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**ECONOMIC RESEARCH**



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## BAD INFLATION CLOUDS OUTLOOK

When the pick-up in inflation during a growth upswing is driven by the demand side, inflation is considered to be good. However, inflation can also be bad. In that case, higher prices do not follow from e.g. higher wages due to a tight labour market. Bad inflation rather reflects supply-side shocks. This is, to some degree, the situation that is unfolding in the Eurozone and other economies due to the recent huge increase of oil and gas prices. Bad inflation weighs on households' real disposable income and hence spending. The impact is expected to be larger for households at the lower end of the income distribution, considering that a bigger portion of their expenditures goes to fuel and in particular heating, and that they also have a lower savings rate.

Inflation tends to evolve procyclically over the business cycle. A pick-up in inflation during a growth upswing is welcome news, at least initially. It signals that policy stimulus – monetary and/or fiscal – when activity was subdued has been effective in boosting activity and demand, that the re-emergence of labour market bottlenecks is creating upward pressure on wages, that companies, faced with solid demand, reflect these higher wages in their sales prices, etc.

In such a world of a demand-side driven acceleration of price increases, inflation is good, at least initially. However, inflation can also be bad. In that case, higher prices do not follow from higher wages due to a tight labour market or companies, faced with strong demand, trying to charge higher prices. Bad inflation rather reflects supply-side shocks. This is, to some degree, the situation that is unfolding in the Eurozone and other major economies due to the recent huge increase of oil and gas prices, with a knock-on effect on electricity prices. Although this is in part related to strong demand, supply-side factors also play a role, leading to a huge increase in prices<sup>1</sup>. Bad inflation weighs on households' real disposable income – higher prices have not been preceded by wage increases – and company profits. This may cause a slowdown of demand, triggering a countercyclical relationship between inflation and growth.

Eventually, bad inflation can end up causing stagflation, in which growth is disappointingly low and inflation too high. Judging by the number of references in Bloomberg articles, stagflation worries have been on a rising trend for several years, but, with the exception of short-lived spikes, have remained low. Recently however, the topic has been skyrocketing (see chart) reflecting fears that elevated input price pressures would end up dealing a blow to the growth outlook. In this respect, increased uncertainty can play a role, e.g. due to a reduced visibility about the monetary policy outlook. Bad inflation confronts central banks with a dilemma: do nothing thereby running the risk of inflation staying high for longer or tighten policy, which could weigh on growth. If the pick-up in inflation is temporary, it is justifiable not to react. This is the line taken by the ECB as explained by Christine Lagarde: "Our new forward guidance on interest rates is well-suited to manage supply-side risks. This guidance ensures that we will only react to

1. For a recent analysis of the drivers of higher gas prices, see Tagliapietra, S. and G. Zachmann (2021) 'Is Europe's gas and electricity price surge a one-off?', Bruegel Blog, 13 September

improvements in headline inflation that we are confident are durable and reflected in underlying inflation dynamics."<sup>2</sup> Another source of uncertainty which follows from the jump in gas prices are the knock-on effects on other sectors.<sup>3</sup> To what extent will this weigh on investment and hiring decisions? A direct and potentially more important influence is on household spending, whereby the impact differs depending on the income level. In France in 2017, 6% of spending of households in the lowest two income deciles went to heating and 4% to fuel. The average for the top two deciles was respectively 4.2% and 3.5%<sup>4</sup>. Considering that the savings rate of lower income households is significantly lower than for the rest of the population, there is a higher likelihood that a big increase in energy prices would crowd-out other types of spending and weigh on GDP growth.

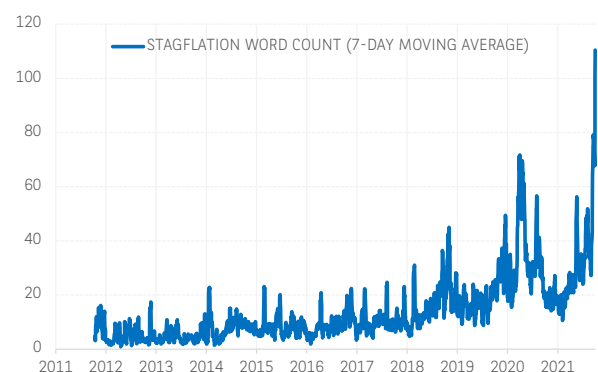
William De Vijlder

2. Source: *Monetary policy during an atypical recovery*, Speech by Christine Lagarde, President of the ECB, at ECB Forum on Central Banking "Beyond the pandemic: the future of monetary policy", Frankfurt am Main, 28 September 2021.

3. "Soaring natural gas prices have forced closures of fertiliser plants, the UK's main source of CO<sub>2</sub> to make drinks fizzy, stun animals for slaughter and cool nuclear power plants". Source: CO<sub>2</sub> crisis set to spread to Europe, big distributor warns, FT, 22 September 2021

4. Source: The expenditures of households in France in 2017, INSEE.

### STAGFLATION



SOURCE: BLOOMBERG, BNP PARIBAS

Considering that the savings rate of lower income households is significantly lower than for the rest of the population, there is a higher likelihood that a big increase in gas, or, more broadly, energy prices, would crowd-out other types of spending and weigh on GDP growth.



# MARKETS OVERVIEW

## OVERVIEW

Week 24-9 21 to 1-10-21

↘ CAC 40	6 638	▶ 6 518	-1.8 %
↘ S&P 500	4 455	▶ 4 357	-2.2 %
↗ Volatility (VIX)	17.8	▶ 21.2	+3.4 pb
↗ Euribor 3M (%)	-0.54	▶ -0.55	-0.4 bp
↗ Libor \$ 3M (%)	0.13	▶ 0.13	+0.1 bp
↗ OAT 10y (%)	0.04	▶ 0.05	+0.6 bp
↗ Bund 10y (%)	-0.23	▶ -0.22	+0.9 bp
↗ US Tr. 10y (%)	1.46	▶ 1.47	+0.5 bp
↘ Euro vs dollar	1.17	▶ 1.16	-1.0 %
↗ Gold (ounce, \$)	1 752	▶ 1 756	+0.2 %
↗ Oil (Brent, \$)	75.2	▶ 78.6	+4.4 %

