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## AFTER DISCONNECTING, WILL MONEY SUPPLY GROWTH AND INFLATION RECONNECT?

**Since the Great Recession, the monetary base in several advanced economies has seen a considerable increase, driven by the creation of bank reserves at the central bank. Yet, contrary to what had been observed in previous decades, this has not been followed by a significant pick-up of inflation. Following the global financial crisis, the demand of the banking system for central bank reserves increased a lot. This was a reflection of the dire state of the economy and money markets as well as tighter liquidity requirements. Subsequently, quantitative easing caused an increase in reserves on the initiative of the central bank. Going forward, as the economy strengthens, money supply growth and inflation could reconnect on the back of an increase in money velocity or faster credit demand growth. Central banks have the tools to address this, if need be. Clearly, asset markets might be less relaxed about such a prospect.**

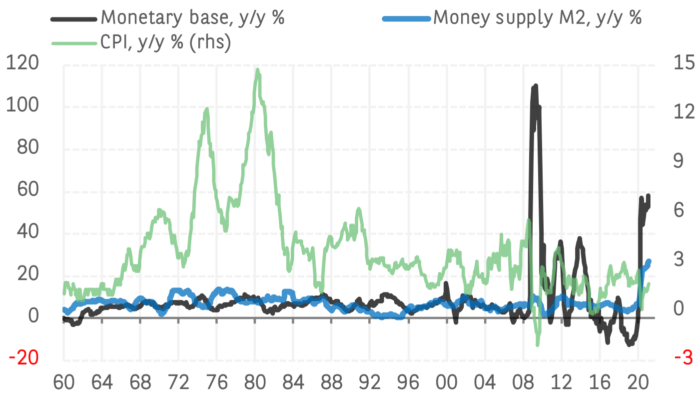
Why has the massive expansion of central bank balance sheets in advanced economies not succeeded in lifting inflation? It's a frequently asked question that reflects a feeling that an increase in the monetary base[1] and broader money aggregates will inevitably lead to higher inflation.

This view may be based on common sense: in a fiat-based monetary system, money is created 'out of nothing' so when a lot of it is created and used to buy goods, it may lead to more inflation. It could also be based on reading about hyperinflation in the Weimar republic or, more recently, in certain developing economies. Economists have learned at school about Milton Friedman's observation in 1970 that *"Inflation is always and everywhere a monetary phenomenon in the sense that it is and can be produced only by a more rapid increase in the quantity of money than in output."*[2] This was confirmed by empirical research conducted by the 1995 Nobel Prize winner Robert Lucas: "*The prediction that prices respond proportionally to changes in money in the long run … has received ample — I would say, decisive — confirmation in data from many times and places.*"[3]

Things have evolved since the mid-nineties and the huge increase in the monetary base in the United States, Japan and the euro area since the Great Recession has not been followed by a significant increase of inflation. In explaining this disconnect, the origin of the creation of reserves plays a key role. In normal times, the growth of central bank reserves is determined by the demand by banks, which in turn depends on the evolution of banks' short-term liabilities (deposits and debt securities with a residual maturity of up to two years)[4]. For the banking system as a whole, the growth of deposits is largely driven by the growth of bank credit ('loans create deposits'), which means that the money multiplier –the ratio of broader monetary aggregates to the monetary base– is rather stable.

In the aftermath of the global financial crisis in 2008-2009, money markets were no longer functioning smoothly and many banks were facing pressures on liquidity, so central banks reacted by supplying abundant reserves: "*the expansion in base money was instrumental in avoiding fire sales and a curtailment of credit with potentially severe consequences for the real economy*"[5]. The demand of banks for central bank reserves did not reflect gathering strength of the economy and credit demand, rather it was a manifestation of considerable uncertainty about the outlook, economic weakness, a poorly functioning interbank market and new regulations in terms of liquidity[6].

US MONEY SUPPLY AND INFLATION




SOURCE: FEDERAL RESERVE, BLS, BNP PARIBAS

1. The monetary base, also called base money, corresponds to notes and coins in circulation and bank reserves held at the central bank.
2. Milton Friedman, *The Counter-Revolution in Monetary Theory*, 1970. Source: https://onlinelibrary.wiley.com.
3. Robert E. Lucas Jr., *Monetary neutrality, Nobel Prize Lecture,* December 7, 1995, www.nobelprize.org.
4. *"Base money, broad money and the APP,"* ECB Economic Bulletin, Issue n° 6, 2017.

5. ECB (2017)
6. This concerns the Liquidity Coverage Ratio. Before its introduction, bank reserves more or less corresponded to the reserves that banks were required to hold at the central bank. Reserves held by banks at the central bank increased significantly following the introduction of the LCR. *"The objective of the LCR is to promote the short-term resilience of the liquidity risk profile of banks. It does this by ensuring that banks have an adequate*

**Money supply growth and inflation can reconnect but for inflation to spin out of control, it would require central banks to acquiesce this.**

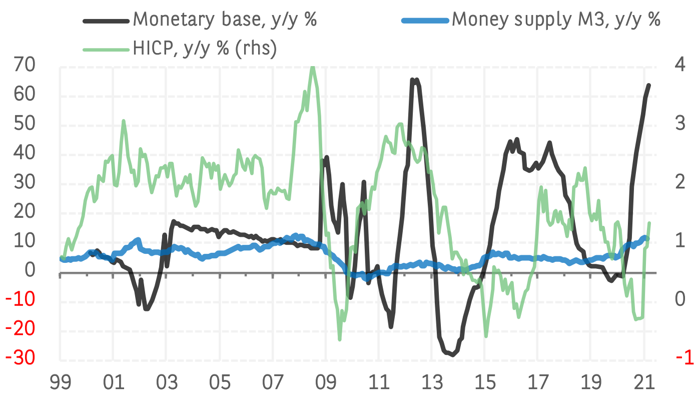
The same happened in the US: "*banks would rather hold reserves safely at the Fed instead of lending them out in a struggling economy loaded with risk*[7]*. The opportunity cost of holding reserves is low, while the risks in lending or investing in other assets seem high. Thus, at near zero rates, demand for reserves can be extremely elastic.*"[8]

In addition, the introduction of quantitative easing caused a supply-led increase in bank reserves as well as in bank deposits. When a central bank conducts asset purchases, banks act as an intermediary between the central bank and the owner of the bonds which are bought, giving rise to an increase of the assets (reserves) and liabilities (client deposits) of banks' balance sheets. Reserves are injected in the banking system on the initiative of the central bank, which is able to do so by paying a sufficiently attractive price for the assets it wishes to acquire. The creation of reserves via QE has, at its origin, nothing to do with increased credit demand. To stimulate economic growth, QE seeks to trigger a variety of transmission mechanism: confidence effects, signalling effects –'current policy rates will be maintained for a long time'-, declining government bond yields via a reduction in the term premium, lower corporate bond spreads, wealth effects, a weaker currency. It can also stimulate banks to extend more credit to increase their return on assets, which have increased due to QE. Many of these channels only have a very indirect influence on growth and inflation, and provide a monetary explanation for the very loose relationship between money supply and price developments.

