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ECONOMIC RESEARCH



BNP PARIBAS

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EUROZONE: UNEMPLOYMENT, CONSUMER CONFIDENCE AND HOUSEHOLD SPENDING

The labour market should play a crucial role in the recovery through its impact on household income and spending. There are reasons to be hopeful considering that recent business surveys show a further increase in hiring intentions whereas unemployment expectations of households have dropped below their pre-pandemic level. Household intentions to make major purchases over the next 12 months have already increased and this trend should continue on the back of an improved financial situation and reduced income uncertainty.

Eurozone real GDP growth, on a quarterly basis, is expected to peak in the third quarter and to slow down thereafter. By then, the mechanistic growth acceleration caused by the lifting of restrictions and the ensuing unleashing of pent-up demand should, to a large degree, have run its course, paving the way for a gradual normalisation of growth¹.

Focusing on consumer spending, the labour market should play a crucial role in the recovery through its impact on household income and spending. In this respect, there are reasons to be hopeful considering that recent business surveys show a further increase in hiring intentions: the Eurozone manufacturing PMI for June saw *“overall employment rising at the strongest rate recorded by the survey to date.”*² This reinforces the signal coming from the European Commission’s employment expectations index, which, as shown in chart 1, has again moved higher in June, to 111.6. It has surpassed its pre-pandemic level, thereby narrowing the gap with its historical peak of 116.8 reached in May 2000. Importantly, households also feel more confident about the employment prospects. Unemployment expectations for the next 12 months have dropped over the past four months and, for the Eurozone as a whole, are now slightly below the level reached in January 2020. However, in certain countries - France, Italy, Portugal, Greece, amongst others - unemployment expectations are still above those at the start of last year (chart 2). In theory, the labour market should play an important role in shaping consumer confidence and spending decisions. Fluctuations in the rate of unemployment not only have a direct impact on disposable income, they also cause swings in uncertainty about future income, which can lead to precautionary savings when the outlook worsens. Research from the ECB shows that most of the volatility of euro area consumer confidence *“is driven by changes in expectations relating to unemployment developments”*.³ It also notes a very high correlation between consumer confidence and the yearly change in the unemployment rate. Developments in confidence can shed light on the likely evolution of consumption. According to the ECB, *“consumer confidence is closely related to contemporaneous and future quarterly consumption growth”*. However, there are asymmetries: *“strong decreases in consumer confidence are more important to predict future changes in consumption than strong increases”*.

For the Eurozone, consumer confidence can be assessed based on the survey conducted by the European Commission. Its composite index is equal to the average of 4 series: the financial situation over the last 12 months, the financial situation over the next 12 months, the general economic situation over the next 12 months and the intentions to do major purchases over the next 12 months⁴. Interestingly, there

is a higher correlation between consumption growth and the financial position of households than with the European Commission’s composite index⁵. In gauging the outlook for consumer spending, focusing on the intentions to make major purchases over the next 12 months - one of the questions in the European Commission’s survey - is particularly relevant. Durable goods spending has a greater cyclical amplitude and can be easily postponed but it should boost growth when the economy is recovering. Confidence is a key factor in this respect and ECB research shows that durable goods - represented by major purchases over the next 12 months - are more affected by changes in consumer confidence than non-durable spending.

present, savings at present, savings over next 12 months, statement on financial situation of household.

5. ECB Economic Bulletin, issue 5, 2015, box 2.

COMPANIES' EMPLOYMENT EXPECTATIONS AND HOUSEHOLDS' UNEMPLOYMENT EXPECTATIONS



CHART 1 SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

UNEMPLOYMENT EXPECTATIONS IN EURO AREA COUNTRIES

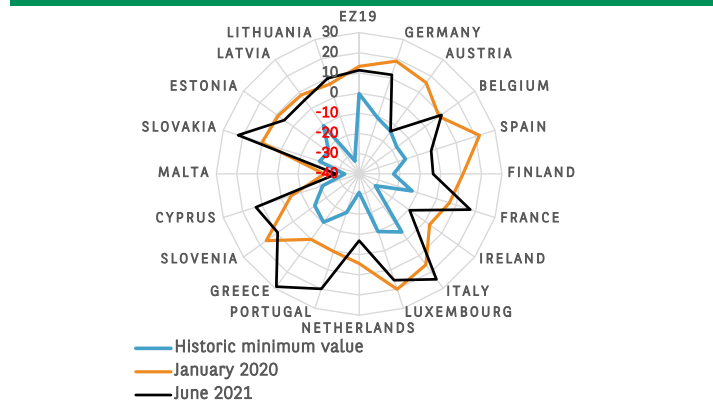


CHART 2 SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

1. This normalisation should be very gradual. Eurozone quarterly real GDP growth is expected to be above potential over the forecast horizon, which runs until the end of 2022 (source: Bloomberg consensus).
 2. Source: IHS Markit Eurozone Manufacturing PMI® - final data, news release, 1 July 2021
 3. ECB, Monthly bulletin, January 2013.
 4. The survey also covers questions that are not part of the composite index: general economic situation over last 12 months, price trends over last 12 months, price trends over next 12 months, unemployment expectations over next 12 months, major purchases at

As shown in table 1, major purchases intentions have the highest correlation with the financial situation over the last 12 months, closely followed by its equivalent for the next 12 months. As the economy recovers, people will feel better about the recent past but also about the outlook and increased durable spending should contribute to the acceleration of growth. The correlation between major purchases over the next 12 months and unemployment expectations is, as expected, negative, but it is much lower in absolute value than the correlation between purchases and the financial situation. Nevertheless, in a regression to explain the level of major purchases over the next 12 months, both variables are significant (table 2).

A possible interpretation is that unemployment expectations capture the influence of uncertainty on spending intentions. Recent research based on a new survey of European households shows the key role of uncertainty in spending decisions. *"Higher macroeconomic uncertainty induces households to reduce their spending on non-durable goods and services in subsequent months as well as to engage in fewer purchases of larger items such as package holidays or luxury goods"*⁶.

William De Vijlder

6. The effect of macroeconomic uncertainty on household spending, Olivier Coibon, Dimitris Georgarakos, Yuriy Gorodnichenko, Geoff Kenny and Michael Weber, NBER working paper 28624, March 2021.

