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ECONOMIC RESEARCH

BNP PARIBAS

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world

CENTRAL BANKS: SAME OBJECTIVE, DIFFERENT DATA, DIFFERENT POLICIES

It was a rare coincidence that last week, four major central banks – the Federal Reserve, the ECB, the Bank of England and the Bank of Japan – held their monetary policy meeting. Considering that they all target 2% inflation, their decisions shed light on the role of differences in terms of approach as well as in the economic environment and outlook. However, they share a preparedness to react when circumstances require. Given the mounting concern about the Omicron variant, more than ever, monetary policy is data-dependent.

It was a rare coincidence that last week, four major central banks – the Federal Reserve, the ECB, the Bank of England and the Bank of Japan – held their monetary policy meeting. Considering that they all target 2% inflation, their decisions shed light on the role of differences in terms of approach as well as in the economic environment and outlook. The monetary policy committee (MPC) of the Bank of England (BoE) created a surprise by increasing its policy rate – the Bank Rate – by 0.15 percentage points, to 0.25%.[1] This decision was taken whilst acknowledging that the *"Omicron variant poses downside risks to activity in early 2022, although the balance of its effects on demand and supply, and hence on medium-term global inflationary pressures, is unclear"* and despite the expectation that this variant, in combination with additional government measures as well as voluntary social distancing, would push down GDP in December and the first quarter of 2022. What pushed the MPC to hike the policy rate was the inflation environment –*"there has been significant upside news in core goods and, to a lesser extent, services price inflation"*- and outlook, with inflation expected to peak at around 6% in April 2022. The labour market is tight and signs of greater domestic cost and price pressures are building. Moreover, the BoE considers the impact of Omicron on inflation to be unclear. Considering the lags between monetary policy changes and inflation, a medium-term approach is warranted, hence the rate hike.

In the US, the Federal Open Market Committee decided to speed up the reduction in its asset purchases *"in light of the strengthening labor market and elevated inflation pressures."*[2] This accelerated tapering was widely expected, following recent statements of Jerome Powell and other FOMC members. Their assessment is *"aggregate demand remains very strong, buoyed by fiscal and monetary policy support and the healthy financial positions of households and businesses."* More important as a hawkish signal is the upward revision of the median projection of the FOMC members for the federal funds rate to 0.9% at the end of next year (0.3% in the projections of last September) and 1.6% in 2023 (1.0% previously).[3] Moreover, J. Powell stated during the press conference that, should inflation remain high, the policy rate could be increased before achieving maximum employment.[4] With net asset purchases scheduled to end mid-March next year, it seems that the first rate hike will come soon thereafter and the Fed chair gave a clear hint in that respect. In the previous cycle, there was quite a long separation between the end of QE and the first rate hike but he does not think that is at all likely in this cycle.

The ECB's decision to stop its net asset purchases in March 2022 under the Pandemic Emergency Purchase Programme was widely expected but the temporary and limited increase of the 'traditional' Asset Purchase Programme suggests that the governing council is expecting that in the medium run, inflation will evolve in such a way that a further normalisation of monetary policy will become possible[5].

1. Bank of England, Monetary Policy Summary and minutes of the Monetary Policy Committee meeting ending on 15 December 2021.
2. Federal Reserve, Transcript of Chair Powell's press conference, 15 December 2021.
3. The FOMC also expects a faster decline in the unemployment rate and a slower decline in inflation.
4. The FOMC has set two conditions for a rate hike: inflation above target for a sufficiently long time and employment having reached its maximum level. This second condition could be dropped based on the balanced approach provision, whereby the distance from the goal and the speed at which it is being approached need to be taken into account.
5. 'Further normalisation' would consist of tapering the APP, to be followed by an increase of the deposit rate.

CORE INFLATION, Y/Y %

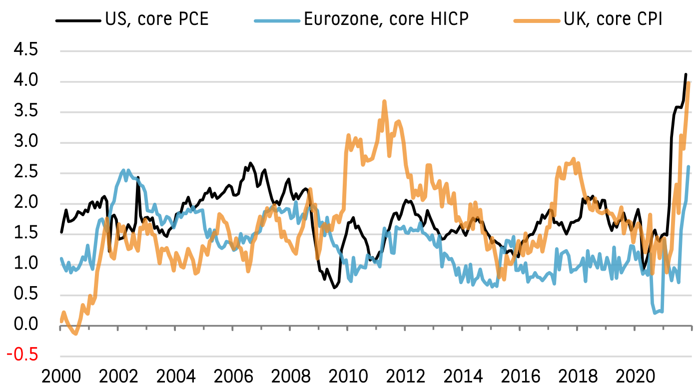


CHART 1

SOURCE: BEA, EUROSTAT, ONS, BNP PARIBAS

> The Federal Reserve, the ECB, the Bank of England and the Bank of Japan have one thing in common, which is a preparedness to react when circumstances require. Christine Lagarde put it very nicely during her press conference: "we are driven by data".

Finally, the Bank of Japan announced its version of tapering. Purchases of commercial paper and corporate bonds will, from April 2022 onward, return to the pre-Covid-19 pace. However, the 'Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19)' will be extended in part by six months until the end of September 2022, to support the financing of mainly small and medium-sized firms.[6] However, there is no prospect of any change in its interest rate policy.

Although the four central banks have the same inflation target of 2%[7], the differences in terms of their latest decisions may, at first glance, be puzzling. To some degree, they reflect differences in the importance given to the Omicron-related uncertainty. The Bank of England acknowledges that it might weigh on growth but it is more focusing on inflation, where the Omicron impact is not clear. The Federal Reserve seems to give less weight to the new variant, which reflects its conviction that the economy is strong and hence should be resilient. The ECB insists that *"the balance between the inflationary or deflationary impact that omicron will have is still totally uncertain"*, which explains its preference to *"keep flexibility and optionality in order to respond to change of circumstances"*[8]. Moreover, the different countries are at different stages of the cycle, in terms of inflation, the unemployment rate, etc. The four central banks have one thing in common however, which is a preparedness to react when circumstances require. Christine Lagarde put it very nicely during her press conference: *"we are driven by data"*.

William De Vijlder

US: MANUFACTURING PMI PRICE PRESSURES

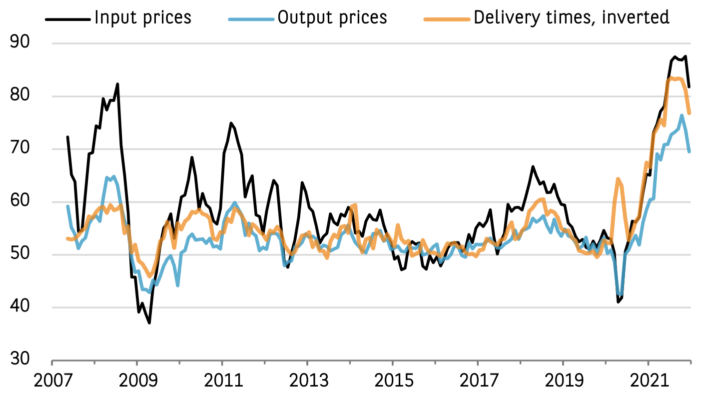


CHART 2

SOURCE: IHS MARKIT, BNP PARIBAS

EUROZONE: MANUFACTURING PMI PRICE PRESSURES

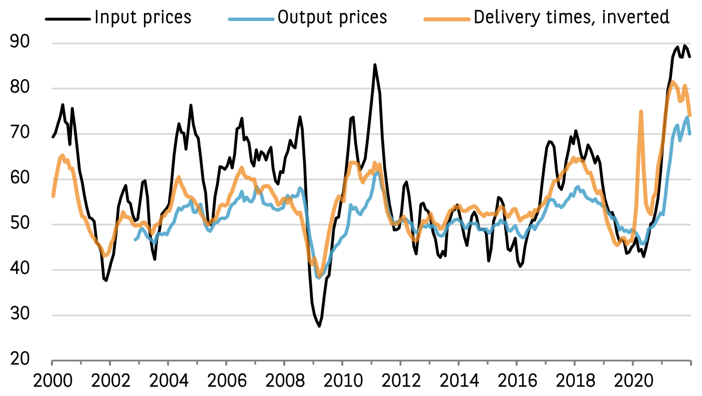


CHART 3

SOURCE: IHS MARKIT, BNP PARIBAS

UK: MANUFACTURING PMI PRICE PRESSURES

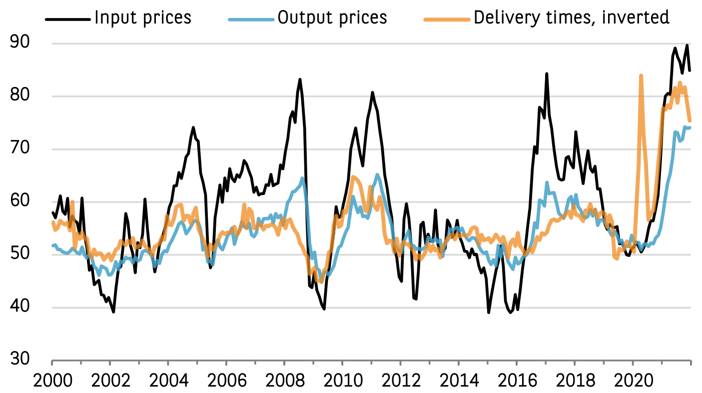


CHART 4

SOURCE: IHS MARKIT, BNP PARIBAS

6. Bank of Japan, Statement on monetary policy, 17 December 2021.
7. For the Federal Reserve, this target is part of the flexible average inflation targeting approach.
8. ECB, Monetary policy statement and press conference, Christine Lagarde, President of the ECB, Luis de Guindos, Vice-President of the ECB, Frankfurt am Main, 16 December 2021

