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BNP PARIBAS

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10-YEAR BUND YIELD BACK AT ZERO PERCENT. WHAT ARE THE DRIVERS?

For the first time since May 2019, 10-year Bund yields have moved back in positive territory. Three factors explain this development. Firstly, the traditional international spillover effect of developments in the US Treasury market where following a more hawkish tone from the Federal Reserve, yields have been on a rising trend since early December 2021. Secondly, markets are pricing the end of PEPP and the tapering of net asset purchases by the ECB. Finally, there is the prospect that, at some point, the ECB will raise its policy rate. Bond markets in the US and Germany have become highly correlated since 2021. This is an important factor given the imminent start of a rate hike cycle in the US and its possible influence on Treasury yields and, by extension, yields in the euro area.

It has been a long wait but on 19 January, for the first time since 7 May 2019, 10-year German Bund yields moved back into positive territory. In a country where consumer prices rose by 3.1% in 2021 on an annual average compared with 2020¹, bond investors will still feel very frustrated, although slightly less so than before.

In recent years, nominal bond yields in advanced economies have been low for various reasons. There has been a trend decline in the neutral or natural rate of interest². Although this is a short-term rate of interest, it has pulled along long-term rates as well. Years of low inflation have weighed on market-based inflation expectations. Inflation below target has forced central banks to adopt an expansionary monetary policy.

In the euro area, the negative deposit rate and QE have pushed down the term premium³ and hence government bond yields. Turning to the recent increase in yields, both external factors as well as developments related to the euro area have played a role. The former concerns the change in the monetary policy outlook in the US, which has caused an increase in US Treasury yields. Chart 1 shows the cumulative increase in yields since 3 December when the yield on the 10 US Treasury note had reached a bottom⁴. Interestingly, the rise in 2- and 10-year yields is about the same. The increase in the real yield on 10-year Treasury inflation-protected securities (TIPS)⁵ is of the same order of magnitude as that of the nominal bond of the same maturity – respectively 49 and 54 basis points – , implying that market-based inflation expectations have been rather stable over this period.

Nominal bond yields not only correspond to the sum of a real yield and market-based inflation expectations, they can also be decomposed in a risk-neutral yield – which reflects the expected evolution of

short-term interest rates, which in turn are influenced by monetary policy expectations – and a term premium. Since 3 December 2021, the latter has increased 33 basis points and the former 21 basis points⁶. The two decompositions suggest that the rise in yields reflects a combination of expectations of a tighter monetary policy – triggered by statements of Federal Reserve officials as well as the decisions and minutes of the December meeting of the FOMC – as well as a higher term premium, with inflation expectations having been more or less stable.

Over this same period, German yields have also moved higher. The 10-year Bund yield rose more than the yield on German 2-year paper – 33 versus 17 basis points –, implying a steepening of the yield curve. Like in the US, the increase in the yield on inflation-linked bonds –30 basis points – was similar to that of nominal bonds, implying stable inflation expectations.

6. Source: Treasury Term Premia, Fed of New York (newyorkfed.org)

CUMULATIVE CHANGE IN YIELD TO MATURITY SINCE 3 DECEMBER 2021

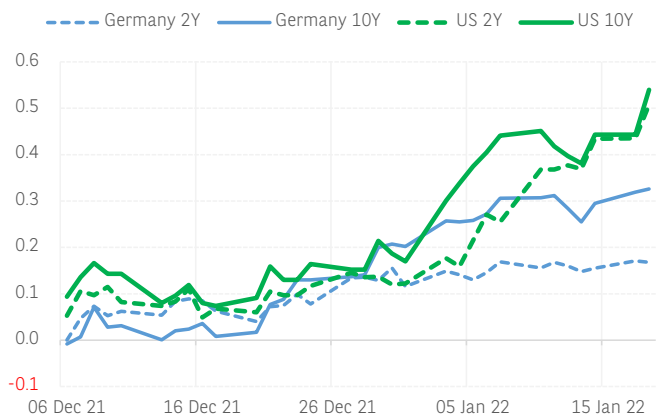


CHART 1

SOURCE: REFINITIV, BNP PARIBAS

1. Source: www.destatis.be

2. "It is the short-term real interest rate consistent with the economy maintaining full employment with associated price stability." Source: The neutral rate of interest, Federal Reserve Bank of Dallas, 24 October 2018. The decline of this interest rate is a global phenomenon and is associated with demographic factors (population ageing), increased demand for safe assets and lower trend growth.

3. The term premium is the compensation required by investors for the risk of investing in a long-dated bond rather than rolling over a series of short-dated bonds with a total maturity equal to that of the long-dated bond.

4. The period covered is 3 December 2021 until 18 January 2022.

5. TIPS pay interest every six months and their principal value is adjusted to reflect inflation or deflation as measured by the consumer price index (source: US Treasury).

Bond markets in the US and Germany have become highly correlated since 2021. This is an important factor given the imminent start of a rate hike cycle in the US and its possible influence on Treasury yields and, by extension, yields in the euro area.



The rise in 2-year yields reflects an expectation that the ECB will end up tightening policy. The steepening of the German yield curve suggests that the yields on long maturities have also been influenced by other euro area specific factors such as the announcement that net purchases under the PEPP will end in March and will only be followed by a temporary increase under the traditional asset purchase programme. The combined decisions on the PEPP and the APP imply a tapering of asset purchases, which may have exerted an upward pressure on bond yields. Another reason is the spillover effect from higher US Treasury yields. Chart 2 chart shows the beta coefficient of a regression with the weekly change in 10-year US yields as explanatory variable and the weekly change in 10-year German yields as dependent variable⁷. Chart 3 shows a similar calculation for 2-year rates. It is worth noting that the 10-year yield beta is higher than the one for the 2-year yield. This reflects that the latter is more influenced by the monetary policy outlook, which at present is very different between the Federal Reserve and the ECB.

In both cases, the beta coefficient has recorded a strong increase since last year, reaching the earlier post-global financial crisis highs. It shows that bond markets in the US and Germany have become highly correlated. This is an important factor given the imminent start of a rate hike cycle in the US and its possible influence on Treasury yields and, by extension, yields in the euro area.

