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The bank for a changing world

THE US STOCK MARKET AND THE LABOUR MARKET: WORLDS APART?

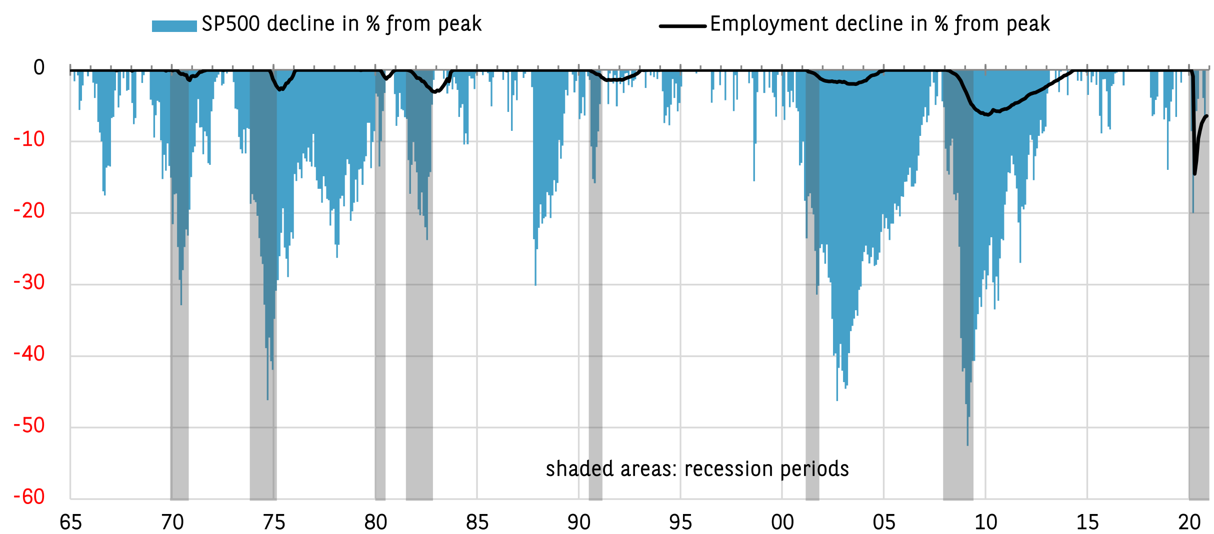
In the US, the behaviour of the equity market versus the level of employment is very different in the current recession compared to previous recessions. The recession this year stands out because of its sudden, enormous job losses, which were quickly followed by a significant albeit very incomplete recovery. The equity market, after a huge drop, has rebounded swiftly and made new highs although earnings – on a 12-month moving average basis – still have to rebound. For 2021, more than anything, earnings growth matters.

The Covid-19 recession is atypical in many respects: its suddenness, its depth, the extent of the rebound, its impact on both demand and supply. Another area of differentiation compared to previous recessions is the behaviour of the equity market versus the level of employment in the US. Focusing on employment rather than e.g. GDP makes sense because the way people feel about the economy very much depends on the labour market. The first chart shows the labour market drawdown, i.e. the percentage difference in a given month between the employment level –the number of non-farm jobs in the economy- and its most recent historical peak. When the economic downturn gathers pace, the drawdown increases. Subsequently, when the economy is recovering, it decreases as new jobs are created.

The chart allows to assess the extent of the deterioration in the labour market as well as the time it has taken to recoup the jobs lost during recessions. Some employment drawdowns have been short and shallow –in the early 70s and in 1980-, others have been severe and long, like during and after the Great Recession. The recession this year stands out because of its sudden, enormous job losses, which were quickly followed by a significant albeit incomplete rebound. The chart also shows the drawdown of the S&P500 equity index. During a downturn, the percentage decline in the equity market tends to be a multiple of the equivalent number for the employment level. This doesn't come as a surprise. Equities are a discounting mechanism, their price being dependent on expectations about earnings far into the future. In addition, the discount rate can fluctuate significantly. Although the risk-free rate will decline when growth is slowing or even negative and rise when activity has sufficiently recovered, the other component of the discount rate –the required risk premium- will rise significantly during difficult economic times and vice versa when things are improving. This causes big swings in equity prices. Equity markets and employment levels are obviously correlated: they rise and fall together. Yet, in history we have frequently seen that it took longer for the stock market to make up for the losses and make new highs than for the labour market. Although commentators often focus on the spectacular nature of equity rallies when the economy starts to recover, this performance is essentially a matter of making up for huge losses during a recession.

The current cycle is very different. Although the maximum drawdown of the equity market was, as usual, larger than the percentage loss of employment (-20% versus -14.5% using monthly data), it was also extremely short: after its trough on 23 March, the S&P500 reached a new record high as early as 18 August. For the labour market, the story

UNITED STATES: DRAWDOWN OF EQUITY MARKET AND EMPLOYMENT

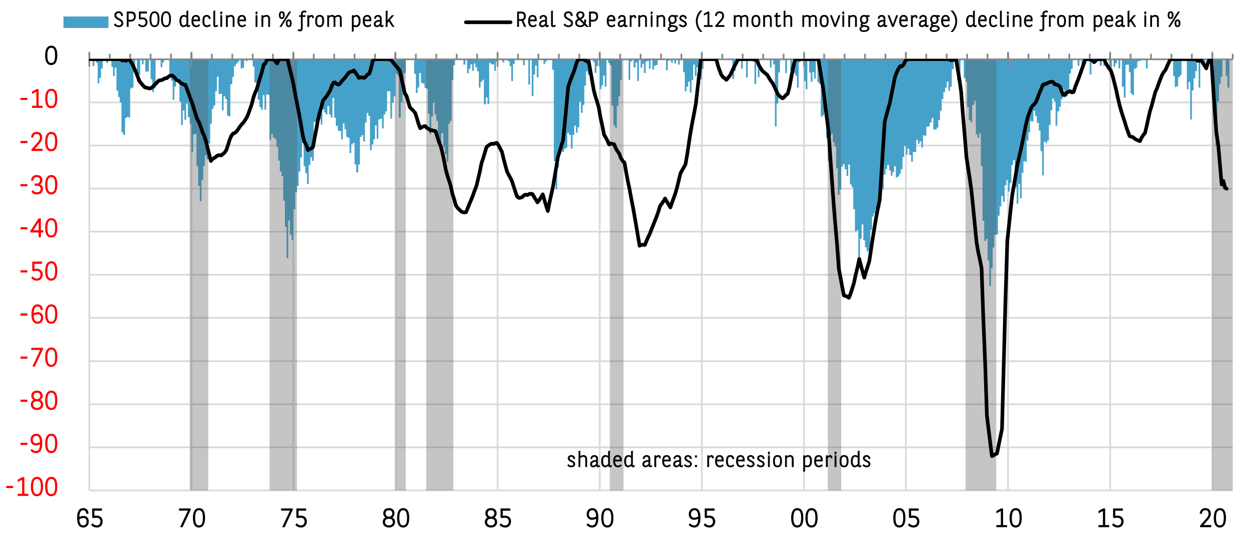


SOURCE: STANDARD & POOR'S, BLS, NBER, BNP PARIBAS is different. In November, there was still a gap of 10 million jobs and it will probably take years until the pre-pandemic employment level will be reached. After the Great Recession, it took about 50 months to recoup the 8 million jobs that had been lost before. Currently, job creation, in particular in the leisure and hospitality sector, is held back by social distancing and administrative closures. Job creation might accelerate strongly once the infection rate has fallen to a level that allows these restrictions to be removed. The upcoming mass vaccination against Covid-19 gives hope that this could soon be the case. However, it remains to be seen what it means for the economy as a whole. Faced with this uncertainty and the still huge cumulative job losses, the Federal Reserve has no choice than to give guidance that its very accommodative policy will be maintained for a long time. Ironically, fears about a lack of traction in the real economy facilitate making new highs on Wall Street. This begs the question what role the earnings outlook plays. Either it is completely dominated by low interest rates or the equity investors are more upbeat than the Fed and bond investors. However, not everybody can be right at the same time.

