ECOWEEK

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2

EDITORIAL

"Federal Reserve: when will it stop hiking?"

5

MARKETS OVERVIEW

Recent market developments (foreign exchange, stock markets, interest rates, commodities, etc.)

6

ECONOMIC PULSE

Analysis of the recent economic data:

China: a strong start to the year

France: business surveys set to deteriorate significantly

The OECD Weekly Tracker of GDP growth continues to show strong momentum

11

ECONOMIC SCENARIO

Main economic and financial forecasts.

12

CALENDARS

Last week's main economic data and key releases for the week ahead

14

FURTHER READING

Latest articles, charts, videos and podcasts of Economic Research

ECONOMIC RESEARCH

BNP PARIBAS

The bank for a changing world

FEDERAL RESERVE: WHEN WILL IT STOP HIKING?

The FOMC has started a new tightening cycle and its members project 6 additional increases in the federal funds rate this year and 4 more in 2023. This hawkish stance is unsurprising. After all, the policy rate is very low, inflation is exceptionally high and the economy is strong. Given the Fed's dual mandate, the pace and extent of rate hikes will depend on the evolution of inflation as well as the unemployment rate. Previous tightening cycles suggest that concerns about the risk of an increase in the unemployment rate have played an important role in the decision to stop hiking. The central bank will have to hope that inflation has dropped sufficiently by the time that this risk would re-emerge.

The FOMC has started a new tightening cycle[1] and the message from Jerome Powell during his press conference was hawkish. This is understandable. After all, the policy rate is very low, inflation is exceptionally high and the economy is strong. This means that it should be able to cope with higher interest rates but it also raises the question how many rate hikes will be necessary to bring inflation back under control. The question of the cumulative tightening matters for the level of US Treasury yields, the pricing of various other asset classes – equities, corporate bonds, real estate, etc. – but also for the real economy, given the role of interest rates in investment and spending decisions by companies and households. It is also of importance for public finances and, considering the global role of the dollar, for international capital flows. Policy actions by the Federal Reserve tend to have global spillover effects, in particular in developing economies[2].

The median projection of the FOMC members is 6 additional increases in the federal funds rate this year and 4 more in 2023, with the federal funds rate reaching 2.8%[3]. This is 40 basis points above their longer run projection for the policy rate. In 2024, this rate would be stable. In that year, inflation is projected at 2.3%, which, it seems, is sufficiently close to target not to warrant further rate increases. Interestingly, despite the monetary tightening and the ensuing growth slowdown – from 2.8% in 2022 to 2.2% in 2023 and 2.0% the year thereafter – the unemployment rate projection is remarkably stable: 3.5% this year and next and 3.6% in 2024. This suggests that the FOMC is aiming for a soft landing –bringing inflation back to target without causing a recession-, although history shows that such an outcome is difficult to achieve[4]. Given the Fed's dual mandate, the evolution of both the unemployment

1. At its meeting on 15 and 16 March, *"the Committee decided to raise the target range for the federal funds rate to 1/4 to 1/2 percent."* It anticipates that ongoing increases in the target range will be appropriate. In addition, it expects to begin reducing the size of its balance sheet at a coming meeting. Source: Federal Reserve, FOMC statement, 16 March 2022.
2. For an analysis, see *International monetary spillovers*, BIS Quarterly Review, September 2015.
3. This concerns the midpoint of the target range.
4. The tightening cycle that started in 1994 was followed by a soft landing. Writing about the current situation, Larry Summers, in an op-ed for the Washington Post, recently argued *"there can be no reliable progress against inflation without substantial increases in real interest rates, which mean temporary increases in unemployment."* Source: *The Fed is charting a course to stagflation and recession,* The Washington Post, 15 March 2022.

FEDERAL RESERVE TIGHTENING CYCLES

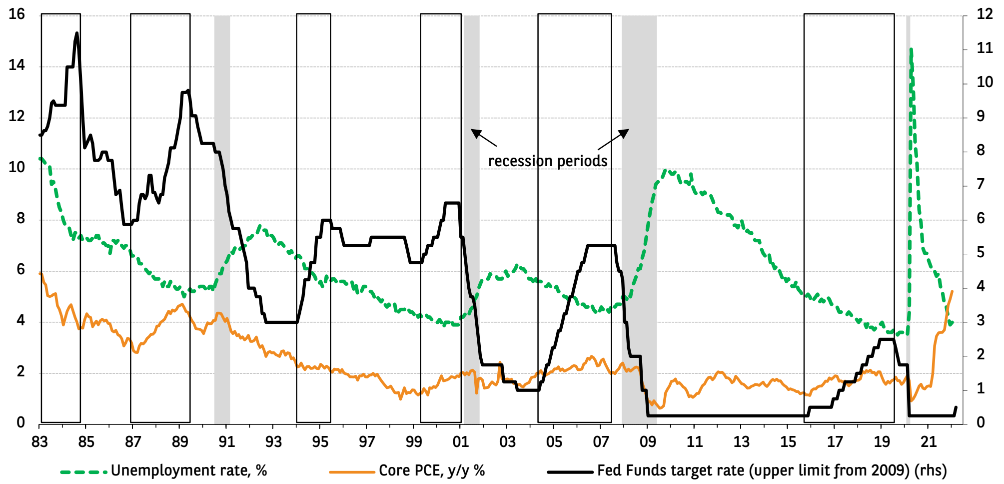


CHART 1

SOURCE: FEDERAL RESERVE, BLS, BNP PARIBAS

> The FOMC is facing a balancing act of bringing down inflation whilst hoping that the labour market would not suffer too much from higher interest rates.

rate and the inflation rate, will determine the pace and extent of monetary tightening but the question is which will matter most in its reaction function. Historically, the first phase of a tightening cycle has been associated with an ongoing decline in the unemployment rate but in a second phase, this was followed by a stabilization of the unemployment rate and an ending of the tightening cycle (chart 1 and charts 2-7 for a closer look at the individual cycles).

This suggests mounting concern within the FOMC about the risk of an imminent increase in the unemployment rate that could lead to a recession. After all, historically, even a small increase in the unemployment rate usually happened in a recession environment[5].

