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ECB: ACCOMMODATION WITH NO END IN SIGHT

The new macroeconomic projections of the ECB staff provide sobering reading for savers hoping that, one day, the policy rate will be raised. It is clear that at the current juncture, certain conditions of the recently updated forward guidance on interest rates states are not met. Based on the latest ECB projections, it seems this would still be the case in 2023, even under the hypothesis of a mild scenario. The slow increase of underlying inflation would probably be considered as unsatisfactory. Savers can only hope that the interaction between growth and inflation will evolve or that the ECB projections turn out to be too cautious.

The ECB meeting did not bring any surprises. The recalibration of the pandemic emergency purchase programme (PEPP) was largely expected and the questions focused on whether this represents tapering or not. Christine Lagarde's tongue-in-cheek answer – *"the lady isn't tapering"* – provided clarity on the matter in plain English. The technical answer is that the PEPP has a pre-announced volume, so slightly tweaking the pace of purchases does not alter the ultimate cumulative injection of liquidity.

For the answers to the key questions – Will the net purchases under PEPP end in March next year? Will on that occasion the monthly purchases under the 'normal' asset purchase programme (APP) be increased? Will the latter benefit from increased flexibility? Etc. – we have to wait until the December meeting to get clarity on this. This is in line with the message of ECB chief economist Philip Lane who, in a recent interview with Reuters, had made it clear that the ECB is under no rush to decide, considering that ending the PEPP is not like a traditional taper because there is still the APP.

As a consequence, financial markets do not need to be informed far in advance.¹ It also gives more time to try to come to an alignment of views between Governing Council members. The ECB president somewhat teasingly felt sorry for *"those who like to set the doves against the hawks"* because the recalibration decision was unanimous². Reaching a similar result in December will probably be less straightforward. Yet, the ECB will need to avoid creating the impression that it is tightening policy, because judging by the new staff projections and taking into account the central bank's forward guidance with respect to QE, this would be premature.

Admittedly, the message with respect to growth is positive. Real GDP is expected to increase vigorously this year and to remain strong in 2022. In 2023, growth should still be well above its potential. Real GDP should exceed its pre-crisis level in the fourth quarter of this year, which is one quarter earlier than previously expected and, by the end of 2022, it should be close to that expected before the pandemic. However, this

positive growth outlook is not expected to cause a significant pick-up in inflation. Headline inflation should peak in the fourth quarter of this year and decline thereafter whereas underlying inflation – HICP excluding food and energy – is projected to increase slowly. This is, at least in part, related to unit labour costs, which are depressed by the expected acceleration in productivity growth. As a consequence, headline as well as core inflation should reach 1.5% in 2023, which remains well below target. Importantly, this would remain the case in a more benign scenario, whereby inflation would reach 1.7% in 2023³.

The projections provide sobering reading for savers hoping that several years of above-potential growth would pave the way for an increase in the policy rate in the foreseeable future. The recently updated forward

3. "A mild scenario foresees a resolution of the health crisis by late 2021 and a strong rebound in economic activity... [It] envisages a higher vaccine effectiveness, also against new virus variants, and greater public acceptance of vaccines leading to only mildly increasing infections over time. This would allow for a swifter relaxation of containment measures and their phasing-out by late 2021, also leading to more limited economic costs and inducing strong positive confidence effects." Source: ECB staff macroeconomic projections for the euro area, ECB, September 2021.

EURO AREA: REAL GDP GROWTH (Y/Y IN %)

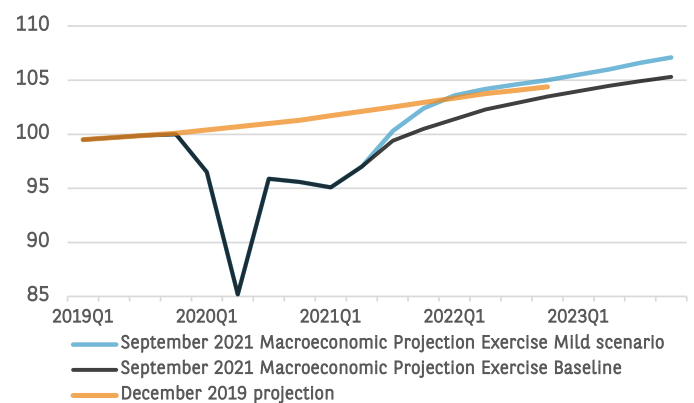


CHART 1

SOURCE: ECB PROJECTIONS, BNP PARIBAS

1. Interview with Philip R. Lane, Member of the Executive Board of the ECB, conducted by Balazs Koranyi and Frank Siebelt (Reuters), 25 August 2021.

2. Monetary policy statement and press conference, Christine Lagarde, President of the ECB, Luis de Guindos, Vice-President of the ECB, Frankfurt am Main, 9 September 2021.

The latest ECB projections provide sobering reading for savers hoping that several years of above-potential growth would pave the way for an increase in the policy rate. They can only hope that the interaction between growth and inflation will evolve or that the ECB projections turn out to be too cautious.



guidance on interest rates states that three conditions should be met before official interest rates can be hiked⁴. This is not the case today. Although headline inflation is above target, this is not expected to last. Based on the latest ECB projections, it seems this would still be the case in 2023, even under the hypothesis of a mild scenario. The slow increase of underlying inflation would probably be considered unsatisfactory. Savers can only hope that the interaction between growth and inflation will evolve or that the ECB projections turn out to be too cautious.

William De Vijlder

EURO AREA: HEADLINE INFLATION (Y/Y IN %)

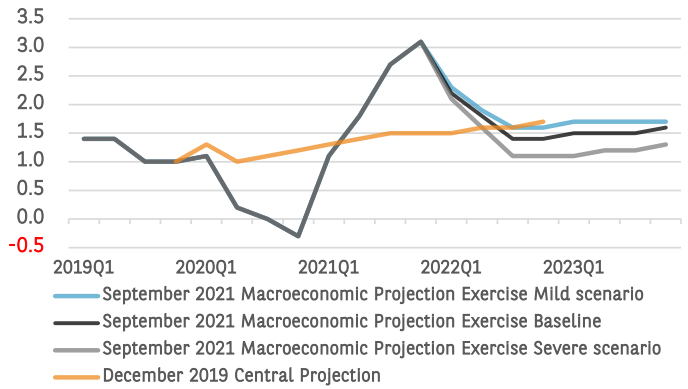


CHART 2

SOURCE: ECB PROJECTIONS, BNP PARIBAS

4. The forward guidance describes three key conditions that should be met before interest rates are raised. The ECB should see inflation reaching two per cent well ahead of the end of its projection horizon. In addition, inflation should reach two per cent "durably for the rest of the projection horizon". Finally, underlying inflation should be judged to have made satisfactory progress towards the target. Source: Philip Lane, *The new monetary policy strategy: implications for rate forward guidance*, The ECB blog, 19 August 2021.



