

# ECOWEEK

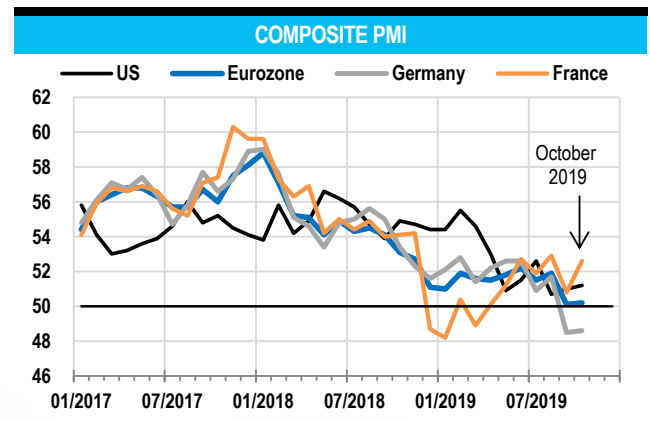
No. 19-39, 25 October 2019

## Uncertainty: peaking or just migrating?

■ The US-China trade conflict and Brexit have been acting as a headwind for growth for a considerable time now ■ Recent developments have raised expectations that these sources of uncertainty may have peaked ■ Should it turn out to be the case, this could spur spending by unleashing pent-up demand by companies or households ■ However, in an environment of slowing global growth and, quoting the IMF, a precarious outlook for next year, we probably will see a more limited reaction, with other sources of concern taking over from the previous ones: uncertainty may have peaked in certain areas, but is likely to migrate to other.

It is tempting to argue that uncertainty has peaked. After all, two weeks ago, US and Chinese negotiators have reached an interim agreement which hopefully will lead to the signing of a trade deal before the end of the year. Concerning Brexit, which has been a major source of uncertainty for business in the UK and in Europe, it now seems that the risk of a disorderly departure from the EU has declined quite significantly. However, in both cases, there are arguments to cool down our enthusiasm. The interim agreement between the US and China is limited in scope and, thus far, has simply avoided that tariffs would be increased further. It is doubtful that this would have any economic impact to speak of and attention will probably immediately shift to what happens next: more talks or more threats? On Brexit, the possibility of new elections has caused uncertainty to increase again. In case of an orderly departure, we will see a migration of uncertainty once the negotiations about the future relationship and its economic repercussions will be grabbing headlines.

Trade disputes and Brexit are sources of exogenous uncertainty. They are distinct from the usual cyclical developments but they can severely weigh on growth. Major growth slowdowns like the one that we have been experiencing globally since last year, generate endogenous uncertainty. Doubts creep in about the validity of business plans and growth assumptions or about how bad things could turn out to be. As such, it is inherently linked to the business cycle. Exogenous uncertainty, via its negative impact on domestic and/or external demand can reinforce the endogenous uncertainty. One would assume that a reduction in exogenous uncertainty would spur spending and reduce doubts about the growth outlook, e.g. by unleashing pent-up demand: to the extent that companies have simply put investment plans on hold, they might eventually decide to implement them after all when visibility has improved. At the current juncture, they will probably not be in a rush however: global growth is slowing, the IMF describes next year's outlook as precarious, survey data for the manufacturing sector have dropped to very low levels in many countries and the services sector has ended up being impacted as well. In this respect, the stabilisation of the flash composite PMIs for October in the US, the eurozone and Germany and the ifo climate in the latter is welcome news, but their levels are low or, in Germany's case, very low. France, which saw an increase of the composite index is a welcome exception. Another development to be closely monitored is the Conference Board's index of leading indicators for the US, which has been declining for two months in a row, albeit it to a very limited extent. To conclude, uncertainty may have peaked in some areas but will quite likely migrate to others with economic agents trying to understand what is the true state of the global economy.



Source: IHS Markit, BNP Paribas

William De Vijlder

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Revue des marchés

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**Eco**  
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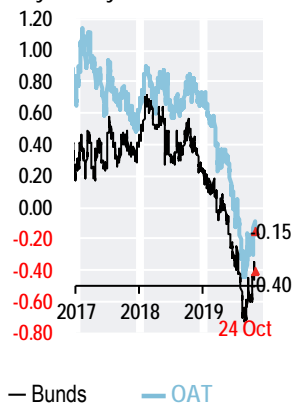
## Markets overview

