

# ECOWEEK

No. 19-26, 28 June 2019

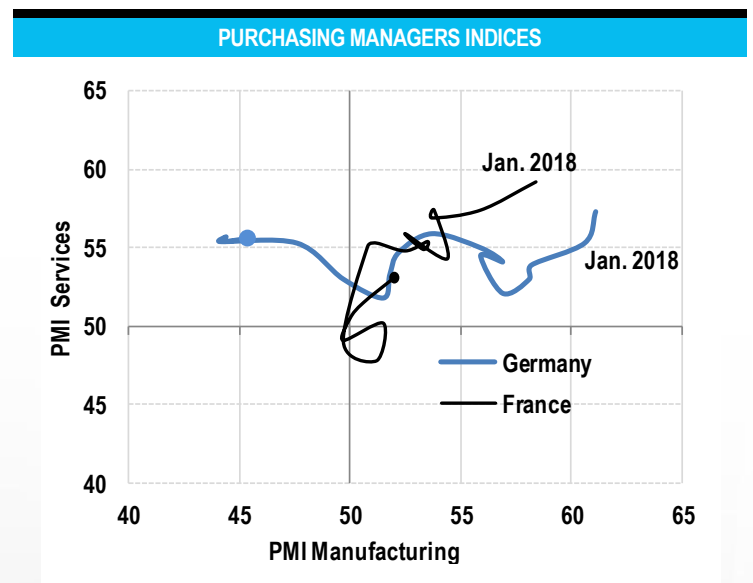
## France and Germany: Very different cyclical slowdowns

■ The slowdown since the start of last year is of a different nature in France, where it has manifested itself in manufacturing and services, compared to Germany, where it is very much concentrated in the manufacturing sector ■ Recent data show a somewhat improving picture in France whereas in Germany signs of stabilisation remain tentative ■ Under the hypothesis that concerns about trade relations (US-China, US-Europe) and Brexit will not disappear anytime soon, it seems difficult to expect a significant improvement in the near term. France could however surprise positively on the back of the measures to support the purchasing power of households

The publication this week of important economic data in France and Germany allows for a comparison of the cyclical environment in both countries. In Germany the indicators of the IFO research institute paint a subdued picture. The overall business climate, across sectors, fell in June and is at its lowest level since November 2014. Pessimism about the outlook has grown, although the assessment of the current situation has improved marginally. The dispersion of the assessment by individual firms –a measure of uncertainty– remains high and has increased slightly. Export expectations declined further, reaching a level which corresponds with absence of growth. The automotive industry is particularly gloomy, quite understandably given the slowdown in China –an important export market– and worries about US tariff increases targeting this sector.

In France, INSEE published several data. The overall business climate was stable with services doing a bit better and reaching a level not seen since May last year. It is well above the historical average. The industrial sector saw some weakening after picking up in May, although the climate remains above its long-term average. The assessment of order books weakened on the back of a deterioration of export orders, which are well below their long-term average. The climate is stable in June in retail trade and the automotive sector. In the construction sector, the cyclical environment is also stable and remains significantly above the long-term average. Capacity utilisation is very high in this sector and labour market bottlenecks are still increasing. The overall labour market climate improved in June, mainly driven by the services sector.

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Source: IHS Markit, BNP Paribas

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ECONOMIC RESEARCH DEPARTMENT



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The general picture which emerges is that France is doing somewhat better. This is confirmed by the chart. Since January 2018, which more or less corresponds to the peak of the cycle in terms of survey data, the manufacturing and services purchasing managers indices declined in tandem in France, but recently a rebound can be witnessed<sup>1</sup>.

In Germany, services weakened less than in France and have, over the past 18 months, fluctuated in a rather narrow range. This suggests that the growth slowdown in Germany finds its origin predominantly in the manufacturing sector. The drop in the PMI for this sector has been huge, for a variety of reasons. A greater exposure to international trade and to China help explain, at least in part, the difference between the two countries in terms of manufacturing sector performance. As far as the near-term outlook is concerned, the PMI and INSEE data for France provide some reasons to be hopeful. In Germany, some indicators show tentative signs of stabilisation (e.g. expectations in the manufacturing sector in recent months). However, under the hypothesis that concerns about trade relations (US-China, US-Europe) and Brexit will not disappear anytime soon, it seems difficult to expect a significant improvement in the near term. France could however surprise positively on the back of the measures to support the purchasing power of households.

