ECOWEEK

N°20-45

4 December 2020

ECONOMIC RESEARCH

BNP PARIBAS

The bank for a changing world

MONETARY POLICY: TODAY'S RELIEF, TOMORROW'S HEADACHE?

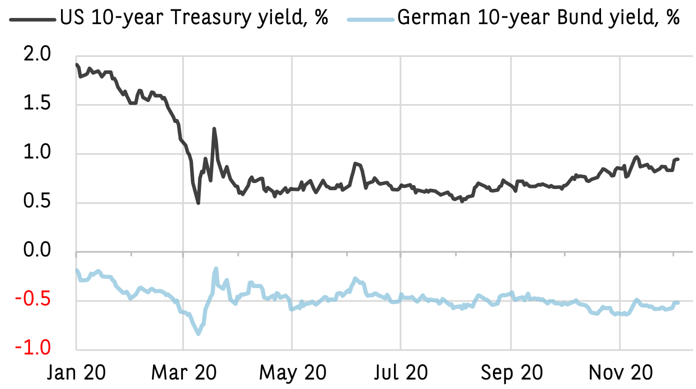
The Federal Reserve and the ECB have been highly successful in influencing asset prices as part of their effort to cushion the shock to the economy from the Covid-19 pandemic. However, one might wonder whether today's relief could cause an investor's headache tomorrow. The difficulty of an exit strategy does not imply that certain monetary tools should not be used in the first place. After all, they do have positive effects. However, the likelihood of a bumpy normalisation process of monetary policy calls for careful preparation by central banks as well as investors. These considerations could become particularly relevant should the recovery in 2021 end up surprising to the upside.

The Federal Reserve and the ECB have been highly successful in influencing asset prices as part of their effort to cushion the shock to the economy from the Covid-19 pandemic. Despite huge increases in public sector borrowing requirements and hence the ensuing supply of paper, bond yields have been remarkably stable in the US and Germany (chart 1). In the US, it is only recently that yields have risen somewhat. Another striking observation is the breakdown in the correlation between Wall Street and the treasury market. In recent years, share prices and bond yields were often moving in tandem, both going up or down. Since the equity rally that started in the spring of this year, this is hardly the case (chart 2). In reaction to the pandemic, the Federal Reserve has also extended its remit by announcing it would buy newly issued bonds of corporations rated investment grade before the pandemic. This happened with the backing of the Treasury, which would cover any losses on these purchases due to defaults. As a consequence, the spread widening versus treasuries was far more limited than in 2008 despite a rise in the unemployment rate that was considerably larger than during the Great Recession of 2008 (chart 3). In the euro area, the ECB's Pandemic Emergency Purchase Programme – through its flexibility in terms of pace and geographical allocation – has been instrumental in stabilising Bund yields and in narrowing sovereign spreads (chart 4).

Via a variety of transmission channels, these policies have influenced activity and demand in the economy. However, one might wonder whether today's relief could cause a headache tomorrow. Recent financial history reminds us that this is a genuine risk. In 2013, Fed Chair Ben Bernanke triggered the 'taper tantrum' by suggesting that the Federal Reserve might reduce the pace of its asset purchases[1]. It remains to be seen how markets will react when the ECB will announce, one day, that it is contemplating to scale back or even stop its net purchases under the Pandemic Emergency Purchase Programme. Granted, it can be argued that this will be conditioned by the eurozone having sufficiently recovered from the pandemic, which implies that investors should not be concerned about a near-term increase in sovereign risk. On the other hand, the asset allocation of

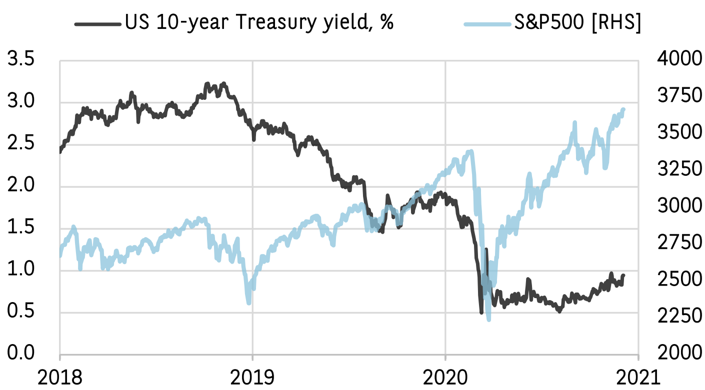
1. Bernanke said *"If we see continued improvement [in the economy] and we have confidence that that is going to be sustained then we could, in the next few meetings, take a step down in our pace of [asset] purchases"*. Source: "The history and future of QE", Speech given by Ben Broadbent, Deputy Governor Monetary Policy Society of Professional Economists, London, 23 July 2018).

US & GERMAN BOND YIELDS



SOURCE: REFINITIV, BNP PARIBAS

S&P500 AND US 10-YEAR TREASURY YIELD



SOURCE: REFINITIV, BNP PARIBAS

> The difficulty of an exit strategy does not imply that certain monetary tools should not be used in the first place. However, it calls for careful preparation of monetary policy normalisation, by central banks but also by investors.

investors would need to change to make up for the void left by the ECB, which would no longer be buying government bonds or at least not as much as before. Such an allocation change could require an increase in sovereign spreads.

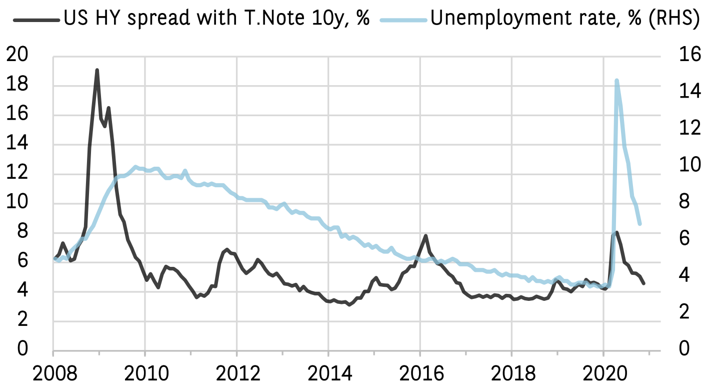
Another question concerns the new inflation targeting strategy of the Federal Reserve, introduced at the end of the summer. Committing to accept a moderate overshooting of the inflation target during a certain time represents an invitation for investors to take more risk. After all, the much-dreaded monetary tightening has now become a more distant prospect. This begs the question how these investors will react when inflation has reached 2%. Their reaction will not only be strongly influenced by the perceived reaction function of the Federal Reserve but also by the vagueness of the latter's new strategy. What is a moderate overshoot? How long will it be accepted? It runs the risk of generating abrupt 'taper tantrum'-like reactions. The ensuing rise in treasury yields would affect not only other asset classes, both in the US and abroad, but could also have consequences for the real economy, via an increase in mortgage rates and wealth effects.

