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ECONOMIC RESEARCH

BNP PARIBAS

The bank for a changing world

US: RISING BOND YIELDS, A CONCERN FOR EQUITY INVESTORS?

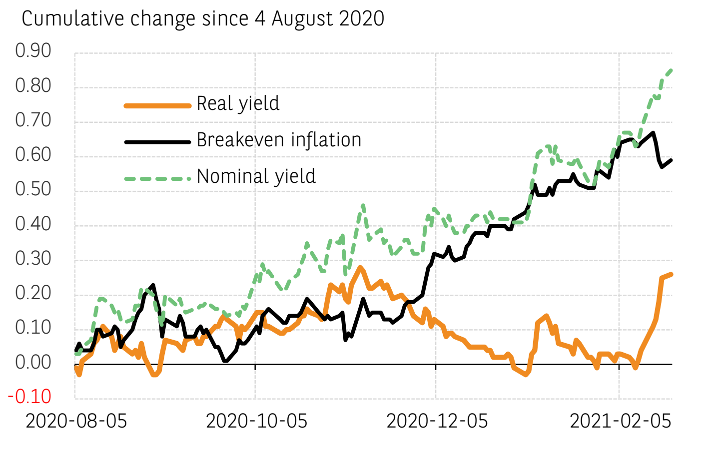
Until recently, the rise in long-term interest rates did not stop the equity market from moving higher, but events this week suggest investors are becoming increasingly concerned. The possible impact of higher bond yields on share prices, depends on what causes the increase: faster growth, a decline in uncertainty, rising inflation expectations. The last factor is the trickiest one because it may cause a profound reassessment of the outlook for monetary policy. Over the past two decades, the relationship between rising rates and the equity market has not been statistically significant. Gradualism in monetary policy has played a role. Recent statements by Jerome Powell show he is very much aware of the importance of avoiding to create surprises.

Last year, US Treasury yields saw a huge decline as the Covid-19 pandemic caused a flight to safety. Other factors, such as Federal Reserve policy and the inflation outlook, also played a role. The 10- year yield reached a low for the year early August, at 0.52%. Since then, long-term interest rates have been on a rising trend. The decomposition of the cumulative change in nominal Treasury yields shows that at the end of January, the increase in nominal yields was more or less equivalent to the increase in breakeven inflation, i.e. the spread between nominal and inflation- linked bonds. The real bond yield –the yield on inflation-linked securities-, after rising until early November, had moved back to its August level. In February however, the increase in nominal yields was fueled by an increase in real yields whereas breakeven inflation actually declined slightly.

Although until recently, the rise in long-term interest rates did not stop the equity market from moving higher, the recent acceleration in the increase in bond yields has raised concern about the possible impact on the stock market. This is illustrated by market developments this week whereby a global rise in bond yields has pushed equity markets lower. Everything else being the same, a lasting increase in bond yields corresponds to an increase in the discount rate used for calculating the net present value of future dividends and hence triggers a decline in share prices. However, not all increases in bond yields are the same. To the extent that they reflect expectations of faster real GDP growth, the path of future dividends should also be revised upwards. With the numerator and the denominator rising, share prices do not necessarily have to decline in reaction to an increase in yields. Higher long-term rates could also reflect a feeling that uncertainty is declining and that the likelihood of very negative economic outcomes has shrunk. This should cause a reduction in the other component of the discount rate, namely the required equity risk premium. Yields could also increase on the back of higher inflation expectations. The impact on equity prices is ambiguous. Faster price increases could mean higher nominal earnings, but that supposes there are no changes in relative prices. More importantly, rising inflation expectations could raise concern about tighter monetary policy, which normally should weigh on equity prices.

As shown in the table, the observed relationship between bond yields and the equity market has evolved over time. For the period starting in 1983, a lasting increase in 1 and 10 year yields –'lasting' being defined as an increase over a 4-week period- as well as a steepening of the yield curve were associated with a statistically significant decline of the equity market. For the observations starting in 1990, the 10-year yield is no longer significant and the yield curve slope has become less significant. For the most recent period, which starts in 2000, the three variables no longer have any significant explanatory power for the behaviour of the equity market. The past two decades saw a long bull market interrupted by two recessions. Periods of rising bond yields or the two Fed tightening cycles didn't matter that much. Gradualism in monetary policy and the effort of avoiding to create surprises also have played a role. The taper tantrum of May 2013 caused a surprise, but it took the S&P500 less than two months to recoup its losses. Investors realised that slowing down the pace of asset purchases by the Fed was not going to kill the economic expansion.

10 YEAR US TREASURY YIELDS AND BREAKEVEN INFLATION



SOURCE: FRED, BNP PARIBAS

> Barring major inflation surprises, the focus of the equity market in the coming months will probably be more on what happens to earnings growth rather than to interest rates.

