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EUROZONE: THE DISINFLATION OF 2023, BETWEEN HOPE AND UNCERTAINTY

The latest ECB survey of professional forecasters (SPF) shows a downward revision of the growth outlook and an upward adjustment of the inflation forecast. For next year, the real question is not about the direction of inflation but about the speed and extent of its decline. Slower than expected progress could convince the ECB of the need for more rate hikes than currently priced by markets, implying a bigger output cost of bringing down inflation. Disinflation could indeed take longer than expected. Over the past two years, a variety of factors have led to an exceptionally elevated but also broad-based inflation. Not all shocks have occurred simultaneously and it often takes time for them to work their way through the system, from the producer to the wholesaler to the retailer. This creates an inertia in the inflation dynamics.

The latest ECB survey of professional forecasters (SPF) offers sobering reading. The growth outlook has been revised downwards -real GDP is expected to decline in the third and fourth quarter of this year and the first quarter of next year- and the inflation forecast has been revised upwards[1] . Moreover, despite the significant increases in the ECB policy rates and a worsening of financial conditions -higher sovereign bond yields, a widening of corporate bond spreads, the decline in equity markets, tighter loan conditions[2] -, uncertainty about the inflation outlook -based on the distribution of forecasts- continues to increase and the percentage of survey participants who expect inflation above 5% next year has jumped (chart 1).

2023 should nevertheless be a year of disinflation in the Eurozone on the back of favourable base effects, slower demand growth and an easing of supply bottlenecks. Concerning the supply side, survey-based price pressures -the average of the assessment of input prices and delivery times- are declining, which, given the historical relationship with core inflation, is a hopeful development (chart 2). The latest forecasts of the ECB, the IMF and private sector economists all anticipate lower inflation by the end of next year[3]. It thus seems that the real question is not about the direction of inflation -it should be down- but about the speed and extent of its decline. To put it differently: is there a risk that the inflation forecasts continue to be too optimistic as they have been for nearly two years and that further upward adjustments could be necessary? The answer matters for the interest rate as well as the growth outlook. A slower than expected decline could convince the ECB of the need for more rate hikes than currently priced by markets, implying a bigger output cost of bringing down inflation.

1. For 2023, for headline inflation to 5.8% (3.6%) and for core inflation to 3.9% (2.9%) (numbers between brackets show the forecasts from the Q3 survey).
2. The latest ECB bank lending survey, published on 25 October 2022 reported that "euro area banks indicated that they have further tightened their credit standards for loans or credit lines to enterprises in the third quarter." *There is also a "strong net tightening of credit standards for housing loans and a lesser, but still pronounced, net tightening for consumer credit in the third quarter of 2022."*
3. For Eurozone HICP, the IMF (World Economic Outlook, October 2022) expects 4.5% at the end of 2023. The Bloomberg economic consensus has a Q4 2023 forecast of 3.4% (data downloaded on 21 October 2022). Consensus Economics (October 2022) have a forecast of 3.0% for December next year and the September ECB staff projections expect inflation at 3.3% in Q4 2023.

In trying to answer the question of the reliability of inflation forecasts, one can start by looking at the history of these projections. Chart 3 shows that the headline inflation forecast for the next 12 months is strongly influenced by current inflation, i.e. the pace of price increases over the previous 12 months. The forecasts are less volatile than observed inflation. In the important swings of the latter, energy price shocks play a big role. This also explains why the inflation forecast errors are highly correlated with the difference between headline and core inflation (chart 4)[4]. This implies that, assuming no new shocks to energy and food prices, the focus should be on core inflation. Unfortunately, the history of the SPF for core inflation only goes back to Q4 2016 so the period is too short for a proper assessment of the quality of forecasts when inflation is declining.

EUROZONE: AGGREGATE PROBABILITY DISTRIBUTION FOR EXPECTED INFLATION IN 2023

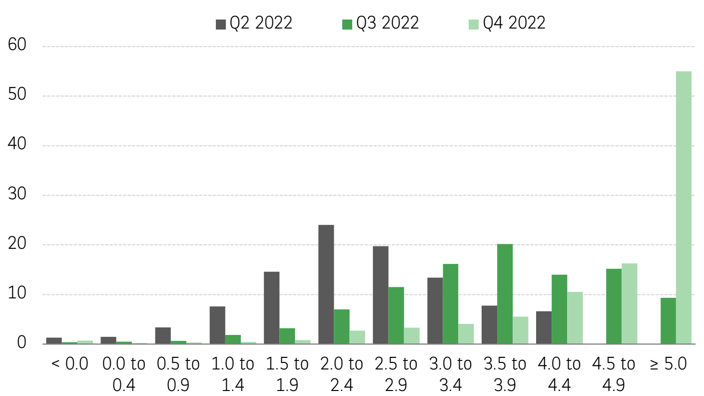


CHART 1

SOURCE: SOURCE: ECB, BNP PARIBAS

4. This difference shows the direct effect of energy and food price shocks.

> Despite some hopeful signs, inflation risks remain clearly biased to the upside, meaning that next year's disinflation could be slower than currently expected.

There are however reasons to assume that disinflation could take longer than expected. Over the past two years, a variety of factors[5] have led to an exceptionally elevated but also broad-based inflation. Not all shocks have occurred simultaneously and it often takes time for them to work their way through the system, from the producer to the wholesaler to the retailer. This creates an inertia in the inflation dynamics, which is confirmed by recent contacts of the ECB with Eurozone companies (table).

To conclude, despite some hopeful developments -survey data showing an easing of price pressures, lower commodity prices-, risks remain clearly biased to the upside, meaning that disinflation could be slower than currently expected. Such a scenario would have important consequences in terms of interest rate developments, company profitability and households' purchasing power.