MARKETS OVERVIEW

OVERVIEW

Week 3-9 21 to 10-9-21

▼ CAC 40	6 690	▶ 6 664	-0.4 %
▼ S&P 500	4 535	▶ 4 459	-1.7 %
↗ Volatility (VIX)	16.4	▶ 21.0	+4.5 pb
↗ Euribor 3M (%)	-0.55	▶ -0.54	+0.4 bp
↗ Libor \$ 3M (%)	0.12	▶ 0.12	+0.0 bp
↗ OAT 10y (%)	-0.09	▶ -0.08	+1.2 bp
↗ Bund 10y (%)	-0.36	▶ -0.33	+2.9 bp
↗ US Tr. 10y (%)	1.32	▶ 1.34	+1.9 bp
▼ Euro vs dollar	1.19	▶ 1.18	-0.4 %
▼ Gold (ounce, \$)	1 834	▶ 1 794	-2.1 %
▼ Oil (Brent, \$)	72.7	▶ 71.6	-1.5 %

MONEY & BOND MARKETS

Interest Rates	highest 21	lowest 21	Yield (%)	highest 21	lowest 21
€ ECB	0.00	0.00 at 01/01	€ AVG 5-7y	-0.30	-0.03 at 19/05
Eonia	-0.49	-0.47 at 26/01	Bund 2y	-0.72	-0.64 at 23/06
Euribor 3M	-0.54	-0.53 at 07/05	Bund 10y	-0.33	-0.11 at 20/05
Euribor 12M	-0.50	-0.47 at 20/04	OAT 10y	-0.08	0.23 at 17/05
\$ FED	0.25	0.25 at 01/01	Corp. BBB	0.58	0.79 at 20/05
Libor 3M	0.12	0.24 at 13/01	\$ Treas. 2y	0.20	0.26 at 01/07
Libor 12M	0.22	0.34 at 01/01	Treas. 10y	1.34	1.75 at 31/03
£ BoE	0.10	0.10 at 01/01	High Yield	4.61	4.87 at 09/03
Libor 3M	0.06	0.09 at 24/03	£ gilt. 2y	0.14	0.16 at 31/08
Libor 12M	0.24	0.24 at 09/09	£ gilt. 10y	0.76	0.93 at 13/05

At 10-9-21

EXCHANGE RATES

1€ =	highest 21	lowest 21	2021	Change
USD	1.18	1.23 at 06/01	1.17 at 20/08	-3.3%
GBP	0.85	0.91 at 06/01	0.85 at 10/08	-4.6%
CHF	1.09	1.11 at 04/03	1.07 at 17/08	+0.4%
JPY	129.99	133.97 at 28/05	125.22 at 18/01	+2.9%
AUD	1.60	1.64 at 20/08	1.53 at 18/03	+1.2%
CNY	7.62	8.00 at 01/01	7.59 at 19/08	-4.7%
BRL	6.19	6.95 at 03/03	5.88 at 24/06	-2.6%
RUB	86.49	92.47 at 20/04	86.04 at 18/06	-4.4%
INR	86.98	90.39 at 23/04	85.30 at 27/03	-2.7%

At 10-9-21

COMMODITIES

Spot price, \$	highest 21	lowest 21	2021	2021(€)	Change
Oil, Brent	71.6	77.2 at 05/07	51.2 at 04/01	+38.0%	+42.7%
Gold (ounce)	1 794	1 947 at 05/01	1 682 at 08/03	-5.4%	-2.2%
Metals, LME	4 313	4 402 at 11/05	3 415 at 01/01	+26.3%	+30.6%
Copper (ton)	9 685	10 449 at 11/05	7 749 at 01/01	+25.0%	+29.2%
wheat (ton)	223	2.9 at 07/05	223 at 10/09	-9.8%	-6.8%
Corn (ton)	205	2.9 at 07/05	188 at 04/01	+0.9%	+12.2%

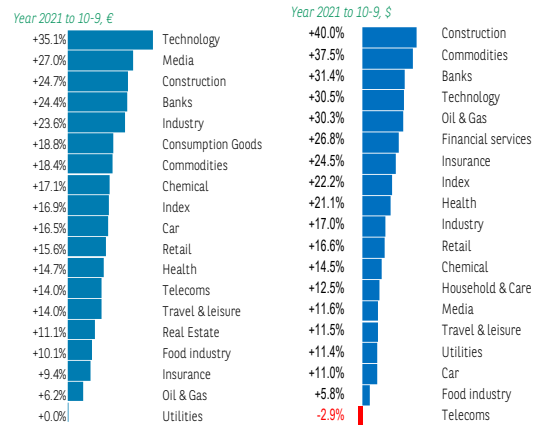
At 10-9-21

EQUITY INDICES

Index	highest 21	lowest 21	2021	Change
World				
MSCI World	3 122	3 170 at 06/09	2 662 at 29/01	+16.1%
North America				
S&P500	4 459	4 537 at 02/09	3 701 at 04/01	+18.7%
Europe				
EuroStoxx50	4 170	4 246 at 06/09	3 481 at 29/01	+17.4%
CAC 40	6 664	6 896 at 13/08	5 399 at 29/01	+2.0%
DAX 30	15 610	15 977 at 13/08	13 433 at 29/01	+13.8%
IBEX 35	8 695	9 281 at 14/06	7 758 at 29/01	+0.8%
FTSE100	7 029	7 220 at 11/08	6 407 at 29/01	+0.9%
Asia				
MSCI, Loc.	1 188	1 188 at 10/09	1 044 at 06/01	+1.4%
Nikkei	30 382	30 468 at 16/02	27 013 at 20/08	+10.7%
Emerging				
MSCI Emerging (\$)	1 309	1 445 at 17/02	1 221 at 20/08	+0.1%
China	96	130 at 17/02	87 at 20/08	-11.5%
India	853	858 at 06/09	659 at 29/01	+27.1%
Brazil	1 729	2 098 at 24/06	1 561 at 09/03	-7.2%
Russia	816	821 at 06/09	647 at 01/02	+20.7%

At 10-9-21

PERFORMANCE BY SECTOR (Eurostoxx50 & S&P500)

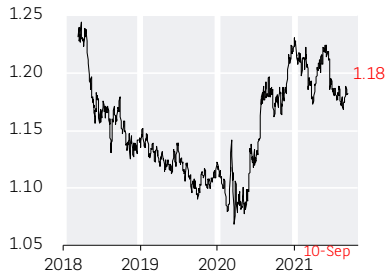


SOURCE: REFINITIV, BNP PARIBAS,

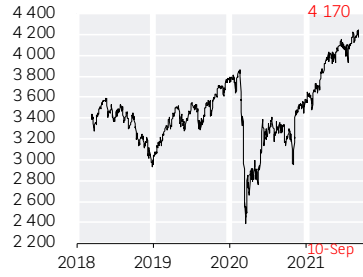


MARKETS OVERVIEW

EURO-DOLLAR



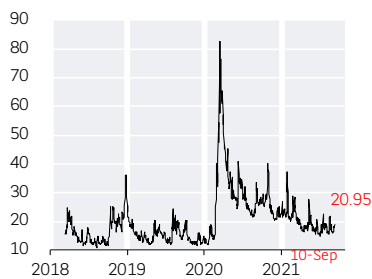
EUROSTOXX50



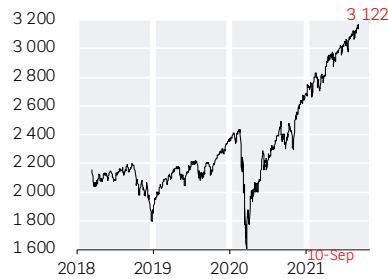
S&P500



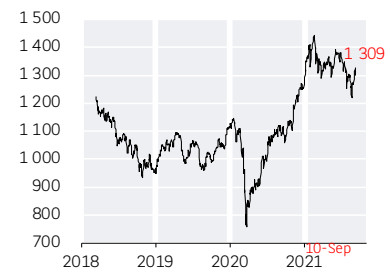
VOLATILITY (VIX, S&P500)



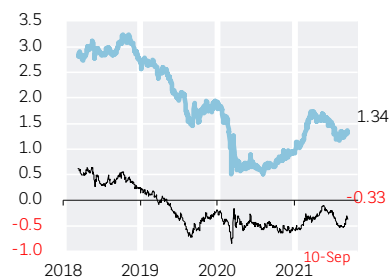
MSCI WORLD (USD)



MSCI EMERGING (USD)

