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BNP PARIBAS

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world

GLOBAL: WHY THE LEVEL OF PUBLIC INDEBTEDNESS MATTERS – A MARKET PERSPECTIVE

It is quite likely that, going forward, fighting recessions will be the remit of governments with central banks facilitating this task by creating cheap financing conditions. As a consequence, public indebtedness may very well remain high. One should wonder whether this could end up having negative consequences. A possible transmission channel is the pricing of government debt via a sovereign risk premium. Another factor can also play a role. Since 2015, when German bond yields increase, the rise in Italian yields have been even bigger -so the spread widens- whereas French yields has increased in line with German yields. These results suggests that, even in an environment of public sector securities purchases by the ECB, the high level of Italian debt influences the reaction to movements in Bund yields. Clearly, in the absence of QE, one would expect this effect to be at least as powerful.

The victory of both Democratic Party candidates at the run-off elections in Georgia for the US Senate has triggered a strong rally in small caps and other cyclically sensitive stocks. It reflects the expectation that, with the Democrats also controlling the Senate, more fiscal stimulus will be provided. It is one illustration amongst many that, in addressing the economic consequences of the Covid-19 pandemic, fiscal policy is now in the driving seat. This observation applies not only to the US but also more globally. We can safely assume this situation will prevail in a post-pandemic world. The current monetary policy stance –the level of official interest rates, QE, forward guidance- is likely to remain very accommodative in major jurisdictions for several years to come. Moreover, it is extremely unlikely that conditions would be met justifying a tightening cycle that would create enough room to cut rates subsequently when circumstances require. Going forward, fighting recessions will be the remit of governments with central banks facilitating this task by creating cheap financing conditions¹. Cheap government borrowing is instrumental in securing sufficient leeway for fiscal policy to boost growth. The bigger the negative difference between this cost (r) and average nominal GDP growth (g), the larger the primary budget deficit than can be sustained with a stable level of public indebtedness. There is a certain similarity with the effect of interest rates on the stock market: under certain conditions, low interest rates justify higher valuation levels. However, high price/earnings multiples will increase the sensitivity to interest rate and growth shocks. The same applies to public finances where a higher interest cost or slower growth will trigger an increase in the debt/GDP-ratio, unless the primary deficit were to be cut.

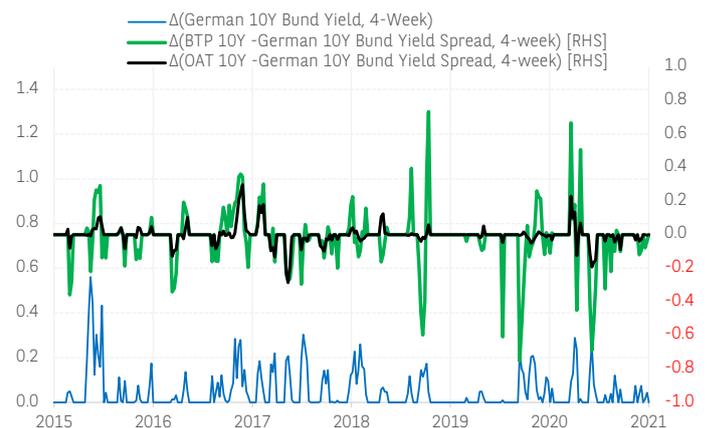
Even under the (heroic) assumption of a world without shocks, one should wonder whether a high, albeit stable, level of public indebtedness could end up having negative consequences. A possible transmission channel is the pricing of government debt whereby the borrowing cost would be higher when governments accept a higher level of sovereign debt. For the time being, extensive purchases of public securities by central banks have, to a large degree, removed this concern. Yield

1. This point was recently made by Laurence Boone, OECD chief economist: "governments should take on the primary role of stabilising the economy in the recovery with independent central banks relegated to a supporting role" (source: *OECD warns governments to rethink constraints on public spending*, Financial Times, 4 January 2021).

curve control policies –as conducted by the Bank of Japan- offer an even better protection for debt agencies. In the eurozone, the ECB's Pandemic Emergency Purchase Programme has been instrumental in keeping a lid on Bund yields and in causing a narrowing of sovereign spreads, but this begs the question of what will happen when the net purchases will stop at the end of March 2022 or a later date². The decision to end this programme would signal the confidence of the ECB in the growth outlook, so it should not raise concern about an increase in sovereign risk, quite to the contrary. However, Bund yields should increase due to a less negative term premium, so the question is what this could mean for sovereign spreads. *Chart 1* shows the reaction of the spread between French and German bond yields and between Italian and German yields when German yields are up over a 4-week period.

