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ECONOMIC RESEARCH

BNP PARIBAS

The bank for a changing world

US TREASURIES: BUYER BEWARE

The significant decline of Treasury yields from their peak at the end of March is puzzling given the growth forecasts and the recent inflation data. This suggests that investors side with the Fed in thinking that inflation will decline. It also reflects the weakening of data in recent weeks, which implies that markets focus more on the change in the growth rate than on its level. The sensitivity of bond yields to economic data moves in cycles. One should expect that, as seen in the past, a less accommodative US monetary policy would increase this sensitivity because these data will shape expectations of more tightening or not. Before reaching that stage, we should already expect an increased sensitivity in the course of 2022, because it is quite likely that inflation will remain above the FOMC's target.

Since its peak of 1.74% at the end of March, the 10-year US Treasury yield has dropped approximately 40 basis points. At first glance, such a movement is counterintuitive considering the growth outlook – the Bloomberg consensus forecast is anticipating above potential real GDP growth for the entire projection horizon, which runs until the end of 2022 – and the high inflation numbers in recent months. The latest consumer price inflation data have surprised to the upside, triggering an increase in Treasury yields. The reaction was more outspoken for short and intermediate than for longer maturities (chart 1), reflecting a market expectation that the Federal Reserve might start to normalise its policy earlier than previously expected. However, the following day, yields went into reverse in reaction to dovish comments of Jerome Powell in his semi-annual report to Congress.

It seems bond investors share his view that the increase in inflation will be transient. Market participants may find comfort in the fact that Covid-19-sensitive sectors (apparel, cars, travel, recreation services, hotels) explain the bulk of the latest monthly inflation number. When the Fed chairman commented that there will not be a major increase in inflation because the central bank will not tolerate it, the market was unfazed. It seems to think that it's very unlikely that the Fed would be required to act forcefully. Such a relaxed view of the inflation outlook could explain why yields have not moved higher this year, but to rationalise the decline in long-term rates and break-even inflation – a measure of inflation expectations that has declined about 20 basis points since its peak in spring – one needs to look elsewhere.

One possibility is that investors expect supply pressures – as captured by the assessment of input prices and delivery lags in the ISM and PMI surveys – to decline quite soon, considering the elevated levels that have been reached. Historically, there has been a close correlation between these pressures and break-even inflation. Another potential explanation is rising concern about new infections, which could become a headwind to growth. Finally, lower bond yields could reflect that the weakening of growth has already started.

Assessing the growth dynamics during a given quarter is challenging because, given the multitude of data that are published on a regular basis, it is difficult to see the forest for the trees. The Federal Reserve of New York's weekly nowcast of quarterly real GDP growth provides an attractive solution to this problem[1]. Chart 2 shows that in recent months the nowcast has been declining –pointing to slower growth- and this development has been accompanied by lower bond yields. The relationship between 10-year Treasury yields and the nowcast of GDP growth fluctuates over time. As shown in chart 3, based on a five-year rolling regression between bond yields and the nowcast, since 2007 there have been three cycles in the regression beta with peaks in 2009, 2014 and early 2020, each time followed by significant declines. This means that the extent to which a given change in the nowcast is reflected in a change in bond yields depends on the economic environment[2].

INTRADAY

CHART 1 SOURCE: BLOOMBERG (07/15/2021), BNP PARIBAS

1. A nowcast is a real-time estimate of real GDP growth based on a broad range of economic data. The inputs in the nowcast are weighted based on their timeliness and quality. For a description of the methodology, see: *Liberty Street Economics, Just Released: Introducing the New York Fed Staff Nowcast*, 12 April 2016.

2. Interestingly, the chart suggests that in recent months the beta has been very low. This result depends on the window chosen for the regression. A long window – which is the case here – implies a high degree of smoothing. This may cause an underestimation of the intensity of the correlation over shorter intervals (as illustrated in chart 2).

The stance of monetary policy is an obvious candidate as a factor conditioning the correlation between Treasury yields and the GDP growth nowcast. Focusing on the size of the Federal Reserve's balance sheet, the chart suggests that the stabilisation of its size (stopping net purchases in the context of a QE programme) has been accompanied by a closer relationship between economic data and bond yields. The same applies when, in a later stage, the balance sheet started to shrink ('quantitative tightening') as well as during the tightening cycle which started at the end of 2015 and which led to a peak in the federal funds rate in December 2018. These results are particularly relevant at the current juncture: one should expect that a less accommodative monetary policy would increase the sensitivity of bond yields to economic data because these data will shape expectations of more tightening or not. Before reaching that stage, we should already expect an increased sensitivity in the course of 2022, because it is quite likely that inflation will remain above the FOMC's target.

William De Vijlder

NOWCAST & 10-YEAR US TREASURY YIELD

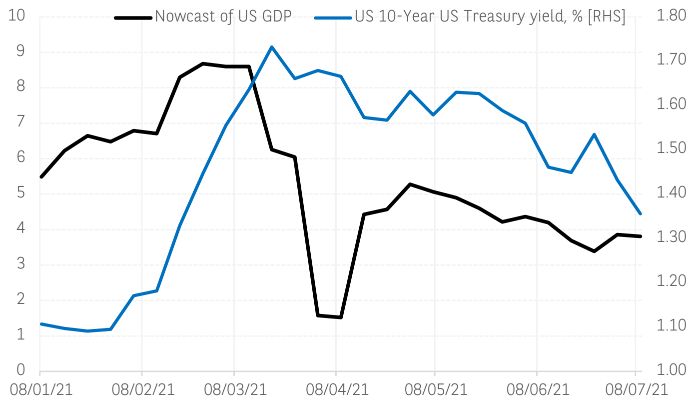
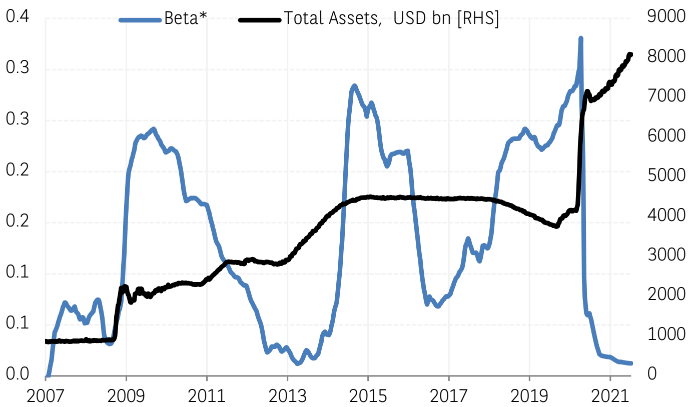
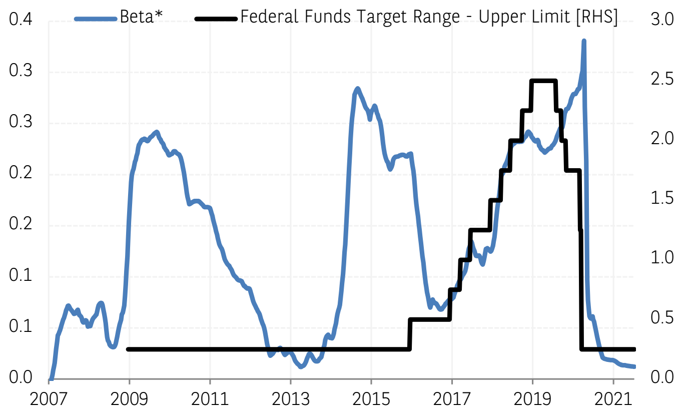


