

# ECOWEEK

No. 19-09, 1 March 2019

## Sentiment measures offer mixed picture

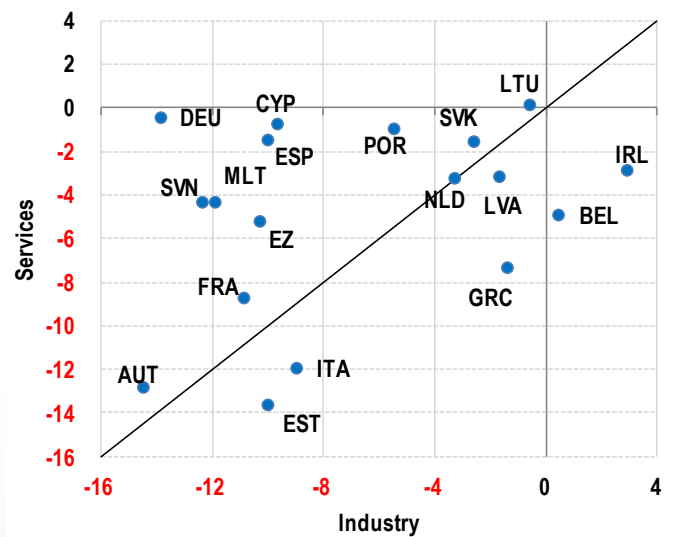
■ The latest survey data show a very mixed picture ■ In the manufacturing sector, China saw some signs of stabilisation, whereas Japan experienced a deterioration. In Germany, manufacturing remains under pressure ■ The picture in the eurozone is quite diverse, depending on the country and the sector ■ Looking at the broadest survey indicator for the eurozone, one observes a stabilisation. Whether this will be confirmed depends to a large degree on developments in China and on the well-known sources of uncertainty (trade, Brexit).

The slowing trend of the global economy means that the recent survey data were eagerly awaited. The picture which emerges is mixed. In Japan, the Nikkei manufacturing PMI index dropped below 50, the dividing line between expansion and contraction. In the US, the manufacturing ISM index dropped to 54.2. It had rebounded in January following a big decline in December. In China the contraction seems to have come to an end as the Caixin PMI index rose to 49.9, its highest level in three months. In France the manufacturing PMI moved moderately higher, echoing the small improvement seen in the INSEE business climate survey in the past two months. In Germany the signals are conflicting (see Pulse). After a six month uninterrupted decline, the IFO Business Climate Index reached its lowest level since December 2014. The manufacturing PMI dropped significantly, reaching a very low 47.6. As shown in chart 1, since the peak of the business cycle in the eurozone (December 2017), Germany had mainly suffered on the manufacturing side and the decline of the service sector sentiment had been very moderate. However the IFO institute has reported a significant deterioration in services in February. Against this background, the slight improvement in export expectations could signal that the worst is behind us. In Italy, the manufacturing PMI has stabilised at a very low level. It has been below 50 since October last year. Spain saw a significant drop of the Markit PMI index, from 52.4 to 49.9. For the eurozone as a whole this translated in a decline of the manufacturing PMI from 50.5 to 49.3. Given the close correlation with GDP growth, this implies quasi stagnation at the start of the year. This also shows up in the €-coin index, a real-time estimate of economic growth which is calculated by the Bank of Italy<sup>1</sup> and which weakened again, reaching a level last seen early 2015. Finally, the European Commission's surveys showed a slight increase in consumer confidence. Its business climate index, by construction narrowly correlated with industrial production, remained flat whereas the broader Economic Sentiment Index, which covers industry, services, consumers, retail trade and construction, was broadly stable. All in all, the picture which emerges in the eurozone as a whole is a stabilisation, although individual country experiences differ somewhat. In most countries the manufacturing sector remains under pressure. A stabilisation of Chinese growth and a reduction in uncertainty (trade negotiations, Brexit) are key for an upturn in sentiment.

