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ECONOMIC RESEARCH



BNP PARIBAS

The bank
for a changing
world

THE NEW MEANING OF 'WHATEVER IT TAKES'

At the Jackson Hole symposium, Fed chair Powell and Banque de France governor Villeroy de Galhau have insisted that their responsibility to deliver price stability is unconditional. It gives a new meaning to 'whatever it takes'. Faced with uncertainty about the persistence of elevated inflation, the Federal Reserve and the ECB will increase their policy rates to bring inflation under control, whatever the short-run cost to the economy, because not doing enough now would entail an even bigger economic cost subsequently. Equity markets declined and bond yields moved higher. Tighter financial conditions will help the monetary tightening in achieving the desired slowdown in growth. To what extent this is reflected in the inflation dynamics to a large degree will depend on what happens to the supply side, which is beyond the control of central banks.

When giving a speech, it is recommended to be succinct if you want your message to be understood easily. Since becoming chair of the Federal Reserve, the average length, until 2021, of the remarks of Jerome Powell at the annual Jackson Hole symposium has been 17 pages. This year, it was a mere 6 pages (chart 1) and the tone was set right from the start: "Today, my remarks will be shorter, my focus narrower, and my message more direct."¹ Concerning the message, it's difficult to be clearer: "Our responsibility to deliver price stability is unconditional." This implies that monetary policy will be tightened, for as much and as long as necessary.

Interestingly, similar words appeared in the speech of Banque de France governor François Villeroy de Galhau at Jackson Hole: "But have no doubt that we at the ECB would if needed raise rates further beyond normalization: bringing inflation back to 2 % is our responsibility; our will and our capacity to deliver on our mandate are unconditional."²

By insisting on the unconditional nature of monetary tightening, the Federal Reserve is signaling that price stability – bringing inflation back to target – is now more important than its other longer run goals of promoting maximum employment and moderate long-term interest rates. The rationale is that not doing enough to bring inflation back under control in the short run would in the longer run have a detrimental impact on growth and cause an increase in bond yields due to higher inflation expectations. These points were also emphasized by ECB executive board member Isabel Schnabel at Jackson Hole, adding that the "risks of a de-anchoring of inflation expectations are rising".³

1. Source: Monetary Policy and Price Stability, Remarks by Jerome H. Powell, Chair Board of Governors of the Federal Reserve System at "Reassessing Constraints on the Economy and Policy," an economic policy symposium sponsored by the Federal Reserve Bank of Kansas City, Jackson Hole, Wyoming, 26 August 2022.

2. Source: Monetary Policy Post-Pandemic: Balancing between Science and Art, Predictability and Reactivity, Speech by François Villeroy de Galhau, Governor of the Banque de France, Jackson Hole Economic Symposium, 27 August 2022.

3. In the euro area, consumers' medium-term inflation expectations, which were at 2% during the pandemic, have increased to 3% (median value) or almost 5% (average value). Moreover, looking at the frequency distribution of inflation forecasts of consumers and professional forecasters, one observes an increase in the right tail. Finally, inflation expectations have increased more amongst people that are financially more literate.

More rate hikes are needed, in the US as well as in the euro area, because the expected evolution of the inflation drivers won't be sufficient. This point was made in the minutes of the July FOMC meeting. Lower commodity prices would help but they might rebound, whereas "improvements in supply would be helpful but by themselves could not be relied on to resolve the supply and demand imbalances in the economy sufficiently rapidly."⁴ According to Isabel Schnabel, "even if we entered a recession, it's quite unlikely that inflationary pressures will abate by themselves... The growth slowdown is then probably not sufficient to dampen inflation."⁵ An implication is that in the conduct of monetary policy, the distinction between demand and supply shocks in

4. Source: Federal Reserve, FOMC Minutes of the meeting of 26-27 July 2022.

5. Source: Interview of Isabel Schnabel, Member of the Executive Board of the ECB, with Reuters on 16 August 2022.

LENGTH OF CHAIR POWELL'S REMARKS AT THE JACKSON HOLE SYMPOSIUM

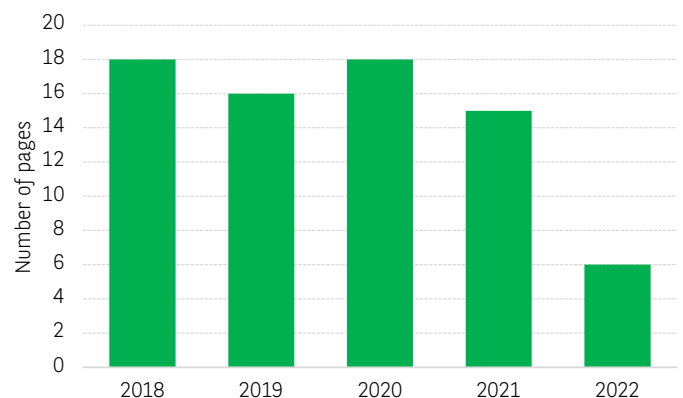


CHART 1

SOURCE: FEDERAL RESERVE

“Whatever it takes’ has a new meaning. Official interest rates will be increased to bring inflation under control, whatever the short-run cost to the economy, because not doing enough now would entail an even bigger economic cost subsequently.



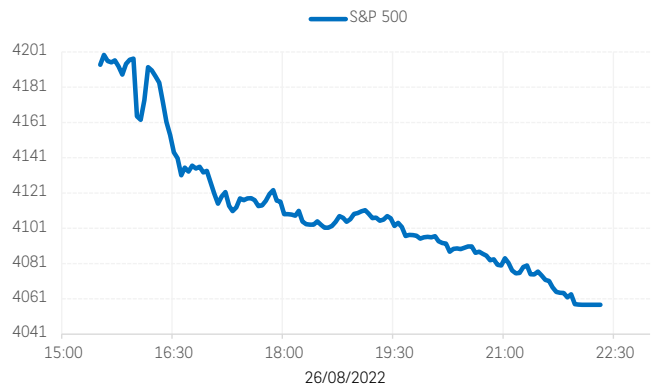
explaining the increase in inflation no longer plays a role. Previously, this distinction was made based on the view that the inflationary consequences of a negative supply shock – e.g. an increase in commodity prices – should be temporary. Powell acknowledged at Jackson Hole that high inflation reflected strong demand and constrained supply but waiting for supply to increase – reduced bottlenecks, shorter delivery times, etc. – is not an option given the current level of inflation and its expected path in the absence of a tighter monetary policy.

