

ECOWEEK

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Business sentiment stabilises, but at a low level

■ Recent business surveys such as the purchasing managers' indices, point towards a broad-based stabilisation in October ■ This is a welcome development after a prolonged downward trend ■ However, in a historical perspective, the recent readings are low or, looking at the manufacturing sector, very low. This points to an ongoing subdued growth environment ■ Going forward, a sideways movement of these surveys should increase the likelihood of a growth acceleration: when the frequency of bad news drops, confidence should eventually rebound, fuelling spending, all the more so given the very accommodative financial and monetary conditions.

When on holidays, it has been raining for days in row, the mere decline in intensity of the rainfall will be met with relief, triggering hope that sunshine is about to arrive. One would almost forget that, when rushing outside without an umbrella, you will still get wet. It is useful to keep this metaphor in mind when analysing the business survey data for October. Starting with the (rather) good news, in the US, the ISM indices for manufacturing and non-manufacturing rebounded, reaching respectively 48.3 (47.8 in September) and 54.7 (52.6). The IHS Markit purchasing managers' index (PMI) for US manufacturing edged up slightly (51.3 versus 51.1) but the opposite happened with the services PMI (50.6 versus 50.9).

In the eurozone, the manufacturing PMI hardly changed (45.9 versus 45.7 in September). Germany did a bit better, as well as France, but the climate continued to worsen in Spain. Italy was stable. The eurozone services business activity index improved somewhat (52.2 versus 51.6) on the back of a slight uptick in Germany, a healthy increase in France and Italy and a decline in Spain. In China, the Caixin manufacturing PMI increased slightly (from 51.4 to 51.7) but the opposite happened in services. Finally, in Japan, both manufacturing and services weakened further. All in all, with the exception of Japan, the purchasing managers' data suggest that business sentiment is stabilising. In Germany this has also been confirmed by the ifo business climate index which remained stable in October after having been on a downward trend since early 2018. In France on the other hand, the INSEE business climate weakened slightly.

.../...

PURCHASING MANAGERS' INDICES							
	Manufacturing			Services			Sample
	Level (Oct. 19)	Decile	Change Oct/Sept	Level (Oct. 19)	Decile	Change Oct/Sept	
US							
ISM Manuf.	48,3	2	0,5				2000 - 2019
ISM Services				54,7	5	2,1	2000 - 2019
PMI Manuf.	51,3	2	0,2				2007 - 2019
PMI Services				50,6	1	-0,3	2009 - 2019
Eurozone							
PMI Manuf.	45,9	1	0,2				2000 - 2019
PMI Services				52,2	4	0,6	2000 - 2019
Germany							
PMI Manuf.	42,1	1	0,4				2000 - 2019
PMI Services				51,6	3	0,2	2000 - 2019
France							
PMI Manuf.	50,7	5	0,6				2000 - 2019
PMI Services				52,9	4	1,8	2000 - 2019
Italy							
PMI Manuf.	47,7	2	-0,1				2000 - 2019
PMI Services				52,2	5	0,8	2000 - 2019
Spain							
PMI Manuf.	46,8	2	-0,9				2000 - 2019
PMI Services				52,7	5	-0,6	2000 - 2019
China							
PMI Manuf.	51,7	7	0,3				2004 - 2019
PMI Services				51,1	1	-0,2	2005 - 2019
Japan							
PMI Manuf.	48,4	2	-0,5				2001 - 2019
PMI Services				49,7	5	-3,1	2007 - 2019

Source: ISM - Institute for Supply Management, Markit, BNP Paribas

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When using these indicators to assess the dynamics of GDP growth in Q4, it is important to keep in mind that the fluctuations in the PMI tells us something about the change in the pace of growth of the economy (a stable PMI thus corresponds to an unchanged growth rate). When gauging the growth rate per se, one should focus on the level of the PMI. In most countries, this provides a sobering conclusion with the services PMIs below long-term averages and even more so for the manufacturing indices. France is a noteworthy exception, something which is also reflected in the INSEE business climate index which remains above its long-term average.

These points remind us that the assessment of the economic environment very much depends on the chosen perspective. The stabilisation of business surveys which had been trending down is of course welcome news but more evidence is needed before one can state that the trough has been reached. As such, stabilisation is only a first step, but an important one. Going forward, a sideways movement of these surveys should increase the likelihood of a growth acceleration: when the frequency of bad news drops, confidence should eventually rebound, fuelling spending, all the more so given the very accommodative financial and monetary conditions.