Chart 2 shows that in the two previous recessions, real earnings and the equity market evolved in a rather synchronised way –in terms of timing and speed of the recovery- whereas this year, the market has made new highs recently whereas earnings –on a 12 month moving average basis- still have to rebound. For 2021, more than anything, earnings matter.

William De Vijlder

SP500: DRAWDOWN OF EQUITY MARKET AND REAL EARNINGS



SOURCE: STANDARD & POOR'S, ROBERT SHILLER WEBSITE, NBER, BNP PARIBAS

> In the two previous recessions, real earnings and the equity market evolved in a rather synchronised way. Not so this year. The market has made new highs whereas earnings still have to rebound. For 2021, more than anything, earnings growth matters.

MARKETS OVERVIEW

OVERVIEW

Week 4-12 20 to 10-12-20				
↘ CAC 40	5 609	▸ 5 550	-1.1	%
↘ S&P 500	3 699	▸ 3 668	-0.8	%
↗ Volatility (VIX)	20.8	▸ 22.5	+1.7	pb
↘ Libor $ 3M (%)	0.23	▸ 0.22	-0.5	bp
↘ OAT 10y (%)	-0.36	▸ -0.40	-4.3	bp
↘ US Tr. 10y (%)	0.97	▸ 0.91	-6.2	bp
↘ Euro vs dollar	1.21	▸ 1.21	-0.1	%
↗ Gold (ounce, $)	1 834	▸ 1 834	+0.0	%
↗ Oil (Brent, $)	49.4	▸ 50.4	+2.0	%

MONEY & BOND MARKETS

Interest Rates			highest 20			lowest 20		
$	FED	0.25	1.75	at	01/01	0.25	at	16/03
	Libor 3M	0.22	1.91	at	01/01	0.20	at	20/11
	Libor 12M	0.34	2.00	at	01/01	0.33	at	28/10
£	BoE	0.10	0.75	at	01/01	0.10	at	19/03
	Libor 3M	0.04	0.80	at	08/01	0.03	at	08/12
	Libor 12M	0.11	0.98	at	01/01	0.11	at	08/12

At 10-12-20

Yield (%)			highest 20		lowest 20	
€	AVG 5-7y	-0.46	0.72	at 18/03	-0.46	at 10/12
	Bund 2y	-0.76	-0.58	at 14/01	-1.00	at 09/03
	Bund 10y	-0.60	-0.17	at 19/03	-0.84	at 09/03
	OAT 10y	-0.40	0.28	at 18/03	-0.42	at 04/11
	Corp. BBB	0.53	2.54	at 24/03	0.52	at 08/12
$	Treas. 2y	0.14	1.59	at 08/01	0.11	at 04/08
	Treas. 10y	0.91	1.91	at 01/01	0.50	at 09/03
	High Yield	4.95	1 1.29	at 23/03	4.95	at 10/12
£	gilt. 2y	-0.11	0.61	at 08/01	-0.12	at 21/09
	gilt. 10y	0.22	0.83	at 01/01	0.04	at 04/08

At 10-12-20

EXCHANGE RATES

1€ =		highest 20			lowest 20			2020
USD	1.21	1.22	at	03/12	1.07	at	20/03	+8.1%
GBP	0.91	0.94	at	23/03	0.83	at	18/02	+7.9%
CHF	1.08	1.09	at	05/06	1.05	at	14/05	-1.0%
JPY	126.64	126.82	at	31/08	114.51	at	06/05	+3.8%
AUD	1.61	1.87	at	23/03	1.60	at	01/01	+1.1%
CNY	7.94	8.26	at	30/07	7.55	at	19/02	+1.6%
BRL	6.13	6.75	at	28/10	4.51	at	02/01	+35.9%
RUB	88.58	93.98	at	02/11	67.75	at	10/01	+27.0%
INR	89.34	89.88	at	03/12	77.21	at	17/02	+11.5%

At 10-12-20 *Change*

COMMODITIES

Spot price, $		highest 20			lowest 20			2020	2020(€)
Oil, Brent	50.4	69.1	at	06/01	16.5	at	21/04	-24.1%	-29.7%
Gold (ounce)	1 834	2 053	at	06/08	1 475	at	19/03	+20.6%	+11.7%
Metals, LMEX	3 494	3 494	at	10/12	2 232	at	23/03	+22.9%	+13.7%
Copper (ton)	7 861	7 861	at	10/12	4 625	at	23/03	+27.8%	+18.3%
wheat (ton)	229	2.4	at	21/01	178	at	26/06	+0.2%	-7.3%
Corn (ton)	163	1.6	at	03/12	113	at	28/04	+0.9%	+0.6%

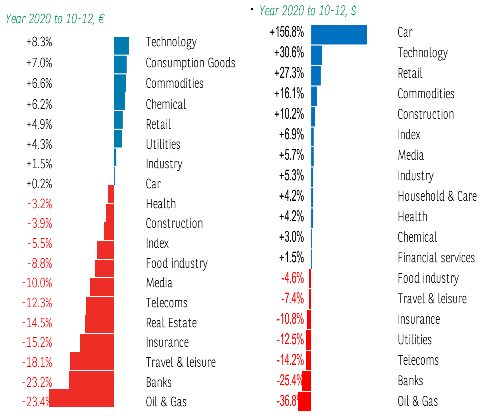
At 10-12-20 *Change*

EQUITY INDICES

	Index	highest 20			lowest 20			2020
World								
MSCI World	2 629	2 642	at	08/12	1 602	at	23/03	+11.5%
North America								
S&P500	3 668	3 702	at	08/12	2 237	at	23/03	+13.5%
Europe								
EuroStoxx50	3 522	3 865	at	19/02	2 386	at	18/03	-6.0%
CAC 40	5 550	6 111	at	19/02	3 755	at	18/03	-0.7%
DAX 30	13 296	13 789	at	19/02	8 442	at	18/03	+0.4%
IBEX 35	8 182	10 084	at	19/02	6 107	at	16/03	-1.4%
FTSE100	6 600	7 675	at	17/01	4 994	at	23/03	-1.2%
Asia								
MSCI, loc.	1 032	1 034	at	09/12	743	at	23/03	+0.2%
Nikkei	26 756	26 818	at	09/12	16 553	at	19/03	+13.1%
Emerging								
MSCI Emerging ($)	1 255	1 256	at	09/12	758	at	23/03	+1.3%
China	105	109	at	09/11	69	at	19/03	+22.6%
India	646	648	at	09/12	353	at	23/03	+12.7%
Brazil	1 864	2 429	at	02/01	1 036	at	23/03	-1.2%
Russia	674	857	at	20/01	419	at	18/03	-3.3%

At 10-12-20 *Change*

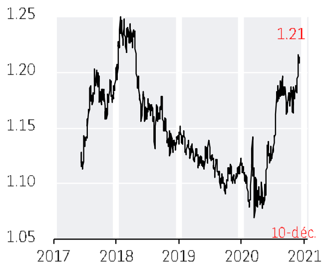
PERFORMANCE BY SECTOR (Eurostoxx50 & S&P500)



