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BNP PARIBAS

The bank
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THE (UNWARRANTED) STAGFLATION NARRATIVE OF 2021

Strong US and Eurozone GDP growth in the second and third quarters should be followed by a gradual slowdown. Due to the 'acquis de croissance' going into the fourth quarter, the perceived slowdown versus the third quarter could be much bigger than what shows up in the current forecasts. In the US, the current elevated inflation will take time to decline. In conjunction with slowing growth, this could boost the stagflation narrative. Such a depiction of the economic environment seems unwarranted however, considering that inflation should decline further in the first half of next year and that the US economy should continue to grow above potential.

As we move into the second half of the year, what is to be expected in terms of economic growth? The question matters for businesses, households and governments – is there need for additional stimulus – but it should also influence the communication and decisions from central banks.

During the course of the second quarter, household and business confidence have continued to improve in a large number of countries. Concerning the latter, we have reached multi-decades highs in the US and are close to previous peaks in the Eurozone (chart 1). When business surveys have reached elevated levels, the likelihood of moving significantly higher goes down, implying a loss of growth momentum.

According to the Bloomberg consensus, the peak in quarterly real GDP growth has probably been reached in the second quarter of this year in the US and, in the euro area, this is expected to occur in the third quarter. Subsequently, growth is anticipated to slow down gradually over the rest of the forecast horizon, which stretches until the end of 2022. By then, growth should still be above potential, but far less so than is currently the case.

This slowdown shouldn't come as a surprise as it will follow a big growth acceleration that, to a large degree, has been mechanistic, triggered by the lifting of Covid-19-related restrictions that has been made possible by rapidly rising vaccination numbers. In many countries, Google mobility data for the retail and leisure sector have already converged back to the pre-pandemic reference point taken at the start of 2020. When activity and demand have to a large degree normalised, inevitably, monthly and quarterly growth is expected to slow. Whether this is an issue first and foremost depends on the extent of the slowdown. The Bloomberg consensus is projecting a rather gentle deceleration in the US and a somewhat bigger decline in the Eurozone.

However, one should keep in mind that part of the growth in the fourth quarter will reflect an 'overflow effect' (*acquis de croissance*) from the previous quarter. This effect can, relatively speaking, be quite sizeable. Suppose that GDP, after having grown linearly throughout the third quarter, remains stuck for the remainder of the year at the level reached in September. In such a scenario, quarterly growth in the fourth quarter would still be around 0.6% (non-annualised). It implies that of the current Bloomberg consensus forecast, approximately half is explained by this statistical effect. This could mean that the perceived slowdown would be much bigger than what shows up in the forecasts.

Whether this matters depends on the perspective taken. Households and businesses may very well focus on the ongoing improvement in the labour market, in sales numbers, profits, etc. Financial markets on the other hand may be more concerned because they are far more sensitive to changes in the pace of growth. As shown in chart 3, German Bund yields tend to decline once the European Commission's economic sentiment index for the Eurozone has peaked. Charts 4 and 5 show the sensitivity of financial analysts to growth momentum. When business surveys in the US and the Eurozone start to decline, net revision activity of earnings for the next 12 months is impacted. Upward revisions still dominate downward adjustments, but far less than before. This may weigh on the risk appetite of investors.

ISM, PMI & ECONOMIC SENTIMENT INDICATOR

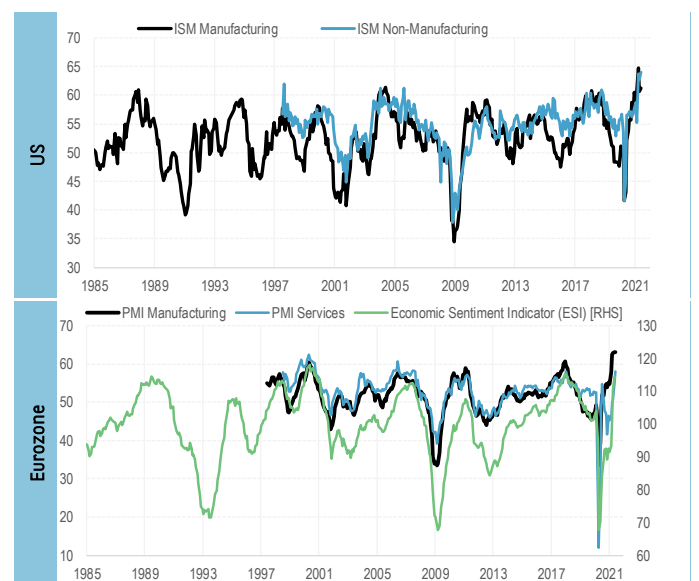


CHART 1

SOURCE: ISM, IHS MARKIT, EUROPEAN COMMISSION, BNP PARIBAS

Due to the 'acquis de croissance' going into the fourth quarter, the perceived slowdown versus the third quarter could be much bigger than what shows up in the current forecasts.



The extent of the growth slowdown is also relevant from another perspective. During the press conference after the latest FOMC meeting, Fed chairman Jerome Powell was asked by a journalist "doesn't it seem like there's a risk of [...] stagflation. If you're going to go from 7 percent and down, that means the economy's really [...] dropping in some way"¹. Due to base effects – comparison with prices that, last year, were particularly low due to the lockdown measures – and temporary factors – supply bottlenecks –, the decline of annual inflation in the US in the second semester will probably be rather slow. In conjunction with slowing growth, this could boost the stagflation narrative. Such a depiction of the economic environment would be unwarranted however, considering that inflation should decline further in the first half of next year and that the economy should continue to grow above potential.

William De Vijlder

1. Source: Federal Reserve, Transcript of Chair Powell's Press Conference, 16 June 2021. The name of the journalist is Gregg Robb from MarketWatch.

