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ECONOMIC RESEARCH

BNP PARIBAS

The bank
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world

US: SHOULD WE WORRY ABOUT THE FLATTENING OF THE YIELD CURVE? NOT YET

The US yield curve has flattened, giving rise to comments that, given the historical experience, risk of a recession is increasing. Yet, when drawing conclusions, caution is warranted. Market-based inflation expectations, which are very high, should decline after a number of rate hikes. This could pull down long-term nominal bond yields, leading to a further flattening or even an inversion of the curve. However, a decline in inflation is growth-supportive. Another reason for caution is that due to past central bank asset purchases, the slope of the yield curve is less steep. Past QE may thus reduce its quality as a leading indicator of economic growth. For these reasons, an alternative indicator has been developed. The near-term forward spread compares market-based expectations for short-term interest rates in 18 months' time with current short-term rates. Its record as leading indicator is better and, what's more, the current spread is very large. This implies that we should not yet be concerned about the flattening of the yield curve.

When looking at the US yield curve, there is a déjà vu feeling. The curve has flattened significantly in recent weeks and media articles have quickly followed, explaining what this may signal about recession risk.

Such a reaction makes sense on theoretical grounds. Yields on long-dated bonds predominantly reflect longer-term expectations about short-term interest rates, which depend on monetary policy expectations, as well as a term premium[1]. A steep yield curve reflects an accommodative monetary policy stance with central bank rates well below their long-term expected values. A flattening of the curve implies a reduction of monetary support and may trigger a downward revision of the growth outlook. This revision will be more outspoken when the curve inverts. In that case, short-term rates are above their long-term expected value, policy is tight and is expected to be eased at some point because growth and inflation will have declined.

The theoretical argument may be compelling but the empirical evidence is an even stronger underpinning for the reaction of journalists and analysts alike. Such is the perceived quality of an inversion of the curve as a leading indicator of recession, that a mere flattening already gives rise to concern, based on the view that it is only a matter of time until an inversion will follow. Yet, caution is warranted in assuming that these stylised facts still apply as much today as they did in the past

One reason is that at present, market-based inflation expectations are very high because investors are concerned that inflation may continue surprising to the upside. When this view changes, break-even inflation – the difference between the yield on a nominal bond and the yield on an inflation-linked bond of the same maturity – will decline, pulling down, ceteris paribus, nominal bond yields at longer maturities. What follows in that case is a further flattening or even an inversion of the yield curve. However, such a development would reduce the risk of recession, rather than increasing it: a decline in inflation is growth-supportive because it raises households' purchasing power. Moreover, the Federal Reserve could afford to tighten less than initially envisaged. Another reason for caution is the influence of the Fed's balance sheet on the level of Treasury yields. Central bank asset purchases aim to influence long-term bond yields by lowering the term premium, so the slope of the yield curve should be less steep than in a world without QE. This may reduce its quality as a leading indicator of economic growth.

Assessing the growth outlook through the lens of the slope of the yield curve boils down to gauging whether monetary policy is growth supportive or a threat to growth. This provides an argument for looking at the shorter end of the yield curve.

1. This is a risk premium for investing in long-dated bonds rather than, over the same period, continuously rolling over an investment in short-dated Treasury bills.

US TREASURY AND MONEY MARKET CURVE

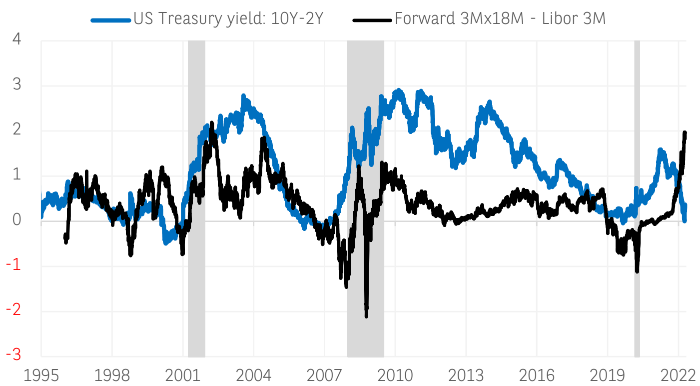


CHART 1 SOURCE: BLOOMBERG, BNP PARIBAS

> The yield curve has flattened very significantly but the near-term forward spread is very high. The opposing signals, in combination with the better quality of the forward spread as leading indicator, imply that we should not yet be concerned about the flattening of the yield curve.

Its greater cyclical amplitude compared to the long end of the curve implies it is more sensitive to changes in the growth and inflation outlook. Hence its signal quality may be better. This is the approach followed by the Federal Reserve in a research note of 2018[2]. However, the comparison of a two or three year yield with the short-term interest rate could still be influenced by the term premium.

To avoid this, the authors calculate the near-term forward spread, i.e. the difference between the implied interest rate on 3-month Treasury bills in 18 months' time with the current 3-month rate[3]. This is then used to calculate the probability of a recession over the next four quarters[4]. It turns out that the near-term forward spread is highly significant and that the long-term spread – the 10-year yield minus the 2-year yield –, when added to the equation, is not significant. The accompanying chart has been inspired by this approach although for data availability reasons, libor rates (spot and forward) have been used to calculate the near-term forward spread[5]. As shown by the chart, recessions have been preceded by an inversion of this spread in combination with a flat or even inverted yield curve. At the current juncture, the yield curve has flattened very significantly but the near-term forward spread is very high.

The opposing signals, in combination with better quality of the forward spread as leading indicator, imply that we should not yet be concerned about the flattening of the yield curve. There is an important caveat however. The huge near-term forward spread reflects market expectations of significant monetary tightening over the next several quarters. If the FOMC proceeds as expected, this could end up pushing down long-dated bond yields and trigger a yield curve inversion. In addition to the discomfort this would create, aggressive tightening could also suddenly change the monetary policy outlook, causing a decline of the near-term forward spread. In such an environment, recession fears would inevitably increase.

William De Vijlder

2. Source: *(Don't Fear) The Yield Curve,* Eric Engstrom and Steven Sharpe, FEDS Notes, 28 June 2018.

3. This forward rate can be inferred by comparing the yield to maturity on Treasury notes maturing 6 quarters from now and 7 quarters from now.

4. The data cover the period 1972-2018.

5. This may bias the signal in times of financial stress, i.e. when the TED-spread –the difference between libor rates and Treasury bill rates- increases.

MARKETS OVERVIEW

OVERVIEW

Week 8-4 22 to 15-4-22				
↗ CAC 40	6 548	▸ 6 589	+0.6	%
↘ S&P 500	4 488	▸ 4 393	-2.1	%
↗ Volatility (VIX)	21.2	▸ 22.7	+1.5	pb
↘ Euribor 3M (%)	-0.45	▸ -0.45	-0.3	bp
↗ Libor $ 3M (%)	1.01	▸ 1.06	+5.2	bp
↗ OAT 10y (%)	1.12	▸ 1.19	+6.7	bp
↗ Bund 10y (%)	0.68	▸ 0.81	+13.0	bp
↗ US Tr. 10y (%)	2.72	▸ 2.83	+11.2	bp
↘ Euro vs dollar	1.09	▸ 1.08	-0.9	%
↗ Gold (ounce, $)	1 943	▸ 1 969	+1.3	%
↗ Oil (Brent, $)	102.7	▸ 111.8	+8.9	%

MONEY & BOND MARKETS

Interest Rates		highest 22			lowest 22		
€ ECB	0.00	0.00	at	03/01	0.00	at	03/01
Eonia	-0.51	-0.51	at	03/01	-0.51	at	03/01
Euribor 3M	-0.45	-0.43	at	12/04	-0.58	at	05/01
Euribor 12M	0.00	0.01	at	12/04	-0.50	at	05/01
$ FED	0.50	0.50	at	17/03	0.25	at	03/01
Libor 3M	1.06	1.06	at	14/04	0.21	at	03/01
Libor 12M	2.22	2.31	at	12/04	0.58	at	03/01
£ BoE	0.75	0.75	at	17/03	0.25	at	03/01
Libor 3M	1.12	1.12	at	14/04	0.26	at	03/01
Libor 12M	0.81	0.81	at	03/01	0.81	at	03/01

