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## EDITORIAL

"The US-China trade deal: few reasons to be cheerful"

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## FURTHER READING

Latest articles, charts, videos and podcasts of Group Economic Research.

## THE US-CHINA TRADE DEAL: FEW REASONS TO BE CHEERFUL

The US-China trade deal has brought relief. It avoids new tariff increases by the US with the risk of further escalation. The deal should be welcomed in China, given its ongoing growth slowdown, but also in the US where companies had increasingly expressed their concern about the trade confrontation. The rest of the world will monitor closely the extent of trade diversion which could follow from the agreement. Attention will now shift to the phase 2 negotiations, which could very well mean that trade uncertainty will intensify at some stage

From a counterfactual perspective any trade deal is better than no deal. It's like with monetary policy: low rates may not succeed in lifting inflation but the situation would be worse if policy rates were higher.

The Chinese GDP numbers published this week -6.1% growth in 2019, the slowest rate since 1990- remind us that weaker headwinds would be welcome. Some of these are structural -the rebalancing of the economy from export- and investment-led to being consumer-led-, but the trade confrontation also plays a role. Exports to the US have dropped, which partly explains the very slow pace of manufacturing investment in 2019, up only 3.1%.

In a trade conflict, one would obviously assume that the surplus country would suffer, but that does not automatically mean that the deficit country would gain. Recent research by the Federal Reserve Board<sup>1</sup> has found a negative influence on the US as well: "U.S. manufacturing industries more exposed to tariff increases experience relative reductions in employment as a positive effect from import protection is offset by larger negative effects from rising input costs and retaliatory tariffs. Higher tariffs are also associated with relative increases in producer prices via rising input costs."

In the absence of a trade deal, the factors mentioned above would have continued to play a role to the extent that there would have been further tariff escalation and prolonged uncertainty about where the confrontation would lead us. Counterfactual analysis, which compares an outcome with an alternative scenario, tells us that we should rejoice about the agreement. Leave the alternative aside and the conclusion is that there are fewer reasons to be cheerful.

The Chinese commitment to purchase more US goods only relates to the next two years and is less clear about what follows. Moreover, the commitment does not seem to be written in stone as the Chinese vice premier reportedly said that these purchases would be based on market demand in China. Third party countries, who are bystanders to this bilateral 'managed trade' deal, will be concerned about the consequences in terms of trade diversion. This concern was aired by Phil Hogan, the EU trade commissioner, in a speech in Washington DC, although he also welcomed the provisions on the protection of intellectual property rights<sup>3</sup>.

The deal is a phase 1 deal, so inevitably, attention of companies and governments will quickly shift to the next stage of negotiations. President Trump has said he could wait to get a phase 2 deal with China until after the 2020 election, thinking it would allow to negotiate a better deal for the US. Considering that negotiations are a game of the carrot and the stick, this could very well mean that after the relief, trade-related uncertainty would increase again.

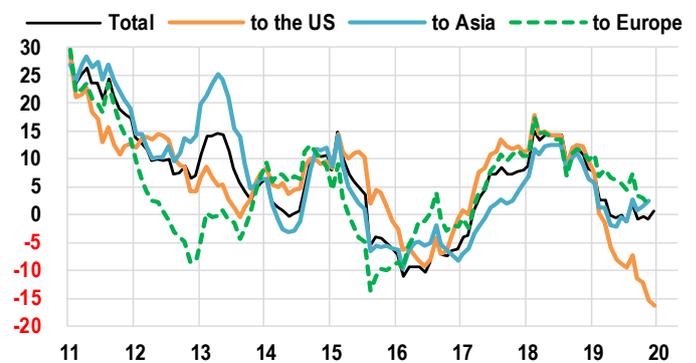
**William De Vijlder**

<sup>1</sup>Flaaen, Aaron, and Justin Pierce (2019), *Disentangling the effects of the 2018-2019 tariffs on a globally connected U.S. manufacturing sector*, Finance and Economics Discussion Series 2019-086, Board of governors of the Federal Reserve System, <https://doi.org/10.17016/FEDS.2019.086>.

<sup>2</sup> What's in (and Not in) the U.S.-China Trade Deal, New York Times, 15 January 2020

<sup>3</sup> EU trade commissioner criticises US-China trade deal, Financial Times, 16 January 2020

### EXPORTS OF GOODS IN USD (Y/Y, %) 6-MONTH MOVING AVERAGE



SOURCE: CHINA'S GENERAL ADMINISTRATION OF CUSTOMS, BNP PARIBAS



The US-China trade deal brings welcome relief but when attention shifts to the phase 2 negotiations, trade uncertainty will probably intensify again at some point.