CORRELATION BETWEEN THE EUROPEAN COMMISSION'S CONSUMER CONFIDENCE SURVEY QUESTIONS

	Confidence Indicator	Financial situation over last 12 months	Financial situation over next 12 months	General economic situation over last 12 months	General economic situation over next 12 months	Price trends over last 12 months	Price trends over next 12 months	Unemployment expectations over next 12 months	Major purchases at present	Major purchases over next 12 months	Savings at present	Savings over next 12 months	Statement on financial situation of household
Confidence Indicator = (Q1 + Q2 + Q4 + Q9) / 4	1.00												
Q1 Financial situation over last 12 months*	0.88	1.00											
Q2 Financial situation over next 12 months*	0.97	0.86	1.00										
Q3 General economic situation over last 12 months	0.87	0.82	0.79	1.00									
Q4 General economic situation over next 12 months*	0.90	0.61	0.83	0.80	1.00								
Q5 Price trends over last 12 months	-0.39	-0.42	-0.41	-0.29	-0.35	1.00							
Q6 Price trends over next 12 months	0.09	0.28	0.02	0.17	-0.11	0.40	1.00						
Q7 Unemployment expectations over next 12 months	-0.76	-0.56	-0.68	-0.84	-0.82	0.12	0.01	1.00					
Q8 Major purchases at present	0.81	0.82	0.77	0.80	0.69	-0.55	0.01	-0.64	1.00				
Q9 Major purchases over next 12 months*	0.81	0.84	0.79	0.64	0.52	-0.19	0.36	-0.44	0.60	1.00			
Q10 Savings at present	0.14	0.17	0.20	-0.06	-0.02	0.16	0.53	0.19	-0.17	0.39	1.00		
Q11 Savings over next 12 months	0.62	0.71	0.67	0.46	0.44	-0.41	0.03	-0.44	0.64	0.50	0.03	1.00	
Q12 Statement on financial situation of household	0.38	0.50	0.40	0.30	0.25	-0.20	-0.07	-0.39	0.48	0.29	-0.29	0.84	1.00

TABLE 1

*QUESTIONS WITH ASTERISK ARE PART OF THE COMPOSITE INDEX

SOURCE: EUROSTAT, BNP PARIBAS.

MAJOR PURCHASES OVER NEXT 12 MONTHS

Dependent variable: Major purchases over next 12 months	Coefficients	t Stat
Intercept	-10.90	-15.87
Financial situation over next the 12 months	1.52	15.69
Unemployment expectations over next the 12 months	-0.13	-5.08
Adjusted R ²		0.62

TABLE 2

SOURCE: BNP PARIBAS BASED ON EUROSTAT DATA



MARKETS OVERVIEW

OVERVIEW

Week 25-6 21 to 2-7-21

📉 CAC 40	6 623	▶ 6 553	-1.1 %
📈 S&P 500	4 281	▶ 4 352	+1.7 %
📉 Volatility (VIX)	15.6	▶ 15.1	-0.5 pb
📉 Euribor 3M (%)	-0.54	▶ -0.55	-0.8 bp
📉 Libor \$ 3M (%)	0.15	▶ 0.14	-0.1 bp
📉 OAT 10y (%)	0.14	▶ 0.03	-11.4 bp
📉 Bund 10y (%)	-0.20	▶ -0.28	-8.2 bp
📉 US Tr. 10y (%)	1.54	▶ 1.43	-10.3 bp
📈 Euro vs dollar	1.20	▶ 1.18	-0.9 %
📈 Gold (ounce, \$)	1 781	▶ 1 784	+0.2 %
📉 Oil (Brent, \$)	76.3	▶ 75.9	-0.5 %

MONEY & BOND MARKETS

Interest Rates	highest 21	lowest 21	Yield (%)	highest 21	lowest 21	
€ ECB	0.00 at 01/01	0.00 at 01/01	€ AVG 5-7y	-0.21	-0.03 at 19/05	-0.46 at 04/01
Eonia	-0.48 at 26/01	-0.50 at 01/01	Bund 2y	-0.67	-0.64 at 23/06	-0.75 at 01/01
Euribor 3M	-0.55 at 07/05	-0.56 at 06/01	Bund 10y	-0.28	-0.11 at 20/05	-0.60 at 04/01
Euribor 12M	-0.49 at 20/04	-0.52 at 02/02	OAT 10y	0.03	0.23 at 17/05	-0.41 at 04/01
\$ FED	0.25 at 01/01	0.25 at 01/01	Corp. BBB	0.64	0.79 at 20/05	0.50 at 08/01
Libor 3M	0.14 at 19/01	0.12 at 14/06	Treas. 2y	0.24	0.26 at 01/07	0.11 at 05/02
Libor 12M	0.24 at 01/01	0.23 at 15/06	Treas. 10y	1.43	1.75 at 31/03	0.91 at 01/01
£ BoE	0.10 at 01/01	0.10 at 01/01	High Yield	4.56	4.87 at 09/03	4.52 at 29/06
Libor 3M	0.08 at 24/03	0.03 at 01/01	£ gilt. 2y	0.06	0.13 at 26/02	-0.08 at 04/01
Libor 12M	0.18 at 24/06	0.07 at 11/01	£ gilt. 10y	0.74	0.93 at 13/05	0.21 at 04/01

EXCHANGE RATES

1€ =	highest 21	lowest 21	2021
USD	1.23 at 06/01	1.17 at 30/03	-3.2%
GBP	0.86 at 06/01	0.85 at 05/04	-4.0%
CHF	1.09 at 04/03	1.08 at 18/01	+1.1%
JPY	131.83 at 28/05	125.22 at 18/01	+4.4%
AUD	1.58 at 04/01	1.53 at 18/03	-0.3%
CNY	7.68 at 01/01	7.64 at 18/06	-4.1%
BRL	5.99 at 03/03	5.88 at 24/06	-5.8%
RUB	86.95 at 20/04	86.04 at 18/06	-3.9%
INR	88.53 at 23/04	85.30 at 27/03	-1.0%

At 2-7-21 Change

COMMODITIES

Spot price, \$	highest 21	lowest 21	2021	2021(€)
Oil, Brent	76.3 at 25/06	51.2 at 04/01	+46.3%	+51.1%
Gold (ounce)	1 947 at 05/01	1 682 at 08/03	-6.0%	-2.9%
Metals, LME	4 125 at 11/05	3 415 at 01/01	+20.8%	+24.8%
Copper (ton)	9 351 at 11/05	7 749 at 01/01	+20.7%	+24.7%
wheat (ton)	238 at 07/05	231 at 30/03	-3.9%	-0.7%
Corn (ton)	267 at 07/05	188 at 04/01	+4.1%	+46.0%

