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ECONOMIC RESEARCH DEPARTMENT

EDITORIAL

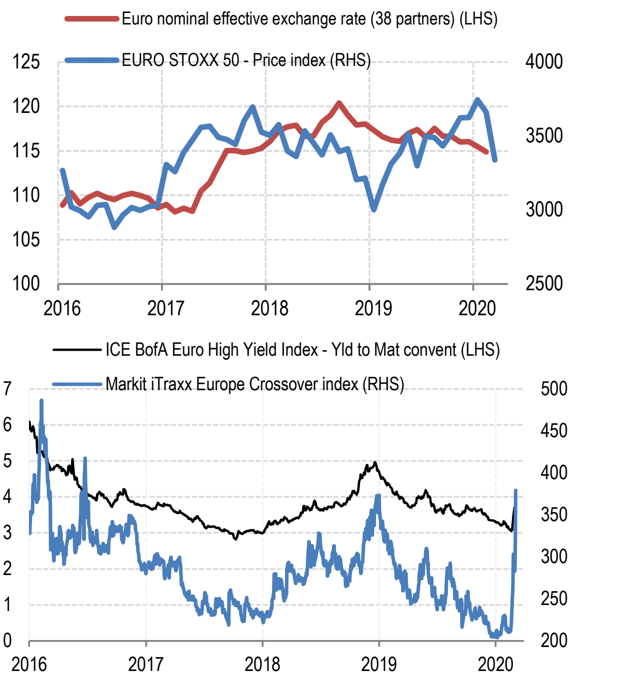
THE IMPORTANCE OF MONETARY POLICY IN ADDRESSING THE ECONOMIC CONSEQUENCES OF THE CORONAVIRUS

The Federal Reserve created a surprise this week by, quite unusually, going for an inter-meeting cut of the federal funds rate of 50 basis points. At first glance, the very nature of an epidemic makes monetary policy ill-equipped to address the consequences. The drop in demand and the disruption of supply are not related to the level of interest rates. Nevertheless, monetary policy has an important role to play in the current environment by seeking to avoid a deterioration of the financial and monetary conditions. This is a defensive move, the alternative being to run the risk that the tightening of these conditions acts as an additional brake on activity. It seems this has played a role in the decision of the FOMC and it now puts the onus on the ECB to act at its meeting next week.

This week has seen a large number of official statements expressing a readiness to act in order to address the economic consequences of the coronavirus epidemic. Bank of Japan Governor Kuroda declared that "*the BOJ will monitor developments carefully, and strive to stabilise markets and offer sufficient liquidity via market operations and asset purchases*" [1]. The ECB issued a statement by President Lagarde that, it "*[stands] ready to take appropriate and targeted measures, as necessary and commensurate with the underlying risks*." The conference call of G7 Finance Ministers and Central Bank Governors reaffirmed that all appropriate tools would be used to achieve strong, sustainable growth and to safeguard against downside risks. The Federal Reserve, confronted with accumulating anecdotal evidence on the impact of the epidemic on US companies decided to act and, quite unusually, went for an inter-meeting rate cut in the federal funds rate of 50 basis points.

At first glance, the very nature of an epidemic makes monetary policy ill-equipped to address the consequences. What difference will a rate cut make when households can't go to work or value chains of companies are disrupted? This was acknowledged by Jerome Powell in his press conference: "*We do recognize that a rate cut will not reduce the rate of infection, it won't fix a broken supply chain. We get that. We don't think we have all the answers. But we do believe that our action will provide a meaningful boost to the economy.*" [2] The skepticism about the effectiveness of monetary policy at the present juncture is also based on the observation that interest rates are already very low and that liquidity is abundant, as shown by the excess reserves of the banking system in many jurisdictions. In addition, the signaling channel –cutting rates today means they will stay lower for longer- is supposed to be rather weak. In the US, fixed income markets are pricing in several further rate cuts whereas in the eurozone, state-dependent forward guidance has locked in the very accommodative stance for years to come. This is not the time to worry about rate hikes.

FINANCIAL CONDITIONS IN THE EUROZONE



SOURCE: DATASTREAM, BLOOMBERG, BNP PARIBAS

1. Source: BOJ reassurance on coronavirus bolsters speculation of global policy action, Reuters, 2 March 2020
2. Source: Board of Governors of the Federal Reserve System, Transcript of Chair Powell's Press Conference, 3 March 2020

Monetary policy has an important role to play in the current environment by seeking to avoid a deterioration of financial conditions. Otherwise the tightening of these conditions would act as an additional brake on activity, on top of the direct effects of the epidemic. This has clearly played a role in the decision of the FOMC and it is to be expected that the ECB will think alike.