Should one be concerned about the possibility that these two variables would reconnect? No, quite to the contrary, such a development should be welcomed. It would mean that economic agents would use their deposits to finance spending, so money would circulate more quickly. This increase in money velocity would be testimony to a better economic environment and outlook. Should this cause somewhat higher inflation, central banks would be relieved as well, given where they currently are versus their inflation target. An improving economy could also boost credit demand, which well-capitalised banks would be happy to meet considering their high level of excess reserves at the central bank. If this would end up creating concern about too quick an increase in inflation, central banks would be well-equipped to address it by using forward guidance, hiking their deposit rate or draining liquidity by shrinking their balance sheet. Clearly, asset markets might be less relaxed about such a prospect. After all, the disconnect between money supply growth and consumer price inflation has gone hand in hand with rising asset price inflation.

**William De Vijlder**

EURO AREA: MONEY SUPPLY AND INFLATION




SOURCES: ECB, EUROSTAT, BNP PARIBAS

*stock of unencumbered high-quality liquid assets (HQLA) that can be converted easily and immediately in private markets into cash to meet their liquidity needs for a 30 calendar day liquidity stress scenario.*" (Source: BIS, The Liquidity Coverage Ratio and liquidity risk monitoring tools, January 2013).

7. Concretely speaking, during difficult economic times, banks may be reluctant to use their reserves as a basis for extending credit. As a consequence, the money multiplier declines.

8. John C. Williams, "*Monetary policy, money and inflation*", Presentation to the Western Economic Association, 2 July 2012.

# MARKETS OVERVIEW



## OVERVIEW

| Week 26-3 21 to 1-4-21 | | | | |
|---|---|---|---|---|
| ↗ CAC 40 | 5 989 | ▶ 6 103 | +1.9 | % |
| ↗ S&P 500 | 3 975 | ▶ 4 020 | +1.1 | % |
| ↘ Volatility (VIX) | 18.9 | ▶ 17.3 | -1.5 | pb |
| ↘ Euribor 3M (%) | -0.54 | ▶ -0.54 | -0.1 | bp |
| ↘ Libor $ 3M (%) | 0.20 | ▶ 0.19 | -0.5 | bp |
| ↗ OAT 10y (%) | -0.18 | ▶ -0.11 | +7.1 | bp |
| ↗ Bund 10y (%) | -0.39 | ▶ -0.33 | +5.7 | bp |
| ↗ US Tr. 10y (%) | 1.66 | ▶ 1.68 | +1.8 | bp |
| ↘ Euro vs dollar | 1.18 | ▶ 1.18 | -0.3 | % |
| ↘ Gold (ounce, $) | 1 733 | ▶ 1 730 | -0.2 | % |
| ↗ Oil (Brent, $) | 64.6 | ▶ 65.0 | +0.6 | % |

## 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 | -0.54 | -0.53 | at | 26/02 | -0.56 | at | 06/01 |
| Euribor 12M | -0.49 | -0.48 | at | 01/03 | -0.52 | at | 02/02 |
| $ FED | 0.25 | 0.25 | at | 01/01 | 0.25 | at | 01/01 |
| Libor 3M | 0.19 | 0.24 | at | 13/01 | 0.18 | at | 19/02 |
| Libor 12M | 0.28 | 0.34 | at | 01/01 | 0.28 | at | 18/03 |
| £ BoE | 0.10 | 0.10 | at | 01/01 | 0.10 | at | 01/01 |
| Libor 3M | 0.09 | 0.09 | at | 24/03 | 0.03 | at | 01/01 |
| Libor 12M | 0.16 | 0.16 | at | 30/03 | 0.07 | at | 11/01 |

*At 1-4-21*

| Yield (%) | | highest 21 | | | lowest 21 | | |
|---|---|---|---|---|---|---|---|
| € AVG 5-7y | -0.27 | -0.22 | at | 26/02 | -0.46 | at | 04/01 |
| Bund 2y | -0.67 | -0.65 | at | 25/02 | -0.75 | at | 01/01 |
| Bund 10y | -0.33 | -0.26 | at | 25/02 | -0.60 | at | 04/01 |
| OAT 10y | -0.11 | -0.03 | at | 25/02 | -0.41 | at | 04/01 |
| Corp. BBB | 0.65 | 0.72 | at | 18/03 | 0.50 | at | 08/01 |
| $ Treas. 2y | 0.16 | 0.17 | at | 08/03 | 0.11 | at | 05/02 |
| Treas. 10y | 1.68 | 1.75 | at | 31/03 | 0.91 | at | 01/01 |
| High Yield | 4.77 | 4.87 | at | 09/03 | 4.60 | at | 19/02 |
| £ gilt. 2y | 0.08 | 0.13 | at | 26/02 | -0.08 | at | 04/01 |
| gilt. 10y | 0.83 | 0.91 | at | 18/03 | 0.21 | at | 04/01 |

*At 1-4-21*

## EXCHANGE RATES

| 1€ = | | highest 21 | | | lowest 21 | | | 2021 |
|---|---|---|---|---|---|---|---|---|
| USD | 1.18 | 1.23 | at | 06/01 | 1.17 | at | 30/03 | -3.9% |
| GBP | 0.85 | 0.91 | at | 06/01 | 0.85 | at | 01/04 | -4.9% |
| CHF | 1.11 | 1.11 | at | 04/03 | 1.08 | at | 18/01 | +2.6% |
| JPY | 130.07 | 130.11 | at | 12/03 | 125.22 | at | 18/01 | +3.0% |
| AUD | 1.55 | 1.60 | at | 04/01 | 1.53 | at | 18/03 | -2.4% |
| CNY | 7.73 | 8.00 | at | 01/01 | 7.69 | at | 25/03 | -3.4% |
| BRL | 6.68 | 6.95 | at | 03/03 | 6.33 | at | 18/01 | +5.2% |
| RUB | 89.80 | 92.20 | at | 28/01 | 86.53 | at | 16/03 | -0.8% |
| INR | 85.99 | 89.88 | at | 07/01 | 85.30 | at | 27/03 | -3.8% |

*At 1-4-21* *Change*

## COMMODITIES

| Spot price, $ | | highest 21 | | | lowest 21 | | | 2021 | 2021(€) |
|---|---|---|---|---|---|---|---|---|---|
| Oil, Brent | 65.0 | 69.7 | at | 11/03 | 51.2 | at | 04/01 | +25.2% | +30.3% |
| Gold (ounce) | 1 730 | 1 947 | at | 05/01 | 1 682 | at | 08/03 | -8.9% | -5.2% |
| Metals, LMEX | 3 785 | 4 027 | at | 25/02 | 3 415 | at | 01/01 | +10.8% | +15.3% |
| Copper (ton) | 8 795 | 9 456 | at | 25/02 | 7 749 | at | 01/01 | +13.5% | +18.1% |
| wheat (ton) | 234 | 2.6 | at | 15/01 | 231 | at | 30/03 | -5.2% | -1.4% |
| Corn (ton) | 217 | 2.2 | at | 31/03 | 188 | at | 04/01 | +1.5% | +19.9% |