At 15-4-22

Yield (%)		highest 22			lowest 22		
€ AVG 5-7y	1.02	1.11	at	12/04	-0.04	at	03/01
Bund 2y	-0.08	0.00	at	11/04	-0.83	at	04/03
Bund 10y	0.81	0.81	at	15/04	-0.14	at	24/01
OAT 10y	1.19	1.19	at	14/04	0.15	at	04/01
Corp. BBB	2.32	2.32	at	15/04	0.90	at	05/01
$ Treas. 2y	2.39	2.49	at	08/04	0.70	at	04/01
Treas. 10y	2.83	2.83	at	14/04	1.63	at	03/01
High Yield	6.72	6.81	at	15/03	5.07	at	03/01
£ gilt. 2y	1.61	1.61	at	15/04	0.69	at	03/01
gilt. 10y	1.88	1.88	at	15/04	0.97	at	03/01

At 15-4-22

EXCHANGE RATES

1€ =		highest 22		lowest 22			2022
USD	1.08	1.15	at 10/02	1.08	at	14/04	-5.2%
GBP	0.83	0.85	at 30/03	0.83	at	14/04	-1.6%
CHF	1.02	1.06	at 10/02	1.00	at	04/03	-1.9%
JPY	135.68	136.78	at 11/04	125.37	at	04/03	+3.6%
AUD	1.45	1.62	at 04/02	1.43	at	05/04	-7.1%
CNY	6.87	7.29	at 10/02	6.87	at	14/04	-5.3%
BRL	5.08	6.44	at 06/01	5.06	at	12/04	-19.8%
RUB	88.80	164.76	at 07/03	84.45	at	03/01	+4.1%
INR	82.10	85.96	at 11/02	82.10	at	14/04	-2.9%

At 15-4-22 *Change*

COMMODITIES

Spot price, $		highest 22			lowest 22			2022	2022(€)
Oil, Brent	111.8	128.2	at	08/03	79.0	at	03/01	+42.6%	+50.5%
Gold (ounce)	1 969	2 056	at	08/03	1 785	at	28/01	+8.0%	+14.0%
Metals, LMEX	5 130	5 506	at	07/03	4 489	at	06/01	+14.0%	+20.3%
Copper (ton)	10 298	10 702	at	04/03	9 543	at	06/01	+5.7%	+11.6%
wheat (ton)	405	4.2	at	07/03	281	at	14/01	+70.2%	+79.6%
Corn (ton)	302	3.0	at	14/04	226	at	03/01	+3.2%	+39.4%

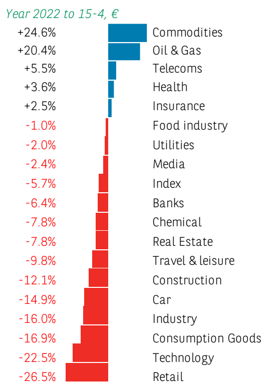
At 15-4-22 *Change*

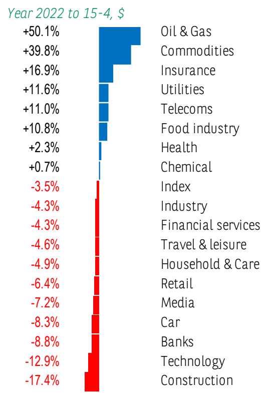
EQUITY INDICES

	Index	highest 22			lowest 22			2022
World								
MSCI World	2 960	3 248	at	04/01	2 798	at	08/03	-8.4%
North America								
S&P500	4 393	4 797	at	03/01	4 171	at	08/03	-7.8%
Europe								
EuroStoxx50	3 849	4 392	at	05/01	3 505	at	08/03	-10.5%
CAC 40	6 589	7 376	at	05/01	5 963	at	08/03	-0.8%
DAX 30	14 164	16 272	at	05/01	12 832	at	08/03	-10.8%
IBEX 35	8 699	8 886	at	10/02	7 645	at	07/03	-0.0%
FTSE100	7 616	7 672	at	10/02	6 959	at	07/03	+0.3%
Asia								
MSCI, loc.	1 104	1 165	at	05/01	1 024	at	08/03	-0.3%
Nikkei	27 093	29 332	at	05/01	24 718	at	09/03	-5.9%
Emerging								
MSCI Emerging ($)	1 113	1 267	at	12/01	1 027	at	15/03	-1.0%
China	70	86	at	20/01	59	at	15/03	-15.5%
India	833	891	at	13/01	742	at	07/03	+1.0%
Brazil	1 862	2 003	at	04/04	1 372	at	06/01	+9.9%

At 15-4-22 *Change*

PERFORMANCE BY SECTOR (Eurostoxx50 & S&P500)

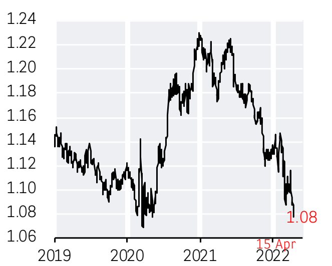




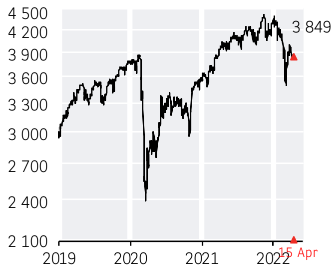
SOURCE: REFINITIV, BNP PARIBAS,

MARKETS OVERVIEW

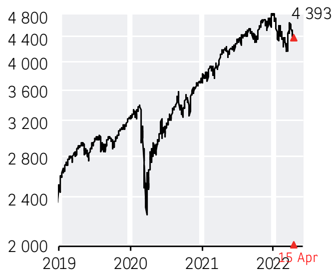
EURO-DOLLAR



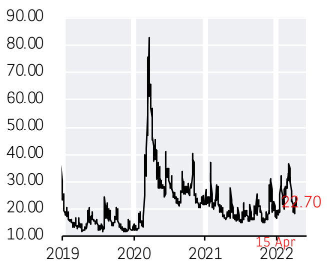
EUROSTOXX50



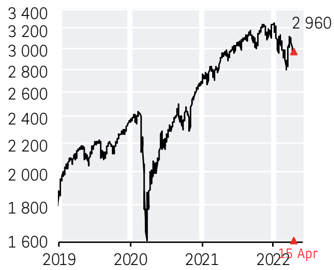
S&P500



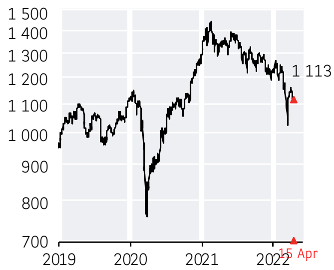
VOLATILITY (VIX, S&P500)



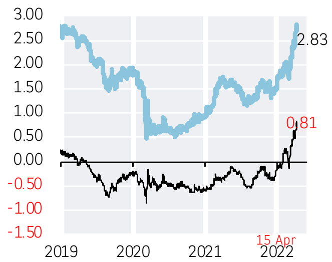
MSCI WORLD (USD)



MSCI EMERGING (USD)