CHART 2

SOURCE: FEDERAL RESERVE OF NEW YORK, BNP PARIBAS

BETA, FED'S TOTAL ASSETS & FEDERAL FUNDS TARGET





*Beta coefficient of rolling regressions (5-year window) of US 10-Year as a function of nowcast for GDP growth

CHART 3

SOURCE: FEDERAL RESERVE BANK OF ST. LOUIS, FEDERAL RESERVE OF NEW YORK, BNP PARIBAS

One should expect that a less accommodative US monetary policy would increase the sensitivity of bond yields to economic data because these data will shape expectations of more tightening or not. Before reaching that stage, we should already expect an increased sensitivity in the course of 2022, because it is quite likely that inflation will remain above the FOMC's target.

MARKETS OVERVIEW

OVERVIEW

Week 9-7 21 to 15-7-21

↘ CAC 40	6 529	▸	6 493	-0.6 %
↘ S&P 500	4 370	▸	4 360	-0.2 %
↗ Volatility (VIX)	16.2	▸	17.0	+0.8 pb
↘ Euribor 3M (%)	-0.54	▸	-0.55	-0.5 bp
↗ Libor $ 3M (%)	0.13	▸	0.13	+0.5 bp
↘ OAT 10y (%)	-0.01	▸	-0.06	-4.6 bp
↘ Bund 10y (%)	-0.34	▸	-0.38	-3.9 bp
↘ US Tr. 10y (%)	1.36	▸	1.30	-5.9 bp
↘ Euro vs dollar	1.19	▸	1.18	-0.4 %
↗ Gold (ounce, $)	1 808	▸	1 823	+0.8 %
↘ Oil (Brent, $)	75.6	▸	73.6	-2.7 %

MONEY & BOND MARKETS

Interest Rates		highest 21			lowest 21		
€ ECB	0.00	0.00	at	01/01	0.00	at	01/01
Eonia	-0.48	-0.47	at	26/01	-0.50	at	01/01
Euribor 3M	-0.55	-0.53	at	07/05	-0.56	at	06/01
Euribor 12M	-0.49	-0.47	at	20/04	-0.52	at	02/02
$ FED	0.25	0.25	at	01/01	0.25	at	01/01
Libor 3M	0.13	0.24	at	13/01	0.12	at	14/06
Libor 12M	0.24	0.34	at	01/01	0.23	at	15/06
£ BoE	0.10	0.10	at	01/01	0.10	at	01/01
Libor 3M	0.08	0.09	at	24/03	0.03	at	01/01
Libor 12M	0.18	0.18	at	24/06	0.07	at	11/01

At 15-7-21

Yield (%)		highest 21		lowest 21	
€ AVG 5-7y	-0.29	-0.03	at 19/05	-0.46	at 04/01
Bund 2y	-0.68	-0.64	at 23/06	-0.75	at 01/01
Bund 10y	-0.38	-0.11	at 20/05	-0.60	at 04/01
OAT 10y	-0.06	0.23	at 17/05	-0.41	at 04/01
Corp. BBB	0.56	0.79	at 20/05	0.50	at 08/01
$ Treas. 2y	0.22	0.26	at 01/07	0.11	at 05/02
Treas. 10y	1.30	1.75	at 31/03	0.91	at 01/01
High Yield	4.56	4.87	at 09/03	4.52	at 29/06
£ gilt. 2y	0.15	0.15	at 15/07	-0.08	at 04/01
gilt. 10y	0.69	0.93	at 13/05	0.21	at 04/01

At 15-7-21

EXCHANGE RATES

1€ =		highest 21			lowest 21			2021
USD	1.18	1.23	at	06/01	1.17	at	30/03	-3.4%
GBP	0.85	0.91	at	06/01	0.85	at	05/04	-4.8%
CHF	1.08	1.11	at	04/03	1.08	at	18/01	+0.3%
JPY	130.04	133.97	at	28/05	125.22	at	18/01	+2.9%
AUD	1.59	1.60	at	04/01	1.53	at	18/03	+0.2%
CNY	7.64	8.00	at	01/01	7.63	at	07/07	-4.6%
BRL	6.03	6.95	at	03/03	5.88	at	24/06	-5.0%
RUB	87.69	92.47	at	20/04	86.04	at	18/06	-3.1%
INR	88.10	90.39	at	23/04	85.30	at	27/03	-1.5%

At 15-7-21 *Change*

COMMODITIES

Spot price, $		highest 21			lowest 21			2021	2021(€)
Oil, Brent	73.6	77.2	at	05/07	51.2	at	04/01	+41.8%	+46.8%
Gold (ounce)	1 823	1 947	at	05/01	1 682	at	08/03	-3.9%	-0.5%
Metals, LMEX	4 195	4 402	at	11/05	3 415	at	01/01	+22.9%	+27.2%
Copper (ton)	9 452	10 449	at	11/05	7 749	at	01/01	+22.0%	+26.3%
wheat (ton)	242	2.9	at	07/05	224	at	09/07	-2.1%	+1.4%
Corn (ton)	253	2.9	at	07/05	188	at	04/01	+3.4%	+39.0%

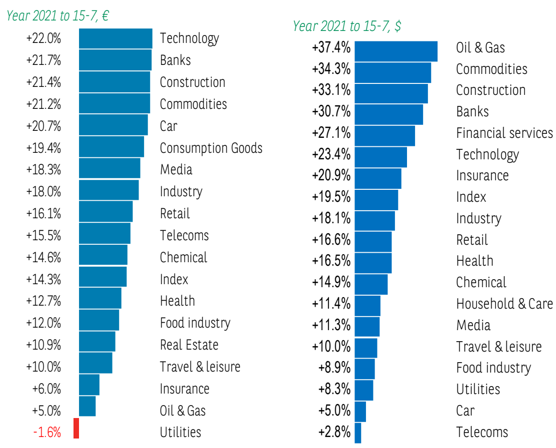
At 15-7-21 *Change*

EQUITY INDICES

	Index	highest 21			lowest 21			2021
World								
MSCI World	3 044	3 068	at	12/07	2 662	at	29/01	+13.1%
North America								
S&P500	4 360	4 385	at	12/07	3 701	at	04/01	+16.1%
Europe								
EuroStoxx50	4 056	4 158	at	17/06	3 481	at	29/01	+14.2%
CAC 40	6 493	6 666	at	17/06	5 399	at	29/01	+1.7%
DAX 30	15 630	15 791	at	12/07	13 433	at	29/01	+13.9%
IBEX 35	8 527	9 281	at	14/06	7 758	at	29/01	+0.6%
FTSE100	7 012	7 185	at	16/06	6 407	at	29/01	+0.9%
Asia								
MSCI, loc.	1 132	1 150	at	15/06	1 044	at	06/01	+0.8%
Nikkei	28 279	30 468	at	16/02	27 056	at	06/01	+3.0%
Emerging								
MSCI Emerging ($)	1 348	1 445	at	17/02	1 288	at	25/03	+0.4%
China	105	130	at	17/02	101	at	08/07	-3.2%
India	761	776	at	11/06	659	at	29/01	+15.0%
Brazil	2 002	2 098	at	24/06	1 561	at	09/03	+4.9%
Russia	765	799	at	14/06	647	at	01/02	+14.7%