Finally, the corporate bond programme of the Federal Reserve also gives rise to mixed reviews. On the one hand, it is credited with avoiding that many more corporations would default, thereby softening the shock of the pandemic to the economy[2]. On the other hand, bond investors could consider it as a put option extended by the central bank and expect that such an operation could be repeated in the future. This would lead to a structurally lower reward per unit of credit risk. For the borrower, it could create an incentive for gearing up the balance sheet[3].

The difficulty of an exit strategy does not imply that certain monetary tools should not be used in the first place. After all, they do have positive effects, in terms of stabilizing investor expectations and, indirectly, influencing the real economy. However, the likelihood of a bumpy normalisation process of monetary policy calls for careful preparation by central banks as well as an acute awareness on the side of investors. For the former this concerns in particular the communication strategy whereas for the latter, the level of risk-taking is of key importance. These considerations could become particularly relevant should the recovery in 2021 end up surprising to the upside.

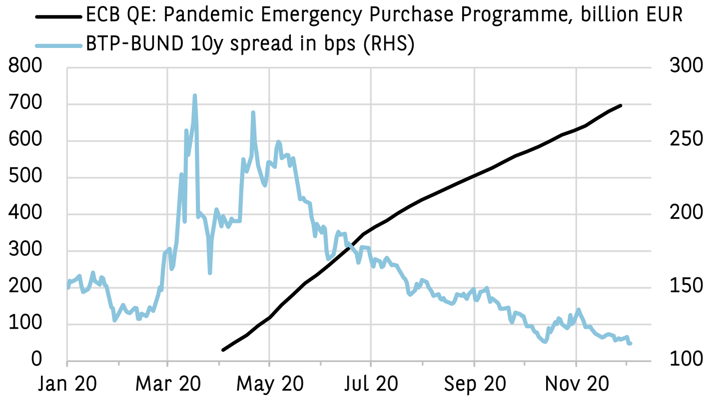
William De Vijlder

US: UNEMPLOYMENT RATE AND CORPORATE BOND SPREAD



SOURCE: FEDERAL RESERVE, BLS, REFINITIV, BNP PARIBAS

PEPP OF THE ECB



SOURCE: ECB, REFINITIV, BNP PARIBAS

2. According to recent research, *"the Fed's corporate debt intervention prevented an even larger decline in real GDP, ranging from 0.6 to 2-¾ percent four quarters later."* Source: *How New Fed Corporate Bond Programs Dampened the Financial Accelerator in the COVID-19 Recession*, Michael D. Bordo and John V. Duca, Federal Reserve Bank of Dallas Working Paper 2029, November 2, 2020, https://doi.org/10.24149/wp2029.
3. Quoting Bordo and Duca (2020), *"the new corporate facilities are not exactly a free lunch and their true costs and hence net benefit will depend on how they are eventually unwound and the extent of the moral hazard effects they induce."*

MARKETS OVERVIEW

OVERVIEW

Week 27-11 20 to 3-12-20				
↘ CAC 40	5 598	▶ 5 574	-0.4	%
↗ S&P 500	3 638	▶ 3 667	+0.8	%
↗ Volatility (VIX)	20.8	▶ 21.3	+0.4	pb
↗ Libor $ 3M (%)	0.23	▶ 0.23	+0.5	bp
↗ OAT 10y (%)	-0.40	▶ -0.37	+3.1	bp
↗ Bund 10y (%)	-0.59	▶ -0.55	+3.8	bp
↗ US Tr. 10y (%)	0.84	▶ 0.92	+8.6	bp
↗ Euro vs dollar	1.19	▶ 1.22	+1.8	%
↗ Gold (ounce, $)	1 785	▶ 1 827	+2.4	%
↗ Oil (Brent, $)	48.3	▶ 48.8	+1.0	%

MONEY & BOND MARKETS

Interest Rates			highest 20			lowest 20		
$	FED	0.25	1.75	at	01/01	0.25	at	16/03
	Libor 3M	0.23	1.91	at	01/01	0.20	at	20/11
	Libor 12M	0.33	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	0.04	at	02/12
	Libor 12M	0.13	0.98	at	01/01	0.12	at	04/11

At 3-12-20

Yield (%)			highest 20		lowest 20	
€	AVG 5-7y	-0.40	0.72	at 18/03	-0.44	at 09/11
	Bund 2y	-0.72	-0.58	at 14/01	-1.00	at 09/03
	Bund 10y	-0.55	-0.17	at 19/03	-0.84	at 09/03
	OAT 10y	-0.37	0.28	at 18/03	-0.42	at 04/11
	Corp. BBB	0.58	2.54	at 24/03	0.56	at 26/11
$	Treas. 2y	0.16	1.59	at 08/01	0.11	at 04/08
	Treas. 10y	0.92	1.91	at 01/01	0.50	at 09/03
	High Yield	5.02	1 1.29	at 23/03	5.02	at 03/12
£	gilt. 2y	-0.04	0.61	at 08/01	-0.12	at 21/09
	gilt. 10y	0.36	0.83	at 01/01	0.04	at 04/08

At 3-12-20

EXCHANGE RATES

1€ =		highest 20			lowest 20			2020
USD	1.22	1.22	at	03/12	1.07	at	20/03	+8.3%
GBP	0.90	0.94	at	23/03	0.83	at	18/02	+6.3%
CHF	1.08	1.09	at	05/06	1.05	at	14/05	-0.4%
JPY	126.18	126.82	at	31/08	114.51	at	06/05	+3.4%
AUD	1.63	1.87	at	23/03	1.60	at	01/01	+2.3%
CNY	7.98	8.26	at	30/07	7.55	at	19/02	+2.0%
BRL	6.24	6.75	at	28/10	4.51	at	02/01	+38.1%
RUB	90.51	93.98	at	02/11	67.75	at	10/01	+29.8%
INR	89.88	89.88	at	03/12	77.21	at	17/02	+12.2%