Nevertheless, monetary policy has an important role to play in the current environment by seeking to avoid a deterioration of the financial and monetary conditions. These relate to the level of policy rates but also to corporate bond spreads, the ease of access to financing, the level of exchange rate, etc. Typically, when financial markets are concerned about a significant worsening of the economic environment going forward, government bond yields decline and corporate bond spreads widen. Eventually, corporate bond yields will increase significantly. Access to bank financing may also become more difficult when the value of collateral declines[3] . Financial conditions tighten, even more so should the currency strengthen because other central banks are cutting rates. Trying to stabilize financial and monetary conditions is a defensive move, the alternative being to run the risk that the tightening of these conditions is an additional brake on activity, on top of the direct effects of the epidemic on demand, supply and confidence. It seems this has clearly played a role in the thinking of the FOMC. Quoting Jerome Powel from his press conference, "*More specifically, [the rate cut] will support accommodative financial conditions and avoid a tightening of financial conditions which can weigh on activity and will help boost household and business confidence. That is why you are seeing central banks around the world responding as they see appropriate in their particular institutional context*"

3. Recent research by the Bank of England emphasises the key role of real estate, which in the UK is very often used as collateral for company loans. This collateral also comprises residential property held by the company directors. Source: Bank of England, Bank Underground, How does monetary policy affect firms, 5 March 2020

These considerations are relevant in view of the ECB meeting of 12 March, although it should be emphasized that the recent appreciation of the euro versus the dollar comes on the back of a long depreciation and that the widening of corporate spreads, based on the CDS crossover index, has been rather limited in a historical perspective. Moreover liquidity remains abundant in the banking system, allowing for a smooth supply of credit. There is thus far not a significant tightening of financial and monetary conditions, which remain very accommodative, but a pre-emptive action looks like the preferred option compared to waiting to see how financing conditions evolve: the action of the Fed this week and the fact that the next Governing Council meeting is scheduled on 30 April, which in the current nervousness looks like ages away, imply that the question for next week's meeting is not whether something will be done but what.

Considering that this is not an issue of the level of the deposit rate or government bond yields and that bank liquidity is ample, a focus on influencing market-based financial conditions looks warranted. This would call for increasing the asset purchase program and in particular the corporate securities part, or, at a minimum, expressing the readiness to forcefully use this instrument should conditions require. As many larger companies will probably profit from such measure, targeted lending (TLRO) may probably also be considered as this would benefit SMEs.

William De Vijlder

MARKETS OVERVIEW

OVERVIEW

Week 28-2 20 to 5-3-20

↗ CAC 40	5 310	▶	5 361	+1.0	%
↗ S&P 500	2 954	▶	3 024	+2.4	%
↘ Volatility (VIX)	40.1	▶	39.6	-0.5	pb
↘ Euribor 3M (%)	-0.42	▶	-0.47	-4.5	bp
↘ Libor $ 3M (%)	1.46	▶	1.00	-46.2	bp
↘ OAT 10y (%)	-0.33	▶	-0.39	-6.0	bp
↘ Bund 10y (%)	-0.61	▶	-0.68	-6.5	bp
↘ US Tr. 10y (%)	1.15	▶	0.93	-22.6	bp
↗ Euro vs dollar	1.10	▶	1.12	+1.9	%
↗ Gold (ounce, $)	1 587	▶	1 660	+4.6	%
↗ Oil (Brent, $)	50.5	▶	51.3	+1.6	%

MONEY & BOND MARKETS

Interest Rates		highest 20			lowest 20		
€ ECB	0.00	0.00	at	01/01	0.00	at	01/01
Eonia	-0.46	-0.45	at	01/01	-0.46	at	02/03
Euribor 3M	-0.47	-0.38	at	02/01	-0.47	at	05/03
Euribor 12I	-0.36	-0.24	at	03/01	-0.36	at	03/03
$ FED	1.25	1.75	at	01/01	1.25	at	04/03
Libor 3M	1.00	1.91	at	01/01	1.00	at	04/03
Libor 12M	0.97	2.00	at	01/01	0.97	at	04/03
£ BoE	0.75	0.75	at	01/01	0.75	at	01/01
Libor 3M	0.50	0.80	at	08/01	0.50	at	04/03
Libor 12M	0.59	0.98	at	01/01	0.59	at	04/03

At 5-3-20

Yield (%)		highest 20			lowest 20		
€ AVG 5-7y	-0.25	0.10	at	02/01	-0.28	at	04/03
Bund 2y	-0.85	-0.58	at	14/01	-0.85	at	05/03
Bund 10y	-0.68	-0.19	at	01/01	-0.68	at	05/03
OAT 10y	-0.39	0.08	at	01/01	-0.39	at	05/03
Corp. BBB	0.75	0.91	at	13/01	0.65	at	20/02
$ Treas. 2y	0.58	1.59	at	08/01	0.58	at	05/03
Treas. 10y	0.93	1.91	at	01/01	0.93	at	05/03
High Yielc	5.89	6.04	at	28/02	5.44	at	21/02
£ gilt. 2y	0.16	0.61	at	08/01	0.16	at	05/03
gilt. 10y	0.31	0.83	at	01/01	0.31	at	05/03

At 5-3-20

EXCHANGE RATES

1€ =		highest 20			lowest 20			2020
USD	1.12	1.12	at	01/01	1.08	at	19/02	-0.3%
GBP	0.87	0.87	at	02/03	0.83	at	18/02	+2.2%
CHF	1.06	1.09	at	01/01	1.06	at	25/02	-2.2%
JPY	119.35	122.70	at	16/01	118.48	at	28/02	-2.2%
AUD	1.69	1.71	at	02/03	1.60	at	01/01	+6.1%
CNY	7.77	7.82	at	01/01	7.55	at	19/02	-0.7%
BRL	5.20	5.20	at	05/03	4.51	at	02/01	+15.2%
RUB	74.96	74.96	at	05/03	67.75	at	10/01	+7.5%
INR	82.02	82.02	at	05/03	77.21	at	17/02	+2.4%