BLOOMBERG CONSENSUS

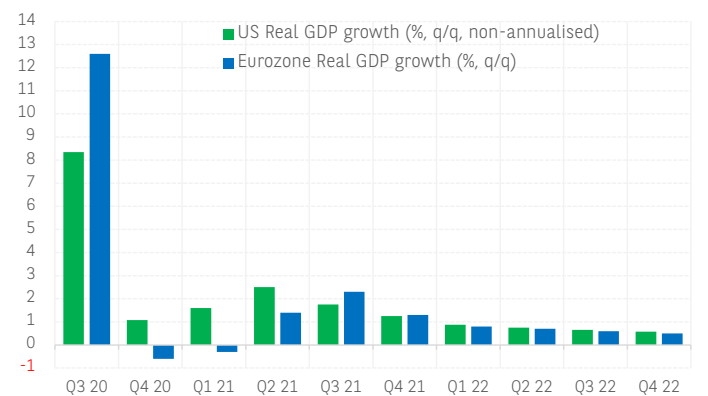


CHART 2 SOURCE: BLOOMBERG CONSENSUS (24/06/2021), BNP PARIBAS

UNITED STATES: EARNINGS REVISIONS & ISM

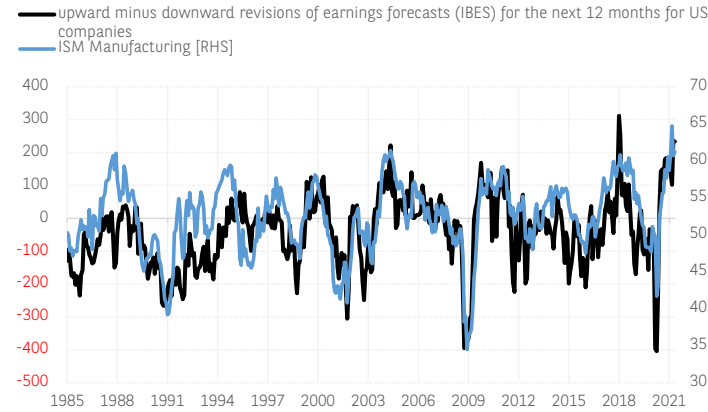


CHART 4 SOURCE: ISM, IBES, REFINITIV, BNP PARIBAS

EUROZONE ESI AND 10-YEAR BUND YIELD

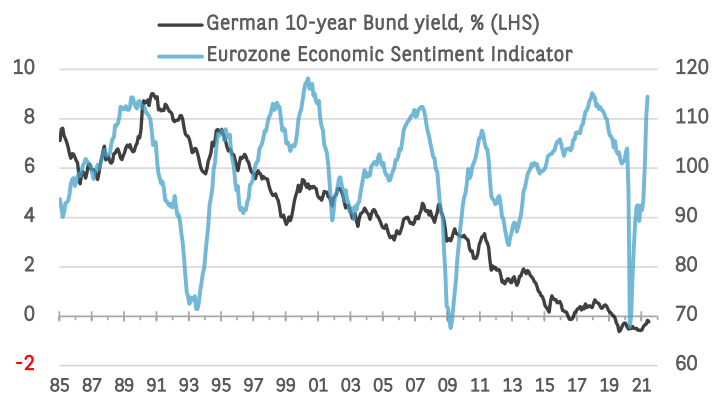


CHART 3 SOURCE: REFINITIV, EUROPEAN COMMISSION, BNP PARIBAS

EUROZONE: EARNINGS REVISIONS & ISM



CHART 5 SOURCE: EUROPEAN COMMISSION (DG ECFIN), IBES, REFINITIV, BNP PARIBAS



MARKETS OVERVIEW

OVERVIEW

Week 18-6-21 to 25-6-21

➔ CAC 40	6 569	▶ 6 623	+0.8 %
➔ S&P 500	4 166	▶ 4 281	+2.7 %
➔ Volatility (VIX)	20.7	▶ 15.6	-5.1 pb
➔ Euribor 3M (%)	-0.54	▶ -0.54	+0.6 bp
➔ Libor 3M (%)	0.13	▶ 0.15	+1.1 bp
➔ OAT 10y (%)	0.08	▶ 0.14	+6.0 bp
➔ Bund 10y (%)	-0.25	▶ -0.20	+5.4 bp
➔ US Tr. 10y (%)	1.45	▶ 1.54	+8.6 bp
➔ Euro vs dollar	1.19	▶ 1.20	+0.8 %
➔ Gold (ounce, \$)	1 776	▶ 1 781	+0.3 %
➔ Oil (Brent, \$)	73.6	▶ 76.3	+3.6 %

MONEY & BOND MARKETS

Interest Rates	highest 21	lowest 21	Yield (%)	highest 21	lowest 21
€ ECB	0.00	0.00	at 01/01	0.00	at 01/01
Eonia	-0.48	-0.47	at 26/01	-0.50	at 01/01
Euribor 3M	-0.54	-0.53	at 07/05	-0.56	at 06/01
Euribor 12M	-0.48	-0.47	at 20/04	-0.52	at 02/02
\$ FED	0.25	0.25	at 01/01	0.25	at 01/01
Libor 3M	0.15	0.24	at 13/01	0.12	at 14/06
Libor 12M	0.25	0.34	at 01/01	0.23	at 15/06
€ BoE	0.10	0.10	at 01/01	0.10	at 01/01
Libor 3M	0.08	0.09	at 24/03	0.03	at 01/01
Libor 12M	0.18	0.18	at 24/06	0.07	at 11/01

Yield (%)	highest 21	lowest 21
€ AVG 5-7y	-0.14	-0.03
Bund 2y	-0.64	-0.64
Bund 10y	-0.20	-0.11
OAT 10y	0.14	0.23
Corp. BBB	0.69	0.79
Treas. 2y	0.26	0.26
Treas. 10y	1.54	1.75
High Yield	4.53	4.87
gilt. 2y	0.09	0.13
gilt. 10y	0.81	0.93

At 25-6-21

EXCHANGE RATES

1€ =	highest 21	lowest 21	2021
USD	1.20	1.23	at 06/01
GBP	0.86	0.91	at 06/01
CHF	1.10	1.11	at 04/03
JPY	132.39	133.97	at 28/05
AUD	1.57	1.60	at 04/01
CNY	7.71	8.00	at 01/01
BRL	5.89	6.95	at 03/03
RUB	86.31	92.47	at 20/04
INR	88.67	90.39	at 23/04

At 25-6-21

COMMODITIES

Spot price, \$	highest 21	lowest 21	2021	2021(€)
Oil, Brent	76.3	76.3	at 25/06	51.2
Gold (ounce)	1 781	1 947	at 05/01	1 682
Metals, LMEX	4 137	4 402	at 11/05	3 415
Copper (ton)	9 388	10 449	at 11/05	7 749
wheat (ton)	238	2.9	at 07/05	231
Corn (ton)	244	2.9	at 07/05	188

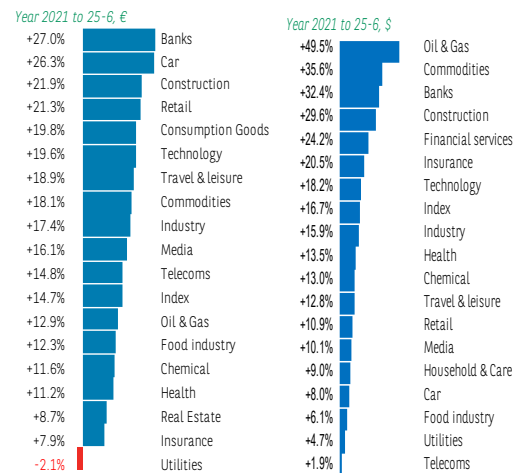
At 25-6-21

EQUITY INDICES

Index	highest 21	lowest 21	2021
World			
MSCI World	3 025	3 025	at 25/06
North America			
S&P500	4 281	4 281	at 25/06
Europe			
EuroStoxx50	4 121	4 158	at 17/06
CAC 40	6 623	6 666	at 17/06
DAX 30	15 608	15 730	at 15/06
IBEX 35	9 095	9 281	at 14/06
FTSE100	7 136	7 185	at 16/06
Asia			
MSCI, loc.	1 142	1 150	at 15/06
Nikkei	29 066	30 468	at 16/02
Emerging			
MSCI Emerging (\$)	1 380	1 445	at 17/02
China	110	130	at 17/02
India	763	776	at 11/06
Brazil	2 066	2 098	at 24/06
Russia	792	799	at 14/06

At 25-6-21

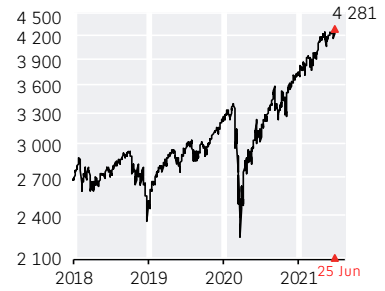
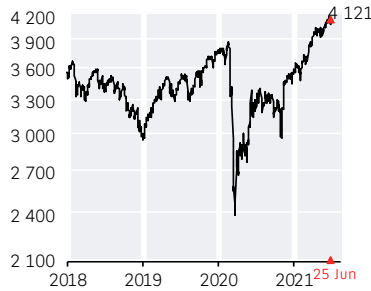
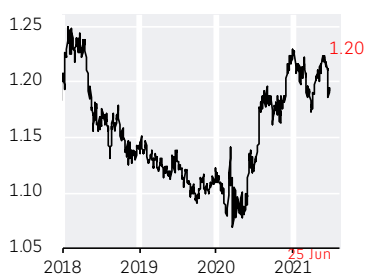
PERFORMANCE BY SECTOR (Eurostoxx50 & S&P500)



