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**ECONOMIC RESEARCH**



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## SUPPLY BOTTLENECKS AND THE INFLATION OUTLOOK

In countries where restrictions on mobility are lifted, demand picks up suddenly, causing an imbalance with supply, which takes more time to react, in particular when value chains are long and complex. In recent months, companies have been reporting longer delivery lags and rising input costs, but the historical experience in the US and the euro area shows that the impact on inflation should be temporary and limited. Nevertheless, in bond markets, break-even inflation has increased significantly in recent months, reflecting investor worries about the risk of upside surprises to inflation. Should supply-side pressures ease in coming months, one would expect break-even inflation to decline as well.

In most recessions, production declines due to a drop in demand. The pandemic-induced recession was different as the global economy was hit by a demand and supply shock. During the initial lockdown, restrictions on mobility brought production to a virtual halt in many sectors but also caused a decline in demand. The latter was, to a large degree, a consequence of the restrictions on mobility, rather than reflecting households being financially constrained. Household income, in the aggregate, was actually holding up quite well thanks to government measures in terms of temporary unemployment or income transfers.

Uncertainty about the economic outlook also played an important role in the behaviour of households, leading to precautionary savings. Businesses, faced with a drop in turnover and huge needs for cash, reacted by scaling back orders so as to minimise their working capital requirement and avoid a build-up of unwanted inventories. In such an environment, when restrictions are lifted, demand picks up suddenly as pent-up demand is unleashed and causes an imbalance with supply, which takes more time to react, in particular when value chains are long and complex. This is reflected in business surveys, which show longer delivery lags but also rising input costs. In theory, this should have a temporary impact on inflation.

This is also the view of central bankers. According to Philip Lane, chief economist of the ECB *"there is a nearly zero connection between any kinds of spikes in prices under the reopening of the economy and what goes into the inflation trend."*<sup>1</sup> This view is echoed by Lael Brainard, member of the Board of governors of the Federal Reserve, who argues that *"there are a variety of reasons to expect an increase in inflation associated with reopening that is largely transitory"*<sup>2</sup>. Demand growth, which initially was explosive, will slow whereas supply will increase as production is gathering pace and hiring of new staff picks up. Moreover, the risk that the initial spike in inflation would trigger second round effects leading to inflation staying high for longer seems low due to labour market slack, well-anchored inflation expectations and competitive pressure.

1. Source: *ECB's Lane pushes back against talk of new era of inflation*, Reuters, 20 May 2021.  
2. Source: *Patience and Progress as the Economy Reopens and Recovers*, Remarks by Lael Brainard, Member of the Board of Governors of the Federal Reserve System, 11 May 2021.

How does the historical experience compare with these theoretical considerations? Chart 1 shows, for the US, the relationship between core inflation and supply-side pressures. The latter are the average of the prices paid index and the supplier delivery times index from the Institute for Supply Management (ISM) survey for the manufacturing sector. Rising prices paid and lengthening delivery times are typical signs of supply-demand imbalances, i.e. supply bottlenecks. The relationship between the supply-pressure index and core inflation has evolved. In the 1960 and 1970s, rising pressures tended to be accompanied by an increase in core inflation. This changed during the 1980s, due to a strong disinflationary trend, which dominated the cyclical swings of inflation. Since the 1990s, spikes in manufacturing price pressures had limited impact on core inflation. This probably reflects the role of well-anchored inflation expectations as well as competitive pressures that make businesses, fearing a loss in market share, reluctant to raise their prices. For the euro area, the time series are shorter – data start in 1997 – but as in the US, the transmission of price pressures as reported in business surveys to core inflation is limited.

UNITED STATES: CORE PCE VERSUS ISM PRICE PRESSURES

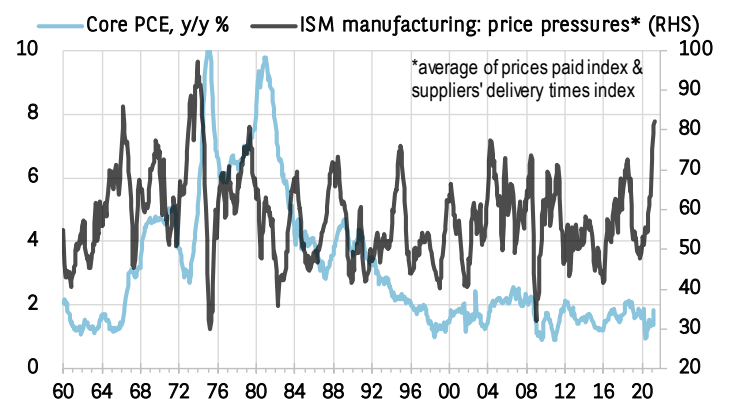


CHART 1

SOURCE: BEA, ISM, BNP PARIBAS

Based on theoretical arguments and the historical record, supply bottlenecks should only have a limited and temporary influence on inflation. There is however a close correlation between supply pressures and break-even inflation as priced in bond markets.



Against this background, one wonders why bond markets have been so jittery in recent months. In the US, since the trough in nominal yields last year, 10 year break-even inflation – the yield difference between a 10 year Treasury note and an inflation-linked Treasury note of the same maturity- has increased about 150 basis points. This represents the bulk of the increase in nominal bond yields – real yields did not change that much – and reflects rising inflation expectations of investors. In Germany, since the low point of nominal bond yields in the spring of 2020, break-even inflation has increased about 100 basis points, which is more than the rise in nominal yields and implies that real yields have actually declined. Clearly, bond markets seem to be more nervous about the inflation outlook than central bankers. A possible interpretation is that investors think that the relationship between survey-based price pressure gauges and observed inflation may change, whereby rising pressures would generate more inflation than seen in recent decades. Another explanation would be that investors focus on inflation in the short run. They may be worried about the upside risk to inflation in the near term and this pushes up break-even inflation, even for longer-dated bonds. To explore this further, chart 3 and 4 take a longer perspective for the US and the euro area<sup>3</sup>.

Three conclusions can be drawn. Firstly, there is a positive and close relationship between survey-based price pressures and break-even inflation. Secondly, the relationship exists, irrespective of the level of the price pressures. Thirdly, when price pressures ease, break-even inflation declines. This last point is particularly important for the development of bond yields in coming months. Should, as expected by the Fed and the ECB, supply bottlenecks ease – reflected in reduced price pressures in the business surveys-, one would expect a decline in break-even inflation, in line with the historical experience. Whether this would cause nominal yields to decline then depends on what happens to real bond yields and hence the outlook for growth.

