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**ECONOMIC RESEARCH**



**BNP PARIBAS**

The bank  
for a changing  
world

## HIGH INFLATION, OPTIONALITY AND CENTRAL BANK PATIENCE

The ECB insists on the need for patience before considering a policy tightening, despite current elevated levels of inflation. It believes that inflation will decline next year and that a wage-price spiral is unlikely to develop. Moreover, inflation expectations remain well anchored. Demand in the euro area is suffering from the headwind created by the jump in energy prices. Reacting to this type of inflation by tightening monetary policy would create the risk of reducing demand even more. To avoid such an outcome, it makes sense for the central bank to wait for more information to arrive, thereby adopting a risk management approach of monetary policy. When policy leeway is limited, central banks, confronted with a high degree of uncertainty, will opt for a patient stance considering the potential cost of a policy mistake. The higher their credibility, the more they can be patient.

Recent speeches of the ECB president and several governing council members have referred to the need for patience before considering a policy tightening, despite current elevated levels of inflation. Several factors explain this stance. First, a high conviction that, as of early next year, inflation will start to decline under the influence of favourable base effects. Two, a view that despite an expected pick-up in wage growth, a wage-price spiral is unlikely to develop. Three and related to the previous point, the observation that market-based and survey-based inflation expectations remain well anchored. This anchoring reduces the likelihood of a wage-price spiral developing. Recently, ECB officials have insisted on the specific nature of, at least part of, the current high inflation. The pace of price increases has picked up strongly due to a negative supply shock, whereby the jump in energy prices weighs on households' spending power and company profits. This 'bad inflation' represents a headwind to demand.<sup>1</sup> Reacting to the supply-driven increase in inflation by tightening monetary policy would create the risk of reducing demand even more. Moreover, given the considerable lags between monetary policy decisions and their impact on the economy, there is a genuine and understandable concern that, by the time official interest rates would start to influence demand, the reason behind the policy tightening would have vanished because energy prices would have declined.<sup>2</sup> With the benefit of hindsight, the monetary tightening could turn out to have been premature. To avoid such an outcome, it makes sense for the central bank to wait for more information to arrive in order to take a better-informed decision. This risk management approach of monetary policy has been made popular by Alan Greenspan during his tenure as Federal Reserve chairman. "Given our inevitably incomplete knowledge about key structural aspects of an ever-changing economy and the sometimes asymmetric costs or benefits of particular outcomes, a central bank needs to consider not only the most likely future path for the economy but also the distribution of possible outcomes about that path. The

1. Patient monetary policy amid a rocky recovery, speech by Fabio Panetta, member of the Executive Board of the ECB, at Sciences Po Paris, 24 November 2021.

2. From an inflation perspective, a mere stabilization of energy prices is sufficient for inflation, over time, to decline due to base effects.

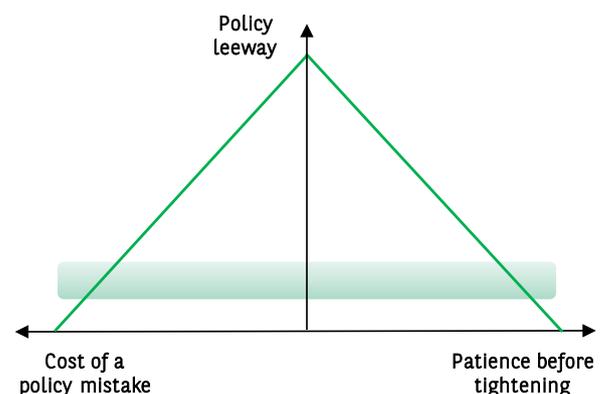
decision makers then need to reach a judgment about the probabilities, costs, and benefits of the various possible outcomes under alternative choices for policy."<sup>3</sup>

At present, this approach is reflected in the frequent use of the word 'optionality' in statements of ECB governing council members.<sup>4</sup> The approach is reminiscent of the literature on corporate investment

3. Risk and Uncertainty in Monetary Policy, Remarks by Chairman Alan Greenspan at the meetings of the American Economic Association, San Diego, California, 3 January 2004, Federal Reserve.

4. "While an increase in the upside risks to inflation had to be acknowledged, it was deemed important for the Governing Council to avoid an overreaction as well as unwarranted inaction, and to keep sufficient optionality in calibrating its monetary policy measures to address all inflation scenarios that might unfold." Source: ECB, Account of the monetary policy meeting of the Governing Council of the European Central Bank held in Frankfurt am Main on Wednesday and Thursday, 27-28 October 2021.

### INFLATION UNCERTAINTY AND MONETARY POLICY TIGHTENING



SOURCE: BNP PARIBAS

“ A rate hike followed by an equivalent cut would still leave the economy worse off. When policy leeway is limited, central banks, confronted with a high degree of uncertainty, will opt for a patient stance considering the potential cost of a policy mistake.



under uncertainty. Back in 1980, Ben Bernanke<sup>5</sup> showed that, when investment is irreversible, uncertainty increases the value of waiting for new information. The latter implies companies are able to make a better-informed judgment, so the risk of taking the wrong decision is reduced. However, such behaviour may retard the current rate of investment: uncertainty is bad for business capital formation. Transposing these concepts to the conduct of monetary policy, the ECB and several other central banks in advanced economies are faced with uncertainty about the inflation outlook. This is to a large degree related to the question whether the high inflation triggered by the negative supply shock could lead to a wage-price spiral. What complicates matters is that the policy leeway of the central bank is very low: official interest rates are negative and years of QE have influenced the pricing of financial and also real assets, such as real estate. As a consequence, the effectiveness of additional easing may be quite limited. For the central bank, it is important to avoid creating the conditions that would require further easing<sup>6</sup>. In addition, it seems likely that activity and demand would react more quickly to a policy tightening than to an easing of an equivalent size, because in the latter case, uncertainty would have increased and confidence declined. It takes time to reverse these negative 'animal spirits'. As a consequence, a rate hike followed by an equivalent cut would still leave the economy worse off. This represents the cost of a policy mistake. When policy leeway is limited, central banks, confronted with a high degree of uncertainty, will opt for a patient stance considering the potential cost of a policy mistake. The higher their credibility, the more they can be patient, because inflation expectations should remain well anchored. It is for this reason that the ECB strongly insists on its decisiveness to act when circumstances require so.<sup>7</sup>

**William De Vijlder**

5. Ben Bernanke, Irreversibility, uncertainty, and cyclical investment, NBER working paper 502, July 1980.

6. As shown in the exhibit, if there is a lot of room to ease policy (policy leeway is high), a central bank could afford taking some risk by tightening. Should it turn out to be an ill-timed decision, there would be enough room to cut rates to boost the economy.

