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ECONOMIC RESEARCH

BNP PARIBAS

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world

UNITED KINGDOM: THE 'DASH FOR CASH', LEVERAGE AND THE NEED FOR ECONOMIC POLICY COORDINATION

Financial markets in the UK have recently been confronted with a 'dash for cash', whereby investors sell off even safe assets such as long-term government bonds to obtain cash. The catalyst was the announcement of an expansionary fiscal policy, which might force the Bank of England to hike interest rates more aggressively given the potential inflationary consequences. Leverage and the ensuing margin calls acted as an accelerator of the jump in Gilt yields. The events show the necessity for a coordination of economic policy. In case of elevated supply side inflation, this means monetary tightening to trigger disinflation, targeted fiscal policy support to those who suffer most from inflation and macroprudential policy that addresses the consequences from market volatility and large increases in bond yields.

Financial markets in the UK have recently been confronted with a 'dash for cash'. This describes a 'flight to safety' situation in which investors sell off even safe assets such as long-term government bonds to obtain cash.[1] This experience and its causes provide important insights in the need for coordination of economic policies.

The increased preference of British investors for cash may reflect a wish to reduce interest rate risk in their portfolios. The key driver however was the increase in liquidity demands of leveraged investors triggered by the need to meet margin calls on derivative positions that had suffered, directly or indirectly, from the jump in gilt yields.

Media reported forced selling of government bonds by pension funds to raise cash to meet the collateral requirements, a decision that amplified the increase in long-term interest rates. The rise in yields became self-reinforcing. According to the Bank of England's Financial Policy Committee, *"were dysfunction in this market to continue or worsen, there would be a material risk to UK financial stability. This would lead to an unwarranted tightening of financing conditions and a reduction of the flow of credit to the real economy."*[2] Consequently, the Committee decided to carry out temporary purchases of long-dated UK government bonds to restore orderly market conditions.[3]

The catalyst of the bond market turmoil was the announcement of a mini-budget on 23 September with GBP 45 bn of tax cuts, the biggest since 1972[4]. Gilt yields jumped (*chart 1*) because of the prospect of increased borrowing needs, against a background of a reduction of the Bank of England's balance sheet (quantitative tightening).

A second factor was the prospect of more rate hikes by the central bank, to counter the inflationary consequences in the medium run of the expansionary fiscal stance. Finally, the weakening of sterling, to an all-time low against the dollar (*chart 2*), created additional upside risks to inflation and contributed to the rise in bond yields. The drop in the currency reflected concerns about fiscal policy credibility -when

1. The definition is from The role of non-bank financial intermediaries in the 'dash for cash' in sterling markets, Bank of England, Financial Stability Paper 47, June 2021.
2. Source : Bank of England announces gilt market operation, News release by the Bank of England published on 28 September 2022.
3. It should be emphasized that this was a decision aimed at ensuring financial stability taken by the Financial Policy Committee, not a monetary policy decision, which is in the remit of the Monetary Policy Committee.
4. Source: Financial Times.

INTRADAY, 10-YEAR GILT VS GBP/USD

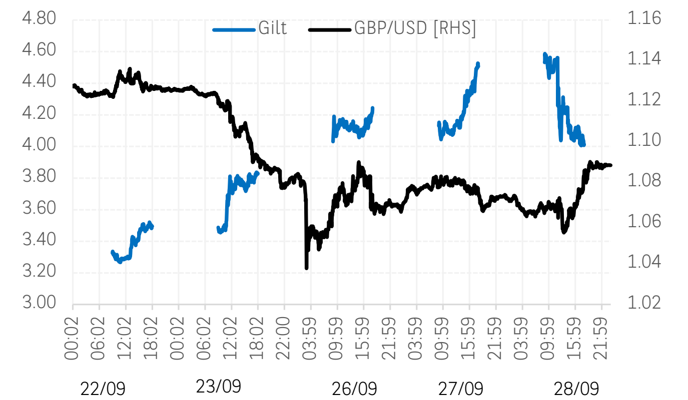


CHART 1 SOURCE: BLOOMBERG, BNP PARIBAS

GBP/USD

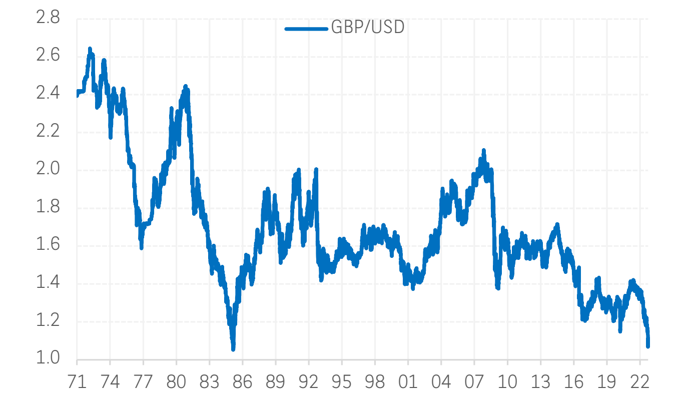


CHART 2 SOURCE: BLOOMBERG, BNP PARIBAS

> The more monetary liquidity is abundant, the higher the risk that market liquidity will be lacking in case of big movements in interest rates.

will the fiscal expansion be followed by a move in the opposite direction- as well as monetary policy credibility –will the Bank of England do what it takes to address the heightened inflation risks? Credibility is important in the conduct of economic policy, especially when, like in the British case, the country is running a current account deficit and depends on the willingness of foreign investors to cover the financing shortfall of the domestic sectors (households, companies and the public sector). Importantly, the jump in gilt yields pulled along bond yields abroad, including in the US (*chart 3*). Global bond markets are highly correlated in normal times and even more so in case of big moves as the ones seen in recent days.

Against this background, the 'dash for cash' acted as an accelerator of the move in bond yields. To the extent that it reflects the reaction of leveraged investors, it raises the question of what had been underpinning this appetite for leverage. An obvious answer is the investors' conundrum of, on the one hand, the ambition of achieving attractive returns -e.g. to meet the liabilities in a pension fund- and, on the other hand, (very) low expected returns after years of very expansionary monetary policy in the UK and abroad. It led to the, at first glance, awkward situation that bloated central bank balance sheets -a result of several years of quantitative easing- could not prevent that liquidity was lacking in other parts of the economy.