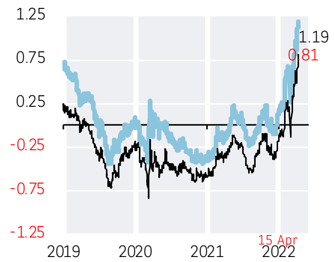


10Y BOND YIELD, TREASURIES VS BUND



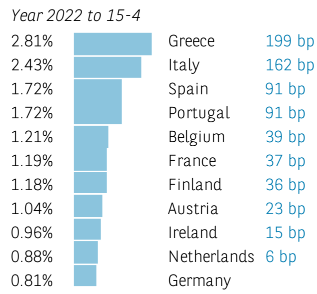
—Bunds — US Treasuries

10Y BOND YIELD

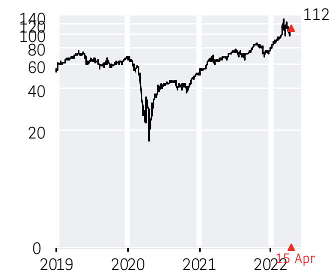


—Bunds —OAT

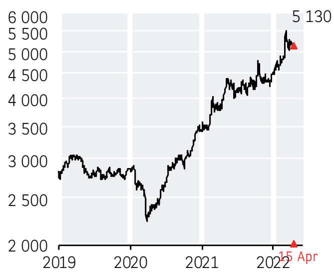
10Y BOND YIELD & SPREADS



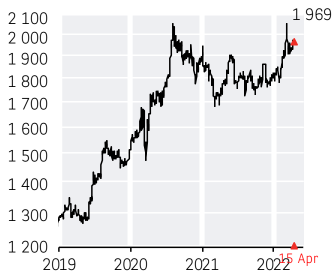
OIL (BRENT, USD)



METALS (LMEX, USD)



GOLD (OUNCE, USD)



SOURCE: REFINITIV, BNP PARIBAS

FRANCE: INFLATION WEIGHING ON HOUSEHOLD CONSUMPTION

French inflation hit 4.5% y/y in March according to the final INSEE estimate, due mainly to another jump in energy costs (up 9% in March alone, a 29.2% increase year-on-year). At the same time, this inflation appears to be starting to bite when it comes to consumer spending on goods: having fallen significantly in January (-2% m/m), this saw only a limited recovery in February (+0.8% m/m). The latest INSEE survey of household confidence was anything but reassuring about the prospects of a short-term rebound. Consumer confidence has fallen sharply, particularly because of fears of further price increases: the balance of opinion on the outlook for prices rose by 50 points, taking it to record levels.

Inflationary pressures are spreading, particularly to food prices, which rose by 2.8% y/y in March and are likely to continue to climb (we are expecting 4.1% y/y in June). Moreover, business surveys from INSEE and the European Commission also point to continued price increases in Q2, notably in the retail and industrial sectors.

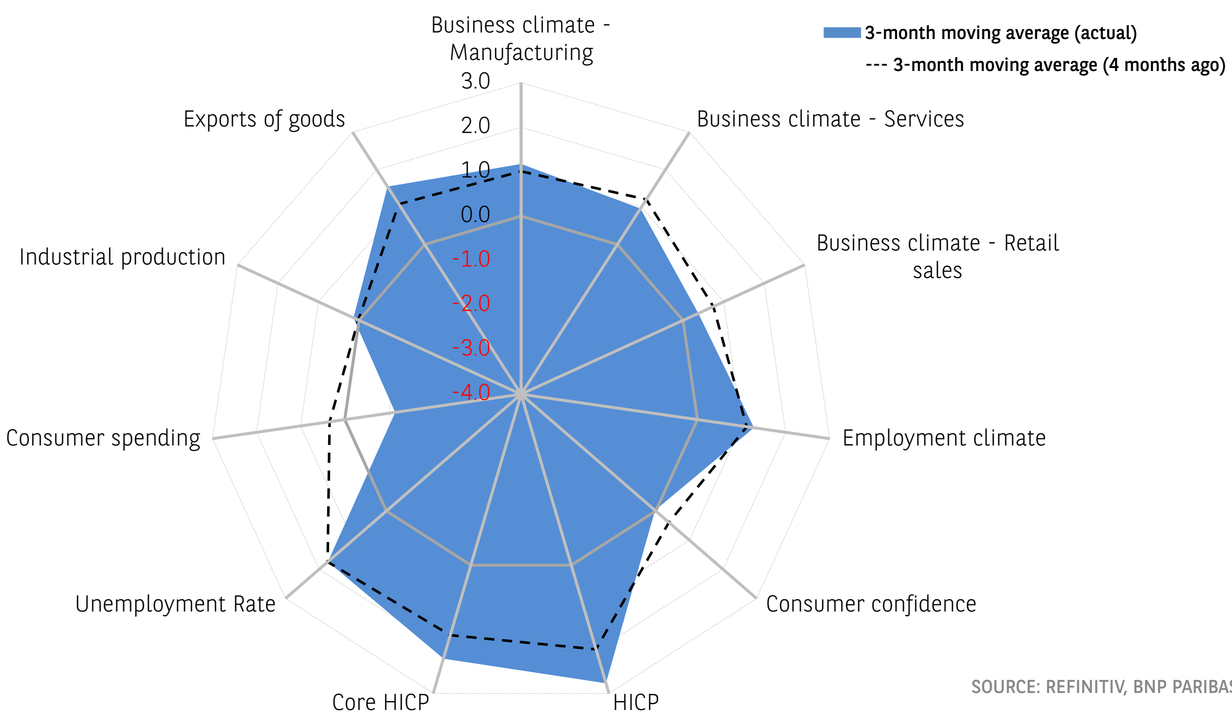
Apart from the effects on inflation, which appear pretty clear, repercussions for businesses of the war in Ukraine are less certain. Survey data show a deterioration in the industry sector in March, under the effect of a worsening of individual production expectations, but with no decline in order books. Besides, the worsening of prospects is concentrated on certain sectors, most particularly the automotive industry, highlighting the continued supply difficulties it faces.

The contribution of net exports to GDP growth is, however, likely to be positive, as the result of a drop in imports, itself reflecting the dip in household consumption and particularly spending on energy (carry-over effect of -2.4% in February). According to the Customs authorities in February the three-month average for import prices increased by 3% while nominal imports rose only 0.1%. Export prices increased by 1%, and nominal exports by 0.9%.

Overall, GDP growth is likely to have weakened significantly in the first quarter, to 0.3% q/q, from 0.7% q/q in the fourth quarter of 2021, and will slow down further in the second quarter, to 0.1% q/q according to our latest forecasts.

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 +3. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.

ITALY: THE SURGE IN INFLATION WILL CONTINUE

Inflation in Italy reached 6.7% y/y in March, the highest level since July 1991. In addition to the spectacular rise in energy prices (electricity, gas & fuel) – up 50.9% y/y – there are now significant increases in prices for food products (+5.8% y/y), furniture (+8% y/y), as well as for the hotels & restaurants sector (+4.6 % y/y). That said, two consumption items are still in deflationary territory: education (-0.5% y/y) and communication services (-2.9% y/y). Nonetheless, the hardest part has yet to come: the latest PMI survey for March showed once again a significant increase in input prices, which was the strongest on record (+6.7 points to 81.5). This will feed through to higher consumer prices: this PMI index is indeed very well correlated with the CPI.

