of 2021, a few weeks before the new labour law came into effect in February 2022, the main purpose of which was to tighten the conditions for using precarious contracts.

However, the economic outlook remains negative, with the latest PMI report in particular reporting a significant drop in the manufacturing index in October, down 4.3 points to 44.7. This is the biggest monthly fall since the first lockdown in spring 2020. The PMI index for the services sector was up slightly (+1.2 points to 49.7), but remained in the zone which indicates a contraction in activity.

Guillaume Derrien

SPAIN QUARTERLY CHANGES



SOURCE: REFINITIV, BNP PARIBAS

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ECONOMIC SCENARIO

UNITED STATES

In the US, the Federal Reserve will continue its tightening policy at a swift pace. After the 75bp hike in September, further increases will follow in November, December and January, bringing the federal funds rate to its terminal rate for this cycle at 5.25% (upper end of the target range). This level should be maintained through 2023 and be followed by rate cuts in 2024. The Fed's hawkish stance is motivated by the particularly elevated inflation and a strong labour market. Once the economy has slowed down and inflation is on a downward path, the Federal Reserve should adapt its guidance to achieve a soft landing. US Treasury are largely pricing in the upcoming rate hikes. In the course of next year, we expect somewhat lower yields as growth slows, inflation declines, and the market starts anticipating policy easing in 2024.

CHINA

Economic activity contracted in Q2 2022 due to the lockdowns imposed in large industrial regions such as Shanghai. The economic growth rebound since late spring has proved difficult. The authorities are enhancing fiscal and monetary easing measures. However, factors constraining growth remain significant: the correction in the property sector continues, and the deterioration in the labour market, the still tight zero Covid strategy and weak household confidence weigh on private consumption. Moreover, exports are expected to suffer from the slowdown in global demand. Consumer price inflation is accelerating only moderately..

EUROZONE

The look in the rear-view mirror is fairly favorable. The first half of 2022 was better than expected, leading to a comfortable growth carry-over a bit above 3%. However, the outlook for the coming quarters is negative: according to our forecasts, the Eurozone will not escape a contraction of its GDP. The current unprecedented combination of shocks (inflation, health, geopolitical, energy, climate, monetary) should overcome the resilience observed so far. We already have signs of this in the deterioration in confidence surveys, which has intensified over the summer. However, the recession should remain limited in scope thanks to the support of fiscal measures and as long as the labor market continues to perform well as it is now. In annual average terms, we expect Eurozone growth to reach 2.8% in 2022 but only 0.3% in 2023 (2 points lower than in our previous scenario in June). Regarding inflation, we forecast it will soon reach its peak, nearing 10% y/y, before engaging in a rather slow disinflation process in 2023.

FRANCE

Real GDP growth has surprised on the upside in the 2nd quarter of 2022 (+0.5% q/q after -0.2% in the 1st quarter), mainly as a result of tourism (positive contribution of net exports) and accommodation & catering following the unwinding of the bulk of Covid related restrictions. However, inflation has continued to accelerate (reaching a peak of 6.1% y/y in July) and household purchasing power has reduced for a second quarter in a row (-1.1% q/q during the 2nd quarter). Backlog of orders in the manufacturing have continued to decrease, and GDP growth should follow (we expect 0.5% in 2023 after 2.3% in 2022).

RATES AND EXCHANGE RATES

In the US, the Federal Reserve will continue its tightening policy at a swift pace. After the 75bp hike in September, further increases will follow in November, December and January, bringing the federal funds rate to its terminal rate for this cycle at 5.25% (upper end of the target range). This level should be maintained through 2023 and be followed by rate cuts in 2024. The Fed's hawkish stance is motivated by the particularly elevated inflation and a strong labour market. US Treasuries are largely pricing in the upcoming rate hikes. In the course of next year, we expect somewhat lower yields as growth slows, inflation declines, and the market starts anticipating policy easing in 2024.