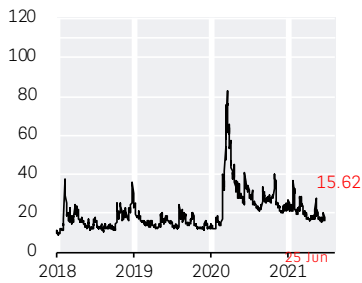
SOURCE: REFINITIV, BNP PARIBAS,



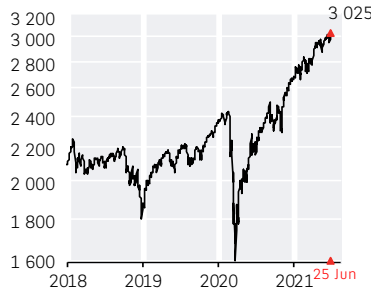
MARKETS OVERVIEW



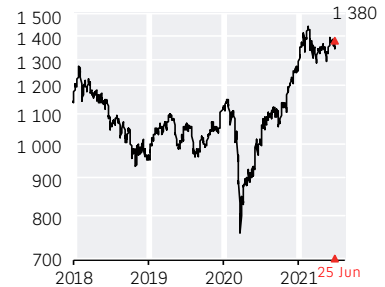
VOLATILITY (VIX, S&P500)



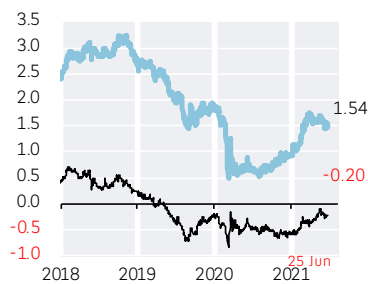
MSCI WORLD (USD)



MSCI EMERGING (USD)

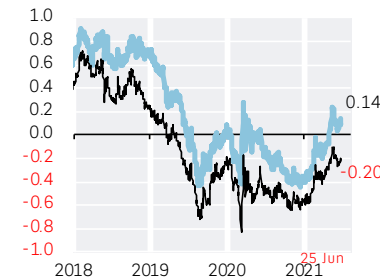


10Y BOND YIELD, TREASURIES VS BUND



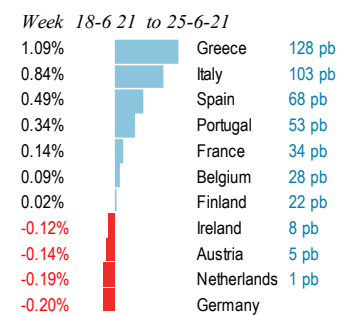
—Bunds —US Treasuries

10Y BOND YIELD

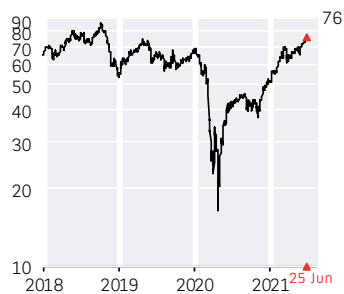


—Bunds —OAT

10Y BOND YIELD & SPREADS



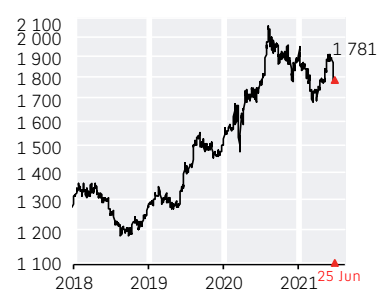
OIL (BRENT, USD)



METALS (LMEX, USD)



GOLD (OUNCE, USD)



SOURCE: REFINITIV, BNP PARIBAS



ECONOMIC PULSE

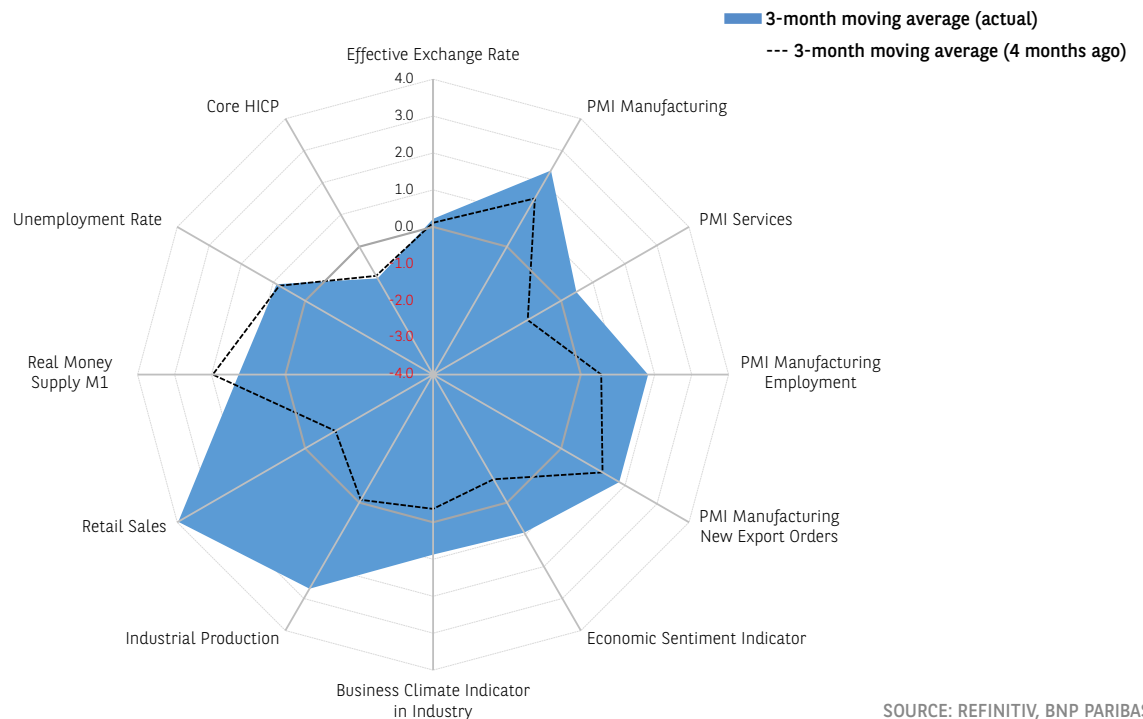
EUROZONE: WHEN WILL THE ECONOMY REACH ITS CYCLICAL PEAK?

The Eurozone has still not reached its cyclical peak. The situation has continued to improve over the past three months and the recovery has now spread to all parts of the economy. After rising strongly since April 2020, the Purchasing Managers Index (PMI) for the manufacturing sector levelled off at a very high level in June (63.1). Manufacturing PMI is still going strong, although the indicator suffered from a dip in the “new export orders” component, which slipped to 60.9 in June. Yet this level is still high compared to its long-term average. The “jobs” component of the manufacturing PMI also levelled off at a high level (57.8 in June). Hard data confirm these survey results: industrial production increased massively in April, for the second consecutive month, partly due to a strong base effect. In the tradeable services sector, where it is reasonable to expect activity to rebound more belatedly, the services PMI picked up again. After 50.5 in April and 55.2 in May, it rose to 58 in June 2021, the highest level since early 2018. The gradual lifting of health restrictions in most of the Eurozone countries combined with the acceleration of vaccination campaigns are creating a brighter outlook. The European Commission’s business sentiment index continued to rise to 114.5 in May 2021, the highest level since January 2018, and well above the long-term average. Moreover, Eurozone household confidence is now well above pre-pandemic levels. This favourable momentum is reflected in retail sales, which accelerated strongly in April. All of this augurs well for an ongoing catching-up movement in the Eurozone, especially since consumers have accumulated considerable savings last year.