7. In a recent interview, Christine Lagarde was asked "So can you assure us that you will raise interest rates when necessary?" Her answer was very clear: "Of course, we will act when necessary." Source: ECB, Interview with Christine Lagarde, Frankfurter Allgemeine Sonntagszeitung, 26 November 2021



# MARKETS OVERVIEW

## OVERVIEW

Week 19-11-21 to 26-11-21

↘ CAC 40	7 112	▶ 6 740	-5.2 %
↘ S&P 500	4 698	▶ 4 595	-2.2 %
↗ Volatility (VIX)	17.9	▶ 28.6	+10.7 pb
↘ Euribor 3M (%)	-0.56	▶ -0.57	-1.3 bp
↗ Libor \$ 3M (%)	0.16	▶ 0.18	+1.1 bp
↗ OAT 10y (%)	-0.07	▶ -0.04	+2.7 bp
↘ Bund 10y (%)	-0.34	▶ -0.34	+0.0 bp
↘ US Tr. 10y (%)	1.53	▶ 1.47	-5.2 bp
↘ Euro vs dollar	1.13	▶ 1.13	-0.0 %
↘ Gold (ounce, \$)	1 860	▶ 1 799	-3.2 %
↗ Oil (Brent, \$)	79.0	▶ 82.4	+4.2 %

## MONEY & BOND MARKETS

Interest Rates	highest 21	lowest 21	Yield (%)	highest 21	lowest 21
€ ECB	0.00	0.00 at 01/01	€ AVG 5-7y	-0.21	0.03 at 29/10
Eonia	-0.49	-0.47 at 26/01	Bund 2y	-0.81	-0.58 at 29/10
Euribor 3M	-0.57	-0.53 at 07/05	Bund 10y	-0.34	-0.09 at 22/10
Euribor 12M	-0.49	-0.44 at 01/11	OAT 10y	-0.04	-0.41 at 04/01
\$ FED	0.25	0.25 at 01/01	Corp. BBB	0.87	0.87 at 26/11
Libor 3M	0.18	0.24 at 13/01	\$ Treas. 2y	0.46	0.58 at 25/11
Libor 12M	0.41	0.47 at 25/11	Treas. 10y	1.47	1.75 at 31/03
£ BoE	0.10	0.10 at 01/01	High Yield	5.40	5.40 at 26/11
Libor 3M	0.10	0.25 at 28/10	£ gilt. 2y	0.46	0.70 at 03/11
Libor 12M	0.63	0.85 at 28/10	gilt. 10y	0.83	1.20 at 21/10

## EXCHANGE RATES

1€ =	highest 21	lowest 21	2021
USD	1.13	1.23 at 06/01	1.12 at 24/11
GBP	0.85	0.91 at 06/01	0.84 at 22/11
CHF	1.04	1.11 at 04/03	1.04 at 26/11
JPY	128.03	133.97 at 28/05	125.22 at 18/01
AUD	1.59	1.64 at 20/08	1.53 at 18/03
CNY	7.23	8.00 at 01/01	7.15 at 24/11
BRL	6.32	6.95 at 03/03	5.88 at 24/06
RUB	85.50	92.47 at 20/04	80.71 at 26/10
INR	84.72	90.39 at 23/04	83.30 at 24/11

At 26-11-21 Change

## COMMODITIES

Spot price, \$	highest 21	lowest 21	2021	2021(€)
Oil, Brent	82.4	86.5 at 26/10	51.2 at 04/01	+58.7%
Gold (ounce)	1 799	1 947 at 05/01	1 682 at 08/03	-5.2%
Metals, LME	4 477	4 763 at 15/10	3 415 at 01/01	+31.1%
Copper (ton)	9 572	11 300 at 18/10	7 749 at 01/01	+23.5%
wheat (ton)	238	2.9 at 07/05	223 at 10/09	-3.9%
Corn (ton)	226	2.9 at 07/05	188 at 04/01	+2.0%

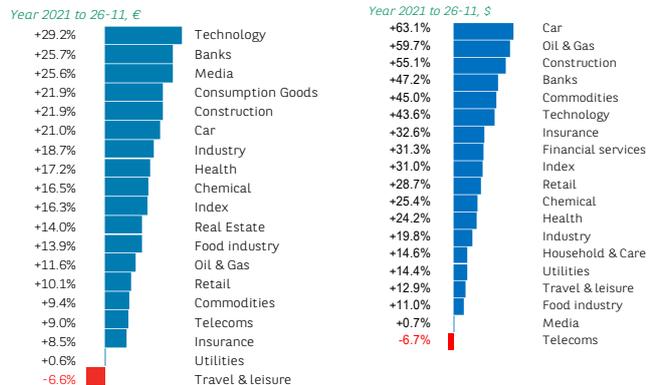
At 26-11-21 Change

## EQUITY INDICES

Index	highest 21	lowest 21	2021
<b>World</b>			
MSCI World	3 132	3 238 at 08/11	2 662 at 29/01
<b>North America</b>			
S&P500	4 595	4 705 at 18/11	3 701 at 04/01
<b>Europe</b>			
EuroStoxx50	4 090	4 401 at 16/11	3 481 at 29/01
CAC 40	6 740	7 157 at 17/11	5 399 at 29/01
DAX 30	15 257	16 251 at 17/11	13 433 at 29/01
IBEX 35	8 403	9 281 at 14/06	7 758 at 29/01
FTSE100	7 044	7 384 at 11/11	6 407 at 29/01
<b>Asia</b>			
MSCI, loc.	1 140	1 196 at 14/09	1 044 at 06/01
Nikkei	28 752	30 670 at 14/09	27 013 at 20/08
<b>Emerging</b>			
MSCI Emerging (\$)	1 223	1 445 at 17/02	1 221 at 20/08
China	88	130 at 17/02	87 at 06/10
India	821	877 at 12/11	659 at 29/01
Brazil	1 422	2 098 at 24/06	1 418 at 22/11
Russia	753	914 at 25/10	647 at 01/02

