ECOWEEK

N°21-07

19 February 2021

ECONOMIC RESEARCH

THE COST OF (TALKING ABOUT) PUBLIC DEBT CANCELLATION

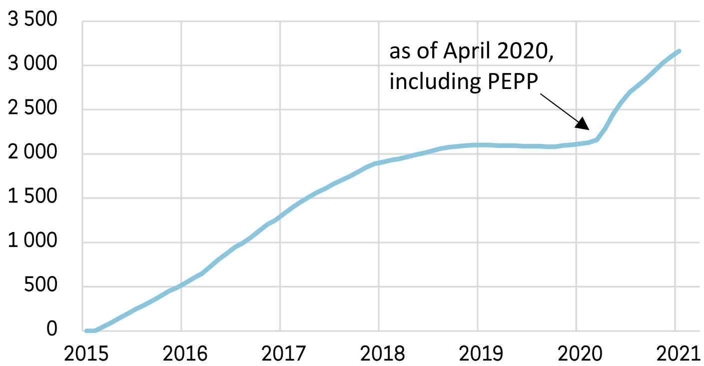
Recently, several calls have been made for the ECB to cancel part of its government debt holdings. Such an operation would violate the EU Treaty. On economic grounds, it is unnecessary, given that the interest paid on the debt to the ECB flows back to governments in the form of dividends. It would actually entail a cost: higher inflation expectations and/or a higher inflation risk premium would cause an increase in bond yields. The extreme nature of the measure could also undermine confidence. In reality, the very low levels of interest rates imply that governments have a lot of time to bring their finances in better shape. Finally, should senior policy makers merely talk about the possibility of debt cancellation, this could also entail a cost: financial markets could consider that the unthinkable is gradually becoming less unthinkable.

The policy reaction to the Covid-19 pandemic has led to a big concomitant increase of public indebtedness and the volume of government bonds on the balance sheets of the central banks. In the eurozone, this has led to several calls for the ECB to cancel part of its government debt holdings. Back in December, Italian officials as well as the prime minister's economic adviser had made suggestions in this sense[1]. More recently, 150 economists signed a press column advocating a deal between the ECB, which would cancel the debt that it holds or transform it into perpetual debt with zero interest rate, and the European states, which would commit *"for the same amount to a widespread social and ecological recovery plan."*[2] Considering that the proceeds of the debts currently on its balance sheet have already been used by the various governments, this proposal actually implies that the ECB would buy even more debt and cancel it soon thereafter. Unsurprisingly, the ECB was quick to react, its President Christine Lagarde arguing that "*cancelling this debt is inconceivable. It would be in violation of the EU Treaty which strictly prohibits monetary financing.*"[3]

What about the economic rationale? A first set of arguments states that cancellation is unnecessary. One, cancellation of public debt held by the central bank does not improve government finances. The interest paid on the debt to the central bank is paid out to the State in the form of dividends. Debt cancellation implies cancelling interest payments as well as dividends. Two, the argument could be made that the reduction in the outstanding stock of government debt would lower the required risk premium and hence cause a decline in bond yields. However, to the extent that investors expect that the central bank will forever reinvest maturing debt, they will not take into account the public debt on the central bank's balance sheet in setting the price they are willing to pay for the bonds. Three, for the same reason, the argument of Ricardian equivalence –whereby rising public indebtedness acts as a drag on consumption because households anticipate higher taxes- should not apply.

A second set of arguments considers that debt cancellation would actually entail a cost. One, investors could consider that it sets a precedent: do it once and it will happen again. It would weaken the credibility of the central bank and could raise inflation expectations[4]. Two, even if inflation expectations would not increase –e.g. because of a large negative output gap-, debt cancellation could still cause an increase in the inflation risk premium. This premium compensates investors for the uncertainty around the future path of inflation.

ECB: HOLDINGS UNDER THE PUBLIC SECTOR PURCHASE PROGRAMME PLUS THE PANDEMIC EMERGENCY PURCHASE PROGRAMME (BN EUR)



SOURCE: ECB, BNP PARIBAS

1. *"The case against cancelling debt at the ECB"*, Financial Times, 9 December 2020.
2. *"Annuler les dettes publiques détenues par la BCE pour reprendre en main notre destin"* (*"Cancel the public debt held by the ECB and "take back control" of our destiny"*), published in several newspapers on 5 February 2021.
3. Interview of Christine Lagarde with Le Journal du Dimanche, 7 February 2021, source: ECB website.
4. Benoît Coeuré, *"Si on annule une fois les créances des banques centrales sur les Etats, on le refera inévitablement"*, Les Echos, 1 July 2020

> Should senior policy makers merely talk about the possibility of debt cancellation, this could entail a cost: financial markets could consider that the unthinkable is gradually becoming less unthinkable.

Concretely speaking, although investors may not have revised upwards their expectations about the inflation path, bond yields could still move higher if investors consider that the risk of upside inflation surprises has increased compared to the risk of downside surprises.[5] Debt cancellation clearly increases this risk. Three, cancellation of debt on the central bank's balance sheet could be interpreted as a worrying signal: the state of public finances must be very dire to warrant such an extreme measure. Such an interpretation could undermine confidence. In reality, the very low levels of interest rates imply that governments have a lot of time to bring their finances in better shape.

