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FED ADAPTS FORWARD GUIDANCE, WILL ECB DO THE SAME?

In the early phase of QE, financial markets perceive central bank forward guidance on asset purchases and on policy rates to be closely linked. This generates a mutual reinforcement of both instruments. At a later stage, there may be mounting concern that the signalling works in the other direction as well. Scaling back asset purchases could be interpreted as a signal that a rate hike will follow soon once the net purchases have ended. In the US, Jerome Powell has been very clear that tapering would not signal a change in the outlook for the federal funds rate. In the Eurozone, both types of guidance are explicitly linked. This may complicate the scaling back of asset purchases in view of the impact on rate expectations. On the occasion of the decision on the PEPP, it might be worth to consider revisiting the link between APP guidance and rate guidance.

Quantitative easing may influence inflation via different transmission channels: better anchored inflation expectations, market liquidity, wealth effects, the exchange rate, commercial banks' excess reserves at the central bank which may entice them to increase their loan volume, portfolio rebalancing, a signalling effect with respect to official interest rates. The last two are considered to be particularly important. The introduction of an asset purchase program sends a signal that the central bank has no intention whatsoever to hike its policy rate. Consequently, policy rate expectations decline, which lowers bond yields. Portfolio rebalancing refers to the changing asset allocation of investors that have sold their bonds to the central bank. The latter has extracted duration from the market, thereby forcing investors to look for riskier instruments – corporate bonds, equities, real estate, etc. – to generate a sufficient return. The portfolio channel compresses risk premiums, thereby lowering the financing cost for companies. It can also generate wealth effects due to the rising asset prices.

In the early phase of QE, central bank forward guidance on asset purchases and on policy rates are closely linked, either explicitly or implicitly, in the perception of financial markets. It generates a mutual reinforcement of both instruments. At a later stage, there may be mounting concern that the signalling works in the other direction as well. Scaling back the monthly bond purchases could be interpreted that a rate hike will follow soon once the net purchases have ended. In the US, the minutes of the July FOMC meeting report the concern of several members in this respect. In his speech at the annual Jackson Hole symposium of the Federal Reserve Bank of Kansas City, Jerome Powell has been very clear that tapering would not signal a change in the outlook for the federal funds rate¹. Bonds and equities rallied, reflecting that investors welcomed the clear separation between forward guidance in terms of QE and that which concerns the policy rate.

In the Eurozone, both types of guidance are explicitly linked. The Governing Council expects the net asset purchases under its asset purchase program (APP) "to end shortly before it starts raising the key

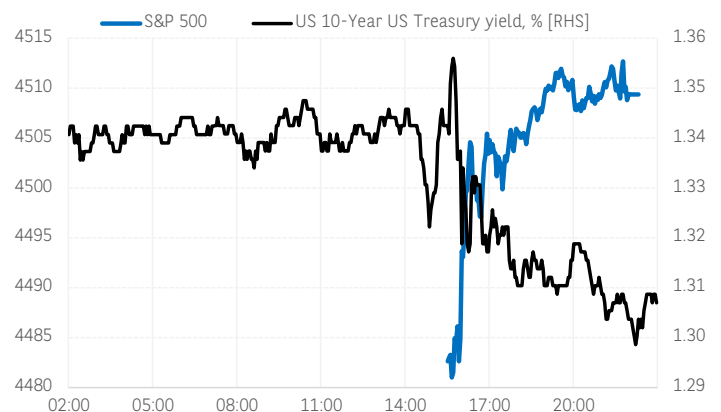
1. The timing and pace of the coming reduction in asset purchases will not be intended to carry a direct signal regarding the timing of interest rate liftoff, for which we have articulated a different and substantially more stringent test.

ECB interest rates"². This implies that, quite likely, any communication about reducing the monthly purchases under the APP, would influence policy rate expectations. One could argue that this risk is well under control given the strict conditions for a rate hike that have been set in the recently updated interest rate guidance.³ Moreover, it looks premature to be concerned about such an outcome. The Governing Council first needs to decide on the pandemic emergency purchase

2. The full sentence reads as follows: "The Governing Council continues to expect monthly net asset purchases under the APP to run for as long as necessary to reinforce the accommodative impact of its policy rates, and to end shortly before it starts raising the key ECB interest rates." Source: ECB, Monetary policy decisions, 22 July 2021. This guidance was introduced at the Governing Council meeting of 12 September 2019 when the APP was restarted.

3. Inflation needs to reach 2 percent well ahead of the end of the projection horizon, it must be expected to remain at that level for the rest of the projection horizon and the observed progress in underlying inflation must be sufficiently advanced to be consistent with inflation stabilising at 2 percent over the medium term. Source: Philip Lane, The new monetary policy strategy: implications for rate forward guidance, The ECB blog, 19 August 2021

JEROME POWELL'S JACKSON HOLE SPEECH AND US MARKETS



SOURCE: BLOOMBERG (08/27/2021), BNP PARIBAS

In the Eurozone, forward guidance on asset purchases is explicitly linked with that on the policy rate. This may complicate the scaling back of QE. On the occasion of the decision on the PEPP, it might be worth to consider revisiting the link between APP guidance and rate guidance.



program (PEPP), whether it will end in March next year, to what extent it would be counterbalanced with an increase in the APP, how long reinvestments will be made of paper bought under the PEPP, etc. ECB chief economist Philip Lane is not in a hurry. Ending the PEPP does not require a long lead time in terms of communication considering that the APP is ongoing. However, his comment that *"If we were in a pure taper situation, going from supporting the market to finishing net purchases, then preparing the market is an issue"*⁴ shows that the ECB is very much aware it cannot afford a cliff effect when ending its APP. By making an explicit link between the two types of forward guidance, the ECB has put itself between a rock and a hard place: a late announcement of the end of the APP, implying a swift reduction in monthly purchases, could disrupt markets whereas tapering more slowly and hence announcing earlier, will increase expected short-term interest rates earlier as well. On the occasion of the decision on the PEPP, it might be worth to consider revisiting the link between APP guidance and rate guidance.

William De Vijlder

4. Source: ECB, Interview with Philip R. Lane, Member of the Executive Board of the ECB, conducted by Balazs Koranyi and Frank Siebelt (Reuters), 25 August 2021.



MARKETS OVERVIEW

OVERVIEW

Week 27-8 21 to 3-9-21

➔ CAC 40	6 682	▶ 6 690	+0.1 %
➔ S&P 500	4 509	▶ 4 535	+0.6 %
➔ Volatility (VIX)	16.4	▶ 16.4	+0.0 pb
➔ Euribor 3M (%)	-0.55	▶ -0.55	+0.2 bp
➔ Libor \$ 3M (%)	0.12	▶ 0.12	-0.4 bp
➔ OAT 10y (%)	-0.13	▶ -0.09	+4.2 bp
➔ Bund 10y (%)	-0.46	▶ -0.36	+9.9 bp
➔ US Tr. 10y (%)	1.29	▶ 1.32	+3.2 bp
➔ Euro vs dollar	1.18	▶ 1.19	+0.8 %
➔ Gold (ounce, \$)	1 808	▶ 1 834	+1.4 %
➔ Oil (Brent, \$)	72.7	▶ 72.7	-0.0 %

Interest Rates

		highest 21	lowest 21
€ ECB	0.00	0.00 at 01/01	0.00 at 01/01
Eonia	-0.48	-0.47 at 26/01	-0.50 at 01/01
Euribor 3M	-0.55	-0.53 at 07/05	-0.56 at 06/01
Euribor 12M	-0.50	-0.47 at 20/04	-0.52 at 02/02
\$ FED	0.25	0.25 at 01/01	0.25 at 01/01
Libor 3M	0.12	0.24 at 13/01	0.12 at 03/09
Libor 12M	0.22	0.34 at 01/01	0.22 at 02/09
€ BoE	0.10	0.10 at 01/01	0.10 at 01/01
Libor 3M	0.06	0.09 at 24/03	0.03 at 01/01
Libor 12M	0.22	0.23 at 27/08	0.07 at 11/01

At 3-9-21

MONEY & BOND MARKETS

Yield (%)

		highest 21	lowest 21
€ AVG 5-7y	-0.32	-0.03 at 19/05	-0.46 at 04/01
Bund 2y	-0.72	-0.64 at 23/06	-0.78 at 04/08
Bund 10y	-0.36	-0.11 at 20/05	-0.60 at 04/01
OAT 10y	-0.09	0.23 at 17/05	-0.41 at 04/01
Corp. BBB	0.56	0.79 at 20/05	0.43 at 05/08
\$ Treas. 2y	0.19	0.26 at 01/07	0.11 at 05/02
Treas. 10y	1.32	1.75 at 31/03	0.91 at 01/01
High Yield	4.62	4.87 at 09/03	4.52 at 29/06
€ gilt. 2y	0.12	0.16 at 31/08	-0.08 at 04/01
gilt. 10y	0.72	0.93 at 13/05	0.21 at 04/01

At 3-9-21

EXCHANGE RATES

1€ =		highest 21	lowest 21	2021
USD	1.19	1.23 at 06/01	1.17 at 20/08	-2.9%
GBP	0.86	0.91 at 06/01	0.85 at 10/08	-4.3%
CHF	1.09	1.11 at 04/03	1.07 at 17/08	+0.3%
JPY	130.29	133.97 at 28/05	125.22 at 18/01	+3.1%
AUD	1.60	1.64 at 20/08	1.53 at 18/03	+0.7%
CNY	7.67	8.00 at 01/01	7.59 at 19/08	-4.1%
BRL	6.15	6.95 at 03/03	5.88 at 24/06	-3.3%
RUB	86.41	92.47 at 20/04	86.04 at 18/06	-4.5%
INR	86.75	90.39 at 23/04	85.30 at 27/03	-3.0%