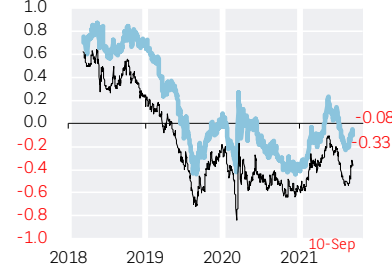


10Y BOND YIELD, TREASURIES VS BUND



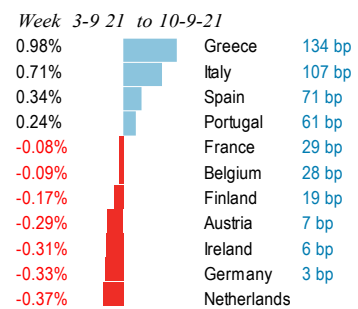
—Bunds —US Treasuries

10Y BOND YIELD

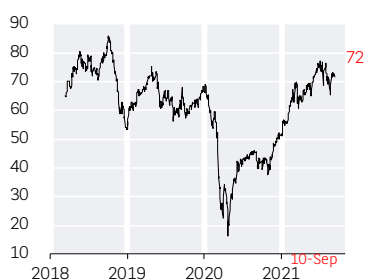


—Bunds —OAT

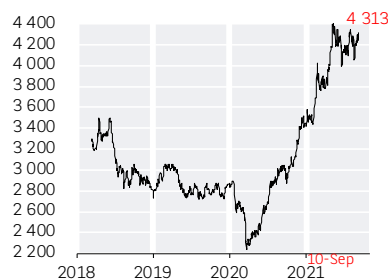
10Y BOND YIELD & SPREADS



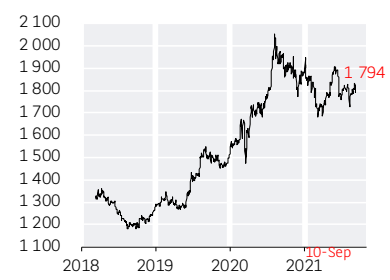
OIL (BRENT, USD)



METALS (LMEX, USD)



GOLD (OUNCE, USD)



SOURCE: REFINITIV, BNP PARIBAS



ECONOMIC PULSE

EUROZONE: A VIGOROUS RECOVERY IN THE SECOND QUARTER

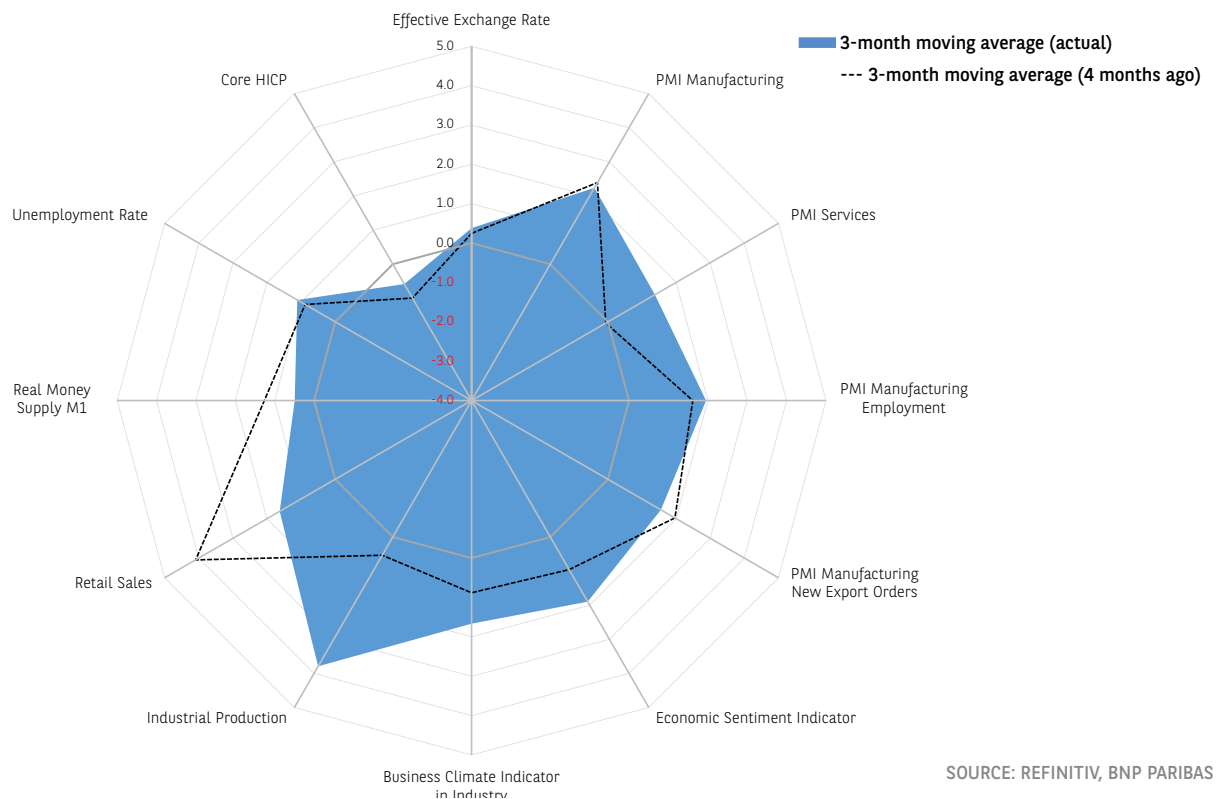
After two quarters of slight contraction (-0.4% q/q in Q4 2020, -0.3% in Q1 2021), during which lockdown restrictions were reintroduced in various countries in the zone, growth bounced back strongly in Q2 2021 (up 2.2% q/q, 14.3% y/y). The growth carry-over is nearly 4% and the gap to the pre-crisis GDP level of Q4 2019 is now only 2.5%. The strength of the rebound had already been seen in survey data from April to June, whether from Markit's PMI or the European Commission's Economic Sentiment Index (ESI).

Both these indicators gained another notch in July, taking the PMI to its highest level since mid-2006, at 60.2, and the ESI to an all-time record of 119. Both saw only small falls in August. Accordingly, Q3 growth is likely to remain strong: we are expecting a similar figure to that in Q2. The various supply constraints have knocked a few tenths of a point off our previous forecast issued in June, but the hit to growth remains contained, and these lost tenths should gradually be recovered in 2022. Positive momentum on employment and investment, together with the uptrend of the output price component of the PMI figures, reflect business confidence in the robustness of demand prospects and their ability to pass on rising input prices in output prices to protect mark-ups. Any sign of a significant shift in these positive signals will need to be watched closely.

The same is true when it comes to the effects of rising inflation (3% y/y in August) on consumer confidence. For the time being, consumer confidence is very high according to the European Commission's indicator. But however temporary and limited it might prove to be (core inflation remains low and below its long-term average), this rise in inflation is cutting into consumer purchasing power. This is another possible sticking point to watch even if the negative effect on consumption is likely to remain limited due to forced accumulated savings which can now be drawn down and also thanks to support from the healthy labour market. The possible triggering of a feedback loop between prices and wages against a background of inflation and significant hiring difficulties holds the attention too. The likelihood of this happening still appears low, given the still-high level of the unemployment halo (which includes those not actively seeking work and those forced to work part time). Such "second round" effects are not yet visible in either survey data or in wages.

Hélène Baudchon

EUROZONE: QUARTERLY CHANGES



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.



