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BNP PARIBAS

The bank
for a changing
world

DEPOSIT RATE LIFT-OFF, MARKETS AND THE ECB

Markets have been pricing in an early lift-off of the ECB's deposit rate. The ECB argues that, considering its inflation outlook, this is not warranted. This difference in view could reflect a loss of central bank credibility. More likely is that market participants and the ECB disagree on the inflation outlook. Another explanation is that investors focus on the distribution of possible inflation outcomes and are concerned about the risks of inflation surprising to the upside.

In the latest press conference following the ECB's governing council meeting, Christine Lagarde had to answer several questions about the rate lift-off, when the central bank would decide to hike its deposit rate. They were triggered by the observation that markets had been pricing in a rate hike towards the end of 2022. This seems quite early, judging by the ECB's inflation projections and its forward guidance. Central banks use policy rate forward guidance to steer market expectations. When growth is strong and inflation is accelerating, such guidance can reduce the risk of a premature rise in market rates that would weigh on the effectiveness of monetary transmission. In addition, by being clear on the conditions that could trigger a policy change, the market reaction should be small when the conditions are finally met. The governing council has recently set clear conditions – in terms of projected inflation and recent inflation developments – for an increase in its deposit rate. They are so strict that meeting them should take considerable time and, as explained by the ECB's president, clearly more so than anticipated by markets: *"our analysis does not support that the conditions of our forward guidance are satisfied, neither at the time expected by markets of lift-off or any time thereafter soon."* In theory, three factors could explain this difference between the ECB's message and market anticipations. One, a lack of central bank credibility. This explanation seems unlikely considering that survey-based inflation expectations remain well-anchored. Moreover, the ECB would have no interest at all in creating a surprise by suddenly changing its guidance or even dropping it altogether by raising the policy rate early, considering that this would cause a loss in credibility. Such a move would also be contradictory with the outcome of its strategy review, which led to the adoption of a symmetric inflation target of 2%, instead of the previous objective of 'close to but below 2%'. Two, market participants may disagree with the ECB on the inflation outlook.

Interestingly, the ECB Survey of monetary analysts² of October shows that half of the participants estimate that HICP inflation will reach at most 1.4% in Q4 2022 and 1.7% in Q4 2023. The distribution is quite narrow as three quarters of them forecast inflation to be below 1.6% in Q4 2022 and 1.8% in Q4 2023. On core inflation, the median estimate is

1. Monetary policy statement and press conference, Christine Lagarde, President of the ECB, Luis de Guindos, Vice-President of the ECB, Frankfurt am Main, 28 October 2021.

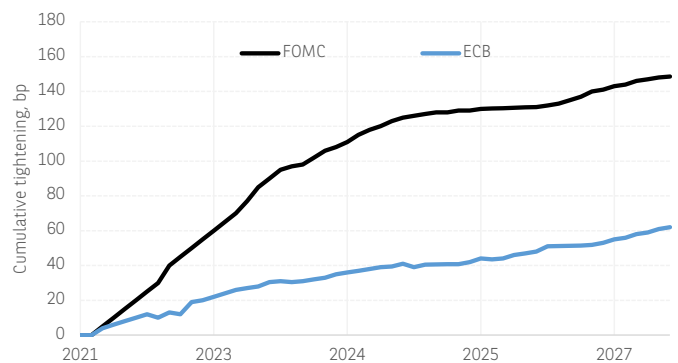
2. "Survey respondents are selected from financial institutions participating in the ECB Market Contact Groups (i.e. the Money Market, Bond Market, and Foreign Exchange Contact Groups). Selection of survey respondents is based on the fulfilment of the following criteria: market relevance, geographic diversity, commitment to regular participation in subsequent rounds of the survey, and whether the institution is active in the field that is being surveyed." Source: ECB, Survey of monetary analysts.

1.3% and 1.5% respectively, while 75% of the participants anticipate it to be lower than 1.6% and 1.7% respectively.

Given the ECB's forward guidance, this would not warrant an early rate hike, a point confirmed by the survey: the median estimate for the first hike of the deposit rate is June 2024 and only a quarter of the respondents have a lift-off date as early as December 2023. This is quite a bit later than market pricing, which suggests that the survey participants are different from those who take the investment decisions. Three, a more likely explanation of the divergence between the central bank's message and that from financial markets is that the distribution of possible outcomes plays a key role in market pricing whereas it is largely if not completely absent from forward guidance. The latter is about conditions that need to be met to envisage a rate hike whereas markets price the likelihood of moving from one state – the deposit rate stays at its current level – to another state, in which the deposit rate has been hiked. When inflation risks are considered to be biased to the upside, it shouldn't come as a surprise that markets price a lift-off that, at first glance, would come early. It also means that market pricing of lift-off can be interpreted as a measure of upside risks to inflation.

William De Vijlder

CUMULATIVE MONETARY POLICY TIGHTENING BASED ON FORWARD OIS



SOURCE: BNP PARIBAS

When inflation risks are considered to be biased to the upside, it shouldn't come as a surprise that markets start to price an early lift-off. It also means that market pricing of lift-off can be interpreted as a measure of upside risks to inflation.



MARKETS OVERVIEW

OVERVIEW

Week 29-10-21 to 5-11-21

➤ CAC 40	6 830	➤ 7 041	+3.1 %
➤ S&P 500	4 605	➤ 4 698	+2.0 %
➤ Volatility (VIX)	16.3	➤ 16.5	+0.2 pb
➤ Euribor 3M (%)	-0.55	➤ -0.57	-1.4 bp
➤ Libor \$ 3M (%)	0.13	➤ 0.14	+1.1 bp
➤ OAT 10y (%)	0.23	➤ 0.00	-22.5 bp
➤ Bund 10y (%)	-0.10	➤ -0.28	-18.4 bp
➤ US Tr. 10y (%)	1.56	➤ 1.45	-10.2 bp
➤ Euro vs dollar	1.16	➤ 1.16	-0.2 %
➤ Gold (ounce, \$)	1 777	➤ 1 810	+1.9 %
➤ Oil (Brent, \$)	84.4	➤ 80.7	-4.4 %

MONEY & BOND MARKETS

Interest Rates

		highest 21	lowest 21
€ ECB	0.00	0.00 at 01/01	0.00 at 01/01
Eonia	-0.49	-0.47 at 26/01	-0.50 at 01/01
Euribor 3M	-0.57	-0.53 at 07/05	-0.57 at 03/11
Euribor 12M	-0.50	-0.44 at 01/11	-0.52 at 02/02
\$ FED	0.25	0.25 at 01/01	0.25 at 01/01
Libor 3M	0.14	0.24 at 13/01	0.11 at 09/09
Libor 12M	0.36	0.37 at 28/10	0.22 at 06/09
£ BoE	0.10	0.10 at 01/01	0.10 at 01/01
Libor 3M	0.10	0.25 at 28/10	0.03 at 01/01
Libor 12M	0.57	0.85 at 28/10	0.07 at 11/01

At 5-11-21

Yield (%)

		highest 21	lowest 21
€ AVG 5-7y	-0.18	0.05 at 29/10	-0.46 at 04/01
Bund 2y	-0.74	-0.58 at 29/10	-0.78 at 04/08
Bund 10y	-0.28	-0.09 at 22/10	-0.60 at 04/01
OAT 10y	0.00	0.23 at 17/05	-0.41 at 04/01
Corp. BBB	0.69	0.86 at 01/11	0.43 at 05/08
\$ Treas. 2y	0.37	0.47 at 01/11	0.11 at 05/02
Treas. 10y	1.45	1.75 at 31/03	0.91 at 01/01
High Yield	5.08	5.16 at 02/11	4.52 at 29/06
£ gilt. 2y	0.41	0.70 at 03/11	-0.08 at 04/01
gilt. 10y	0.85	1.20 at 21/10	0.21 at 04/01