The Federal Reserve is very much aware of the importance of avoiding surprises, a point which was emphasized by Chairman Jerome Powell in his testimony to Congress this week. Not only did he insist on being relaxed about the inflation outlook but also that the FOMC would "*clearly communicate [its] assessment of progress toward [its] goals well in advance of any change in the pace of purchases*[1]" . Barring major inflation surprises, the focus of the equity market will probably be more on what happens to earnings growth rather than to interest rates.

William De Vijlder and Tarik Rharrab

EQUITY MARKET AND BOND YIELDS

Dependent variable: 4 week change of S&P500 (in %)						
Independent variable	since 1983		since 1990		since 2000	
	coefficient	t-statistic	coefficient	t-statistic	coefficient	t-statistic
1 year US Treasury yield (4 week change)	-4.13	-4.42	-3.72	-2.44	-2.23	-0.98
10 year US Treasury yield (4 week change)	-2.96	-3.11	-1.71	-1.48	1.16	0.79
US Treasury yield curve slope (10 year minus 1 year) (4 week change)	-4.64	-1.95	-4.97	-1.81	-5.18	-1.57

Regressions were conducted with a distinction between positive changes in the explanatory variables and negative changes. Coefficients shown are those for positive changes. To take into account the serial correlation of the variables due to a 4 week moving window, a Newey-West estimation was used.

SOURCES : REFINITIV, BNP PARIBAS

1. Statement by Jerome H. Powell, Chair Board of Governors of the Federal Reserve System before the Committee on Banking, Housing, and Urban Affairs U.S. Senate, 23 February 2021

MARKETS OVERVIEW

OVERVIEW

Week 19-2 21 to 25-2-21				
↗ CAC 40	5 774	▸ 5 784	+0.2	%
↘ S&P 500	3 907	▸ 3 829	-2.0	%
↗ Volatility (VIX)	22.1	▸ 28.9	+6.8	pb
↗ Euribor 3M (%)	-0.54	▸ -0.54	+0.5	bp
↗ Libor $ 3M (%)	0.18	▸ 0.19	+1.5	bp
↗ OAT 10y (%)	-0.13	▸ -0.03	+10.4	bp
↗ Bund 10y (%)	-0.35	▸ -0.26	+8.4	bp
↗ US Tr. 10y (%)	1.33	▸ 1.50	+17.1	bp
↗ Euro vs dollar	1.21	▸ 1.22	+0.8	%
↘ Gold (ounce, $)	1 785	▸ 1 778	-0.4	%
↗ Oil (Brent, $)	62.9	▸ 66.9	+6.3	%

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	0.19	0.24	at	13/01	0.18	at	19/02
Libor 12M	0.28	0.34	at	01/01	0.28	at	24/02
£ BoE	0.10	0.10	at	01/01	0.10	at	01/01
Libor 3M	0.06	0.06	at	24/02	0.03	at	01/01
Libor 12M	0.14	0.14	at	24/02	0.07	at	11/01

At 25-2-21

Yield (%)		highest 21			lowest 21		
€ AVG 5-7y	-0.25	-0.25	at	25/02	-0.46	at	04/01
Bund 2y	-0.65	-0.65	at	25/02	-0.75	at	01/01
Bund 10y	-0.26	-0.26	at	25/02	-0.60	at	04/01
OAT 10y	-0.03	-0.03	at	25/02	-0.41	at	04/01
Corp. BBB	0.71	0.71	at	25/02	0.50	at	08/01
$ Treas. 2y	0.17	0.17	at	25/02	0.11	at	05/02
Treas. 10y	1.50	1.50	at	25/02	0.91	at	01/01
High Yield	4.67	4.86	at	12/01	4.60	at	19/02
£ gilt. 2y	0.11	0.11	at	25/02	-0.08	at	04/01
gilt. 10y	0.82	0.82	at	25/02	0.21	at	04/01

At 25-2-21

EXCHANGE RATES

1€ =		highest 21			lowest 21			2021
USD	1.22	1.23	at	06/01	1.20	at	04/02	-0.1%
GBP	0.86	0.91	at	06/01	0.86	at	24/02	-3.4%
CHF	1.10	1.10	at	25/02	1.08	at	18/01	+2.1%
JPY	129.90	129.90	at	25/02	125.22	at	18/01	+2.8%
AUD	1.54	1.60	at	04/01	1.53	at	24/02	-3.1%
CNY	7.89	8.00	at	01/01	7.74	at	04/02	-1.5%
BRL	6.73	6.73	at	25/02	6.33	at	18/01	+5.9%
RUB	90.55	92.20	at	28/01	88.87	at	20/01	+0.1%
INR	88.53	89.88	at	07/01	87.40	at	04/02	-1.0%