At 3-9-21 Change

COMMODITIES

Spot price, \$		highest 21	lowest 21	2021	2021(€)
Oil, Brent	72.7	77.2 at 05/07	51.2 at 04/01	+40.1%	+44.3%
Gold (ounce)	1 834	1 947 at 05/01	1 682 at 08/03	-3.4%	-0.5%
Metals, LMEX	4 269	4 402 at 11/05	3 415 at 01/01	+25.0%	+28.8%
Copper (ton)	9 421	10 449 at 11/05	7 749 at 01/01	+21.6%	+25.2%
wheat (ton)	242	2.9 at 07/05	224 at 09/07	-2.1%	+0.8%
Corn (ton)	208	2.9 at 07/05	188 at 04/01	+1.0%	+13.5%

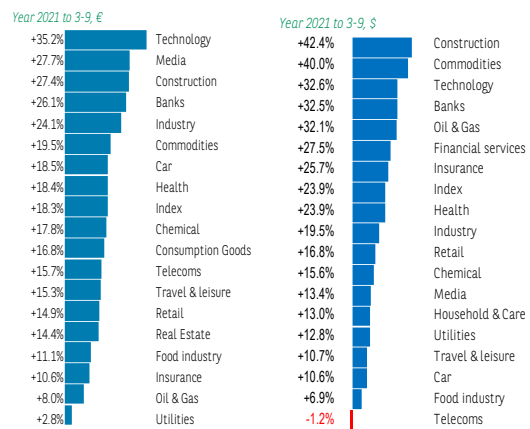
At 3-9-21 Change

EQUITY INDICES

	Index	highest 21	lowest 21	2021
World				
MSCI World	3 164	3 164 at 03/09	2 662 at 29/01	+17.6%
North America				
S&P500	4 535	4 537 at 02/09	3 701 at 04/01	+20.7%
Europe				
EuroStoxx50	4 202	4 232 at 02/09	3 481 at 29/01	+18.3%
CAC 40	6 690	6 896 at 13/08	5 399 at 29/01	+2.1%
DAX 30	15 781	15 977 at 13/08	13 433 at 29/01	+15.0%
IBEX 35	8 864	9 281 at 14/06	7 758 at 29/01	+1.0%
FTSE100	7 138	7 220 at 11/08	6 407 at 29/01	+1.0%
Asia				
MSCI, loc.	1 162	1 162 at 03/09	1 044 at 06/01	+1.1%
Nikkei	29 128	30 468 at 16/02	27 013 at 20/08	+6.1%
Emerging				
MSCI Emerging (\$)	1 316	1 445 at 17/02	1 221 at 20/08	+0.2%
China	95	130 at 17/02	87 at 20/08	-12.4%
India	856	856 at 03/09	659 at 29/01	+26.7%
Brazil	1 794	2 098 at 24/06	1 561 at 09/03	-4.8%
Russia	819	819 at 03/09	647 at 01/02	+20.7%

At 3-9-21 Change

PERFORMANCE BY SECTOR (Eurostoxx50 & S&P500)

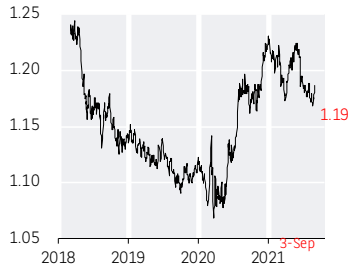


SOURCE: REFINITIV, BNP PARIBAS,

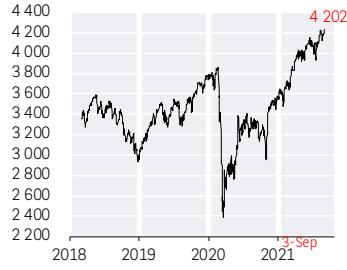


MARKETS OVERVIEW

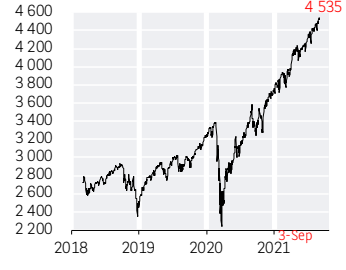
EURO-DOLLAR



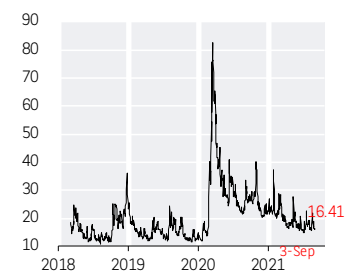
EUROSTOXX50



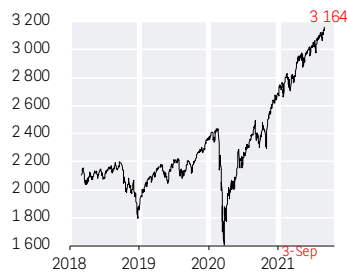
S&P500



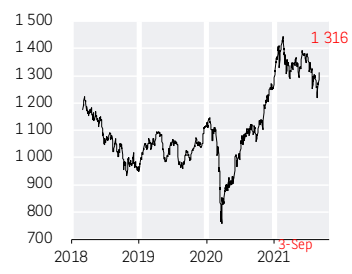
VOLATILITY (VIX, S&P500)



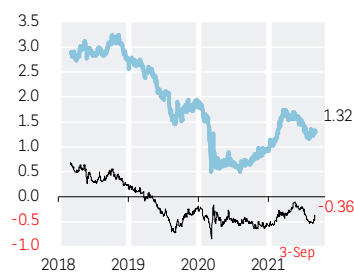
MSCI WORLD (USD)



MSCI EMERGING (USD)

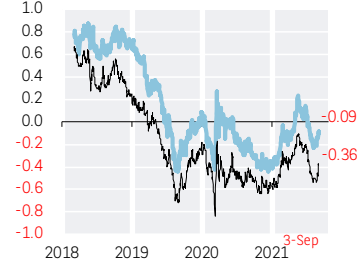


10Y BOND YIELD, TREASURIES VS BUND



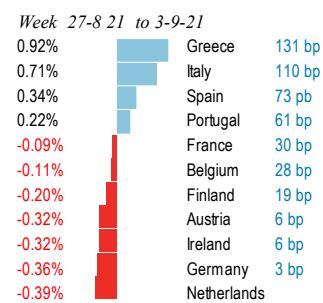
—Bunds —US Treasuries

10Y BOND YIELD

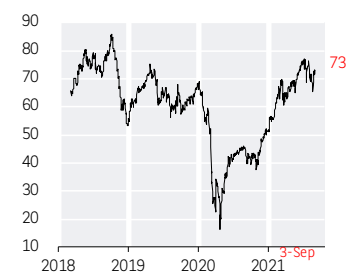


—Bunds —OAT

10Y BOND YIELD & SPREADS



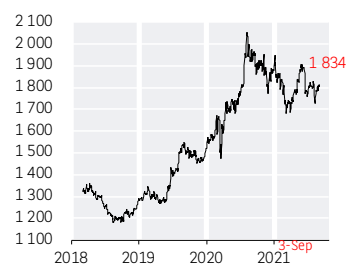
OIL (BRENT, USD)



METALS (LMEX, USD)



GOLD (OUNCE, USD)



SOURCE: REFINITIV, BNP PARIBAS



PMI: BEYOND THE PEAK

The global manufacturing PMI has eased further in August and is now about two points below the peak reached in June. The levels remain very high in the developed economies but the latest country dynamics show considerable divergence with the index moving higher in Canada, Greece, Hong Kong and Indonesia. It jumped in South-Africa after a plunge in July. In most countries, the PMI is stabilising of trending lower, like is the case in the US and the Eurozone. In China, it has moved below 50. Vietnam saw another big drop. The global services PMI continued to decline in July. In August, the US saw an additional important decline implying a cumulative drop of about 15 points since the May peak. The relief is that the index is still above 50. In the Eurozone, the index has edged down slightly and in recent months, by and large, it is stabilising at a high level. The index continues to decline in the UK whereas it dropped to a particularly low level in Japan. Russia and, even more so, China recorded big drops whereas the index jumped in India and continues to move gradually higher in Brazil.

The global composite PMI declined in July and, based on the available data at the individual country level, is expected to decline further in August. This development is very outspoken in the US and, to a lesser degree, the UK and China. The Eurozone is stabilising at a high level. The downtrend continues in Japan. India on the other hand is on a strong uptrend after the low point reached in June. The global manufacturing employment PMI declined slightly in August but, essentially, it has been moving sideways since the month of April. The numbers for the US were weaker in the US and the rebound in July was short-lived. The index edged down in the euro area but the level remains high. The numbers improved in Austria, the Netherlands and France and moved lower in Germany. Denmark and the UK saw declines. Despite the weakening of its composite PMI, Japan recorded an improvement in the employment survey. There was also a noticeable improvement in Turkey. The data weakened slightly in China and India - the indexes are now below 50 - whereas Indonesia, despite and improvement, and Vietnam recorded very low levels.