William De Vijlder

EUROZONE: PMI MANUFACTURING VS INFLATION

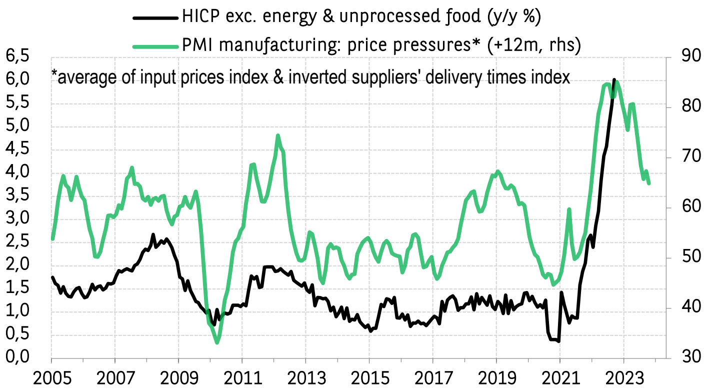


CHART 2

SOURCE: S&P GLOBAL, EUROSTAT, BNP PARIBAS

HICP: OBSERVED VERSUS ONE-YEAR-AHEAD FORECAST

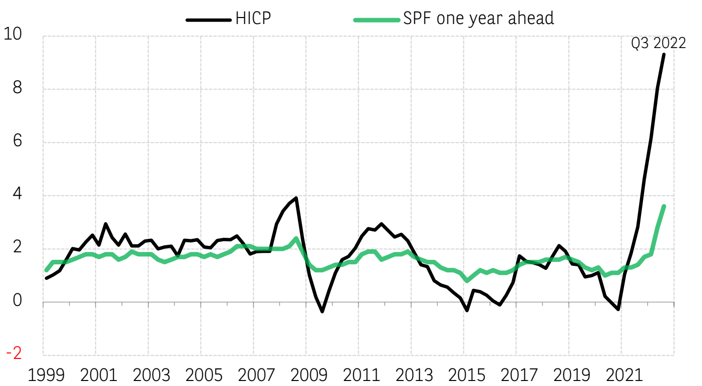


CHART 3

SOURCE: ECB, BNP PARIBAS

HEADLINE INFLATION FORECAST ERROR AND DIFFERENCE BETWEEN HEADLINE & CORE INFLATION

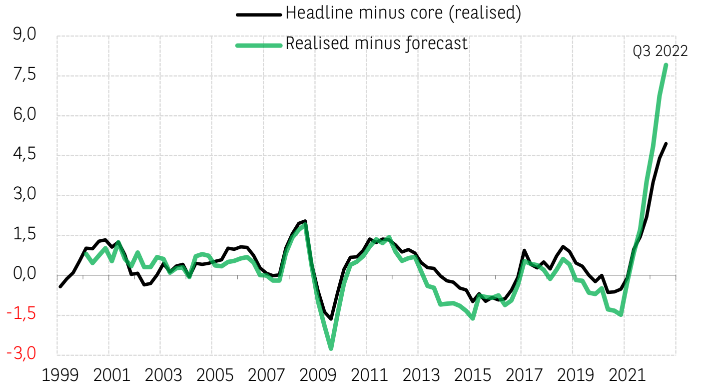


CHART 4

SOURCE: ECB, BNP PARIBAS

5. Demand in certain sectors has been very dynamic, which in combination with disruption on the supply side -staff, materials-, has created bottlenecks. Transportation costs have jumped due to disruption of global value chains. Energy, food and other commodity prices have seen huge price increases. The weak euro has led to higher import prices. High inflation and tight labour markets have given rise to a pick-up in wage growth.

COMMENTS FROM COMPANIES

“The prices of some raw materials and commodities had either stabilised or had been falling in recent months, although the effect of this on input costs was often either muted or more than offset by the weak euro exchange rate and the fact that past increases in costs (including for energy) were still in the process of being passed on by many suppliers.”

“Prices for transport and logistics continued to increase overall; and while spot freight rates had fallen on some key shipping routes, this was hardly reflected in shipping costs, as these were mostly determined by long-term contracts.”

“Concerning gas and electricity prices: “a substantial share of contacts said that the impact on their firm’s cost base would be felt mainly, or only, in 2023 and beyond as long-term energy hedging and supply contracts expired.”

“Most contacts still perceived strong cost pressures and continued to adjust their prices more frequently and by a greater order of magnitude than usual, with only a modest slowdown in the sequential rate of change currently anticipated in the next one or two quarters.”

“Wage pressures continued to build.”

“Among those who gave quantitative indications of their expectations for wage growth, a large majority expected increases of 4% or higher (and in many cases substantially higher) as likely to take effect in 2023.”

SOURCE: MAIN FINDINGS FROM THE ECB’S RECENT CONTACTS WITH NON-FINANCIAL COMPANIES, ECB, ECONOMIC BULLETIN ISSUE 7/2022, 28 OCTOBER 2022.

MARKETS OVERVIEW

OVERVIEW

Week 21-10 22 to 28-10-22				
↗ CAC 40	6 035	▸ 6 273	+3.9	%
↗ S&P 500	3 753	▸ 3 901	+4.0	%
↘ Volatility (VIX)	29.7	▸ 25.8	-3.9	pb
↗ Euribor 3M (%)	1.54	▸ 1.64	+9.8	bp
↗ Libor $ 3M (%)	4.36	▸ 4.44	+8.1	bp
↘ OAT 10y (%)	3.00	▸ 2.58	-41.7	bp
↘ Bund 10y (%)	2.44	▸ 2.09	-34.6	bp
↘ US Tr. 10y (%)	4.21	▸ 4.01	-20.2	bp
↗ Euro vs dollar	0.98	▸ 0.99	+1.6	%
↘ Gold (ounce, $)	1 642	▸ 1 641	-0.1	%
↗ Oil (Brent, $)	93.5	▸ 95.8	+2.5	%

MONEY & BOND MARKETS

Interest Rates			highest 22			lowest 22		
€	ECB	1.25	1.25	at	14/09	0.00	at	03/01
	Eonia	-0.51	-0.51	at	03/01	-0.51	at	03/01
	Euribor 3M	1.64	1.64	at	28/10	-0.58	at	05/01
	Euribor 12M	2.57	2.78	at	21/10	-0.50	at	05/01
$	FED	3.25	3.25	at	22/09	0.25	at	03/01
	Libor 3M	4.44	4.44	at	28/10	0.21	at	03/01
	Libor 12M	5.37	5.48	at	21/10	0.58	at	03/01
£	BoE	2.25	2.25	at	22/09	0.25	at	03/01
	Libor 3M	3.34	3.75	at	26/09	0.26	at	03/01
	Libor 12M	0.81	0.81	at	03/01	0.81	at	03/01

At 28-10-22

Yield (%)			highest 22		lowest 22	
€	AVG 5-7y	2.64	2.79	at 28/09	-0.04	at 03/01
	Bund 2y	1.90	2.03	at 20/10	-0.83	at 04/03
	Bund 10y	2.09	2.44	at 21/10	-0.14	at 24/01
	OAT 10y	2.58	3.00	at 21/10	0.15	at 04/01
	Corp. BBB	4.81	5.14	at 21/10	0.90	at 05/01
$	Treas. 2y	4.47	4.61	at 20/10	0.70	at 04/01
	Treas. 10y	4.01	4.23	at 24/10	1.63	at 03/01
	High Yield	9.39	9.97	at 13/10	5.07	at 03/01
£	gilt. 2y	3.25	4.59	at 27/09	0.69	at 03/01
	gilt. 10y	3.50	4.50	at 27/09	0.97	at 03/01