There is however nothing abnormal about this, because we are talking about two different things, respectively monetary liquidity -the size of the central bank's balance sheet, the excess reserves of the banking system- and market liquidity -the ability to trade big volumes with limited influence on market prices. The more monetary liquidity is abundant, the higher the risk that market liquidity will be lacking in case of big movements in interest rates. This calls for a coordination between monetary and macroprudential policies. For the former this means considering the financial stability implications of an accommodative or restrictive monetary policy stance. In terms of macroprudential policy, having a detailed view on the use of leverage would allow to better anticipate the reaction of leveraged market participants to interest rate shocks.

A better coordination between monetary and fiscal policy is also warranted to avoid huge interest rate shocks. Research shows that fiscal policy can enhance the effectiveness of monetary policy when interest rates are very low.[5] The boost to demand increases the likelihood that the inflation target would be reached earlier, enabling the central bank to normalize its monetary policy. This also reduces the risk of financial instability through the formation of asset bubbles. When inflation is above target, fiscal policy -a(n) reduction (increase) in the cyclically adjusted budget deficit (surplus)- can increase the effectiveness of a restrictive monetary policy. A fiscal expansion on the other hand would run into conflict with the ambition of the central bank to slow down demand growth. This is what happened in the UK. It would lead to a higher terminal rate -the cyclical peak in official interest rates-, which in turn would influence the dynamics of the public sector debt ratio due to higher bond yields.

INTRADAY, GOVERNMENT BOND YIELDS, 10-YEAR

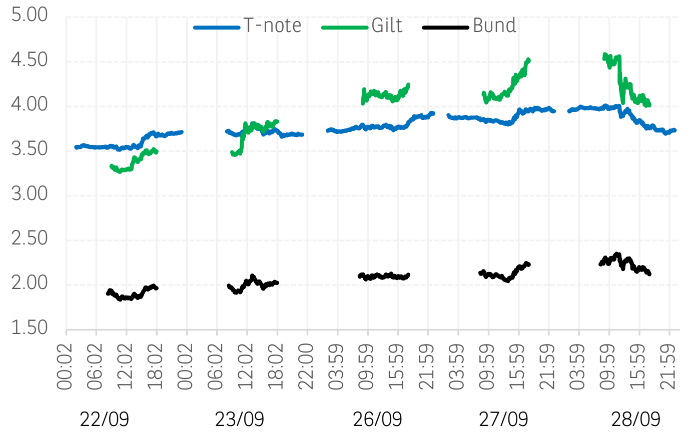


CHART 3 SOURCE: BLOOMBERG, BNP PARIBAS

High inflation that is caused by a negative supply shock -higher energy price, etc.- represents a challenge for monetary and fiscal policy. The former will tend to ignore it, based on the view that such a shock has a transitory impact on inflation. However, as we have been experiencing this year, faced with a risk of unanchoring of inflation expectations and the ensuing impact on wage demands and price setting strategies of firms, central banks have ended up raising rates anyhow. Governments will be inclined to cushion the impact of the negative supply shock on purchasing power of households. This in turn may fuel inflation, complicating further the task of the central bank and leading to higher interest rates.

Supply side inflation thus calls for targeted fiscal support to help those who suffer most. Such a policy is even more relevant considering that central banks are not equipped to address the distributional consequences of economic shocks. This necessity of a targeted approach was emphasized by the Eurogroup in July this year: *"the Eurogroup considers that supporting overall demand through fiscal policies in 2023 is not warranted, the focus being instead on protecting the most vulnerable, while maintaining the agility to adjust, if needed… thus also facilitating the task of monetary policy to ensure price stability by not adding inflationary pressures."*[6] Luis de Guindos, Vice-President of the ECB, made a similar remark recently: *"Fiscal policy should not stoke inflation. It needs to be temporary and tailored to the most vulnerable households and businesses, who are being hardest hit by high inflation."*[7]

William De Vijlder

5. See in this respect: Unconventional fiscal and monetary policy at the zero lower bound, Keynote speech by Isabel Schnabel, Member of the Executive Board of the ECB, at the Third Annual Conference organised by the European Fiscal Board on "High Debt, Low Rates and Tail Events: Rules-Based Fiscal Frameworks under Stress", Frankfurt am Main, 26 February 2021.

6. Source: Eurogroup statement on fiscal policy orientations for 2023, 11 July 2022, www.consilium.europa.eu.

7. Source: Policy mix of the future: the role of monetary, fiscal and macroprudential policies, Remarks by Luis de Guindos, Vice-President of the ECB, at a panel at the conference "Future of Central Banking" organised by Lietuvos bankas and the Bank for International Settlements, Frankfurt am Main, 29 September 2022.

MARKETS OVERVIEW

OVERVIEW

Week 23-9 22 to 30-9-22					
↘ CAC 40	5 783	▸ 5 762	-0.4	%
↘ S&P 500	3 693	▸ 3 586	-2.9	%
↗ Volatility (VIX)	29.9	▸ 31.6	+1.7	pb
↗ Euribor 3M (%)	1.15	▸ 1.17	+2.0	bp
↗ Libor $ 3M (%)	3.63	▸ 3.75	+12.6	bp
↗ OAT 10y (%)	2.58	▸ 2.75	+17.1	bp
↗ Bund 10y (%)	2.03	▸ 2.11	+7.7	bp
↗ US Tr. 10y (%)	3.70	▸ 3.80	+10.8	bp
↗ Euro vs dollar	0.97	▸ 0.98	+0.9	%
↗ Gold (ounce, $)	1 644	▸ 1 674	+1.8	%
↗ Oil (Brent, $)	86.2	▸ 88.7	+2.9	%

MONEY & BOND MARKETS

Interest Rates		highest 22			lowest 22		
€ ECB	1.25	1.25	at	14/09	0.00	at	03/01
Eonia	-0.51	-0.51	at	03/01	-0.51	at	03/01
Euribor 3M	1.17	1.23	at	27/09	-0.58	at	05/01
Euribor 12M	2.56	2.63	at	27/09	-0.50	at	05/01
$ FED	3.25	3.25	at	22/09	0.25	at	03/01
Libor 3M	3.75	3.75	at	30/09	0.21	at	03/01
Libor 12M	4.78	4.91	at	26/09	0.58	at	03/01
£ BoE	2.25	2.25	at	22/09	0.25	at	03/01
Libor 3M	3.34	3.75	at	26/09	0.26	at	03/01
Libor 12M	0.81	0.81	at	03/01	0.81	at	03/01

