ECOWEEK

No. 19-23, 07 June 2019

ECB: getting ready for more easing, but not in a hurry

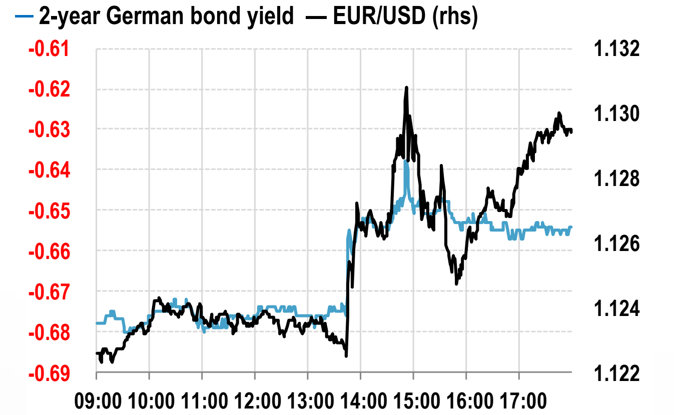
■The ECB has eased policy slightly, by extending its forward guidance on policy rates ■On the other hand, the conditions on TLTRO III are slightly less generous than those on the previous operation ■Importantly, a discussion has started within the Governing Council on how to react should the environment worsen ■Understandably, given the eurozone fundamentals, the ECB is not yet in a hurry to react to the prolonged uncertainties. This is a matter of keeping its powder dry

The ECB is getting ready for more policy easing but is not in a hurry. That seems to be the takeaway from Mario Draghi's press conference. 'More', because there was the unanimous decision of some extra easing with the extension of the forward guidance (policy rates are now expected to remain at their present levels at least through the first half of 2020).

On the other hand, markets considered that the ECB underdelivered on the conditions of the new targeted longer-term refinancing operations, which were less generous than the previous one[1]. In addition, it poured cold water on the idea of tiering[2] by stating that "*at this point in time, the positive contribution of negative interest rates to the accommodative monetary policy stance and to the sustained convergence of inflation is not undermined by possible side effects on bank-based intermediation*"[3]. On balance, the euro strengthened against the dollar and bond yields increased slightly.

The market reaction shouldn't come as a surprise: investors love policy easing because, all else being the same, it triggers an asset price appreciation. Moreover, hints by Jerome Powell of possible Fed rate cuts in reaction to the trade-related headwinds, may have fuelled hopes that the ECB might already start to act in such a way. The observation that it is not in a hurry isn't a surprise either. Although manufacturing is suffering, the services and construction sector show resilience and the eurozone economy should continue to benefit from supportive fundamentals. Another reason is the observation that, despite the rhetoric about what the toolkit still offers, room to ease further is far smaller than before: when you have fewer bullets, better aim right. Yet, the most interesting part of the press conference was the comment that the discussion in the Governing Council about the readiness to act in case of adverse contingencies has become more granular with several members raising the possibility of further rate cuts, restarting the asset purchase programme (QE) or a further extension of forward guidance. The inflation front is not different from the world of military affairs: if you want peace, prepare for war, and start sufficiently early.

EUR/USD AND 2-YEAR GERMAN YIELD
(INTRADAY, 6 JUNE 2019)



Source: Bloomberg, BNP Paribas

William De Vijlder

[1] In TLTRO III, for banks which sufficiently increase their eligible net lending, the rate can be as low as the rate on the deposit facility plus 10 basis points. In TLTRO II the rate could be as low as the deposit facility rate.
[1] Under a tiered system, different rates would apply for excess reserves deposited by banks with the central bank. Part of the reserves could even be exempted.
[1] Source : ECB, Introductory statement to the press conference of Mario Draghi, President of the ECB and Luis de Guindos, Vice-President of the ECB, Vilnius, 6 June 2019

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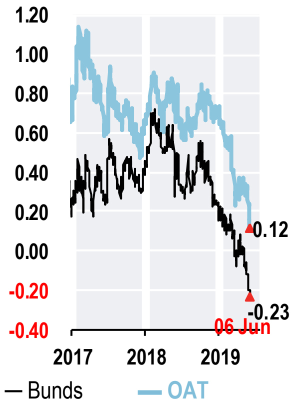
Markets overview