Global export orders sentiment continues to decline, bringing the cumulative drop since the peak in May to close to 4 points. Data improved in Canada but were weaker in the euro area and even more so in the US. Greece and, to a lesser degree, Italy, saw an improvement in August. Germany, the Netherlands and Spain recorded a rather considerable decline. Data were better in the UK but still well below the May peak. Australia saw a big drop. Turkey saw a stabilisation at a high level. The downward trend continues in Russia with the index reaching 40.2. Export orders worsened further in China and it dropped in India after rebounding in July. Indonesia saw a big improvement but the level remains very low. The Vietnam index dropped as well. Global manufacturing input prices have eased in August, moving below the June level, after rebounding in July. They remain at very elevated levels in the US, the euro area - in particular Germany and the Netherlands - the UK and the Czech republic. Even in countries that have seen a weakening of their overall PMI, the input prices remain at very high levels (e.g. Japan, China, Indonesia, Vietnam), reflecting the role of broad-based supply bottlenecks.

Global services input prices were stable at an elevated level in July. For August, the individual country data moved slightly higher in many countries although China, where it declined, is an exception. Brazil recorded a big jump. Global manufacturing output prices have been more or less stable over the past three months. They continue to move higher in the US but declined in the euro area. In August, France, Germany, Italy and the Netherlands recorded large declines. The index also weakened in the UK and Turkey. Interestingly, it continues to move higher in Japan.

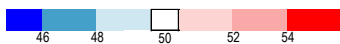
William De Vijlder

MANUFACTURING PMI

	Developed Markets																	Emerging countries																	
	World	NA		Europe							Asia-Oceania				LATAM		Eurasia			Middle East & Africa			Asia												
		Canada	USA	EURO ZONE		Austria	Denmark	France	Germany	Greece	Ireland	Italy	Netherlands	Spain	Switzerland	UK	Australia	New Zealand	Japan	Singapore	Brazil	Mexico	Czech Republic	Poland	Russia	Turkey	Egypt	Lebanon	Saudi Arabia	South Africa	UAE	China	Hong Kong	India	Indonesia
Nov-20	53.8	55.8	56.7	53.8	51.7	46.7	49.6	57.8	42.3	52.2	51.5	54.4	49.8	54.5	55.6	52.1	55.0	49.0	50.4	64.0	43.7	53.9	50.8	46.3	51.4	50.9	42.4	54.7	52.6	49.5	54.9	50.1	56.3	50.6	49.9
Dec-20	53.8	57.9	57.1	55.2	53.5	41.6	51.1	58.3	46.9	57.2	52.8	58.2	51.0	57.3	57.5		48.1	50.0	50.5	61.5	42.4	57.0	51.7	49.7	50.8	48.2	43.2	57.0	50.3	51.2	53.0	43.5	56.4	51.3	51.7
Jan-21	53.6	54.4	59.2	54.8	54.2	42.9	51.6	57.1	50.0	51.8	55.1	58.8	49.3	59.4	54.1	55.3	57.3	49.8	50.7	56.5	43.0	57.0	51.9	50.9	54.4	48.7	41.0	57.1	50.9	51.2	51.5	47.8	57.7	52.2	51.3
Feb-21	54.0	54.8	58.6	57.9	58.3	46.3	56.1	60.7	49.4	52.0	56.9	59.6	52.9	61.3	55.1	58.8	54.2	51.4	50.5	58.4	44.2	56.5	53.4	51.5	51.7	49.3	42.2	53.9	53.0	50.6	50.9	50.2	57.5	50.9	51.6
Mar-21	55.0	58.5	59.1	62.5	63.4	65.8	59.3	66.6	51.8	57.1	59.8	64.7	56.9	66.3	58.9	59.9	63.6	52.7	50.8	52.8	45.6	58.0	54.3	51.1	52.6	48.0	46.4	53.3	57.4	52.6	50.6	50.5	55.4	53.2	53.6
Apr-21	55.8	57.2	60.5	62.9	64.7	66.8	58.9	66.2	54.4	60.8	60.7	67.2	57.7	69.5	60.9	61.7	58.3	53.6	50.9	52.3	48.4	58.9	53.7	50.4	50.4	47.7	47.1	55.2	56.2	52.7	51.9	50.3	55.5	54.6	54.7
May-21	56.0	57.0	62.1	63.1	66.4	65.5	59.4	64.4	58.0	64.1	62.3	69.4	59.4	69.9	65.6	61.8	58.7	53.0	50.7	53.7	47.6	61.8	57.2	51.9	49.3	48.6	47.9	56.4	57.8	52.3	52.0	52.5	50.8	55.3	53.1
Jun-21	55.5	56.5	62.1	63.4	67.0	65.5	59.0	65.1	58.6	64.0	62.2	68.8	60.4	66.7	63.9	63.2	60.9	52.4	50.8	56.4	48.8	62.7	58.4	49.2	51.3	49.9	47.5	56.4	57.4	52.2	51.3	51.4	48.1	53.5	44.1
Jul-21	55.4	56.2	63.4	62.8	63.9	69.7	58.0	65.9	57.4	63.3	60.3	67.4	59.0	71.1	60.4	60.8	62.6	53.0	51.0	56.7	49.6	62.0	57.6	47.5	54.0	49.1	47.0	55.8	43.6	54.0	50.3	51.3	55.3	40.1	45.1
Aug-21	54.1	57.2	61.1	61.4	61.8	67.3	57.5	62.6	59.3	62.8	60.9	65.8	59.5	67.7	60.3	51.6		52.7	50.9	53.6	47.1	61.0	56.0	46.5	54.1			57.9		49.2	53.3	52.3	43.7	40.2	

SERVICES PMI

	World	USA	EURO ZONE		France	Germany	Ireland	Italy	Spain	UK	Australia	Japan	Brazil	Russia	Lebanon	China	Hong Kong	India
Nov-20	52.2	58.4	41.7	38.8	46.0	45.4	39.4	39.5	47.6	52.9	47.8	50.9	48.2	42.4	57.8	50.1	53.7	
Dec-20	51.8	54.8	46.4	49.1	47.0	50.1	39.7	48.0	49.4		47.7	51.1	48.0	43.2	56.3	43.5	52.3	
Jan-21	51.6	58.3	45.4	47.3	46.7	36.2	44.7	41.7	39.5	54.3	46.1	47.0	52.7	41.0	52.0	47.8	52.8	
Feb-21	52.8	59.8	45.7	45.6	45.7	41.2	48.8	43.1	49.5	55.8	46.3	47.1	52.2	42.2	51.5	50.2	55.3	
Mar-21	54.7	60.4	49.6	48.2	51.5	54.6	48.6	48.1	56.3	58.7	48.3	44.1	55.8	46.4	54.3	50.5	54.6	
Apr-21	57.0	64.7	50.5	50.3	49.9	57.7	47.3	54.6	61.0	61.0	49.5	42.9	55.2	47.1	56.3	50.3	54.0	
May-21	59.5	70.4	55.2	56.6	52.8	62.1	53.1	59.4	62.9	61.2	46.5	48.3	57.5	47.9	55.1	52.5	46.4	
Jun-21	57.5	64.6	58.3	57.8	57.5	63.1	56.7	62.5	62.4	57.8	48.0	53.9	56.5	47.5	50.3	51.4	41.2	
Jul-21	56.3	59.9	59.8	56.8	61.8	66.6	58.0	61.9	59.6	51.8	47.4	54.4	53.5	47.0	54.9	51.3	45.4	
Aug-21		55.1	59.0	56.3	60.8	63.7	58.0	60.1	55.0		42.9	55.1	49.3		46.7	53.3	56.7	



SOURCE: MARKIT, BNP PARIBAS



COMPOSITE PMI*

	WD	Developed Markets																	Emerging countries																
		NA		Europe										Asia-Oceania					LATAM	Eurasia		Middle East & Africa			Asia										
		CANADA	USA	EURO ZONE	AUSTRIA	DENMARK	FRANCE	GERMANY	GREECE	IRELAND	ITALY	NETHERLANDS	SPAIN	SWITZERLAND	UK	AUSTRALIA	NEW ZEALAND	JAPAN	SINGAPORE	BRAZIL	MEXICO	CZECH REPUBLIC	POLAND	RUSSIA	TURKEY	EGYPT	LEBANON	SAUDI ARABIA	SOUTH AFRICA	UAE	CHINA	HONG KONG	INDIA	INDONESIA	VIETNAM
Nov-20	53.1	58.6	45.3			40.6	51.7		47.7	42.7		41.7	49.0				48.1		53.8													57.5		56.3	
Dec-20	52.7	55.3	49.1			49.5	52.0		53.4	43.0		48.7	50.4				48.5		53.5												55.8		54.9		
Jan-21	52.3	58.7	47.8			47.7	50.8		40.3	47.2		43.2	41.2				47.1		48.9											52.2		55.8			
Feb-21	53.2	59.5	48.8			47.0	51.1		42.7	51.4		45.1	49.6				48.2		49.6											51.7		57.3			
Mar-21	54.8	59.7	53.2			50.0	57.3		54.5	51.9		50.1	56.4				49.9		45.1											53.1		56.0			
Apr-21	56.7	63.5	53.8			51.6	55.8		58.1	51.2		55.2	60.7				51.0		44.5											54.7		55.4			
May-21	58.5	68.7	57.1			57.0	56.2		63.5	55.7		59.2	62.9				48.8		49.2											53.8		48.1			
Jun-21	56.6	63.7	59.5			57.4	60.1		63.4	58.3		62.4	62.2				48.9		54.6											50.6		43.1			
Jul-21	55.7	59.9	60.2			56.6	62.4		65.0	58.6		61.2	59.2				48.8		55.2											53.1		49.2			
Aug-21	55.4	59.0				55.9	60.0		62.6	59.1		60.6	54.8				45.5		54.6											47.2		55.4			