At 15-7-21 *Change*

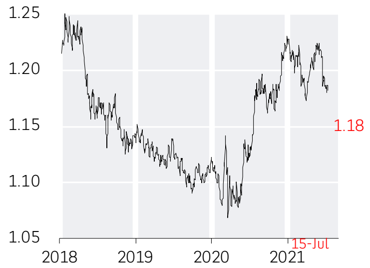
PERFORMANCE BY SECTOR (Eurostoxx50 & S&P500)



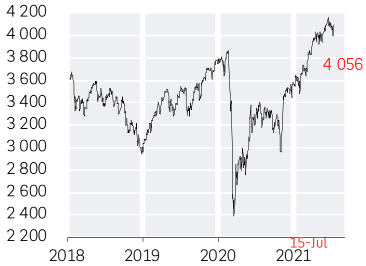
SOURCE: REFINITIV, BNP PARIBAS,

MARKETS OVERVIEW

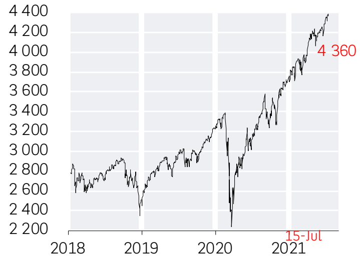
EURO-DOLLAR



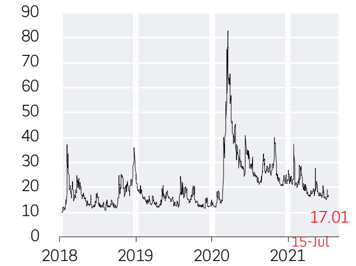
EUROSTOXX50



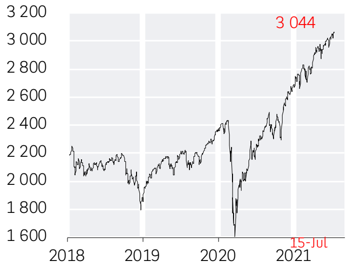
S&P500



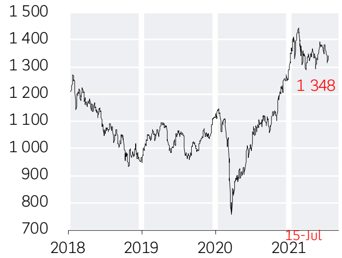
VOLATILITY (VIX, S&P500)



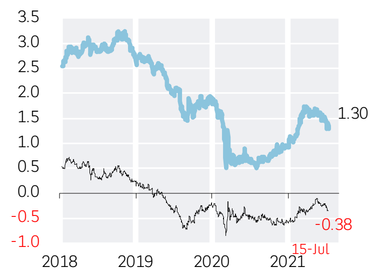
MSCI WORLD (USD)



MSCI EMERGING (USD)

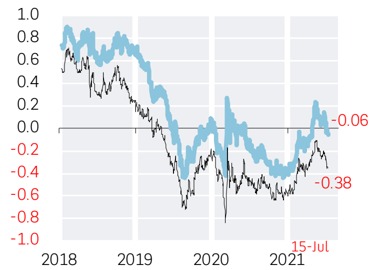


10Y BOND YIELD, TREASURIES VS BUND



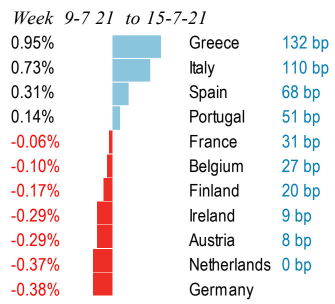
—Bunds —US Treasuries

10Y BOND YIELD

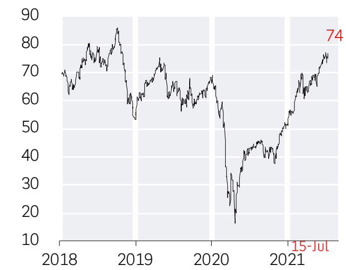


—Bunds —OAT

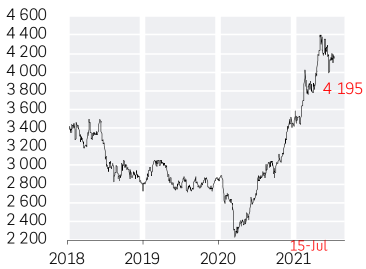
10Y BOND YIELD & SPREADS



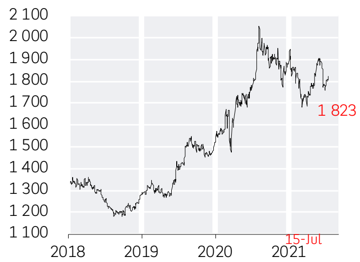
OIL (BRENT, USD)



METALS (LMEX, USD)



GOLD (OUNCE, USD)