Fears of rising inflation must be kept in perspective. The upsurge in prices in recent months is largely due to temporary factors, especially those linked to oil price trends. Core inflation is still low relative to the long-term average and to the European Central Bank’s 2% target. The persistently high “halo” of unemployment (which takes into account discouraged workers and those forced to accept short-time jobs) does not point towards an uncontrolled rise in inflation. Nominal wages in the Eurozone also slowed in Q1 2021, after accelerating in the previous quarters.

Louis Boisset

EUROZONE: QUARTERLY CHANGES



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



ECONOMIC PULSE

GERMANY: GROWTH MOMENTUM NEEDS TO STRENGTHEN FURTHER

The German economy is strongly rebounding according to our Pulse. The blue area, representing the situation in the past three months, has clearly expanded compared to that in the preceding three-month period (the area within the dashed line). The latest data confirm that the growth momentum is strengthening. In June, the IFO climate index reached 101.8 (2015=100), a highest since April 2018. Companies were notably more satisfied with their current business. The recovery is also broad-based with the climate index progressing in all sectors.

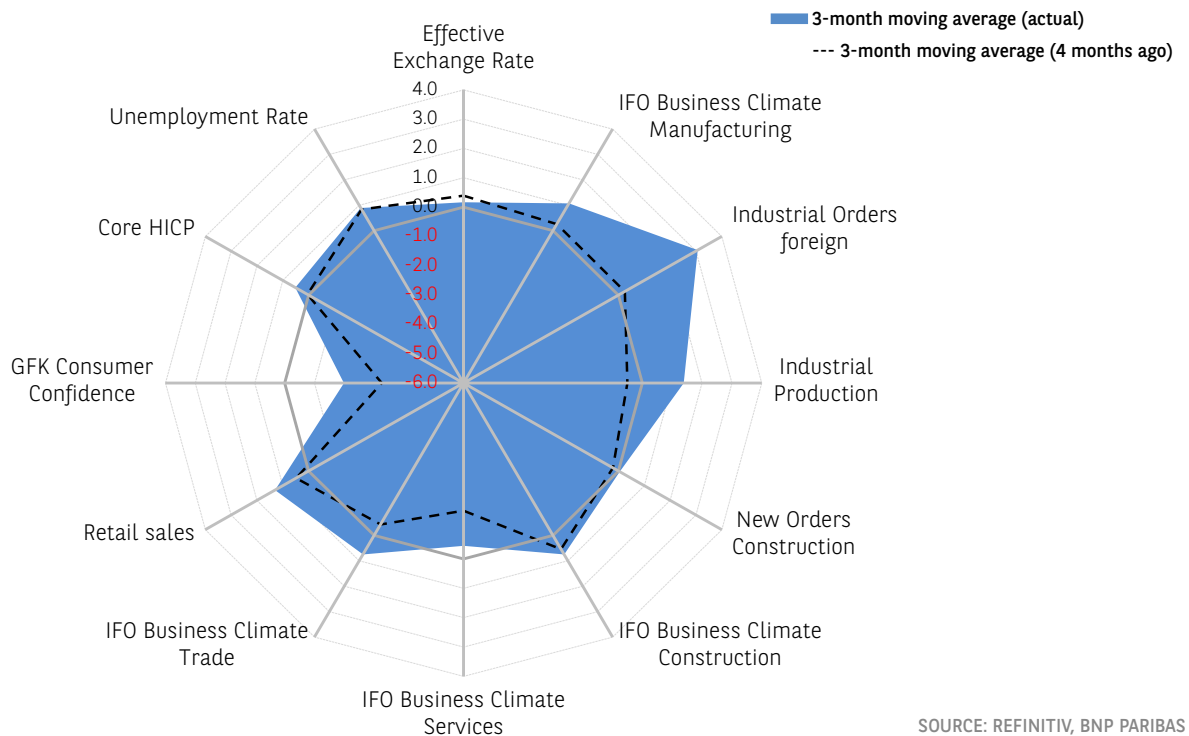
The manufacturing sector has reported a strong inflow of orders, mainly from the outside of the eurozone. However, the crisis is certainly not over in this sector. In June, business expectations actually deteriorated, as companies have become concerned about supply shortages of intermediate goods. The output of the large motor vehicles industry has been on a declining trend since last December, partly owing to the shortage of semiconductors. The energy transition is adding to the problems. By contrast, activity has been buoyant in chemicals and pharmaceuticals, and in optical and electronic equipment. The climate in the construction sector only improved slightly, as material shortages continue to pose major problems. In addition, the sector struggles to find qualified workers, a problem that pre-dates the coronavirus crisis.

The main improvement in sentiment was in the trading and services sectors. The retail sector suffered in the early months of the year from the forced shop closures. Only the online-sales business benefited from these measures and could increase its turnover by more than 40% compared to the end of 2019. In recent months, the reopening of shops has boosted retail activity. Not surprisingly, in May and June, retailers reported a remarkable improvement in their business conditions.

We should be prudent in interpreting the data for two reasons. First, the economy is on the rebound, which could easily peter out if the recovery is not supported by a very accommodative fiscal stance. Many of the support measures will stay in place at least until after the federal election on 26 September. It is important that all political parties realise that a government should be quickly formed after this date to steer the economy through this difficult phase in the recovery. Second, the recovery can easily be thrown off track by a new wave of infections. Hence, the authorities are proceeding very carefully in removing the lockdown restrictions.

Raymond Van Der Putten

GERMANY: QUARTERLY CHANGES



SOURCE: REFINITIV, BNP PARIBAS

The indicators in the radar are all transformed into 'z-scores' (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -6 and +4. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.



ECONOMIC PULSE

FRANCE: BUSINESS SENTIMENT AT THE HIGHEST LEVEL SINCE SUMMER 2007

Our Pulse continues to show a significant improvement in France's economic situation in recent months compared to the previous three months. For activity indicators, the blue area largely surpasses the area marked by the dotted line, whereas for the confidence surveys, it exceeds or is very close to the grey hendecagon that delineates the long-term average.

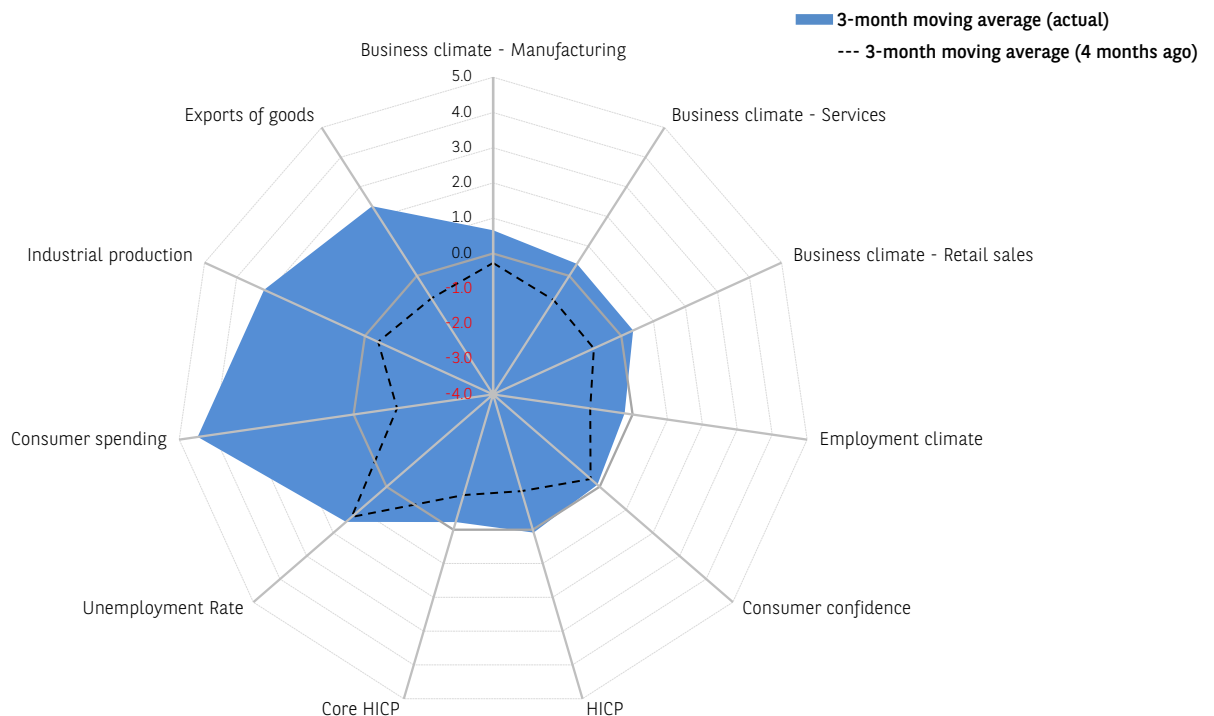
Like a month ago, the improvement in economic data hinges on a very favourable base effect. In April 2021, household spending on goods was undermined by the third lockdown and declined 8.3% m/m. Yet this was much smaller than the 18.9% m/m decline reported during the first lockdown in April 2020. Consequently, on a year-on-year (y/y) basis, spending jumped 32%. Similarly, industrial production declined slightly on a monthly basis (-0.1% m/m) but surged 43.9% y/y. Exports rose 1.6% m/m but were up 70.4% y/y.