William De Vijlder

ROLLING 6-MONTH BETA COEFFICIENT BETWEEN GERMAN 10Y BUND YIELD AND US 10Y TREASURY YIELD

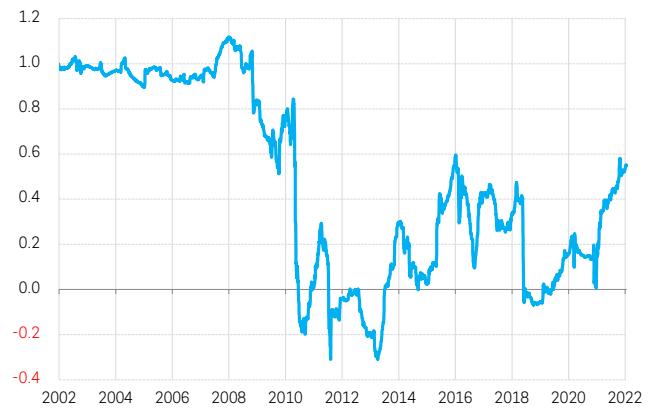


CHART 2

SOURCE: REFINITIV, BNP PARIBAS

ROLLING 6-MONTH BETA COEFFICIENT BETWEEN GERMAN 2Y BUND YIELD AND US 2Y TREASURY YIELD

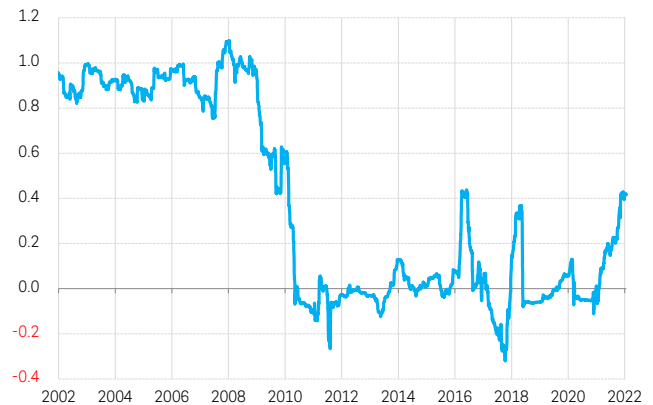


CHART 3

SOURCE: REFINITIV, BNP PARIBAS

7. This does not necessarily mean that changes in German rates would be caused by changes in US rates.



MARKETS OVERVIEW

OVERVIEW

Week 14-1-22 to 21-1-22

▼ CAC 40	7 143	▶ 7 069	-1.0 %
▼ S&P 500	4 663	▶ 4 398	-5.7 %
↗ Volatility (VIX)	19.2	▶ 28.9	+9.7 pb
↗ Euribor 3M (%)	-0.57	▶ -0.55	+1.6 bp
↗ Libor \$ 3M (%)	0.24	▶ 0.26	+1.6 bp
▼ OAT 10y (%)	0.21	▶ 0.20	-0.7 bp
▼ Bund 10y (%)	-0.09	▶ -0.10	-1.4 bp
▼ US Tr. 10y (%)	1.77	▶ 1.75	-2.4 bp
▼ Euro vs dollar	1.14	▶ 1.13	-0.8 %
↗ Gold (ounce, \$)	1 821	▶ 1 832	+0.6 %
↗ Oil (Brent, \$)	86.2	▶ 88.0	+2.1 %

MONEY & BOND MARKETS

Interest Rates	highest 22	lowest 22	Yield (%)	highest 22	lowest 22
€ ECB	0.00	0.00 at 03/01	€ AVG 5-7y	0.03	0.08 at 19/01
Eonia	-0.51	-0.51 at 03/01	Bund 2y	-0.65	-0.60 at 17/01
Euribor 3M	-0.55	-0.55 at 21/01	Bund 10y	-0.10	-0.05 at 19/01
Euribor 12M	-0.46	-0.46 at 20/01	OAT 10y	0.20	0.26 at 19/01
\$ FED	0.25	0.25 at 03/01	Corp. BBB	1.01	1.06 at 19/01
Libor 3M	0.26	0.26 at 20/01	\$ Treas. 2y	1.00	1.05 at 20/01
Libor 12M	0.80	0.80 at 19/01	Treas. 10y	1.75	1.87 at 18/01
£ BoE	0.25	0.25 at 03/01	High Yield	5.29	5.35 at 18/01
Libor 3M	0.55	0.56 at 20/01	£ gilt. 2y	0.88	0.92 at 19/01
Libor 12M	0.81	0.81 at 03/01	gilt. 10y	1.17	1.26 at 19/01

At 21-1-22

EXCHANGE RATES

1€ =	highest 22	lowest 22	2022
USD	1.13	1.15 at 13/01	1.13 at 03/01
GBP	0.84	0.84 at 03/01	0.83 at 20/01
CHF	1.03	1.05 at 11/01	1.03 at 04/01
JPY	128.98	131.33 at 04/01	128.98 at 21/01
AUD	1.58	1.58 at 07/01	1.56 at 05/01
CNY	7.19	7.29 at 13/01	7.19 at 21/01
BRL	6.15	6.44 at 06/01	6.14 at 20/01
RUB	87.74	87.74 at 21/01	84.45 at 03/01
INR	84.45	84.79 at 14/01	83.81 at 10/01

At 21-1-22

COMMODITIES

Spot price, \$	highest 22	lowest 22	2022	2022(€)
Oil, Brent	88.4	at 19/01	79.0	at 03/01
Gold (ounce)	1 832	at 20/01	1 792	at 07/01
Metals, LME	4 742	at 20/01	4 489	at 06/01
Copper (ton)	9 984	at 12/01	9 543	at 06/01
wheat (ton)	293	at 19/01	281	at 14/01
Corn (ton)	237	at 21/01	226	at 03/01

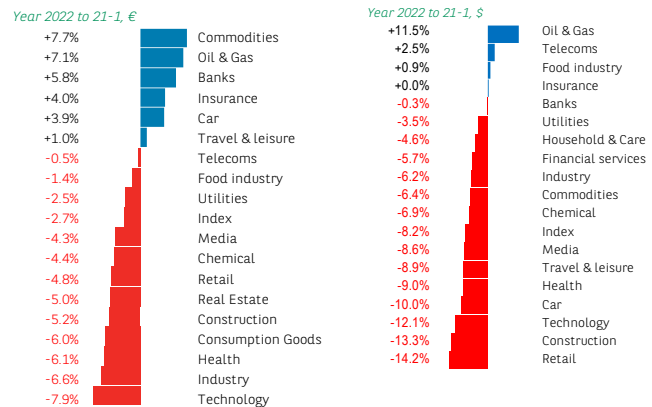
At 21-1-22

EQUITY INDICES

Index	highest 22	lowest 22	2022
World			
MSCI World	3 025	3 248 at 04/01	3 025 at 21/01
North America			
S&P500	4 398	4 797 at 03/01	4 398 at 21/01
Europe			
EuroStoxx50	4 230	4 392 at 05/01	4 230 at 21/01
CAC 40	7 069	7 376 at 05/01	7 069 at 21/01
DAX 30	15 604	16 272 at 05/01	15 604 at 21/01
IBEX 35	8 695	8 839 at 17/01	8 695 at 21/01
FTSE100	7 494	7 611 at 17/01	7 385 at 03/01
Asia			
MSCI, loc.	1 115	1 165 at 05/01	1 114 at 19/01
Nikkei	27 522	29 332 at 05/01	27 467 at 19/01
Emerging			
MSCI Emerging (\$)	1 244	1 267 at 12/01	1 217 at 06/01
China	86	86 at 20/01	80 at 05/01
India	851	891 at 13/01	851 at 21/01
Brazil	1 546	1 552 at 20/01	1 372 at 06/01
Russia	669	772 at 03/01	648 at 18/01

At 21-1-22

PERFORMANCE BY SECTOR (Eurostoxx50 & S&P500)

