

ECOWEEK

No. 19-07, 15 February 2019

Foreign versus domestic drivers of weaker sentiment

■ Since early 2018, based on the purchasing manager indices, a large number of countries have witnessed a decline in the assessment of new export orders which was bigger than the decline of the general climate in manufacturing ■ This suggests a dominance of foreign demand shocks, rather than domestic shocks, in explaining slower overall growth ■ The drop in new export orders echoes the significant slowdown in world trade growth. This is probably related to slower Chinese growth and, in many countries, slower growth in capital expenditures, which have a higher import content than consumption. Trade-related uncertainty may also play a role

Since early 2018, survey indicators, starting from a high level, have weakened across the globe. This global cooling of the economic temperature is visualised in chart 2. It shows a heatmap based on the Markit purchasing manager index (PMI) for the manufacturing sector. A reading well above 50 corresponds to robust growth, whereas numbers below reflect a chillier or even cold environment. Chart 3 provides similar information for the new export orders component of the PMI survey.

Comparing charts 2 and 3, one notices that the assessment of export orders one year ago was, in general, slightly less upbeat than the overall PMI number. The latter remained at a high level for longer than export orders. Finally, several eurozone countries (France, Germany, Italy, Austria) and the eurozone as a whole saw a very significant deterioration in the outlook for exports.

Chart 1 presents the data in a different way, with on the horizontal axis the change versus one year ago of the manufacturing PMI and on the vertical axis the change in the new export orders series. When a country is below the diagonal line, it means that the drop in export orders is bigger than the decline of the overall PMI. This would indicate that the country has suffered a foreign demand shock. The majority of countries are in this situation and in certain cases the distance to the diagonal line is considerable (Austria, the Netherlands, Poland, Japan, etc). Countries like Italy, Turkey are above the diagonal line, which indicates that the worsening of the domestic environment has been even bigger than the shock coming from abroad.

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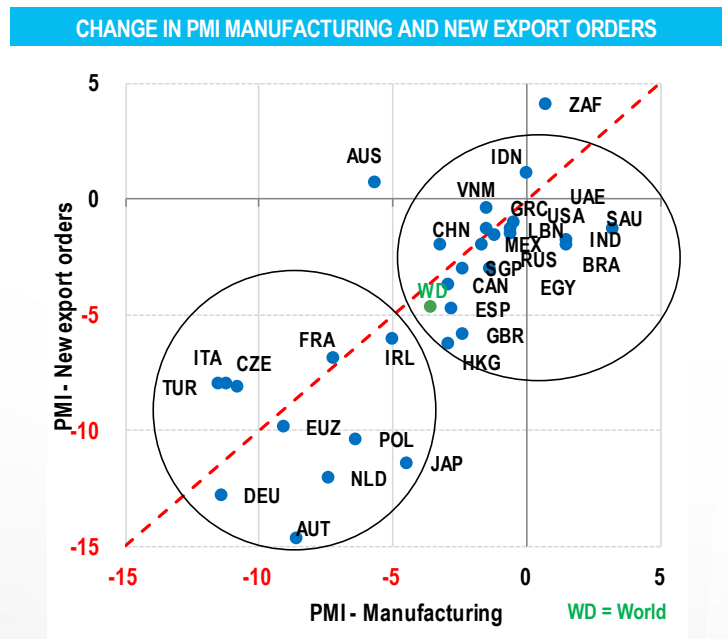


Chart 1

Source: Markit PMI, BNP Paribas

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Economic scenario

ECONOMIC RESEARCH DEPARTMENT



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Italy has entered recession in the second half of last year and the significant rise in bond yields has quite likely played a role, both directly (more expensive financing) and indirectly (as an indicator of heightened country-specific uncertainty related to government finances). Turkey has seen major tensions in financial markets in the summer of last year and faced with a big increase in inflation and interest rates, the country has entered recession. Australia is an interesting case: the PMI weakened moderately although export sentiment hardly changed so here again, domestic factors may be at play.

