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"Trust us, we know better"

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BNP PARIBAS

The bank
for a changing
world

CENTRAL BANK INFLATION FORECASTS: 'TRUST US, WE KNOW BETTER'

Strong belief in the quality of central bank economic forecasts enhances monetary transmission and hence the effectiveness of monetary policy. In the current environment of rising inflationary pressures, the belief of market participants that central banks have better forecasting skills should limit the rise in inflation expectations. Research casts doubt on whether such a belief is warranted. Although Fed staff projections tend to have lower forecast errors than private sector forecasts, the difference has narrowed since the 1990s. In the Eurozone, forecast errors for inflation of the Eurosystem/ECB staff projections were equal to those of the Survey of Professional Forecasters.

Strong belief in the quality of central bank economic forecasts enhances monetary transmission and hence the effectiveness of monetary policy. These forecasts can steer expectations of households and businesses but can also influence the assessment of private forecasters of the economic outlook.

This influence can be direct – private forecasts take central bank forecasts as a reference point – or indirect. In the latter case, changes in central bank communication or unexpected policy decisions can be interpreted as signaling a change in view about the future. An unanticipated rate hike can cause an upward revision of private sector forecasts, something which, at first glance, is counterintuitive.¹

These questions are particularly relevant at the current juncture, given the build-up of inflationary pressures, as reflected in business surveys in a large number of countries. This has caused an increase in market-based measures of inflation expectations. The message of the Federal Reserve and the ECB on the other hand is that higher inflation due to supply bottlenecks should be transient. If markets believe that central banks have better forecasting skills, this should limit the rise in inflation expectations. What does the historical record have to say on this? Based on an analysis by the ECB², the forecast errors for Eurozone inflation of the Eurosystem/ECB staff macroeconomic projections were equal to those of the Survey of Professional Forecasters but below those of other institutions³.

Yet, “all forecasters underpredicted HICP inflation between 2010 and 2012 and in 2017 and 2018, but inflation surprised everyone on the downside between 2013 and 2016.” In the US, ahead of the meetings of the FOMC, the staff of the Board of Governors of the Federal Reserve produces a comprehensive set of forecasts based on econometric models, subjective assessments and a ‘suggested path’ for monetary

policy. The forecasts are made public five years later.⁴ An analysis⁵ of core inflation for personal consumption expenditures covering the period 1997-2008 finds that, for forecast horizons beyond one year, Fed staff forecasts tend to be outperformed by alternative, simple approaches based on the historical behaviour of inflation or on the assumption that inflation follows a random walk⁶.

An ECB working paper⁷ concludes that for the period 1968-2006, the Federal Reserve forecasts for inflation and output are superior to private sector forecasts. However, “the relative forecast performance is [...] not robust in the presence of large macroeconomic shocks such as the Great Moderation and oil price shocks”. The Covid-19 pandemic represents a huge shock, so this point may be very relevant in the current environment. Other authors have found that the superiority of the Fed’s inflation forecasts has declined considerably after 1994, although it hasn’t disappeared altogether.⁸ To conclude, the insistence of the Fed and the ECB that the increase of inflation due to supply-demand imbalances should be a temporary phenomenon can be read as a message of ‘trust us, we know better’. Based on the research comparing the quality of central bank and private sector forecasts, market participants will probably err on the side of caution, which is reflected in the rise of nominal bond yields.

William De Vijlder

1. These points are analysed in Pascal Paul, *Does the Fed Know More about the Economy?*, Federal Reserve Bank of San Francisco Economic Letter, 2019-11.

2. The performance of the Eurosystem/ECB staff macroeconomic projections since the financial crisis, ECB, Economic bulletin, Issue 8, 2019.

3. The Eurosystem/ECB staff projections were compared with those of the Survey of Professional Forecasters (SPF), the European Commission, the IMF and the OECD.

4. Economic Forecasting: Comparing the Fed with the Private Sector, Federal Reserve of St Louis, Regional Economist, third quarter 2019. The forecasts are bundled in the Tealbook, previously called the Greenbook.

5. Chang, Andrew C. and Tyler J. Hanson (2015). *The Accuracy of Forecasts Prepared for the Federal Open Market Committee*, Finance and Economics Discussion Series 2015-062. Washington: Board of Governors of the Federal Reserve System, <http://dx.doi.org/10.17016/FEDS.2015.062>.

6. Under this approach, it is assumed that the best estimate for next period’s inflation is the rate of inflation in the current period.

7. ECB, *Does the Federal Reserve staff still beat private forecasters?*, working paper 1635, February 2014.

8. Edward N. Gamber and Julie K. Smith, *Are the Fed’s inflation forecasts still superior to the private sector’s*, *Journal of Macroeconomics*, June 2009.



If market participants were to believe that central banks have better forecasting skill, this should limit the rise in inflation expectations. Research casts doubt on whether such a belief is warranted.



MARKETS OVERVIEW

OVERVIEW

Week 21-5 21 to 28-5-21

➔ CAC 40	6 386	▶ 6 484	+1.5 %
➔ S&P 500	4 156	▶ 4 204	+1.2 %
➔ Volatility (VIX)	20.2	▶ 16.8	-3.4 pb
➔ Euribor 3M (%)	-0.54	▶ -0.54	+0.0 bp
➔ Libor \$ 3M (%)	0.15	▶ 0.13	-1.2 bp
➔ OAT 10y (%)	0.18	▶ 0.11	-7.5 bp
➔ Bund 10y (%)	-0.13	▶ -0.18	-5.7 bp
➔ US Tr. 10y (%)	1.63	▶ 1.59	-3.8 bp
➔ Euro vs dollar	1.22	▶ 1.22	-0.1 %
➔ Gold (ounce, \$)	1 875	▶ 1 895	+1.1 %
➔ Oil (Brent, \$)	66.5	▶ 69.7	+4.8 %

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 -0.15	-0.03 at 19/05
Eonia	-0.48	-0.47 at 26/01	-0.50 at 01/01	Bund 2y -0.67	-0.65 at 25/02
Euribor 3M	-0.54	-0.53 at 07/05	-0.56 at 06/01	Bund 10y -0.18	-0.11 at 20/05
Euribor 12M	-0.48	-0.47 at 20/04	-0.52 at 02/02	OAT 10y 0.11	0.23 at 17/05
\$ FED	0.25	0.25 at 01/01	0.25 at 01/01	Corp. BBB 0.72	0.79 at 20/05
Libor 3M	0.13	0.24 at 13/01	0.13 at 27/05	\$ Treas. 2y 0.14	0.17 at 05/04
Libor 12M	0.25	0.34 at 01/01	0.25 at 27/05	Treas. 10y 1.59	1.75 at 31/03
£ BoE	0.10	0.10 at 01/01	0.10 at 01/01	High Yield 4.59	4.87 at 09/03
Libor 3M	0.08	0.09 at 24/03	0.03 at 01/01	gilt. 2y 0.07	0.13 at 26/02
Libor 12M	0.16	0.17 at 13/05	0.07 at 11/01	gilt. 10y 0.84	0.93 at 13/05