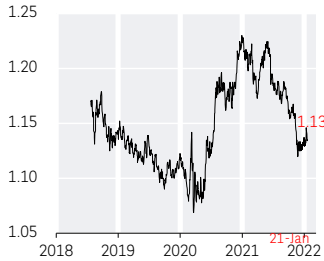


SOURCE: REFINITIV, BNP PARIBAS,



MARKETS OVERVIEW

EURO-DOLLAR



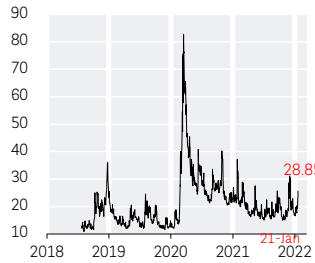
EUROSTOXX50



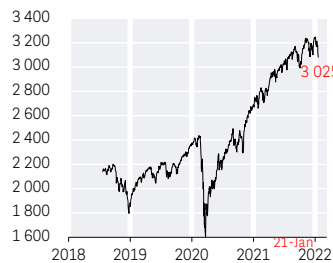
S&P500



VOLATILITY (VIX, S&P500)



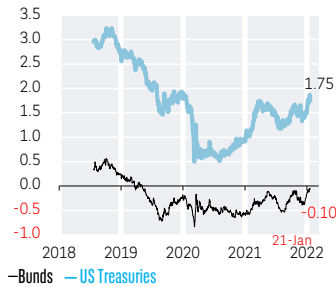
MSCI WORLD (USD)



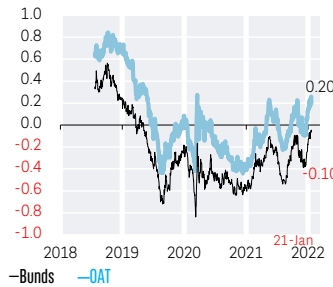
MSCI EMERGING (USD)



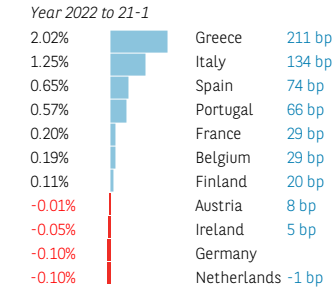
10Y BOND YIELD, TREASURIES VS BUND



10Y BOND YIELD



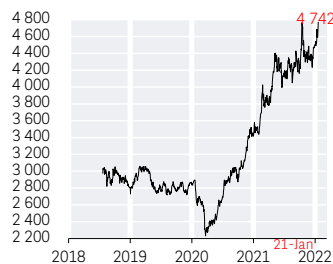
10Y BOND YIELD & SPREADS



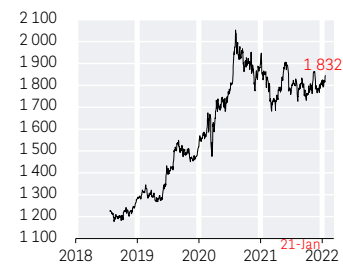
OIL (BRENT, USD)



METALS (LMEX, USD)



GOLD (OUNCE, USD)



SOURCE: REFINITIV, BNP PARIBAS



ECONOMIC PULSE

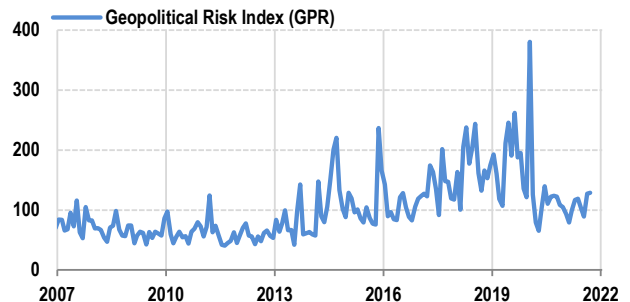
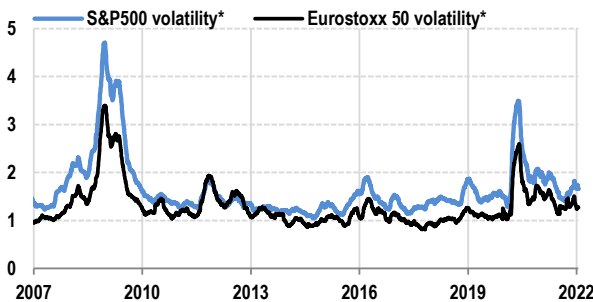
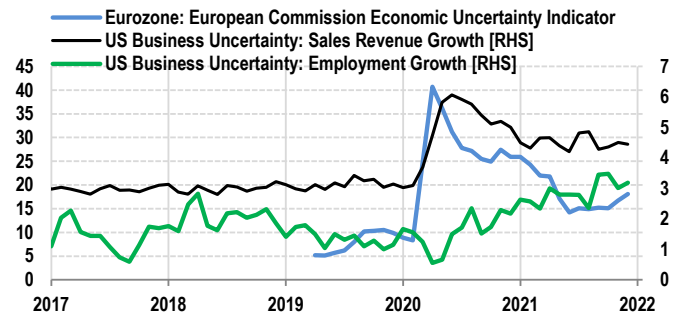
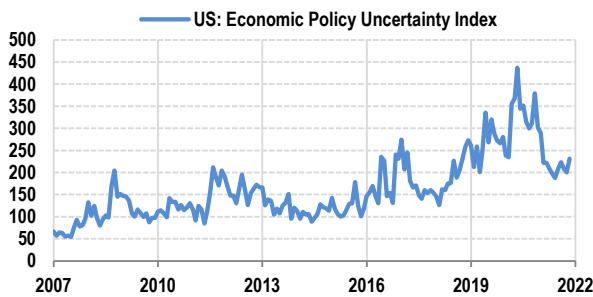
UNCERTAINTY: ANOTHER SLIGHT INCREASE

Our different uncertainty gauges are complementary, in terms of scope and methodology. Last month, our analysis of uncertainty indicators showed, on the whole, a slight increase. Based on the latest readings, the same conclusion applies and several indicators have continued to move slowly higher. The big increase in several countries of new Covid-19 cases plays a role, as well as ongoing problems on the supply side. Starting top left and continuing clockwise, US economic policy uncertainty based on media coverage has rebounded, which reflects the more hawkish tone coming from the Federal Reserve. Uncertainty based on business surveys is rising in the euro area.

In the US, based on the latest data, sales growth uncertainty has eased whereas employment growth uncertainty has edged higher, reflecting the difficulty of finding staff. Geopolitical risk – based on media coverage – has been volatile in recent months but the trend is upwards. Finally, the cross-sectional standard deviation of daily stock market returns of individual companies – a measure of financial uncertainty – has risen in the US and is not showing any clear direction in the euro area.

William De Vijlder

CHANGES IN UNCERTAINTY



* volatility = 60-day moving average of the cross-sectional standard deviation of daily returns of the index constituents

SOURCE: REFINITIV, ECONOMIC POLICY UNCERTAINTY, IFO, ATLANTA FED, BNP PARIBAS



ECONOMIC PULSE

INTERNATIONAL TRADE: STILL LIMITED VISIBILITY

2022 will be another tense year for international trade. Although some of the tensions are easing, visibility is still limited and supply-chain bottlenecks will probably continue for much of the year, affecting the outlook for growth and inflation. We explore this subject in greater detail in two of our recent publications¹. On the positive side, the Baltic Dry Index, which tracks the price of transporting dry bulk materials, has fallen almost 30% in the first three weeks of 2022, continuing the decline that began in October last year. However, transport costs for other goods has become even more expensive, as shown by the China containerized freight price index (see chart 3).