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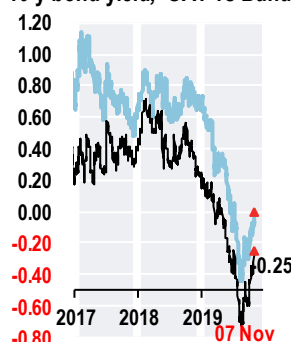
Markets overview

The essentials

Week 1-11 19 > 7-11-19

↗ CAC 40	5 762	▶ 5 891	+2.2 %
↗ S&P 500	3 067	▶ 3 085	+0.6 %
↗ Volatility (VIX)	12.3	▶ 12.7	+0.4 pb
↘ Euribor 3M (%)	-0.40	▶ -0.40	-0.1 bp
↗ Libor \$ 3M (%)	1.89	▶ 1.90	+1.4 bp
↗ OAT 10y (%)	-0.12	▶ -0.00	+11.3 bp
↗ Bund 10y (%)	-0.38	▶ -0.25	+12.8 bp
↗ US Tr. 10y (%)	1.73	▶ 1.93	+19.9 bp
↘ Euro vs dollar	1.12	▶ 1.10	-1.1 %
↘ Gold (ounce, \$)	1 511	▶ 1 470	-2.8 %
↗ Oil (Brent, \$)	60.5	▶ 62.6	+3.5 %

10 y bond yield, OAT vs Bund

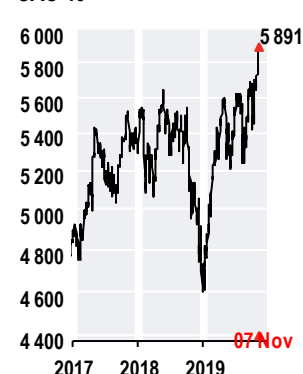


— Bunds — OAT

Euro-dollar



CAC 40



Money & Bond Markets

Interest Rates	highest' 19	lowest' 19
€ ECB	0.00 at 01/01	0.00 at 01/01
Eonia	-0.45 at 07/06	-0.47 at 03/10
Euribor 3M	-0.40 at 24/01	-0.45 at 03/09
Euribor 12M	-0.27 at 06/02	-0.40 at 21/08
\$ FED	1.75 at 01/01	1.75 at 31/10
Libor 3M	1.90 at 01/01	1.89 at 01/11
Libor 12M	1.98 at 21/01	1.85 at 04/10
£ BoE	0.75 at 01/01	0.75 at 01/01
Libor 3M	0.80 at 29/01	0.75 at 29/08
Libor 12M	0.99 at 11/01	0.81 at 03/09

At 7-11-19

Yield (%)	highest' 19	lowest' 19
€ AVG 5-7y	-0.05 at 09/01	-0.36 at 03/09
Bund 2y	-0.61 at 05/03	-0.92 at 02/09
Bund 10y	-0.25 at 01/01	-0.72 at 28/08
OAT 10y	-0.00 at 08/01	-0.44 at 28/08
Corp. BBB	0.90 at 08/01	0.64 at 30/08
\$ Treas. 2y	1.68 at 18/01	1.39 at 03/10
Treas. 10y	1.93 at 18/01	1.46 at 04/09
Corp. BBB	3.35 at 01/01	3.15 at 04/09
£ Treas. 2y	0.51 at 27/02	0.31 at 08/10
Treas. 10y	0.77 at 18/01	0.33 at 03/09

At 7-11-19

10y bond yield & spreads

1.71%	Greece	195 pb
1.16%	Italy	141 pb
0.39%	Spain	63 pb
0.30%	Portugal	54 pb
0.05%	Belgium	29 pb
-0.00%	France	24 pb
-0.01%	Finland	24 pb
-0.02%	Austria	22 pb
-0.07%	Ireland	17 pb
-0.13%	Netherland	12 pb
-0.25%	Germany	