ECONOMIC PULSE

7

ITALY: RECOVERY NEEDS TO BE CONSOLIDATED

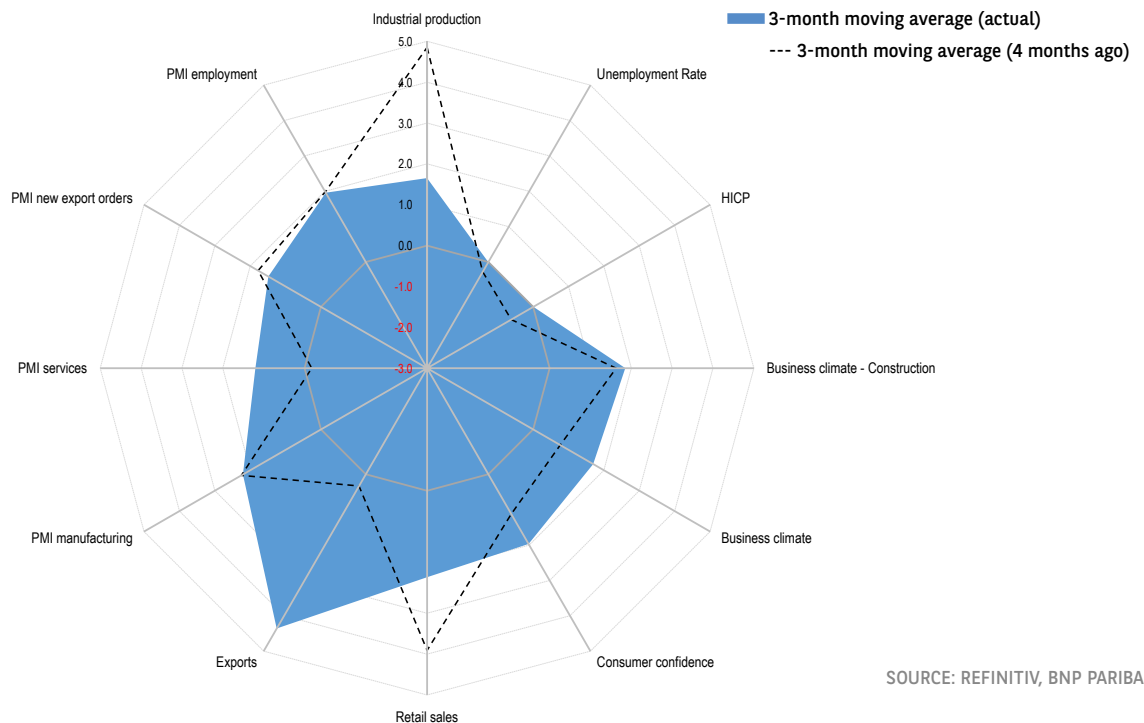
Although the pace of growth in industrial production has slowed, our barometer shows significant improvements in exports and retail sales over the last three months (shown in blue) compared to the previous three months (delimited by the dashed line). The second estimate for Q2 GDP, published on 31 August, confirmed a solid recovery (+2.7% q/q), driven in large part by the easing of restrictions and the subsequent increases in consumption. Final household spending jumped 5.0% q/q. Investment also increased, for the fourth quarter in a row, reaching its highest level for nearly 10 years (Q3 2011). Spending relating to the construction sector has been the main driver of investment over the past year and this could continue, judging by recent opinion surveys: the sector's PMI gained 10 points in August, taking it close to its all-time record level of 65.2.

Trends in the labour market are less positive overall: employment declined slightly in July. The unemployment rate has fallen steadily (to 9.3% in July), but this is mainly because the active population has fallen sharply as a result of the pandemic, and is still struggling to recover. Indeed, there were 420,000 fewer people in the active population in July than in February 2020. Even so, consumer confidence rose over the past three months, as shown in our barometer.

With nearly 64% of the total population now fully vaccinated, Italy is no laggard relative to other European Union countries, even though it has not reached the levels already achieved by Portugal and Spain in particular. The government seems to be moving towards mandatory vaccination, as recently discussed by Mario Draghi. The current target is for 80% of the population over the age of 12 to be fully vaccinated by the end of September. A high level of vaccination will limit the risk of a surge in infections in the autumn, which would damage the economic recovery. Last week the OECD significantly increased its growth forecasts for the country in 2021 and 2022, with figures of 5.9% and 4.1% respectively (from 4.5% and 4.4% respectively in its May 2021 estimates).

Guillaume Derrien

ITALY: QUARTERLY CHANGES



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 +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.



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ECONOMIC PULSE

SPAIN: UPTURN IN THE LABOUR MARKET

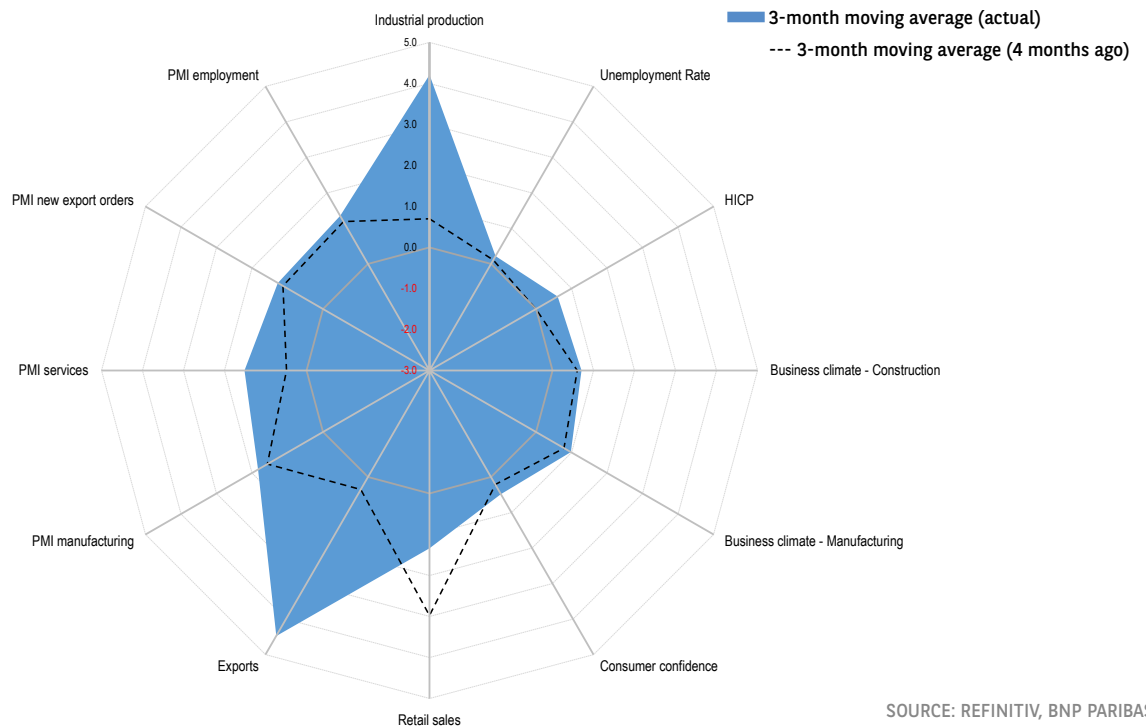
The Spanish economy has put in a solid performance over the summer, with a marked improvement in the employment data. The number of workers registered with the Social Security system has risen by more than 410,000 over the past three months, and now nearly match the pre-Covid level. The unemployment rate is likely to fall again in Q3 as a result. It already dipped to 14.3% in July, not far from the pre-pandemic low of 13.7%. Given that a significant share of the new hires were seasonal contracts, we will have to wait for this autumn's employment figures to get a more accurate picture of the strength of the recovery.

The rebound in employment, as well as a more stable health situation and the gradual easing of restrictions, is supporting households' optimism. The consumer confidence index (European Commission survey) was at -8.5 in August, its best reading since the start of the current crisis. The PMI data have also remained very positive, despite the supply-chains and delivery issues that persist and are spreading to more sectors. The composite PMI was at a historically high level despite a dip in August (down 0.6 point to 60.6). Inflation significantly accelerated over the summer, up 3.3% in August. Although the increase is still largely limited to energy and transport, it is gradually spreading to other areas, especially food.

On the social front, the end of the summer is a busy period for the government. First, it plans to finalise a series of measures aimed at protecting the pensions system (including, in particular, a toughening of conditions on early retirement). Secondly, the Employment Ministry is still seeking agreement with social partners on the amount of revaluation of the interprofessional minimum wage. Discussions have stalled so far. There is strong tension between unions and employers, and the surge in electricity prices is making negotiations more difficult. Despite recent government interventions, electricity prices have hit new records in recent days and Prime Minister Pedro Sanchez has indicated that new measures to protect consumer purchasing power will be introduced shortly.