### The essentials

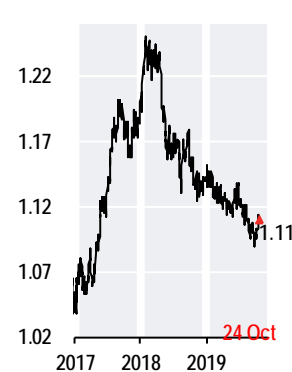
Week 18-10-19 > 24-10-19

➔ CAC 40	5 636	➔ 5 684	+0.9 %
➔ S&P 500	2 986	➔ 3 010	+0.8 %
↘ Volatility (VIX)	14.3	➔ 13.7	-0.5 pb
➔ Euribor 3M (%)	-0.41	➔ -0.40	+0.3 bp
↘ Libor \$ 3M (%)	1.95	➔ 1.94	-1.4 bp
↘ OAT 10y (%)	-0.12	➔ -0.15	-3.1 bp
↘ Bund 10y (%)	-0.39	➔ -0.40	-1.5 bp
➔ US Tr. 10y (%)	1.75	➔ 1.77	+1.6 bp
↘ Euro vs dollar	1.11	➔ 1.11	-0.3 %
➔ Gold (ounce, \$)	1 490	➔ 1 502	+0.8 %
➔ Oil (Brent, \$)	59.6	➔ 61.5	+3.3 %

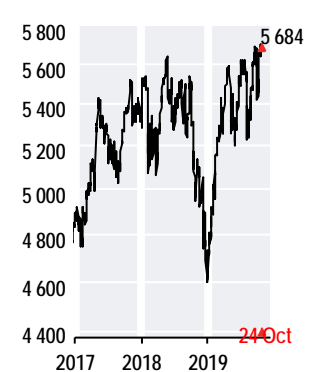
10y bond yield, OAT vs Bund



Euro-dollar



CAC 40



### Money & Bond Markets

Interest Rates	highest' 19	lowest' 19
€ ECB	0.00 at 01/01	0.00 at 01/01
Eonia	-0.46 at 07/06	-0.25 at 03/10
Euribor 3M	-0.40 at 24/01	-0.31 at 03/09
Euribor 12M	-0.29 at 06/02	-0.11 at 21/08
\$ FED	2.50 at 01/01	2.00 at 19/09
Libor 3M	2.81 at 01/01	2.00 at 21/10
Libor 12M	3.04 at 21/01	1.85 at 04/10
£ BoE	0.75 at 01/01	0.75 at 01/01
Libor 3M	0.80 at 29/01	0.75 at 29/09
Libor 12M	1.19 at 11/01	0.81 at 03/09

At 24-10-19

Yield (%)	highest' 19	lowest' 19
€ AVG 5-7y	-0.12 at 09/01	-0.36 at 03/09
Bund 2y	-0.66 at 05/03	-0.53 at 02/09
Bund 10y	0.25 at 01/01	-0.72 at 28/08
OAT 10y	0.73 at 08/01	-0.44 at 28/08
Corp. BBB	2.15 at 08/01	0.64 at 30/08
\$ Treas. 2y	2.62 at 18/01	1.39 at 03/10
Treas. 10y	2.78 at 18/01	1.46 at 04/09
Corp. BBB	4.65 at 01/01	3.15 at 04/09
£ Treas. 2y	0.83 at 27/02	0.31 at 08/10
Treas. 10y	1.35 at 18/01	0.33 at 03/09

At 24-10-19

10y bond yield & spreads

1.76%	Greece	216 pb
0.91%	Italy	131 pb
0.25%	Spain	65 pb
0.19%	Portugal	59 pb
-0.12%	Belgium	28 pb
-0.15%	France	25 pb
-0.17%	Austria	23 pb
-0.17%	Finland	23 pb
-0.21%	Ireland	19 pb
-0.28%	Netherland	12 pb
-0.40%	Germany	

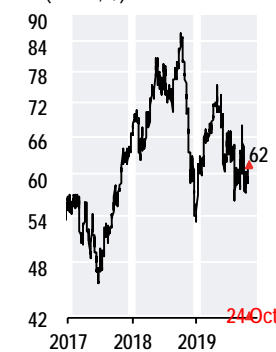
### Commodities

Spot price in dollars	lowest' 19	2019(€)
Oil, Brent	53.1 at 01/01	+19.2%
Gold (ounce)	1 268 at 02/05	+20.7%
Metals, LMEX	2 718 at 07/08	+3.3%
Copper (ton)	5 585 at 03/09	+1.5%
CRB Foods	312 at 11/09	+5.3%
wheat (ton)	166 at 30/08	-1.9%
Corn (ton)	128 at 24/04	+12.2%