William De Vijlder

<sup>1</sup> The €-coin index a synthetic indicator based on survey data, activity and demand indicators as well as market and financial

SERVICES AND INDUSTRY SENTIMENT  
(FEBRUARY 2019, CHANGE SINCE DECEMBER 2017)



AUT: Austria, BEL: Belgium, CYP: Cyprus, DEU: Germany, ESP: Spain, EST: Estonia, EZ: Eurozone, FRA: France, GRC: Greece, IRL: Ireland, ITA: Italy, LTU: Lithuania, LVA: Latvia, MLT: Malta, NLD: Netherlands, POR: Portugal, SVN: Slovenia, SVK: Slovakia

Source: European Commission, BNP Paribas

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ECONOMIC RESEARCH DEPARTMENT

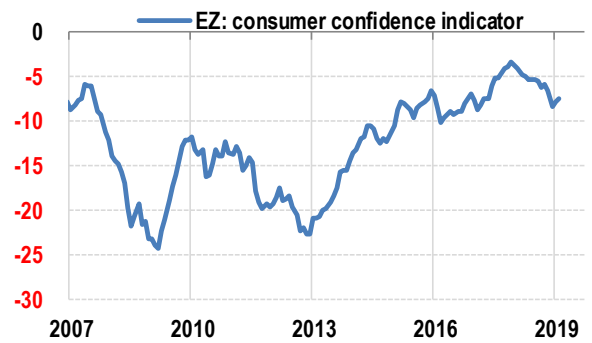
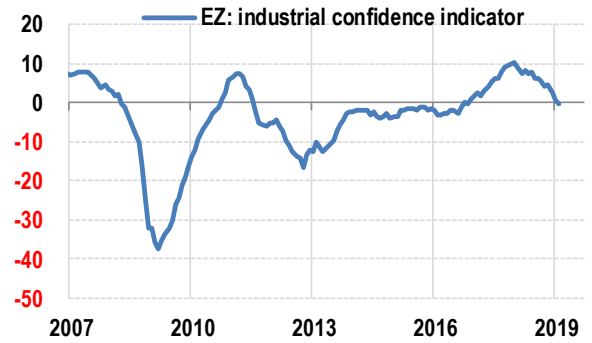
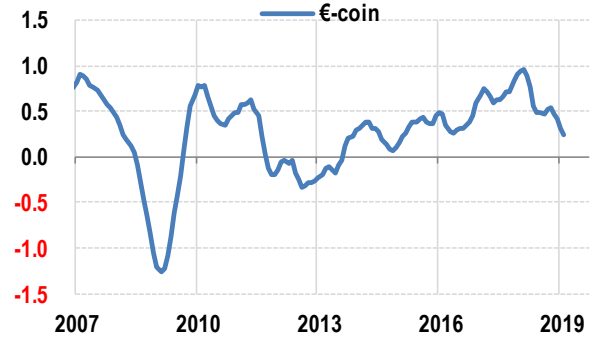
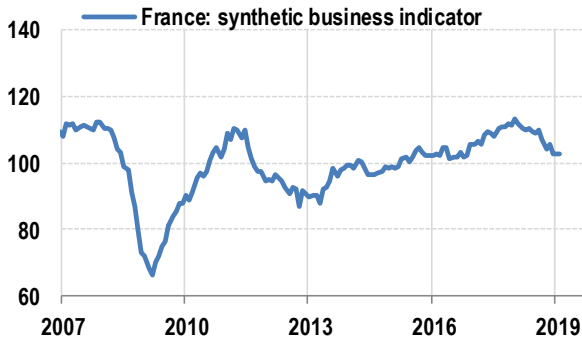


