

ECOWEEK

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Europe: China exposure and export sentiment

■ Considering its considerable weight in world GDP, slower growth in China causes spillover effects ■ Over the past 12 months, countries which are more exposed to China in terms of exports have seen a bigger drop in their new export order assessment ■ In Germany there is a close correlation between the Chinese purchasing managers index and the assessment of exports in the PMI ■ This shows that Germany and, by extension, Europe as a whole should hope that recent Chinese growth support measures will be successful.

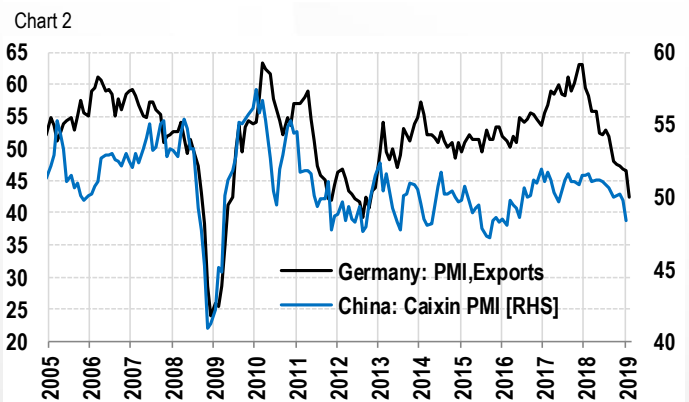
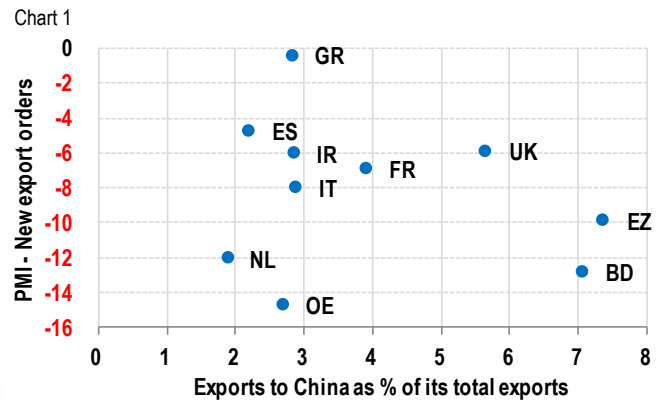
Paraphrasing the quote which is attributed to Napoleon that “when China will wake up, the world will tremble”, one can argue that if China would fall asleep, it would not go unnoticed either. After all, as the country’s GDP represents about 15% of world GDP, weaker Chinese growth should cause spillover effects. The extent depends on the nature of the slowdown (the import content of the components of final demand which see softer growth) and on the importance of China as a trading partner.

Chart 1 shows on the horizontal axis the exports to China as a percentage of total exports¹. The vertical axis shows the change over the past 12 months in the assessment of new export orders. With the exception of the Netherlands and Austria, there seems to be a relationship between China’s weight as an export destination and the change in the export order assessment. Despite their more limited exposure to China, the Netherlands and Austria have witnessed a big drop in export sentiment, probably because of the important weight of Germany in their exports (respectively 24% and 30%) and in view of the considerable growth slowdown in Germany last year. Focussing on Germany, chart 2 shows the close correlation between the Caixin purchasing managers index for China and the exports assessment in the German PMI. Developments in China do not provide the full explanation, but it is clear that Germany and, by extension, Europe as a whole should hope that recent Chinese growth support measures will be successful.

William De Vijlder

¹ For eurozone member states, total exports consist of intra- and extra-eurozone exports. For the eurozone as a whole, exports obviously only concern extra-eurozone exports. This explains why the share of exports to China in eurozone exports is so high compared to the individual eurozone countries.

