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## THE ECB: UNDER PRESSURE

Judging by the recent data, the acronym PEPP that was introduced last year when the ECB launched its Pandemic Emergency Purchase Programme, could also be seen as a reference to the pandemic's exceptional price pressures. The upcoming governing council meeting and the new staff projections are eagerly awaited. Whether PEPP will be prolonged beyond March 2022 ultimately depends on the inflation data. It seems likely that the ECB will postpone its decision until after the summer in order to have a better view of the inflation outlook.

Judging by the recent economic data, the acronym PEPP that was introduced last year by the ECB when it launched its Pandemic Emergency Purchase Programme, could also be seen as a reference to the pandemic's exceptional price pressures. Inflationary tensions have been rising as reflected in survey data on input prices and selling price expectations (chart 1). They are exceptional in terms of intensity – at least in manufacturing where they are at record highs- but also by their atypical nature, due to the lifting of restrictions weighing on supply and demand.

The ECB is caught in the middle between the official meaning of PEPP and the alternative reading. The end date of March 2022 that has been set for the emergency asset purchases is slowly getting closer, forcing the ECB to provide guidance on its intentions, whereas rising price pressures create a perception that an extension is becoming less likely.

Prolonging the PEPP would send a signal that the ECB is convinced that the transmission of higher price expectations in the inflation numbers will be temporary and limited. Against this background, the upcoming governing council meeting and the new staff projections that will be published on the occasion, are eagerly awaited. On the latter, one would expect an increase of the inflation forecast for this year, much like the consensus forecast which has also been moving higher in recent months (chart 2). In March, the Bloomberg consensus expectation for average inflation this year was 1.5%<sup>1</sup>. This moved to 1.6% in April and 1.7% in May. Importantly, the forecast for next year hardly moved (1.2% in March, 1.3% in April and May).

This is not very different from recent forecasts of international institutions. According to its latest forecasts, the OECD expects inflation to reach 1.8% this year and 1.3% next year<sup>2</sup>, which is in line with the European Commission's forecast of respectively 1.7% and 1.3%<sup>3</sup>. Judging by next year's forecasts, which are far below the ECB's objective, maintaining a highly accommodative monetary policy stance seems warranted, so the question is more about the mix of tools to be used rather whether the overall orientation should change. The key debate is on what happens to the PEPP. Introduced to address the economic consequences of the Covid-19 shock, its flexibility has been used earlier this year to fight the tightening of financial conditions. The accelerated pace of purchases which was announced following the March governing

council meeting has been successful, judging by the easing of financial conditions (chart 3). In the meantime, survey data show that confidence of the main economic sectors – industry, services, construction, trade – and amongst households has improved, sometimes significantly so. This would justify having a debate at the next meeting about extending the PEPP beyond March 2022 or to replace it with an increase in the traditional asset purchase programme. Such a substitution would be necessary to avoid a cliff-edge impact on bond markets and has been hinted at in the ECB's introductory statement<sup>4</sup>.

Whether this discussion will already take place is not a foregone conclusion. The governing council might prefer to have more data and have the discussion and decision after the summer. In a recent interview<sup>5</sup>, Isabel Schnabel, member of the executive board of the ECB,

4. "In any case, the future roll-off of the PEPP portfolio will be managed to avoid interference with the appropriate monetary policy stance." (Source: Introductory statement to the press conference of Christine Lagarde, President of the ECB, and Luis de Guindos, Vice-President of the ECB, Frankfurt am Main, 22 April 2021).

5. Source: Reuters, Interview with Isabel Schnabel, Member of the Executive Board of the ECB, 28 May 2021

### EUROZONE: PRICE PRESSURES IN THE MANUFACTURING SECTOR



CHART 1

SOURCE: EUROPEAN COMMISSION, IHS MARKIT, BNP PARIBAS

Despite an easing of financing conditions and an improvement in the economic outlook, it seems likely that the ECB will postpone its decision on PEPP until after the summer in order to have a better view of the inflation outlook.



explains that the decision on PEPP will depend on the joint assessment of financing conditions and the inflation projection. The latter is the "ultimate yardstick" considering that "PEPP aims to offset the negative impact of the pandemic on the inflation outlook." She considers that "we are not seeing this yet". Investors will be keen to understand how this impact will be determined. A simple counterfactual analysis which consists of comparing the December 2019 Eurosystem projection for inflation in 2022<sup>6</sup> (1.6%) with the March 2021 projection for inflation in 2022 (1.2%) shows there is still a considerable gap. It is unlikely that this would narrow significantly in the new projection so for a decision on PEPP we will probably have to wait until after the summer.

William De Vijlder

EUROZONE: PRICE PRESSURES IN THE SERVICES SECTOR

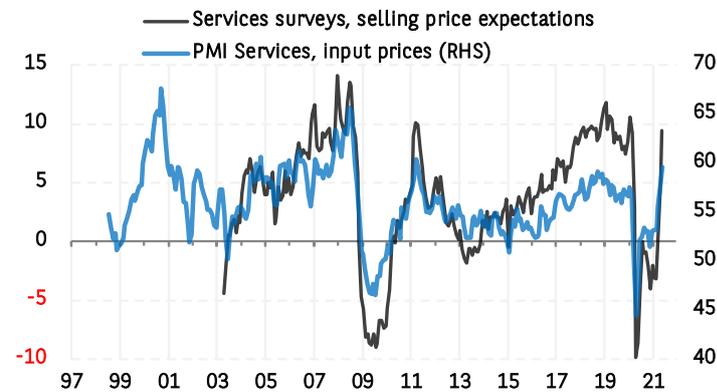


CHART 2

SOURCE: EUROPEAN COMMISSION, IHS MARKIT, BNP PARIBAS

EUROZONE: HICP CONSENSUS FORECAST

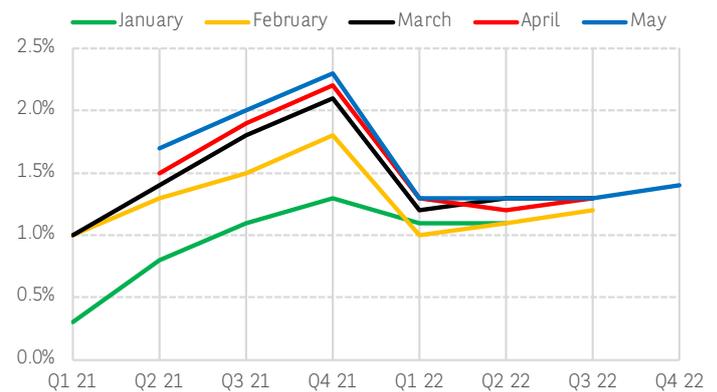


CHART 3

SOURCE: BLOOMBERG, BNP PARIBAS

EUROZONE: FINANCIAL CONDITIONS INDEX

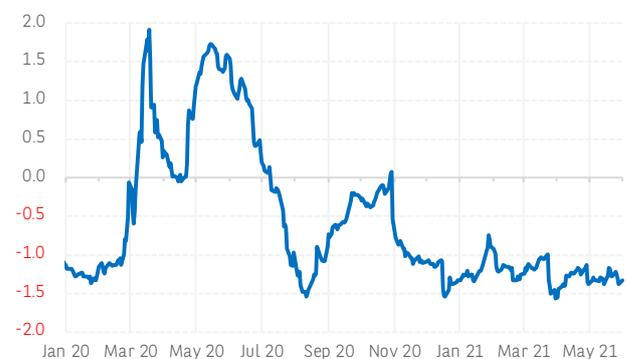


CHART 4

SOURCE: BANQUE DE FRANCE, BNP PARIBAS

6. It is preferable to look at the inflation projection for 2022 because 2021 is biased by pandemic-related one-off and temporary factors.



