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US MONETARY POLICY OUTLOOK: MORE QUESTIONS THAN ANSWERS

In his press conference last week, Fed chairman Jerome Powell was very clear. Based on the FOMC's two objectives – inflation and maximum employment – the data warrant to start hiking interest rates in March and, probably, to move swiftly thereafter. In doing so, it will be “led by the incoming data and the evolving outlook”. This data-dependency reflects a concern of tightening too much and makes monetary policy harder to predict. The faster the Fed tightens, the higher the likelihood of having it take a pause to see how the economy reacts.

14.3% versus 0.25%. More than any other metric, the gap between these numbers shows that US monetary policy is due for a fundamental change. The former refers to the increase, at an annual rate, of US nominal GDP in the fourth quarter of 2021. The latter is the upper limit of the current target range for the federal funds rate.

Admittedly, nominal GDP growth is a poor basis for assessing the stance of monetary policy. However, the number and its decomposition – real growth at 6.9% at an annual rate and inflation, based on the GDP deflator, at 6.9% – reflect the cyclical strength of the US economy but also the fact that inflation has become unacceptably high.

The pace of price increases not only weighs on household confidence because it erodes their purchasing power but it has also become a political topic and may influence the midterm elections on 8 November this year. In his press conference after the FOMC meeting last week, Jerome Powell was extremely clear. *“In light of the remarkable progress we have seen in the labor market and inflation that is well above our 2 percent longer-run goal, the economy no longer needs sustained high levels of monetary policy support.”*¹ In plain English, this means that the federal funds rate will be increased, starting with the March meeting of the FOMC.²

Moreover, to reinforce the hawkish message, the Fed chairman insisted that the economy and the labour market are much stronger and inflation much higher than at the start of the previous rate hike cycle in 2015. *“These differences are likely to have important implications for the appropriate pace of policy adjustments.”* This means a faster pace of rate increases and/or increases of 50bp³. In scaling back the degree of accommodation of monetary policy, the run-off of the balance sheet (quantitative tightening, QT) will only play a secondary role.

The FOMC sees *“the target rate for the federal funds rate as its primary means of adjusting the stance of monetary policy”*, whereby the balance sheet would decline in a predictable manner. This reflects the view that

the consequences of rate hikes are easier to estimate compared to those of QT. Unsurprisingly, bond yields jumped (chart 1) with the 2-year yield rising slightly more than the 10-year yield, equity markets declined – the more rate-sensitive Nasdaq more than the S&P500 (chart 2) – and the dollar strengthened (chart 3).

Yet, despite the clear message that rates will be increased and that in all likelihood hikes will follow each other in a swift succession, the monetary policy outlook is surrounded by a high degree of uncertainty, about the pace of rate hikes and the cyclical peak of the federal funds rate. This is nothing new. At the start of a tightening cycle, the same questions are asked time and again.

However, today's inflation is partly caused by supply disruption and this complicates the analysis. Supply bottlenecks should be temporary as production picks up and the logistical problems in supply chains ease. This should reduce inflationary pressures. Moreover, high inflation originating in the supply side of the economy should weigh on demand thereby reducing the imbalance between demand and supply⁴.

4. This point is frequently made by ECB officials when explaining their wait-and-see attitude

2-YEAR AND 10-YEAR US TREASURY YIELD

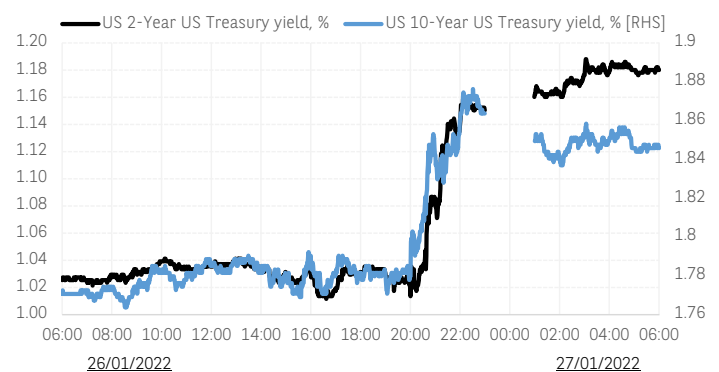


CHART 1

SOURCE: BLOOMBERG, BNP PARIBAS

1. Source: Federal Reserve, Transcript of Chair Powell's Press Conference, 26 January 2022.
2. *“I would say that the Committee is of a mind to raise the federal funds rate at the March meeting, assuming that conditions are appropriate for doing so.”*
3. This possibility was mentioned by Raphael Bostic, president of the Federal Reserve Bank of Atlanta in a recent interview with the Financial Times. Source: Fed could use half-point rate rises if needed says official, FT, 29 January 2022.

“The Federal Reserve is eager to start hiking its policy rate but its emphasis on data-dependency reflects a concern of tightening too much and makes monetary policy harder to predict. The faster the Fed tightens, the higher the likelihood of taking a pause to see how the economy reacts.”



In addition and as emphasized by J. Powell, demand growth should also be influenced by a significantly smaller impulse coming from fiscal policy. On the other hand, elevated inflation has become broad-based⁵ and wage growth is accelerating due to persistent labour shortages. This should push prices higher: faced with strong demand, companies will find it easier to charge higher prices when wage and non-wage costs increase. This justifies the need for policy tightening, something that the labour market should be able to cope with, at least initially. *"I think there's quite a bit of room to raise interest rates without threatening the labor market. This is, by so many measures, a historically tight labor market, record levels".*⁶

To conclude, the FOMC is of the view that, based on its two objectives – inflation and maximum employment – the data warrant to start hiking interest rates in March and to move swiftly thereafter. In doing so, it will be *"led by the incoming data and the evolving outlook"*. This data-dependency reflects a concern of tightening too much and makes monetary policy harder to predict. The faster the Fed tightens, the higher the likelihood of taking a pause to see how the economy reacts.