At 30-9-22

Yield (%)		highest 22			lowest 22		
€ AVG 5-7y	2.58	2.79	at	28/09	-0.04	at	03/01
Bund 2y	1.69	1.90	at	27/09	-0.83	at	04/03
Bund 10y	2.11	2.24	at	27/09	-0.14	at	24/01
OAT 10y	2.75	2.83	at	29/09	0.15	at	04/01
Corp. BBB	4.76	4.84	at	29/09	0.90	at	05/01
$ Treas. 2y	4.26	4.37	at	27/09	0.70	at	04/01
Treas. 10y	3.80	3.96	at	27/09	1.63	at	03/01
High Yield	9.91	9.91	at	30/09	5.07	at	03/01
£ gilt. 2y	4.28	4.59	at	27/09	0.69	at	03/01
gilt. 10y	4.10	4.50	at	27/09	0.97	at	03/01

At 30-9-22

EXCHANGE RATES

1€ =		highest 22			lowest 22			2022
USD	0.98	1.15	at	10/02	0.96	at	27/09	-13.9%
GBP	0.88	0.90	at	28/09	0.83	at	14/04	+4.5%
CHF	0.96	1.06	at	10/02	0.95	at	28/09	-6.9%
JPY	141.80	144.46	at	13/09	125.37	at	04/03	+8.3%
AUD	1.52	1.62	at	04/02	1.43	at	25/08	-2.6%
CNY	6.95	7.29	at	10/02	6.75	at	14/07	-4.2%
BRL	5.30	6.44	at	06/01	5.01	at	21/04	-16.3%
RUB	59.88	164.76	at	07/03	55.60	at	26/09	-29.8%
INR	79.70	85.96	at	11/02	78.49	at	27/09	-5.7%

At 30-9-22 *Change*

COMMODITIES

Spot price, $		highest 22			lowest 22			2022	2022(€)
Oil, Brent	88.7	128.2	at	08/03	79.0	at	03/01	+13.1%	+31.3%
Gold (ounce)	1 674	2 056	at	08/03	1 635	at	27/09	-8.1%	+6.6%
Metals, LMEX	3 541	5 506	at	07/03	3 453	at	27/09	-21.3%	-8.7%
Copper (ton)	7 683	10 702	at	04/03	7 160	at	14/07	-21.1%	-8.4%
wheat (ton)	308	4.7	at	17/05	276	at	18/08	+29.7%	+50.5%
Corn (ton)	257	3.2	at	28/06	226	at	03/01	+1.3%	+30.9%

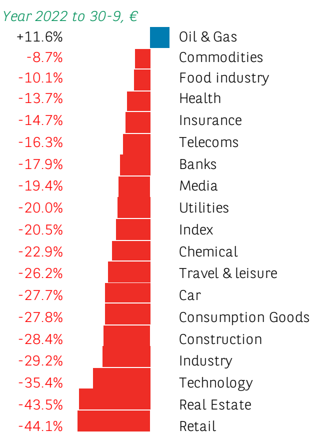
At 30-9-22 *Change*

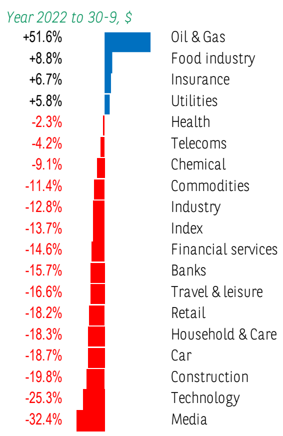
EQUITY INDICES

	Index	highest 22			lowest 22			2022
World								
MSCI World	2 379	3 248	at	04/01	2 379	at	30/09	-26.4%
North America								
S&P500	3 586	4 797	at	03/01	3 586	at	30/09	-24.8%
Europe								
EuroStoxx50	3 318	4 392	at	05/01	3 279	at	29/09	-22.8%
CAC 40	5 762	7 376	at	05/01	5 677	at	29/09	-1.9%
DAX 30	12 114	16 272	at	05/01	11 976	at	29/09	-23.7%
IBEX 35	7 367	8 934	at	27/05	7 300	at	29/09	-1.5%
FTSE100	6 894	7 672	at	10/02	6 882	at	29/09	-0.7%
Asia								
MSCI, loc.	1 012	1 165	at	05/01	1 012	at	30/09	-1.1%
Nikkei	25 937	29 332	at	05/01	24 718	at	09/03	-9.9%
Emerging								
MSCI Emerging ($)	876	1 267	at	12/01	873	at	29/09	-2.9%
China	56	86	at	20/01	56	at	30/09	-30.9%
India	757	891	at	13/01	699	at	17/06	-1.9%
Brazil	1 462	2 003	at	04/04	1 311	at	14/07	-1.0%

At 30-9-22 *Change*

PERFORMANCE BY SECTOR (Eurostoxx50 & S&P500)

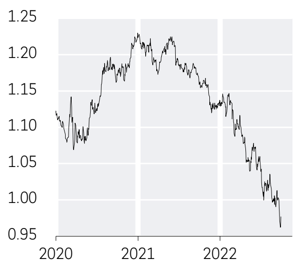




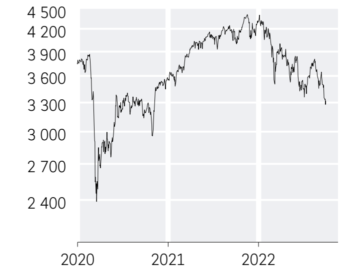
SOURCE: REFINITIV, BNP PARIBAS,

MARKETS OVERVIEW

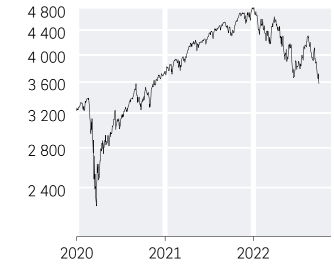
EURO-DOLLAR



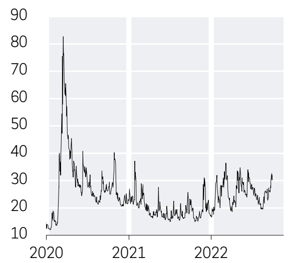
EUROSTOXX50



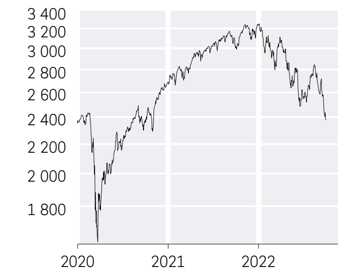
S&P500



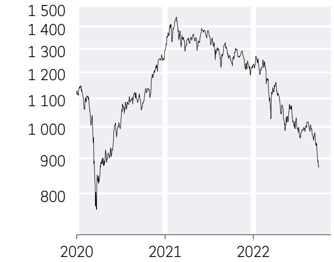
VOLATILITY (VIX, S&P500)