MARKETS OVERVIEW

OVERVIEW

Week 10-12 21 to 17-12-21				
↘ CAC 40	6 992 ▶	6 927	-0.9	%
↘ S&P 500	4 712 ▶	4 621	-1.9	%
↗ Volatility (VIX)	18.7 ▶	21.6	+2.9	pb
↗ Euribor 3M (%)	-0.59 ▶	-0.58	+0.7	bp
↗ Libor $ 3M (%)	0.20 ▶	0.21	+1.4	bp
↘ OAT 10y (%)	-0.08 ▶	-0.09	-1.8	bp
↘ Bund 10y (%)	-0.35 ▶	-0.37	-2.3	bp
↘ US Tr. 10y (%)	1.47 ▶	1.40	-6.9	bp
↘ Euro vs dollar	1.13 ▶	1.13	-0.3	%
↗ Gold (ounce, $)	1 785 ▶	1 803	+1.0	%
↘ Oil (Brent, $)	75.3 ▶	73.6	-2.3	%

MONEY & BOND MARKETS

Interest Rates			highest 21			lowest 21		
€	ECB	0.00	0.00	at	01/01	0.00	at	01/01
	Eonia	-0.49	-0.47	at	26/01	-0.50	at	01/01
	Euribor 3M	-0.58	-0.53	at	07/05	-0.61	at	14/12
	Euribor 12M	-0.51	-0.44	at	01/11	-0.52	at	02/02
$	FED	0.25	0.25	at	01/01	0.25	at	01/01
	Libor 3M	0.21	0.24	at	13/01	0.11	at	09/09
	Libor 12M	0.53	0.53	at	17/12	0.22	at	06/09
£	BoE	0.25	0.25	at	16/12	0.10	at	01/01
	Libor 3M	0.22	0.25	at	28/10	0.03	at	01/01
	Libor 12M	0.73	0.85	at	28/10	0.07	at	11/01

At 17-12-21

Yield (%)			highest 21		lowest 21	
€	AVG 5-7y	-0.20	0.03	at 29/10	-0.46	at 04/01
	Bund 2y	-0.71	-0.58	at 29/10	-0.82	at 19/11
	Bund 10y	-0.37	-0.09	at 22/10	-0.60	at 04/01
	OAT 10y	-0.09	0.23	at 17/05	-0.41	at 04/01
	Corp. BBB	0.74	0.87	at 29/11	0.43	at 05/08
$	Treas. 2y	0.60	0.65	at 09/12	0.11	at 05/02
	Treas. 10y	1.40	1.75	at 31/03	0.91	at 01/01
	High Yield	5.23	5.45	at 30/11	4.52	at 29/06
£	gilt. 2y	0.52	0.70	at 03/11	-0.08	at 04/01
	gilt. 10y	0.76	1.20	at 21/10	0.21	at 04/01

At 17-12-21

EXCHANGE RATES

1€ =		highest 21			lowest 21			2021
USD	1.13	1.23	at	06/01	1.12	at	24/11	-7.9%
GBP	0.85	0.91	at	06/01	0.84	at	22/11	-5.0%
CHF	1.04	1.11	at	04/03	1.04	at	03/12	-3.9%
JPY	128.12	133.97	at	28/05	125.22	at	18/01	+1.4%
AUD	1.58	1.64	at	20/08	1.53	at	18/03	-0.6%
CNY	7.19	8.00	at	01/01	7.15	at	24/11	-10.2%
BRL	6.40	6.95	at	03/03	5.88	at	24/06	+0.7%
RUB	83.57	92.47	at	20/04	80.71	at	26/10	-7.7%
INR	85.78	90.39	at	23/04	83.30	at	24/11	-4.1%

At 17-12-21 *Change*

COMMODITIES

Spot price, $		highest 21			lowest 21			2021	2021(€)
Oil, Brent	73.6	86.5	at	26/10	51.2	at	04/01	+41.8%	+53.9%
Gold (ounce)	1 803	1 947	at	05/01	1 682	at	08/03	-5.0%	+3.1%
Metals, LMEX	4 366	4 763	at	15/10	3 415	at	01/01	+27.9%	+38.8%
Copper (ton)	9 468	11 300	at	18/10	7 749	at	01/01	+22.2%	+32.6%
wheat (ton)	238	2.9	at	07/05	223	at	10/09	-3.9%	+4.3%
Corn (ton)	229	2.9	at	07/05	188	at	04/01	+2.2%	+31.9%

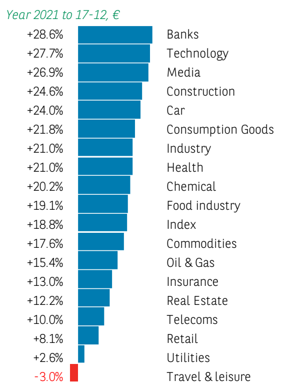
At 17-12-21 *Change*

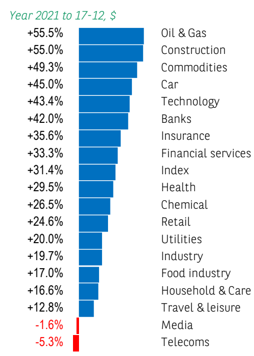
EQUITY INDICES

	Index	highest 21			lowest 21			2021
World								
MSCI World	3 140	3 238	at	08/11	2 662	at	29/01	+16.7%
North America								
S&P500	4 621	4 712	at	10/12	3 701	at	04/01	+23.0%
Europe								
EuroStoxx50	4 161	4 401	at	16/11	3 481	at	29/01	+17.1%
CAC 40	6 927	7 157	at	17/11	5 399	at	29/01	+2.5%
DAX 30	15 532	16 251	at	17/11	13 433	at	29/01	+13.2%
IBEX 35	8 312	9 281	at	14/06	7 758	at	29/01	+0.3%
FTSE100	7 270	7 384	at	11/11	6 407	at	29/01	+1.3%
Asia								
MSCI, loc.	1 135	1 196	at	14/09	1 044	at	06/01	+0.9%
Nikkei	28 546	30 670	at	14/09	27 013	at	20/08	+4.0%
Emerging								
MSCI Emerging ($)	1 216	1 445	at	17/02	1 212	at	30/11	-0.6%
China	83	130	at	17/02	83	at	17/12	-23.5%
India	806	877	at	12/11	659	at	29/01	+24.3%
Brazil	1 449	2 098	at	24/06	1 398	at	01/12	-15.6%
Russia	750	914	at	25/10	647	at	01/02	+12.5%

At 17-12-21 *Change*

PERFORMANCE BY SECTOR (Eurostoxx50 & S&P500)

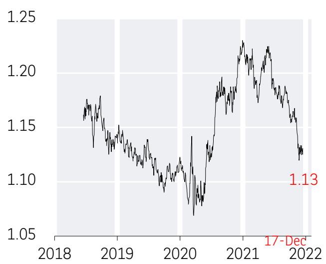




SOURCE: REFINITIV, BNP PARIBAS,

MARKETS OVERVIEW

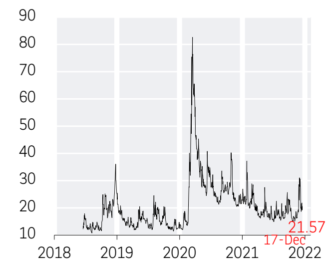
EURO-DOLLAR



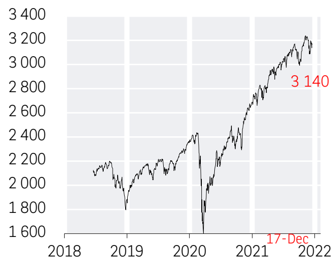
EUROSTOXX50

S&P500

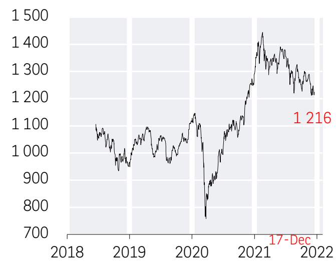
VOLATILITY (VIX, S&P500)