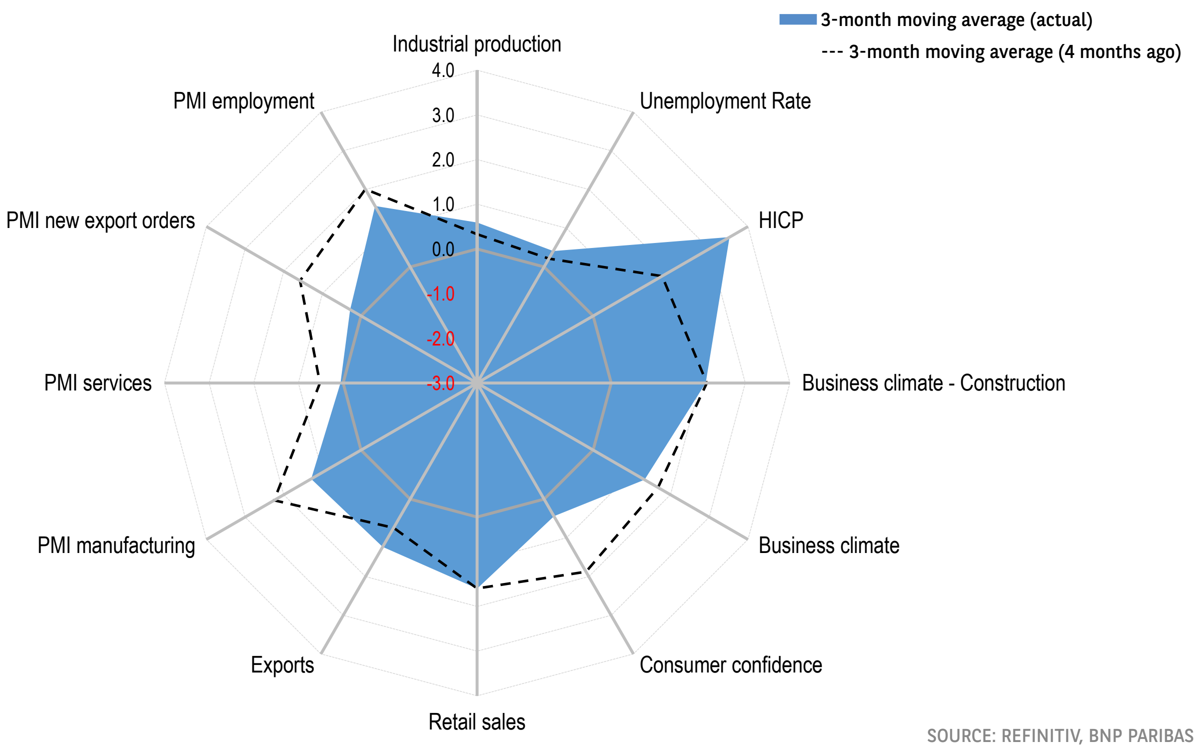
The sharp fall in household confidence in March perfectly illustrates the worries about the loss in purchasing power due to soaring inflation: in particular, the balance of opinion on the future financial situation plunged by 27.5 points in one month, a drop twice as marked as the previous record of April 2012 (-12.9 points). Despite this, household confidence remained slightly higher than in the spring of 2012, a period of recession corresponding to the sovereign debt crisis in the euro zone.

Given its dependence on Russian gas, Italy is very exposed to further retaliatory measures that Moscow may decide to impose on its gas deliveries to Europe. Prime Minister Mario Draghi is pushing to secure new sources of supply, notably from African countries. However, the benefit of this diversification will materialise only in the medium to long term.

That said, some parts of the transalpine economy are holding up well. Activity in the construction sector, which accounts for 5% of total value added, remains strong, although there are signs that it is starting to weaken. The business climate index for the sector fell sharply in March (-5.4 points, to 62.9) but February was a record. These rather encouraging figures follow a solid year in 2021: a 26% increase in residential investment was recorded in the country, which largely offset the contraction of 2020 (-7.7%).

Guillaume Derrien

ITALY: QUARTERLY CHANGES



SOURCE: REFINITIV, BNP PARIBAS

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UNITED KINGDOM: THE BANK OF ENGLAND FACES RISING INFLATION

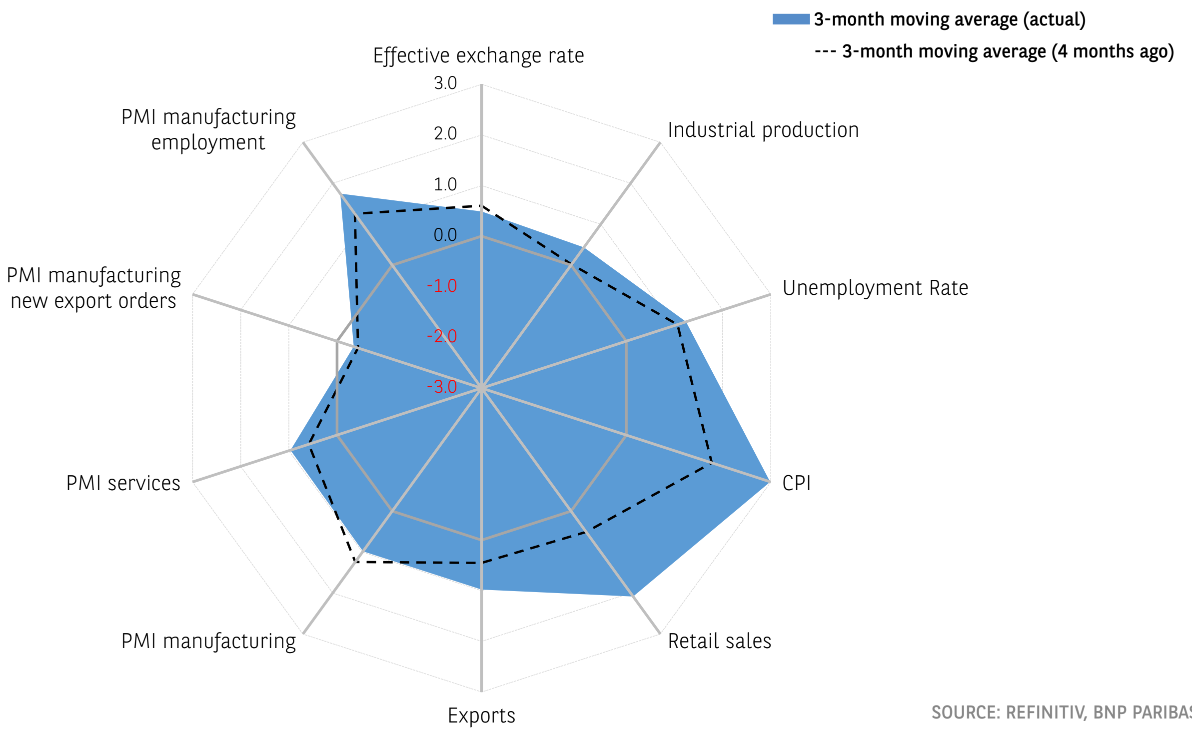
Economic growth strengthened over the first two months of 2022, but is likely to slow in the near future due to inflationary pressures. Industrial production rose 3.6% year-on-year (y/y) in February, suggesting that economic activity picked up in Q1 2022 (provided that this rise continued into March) relative to Q4 2021. In services, the business climate has improved continuously since Q3 2021, taking the PMI to 62.6 in February 2022. Meanwhile, retail sales rose 15% y/y in February, confirming the recovery that began in late 2021. However, the scale of this improvement is due largely to a comparison effect. The introduction of a third lockdown in Q1 2021 resulted in a substantial contraction in retail sales. Similarly, although exports remained solid (up 9.8% y/y in February), their growth has been automatically enhanced by a similar comparison effect. By contrast, consumer confidence has deteriorated more markedly, taking it to a 16-month low according to the GfK survey. Consumers are facing a loss of purchasing power due to inflation, which will be exacerbated by fiscal pressure.

The labour market remains robust, with a further small fall in the unemployment rate which dropped by 0.1 of a point on its December 2021 level, to 3.8% in January 2022. This trend reduces the inflationary shock for purchasing power and consumer spending. Price trends are also having an effect on wages, although this in turn pushes up inflation. Inflation has risen continuously since July 2021, taking it to 7% with further increases expected in the months ahead.

Against this background, the Bank of England's Monetary Policy Committee is stepping up its anti-inflationary measures, at a time when the conflict in Ukraine is increasing uncertainties. The Bank has thus raised its policy rate from 0.1% to 0.25% (December 2022), then to 0.5% (February 2022) and most recently to 0.75% (March 2022). It suggests that continued inflationary pressure over the short to medium term will justify continued "modest" tightening of monetary policy.

Félix Berte

UNITED KINGDOM: QUARTERLY CHANGES



SOURCE: REFINITIV, BNP PARIBAS

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ECONOMIC PULSE

COVID-19: NEW WEEKLY CASES FALL BELOW SYMBOLIC 10 MILLION MARK

The number of new Covid-19 cases reported worldwide fell for the third consecutive week. For the first time since January 2022, the number of new cases for the week has fallen below the symbolic level of 10 million on average for a moving seven-day period. Some 8 million new cases were recorded between 7 and 14 April, a fall of 21% on the previous week (Chart 1). Numbers continued to fall in Europe, Asia, South America and Africa, although North America saw an increase after three months of virtually continuous falls. Meanwhile, 65% of the world's population has now received at least one dose of a Covid-19 vaccine (Chart 2).