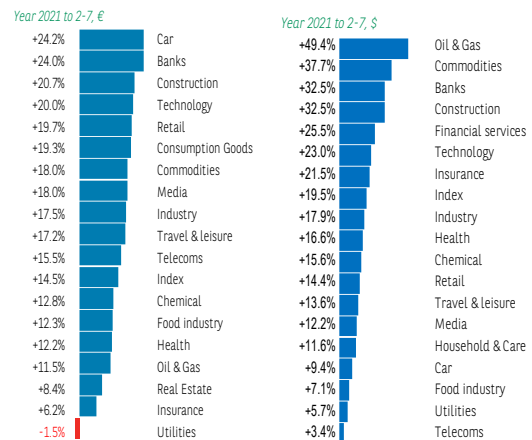
At 2-7-21 Change

EQUITY INDICES

Index	highest 21	lowest 21	2021
World			
MSCI World	3 046 at 02/07	2 662 at 29/01	+13.2%
North America			
S&P500	4 352 at 02/07	3 701 at 04/01	+15.9%
Europe			
EuroStoxx50	4 084 at 17/06	3 481 at 29/01	+15.0%
CAC 40	6 553 at 17/06	5 399 at 29/01	+1.8%
DAX 30	15 650 at 15/06	13 433 at 29/01	+14.1%
IBEX 35	8 908 at 14/06	7 758 at 29/01	+1.0%
FTSE100	7 123 at 16/06	6 407 at 29/01	+1.0%
Asia			
MSCI, loc.	1 137 at 15/06	1 044 at 06/01	+0.9%
Nikkei	28 783 at 16/02	27 056 at 06/01	+4.9%
Emerging			
MSCI Emerging (\$)	1 355 at 17/02	1 288 at 25/03	+0.5%
China	107 at 17/02	102 at 13/05	-1.6%
India	752 at 11/06	659 at 29/01	+13.9%
Brazil	2 023 at 24/06	1 561 at 09/03	+4.9%
Russia	787 at 14/06	647 at 01/02	+16.9%

At 2-7-21 Change

PERFORMANCE BY SECTOR (Eurostoxx50 & S&P500)

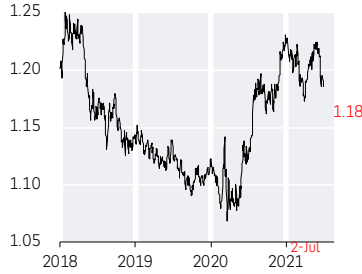


SOURCE: REFINITIV, BNP PARIBAS,

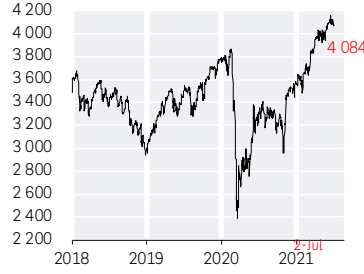


MARKETS OVERVIEW

EURO-DOLLAR



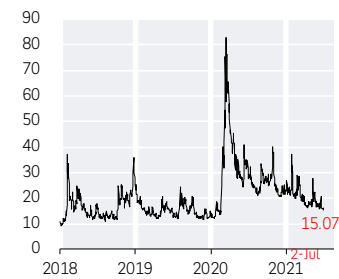
EUROSTOXX50



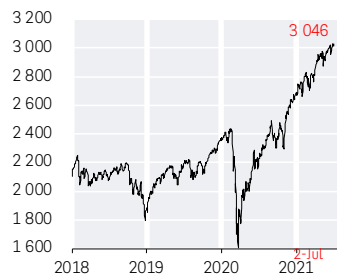
S&P500



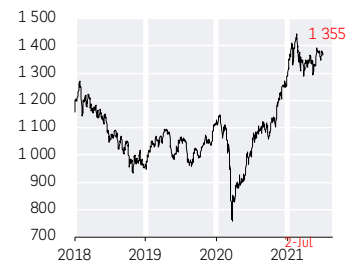
VOLATILITY (VIX, S&P500)



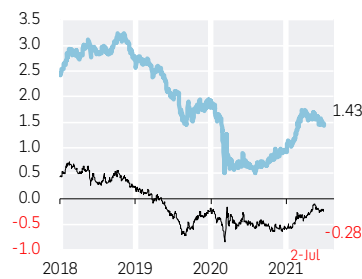
MSCI WORLD (USD)



MSCI EMERGING (USD)

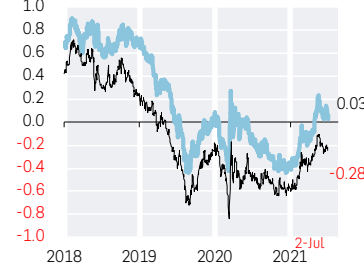


10Y BOND YIELD, TREASURIES VS BUND



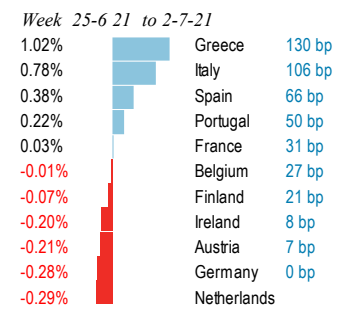
—Bunds —US Treasuries

10Y BOND YIELD



—Bunds —OAT

10Y BOND YIELD & SPREADS



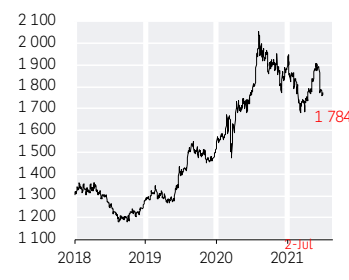
OIL (BRENT, USD)



METALS (LMEX, USD)



GOLD (OUNCE, USD)