After an impressive rebound in May, the INSEE business sentiment surveys continued to improve in June, lifted by another easing of health restrictions. The composite index gained 5 points (after +12 in May), the services index, 6 points (after +15) and the retail trade index, 8 points (after +17). In industry, the business sentiment index held steady after rising continuously since December 2020, as the INSEE pointed out. Buoyed by all economic sectors, the INSEE composite index reached 113, the highest level since summer 2007. This is well above the pre-crisis level of 105, which was already higher than the benchmark of 100.

The recovery is fuelled by a powerful mechanistic catching-up movement, which is bound to wind down in the months ahead as the various economic sectors return to pre-crisis levels. The surveys have reached such high levels recently that the upside potential is beginning to diminish. We must prepare to see these surveys level off or even decline, although that would not necessarily be a bad sign: it would only mean that growth rates return to more normal levels, although they will remain high thanks to support from the fiscal stimulus. By the end of the year, the economy as a whole should return to pre-crisis levels, although this general recovery will probably continue to mask sector disparities. Some sectors will surpass their pre-crisis levels (for instance real estate, finance, information and communications services and non-market services), while others will still fall short (such as transport equipments, hotel and restaurant services, and recreational activities).

Hélène Baudchon

FRANCE: QUARTERLY CHANGES



SOURCE: REFINITIV, BNP PARIBAS

The indicators in the radar are all transformed into 'z-scores' (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -4 and +5. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.



ECONOMIC PULSE

THE EU VACCINATION CAMPAIGN MAINTAINS A RAPID PACE

The Covid-19 pandemic continued to slow worldwide for the seventh consecutive week, with the number of new cases down 5% in the week of 15-22 June compared to the previous week. This has been the lowest number of new cases since February 2021. The downward trend can be seen in all regions with the exception of Africa, the only continent to report an increase in the number of new cases (+28%) during the week (chart 1). Moreover, the vaccination campaigns continue to progress worldwide. According to the most recent data available on the University of Oxford's Our World in Data website, 22% of the global population has received at least one dose of the Covid-19 vaccine. This figure integrates data on vaccinations in China, published since 10 June. In the European Union, the vaccination campaign is maintaining a rapid pace: 48% of the population has now received at least one dose. With this figure, the EU has caught up its lag after its vaccination campaign got off to a very slow start (chart 2).

After favourable momentum, retail and leisure footfall declined slightly in Europe over the past week. This decline is due notably to inclement weather conditions recently. Even so, consumer traffic is still high and has virtually returned to normal. In the United States, it continues to rise and the 7-day moving average is now -2.7% compared to the baseline*, the highest figure since mid-March 2020 (chart 3).

Lastly, the OECD Weekly Tracker of annual GDP growth shows the dynamic momentum in Belgium recently. In Germany and Japan, the Tracker declined after a brief rebound, while it continued to decline in France, Italy, Spain and the United States (chart 3). The OECD Tracker is based on Google Trends resulting from queries on consumption, the labour market, housing, industrial activity as well as uncertainty. Note that these calculations may partly reflect a base effect.

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)