William De Vijlder

EQUITY MARKETS: S&P500 AND NASDAQ

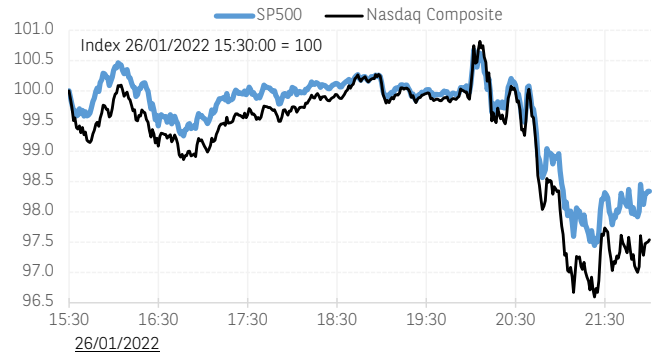


CHART 2

SOURCE: BLOOMBERG, BNP PARIBAS

EUR/USD

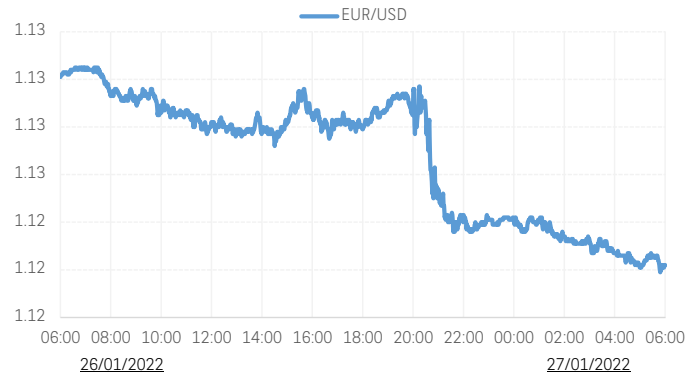


CHART 3

SOURCE: BLOOMBERG, BNP PARIBAS

in terms of monetary policy. It is less present in the communication of the FOMC.
 5. This is illustrated by the underlying inflation dashboard of the Federal Reserve Bank of Atlanta: <https://www.atlantafed.org/research/inflationproject/underlying-inflation-dashboard>.
 6. Source: see footnote 1.



MARKETS OVERVIEW

OVERVIEW

Week 21-1 22 to 28-1-22

↘ CAC 40	7 069	▶ 6 966	-1.5 %	
↗ S&P 500	4 398	▶ 4 432	+0.8 %	
↘ Volatility (VIX)	28.9	▶ 27.7	-1.2 pb	
↗ Euribor 3M (%)	-0.55	▶ -0.55	+0.2 bp	
↗ Libor 3M (%)	0.26	▶ 0.32	+5.9 bp	
↗ OAT 10y (%)	0.20	▶ 0.24	+4.3 bp	
↗ Bund 10y (%)	-0.10	▶ -0.08	+1.7 bp	
↗ US Tr. 10y (%)	1.75	▶ 1.78	+3.3 bp	
↘ Euro vs dollar	1.13	▶ 1.12	-1.6 %	
↘ Gold (ounce, \$)	1 832	▶ 1 785	-2.6 %	
↗ Oil (Brent, \$)	88.0	▶ 90.0	+2.3 %	

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	0.06	0.08 at 19/01
Eonia	-0.51	-0.51 at 03/01	Bund 2y	-0.63	-0.60 at 17/01
Euribor 3M	-0.55	-0.54 at 24/01	Bund 10y	-0.08	-0.05 at 19/01
Euribor 12M	-0.46	-0.46 at 28/01	OAT 10y	0.24	0.26 at 19/01
\$ FED	0.25	0.25 at 03/01	Corp. BBB	1.11	1.11 at 28/01
Libor 3M	0.32	0.32 at 28/01	\$ Treas. 2y	1.16	1.17 at 27/01
Libor 12M	0.95	0.95 at 28/01	Treas. 10y	1.78	1.87 at 18/01
£ BoE	0.25	0.25 at 03/01	High Yield	5.59	5.59 at 28/01
Libor 3M	0.61	0.61 at 28/01	£ gilt. 2y	0.97	0.97 at 28/01
Libor 12M	0.81	0.81 at 03/01	gilt. 10y	1.25	1.26 at 19/01

EXCHANGE RATES

1€ =	highest 22	lowest 22	2022	Change
USD	1.12	1.15 at 13/01	1.11 at 27/01	-1.8%
GBP	0.83	0.84 at 24/01	0.83 at 20/01	-0.9%
CHF	1.04	1.05 at 11/01	1.03 at 04/01	+0.2%
JPY	128.60	131.33 at 04/01	128.46 at 25/01	-1.8%
AUD	1.60	1.60 at 28/01	1.56 at 05/01	+2.1%
CNY	7.11	7.29 at 13/01	7.10 at 27/01	-1.9%
BRL	6.04	6.44 at 06/01	6.03 at 27/01	-4.7%
RUB	87.30	90.14 at 26/01	84.45 at 03/01	+2.4%
INR	83.78	84.79 at 14/01	83.70 at 27/01	-0.9%

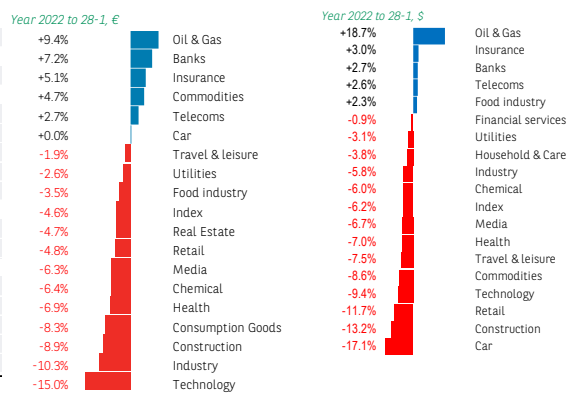
COMMODITIES

Spot price, \$	highest 22	lowest 22	2022	2022(€)	Change
Oil, Brent	90.0	90.0 at 26/01	79.0 at 03/01	+14.8%	+16.9%
Gold (ounce)	1 785	1 847 at 25/01	1 785 at 28/01	-2.1%	-0.3%
Metals, LME	4 601	4 768 at 20/01	4 489 at 06/01	+2.2%	+4.1%
Copper (ton)	9 557	10 081 at 12/01	9 543 at 06/01	-1.9%	-0.1%
wheat (ton)	295	3.1 at 25/01	281 at 14/01	+24.3%	+26.6%
Corn (ton)	245	2.4 at 28/01	226 at 03/01	+0.7%	+9.2%

EQUITY INDICES

Index	highest 22	lowest 22	2022	Change
World				
MSCI World	3 006	3 248 at 04/01	2 955 at 27/01	-7.0%
North America				
S&P500	4 432	4 797 at 03/01	4 327 at 27/01	-7.0%
Europe				
EuroStoxx50	4 137	4 392 at 05/01	4 054 at 24/01	-3.8%
CAC 40	6 966	7 376 at 05/01	6 788 at 24/01	-0.3%
DAX 30	15 319	16 272 at 05/01	15 011 at 24/01	-3.6%
IBEX 35	8 610	8 839 at 17/01	8 418 at 24/01	-0.1%
FTSE100	7 466	7 611 at 17/01	7 297 at 24/01	+0.1%
Asia				
MSCI, loc.	1 084	1 165 at 05/01	1 068 at 27/01	-0.5%
Nikkei	26 717	29 332 at 05/01	26 170 at 27/01	-7.2%
Emerging				
MSCI Emerging (\$)	1 191	1 267 at 12/01	1 191 at 28/01	-0.3%
China	79	86 at 20/01	79 at 28/01	-5.3%
India	817	891 at 13/01	814 at 27/01	-2.4%
Brazil	1 592	1 604 at 27/01	1 372 at 06/01	+7.7%
Russia	675	772 at 03/01	614 at 24/01	-7.6%

PERFORMANCE BY SECTOR (Eurostoxx50 & S&P500)

