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BNP PARIBAS

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EUROZONE: HOUSEHOLD SPENDING UNDER PRESSURE FROM INFLATION

A priori, rising inflation and inflation expectations, reflecting robust growth in demand and economic activity, should boost household spending by reducing real interest rates. Today's situation is different. In many advanced economies, inflation is exceptionally high and to a considerable degree explained by negative supply shocks. In the EU and the euro area, household confidence recorded a big drop in March. Although unemployment expectations have increased, the main reason seems to be concern about high and rising inflation. Eurozone consumer confidence measures provide information about spending up to three quarters into the future. Given their recent decline, one should expect below-average consumer spending growth over the coming months. However, unemployment expectations that are still below their long-term average should provide some support to spending.

A priori, rising inflation and inflation expectations, reflecting robust growth in demand and economic activity, should boost household spending by reducing real interest rates¹. This decline lowers the cost of credit and may stimulate households to frontload spending and save less, with the intention of saving more once interest rates have increased. Today's situation is different. In many advanced economies, inflation is exceptionally high and to a considerable degree explained by negative supply shocks – disruption of supply chains, higher commodity prices- which weigh on demand whilst pushing prices higher. In the EU and the euro area, household confidence recorded a big drop in March on the back of a collapse in expectations about the general economic situation and the gloomy assessment of their own future financial situation, which fell to a historical low. Worsening sentiment can reflect mounting concern about the pace of price increases or about the labour market outlook. Concerning the latter, unemployment expectations increased in March but at 19.9 they have remained below the average since 2000 (24.2). Moreover, thus far, the increase from recent lows is limited compared to previous episodes (chart 1). Nevertheless, as shown in chart 2, in March, households' expectations about their financial situation were abnormally grim given their unemployment expectations. This means that the other factor –inflation- may play an important role. This is confirmed in chart 3, which shows that price expectations are exceptionally high and well outside the historical range², whereas the net balance of households fearing a worsening of their financial situation over the next 12 months is at the upper end of the historical range³.

1. Research for the US shows a positive correlation between durable goods spending increases and expected inflation -but only for selected types of households-, no correlation between nondurables spending and expected inflation and a negative correlation between spending and expected unemployment. Source: *Household Inflation Expectations and Consumer Spending: Evidence from Panel Data*, Mary A. Burke and Ali Ozdagli, Federal Reserve Bank of Dallas, working paper 2110, August 2021.

2. Data start in January 1985.

3. A similar phenomenon has been observed in the US where consumer confidence has

declined despite a strong labour market. See *Weaker US household confidence, a source of concern?*, BNP Paribas, Ecoweek, 29 October 2021.

4. The European Commission's monthly survey of consumers covers the following questions: personal financial situation over next 12 months, general economic situation over last 12 months, general economic situation over next 12 months, price trends over last 12 months, price trends over next 12 months, unemployment expectations over next 12 months, major purchases at present, major purchases over next 12 months, savings at present, savings over next 12 months, statement on financial situation of household. The consumer confidence indicator represents the average of personal financial situation over the last and next 12 months, general economic situation over next 12 months and major purchases over next 12 months.

EURO AREA HOUSEHOLDS' UNEMPLOYMENT EXPECTATIONS



CHART 1

SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

” Eurozone consumer confidence measures provide information about spending up to three quarters into the future. Given their recent decline, one should expect below-average consumer spending growth over the coming months. However, unemployment expectations that are still below their long-term average should provide some support to spending.



households' consumption expenditures⁵. The correlations between confidence measures and spending during the same quarter are high but several series also provide information about spending up to three quarters into the future. Considering that in March, four measures out of six were below their long-term average, sometimes significantly so (chart 5), one should expect below-average consumer spending growth over the coming months. However, unemployment expectations that are still below their long-term average should provide some resilience.

William De Vijlder

5. The chart was inspired by *Does consumer confidence predict private consumption?*, ECB Economic Bulletin, issue 5, 2015.