## 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	€ AVG 5-7y	-0.17	-0.03 at 19/05	-0.46 at 04/01
Eonia	-0.50	-0.47 at 26/01	-0.50 at 01/01	Bund 2y	-0.70	-0.64 at 23/06	-0.78 at 04/08
Euribor 3M	-0.55	-0.53 at 07/05	-0.56 at 06/01	Bund 10y	-0.22	-0.11 at 20/05	-0.60 at 04/01
Euribor 12M	-0.49	-0.47 at 20/04	-0.52 at 02/02	OAT 10y	0.05	0.23 at 17/05	-0.41 at 04/01
\$ FED	0.25	0.25 at 01/01	0.25 at 01/01	Corp. BBB	0.67	0.79 at 20/05	0.43 at 05/08
Libor 3M	0.13	0.24 at 13/01	0.11 at 09/09	Treas. 2y	0.27	0.28 at 28/09	0.11 at 05/02
Libor 12M	0.23	0.34 at 01/01	0.22 at 06/09	Treas. 10y	1.47	1.75 at 31/03	0.91 at 01/01
£ BoE	0.10	0.10 at 01/01	0.10 at 01/01	High Yield	4.83	4.87 at 09/03	4.52 at 29/06
Libor 3M	0.08	0.09 at 24/03	0.03 at 01/01	£ gilt. 2y	0.23	0.26 at 23/09	-0.08 at 04/01
Libor 12M	0.37	0.38 at 30/09	0.07 at 11/01	£ gilt. 10y	1.00	1.02 at 30/09	0.21 at 04/01

At 1-10-21

## EXCHANGE RATES

1€ =	highest 21	lowest 21	2021	
USD	1.16	1.23 at 06/01	1.16 at 30/09	-5.2%
GBP	0.86	0.91 at 06/01	0.85 at 10/08	-4.3%
CHF	1.08	1.11 at 04/03	1.07 at 17/08	-0.3%
JPY	128.68	133.97 at 28/05	125.22 at 18/01	+1.9%
AUD	1.60	1.64 at 20/08	1.53 at 18/03	+0.8%
CNY	7.49	8.00 at 01/01	7.49 at 30/09	-6.3%
BRL	6.25	6.95 at 03/03	5.88 at 24/06	-1.7%
RUB	84.43	92.47 at 20/04	84.35 at 30/09	-6.7%
INR	85.96	90.39 at 23/04	85.30 at 27/03	-3.9%

At 1-10-21

## COMMODITIES

Spot price, \$	highest 21	lowest 21	2021	2021(€)	
Oil, Brent	78.6	79.5 at 27/09	51.2 at 04/01	+51.4%	+59.7%
Gold (ounce)	1 756	1 947 at 05/01	1 682 at 08/03	-7.5%	-2.4%
Metals, LME	4 161	4 429 at 10/09	3 415 at 01/01	+21.9%	+28.6%
Copper (ton)	9 135	10 449 at 11/05	7 749 at 01/01	+17.9%	+24.4%
wheat (ton)	238	2.9 at 07/05	223 at 10/09	-3.9%	+1.4%
Corn (ton)	202	2.9 at 07/05	188 at 04/01	+0.7%	+12.8%

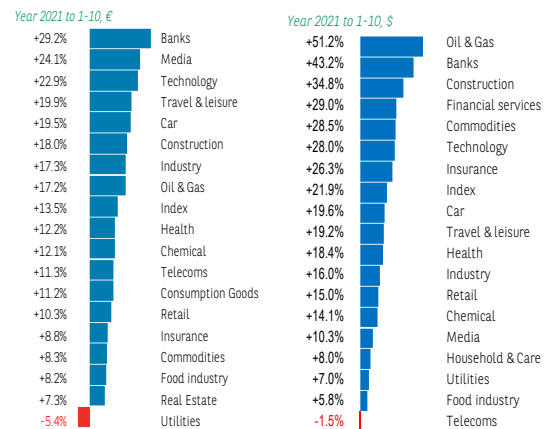
At 1-10-21

## EQUITY INDICES

Index	highest 21	lowest 21	2021	
<b>World</b>				
MSCI World	3 023	3 170 at 06/09	2 662 at 29/01	+12.4%
<b>North America</b>				
S&P500	4 357	4 537 at 02/09	3 701 at 04/01	+16.0%
<b>Europe</b>				
EuroStoxx50	4 035	4 246 at 06/09	3 481 at 29/01	+13.6%
CAC 40	6 518	6 896 at 13/08	5 399 at 29/01	+1.7%
DAX 30	15 156	15 977 at 13/08	13 433 at 29/01	+10.5%
IBEX 35	8 800	9 281 at 14/06	7 758 at 29/01	+0.9%
FTSE100	7 027	7 220 at 11/08	6 407 at 29/01	+0.9%
<b>Asia</b>				
MSCI, loc.	1 132	1 196 at 14/09	1 044 at 06/01	+0.8%
Nikkei	28 771	30 670 at 14/09	27 013 at 20/08	+4.8%
<b>Emerging</b>				
MSCI Emerging (\$)	1 247	1 445 at 17/02	1 221 at 20/08	-0.3%
China	89	130 at 17/02	87 at 20/08	-17.8%
India	847	869 at 23/09	659 at 29/01	+27.2%
Brazil	1 612	2 098 at 24/06	1 561 at 09/03	-10.9%
Russia	842	846 at 30/09	647 at 01/02	+24.2%