# MARKETS OVERVIEW

## OVERVIEW

Week 28-5/21 to 4-6-21

➔ CAC 40	6 484	▶	6 516	+0.5 %
➔ S&P 500	4 204	▶	4 230	+0.6 %
➔ Volatility (VIX)	16.8	▶	16.4	-0.3 pb
➔ Euribor 3M (%)	-0.54	▶	-0.55	-0.3 bp
➔ Libor \$ 3M (%)	0.13	▶	0.13	-0.1 bp
➔ OAT 10y (%)	0.11	▶	0.08	-2.3 bp
➔ Bund 10y (%)	-0.18	▶	-0.21	-2.5 bp
➔ US Tr. 10y (%)	1.59	▶	1.56	-2.9 bp
➔ Euro vs dollar	1.22	▶	1.22	-0.1 %
➔ Gold (ounce, \$)	1 895	▶	1 894	-0.1 %
➔ Oil (Brent, \$)	69.7	▶	71.4	+2.4 %

## MONEY & BOND MARKETS

Interest Rates	highest 21	lowest 21	Yield (%)	highest 21	lowest 21
€ ECB	0.00	0.00 at 01/01	€ AVG 5-7y	-0.15	-0.03 at 19/05
Eonia	-0.48	-0.47 at 26/01	Bund 2y	-0.65	-0.65 at 25/02
Euribor 3M	-0.55	-0.53 at 07/05	Bund 10y	-0.21	-0.11 at 20/05
Euribor 12M	-0.49	-0.47 at 20/04	OAT 10y	0.08	0.23 at 17/05
\$ FED	0.25	0.25 at 01/01	Corp. BBB	0.70	0.79 at 20/05
Libor 3M	0.13	0.24 at 13/01	Treas. 2y	0.15	0.17 at 05/04
Libor 12M	0.25	0.34 at 01/01	Treas. 10y	1.56	1.75 at 31/03
£ BoE	0.10	0.10 at 01/01	High Yield	4.60	4.87 at 09/03
Libor 3M	0.08	0.09 at 24/03	£ gilt. 2y	0.07	0.13 at 26/02
Libor 12M	0.17	0.17 at 13/05	gilt. 10y	0.84	0.93 at 13/05

At 4-6-21

## EXCHANGE RATES

1€ =	highest 21	lowest 21	2021
USD	1.23 at 06/01	1.17 at 30/03	-0.6%
GBP	0.91 at 06/01	0.85 at 05/04	-4.1%
CHF	1.11 at 04/03	1.08 at 18/01	+1.2%
JPY	133.21 at 28/05	125.22 at 18/01	+5.4%
AUD	1.57 at 04/01	1.53 at 18/03	-0.8%
CNY	7.80 at 01/01	7.69 at 25/03	-2.6%
BRL	6.16 at 03/03	6.16 at 03/06	-3.1%
RUB	88.65 at 20/04	86.53 at 16/03	-2.0%
INR	88.80 at 23/04	85.30 at 27/03	-0.7%

At 4-6-21

## COMMODITIES

Spot price, \$	highest 21	lowest 21	2021	2021(€)
Oil, Brent	71.4 at 02/06	51.2 at 04/01	+37.6%	+38.4%
Gold (ounce)	1 947 at 05/01	1 682 at 08/03	-0.2%	+0.4%
Metals, LME	4 187 at 11/05	3 415 at 01/01	+22.6%	+23.4%
Copper (ton)	9 940 at 11/05	7 749 at 01/01	+28.3%	+29.0%
wheat (ton)	258 at 07/05	231 at 30/03	+4.2%	+4.8%
Corn (ton)	272 at 07/05	188 at 04/01	+4.4%	+45.1%

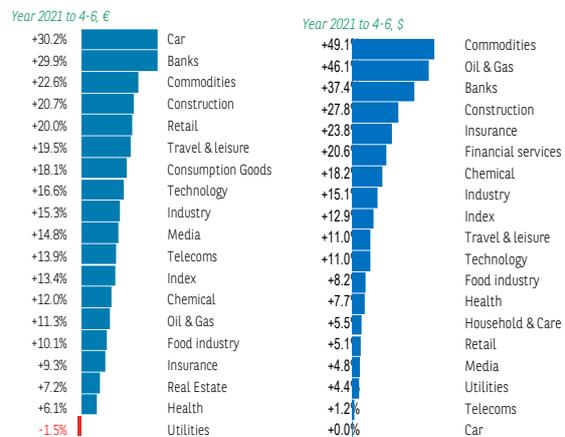
At 4-6-21

## EQUITY INDICES

Index	highest 21	lowest 21	2021
<b>World</b>			
MSCI World	2 997 at 04/06	2 662 at 29/01	+11.4%
<b>North America</b>			
S&P500	4 233 at 07/05	3 701 at 04/01	+12.6%
<b>Europe</b>			
EuroStoxx50	4 089 at 04/06	3 481 at 29/01	+15.1%
CAC 40	6 516 at 02/06	5 399 at 29/01	+1.7%
DAX 30	15 693 at 04/06	13 433 at 29/01	+14.4%
IBEX 35	9 088 at 28/05	7 758 at 29/01	+1.3%
FTSE100	7 069 at 07/05	6 407 at 29/01	+0.9%
<b>Asia</b>			
MSCI, loc.	1 141 at 04/06	1 044 at 06/01	+0.9%
Nikkei	30 468 at 16/02	27 056 at 06/01	+5.5%
<b>Emerging</b>			
MSCI Emerging (\$)	1 382 at 17/02	1 288 at 25/03	+0.7%
China	109 at 17/02	102 at 13/05	+0.5%
India	768 at 03/06	659 at 29/01	+13.6%
Brazil	2 058 at 04/06	1 561 at 09/03	+6.9%
Russia	780 at 04/06	647 at 01/02	+15.1%