EXPORT SENTIMENT AND CHINA EXPOSURE



Source: Markit, Datastream, BNP Paribas

GR: Greece; ES: Spain; IR: Ireland; IT: Italy; FR: France; UK: United Kingdom; NL: Netherlands; OE: Austria; BD: Germany; EZ: Eurozone

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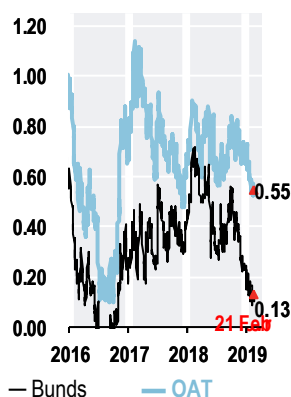
Markets overview

The essentials

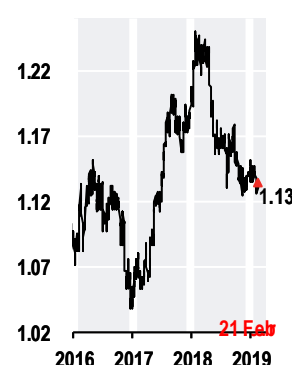
Week 15-2 19 > 21-2-19

↗ CAC 40	5 153	▶ 5 196	+0.8 %
↘ S&P 500	2 776	▶ 2 775	-0.0 %
↘ Volatility (VIX)	14.9	▶ 14.5	-0.4 pb
↘ Euribor 3M (%)	-0.31	▶ -0.31	-0.2 bp
↘ Libor \$ 3M (%)	2.68	▶ 2.66	-1.9 bp
↗ OAT 10y (%)	0.54	▶ 0.55	+0.7 bp
↗ Bund 10y (%)	0.10	▶ 0.13	+2.7 bp
↗ US Tr. 10y (%)	2.67	▶ 2.69	+2.5 bp
↗ Euro vs dollar	1.13	▶ 1.13	+0.7 %
↗ Gold (ounce, \$)	1 315	▶ 1 331	+1.2 %
↗ Oil (Brent, \$)	66.0	▶ 67.2	+1.8 %

10 y bond yield, OAT vs Bund



Euro-dollar



CAC 40



Money & Bond Markets

Interest Rates	highest' 19	lowest' 19
€ ECB	0.00 at 01/01	0.00 at 01/01
Eonia	-0.37 at 01/01	-0.37 at 18/01
Euribor 3M	-0.31 at 01/01	-0.31 at 02/01
Euribor 12M	-0.11 at 06/02	-0.12 at 02/01
\$ FED	2.50 at 01/01	2.50 at 01/01
Libor 3M	2.66 at 01/01	2.64 at 19/02
Libor 12M	2.87 at 21/01	2.87 at 20/02
£ BoE	0.75 at 01/01	0.75 at 01/01
Libor 3M	0.86 at 29/01	0.86 at 20/02
Libor 12M	1.12 at 11/01	1.12 at 20/02

At 21-2-19

Yield (%)	highest' 19	lowest' 19
€ AVG 5-7y	0.49 at 09/01	0.47 at 31/01
Bund 2y	-0.56 at 06/02	-0.62 at 03/01
Bund 10y	0.13 at 01/01	0.09 at 08/02
OAT 10y	0.55 at 08/01	0.53 at 14/02
Corp. BBB	1.73 at 08/01	1.71 at 20/02
\$ Treas. 2y	2.54 at 18/01	2.39 at 03/01
Treas. 10y	2.69 at 18/01	2.55 at 03/01
Corp. BBB	4.34 at 01/01	4.30 at 08/02
£ Treas. 2y	0.75 at 14/01	0.68 at 03/01
Treas. 10y	1.21 at 18/01	1.14 at 14/02

At 21-2-19

10y bond yield & spreads

4.25%	Greece	412 pb
2.84%	Italy	271 pb
1.52%	Portugal	138 pb
1.34%	Spain	120 pb
0.67%	Belgium	53 pb
0.55%	France	41 pb
0.41%	Ireland	28 pb
0.38%	Finland	25 pb
0.36%	Austria	22 pb
0.24%	Netherland	11 pb
0.13%	Germany	

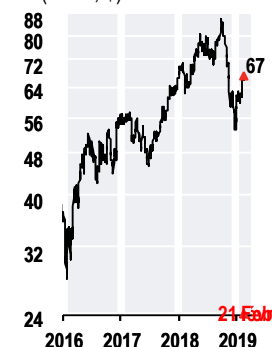
Commodities

Spot price in dollars	lowest' 19	2019(€)
Oil, Brent	53.1 at 01/01	+27.3%
Gold (ounce)	1 281 at 21/01	+4.7%
Metals, LME	2 730 at 03/01	+7.8%
Copper (ton)	5 714 at 03/01	+8.3%
CRB Foods	324 at 01/01	+1.9%
wheat (ton)	188 at 20/02	-2.8%
Corn (ton)	136 at 01/01	+2.5%