Guillaume Derrien

SPAIN: QUARTERLY CHANGES



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



ECONOMIC PULSE

COVID-19: NEW CASES' FALL AROUND THE WORLD

Global Covid-19 case numbers have started to decline again after a rising trend lasting nearly two months. Some 4.2 million new cases were recorded between 2 and 8 September, a reduction of 6.3% on the previous week. This development was shared between all regions: Africa -25%; South America -16.2%; Asia -7.8%; Europe -2.3%; and North America -2.3% (chart 1). The total number of deaths also fell over the same period. Meanwhile vaccination campaigns continue to gain ground, with 5.6 billion vaccine doses given by 8 September (chart 2).

Over the same period, visits to retail and leisure facilities are still running at pre-pandemic levels in Belgium and Italy, whilst Germany has recently also returned to levels seen before the Covid-19 crisis. However, in several major economies, such as France, Spain, the US, Japan and the UK, footfall remains below pre-Covid-19 levels with a gap ranging from -19% in Japan to -0.4% in France (chart 3).

The OECD Weekly Tracker for GDP growth continued to improve in France and Belgium, and stabilised in Germany. However, it continued to weaken in the US. It was also weaker in the UK, Italy and Spain after a short rebound (chart 3). This indicator is produced by the OECD based on data from Google Trends for searches relating to consumption, the labour and property markets, industrial activity and uncertainty. The OECD calculates the indicator over a moving two-year period in order to avoid a base effect that would result 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)

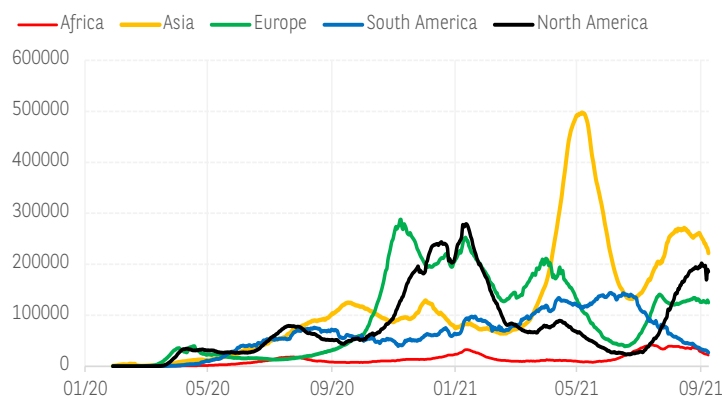


CHART 1

SOURCE: JOHNS-HOPKINS UNIVERSITY (09/09/2021), BNP PARIBAS

SHARE OF PEOPLE WHO RECEIVED AT LEAST ONE DOSE OF VACCINE

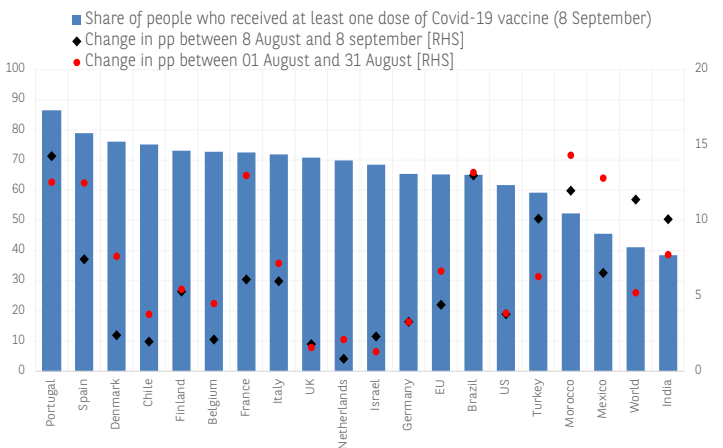


CHART 2

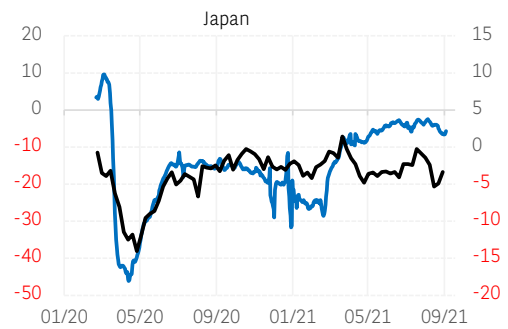
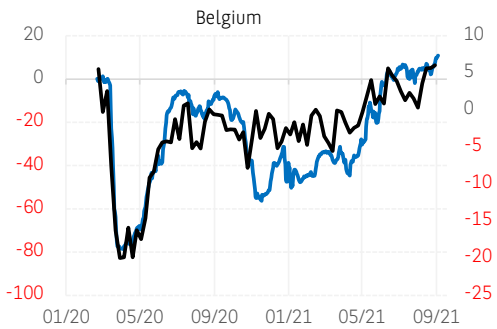
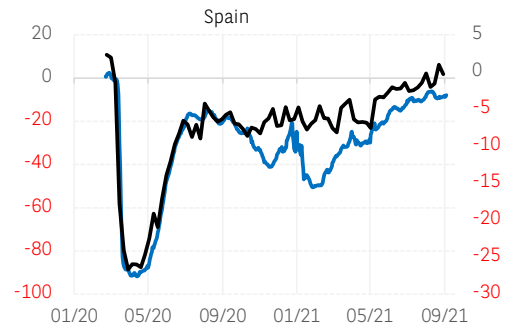
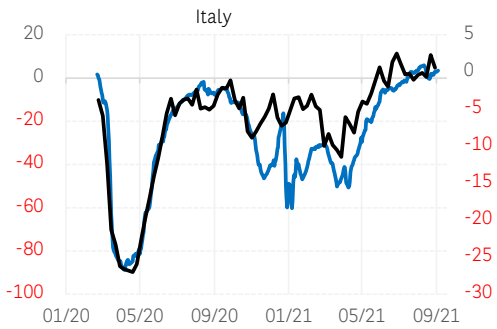
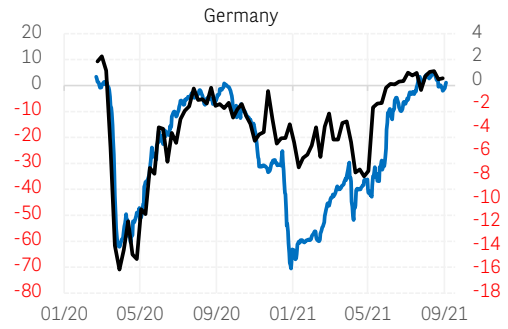
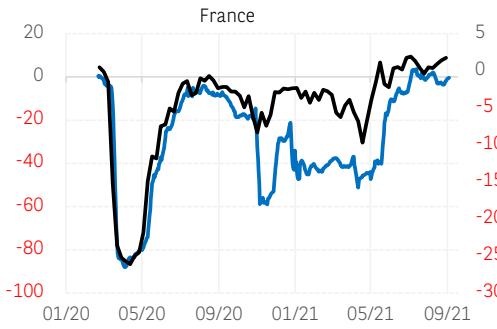
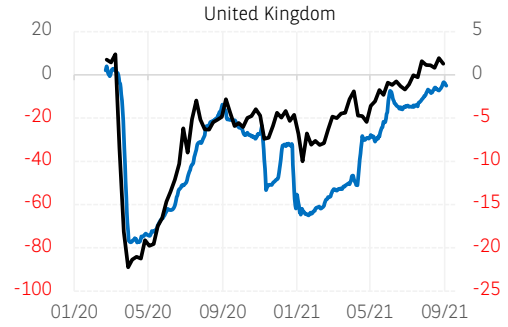
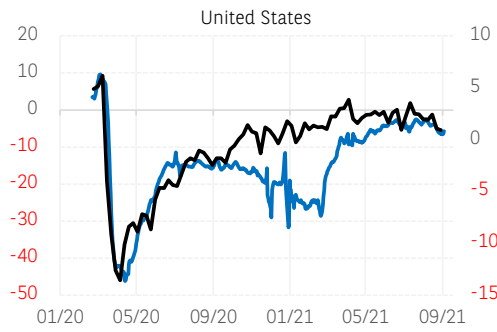
SOURCE: OUR WORLD IN DATA (09/09/2021), BNP PARIBAS