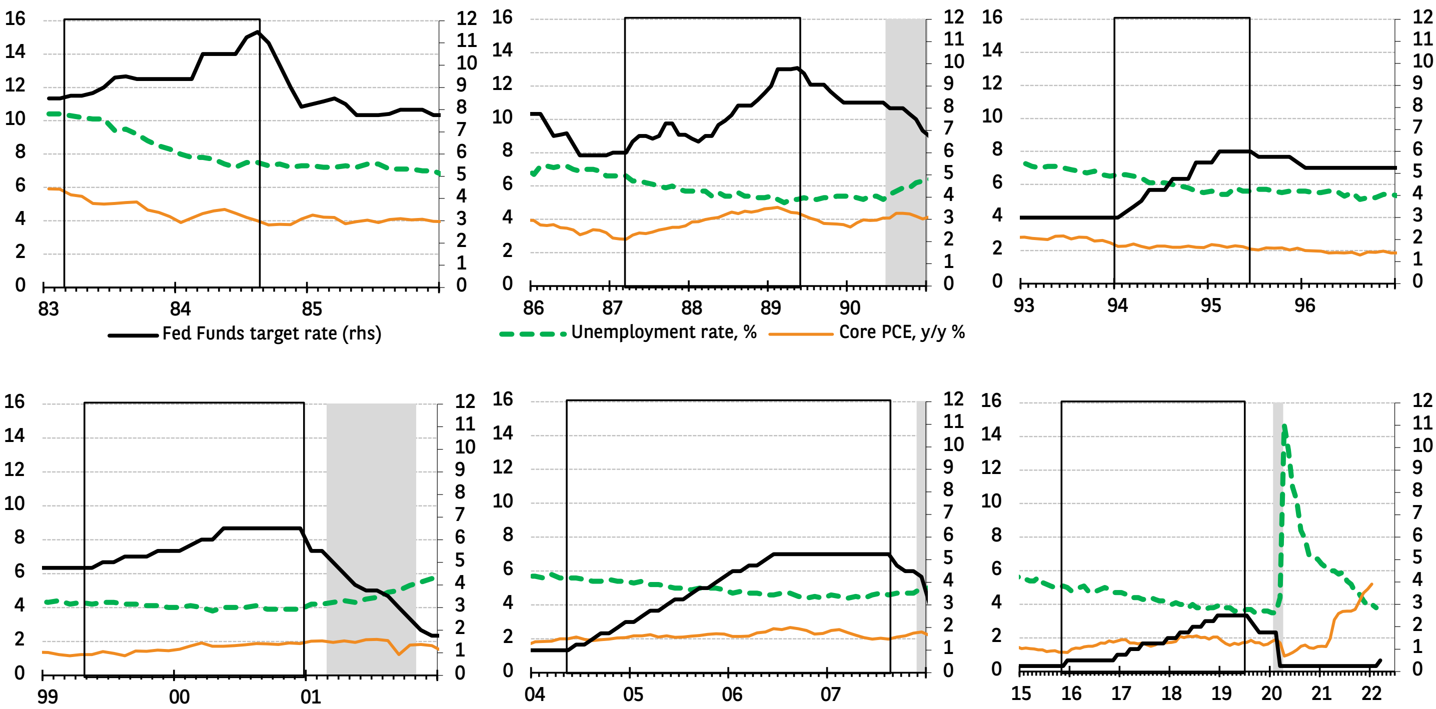
It makes the current cycle particularly challenging because, compared to previous cycles, inflation is far more above target, which, a priori, should justify many rate hikes. However, the unemployment rate is lower than when previous tightening cycles started. This could mean that the cyclical minimum in the unemployment rate would be reached more quickly. It remains to be seen whether by then inflation, which is abnormally high, will have declined sufficiently to justify and end to the tightening cycle. If not, the Fed will face a difficult choice of either continuing to fight inflation and risk causing a recession or of protecting growth and the labour market thereby possibly jeopardizing its inflation fighting credentials. Jerome Powell, testifying before Congress recently was asked whether he would be willing to do what is necessary to bring down inflation, just as Paul Volcker has done in the early eighties. He replied in an unequivocal way by saying "*I hope history will record that the answer to your question is yes*[6]".

William De Vijlder

5. This refers to the so-called Sahm rule, which is based on the observation that since 1970, "*Even a modest rise in the unemployment rate such as 0.50 percentage points has occurred only during or closely following recessions*." Source: Claudia Sahm, Direct stimulus payments to individuals (brookings.edu), 16 May 2019.

6. Source: *Jay Powell channels his inner Paul Volcker with tough stance on US inflation*, Financial Times, 17 March 2022.

FEDERAL RESERVE TIGHTENING CYCLES



CHARTS 2-7

SOURCE: FEDERAL RESERVE, BLS, BNP PARIBAS

MARKETS OVERVIEW

OVERVIEW

Week 11-3 22 to 18-3-22

↗ CAC 40	6 260	▶ 6 620	+5.8	%
↗ S&P 500	4 204	▶ 4 463	+6.2	%
↘ Volatility (VIX)	30.8	▶ 23.9	-6.9	pb
↗ Euribor 3M (%)	-0.50	▶ -0.49	+1.5	bp
↗ Libor $ 3M (%)	0.83	▶ 0.93	+10.8	bp
↗ OAT 10y (%)	0.60	▶ 0.66	+6.2	bp
↗ Bund 10y (%)	0.23	▶ 0.33	+9.5	bp
↗ US Tr. 10y (%)	2.01	▶ 2.15	+14.1	bp
↗ Euro vs dollar	1.10	▶ 1.10	+0.7	%
↘ Gold (ounce, $)	1 983	▶ 1 930	-2.7	%
↘ Oil (Brent, $)	112.7	▶ 107.8	-4.4	%

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	-0.49	-0.49	at	18/03	-0.58	at	05/01
Euribor 12M	-0.21	-0.21	at	18/03	-0.50	at	05/01
$ FED	0.50	0.50	at	17/03	0.25	at	03/01
Libor 3M	0.93	0.95	at	16/03	0.21	at	03/01
Libor 12M	1.79	1.79	at	18/03	0.58	at	03/01
£ BoE	0.75	0.75	at	17/03	0.25	at	03/01
Libor 3M	0.97	1.04	at	17/03	0.26	at	03/01
Libor 12M	0.81	0.81	at	03/01	0.81	at	03/01

At 18-3-22

Yield (%)		highest 22			lowest 22		
€ AVG 5-7y	0.52	0.55	at	14/03	-0.04	at	03/01
Bund 2y	-0.44	-0.31	at	04/02	-0.83	at	04/03
Bund 10y	0.33	0.36	at	16/03	-0.14	at	24/01
OAT 10y	0.66	0.68	at	14/03	0.15	at	04/01
Corp. BBB	1.95	2.03	at	14/03	0.90	at	05/01
$ Treas. 2y	1.96	1.97	at	16/03	0.70	at	04/01
Treas. 10y	2.15	2.19	at	17/03	1.63	at	03/01
High Yield	6.54	6.81	at	15/03	5.07	at	03/01
£ gilt. 2y	1.26	1.55	at	15/02	0.69	at	03/01
gilt. 10y	1.47	1.60	at	16/03	0.97	at	03/01

At 18-3-22

EXCHANGE RATES

1€ =		highest 22		lowest 22			2022
USD	1.10	1.15	at 10/02	1.09	at	07/03	-2.8%
GBP	0.84	0.85	at 07/02	0.83	at	04/03	-0.1%
CHF	1.03	1.06	at 10/02	1.00	at	04/03	-0.4%
JPY	131.67	132.97	at 10/02	125.37	at	04/03	+0.5%
AUD	1.49	1.62	at 04/02	1.48	at	07/03	-4.6%
CNY	7.03	7.29	at 10/02	6.87	at	08/03	-3.0%
BRL	5.54	6.44	at 06/01	5.51	at	07/03	-12.5%
RUB	117.67	164.76	at 07/03	84.45	at	03/01	+37.9%
INR	83.77	85.96	at 11/02	83.17	at	04/03	-0.9%

At 18-3-22 *Change*

COMMODITIES

Spot price, $		highest 22			lowest 22			2022	2022(€)
Oil, Brent	107.8	128.2	at	08/03	79.0	at	03/01	+37.5%	+41.5%
Gold (ounce)	1 930	2 056	at	08/03	1 785	at	28/01	+5.9%	+9.0%
Metals, LMEX	5 144	5 506	at	07/03	4 489	at	06/01	+14.3%	+17.6%
Copper (ton)	10 327	10 702	at	04/03	9 543	at	06/01	+6.0%	+9.1%
wheat (ton)	370	4.2	at	07/03	281	at	14/01	+55.5%	+60.0%
Corn (ton)	285	2.9	at	11/03	226	at	03/01	+2.5%	+28.5%