At 4-6-21

## PERFORMANCE BY SECTOR (Eurostoxx50 & S&P500)

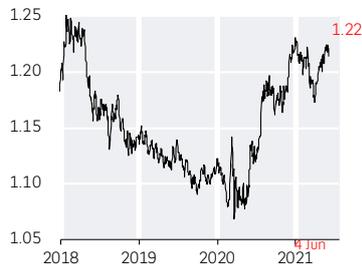


SOURCE: REFINITIV, BNP PARIBAS

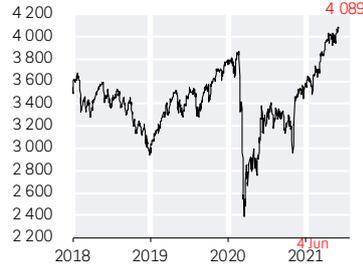


# MARKETS OVERVIEW

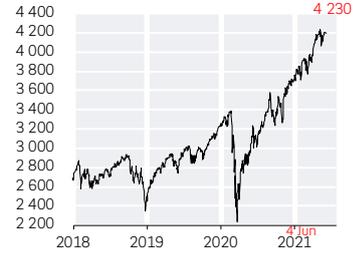
**EURO-DOLLAR**



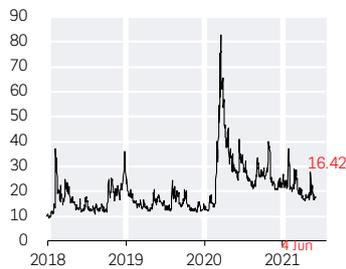
**EUROSTOXX50**



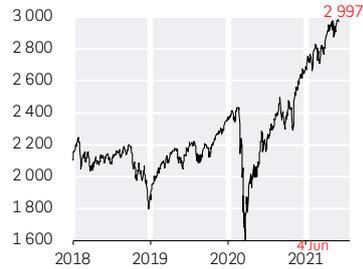
**S&P500**



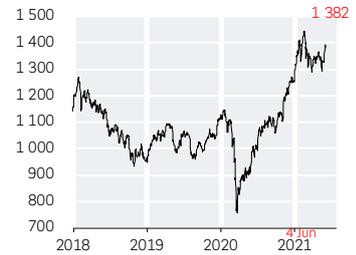
**VOLATILITY (VIX, S&P500)**



**MSCI WORLD (USD)**



**MSCI EMERGING (USD)**

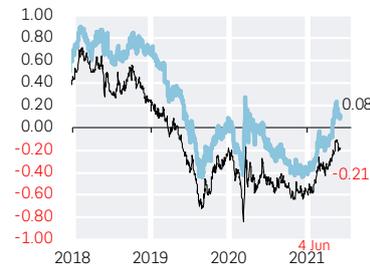


**10Y BOND YIELD, TREASURIES VS BUND**



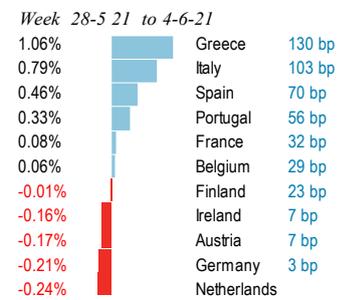
—Bunds —US Treasuries

**10Y BOND YIELD**

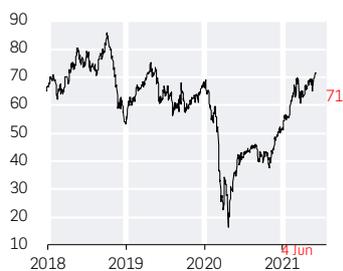


—Bunds —OAT

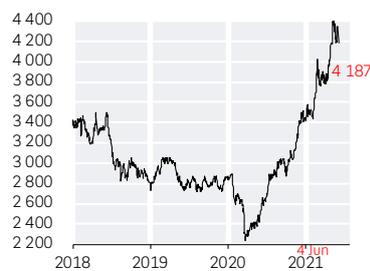
**10Y BOND YIELD & SPREADS**



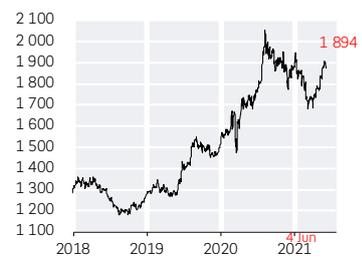
**OIL (BRENT, USD)**



**METALS (LMEX, USD)**



**GOLD (OUNCE, USD)**



SOURCE: REFINITIV, BNP PARIBAS



## PMI: PRICE PRESSURES CONTINUE TO BUILD, REACHING VERY HIGH LEVELS

The global manufacturing hardly moved in May, which shouldn't come as a surprise, given its already high level. The index improved further in the US and edged higher in the Eurozone where Greece, Ireland, Italy, the Netherlands and Spain saw a noticeable improvement. Germany was weaker. The UK was up strongly. The reading for China hardly changed whereas it dropped in India.

The global services PMI continued its fast acceleration in May, underpinned by a jump in the US and the euro area. In the latter, the index for France recorded a huge increase but Ireland, Italy and Spain were also up strongly as well. The improvement in Germany was less big. The number for Japan was disappointing with the PMI dropping 3 points. China was also weaker. The index plunged in India, which doesn't come as a surprise considering the level of new infections.

The global composite PMI saw another healthy increase in May, driven by a significant increase in the US and the euro area. Concerning the latter, the national indices improved in all countries where a composite PMI is available. The German index was up somewhat but there were big increases in France, Ireland, Italy and Spain. The number for Japan, after crossing the 50 mark in April, again dropped below this key level in May. The data in China were weaker, though still well above 50 whereas the index plunged in India.

The employment component of the manufacturing PMI had reached very high levels in the advanced economies in recent months, so some loss of momentum wouldn't come as a surprise. The global number hardly changed in May but it weakened in the US. Data were better for the Eurozone as a whole and in Austria, Germany, Greece -up strongly-, Ireland, Italy and the Netherlands. France saw a weaker number. The picture in emerging economies is mixed and the average level is lower than in the advanced economies. The index declined somewhat in China.

There was little change in the new export orders at the global level. The US and China saw further improvement whereas the number for the Eurozone eased slightly, reflecting a drop in Germany but better data in France, Greece in particular, Ireland, Italy, the Netherlands -up strongly and reaching a high level- as well as Spain. The UK saw a big jump in export orders whereas data for Turkey were weaker dropping below the 50 mark.

Manufacturing input prices keep on rising and the heatmap is red hot for all countries. In May, the increase is particularly impressive in the Eurozone with jumps in Austria, Germany, the Netherlands and for the Eurozone as a whole. The UK and the Czech Republic also recorded a spectacular increase. China also sees higher input prices. Services input prices recorded a big increase at the global level. All countries except Japan -where prices pressures eased slightly- are firmly in the red zone. The index saw a big jump in the US, Ireland and Italy. It also moved higher in Germany and the UK but eased somewhat in France. Manufacturing output prices were up strongly at the global level, in the US and in particular in the Eurozone, where Germany saw a big jump and several other countries also recorded big increases. This also applies to the UK, the Czech Republic and Poland.

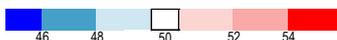
William De Vijlder

### MANUFACTURING PMI

	Developed Markets																			Emerging countries															
	WD	NA		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
Jul-20	50.6	52.9	50.9	51.8	52.8	56.4	52.4	51.0	48.6	57.3	51.9	47.9	53.5	49.6	53.3	53.5	59.2	45.2	50.2	58.2	40.4	47.0	52.8	48.4	56.9	49.6	44.9	50.0	49.4	50.8	52.8	44.5	46.0	46.9	47.6
Aug-20	51.8	55.1	53.1	51.7	51.0	51.4	49.8	52.2	49.4	52.3	53.1	52.3	49.9	51.0	55.2	49.3	50.8	47.2	50.1	64.7	41.3	49.1	50.6	51.1	54.3	49.4	40.1	48.8	55.8	49.4	53.1	44.0	52.0	50.8	45.7
Sep-20	52.4	56.0	53.2	53.7	51.7	53.5	51.2	56.4	50.0	50.0	53.2	52.5	50.8	52.8	54.1	46.7	53.5	47.7	50.3	64.9	42.1	50.7	50.8	48.9	52.8	50.4	42.1	50.7	58.5	51.0	53.0	47.7	56.8	47.2	52.2
Oct-20	53.1	55.5	53.4	54.8	54.0	62.6	51.3	58.2	48.7	50.3	53.8	50.4	52.5	52.9	53.7	56.3	52.1	48.7	50.5	66.7	43.6	51.9	50.8	46.9	53.9	51.4	43.3	51.0	60.9	49.5	53.6	49.8	58.9	47.8	51.8
Nov-20	53.8	55.8	56.7	53.8	51.7	46.4	49.6	57.8	42.3	52.2	51.5	54.4	49.8	54.5	55.6	52.1	55.1	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		48.3	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	41.9	51.6	57.1	50.0	51.8	55.1	58.8	49.3	59.4	54.1	55.3	57.5	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	53.9	54.8	58.6	57.9	58.3	41.2	56.1	60.7	49.4	52.0	56.9	59.6	52.9	61.3	55.1	58.8	54.4	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	67.2	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	55.9	57.2	60.5	62.9	64.7	71.6	58.9	66.2	54.4	60.8	60.7	67.2	57.7	69.5	60.9	61.7	58.4	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	67.7	59.4	64.4	58.0	64.1	62.3	69.4	59.4	69.9	65.6	61.8		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

### SERVICES PMI

	World	USA	EURO ZONE		FRANCE	GERMANY	IRELAND	ITALY	SPAIN	UK	AUSTRALIA	JAPAN	BRAZIL	RUSSIA	LEBANON	CHINA	HONG KONG	INDIA
Jul-20	50.7	50.0	54.7	57.3	55.6	51.9	51.6	51.9	56.5	44.0	45.4	42.5	58.5	44.9	54.1	44.5	34.2	
Aug-20	52.0	55.0	50.5	51.5	52.5	52.4	47.1	47.7	58.8	42.5	45.0	49.5	58.2	40.1	54.0	44.0	41.8	
Sep-20	52.0	54.6	48.0	47.5	50.6	45.8	48.8	42.4	56.1	36.2	46.9	50.4	53.7	42.1	54.8	47.7	49.8	
Oct-20	52.9	56.9	46.9	46.5	49.5	48.3	46.7	41.4	51.4	51.4	47.7	52.3	46.9	43.3	56.8	49.8	54.1	
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	59.4	70.4	55.2	56.6	52.8	62.1	53.1	59.4	62.9		46.5	0.0	57.5	47.9	55.1	52.5	46.4	