Schnabel was even more outspoken. She considers that in the current environment of uncertainty about the persistence of elevated inflation “it is largely irrelevant whether inflation is driven by supply or demand.” The risk of high inflation becoming persistent also implies that central banks will have to be confident of having won the fight against inflation before envisaging a change in policy. According to Powell, “the historical record cautions strongly against prematurely loosening policy.” Schnabel is aligned with this view: “Policymakers should also not pause at the first sign of a potential turn in inflationary pressures, such as an easing of supply chain disruptions. Rather, they need to signal their strong determination to bring inflation back to target quickly.”

All this implies that ‘whatever it takes’ has taken on a new meaning⁶: rates will be increased to bring inflation under control, whatever the short-run cost to the economy, because not doing enough now would entail an even bigger economic cost subsequently. Unsurprisingly, markets reacted strongly to these statements (charts 2 and 3). On Friday 26th, US Treasury yields jumped and equities dropped in reaction to Powell’s remarks, although later that day, yields drifted lower. Schnabel and Villeroy de Galhau made their comments on Saturday 27th, triggering a huge jump in bond yields on Monday. Central banks should welcome this. Tighter financial conditions will help the monetary tightening in achieving the desired slowdown in growth. To what extent this is reflected in the inflation dynamics to a large degree will depend on what happens to the supply side, which is beyond the control of central banks.

William De Vijlder

INTRADAY*



*J.Powell gave his speech on 26 August at 16:00 CEST.

CHARTS 2 & 3

SOURCE: BLOOMBERG, BNP PARIBAS

6. The ‘old’ meaning of ‘whatever it takes’ refers to the speech of Mario Draghi on 26 July 2012 during the euro area sovereign debt crisis: “Within our mandate, the ECB is ready to do whatever it takes to preserve the euro. And believe me, it will be enough.” Source: ECB.



MARKETS OVERVIEW

OVERVIEW

Week 19-8-22 to 26-8-22

📉 CAC 40	6 496	▶ 6 274	-3.4 %
📉 S&P 500	4 228	▶ 4 058	-4.0 %
↔ Volatility (VIX)	20.6	▶ 25.6	+5.0 pb
↔ Euribor 3M (%)	0.43	▶ 0.54	+11.2 bp
↔ Libor \$ 3M (%)	2.96	▶ 3.07	+11.2 bp
↔ OAT 10y (%)	1.56	▶ 1.76	+20.1 bp
↔ Bund 10y (%)	1.18	▶ 1.33	+14.9 bp
↔ US Tr. 10y (%)	3.00	▶ 3.05	+4.7 bp
📉 Euro vs dollar	1.00	▶ 1.00	-0.2 %
📉 Gold (ounce, \$)	1 750	▶ 1 737	-0.7 %
↔ Oil (Brent, \$)	96.8	▶ 101.1	+4.4 %

MONEY & BOND MARKETS

Interest Rates

		highest 22	lowest 22	Yield (%)	highest 22	lowest 22
€ ECB	0.50	0.50 at 27/07	0.00 at 03/01	€ AVG 5-7y	1.70	2.21 at 15/06
Eonia	-0.51	-0.51 at 03/01	-0.51 at 03/01	Bund 2y	0.86	1.02 at 14/06
Euribor 3M	0.54	0.54 at 26/08	-0.58 at 05/01	Bund 10y	1.33	1.76 at 21/06
Euribor 12M	1.48	1.48 at 25/08	-0.50 at 05/01	OAT 10y	1.76	2.17 at 21/06
\$ FED	2.50	2.50 at 28/07	0.25 at 03/01	Corp. BBB	3.63	4.02 at 21/06
Libor 3M	3.07	3.07 at 26/08	0.21 at 03/01	\$ Treas. 2y	3.37	3.43 at 14/06
Libor 12M	4.12	4.12 at 26/08	0.58 at 03/01	Treas. 10y	3.05	3.48 at 14/06
£ BoE	1.75	1.75 at 04/08	0.25 at 03/01	High Yield	8.22	9.09 at 30/06
Libor 3M	2.42	2.42 at 26/08	0.26 at 03/01	£ gilt. 2y	2.94	3.08 at 24/08
Libor 12M	0.81	0.81 at 03/01	0.81 at 03/01	£ gilt. 10y	2.60	2.70 at 24/08

At 26-8-22

At 26-8-22

EXCHANGE RATES

1€ =		highest 22	lowest 22	2022	Change
USD	1.00	1.15 at 10/02	1.00 at 22/08	-11.9%	
GBP	0.85	0.87 at 14/06	0.83 at 14/04	+1.2%	
CHF	0.96	1.06 at 10/02	0.96 at 22/08	-6.9%	
JPY	137.50	143.95 at 22/06	125.37 at 04/03	+5.0%	
AUD	1.44	1.62 at 04/02	1.43 at 25/08	-7.7%	
CNY	6.87	7.29 at 10/02	6.75 at 14/07	-5.2%	
BRL	5.09	6.44 at 06/01	5.01 at 21/04	-19.7%	
RUB	60.75	164.76 at 07/03	56.01 at 29/06	-28.8%	
INR	80.00	85.96 at 11/02	79.60 at 22/08	-5.4%	

At 26-8-22

Change

COMMODITIES

Spot price, \$		highest 22	lowest 22	2022	2022(€)	Change
Oil, Brent	101.1	128.2 at 08/03	79.0 at 03/01	+29.0%	+46.4%	
Gold (ounce)	1 737	2 056 at 08/03	1 705 at 15/07	-4.7%	+8.2%	
Metals, LMEX	3 904	5 506 at 07/03	3 473 at 14/07	-13.3%	-1.6%	
Copper (ton)	8 188	10 702 at 04/03	7 160 at 14/07	-15.9%	-4.6%	
wheat (ton)	296	4.7 at 17/05	276 at 18/08	+24.4%	+41.3%	
Corn (ton)	275	3.2 at 28/06	226 at 03/01	+2.0%	+36.6%	

