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ECONOMIC RESEARCH

BNP PARIBAS

The bank
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world

UNWARRANTED SPREAD WIDENING: MEASUREMENT ISSUES

In recent weeks, the prospect of several ECB rate hikes has caused an increase in Bund yields and, unexpectedly, several sovereign spreads. Beyond a certain point, higher spreads may become unwarranted. Under such circumstances, the ECB might consider stepping in to avoid that its policy transmission would be impacted. Determining whether sovereign spreads have increased too much is a real challenge. Historically, based on a 20-week moving window, the relationship (beta) between the BTP-Bund spread and Bund yields fluctuates a lot, so this calls for taking a longer perspective. Using data since 2013, the current spread is in line with an estimate based on current Bund yields. Clearly, other economic variables should be added to the analysis. It shows the complexity of the task should the ECB commit to address unwarranted spread widening.

Recently, certain euro area sovereign spreads - the difference between government bond yields in a given country and the yield on German government bonds of equivalent maturity, which are considered as the risk-free benchmark, - have widened significantly. This has raised concern that it could influence the transmission of monetary policy and has even led to an *ad hoc* meeting of the ECB governing council on 15 June *"to exchange views on the current market situation"*[1].

When the ECB signals its intentions to raise its deposit rate, one should expect that the entire structure of short and long-term interest rates, both in capital markets (government and corporate bond yields) and in bank-based financing, will shift upwards. Higher yields on German government bonds should cause some spread widening for more heavily indebted sovereign issuers but also for corporates (chart 1). This can occur even in the absence of a worsening in the near-term economic outlook. Investors who target a certain yield need to take less exposure to e.g. Italy or corporate bonds when Bund yields have increased significantly. The spread can also increase because investors require some extra yield as a protection against a possible deterioration of the credit quality.

However, beyond a certain point, higher spreads become unwarranted based on the fundamentals in terms of credit quality. As a consequence, demand and economic activity might suffer in certain countries because, due to a disproportionate increase in long term interest rates - reflecting higher Bund yields and a wider spread -, financial conditions would tighten more than what the ECB was expecting when deciding to raise the deposit rate. This gives rise to fragmentation risk. The disconnect between spreads and fundamentals worsens the economic outlook, thereby causing higher risk aversion and further spread widening, *'giving rise to non-linear and destabilizing dynamics'*.[2]

In such case, the ECB considers, with reason, it should step in to avoid that its policy transmission would be impacted. This is the logic behind the 'believe me it will be enough' speech of Mario Draghi in July 2012 or behind Isabel Schnabel's recent speech at the Sorbonne in which she explained *"there can be no doubt that, if and when needed, we can and will design and deploy new instruments to secure monetary policy transmission and hence our primary mandate of price stability."*[3]

EURO AREA HIGH YIELD BOND SPREAD AND SOVEREIGN SPREAD

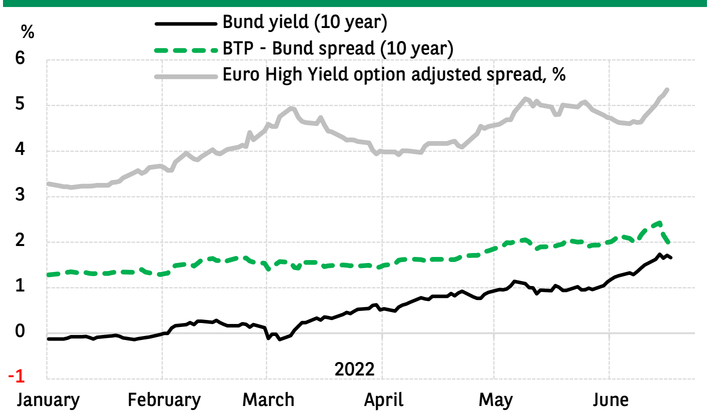


CHART 1 SOURCE: REFINITIV, FRED ST. LOUIS, BNP PARIBAS

1. Source: ECB, Statement after the ad hoc meeting of the ECB Governing Council, 15 June 2022.
2. ECB executive board member Isabel Schnabel defines fragmentation in terms of yields instead of spreads: "fragmentation reflects a sudden break in the relationship between sovereign yields and fundamentals, giving rise to non-linear and destabilizing dynamics." Source: United in diversity – Challenges for monetary policy in a currency union, Commencement speech by Isabel Schnabel, Member of the Executive Board of the ECB, to the graduates of the Master Program in Money, Banking, Finance and Insurance of the Panthéon-Sorbonne University, Paris, 14 June 2022
3. Source: see footnote 2.

Historically, based on a 20-week moving window, the relationship (beta) between the BTP-Bund spread and Bund yields fluctuates a lot, so this calls for taking a longer perspective. Using data since 2013, the current spread is in line with an estimate based on current Bund yields.

Announcing a commitment is one thing, implementing it is another and raises a host of complex questions[4] starting with what is an unwarranted widening of spreads?

An obvious starting point is to look at the relationship between sovereign spreads and Bund yields. Chart 2 does this for the Italian spread (BTP-Bund) using weekly data since 2013[5] by calculating the rolling 20-week beta between the BTP-Bund spread and the 10-year Bund yield. This coefficient fluctuates a lot and changes sign. As an example, in the spring of 2018 it was very negative due to a significant spread widening - on the back of political uncertainty in Italy - and a decline in German yields.

The variability of the beta raises the question of which period to use when assessing whether the observed spread is warranted given the level of Bund yields. The table shows in row 1 that, using the most recent 20 weeks of data, the observed spread on 17 June was 20 basis points below the estimated spread. Row 2 uses 20 weeks of data starting in August 2021. The beta is significantly lower and the observed spread on 17 June was 65 basis points above the estimated one. Using the entire sample (row 3), with data going back to 2013, the observed spread on 17 June was 17 basis points below the estimate.