EURO AREA HOUSEHOLDS' EXPECTATIONS: PERSONAL FINANCIAL SITUATION AND UNEMPLOYMENT

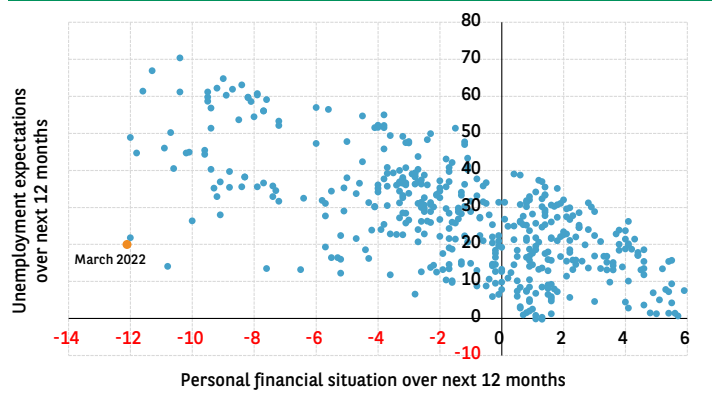


CHART 2 SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

EURO AREA HOUSEHOLDS' EXPECTATIONS: PERSONAL FINANCIAL SITUATION AND INFLATION

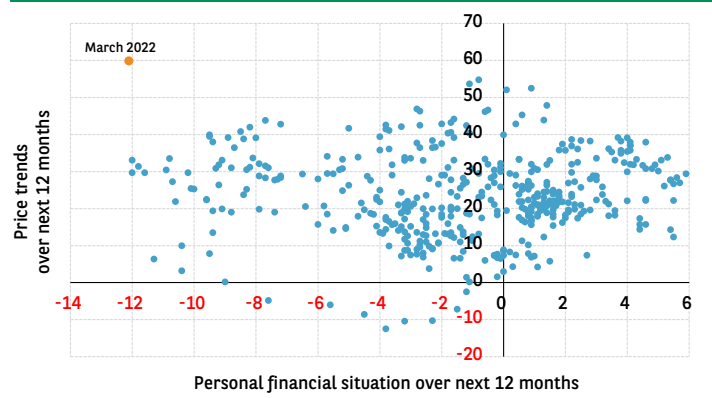


CHART 3 SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

EURO AREA: CORRELATION BETWEEN CONSUMER CONFIDENCE AND CURRENT AND FUTURE CONSUMPTION GROWTH

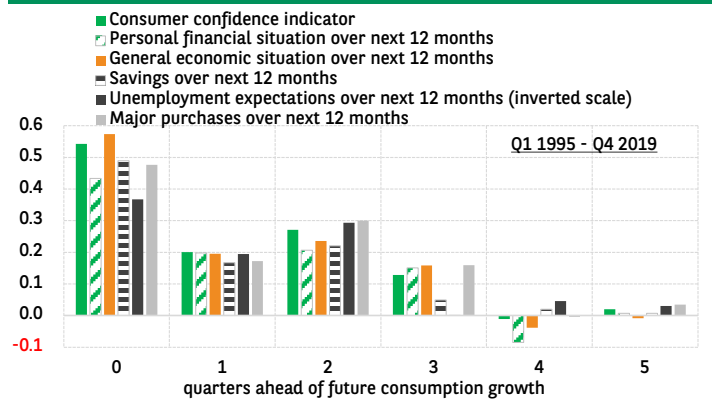


CHART 4 SOURCE: EUROPEAN COMMISSION, EUROSTAT, BNP PARIBAS

EURO AREA CONSUMER CONFIDENCE MEASURES

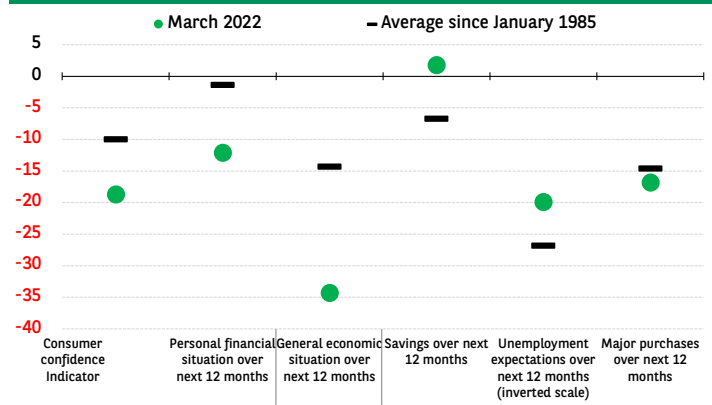


CHART 5 SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

MARKETS OVERVIEW

OVERVIEW

Week 25-3 22 to 1-4-22

➔ CAC 40	6 554	▶ 6 684	+2.0 %
➔ S&P 500	4 543	▶ 4 546	+0.1 %
➔ Volatility (VIX)	20.8	▶ 19.6	-1.2 pb
➔ Euribor 3M (%)	-0.48	▶ -0.46	+1.6 bp
➔ Libor \$ 3M (%)	0.98	▶ 0.96	-2.1 bp
➔ OAT 10y (%)	0.86	▶ 0.93	+6.5 bp
➔ Bund 10y (%)	0.53	▶ 0.54	+1.0 bp
➔ US Tr. 10y (%)	2.49	▶ 2.39	-10.4 bp
➔ Euro vs dollar	1.10	▶ 1.10	+0.5 %
➔ Gold (ounce, \$)	1 959	▶ 1 928	-1.6 %
➔ Oil (Brent, \$)	119.9	▶ 104.5	-12.8 %

MONEY & BOND MARKETS

Interest Rates	highest 22	lowest 22	Yield (%)	highest 22	lowest 22
€ ECB	0.00	0.00 at 03/01	€ AVG 5-7y	0.83	0.86 at 30/03
Eonia	-0.51	-0.51 at 03/01	Bund 2y	-0.18	-0.09 at 30/03
Euribor 3M	-0.46	-0.46 at 31/03	Bund 10y	0.54	0.63 at 30/03
Euribor 12M	-0.09	-0.07 at 31/03	OAT 10y	0.93	0.97 at 30/03
\$ FED	0.50	0.50 at 17/03	Corp. BBB	2.06	2.13 at 30/03
Libor 3M	0.96	0.96 at 29/03	\$ Treas. 2y	2.32	2.34 at 28/03
Libor 12M	2.17	2.20 at 29/03	Treas. 10y	2.39	2.49 at 25/03
£ BoE	0.75	0.75 at 17/03	High Yield	6.40	6.81 at 15/03
Libor 3M	1.04	1.05 at 28/03	£ gilt. 2y	1.43	1.55 at 15/02
Libor 12M	0.81	0.81 at 03/01	£ gilt. 10y	1.60	1.68 at 22/03

At 1-4-22

EXCHANGE RATES

1€ =	highest 22	lowest 22	2022
USD	1.10	1.15 at 10/02	1.09 at 07/03
GBP	0.84	0.85 at 30/03	0.83 at 04/03
CHF	1.02	1.06 at 10/02	1.00 at 04/03
JPY	135.59	136.24 at 29/03	125.37 at 04/03
AUD	1.47	1.62 at 04/02	1.46 at 25/03
CNY	7.02	7.29 at 10/02	6.87 at 08/03
BRL	5.19	6.44 at 06/01	5.19 at 01/04
RUB	93.39	164.76 at 07/03	84.45 at 03/01
INR	83.63	85.96 at 11/02	83.17 at 04/03

At 1-4-22

COMMODITIES

Spot price, \$	highest 22	lowest 22	2022	2022(€)
Oil, Brent	104.5	128.2 at 08/03	79.0 at 03/01	+33.3%
Gold (ounce)	1 928	2 056 at 08/03	1 785 at 28/01	+5.8%
Metals, LME	5 210	5 506 at 07/03	4 489 at 06/01	+15.7%
Copper (ton)	10 343	10 702 at 04/03	9 543 at 06/01	+6.2%
wheat (ton)	358	4.2 at 07/03	281 at 14/01	+50.5%
Corn (ton)	281	2.9 at 11/03	226 at 03/01	+2.3%

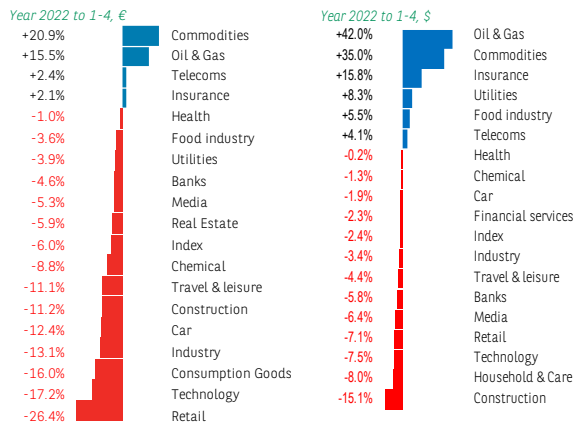
At 1-4-22

EQUITY INDICES

Index	highest 22	lowest 22	2022
World			
MSCI World	3 057	3 248 at 04/01	2 798 at 08/03
North America			
S&P500	4 546	4 797 at 03/01	4 171 at 08/03
Europe			
EuroStoxx50	3 919	4 392 at 05/01	3 505 at 08/03
CAC 40	6 684	7 376 at 05/01	5 963 at 08/03
DAX 30	14 446	16 272 at 05/01	12 832 at 08/03
IBEX 35	8 504	8 886 at 10/02	7 645 at 07/03
FTSE100	7 538	7 672 at 10/02	6 959 at 07/03
Asia			
MSCI, loc.	1 125	1 165 at 05/01	1 024 at 08/03
Nikkei	27 666	29 332 at 05/01	24 718 at 09/03
Emerging			
MSCI Emerging (\$)	1 146	1 267 at 12/01	1 027 at 15/03
China	72	86 at 20/01	59 at 15/03
India	837	891 at 13/01	742 at 07/03
Brazil	1 971	1 971 at 01/04	1 372 at 06/01

At 1-4-22

PERFORMANCE BY SECTOR (Eurostoxx50 & S&P500)

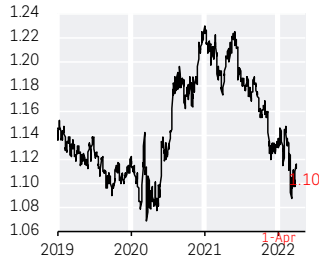


SOURCE: REFINITIV, BNP PARIBAS,

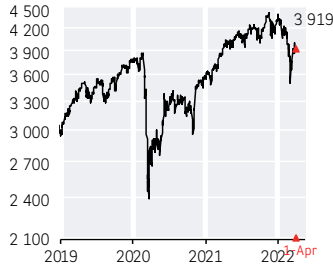


MARKETS OVERVIEW

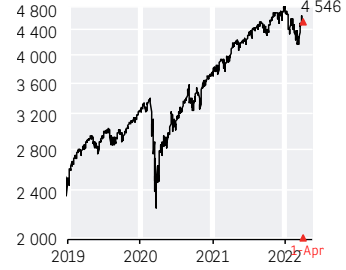
EURO-DOLLAR



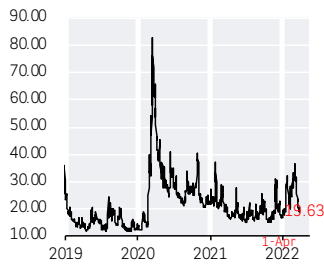
EUROSTOXX50



S&P500



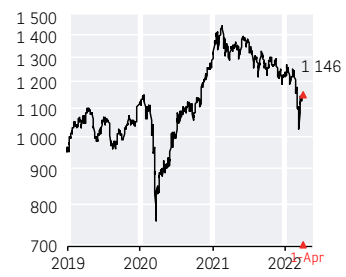
VOLATILITY (VIX, S&P500)



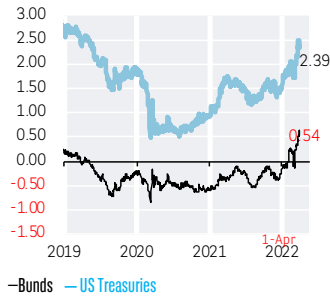
MSCI WORLD (USD)