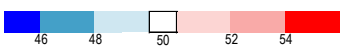
*manufacturing & services

MANUFACTURING PMI – EMPLOYMENT

	WD	Developed Markets																	Emerging countries													
		NA		Europe										Asia-Oceania					LATAM	Eurasia		Middle East & Africa			Asia							
		CANADA	USA	EURO ZONE	AUSTRIA	DENMARK	FRANCE	GERMANY	GREECE	IRELAND	ITALY	NETHERLANDS	SPAIN	SWITZERLAND	UK	AUSTRALIA	NEW ZEALAND	JAPAN	SINGAPORE	BRAZIL	MEXICO	CZECH REPUBLIC	POLAND	RUSSIA	TURKEY	EGYPT	SAUDI ARABIA	SOUTH AFRICA	UAE	CHINA	INDIA	INDONESIA
Nov-20	50.2	52.5	51.7	48.7	47.4	46.2	48.7	47.2	45.0	51.2	51.5	51.7	48.3	47.9	47.2	53.1	51.1	49.1	56.8	46.3	50.7	52.8	45.4	54.4	48.5	50.1	47.2	48.8	51.3	47.4	47.0	48.4
Dec-20	50.1	55.8	52.2	49.2	49.4	46.9	50.4	46.5	47.8	53.0	53.2	52.4	48.5	51.8	48.8	53.4	49.7	50.1	53.8	43.4	53.2	52.5	47.9	54.4	47.6	49.1	43.8	47.7	49.9	47.6	47.4	50.8
Jan-21	50.3	51.3	54.7	49.4	51.2	48.5	49.1	47.8	50.9	50.8	53.2	52.1	46.9	52.2	50.6	52.9	56.1	48.7	51.2	44.2	52.1	52.1	50.2	56.1	48.7	49.3	48.6	50.2	49.6	48.1	47.5	49.9
Feb-21	50.7	52.6	56.3	51.5	54.5	48.7	52.5	50.0	50.3	52.9	53.6	53.0	49.2	52.5	51.9	52.1	50.1	49.7	53.8	45.4	54.2	52.9	50.6	54.1	49.3	49.6	44.1	49.9	48.1	47.6	48.7	50.6
Mar-21	51.6	53.7	54.5	54.8	57.7	58.3	56.2	54.1	51.0	55.7	55.3	55.1	53.2	54.4	55.7	53.3	53.5	50.0	48.5	47.1	54.7	53.2	50.1	54.2	48.9	49.9	44.4	49.5	49.5	47.2	49.8	52.1
Apr-21	52.6	53.2	55.7	56.6	59.1	58.8	54.1	57.3	53.8	57.7	55.9	59.6	55.6	54.6	54.5	55.8	52.8	50.5	51.8	48.9	55.5	53.4	50.2	52.7	47.6	50.6	54.4	49.4	50.7	49.7	49.6	53.4
May-21	52.5	54.4	54.3	57.7	60.1	60.8	53.2	58.6	56.3	60.0	58.6	60.7	55.8	56.2	60.6	55.8	52.3	51.0	53.0	46.6	57.0	54.7	51.8	51.7	48.3	50.3	49.6	49.8	50.1	49.0	50.3	51.4
Jun-21	52.6	53.0	53.0	58.3	63.7	61.1	54.7	59.3	56.4	59.4	57.7	61.2	56.5	57.7	58.8	55.0	56.7	51.2	55.8	48.4	57.5	54.8	48.0	52.2	48.7	51.1	51.7	50.6	50.8	49.8	50.3	42.7
Jul-21	52.7	53.5	55.1	58.5	61.3	62.5	53.1	61.7	54.5	57.7	56.7	60.1	55.4	61.2	58.8	55.3	58.3	51.2	54.4	49.6	56.7	54.0	47.2	52.3	50.3	50.2	47.6	50.7	50.1	50.6	43.1	43.9
Aug-21	52.0	53.2	52.8	57.3	62.6	58.0	54.0	58.2	54.7	58.0	55.9	61.6	55.7	63.1	57.8	52.8		51.7	53.5	47.8	55.4	51.1	47.0	54.8		47.1		49.8	49.9	45.5	41.1	

MANUFACTURING PMI – NEW EXPORT ORDERS

	WD	Developed Markets																	Emerging countries																
		NA		Europe										Asia-Oceania					LATAM	Eurasia		Middle East & Africa			Asia										
		CANADA	USA	EURO ZONE	AUSTRIA	DENMARK	FRANCE	GERMANY	GREECE	IRELAND	ITALY	NETHERLANDS	SPAIN	SWITZERLAND	UK	AUSTRALIA	NEW ZEALAND	JAPAN	SINGAPORE	BRAZIL	MEXICO	CZECH REPUBLIC	POLAND	RUSSIA	TURKEY	EGYPT	ISRAEL	LEBANON	SAUDI ARABIA	SOUTH AFRICA	UAE	CHINA	HONG KONG	INDIA	INDONESIA
Nov-20	51.8	50.2	50.5	53.0	53.7	45.4	58.4	35.9	50.1	49.6	53.9	49.2	55.5	50.0			49.2	50.9	55.3	40.4	55.1	49.7	52.4	49.5	52.4	56.1	41.4	52.0	47.1	49.5	53.3	47.6	54.8	47.5	46.8
Dec-20	51.1	54.0	50.7	54.6	54.8	49.7	57.3	38.7	51.8	53.2	60.1	52.6	55.6				48.6	50.7	52.8	38.4	55.1	52.6	50.4	47.7	49.7	44.1	44.6	51.5	47.6	52.9	51.8	40.2	51.8	41.1	52.8
Jan-21	50.1	49.9	54.0	54.7	54.0	49.6	58.8	42.3	47.7	54.5	58.1	49.8	48.4	61.4			48.2	50.9	49.9	41.9	53.3	53.7	41.3	53.4	52.4	42.6	40.5	53.5	45.9	55.2	47.4	43.9	53.9	44.2	49.9
Feb-21	51.1	50.2	53.7	57.7	55.1	54.0	62.2	46.5	48.1	57.3	58.0	52.5	50.4	54.1			51.5	50.7	50.6	41.6	52.0	54.3	46.6	50.7	56.3	43.2	47.3	51.6	48.4	49.8	47.6	44.2	52.0	43.5	50.5
Mar-21	53.4	54.4	53.5	63.0	61.4	56.4	69.1	46.8	54.6	61.3	66.5	55.0	51.6	51.3			50.8	51.0	50.1	42.6	56.0	56.7	49.0	51.4	48.7	42.9	48.7	46.2	46.7	50.7	51.4	46.1	53.8	46.5	55.1
Apr-21	54.7	53.4	56.2	62.4	64.6	55.6	67.5	49.3	56.6	60.2	65.9	56.5	53.7	58.8			53.8	51.4	50.6	44.0	55.1	55.8	49.5	51.2	53.1	60.0	49.3	50.7	52.5	51.7	51.8	46.3	54.9	53.0	54.7
May-21	54.9	53.6	57.9	62.0	67.5	55.5	64.5	57.1	57.3	59.7	66.2	58.1	59.7	48.9			53.8	51.2	50.9	45.0	54.2	55.3	50.4	48.8	52.7	69.6	50.0	56.5	51.4	49.7	52.3	50.4	53.6	52.5	53.7
Jun-21	53.2	53.5	54.0	61.4	66.4	55.5	64.5	57.1	57.3	59.7	66.2	58.1	55.2	60.2			53.3	51.3	51.7	46.9	56.8	56.6	45.3	52.2	53.2	46.6	48.0	54.5	49.4	45.2	50.1	47.6	48.8	50.6	44.0
Jul-21	52.8	52.9	54.8	60.4	57.5	54.4	63.0	52.8	61.5	59.2	67.1	58.7	53.9	53.6			52.3	51.4	50.2	47.0	56.3	52.9	43.0	56.3	52.6	44.2	50.3	54.1	47.1	49.4	50.3	47.4	54.8	26.6	44.8
Aug-21	51.0	54.3	52.8	59.1	55.3	53.9	61.0	56.4	59.3	60.3	64.7	55.1	54.5	45.1			49.3	51.3	49.7	46.5	57.3	53.3	40.2	56.1			49.8		48.0	49.5	50.6	34.6	37.2		