At 1-10-21

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

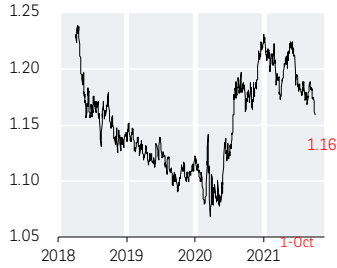


SOURCE: REFINITIV, BNP PARIBAS,



# MARKETS OVERVIEW

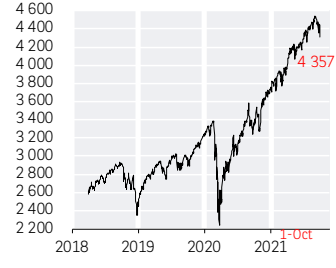
**EURO-DOLLAR**



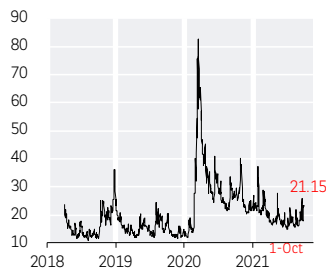
**EUROSTOXX50**



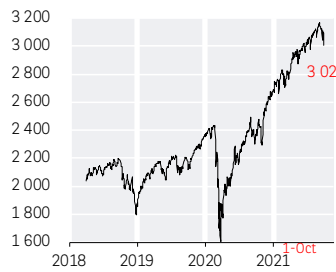
**S&P500**



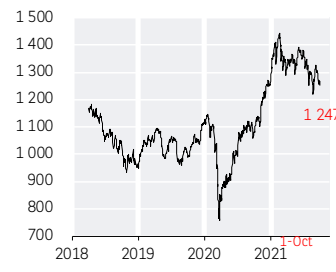
**VOLATILITY (VIX, S&P500)**



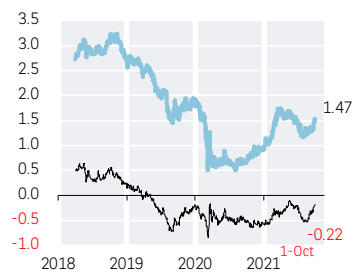
**MSCI WORLD (USD)**



**MSCI EMERGING (USD)**

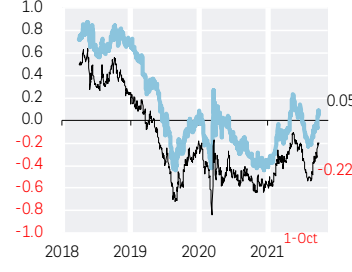


**10Y BOND YIELD, TREASURIES VS BUND**



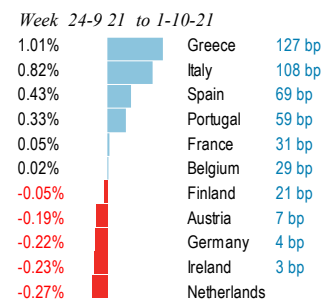
-Bunds —US Treasuries

**10Y BOND YIELD**

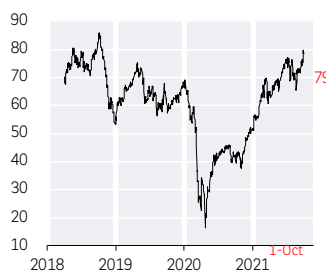


-Bunds —OAT

**10Y BOND YIELD & SPREADS**



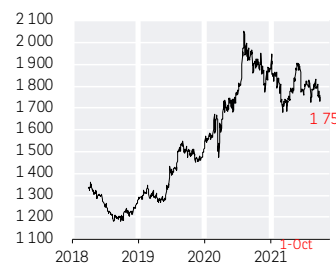
**OIL (BRENT, USD)**



**METALS (LMEX, USD)**



**GOLD (OUNCE, USD)**



SOURCE: REFINITIV, BNP PARIBAS



# ECONOMIC PULSE

## GERMANY: BOOST TO GROWTH NEEDED

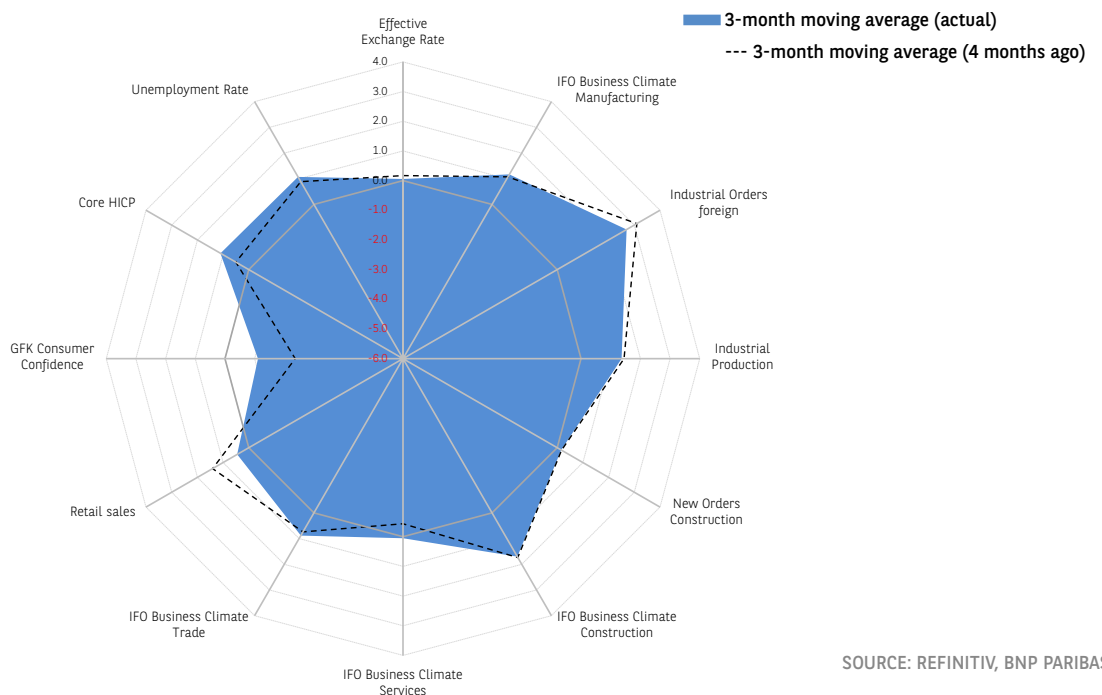
Our Pulse chart shows that the economic situation in Q3, designated by the blue area, was almost unchanged from that in the previous quarter, represented by the area delimited by the dashed lines. Recent business cycle indicators even suggest that the recovery is losing steam. The Ifo business indicator has been declining since July. In particular, the manufacturing sector is reporting a worsening of business conditions as both activity and expectations are on a declining trend. Order books are still relatively full, but order intake is levelling off. This is partly related to supply chain disruptions. In particular, shortages of semiconductors are weighing on production in the car industry. Moreover, soaring input prices have been affecting profits margins. In August, they were 12% higher from a year earlier (8.3% excluding energy).

Rising prices have also been observed for consumer goods and services. In September, consumer prices were 4.1% higher from a year earlier and we forecast inflation to rise to 4.6% in Q4. This is mainly due to temporary factors such as the return to the higher VAT rates on 1 January and the increase in crude oil prices. In September, energy prices were 14.3% higher from a year earlier. The higher prices have been weighing on consumer sentiment. In September, the GfK consumer confidence index declined to -1.1, a lowest since June. The institute expects consumer confidence to increase in October, on the back of better economic and income expectations due to an improving labour market. Retailers are less sure that this will result in more sales. In recent months, sales have been on a slowly declining trend as higher energy prices have been affecting purchasing power and they expect this trend to continue in the coming months.

The SPD (social democrats) won the German election. Its political leader Olaf Scholz will now turn to the Greens and the FDP (liberals) in order to form a coalition that has sufficient support in the *Bundestag*. One of the challenges for the incoming government will be to provide new impetus to growth. The SPD campaigned to boost the minimum wage to EUR12 from EUR 9.60 by 1 January 2022. However, the risk is that negotiations drag on for a considerable time, while the economy is slowing down. This is likely to have also a negative impact on the neighbouring countries.