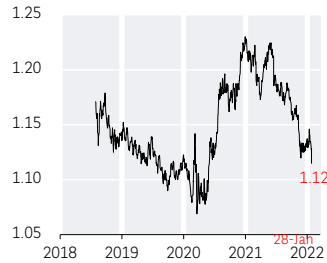


SOURCE: REFINITIV, BNP PARIBAS,



MARKETS OVERVIEW

EURO-DOLLAR



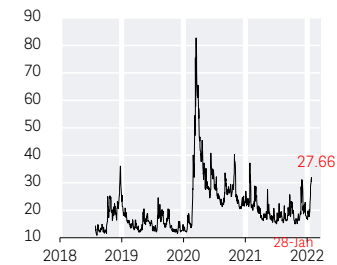
EUROSTOXX50



S&P500



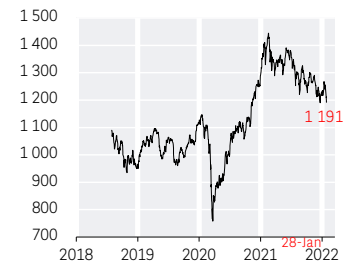
VOLATILITY (VIX, S&P500)



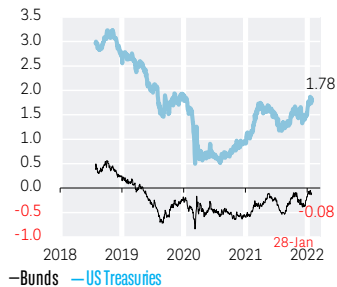
MSCI WORLD (USD)



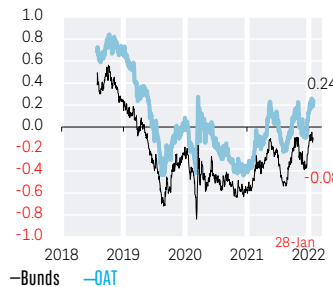
MSCI EMERGING (USD)



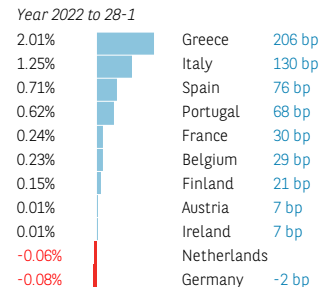
10Y BOND YIELD, TREASURIES VS BUND



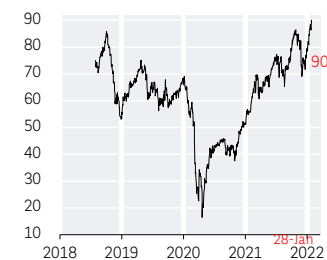
10Y BOND YIELD



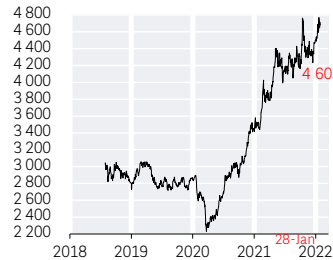
10Y BOND YIELD & SPREADS



OIL (BRENT, USD)



METALS (LMEX, USD)



GOLD (OUNCE, USD)



SOURCE: REFINITIV, BNP PARIBAS



ECONOMIC PULSE

UNITED STATES: STRONGER GROWTH AND A LESS FRIENDLY FED

The latest US economic data can be viewed in two ways. The optimistic approach would be to welcome strong Q4 2021 growth (6.7% annualised) and the fact that the economy is now almost no remaining Covid after-effects, since output has already moved back to its pre-pandemic trajectory¹. The second and more cautious approach would be to point out that investment has moved sideways and that growth would have been much weaker (1.6% annualised) without the exceptional contribution of inventories. Given the upturn in foreign trade – with US exports and imports ending the year on a very strong note – the jump in inventories is not bad news per se. It shows that supply-chain problems, even if they have not been totally resolved, are at least less pressing, a view that is confirmed by purchasing manager surveys.

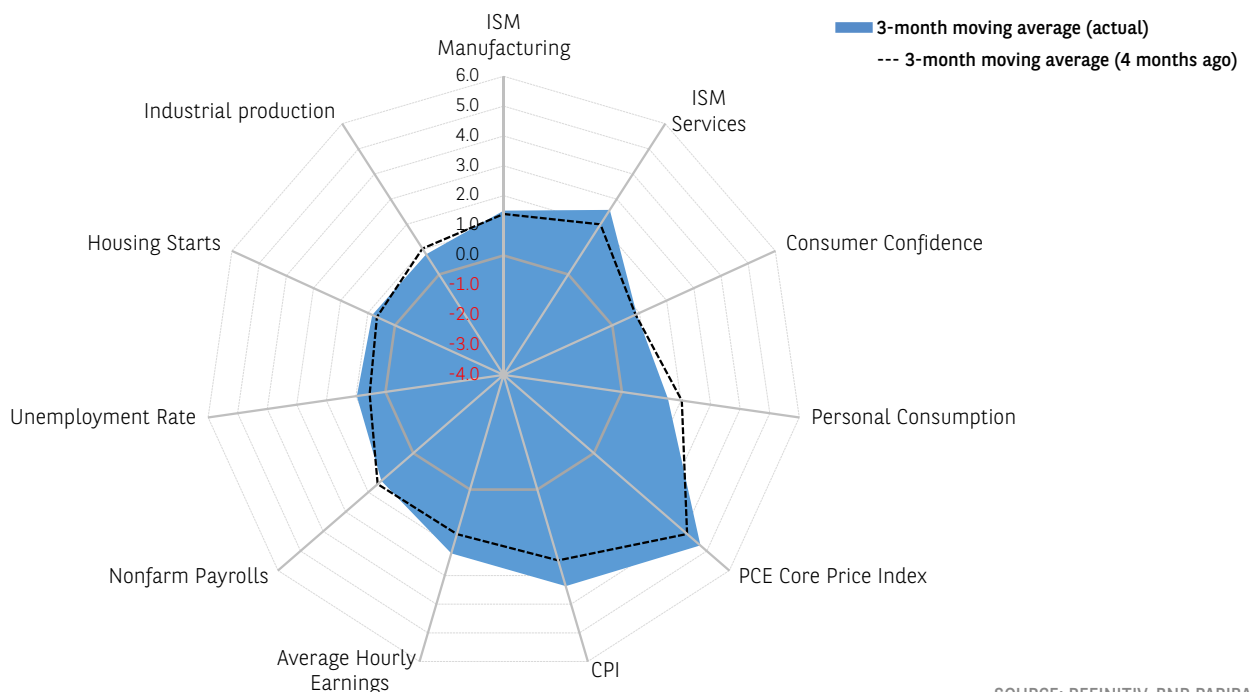
However, inventories have been built up so much that it will take time for them to be absorbed by final demand, and this could drag down production statistics in early 2022. Consumer spending is also less well supported than before. Although it has now been abandoned, the “whatever it takes” approach has shown its limitations by spurring a jump in inflation (7% in December), which is now eating into real incomes. Wealth effects are also fading now that share prices have fallen, with the S&P 500 down 9% since the start of the year and the Nasdaq down 15%². Finally, Covid-19 has not stopped killing Americans, and death figures have risen significantly in the last three weeks.