SOURCE: MARKIT, BNP PARIBAS



BNP PARIBAS

The bank  
for a changing  
world

COMPOSITE PMI\*

	Developed Markets																	Emerging countries																	
	WD	NA		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	VIETNAM
Jul-20	51.1	50.3	54.9			57.3	55.3		55.9	52.5		52.8		57.0			44.9		47.3												54.5		37.2		
Aug-20	52.5	54.6	51.9			51.6	54.4		54.0	49.5		48.4		59.1			45.2		53.9					57.3							55.1		46.0		
Sep-20	52.5	54.3	50.4			48.5	54.7		46.9	50.4		44.3		56.5			46.6		53.6					53.7							54.5		54.6		
Oct-20	53.4	56.3	50.0			47.5	55.0		49.0	49.2		44.1		52.1			48.0		55.9					47.1							55.7		58.0		
Nov-20	53.1	58.6	45.3			40.6	51.7		47.7	42.7		41.7		49.0			48.1		53.8					47.8							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					48.3							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					52.3							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					52.6							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					54.6							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					54.0							54.7		55.4		
May-21	58.4	68.7	57.1			57.0	56.2		63.5	55.7		59.2		62.9			48.8							56.2							53.8		48.1		

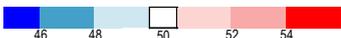
\*manufacturing & services

MANUFACTURING PMI – EMPLOYMENT

	Developed Markets																	Emerging countries																
	WD	NA		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	SAUDI ARABIA	SOUTH AFRICA	UAE	CHINA	INDIA	INDONESIA	VIETNAM	
Jul-20	47.3	50.9	49.6	42.9	48.5	48.2	48.8	37.2	48.4	50.8	45.0	42.9	47.4	46.1	43.9	48.2	47.3	47.8	52.3	38.7	42.7	47.8	44.7	54.8	46.1	47.8	33.7	47.5	49.5	44.3	43.5	45.4		
Aug-20	48.6	53.9	52.7	44.2	44.7	48.2	44.7	40.2	50.5	47.5	49.4	48.3	46.7	45.7	43.8	47.8	49.1	48.4	56.4	41.5	45.1	49.6	48.6	54.3	45.9	48.2	38.6	41.5	49.8	45.5	46.9	43.7		
Sep-20	49.5	54.3	52.5	47.1	49.1	44.7	46.5	44.2	50.9	49.1	51.9	47.7	50.1	47.1	46.5	51.8	51.4	49.8	56.5	44.6	48.1	51.1	45.6	55.2	48.3	49.0	44.8	47.7	50.1	45.4	46.1	48.5		
Oct-20	49.5	51.2	51.9	47.2	46.7	52.9	47.9	44.4	49.8	50.8	50.5	48.0	50.4	45.0	45.4	48.7	52.1	48.9	58.2	45.6	50.3	52.3	47.4	55.5	47.8	48.8	49.1	47.6	50.2	47.3	45.6	50.5		
Nov-20	50.2	52.5	51.7	48.7	47.4	45.9	48.7	47.2	45.0	51.2	51.5	51.7	48.3	47.9	47.2	53.1	51.2	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	46.8	50.4	46.5	47.8	53.0	53.2	52.4	48.5	51.8	48.8	53.4	49.8	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	49.8	49.1	47.8	50.9	50.8	53.2	52.1	46.9	52.2	50.6	52.9	56.2	48.7	51.2	44.2	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	48.9	52.5	50.0	50.3	52.9	53.6	53.0	49.2	52.5	51.9	52.1	50.3	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	62.2	56.2	54.1	51.0	55.7	55.3	55.1	53.2	54.4	55.7	53.3	53.6	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	61.5	54.1	57.3	53.8	57.7	55.9	59.6	55.6	54.6	54.5	55.8	52.7	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	63.3	53.2	58.6	56.3	60.0	58.6	60.7	55.8	56.2	60.6	55.8		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		

MANUFACTURING PMI – NEW EXPORT ORDERS

	Developed Markets																	Emerging countries																		
	WD	NA		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	ISRAEL	LEBANON	SAUDI ARABIA	SOUTH AFRICA	UAE	CHINA	HONG KONG	INDIA	INDONESIA	VIETNAM
Jul-20	47.2	47.8	49.8	51.8	49.6		45.9	54.8	45.2	58.7	48.9	46.4	53.9		47.7	41.4		40.2	50.5	46.2	41.6	43.6	50.5	48.5	54.4	51.7	48.6	45.3	45.7	40.7	47.7	48.3	36.2	43.3	38.4	41.7
Aug-20	49.9	52.9	52.9	51.9	50.4		48.3	55.7	46.9	52.5	46.5	55.2	49.8		51.5	52.2		47.3	50.2	46.2	44.4	47.1	50.3	48.8	53.4	53.0	53.4	33.6	45.4	38.7	48.5	50.7	38.0	47.8	40.1	42.0
Sep-20	51.7	51.3	51.2	55.5	52.7		51.5	61.2	49.3	47.7	51.3	54.0	51.4		53.4	46.5		47.3	50.4	53.9	42.0	50.2	51.0	43.8	50.9	55.3	51.1	40.8	52.0	45.8	50.9	54.4	44.8	53.8	36.4	52.9
Oct-20	51.3	52.9	49.3	56.3	56.8		50.1	61.3	46.2	49.0	55.8	53.2	51.2		54.1	52.7		50.6	50.8	54.2	42.1	52.1	53.5	50.4	51.7	54.0	48.2	42.2	48.4	49.3	50.6	51.0	47.8	55.2	37.6	50.0
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	50.2	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	51.0	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	53.5	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		56.5	64.4	53.0	57.6	62.0	68.1	57.8		59.7	48.9		53.8	51.2	50.9	45.0	54.2	55.3	50.4	48.8	52.7		50.0	56.5	51.4	49.7	52.3	50.4	53.6	52.5	53.7



SOURCE: MARKIT, BNP PARIBAS



BNP PARIBAS

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PMI - MANUFACTURING INPUT PRICES

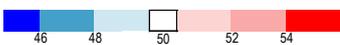
	WD	Developed Markets																	Emerging countries															
		NA		Europe											Asia-Oceania				LATAM	Eurasia			Middle East & Africa			Asia								
		World	CANADA	USA	EURO ZONE	AUSTRIA	DENMARK	FRANCE	GERMANY	GREECE	IRELAND	ITALY	NETHERLANDS	SPAIN	SWITZERLAND	UK	AUSTRALIA	NEW ZEALAND	JAPAN	SINGAPORE	BRAZIL	MEXICO	CZECH REPUBLIC	POLAND	RUSSIA	TURKEY	EGYPT	LEBANON	SAUDI ARABIA	SOUTH AFRICA	UAE	CHINA	HONG KONG	INDIA
Jul-20	53.1	54.1	52.8	47.5	43.5	41.8	49.5	44.0	50.6	55.7	52.7	46.1	48.4	55.0	63.5		50.2	49.7	75.8	49.9	53.8	54.0	61.4	65.1	53.4		50.2		50.8	54.8	47.9	48.6	56.7	51.9
Aug-20	54.6	58.6	56.4	50.1	47.6	51.2	51.3	47.7	52.3	55.5	52.5	52.0	52.1	56.4	59.3		51.3	50.1	86.7	52.3	52.9	58.0	64.8	72.2	52.8		56.8		50.4	53.2	49.8	54.2	57.1	50.8
Sep-20	54.7	60.3	56.2	50.6	49.2	45.1	52.7	46.9	53.6	56.4	54.3	53.5	52.8	56.5	57.9		51.2	50.2	87.2	53.1	50.4	57.6	63.3	73.6	52.2		51.1		50.8	54.1	50.0	51.8	52.9	54.6
Oct-20	55.3	62.4	57.1	52.9	50.7	61.3	54.9	50.9	54.0	54.4	55.2	56.1	52.4	58.7	66.6		52.0	50.4	89.5	53.5	56.3	60.6	72.5	75.6	53.9		52.2		50.3	52.1	50.4	52.4	53.4	55.7
Nov-20	57.6	60.7	61.6	55.9	53.0	62.8	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	62.4	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	68.0	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	73.4	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	83.0	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	86.5	79.0	84.3	81.8	76.3	81.6	86.3	78.3	80.4	74.1		60.4	50.9	86.8	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	71.6	72.5	78.1	87.1	91.3	87.1	79.8	93.1	81.9	78.9	83.7	90.1	80.1	87.6	82.1		62.4	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