Different conclusions can be drawn from these calculations. One, based on a 20-week moving window, the relationship (beta) between the BTP-Bund spread and Bund yields fluctuates over time. After being in negative territory since early 2021, the beta has recently seen a significant increase and is now positive again. Two, considering that Bund yields have moved higher, this has created a feeling of a 'double whammy' for the spread on the back of a rise in German yields and an increased beta. Three, the variability of the short-term beta calls for taking a longer perspective. Using data since 2013, the current spread is more or less in line with an estimate based on current Bund yields.

4. E.g. conditionality, target spread, interference with monetary policy, etc.
5. 2013 was chosen to avoid that the euro sovereign debt crisis would influence the estimation results.

BTP-BUND SPREAD AND BUND YIELD (10-YEAR)

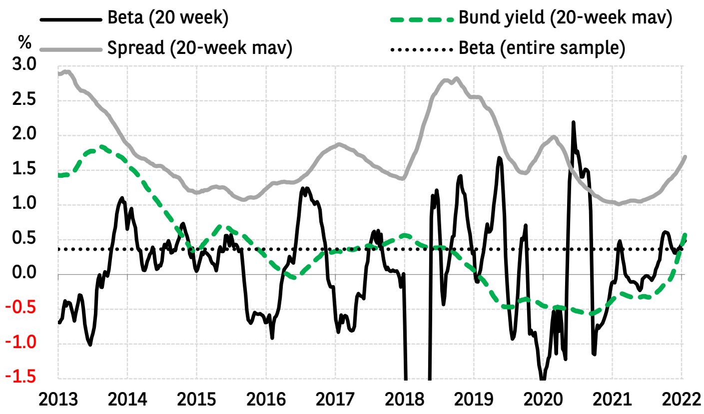


CHART 2

SOURCE: REFINITIV, BNP PARIBAS

Four, clearly there is a need to incorporate additional economic variables in the analysis because they will condition the reaction of Italian yields to changes in German yields. One can think of the stance of monetary policy - the role of net asset purchases, the outlook for the deposit rate -, the outlook for growth and public finances, the risk appetite of investors, etc. It shows the complexity of the task when committing to address unwarranted spread widening, all the more so given the number of spreads that need to be monitored.

William De Vijlder

ESTIMATED SPREAD ITALY-GERMANY

Estimation period (weekly data)	Observed minus estimated	Observed spread	Estimated spread	Intercept	Beta	Bund yield*	BTP yield*
21 January 2022 - 10 June 2022	-0.20	2.045	2.244	1.411	0.486	1.716	3.761
27 August 2021 - 14 January 2022	0.65	2.045	1.395	1.192	0.119	1.716	3.761
4 January 2013 - 10 June 2022	-0.17	2.045	2.211	1.583	0.366	1.716	3.761

* yield on 17 June 2022

TABLE 1

SOURCE: REFINITIV, BNP PARIBAS

MARKETS OVERVIEW

OVERVIEW

Week 10-6 22 to 17-6-22				
↘ CAC 40	6 187	▸ 5 883	-4.9	%
↘ S&P 500	3 901	▸ 3 675	-5.8	%
↗ Volatility (VIX)	27.8	▸ 31.1	+3.4	pb
↗ Euribor 3M (%)	-0.30	▸ -0.17	+12.9	bp
↗ Libor $ 3M (%)	1.74	▸ 2.10	+35.1	bp
↗ OAT 10y (%)	1.93	▸ 2.08	+14.9	bp
↗ Bund 10y (%)	1.50	▸ 1.66	+16.1	bp
↗ US Tr. 10y (%)	3.16	▸ 3.24	+8.2	bp
↘ Euro vs dollar	1.05	▸ 1.05	-0.7	%
↘ Gold (ounce, $)	1 858	▸ 1 840	-1.0	%
↘ Oil (Brent, $)	122.1	▸ 113.2	-7.3	%

MONEY & BOND MARKETS

Interest Rates		highest 22			lowest 22		
€ ECB	0.00	0.00	at	03/01	0.00	at	03/01
Eonia	-0.51	-0.51	at	03/01	-0.51	at	03/01
Euribor 3M	-0.17	-0.17	at	17/06	-0.58	at	05/01
Euribor 12M	1.12	1.12	at	17/06	-0.50	at	05/01
$ FED	1.75	1.75	at	16/06	0.25	at	03/01
Libor 3M	2.10	2.10	at	17/06	0.21	at	03/01
Libor 12M	3.59	3.67	at	16/06	0.58	at	03/01
£ BoE	1.25	1.25	at	16/06	0.25	at	03/01
Libor 3M	1.60	1.62	at	16/06	0.26	at	03/01
Libor 12M	0.81	0.81	at	03/01	0.81	at	03/01

At 17-6-22

Yield (%)		highest 22			lowest 22		
€ AVG 5-7y	2.05	2.21	at	15/06	-0.04	at	03/01
Bund 2y	0.92	1.02	at	14/06	-0.83	at	04/03
Bund 10y	1.66	1.74	at	14/06	-0.14	at	24/01
OAT 10y	2.08	2.17	at	14/06	0.15	at	04/01
Corp. BBB	3.96	3.98	at	16/06	0.90	at	05/01
$ Treas. 2y	3.18	3.43	at	14/06	0.70	at	04/01
Treas. 10y	3.24	3.48	at	14/06	1.63	at	03/01
High Yield	8.59	8.60	at	16/06	5.07	at	03/01
£ gilt. 2y	2.28	2.28	at	17/06	0.69	at	03/01
gilt. 10y	2.46	2.56	at	14/06	0.97	at	03/01