A rise in bond yields due to higher inflation expectations and/or a higher inflation risk premium would eventually be costly. To illustrate this point, a permanent 50 basis points increase in the average cost of borrowing would lead to an annual increase in interest charges of 0.75% of GDP in a country with a 150% debt/GDP ratio. It would also require a larger primary surplus or a smaller primary deficit[6] to stabilize the debt ratio. It should be emphasized that should senior policy makers merely talk about the possibility of debt cancellation, this could entail a cost because of its signaling value: financial markets could consider that the unthinkable is gradually becoming less unthinkable. It would also put pressure on the ECB, leading to a debate on how long it should reinvest maturing debt. It would also raise the bar for fiscal solidarity of the type seen under the Next Generation EU plan. Some countries will be reluctant to agree on transfers if others were to push for debt cancellation. For all of these reasons, the required risk premium could increase somewhat causing a rise in the level of government bond yields in general and/or sovereign spreads. Christine Lagarde, in her recent interview, hit the nail on the head by saying "*Rather than expending so much energy asking for debt to be cancelled, it would be much more worthwhile to focus instead on how this debt should be used*."

William De Vijlder

5. *"For empirical research which shows this relationship, see Inflation risks and inflation risk premia"*, ECB working paper 1162, March 2010.
6. Stabilising the public debt/GDP ratio requires a primary surplus if the average nominal cost of borrowing ® is larger than the average nominal growth rate of GDP (g). If r < g, a primary deficit is allowed for.

MARKETS OVERVIEW

OVERVIEW

Week 12-2 21 to 18-2-21

↗ CAC 40	5 704	▸	5 728	+0.4	%
↘ S&P 500	3 935	▸	3 914	-0.5	%
↗ Volatility (VIX)	20.0	▸	22.5	+2.5	pb
↗ Euribor 3M (%)	-0.55	▸	-0.54	+0.4	bp
↘ Libor $ 3M (%)	0.19	▸	0.18	-1.2	bp
↗ OAT 10y (%)	-0.25	▸	-0.15	+10.4	bp
↗ Bund 10y (%)	-0.46	▸	-0.38	+8.5	bp
↗ US Tr. 10y (%)	1.18	▸	1.27	+8.9	bp
↘ Euro vs dollar	1.21	▸	1.21	-0.4	%
↘ Gold (ounce, $)	1 827	▸	1 778	-2.7	%
↗ Oil (Brent, $)	62.6	▸	64.0	+2.3	%

MONEY & BOND MARKETS

	Interest Rates		highest 21			lowest 21		
€	ECB	0.00	0.00	at	01/01	0.00	at	01/01
	Eonia	-0.48	-0.47	at	26/01	-0.50	at	01/01
	Euribor 3M	-0.54	-0.54	at	05/02	-0.56	at	06/01
	Euribor 12M	-0.50	-0.49	at	25/01	-0.52	at	02/02
$	FED	0.25	0.25	at	01/01	0.25	at	01/01
	Libor 3M	0.18	0.24	at	13/01	0.18	at	17/02
	Libor 12M	0.30	0.34	at	01/01	0.30	at	17/02
£	BoE	0.10	0.10	at	01/01	0.10	at	01/01
	Libor 3M	0.06	0.06	at	17/02	0.03	at	01/01
	Libor 12M	0.13	0.13	at	17/02	0.07	at	11/01

At 18-2-21

	Yield (%)		highest 21		lowest 21	
€	AVG 5-7y	-0.32	-0.32	at 17/02	-0.46	at 04/01
	Bund 2y	-0.68	-0.67	at 12/01	-0.75	at 01/01
	Bund 10y	-0.38	-0.38	at 18/02	-0.60	at 04/01
	OAT 10y	-0.15	-0.15	at 18/02	-0.41	at 04/01
	Corp. BBB	0.62	0.62	at 18/02	0.50	at 08/01
$	Treas. 2y	0.11	0.15	at 06/01	0.11	at 05/02
	Treas. 10y	1.27	1.28	at 17/02	0.91	at 01/01
	High Yield	4.61	4.86	at 12/01	4.61	at 18/02
£	gilt. 2y	0.03	0.05	at 05/02	-0.08	at 04/01
	gilt. 10y	0.64	0.65	at 16/02	0.21	at 04/01

At 18-2-21

EXCHANGE RATES

1€ =		highest 21			lowest 21			2021
USD	1.21	1.23	at	06/01	1.20	at	04/02	-1.3%
GBP	0.87	0.91	at	06/01	0.87	at	18/02	-3.3%
CHF	1.08	1.09	at	07/01	1.08	at	18/01	+0.2%
JPY	127.71	128.12	at	16/02	125.22	at	18/01	+1.1%
AUD	1.56	1.60	at	04/01	1.56	at	17/02	-1.6%
CNY	7.81	8.00	at	01/01	7.74	at	04/02	-2.4%
BRL	6.58	6.69	at	11/01	6.33	at	18/01	+3.5%
RUB	89.46	92.20	at	28/01	88.87	at	20/01	-1.1%
INR	87.71	89.88	at	07/01	87.40	at	04/02	-1.9%

At 18-2-21 *Change*

COMMODITIES

Spot price, $		highest 21			lowest 21			2021	2021(€)
Oil, Brent	64.0	64.4	at	17/02	51.2	at	04/01	+23.3%	+25.0%
Gold (ounce)	1 778	1 947	at	05/01	1 770	at	17/02	-6.3%	-5.0%
Metals, LMEX	3 759	3 759	at	18/02	3 415	at	01/01	+10.1%	+11.6%
Copper (ton)	8 573	8 573	at	18/02	7 749	at	01/01	+10.6%	+12.1%
wheat (ton)	257	2.6	at	15/01	247	at	11/02	+4.0%	+5.4%
Corn (ton)	213	2.2	at	08/02	188	at	04/01	+1.3%	+14.3%