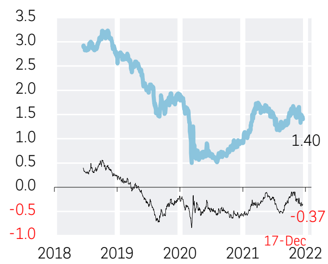
MSCI WORLD (USD)



MSCI EMERGING (USD)

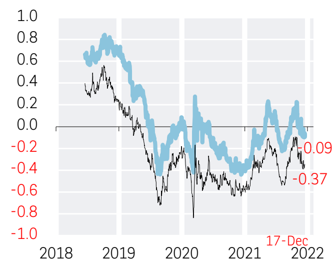


10Y BOND YIELD, TREASURIES VS BUND



—Bunds —US Treasuries

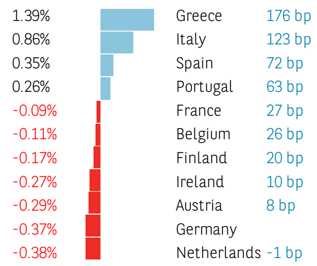
10Y BOND YIELD



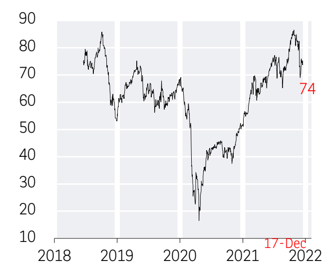
—Bunds —OAT

10Y BOND YIELD & SPREADS

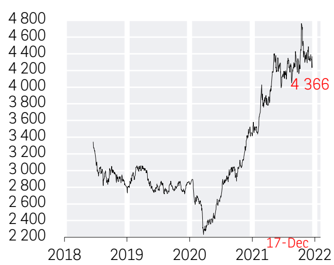
Year 2021 to 17-12



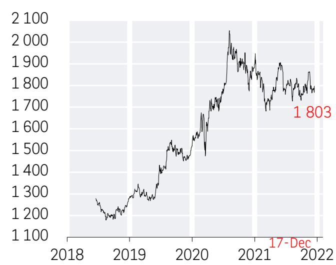
OIL (BRENT, USD)



METALS (LMEX, USD)



GOLD (OUNCE, USD)



SOURCE: REFINITIV, BNP PARIBAS

ECONOMIC PULSE

CHINA: PRIVATE CONSUMPTION STILL LACKS TRACTION

Economic figures for November once again show the dynamic momentum of Chinese exports (+21.4% year-on-year in current dollars), which continues to drive production and investment in the manufacturing sector. Our barometer highlights a deteriorated industrial performance in September-November 2021 compared to the previous 3-month period. Yet the industrial situation has been picking up slowly since October, after major disruptions in September due to power outages and supply chain disruptions. Industrial production rose 3.8% y/y, compared to 3.5% in October.

In the services sector, in contrast, business continued to slow in November (+3.1% y/y compared to +3.8% in October), and private consumption weakened again in recent weeks. Retail sales volumes barely increased in November 2021 compared to the previous year (+0.5%), after three months of mediocre performances. Online sales growth also dipped. Household spending was restricted by repeated lockdown measures and the insistence on a "zero Covid" strategy. The downturn in housing sales (down another 14% y/y in November) also had direct repercussions on demand for durable consumer goods.

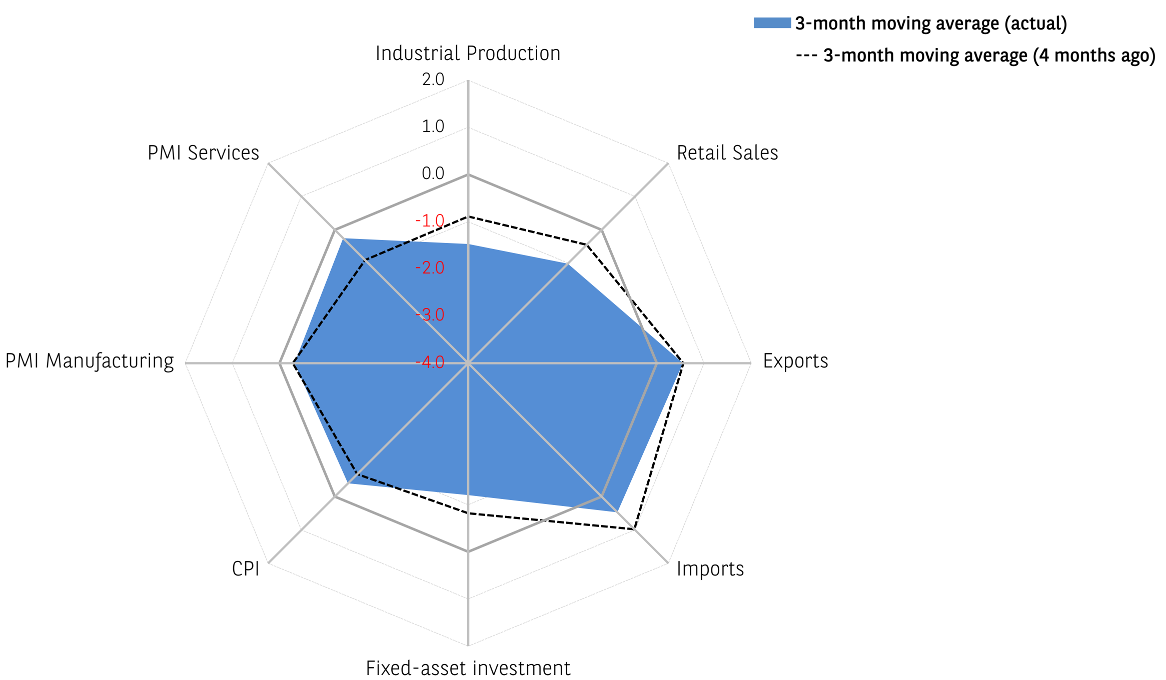
Moreover, the labour market and household revenues were both hampered by the housing crisis, the contraction in construction activity (projects underway declined 24.7% y/y in November) and the difficulties of certain service-sector companies (especially small and mid-sized enterprises). Based on survey results, the urban unemployment rate ticked up slightly in November (to an estimated 5%). Indicative of labour market tensions, the jobless rate for the 16-24 age group still exceeds pre-Covid levels (14.3% in November, compared to a 2019 average of 11.9%).

Lastly, consumer price inflation rose to 2.5% y/y in November, from 1.5% in October and 0.8% in Q3 2021, which may have discouraged household spending as well. Inflation is mainly driven by the rebound in food prices and the knock-on effects following the very big increase in producer prices. Yet the effects are very mild, especially since producer price inflation has begun to slow (+12.9% y/y in November compared to 13.5% in October and 9.7% in Q3 2021).

In the press release following the annual Central Economic Work Conference in mid-December, the authorities suggested that monetary and fiscal support for domestic demand will have to be stepped up in the very short term, mainly via a mild upturn in public investment and targeted measures to facilitate lending. Yet local governments, already restrained by heavy debt burdens and the contraction in real-estate revenues, have less and less room of manoeuvre to increase investment in infrastructure projects. Against expectations, infrastructure investment remained weak in November.

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 +2. 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

