ECOWEEK

N°22-30

25 July 2022

Due to the summer holidays, the next Ecoweek will be published on 29 August 2022

ECONOMIC RESEARCH

BNP PARIBAS

The bank for a changing world

ECB: INTO A NEW ERA

The ECB Governing Council has surprised markets by a 50 bp rate hike and by dropping its forward guidance and moving to a data-dependent tightening cycle. This may reflect unease about how quickly the euro area economy might react to the policy moves and about the consequences of uncertainty about gas supply during the winter months. Another key decision was the introduction of the Transmission Protection Instrument (TPI), a tool to address unwarranted spread widening that would weigh on the effectiveness of monetary policy transmission. The data dependency of further rate hikes and the vagueness about the triggers for using the TPI may lead to an increase of the volatility in interest rates and sovereign spreads whereby investors try to understand the ECB's reaction function.

The ECB meeting last Thursday had been eagerly awaited based on the expectation that the policy rate would be increased and that a tool to address unwarranted sovereign spread widening would be unveiled. This was indeed the case as far as the latter was concerned with the introduction of the Transmission Protection Instrument (TPI), whereas in terms of the interest rate decision, the meeting has brought us into a new era: the deposit rate is no longer negative and forward guidance has been dropped.

The comparison of the monetary policy statement of the June and July meetings (see table 1) shows to what extent the message has changed. The intention in June was to raise rates 25 basis points (bp) in July but eventually the Governing Council went for 50 bp, based on its assessment of the inflation risks and *"the reinforced support provided by the TPI for the effective transmission of monetary policy."* This new instrument could be used should spreads react disproportionately to the unexpectedly large hike in the policy rates. In June, the forward guidance was very clear: a further rate increase was expected for the September meeting and possibly a larger increment would be appropriate. Beyond September, *"a gradual but sustained path of further increases in interest rates will be appropriate"* but this *"will depend on the incoming data and how we assess inflation to develop in the medium term."*

The new message is that further normalisation of interest rates will be appropriate - which means that rates are still too low - but that further moves will depend on the data and will be decided on a meeting-by-meeting approach[1]. The idea of following a 'sustained path' has been dropped, which may reflect unease about how quickly the euro area economy might react to the rate hikes and about the consequences of uncertainty about gas supply during the winter months.

In a rising rate environment, forward guidance serves to steer interest rate expectations of market participants. Now that it has been dropped, attention will focus on what would represent a neutral setting: when will rates reach a 'normal' level? For the answer to this question, we will have to wait, given Christine Lagarde's answer to a journalist's question: *"If you are asking me next 'What is the neutral setting?' At this point in time I don't know."* Admittedly, estimating the neutral policy rate is very challenging, but in the absence of forward guidance, providing a range would be useful as a reference for market participants when forming their expectations.[2]

The other important decision of the meeting was the introduction of the Transmission Protection Instrument (TPI). Its deployment will be based on a threefold assessment. Firstly, by looking at a range of indicators, whether the evolution of spreads is unwarranted based on country-specific fundamentals. Secondly, whether a jurisdiction is eligible[3] and, finally, making a judgment call about the proportionality

GOVERNMENT BOND YIELD (10-YEAR)

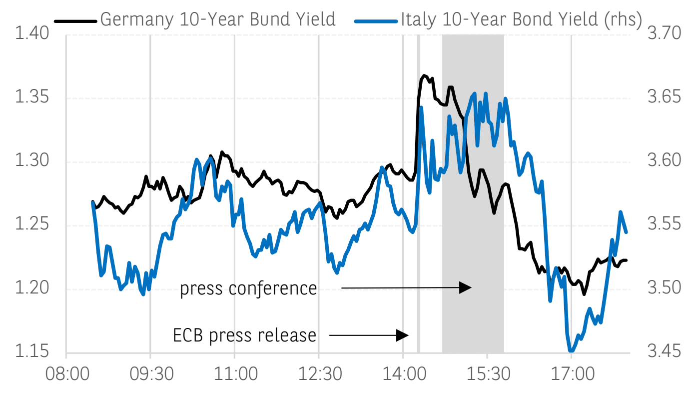


CHART 1 SOURCE: BLOOMBERG (07/21/2022), BNP PARIBAS

1. *"The frontloading today of the exit from negative interest rates allows us to make a transition to a meeting-by-meeting approach to our interest rate decisions. Our future policy rate path will continue to be data-dependent".* Source: ECB, Monetary policy statement, press conference, Christine Lagarde, President of the ECB, Luis de Guindos, Vice-President of the ECB, Frankfurt am Main, 21 July 2022.

2. In the US, this reference point is provided by the FOMC members' longer run projection for the federal funds rate.

3. The criteria include: compliance with the EU fiscal framework, absence of severe macroeconomic imbalances, fiscal sustainability and complying with the commitments

> The data dependency of the pace and size of further rate hikes and the vagueness about the triggers for using the Transmission Protection Instrument (TPI) may lead to an increase of the volatility in interest rates and sovereign spreads.

of the purchases - which are not restricted *ex-ante* - considering the threat to the transmission of monetary policy.

Concerning the eligibility criteria, the Governing Council will take the four categories into account but will decide *"in sovereignty in respect to eligibility to the TPI."* The new instrument should allow the Governing Council *"to more effectively deliver on its price stability mandate."*[4]

What this specifically means has been explained during the press conference: the introduction of TPI made it possible to raise the policy rate more than projected on the occasion of the June meeting. With the introduction of the TPI, the Governing Council now has three instruments to influence the behaviour of sovereign spreads, the other two being the flexible reinvestment of redemptions under the PEPP and Outright Monetary Transactions. Each instrument has its own rationale, as explained in table 2.

Despite the importance of the decisions, the market reaction was short-lived. Bund yields jumped upon the news of a 50 basis points hike but then drifted lower for the remainder of the session (chart 1). Surprisingly, considering the characteristics of the TPI[5], the spread between Italian and German government bonds widened significantly during the press conference but dropped in a second stage (chart 2). The equity market reacted erratically (chart 3), rising on the news of the rate increase, declining during the press conference and rebounding thereafter. Finally and unsurprisingly, the euro jumped on the news of the bigger than expected rate hike, but this movement was short-lived and reminds us of the cyclical environment and risks that are weighing on the euro (chart 4).

To conclude, the data dependency of the pace and size of further rate hikes and the vagueness about the triggers for using the Transmission Protection Instrument (TPI) may lead to an increase of the volatility in interest rates and sovereign spreads whereby investors are trying to understand the ECB's reaction function. One can also expect two recurring questions during the press conference after the Governing Council meeting: how far are we from the neutral rate and, in case of a spread widening, was it warranted?

William De Vijlder

submitted in the recovery and resilience plans for the Recovery and Resilience Facility and with the European Commission's country-specific recommendations in the fiscal sphere under the European Semester. Source: ECB, The Transmission Protection Instrument, 21 July 2022.