MSCI WORLD (USD)

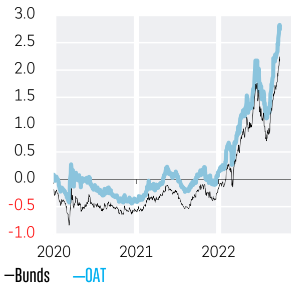


MSCI EMERGING (USD)

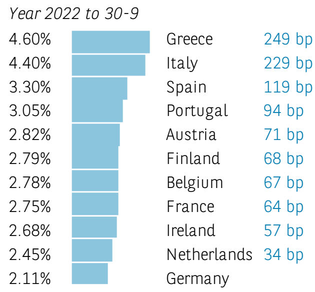


10Y BOND YIELD, TREASURIES VS BUND

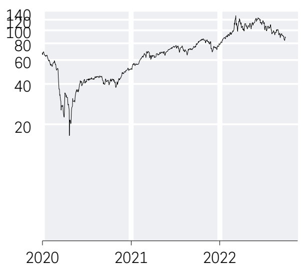
10Y BOND YIELD



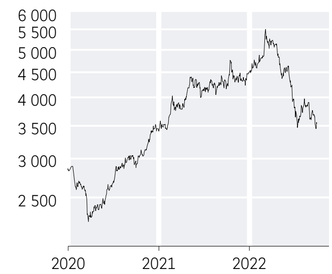
10Y BOND YIELD & SPREADS



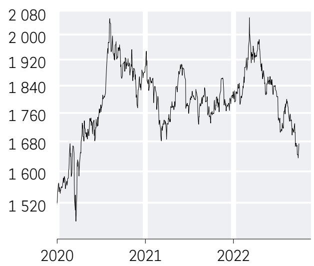
OIL (BRENT, USD)



METALS (LMEX, USD)



GOLD (OUNCE, USD)



SOURCE: REFINITIV, BNP PARIBAS

UNITED STATES: RESISTING WITHOUT CONVINCING

Persistent inflation and the rapid and sustained rises in interest rates are hitting the US economy hard. However, business climate surveys are recovering, albeit modestly, and consumer confidence has improved for the second consecutive month.

Business climate indices rebounded in September, although without moving back into growth territory. The composite PMI recovered significantly (+4.7 points compared to August) to stand at 49.3, mainly driven by the strong growth in the services sector PMI (+5.5 points, to 49.2) and, to a lesser extent, by a slight improvement in the manufacturing PMI (+0.2 points, to 51.8).

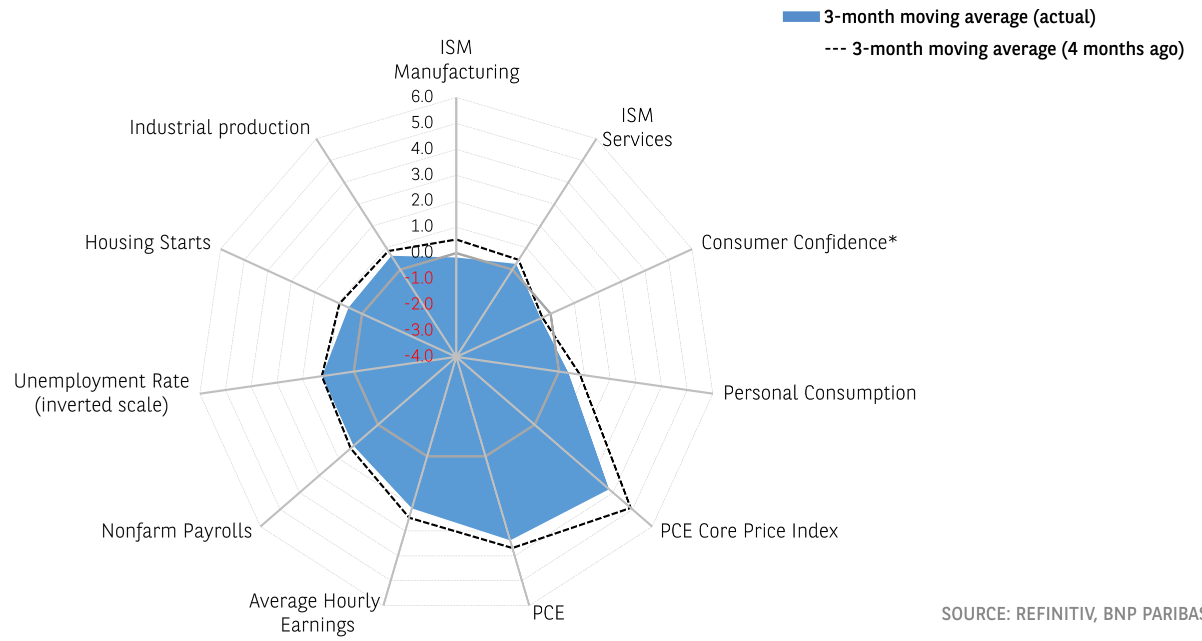
Consumer confidence also improved in September for the second month in a row, according to surveys by the Conference Board (+4.4 points) and the University of Michigan (+1.3 points). The perception by householders of their personal financial situation also recovered for the second consecutive month, which contributed to the recovery in consumer intentions to purchase cars and major large household appliances.

However, inflation, as measured by the Personal Consumption Expenditure Index (PCE), did not fall as much as expected and reached 6.2% year-on-year in August, still down slightly when compared to July (6.4%). Apart from a sharp fall in petrol prices, the expected disinflation, particularly in durable goods, has not yet materialised. Inflation continues to be pervasive, with a rise in core inflation (4.9% year-on-year in August, +0.2 points compared to July) and with food prices continuing to increase at a sustained pace (12.4% year-on-year). The latest inflation figures show that, if the peak in inflation is not far off, it is not yet certain that we have reached that point.