At 26-8-22

Change

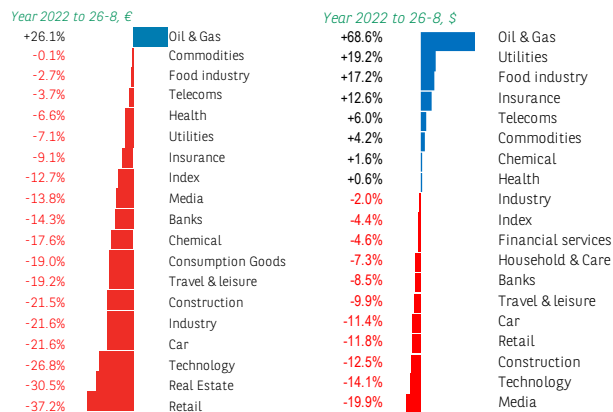
EQUITY INDICES

	Index	highest 22	lowest 22	2022	Change
World					
MSCI World	2 695	3 248 at 04/01	2 486 at 17/06	-16.6%	
North America					
S&P500	4 058	4 797 at 03/01	3 667 at 16/06	-14.9%	
Europe					
EuroStoxx50	3 604	4 392 at 05/01	3 360 at 05/07	-16.2%	
CAC 40	6 274	7 376 at 05/01	5 795 at 05/07	-1.2%	
DAX 30	12 971	16 272 at 05/01	12 401 at 05/07	-18.3%	
IBEX 35	8 064	8 934 at 27/05	7 645 at 07/03	-0.7%	
FTSE100	7 427	7 672 at 10/02	6 959 at 07/03	+0.1%	
Asia					
MSCI, loc.	1 106	1 165 at 05/01	1 024 at 08/03	-0.3%	
Nikkei	28 641	29 332 at 05/01	24 718 at 09/03	-0.5%	
Emerging					
MSCI Emerging (\$)	1 007	1 267 at 12/01	962 at 15/07	-1.8%	
China	67	86 at 20/01	59 at 15/03	-18.9%	
India	794	891 at 13/01	699 at 17/06	+1.0%	
Brazil	1 587	2 003 at 04/04	1 311 at 14/07	+0.8%	

At 26-8-22

Change

PERFORMANCE BY SECTOR (Eurostoxx50 & S&P500)

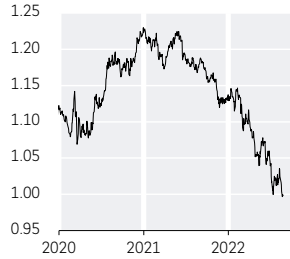


SOURCE: REFINITIV, BNP PARIBAS,



MARKETS OVERVIEW

EURO-DOLLAR



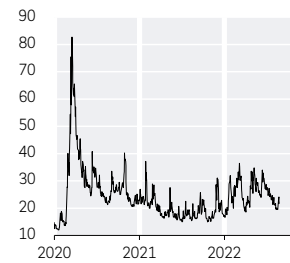
EUROSTOXX50



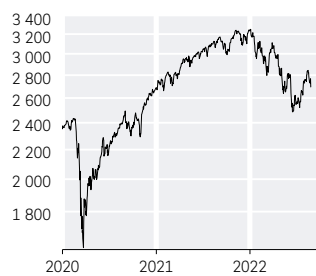
S&P500



VOLATILITY (VIX, S&P500)



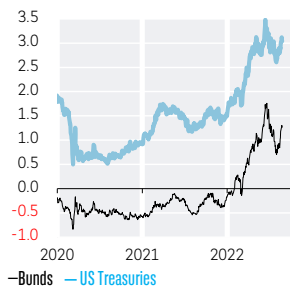
MSCI WORLD (USD)



MSCI EMERGING (USD)



10Y BOND YIELD, TREASURIES VS BUND



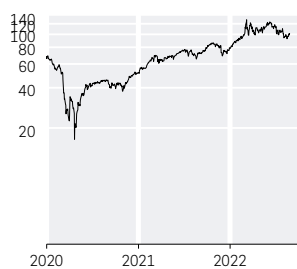
10Y BOND YIELD



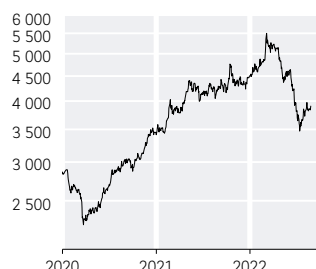
10Y BOND YIELD & SPREADS

Year 2022 to 26-8		
4.00%	Greece	267 bp
3.59%	Italy	225 bp
2.50%	Spain	117 bp
2.34%	Portugal	101 bp
2.03%	Belgium	70 bp
2.02%	Austria	69 bp
2.01%	Ireland	67 bp
1.97%	Finland	64 bp
1.76%	France	43 bp
1.74%	Netherlands	40 bp
1.33%	Germany	

OIL (BRENT, USD)



METALS (LMEX, USD)



GOLD (OUNCE, USD)