At 5-11-21

EXCHANGE RATES

1€ =		highest 21	lowest 21	2021
USD	1.16	1.23 at 06/01	1.15 at 06/10	-5.6%
GBP	0.86	0.91 at 06/01	0.84 at 26/10	-4.3%
CHF	1.06	1.11 at 04/03	1.05 at 04/11	-2.4%
JPY	131.10	133.97 at 28/05	125.22 at 18/01	+3.8%
AUD	1.56	1.64 at 20/08	1.53 at 18/03	-1.7%
CNY	7.40	8.00 at 01/01	7.38 at 04/11	-7.6%
BRL	6.39	6.95 at 03/03	5.88 at 24/06	+0.6%
RUB	82.28	92.47 at 20/04	80.71 at 26/10	-9.1%
INR	86.04	90.39 at 23/04	85.30 at 27/03	-3.8%

At 5-11-21 Change

COMMODITIES

Spot price, \$		highest 21	lowest 21	2021	2021(€)
Oil, Brent	80.7	86.5 at 26/10	51.2 at 04/01	+55.5%	+64.7%
Gold (ounce)	1 810	1 947 at 05/01	1 682 at 08/03	-4.6%	+1.0%
Metals, LME	4 297	4 763 at 15/10	3 415 at 01/01	+25.9%	+33.3%
Copper (ton)	9 753	11 300 at 18/10	7 749 at 01/01	+25.9%	+33.3%
wheat (ton)	238	2.9 at 07/05	223 at 10/09	-3.9%	+1.8%
Corn (ton)	211	2.9 at 07/05	188 at 04/01	+1.2%	+18.5%

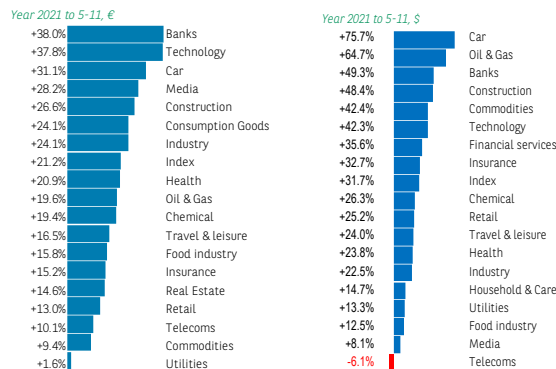
At 5-11-21 Change

EQUITY INDICES

Index	highest 21	lowest 21	2021
World			
MSCI World	3 232	3 232 at 05/11	2 662 at 29/01 +20.2%
North America			
S&P500	4 698	4 698 at 05/11	3 701 at 04/01 +25.1%
Europe			
EuroStoxx50	4 363	4 363 at 05/11	3 481 at 29/01 +22.8%
CAC 40	7 041	7 041 at 05/11	5 399 at 29/01 +2.7%
DAX 30	16 054	16 054 at 05/11	13 433 at 29/01 +17.0%
IBEX 35	9 131	9 281 at 14/06	7 758 at 29/01 +1.3%
FTSE100	7 304	7 304 at 05/11	6 407 at 29/01 +1.3%
Asia			
MSCI, loc.	1 167	1 196 at 14/09	1 044 at 06/01 +1.2%
Nikkei	29 612	30 670 at 14/09	27 013 at 20/08 +7.9%
Emerging			
MSCI Emerging (\$)	1 264	1 445 at 17/02	1 221 at 20/08 -0.2%
China	90	130 at 17/02	87 at 06/10 -17.0%
India	859	876 at 18/10	659 at 29/01 +29.7%
Brazil	1 455	2 098 at 24/06	1 428 at 29/10 -17.4%
Russia	881	914 at 25/10	647 at 01/02 +27.4%

At 5-11-21 Change

PERFORMANCE BY SECTOR (Eurostoxx50 & S&P500)

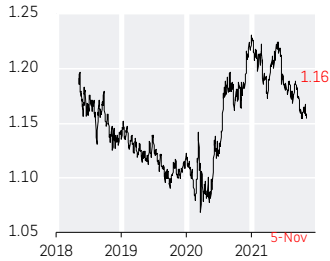


SOURCE: REFINITIV, BNP PARIBAS,

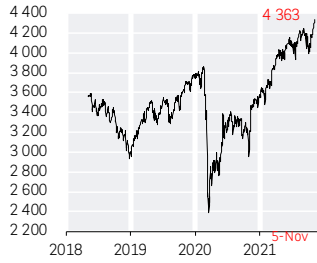


MARKETS OVERVIEW

EURO-DOLLAR



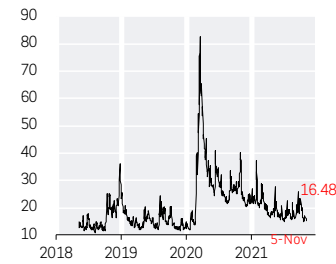
EUROSTOXX50



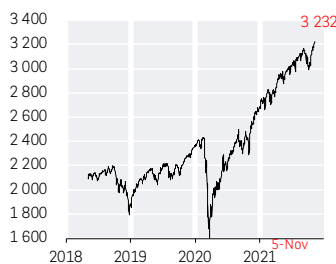
S&P500



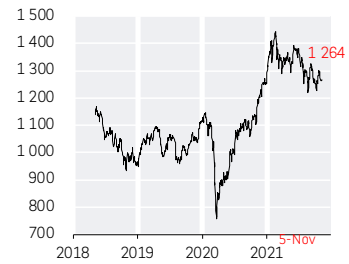
VOLATILITY (VIX, S&P500)



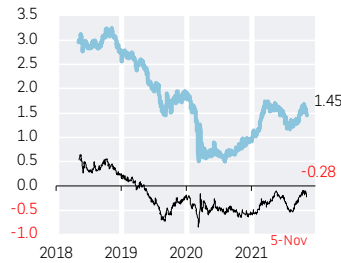
MSCI WORLD (USD)



MSCI EMERGING (USD)

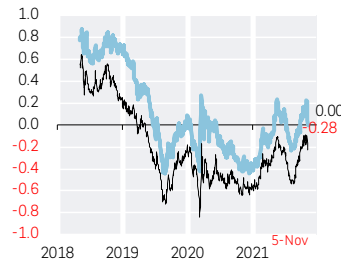


10Y BOND YIELD, TREASURIES VS BUND



-Bunds —US Treasuries

10Y BOND YIELD



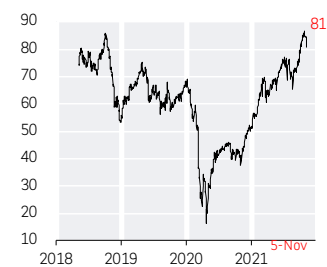
-Bunds —OAT

10Y BOND YIELD & SPREADS

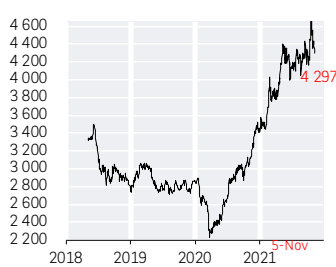
Week 29-10-21 to 5-11-21

1.33%	Greece	163 bp
0.83%	Italy	113 bp
0.41%	Spain	70 bp
0.31%	Portugal	61 bp
0.00%	France	30 bp
-0.04%	Belgium	26 bp
-0.11%	Finland	18 bp
-0.24%	Austria	6 bp
-0.25%	Ireland	5 bp
-0.28%	Germany	2 bp
-0.30%	Netherlands	

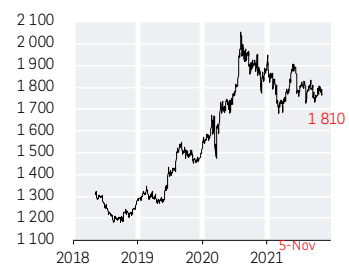
OIL (BRENT, USD)



METALS (LMEX, USD)



GOLD (OUNCE, USD)



SOURCE: REFINITIV, BNP PARIBAS



PMI : STRONG INCREASE IN OUTPUT PRICE INFLATION, WEAKER EXPORT OUTLOOK

The global manufacturing PMI was up slightly in October despite a weakening in the US and a small decline in the eurozone. There was a noticeable decline in France whereas Italy moved higher. Japan also saw an improvement. The levels in the advanced economies remain very high whereas in the emerging countries the picture is more mixed. Worth noting is the improvement in India and the jump in Indonesia and Vietnam.