At 5-3-20 *Change*

COMMODITIES

Spot price, $		highest 20			lowest 20			2020	2020(€)
Oil, Brent	51.3	69.1	at	06/01	50.5	at	28/02	-22.6%	-22.3%
Gold (ounce)	1 660	1 674	at	24/02	1 521	at	01/01	+9.2%	+9.5%
Metals, LMEX	2 636	2 894	at	20/01	2 593	at	03/02	-7.3%	-7.0%
Copper (ton)	5 655	6 270	at	14/01	5 504	at	03/02	-8.0%	-7.7%
CRB Foods	331	341.5	at	21/01	326	at	28/02	-2.3%	-2.0%
wheat (ton)	204	2.4	at	21/01	204	at	04/03	-10.9%	-10.6%
Corn (ton)	149	1.5	at	23/01	143	at	27/02	-0.0%	+0.1%

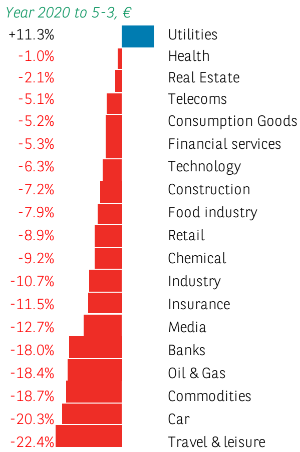
At 5-3-20 *Change*

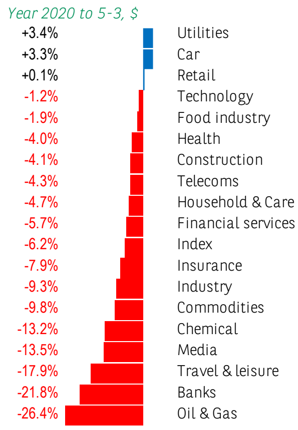
EQUITY INDICES

	Index	highest 20			lowest 20			2020
World								
MSCI World	2 192	2 435	at	12/02	2 141	at	28/02	-7.0%
North America								
S&P500	3 024	3 386	at	19/02	2 954	at	28/02	-6.4%
Europe								
EuroStoxx50	3 364	3 865	at	19/02	3 329	at	28/02	-10.2%
CAC 40	5 361	6 111	at	19/02	5 310	at	28/02	-1.0%
DAX 30	11 945	13 789	at	19/02	11 858	at	02/03	-9.8%
IBEX 35	8 683	10 084	at	19/02	8 683	at	05/03	-0.9%
FTSE100	6 705	7 675	at	17/01	6 581	at	28/02	-1.1%
Asia								
MSCI, loc.	920	1 034	at	20/01	909	at	04/03	-0.9%
Nikkei	21 329	24 084	at	20/01	21 083	at	03/03	-9.8%
Emerging								
MSCI Emerging ($)	1 039	1 147	at	17/01	1 006	at	28/02	-0.7%
China	86	90	at	13/01	81	at	31/01	+0.3%
India	542	609	at	17/01	537	at	02/03	-5.9%
Brazil	1 817	2 429	at	02/01	1 817	at	05/03	-11.5%
Russia	678	857	at	20/01	666	at	02/03	-10.2%

At 5-3-20 *Change*

PERFORMANCE BY SECTOR (Eurostoxx50 & S&P500)