Chart 1 also highlights two clusters. The one top right consists of countries where the change in the PMI and in the export order book has been moderate and sometimes even positive. The bottom left cluster has countries where both series have declined significantly.

Most of these countries are from the European Union and the intense intra-EU trade implies that negative shocks in one country create spillovers to other: close to 30% of Austrian exports and 24% of Dutch exports go to Germany so for these countries the absence of growth in Germany in the second half of 2018 is particularly important.

The observation that many countries have witnessed a significant drop in the export orders assessment echoes the important slowdown in growth of world trade volume. This in turn is probably related to the Chinese growth slowdown. Slower gross fixed capital formation, which is observed in many countries and which has a higher import content than consumption, could also play a role, as well as the escalation of tensions in trade relationships.

William De Vijlder

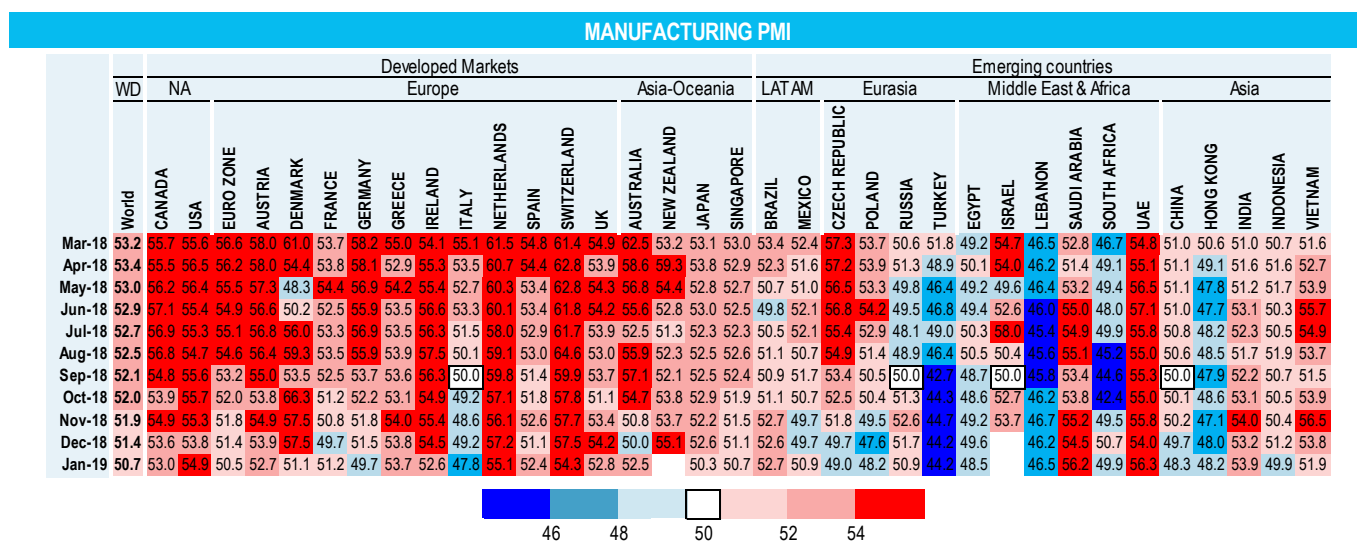


Chart 2

Source: Markit PMI, BNP Paribas

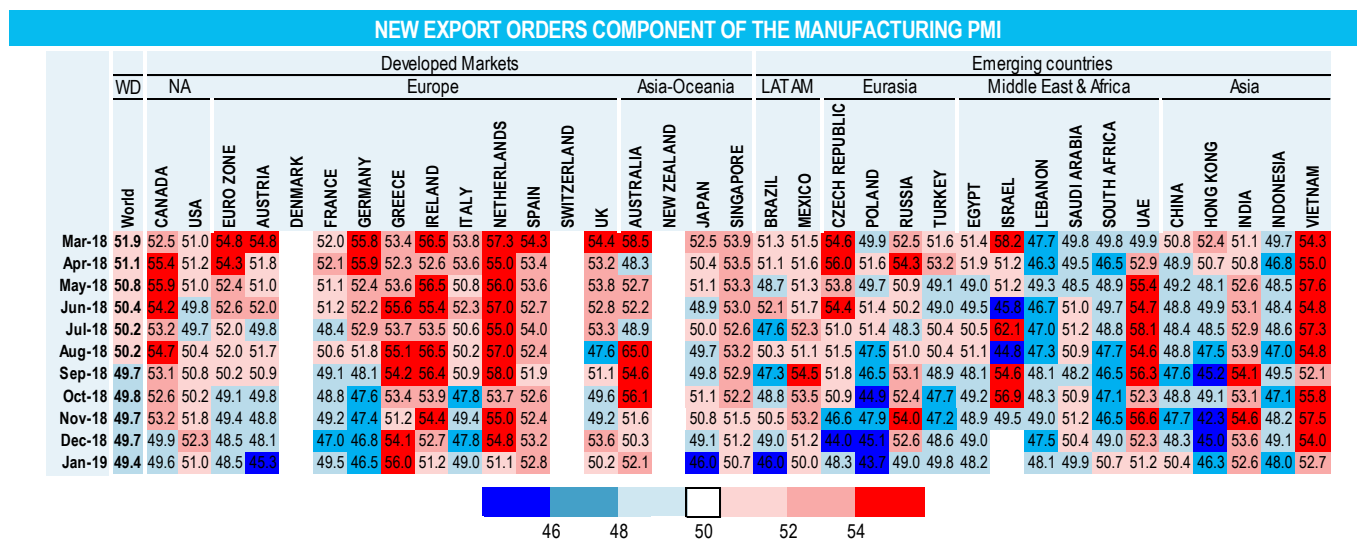


Chart 3

Source: Markit PMI, BNP Paribas



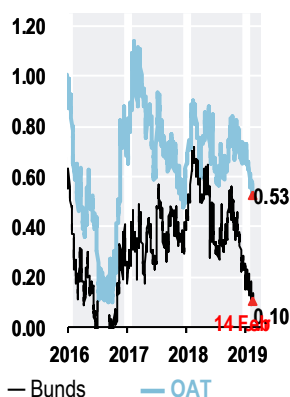
Markets overview

The essentials

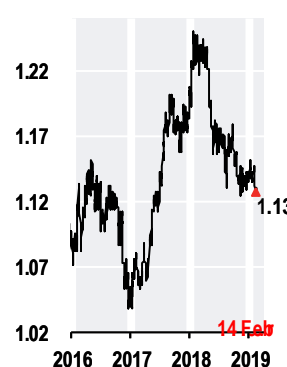
Week 8-2 19 > 14-2-19

↗ CAC 40	4 962	▶ 5 063	+2.0 %
↗ S&P 500	2 708	▶ 2 746	+1.4 %
↗ Volatility (VIX)	15.7	▶ 16.2	+0.5 pb
↗ Euribor 3M (%)	-0.31	▶ -0.31	+0.0 bp
↘ Libor \$ 3M (%)	2.70	▶ 2.68	-1.4 bp
↘ OAT 10y (%)	0.54	▶ 0.53	-1.0 bp
↗ Bund 10y (%)	0.09	▶ 0.10	+1.8 bp
↗ US Tr. 10y (%)	2.63	▶ 2.66	+2.8 bp
↘ Euro vs dollar	1.13	▶ 1.13	-0.5 %
↘ Gold (ounce, \$)	1 314	▶ 1 311	-0.3 %
↗ Oil (Brent, \$)	61.9	▶ 64.2	+3.7 %