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]

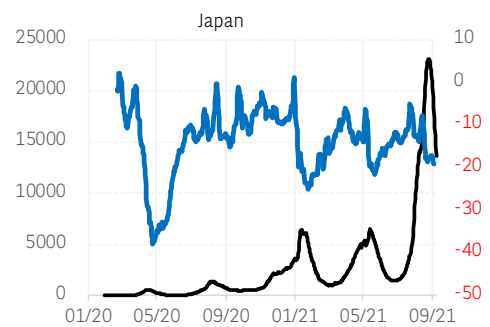
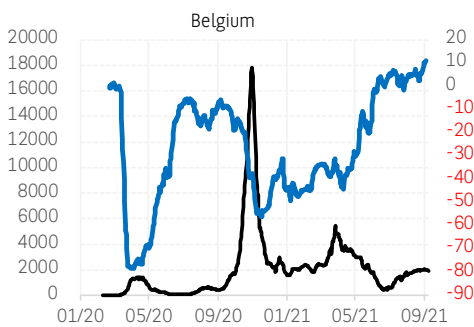
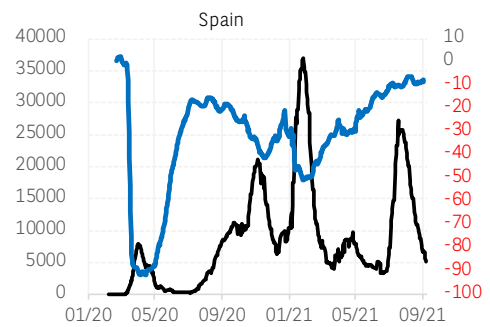
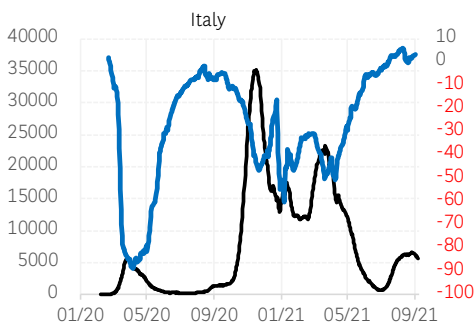
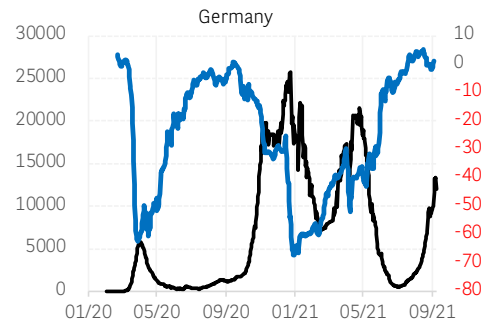
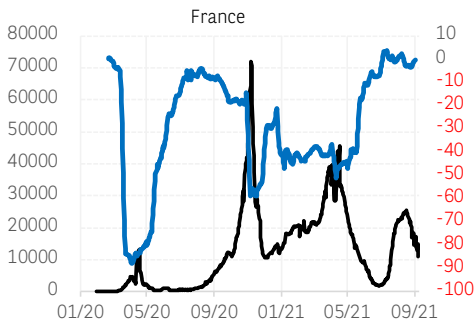
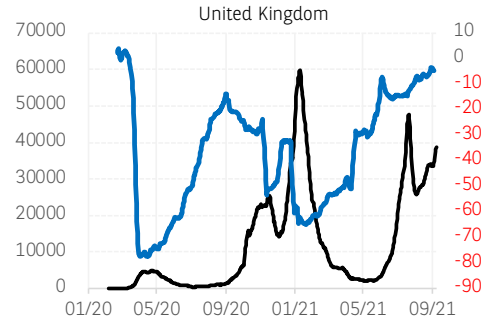
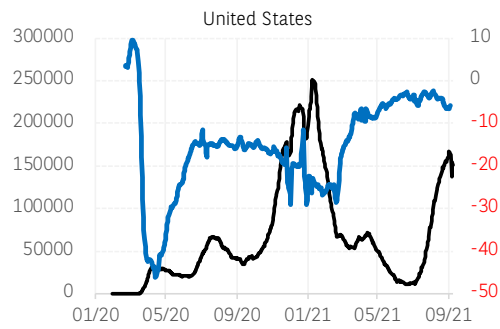


SOURCE: OECD (09/09/2021), GOOGLE (09/09/2021), BNP PARIBAS



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 (09/09/2021), GOOGLE (09/09/2021), BNP PARIBAS



ECONOMIC SCENARIO

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UNITED STATES

The US economy, which roared back through to the spring, has now regained its pre-pandemic level and is set to achieve a growth rate of around 6% in 2021. The outlook for the second part of the year looks less sparkling, however. With the vaccination drive running out of steam, the spread of the delta variant is driving up the number of cases and deaths. Business surveys are not as dazzlingly optimistic. The growth rates anticipated remain above potential, however, and would be sufficient to gradually absorb the job shortage caused by the pandemic, with the unemployment rate expected to move towards the 5% mark by the end of the second half of the year. Given the pressures on supply chains and commodity prices, inflation, currently close to 5%, is unlikely to pull back in the immediate term. Indeed, it is not expected to subside until late 2021 or early 2022.

CHINA

China's post-Covid rebound in industrial production and exports peaked at the start of the year and growth rates have been returning to normal. However, the slowdown has been faster than expected during the summer, and has spread to all sectors. This has resulted from various factors, including: the prudent tightening in fiscal policy and domestic credit conditions, the toughening of regulations in sectors such as real estate and tech, supply-chain constraints in the industry, slower export growth as well as new restrictions imposed to deal with the resurgence of the pandemic. In the short term, the vaccine roll-out should continue to accelerate and the authorities are likely to give greater support to domestic demand through monetary and fiscal measures, while continuing regulatory tightening moves.

EUROZONE

After its strong rebound in Q2 2021, growth is expected to maintain the pace in Q3 (+2.2% QoQ). The various supply constraints mean that growth in the third and fourth quarters is a few tenths below the June forecast, a loss that would be gradually recovered in 2022. The quarterly growth profile should go slightly decrescendo next year. Above all, it would remain well above-trend, supported by the significant monetary and fiscal stimulus, the release of accumulated forced savings and investment needs, to the point where, on an annual average basis, growth would be slightly higher than in 2021 (5.2% after 5%), which distinguishes the Eurozone from the United States and the United Kingdom. The health situation remains a key downside risk. Signs of deteriorating business confidence and mark-ups will also be watched. As for inflation, most of its recent rise is temporary. We expect it to peak in Q4 2021 (nearing 4% in year-on-year terms), before ebbing in 2022. However, it would be at a higher level than before the crisis, as growth strengthens and the reflationary efforts of monetary policy also bear fruit. Our inflation forecasts are above those of the ECB.

FRANCE

With a Q2 2021 growth carry-over of almost 5%, the forecast of 6% growth in 2021 in annual average terms has a solid chance of being met. It is even likely to be exceeded. The Q3 and Q4 prospects, however, look somewhat less positive than they did heading into the summer. Procurement problems, hiring difficulties and rising input prices are holding back the recovery a bit more significantly than expected. The return to normal activity in the tourism, accommodation and catering, culture, entertainment, trade and transports sectors continues to be hampered by the health situation too. In 2022, these various obstacles should disappear, but the support from the mechanical catching-up effect will also fade. Growth should normalize but remain strong, supported by the fiscal impulse.

RATES AND EXCHANGE RATES

In the US, the latest signals from the FOMC show that tapering is coming although this should not be considered as signaling a change in guidance on the policy rate. Nevertheless, we expect that in the second half of next year, the FOMC will hike the federal funds rate given the expected decline in the unemployment rate. Against this background, 10-year Treasury yields should move higher in the remainder of the year and in the first half of 2022, before entering a trading range. The peak in yields should be significantly lower than in previous cycles.