However, the Federal Reserve now regards taming inflation as a priority, and will not hesitate to tighten its monetary policy. We are likely to see an initial quarter-point or perhaps half-point hike in the Fed funds target in March, as the Federal Open Market Committee practically admitted in its 26 January meeting³.

Jean-Luc Proutat

1. In the fourth quarter of 2021, the gap between actual published GDP and the figure obtained by applying a 2% annual growth rate to the Q4 2019 figure had shrunk to almost zero (-0.9%).
 2. As of the close of business on 27/01/2022
 3. “With inflation well above 2 percent and a strong labor market, the Committee expects it will soon be appropriate to raise the target range for the federal funds rate.” FOMC, 26/01/2022.

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

7

EUROZONE: CONFIDENCE SURVEYS ON A DOWNWARD SLOPE BUT NOT SLIPPERY

Economic newsflow was particularly rich last week. The first important items, looking in the rear-view mirror, were the first growth estimates for Q4 2021 in France, Germany and Spain¹. Performances were mixed, between the 0.7% q/q contraction in Germany, further strong growth of 2% q/q in Spain and, between these two, growth of 0.7% q/q in France. The contraction in German GDP is in line with estimates drawn from the publication on 14 January of national accounts for 2021. French growth turned out slightly above our expectations (0.6%), a surprise that was all the more positive given that the risk was of a lower figure given supply constraints and inflationary pressures. Spanish growth exceeded our expectations (1.1%) by even more, a performance more in line with the strength of the labour market. Even so, Spain's GDP in Q4 2021 was still 4% below its level in Q4 2019 before the pandemic; Germany's gap has widened to 1.5%, whilst French GDP has now edged 0.9% above its pre-pandemic level. This is still some distance behind the performance in the US, where GDP is now 3.1% above its pre-Covid levels, after another strong and better than expected print in the fourth quarter (1.7% q/q against our forecast of 1.3% q/q).

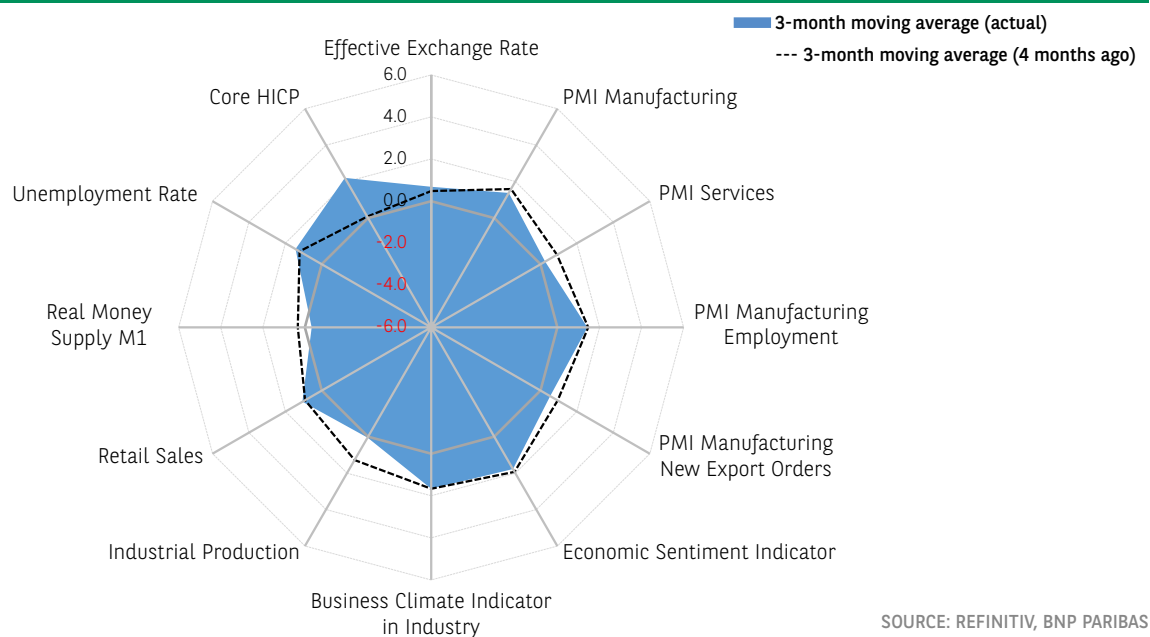
Looking forward now, January's confidence surveys fitted the pattern of recent months: the figures continued to decline while showing a degree of resilience (the blue area on our Pulse is only just within the dotted area). The European Commission's economic sentiment index fell in January, but by much less than in December thanks to a significantly smaller fall in consumer confidence and in the services sector and a rebound in the retail sector, and despite the fact that confidence in construction and industry joined the downward trend. Similarly, Markit's Composite PMI index fell by less in January than in December, with a smaller fall in the services PMI and a recovery in the manufacturing figure. The rebound of these same indicators in Germany and of the Ifo index too, but their continued decline in France (including the INSEE index) leave the same mixed impression, with the positive (like the signs of the beginning of an easing of delivery times and input prices pressures) maybe slightly outweighing the negative however.

Household confidence tends to garner less attention than business climate surveys, but will need to be followed very closely too over the coming months. A more pronounced decline, caused by higher inflation, is something to worry about. The strength of the labour market is certainly having a substantial cushioning effect (in November 2021 the unemployment rate dropped to an historic low of 7.2%), but the risk is that inflation will continue to surprise on the upside and that it will have a more significant negative effect on confidence and economic activity. January could bring the long-awaited peak in inflation (we will find out on Wednesday 2 February with Eurostat's flash estimate). However, uncertainty remains high and inflationary pressures fairly strong: even if this does mark the peak, we do not expect inflation to fall fast on the other side.

Hélène Baudchon

1. At the time of writing, the growth figure for the eurozone as a whole was not yet known. We are expecting +0.4% q/q.

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 +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

VACCINATION DOSES HIT THE SYMBOLIC 10 BILLION MARK

The number of new daily cases of Covid-19 has continued to rise in most parts of the world. Between 20 and 26 January, new case numbers topped 22 million, a 5.5% increase on the previous week. With 4.2 million of these, Asia saw the biggest rise (28%), followed by South America (19%) and Europe (7%). In the rest of the world, cases continued to fall (Chart 1), particularly in North America (-8%) and Africa (-11%).

Over the same period, several individual countries saw falls (Chart 4, black line): United Kingdom (-11%), USA (-9%), Argentina, Spain (both -5%), and Italy (-3%). Meanwhile, Japan (109%), Brazil (70%) and Germany (58%) stood out for their soaring case numbers. At the same time, vaccination doses hit the symbolic 10 billion mark. This figure includes 950 million booster doses. Nearly 61% of the world's population has now received at least one dose of a Covid-19 vaccine (Chart 2).