PMI - SERVICES INPUT PRICES

	World	USA	EURO ZONE	FRANCE	GERMANY	IRELAND	ITALY	SPAIN	UK	AUSTRALIA	JAPAN	BRAZIL	RUSSIA	CHINA	INDIA
Jul-20	54.0	57.4	52.5	51.7	51.8	53.0	54.3	52.9	55.1	52.5	50.1	55.2	55.3	51.2	50.3
Aug-20	54.2	57.1	53.4	54.3	54.1	55.2	51.7	51.9	53.9	55.5	49.3	55.5	58.6	52.4	50.7
Sep-20	53.7	55.7	53.0	51.3	54.9	57.3	51.2	53.4	52.5	59.5	49.5	62.2	58.6	50.3	52.8
Oct-20	53.9	54.2	53.1	50.7	54.3	56.9	54.0	52.9	54.0	59.3	49.3	63.0	58.0		54.4
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	55.3	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		52.9		68.3	56.6	56.7

PMI - MANUFACTURING OUTPUT PRICES

	WD	Developed Markets																	Emerging countries																
		NA		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
Jul-20	51.0	50.0	50.9	49.0	46.5	65.2	50.0	49.7	48.5	52.9	47.2	48.1	46.5	51.6					50.0	63.5	46.7	49.3	48.3	51.9	57.5	48.8	56.6	48.5							
Aug-20	51.5	53.1	52.5	49.4	47.7	61.4	51.5	49.4	49.7	49.3	49.5	50.9	45.7	52.3					49.6	69.7	47.6	48.3	48.7	52.0	61.9	50.4	50.8	57.5	46.5						
Sep-20	51.5	54.6	53.7	49.6	49.7	66.1	51.1	49.1	46.9	49.6	50.4	51.4	48.0	52.1					49.4	76.6	46.7	48.1	50.5	53.1	63.9	51.4	51.0	51.5	46.3						
Oct-20	52.0	54.1	51.9	50.5	50.7	75.0	51.5	51.1	47.9	50.3	49.8	50.5	48.1	53.2					50.4	78.8	47.1	49.4	51.6	57.1	66.1	52.2	50.8	49.8	48.5						
Nov-20	53.2	54.7	56.2	51.6	50.3	47.8	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						
Dec-20	54.5	59.0	58.6	52.6	50.8	42.5	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						
Jan-21	55.0	55.8	60.4	52.2	51.4	35.2	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						
Feb-21	55.7	56.3	60.6	56.5	55.7	30.3	52.8	57.4	55.1	56.9	58.1	59.2	54.5	61.2					51.0	73.0	45.9	52.1	61.9	66.3	54.2	50.3	52.1	50.9	49.2						
Mar-21	59.3	61.6	69.1	60.9	60.8	58.4	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						
Apr-21	59.8	63.3	68.0	64.3	62.4	72.4	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						
May-21	62.6	65.9	70.9	69.1	67.9	64.9	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						



SOURCE: MARKIT, BNP PARIBAS

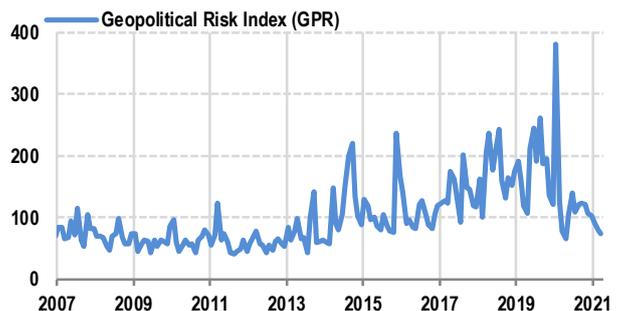
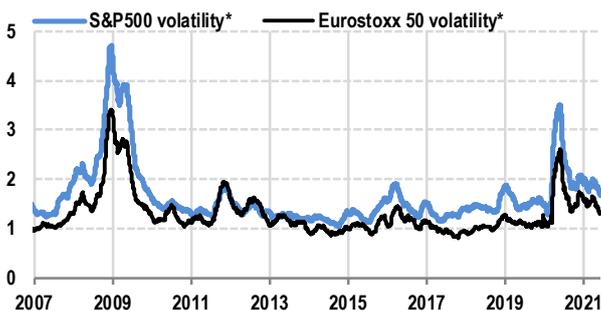
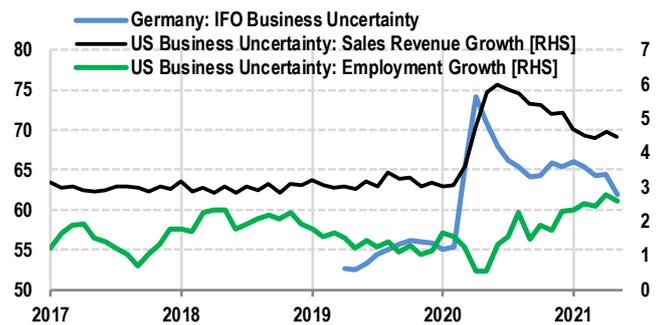
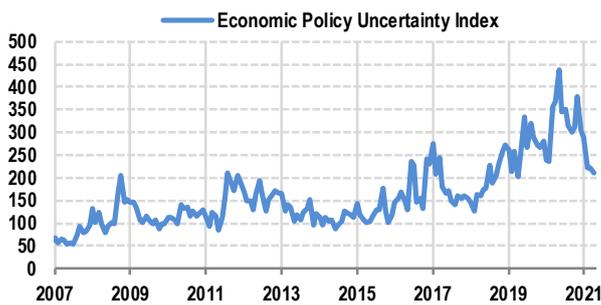
# ECONOMIC PULSE

## UNCERTAINTY DECLINING ACROSS THE BOARD

Our different uncertainty gauges are complementary, in terms of scope or methodology, yet, based on the latest readings, they all point towards a reduction in uncertainty. Such a uniform, positive message is quite unique and reflects the combination of a significant increase in many countries of administered vaccine doses, the lifting of restrictions and better economic data. Starting top left and following clockwise, economic policy uncertainty based on media coverage has declined further in recent weeks. Uncertainty based on business surveys has dropped in Germany and eased in the US. Geopolitical risk – based on media coverage – has declined since the start of the year. Finally, the cross-sectional standard deviation of daily stock market returns of individual companies has declined in the US and the Eurozone.

**William De Vijlder**

### CHANGES IN UNCERTAINTY



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

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



# ECONOMIC PULSE

## SPAIN: ARE OPINION SURVEYS TOO OPTIMISTIC?

The latest economic figures from Spain have shown so far a substantial gap between the very positive signals from opinion surveys and the hard data, particularly on consumption, where a significant rebound has yet to materialise. This might be partly explained by the collapse in tourism activity until April.