2. At its December meeting, the ECB Governing Council decided to extend the horizon for net purchases under the PEPP to at least the end of March 2022, adding that in any case, the net purchases would be conducted until it judges that the coronavirus crisis phase is over (source: ECB).

SPREAD OAT AND BTP VERSUS BUND 10-YEAR YIELD



SOURCE: REFINITIV, BNP PARIBAS

Were a government to opt for the stabilization of the debt/GDP-ratio at current levels, a stress test of the difference between borrowing cost and GDP growth is recommended in order to assess the sustainability of such a policy

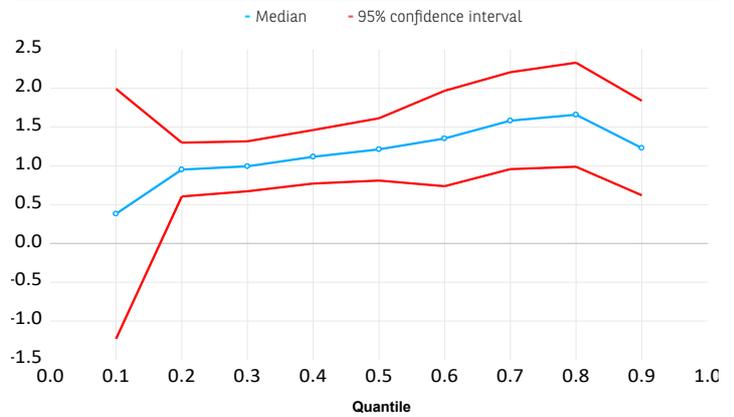


It is difficult to draw any conclusion, except that the OAT-Bund spread is less volatile than the BTP-Bund spread. To explore this further, a specific regression methodology was used, which allows for a non-linear relationship. As shown in *chart 2*, using weekly data starting in 2015, there is mostly a one-for-one relationship between the change in the 10-year OAT yield and the change in the yield on 10-year Bunds. However, the yield on Italian government bonds rises more than the yield on German bonds –the spread widens– and the difference is larger the bigger the increase in the Bund yield. These results suggests that, even in an environment of public sector securities purchases by the ECB, the high level of Italian public indebtedness plays a role in the reaction to increases in Bund yields³. Clearly, in the absence of QE, one would expect this effect to be at least as powerful. It is a reminder that, were a government to opt for the stabilization of the debt/GDP-ratio at current levels –rather than striving for a significant reduction of this ratio–, a stress test of the difference between r and g is recommended to assess the sustainability of such a policy.

William De Vijlder and Tarik Rharrab

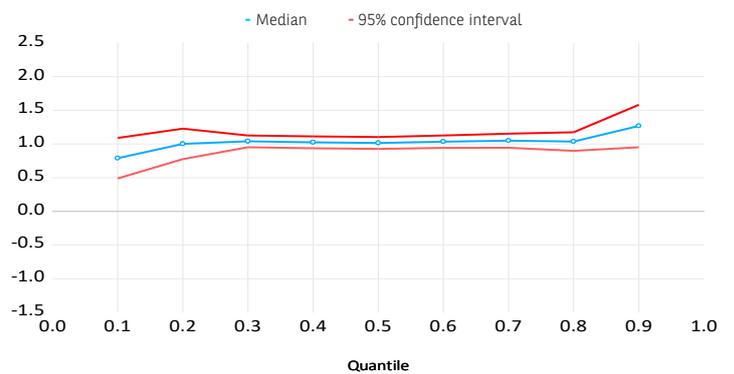
3. In theory, other factors, such as fiscal policy credibility, could also play a role.