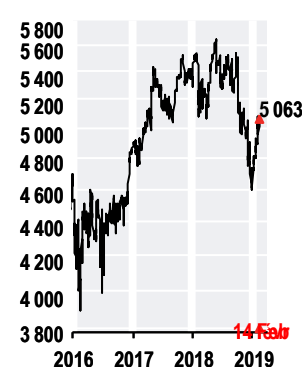
10 y bond yield, OAT vs Bund



Euro-dollar



CAC 40



Money & Bond Markets

Interest Rates	highest' 19	lowest' 19
€ ECB	0.00 at 01/01	0.00 at 01/01
Eonia	-0.37 at 01/01	-0.37 at 18/01
Euribor 3M	-0.31 at 24/01	-0.31 at 02/01
Euribor 12M	-0.11 at 06/02	-0.12 at 02/01
\$ FED	2.50 at 01/01	2.50 at 01/01
Libor 3M	2.68 at 01/01	2.68 at 13/02
Libor 12M	2.92 at 21/01	2.92 at 12/02
£ BoE	0.75 at 01/01	0.75 at 01/01
Libor 3M	0.87 at 29/01	0.87 at 12/02
Libor 12M	1.13 at 11/01	1.13 at 13/02

At 14-2-19

Yield (%)	highest' 19	lowest' 19
€ AVG 5-7y	0.68 at 09/01	0.47 at 31/01
Bund 2y	-0.56 at 06/02	-0.62 at 03/01
Bund 10y	0.10 at 01/01	0.09 at 08/02
OAT 10y	0.53 at 08/01	0.53 at 14/02
Corp. BBB	1.73 at 08/01	1.73 at 14/02
\$ Treas. 2y	2.51 at 18/01	2.39 at 03/01
Treas. 10y	2.66 at 18/01	2.55 at 03/01
Corp. BBB	4.32 at 01/01	4.30 at 08/02
£ Treas. 2y	0.70 at 14/01	0.68 at 03/01
Treas. 10y	1.14 at 18/01	1.14 at 14/02

At 14-2-19

10y bond yield & spreads

4.34%	Greece	423 pb
2.82%	Italy	271 pb
1.59%	Portugal	148 pb
1.37%	Spain	127 pb
0.68%	Belgium	57 pb
0.53%	France	42 pb
0.41%	Ireland	30 pb
0.36%	Finland	25 pb
0.33%	Austria	22 pb
0.20%	Netherland	10 pb
0.10%	Germany	

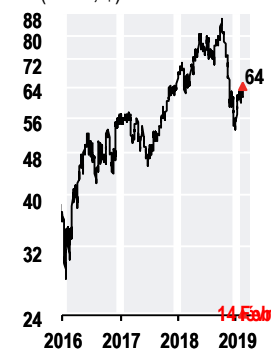
Commodities

Spot price in dollars	lowest' 19	2019(€)
Oil, Brent	53.1 at 01/01	+22.4%
Gold (ounce)	1 281 at 21/01	+3.7%
Metals, LME	2 730 at 03/01	+4.8%
Copper (ton)	5 714 at 03/01	+4.6%
CRB Foods	324 at 01/01	+3.5%
wheat (ton)	197 at 01/01	+2.0%
Corn (ton)	136 at 01/01	+2.9%

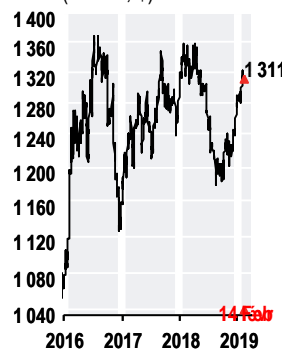
At 14-2-19

Variations

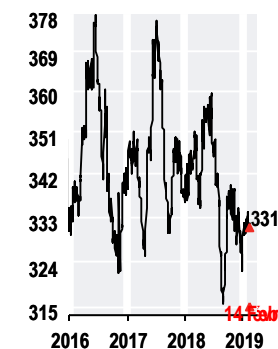
Oil (Brent, \$)



Gold (Ounce, \$)