At 25-2-21 *Change*

COMMODITIES

Spot price, $		highest 21			lowest 21			2021	2021(€)
Oil, Brent	66.9	67.2	at	24/02	51.2	at	04/01	+28.9%	+29.1%
Gold (ounce)	1 778	1 947	at	05/01	1 770	at	17/02	-6.3%	-6.2%
Metals, LMEX	4 027	4 027	at	25/02	3 415	at	01/01	+17.9%	+18.0%
Copper (ton)	9 456	9 456	at	25/02	7 749	at	01/01	+22.0%	+22.1%
wheat (ton)	261	2.6	at	15/01	247	at	11/02	+5.3%	+5.4%
Corn (ton)	214	2.2	at	08/02	188	at	04/01	+1.3%	+13.5%

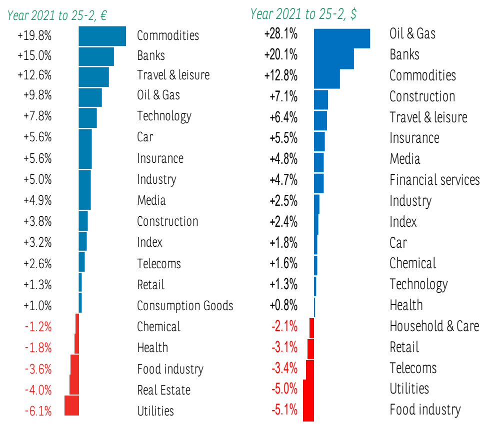
At 25-2-21 *Change*

EQUITY INDICES

	Index	highest 21			lowest 21			2021
World								
MSCI World	2 760	2 830	at	15/02	2 662	at	29/01	+2.6%
North America								
S&P500	3 829	3 935	at	12/02	3 701	at	04/01	+2.0%
Europe								
EuroStoxx50	3 685	3 734	at	15/02	3 481	at	29/01	+3.7%
CAC 40	5 784	5 798	at	24/02	5 399	at	29/01	+0.4%
DAX 30	13 879	14 109	at	15/02	13 433	at	29/01	+1.2%
IBEX 35	8 318	8 408	at	08/01	7 758	at	29/01	+0.3%
FTSE100	6 652	6 873	at	08/01	6 407	at	29/01	+0.3%
Asia								
MSCI, loc.	1 115	1 133	at	16/02	1 044	at	06/01	+0.7%
Nikkei	30 168	30 468	at	16/02	27 056	at	06/01	+9.9%
Emerging								
MSCI Emerging ($)	1 384	1 445	at	17/02	1 292	at	01/01	+0.7%
China	119	130	at	17/02	108	at	01/01	+9.6%
India	727	734	at	15/02	659	at	29/01	+6.8%
Brazil	1 669	1 941	at	14/01	1 669	at	25/02	-5.7%
Russia	684	722	at	14/01	647	at	01/02	+2.4%

At 25-2-21 *Change*

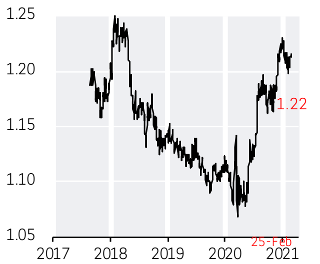
PERFORMANCE BY SECTOR (Eurostoxx50 & S&P500)



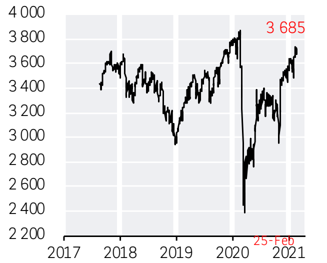
SOURCE: THOMSON REUTERS,

MARKETS OVERVIEW

EURO-DOLLAR

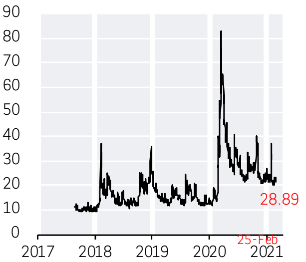


EUROSTOXX50

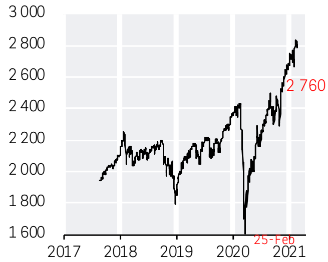


S&P500

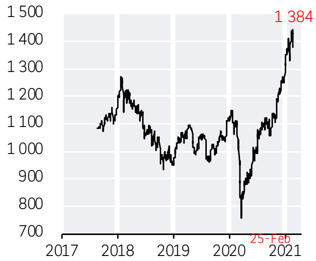
VOLATILITY (VIX, S&P500)