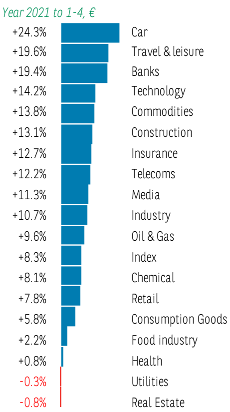
*At 1-4-21* *Change*

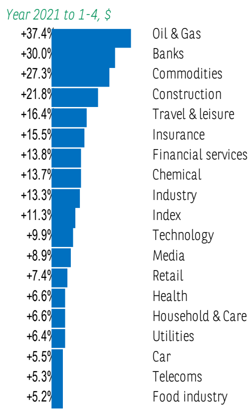
## EQUITY INDICES

| | Index | highest 21 | | | lowest 21 | | | 2021 |
|---|---|---|---|---|---|---|---|---|
| **World** | | | | | | | | |
| MSCI World | 2 840 | 2 840 | at | 01/04 | 2 662 | at | 29/01 | +5.6% |
| **North America** | | | | | | | | |
| S&P500 | 4 020 | 4 020 | at | 01/04 | 3 701 | at | 04/01 | +7.0% |
| **Europe** | | | | | | | | |
| EuroStoxx50 | 3 946 | 3 946 | at | 01/04 | 3 481 | at | 29/01 | +11.1% |
| CAC 40 | 6 103 | 6 103 | at | 01/04 | 5 399 | at | 29/01 | +1.0% |
| DAX 30 | 15 107 | 15 107 | at | 01/04 | 13 433 | at | 29/01 | +10.1% |
| IBEX 35 | 8 578 | 8 658 | at | 16/03 | 7 758 | at | 29/01 | +0.6% |
| FTSE100 | 6 737 | 6 873 | at | 08/01 | 6 407 | at | 29/01 | +0.4% |
| **Asia** | | | | | | | | |
| MSCI, loc. | 1 120 | 1 137 | at | 18/03 | 1 044 | at | 06/01 | +0.7% |
| Nikkei | 29 389 | 30 468 | at | 16/02 | 27 056 | at | 06/01 | +7.1% |
| **Emerging** | | | | | | | | |
| MSCI Emerging ($) | 1 335 | 1 445 | at | 17/02 | 1 288 | at | 25/03 | +0.3% |
| China | 111 | 130 | at | 17/02 | 106 | at | 25/03 | +2.4% |
| India | 718 | 736 | at | 03/03 | 659 | at | 29/01 | +6.4% |
| Brazil | 1 637 | 1 941 | at | 14/01 | 1 561 | at | 09/03 | -4.5% |
| Russia | 690 | 740 | at | 16/03 | 647 | at | 01/02 | +6.1% |

