

ECOWEEK

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Halloween, fear and the economy

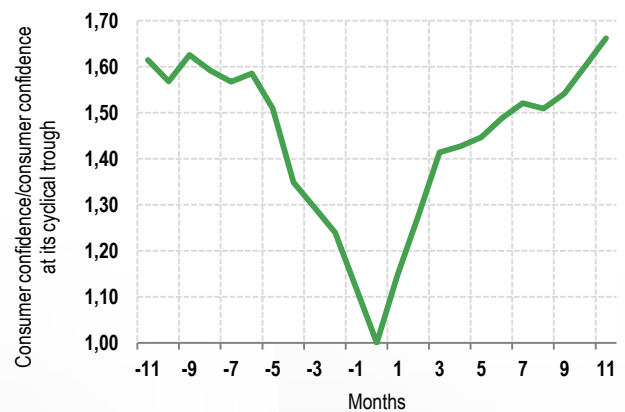
■ Do fluctuations in uncertainty have a symmetric or asymmetric effect on the economy? ■ The question is important considering that since last year, uncertainty has been acting as a headwind to global growth. Moreover, recent news about the US-China trade negotiations and Brexit have raised hope that uncertainty may have peaked and that growth in activity could accelerate ■ Empirical research shows that an increase in uncertainty has a bigger effect on the economy than a decline, in particular in a subdued growth environment ■ This would suggest that, should the decline in uncertainty be confirmed, the pick-up in growth would be very gradual.

Halloween is big business. According to the US National Retail Federation, American shoppers are expected to spend USD 8.8 billion this year on Halloween items like costumes, candy, decorations and greeting cards. The numbers are huge but are not immune to what happens in the economy in general. Slowing growth seems to impact Halloween spending because this year's plans are down from last year's USD 9 billion and the record established in 2017 of USD 9.1 billion. People interviewed about their shopping intentions expressed concern about the trade war with China although Halloween merchandise had been imported before the latest tariff increase.

Halloween is, to some degree, about scaring off people: millions of adults plan to dress like witches, vampires, pirates or zombies. Apparently, a lot of people enjoy having a scary time: 22% of survey respondents intend to visit a haunted house. Of course, like with children playing trick or treat, it's only a game, so the feeling of fear doesn't last long. Although it is tempting to look for an analogy between trick or treat and trade negotiations (threatening in order to get something in return), the big difference is that one does not know how long the trade negotiation 'game' will last. Fear and uncertainty may linger on, raising the question of whether, when the dust eventually settles, things will quickly move to normal or not. To put it differently: do uncertainty shocks have symmetric or asymmetric effects?

.../...

US CONSUMER CONFIDENCE (CONFERENCE BOARD)*



*The chart shows for each month the average level of consumer confidence divided by the average level of the cyclical trough of consumer confidence. The troughs are May 1971, January 1975, May 1980, October 1982, January 1987, February 1992, March 2003 and February 2009.

Source: Datastream, BNP Paribas

p. 3

Markets Overview

p. 4

Pulse & Calendar

p. 5

Economic scenario

ECONOMIC RESEARCH DEPARTMENT



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Intuitively, one would expect the latter: economic agents are risk averse and will probably want sufficient evidence that the haunted experience firmly belongs to the past. This is confirmed by the chart which shows cyclical downturns and upturns of US consumer confidence. Whereas, on average, it takes about 6 months to drop from 1.6 to 1, it takes about 10 months to move back to 1.6.

The question of (a)symmetry was analysed in a more rigorous way by Paul Jones and Walter Enders¹. The authors focus on uncertainty shocks during the recent financial crisis. They find that increases in uncertainty have a bigger impact on the economy than decreases. Moreover, the extent of this difference depends on the cyclical environment. This doesn't come as a surprise: when growth is strong, economic agents will be able to better cope with increases in uncertainty because, even taking the ensuing headwind into account, growth should still be satisfactory. This is quite different when growth was already soft when the uncertainty shock hit. Applying the insights from this research to the current environment, one can argue that the increase in uncertainty about tariffs and Brexit has had a bigger effect on the economy because growth was already slowing. Ongoing uncertainty clearly made things worse. It goes without saying that ending this uncertainty in a clear, credible and lasting way would be most welcome. Even then, the asymmetric nature of uncertainty shocks would imply that the pick-up in growth would only be gradual.