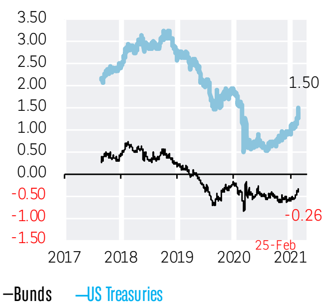
MSCI WORLD (USD)



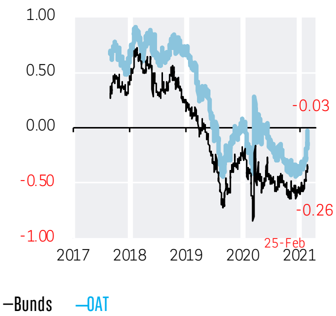
MSCI EMERGING (USD)



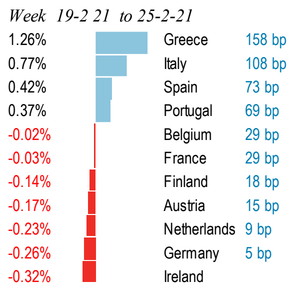
10Y BOND YIELD, TREASURIES VS BUND



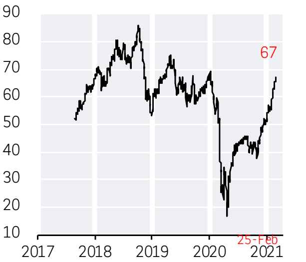
10Y BOND YIELD



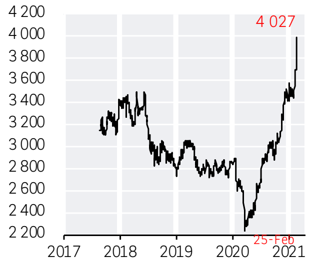
10Y BOND YIELD & SPREADS



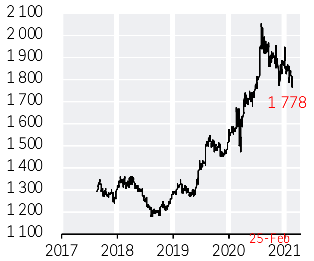
OIL (BRENT, USD)



METALS (LMEX, USD)



GOLD (OUNCE, USD)



SOURCE: THOMSON REUTERS,

ECONOMIC PULSE

GERMANY: HARDENING LOCKDOWN WEIGHS ON SERVICES

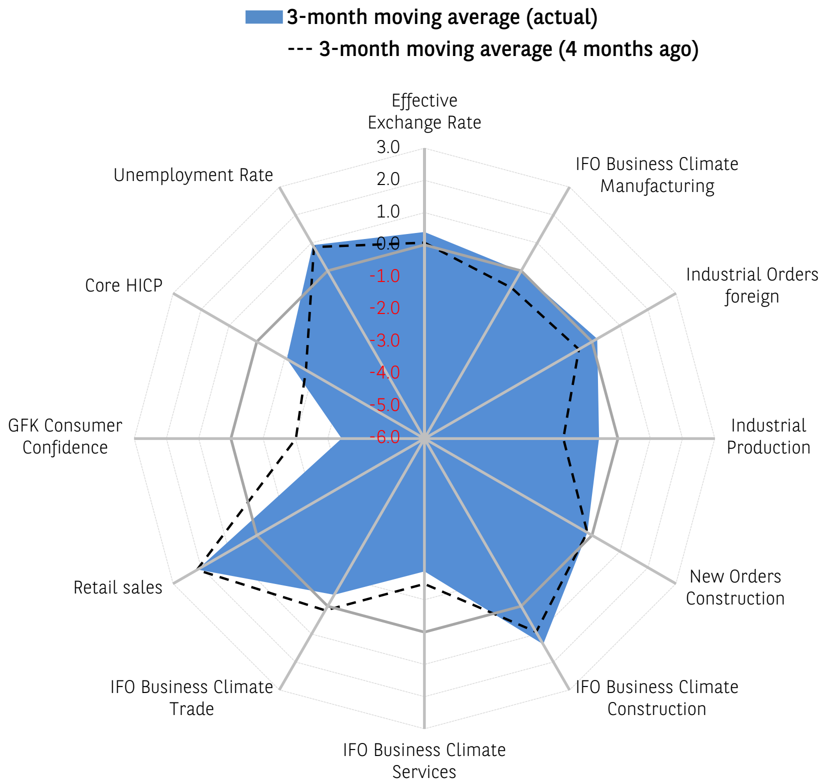
In February, the economic climate has slightly deteriorated compared to the previous month. Our proprietary business climate indicator for Germany - the unweighted sum of the Pulse's components - deteriorated slightly, to - 0.35 in February compared with -0.1 in the previous month. Since April 2020, the climate indicator has been in negative territory.

