ECOWEEK

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IMF: idiosyncratic recoveries to drive modest growth pick-up

■According to the IMF's chief economist, the growth outlook is precarious ■Although the Fund expects somewhat of a pick-up of growth next year, this is driven by a small group of emerging and developing economies which are currently under stress or underperforming ■The modest growth acceleration reflects country-specific factors, rather than the expectation of a broad-based improvement ■In the US, the growth slowdown is expected to continue well beyond 2020 and Chinese growth is projected to decline to 5.8% next year. Against this background, the projected slight pick-up in the eurozone, driven by Germany and Italy, and which supposes that external demand regains some momentum, looks challenging.

The title of the IMF's new World Economic Outlook (WEO) sounds more like an observation than an assessment, let alone a forecast: "Global manufacturing downturn, rising trade barriers". For a clearer and punchier message, the reader should check the blogpost of the Fund's chief economist Gita Gopinath: "Synchronized slowdown, precarious outlook". The IMF now expects the world economy to grow 3.0% this year (versus 3.3% in the April WEO) and 3.4% next year (3.6% in April). This would still leave growth below the 3.6% of 2018. The forecast for 2020 warrants little excitement, even less so when considering that "about 70 percent of the projected 2020 pickup in global growth is accounted for by a small group of emerging market and developing economies in severe distress or currently underperforming relative to past averages." It concerns Argentina, Iran, Turkey, Venezuela, Brazil, Mexico and Russia. With such a diverse group of countries and, given their limited weight in the world economy, we should not count on significant spillover effects, at least not in the advanced economies[1] In addition, if distress were to last longer, this would obviously jeopardise the projected pick-up of global growth.

Although the IMF expects the US to slow down, from 2.4% this year to 2.1% next, both numbers are slightly higher than in April (respectively 0.1 and 0.2 percentage points). In China, the slowdown is expected to continue and growth is projected to drop below 6.0% next year to 5.8%. The developments in the US and China create a challenge for the eurozone. Nevertheless, the Fund expects somewhat of an acceleration next year (from 1.2% in 2019 to 1.4%), on the back of a rebound in Italy (from 0.0% to 0.5%) and, particularly, Germany (from 0.5% to 1.2%).

[1] Research from the World Bank shows that spillovers from China, Russia, India, Brazil, Turkey, Mexico, and Indonesia (these countries represent about 80 percent of total emerging market output) are sizeable for other emerging and frontier markets but they are small and not statistically significant for advanced economies. Unsurprisingly, the biggest spillovers are from China. Source: How Important are Spillovers from Major Emerging Markets?, CAMA Working Paper 37/2017, May 2017, Raju Huidrom, M. Ayhan Kose and Franziska Ohnsorge

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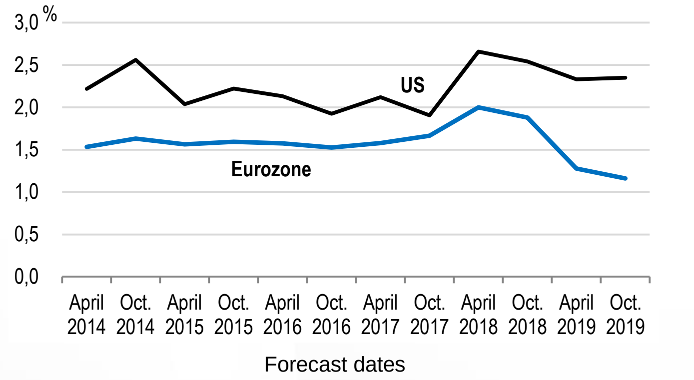
EVOLUTION OF REAL GDP GROWTH FORECAST FOR 2019