At 28-5-21

EXCHANGE RATES

1€ =	highest 21	lowest 21	2021	Change
USD	1.22	1.23 at 06/01	1.17 at 30/03	-0.4%
GBP	0.86	0.91 at 06/01	0.85 at 05/04	-4.0%
CHF	1.10	1.11 at 04/03	1.08 at 18/01	+1.4%
JPY	133.97	133.97 at 28/05	125.22 at 18/01	+6.0%
AUD	1.58	1.60 at 04/01	1.53 at 18/03	-0.3%
CNY	7.75	8.00 at 01/01	7.69 at 25/03	-3.1%
BRL	6.36	6.95 at 03/03	6.32 at 07/05	+0.1%
RUB	89.24	92.47 at 20/04	86.53 at 16/03	-1.4%
INR	88.25	90.39 at 23/04	85.30 at 27/03	-1.3%

At 28-5-21

COMMODITIES

Spot price, \$	highest 21	lowest 21	2021	2021(€)	Change
Oil, Brent	69.7	69.7 at 11/03	51.2 at 04/01	+34.3%	+34.9%
Gold (ounce)	1 895	1 947 at 05/01	1 682 at 08/03	-0.1%	+0.3%
Metals, LME	4 350	4 402 at 11/05	3 415 at 01/01	+27.4%	+28.0%
Copper (ton)	10 248	10 449 at 11/05	7 749 at 01/01	+32.3%	+32.8%
wheat (ton)	249	2.9 at 07/05	231 at 30/03	+0.6%	+1.0%
Corn (ton)	262	2.9 at 07/05	188 at 04/01	+3.9%	+39.7%

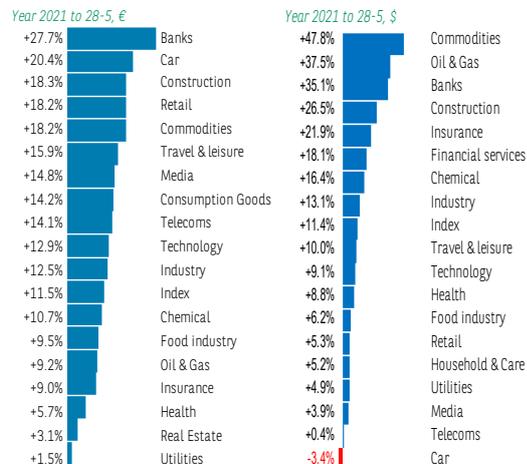
At 28-5-21

EQUITY INDICES

Index	highest 21	lowest 21	2021	Change
World				
MSCI World	2 979	2 979 at 07/05	2 662 at 29/01	+10.8%
North America				
S&P500	4 204	4 233 at 07/05	3 701 at 04/01	+11.9%
Europe				
EuroStoxx50	4 071	4 071 at 28/05	3 481 at 29/01	+14.6%
CAC 40	6 484	6 484 at 28/05	5 399 at 29/01	+1.7%
DAX 30	15 520	15 520 at 28/05	13 433 at 29/01	+13.1%
IBEX 35	9 225	9 225 at 28/05	7 758 at 29/01	+1.4%
FTSE100	7 023	7 130 at 07/05	6 407 at 29/01	+0.9%
Asia				
MSCI, loc.	1 136	1 137 at 18/03	1 044 at 06/01	+0.9%
Nikkei	29 149	30 468 at 16/02	27 056 at 06/01	+6.2%
Emerging				
MSCI Emerging (\$)	1 361	1 445 at 17/02	1 288 at 25/03	+0.5%
China	108	130 at 17/02	102 at 13/05	-0.2%
India	756	756 at 28/05	659 at 29/01	+11.0%
Brazil	1 929	1 941 at 14/01	1 561 at 09/03	+3.3%
Russia	759	759 at 27/05	647 at 01/02	+12.5%

At 28-5-21

PERFORMANCE BY SECTOR (Eurostoxx50 & S&P500)

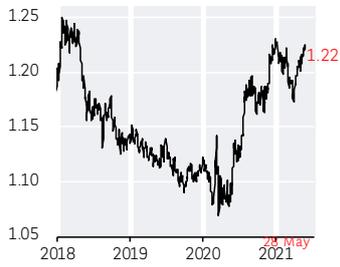


SOURCE: REFINITIV, BNP PARIBAS

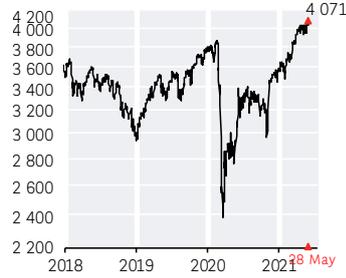


MARKETS OVERVIEW

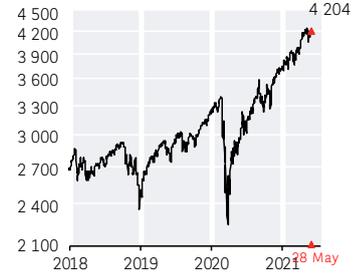
EURO-DOLLAR



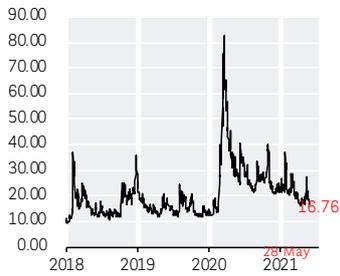
EUROSTOXX50



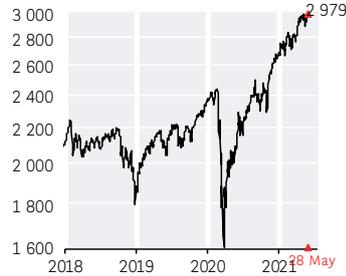
S&P500



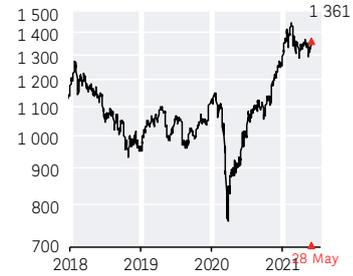
VOLATILITY (VIX, S&P500)



MSCI WORLD (USD)



MSCI EMERGING (USD)