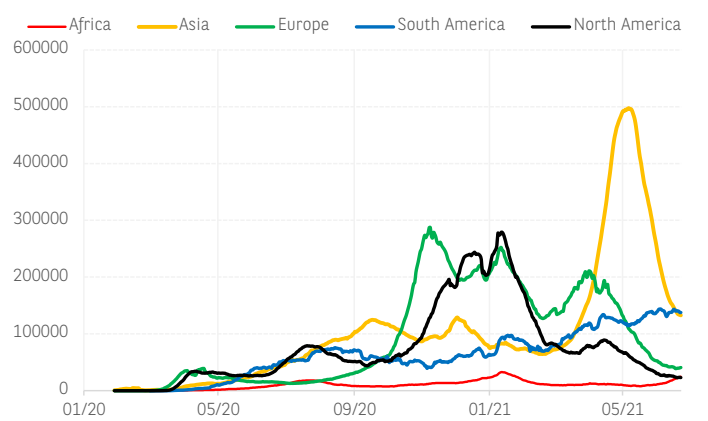


CHART 1 SOURCE: JOHNS-HOPKINS UNIVERSITY (06/24/2021), BNP PARIBAS

SHARE OF PEOPLE WHO RECEIVED AT LEAST ONE DOSE OF VACCINE

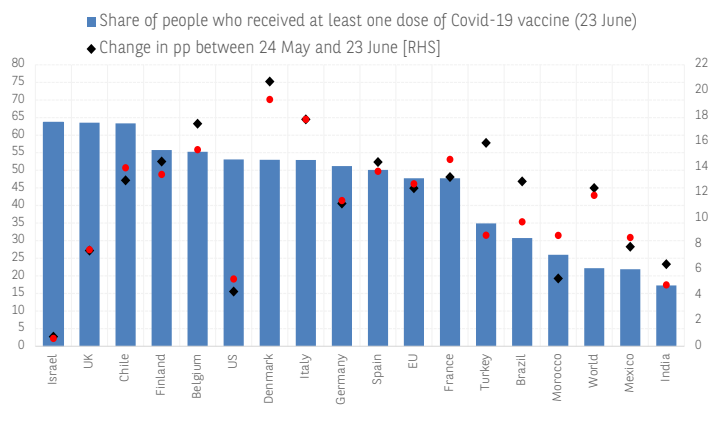
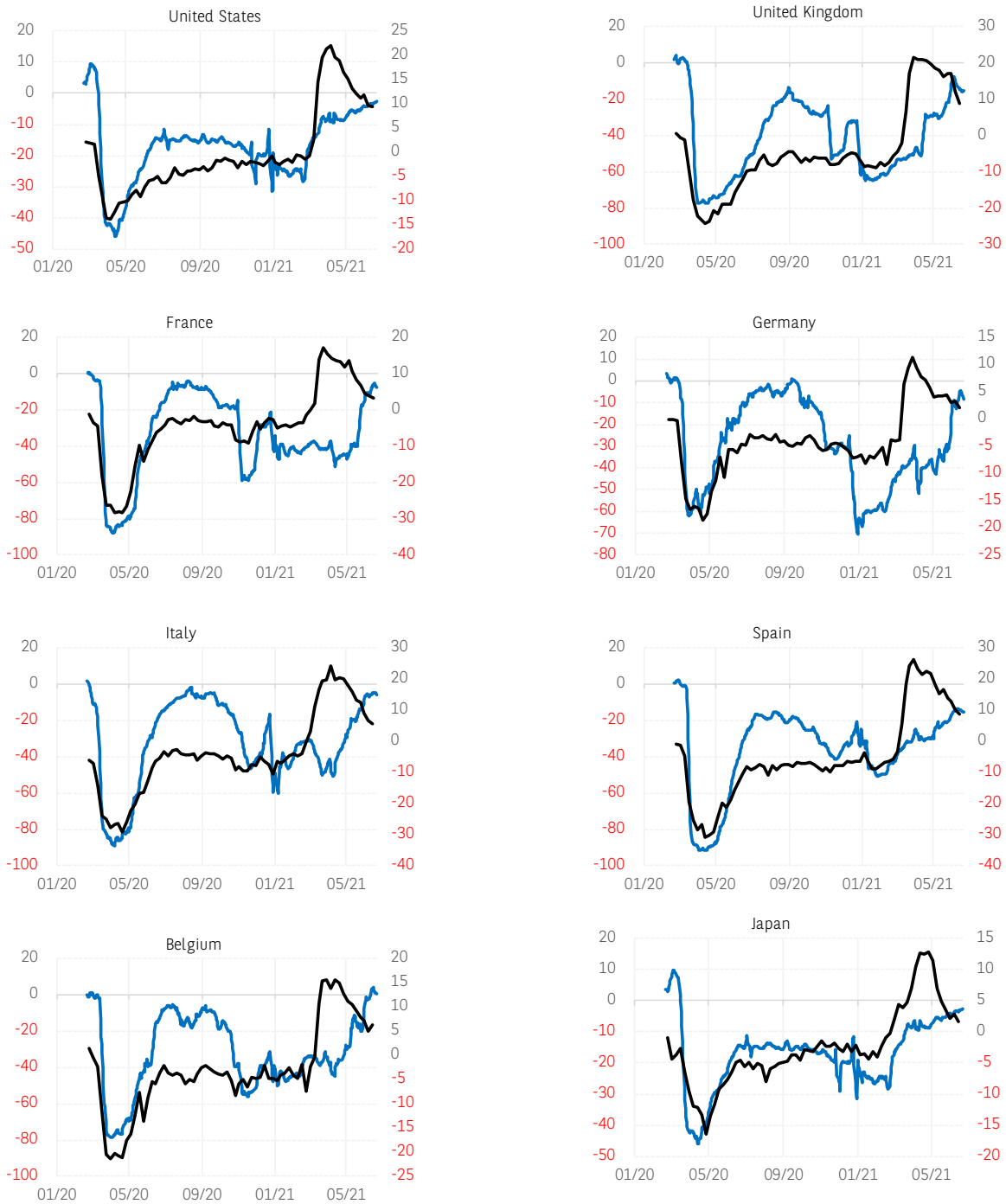


CHART 2 SOURCE: OUR WORLD IN DATA (06/24/2021), BNP PARIBAS

RETAIL AND RECREATION MOBILITY & OECD WEEKLY TRACKER

— Retail and recreation mobility (7-day moving average, % from baseline*) — OECD Weekly tracker, y/y GDP growth [RHS]



SOURCE: OECD (06/24/2021), GOOGLE (06/23/2021), BNP PARIBAS



ECONOMIC SCENARIO

11

UNITED STATES

Having limited the damage in 2020, the US economy is now recovering fast, driven by a vaccination campaign that is steaming ahead and raising hopes of collective immunity to Covid-19 being achieved at some point in the summer. The economy has also benefited from the exceptional fiscal stimulus package, which is twice the size of that put in place after the financial crisis of 2008. As a result, US GDP growth will be close to 7% in 2021, opening the way to a rapid return to pre-crisis levels. The employment deficit remains significant as a result of the pandemic, but this should steadily be absorbed, opening the way to a rapid fall in the unemployment rate, which is expected to be around the 5% mark in the second half. Expected inflation has risen sharply and is unlikely to fall back, particularly as reported inflation is picking up. Over the coming months the latter is likely to run well above the 2% target set by the Federal Reserve.

CHINA

The post-Covid19 rebound in industrial production and exports reached its peak in the first months of 2021 and growth rates should normalize gradually in the coming quarters. Manufacturing investment growth may accelerate while investment growth in infrastructure and real estate projects is expected to slow. The recovery in the services sector and in private consumption, which was still somewhat disappointing in H1 2021, should gain some momentum in H2 thanks to the acceleration of the vaccination campaign. Given the softer economic growth rebound, moderate consumer price inflation pressures and continued RMB appreciation over the past year, the authorities are expected to tighten the monetary and credit policy very cautiously in the short term. Fiscal support is also being withdrawn gradually.

EUROZONE

After an historic recession in 2020 (-6.8%, annual average), the Eurozone economy rebounded firmly in the first half of 2021. The annual growth should be +4.8% this year and +5.2% in 2022. Eurozone GDP could reach its pre-crisis level faster than we expected before, around end-2021. The acceleration of vaccines rollout in a large majority of Members States of the Eurozone and the progressive lifting of health restrictions reduce uncertainties for economic agents. Consumers' confidence in particular has increased rapidly over the past few months. Also, in this still tricky situation, the policy-mix will remain accommodative to support the recovery. The rise in inflation should be temporary.

FRANCE

Based on the May and June business confidence surveys, the economy is rebounding more strongly than expected from the third lockdown. We have raised our Q2 growth forecasts, from near zero to near 1% QoQ. In Q3, the mechanical rebound would bring growth to about 3% QoQ. Growth would then slow down but remain high, supported by the fiscal stimulus. The flip side of the coin of the vigorous recovery in demand is that supply, which is less responsive, is under pressure. Procurement problems, rising input prices, hiring difficulties are all sticking points to watch that could slow the recovery. In 2021, growth would average 6% (an optimistic forecast, half a point above the June consensus) and it would remain strong in 2022 (4.6%). According to our scenario, GDP would exceed its pre-crisis level in Q1 2022. As for inflation, most of its recent rise is temporary. We expect it to peak in Q4 2021, before falling in 2022. However, it would be at a higher level than before the crisis, as growth strengthens and the reflationary efforts of monetary policy also bear fruit.

RATES AND EXCHANGE RATES

In the US, the outlook for inflation and employment as well as the latest signals from the FOMC point towards the central bank providing greater clarity in September about its intentions to scale back its asset purchases. We expect tapering to start in January next year. We now expect the first Fed rate hike in this cycle in early 2023, which is earlier than previously thought. 10-year Treasury yields are expected to rise this year as well as next, reflecting an increase in real yields on the back of, as of Q4 this year, slowing but still strong growth and a gradually less accommodative monetary policy. In the eurozone, the ECB will maintain its very accommodative policy centered around its asset purchases and forward guidance, in order to generate a lasting pick-up in inflation towards its target. The outcome of the strategy review, to be announced after the summer, should clearly confirm this stance. Given the expected developments in terms of growth and inflation, the net purchases of the pandemic emergency purchase

programme (PEPP) should stop at the end of March 2022 but the monthly volume under the traditional asset purchase programme should be increased on that occasion in order to avoid market disruption. 10-year Bund yields are expected to rise until the first half of 2022 and decline thereafter on the back of softer economic data. Sovereign spreads should widen somewhat in the fourth quarter of this year on the back of election-related uncertainty and the prospect of ending the PEPP.

The Bank of Japan is expected to maintain its current policy stance over the forecast horizon, whilst allowing the 10-year JGB yield to drift higher, towards the upper bound of its target range of 0 to 25bp.