# MARKETS OVERVIEW

## OVERVIEW

Week 10-1-20 to 16-1-20

↗ CAC 40	6 037	▶ 6 039	+0.0 %
↗ S&P 500	3 265	▶ 3 317	+1.6 %
↘ Volatility (VIX)	12.6	▶ 12.3	-0.2 pb
↗ Euribor 3M (%)	-0.40	▶ -0.39	+0.2 bp
↘ Libor 3M (%)	1.84	▶ 1.84	-0.2 bp
↘ OAT 10y (%)	0.00	▶ -0.01	-1.2 bp
↘ Bund 10y (%)	-0.23	▶ -0.25	-1.9 bp
↘ US Tr. 10y (%)	1.83	▶ 1.81	-1.8 bp
↗ Euro vs dollar	1.11	▶ 1.11	+0.3 %
↘ Gold (ounce, \$)	1 560	▶ 1 550	-0.6 %
↘ Oil (Brent, \$)	65.6	▶ 64.9	-1.1 %

## MONEY & BOND MARKETS

Interest Rates	highest 20	lowest 20
€ ECB	0.00	0.00 at 01/01
Eonia	-0.45	-0.45 at 01/01
Euribor 3M	-0.39	-0.38 at 02/01
Euribor 12M	-0.25	-0.24 at 03/01
\$ FED	1.75	1.75 at 01/01
Libor 3M	1.84	1.91 at 01/01
Libor 12M	1.95	2.00 at 01/01
£ BoE	0.75	0.75 at 01/01
Libor 3M	0.73	0.80 at 08/01
Libor 12M	0.83	0.98 at 01/01

At 16-1-20

Yield (%)	highest 20	lowest 20
€ AVG 5-7y	0.06	0.10 at 02/01
Bund 2y	-0.59	-0.58 at 14/01
Bund 10y	-0.25	-0.19 at 01/01
OAT 10y	-0.01	0.08 at 01/01
Corp. BBB	0.87	0.91 at 13/01
\$ Treas. 2y	1.57	1.59 at 08/01
Treas. 10y	1.81	1.91 at 01/01
High Yield	5.52	5.69 at 01/01
£ gilt 2y	0.44	0.61 at 08/01
gilt 10y	0.65	0.83 at 01/01

At 16-1-20

## EXCHANGE RATES

1€ =	highest 20	lowest 20	2020
USD	1.11	1.12 at 01/01	-0.7%
GBP	0.85	0.86 at 13/01	+0.6%
CHF	1.07	1.09 at 01/01	-1.2%
JPY	122.70	122.70 at 16/01	+0.6%
AUD	1.62	1.62 at 07/01	+1.1%
CNY	7.67	7.82 at 01/01	-1.9%
BRL	4.66	4.66 at 16/01	+3.1%
RUB	68.67	69.72 at 01/01	-1.5%
INR	79.03	80.49 at 06/01	-1.4%

At 16-1-20

Change

## COMMODITIES

Spot price in dollar	highest 20	lowest 20	2020	2020(€)	
Oil, Brent	64.9	69.1 at 06/01	64.0 at 15/01	-2.1%	-1.4%
Gold (ounce)	1 550	1 570 at 07/01	1 521 at 01/01	+2.0%	+2.7%
Metals, LME	2 894	2 894 at 16/01	2 831 at 03/01	+1.8%	+2.5%
Copper (ton)	6 251	6 270 at 14/01	6 104 at 03/01	+1.7%	+2.4%
CRB Foods	338	340.9 at 14/01	336 at 08/01	-0.3%	+0.5%
wheat (ton)	234	2.4 at 15/01	227 at 06/01	+2.1%	+2.9%
Corn (ton)	146	1.5 at 02/01	146 at 16/01	-0.2%	-1.4%