SOURCE: REFINITIV, BNP PARIBAS



ECONOMIC PULSE

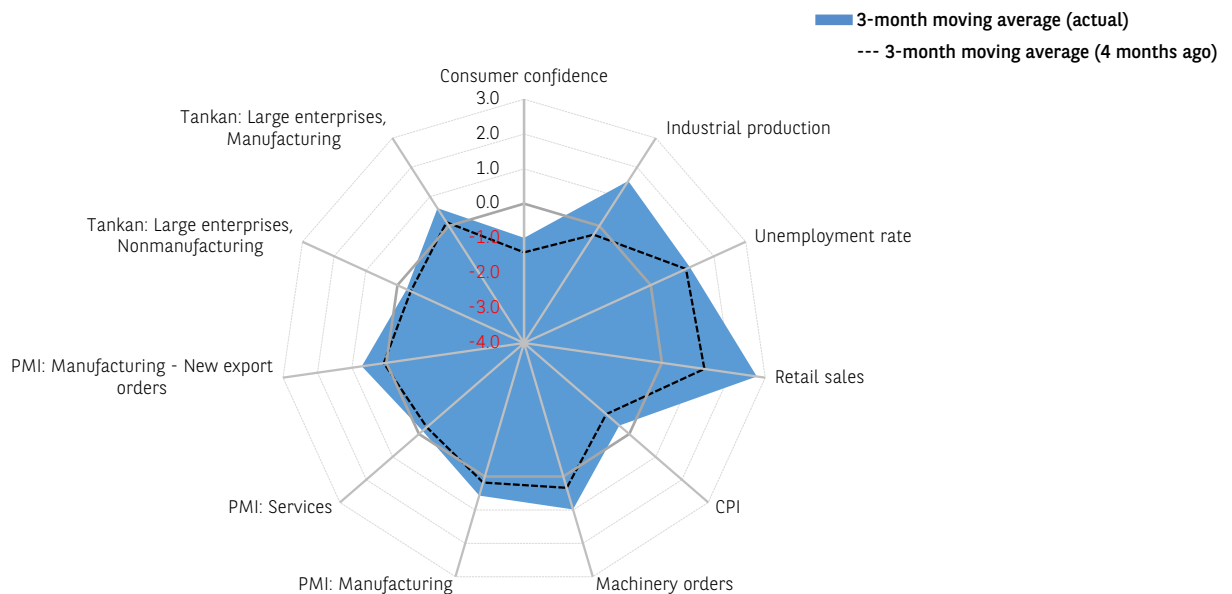
JAPAN: GOOD NEWS ON THE HEALTH FRONT SHOULD BOOST THE ECONOMIC RECOVERY

Japan has often been identified as failing to deploy vaccines but the rollout has significantly accelerated the process since May. Nearly 25% of the Japanese population have now received a first dose of the vaccine, up from only 2.4% at the beginning of May. This share is still low compared to other regions, like Europe (over 40%) and especially the United States (nearly 55%). At the same time, the number of new daily cases testing positive has been following a declining trend since mid-May. Given this better health situation, Prime Minister Suga confirmed the lifting of the state of emergency, in place since the end of April in Tokyo as well as in other parts of the country. The Japanese are nonetheless worried about the beginning of the Olympic Games on 23 July, which could lead to the strengthening of some health restrictions.

An accelerated vaccination campaign reduces uncertainty for economic agents – households and companies – and offers a brighter economic outlook. The Bank of Japan’s Tankan index rose in Q2 2021 in both the manufacturing and non-manufacturing sectors. For large manufacturing companies, the upturn in the index that began in Q3 2020 was confirmed once again in Q2 2021 as it converges towards pre-pandemic levels and its long-term average. The Tankan index for non-manufacturing companies increased in Q2 2021, barely swinging into positive territory for the first time since early 2020, but it still falls short of the pre-pandemic level. There is still a long way to go before catching up the losses accumulated since the outbreak of the virus. The Purchasing Managers Index (PMI) shows a similar picture. Manufacturing PMI has improved in recent months and is now slightly above its long-term average. Manufacturing PMI declined to 51.5 in June from 53 the previous month. The services PMI is struggling to rise above the 50 threshold that separates economic expansion from contraction. A more clear-cut improvement in the services sector will depend on Japanese consumers’ behaviour. The consumer confidence index has been trending upwards after bottoming out in April 2020. Although it has improved in recent months, it is still low compared to the long-term average. Retail sales, which have been very volatile since the beginning of the pandemic, have rebounded strongly since March 2021.

Louis Boisset

JAPAN: 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 -4 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

7

ITALY: CONFIDENCE SPREADS ACROSS THE COUNTRY, AS DO COVID-19 VARIANTS

The Pulse continues to improve reflecting both a genuine economic rebound and positive base effects arising from the drop-off in activity in H1 2020. Base effects were especially strong in industrial production and retail sales, which in April were still below the year-end 2019 levels.

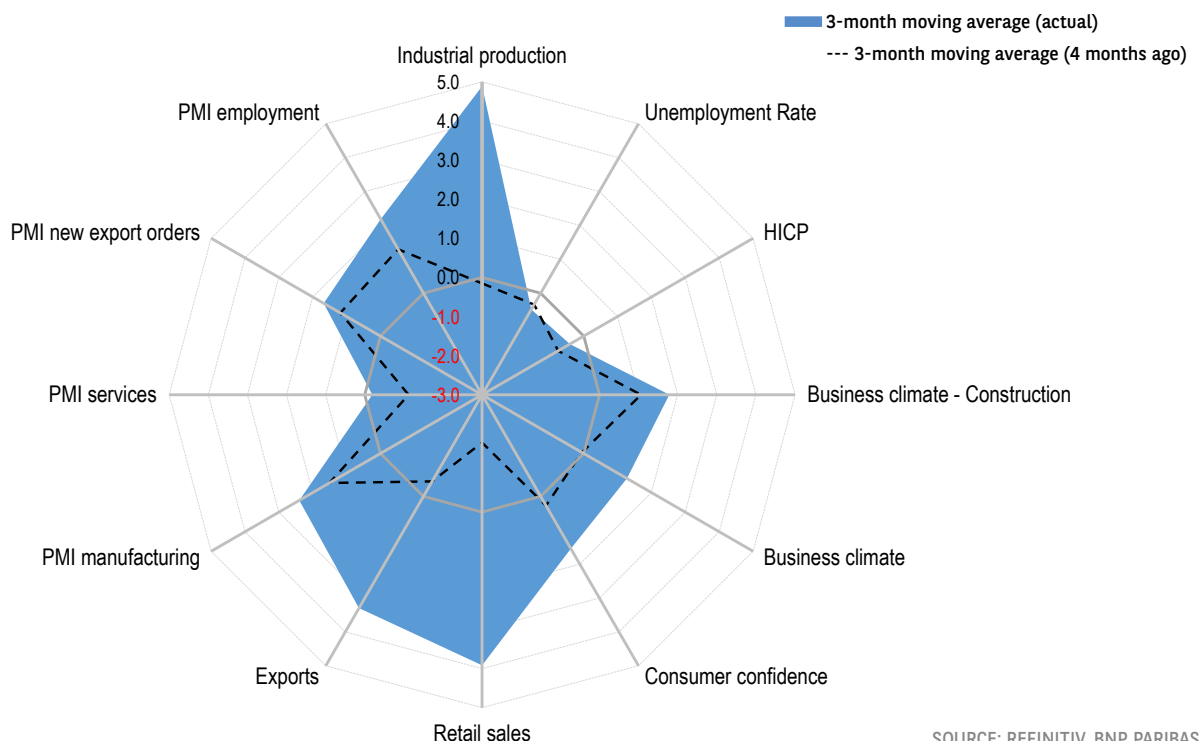
Despite the rapid spread of Covid-19 variants across the country (17% of new cases in June, up from 4% in May), the health situation remains under control for the moment. The number of cases fell below the threshold of 15 cases per 100,000 inhabitants at the end of June, which is one of the lowest rates in Europe. The curfew in the Aosta Valley – the last region where the restrictive measure was still in place – was removed on 28 June. The gradual lifting of anti-Covid measures coincides with a net upturn in optimism among businesses and households. The PMI manufacturing index remained at a very high level in June (62.2), while the European Commission's consumer confidence index had risen to its highest level since October 2018.