After the 50bp rate hike in July and the 75bp increase in September, the ECB Governing Council will continue to raise its policy rates at its next meetings. Policy tightening is frontloaded, which means that the terminal rate -i.e. the peak rate in this cycle- should be reached by the end of the first quarter of next year. We expect a peak for the deposit rate at 3.00%. This should cause an increase in Bund yields.

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 a less dovish policy and a one-off rate hike in the fourth quarter of 2023.

We expect the dollar to weaken somewhat 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 strengthen versus the dollar 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	1,9	-0,1	-0,2	4,7	8,1	4,4	2,4
Japan	1,7	1,5	0,9	0,6	-0,2	2,3	2,3	0,6
United-Kingdom	7,4	3,4	-0,1	1,4	2,6	9,0	6,5	3,0
Euro Area	5,3	2,8	0,3	1,5	2,6	8,3	5,9	2,5
Germany	2,6	1,4	0,4	1,7	3,2	8,6	5,8	2,4
France	6,8	2,3	0,5	1,5	2,1	5,7	4,8	2,0
Italy	6,6	3,4	0,4	1,6	1,9	8,3	6,4	2,2
Spain	5,1	4,3	0,5	1,7	3,0	8,8	4,1	1,6
China	8,1	3,0	5,3	5,0	0,9	2,3	3,1	2,5
India*	9,3	8,3	6,2	6,5	5,4	7,9	5,9	5,5
Brazil	4,6	3,0	0,5	1,3	8,3	9,4	5,4	4,9
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

INTEREST & EXCHANGE RATES

Interest rates, %						
End of period		Q2 2022	Q4 2022 e	Q1 2023 e	Q2 2023 e	Q4 2023 e
US	Fed Funds (upper limit)	1.75	4.75	5.25	5.25	5.25
Eurozone	Deposit rate	-0.50	2.00	3.00	3.00	3.00
UK	Base rate	1.25	3.50	4.50	4.50	4.50
	Gilts 10y	2.21	4.75	4.85	4.50	4.40
Japan	BoJ Rate	-0.04	-0.10	-0.10	-0.10	0.00
	JGB 10y	0.23	0.25	0.25	0.25	0.45
Exchange Rates						
End of period		Q2 2022	Q4 2022 e	Q1 2023 e	Q2 2023 e	Q4 2023 e
USD	EUR / USD	1.05	1.00	1.01	1.02	1.06
	USD / JPY	136	137	135	133	127
	GBP / USD	1.21	1.05	1.12	1.12	1.12
EUR	EUR / GBP	0.86	0.95	0.95	0.95	0.95
	EUR / JPY	142	137	136	136	135
Brent						
End of period		Q2 2022	Q4 2022 e	Q1 2023 e	Q2 2023 e	Q4 2023 e
Brent	USD/bbl	115	100	102	107	115

Forecasts as of 6 September unless mentioned otherwise. Fed Funds Rate and US 10-Year : forecast as of 19 October. BoE Rate: forecast as of 17 October. Gilt 10-Year, GBP/USD and EUR/GBP : forecast as of 28 September. Eurozone Deposit Rate: forecast as of 27 October

SOURCES: BNP PARIBAS (E: ESTIMATES & FORECASTS) (MARKET ECONOMICS, INTEREST RATE STRATEGY, FX STRATEGY, COMMODITIES DESK STRATEGY)