At 28-10-22

EXCHANGE RATES

1€ =		highest 22			lowest 22			2022
USD	0.99	1.15	at	10/02	0.96	at	27/09	-12.5%
GBP	0.86	0.90	at	28/09	0.83	at	14/04	+2.2%
CHF	0.99	1.06	at	10/02	0.95	at	28/09	-4.3%
JPY	146.77	147.34	at	26/10	125.37	at	04/03	+12.1%
AUD	1.55	1.62	at	04/02	1.43	at	25/08	-0.7%
CNY	7.22	7.29	at	10/02	6.75	at	14/07	-0.4%
BRL	5.31	6.44	at	06/01	5.01	at	21/04	-16.1%
RUB	61.34	164.76	at	07/03	55.60	at	26/09	-28.1%
INR	82.06	85.96	at	11/02	78.49	at	27/09	-2.9%

At 28-10-22 *Change*

COMMODITIES

Spot price, $		highest 22			lowest 22			2022	2022(€)
Oil, Brent	95.8	128.2	at	08/03	79.0	at	03/01	+22.2%	+39.7%
Gold (ounce)	1 641	2 056	at	08/03	1 634	at	19/10	-9.9%	+2.9%
Metals, LMEX	3 532	5 506	at	07/03	3 453	at	27/09	-21.6%	-10.3%
Copper (ton)	7 619	10 702	at	04/03	7 160	at	14/07	-21.8%	-10.6%
wheat (ton)	273	4.7	at	17/05	273	at	28/10	+15.0%	+31.4%
Corn (ton)	259	3.2	at	28/06	226	at	03/01	+1.4%	+29.9%

At 28-10-22 *Change*

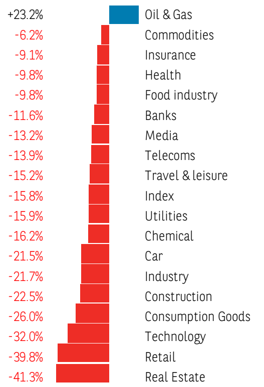
EQUITY INDICES

	Index	highest 22			lowest 22			2022
World								
MSCI World	2 561	3 248	at	04/01	2 368	at	12/10	-20.8%
North America								
S&P500	3 901	4 797	at	03/01	3 577	at	12/10	-18.2%
Europe								
EuroStoxx50	3 613	4 392	at	05/01	3 279	at	29/09	-15.9%
CAC 40	6 273	7 376	at	05/01	5 677	at	29/09	-1.2%
DAX 30	13 243	16 272	at	05/01	11 976	at	29/09	-16.6%
IBEX 35	7 917	8 934	at	27/05	7 261	at	12/10	-0.9%
FTSE100	7 048	7 672	at	10/02	6 826	at	12/10	-0.5%
Asia								
MSCI, loc.	1 038	1 165	at	05/01	1 012	at	30/09	-0.9%
Nikkei	27 105	29 332	at	05/01	24 718	at	09/03	-5.9%
Emerging								
MSCI Emerging ($)	846	1 267	at	12/01	843	at	24/10	-3.1%
China	48	86	at	20/01	48	at	28/10	-41.5%
India	770	891	at	13/01	699	at	17/06	+1.1%
Brazil	1 548	2 003	at	04/04	1 311	at	14/07	+3.4%

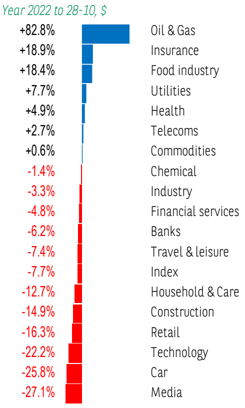
At 28-10-22 *Change*

PERFORMANCE BY SECTOR (Eurostoxx50 & S&P500)

Year 2022 to 28-10, €



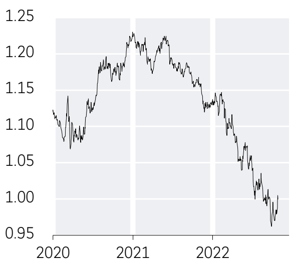
Year 2022 to 28-10, $



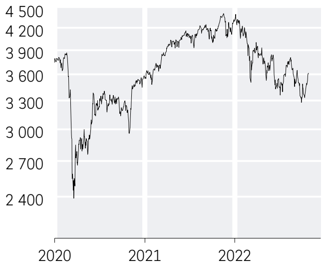
SOURCE: REFINITIV, BNP PARIBAS,

MARKETS OVERVIEW

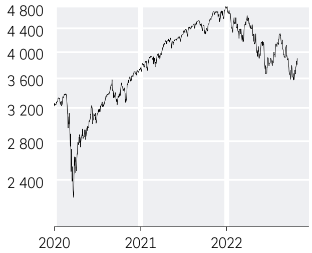
EURO-DOLLAR



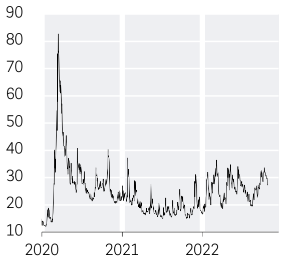
EUROSTOXX50



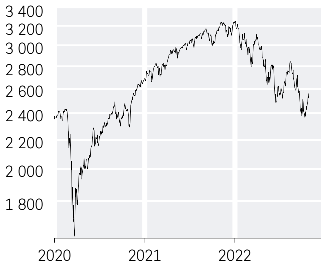
S&P500



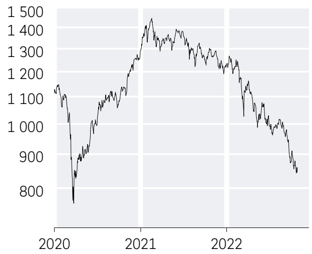
VOLATILITY (VIX, S&P500)



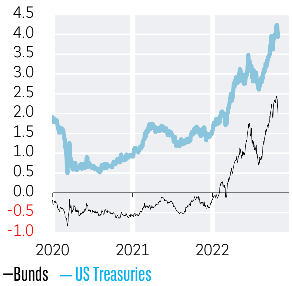
MSCI WORLD (USD)



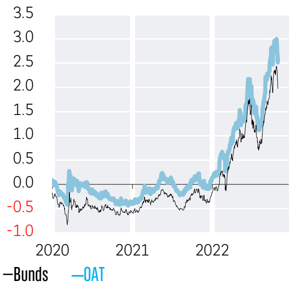
MSCI EMERGING (USD)