SOURCE: REFINITIV, BNP PARIBAS



ECONOMIC PULSE

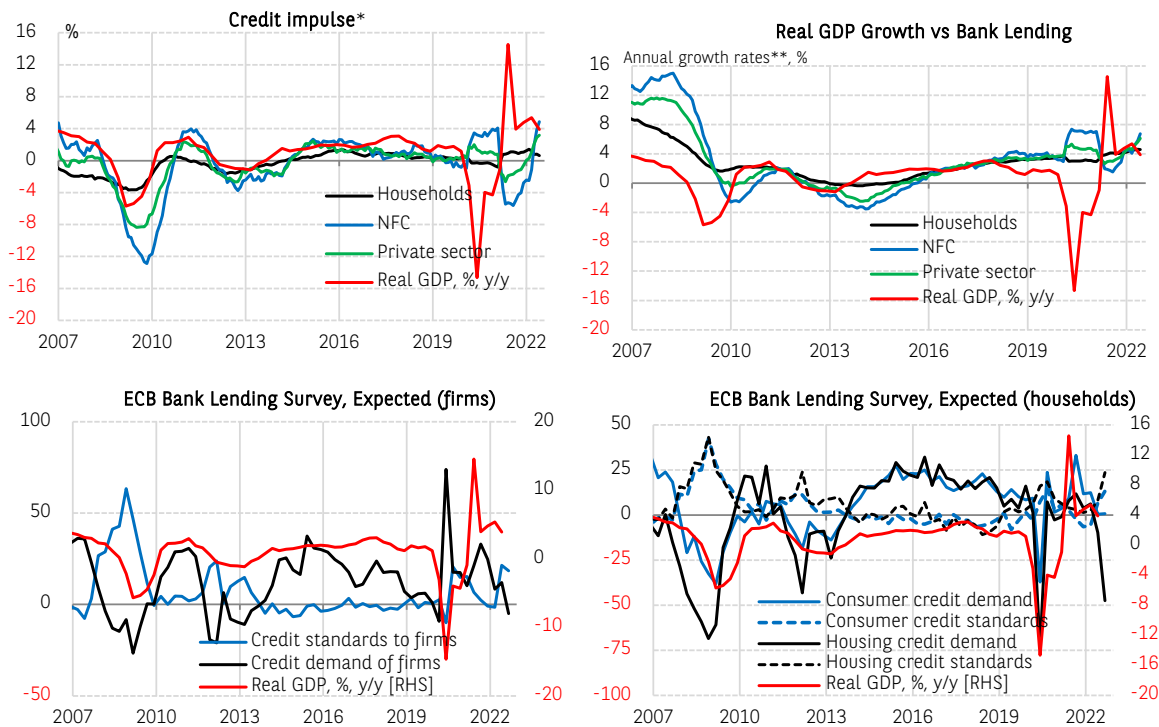
CREDIT IMPULSE : SOFTER DEMAND AND TIGHTER CREDIT CONDITIONS EXPECTED

Negative between March and December 2021, the euro area credit impulse has been in positive territory since January 2022 and reached, in June 2022, its highest level since spring 2006 (+3.2 points), contributing to GDP resistance in volume terms (+0.7% Q/Q in Q2 after +0.4% Q/Q in Q1). With strong acceleration since spring 2021, bank loans to private sector outstanding recorded, in June, its highest annual increase since 2009 (+6.1% year-on-year in June 2022). Annual increase and credit impulse for non-financial companies (NFC) reached levels not seen since 2006 (+6.8% and +4.9%, respectively). According to the banks surveyed by the ECB in June as part of its Bank Lending Survey (published on 19 July), supply chain bottlenecks and the rise in commodity prices increased working capital requirements and strengthened demand for loans with a maturity of less than a year. Household credit impulse, which was more modest (+0.6 points in June), has been down since February (+1.4 points). Growth in bank loans outstanding remained robust (+4.6% year-on-year in June 2022, the highest pace seen in 14 years) but its acceleration was weaker. Since the summer of 2021, consumer credit outstanding has steadily accelerated (+3.5% in June 2022, compared with +0.6% in June 2021). Loans for housing purchase, on the other hand, slowed down, albeit very slightly (+5.3% vs. +5.7%). For the time being, the bank loans developments does not seem to have been affected by the weakness of household confidence (which is currently at its lowest level since 1985). Fears that the rise in housing loan rates would intensify over the coming months have, on the contrary, boosted demand. The banks surveyed stated that they had tightened the conditions for business loans and, more noticeably, for home loans in Q2. Such adjustment to conditions is in response to increased uncertainties and the rise in the cost of their own resources, which are beginning to be affected by the normalisation of monetary policy and tensions on the bond market.

Banks are envisaging a reduction in demand for corporate finance in Q3 2022. They are primarily expecting a much more pronounced drop in the demand for home loans compared to that of Q2. Finally, they plan to continue to tighten conditions for both companies and households.

Laurent Quignon

CREDIT IMPULSE IN THE EUROZONE



*CREDIT IMPULSE IS MEASURED AS THE ANNUAL CHANGE OF THE ANNUAL GROWTH RATE OF MFI LOANS ** ADJUSTED FOR SECURITIZATIONS

SOURCE: ECB, ECB SURVEY ON THE DISTRIBUTION OF CREDIT, BLS, BNP PARIBAS CALCULATIONS



ECONOMIC PULSE

THE OECD WEEKLY TRACKER OF ACTIVITY IS STILL FALLING

The global number of new Covid-19 cases has continued to decrease for the third consecutive week. 5.5 million new cases were recorded between 18 and 24 August, down 6% on the previous week. This drop was seen across all regions, with Africa down 21%, North and South America down 18%, Europe down 8% and Asia down 5% (chart 1). However, these figures should be treated with caution as a number of countries have made changes to their Covid-19 testing strategies, resulting in lower overall numbers of tests performed and consequently lower numbers of cases detected. At the same time, vaccination campaigns continue to progress, albeit at a much slower pace. To date, 68% of the world's population has received at least one dose of a vaccine (chart 2).

On the other hand, footfall in shopping and leisure facilities in the United States, United Kingdom and Spain is still below pre-Covid levels. In France, it fell below pre-Covid levels at the start of August, with the same occurring in Belgium, Italy and Germany in recent weeks. Japan has stood out thanks to its sudden economic turnaround and a sharp rise over the past week, going from -10% to +0.5% (on the seven-day moving average against the benchmark*, chart 3, blue curve).

Finally, the weekly GDP proxy tracker is still declining in the United Kingdom, France, Germany, Spain and Belgium. In the United States, Italy and Japan, 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, real estate, 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)