JAPAN: ECONOMIC CLIMATE DETERIORATES DESPITE MASSIVE STIMULUS PROGRAMME

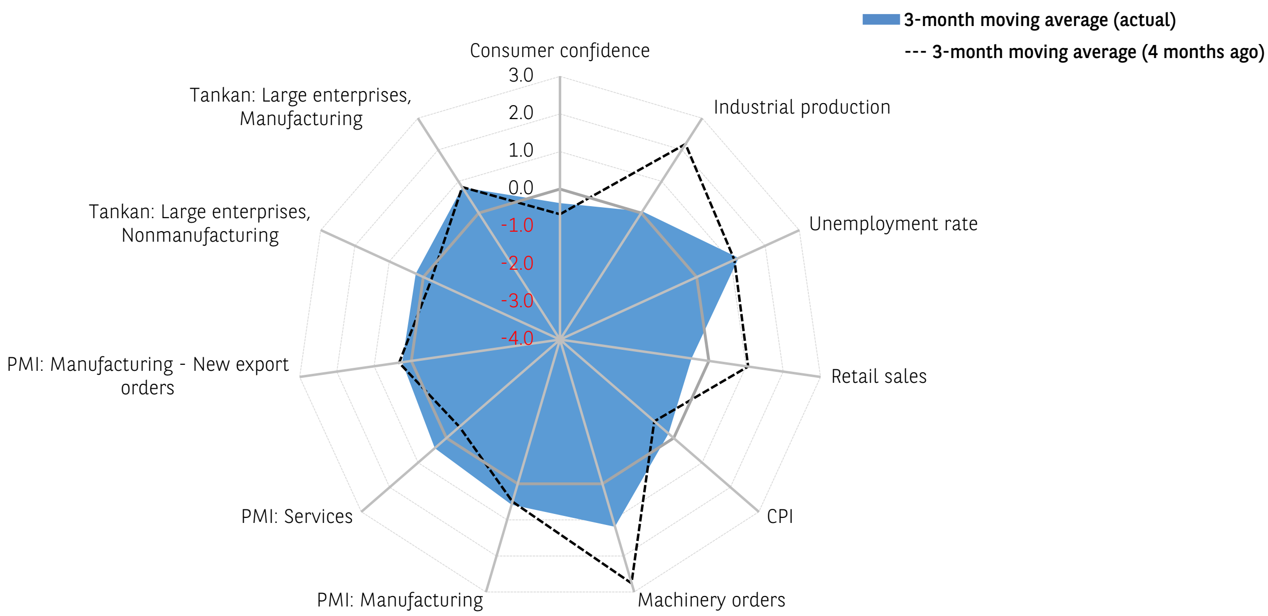
The Japanese economy revived in the fourth quarter after the state of emergency related to the Covid-19 infections was lifted in all prefectures in October. In particular, sentiment in the services sector has clearly improved. The quarterly Tankan survey showed that actual business conditions in the non-manufacturing sector gained 7 points in December compared with three months earlier. Moreover, consumer confidence improved in October and November to levels seen before the outbreak of the pandemic, although remaining low relative to its long-term average. By contrast, the gains in the manufacturing sector were minimal, as activity continues to be affected by supply disruptions and rising production costs that are reducing profit margins. Industrial production growth actually slowed in the three months to October compared to the preceding three-month period.

However, our Pulse is pointing to deteriorating conditions, as the blue area of the spider chart – the economic situation in the past three months – is clearly shrinking compared to the situation in the preceding three months – the area within the dashed line. The December Tankan also shows that business expectations are worsening. First, businesses are concerned about the Omicron variant. As the vaccination programme progresses, its impact is probably less than the Delta variant. Second, the losses in the terms of trade due to the rise in energy prices continue to weigh on profits and purchasing power. Third, ongoing supply chain disruptions are expected to weigh on manufacturing activity for most of 2022. Finally, businesses are uncertain about the policies of the Kishida government, which has abandoned the business reform policies of the Abe era. The employers' organisation Keidanren has given a lukewarm welcome to the new programme "new form of capitalism".

Recently, the Japanese government unveiled a massive stimulus package amounting to some JPY55.7tn or 10% of GDP, of which JPY36 tn for FY2021. However, the largely debt-financed programme is short on details. The package includes very sizeable handouts to families with children, which may help the ruling coalition at next summer's upper house election. The government might remain in campaign mode as local government elections are on the calendar for spring 2023.

Raymond Van Der Putten

JAPAN: QUARTERLY CHANGES



SOURCE: REFINITIV, BNP PARIBAS

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ECONOMIC PULSE

ITALY: STILL GROWING ROBUSTLY

Instead of drastically restricting conditions of activity, the government only made a few adjustments to their policy for combatting the pandemic: the state of emergency was extended for three months to 31 March 2022. Despite the resurging pandemic, business prospects are still looking upbeat this winter. PMI indices are holding at high levels, especially for the manufacturing sector. In November, the manufacturing PMI rose 1.7 points to a new high of 62.8, supported by the improvement of the employment and new orders components. The services PMI also improved, up 3.5 points to 55.9. The composite PMI for the past three months has held steady compared to three previous three months, as shown in the Pulse below.

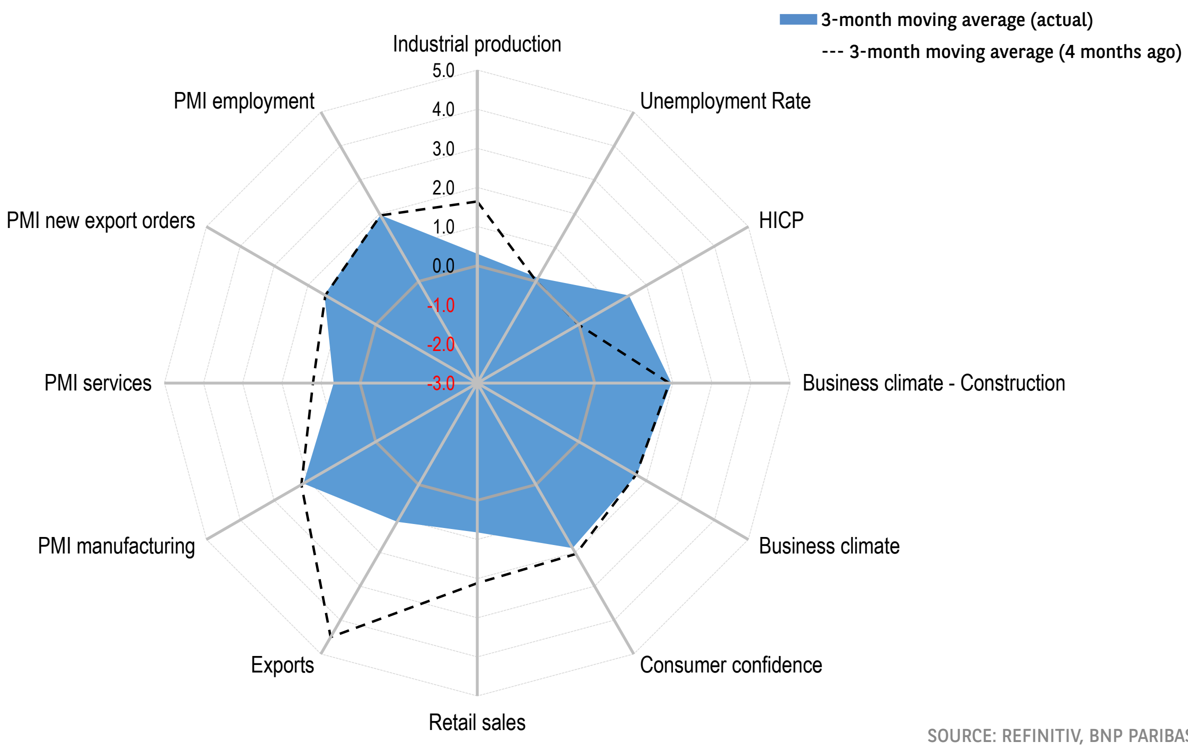
Yet Italy was not spared by an abrupt upturn in inflation, which is still largely due to soaring energy prices. The harmonised index of consumer prices (HICP) rose 3.9% year-on-year in November. Three quarters of this increase can be attributed to energy-related components (electricity & gas, fuel). Moreover, the surge in energy prices was particularly sharp for producer prices in October (+27.7% m/m). It is likely that this jump in costs will spill over to consumer prices in the near term. Inversely, certain components of the HICP are still in deflationary territory (communications, education).

Although the labour market situation has improved, it remains deteriorated. Employment is still down by nearly 250,000 jobs since the beginning of the health crisis, while the size of the active population has shrunk by 380,000. The decline in the labour market participation rate limited the upturn in the unemployment rate to 9.4% in October 2021.

The beginning of 2022 will be marked by the succession of Sergio Mattarella as President of the Republic. Mario Draghi is a serious candidate to replace him. His nomination to this position could have repercussions for the advancement of structural reforms currently underway. However, it should not have a significant impact on Italy's growth trajectory in 2022, which looks solid (+4.9% in 2022 according to our estimates).

Guillaume Derrien

ITALY: QUARTERLY CHANGES



SOURCE: REFINITIV, BNP PARIBAS

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ECONOMIC PULSE

SPAIN: INFLATION IS THE MAJOR OBSTACLE FOR 2022

Despite a substantial increase in new Covid-19 infections since the start of November, the infection rate is currently below those in France or Germany. Meanwhile, concerns about the health situation have had little effect on business confidence so far: the PMI Composite index improved in November (up 1.9 points to 58.3) thanks to better prospects in services. The positive trend in this sector can also be seen in the European Commission survey, which reveals levels of optimism not seen for twenty years. This said, household confidence has fallen back, mainly due to fears of rising consumer prices.