*At 1-4-21* *Change*

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



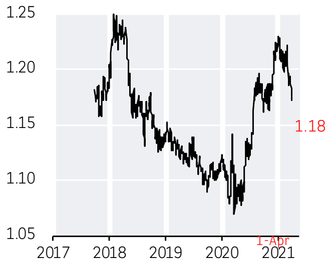




SOURCE: THOMSON REUTERS,

# MARKETS OVERVIEW

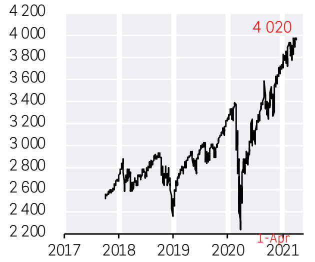


## EURO-DOLLAR

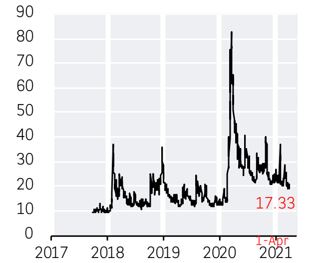



## EUROSTOXX50


## S&P500

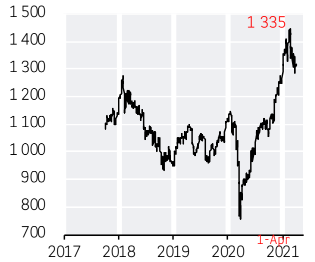



## VOLATILITY ( VIX, S&P500)

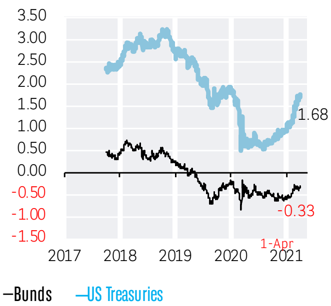



## MSCI WORLD (USD)

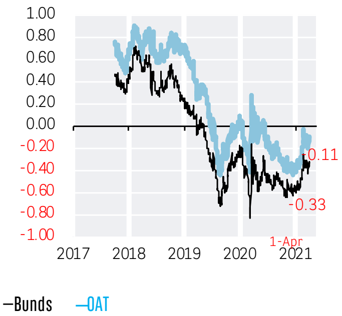

## MSCI EMERGING (USD)



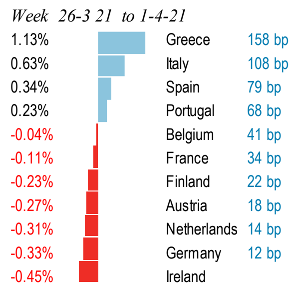

## 10Y BOND YIELD, TREASURIES VS BUND



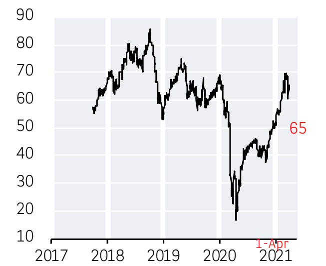

## 10Y BOND YIELD



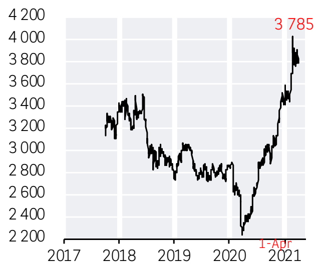

## 10Y BOND YIELD & SPREADS



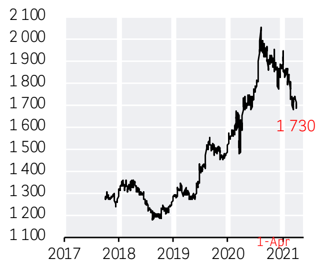

## OIL (BRENT, USD)




## METALS (LMEX, USD)




## GOLD (OUNCE, USD)




SOURCE: THOMSON REUTERS,

# EUROZONE: ECONOMIC IMPROVEMENT AGAINST A BACKGROUND OF EPIDEMIC RESURGENCE

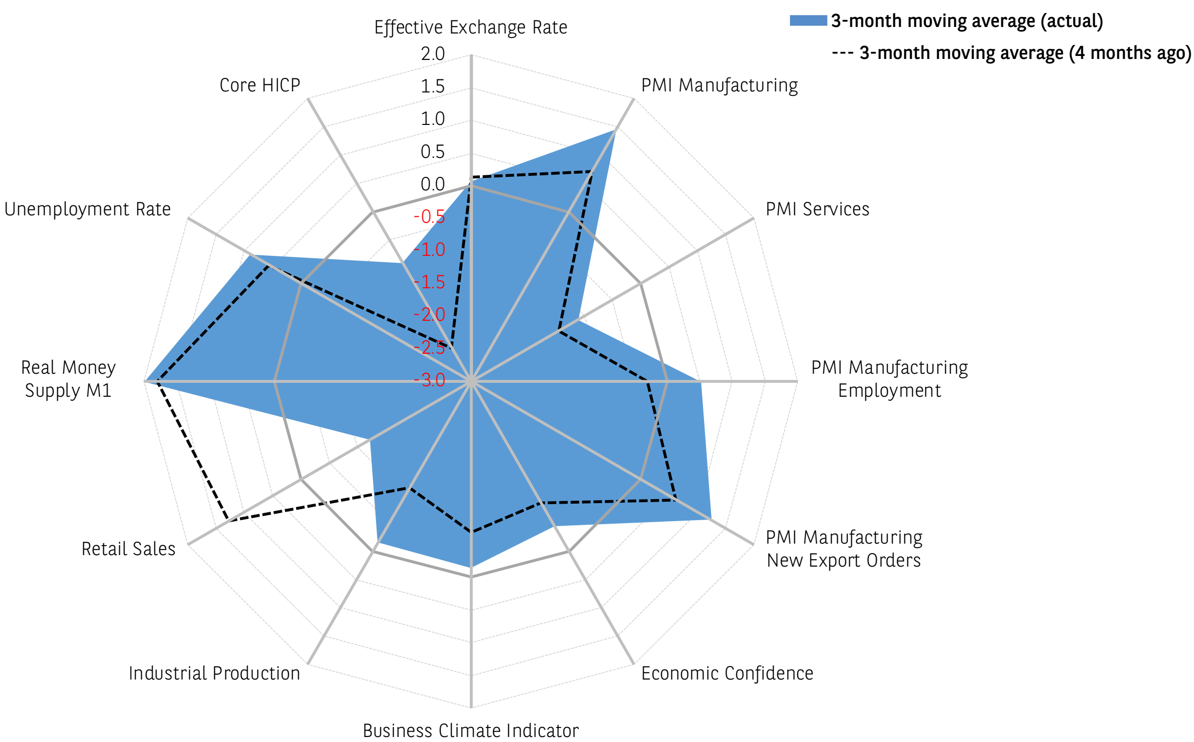
The resurgence of the Covid-19 pandemic in Europe has led to new health measures in most countries: restrictions were extended to the entire territory of France; Germany tightened its border controls; and Italy extended restrictions until the end of April. Given this difficult situation, the eurozone economy sent some signs of improvement over the last three months, compared to the previous quarter. These dynamics are displayed in the chart below, with the blue area beyond the dotted line for almost all indicators.

Without over-optimism, the latest data send positive signals about the eurozone recovery, partly reflecting the adaptation of European populations to the health measures in force. The manufacturing sector has done particularly well. The Purchasing Managers Index (PMI) for the sector has been on a rising trend since the spring of 2020 and the improvement over recent months has been clear. Indeed, in March, it reached a new record high of 62.5, driven in part by the strength of the 'new export orders' and 'employment' components (which hit 62.4 and 54.7 respectively). All of these indicators are above their long-term average.

Hard data are starting to confirm this performance. Industrial production in the eurozone has rebounded significantly over the past year. It is also observed in the services sector. However, the latter continues to be more directly affected by health measures. Although the services sector PMI gained ground in March (taking it to 48.8, from 45.7 in February) after several months of stagnation, it remains below 50, and thus in contraction territory. A sustained recovery in the services sector relies on consumer spending. This in turn will be supported by consumer confidence within the eurozone – which has in fact improved, but remains below pre-crisis levels. A rapid and lasting economic recovery will only be possible when the pandemic is brought fully under control, in other words once the vaccination campaigns in eurozone member states have been stepped up. Fiscal and monetary policy will remain accommodating until a return to more normal economic conditions. The European Central Bank, in particular, will be careful to ensure favourable financing conditions for economic agents. The current marked increase in inflation results largely of temporary factors, and will not change the monetary policy stance.

**Louis Boisset**

QUARTERLY CHANGES




SOURCE: THOMSON REUTERS, 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 -3 and +2. 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.*

# JAPAN : IMPROVEMENT IN MANUFACTURING, WORRIES PERSIST IN SERVICES

The slow rollout of the vaccination programme in Japan can be explained by the fact that the country suffered less than others during the pandemic, and thus adopted lighter restrictions than elsewhere. The slow progress in vaccination has not prevented an improvement in business leaders' confidence.

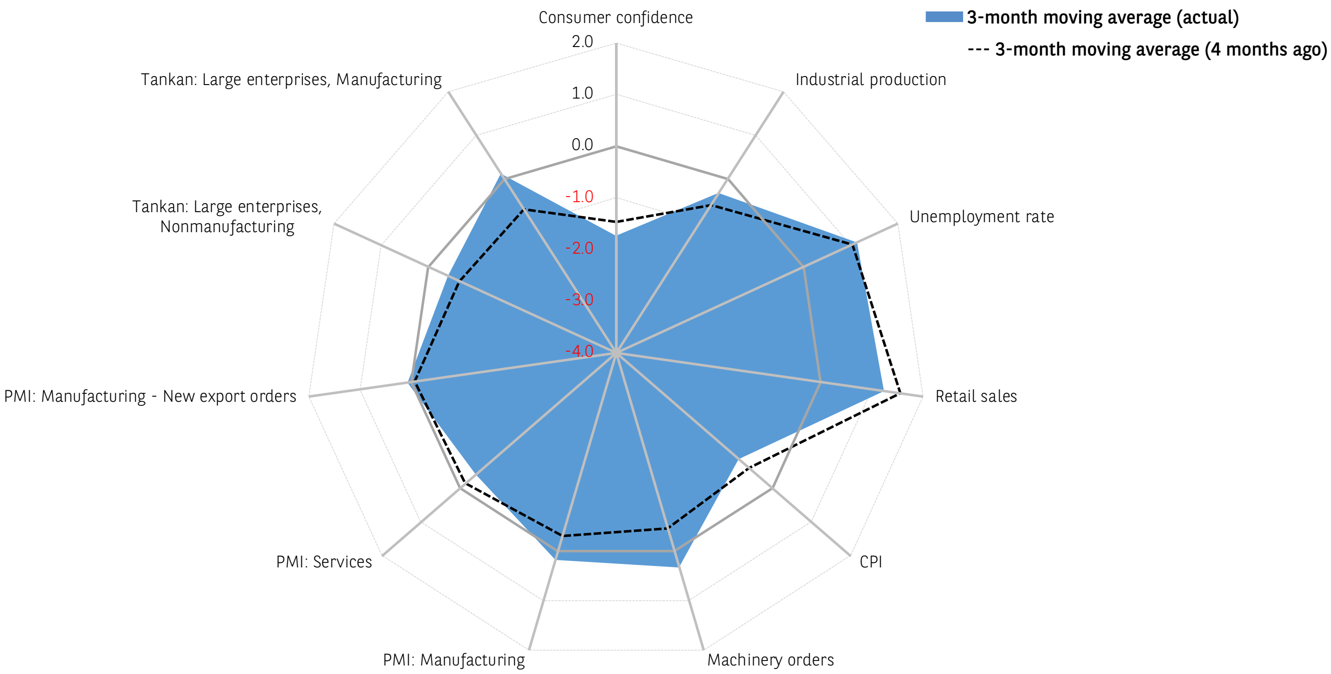
As in Europe, this observation is particularly true in the manufacturing sector, which has been hit less hard by health measures than the services sector. According to the Bank of Japan's Tankan survey, major Japanese companies are regaining confidence and the index for these firms returned to positive territory in Q1 2021 for the first time since Q3 2019. It reached +5 (the percentage gap between companies believing conditions are favourable and those believing the opposite), from -10 in Q4 2020 and -34 at the peak of the crisis last year. In recent months, Japanese industrial companies have benefited from renewed demand from China – one of the most important trading partner – as well as from the US. Japanese exporters are likely to continue to take advantage of the improvement in the Chinese economy and the massive stimulus package launched in the US. For non-manufacturing companies, there has also been a marked improvement since the end of 2020, although the Tankan index remains negative and below its long-term average.