At 17-6-22

EXCHANGE RATES

1€ =		highest 22		lowest 22			2022
USD	1.05	1.15	at 10/02	1.04	at	13/05	-8.0%
GBP	0.86	0.87	at 14/06	0.83	at	14/04	+2.3%
CHF	1.02	1.06	at 10/02	1.00	at	04/03	-1.9%
JPY	141.48	143.63	at 08/06	125.37	at	04/03	+8.0%
AUD	1.51	1.62	at 04/02	1.43	at	05/04	-3.2%
CNY	7.01	7.29	at 10/02	6.87	at	14/04	-3.3%
BRL	5.37	6.44	at 06/01	5.01	at	21/04	-15.3%
RUB	59.35	164.76	at 07/03	59.10	at	13/06	-30.4%
INR	81.64	85.96	at 11/02	80.30	at	05/05	-3.4%

At 17-6-22 *Change*

COMMODITIES

Spot price, $		highest 22			lowest 22			2022	2022(€)
Oil, Brent	113.2	128.2	at	08/03	79.0	at	03/01	+44.3%	+57.0%
Gold (ounce)	1 840	2 056	at	08/03	1 785	at	28/01	+1.0%	+9.8%
Metals, LMEX	4 200	5 506	at	07/03	4 200	at	17/06	-6.7%	+1.4%
Copper (ton)	8 967	10 702	at	04/03	8 967	at	17/06	-7.9%	+0.1%
wheat (ton)	377	4.7	at	17/05	281	at	14/01	+58.7%	+72.6%
Corn (ton)	311	3.2	at	16/05	226	at	03/01	+3.6%	+48.1%

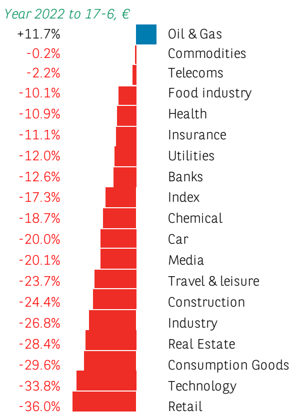
At 17-6-22 *Change*

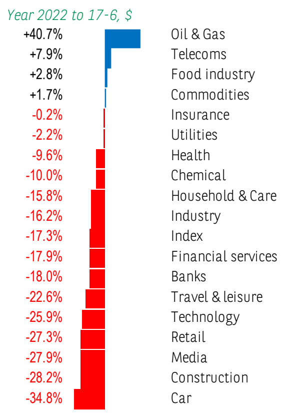
EQUITY INDICES

	Index	highest 22			lowest 22			2022
World								
MSCI World	2 486	3 248	at	04/01	2 486	at	17/06	-23.1%
North America								
S&P500	3 675	4 797	at	03/01	3 667	at	16/06	-22.9%
Europe								
EuroStoxx50	3 438	4 392	at	05/01	3 428	at	16/06	-20.0%
CAC 40	5 883	7 376	at	05/01	5 883	at	17/06	-1.8%
DAX 30	13 126	16 272	at	05/01	12 832	at	08/03	-17.4%
IBEX 35	8 146	8 934	at	27/05	7 645	at	07/03	-0.7%
FTSE100	7 016	7 672	at	10/02	6 959	at	07/03	-0.5%
Asia								
MSCI, loc.	1 033	1 165	at	05/01	1 024	at	08/03	-1.0%
Nikkei	25 963	29 332	at	05/01	24 718	at	09/03	-9.8%
Emerging								
MSCI Emerging ($)	1 005	1 267	at	12/01	988	at	12/05	-1.8%
China	71	86	at	20/01	59	at	15/03	-14.4%
India	699	891	at	13/01	699	at	17/06	-13.1%
Brazil	1 444	2 003	at	04/04	1 372	at	06/01	-7.3%

At 17-6-22 *Change*

PERFORMANCE BY SECTOR (Eurostoxx50 & S&P500)

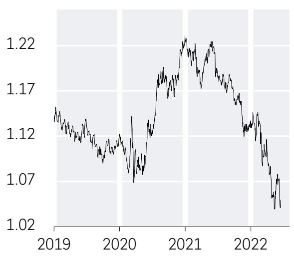




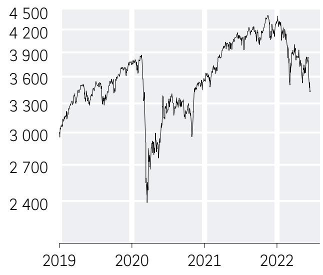
SOURCE: REFINITIV, BNP PARIBAS,

MARKETS OVERVIEW

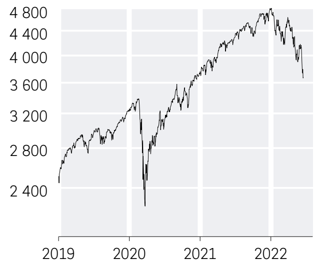
EURO-DOLLAR



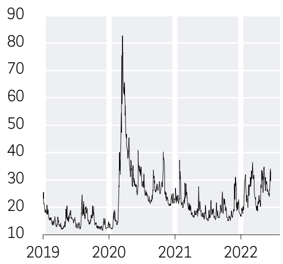
EUROSTOXX50



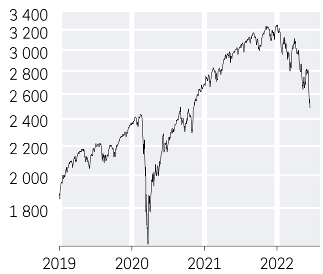
S&P500



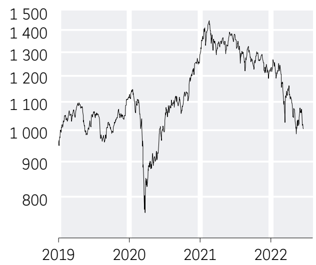
VOLATILITY (VIX, S&P500)



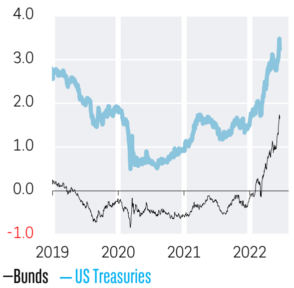
MSCI WORLD (USD)