At 3-12-20 *Change*

COMMODITIES

Spot price, $		highest 20			lowest 20			2020	2020(€)
Oil, Brent	48.8	69.1	at	06/01	16.5	at	21/04	-26.4%	-32.0%
Gold (ounce)	1 827	2 053	at	06/08	1 475	at	19/03	+20.2%	+10.9%
Metals, LMEX	3 389	3 417	at	01/12	2 232	at	23/03	+19.2%	+10.0%
Copper (ton)	7 669	7 688	at	01/12	4 625	at	23/03	+24.7%	+15.1%
wheat (ton)	225	2.4	at	21/01	178	at	26/06	-1.8%	-9.3%
Corn (ton)	165	1.6	at	03/12	113	at	28/04	+1.0%	+1.8%

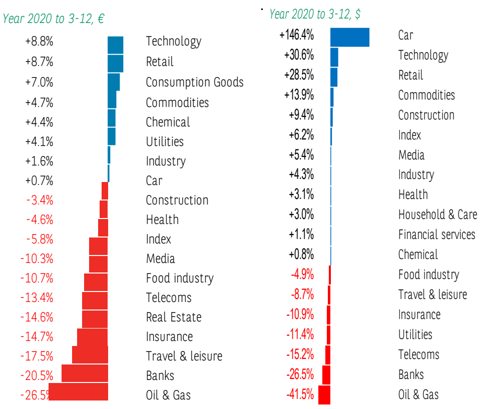
At 3-12-20 *Change*

EQUITY INDICES

	Index	highest 20			lowest 20			2020
World								
MSCI World	2 621	2 621	at	03/12	1 602	at	23/03	+11.1%
North America								
S&P500	3 667	3 669	at	02/12	2 237	at	23/03	+13.5%
Europe								
EuroStoxx50	3 517	3 865	at	19/02	2 386	at	18/03	-6.1%
CAC 40	5 574	6 111	at	19/02	3 755	at	18/03	-0.7%
DAX 30	13 253	13 789	at	19/02	8 442	at	18/03	+0.0%
IBEX 35	8 201	10 084	at	19/02	6 107	at	16/03	-1.4%
FTSE100	6 490	7 675	at	17/01	4 994	at	23/03	-1.4%
Asia								
MSCI, loc.	1 029	1 034	at	20/01	743	at	23/03	+0.2%
Nikkei	26 809	26 809	at	03/12	16 553	at	19/03	+13.3%
Emerging								
MSCI Emerging ($)	1 239	1 239	at	03/12	758	at	23/03	+1.1%
China	107	109	at	09/11	69	at	19/03	+23.8%
India	628	628	at	03/12	353	at	23/03	+9.9%
Brazil	1 789	2 429	at	02/01	1 036	at	23/03	-3.9%
Russia	638	857	at	20/01	419	at	18/03	-6.9%

At 3-12-20 *Change*

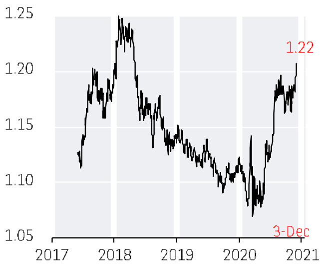
PERFORMANCE BY SECTOR (Eurostoxx50 & S&P500)



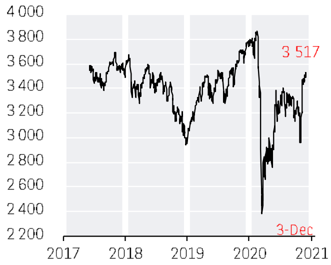
SOURCE: THOMSON REUTERS

MARKETS OVERVIEW

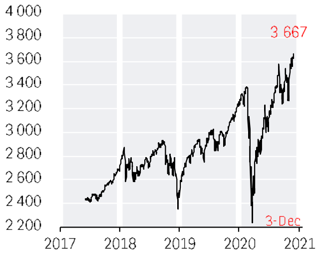
EURO-DOLLAR



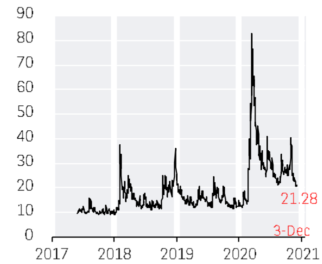
EUROSTOXX50



S&P500

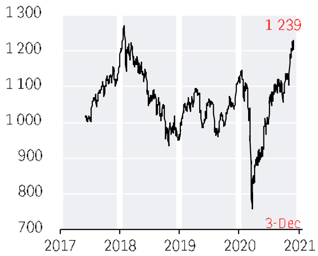


VOLATILITY (VIX, S&P500)

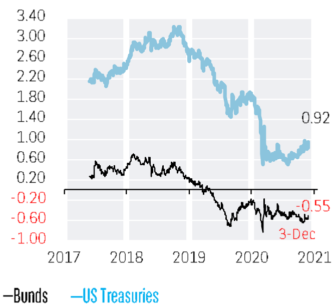


MSCI WORLD (USD)

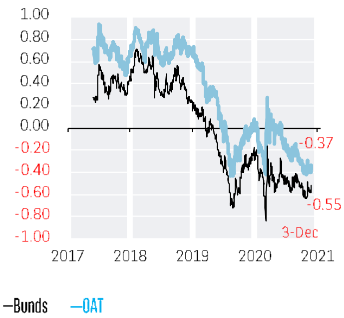
MSCI EMERGING (USD)



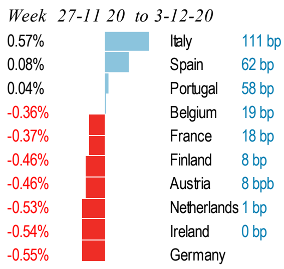
10Y BOND YIELD, TREASURIES VS BUND



10Y BOND YIELD

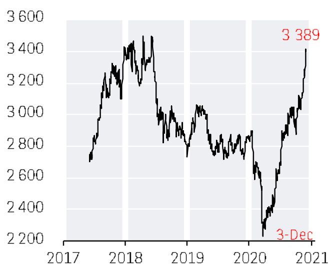


10Y BOND YIELD & SPREADS

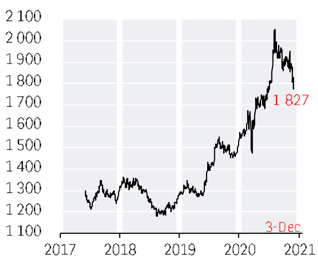


OIL (BRENT, USD)

METALS (LMEX, USD)



GOLD (OUNCE, USD)



SOURCE: THOMSON REUTERS

ECONOMIC PULSE

EUROZONE: REASONS FOR HOPE

The resurging pandemic and tighter sanitary restrictions in many Eurozone countries pose a new threat to the economic recovery after the first wave of virus was generally brought under control. The latest economic indicators for the Eurozone suggest that economic momentum is slowing. However, there has not been a collapse like the one observed in late March and April.