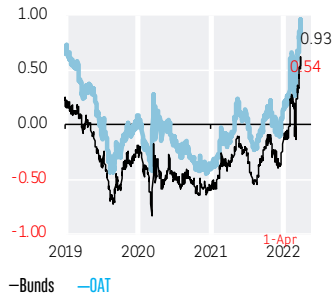
MSCI EMERGING (USD)



10Y BOND YIELD, TREASURIES VS BUND



10Y BOND YIELD



10Y BOND YIELD & SPREADS

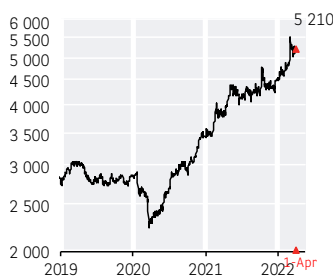
Year 2022 to 1-4

2.85%	Greece	231 bp
2.03%	Italy	149 bp
1.41%	Spain	87 bp
1.40%	Portugal	86 bp
0.93%	France	39 bp
0.91%	Belgium	37 bp
0.85%	Finland	31 bp
0.78%	Ireland	23 bp
0.75%	Austria	20 bp
0.64%	Netherlands	10 bp
0.54%	Germany	

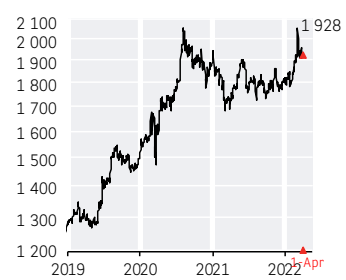
OIL (BRENT, USD)



METALS (LMEX, USD)



GOLD (OUNCE, USD)



SOURCE: REFINITIV, BNP PARIBAS



ECONOMIC PULSE

UNITED STATES: THE LOW TIDES OF MARCH

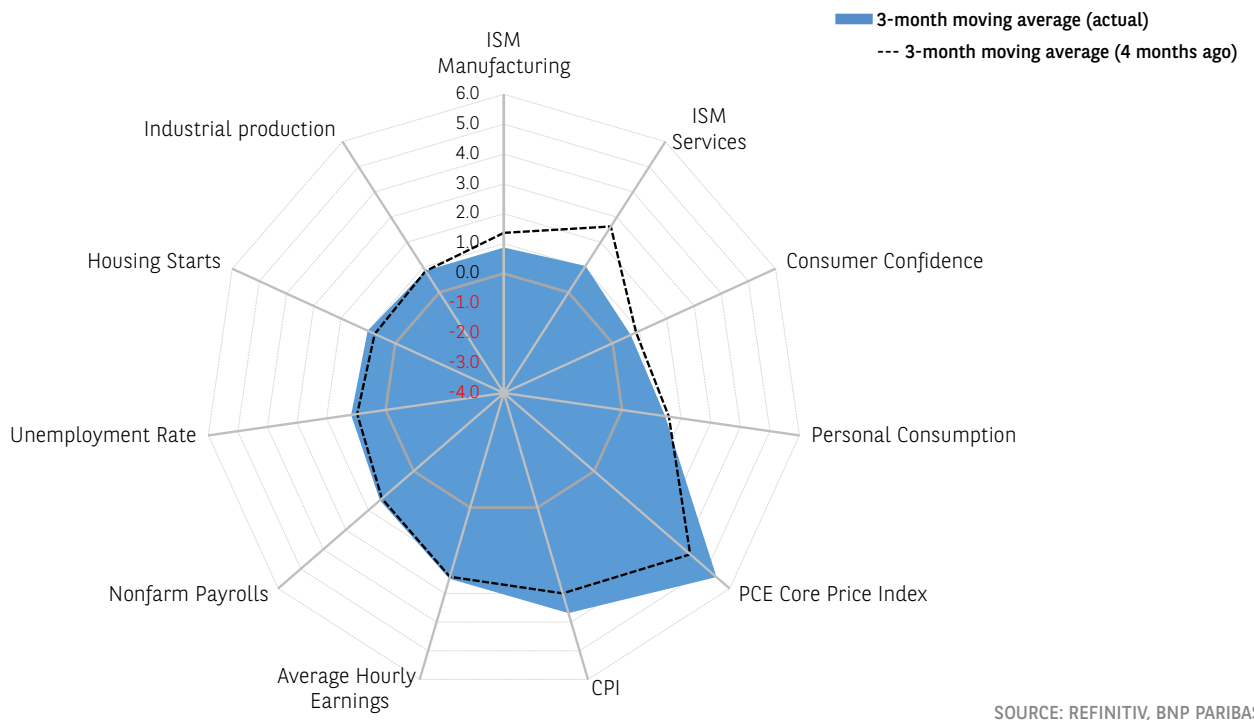
Very few survey results are available yet for March 2022, but they are all mediocre, which shows that the harmful impact of Russia's war in Ukraine is not limited solely to Europe. Although it hasn't collapsed, the Conference Board's household confidence index has fallen from peak levels. In the Philadelphia and New York regions, industrial leaders are seeing darker horizons, which is probably due as well to the resurgence of the Covid-19 pandemic in China, which promises to further aggravate supply chain tensions that are already very high.

At a 40-year high, inflation is unlikely to ease in the near term: February's record of 7.9% y/y could be surpassed in March or April. Yet the ceaseless rise in commodity prices – which has now spread to food prices as well – is not the only factor to blame. The housing market is clearly overheating, too, and this is driving up rent, which makes up a third of the price index.

The Federal Reserve started a new monetary tightening phase on 16 March that is bound to continue. It will stick to its roadmap of raising key rates by 25bp after each FOMC meeting, which would bring the Fed funds target rate within a range of 1.75% and 2% by the end of the year. Unless, in the meantime, surging prices were to get the better of American consumers and threaten to trigger an economic recession.

Jean-Luc Proutat

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 +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

EUROZONE: WHILST INFLATION CONTINUES TO SOAR, THE UNEMPLOYMENT RATE CONTINUES TO FALL

Eurostat’s flash estimate puts eurozone inflation for March at 7.5% y/y, representing another very substantial increase (up 1.6 points on the February figure). Inflation continues to be driven mainly by energy prices – the energy component contributed 4.9 percentage points to this figure, thus explaining 65% of the total – but the other components (food, manufactured goods, services) are also seeing increases and each contributed around one point. Thus, inflation is getting more widespread and all eurozone countries have been affected by its recent acceleration, albeit to varying degrees. Inflation was highest in Lithuania, at 15.6%, and lowest in Malta (4.6%). In the zone’s four biggest economies Spain leads the list (9.8%, up 2.2 points on February), followed by Germany (7.6%, 2.1 points), Italy (7%, 0.8 of a point) and France (5.1%, 0.9 of a point), which thus ranked fourth in this list and was also second to last in the eurozone as a whole.