Confidence is particularly weak in the "hotels and restaurants" sector, which continue to suffer from the absence of foreign tourism. The recent decision not to open up the country to international visitors during the Tokyo Olympics this summer is a fresh blow. Companies in the sectors affected will therefore need to rely on domestic demand.

On this point, the rebound in Japanese consumer confidence in February 2021 (to 33.8, from 29.6 in January) is good news but still needs to be confirmed. This indicator remains low relative to its long-term average. The composite Purchasing Managers Indices (PMI) for the manufacturing and services sectors send similar messages. The manufacturing PMI has improved over the past three months, rising above its long-term average and reaching 52.7 in March 2021. The services PMI, meanwhile, is struggling to recover and remains below the threshold of 50 that separates expansion from recession. It was virtually flat, at just 46.5, in March. One thing is certain: the Bank of Japan will do everything to avoid tightening financing conditions, against a background of persistently very weak inflation.

**Louis Boisset**

QUARTERLY CHANGES




SOURCE: THOMSON REUTERS, BNP PARIBAS

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## MOBILITY: A MIXED PICTURE IN HIGH-FREQUENCY DATA

Indicators of the strength of the Covid-19 pandemic have continued to rise around the world. There have been 180,000 new cases globally since the end of February, mainly in three regions: Asia (excluding China), Europe, and the Americas (chart 1). However, some countries have seen notable falls in case numbers. In the United Kingdom, for example, a lockdown and an acceleration in the vaccination campaign have produced a dramatic fall in daily death and new case numbers.

With the resurgence of the epidemic in many countries, the gradual tightening of health measures has affected individual mobility. Over the past week, footfall to retail and recreation* have slowed in the main advanced economies. Only Belgium recorded an increase of 6.1 points (chart 3). Looking at the OECD's weekly tracker for year-on-year GDP growth, the resurgence of the pandemic has produced very divergent results in the main advanced economies. A slight downturn was seen in France, Italy and Germany in the third week of March, whilst the indicator continued to rise in other countries (chart 3). Caution should be taken in interpreting this indicator due to a possible base effect (comparison with the start of the pandemic a year ago).

Meanwhile, vaccination campaigns continue to gain ground. Over the past month, the number of doses administered per 100 people worldwide has increased by 2.4 points, although remaining very low: only 4.31% of the global population has now received at least one dose (chart 2), from 1.91% a month ago. The data show a mixed picture when it comes to national vaccination campaigns. Israel continues to lead the way, with 60.59% of its population having received at least one dose, a 6.12 points increase over the month. However, the Israeli campaign has slowed somewhat over the past fortnight. Next come the United Kingdom (45.53%), Chile (35.55%) and the United States (29.18%). These three countries have seen the biggest change over the past month, with increases of 15.66 points, 18.21 points and 14.3 points respectively. Vaccination rates in European Union countries are now converging, but remain well below those seen in the UK or US. Only 11.61% of the EU population has received at least one dose. It is worth noting that some European countries report vaccination data with a delay of two or three days. Lastly, Morocco saw a 2.39 points increase in its vaccination rate, taking it to 11.7%, putting it just ahead of the EU.