At 16-1-20

Change

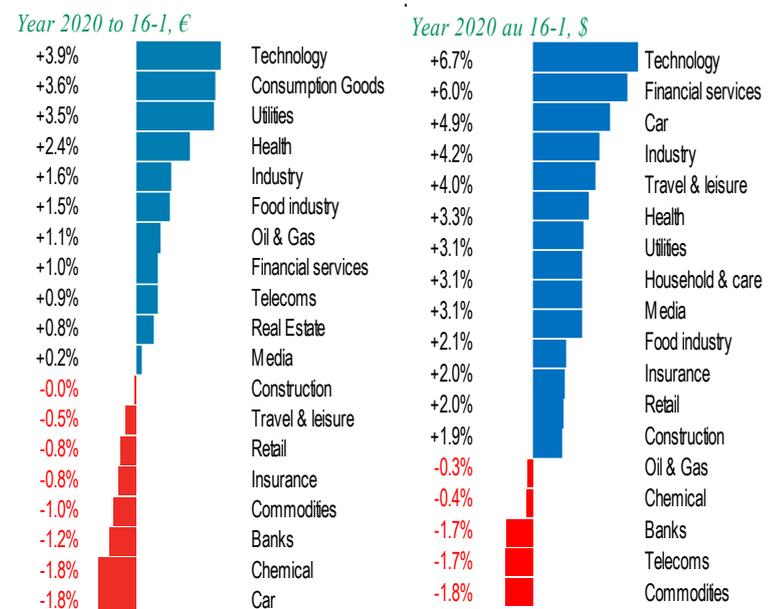
## EQUITY INDICES

Index	highest 20	lowest 20	2020	
<b>World</b>				
MSCI World	2 406	2 406 le 16/01	2 358 le 01/01	+2.0%
<b>North America</b>				
S&P500	3 317	3 317 at 16/01	3 231 at 01/01	+2.7%
<b>Europe</b>				
EuroStoxx50	3 774	3 796 le 09/01	3 745 le 01/01	+0.8%
CAC 40	6 039	6 044 le 03/01	5 978 le 01/01	+0.1%
DAX 30	13 429	13 495 at 09/01	13 127 at 06/01	+1.4%
IBEX 35	9 573	9 691 le 02/01	9 512 le 15/01	+0.0%
FTSE100	7 610	7 643 le 15/01	7 542 le 01/01	+0.1%
<b>Asia</b>				
MSCI, loc.	1 028	1 029 le 14/01	1 000 le 06/01	+0.2%
Nikkei	23 933	24 025 at 14/01	23 205 at 08/01	+1.2%
<b>Emerging</b>				
MSCI Emerging (\$)	1 141	1 144 le 13/01	1 111 le 08/01	+0.2%
China	89	90 at 13/01	85 at 01/01	+4.1%
India	608	609 at 15/01	580 at 06/01	+2.2%
Brazil	2 298	2 429 at 02/01	2 295 at 15/01	+0.6%
Russia	842	847 at 13/01	807 at 01/01	+3.7%

At 16-1-20

Change

## PERFORMANCE BY SECTOR (Eurostoxx50 & S&P500)



# MARKETS OVERVIEW

EURO-DOLLAR



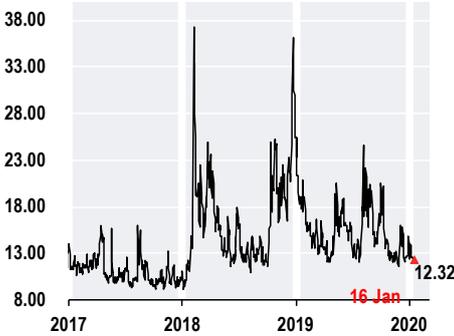
EUROSTOXX50



S&P500



VOLATILITY (VIX, S&P500)



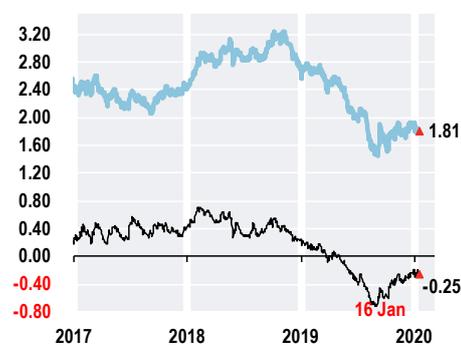
MSCI WORLD (USD)



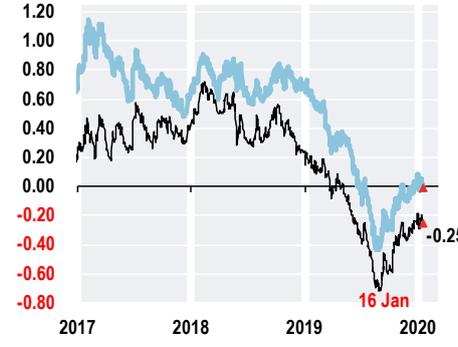
MSCI EMERGING (USD)