However, households' unemployment expectations over the next twelve months deteriorated slightly in June, according to the European Commission survey. Indeed, the latest employment data are mixed: although employment rose slightly in May (+0.2% m/m), it was still far below the level observed in early 2020. Note, however, that Istat does not include short-time or furloughed workers in the employed category, unlike statistical agencies in France and Spain, for example. Italy's unemployment rate fell slightly in May to 10.5%.

In a generally more favourable health and economic environment, the Draghi government is seeking the right pace for a gradual removal of State aid without disrupting the economic recovery. In this respect, the ban on firing workers due to "Covid-19", introduced in February 2020, was lifted last week (30 June) in the industry and construction sectors, where activity has more or less returned to normal.

Guillaume Derrien

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 +5. 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.



BNP PARIBAS

The bank
for a changing
world

ECONOMIC PULSE

THE NUMBER OF NEW COVID-19 CASES BEGINS TO RISE AGAIN WORLDWIDE

After trending downwards for 7 weeks, the figures for the Covid-19 pandemic have begun to rise again worldwide. Three million new cases were reported in the week of 23-30 June, a 5.5% increase compared to the previous week. This increase can be seen in Africa (34.4%), Europe (33.7%), North America (13.4%) and Asia (3.7%). South America, in contrast, reported a decline of 7.4%. Initially discovered in India, the Delta variant is the source of this global rebound. According to the GISAID genomic data base, the Delta variant has been identified in about 80 countries and has become the predominant variant in several of them, including the UK, Portugal and Russia (chart 1). Vaccination campaigns continue to progress around the globe, notably in the European Union, where the pace of vaccinations is still very high (chart 2).

After a brief decline due to poor weather conditions recently, retail and leisure mobility has rebounded in Europe over the past week, while it has declined in the United States. In Japan, mobility is maintaining favourable momentum. Mobility remains high and has almost returned to normal in all of the main economies (chart 3), which is having a visible impact on activity in the services sector, as illustrated by the most recent figures for the services PMI.

In recent weeks, the OECD Weekly Tracker of annual GDP growth has been trending lower in most countries (chart 3). The OECD Tracker is based on Google Trends resulting from queries on consumption, the labour market, housing, industrial activity as well as uncertainty. Due to the impact of the pandemic which started more than one year ago, year-over-year comparison suffer from a base effect, making the numbers more difficult to interpret.

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)