QUANTILE REGRESSION COEFFICIENTS FOR BTP 10-YEAR WHEN CHANGE IN BUND 10Y IS POSITIVE



SOURCE: BNP PARIBAS CALCULATIONS

QUANTILE REGRESSION COEFFICIENTS FOR OAT 10-YEAR WHEN BUND 10-YEAR IS POSITIVE*



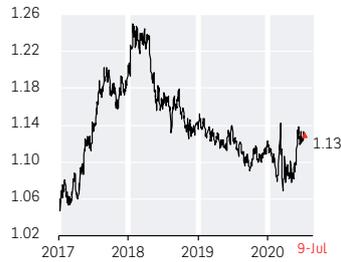
SOURCE: BNP PARIBAS CALCULATIONS

*The relationship between, on the one hand, the 10 year Bund yield and, on the other hand, the 10 year OAT yield and the 10 year BTP yield was analysed by means of a quantile regression so as to take into account the possibility of a non-linear relationship. Moreover, it is possible that the reaction of French and Italian yields depends on whether the Bund yield rises or declines. The charts show the regression results in case of an increase in Bund yields. Weekly data have been used, starting in 2015. The variables have been expressed in difference terms, i.e. the change in yields in a given week versus 4 weeks earlier.

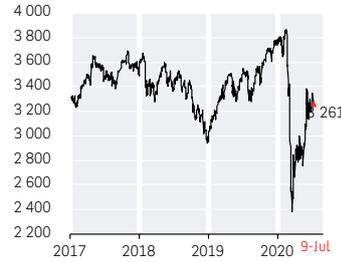


MARKETS OVERVIEW

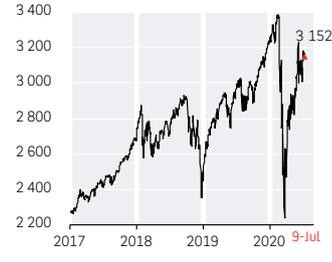
EURO-DOLLAR



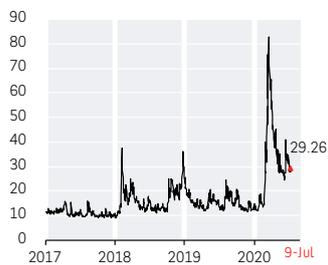
EUROSTOXX50



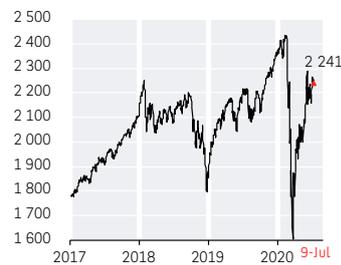
S&P500



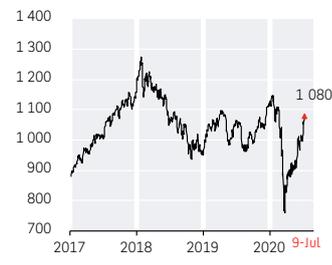
VOLATILITY (VIX, S&P500)



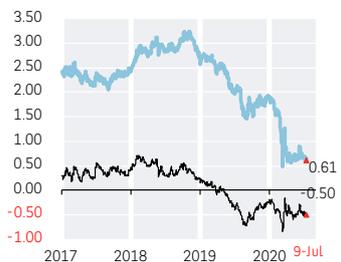
MSCI WORLD (USD)



MSCI EMERGING (USD)

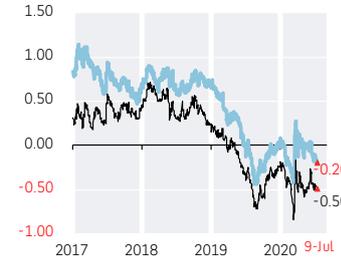


10Y BOND YIELD, TREASURIES VS BUND



—Bunds —US Treasuries

10Y BOND YIELD



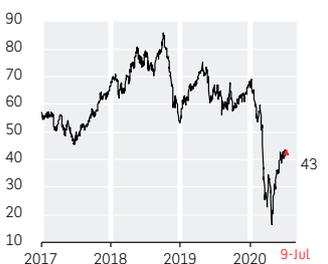
—Bunds —OAT

10Y BOND YIELD & SPREADS

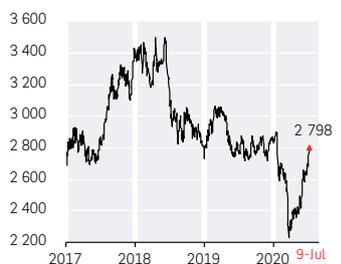
Week 3-7 20 to 9-7-20

1.59%	Greece	208 pb
1.19%	Italy	169 pb
0.42%	Portugal	92 pb
0.34%	Spain	83 pb
-0.15%	Belgium	34 pb
-0.20%	France	30 pb
-0.29%	Finland	20 pb
-0.31%	Austria	18 pb
-0.33%	Ireland	16 pb
-0.39%	Netherlands	10 pb
-0.50%	Germany	