CRB Foods



Exchange Rates

€ =	highest' 19	lowest' 19	2019
USD	1.15 at 10/01	1.13 at 14/02	-1.4%
GBP	0.90 at 03/01	0.87 at 25/01	-1.7%
CHF	1.14 at 05/02	1.12 at 02/01	+0.8%
JPY	125.77 at 04/02	122.54 at 03/01	-0.5%
AUD	1.63 at 03/01	1.57 at 31/01	-2.1%
CNY	7.87 at 09/01	7.63 at 13/02	-2.7%
BRL	4.43 at 01/01	4.18 at 31/01	-4.2%
RUB	79.30 at 01/01	74.15 at 12/02	-4.5%
INR	82.00 at 04/02	79.57 at 04/01	+0.4%

At 14-2-19

Variations

Equity indices

Index	highest' 19	lowest' 19	2019	2019(€)
CAC 40	5 083 at 05/02	4 611 at 03/01	+7.0%	+7.0%
S&P500	2 753 at 13/02	2 448 at 03/01	+9.5%	+11.0%
DAX	11 368 at 05/02	10 417 at 03/01	+5.0%	+5.0%
Nikkei	21 144 at 13/02	19 562 at 04/01	+5.6%	+6.1%
China*	79 at 13/02	68 at 03/01	+12.8%	+14.2%
India*	541 at 01/01	538 at 30/01	-1.1%	-1.6%
Brazil*	2 230 at 04/02	1 944 at 01/01	+11.3%	+16.3%
Russia*	613 at 05/02	572 at 01/01	+4.2%	+8.6%

At 14-2-19

Variations

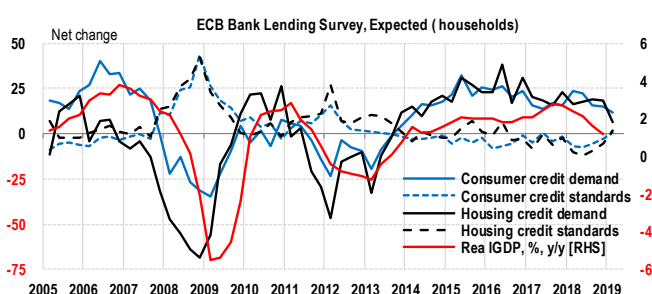
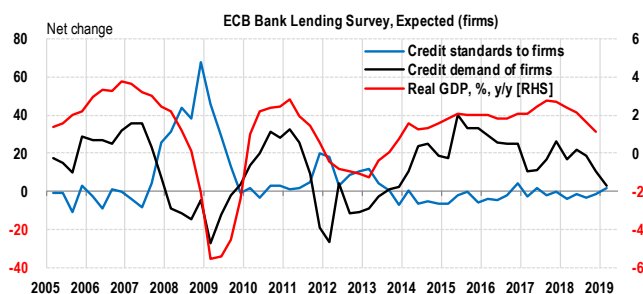
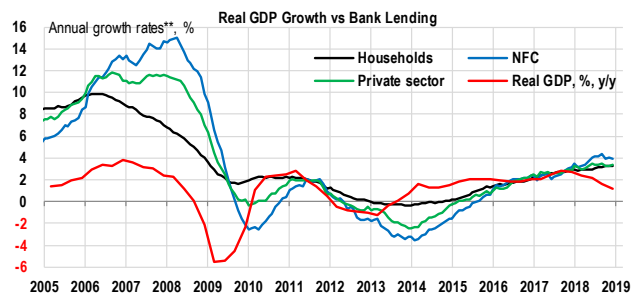
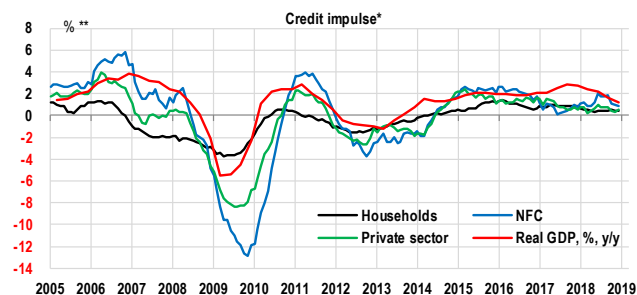
* MSCI index



Pulse

Eurozone: Credit pulse

During the last quarter of 2018, the annual growth of loans to private non-financial sector in the euro area stabilized at around 3.3%. However, survey data have showed a lower increase in the net demand of both households and enterprises since the beginning of 2018. Furthermore, and unlike in 2018, banks no longer plan to ease their conditions in 2019 Q1. In addition to the economic slowdown, these factors could weigh on the developments of loans outstanding in the euro area during the next quarters.