10Y BOND YIELD, TREASURIES VS BUND



10Y BOND YIELD



10Y BOND YIELD & SPREADS

Week 10-1-20 to 16-1-20

1.95%	Greece	219 pb
1.35%	Italy	160 pb
0.47%	Spain	72 pb
0.41%	Portugal	66 pb
0.02%	Belgium	27 pb
-0.01%	France	24 pb
-0.03%	Finland	22 pb
-0.04%	Austria	20 pb
-0.13%	Netherlands	11 pb
-0.15%	Ireland	10 pb
-0.25%	Germany	

—Bunds —US Treasuries

—Bunds —OAT

OIL (BRENT, USD)



METALS (LMEX, USD)



GOLD (OUNCE, USD)



# ECONOMIC PULSE

## GERMANY: NASCENT SIGNS OF STABILIZATION IN INDUSTRY

The economic climate in Q4 has hardly changed compared to three months earlier. The weakness is concentrated in the manufacturing sector, where production and orders are well below their long-term average. The growth impetus is coming from the more domestic-oriented sectors such as construction and services. Consumer confidence and retail sales remain well oriented thanks to low unemployment, low interest rapidly increasing wages.

However, in January, the household confidence indicator fell more than expected on the back of lower income expectations. It could be a sign that the weakness in manufacturing is spilling over to the rest of the economy. On the other hand, some signs of stabilization in manufacturing were noted.

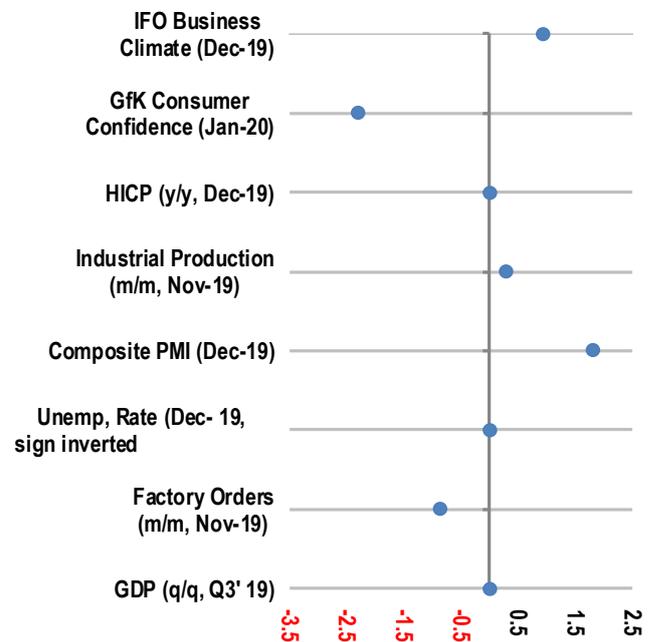
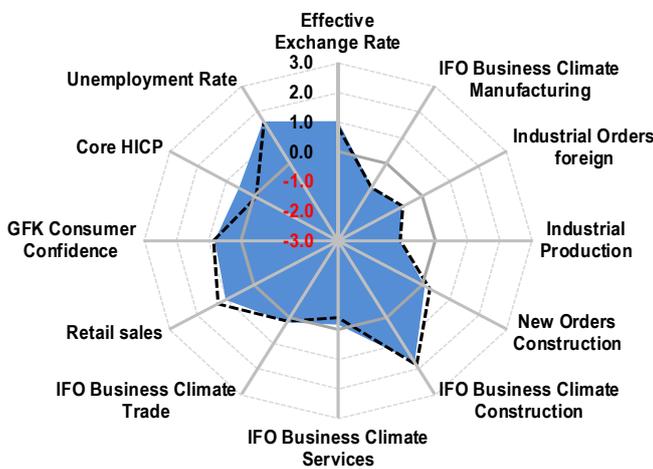
In December, the ifo business climate index strengthened, partly because of a strong rebound in expectations in manufacturing and manufacturing activity strengthened more than expected in November. True, factory orders disappointed in November, but that was partly due to very strong reading in the preceding month. Overall, manufacturing production might have passed the trough.