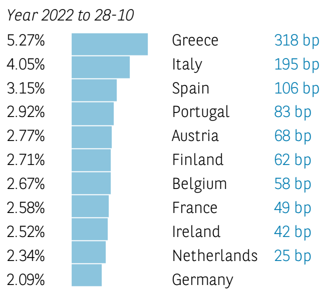
10Y BOND YIELD, TREASURIES VS BUND



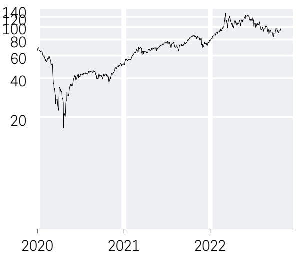
10Y BOND YIELD



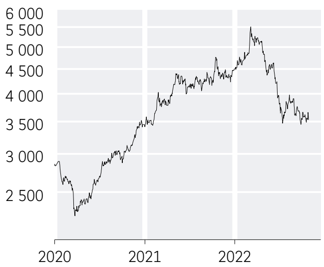
10Y BOND YIELD & SPREADS



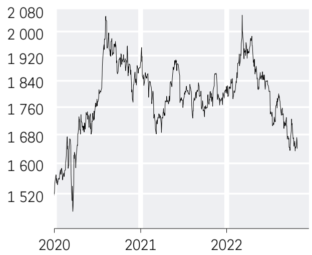
OIL (BRENT, USD)



METALS (LMEX, USD)



GOLD (OUNCE, USD)



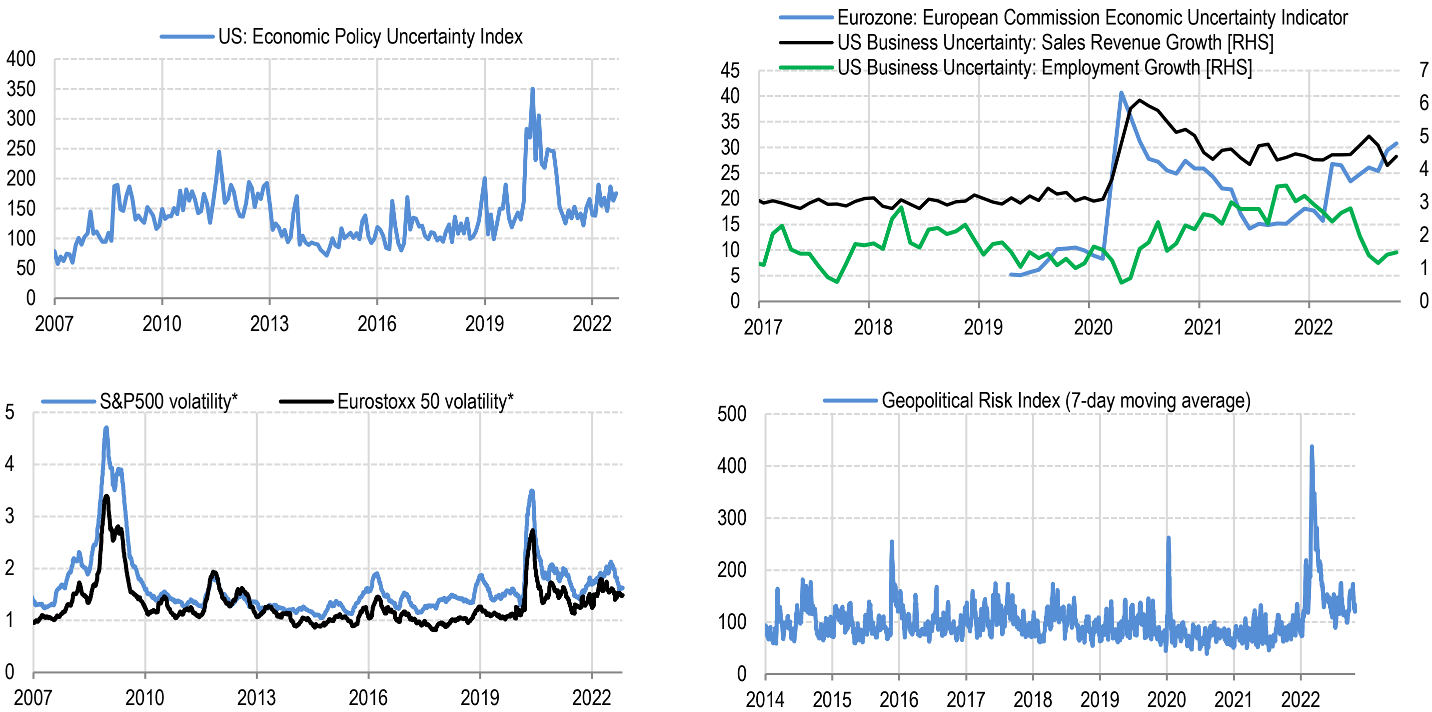
SOURCE: REFINITIV, BNP PARIBAS

UNCERTAINTY: CORPORATE UNCERTAINTY ON THE RISE

Our different uncertainty gauges are complementary, in terms of scope and methodology. Starting top left and continuing clockwise, US economic policy uncertainty based on media coverage has been on a rising trend over the past twelve months. This is related to the policy tightening by the Federal Reserve and concern about its consequences in terms of growth. In the US, the latest data show an increase of business uncertainty about sales revenue growth. Uncertainty with respect to employment growth has also seen a rebound. The European Commission's uncertainty index has again increased. Following the jump triggered by the war in Ukraine, it had essentially been moving sideways, but more recently a rising trend has developed. The geopolitical risk index, which is based on media coverage, shows no clear direction. Finally, the cross-sectional standard deviation of daily stock market returns of individual companies – a measure of financial uncertainty – has been on a declining trend in the US and, to a lesser degree, in the Eurozone.

William De Vijlder

CHANGES IN UNCERTAINTY



*volatility = 60-day moving average of the cross-sectional standard deviation of daily returns of the index constituents

SOURCE: REFINITIV, ECONOMIC POLICY UNCERTAINTY, IFO, ATLANTA FED, BNP PARIBAS

TRADE: MARITIME FREIGHT CONTINUES TO FALL SHARPLY

UK, Greece, South Africa: the strikes in the ports industry have multiplied in recent days, leading to disruptions to activity, in particular in South Africa. However, global maritime traffic continued to decongest and freight, as measured by the Freightos index, fell to its lowest level since the end of December 2020 (Figure 5). This represents a fall of 70% from the peak in September 2021 and a two-thirds drop in costs since the beginning of 2022.

The Baltic Dry Index, which measures dry freight costs, was stable but, as highlighted in the previous Pulse, it is appropriate to distinguish energy-related products from other goods being shipped. Indeed, the cost of transporting crude oil (Baltic Dirty Tanker index) has continued to rise in October, due to the increased demand for Liquefied Natural Gas (LNG), which in turn is mainly driven by European countries seeking to compensate for Russian gas (Figure 4).