At 26-11-21 Change

## PERFORMANCE BY SECTOR (Eurostoxx50 & S&P500)

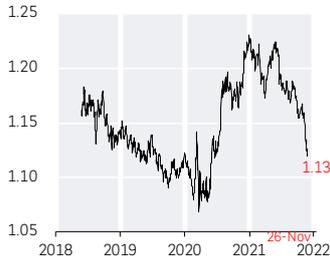


SOURCE: REFINITIV, BNP PARIBAS,

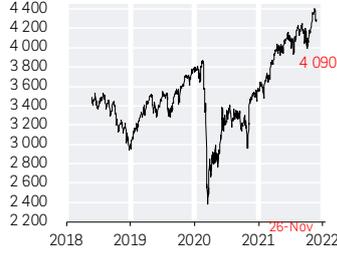


# MARKETS OVERVIEW

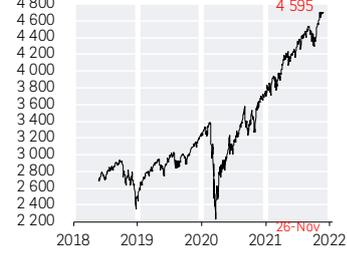
**EURO-DOLLAR**



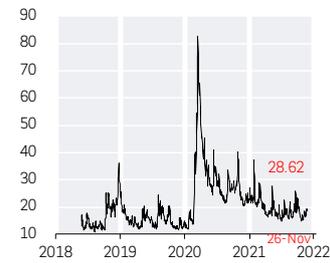
**EUROSTOXX50**



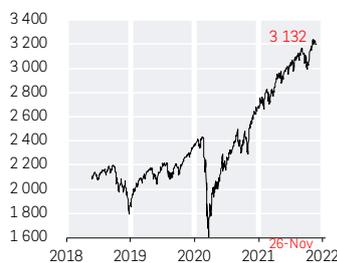
**S&P500**



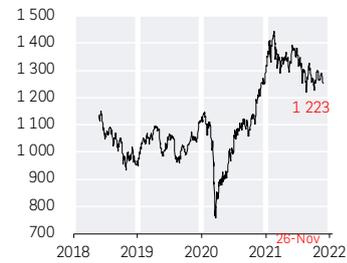
**VOLATILITY (VIX, S&P500)**



**MSCI WORLD (USD)**



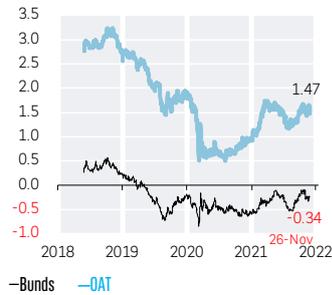
**MSCI EMERGING (USD)**



**10Y BOND YIELD, TREASURIES VS BUND**



**10Y BOND YIELD**

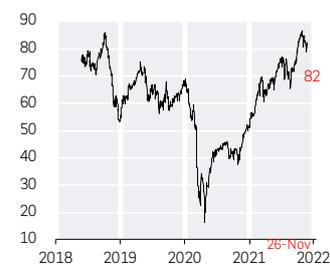


**10Y BOND YIELD & SPREADS**

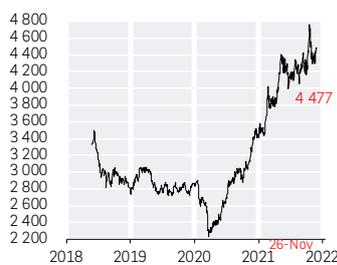
Year 2021 to 26-11

1.54%	Greece	187 bp
0.93%	Italy	126 bp
0.43%	Spain	77 bp
0.35%	Portugal	69 bp
-0.04%	France	29 bp
-0.05%	Belgium	28 bp
-0.13%	Finland	20 bp
-0.21%	Ireland	12 bp
-0.26%	Austria	7 bp
-0.34%	Germany	
-0.34%	Netherlands	-1 bp

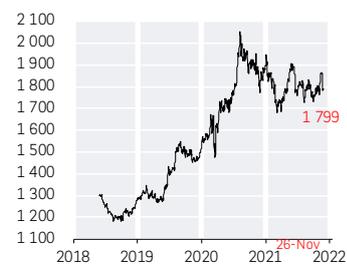
**OIL (BRENT, USD)**



**METALS (LMEX, USD)**



**GOLD (OUNCE, USD)**



SOURCE: REFINITIV, BNP PARIBAS



# ECONOMIC PULSE

## EUROZONE: THE CREDIT IMPULSE REMAINED NEGATIVE IN Q3 DESPITE THE UPTURN IN DEMAND FOR FINANCING

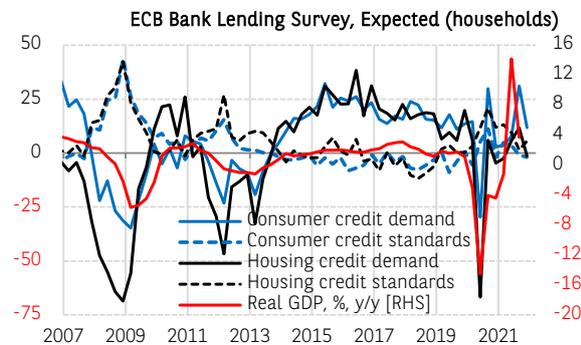
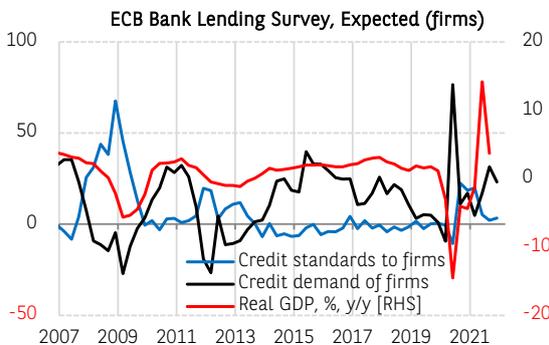
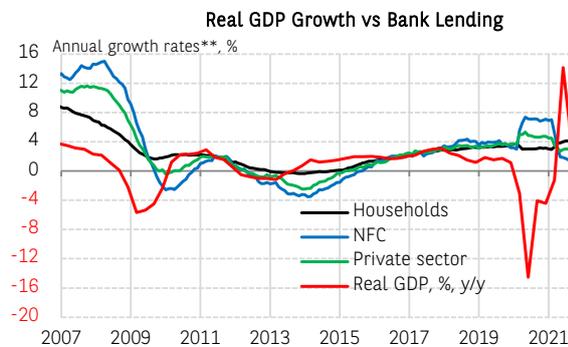
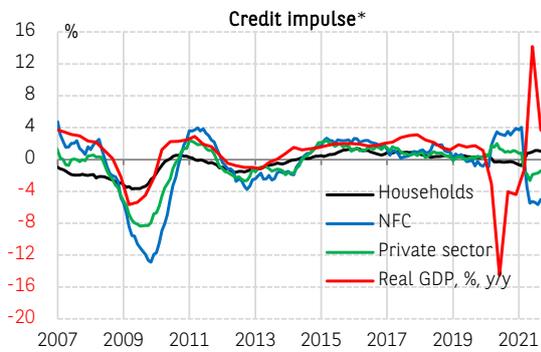
In September 2021 a slight acceleration in lending to eurozone non-financial companies (NFCs), which rose 2.1% y/y from 1.9% in June, interrupted the deterioration of the credit impulse (which reflects the year-on-year change in outstanding loans). However, this remained negative (-1.4% in September, from -1.9% in June) due to a high basis of comparison. In the spring of 2020, the introduction of measures to support company cash positions by governments across the Eurozone resulted in exceptionally strong growth in bank loans to NFCs. From March 2021, the virtual cessation of new guaranteed loans to NFCs, along with the initial wave of repayments, stemmed growth in outstanding loans, creating a net contraction in the credit impulse. In September, the annual growth rate of outstanding loans to NFCs was particularly strong in Germany (3.4%, from 1.7% in June), but slowed in France (2.8% from 3.5%) and Italy (0.8% from 3.8%), and was negative in Spain (-1.8% from -1.5%).

Strong growth in lending to households continued in September (4.1% y/y, from 4% in June). The exceptionally low level of interest rates continued to support mortgage lending (up 5.5% y/y), whilst consumer credit remained stable (up 0.4% y/y). Banks surveyed in the ECB's Bank Lending Survey (conducted between 20 September and 5 October 2021, with the results published on 26 October) reported that demand for housing loans firmed up in the Eurozone's four biggest economies in the third quarter. Demand for consumer credit was reported as growing in Germany, Spain and Italy and stable in France.

Due to the unusually countercyclical role played by bank lending in 2020, and in a continuation of the trends seen in the second and third quarters, the Eurozone's on-going economic recovery in the final quarter of 2021 (after a 14.2% y/y jump in real GDP in Q2 followed by 3.7% growth in Q3) is unlikely to be accompanied by an upturn in outstanding loans on the scale one might normally expect to see at this stage of the cycle. Looking ahead to the fourth quarter of 2021, the banks surveyed by the ECB expected to tighten, albeit slightly, their credit standards for loans to firms and housing loans. Credit institutions were also expecting an acceleration in the demand for financing from companies. These are encouraging projections, provided that any resurgence in the pandemic does not result in the introduction of restrictions on a scale that would damage economic activity in the short term.