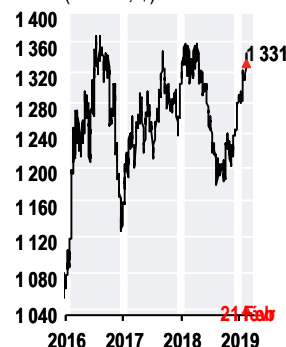
At 21-2-19

Variations

Oil (Brent, \$)



Gold (Ounce, \$)



CRB Foods



Exchange Rates

€ =	highest' 19	lowest' 19	2019
USD	1.15 at 10/01	1.13 at 15/02	-0.7%
GBP	0.90 at 03/01	0.87 at 25/01	-3.2%
CHF	1.14 at 05/02	1.12 at 02/01	+0.7%
JPY	125.77 at 04/02	122.54 at 03/01	+0.1%
AUD	1.63 at 03/01	1.57 at 31/01	-1.4%
CNY	7.87 at 09/01	7.62 at 21/02	-3.0%
BRL	4.43 at 01/01	4.18 at 31/01	-3.7%
RUB	79.30 at 01/01	74.15 at 12/02	-6.4%
INR	80.77 at 04/02	79.57 at 04/01	+1.2%

At 21-2-19

Variations

Equity indices

Index	highest' 19	lowest' 19	2019	2019(€)
CAC 40	5 196 at 21/02	4 611 at 03/01	+9.8%	+9.8%
S&P500	2 775 at 20/02	2 448 at 03/01	+10.7%	+11.5%
DAX	11 423 at 21/02	10 417 at 03/01	+8.2%	+8.2%
Nikkei	21 464 at 21/02	19 562 at 04/01	+7.2%	+7.1%
China*	80 at 21/02	68 at 03/01	+13.7%	+14.4%
India*	541 at 01/01	530 at 19/02	-1.1%	-2.2%
Brazil*	2 210 at 04/02	1 944 at 01/01	+10.3%	+14.5%
Russia*	635 at 05/02	572 at 01/01	+5.6%	+11.8%