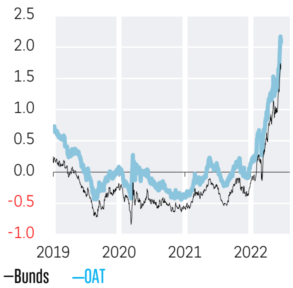
MSCI EMERGING (USD)



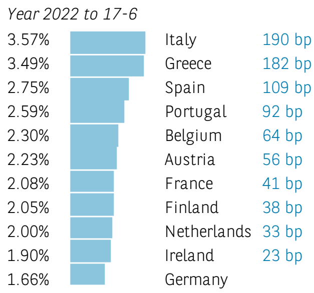
10Y BOND YIELD, TREASURIES VS BUND



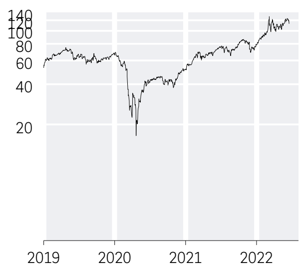
10Y BOND YIELD



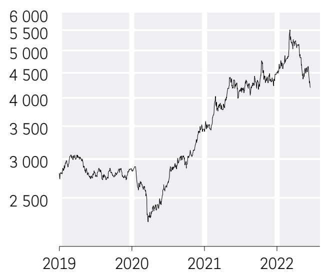
10Y BOND YIELD & SPREADS



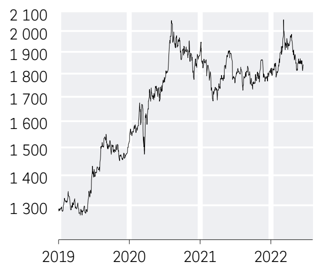
OIL (BRENT, USD)



METALS (LMEX, USD)



GOLD (OUNCE, USD)



SOURCE: REFINITIV, BNP PARIBAS

ECONOMIC PULSE

CHINA: STILL HIGH DOWNSIDE RISKS TO SHORT-TERM ECONOMIC GROWTH

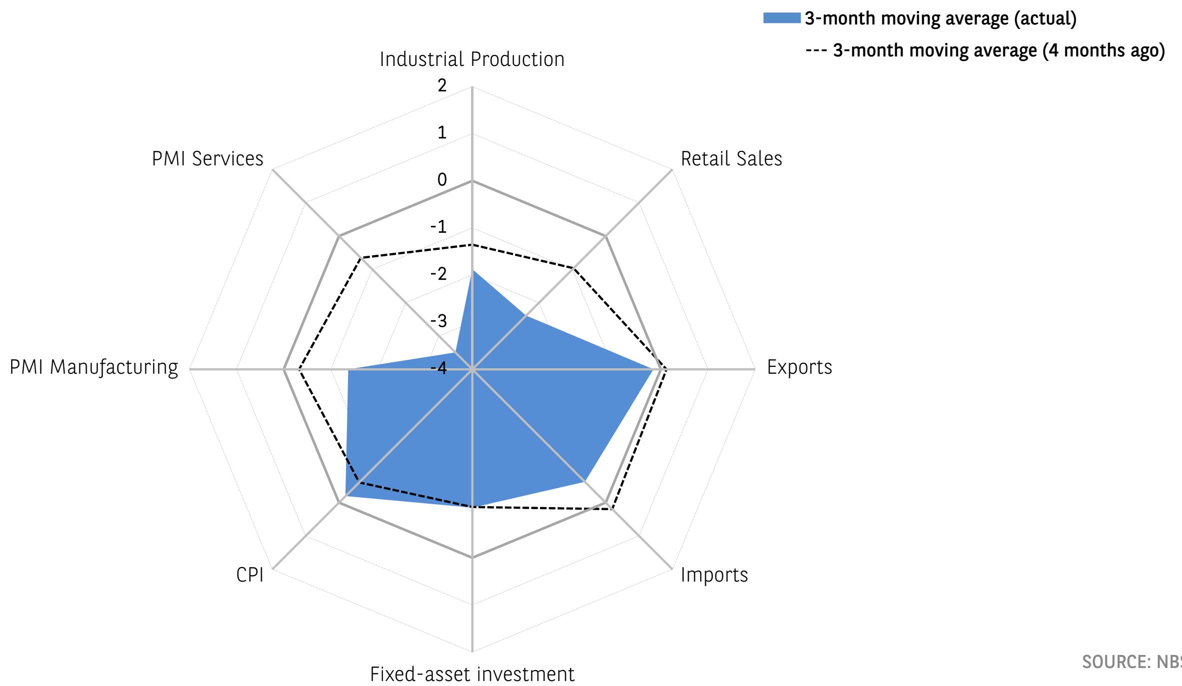
The significant contraction of the blue area relative to the dotted area illustrates the magnitude of the shock faced by the Chinese economy since March 2022. The resurgence of the Covid epidemic has led to the introduction of mobility restrictions in many provinces, with the most stringent lockdowns affecting major industrial and port regions, notably Shanghai. Restrictions have depressed household demand and dampened activity in factories, disturbed the transportation and export of goods, and led to supply-chain disruptions in China and abroad.

Mobility restrictions have eased gradually (but not totally) in Shanghai and across the country since mid or late May. Industrial production activity started to rebound (+0.7% y/y in May vs. -2.9% in April and +5% in March), notably encouraged by reviving exports (+16.8% y/y in USD terms vs. 3.7% in April). Meanwhile, production of services, which was hit harder and longer by the lockdowns, still contracted in May (-5.1% y/y vs. -6.1% in April and -0.9% in March). Total retail sales also continued to fall rapidly (-9% y/y in May vs. -13% in April) – only sales of basic necessities posted an increase in May (food & beverage, medicines and oil products). Finally, fixed-asset investment growth reaccelerated in May (+4.6% y/y), mostly driven by infrastructure investment.