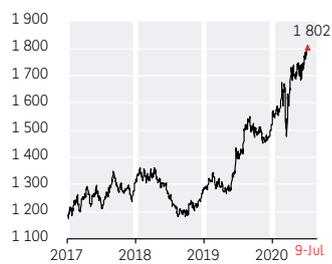
OIL (BRENT, USD)



METALS (LMEX, USD)



GOLD (OUNCE, USD)



Classification : Internal

SOURCE: THOMSON REUTERS,



ECONOMIC PULSE

NEW COVID-19 INFECTIONS CONTINUE TO CAUSE SWINGS IN PURCHASING MANAGERS' INDICES

In order to get a feel about how the Covid-19 pandemic has influenced activity in 2020, it is sufficient to look at one single chart, the composite PMI. Data plunged globally in March and troughed at very low levels in April. The third quarter saw strong activity with readings above the crucial 50 level in most countries. Under the influence of a new wave of infections, sentiment dropped again in the eurozone in November. In the US on the other hand, the index remained well above 50. The profile in China was different. The big drop in sentiment occurred in February and as of May, the composite PMI has been firmly above 50, reflecting the V-shaped recovery. The turnaround in India has also been impressive. In Japan on the other hand, the index has been below throughout the year, except for the month of January.

Concerning the manufacturing PMI, in December the world index stabilised at 53.8. Several countries saw a further improvement, starting from an already high level: Canada, the US, the eurozone, Germany, the Netherlands, Switzerland, the UK, Czech Republic. In France, the index passed above the 50 hurdle. India stabilised at a high level but the index declined somewhat in China. The readings for the new export orders remain below those of the manufacturing PMI. The world index declined

slightly in December but remains above 50. The situation improved for the eurozone on the back of better numbers for France, Italy, Spain and, in particular, the Netherlands. Japan recorded a further weakening. China data also declined. The declines were even bigger in India, Indonesia and Hong Kong. In December, the US services PMI recorded a considerable drop - although the services PMI of the Institute of Supply Management saw a strong increase- whereas the index rebounded in the eurozone to 46.4 with the readings jumping in France and Spain. In China, the services PMI declined somewhat but remains at a high level (56.3).

Unsurprisingly, the numbers for manufacturing employment remain well below those of the manufacturing PMI. It reflects caution in terms of hiring plans of companies in sectors which are doing fine whereas in sectors which continue to suffer from the pandemic, the risk remains high of seeing a further reduction of employment levels. In December, there was a slight improvement in the US and the eurozone. Whereas the numbers weakened in Germany, they were better in France - moving above 50 -, Ireland, Italy and the Netherlands. In India and Indonesia, they remain well below 50.