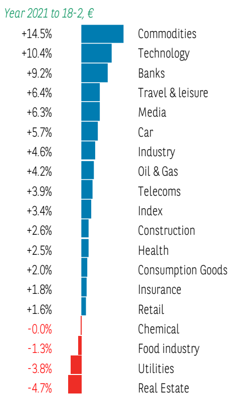
At 18-2-21 *Change*

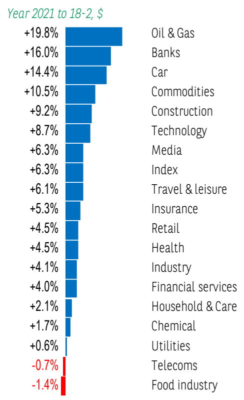
EQUITY INDICES

	Index	highest 21			lowest 21			2021
World								
MSCI World	2 803	2 830	at	15/02	2 662	at	29/01	+4.2%
North America								
S&P500	3 914	3 935	at	12/02	3 701	at	04/01	+4.2%
Europe								
EuroStoxx50	3 681	3 734	at	15/02	3 481	at	29/01	+3.6%
CAC 40	5 728	5 787	at	16/02	5 399	at	29/01	+0.3%
DAX 30	13 887	14 109	at	15/02	13 433	at	29/01	+1.2%
IBEX 35	8 058	8 408	at	08/01	7 758	at	29/01	-0.0%
FTSE100	6 617	6 873	at	08/01	6 407	at	29/01	+0.2%
Asia								
MSCI, loc.	1 122	1 133	at	16/02	1 044	at	06/01	+0.7%
Nikkei	30 236	30 468	at	16/02	27 056	at	06/01	+10.2%
Emerging								
MSCI Emerging ($)	1 425	1 445	at	17/02	1 292	at	01/01	+1.0%
China	127	130	at	17/02	108	at	01/01	+16.9%
India	729	734	at	15/02	659	at	29/01	+7.4%
Brazil	1 794	1 941	at	14/01	1 727	at	29/01	+0.3%
Russia	683	722	at	14/01	647	at	01/02	+2.3%

At 18-2-21 *Change*

PERFORMANCE BY SECTOR (Eurostoxx50 & S&P500)

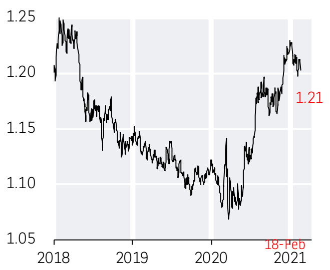




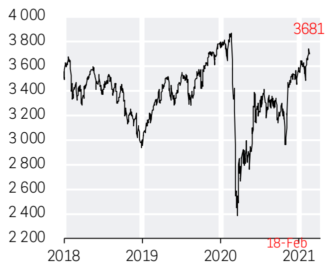
SOURCE: THOMSON REUTERS,

MARKETS OVERVIEW

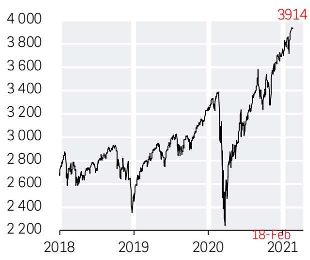
EURO-DOLLAR



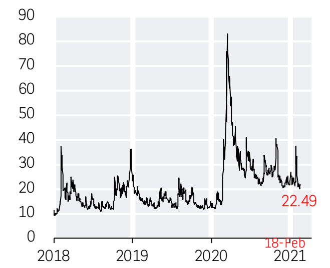
EUROSTOXX50



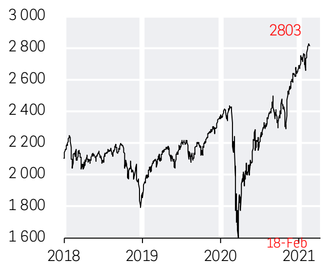
S&P500



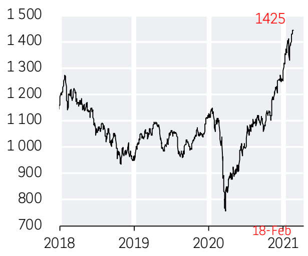
VOLATILITY (VIX, S&P500)



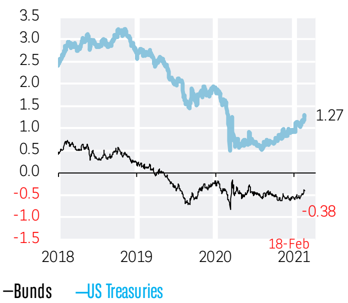
MSCI WORLD (USD)



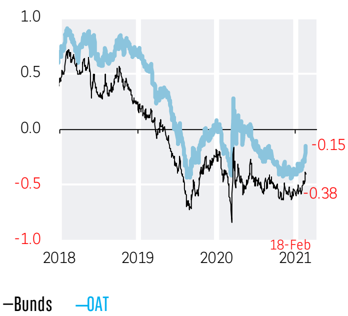
MSCI EMERGING (USD)