SOURCE: REFINITIV, BNP PARIBAS

ECONOMIC PULSE

CHINA: DIFFICULT ECONOMIC REBALANCING

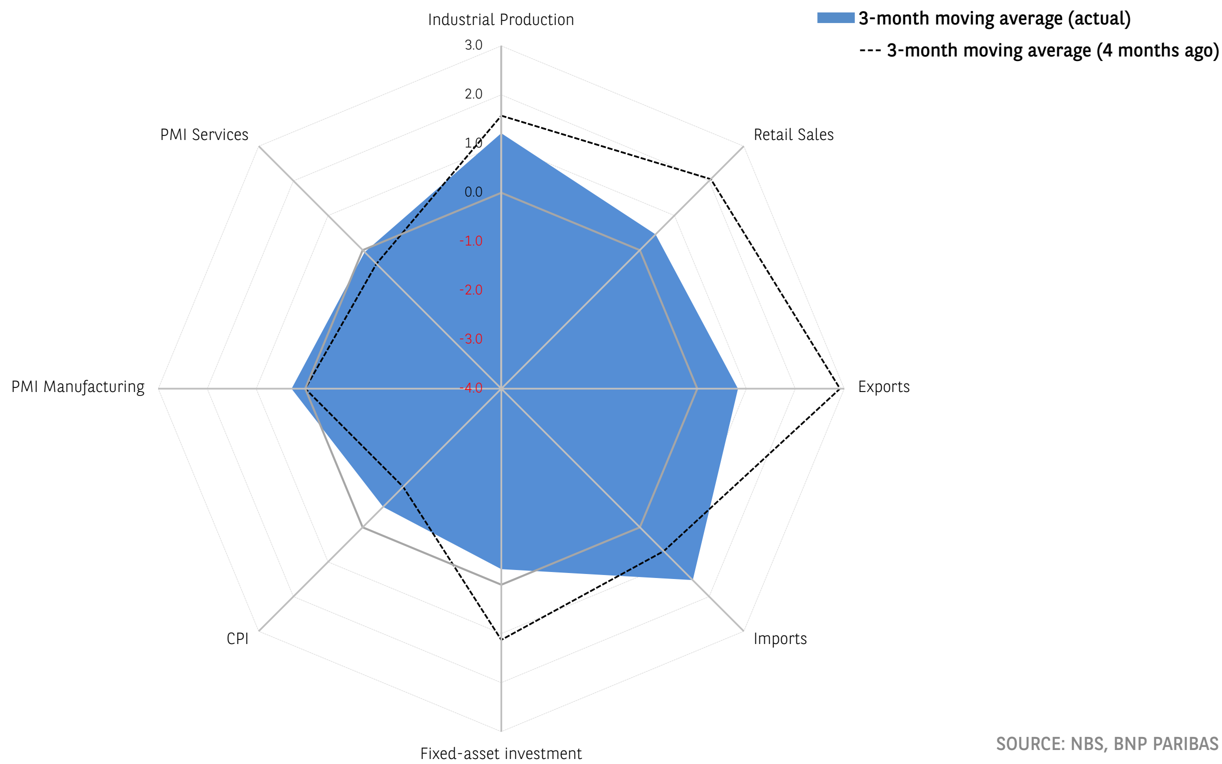
Economic growth reached 7.9% year-on-year (y/y) in Q2 2021 vs. 18.3% in Q1 2021. This apparent slowdown is the result of growth rates gradually returning to normal in all sectors and all demand components; it was largely expected as base effects have become less favourable since last spring. This trend explains the contraction of the blue area compared to the dotted area in our Monthly Economic Pulse. In quarter-on-quarter seasonally-adjusted terms, real GDP growth rose to 1.3% in Q2 2021 from 0.4% in Q1 (source: China's NBS). The rebound is small. In particular, the recovery in the services sector and private consumption remains fragile. Yet, since March 2021, the growth rate in services production has surpassed that of industrial production. Activity in the services sector grew by 8% y/y in Q2 2021 (vs. 15.6% in Q1) ; in the industrial sector, activity grew by 7% y/y in Q2 (vs. 24.4% in Q1).

In recent weeks, the authorities have been increasingly cautious when tightening the policy mix. They admit that the economic recovery's foundations have remained unbalanced over the past year. On the monetary policy front, the authorities have even recently announced a cut in the reserve requirement ratio (by 50 basis points) for all financial institutions (the cut, which is effective as from July 15, is the first reduction in fifteen months). This policy measure is aimed at maintaining domestic liquidity at sufficient levels to encourage a decline in real funding costs and support the recovery of SMEs and micro-enterprises. As a result, growth in total credit (social financing), which has slowed since October 2020, is now projected to stabilize in the very short term, notably driven by bank loans.

On the fiscal policy front, priority is given to adjusting the public accounts while continuing to provide support to the most vulnerable enterprises. The moderation in public spending has been achieved through a significant growth slowdown in investment in infrastructure projects in recent months. On the contrary, manufacturing investment, which started to pick up late last year, appears to be finally taking the leading role in domestic investment growth. It is expected to continue to recover in H2 2021, stimulated by the strong momentum in exports (which increased by 30% y/y in Q2 2021), very high industrial capacity utilisation rates, and the improvement in corporate profits.

Christine Peltier

CHINA: QUARTERLY CHANGES



SOURCE: NBS, 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.