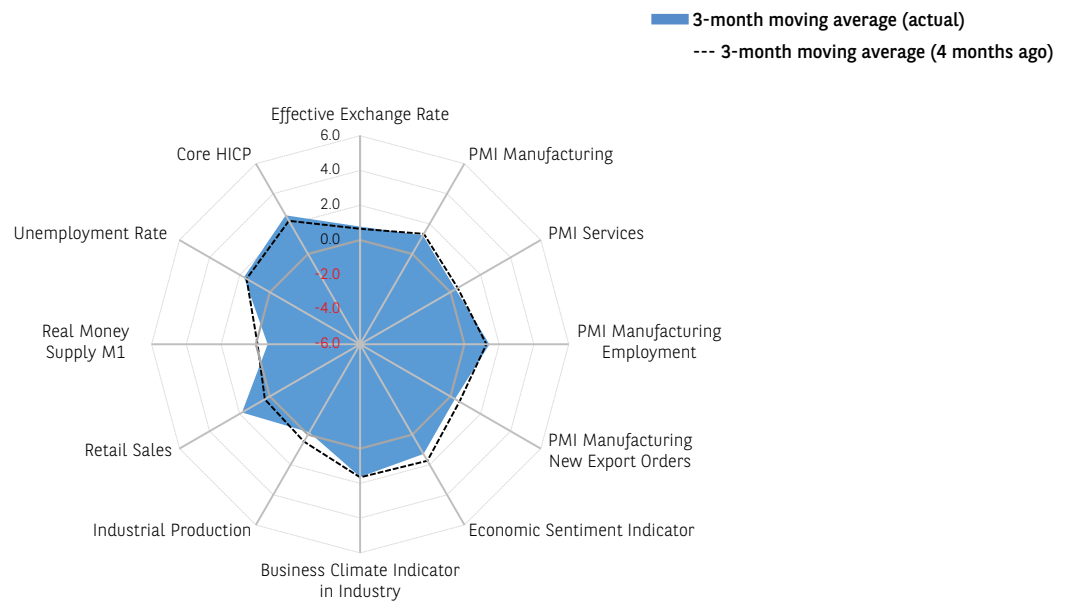
This new surge in inflation has already had a significant impact on European consumer sentiment: the European Commission survey of the eurozone has rarely been as low (-18.7 points), having lost nearly 10 points in March, a fall only barely smaller than the 10.5-point drop in March 2020, at the time of the first pandemic lockdown. From now on, it remains to be seen to what extent this deterioration in consumer confidence will affect households’ consumption.

In the meantime, the fall in the unemployment rate has continued (down 0.1 of a point in February, to 6.8% of the labour force, setting a new record low since 1998). This is a significant cushioning force, as well as being a piece of genuine good news in an economic picture that is otherwise getting gloomier. The limited fall in the employment expectations of businesses in March is also reassuring. However, here too it remains to be seen just how far this positive labour market momentum will run, given the inflationary shock under way and the other negative economic consequences of the conflict in Ukraine (higher uncertainty, drop-off in foreign trade, increased supply difficulties and the risk of shortages). At the time of writing, the economic situation is not one of stagflation (a lasting combination of high unemployment and high inflation), but this remains a real and growing risk.

Business confidence surveys also bear the traces of on-going shocks, although this is less marked in the Composite PMI than in the European Commission’s ESI: the former lost only 1 point in March, the latter just over 5 points. However, this larger fall also includes the drop in consumer confidence discussed above. The fall in the ESI was biggest in France (7.1 points), followed by Spain (6.5 points), Germany (4.3) and then Italy (2.6). By economic sector, across the eurozone, the fall in PMI figures is widespread (-1.7 points in manufacturing, -0.7 in services), whilst in the ESI the services sector is unscathed, with a 1.5-point improvement in the business climate, with a tiny drop in construction (-0.1 of a point) but significantly bigger falls in manufacturing (-3.7 points) and particularly the retail sector (-5.3 points). In contrast to consumer confidence, the reassuring factor is that, for the time being, the business climate remains at high levels (54.5 for the Composite PMI and 108.5 for the ESI, i.e. significantly above, respectively, its reference level of 50 corresponding to expansion and 100 corresponding to its 2000-2021 average).

Hélène Baudchon

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 +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

JAPAN: IS THE WORST STILL TO COME?

Given the obstacles piling up for the global economy, there was concern that the consensus forecast of a significantly weaker Tankan survey would end up being too optimistic. Upon its release, it turned out not to be the case, with some series below consensus and other slightly better. The overall conclusion is clear however: the report was indeed less positive than in the previous quarter. The diffusion index was 2 points lower than in Q4 2021, but there was a balance between the number of businesses considering the situation as favourable and those considering it as unfavourable (the survey was carried out between 24 February and 31 March and thus incorporated the impact of the war in Ukraine). Confidence in the manufacturing sector declined more than in services (down 4 points to 2 in manufacturing, down 2 points to 0 in services) owing to the steep deterioration in paper & pulp, chemicals and steelmaking industries.

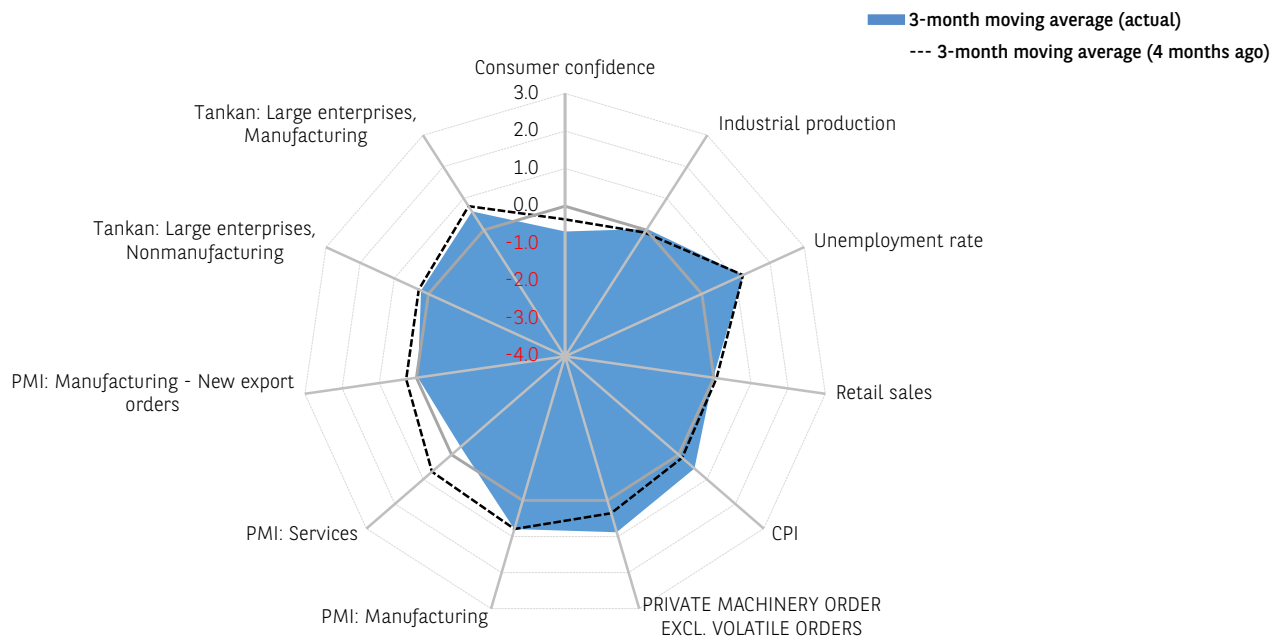
That said, the report contains some more worrying signals as regards to expectations for the upcoming quarter (Q2 2022). Forecasts have worsened markedly in the sectors most affected by the rise in commodity prices, or shortages of key inputs (iron & steel, lumber & wood products). Furthermore, businesses based their responses on a highly conservative exchange rate (close to 112 Y/\$ for this year), a long way from the current level at around 120 Y/\$. Although businesses still reported stable margins for this year compared with 2021, there is a strong likelihood these will be lowered in the next survey.

After experiencing a difficult winter due to a resurgence in Covid-19 infections, the Japanese economy faces the knock-on effects from the war in Ukraine, which will continue to build up. The shutdown of certain plants in China as a result of the upturn in Covid-19 cases is also disrupting production lines and the external demand registered by Japan's industries. The manufacturing PMI for new export orders dropped by over 4 points in March to its lowest level in 18 months. Even so, the overall manufacturing index bounced back from 52.7 to 54.1 led by the improvement in the production and domestic order indicators.

The rise in inflation (0.9% in February) is set to gain pace in April. The base effects linked to the fall in telephony prices in April 2021 will end, while the rise in energy prices will worsen. Japan's Prime Minister Fumio Kishida has announced that a package of measures to support households (whose confidence has been declining for three months) and businesses will be introduced by late April.

Guillaume Derrien

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 +3. 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

NEW COVID-19 CASE NUMBERS CONTINUE TO STABILISE IN EUROPE

After a week of stabilisation, global Covid-19 case numbers have started to fall again. 11 million new cases were recorded between 24 and 30 March, a 9% drop on the previous week. In more general terms, the number of new cases has continued to fall in North and South America, whilst Asia saw its first fall in case numbers after two months of near-continuous increases. In Europe, by contrast, the situation was stable for the second week in a row, whilst there was a small rise, of 4%, in Africa (chart 1). Meanwhile, 65% of the world's population has now received at least one dose of a Covid-19 vaccine (chart 2).