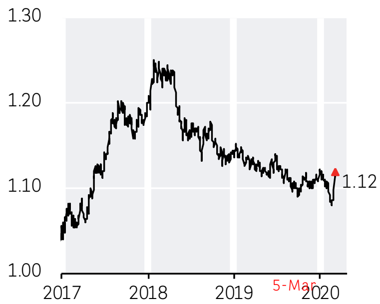




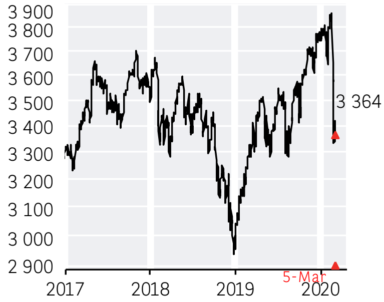
SOURCE: THOMSON REUTERS,

MARKETS OVERVIEW

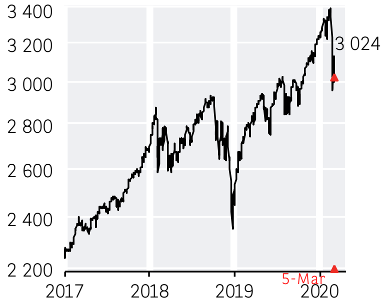
EURO-DOLLAR



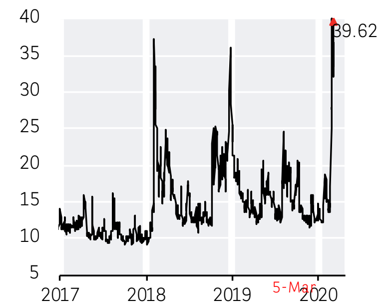
EUROSTOXX50



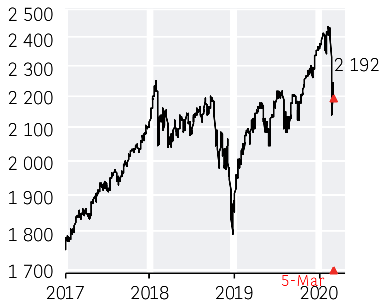
S&P500



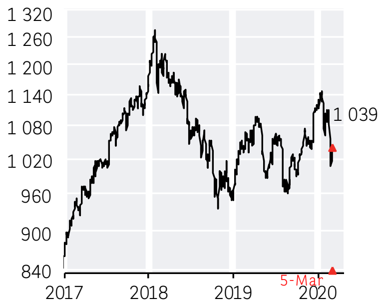
VOLATILITY (VIX, S&P500)



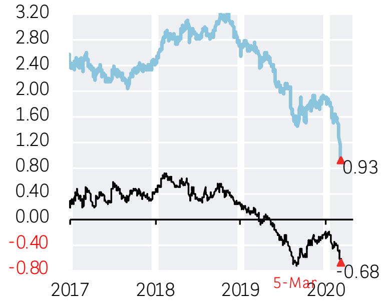
MSCI WORLD (USD)



MSCI EMERGING (USD)

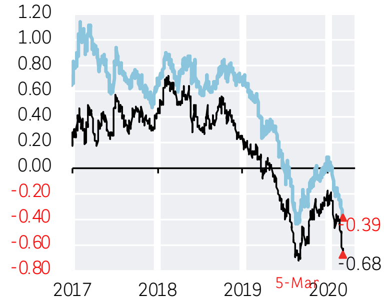


10Y BOND YIELD, TREASURIES VS BUND



—Bunds —US Treasuries

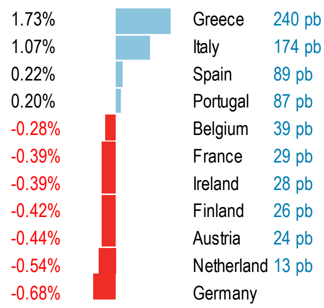
10Y BOND YIELD



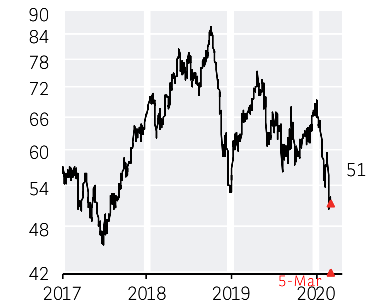
—Bunds —OAT

10Y BOND YIELD & SPREADS

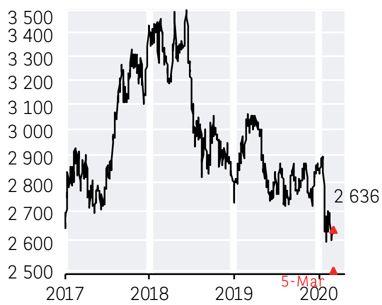
Week 28-2 20 to 5-3-20



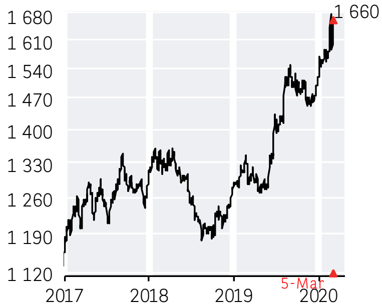
OIL (BRENT, USD)



METALS (LMEX, USD)



GOLD (OUNCE, USD)



SOURCE: THOMSON REUTERS,

ECONOMIC PULSE

EXCEPT FOR CHINA AND HONG KONG, LITTLE IMPACT THUS FAR OF THE CORONAVIRUS

At the start of a new month, the purchasing managers indices are amongst the earliest data providing information on what happened the month before. Following the coronavirus outbreak they were even more eagerly awaited than normal. For the manufacturing sector, the picture is very mixed, with a considerable decline for the world index on the back of huge drops in China and Hong Kong. On the other hand, the index for the eurozone saw another increase, driven by Germany, the Netherlands, Spain and Greece with Italy remaining stable and France weakening. In the US, both the Markit PMI and the ISM index declined.

Clearly, except for China and Hong Kong, the data do not yet show the impact of the coronavirus epidemic but it is only a matter of time for this to happen. To some degree this also applies to the services PMIs. For this sector, there were huge declines in China and Hong Kong. Japan weakened considerably, contributing to the decline of the world index. The eurozone was stable. The decline in the US is puzzling considering that the ISM non-manufacturing index improved.