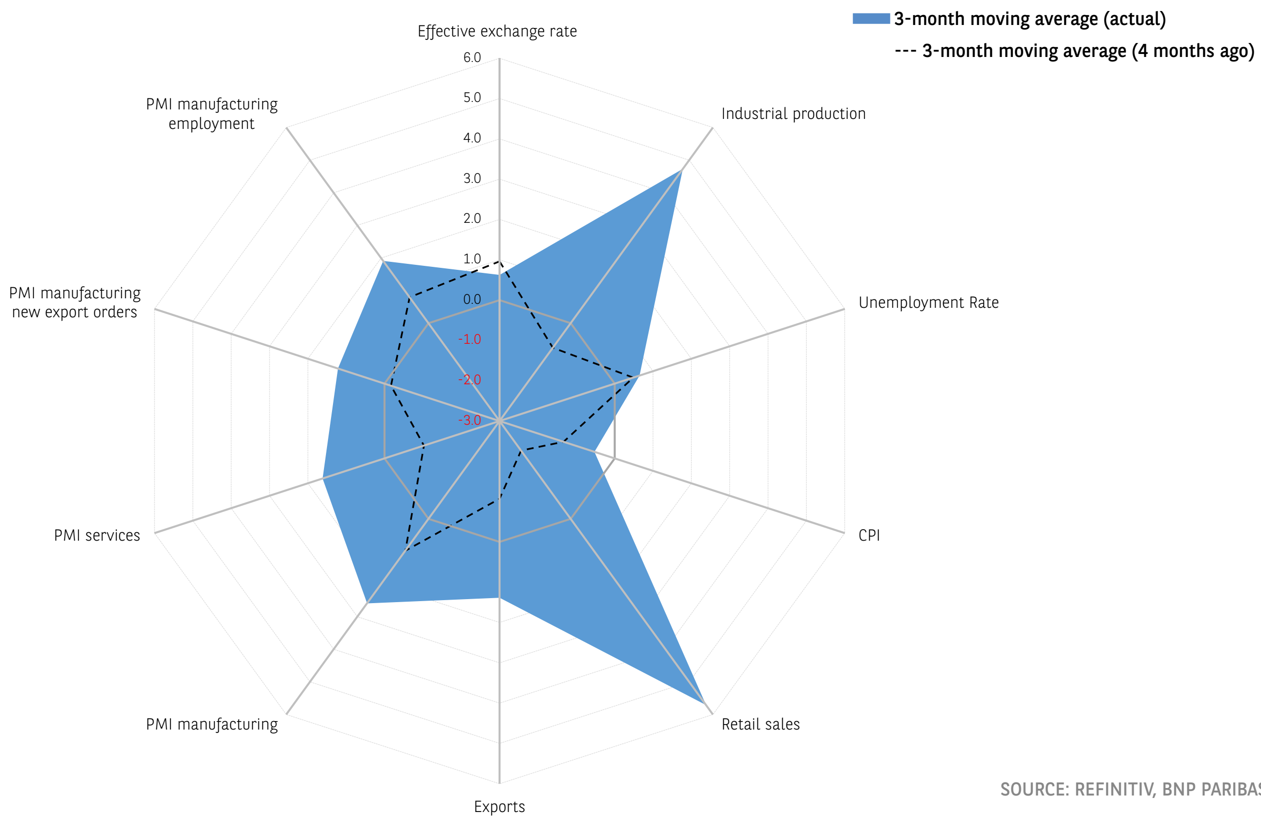
UNITED KINGDOM : THE DELTA VARIANT THREATENS

With nearly 35,000 new daily cases reported last week, the Covid-19 virus is gaining ground again in the UK. The cause is the "Indian" variant (renamed Delta), which is 40-60% more contagious than its predecessor, the "English" variant (renamed Alpha). There is an encouraging sign, however, that proves the effectiveness of the vaccine: the number of severe cases seems to be increasing much less rapidly than during previous waves. According to National Health Service (NHS) statistics, the number of cases resulting in hospitalisations has been reduced by a factor of four at a time when the majority of the population has been vaccinated (51% have received two doses). Caught midway between a new surge in the pandemic and herd immunity, the government finally opted to take a laissez-faire approach. In a somewhat contradictory manner, each individual is "invited" to apply the necessary measures that are no longer legally binding, such as limiting staff size for companies, wearing masks on public transport, and "health passport" requirements. Time will tell whether this works, but Prime Minister Boris Johnson has already admitted that the new policy could trigger a surge in contaminations, with as many as 100,000 new daily cases. Although the number of deaths has been slowing and has levelled off below 130,000 victims, it is bound to rise.

The idea is to release the economy from its shackles just as it is beginning to recover, even if that means contending with the principle of "whatever the cost". All of the UK economic indicators are pointing to a very strong rebound in economic activity in Q2 2021, which should lead to GDP growth of between 4% and 5% relative to the previous quarter, and bring it within 95% of the pre-pandemic level. Our barometer clearly shows the surge in retail sales that accompanied the lifting of health restrictions, which suggests that private consumption figures will be especially high.

Jean-Luc Proutat

UNITED KINGDOM: 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 -3 and +6. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.

ECONOMIC PULSE

MOBILITY IS STILL FAVOURABLE DESPITE THE PANDEMIC'S RAPID SPREAD

The number of new Covid-19 cases continues to rise worldwide. The surge is due to the Delta variant, which is much more contagious than the other variants. It has now spread to more than 110 countries. The number of daily cases passed the half million mark on July 13 and 14. Over the past seven days, the number of new cases worldwide rose to 3.3 million, 14% higher than the previous week. In North America and Europe, the pandemic is progressing rapidly again, with 942,189 and 756,195 new cases, respectively, over the past seven days, up 49% and 36% compared to the previous week (see chart 1). With 1.3 million new cases (+19%), Asia alone accounts for nearly 40% of the new contaminations, most of which were reported in Indonesia and India. At the same time, vaccination campaigns continue to advance, and 26% of the global population has received at least one dose of the vaccine since the campaigns began (chart 2).

Despite the health crisis, retail and leisure footfall remains high in the advanced countries. In France, it has returned to the pre-pandemic level (4%), joining Belgium (6.6%), which has been back to normal for several weeks (chart 3). In contrast, in the other advanced countries (Germany, Italy, Spain, the United States, Japan and the UK), footfall still falls short of pre-Covid levels, even though business has virtually returned to normal.

The OECD Weekly Tracker of annual GDP growth in the main leading economies continues to decline, except in the US, where it has picked up (chart 3). Caution should be used when interpreting the OECD Tracker, which is based on Google Trends resulting from queries on consumption, the labour market, housing, industrial activity as well as uncertainty, due to a base effect (comparison with the beginning of the pandemic a year ago).

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)