The reason is the hardening of the lockdown since mid-December, resulting in the closure of non-essential shops. Restaurants, bars and leisure centres had already been closed since early November. The effect is perfectly illustrated by the Pulse chart, which shows a slight contraction of the blue area compared to the situation three months earlier (the area within the dashed line). In particular, activity in the services sector shrunk. This was also confirmed by the IFO survey. The balance of opinion for wholesale and retail trade was firmly negative in both January and February. By contrast, the manufacturing sector profited from robust external demand, in particular coming from China. In February, the balance of opinion in this sector reached 16, a highest since November 2018. The business climate in the construction sector also improved despite the cold snap during the month.

A silver lining is on the horizon for the services sector. Thanks to the lockdown and the ongoing vaccination campaign, infections have drastically declined. At the end of February, the seven-day incidence rate fell to less than 60 cases per 100 000 compared with 135 at the beginning of the year. In early March, the Chancellor and the prime ministers of the country's 16 states will meet to assess the situation. An easing of the lockdown measures could be expected, which should boost output in this sector as well.

Raymond Van Der Putten

QUARTERLY CHANGES



SOURCE: THOMSON REUTERS, BNP PARIBAS

The indicators in the radar are all transformed into z-scores. By construction, the z-scores have mean zero and their values, which indicate how far the indicator is removed from its long-term average, are in the interval between -6 and + 3 in almost all cases. 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 improvement.

ECONOMIC PULSE

ITALY: THE INDUSTRIAL RECOVERY GATHERS PACE

As shown in our barometer, manufacturing activity has continued to strengthen at the beginning of the year. The manufacturing PMI index reached 55.1 in January, the best reading since March 2018. Italian industry is probably benefiting from activity in the US, which is stronger than in Europe. Around 10% of Italian exports go to the US, a comparatively higher share than German exports to this country (IMF figures). However, the recovery in the sector is not only driven by external demand: industrial domestic orders had been in December at their highest level since March 2011.

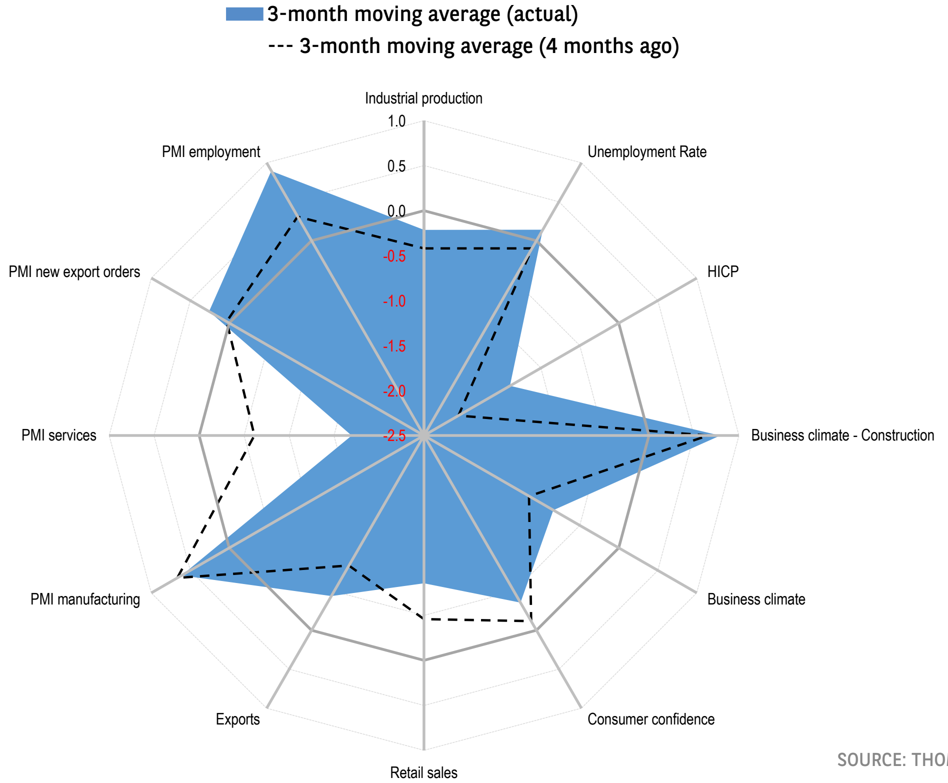
In contrast to this summer – when the rebound in industrial activity was led by consumer goods output – the current recovery in demand comes mainly from intermediate and capital goods. Meanwhile, the service sector remains heavily impacted by restrictions introduced to tackle the Covid-19 crisis: the services PMI (44.7) remains well below the 50 threshold indicating an expansion in activity.