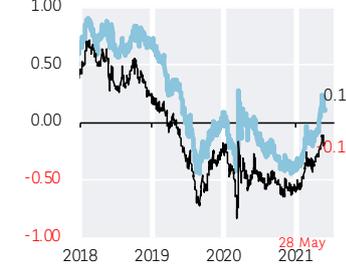


10Y BOND YIELD, TREASURIES VS BUND



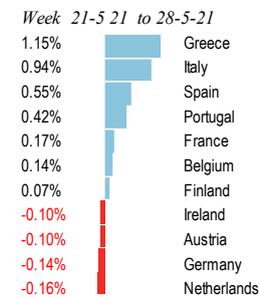
-Bunds —US Treasuries

10Y BOND YIELD

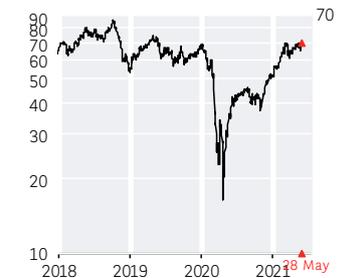


-Bunds —OAT

10Y BOND YIELD & SPREADS



OIL (BRENT, USD)



METALS (LMEX, USD)



GOLD (OUNCE, USD)



SOURCE: REFINITIV, BNP PARIBAS



ECONOMIC PULSE

GERMANY: RAPIDLY SPREADING WAVE OF OPTIMISM

The Pulse for May shows that the economy is slowly recovering from the sharp downturn caused by the coronavirus pandemic. The blue area, representing the situation in the past three months, is clearly expanding compared to that in the preceding three-month period (the area within the dashed line). Unlike in previous months, the recovery is no longer limited to manufacturing and construction, but is now broadening to services. This chimes in with the OECD weekly GDP tracker, which sharply improved in recent weeks.

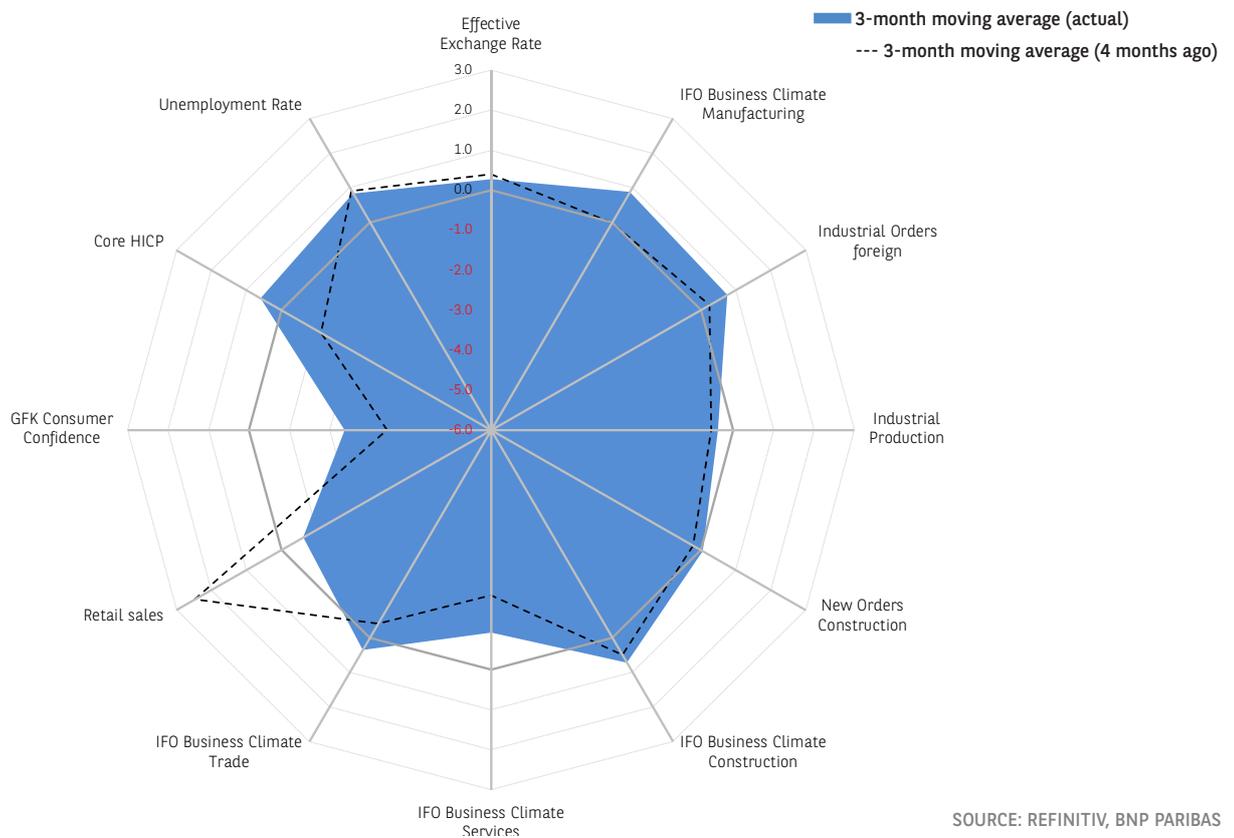
The improvement is confirmed by the latest ifo survey, which shows that the overall business climate indicator has risen to 99.2 in May, a highest since May 2019. The improvements in manufacturing and construction were only modest. Production has rebounded strongly in chemical and pharmaceutical products, electrical equipment and machinery. By contrast, it is still well below the pre-crisis level in the large transport equipment sector, partly due to the shortages in microchips. Moreover, construction activity has been held back by material shortages.

The prospects have brightened up in services, as infections have been steadily falling. In particular, optimism has returned to hospitality and tourism. Retail sales in Q1 2021 were still well below those in the preceding quarter because of the lockdown restrictions and the end of the VAT reduction in January. However, looking forward, expectations have substantially improved on the hope that the economy will soon open up further.

Moreover, consumers are feeling better. According to GfK research, their sentiment was up in May, and is projected to improve further in June as economic and income expectations are on the rise. Nevertheless, some skepticism remains among consumers. Many might feel that the situation is similar to that exactly one year ago, and prefer to wait before opening their wallets. The propensity to buy suffered a moderate loss in May after three consecutive increases.

Raymond Van Der Putten

GERMANY: 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 +3. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.



ECONOMIC PULSE

ITALY: ECONOMIC AND HEALTH IMPROVEMENTS CONTINUE

The Italian economy is continuing to improve, as shown in the latest gains in our Pulse. Industrial activity, which had already enjoyed a significant upturn over the winter, strengthened further this spring: the manufacturing PMI reached 60.7 in April, the best reading on record. The index of 'new export orders' in manufacturing remained historically high, at 60.2, underpinned by the marked recovery in global trade. The merchant services sector remains disrupted – the related PMI was still below the threshold of 50 in April – but is likely to rebound strongly thanks to the noticeable improvement in the health situation in the country and the continued lifting of lockdown measures (planned until 21 June). Since 24 May, all Italian regions have moved below the threshold indicating moderate epidemic risk (orange zone), whilst on a national level, the number of daily new coronavirus cases has fallen below 70 per 100,000 inhabitants.