The global services PMI rose strongly in October on the back of a jump in the US index and despite weaker data in the Eurozone where Germany and Italy saw a drop. The UK data on the other hand were very robust. Like with the manufacturing PMI, services were also doing better in Japan and even more so in India.

The global composite PMI rose in October. The US were up and the Eurozone down. Within the Eurozone, Germany shows the weakest data. Numbers in the UK and India were up strongly and better as well in Japan.

The manufacturing employment PMI improved a little bit at the global level but edged lower in the US whilst being stable in the Eurozone. Data improved significantly in the Netherlands and Greece but softened in Spain. The UK saw a big improvement in the labour market outlook. As observed in other PMI data, the employment climate improved strongly, but starting from a very low level, in Indonesia and Vietnam.

Global export orders declined somewhat in October and are now close to the 50 level. There was a big decline in the US. In the Eurozone, Ireland, the Netherlands and Spain were down whereas Italy saw an improvement. Australia recorded a big drop. The outlook for exports doesn't look great in many emerging countries with index levels below 50, quite often for a considerable time already. Vietnam saw a spectacular turnaround with the index shooting up from 27.4 to 51.5 in a single month.

Input price inflation remains the big issue for companies with all countries, except Singapore, Saudi Arabia and the UAE, being in the red zone. The global index was up strongly in October. The results were stable in the US but significantly up in the Eurozone. China also saw a sizeable increase.

In the services sector, input price inflation is high but stable at the global level. The numbers are less high than in manufacturing but nevertheless, with the exception of China, all countries are in the red zone. The Eurozone and its member states for which data are available all saw a considerable increase. That also applies to the UK and even more so, Australia.

Global manufacturing output price inflation was up strongly last month on the back of higher readings in the US and the Eurozone. Italy, the Netherlands and particularly Greece saw big increases. This also applies to Poland.

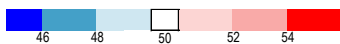
William De Vijlder

MANUFACTURING PMI

	WD	Developed Markets																	Emerging countries																		
		Europe																	LATAM			Eurasia				Middle East & Africa			Asia								
		NA	EURO ZONE							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
Dec-20	53.8	57.9	57.1	55.2	53.5	42.0	51.1	58.3	46.9	57.2	52.8	58.2	51.0	57.3	57.5			49.2	50.0	50.5	61.5	42.4	57.0	51.7	49.7	50.8	48.2	43.2	57.0	51.5	51.2	53.0	43.5	56.4	51.3	51.7	
Jan-21	53.6	54.4	59.2	54.8	54.2	43.1	51.6	57.1	50.0	51.8	55.1	58.8	49.3	59.4	54.1	55.3	57.3	49.8	50.7	56.5	43.0	57.0	51.9	50.9	54.4	48.7	41.0	57.1	51.4	51.2	51.5	47.8	57.7	52.2	51.3		
Feb-21	54.0	54.8	58.6	57.9	58.3	46.4	58.1	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	54.8	50.6	50.9	50.2	57.5	50.9	51.6		
Mar-21	55.0	58.5	59.1	62.5	63.4	66.1	59.3	66.6	51.8	57.1	59.8	64.7	56.9	66.3	58.9	59.9	63.8	52.7	50.8	52.8	45.6	58.0	54.3	51.1	52.6	48.0	46.4	53.3	58.5	52.6	50.6	50.5	55.4	53.2	53.6		
Apr-21	55.9	57.2	60.5	62.9	64.7	67.3	58.9	66.2	54.4	60.8	60.7	67.2	57.7	69.5	60.9	61.7	58.1	53.6	50.9	52.3	48.4	58.9	53.7	50.4	50.4	47.7	47.1	55.2	58.1	52.7	51.9	50.3	55.5	54.6	54.7		
May-21	56.1	57.0	62.1	63.1	66.4	66.1	59.4	64.4	58.0	64.1	62.3	69.4	59.4	69.9	65.6	61.8	58.3	53.0	50.7	53.7	47.6	61.8	57.2	51.9	49.3	48.6	47.9	56.4	58.3	52.3	52.0	52.5	50.8	55.3	53.1		
Jun-21	55.5	56.5	62.1	63.4	67.0	66.0	59.0	65.1	58.6	64.0	62.2	68.8	60.4	66.7	63.9	63.2	59.8	52.4	50.8	56.4	48.8	62.7	59.4	49.2	51.3	49.9	47.5	56.4	57.5	52.2	51.3	51.4	48.1	53.5	44.1		
Jul-21	55.4	56.2	63.4	62.8	63.9	70.2	58.0	65.9	57.4	63.3	60.3	67.4	59.0	71.1	60.4	60.8	62.4	53.0	51.0	56.7	49.6	62.0	57.6	47.5	54.0	49.1	47.0	55.8	43.5	54.0	50.3	51.3	55.3	40.1	45.1		
Aug-21	54.1	57.2	61.1	61.4	61.8	67.8	57.5	62.6	59.3	62.8	60.9	65.8	59.5	67.7	60.3	51.6	39.7	52.7	50.9	53.6	47.1	61.0	56.0	46.5	54.1	49.8	46.6	54.1	56.2	53.8	49.2	53.3	52.3	43.7	40.2		
Sep-21	54.1	57.0	60.7	58.6	62.8	65.8	55.0	58.4	58.4	60.3	59.7	62.0	58.1	68.1	57.1	51.2	51.4	51.5	50.8	54.4	48.6	58.0	53.4	49.8	52.5	48.9	46.9	58.6	54.7	53.3	50.0	51.7	53.7	52.2	40.2		
Oct-21	54.3	57.7	58.4	58.3	60.6	71.9	53.6	57.8	58.9	62.1	61.1	62.5	57.4	65.4	57.8	50.4		53.2	50.8	51.7	49.3	55.1	53.8	51.6	51.2	48.7	46.6	57.7	53.6	55.7	50.6	50.8	55.9	57.2	52.1		

SERVICES PMI

	World	USA	EURO ZONE	FRANCE	GERMANY	IRELAND	ITALY	SPAIN	UK	AUSTRALIA	JAPAN	BRAZIL	RUSSIA	LEBANON	CHINA	HONG KONG	INDIA
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	57.1	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	59.6	70.4	55.2	56.6	52.8	62.1	53.1	59.4	62.9	61.2	46.5	48.3	57.5	47.9	55.1	52.5	46.4
Jun-21	57.4	64.6	58.3	57.8	57.5	63.1	56.7	62.5	62.4	57.8	48.0	53.9	56.5	47.5	50.3	51.4	41.2
Jul-21	56.3	59.9	59.8	56.8	61.8	66.6	58.0	61.9	59.6	51.8	47.4	54.4	53.5	47.0	54.9	51.3	45.4
Aug-21	52.8	55.1	59.0	56.3	60.8	63.7	58.0	60.1	55.0	45.6	42.9	55.1	49.3	46.6	46.7	53.3	56.7
Sep-21	53.8	54.9	56.4	56.2	56.2	63.7	55.5	56.9	55.4	45.7	47.8	54.6	50.5	46.9	53.4	51.7	55.2
Oct-21	55.6	58.7	54.6	56.6	52.4	63.4	52.4	56.6	59.1	47.6	50.7	54.9	48.8	46.6	53.8	50.8	58.4



SOURCE: MARKIT, BNP PARIBAS



ECONOMIC PULSE

GERMANY: WORRYING DEVELOPMENTS

The German economy further recovered in the third quarter, as GDP strengthened by 1.8% from the preceding quarter. Growth is mainly driven by higher consumer spending related to improved labour market conditions and a further relaxation of sanitary measures. However, our Pulse chart indicates that this favourable environment is unlikely to last: the situation in the three months to October (blue area) worsened compared to the situation in the preceding three-month period (area within the broken line).