BNP PARIBAS

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world



SURVEY INDICATORS AND PMI MANUFACTURING



	Developed Markets														Emerging countries																						
	WD	NA		Europe						Asia-Oceania			ATAM	Eurasia		Middle East & Africa				Asia																	
	World	CANADA	USA	EURO ZONE		AUSTRIA	DENMARK	FRANCE	GERMANY	GREECE	IRELAND	ITALY	NETHERLANDS	SPAIN	SWITZERLAND	UK	AUSTRALIA	NEW ZEALAND	JAPAN	SINGAPORE	BRAZIL	MEXICO	CZECH REPUBLIC	POLAND	RUSSIA	TURKEY	EGYPT	ISRAEL	LEBANON	SAUDI ARABIA	SOUTH AFRICA	UAE	CHINA	HONG KONG	INDIA	INDONESIA	VIETNAM
Mar-18	53	56	56	57	58	61	54	58	55	54	55	62	55	61	55	62	53	53	53	53	52	57	54	51	52	49	55	47	53	47	55	51	51	51	51	52	
Apr-18	53	56	57	56	58	54	54	58	53	55	54	61	54	63	54	59	59	54	53	52	52	57	54	51	49	50	54	46	51	49	55	51	49	52	52	53	
May-18	53	56	56	56	57	48	54	57	54	55	53	60	53	63	54	57	54	53	53	51	51	57	53	50	46	49	50	46	53	49	57	51	48	51	52	54	
Jun-18	53	57	55	55	57	50	53	56	54	57	53	60	53	62	54	56	53	53	50	52	57	54	50	47	49	53	46	55	48	57	51	48	53	50	56		
Jul-18	53	57	55	55	57	56	53	57	54	56	52	58	53	62	54	53	51	52	52	51	52	55	53	48	49	50	58	45	55	50	56	51	48	52	51	55	
Aug-18	53	57	55	55	56	59	54	56	54	58	50	59	53	65	53	56	52	53	53	51	51	55	51	49	46	51	50	46	55	45	55	51	49	52	52	54	
Sep-18	52	55	56	53	55	54	53	54	54	56	50	60	51	60	54	57	52	53	52	51	52	53	51	50	43	49	50	46	53	45	55	50	48	52	51	52	
Oct-18	52	54	56	52	54	66	51	52	53	55	49	57	52	58	51	55	54	53	52	51	51	53	50	51	44	49	53	46	54	42	55	50	49	53	51	54	
Nov-18	52	55	55	52	55	58	51	52	54	55	49	56	53	58	53	51	54	52	52	53	50	52	50	53	45	49	54	47	55	50	56	50	47	54	50	57	
Dec-18	51	54	54	51	54	58	50	52	54	55	49	57	51	58	54	50	55	53	51	53	50	50	48	52	44	50	46	55	51	54	50	48	53	51	54		
Jan-19	51	53	55	51	53	51	51	50	54	53	48	55	52	54	53	53	53	50	51	53	51	49	48	51	44	49	47	56	50	56	48	48	54	50	52		
Feb-19		54	49	52		52	48	54	54	48	53	50	55	52	54		49					49	48	50	46				46		50	54	50	51			

Source: INSEE, Ifo, European Commission, Markit, BNP Paribas



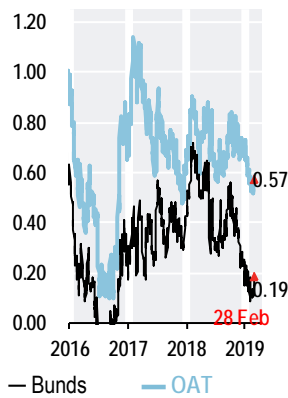
## Markets overview

### The essentials

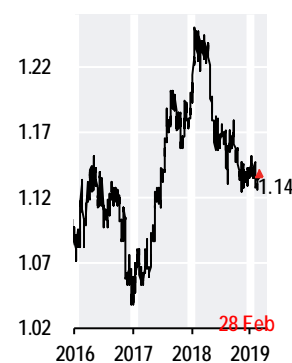
Week 22-2 19 > 28-2-19

↗ CAC 40	5 216	▶ 5 241	+0.5 %
↘ S&P 500	2 793	▶ 2 784	-0.3 %
↗ Volatility (VIX)	13.5	▶ 14.8	+1.3 pb
↗ Euribor 3M (%)	-0.31	▶ -0.31	+0.1 bp
↘ Libor \$ 3M (%)	2.65	▶ 2.63	-2.0 bp
↗ OAT 10y (%)	0.52	▶ 0.57	+5.8 bp
↗ Bund 10y (%)	0.10	▶ 0.19	+8.6 bp
↗ US Tr. 10y (%)	2.66	▶ 2.72	+5.7 bp
↗ Euro vs dollar	1.13	▶ 1.14	+0.4 %
↘ Gold (ounce, \$)	1 330	▶ 1 316	-1.1 %
↘ Oil (Brent, \$)	67.3	▶ 66.0	-1.8 %