**Raymond Van Der Putten**

### 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 -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

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## FRANCE : CONFIDENCE RISES IN SEPTEMBER DESPITE HIGHER INFLATION

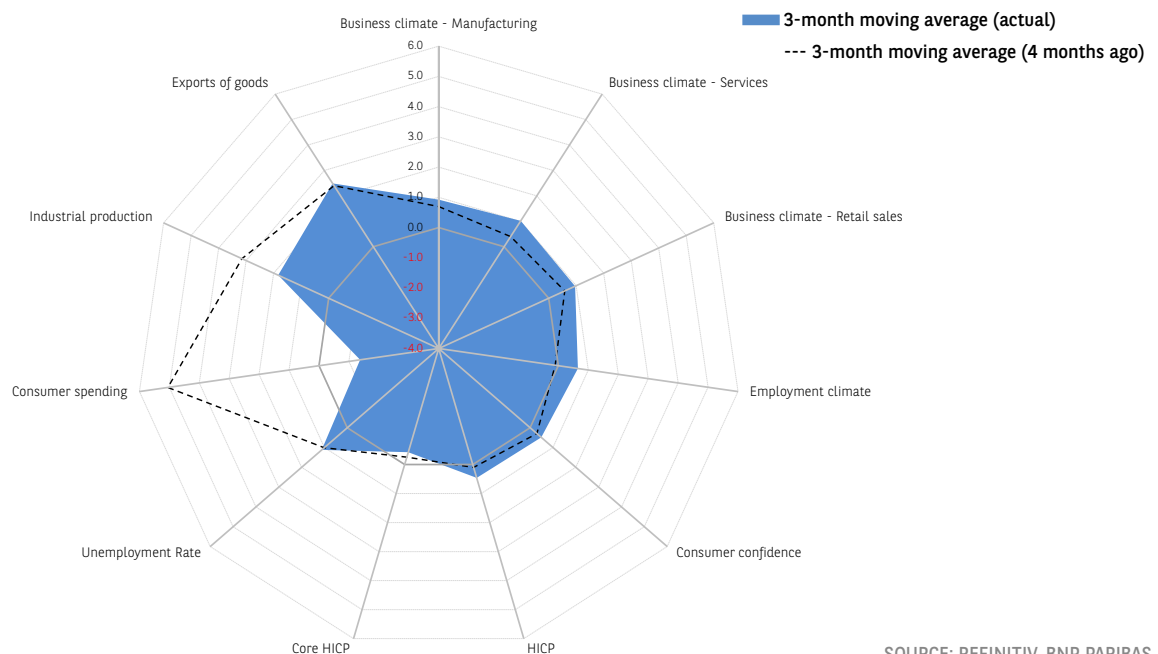
For the first time in several months, the INSEE and Markit business climate surveys did not move in the same direction in September. The INSEE composite index picked up slightly (up 1 point to 111), while the composite PMI continued to erode (down 1 point to 55). The activity component of the manufacturing PMI declined more sharply (down 3 points to 51.3) than for the services PMI (down 0.3 points to 56). Yet the survey results are still holding at a high level, and their Q3 average is higher than their Q2 average. We are still confident in our Q3 GDP growth forecast (+2.2% q/q after +1.1%).

Mixed sector details in the INSEE survey mitigate the positive signal of the headline improvement. The services index regained 1 point to 110, thanks notably to the improvement in the balance of opinions on future demand, employment and investment plans. In the building industry, business leaders expressed a little more confidence in their business prospects. In contrast, the manufacturing index declined sharply (down 4 points to 106) due to the deterioration in most of the balances of opinion, with the notable exception of a more favourable assessment of overall production prospects. This downturn is not surprising as it follows on the back of a major 9-month increase. Moreover, it bears the marks of current supply-side constraints. For the same reasons, the wholesale business climate index also declined (down 3 points to 110). The new decline in the retail index (down 3 points to 106) probably reflects a technical correction after a very strong rebound in May and June, following the end of April's lockdown. The troubles in the automobile sector are also to blame, but it would become alarming if this trend were to continue in the months ahead.

The 3-point increase in the households' confidence index in September (to 102) is the positive surprise of the past two weeks. We were expecting households' confidence to decline with the current surge in inflation. That has yet to happen. Households' confidence has improved thanks to their more positive assessment of both past and future living standards in France, and of unemployment trends. Despite this good news, we should expect a backlash in October. Inflation might not be very high, but it has risen considerably since the end of last year, with a negative impact on purchasing power. Year-on-year inflation was nil in December 2020, but by September 2021, it had risen above 2% (2.1%) for the first time in three years. What we are seeing is not a return to inflation strictly speaking (the increase in prices is neither widespread nor self-sustaining), but a relative and apparently temporary distortion of prices (the increase in the energy component alone contributed about half of inflation in September). Yet this price distortion nonetheless feeds "bad" inflation. And even though we expect them to be limited, it will have negative consequences on growth.

Hélène Baudchon

## 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.



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# ECONOMIC PULSE

## COVID-19: THE PACE OF VACCINATION SLOWS

The Covid-19 pandemic continued to ease for the fifth consecutive week, with new cases down by 10.3% between 23 and 29 September, relative to the previous week (chart 1). This represents the biggest fall in case numbers since the end of August 2021. This trend was spread across all regions apart from Europe, where the number of new cases saw a slight rise, mainly in the United Kingdom and Russia. The number of deaths also fell for the fifth week in a row and was 8% lower than in the previous week. Meanwhile vaccination campaigns continue. To date, 6.24 billion vaccine doses have been given around the world, taking the share of the global population to have received at least one jab to 45.3%. However, we are now seeing a slowing in the pace of vaccination, most notably in countries which have already achieved high levels of coverage (chart 2).

As far as visits to retail and recreation facilities are concerned, we have recently seen weaker numbers in some euro area countries: Germany, Belgium, Spain, France and Italy. However, they remains higher than in Japan and the United Kingdom, where they continue to improve (chart 3).

Lastly, the weekly proxy indicator for GDP relative to its level two years ago continued to recover in France, Japan and the US, but declined in Italy and Belgium. It has recently moved higher in Germany, the UK and Spain (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. 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)**