**Tarik Rharrab**

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

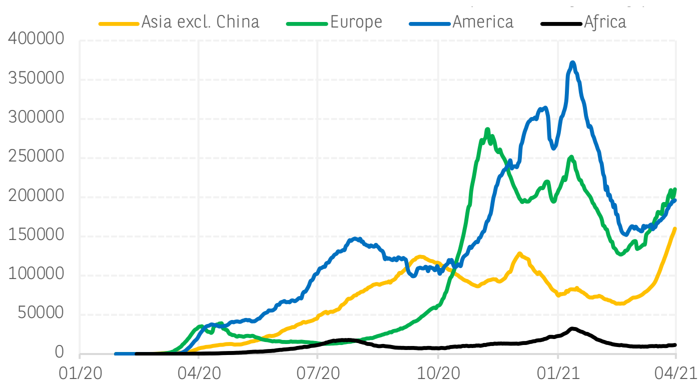



CHART 1 SOURCE: JOHNS-HOPKINS UNIVERSITY (03/31/2021), BNP PARIBAS

SHARE OF PEOPLE WHO RECEIVED AT LEAST ONE DOSE OF VACCINE

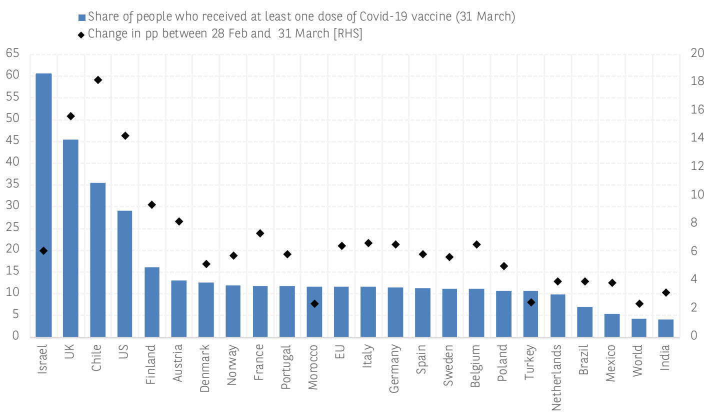
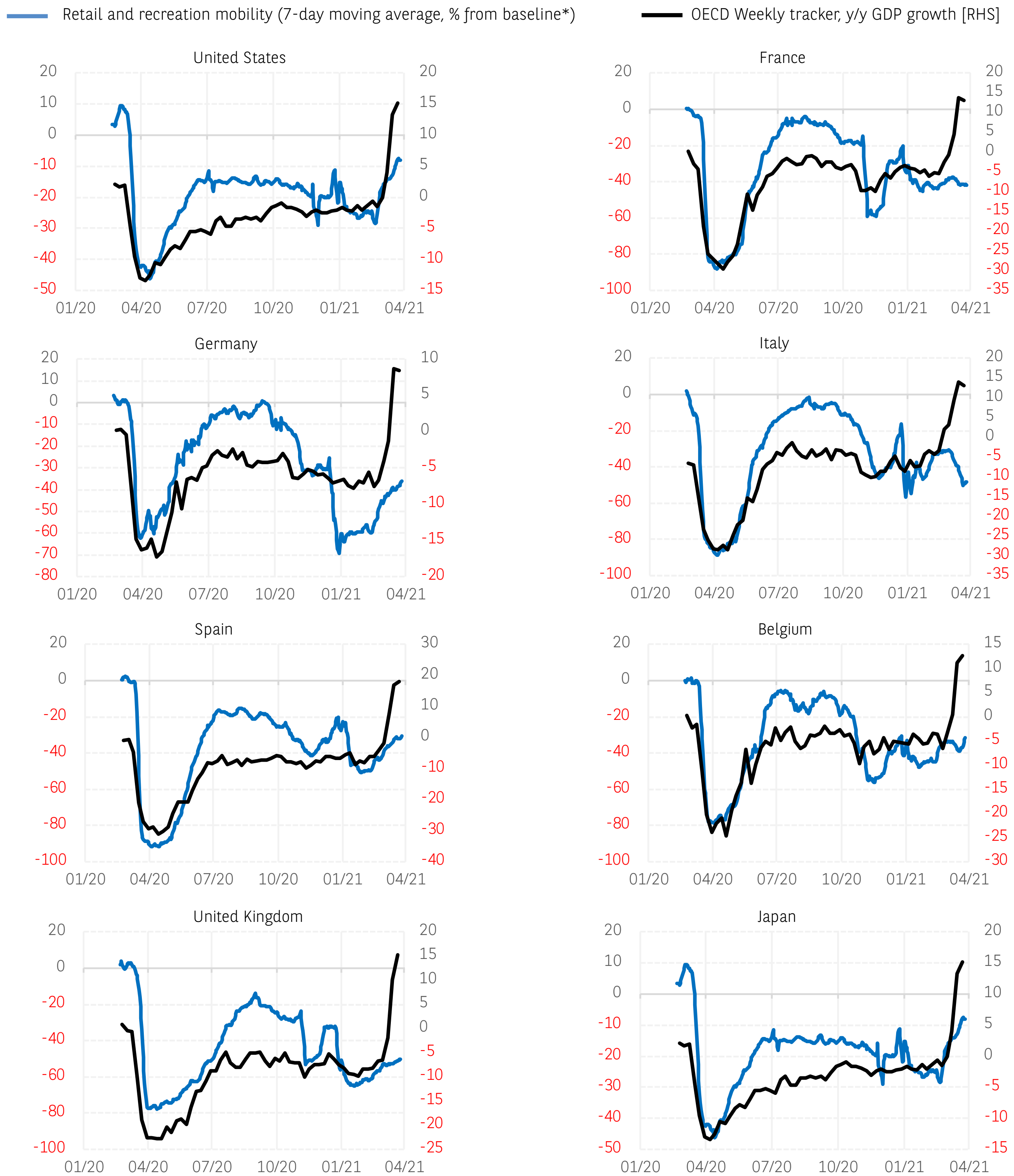



CHART 2 SOURCE: OUR WORLD IN DATA (03/31/2021), BNP PARIBAS

** 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.*

RETAIL AND RECREATION MOBILITY & OECD WEEKLY TRACKER




SOURCE: OECD (03/30/2021), GOOGLE (03/30/2021), BNP PARIBAS

# ECONOMIC SCENARIO



## UNITED STATES

Having limited the damage in 2020, the US economy is now recovering fast, driven by a vaccination campaign that is steaming ahead and raising hopes of collective immunity to Covid-19 being achieved at some point in the summer. The economy has also benefited from the exceptional fiscal stimulus package, which is twice the size of that put in place after the financial crisis of 2008. As a result, US GDP growth will be close to 7% in 2021, opening the way to a rapid return to pre-crisis levels. The employment deficit remains significant as a result of the pandemic, but this should steadily be absorbed, opening the way to a rapid fall in the unemployment rate, which is expected to drop below the 5% mark in the second half. Expected inflation has risen sharply and is unlikely to fall back, particularly as reported inflation is picking up. Over the coming months the latter is likely to run well above the 2% target set by the Federal Reserve, but this will not cause the central bank to deviate from its accommodating stance.

## CHINA

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

## EUROZONE

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

## FRANCE

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

## RATES AND EXCHANGE RATES

In the US, policy will remain on hold for quite some time, considering that the FOMC wants inflation to move beyond 2% to make up for past below-target inflation. Its outcome-dependent guidance is very clear: the current pace of asset purchases will be maintained 'until substantial further progress has been made' toward reaching its goals in terms of maximum employment and inflation and the FOMC will signal well in advance when the economy is on a path warranting a change in policy. Although it expects an increase in inflation later this year, it considers it will be transient and limited. Treasury yields should continue to move higher on the back of fiscal stimulus and the prospect of a strong acceleration of economic growth.

In the eurozone, the ECB will maintain its very accommodative stance centered around its asset purchases and forward guidance, with the objective to generate a pick-up in inflation. The pandemic emergency purchase programme (PEPP) is to last at least until the end of March 2022. Nevertheless, bond yields are expected to move higher based on the acceleration of euro area growth, the reduction in uncertainty and the spillover effect of higher US Treasury yields. This should also lead to a slight increase in sovereign spreads in the euro area. The Bank of Japan is expected to maintain its current policy stance including its yield curve control strategy although the range of the latter has recently been widened to +/- 25 bp around 0%. Within this range, JGB yields are expecting to move higher, following the global trend. We expect the dollar to weaken slightly versus the euro. This is the result of conflicting forces: faster growth in the US than in the eurozone but narrow interest rate differentials at the short end of the curve and a dollar which at current levels is expensive compared to fair value. Concerning the yen, little change is expected versus the dollar whereas it is expected to weaken against the euro.