William De Vijlder

¹ The asymmetric effects of uncertainty on macroeconomic activity, Paul M. Jones and Walter Enders, *Macroeconomic Dynamics*, 20, 2016.



Markets overview

The essentials

Week 25-10-19 > 30-10-19

➔ CAC 40	5 722	➔ 5 766	+0.8 %
➔ S&P 500	3 023	➔ 3 047	+0.8 %
➘ Volatility (VIX)	12.7	➔ 12.3	-0.3 pb
➔ Euribor 3M (%)	-0.41	➔ -0.40	+1.2 bp
➘ Libor \$ 3M (%)	1.93	➔ 1.93	-0.1 bp
➔ OAT 10y (%)	-0.12	➔ -0.10	+2.2 bp
➔ Bund 10y (%)	-0.37	➔ -0.36	+1.6 bp
➘ US Tr. 10y (%)	1.80	➔ 1.80	-0.5 bp
➔ Euro vs dollar	1.11	➔ 1.11	+0.3 %
➘ Gold (ounce, \$)	1 509	➔ 1 494	-1.0 %
➘ Oil (Brent, \$)	61.8	➔ 60.9	-1.5 %

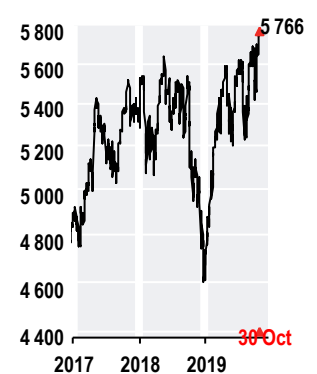
10 y bond yield, OAT vs Bund



Euro-dollar



CAC 40



Money & Bond Markets

Interest Rates	highest' 19	lowest' 19
€ ECB	0.00 at 01/01	0.00 at 01/01
Eonia	-0.46 at 07/06	-0.47 at 03/10
Euribor 3M	-0.40 at 24/01	-0.45 at 03/09
Euribor 12M	-0.28 at 06/02	-0.40 at 21/08
\$ FED	2.50 at 01/01	2.00 at 19/09
Libor 3M	2.81 at 01/01	1.93 at 29/10
Libor 12M	3.04 at 21/01	1.85 at 04/10
£ BoE	0.75 at 01/01	0.75 at 01/01
Libor 3M	0.93 at 29/01	0.75 at 29/08
Libor 12M	1.19 at 11/01	0.81 at 03/09

At 30-10-19

Yield (%)	highest' 19	lowest' 19
€ AVG 5-7y	-0.08 at 09/01	-0.36 at 03/09
Bund 2y	-0.63 at 05/03	-0.92 at 02/09
Bund 10y	-0.36 at 01/01	-0.72 at 28/08
OAT 10y	-0.10 at 08/01	-0.44 at 28/08
Corp. BBB	0.88 at 08/01	0.64 at 30/08
\$ Treas. 2y	2.62 at 18/01	1.39 at 03/10
Treas. 10y	2.78 at 18/01	1.46 at 04/09
Corp. BBB	4.65 at 01/01	3.15 at 04/09
£ Treas. 2y	0.83 at 27/02	0.31 at 08/10
Treas. 10y	1.35 at 18/01	0.33 at 03/09

At 30-10-19

10y bond yield & spreads

1.70%	Greece	205 pb
1.00%	Italy	135 pb
0.30%	Spain	65 pb
0.21%	Portugal	57 pb
-0.06%	Belgium	29 pb
-0.10%	France	26 pb
-0.12%	Finland	24 pb
-0.12%	Austria	23 pb
-0.16%	Ireland	19 pb
-0.22%	Netherland	13 pb
-0.36%	Germany	

Commodities

Spot price in dollars	lowest' 19	2019(€)
Oil, Brent	53.1 at 01/01	+17.8%
Gold (ounce)	1 268 at 02/05	+19.9%
Metals, LME	2 718 at 07/08	+5.2%
Copper (ton)	5 585 at 03/09	+1.6%
CRB Foods	312 at 11/09	+4.7%
w wheat (ton)	166 at 30/08	-3.4%
Corn (ton)	128 at 24/04	+13.5%