Over the same period, visits to retail and leisure facilities continued to rise in Japan, while there is no clear trend in the other countries (France, Spain, Belgium, Italy, Germany, USA and the UK) the indicator was stable (Chart 3, blue line).

Lastly, the trend in the weekly proxy indicator of GDP remained positive in the USA, Japan and Belgium and, to a lesser extent in Italy. In Germany, Spain, France and the United Kingdom, the slight dip compared with the previous reading was nevertheless part of a rising trend that has been visible for some months now (Chart 3, black line). The OECD Tracker is based on Google Trends resulting from queries on consumption, the labour market, housing, industrial activity as well as uncertainty. The OECD calculates the tracker over a 2-year period (y/2y) to avoid the base effect of a comparison with 2020 data.

Tarik Rharrab

** Google Mobility Reports show how visits and length of stay at different places change compared to a baseline. The baseline is the median value, for the corresponding day of the week, during the 5-week period Jan 3–Feb 6, 2020. A figure of negative 30% indicates that traffic was down 30% compared to a baseline. The reports show trends over several weeks with the most recent data representing approximately 2-3 days ago—this is how long it takes to produce the reports. In order to smooth the series, we use a seven-day moving average of the raw data in the Google Mobility Reports. Source: Google.*

DAILY CONFIRMED COVID-19 CASES
(7-DAY MOVING AVERAGE)

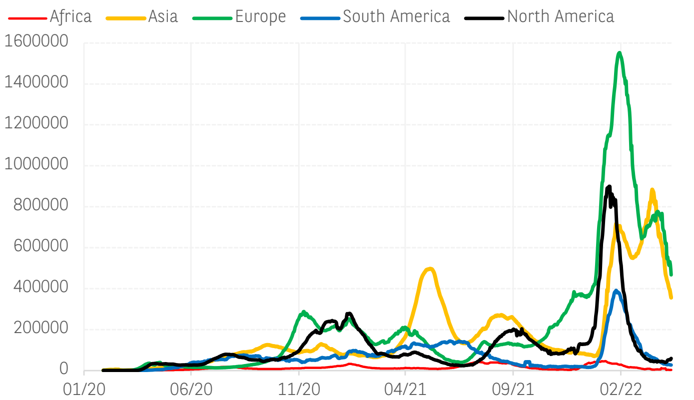


CHART 1 SOURCE: JOHNS-HOPKINS UNIVERSITY (04/14/2021), BNP PARIBAS

SHARE OF PEOPLE WHO RECEIVED AT LEAST ONE DOSE OF VACCINE

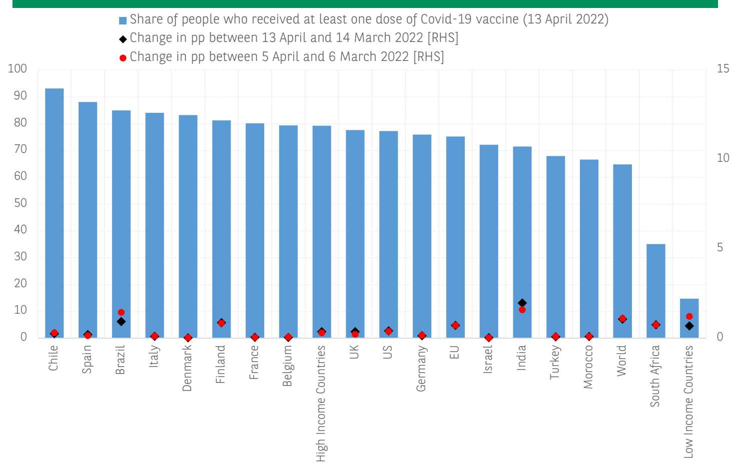
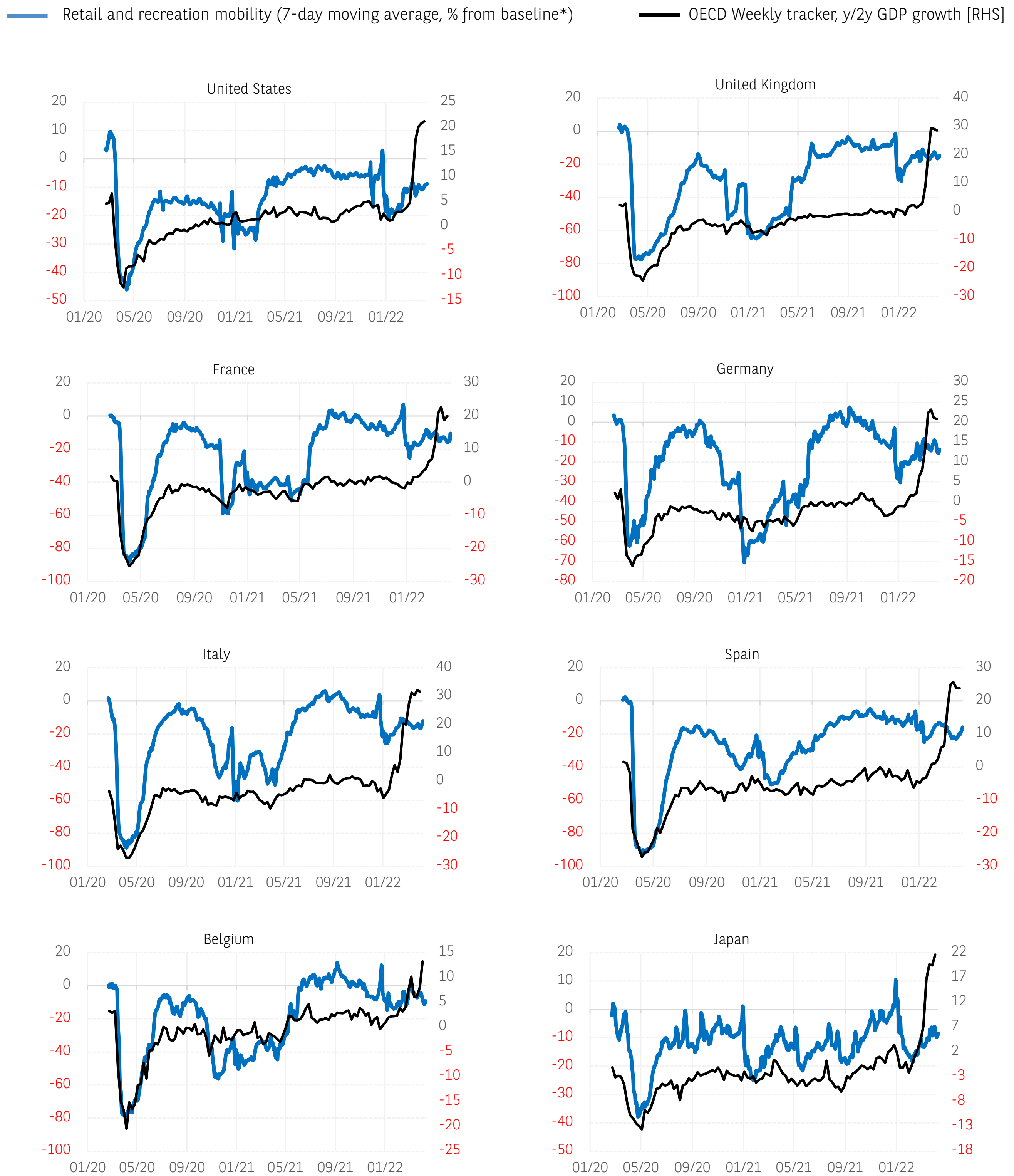