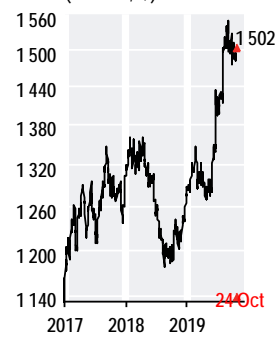
At 24-10-19

Variations

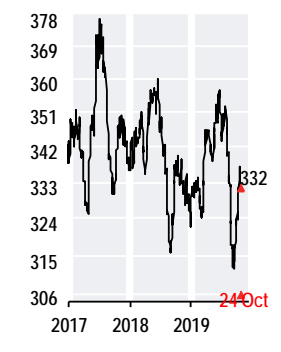
Oil (Brent, \$)



Gold (Ounce, \$)



CRB Foods



### Exchange Rates

1€ =	highest' 19	lowest' 19	2019
USD	1.15 at 10/01	1.09 at 30/09	-2.9%
GBP	0.93 at 12/08	0.85 at 14/03	-3.7%
CHF	1.14 at 23/04	1.08 at 04/09	-2.3%
JPY	127.43 at 01/03	116.08 at 03/09	-3.9%
AUD	1.66 at 07/08	1.57 at 18/04	+0.2%
CNY	7.96 at 27/08	7.51 at 25/04	+0.0%
BRL	4.63 at 27/08	4.18 at 31/01	+0.4%
RUB	79.30 at 01/01	70.22 at 24/09	-10.3%
INR	82.00 at 04/02	76.37 at 01/08	-1.2%

At 24-10-19

Variations

### Equity indices

Index	highest' 19	lowest' 19	2019	2019(€)
CAC 40	5 702 at 15/10	4 611 at 03/01	+20.2%	+20.2%
S&P500	3 026 at 26/07	2 448 at 03/01	+20.1%	+23.6%
DAX	12 872 at 24/10	10 417 at 03/01	+21.9%	+21.9%
Nikkei	22 751 at 24/10	19 562 at 04/01	+13.7%	+18.3%
China*	86 at 09/04	68 at 03/01	+9.0%	+11.9%
India*	612 at 03/06	526 at 22/08	+3.6%	+4.8%
Brazil*	2 227 at 10/07	1 862 at 17/05	+18.4%	+17.9%
Russia*	754 at 24/10	572 at 01/01	+23.1%	+35.7%

At 24-10-19

Variations

\* MSCI index

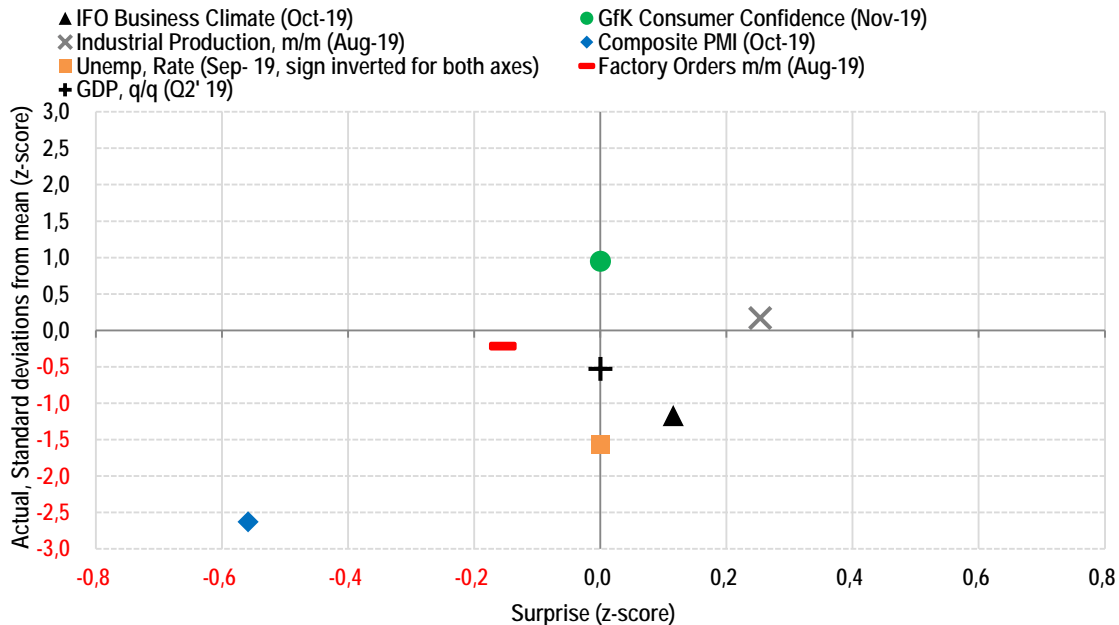


## Pulse

### Germany: A ray of hope?

After months of negative surprises, some indicators of the Pulse have migrated to the right hand side of the chart. In particular, the ifo business climate index stabilised in October, whereas the market had expected a further decline. Both ifo and pmi surveys signal a slight improvement in sentiment in manufacturing, although the indices remained deep in contraction territory. This is also confirmed by the continuing weakness of orders in August. Hence, the slight pick-up of industrial activity in that month was probably a statistical blip.