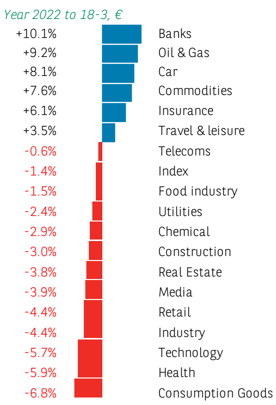
At 18-3-22 *Change*

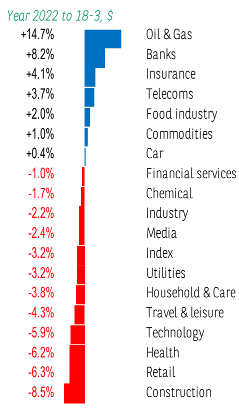
EQUITY INDICES

	Index	highest 22			lowest 22			2022
World								
MSCI World	3 011	3 248	at	04/01	2 798	at	08/03	-6.8%
North America								
S&P500	4 463	4 797	at	03/01	4 171	at	08/03	-6.4%
Europe								
EuroStoxx50	3 902	4 392	at	05/01	3 505	at	08/03	-9.2%
CAC 40	6 620	7 376	at	05/01	5 963	at	08/03	-0.7%
DAX 30	14 413	16 272	at	05/01	12 832	at	08/03	-9.3%
IBEX 35	8 418	8 886	at	10/02	7 645	at	07/03	-0.3%
FTSE100	7 405	7 672	at	10/02	6 959	at	07/03	+0.0%
Asia								
MSCI, loc.	1 100	1 165	at	05/01	1 024	at	08/03	-0.4%
Nikkei	26 827	29 332	at	05/01	24 718	at	09/03	-6.8%
Emerging								
MSCI Emerging ($)	1 123	1 267	at	12/01	1 027	at	15/03	-0.9%
China	71	86	at	20/01	59	at	15/03	-14.8%
India	816	891	at	13/01	742	at	07/03	-1.4%
Brazil	1 759	1 766	at	03/03	1 372	at	06/01	+10.4%

At 18-3-22 *Change*

PERFORMANCE BY SECTOR (Eurostoxx50 & S&P500)

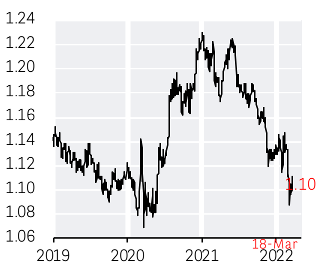




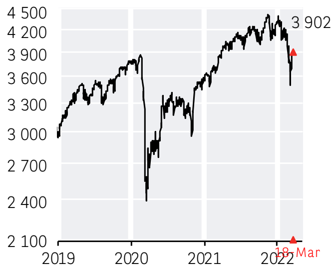
SOURCE: REFINITIV, BNP PARIBAS,

MARKETS OVERVIEW

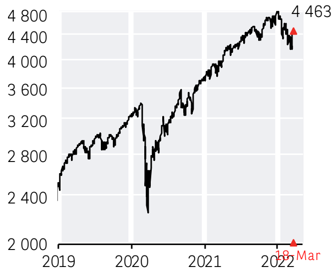
EURO-DOLLAR



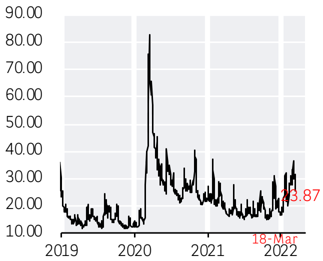
EUROSTOXX50



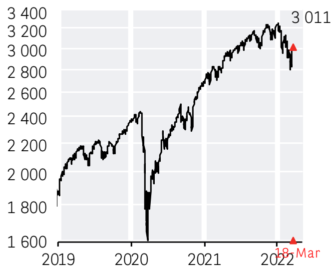
S&P500



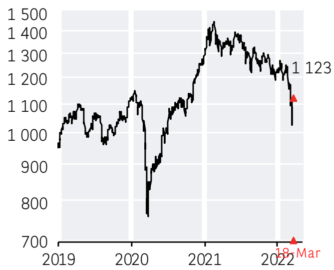
VOLATILITY (VIX, S&P500)



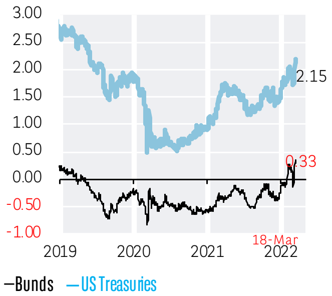
MSCI WORLD (USD)



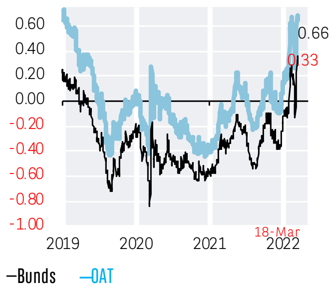
MSCI EMERGING (USD)



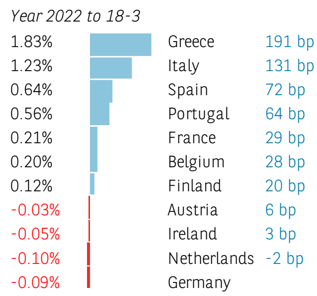
10Y BOND YIELD, TREASURIES VS BUND



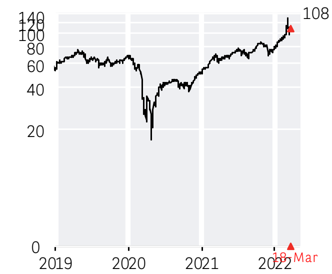
10Y BOND YIELD



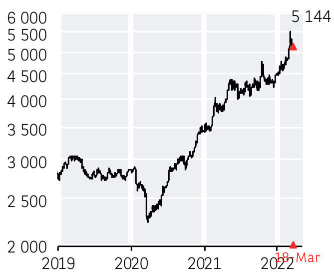
10Y BOND YIELD & SPREADS



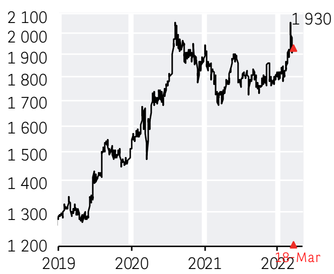
OIL (BRENT, USD)



METALS (LMEX, USD)



GOLD (OUNCE, USD)



SOURCE: REFINITIV, BNP PARIBAS

ECONOMIC PULSE

CHINA: A STRONG START TO THE YEAR

Economic growth picked up in the first two months of 2022, but this improvement will probably halt in March.In the services sector, growth was 4.2% year-on-year (y/y) in January-February, which is low, yet this figure is higher than the 3.3% reported in Q4 2021. The same observation can be made for retail sales volumes, which rose 4.9% y/y in January-February, up from less than 2% in Q4 2021. Growth was more robust in the industrial sector, where it continued to accelerate, reaching 7.5% y/y in January-February, up from 3.9% in Q4 2021. It was notably driven by the upturn in coal and electricity production and by improvements in supply-chain conditions in the automobile sector. Moreover, export growth remained solid and reported a smaller-than-expected slowdown (+16.3% y/y in USD terms, compared to 22.9% in Q4 2021).