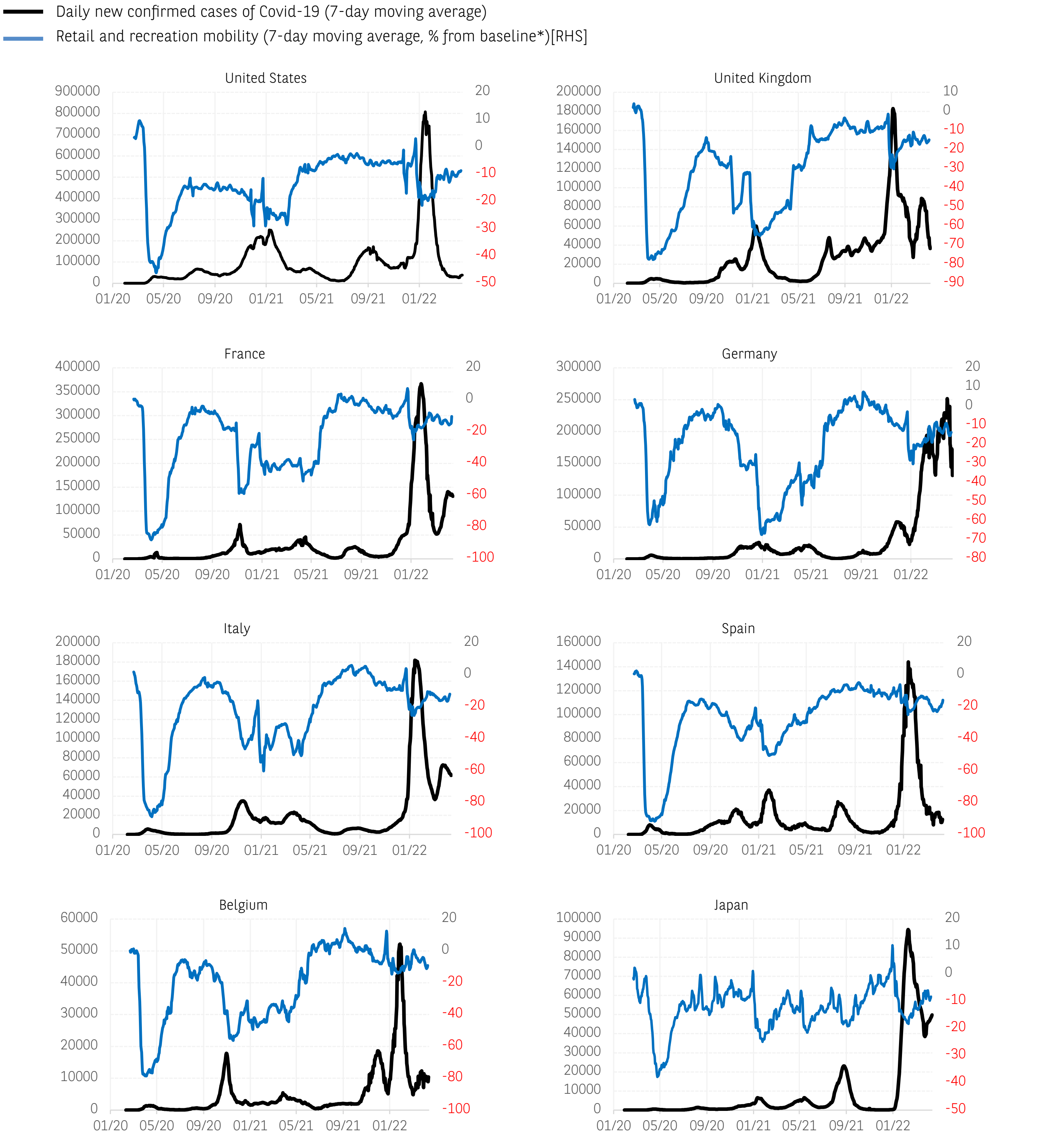
CHART 2 SOURCE: OUR WORLD IN DATA (04/14/2021), BNP PARIBAS

RETAIL AND RECREATION MOBILITY & OECD WEEKLY TRACKER



SOURCE: OECD (04/14/2022), GOOGLE (04/14/2022), BNP PARIBAS

DAILY NEW CASES & RETAIL AND RECREATION MOBILITY



SOURCE: JOHNS-HOPKINS UNIVERSITY (04/14/2022), GOOGLE (04/14/2022), BNP PARIBAS

ECONOMIC SCENARIO

UNITED STATES

The US economy has returned to its pre-pandemic trajectory, and with the unemployment rate at 4%, it is now close to potential. Inflation has risen above 7%, the highest level in forty years, and the Federal Reserve is expected to raise its key rates by at least 100 basis points in 2022. Buoyed by job creations, household consumption is however penalised by the decline in real wages. The downward revision of the government's fiscal ambitions, notably its social welfare plans, may also contribute to calm down private demand. GDP growth will slowdown at around 4%, inflation is expected to remain very high through the end of spring, before easing by the second half of 2022.

CHINA

Economic growth has slowed markedly since last summer. The crisis in the real estate and construction sectors, the authorities' zero-Covid strategy and the persisting weakness of household consumption have heavily weighed on activity. These factors are likely to persist in the short term, even though the government increases fiscal policy support and the central bank enhances monetary easing measures. At the same time, the authorities are expected to continue to act to clean up the property market and tighten the regulatory framework. The export industry, which has remained buoyant in recent months, could start to lose growth momentum in the short term.

EUROZONE

After a strong Q3, growth in Q4 2021 was, as expected, significantly weaker (+0.3% t/t according to the first Eurostat estimate). In addition to the expected normalization, headwinds have increased (supply-side problems, surging inflation and uncertainties arising from the new wave of the pandemic). However, business climate surveys continue to show some resilience. Although the downside risks have intensified, leading, mid-February, to a 0.6 ppts downward revision to our growth forecast for 2022 (to 3.6%), we continue to see the recovery as resilient. A number of tailwinds remain at work – still supportive (albeit less so) policy mix, a build-up of forced savings, scope for the service sector to catch-up, the need for companies to invest and rebuild inventories. Despite a more meaningful slowdown, growth is expected to remain well above its trend rate in 2022. Meanwhile, inflation continues to surge, postponing the expected peak. This is still mainly an energy story but more sustained and widespread factors are also gaining traction. We expect average inflation to spike at 5% in 2022 in annual average terms (after 2.6% in 2021), masking an expected decline over the course of the year.

FRANCE

What is happening at the aggregate eurozone level is representative of what is happening in France, and vice-versa. Although the figures are different, our analysis and view of the economic outlook are identical. In Germany, the headwinds are stronger, while France is less exposed. French growth surprised on the upside in Q4 2021 (0.7% q/q according to INSEE's initial estimate) and reached 7% in 2021 as a whole. In 2022, GDP growth would ease to 3,2%, against a background of higher inflation (4,7% expected in 2022 after 1.6% in 2021).

RATES AND EXCHANGE RATES

In the US, the Federal Reserve has started its tightening cycle and, based on the projections of the FOMC members, several rate hikes should follow this year and next. Over the next 15 months, we expect 275 bp of rate hikes. In addition, the reduction of the size of the balance sheet (quantitative tightening) will probably start in May. The Fed's hawkish stance is motivated by particularly elevated inflation, a strong economy and very low policy rates. These policy changes should only put limited upward pressure on long-term Treasury yields considering that the market has anticipated to a large degree the policy tightening. In addition, as the rate hike cycle continues, bond investors will start to price the prospect of slower growth and the decline of inflation.

In the euro area, the jump in uncertainty and commodity prices are weighing on the sentiment of companies and households. Despite exceptionally high inflation, the ECB insists on the need to keep its optionality, which reflects a preference to have better visibility about the inflation outlook before deciding to change policy. We expect a first hike of the deposit rate in December. Further rate hikes should follow in 2023 bringing the deposit rate to 0.50%. This should push bond yields higher but also lead to a widening of certain sovereign spreads.

The Bank of Japan is expected to maintain its current policy stance in the near term but raise its short-term policy rate from -0.10% to the 0-0.10% range in the latter part of 2023, whilst allowing the 10-year JGB yield to drift higher. These decisions would be based on an increased emphasis on the side effects of the negative interest rate policy and concern about the risk of further yen weakening and its impact on households via higher import prices.