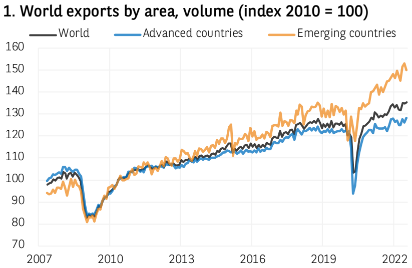
The normalisation of maritime traffic goes hand in hand with reduced tensions in global supply chains, as clearly illustrated by the composite index of the New York Federal Reserve (Figure 3), as well as by the rise in the global PMI index on delivery times for manufacturing goods (Figure 6).

However, the slowdown in the global economy is becoming increasingly evident, as shown by the decline in global sales of semiconductors since the summer as well as the deterioration in the PMI index for new export orders (Figure 2). These gloomy prospects are probably also prompting companies to slow down the pace of replenishing their inventories, which tends to exacerbate the slowdown in world trade. Admittedly, in its latest forecasts published at the beginning of October, the World Trade Organisation slightly increased its growth projections for global trade for 2022 compared to last April – at 3.5% compared to 3.0% previously – but the message for 2023 was clear: expected growth has been significantly lowered, from 3.4% to 1.0%.

Guillaume Derrien

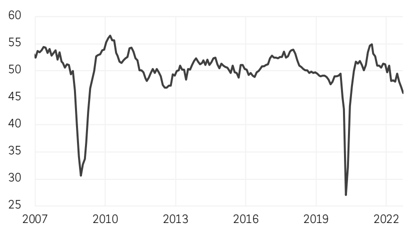
GLOBAL TRADE INDICATORS

1. World exports by area, volume (index 2010 = 100)



Source: CPB, BNP Paribas

2. Global manufacturing PMI, new export orders

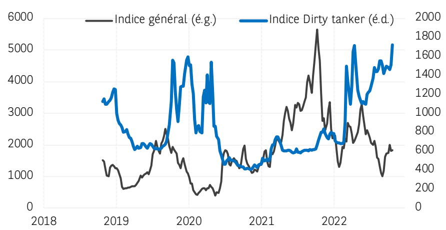


Source: S&P Global (Markit), BNP Paribas

3. Global supply-chain pressures index

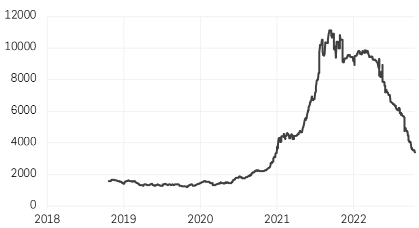
Source: Federal Reserve of New York

4. Baltic Exchange Dry Index



Source: Baltic Exchange, BNP Paribas

5. Freight rate index



Source: Freightos, BNP Paribas

6. Global manufacturing PMI, delivery times (Inverted line)

Source: S&P Global (Markit), BNP Paribas

ECONOMIC PULSE

CHINA: AN UNEVEN RECOVERY IN Q3 2022

In the third quarter of 2022, Chinese economic activity apparently regained ground that was lost during the very strict lockdowns that were imposed in the spring (in Shanghai in particular), and which were gradually lifted from the end of May. Real GDP grew by 3.9% quarter-on-quarter (q/q) in Q3 after a contraction of -2.7% q/q in Q2. Over the first nine months of the year, economic growth stood at 3% year-on-year (y/y).

However, the recovery in Q3 was very unbalanced. It was driven by industrial production, which increased by +4.8% on average y/y, compared with +0.6% in Q2. Until July, industry benefited from the good performance of export growth, which then slowed sharply (from +17.8% y/y in current dollar terms in July to 5.6% in September). Industry also benefited from the effects of the support measures introduced by the authorities. Firstly, tax incentives have boosted car sales and production since June. Secondly, increased public investment in infrastructure projects supported construction activity and also led to a rebound in production of materials such as steel and cement in September.

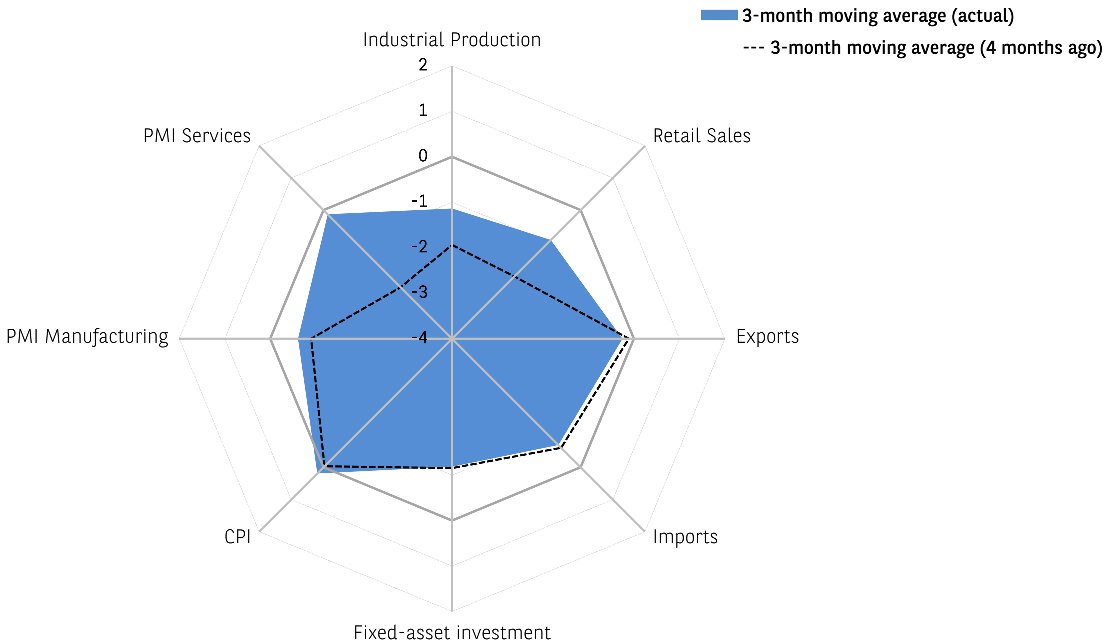
Other indicators sound alarm bells. The crisis in the real estate sector has continued, private consumption has remained depressed and services activity has been persistently weak. Services production increased only by +1.2% y/y in Q3 after a contraction of -3.3% in Q2. The very strict zero-Covid policy, falling real estate transactions, deteriorating labour market conditions and the significant loss of household confidence have weighed heavily on private consumption. Consumer price inflation, on the other hand, is still very moderate. It has only slightly accelerated since March (2.7% y/y in Q3, up from 2.2% in Q2), driven by the rise in food prices (5.2% y/y in Q3 up from 2.2% in Q2).