Uncertainty now turns to the tourist season ahead. Much is at stake in Italy, similarly to other European economies that are highly dependent on this sector. Before the pandemic, the tourism industry

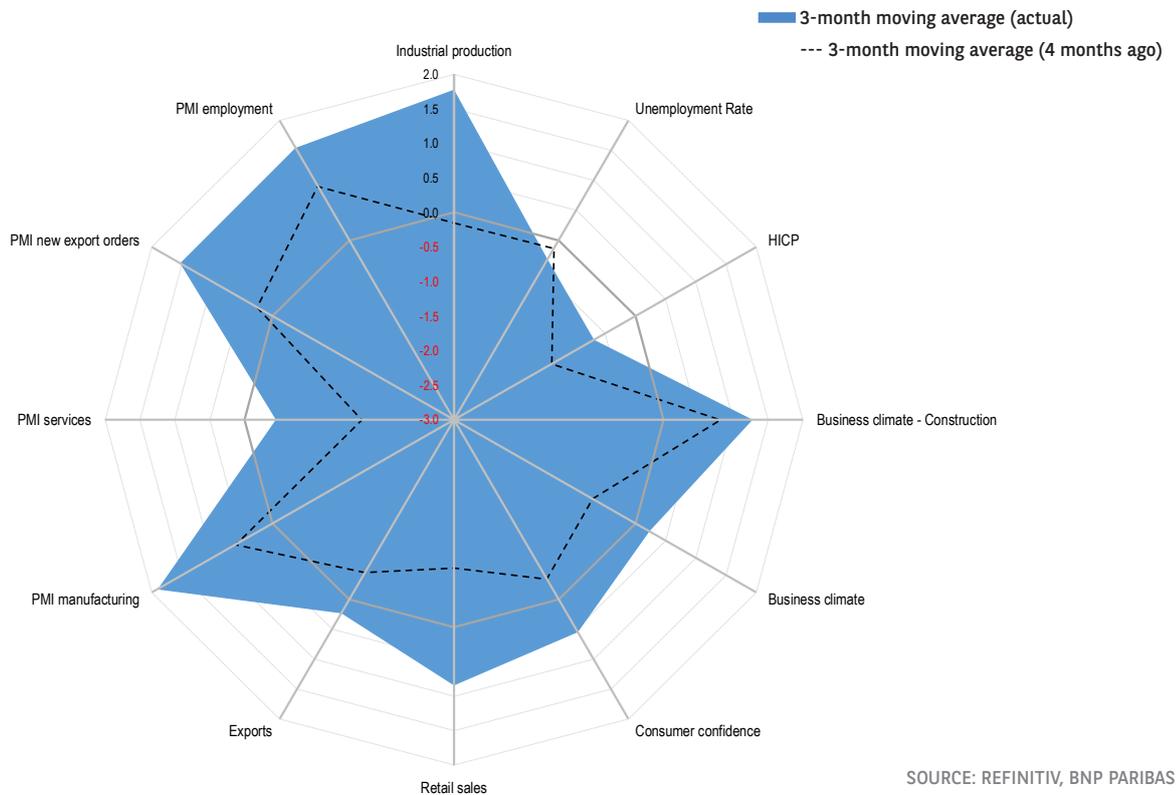
in Italy generated more than 4 million direct and indirect jobs (source: Eurostat). A recovery in this sector would drive private consumption higher. Retail sales in Q1 2021 were still well below pre-Covid-19 levels. This said, purchases of durable goods have bounced back more significantly. New car sales rose further in April, climbing to their highest level in two years¹.

Lastly, inflation in Italy is rising more slowly than elsewhere in Europe. The consumer price index (CPI) was up 0.96% y/y in April, whilst core inflation (excluding energy and non-processed foods) eased to 0.29%. However, Italian companies have not escaped the global increase in production costs, which for now is reflected mainly in production price indices. However, it is likely to feed through into higher consumer prices over the spring and the summer.

Guillaume Derrien

1. Seasonally-adjusted data.

ITALY: 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 -3 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 PULSE

UNITED KINGDOM: BETWEEN RELAXATION AND STRESS

With a vaccination rate of more than 55%, the UK population's vulnerability to Covid-19 has been sharply reduced. The final death toll is thus stabilising, hopefully, at around 128,000 deaths for a total population of 67 million, making the UK one of the worst affected countries in the world. The double whammy of Brexit and the health crisis has hit the economy hard. In 2020, GDP contracted by 9.8%, the weakest performance by a G7 country and the UK's worst year since 1920. In the first quarter of 2021, GDP fell by a further 1.5%, due to lockdown measures introduced to tackle the second wave of the epidemic and despite considerable fiscal support (over a year, public sector consumption rose by nearly 5%). One remarkable feature was the steep decline in exports (down 7.5% in the first quarter) which held up well elsewhere, most notably in the European Union (EU).

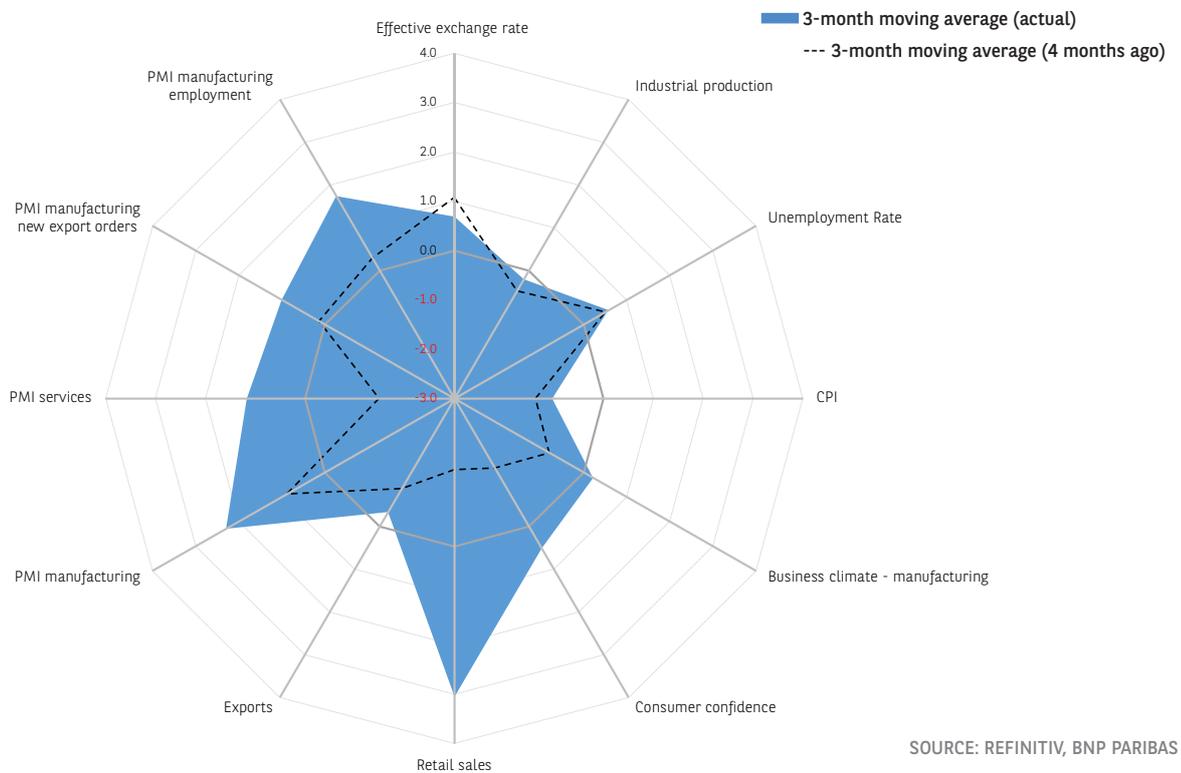
Thus, the initial consequences of Brexit, however much they have been mitigated by free-trade deals, are being seen. Affected by the reintroduction of border controls, often badly implemented at that, the volume of trade with the EU (i.e., the average of exports and imports) is at its lowest for twenty years. What happens next will depend on the ability of London and Brussels to put their agreements into action.