Source: IMF World Economic Outlook (various issues), BNP Paribas

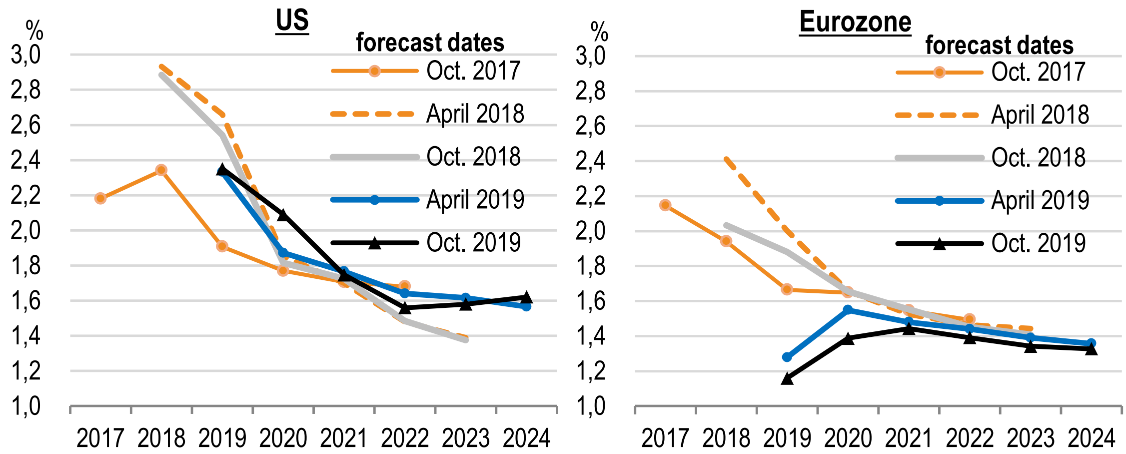
ECONOMIC RESEARCH DEPARTMENT

The rebound is based on external demand regaining some momentum, which looks a bit challenging, and the fading of temporary factors (e.g. car emission standards in Germany) which have been weighing on growth.

To conclude, the good news in the new IMF forecasts is that world growth next year should be higher. However, this performance reflects a number of idiosyncratic recoveries, rather than a broad-based improvement of economic conditions. It makes the projection less robust, hence the use of the word "precarious" in G. Gopinath's blogpost. Apart from inspiring little confidence, this word also underlines the necessity to foster a reduction of uncertainty. In the past two years, uncertainty has jumped for reasons we have become all too familiar with (Brexit, confrontation on trade). For this reason, it turned out that projections made in 2017 and early 2018 were based on too optimistic assumptions. This is particularly the case in the eurozone: chart 1 shows that the latest estimate for 2019 growth is 0.8 percentage points lower than the projections made in the April 2018 WEO. The drastic downward revision of the growth projection from 2.0% to 1.2% over the span of 18 months may be largely attributed to the growing uncertainty of households and companies. It may also have contributed to a feeling of uncertainty when they realised that earlier assumptions were way too optimistic. Another striking point in the current WEO is the longer-term projection for the US (chart 2): the growth slowdown is expected to end in 2022 but is not followed by a subsequent pick-up. Clearly, given the horizon, this is more a scenario than a forecast, but it's a scenario of, for US standards, rather soft growth.

William De Vijlder

REAL GDP GROWTH FORECAST



Source: IMF (WEO), BNP Paribas

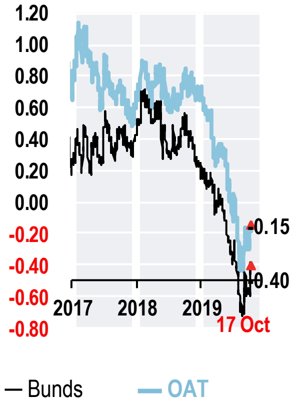
Markets overview

The essentials

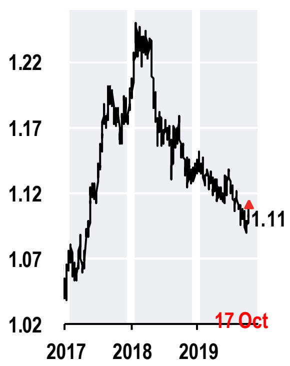
Week 11-10 19 > 17-10-19

↗ **CAC 40**	5 665	▸	**5 673**	**+0.1**	%
↗ **S&P 500**	2 970	▸	**2 998**	**+0.9**	%
↘ Volatility (VIX)	15.6	▸	13.8	-1.8	pb
↗ **Euribor 3M (%)**	-0.42	▸	**-0.41**	**+0.8**	bp
↗ Libor $ 3M (%)	2.00	▸	2.00	+0.2	bp
↗ OAT 10y (%)	-0.17	▸	-0.15	+2.3	bp
↗ Bund 10y (%)	-0.44	▸	-0.40	+3.6	bp
↗ US Tr. 10y (%)	1.75	▸	1.76	+0.2	bp
↗ **Euro vs dollar**	1.10	▸	**1.11**	**+0.7**	%
↗ Gold (ounce, $)	1 482	▸	1 491	+0.6	%
↘ **Oil (Brent, $)**	60.5	▸	**59.0**	**-2.5**	%