4. Purchases under the TPI will be conducted in such a way *"that they cause no persistent impact on the overall Eurosystem balance sheet and hence on the monetary policy stance."* Source: see footnote 3.

5. The eligibility criteria do not seem to be very demanding.

GOVERNMENT BOND YIELD SPREAD ITALY-GERMANY

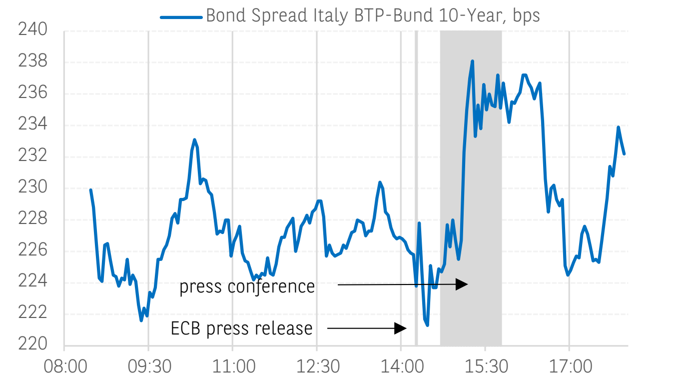


CHART 2 SOURCE: BLOOMBERG (07/21/2022), BNP PARIBAS

EURO STOXX 50

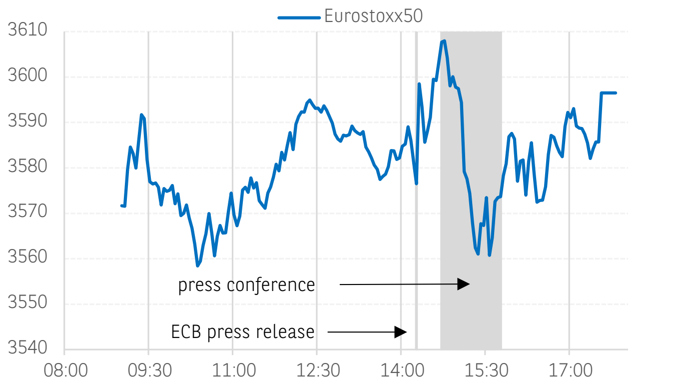


CHART 3 SOURCE: BLOOMBERG (07/21/2022), BNP PARIBAS

EUR IN USD

CHART 4 SOURCE: BLOOMBERG (07/21/2022), BNP PARIBAS

ECB MONETARY POLICY STATEMENT, JUNE VERSUS JULY	
Monetary policy statement 9 June 2022	**Monetary policy statement 21 July 2022**
In line with our policy sequencing, we intend to raise the key ECB interest rates by 25 basis points at our July monetary policy meeting.	We decided to raise the three key ECB interest rates by 50 basis points and approved the Transmission Protection Instrument (TPI). The Governing Council judged that it is appropriate to take a larger first step on its policy rate normalisation path than signalled at its previous meeting. This decision is based on our updated assessment of inflation risks and the reinforced support provided by the TPI for the effective transmission of monetary policy.
Looking further ahead, we expect to raise the key ECB interest rates again in September. The calibration of this rate increase will depend on the updated medium-term inflation outlook. If the medium-term inflation outlook persists or deteriorates, a larger increment will be appropriate at our September meeting ..., beyond September, based on our current assessment, we anticipate that a gradual but sustained path of further increases in interest rates will be appropriate. In line with our commitment to our two per cent medium-term target, the pace at which we adjust our monetary policy will depend on the incoming data and how we assess inflation to develop in the medium term.	At our upcoming meetings, further normalisation of interest rates will be appropriate. The frontloading today of the exit from negative interest rates allows us to make a transition to a meeting-by-meeting approach to our interest rate decisions. Our future policy rate path will continue to be data-dependent and will help us deliver on our two per cent inflation target over the medium term. In the context of our policy normalisation, we will evaluate options for remunerating excess liquidity holdings.

TABLE 1

SOURCE: ECB

ECB TOOLS TO ADDRESS SPREAD WIDENING*	
Tool	**Role**
PEPP (flexible reinvestment of redemptions)	To deal with unwarranted fragmentation risks that are created as a result of pandemic risks.
Outright Monetary Transactions	To deal with unwarranted impairment to transmission that are caused by redenomination risks and that are country-specific.
Transmission Protection Instrument	This tool is not related to redenomination risks**, but to the unwarranted, disorderly market dynamics that can impair the proper transmission of monetary policy throughout the euro area.

TABLE 2

SOURCE: ECB

*SEE FOOTNOTE 4. **REDENOMINATION RISK "IS THE COMPENSATION DEMANDED BY MARKET PARTICIPANTS FOR THE RISK THAT A EURO ASSET IS BEING REDENOMINATED INTO A DEVALUED LEGACY." SOURCE: ROBERTO A. DE SANTIS, A MEASURE OF REDENOMINATION RISK, ECB WORKING PAPER 1785, APRIL 2015.

MARKETS OVERVIEW

OVERVIEW

Week 15-7 22 to 22-7-22				
↗ CAC 40	6 036	▸ 6 217	+3.0	%
↗ S&P 500	3 863	▸ 3 962	+2.5	%
↘ Volatility (VIX)	24.2	▸ 23.0	-1.2	pb
↗ Euribor 3M (%)	0.07	▸ 0.20	+12.8	bp
↗ Libor $ 3M (%)	2.74	▸ 2.77	+2.9	bp
↘ OAT 10y (%)	1.49	▸ 1.38	-11.7	bp
↘ Bund 10y (%)	1.07	▸ 0.98	-9.5	bp
↘ US Tr. 10y (%)	2.93	▸ 2.78	-14.9	bp
↗ Euro vs dollar	1.01	▸ 1.02	+1.5	%
↗ Gold (ounce, $)	1 705	▸ 1 731	+1.5	%
↗ Oil (Brent, $)	101.3	▸ 103.3	+1.9	%

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	0.20	0.20	at	22/07	-0.58	at	05/01
	Euribor 12M	1.20	1.20	at	22/07	-0.50	at	05/01
$	FED	1.75	1.75	at	16/06	0.25	at	03/01
	Libor 3M	2.77	2.78	at	21/07	0.21	at	03/01
	Libor 12M	3.81	3.98	at	14/07	0.58	at	03/01
£	BoE	1.25	1.25	at	16/06	0.25	at	03/01
	Libor 3M	1.89	1.90	at	19/07	0.26	at	03/01
	Libor 12M	0.81	0.81	at	03/01	0.81	at	03/01