For the moment, there are few grounds for optimism. Having been appointed as Minister for Brexit after his role in negotiating its terms, David Frost has called for a review of the Northern Ireland Protocol contained within the Withdrawal Agreement. This was rejected by the European Commission President, Ursula Von Der Leyen. The fishing licenses allocated by the UK have come with "unexpected" clauses, which have limited both their number and their scope.

Though hostile to Brexit for the most part, British business leaders have welcomed the pandemic's retreat and the gradual loosening of the associated lockdown measures. As a result, our barometer this week shows a marked improvement in the business climate over the spring. In May, Purchasing Manager Indices even set new records, in both services and manufacturing. With the improvements shown by Google Mobility data, they are expecting a healthy recovery in the second quarter.

Jean-Luc Proutat

UNITED KINGDOM: QUARTERLY CHANGES



SOURCE: REFINITIV, BNP PARIBAS

The indicators in the radar are all transformed into 'z-scores' (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -3 and +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

INCREASED MOBILITY AND FASTER VACCINE ROLLOUTS IN EUROPE

Covid-19 numbers are continuing to fall in many regions. With 262,267 new cases, North America saw the sharpest drop (-20%) between 19 and 25 May, followed by Europe with 440,181 cases (-19%). However, Asia (excluding India) saw cases rise 2.5% and South America 9% (chart 1). Vaccination campaigns are continuing to make headway around the world. In the EU, the percentage of people who have received at least one dose is now above or close to the symbolic 40% level in several member states (chart 2).

With the fall in Covid-19 cases and rising vaccination levels, retail and recreation mobility continues to rise. Only Belgium saw a decrease last week, but its level remains the highest in Europe. In the US, mobility is almost back to normal. However, it is continuing to decrease in Japan, with the seven-day moving average down 22% compared with the reference level (chart 3).

Finally, the OECD weekly tracker (a proxy for year-on-year GDP growth) is generally continuing to fall in the main developed countries. In Germany, however, it has recently improved and it is stabilising in Belgium (Chart 3). The OECD tracker is based on Google Trends data, reflecting internet searches regarding consumption, labour markets, housing, industrial activity and economic uncertainty. However, the comparison with a very low base one year ago may distort the numbers.

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)