Visits to retail and leisure facilities remained on a downward trend in Spain, Belgium and the USA. France, the UK, Germany and Italy have all seen rises from recent levels, whilst in Japan the trend appears to be turning downwards (Chart 3, blue line).

Lastly, the trend in the weekly proxy indicator of GDP has remained negative in Italy and the USA. France, Germany, Belgium and Spain seem to be seeing a slight improvement on recent levels. The numbers are falling in Japan, whilst the indicator has stabilised in the UK (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)

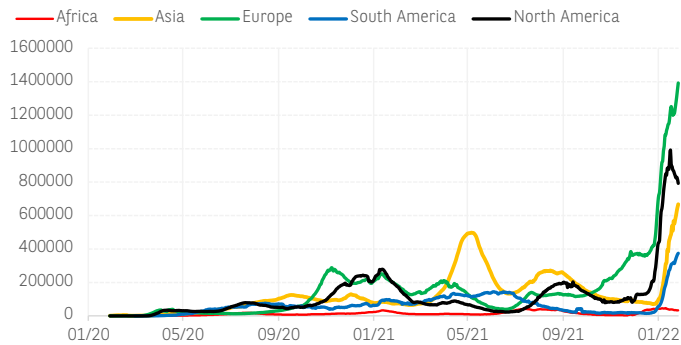


CHART 1

SOURCE: JOHNS-HOPKINS UNIVERSITY (01/27/2022), BNP PARIBAS

SHARE OF PEOPLE WHO RECEIVED AT LEAST ONE DOSE OF VACCINE

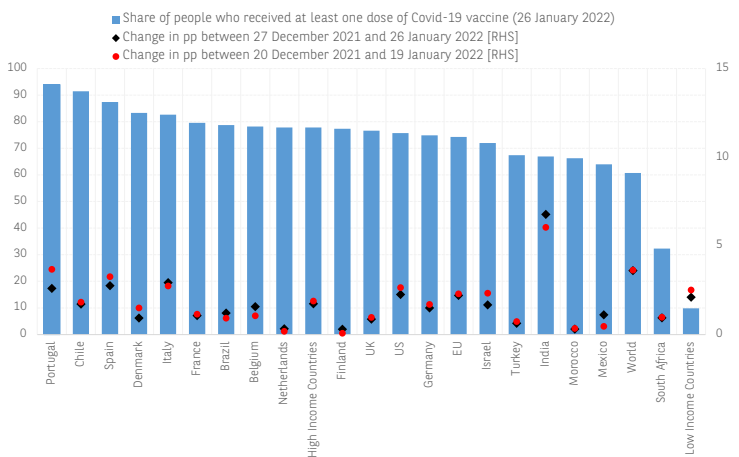


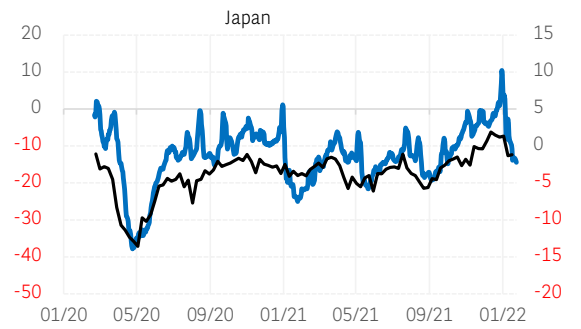
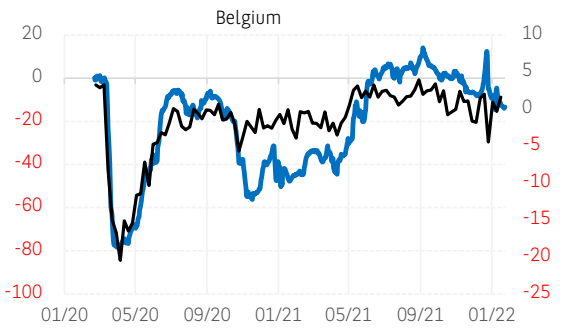
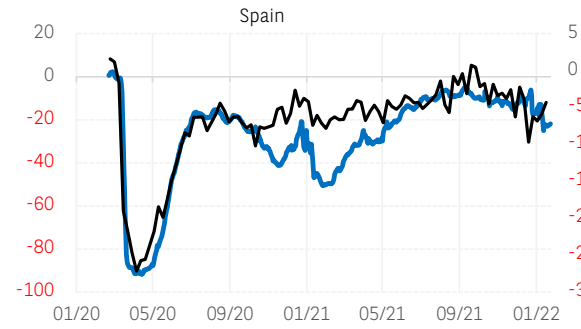
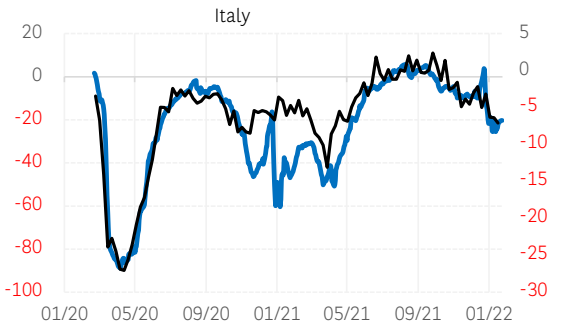
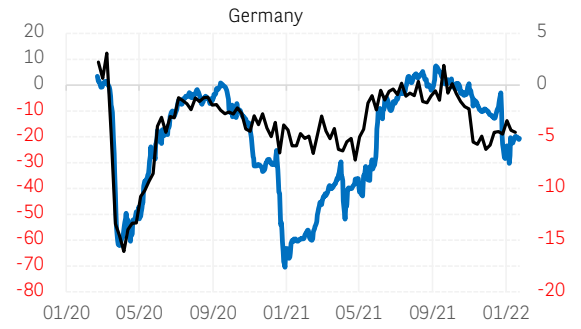
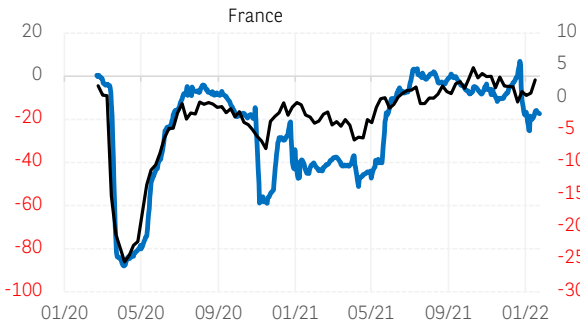
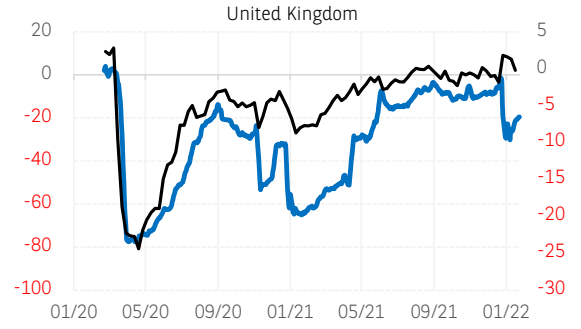
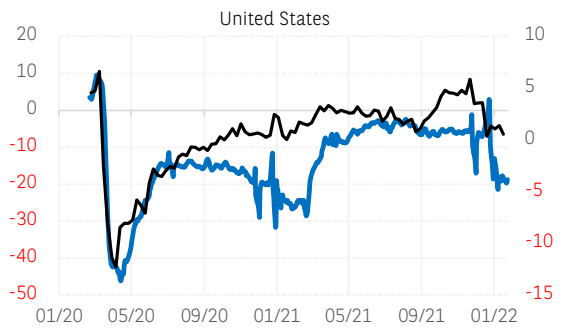
CHART 2