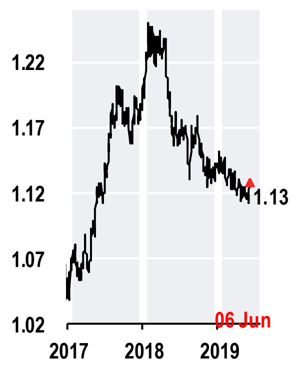
The essentials

#					
↘ **CAC 40**	5 292	▶	**5 278**	**-0.3**	%
↗ **S&P 500**	2 826	▶	**2 843**	**+0.6**	%
↘ Volatility (VIX)	16.1	▶	15.9	-0.2	pb
↘ **Euribor 3M (%)**	-0.32	▶	**-0.32**	**-0.3**	bp
↘ Libor $ 3M (%)	2.47	▶	2.47	+0.0	bp
↘ OAT 10y (%)	0.16	▶	0.12	-4.4	bp
↘ Bund 10y (%)	-0.22	▶	-0.23	-1.4	bp
↘ US Tr. 10y (%)	2.12	▶	2.12	-0.2	bp
↗ **Euro vs dollar**	1.13	▶	**1.13**	**+0.2**	%
↗ Gold (ounce, $)	1 331	▶	1 336	+0.4	%
↗ **Oil (Brent, $)**	60.5	▶	**60.8**	**+0.6**	%

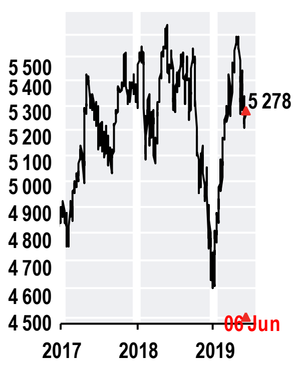
10 y bond yield, OAT vs Bund



Euro-dollar



CAC 40



Money & Bond Markets

Interest Rates		highest' 19		lowest' 19	
€ ECB	**0.00**	0.00	at 01/01	0.00	at 01/01
Eonia	**-0.37**	-0.36	at 01/01	-0.37	at 26/02
Euribor 3M	**-0.32**	-0.31	at 24/01	-0.32	at 03/06
Euribor 12M	**-0.18**	-0.11	at 06/02	-0.18	at 06/06
$ FED	**2.50**	2.50	at 01/01	2.50	at 01/01
Libor 3M	**2.47**	2.81	at 01/01	2.47	at 05/06
Libor 12M	**2.38**	3.04	at 21/01	2.38	at 05/06
£ BoE	**0.75**	0.75	at 01/01	0.75	at 01/01
Libor 3M	**0.80**	0.93	at 29/01	0.79	at 04/06
Libor 12M	**0.99**	1.19	at 11/01	0.99	at 04/06

At 6-6-19

Yield (%)		highest' 19		lowest' 19	
€ AVG 5-7y	**0.23**	0.68	at 09/01	0.23	at 06/06
Bund 2y	**-0.66**	-0.53	at 05/03	-0.68	at 05/06
Bund 10y	**-0.23**	0.25	at 01/01	-0.23	at 06/06
OAT 10y	**0.12**	0.73	at 08/01	0.12	at 06/06
Corp. BBB	**1.31**	2.15	at 08/01	1.26	at 07/05
$ Treas. 2y	**1.88**	2.62	at 18/01	1.84	at 03/06
Treas. 10y	**2.12**	2.78	at 18/01	2.08	at 03/06
Corp. BBB	**3.80**	4.65	at 01/01	3.78	at 03/06
£ Treas. 2y	**0.54**	0.83	at 27/02	0.54	at 06/06
Treas. 10y	**0.83**	1.35	at 18/01	0.83	at 06/06

At 6-6-19

10y bond yield & spreads

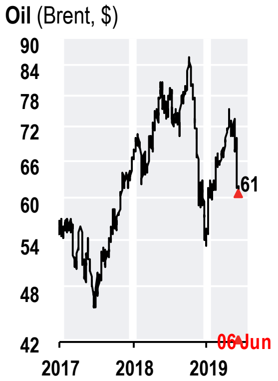
3.61%	Greece	384 pb
2.48%	Italy	271 pb
0.68%	Portugal	91 pb
0.61%	Spain	84 pb
0.19%	Belgium	42 pb
0.12%	France	35 pb
0.07%	Austria	30 pb
-0.02%	Finland	21 pb
-0.06%	Ireland	17 pb
-0.06%	Netherland	17 pb
-0.23%	Germany	