In the eurozone, the ECB will maintain its very accommodative policy centered around its asset purchases and forward guidance, in order to generate a lasting pick-up in inflation towards its target. The outcome of the strategy review has clearly confirmed this. We expect net purchases under the PEPP to stop at the end of March 2022,

based on the view that, by then, the pandemic emergency phase will be considered to be behind us. On that occasion, the monthly volume under the traditional asset purchase program should be increased to avoid market disruption. 10-year Bund yields are expected to rise until the first half of 2022 based on the growth and inflation environment. Higher US yields will also play a role. Subsequently, we expect Bunds to stay in a trading range.

Sovereign spreads could widen somewhat in the fourth quarter of this year and early next year on the back of election-related uncertainty. The extent of the widening should be limited, considering ongoing asset purchases by the ECB and the prospect that the ending of net purchases under the PEPP would be accompanied by an increase of the APP.

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 the upper bound of its target range of 0 to 25bp.

We expect the dollar to strengthen versus the euro, driven by widening yield differentials and the growing monetary policy divergence between the Federal Reserve and the ECB. The divergence will also increase between the Fed and the BoJ, which explains our forecast of an appreciation of the dollar versus the yen.

GROWTH & INFLATION

%	GDP Growth			Inflation		
	2021 e	2022 e	2023 e	2021 e	2022 e	2023 e
United-States	6.0	5.3	3.3	4.2	2.8	2.4
Japan	2.1	2.4	1.6	-0.2	0.3	0.5
United-Kingdom	7.0	6.3	2.1	2.3	3.3	2.0
Euro Area	5.0	5.2	2.3	2.4	2.1	1.7
Germany	2.8	5.3	2.4	3.0	2.4	1.9
France	6.3	4.3	2.1	2.0	1.9	1.6
Italy	6.3	5.1	2.8	1.9	2.2	1.4
Spain	6.1	6.4	3.4	2.6	2.2	1.4
China	8.2	5.6	5.4	1.2	2.8	2.5
India*	7.0	11.2	6.2	5.4	4.5	4.3
Brazil	5.0	1.5	2.0	7.8	6.3	3.6
Russia	4.5	3.3	2.6	6.0	5.0	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		Q4 2021 e	Q2 2022 e	Q4 2022 e	Q4 2023 e
US	Fed Funds (upper limit)	0.25	0.25	0.50	1.25
	T-Notes 10y	1.70	1.90	2.00	1.90
	Ezone	Deposit rate	-0.50	-0.50	-0.50
	Bund 10y	-0.10	0.00	-0.10	0.10
	OAT 10y	0.40	0.40	0.20	0.40
	BTP 10y	1.10	1.10	1.00	1.20
	BONDO 10y	0.70	0.70	0.70	0.90
UK	Base rate	0.10	0.30	0.50	0.80
	Gilts 10y	0.90	1.10	1.10	1.20
Japan	BoJ Rate	-0.10	-0.10	-0.10	-0.10
	JGB 10y	0.10	0.20	0.20	0.20

Exchange Rates

End of period		Q4 2021 e	Q2 2022 e	Q4 2022 e	Q4 2023 e
USD	EUR / USD	1.15	1.13	1.12	1.10
	USD / JPY	111	112	114	116
	GBP / USD	1.37	1.36	1.37	1.38
EUR	EUR / GBP	0.84	0.83	0.82	0.80
	EUR / JPY	128	127	128	128

Brent

End of period		Q4 2021 e	Q2 2022 e	Q4 2022 e	Q4 2023 e
Brent	USD/bbl	74	72	73	80

SOURCE: BNP PARIBAS GLOBAL MARKETS (E: ESTIMATES)



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CALENDAR

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LATEST INDICATORS

In the Eurozone, the new estimate for second quarter GDP shows that growth has been stronger than previously estimated. Household consumption has been particularly dynamic, far more than the already elevated expectations. In the 2nd quarter, employment growth versus the previous quarter also picked up. However, ZEW expectations dropped. A similar observation can be made for Germany where expectations saw a big decline. Growth in Chinese exports and imports versus last year was very strong in August but also beat expectations by a wide margin. In Japan, 2nd quarter GDP growth was revised upwards, more than expected. The assessment of the current situation in the EcoWatchers' survey recorded a big drop, much more than expected by the consensus. The outlook weakened more than expected. In France, the employment level increased in the second quarter, slightly better than consensus expectations. Chinese consumer price inflation eased and remains low whereas the opposite is the case for producer price inflation, which picked up from an already high level. In the US, initial unemployment claims declined, which is good news after the disappointing labour market report of the previous week. The monthly estimate of British GDP saw a big and disappointing slowdown. The ECB governing council meeting decided to slow down the pace of purchases under the PEPP whilst insisting that this does not represent a tapering. During the press conference, there were clear indications that the December meeting should provide clarity on what happens to the PEPP going forward. August US producer price inflation declined versus the previous month, in line with expectations.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	ACTUAL	PREVIOUS
09/07/2021	Germany	Industrial Production SA MoM	Jul	0.8%	1.0%	-1.0%
09/07/2021	Eurozone	Gross Fix Cap QoQ	2Q	1.3%	1.1%	-0.2%
09/07/2021	Eurozone	Household Cons QoQ	2Q	3.0%	3.7%	-2.1%
09/07/2021	Eurozone	Govt Expend QoQ	2Q	0.6%	1.2%	-0.5%
09/07/2021	Germany	ZEW Survey Expectations	Sep	30.3	26.5	40.4
09/07/2021	Germany	ZEW Survey Current Situation	Sep	34.0	31.9	29.3
09/07/2021	Eurozone	Employment QoQ	2Q	--	0.7%	0.7%
09/07/2021	Eurozone	Employment YoY	2Q	--	1.8%	1.8%
09/07/2021	Eurozone	GDP SA QoQ	2Q	2.0%	2.2%	2.0%
09/07/2021	Eurozone	ZEW Survey Expectations	Sep	--	31.1	42.7
09/07/2021	China	Exports YoY	Aug	17.3%	25.6%	19.3%
09/07/2021	China	Imports YoY	Aug	26.9%	33.1%	28.1%
09/08/2021	Japan	GDP SA QoQ	2Q	0.4%	0.5%	0.3%
09/08/2021	Japan	Eco Watchers Survey Current SA	Aug	45.0	34.7	48.4
09/08/2021	Japan	Eco Watchers Survey Outlook SA	Aug	46.2	43.7	48.4
09/08/2021	France	Total Payrolls	2Q	1.0%	1.1%	0.6%
09/08/2021	United States	U.S. Federal Reserve Releases Beige Book				
09/09/2021	China	CPI YoY	Aug	1.0%	0.8%	1.0%
09/09/2021	China	PPI YoY	Aug	9.0%	9.5%	9.0%
09/09/2021	Eurozone	ECB Deposit Facility Rate	Sep	-0.5%	-0.5%	-0.5%
09/09/2021	United States	Initial Jobless Claims	Sep	335k	310k	345k
09/09/21-09/15/21	China	Aggregate Financing CNY	Aug	2800.0b	2960.0b	1056.6b
09/10/2021	United Kingdom	Monthly GDP (3M/3M)	Jul	3.8%	3.6%	4.8%
09/10/2021	United Kingdom	Monthly GDP (MoM)	Jul	0.5%	0.1%	1.0%
09/10/2021	France	Industrial Production MoM	Jul	0.4%	0.3%	0.6%
09/10/2021	United States	PPI Ex Food and Energy MoM	Aug	0.6%	0.6%	1.0%