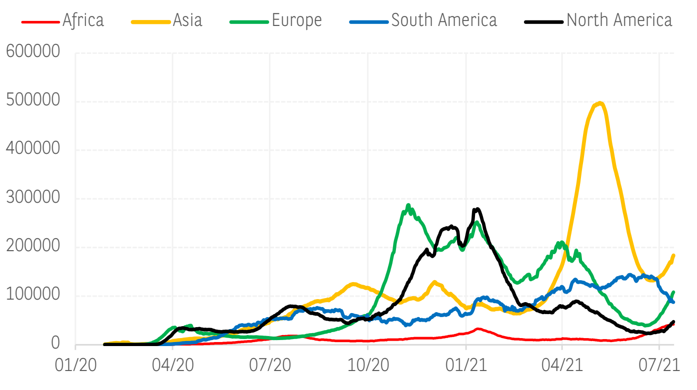


CHART 1 SOURCE: JOHNS-HOPKINS UNIVERSITY (07/16/2021), BNP PARIBAS

SHARE OF PEOPLE WHO RECEIVED AT LEAST ONE DOSE OF VACCINE

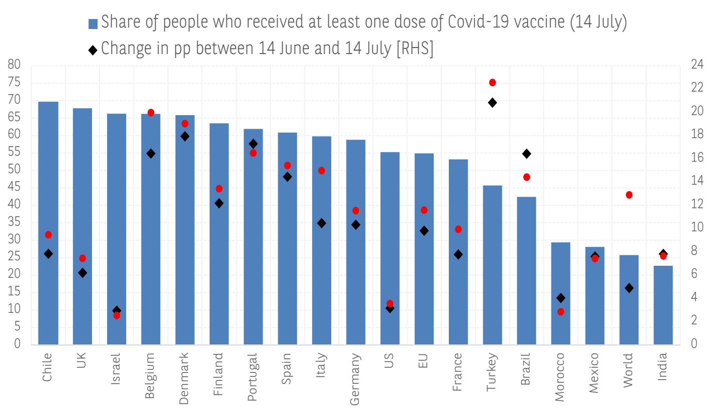
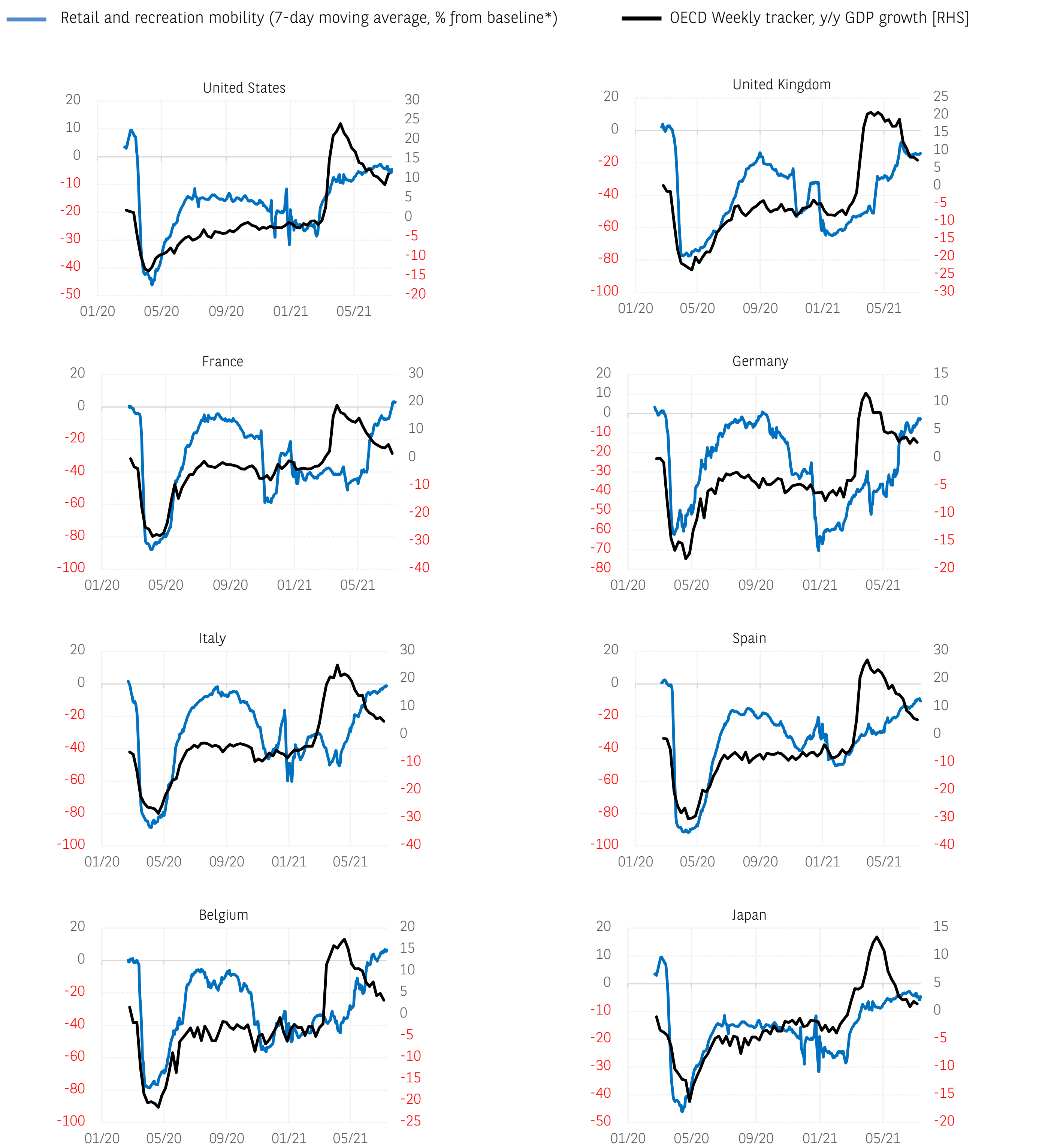


CHART 2 SOURCE: OUR WORLD IN DATA (07/16/2021), BNP PARIBAS

RETAIL AND RECREATION MOBILITY & OECD WEEKLY TRACKER



SOURCE: OECD (07/15/2021), GOOGLE (07/15/2021), BNP PARIBAS

ECONOMIC SCENARIO

UNITED STATES

Having limited the damage in 2020, the US economy is now recovering fast, driven by a vaccination campaign that is steaming ahead and raising hopes of collective immunity to Covid-19 being achieved at some point in the summer. The economy has also benefited from the exceptional fiscal stimulus package, which is twice the size of that put in place after the financial crisis of 2008. As a result, US GDP growth will be close to 7% in 2021, opening the way to a rapid return to pre-crisis levels. The employment deficit remains significant as a result of the pandemic, but this should steadily be absorbed, opening the way to a rapid fall in the unemployment rate, which is expected to be around the 5% mark in the second half. Expected inflation has risen sharply and is unlikely to fall back, particularly as reported inflation is picking up. Over the coming months the latter is likely to run well above the 2% target set by the Federal Reserve.

CHINA

The post-Covid19 rebound in industrial production and exports reached its peak in the first months of 2021 and growth rates should normalize gradually in the coming quarters. Manufacturing investment growth may accelerate while investment growth in infrastructure and real estate projects is expected to slow. The recovery in the services sector and in private consumption, which was still somewhat disappointing in H1 2021, should gain some momentum in H2 thanks to the acceleration of the vaccination campaign. Given the softer economic growth rebound, moderate consumer price inflation pressures and continued RMB appreciation over the past year, the authorities are expected to tighten the monetary and credit policy very cautiously in the short term. Fiscal support is also being withdrawn gradually.

EUROZONE

After an historic recession in 2020 (-6.8%, annual average), the Eurozone economy rebounded firmly in the first half of 2021. The annual growth should be +4.8% this year and +5.2% in 2022. Eurozone GDP could reach its pre-crisis level faster than we expected before, around end-2021. The acceleration of vaccines rollout in a large majority of Members Sates of the Eurozone and the progressive lifting of health restrictions reduce uncertainties for economic agents. Consumers' confidence in particular has increased rapidly over the past few months. Also, in this still tricky situation, the policy-mix will remain accommodative to support the recovery. The rise in inflation should be temporary.

FRANCE

Based on the May and June business confidence surveys, the economy is rebounding more strongly than expected from the third lockdown. We have raised our Q2 growth forecasts, from near zero to near 1% QoQ. In Q3, the mechanical rebound would bring growth to about 3% QoQ. Growth would then slow down but remain high, supported by the fiscal stimulus. The flip side of the coin of the vigorous recovery in demand is that supply, which is less responsive, is under pressure. Procurement problems, rising input prices, hiring difficulties are all sticking points to watch that could slow the recovery. In 2021, growth would average 6% (an optimistic forecast, half a point above the June consensus) and it would remain strong in 2022 (4.6%). According to our scenario, GDP would exceed its pre-crisis level in Q1 2022. As for inflation, most of its recent rise is temporary. We expect it to peak in Q4 2021, before falling in 2022. However, it would be at a higher level than before the crisis, as growth strengthens and the reflationary efforts of monetary policy also bear fruit.

RATES AND EXCHANGE RATES

In the US, the outlook for inflation and employment as well as the latest signals from the FOMC point towards the central bank providing greater clarity in September about its intentions to scale back its asset purchases. We expect tapering to start in January next year. We now expect the first Fed rate hike in this cycle in early 2023, which is earlier than previously thought. 10-year Treasury yields are expected to rise this year as well as next, reflecting an increase in real yields on the back of, as of Q4 this year, slowing but still strong growth and a gradually less accommodative monetary policy.
In the eurozone, the ECB will maintain its very accommodative policy centered around its asset purchases and forward guidance, in order to generate a lasting pick-up in inflation towards its target. The outcome of the strategy review confirms this stance. Given the expected developments in terms of growth and inflation, the net purchases of the pandemic emergency purchase programme (PEPP) should stop at the end of March 2022 but the monthly volume under the traditional asset purchase programme should be increased on that occasion in order to avoid market disruption. 10-year Bund yields are expected to rise until the first half of 2022 and decline thereafter on the back of softer economic data. Sovereign spreads should widen somewhat in the fourth quarter of this year on the back of election-related uncertainty and the prospect of ending the PEPP.