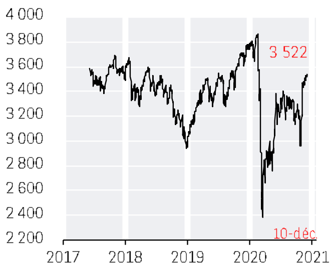
SOURCE: THOMSON REUTERS, BNP PARIBAS

MARKETS OVERVIEW

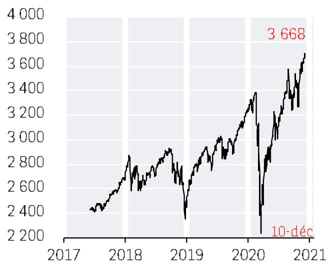
EURO-DOLLAR



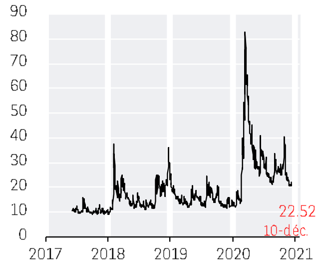
EUROSTOXX50



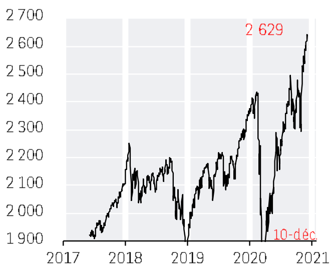
S&P500



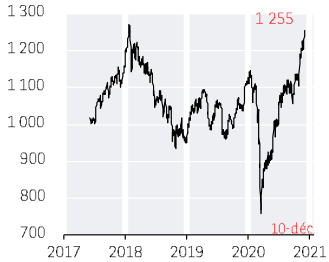
VOLATILITÉ (VIX, S&P500)



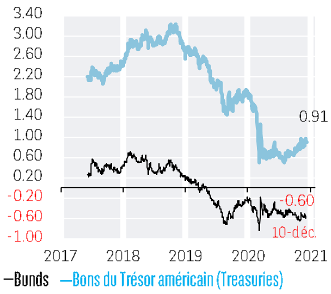
MSCI MONDE (USD)



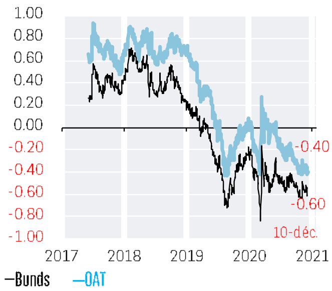
MSCI ÉMERGENTS (USD)



RENDEMENT OBLIGATAIRE À 10 ANS, TREASURIES VS BUND

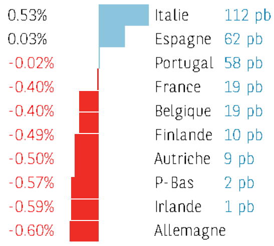


RENDEMENT OBLIGATAIRE À 10 ANS

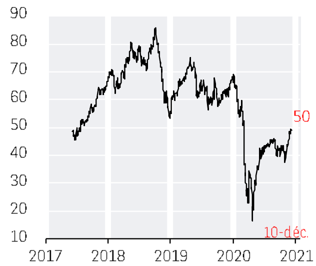


RENDEMENT OBLIGATAIRE À 10 ANS & SPREADS

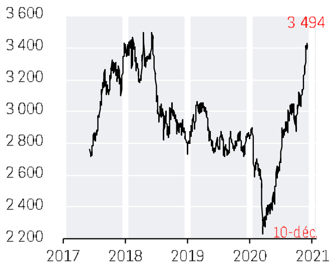
Année 2020 au 10-12, €



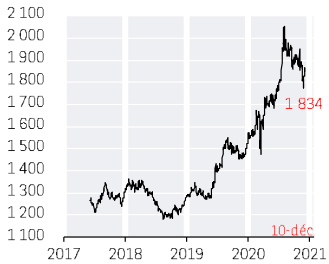
PÉTROLE (BRENT, USD)



MÉTAUX (LMEX, USD)



OR (ONCE, USD)



SOURCE: THOMSON REUTERS, BNP PARIBAS

PURCHASING MANAGERS INDICES (PMI) : DIVERGING TRENDS IN TERMS OF SECTORS AND REGIONS.

The composite PMI is stabilising at the global level but this is masking strongly diverging trends. The United States and China continue to improve, India is a bit weaker but still at a very high level, whereas the United Kingdom has dropped slightly below 50. The big decline occurred in the Eurozone with the index dropping from 50.0 to 45.3. The manufacturing sector is clearly not to blame. It weakened only very slightly in the eurozone. However, strong differences can be observed amongst eurozone countries both in level terms –Germany and the Netherlands doing very well, France, Spain and in particular Greece being below the eurozone average- and in terms of change versus the previous month, with most seeing weaker readings but Ireland and in particular the Netherlands registering an improvement. The US also saw a big jump and China improved further. Also noteworthy are the better data for Indonesia.

The picture is very different for services, at least in Europe. The index for the eurozone and its members for which it is available show considerable declines, although staying well above the lows seen in spring. Clearly, the impact of the second wave of infections is less severe. In China, the index improved further, as well as in the United States, despite the strong rise in infections. Manufacturing export orders are doing less well than the overall manufacturing PMI. At the global level, export orders have essentially been stable for the past three months and above 50. At the individual country level, Germany stands out –November was still very strong but less than before- followed by the United Kingdom, Brazil and the Czech Republic –all on an improving trend-, India and China. France and Greece have witnessed a considerable decline.

The manufacturing employment PMI improved quite a bit in the Eurozone and for most of its member countries. The readings for Germany and the Netherlands saw a big improvement but they weakened in Spain and, in particular, Greece. Another noteworthy improvement is Australia.

William De Vijlder

COMPOSITE PMI

	WD	Developed Markets – NA		Europe												Asia-Oceania			
	World	CANADA	USA*	EURO ZONE	AUSTRIA	DENMARK	FRANCE	GERMANY	GREECE	IRELAND	ITALY	NETHERLANDS	SPAIN	SWITZERLAND	UK	AUSTRALIA	NEW ZEALAND	JAPAN	SINGAPORE
Feb-20	46.1		49.6	51.6			52.0	50.7		56.7	50.7		51.8		53.0			47.0	
Mar-20	39.2		40.9	29.7			28.9	35.0		37.3	20.2		26.7		36.0			36.2	
Apr-20	26.2		27.0	13.6			11.1	17.4		17.3	10.9		9.2		13.8			25.8	
May-20	36.3		37.0	31.9			32.1	32.3		25.7	33.9		29.2		30.0			27.8	
Jun-20	47.9		47.9	48.5			51.7	47.0		44.3	47.6		49.7		47.7			40.8	
Jul-20	51.1		50.3	54.9			57.3	55.3		55.9	52.5		52.8		57.0			44.9	
Aug-20	52.5		54.6	51.9			51.6	54.4		54.0	49.5		48.4		59.1			45.2	
Sep-20	52.5		54.3	50.4			48.5	54.7		46.9	50.4		44.3		56.5			46.6	
Oct-20	53.3		56.3	50.0			47.5	55.0		49.0	49.2		44.1		52.1			48.0	
Nov-20	53.1		58.6	45.3			40.6	51.7		47.7	42.7		41.7		49.0			48.1	

	Emerging countries – LAT AM		Eurasia				Middle East & Africa					Asia				
	BRAZIL	MEXICO	CZECH REPUBLIC	POLAND	RUSSIA	TURKEY	EGYPT	LEBANON	SAUDI ARABIA	SOUTH AFRICA	UAE	CHINA	HONG KONG	INDIA	INDONESIA	VIETNAM
Feb-20	50.9				50.9							27.5		57.6		
Mar-20	37.6				39.5							46.7		50.6		
Apr-20	26.5				13.9							47.6		7.2		
May-20	28.1				35.0							54.5		14.8		
Jun-20	40.5				48.9							55.7		37.8		
Jul-20	47.3				56.8							54.5		37.2		
Aug-20	53.9				57.3							55.1		46.0		
Sep-20	53.6				53.7							54.5		54.6		
Oct-20	55.9				47.1							55.7		58.0		
Nov-20	53.8				47.8							57.5		56.3		