William De Vijlder

MANUFACTURING PMI

	WD	NA		Developed Markets: Europe											
	World	CANADA	USA	EURO ZONE	AUSTRIA	DENMARK	FRANCE	GERMANY	GREECE	IRELAND	ITALY	NETHERLANDS	SPAIN	SWITZERLAND	UK
Apr-19	**50.4**	49.7	52.6	47.9	49.2	57.8	50.0	44.4	56.6	52.5	49.1	52.0	51.8	49.1	53.1
May-19	**49.8**	49.1	50.5	47.7	48.3	48.8	50.6	44.3	54.2	50.4	49.7	52.2	50.1	49.0	49.4
Jun-19	**49.4**	49.2	50.6	47.6	47.5	44.6	51.9	45.0	52.4	49.8	48.4	50.7	47.9	48.6	48.0
Jul-19	**49.3**	50.2	50.4	46.5	47.0	49.5	49.7	43.2	54.6	48.7	48.5	50.7	48.2	45.2	48.0
Aug-19	**49.5**	49.1	50.3	47.0	47.9	49.3	51.1	43.5	54.9	48.6	48.7	51.6	48.8	47.4	47.4
Sep-19	**49.7**	51.0	51.1	45.7	45.1	51.2	50.1	41.7	53.6	48.7	47.8	51.6	47.7	44.9	48.3
Oct-19	**49.8**	51.2	51.3	45.9	45.5	50.8	50.7	42.1	53.5	50.7	47.7	50.3	46.8	48.9	49.6
Nov-19	**50.3**	51.4	52.6	46.9	46.0	53.6	51.7	44.1	54.1	49.7	47.6	49.6	47.5	48.5	48.9
Dec-19	**50.1**	50.4	52.4	46.3	46.0	51.1	50.4	43.7	53.9	49.5	46.2	48.3	47.4	48.8	47.5
Jan-20	**50.4**	50.6	51.9	47.9	49.2	53.1	51.1	45.3	54.4	51.4	48.9	49.9	48.5	47.8	50.0
Feb-20	**47.2**	51.8	50.7	49.2	50.2	49.1	49.8	48.0	56.2	51.2	48.7	52.9	50.4	49.5	51.7

	Developed Markets: Asia-Oceania				Emerging countries: LATAM		Eurasia				Middle East & Africa					Asia				
	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
Apr-19	54.8	52.7	50.2	50.3	51.5	50.1	46.6	49.0	51.8	46.8	50.8	46.7	56.8	48.0	57.6	50.2	48.4	51.8	50.4	52.5
May-19	52.7	50.3	49.8	49.9	50.2	50.0	46.6	48.8	49.8	45.3	48.2	46.3	57.3	48.2	59.4	50.2	46.9	52.7	51.6	52.0
Jun-19	49.4	51.2	49.3	49.6	51.0	49.2	45.9	48.4	48.6	47.9	49.2	46.3	57.4	49.2	57.7	49.4	47.9	52.1	50.6	52.5
Jul-19	51.3	48.3	49.4	49.8	49.9	49.8	43.1	47.4	49.3	46.7	50.3	47.7	56.6	50.2	55.1	49.9	43.8	52.5	49.6	52.6
Aug-19	53.1	48.7	49.3	49.9	52.5	49.0	44.9	48.8	49.1	48.0	49.4	47.8	57.0	46.5	51.6	50.4	40.8	51.4	49.0	51.4
Sep-19	54.7	48.8	48.9	49.5	53.4	49.1	44.9	47.8	46.3	50.0	49.5	46.4	57.3	45.1	51.1	51.4	41.5	51.4	49.1	50.5
Oct-19	51.6	52.6	48.4	49.6	52.2	50.4	45.0	45.6	47.2	49.0	49.2	48.3	57.8	48.1	51.1	51.7	39.3	50.6	47.7	50.0
Nov-19	48.1	51.2	48.9	49.8	52.9	48.0	43.5	46.7	45.6	49.5	47.9	37.0	58.3	47.7	50.3	51.8	38.5	51.2	48.2	51.0
Dec-19	48.3	49.2	48.4	50.1	50.2	47.1	43.6	48.0	47.5	49.5	48.2	45.1	56.9	47.1	50.2	51.5	42.1	52.7	49.5	50.8
Jan-20	45.4	49.6	48.8	50.3	51.0	49.0	45.2	47.4	47.9	51.3	46.0	44.9	54.9	45.2	49.3	51.1	46.8	55.3	49.3	50.6
Feb-20	44.3		47.8	48.7	52.3	50.0	46.5	48.2	48.2	52.4	47.1	45.4	52.5	44.3	49.1	40.3	33.1	54.5	51.9	49.0