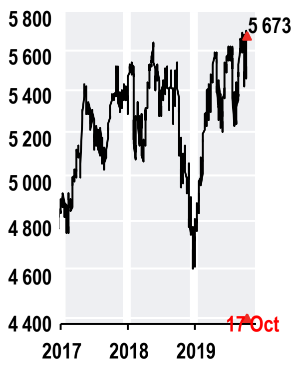
10 y **bond yield, OAT vs Bund**



Euro-dollar



CAC 40



Money & Bond Markets

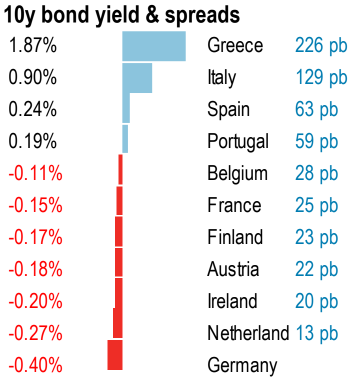
Interest Rates		highest' 19		lowest' 19	
€ ECB	**0.00**	0.00	at 01/01	0.00	at 01/01
Eonia	**-0.46**	-0.25	at 07/06	-0.47	at 03/10
Euribor 3M	**-0.41**	-0.31	at 24/01	-0.45	at 03/09
Euribor 12M	**-0.29**	-0.11	at 06/02	-0.40	at 21/08
$ FED	**2.00**	2.50	at 01/01	2.00	at 19/09
Libor 3M	**2.00**	2.81	at 01/01	1.98	at 09/10
Libor 12M	**1.99**	3.04	at 21/01	1.85	at 04/10
£ BoE	**0.75**	0.75	at 01/01	0.75	at 01/01
Libor 3M	**0.78**	0.93	at 29/01	0.75	at 29/08
Libor 12M	**0.96**	1.19	at 11/01	0.81	at 03/09

At 17-10-19

Yield (%)		highest' 19		lowest' 19	
€ AVG 5-7y	**-0.11**	0.68	at 09/01	-0.36	at 03/09
Bund 2y	**-0.67**	-0.53	at 05/03	-0.92	at 02/09
Bund 10y	**-0.40**	0.25	at 01/01	-0.72	at 28/08
OAT 10y	**-0.15**	0.73	at 08/01	-0.44	at 28/08
Corp. BBB	**0.89**	2.15	at 08/01	0.64	at 30/08
$ Treas. 2y	**1.60**	2.62	at 18/01	1.39	at 03/10
Treas. 10y	**1.76**	2.78	at 18/01	1.46	at 04/09
Corp. BBB	**3.30**	4.65	at 01/01	3.15	at 04/09
£ Treas. 2y	**0.50**	0.83	at 27/02	0.31	at 08/10
Treas. 10y	**0.69**	1.35	at 18/01	0.33	at 03/09

At 17-10-19

10y bond yield & spreads

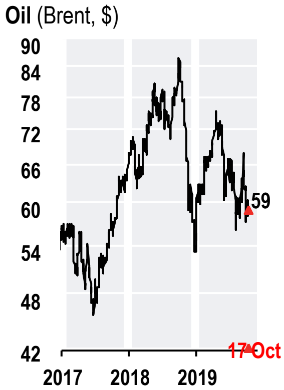


Commodities

Spot price in dollars		lowest' 19			2019(€)
Oil, Brent	**59.0**	53.1	at	01/01	**+14.2%**
Gold (ounce)	**1 491**	1 268	at	02/05	**+19.7%**
Metals, LMEX	**2 790**	2 718	at	07/08	**+2.4%**
Copper (ton)	**5 713**	5 585	at	03/09	**-1.3%**
CRB Foods	**337**	312	at	11/09	**+6.8%**
wheat (ton)	**188**	166	at	30/08	**-2.0%**
Corn (ton)	**151**	128	at	24/04	**+13.8%**