CALENDAR

LATEST INDICATORS

In China the trade surplus improved in October but remained well below expectations. Inflation declined versus September. Eurozone retail sales in September increased in line with the consensus (+0.4%) after a decline of -0.3% in August. French wage growth in the third quarter slowed down to +0.9%. The consensus had expected an acceleration to +1.2%. In Germany, the construction PMI improved slightly but the level remains very low (43.8). In Japan, the Eco Watchers Survey improved somewhat in terms of the assessment of the current situation but the outlook unexpectedly worsened. In the UK, third quarter GDP growth was negative at -0.2%, which is better than the -0.5% expected by the consensus. In the US, small business sentiment edged down and mortgage applications in October were virtually stable. Consumer price inflation came in below expectations, triggering a big rally in financial markets. University of Michigan data were disappointing, coming in significantly below expectations. Short and long-term inflation expectations edged higher.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	ACTUEL	PREVIOUS
11/07/2022	Germany	S&P Global Germany Construction PMI	Oct	--	43.8	41.8
11/07/2022	China	Trade Balance CNY	Oct	702.90b	586.81b	573.57b
11/07/22-11/14/22	Eurozone	EU Commission Economic Forecasts				
11/08/2022	Eurozone	Retail Sales MoM	Sep	0.4%	0.4%	0.0%
11/08/2022	Eurozone	Retail Sales YoY	Sep	-1.1%	-0.6%	-1.4%
11/08/2022	United States	NFIB Small Business Optimism	Oct	91.4	91.3	92.1
11/09/2022	China	PPI YoY	Oct	-1.5%	-1.3%	0.9%
11/09/2022	China	CPI YoY	Oct	2.4%	2.1%	2.8%
11/09/2022	Japan	Eco Watchers Survey Current SA	Oct	50.0	49.9	48.4
11/09/2022	Japan	Eco Watchers Survey Outlook SA	Oct	50.1	46.4	49.2
11/09/2022	United States	MBA Mortgage Applications	Nov	--	-0.1%	-0.5%
11/10/2022	France	Wages QoQ	3Q	1.2%	0.9%	1.1%
11/10/2022	Eurozone	ECB Publishes Economic Bulletin				
11/10/2022	United States	CPI MoM	Oct	0.6%	0.4%	0.4%
11/10/2022	United States	CPI Ex Food and Energy MoM	Oct	0.5%	0.3%	0.6%
11/10/2022	United States	Initial Jobless Claims	Nov	220k	225k	218k
11/11/2022	United Kingdom	GDP QoQ	3Q	-0.5%	-0.2%	0.2%
11/11/2022	United States	U. of Mich. Sentiment	Nov	59.5	54.7	59.9
11/11/2022	United States	U. of Mich. Current Conditions	Nov	62.8	57.8	65.6
11/11/2022	United States	U. of Mich. Expectations	Nov	55.5	52.7	56.2
11/11/2022	United States	U. of Mich. 1 Yr Inflation	Nov	5.1%	5.1%	5.0%
11/11/2022	United States	U. of Mich. 5-10 Yr Inflation	Nov	2.9%	3.0%	2.9%