As a result, the Federal Open Market Committee (FOMC) continued with its monetary tightening at its September monetary policy meeting, with a third increase of 75 basis points in its Fed funds, bringing the range to 3.0% - 3.25%. The comparatively better outlook for the US economy, compared to the euro zone and the UK in particular, and the determination of the Federal Reserve (Fed) to continue its monetary tightening policies are contributing to the rise in the dollar. According to the Fed's Nominal Advanced Foreign Economies Index, the dollar strengthened by 3.4% over one month against the currencies of the advanced economies.

Félix Berte

UNITED STATES: 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 +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

EUROZONE: GLOOMY SEPTEMBER, DOUBLE-DIGIT INFLATION, MARKED DETERIORATION IN CONFIDENCE SURVEYS

Dark clouds are continuing to gather over the Eurozone economy. The first set of data available for September is not positive and this can be seen in our Pulse. Looking at the survey data, the blue area (recent conditions) is shrinking when compared to the dotted line (conditions four months earlier) and even, on some indicators, when compared to the grey dodecagon (the long-term average). The opposite is true for the inflation data.

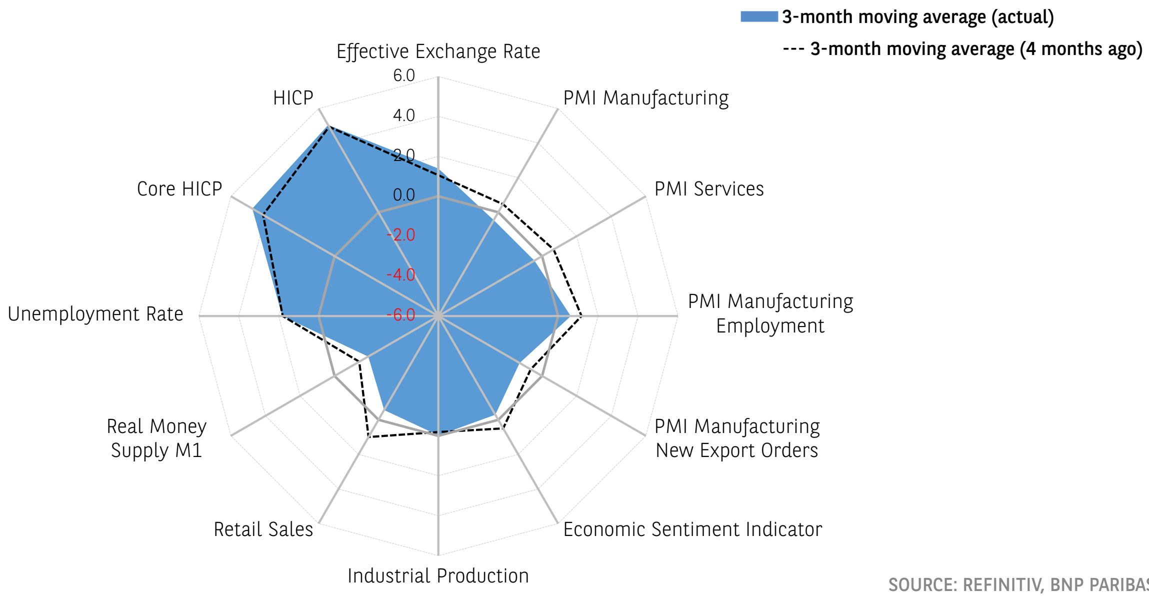
In fact, inflation reached a new level, at 10% y/y in September according to Eurostat's preliminary estimate. Not only did inflation reach double figures – which was predictable, but still bad news – but its 0.9-points rise compared to July was broad-based across all its main components. The increase in manufactured goods prices contributed 0.1 percentage points, services prices 0.2 and the energy and food components 0.3 each. Admittedly, the further rise in inflation was not broad-based across all the Member States in the Eurozone. Inflation actually fell in six of them, by an average of 0.8 points. This was not insignificant, but insufficient when compared to the average increase of 1.1 points in the thirteen other countries, whose weight is larger. France continues to stand out by having the lowest inflation rate in the Eurozone (6.2% y/y), down 0.4 points from July. Inflation also fell significantly in Spain (by 1.2 points to 9.3% y/y, bringing it back below the 10% level). But the further rise in inflation in Italy (+0.4 points, to 9.5% y/y) and particularly in Germany (+2.1 points, to 10.9% y/y) had a bigger impact.

Will September see inflation peak in the Eurozone? There is still a great deal of uncertainty. What is a lot less uncertain (or even is certain) is that inflation will take a long time to return to the 2% target. By the end of 2023 we expect inflation to still be above 3% year-on-year, and by the end of 2024 it should be around target, keeping in mind that these forecasts are accompanied by a clear upward risk. In view of this situation, we now think that the ECB will not stop raising its key rates once the estimated neutral level has been reached (2%) but that it will continue to raise them, bringing them into restrictive territory (3% for the deposit rate). The cumulative increase by the end of the year should reach 150 bps (two +75 bps increases, in October and December, rather than +75 bps and +50 bps) and is likely to extend into Q1 2023 (+50 bps in February, +25 bps in March).

This enforced monetary tightening will take place while the economy appears to be heading into recession. The European Commission's surveys for September point in this direction, along with the PMIs (slightly below the 50 threshold since July for the composite index). Like inflation, the further deterioration in the Commission's Economic Sentiment Indicator (ESI) in September was not only substantial (-4 points over a month) but also broad-based across all business sectors (as in July). Based on past experience, periods when such a widespread fall is observed tend to coincide with recessionary phases. At the present time we have only two such observations, but the drop is significant and we can expect it to recur over the next few months.

Hélène Baudchon

EUROZONE: QUARTERLY CHANGES



SOURCE: REFINITIV, BNP PARIBAS

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ECONOMIC SCENARIO

UNITED STATES

The US economy is slowing down significantly, with GDP contracting again in Q2 2022, despite strong household consumption and a rebound in exports. Job gains remain robust however and the unemployment rate low, which supports wage growth. However, there are some early signs of a slowdown. Inflation may have peaked in mid-2022 and should continue to decline, but not to move below the 2% target. Facing high and persistent inflation, the Fed continues to raise interest rates "expeditiously" and to shrink its balance sheet. As the mid-term elections approach, the Inflation Reduction Act (IRA) vote represents a victory for President Joe Biden, with the implementation of some of his social and environmental key measures. This plan should also support economic activity. According to our forecasts, the US would not fall into recession, but growth would run below-trend for a prolonged period to ease price pressures.