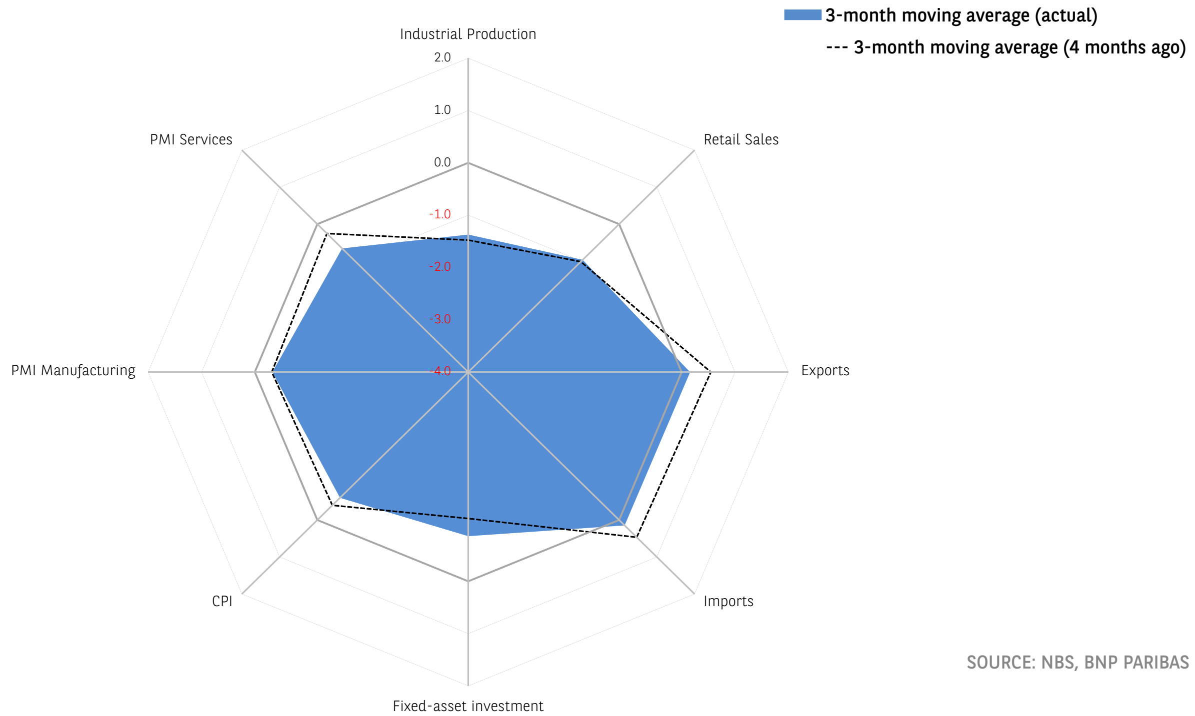
Investment growth rebounded in January-February (+12.2% y/y in value), with a visible acceleration in the majority of manufacturing industries, as well as in the mining sector and public infrastructure projects. In the real estate sector, the correction continued. The average house price in the 70 biggest cities declined in January (-0.3% month-on-month) for the 6th consecutive month. Yet the size of the contraction in housing transaction volumes and construction projects has eased slightly.

In the very short term, there are high downside risks to growth given the new lockdown restrictions introduced in several major cities over the past few days following a sharp rebound in the Covid-19 epidemic, and due to the repercussions of the war in Ukraine on world demand and commodity prices. The short-term impact on China's consumer prices should be moderate (notably due to price controls on certain grains). In contrast, the producer price index (PPI) is likely to reaccelerate rapidly (after slowing to 11.6% y/y in January-February, from 16.1% in Q4 2021), which will strain the performance of producers.

Under this environment, the authorities have continued to ease the policy mix. At the annual National People's Congress meeting, which ended on 11 March, the authorities announced their economic priorities for 2022. To reach the 2022 growth target of 5.5%, a series of fiscal and monetary stimulus measures will be introduced (economic growth was "only" 4% y/y in Q4 2021 and should not exceed 5% in Q1 2022). Moreover, after months of tightening the regulatory environment in the services sector, the authorities seem to be adjusting their strategy in recent days. They announced greater support for the property sector and adjustments for internet platforms. These measures would be aimed at "stabilising" the economy and should boost investor confidence considerably. As a matter of fact, China's equity markets rebounded after declining sharply over the past two weeks (the composite index of the Shanghai stock exchange fell by 12% between 1 and 15 March, before regaining 6% thereafter).

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.

FRANCE: BUSINESS SURVEYS SET TO DETERIORATE SIGNIFICANTLY

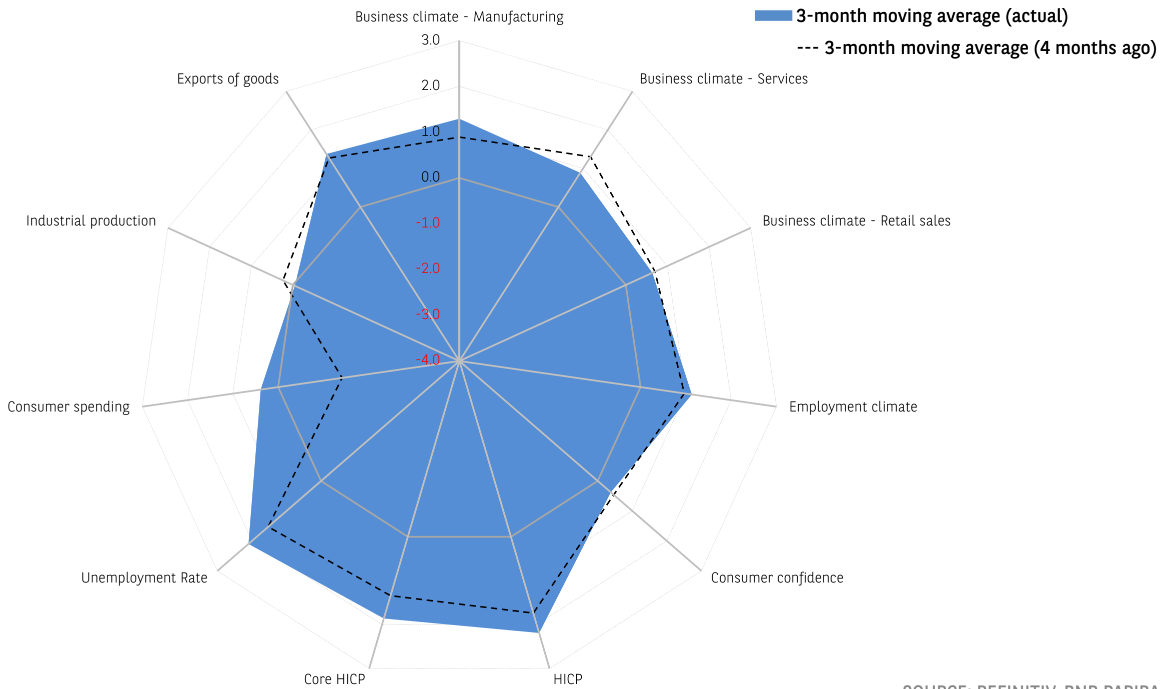
French GDP growth remained positive in early 2022, as illustrated by the relatively stable INSEE's survey results through February, in terms of households, businesses and employment. Inflation rose significantly in February, up 3.6% y/y, but it was held down by the stability of regulated gas prices and the cap on electricity prices, which rose only 4%. According to the INSEE's most recent economic update, inflation would have hit 5.1% without these control mechanisms.