*Manufacturing and services

MANUFACTURING PMI

	WD	Developed Markets – NA		Europe												Asia-Oceania			
	World	CANADA	USA	EURO ZONE	AUSTRIA	DENMARK	FRANCE	GERMANY	GREECE	IRELAND	ITALY	NETHERLANDS	SPAIN	SWITZERLAND	UK	AUSTRALIA	NEW ZEALAND	JAPAN	SINGAPORE
Feb-20	47.1	51.8	50.7	49.2	50.2	46.5	49.8	48.0	56.2	51.2	48.7	52.9	50.4	49.5	51.7	44.3	54.2	47.8	48.7
Mar-20	47.3	46.1	48.5	44.5	45.8	44.8	43.2	45.4	42.5	45.1	40.3	50.5	45.7	43.7	47.8	53.7	38.5	44.8	45.4
Apr-20	39.6	33.0	36.1	33.4	31.6	38.2	31.5	34.5	29.5	36.0	31.1	41.3	30.8	40.7	32.6	35.8	26.0	41.9	44.7
May-20	42.4	40.6	39.8	39.4	40.4	54.8	40.6	36.6	41.1	39.2	45.4	40.5	38.3	42.1	40.7	41.6	40.4	38.4	46.8
Jun-20	47.9	47.8	49.8	47.4	46.5	52.8	52.3	45.2	49.4	51.0	47.5	45.2	49.0	41.9	50.1	51.5	56.4	40.1	48.0
Jul-20	50.6	52.9	50.9	51.8	52.8	57.0	52.4	51.0	48.6	57.3	51.9	47.9	53.5	49.2	53.3	53.5	59.0	45.2	50.2
Aug-20	51.8	55.1	53.1	51.7	51.0	52.3	49.8	52.2	49.4	52.3	53.1	52.3	49.9	51.8	55.2	49.3	51.0	47.2	50.1
Sep-20	52.4	56.0	53.2	53.7	51.7	54.6	51.2	56.4	50.0	50.0	53.2	52.5	50.8	53.1	54.1	46.7	54.0	47.7	50.3
Oct-20	53.0	55.5	53.4	54.8	54.0	63.8	51.3	58.2	48.7	50.3	53.8	50.4	52.5	52.3	53.7	56.3	51.7	48.7	50.5
Nov-20	53.7	55.8	56.7	53.8	51.7	47.7	49.6	57.8	42.3	52.2	51.5	54.4	49.8	55.2	55.6	52.1		49.0	50.4

	Emerging countries – LAT AM		Eurasia				Middle East & Africa					Asia				
	BRAZIL	MEXICO	CZECH REPUBLIC	POLAND	RUSSIA	TURKEY	EGYPT	LEBANON	SAUDI ARABIA	SOUTH AFRICA	UAE	CHINA	HONG KONG	INDIA	INDONESIA	VIETNAM
Feb-20	52.3	50.0	46.5	48.2	48.2	52.4	47.1	45.4	52.5	39.7	49.1	40.3	33.1	54.5	51.9	49.0
Mar-20	48.4	47.9	41.3	42.4	47.5	48.1	44.2	35.0	42.4	41.8	45.2	50.1	34.9	51.8	45.3	41.9
Apr-20	36.0	35.0	35.1	31.9	31.3	33.4	29.7	30.9	44.4	30.3	44.1	49.4	36.9	27.4	27.5	32.7
May-20	38.3	38.3	39.6	40.6	36.2	40.9	40.7	37.2	48.1	43.7	46.7	50.7	43.9	30.8	28.6	42.7
Jun-20	51.6	38.6	44.9	47.2	49.4	53.9	44.6	43.2	47.7	53.3	50.4	51.2	49.6	47.2	39.1	51.1
Jul-20	58.2	40.4	47.0	52.8	48.4	56.9	49.6	44.9	50.0	49.4	50.8	52.8	44.5	46.0	46.9	47.6
Aug-20	64.7	41.3	49.1	50.6	51.1	54.3	49.4	40.1	48.8	55.8	49.4	53.1	44.0	52.0	50.8	45.7
Sep-20	64.9	42.1	50.7	50.8	48.9	52.8	50.4	42.1	50.7	58.5	51.0	53.0	47.7	56.8	47.2	52.2
Oct-20	66.7	43.6	51.9	50.8	46.9	53.9	51.4	43.3	51.0	60.9	49.5	53.6	49.8	58.9	47.8	51.8
Nov-20	64.0	43.7	53.9	50.8	46.3	51.4	50.9	42.4	54.7	52.6		54.9	50.1	56.3	50.6	49.9

46 48 50 52 54

SOURCE: MARKIT, BNP PARIBAS

SERVICES PMI

	World	USA	EURO ZONE	FRANCE	GERMANY	IRELAND	ITALY	SPAIN	UK	AUSTRALIA	JAPAN	BRAZIL	RUSSIA	LEBANON	CHINA	HONG KONG	INDIA
Feb-20	47.1	49.4	52.6	52.5	52.5	59.9	52.1	52.1	53.2	47.0	46.8	50.4	52.0	45.4	26.5	33.1	57.5
Mar-20	36.8	39.8	26.4	27.4	31.7	32.5	17.4	23.0	34.5	38.7	33.8	34.5	37.1	35.0	43.0	34.9	49.3
Apr-20	23.7	26.7	12.0	10.2	16.2	13.9	10.8	7.1	13.4	27.1	21.5	27.4	12.2	30.9	44.4	36.9	5.4
May-20	35.2	37.5	30.5	31.1	32.6	23.4	28.9	27.9	29.0	31.7	26.5	27.6	35.9	37.2	55.0	43.9	12.6
Jun-20	48.1	47.9	48.3	50.7	47.3	39.7	46.4	50.2	47.1	31.5	45.0	35.9	47.8	43.2	58.4	49.6	33.7
Jul-20	50.7	50.0	54.7	57.3	55.6	51.9	51.6	51.9	56.5	44.0	45.4	42.5	58.5	44.9	54.1	44.5	34.2
Aug-20	52.0	55.0	50.5	51.5	52.5	52.4	47.1	47.7	58.8	42.5	45.0	49.5	58.2	40.1	54.0	44.0	41.8
Sep-20	52.0	54.6	48.0	47.5	50.6	45.8	48.8	42.4	56.1	36.2	46.9	50.4	53.7	42.1	54.8	47.7	49.8
Oct-20	52.9	56.9	46.9	46.5	49.5	48.3	46.7	41.4	51.4	51.4	47.7	52.3	46.9	43.3	56.8	49.8	54.1
Nov-20	52.2	58.4	41.7	38.8	46.0	45.4	39.4	39.5	47.6	52.9	47.8	50.9	48.2	42.4	57.8	50.1	53.7