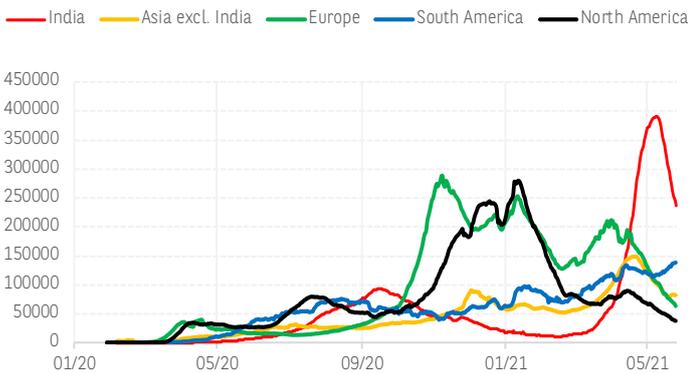


CHART 1

SOURCE: JOHNS-HOPKINS UNIVERSITY (05/26/2021), BNP PARIBAS

SHARE OF PEOPLE WHO RECEIVED AT LEAST ONE DOSE OF VACCINE

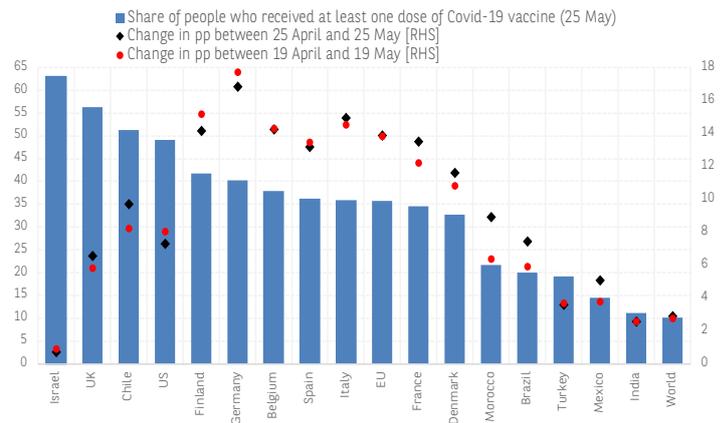


CHART 2

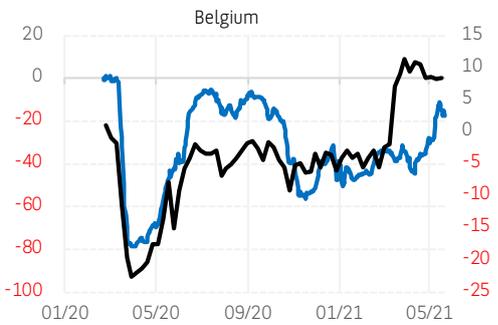
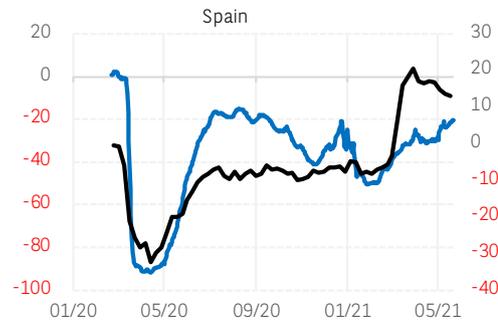
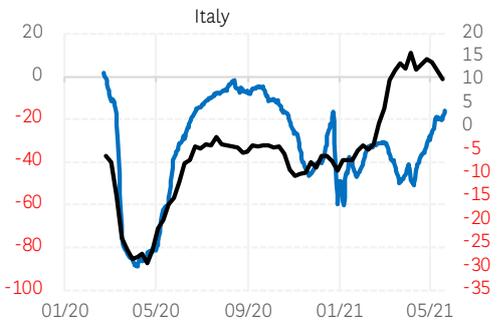
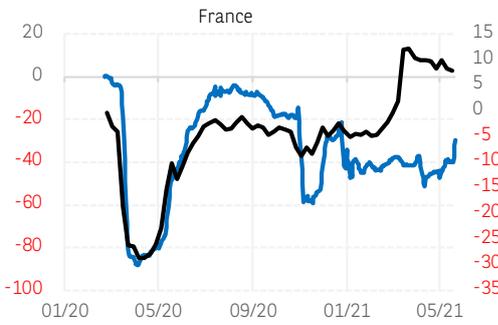
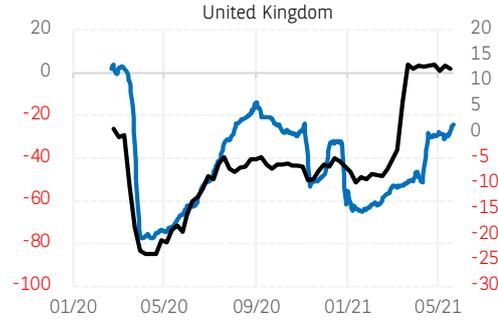
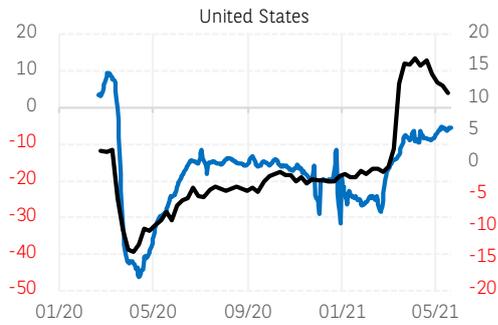
SOURCE: OUR WORLD IN DATA (05/26/2021), BNP PARIBAS



RETAIL AND RECREATION MOBILITY & OECD WEEKLY TRACKER

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

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



SOURCE: OECD (05/26/2021), GOOGLE (05/24/2021), BNP PARIBAS

ECONOMIC SCENARIO

10

UNITED STATES

Having limited the damage in 2020, the US economy is now recovering fast, driven by a vaccination campaign that is steaming ahead and raising hopes of collective immunity to Covid-19 being achieved at some point in the summer. The economy has also benefited from the exceptional fiscal stimulus package, which is twice the size of that put in place after the financial crisis of 2008. As a result, US GDP growth will be close to 7% in 2021, opening the way to a rapid return to pre-crisis levels. The employment deficit remains significant as a result of the pandemic, but this should steadily be absorbed, opening the way to a rapid fall in the unemployment rate, which is expected to drop below the 5% mark in the second half. Expected inflation has risen sharply and is unlikely to fall back, particularly as reported inflation is picking up. Over the coming months the latter is likely to run well above the 2% target set by the Federal Reserve, but this will not cause the central bank to deviate from its accommodating stance.

CHINA

After plummeting in Q1 2020, economic activity has experienced a V-shaped rebound since Q2. Economic growth will stay strong in 2021, still supported by industrial production and exports. Manufacturing investment growth should accelerate in the short term while investment growth in infrastructure and real estate projects is expected to slow. The growth recovery in the services sector and in private consumption has started later and been slower, but it should gain momentum in 2021. The authorities are expected to reduce very gradually their fiscal policy support measures and continue the cautious credit policy tightening, which was initiated in Q4 2020 in order to stabilize domestic debt-to-GDP ratios and contain risks in the financial system.

EUROZONE

After an historic recession in 2020 (-6.8%, annual average), the Eurozone economy should firmly rebound this year (+4.2%), especially from the H2. In 2022, the economic recovery would be still on track with an economic growth of +5%. Globally, Eurozone GDP could reach its pre-crisis level faster than we expected before, around the middle of 2022. The current resurgence in the pandemic across many Member states and new health restrictions keep weighing on the dynamics of the recovery and uncertainties remain at a significant level. Nevertheless, the expected acceleration of vaccines rollout is the brightest spot for the economy in the months ahead. Also, in this still tricky situation, the policy-mix will remain accommodative to support the recovery. The European central bank has already announced a higher pace of assets purchases, helping to maintain very favorable financing conditions in the Eurozone. Over the coming months, one of the most important issues to focus on will be to restore consumers' confidence. This constitutes an essential vector of a prompt and sustained recovery.

FRANCE

Contrary to what the discovery of vaccines at the end of 2020 suggested, i.e. the end of the stop-and-go activity, at the beginning of 2021, due to the appearance of variants and the slowness of vaccination, we are still on a trajectory of crisis exit in fits and starts. The capacity of the economy to rebound and the possibility of a vigorous rebound are not, as such, called into question; it is the timing of the rebound that has been postponed. It is now expected in H2 2021, bolstered by the acceleration of the immunization and the support of the policy-mix. For 2021 as a whole, growth would average 6.1%. This is a rather optimistic forecast, half a point above the March 2021 consensus. In 2022, growth would remain strong (4.4%). According to our scenario, French GDP would exceed its pre-crisis level in Q1 2022. Inflation is also expected to pick up, driven by temporary factors (commodity prices) but also by the more lasting influence of supply (constrained) and demand (rising) and the reflationary efforts of monetary policy.

RATES AND EXCHANGE RATES

In the US, policy will remain on hold for quite some time, considering that the FOMC wants inflation to move beyond 2% to make up for past below-target inflation. Its

outcome-dependent guidance is very clear: the current pace of asset purchases will be maintained 'until substantial further progress has been made' toward reaching its goals in terms of maximum employment and inflation and the FOMC will signal well in advance when the economy is on a path warranting a change in policy. Although it expects an increase in inflation later this year, it considers it will be transient and limited. Treasury yields should continue to move higher on the back of fiscal stimulus and the prospect of a strong acceleration of economic growth.

In the eurozone, the ECB will maintain its very accommodative stance centered around its asset purchases and forward guidance, with the objective to generate a pick-up in inflation. The pandemic emergency purchase programme (PEPP) is to last at least until the end of March 2022. Nevertheless, bond yields are expected to move higher based on the acceleration of euro area growth, the reduction in uncertainty and the spillover effect of higher US Treasury yields. This should also lead to a slight increase in sovereign spreads in the euro area. The Bank of Japan is expected to maintain its current policy stance including its yield curve control strategy although the range of the latter has recently been widened to +/- 25 bp around 0%. Within this range, JGB yields are expecting to move higher, following the global trend. We expect the dollar to weaken slightly versus the euro. This is the result of conflicting forces: faster growth in the US than in the eurozone but narrow interest rate differentials at the short end of the curve and a dollar which at current levels is expensive compared to fair value. Concerning the yen, little change is expected versus the dollar whereas it is expected to weaken against the euro.