The main risk for the economy is that the negative news feed from the export-oriented manufacturing sector is spreading to the domestic economy. GfK reports that consumers are getting more negative about the economy which is also dampening income expectations and their propensity to buy. As a result, consumer confidence is set to decline in November.



### Indicators preview

Next week is very important with the meeting of the FOMC and a possible decision of another rate cut, as well as the publication of key data such as the labour market numbers in the US and the ISM index. In addition we will also have the first estimate for third quarter GDP growth in the US, the eurozone and France. Important surveys will be published covering the month of October: purchasing managers' indices, consumer confidence (France, US, UK), eurozone economic confidence. Finally, the Bank of Japan will also meet.

Date	Country/Region	Event	Period	Survey	Prior
10/28/2019	United States	Advanced Goods Trade Balance	Sep	-7.35e+10	-7.28e+10
10/29/2019	France	Consumer Confidence	Oct	--	104
10/29/2019	United States	Conf. Board Consumer Confidence	Oct	--	125.1
10/30/2019	Japan	Retail Sales MoM	Sep	--	4.8%
10/30/2019	France	GDP QoQ	3Q P	--	0.3%
10/30/2019	Germany	Unemployment Change (000's)	Oct	--	-10000
10/30/2019	Eurozone	Economic Confidence	Oct	--	101.7
10/30/2019	United States	GDP Annualized QoQ	3Q A	--	2.0%
10/30/2019	Germany	CPI EU Harmonized MoM	Oct P	--	-0.1%
10/30/2019	United States	FOMC Rate Decision (Upper Bound)	oct-30	2.00%	2.00%
10/31/2019	Japan	Industrial Production MoM	Sep P	--	-1.2%
10/31/2019	United Kingdom	GfK Consumer Confidence	Oct	--	-12
10/31/2019	China	Composite PMI	Oct	--	53.1
10/31/2019	France	CPI EU Harmonized MoM	Oct P	--	-0.4%
10/31/2019	Eurozone	Unemployment Rate	Sep	--	7.4%
10/31/2019	Eurozone	GDP SA QoQ	3Q A	--	0.2%
10/31/2019	Japan	BOJ Policy Balance Rate	oct-31	--	-0.100%
11/01/2019	China	Caixin China PMI Mfg	Oct	--	51.4
11/01/2019	United States	Change in Nonfarm Payrolls	Oct	130000	136000
11/01/2019	United States	Unemployment Rate	Oct	3.6%	3.5%
11/01/2019	United States	ISM Manufacturing	Oct	--	47.8

Source: Bloomberg, BNP Paribas



## Economic scenario

### UNITED STATES

- Growth is slowing and this trend is expected to continue under the influence of corporate investment (slower profits growth, uncertainty) and housing (declining trend of affordability). Consumer spending should be more resilient. The trade dispute with China acts as an additional drag. Inflation is expected to decline, due to softer growth and weaker oil prices.
- We expect two more Fed Funds target rate cuts of 25bp this year and two additional cuts in 2020.

### CHINA

- Economic growth continues to slow and our GDP forecasts have been revised down since June. Industrial activity and exports have been hard hit by US tariff hikes. Domestic demand has also decelerated.
- The central bank is easing liquidity and credit conditions, though the reduction in financial-instability risks should remain a priority and banks seem to remain prudent. Fiscal policy is expansionary through increased infrastructure spending and a rising number of household/corporate tax cuts.
- In the short term, exports and private domestic investment should continue to decelerate. Tax measures should have some success in supporting consumer spending.

### EUROZONE

- The economic slowdown is continuing in the eurozone, especially in Germany, due to notably international environment uncertainties and a slowdown of the Chinese economy. Activity in the manufacturing sector continues to decline but services still show resilience.
- Inflation is now expected to decrease while core CPI is hardly moving. The activity slowdown also implies that the pick-up in core inflation should be slower than expected until recently.
- Faced with an outlook of subdued inflation, the Governing Council has eased policy at its meeting on 12 September. This very accommodative environment will be maintained as long as inflation hasn't converged sufficiently, in a convincing and lasting way, towards the ECB's objective.