The situation changed with the outbreak of war in Ukraine. First, the war's impact on oil prices should trigger another surge in inflation as of March, which we estimate at 4.5% y/y, the highest since 1985. Second, the INSEE released the preliminary results of its next business and household surveys (conducted between 24 February and 9 March). They reveal a nearly 15-point deterioration in household opinions of their standard of living, in keeping with their perception of a decline in purchasing power. At the same time, personal production prospects were much more negative in the manufacturing sector (the balance of opinions declined by more than 20 points) due to greater supply chain problems and higher commodity costs. Moreover, the survey of cash levels of big and mid-sized companies, conducted jointly by Rexecode and AFTE, indicates a 12-point decline in the balance of opinions of business leaders concerning operating cash flow.

Faced with the multiple negative repercussions from the war in Ukraine, the French government unveiled its Resilience Plan on 16 March. The main measures include a subsidy on gasoline prices (EUR 0.15 per litre as of 1 April) and a series of targeted corporate measures that notably cover part of the increase in the energy bill. Wages are also set to rise with an increase in the civil servant wage index before the summer. Moreover, the minimum wage should also increase automatically on 1 May because price increases should have exceeded 2% since the beginning of the year. Yet these measures will have a lagging impact on the loss of purchasing power already observed in Q1, which is bound to hamper growth. All in all, French GDP growth is estimated at 0.3% q/q in Q1, according to our estimates and those of INSEE (compared to +0.7% in Q4 2021). It is expected to slow down further in Q2, with growth being virtually flat.

Stéphane Colliac

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

ECONOMIC PULSE

THE OECD WEEKLY TRACKER OF GDP GROWTH CONTINUES TO SHOW STRONG MOMENTUM

After trending downwards since the end of January, Covid-19 figures have been ticking upwards again around the globe: 11.7 million new cases were reported between 10-16 March, a 9% increase over the previous week. This increase is due to the highly contagious Omicron variant and to the easing of health restrictions in several countries. The increase in the number of new cases was especially striking in Asia and Africa, up 15% and 12%, respectively. In Europe, new cases were up 6%. In North and South America, in contrast, cases were further down 24% and 9%, respectively. At the same time, vaccination campaigns continue to progress. To date, 11 billion doses of the vaccine have been administered worldwide, which brings to 64% the share of the global population that has received at least one dose of the Covid-19 vaccine. Even so, we can see a slowdown in the pace of vaccinations, notably in the countries that have already reached high vaccination coverage rates (chart 2).

After the positive momentum reported recently, retail and leisure footfall seemed to be dropping again in France, Germany, Belgium, Spain, Italy, the UK and the United States. In Japan, footfall rebounded slightly after declining briefly (chart 3, blue line).

Lastly, the OECD Weekly Tracker of GDP growth continues to show positive momentum in all of the countries in our selection (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)

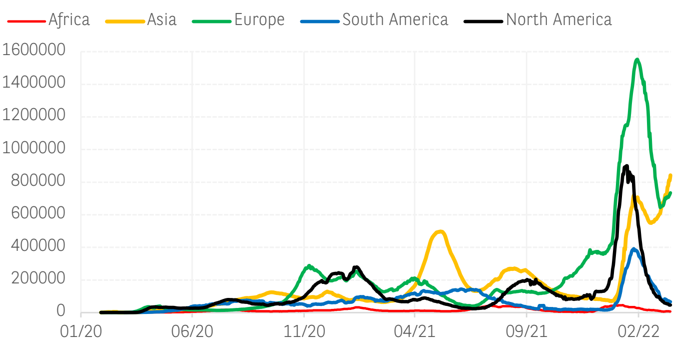


CHART 1 SOURCE: JOHNS-HOPKINS UNIVERSITY (03/17/2022), BNP PARIBAS

SHARE OF PEOPLE WHO RECEIVED AT LEAST ONE DOSE OF VACCINE

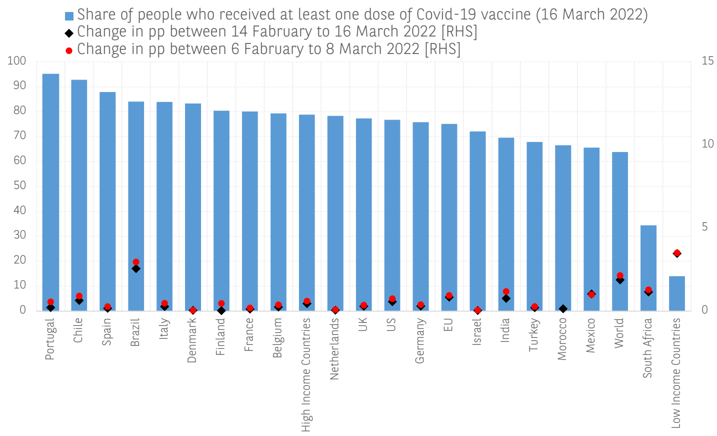
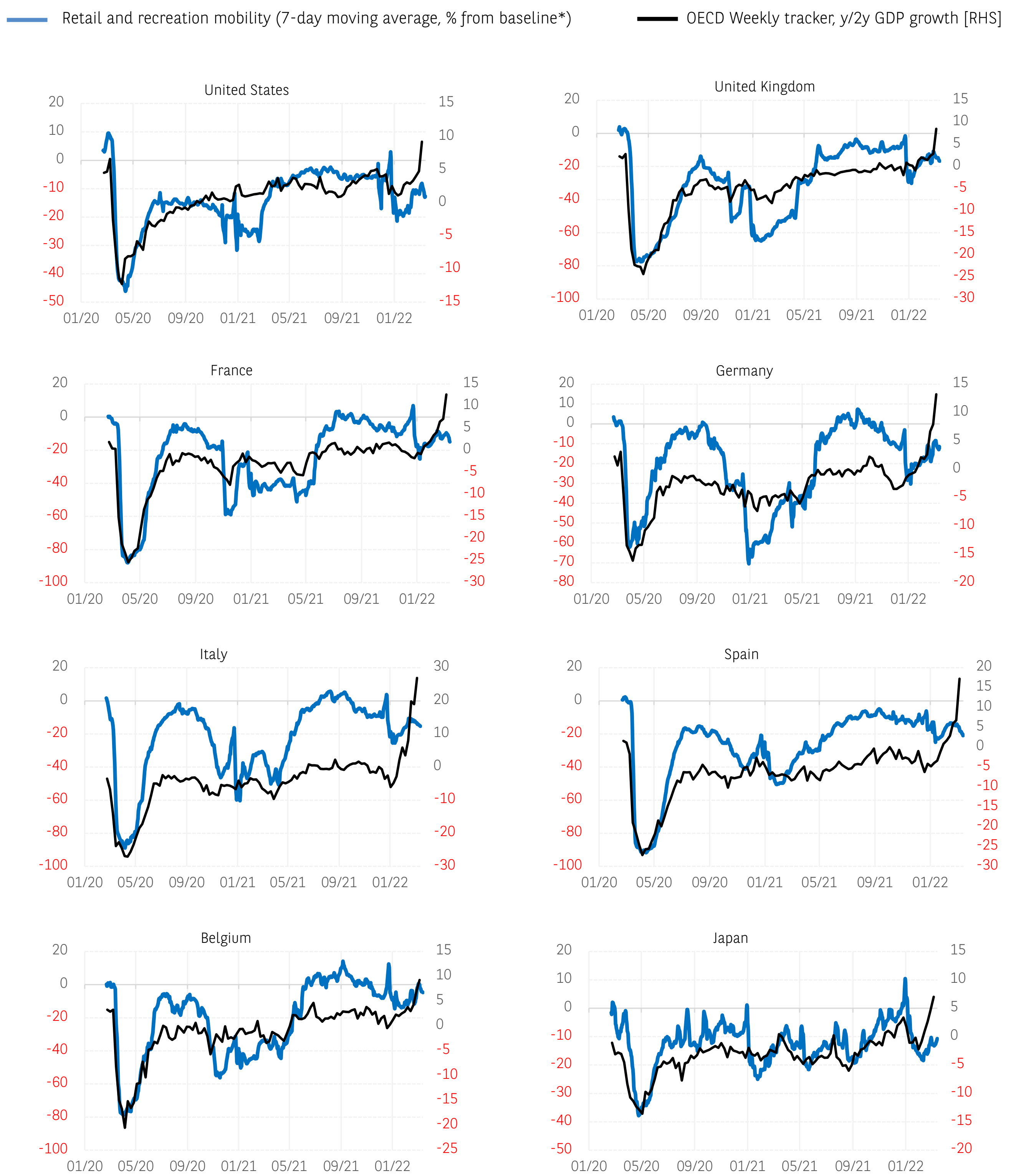