Delivery times for goods also seem to be improving slightly, although they remain very long. The global PMI measuring supplier delivery times has improved in the last quarter (a rise in the index indicates shorter delivery times). However, the pandemic will continue to have major repercussions on trade, particularly in China, where activity in ports such as Shenzhen is being disrupted by Covid-19 case numbers. Chinese New Year could also lead to a slowdown in trade activity in the region.

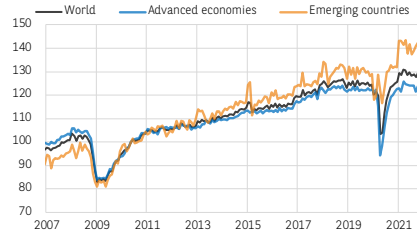
Nevertheless, these tensions also reflect the strong level in global demand, which is likely to continue throughout 2022. Although global trade volumes have plateaued since last summer, they remain historically high, while the growth in new export orders registered by Asian tiger economies (Taiwan and South Korea) shows the unprecedented dynamism in the manufacturing sector. However, not all regions are seeing such a strong recovery. This is particularly the case for Africa and the Middle East, where exports (combined) are still more than 5% below their end-2019 level in real terms, according to the CPB.

Guillaume Derrien

1. See BNP Paribas EcoWeek, *Supply side disruption, some hopeful signs*, 10 January 2022. See also BNP Paribas EcoConjoncture *More resilient supply chains after Covid-19 pandemic*, December 2021.

TRADE INDICATORS

1. World exports by area, volume (index 2010 = 100)



Source: CPB, BNP Paribas

2. Baltic Exchange Dry Index



Source: Baltic Exchange, BNP Paribas

3. China containerized freight price index



Source: Shanghai Shipping Exchange, BNP Paribas

4. Global manufacturing PMI
New export orders



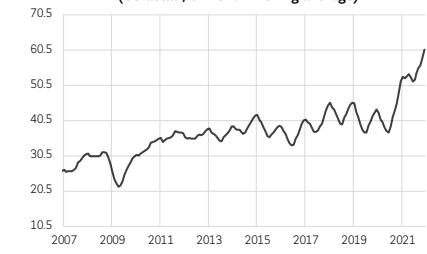
Source: Markit, BNP Paribas

5. Global manufacturing PMI
Delivery times



Source: Markit, BNP Paribas

6. Taiwan, new export orders received
(US dollar, 6-month moving average)



Source: Ministry of Economic Affairs

ECONOMIC PULSE

8

CHINA : MONETARY EASING UNDERWAY

Chinese economic growth slowed to 4% year-on-year in Q4 2021 from 4.9% in Q3. In the industrial sector, the situation improved slightly in Q4 after a summer that was badly disrupted by power cuts and supply-chain problems. Industrial growth accelerated from 3.1% y/y in September to 4.3% in December, driven by the still strong performance of exports (up 22.9% y/y in Q4). In the immediate future, however, manufacturing output and exports are likely to suffer from repercussions arising from the latest wave of the pandemic, i.e. lockdowns and disruption to factories and the transportation of goods.

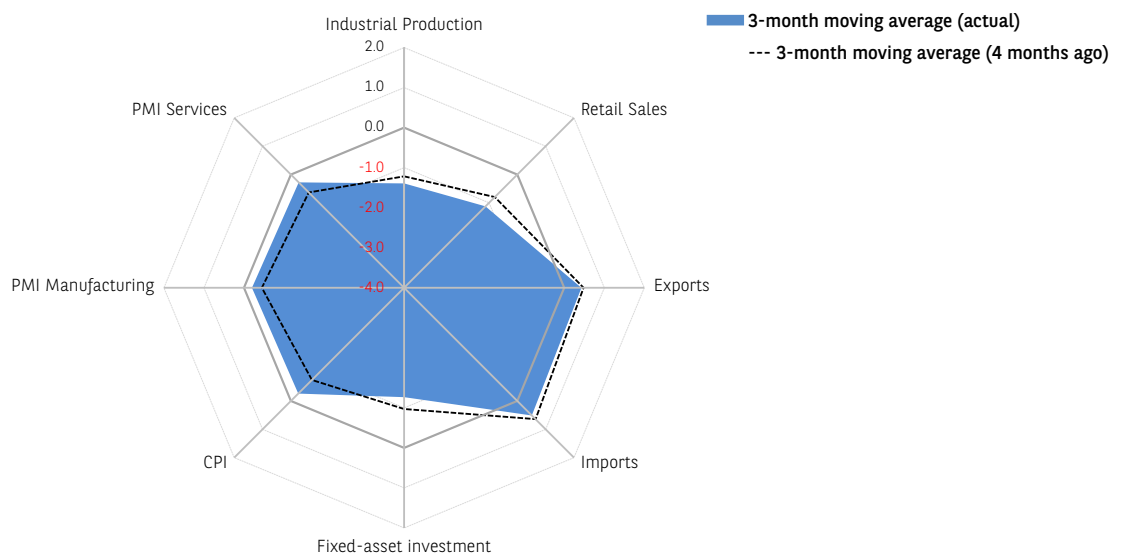
In the services sector, growth decelerated sharply from 5.9% in Q3 2021 to 3.3% in Q4. There were three main factors behind the slowdown: tougher regulations (particularly in the digital and tutoring sectors), successive waves of Covid-19 and the resulting travel restrictions, and the real estate crisis. Because of the severe tightening in their credit conditions, property developers have significantly reduced investment; construction activity and housing sales fell sharply in H2 2021.

Private consumption has remained depressed. In real terms, retail sales rose by less than 2% y/y in August-October and were almost flat y/y in November and December. Inflation is not putting a great deal of pressure on households: consumer price inflation remains low at 1.8% y/y in Q4 vs. 0.8% in Q3, and it even slowed to 1.5% in December. However, household spending remains constrained by factors that are likely to persist in the short term: the authorities' strict zero-Covid strategy, weaker demand for housing-related goods due to the decline in home sales, negative wealth effects resulting from the correction in real estate prices, and consumer concerns about Covid risks and about further deterioration in the labour market.

The authorities are adopting a more expansionary policy mix. On the fiscal policy front, spending on infrastructure projects appears to show some signs of improvement. In the real estate sector, the authorities have made adjustments to avoid a collapse in the market, without changing the macroprudential limits imposed on developers. In particular, mortgage lending conditions and developers' access to certain types of short-term financing have been eased in recent weeks. Most importantly, the central bank has gradually loosened monetary and credit conditions. It started with some targeted measures, including lending programmes for SMEs. It then reduced its reserve requirement ratios (from 12% to 11.5% for large banks) and cut its 1-year LPR (loan prime rate) on 20 December (from 3.85% to 3.8%). In the last week, the central bank has reduced its key medium-term lending facility (MLF) rate from 2.95% to 2.85% – the first cut since April 2020 – as well as announced a cut in the 5-year LPR from 4.65% to 4.6% and a further reduction in the 1-year LPR to 3.7%. Domestic credit growth, which had slowed in the first nine months of 2021, recovered only very slightly in Q4, but it is expected to strengthen in the short term.

Christine Peltier

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.