Economic growth should recover slowly in the coming months. On the one hand, fiscal and monetary policies are increasingly expansionary. On the other hand, downside risks remain substantial. First, the health situation is still uncertain and the authorities will maintain a tough Covid strategy. Second, private consumption will also struggle to recover not much because of inflation pressures (which remain moderate), but because of the significant slack in the labor market. Third, the contraction in the property sector continues. Fourth, weaker global demand will constrain activity in the manufacturing sector.

Christine Peltier

CHINA: QUARTERLY CHANGES



SOURCE: NBS

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

SPAIN: THE TREND IN EMPLOYMENT REMAINS SOLID

The strength of the employment data reflects a degree of resilience in the Spanish economy in the face of the multiple shocks. According to the Spanish Employment Office (SEPE) an additional 33,366 active workers (+0.2% m/m) were registered in the social security system in May, the thirteenth consecutive month of growth. The government is expecting a further increase in June[1]. Meanwhile, unemployment fell by 41,069 in May, to its lowest level since 2008. This decline was driven by a further drop in youth unemployment (25 and under), of 21,974. The number of young people out of work slipped below 200,000 for the first time since the beginning of the current data series in January 2001. However, this figure needs to be treated with a degree of caution as the activity rate for this age group has fallen sharply since the crisis of 2011. As a result, the overall unemployment rate has been stable since the beginning of the year, and was 13.3% in April.

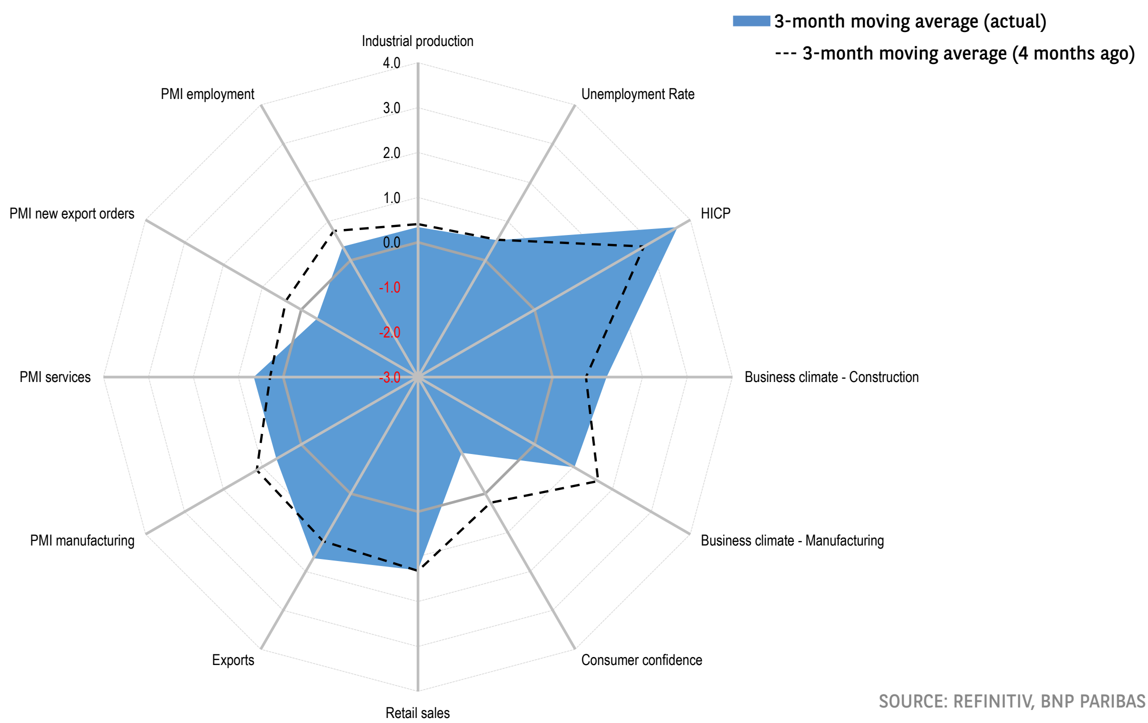
Furthermore, the European Commission's confidence surveys show particularly strong trends in the construction sector, despite the problems faced by companies (rising production costs, supply problems for certain materials). The business climate index in the sector jumped in May (+12.1 points to 21.6), reaching its highest level since November 2005, while the employment index was the best in 22 years. Confidence in the services sector was also strong in May, going into the summer season and the tourism peak. Household confidence is edging higher, but from a low level following its collapse in the first quarter of 2022 as a consequence of the war in Ukraine.

Inflationary pressures intensified in May. The Consumer Price Index was up 8.4% y/y, from 8.3% y/y in April. Although the introduction of a price cap on natural gas (on 15 June) will limit energy price inflation (34.2% y/y in May), the increase in consumer prices is accelerating in other expenditure items, notably food and non-alcoholic beverages (11.0% y/y), household equipment (5.9%) and restaurants and hotels (6.3%).

Guillaume Derrien

1. See "*Sánchez avanza que el empleo en junio crecerá en 125.000 trabajadores más*", El País, 11 June 2022.

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 +4. 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: PACKAGE TO SUPPORT PURCHASING POWER RUNS UP AGAINST CLIMATE COMMITMENTS

Unsurprisingly, the 16 June meeting of the Bank of England's Monetary Policy Committee (MPC) led to a further increase in its policy rate, the fifth consecutive 25 basis point increase, taking it to 1.25%. This tightening of monetary policy, relatively modest when compared to the Fed's 75bp hike, aims to control inflation, which is continuing to rise steeply (2.5% m/m NSA in April, giving a year-on-year figure of 9%), without putting excessive constraints on an economy already hit by the inflation shock. Increases in prices for gas (67% m/m) and electricity (40% m/m) particularly affect households, whose purchasing power has already been significantly reduced. The GfK index shows that consumer confidence is at record lows (-40 in May), dragged down by historically negative responses on the general economic situation (-56) and personal financial situations (-25) over the next twelve months.