**William De Vijlder**

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<sup>1</sup> The dots on the chart show the latest observations (June 2019).



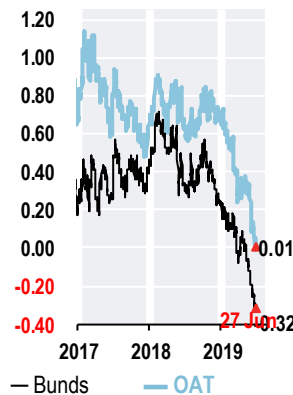
## Markets overview

### The essentials

Week 21-6 19 > 27-6-19

↘ CAC 40	5 528	▶ 5 494	-0.6 %
↘ S&P 500	2 950	▶ 2 925	-0.9 %
↗ Volatility (VIX)	15.4	▶ 15.8	+0.4 pb
↗ Euribor 3M (%)	-0.34	▶ -0.34	+0.0 bp
↘ Libor \$ 3M (%)	2.35	▶ 2.32	-3.0 bp
↘ OAT 10y (%)	0.06	▶ 0.01	-4.9 bp
↘ Bund 10y (%)	-0.29	▶ -0.32	-3.1 bp
↘ US Tr. 10y (%)	2.07	▶ 2.01	-6.0 bp
↗ Euro vs dollar	1.13	▶ 1.14	+0.4 %
↗ Gold (ounce, \$)	1 393	▶ 1 405	+0.8 %
↗ Oil (Brent, \$)	65.3	▶ 66.4	+1.7 %

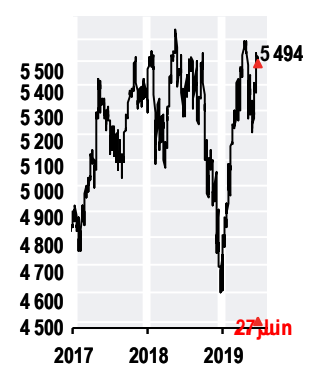
10 y bond yield, OAT vs Bund



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 07/06	-0.38 at 19/06
Euribor 3M	-0.34 at 24/01	-0.35 at 25/06
Euribor 12M	-0.21 at 06/02	-0.21 at 27/06
\$ FED	2.50 at 01/01	2.50 at 01/01
Libor 3M	2.32 at 01/01	2.31 at 25/06
Libor 12M	2.18 at 21/01	2.15 at 25/06
£ BoE	0.75 at 01/01	0.75 at 01/01
Libor 3M	0.77 at 29/01	0.77 at 27/06
Libor 12M	0.96 at 11/01	0.95 at 26/06

At 27-6-19

Yield (%)	highest' 19	lowest' 19
€ AVG 5-7y	0.12 at 09/01	0.09 at 20/06
Bund 2y	-0.74 at 05/03	-0.76 at 18/06
Bund 10y	-0.32 at 01/01	-0.33 at 25/06
OAT 10y	0.01 at 08/01	-0.01 at 25/06
Corp. BBB	1.04 at 08/01	1.02 at 25/06
\$ Treas. 2y	1.77 at 18/01	1.73 at 20/06
Treas. 10y	2.01 at 18/01	1.99 at 25/06
Corp. BBB	3.56 at 01/01	3.56 at 24/06
£ Treas. 2y	0.60 at 27/02	0.52 at 07/06
Treas. 10y	0.83 at 18/01	0.80 at 25/06

At 27-6-19

10y bond yield & spreads

3.17%	Greece	348 pb
2.13%	Italy	244 pb
0.49%	Portugal	80 pb
0.40%	Spain	71 pb
0.07%	Belgium	38 pb
0.01%	France	32 pb
-0.04%	Austria	27 pb
-0.11%	Finland	20 pb
-0.14%	Netherland	17 pb
-0.15%	Ireland	16 pb
-0.32%	Germany	