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ECONOMIC PULSE

FRANCE: MORE HEADWINDS BUT GROWTH CONTINUES

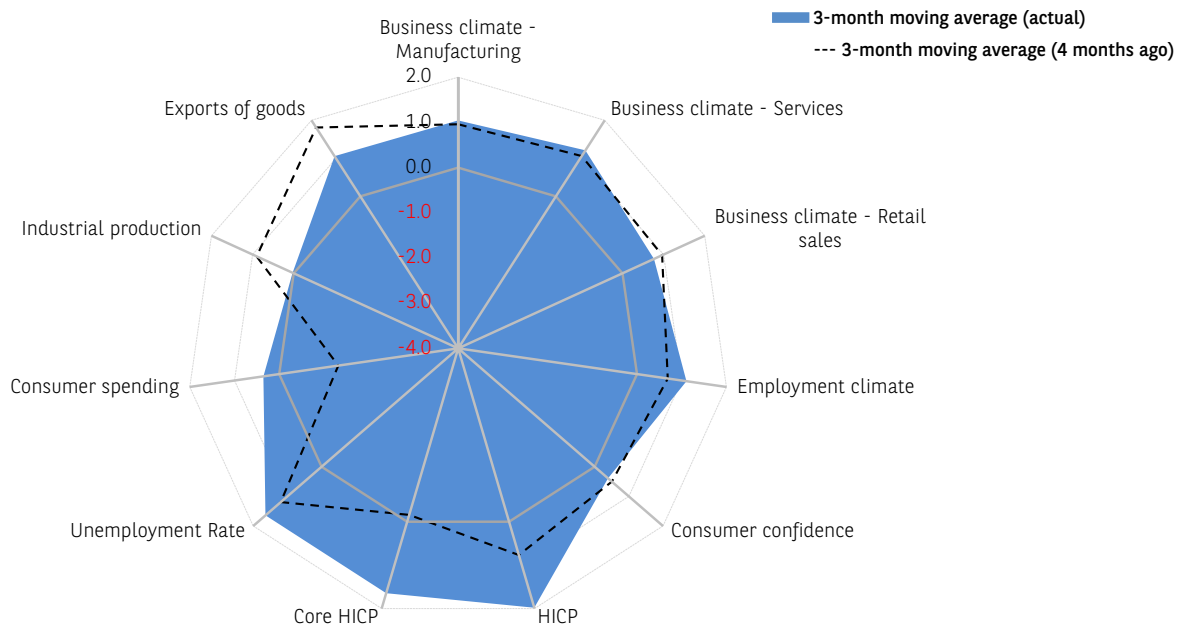
The French economy seems to be getting off to a relatively good start in 2022, despite the introduction of tighter restrictions as a result of the Omicron wave. Positive momentum in the fourth quarter of 2021 – likely to be confirmed by GDP figures due on 28 January – has continued overall in the manufacturing and construction industries. Those sectors are still showing large order backlogs, although they are continuing to suffer from bottlenecks caused by issues regarding labour and inputs.

However, France appears to have a two-speed economy to some extent, with household demand in particular under pressure. Consumer spending strengthened in late 2021 (+0.8% m/m in November) and inflation stabilised temporarily at 2.8% (y/y) in December. The increase in gas prices took place in September and October, while oil prices actually fell in December. However, these trends are likely to take another turn for the worse with the rebound in oil prices in January, the 4% increase in electricity prices scheduled for February and the prospect of higher food prices in the first half of the year.

Covid-related restrictions on services that involve a high degree of social contact – such as accommodation and catering – are also likely to drag down growth. Still, household incomes should continue to rise, as shown by the improvement in the jobs situation. The number of jobs being created remains high and the employment rate hit an all-time high of 67.5% in the third quarter. The jobs component of Insee’s business climate surveys confirms the strength of the labour market. Nevertheless, income growth should be partially offset by issues regarding purchasing power, particularly since hourly wages are unlikely to rise as quickly as prices. With ongoing low interest rates and high savings levels, investment spending is likely to be firm. This is equally valid for both households and businesses. Exports are likely to continue their recovery, as shown by the rise in order backlogs in the aeronautics sector. However, compared with a few months ago, the renewed acceleration in aeronautics activity is likely to be more gradual than initially thought due to the Omicron variant and its implications for the transportation sector. Overall, economic survey data from the Banque de France and Insee suggest that the growth momentum of the French economy should remain during the first weeks of 2022 quite comparable to the pace reached during the 4th quarter of 2021.

Stéphane Colliac

QUARTERLY CHANGES



SOURCE: REFINITIV, BNP PARIBAS

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ECONOMIC PULSE

COVID-19: NEWOMICRON-DRIVEN WAVE IN INDIA

20.3 million new cases were reported worldwide between 13 and 19 January versus 17.7 million the previous week, and so the rate of increase fell from 59% to 14.9%. All regions saw a weekly rise in new cases except Africa, where they fell 16.4%. The largest increases were in Asia (61.1%) and South America (49.3%), followed by Europe (4.9%) and North America (4%) (Chart 1).

On a weekly basis, the highest number of new cases in a single country (Chart 4, black line) was in the USA (5,357,795), a 7% increase on the previous week, followed by France (1,867,542) (up 6%) and India (1,644,228), which stands out with a 117% surge in cases of). They were followed by 1,245,558 in Italy (up 14%), 941,705 in Spain (up 16%), 786,540 in Argentina (up 31%) and 771,828 in the UK (standing out with a 35% drop in cases). It is worth noting that the most recent daily case numbers for France and the US show a decrease. Meanwhile, 9.8 billion Covid-19 vaccine doses have been administered worldwide since vaccination campaigns began in the fourth quarter of 2020, including 889 million booster doses. Nearly 61% of the world's population has now received at least one dose of a Covid-19 vaccine (Chart 2). Of the 889 million booster doses, 642 million have been delivered in China, Europe and the US.

Visits to retail and leisure facilities remain on a downward trend in Spain and Italy, and although the most recent figures in Germany, Belgium, France, the US and the UK show an increase, the trend remains downward. In Japan, mobility now is falling fairly sharply after previously showing positive momentum for several months (Chart 3, blue line).

Lastly, the trend in the weekly proxy indicator of GDP has remained negative in Germany, Belgium and Spain. In France, Italy and the US, the most recent figures seem to show a slight increase. The indicator is falling fairly sharply in Japan, while it has stabilised in the UK (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 change over a two-year period (y/2y) is calculated to avoid the base effect that would arise from 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)