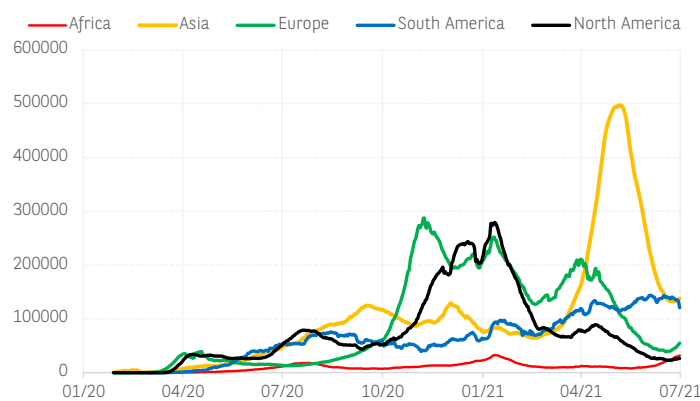


CHART 1

SOURCE: JOHNS-HOPKINS UNIVERSITY (06/30/2021), BNP PARIBAS

SHARE OF PEOPLE WHO RECEIVED AT LEAST ONE DOSE OF VACCINE

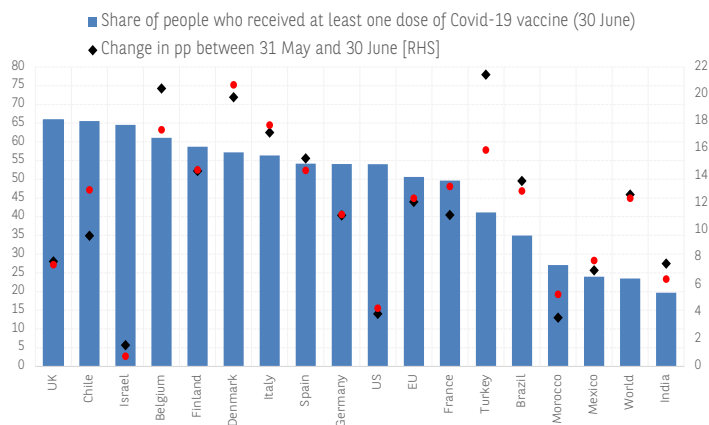


CHART 2

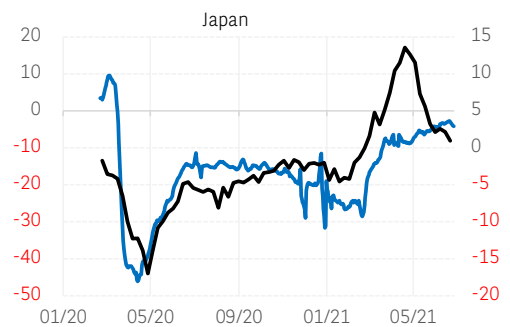
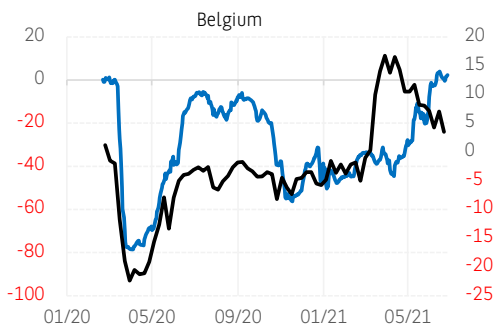
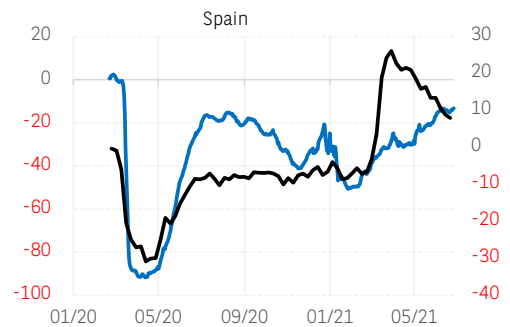
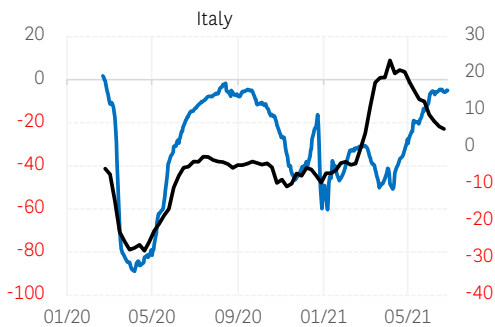
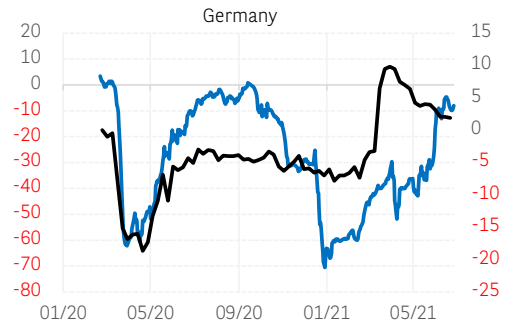
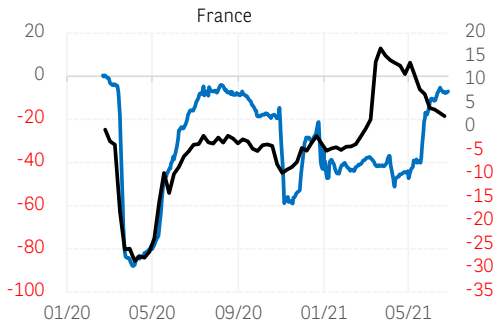
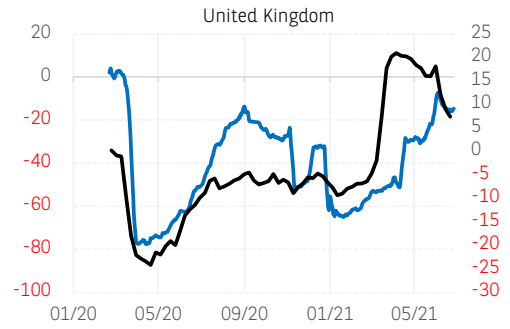
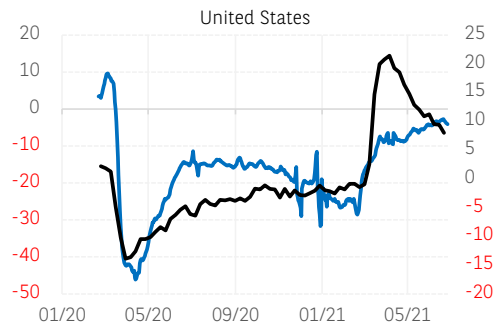
SOURCE: OUR WORLD IN DATA (06/30/2021), BNP PARIBAS



RETAIL AND RECREATION MOBILITY & OECD WEEKLY TRACKER

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

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



SOURCE: OECD (07/01/2021), GOOGLE (06/30/2021), BNP PARIBAS



ECONOMIC SCENARIO

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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 be around 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.

CHINA

The post-Covid19 rebound in industrial production and exports reached its peak in the first months of 2021 and growth rates should normalize gradually in the coming quarters. Manufacturing investment growth may accelerate while investment growth in infrastructure and real estate projects is expected to slow. The recovery in the services sector and in private consumption, which was still somewhat disappointing in H1 2021, should gain some momentum in H2 thanks to the acceleration of the vaccination campaign. Given the softer economic growth rebound, moderate consumer price inflation pressures and continued RMB appreciation over the past year, the authorities are expected to tighten the monetary and credit policy very cautiously in the short term. Fiscal support is also being withdrawn gradually.

EUROZONE

After an historic recession in 2020 (-6.8%, annual average), the Eurozone economy rebounded firmly in the first half of 2021. The annual growth should be +4.8% this year and +5.2% in 2022. Eurozone GDP could reach its pre-crisis level faster than we expected before, around end-2021. The acceleration of vaccines rollout in a large majority of Members States of the Eurozone and the progressive lifting of health restrictions reduce uncertainties for economic agents. Consumers' confidence in particular has increased rapidly over the past few months. Also, in this still tricky situation, the policy-mix will remain accommodative to support the recovery. The rise in inflation should be temporary.

FRANCE

Based on the May and June business confidence surveys, the economy is rebounding more strongly than expected from the third lockdown. We have raised our Q2 growth forecasts, from near zero to near 1% QoQ. In Q3, the mechanical rebound would bring growth to about 3% QoQ. Growth would then slow down but remain high, supported by the fiscal stimulus. The flip side of the coin of the vigorous recovery in demand is that supply, which is less responsive, is under pressure. Procurement problems, rising input prices, hiring difficulties are all sticking points to watch that could slow the recovery. In 2021, growth would average 6% (an optimistic forecast, half a point above the June consensus) and it would remain strong in 2022 (4.6%). According to our scenario, GDP would exceed its pre-crisis level in Q1 2022. As for inflation, most of its recent rise is temporary. We expect it to peak in Q4 2021, before falling in 2022. However, it would be at a higher level than before the crisis, as growth strengthens and the reflationary efforts of monetary policy also bear fruit.

RATES AND EXCHANGE RATES

In the US, the outlook for inflation and employment as well as the latest signals from the FOMC point towards the central bank providing greater clarity in September about its intentions to scale back its asset purchases. We expect tapering to start in January next year. We now expect the first Fed rate hike in this cycle in early 2023, which is earlier than previously thought. 10-year Treasury yields are expected to rise this year as well as next, reflecting an increase in real yields on the back of, as of Q4 this year, slowing but still strong growth and a gradually less accommodative monetary policy. In the eurozone, the ECB will maintain its very accommodative policy centered around its asset purchases and forward guidance, in order to generate a lasting pick-up in inflation towards its target. The outcome of the strategy review, to be announced after the summer, should clearly confirm this stance. Given the expected developments in terms of growth and inflation, the net purchases of the pandemic emergency purchase

programme (PEPP) should stop at the end of March 2022 but the monthly volume under the traditional asset purchase programme should be increased on that occasion in order to avoid market disruption. 10-year Bund yields are expected to rise until the first half of 2022 and decline thereafter on the back of softer economic data. Sovereign spreads should widen somewhat in the fourth quarter of this year on the back of election-related uncertainty and the prospect of ending the PEPP.

The Bank of Japan is expected to maintain its current policy stance over the forecast horizon, whilst allowing the 10-year JGB yield to drift higher, towards the upper bound of its target range of 0 to 25bp.