*Credit impulse is measured as the annual change of the annual growth rate of MFI loans ** Adjusted for securitizations

Source: ECB, ECB survey on the distribution of credit, BLS, BNP Paribas calculations

Indicators preview

Next week will be rich in terms of economic information concerning the month of February: PMIs in different countries, business confidence in France, the IFO business climate indicator in Germany, eurozone consumer confidence, Philadelphia Fed business outlook. In addition we will have eurozone inflation, the details on 4th quarter growth in Germany and the FOMC minutes.

Date	Country/Region	Event	Period	Prior
02/19/19	United Kingdom	ILO Unemployment Rate 3Mths	Dec.	4.0%
02/19/19	United States	NAHB Housing Market Index	Feb.	58
02/19/19-02/25/19	United Kingdom	CBI Trends Total Orders	Feb.	--
02/20/19	United States	Housing Starts MoM	Jan.	--
02/20/19	United States	Building Permits MoM	Jan.	--
02/20/19	Eurozone	Consumer Confidence	Feb.	--
02/20/19	United States	FOMC Meeting Minutes	Jan. 30	--
02/21/19	Germany	CPI EU Harmonized MoM	Jan.	--
02/21/19	France	Business Confidence	Feb.	102
02/21/19	France	CPI EU Harmonized MoM	Jan.	--
02/21/19	France	Markit France Composite PMI	Feb.	--
02/21/19	Eurozone	Markit Eurozone Composite PMI	Feb.	--
02/21/19	United States	Philadelphia Fed Business Outlook	Feb.	17.0
02/21/19	United States	Markit US Composite PMI	Feb.	--
02/22/19	Germany	GDP SA QoQ	4Q	--
02/22/19	Germany	IFO Business Climate	Feb.	--
02/22/19	Eurozone	CPI MoM	Jan.	0.0%

Source: Bloomberg, BNP Paribas



Economic scenario

UNITED STATES

- Growth is expected to slow to 2.1% this year. Trade war uncertainty acts as a drag, the housing market is softening, corporate investment should slow, as well as exports in reaction to the past strengthening of the dollar against a broad range of currencies.
- Core inflation remains well under control and has eased a bit.
- Following the dovish message from the January FOMC meeting, markets are pricing in a policy easing in the course of 2020.

CHINA

- Economic growth is slowing due to both structural and cyclical reasons. The export outlook is significantly darkened by US tariff hikes. Private domestic demand should be affected by the knock-on effect of the worsening performance of the export manufacturing sector, the slowdown of retail sales and the continued moderation in the property market.
- In order to contain the slowdown, the central bank is easing liquidity and credit conditions. At the same time, the reduction in financial instability risks via regulatory tightening should remain a top policy priority. Fiscal policy is also turning expansionary (tax cuts, increased infrastructure spending).

EUROZONE

- The slowdown is becoming increasingly evident, especially in the German economy, which has suffered from one-off factors but also from a slowdown of exports to China. Capacity constraints also play a role. Business expectations continue to decline. Italy has now entered a technical recession with quarterly growth negative in the third and fourth quarter of 2018.
- Inflation is now expected to decelerate following the past drop in the oil price, while core CPI is hardly moving. The growth slowdown also implies that the pick-up in core inflation should be slower than expected until recently. We do not expect the ECB to move rates this year (see below).