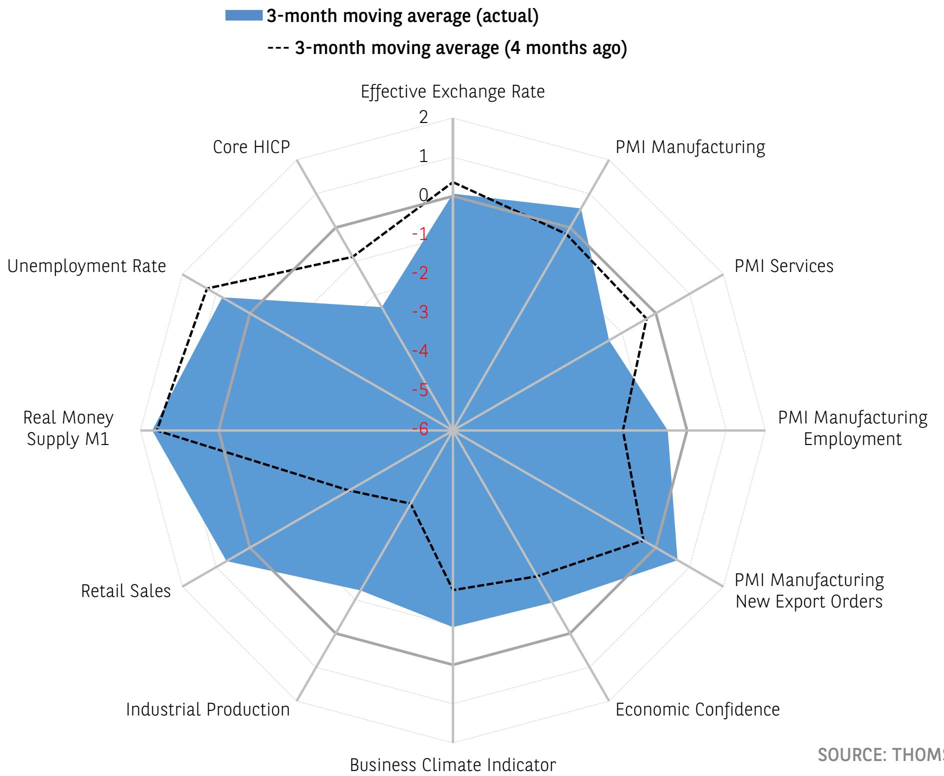
The new health restrictions are not as severe and public support is still abundant. The Eurozone's manufacturing sector remains relatively dynamic. Despite a slight decline in November (the first since March), the Purchasing Managers Index (PMI) for the manufacturing sector is still higher than its long-term average (52.9 after 56.3 in October). This robust momentum is partially due to the strength of the underlying "new export orders" component of the manufacturing PMI, while the "employment" component continues to rise, although it held below the 50 threshold (48.5 in November, up from 47.2 in October).

The Eurozone's services sector, which is more directly impacted by health restrictions, reported a sharper deterioration in business in November. The services PMI dropped to 41.3 (from 46.9 the previous month), which is far below the long-term average. Yet this decline was not on the same scale as the one in March and April. Business in the services sector continued to be hit by relatively weak household confidence, which after rebounding, has begun to erode again since October.

Uncertainty is still high concerning the health situation and employment: so far, the very promising prospects of a vaccine have failed to fully restore the confidence of European consumers. Although fiscal support continues to hold down the unemployment rate (which rose slightly to 8.3% of the active population in September, which is still below the long-term average), Eurozone inflation continues to fall. Prices fell in November (-0.3% year-on-year) for the fourth consecutive month. The core inflation rate has stagnated at a low of +0.2% year-on-year (y/y). Faced with these trends, the European Central Bank (ECB) is expected to announce additional monetary stimulus measures at its next monetary policy meeting on 10 December.

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 -6 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.

ECONOMIC PULSE

GERMANY: ECONOMIC RORSCHACH TEST SUGGESTS IMPROVEMENT EXCEPT FOR SERVICES

The Pulse is a kind of Rorschach test, in which the economic climate can be read from the size and movements of the inkblot. In that respect, the Pulse for Germany offers an interesting picture this week. In general, the economic situation has clearly improved in the period September-November (the blue inkblot) compared to the preceding three-month period (the dotted area). This is most obvious in the manufacturing and construction sectors. In the construction sector, the indicators are even above the long-term average, as indicated by the bold line of the inner twelve-sided polygon.

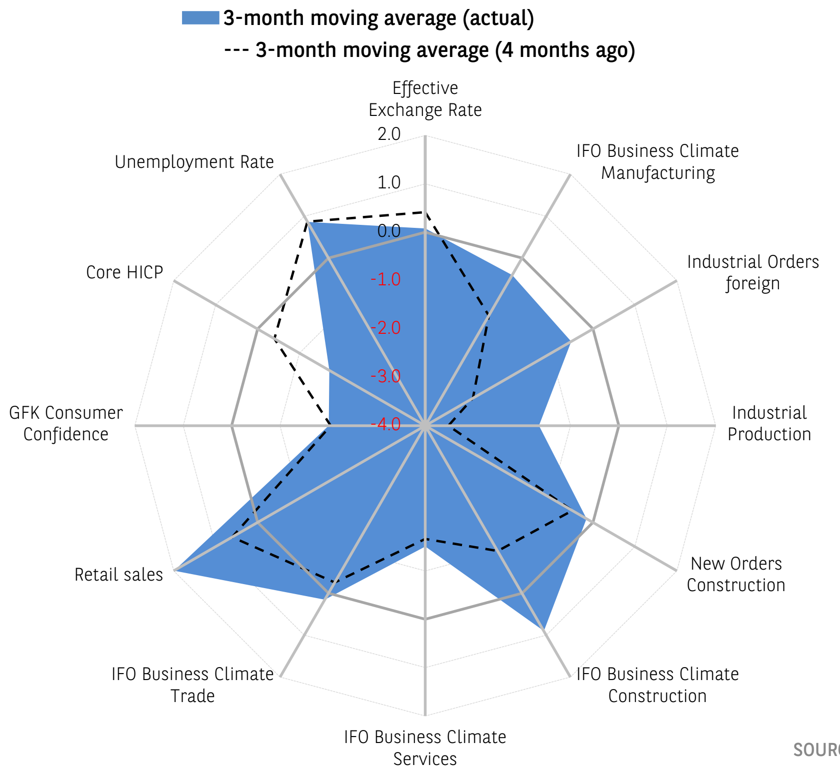
In the services sector, the situation is somewhat mixed. Retail sales have been buoyant thanks to the temporary lowering of the VAT rates. Owing to the latter, core HICP is now well below its long-term average. By contrast, the ifo business climate index for services, which includes freight and passenger transport, hospitality and IT services, and the GfK consumer confidence indicator have hardly moved.