William De Vijlder

**EUROZONE: CORE HICP VERSUS PMI PRICE PRESSURES**

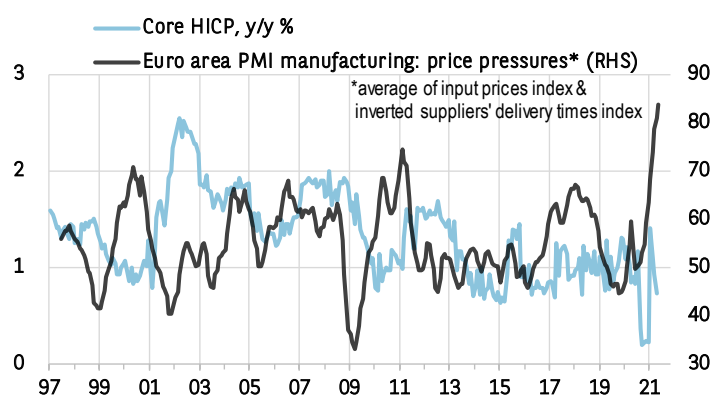


CHART 2

SOURCE: EUROSTAT, IHS MARKIT, BNP PARIBAS

**UNITED STATES: BREAK-EVEN INFLATION AND ISM PRICE PRESSURES**

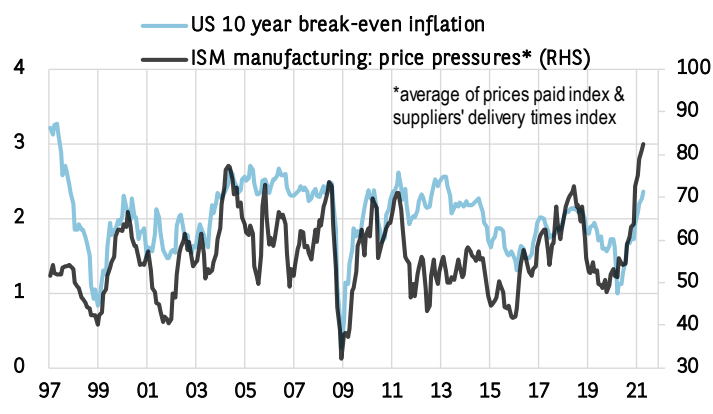


CHART 3

SOURCE: REFINITIV, ISM, BNP PARIBAS

**EUROZONE: BREAK-EVEN INFLATION AND PMI PRICE PRESSURES**

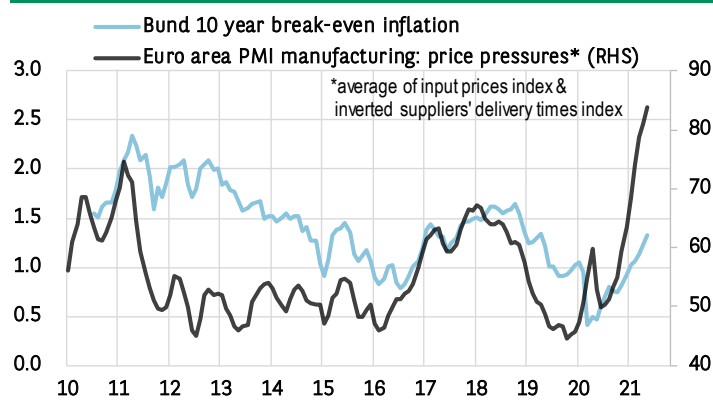


CHART 4

SOURCE: REFINITIV, IHS MARKIT, BNP PARIBAS

3. Chart 4 shows the PMI data for the euro area. The yield on Bunds is used rather than e.g. a GDP-weighted average bond yield because the latter could be biased by fluctuations in the pricing of sovereign risk.



# MARKETS OVERVIEW

## OVERVIEW

Week 21-5-21 to 24-5-21

➔ CAC 40	6 386	▶ 6 408	+0.3 %
➔ S&P 500	4 156	▶ 4 197	+1.0 %
➔ Volatility (VIX)	20.2	▶ 18.4	-1.8 pb
➔ Euribor 3M (%)	-0.54	▶ -0.54	+0.1 bp
➔ Libor \$ 3M (%)	0.15	▶ 0.15	+0.0 bp
➔ OAT 10y (%)	0.18	▶ 0.17	-1.2 bp
➔ Bund 10y (%)	-0.13	▶ -0.14	-1.4 bp
➔ US Tr. 10y (%)	1.63	▶ 1.61	-2.1 bp
➔ Euro vs dollar	1.22	▶ 1.22	+0.3 %
➔ Gold (ounce, \$)	1 875	▶ 1 885	+0.5 %
➔ Oil (Brent, \$)	66.5	▶ 66.5	+0.0 %

## MONEY & BOND MARKETS

Interest Rates	highest 21	lowest 21	Yield (%)	highest 21	lowest 21
€ ECB	0.00	0.00 at 01/01	€ AVG 5-7y	-0.09	-0.03 at 19/05
Eonia	-0.48	-0.47 at 26/01	Bund 2y	-0.66	-0.65 at 25/02
Euribor 3M	-0.54	-0.53 at 07/05	Bund 10y	-0.14	-0.11 at 20/05
Euribor 12M	-0.48	-0.47 at 20/04	OAT 10y	0.17	0.23 at 17/05
\$ FED	0.25	0.25 at 01/01	Corp. BBB	0.76	0.79 at 20/05
Libor 3M	0.15	0.24 at 13/01	\$ Treas. 2y	0.15	0.17 at 05/04
Libor 12M	0.26	0.34 at 01/01	Treas. 10y	1.61	1.75 at 31/03
£ BoE	0.10	0.10 at 01/01	High Yield	4.64	4.87 at 09/03
Libor 3M	0.08	0.09 at 24/03	£ gilt. 2y	0.04	0.13 at 26/02
Libor 12M	0.16	0.17 at 13/05	gilt. 10y	0.84	0.93 at 13/05

At 24-5-21

## EXCHANGE RATES

1€ =	highest 21	lowest 21	2021
USD	1.22 at 06/01	1.17 at 30/03	-0.1%
GBP	0.86 at 06/01	0.85 at 05/04	-3.6%
CHF	1.10 at 04/03	1.08 at 18/01	+1.3%
JPY	132.88 at 18/05	125.22 at 18/01	+5.2%
AUD	1.58 at 04/01	1.53 at 18/03	-0.5%
CNY	7.86 at 01/01	7.69 at 25/03	-1.8%
BRL	6.49 at 03/03	6.32 at 07/05	+2.2%
RUB	89.80 at 20/04	86.53 at 16/03	-0.8%
INR	89.16 at 23/04	85.30 at 27/03	-0.3%

At 24-5-21

## COMMODITIES

Spot price, \$	highest 21	lowest 21	2021	2021(€)
Oil, Brent	66.5 at 11/03	51.2 at 04/01	+28.2%	+28.3%
Gold (ounce)	1 885 at 05/01	1 682 at 08/03	-0.7%	-0.6%
Metals, LME\$	4 200 at 11/05	3 415 at 01/01	+23.0%	+23.2%
Copper (ton)	9 929 at 11/05	7 749 at 01/01	+28.1%	+28.3%
wheat (ton)	248 at 07/05	231 at 30/03	+0.4%	+0.6%
Corn (ton)	263 at 07/05	188 at 04/01	+4.0%	+39.9%