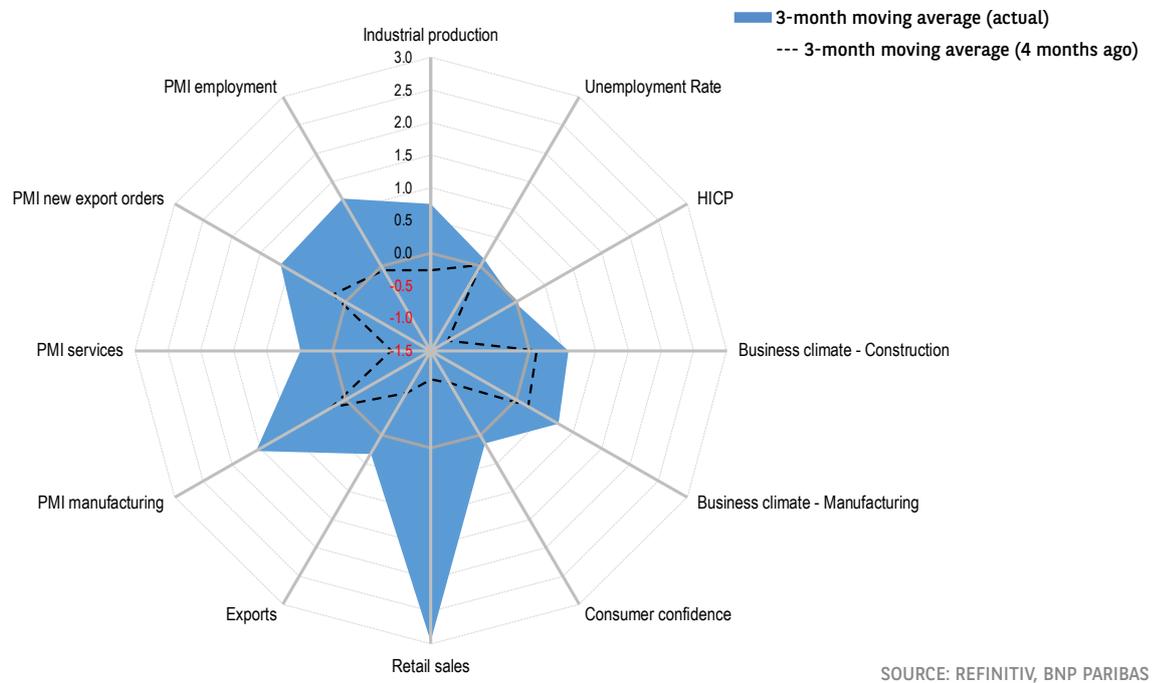
On the survey front, the PMI report published last week by Markit showed another marked increase in the composite index (+4 points to 59.2), driven by services (+4.8 points to 59.4), whilst the manufacturing indicator hit a new record (59.4). These figures are in line with European Commission surveys also showing significant improvements, with the economic sentiment indicator for May reaching its highest level since August 2019.

Our barometer reports a marked but rather deceptive increase in retail sales: this mainly reflects base effects caused by the collapse in consumption in spring 2020. Indeed, retail sales fell again in April (-0.8% m/m) and remain well below their pre-pandemic level. New car sales were also weak. That said, consumption will strengthen this summer if the pandemic continues to ease and business and travel conditions start to normalise. The number of daily contaminations continues to fall – it is now below 130 cases per million population – whilst, by 31 May, just under 40% of the population had received at least one vaccine dose.

Meanwhile, the Spanish employment agency (SEPE) has published its latest estimates of the number of jobseekers in the country. There was a slight decline in unemployment last month (down 29,429, or -0.8% after seasonal adjustment), coming mainly from a drop in the services sector. Nonetheless, on non-adjusted terms, the fall was the sharpest ever reported by SEPE. The number of workers affiliated to the social security system rose, after three consecutive monthly declines. The unemployment rate was 15.4% in April. Lastly, the number of employees on temporary unemployment (ERTE) remained important, although it is at its lowest since the onset of the pandemic. More than 542,000 workers were covered by the ERTE scheme in May, against a peak of 3,600,000 at the height of the first wave in April 2020.

**Guillaume Derrien**

### 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 -1.5 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

## MOBILITY REMAINS ON A RISING TREND IN THE MAIN ADVANCED COUNTRIES

The week of 26 May to 1 June saw 3.2 million new Covid-19 cases worldwide, a 17% drop on the previous week. The biggest falls came in North America (-17%) and Europe (-11%). Asia also saw a sharp drop (due to the decline in cases in India (-26%) although in Asia this country had the highest number of new cases during the week) (Chart 1). Meanwhile, 254 million Covid-19 vaccine doses have been administered in the European Union since the start of the vaccination campaign; this took the percentage of the population having received at least one dose to nearly 40%. For its part, the United States has recently moved through the symbolic 50% threshold. Nevertheless, its pace of vaccination remains below that in the EU, with increases over the past month of 6 points and 14 points respectively (Chart 2).

Over the same period, visits to retail and leisure facilities continued to rise in the main advanced countries. The biggest increase in the week came in France (13 points), putting its seven-day rolling average 17% below the benchmark level. The increase in the US remained small (1.1 points), but numbers are virtually back to normal (4% below the benchmark). The improving trend has had a visible impact on the service sector, as can be seen in the latest service sector PMI (Chart 3).

Finally, there has been a recent divergence in the OECD weekly tracker (a proxy for year-on-year GDP growth) in the main advanced countries. It continued to decline in the US, Germany, France, Spain and Japan; it stabilized in Italy and the United Kingdom, while it recovered in Belgium (Chart 3). The OECD tracker is based on Google Trends data, reflecting internet searches regarding consumption, labour markets, housing, industrial activity and economic uncertainty. However, the comparison with a very low base one year ago distorts the numbers.

Tarik Rharrab

\* Google Mobility Reports show how visits and length of stay at different places change compared to a baseline. The baseline is the median value, for the corresponding day of the week, during the 5-week period Jan 3-Feb 6, 2020. A figure of negative 30% indicates that traffic was down 30% compared to a baseline. The reports show trends over several weeks with the most recent data representing approximately 2-3 days ago—this is how long it takes to produce the reports. In order to smooth the series, we use a seven-day moving average of the raw data in the Google Mobility Reports. Source: Google.

DAILY CONFIRMED COVID-19 CASES (7-DAY MOVING AVERAGE)