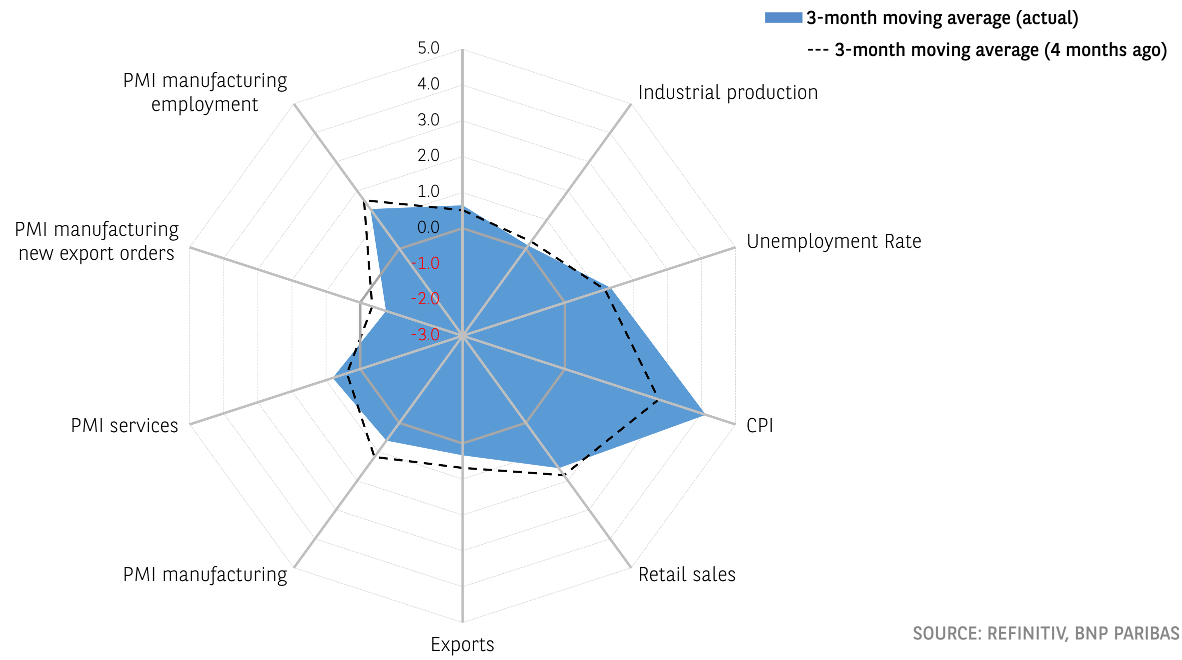
To help vulnerable households with the rising cost of living, the Chancellor of the Exchequer, Rishi Sunak, has brought forward a support package. According to HM Treasury, slightly over 10% of the most vulnerable UK households will receive at least GBP 1,200 this year[1]. This support package includes a GBP 650 lump sum cost of living payment to be paid to recipients of means-tested benefits in two instalments and a doubling of energy bill discounts to GBP 400 for all households to be applied from October 2022. These bills could increase by more than 40% (or GBP 800) per household per year, according to the UK energy regulator (Ofgem).

To limit the effect on the budget deficit, the Treasury will impose a temporary windfall tax (to end by 2025 at the latest) of 25% on oil and gas company profits, which have hit extraordinary levels as a result of higher oil prices since Russia's invasion of Ukraine. However, these companies will also benefit from a tax allowance of 90% on each pound invested in oil and gas extraction projects. This tax allowance could encourage the launch of several dozen new hydrocarbon projects with production capacity equivalent to nearly 1.9 billion barrels of oil. Although an increase in production on this scale would bring a welcome reduction in energy prices, by increasing oil and gas supply, the negative climate consequences would be less welcome. Burning these barrels would emit 899 million tonnes of greenhouse gases, which is incompatible with the UK's climate commitments. The UK has made a policy choice between the increase of fossil fuels extraction and the acceleration of the energy transition. By focusing on increasing supply over reducing demand, it does nothing to encourage much-needed energy-saving measures. Focused on the fossil fuel sector, this policy also does little to accelerate the transition to low-carbon energy sources. Reconciling support for purchasing power in the face of rising inflation and the acceleration of the energy transition remains a thorny problem.

Félix Berte

1. HM Treasury, "Overall government support for the cost of living: factsheet", Policy paper, 26 May 2022.

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 +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.

ECONOMIC SCENARIO

UNITED STATES

Despite a surprising contraction in Q1 2022, the US economy remains dynamic and well supported by household consumption and business investment. The robustness of the labour market which is at full employment, bolsters wages and household consumption. However, inflation, at its highest for four decades, causes a decline in purchasing power. As inflation is higher and more persistent than anticipated, the Federal Reserve is raising sharply the fed funds rate and shrinking its balance sheet. The downward revision of the government's fiscal ambitions, especially its social welfare and environmental plans, may also contribute to moderate growth. Against this background, despite avoiding a recession, the U.S. economy is expected to slow down clearly.

CHINA

Economic activity contracted in April due to the lockdowns imposed in large industrial regions such as Shanghai. This has led us to revise down our real GDP projection for 2022. Economic growth has rebounded since May and the authorities are enhancing fiscal and monetary easing measures. However, short-term downside risks remain high: exports will suffer from the slowdown in global demand, the correction in the property sector should continue, and the recent deterioration in the labour market should weigh on private consumption. Consumer price inflation is accelerating only moderately.

EUROZONE

The surge in inflation that began in early 2021 has morphed into an inflationary shock. Inflation continues to be driven primarily by energy prices but it is also becoming more widespread and thus more persistent. The deterioration of business climate surveys remained limited up until May but consumer confidence has worsened more noticeably. We expect growth to remain positive but weak in the coming quarters. The risk of a recession in the short term is increasing but, should there be one, it would only be technical (limited in duration and extent). The labour market remains robust and the economy still benefits from the cyclical momentum that existed prior to the war in Ukraine, fiscal measures that seek to cushion the impact of inflation on purchasing power, excess savings which are still available and the need to invest. In our scenario (no recession), we expect eurozone growth to reach 2.5% on average over 2022 and 2.3% in 2023.