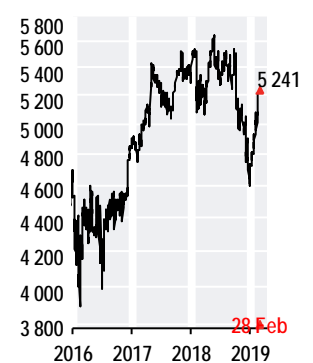
10y bond yield, OAT vs Bund



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	-0.37 at 01/01	-0.37 at 26/02
Euribor 3M	-0.31 at 24/01	-0.31 at 02/01
Euribor 12M	-0.11 at 06/02	-0.12 at 02/01
\$ FED	2.50 at 01/01	2.50 at 01/01
Libor 3M	2.63 at 01/01	2.63 at 27/02
Libor 12M	2.87 at 21/01	2.87 at 27/02
£ BoE	0.75 at 01/01	0.75 at 01/01
Libor 3M	0.85 at 29/01	0.85 at 27/02
Libor 12M	1.13 at 11/01	1.12 at 20/02

At 28-2-19

Yield (%)	highest' 19	lowest' 19
€ AVG 5-7y	0.49 at 09/01	0.45 at 26/02
Bund 2y	-0.53 at 28/02	-0.62 at 03/01
Bund 10y	0.19 at 01/01	0.09 at 08/02
OAT 10y	0.57 at 08/01	0.52 at 22/02
Corp. BBB	1.71 at 08/01	1.70 at 26/02
\$ Treas. 2y	2.53 at 18/01	2.39 at 03/01
Treas. 10y	2.72 at 18/01	2.55 at 03/01
Corp. BBB	4.32 at 01/01	4.29 at 26/02
£ Treas. 2y	0.81 at 27/02	0.68 at 03/01
Treas. 10y	1.31 at 18/01	1.14 at 14/02

At 28-2-19

10y bond yield & spreads

4.14%	Greece	395 pb
2.76%	Italy	257 pb
1.48%	Portugal	129 pb
1.30%	Spain	111 pb
0.69%	Belgium	50 pb
0.57%	France	38 pb
0.44%	Finland	25 pb
0.41%	Austria	22 pb
0.38%	Ireland	19 pb
0.29%	Netherland	10 pb
0.19%	Germany	

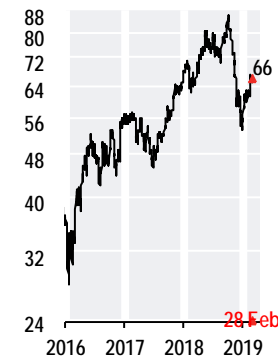
### Commodities

Spot price in dollars	lowest' 19	2019(€)
Oil, Brent	53.1 at 01/01	+24.7%
Gold (ounce)	1 281 at 21/01	+3.1%
Metals, LMEX	2 730 at 03/01	+9.5%
Copper (ton)	5 714 at 03/01	+10.6%
CRB Foods	324 at 01/01	+0.5%
wheat (ton)	178 at 28/02	-9.5%
Corn (ton)	132 at 28/02	-2.5%

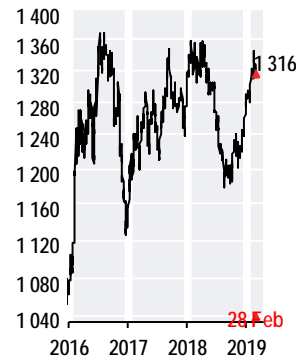
At 28-2-19

Variations

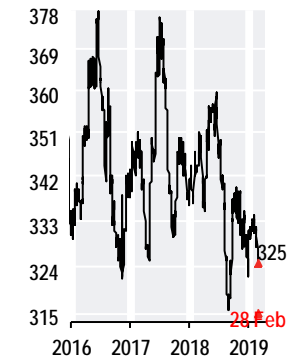
Oil (Brent, \$)