Over the same period, visits to retail and leisure facilities are still on an upward trend in Japan while declining in Spain. In the other countries (France, Germany, Belgium Italy, the US and UK) the indicator is stabilising (chart 3, blue line).

Lastly, the trend in the weekly proxy indicator of GDP has remained very positive in France, Germany, the US and UK, whilst in Spain it was stable compared to the previous two data points. In Italy and Japan, the most recent data points appear to suggest a slight downturn (chart 3, black line). This indicator is produced by the OECD on the basis of data from Google Trends for searches relating to consumption, the labour and property markets, industrial activity and uncertainty. The OECD calculates the indicator over a moving two-year period in order to avoid the comparison basis effect that would result 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)

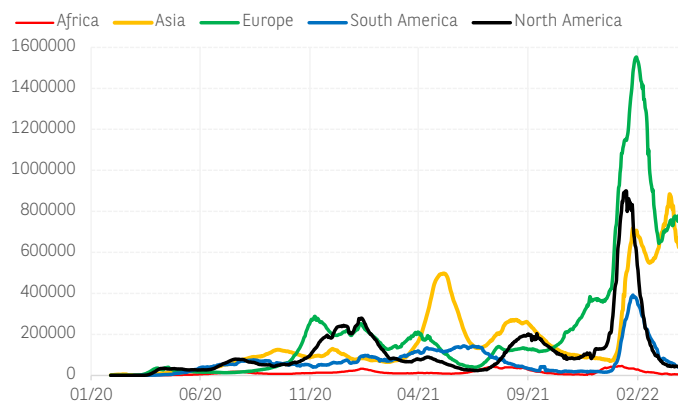


CHART 1

SOURCE: JOHNS-HOPKINS UNIVERSITY (03/31/2022), BNP PARIBAS

SHARE OF PEOPLE WHO RECEIVED AT LEAST ONE DOSE OF VACCINE

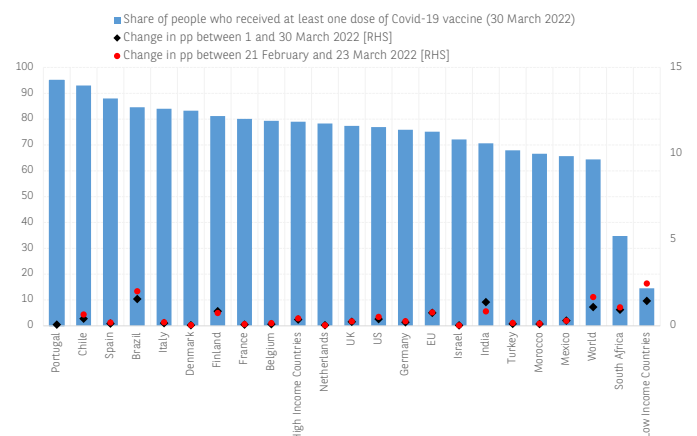


CHART 2

SOURCE: OUR WORLD IN DATA (03/31/2022), BNP PARIBAS

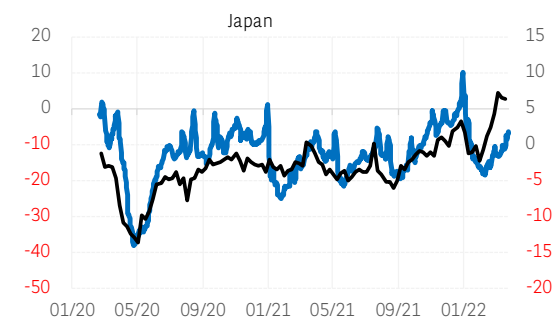
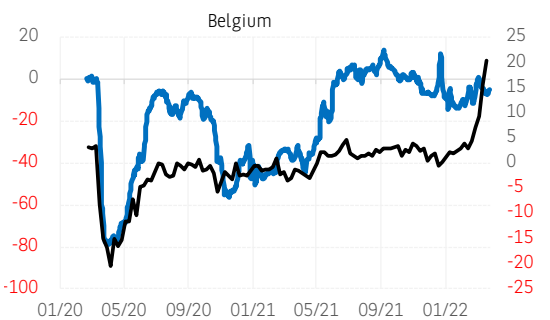
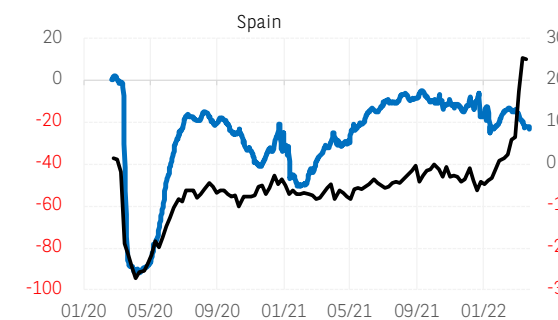
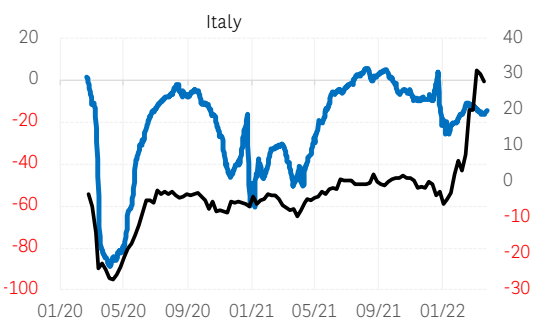
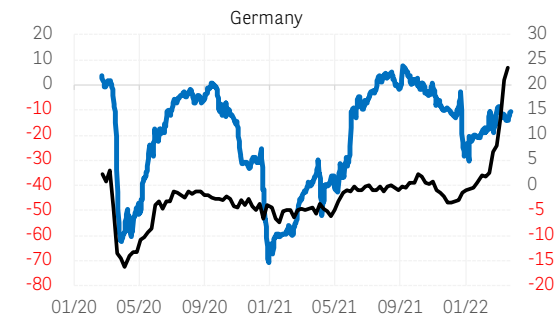
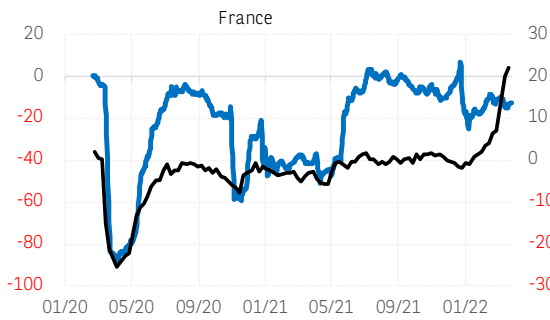
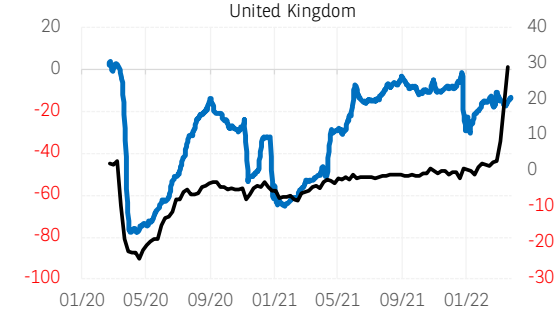
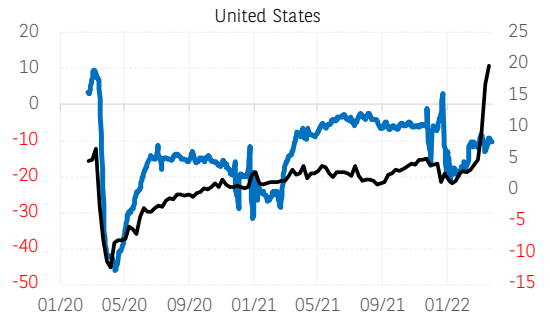