The Bank of Japan is expected to maintain its current policy stance over the forecast horizon, whilst allowing the 10-year JGB yield to drift higher, towards the upper bound of its target range of 0 to 25bp.

We expect the dollar to strengthen versus the euro, driven by widening yield differentials and the prospect of a first Fed rate hike. Similarly, we expect an appreciation of the dollar versus the yen. The Bank of Japan is expected to maintain its current policy stance including its yield curve control strategy although the range of the latter has recently been widened to +/- 25 bp around 0%. Within this range, JGB yields are expecting to move higher, following the global trend. We expect the dollar to weaken slightly versus the euro. This is the result of conflicting forces: faster growth in the US than in the eurozone but narrow interest rate differentials at the short end of the curve and a dollar which at current levels is expensive compared to fair value. Concerning the yen, little change is expected versus the dollar whereas it is expected to weaken against the euro.

GROWTH & INFLATION

	GDP Growth				Inflation			
%	2019	2020	2021 e	2022 e	2019	2020	2021 e	2022 e
United-States	2.2	-3.5	6.9	4.7	1.8	1.2	3.9	2.7
Japan	0.3	-4.7	2.2	3.3	0.5	0.0	0.0	0.2
United-Kingdom	1.5	-9.8	7.8	5.6	1.8	0.9	1.8	2.5
Euro Area	1.3	-6.7	4.8	5.2	1.2	0.3	2.1	1.8
Germany	0.6	-5.1	3.7	5.5	1.4	0.4	2.7	2.0
France	1.5	-8.0	6.0	4.6	1.3	0.5	1.8	1.3
Italy	0.3	-8.9	5.2	4.5	0.6	-0.1	1.5	1.9
Spain	2.0	-10.8	6.0	6.3	0.8	-0.4	2.3	1.8
China	6.1	2.3	8.7	5.3	2.9	2.5	1.7	2.8
India*	4.2	-7.2	8.4	9.4	4.8	6.1	5.0	5.0
Brazil	1.1	-4.1	5.5	3.0	3.7	3.2	7.2	4.8
Russia	1.3	-4.5	4.5	3.0	4.3	3.4	5.8	4.3

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

INTEREST & EXCHANGE RATES

Interest rates, %		2021					
End of period		Q1	Q2e*	Q3e	Q4e	2021e	2022e
US	Fed Funds (upper limit)	0.25	0.25	0.25	0.25	0.25	0.25
	T-Notes 10y	1.75	1.54	1.70	1.90	1.90	2.20
Ezone	Deposit rate	-0.50	0.00	-0.50	-0.50	-0.50	-0.50
	Bund 10y	-0.33	-0.20	0.00	0.10	0.10	0.00
	OAT 10y	-0.11	0.14	0.35	0.55	0.55	0.30
	BTP 10y	0.63	0.84	1.10	1.40	1.40	1.10
	BONO 10y	0.34	0.49	0.70	0.90	0.90	0.80
UK	Base rate	0.10	0.10	0.10	0.10	0.10	0.25
	Gilts 10y	0.88	0.81	0.90	1.10	1.10	1.30
Japan	BoJ Rate	-0.04	-0.03	-0.10	-0.10	-0.10	-0.10
	JGB 10y	0.09	0.05	0.12	0.20	0.20	0.23

Exchange Rates		2021					
End of period		Q1	Q2e*	Q3e	Q4e	2021e	2022e
USD	EUR / USD	1.18	1.20	1.18	1.17	1.17	1.14
	USD / JPY	111	111	111	111	111	114
	GBP / USD	1.38	1.39	1.40	1.39	1.39	1.38
EUR	EUR / GBP	0.85	0.86	0.84	0.84	0.84	0.83
	EUR / JPY	130	132	131	130	130	130

Brent		2021					
End of period		Q1	Q2e*	Q3e	Q4e	2021e	2022e
Brent	USD/bbl	64	76	80	78	78	70

*SPOT RATES AS AT 25 JUNE

SOURCE: BNP PARIBAS GLOBAL MARKETS (E: ESTIMATES)

CALENDAR

LATEST INDICATORS

In Japan, core machine orders saw a big increase in May, beating expectations to a very large degree. Inflation in Germany and France was in line with expectations, respectively 0.4% and 0.2% on a monthly basis. In the US, small business optimism increased, doing better than anticipated. Annual consumer and producer price inflation remained elevated and came in higher than expected. Inflation in the UK was also higher than anticipated by the consensus. Second quarter growth of Chinese GDP was virtually in line with expectations and June retail sales were slightly better than anticipated. In the UK, data on the change in employment were disappointingly weak. In the US, the Philadelphia Fed business outlook dropped far more than anticipated. Retail sales on the other hand did better than expected and grew significantly after declining the month before. University of Michigan data disappointed across the board: the assessment of current conditions and expectations both declined whereas the consensus had expected an improvement. In addition, one year ahead inflation expectations moved significantly higher, much more than anticipated.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	ACTUAL	PREVIOUS
07/12/2021	Japan	Core Machine Orders MoM	May	2.4%	7.8%	0.6%
07/13/2021	Germany	CPI EU Harmonized MoM	June	0.4%	0.4%	0.4%
07/13/2021	Germany	CPI EU Harmonized YoY	June	2.1%	2.1%	2.1%
07/13/2021	France	CPI EU Harmonized MoM	June	0.2%	0.2%	0.2%
07/13/2021	France	CPI EU Harmonized YoY	June	1.9%	1.9%	1.9%
07/13/2021	United States	NFIB Small Business Optimism	June	99.5	102.5	99.6
07/13/2021	United States	CPI Ex Food and Energy MoM	June	0.4%	0.9%	0.7%
07/13/2021	United States	CPI YoY	June	4.9%	5.4%	5.0%
07/13/2021	China	Exports YoY	June	23.0%	32.2%	27.9%
07/13/2021	China	Imports YoY	June	29.5%	36.7%	51.1%
07/14/2021	United Kingdom	CPI Core YoY	June	2.0%	2.3%	2.0%
07/14/2021	Eurozone	Industrial Production SA MoM	May	-0.3%	-1.0%	0.6%
07/14/2021	United States	PPI Ex Food and Energy YoY	June	5.1%	5.6%	4.8%
07/14/2021	United States	U.S. Federal Reserve Releases Beige Book				
07/15/2021	China	GDP SA QoQ	2Q	1.0%	1.3%	0.4%
07/15/2021	China	GDP YoY	2Q	8.0%	7.9%	18.3%
07/15/2021	China	GDP YTD YoY	2Q	12.7%	12.7%	18.3%
07/15/2021	China	Retail Sales YTD YoY	June	22.8%	23.0%	25.7%
07/15/2021	China	Fixed Assets Ex Rural YTD YoY	June	12.0%	12.6%	15.4%
07/15/2021	China	Property Investment YTD YoY	June	16.0%	15.0%	18.3%
07/15/2021	China	Surveyed Jobless Rate	June	5.0%	5.0%	5.0%