Prompted by a rapid rise in new Covid-19 cases, the federal government decreed a light lockdown in early November, implying the closure of bars, restaurants and theatres. As a result, consumer confidence and business expectations in particular declined significantly in the services sector in that month. By contrast, the ifo survey suggests that the impact on manufacturing has been limited, as growing incoming orders continued to underpin activity.

Despite the recent measures, infection rates have remained relatively high. Nevertheless, it is unlikely that government will impose more restrictions, as the country will soon roll out a vaccination programme. It could already start before the end of the year. This will certainly help to boost business expectations and economic activity. It suggests that the worst might be behind us, although it could take considerable time before the whole population is vaccinated and all remaining lockdown restrictions are removed.

Raymond Van Der Putten

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 -4 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.

FRANCE: RELAPSE

Although the economic impact of the November lockdown will certainly not be as harmful as the one last spring, there is still some uncertainty over the size of the Q4 2020 GDP contraction. The INSEE and the Bank of France both estimate that the economy was operating at 96% of normal levels in October, before falling back to 88% in November (vs. 71% in April 2020). With a slightly less restrictive version of the lockdown extending into December, this percentage could pick up slightly but how much? Our forecast of a 5% q/q decline in Q4 GDP (completed prior to the 24 November announcement of the easing of lockdown restrictions) is based on the technical assumption that the rate could rise to 90%. This assumption, as well as our contraction forecast, could prove to be too pessimistic. In its latest *Point de Conjoncture* dated 2 December, the INSEE is estimating this figure at 92%, with a 4.4% q/q decline in GDP.

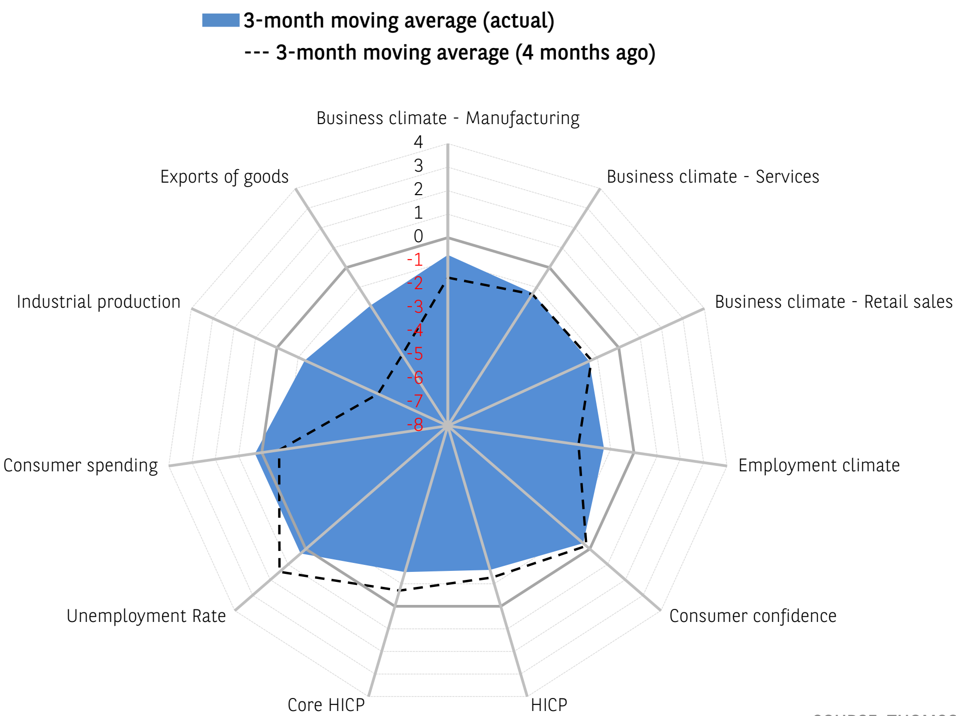
Our barometer signals only a very partial downturn in activity yet: the blue area still overlaps with the dotted area, if only slightly, with the exception of a persistently weak inflation and a misleading fall of the unemployment rate (Eurostat data).

Confidence surveys fell sharply in November. The INSEE composite business climate index dropped 11 points to 79, after shedding 2 points in October. It has now lost all of the ground regained between July and September. Retail trade was hit hardest (-24 points in October-November), followed by the services sector (-17 points). In manufacturing, in contrast, the deterioration in the business climate was very minor (-3 points). This resilience is one of the striking factors differentiating this lockdown from the previous one. It is also one of the reasons why the shock is expected to have a less negative impact on GDP. The INSEE household confidence index also deteriorated sharply in November (-4 points to 90, after shedding a point in October), even though it had not picked up much since June. Household confidence is almost as low as it was in May.

We nonetheless feel like there are grounds for hope. The road ahead is still long, but the announced start-up of a vast Covid-19 vaccination campaign in 2021 raises hopes that we are finally seeing the light at the end of the tunnel. The economy is likely to rebound gradually with a long convalescence period (that could prove to be difficult as well). Yet the horizon seems to be getting a little brighter with the reduction in health risks, sanitary restrictions and uncertainty.

Hélène Baudchon

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 -8 and +4. 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.

MOBILITY: ENCOURAGING MOMENTUM IN EUROPE

Google's latest report on mobility (Google Mobility Report), published on November 29, shows encouraging momentum in customer traffic of retail and recreation in Europe at the end of that month.

France and Belgium, where the number of new Coronavirus infections continues to decline, recorded a slight increase in customer traffic. In terms of a seven-day moving average, it is now in both cases 53% below the baseline*, after a significant decrease at the start of the second lockdown in early November, to -59% and -57% respectively. This increase in customer traffic is likely to continue in the coming weeks, with the easing of containment measures in both countries and the approach of the festive season (chart 1).