SOURCE: MARKIT, BNP PARIBAS



BNP PARIBAS

The bank for a changing world

PMI - MANUFACTURING INPUT PRICES

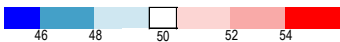
WD	Developed Markets																	Emerging countries																
	Europe																	Asia-Oceania				LATAM		Eurasia			Middle East & Africa			Asia				
	World	CANADA	USA	EURO ZONE	AUSTRIA	DENMARK	FRANCE	GERMANY	GREECE	IRELAND	ITALY	NETHERLANDS	SPAIN	SWITZERLAND	UK	AUSTRALIA	NEW ZEALAND	JAPAN	SINGAPORE	BRAZIL	MEXICO	CZECH REPUBLIC	POLAND	RUSSIA	TURKEY	EGYPT	LEBANON	SAUDI ARABIA	SOUTH AFRICA	UAE	CHINA	HONG KONG	INDIA	INDONESIA
Nov-20	57.6	60.7	61.6	55.9	53.0	62.5	55.5	54.1	58.8	57.4	59.2	59.8	56.5	61.3	64.6	51.3	50.7	90.8	51.2	58.4	62.8	77.1	75.1	52.6	53.8	49.9	54.7	50.8	54.2	55.7	57.6			
Dec-20	61.0	65.2	65.3	61.4	57.5	62.1	59.0	62.0	64.8	56.8	62.2	65.5	62.8	68.0		52.1	50.6	82.7	50.8	65.8	69.5	78.5	78.2	53.0	50.1	50.1	59.2	52.3	56.2	58.5	61.8			
Jan-21	62.5	62.7	65.1	68.3	66.0	61.2	64.6	71.3	67.8	60.9	69.7	69.9	63.5	76.8	64.4	53.9	50.5	82.3	53.4	67.5	69.7	72.9	70.2	52.5	50.4	49.4	59.0	51.0	56.8	61.3	62.1			
Feb-21	65.1	65.0	73.2	73.9	76.5	68.9	69.3	78.3	73.8	64.7	70.8	78.1	69.0	80.1	74.1	55.6	50.6	83.5	56.0	73.0	75.8	76.8	66.5	52.4	50.7	50.4	58.1	51.6	58.2	62.1	57.9			
Mar-21	68.4	69.5	74.8	79.7	82.3	82.9	75.8	83.7	78.4	75.2	75.9	83.8	74.8	80.6	71.3	59.9	50.8	87.3	57.0	81.9	81.2	72.6	74.2	51.7	51.5	52.9	61.5	51.8	57.3	63.4	64.6			
Apr-21	69.7	71.7	77.2	82.2	85.7	85.3	79.0	84.3	81.8	76.3	81.6	86.3	78.3	80.4	74.1	60.4	50.9	86.6	60.3	85.8	84.5	76.3	70.3	55.1	52.7	51.1	62.0	53.8	59.4	62.9	64.3			
May-21	71.7	72.5	78.1	87.1	91.3	87.0	79.8	93.1	81.9	78.9	83.7	90.1	80.1	87.6	82.1	61.0	51.0	81.1	57.0	93.0	85.0	74.4	71.4	55.2	53.2	50.6	64.4	56.0	57.0	62.8	65.4			
Jun-21	70.7	72.5	82.8	88.5	91.5	81.8	80.3	92.5	83.0	80.5	89.2	93.9	83.6	89.2	78.8	63.2	51.1	84.0	59.6	93.5	88.2	76.0	75.7	55.9	53.0	51.8	56.7	55.2	57.0	63.5	57.8			
Jul-21	71.2	72.0	86.7	89.2	93.0	75.4	84.1	93.7	81.7	79.5	88.6	96.7	79.6	87.5	84.6	66.7	51.3	81.0	62.6	96.7	84.9	71.8	77.1	53.9	51.5	52.3	55.6	55.4	56.7	65.5	66.6			
Aug-21	70.4	77.2	87.5	87.0	88.1	84.9	80.3	93.0	78.8	74.6	84.1	93.5	80.7	86.4	81.3	64.5	51.4	79.1	59.4	89.1	79.4	65.8	70.0			52.3	56.2	55.3	56.3	66.2	65.7			

PMI: SERVICES - INPUT PRICES

	World	USA	EURO ZONE	FRANCE	GERMANY	IRELAND	ITALY	SPAIN	UK	AUSTRALIA	JAPAN	BRAZIL	RUSSIA	CHINA	INDIA
Nov-20	57.6	63.7	51.5	49.8	52.3	57.6	50.9	52.6	52.8	51.8	49.5	64.1	64.5	57.5	54.7
Dec-20	58.3	64.7	53.1	51.9	55.8	54.8	50.9	51.8	57.1		51.4	66.5	60.4		55.2
Jan-21	58.9	66.9	53.2	52.2	53.7	54.2	52.5	54.9	54.5	62.6	50.6	65.2	57.9	56.4	54.9
Feb-21	60.4	70.1	53.2	49.7	53.2	56.5	55.6	56.2	58.6	64.4	50.2	63.8	63.8	55.6	57.1
Mar-21	62.5	72.7	55.6	52.4	59.0	60.6	54.4	54.6	64.0	64.7	54.3	69.6	65.1	53.7	56.8
Apr-21	63.2	73.3	57.6	55.6	60.5	59.9	52.6	60.2	64.9	69.7	54.0	69.3	62.2	54.5	57.8
May-21	65.3	77.1	59.6	54.8	63.0	65.3	58.2	61.3	67.3	68.1	52.9	66.5	68.3	56.6	56.7
Jun-21	64.1	74.2	63.2	56.0	70.0	66.5	60.0	64.4	71.8	65.4	52.5	67.5	62.4	50.9	56.5
Jul-21	64.1	72.3	63.1	58.0	67.7	68.5	61.3	63.2	74.2	74.1	53.8	64.2	61.8	54.8	56.7
Aug-21		72.5	63.3	58.5	68.7	70.3	59.9	62.5	72.3		53.7	68.5	61.2	52.1	57.1

PMI - MANUFACTURING OUTPUT PRICES

WD	Developed Markets																	Emerging countries																
	Europe																	Asia-Oceania				LATAM		Eurasia			Middle East & Africa			Asia				
	World	CANADA	USA	EURO ZONE	AUSTRIA	DENMARK	FRANCE	GERMANY	GREECE	IRELAND	ITALY	NETHERLANDS	SPAIN	SWITZERLAND	UK	AUSTRALIA	NEW ZEALAND	JAPAN	SINGAPORE	BRAZIL	MEXICO	CZECH REPUBLIC	POLAND	RUSSIA	TURKEY	EGYPT	LEBANON	SAUDI ARABIA	SOUTH AFRICA	UAE	CHINA	HONG KONG	INDIA	INDONESIA
Nov-20	53.2	54.7	56.2	51.6	50.3	49.3	51.7	51.5	48.7	53.4	51.7	54.7	49.9	53.7				49.3	79.9	46.1	50.0	51.1	58.3	64.3	51.7	51.6	52.3	48.3	49.5	51.4	50.3	51.5		
Dec-20	54.5	59.0	58.6	52.6	50.8	40.8	51.8	52.2	49.7	51.9	52.0	60.1	53.5	55.2				50.1	69.5	46.1	51.8	51.5	60.6	63.0	50.8	51.3	50.5	49.2	47.4	51.1	52.4	52.4		
Jan-21	55.0	55.8	60.4	52.2	51.4	44.9	52.1	51.3	50.3	54.5	52.4	55.9	53.5	57.9				51.1	68.5	45.9	51.5	57.2	59.3	60.6	50.5	52.6	50.3	49.4	47.1	53.1	51.7	51.8		
Feb-21	55.7	56.3	60.6	56.5	55.7	40.8	52.8	57.4	55.1	56.9	58.1	59.2	54.5	61.2				51.0	73.0	46.7	52.1	61.9	66.3	54.2	50.3	52.1	50.9	49.2	47.7	52.2	53.7	51.6		
Mar-21	59.3	61.6	69.1	60.9	60.8	67.1	58.3	62.8	61.2	58.1	59.9	63.3	58.5	63.7				51.9	73.3	46.7	58.7	66.0	65.3	62.1	50.4	58.3	49.0	49.5	49.7	52.0	53.1	54.6		
Apr-21	59.8	63.3	68.0	64.3	62.4	67.1	63.8	64.4	64.6	62.8	65.5	66.7	62.6	65.3				51.4	77.2	48.6	61.6	69.0	67.1	61.8	51.8	56.2	50.7	51.1	49.3	54.2	52.9	66.9		
May-21	62.6	65.9	70.9	69.1	67.9	68.6	65.8	70.6	66.3	64.6	72.0	70.4	65.1	68.3				51.5	76.5	47.5	65.5	73.8	66.9	62.3	51.3	50.8	51.0	49.8	52.7	53.3	51.5	58.0		
Jun-21	60.8	64.9	70.9	71.1	68.4	64.2	66.4	73.7	69.5	66.3	71.6	77.1	67.1	73.2				51.6	72.5	49.3	68.7	76.2	66.2	66.4	51.0	54.6	51.1	50.1	52.5	52.1	52.9	50.8		
Jul-21	60.3	65.2	72.8	71.9	73.2	69.0	66.8	75.1	64.9	68.9	72.6	77.1	63.9	73.1				53.3	69.5	50.0	72.6	72.6	61.1	64.7	50.7	55.1	51.9	50.4	52.1	51.7	53.2	53.6		
Aug-21	60.1	65.1	73.2	68.6	69.0	59.9	61.6	72.6	61.0	66.0	68.1	72.4	62.7	71.6				54.4	69.3	49.5	72.6	72.0	62.3	61.1				50.4	54.8	52.3	53.5	53.9		