SOURCE: OUR WORLD IN DATA (01/27/2022), 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]

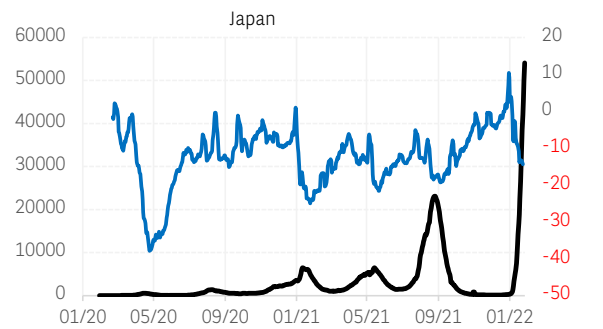
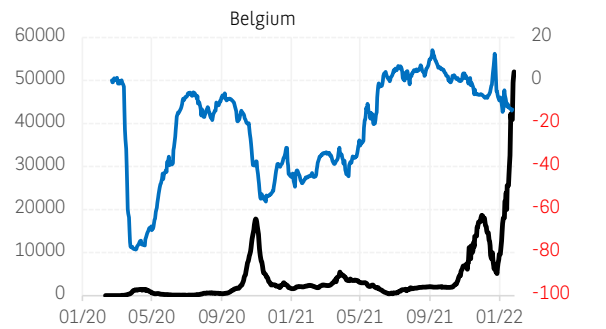
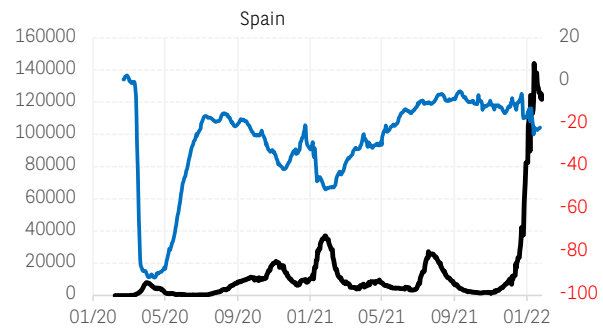
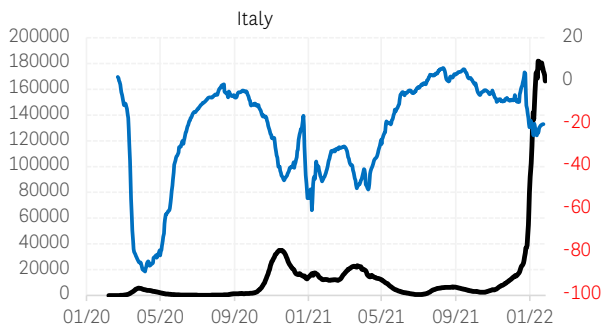
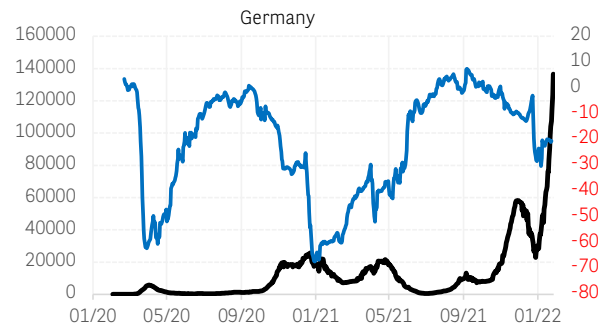
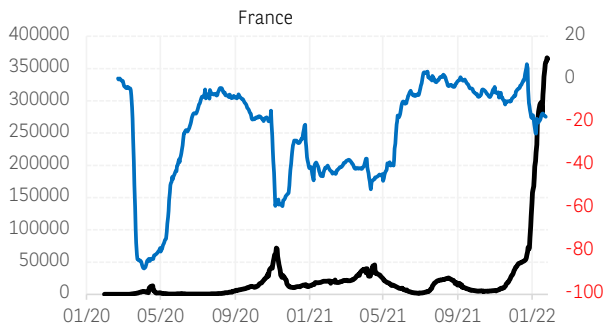
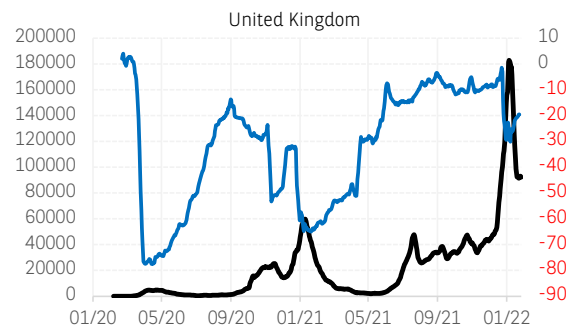
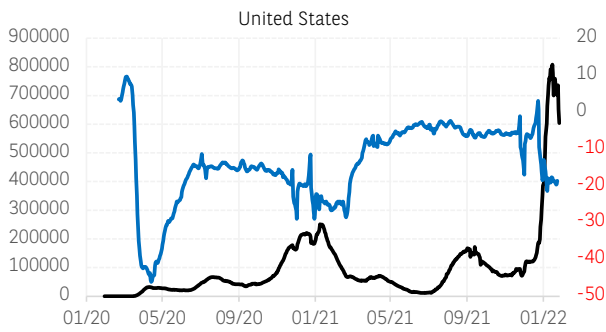


SOURCE: OECD (01/27/2022), GOOGLE (01/27/2022), BNP PARIBAS



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]



SOURCE: JOHNS-HOPKINS UNIVERSITY (01/27/2022), GOOGLE (01/27/2022), 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 in March this year. The tone of the minutes of the December meeting of the FOMC was hawkish. Given current particularly elevated inflation, the inflation outlook and the strength of the labour market, as reflected in the unemployment rate that has dropped below 4.0%, we expect a first rate hike in March, followed by five additional hikes in 2022 and three more in 2023. In addition, we expect the reduction of the balance sheet (quantitative tightening) to start in July this year. These policy changes should put upward pressure on Treasury yields.