Céline Choulet

### EUROZONE: CREDIT IMPULSE



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

\*Credit impulse is measured as the annual change of the annual growth rate of MFI loans \*\* Adjusted for securitizations



# ECONOMIC PULSE

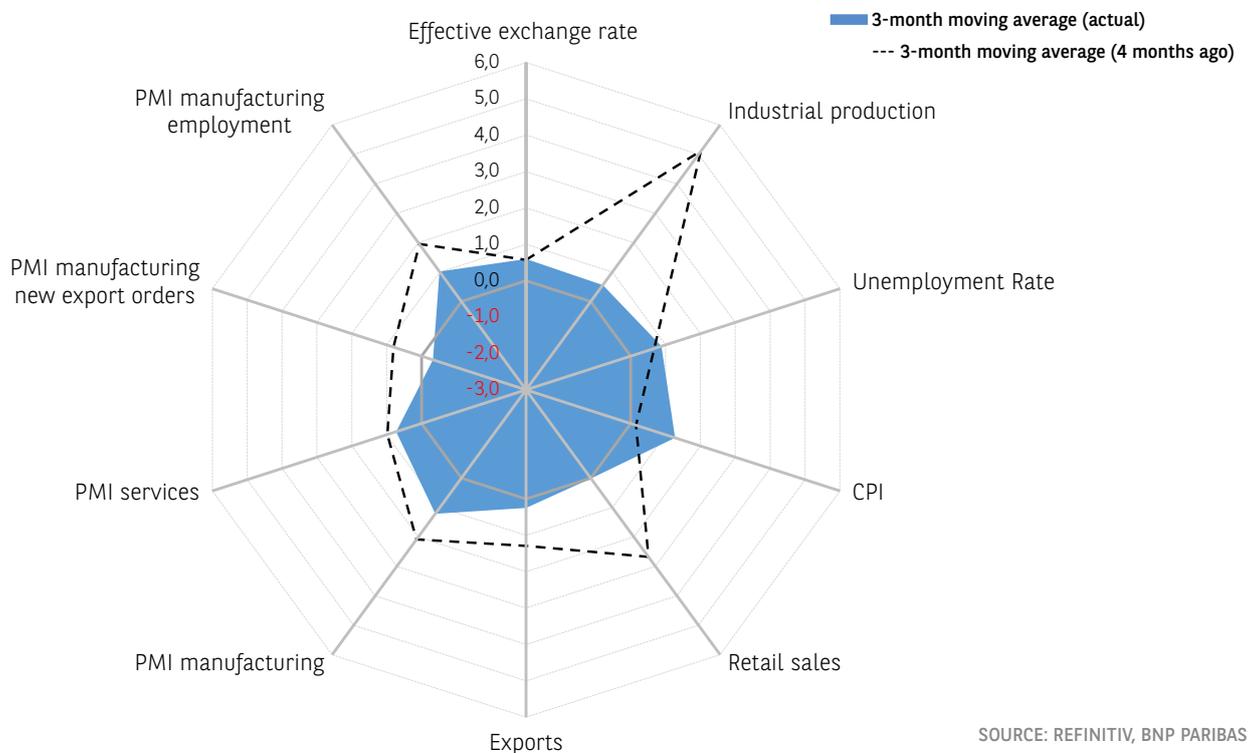
## UNITED KINGDOM: COMING IN TO LAND

Although there was no lack of effort from the British government in dealing with the coronavirus pandemic (20 points of GDP was directly transferred to the economy to tackle the health crisis, twice the European average), it was also one of the first to have decreed the end of “whatever it takes”. In October, the main employment support measures – the Coronavirus Job Retention Scheme and the Self-Employed Income Support Scheme – came to an end. Some 1.5 million Britons who had been on ‘furlough’ within companies thus returned to the labour market, which could push up the unemployment rate (which fell to 4.3% in August). Alongside the employment measures the GBP20 weekly uplift in Universal credit, reduced VAT rates in hotels and restaurants and the stamp duty holiday on real estate transactions also came to an end.

Unsurprisingly, the number of house sales tumbled in October, whilst in general terms, economic indicators now look less euphoric. Household confidence and consumption, which had been the main engine of economic recovery, are now marking time. The quarter-on-quarter change in retail sales shows a clear negative trend in purchases of goods, particularly cars. Driven by the increase in regulated energy costs, inflation is accelerating, which could eat into purchasing power, especially at the lower end of the income scale. At 4.2% in the year to October, inflation is moving ever further away from the Bank of England’s 2% target, so the Bank may be forced to act. Market expectations suggest that its main policy rate, currently set at 0.10%, will be increased by 15 basis points at the next meeting of the Monetary Policy Committee, due on 16 December.

Jean-Luc Proutat

UK: 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 -3 and +6. 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

## COVID-19: VACCINE BOOSTERS TO HELP TACKLE THE HEALTH SITUATION

Some 3.82 million new cases of Covid-19 were recorded around the world in the week of 18-24 November, an 11% increase on the previous week. Europe and North America saw the biggest weekly increases, at 16% and 13.4% respectively, with Europe accounting for 61% of the world's new cases, or 2.32 million new infections. In other regions, falls in infection numbers were reported in Asia, South America and Africa (Chart 1). Meanwhile, 54% of the global population has now received at least one dose of a vaccine against the virus (Chart 2), and several countries have already introduced vaccine booster programmes (particularly for those people most at risk) in a bid to head off a new wave of the pandemic.

At the same time, retail and leisure footfall is on a slight downward trend in Germany and Italy, and to a lesser extent in France, Spain, Belgium, a development probably driven by the health situation in those countries. In the USA and UK, the trend remains stable, whilst in Japan it has move upwards after a short decline (Chart 4).

Lastly, the weekly proxy indicator for GDP continued to improve in France, Belgium, Spain and Japan. In the USA and the UK, the small recent falls form part of a more positive longer-term trend, whilst in Germany and Italy a slightly more marked downturn is appearing (Chart 3, black line). The OECD Tracker is based on Google Trends resulting from queries on consumption, the labour market, housing, industrial activity as well as uncertainty. The change over a two-year period (y/2y) is calculated to avoid the base effect that would arise from a comparison with 2020 data.

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)