### Commodities

Spot price in dollars	lowest' 19	2019(€)
Oil, Brent	66.4 at 01/01	+25.7%
Gold (ounce)	1 405 at 02/05	+10.2%
Metals, LME	2 823 at 03/01	+1.3%
Copper (ton)	5 977 at 03/01	+1.0%
CRB Foods	350 at 07/03	+8.6%
wheat (ton)	210 at 10/05	+7.3%
Corn (ton)	172 at 24/04	+26.7%

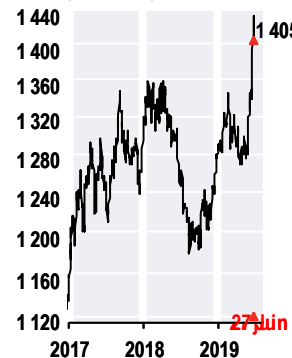
At 27-6-19

Variations

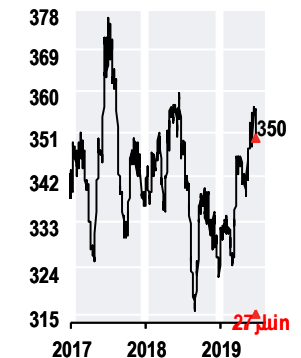
Oil (Brent, \$)



Gold (Ounce, \$)



CRB Foods



### Exchange Rates

€ =	highest' 19	lowest' 19	2019
USD	1.14 at 10/01	1.11 at 30/05	-0.6%
GBP	0.90 at 03/01	0.85 at 14/03	-0.1%
CHF	1.11 at 23/04	1.11 at 24/06	-1.4%
JPY	122.52 at 01/03	120.99 at 31/05	-2.3%
AUD	1.62 at 17/06	1.57 at 18/04	-0.0%
CNY	7.82 at 09/01	7.51 at 25/04	-0.4%
BRL	4.39 at 20/05	4.18 at 31/01	-0.8%
RUB	71.73 at 01/01	71.16 at 20/06	-9.6%
INR	78.53 at 04/02	76.84 at 03/04	-1.6%

At 27-6-19

Variations

### Equity indices

Index	highest' 19	lowest' 19	2019	2019(€)
CAC 40	5 592 at 23/04	4 611 at 03/01	+16.1%	+16.1%
S&P500	2 954 at 20/06	2 448 at 03/01	+16.7%	+17.3%
DAX	12 413 at 03/05	10 417 at 03/01	+16.2%	+16.2%
Nikkei	21 338 at 25/04	19 562 at 04/01	+6.6%	+9.1%
China*	79 at 09/04	68 at 03/01	+11.6%	+12.4%
India*	599 at 03/06	530 at 19/02	+6.3%	+8.0%
Brazil*	2 195 at 04/02	1 862 at 17/05	+12.6%	+13.6%
Russia*	736 at 20/06	572 at 01/01	+18.5%	+29.3%