Gold (Ounce, \$)



CRB Foods



### Exchange Rates

€ =	highest' 19	lowest' 19	2019
USD	1.15 at 10/01	1.13 at 15/02	-0.4%
GBP	0.90 at 03/01	0.85 at 27/02	-4.6%
CHF	1.14 at 05/02	1.12 at 02/01	+0.7%
JPY	126.76 at 28/02	122.54 at 03/01	+1.1%
AUD	1.63 at 03/01	1.57 at 31/01	-1.4%
CNY	7.87 at 09/01	7.60 at 25/02	-3.0%
BRL	4.43 at 01/01	4.18 at 31/01	-3.6%
RUB	79.30 at 01/01	74.15 at 12/02	-5.4%
INR	80.99 at 04/02	79.57 at 04/01	+1.5%

At 28-2-19

Variations

### Equity indices

Index	highest' 19	lowest' 19	2019	2019(€)
CAC 40	5 241 at 28/02	4 611 at 03/01	+10.8%	+10.8%
S&P500	2 796 at 25/02	2 448 at 03/01	+11.1%	+11.5%
DAX	11 541 at 26/02	10 417 at 03/01	+9.1%	+9.1%
Nikkei	21 557 at 27/02	19 562 at 04/01	+6.8%	+5.7%
China*	82 at 25/02	68 at 03/01	+15.0%	+15.3%
India*	546 at 01/01	530 at 19/02	-0.2%	-1.7%
Brazil*	2 304 at 04/02	1 944 at 01/01	+7.8%	+11.9%
Russia*	654 at 05/02	572 at 01/01	+6.1%	+11.3%