At 22-7-22

Yield (%)			highest 22			lowest 22		
€	AVG 5-7y	1.47	2.21	at	15/06	-0.04	at	03/01
	Bund 2y	0.39	1.02	at	14/06	-0.83	at	04/03
	Bund 10y	0.98	1.76	at	21/06	-0.14	at	24/01
	OAT 10y	1.38	2.17	at	21/06	0.15	at	04/01
	Corp. BBB	3.24	4.02	at	21/06	0.90	at	05/01
$	Treas. 2y	2.99	3.43	at	14/06	0.70	at	04/01
	Treas. 10y	2.78	3.48	at	14/06	1.63	at	03/01
	High Yield	8.37	9.09	at	30/06	5.07	at	03/01
£	gilt. 2y	2.05	2.38	at	21/06	0.69	at	03/01
	gilt. 10y	1.94	2.62	at	21/06	0.97	at	03/01

At 22-7-22

EXCHANGE RATES

1€ =		highest 22			lowest 22			2022
USD	1.02	1.15	at	10/02	1.00	at	14/07	-10.0%
GBP	0.85	0.87	at	14/06	0.83	at	14/04	+1.2%
CHF	0.98	1.06	at	10/02	0.98	at	22/07	-5.1%
JPY	139.18	143.95	at	22/06	125.37	at	04/03	+6.3%
AUD	1.47	1.62	at	04/02	1.43	at	05/04	-6.0%
CNY	6.92	7.29	at	10/02	6.75	at	14/07	-4.5%
BRL	5.57	6.44	at	06/01	5.01	at	21/04	-12.0%
RUB	59.59	164.76	at	07/03	56.01	at	29/06	-30.1%
INR	81.70	85.96	at	11/02	79.85	at	14/07	-3.3%

At 22-7-22 — *Change*

COMMODITIES

Spot price, $		highest 22			lowest 22			2022	2022(€)
Oil, Brent	103.3	128.2	at	08/03	79.0	at	03/01	+31.7%	+46.4%
Gold (ounce)	1 731	2 056	at	08/03	1 705	at	15/07	-5.0%	+5.6%
Metals, LMEX	3 667	5 506	at	07/03	3 473	at	14/07	-18.6%	-9.5%
Copper (ton)	7 433	10 702	at	04/03	7 160	at	14/07	-23.7%	-15.2%
wheat (ton)	282	4.7	at	17/05	281	at	14/01	+18.4%	+31.6%
Corn (ton)	248	3.2	at	28/06	226	at	03/01	+0.9%	+20.9%

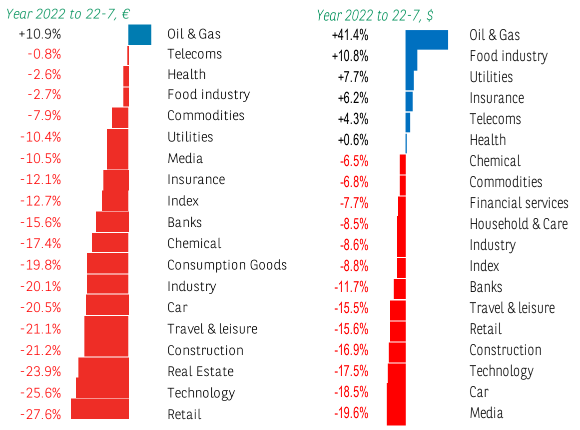
At 22-7-22 — *Change*

EQUITY INDICES

	Index	highest 22			lowest 22			2022
World								
MSCI World	2 651	3 248	at	04/01	2 486	at	17/06	-18.0%
North America								
S&P500	3 962	4 797	at	03/01	3 667	at	16/06	-16.9%
Europe								
EuroStoxx50	3 596	4 392	at	05/01	3 360	at	05/07	-16.3%
CAC 40	6 217	7 376	at	05/01	5 795	at	05/07	-1.3%
DAX 30	13 254	16 272	at	05/01	12 401	at	05/07	-16.6%
IBEX 35	8 052	8 934	at	27/05	7 645	at	07/03	-0.8%
FTSE100	7 276	7 672	at	10/02	6 959	at	07/03	-0.1%
Asia								
MSCI, loc.	1 090	1 165	at	05/01	1 024	at	08/03	-0.5%
Nikkei	27 915	29 332	at	05/01	24 718	at	09/03	-3.0%
Emerging								
MSCI Emerging ($)	990	1 267	at	12/01	962	at	15/07	-2.0%
China	69	86	at	20/01	59	at	15/03	-16.8%
India	752	891	at	13/01	699	at	17/06	-4.3%
Brazil	1 351	2 003	at	04/04	1 311	at	14/07	-7.9%

At 22-7-22 — *Change*

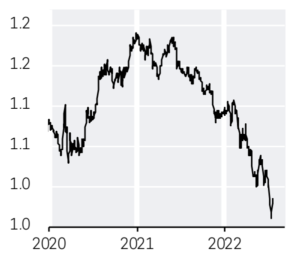
PERFORMANCE BY SECTOR (Eurostoxx50 & S&P500)



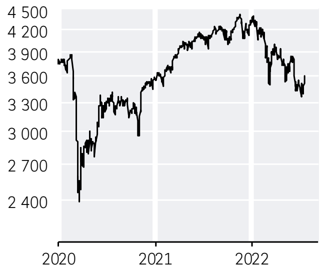
SOURCE: REFINITIV, BNP PARIBAS,

MARKETS OVERVIEW

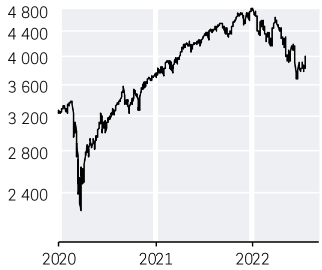
EURO-DOLLAR



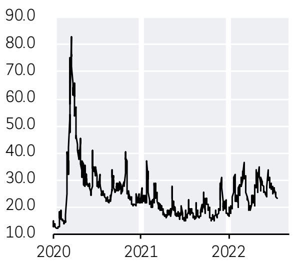
EUROSTOXX50



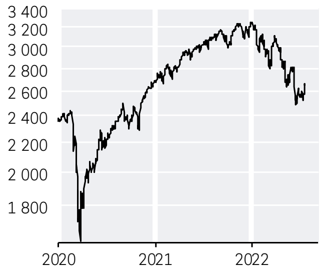
S&P500



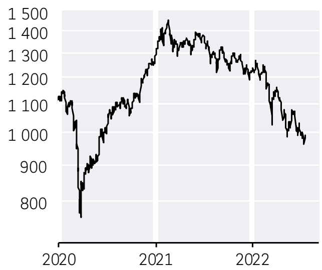
VOLATILITY (VIX, S&P500)



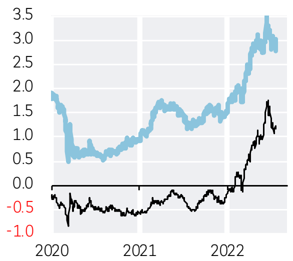
MSCI WORLD (USD)



MSCI EMERGING (USD)