46 48 50 52 54

SOURCE: MARKIT, BNP PARIBAS

SERVICES PMI

	World	USA	EURO ZONE	FRANCE	GERMANY	IRELAND	ITALY	SPAIN	UK	AUSTRALIA	JAPAN	BRAZIL	RUSSIA	LEBANON	CHINA	HONG KONG	INDIA
Apr-19	**52.7**	53.0	52.8	50.5	55.7	54.7	50.4	53.1	50.4	47.6	51.8	49.9	52.6	46.7	54.5	48.4	51.0
May-19	**51.6**	50.9	52.9	51.5	55.4	57.0	50.0	52.8	51.0	52.3	51.7	47.8	52.0	46.3	52.7	46.9	50.2
Jun-19	**51.9**	51.5	53.6	52.9	55.8	56.9	50.5	53.6	50.2	51.4	51.9	48.2	49.7	46.3	52.0	47.9	49.6
Jul-19	**52.5**	53.0	53.2	52.6	54.5	55.0	51.7	52.9	51.4	44.4	51.8	52.2	50.4	47.7	51.6	43.8	53.8
Aug-19	**51.7**	50.7	53.5	53.4	54.8	54.6	50.6	54.3	50.6	52.3	53.3	51.4	52.1	47.8	52.1	40.8	52.4
Sep-19	**51.4**	50.9	51.6	51.1	51.4	53.1	51.4	53.3	49.5	51.8	52.8	51.8	53.6	46.4	51.3	41.5	48.7
Oct-19	**51.0**	50.6	52.2	52.9	51.6	50.6	52.2	52.7	50.0	55.2	49.7	51.2	55.8	48.3	51.1	39.3	49.2
Nov-19	**51.6**	51.6	51.9	52.2	51.7	53.7	50.4	53.2	49.3	53.7	50.3	50.9	55.6	37.0	53.5	38.5	52.7
Dec-19	**52.0**	52.8	52.8	52.4	52.9	55.9	51.1	54.9	50.0	48.7	49.4	51.0	53.1	45.1	52.5	42.1	53.3
Jan-20	**52.7**	53.4	52.5	51.0	54.2	56.9	51.4	52.3	53.9	47.4	51.0	52.7	54.1	44.9	51.8	46.8	55.5
Feb-20	**47.1**	49.4	52.6	52.5	52.5	59.9	52.1	52.1	53.2	47.0	46.8	50.4	52.0	45.4	26.5	33.1	57.5

46 48 50 52 54

SOURCE: MARKIT, BNP PARIBAS

ECONOMIC SCENARIO

UNITED STATES

- Although the impact from the coronavirus should be limited, given that exports represent a smaller share of GDP, there are indications of a negative impact due to demand (travel and tourism) and supply (supply chain delays in manufacturing) reasons. Beyond this temporary impact, growth should remain moderate, supported by household spending (consumption and housing). The picture is more mixed for corporate investment. Easy financial and monetary conditions should remain a factor supporting growth but the near term prospects depend on how the epidemic evolves.

CHINA

- The Covid-19 shock represents a severe shock on both demand and supply, which has led us to revise strongly downwards our real GDP growth forecast for 2020 (-1.2pp). The shock should be temporary, but economic prospects are still downbeat. In spite of the US-China trade truce, Chinese exports to the US remain heavily taxed. Meanwhile, the rebalancing of China's growth sources, which implies a stronger expansion of private consumption and deleveraging of corporates, should continue to be a long and hard process.
- Since the outbreak of the virus, the central bank and the government have considerably stepped up measures to support the economy.

EUROZONE

- After showing signs of stabilization in the manufacturing sector towards the end of 2019, the first half of 2020 will be affected by the Coronavirus outbreak in view of the repercussions of the growth slowdown and supply disruption in China, but also as a consequence of the propagation of the epidemic in the eurozone and other countries
- In this context and given the drop in oil prices, total inflation should remain well below the 2% target. In spite of the recent (slight) increase in core inflation and the resilience in the labor market, inflationary pressures would remain subdued.
- The very accommodative monetary policy should be maintained by the ECB and it is likely to see new easing measures.

FRANCE

- A marked technical rebound was likely after the unexpected GDP contraction in Q4 2019 (1st estimate) but this expectation is jeopardized by the coronavirus outbreak which darkens the H1 2020 growth outlook.
- The core story of our scenario is unchanged however. The French economy should decelerate a bit further while continuing to show resilience. Households' consumption should get a boost from the tax cuts and the jobs recovery. We forecast business investment to be less strong and exports to stay weak given the less supportive global backdrop. Core inflation remains very subdued.

INTEREST RATES AND FX RATES

- In the US, the unusual inter-meeting rate cuts shows the concern of the Fed about the growth outlook in relation to the epidemic. We expect that it will keeping on reducing its policy rate this year. . Treasury yields have seen a big drop, reflecting expectations of monetary easing but also a flight to safety. Eventually, given the temporary nature of the coronavirus epidemic, this should be followed by a rebound in yields.
- In the eurozone, the ECB's state-dependent forward guidance and the sluggishness of the inflation process imply that the very accommodative environment will remain in place for a long time. Due to the epidemic, we expect more easing to come quite soon. The movement of bond yields will be very much influenced by what happens to US yields, and hence, in the near term, by news about the epidemic. Sovereign spreads in the eurozone should remain tight.
- We expect that the Bank of Japan will refrain from further monetary easing, despite the bleak economic environment.
- Growing concerns about the global economic impact of the coronavirus has caused a jump in risk aversion which has benefitted the euro. Expectations of more Fed rate cuts also play a role. In the longer run, we expect the euro to strengthen somewhat once activity starts to normalise.