We expect the dollar to strengthen versus the euro, driven by widening yield differentials and the prospect of a first Fed rate hike. Similarly, we expect an appreciation of the dollar versus the yen. The Bank of Japan is expected to maintain its current policy stance including its yield curve control strategy although the range of the latter has recently been widened to +/- 25 bp around 0%. Within this range, JGB yields are expected to move higher, following the global trend. We expect the dollar to weaken slightly versus the euro. This is the result of conflicting forces: faster growth in the US than in the eurozone but narrow interest rate differentials at the short end of the curve and a dollar which at current levels is expensive compared to fair value. Concerning the yen, little change is expected versus the dollar whereas it is expected to weaken against the euro.

GROWTH & INFLATION

%	GDP Growth				Inflation			
	2019	2020	2021 e	2022 e	2019	2020	2021 e	2022 e
United-States	2.2	-3.5	6.9	4.7	1.8	1.2	3.9	2.7
Japan	0.3	-4.7	2.2	3.3	0.5	0.0	0.0	0.2
United-Kingdom	1.5	-9.8	7.8	5.6	1.8	0.9	1.8	2.5
Euro Area	1.3	-6.7	4.8	5.2	1.2	0.3	2.1	1.8
Germany	0.6	-5.1	3.7	5.5	1.4	0.4	2.7	2.0
France	1.5	-8.0	6.0	4.6	1.3	0.5	1.8	1.3
Italy	0.3	-8.9	5.2	4.5	0.6	-0.1	1.5	1.9
Spain	2.0	-10.8	6.0	6.3	0.8	-0.4	2.3	1.8
China	6.1	2.3	8.7	5.3	2.9	2.5	1.7	2.8
India*	4.2	-7.2	8.4	9.4	4.8	6.1	5.0	5.0
Brazil	1.1	-4.1	5.5	3.0	3.7	3.2	7.2	4.8
Russia	1.3	-4.5	4.5	3.0	4.3	3.4	5.8	4.3

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, %		2021					
End of period		Q1	Q2e*	Q3e	Q4e	2021e	2022e
US	Fed Funds (upper limit)	0.25	0.25	0.25	0.25	0.25	0.25
	T-Notes 10y	1.75	1.54	1.70	1.90	1.90	2.20
Ezone	Deposit rate	-0.50	0.00	-0.50	-0.50	-0.50	-0.50
	Bund 10y	-0.33	-0.20	0.00	0.10	0.10	0.00
	OAT 10y	-0.11	0.14	0.35	0.55	0.55	0.30
	BTP 10y	0.63	0.84	1.10	1.40	1.40	1.10
UK	BONO 10y	0.34	0.49	0.70	0.90	0.90	0.80
	Base rate	0.10	0.10	0.10	0.10	0.10	0.25
Japan	Gilts 10y	0.88	0.81	0.90	1.10	1.10	1.30
	BoJ Rate	-0.04	-0.03	-0.10	-0.10	-0.10	-0.10
	JGB 10y	0.09	0.05	0.12	0.20	0.20	0.23
Exchange Rates		2021					
End of period		Q1	Q2e*	Q3e	Q4e	2021e	2022e
USD	EUR / USD	1.18	1.20	1.18	1.17	1.17	1.14
	USD / JPY	111	111	111	111	111	114
	GBP / USD	1.38	1.39	1.40	1.39	1.39	1.38
EUR	EUR / GBP	0.85	0.86	0.84	0.84	0.84	0.83
	EUR / JPY	130	132	131	130	130	130
Brent		2021					
End of period		Q1	Q2e*	Q3e	Q4e	2021e	2022e
Brent	USD/bbl	64	76	80	78	78	70

SOURCE: BNP PARIBAS GLOBAL MARKETS (E: ESTIMATES)



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CALENDAR

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LATEST INDICATORS

In the United Kingdom, the Confederation of British Industry reported improved orders in June and higher selling prices. Both releases also beat expectations. The PMIs - both manufacturing and services - were slightly lower than in May. The Bank of England left its policy unchanged, considering that it expects the rise in inflation to be transitory. In Japan, the manufacturing PMI edged down but the services PMI improved slightly. Eurozone consumer confidence improved further in June but the manufacturing PMI was stable. The services PMI on the other hand saw a big increase. In France, the manufacturing PMI declined slightly and the opposite happened for services. The INSEE business climate saw a sizeable improvement. In Germany, consumer confidence and the services PMI jumped higher. The manufacturing PMI recorded a small increase. The IFO business climate was much better than the previous month. In the US, the flash manufacturing PMI improved slightly but the services PMI saw a big drop. Personal income declined less than expected but personal spending was flat and lower than expected. The monthly change of the core deflator of personal consumption expenditures was smaller than expected and also lower than the month before. University of Michigan sentiment declined, against expectations. One year inflation expectations edged higher.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	ACTUAL	PREVIOUS
06/22/2021	Japan	Nationwide Dept Sales YoY	May	--	65.2%	167.00%
06/22/2021	Japan	Machine Tool Orders YoY	May	--	141.9%	140.70%
06/22/2021	United Kingdom	CBI Trends Total Orders	Jun	16.0	19.0	17
06/22/2021	United Kingdom	CBI Trends Selling Prices	Jun	40.0	46.0	38
06/22/2021	Eurozone	Consumer Confidence	Jun	-3.1	-3.3	-5.1
06/23/2021	Japan	Jibun Bank Japan PMI Mfg	Jun	--	51.5	53
06/23/2021	Japan	Jibun Bank Japan PMI Services	Jun	--	47.2	46.5
06/23/2021	Japan	Jibun Bank Japan PMI Composite	Jun	--	47.8	48.8
06/23/2021	France	Markit France Manufacturing PMI	Jun	59.0	58.6	59.4
06/23/2021	France	Markit France Services PMI	Jun	59.5	57.4	56.6
06/23/2021	France	Markit France Composite PMI	Jun	59.0	57.1	57
06/23/2021	Germany	Markit/BME Germany Manufacturing PMI	Jun	63.0	64.9	64.4
06/23/2021	Germany	Markit Germany Services PMI	Jun	55.7	58.1	52.8
06/23/2021	Germany	Markit/BME Germany Composite PMI	Jun	57.6	60.4	56.2
06/23/2021	Eurozone	Markit Eurozone Manufacturing PMI	Jun	62.3	63.1	63.1
06/23/2021	Eurozone	Markit Eurozone Services PMI	Jun	58.0	58.0	55.2
06/23/2021	Eurozone	Markit Eurozone Composite PMI	Jun	58.8	59.2	57.1
06/23/2021	United Kingdom	Markit UK PMI Manufacturing SA	Jun	64.0	64.2	65.6
06/23/2021	United Kingdom	Markit/CIPS UK Services PMI	Jun	62.8	61.7	62.9