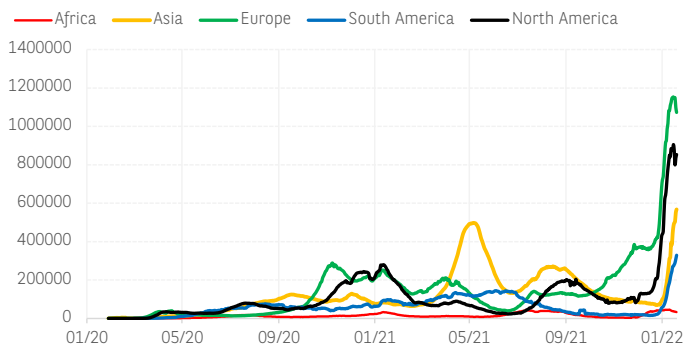


CHART 1

SOURCE: JOHNS-HOPKINS UNIVERSITY (01/20/2021), BNP PARIBAS

SHARE OF PEOPLE WHO RECEIVED AT LEAST ONE DOSE OF VACCINE

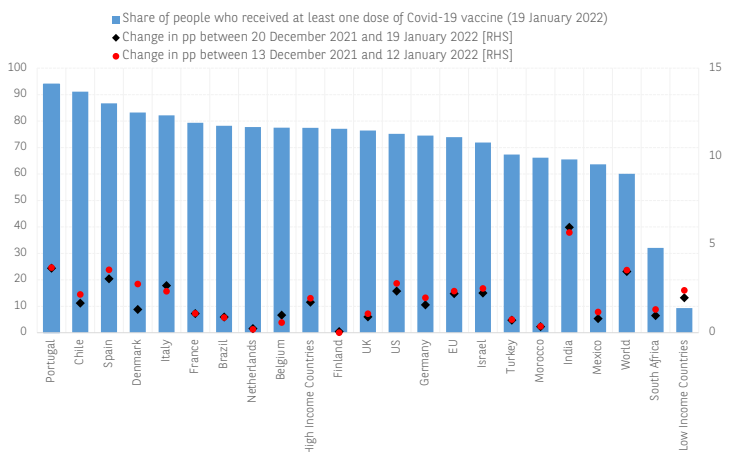


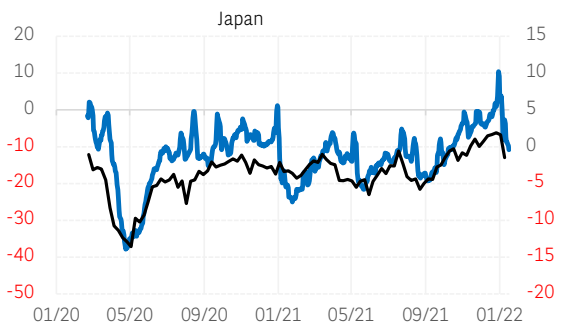
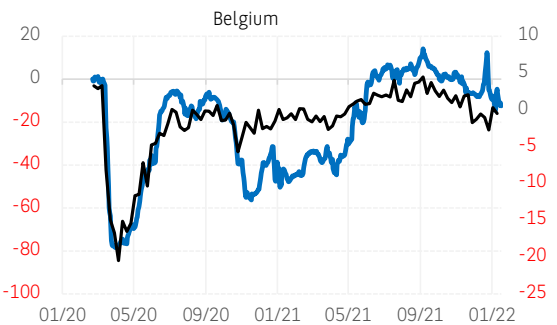
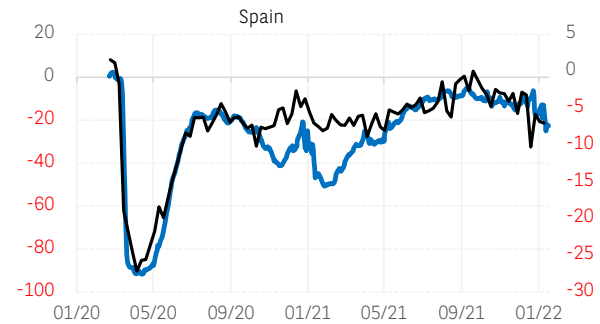
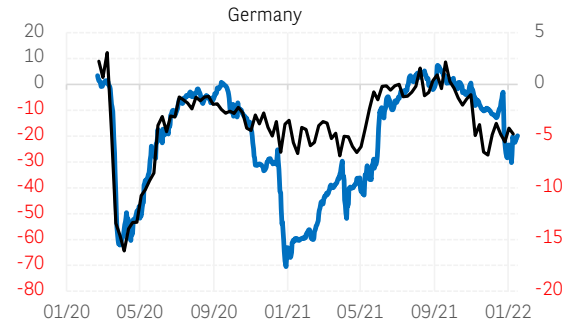
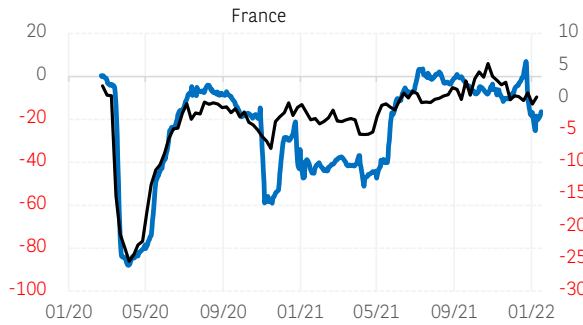
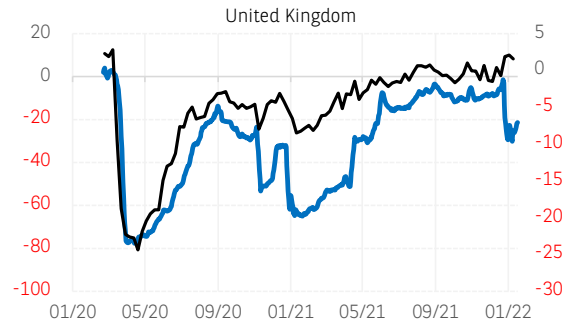
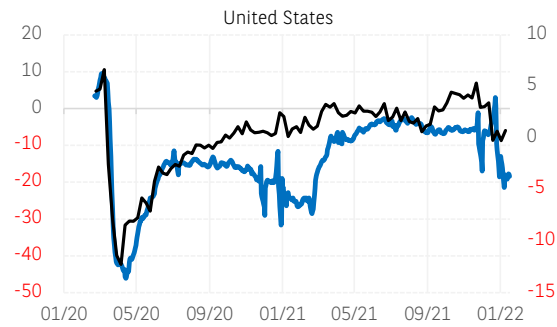
CHART 2

SOURCE: OUR WORLD IN DATA (01/20/2021), 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]