GROWTH & INFLATION

	GDP Growth			Inflation		
%	2019 e	2020 e	2021 e	2019 e	2020 e	2021 e
Advanced	1.6	1.3	1.5	1.4	1.5	NA
United-States	2.3	1.6	1.8	1.8	2.2	NA
Japan	1.0	0.2	0.5	0.5	0.6	NA
United-Kingdom	1.4	1.0	1.5	1.8	1.5	NA
Euro Area	1.2	0.7	1.5	1.2	0.9	1.1
Germany	0.6	0.1	1.5	1.4	1.1	1.4
France	1.2	1.0	1.3	1.3	1.0	1.1
Italy	0.2	0.0	0.7	0.6	0.5	0.5
Spain	2.0	1.6	1.6	0.8	0.8	1.0
Emerging						
China	6.1	4.5	NA	2.9	3.2	NA
India*	5.8	5.5	NA	4.3	4.5	NA
Brazil	1.0	1.5	NA	3.7	3.4	NA
Russia	1.1	1.6	NA	4.5	3.7	NA

Source : BNP Paribas Group Economic Research (e: Estimates & forecasts)
* Fiscal year from April 1st of year n to March 31st of year n+1

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, %		2019		2020						
End of period		Q3	Q4	Q1e	Q2e	Q3e	Q4e	2018	2019	2020e
US	Fed Funds "upper end"	2.00	1.75	0.75	0.25	0.25	0.25	2.50	1.75	0.25
	T-Notes 10y	1.67	1.92	0.92				2.69	1.92	
Ezone	Deposit rate	-0.50	-0.50	-0.60	-0.60	-0.60	-0.60	-0.50	-0.50	-0.60
	Bund 10y	-0.57	-0.19	-0.67				0.25	-0.19	
	OAT 10y	-0.28	0.08	-0.38				0.71	0.08	
UK	Base rate	0.75	0.75	0.50	0.50	0.50	0.50	0.75	0.75	0.50
	Gilts 10y	0.40	0.83	-0.31				1.27	0.83	
Japan	BoJ Rate	-0.06	-0.05	-0.10	-0.10	-0.10	-0.10	-0.07	-0.05	-0.10
	JGB 10y	-0.22	-0.02	-0.11				0.00	-0.02	

Exchange Rates		2019		2020						
End of period		Q3	Q4	Q1e	Q2e	Q3e	Q4e	2018	2019	2020e
USD	EUR / USD	1,09	1,12	1.11	1.12	1.13	1.14	1.14	1.12	1.14
	USD / JPY	108	109	109	108	106	105	110	109	96
	GBP / USD	1,23	1,32	1.35	1.36	1.36	1.39	1.27	1.32	1.39
	USD / CHF	1,00	0,97	0.99	0.99	0.99	1.00	0.99	0.97	1.00
EUR	EUR / GBP	0,89	0,83	0.83	0.83	0.83	0.82	0.90	0.83	0.82
	EUR / CHF	1,09	1,09	1.11	1.12	1.12	1.14	1.13	1.09	1.14
	EUR / JPY	118	122	112	111	108	109	125	122	109

SOURCE: BNP PARIBAS GLOBAL MARKETS (E: ESTIMATES)

CALENDAR

LATEST INDICATORS

As could be expected, the Chinese PMIs for February saw a huge decline in particular for the services sector, which explains the drop of the composite index. Elsewhere, the manufacturing PMIs were more or less stable and the same applies to the composite PMIs. In the US, the non-manufacturing ISM even increased. This implies that the impact of the epidemic and its international propagation still has to show up in the data. The Federal Reserve has acted pre-emptively with the inter-meeting 50 basis points cut in the federal funds rate although the anecdotal evidence in the Beige Book of the impact of the coronavirus on US business will also have played a role in its decision. The OECD revised downwards its growth forecasts. Finally, the US labour market report was particularly strong, beating expectations with a wide margin.

DATE	COUNTRY	INDICATOR	PERIOD	ACTUAL	PREVIOUS
03/02/2020	Japan	PMI manufacturier (Jibun Bank)	Fev.	47.8	47.6
03/02/2020	China	PMI manufacturier (Caixin)	Fev	40.3	51.1
03/02/2020	France	Markit France Manufacturing PMI	Fev	49.8	49.7
03/02/2020	Germany	Markit/BME Germany Manufacturing PMI	Fev	48.0	47.8
03/02/2020	Eurozone	Markit Eurozone Manufacturing PMI	Fev	49.2	49.1
03/02/2020	United Kingdom	Markit UK PMI Manufacturing SA	Fev	51.7	51.9
03/02/2020	United States	ISM Manufacturing	Fev	50.1	50.9
03/03/2020	Eurozone	CPI Core YoY	Fev	1.2%	1.10%
03/03/2020	Eurozone	Unemployment Rate	Jan	7.4%	7.40%
04/03/2020	Japan	Jibun Bank Japan PMI Composite	Fev	47.0	47
04/03/2020	China	Caixin China PMI Composite	Fev	27.5	51.9
04/03/2020	France	Markit France Composite PMI	Fev	52.0	51.9
04/03/2020	Germany	Markit/BME Germany Composite PMI	Fev	50.7	51.1
04/03/2020	Eurozone	Markit Eurozone Composite PMI	Fev	51.6	51.6
04/03/2020	United Kingdom	Markit/CIPS UK Composite PMI	Fev	53.0	53.3
04/03/2020	Eurozone	Retail Sales YoY	Jan	1.7%	1.30%
04/03/2020	United States	ISM Non-Manufacturing Index	Fev	57.3	55.5
04/03/2020	United States	U.S. Federal Reserve Releases Beige Book		100.9	
05/03/2020	Eurozone	OECD Publishes Interim Economic Outlook		2.3%	
06/03/2020	United States	Change in Nonfarm Payrolls	Fev	27300	225000
06/03/2020	United States	Unemployment Rate	Fev	3.5%	3.60%