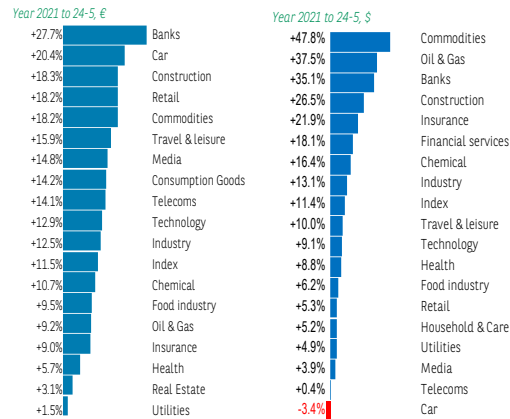
At 24-5-21

## EQUITY INDICES

Index	highest 21	lowest 21	2021
<b>World</b>			
MSCI World	2 966 at 07/05	2 662 at 29/01	+10.3%
<b>North America</b>			
S&P500	4 197 at 07/05	3 701 at 04/01	+11.7%
<b>Europe</b>			
EuroStoxx50	4 036 at 24/05	3 481 at 29/01	+13.6%
CAC 40	6 408 at 24/05	5 399 at 29/01	+1.5%
DAX 30	15 438 at 16/04	13 433 at 29/01	+12.5%
IBEX 35	9 206 at 24/05	7 758 at 29/01	+1.4%
FTSE100	7 052 at 07/05	6 407 at 29/01	+0.9%
<b>Asia</b>			
MSCI, loc.	1 113 at 18/03	1 044 at 06/01	+0.7%
Nikkei	28 365 at 16/02	27 056 at 06/01	+3.4%
<b>Emerging</b>			
MSCI Emerging (\$)	1 327 at 17/02	1 288 at 25/03	+0.3%
China	106 at 17/02	102 at 13/05	-2.6%
India	740 at 21/05	659 at 29/01	+9.4%
Brazil	1 875 at 14/01	1 561 at 09/03	+2.3%
Russia	741 at 18/05	647 at 01/02	+10.1%

At 24-5-21

## PERFORMANCE BY SECTOR (Eurostoxx50 & S&P500)

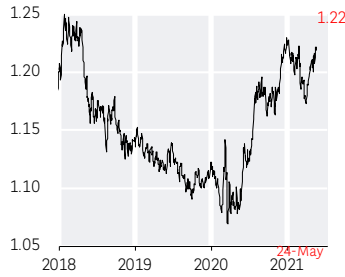


SOURCE: THOMSON REUTERS,

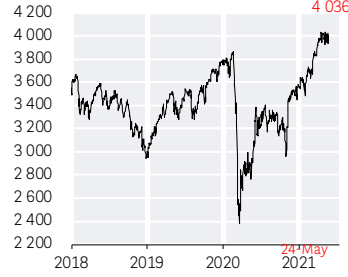


# MARKETS OVERVIEW

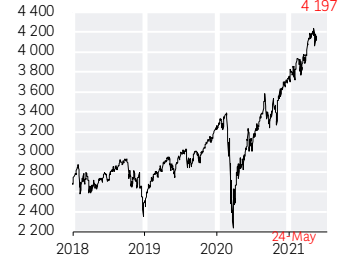
**EURO-DOLLAR**



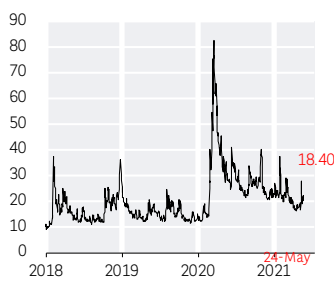
**EUROSTOXX50**



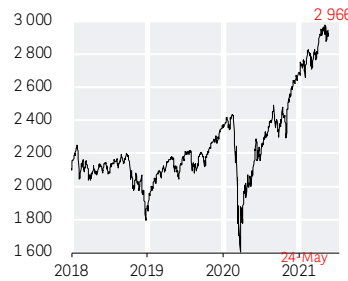
**S&P500**



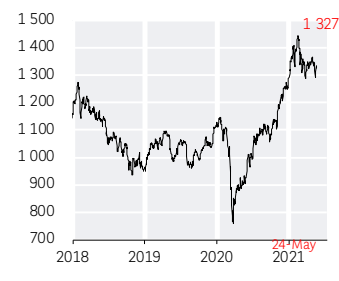
**VOLATILITY (VIX, S&P500)**



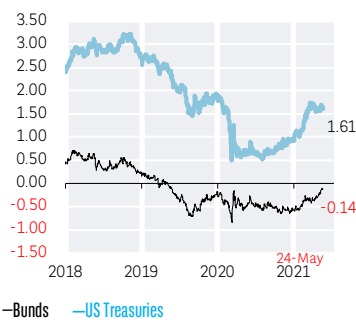
**MSCI WORLD (USD)**



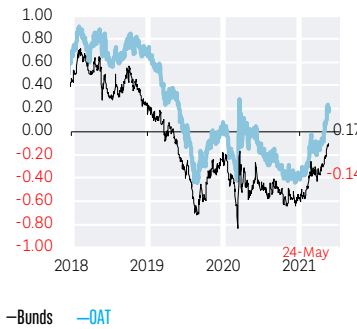
**MSCI EMERGING (USD)**



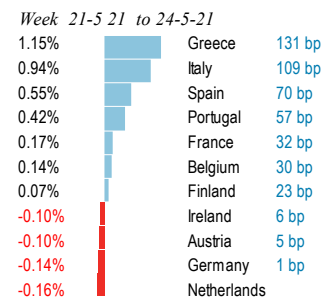
**10Y BOND YIELD, TREASURIES VS BUND**



**10Y BOND YIELD**



**10Y BOND YIELD & SPREADS**



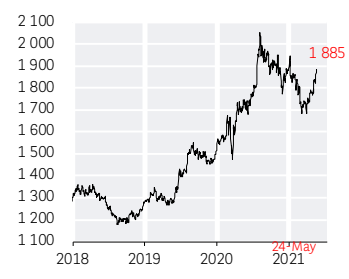
**OIL (BRENT, USD)**



**METALS (LMEX, USD)**



**GOLD (OUNCE, USD)**



SOURCE: THOMSON REUTERS,



# ECONOMIC PULSE

## EUROZONE: SETTLING IN TO RECOVERY

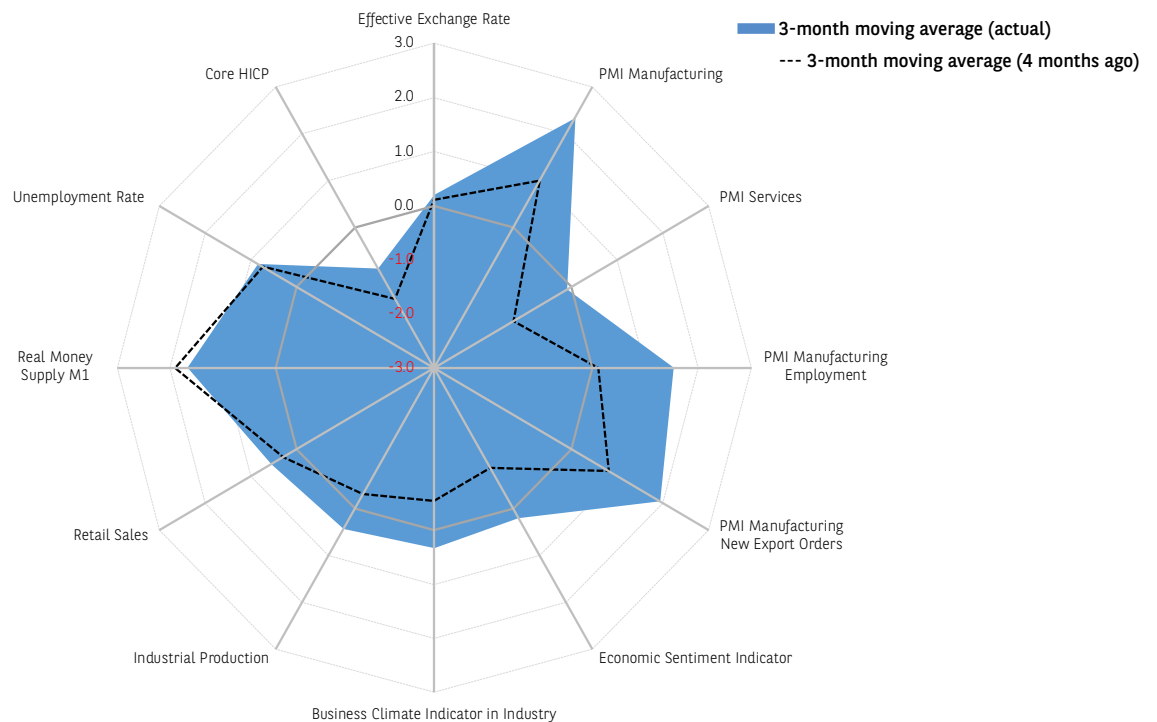
Since the start of the Covid-19 pandemic and the introduction of health protection measures, we have been stressing that only a swift and broad vaccination campaigns would allow economies to return to normal. This is what we are now seeing in most European countries. So far 32% of the European Union’s population have received a first dose of the vaccine. This aggregate figure is in line with that in France (31.5%), and below those in Germany (38%), Spain and Italy (both 33%). Although vaccine coverage in Europe still lags behind that in the United States (where nearly half of the population has had a first dose), and even further behind the UK (more than 50%), campaigns have accelerated in the continent since April.