William De Vijlder

COMPOSITE PMI

	Developed Markets														Emerging countries																					
	WD	NA		Europe										Asia-Oceania			LATAM	Eurasia		Middle East & Africa																
		World	CANADA	USA*	EUROZONE	AUSTRIA	DENMARK	FRANCE	GERMANY	GREECE	IRELAND	ITALY	NETHERLANDS	SPAIN	SWITZERLAND	UK	AUSTRALIA	NEW ZEALAND	JAPAN	SINGAPORE	BRAZIL	MEXICO	CZECH REPUBLIC	POLAND	RUSSIA	TURKEY	EGYPT	LEBANON	SAUDI ARABIA	SOUTH AFRICA	UAE	CHINA	HONG KONG	INDIA	INDONESIA	VIETNAM
Jan-20	52.1	53.3	51.3				51.1	51.2		51.7	50.4		51.5	53.3						50.1	52.2															
Feb-20	46.1		49.6	51.6			52.0	50.7		56.7	50.7		51.8	53.0						50.9																
Mar-20	39.2		40.9	29.7			28.9	35.0		37.3	20.2		26.7	36.0						37.6																
Apr-20	26.2		27.0	13.6			11.1	17.4		17.3	10.9		9.2	13.8						26.5																
May-20	36.3		37.0	31.9			32.1	32.3		25.7	33.9		29.2	30.0						27.8																
Jun-20	47.9		47.9	48.5			51.7	47.0		44.3	47.6		49.7	47.7						40.8																
Jul-20	51.1		50.3	54.9			57.3	55.3		55.9	52.5		52.8	57.0						44.9																
Aug-20	52.5		54.6	51.9			51.6	54.4		54.0	49.5		52.8	59.1						53.9																
Sep-20	52.5		54.3	50.4			48.5	54.7		46.9	50.4		44.3	56.5						53.6																
Oct-20	53.3		56.3	50.0			47.5	55.8		49.0	49.2		44.1	52.1						55.9																
Nov-20	53.1		58.6	45.3			40.6	51.7		47.7	42.7		41.7	49.0						48.1																
Dec-20	53.8		55.7	49.1			49.5	52.0		53.4	43.0		48.7	50.4						53.5																

*Manufacturing and services

MANUFACTURING PMI

	Developed Markets														Emerging countries																				
	WD	NA		Europe										Asia-Oceania			LATAM	Eurasia		Middle East & Africa															
		World	CANADA	USA*	EUROZONE	AUSTRIA	DENMARK	FRANCE	GERMANY	GREECE	IRELAND	ITALY	NETHERLANDS	SPAIN	SWITZERLAND	UK	AUSTRALIA	NEW ZEALAND	JAPAN	SINGAPORE	BRAZIL	MEXICO	CZECH REPUBLIC	POLAND	RUSSIA	TURKEY	EGYPT	LEBANON	SAUDI ARABIA	SOUTH AFRICA	UAE	CHINA	HONG KONG	INDIA	INDONESIA
Jan-20	50.3	50.6	51.9	47.9	49.2	50.8	51.1	45.3	54.4	51.4	48.9	49.9	48.5	47.8	50.1	45.4	48.6	48.8	50.3	51.0	49.0	45.2	47.4	47.9	51.3	46.0	44.9	54.9	43.7	49.3	51.1	46.8	55.3	49.3	50.6
Feb-20	47.1	51.8	50.7	49.2	50.2	46.5	49.8	48.0	56.2	51.2	48.7	52.9	50.4	49.5	51.7	44.3	54.3	47.8	48.7	52.3	50.0	46.5	48.2	48.2	52.4	47.1	45.4	52.5	39.7	49.1	40.3	33.1	54.8	51.9	49.0
Mar-20	47.3	46.1	48.5	44.5	45.8	44.8	43.2	45.4	42.5	45.1	40.3	50.5	45.7	43.7	47.8	53.7	38.4	44.8	45.4	48.4	47.9	41.3	42.4	47.5	48.1	44.2	35.0	42.4	41.8	45.2	50.1	34.9	51.8	45.3	41.9
Apr-20	39.6	33.0	36.1	33.4	31.6	38.2	31.5	34.5	29.5	36.0	31.1	41.3	30.8	40.7	32.6	35.8	28.4	41.9	44.7	36.0	35.0	35.1	31.9	31.3	33.4	29.7	30.9	44.4	30.3	44.1	49.4	36.9	27.4	27.5	32.7
May-20	42.4	40.6	39.8	39.4	40.4	54.8	40.6	36.6	41.1	39.2	45.4	40.5	38.3	42.1	40.7	41.6	40.3	38.4	46.8	38.3	38.3	39.6	40.6	36.2	40.9	40.7	37.2	48.1	43.7	46.7	50.7	43.9	30.8	28.6	42.7
Jun-20	47.9	47.8	49.8	47.4	46.5	52.8	52.3	45.2	49.4	51.0	47.5	45.2	49.0	41.9	50.1	51.5	56.6	40.1	48.0	51.6	38.6	44.9	47.2	49.4	53.9	44.6	43.2	47.7	53.3	50.4	51.2	49.6	47.2	39.1	51.1
Jul-20	50.6	52.9	50.9	51.8	52.8	57.0	52.4	51.0	48.6	57.3	51.9	47.9	53.5	49.2	53.3	53.5	59.1	45.2	50.2	59.2	40.4	47.0	52.8	48.4	56.9	49.6	44.9	50.0	49.4	50.8	52.8	44.5	46.0	46.9	47.6
Aug-20	51.8	55.1	53.1	51.7	51.0	52.3	49.8	52.2	49.4	52.3	53.1	52.3	49.9	51.8	55.2	49.3	50.9	47.2	50.1	64.7	41.3	49.1	50.6	51.1	54.8	49.4	40.1	48.8	55.8	49.4	53.1	44.0	52.0	50.8	45.7
Sep-20	52.4	56.0	53.2	53.7	51.7	54.6	51.2	56.4	50.0	50.0	53.2	52.5	50.8	53.1	54.1	46.7	53.7	47.7	50.3	64.3	42.1	50.7	50.8	48.9	52.8	50.4	42.1	50.7	58.5	51.0	53.0	47.7	56.8	47.2	52.2
Oct-20	53.0	55.5	53.4	54.8	54.0	63.8	51.3	58.2	48.7	50.3	53.8	50.4	52.5	52.3	53.7	56.3	52.4	48.7	50.5	66.7	43.6	51.9	50.8	46.9	53.9	51.4	43.3	51.0	69.9	49.5	53.6	49.8	58.9	47.8	51.8
Nov-20	53.8	55.8	56.7	53.8	51.7	47.7	49.6	57.5	42.3	52.2	51.5	54.4	49.8	55.2	55.6	52.1	53.3	49.0	50.4	64.0	43.7	53.9	50.8	46.3	51.4	50.9	42.4	54.7	52.6	49.5	54.9	50.1	56.3	50.6	49.9
Dec-20	53.8	57.9	57.1	55.2	53.5	41.9	51.1	58.3	46.9	57.2	52.8	58.2	51.0	58.0	57.5	50.0	50.5	51.5	50.5	61.5	42.4	57.0	51.7	49.7	50.8	48.2									