Commodities

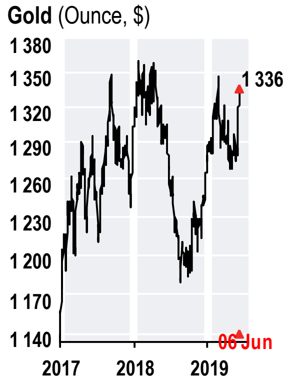
Spot price in dollars		lowest' 19			2019(€)
Oil, Brent	**60.8**	53.1	at	01/01	**+15.9%**
Gold (ounce)	**1 336**	1 268	at	02/05	**+5.6%**
Metals, LMEX	**2 751**	2 730	at	03/01	**-0.5%**
Copper (ton)	**5 790**	5 714	at	03/01	**-1.4%**
CRB Foods	**351**	324	at	07/03	**+9.6%**
wheat (ton)	**198**	167	at	10/05	**+2.1%**
Corn (ton)	**156**	128	at	24/04	**+16.3%**

At 6-6-19 *Variations*

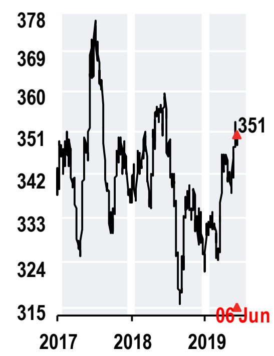
Oil (Brent, $)



Gold (Ounce, $)



CRB Foods



Exchange Rates

1€ =		highest' 19			lowest' 19			2019
USD	**1.13**	1.15	at	10/01	1.11	at	30/05	**-1.3%**
GBP	**0.89**	0.90	at	03/01	0.85	at	14/03	-1.1%
CHF	**1.12**	1.14	at	23/04	1.11	at	05/06	-1.0%
JPY	**122.06**	127.43	at	01/03	120.99	at	31/05	-2.7%
AUD	**1.62**	1.63	at	03/01	1.57	at	18/04	-0.5%
CNY	**7.80**	7.87	at	09/01	7.51	at	25/04	-0.6%
BRL	**4.38**	4.59	at	20/05	4.18	at	31/01	-1.1%
RUB	**73.49**	79.30	at	01/01	71.51	at	23/04	-7.3%
INR	**78.18**	82.00	at	04/02	76.84	at	03/04	-2.0%

At 6-6-19 *Variations*

Equity indices

	Index	highest' 19			lowest' 19			2019	2019(€)
CAC 40	**5 278**	5 592	at	23/04	4 611	at	03/01	+11.6%	**+11.6%**
S&P500	**2 843**	2 946	at	30/04	2 448	at	03/01	+13.4%	**+14.9%**
DAX	**11 953**	12 413	at	03/05	10 417	at	03/01	+13.2%	**+13.2%**
Nikkei	**20 774**	22 308	at	25/04	19 562	at	04/01	+3.8%	**+6.7%**
China*	**73**	86	at	09/04	68	at	03/01	+3.9%	**+5.1%**
India*	**600**	612	at	03/06	530	at	19/02	+6.7%	**+9.0%**
Brazil*	**2 112**	2 304	at	04/02	1 862	at	17/05	+8.8%	**+10.1%**
Russia*	**700**	700	at	03/06	572	at	01/01	+15.8%	**+23.9%**