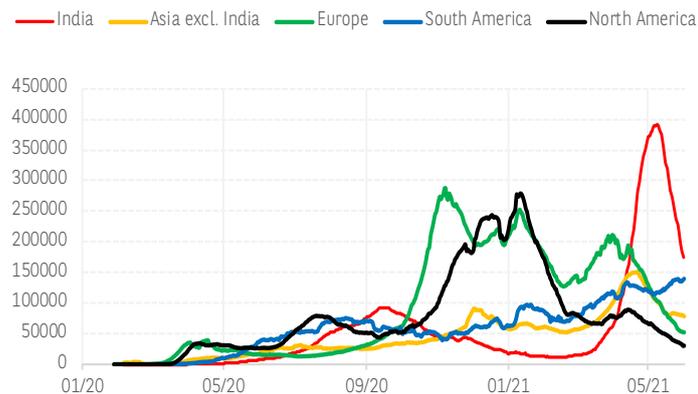


CHART 1

SOURCE: JOHNS-HOPKINS UNIVERSITY (06/02/2021), BNP PARIBAS

SHARE OF PEOPLE WHO RECEIVED AT LEAST ONE DOSE OF VACCINE

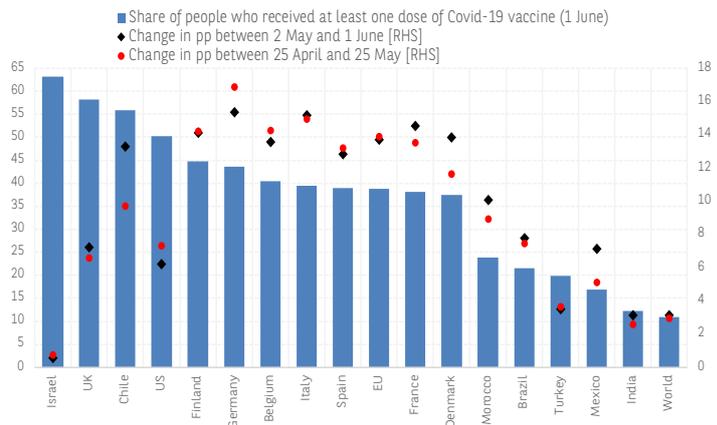


CHART 2

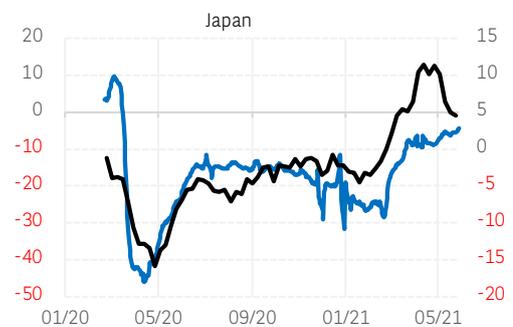
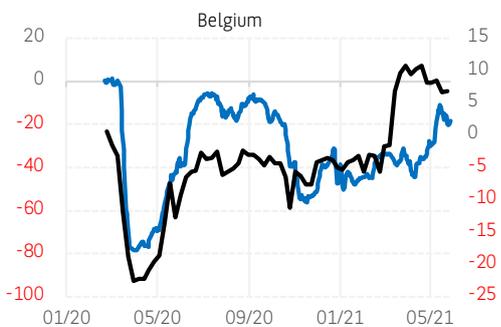
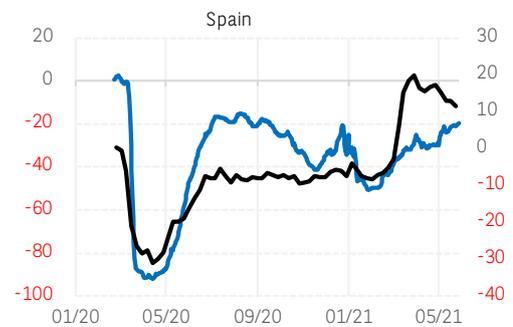
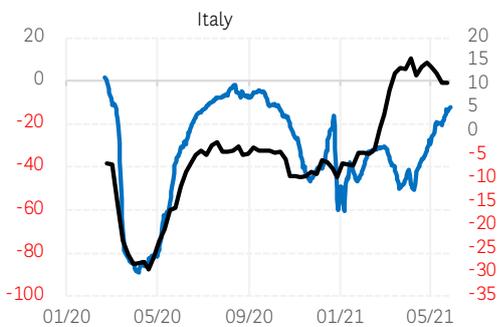
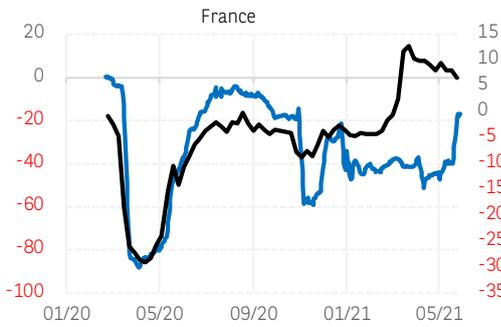
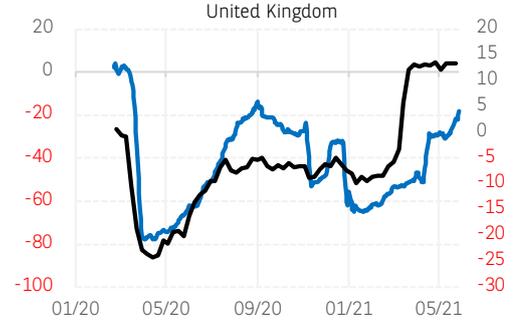
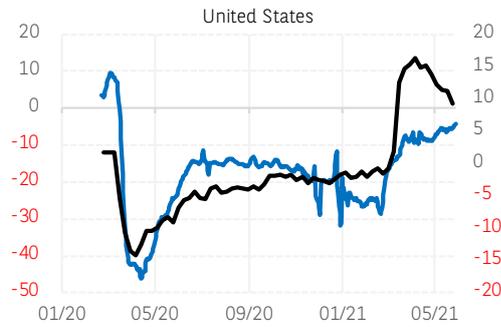
SOURCE: OUR WORLD IN DATA (06/02/2021), BNP PARIBAS



RETAIL AND RECREATION MOBILITY & OECD WEEKLY TRACKER

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

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



SOURCE: OECD (06/03/2021), GOOGLE (06/02/2021), 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 drop below the 5% mark in the second half. Expected inflation has risen sharply and is unlikely to fall back, particularly as reported inflation is picking up. Over the coming months the latter is likely to run well above the 2% target set by the Federal Reserve, but this will not cause the central bank to deviate from its accommodating stance.

## CHINA

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

## EUROZONE

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

## FRANCE

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

## RATES AND EXCHANGE RATES

In the US, policy will remain on hold for quite some time, considering that the FOMC wants inflation to move beyond 2% to make up for past below-target inflation. Its outcome-dependent guidance is very clear: the current pace of asset purchases will

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

In the eurozone, the ECB will maintain its very accommodative stance centered around its asset purchases and forward guidance, with the objective to generate a pick-up in inflation. The pandemic emergency purchase programme (PEPP) is to last at least until the end of March 2022. Nevertheless, bond yields are expected to move higher based on the acceleration of euro area growth, the reduction in uncertainty and the spillover effect of higher US Treasury yields. This should also lead to a slight increase in sovereign spreads in the euro area. The Bank of Japan is expected to maintain its current policy stance including its yield curve control strategy although the range of the latter has recently been widened to +/- 25 bp around 0%. Within this range, JGB yields are 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	2.5	2.2
Japan	0.3	-4.8	3.0	2.3	0.5	0.0	-0.3	0.0
United-Kingdom	1.5	-10.2	6.1	6.0	1.8	0.9	1.4	2.1
Euro Area	1.3	-6.8	4.2	5.0	1.2	0.3	1.7	1.4
Germany	0.6	-5.3	3.0	4.8	1.4	0.4	2.1	1.5
France	1.5	-8.2	6.1	4.4	1.3	0.5	1.4	1.0
Italy	0.3	-8.9	5.0	3.9	0.6	-0.1	1.5	1.4
Spain	2.0	-10.8	5.9	5.6	0.8	-0.3	1.3	1.2
China	6.1	2.3	9.2	5.3	2.9	2.5	1.8	2.8
India*	4.2	-7.2	12.5	4.1	4.8	6.2	4.9	4.6
Brazil	1.1	-4.1	2.5	3.0	3.7	3.2	6.5	4.0
Russia	1.3	-4.5	4.0	3.0	4.3	3.4	5.1	4.0

SOURCE: BNP PARIBAS GROUP ECONOMIC RESEARCH (E: ESTIMATES & FORECASTS)  
\*FISCAL YEAR FROM 1<sup>ST</sup> APRIL OF YEAR N TO MARCH 31<sup>ST</sup> 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	2.00	2.10	2.20	2.20	2.50
Ezone	Deposit rate	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
	Bund 10y	-0.33	-0.20	-0.10	0.20	0.20	0.20
	OAT 10y	-0.11	0.00	0.15	0.50	0.50	0.50
	BTP 10y	0.63	0.70	0.90	1.35	1.35	1.30
UK	BONO 10y	0.34	0.45	0.60	0.95	0.95	1.00
	Base rate	0.10	0.10	0.10	0.10	0.10	0.10
Japan	Gilts 10y	0.88	1.00	1.10	1.20	1.20	1.30
	BoJ Rate	-0.04	-0.10	-0.10	-0.10	-0.10	-0.10
	JGB 10y	0.09	0.12	0.18	0.23	0.23	0.28
Exchange Rates		2021					
End of period		Q1	Q2e	Q3e	Q4e	2021e	2022e
USD	EUR / USD	1.18	1.18	1.20	1.23	1.23	1.18
	USD / JPY	111	111	111	111	111	114
	GBP / USD	1.38	1.39	1.43	1.46	1.46	1.42
EUR	EUR / GBP	0.85	0.85	0.84	0.84	0.84	0.83
	EUR / JPY	130	131	133	137	137	135

SOURCE: BNP PARIBAS GLOBAL MARKETS (E: ESTIMATES)