GROWTH & INFLATION

%	GDP Growth				Inflation			
	2019	2020	2021 e	2022 e	2019	2020	2021 e	2022 e
United-States	2.2	-3.5	6.9	4.7	1.8	1.2	2.5	2.2
Japan	0.3	-4.8	3.0	2.3	0.5	0.0	-0.3	0.0
United-Kingdom	1.5	-10.2	6.1	6.0	1.8	0.9	1.4	2.1
Euro Area	1.3	-6.8	4.2	5.0	1.2	0.3	1.7	1.4
Germany	0.6	-5.3	3.0	4.8	1.4	0.4	2.1	1.5
France	1.5	-8.2	6.1	4.4	1.3	0.5	1.4	1.0
Italy	0.3	-8.9	5.0	3.9	0.6	-0.1	1.5	1.4
Spain	2.0	-10.8	5.9	5.6	0.8	-0.3	1.3	1.2
China	6.1	2.3	9.2	5.3	2.9	2.5	1.8	2.8
India*	4.2	-7.2	12.5	4.1	4.8	6.2	4.9	4.6
Brazil	1.1	-4.1	2.5	3.0	3.7	3.2	6.5	4.0
Russia	1.3	-4.5	4.0	3.0	4.3	3.4	5.1	4.0

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, %		2021				2022e	
End of period		Q1	Q2e	Q3e	Q4e	2021e	2022e
US	Fed Funds (upper limit)	0.25	0.25	0.25	0.25	0.25	0.25
	T-Notes 10y	1.75	2.00	2.10	2.20	2.20	2.50
Ezone	Deposit rate	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
	Bund 10y	-0.33	-0.20	-0.10	0.20	0.20	0.20
	OAT 10y	-0.11	0.00	0.15	0.50	0.50	0.50
	BTP 10y	0.63	0.70	0.90	1.35	1.35	1.30
UK	BONO 10y	0.34	0.45	0.60	0.95	0.95	1.00
	Base rate	0.10	0.10	0.10	0.10	0.10	0.10
	Gilts 10y	0.88	1.00	1.10	1.20	1.20	1.30
Japan	BoJ Rate	-0.04	-0.10	-0.10	-0.10	-0.10	-0.10
	JGB 10y	0.09	0.12	0.18	0.23	0.23	0.28

Exchange Rates		2021				2022e	
End of period		Q1	Q2e	Q3e	Q4e	2021e	2022e
USD	EUR / USD	1.18	1.18	1.20	1.23	1.23	1.18
	USD / JPY	111	111	111	111	111	114
	GBP / USD	1.38	1.39	1.43	1.46	1.46	1.42
EUR	EUR / GBP	0.85	0.85	0.84	0.84	0.84	0.83
	EUR / JPY	130	131	133	137	137	135

SOURCE: BNP PARIBAS GLOBAL MARKETS (E: ESTIMATES)



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CALENDAR

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LATEST INDICATORS

The business climate in Germany increased strongly in May on the back of a better assessment of the current environment but in particular thanks to an unexpectedly strong increase in expectations. Consumer confidence improved as well but less than anticipated. In France, business confidence in May saw a very strong increase, way beyond expectations. The improvement is broad-based and is accompanied by a rise in hiring intentions. Consumer confidence was up as well. On the other hand, consumer spending in April recorded a big drop due to the third lockdown which was introduced at the start of the month. Following a revision based on a broader data set, it turns out that GDP declined slightly in the first quarter whereas in the earlier estimate an increase of 0.4% had been recorded. The downward revision is concentrated in the construction sector. Economic confidence in the eurozone improved strongly in May –much more than anticipated– on the back of a jump in confidence in the services sector. In the US, personal income declined slightly less than expected in April versus the previous month, when income had been boosted by the support programme of the Biden administration. University of Michigan sentiment hardly changed and inflation expectations for the next year were stable.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	ACTUAL	PREVIOUS
05/25/2021	Germany	GDP SA QoQ	1Q	-1.70%	-1.80%	-1.70%
05/25/2021	Japan	Machine Tool Orders YoY	Apr	--	120.80%	120.80%
05/25/2021	Germany	IFO Expectations	May	101.0	102.9	99.2
05/25/2021	Germany	IFO Current Assessment	May	95.5	95.7	94.2
05/25/2021	Germany	IFO Business Climate	May	98.0	99.2	96.6
05/25/2021	United States	New Home Sales MoM	Apr	-7.00%	-5.90%	7.40%
05/25/2021	United States	Conf. Board Consumer Confidence	May	118.8	117.2	117.5
05/25/2021	United States	Conf. Board Present Situation	May	--	144.3	131.9
05/25/2021	United States	Conf. Board Expectations	May	--	99.1	107.9
05/26/2021	Japan	Supermarket Sales YoY	Apr	--	6.00%	1.30%
05/26/2021	France	Business Confidence	May	98.0	108.0	96.0
05/26/2021	France	Manufacturing Confidence	May	105.0	107.0	104.0
05/26/2021	France	Consumer Confidence	May	97.0	97.0	95.0
05/27/2021	Germany	GfK Consumer Confidence	Jun	-5.2	-7.0	-8.6
05/27/2021	United States	Cap Goods Orders Nondef Ex Air	Apr	1.00%	2.30%	1.60%
05/27/2021	United States	GDP Annualized QoQ	1Q	6.50%	6.40%	6.40%
05/27/2021	United States	Initial Jobless Claims	May	425k	406k	444k
05/27/21-06/02/21	Germany	Retail Sales MoM	Apr	#N/A	#N/A	#N/A
05/28/2021	Japan	Jobless Rate	Apr	2.70%	2.80%	2.60%
05/28/2021	Japan	Tokyo CPI Ex-Fresh Food	May	-0.20%	-0.20%	-0.20%
05/28/2021	France	Consumer Spending MoM	Apr	-4.00%	-8.30%	-0.30%
05/28/2021	France	CPI EU Harmonized MoM	May	0.30%	0.40%	0.20%
05/28/2021	France	GDP QoQ	1Q	0.40%	-0.10%	0.40%
05/28/2021	Eurozone	Consumer Confidence	May	--	-5.1	-5.1
05/28/2021	Eurozone	Economic Confidence	May	112.3	114.5	110.5
05/28/2021	Eurozone	Industrial Confidence	May	11.5	11.5	10.9
05/28/2021	Eurozone	Services Confidence	May	6.3	11.3	2.2
05/28/2021	United States	Personal Income	Apr	-14.20%	-13.10%	20.90%
05/28/2021	United States	Personal Spending	Apr	0.50%	0.50%	4.70%
05/28/2021	United States	PCE Core Deflator MoM	Apr	0.60%	0.70%	0.40%
05/28/2021	United States	U. of Mich. Sentiment	May	83.0	82.9	82.8
05/28/2021	United States	U. of Mich. Current Conditions	May	--	89.4	90.8
05/28/2021	United States	U. of Mich. Expectations	May	--	78.8	77.6
05/28/2021	United States	U. of Mich. 1 Yr Inflation	May	--	4.60%	4.60%
05/28/2021	United States	U. of Mich. 5-10 Yr Inflation	May	--	3.00%	3.10%