SOURCE: BLOOMBERG

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	ACTUAL	PREVIOUS
07/15/2021	United Kingdom	ILO Unemployment Rate 3Mths	May	4.7%	4.8%	4.7%
07/15/2021	United Kingdom	Employment Change 3M/3M	May	91k	25k	113k
07/15/2021	United States	Philadelphia Fed Business Outlook	July	28.0	21.9	30.7
07/15/2021	United States	Initial Jobless Claims	July	350k	360k	386k
07/16/2021	Eurozone	CPI YoY	June	1.9%	1.9%	1.9%
07/16/2021	Eurozone	CPI Core YoY	June	0.9%	0.9%	0.9%
07/16/2021	Eurozone	CPI MoM	June	0.3%	0.3%	0.3%
07/16/2021	United States	Retail Sales Control Group	June	0.4%	1.1%	-1.4%
07/16/2021	United States	U. of Mich. Sentiment	July	86.5	80.8	85.5
07/16/2021	United States	U. of Mich. Current Conditions	July	91.0	84.5	88.6
07/16/2021	United States	U. of Mich. Expectations	July	85.0	78.4	83.5
07/16/2021	United States	U. of Mich. 1 Yr Inflation	July	4.3%	4.8%	4.2%
07/16/2021	United States	U. of Mich. 5-10 Yr Inflation	July	--	2.9%	2.8%
07/16/2021	Japan	BOJ Policy Balance Rate	July	-0.1%	-0.1%	-0.1%

SOURCE: BLOOMBERG

CALENDAR: THE WEEK AHEAD

COMING INDICATORS

The highlight this week is the ECB Governing Council meeting, with markets keen to see how and to which extent the strategy review outcome has changed the forward guidance and the communication style. In addition we have, as usual around this time of the month, the flash PMIs. They will allow to assess the business sentiment in the month of July. We will also have business confidence in France and consumer confidence in the eurozone and the UK.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	PREVIOUS
07/20/2021	Japan	Natl CPI Ex Fresh Food YoY	Jun	0.10%	0.10%
07/20/2021	Germany	PPI MoM	Jun	--	1.50%
07/20/2021	United States	Building Permits MoM	Jun	0.60%	-3.00%
07/20/2021	United States	Housing Starts MoM	Jun	1.20%	3.60%
07/21/2021	Japan	Supermarket Sales YoY	Jun	--	2.90%
07/22/2021	France	Business Confidence	Jul	--	113
07/22/2021	United Kingdom	CBI Business Optimism	Jul	35	38
07/22/2021	Eurozone	ECB Deposit Facility Rate	Jul	--	-0.50%
07/22/2021	United States	Initial Jobless Claims	Jul	--	--
07/22/2021	Eurozone	Consumer Confidence	Jul	--	-3.3
07/23/2021	United Kingdom	GfK Consumer Confidence	Jul	--	-9
07/23/2021	United Kingdom	Retail Sales Ex Auto Fuel MoM	Jun	--	-2.10%
07/23/2021	France	Markit France Manufacturing PMI	Jul	--	59
07/23/2021	France	Markit France Services PMI	Jul	--	57.8
07/23/2021	France	Markit France Composite PMI	Jul	--	57.4
07/23/2021	Germany	Markit/BME Germany Manufacturing PMI	Jul	--	65.1
07/23/2021	Germany	Markit Germany Services PMI	Jul	--	57.5
07/23/2021	Germany	Markit/BME Germany Composite PMI	Jul	--	60.1
07/23/2021	Eurozone	ECB Survey of Professional Forecasters			
07/23/2021	Eurozone	Markit Eurozone Manufacturing PMI	Jul	--	63.4
07/23/2021	Eurozone	Markit Eurozone Services PMI	Jul	--	58.3
07/23/2021	Eurozone	Markit Eurozone Composite PMI	Jul	--	59.5
07/23/2021	United Kingdom	Markit UK PMI Manufacturing SA	Jul	--	63.9
07/23/2021	United Kingdom	Markit/CIPS UK Services PMI	Jul	--	62.4
07/23/2021	United Kingdom	Markit/CIPS UK Composite PMI	Jul	--	62.2
07/23/2021	United States	Markit US Manufacturing PMI	Jul	--	62.1
07/23/2021	United States	Markit US Services PMI	Jul	--	64.6
07/23/2021	United States	Markit US Composite PMI	Jul	--	63.7

SOURCE: BLOOMBERG

FURTHER READING

Vaccination campaign, economic recovery and the Olympic Games: Japan sends mixed signals	EcoTVWeek	16 July 2021
United-States: The timid return of the pandemic's vanishing labour force	Chart of the Week	15 July 2021
3rd quarter 2021 issue: Emerging Countries: A fragile recovery	EcoEmerging	13 July 2021
Eurozone: The ECB's strategy review: "We've heard what you said and we've listened"	EcoWeek	12 July 2021
Emerging Countries: a still fragile recovery	EcoTVWeek	9 July 2021
Central America's public debt profile: a high dependence on external creditors	Chart of the Week	7 July 2021
3rd quarter 2021 issue	EcoPerspectives	7 July 2021
July 2021 issue	French Economy Pocket Atlas	6 July 2021
Eurozone : Unemployment, consumer confidence and household spending	EcoWeek	5 July 2021
Covid-19: A comparative analysis of support measures in Germany, France, Italy and Spain	EcoFlash	2 July 2021
Central Europe : Hike on time	EcoTVWeek	2 July 2021
Most of the dollars issued via the Fed's swap agreements return to US soil	Chart of the Week	30 June 2021
The (unwarranted) stagflation narrative of 2021	EcoWeek	28 June 2021
Inside the money creation in the United States	Conjoncture	25 June 2021
Morocco: confident despite challenges	Conjoncture	25 June 2021
Is there a risk of stagflation?	EcoTVWeek	25 June 2021
Eurozone: rising inflation is driven by energy prices	Chart of the Week	23 June 2021
US : Federal Reserve: enhanced credibility	EcoWeek	21 June 2021
France: economy has the wind of optimism in its sails	EcoTVWeek	18 June 2021
Growth bounces back in Chile	Chart of the Week	16 June 2021

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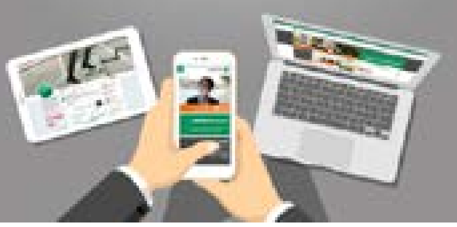

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