Commodities

Spot price in dollars	lowest' 19	2019(€)
Oil, Brent	53.1 at 01/01	+22.0%
Gold (ounce)	1 268 at 02/05	+18.7%
Metals, LMEX	2 718 at 07/08	+6.1%
Copper (ton)	5 585 at 03/09	+3.8%
CRB Foods	312 at 11/09	+4.3%
wheat (ton)	166 at 30/08	+4.7%
Corn (ton)	128 at 24/04	+9.5%

At 7-11-19

Variations

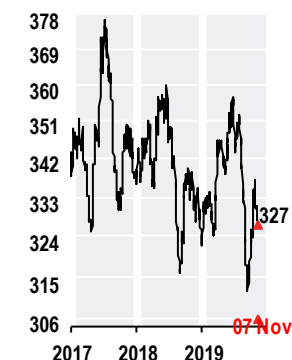
Oil (Brent, \$)



Gold (Ounce, \$)



CRB Foods



Exchange Rates

€ =	highest' 19	lowest' 19	2019
USD	1.15 at 10/01	1.09 at 30/09	-3.4%
GBP	0.93 at 12/08	0.85 at 14/03	-4.0%
CHF	1.10 at 23/04	1.08 at 04/09	-2.5%
JPY	127.43 at 01/03	116.08 at 03/09	-3.7%
AUD	1.66 at 07/08	1.57 at 18/04	-1.2%
CNY	7.96 at 27/08	7.51 at 25/04	-1.7%
BRL	4.63 at 27/08	4.18 at 31/01	+2.1%
RUB	70.33 at 01/01	70.22 at 24/09	-11.3%
INR	78.38 at 04/02	76.37 at 01/08	-1.8%

At 7-11-19

Variations

Equity indices

Index	highest' 19	lowest' 19	2019	2019(€)
CAC 40	5 891 at 07/11	4 611 at 03/01	+24.5%	+24.5%
S&P500	3 085 at 07/11	2 448 at 03/01	+23.1%	+27.4%
DAX	13 289 at 07/11	10 417 at 03/01	+25.9%	+25.9%
Nikkei	23 330 at 07/11	19 562 at 04/01	+16.6%	+21.1%
China*	81 at 09/04	68 at 03/01	+14.7%	+18.8%
India*	590 at 03/06	526 at 22/08	+7.5%	+9.5%
Brazil*	2 230 at 10/07	1 862 at 17/05	+21.2%	+18.7%
Russia*	793 at 07/11	572 at 01/01	+28.7%	+43.5%

At 7-11-19

Variations

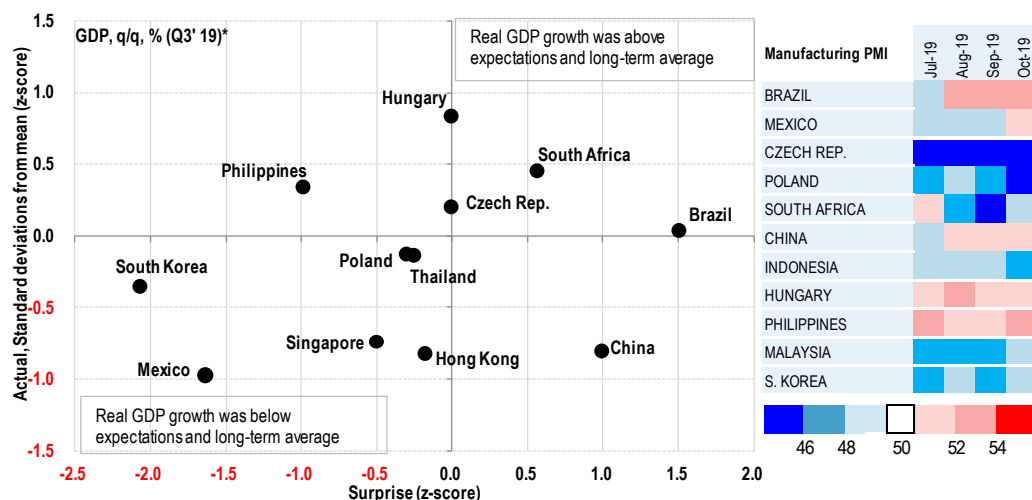
* MSCI index



Pulse

China: real GDP grew only 6% in Q3 2019

Economic growth slowed to 6.0% y/y in Q3 2019 from 6.4% in Q4 2018. This is well under the annual average of 8% recorded over the past decade: the structural slowdown continues, aggravated since last year by the consequences of US protectionist measures on exports. Growth in private consumption has also decelerated, delaying the process of rebalancing of Chinese growth sources. Fiscal and monetary policy easing measures have been multiplied, and their impact on domestic demand should be visible in the last quarter of 2019.