FRANCE

Real GDP growth entered into negative territory in the 1st quarter of 2022 (-0.2% q/q after +0.4% in the 4th quarter of 2021), as a result of a decrease in household consumption (-1.5% q/q). Higher inflation has pressured households' purchasing power and should also weigh on Q2 expectations. In parallel, corporate investment maintained its growth (+0.4% q/q), as corporates have to cope with output capacity constraints. Overall, in 2022, GDP growth should ease to 2.3% (6.8% in 2021), against a background of higher inflation (5.4% expected in 2022 after 1.6% in 2021).

RATES AND EXCHANGE RATES

In the US, the Federal Reserve will continue its tightening policy at a swift pace. The terminal rate of 3.5% (upper end of the target range) should be reached towards the end of this year. The Fed's hawkish stance is motivated by still very low policy rates against a background of 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 in an effort to achieve a soft landing. To a very large degree, US Treasury yields already reflect the prospect of monetary policy tightening. This means that year-end levels shouldn't be that different from current levels. For next year we expect somewhat lower yields as growth slows and inflation declines.

The ECB has announced to end its asset purchases at the start of July and to raise its deposit rate later that month. We expect 50bp rate hikes at its September and October meetings, to be followed by five further 25bp hikes between December 2022 and September 2023. This should cause an increase in Bund yields and a widening of sovereign spreads in the euro area.

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 the negative interest rate policy to be scrapped and the 10-year rate target to be hiked.

We expect the dollar to weaken significantly 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 appreciate 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	2.6	1.9	1.7	4.7	7.5	3.9	2.4
Japan	1.7	1.4	1.1	0.6	-0.2	1.9	1.0	0.7
United-Kingdom	7.4	3.6	1.5	1.6	2.6	8.0	4.4	2.1
Euro Area	5.3	2.5	2.3	2.2	2.6	7.9	4.1	2.0
Germany	2.9	1.3	2.2	2.3	3.2	8.1	4.6	2.1
France	6.8	2.3	2.1	2.0	2.1	5.9	3.6	1.8
Italy	6.6	2.8	2.0	1.8	1.9	7.7	4.5	1.8
Spain	5.1	4.1	2.5	2.2	3.0	8.0	3.6	1.7
China	8.1	3.7	5.7	5.0	0.9	2.3	3.4	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
** LAST UPDATE 06/13/2022

INTEREST & EXCHANGE RATES

Interest rates, %

End of period		17/06/2022	Q3 2022 e	Q4 2022 e	Q2 2023 e	Q4 2023 e
US	Fed Funds (upper limit)	1.75	3.00	3.50	3.50	3.50
	T-Note 10y	3.24	3.10	3.20	3.10	3.00
Ezone	Deposit rate	-0.50	0.25	1.00	1.75	2.00
	Bund 10y	1.66	1.60	1.80	2.25	2.25
	OAT 10y	2.08	2.15	2.38	2.85	2.85
	BTP 10y	3.57	3.85	4.40	4.65	4.75
	BONO 10y	2.75	2.95	3.40	3.75	3.75
UK	Base rate	1.25	2.00	2.50	2.50	2.50
	Gilts 10y	2.46	2.30	2.50	2.65	2.50
Japan	BoJ Rate	-0.10	-0.10	-0.10	-0.10	0.00
	JGB 10y	0.23	0.24	0.25	0.25	0.45

Exchange Rates

End of period		17/06/2022	Q3 2022 e	Q4 2022 e	Q2 2023 e	Q4 2023 e
USD	EUR / USD	1.05	1.09	1.12	1.16	1.20
	USD / JPY	135	131	130	125	120
	GBP / USD	1.22	1.25	1.27	1.32	1.36
EUR	EUR / GBP	0.86	0.87	0.88	0.88	0.88
	EUR / JPY	141	143	146	145	144

Brent

End of period		17/06/2022	Q3 2022 e	Q4 2022 e	Q2 2023 e	Q4 2023 e
Brent	USD/bbl	113	120	122	125	125

FORECASTS PRODUCED ON 2 MAY 2022. SOURCE: BNP PARIBAS (E: ESTIMATES & FORECASTS)
(MARKET ECONOMICS, INTEREST RATE STRATEGY, FX STRATEGY, COMMODITIES DESK STRATEGY
* BASE CASE ** LAST UPDATE 06/17/2022)