This acceleration has fed through into the latest economic data available. As the chart shows, there has been a robust economic improvement in the eurozone over the last three months. Most notably, the Purchasing Managers Index (PMI), which offers a relatively accurate picture of the health of the economy, has continued to rise in manufacturing and is now well above its long-term average. Indeed, the manufacturing PMI has stabilized at a very high level in May 2021, at 62.8. This index was boosted mainly by the “new export orders” component, which

continues to benefit from the strength of global trade. Over the winter, the global trade in goods moved back above its pre-pandemic level, thus wiping out the heavy losses suffered in Q1 2020 in just six months. This good performance was in large part due to the early recovery in the Chinese economy, in terms of both exports and imports. One other notable insight from the PMI data, at a time when some fear an increase in eurozone unemployment, has been the improvement in the “employment” component. The services sector PMI, which had been particularly hard hit by health protection measures, moved back into expansionary territory (above 50) in April, and then moved further ahead, to 55.1, in May. This has been the highest level since mid-2018. This good news was driven by a marked improvement in consumer confidence in the eurozone, the index of which is now getting back to pre-pandemic levels. With still favourable financing conditions thanks to the monetary policy of the ECB, and assuming that fiscal policymakers will be careful not to withdraw support measures too abruptly, the eurozone could recover its losses faster than was being predicted just a few months ago.

**Louis Boisset**

### EUROZONE: QUARTERLY CHANGES



SOURCE: THOMSON REUTERS, BNP PARIBAS

The indicators in the radar are all transformed into ‘z-scores’ (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -3 and +3. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.



# ECONOMIC PULSE

## CHINA: MODERATION

According to the latest PMI numbers and economic data, growth in the Chinese economy has remained solid in the early part of Q2 2021, boosted in particular by exports. Activity in the domestic market lost a bit of steam in April, but is expected to bounce back again in the short term.

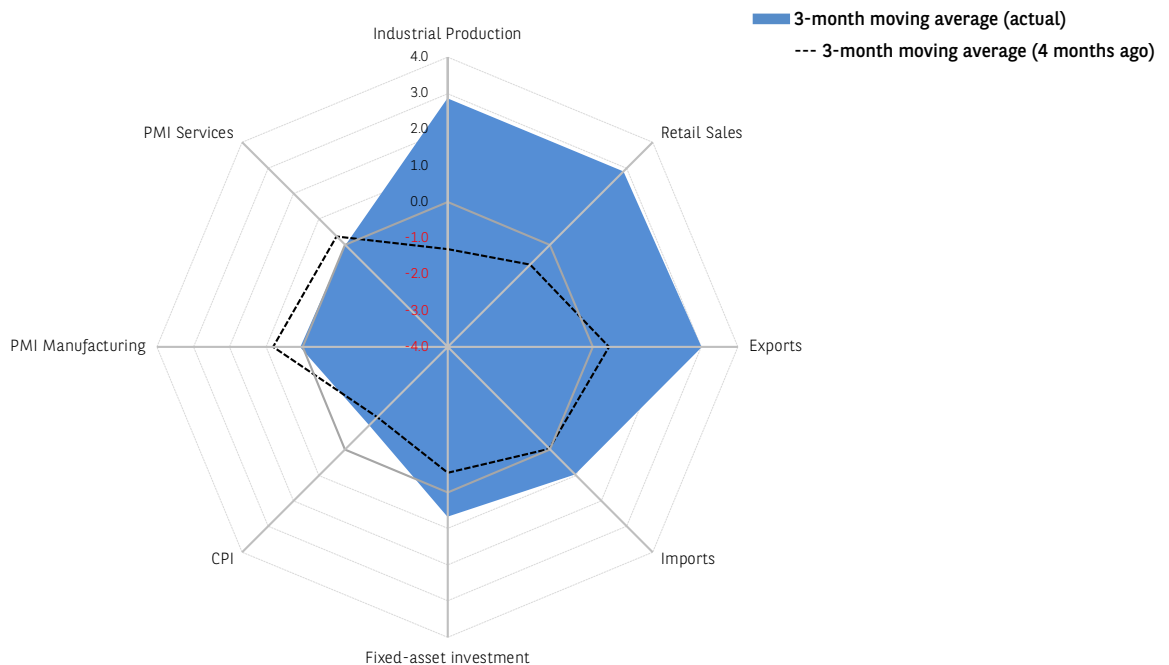
PMIs have fallen slightly since the beginning of 2021, relative to the final quarter of 2020, but remain in expansionary territory, both in the manufacturing sector (which had a Markit PMI score of 51.9 in April) and services (56.3). Our Pulse appears to suggest that the economic recovery gathered pace in February-April 2021 relative to the preceding three months (expansion of the blue region relative to the dotted region), for both industrial production and demand components. However, the read-out from the Pulse remains somewhat skewed: economic growth rates since the beginning of the year, measured on a year-on-year basis, continue to look abnormally high due to the still substantial base effects between the early months of 2020 (a period of lockdown) and the early months of 2021. Corrected for these effects, it looks as though activity in the domestic market did lose a bit of vigour in April.

As expected, industrial production growth, which has rallied strongly since Q2 2020, is gradually returning to normal: it went from 35.1% y/y in the first two months of 2021 to 9.8% in April (compared to 5.7% in 2019). In contrast, growth in the services sector and private consumption was much slower to recover last year, and then slowed in January and February 2021 (notably due to new restrictions on movement introduced in response to a rise in Covid-19 cases), before bouncing back again in March. This recovery had been expected to continue. However, growth in services and retail sales slowed slightly in April. This was a surprising outcome given the loosening of restrictions on movement since March and the solid increase in disposable household income.

This performance highlights the fragility of the recovery in consumer demand since last year. This said, private consumption and activity levels in services are expected to rally in the very short term. Labour market conditions continue to improve (the urban unemployment rate fell to 5.1% in April, matching its level in Q4 2019) and health risks are declining (although they still remain high) thanks to rapid control of new outbreaks of Covid-19 cases and the acceleration of the vaccination campaign.