SOURCE: MARKIT, BNP PARIBAS



ECONOMIC PULSE

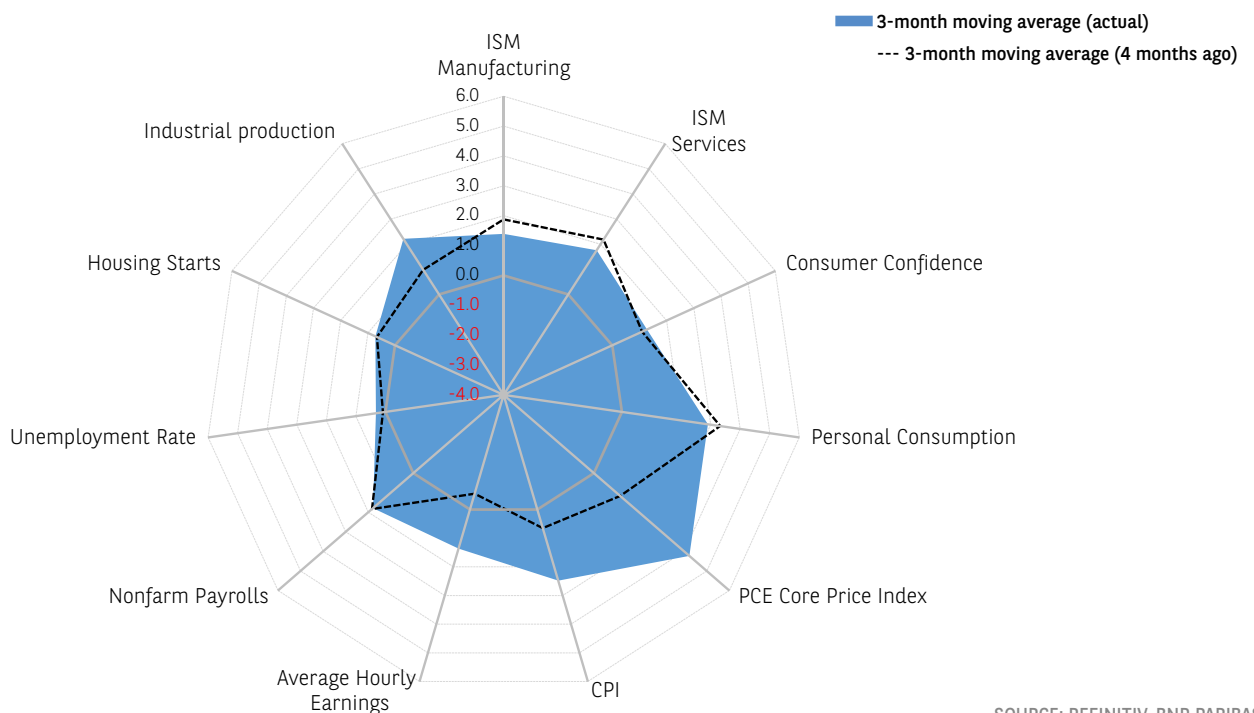
UNITED STATES : EMPLOYMENT SITUATION IMPROVES, BUT THE DELTA VARIANT IS CREATING DOUBT

In his traditional monetary-policy speech to the annual Jackson Hole Economic Symposium, Federal Reserve Chairman Jerome Powell expressed satisfaction with the latest US jobs market figures. He had good reason to do so: in the three months from June to August, the US economy created more than 2.2 million jobs (non-farm activities), including almost 800,000 in the resurgent tourism industry (hotels, restaurants, leisure etc.). Although the Covid-19 jobs deficit remains large (around 5.5 million) and although the unemployment rate is still too high by American standards (5.2%), the situation is gradually returning to normal. Most importantly, the upturn is starting to benefit the poorest sections of the population, where job losses were heavy during the crisis. As employment rates rise, the US is seeing less-qualified and less-well paid people return to the workforce, and Mr Powell is understandably happy about this. He is cautiously suggesting that the economy could leave monetary intensive care at the end of the year through a reduction in the Fed's net asset purchases, which currently amount to USD 120 billion per month (see editorial).

There are still a few clouds on the horizon, starting with the economic risk posed by the Delta variant, and the previous euphoria in the economy has subsided. The world's leading economic power, formerly one of the leaders in the race to vaccinate, is now falling behind: in particular, the US has been overtaken by the European Union, where 58% of the population has now received two doses as opposed to 52% in the US. The US daily infection rate has risen again to 480 per 100,000 people, four times higher than during the first wave, and this is pushing up the death rate, although to a much smaller extent. With almost 640,000 official victims of the pandemic, the US is in the unhappy position of being the world leader in terms of Covid-19 deaths. Although new waves of infection are no longer leading to economic lockdowns – except in certain countries like Australia and New Zealand – they are still disrupting supply chains. August ISM (Institute for Supply Management) figures published this week show ongoing pressure on the supply side as well as on input prices, suggesting that inflation figures will remain high for a few months to come.

Jean-Luc Proutat

QUARTERLY CHANGES



The indicators in the radar are all transformed into 'z-scores' (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -4 and +6. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.



ECONOMIC PULSE

THE NUMBER OF NEW COVID-19 CASES AROUND THE WORLD IS STABILISING

After rising for almost two months, Covid-19 infections are stabilising globally but remain high. In the week of 25-31 August, 4.6 million new cases were reported (chart 1), similar to the previous week's figure. However, the trend varies between the world's regions, with cases rising in North America (+4.6%) and falling in South America (-15.2%) and in Africa (-6.4%), while the situation is stabilising in Europe (due to declines in France and Spain – see chart 4) and in Asia. The vaccine rollout is continuing to accelerate around the world. According to Johns Hopkins University, more than 5.4 billion vaccine doses have been given worldwide (chart 2).

Despite high levels of new cases, retail and leisure footfall remains strong in advanced countries. Footfall in Belgium and Italy is back to pre-pandemic levels, although Germany has recently dipped back below its pre-Covid figure. Footfall is also holding at pre-Covid levels in France, Spain, the US, Japan and the UK (chart 3).

We recently noted how annual GDP growth is varying between the main economies according to the OECD Weekly Tracker. Although growth is continuing to improve in Spain, France, Italy, Belgium and the UK, it is still weakening in Japan and the US. Growth has also slowed in Germany after a brief upturn (chart 3). The OECD tracker is based on Google Trends data, reflecting internet searches regarding consumer spending, labour markets, housing, industrial activity and economic uncertainty. The OECD calculates this indicator by comparing the current situation with that two years previously in order to avoid the base effect arising from comparisons with 2020.

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)

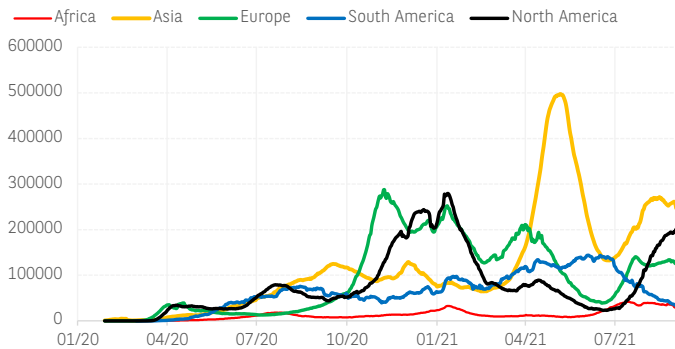


CHART 1

SOURCE: JOHNS-HOPKINS UNIVERSITY (09/02/2021), BNP PARIBAS

SHARE OF PEOPLE WHO RECEIVED AT LEAST ONE DOSE OF VACCINE

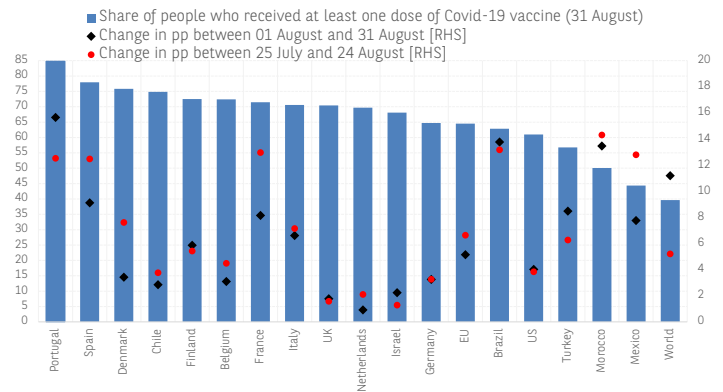


CHART 2

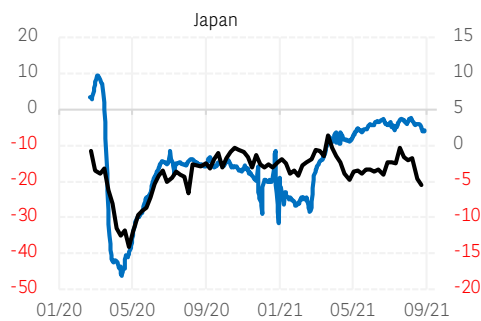
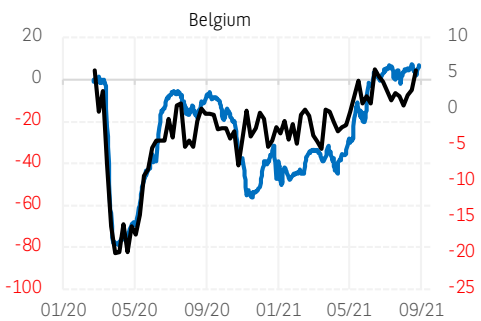
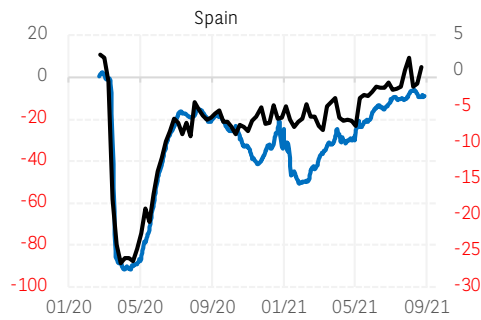
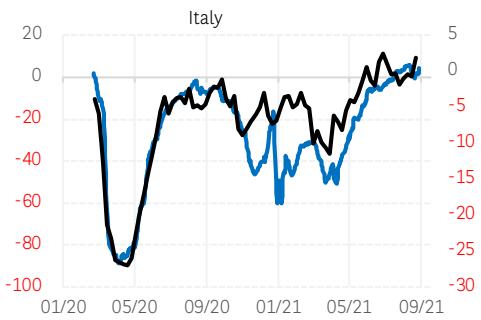
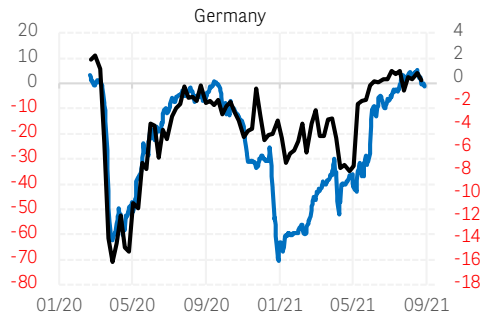
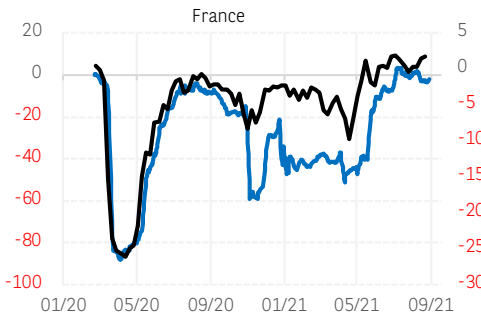
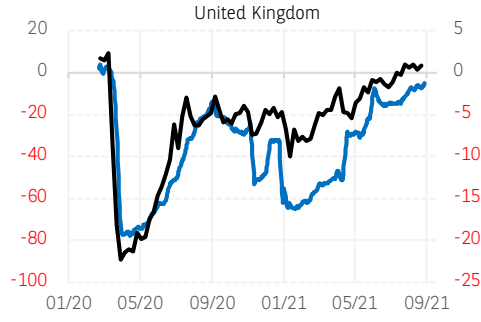
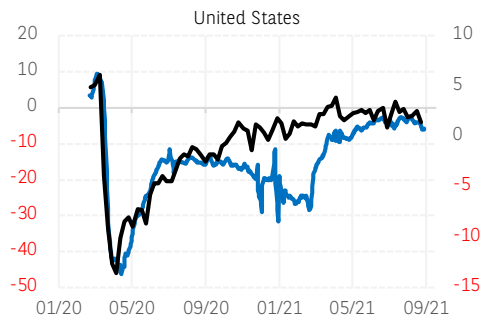
SOURCE: OUR WORLD IN DATA (09/02/2021), BNP PARIBAS