CHINA

Economic activity contracted in Q2 2022 due to the lockdowns imposed in large industrial regions such as Shanghai. The economic growth rebound since late spring has proved difficult. The authorities are enhancing fiscal and monetary easing measures. However, factors constraining growth remain significant: the correction in the property sector continues, and the deterioration in the labour market, the still tight zero Covid strategy and weak household confidence weigh on private consumption. Moreover, exports are expected to suffer from the slowdown in global demand. Consumer price inflation is accelerating only moderately..

EUROZONE

The look in the rear-view mirror is fairly favorable. The first half of 2022 was better than expected, leading to a comfortable growth carry-over a bit above 3%. However, the outlook for the coming quarters is negative: according to our forecasts, the Eurozone will not escape a contraction of its GDP. The current unprecedented combination of shocks (inflation, health, geopolitical, energy, climate, monetary) should overcome the resilience observed so far. We already have signs of this in the deterioration in confidence surveys, which has intensified over the summer. However, the recession should remain limited in scope thanks to the support of fiscal measures and as long as the labor market continues to perform well as it is now. In annual average terms, we expect Eurozone growth to reach 2.8% in 2022 but only 0.3% in 2023 (2 points lower than in our previous scenario in June). Regarding inflation, we forecast it will soon reach its peak, nearing 10% y/y, before engaging in a rather slow disinflation process in 2023.

FRANCE

Real GDP growth has surprised on the upside in the 2nd quarter of 2022 (+0.5% q/q after -0.2% in the 1st quarter), mainly as a result of tourism (positive contribution of net exports) and accommodation & catering following the unwinding of the bulk of Covid related restrictions. However, inflation has continued to accelerate (reaching a peak of 6.1% y/y in July) and household purchasing power has reduced for a second quarter in a row (-1.1% q/q during the 2nd quarter). Backlog of orders in the manufacturing have continued to decrease, and GDP growth should follow (we expect 0.5% in 2023 after 2.3% in 2022).

RATES AND EXCHANGE RATES

In the US, the Federal Reserve will continue its tightening policy at a swift pace. After the 75bp hike in September, further increases will follow in November and December, bringing the federal funds rate to its terminal rate for this cycle at 4.50% (upper end of the target range). This level should be maintained through 2024. The Fed's hawkish stance is motivated by the particularly elevated inflation and a strong labour market. When the economy slows down and inflation will be on a downward path, the Federal Reserve should adapt its guidance to achieve a soft landing. This implies that US Treasury yields should move higher in the near term, reflecting the prospect of monetary policy tightening. In the course of next year we expect somewhat lower yields as growth slows and inflation declines.

After the 50bp rate hike in July and the 75bp increase in September, the ECB Governing Council will continue to raise its policy rates at its next meetings. Policy tightening is frontloaded, which means that the terminal rate -i.e. the peak rate in this cycle- should be reached by the end of the first quarter of next year. We expect a peak for the deposit rate at 3.00%. This should cause an increase in Bund yields.

The Bank of Japan is expected to maintain its current policy stance, at least until Governor Kuroda's term ends in the spring of 2023. Thereafter, we expect a less dovish policy and a one-off rate hike in the fourth quarter of 2023.

We expect the dollar to weaken somewhat versus the euro. The dollar's valuation is expensive, positioning in the market is very long and the long-term interest rate differential should narrow. The yen has already weakened significantly versus the dollar, reflecting the prospect of increased policy divergence between the Fed and the Bank of Japan. We expect the exchange rate to remain around current levels for the remainder of the year. In 2023, the yen should strengthen versus the dollar considering that the federal funds rate should have reached its terminal rate and that the Bank of Japan is expected to tighten policy.

GDP GROWTH & INFLATION

	GDP Growth				Inflation			
%	2021	2022 e	2023 e	2024 e	2021	2022 e	2023 e	2024 e
United-States	5,7	1,7	1,0	0,9	4,7	8,0	4,4	3,9
Japan	1,7	1,3	0,8	0,6	-0,2	2,2	1,1	0,6
United-Kingdom	7,4	3,4	-0,1	1,4	2,6	9,6	9,3	1,7
Euro Area	5,3	2,8	0,3	1,5	2,6	8,3	6,0	2,4
Germany	2,6	1,4	0,4	1,7	3,2	8,1	4,7	2,4
France	6,8	2,3	0,5	1,5	2,1	5,8	4,2	2,2
Italy	6,6	3,4	0,4	1,6	1,9	8,3	6,1	2,2
Spain	5,1	4,3	0,5	1,7	3,0	8,9	4,5	1,9
China	8,1	3,0	5,3	5,0	0,9	2,3	3,1	2,5
India*	9,3	8,3	6,2	6,5	5,4	7,9	5,9	5,5
Brazil	4,6	1,5	0,0	1,2	8,3	11,0	7,1	4,3
Russia	4,5	-7,0	0,8	0,3	7,1	14,0	10,5	7,6

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, % End of period		Q2 2022	Q4 2022 e	Q1 2023 e	Q2 2023 e	Q4 2023 e
US	Fed Funds (upper limit)	1.75	4.50	4.50	4.50	4.50
	T-Note 10y	2.97	3.55	3.50	3.45	3.30
Eurozone	Deposit rate	-0.50	2.25	3.00	3.00	3.00
	Bund 10y	1.37	1.90	2.20	2.20	2.10
	OAT 10y	1.80	2.55	2.90	2.85	2.75
	BTP 10y	3.29	4.40	4.60	4.50	4.40
	BONO 10y	2.46	3.20	3.70	3.60	3.50
UK	Base rate	1.25	4.00	5.00	5.00	5.00
	Gilts 10y	2.21	4.75	4.85	4.50	4.40
Japan	BoJ Rate	-0.04	-0.10	-0.10	-0.10	0.00
	JGB 10y	0.23	0.25	0.25	0.25	0.45

Exchange Rates End of period		Q2 2022	Q4 2022 e	Q1 2023 e	Q2 2023 e	Q4 2023 e
USD	EUR / USD	1.05	1.00	1.01	1.02	1.06
	USD / JPY	136	137	135	133	127
	GBP / USD	1.21	1.05	1.12	1.12	1.12
EUR	EUR / GBP	0.86	0.95	0.95	0.95	0.95
	EUR / JPY	142	137	136	136	135

Brent End of period		Q2 2022	Q4 2022 e	Q1 2023 e	Q2 2023 e	Q4 2023 e
Brent	USD/bbl	115	100	102	107	115