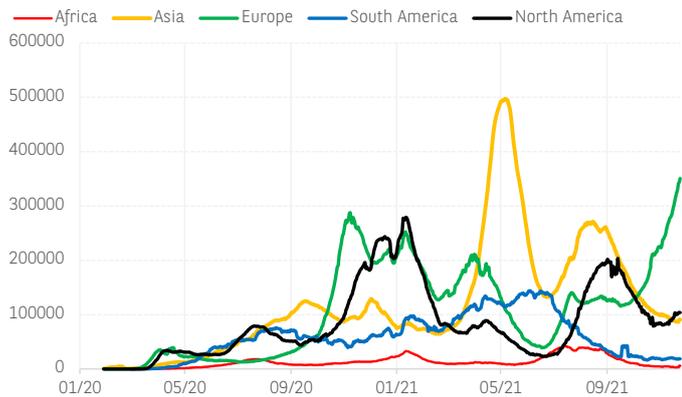


CHART 1

SOURCE: JOHNS-HOPKINS UNIVERSITY (11/25/2021), BNP PARIBAS

SHARE OF PEOPLE WHO RECEIVED AT LEAST ONE DOSE OF VACCINE

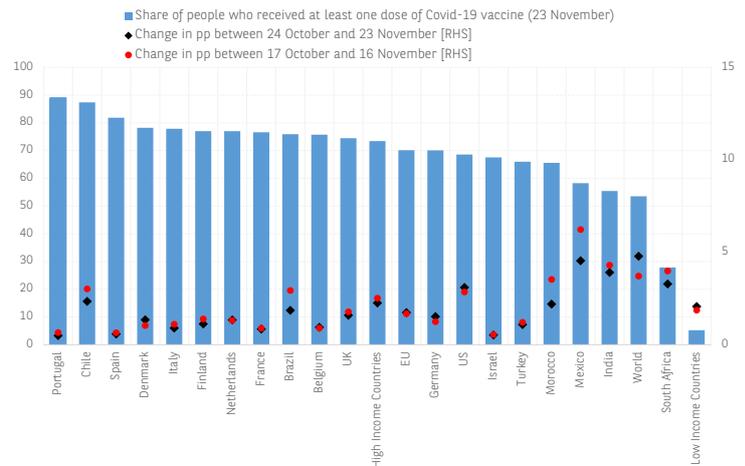


CHART 2

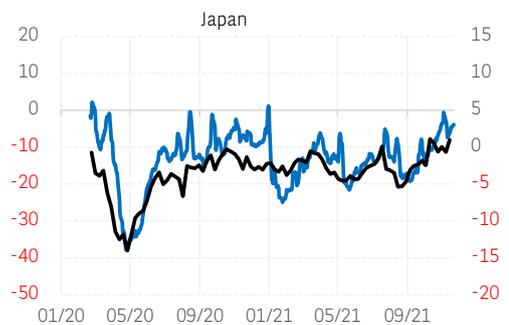
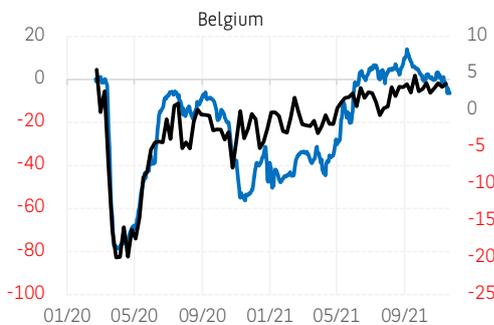
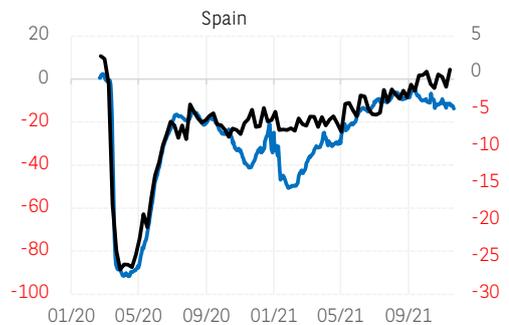
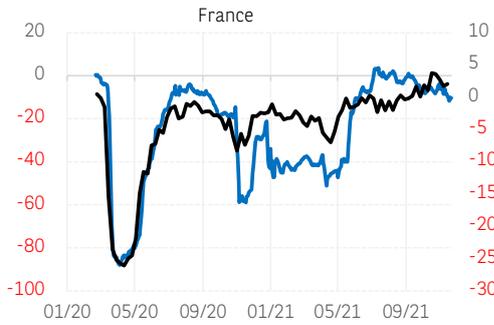
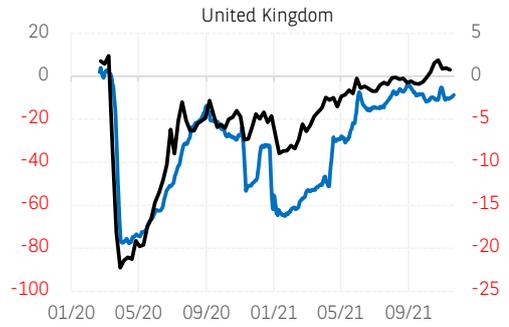
SOURCE: OUR WORLD IN DATA (11/25/2021), BNP PARIBAS



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]

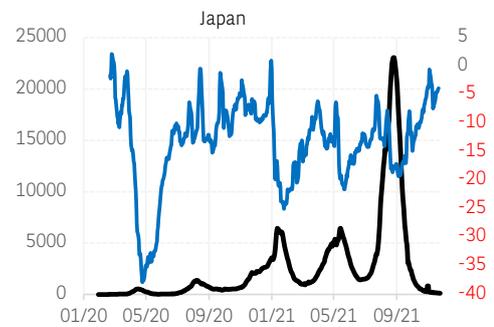
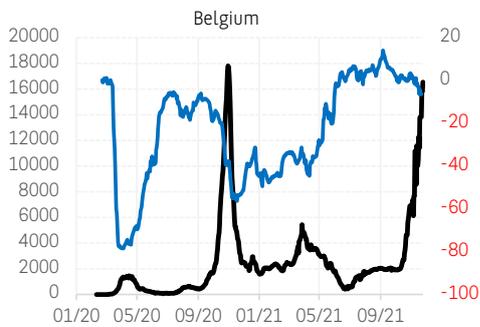
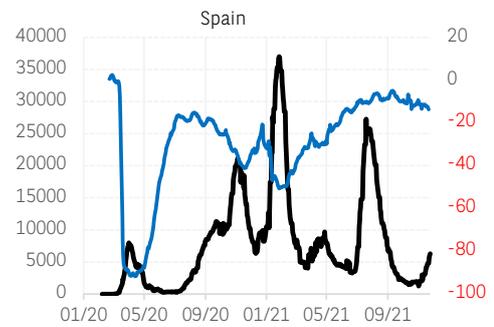
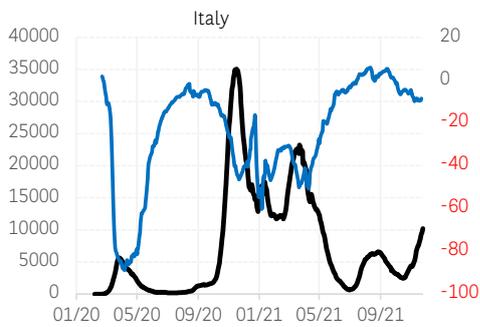
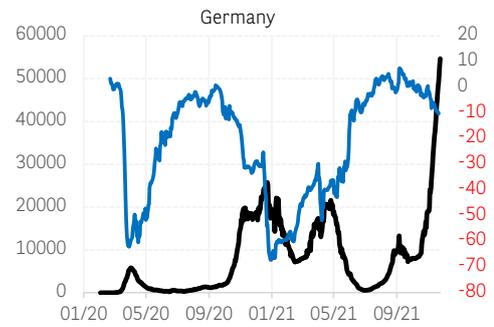
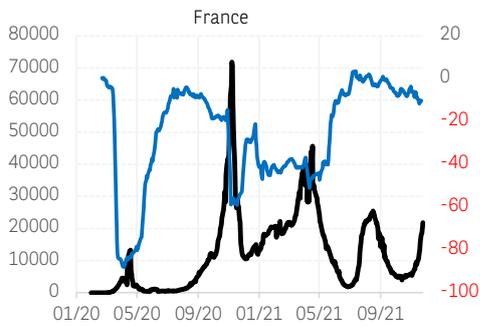
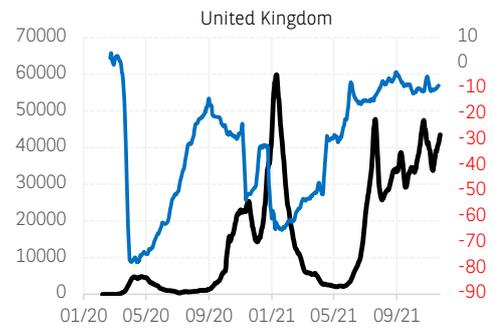
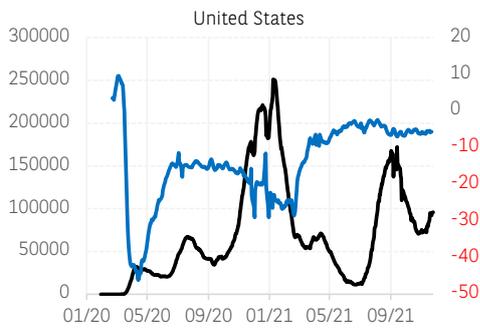