In Germany, customer traffic continues to increase slightly (to about 31%). At the same time, the country crossed the threshold of 1 million Covid-19 cases. Germany is extending health restrictions through the beginning of January. In Spain, where some regions have opted to ease lockdown restrictions since 23 November, there has been an increase in customer traffic flows. In Italy, as in its neighbouring countries, retail traffic has continued to rise since 21 November. In the UK, Prime Minister Boris Johnson announced on Monday, 23 November, that national lockdown measures would be lifted on 2 December, and that health restrictions would resume at the local level based on the spread of the virus. Retail traffic has been on an upward trend in the UK (charts 1 and 2).

On the other side of the Atlantic, given the lockdown restrictions imposed at state level over the past week, the United States unsurprisingly reported a decline in retail traffic (the seven-day moving average is about 24% below the baseline). This is the lowest figure since the end of May. In Japan, customer traffic trends have remained stable since early June, with the 7-day moving average down about 10% from normal levels (chart 2).

The purchasing managers' confidence index (PMI) for the service sector, published on December 3 in Spain and Italy, suffered a further decrease in November: respectively 39.5 and 39.4 against 41.1 and 46.7 in October, a lowest since May for both countries (chart 3). Note that the services PMI for the other Eurozone countries also declined in November. On a more positive note, mobility trends reported in Europe and recent news on the development of new vaccines should lead to a strengthening of consumer confidence.

Tarik Rharrab

RETAIL AND RECREATION MOBILITY

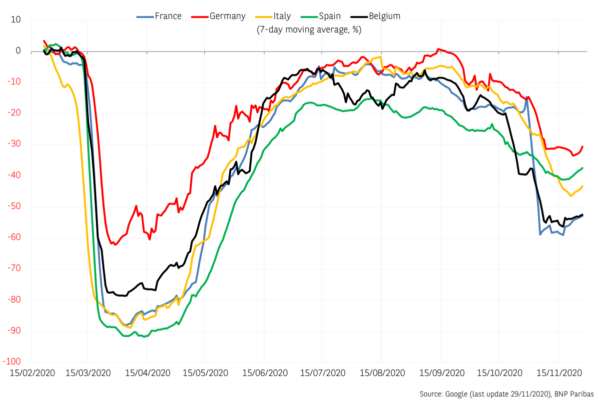


CHART 1

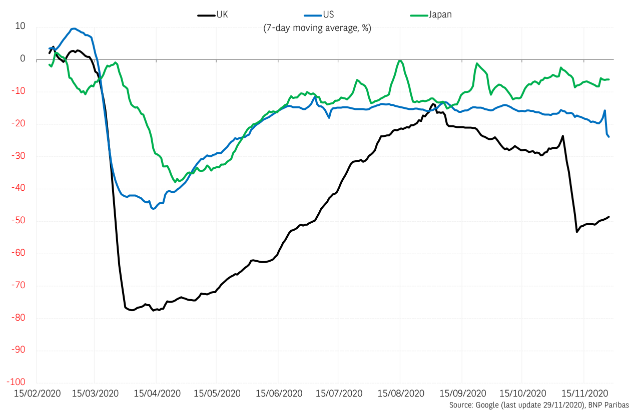


CHART 2

SOURCE: GOOGLE (LAST UPDATE 29 NOVEMBER 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

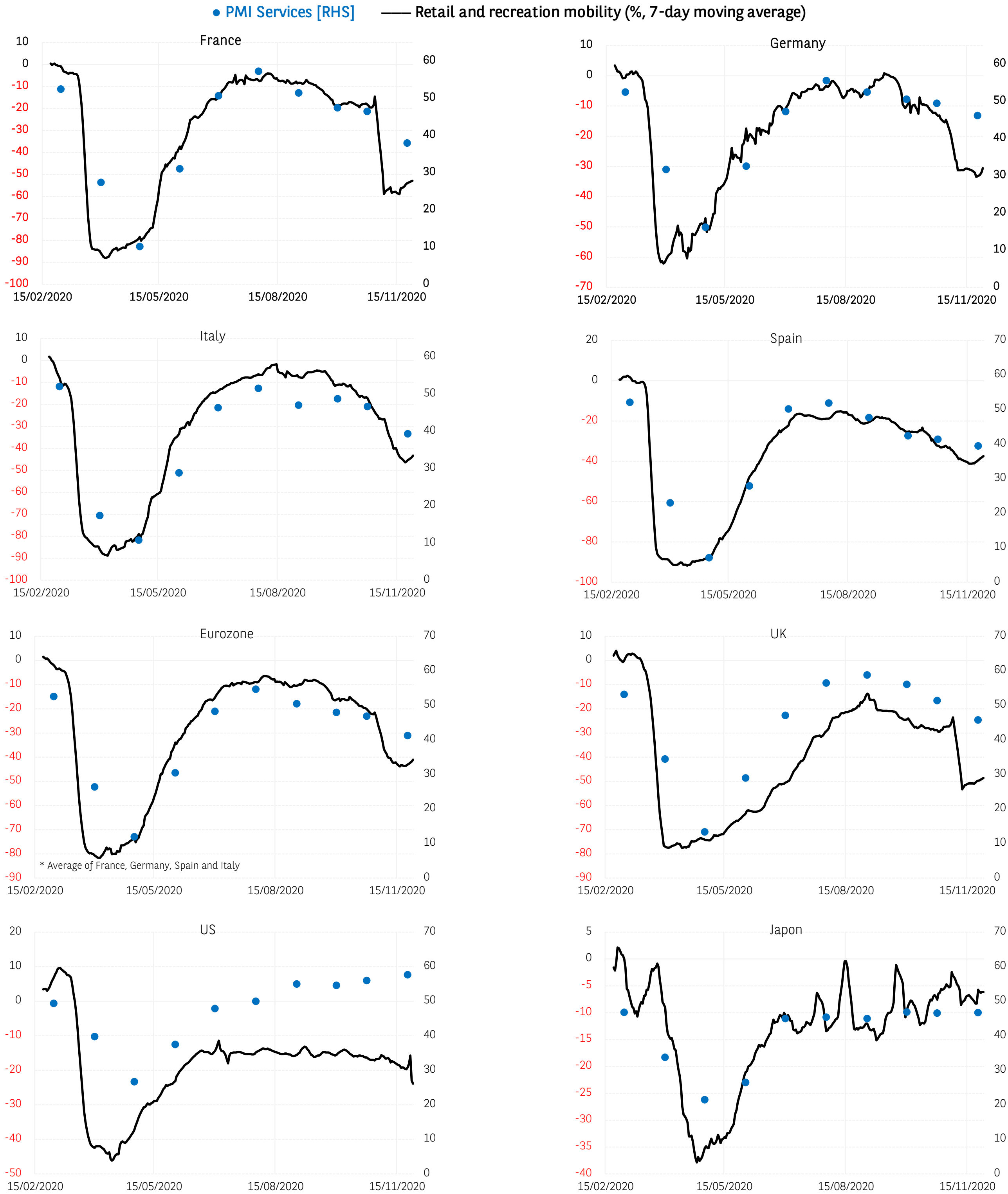


CHART 3

SOURCE: GOOGLE (LAST UPDATE 29 NOVEMBER 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