At 27-6-19

Variations

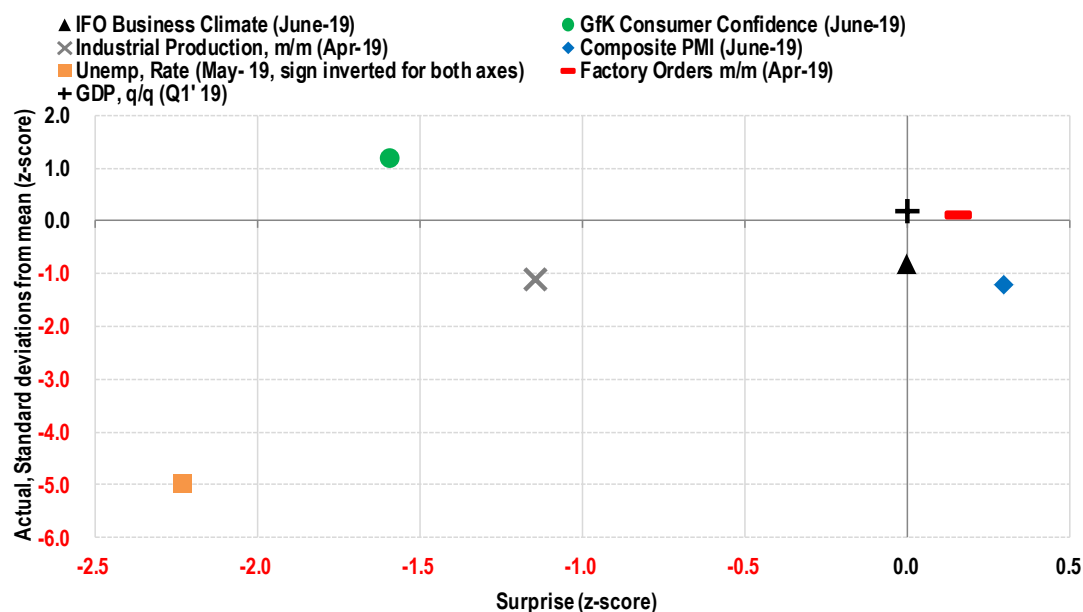
\* MSCI index



## Pulse

### Germany: Signs of stabilisation

Today's Pulse for Germany suggests that the economy is doing even less well than the already diminishing expectations. But on closer inspection, it does not look half so bad. In fact, some indicators such as the Ifo climate index and manufacturing orders are showing signs of stabilising, albeit at a low level. Consumer confidence recorded losses for a second month in a row. However, also in this case, the assessment of the economic climate showed signs of stabilisation. Finally, the worst negative surprise came from unemployment, rising in May for the first time in five years. The weak economic environment may have played the role. But the main reason was an inspection carried out by the Federal Audit Office which unearthed 30k to 40k more unemployed than previously reported. Again an example of German thoroughness.



Source: Bloomberg, Markit, BNP Paribas

### Indicators preview

As usual, the first week of the month is very heavy in terms of data releases. Japan will publish the Tankan survey and consumer confidence and, in the eurozone, the unemployment rate for May will be released. As usual, attention will however go to the purchasing manager indices (manufacturing, services, composite) in several countries as well as both ISM indicators in the US. Most importantly, we will also have the labour market data in the US.

Date	Country/Region	Event	Period	Survey	Prior
07/01/2019	Japan	Tankan Large Manufacturing	2Q	--	--
07/01/2019	China	Caixin Manufacturing PMI	June	50.0	50.2
07/01/2019	Japan	Consumer Confidence	June	--	39.4
07/01/2019	France	Markit Manufacturing PMI	June	--	52.0
07/01/2019	Eurozone	Markit Manufacturing PMI	June	--	47.8
07/01/2019	Eurozone	Unemployment Rate	May	--	7.6%
07/01/2019	United States	Manufacturing ISM	June	51.4	52.1
07/03/2019	China	Caixin Composite PMI	June	--	51.5
07/03/2019	France	Markit Composite PMI	June	--	52.9
07/03/2019	Eurozone	Markit Composite PMI	June	--	52.1
07/03/2019	United States	Durable Goods Orders	May	--	--
07/03/2019	United States	Non Manufacturing ISM	June	56.0	56.9
07/05/2019	United States	Change in Nonfarm Payroll Employment	June	165,000	75,000

Source: Bloomberg, BNP Paribas



## Economic scenario

### UNITED STATES

- Growth picked-up by early 19 but this was partly due to one-off factors (inventories). The trend in private domestic demand is more subdued. The housing market is softening, corporate investment should slow, as well as exports. Core inflation remains well under control and has eased a bit.
- Regarding the more cautious message delivered by the Fed's president. J. Powell (about trade tensions), we believe the Fed Funds target rate will be cut by 2 quarter points in Q3, coming back to 1.75-2%

### CHINA

- Economic growth continues to slow. Activity rebounded in March 2019 but weakened again afterwards. The recent flare-up in trade tensions with the US has again darkened export prospects.
- The central bank is easing liquidity and credit conditions, though the reduction in financial-instability risks via regulatory tightening should remain a priority. Fiscal policy has also turned 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 support consumer spending.

### EUROZONE

- Despite a stronger than expected growth in the 1<sup>st</sup> quarter of 2019, the economic slowdown is continuing in the eurozone, especially in Germany, due to international environment uncertainties and a slowdown of exports to China. Capacity constraints also play a role and activity in the manufacturing sector continues to decline.
- 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.
- Monetary policy remains cautious and proactive, the ECB announcing the launch of another round of longer-term refinancing operations (TLTRO) for eurozone banks.