We expect the dollar to weaken versus the euro, considering that both the Federal Reserve and the ECB will tighten policy, that the long-term interest rate differential should narrow and that the euro is undervalued versus the dollar. The increased policy divergence between the Fed and the Bank of Japan should cause an appreciation of the dollar versus the yen but in the latter part of 2023, we expect the yen to appreciate following the change in monetary policy of the Bank of Japan.

GDP GROWTH

	GDP Growth			Inflation		
%	2021	2022 e	2023 e	2021	2022 e	2023 e
United-States	5.7	3.7	2.5	4.7	6.7	2.7
Japan	1.7	1.6	2.0	-0.2	1.5	1.1
United-Kingdom	7.5	3.6	1.7	2.5	7.0	3.2
Euro Area	5.3	2.8	2.7	2.6	6.8	3.4
Germany	2.9	2.1	3.4	3.2	6.6	3.6
France	7.0	3.2	2.5	2.1	5.3	2.5
Italy	6.6	2.8	2.2	2.0	6.4	2.6
Spain	5.0	4.8	2.7	3.0	8.1	3.5
China	7.7	4.8	5.1	0.9	2.4	2.7
India*	8.1	9.5	7.3	5.1	6.3	5.2
Brazil	5.0	-0.5	0.0	8.3	9.0	5.7
Russia	4.5	-8.5	3.1	7.0	18.2	5.0

SOURCE: BNP PARIBAS GROUP ECONOMIC RESEARCH (E: ESTIMATES & FORECASTS)
*FISCAL YEAR FROM 1ST APRIL OF YEAR N TO MARCH 31ST OF YEAR N+1
** LAST UPDATE 04/08/2022

INTEREST & EXCHANGE RATES

Interest rates, % End of period		Q1 2022	Q2 2022 e	Q3 2022 e	Q4 2022 e	Q4 2023 e
US	Fed Funds (upper limit)	0.50	1.00	1.50	1.75	2.50
	T-Note 10y	2.33	2.50	2.60	2.70	2.60
Ezone	Deposit rate	-0.50	-0.50	-0.50	-0.25	0.50
	Bund 10y	0.51	0.75	0.90	1.00	1.20
	OAT 10y	0.84	1.20	1.40	1.50	1.70
	BTP 10y	1.97	2.45	2.75	3.00	3.20
	BONO 10y	1.37	1.75	2.00	2.15	2.35
UK	Base rate	0.75	1.00	1.25	1.25	1.75
	Gilts 10y	1.59	1.75	1.90	2.00	2.00
Japan	BoJ Rate	-0.02	-0.10	-0.10	-0.10	0.10
	JGB 10y	0.21	0.25	0.25	0.25	0.45

Exchange Rates End of period		Q1 2022	Q2 2022 e	Q3 2022 e	Q4 2022 e	Q4 2023 e
USD	EUR / USD	1.11	1.11	1.13	1.14	1.20
	USD / JPY	121	125	124	123	115
	GBP / USD	1.32	1.29	1.31	1.33	1.40
EUR	EUR / GBP	0.85	0.86	0.86	0.86	0.86
	EUR / JPY	135	139	140	140	138

Brent End of period		Q1 2022	Q2 2022 e	Q3 2022 e	Q4 2022 e	Q4 2023 e
Brent*	USD/bbl	107	135	135	125	104

FORECASTS PRODUCED ON 31 MARCH 2022. SOURCE: BNP PARIBAS (E: ESTIMATES & FORECASTS)
(MARKET ECONOMICS, INTEREST RATE STRATEGY, FX STRATEG, COMMODITIES DESK STRATEGY)

CALENDAR

LATEST INDICATORS

In China, producer price inflation slowed slightly in March but consumer price inflation picked up but is still low. Imports dropped but there was a strong acceleration of growth in exports. In the Eurozone, the ZEW survey showed a further decline in expectations. Banque de France industrial sentiment declined in March and inflation came in at 1.6% in March versus the previous month and 5.1% on an annual basis. In Germany, annual inflation is at 7.6%. The ZEW survey weakened, both in terms of the assessment of the current situation and the outlook. In the UK, monthly GDP in February slowed down significantly and slightly more than expected. Job creation data dropped and disappointed. Inflation increased further to 6.2%, which is above expectations. In the US, the monthly change of core inflation slowed to 0.3% in March (0.5% the previous month) but producer price inflation moved higher, more than anticipated. Retail sales growth picked up in March but the numbers were slightly below the consensus. University of Michigan expectations improved strongly, whereas the consensus had expected some weakening.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	ACTUAL	PREVIOUS
04/11/2022	China	PPI YoY	Mar	8.1%	8.3%	8.8%
04/11/2022	China	CPI YoY	Mar	1.4%	1.5%	0.9%
04/11/2022	United Kingdom	Monthly GDP (3M/3M)	Feb	0.9%	1.0%	1.3%
04/11/2022	United Kingdom	Monthly GDP (MoM)	Feb	0.2%	0.1%	0.8%
04/11/22-04/16/22	Germany	Wholesale Price Index MoM	Mar	--	6.9%	1.7%
04/11/22-04/16/22	Germany	Wholesale Price Index YoY	Mar	--	22.6%	16.6%
04/12/2022	United Kingdom	Payrolled Employees Monthly Change	Mar	125k	35k	174k
04/12/2022	United Kingdom	Average Weekly Earnings 3M/YoY	Feb	5.4%	5.4%	4.8%
04/12/2022	Germany	CPI EU Harmonized MoM	Mar	2.5%	2.5%	2.5%
04/12/2022	United Kingdom	ILO Unemployment Rate 3Mths	Feb	3.8%	3.8%	3.9%
04/12/2022	Germany	CPI EU Harmonized YoY	Mar	7.6%	7.6%	7.6%
04/12/2022	United Kingdom	Employment Change 3M/3M	Feb	52k	10k	-12k
04/12/2022	France	Trade Balance	Feb	--	-10273m	-7955m
04/12/2022	Germany	ZEW Survey Expectations	Apr	-48.5	-41.0	-39.3
04/12/2022	Germany	ZEW Survey Current Situation	Apr	-35.0	-30.8	-21.4
04/12/2022	Eurozone	ZEW Survey Expectations	Apr	--	-43.0	-38.7
04/12/2022	United States	NFIB Small Business Optimism	Mar	95.0	93.2	95.7
04/12/2022	United States	CPI MoM	Mar	1.2%	1.2%	0.8%
04/12/2022	United States	CPI Ex Food and Energy MoM	Mar	0.5%	0.3%	0.5%
04/12/2022	United States	CPI YoY	Mar	8.4%	8.5%	7.9%
04/12/2022	United States	CPI Ex Food and Energy YoY	Mar	6.6%	6.5%	6.4%
04/12/2022	France	Bank of France Ind. Sentiment	Mar	104.0	103.0	107.0

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	ACTUAL	PREVIOUS
04/13/2022	Japan	Core Machine Orders YoY	Feb	14.3%	4.3%	5.1%
04/13/2022	United Kingdom	CPIH YoY	Mar	5.9%	6.2%	5.5%
04/13/2022	United Kingdom	CPI Core YoY	Mar	5.3%	5.7%	5.2%
04/13/2022	United Kingdom	PPI Output NSA YoY	Mar	11.1%	11.9%	10.2%
04/13/2022	United Kingdom	PPI Input NSA YoY	Mar	15.1%	19.2%	15.1%
04/13/2022	United States	PPI Final Demand MoM	Mar	1.1%	1.4%	0.9%
04/13/2022	United States	PPI Final Demand YoY	Mar	10.6%	11.2%	10.3%
04/13/2022	United States	PPI Ex Food and Energy YoY	Mar	8.4%	9.2%	8.7%
04/13/2022	China	Exports YoY CNY	Mar	12.4%	12.9%	4.1%
04/13/2022	China	Imports YoY CNY	Mar	6.3%	-1.7%	8.3%
04/14/2022	Eurozone	ECB Deposit Facility Rate	Apr	-0.5%	-0.5%	-0.5%
04/14/2022	United States	Retail Sales Advance MoM	Mar	0.6%	0.5%	0.8%
04/14/2022	United States	Retail Sales Control Group	Mar	0.1%	-0.1%	-0.9%
04/14/2022	United States	Initial Jobless Claims	Apr	170k	185k	167k
04/14/2022	United States	U. of Mich. Sentiment	Apr	59.0	65.7	59.4
04/14/2022	United States	U. of Mich. Current Conditions	Apr	67.0	68.1	67.2
04/14/2022	United States	U. of Mich. Expectations	Apr	53.6	64.1	54.3
04/14/2022	United States	U. of Mich. 1 Yr Inflation	Apr	5.6%	5.4%	5.4%
04/14/2022	United States	U. of Mich. 5-10 Yr Inflation	Apr	--	3.0%	3.0%
04/15/2022	France	CPI EU Harmonized MoM	Mar	1.6%	1.6%	1.6%
04/15/2022	France	CPI EU Harmonized YoY	Mar	5.1%	5.1%	4.2%
04/15/2022	Eurozone	ECB Survey of Professional Forecasters				
04/15/2022	United States	Capacity Utilization	Mar	77.8%	78.3%	77.7%