Forecasts as of 6 September unless mentioned otherwise.
Fed Funds Rate and US 10-Year : forecast as of 21 September
BoE Rate, Gilt 10-Year, GBP/USD and EUR/GBP : forecast as of 28 September
Eurozone Deposit Rate: forecast as of 29 September

SOURCES: BNP PARIBAS (E: ESTIMATES & FORECASTS) (MARKET ECONOMICS, INTEREST RATE STRATEGY, FX STRATEG, COMMODITIES DESK STRATEGY) , * LAST UPDATE 09/05/2022

CALENDAR

LATEST INDICATORS

Most indicators were weaker. In China the two manufacturing PMIs gave conflicting signals, one being down compared to the previous month and the other moving slightly higher. The non-manufacturing PMI disappointed with a surprising large decline. In the Eurozone, the European Commission's survey showed a weakening across the board in the business environment. The unemployment rate was stable. Inflation has reached the 10.0% threshold and core inflation was also up to 4.8%. French consumer confidence declined more than anticipated. In Germany, the IFO business climate deteriorated and the expectations component dropped even more than the assessment of the current situation. Consumer confidence also recorded a huge decline. In Japan, the services PMI moved higher whereas the manufacturing PMI edged lower. Consumer confidence dropped, whereas the consensus had expected an improvement. In the US, the Conference Board consumer confidence index improved and initial jobless claims were down significantly. Personal spending picked up more than expected. Finally, University of Michigan sentiment showed an improved of the current situation but expectations were down.

DATE	COUNTRY	INDICATOR	PERIOD	SURVEY	ACTUAL	PREVIOUS
09/26/2022	Japan	Jibun Bank Japan PMI Services	Sep	--	51.9	49.5
09/26/2022	Japan	Jibun Bank Japan PMI Mfg	Sep	--	51.0	51.5
09/26/2022	Germany	IFO Business Climate	Sep	87.0	84.3	88.5
09/26/2022	Germany	IFO Current Assessment	Sep	96.0	94.5	97.5
09/26/2022	Germany	IFO Expectations	Sep	79.0	75.2	80.3
09/26/2022	Eurozone	OECD Publishes Interim Economic Outlook	Sep	--	--	--
09/27/2022	United States	Conf. Board Consumer Confidence	Sep	104.6	108.0	103.2
09/27/2022	United States	Conf. Board Present Situation	Sep	--	149.6	145.4
09/27/2022	United States	Conf. Board Expectations	Sep	--	80.3	75.1
09/27/2022	United States	New Home Sales MoM	Aug	-2.2%	28.8%	-12.60%
09/28/2022	Germany	GfK Consumer Confidence	Oct	-39.0	-42.5	-36.5
09/28/2022	France	Consumer Confidence	Sep	80.0	79.0	82
09/29/2022	Eurozone	Economic Confidence	Sep	95.0	93.7	97.6
09/29/2022	Eurozone	Industrial Confidence	Sep	-0.7	-0.4	1.2
09/29/2022	Eurozone	Services Confidence	Sep	7.0	4.9	8.7
09/29/2022	Eurozone	Consumer Confidence	Sep	--	-28.8	-28.8
09/29/2022	United States	Initial Jobless Claims	Sep	215k	193k	213k
09/30/2022	China	Manufacturing PMI	Sep	49.7	50.1	49.4
09/30/2022	China	Non-manufacturing PMI	Sep	52.4	50.6	52.6
09/30/2022	China	Caixin China PMI Mfg	Sep	49.5	48.1	49.5
09/30/2022	Japan	Consumer Confidence Index	Sep	33.3	30.8	32.5
09/30/2022	France	CPI EU Harmonized MoM	Sep	-0.1%	-0.5%	0.50%
09/30/2022	France	CPI EU Harmonized YoY	Sep	6.6%	6.2%	6.60%
09/30/2022	Eurozone	Unemployment Rate	Aug	6.6%	6.6%	6.60%
09/30/2022	Eurozone	CPI Estimate YoY	Sep	9.7%	10.0%	9.10%
09/30/2022	Eurozone	CPI MoM	Sep	0.9%	1.2%	0.60%
09/30/2022	Eurozone	CPI Core YoY	Sep	4.7%	4.8%	4.30%
09/30/2022	United States	Personal Income	Aug	0.3%	0.3%	0.20%
09/30/2022	United States	Personal Spending	Aug	0.2%	0.4%	0.10%
09/30/2022	United States	U. of Mich. Sentiment	Sep	59.5	58.6	59.5
09/30/2022	United States	U. of Mich. Current Conditions	Sep	58.9	59.7	58.9
09/30/2022	United States	U. of Mich. Expectations	Sep	59.9	58.0	59.9
09/30/2022	United States	U. of Mich. 1 Yr Inflation	Sep	4.6%	4.7%	4.60%
09/30/2022	United States	U. of Mich. 5-10 Yr Inflation	Sep	2.8%	2.7%	2.80%

SOURCE: BLOOMBERG

CALENDAR: THE WEEK AHEAD

COMING INDICATORS

An important week ahead of us with key data releases that will improve our understanding of how the major economies have been doing in September: PMIs (manufacturing, services, composite) in several countries complemented in the US with the ISM surveys in manufacturing and services. Japan will publish the Tankan survey. The highlight of the week is of course the labour market report in the US.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	PREVIOUS
10/03/2022	Japan	Tankan Large Mfg Outlook	3Q	11	10
10/03/2022	Japan	Tankan Large Non-Mfg Index	3Q	13	13
10/03/2022	Japan	Jibun Bank Japan PMI Mfg	Sep	--	51
10/03/2022	France	S&P Global France Manufacturing PMI	Sep	--	47,8
10/03/2022	Germany	S&P Global/BME Germany Manufacturing PMI	Sep	--	48,3
10/03/2022	Eurozone	S&P Global Eurozone Manufacturing PMI	Sep	--	48,5
10/03/2022	United Kingdom	S&P Global/CIPS UK Manufacturing PMI	Sep	--	48,5
10/03/2022	United States	S&P Global US Manufacturing PMI	Sep	--	51,8
10/03/2022	United States	ISM Manufacturing	Sep	52,8	52,8
10/03/2022	United States	ISM Prices Paid	Sep	--	52,5
10/03/2022	United States	ISM New Orders	Sep	--	51,3
10/03/2022	United States	ISM Employment	Sep	--	54,2
10/04/2022	Eurozone	PPI MoM	Aug	--	4,00%
10/04/2022	United States	Cap Goods Orders Nondef Ex Air	Aug	--	1,30%
10/04/2022	United States	JOLTS Job Openings	Aug	--	11239k
10/05/2022	Japan	Jibun Bank Japan PMI Services	Sep	--	51,9
10/05/2022	France	S&P Global France Services PMI	Sep	--	53
10/05/2022	Germany	S&P Global Germany Services PMI	Sep	--	45,4
10/05/2022	Eurozone	S&P Global Eurozone Services PMI	Sep	--	48,9
10/05/2022	United States	S&P Global US Services PMI	Sep	--	49,2
10/05/2022	United States	ISM Services Index	Sep	56,5	56,9
10/06/2022	Germany	S&P Global Germany Construction PMI	Sep	--	42,6
10/06/2022	United Kingdom	S&P Global/CIPS UK Construction PMI	Sep	--	49,2
10/06/2022	Eurozone	Retail Sales MoM	Aug	--	0,30%
10/06/2022	United States	Initial Jobless Claims	Oct	--	--
10/07/2022	United States	Change in Nonfarm Payrolls	Sep	250k	315k
10/07/2022	United States	Unemployment Rate	Sep	3,70%	3,70%