### 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, we expect the Fed to cut rates twice in the second semester in reaction to a slowing economy, subdued inflation and heightened uncertainty. Bond markets are already pricing in rate cuts, which is why we expect that the decline of the 10 year treasury yield will only be moderate.
- The combination of slower growth and subdued core inflation leads us to expect that ECB official rates will remain unchanged this year and next. 10 year Bund yields are expected to rise only marginally to 0.00% by the end of this year. We forecast a yield of 0.15% by the end of 2020.
- No change expected in Japan.
- We expect the euro to strengthen versus the dollar considering that the latter is expensive on valuation grounds and that the Fed will ease its policy

%	GDP Growth			Inflation		
	2018	2019 e	2020 e	2018	2019 e	2020 e
<b>Advanced</b>	<b>2.2</b>	<b>1.8</b>	<b>1.3</b>	<b>2.0</b>	<b>1.6</b>	<b>1.6</b>
United-States	2.9	2.7	1.8	2.4	2.1	2.0
Japan	0.8	0.6	0.2	1.0	0.6	0.5
United-Kingdom	1.4	1.3	1.4	2.5	1.9	1.9
<b>Euro Area</b>	<b>1.9</b>	<b>1.1</b>	<b>1.0</b>	<b>1.8</b>	<b>1.3</b>	<b>1.3</b>
Germany	1.4	0.6	1.0	1.9	1.5	1.5
France	1.7	1.3	1.2	2.1	1.4	1.5
Italy	0.7	0.3	0.2	1.3	0.9	0.9
Spain	2.6	2.2	1.9	1.7	1.0	1.2
<b>Emerging</b>	<b>4.5</b>	<b>4.2</b>	<b>4.7</b>	<b>4.7</b>	<b>4.8</b>	<b>4.3</b>
China	6.6	6.2	6.0	2.1	2.2	2.6
India*	7.0	7.4	7.6	3.4	3.5	4.2
Brazil	1.1	0.8	2.5	3.7	3.9	3.9
Russia	2.3	1.5	1.7	2.9	5.1	4.1

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	Q2e	Q3e	Q4e			
<b>US</b>	Fed Funds	2.50	2.50	2.00	2.00	2.50	2.00	1.75
	Libor 3m \$	2.60	2.45	2.00	2.00	2.81	2.00	1.80
	T-Notes 10y	2.42	2.10	1.95	1.90	2.69	1.90	2.25
<b>Ezone</b>	ECB Refi	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Euribor 3m	-0.31	-0.30	-0.30	-0.30	-0.31	-0.30	-0.30
	Bund 10y	-0.07	-0.05	-0.05	0.00	0.25	0.00	0.15
	OAT 10y	0.26	0.30	0.30	0.30	0.71	0.30	0.45
<b>UK</b>	Base rate	0.75	1.00	1.00	1.25	0.75	1.25	1.25
	Gilts 10y	1.00	1.85	2.00	2.10	1.27	2.10	2.10
<b>Japan</b>	BoJ Rate	-0.06	-0.10	-0.10	-0.10	-0.07	-0.10	-0.10
	JGB 10y	-0.09	-0.03	-0.02	-0.02	0.00	-0.02	-0.05

Source : BNP Paribas GlobalMarkets (e: Forecasts)

Exchange Rates		2019				2018	2019e	2020e
End of period		Q1	Q2e	Q3e	Q4e			
USD	EUR / USD	1.12	1.13	1.16	1.20	1.14	1.20	1.25
	USD / JPY	111.0	108.0	105.0	102.0	110.0	102.0	95.0
	GBP / USD	1.30	1.27	1.32	1.38	1.27	1.38	1.49
	USD / CHF	1.00	1.01	0.99	0.97	0.99	0.97	0.94
EUR	EUR / GBP	0.85	0.89	0.88	0.87	0.90	0.87	0.84
	EUR / CHF	1.12	1.14	1.15	1.16	1.13	1.16	1.18
	EUR / JPY	124.0	122.0	122.0	122.0	125.0	122.0	119.0

Source : BNP Paribas GlobalMarkets (e: Forecasts)



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