SOURCE: OECD (11/25/2021), GOOGLE (11/25/2021), BNP PARIBAS



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 (11/25/2021), GOOGLE (11/25/2021), BNP PARIBAS



# ECONOMIC SCENARIO

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## UNITED STATES

Albeit in a rather uneven manner, the US economy has bounced back swiftly from the Covid-19 pandemic and is now stronger than in 2019. Its growth rate, at 5.5% in 2021, is likely to return gradually to normal. Longer and stronger than expected, the upturn in inflation is also likely to ease, if only due simply to the basis of comparison (once prices stop being compared to their depressed levels of 2020). The return towards the 2% target could, however, be hampered by rising prices for services, particularly rents. The situation in the labour market has improved: with a rising activity rate and unemployment dropping significantly below 5% of the active population, the economy is approaching full employment.

## CHINA

Economic growth has slowed markedly since last summer. Export performance remains strong and supports manufacturing investment. However, the other components of domestic demand are constrained by a host of factors: the effects of the H1 tightening in fiscal policy and domestic credit conditions, the toughening of regulations in various services, the crisis in the property sector, supply constraints in the industry, and the resurgence of the epidemic. In the short term, industrial production growth should recover. Moreover, the authorities should increase their support to domestic activity through prudent monetary and fiscal policy measures, while continuing regulatory tightening and maintaining their objective of rebalancing the real estate market. The contraction in housing sales and the "zero covid" strategy should continue to weigh on private consumption.

## EUROZONE

Growth in the eurozone remained strong in Q3 2021, in line with expectations (2.2% q/q). However, the outlook for Q4 is much less bright. According to our most recent forecast dated 25 November, we expect growth to slow down to 0.4% q/q. In addition to the awaited normalization, headwinds have increased (supply-side problems, surging inflation and uncertainties arising from the new wave of the pandemic). Nevertheless, business conditions surveys have shown resilience so far. Although the downside risks have increased, our scenario for 2022 remains fairly optimistic. This is because there is no shortage of tailwinds – supportive policy mix, a build-up of forced savings, scope for the service sector to catch-up, the need for companies to invest and rebuild inventories – assuming that supply-side problems ease from the second half of the year. Above all, growth will remain well above its trend rate in 2022. We also expect it to be not much lower than its 2021 figure (4.2% versus 5%). Compared with our September scenario, we have cut our growth forecasts and raised our inflation forecasts, taking the view that behind the current temporary pressures on prices, more sustained and widespread factors are also at play. We expect average inflation to be higher in 2022 than in 2021 (3.1% versus 2.5%), although we see inflation falling over the course of next year.

## FRANCE

What is happening at the aggregate eurozone level is representative of what is happening in France, and vice-versa. Although the figures are different, our analysis and view of the economic outlook are identical. In Germany, the headwinds are stronger, while France is less exposed. French growth was strong in Q3 2021 – beating expectations at 3% q/q according to INSEE's initial estimate – but we expect it to slow to 0.6% q/q in Q4. In 2022, we anticipate growth of 4.2% in annual average terms (vs. 6.7% in 2021) and inflation of 2.5% (vs. 2%).

## RATES AND EXCHANGE RATES

In the US, the Federal Reserve has started tapering and this should lead to net asset purchases ending by the middle of next year, although the exact timing depends on how the economy will evolve. Given current particularly elevated inflation, the inflation outlook and the prospect of a further decline in the unemployment rate, we expect a first rate hike in July 2022, followed by two additional hikes in 2022 and four more in 2023. This should put upward pressure on Treasury yields.

In the eurozone, the ECB is expected to announce in December that it will stop net purchases under the PEPP in March 2022. On that occasion, the monthly volume under the traditional asset purchase program should be increased to avoid market disruption. Given the strength of the recovery, we expect underlying price pressures to build further. We expect that the ECB will hike its deposit rate in June 2023, considering that by then the three conditions for a rate hike would be met. Two additional hikes should follow in the second half of 2023. This, in combination with the influence from higher US Treasury yields, should lead to higher Bund yields and some widening of sovereign spreads.

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 under the influence of globally rising yields, towards about 20bp, which is in the upper end of its target range of 0 to 25bp.

We expect the dollar to strengthen versus the euro, driven by widening yield differentials and the growing monetary policy divergence between the Federal Reserve and the ECB. The divergence will also increase between the Fed and the BoJ, which explains our forecast of an appreciation of the dollar versus the yen.

### GROWTH & INFLATION

%	GDP Growth			Inflation		
	2021 e	2022 e	2023 e	2021 e	2022 e	2023 e
United-States	5,5	4,7	2,8	4,7	4,6	2,1
Japan	1,7	2,6	1,6	-0,2	0,7	0,5
United-Kingdom	7,1	5,4	2,1	2,5	4,5	2,1
Euro Area	5,0	4,2	3,0	2,5	3,1	2,0
Germany	2,6	3,6	3,6	3,1	3,4	2,2
France	6,7	4,2	2,5	2,0	2,5	2,1
Italy	6,3	4,9	3,0	1,8	2,9	1,7
Spain	4,3	5,4	3,5	3,0	3,7	1,7
China	7,9	5,3	5,5	0,9	2,1	2,5
India*	8,0	11,0	6,0	5,4	5,7	5,0
Brazil	4,8	0,5	2,0	8,3	8,3	4,3
Russia	4,5	3,0	1,8	7,0	6,3	4,1

SOURCE: BNP PARIBAS GROUP ECONOMIC RESEARCH (E: ESTIMATES & FORECASTS)  
\*FISCAL YEAR FROM 1<sup>ST</sup> APRIL OF YEAR N TO MARCH 31<sup>ST</sup> OF YEAR N+1

### INTEREST & EXCHANGE RATES

#### Interest rates, %

End of period		Q1 2022 e	Q2 2022 e	Q3 2022 e	Q4 2022 e	Q4 2023 e
US	Fed Funds (upper limit)	0.25	0.25	0.75	1.00	2.00
	T-Notes 10y	1.70	1.80	1.90	2.00	2.30
	Deposit rate	-0.50	-0.50	-0.50	-0.50	-0.10
Ezone	Bund 10y	0.00	0.05	0.05	0.10	0.40
	OAT 10y	0.45	0.40	0.35	0.45	0.70
	BTP 10y	1.35	1.45	1.45	1.55	2.00
	BONO 10y	0.75	0.85	0.90	1.05	1.45
	Base rate	0.25	0.50	0.50	0.75	1.25
UK	Gilts 10y	1.10	1.20	1.30	1.45	1.75
	BoJ Rate	-0.10	-0.10	-0.10	-0.10	-0.10
Japan	JGB 10y	0.12	0.14	0.15	0.18	0.20