The purchasing managers' indices in China improved further in November and have also beaten expectations. In Japan, the manufacturing, services and composite PMIs improved as well but they remain slightly below the key level of 50. In the US, the manufacturing ISM disappointed, dropping significantly and more than expected. The Markit PMI on the other hand was stable. In services sector, the ISM declined but the Markit PMI improved. After last week's disappointment, this week's decline of initial unemployment claims came as a relief. The unemployment rate declined slightly more than expected in November but this positive news is offset by a negative surprise: non-farm payroll gains sharply diminished, much more than expected, a worrisome sign the recovery is faltering as Covid-19 new cases surge. For the eurozone and its members shown in the table, the manufacturing PMIs held up well or even improved slightly. The services sector however saw a considerable decline versus the month of October, which reflects that it is more severely impacted by the restrictions that have been introduced to address the second wave of infections.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	ACTUAL	PREVIOUS
11/30/2020	Japan	Industrial Production MoM	Oct	2.4%	3.8%	3.9%
11/30/2020	Japan	Retail Sales MoM	Oct	0.5%	0.4%	-0.1%
11/30/2020	Japan	Dept. Store, Supermarket Sales YoY	Oct	5.0%	2.9%	-13.9%
11/30/2020	China	Composite PMI	Nov	--	55.7	55.3
11/30/2020	China	Manufacturing PMI	Nov	51.5	52.1	51.4
11/30/2020	China	Non-manufacturing PMI	Nov	56.0	56.4	56.2
11/30/2020	Germany	CPI EU Harmonized MoM	Nov	-0.8%	-1.0%	0.0%
11/30/2020	United States	Dallas Fed Manf. Activity	Nov	14.3	12.0	19.8
12/01/2020	Japan	Jibun Bank Japan PMI Mfg	Nov	--	49.0	--
12/01/2020	China	Caixin China PMI Mfg	Nov	53.5	54.9	53.6
12/01/2020	France	Markit France Manufacturing PMI	Nov	49.1	49.6	--
12/01/2020	Germany	Markit/BME Germany Manufacturing PMI	Nov	57.9	57.8	--
12/01/2020	Germany	Unemployment Change (000's)	Nov	8.0k	-39.0k	-38.0k
12/01/2020	Eurozone	Markit Eurozone Manufacturing PMI	Nov	53.6	53.8	--
12/01/2020	United Kingdom	Markit UK PMI Manufacturing SA	Nov	55.2	55.6	--
12/01/2020	Eurozone	OECD Publishes Economic Outlook				
12/01/2020	Eurozone	CPI Core YoY	Nov	0.2%	0.2%	--
12/01/2020	United States	Markit US Manufacturing PMI	Nov	56.7	56.7	--
12/01/2020	United States	ISM Manufacturing	Nov	58.0	57.5	59.3
12/02/2020	Japan	Consumer Confidence Index	Nov	33.0	33.7	33.6
12/02/2020	Eurozone	Unemployment Rate	Oct	8.4%	8.4%	8.5%
12/02/2020	United States	U.S. Federal Reserve Releases Beige Book				
12/03/2020	Japan	Jibun Bank Japan PMI Services	Nov	--	47.8	--
12/03/2020	Japan	Jibun Bank Japan PMI Composite	Nov	--	48.1	--

CALENDAR

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	ACTUAL	PREVIOUS
12/03/2020	China	Caixin China PMI Composite	Nov	--	57.5	55.7
12/03/2020	China	Caixin China PMI Services	Nov	56.4	57.8	56.8
12/03/2020	France	Markit France Services PMI	Nov	38.0	38.8	--
12/03/2020	France	Markit France Composite PMI	Nov	39.9	40.6	--
12/03/2020	Germany	Markit Germany Services PMI	Nov	46.2	46.0	--
12/03/2020	Germany	Markit/BME Germany Composite PMI	Nov	52.0	51.7	--
12/03/2020	Eurozone	Markit Eurozone Services PMI	Nov	41.3	41.7	--
12/03/2020	Eurozone	Markit Eurozone Composite PMI	Nov	45.1	45.3	--
12/03/2020	United Kingdom	Markit/CIPS UK Services PMI	Nov	45.8	47.6	--
12/03/2020	United Kingdom	Markit/CIPS UK Composite PMI	Nov	47.4	49.0	--
12/03/2020	Eurozone	Retail Sales MoM	Oct	0.7%	1.5%	-1.7%
12/03/2020	United States	Initial Jobless Claims	Nov	775k	712k	787k
12/03/2020	United States	Markit US Services PMI	Nov	57.5	58.4	--
12/03/2020	United States	Markit US Composite PMI	Nov	--	58.6	--
12/03/2020	United States	ISM Services Index	Nov	55.8	55.9	56.6
12/04/2020	Germany	Factory Orders MoM	Oct	1.5%	2.9%	1.1%
12/04/2020	United States	Change in Nonfarm Payrolls	Nov	460k	245k	610k
12/04/2020	United States	Unemployment Rate	Nov	6.7%	6.7%	6.9%
12/04/2020	United States	Average Hourly Earnings MoM	Nov	0.1%	0.3%	0.1%
12/04/2020	United States	Average Weekly Hours All Employees	Nov	34.8	34.8	34.8
12/04/2020	United States	Labor Force Participation Rate	Nov	61.7%	61.5%	61.7%
12/04/2020	United States	Underemployment Rate	Nov	--	12.0%	12.1%