## CALENDAR

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## LATEST INDICATORS

In Japan, April retail sales disappointed, dropping much more than expected. Consumer confidence declined slightly and less than anticipated, whereas the composite PMI declined. In China, the two composite PMIs send conflicting messages, one being up and the other down. Eurozone unemployment declined slightly in April and May core inflation was up, in line with expectations. Headline inflation was slightly higher than the consensus. Retail sales declined more than anticipated. The composite PMI saw a significant increase in the euro area whereas it made a big jump in France. The increase was more moderate in Germany. In the US, the ISM manufacturing index saw a small increase in May but the 'prices paid' component declined somewhat, whilst staying at a very high level. The employment component created a surprise by dropping significantly. The ISM services on the other hand improved. The labour market report offered a mixed picture. The pace of job creation accelerated significantly versus the previous month but was lower than expected. The unemployment rate on the other hand declined. Although the bulk of the new jobs were in lower wage sectors within services, the year-over-year increase in average earnings accelerated. This could reflect supply side tensions are rising in the labour market.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	ACTUAL	PREVIOUS
05/31/2021	Japan	Retail Sales MoM	Apr	-1.70%	-4.50%	1.20%
05/31/2021	China	Non-manufacturing PMI	May	55.1	55.2	54.9
05/31/2021	China	Manufacturing PMI	May	51.1	51.0	51.1
05/31/2021	China	Composite PMI	May	--	54.2	53.8
05/31/2021	Japan	Consumer Confidence Index	May	33.0	34.1	34.7
05/31/2021	Eurozone	OECD Publishes Economic Outlook				
06/01/2021	Japan	Jibun Bank Japan PMI Mfg	May	--	53.0	53.6
06/01/2021	China	Caixin China PMI Mfg	May	52.0	52.0	51.9
06/01/2021	France	Markit France Manufacturing PMI	May	59.2	59.4	58.9
06/01/2021	Germany	Markit/BME Germany Manufacturing PMI	May	64.0	64.4	66.2
06/01/2021	Eurozone	Markit Eurozone Manufacturing PMI	May	62.8	63.1	62.9
06/01/2021	United Kingdom	Markit UK PMI Manufacturing SA	May	66.1	65.6	60.9
06/01/2021	Eurozone	Unemployment Rate	Apr	8.10%	8.00%	8.10%
06/01/2021	Eurozone	CPI Core YoY	May	0.90%	0.90%	0.70%
06/01/2021	Eurozone	CPI MoM	May	0.20%	0.30%	0.60%
06/01/2021	Eurozone	CPI Estimate YoY	May	1.90%	2.00%	1.60%
06/01/2021	United States	Markit US Manufacturing PMI	May	61.5	62.1	60.5
06/01/2021	United States	ISM Manufacturing	May	61.0	61.2	60.7
06/01/2021	United States	ISM Prices Paid	May	89.5	88.0	89.6
06/01/2021	United States	ISM New Orders	May	66.0	67.0	64.3

SOURCE: BLOOMBERG



DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	ACTUAL	PREVIOUS
06/01/2021	United States	ISM Employment	May	54.6	50.9	55.1
06/02/2021	Eurozone	PPI MoM	Apr	1.00%	1.00%	1.10%
06/02/2021	Eurozone	PPI YoY	Apr	7.50%	7.60%	4.30%
06/02/2021	United States	U.S. Federal Reserve Releases Beige Book				
06/03/2021	Japan	Jibun Bank Japan PMI Services	May	--	46.5	49.5
06/03/2021	Japan	Jibun Bank Japan PMI Composite	May	--	48.8	51.0
06/03/2021	China	Caixin China PMI Composite	May	--	53.8	54.7
06/03/2021	China	Caixin China PMI Services	May	56.2	55.1	56.3
06/03/2021	France	Markit France Services PMI	May	56.6	56.6	50.3
06/03/2021	France	Markit France Composite PMI	May	57.0	57.0	51.6
06/03/2021	Germany	Markit Germany Services PMI	May	52.8	52.8	49.9
06/03/2021	Germany	Markit/BME Germany Composite PMI	May	56.2	56.2	55.8
06/03/2021	Eurozone	Markit Eurozone Services PMI	May	55.1	55.2	50.5
06/03/2021	Eurozone	Markit Eurozone Composite PMI	May	56.9	57.1	53.8
06/03/2021	United Kingdom	Markit/CIPS UK Services PMI	May	61.8	62.9	61.0
06/03/2021	United Kingdom	Markit/CIPS UK Composite PMI	May	62.0	62.9	60.7
06/03/2021	United States	Initial Jobless Claims	May	387k	385k	405k
06/03/2021	United States	Markit US Services PMI	May	70.1	70.4	64.7
06/03/2021	United States	Markit US Composite PMI	May	--	68.7	63.5
06/03/2021	United States	ISM Services Index	May	63.2	64.0	62.7
06/04/2021	Eurozone	Retail Sales MoM	Apr	-1.20%	-3.10%	3.30%
06/04/2021	United States	Change in Nonfarm Payrolls	May	650k	559k	278k
06/04/2021	United States	Unemployment Rate	May	5.90%	5.80%	6.10%
06/04/2021	United States	Average Hourly Earnings MoM	May	0.20%	0.50%	0.70%
06/04/2021	United States	Average Hourly Earnings YoY	May	1.60%	2.00%	0.40%
06/04/2021	United States	Average Weekly Hours All Employees	May	35.0	34.9	34.9
06/04/2021	United States	Labor Force Participation Rate	May	61.80%	61.60%	61.70%
06/04/2021	United States	Underemployment Rate	May	--	10.20%	10.40%

SOURCE: BLOOMBERG



## CALENDAR: THE WEEK AHEAD

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## COMING INDICATORS

The highlight this week is the Governing Council meeting of the ECB. The focus will be on the new staff forecasts and on what will be said about the PEPP, given the improving in a euro area data. Japan will publish an new estimate of first quarter growth but attention will be turned towards the Eco Watchers survey for May. For the eurozone, we will also have a new estimate of first quarter growth as well as employment numbers for the first quarter - they will also be released for France- and the ZEW expectations index, which we also have for Germany. China will publish inflation numbers. In the US we also have inflation data as well as University of Michigan sentiment and inflation expectations.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	PREVIOUS
06/07/2021	Japan	Leading Index Cl	Apr	--	102.5
06/08/2021	Japan	GDP SA QoQ	1Q	-1.20%	-1.30%
06/08/2021	Japan	Eco Watchers Survey Current SA	May	--	39.1
06/08/2021	Japan	Eco Watchers Survey Outlook SA	May	--	41.7
06/08/2021	Eurozone	Gross Fix Cap QoQ	1Q	--	1.60%
06/08/2021	Eurozone	Household Cons QoQ	1Q	--	-3.00%
06/08/2021	Eurozone	Govt Expend QoQ	1Q	--	0.40%
06/08/2021	Germany	ZEW Survey Expectations	Jun	--	84.4
06/08/2021	Germany	ZEW Survey Current Situation	Jun	--	-40.1
06/08/2021	Eurozone	Employment QoQ	1Q	--	-0.30%
06/08/2021	Eurozone	GDP SA QoQ	1Q	--	-0.60%
06/08/2021	Eurozone	ZEW Survey Expectations	Jun	--	84
06/08/2021	United States	NFIB Small Business Optimism	May	--	99.8
06/08/2021	United States	JOLTS Job Openings	Apr	--	8123k
06/09/2021	China	CPI YoY	May	1.60%	0.90%
06/09/2021	China	PPI YoY	May	8.40%	6.80%
06/09/21-06/15/21	China	Aggregate Financing CNY	May	2025.0b	1850.0b
06/10/2021	France	Private Sector Payrolls QoQ	1Q	--	0.30%
06/10/2021	France	Total Payrolls	1Q	--	-0.10%
06/10/2021	France	Industrial Production MoM	Apr	--	0.80%
06/10/2021	Eurozone	ECB Deposit Facility Rate	Jun	--	-0.50%
06/10/2021	United States	CPI MoM	May	0.40%	0.80%
06/10/2021	United States	CPI Ex Food and Energy MoM	May	0.40%	0.90%
06/10/2021	United States	CPI YoY	May	4.50%	4.20%
06/10/2021	United States	CPI Ex Food and Energy YoY	May	3.30%	3.00%
06/10/2021	United States	Initial Jobless Claims	Jun	--	--
06/11/2021	United Kingdom	Monthly GDP (MoM)	Apr	--	2.10%
06/11/2021	United States	U. of Mich. Sentiment	Jun	83.3	82.9
06/11/2021	United States	U. of Mich. Current Conditions	Jun	--	89.4
06/11/2021	United States	U. of Mich. Expectations	Jun	--	78.8
06/11/2021	United States	U. of Mich. 1 Yr Inflation	Jun	--	4.60%
06/11/2021	United States	U. of Mich. 5-10 Yr Inflation	Jun	--	3.00%
06/11/2021	United Kingdom	Monthly GDP (3M/3M)	Apr	--	-1.60%

SOURCE: BLOOMBERG



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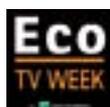
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