#### Exchange Rates

End of period		Q1 2022 e	Q2 2022 e	Q3 2022 e	Q4 2022 e	Q4 2023 e
USD	EUR / USD	1.13	1.12	1.11	1.09	1.09
	USD / JPY	115	116	117	118	120
	GBP / USD	1.35	1.35	1.35	1.33	1.36
EUR	EUR / GBP	0.84	0.83	0.82	0.82	0.80
	EUR / JPY	130	130	130	129	131

#### Brent

End of period		Q1 2022 e	Q2 2022 e	Q3 2022 e	Q4 2022 e	Q4 2023 e
Brent	USD/bbl	84	80	79	80	85

SOURCE: BNP PARIBAS GLOBAL MARKETS (E: ESTIMATES)



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## CALENDAR

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## LATEST INDICATORS

The flash PMIs for November brought good news in Japan, where the indices continue to move higher. Against expectations, the French PMIs increased versus October. In Germany, the manufacturing index hardly changed and services did better thereby causing an improvement of the composite index. The indices for the euro area all beat expectations and, for services and the composite index, by a very wide margin. The increase in the PMIs is a relief considering the rising number of new infections. In the UK, the manufacturing PMI improved slightly and the opposite happened for the services PMI. In the US, the manufacturing PMI was slightly higher compared to October whereas the services index recorded an unexpected drop. In line with the good PMI data, INSEE business confidence improved in France. Another positive news is the stabilisation of household confidence, despite mounting concern about new Covid-19 cases, with the upbeat assessment of the labour market outlook neutralising the negative effect on confidence from the elevated inflation. In Germany, the IFO business climate weakened on the back of Covid-19 infections and supply bottlenecks. In the UK, the CBI reported a jump in orders and a significant increase in selling prices. Finally, in the US, initial unemployment claims recorded a considerable drop, whereas the core consumer expenditures deflator -the preferred measure of the FOMC- rose further, reaching 4.1%. University of Michigan sentiment improved whereas inflation expectations hardly moved.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	ACTUAL	PREVIOUS
11/22/2021	Eurozone	Consumer Confidence	Nov	-5.5	-6.8	-4.8
11/23/2021	Japan	Jibun Bank Japan PMI Mfg	Nov	--	54.2	53.2
11/23/2021	Japan	Jibun Bank Japan PMI Services	Nov	--	52.1	50.7
11/23/2021	Japan	Jibun Bank Japan PMI Composite	Nov	--	52.5	50.7
11/23/2021	France	Markit France Manufacturing PMI	Nov	53.1	54.6	53.6
11/23/2021	France	Markit France Services PMI	Nov	55.5	58.2	56.6
11/23/2021	France	Markit France Composite PMI	Nov	53.9	56.3	54.7
11/23/2021	Germany	Markit/BME Germany Manufacturing PMI	Nov	56.9	57.6	57.8
11/23/2021	Germany	Markit Germany Services PMI	Nov	51.5	53.4	52.4
11/23/2021	Germany	Markit/BME Germany Composite PMI	Nov	51.0	52.8	52.0
11/23/2021	Eurozone	Markit Eurozone Manufacturing PMI	Nov	57.4	58.6	58.3
11/23/2021	Eurozone	Markit Eurozone Services PMI	Nov	53.5	56.6	54.6
11/23/2021	Eurozone	Markit Eurozone Composite PMI	Nov	53.0	55.8	54.2
11/23/2021	United Kingdom	Markit UK PMI Manufacturing SA	Nov	57.3	58.2	57.8
11/23/2021	United Kingdom	Markit/CIPS UK Services PMI	Nov	58.5	58.6	59.1
11/23/2021	United Kingdom	Markit/CIPS UK Composite PMI	Nov	57.5	57.7	57.8
11/23/2021	United States	Markit US Manufacturing PMI	Nov	59.1	59.1	58.4
11/23/2021	United States	Markit US Services PMI	Nov	59.0	57.0	58.7
11/23/2021	United States	Markit US Composite PMI	Nov	--	56.5	57.6
11/24/2021	France	Business Confidence	Nov	112.0	114.0	112.0
11/24/2021	Germany	IFO Expectations	Nov	94.6	94.2	95.4

SOURCE: BLOOMBERG



DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	ACTUAL	PREVIOUS
11/24/2021	Germany	IFO Current Assessment	Nov	99.0	99.0	100.1
11/24/2021	Germany	IFO Business Climate	Nov	96.7	96.5	97.7
11/24/2021	United Kingdom	CBI Trends Total Orders	Nov	8.0	26.0	9.0
11/24/2021	United Kingdom	CBI Trends Selling Prices	Nov	57.0	67.0	59.0
11/24/2021	United States	Initial Jobless Claims	Nov	260k	199k	270k
11/24/2021	United States	GDP Annualized QoQ	3Q	2.2%	2.1%	2.0%
11/24/2021	United States	Cap Goods Orders Nondef Ex Air	Oct	0.5%	0.6%	1.3%
11/24/2021	United States	PCE Core Deflator YoY	Oct	4.1%	4.1%	3.7%
11/24/2021	United States	PCE Deflator MoM	Oct	0.7%	0.6%	0.4%
11/24/2021	United States	PCE Deflator YoY	Oct	5.1%	5.0%	4.4%
11/24/2021	United States	U. of Mich. Sentiment	Nov	66.9	67.4	66.8
11/24/2021	United States	U. of Mich. Current Conditions	Nov	73.2	73.6	73.2
11/24/2021	United States	U. of Mich. Expectations	Nov	62.8	63.5	62.8
11/24/2021	United States	U. of Mich. 1 Yr Inflation	Nov	--	4.9%	4.9%
11/24/2021	United States	U. of Mich. 5-10 Yr Inflation	Nov	--	3.0%	2.9%
11/24/2021	United States	New Home Sales MoM	Oct	0.0%	0.4%	7.1%
11/24/2021	United States	FOMC Meeting Minutes	Nov	--	--	--
11/25/2021	Japan	Nationwide Dept Sales YoY	Oct	--	2.9%	-4.3%
11/25/2021	Germany	GDP SA QoQ	3Q	1.8%	1.7%	1.8%
11/25/2021	Germany	GfK Consumer Confidence	Dec	-1.0	-1.6	1.0
11/26/2021	France	Consumer Confidence	Nov	98.0	99.0	99.0