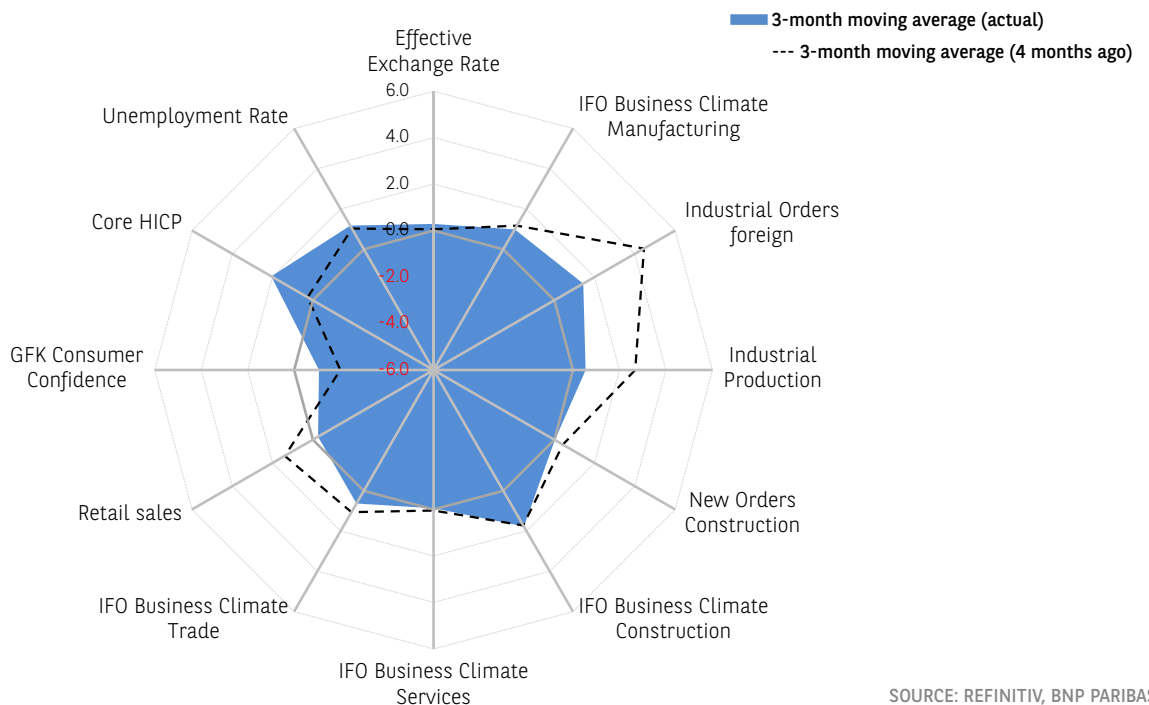
The recovery is threatened by two important factors. First, problems on the supply side are clearly hampering production in the manufacturing and services sectors. In August, industrial orders declined sharply, although remaining well above the pre-crisis level. By contrast, industrial production is still well below the pre-crisis level, partly due to the global semiconductor shortage. According to the European quarterly business survey, almost all German firms reported lack of intermediate goods in October as a major limiting factor for production. Moreover, manufacturers noted even more staffing problems than before the crisis. The services sector has also serious recruiting problems since the lifting of most of the sanitary restrictions.

The second factor is rising inflation. As the chart indicates, core inflation was substantially higher in the period August-October than in the preceding three months. This is mainly due to the return to the higher VAT rates on 1 January 2021. A more serious problem is the growing cost for energy, which is biting into the household budget just before the start of the winter. Nonetheless, consumer confidence slightly improved in the three months to October compared to the previous three-month period. This could change soon as both households' economic and income expectations fell sharply in October.

Against this backdrop, it is important that Germany gets a new government soon. Negotiations are under way between the SPD (social democrats), the Greens and FDP (liberals) to form the next coalition government. This might take a considerable time, as the parties have to bridge important differences. However, time is pressing as economic growth is slowing and the number of new Covid-19 infections is rising again.

Raymond Van Der Putten

GERMANY: 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 -6 and +6. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.



ECONOMIC PULSE

FRANCE: SOLID FIGURES FOR THE THIRD QUARTER

The initial estimate of French growth in Q3 2021 surprised on the upside, with a rebound in GDP of 3% q/q, well ahead of our forecast (2.2%) as well as those of Banque de France (2.3%) and INSEE (2.7%). Furthermore, Q2 growth has been revised upwards by 0.2 points to 1.3%. One quarter ahead of schedule, France's GDP is therefore almost back to its pre-crisis level of Q4 2019. Besides, the growth carry-over reaches 6.6%. Hence, on average over 2021, growth will be much stronger than expected (government forecast of 6.25% and our forecast of 6.3%)¹.

This strong Q3 print is based on the marked upturn in household (+5% q/q) and public consumptions (3%), as well as on the very positive contribution of net exports (0.6 percentage points), boosted by the sharp rise in exports (2.3%) combined with near stagnation in imports (0.1%). This latter factor mirrors the very negative contribution of changes in inventories (-0.9 points), both probably bearing the mark of current supply difficulties. Near stagnation in investment (-0.1%) is the unwelcome surprise of Q3. This is due to business (-0.1%) and public investments (-1%), while household investment continued to rise (0.8%). The positive side is the resilience of investment in market services (1.6%). However, this is offset by the decline in investment in manufactured goods (-2%) and construction (-0.3%). This poor performance can be regarded as a technical payback after a very strong Q2. The determinants of investment remain favourable. It is worth keeping an eye on this, however, as signs of supply and hiring difficulties and inflationary pressure may also be seen.

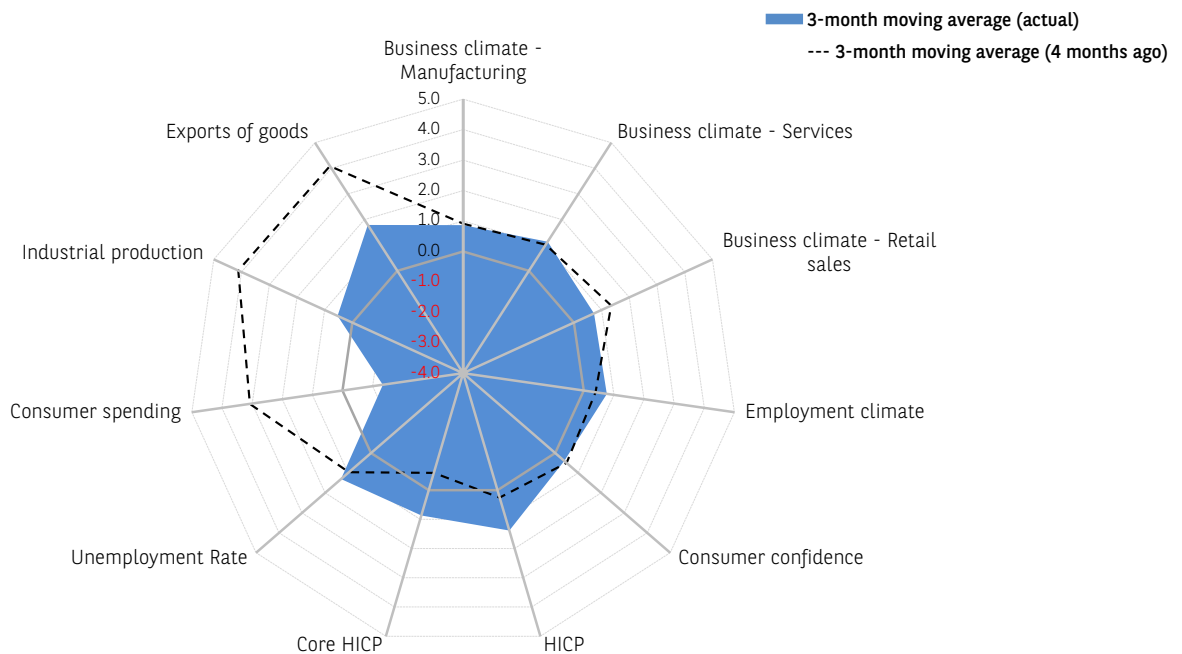
According to initial INSEE estimate, private payroll employment increased in Q3 at a more normal rate of 0.5% q/q (96,000 jobs created), well below the pace of Q2 (1.4%) and GDP growth, which almost comes as a disappointment following a series of positive surprises in this indicator. However, on the basis of pre-crisis criteria, a figure of this kind would have been considered very good and corresponds to a very brisk rate of job creations. It is also possible to welcome the underlying upturn in labour productivity per head. These favourable employment figures come in addition to the number of category A jobseeker figures, which saw a sharp fall in Q3 (-5.5% q/q), resulting in a fall in the number of jobseekers across all categories (-0.8%).