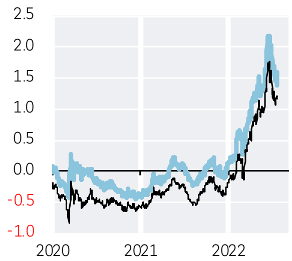


10Y BOND YIELD, TREASURIES VS BUND



—Bunds —US Treasuries

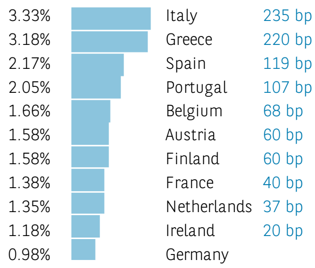
10Y BOND YIELD



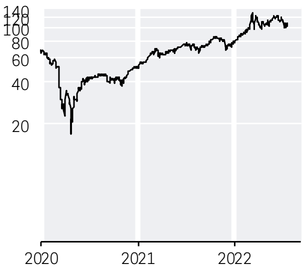
—Bunds —OAT

10Y BOND YIELD & SPREADS

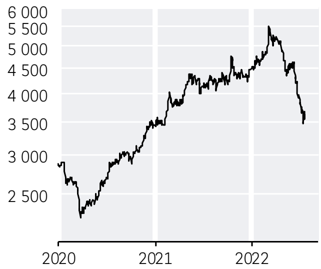
Year 2022 to 22-7



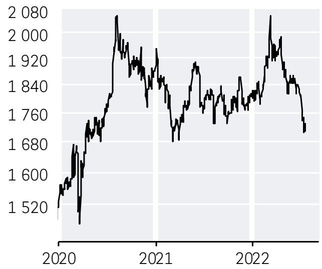
OIL (BRENT, USD)



METALS (LMEX, USD)



GOLD (OUNCE, USD)



SOURCE: REFINITIV, BNP PARIBAS,

INTERNATIONAL TRADE BAROMETER: TRADE PRESSURES CONTINUE TO ABATE

Although supply timescales are still historically long, the PMI index which assesses them has gradually improved since last autumn, rising from 34.8 in October 2021 to 42.3 in June (chart 6)[1]. According to the PMI sector survey, this reduction in delivery times can also be seen in most industries, particularly in the automotive, electronic equipment and agri-food sectors. As a result of these reductions, the backlogs of work indicator recorded its biggest fall in over two years, dropping from 52.7 in May to 50.0 in June. The aggregate value chain pressures index, which is published by the Federal Reserve of New York, confirms these positive developments. It has fallen to its lowest level since March 2021 (chart 3). These gradual but continuous improvements should help to ease some of the inflationary pressures currently weighing on the manufactured goods sector in particular.

This easing of pressures is due in part to less disrupted global maritime traffic. This traffic is gradually becoming more fluid and the bottlenecks in ports, particularly those on the west coast of the United States, are receding. Based on the available data, the average wait time for ships berthed in the port of Los Angeles had reduced to an average of 18 days in early July. This is the shortest wait time since November 2020 and close to the levels recorded before the global pandemic. The peak was reached in November 2011, with an average of 127 days. At the same time, the maritime freight indicator (chart 5) fell by almost a third compared to its level at the end of 2021, mainly as a result of significant cost reductions for routes from northern Europe to eastern China (-55% since the end of December) and from eastern China to the west coast of the United States (-52%).

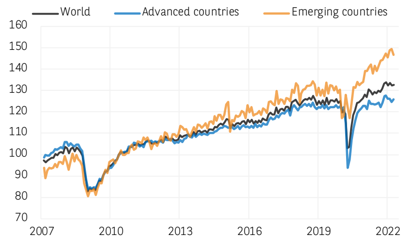
That said, global demand is slowing considerably and is also helping to ease the pressures on international trade, but for the wrong reasons: the early results of the PMI surveys for July in the euro zone (France, Germany) and in Japan show a marked deterioration in ongoing activity in the third quarter of 2022.

Guillaume Derrien

1. A rising number represents a shortening of delivery times. For this reason, the Y-axis in chart 6 is inverted.

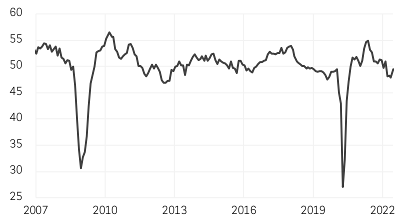
INTERNATIONAL TRADE INDICATORS

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



Source: CPB, BNP Paribas

2. Global manufacturing PMI, new export orders

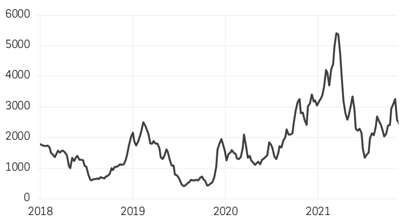


S&P Global (Markit), BNP Paribas

3. Global supply-chain pressures index

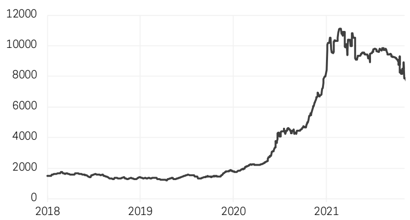
Source: Federal Reserve of New York

4. Baltic Exchange Dry Index



Source: Baltic Exchange, BNP Paribas

5. Freight rate index



Source: Freightos, BNP Paribas

6. Global manufacturing PMI, delivery times (Inverted line)

S&P Global (Markit), BNP Paribas

THE OECD WEEKLY TRACKER CONTINUES TO SHOW WEAKENED ACTIVITY IN ADVANCED ECONOMIES

The world recorded 6.9 million new confirmed COVID-19 cases between 13 and 20 July, 9% more than in the previous week. This was a fifth consecutive week of rising case numbers. Asia saw the largest weekly growth (45%), followed by North America (14%) and South America (8%). In Africa, the situation stabilised, while in Europe, the first drop was recorded after six weeks of almost continuous growth (chart 1). In addition, 65.8% of the world's population has received at least one dose of a vaccine (chart 2).

At the same time, footfall in shopping and leisure facilities in France, Belgium and Germany remains at its pre-COVID-19 level, while in Italy it is no longer very far off. However, footfall is still below the pre-pandemic level in the US, UK, Spain and Japan (chart 3, blue curve).

Finally, the weekly GDP proxy indicator continues to fall in the United States, the United Kingdom, Germany and Japan, while in Spain it is trying to stabilise. In France, Italy and Belgium, the slight rise seen on the last point was part of a downward trend (chart 3, black curve). This indicator is produced by the OECD using data from Google Trends, which results from searches relating to consumption, the labour market, housing, industrial activity and uncertainty. The indicator shown here is calculated on a rolling basis over one year.