MANUFACTURING PMI – NEW EXPORT ORDERS

	WD	Developed Markets – NA		Developed Markets – Europe												Developed Markets – Asia-Oceania				Emerging countries – LATAM		Emerging countries – Eurasia				Emerging countries – Middle East & Africa					Emerging countries – Asia				
	World	CANADA	USA	EURO ZONE	AUSTRIA	DENMARK	FRANCE	GERMANY	GREECE	IRELAND	ITALY	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	INDONESIA	VIETNAM
Feb-20	45.0	50.5	49.1	47.6	49.3		47.5	46.1	57.7	48.4	48.5	50.8	49.5		49.6	44.5		47.1	48.1	49.2	51.1	44.8	44.1	47.8	52.8	39.4	45.9	50.6	47.7	49.8	36.4	18.6	54.2	49.1	49.2
Mar-20	43.0	44.2	46.2	37.0	36.0		34.7	35.8	34.4	41.7	36.0	45.5	40.9		43.0	44.6		40.0	43.0	46.3	49.0	33.9	35.4	43.1	42.0	33.2	21.3	41.3	39.4	44.3	46.4	17.7	46.9	29.8	37.0
Apr-20	27.1	30.9	24.9	18.9	17.5		15.6	18.8	18.8	25.7	18.2	28.1	17.3		25.2	42.6		33.0	42.5	30.2	30.8	22.7	21.7	22.0	21.2	11.8	17.5	37.8	32.3	35.2	33.7	19.7	10.3	8.5	17.7
May-20	32.3	39.2	25.9	28.7	30.2		29.2	24.5	36.1	30.9	35.8	29.6	30.4		33.9	31.1		30.8	45.6	31.7	34.2	32.2	29.4	30.5	29.8	34.7	30.9	45.1	20.2	40.2	41.7	36.4	11.8	15.8	34.3
Jun-20	43.5	43.6	47.9	43.1	37.0		42.5	41.4	48.1	52.1	44.5	41.4	47.5		44.9	47.2		37.4	47.2	45.2	36.1	40.7	43.0	42.0	50.5	49.0	36.7	43.9	33.5	51.1	47.0	42.0	38.9	21.5	48.5
Jul-20	47.2	47.8	49.8	51.8	49.6		45.9	54.8	45.2	58.7	48.9	46.4	53.9		47.7	41.4		40.2	50.5	46.2	41.6	43.6	50.5	48.5	54.4	51.7	45.3	45.7	40.7	47.7	48.3	36.2	43.3	38.4	41.7
Aug-20	49.9	52.9	52.9	51.9	50.4		48.3	55.7	46.9	52.5	46.5	55.2	49.8		51.5	52.2		47.3	50.2	46.2	44.4	47.1	50.3	48.8	53.4	53.0	33.6	45.4	38.7	48.5	50.7	38.0	47.8	40.1	42.0
Sep-20	51.7	51.3	51.2	55.5	52.7		51.5	61.2	49.3	47.7	51.3	54.0	51.4		53.4	46.5		47.3	50.4	53.9	42.0	50.2	51.0	43.8	50.9	55.3	40.8	52.0	45.8	50.9	54.4	44.8	53.8	36.4	52.9
Oct-20	51.3	52.9	49.3	56.3	56.8		50.1	61.3	46.2	49.0	55.8	53.2	51.2		54.1	52.7		50.6	50.8	54.2	42.1	52.1	53.5	50.4	51.7	54.0	42.2	48.4	49.3	50.6	51.0	47.8	55.2	37.6	50.0
Nov-20	51.7	50.2	50.5	53.0	53.7		45.4	58.4	35.9	50.1	49.6	53.9	49.2		55.5	50.0		49.2	50.9	55.3	40.4	55.1	49.7	52.4	49.5	52.4	41.4	52.0	47.1		53.3	47.6	54.8	47.5	46.8

MANUFACTURING PMI – EMPLOYMENT

	WD	Developed Markets – NA		Developed Markets – Europe												Developed Markets – Asia-Oceania			Emerging countries – LATAM		Emerging countries – Eurasia				Emerging countries – Middle East & Africa				Emerging countries – Asia			
	World	CANADA	USA	EURO ZONE	AUSTRIA	DENMARK	FRANCE	GERMANY	GREECE	IRELAND	ITALY	NETHERLANDS	SPAIN	SWITZERLAND	UK	AUSTRALIA	NEW ZEALAND	JAPAN	BRAZIL	MEXICO	CZECH REPUBLIC	POLAND	RUSSIA	TURKEY	EGYPT	SAUDI ARABIA	SOUTH AFRICA	UAE	CHINA	INDIA	INDONESIA	VIETNAM
Feb-20	47.2	51.1	50.6	47.7	51.1	56.2	48.6	45.0	57.7	48.4	49.2	53.9	49.2	51.0	49.7	49.5	51.4	50.9	51.7	49.4	44.1	47.3	47.9	53.2	46.8	50.0	37.1	49.4	41.2	50.4	50.6	48.4
Mar-20	47.3	44.6	47.0	44.3	42.7	40.9	45.4	43.0	46.2	42.6	45.3	49.0	45.2	42.5	44.2	47.6	45.4	49.6	46.5	49.2	41.5	43.2	49.9	51.9	47.0	49.6	39.1	44.8	48.6	50.4	47.0	44.3
Apr-20	41.5	25.1	36.4	35.8	33.3	40.5	32.5	37.2	30.0	30.5	39.3	39.9	30.9	40.5	28.1	38.8	41.2	46.1	39.0	34.2	35.4	38.6	33.4	44.5	46.1	47.2	26.9	46.4	47.7	43.1	34.3	38.2
May-20	43.1	32.7	38.0	37.6	41.0	34.0	35.7	36.5	38.4	40.1	40.6	40.7	35.2	42.4	31.4	41.6	39.4	49.5	39.1	35.7	37.7	43.6	34.6	47.3	45.5	48.7	26.9	48.7	49.2	42.7	31.5	44.2
Jun-20	46.0	44.8	47.9	41.3	44.1	45.4	44.6	38.8	47.9	46.1	40.3	41.2	44.6	39.0	41.4	45.9	48.3	47.7	43.7	36.8	41.1	46.5	46.9	52.8	44.6	47.0	33.2	46.4	48.6	44.3	39.1	47.8
Jul-20	47.3	50.9	49.6	42.9	48.5	49.0	48.8	37.2	48.4	50.8	45.0	42.9	47.4	46.6	43.9	48.2	47.2	47.8	52.3	38.7	42.7	47.8	44.7	54.8	46.1	47.8	33.7	47.5	49.5	44.3	43.5	45.4
Aug-20	48.6	53.9	52.7	44.2	44.7	48.8	44.7	40.2	50.5	47.5	49.4	48.3	46.7	45.4	43.8	47.8	49.2	48.4	56.4	41.5	45.1	49.6	48.6	54.3	45.9	48.2	38.6	41.5	49.8	45.5	46.9	43.7
Sep-20	49.5	54.3	52.5	47.1	49.1	45.1	46.5	44.2	50.9	49.1	51.9	47.7	50.1	47.3	46.5	51.8	51.7	49.8	56.5	44.6	48.1	51.1	45.6	55.2	48.3	49.0	44.8	47.7	50.1	45.4	46.1	48.5
Oct-20	49.5	51.2	51.9	47.2	46.7	52.7	47.9	44.4	49.8	50.8	50.5	48.0	50.4	44.1	45.4	48.7	52.6	48.9	58.2	45.6	50.3	52.3	47.4	55.5	47.8	48.8	49.1	47.6	50.2	47.3	45.6	50.5
Nov-20	50.1	52.5	51.7	48.7	47.4	45.1	48.7	47.2	45.0	51.2	51.5	51.7	48.3	47.6	47.2	53.1		49.1	56.8	46.3	50.7	52.8	45.4	54.4	48.5	50.1	47.2		51.3	47.4	47.0	48.4

46 48 50 52 54

SOURCE: MARKIT, BNP PARIBAS

ECONOMIC PULSE

RETAIL AND LEISURE: MOBILITY MOMENTUM CONTINUES TO PICK UP IN EUROPE

The latest Google Mobility Report - published on 6 December – shows that customer traffic flows to retail and leisure businesses in Europe early this month continued to build on the momentum reported end November. This momentum is the result of the easing of containment measures in Europe.