### GROWTH & INFLATION

| | GDP Growth | | | | Inflation | | | |
|---|---|---|---|---|---|---|---|---|
| % | 2019 | 2020 | 2021 e | 2022 e | 2019 | 2020 | 2021 e | 2022 e |
| United-States | 2.2 | -3.5 | 6.9 | 4.7 | 1.8 | 1.2 | 2.5 | 2.2 |
| Japan | 0.3 | -4.8 | 3.0 | 2.3 | 0.5 | 0.0 | -0.3 | 0.0 |
| United-Kingdom | 1.5 | -10.2 | 6.1 | 6.0 | 1.8 | 0.9 | 1.4 | 2.1 |
| Euro Area | 1.3 | -6.8 | 4.2 | 5.0 | 1.2 | 0.3 | 1.7 | 1.4 |
| Germany | 0.6 | -5.3 | 3.0 | 4.8 | 1.4 | 0.4 | 2.1 | 1.5 |
| France | 1.5 | -8.2 | 6.1 | 4.4 | 1.3 | 0.5 | 1.4 | 1.0 |
| Italy | 0.3 | -8.9 | 5.0 | 3.9 | 0.6 | -0.1 | 1.5 | 1.4 |
| Spain | 2.0 | -10.8 | 5.9 | 5.6 | 0.8 | -0.3 | 1.3 | 1.2 |
| China | 6.1 | 2.3 | 9.2 | 5.3 | 2.9 | 2.5 | 1.8 | 2.8 |
| India* | 4.2 | -7.2 | 12.5 | 4.1 | 4.8 | 6.2 | 4.9 | 4.6 |
| Brazil | 1.1 | -4.1 | 2.5 | 3.0 | 3.7 | 3.2 | 6.5 | 4.0 |
| Russia | 1.3 | -4.5 | 4.0 | 3.0 | 4.3 | 3.4 | 5.1 | 4.0 |

SOURCE: BNP PARIBAS GROUP ECONOMIC RESEARCH (E: ESTIMATES & FORECASTS)
*FISCAL YEAR FROM 1ST APRIL OF YEAR N TO MARCH 31ST OF YEAR N+1

### INTEREST & EXCHANGE RATES

| Interest rates, % | | 2021 | | | | | |
|---|---|---|---|---|---|---|---|
| End of period | | Q1 | Q2e | Q3e | Q4e | 2021e | 2022e |
| US | Fed Funds (upper limit) | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 |
| | T-Notes 10y | 1.75 | 2.00 | 2.10 | 2.20 | 2.20 | 2.50 |
| Ezone | Deposit rate | -0.50 | -0.50 | -0.50 | -0.50 | -0.50 | -0.50 |
| | Bund 10y | -0.33 | -0.20 | -0.10 | 0.20 | 0.20 | 0.20 |
| | OAT 10y | -0.11 | 0.00 | 0.15 | 0.50 | 0.50 | 0.20 |
| | BTP 10y | 0.63 | 0.70 | 0.90 | 1.35 | 1.35 | 0.20 |
| | BONO 10y | 0.34 | 0.45 | 0.60 | 0.95 | 0.95 | 0.20 |
| UK | Base rate | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 |
| | Gilts 10y | 0.88 | 1.00 | 1.10 | 1.20 | 1.20 | 1.30 |
| Japan | BoJ Rate | -0.04 | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 |
| | JGB 10y | 0.09 | 0.12 | 0.18 | 0.23 | 0.23 | 0.28 |

| Exchange Rates | | 2021 | | | | | |
|---|---|---|---|---|---|---|---|
| End of period | | Q1 | Q2e | Q3e | Q4e | 2021e | 2022e |
| USD | EUR / USD | 1.18 | 1.18 | 1.20 | 1.23 | 1.23 | 1.18 |
| | USD / JPY | 111 | 111 | 111 | 111 | 111 | 114 |
| | GBP / USD | 1.38 | 1.39 | 1.43 | 1.46 | 1.46 | 1.42 |
| EUR | EUR / GBP | 0.85 | 0.85 | 0.84 | 0.84 | 0.84 | 0.83 |
| | EUR / JPY | 130 | 131 | 133 | 137 | 137 | 135 |

SOURCE: BNP PARIBAS GLOBAL MARKETS (E: ESTIMATES)

# CALENDAR



## LATEST INDICATORS

**Two words summarise the releases this week: better data. This applies to Japan, where the Tankan survey for the first quarter saw a significant improvement, far better than expected. The same holds for retail sales. French consumer confidence improved and the manufacturing PMI ticked up further. Eurozone economic confidence -the European Commission's economic sentiment index- saw a broad-based improvement in terms of sector and countries. The manufacturing PMI is stabilising at a very high level and a similar observation can be made for Germany, at an even higher level. The Chinese PMIs improved, which is a relief after their declining trend in recent months. In the US, the manufacturing ISM as well as the employment subseries, recorded a big jump. Finally, the US labour market report was particularly strong with the change in non-farm payrolls beating the consensus forecast by a very wide margin.**

| DATE | COUNTRY | INDICATOR | PERIOD | CONSENSUS | ACTUAL | PREVIOUS |
|---|---|---|---|---|---|---|
| 03/30/2021 | Japan | Retail Sales MoM | Feb | 0.8% | 3.1% | -1.7% |
| 03/30/2021 | France | Consumer Confidence | Mar | 91 | 94 | 91 |
| 03/30/2021 | Eurozone | Consumer Confidence | Mar | -- | -10.8 | -10.8 |
| 03/30/2021 | Eurozone | Economic Confidence | Mar | 96 | 101 | 93.4 |
| 03/30/2021 | Eurozone | Industrial Confidence | Mar | 0 | 2 | -3.1 |
| 03/30/2021 | Eurozone | Services Confidence | Mar | -14.9 | -9.3 | -17 |
| 03/30/2021 | United States | Conf. Board Consumer Confidence | Mar | 96.9 | 109.7 | 90.4 |
| 03/30/2021 | United States | Conf. Board Present Situation | Mar | -- | 110.0 | 89.6 |
| 03/30/2021 | United States | Conf. Board Expectations | Mar | -- | 109.6 | 90.9 |
| 03/31/2021 | China | Non-manufacturing PMI | Mar | 52 | 56.3 | 51.4 |
| 03/31/2021 | China | Manufacturing PMI | Mar | 51.2 | 51.9 | 50.6 |
| 03/31/2021 | China | Composite PMI | Mar | -- | 55.3 | 51.6 |
| 03/31/2021 | United Kingdom | GDP QoQ | 4Q | 1.0% | 1.3% | 1.0% |
| 03/31/2021 | France | Consumer Spending MoM | Feb | 1.2% | 0.0% | -4.9% |
| 03/31/2021 | Eurozone | CPI Core YoY | Mar | 1.1% | 0.9% | 1.1% |
| 04/01/2021 | Japan | Tankan Small Mfg Index | 1Q | -20 | -13 | -27 |
| 04/01/2021 | Japan | Tankan Small Non-Mfg Index | 1Q | -14 | -11 | -12 |
| 04/01/2021 | Japan | Tankan Large Mfg Index | 1Q | -1 | 5 | -10 |
| 04/01/2021 | Japan | Tankan Large Non-Mfg Index | 1Q | -4.0 | -1.0 | -5.0 |
| 04/01/2021 | Japan | Jibun Bank Japan PMI Mfg | Mar | -- | 52.7 | 52 |
| 04/01/2021 | China | Caixin China PMI Mfg | Mar | 51.4 | 50.6 | 50.9 |
| 04/01/2021 | France | Markit France Manufacturing PMI | Mar | 59 | 59.3 | 58.8 |
| 04/01/2021 | Germany | Markit/BME Germany Manufacturing PMI | Mar | 66.6 | 66.6 | 66.6 |
| 04/01/2021 | Eurozone | Markit Eurozone Manufacturing PMI | Mar | 62.4 | 62.5 | 62.4 |
| 04/01/2021 | United Kingdom | Markit UK PMI Manufacturing SA | Mar | 57.9 | 58.9 | 57.9 |
| 04/01/2021 | United States | Initial Jobless Claims | Mar | 675k | 719k | 658k |
| 04/01/2021 | United States | Markit US Manufacturing PMI | Mar | 59.1 | 59.1 | 59.0 |
| 04/01/2021 | United States | ISM Manufacturing | Mar | 61.5 | 64.7 | 60.8 |
| 04/01/2021 | United States | ISM Prices Paid | Mar | 85.0 | 85.6 | 86.0 |
| 04/01/2021 | United States | ISM Employment | Mar | -- | 59.6 | 54.4 |
| 04/02/2021 | United States | Change in Nonfarm Payrolls | Mar | 660k | 916k | 379k |
| 04/02/2021 | United States | Unemployment Rate | Mar | 6.00% | 6.00% | 6.20% |
| 04/02/2021 | United States | Labor Force Participation Rate | Mar | 61.50% | 61.50% | 61.40% |
| 04/02/2021 | United States | Underemployment Rate | Mar | -- | 10.7% | 11.10% |