Growth in domestic investment stood at +5.9% y/y in nominal terms over the first nine months of the year, vs. +6.1% in H1 2022. It was largely supported by investment in infrastructure, which strengthened in Q3. Growth in manufacturing investment stabilised at around 10% y/y in Q3 after its slowdown in Q2. Finally, the contraction in real estate investment worsened (-6.6% over the first nine months of 2022 vs. -4.2% in H1).

Despite measures to ease credit conditions, notably aimed at stimulating demand for housing, property sales volumes fell in September for the 15th consecutive month (-22.5% y/y in Q3), and the average housing price in the 70 largest cities fell by 3% y/y in Q3 (after -1.5% in Q2). Floor space under construction and construction starts also continued to fall (-45% y/y in Q3).

Christine Peltier

CHINA: QUARTERLY CHANGES



SOURCE: NBS, BNP PARIBAS

China: 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 +2. 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 SCENARIO

UNITED STATES

In the US, the Federal Reserve will continue its tightening policy at a swift pace. After the 75bp hike in September, further increases will follow in November, December and January, bringing the federal funds rate to its terminal rate for this cycle at 5.25% (upper end of the target range). This level should be maintained through 2023 and be followed by rate cuts in 2024. The Fed's hawkish stance is motivated by the particularly elevated inflation and a strong labour market. Once the economy has slowed down and inflation is on a downward path, the Federal Reserve should adapt its guidance to achieve a soft landing. US Treasury are largely pricing in the upcoming rate hikes. In the course of next year, we expect somewhat lower yields as growth slows, inflation declines, and the market starts anticipating policy easing in 2024.

CHINA

Economic activity contracted in Q2 2022 due to the lockdowns imposed in large industrial regions such as Shanghai. The economic growth rebound since late spring has proved difficult. The authorities are enhancing fiscal and monetary easing measures. However, factors constraining growth remain significant: the correction in the property sector continues, and the deterioration in the labour market, the still tight zero Covid strategy and weak household confidence weigh on private consumption. Moreover, exports are expected to suffer from the slowdown in global demand. Consumer price inflation is accelerating only moderately..

EUROZONE

The look in the rear-view mirror is fairly favorable. The first half of 2022 was better than expected, leading to a comfortable growth carry-over a bit above 3%. However, the outlook for the coming quarters is negative: according to our forecasts, the Eurozone will not escape a contraction of its GDP. The current unprecedented combination of shocks (inflation, health, geopolitical, energy, climate, monetary) should overcome the resilience observed so far. We already have signs of this in the deterioration in confidence surveys, which has intensified over the summer. However, the recession should remain limited in scope thanks to the support of fiscal measures and as long as the labor market continues to perform well as it is now. In annual average terms, we expect Eurozone growth to reach 2.8% in 2022 but only 0.3% in 2023 (2 points lower than in our previous scenario in June). Regarding inflation, we forecast it will soon reach its peak, nearing 10% y/y, before engaging in a rather slow disinflation process in 2023.

FRANCE

Real GDP growth has surprised on the upside in the 2nd quarter of 2022 (+0.5% q/q after -0.2% in the 1st quarter), mainly as a result of tourism (positive contribution of net exports) and accommodation & catering following the unwinding of the bulk of Covid related restrictions. However, inflation has continued to accelerate (reaching a peak of 6.1% y/y in July) and household purchasing power has reduced for a second quarter in a row (-1.1% q/q during the 2nd quarter). Backlog of orders in the manufacturing have continued to decrease, and GDP growth should follow (we expect 0.5% in 2023 after 2.3% in 2022).

RATES AND EXCHANGE RATES

In the US, the Federal Reserve will continue its tightening policy at a swift pace. After the 75bp hike in September, further increases will follow in November, December and January, bringing the federal funds rate to its terminal rate for this cycle at 5.25% (upper end of the target range). This level should be maintained through 2023 and be followed by rate cuts in 2024. The Fed's hawkish stance is motivated by the particularly elevated inflation and a strong labour market. US Treasuries are largely pricing in the upcoming rate hikes. In the course of next year, we expect somewhat lower yields as growth slows, inflation declines, and the market starts anticipating policy easing in 2024.

After the 50bp rate hike in July and the 75bp increase in September, the ECB Governing Council will continue to raise its policy rates at its next meetings. Policy tightening is frontloaded, which means that the terminal rate -i.e. the peak rate in this cycle- should be reached by the end of the first quarter of next year. We expect a peak for the deposit rate at 3.00%. This should cause an increase in Bund yields.

The Bank of Japan is expected to maintain its current policy stance, at least until Governor Kuroda's term ends in the spring of 2023. Thereafter, we expect a less dovish policy and a one-off rate hike in the fourth quarter of 2023.

We expect the dollar to weaken somewhat versus the euro. The dollar's valuation is expensive, positioning in the market is very long and the long-term interest rate differential should narrow. The yen has already weakened significantly versus the dollar, reflecting the prospect of increased policy divergence between the Fed and the Bank of Japan. We expect the exchange rate to remain around current levels for the remainder of the year. In 2023, the yen should strengthen versus the dollar considering that the federal funds rate should have reached its terminal rate and that the Bank of Japan is expected to tighten policy.

GDP GROWTH & INFLATION

	GDP Growth				Inflation			
%	2021	2022 e	2023 e	2024 e	2021	2022 e	2023 e	2024 e
United-States	5,7	1,9	-0,1	-0,2	4,7	8,1	4,4	2,4
Japan	1,7	1,5	0,9	0,6	-0,2	2,3	2,3	0,6
United-Kingdom	7,4	3,4	-0,1	1,4	2,6	9,0	6,5	3,0
Euro Area	5,3	2,8	0,3	1,5	2,6	8,3	5,9	2,5
Germany	2,6	1,4	0,4	1,7	3,2	8,6	5,8	2,4
France	6,8	2,3	0,5	1,5	2,1	5,7	4,8	2,0
Italy	6,6	3,4	0,4	1,6	1,9	8,3	6,4	2,2
Spain	5,1	4,3	0,5	1,7	3,0	8,8	4,1	1,6
China	8,1	3,0	5,3	5,0	0,9	2,3	3,1	2,5
India*	9,3	8,3	6,2	6,5	5,4	7,9	5,9	5,5
Brazil	4,6	3,0	0,5	1,3	8,3	9,4	5,4	4,9
Russia	4,5	-7,0	0,8	0,3	7,1	14,0	10,5	7,6