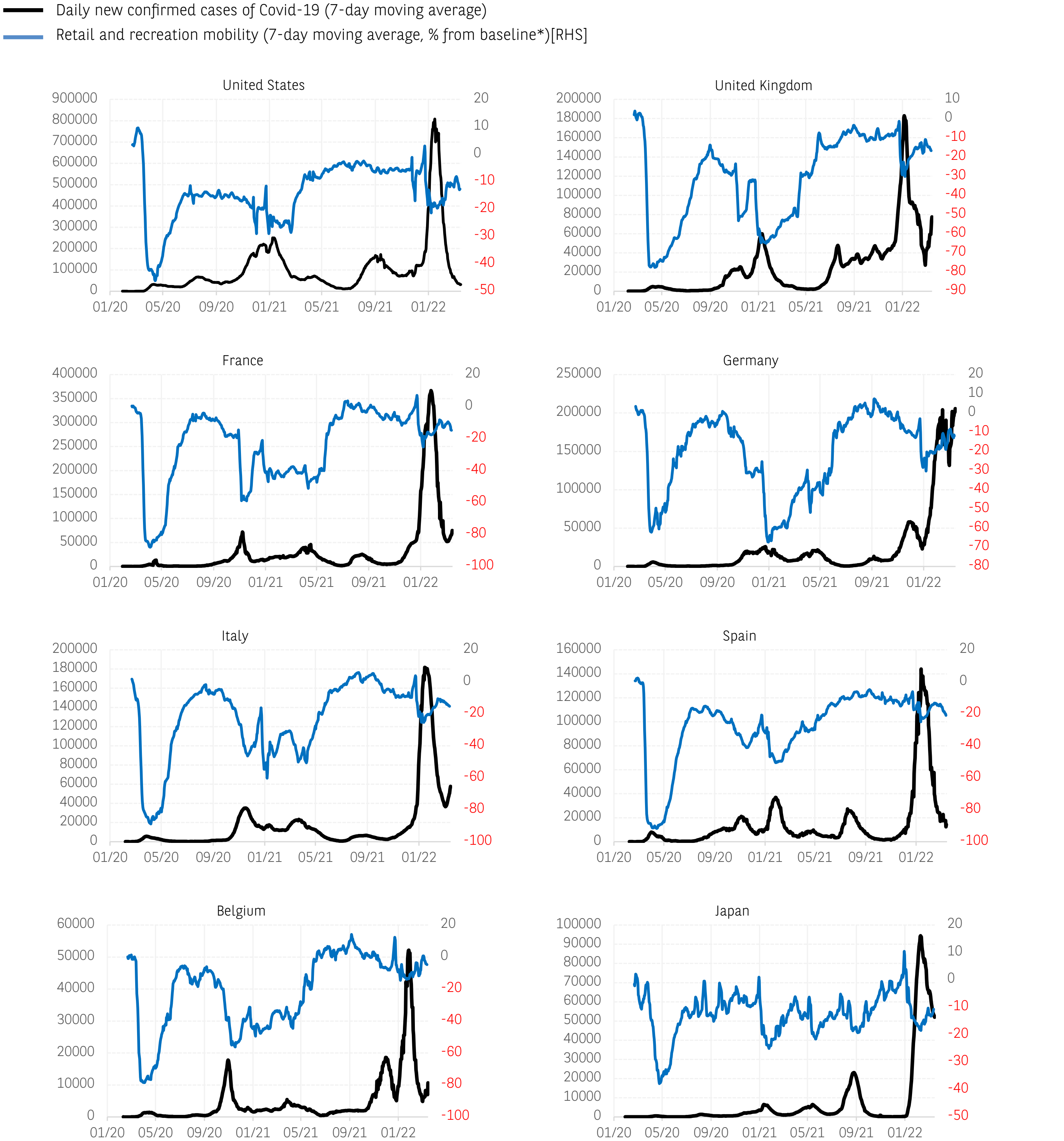
CHART 2 SOURCE: OUR WORLD IN DATA (03/17/2022), BNP PARIBAS

RETAIL AND RECREATION MOBILITY & OECD WEEKLY TRACKER



SOURCE: OECD (03/17/2022), GOOGLE (03/17/2022), BNP PARIBAS

DAILY NEW CASES & RETAIL AND RECREATION MOBILITY



SOURCE: JOHNS-HOPKINS UNIVERSITY (03/17/2022), GOOGLE (03/17/2022), BNP PARIBAS

ECONOMIC SCENARIO

UNITED STATES

The US economy has returned to its pre-pandemic trajectory, and with the unemployment rate at 4%, it is now close to potential. Inflation has risen above 7%, the highest level in forty years, and the Federal Reserve is expected to raise its key rates by at least 100 basis points in 2022. Buoyed by job creations, household consumption is however penalised by the decline in real wages. The downward revision of the government's fiscal ambitions, notably its social welfare plans, may also contribute to calm down private demand. GDP growth will slowdown at around 4%, inflation is expected to remain very high through the end of spring, before easing by the second half of 2022.

CHINA

Economic growth has slowed markedly since last summer. The crisis in the real estate and construction sectors, the authorities' zero-Covid strategy and the persisting weakness of household consumption have heavily weighed on activity. These factors are likely to persist in the short term, even though the government increases fiscal policy support and the central bank enhances monetary easing measures. At the same time, the authorities are expected to continue to act to clean up the property market and tighten the regulatory framework. The export industry, which has remained buoyant in recent months, could start to lose growth momentum in the short term.