SOURCE: BLOOMBERG

# CALENDAR: THE WEEK AHEAD



## COMING INDICATORS

**The focus of next week will be on the services and composite PMIs in a large number of countries. The FOMC minutes will be analysed for details about the discussions on the inflation outlook. Japan will publish consumer confidence data as well as the Eco Watchers Survey. In China, data in terms of inflation and aggregate financing will be released.**

| DATE | COUNTRY | INDICATOR | PERIOD | CONSENSUS | PREVIOUS |
|---|---|---|---|---|---|
| 04/05/2021 | Japan | Jibun Bank Japan PMI Services | Mar | -- | 46.5 |
| 04/05/2021 | Japan | Jibun Bank Japan PMI Composite | Mar | -- | 48.3 |
| 04/05/2021 | United States | Markit US Services PMI | Mar | -- | 60 |
| 04/05/2021 | United States | Markit US Composite PMI | Mar | -- | 59.1 |
| 04/05/2021 | United States | ISM Services Index | Mar | 57.8 | 55.3 |
| 04/05/2021 | United States | Cap Goods Orders Nondef Ex Air | Feb | -- | -0.80% |
| 04/06/2021 | China | Caixin China PMI Composite | Mar | -- | 51.7 |
| 04/06/2021 | China | Caixin China PMI Services | Mar | 52.1 | 51.5 |
| 04/06/2021 | Eurozone | Unemployment Rate | Feb | -- | 8.10% |
| 04/07/2021 | France | Markit France Services PMI | Mar | -- | 47.8 |
| 04/07/2021 | France | Markit France Composite PMI | Mar | -- | 49.5 |
| 04/07/2021 | Germany | Markit Germany Services PMI | Mar | -- | 50.8 |
| 04/07/2021 | Germany | Markit/BME Germany Composite PMI | Mar | -- | 56.8 |
| 04/07/2021 | Eurozone | Markit Eurozone Services PMI | Mar | -- | 48.8 |
| 04/07/2021 | Eurozone | Markit Eurozone Composite PMI | Mar | -- | 52.5 |
| 04/07/2021 | United Kingdom | Markit/CIPS UK Services PMI | Mar | 56.8 | 56.8 |
| 04/07/2021 | United Kingdom | Markit/CIPS UK Composite PMI | Mar | -- | 56.6 |
| 04/07/2021 | United States | FOMC Meeting Minutes | Mar | -- | -- |
| 04/08/2021 | Japan | Consumer Confidence Index | Mar | -- | 33.8 |
| 04/08/2021 | Japan | Eco Watchers Survey Current SA | Mar | -- | 41.3 |
| 04/08/2021 | Japan | Eco Watchers Survey Outlook SA | Mar | -- | 51.3 |
| 04/08/2021 | United States | Initial Jobless Claims | Apr | -- | -- |
| 04/09/2021 | China | CPI YoY | Mar | -- | -0.20% |
| 04/09/2021 | China | PPI YoY | Mar | -- | 1.70% |
| 04/09/2021 | Germany | Exports SA MoM | Feb | -- | 1.40% |
| 04/09/2021 | United States | PPI Ex Food and Energy MoM | Mar | 0.20% | 0.20% |
| 04/09/21-04/15/21 | China | Aggregate Financing CNY | Mar | -- | 1710.0b |

SOURCE: BLOOMBERG

# CALENDAR: THE WEEK AHEAD



| | | |
|---|---|---|
| Eurozone: green shoots of recovery | EcoTVWeek | 2 April 2021 |
| Nordic countries: greater confidence? | Chart of the Week | 31 March 2021 |
| EcoWeek 21.12. March 29 issue | EcoWeek | 29 March 2021 |
| Banks are keeping appetite for TLTROs | EcoTVWeek | 26 March 2021 |
| Rising us treasury yields : no spillovers yet to emerging bond markets | Chart of the Week | 24 March 2021 |
| US : Does the American Rescue Plan go too far? | EcoFlash | 23 March 2021 |
| Netherlands : A liberal victory at the general election | EcoFlash | 22 March 2021 |
| EcoWeek 21.11. March 22 issue | EcoWeek | 22 March 2021 |
| France: state of play after one year of crisis | EcoTVWeek | 19 March 2021 |
| Denmark: negative rates are applied to more than 80% of corporate deposits outstanding | Chart of the Week | 17 March 2021 |
| EcoWeek 21.10. March 15 issue | EcoWeek | 15 March 2021 |
| EcoTV - March 2021 | EcoTV | 11 March 2021 |
| France : Debt, size is not all that matters | Chart of the Week | 10 March 2021 |
| French economy Pocket Atlas | Pocket Atlas | 9 March 2021 |
| Eurozone : Towards an unwelcome tightening of financial conditions in the euro area? | EcoWeek | 5 March 2021 |
| Does the rise of bond yields call for yield curve control? | EcoTVWeek | 5 March 2021 |
| Growth jumps to 0.4% In third quarter of the fiscal year | Chart of the Week | 3 March 2021 |
| Europe: the shock of Covid-19 and the fear of accelerated zombification | Conjoncture | 2 March 2021 |
| United Kingdom : the trajectory of UK public finances after Covid | Conjoncture | 2 March 2021 |

SOURCE: BLOOMBERG

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