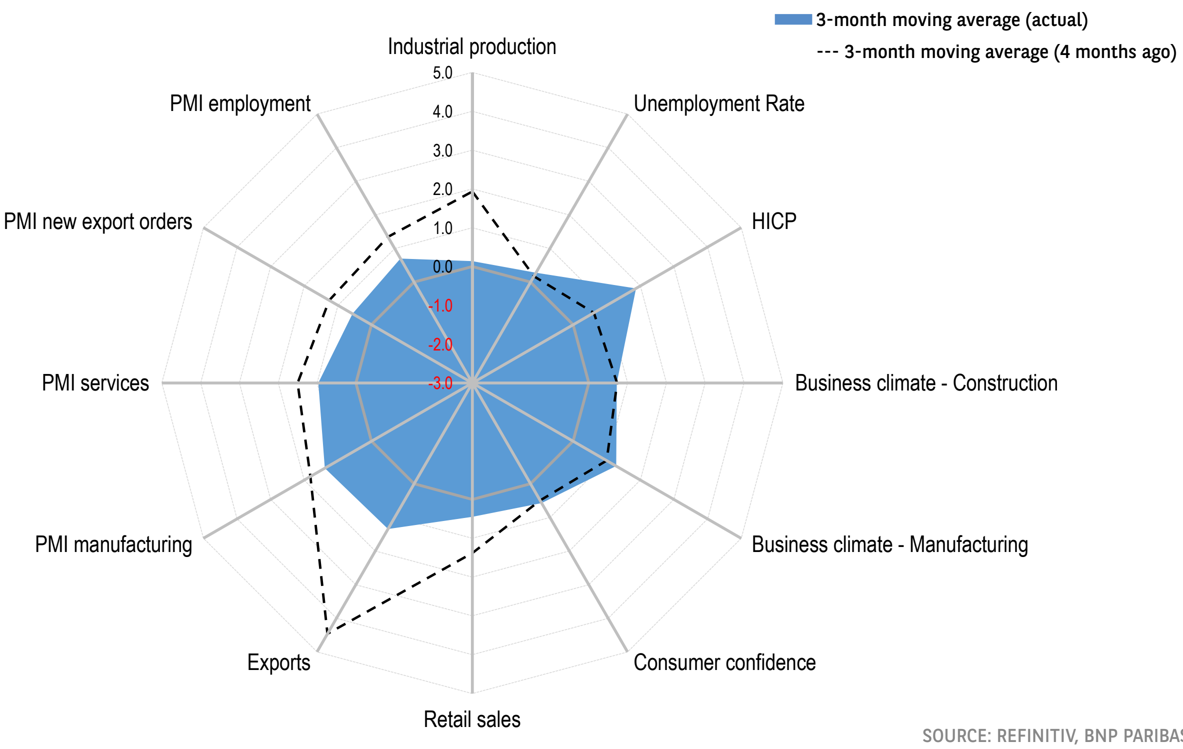
This increase represents a major obstacle to Spanish growth in 2022. Indeed, Spanish inflation will remain high in 2022. As shown in our pulse, the increase in harmonised consumer prices (HICP) has accelerated sharply this autumn (+8.0% in 3m/3m annualised in November) and this will contribute to maintaining significant increases in the annual rate over the next twelve months. There are also strong pressures coming from the housing market (prices are up 9.7% y/y in November).

At the same time, supply problems show little sign of easing. The manufacturing PMI related to delivery times reached a record low in November, at 21.8 (a fall in the index indicates an increase in delivery times). This is likely to slow down production and create further upward pressure on the selling prices of some products.

Given these unstable conditions, fiscal support will remain substantial in 2022. Spain will receive subsidies from the Next Generation EU funds, with the European Commission having officially approved (at the beginning of December) a EUR10 billion payment, due at the end of 2021. Madrid hopes that a further EUR12 billion will be transferred during the first half of 2022, although this payment will be conditional on progress in the labour law reforms currently under negotiations. Despite difficult discussions between unions and government, the latter still plans to finalise these reforms before 31 December 2021, as requested by the European Commission.

Guillaume Derrien

SPAIN: 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 +5. 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.

COVID-19: MOUNTING CONCERN ABOUT THE SPREAD OF THE OMICRON VARIANT

In the week of 8 to 14 December, 4.31 million new Covid-19 cases were reported worldwide, a 5.1% increase compared to the previous week. The biggest weekly increase was in Africa (+111%). New cases also soared in North America, up 23%, due to the increase in contaminations following the Thanksgiving holidays (chart 4, black line). Over the same period, a decline in new cases was observed in South America (-7.4%), Asia (-5%) and Europe (-0.2%), but in Europe this comes after an exponential increase in previous weeks (chart 1). As to the spread of Covid-19 variants, several countries reported confirmed cases of Omicron recently, bringing the total to 67 countries.

Since the beginning of the vaccination campaigns in Q4 2020, 8.6 billion doses of the vaccine have been administered worldwide, including 394 million booster shots. Altogether, 56.2% of the global population has received at least one dose of the vaccine (chart 2).

Retail and leisure footfall continues to trend downwards in Germany and Belgium, while in Italy it seems to be levelling off. In France and Spain, the trend seems to be slightly upwards in recent weeks. Looking beyond recent distortions attributed to the Thanksgiving holiday, the situation in the US seems to be relatively stable, as it is in the UK. Japan continues to report positive momentum (chart 3, blue line).

Lastly, the OECD Weekly Tracker of GDP growth is holding to a downward trend in Germany, and to a lesser extent in Italy, Belgium and France. In the United States and the UK, the Tracker seems to have declined sharply for the most recently available points. The Tracker is still looking upbeat in Japan, and has picked up in Spain after a brief decline (chart 3, black line). The OECD Tracker is based on Google Trends resulting from queries on consumption, the labour market, housing, industrial activity as well as uncertainty. The OECD calculates the tracker over a 2-year period (y/2y) to avoid the base effect of a comparison with 2020 data.