At 21-2-19

Variations

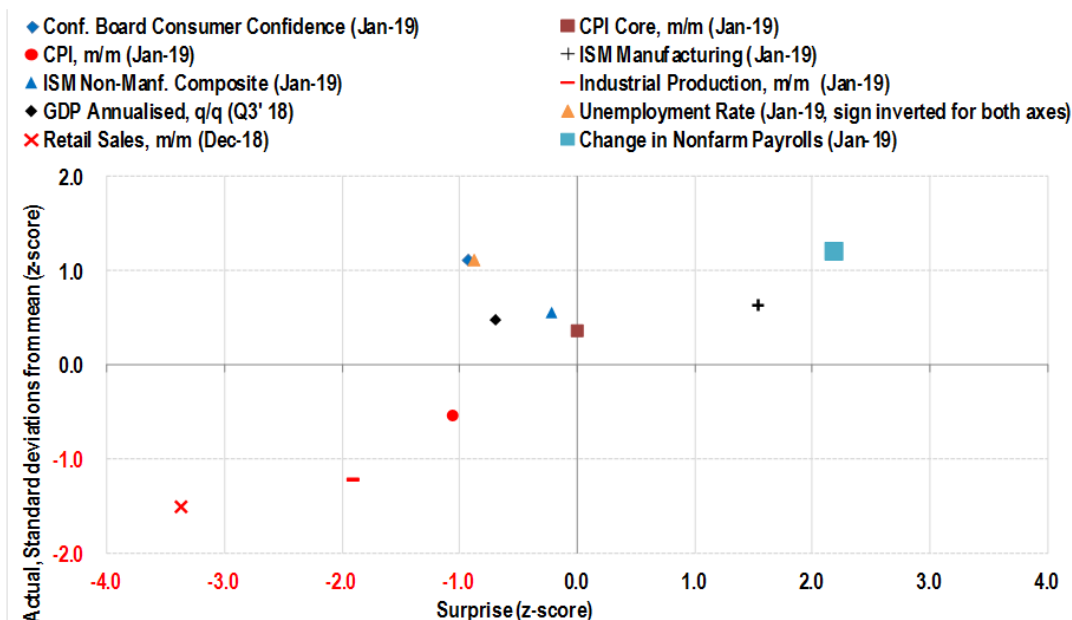
* MSCI index



Pulse

United States: smooth landing

In the United States, positive cyclical surprises have become rare: employment figures and the ISM purchasing managers' index were the only statistics that surpassed expectations in January. Yet these are solid indicators. Moreover, although industrial output and retail sales were disappointing, they were probably caused by poor weather conditions (extreme cold wave) or temporary factors (government shutdown). For the moment, the US economy still seems to be poised for a smooth landing.



Source: Bloomberg, Markit, BNP Paribas

Indicators preview

Next week will be particularly busy on the data front with consumer confidence surveys in several countries (Germany, France, US, UK), the economic sentiment index and its components in the EU and the eurozone, the PMI data for the manufacturing sector and, in the US, the ISM indicator. We will also have the publication of inflation data in France and Germany. In the US, GDP growth will be published for the 4th quarter 2018.

Date	Country/Region	Event	Period
02/26/19	Germany	GfK Consumer Confidence	Mar
02/26/19	France	Consumer Confidence	Feb
02/26/19	United States	Conf. Board Consumer Confidence	Feb
02/27/19	Eurozone	Economic Confidence	Feb
02/27/19	United States	Durable Goods Orders	Jan
02/27/19-03/03/19	Germany	Retail Sales MoM	Jan
02/28/19	Japan	Industrial Production MoM	Jan
02/28/19	Japan	Retail Sales MoM	Jan
02/28/19	United Kingdom	GfK Consumer Confidence	Feb
02/28/19	France	CPI EU Harmonized MoM	Feb
02/28/19	Germany	CPI EU Harmonized MoM	Feb
02/28/19	United States	GDP Annualized QoQ	4Q
03/01/2019	Japan	Jobless Rate	Jan
03/01/2019	France	Markit France Manufacturing PMI	Feb
03/01/2019	Eurozone	Markit Eurozone Manufacturing PMI	Feb
03/01/2019	Eurozone	Unemployment Rate	Jan
03/01/2019	United States	Personal Income	Jan
03/01/2019	United States	Personal Spending	Jan
03/01/2019	United States	ISM Manufacturing	Feb
03/01/2019	United States	University of Michigan Sentiment	Feb

Source: Bloomberg, BNP Paribas



Economic scenario

UNITED STATES

- Growth is expected to slow to 2.1% this year. Trade war uncertainty acts as a drag, the housing market is softening, corporate investment should slow, as well as exports in reaction to the past strengthening of the dollar against a broad range of currencies.
- Core inflation remains well under control and has eased a bit.
- Following the dovish message from the January FOMC meeting, markets are pricing in a policy easing in the course of 2020.

CHINA

- Economic growth is slowing due to both structural and cyclical reasons. The export outlook is significantly darkened by US tariff hikes. Private domestic demand should be affected by the knock-on effect of the worsening performance of the export manufacturing sector, the slowdown of retail sales and the continued moderation in the property market.
- In order to contain the slowdown, the central bank is easing liquidity and credit conditions. At the same time, the reduction in financial instability risks via regulatory tightening should remain a top policy priority. Fiscal policy is also turning expansionary (tax cuts, increased infrastructure spending).

EUROZONE

- The slowdown is becoming increasingly evident, especially in the German economy, which has suffered from one-off factors but also from a slowdown of exports to China. Capacity constraints also play a role. Business expectations continue to decline. Italy has now entered a technical recession with quarterly growth negative in the third and fourth quarter of 2018.
- Inflation is now expected to decelerate following the past drop in the oil price, while core CPI is hardly moving. The growth slowdown also implies that the pick-up in core inflation should be slower than expected until recently. We do not expect the ECB to move rates this year (see below).