Note: z-score is a score which indicates how many standard deviations an observation is from the mean: $z = (x - \mu) / \sigma$ where x : observation, μ : mean, σ : standard deviation. On the X-axis, x corresponds to the last known surprise for each indicator represented on the graph, μ and σ corresponds respectively to the mean and the standard deviation of the last 24 value for monthly data and the last 8 quarters for quarterly data. On the Y-axis, x corresponds a

t the last known value of indicator, μ and σ corresponds respectively to the mean and the standard deviation for this indicator since 2000 (for China since 2011).

* Q3' 19: China, South Korea, Philippines, Mexico

Indicators preview

Next week sees the release of inflation data in several countries (UK, US, Germany, France, eurozone) but the focus will be on GDP numbers in Germany (first estimate), Japan, the UK and the eurozone (updated estimate). Another highlight will be the data for China on investments, industrial production and retail sales. We will also have employment data for France and the eurozone as well as industrial sentiment for France. Another important indicator are US retail sales.

Date	Country/Region	Event	Period	Survey	Prior
11/11/2019	Japan	Core Machine Orders MoM	Sep	--	-2.4%
11/11/2019	United Kingdom	GDP QoQ	3Q	--	-0.2%
11/12/2019	France	Bank of France Ind. Sentiment	Oct	--	96
11/12/2019	United Kingdom	ILO Unemployment Rate 3Mths	Sep	--	3.9%
11/12/2019	United States	NFIB Small Business Optimism	Oct	102.0	101.8
11/13/2019	Germany	CPI EU Harmonized YoY	Oct	--	0.9%
11/13/2019	United Kingdom	CPI YoY	Oct	--	1.7%
11/13/2019	United States	CPI MoM	Oct	0.3%	0.0%
11/14/2019	Japan	GDP SA QoQ	3Q	0.2%	0.3%
11/14/2019	China	Fixed Assets Ex Rural YTD YoY	Oct	5.4%	5.4%
11/14/2019	China	Industrial Production YoY	Oct	5.4%	5.8%
11/14/2019	China	Retail Sales YoY	Oct	7.8%	7.8%
11/14/2019	China	Property Investment YTD YoY	Oct	--	10.5%
11/14/2019	France	ILO Unemployment Rate	3Q	--	8.5%
11/14/2019	Germany	GDP SA QoQ	3Q	--	-0.1%
11/14/2019	France	CPI EU Harmonized YoY	Oct	--	0.9%
11/14/2019	United Kingdom	Retail Sales Ex Auto Fuel YoY	Oct	--	3.0%
11/14/2019	Eurozone	Employment QoQ	3Q	--	0.2%
11/14/2019	Eurozone	GDP SA QoQ	3Q	--	0.2%
11/14/2019	United States	PPI Final Demand MoM	Oct	0.2%	-0.3%
11/15/2019	Japan	Industrial Production YoY	Sep	--	1.1%
11/15/2019	Eurozone	CPI YoY	Oct	--	0.7%
11/15/2019	United States	Empire Manufacturing	Nov	6.0	4.0
11/15/2019	United States	Retail Sales Advance MoM	Oct	0.1%	-0.3%
11/15/2019	United States	Industrial Production MoM	Oct	-0.3%	-0.4%
11/15/2019	United States	Capacity Utilization	Oct	77.1%	77.5%

Source: Bloomberg, BNP Paribas



Economic scenario

UNITED STATES

- Growth is slowing and this trend is expected to continue under the influence of corporate investment (slower profits growth, uncertainty) and housing (declining trend of affordability). Consumer spending should be more resilient. The trade dispute with China acts as an additional drag but recent progress might imply this effect would wane.
- We expect one more Fed Funds target rate cut this year and two additional cuts in 2020.

CHINA

- Economic growth continues to slow and our GDP forecasts have been revised down since June. Industrial activity and exports have been hard hit by US tariff hikes. Domestic demand has also decelerated.
- The central bank is easing liquidity and credit conditions, though the reduction in financial-instability risks should remain a priority and banks seem to remain prudent. Fiscal policy is 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 have some success in supporting consumer spending.