### FRANCE

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

### INTEREST RATES AND FX RATES

- In the US, we expect the Fed to cut its official rate in October and December in reaction to a slowing economy, moderate inflation and heightened uncertainty. 2020 should see two more cuts. Treasury yields are to decline further in the coming months. Eventually, in the course of 2020 they should move up again in anticipation of a pick-up in growth.
- In the eurozone, the ECB's state-dependent forward guidance and the sluggishness of the inflation process imply that the very accommodative environment will remain in place for a long time. This will exert downward pressure on bond yields.
- No policy rate change expected in Japan.
- With the Fed in easing mode and given the very accommodative ECB policy, we expect little change in EUR/USD even though euro's fair value is quite higher than current pricing. The yen should strengthen on the back of stable BoJ policy and high market volatility.

%	GDP Growth			Inflation		
	2018	2019 e	2020 e	2018	2019 e	2020 e
<b>Advanced</b>	<b>2.2</b>	<b>1.6</b>	<b>1.0</b>	<b>2.1</b>	<b>1.4</b>	<b>1.3</b>
United-States	2.9	2.2	1.5	2.4	1.8	1.8
Japan	0.8	1.2	0.2	1.0	0.6	0.3
United-Kingdom	1.4	1.1	0.6	2.5	1.9	1.8
<b>Euro Area</b>	<b>1.9</b>	<b>1.1</b>	<b>0.7</b>	<b>1.8</b>	<b>1.1</b>	<b>0.8</b>
Germany	1.4	0.4	0.2	1.9	1.4	1.0
France	1.7	1.2	1.0	2.1	1.2	1.0
Italy	0.7	0.1	0.0	1.2	0.6	0.5
Spain	2.6	2.2	1.6	1.7	0.8	0.7
<b>Emerging</b>	<b>4.4</b>	<b>3.8</b>	<b>4.2</b>	<b>4.7</b>	<b>4.8</b>	<b>4.5</b>
China	6.6	5.9	5.6	2.1	2.4	2.8
India*	6.8	6.5	6.3	2.9	3.0	3.3
Brazil	1.1	0.5	2.0	3.7	3.7	3.5
Russia	2.3	1.2	2.0	2.9	4.8	3.8

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

\* Fiscal year from April 1st of year n to March 31st of year n+1

Interest rates, %		2019				2018	2019e	2020e
End of period		Q1	Q2	Q3	Q4e			
US	Fed Funds	2.50	2.50	2.00	1.50	2.50	1.50	1.00
	Libor 3m \$	2.60	2.32	2.09	1.70	2.81	1.70	1.25
	T-Notes 10y	2.42	2.00	1.67	1.00	2.69	1.00	1.50
Ezone	deposit rate	-0.40	-0.40	-0.50	-0.60	-0.40	-0.60	-0.60
	Euribor 3m	-0.31	-0.35	-0.42	-0.60	-0.31	-0.60	-0.60
	Bund 10y	-0.07	-0.32	-0.57	-0.80	0.25	-0.80	-0.50
	OAT 10y	0.26	-0.01	-0.28	-0.55	0.71	-0.55	-0.30
UK	Base rate	0.75	0.75	0.75	0.75	0.75	0.75	0.75
	Gilts 10y	1.00	0.84	0.40	0.55	1.27	0.55	0.75
Japan	BoJ Rate	-0.06	-0.08	-0.06	-0.10	-0.07	-0.10	-0.10
	JGB 10y	-0.09	-0.16	-0.22	-0.40	0.00	-0.40	-0.25

Source : BNP Paribas GlobalMarkets (e: Forecasts)

Exchange Rates		2019				2018	2019e	2020e
End of period		Q1	Q2	Q3	Q4e			
USD	EUR / USD	1.12	1.14	1.09	1.11	1.14	1.11	1.14
	USD / JPY	111	108	108	102	110	102	96
	GBP / USD	1.30	1.27	1.23	1.23	1.27	1.23	1.36
	USD / CHF	1.00	0.98	1.00	0.99	0.99	0.99	1.00
EUR	EUR / GBP	0.85	0.89	0.89	0.90	0.90	0.90	0.84
	EUR / CHF	1.12	1.11	1.09	1.10	1.13	1.10	1.14
	EUR / JPY	124	123	118	113	125	113	109

Source : BNP Paribas GlobalMarkets (e: Forecasts)



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