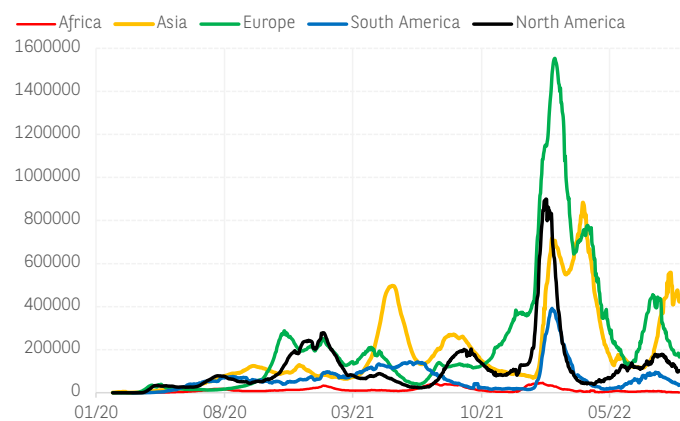


CHART 1

SOURCE: JOHNS-HOPKINS UNIVERSITY (08/25/2022), BNP PARIBAS

SHARE OF PEOPLE WHO RECEIVED AT LEAST ONE DOSE OF VACCINE

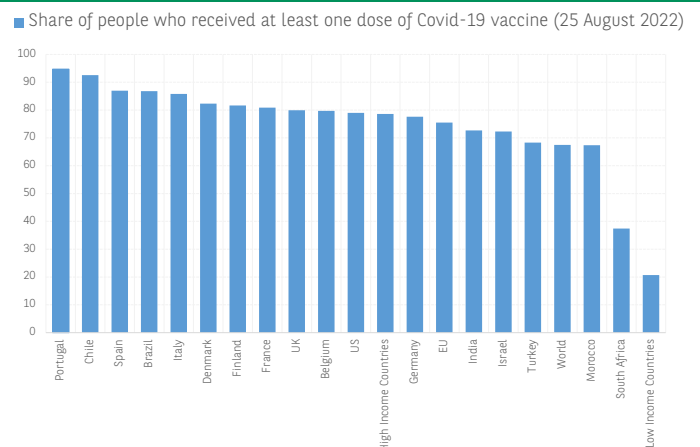


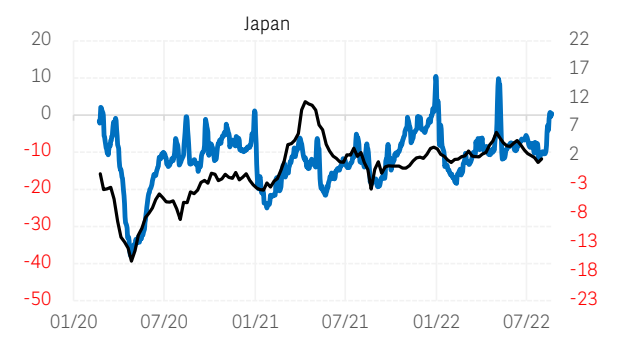
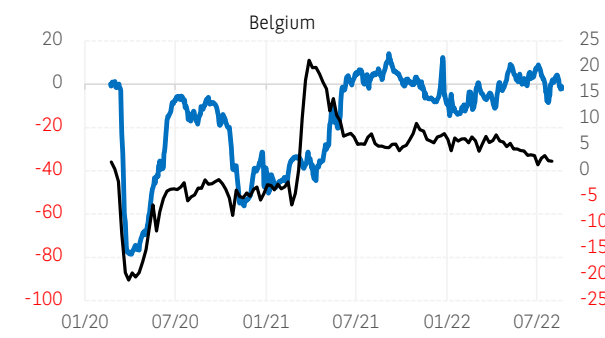
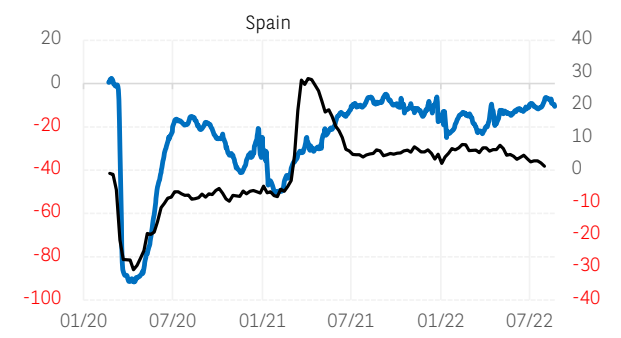
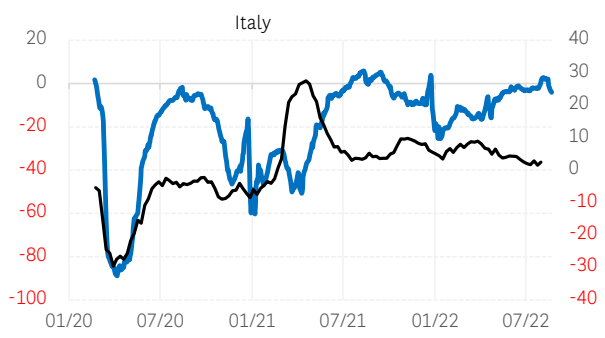
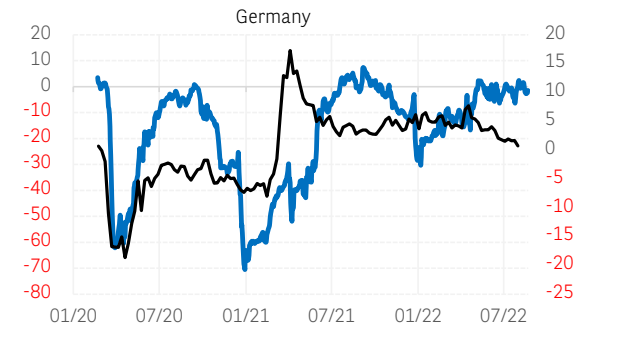
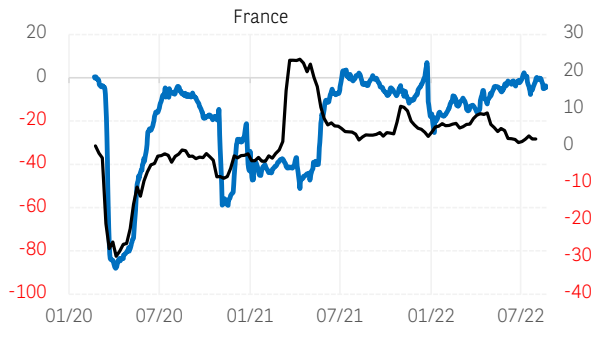
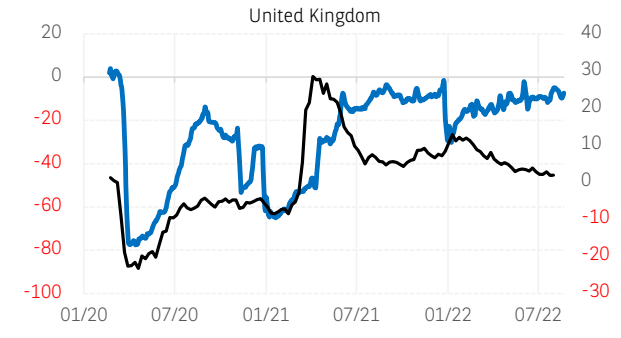
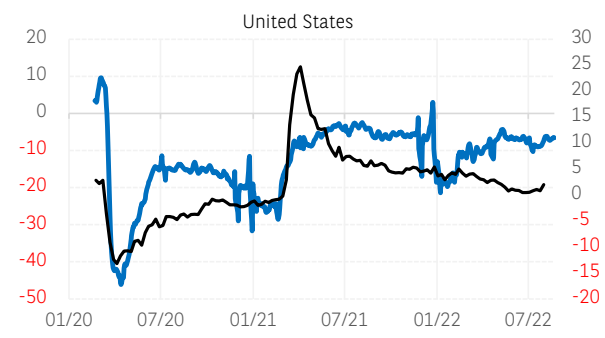
CHART 2