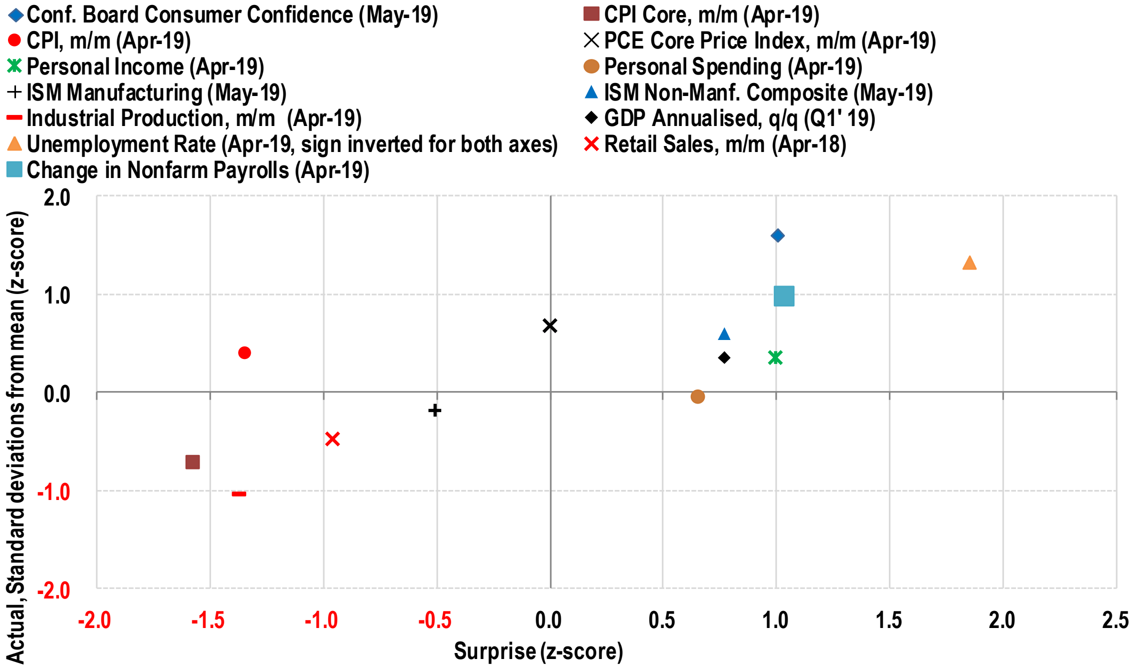
At 6-6-19 *Variations*

* MSCI index

Pulse

United States: a mixed landscape

In the United States, the tide hasn't turned yet for consumers: on the positive side, our barometer points to low unemployment, strong consumer confidence and dynamic household revenues and spending. Inflation is also mild, which boosts purchasing power. Even so, the horizon is not all rosy. Positioned in the forefront of the economic cycle, industrial leaders report a decline in output, which was one of the barometer's weakest scores in April, and their expectations did not pick up in May.



Source: Bloomberg, Markit, BNP Paribas

Indicators preview

China will publish data on aggregate financing, an important gauge of how credit volume evolves and which allows to assess, indirectly, how the economy is doing. In Japan several statistics will be released: a new estimate of 1st quarter GDP, core machinery orders and industrial production. In France we have industrial sentiment, labour market data and inflation. The UK sees the release of industrial production and the unemployment rate. In the US we have inflation data (producer prices and consumer prices), small business sentiment, retail sales, capacity utilisation and University of Michigan sentiment.

Date	Country/Region	Event	Date	Survey	Prior
06/09/2019	China	Aggregate Financing CNY	May	1.41e+12	1.36e+12
06/10/2019	Japan	GDP SA QoQ	1Q	0.6%	0.5%
06/10/2019	United Kingdom	Industrial Production MoM	April	--	0.7%
06/11/2019	France	Bank of France Ind. Sentiment	May	--	99
06/11/2019	United Kingdom	ILO Unemployment Rate 3Mths	April	--	3.8%
06/11/2019	United States	NFIB Small Business Optimism	May	--	103.5
06/11/2019	United States	PPI Ex Food and Energy MoM	May	0.2%	0.1%
06/12/2019	Japan	Core Machine Orders MoM	April	-1.0%	3.8%
06/12/2019	France	Private Sector Payrolls QoQ	1Q	--	0.3%
06/12/2019	United States	CPI MoM	May	0.1%	0.3%
06/13/2019	Germany	CPI EU Harmonized MoM	May	--	0.3%
06/13/2019	Eurozone	Industrial Production SA MoM	April	--	-0.3%
06/14/2019	Japan	Industrial Production MoM	April	--	0.6%
06/14/2019	France	CPI EU Harmonized MoM	May	--	0.2%
06/14/2019	United States	Retail Sales Control Group	May	--	0.0%
06/14/2019	United States	Capacity Utilization	May	78.0%	77.9%
06/14/2019	United States	University of Michigan Sentiment	June	97.0	100.0

Source: Bloomberg, BNP Paribas

Economic scenario

UNITED STATES

- Growth picked-up by early 19 but this was partly due to one-off factors (inventory building…). The underlying trend in private domestic demand is more subdued. The housing market is softening, corporate investment should slow, as well as exports in reaction to the past strengthening of the dollar and trade tensions. Core inflation remains well under control and has eased a bit.
- Following the neutral message from the May FOMC meeting, we believe the Fed Funds target rate as well as the IOER will keep unchanged.

CHINA

- Economic growth continues to slow. Activity rebounded in March 2019 but weakened again afterwards. The recent flare-up in trade tensions with the US has again darkened export prospects.
- The central bank is easing liquidity and credit conditions, though the reduction in financial-instability risks via regulatory tightening should remain a priority. Fiscal policy has also turned expansionary through increased infrastructure spending and a rising number of household/corporate tax cuts.
- In the short term, exports and private domestic investment should continue to decelerate. Tax measures should support consumer spending.