At 28-2-19

Variations

\* MSCI index



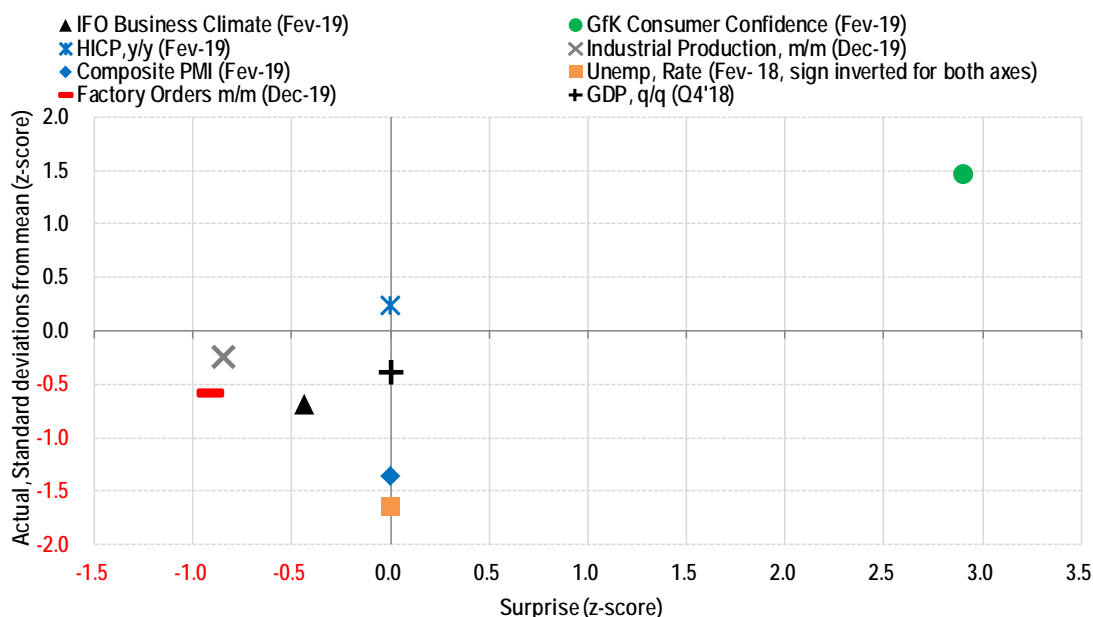
## Pulse

### Germany: weak external demand slows industrial activity

Negative surprises were in abundance in industry in February. Contrary to expectations, industrial production weakened further in December due to a sharp decline in construction activity. The only hopeful sign was the strong rebound in the car industry (+7%).

The forward-looking indicators also surprised on the downside. Destatis reported a sharp decline in orders from outside the eurozone, in particular for investment goods (-7.5%). Against this backdrop, the deterioration of the IFO business climate index should not have come as a surprise.

A positive surprise came from the household sector, where consumer confidence turned out to be stronger than expected in February. However, the indicator's subcomponents tell a very different story. Even though income expectations remained strong, uncertainty with regard to the economy increased sharply and the propensity to buy inched further down.



Source: Bloomberg, Markit, BNP Paribas

### Indicators preview

Next week we have the usually busy schedule at the start of a new month with the services and composite purchasing managers indices in several countries, as well as the non-manufacturing ISM index in the US. These data are more important than usual considering the global growth slowdown, so one would hope that the survey data, which have been on a declining trend, start to stabilise. Also worth mentioning is the publication of the Fed's Beige book, as well as the employment numbers in the eurozone for Q4 2018. Highlights of the week are the ECB meeting and the US labour market data.

Date	Country/Region	Event	Period
03/05/19	France	Markit France Composite PMI	Feb.
03/05/19	Eurozone	Markit Eurozone Composite PMI	Feb.
03/05/19	Eurozone	Retail Sales MoM	Jan.
03/05/19	United States	ISM Non-Manufacturing Index	Feb.
03/06/19	United States	Cap Goods Orders Nondef Ex Air	Jan.
03/06/19	United States	U.S. Federal Reserve Releases Beige Book	
03/07/19	Eurozone	Employment QoQ	4Q
03/07/19	Eurozone	GDP SA QoQ	4Q
03/07/19	Eurozone	ECB Main Refinancing Rate	March 7
03/08/19	Japan	GDP SA QoQ	4Q
03/08/19	France	Industrial Production MoM	Jan.
03/08/19	United States	Change in Nonfarm Payrolls	Feb.

Source: Bloomberg, BNP Paribas



## Economic scenario

### UNITED STATES

- Growth is expected to slow to 2.1% this year. Trade war uncertainty acts as a drag, the housing market is softening, corporate investment should slow, as well as exports in reaction to the past strengthening of the dollar against a broad range of currencies.
- Core inflation remains well under control and has eased a bit.
- Following the dovish message from the January FOMC meeting, markets are pricing in a policy easing in the course of 2020.

### CHINA

- Economic growth is slowing due to both structural and cyclical reasons. The export outlook is significantly darkened by US tariff hikes. Private domestic demand should be affected by the knock-on effect of the worsening performance of the export manufacturing sector, the slowdown of retail sales and the continued moderation in the property market.
- In order to contain the slowdown, the central bank is easing liquidity and credit conditions. At the same time, the reduction in financial instability risks via regulatory tightening should remain a top policy priority. Fiscal policy is also turning expansionary (tax cuts, increased infrastructure spending).

### EUROZONE

- The slowdown is becoming increasingly evident, especially in the German economy, which has suffered from one-off factors but also from a slowdown of exports to China. Capacity constraints also play a role. Business expectations continue to decline. Italy has now entered a technical recession with quarterly growth negative in the third and fourth quarter of 2018.
- Inflation is now expected to decelerate following the past drop in the oil price, while core CPI is hardly moving. The growth slowdown also implies that the pick-up in core inflation should be slower than expected until recently. We do not expect the ECB to move rates this year (see below).