SOURCE: BLOOMBERG



DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	ACTUAL	PREVIOUS
06/23/2021	United Kingdom	Markit/CIPS UK Composite PMI	Jun	62.5	61.7	62.9
06/23/2021	United States	Markit US Manufacturing PMI	Jun	61.5	62.6	62.1
06/23/2021	United States	Markit US Services PMI	Jun	70.0	64.8	70.4
06/23/2021	United States	Markit US Composite PMI	Jun	--	63.9	68.7
06/24/2021	France	Business Confidence	Jun	110.0	113.0	108
06/24/2021	Eurozone	ECB Publishes Economic Bulletin				
06/24/2021	Germany	IFO Expectations	Jun	103.6	104.0	102.9
06/24/2021	Germany	IFO Current Assessment	Jun	97.9	99.6	95.7
06/24/2021	Germany	IFO Business Climate	Jun	100.7	101.8	99.2
06/24/2021	United Kingdom	Bank of England Bank Rate	Jun	0.10%	0.10%	0.10%
06/24/2021	United States	Cap Goods Orders Nondef Ex Air	May	0.60%	-0.10%	2.20%
06/24/2021	United States	GDP Annualized QoQ	1Q	6.40%	6.40%	6.40%
06/24/2021	United States	Initial Jobless Claims	Jun	380k	411k	--
06/25/2021	United Kingdom	GfK Consumer Confidence	Jun	-7.0	-9.0	-9
06/25/2021	Japan	Tokyo CPI Ex-Fresh Food, Energy YoY	Jun	-0.10%	0.00%	-0.10%
06/25/2021	Germany	GfK Consumer Confidence	Jul	-4.0	-0.3	-7
06/25/2021	United States	Personal Income	May	-2.50%	-2.00%	-13.10%
06/25/2021	United States	Personal Spending	May	0.40%	0.00%	0.50%
06/25/2021	United States	PCE Core Deflator MoM	May	0.60%	0.50%	0.70%
06/25/2021	United States	PCE Core Deflator YoY	May	3.40%	3.40%	3.10%
06/25/2021	United States	U. of Mich. Sentiment	Jun	86.5	85.5	86.4
06/25/2021	United States	U. of Mich. Current Conditions	Jun	92.0	88.6	90.6
06/25/2021	United States	U. of Mich. Expectations	Jun	83.8	83.5	83.8
06/25/2021	United States	U. of Mich. 1 Yr Inflation	Jun	4.10%	4.20%	4.00%
06/25/2021	United States	U. of Mich. 5-10 Yr Inflation	Jun	--	2.80%	2.80%

SOURCE: BLOOMBERG



CALENDAR: THE WEEK AHEAD

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COMING INDICATORS

A very heavy week ahead of us with, as highlight, the US labour market report. Before getting there we will have seen the publication of the European Commission's business and confidence surveys, the quarterly Tankan survey in Japan, the manufacturing PMIs in several countries - China will also publish the non-manufacturing PMI - as well as the ISM in the United States.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	PREVIOUS
06/29/2021	France	ILO Unemployment Rate	1Q	--	8.00%
06/29/2021	France	Consumer Confidence	Jun	--	97
06/29/2021	Eurozone	Consumer Confidence	Jun	--	-3.3
06/29/2021	Eurozone	Economic Confidence	Jun	--	114.5
06/29/2021	Eurozone	Industrial Confidence	Jun	--	11.5
06/29/2021	Eurozone	Services Confidence	Jun	--	11.3
06/29/2021	United States	Conf. Board Consumer Confidence	Jun	118.5	117.2
06/29/2021	United States	Conf. Board Present Situation	Jun	--	144.3
06/29/2021	United States	Conf. Board Expectations	Jun	--	99.1
06/30/2021	China	Non-manufacturing PMI	Jun	55.3	55.2
06/30/2021	China	Manufacturing PMI	Jun	51	51
06/30/2021	China	Composite PMI	Jun	--	54.2
06/30/2021	United Kingdom	GDP QoQ	1Q	--	-1.50%
06/30/2021	France	Consumer Spending MoM	May	--	-8.30%
06/30/2021	Germany	Unemployment Change (000's)	Jun	--	-15.0k
06/30/2021	Eurozone	CPI Core YoY	Jun	--	1.00%
06/30/2021	Eurozone	CPI MoM	Jun	--	0.30%
06/30/2021	Eurozone	CPI Estimate YoY	Jun	--	2.00%
07/01/2021	Japan	Tankan Large Mfg Index	2Q	16	5
07/01/2021	Japan	Tankan Large Non-Mfg Index	2Q	3	-1
07/01/2021	Japan	Tankan Large Mfg Outlook	2Q	18	4
07/01/2021	Japan	Tankan Large Non-Mfg Outlook	2Q	8	-1
07/01/2021	Japan	Tankan Small Mfg Index	2Q	-5	-13

SOURCE: BLOOMBERG



DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	PREVIOUS
07/01/2021	Japan	Tankan Small Non-Mfg Index	2Q	-9	-11
07/01/2021	Japan	Tankan Small Mfg Outlook	2Q	-2	-12
07/01/2021	Japan	Tankan Small Non-Mfg Outlook	2Q	-8	-16
07/01/2021	Japan	Jibun Bank Japan PMI Mfg	Jun	--	51.5
07/01/2021	China	Caixin China PMI Mfg	Jun	52.1	52
07/01/2021	France	Markit France Manufacturing PMI	Jun	--	58.6
07/01/2021	Germany	Markit/BME Germany Manufacturing PMI	Jun	--	64.9
07/01/2021	Eurozone	Markit Eurozone Manufacturing PMI	Jun	--	63.1
07/01/2021	United Kingdom	Markit UK PMI Manufacturing SA	Jun	--	64.2
07/01/2021	Eurozone	Unemployment Rate	May	--	8.00%
07/01/2021	United States	Initial Jobless Claims	Jun	--	--
07/01/2021	United States	Markit US Manufacturing PMI	Jun	--	--
07/01/2021	United States	ISM Manufacturing	Jun	61	61.2
07/01/2021	United States	ISM Prices Paid	Jun	--	88
07/01/2021	United States	ISM New Orders	Jun	--	67
07/01/2021	United States	ISM Employment	Jun	--	50.9
07/02/2021	United States	Change in Nonfarm Payrolls	Jun	690k	559k
07/02/2021	United States	Unemployment Rate	Jun	5.70%	5.80%
07/02/2021	United States	Average Weekly Hours All Employees	Jun	34.9	34.9
07/02/2021	United States	Average Hourly Earnings MoM	Jun	0.30%	0.50%
07/02/2021	United States	Labor Force Participation Rate	Jun	--	61.60%
07/02/2021	United States	Underemployment Rate	Jun	--	10.20%
07/02/2021	United States	Cap Goods Orders Nondef Ex Air	May	--	--

SOURCE: BLOOMBERG



FURTHER READING

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Inside the money creation in the United States	Conjoncture	25 June 2021
Morocco: confident despite challenges	Conjoncture	25 June 2021
Is there a risk of stagflation?	EcoTVWeek	25 June 2021
Eurozone: rising inflation is driven by energy prices	Chart of the Week	23 June 2021
US : Federal Reserve: enhanced credibility	EcoWeek	21 June 2021
France: economy has the wind of optimism in its sails	EcoTVWeek	18 June 2021
Growth bounces back in Chile	Chart of the Week	16 June 2021
Global : Inflation higher for longer? The interplay between productivity, profit margins and pricing power	EcoWeek	14 June 2021
June 2021 issue	EcoTV	10 June 2021
France: a majority of State-Guaranteed Loans to SMEs were taken on a precautionary basis	Chart of the Week	9 June 2021
Eurozone: The ECB: under pressure	EcoWeek	7 June 2021
Spain: Loans increased in 2020 for the first time since 2008	EcoTVWeek	4 June 2021
Sweden: poised for a very strong rebound in GDP growth	Chart of the Week	2 June 2021
European Union: Southern Europe: IFRS 9 put to the test by the Covid-19 pandemic	Conjoncture	2 June 2021
Eurozone: Too pessimistic about the pandemic's economic impact?	EcoFlash	1 June 2021
Central bank inflation forecasts: 'Trust us, we know better'	EcoWeek	31 May 2021
Eurozone: a potential for a positive surprise in the labour market	EcoTVWeek	28 May 2021
Chinese bond market: the participation of foreign investors	Chart of the Week	26 May 2021
Supply bottlenecks and the inflation outlook	EcoWeek	25 May 2021
Global : International trade: world trade in goods reaches new heights	EcoFlash	21 May 2021



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