SOURCE: BLOOMBERG

CALENDAR: THE WEEK AHEAD

COMING INDICATORS

The highlight of next week is the ECB meeting. Governing Council members and ECB President Lagarde have talked on several occasions about a recalibration of its instruments to bring them in line with the economic and inflation environment so the real question is what exactly will be done in terms of additional easing. The week is light on the data front. We have employment data in France and for the eurozone. The United States will publish inflation numbers and the Banque de France its industrial sentiment index. We will also have the Eco Watchers survey in Japan and the ZEW survey for Germany and the eurozone. Finally, the university of Michigan survey will be scrutinised for the impact of the rising number of infections in the United States.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	PREVIOUS
12/08/2020	Japan	GDP SA QoQ	3Q	5.0%	5.0%
12/08/2020	France	Private Sector Payrolls QoQ	3Q	--	1.8%
12/08/2020	Eurozone	Employment QoQ	3Q	--	0.9%
12/08/2020	Germany	ZEW Survey Expectations	Dec	45.5	39.0
12/08/2020	Eurozone	ZEW Survey Expectations	Dec	--	32.8
12/08/2020	Eurozone	GDP SA QoQ	3Q	12.6%	12.6%
12/08/2020	United States	NFIB Small Business Optimism	Nov	102.5	104.0
12/08/2020	Japan	Eco Watchers Survey Current SA	Nov	52.5	54.5
12/08/2020	Japan	Eco Watchers Survey Outlook SA	Nov	47.9	49.1
12/09/2020	France	Bank of France Ind. Sentiment	Nov	96	97
12/09/20-12/12/20	Japan	Machine Tool Orders YoY	Nov	--	--
12/10/2020	United Kingdom	Monthly GDP (3M/3M)	Oct	10.1%	8.0%
12/10/2020	France	Manufacturing Production MoM	Oct	0.4%	2.2%
12/10/2020	Eurozone	ECB Deposit Facility Rate	Dec	-0.500%	-0.500%
12/10/2020	United States	CPI Ex Food and Energy MoM	Nov	0.1%	0.0%
12/10/2020	United States	Initial Jobless Claims	Dec	723k	--
12/11/2020	United States	PPI Ex Food and Energy MoM	Nov	0.2%	0.1%
12/11/2020	United States	U. of Mich. Sentiment	Dec	76.0	--

SOURCE: BLOOMBERG

FURTHER READING

After celebrating the reduction in uncertainty, investors to focus on the growth outlook	EcoTVWeek	4 December
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
French labour market: current situation and outlook	EcoTVWeek	20 November
Decrease in non-performing loan ratios might soon end	Chart of the week	18 November
Global : L'annonce d'un vaccin contre la Covid-19 réduit le risque de perte extrême (tail risk)	EcoWeek	14 November
Zone Euro : Des risques sur la reprise	EcoWeek	14 November

GROUP ECONOMIC RESEARCH

William De Vijlder Chief Economist	+33 1 55 77 47 31	william.devijlder@bnpparibas.com

ADVANCED ECONOMIES AND STATISTICS

Jean-Luc Proutat Head – United States, United Kingdom	+33 1 58 16 73 32	jeanluc.proutat@bnpparibas.com
Hélène Baudchon France - Labour markets	+33 1 58 16 03 63	helene.baudchon@bnpparibas.com
Louis Boisset European Central Bank watch, Euro area global view, Japan	+33 1 57 43 02 91	louis.boisset@bnpparibas.com
Frédérique Cerisier Euro area (European gouvernance and public finances)	+33 1 43 16 95 52	frederique.cerisier@bnpparibas.com
Hubert de Barochez United Kingdom, Nordic countries	+33 1 43 16 95 52	hubert.debarochez@bnpparibas.com
Guillaume Derrien Spain, Portugal	+33 1 55 77 71 89	guillaume.derrien@bnpparibas.com
Raymond Van Der Putten Germany, Netherlands, Austria, Switzerland – Energy, climate – Projections	+33 1 42 98 53 99	raymond.vanderputten@bnpparibas.com
Tarik Rharrab Statistics	+33 1 43 16 95 56	tarik.rharrab@bnpparibas.com

BANKING ECONOMICS

Laurent Quignon Head	+33 1 42 98 56 54	laurent.quignon@bnpparibas.com
Laure Baquero	+33 1 43 16 95 50	laure.baquero@bnpparibas.com
Céline Choulet	+33 1 43 16 95 54	celine.choulet@bnpparibas.com
Thomas Humblot	+33 1 40 14 30 77	thomas.humblot@bnpparibas.com

EMERGING ECONOMIES AND COUNTRY RISK

François Faure Head – Argentina	+33 1 42 98 79 82	francois.faure@bnpparibas.com
Christine Peltier Deputy Head – Greater China, Vietnam, South Africa	+33 1 42 98 56 27	christine.peltier@bnpparibas.com
Stéphane Alby Africa (French-speaking countries)	+33 1 42 98 02 04	stephane.alby@bnpparibas.com
Stéphane Colliac Turkey, Ukraine, Central European countries	+33 1 42 98 43 86	stephane.colliac@bnpparibas.com
Perrine Guerin, Sara Confalonieri Africa (Portuguese & English-speaking countries)	+33 1 42 98 43 86	perrine.guerin@bnpparibas.com
Pascal Devaux Middle East, Balkan countries	+33 1 43 16 95 51	pascal.devaux@bnpparibas.com
Hélène Drouot Korea, Thailand, Philippines, Mexico, Andean countries	+33 1 42 98 33 00	helene.drouot@bnpparibas.com
Salim Hammad Latin America	+33 1 42 98 74 26	salim.hammad@bnpparibas.com
Johanna Melka India, South Asia, Russia, CIS	+33 1 58 16 05 84	johanna.melka@bnpparibas.com

CONTACT MEDIA

Michel Bernardini	+33 1 42 98 05 71	michel.bernardini@bnpparibas.com

BNP PARIBAS

The bank
for a changing
world

GROUP ECONOMIC RESEARCH

CONJONCTURE
Structural or in news flow, two issues analysed in depth

EMERGING
Analyses and forecasts for a selection of emerging economies

PERSPECTIVES
Analyses and forecasts for the main countries, emerging or developed

ECOFLASH
Data releases, major economic events. Our detailed views...

ECOWEEK
Weekly economic news and much more...

ECOTV
In this monthly web TV, our economists make sense of economic news

ECOTV WEEK
What is the main event this week? The answer is in your two minutes of economy

MACROWAVES
The economic podcasts

POUR RECEVOIR NOS PUBLICATIONS

SUBSCRIBE ON OUR WEBSITE
see the economic research's website
ET
FOLLOW US ON LINKEDINN
wsee the economic research's linkedin page
OU TWITTER
voir la page twitter des études économiques

Bulletin édité par les Etudes Economiques – BNP PARIBAS
Siège social : 16 boulevard des Italiens – 75009 PARIS / Tél : +33 (0) 1.42.98.12.34
Internet : www.group.bnpparibas.com - www.economic-research.bnpparibas.com

Directeur de la publication : Jean Lemierre / Rédacteur en chef : William De Vijlder

BNP PARIBAS

The bank for a changing world