**Christine Peltier**

### CHINA: QUARTERLY CHANGES



SOURCE: NBS, BNP PARIBAS

The indicators in the radar are all transformed into 'z-scores' (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -4 and +4. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.



# ECONOMIC PULSE

## EASING OF THE PANDEMIC AND GROWTH IN FOOTFALL TO RETAIL AND LEISURE FACILITIES

The Covid-19 pandemic continues to slow around the world. According to the latest figures from Johns Hopkins University, 4.4 million new cases were recorded around the world in the week of 12-18 May, a 16.2% drop on the previous week. The biggest fall came in Europe, with 23.1%, followed by Asia with 19.2%, but the trend was also visible in India (down 20%). Case numbers were also down in North America

(by 13.3%). By contrast, South America saw an 8.7% increase (chart 1). Vaccination campaigns also continued to gain ground around the world, most notably in the European Union, where a rapid acceleration was seen; 32.7% of the population has now received at least one vaccine dose, and all member states are above the symbolic threshold of 30% (chart 2).

As health protection measures are gradually relaxed, footfall to retail and leisure facilities continued to rise in the main developed economies. The biggest increase in the week from 7 to 14 May came in Belgium, with a rise of 17.1 points relative to the previous week. This took visit numbers from a rolling 7-day average of 28% below the benchmark level to 10.9% below\*. Over the same week, visit numbers gained 9 points in Germany, after a fall in the previous week. Italy and France both made further gains, with increases of 4.3 points and 2 points respectively. However, there was a sharp drop in Japan, where numbers fell by 11 points, from 8% to 19% below the benchmark (chart 3).

Finally, the OECD Weekly Tracker of annual GDP growth in the main advanced countries continued to weaken. This said, there have been recent improvements in this indicator in the UK, whilst in Belgium it has continued to rise (Chart 3). The OECD Tracker, which is based on Google Trends resulting from queries on consumption, the labour market, housing, industrial activity and uncertainty, should be interpreted cautiously since it reflects a base effect due to the comparison with poor data when the pandemic started to spread last 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)**

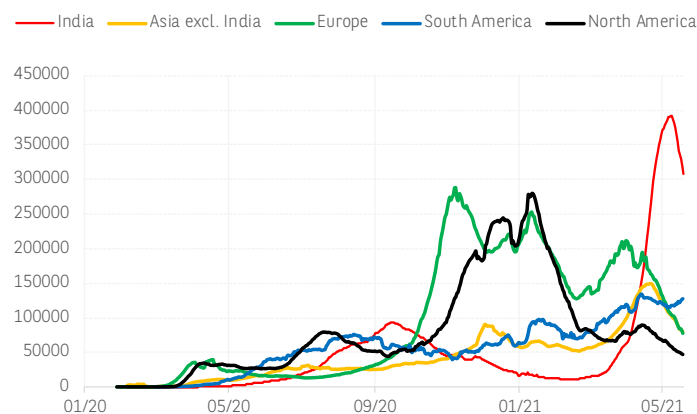


CHART 1

SOURCE: JOHNS-HOPKINS UNIVERSITY (05/19/2021), BNP PARIBAS

**SHARE OF PEOPLE WHO RECEIVED AT LEAST ONE DOSE OF VACCINE**

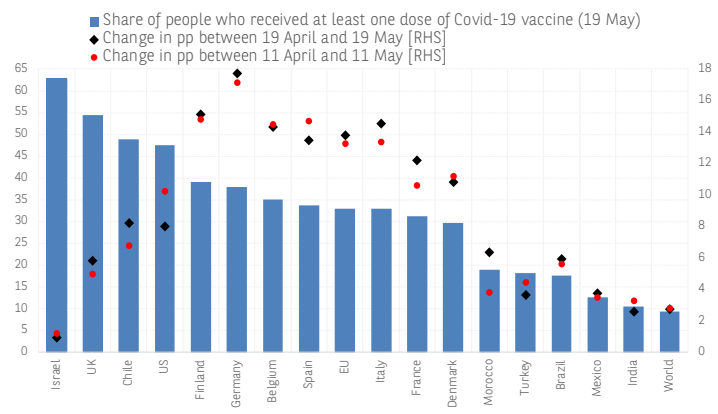


CHART 2

SOURCE: OUR WORLD IN DATA (05/20/2021), BNP PARIBAS

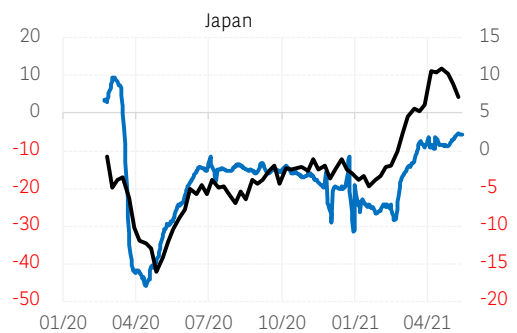
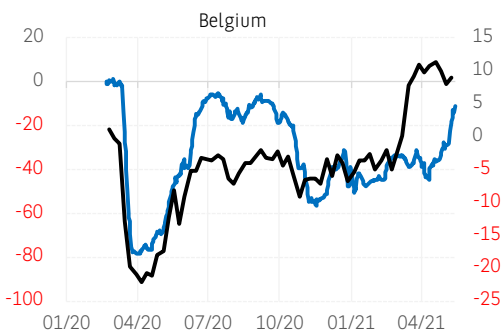
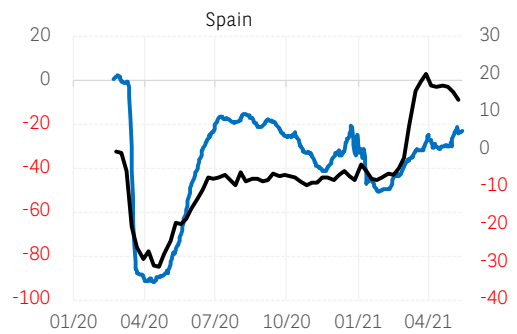
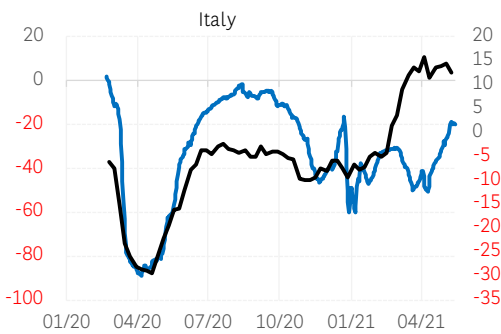
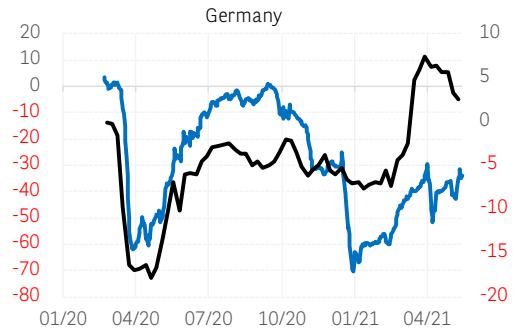
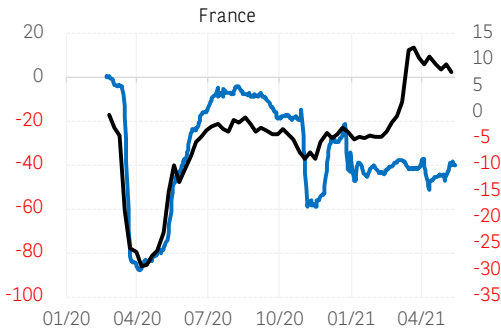
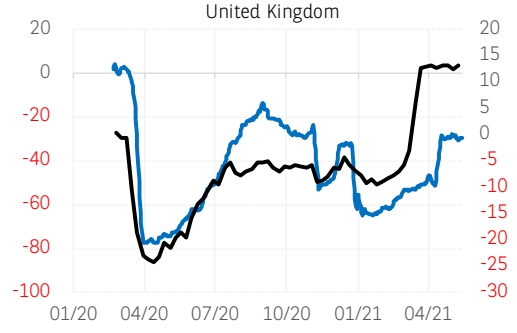
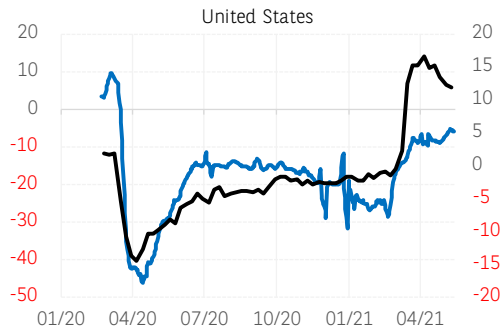