France reported a strong increase in traffic, with the 7-day moving average up 30% relative to the baseline*, after declining sharply to 59% at the start of the second lockdown in early November. This increase in customer traffic occurs as lockdown restrictions were gradually lifted starting on 28 November. In Belgium, where the government also opted for the gradual lifting of lockdown restrictions but that were much tighter than in France, the mobility trend has increased to a 7-day moving average of 44% relative to the baseline. In Spain, where the curve of new cases continues to fall, customer traffic also picked up with a 7-day moving average of 33% relative to the baseline. In Italy, the number of cases continues to decline but is twice as high as in Spain (7-day moving average of new cases: 20,142). The UK, the world's first country to authorise a Covid-19 vaccination last Tuesday, reported an upturn in customer traffic, which has accelerated since the end of the national lockdown (effective since 2 December). In Germany, the trend has remained stable since the end of November, with 29% relative to the baseline. Nevertheless, customer traffic remains higher than the rest of Europe. As infections have remained at a very high level, some German states have announced the tightening of restrictions for the coming weeks, which could reduce the footfall.

Lastly, the United States has reported a spectacular spike in the pandemic in recent weeks. One week after the Thanksgiving holiday, the number of new cases hit a new record on 4 December of more than 238,065 new cases in 24 hours. The country reported a slight increase in customer traffic after the end of the Thanksgiving holiday, with the 7-day moving average at +21% relative to the baseline. The increase in traffic occurs after a downward trend reported since 25 November, the day before Thanksgiving (see chart 2).

In Japan, in contrast, the trend has remained stable since early June with a 10% decline in the 7-day moving average (chart 2). Even so, the country is on maximum alert to counter a surge in new cases, notably in Tokyo, where the city exceeded the threshold of 500 new cases per day.

Tarik Rharrab

RETAIL AND RECREATION MOBILITY

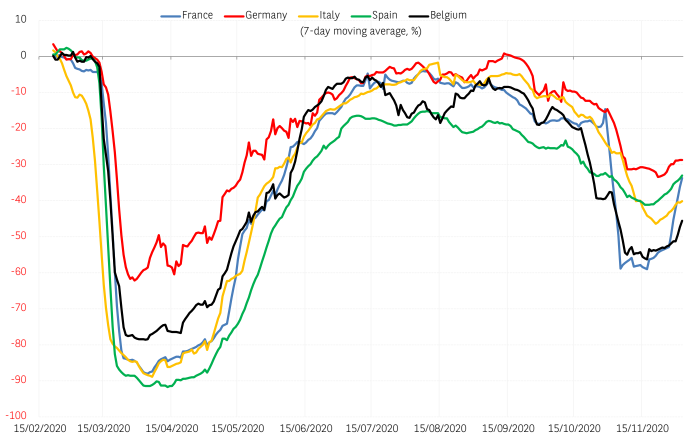


CHART 1

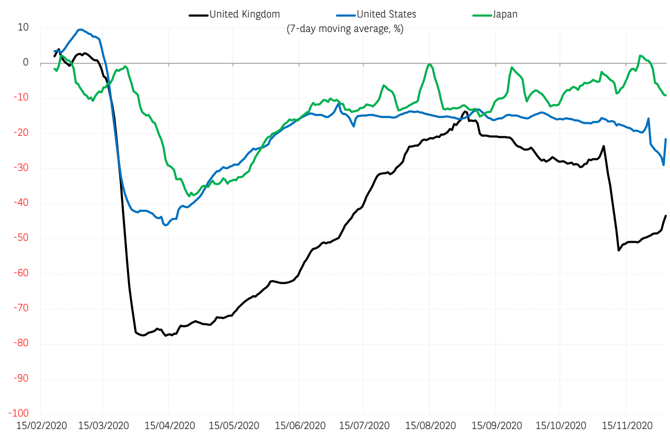


CHART 2

SOURCE: GOOGLE (LAST UPDATE 6 DECEMBER 2020), 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*

ECONOMIC PULSE

RELATIONSHIP BETWEEN MARKIT PMI SURVEYS IN THE SERVICES SECTOR AND RETAIL AND RECREATION MOBILITY

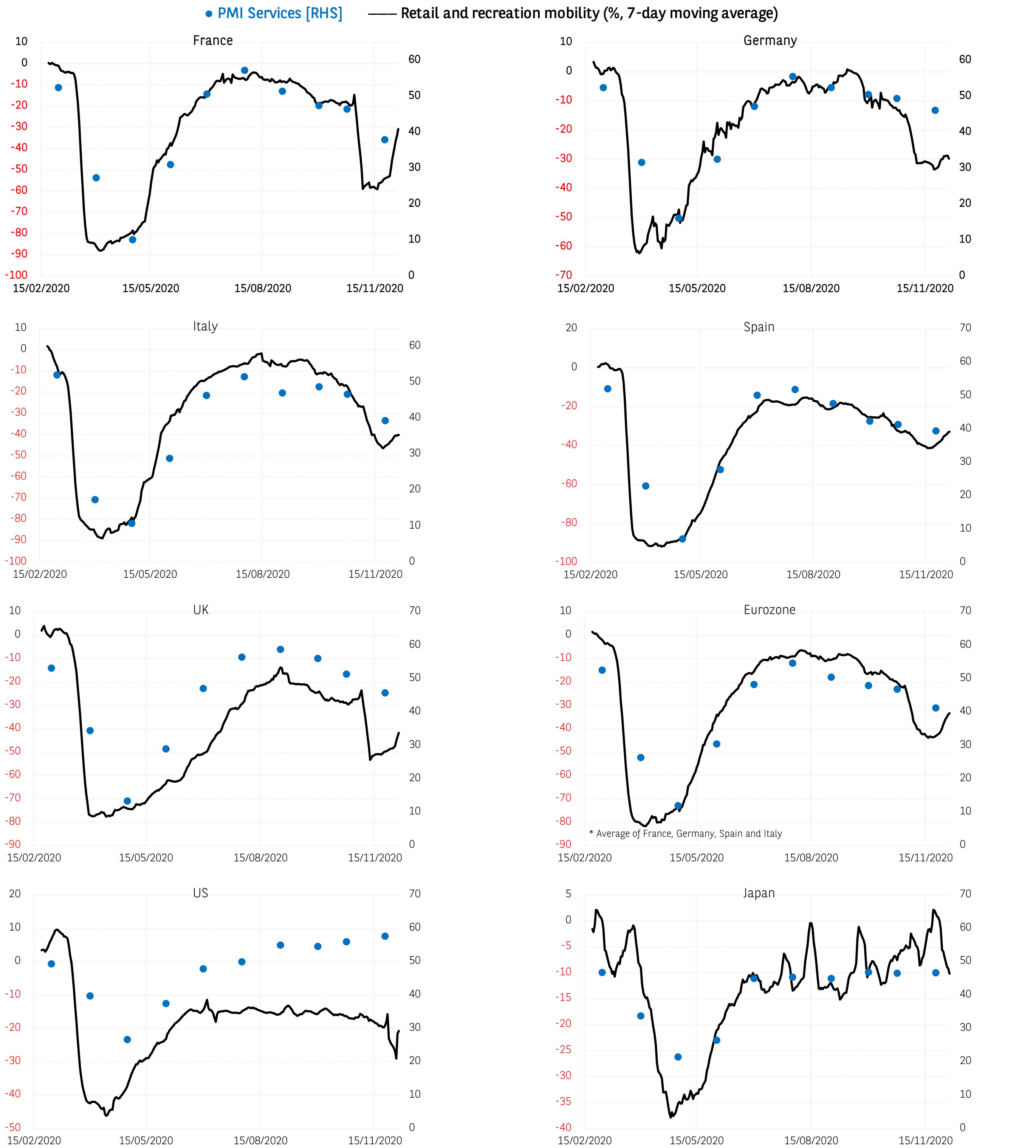


CHART 3

SOURCE: GOOGLE (LAST UPDATE 6 DECEMBER 2020), MARKIT, BNP PARIBAS

ECONOMIC SCENARIO

UNITED STATES

With a drop in GDP of an estimated 3.6% in 2020, the USA has experienced a record-breaking recession, albeit one that has been less severe than in most other countries. The health cost of the Covid-19 epidemic has, however, been immense, with the USA having the highest number of deaths in the world and suffering a higher mortality rate than the European Union. As we move into winter, the disease is surging again, forcing certain states, such as New York and California, to tighten social distancing measures. Although the economy had seemed able to avoid a further contraction, it could be flatlining at the start of the new year, although a gradual return to normal is then expected as vaccines become available.