As in many European countries, inflation has bounced back in Italy in recent months, mainly due to higher prices in transport and accommodation and food services. On a year-on-year basis, the Consumer Price Index (CPI) moved back into positive territory in January (0.69% y/y), whilst the core measure (excluding energy and unprocessed foods) rose at the fastest pace in a year (0.78% y/y).

The rapid formation of a coalition government led by Mario Draghi has prevented the country from sinking into a deeper political crisis, even though the health situation remains fragile. So far, the coalition, which gathers parties from across the political spectrum, seems to have reassured financial markets and the spread with the German Bund has continued to narrow. However, the new government will face various challenges in the coming weeks, including that of finalising the national recovery plan. The precise details and sources of financing of this plan will need to be sent to Brussels before the end of April.

Guillaume Derrien

QUARTERLY CHANGES



SOURCE: THOMSON REUTERS, BNP PARIBAS

The indicators in the radar are all transformed into z-scores. By construction, the z-scores have mean zero and their values, which indicate how far the indicator is removed from its long-term average, are in the interval between -2,5 and +1 in almost all cases. 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 improvement.

ECONOMIC PULSE

ENCOURAGING MOBILITY TRENDS AND PROGRESS WITH VACCINATION CAMPAIGNS

The latest Google Mobility Report published on 23 February paints an encouraging picture of store footfall and visits to recreational facilities around the world, especially in Europe.

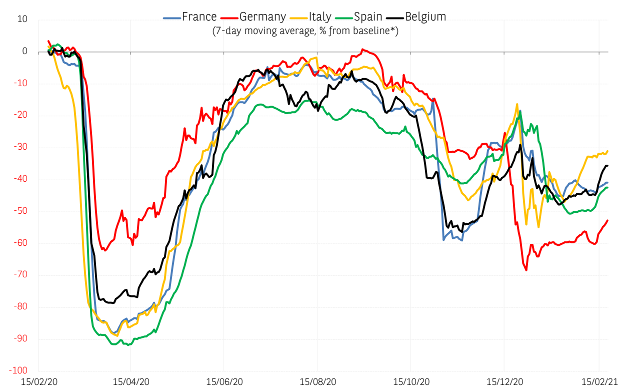
Belgium and Spain have recorded positive mobility trends after a period of stagnation since mid-January, the moving average improved, reaching 36% and 43% compared to baseline*. Italy eased its pandemic restrictions across most regions on 1 February, allowing restaurants and bars to reopen until 6 pm. As a result, the increase in mobility seen since the end of January has gained further steam, the moving average slightly improved, reaching 31% compared to baseline. Mobility trends have risen in France and Germany after a decline at the beginning of the month, the moving average increased and reached 41% and 53% compared to baseline. In the United Kingdom, mobility still lags behind mainland Europe, despite an upward trend since mid-January.

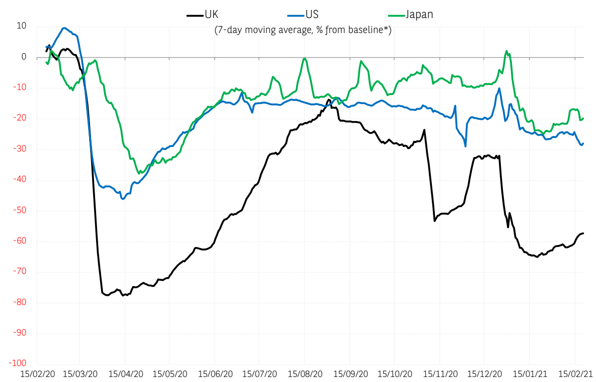
In the United States and Japan, mobility trends rebounded slightly after a brief dip, but levels in these two countries remain above those in mainland Europe.

In addition, vaccination campaigns have made good progress across the world. According to the latest data published on the University of Oxford's "Our World in Data" website, 102.74 million doses of Covid-19 vaccines had been administered in the eight countries referred to above, accounting for over 45% of the doses administered worldwide. Based on the number of vaccines given relative to population size, the United Kingdom, the world's first country to have authorised the vaccine (2 December), leads the way with 27.86 doses administered per 100 citizens**, or a total of 18.91 million doses. Next comes the United States, with 19.87 doses per 100 citizens, or a total of 66.46 million doses. Spain's vaccination ratio stands at 7.03%, followed by Germany, Italy, Belgium and France with ratios of 6.62%, 6.33%, 6.12% and 6.09% respectively, or a total of 17.34 million doses in these five Eurozone countries. Japan is at the rear with a very low level of 0.01%.