**Raymond Van Der Putten**

### QUATERLY CHANGES

### SURPRISE (Z-SCORE)

■ 3 month average (actual)    - - - - 3 month average (4 months ago)



SOURCES : THOMSON REUTERS, BNP PARIBAS

SOURCES : BLOOMBERG, BNP PARIBAS



# ECONOMIC SCENARIO

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## UNITED STATES

- Despite the support coming from the Fed rate cuts in 2019, we expect growth to slow in the near term under the influence of corporate investment (slower profits growth, trade uncertainty) and housing (declining trend of affordability, despite a recent rebound). Consumer spending should be more resilient but could slow on the back of a less dynamic labour market.
- As a consequence, we expect two Fed funds target rate cuts in the first half of 2020.

## CHINA

- Economic growth continues to slow. Industrial activity and exports have been hard hit by US tariff hikes. Domestic demand has also decelerated.
- The central bank is easing liquidity and credit conditions, but the reduction in financial-instability risks should remain a priority and banks are prudent. Fiscal policy is expansionary through increased investment in infrastructure projects and household/corporate tax cuts. Tax measures are expected to have some success in supporting consumer spending.
- Consumer price inflation has accelerated due to rising food prices (soaring pork prices), but core inflation remains subdued.

## EUROZONE

- The economic slowdown is continuing in the eurozone, especially in Germany, due to the international environment and difficulties in the manufacturing sector. The recent stabilization of business surveys, albeit at a low level, provides some hope but needs to be confirmed.
- Inflation is now expected to decrease while core CPI is hardly moving. The activity slowdown also implies that the pick-up in core inflation could be slower than expected until recently.
- The very accommodative monetary policy should be maintained as long as inflation hasn't converged sufficiently, in a convincing and lasting way, towards the ECB's objective.

## FRANCE

- Growth is slowing although the economy shows resilience. Households' consumption should get a boost from the tax cuts and the jobs recovery. 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, we expect the Fed to cut its official rate twice in the first half of 2020 in reaction to a slowing economy, moderate inflation and high uncertainty. This should support the medium term growth outlook, which is why, after an initial decline, we expect Treasury yields to increase gradually.
- In the eurozone, the ECB's state-dependent forward guidance and the sluggishness of the inflation process imply that the very accommodative environment will remain in place for a long time. The movement of

bond yields will be very much influenced by what happens to US yields, although we expect the increase in Bund yields to be smaller. Sovereign spreads in the eurozone should decline.

- We expect that the Bank of Japan will refrain from further monetary easing.
- We expect little change in EUR/USD even though euro's fair value is quite higher than current pricing.

### GROWTH & INFLATION

%	GDP Growth			Inflation		
	2019 e	2020 e	2021 e	2019 e	2020 e	2021 e
<b>Advanced</b>	<b>1.7</b>	<b>1.1</b>	<b>1.6</b>	<b>1.5</b>	<b>1.6</b>	<b>1.4</b>
United-States	2.3	1.5	2.0	1.8	2.4	1.9
Japan	1.0	0.2	0.7	0.5	0.6	0.3
United-Kingdom	1.3	1.1	1.7	1.8	1.5	1.8
<b>Euro Area</b>	<b>1.1</b>	<b>0.8</b>	<b>1.3</b>	<b>1.2</b>	<b>1.0</b>	<b>1.0</b>
Germany	0.5	0.4	1.2	1.4	1.2	1.2
France	1.3	1.1	1.3	1.3	1.0	1.1
Italy	0.2	0.2	0.6	0.6	0.6	0.5
Spain	2.0	1.7	1.6	0.8	0.8	0.9
<b>Emerging</b>	<b>3.8</b>	<b>4.0</b>	<b>4.2</b>	<b>4.6</b>	<b>4.6</b>	<b>3.6</b>
China	6.1	5.7	5.8	2.8	3.5	1.5
India*	5.8	5.5	6.0	3.0	3.3	3.5
Brazil	1.0	2.0	3.0	3.7	3.4	3.7
Russia	0.9	1.5	1.5	4.7	3.8	4.0