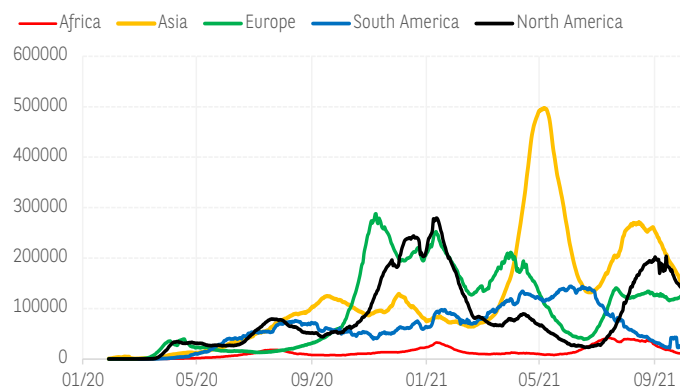


CHART 1

SOURCE: JOHNS-HOPKINS UNIVERSITY (09/30/2021), BNP PARIBAS

**SHARE OF PEOPLE WHO RECEIVED AT LEAST ONE DOSE OF VACCINE**

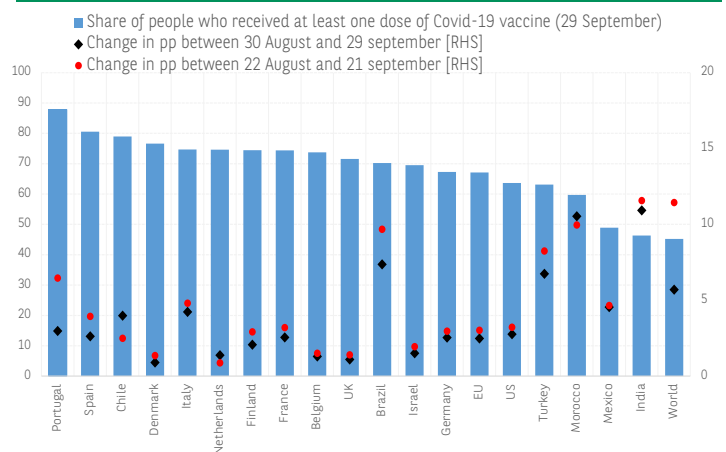


CHART 2

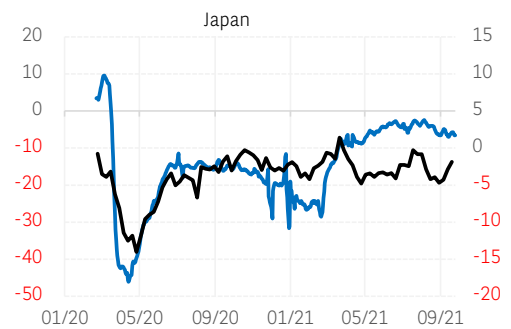
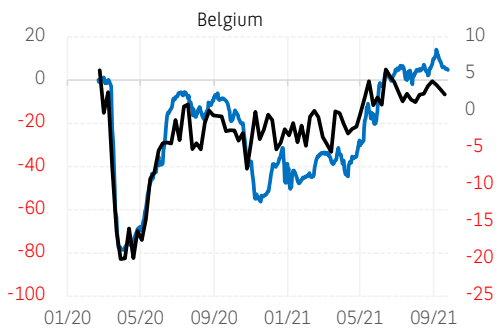
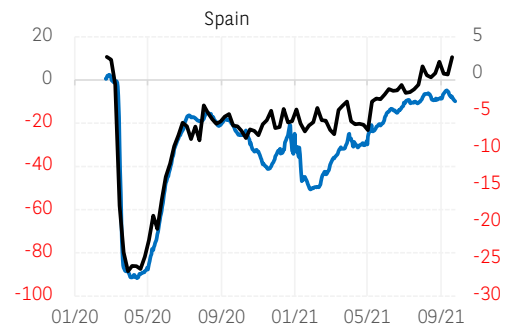
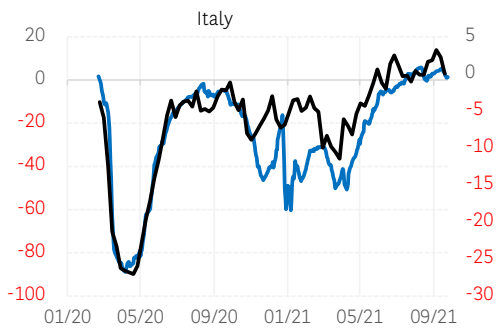
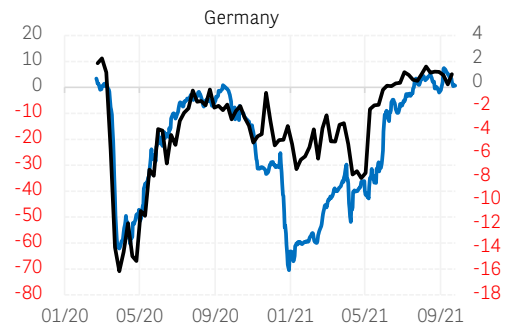
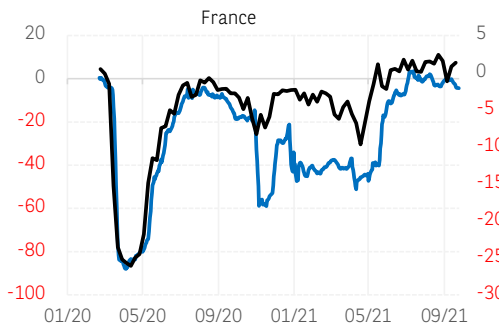
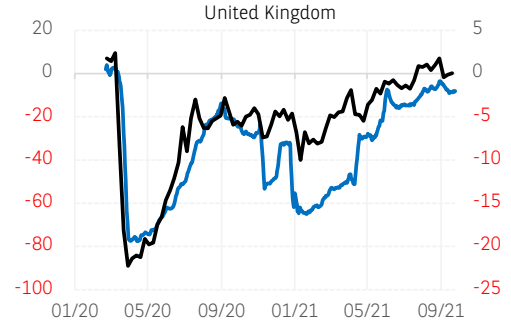
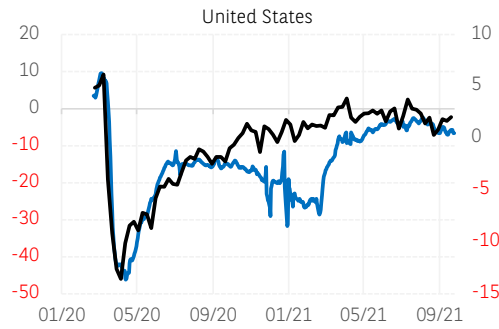
SOURCE: OUR WORLD IN DATA (09/30/2021), BNP PARIBAS



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]