EUROZONE

After a strong Q3, growth in Q4 2021 was, as expected, significantly weaker (+0.3% t/t according to the first Eurostat estimate). In addition to the expected normalization, headwinds have increased (supply-side problems, surging inflation and uncertainties arising from the new wave of the pandemic). However, business climate surveys continue to show some resilience. Although the downside risks have intensified, leading, mid-February, to a 0.6 ppts downward revision to our growth forecast for 2022 (to 3.6%), we continue to see the recovery as resilient. A number of tailwinds remain at work – still supportive (albeit less so) 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. Despite a more meaningful slowdown, growth is expected to remain well above its trend rate in 2022. Meanwhile, inflation continues to surge, postponing the expected peak. This is still mainly an energy story but more sustained and widespread factors are also gaining traction. We expect average inflation to spike at 5% in 2022 in annual average terms (after 2.6% in 2021), masking an expected decline over the course of the 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 surprised on the upside in Q4 2021 (0.7% q/q according to INSEE's initial estimate) and reached 7% in 2021 as a whole. In 2022, GDP growth would ease to 4.2%, against a background of higher inflation (3.5% expected in 2022 after 1.8% in 2021).

RATES AND EXCHANGE RATES

In the US, the Federal Reserve has started its tightening cycle and, based on the projections of the FOMC members, several rate hikes should follow this year and next. In addition, the reduction of the size of the balance sheet (quantitative tightening) is expected to be decided at an upcoming meeting of the FOMC. This hawkish stance is motivated by particularly elevated inflation, a strong economy and very low policy rates. These policy changes should put upward pressure on Treasury yields.

In the eurozone, the ECB will stop net purchases under the PEPP in March and will temporarily increase the monthly volume under the traditional asset purchase program. It insists on the risk that inflation will continue to surprise to the upside, in particular in the short run. Against this background and considering the expected path of inflation, we were forecasting a first hike in the deposit rate of 25 bp on the occasion of the September meeting, followed by another hike in December. However, due to the economic consequences of the war in Ukraine, this now seems far less likely. One rate hike this year, but later than September, is still a possibility. Two more hikes of 25 bp would follow in 2023. The change in message of the ECB has caused a rise in euro area bond yields. Further increases are to be expected given the outlook for monetary policy monetary policy and the influence from higher US Treasury yields. We also expect a widening of certain 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. We expect the dollar to weaken versus the euro, considering that both the Federal Reserve and the ECB will tighten policy and that the euro is undervalued versus the dollar. The increased policy divergence between the Fed and the Bank of Japan should cause an appreciation of the dollar versus the yen but in the latter part of 2023, there is a potential for yen appreciation as we get closer to the cyclical peak in US Treasury yields.

GDP GROWTH

%	2021	2022 e	2023 e
United-States	5.7	3.7	2.5
Japan	1.7	1.6	2.0
United-Kingdom	7.5	3.6	1.7
Euro Area	5.3	2.8	2.7
Germany	2.9	-	-
France	7.0	-	-
Italy	6.6	-	-
Spain	5.0	-	-
China	7.7	4.9	5.5
India*	8.1	9.5	7.3
Brazil	5.0	-0.5	0.0
Russia	4.5	-8.5	3.1

The growth projections in the table are based on the assumption that there is no further escalation of the war in Ukraine, that there is a prolonged period of uncertainty with sanctions remaining in place and that the price of oil would peak at USD 150/bbl and drop to about USD 120/bbl by year end.

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 13/03/2022

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)	0.50	1.00	1.50	1.75	2.50
	T-Note 10y	2.00	2.10	2.20	2.30	2.30
Ezone	Deposit rate	-0.50	-0.50	-0.25	0.00	0.50
	Bund 10y	0.35	0.45	0.50	0.60	0.70
	OAT 10y	0.90	0.90	1.00	1.10	1.20
	BTP 10y	2.10	2.20	2.40	2.60	2.70
	BONO 10y	1.40	1.50	1.65	1.80	1.90
UK	Base rate	0.75	1.00	1.25	1.25	1.75
	Gilts 10y	1.50	1.55	1.60	1.75	2.00
Japan	BoJ Rate	-0.10	-0.10	-0.10	-0.10	-0.10
	JGB 10y	0.20	0.20	0.20	0.22	0.25

Exchange Rates End of period		Q1 2022 e	Q2 2022 e	Q3 2022 e	Q4 2022 e	Q4 2023 e
USD	EUR / USD	1.15	1.16	1.17	1.18	1.20
	USD / JPY	115	116	117	118	115
	GBP / USD	1.35	1.35	1.36	1.37	1.40
EUR	EUR / GBP	0.85	0.86	0.86	0.86	0.86
	EUR / JPY	132	135	137	139	138

Brent End of period		Q1 2022 e	Q2 2022 e	Q3 2022 e	Q4 2022 e	Q4 2023 e
Brent	USD/bbl	87	84	87	92	97

FORECASTS PRODUCED ON 10 FEBRUARY. SOURCE: BNP PARIBAS (E: ESTIMATES & FORECASTS)
(MARKET ECONOMICS, INTEREST RATE STRATEGY, FX STRATEG, COMMODITIES DESK STRATEGY)

CALENDAR

LATEST INDICATORS

Data in China were mixed, although, with the exception of the unemployment rate which increased unexpectedly, they were better than anticipated. On an annual basis and since the start of the year, property investment, industrial production and in particular retail sales growth slowed down but fixed assets investments growth accelerated. In the eurozone, the ZEW survey recorded a huge drop in March and car sales weakened further. Inflation moved slightly higher although core inflation was stable. Banque de France industrial edged higher and inflation also increased slightly. Similar to what happened in the eurozone, the ZEW survey for Germany saw a huge drop. The Bank of England hiked its policy rate again and more increases are to follow given the elevated inflation. As expected, the Federal Reserve started its tightening cycle. The tone of J. Powell's press conference was hawkish. Retail sales growth dropped and disappointed but the Philadelphia Fed index created a welcome surprise by improving significantly.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	ACTUAL	PREVIOUS
03/14/2022	France	Bank of France Ind. Sentiment	Feb	106.0	107.0	107.0
03/15/2022	China	Property Investment YTD YoY	Feb	-7.0%	3.7%	4.4%
03/15/2022	China	Industrial Production YTD YoY	Feb	4.0%	7.5%	9.6%
03/15/2022	China	Fixed Assets Ex Rural YTD YoY	Feb	5.0%	12.2%	4.9%
03/15/2022	China	Retail Sales YTD YoY	Feb	3.0%	6.7%	12.5%
03/15/2022	China	Surveyed Jobless Rate	Feb	5.1%	5.5%	5.1%
03/15/2022	United Kingdom	Payrolled Employees Monthly Change	Feb	125k	275k	61k
03/15/2022	United Kingdom	ILO Unemployment Rate 3Mths	Jan	4.0%	3.9%	4.1%
03/15/2022	France	CPI EU Harmonized MoM	Feb	0.8%	0.9%	0.8%
03/15/2022	France	CPI EU Harmonized YoY	Feb	4.1%	4.2%	4.1%
03/15/2022	Germany	ZEW Survey Expectations	Mar	5.0	-39.3	54.3
03/15/2022	Germany	ZEW Survey Current Situation	Mar	-22.5	-21.4	-8.1
03/15/2022	Eurozone	ZEW Survey Expectations	Mar	--	-38.7	48.6
03/15/2022	United States	PPI Ex Food and Energy YoY	Feb	8.7%	8.4%	8.5%
03/15/2022	United States	PPI Final Demand MoM	Feb	0.9%	0.8%	1.2%
03/15/2022	United States	PPI Ex Food and Energy MoM	Feb	0.6%	0.2%	1.0%
03/15/2022	United States	PPI Final Demand YoY	Feb	10.0%	10.0%	10.0%
03/16/2022	China	New Home Prices MoM	Feb	--	-0.1%	0.0%
03/16/2022	United States	Retail Sales Advance MoM	Feb	0.4%	0.3%	4.9%
03/16/2022	United States	Retail Sales Control Group	Feb	0.3%	-1.2%	6.7%
03/16/2022	United States	NAHB Housing Market Index	Mar	81.0	79.0	81.0
03/16/2022	United States	FOMC Rate Decision (Upper Bound)	Mar	0.5%	0.5%	0.3%
03/17/2022	Japan	Core Machine Orders YoY	Jan	8.7%	5.1%	5.1%
03/17/2022	Eurozone	EU27 New Car Registrations	Feb	--	-6.7%	-6.0%
03/17/2022	Eurozone	CPI YoY	Feb	5.8%	5.9%	5.8%
03/17/2022	Eurozone	CPI MoM	Feb	0.9%	0.9%	0.9%
03/17/2022	Eurozone	CPI Core YoY	Feb	2.7%	2.7%	2.7%
03/17/2022	United Kingdom	Bank of England Bank Rate	Mar	0.8%	0.8%	0.5%
03/17/2022	United States	Building Permits MoM	Feb	-2.4%	-1.9%	0.5%
03/17/2022	United States	Housing Starts MoM	Feb	3.8%	6.8%	-5.5%
03/17/2022	United States	Philadelphia Fed Business Outlook	Mar	14.5	27.4	16.0
03/17/2022	United States	Initial Jobless Claims	Mar	220k	214k	229k
03/18/2022	Japan	BOJ Policy Balance Rate	Mar	-0.1%	-0.1%	-0.1%
03/18/2022	Japan	BOJ 10-Yr Yield Target	Mar	0.0%	0.0%	0.0%