SOURCE: OUR WORLD IN DATA (08/25/2022), 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]

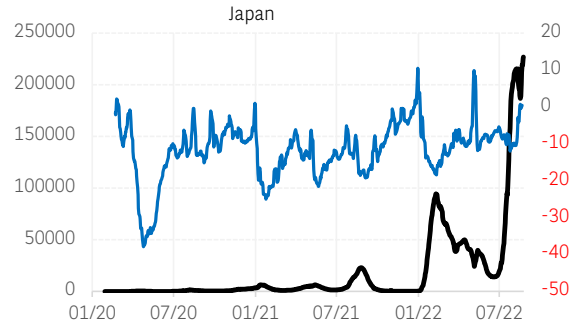
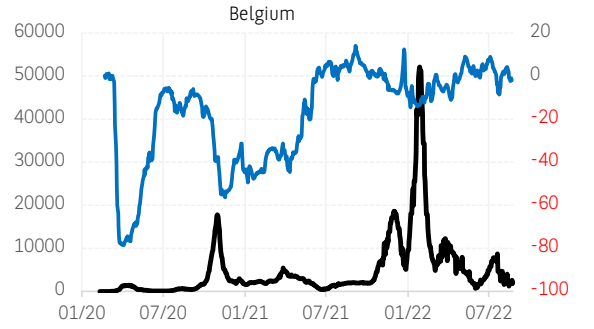
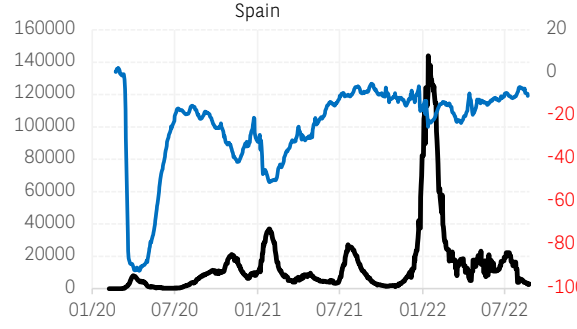
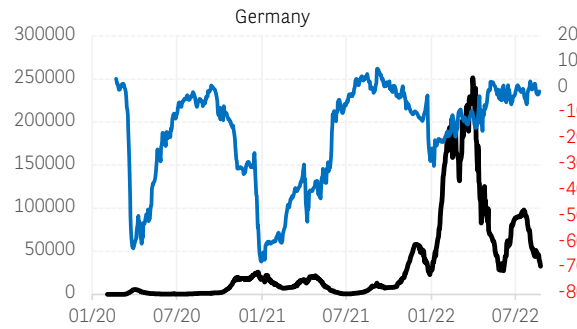
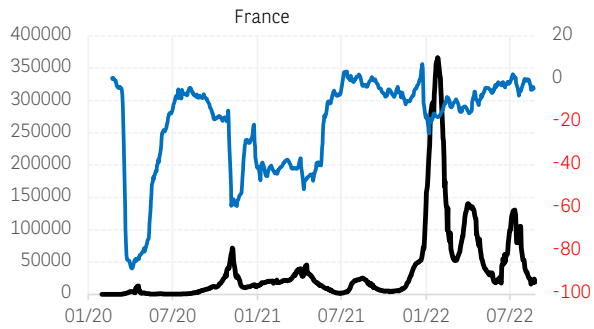
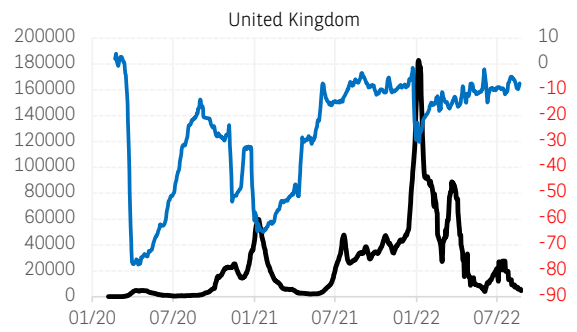
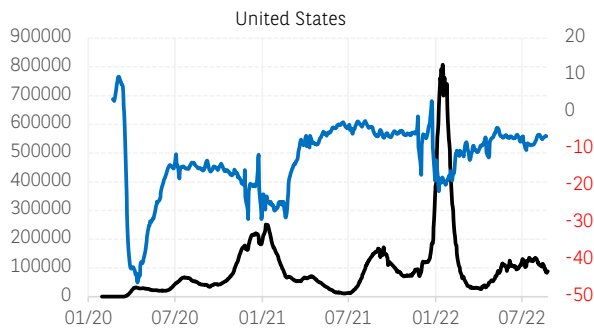


SOURCE: OECD (08/25/2022), GOOGLE (08/25/2022), BNP PARIBAS



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 (08/25/2022), GOOGLE (08/25/2022), BNP PARIBAS



ECONOMIC SCENARIO

10

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 of future rate increases will be data-dependent. We expect a 50bp rate hike in September, but, given mounting recession risk, a 25bp hike at the October meeting, followed by a pause. The hiking cycle would resume next year, implying a deposit rate of 1.00% at the end of June and 1.75% 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, %		Q2 2022	Q3 2022 e	Q4 2022 e	Q2 2023 e	Q4 2023 e
End of period						
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
	Deposit rate*	-0.50	0.50	0.75	1.00	1.75
	Bund 10y	1.37	1.60	1.80	2.25	2.25
	OAT 10y	1.80	2.15	2.38	2.85	2.85
UK	BTP 10y	3.29	3.85	4.40	4.65	4.75
	BONO 10y	2.46	2.95	3.40	3.75	3.75
	Base rate	1.25	2.00	2.50	2.50	2.50
Japan	Gilts 10y	2.21	2.30	2.50	2.65	2.50
	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		Q2 2022	Q3 2022 e	Q4 2022 e	Q2 2023 e	Q4 2023 e
End of period						
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		Q2 2022	Q3 2022 e	Q4 2022 e	Q2 2023 e	Q4 2023 e
End of period						
Brent	USD/bbl	115	120	122	125	125

SOURCES: BNP PARIBAS (E: ESTIMATES & FORECASTS) (MARKET ECONOMICS, INTEREST RATE STRATEGY, FX STRATEG, COMMODITIES DESK STRATEGY) , * LAST UPDATE 05/08/2022