FRANCE

- Growth is slowing although the economy should show some resilience. Households' consumption should get a boost from the tax cuts and the jobs recovery but inflation reduces purchasing power gains. Business investment dynamics remain favourable. The global backdrop is less supportive. A slight rise in core inflation is appearing but remains to be confirmed.

INTEREST RATES AND FX RATES

- In the US, the Fed has announced to be patient before deciding on any change in its policy. We expect one rate increase this year, in June. We have changed the forecast for 10 year treasury yields and now expect a yield of 3.00% by mid-year and 2.80% at the end of the year.
- We no longer expect changes in the ECB policy rates this year. We have changed the forecast for 10 year Bund yields and now expect a yield of 0.30% by mid-year and 0.40% at the end of the year.
- No change expected in Japan.
- The prospect of a narrowing bond yield differential between the US and the eurozone should cause a strengthening of the euro, all the more so considering it is still below its long-term fair value (around 1.34).

%	GDP Growth			Inflation		
	2018 e	2019 e	2020 e	2018 e	2019 e	2020 e
Advanced	2.2	1.5	1.2	2.0	1.6	1.7
United-States	2.9	2.1	1.5	2.4	1.8	2.0
Japan	0.8	0.5	0.3	1.0	1.0	1.5
United-Kingdom	1.4	1.8	1.6	2.5	2.0	2.0
Euro Area	1.8	1.0	1.1	1.7	1.4	1.4
Germany	1.5	0.9	1.1	1.8	1.6	1.6
France	1.5	1.2	1.2	2.1	1.3	1.6
Italy	0.8	0.1	0.5	1.3	1.0	1.0
Spain	2.5	2.1	1.7	1.7	1.0	1.3
Emerging	5.9	5.9	5.7	2.7	2.7	3.1
China	6.6	6.2	6.0	2.1	1.9	2.5
India	7.4	7.6	7.8	3.8	4.0	4.1
Brazil	1.3	3.0	2.5	3.7	3.8	3.6
Russia	1.8	1.7	1.6	2.8	3.6	4.2

Source : BNP Paribas Group Economic Research (e: Estimates & forecasts)

Interest rates, %		2019				2018	2019e	2020e
End of period		Q1e	Q2e	Q3e	Q4e			
US	Fed Funds	2.50	2.75	2.75	2.75	2.50	2.75	2.75
	Libor 3m \$	2.80	3.05	3.05	3.00	2.81	3.00	3.00
	T-Notes 10y	2.80	3.00	2.80	2.80	2.69	2.80	2.50
Ezone	ECB Refi	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Euribor 3m	-0.30	-0.30	-0.30	-0.30	-0.31	-0.30	-0.25
	Bund 10y	0.20	0.30	0.35	0.40	0.25	0.40	0.40
	OAT 10y	0.65	0.65	0.65	0.70	0.71	0.70	0.70
UK	Base rate	0.75	1.00	1.00	1.25	0.75	1.25	1.25
	Gilts 10y	1.70	1.85	2.00	2.10	1.27	2.10	2.10
Japan	BoJ Rate	-0.10	-0.10	-0.10	-0.10	-0.07	-0.10	-0.10
	JGB 10y	0.00	0.00	0.00	-0.05	0.00	-0.05	-0.20

Source : BNP Paribas GlobalMarkets (e: Forecasts)

Exchange Rates		2019				2018	2019e	2020e
End of period		Q1e	Q2e	Q3e	Q4e			
USD	EUR / USD	1.15	1.17	1.21	1.25	1.14	1.25	1.34
	USD / JPY	110	108	105	100	110	100	90
	GBP / USD	1.32	1.36	1.41	1.47	1.27	1.47	1.58
	USD / CHF	1.01	1.00	0.98	0.96	0.99	0.96	0.93
EUR	EUR / GBP	0.87	0.86	0.86	0.85	0.90	0.85	0.85
	EUR / CHF	1.16	1.17	1.18	1.20	1.13	1.20	1.25
	EUR / JPY	127	126	127	125	125	125	121

Source : BNP Paribas GlobalMarkets (e: Forecasts)



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