CHINA

After plummeting in Q1 2020, economic activity has experienced a V-shaped rebound since Q2. The recovery has first been driven principally by industrial production and investment in infrastructure projects and the real estate sector. Then exports have strengthened, supported by the rebound in global demand. Finally, the services sector and private consumption have regained growth momentum since last summer. In the short term, fiscal policy should continue to support economic growth. Domestic credit conditions, which have been eased prudently in 2020, are expected to start to be tightened from Q4, as the authorities aim to contain risks in the financial system.

EUROZONE

After plummeting in Q2 2020 (-11.8% q/q, after -3.7% in Q1 2020), eurozone GDP rebounded robustly in Q3 2020 (+12.6%), exceeding expectations. Given the resurgence of the pandemic and the implementation of new sanitary restrictions in most of the member states, the recovery is losing momentum, raising fears that the economic situation could further deteriorate in the year-end period. The activity loss caused by the Covid-19 crisis is unlikely to be fully erased before year-end 2021. Worries about the pandemic and unemployment trends in eurozone member states in the months ahead are shaking consumer confidence, which remains low. The risk of corporate defaults continues to rise as long as the pandemic is not completely under control, which is undermining private investment. Support from fiscal policy at both the national and European levels will be essential, as is maintaining an accommodating and flexible monetary policy.

FRANCE

The risks have materialized for a W-shaped growth profile. After the massive recessionary shock of H1 2020 due to the first lockdown, the economy vigorously recovered in Q3 before relapsing again in Q4 under the impact of a new lockdown designed to curb the second wave of the Covid-19 pandemic. Yet the second V is bound to be less pronounced than the first: on the downside because the second lockdown was not as restrictive nor as long, and on the upside because this time the restrictive measures will be lifted gradually and conditionally. Major fiscal resources have been deployed that effectively buffered the double shock, but still the economy has been weakened, which is straining its rebound capacity. The possible start-up of a massive vaccination campaign in 2021 raises hopes that we might be seeing the light at the end of the tunnel. Growth should also get a boost from the first effects of the France Relance stimulus package. French GDP is expected to catch up pre-crisis levels during 2022 and the economy to return to 100% of its normal functioning. Inflation is also expected to pick up, but will hold at extremely low levels.

INTEREST RATES AND FX RATES

In the US, the Federal Reserve's new strategy of targeting average inflation implies a dovish twist. Policy should remain on hold for quite some time, considering that the FOMC wants inflation to move beyond 2% so as to make up for below target inflation in recent years. Should the economic situation worsen, more measures are to be expected but this also depends on the size and nature of the expected fiscal stimulus. Treasury yields should move higher on the back of fiscal stimulus and the economic recovery and because the Fed will accept and actually wants inflation to rise beyond 2%.

In the eurozone, at its December meeting, the ECB is expected to announce measures to support the economy, all the more so considering that core inflation has dropped to a very low level. The very accommodative stance will be maintained for a long time. It should keep a lid on sovereign bond spreads. As usual, eurozone bond yields will be very much influenced by what happens to US yields. The prospect of a more lasting recovery as a vaccine will be deployed, should contribute to somewhat higher bond yields.

The Bank of Japan is expected to maintain its current policy stance including its yield curve control strategy.

We expect the dollar to weaken versus the euro. Due to the limited short-term interest rate differential, international investors incur low costs when they want to hedge their dollar exposure, the euro is still undervalued versus the dollar and the Fed's new strategy of targeting average inflation implies a more dovish stance compared to the ECB which should support the euro. Similar arguments apply for the dollar versus the yen.

GROWTH & INFLATION

	GDP Growth				Inflation			
%	2019	2020 e	2021 e	2022 e	2019	2020 e	2021 e	2022 e
United-States	2.2	-3.6	3.7	3.2	1.8	1.3	1.9	1.9
Japan	0.7	-5.4	1.5	1.8	0.5	0.0	-0.4	-0.3
United-Kingdom	1.5	-11.5	6.4	6.8	1.8	0.9	1.5	2.1
Euro Area	1.3	-7.5	5.6	3.9	1.2	0.2	0.8	1.3
Germany	0.6	-5.9	4.2	3.6	1.4	-	-	-
France	1.5	-9.5	6.3	3.8	1.3	-	-	-
Italy	0.3	-9.1	6.0	3.4	0.6	-	-	-
Spain	2.0	-11.8	7.0	4.9	0.7	-	-	-
China	6.1	2.0	8.6	5.3	2.9	2.6	2.3	2.8
India*	4.2	-11.4	11.6	5.0	4.8	5.8	4.3	3.8
Brazil	1.1	-4.5	3.0	3.0	3.7	3.1	4.0	4.0
Russia	1.3	-4.5	3.8	3.0	4.3	3.4	3.5	3.5

SOURCE: BNP PARIBAS GROUP ECONOMIC RESEARCH (E: ESTIMATES & FORECASTS)
*FISCAL YEAR FROM 1ST APRIL OF YEAR N TO MARCH 31ST OF YEAR N+1
**LAST UPDATE 23/11/2020

INTEREST & EXCHANGE RATES

Interest rates, %		2021					
End of period		Q1e	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	1.10	1.20	1.30	1.40	1.40	1.50
Ezone	Deposit rate	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
	Bund 10y	-0.35	-0.50	-0.40	-0.20	-0.20	0.10
	OAT 10y	-0.10	-0.25	-0.15	0.10	0.10	0.50
	BTP 10y	0.75	0.60	0.80	1.20	1.20	1.70
	BONO 10y	0.35	0.20	0.40	0.60	0.60	1.00
UK	Base rate	0.10	0.10	0.10	0.10	0.10	0.10
	Gilts 10y	0.40	0.40	0.50	0.60	0.60	0.75
Japan	BoJ Rate	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
	JGB 10y	0.05	0.05	0.10	0.10	0.10	0.15

Exchange Rates		2021					
End of period		Q1e	Q2e	Q3e	Q4e	2021e	2022e
USD	EUR / USD	1.22	1.24	1.25	1.25	1.25	1.30
	USD / JPY	101	100	98	98	98	95
	GBP / USD	1.39	1.41	1.44	1.44	1.44	1.59
EUR	EUR / GBP	0.88	0.88	0.87	0.87	0.87	0.82
	EUR / JPY	123	124	123	123	123	124

Brent		2021					
Period-average		Q1e	Q2e	Q3e	Q4e	2021e	2022e
Brent	USD/bbl	56	54	55	59	56	-

LAST UPDATE: 23/11/2020

SOURCE: BNP PARIBAS GLOBAL MARKETS (E: ESTIMATES)