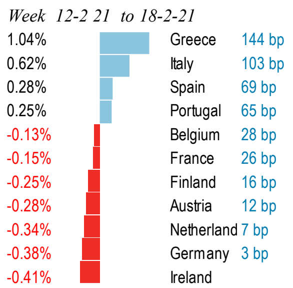
10Y BOND YIELD, TREASURIES VS BUND



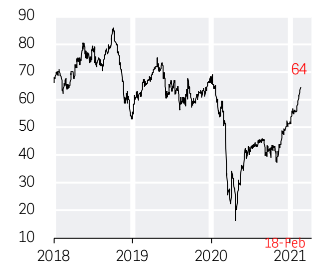
10Y BOND YIELD



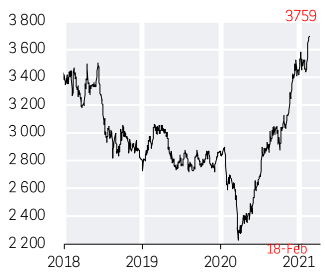
10Y BOND YIELD & SPREADS



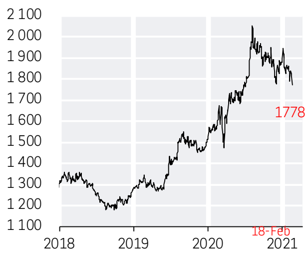
OIL (BRENT, USD)



METALS (LMEX, USD)



GOLD (OUNCE, USD)



SOURCE: THOMSON REUTERS,

ECONOMIC PULSE

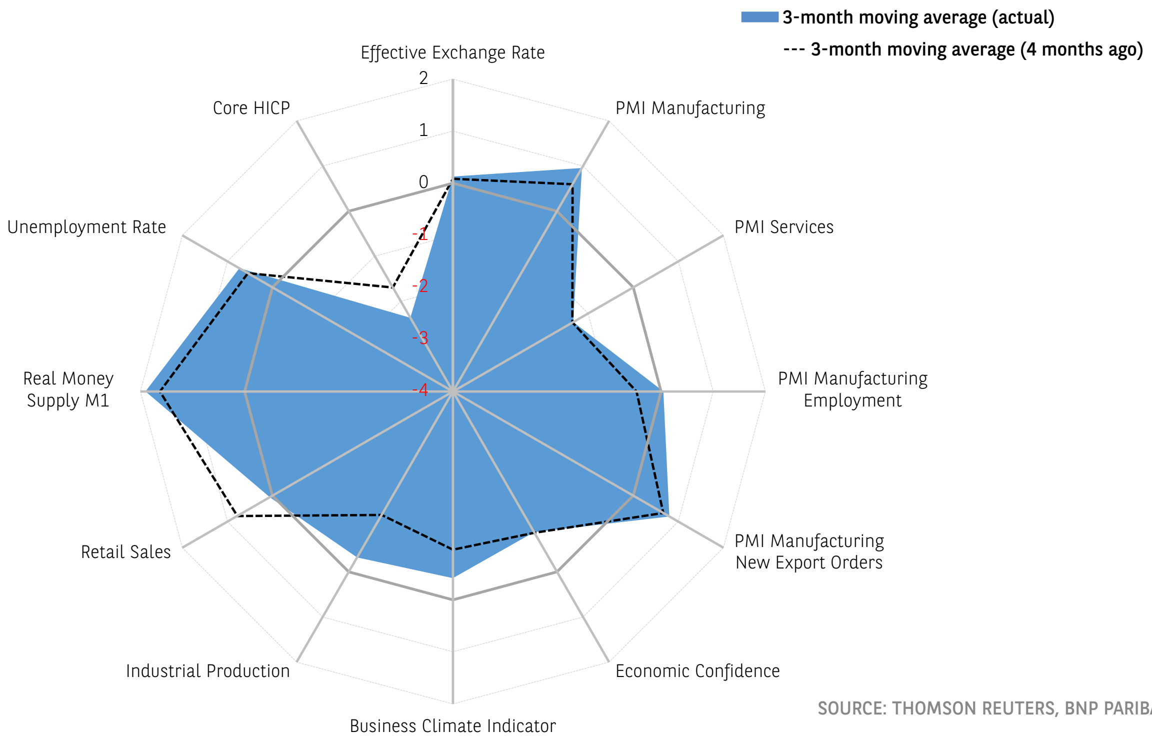
EUROZONE: AN ECONOMIC RECOVERY SLOW IN THE MAKING

The Covid-19 pandemic is showing signs of improvement in the European countries as well as in the United States. Despite the persistently high number of cases in some countries, and fears of the accelerated spread of new variants, the reduction in new daily cases combined with the roll-out of vaccination campaigns are brightening the economic horizon. As we have pointed out several times, a robust and lasting normalisation of the economic situation will depend on gaining full control over the Covid-19 pandemic and on the renewed confidence of economic agents.

Yet the Eurozone economy is struggling to recover in the midst of persistent lockdown measures and health restrictions. After a robust economic rebound in late spring 2020, the recovery phase has virtually levelled off thereafter. Unsurprisingly, the Eurozone's services sector remains particularly hard hit. The services purchasing managers index (PMI) has deteriorated slightly over the past three months compared to the previous three months, and is still low relative to its long-term average. At only 44.1 in February 2021, the services PMI has not risen above 50, the threshold separating economic expansion from contraction, since summer 2020. Sector activity will only improve once economic agents regain confidence. In this respect, both the global economic sentiment and, more specifically, consumer confidence indexes are still deteriorated in the Eurozone. Although the rise in unemployment has been contained so far, it could begin to accelerate again over the course of the year. The signals are much more encouraging for the Eurozone's manufacturing sector. For several months, manufacturing PMI has levelled off at a high level and has even notably increased to 57.7 in February 2021, after 54.8 in January. The "new export orders" component is still going strong in the midst of a rapid normalisation of world trade, which by November 2020 had already returned to the year-end 2019 level. Eurozone export companies are benefiting notably from the economic recovery in China, a major trading partner. Faced with a persistently uncertain economic environment, monetary policy will continue to be accommodative. Although Eurozone inflation rose sharply in January 2021, this movement could be short-lived and inflation could hold below the ECB's 2% target for quite some time. The narrow M1 money supply aggregate continues to be very dynamic and is growing much more rapidly than the historical average.