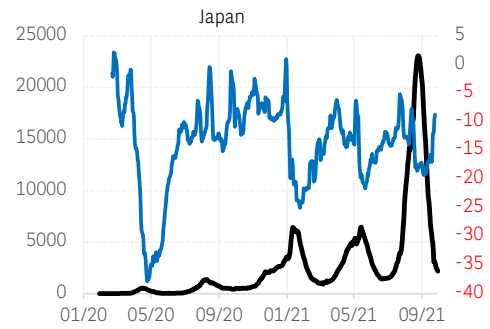
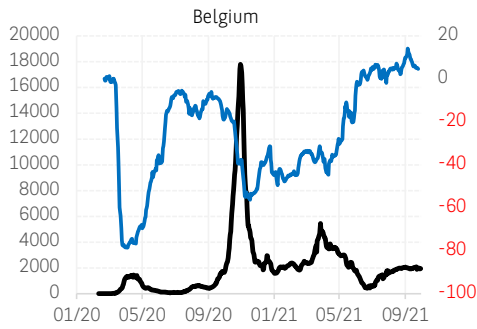
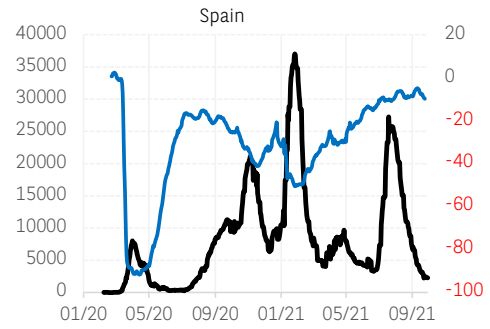
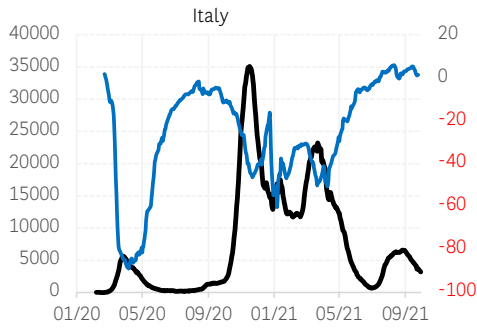
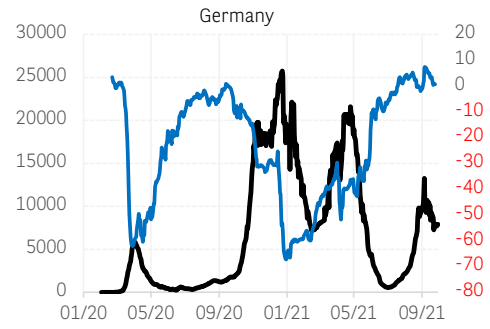
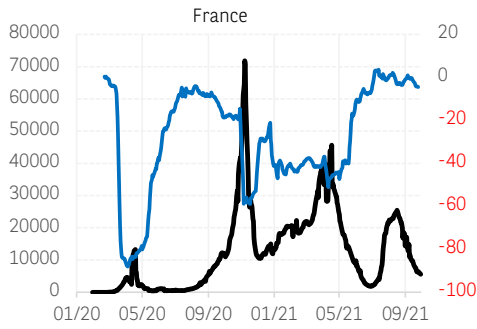
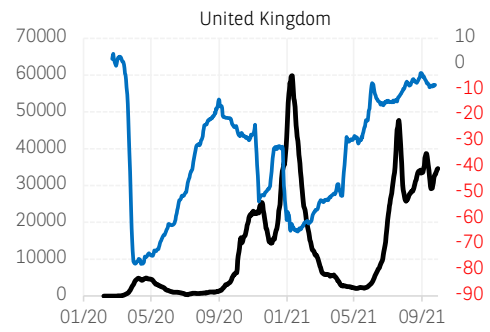
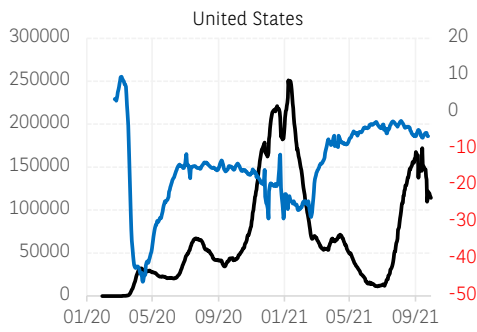
SOURCE: OECD (09/30/2021), GOOGLE (09/30/2021), BNP PARIBAS





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 (09/30/2021), GOOGLE (09/30/2021), BNP PARIBAS



# ECONOMIC SCENARIO

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## UNITED STATES

The US economy, which roared back through to the spring, has now regained its pre-pandemic level and is set to achieve a growth rate of around 6% in 2021. The outlook for the second part of the year looks less sparkling, however. With the vaccination drive running out of steam, the spread of the delta variant is driving up the number of cases and deaths. Business surveys are not as dazzlingly optimistic. The growth rates anticipated remain above potential, however, and would be sufficient to gradually absorb the job shortage caused by the pandemic, with the unemployment rate expected to move towards the 5% mark by the end of the second half of the year. Given the pressures on supply chains and commodity prices, inflation, currently close to 5%, is unlikely to pull back in the immediate term. Indeed, it is not expected to subside until late 2021 or early 2022.

## CHINA

China's post-Covid rebound in industrial production and exports peaked at the start of the year and growth rates have been returning to normal. However, the slowdown has been faster than expected during the summer, and has spread to all sectors. This has resulted from various factors, including: the prudent tightening in fiscal policy and domestic credit conditions, the toughening of regulations in sectors such as real estate and tech, supply-chain constraints in the industry, slower export growth as well as new restrictions imposed to deal with the resurgence of the pandemic. In the short term, the vaccine roll-out should continue to accelerate and the authorities are likely to give greater support to domestic demand through monetary and fiscal measures, while continuing regulatory tightening moves.

## EUROZONE

After its strong rebound in Q2 2021, growth is expected to maintain the pace in Q3 (+2.2% QoQ). The various supply constraints mean that growth in the third and fourth quarters is a few tenths below the June forecast, a loss that would be gradually recovered in 2022. The quarterly growth profile should go slightly decrescendo next year. Above all, it would remain well above-trend, supported by the significant monetary and fiscal stimulus, the release of accumulated forced savings and investment needs, to the point where, on an annual average basis, growth would be slightly higher than in 2021 (5.2% after 5%), which distinguishes the Eurozone from the United States and the United Kingdom. The health situation remains a key downside risk. Signs of deteriorating business confidence and mark-ups will also be watched. As for inflation, most of its recent rise is temporary. We expect it to peak in Q4 2021 (nearing 4% in year-on-year terms), before ebbing 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. Our inflation forecasts are above those of the ECB.

## FRANCE

With a Q2 2021 growth carry-over of almost 5%, the forecast of 6% growth in 2021 in annual average terms has a solid chance of being met. It is even likely to be exceeded. The Q3 and Q4 prospects, however, look somewhat less positive than they did heading into the summer. Procurement problems, hiring difficulties and rising input prices are holding back the recovery a bit more significantly than expected. The return to normal activity in the tourism, accommodation and catering, culture, entertainment, trade and transports sectors continues to be hampered by the health situation too. In 2022, these various obstacles should disappear, but the support from the mechanical catching-up effect will also fade. Growth should normalize but remain strong, supported by the fiscal impulse.

## RATES AND EXCHANGE RATES

In the US, the latest signals from the FOMC show that tapering is coming although this should not be considered as signaling a change in guidance on the policy rate. Nevertheless, we expect that in the second half of next year, the FOMC will hike the federal funds rate given the expected decline in the unemployment rate. Against this background, 10-year Treasury yields should move higher in the remainder of the year and in the first half of 2022, before entering a trading range. The peak in yields should be significantly lower than in previous cycles.

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 has clearly confirmed this. We expect net purchases under the PEPP to stop at the end of March 2022,

based on the view that, by then, the pandemic emergency phase will be considered to be behind us. On that occasion, the monthly volume under the traditional asset purchase program should be increased to avoid market disruption. 10-year Bund yields are expected to rise until the first half of 2022 based on the growth and inflation environment. Higher US yields will also play a role. Subsequently, we expect Bunds to stay in a trading range.