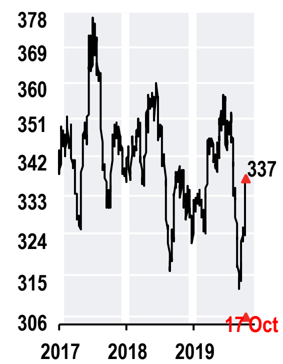
At 17-10-19 *Variations*

Oil (Brent, $)



Gold (Ounce, $)

CRB Foods



Exchange Rates

1€ =		highest' 19			lowest' 19			2019
USD	**1.11**	1.15	at	10/01	1.09	at	30/09	**-2.8%**
GBP	**0.87**	0.93	at	12/08	0.85	at	14/03	-3.5%
CHF	**1.10**	1.14	at	23/04	1.08	at	04/09	-2.6%
JPY	**120.78**	127.43	at	01/03	116.08	at	03/09	-3.7%
AUD	**1.63**	1.66	at	07/08	1.57	at	18/04	+0.4%
CNY	**7.87**	7.96	at	27/08	7.51	at	25/04	+0.3%
BRL	**4.60**	4.63	at	27/08	4.18	at	31/01	+3.8%
RUB	**71.09**	79.30	at	01/01	70.22	at	24/09	-10.4%
INR	**79.12**	82.00	at	04/02	76.37	at	01/08	-0.9%

At 17-10-19 *Variations*

Equity indices

	Index	highest' 19			lowest' 19			2019	2019(€)
CAC 40	**5 673**	5 702	at	15/10	4 611	at	03/01	+19.9%	**+19.9%**
S&P500	**2 998**	3 026	at	26/07	2 448	at	03/01	+19.6%	**+23.0%**
DAX	**12 655**	12 670	at	16/10	10 417	at	03/01	+19.9%	**+19.9%**
Nikkei	**22 452**	22 473	at	16/10	19 562	at	04/01	+12.2%	**+16.5%**
China*	**77**	86	at	09/04	68	at	03/01	+10.0%	**+12.9%**
India*	**568**	612	at	03/06	526	at	22/08	+3.9%	**+4.8%**
Brazil*	**2 123**	2 354	at	10/07	1 862	at	17/05	+16.5%	**+12.3%**
Russia*	**721**	747	at	04/07	572	at	01/01	+17.6%	**+29.7%**

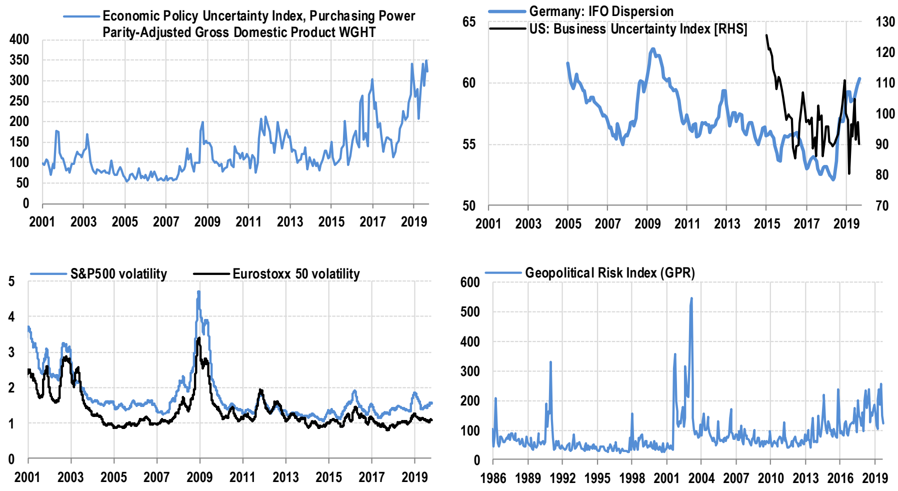
At 17-10-19 *Variations*

* MSCI index

Pulse

Uncertainty: at a peak?