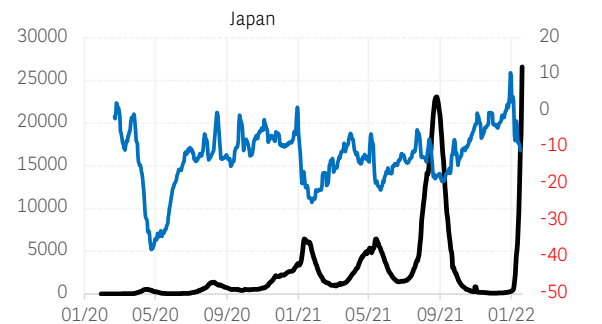
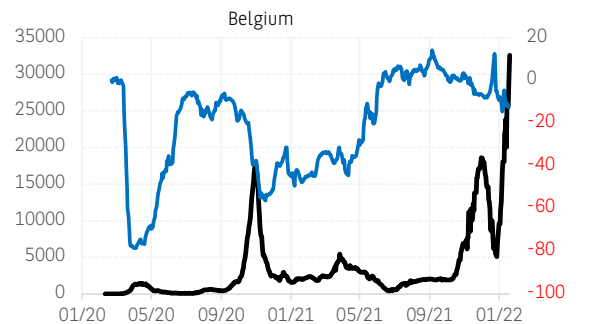
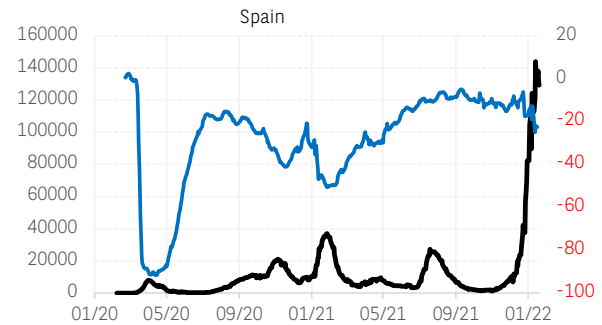
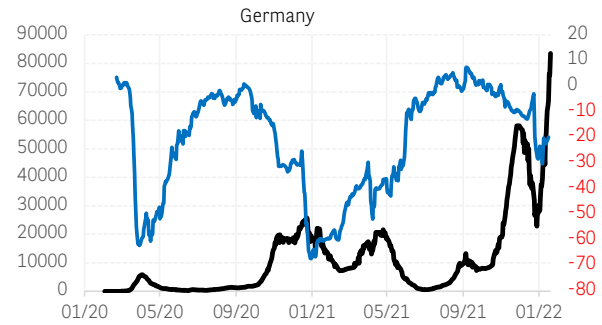
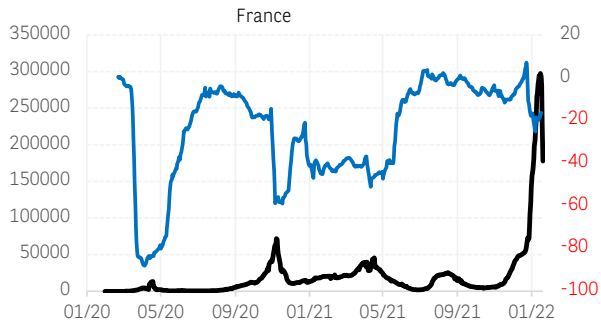
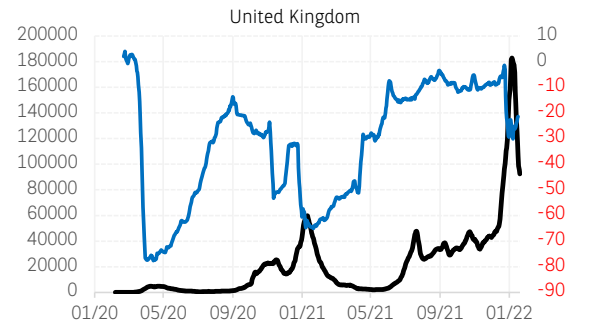
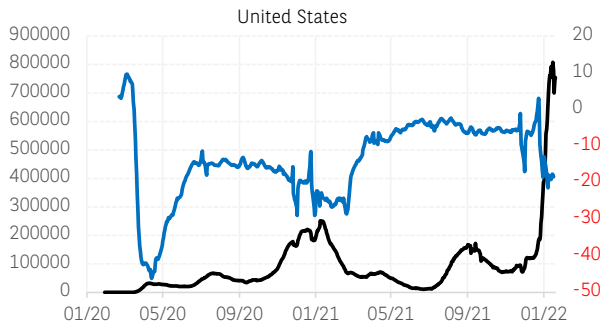


SOURCE: OECD (01/20/2021), GOOGLE (01/20/2021), BNP PARIBAS



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 (01/20/2021), GOOGLE (01/20/2021), BNP PARIBAS



ECONOMIC SCENARIO

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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 in March this year. The tone of the minutes of the December meeting of the FOMC was hawkish. Given current particularly elevated inflation, the inflation outlook and the strength of the labour market, as reflected in the unemployment rate that has dropped below 4.0%, we expect a first rate hike in March, followed by three additional hikes in 2022 and four more in 2023. In addition, we expect the reduction of the balance sheet (quantitative tightening) to start in August this year. 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)	0.50	0.75	1.00	1.25	2.25
	T-Note 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
UK	BONO 10y	0.75	0.85	0.90	1.05	1.45
	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)



BNP PARIBAS

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CALENDAR

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LATEST INDICATORS

In China, annual industrial production growth in December accelerated compared to the previous month, thereby beating expectations. Retail sales growth on the other hand slowed down unexpectedly. Quarterly GDP growth picked up in the fourth quarter after a very low number in the third quarter. Looking at the year as a whole, growth has been slowing down during the year. In the UK, the unemployment rate edged down but the pace of employment gains slowed down and came in well below the consensus. Annual inflation accelerated more than anticipated and core inflation also moved higher. Consumer confidence and retail sales were both down and disappointed compared to the consensus. In Germany, the ZEW survey recorded a decline in the assessment of the current situation. The expectations component saw a big jump. The same applies for the ZEW survey for the euro area. In the US, the NAHB housing market index was virtually unchanged, building permits jumped - the consensus had expected a slight decline - but housing starts were down, reflecting supply issues. The Philadelphia Fed index recorded a significant pick-up in January, more than anticipated. In France, January business confidence declined more than expected. Euro area consumer confidence hardly changed in January.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	ACTUAL	PREVIOUS
01/17/2022	China	Property Investment YTD YoY	Dec	5.2%	4.4%	6.0%
01/17/2022	China	Industrial Production YTD YoY	Dec	9.7%	9.6%	10.1%
01/17/2022	China	Industrial Production YoY	Dec	3.7%	4.3%	3.8%
01/17/2022	China	Fixed Assets Ex Rural YTD YoY	Dec	4.8%	4.9%	5.2%
01/17/2022	China	GDP YTD YoY	4Q	8.0%	8.1%	9.8%
01/17/2022	China	GDP SA QoQ	4Q	1.2%	1.6%	0.2%
01/17/2022	China	GDP YoY	4Q	3.3%	4.0%	4.9%
01/17/2022	China	Retail Sales YTD YoY	Dec	12.7%	12.5%	13.7%
01/17/2022	China	Retail Sales YoY	Dec	3.8%	1.7%	3.9%
01/17/2022	China	Surveyed Jobless Rate	Dec	5.0%	5.1%	5.0%
01/18/2022	United Kingdom	Weekly Earnings ex Bonus 3M/YoY	Nov	3.8%	3.8%	4.3%
01/18/2022	United Kingdom	ILO Unemployment Rate 3Mths	Nov	4.2%	4.1%	4.2%
01/18/2022	United Kingdom	Employment Change 3M/3M	Nov	125k	60k	149k
01/18/2022	Germany	ZEW Survey Expectations	Jan	32.0	51.7	29.9
01/18/2022	Germany	ZEW Survey Current Situation	Jan	-8.8	-10.2	-7.4
01/18/2022	Eurozone	ZEW Survey Expectations	Jan	--	49.4	26.8
01/18/2022	United States	NAHB Housing Market Index	Jan	84.0	83.0	84.0
01/18/2022	Japan	BOJ Policy Balance Rate	Jan	-0.1%	-0.1%	-0.1%
01/19/2022	United Kingdom	CPI YoY	Dec	5.2%	5.4%	5.1%
01/19/2022	United Kingdom	CPI Core YoY	Dec	3.9%	4.2%	4.0%
01/19/2022	United Kingdom	House Price Index YoY	Nov	10.0%	10.0%	9.8%
01/19/2022	United States	Building Permits MoM	Dec	-0.8%	9.1%	3.9%
01/19/2022	United States	Housing Starts MoM	Dec	-1.7%	1.4%	8.1%
01/20/2022	France	Business Confidence	Jan	109.0	107.0	109.0
01/20/2022	Eurozone	CPI YoY	Dec	5.0%	5.0%	4.9%
01/20/2022	Eurozone	CPI MoM	Dec	0.4%	0.4%	0.4%
01/20/2022	Eurozone	CPI Core YoY	Dec	2.6%	2.6%	2.6%
01/20/2022	United States	Initial Jobless Claims	Jan	225k	286k	231k
01/20/2022	United States	Philadelphia Fed Business Outlook	Jan	19.0	23.2	15.4
01/20/2022	United States	Existing Home Sales	Dec	6.42m	6.18m	6.48m
01/20/2022	United States	Existing Home Sales MoM	Dec	-0.6%	-4.6%	2.2%
01/20/2022	United Kingdom	GfK Consumer Confidence	Jan	-15.0	-19.0	-15.0
01/20/2022	United Kingdom	Retail Sales Ex Auto Fuel MoM	Dec	-0.8%	-3.6%	0.7%
01/20/2022	Eurozone	Consumer Confidence	Jan	-9.0	-8.5	-8.4