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		Q2 2022	Q4 2022 e	Q1 2023 e	Q2 2023 e	Q4 2023 e
US	Fed Funds (upper limit)	1.75	4.75	5.25	5.25	5.25
Eurozone	Deposit rate	-0.50	2.00	3.00	3.00	3.00
UK	Base rate	1.25	3.50	4.50	4.50	4.50
	Gilts 10y	2.21	4.75	4.85	4.50	4.40
Japan	BoJ Rate	-0.04	-0.10	-0.10	-0.10	0.00
	JGB 10y	0.23	0.25	0.25	0.25	0.45
Exchange Rates						
End of period		Q2 2022	Q4 2022 e	Q1 2023 e	Q2 2023 e	Q4 2023 e
USD	EUR / USD	1.05	1.00	1.01	1.02	1.06
	USD / JPY	136	137	135	133	127
	GBP / USD	1.21	1.05	1.12	1.12	1.12
EUR	EUR / GBP	0.86	0.95	0.95	0.95	0.95
	EUR / JPY	142	137	136	136	135
Brent						
End of period		Q2 2022	Q4 2022 e	Q1 2023 e	Q2 2023 e	Q4 2023 e
Brent	USD/bbl	115	100	102	107	115

Forecasts as of 6 September unless mentioned otherwise. Fed Funds Rate and US 10-Year : forecast as of 19 October. BoE Rate: forecast as of 17 October. Gilt 10-Year, GBP/USD and EUR/GBP : forecast as of 28 September. Eurozone Deposit Rate: forecast as of 27 October

SOURCES: BNP PARIBAS (E: ESTIMATES & FORECASTS) (MARKET ECONOMICS, INTEREST RATE STRATEGY, FX STRATEGY, COMMODITIES DESK STRATEGY)

CALENDAR

LATEST INDICATORS

In China, third quarter GDP growth surprised to the upside (+3.9% versus a consensus of +2.8%) but growth in retail sales slowed down more than anticipated. There was also an unexpected increase in the unemployment rate. In the euro area, the flash PMI for October declined significantly in manufacturing and in a more moderate way in services. The European Commission's economic confidence index weakened further, reflecting declines in industrial and services confidence. Consumer confidence was marginally better but remains stuck at very low levels. As expected, the ECB increased its policy rates with 75 basis points. In France, consumer confidence picked up, the flash PMI edged down in manufacturing but recorded a bigger decline in services. Growth slowed down in the third quarter to 0.2%. Inflation accelerated in October to 1.3% on a monthly basis. In Germany, the manufacturing flash PMI saw a large decline whereas the services PMI was essentially stable. In October, the IFO survey and its subseries were more or less in line with the numbers for the previous month. GDP growth improved in the third quarter to +0.3% from +0.1% the quarter before. The Japanese manufacturing PMI increased in October but the survey in services was in line with the previous month. In the UK, the survey data (manufacturing PMI, composite PMI, business optimism) saw a significant worsening of the economic environment. The selling prices survey recorded a big drop, which is good news considering the elevated inflation. In the US, both the manufacturing and services PMI dropped. The Conference Board consumer confidence survey weakened, both in terms of the assessment of the present situation as with respect to expectations. New home sales dropped in September, although slightly less than feared. University of Michigan sentiment data were in line with the previous numbers.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	ACTUAL	PREVIOUS
10/20-10/31/22	China	Fixed Assets Ex Rural YTD YoY	Sep.	6.00%	5.90%	5.80%
10/20-10/31/22	China	GDP SA QoQ	3Q	2.80%	3.90%	-2.70%
10/20-10/31/22	China	Retail Sales YoY	Sep.	3.00%	2.50%	5.40%
10/20-10/31/22	China	Surveyed Jobless Rate	Sep.	5.20%	5.50%	5.30%
10/24/22	Japan	Jibun Bank Japan PMI Services	Oct.	--	53	52.2
10/24/22	Japan	Jibun Bank Japan PMI Mfg	Oct.	--	50.7	50.8
10/24/22	France	S&P Global France Manufacturing PMI	Oct.	--	47.4	47.7
10/24/22	France	S&P Global France Services PMI	Oct.	--	51.3	52.9
10/24/22	Germany	S&P Global/BME Germany Manufacturing PMI	Oct.	--	45.7	47.8
10/24/22	Germany	S&P Global Germany Services PMI	Oct.	--	44.9	45
10/24/22	Eurozone	S&P Global Eurozone Manufacturing PMI	Oct.	--	46.6	48.4
10/24/22	Eurozone	S&P Global Eurozone Services PMI	Oct.	--	48.2	48.8
10/24/22	UK	S&P Global/CIPS UK Manufacturing PMI	Oct.	--	45.8	48.4
10/24/22	UK	S&P Global/CIPS UK Composite PMI	Oct.	--	47.2	49.1
10/24/22	United States	S&P Global US Manufacturing PMI	Oct.	--	49.9	52
10/24/22	United States	S&P Global US Services PMI	Oct.	--	46.6	49.3
10/25/22	Germany	IFO Business Climate	Oct.	--	84.3	84.4

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	ACTUAL	PREVIOUS
10/25/22	Germany	IFO Expectations	Oct.	--	75.6	75.3
10/25/22 12:00	UK	CBI Trends Selling Prices	Oct.	--	46	59
10/25/22	UK	CBI Business Optimism	Oct.	--	-48	-21
10/25/22	United States	Conf. Board Consumer Confidence	Oct	105	102.5	107.8
10/25/22	United States	Conf. Board Present Situation	Oct	--	138.9	150.2
10/25/22	United States	Conf. Board Expectations	Oct	--	78.1	79.5
10/26/22	France	Consumer Confidence	Oct	--	82	79
10/26/22	United States	MBA Mortgage Applications	21-oct	--	-1.70%	-4.50%
10/26/22	United States	New Home Sales MoM	Sep	-12.40%	-10.90%	24.70%
10/27/22	Germany	GfK Consumer Confidence	Nov	--	-41.9	-42.8
10/27/22	Eurozone	ECB Deposit Facility Rate	27-oct	--	1.50%	0.75%
10/27/22	United States	Initial Jobless Claims	22-oct	--	217K	214K
10/28/22	France	GDP QoQ	3Q P	--	0.20%	0.50%
10/28/22	France	CPI EU Harmonized MoM	Oct P	--	1.30%	-0.50%
10/28/22	Germany	GDP SA QoQ	3Q P	--	0.30%	0.10%
10/28/22	Eurozone	Economic Confidence	Oct	--	92.5	93.6
10/28/22	Eurozone	Industrial Confidence	Oct	--	-1.2	-0.3
10/28/22	Eurozone	Services Confidence	Oct	--	1.8	4.4
10/28/22	Eurozone	Consumer Confidence	Oct F	--	-27.6	-28.8
10/28/22	Germany	CPI EU Harmonized MoM	Oct P	--	1.10%	2.20%
10/28/22	United States	U. of Mich. Sentiment	Oct F	59.7	59.9	59.8
10/28/22	United States	U. of Mich. Current Conditions	Oct F	--	65.6	65.3
10/28/22	United States	U. of Mich. Expectations	Oct F	--	56.2	56.2
10/28/22 16:00	United States	U. of Mich. 1 Yr Inflation	Oct F	--	5.00%	5.10%
10/28/22 16:00	United States	U. of Mich. 5-10 Yr Inflation	Oct F	--	2.90%	2.90%
10/28/22	Japan	BOJ Policy Balance Rate	28-oct	-0.10%	--	-0.10%