In the eurozone, the ECB has announced 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 will be increased temporarily 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 March 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 1ST APRIL OF YEAR N TO MARCH 31ST 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)	0.50	1.00	1.50	1.75	2.50
	T-Note 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 / IPY	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 / IPY	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

Generally speaking, the January flash PMIs for the services sector have been weaker and, in case of Japan, France and the US, quite significantly so. Germany is a clear exception, recording a rebound in this index whereas in the UK it has been stable. The manufacturing PMIs didn't change much in general, although they improved in Germany and weakened in the US. After a downward trend in recent months, the IFO business climate in Germany improved on the back of better expectations. The improvement was broad-based and visible in the various sectors. In the UK, business optimism dropped in January (the consensus had expected an improvement). In the US the Conference Board consumer confidence index declined in January due to a drop in the expectations component. University of Michigan household sentiment on the other hand hardly moved. The difference between the two surveys reminds us of the differences in methodology between the two. US fourth quarter GDP growth has beaten expectations. A considerable part of the increase in GDP is explained by inventory accumulation, which might point to an easing of supply constraints. French fourth quarter GDP surprised to the upside as well whereas in Germany, the contraction was even bigger than expected. The European Commission business climate indices for January were down versus December. Finally, the message from the FOMC was clearly hawkish, pushing up bond yields and the dollar and pushing down equity markets.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	ACTUAL	PREVIOUS
01/24/2022	Japan	Jibun Bank Japan PMI Services	Jan	--	46.6	52.1
01/24/2022	Japan	Jibun Bank Japan PMI Composite	Jan	--	48.8	52.5
01/24/2022	Japan	Jibun Bank Japan PMI Mfg	Jan	--	54.6	54.3
01/24/2022	France	Markit France Services PMI	Jan	55.3	53.1	57.0
01/24/2022	France	Markit France Manufacturing PMI	Jan	55.3	55.5	55.6
01/24/2022	France	Markit France Composite PMI	Jan	54.7	52.7	55.8
01/24/2022	Germany	Markit/BME Germany Manufacturing PMI	Jan	57.0	60.5	57.4
01/24/2022	Germany	Markit Germany Services PMI	Jan	48.0	52.2	48.7
01/24/2022	Germany	Markit/BME Germany Composite PMI	Jan	49.4	54.3	49.9
01/24/2022	Eurozone	Markit Eurozone Manufacturing PMI	Jan	57.5	59.0	58.0
01/24/2022	Eurozone	Markit Eurozone Services PMI	Jan	52.0	51.2	53.1
01/24/2022	Eurozone	Markit Eurozone Composite PMI	Jan	52.6	52.4	53.3
01/24/2022	United Kingdom	Markit/CIPS UK Services PMI	Jan	54.0	53.3	53.6
01/24/2022	United Kingdom	Markit/CIPS UK Composite PMI	Jan	54.0	53.4	53.6
01/24/2022	United Kingdom	Markit UK PMI Manufacturing SA	Jan	57.6	56.9	57.9
01/24/2022	United States	Markit US Manufacturing PMI	Jan	56.7	55.0	57.7
01/24/2022	United States	Markit US Services PMI	Jan	55.4	50.9	57.6
01/24/2022	United States	Markit US Composite PMI	Jan	--	50.8	57.0
01/25/2022	Japan	Nationwide Dept Sales YoY	Dec	--	8.8%	8.1%
01/25/2022	Germany	IFO Business Climate	Jan	94.5	95.7	94.8
01/25/2022	Germany	IFO Current Assessment	Jan	96.1	96.1	96.9
01/25/2022	Germany	IFO Expectations	Jan	93.0	95.2	92.7
01/25/2022	United Kingdom	CBI Trends Total Orders	Jan	22.0	24.0	24.0
01/25/2022	United Kingdom	CBI Trends Selling Prices	Jan	63.0	66.0	62.0
01/25/2022	United Kingdom	CBI Business Optimism	Jan	8.0	-9.0	2.0



DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	ACTUAL	PREVIOUS
01/25/2022	United States	Conf. Board Consumer Confidence	Jan	111.2	113.8	115.2
01/25/2022	United States	Conf. Board Expectations	Jan	--	90.8	95.4
01/25/2022	United States	Conf. Board Present Situation	Jan	--	148.2	144.8
01/26/2022	France	Consumer Confidence	Jan	99.0	99.0	100.0
01/26/2022	France	Total Jobseekers	4Q	--	3101.8k	3307.4k
01/26/2022	United States	FOMC Rate Decision (Upper Bound)	Jan	0.3%	0.3%	0.3%
01/27/2022	Germany	GfK Consumer Confidence	Feb	-8.0	-6.7	-6.9
01/27/2022	United States	Initial Jobless Claims	Jan	265k	260k	290k
01/27/2022	United States	Cap Goods Orders Nondef Ex Air	Dec	0.4%	0.0%	0.3%
01/27/2022	United States	GDP Annualized QoQ	4Q	5.5%	6.9%	2.3%
01/28/2022	France	Consumer Spending MoM	Dec	0.0%	0.2%	0.9%
01/28/2022	France	GDP QoQ	4Q	0.5%	0.7%	3.1%
01/28/2022	France	GDP YoY	4Q	4.9%	5.4%	3.5%
01/28/2022	France	PPI MoM	Dec	--	1.0%	3.9%
01/28/2022	France	PPI YoY	Dec	--	17.7%	17.9%
01/28/2022	Germany	GDP SA QoQ	4Q	-0.3%	-0.7%	1.7%
01/28/2022	Germany	GDP WDA YoY	4Q	1.8%	1.4%	2.9%
01/28/2022	Eurozone	Economic Confidence	Jan	114.5	112.7	113.8
01/28/2022	Eurozone	Industrial Confidence	Jan	15.0	13.9	14.6
01/28/2022	Eurozone	Services Confidence	Jan	9.5	9.1	10.9
01/28/2022	Eurozone	Consumer Confidence	Jan	--	-8.5	-8.5
01/28/2022	United States	Personal Income	Dec	0.5%	0.3%	0.5%
01/28/2022	United States	Personal Spending	Dec	-0.6%	-0.6%	0.4%
01/28/2022	United States	Real Personal Spending	Dec	-1.1%	-1.0%	-0.2%
01/28/2022	United States	PCE Core Deflator MoM	Dec	0.5%	0.5%	0.5%
01/28/2022	United States	PCE Core Deflator YoY	Dec	4.8%	4.9%	4.7%
01/28/2022	United States	U. of Mich. Sentiment	Jan	68.8	67.2	68.8
01/28/2022	United States	U. of Mich. Current Conditions	Jan	73.2	72.0	73.2
01/28/2022	United States	U. of Mich. Expectations	Jan	65.9	64.1	65.9
01/28/2022	United States	U. of Mich. 1 Yr Inflation	Jan	4.9%	4.9%	4.9%
01/28/2022	United States	U. of Mich. 5-10 Yr Inflation	Jan	--	3.1%	3.1%