RETAIL AND RECREATION MOBILITY & OECD WEEKLY TRACKER

— Retail and recreation mobility (7-day moving average, % from baseline\*)

— OECD Weekly tracker, y/y GDP growth [RHS]



SOURCE: OECD (05/19/2021), GOOGLE (05/19/2021), BNP PARIBAS



# ECONOMIC SCENARIO

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## UNITED STATES

Having limited the damage in 2020, the US economy is now recovering fast, driven by a vaccination campaign that is steaming ahead and raising hopes of collective immunity to Covid-19 being achieved at some point in the summer. The economy has also benefited from the exceptional fiscal stimulus package, which is twice the size of that put in place after the financial crisis of 2008. As a result, US GDP growth will be close to 7% in 2021, opening the way to a rapid return to pre-crisis levels. The employment deficit remains significant as a result of the pandemic, but this should steadily be absorbed, opening the way to a rapid fall in the unemployment rate, which is expected to drop below the 5% mark in the second half. Expected inflation has risen sharply and is unlikely to fall back, particularly as reported inflation is picking up. Over the coming months the latter is likely to run well above the 2% target set by the Federal Reserve, but this will not cause the central bank to deviate from its accommodating stance.

## CHINA

After plummeting in Q1 2020, economic activity has experienced a V-shaped rebound since Q2. Economic growth will stay strong in 2021, still supported by industrial production and exports. Manufacturing investment growth should accelerate in the short term while investment growth in infrastructure and real estate projects is expected to slow. The growth recovery in the services sector and in private consumption has started later and been slower, but it should gain momentum in 2021. The authorities are expected to reduce very gradually their fiscal policy support measures and continue the cautious credit policy tightening, which was initiated in Q4 2020 in order to stabilize domestic debt-to-GDP ratios and contain risks in the financial system.

## EUROZONE

After an historic recession in 2020 (-6.8%, annual average), the Eurozone economy should firmly rebound this year (+4.2%), especially from the H2. In 2022, the economic recovery would be still on track with an economic growth of +5%. Globally, Eurozone GDP could reach its pre-crisis level faster than we expected before, around the middle of 2022. The current resurgence in the pandemic across many Member states and new health restrictions keep weighing on the dynamics of the recovery and uncertainties remain at a significant level. Nevertheless, the expected acceleration of vaccines rollout is the brightest spot for the economy in the months ahead. Also, in this still tricky situation, the policy-mix will remain accommodative to support the recovery. The European central bank has already announced a higher pace of assets purchases, helping to maintain very favorable financing conditions in the Eurozone. Over the coming months, one of the most important issues to focus on will be to restore consumers' confidence. This constitutes an essential vector of a prompt and sustained recovery.

## FRANCE

Contrary to what the discovery of vaccines at the end of 2020 suggested, i.e. the end of the stop-and-go activity, at the beginning of 2021, due to the appearance of variants and the slowness of vaccination, we are still on a trajectory of crisis exit in fits and starts. The capacity of the economy to rebound and the possibility of a vigorous rebound are not, as such, called into question; it is the timing of the rebound that has been postponed. It is now expected in H2 2021, bolstered by the acceleration of the immunization and the support of the policy-mix. For 2021 as a whole, growth would average 6.1%. This is a rather optimistic forecast, half a point above the March 2021 consensus. In 2022, growth would remain strong (4.4%). According to our scenario, French GDP would exceed its pre-crisis level in Q1 2022. Inflation is also expected to pick up, driven by temporary factors (commodity prices) but also by the more lasting influence of supply (constrained) and demand (rising) and the reflationary efforts of monetary policy.

## RATES AND EXCHANGE RATES

In the US, policy will remain on hold for quite some time, considering that the FOMC wants inflation to move beyond 2% to make up for past below-target inflation. Its

outcome-dependent guidance is very clear: the current pace of asset purchases will be maintained 'until substantial further progress has been made' toward reaching its goals in terms of maximum employment and inflation and the FOMC will signal well in advance when the economy is on a path warranting a change in policy. Although it expects an increase in inflation later this year, it considers it will be transient and limited. Treasury yields should continue to move higher on the back of fiscal stimulus and the prospect of a strong acceleration of economic growth.

In the eurozone, the ECB will maintain its very accommodative stance centered around its asset purchases and forward guidance, with the objective to generate a pick-up in inflation. The pandemic emergency purchase programme (PEPP) is to last at least until the end of March 2022. Nevertheless, bond yields are expected to move higher based on the acceleration of euro area growth, the reduction in uncertainty and the spillover effect of higher US Treasury yields. This should also lead to a slight increase in sovereign spreads in the euro area. The Bank of Japan is expected to maintain its current policy stance including its yield curve control strategy although the range of the latter has recently been widened to +/- 25 bp around 0%. Within this range, JGB yields are expecting to move higher, following the global trend. We expect the dollar to weaken slightly versus the euro. This is the result of conflicting forces: faster growth in the US than in the eurozone but narrow interest rate differentials at the short end of the curve and a dollar which at current levels is expensive compared to fair value. Concerning the yen, little change is expected versus the dollar whereas it is expected to weaken against the euro.