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)

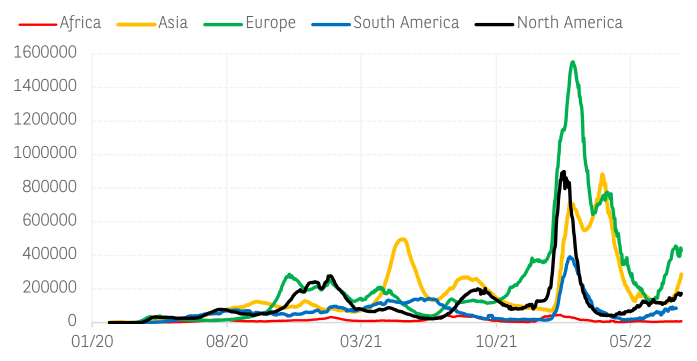


CHART 1 SOURCE: JOHNS-HOPKINS UNIVERSITY (07/21/2022), BNP PARIBAS

SHARE OF PEOPLE WHO RECEIVED AT LEAST ONE DOSE OF VACCINE

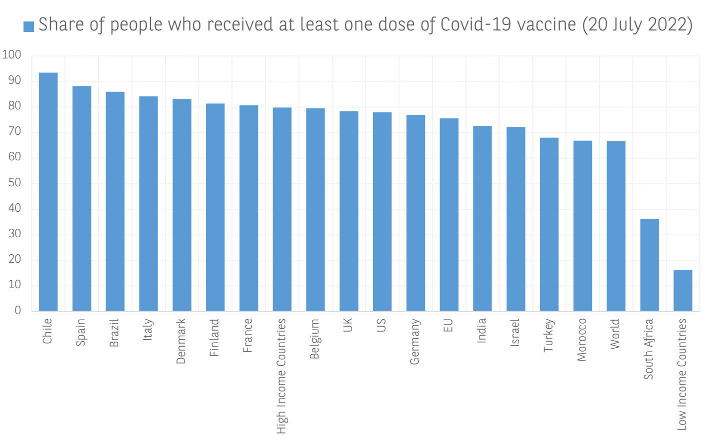
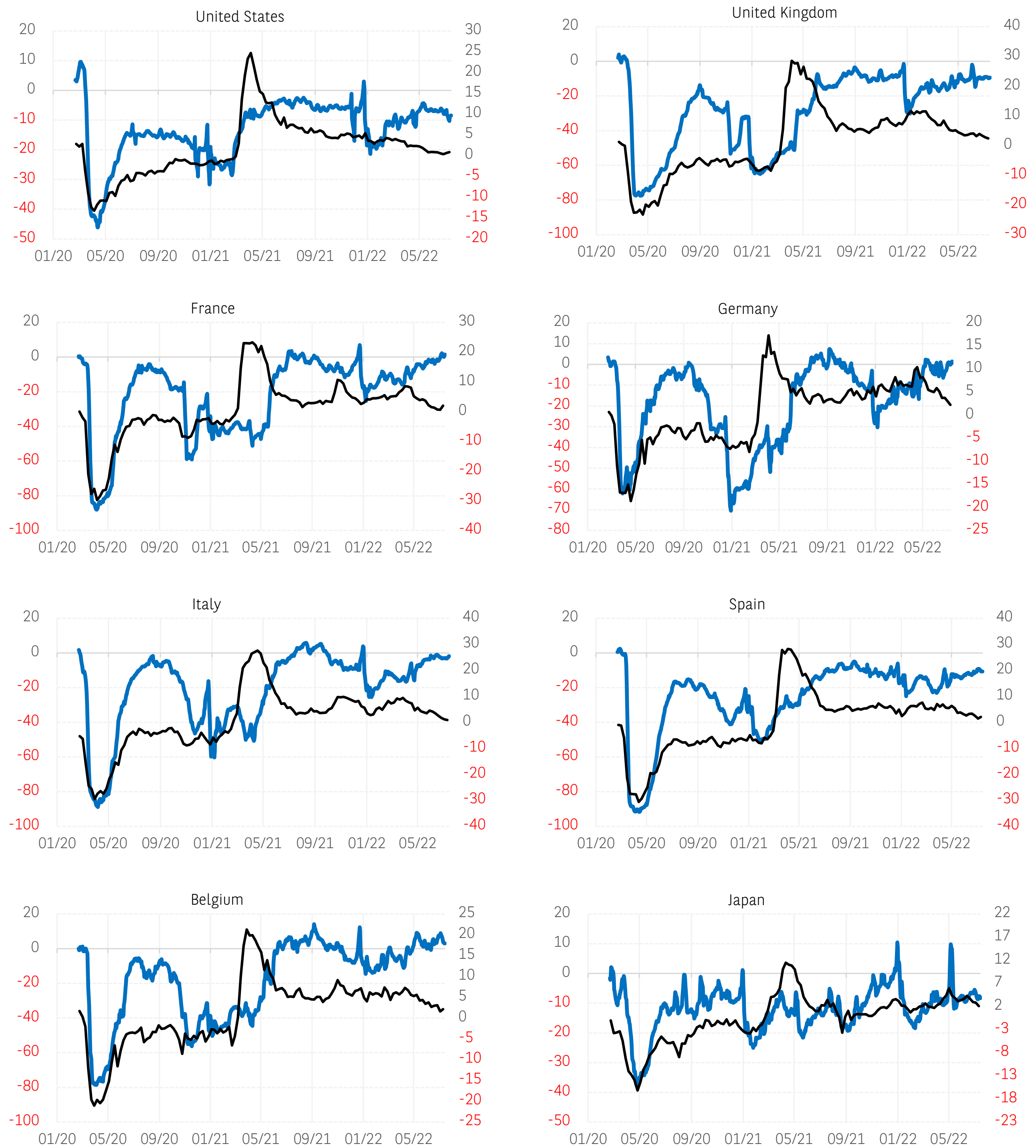