CALENDAR

LATEST INDICATORS

In China, several data saw some improvement in the month of May. Industrial production increased, retail sales declined much less than in April and the jobless rate was also lower. In the euro area, the ZEW survey recorded a very small improvement in expectations. In Germany, the same survey showed a more significant improvement. The Bank of Japan confirmed its accommodative stance and will continue with its yield targeting strategy. In the UK, monthly GDP disappointed in April but this did not stop the Bank of England from proceeding with another rate hike. In the US, small business sentiment was stable, producer price inflation declined more than expected but remains elevated and retail sales contracted unexpectedly. Building permits and housing starts plunged and initial unemployment claims were stable but higher than expected by the consensus. The Federal Reserve created a surprise by hiking the federal funds rate 75bp.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	ACTUAL	PREVIOUS
06/13/2022	United Kingdom	Monthly GDP (MoM)	April	0.1%	-0.3%	-0.1%
06/14/2022	Eurozone	ZEW Survey Expectations	June	--	-28.0	-29.5
06/14/2022	Germany	ZEW Survey Expectations	June	-26.8	-28.0	-34.3
06/14/2022	Germany	ZEW Survey Current Situation	June	-31.0	-27.6	-36.5
06/14/2022	United States	NFIB Small Business Optimism	May	93.0	93.1	93.2
06/14/2022	United States	PPI Ex Food and Energy YoY	May	8.6%	8.3%	8.8%
06/15/2022	China	Industrial Production YoY	May	-0.9%	0.7%	-2.9%
06/15/2022	China	Retail Sales YoY	May	-7.1%	-6.7%	-11.1%
06/15/2022	China	Fixed Assets Ex Rural YTD YoY	May	6.0%	6.2%	6.8%
06/15/2022	China	Property Investment YTD YoY	May	-4.4%	-4.0%	-2.7%
06/15/2022	China	Surveyed Jobless Rate	May	6.1%	5.9%	6.1%
06/15/2022	United States	Retail Sales Advance MoM	May	0.1%	-0.3%	0.9%
06/15/2022	United States	NAHB Housing Market Index	June	67.0	67.0	69.0
06/15/2022	United States	FOMC Rate Decision (Upper Bound)	June	1.5%	1.8%	1.0%
06/16/2022	United Kingdom	Bank of England Bank Rate	June	1.3%	1.3%	1.0%
06/16/2022	United States	Building Permits MoM	May	-2.5%	-7.0%	-3.2%
06/16/2022	United States	Housing Starts MoM	May	-1.8%	-14.4%	-0.2%
06/16/2022	United States	Initial Jobless Claims	June	217k	229k	229k
06/17/2022	Eurozone	CPI YoY	May	8.1%	--	7.4%
06/17/2022	Japan	BOJ Policy Balance Rate	June	-0.1%	-0.1%	-0.1%
06/17/2022	United Kingdom	Retail Sales Ex Auto Fuel MoM	May			1.4%
06/17/2022	United States	Leading Index	May	-0.4%	--	-0.3%

SOURCE: BLOOMBERG

CALENDAR: THE WEEK AHEAD

COMING INDICATORS

Several surveys will be published this week offering a first look at how the economy is doing this month: flash PMIs in several countries, consumer confidence for the euro area, IFO survey in Germany, business confidence in France. In the US we will have initial unemployment claims and University of Michigan sentiment.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	PREVIOUS
06/21/22	United Kingdom	CBI Trends Total Orders	June	18	26
06/22/22	United Kingdom	CPIH YoY	May	--	7.80%
06/22/22	Eurozone	Consumer Confidence	June	--	-21.1
06/23/22	Japan	Jibun Bank Japan PMI Composite	June	--	52.3
06/23/22	France	Business Confidence	June	--	106
06/23/22	France	S&P Global France Composite PMI	June	--	57
06/23/22	Germany	S&P Global Germany Composite PMI	June	--	53.7
06/23/22	Eurozone	S&P Global Eurozone Composite PMI	June	--	54.8
06/23/2	United Kingdom	S&P Global/CIPS UK Composite PMI	June	--	53.1
06/23/22	United States	Initial Jobless Claims	18 June	--	--
06/23/22	United States	S&P Global US Composite PMI	June	--	53.6
06/24/22	United Kingdom	GfK Consumer Confidence	June	--	-40
06/24/22	Germany	IFO Business Climate	June	--	93
06/24/22	Germany	IFO Current Assessment	June	--	99.5
06/24/22	Germany	IFO Expectations	June	--	86.9
06/24/22	United States	U. of Mich. Sentiment	June	50.2	50.2
06/24/22	United States	U. of Mich. Current Conditions	June	--	55.4
06/24/22	United States	U. of Mich. Expectations	June	--	46.8
06/24/22	United States	U. of Mich. 1 Yr Inflation	June	--	5.40%
06/24/22	United States	U. of Mich. 5-10 Yr Inflation	June	--	3.30%

SOURCE: BLOOMBERG

FURTHER READING

Portugal: a resilient economy	EcoTVWeek	17 June 2022
South Africa: A fragile economic recovery	EcoConjoncture	16 June 2022
Central Europe: Higher funding costs in bond markets	Chart of the Week	15 June 2022
The worrisome cost of worrying about recession	EcoWeek	13 June 2022
Italy: banks' net income sharply declined in the first quarter of 2022	EcoTVWeek	10 June 2022
Japan: foreign subsidiaries, a key driver of the Japanese industry	EcoFlash	8 June 2022
France: housing development and food head the list of retail price rises	Chart of the Week	8 June 2022
US: The recession narrative	EcoWeek	6 June 2022
Let's talk about climate change, often	EcoTVWeek	3 June 2022
Italy: the ratio of new non-performing loans of NFCs has started to rise again	Chart of the Week	1 June 2022
Global: Inflation: shifting focus, shifting concerns	EcoWeek	30 May 2022
United Arab Emirates: favourable economic prospects	EcoTVWeek	27 May 2022
Colombia: recent behaviour of capital flows ahead of the presidential election	Chart of the Week	25 May 2022
European Union : the reaction of uncertainty to Covid-19 and the war in Ukraine	EcoWeek	23 May 2022
China: new economic slowdown, new rise in credit risks	EcoTV Week	20 May 2022
Energy price inflation in the Eurozone: government responses and impact on household purchasing power	EcoFlash	20 May 2022
On the need to restate Manufacturing PMI in order to understand the shock to German industry	Chart of the Week	18 May 2022
Eurozone : Inflation and the sustainability of public sector debt	EcoWeek	16 May 2022
Eurozone : wage-price loop: low risk but one to watch	EcoTV Week	13 May 2022
United States: money supply losing steam	Chart of the Week	11 May 2022

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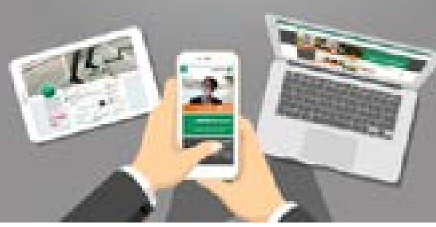

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