At 30-10-19

Variations

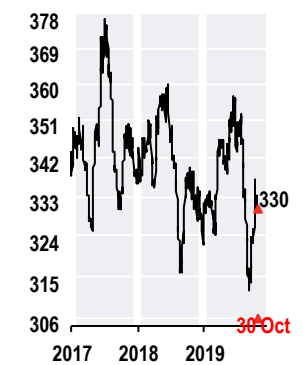
Oil (Brent, \$)



Gold (Ounce, \$)



CRB Foods



Exchange Rates

€ =	highest' 19	lowest' 19	2019
USD	1.15 at 10/01	1.09 at 30/09	-2.7%
GBP	0.93 at 12/08	0.85 at 14/03	-3.7%
CHF	1.14 at 23/04	1.08 at 04/09	-2.2%
JPY	127.43 at 01/03	116.08 at 03/09	-3.4%
AUD	1.66 at 07/08	1.57 at 18/04	-0.3%
CNY	7.96 at 27/08	7.51 at 25/04	+0.0%
BRL	4.63 at 27/08	4.18 at 31/01	+0.8%
RUB	79.30 at 01/01	70.22 at 24/09	-10.2%
INR	82.00 at 04/02	76.37 at 01/08	-1.2%

At 30-10-19

Variations

Equity indices

Index	highest' 19	lowest' 19	2019	2019(€)
CAC 40	5 766 at 30/10	4 611 at 03/01	+21.9%	+21.9%
S&P500	3 047 at 30/10	2 448 at 03/01	+21.5%	+24.9%
DAX	12 910 at 28/10	10 417 at 03/01	+22.3%	+22.3%
Nikkei	22 843 at 29/10	19 562 at 04/01	+14.1%	+18.2%
China*	77 at 09/04	68 at 03/01	+9.6%	+12.4%
India*	583 at 03/06	526 at 22/08	+6.2%	+7.4%
Brazil*	2 249 at 10/07	1 862 at 17/05	+19.9%	+18.9%
Russia*	763 at 30/10	572 at 01/01	+24.5%	+37.1%

At 30-10-19

Variations

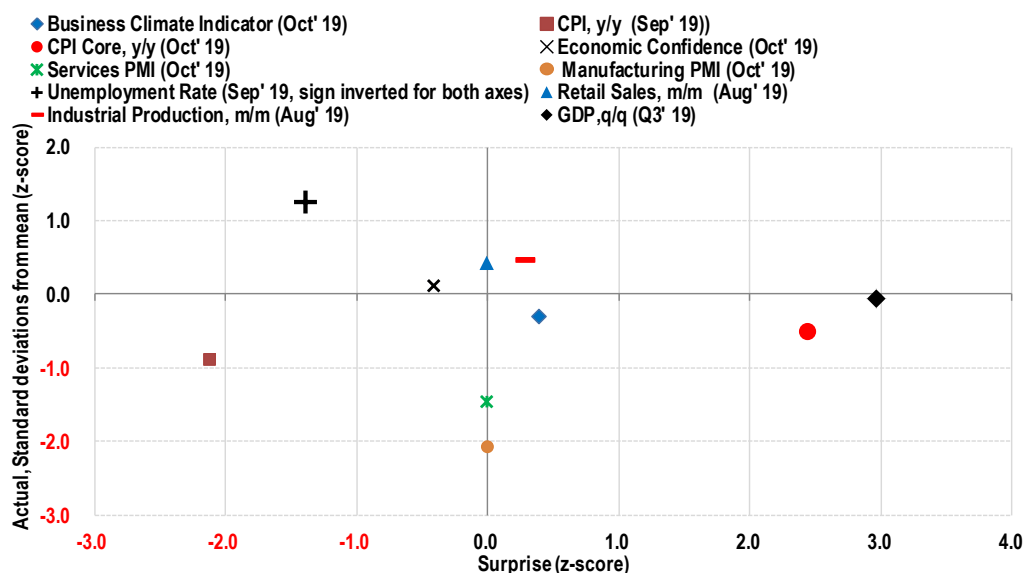
* MSCI index



Pulse

Eurozone: a better than expected GDP growth in Q3 2019

GDP growth in Q3 2019 has beaten expectations. The growth rate stabilised at +0.2% (q/q) compared to the previous quarter. Economic growth is stable in Spain (+0.4%), in France (+0.3%) and in Italy (+0.1%). For Germany, the data are not published yet. The activity in the manufacturing sector remains subdued while in October, the purchasing managers index (PMI) in the services sector is well below its long term average. Over the coming months, the risk of negative spillovers from manufacturing to services needs to be closely monitored. The evolution of the unemployment rate, which on a historical basis is still relatively low, will be a key factor in the short term.