RETAIL AND RECREATION MOBILITY & OECD WEEKLY TRACKER

— Retail and recreation mobility (7-day moving average, % from baseline*) — OECD Weekly tracker, y/2y GDP growth [RHS]

— Retail and recreation mobility (7-day moving average, % from baseline*)

— OECD Weekly tracker, y/2y GDP growth [RHS]



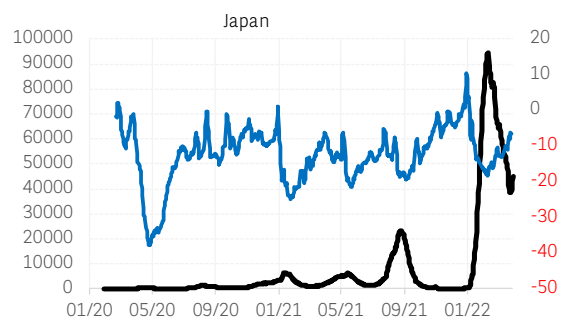
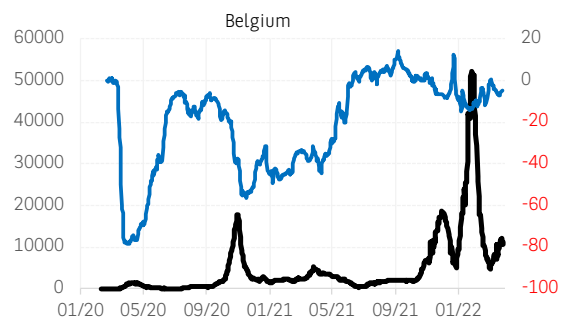
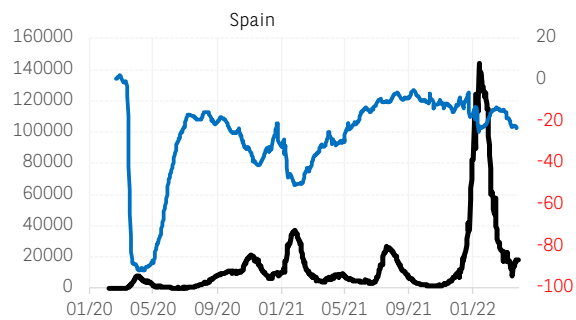
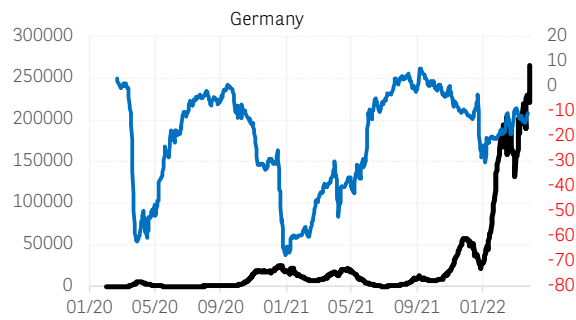
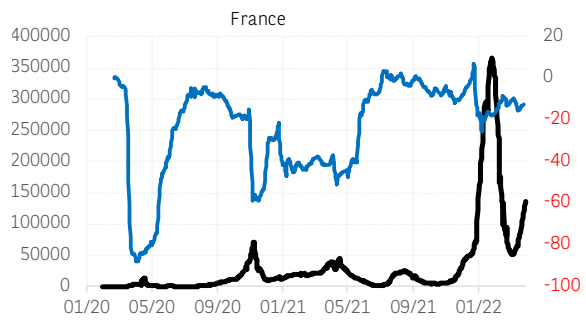
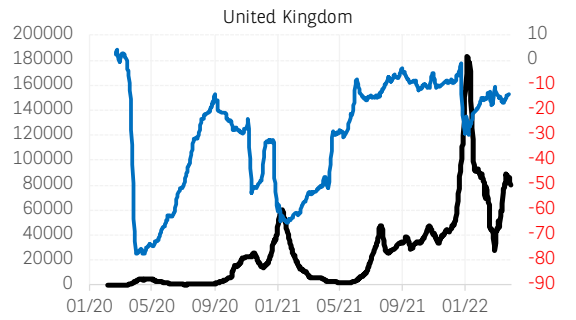
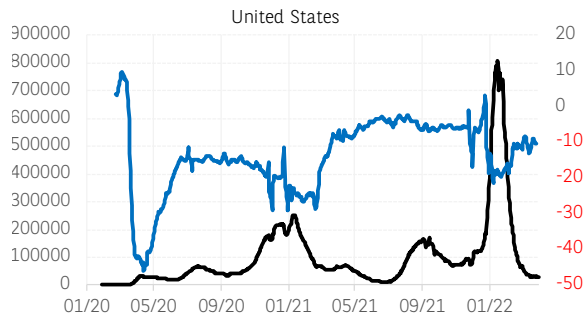
SOURCE: OECD (03/31/2022), GOOGLE (03/31/2022), BNP PARIBAS



DAILY NEW CASES & RETAIL AND RECREATION MOBILITY

— Daily new confirmed cases of Covid-19 (7-day moving average)
 — Retail and recreation mobility (7-day moving average, % from baseline*)[RHS]

— 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 (03/31/2022), GOOGLE 03/31/2022), BNP PARIBAS



ECONOMIC SCENARIO

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UNITED STATES

The US economy has returned to its pre-pandemic trajectory, and with the unemployment rate at 4%, it is now close to potential. Inflation has risen above 7%, the highest level in forty years, and the Federal Reserve is expected to raise its key rates by at least 100 basis points in 2022. Buoyed by job creations, household consumption is however penalised by the decline in real wages. The downward revision of the government's fiscal ambitions, notably its social welfare plans, may also contribute to calm down private demand. GDP growth will slowdown at around 4%, inflation is expected to remain very high through the end of spring, before easing by the second half of 2022.

CHINA

Economic growth has slowed markedly since last summer. The crisis in the real estate and construction sectors, the authorities' zero-Covid strategy and the persisting weakness of household consumption have heavily weighed on activity. These factors are likely to persist in the short term, even though the government increases fiscal policy support and the central bank enhances monetary easing measures. At the same time, the authorities are expected to continue to act to clean up the property market and tighten the regulatory framework. The export industry, which has remained buoyant in recent months, could start to lose growth momentum in the short term.

EUROZONE

After a strong Q3, growth in Q4 2021 was, as expected, significantly weaker (+0.3% t/t according to the first Eurostat estimate). In addition to the expected normalization, headwinds have increased (supply-side problems, surging inflation and uncertainties arising from the new wave of the pandemic). However, business climate surveys continue to show some resilience. Although the downside risks have intensified, leading, mid-February, to a 0.6 ppts downward revision to our growth forecast for 2022 (to 3.6%), we continue to see the recovery as resilient. A number of tailwinds remain at work – still supportive (albeit less so) 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. Despite a more meaningful slowdown, growth is expected to remain well above its trend rate in 2022. Meanwhile, inflation continues to surge, postponing the expected peak. This is still mainly an energy story but more sustained and widespread factors are also gaining traction. We expect average inflation to spike at 5% in 2022 in annual average terms (after 2.6% in 2021), masking an expected decline over the course of the 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 surprised on the upside in Q4 2021 (0.7% q/q according to INSEE's initial estimate) and reached 7% in 2021 as a whole. In 2022, GDP growth would ease to 4.2%, against a background of higher inflation (3.5% expected in 2022 after 1.8% in 2021).

RATES AND EXCHANGE RATES

In the US, the Federal Reserve has started its tightening cycle and, based on the projections of the FOMC members, several rate hikes should follow this year and next. Over the next 15 months, we expect 275 bp of rate hikes. In addition, the reduction of the size of the balance sheet (quantitative tightening) will probably start in May. The Fed's hawkish stance is motivated by particularly elevated inflation, a strong economy and very low policy rates. These policy changes should only put limited upward pressure on long-term Treasury yields considering that the market has anticipated to a large degree the policy tightening. In addition, as the rate hike cycle continues, bond investors will start to price the prospect of slower growth and the decline of inflation. In the euro area, the jump in uncertainty and commodity prices are weighing on the sentiment of companies and households. Despite exceptionally high inflation, the ECB insists on the need to keep its optionality, which reflects a preference to have better visibility about the inflation outlook before deciding to change policy. We expect a

first hike of the deposit rate in December. Further rate hikes should follow in 2023 bringing the deposit rate to 0.50%. This should push bond yields higher but also lead to a widening of certain sovereign spreads.