Sovereign spreads could widen somewhat in the fourth quarter of this year and early next year on the back of election-related uncertainty. The extent of the widening should be limited, considering ongoing asset purchases by the ECB and the prospect that the ending of net purchases under the PEPP would be accompanied by an increase of the APP.

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 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 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	6.0	5.3	3.3	4.2	2.8	2.4
Japan	2.1	2.4	1.6	-0.2	0.3	0.5
United-Kingdom	7.0	6.3	2.1	2.3	3.3	2.0
Euro Area	5.0	5.2	2.3	2.4	2.1	1.7
Germany	2.8	5.3	2.4	3.0	2.4	1.9
France	6.3	4.3	2.1	2.0	1.9	1.6
Italy	6.3	5.1	2.8	1.9	2.2	1.4
Spain	6.1	6.4	3.4	2.6	2.2	1.4
China	8.2	5.6	5.4	1.2	2.8	2.5
India*	7.0	11.2	6.2	5.4	4.5	4.3
Brazil	5.0	1.5	2.0	7.8	6.3	3.6
Russia	4.5	3.3	2.6	6.0	5.0	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		Q4 2021 e	Q2 2022 e	Q4 2022 e	Q4 2023 e
US	Fed Funds (upper limit)	0.25	0.25	0.50	1.25
	T-Notes 10y	1.70	1.90	2.00	1.90
	Ezone	Deposit rate	-0.50	-0.50	-0.50
	Bund 10y	-0.10	0.00	-0.10	0.10
	OAT 10y	0.40	0.40	0.20	0.40
	BTP 10y	1.10	1.10	1.00	1.20
	BONDO 10y	0.70	0.70	0.70	0.90
UK	Base rate	0.10	0.30	0.50	0.80
	Gilts 10y	0.90	1.10	1.10	1.20
Japan	BoJ Rate	-0.10	-0.10	-0.10	-0.10
	JGB 10y	0.10	0.20	0.20	0.20

#### Exchange Rates

End of period		Q4 2021 e	Q2 2022 e	Q4 2022 e	Q4 2023 e
USD	EUR / USD	1.15	1.13	1.12	1.10
	USD / JPY	111	112	114	116
	GBP / USD	1.37	1.36	1.37	1.38
EUR	EUR / GBP	0.84	0.83	0.82	0.80
	EUR / JPY	128	127	128	128

#### Brent

End of period		Q4 2021 e	Q2 2022 e	Q4 2022 e	Q4 2023 e
Brent	USD/bbl	74	72	73	80

SOURCE: BNP PARIBAS GLOBAL MARKETS (E: ESTIMATES)



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## CALENDAR

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## LATEST INDICATORS

Eurozone economic confidence ticked up slightly in September - the consensus had expected a decline - on the back of improved sentiment in industry whereas sentiment in services declined and came in well below expectations. Consumer confidence was stable although in France it improved. The manufacturing PMI numbers for the eurozone, France and Germany were hardly different from the flash estimates of the previous week. French producer price inflation moved higher, reaching 10% whereas consumer price inflation was also up, to 2.7%. A strong increase in inflation was recorded in Germany, to 4.1%. Eurozone inflation is now at 3.4% and core inflation at 1.9%. Temporary factors play an important role in explaining these dynamics. In China, the two manufacturing PMIs saw diverging developments although the difference is small. Worth noting is the positive surprise coming from the non-manufacturing PMI, which moved significantly higher. In the UK, second quarter GDP growth benefitted from an upward revision. In the US, the Conference Board consumer confidence disappointed by showing an unexpected decline. University of Michigan sentiment on the other hand improved, creating a positive surprise. The manufacturing ISM brought relief by moving higher. Finally, data improved in Japan, witness the Tankan numbers and consumer confidence.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	ACTUAL	PREVIOUS
09/27/2021	United States	Cap Goods Orders Nondef Ex Air	Aug	0.4%	0.5%	0.1%
09/27/21-10/02/21	Germany	Retail Sales MoM	Aug	1.5%	1.1%	-5.1%
09/28/2021	Germany	GfK Consumer Confidence	Oct	-1.5	0.3	-1.2
09/28/2021	France	Consumer Confidence	Sep	100.0	102.0	99.0
09/28/2021	United States	Conf. Board Consumer Confidence	Sep	115.0	109.3	113.8
09/28/2021	United States	Conf. Board Present Situation	Sep	--	143.4	147.3
09/28/2021	United States	Conf. Board Expectations	Sep	--	86.6	91.4
09/29/2021	Eurozone	Consumer Confidence	Sep	--	-4.0	-4.0
09/29/2021	Eurozone	Economic Confidence	Sep	117.0	117.8	117.5
09/29/2021	Eurozone	Industrial Confidence	Sep	12.6	14.1	13.7
09/29/2021	Eurozone	Services Confidence	Sep	16.4	15.1	16.8
09/30/2021	Japan	Retail Sales MoM	Aug	-1.7%	-4.1%	1.1%
09/30/2021	China	Non-manufacturing PMI	Sep	49.8	53.2	47.5
09/30/2021	China	Manufacturing PMI	Sep	50.0	49.6	50.1
09/30/2021	China	Composite PMI	Sep	--	51.7	48.9
09/30/2021	China	Caixin China PMI Mfg	Sep	49.5	50.0	49.2
09/30/2021	United Kingdom	GDP QoQ	2Q	4.8%	5.5%	4.8%
09/30/2021	France	PPI MoM	Aug	--	1.0%	1.3%
09/30/2021	France	PPI YoY	Aug	--	10.0%	8.6%
09/30/2021	France	Consumer Spending MoM	Aug	0.0%	1.0%	-2.2%
09/30/2021	France	CPI EU Harmonized MoM	Sep	-0.1%	-0.2%	0.7%
09/30/2021	France	CPI EU Harmonized YoY	Sep	2.8%	2.7%	2.4%
09/30/2021	Germany	Unemployment Change (000's)	Sep	-37.0k	-30.0k	-53.0k
09/30/2021	Eurozone	Unemployment Rate	Aug	7.5%	7.5%	7.6%
09/30/2021	Germany	CPI EU Harmonized MoM	Sep	0.2%	0.3%	0.1%
09/30/2021	Germany	CPI EU Harmonized YoY	Sep	4.0%	4.1%	3.4%



DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	ACTUAL	PREVIOUS
09/30/2021	United States	Initial Jobless Claims	Sep.	330k	362k	351k
09/30/2021	United States	GDP Annualized QoQ	2T	6.6%	6.7%	6.6%
10/01/2021	Japan	Jobless Rate	Aug.	2.9%	2.8%	2.8%
10/01/2021	Japan	Tankan Large Mfg Index	3Q	13.0	18.0	14.0
10/01/2021	Japan	Tankan Large Non-Mfg Index	3Q	0.0	2.0	1.0
10/01/2021	Japan	Tankan Large Mfg Outlook	3Q	14.0	14.0	13.0
10/01/2021	Japan	Tankan Large Non-Mfg Outlook	3Q	5.0	3.0	3.0
10/01/2021	Japan	Tankan Large All Industry Capex	3Q	9.30%	0.101	9.60%
10/01/2021	Japan	Tankan Small Mfg Index	3Q	-9.0	-3.0	-7.0
10/01/2021	Japan	Tankan Small Non-Mfg Index	3Q	-11.0	-10.0	-9.0
10/01/2021	Japan	Tankan Small Mfg Outlook	3Q	-8.0	-4.0	-6.0
10/01/2021	Japan	Tankan Small Non-Mfg Outlook	3Q	-9.0	-13.0	-12.0
10/01/2021	Japan	Jibun Bank Japan PMI Mfg	Sep.	--	51.5	51.2
10/01/2021	Japan	Consumer Confidence Index	Sep.	37.5	37.8	36.7
10/01/2021	France	Markit France Manufacturing PMI	Sep.	55.2	55.0	55.2
10/01/2021	Germany	Markit/BME Germany Manufacturing PMI	Sep.	58.5	58.4	58.5
10/01/2021	Eurozone	Markit Eurozone Manufacturing PMI	Sep.	58.7	58.6	58.7
10/01/2021	United Kingdom	Markit UK PMI Manufacturing SA	Sep.	56.3	57.1	56.3
10/01/2021	Eurozone	CPI Core YoY	Sep.	1.9%	1.9%	1.6%
10/01/2021	Eurozone	CPI MoM	Sep.	0.5%	0.5%	0.4%
10/01/2021	Eurozone	CPI Estimate YoY	Sep.	3.3%	3.4%	3.0%
10/01/2021	United States	Personal Income	Aug.	0.2%	0.2%	1.1%
10/01/2021	United States	Personal Spending	Aug.	0.7%	0.8%	0.3%
10/01/2021	United States	PCE Core Deflator MoM	Aug.	0.2%	0.3%	0.3%
10/01/2021	United States	PCE Core Deflator YoY	Aug.	3.5%	3.6%	3.6%
10/01/2021	United States	Markit US Manufacturing PMI	Sep.	60.5	60.7	60.5
10/01/2021	United States	U. of Mich. Sentiment	Sep.	71.0	72.8	71.0
10/01/2021	United States	U. of Mich. Current Conditions	Sep.	77.1	80.1	77.1
10/01/2021	United States	U. of Mich. Expectations	Sep.	67.1	68.1	67.1
10/01/2021	United States	U. of Mich. 1 Yr Inflation	Sep.	4.8%	4.6%	4.7%
10/01/2021	United States	U. of Mich. 5-10 Yr Inflation	Sep.	--	3.0%	2.9%
10/01/2021	United States	ISM Manufacturing	Sep.	59.5	61.1	59.9
10/01/2021	United States	ISM Prices Paid	Sep.	78.5	81.2	79.4
10/01/2021	United States	ISM New Orders	Sep.	63.6	66.7	66.7
10/01/2021	United States	ISM Employment	Sep.	0.0	50.2	49.0

SOURCE: BLOOMBERG



# CALENDAR: THE WEEK AHEAD

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## COMING INDICATORS

The week will be very busy in terms of data. For a large number of countries the services and composite PMIs will be published but the highlight of the week will be the release of the US labour market report. This has become even more important than otherwise considering the hints of Jerome Powell following the FOMC meeting that tapering would start in November provided the jobs market data are satisfactory. Also worth noting are eurozone retail sales and the EcoWatchers survey in Japan.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	PREVIOUS
10/04/2021	United States	Cap Goods Orders Nondef Ex Air	Aug.	--	0.50%
10/04/2021	United States	Cap Goods Ship Nondef Ex Air	Aug.	--	0.70%
10/05/2021	Japan	Jibun Bank Japan PMI Services	Sep.	--	47.4
10/05/2021	Japan	Jibun Bank Japan PMI Composite	Sep.	--	47.7
10/05/2021	France	Industrial Production MoM	Aug.	--	0.30%
10/05/2021	France	Markit France Services PMI	Sep.	--	56
10/05/2021	France	Markit France Composite PMI	Sep.	--	55.1
10/05/2021	Germany	Markit Germany Services PMI	Sep.	56	56
10/05/2021	Germany	Markit/BME Germany Composite PMI	Sep.	--	55.3
10/05/2021	Eurozone	Markit Eurozone Services PMI	Sep.	--	56.3
10/05/2021	Eurozone	Markit Eurozone Composite PMI	Sep.	--	56.1
10/05/2021	United Kingdom	Markit/CIPS UK Services PMI	Sep.	--	54.6
10/05/2021	United Kingdom	Markit/CIPS UK Composite PMI	Sep.	--	54.1
10/05/2021	Eurozone	PPI MoM	Aug.	--	2.30%
10/05/2021	Eurozone	PPI YoY	Aug.	--	12.10%
10/05/2021	United States	Markit US Services PMI	Sep.	54.4	54.4
10/05/2021	United States	Markit US Composite PMI	Sep.	--	54.5
10/05/2021	United States	ISM Services Index	Sep.	60.2	61.7
10/06/2021	Germany	Factory Orders WDA YoY	Aug.	--	24.40%
10/06/2021	Germany	Markit Germany Construction PMI	Sep.	--	44.6
10/06/2021	United Kingdom	Markit/CIPS UK Construction PMI	Sep.	--	55.2
10/06/2021	Eurozone	Retail Sales MoM	Aug.	--	-2.30%
10/07/2021	United States	Initial Jobless Claims	Oct. 2	--	--
10/08/2021	China	Caixin China PMI Composite	Sep.	--	47.2
10/08/2021	China	Caixin China PMI Services	Sep.	49.2	46.7
10/08/2021	United States	Change in Nonfarm Payrolls	Sep.	500k	235k
10/08/2021	United States	Unemployment Rate	Sep.	5.00%	5.20%
10/08/2021	United States	Average Hourly Earnings MoM	Sep.	0.40%	0.60%
10/08/2021	United States	Average Weekly Hours All Employees	Sep.	34.7	34.7
10/08/2021	United States	Labor Force Participation Rate	Sep.	--	61.70%
10/08/2021	United States	Underemployment Rate	Sep.	--	8.80%
10/08/2021	Japan	Eco Watchers Survey Current SA	Sep.	--	34.7
10/08/2021	Japan	Eco Watchers Survey Outlook SA	Sep.	--	43.7

SOURCE: BLOOMBERG



# FURTHER READING

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