SOURCE: BLOOMBERG



CALENDAR: THE WEEK AHEAD

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COMING INDICATORS

A very heavy calendar this week with the manufacturing, services and composite PMIs in a large number of countries as well as the labour market report in the US. Also of interest in the eurozone are the inflation numbers (consumer as well as producer prices) as well as retail sales. The OECD will publish its Economic Outlook and the Federal Reserve its Beige Book.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	PREVIOUS
05/31/2021	Japan	Retail Sales MoM	Apr	--	1.20%
05/31/2021	China	Non-manufacturing PMI	May	55.4	54.9
05/31/2021	China	Manufacturing PMI	May	51.2	51.1
05/31/2021	China	Composite PMI	May	--	53.8
05/31/2021	Japan	Consumer Confidence Index	May	--	34.7
05/31/2021	Eurozone	OECD Publishes Economic Outlook			
06/01/2021	Japan	Jibun Bank Japan PMI Mfg	May	--	52.5
06/01/2021	China	Caixin China PMI Mfg	May	52	51.9
06/01/2021	France	Markit France Manufacturing PMI	May	--	59.2
06/01/2021	Germany	Markit/BME Germany Manufacturing PMI	May	--	64
06/01/2021	Eurozone	Markit Eurozone Manufacturing PMI	May	--	62.8
06/01/2021	United Kingdom	Markit UK PMI Manufacturing SA	May	--	66.1
06/01/2021	Eurozone	Unemployment Rate	Apr	--	8.10%
06/01/2021	Eurozone	CPI Core YoY	May	--	0.70%
06/01/2021	Eurozone	CPI MoM	May	--	0.60%
06/01/2021	Eurozone	CPI Estimate YoY	May	--	1.60%
06/01/2021	United States	Markit US Manufacturing PMI	May	--	61.5
06/01/2021	United States	ISM Manufacturing	May	61	60.7
06/01/2021	United States	ISM Prices Paid	May	--	89.6
06/01/2021	United States	ISM New Orders	May	--	64.3
06/01/2021	United States	ISM Employment	May	--	55.1
06/02/2021	Eurozone	PPI MoM	Apr	--	1.10%
06/02/2021	Eurozone	PPI YoY	Apr	--	4.30%
06/02/2021	United States	U.S. Federal Reserve Releases Beige Book			

SOURCE: BLOOMBERG



DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	PREVIOUS
06/03/2021	Japan	Jibun Bank Japan PMI Services	May	--	45.7
06/03/2021	Japan	Jibun Bank Japan PMI Composite	May	--	48.1
06/03/2021	China	Caixin China PMI Composite	May	--	54.7
06/03/2021	China	Caixin China PMI Services	May	55.6	56.3
06/03/2021	France	Markit France Services PMI	May	--	56.6
06/03/2021	France	Markit France Composite PMI	May	--	57
06/03/2021	Germany	Markit Germany Services PMI	May	--	52.8
06/03/2021	Germany	Markit/BME Germany Composite PMI	May	--	56.2
06/03/2021	Eurozone	Markit Eurozone Services PMI	May	--	55.1
06/03/2021	Eurozone	Markit Eurozone Composite PMI	May	--	56.9
06/03/2021	United Kingdom	Markit/CIPS UK Services PMI	May	--	61.8
06/03/2021	United Kingdom	Markit/CIPS UK Composite PMI	May	--	62
06/03/2021	United States	Initial Jobless Claims	May	--	--
06/03/2021	United States	Markit US Services PMI	May	--	70.1
06/03/2021	United States	Markit US Composite PMI	May	--	68.1
06/03/2021	United States	ISM Services Index	May	62.5	62.7
06/04/2021	Eurozone	Retail Sales MoM	Apr	--	2.70%
06/04/2021	United States	Change in Nonfarm Payrolls	May	620k	266k
06/04/2021	United States	Unemployment Rate	May	5.90%	6.10%
06/04/2021	United States	Average Hourly Earnings MoM	May	0.20%	0.70%
06/04/2021	United States	Average Hourly Earnings YoY	May	1.20%	0.30%
06/04/2021	United States	Average Weekly Hours All Employees	May	34.9	35
06/04/2021	United States	Labor Force Participation Rate	May	--	61.70%
06/04/2021	United States	Underemployment Rate	May	--	10.40%

SOURCE: BLOOMBERG



FURTHER READING

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Eurozone: a potential for a positive surprise in the labour market	EcoTVWeek	28 May 2021
Chinese bond market: the participation of foreign investors	Chart of the Week	26 May 2021
Supply bottlenecks and the inflation outlook	EcoWeek	25 May 2021
Global : International trade: world trade in goods reaches new heights	EcoFlash	21 May 2021
France: start of the recovery and crisis exit strategy	EcoTVWeek	21 May 2021
France: ECB rate has less of an impact on the remuneration of NFC sight accounts	Chart of the Week	19 May 2021
Global : Serendipity lost? Working from home and innovation	EcoWeek	17 May 2021
EcoTV - May 2021 issue	EcoTV	12 May 2021
Recovery in France: slowed before it started?	Chart of the Week	12 May 2021
US: Which insights from the 'great inflation' of the 1970s?	EcoWeek	10 May 2021
The French labour market: outlook for 2021	EcoFlash	10 May 2021
Italy: Why the country is once again attracting attention	EcoTVWeek	7 May 2021
Central Europe: Return to pre-Covid GDP levels likely in 2021	Chart of the Week	5 May 2021
US: the Biden infrastructure plan	EcoFlash	4 May 2021
EcoWeek - May 3 issue	EcoWeek	3 May 2021
Eurozone: Ongoing fiscal support	EcoTVWeek	30 April 2021
French companies went into the pandemic in a strengthened financial position	Chart of the Week	28 April 2021
EcoWeek - April 26 issue	EcoWeek	26 April 2021
Israel: A mixed economic situation, but positive prospects	EcoTVWeek	23 April 2021
Exports rebounded strongly in march 2021, supported by the global economic recovery	Chart of the Week	21 April 2021



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