### GROWTH & INFLATION

%	GDP Growth				Inflation			
	2019	2020	2021 e	2022 e	2019	2020	2021 e	2022 e
United-States	2.2	-3.5	6.9	4.7	1.8	1.2	2.5	2.2
Japan	0.3	-4.8	3.0	2.3	0.5	0.0	-0.3	0.0
United-Kingdom	1.5	-10.2	6.1	6.0	1.8	0.9	1.4	2.1
Euro Area	1.3	-6.8	4.2	5.0	1.2	0.3	1.7	1.4
Germany	0.6	-5.3	3.0	4.8	1.4	0.4	2.1	1.5
France	1.5	-8.2	6.1	4.4	1.3	0.5	1.4	1.0
Italy	0.3	-8.9	5.0	3.9	0.6	-0.1	1.5	1.4
Spain	2.0	-10.8	5.9	5.6	0.8	-0.3	1.3	1.2
China	6.1	2.3	9.2	5.3	2.9	2.5	1.8	2.8
India*	4.2	-7.2	12.5	4.1	4.8	6.2	4.9	4.6
Brazil	1.1	-4.1	2.5	3.0	3.7	3.2	6.5	4.0
Russia	1.3	-4.5	4.0	3.0	4.3	3.4	5.1	4.0

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

### INTEREST & EXCHANGE RATES

Interest rates, %		2021					
End of period		Q1	Q2e	Q3e	Q4e	2021e	2022e
US	Fed Funds (upper limit)	0.25	0.25	0.25	0.25	0.25	0.25
	T-Notes 10y	1.75	2.00	2.10	2.20	2.20	2.50
Ezone	Deposit rate	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
	Bund 10y	-0.33	-0.20	-0.10	0.20	0.20	0.20
	OAT 10y	-0.11	0.00	0.15	0.50	0.50	0.50
	BTP 10y	0.63	0.70	0.90	1.35	1.35	1.30
UK	BONO 10y	0.34	0.45	0.60	0.95	0.95	1.00
	Base rate	0.10	0.10	0.10	0.10	0.10	0.10
Japan	Gilts 10y	0.88	1.00	1.10	1.20	1.20	1.30
	BoJ Rate	-0.04	-0.10	-0.10	-0.10	-0.10	-0.10
	JGB 10y	0.09	0.12	0.18	0.23	0.23	0.28
Exchange Rates		2021					
End of period		Q1	Q2e	Q3e	Q4e	2021e	2022e
USD	EUR / USD	1.18	1.18	1.20	1.23	1.23	1.18
	USD / JPY	111	111	111	111	111	114
	GBP / USD	1.38	1.39	1.43	1.46	1.46	1.42
EUR	EUR / GBP	0.85	0.85	0.84	0.84	0.84	0.83
	EUR / JPY	130	131	133	137	137	135

SOURCE: BNP PARIBAS GLOBAL MARKETS (E: ESTIMATES)



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## CALENDAR

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## LATEST INDICATORS

In China, data on production, investments and retail sales are still very much biased by a base effect -the comparison with data 12 month ago when the pandemic had just started- although in April this phenomenon was already less pervasive than in March. The numbers were more or less in line with expectations although retail sales were a bit weaker. The unemployment rate declined more than anticipated. In Japan, the contraction of GDP in Q1 turned out to be bigger than initially estimated. This is due to a decline in business spending, which in the earlier estimate was considered to have increased. The PMIs deteriorated. Data in the UK continue to improve, mostly beating expectations. Employment is on the rise, the trend in orders is up strongly, retail sales are up and consumer confidence is improving. The manufacturing PMI recorded a jump but the services PMI came in a bit below expectations. In the eurozone, employment in the first quarter declined slightly. Core inflation eased in April. The manufacturing PMI improved a bit more than expected but the big surprise came from services, which saw a big jump. Consumer confidence improved. In France, the PMIs were up, in particular in services. The German services PMI improved but the opposite happened with the manufacturing PMI. In the US, building permits grew less than anticipated and the decline in housing starts was far more severe than expected. The decline in the Philadelphia Fed business outlook was also larger than forecasted by the consensus. The manufacturing PMI rose further but the big, positive surprise came from the services PMI that recorded a big jump.

DATE	COUNTRY	INDICATOR	PERIOD	SURVEY	ACTUAL	PREVIOUS
05/17/2021	China	New Home Prices MoM	Apr	--	0.48%	0.41%
05/17/2021	China	Industrial Production YTD YoY	Apr	21.10%	20.30%	24.50%
05/17/2021	China	Fixed Assets Ex Rural YTD YoY	Apr	20.00%	19.90%	25.60%
05/17/2021	China	Property Investment YTD YoY	Apr	20.00%	21.60%	25.60%
05/17/2021	China	Surveyed Jobless Rate	Apr	5.20%	5.10%	5.30%
05/17/2021	China	Retail Sales YTD YoY	Apr	31.90%	29.60%	33.90%
05/17/2021	United States	NAHB Housing Market Index	May	83	83	83
05/18/2021	Japan	GDP SA QoQ	1Q	-1.10%	-1.30%	2.80%
05/18/2021	Japan	GDP Annualized SA QoQ	1Q	-4.50%	-5.10%	11.60%
05/18/2021	Japan	GDP Private Consumption QoQ	1Q	-1.90%	-1.40%	2.20%
05/18/2021	Japan	GDP Business Spending QoQ	1Q	0.80%	-1.40%	4.30%
05/18/2021	Japan	Inventory Contribution % GDP	1Q	0.20%	0.30%	-0.50%
05/18/2021	Japan	Net Exports Contribution % GDP	1Q	-0.20%	-0.20%	1.00%
05/18/2021	United Kingdom	ILO Unemployment Rate 3Mths	Mar	4.90%	4.80%	4.90%
05/18/2021	United Kingdom	Employment Change 3M/3M	Mar	50k	84k	-73k
05/18/2021	Eurozone	Employment QoQ	1Q	--	-0.30%	0.40%
05/18/2021	Eurozone	GDP SA QoQ	1Q	-0.60%	-0.60%	-0.60%
05/18/2021	United States	Building Permits MoM	Apr	0.60%	0.30%	1.70%
05/18/2021	United States	Housing Starts MoM	Apr	-2.00%	-9.50%	19.80%
05/18/21-05/24/21	United Kingdom	CBI Trends Total Orders	May	0.0	17.0	-8.0
05/18/21-05/24/21	United Kingdom	CBI Trends Selling Prices	May	--	38	27
05/19/2021	United Kingdom	CPI Core YoY	Apr	1.30%	1.30%	1.10%
05/19/2021	United Kingdom	PPI Output NSA MoM	Apr	0.40%	0.40%	0.80%
05/19/2021	United Kingdom	PPI Input NSA MoM	Apr	1.00%	1.20%	1.90%