SOURCE: BLOOMBERG



# CALENDAR: THE WEEK AHEAD

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## COMING INDICATORS

This week sees a heavy calendar with the release of important data covering the month of November: purchasing managers' indices in many countries (manufacturing, services, composite), the ISM indices in the US (manufacturing, services), the European Commission's economic sentiment index and its constituents. Moreover, in the US we will have the Conference Board confidence index and the all-important labour market report. In the euro area, Germany and France we will also have inflation data. The Federal Reserve publishes its Beige book, providing an overview of the current shape of the US economy and the OECD publishes its new Economic Outlook.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	PREVIOUS
11/29/2021	Japan	Retail Sales YoY	Oct	--	-0.60%
11/29/2021	Eurozone	Consumer Confidence	Nov	--	-6.8
11/29/2021	Eurozone	Economic Confidence	Nov	--	118.6
11/29/2021	Eurozone	Industrial Confidence	Nov	--	14.2
11/29/2021	Eurozone	Services Confidence	Nov	--	18.2
11/29/2021	Germany	CPI EU Harmonized MoM	Nov	--	0.50%
11/29/2021	Germany	CPI EU Harmonized YoY	Nov	--	4.60%
11/29/21-12/02/21	Germany	Retail Sales MoM	Oct	--	-2.50%
11/30/2021	China	Non-manufacturing PMI	Nov	51.5	52.4
11/30/2021	China	Manufacturing PMI	Nov	50	49.2
11/30/2021	China	Composite PMI	Nov	--	50.8
11/30/2021	France	PPI YoY	Oct	--	11.60%
11/30/2021	France	Consumer Spending MoM	Oct	--	-0.20%
11/30/2021	France	CPI EU Harmonized MoM	Nov	--	0.40%
11/30/2021	France	CPI EU Harmonized YoY	Nov	--	3.20%
11/30/2021	France	GDP QoQ	3Q	--	3.00%
11/30/2021	Germany	Unemployment Change (000's)	Nov	--	-39.0k
11/30/2021	Eurozone	CPI Core YoY	Nov	--	2.00%
11/30/2021	Eurozone	CPI Estimate YoY	Nov	--	4.10%
11/30/2021	Eurozone	CPI MoM	Nov	--	0.80%
11/30/2021	United States	FHFA House Price Index MoM	Sep	1.20%	1.00%
11/30/2021	United States	S&P CoreLogic CS 20-City YoY NSA	Sep	--	19.66%
11/30/2021	United States	Conf. Board Consumer Confidence	Nov	110	113.8
11/30/2021	United States	Conf. Board Present Situation	Nov	--	147.4
11/30/2021	United States	Conf. Board Expectations	Nov	--	91.3
12/01/2021	Japan	Capital Spending YoY	3Q	--	5.30%
12/01/2021	Japan	Jibun Bank Japan PMI Mfg	Nov	--	--
12/01/2021	China	Caixin China PMI Mfg	Nov	50.4	50.6
12/01/2021	France	Markit France Manufacturing PMI	Nov	--	54.6
12/01/2021	Germany	Markit/BME Germany Manufacturing PMI	Nov	--	57.6
12/01/2021	Eurozone	Markit Eurozone Manufacturing PMI	Nov	--	58.6
12/01/2021	United Kingdom	Markit UK PMI Manufacturing SA	Nov	--	58.2



DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	PREVIOUS
12/01/2021	Eurozone	OECD Publishes Economic Outlook			
12/01/2021	United States	Markit US Manufacturing PMI	Nov	--	59.1
12/01/2021	United States	ISM Manufacturing	Nov	61	60.8
12/01/2021	United States	ISM Prices Paid	Nov	--	85.7
12/01/2021	United States	ISM New Orders	Nov	--	59.8
12/01/2021	United States	ISM Employment	Nov	--	52
12/01/2021	United States	U.S. Federal Reserve Releases Beige Book			
12/01/2021	United States	Wards Total Vehicle Sales	Nov	13.20m	12.99m
12/02/2021	Eurozone	Unemployment Rate	Oct	--	7.40%
12/02/2021	Eurozone	PPI YoY	Oct	--	16.00%
12/02/2021	United States	Initial Jobless Claims	Nov	--	--
12/03/2021	Japan	Jibun Bank Japan PMI Services	Nov	--	--
12/03/2021	Japan	Jibun Bank Japan PMI Composite	Nov	--	--
12/03/2021	China	Caixin China PMI Composite	Nov	--	51.5
12/03/2021	China	Caixin China PMI Services	Nov	--	53.8
12/03/2021	France	Markit France Services PMI	Nov	--	58.2
12/03/2021	France	Markit France Composite PMI	Nov	--	56.3
12/03/2021	Germany	Markit Germany Services PMI	Nov	--	53.4
12/03/2021	Germany	Markit/BME Germany Composite PMI	Nov	--	52.8
12/03/2021	Eurozone	Markit Eurozone Services PMI	Nov	--	56.6
12/03/2021	Eurozone	Markit Eurozone Composite PMI	Nov	--	55.8
12/03/2021	United Kingdom	Markit/CIPS UK Services PMI	Nov	--	58.6
12/03/2021	United Kingdom	Markit/CIPS UK Composite PMI	Nov	--	57.7
12/03/2021	Eurozone	Retail Sales MoM	Oct	--	-0.30%
12/03/2021	Eurozone	Retail Sales YoY	Oct	--	2.50%
12/03/2021	United States	Two-Month Payroll Net Revision	Nov	--	235k
12/03/2021	United States	Change in Nonfarm Payrolls	Nov	500k	531k
12/03/2021	United States	Unemployment Rate	Nov	4.50%	4.60%
12/03/2021	United States	Average Hourly Earnings MoM	Nov	0.40%	0.40%
12/03/2021	United States	Average Weekly Hours All Employees	Nov	34.7	34.7
12/03/2021	United States	Labor Force Participation Rate	Nov	--	61.60%
12/03/2021	United States	Underemployment Rate	Nov	--	8.30%
12/03/2021	United States	Markit US Services PMI	Nov	--	57
12/03/2021	United States	Markit US Composite PMI	Nov	--	56.5
12/03/2021	United States	ISM Services Index	Nov	65	66.7
12/03/2021	United States	Cap Goods Orders Nondef Ex Air	Oct	--	--
12/03/2021	United States	Cap Goods Ship Nondef Ex Air	Oct	--	--

SOURCE: BLOOMBERG



# FURTHER READING

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<a href="#">Supply shocks, inflation and monetary policy</a>	EcoTVWeek	26 November 2021
<a href="#">United States: reallocation of bank portfolios towards the Eurozone since Brexit</a>	Chart of the Week	24 November 2021
<a href="#">European labour market bottlenecks: structural aspects</a>	EcoWeek	22 November 2021
<a href="#">Services support French growth: towards a (big) comeback?</a>	EcoTVWeek	19 November 2021
<a href="#">COP26: Investment in energy system should double to reach zero carbon by 2050</a>	Chart of the Week	17 November 2021
<a href="#">Spain : Upturn in the labour market</a>	EcoFlash	16 November 2021
<a href="#">Eurozone : Euro area labour market bottlenecks: cyclical aspects</a>	EcoWeek	15 November 2021
<a href="#">China's economic engine is stopped</a>	EcoTVWeek	12 November 2021
<a href="#">Poland: industrial shortages trigger a slump in exports</a>	Chart of the Week	10 November 2021
<a href="#">Eurozone : Deposit rate lift-off, markets and the ECB</a>	EcoWeek	8 November 2021
<a href="#">Monetary tightening in emerging countries</a>	EcoTVWeek	5 November 2021
<a href="#">Eurozone : Stabilisation of state-guaranteed loans (SGLs) outstanding amounts</a>	Chart of the Week	3 November 2021
<a href="#">US : Weaker US household confidence, a source of concern?</a>	EcoWeek	29 October 2021
<a href="#">International trade: disruptions remain high</a>	EcoTVWeek	29 October 2021
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<a href="#">Energy costs: how much of European household spending do they account for?</a>	Chart of the Week	27 October 2021
<a href="#">Reforming EU economic governance: the start of a marathon</a>	EcoWeek	25 October 2021
<a href="#">About the surge in energy prices</a>	EcoTVWeek	22 October 2021
<a href="#">Inflation pressures in emerging economies</a>	Chart of the Week	20 October 2021
<a href="#">Global : The risks associated with transitory but high inflation</a>	EcoWeek	18 October 2021



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