Tarik Rharrab

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

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

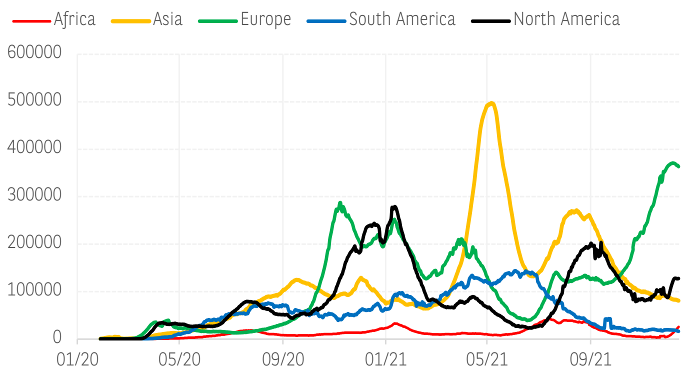


CHART 1 SOURCE: JOHNS-HOPKINS UNIVERSITY (12/15/2021), BNP PARIBAS

SHARE OF PEOPLE WHO RECEIVED AT LEAST ONE DOSE OF VACCINE

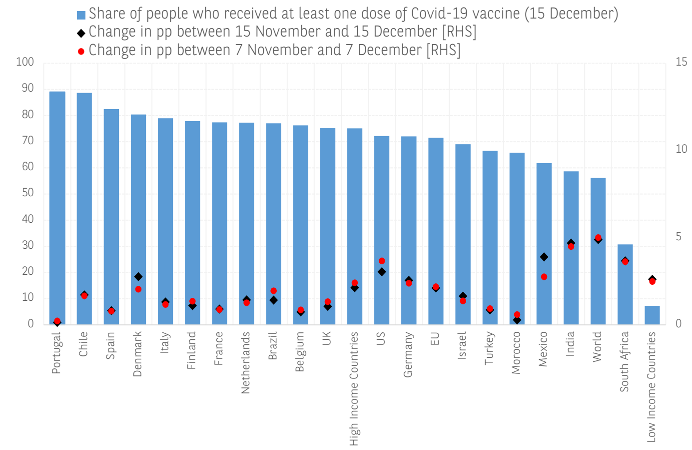
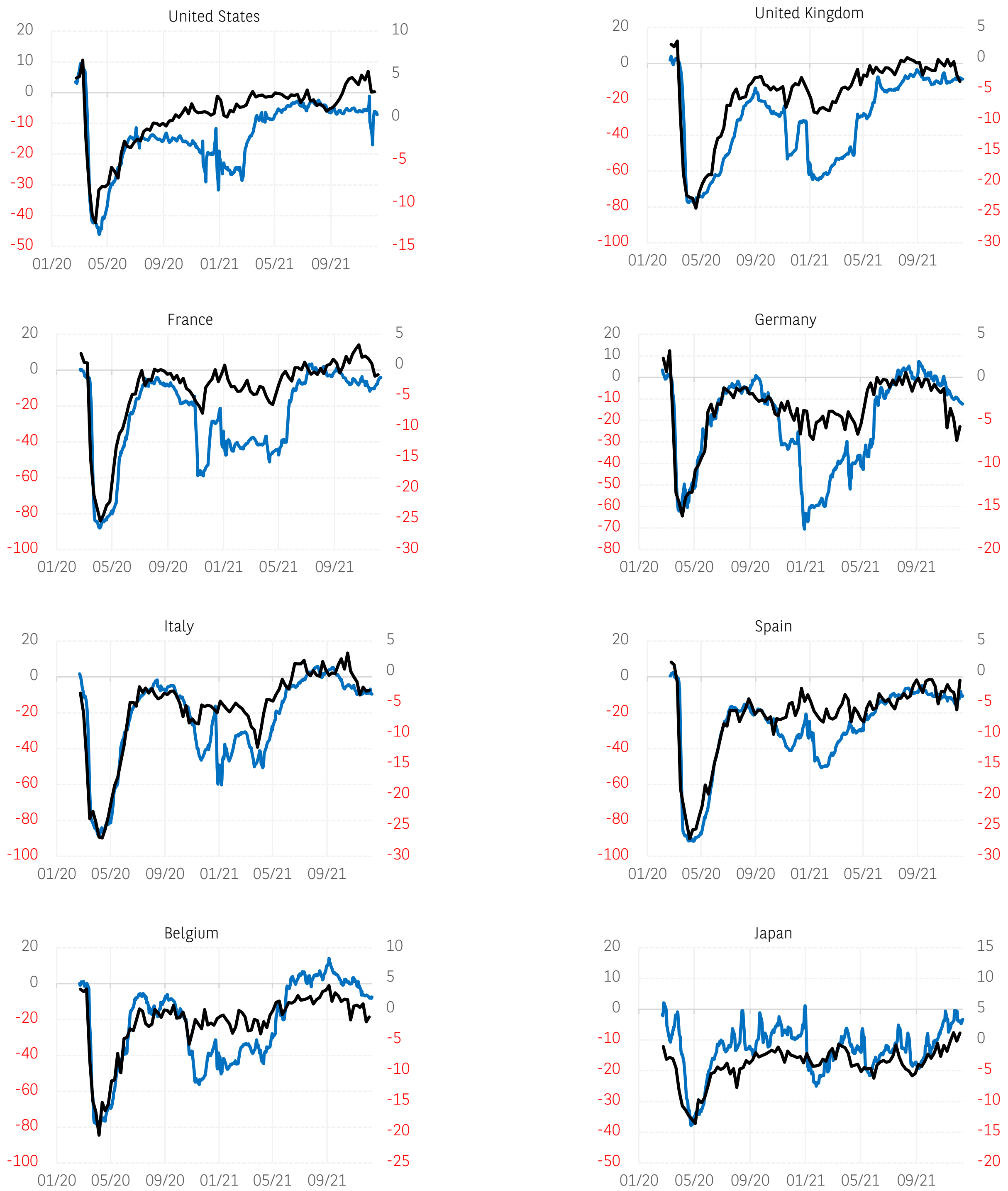


CHART 2 SOURCE: OUR WORLD IN DATA (12/15/2021), BNP PARIBAS

RETAIL AND RECREATION MOBILITY & OECD WEEKLY TRACKER

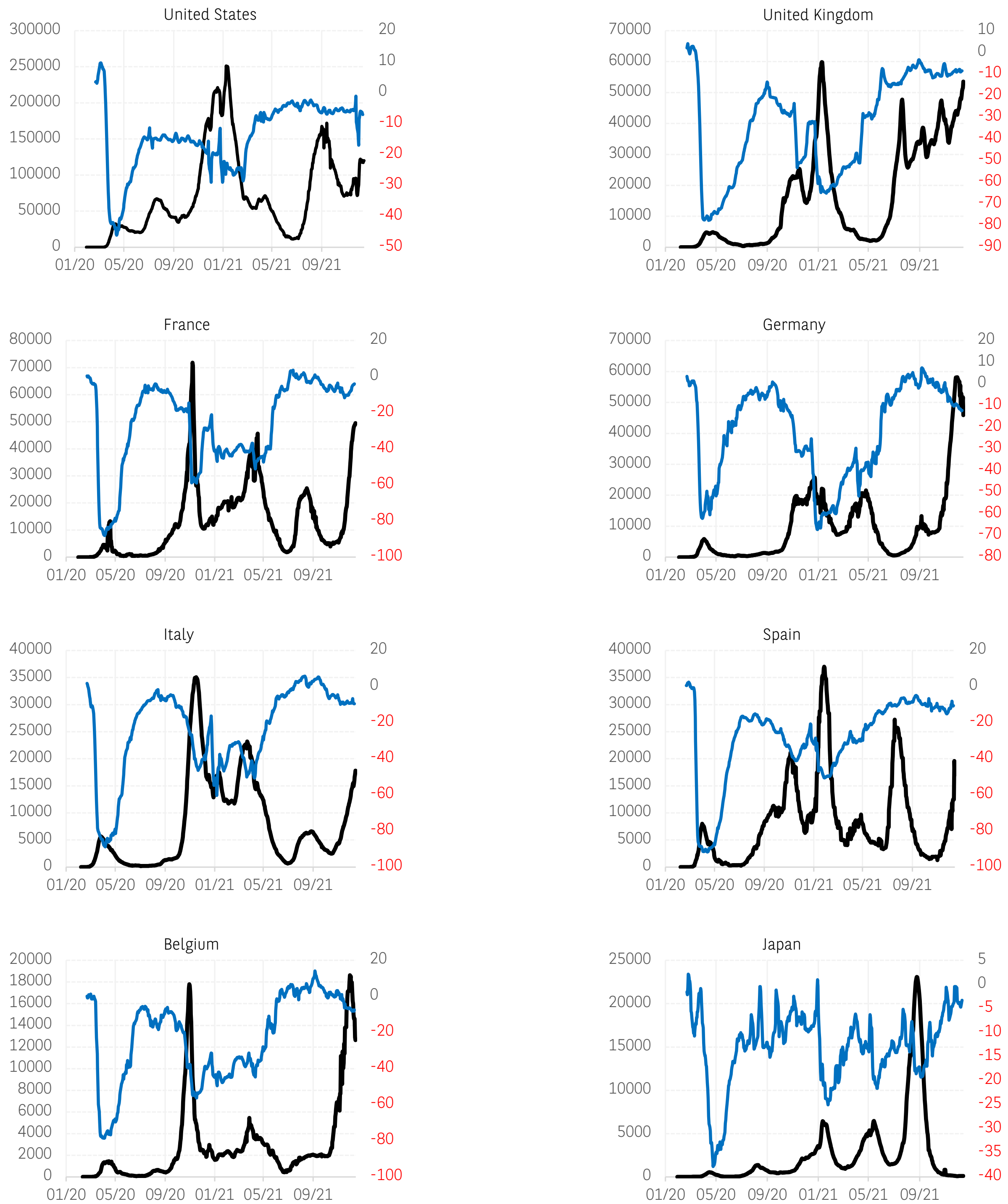
Retail and recreation mobility (7-day moving average, % from baseline*) — OECD Weekly tracker, y/2y GDP growth [RHS]



SOURCE: OECD (12/15/2021), GOOGLE (12/15/2021), BNP PARIBAS

DAILY NEW CASES & RETAIL AND RECREATION MOBILITY

Daily new confirmed cases of Covid-19 (7-day moving average)
Retail and recreation mobility (7-day moving average, % from baseline*)[RHS]



SOURCE: JOHNS-HOPKINS UNIVERSITY (12/15/2021), GOOGLE (12/15/2021), BNP PARIBAS

ECONOMIC SCENARIO

UNITED STATES

Albeit in a rather uneven manner, the US economy has bounced back swiftly from the Covid-19 pandemic and is now stronger than in 2019. Its growth rate, at 5.5% in 2021, is likely to return gradually to normal. Longer and stronger than expected, the upturn in inflation is also likely to ease, if only due simply to the basis of comparison (once prices stop being compared to their depressed levels of 2020). The return towards the 2% target could, however, be hampered by rising prices for services, particularly rents. The situation in the labour market has improved: with a rising activity rate and unemployment dropping significantly below 5% of the active population, the economy is approaching full employment.

CHINA

Economic growth has slowed markedly since last summer. Export performance remains strong and supports manufacturing investment. However, the other components of domestic demand are constrained by a host of factors: the effects of the H1 tightening in fiscal policy and domestic credit conditions, the toughening of regulations in various services, the crisis in the property sector, supply constraints in the industry, and the resurgence of the epidemic. In the short term, industrial production growth should recover. Moreover, the authorities should increase their support to domestic activity through prudent monetary and fiscal policy measures, while continuing regulatory tightening and maintaining their objective of rebalancing the real estate market. The contraction in housing sales and the "zero covid" strategy should continue to weigh on private consumption.