Tarik Rharrab

RETAIL AND RECREATION MOBILITY





SOURCES : GOOGLE (UPDATE AS OF 23/02/2021), 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.*

*** Number of people having received at least one dose*

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 2019	2020	2021 e	2022 e	Inflation 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, % End of period		2021 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 End of period		2021 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 Period-average		2021 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 Germany, the IFO business climate improved on the back of a better assessment of the current environment and a significant improvement of the expectations component. Consumer confidence also improved. Growth in the 4th quarter turned out to be higher than initially estimated. In France, business confidence declined somewhat whereas the consensus had expected confidence to remain unchanged. Consumer confidence eased slightly. The European Commission surveys (economic confidence, industrial confidence, services confidence) recorded an improvement and surprised positively. In the US, Conference Board consumer confidence improved and surprised favourably. There was a big jump in the assessment of the present situation but the expectations component declined slightly. New homes sales were very strong. Personal income recorded, as expected, a huge jump following the stimulus payments to households. University of Michigan sentiment improved a bit on the back of better expectations.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	ACTUAL	PREVIOUS
02/22/2021	Germany	IFO Expectations	Feb	91.7	94.2	91.5
02/22/2021	Germany	IFO Current Assessment	Feb	89.1	90.6	89.2
02/22/2021	Germany	IFO Business Climate	Feb	90.5	92.4	90.3
02/22/2021	United States	Chicago Fed Nat Activity Index	Jan	0.5	0.7	0.4
02/22/2021	United States	Dallas Fed Manf. Activity	Feb	5.0	17.2	7.0
02/23/2021	United Kingdom	ILO Unemployment Rate 3Mths	Dec	5.1%	5.1%	5.0%
02/23/2021	Eurozone	CPI Core YoY	Jan	1.4%	1.4%	1.4%
02/23/2021	United States	Conf. Board Consumer Confidence	Feb	90.0	91.3	88.9
02/23/2021	United States	Conf. Board Present Situation	Feb	--	92.0	85.5
02/23/2021	United States	Conf. Board Expectations	Feb	--	90.8	91.2
02/23/2021	United States	Richmond Fed Manufact. Index	Feb	15.0	14.0	14.0
02/24/2021	Germany	GDP SA QoQ	4Q	0.1%	0.3%	0.1%
02/24/2021	Germany	Private Consumption QoQ	4Q	-1.5%	-3.3%	10.8%
02/24/2021	Germany	Government Spending QoQ	4Q	-0.6%	-0.5%	0.6%
02/24/2021	Germany	Capital Investment QoQ	4Q	1.9%	1.0%	3.9%
02/24/2021	France	Business Confidence	Feb	92.0	90.0	91.0
02/24/2021	France	Manufacturing Confidence	Feb	99.0	97.0	96.0
02/24/2021	United States	New Home Sales MoM	Jan	1.7%	4.3%	5.5%
02/25/2021	Germany	GfK Consumer Confidence	Mar	-14.0	-12.9	-15.5
02/25/2021	France	Consumer Confidence	Feb	92.0	91.0	92.0

SOURCE: BLOOMBERG

CALENDAR

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	ACTUAL	PREVIOUS
02/25/2021	Eurozone	Consumer Confidence	Feb	--	-14.8	-14.8
02/25/2021	Eurozone	Economic Confidence	Feb	92.1	93.4	91.5
02/25/2021	Eurozone	Industrial Confidence	Feb	-5.0	-3.3	-6.1
02/25/2021	Eurozone	Services Confidence	Feb	-17.4	-17.1	-17.7
02/25/2021	United States	Cap Goods Orders Nondef Ex Air	Jan	0.8%	0.5%	0.7%
02/25/2021	United States	GDP Annualized QoQ	4Q	4.2%	4.1%	4.0%
02/25/2021	United States	Kansas City Fed Manf. Activity	Feb	15.0	24.0	17.0
02/26/2021	Japan	Retail Sales MoM	Jan	-1.2%	--	-0.7%
02/26/2021	France	Consumer Spending MoM	Jan	-4.0%	-4.6%	23.0%
02/26/2021	France	GDP QoQ	4Q	-1.3%	-1.4%	-1.3%
02/26/2021	United States	Personal Income	Jan	9.5%	10.0%	0.6%
02/26/2021	United States	Personal Spending	Jan	2.5%	2.4%	-0.2%
02/26/2021	United States	U. of Mich. Sentiment	Feb	76.5	76.8	76.2
02/26/2021	United States	U. of Mich. Current Conditions	Feb	--	86.2	86.2
02/26/2021	United States	U. of Mich. Expectations	Feb	--	70.7	69.8
02/26/2021	United States	U. of Mich. 1 Yr Inflation	Feb	--	3.3%	3.3%
02/26/2021	United States	U. of Mich. 5-10 Yr Inflation	Feb	--	2.7%	2.7%