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

### INTEREST & EXCHANGE RATES

Interest rates, %	2019		2020				2018	2019	2020e
	Q3	Q4	Q1e	Q2e	Q3e	Q4e			
<b>US</b>									
Fed Funds	2.00	1.75	1.50	1.25	1.25	1.25	2.50	1.75	1.25
Libor 3m \$	2.09	1.91	1.40	1.20	1.20	1.25	2.81	1.91	1.25
T-Notes 10y	1.67	1.92	1.60	1.80	2.10	2.00	2.69	1.92	2.00
<b>Ezone</b>									
ECB Refi	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Euribor 3m	-0.42	-0.38	-0.50	-0.50	-0.50	-0.50	-0.31	-0.38	-0.50
Bund 10y	-0.57	-0.19	-0.50	-0.40	-0.30	-0.30	0.25	-0.19	-0.30
OAT 10y	-0.28	0.08	-0.20	-0.15	-0.10	-0.10	0.71	0.08	-0.10
<b>UK</b>									
Base rate	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Gilts 10y	0.40	0.83	1.00	1.10	1.20	1.20	1.27	0.83	1.20
<b>Japan</b>									
BoJ Rate	-0.06	-0.05	-0.10	-0.10	-0.10	-0.10	-0.07	-0.05	-0.10
JGB 10y	-0.22	-0.02	-0.10	0.00	0.05	0.10	0.00	-0.02	0.10

Exchange Rates	2019		2020				2018	2019	2020e
	Q3	Q4	Q1e	Q2e	Q3e	Q4e			
<b>USD</b>									
EUR / USD	1.09	1.12	1.12	1.13	1.13	1.14	1.14	1.12	1.14
USD / JPY	108	109	104	103	103	103	110	109	103
GBP / USD	1.23	1.32	1.35	1.36	1.36	1.39	1.27	1.32	1.39
USD / CHF	1.00	0.97	0.99	0.99	0.99	1.00	0.99	0.97	1.00
<b>EUR</b>									
EUR / GBP	0.89	0.83	0.83	0.83	0.83	0.82	0.90	0.83	0.82
EUR / CHF	1.09	1.09	1.11	1.12	1.12	1.14	1.13	1.09	1.14
EUR / JPY	118	122	116	116	116	117	125	122	117

SOURCE: BNP PARIBAS GLOBAL MARKETS (E: ESTIMATES)



## CALENDAR

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## LATEST INDICATORS

In Germany, the GDP number for 2019 showed the extent of the slowdown versus 2018 (from 1,5% to 0,6%). Regional business surveys in the US picked up in January (Empire State, Philadelphia) whereas the NAHB housing market index was essentially stable. Chinese data were more or less in line with expectations but the growth slowdown continues.

DATE	COUNTRY/ZONE	INDICATOR	PERIOD	ACTUAL	PREVIOUS
01/14/2020	United States	CPI Ex Food and Energy YoY	Dec.	2.3%	2.3%
01/14/2020	China	Trade Balance CNY	Dec.	3.2927e+11	2.7421e+11
01/15/2020	France	CPI EU Harmonized YoY	Dec.	1.6%	1.6%
01/15/2020	Germany	GDP NSA YoY	2019	0.6%	1.5%
01/15/2020	United Kingdom	CPI YoY	Dec.	1.3%	1.5%
01/15/2020	Eurozone	Industrial Production SA MoM	Nov.	0.2%	-0.5%
01/15/2020	Eurozone	Trade Balance SA	Nov.	1.92e+10	2.45e+10
01/15/2020	United States	MBA Mortgage Applications	Jan.	30.2%	13.5%
01/15/2020	United States	PPI Ex Food and Energy YoY	Dec.	1.1%	1.3%
01/15/2020	United States	Empire Manufacturing	Jan.	4.8	3.5
01/15/2020	United States	U.S. Federal Reserve Releases Beige Book	--	--	--
01/16/2020	Japan	Core Machine Orders YoY	Nov.	5.3%	-6.1%
01/16/2020	Germany	CPI EU Harmonized YoY	Dec.	1.5%	1.5%
01/16/2020	United States	Retail Sales Advance MoM	Dec.	0.3%	0.2%
01/16/2020	United States	Philadelphia Fed Business Outlook	Jan.	17.0	0.3
01/16/2020	United States	NAHB Housing Market Index	Jan.	75	76
01/17/2020	China	Retail Sales YTD YoY	Dec.	8.0%	8.0%
01/17/2020	China	Property Investment YTD YoY	Dec.	9.9%	10.2%
01/17/2020	China	Industrial Production YTD YoY	Dec.	5.7%	5.6%
01/17/2020	China	Fixed Assets Ex Rural YTD YoY	Dec.	5.4%	5.2%
01/17/2020	China	GDP YoY	4Q	6.0%	6.0%
01/17/2020	United Kingdom	Retail Sales Ex Auto Fuel YoY	Dec.	--	0.8%
01/17/2020	Eurozone	CPI YoY	Dec.	--	1.0%
01/17/2020	United States	Building Permits MoM	Dec.	--	1.4%
01/17/2020	United States	Housing Starts MoM	Dec.	--	3.2%