The Bank of Japan is expected to maintain its current policy stance in the near term but raise its short-term policy rate from -0.10% to the 0-0.10% range in the latter part of 2023, whilst allowing the 10-year JGB yield to drift higher. These decisions would be based on an increased emphasis on the side effects of the negative interest rate policy and concern about the risk of further yen weakening and its impact on households via higher import prices.

We expect the dollar to weaken versus the euro, considering that both the Federal Reserve and the ECB will tighten policy, that the long-term interest rate differential should narrow and that the euro is undervalued versus the dollar. The increased policy divergence between the Fed and the Bank of Japan should cause an appreciation of the dollar versus the yen but in the latter part of 2023, we expect the yen to appreciate following the change in monetary policy of the Bank of Japan.

GDP GROWTH

%	2021	2022 e	2023 e
United-States	5.7	3.7	2.5
Japan	1.7	1.6	2.0
United-Kingdom	7.5	3.6	1.7
Euro Area	5.3	2.8	2.7
Germany	2.9	-	-
France	7.0	-	-
Italy	6.6	-	-
Spain	5.0	-	-
China	7.7	4.9	5.5
India*	8.1	9.5	7.3
Brazil	5.0	-0.5	0.0
Russia	4.5	-8.5	3.1

The growth projections in the table are based on the assumption that there is no further escalation of the war in Ukraine, that there is a prolonged period of uncertainty with sanctions remaining in place and that the price of oil would peak at USD 150/bbl and drop to about USD 120/bbl by year end.

SOURCE: BNP PARIBAS GROUP ECONOMIC RESEARCH (E: ESTIMATES & FORECASTS)
*FISCAL YEAR FROM 1ST APRIL OF YEAR N TO MARCH 31ST OF YEAR N+1
** LAST UPDATE 13/03/2022

INTEREST & EXCHANGE RATES

Interest rates, %

End of period		Q1 2022	Q2 2022 e	Q3 2022 e	Q4 2022 e	Q4 2023 e
US	Fed Funds (upper limit)	0.50	1.00	1.50	1.75	2.50
	T-Note 10y	2.33	2.50	2.60	2.70	2.60
Ezone	Deposit rate	-0.50	-0.50	-0.50	-0.25	0.50
	Bund 10y	0.51	0.75	0.90	1.00	1.20
	OAT 10y	0.84	1.20	1.40	1.50	1.70
	BTP 10y	1.97	2.45	2.75	3.00	3.20
	BONO 10y	1.37	1.75	2.00	2.15	2.35
UK	Base rate	0.75	1.00	1.25	1.25	1.75
	Gilts 10y	1.59	1.75	1.90	2.00	2.00
Japan	BoJ Rate	-0.02	-0.10	-0.10	-0.10	0.10
	JGB 10y	0.21	0.25	0.25	0.25	0.45

Exchange Rates

End of period		Q1 2022	Q2 2022 e	Q3 2022 e	Q4 2022 e	Q4 2023 e
USD	EUR / USD	1.11	1.11	1.13	1.14	1.20
	USD / JPY	121	125	124	123	115
	GBP / USD	1.32	1.29	1.31	1.33	1.40
EUR	EUR / GBP	0.85	0.86	0.86	0.86	0.86
	EUR / JPY	135	139	140	140	138

Brent

End of period		Q1 2022	Q2 2022 e	Q3 2022 e	Q4 2022 e	Q4 2023 e
Brent*	USD/bbl	107	135	135	125	104

FORECASTS PRODUCED ON 31 MARCH 2022. SOURCE: BNP PARIBAS (E: ESTIMATES & FORECASTS)
(MARKET ECONOMICS, INTEREST RATE STRATEGY, FX STRATEG, COMMODITIES DESK STRATEGY)



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CALENDAR

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LATEST INDICATORS

In China the purchasing managers' indices declined in March, in particular in the non-manufacturing sector. This decline is related to the rise in Covid-19 infections and the reintroduction of lockdowns. In the Eurozone, economic confidence dropped in March, reflecting the impact of high and rising inflation and an increase in uncertainty. The final consumer confidence data were in line with the flash estimate, which had dropped versus February. Industrial confidence was also down a lot but services' sentiment picked up. The manufacturing PMI edged lower in March. Inflation made a huge jump and is now at 7.5%. French consumer confidence declined a lot, in line with declines in other eurozone countries. Consumer spending improved in February and the March manufacturing PMI was in line with the flash estimate. In Germany, the GfK consumer confidence index dropped and inflation jumped to 7.6%. The decline in unemployment numbers slowed down and the manufacturing PMI weakened. In Japan, the Tankan survey pointed towards weakening growth. The manufacturing PMI on the other hand improved. In the US, the Conference Board consumer confidence index declined due to a drop in the expectations component. Personal income edged higher in February versus the previous month but real spending declined. The manufacturing ISM declined. The prices paid component recorded a jump, new orders plummeted but the employment series improved. Finally, the labour market report showed a slower but still high pace of job creation, a further decline in the unemployment rate and an increase in the participation rate. The monthly change of average hourly earnings was stable.

DATE TIME	COUNTRY/REGION	INDICATOR	PERIOD	CONSENSUS	ACTUAL	PREVIOUS
03/29/22	Germany	GfK Consumer Confidence	Apr	-10	-15.5	-8.5
03/29/22	France	Consumer Confidence	Mar	--	91.0	97.0
03/29/22	United States	Conf. Board Consumer Confidence	Mar	107.8	107.2	105.7
03/29/22	United States	Conf. Board Present Situation	Mar	--	153.0	143.0
03/29/22	United States	Conf. Board Expectations	Mar	--	76.6	80.8
03/29/22	United States	JOLTS Job Openings	Feb	11000k	11266k	11283k
03/30/22	Japan	Retail Sales YoY	Feb	-0.30%	-0.8%	1.1%
03/30/22	Japan	Retail Sales MoM	Feb	-0.10%	0.0	0.0
03/30/22	Eurozone	Economic Confidence	Mar	110	108.5	113.9
03/30/22	Eurozone	Industrial Confidence	Mar	--	10.4	14.1
03/30/22	Eurozone	Services Confidence	Mar	--	14.4	12.9
03/30/22	Eurozone	Consumer Confidence	Mar	--	-18.7	-18.7
03/30/22	Germany	CPI EU Harmonized MoM	Mar	--	2.5%	0.9%
03/30/22	Germany	CPI EU Harmonized YoY	Mar	--	7.6%	5.5%
03/30/22	United States	GDP Annualized QoQ	4Q	7.10%	6.9%	7.0%
03/31/22	China	Composite PMI	Mar	--	48.8	51.2
03/31/22	China	Manufacturing PMI	Mar	50	49.5	50.2
03/31/22	China	Non-manufacturing PMI	Mar	50.7	48.4	51.6
03/31/22	United Kingdom	GDP QoQ	4Q	--	1.3%	1.0%
03/31/22	United Kingdom	GDP YoY	4Q	--	6.6%	6.5%
03/31/22	France	CPI EU Harmonized MoM	Mar	--	1.6%	0.9%
03/31/22	France	CPI EU Harmonized YoY	Mar	--	5.1%	4.2%
03/31/22	France	PPI MoM	Feb	--	1.1%	4.7%
03/31/22	France	PPI YoY	Feb	--	22.4%	22.4%
03/31/22	France	Consumer Spending MoM	Feb	--	0.8%	-2.0%
03/31/22	France	Consumer Spending YoY	Feb	--	-2.3%	-2.8%
03/31/22	Germany	Unemployment Change (000's)	Mar	--	-18.0k	-33.0k
03/31/22	Eurozone	Unemployment Rate	Feb	6.70%	6.8%	6.9%