46 48 50 52 54

SOURCE: MARKIT, BNP PARIBAS



BNP PARIBAS

The bank for a changing world

ECONOMIC PULSE

SERVICES PMI

	World	USA	EURO ZONE	FRANCE	GERMANY	IRELAND	ITALY	SPAIN	UK	AUSTRALIA	JAPAN	BRAZIL	RUSSIA	LEBANON	CHINA	HONG KONG	INDIA
Jan-20	52,7	53,4	52,5	51,0	54,2	56,9	51,4	52,3	53,9	47,4	51,0	52,7	54,1	44,9	51,8	46,8	55,5
Feb-20	47,1	49,4	52,6	52,5	52,5	59,9	52,1	52,1	53,2	47,0	46,8	50,4	52,0	45,4	26,5	33,1	57,6
Mar-20	36,8	39,8	26,4	27,4	31,7	32,5	17,4	23,0	34,5	38,7	33,8	34,5	37,1	35,0	43,0	34,9	49,3
Apr-20	23,7	26,7	12,0	10,2	16,2	13,9	10,8	7,1	13,4	27,1	21,5	27,4	12,2	30,9	44,4	36,9	5,4
May-20	35,2	37,5	30,5	31,1	32,6	23,4	28,9	27,9	29,0	31,7	26,5	27,6	35,9	37,2	55,0	43,9	12,6
Jun-20	48,1	47,9	48,3	50,7	47,3	39,7	46,4	50,2	47,1	31,5	45,0	35,9	47,8	43,2	58,4	49,6	33,7
Jul-20	50,7	50,0	54,7	57,3	55,6	51,9	51,6	51,9	56,5	44,0	45,4	42,5	58,5	44,9	54,1	44,5	34,2
Aug-20	52,0	55,0	50,5	51,5	52,5	52,4	47,1	47,7	58,8	42,5	45,0	49,5	58,2	40,1	54,0	44,0	41,8
Sep-20	52,0	54,6	48,0	47,5	50,6	45,8	48,8	42,4	56,1	36,2	46,9	50,4	53,7	42,1	54,8	47,7	49,8
Oct-20	52,9	56,9	46,9	46,5	49,5	48,3	46,7	41,4	51,4	51,4	47,7	52,3	46,9	43,3	56,8	49,8	54,1
Nov-20	52,2	58,4	41,7	38,8	46,0	45,4	39,4	39,5	47,6	52,9	47,8	50,9	48,2	42,4	57,8	50,1	53,7
Dec-20	55,3	46,4	49,1	47,0	50,1	39,7	48,0	49,4	47,7	51,1	48,0				56,3	43,5	52,3