RETAIL AND RECREATION MOBILITY & OECD WEEKLY TRACKER

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

— OECD Weekly tracker, y/2y GDP growth [RHS]

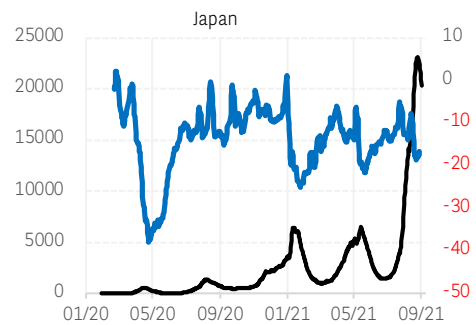
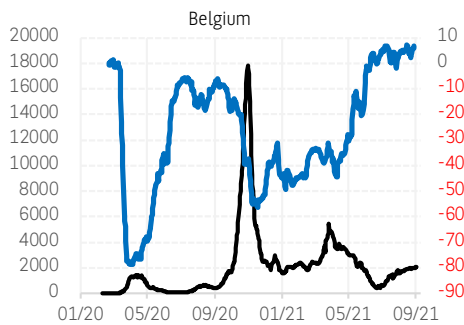
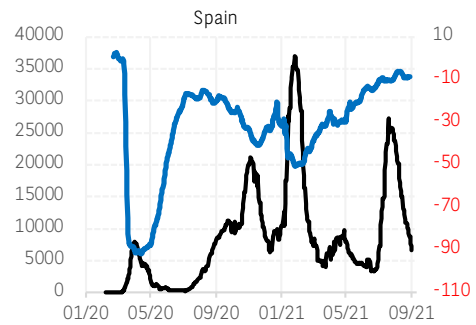
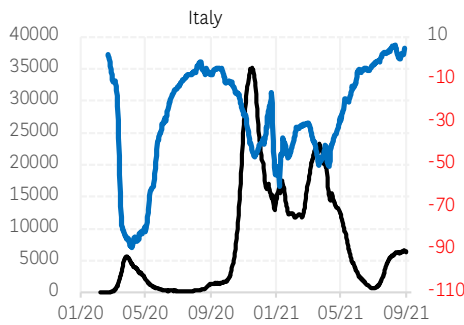
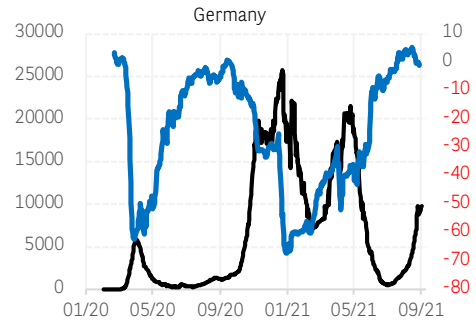
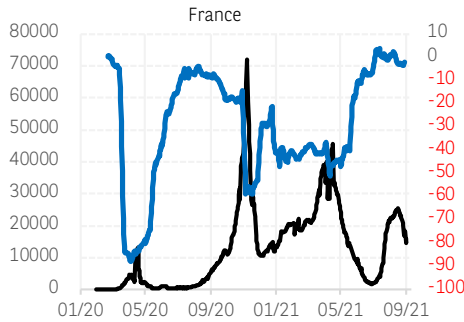
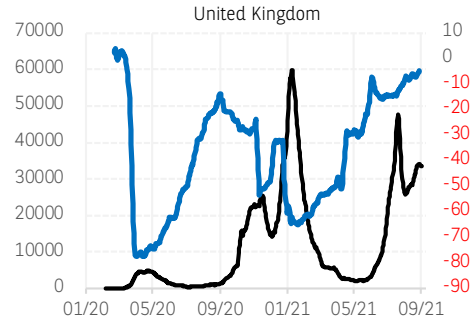
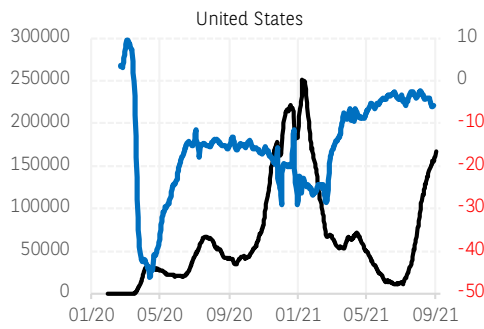


SOURCE: OECD (02/09/2021), GOOGLE (02/09/2021), BNP PARIBAS



DAILY NEW CASES & RETAIL AND RECREATION MOBILITY

— Daily new confirmed cases of Covid-19 (7-day moving average)
— Retail and recreation mobility (7-day moving average, % from baseline*)[RHS]



SOURCE: JOHNS-HOPKINS UNIVERSITY (09/02/2021), GOOGLE (09/02/2021), BNP PARIBAS



ECONOMIC SCENARIO

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UNITED STATES

The US economy, which roared back through to the spring, has now regained its pre-pandemic level and is set to achieve a growth rate of around 6% in 2021. The outlook for the second part of the year looks less sparkling, however. With the vaccination drive running out of steam, the spread of the delta variant is driving up the number of cases and deaths. Business surveys are not as dazzlingly optimistic. The growth rates anticipated remain above potential, however, and would be sufficient to gradually absorb the job shortage caused by the pandemic, with the unemployment rate expected to move towards the 5% mark by the end of the second half of the year. Given the pressures on supply chains and commodity prices, inflation, currently close to 5%, is unlikely to pull back in the immediate term. Indeed, it is not expected to subside until late 2021 or early 2022.

CHINA

China's post-Covid rebound in industrial production and exports peaked at the start of the year and growth rates have been returning to normal. However, the slowdown has been faster than expected during the summer, and has spread to all sectors. This has resulted from various factors, including: the prudent tightening in fiscal policy and domestic credit conditions, the toughening of regulations in sectors such as real estate and tech, supply-chain constraints in the industry, slower export growth as well as new restrictions imposed to deal with the resurgence of the pandemic. In the short term, the vaccine roll-out should continue to accelerate and the authorities are likely to give greater support to domestic demand through monetary and fiscal measures, while continuing regulatory tightening moves.

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. Indeed, Economic Sentiment Index has reached an all-time high in July. Consumers' confidence, despite a slight decline in July, 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

With a Q2 2021 growth carry-over of almost 5%, the Government's forecast, which we share, of 6% growth in 2021 in annual average terms has a solid chance of being met. The Q3 and Q4 prospects, however, look somewhat less positive than they did heading into the summer. Procurement problems, hiring difficulties and rising input prices are holding back the recovery a bit more significantly than expected. The return to normal activity in the tourism, accommodation and catering, culture, entertainment, trade and transports sectors continues to be hampered by the health situation too. In 2022, these various obstacles should disappear, but the support from the mechanical catching-up effect will also fade. Growth should normalize but remain strong, supported by the fiscal impulse. 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 or even earlier, but this depends on the strength of the labour market. 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.