SOURCE: BLOOMBERG

CALENDAR: THE WEEK AHEAD

COMING INDICATORS

The highlights of the week will be China's GDP data for the first quarter and the flash PMIs in Japan, Germany, France, the eurozone, the UK and the US. We will also have French business confidence, consumer confidence for the eurozone and the UK as well as eurozone car registrations. The Federal Reserve will publish its beige book.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	PREVIOUS
04/18/2022	China	Industrial Production YoY	Mar	4.50%	4.30%
04/18/2022	China	GDP YTD YoY	1Q	--	8.10%
04/18/2022	China	GDP SA QoQ	1Q	--	1.60%
04/18/2022	China	GDP YoY	1Q	4.20%	4.00%
04/18/2022	China	Retail Sales YoY	Mar	-2.90%	1.70%
04/18/2022	China	Industrial Production YTD YoY	Mar	--	7.50%
04/18/2022	China	Fixed Assets Ex Rural YTD YoY	Mar	8.50%	12.20%
04/18/2022	China	Retail Sales YTD YoY	Mar	--	6.70%
04/18/2022	China	Surveyed Jobless Rate	Mar	--	5.50%
04/18/2022	China	Property Investment YTD YoY	Mar	--	3.70%
04/18/2022	China	Residential Property Sales YTD YoY	Mar	--	-22.10%
04/18/2022	United States	NAHB Housing Market Index	Apr	--	79
04/18-24/22	United Kingdom	CBI Trends Total Orders	Apr	--	26
04/18-24/22	United Kingdom	CBI Trends Selling Prices	Apr	--	80
04/18-24/22	United Kingdom	CBI Business Optimism	Apr	--	-9
04/19/2022	United States	Building Permits MoM	Mar	--	-1.90%
04/19/22 14:30	United States	Housing Starts MoM	Mar	--	6.80%
04/20/2022	Germany	PPI YoY	Mar	--	25.90%
04/20/2022	Germany	PPI MoM	Mar	--	1.40%
04/20/2022	Eurozone	EU27 New Car Registrations	Mar	--	-6.70%
04/20/2022	United States	U.S. Federal Reserve Releases Beige Book			
04/21/2022	France	Business Confidence	Apr	--	107
04/21/2022	Eurozone	CPI YoY	Mar	--	5.90%
04/21/2022	Eurozone	CPI MoM	Mar	--	2.50%

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	PREVIOUS
04/21/2022	Eurozone	CPI Core YoY	Mar	--	3.00%
04/21/2022	United States	Philadelphia Fed Business Outlook	Apr	--	27.4
04/21/2022	United States	Initial Jobless Claims	Apr	--	--
04/21/2022	United States	Leading Index	Mar	--	0.30%
04/21/2022	Eurozone	Consumer Confidence	Apr	--	-18.7
04/22/2022	United Kingdom	GfK Consumer Confidence	Apr	--	-31
04/22/2022	Japan	Jibun Bank Japan PMI Services	Apr	--	49.4
04/22/2022	Japan	Jibun Bank Japan PMI Composite	Apr	--	50.3
04/22/2022	Japan	Jibun Bank Japan PMI Mfg	Apr	--	54.1
04/22/2022	United Kingdom	Retail Sales Ex Auto Fuel MoM	Apr	--	-0.70%
04/22/2022	France	S&P Global France Services PMI	Apr	--	57.4
04/22/2022	France	S&P Global France Manufacturing PMI	Apr	--	54.7
04/22/2022	France	S&P Global France Composite PMI	Apr	--	56.3
04/22/2022	Germany	S&P Global/BME Germany Manufacturing PMI	Apr	--	56.9
04/22/2022	Germany	S&P Global Germany Services PMI	Apr	--	56.1
04/22/2022	Germany	S&P Global Germany Composite PMI	Apr	--	55.1
04/22/2022	Eurozone	S&P Global Eurozone Manufacturing PMI	Apr	--	56.5
04/22/2022	Eurozone	S&P Global Eurozone Services PMI	Apr	--	55.6
04/22/2022	Eurozone	S&P Global Eurozone Composite PMI	Apr	--	54.9
04/22/2022	United Kingdom	S&P Global/CIPS UK Manufacturing PMI	Apr	--	55.2
04/22/2022	United Kingdom	S&P Global/CIPS UK Services PMI	Apr	--	62.6
04/22/2022	United Kingdom	S&P Global/CIPS UK Composite PMI	Apr	--	60.9
04/22/2022	United States	S&P Global US Manufacturing PMI	Apr	--	58.8
04/22/2022	United States	S&P Global US Services PMI	Apr	--	58
04/22/2022	United States	S&P Global US Composite PMI	Apr	--	57.7

SOURCE: BLOOMBERG

FURTHER READING

OECD countries economic outlook - 2nd Quarter	EcoPerspectives	15 April 2022
Decoupling, deglobalisation and the inflation outlook	EcoTVWeek	15 April 2022
Morocco : The central bank holds the course despite inflationary pressures	Chart of the Week	13 April 2022
Eurozone : What drives companies' elevated selling price expectations?	EcoWeek	11 April 2022
India's economy faces new headwinds	EcoTVWeek	8 April 2022
Spain: A dynamic housing market	Chart of the Week	6 April 2022
European Union : A heatmap of the dependence of European countries on Russian and Ukrainian imports	EcoFlash	4 April 2022
Eurozone : Household spending under pressure from inflation	EcoWeek	4 April 2022
The brazilian real: some wind in its sails	EcoTVWeek	1 April 2022
Spain: Deterioration in balance sheet quality at specialised credit institutions	Chart of The Week	30 March 2022
French labour market: keeping the momentum	EcoFlash	29 March 2022
Global: Cyclical outlook dominated by a shock to expectations	EcoWeek	29 March 2022
About the tightening of the US monetary policy	EcoFlash	25 March 2022
The euro area banking system is strong and little exposed to Russia and Ukraine	EcoTVWeek	25 March 2022
South Africa: A fragile economic recovery	Chart of the Week	23 March 2022
US: Federal Reserve: when will it stop hiking?	EcoWeek	21 March 2022
Egypt: Increasing risk on foreign currency liquidity	EcoTVWeek	18 March 2022
Colombia: Public Finances – any cause for concern?	Conjoncture	17 March 2022
France: improvement in services surplus offsets deterioration in goods deficit	Chart of the Week	16 March 2022
Eurozone : ECB: enhanced policy optionality	EcoWeek	14 March 2022
Eurozone : Eurozone: dynamism and tensions of the labour market	EcoFlash	11 March 2022

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GROUP ECONOMIC RESEARCH

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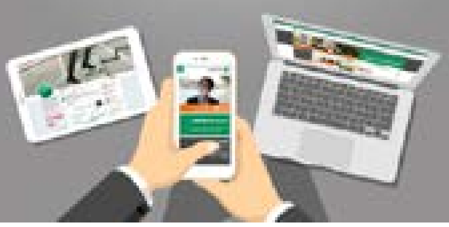

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