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 -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.

MOBILITY: THE EXTENSION AND TIGHTENING OF COVID-19 RELATED MEASURES WEIGH ON ACTIVITY IN SERVICES

Retail and leisure traffic flows are increasing in some countries and declining in others according to the Google Mobility Report released on 14 February.

In France, in addition to the national curfew, the government decided to close non-food shopping centres with a retail area of more than 20,000 m^2 as of midnight, January 31. After the dynamic pace of retailing reported in the last week of January, this new restriction has reduced retail and leisure traffic flows, with the 7-day moving average slipping to about 44% relative to the baseline* (chart 1). In Germany, after the momentum reported since the end of December 2020, retail and leisure traffic flows have begun to decline again since early February, with a 7-day moving average of nearly 60% relative to the baseline. Despite an encouraging decline in the number of Covid-19 cases, German Chancellor Angela Merkel announced that lockdown restrictions would not be lifted until 7 March, which should keep retail and leisure traffic flows at a low level in the weeks ahead. Note that Germany partially closed its borders with Austria and the Czech Republic to limit the spread of the UK variant.

In the United Kingdom, retail traffic is sticking to the encouraging pace reported since mid-January. At 16 February, 16.5 million people had been given at least one dose of the vaccination. In addition, the pandemic is slowing after more than a month of lockdown. In the United States, consumer traffic flows are still relatively stable. In Japan, it continues its upward momentum recorded since the end of January.

The extension and tightening of measures in response to the Covid-19 pandemic resulted in a decline in services sector activity in February. In France, the services PMI index deteriorated to 43.6 in February against 47.3 in January, the lowest since November 2020. In Germany, services activity continued to decelerate, the PMI index services reaching 45.9 in February, a lowest since May 2020. In Japan, the services PMI continued to decline as well, reaching 45.8 in February, a six-month low. In the UK, the services index surprised positively, hitting 49.7, after falling to 39.5 in January, and well above market expectations (41). It suggested that activity in services has more or less stabilised, although at a rather low level. As for other countries, the index remains below the 50 mark, which separates contraction from expansion. In the US, the Services PMI stood at 58.9 in February compared with 58.3 in January, the highest since March 2015.