CHART 2 SOURCE: OUR WORLD IN DATA (07/21/2022), BNP PARIBAS

RETAIL AND RECREATION MOBILITY & OECD WEEKLY TRACKER

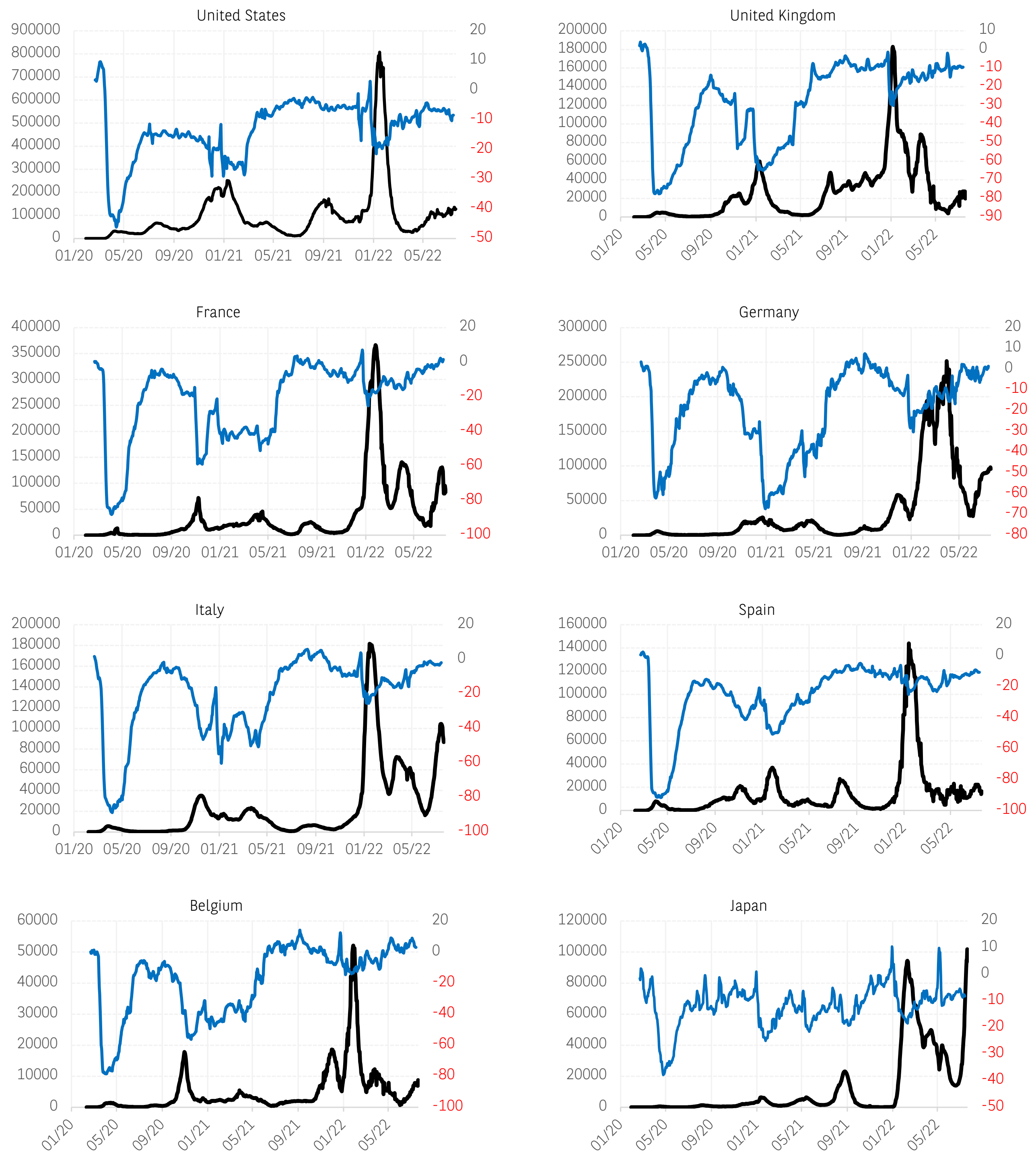
Retail and recreation mobility (7-day moving average, % from baseline*)   OECD Weekly tracker, y/2y GDP growth [RHS]



SOURCE: OECD (07/21/2022), GOOGLE (07/21/2022), 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 (07/21/2022), GOOGLE (07/21/2022), BNP PARIBAS

ECONOMIC SCENARIO

UNITED STATES

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

CHINA

Economic activity contracted in Q2 2022 principally due to the lockdowns imposed in large industrial regions such as Shanghai. Economic growth has rebounded slowly since May and the authorities are enhancing fiscal and monetary easing measures. However, short-term downside risks remain high: exports are expected to suffer from the slowdown in global demand, the correction in the property sector continues, and the deterioration in the labour market weighs on private consumption. Consumer price inflation is accelerating only moderately.

EUROZONE

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

FRANCE

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

RATES AND EXCHANGE RATES

In the US, the Federal Reserve will continue its tightening policy at a swift pace, with a 75bp hike in July, 50bp in September, followed by 25bp hikes in both November and December. The terminal rate of 3.5% (upper end of the target range) should be reached towards the end of this year. The Fed's hawkish stance is motivated by the particularly elevated inflation and a strong labour market. When the economy slows down and inflation will be on a downward path, the Federal Reserve should adapt its guidance in an effort to achieve a soft landing. To a very large degree, US Treasury yields already reflect the prospect of monetary policy tightening. This means that year-end levels shouldn't be that different from current levels. For next year we expect somewhat lower yields as growth slows and inflation declines.

The ECB Governing Council has started its tightening cycle at the July meeting, with a 50bp hike in its policy rates. Forward guidance has been dropped and the timing and size future rate increases will be data-dependent. We expect 50bp rate hikes at its September and October meetings and 25bp from December onwards, implying a deposit rate of 2.00% at the end of 2023. This should cause an increase in Bund yields and a widening of sovereign spreads in the euro area.

The Bank of Japan is expected to maintain its current policy stance, at least until Governor Kuroda's term ends in the spring of 2023. Thereafter, we expect the negative interest rate policy to be scrapped and the 10-year rate target to be hiked.

We expect the dollar to weaken significantly versus the euro. The dollar's valuation is expensive, positioning in the market is very long and the long-term interest rate differential should narrow. The yen has already weakened significantly versus the dollar, reflecting the prospect of increased policy divergence between the Fed and the Bank of Japan. We expect the exchange rate to remain around current levels for the remainder of the year. In 2023, the yen should appreciate considering that the federal funds rate should have reached its terminal rate and that the Bank of Japan is expected to tighten policy.

GDP GROWTH & INFLATION

	GDP Growth				Inflation			
%	2021	2022 e	2023 e	2024 e	2021	2022 e	2023 e	2024 e
United-States	5.7	2.6	1.9	1.7	4.7	7.5	3.9	2.4
Japan	1.7	1.4	1.1	0.6	-0.2	1.9	1.0	0.7
United-Kingdom	7.4	3.6	1.5	1.6	2.6	8.0	4.4	2.1
Euro Area	5.3	2.5	2.3	2.2	2.6	7.9	4.1	2.0
Germany	2.9	1.3	2.2	2.3	3.2	8.1	4.6	2.1
France	6.8	2.3	2.1	2.0	2.1	5.9	3.6	1.8
Italy	6.6	2.8	2.0	1.8	1.9	7.7	4.5	1.8
Spain	5.1	4.1	2.5	2.2	3.0	8.0	3.6	1.7
China	8.1	3.7	5.7	5.0	0.9	2.3	3.4	2.5
India*	9.3	8.3	6.2	6.5	5.4	7.9	5.9	5.5
Brazil	4.6	1.5	0.0	1.2	8.3	11.0	7.1	4.3
Russia	4.5	-7.0	0.8	0.3	7.1	14.0	10.5	7.6

SOURCE: BNP PARIBAS GROUP ECONOMIC RESEARCH (E: ESTIMATES & FORECASTS)
*FISCAL YEAR FROM 1ST APRIL OF YEAR N TO MARCH 31ST OF YEAR N+1