Indicators preview

Next week will see the release of the purchasing managers' indices (manufacturing, services, composite) in several countries. In the US, we will have the ISM non-manufacturing index, durable goods orders and University of Michigan sentiment. Trade balance data in the US and in China will be used to assess how exports and imports are doing, given the trade conflict. In France we will have employment data as well as industrial investment intentions. There will be a monetary policy committee meeting at the Bank of England, which will also publish its very interesting inflation report. Equally interesting will be the new ECB economic bulletin. Finally, the European Commission is scheduled to publish its economic forecasts.

Date	Country/Region	Event	Period	Survey	Prior
11/04/2019	France	Markit France Manufacturing PMI	Oct.	--	50.5
11/04/2019	Eurozone	Markit Eurozone Manufacturing PMI	Oct.	--	45.7
11/04/2019	United States	Durable Goods Orders	Sep.	--	-1.1%
11/05/2019	China	Caixin China PMI Composite	Oct.	--	51.9
11/05/2019	United States	Trade Balance	Sep.	-5.54e+10	-5.49e+10
11/05/2019	United States	ISM Non-Manufacturing Index	Oct.	53.8	52.6
11/06/2019	France	Markit France Composite PMI	Oct.	--	52.6
11/06/2019	Eurozone	Markit Eurozone Composite PMI	Oct.	--	50.2
11/06/2019	Eurozone	Retail Sales MoM	Sep.	--	0.3%
11/06/2019	United States	MBA Mortgage Applications	nov-01	--	--
11/07/2019	Germany	Industrial Production SA MoM	Sep.	--	0.3%
11/07/2019	France	Survey of Industrial Investment			
11/07/2019	Eurozone	ECB Publishes Economic Bulletin			
11/07/2019	Eurozone	EU Commission Economic Forecasts			
11/07/2019	United Kingdom	Bank of England Bank Rate	nov-07	--	0.750%
11/07/2019	United Kingdom	Bank of England Inflation Report			
11/08/2019	Germany	Trade Balance	Sep.	--	1.62e+10
11/08/2019	France	Trade Balance	Sep.	--	-5.019e+09
11/08/2019	France	Private Sector Payrolls QoQ	3Q	--	0.2%
11/08/2019	France	Industrial Production MoM	Sep.	--	-0.9%
11/08/2019	United States	University of Michigan Sentiment	Nov.	--	95.5
11/08/2019	China	Trade Balance	Oct.	--	3.965e+10

Source: Bloomberg, BNP Paribas



Economic scenario

UNITED STATES

- Growth is slowing and this trend is expected to continue under the influence of corporate investment (slower profits growth, uncertainty) and housing (declining trend of affordability). Consumer spending should be more resilient. The trade dispute with China acts as an additional drag. Inflation is expected to decline, due to softer growth and weaker oil prices.
- We expect two more Fed Funds target rate cuts of 25bp this year and two additional cuts in 2020.

CHINA

- Economic growth continues to slow and our GDP forecasts have been revised down since June. Industrial activity and exports have been hard hit by US tariff hikes. Domestic demand has also decelerated.
- The central bank is easing liquidity and credit conditions, though the reduction in financial-instability risks should remain a priority and banks seem to remain prudent. Fiscal policy is expansionary through increased infrastructure spending and a rising number of household/corporate tax cuts.
- In the short term, exports and private domestic investment should continue to decelerate. Tax measures should have some success in supporting consumer spending.

EUROZONE

- The economic slowdown is continuing in the eurozone, especially in Germany, due to notably international environment uncertainties and a slowdown of the Chinese economy. Activity in the manufacturing sector continues to decline but services still show resilience.
- Inflation is now expected to decrease while core CPI is hardly moving. The activity slowdown also implies that the pick-up in core inflation should be slower than expected until recently.
- Faced with an outlook of subdued inflation, the Governing Council has eased policy at its meeting on 12 September. This very accommodative environment will be maintained as long as inflation hasn't converged sufficiently, in a convincing and lasting way, towards the ECB's objective.