Tarik Rharrab

RETAIL AND RECREATION MOBILITY

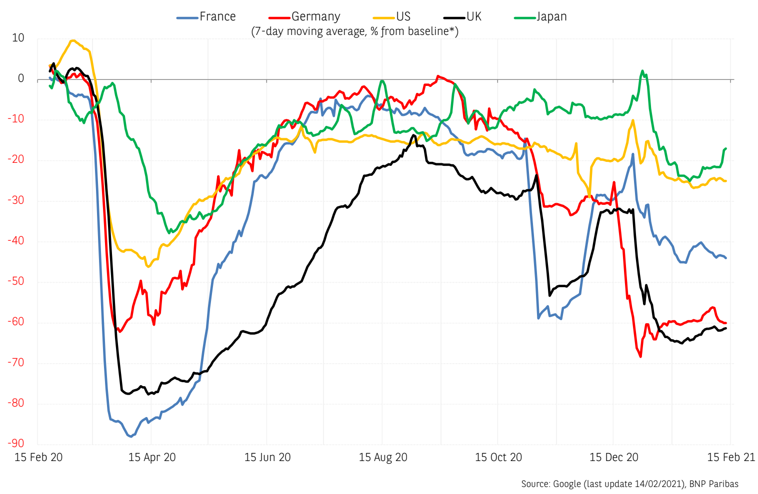


CHART 1 SOURCE: GOOGLE (14 FEBRUARY 2021), BNP PARIBAS

** 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.*

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

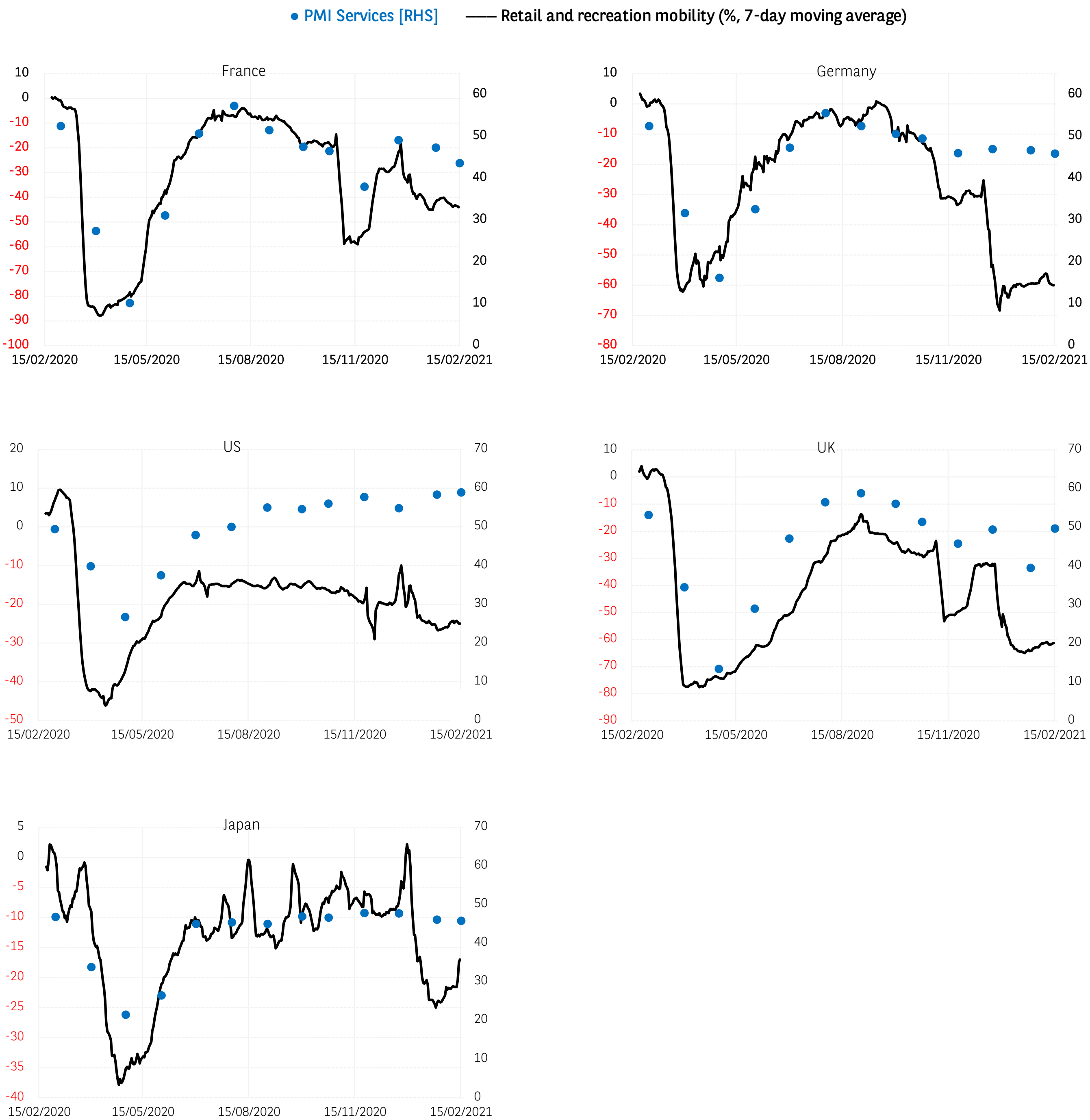


CHART 2

SOURCE: GOOGLE (LAST UPDATE 14 FEBRUARY 2021), MARKIT (LAST UPDATE 19 FEBRUARY 2021), 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, have started to be tightened since Q4, as the authorities aim to contain risks in the financial system.

EUROZONE

After a solid rebound in Q3 2020 (+12.6%), even exceeding expectations, Eurozone GDP should slow sharply in Q4 2020. Given the resurgence of the pandemic and the implementation of new sanitary restrictions in most of the member states, the recovery is losing momentum. The activity loss caused by the Covid-19 crisis is unlikely to be fully erased before year-end 2021. Despite the hopes raised by the vaccines, 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 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.

RATES AND EXCHANGE RATES

In the US, policy should 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. To this end, it has decided at its December meeting that 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. Should the economic situation worsen, more measures are to be expected. 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 has eased policy further. In particular, it has decided to increase the envelope of the pandemic emergency purchase programme (PEPP) and to extend its horizon for net purchases to at least the end of March 2022. These measures aim to support the economy so as to create a pick-up in inflation, which has dropped to a very low level. This very accommodative stance –which will be maintained for a long time- should keep a lid on sovereign bond spreads, although at some point, speculation that the PEPP's end date might not be prolonged any further should cause some spread widening. 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 further 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. The 'risk-on' environment is also supportive for the euro. Similar arguments apply for the dollar versus the yen.

GROWTH & INFLATION

	GDP Growth				Inflation			
%	2019	2020	2021 e	2022 e	2019	2020	2021 e	2022 e
United-States	2.2	-3.5	4.2	4.1	1.8	1.2	1.9	1.9
Japan	0.3	-5.3	1.1	3.0	0.5	0.0	-0.4	-0.3
United-Kingdom	1.5	-9.9	4.0	8.6	1.8	0.9	1.5	2.1
Euro Area	1.3	-6.8	3.8	5.5	1.2	0.2	0.8	1.3
Germany	0.6	-5.3	2.7	5.1	1.4	0.5	1.3	1.2
France	1.5	-8.3	5.5	4.7	1.3	0.5	0.6	1.2
Italy	0.3	-8.9	4.5	4.4	0.6	-0.2	0.5	1.3
Spain	2.0	-11.0	5.4	5.9	0.8	-0.3	0.4	0.9
China	6.1	3.0	9.5	5.3	2.9	2.9	2.3	2.8
India*	4.2	-11.4	11.6	5.0	4.8	4.9	4.3	3.8
Brazil	1.1	-4.5	3.0	3.0	3.7	2.7	4.0	4.0
Russia	1.3	-4.5	3.8	3.0	4.3	3.2	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 NOVEMBER 2020, *GROWTH UPDATED ON 7 JANUARY 2021