What is Q4 looking like? Even before the accentuation in supply constraints and inflationary pressures over the last few months, prospects for growth looked less favourable, with the automatic rebound effect seen in Q3 wearing off. From now on, growth can be expected to peter out slightly more. However, even though the downward risks have increased, there are also cushioning factors, such as dedicated measures to support household purchasing power (energy cheques, gas and electricity tariff shield, inflation compensation). True, Q3 ended on a negative note in terms of consumer spending on goods (-0.2% m/m in September) and industrial production (-1.3% m/m). This can be seen in our barometer: the blue area is clearly down relative to the area marked out by the dotted outline. But business climate surveys for October suggest that the signs remain positive for the first month of Q4.

Hélène Baudchon

1. Quarterly contraction in GDP of around 1% would be needed in Q4 to bring the yearly average back down to 6.3%, which is unlikely.

FRANCE: QUARTERLY CHANGES



SOURCE: REFINITIV, BNP PARIBAS

The indicators in the radar are all transformed into 'z-scores' (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -4 and +5. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.



ECONOMIC PULSE

NUMBER OF NEW COVID-19 CASES SHARPLY RISING IN EUROPE

Having been in decline for around two months, the number of Covid-19 cases is rising worldwide. Three million new cases were reported between 27 October and 2 November, up 3.2% relative to the previous week. This concerns all parts of the world and in particular Europe, where the number of cases is climbing fast (+11.8%) (Chart 1): 1.54 million new cases out of a global total of 3 million have been recorded in Europe (51% of the total). The biggest number of new cases has been in Russia (281,042), while the UK has reported a total of 275,078, Ukraine 153,353, Germany 134,891 and Romania 73,463. There has also been an increase in new infections in the Netherlands, Belgium and France. Furthermore, vaccination campaigns are continuing to progress worldwide but there are still significant disparities between developed nations (72% of the population has received at least one dose of the Covid-19 vaccine) and low-income countries (3.9%) (Chart 2).

The number of visits to retail and recreation facilities is only just above the pre-pandemic level in Belgium, and still below this level and holding to a downward trend in France, Italy, Germany, Spain and the UK, despite a slight uptick very recently. In the USA, the number of such visits is starting to stabilise (Chart 3, blue line).

Lastly, the weekly proxy indicator for GDP relative to its level two years ago continued to recover in France and the UK. In Germany, Italy, Japan and the USA the slight decline observed in recent days fits within an upward trend that has extended over several weeks. In Belgium, this indicator is in a downtrend, and it has recently improved in Spain (Chart 3, black line). The OECD Tracker is based on Google Trends resulting from queries on consumption, the labour market, housing, industrial activity as well as uncertainty. The change over a two-year period (y/2y) is calculated to avoid the base effect that would arise from a comparison with 2020 data.

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)