SOURCE: BLOOMBERG



CALENDAR: THE WEEK AHEAD

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COMING INDICATORS

The week will be very busy with as, highlights, the meetings of the Bank of England and the ECB, the labour market report in the US and 4th quarter GDP growth in the euro area. The January inflation data in Germany, France and the euro area will also be eagerly awaited. The same applies for the January PMI data for manufacturing and services in a large number of countries. Particular attention will go to the length of the delivery times and to input prices, considering that they shed light on how the supply bottlenecks evolve.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	PREVIOUS
01/31/2022	Japan	Retail Sales MoM	Dec	--	1.20%
01/31/2022	Japan	Consumer Confidence Index	Jan	--	39.1
01/31/2022	Eurozone	GDP SA QoQ	4Q	--	2.20%
01/31/2022	Eurozone	GDP SA YoY	4Q	--	3.90%
01/31/2022	Germany	CPI EU Harmonized YoY	Jan	--	5.70%
01/31/2022	Germany	CPI EU Harmonized MoM	Jan	--	0.30%
01/31/22-02/02/22	Germany	Retail Sales MoM	Dec	-1.40%	0.60%
02/01/2022	Japan	Jibun Bank Japan PMI Mfg	Jan	--	54.6
02/01/2022	France	CPI EU Harmonized MoM	Jan	--	0.20%
02/01/2022	France	CPI EU Harmonized YoY	Jan	--	3.40%
02/01/2022	France	Markit France Manufacturing PMI	Jan	--	55.5
02/01/2022	Germany	Unemployment Change (000's)	Jan	--	-23.0k
02/01/2022	Germany	Markit/BME Germany Manufacturing PMI	Jan	--	60.5
02/01/2022	Eurozone	Markit Eurozone Manufacturing PMI	Jan	--	59
02/01/2022	United Kingdom	Markit UK PMI Manufacturing SA	Jan	--	56.9
02/01/2022	Eurozone	Unemployment Rate	Dec	--	7.20%
02/01/2022	United States	Markit US Manufacturing PMI	Jan	--	55
02/01/2022	United States	ISM New Orders	Jan	--	60.4
02/01/2022	United States	ISM Manufacturing	Jan	58.1	58.7
02/01/2022	United States	ISM Employment	Jan	--	54.2
02/01/2022	United States	ISM Prices Paid	Jan	--	68.2
02/01/2022	United States	JOLTS Job Openings	Dec	--	10562k
02/02/2022	Eurozone	CPI Estimate YoY	Jan	--	5.00%
02/02/2022	Eurozone	CPI MoM	Jan	--	0.40%
02/02/2022	Eurozone	CPI Core YoY	Jan	--	2.60%



DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	PREVIOUS
02/03/2022	Japan	Jibun Bank Japan PMI Services	Jan	--	46.6
02/03/2022	Japan	Jibun Bank Japan PMI Composite	Jan	--	48.8
02/03/2022	France	Markit France Services PMI	Jan	--	53.1
02/03/2022	France	Markit France Composite PMI	Jan	--	52.7
02/03/2022	Germany	Markit Germany Services PMI	Jan	--	52.2
02/03/2022	Germany	Markit/BME Germany Composite PMI	Jan	--	54.3
02/03/2022	Eurozone	Markit Eurozone Services PMI	Jan	--	51.2
02/03/2022	Eurozone	Markit Eurozone Composite PMI	Jan	--	52.4
02/03/2022	United Kingdom	Markit/CIPS UK Services PMI	Jan	--	53.3
02/03/2022	United Kingdom	Markit/CIPS UK Composite PMI	Jan	--	53.4
02/03/2022	Eurozone	PPI MoM	Dec	--	1.80%
02/03/2022	Eurozone	PPI YoY	Dec	--	23.70%
02/03/2022	United Kingdom	Bank of England Bank Rate	Feb	--	0.25%
02/03/2022	Eurozone	ECB Deposit Facility Rate	Feb	--	-0.50%
02/03/2022	United States	Initial Jobless Claims	Jan	--	--
02/03/2022	United States	Markit US Services PMI	Jan	--	50.9
02/03/2022	United States	Markit US Composite PMI	Jan	--	50.8
02/03/2022	United States	ISM Services Index	Jan	60.7	62
02/03/2022	United States	Cap Goods Orders Nondef Ex Air	Dec	--	--
02/04/2022	Germany	Factory Orders MoM	Dec	--	3.70%
02/04/2022	France	Private Sector Payrolls QoQ	4Q	--	0.50%
02/04/2022	France	Wages QoQ	4Q	--	0.30%
02/04/2022	Eurozone	ECB Survey of Professional Forecasters			
02/04/2022	Eurozone	Retail Sales MoM	Dec	--	1.00%
02/04/2022	United States	Change in Nonfarm Payrolls	Jan	213k	199k
02/04/2022	United States	Unemployment Rate	Jan	3.90%	3.90%
02/04/2022	United States	Average Hourly Earnings YoY	Jan	5.20%	4.70%
02/04/2022	United States	Average Weekly Hours All Employees	Jan	34.8	34.7
02/04/2022	United States	Labor Force Participation Rate	Jan	61.90%	61.90%

SOURCE: BLOOMBERG



FURTHER READING

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The new Turkish economic policy	EcoTVWeek	28 January 2022
France: Shortages in industry – less acute but not gone	Chart of the Week	26 January 2022
Economic analyses and economic forecasts for a selection of emerging countries	EcoEmerging	26 January 2022
10-year Bund yield back at zero percent. What are the drivers?	EcoWeek	24 January 2022
Euro zone: An economic assessment in early 2022	EcoTVWeek	21 January 2022
Ghana: debt concerns	Chart of the Week	19 January 2022
US: Bye bye QE, here comes QT	EcoWeek	17 January 2022
US: monetary policy at a turning point	EcoTVWeek	14 January 2022
US: The Bank of Japan is the main counterparty in the Fed's FRRP facility	Chart of the Week	12 January 2022
French Economy Pocket Atlas - January issue	Pocket Atlas	11 January 2022
Global: Supply side disruption, some hopeful signs	EcoWeek	10 January 2022
Euros in our pockets: looking back, looking ahead	EcoTVWeek	7 January 2022
European Union : New year, new fiscal rules for Europe?	Chart of the Week	5 January 2022
Global: 2022: assessing upside and downside risks	EcoWeek	3 January 2022
Economic analyses and economic forecasts for a selection of countries.	EcoPerspectives	17 December 2021
Beyond interest rates: the role of fiscal, financial and monetary conditions	EcoTVWeek	17 December 2021
Portugal : Non-performing loans remain stable despite moratoria coming to an end	Chart of the Week	15 December 2021
The monetary policy dichotomy in emerging economies	EcoFlash	14 December 2021
Fiscal policy to continue to support euro area growth next year	EcoWeek	13 December 2021
Greece: encouraging trends	EcoTVWeek	10 December 2021



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