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, fourth quarter growth was better than expected, in particular on the back of very dynamic business spending. In addition, core machine orders growth accelerated, whereas the consensus had expected a decline. Export growth also picked up. The flash PMIs didn't move much: a bit better in manufacturing -now above 50- and a bit weaker in services. The eurozone saw a slight upward revision of fourth quarter GDP growth, from -0.7% to -0.6%. New car registrations were particularly bad. However, ZEW survey expectations improved noticeably. The same applies to ZEW expectations for Germany. Eurozone consumer confidence eased somewhat. The flash PMI data saw significant improvement in the manufacturing sector in France, Germany and the euro area. Services declined and disappointed. In the UK, consumer confidence declined and retail sales recorded a big drop. Although the manufacturing PMI hardly changed, the services PMI created a big surprise by improving significantly. In the US, retail sales were particularly strong, beating the consensus by a wide margin. Housing data were mixed with stronger permits but a decline in housing starts. Initial unemployment claims disappointed and increased and the Philadelphia business outlook declined but less than feared. Finally, the manufacturing flash PMI declined slightly although the level is still very high (58.5). The services PMI recorded a small increase, to 58.9.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	ACTUAL	PREVIOUS
02/15/2021	Japan	GDP SA QoQ	4Q	2.4%	3.0%	5.3%
02/15/2021	Japan	GDP Private Consumption QoQ	4Q	2.0%	2.2%	5.1%
02/15/2021	Japan	GDP Business Spending QoQ	4Q	2.4%	4.5%	-2.4%
02/15/2021	Japan	Inventory Contribution % GDP	4Q	-0.2%	-0.4%	-0.2%
02/15/2021	Japan	Net Exports Contribution % GDP	4Q	0.9%	1.0%	2.6%
02/16/2021	France	ILO Unemployment Rate	4Q	9.1%	8.0%	9.1%
02/16/2021	Eurozone	Employment QoQ	4Q	--	0.3%	1.0%
02/16/2021	Eurozone	GDP SA QoQ	4Q	-0.7%	-0.6%	-0.6%
02/16/2021	Eurozone	ZEW Survey Expectations	Feb	--	69.6	58.3
02/16/2021	Germany	ZEW Survey Expectations	Feb	59.5	71.2	61.8
02/16/2021	Germany	ZEW Survey Current Situation	Feb	-66.5	-67.2	-66.4
02/17/2021	Japan	Exports YoY	Jan	6.8%	6.4%	2.0%
02/17/2021	Japan	Core Machine Orders MoM	Dec	-6.1%	5.2%	1.5%
02/17/2021	Eurozone	EU27 New Car Registrations	Jan	--	-24.0%	-3.3%
02/17/2021	United Kingdom	CPI Core YoY	Jan	1.3%	1.4%	1.4%
02/17/2021	United States	PPI Ex Food and Energy MoM	Jan	0.2%	1.2%	0.1%
02/17/2021	United States	Retail Sales Advance MoM	Jan	1.1%	5.3%	-1.0%
02/17/2021	United States	Retail Sales Ex Auto MoM	Jan	1.0%	5.9%	-1.8%
02/17/2021	United States	Retail Sales Control Group	Jan	1.0%	6.0%	-2.4%
02/17/2021	United States	NAHB Housing Market Index	Feb	83.0	84.0	83.0
02/17/2021	United States	FOMC Meeting Minutes	Jan			

SOURCE: BLOOMBERG

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	ACTUAL	PREVIOUS
02/17/21-02/24/21	Japan	Tokyo Dept Store Sales YoY	Jan	--		-15.90%
02/18/2021	Japan	Machine Tool Orders YoY	Jan	--	9.7%	9.7%
02/18/2021	United States	Building Permits MoM	Jan	-1.4%	10.4%	4.2%
02/18/2021	United States	Housing Starts MoM	Jan	-0.5%	-6.0%	8.2%
02/18/2021	United States	Initial Jobless Claims	13-Feb	773k	861k	848k
02/18/2021	United States	Philadelphia Fed Business Outlook	Feb	20.0	23.1	26.5
02/18/2021	Eurozone	Consumer Confidence	Feb	-15.0	-14.8	-15.5
02/19/2021	United Kingdom	GfK Consumer Confidence	Feb	-26.0	-23.0	-28.0
02/19/2021	Japan	Jibun Bank Japan PMI Mfg	Feb	--	50.6	49.8
02/19/2021	Japan	Jibun Bank Japan PMI Services	Feb	--	45.8	46.1
02/19/2021	Japan	Jibun Bank Japan PMI Composite	Feb	--	47.6	47.1
02/19/2021	United Kingdom	Retail Sales Ex Auto Fuel MoM	Jan	-2.1%	-8.8%	0.4%
02/19/2021	France	CPI EU Harmonized MoM	Jan	0.3%	0.3%	0.3%
02/19/2021	France	Markit France Manufacturing PMI	Feb	51.5	55.0	51.6
02/19/2021	France	Markit France Services PMI	Feb	47.0	43.6	47.3
02/19/2021	France	Markit France Composite PMI	Feb	47.5	45.2	47.7
02/19/2021	Germany	Markit/BME Germany Manufacturing PMI	Feb	56.5	60.6	57.1
02/19/2021	Germany	Markit Germany Services PMI	Feb	46.5	45.9	46.7
02/19/2021	Germany	Markit/BME Germany Composite PMI	Feb	50.5	51.3	50.8
02/19/2021	Eurozone	Markit Eurozone Manufacturing PMI	Feb	54.3	57.7	54.8
02/19/2021	Eurozone	Markit Eurozone Services PMI	Feb	45.9	44.7	45.4
02/19/2021	Eurozone	Markit Eurozone Composite PMI	Feb	48.0	48.1	47.8
02/19/2021	United Kingdom	Markit UK PMI Manufacturing SA	Feb	53.1	54.9	54.1
02/19/2021	United Kingdom	Markit/CIPS UK Services PMI	Feb	42.0	49.7	39.5
02/19/2021	United Kingdom	Markit/CIPS UK Composite PMI	Feb	42.6	49.8	41.2
02/19/2021	United Kingdom	CBI Trends Total Orders	Feb	-35.0	-24.0	-38.0
02/19/2021	United States	Markit US Manufacturing PMI	Feb	58.8	58.5	59.2
02/19/2021	United States	Markit US Composite PMI	Feb	--	58.8	58.7
02/19/2021	United States	Markit US Services PMI	Feb	58.0	58.9	58.3