We monitor uncertainty by means of different metrics. Starting top left and moving clockwise, the economic policy uncertainty index, which is based on media coverage, is at a historical high, on the back of US-China trade tensions and fears about a disorderly Brexit. The recent trade deal between the US and China, although of a very limited scope, and the agreement between the UK government and the European Union on Brexit, have fuelled hope that uncertainty will abate in the near term. This obviously remains to be seen. Uncertainty of companies in Germany is still increasing whereas it has eased a bit in the US. The geopolitical risk index, again based on media coverage, is on a rising longer-term trend. Moreover, it has rebounded as of late. Uncertainty based on individual share price performance remains low although in the US the trend is up. This could reflect growing unease about the outlook despite an accommodative monetary environment.



volatility = 60-day moving average of the cross-sectional standard deviation of daily returns of the index constituents

Source: Economic Policy Uncertainty, Bloomberg, IFO, Atlanta Fed, BC, BNP Paribas

Indicators preview

As usual around this time of the month, we have a heavy schedule of important releases: flash PMIs in various countries, business climate in Germany (IFO) and France, eurozone consumer confidence, University of Michigan household sentiment. In France we also have labour market data and in the US, several statistics with respect to housing. The ECB survey of professional forecasters will be interesting to check how growth and, in particular, inflation expectations have evolved. Finally, the highlight of the week will be the press conference after the ECB meeting, now that everybody has had enough time to digest the decisions of the previous meeting.

Date	Country/Region	Event	Period	Survey	Prior
10/22/2019	United Kingdom	CBI Trends Total Orders	Oct	--	-28
10/22/2019	United States	Richmond Fed Manufact. Index	Oct	--	-9
10/22/2019	United States	Existing Home Sales MoM	Sep	-0.7%	1.3%
10/23/2019	France	Business Confidence	Oct	--	106
10/23/2019	United States	MBA Mortgage Applications	Oct	--	0.5%
10/23/2019	Eurozone	Consumer Confidence	Oct	--	-6.5
10/24/2019	Japan	Jibun Bank Japan PMI Composite	Oct	--	51.5
10/24/2019	France	Markit France Composite PMI	Oct	--	50.8
10/24/2019	Germany	Markit/BME Germany Composite PMI	Oct	--	48.5
10/24/2019	Eurozone	Markit Eurozone Manufacturing PMI	Oct	--	45.7
10/24/2019	Eurozone	Markit Eurozone Services PMI	Oct	--	51.6
10/24/2019	Eurozone	Markit Eurozone Composite PMI	Oct	--	50.1
10/24/2019	Eurozone	ECB Deposit Facility Rate	Oct	--	-0.500%
10/24/2019	United States	Durable Goods Orders		-0.8%	0.2%
10/24/2019	United States	Markit US Composite PMI	Oct	--	51.0
10/24/2019	United States	New Home Sales MoM	Sep	-0.4%	7.1%
10/24/2019	United States	Kansas City Fed Manf. Activity	Oct	--	-2
10/25/2019	Japan	Machine Tool Orders YoY	Sep	--	-35.5%
10/25/2019	Germany	GfK Consumer Confidence	Nov	--	9.9
10/25/2019	Germany	IFO Business Climate	Oct	--	94.6
10/25/2019	Eurozone	ECB Survey of Professional Forecasters			
10/25/2019	France	Total Jobseekers	3Q	--	3.3773e+06
10/25/2019	United States	U. of Mich. Sentiment	Oct	--	96.0

Source: Bloomberg, BNP Paribas

Economic scenario

UNITED STATES

- Growth is slowing and this trend is expected to continue under the influence of corporate investment (slower profits growth, uncertainty) and housing (declining trend of affordability). Consumer spending should be more resilient. The trade dispute with China acts as an additional drag. Inflation is expected to decline, due to softer growth and weaker oil prices.
- We expect two more Fed Funds target rate cuts of 25bp this year and two additional cuts in 2020.

CHINA

- Economic growth continues to slow and our GDP forecasts have been revised down since June. 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, though the reduction in financial-instability risks should remain a priority and banks seem to remain prudent. Fiscal policy is expansionary through increased infrastructure spending and a rising number of household/corporate tax cuts.
- In the short term, exports and private domestic investment should continue to decelerate. Tax measures should have some success in supporting consumer spending.