SOURCE: BLOOMBERG



CALENDAR: THE WEEK AHEAD

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COMING INDICATORS

This week sees the publication in France of the Banque de France industrial sentiment index as well as inflation data. The latter will also be published in the US, the UK and the eurozone. In the UK, labour market data will be released (unemployment rate and the change in employment) as well as retail sales and house prices. Several data will be published in China (retail sales, industrial production, investments, unemployment rate). In the US, we will have industrial production, retail sales, University of Michigan sentiment and small business optimism.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	PREVIOUS
09/13/2021	France	Bank of France Ind. Sentiment	Aug	105	105
09/14/2021	United Kingdom	ILO Unemployment Rate 3Mths	Jul	--	4.70%
09/14/2021	United Kingdom	Employment Change 3M/3M	Jul	--	95k
09/14/2021	United States	NFIB Small Business Optimism	Aug	--	99.7
09/14/2021	United States	CPI MoM	Aug	0.40%	0.50%
09/14/2021	United States	CPI Ex Food and Energy MoM	Aug	0.30%	0.30%
09/14/2021	United States	CPI YoY	Aug	5.30%	5.40%
09/14/2021	United States	CPI Ex Food and Energy YoY	Aug	4.20%	4.30%
09/15/2021	China	Retail Sales YoY	Aug	7.00%	8.50%
09/15/2021	China	Industrial Production YoY	Aug	5.80%	6.40%
09/15/2021	China	Fixed Assets Ex Rural YTD YoY	Aug	9.20%	10.30%
09/15/2021	China	Property Investment YTD YoY	Aug	11.20%	12.70%
09/15/2021	China	Surveyed Jobless Rate	Aug	5.10%	5.10%
09/15/2021	United Kingdom	CPI Core YoY	Aug	--	1.80%
09/15/2021	France	CPI EU Harmonized MoM	Aug	--	0.70%
09/15/2021	France	CPI EU Harmonized YoY	Aug	--	2.40%
09/15/2021	United Kingdom	House Price Index YoY	Jul	--	13.20%
09/15/2021	Eurozone	Labour Costs YoY	2Q	--	1.50%
09/15/2021	United States	Industrial Production MoM	Aug	0.60%	0.90%
09/15/2021	United States	Capacity Utilization	Aug	76.40%	76.10%
09/16/2021	Japan	Exports YoY	Aug	--	37.00%
09/16/2021	Japan	Imports YoY	Aug	--	28.50%
09/16/2021	Eurozone	EU27 New Car Registrations	Aug	--	--

SOURCE: BLOOMBERG



DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	PREVIOUS
09/16/2021	United States	Retail Sales Advance MoM	Aug	-0.80%	-1.10%
09/16/2021	United States	Initial Jobless Claims	Sep	--	--
09/16/2021	United States	Philadelphia Fed Business Outlook	Sep	20	19.4
09/16/2021	United States	Retail Sales Control Group	Aug	-0.50%	-1.00%
09/17/2021	United Kingdom	Retail Sales Ex Auto Fuel MoM	Aug	--	-2.40%
09/17/2021	France	Wages QoQ	2Q	--	0.30%
09/17/2021	Eurozone	CPI YoY	Aug	--	2.20%
09/17/2021	Eurozone	CPI Core YoY	Aug	--	1.60%
09/17/2021	Eurozone	CPI MoM	Aug	--	0.40%
09/17/2021	United States	U. of Mich. Sentiment	Sep	72.7	70.3
09/17/2021	United States	U. of Mich. Current Conditions	Sep	--	78.5
09/17/2021	United States	U. of Mich. Expectations	Sep	--	65.1
09/17/2021	United States	U. of Mich. 1 Yr Inflation	Sep	--	4.60%
09/17/2021	United States	U. of Mich. 5-10 Yr Inflation	Sep	--	2.90%

SOURCE: BLOOMBERG



FURTHER READING

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Growth in Turkey: Too much of a good thing?	EcoTVWeek	10 September 2021
September issue	French Economy Pocket Atlas	9 September 2021
Zambia: a relief for an over-indebted economy	Chart of the Week	8 September 2021
Global : Fed adapts forward guidance, will ECB do the same?	EcoWeek	6 September 2021
Fed's Powell brings reassurance	EcoTVWeek	3 September 2021
United states: a new tool to reduce the pressure on money-market rates	Chart of the Week	1 September 2021
Growth hits speed limit	EcoWeek	30 août 2021
French labour market: are the signs of a return to better fortune already there?	Chart of the Week	25 August 2021
Saudi Arabia: Positive short-term prospects	EcoTVWeek	30 July 2021
Latin America: Potential growth and the commodities cycle	Chart of the Week	28 July 2021
US inflation: increasing discomfort	EcoWeek	26 July 2021
Outlook for the second half of the year: it's not over	EcoTVWeek	23 July 2021
India: up against a wall	Conjoncture	23 July 2021
Economic recovery in the advanced countries: lessons from the past	Conjoncture	23 July 2021
UK banks have lost ground on The Banker 's ranking since the announcement of Brexit	Chart of the Week	21 July 2021
US Treasuries: buyer beware	EcoWeek	19 July 2021
Vaccination campaign, economic recovery and the Olympic Games: Japan sends mixed signals	EcoTVWeek	16 July 2021
United-States: The timid return of the pandemic's vanishing labour force	Chart of the Week	15 July 2021
3rd quarter 2021 issue: Emerging Countries: A fragile recovery	EcoEmerging	13 July 2021
Eurozone: The ECB's strategy review: "We've heard what you said and we've listened"	EcoWeek	12 July 2021



GROUP ECONOMIC RESEARCH

William De Vijlder
Chief Economist

+33 1 55 77 47 31

william.devijlder@bnpparibas.com

ADVANCED ECONOMIES AND STATISTICS

Jean-Luc Proutat

US, UK - Head of economic projections, relationship with French network

+33 1 58 16 73 32

jean-luc.proutat@bnpparibas.com

Hélène Baudchon

France, Eurozone - Labour markets

+33 1 58 16 03 63

helene.baudchon@bnpparibas.com

Guillaume Derrien

Italy, Spain, Portugal - International trade

+33 1 55 77 71 89

guillaume.a.derrien@bnpparibas.com

Raymond Van Der Putten

Germany, Netherlands, Austria, Switzerland - Energy, climate

+33 1 42 98 53 99

raymond.vanderputten@bnpparibas.com

Tarik Rharrab

Statistics

+33 1 43 16 95 56

tarik.rharrab@bnpparibas.com

BANKING ECONOMICS

Laurent Quignon

Head

+33 1 42 98 56 54

laurent.quignon@bnpparibas.com

Laure Baquero

+33 1 43 16 95 50

laure.baquero@bnpparibas.com

Céline Choulet

+33 1 43 16 95 54

celine.choulet@bnpparibas.com

Thomas Humblot

+33 1 40 14 30 77

thomas.humblot@bnpparibas.com

EMERGING ECONOMIES AND COUNTRY RISK

François Faure

Head - Argentina

+33 1 42 98 79 82

francois.faure@bnpparibas.com

Christine Peltier

Deputy Head - Greater China, Vietnam, South Africa

+33 1 42 98 56 27

christine.peltier@bnpparibas.com

Stéphane Alby

Africa (French-speaking countries)

+33 1 42 98 02 04

stephane.alby@bnpparibas.com

Stéphane Colliac

Turkey, Ukraine, Central European countries

+33 1 42 98 43 86

stephane.colliac@bnpparibas.com

Sara Confalonieri

Africa (Portuguese & English-speaking countries)

+33 1 42 98 43 86

sara.confalonieri@bnpparibas.com

Pascal Devaux

Middle East, Balkan countries

+33 1 43 16 95 51

pascal.devaux@bnpparibas.com

Hélène Drouot

Korea, Thailand, Philippines, Mexico, Andean countries

+33 1 42 98 33 00

helene.drouot@bnpparibas.com

Salim Hammad

Latin America

+33 1 42 98 74 26

salim.hammad@bnpparibas.com

Johanna Melka

India, South Asia, Russia, CIS

+33 1 58 16 05 84

johanna.melka@bnpparibas.com

CONTACT MEDIA

Michel Bernardini

+33 1 42 98 05 71

michel.bernardini@bnpparibas.com



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Head office: 16 boulevard des Italiens - 75009 Paris France / Phone : +33 (0) 1.42.98.12.34
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