SOURCE: BLOOMBERG

CALENDAR: THE WEEK AHEAD

COMING INDICATORS

Next week sees the publication of the important European Commission surveys on economic confidence and its subseries. In France, business confidence and consumer confidence will be published as well as consumer spending in January and an updated estimate of 4th quarter GDP growth. Germany will also publish a similar update as well as the composition of growth. In addition, the IFO business climate will be released. In Japan, retail sales data will be published whereas the unemployment rate will be released for the UK. Finally, the US will have several data releases: regional business surveys, an update on 4th quarter GDP, Consumer Board confidence and University of Michigan sentiment, capital goods orders as well as personal income and spending.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	PREVIOUS
02/22/2021	Germany	IFO Expectations	Feb	--	91.1
02/22/2021	Germany	IFO Current Assessment	Feb	--	89.2
02/22/2021	Germany	IFO Business Climate	Feb	--	90.1
02/22/2021	United States	Chicago Fed Nat Activity Index	Jan	--	0.52
02/22/2021	United States	Dallas Fed Manf. Activity	Feb	--	7
02/23/2021	United Kingdom	ILO Unemployment Rate 3Mths	Dec	--	5.00%
02/23/2021	Eurozone	CPI Core YoY	Jan	--	1.40%
02/23/2021	United States	Conf. Board Consumer Confidence	Feb	90	89.3
02/23/2021	United States	Conf. Board Present Situation	Feb	--	84.4
02/23/2021	United States	Conf. Board Expectations	Feb	--	92.5
02/23/2021	United States	Richmond Fed Manufact. Index	Feb	--	14
02/24/2021	Germany	GDP SA QoQ	4Q	--	0.10%
02/24/2021	Germany	Private Consumption QoQ	4Q	--	10.80%
02/24/2021	Germany	Government Spending QoQ	4Q	--	0.80%
02/24/2021	Germany	Capital Investment QoQ	4Q	--	3.60%
02/24/2021	France	Business Confidence	Feb	--	92
02/24/2021	France	Manufacturing Confidence	Feb	--	98
02/24/2021	United States	New Home Sales MoM	Jan	2.70%	1.60%
02/25/2021	Germany	GfK Consumer Confidence	Mar	--	-15.6
02/25/2021	France	Consumer Confidence	Feb	--	92
02/25/2021	Eurozone	Consumer Confidence	Feb	--	--
02/25/2021	Eurozone	Economic Confidence	Feb	--	91.5
02/25/2021	Eurozone	Industrial Confidence	Feb	--	-5.9
02/25/2021	Eurozone	Services Confidence	Feb	--	-17.8
02/25/2021	United States	Cap Goods Orders Nondef Ex Air	Jan	--	0.70%
02/25/2021	United States	GDP Annualized QoQ	4Q	4.30%	4.00%
02/25/2021	United States	Kansas City Fed Manf. Activity	Feb	--	17
02/26/2021	Japan	Retail Sales MoM	Jan	--	-0.80%
02/26/2021	France	Consumer Spending MoM	Jan	--	23.00%
02/26/2021	France	GDP QoQ	4Q	--	-1.30%
02/26/2021	United States	Personal Income	Jan	9.40%	0.60%
02/26/2021	United States	Personal Spending	Jan	0.50%	-0.20%
02/26/2021	United States	U. of Mich. Sentiment	Feb	76.2	76.2
02/26/2021	United States	U. of Mich. Current Conditions	Feb	--	86.2
02/26/2021	United States	U. of Mich. Expectations	Feb	--	69.8
02/26/2021	United States	U. of Mich. 1 Yr Inflation	Feb	--	3.30%
02/26/2021	United States	U. of Mich. 5-10 Yr Inflation	Feb	--	2.70%

SOURCE: BLOOMBERG

FURTHER READING

Spain: the debate on pension reform arises again	EcoTVWeek	19 February 2021
Sub-Sahara Africa : Dealing with Africa's risk of debt distress	Conjoncture	18 February 2021
World merchandise trade quickly back to pre-pandemic levels	Chart of the Week	17 February 2021
EcoWeek 21.06. February 12, 2021 issue	EcoWeek	12 February 2021
Spain: Catalonia regional election: independence no longer the key issue?	EcoFlash	11 February 2021
Emerging Markets : The covid crisis has not raised domestic borrowing costs for governments	Chart of the Week	10 February 2021
February 2021 edition	EcoTV	9 February 2021
EcoWeek 21.05. February 5, 2021 issue	EcoWeek	5 February 2021
Towards a delayed eurozone recovery?	EcoTVWeek	5 February 2021
Us banks: plans for share buybacks before the downsizing of balance sheets	Chart of the Week	3 February 2021
EcoWeek 21.04. January 29, 2021 issue	EcoWeek	29 January 2021
United Kingdom: A month after Brexit	EcoTVWeek	29 January 2021
France: old and new indicators for assessing the economic situation	Chart of the Week	27 January 2021
EcoWeek 21.03. January 22, 2021 issue	EcoWeek	22 January 2021
France's economic situation at the start of 2021	EcoTVWeek	22 January 2021
Spain: Towards a protracted increase in the public deficit?	EcoFlash	21 January 2021
The stock market's recovery in Brazil: a local story	Chart of the Week	20 January 2021
2021 1st quarter issue	EcoEmerging	18 January 2021
EcoWeek 21.02. January 15, 2021 issue	EcoWeek	15 January 2021
The migration of risk in 2021	EcoTVWeek	15 January 2021

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.a.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