SOURCE: BLOOMBERG

CALENDAR: THE WEEK AHEAD

COMING INDICATORS

The highlights of the week are in the US with the FOMC meeting -will the tone at the press conference turn less hawkish- and the labour market report. The Bank of England meeting is also eagerly awaited after the market turmoil in recent weeks. In the Eurozone we will have consumer and producer price inflation as well as the first estimate for third quarter GDP growth. Finally, in a large number of countries we will have the purchasing managers' indices as well as, in the US, the ISM index.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	PREVIOUS
10/31/2022	China	Manufacturing PMI	Oct	49,8	50,1
10/31/2022	China	Non-manufacturing PMI	Oct	50,1	50,6
10/31/2022	Japan	Consumer Confidence Index	Oct	30,5	30,8
10/31/2022	Eurozone	CPI Estimate YoY	Oct	10,30%	10,00%
10/31/2022	Eurozone	CPI Core YoY	Oct	5,00%	4,80%
10/31/2022	Eurozone	GDP SA QoQ	3Q	0,10%	0,80%
11/01/2022	Japan	Jibun Bank Japan PMI Mfg	Oct	--	50,7
11/01/2022	China	Caixin China PMI Mfg	Oct	48,5	48,1
11/01/2022	United Kingdom	S&P Global/CIPS UK Manufacturing PMI	Oct	45,8	45,8
11/01/2022	United States	S&P Global US Manufacturing PMI	Oct	49,9	49,9
11/01/2022	United States	ISM Manufacturing	Oct	50	50,9
11/01/2022	United States	ISM Prices Paid	Oct	53	51,7
11/01/2022	United States	ISM New Orders	Oct	--	47,1
11/01/2022	United States	ISM Employment	Oct	--	48,7
11/02/2022	France	S&P Global France Manufacturing PMI	Oct	47,4	47,4
11/02/2022	Germany	S&P Global/BME Germany Manufacturing PMI	Oct	45,7	45,7
11/02/2022	Eurozone	S&P Global Eurozone Manufacturing PMI	Oct	46,6	46,6
11/02/2022	United States	FOMC Rate Decision (Upper Bound)	Nov	4,00%	3,25%
11/03/2022	China	Caixin China PMI Services	Oct	49	49,3
11/03/2022	United Kingdom	S&P Global/CIPS UK Services PMI	Oct	47,5	47,5
11/03/2022	Eurozone	Unemployment Rate	Sep	6,60%	6,60%
11/03/2022	United Kingdom	Bank of England Bank Rate	Nov	3,00%	2,25%
11/03/2022	United States	S&P Global US Services PMI	Oct	46,6	46,6
11/03/2022	United States	ISM Services Index	Oct	55,1	56,7
11/04/2022	Japan	Jibun Bank Japan PMI Services	Oct	--	53
11/04/2022	France	Private Sector Payrolls QoQ	3Q	--	0,50%
11/04/2022	France	S&P Global France Services PMI	Oct	51,3	51,3
11/04/2022	Germany	S&P Global Germany Services PMI	Oct	44,9	44,9
11/04/2022	Eurozone	S&P Global Eurozone Services PMI	Oct	48,2	48,2
11/04/2022	United Kingdom	S&P Global/CIPS UK Construction PMI	Oct	50,3	52,3
11/04/2022	Eurozone	PPI MoM	Sep	1,70%	5,00%
11/04/2022	United States	Change in Nonfarm Payrolls	Oct	190k	263k
11/04/2022	United States	Unemployment Rate	Oct	3,60%	3,50%
11/04/2022	United States	Labor Force Participation Rate	Oct	62,40%	62,30%

SOURCE: BLOOMBERG

FURTHER READING

Hungarian Forint: under selling pressure	EcoTVWeek	21 October 2022
Germany : Revising the PMI to better understand shocks affecting industry	EcoFlash	19 October 2022
US : Foreign investors in US Treasuries: official and private sectors now neck and neck	Chart of the Week	19 October 2022
Global growth at risk	EcoWeek	17 October 2022
Qatar: favorable prospects thanks to the gas rent	EcoTVWeek	14 October 2022
Emerging Countries: Double whammy	EcoEmerging	12 October 2022
Eurozone: the contribution of supply-side issues to food price inflation	Chart of the Week	12 October 2022
Eurozone: Rising interest rates and public debt sustainability	EcoWeek	10 October 2022
United Kingdom: "God save the Gilt"	EcoTVWeek	7 October 2022
Kenya: Focus on fiscal consolidation	Chart of the Week	5 October 2022
United Kingdom: The 'dash for cash', leverage and the need for economic policy coordination	EcoWeek	3 October 2022
Key figures of the French economy	Pocket Atlas	3 October 2022
EcoPerspectives: The recession narrative	EcoPerspectives	30 September 2022
Spain: Complete reversal of real estate financing model in 12 years	Chart of the Week	28 September 2022
United States: vacancies, job turnover and disinflation	EcoWeek	26 September 2022
France: After inflation comes recession?	EcoTVWeek	23 September 2022
Developed economies: housing prices and bubble risk	Chart of the Week	21 September 2022
The monetary cycle: from panic to perseverance to patience	EcoWeek	19 September 2022
Latin America: the mechanisms of inflation	EcoTVWeek	17 September 2022
2022, towards a likely new record in CO2 emissions	Chart of the Week	15 September 2022

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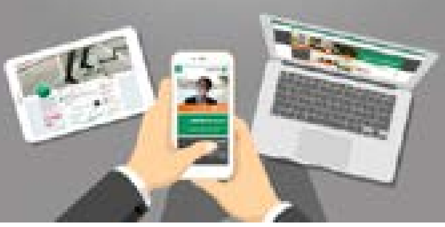

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