SOURCE: BLOOMBERG

FURTHER READING

Key figures of the French economy	Pocket Atlas	3 October 2022
EcoPerspectives : The recession narrative	EcoPerspectives	30 September 2022
Spain: Complete reversal of real estate financing model in 12 years	Chart of the Week	28 September 2022
United States: vacancies, job turnover and disinflation	EcoWeek	26 September 2022
France: After inflation comes recession?	EcoTVWeek	23 September 2022
Global: Developed economies: housing prices and bubble risk	Chart of the Week	21 September 2022
Global: The monetary cycle: from panic to perseverance to patience	EcoWeek	19 September 2022
Latin America : the mechanisms of inflation	EcoTVWeek	17 September 2022
Global : 2022, towards a likely new record in CO2 emissions	Chart of the Week	15 September 2022
Global : What drives the pace of disinflation?	EcoWeek	12 September 2022
Eurozone: a positive first half of the year to be followed by a negative second half?	EcoTVWeek	9 September 2022
Sweden: Can populist forces take power in Sweden?	EcoFlash	9 September 2022
Chile: rejection of the draft constitution	Chart of the Week	7 September 2022
Global: Towards a frugal winter	EcoWeek	5 September 2022
Monetary policy : from theory without end to the end of theory	EcoTVWeek	2 September 2022
Eurozone: the rise in corporate bond yields makes bank lending more attractive for non-financial corporations	Chart of the Week	31 July 2022
Global: The new meaning of 'whatever it takes'	EcoWeek	29 July 2022
Heightened risk despite agreement with IMF	Chart of the Week	27 July 2022
France : Reconciling short-term and medium-term challenges	Conjoncture	26 July 2022
Eurozone : ECB: Into a new era	EcoWeek	25 July 2022

GROUP ECONOMIC RESEARCH

William De Vijlder Chief Economist	+33 1 55 77 47 31	william.devijlder@bnpparibas.com

OECD ECONOMIES AND STATISTICS

Hélène Baudchon Head - Eurozone - Climate	+33 1 58 16 03 63	helene.baudchon@bnpparibas.com
Félix Berte United States, United Kingdom	+33 1 40 14 01 42	felix.berte@bnpparibas.com
Stéphane Colliac France	+33 1 42 98 43 86	stephane.colliac@bnpparibas.com
Guillaume Derrien Southern Europe, Japan - International trade	+33 1 55 77 71 89	guillaume.a.derrien@bnpparibas.com
Anthony Morlet-Lavidalie Germany, Northern Europe	+33 1 53 31 59 14	anthony.morletlavidalie@bnpparibas.com
Veary Bou, Tarik Rharrab Statistics		

ECONOMIC PROJECTIONS, RELATIONSHIP WITH THE FRENCH NETWORK

Jean-Luc Proutat Head	+33 1 58 16 73 32	jean-luc.proutat@bnpparibas.com

BANKING ECONOMICS

Laurent Quignon Head	+33 1 42 98 56 54	laurent.quignon@bnpparibas.com
Céline Choulet	+33 1 43 16 95 54	celine.choulet@bnpparibas.com
Thomas Humblot	+33 1 40 14 30 77	thomas.humblot@bnpparibas.com
Marianne Mueller	+33 1 40 14 48 11	marianne.mueller@bnpparibas.com

EMERGING ECONOMIES AND COUNTRY RISK

François Faure Head – Argentina, Turkey – Methodology, Modelling	+33 1 42 98 79 82	francois.faure@bnpparibas.com
Christine Peltier Deputy Head – Greater China, Vietnam – Methodology	+33 1 42 98 56 27	christine.peltier@bnpparibas.com
Stéphane Alby Africa (French-speaking countries)	+33 1 42 98 02 04	stephane.alby@bnpparibas.com
Pascal Devaux Middle East, Balkan countries	+33 1 43 16 95 51	pascal.devaux@bnpparibas.com
Hélène Drouot South Korea, Philippines, Thailand, Andean countries	+33 1 42 98 33 00	helene.drouot@bnpparibas.com
Perrine Guérin South Africa & English/Portuguese-speaking African countries	+33 1 42 98 43 86	perrine.guerin@bnpparibas.com
Salim Hammad Latin America	+33 1 42 98 74 26	salim.hammad@bnpparibas.com
Cynthia Kalasopatan Antoine Ukraine, Central European countries	+33 1 53 31 59 32	cynthia.kalasopatan.antoine@bnpparibas.com
Johanna Melka India, South Asia, Russia, Kazakhstan	+33 1 58 16 05 84	johanna.melka@bnpparibas.com

CONTACT MEDIA

Mickaelle Fils Marie-Luce	+33 1 42 98 48 59	mickaelle.filsmarie-luce@bnpparibas.com

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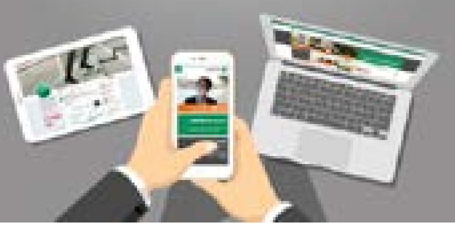

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