FRANCE

- Growth is slowing although the economy shows resilience. Households' consumption should get a boost from the tax cuts and the jobs recovery but inflation reduces purchasing power gains. Business investment dynamics remain favourable. The global backdrop is less supportive. A slight rise in core inflation is appearing but remains to be confirmed.

INTEREST RATES AND FX RATES

- In the US, we expect the Fed to cut its official rate in October and December in reaction to a slowing economy, moderate inflation and heightened uncertainty. 2020 should see two more cuts. Treasury yields are to decline further in the coming months. Eventually, in the course of 2020 they should move up again in anticipation of a pick-up in growth.
- In the eurozone, the ECB's state-dependent forward guidance and the sluggishness of the inflation process imply that the very accommodative environment will remain in place for a long time. This will exert downward pressure on bond yields.
- No policy rate change expected in Japan.
- With the Fed in easing mode and given the very accommodative ECB policy, we expect little change in EUR/USD even though euro's fair value is quite higher than current pricing. The yen should strengthen on the back of stable BoJ policy and high market volatility.

%	GDP Growth			Inflation		
	2018	2019 e	2020 e	2018	2019 e	2020 e
Advanced	2.2	1.6	1.0	2.1	1.4	1.3
United-States	2.9	2.2	1.5	2.4	1.8	1.8
Japan	0.8	1.2	0.2	1.0	0.6	0.3
United-Kingdom	1.4	1.1	0.6	2.5	1.9	1.8
Euro Area	1.9	1.1	0.7	1.8	1.1	0.8
Germany	1.4	0.4	0.2	1.9	1.4	1.0
France	1.7	1.2	1.0	2.1	1.2	1.0
Italy	0.7	0.1	0.0	1.2	0.6	0.5
Spain	2.6	2.2	1.6	1.7	0.8	0.7
Emerging	4.4	3.8	4.2	4.7	4.8	4.5
China	6.6	5.9	5.6	2.1	2.4	2.8
India*	6.8	6.5	6.3	2.9	3.0	3.3
Brazil	1.1	0.5	2.0	3.7	3.7	3.5
Russia	2.3	1.2	2.0	2.9	4.8	3.8

Source : BNP Paribas Group Economic Research (e: Estimates & forecasts)

* Fiscal year from April 1st of year n to March 31st of year n+1

Interest rates, %	2019				2018	2019e	2020e
	Q1	Q2	Q3	Q4e			
US							
Fed Funds	2.50	2.50	2.00	1.50	2.50	1.50	1.00
Libor 3m \$	2.60	2.32	2.09	1.70	2.81	1.70	1.25
T-Notes 10y	2.42	2.00	1.67	1.00	2.69	1.00	1.50
Ezone							
deposit rate	-0.40	-0.40	-0.50	-0.60	-0.40	-0.60	-0.60
Euribor 3m	-0.31	-0.35	-0.42	-0.60	-0.31	-0.60	-0.60
Bund 10y	-0.07	-0.32	-0.57	-0.80	0.25	-0.80	-0.50
OAT 10y	0.26	-0.01	-0.28	-0.55	0.71	-0.55	-0.30
UK							
Base rate	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Gilts 10y	1.00	0.84	0.40	0.55	1.27	0.55	0.75
Japan							
BoJ Rate	-0.06	-0.08	-0.06	-0.10	-0.07	-0.10	-0.10
JGB 10y	-0.09	-0.16	-0.22	-0.40	0.00	-0.40	-0.25

Source : BNP Paribas GlobalMarkets (e: Forecasts)

Exchange Rates	2019				2018	2019e	2020e
	Q1	Q2	Q3	Q4e			
USD							
EUR / USD	1.12	1.14	1.09	1.11	1.14	1.11	1.14
USD / JPY	111	108	108	102	110	102	96
GBP / USD	1.30	1.27	1.23	1.23	1.27	1.23	1.36
USD / CHF	1.00	0.98	1.00	0.99	0.99	0.99	1.00
EUR							
EUR / GBP	0.85	0.89	0.89	0.90	0.90	0.90	0.84
EUR / CHF	1.12	1.11	1.09	1.10	1.13	1.10	1.14
EUR / JPY	124	123	118	113	125	113	109

Source : BNP Paribas GlobalMarkets (e: Forecasts)



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