INTEREST & EXCHANGE RATES

Interest rates, % End of period		Q2 2022	Q3 2022 e	Q4 2022 e	Q2 2023 e	Q4 2023 e
US	Fed Funds (upper limit)	1.75	3.00	3.50	3.50	3.50
	T-Note 10y	2.97	3.10	3.20	3.10	3.00
Eurozone	Deposit rate	-0.50	0.50	1.25	1.75	2.00
	Bund 10y	1.37	1.60	1.80	2.25	2.25
	OAT 10y	1.80	2.15	2.38	2.85	2.85
	BTP 10y	3.29	3.85	4.40	4.65	4.75
	BONO 10y	2.46	2.95	3.40	3.75	3.75
UK	Base rate	1.25	2.00	2.50	2.50	2.50
	Gilts 10y	2.21	2.30	2.50	2.65	2.50
Japan	BoJ Rate	-0.04	-0.10	-0.10	-0.10	0.00
	JGB 10y	0.23	0.24	0.25	0.25	0.45
Exchange Rates End of period		Q2 2022	Q3 2022 e	Q4 2022 e	Q2 2023 e	Q4 2023 e
USD	EUR / USD	1.05	1.09	1.12	1.16	1.20
	USD / JPY	136	131	130	125	120
	GBP / USD	1.21	1.25	1.27	1.32	1.36
EUR	EUR / GBP	0.86	0.87	0.88	0.88	0.88
	EUR / JPY	142	143	146	145	144
Brent End of period		Q2 2022	Q3 2022 e	Q4 2022 e	Q2 2023 e	Q4 2023 e
Brent	USD/bbl	115	120	122	125	125

SOURCE: BNP PARIBAS (E: ESTIMATES & FORECASTS)
(MARKET ECONOMICS, INTEREST RATE STRATEGY, FX STRATEGY, COMMODITIES DESK STRATEGY

CALENDAR

LATEST INDICATORS

Data for the euro area and the US were on the whole weaker compared to the previous month and to the consensus forecasts. In the euro area, consumer confidence recorded a significant decline, more than anticipated. The same applies to the flash PMIs for manufacturing and services as well as for the composite index. French business confidence declined very slightly whereas the different PMIs saw a bigger decline. A similar comment applies to the German PMIs were the composite indicator is now firmly below 50. In the UK, inflation moved higher but consumer confidence was stable at a very low level. Retail sales created a positive surprise with an unexpected improvement and the PMIs weakened less than in the euro area. In the US, most data showed a slowing economy. The NAHB housing market index recorded an unexpectedly big drop and housing starts declined again, against expectations. The decline in building permits on the other hand was less than anticipated. Mortgage applications dropped, initial unemployment claims increased again and the Conference Board index of leading indicators continues its downward trend. Finally, whereas the manufacturing PMI showed resilience, the services PMI plunged well below 50.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	ACTUAL	PREVIOUS
07/18/2022	United States	NAHB Housing Market Index	Jul	65.0	55.0	67.0
07/19/2022	Eurozone	CPI YoY	Jun F	8.6%	8.6%	8.1%
07/19/2022	Eurozone	CPI Core YoY	Jun F	3.7%	3.7%	3.7%
07/19/2022	United States	Housing Starts MoM	Jun	2.0%	-2.0%	-11.9%
07/19/2022	United States	Building Permits MoM	Jun	-2.7%	-0.6%	-7.0%
07/20/2022	United Kingdom	CPIH YoY	Jun	8.1%	8.2%	7.9%
07/20/2022	United States	MBA Mortgage Applications	15-juil	--	-6.3%	-1.7%
07/20/2022	Eurozone	Consumer Confidence	Jul P	-24.9	-27.0	-23.8
07/20/2022	Japan	BOJ Policy Balance Rate	21-juil	-0.1%	-0.1%	-0.1%
07/21/2022	France	Business Confidence	Jul	103.0	103.0	104.0
07/21/2022	Eurozone	ECB Deposit Facility Rate	21-juil	-0.3%	0.0%	-0.5%
07/21/2022	United States	Initial Jobless Claims	16-juil	240k	251k	244k
07/21/2022	United States	Leading Index	Jun	-0.6%	-0.8%	-0.6%
07/21/2022	United Kingdom	GfK Consumer Confidence	Jul	-42.0	-41.0	-41.0
07/22/2022	United Kingdom	Retail Sales Ex Auto Fuel MoM	Jun	-0.4%	0.4%	-1.0%
07/22/2022	France	S&P Global France Manufacturing PMI	Jul P	51.0	49.6	51.4
07/22/2022	France	S&P Global France Services PMI	Jul P	52.8	52.1	53.9
07/22/2022	France	S&P Global France Composite PMI	Jul P	51.1	50.6	52.5
07/22/2022	Germany	S&P Global/BME Germany Manufacturing PMI	Jul P	50.7	49.2	52.0
07/22/2022	Germany	S&P Global Germany Services PMI	Jul P	51.4	49.2	52.4
07/22/2022	Germany	S&P Global Germany Composite PMI	Jul P	50.2	48.0	51.3
07/22/2022	Eurozone	S&P Global Eurozone Manufacturing PMI	Jul P	51.0	49.6	52.1
07/22/2022	Eurozone	S&P Global Eurozone Services PMI	Jul P	52.0	50.6	53.0
07/22/2022	Eurozone	S&P Global Eurozone Composite PMI	Jul P	51.0	49.4	52.0
07/22/2022	United Kingdom	S&P Global/CIPS UK Manufacturing PMI	Jul P	52.0	52.2	52.8
07/22/2022	United Kingdom	S&P Global/CIPS UK Services PMI	Jul P	53.0	53.3	54.3
07/22/2022	United Kingdom	S&P Global/CIPS UK Composite PMI	Jul P	52.4	52.8	53.7
07/22/2022	United States	S&P Global US Manufacturing PMI	Jul P	52.0	52.3	52.7
07/22/2022	United States	S&P Global US Services PMI	Jul P	52.7	47.0	52.7
07/22/2022	United States	S&P Global US Composite PMI	Jul P	52.4	47.5	52.3