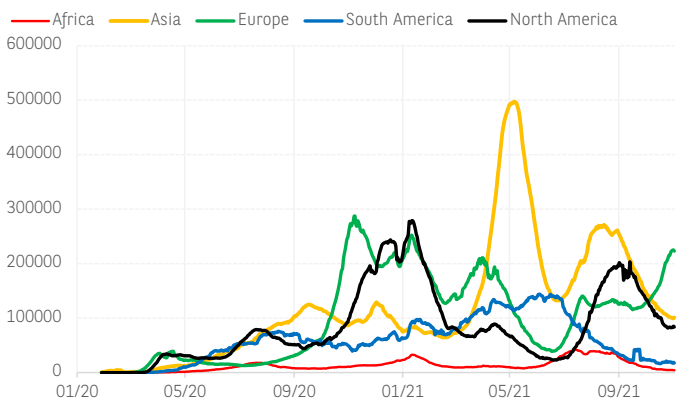


CHART 1

SOURCE: JOHNS-HOPKINS UNIVERSITY (11/03/2021), BNP PARIBAS

SHARE OF PEOPLE WHO RECEIVED AT LEAST ONE DOSE OF VACCINE

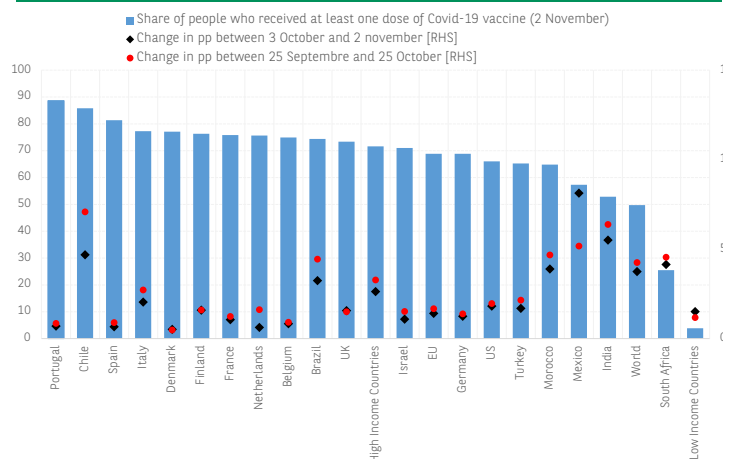


CHART 2

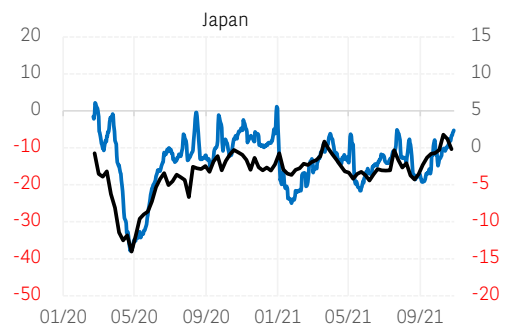
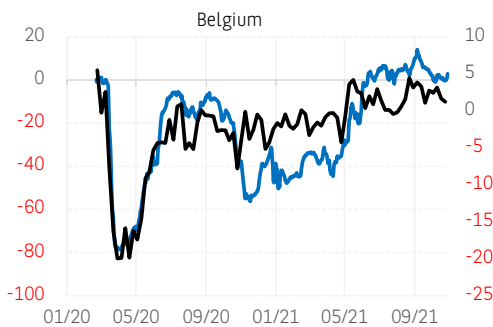
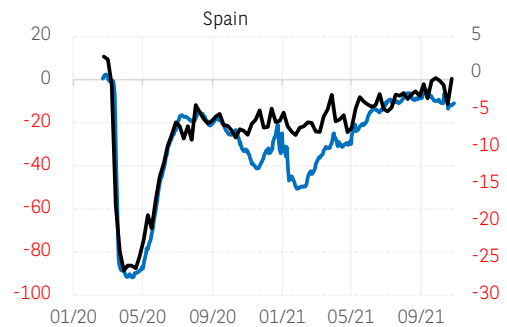
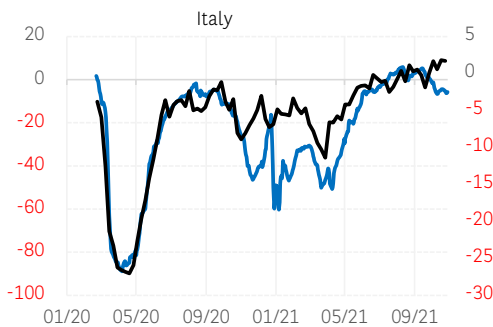
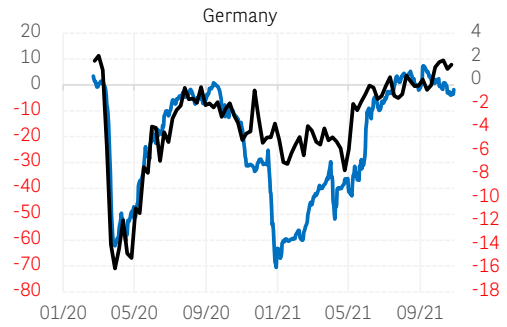
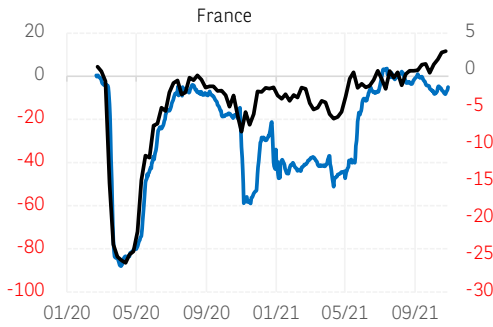
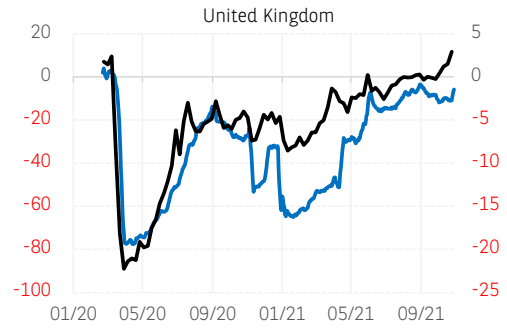
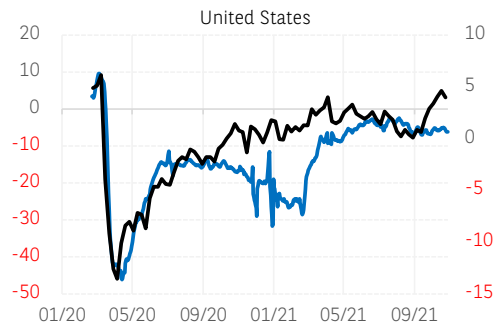
SOURCE: OUR WORLD IN DATA (11/03/2021), BNP PARIBAS



RETAIL AND RECREATION MOBILITY & OECD WEEKLY TRACKER

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

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

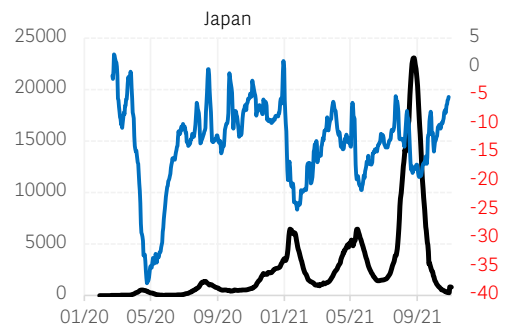
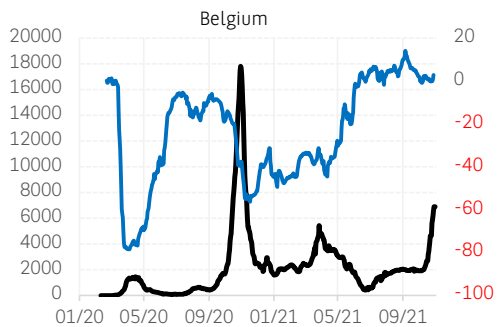
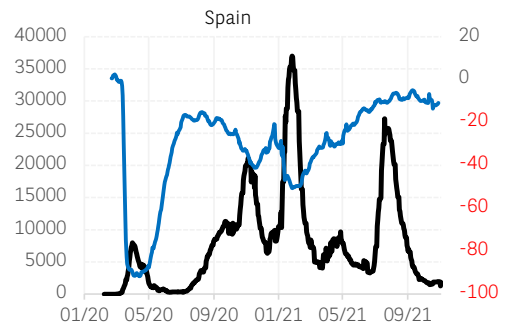
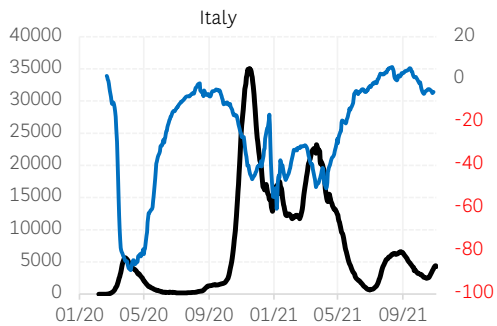
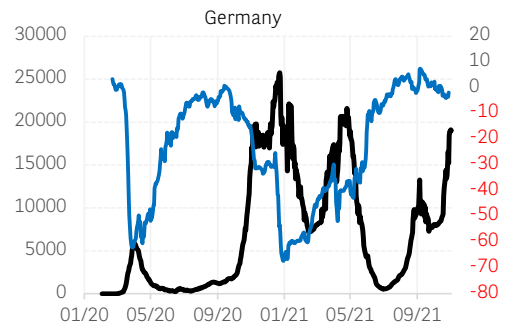
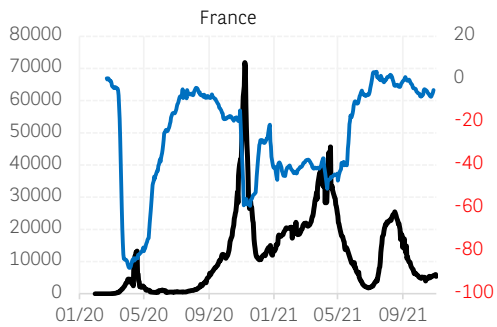
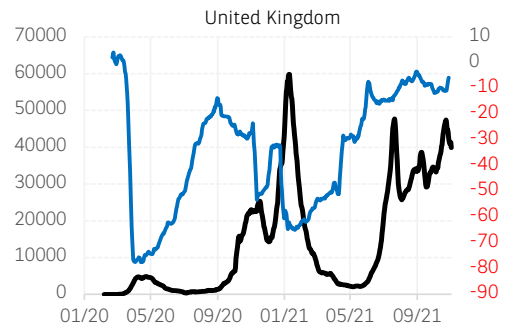
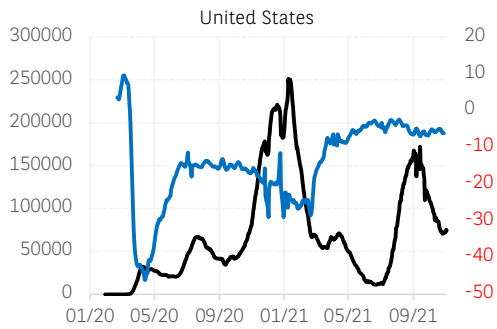


SOURCE: OECD (11/03/2021), GOOGLE (11/03/2021), BNP PARIBAS



DAILY NEW CASES & RETAIL AND RECREATION MOBILITY

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



SOURCE: JOHNS-HOPKINS UNIVERSITY (03/11/2021), GOOGLE (03/11/2021), BNP PARIBAS



ECONOMIC SCENARIO

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UNITED STATES

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

CHINA

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

EUROZONE

After its strong rebound in Q2 2021, growth is expected to maintain the pace in Q3 (+2.2% QoQ). The various supply constraints mean that growth in the third and fourth quarters is a few tenths below the June forecast, a loss that would be gradually recovered in 2022. The quarterly growth profile should go slightly decrescendo next year. Above all, it would remain well above-trend, supported by the significant monetary and fiscal stimulus, the release of accumulated forced savings and investment needs, to the point where, on an annual average basis, growth would be slightly higher than in 2021 (5.2% after 5%), which distinguishes the Eurozone from the United States and the United Kingdom. The health situation remains a key downside risk. Signs of deteriorating business confidence and mark-ups will also be watched. As for inflation, most of its recent rise is temporary. We expect it to peak in Q4 2021 (nearing 4% in year-on-year terms), before ebbing in 2022. However, it would be at a higher level than before the crisis, as growth strengthens and the reflationary efforts of monetary policy also bear fruit. Our inflation forecasts are above those of the ECB.