DATE TIME	COUNTRY/REGION	INDICATOR	PERIOD	CONSENSUS	ACTUAL	PREVIOUS
03/31/22	United States	Personal Income	Feb	0.50%	0.5%	0.1%
03/31/22	United States	Personal Spending	Feb	0.50%	0.2%	2.7%
03/31/22	United States	Real Personal Spending	Feb	--	-0.4%	2.1%
03/31/22	United States	Initial Jobless Claims	26 March	--	202k	188k
03/31/22	United States	PCE Core Deflator MoM	Feb	0.40%	0.4%	0.5%
03/31/22	United States	PCE Core Deflator YoY	Feb	5.50%	5.4%	5.2%
04/01/22	Japan	Tankan Large Mfg Index	1Q	12	14.0	17.0
04/01/22	Japan	Tankan Large Non-Mfg Index	1Q	5	9.0	10.0
04/01/22	Japan	Tankan Large Mfg Outlook	1Q	10	9.0	13.0
04/01/22	Japan	Tankan Large Non-Mfg Outlook	1Q	8	7.0	9.0
04/01/22	Japan	Tankan Large All Industry Capex	1Q	4.40%	0.0	0.1
04/01/22	Japan	Tankan Small Mfg Index	1Q	-6	-4.0	-1.0
04/01/22	Japan	Tankan Small Non-Mfg Index	1Q	-9	-6.0	-3.0
04/01/22	Japan	Tankan Small Mfg Outlook	1Q	-8	-5.0	-1.0
04/01/22	Japan	Tankan Small Non-Mfg Outlook	1Q	-8	-10.0	-6.0
04/01/22	Japan	Jibun Bank Japan PMI Mfg	Mar	--	54.1	53.2
04/01/22	China	Caixin China PMI Mfg	Mar	50	48.1	50.4
04/01/22	France	S&P Global France Manufacturing PMI	Mar	--	54.7	54.8
04/01/22	Germany	S&P Global/BME Germany Manufacturing PMI	Mar	--	56.9	57.6
04/01/22	Eurozone	S&P Global Eurozone Manufacturing PMI	Mar	--	56.5	57.0
04/01/22	United Kingdom	S&P Global/CIPS UK Manufacturing PMI	Mar	--	55.2	55.5
04/01/22	Eurozone	CPI Estimate YoY	Mar	6.30%	7.5%	5.9%
04/01/22	Eurozone	CPI MoM	Mar	--	2.5%	0.9%
04/01/22	Eurozone	CPI Core YoY	Mar	--	3.0%	2.7%
04/01/22	United States	Change in Nonfarm Payrolls	Mar	450k	431k	750k
04/01/22	United States	Unemployment Rate	Mar	3.70%	3.6%	3.8%
04/01/22	United States	Average Hourly Earnings YoY	Mar	5.50%	5.6%	5.2%
04/01/22	United States	Average Weekly Hours All Employees	Mar	34.7	34.6	34.7
04/01/22	United States	Labor Force Participation Rate	Mar	62.40%	62.4%	62.3%
04/01/22	United States	S&P Global US Manufacturing PMI	Mar	--	58.8	58.5
04/01/22	United States	ISM Manufacturing	Mar	58.3	57.1	58.6
04/01/22	United States	ISM Prices Paid	Mar	--	87.1	75.6
04/01/22	United States	ISM New Orders	Mar	--	53.8	61.7
04/01/22	United States	ISM Employment	Mar	--	56.3	52.9

SOURCE: BLOOMBERG



CALENDAR: THE WEEK AHEAD

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COMING INDICATORS

The week will be dominated by the release of the services and composite PMIs in a large number of countries. In the US, the focus will be on the ISM services index and the minutes of the March FOMC meeting, where the decision was taken to start a tightening cycle. For the euro area we will have producer price inflation and retail sales. In Japan, consumer confidence data will be released as well as the Eco Watchers' survey.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	PREVIOUS
04/04/2022	Germany	Exports SA MoM	Feb	--	-2.80%
04/04/2022	Germany	Imports SA MoM	Feb	--	-4.20%
04/04/2022	United States	Cap Goods Orders Nondef Ex Air	Feb	--	-0.30%
04/05/2022	Japan	Jibun Bank Japan PMI Services	Mar	--	48.7
04/05/2022	Japan	Jibun Bank Japan PMI Composite	Mar	--	49.3
04/05/2022	France	S&P Global France Services PMI	Mar	--	57.4
04/05/2022	France	S&P Global France Composite PMI	Mar	--	56.2
04/05/2022	Germany	S&P Global Germany Services PMI	Mar	--	55
04/05/2022	Germany	S&P Global Germany Composite PMI	Mar	--	54.6
04/05/2022	Eurozone	S&P Global Eurozone Services PMI	Mar	--	54.8
04/05/2022	Eurozone	S&P Global Eurozone Composite PMI	Mar	--	54.5
04/05/2022	United Kingdom	S&P Global/CIPS UK Services PMI	Mar	--	61
04/05/2022	United Kingdom	S&P Global/CIPS UK Composite PMI	Mar	--	59.7
04/05/2022	United States	S&P Global US Services PMI	Mar	58.9	58.9
04/05/2022	United States	S&P Global US Composite PMI	Mar	--	58.5
04/05/2022	United States	ISM Services Index	Mar	58.3	56.5
04/06/2022	China	Caixin China PMI Composite	Mar	--	50.1
04/06/2022	China	Caixin China PMI Services	Mar	49.8	50.2
04/06/2022	Germany	S&P Global Germany Construction PMI	Mar	--	54.9
04/06/2022	United Kingdom	S&P Global/CIPS UK Construction PMI	Mar	--	59.1
04/06/2022	Eurozone	PPI MoM	Feb	--	5.20%
04/06/2022	Eurozone	PPI YoY	Feb	--	30.60%
04/06/2022	United States	FOMC Meeting Minutes	Mar	--	--
04/07/2022	Eurozone	Retail Sales MoM	Feb	--	0.20%
04/07/2022	Eurozone	Retail Sales YoY	Feb	--	7.80%
04/07/2022	United States	Initial Jobless Claims	Apr	--	--
04/08/2022	Japan	Consumer Confidence Index	Mar	--	35.3
04/08/2022	Japan	Eco Watchers Survey Outlook SA	Mar	--	44.4
04/08/2022	Japan	Eco Watchers Survey Current SA	Mar	--	37.7

SOURCE: BLOOMBERG



FURTHER READING

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The brazilian real: some wind in its sails	EcoTVWeek	1 April 2022
Spain: Deterioration in balance sheet quality at specialised credit institutions	Chart of The Week	30 March 2022
French labour market: keeping the momentum	EcoFlash	29 March 2022
Global: Cyclical outlook dominated by a shock to expectations	EcoWeek	29 March 2022
About the tightening of the US monetary policy	EcoFlash	25 March 2022
The euro area banking system is strong and little exposed to Russia and Ukraine	EcoTVWeek	25 March 2022
South Africa: A fragile economic recovery	Chart of the Week	23 March 2022
US: Federal Reserve: when will it stop hiking?	EcoWeek	21 March 2022
Egypt: Increasing risk on foreign currency liquidity	EcoTVWeek	18 March 2022
Colombia: Public Finances – any cause for concern?	Conjoncture	17 March 2022
France: improvement in services surplus offsets deterioration in goods deficit	Chart of the Week	16 March 2022
Eurozone : ECB: enhanced policy optionality	EcoWeek	14 March 2022
Eurozone : Eurozone: dynamism and tensions of the labour market	EcoFlash	11 March 2022
ECB: new forecasts, new challenges	EcoTVWeek	11 March 2022
North America : Contrasting LCR trends in Europe and North America	Chart of the Week	9 March 2022
Global : Are markets pricing in an increase in stagflation risk?	EcoWeek	7 March 2022
Geopolitical uncertainty, monetary and fiscal policy	EcoTVWeek	4 March 2022
Indonesia: mixed consolidation of external accounts	Chart of the Week	2 March 2022
Eurozone : Radical geopolitical uncertainty	EcoWeek	28 February 2022
Rise in sovereign rates and Italian debt: can we draw parallels with the situation in 2010/11?	EcoTVWeek	25 February 2022



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