FRANCE

- Growth is slowing although the economy should show some resilience. Households' consumption should get a boost from the tax cuts and the jobs recovery but inflation reduces purchasing power gains. Business investment dynamics remain favourable. The global backdrop is less supportive. A slight rise in core inflation is appearing but remains to be confirmed.

INTEREST RATES AND FX RATES

- In the US, the Fed has announced to be patient before deciding on any change in its policy. We expect one rate increase this year, in June. We have changed the forecast for 10 year treasury yields and now expect a yield of 3.00% by mid-year and 2.80% at the end of the year.
- We no longer expect changes in the ECB policy rates this year. We have changed the forecast for 10 year Bund yields and now expect a yield of 0.30% by mid-year and 0.40% at the end of the year.
- No change expected in Japan.
- The prospect of a narrowing bond yield differential between the US and the eurozone should cause a strengthening of the euro, all the more so considering it is still below its long-term fair value (around 1.34).

%	GDP Growth			Inflation		
	2018 e	2019 e	2020 e	2018 e	2019 e	2020 e
Advanced	2.2	1.5	1.2	2.0	1.6	1.7
United-States	2.9	2.1	1.5	2.4	1.8	2.0
Japan	0.8	0.5	0.3	1.0	1.0	1.5
United-Kingdom	1.4	1.8	1.6	2.5	2.0	2.0
Euro Area	1.8	1.0	1.1	1.7	1.4	1.4
Germany	1.5	0.9	1.1	1.8	1.6	1.6
France	1.5	1.2	1.2	2.1	1.3	1.6
Italy	0.8	0.1	0.5	1.3	1.0	1.0
Spain	2.5	2.1	1.7	1.7	1.0	1.3
Emerging	5.9	5.9	5.7	2.7	2.7	3.1
China	6.6	6.2	6.0	2.1	1.9	2.5
India	7.4	7.6	7.8	3.8	4.0	4.1
Brazil	1.3	3.0	2.5	3.7	3.8	3.6
Russia	1.8	1.7	1.6	2.8	3.6	4.2

Source : BNP Paribas Group Economic Research (e: Estimates & forecasts)

Interest rates, %	End of period	2019				2018	2019e	2020e
		Q1e	Q2e	Q3e	Q4e			
US	Fed Funds	2.50	2.75	2.75	2.75	2.50	2.75	2.75
	Libor 3m \$	2.80	3.05	3.05	3.00	2.81	3.00	3.00
	T-Notes 10y	2.80	3.00	2.80	2.80	2.69	2.80	2.50
Ezone	ECB Refi	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Euribor 3m	-0.30	-0.30	-0.30	-0.30	-0.31	-0.30	-0.25
	Bund 10y	0.20	0.30	0.35	0.40	0.25	0.40	0.40
	OAT 10y	0.65	0.65	0.65	0.70	0.71	0.70	0.70
UK	Base rate	0.75	1.00	1.00	1.25	0.75	1.25	1.25
	Gilts 10y	1.70	1.85	2.00	2.10	1.27	2.10	2.10
Japan	BoJ Rate	-0.10	-0.10	-0.10	-0.10	-0.07	-0.10	-0.10
	JGB 10y	0.00	0.00	0.00	-0.05	0.00	-0.05	-0.20

Source : BNP Paribas GlobalMarkets (e: Forecasts)

Exchange Rates	End of period	2019				2018	2019e	2020e
		Q1e	Q2e	Q3e	Q4e			
USD	EUR / USD	1.15	1.17	1.21	1.25	1.14	1.25	1.34
	USD / JPY	110	108	105	100	110	100	90
	GBP / USD	1.32	1.36	1.41	1.47	1.27	1.47	1.58
	USD / CHF	1.01	1.00	0.98	0.96	0.99	0.96	0.93
EUR	EUR / GBP	0.87	0.86	0.86	0.85	0.90	0.85	0.85
	EUR / CHF	1.16	1.17	1.18	1.20	1.13	1.20	1.25
	EUR / JPY	127	126	127	125	125	125	121

Source : BNP Paribas GlobalMarkets (e: Forecasts)

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