FRANCE

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

RATES AND EXCHANGE RATES

In the US, the latest signals from the FOMC show that tapering is coming although this should not be considered as signaling a change in guidance on the policy rate. Nevertheless, we expect that in the second half of next year, the FOMC will hike the federal funds rate given the expected decline in the unemployment rate. Against this background, 10-year Treasury yields should move higher in the remainder of the year and in the first half of 2022, before entering a trading range. The peak in yields should be significantly lower than in previous cycles.

In the eurozone, the ECB will maintain its very accommodative policy centered around its asset purchases and forward guidance, in order to generate a lasting pick-up in inflation towards its target. The outcome of the strategy review has clearly confirmed this. We expect net purchases under the PEPP to stop at the end of March 2022,

based on the view that, by then, the pandemic emergency phase will be considered to be behind us. On that occasion, the monthly volume under the traditional asset purchase program should be increased to avoid market disruption. 10-year Bund yields are expected to rise until the first half of 2022 based on the growth and inflation environment. Higher US yields will also play a role. Subsequently, we expect Bunds to stay in a trading range.

Sovereign spreads could widen somewhat in the fourth quarter of this year and early next year on the back of election-related uncertainty. The extent of the widening should be limited, considering ongoing asset purchases by the ECB and the prospect that the ending of net purchases under the PEPP would be accompanied by an increase of the APP.

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

We expect the dollar to strengthen versus the euro, driven by widening yield differentials and the growing monetary policy divergence between the Federal Reserve and the ECB. The divergence will also increase between the Fed and the BoJ, which explains our forecast of an appreciation of the dollar versus the yen.

GROWTH & INFLATION

%	GDP Growth			Inflation		
	2021 e	2022 e	2023 e	2021 e	2022 e	2023 e
United-States	6.0	5.3	3.3	4.2	2.8	2.4
Japan	2.1	2.4	1.6	-0.2	0.3	0.5
United-Kingdom	7.0	6.3	2.1	2.3	3.3	2.0
Euro Area	5.0	5.2	2.3	2.4	2.1	1.7
Germany	2.8	5.3	2.4	3.0	2.4	1.9
France	6.3	4.3	2.1	2.0	1.9	1.6
Italy	6.3	5.1	2.8	1.9	2.2	1.4
Spain	6.1	6.4	3.4	2.6	2.2	1.4
China	7.8	5.6	5.4	1.2	2.8	2.5
India*	7.0	11.2	6.2	5.4	4.5	4.3
Brazil	5.0	1.5	2.0	7.8	6.3	3.6
Russia	4.5	3.3	2.6	6.0	5.0	4.1

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, %

End of period		Q4 2021 e	Q2 2022 e	Q4 2022 e	Q4 2023 e
US	Fed Funds (upper limit)	0.25	0.25	0.50	1.25
	T-Notes 10y	1.70	1.90	2.00	1.90
Ezone	Deposit rate	-0.50	-0.50	-0.50	-0.50
	Bund 10y	-0.10	0.00	-0.10	0.10
	OAT 10y	0.40	0.40	0.20	0.40
	BTP 10y	1.10	1.10	1.00	1.20
UK	BONO 10y	0.70	0.70	0.70	0.90
	Base rate	0.10	0.30	0.50	0.80
Japan	Gilts 10y	0.90	1.10	1.10	1.20
	BoJ Rate	-0.10	-0.10	-0.10	-0.10
	JGB 10y	0.10	0.20	0.20	0.20

Exchange Rates

End of period		Q4 2021 e	Q2 2022 e	Q4 2022 e	Q4 2023 e
USD	EUR / USD	1.15	1.13	1.12	1.10
	USD / JPY	111	112	114	116
	GBP / USD	1.37	1.36	1.37	1.38
EUR	EUR / GBP	0.84	0.83	0.82	0.80
	EUR / JPY	128	127	128	128

Brent

End of period		Q4 2021 e	Q2 2022 e	Q4 2022 e	Q4 2023 e
Brent	USD/bbl	87	80	80	85

SOURCE: BNP PARIBAS GLOBAL MARKETS (E: ESTIMATES)



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CALENDAR

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LATEST INDICATORS

For detailed comments on the purchasing managers' indices, the reader is referred to this week's Pulse. In terms of the other data, the US manufacturing ISM index declined slightly but less than anticipated. However, prices paid increased far more than expected whereas new orders disappointed by showing a significant decline. The employment index on the other hand improved more than expected. The ISM services index recorded a jump, beating the consensus by a wide margin. In the eurozone, the unemployment rate edged lower and, against expectations, monthly retail sales were down. Producer price inflation continues to move higher and has reached 16.0% on an annual basis in September. In France, private sector payroll growth slowed down in the third quarter. The FOMC announced that it will scale back the pace of securities purchases but this tapering was fully anticipated by markets, so there was no impact. The message on the official interest rate didn't change: conditions are not met to justify considering a rate hike. In the US, non-farm payrolls were robust, beating expectations on the back of huge job creation in the private sector. Moreover, there were upward revisions to the numbers of the previous months. The unemployment rate declined slightly whereas the participation rate was stable.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	ACTUAL	PREVIOUS
11/01/2021	Japan	Jibun Bank Japan PMI Mfg	Oct	--	53.2	53.0
11/01/2021	China	Caixin China PMI Mfg	Oct	50.0	50.6	50.0
11/01/2021	France	Markit France Manufacturing PMI	Oct	53.5	53.6	53.5
11/01/2021	Germany	Markit/BME Germany Manufacturing PMI	Oct	58.2	57.8	58.2
11/01/2021	Eurozone	Markit Eurozone Manufacturing PMI	Oct	58.5	58.3	58.5
11/01/2021	United Kingdom	Markit UK PMI Manufacturing SA	Oct	57.7	57.8	57.7
11/01/2021	United States	ISM Manufacturing	Oct	60.5	60.8	61.1
11/01/2021	United States	ISM Prices Paid	Oct	82.0	85.7	81.2
11/01/2021	United States	ISM New Orders	Oct	64.2	59.8	66.7
11/01/2021	United States	ISM Employment	Oct	51.0	52.0	50.2
11/01/2021	United States	Markit US Manufacturing PMI	Oct	59.2	58.4	59.2
11/02/2021	United States	Wards Total Vehicle Sales	Oct	12.50m	12.99m	12.18m
11/03/2021	Japan	Jibun Bank Japan PMI Services	Oct	--	50.7	50.7
11/03/2021	Japan	Jibun Bank Japan PMI Composite	Oct	--	50.7	50.7
11/03/2021	China	Caixin China PMI Composite	Oct	--	51.5	51.4
11/03/2021	China	Caixin China PMI Services	Oct	53.1	53.8	53.4
11/03/2021	United Kingdom	Nationwide House Px NSA YoY	Oct	9.2%	9.9%	10.0%
11/03/2021	France	Markit France Services PMI	Oct	56.6	56.6	56.6
11/03/2021	France	Markit France Composite PMI	Oct	54.7	54.7	54.7
11/03/2021	Germany	Markit Germany Services PMI	Oct	52.4	52.4	52.4
11/03/2021	Germany	Markit/BME Germany Composite PMI	Oct	52.0	52.0	52.0



DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS		PREVIOUS
11/03/2021	Eurozone	Markit Eurozone Services PMI	Oct	54.7	54.6	54.7
11/03/2021	Eurozone	Markit Eurozone Composite PMI	Oct	54.3	54.2	54.3
11/03/2021	United Kingdom	Markit/CIPS UK Services PMI	Oct	58.0	59.1	58.0
11/03/2021	United Kingdom	Markit/CIPS UK Composite PMI	Oct	56.8	57.8	56.8
11/03/2021	Eurozone	Unemployment Rate	Sep	7.4%	7.4%	7.5%
11/03/2021	United States	ISM Services Index	Oct	62.0	66.7	61.9
11/03/2021	United States	Cap Goods Orders Nondef Ex Air	Sep	--	0.8%	0.8%
11/03/2021	United States	Cap Goods Ship Nondef Ex Air	Sep	--	1.4%	1.4%
11/03/2021	United States	Markit US Services PMI	Oct	58.2	58.7	58.2
11/03/2021	United States	Markit US Composite PMI	Oct	--	57.6	57.3
11/03/2021	United States	FOMC Rate Decision (Lower Bound)	Nov	0.0%	0.0%	0.0%
11/04/2021	Germany	Markit Germany Construction PMI	Oct	--	47.7	47.1
11/04/2021	United Kingdom	New Car Registrations YoY	Oct	--	-24.6%	-34.4%
11/04/2021	United Kingdom	Markit/CIPS UK Construction PMI	Oct	52.0	54.6	52.6
11/04/2021	Eurozone	PPI MoM	Sep	2.3%	2.7%	1.1%
11/04/2021	Eurozone	PPI YoY	Sep	15.4%	16.0%	13.4%
11/04/2021	United Kingdom	Bank of England Bank Rate	Nov	0.1%	0.1%	0.1%
11/04/2021	United States	Initial Jobless Claims	Oct	275k	269k	283k
11/04/2021	United States	Unit Labor Costs	3Q	7.0%	8.3%	1.1%
11/05/2021	France	Private Sector Payrolls QoQ	3Q	0.6%	0.5%	1.4%
11/05/2021	France	Wages QoQ	3Q	0.5%	0.3%	0.3%
11/05/2021	Eurozone	Retail Sales MoM	Sep	0.2%	-0.3%	1.0%
11/05/2021	Eurozone	Retail Sales YoY	Sep	1.5%	2.5%	1.5%
11/05/2021	United States	Change in Nonfarm Payrolls	Oct	450k	531k	312k
11/05/2021	United States	Unemployment Rate	Oct	4.70%	4.60%	4.80%
11/05/2021	United States	Average Hourly Earnings YoY	Oct	4.90%	4.90%	4.60%
11/05/2021	United States	Labor Force Participation Rate	Oct	61.70%	61.60%	61.60%

SOURCE: BLOOMBERG



CALENDAR: THE WEEK AHEAD

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COMING INDICATORS

This week sees the publication of inflation data in the US, China, Germany. Third quarter GDP growth and its composition will be released in the UK. In terms of survey data, attention will go to the EcoWatchers Survey in Japan, the ZEW survey for Germany and the euro area, Banque de France industrial sentiment and University of Michigan sentiment. The ECB will publish its economic bulletin. Finally and importantly, the European Commission will publish its new forecasts.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	PREVIOUS
11/09/2021	Japan	Eco Watchers Survey Current SA	Oct	--	42.1
11/09/2021	Japan	Eco Watchers Survey Outlook SA	Oct	--	56.6
11/09/2021	Germany	ZEW Survey Expectations	Nov	--	22.3
11/09/2021	Germany	ZEW Survey Current Situation	Nov	--	21.6
11/09/2021	Eurozone	ZEW Survey Expectations	Nov	--	21
11/09/2021	United States	NFIB Small Business Optimism	Oct	--	99.1
11/09/2021	United States	PPI Final Demand YoY	Oct	--	8.60%
11/09/2021	United States	PPI Ex Food and Energy YoY	Oct	--	6.80%
11/10/2021	China	CPI YoY	Oct	--	0.70%
11/10/2021	China	PPI YoY	Oct	--	10.70%
11/10/2021	Japan	Machine Tool Orders YoY	Oct	--	71.90%
11/10/2021	Germany	CPI EU Harmonized MoM	Oct	--	0.50%
11/10/2021	Germany	CPI EU Harmonized YoY	Oct	--	4.60%
11/10/2021	United States	Initial Jobless Claims	Nov	--	--
11/10/2021	United States	CPI YoY	Oct	5.80%	5.40%
11/10/2021	United States	CPI Ex Food and Energy YoY	Oct	4.20%	4.00%
11/10/2021	France	Bank of France Ind. Sentiment	Oct	--	100
11/11/2021	United Kingdom	GDP QoQ	3Q	--	5.50%
11/11/2021	United Kingdom	Private Consumption QoQ	3Q	--	7.20%
11/11/2021	United Kingdom	Government Spending QoQ	3Q	--	8.10%
11/11/2021	United Kingdom	Gross Fixed Capital Formation QoQ	3Q	--	0.80%
11/11/2021	United Kingdom	Exports QoQ	3Q	--	6.20%
11/11/2021	United Kingdom	Imports QoQ	3Q	--	2.40%
11/11/2021	United Kingdom	Total Business Investment QoQ	3Q	--	4.50%
11/11/2021	Eurozone	ECB Publishes Economic Bulletin			
11/11/2021	Eurozone	EU Commission Economic Forecasts			
11/11/2021	Eurozone	Industrial Production SA MoM	Sep	--	-1.60%
11/12/2021	United States	JOLTS Job Openings	Sep	--	10439k
11/12/2021	United States	U. of Mich. Sentiment	Nov	72	71.7
11/12/2021	United States	U. of Mich. Current Conditions	Nov	--	77.7
11/12/2021	United States	U. of Mich. Expectations	Nov	--	67.9
11/12/2021	United States	U. of Mich. 1 Yr Inflation	Nov	--	4.80%
11/12/2021	United States	U. of Mich. 5-10 Yr Inflation	Nov	--	2.90%

SOURCE: BLOOMBERG



FURTHER READING

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Monetary tightening in emerging countries	EcoTVWeek	5 November 2021
Eurozone : Stabilisation of state-guaranteed loans (SGLs) outstanding amounts	Chart of the Week	3 November 2021
US : Weaker US household confidence, a source of concern?	EcoWeek	29 October 2021
International trade: disruptions remain high	EcoTVWeek	29 October 2021
France's 2022 budget: automatic deficit reduction	EcoFlash	27 October 2021
Energy costs: how much of European household spending do they account for?	Chart of the Week	27 October 2021
Reforming EU economic governance: the start of a marathon	EcoWeek	25 October 2021
About the surge in energy prices	EcoTVWeek	22 October 2021
Inflation pressures in emerging economies	Chart of the Week	20 October 2021
Global : The risks associated with transitory but high inflation	EcoWeek	18 October 2021
Unease about the distribution of risks	EcoTVWeek	15 October 2021
4th quarter 2021 issue	EcoEmerging	13 October 2021
United States: PPP government-guaranteed loans are largely converted into public subsidies	Chart of the Week	13 October 2021
Global : Market timing, the zero lower bound and QE	EcoWeek	11 October 2021
India: consolidation in progress	EcoTVWeek	8 October 2021
4th quarter 2021 issue	EcoPerspectives	7 October 2021
Eurozone: headline inflation at its highest since 2008	Chart of the Week	6 October 2021
Global : Bad inflation clouds outlook	EcoWeek	4 October 2021
Deterioration of public finances in Colombia: why and should we be concerned?	EcoTVWeek	1 October 2021
India: a small fiscal consolidation	Chart of the Week	29 September 2021



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Internet: www.group.bnpparibas.com - www.economic-research.bnpparibas.com

Head of publication : Jean Lemierre / Chief editor: William De Vijlder

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