SOURCE: BLOOMBERG

CALENDAR: THE WEEK AHEAD

COMING INDICATORS

Attention this week will focus on the FOMC meeting and the press conference that follows and on the survey data for July in Germany (IFO), UK (business confidence), France (consumer confidence), the euro area (European Commission surveys) and the US (University of Michigan sentiment). In addition, we will have inflation for July in the euro area and second quarter GDP data in the US, France, Germany and the euro area.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	PREVIOUS
07/25/2022	Germany	IFO Business Climate	Jul	--	92.3
07/25/2022	United Kingdom	CBI Business Optimism	Jul	--	-34
07/26/2022	United States	Conf. Board Consumer Confidence	Jul	97	98.7
07/27/2022	Germany	GfK Consumer Confidence	Aug	--	-27.4
07/27/2022	France	Consumer Confidence	Jul	--	82
07/27/2022	United States	FOMC Rate Decision (Upper Bound)	Jul	--	1.75%
07/28/2022	Eurozone	Economic Confidence	Jul	--	104
07/28/2022	Eurozone	Industrial Confidence	Jul	--	7.4
07/28/2022	Eurozone	Services Confidence	Jul	--	14.8
07/28/2022	Eurozone	Consumer Confidence	Jul	--	-27
07/28/2022	United States	GDP Annualized QoQ	2Q	0.90%	-1.60%
07/29/2022	France	GDP QoQ	2Q	--	-0.20%
07/29/2022	Germany	GDP SA QoQ	2Q	--	0.20%
07/29/2022	Eurozone	CPI Estimate YoY	Jul	--	8.60%
07/29/2022	Eurozone	GDP SA QoQ	2Q	--	0.60%
07/29/2022	United States	U. of Mich. Sentiment	Jul	51.1	51.1
07/30/2022	China	Composite PMI	Jul	--	54.1
08/01/2022	France	S&P Global France Manufacturing PMI	Jul	--	--
08/01/2022	Germany	S&P Global/BME Germany Manufacturing PMI	Jul	--	--
08/01/2022	Eurozone	S&P Global Eurozone Manufacturing PMI	Jul	--	--
08/01/2022	United Kingdom	S&P Global/CIPS UK Manufacturing PMI	Jul	--	--
08/01/2022	United States	S&P Global US Manufacturing PMI	Jul	--	--
08/01/2022	United States	ISM Manufacturing	Jul	--	53
08/02/2022	Japan	Jibun Bank Japan PMI Services	Jul	--	--
08/02/2022	China	Caixin China PMI Services	Jul	--	54.5

CALENDAR: THE WEEK AHEAD

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	PREVIOUS
08/03/2022	France	S&P Global France Services PMI	Jul	--	--
08/03/2022	Germany	S&P Global Germany Services PMI	Jul	--	--
08/03/2022	Eurozone	S&P Global Eurozone Services PMI	Jul	--	--
08/03/2022	United Kingdom	S&P Global/CIPS UK Services PMI	Jul	--	--
08/03/2022	United States	S&P Global US Services PMI	Jul	--	--
08/03/2022	United States	ISM Services Index	Jul	--	55.3
08/04/2022	United Kingdom	Bank of England Bank Rate	Aug	1.75%	1.25%
08/05/2022	United States	Change in Nonfarm Payrolls	Jul	--	372k
08/05/2022	United States	Unemployment Rate	Jul	--	3.60%
08/08/2022	Japan	Eco Watchers Survey Outlook SA	Jul	--	47.6
08/10/2022	United States	CPI YoY	Jul	--	9.10%
08/10/2022	United States	CPI Index NSA	Jul	--	296.311
08/12/2022	United Kingdom	GDP QoQ	2Q	--	0.80%
08/12/2022	United States	U. of Mich. Sentiment	Aug	--	--
08/14/2022	Japan	GDP SA QoQ	2Q	--	-0.10%
08/14/2022	China	Industrial Production YoY	Jul	--	3.90%
08/14/2022	China	Retail Sales YoY	Jul	--	3.10%
08/14/2022	China	Surveyed Jobless Rate	Jul	--	5.50%
08/16/2022	Germany	ZEW Survey Expectations	Aug	--	-53.8
08/16/2022	Eurozone	ZEW Survey Expectations	Aug	--	-51.1
08/17/2022	United Kingdom	CPI YoY	Jul	--	9.40%
08/17/2022	Eurozone	Employment QoQ	2Q	--	0.60%
08/17/2022	Eurozone	GDP SA QoQ	2Q	--	--
08/17/2022	United States	Retail Sales Advance MoM	Jul	--	1.00%
08/18/2022	Eurozone	CPI YoY	Jul	--	8.60%
08/19/2022	United Kingdom	Retail Sales Ex Auto Fuel MoM	Jul	--	--
08/23/2022	Eurozone	S&P Global Eurozone Composite PMI	Aug	--	--
08/23/2022	Eurozone	Consumer Confidence	Aug	--	--
08/25/2022	France	Business Confidence	Aug	--	--
08/25/2022	Germany	IFO Business Climate	Aug	--	--
08/26/2022	Germany	GfK Consumer Confidence	Sep	--	--
08/26/2022	France	Consumer Confidence	Aug	--	--
08/26/2022	United States	U. of Mich. Sentiment	Aug	--	--

SOURCE: BLOOMBERG

FURTHER READING

Turkey: on the razor's edge	EcoTVWeek	22 July 2022
Germany : A mixed bag for pay rises in 2022	EcoFlash	21 July 2022
Spain: the effects of the labour-market reforms in Spain are clearly visible	Chart of the Week	20 July 2022
Algeria : A window of opportunity not to be missed	Conjoncture	20 July 2022
Eurozone : ECB: addressing unwarranted spread widening	EcoWeek	18 July 2022
The euro at parity versus the dollar: causes, consequences and outlook	EcoTVWeek	15 July 2022
Euro area: corporation overdrafts returning to pre-pandemic levels	Chart of the Week	13 July 2022
US : An uneasy feeling (part 2)	EcoWeek	11 July 2022
Emerging Countries : from one shock to another	EcoEmerging	11 July 2022
Peru: tempered economic outlook	EcoTVWeek	8 July 2022
Egypt : deepening of external imbalances	Chart of the Week	6 July 2022
US: an uneasy feeling	EcoWeek	4 July 2022
Let's keep talking about climate change	EcoTVWeek	1 July 2022
US: what does the composite leading indicator tell us about the risk of recession?	Chart of the Week	29 June 2022
Eurozone: European household account: a turbulent story	EcoFlash	28 June 2022
Eurozone: unwarranted spread widening: measurement issues (part 2)	EcoWeek	27 June 2022
France: when the construction sector goes well, so does the economy	EcoTVWeek	24 June 2022
United States: Fed's new experience in quantitative tightening	Chart of the Week	22 June 2022
Eurozone: unwarranted spread widening: measurement issues	EcoWeek	20 June 2022
Indonesia: weakened by the pandemic, but solid enough to handle new shocks	EcoConjoncture	19 June 2022

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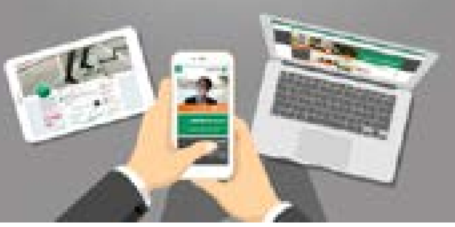

Published by BNP PARIBAS Economic Research

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Internet: www.group.bnpparibas.com - **www.economic-research.bnpparibas.com**

Head of publication : Jean Lemierre / Chief editor: William De Vijlder

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