SOURCE: BLOOMBERG

CALENDAR: THE WEEK AHEAD

COMING INDICATORS

A very important week with the publication of several surveys for the month of March. They will allow us to gauge to what extent the war in Ukraine and the jump in commodity prices is weighing on business and household sentiment. We will have the flash PMIs in several countries as well as eurozone consumer confidence, French business confidence, British consumer confidence and the IFO survey in Germany. In the US we will have University of Michigan sentiment.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	PREVIOUS
03/21/2022	Germany	PPI YoY	Feb	--	25.00%
03/21/2022	Germany	PPI MoM	Feb	--	2.20%
03/23/2022	United Kingdom	CPIH YoY	Feb	--	4.90%
03/23/2022	United Kingdom	CPI Core YoY	Feb	--	4.40%
03/23/2022	United Kingdom	PPI Output NSA MoM	Feb	--	1.20%
03/23/2022	United Kingdom	PPI Input NSA MoM	Feb	--	0.90%
03/23/2022	United States	New Home Sales MoM	Feb	1.60%	-4.50%
03/23/2022	Eurozone	Consumer Confidence	Mar	--	-8.8
03/24/2022	Japan	Jibun Bank Japan PMI Services	Mar	--	44.2
03/24/2022	Japan	Jibun Bank Japan PMI Composite	Mar	--	45.8
03/24/2022	Japan	Jibun Bank Japan PMI Mfg	Mar	--	52.7
03/24/2022	France	Business Confidence	Mar	--	112
03/24/2022	France	Markit France Services PMI	Mar	--	55.5
03/24/2022	France	Markit France Manufacturing PMI	Mar	--	57.2
03/24/2022	France	Markit France Composite PMI	Mar	--	55.5
03/24/2022	Germany	Markit/BME Germany Manufacturing PMI	Mar	--	58.4
03/24/2022	Germany	Markit Germany Services PMI	Mar	--	55.8
03/24/2022	Germany	Markit/BME Germany Composite PMI	Mar	54	55.6
03/24/2022	Eurozone	ECB Publishes Economic Bulletin			
03/24/2022	Eurozone	Markit Eurozone Manufacturing PMI	Mar	--	58.2
03/24/2022	Eurozone	Markit Eurozone Services PMI	Mar	--	55.5
03/24/2022	Eurozone	Markit Eurozone Composite PMI	Mar	--	55.5
03/24/2022	United Kingdom	Markit/CIPS UK Services PMI	Mar	--	60.5
03/24/2022	United Kingdom	Markit/CIPS UK Composite PMI	Mar	--	59.9
03/24/2022	United States	Initial Jobless Claims	Mar	--	214k
03/24/2022	United States	Cap Goods Orders Nondef Ex Air	Feb	0.50%	1.00%
03/24/2022	United States	S&P Global US Manufacturing PMI	Mar	55	57.3
03/24/2022	United States	S&P Global US Services PMI	Mar	--	56.5
03/24/2022	United States	S&P Global US Composite PMI	Mar	--	55.9
03/24/2022	United Kingdom	Markit UK PMI Manufacturing SA	Mar	--	58
03/25/2022	United Kingdom	GfK Consumer Confidence	Mar	--	-26
03/25/2022	Germany	IFO Business Climate	Mar	94.8	98.9
03/25/2022	Germany	IFO Current Assessment	Mar	--	98.6
03/25/2022	Germany	IFO Expectations	Mar	--	99.2
03/25/2022	United States	U. of Mich. Sentiment	Mar	59.7	59.7
03/25/2022	United States	U. of Mich. Current Conditions	Mar	--	67.8
03/25/2022	United States	U. of Mich. Expectations	Mar	--	54.4
03/25/2022	United States	U. of Mich. 1 Yr Inflation	Mar	--	5.40%
03/25/2022	United States	U. of Mich. 5-10 Yr Inflation	Mar	--	3.00%

SOURCE: BLOOMBERG

FURTHER READING

Egypt: Increasing risk on foreign currency liquidity	EcoTVWeek	18 March 2022
Colombia: Public Finances – any cause for concern?	Conjoncture	17 March 2022
France: improvement in services surplus offsets deterioration in goods deficit	Chart of the Week	16 March 2022
Eurozone : ECB: enhanced policy optionality	EcoWeek	14 March 2022
Eurozone : Eurozone: dynamism and tensions of the labour market	EcoFlash	11 March 2022
ECB: new forecasts, new challenges	EcoTVWeek	11 March 2022
North America : Contrasting LCR trends in Europe and North America	Chart of the Week	9 March 2022
Global : Are markets pricing in an increase in stagflation risk?	EcoWeek	7 March 2022
Geopolitical uncertainty, monetary and fiscal policy	EcoTVWeek	4 March 2022
Indonesia: mixed consolidation of external accounts	Chart of the Week	2 March 2022
Eurozone : Radical geopolitical uncertainty	EcoWeek	28 February 2022
Rise in sovereign rates and Italian debt: can we draw parallels with the situation in 2010/11?	EcoTVWeek	25 February 2022
France : French households: purchasing power is under pressure	EcoFlash	25 February 2022
Japan : Deflation intensifies in the services sector	Chart of the Week	23 February 2022
Global : Companies' pricing power and the inflation outlook	EcoWeek	21 February 2022
Chile: new President takes office	EcoTVWeek	18 February 2022
France: sharp acceleration in contactless card payments	Chart of the Week	16 February 2022
French industry: a challenge of scale	EcoFlash	15 February 2022
Eurozone sovereign spreads: haunted by the stylised facts	EcoWeek	14 February 2022
France: Towards a EUR 100 bn trade deficit in 2022?	EcoTVWeek	11 February 2022

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