CALENDAR

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LATEST INDICATORS

In China, the data for July were mixed with an improvement of the services PMI and the unemployment rate edging lower whereas annual retail sales growth slowed significantly and the composite PMI declined a lot. In the euro area, the European Commission's surveys for July dropped, with the exception of consumer confidence, which remained stable, albeit at a very low level. Second quarter GDP growth was -given the survey data over the quarter- impressive at 0.7%, although this was subsequently revised downwards marginally, to 0.6%. The July PMI data in manufacturing were up slightly but services were down. The flash PMI for August saw the composite PMI dropping below 50. Consumer confidence on the other hand was up in August and surprised positively. French consumer confidence declined in July but rebounded in August. Second quarter GDP growth was 0.5%, which was well ahead of the consensus. The July manufacturing PMI dropped below 50 and saw an additional small decline in August. The services PMI, after a small decline in July, dropped in August. In Germany, the IFO business climate recorded a big decline in July but was virtually stable in August. Consumer confidence continued its descent in July as well as in August. The July PMI were bad in both manufacturing and services. For the latter, the PMI was down again in August but the manufacturing PMI rebounded somewhat. The composite is well below 50 (47.6), which does not bode well for the near-term growth outlook. In Japan, the services PMI dropped in July, finishing at 50.3 and the Eco Watchers survey also painted a bleak picture. Second quarter GDP growth came in below expectations (0.5% versus 0.7%). In the UK, real GDP recorded a small contraction in the second quarter -less than anticipated- and monthly retail sales growth was stable, against a consensus forecast of a decline. The Bank of England tightened policy further against a background of elevated and rising inflation. CBI business sentiment improved in July but the manufacturing PMI in August had a huge drop, coming in well below expectations. In the US, the pace of job creations was particularly strong in July and the ISM services index improved, although the services PMI had a huge decline. Retail sales were stable compared to the previous month and the manufacturing PMI and ISM were down somewhat. The FOMC increased the federal funds rate with 75bp. The August manufacturing PMI edged lower but the services PMI recorded an unexpected, big decline. University of Michigan sentiment was up in August, creating a positive surprise.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	ACTUAL	PREVIOUS
07/25/2022	Germany	IFO Business Climate	Jul	90.1	88.6	92.2
07/25/2022	United Kingdom	CBI Business Optimism	Jul	--	-21.0	-34.0
07/26/2022	United States	Conf. Board Consumer Confidence	Jul	97.0	95.7	98.4
07/27/2022	Germany	GfK Consumer Confidence	Aug	-28.9	-30.6	-27.7
07/27/2022	France	Consumer Confidence	Jul	80.0	80.0	82.0
07/27/2022	United States	FOMC Rate Decision (Upper Bound)	Jul	2.5%	2.5%	1.8%
07/28/2022	Eurozone	Economic Confidence	Jul	102.0	99.0	103.5
07/28/2022	Eurozone	Industrial Confidence	Jul	5.4	3.5	7.0
07/28/2022	Eurozone	Services Confidence	Jul	13.3	10.7	14.1
07/28/2022	Eurozone	Consumer Confidence	Jul	--	-27.0	-27.0
07/28/2022	United States	GDP Annualized QoQ	2Q	0.4%	-0.9%	-1.6%
07/29/2022	France	GDP QoQ	2Q	0.2%	0.5%	-0.2%
07/29/2022	Germany	GDP SA QoQ	2Q	0.1%	0.0%	0.8%
07/29/2022	Eurozone	CPI Estimate YoY	Jul	0.1	0.1	0.1
07/29/2022	Eurozone	GDP SA QoQ	2Q	0.2%	0.7%	0.5%
07/29/2022	United States	U. of Mich. Sentiment	Jul	51.1	51.5	51.1
07/30/2022	China	Composite PMI	Jul	--	52.5	54.1
08/01/2022	France	S&P Global France Manufacturing PMI	Jul	49.6	49.5	49.5
08/01/2022	Germany	S&P Global/BME Germany Manufacturing PMI	Jul	49.2	49.3	49.3
08/01/2022	Eurozone	S&P Global Eurozone Manufacturing PMI	Jul	49.6	49.8	49.8
08/01/2022	United Kingdom	S&P Global/CIPS UK Manufacturing PMI	Jul	52.2	52.1	52.1
08/01/2022	United States	S&P Global US Manufacturing PMI	Jul	52.3	52.2	52.2
08/01/2022	United States	ISM Manufacturing	Jul	52.0	52.8	53.0
08/02/2022	Japan	Jibun Bank Japan PMI Services	Jul	--	50.3	50.3



DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	ACTUAL	PREVIOUS
08/02/2022	China	Caixin China PMI Services	Jul	53.9	55.5	54.5
08/03/2022	France	S&P Global France Services PMI	Jul	52.1	53.2	53.2
08/03/2022	Germany	S&P Global Germany Services PMI	Jul	49.2	49.7	49.7
08/03/2022	Eurozone	S&P Global Eurozone Services PMI	Jul	50.6	51.2	51.2
08/03/2022	United Kingdom	S&P Global/CIPS UK Services PMI	Jul	53.3	52.6	52.6
08/03/2022	United States	S&P Global US Services PMI	Jul	47.0	47.3	47.3
08/03/2022	United States	ISM Services Index	Jul	53.5	56.7	55.3
08/04/2022	United Kingdom	Bank of England Bank Rate	Aug	1.8%	1.8%	1.3%
08/05/2022	United States	Change in Nonfarm Payrolls	Jul	250k	528k	398k
08/05/2022	United States	Unemployment Rate	Jul	0.0	0.0	0.0
08/08/2022	Japan	Eco Watchers Survey Outlook SA	Jul	46.7	42.8	47.6
08/10/2022	United States	CPI YoY	Jul	0.1	0.1	0.1
08/10/2022	United States	CPI Index NSA	Jul	296.8	296.3	296.3
08/12/2022	United Kingdom	GDP QoQ	2Q	-0.2%	-0.1%	0.8%
08/12/2022	United States	U. of Mich. Sentiment	Aug	52.5	55.1	51.5
08/14/2022	Japan	GDP SA QoQ	2Q	0.7%	0.5%	0.0%
08/14/2022	China	Industrial Production YoY	Jul	4.3%	3.8%	3.9%
08/14/2022	China	Retail Sales YoY	Jul	4.9%	2.7%	3.1%
08/14/2022	China	Surveyed Jobless Rate	Jul	5.5%	5.4%	5.5%
08/16/2022	Germany	ZEW Survey Expectations	Aug	-52.7	-55.3	-53.8
08/16/2022	Eurozone	ZEW Survey Expectations	Aug	--	-54.9	-51.1
08/17/2022	United Kingdom	CPI YoY	Jul	9.8%	10.1%	9.4%
08/17/2022	Eurozone	Employment QoQ	2Q	--	0.3%	0.6%
08/17/2022	Eurozone	GDP SA QoQ	2Q	0.7%	0.6%	0.6%
08/17/2022	United States	Retail Sales Advance MoM	Jul	0.1%	0.0%	0.8%
08/18/2022	Eurozone	CPI YoY	Jul	8.9%	8.9%	8.6%
08/19/2022	United Kingdom	Retail Sales Ex Auto Fuel MoM	Jul	-0.3%	0.4%	0.2%
08/23/2022	Eurozone	S&P Global Eurozone Composite PMI	Aug	49.4	49.9	49.9
08/23/2022	Eurozone	Consumer Confidence	Aug	-28.0	-24.9	-27.0
08/23/2022	France	S&P Global France Manufacturing PMI	Aug	49.0	49.0	49.5
08/23/2022	France	S&P Global France Services PMI	Aug	53.0	51.0	53.2
08/23/2022	France	S&P Global France Composite PMI	Aug	51.0	49.8	51.7
08/23/2022	Germany	S&P Global/BME Germany Manufacturing PMI	Aug	48.0	49.8	49.3
08/23/2022	Germany	S&P Global Germany Services PMI	Aug	49.0	48.2	49.7
08/23/2022	Germany	S&P Global Germany Composite PMI	Aug	47.3	47.6	48.1



DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	ACTUAL	PREVIOUS
08/23/2022	Eurozone	S&P Global Eurozone Manufacturing PMI	Aug	49.0	49.7	49.8
08/23/2022	Eurozone	S&P Global Eurozone Services PMI	Aug	50.5	50.2	51.2
08/23/2022	Eurozone	S&P Global Eurozone Composite PMI	Aug	49.0	49.2	49.9
08/23/2022	United Kingdom	S&P Global/CIPS UK Manufacturing PMI	Aug	51.0	46.0	52.1
08/23/2022	United Kingdom	S&P Global/CIPS UK Services PMI	Aug	51.6	52.5	52.6
08/23/2022	United Kingdom	S&P Global/CIPS UK Composite PMI	Aug	51.0	50.9	52.1
08/23/2022	United States	S&P Global US Manufacturing PMI	Aug	51.8	51.3	52.2
08/23/2022	United States	S&P Global US Services PMI	Aug	49.8	44.1	47.3
08/23/2022	United States	S&P Global US Composite PMI	Aug	--	45.0	47.7
08/25/2022	France	Business Confidence	Aug	101.0	103.0	103.0
08/25/2022	Germany	IFO Business Climate	Aug	86.8	88.5	88.7
08/26/2022	Germany	GfK Consumer Confidence	Sep	-32.0	-36.5	-30.9
08/26/2022	France	Consumer Confidence	Aug	79.0	82.0	80.0
08/26/2022	United States	U. of Mich. Sentiment	Aug	52.5	55.1	51.5

SOURCE: BLOOMBERG



CALENDAR: THE WEEK AHEAD

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COMING INDICATORS

The highlight of the week will be, as usual at the start of a new month, the US labour market report on Friday. Before that, several other important data will have been released. In the euro area, the focus will be on the European Commission's economic sentiment index and its constituents as well as on inflation for the month of August. In France we will have consumer spending and an updated estimate of second quarter GDP growth. Germany will publish unemployment data. Finally, the manufacturing PMI data will be released for a large number of countries as well as, in the US, the ISM index.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	PREVIOUS
08/30/2022	Eurozone	Economic Confidence	Aug	--	99
08/30/2022	Eurozone	Industrial Confidence	Aug	2.8	3.5
08/30/2022	Eurozone	Services Confidence	Aug	--	10.7
08/30/2022	Eurozone	Consumer Confidence	Aug F	--	-24.9
08/30/2022	United States	Conf. Board Consumer Confidence	Aug	97.5	95.7
08/30/2022	United States	JOLTS Job Openings	Jul	10,300k	10,698k
08/31/2022	China	Composite PMI	Aug	--	52.5
08/31/2022	Japan	Consumer Confidence Index	Aug	--	30.2
08/31/2022	France	Consumer Spending MoM	Jul	--	0.20%
08/31/2022	France	GDP QoQ	2Q F	--	0.50%
08/31/2022	Germany	Unemployment Change (000's)	Aug	27.5k	48.0k
08/31/2022	Eurozone	CPI Estimate YoY	Aug	8.80%	8.90%
08/31/2022	Eurozone	CPI MoM	Aug P	0.30%	0.10%
08/31/2022	Eurozone	CPI Core YoY	Aug P	--	4.00%
09/01/2022	China	Caixin China PMI Mfg	Aug	50.1	50.4
09/01/2022	France	S&P Global France Manufacturing PMI	Aug F	--	49
09/01/2022	Germany	S&P Global/BME Germany Manufacturing PMI	Aug F	--	49.8
09/01/2022	Eurozone	S&P Global Eurozone Manufacturing PMI	Aug F	--	49.7
09/01/2022	United Kingdom	S&P Global/CIPS UK Manufacturing PMI	Aug F	--	46
09/01/2022	Eurozone	Unemployment Rate	Jul	--	6.60%
09/01/2022	United States	Initial Jobless Claims	27-août	--	243k
09/01/2022	United States	S&P Global US Manufacturing PMI	Aug F	--	51.3
09/01/2022	United States	ISM Manufacturing	Aug	52.2	52.8
09/02/2022	Eurozone	PPI MoM	Jul	--	1.10%
09/02/2022	Eurozone	PPI YoY	Jul	--	35.80%
09/02/2022	United States	Change in Nonfarm Payrolls	Aug	295k	528k
09/02/2022	United States	Unemployment Rate	Aug	3.50%	3.50%

SOURCE: BLOOMBERG



FURTHER READING

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Heightened risk despite agreement with IMF	Chart of the Week	27 July 2022
France : Reconciling short-term and medium-term challenges	Conjoncture	26 July 2022
Eurozone : ECB: Into a new era	EcoWeek	25 July 2022
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



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