EUROZONE

- The economic slowdown is continuing in the eurozone, especially in Germany, due to notably international environment uncertainties and a slowdown of the Chinese economy. Activity in the manufacturing sector continues to decline but services still show resilience.
- Inflation is now expected to decrease while core CPI is hardly moving. The activity slowdown also implies that the pick-up in core inflation should be slower than expected until recently.
- Faced with an outlook of subdued inflation, the Governing Council has eased policy at its meeting on 12 September. This very accommodative environment will 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 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, we expect the Fed to cut its official rate in October and December in reaction to a slowing economy, moderate inflation and heightened uncertainty. 2020 should see two more cuts. Treasury yields are to decline further in the coming months. Eventually, in the course of 2020 they should move up again in anticipation of a pick-up in growth.
- 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. This will exert downward pressure on bond yields.
- No policy rate change expected in Japan.
- With the Fed in easing mode and given the very accommodative ECB policy, we expect little change in EUR/USD even though euro's fair value is quite higher than current pricing. The yen should strengthen on the back of stable BoJ policy and high market volatility.

	GDP Growth			Inflation		
%	2018	2019 e	2020 e	2018	2019 e	2020 e
Advanced	**2.2**	**1.6**	**1.0**	**2.1**	**1.4**	**1.3**
United-States	2.9	2.2	1.5	2.4	1.8	1.8
Japan	0.8	1.2	0.2	1.0	0.6	0.3
United-Kingdom	1.4	1.1	0.6	2.5	1.9	1.8
Euro Area	**1.9**	**1.1**	**0.7**	**1.8**	**1.1**	**0.8**
Germany	1.4	0.4	0.2	1.9	1.4	1.0
France	1.7	1.2	1.0	2.1	1.2	1.0
Italy	0.7	0.1	0.0	1.2	0.6	0.5
Spain	2.6	2.2	1.6	1.7	0.8	0.7
Emerging	**4.4**	**3.8**	**4.2**	**4.7**	**4.8**	**4.5**
China	6.6	5.9	5.6	2.1	2.4	2.8
India*	6.8	6.5	6.3	2.9	3.0	3.3
Brazil	1.1	0.5	2.0	3.7	3.7	3.5
Russia	2.3	1.2	2.0	2.9	4.8	3.8

Source : BNP Paribas Group Economic Research (e: Estimates & forecasts)
* Fiscal year from April 1st of year n to March 31st of year n+1

Interest rates, %		2019						
End of period		Q1	Q2	Q3	Q4e	2018	2019e	2020e
US	Fed Funds	2.50	2.50	2.00	1.50	2.50	1.50	1.00
	Libor 3m $	2.60	2.32	2.09	1.70	2.81	1.70	1.25
	T-Notes 10y	2.42	2.00	1.67	1.00	2.69	1.00	1.50
Ezone	deposit rate	-0.40	-0.40	-0.50	-0.60	-0.40	-0.60	-0.60
	Euribor 3m	-0.31	-0.35	-0.42	-0.60	-0.31	-0.60	-0.60
	Bund 10y	-0.07	-0.32	-0.57	-0.80	0.25	-0.80	-0.50
	OAT 10y	0.26	-0.01	-0.28	-0.55	0.71	-0.55	-0.30
UK	Base rate	0.75	0.75	0.75	0.75	0.75	0.75	0.75
	Gilts 10y	1.00	0.84	0.40	0.55	1.27	0.55	0.75
Japan	BoJ Rate	-0.06	-0.08	-0.06	-0.10	-0.07	-0.10	-0.10
	JGB 10y	-0.09	-0.16	-0.22	-0.40	0.00	-0.40	-0.25

Source : BNP Paribas GlobalMarkets (e: Forecasts)

Exchange Rates		2019						
End of period		Q1	Q2	Q3	Q4e	2018	2019e	2020e
USD	EUR / USD	1.12	1.14	1.09	1.11	1.14	1.11	1.14
	USD / JPY	111	108	108	102	110	102	96
	GBP / USD	1.30	1.27	1.23	1.23	1.27	1.23	1.36
	USD / CHF	1.00	0.98	1.00	0.99	0.99	0.99	1.00
EUR	EUR / GBP	0.85	0.89	0.89	0.90	0.90	0.90	0.84
	EUR / CHF	1.12	1.11	1.09	1.10	1.13	1.10	1.14
	EUR / JPY	124	123	118	113	125	113	109

Source : BNP Paribas GlobalMarkets (e: Forecasts)

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