EUROZONE

Growth in the eurozone remained strong in Q3 2021, in line with expectations (2.2% q/q). However, the outlook for Q4 is much less bright. According to our most recent forecast dated 25 November, we expect growth to slow down to 0.4% q/q. In addition to the awaited normalization, headwinds have increased (supply-side problems, surging inflation and uncertainties arising from the new wave of the pandemic). Nevertheless, business conditions surveys have shown resilience so far. Although the downside risks have increased, our scenario for 2022 remains fairly optimistic. This is because there is no shortage of tailwinds – supportive policy mix, a build-up of forced savings, scope for the service sector to catch-up, the need for companies to invest and rebuild inventories – assuming that supply-side problems ease from the second half of the year. Above all, growth will remain well above its trend rate in 2022. We also expect it to be not much lower than its 2021 figure (4.2% versus 5%). Compared with our September scenario, we have cut our growth forecasts and raised our inflation forecasts, taking the view that behind the current temporary pressures on prices, more sustained and widespread factors are also at play. We expect average inflation to be higher in 2022 than in 2021 (3.1% versus 2.5%), although we see inflation falling over the course of next year.

FRANCE

What is happening at the aggregate eurozone level is representative of what is happening in France, and vice-versa. Although the figures are different, our analysis and view of the economic outlook are identical. In Germany, the headwinds are stronger, while France is less exposed. French growth was strong in Q3 2021 – beating expectations at 3% q/q according to INSEE's initial estimate – but we expect it to slow to 0.6% q/q in Q4. In 2022, we anticipate growth of 4.2% in annual average terms (vs. 6.7% in 2021) and inflation of 2.5% (vs. 2%).

RATES AND EXCHANGE RATES

In the US, the Federal Reserve has started tapering and this should lead to net asset purchases ending by the middle of next year, although the exact timing depends on how the economy will evolve. Given current particularly elevated inflation, the inflation outlook and the prospect of a further decline in the unemployment rate, we expect a first rate hike in July 2022, followed by two additional hikes in 2022 and four more in 2023. This should put upward pressure on Treasury yields.

In the eurozone, the ECB has announced in December that it will stop net purchases under the PEPP in March 2022. On that occasion, the monthly volume under the traditional asset purchase program will be increased temporarily to avoid market disruption. Given the strength of the recovery, we expect underlying price pressures to build further. We expect that the ECB will hike its deposit rate in June 2023, considering that by then the three conditions for a rate hike would be met. Two additional hikes should follow in the second half of 2023. This, in combination with the influence from higher US Treasury yields, should lead to higher Bund yields and some widening of sovereign spreads.

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 under the influence of globally rising yields, towards about 20bp, which is in the upper end of its target range of 0 to 25bp.

We expect the dollar to strengthen versus the euro, driven by widening yield differentials and the growing monetary policy divergence between the Federal Reserve and the ECB. The divergence will also increase between the Fed and the BoJ, which explains our forecast of an appreciation of the dollar versus the yen.

GROWTH & INFLATION

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

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		Q1 2022 e	Q2 2022 e	Q3 2022 e	Q4 2022 e	Q4 2023 e
US	Fed Funds (upper limit)	0.25	0.25	0.75	1.00	2.00
	T-Notes 10y	1.70	1.80	1.90	2.00	2.30
Ezone	Deposit rate	-0.50	-0.50	-0.50	-0.50	-0.10
	Bund 10y	0.00	0.05	0.05	0.10	0.40
	OAT 10y	0.45	0.40	0.35	0.45	0.70
	BTP 10y	1.35	1.45	1.45	1.55	2.00
	BONO 10y	0.75	0.85	0.90	1.05	1.45
UK	Base rate	0,25	0.50	0.50	0.75	1.25
	Gilts 10y	1.10	1.20	1.30	1.45	1.75
Japan	BoJ Rate	-0.10	-0.10	-0.10	-0.10	-0.10
	JGB 10y	0.12	0.14	0.15	0.18	0.20

Exchange Rates End of period		Q1 2022 e	Q2 2022 e	Q3 2022 e	Q4 2022 e	Q4 2023 e
USD	EUR / USD	1.13	1.12	1.11	1.09	1.09
	USD / JPY	115	116	117	118	120
	GBP / USD	1.35	1.35	1.35	1.33	1.36
EUR	EUR / GBP	0.84	0.83	0.82	0.82	0.80
	EUR / JPY	130	130	130	129	131

Brent End of period		Q1 2022 e	Q2 2022 e	Q3 2022 e	Q4 2022 e	Q4 2023 e
Brent	USD/bbl	84	80	79	80	85

SOURCE: BNP PARIBAS GLOBAL MARKETS (E: ESTIMATES)

CALENDAR

LATEST INDICATORS

In China, with the exception of industrial growth, which accelerated, the November data point to slower growth, in particular with respect to retail sales and, unsurprisingly, property investment. In the Eurozone, the ECB confirmed that, as anticipated, the net purchases under the PEPP would stop in March of next year. New car registrations are still down a lot versus last year but less than in October. The flash PMIs showed a marked decline in the services sector under the influence of rising infections whereas the manufacturing PMI weakened only slightly, thereby beating the consensus. French business confidence declined in November -the consensus had expected a slight weakening- but the services PMI did better than anticipated, by declining less. The opposite was the case for manufacturing with a larger decline than expected. In Germany, the manufacturing PMI, against expectations, improved but services sentiment tanked. The IFO business climate also weakened significantly. In Japan, the Tankan survey for large companies weakened in the non-manufacturing sector and hardly changed in manufacturing. Small company sentiment, on the whole, improved. The Bank of Japan only made a minor change to its policy but kept its interest rate target unchanged. In the UK, like in several other countries, the services PMI droppped. Job creation in the past three months came in below expectations. The Bank of England created a surprise by hiking its policy rate. In the US, producer price inflation accelerated more than expected. Retail sales disappointed but housing starts jumped, beating the consensus by a wide margin. The flash PMIs weakened only slightly. Finally, the FOMC meeting delivered a hawkish message with its members projecting three rate hikes next year. The pace of tapering will accelerate and should lead to net purchases ending in March next year.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	ACTUAL	PREVIOUS
12/13/21	Japan	Tankan Large Mfg Index	4Q	19.0	18.0	18.0
12/13/21	Japan	Tankan Large Non-Mfg Index	4Q	5.0	9.0	2.0
12/13/21	Japan	Tankan Large Mfg Outlook	4Q	19.0	13.0	14.0
12/13/21	Japan	Tankan Large Non-Mfg Outlook	4Q	9.0	8.0	3.0
12/13/21	Japan	Tankan Large All Industry Capex	4Q	9.8%	9.3%	10.1%
12/13/21	Japan	Tankan Small Mfg Index	4Q	-3.0	-1.0	-3.0
12/13/21	Japan	Tankan Small Non-Mfg Index	4Q	-6.0	-4.0	-10.0
12/13/21	Japan	Tankan Small Mfg Outlook	4Q	-1.0	-1.0	-4.0
12/13/21	Japan	Tankan Small Non-Mfg Outlook	4Q	-4.0	-6.0	-13.0
12/14/21	United Kingdom	ILO Unemployment Rate 3Mths	Oct	4.2%	4.2%	4.3%
12/14/21	United Kingdom	Employment Change 3M/3M	Oct	225k	149k	247k
12/14/21	United States	NFIB Small Business Optimism	Nov	98.4	98.4	98.2
12/14/21	United States	PPI Final Demand MoM	Nov	0.5%	0.8%	0.6%
12/14/21	United States	PPI Ex Food and Energy MoM	Nov	0.4%	0.7%	0.4%
12/14/21	United States	PPI Final Demand YoY	Nov	9.2%	9.6%	8.8%
12/14/21	United States	PPI Ex Food and Energy YoY	Nov	7.2%	7.7%	7.0%
12/15/21	China	New Home Prices MoM	Nov	--	-0.3%	-0.3%
12/15/21	China	Retail Sales YoY	Nov	4.7%	3.9%	4.9%
12/15/21	China	Industrial Production YoY	Nov	3.7%	3.8%	3.5%
12/15/21	China	Fixed Assets Ex Rural YTD YoY	Nov	5.4%	5.2%	6.1%
12/15/21	China	Property Investment YTD YoY	Nov	6.1%	6.0%	7.2%
12/15/21	China	Surveyed Jobless Rate	Nov	4.9%	5.0%	4.9%
12/15/21	United Kingdom	CPIH YoY	Nov	4.4%	4.6%	3.8%
12/15/21	United Kingdom	CPI Core YoY	Nov	3.7%	4.0%	3.4%
12/15/21	United Kingdom	Retail Price Index	Nov	313.0	314.3	312.0
12/15/21	United Kingdom	PPI Output NSA YoY	Nov	8.2%	9.1%	8.6%
12/15/21	United Kingdom	PPI Input NSA YoY	Nov	13.2%	14.3%	13.7%
12/15/21	France	CPI EU Harmonized MoM	Nov F	0.4%	0.4%	0.4%