CALENDAR

LATEST INDICATORS

In Japan, there was an unexpected upward revision of third quarter GDP growth to 5.3% versus the previous quarter. The Eco Watchers survey dropped more than anticipated, in particular as far as the outlook is concerned. Private sector payroll growth in France slowed down slightly in the third quarter whereas in the eurozone it remained stable versus an upwardly revised number for the second quarter. ZEW survey expectations jumped in Germany and the eurozone, which must be related to the news on a vaccine. In the US, small business sentiment declined more than expected and, even more concerning, initial jobless claims saw a big increase, far worse than anticipated. US core inflation came in at 0.2%, slightly above expectations. The ECB eased policy further. It considers news on a vaccine is encouraging but it remains very cautious. Risks in its view are still tilted to the downside.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	ACTUAL	PREVIOUS
12/08/2020	Japan	GDP SA QoQ	3Q	5.0%	5.3%	5.0%
12/08/2020	France	Private Sector Payrolls QoQ	3Q	--	1.6%	1.8%
12/08/2020	Eurozone	Employment QoQ	3Q	--	1.0%	1.0%
12/08/2020	Germany	ZEW Survey Expectations	Dec	46.0	55.0	39.0
12/08/2020	Eurozone	ZEW Survey Expectations	Dec	--	54.4	32.8
12/08/2020	Eurozone	GDP SA QoQ	3Q	12.6%	12.5%	12.6%
12/08/2020	United States	NFIB Small Business Optimism	Nov	102.5	101.4	104.0
12/08/2020	Japan	Eco Watchers Survey Current SA	Nov	52.8	45.6	54.5
12/08/2020	Japan	Eco Watchers Survey Outlook SA	Nov	47.9	36.5	49.1
12/09/2020	France	Bank of France Ind. Sentiment	Nov	95	--	97
12/09/20-12/12/20	Japan	Machine Tool Orders YoY	Nov	--	8.0%	--
12/10/2020	United Kingdom	Monthly GDP (3M/3M)	Oct	10.1%	10.2%	8.0%
12/10/2020	France	Manufacturing Production MoM	Oct	0.5%	0.5%	2.3%
12/10/2020	Eurozone	ECB Deposit Facility Rate	Dec	-0.500%	-0.500%	-0.500%
12/10/2020	United States	CPI Ex Food and Energy MoM	Nov	0.1%	0.2%	0.0%
12/10/2020	United States	Initial Jobless Claims	Dec	725000	853000	716000
12/11/2020	United States	PPI Ex Food and Energy MoM	Nov	0.2%	0.1%	0.1%
12/11/2020	United States	U. of Mich. Sentiment	Dec	76.0	81.4%	76.9

SOURCE: BLOOMBERG

CALENDAR: THE WEEK AHEAD

COMING INDICATORS

A very busy week ahead of us with policy meetings of the Federal Reserve, the Bank of England and the Bank of Japan. Jerome Powell's press conference will be eagerly awaited given the loss of momentum in the US economy and the rising number of infections. Japan will publish the Tankan survey for the 4th quarter whereas Tokyo departement store sales will give a glimpse of how the consumer is doing. As usual around this time of the month, China will release several data: industrial production, retail sales, investments, unemployment. In the US we have retail sales, several data on housing, regional surveys, Markit PMI data, initial unemployment claims as well as industrial production. Eurozone inflation data will be published and France will publish data on business confidence. In Germany we will have the important ifo business climate indicator. Finally, data on consumer confidence as well as retail sales will be released in the UK.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	PREVIOUS
12/14/2020	Japan	Tankan Large Mfg Outlook	4Q	-10	-17
12/14/2020	Japan	Tankan Large Non-Mfg Outlook	4Q	-7	-11
12/14/2020	Japan	Tankan Small Mfg Outlook	4Q	-33	-38
12/14/2020	Japan	Tankan Small Non-Mfg Outlook	4Q	-22	-27
12/14/2020	Eurozone	Industrial Production SA MoM	Oct	--	-0.4%
12/15/2020	China	Industrial Production YoY	Nov	7.0%	6.9%
12/15/2020	China	Retail Sales YoY	Nov	5.0%	4.3%
12/15/2020	China	Fixed Assets Ex Rural YTD YoY	Nov	2.6%	1.8%
12/15/2020	China	Property Investment YTD YoY	Nov	6.9%	6.3%
12/15/2020	China	Surveyed urban unemployment rate	Nov	5.2%	5.3%
12/15/2020	France	CPI EU Harmonized YoY	Nov	--	--
12/15/2020	United States	Empire Manufacturing	Dec	7.0	6.3
12/15/2020	United States	Industrial Production MoM	Nov	0.3%	1.1%
12/15/2020	United States	Capacity Utilization	Nov	73.0%	72.8%
12/16/2020	United Kingdom	CPI Core YoY	Nov	--	--
12/16/2020	United States	Retail Sales Control Group	Nov	0.2%	0.1%
12/16/2020	United States	Markit US Manufacturing PMI	Dec	56.3	--
12/16/2020	United States	Markit US Services PMI	Dec	58.0	--
12/16/2020	United States	Markit US Composite PMI	Dec	--	--
12/16/2020	United States	NAHB Housing Market Index	Dec	88	90
12/16/2020	United States	FOMC Rate Decision (Upper Bound)	Dec	0.25%	0.25%
12/17/2020	Eurozone	EU27 New Car Registrations	Nov	--	--
12/17/2020	France	Business Confidence	Dec	--	--
12/17/2020	Eurozone	CPI YoY	Nov	--	--
12/17/2020	Eurozone	CPI Core YoY	Nov	--	--
12/17/2020	United Kingdom	Bank of England Bank Rate	Dec	--	0.100%
12/17/2020	United States	Housing Starts MoM	Nov	-0.5%	--
12/17/2020	United States	Building Permits MoM	Nov	0.4%	--
12/17/2020	United States	Initial Jobless Claims	Dec	--	--
12/17/2020	United States	Philadelphia Fed Business Outlook	Dec	20.0	--
12/17/2020	United States	Kansas City Fed Manf. Activity	Dec	--	--
12/17/2020	Japan	Tokyo Dept Store Sales YoY	Nov	--	--
12/18/2020	United Kingdom	GfK Consumer Confidence	Dec	--	--
12/18/2020	United Kingdom	Retail Sales Ex Auto Fuel MoM	Nov	--	--
12/18/2020	Germany	IFO Business Climate	Dec	--	--
12/18/2020	Germany	IFO Expectations	Dec	--	--
12/18/2020	Germany	IFO Current Assessment	Dec	--	--
12/18/2020	Japan	BOJ Policy Balance Rate	Dec	--	-0.100%

SOURCE: BLOOMBERG

FURTHER READING

December 2020 edition	EcoTV	10 December
European Union: EBA reactivates its guidelines on moratoria on loan repayments	Chart of the Week	9 December
United States: Are the GSEs ready to exit FHFA conservatorship?	EcoFlash	8 December
EcoWeek 20.45. December 4, 2020 issue	EcoWeek	4 December
After celebrating the reduction in uncertainty, investors to focus on the growth outlook	EcoTVWeek	4 December
Greece: Will employment hold up in 2021?	Chart of the Week	2 December
European Union Southern Europe: why such low potential growth?	Conjoncture	30 November
United Kingdom: United Kingdom: what will be the economic consequences of a hard Brexit?	Conjoncture	30 November
Global: What if the road to Covid-19 immunity is longer than expected?	EcoWeek	27 November
US Bad signs	EcoWeek	27 November
United Kingdom: Tuned in to BBC – Budget, Brexit, Covid	EcoWeek	27 November
Italy: The recovery at a standstill	EcoWeek	27 November
Spain: All eyes on the employment figures	EcoWeek	27 November
Global : The impact of lockdown and restrictions on the services sector	EcoWeek	27 November
Is the end of conservatorship of Fannie Mae and Freddie Mac imminent?	EcoTVWeek	27 November
South Korea: beginning of a new wave	Chart of the Week	25 November
US : After Joe Biden wins US Presidential Election, what happens next?	EcoFlash	24 November
Eurozone : Pent-up demand to trigger inflation pick-up	EcoWeek	20 November
China : Continued momentum	EcoWeek	20 November
Global : Retail and recreation: the impact of social distancing and lockdown measures on mobility trend	EcoWeek	20 November

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