EUROZONE

- The economic slowdown is continuing in the eurozone, especially in Germany, due to the international environment and elevated uncertainty. The recent stabilization of business surveys provides some hope but needs to be confirmed.
- 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.
- Faced with an outlook of subdued inflation, the very accommodative monetary policy will be maintained as long as inflation hasn't converged sufficiently, in a convincing and lasting way, towards the ECB's objective.

FRANCE

- Growth is slowing although the economy shows resilience. Households' consumption should get a boost from the tax cuts and the jobs recovery. 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, we expect the Fed to cut its official rate again in December in reaction to a slowing economy, moderate inflation and high uncertainty. 2020 should see two more cuts. Treasury yields are to decline further in the coming months. Eventually, in the course of 2020 they should move up again in anticipation of a pick-up in growth.
- 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. This will exert downward pressure on bond yields, although these will also be influenced by yield movements in the US.
- No policy rate change expected in Japan.
- We expect little change in EUR/USD even though euro's fair value is quite higher than current pricing. The yen should strengthen on the back of stable BoJ policy and high market volatility.

%	GDP Growth			Inflation		
	2018	2019 e	2020 e	2018	2019 e	2020 e
Advanced	2.2	1.6	1.0	2.1	1.4	1.3
United-States	2.9	2.2	1.5	2.4	1.8	1.8
Japan	0.8	1.2	0.2	1.0	0.6	0.3
United-Kingdom	1.4	1.1	0.6	2.5	1.9	1.8
Euro Area	1.9	1.1	0.7	1.8	1.1	0.8
Germany	1.4	0.4	0.2	1.9	1.4	1.0
France	1.7	1.2	1.0	2.1	1.2	1.0
Italy	0.7	0.1	0.0	1.2	0.6	0.5
Spain	2.6	2.2	1.6	1.7	0.8	0.7
Emerging	4.4	3.8	4.2	4.7	4.8	4.5
China	6.6	5.9	5.6	2.1	2.4	2.8
India*	6.8	6.5	6.3	2.9	3.0	3.3
Brazil	1.1	0.5	2.0	3.7	3.7	3.5
Russia	2.3	1.2	2.0	2.9	4.8	3.8

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, %	End of period	2019				2018	2019e	2020e
		Q1	Q2	Q3	Q4e			
US	Fed Funds	2.50	2.50	2.00	1.50	2.50	1.50	1.00
	Libor 3m \$	2.60	2.32	2.09	1.70	2.81	1.70	1.25
	T-Notes 10y	2.42	2.00	1.67	1.00	2.69	1.00	1.50
Ezone	deposit rate	-0.40	-0.40	-0.50	-0.60	-0.40	-0.60	-0.60
	Euribor 3m	-0.31	-0.35	-0.42	-0.60	-0.31	-0.60	-0.60
	Bund 10y	-0.07	-0.32	-0.57	-0.80	0.25	-0.80	-0.50
	OAT 10y	0.26	-0.01	-0.28	-0.55	0.71	-0.55	-0.30
UK	Base rate	0.75	0.75	0.75	0.75	0.75	0.75	0.75
	Gilts 10y	1.00	0.84	0.40	0.55	1.27	0.55	0.75
Japan	BoJ Rate	-0.06	-0.08	-0.06	-0.10	-0.07	-0.10	-0.10
	JGB 10y	-0.09	-0.16	-0.22	-0.40	0.00	-0.40	-0.25

Source : BNP Paribas GlobalMarkets (e: Forecasts)

Exchange Rates	End of period	2019				2018	2019e	2020e
		Q1	Q2	Q3	Q4e			
USD	EUR / USD	1.12	1.14	1.09	1.11	1.14	1.11	1.14
	USD / JPY	111	108	108	102	110	102	96
	GBP / USD	1.30	1.27	1.23	1.23	1.27	1.23	1.36
	USD / CHF	1.00	0.98	1.00	0.99	0.99	0.99	1.00
EUR	EUR / GBP	0.85	0.89	0.89	0.90	0.90	0.90	0.84
	EUR / CHF	1.12	1.11	1.09	1.10	1.13	1.10	1.14
	EUR / JPY	124	123	118	113	125	113	109

Source : BNP Paribas GlobalMarkets (e: Forecasts)



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