SOURCE: BLOOMBERG



DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	ACTUAL	PREVIOUS
05/19/2021	Eurozone	EU27 New Car Registrations	Apr	--	218.60%	87.30%
05/19/2021	Eurozone	CPI YoY	Apr	1.60%	1.60%	1.30%
05/19/2021	Eurozone	CPI MoM	Apr	0.60%	0.60%	0.60%
05/19/2021	Eurozone	CPI Core YoY	Apr	0.80%	0.70%	0.80%
05/19/2021	United States	MBA Mortgage Applications	14-May	--	1.20%	2.10%
05/19/2021	United States	FOMC Meeting Minutes	28-Apr			
05/20/2021	Japan	Exports YoY	Apr	30.80%	38.00%	16.10%
05/20/2021	Japan	Core Machine Orders MoM	Mar	5.00%	3.70%	-8.50%
05/20/2021	United States	Philadelphia Fed Business Outlook	May	41.5	31.5	50.2
05/20/2021	United States	Initial Jobless Claims	15-May	450k	444k	478k
05/21/2021	United Kingdom	GfK Consumer Confidence	May	-12	-9	-15
05/21/2021	Japan	Natl CPI Ex Fresh Food, Energy YoY	Apr	-0.10%	-0.20%	0.30%
05/21/2021	Japan	Jibun Bank Japan PMI Mfg	May	--	52.5	53.6
05/21/2021	Japan	Jibun Bank Japan PMI Services	May	--	45.7	49.5
05/21/2021	Japan	Jibun Bank Japan PMI Composite	May	--	48.1	51.0
05/21/2021	United Kingdom	Retail Sales Ex Auto Fuel MoM	Apr	4.40%	9.00%	4.60%
05/21/2021	France	Markit France Manufacturing PMI	May	58.5	59.2	58.9
05/21/2021	France	Markit France Services PMI	May	53.0	56.6	50.3
05/21/2021	France	Markit France Composite PMI	May	53.7	57.0	51.6
05/21/2021	Germany	Markit/BME Germany Manufacturing PMI	May	65.9	64.0	66.2
05/21/2021	Germany	Markit Germany Services PMI	May	52.0	52.8	49.9
05/21/2021	Germany	Markit/BME Germany Composite PMI	May	57.1	56.2	55.8
05/21/2021	Eurozone	Markit Eurozone Manufacturing PMI	May	62.5	62.8	62.9
05/21/2021	Eurozone	Markit Eurozone Services PMI	May	52.5	55.1	50.5
05/21/2021	Eurozone	Markit Eurozone Composite PMI	May	55.1	56.9	53.8
05/21/2021	United Kingdom	Markit UK PMI Manufacturing SA	May	60.8	66.1	60.9
05/21/2021	United Kingdom	Markit/CIPS UK Services PMI	May	62.2	61.8	61.0
05/21/2021	United Kingdom	Markit/CIPS UK Composite PMI	May	61.9	62.0	60.7
05/21/2021	United States	Markit US Manufacturing PMI	May	60.2	61.5	60.5
05/21/2021	United States	Markit US Services PMI	May	64.3	70.1	64.7
05/21/2021	United States	Markit US Composite PMI	May	--	68.1	63.5
05/21/2021	Eurozone	Consumer Confidence	May	-6.5	-5.1	-8.1

SOURCE : BLOOMBERG



## CALENDAR: THE WEEK AHEAD

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## COMING INDICATORS

Several updates of first quarter GDP growth will be published this week but the focus will be on the survey data: IFO business climate and consumer confidence in Germany, business and consumer confidence in France, university of Michigan and Conference Board consumer confidence in the US. The highlight will be the European Commission's economic sentiment index and its subseries for May.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	PREVIOUS
05/25/2021	Germany	GDP SA QoQ	1Q	--	-1.70%
05/25/2021	Japan	Machine Tool Orders YoY	Apr	--	120.80%
05/25/2021	Germany	IFO Expectations	May	--	99.5
05/25/2021	Germany	IFO Current Assessment	May	--	94.1
05/25/2021	Germany	IFO Business Climate	May	--	96.8
05/25/2021	United States	New Home Sales MoM	Apr	-6.00%	20.70%
05/25/2021	United States	Conf. Board Consumer Confidence	May	120	121.7
05/25/2021	United States	Conf. Board Present Situation	May	--	139.6
05/25/2021	United States	Conf. Board Expectations	May	--	109.8
05/26/2021	Japan	Supermarket Sales YoY	Apr	--	1.30%
05/26/2021	France	Business Confidence	May	--	95
05/26/2021	France	Manufacturing Confidence	May	--	104
05/26/2021	France	Consumer Confidence	May	--	94
05/27/2021	Germany	GfK Consumer Confidence	Jun	--	-8.8
05/27/2021	United States	Cap Goods Orders Nondef Ex Air	Apr	--	1.20%
05/27/2021	United States	GDP Annualized QoQ	1Q	6.40%	6.40%
05/27/2021	United States	Initial Jobless Claims	May	--	--
05/27/21-06/02/21	Germany	Retail Sales MoM	Apr	--	7.70%
05/28/2021	Japan	Jobless Rate	Apr	--	2.60%
05/28/2021	Japan	Tokyo CPI Ex-Fresh Food	May	--	--
05/28/2021	France	Consumer Spending MoM	Apr	--	-1.10%
05/28/2021	France	CPI EU Harmonized MoM	May	--	0.20%
05/28/2021	France	GDP QoQ	1Q	--	0.40%
05/28/2021	Eurozone	Consumer Confidence	May	--	--
05/28/2021	Eurozone	Economic Confidence	May	--	110.3
05/28/2021	Eurozone	Industrial Confidence	May	--	10.7
05/28/2021	Eurozone	Services Confidence	May	--	2.1
05/28/2021	United States	Personal Income	Apr	-15.10%	21.10%
05/28/2021	United States	Personal Spending	Apr	0.40%	4.20%
05/28/2021	United States	PCE Core Deflator MoM	Apr	0.60%	0.40%
05/28/2021	United States	U. of Mich. Sentiment	May	82.9	82.8
05/28/2021	United States	U. of Mich. Current Conditions	May	--	90.8
05/28/2021	United States	U. of Mich. Expectations	May	--	77.6
05/28/2021	United States	U. of Mich. 1 Yr Inflation	May	--	4.60%
05/28/2021	United States	U. of Mich. 5-10 Yr Inflation	May	--	3.10%

SOURCE: BLOOMBERG



# FURTHER READING

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<a href="#">Global : International trade: world trade in goods reaches new heights</a>	EcoFlash	21 May 2021
<a href="#">France: start of the recovery and crisis exit strategy</a>	EcoTVWeek	21 May 2021
<a href="#">France: ECB rate has less of an impact on the remuneration of NFC sight accounts</a>	Chart of the Week	19 May 2021
<a href="#">Global : Serendipity lost? Working from home and innovation</a>	EcoWeek	17 May 2021
<a href="#">EcoTV - May 2021 issue</a>	EcoTV	12 May 2021
<a href="#">Recovery in France: slowed before it started?</a>	Chart of the Week	12 May 2021
<a href="#">US: Which insights from the 'great inflation' of the 1970s?</a>	EcoWeek	10 May 2021
<a href="#">The French labour market: outlook for 2021</a>	EcoFlash	10 May 2021
<a href="#">Italy: Why the country is once again attracting attention</a>	EcoTVWeek	7 May 2021
<a href="#">Central Europe: Return to pre-Covid GDP levels likely in 2021</a>	Chart of the Week	5 May 2021
<a href="#">US: the Biden infrastructure plan</a>	EcoFlash	4 May 2021
<a href="#">EcoWeek - May 3 issue</a>	EcoWeek	3 May 2021
<a href="#">Eurozone: Ongoing fiscal support</a>	EcoTVWeek	30 April 2021
<a href="#">French companies went into the pandemic in a strengthened financial position</a>	Chart of the Week	28 April 2021
<a href="#">EcoWeek - April 26 issue</a>	EcoWeek	26 April 2021
<a href="#">Israel: A mixed economic situation, but positive prospects</a>	EcoTVWeek	23 April 2021
<a href="#">Exports rebounded strongly in march 2021, supported by the global economic recovery</a>	Chart of the Week	21 April 2021
<a href="#">Eurozone : The upturn in inflation could be short-lived</a>	EcoFlash	19 April 2021
<a href="#">EcoWeek - April 19 issue</a>	EcoWeek	19 April 2021
<a href="#">EcoEmerging - April 2021 issue</a>	EcoEmerging	16 April 2021



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