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				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	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				2022e	
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				2022e	
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)



BNP PARIBAS

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world

CALENDAR

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LATEST INDICATORS

In China, the various PMI data disappointed, declining more than expected. Eurozone consumer confidence was stable in August but economic confidence -which covers household and business sentiment in various sectors- weakened slightly more than anticipated. Industry actually did better than expected but services disappointed. Inflation accelerated in August, more than expected, reaching 3.0% for the headline index and 1.6% for the core index. The unemployment rate recorded a tiny decline. July retail sales disappointed. The PMI data didn't move that much compared to the previous readings. In France, July retail sales saw an unexpected decline whereas second quarter GDP growth was revised upwards. In Germany, July retail sales contracted far more than anticipated. In Japan, consumer confidence declined less than expected by the consensus. The manufacturing PMI improved but the opposite happened for the services PMI. In the UK, the composite PMI declined on the back of weaker services data whereas the manufacturing index edged higher. In the US, the Conference Board consumer confidence index recorded a big drop, with both the assessment of current conditions and expectations moving down. The manufacturing ISM improved slightly, thereby beating expectations. The prices paid index declined more than expected and, unexpectedly, new orders increased. The employment index declined. Job creation in August disappointed compared to expectations, reflecting the impact of the delta variant. The July data were revised upwards and the three month moving average remains high. The ISM services index declined quite a lot, in line with expectations.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	ACTUAL	PREVIOUS
08/30/2021	Eurozone	Consumer Confidence	Aug	--	-5.3	-5.3
08/30/2021	Eurozone	Economic Confidence	Aug	118.0	117.5	119.0
08/30/2021	Eurozone	Industrial Confidence	Aug	13.5	13.7	14.5
08/30/2021	Eurozone	Services Confidence	Aug	19.0	16.8	18.9
08/30/2021	Germany	CPI EU Harmonized MoM	Aug	0.1%	0.1%	0.5%
08/30/21-09/02/21	Germany	Retail Sales MoM	Jul	-1.0%	-5.1%	4.5%
08/31/2021	Japan	Jobless Rate	Jul	0.0	0.0	0.0
08/31/2021	China	Non-manufacturing PMI	Aug	52.0	47.5	53.3
08/31/2021	China	Manufacturing PMI	Aug	50.2	50.1	50.4
08/31/2021	China	Composite PMI	Aug	--	48.9	52.4
08/31/2021	Japan	Consumer Confidence Index	Aug	36.0	36.7	37.5
08/31/2021	France	PPI MoM	Jul	--	1.3%	1.1%
08/31/2021	France	Consumer Spending MoM	Jul	0.2%	-2.2%	0.3%
08/31/2021	France	CPI EU Harmonized MoM	Aug	0.5%	0.7%	0.1%
08/31/2021	France	GDP QoQ	2Q	0.9%	1.1%	0.9%
08/31/2021	Germany	Unemployment Change (000's)	Aug	-40.0k	-53.0k	-90.0k
08/31/2021	Eurozone	CPI Core YoY	Aug	1.5%	1.6%	0.7%
08/31/2021	Eurozone	CPI MoM	Aug	0.2%	0.4%	-0.1%
08/31/2021	Eurozone	CPI Estimate YoY	Aug	2.7%	3.0%	2.2%
08/31/2021	United States	Conf. Board Consumer Confidence	Aug	123.0	113.8	125.1
08/31/2021	United States	Conf. Board Present Situation	Aug	--	147.3	157.2
08/31/2021	United States	Conf. Board Expectations	Aug	--	91.4	103.8
09/01/2021	Japan	Jibun Bank Japan PMI Mfg	Aug	--	52.7	52.4
09/01/2021	China	Caixin China PMI Mfg	Aug	50.1	49.2	50.3
09/01/2021	France	Markit France Manufacturing PMI	Aug	57.3	57.5	57.3
09/01/2021	Germany	Markit/BME Germany Manufacturing PMI	Aug	62.7	62.6	62.7
09/01/2021	Eurozone	Markit Eurozone Manufacturing PMI	Aug	61.5	61.4	61.5
09/01/2021	United Kingdom	Markit UK PMI Manufacturing SA	Aug	60.1	60.3	60.1
09/01/2021	Eurozone	Unemployment Rate	Jul	7.6%	7.6%	7.8%

SOURCE: BLOOMBERG



DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	ACTUAL	PREVIOUS
09/01/2021	United States	Markit US Manufacturing PMI	Aug	61.2	61.1	61.2
09/01/2021	United States	Construction Spending MoM	Jul	0.0	0.0	0.0
09/01/2021	United States	ISM Manufacturing	Aug	58.5	59.9	59.5
09/01/2021	United States	ISM Prices Paid	Aug	84.0	79.4	85.7
09/01/2021	United States	ISM New Orders	Aug	61.0	66.7	64.9
09/01/2021	United States	ISM Employment	Aug	--	49.0	52.9
09/02/2021	Eurozone	PPI MoM	Jul	1.8%	2.3%	1.4%
09/02/2021	Eurozone	PPI YoY	Jul	11.1%	12.1%	10.2%
09/02/2021	United States	Initial Jobless Claims	28-Aug	345k	340k	354k
09/02/2021	United States	Unit Labor Costs	2Q	0.9%	1.3%	1.0%
09/02/2021	United States	Cap Goods Orders Nondef Ex Air	Jul	0.0%	0.1%	0.0%
09/03/2021	Japan	Jibun Bank Japan PMI Services	Aug	--	42.9	43.5
09/03/2021	Japan	Jibun Bank Japan PMI Composite	Aug	--	45.5	45.9
09/03/2021	China	Caixin China PMI Composite	Aug	--	47.2	53.1
09/03/2021	China	Caixin China PMI Services	Aug	52.0	46.7	54.9
09/03/2021	France	Markit France Services PMI	Aug	56.4	56.3	56.4
09/03/2021	France	Markit France Composite PMI	Aug	55.9	55.9	55.9
09/03/2021	Germany	Markit Germany Services PMI	Aug	61.5	60.8	61.5
09/03/2021	Germany	Markit/BME Germany Composite PMI	Aug	60.6	60.0	60.6
09/03/2021	Eurozone	Markit Eurozone Services PMI	Aug	59.7	59.0	59.7
09/03/2021	Eurozone	Markit Eurozone Composite PMI	Aug	59.5	59.0	59.5
09/03/2021	United Kingdom	Markit/CIPS UK Services PMI	Aug	55.5	55.0	55.5
09/03/2021	United Kingdom	Markit/CIPS UK Composite PMI	Aug	55.3	54.8	55.3
09/03/2021	Eurozone	Retail Sales MoM	Jul	0.0%	-2.3%	1.8%
09/03/2021	United States	Change in Nonfarm Payrolls	Aug	733k	235k	1053k
09/03/2021	United States	Unemployment Rate	Aug	5.2%	5.2%	5.4%
09/03/2021	United States	Average Hourly Earnings YoY	Aug	3.9%	4.3%	4.1%
09/03/2021	United States	Average Weekly Hours All Employees	Aug	34.8	34.7	34.7
09/03/2021	United States	Labor Force Participation Rate	Aug	61.8%	61.7%	61.7%
09/03/2021	United States	Underemployment Rate	Aug	--	8.8%	9.2%
09/03/2021	United States	Markit US Services PMI	Aug	55.2	55.1	55.2
09/03/2021	United States	Markit US Composite PMI	Aug	--	55.4	55.4
09/03/2021	United States	ISM Services Index	Aug	61.6	61.7	64.1

SOURCE: BLOOMBERG



CALENDAR: THE WEEK AHEAD

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COMING INDICATORS

The highlight of the week is the ECB governing council meeting. No change is expected so the attention will focus on the wording of the introductory statement and on the press conference. The week is rather light in terms of data. For the eurozone and Japan a new estimate of second quarter GDP growth will be published. In Japan we also have the EcoWatchers survey. The ZEW survey will be published for Germany and the eurozone. France will publish employment data for the second quarter. Consumer and producer price inflation will be released in China. In the US, the Federal Reserve will publish its Beige Book, which provides a detailed update on economic developments throughout the US. The US PPI will also be released.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	PREVIOUS
09/07/2021	Germany	Industrial Production SA MoM	Jul	--	-1.30%
09/07/2021	Eurozone	Gross Fix Cap QoQ	2Q	--	0.20%
09/07/2021	Eurozone	Household Cons QoQ	2Q	--	-2.30%
09/07/2021	Eurozone	Govt Expend QoQ	2Q	--	0.00%
09/07/2021	Germany	ZEW Survey Expectations	Sep	--	40.4
09/07/2021	Germany	ZEW Survey Current Situation	Sep	--	29.3
09/07/2021	Eurozone	Employment QoQ	2Q	--	0.50%
09/07/2021	Eurozone	Employment YoY	2Q	--	1.80%
09/07/2021	Eurozone	GDP SA QoQ	2Q	--	2.00%
09/07/2021	Eurozone	ZEW Survey Expectations	Sep	--	42.7
09/07/2021	China	Exports YoY	Aug	17.20%	19.30%
09/07/2021	China	Imports YoY	Aug	27.00%	28.10%
09/08/2021	Japan	GDP SA QoQ	2Q	0.40%	0.30%
09/08/2021	Japan	Eco Watchers Survey Current SA	Aug	--	48.4
09/08/2021	Japan	Eco Watchers Survey Outlook SA	Aug	--	48.4
09/08/2021	France	Total Payrolls	2Q	--	0.30%
09/08/2021	United States	U.S. Federal Reserve Releases Beige Book			
09/09/2021	China	CPI YoY	Aug	1.10%	1.00%
09/09/2021	China	PPI YoY	Aug	8.90%	9.00%
09/09/2021	Eurozone	ECB Deposit Facility Rate	Sep	--	-0.50%
09/09/2021	United States	Initial Jobless Claims	Sep	--	--
09/09/21-09/15/21	China	Aggregate Financing CNY	Aug	2900.0b	1060.0b
09/10/2021	United Kingdom	Monthly GDP (3M/3M)	Jul	--	3.60%
09/10/2021	United Kingdom	Monthly GDP (MoM)	Jul	--	1.00%
09/10/2021	France	Industrial Production MoM	Jul	--	0.50%
09/10/2021	United States	PPI Ex Food and Energy MoM	Aug	0.50%	1.00%

SOURCE: BLOOMBERG



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