SOURCE: BLOOMBERG

CALENDAR: THE WEEK AHEAD

COMING INDICATORS

A very busy week ahead of us, both in terms of the number of data releases but also of their importance. The highlight will be, as always, the US labour market report, but the purchasing managers surveys for a large number of countries are also eagerly awaited. In addition, the Federal Reserve will publish its Beige Book. Moreover, for the eurozone, we will have inflation data, retail sales and the unemployment rate.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	PREVIOUS
03/01/2021	Japan	Jibun Bank Japan PMI Mfg	Feb	--	50.6
03/01/2021	China	Caixin China PMI Mfg	Feb	51.5	51.5
03/01/2021	France	Markit France Manufacturing PMI	Feb	--	55
03/01/2021	Germany	Markit/BME Germany Manufacturing PMI	Feb	--	60.6
03/01/2021	Eurozone	Markit Eurozone Manufacturing PMI	Feb	--	57.7
03/01/2021	United Kingdom	Markit UK PMI Manufacturing SA	Feb	--	54.9
03/01/2021	United States	Markit US Manufacturing PMI	Feb	--	58.5
03/01/2021	United States	ISM Manufacturing	Feb	58.6	58.7
03/01/2021	United States	ISM Prices Paid	Feb	--	82.1
03/01/2021	United States	ISM New Orders	Feb	--	61.1
03/01/2021	United States	ISM Employment	Feb	--	52.6
03/01/21-03/02/21	Germany	Retail Sales MoM	Jan	1.00%	-9.60%
03/02/2021	Eurozone	CPI Estimate YoY	Feb	--	0.90%
03/02/2021	Eurozone	CPI Core YoY	Feb	--	1.40%
03/03/2021	Japan	Jibun Bank Japan PMI Services	Feb	--	45.8
03/03/2021	Japan	Jibun Bank Japan PMI Composite	Feb	--	47.6
03/03/2021	China	Caixin China PMI Composite	Feb	--	52.2
03/03/2021	China	Caixin China PMI Services	Feb	51.4	52
03/03/2021	France	Markit France Services PMI	Feb	--	43.6
03/03/2021	France	Markit France Composite PMI	Feb	--	45.2

SOURCE: BLOOMBERG

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	PREVIOUS
03/03/2021	Germany	Markit Germany Services PMI	Feb	--	45.9
03/03/2021	Germany	Markit/BME Germany Composite PMI	Feb	--	51.3
03/03/2021	Eurozone	Markit Eurozone Services PMI	Feb	--	44.7
03/03/2021	Eurozone	Markit Eurozone Composite PMI	Feb	--	48.1
03/03/2021	United Kingdom	Markit/CIPS UK Services PMI	Feb	--	49.7
03/03/2021	United Kingdom	Markit/CIPS UK Composite PMI	Feb	--	49.8
03/03/2021	United States	Markit US Composite PMI	Feb	--	58.8
03/03/2021	United States	Markit US Services PMI	Feb	--	58.9
03/03/2021	United States	ISM Services Index	Feb	58.7	58.7
03/03/2021	United States	U.S. Federal Reserve Releases Beige Book			
03/04/2021	Japan	Consumer Confidence Index	Feb	--	29.6
03/04/2021	Eurozone	Unemployment Rate	Jan	--	8.30%
03/04/2021	Eurozone	Retail Sales MoM	Jan	--	2.00%
03/04/2021	United States	Initial Jobless Claims	27-Feb	--	--
03/04/2021	United States	Cap Goods Orders Nondef Ex Air	Jan	--	--
03/05/2021	United States	Change in Nonfarm Payrolls	Feb	160k	49k
03/05/2021	United States	Unemployment Rate	Feb	6.40%	6.30%
03/05/2021	United States	Average Hourly Earnings MoM	Feb	0.20%	0.20%
03/05/2021	United States	Average Weekly Hours All Employees	Feb	34.9	35
03/05/2021	United States	Labor Force Participation Rate	Feb	--	61.40%
03/05/2021	United States	Underemployment Rate	Feb	--	11.10%

SOURCE: BLOOMBERG

FURTHER READING

Central Europe: Growth amid shortages	EcoTVWeek	26 February 2021
Accommodation and food service activities have made intensive use of sgls	Chart of the Week	24 February 2021
EcoWeek 21.07. February 19, 2021 issue	EcoWeek	19 February 2021
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

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