EUROZONE

- Despite a stronger than expected growth in the 1st quarter of 2019, the economic slowdown is continuing in the eurozone, especially in Germany, due to international environment uncertainties and a slowdown of exports to China. Capacity constraints also play a role and activity in the manufacturing sector continues to decline.
- Inflation is now expected to decrease while core CPI is hardly moving. The activity slowdown also implies that the pick-up in core inflation should be slower than expected until recently.
- Monetary policy remains cautious and proactive, the ECB announcing the launch of another round of longer-term refinancing operations (TLTRO) for eurozone banks.

FRANCE

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

INTEREST RATES AND FX RATES

- In the US, the Fed has announced to be patient before deciding on any change in its policy. We expect key rates to stay on hold this year and next. We expect 10 year treasury yields to rise moderately, reaching 2.60% by the end of this year on the back of a somewhat higher term premium.
- The combination of slower growth and subdued core inflation leads us to expect that ECB official rates will remain unchanged this year and next. 10 year Bund yields are expected to rise only marginally to 0.00% by the end of this year. We forecast a yield of 0.15% by the end of 2020.
- No change expected in Japan.
- We expect the euro to strengthen versus the dollar considering that the latter is expensive on valuation grounds.

%	GDP Growth 2018	GDP Growth 2019 e	GDP Growth 2020 e	Inflation 2018	Inflation 2019 e	Inflation 2020 e
Advanced	**2.2**	**1.8**	**1.3**	**2.0**	**1.6**	**1.6**
United-States	2.9	2.7	1.8	2.4	2.1	2.0
Japan	0.8	0.6	0.2	1.0	0.6	0.5
United-Kingdom	1.4	1.3	1.4	2.5	1.9	1.9
Euro Area	**1.8**	**1.1**	**1.0**	**1.8**	**1.3**	**1.3**
Germany	1.4	0.6	1.0	1.9	1.5	1.5
France	1.6	1.3	1.2	2.1	1.4	1.5
Italy	0.7	0.3	0.2	1.3	0.9	0.9
Spain	2.6	2.2	1.9	1.7	1.0	1.2
Emerging	**4.5**	**4.2**	**4.7**	**4.7**	**4.8**	**4.3**
China	6.6	6.2	6.0	2.1	2.2	2.6
India*	7.0	7.4	7.6	3.4	3.5	4.2
Brazil	1.1	0.8	2.5	3.7	3.9	3.9
Russia	2.3	1.5	1.7	2.9	5.1	4.1

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

Interest rates, %		2019						
End of period		Q1	Q2e	Q3e	Q4e	**2018**	**2019e**	**2020e**
US	Fed Funds	2.50	2.50	2.50	2.50	2.50	2.50	2.50
	Libor 3m $	2.60	2.60	2.60	2.60	2.81	2.60	2.50
	T-Notes 10y	2.42	2.50	2.50	2.60	2.69	2.60	2.50
Ezone	ECB Refi	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Euribor 3m	-0.31	-0.30	-0.30	-0.30	-0.31	-0.30	-0.30
	Bund 10y	-0.07	-0.05	-0.05	0.00	0.25	0.00	0.15
	OAT 10y	0.26	0.30	0.30	0.30	0.71	0.30	0.45
UK	Base rate	0.75	1.00	1.00	1.25	0.75	1.25	1.25
	Gilts 10y	1.00	1.85	2.00	2.10	1.27	2.10	2.10
Japan	BoJ Rate	-0.06	-0.10	-0.10	-0.10	-0.07	-0.10	-0.10
	JGB 10y	-0.09	-0.03	-0.02	-0.02	0.00	-0.02	-0.05

Source : BNP Paribas GlobalMarkets (e: Forecasts)

Exchange Rates		2019						
End of period		Q1	Q2e	Q3e	Q4e	**2018**	**2019e**	**2020e**
USD	EUR / USD	1.12	1.13	1.16	1.20	1.14	1.20	1.25
	USD / JPY	111.0	108.0	105.0	102.0	110.0	102.0	95.0
	GBP / USD	1.30	1.27	1.32	1.38	1.27	1.38	1.49
	USD / CHF	1.00	1.01	0.99	0.97	0.99	0.97	0.94
EUR	EUR / GBP	0.85	0.89	0.88	0.87	0.90	0.87	0.84
	EUR / CHF	1.12	1.14	1.15	1.16	1.13	1.16	1.18
	EUR / JPY	124.0	122.0	122.0	122.0	125.0	122.0	119.0

Source : BNP Paribas GlobalMarkets (e: Forecasts)

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