SOURCE: BLOOMBERG



CALENDAR: THE WEEK AHEAD

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COMING INDICATORS

A very busy week ahead of us with as highlight the FOMC meeting. The press conference that follows the meeting will shed light on how the Fed assesses the prospects for inflation and what this might imply in terms of rate hikes and reduction of the size of the balance sheet. It's also the week of the survey data for January with the flash purchasing managers' indices, the European Commission's surveys, the IFO survey in Germany and, in the US, Conference Board consumer confidence data and the University of Michigan household survey. Finally, we will have the first estimates for fourth quarter GDP growth in the US, Germany and France.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	PREVIOUS
01/24/2022	Japan	Jibun Bank Japan PMI Services	Jan	--	52.1
01/24/2022	Japan	Jibun Bank Japan PMI Composite	Jan	--	52.5
01/24/2022	Japan	Jibun Bank Japan PMI Mfg	Jan	--	54.3
01/24/2022	France	Markit France Services PMI	Jan	--	57
01/24/2022	France	Markit France Manufacturing PMI	Jan	--	55.6
01/24/2022	France	Markit France Composite PMI	Jan	--	55.8
01/24/2022	Germany	Markit/BME Germany Manufacturing PMI	Jan	--	57.4
01/24/2022	Germany	Markit Germany Services PMI	Jan	--	48.7
01/24/2022	Germany	Markit/BME Germany Composite PMI	Jan	--	49.9
01/24/2022	Eurozone	Markit Eurozone Manufacturing PMI	Jan	--	58
01/24/2022	Eurozone	Markit Eurozone Services PMI	Jan	--	53.1
01/24/2022	Eurozone	Markit Eurozone Composite PMI	Jan	--	53.3
01/24/2022	United Kingdom	Markit/CIPS UK Services PMI	Jan	--	53.6
01/24/2022	United Kingdom	Markit/CIPS UK Composite PMI	Jan	--	53.6
01/24/2022	United Kingdom	Markit UK PMI Manufacturing SA	Jan	--	57.9
01/24/2022	United States	Markit US Manufacturing PMI	Jan	--	57.7
01/24/2022	United States	Markit US Services PMI	Jan	--	57.6
01/24/2022	United States	Markit US Composite PMI	Jan	--	57
01/25/2022	Japan	Nationwide Dept Sales YoY	Dec	--	8.10%
01/25/2022	Germany	IFO Business Climate	Jan	--	94.7
01/25/2022	Germany	IFO Current Assessment	Jan	--	96.9
01/25/2022	Germany	IFO Expectations	Jan	--	92.6
01/25/2022	United Kingdom	CBI Trends Total Orders	Jan	--	24
01/25/2022	United Kingdom	CBI Trends Selling Prices	Jan	--	62
01/25/2022	United Kingdom	CBI Business Optimism	Jan	--	2



DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	PREVIOUS
01/25/2022	United States	Conf. Board Consumer Confidence	Jan	112	115.8
01/25/2022	United States	Conf. Board Expectations	Jan	--	96.9
01/25/2022	United States	Conf. Board Present Situation	Jan	--	144.1
01/26/2022	France	Consumer Confidence	Jan	--	100
01/26/2022	France	Total Jobseekers	4Q	--	3307.4k
01/26/2022	United States	FOMC Rate Decision (Upper Bound)	Jan	0.25%	0.25%
01/27/2022	Germany	GfK Consumer Confidence	Feb	--	-6.8
01/27/2022	United States	Initial Jobless Claims	Jan	--	286k
01/27/2022	United States	Cap Goods Orders Nondef Ex Air	Dec	0.30%	0.00%
01/27/2022	United States	GDP Annualized QoQ	4Q	5.80%	2.30%
01/27/22-02/02/22	Germany	Retail Sales MoM	Dec	--	0.60%
01/27/22-02/02/22	Germany	Retail Sales NSA YoY	Dec	--	-0.20%
01/28/2022	France	Consumer Spending MoM	Dec	--	0.80%
01/28/2022	France	GDP QoQ	4Q	--	3.00%
01/28/2022	France	GDP YoY	4Q	--	3.30%
01/28/2022	France	PPI MoM	Dec	--	3.50%
01/28/2022	France	PPI YoY	Dec	--	17.40%
01/28/2022	Germany	GDP SA QoQ	4Q	--	1.70%
01/28/2022	Germany	GDP WDA YoY	4Q	--	2.50%
01/28/2022	Eurozone	Economic Confidence	Jan	--	115.3
01/28/2022	Eurozone	Industrial Confidence	Jan	--	14.9
01/28/2022	Eurozone	Services Confidence	Jan	--	11.2
01/28/2022	Eurozone	Consumer Confidence	Jan	--	--
01/28/2022	United States	Personal Income	Dec	0.60%	0.40%
01/28/2022	United States	Personal Spending	Dec	-0.70%	0.60%
01/28/2022	United States	Real Personal Spending	Dec	--	0.00%
01/28/2022	United States	PCE Core Deflator MoM	Dec	0.50%	0.50%
01/28/2022	United States	PCE Core Deflator YoY	Dec	4.90%	4.70%
01/28/2022	United States	U. of Mich. Sentiment	Jan	68.8	68.8
01/28/2022	United States	U. of Mich. Current Conditions	Jan	--	73.2
01/28/2022	United States	U. of Mich. Expectations	Jan	--	65.9
01/28/2022	United States	U. of Mich. 1 Yr Inflation	Jan	--	4.90%
01/28/2022	United States	U. of Mich. 5-10 Yr Inflation	Jan	--	3.10%

SOURCE: BLOOMBERG



FURTHER READING

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Euro zone: An economic assessment in early 2022	EcoTVWeek	21 January 2022
Ghana: debt concerns	Chart of the Week	19 January 2022
US: Bye bye QE, here comes QT	EcoWeek	17 January 2022
US: monetary policy at a turning point	EcoTVWeek	14 January 2022
US: The Bank of Japan is the main counterparty in the Fed's FRRP facility	Chart of the Week	12 January 2022
French Economy Pocket Atlas - January issue	Pocket Atlas	11 January 2022
Global: Supply side disruption, some hopeful signs	EcoWeek	10 January 2022
Euros in our pockets: looking back, looking ahead	EcoTVWeek	7 January 2022
European Union : New year, new fiscal rules for Europe?	Chart of the Week	5 January 2022
Global: 2022: assessing upside and downside risks	EcoWeek	3 January 2022
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



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