We expect the dollar to strengthen versus the euro, driven by widening yield differentials and the prospect of a first Fed rate hike. Similarly, we expect an appreciation of the dollar versus the yen. 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 expected 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	3.9	2.7
Japan	0.3	-4.7	2.2	3.3	0.5	0.0	0.0	0.2
United-Kingdom	1.5	-9.8	7.8	5.6	1.8	0.9	1.8	2.5
Euro Area	1.3	-6.7	4.8	5.2	1.2	0.3	2.1	1.8
Germany	0.6	-5.1	3.7	5.5	1.4	0.4	2.7	2.0
France	1.5	-8.0	6.0	4.6	1.3	0.5	1.8	1.3
Italy	0.3	-8.9	5.2	4.5	0.6	-0.1	1.5	1.9
Spain	2.0	-10.8	6.0	6.3	0.8	-0.4	2.3	1.8
China	6.1	2.3	8.7	5.3	2.9	2.5	1.7	2.8
India*	4.2	-7.2	8.4	9.4	4.8	6.1	5.0	5.0
Brazil	1.1	-4.1	5.5	3.0	3.7	3.2	7.2	4.8
Russia	1.3	-4.5	4.5	3.0	4.3	3.4	5.8	4.3

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					
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	1.54	1.70	1.90	1.90	2.20
Ezone	Deposit rate	-0.50	0.00	-0.50	-0.50	-0.50	-0.50
	Bund 10y	-0.33	-0.20	0.00	0.10	0.10	0.00
	OAT 10y	-0.11	0.14	0.35	0.55	0.55	0.30
	BTP 10y	0.63	0.84	1.10	1.40	1.40	1.10
UK	BONO 10y	0.34	0.49	0.70	0.90	0.90	0.80
	Base rate	0.10	0.10	0.10	0.10	0.10	0.25
Japan	Gilts 10y	0.88	0.81	0.90	1.10	1.10	1.30
	BoJ Rate	-0.04	-0.03	-0.10	-0.10	-0.10	-0.10
	JGB 10y	0.09	0.05	0.12	0.20	0.20	0.23
Exchange Rates		2021					
End of period		Q1	Q2e*	Q3e	Q4e	2021e	2022e
USD	EUR / USD	1.18	1.20	1.18	1.17	1.17	1.14
	USD / JPY	111	111	111	111	111	114
	GBP / USD	1.38	1.39	1.40	1.39	1.39	1.38
EUR	EUR / GBP	0.85	0.86	0.84	0.84	0.84	0.83
	EUR / JPY	130	132	131	130	130	130
Brent		2021					
End of period		Q1	Q2e*	Q3e	Q4e	2021e	2022e
Brent	USD/bbl	64	76	80	78	78	70

*SPOT RATES AS AT 25 JUNE

SOURCE: BNP PARIBAS GLOBAL MARKETS (E: ESTIMATES)



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CALENDAR

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LATEST INDICATORS

Although in France the unemployment rate edged higher in the first quarter -in line with expectations-, other data were strong. Consumer confidence as well as consumer spending increased much more than anticipated and the final manufacturing PMI turned out to be better than the flash estimate. This last point also applies to the German PMI. The European Commission economic confidence indicator improved significantly in the euro area, thereby beating expectations, on the back of a jump in services sentiment. The manufacturing PMI was slightly better than the flash number and the unemployment rate recorded a very small improvement. The manufacturing PMI picked up in Japan and the Tankan report saw a broad-based improvement compared to the first quarter but less than anticipated. The Chinese non-manufacturing PMI declined whereas the consensus had expected a status quo. Concerning the manufacturing PMIs, one index was hardly changed whereas the other weakened. In the US, both the manufacturing PMI and the ISM were lower in June compared to May but the attention was grabbed by the priced paid component which continues to rise. Finally, the number of new non-farm payrolls was higher than expected. The slight increase in the unemployment rate was due to more people entering the labour market.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	ACTUAL	PREVIOUS
06/29/2021	France	ILO Unemployment Rate	1Q	8.1%	8.1%	8.0%
06/29/2021	France	Consumer Confidence	Jun	100.0	102.0	98.0
06/29/2021	Eurozone	Consumer Confidence	Jun	--	-3.3	-3.3
06/29/2021	Eurozone	Economic Confidence	Jun	116.5	117.9	114.5
06/29/2021	Eurozone	Industrial Confidence	Jun	12.1	12.7	11.5
06/29/2021	Eurozone	Services Confidence	Jun	14.8	17.9	11.3
06/29/2021	United States	Conf. Board Consumer Confidence	Jun	119.0	127.3	120.0
06/29/2021	United States	Conf. Board Present Situation	Jun	--	157.7	148.7
06/29/2021	United States	Conf. Board Expectations	Jun	--	107.0	100.9
06/30/2021	China	Non-manufacturing PMI	Jun	55.3	53.5	55.2
06/30/2021	China	Manufacturing PMI	Jun	50.8	50.9	51.0
06/30/2021	China	Composite PMI	Jun	--	52.9	54.2
06/30/2021	United Kingdom	GDP QoQ	1Q	-1.5%	-1.6%	-1.5%
06/30/2021	France	Consumer Spending MoM	May	7.5%	10.4%	-8.7%
06/30/2021	Germany	Unemployment Change (000's)	Jun	-20.0k	-38.0k	-19.0k
06/30/2021	Eurozone	CPI Core YoY	Jun	0.9%	0.9%	1.0%
06/30/2021	Eurozone	CPI MoM	Jun	0.2%	0.3%	0.3%
06/30/2021	Eurozone	CPI Estimate YoY	Jun	1.9%	1.9%	2.0%
07/01/2021	Japan	Tankan Large Mfg Index	2Q	16.0	14.0	5.0
07/01/2021	Japan	Tankan Large Non-Mfg Index	2Q	3.0	1.0	-1.0