SOURCE: BLOOMBERG

CALENDAR: THE WEEK AHEAD

COMING INDICATORS

China will publish a large number of data (industrial production, retail sales, investments, unemployment rate, etc). We will have updated estimates of third quarter real GDP growth in Japan and the Eurozone. Labour market data will be released in France, the Eurozone and the United Kingdom. In terms of survey data, we will have the ZEW survey for Germany and the Eurozone as well as consumer confidence in the UK. In the US, attention will focus on the housing market numbers, retail sales and the Conference Board index of leading indicators.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	PREVIOUS
11/14/22	United Kingdom	Rightmove House Prices MoM	Nov	--	0.9%
11/15/22	Japan	GDP SA QoQ	3Q P	0.3%	0.9%
11/15/22	China	Industrial Production YoY	Oct	5.2%	6.3%
11/15/22	China	Retail Sales YoY	Oct	0.7%	2.5%
11/15/22	China	Fixed Assets Ex Rural YTD YoY	Oct	5.9%	5.9%
11/15/22	China	Property Investment YTD YoY	Oct	-8.3%	-8.0%
11/15/22	China	Residential Property Sales YTD YoY	Oct	--	-28.6%
11/15/22	China	Surveyed Jobless Rate	Oct	5.5%	5.5%
11/15/22	France	ILO Unemployment Rate	3Q	--	7.4%
11/15/22	United Kingdom	Employment Change 3M/3M	Sep	--	-109k
11/15/22	Germany	ZEW Survey Expectations	Nov	--	-59.2
11/15/22	Germany	ZEW Survey Current Situation	Nov	--	-72.2
11/15/22	Eurozone	ZEW Survey Expectations	Nov	--	-59.7
11/15/22	Eurozone	Employment QoQ	3Q P	--	0.4%
11/15/22	Eurozone	GDP SA QoQ	3Q P	--	0.2%
11/15/22	United States	PPI Ex Food and Energy MoM	Oct	0.4%	0.3%
11/16/22	Japan	Core Machine Orders MoM	Sep	--	-5.8%
11/16/22	China	New Home Prices MoM	Oct	--	-0.28%
11/16/22	United Kingdom	CPIH YoY	Oct	--	8.8%
11/16/22	United Kingdom	CPI Core YoY	Oct	--	6.5%
11/16/22	United States	MBA Mortgage Applications	nov-11	--	--
11/16/22	United States	Retail Sales Advance MoM	Oct	1.1%	0.0%
11/16/22	United States	NAHB Housing Market Index	Nov	--	38
11/17/22	Eurozone	EU27 New Car Registrations	Oct	--	9.6%
11/17/22	Eurozone	CPI YoY	Oct F	--	9.9%
11/17/22	Eurozone	CPI MoM	Oct F	--	1.5%
11/17/22	Eurozone	CPI Core YoY	Oct F	--	5.0%
11/17/22	United States	Housing Starts MoM	Oct	-1.3%	-8.1%
11/17/22	United States	Building Permits MoM	Oct	-3.5%	1.4%
11/17/22	United States	Initial Jobless Claims	nov-12	--	--
11/18/22	United Kingdom	GfK Consumer Confidence	Nov	--	-47
11/18/22	United Kingdom	Retail Sales Ex Auto Fuel MoM	Oct	--	-1.5%
11/18/22	United States	Leading Index	Oct	-0.3%	-0.4%

SOURCE: BLOOMBERG

FURTHER READING

Spain: national recovery plan, contrasted progresses	EcoTVWeek	10 November 2022
Italy: The increase in fixed rates for house purchase loans is favouring floating rates	Chart of the Week	9 November 2022
US : Federal Reserve: how much is enough?	EcoWeek	7 November 2022
France: Inflation spike? Not yet	EcoTVWeek	4 November 2022
Japan: An increasingly large proportion of Japanese subsidiaries based abroad	Chart of the Week	2 November 2022
Eurozone: The disinflation of 2023, between hope and uncertainty	EcoWeek	31 October 2022
Hungarian Forint: under selling pressure	EcoTVWeek	28 October 2022
China: consumer spending still depressed	Chart of the Week	26 October 2022
Global: Synchronous rate hikes: a sum-of-the-parts analysis	EcoWeek	24 October 2022
Hungarian Forint: under selling pressure	EcoTVWeek	21 October 2022
Germany: Revising the PMI to better understand shocks affecting industry	EcoFlash	19 October 2022
US : Foreign investors in US Treasuries: official and private sectors now neck and neck	Chart of the Week	19 October 2022
Global growth at risk	EcoWeek	17 October 2022
Qatar: favorable prospects thanks to the gas rent	EcoTVWeek	14 October 2022
Emerging Countries: Double whammy	EcoEmerging	12 October 2022
Eurozone: the contribution of supply-side issues to food price inflation	Chart of the Week	12 October 2022
Eurozone: Rising interest rates and public debt sustainability	EcoWeek	10 October 2022
United Kingdom: "God save the Gilt"	EcoTVWeek	7 October 2022
Kenya: Focus on fiscal consolidation	Chart of the Week	5 October 2022

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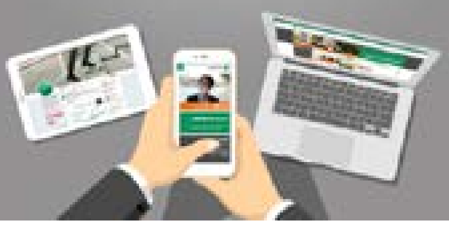

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