### FRANCE

- Growth is slowing although the economy should show some 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, the Fed has announced to be patient before deciding on any change in its policy. We expect one rate increase this year, in June. We have changed the forecast for 10 year treasury yields and now expect a yield of 3.00% by mid-year and 2.80% at the end of the year.
- We no longer expect changes in the ECB policy rates this year. We have changed the forecast for 10 year Bund yields and now expect a yield of 0.30% by mid-year and 0.40% at the end of the year.
- No change expected in Japan.
- The prospect of a narrowing bond yield differential between the US and the eurozone should cause a strengthening of the euro, all the more so considering it is still below its long-term fair value (around 1.34).

%	GDP Growth			Inflation		
	2018 e	2019 e	2020 e	2018 e	2019 e	2020 e
<b>Advanced</b>	<b>2.2</b>	<b>1.5</b>	<b>1.2</b>	<b>2.0</b>	<b>1.6</b>	<b>1.7</b>
United-States	2.9	2.1	1.5	2.4	1.8	2.0
Japan	0.8	0.5	0.3	1.0	1.0	1.5
United-Kingdom	1.4	1.8	1.6	2.5	2.0	2.0
<b>Euro Area</b>	<b>1.8</b>	<b>1.0</b>	<b>1.1</b>	<b>1.7</b>	<b>1.4</b>	<b>1.4</b>
Germany	1.5	0.9	1.1	1.8	1.6	1.6
France	1.5	1.2	1.2	2.1	1.3	1.6
Italy	0.8	0.1	0.5	1.3	1.0	1.0
Spain	2.5	2.1	1.7	1.7	1.0	1.3
<b>Emerging</b>	<b>5.9</b>	<b>5.9</b>	<b>5.7</b>	<b>2.7</b>	<b>2.7</b>	<b>3.1</b>
China	6.6	6.2	6.0	2.1	1.9	2.5
India	7.4	7.6	7.8	3.8	4.0	4.1
Brazil	1.3	3.0	2.5	3.7	3.8	3.6
Russia	1.8	1.7	1.6	2.8	3.6	4.2

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

Interest rates, %		2019				2018	2019e	2020e
End of period		Q1e	Q2e	Q3e	Q4e			
US	Fed Funds	2.50	2.75	2.75	2.75	2.50	2.75	2.75
	Libor 3m \$	2.80	3.05	3.05	3.00	2.81	3.00	3.00
	T-Notes 10y	2.80	3.00	2.80	2.80	2.69	2.80	2.50
Ezone	ECB Refi	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Euribor 3m	-0.30	-0.30	-0.30	-0.30	-0.31	-0.30	-0.25
	Bund 10y	0.20	0.30	0.35	0.40	0.25	0.40	0.40
	OAT 10y	0.65	0.65	0.65	0.70	0.71	0.70	0.70
UK	Base rate	0.75	1.00	1.00	1.25	0.75	1.25	1.25
	Gilts 10y	1.70	1.85	2.00	2.10	1.27	2.10	2.10
Japan	BoJ Rate	-0.10	-0.10	-0.10	-0.10	-0.07	-0.10	-0.10
	JGB 10y	0.00	0.00	0.00	-0.05	0.00	-0.05	-0.20

Source : BNP Paribas GlobalMarkets (e: Forecasts)

Exchange Rates		2019				2018	2019e	2020e
End of period		Q1e	Q2e	Q3e	Q4e			
USD	EUR / USD	1.15	1.17	1.21	1.25	1.14	1.25	1.34
	USD / JPY	110	108	105	100	110	100	90
	GBP / USD	1.32	1.36	1.41	1.47	1.27	1.47	1.58
	USD / CHF	1.01	1.00	0.98	0.96	0.99	0.96	0.93
EUR	EUR / GBP	0.87	0.86	0.86	0.85	0.90	0.85	0.85
	EUR / CHF	1.16	1.17	1.18	1.20	1.13	1.20	1.25
	EUR / JPY	127	126	127	125	125	125	121

Source : BNP Paribas GlobalMarkets (e: Forecasts)



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