## CALENDAR

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## COMING INDICATORS

A very busy week ahead of us with meetings of the ECB and the Bank of Japan and the first survey data for January: flash PMIs in several countries, ZEW survey expectations, business confidence in France and the UK, eurozone consumer confidence. In addition we will have the Conference Board's index of leading indicators in the US and, in the eurozone, the results of the ECB's survey of professional forecasters.

DATE	COUNTRY/ZONE	INDICATOR	PERIOD	SURVEY	PREVIOUS
01/19/2020	United Kingdom	CBI Business Optimism	Jan.	--	-44
01/20/2020	Japan	Industrial Production MoM	Nov.	--	-0.90%
01/20/2020	Japan	Tokyo Dept Store Sales YoY	Dec.	--	-4.7%
01/21/2020	Germany	ZEW Survey Expectations	Jan.	--	10.7
01/21/2020	Japan	BOJ Policy Balance Rate	Jan.21	--	-0.100%
01/22/2020	France	Business Confidence	Jan.	--	106
01/22/2020	United States	Chicago Fed Nat Activity Index	Dec.	--	0.56
01/22/2020	United States	Existing Home Sales MoM	Dec.	1,9%	-1.7%
01/23/2020	Japan	Machine Tool Orders YoY	Dec.	--	--
01/23/2020	Eurozone	ECB Main Refinancing Rate	Jan.23	--	0.000%
01/23/2020	Eurozone	Consumer Confidence	Jan.	--	-8.1
01/23/2020	United States	Leading Index	Dec.	-0,1%	0.0%
01/23/2020	United States	Kansas City Fed Manf. Activity	Jan.	--	-8
01/24/2020	Japan	Jibun Bank Japan PMI Composite	Jan.	--	48.6
01/24/2020	France	Markit France Composite PMI	Jan.	--	52.0
01/24/2020	Germany	Markit/BME Germany Composite PMI	Jan.	--	50.2
01/24/2020	Eurozone	ECB Survey of Professional Forecasters			
01/24/2020	Eurozone	Markit Eurozone Composite PMI	Jan.	--	50.9
01/24/2020	United States	Markit US Composite PMI	Jan.	--	52.7



# FURTHER READING

<a href="#">The US-China trade deal: relief, for now</a>	EcoTV Week	17 January 2020
<a href="#">Mozambique: Debt crisis despite Eurobond restructuring</a>	Chart of the Week	15 January 2020
<a href="#">Eco TV - January 2020</a>	Eco TV	10 January 2020
<a href="#">Markets and geopolitical uncertainty: (ir)rational complacency?</a>	EcoWeek	10 January 2020
<a href="#">Home affordability trends in France</a>	Chart of the Week	8 January 2020
<a href="#">Banking in a low interest rate environment: the case of Portugal</a>	Conjuncture	23 December 2019
<a href="#">Sustainable and inclusive growth: the role of cities</a>	Conjuncture	23 December 2019
<a href="#">What 2019 tells us about 2020</a>	EcoTV Week	20 December 2019
<a href="#">2019: a difficult year, ending on a hopeful note</a>	EcoWeek	20 December 2019
<a href="#">The UK: heading for the door</a>	EcoFlash	20 December 2019
<a href="#">Looming money market tensions</a>	EcoFlash	19 December 2019
<a href="#">Lebanon: How are structural deficits financed ?</a>	Infographics	19 December 2019
<a href="#">France: dynamism and composition of business investment</a>	Chart of the Week	18 December 2019
<a href="#">Very low interest rates for how long?</a>	EcoWeek	13 December 2019
<a href="#">Eurozone economic slowdown: what if employment holds up?</a>	EcoFlash	12 December 2019
<a href="#">Eco TV - December 2019</a>	Eco TV	12 December 2019
<a href="#">Colombia: who holds the public debt and in what proportion?</a>	Chart of the Week	11 December 2019
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