SOURCE: BLOOMBERG

CALENDAR: THE WEEK AHEAD

COMING INDICATORS

The highlight of next week is the meeting of the ECB Governing Council, the key question being whether and if so, how, it will follow the example of the Federal Reserve and ease policy in reaction to the coronavirus. The UK government will announce its 2020 budget which, again, will be scrutinised for measures in reaction to the epidemic. In terms of data, we will have the publication of industrial production numbers in several countries, the Eco Watchers survey in Japan and, in the US, small business sentiment and University of Michigan sentiment.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	PREVIOUS
03/09/2020	Japan	GDP Annualized SA QoQ	4Q	-6.7%	-6.3%
03/09/2020	Japan	Eco Watchers Survey Current SA	Feb	--	41.9
03/09/2020	Germany	Exports SA MoM	Jan	--	0.1%
03/09/2020	Germany	Industrial Production WDA YoY	Jan	--	-6.8%
03/09/2020	France	Bank of France Ind. Sentiment	Feb	--	96
03/10/2020	Japan	Machine Tool Orders YoY	Feb	--	-35.6%
03/10/2020	France	Private Sector Payrolls QoQ	4Q	--	0.2%
03/10/2020	France	Industrial Production YoY	Jan	--	-3.0%
03/10/2020	Eurozone	Employment YoY	4Q	--	1.0%
03/10/2020	United States	NFIB Small Business Optimism	Feb	103.4	104.3
03/10/2020	Eurozone	GDP SA QoQ	4Q	--	0.1%
03/11/2020	United Kingdom	Industrial Production YoY	Jan	--	-1.8%
03/11/2020	United Kingdom	U.K. Government Announces 2020 Budget			
03/11/2020	United States	CPI Ex Food and Energy YoY	Feb	2.3%	2.3%
03/12/2020	Eurozone	Industrial Production WDA YoY	Jan	--	-4.1%
03/12/2020	United States	PPI Ex Food and Energy YoY	Feb	--	1.7%
03/12/2020	Eurozone	ECB Deposit Facility Rate	Mar	--	-0.500%
03/13/2020	Germany	CPI EU Harmonized YoY	Feb	--	1.7%
03/13/2020	France	CPI EU Harmonized YoY	Feb	--	1.6%
03/13/2020	United States	U. of Mich. Sentiment	Mar	--	101.0
03/13/2020	United States	U. of Mich. 5-10 Yr Inflation	Mar	--	2.3%

SOURCE: BLOOMBERG

FURTHER READING

The coronavirus: which role for economic policy?	EcoTV Week	6 March 2020
Spain : the weight of services in the economy continues to increase	Chart of the Week	4 March 2020
The coronavirus: international propagation and tail risks	EcoWeek	28 February 2020
Japan: a difficult year ahead in 2020	EcoTV Week	28 February 2020
China: the central bank is taking action to support corporates amid the Covid-19 outbreak	Chart of the Week	26 February 2020
Japan: Consumer spending is suffering	EcoFlash	25 February 2020
The Federal Reserve's strategy review: towards a target range for inflation?	EcoWeek	21 February 2020
Indonesia: Robust but still insufficient growth	EcoTV Week	21 February 2020
Despite tiering, the rate of the deposit facility still costs French banks EUR 1.5 billion	Chart of the Week	18 February 2020
The coronavirus: putting a number on the economic consequences	EcoWeek	14 February 2020
Pensions: Working longer for lower benefits	Chart of the Week	12 February 2020
ECB, Fed: Central banks redefine their strategies	Eco TV	11 February 2020
The economic consequences of the coronavirus: after the sudden stop, what type of recovery?	EcoTV Week	7 February 2020
The coronavirus and the profile for global growth in 2020: V, U or L	EcoWeek	7 February 2020
Mexico: sluggish growth in 2020	Chart of the Week	5 February 2020
Pension reform proposal in France: where do things stand?	EcoTV Week	31 January 2020
Portugal: Towards a compression of interest margin on outstanding amounts?	Chart of the Week	29 January 2020
Eurozone: macroeconomic outlook for 2020 and potential risks	EcoTV Week	24 January 2020
EcoPerspectives at Q12020	EcoPerspectives	23 January 2020
Spain: The active population is bouncing back but is ageing	Chart of the Week	22 January 2020
The US-China trade deal: few reasons to be cheerful	EcoWeek	17 January 2020
The US-China trade deal: relief, for now	EcoTV Week	17 January 2020
Mozambique: Debt crisis despite Eurobond restructuring	Chart of the Week	15 January 2020
Eco TV - January 2020	Eco TV	10 January 2020

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