SOURCE: BLOOMBERG

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	ACTUAL	PREVIOUS
12/15/21	France	CPI EU Harmonized YoY	Nov F	3.4%	3.4%	3.4%
12/15/21	United States	Retail Sales Advance MoM	Nov	0.8%	0.3%	1.8%
12/15/21	United States	Retail Sales Control Group	Nov	0.7%	-0.1%	1.8%
12/15/21	United States	NAHB Housing Market Index	Dec	84.0	84.0	83.0
12/15/21	United States	FOMC Rate Decision (Upper Bound)	15-Dec			
12/16/21	Japan	Jibun Bank Japan PMI Services	Dec P	--	51.1	53.0
12/16/21	Japan	Jibun Bank Japan PMI Mfg	Dec P	--	54.2	54.5
12/16/21	Japan	Jibun Bank Japan PMI Composite	Dec P	--	51.8	53.3
12/16/21	France	Business Confidence	Dec	113.0	110.0	113.0
12/16/21	France	Markit France Manufacturing PMI	Dec P	55.4	54.9	55.9
12/16/21	France	Markit France Services PMI	Dec P	56.0	57.1	57.4
12/16/21	France	Markit France Composite PMI	Dec P	55.0	55.6	56.1
12/16/21	Germany	Markit/BME Germany Manufacturing PMI	Dec P	56.9	57.9	57.4
12/16/21	Germany	Markit Germany Services PMI	Dec P	51.0	48.4	52.7
12/16/21 09:30	Germany	Markit/BME Germany Composite PMI	Dec P	51.1	50.0	52.2
12/16/21 10:00	Eurozone	Markit Eurozone Manufacturing PMI	Dec P	57.8	58.0	58.4
12/16/21 10:00	Eurozone	Markit Eurozone Services PMI	Dec P	54.3	53.3	55.9
12/16/21 10:00	Eurozone	Markit Eurozone Composite PMI	Dec P	54.4	53.4	55.4
12/16/21 10:30	United Kingdom	Markit UK PMI Manufacturing SA	Dec P	57.6	57.6	58.1
12/16/21 10:30	United Kingdom	Markit/CIPS UK Services PMI	Dec P	57.0	53.2	58.5
12/16/21 10:30	United Kingdom	Markit/CIPS UK Composite PMI	Dec P	56.3	53.2	57.6
12/16/21 13:00	United Kingdom	Bank of England Bank Rate	16-Dec	0.1%	0.3%	0.1%
12/16/21 13:45	Eurozone	ECB Deposit Facility Rate	16-Dec	-0.5%	-0.5%	-0.5%
12/16/21 14:30	United States	Initial Jobless Claims	11-Dec	200k	206k	188k
12/16/21 14:30	United States	Housing Starts MoM	Nov	3.1%	11.8%	-3.1%
12/16/21 14:30	United States	Building Permits MoM	Nov	0.5%	3.6%	4.2%
12/16/21 14:30	United States	Philadelphia Fed Business Outlook	Dec	29.1	15.4	39.0
12/16/21 15:45	United States	Markit US Manufacturing PMI	Dec P	58.5	57.8	58.3
12/16/21 15:45	United States	Markit US Composite PMI	Dec P	--	56.9	57.2
12/16/21 15:45	United States	Markit US Services PMI	Dec P	58.8	57.5	58.0
12/17/21 01:01	United Kingdom	GfK Consumer Confidence	Dec	-17.0	-15.0	-14.0
12/17/21 08:00	Eurozone	EU27 New Car Registrations	Nov	--	-20.5%	-30.3%
12/17/21 08:00	United Kingdom	Retail Sales Ex Auto Fuel MoM	Nov	0.8%	1.1%	2.0%
12/17/21 08:45	France	Wages QoQ	3Q F	93.6	92.6	94.2
12/17/21 10:00	Germany	IFO Expectations	Dec	97.5	96.9	99.0
12/17/21 10:00	Germany	IFO Current Assessment	Dec	95.3	94.7	96.6
12/17/21 10:00	Germany	IFO Business Climate	Dec	4.9%	4.9%	4.9%
12/17/21 11:00	Eurozone	CPI YoY	Nov F	2.6%	2.6%	2.6%
12/17/21 11:00	Eurozone	CPI Core YoY	Nov F	0.5%	0.4%	0.5%
12/17/21 11:00	Eurozone	CPI MoM	Nov F	-0.1%	-0.1%	-0.1%
12/17/21	Japan	BOJ Policy Balance Rate	17-Dec	--		-0.10%

SOURCE: BLOOMBERG

CALENDAR: THE WEEK AHEAD

COMING INDICATORS

The data schedule is light for the two remaining weeks of the year. In the euro area, given the significant increase in infections, the focus will be on consumer confidence. The ECB will publish its economic bulletin. In the US, we will have Conference Board consumer confidence as well as University of Michigan sentiment. Finally, on the last day of the year, China will publish its PMI data for December.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	PREVIOUS
12/21/2021	Eurozone	Consumer Confidence	Dec	--	-6.8
12/22/2021	France	PPI YoY	Nov	--	14.90%
12/22/2021	United States	Conf. Board Consumer Confidence	Dec	110.8	109.5
12/22/2021	United States	Conf. Board Expectations	Dec	--	87.6
12/22/2021	United States	Conf. Board Present Situation	Dec	--	142.5
12/23/2021	United States	Personal Income	Nov	0.40%	0.50%
12/23/2021	United States	Real Personal Spending	Nov	--	0.70%
12/23/2021	United States	PCE Core Deflator YoY	Nov	4.50%	4.10%
12/23/2021	United States	U. of Mich. Sentiment	Dec	70.4	70.4
12/23/2021	United States	U. of Mich. Current Conditions	Dec	--	74.6
12/23/2021	United States	U. of Mich. Expectations	Dec	--	67.8
12/23/2021	United States	U. of Mich. 1 Yr Inflation	Dec	--	4.90%
12/23/2021	United States	U. of Mich. 5-10 Yr Inflation	Dec	--	3.00%
12/27/2021	Japan	Retail Sales MoM	Nov	--	1.10%
12/27/21-01/02/22	Germany	Retail Sales MoM	Nov	--	-0.30%
12/30/2021	Eurozone	ECB Publishes Economic Bulletin	Dec		
12/30/2021	China	Non-manufacturing PMI	Dec	--	52.3
12/30/2021	China	Manufacturing PMI	Dec	--	50.1
12/30/2021	China	Composite PMI	Dec	--	52.2

SOURCE: BLOOMBERG

FURTHER READING

More resilient supply chains after Covid-19 pandemic	Conjoncture	17 December 2021
Economic analyses and economic forecasts for a selection of countries.	EcoPerspectives	17 December 2021
Beyond interest rates: the role of fiscal, financial and monetary conditions	EcoTVWeek	17 December 2021
Portugal : Non-performing loans remain stable despite moratoria coming to an end	Chart of the Week	15 December 2021
The monetary policy dichotomy in emerging economies	EcoFlash	14 December 2021
Fiscal policy to continue to support euro area growth next year	EcoWeek	13 December 2021
Greece: encouraging trends	EcoTVWeek	10 December 2021
Signs of a decline in globalization	Chart of the Week	9 December 2021
Three headwinds to growth	EcoWeek	6 December 2021
US: PPP government-guaranteed loans are largely converted into public subsidies	EcoTVWeek	3 December 2021
US: The Fed, the new preferred repo counterparty in times of tension	EcoFlash	2 December 2021
Egypt: persistent vulnerabilities	EcoConjoncture	1 December 2021
Turkey: New financial tensions	Chart of the Week	1 December 2021
High inflation, optionality and central bank patience	EcoWeek	29 November 2021
Supply shocks, inflation and monetary policy	EcoTVWeek	26 November 2021
United States: reallocation of bank portfolios towards the Eurozone since Brexit	Chart of the Week	24 November 2021
European labour market bottlenecks: structural aspects	EcoWeek	22 November 2021
Services support French growth: towards a (big) comeback?	EcoTVWeek	19 November 2021
COP26: Investment in energy system should double to reach zero carbon by 2050	Chart of the Week	17 November 2021
Spain : Upturn in the labour market	EcoFlash	16 November 2021

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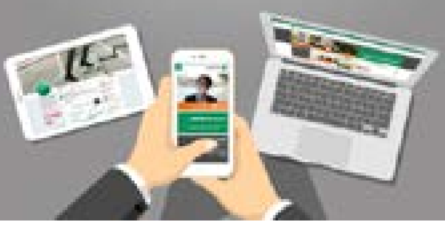

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