SOURCE: BLOOMBERG



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DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	ACTUAL	PREVIOUS
07/01/2021	Japan	Tankan Large Mfg Outlook	2Q	18.0	13.0	4.0
07/01/2021	Japan	Tankan Large Non-Mfg Outlook	2Q	8.0	3.0	-1.0
07/01/2021	Japan	Tankan Small Mfg Index	2Q	-5.0	-7.0	-13.0
07/01/2021	Japan	Tankan Small Non-Mfg Index	2Q	-9.0	-9.0	-11.0
07/01/2021	Japan	Tankan Small Mfg Outlook	2Q	-2.0	-6.0	-12.0
07/01/2021	Japan	Tankan Small Non-Mfg Outlook	2Q	-8.0	-12.0	-16.0
07/01/2021	Japan	Jibun Bank Japan PMI Mfg	Jun	--	52.4	51.5
07/01/2021	China	Caixin China PMI Mfg	Jun	51.9	51.3	52.0
07/01/2021	France	Markit France Manufacturing PMI	Jun	58.6	59.0	58.6
07/01/2021	Germany	Markit/BME Germany Manufacturing PMI	Jun	64.9	65.1	64.9
07/01/2021	Eurozone	Markit Eurozone Manufacturing PMI	Jun	63.1	63.4	63.1
07/01/2021	United Kingdom	Markit UK PMI Manufacturing SA	Jun	64.2	63.9	64.2
07/01/2021	Eurozone	Unemployment Rate	May	8.0%	7.9%	8.1%
07/01/2021	United States	Initial Jobless Claims	Jun	388k	364k	415k
07/01/2021	United States	Markit US Manufacturing PMI	Jun	62.6	62.1	62.6
07/01/2021	United States	ISM Manufacturing	Jun	60.9	60.6	61.2
07/01/2021	United States	ISM Prices Paid	Jun	87.0	92.1	88.0
07/01/2021	United States	ISM New Orders	Jun	65.0	66.0	67.0
07/01/2021	United States	ISM Employment	Jun	--	49.9	50.9
07/02/2021	United States	Change in Nonfarm Payrolls	Jun	720k	850k	583k
07/02/2021	United States	Unemployment Rate	Jun	5.60%	5.90%	5.80%
07/02/2021	United States	Average Weekly Hours All Employees	Jun	34.9	34.7	34.8
07/02/2021	United States	Average Hourly Earnings MoM	Jun	0.30%	0.30%	0.40%
07/02/2021	United States	Labor Force Participation Rate	Jun	61.70%	61.60%	61.60%
07/02/2021	United States	Underemployment Rate	Jun	--	9.80%	10.20%
07/02/2021	United States	Cap Goods Orders Nondef Ex Air	May	-0.10%	0.10%	-0.10%

SOURCE: BLOOMBERG



CALENDAR: THE WEEK AHEAD

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COMING INDICATORS

The focus this week will be on the services and composite PMIs in a large number of countries. In addition we will see the publication of the ZEW survey for Germany and the eurozone, the Banque de France industrial sentiment index and, in Japan, the EcoWatchers survey. The European Commission will publish its summer forecasts. Markets will also scrutinise the minutes of the FOMC.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	PREVIOUS
07/05/2021	Japan	Jibun Bank Japan PMI Services	Jun	--	47.2
07/05/2021	Japan	Jibun Bank Japan PMI Composite	Jun	--	47.8
07/05/2021	China	Caixin China PMI Composite	Jun	--	53.8
07/05/2021	China	Caixin China PMI Services	Jun	55.1	55.1
07/05/2021	France	Markit France Services PMI	Jun	--	57.4
07/05/2021	France	Markit France Composite PMI	Jun	--	57.1
07/05/2021	Germany	Markit Germany Services PMI	Jun	--	58.1
07/05/2021	Germany	Markit/BME Germany Composite PMI	Jun	--	60.4
07/05/2021	Eurozone	Markit Eurozone Services PMI	Jun	--	58
07/05/2021	Eurozone	Markit Eurozone Composite PMI	Jun	--	59.2
07/05/2021	United Kingdom	Markit/CIPS UK Services PMI	Jun	--	61.7
07/05/2021	United Kingdom	Markit/CIPS UK Composite PMI	Jun	--	61.7
07/06/2021	Germany	Markit Germany Construction PMI	Jun	--	44.5
07/06/2021	United Kingdom	Markit/CIPS UK Construction PMI	Jun	--	64.2
07/06/2021	Germany	ZEW Survey Expectations	Jul	75	79.8
07/06/2021	Germany	ZEW Survey Current Situation	Jul	0	-9.1
07/06/2021	Eurozone	Retail Sales MoM	May	--	-3.10%
07/06/2021	Eurozone	ZEW Survey Expectations	Jul	--	81.3
07/06/2021	United States	Markit US Services PMI	Jun	64.8	64.8
07/06/2021	United States	Markit US Composite PMI	Jun	--	63.9
07/06/2021	United States	ISM Services Index	Jun	63.9	64
07/07/2021	Eurozone	European Commission Publishes Summer Economic Forecasts			
07/07/2021	United States	JOLTS Job Openings	May	9344k	9286k
07/07/2021	United States	FOMC Meeting Minutes	Jun	--	--
07/08/2021	Japan	Eco Watchers Survey Outlook SA	Jun	--	47.6
07/08/2021	Japan	Eco Watchers Survey Current SA	Jun	--	38.1
07/08/2021	United States	Initial Jobless Claims	Jul	--	364k
07/08/2021	France	Bank of France Ind. Sentiment	Jun	--	107
07/09/2021	China	CPI YoY	Jun	1.30%	1.30%
07/09/2021	China	PPI YoY	Jun	8.80%	9.00%
07/09/2021	United Kingdom	Monthly GDP (3M/3M)	May	--	1.50%

SOURCE: BLOOMBERG



FURTHER READING

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Covid-19: A comparative analysis of support measures in Germany, France, Italy and Spain	EcoFlash	2 July 2021
Central Europe : Hike on time	EcoTVWeek	2 July 2021
Most of the dollars issued via the Fed's swap agreements return to US soil	Chart of the Week	30 June 2021
The (unwarranted) stagflation narrative of 2021	EcoWeek	28 June 2021
Inside the money creation in the United States	Conjoncture	25 June 2021
Morocco: confident despite challenges	Conjoncture	25 June 2021
Is there a risk of stagflation?	EcoTVWeek	25 June 2021
Eurozone: rising inflation is driven by energy prices	Chart of the Week	23 June 2021
US : Federal Reserve: enhanced credibility	EcoWeek	21 June 2021
France: economy has the wind of optimism in its sails	EcoTVWeek	18 June 2021
Growth bounces back in Chile	Chart of the Week	16 June 2021
Global : Inflation higher for longer? The interplay between productivity, profit margins and pricing power	EcoWeek	14 June 2021
June 2021 issue	EcoTV	10 June 2021
France: a majority of State-Guaranteed Loans to SMEs were taken on a precautionary basis	Chart of the Week	9 June 2021
Eurozone: The ECB: under pressure	EcoWeek	7 June 2021
Spain: Loans increased in 2020 for the first time since 2008	EcoTVWeek	4 June 2021
Sweden: poised for a very strong rebound in GDP growth	Chart of the Week	2 June 2021
European Union: Southern Europe: IFRS 9 put to the test by the Covid-19 pandemic	Conjoncture	2 June 2021
Eurozone: Too pessimistic about the pandemic's economic impact?	EcoFlash	1 June 2021
Central bank inflation forecasts: 'Trust us, we know better'	EcoWeek	31 May 2021



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