MANUFACTURING PMI – NEW EXPORT ORDERS

WD	Developed Markets														Emerging countries																																	
	NA							Europe							Asia-Oceania							LATAM							Eurasia							Middle East & Africa							Asia					
	World	CANADA	USA	EURO ZONE	AUSTRIA	DENMARK	FRANCE	GERMANY	GREECE	IRELAND	ITALY	NETHERLANDS	SPAIN	SWITZERLAND	UK	AUSTRALIA	NEW ZEALAND	JAPAN	SINGAPORE	BRAZIL	MEXICO	CZECH REPUBLIC	POLAND	RUSSIA	TURKEY	EGYPT	LEBANON	SAUDI ARABIA	SOUTH AFRICA	UAE	CHINA	HONG KONG	INDIA	INDONESIA	VIETNAM													
Jan-20	49,5	49,0	49,5	49,5	50,4	50,2	49,6	55,5	50,2	49,0	49,0	48,0	47,7	49,8	49,3	50,3	44,8	48,5	45,1	44,8	46,6	51,4	38,5	43,0	48,9	50,5	51,3	49,4	40,8	54,5	48,7	52,6																
Feb-20	45,0	50,5	49,1	47,6	49,3	47,5	46,1	57,7	48,4	48,5	50,8	49,5	49,6	44,5	47,1	48,1	49,2	51,1	44,8	44,1	47,8	52,8	39,4	45,9	50,6	47,7	49,8	36,4	18,6	54,2	49,1	49,2																
Mar-20	43,0	44,2	46,2	37,0	36,0	34,7	35,8	34,4	41,7	36,0	45,5	40,9	43,0	44,6	40,0	43,0	46,3	49,0	33,9	35,4	43,1	42,0	33,2	21,3	41,3	39,4	44,3	46,4	17,7	46,9	29,8	37,0																
Apr-20	27,1	30,9	24,9	18,9	17,5	15,6	18,8	18,8	25,7	18,2	28,1	17,3	25,2	42,6	33,0	42,5	30,2	30,8	22,7	21,7	22,0	21,2	11,8	17,5	37,8	32,3	35,2	33,7	19,7	10,3	8,5	17,7																
May-20	32,3	39,2	25,9	28,7	30,2	29,2	24,5	36,1	30,9	35,8	29,6	30,4	33,9	31,1	30,8	45,6	31,7	34,2	32,2	29,4	30,5	29,8	34,7	30,9	45,1	20,2	40,2	41,7	36,4	11,8	15,8	34,3																
Jun-20	43,5	43,6	47,9	43,1	37,0	42,5	41,4	48,1	52,1	44,5	41,4	47,5	44,9	47,2	37,4	47,2	45,2	36,1	40,7	43,0	42,0	50,5	49,0	36,7	43,9	33,5	51,1	47,0	42,0	38,9	21,5	48,5																
Jul-20	47,2	47,8	49,8	51,8	49,6	45,9	54,8	45,2	38,7	48,9	46,4	53,9	47,7	41,4	40,2	50,5	46,2	41,6	43,6	50,5	48,5	54,4	51,7	45,3	45,7	40,7	47,7	48,3	36,2	43,3	38,4	41,7																
Aug-20	49,9	52,9	52,9	51,9	50,4	48,3	55,7	46,9	52,5	46,5	55,2	49,8	51,5	52,2	47,3	50,2	46,2	44,4	47,1	50,3	48,8	53,4	53,0	33,6	45,4	38,7	48,5	50,7	38,0	47,8	40,1	42,0																
Sep-20	51,7	51,3	51,2	55,5	52,7	51,5	61,2	49,3	47,7	51,3	54,0	51,4	53,4	46,5	47,3	50,4	53,9	42,0	50,2	51,0	43,8	50,9	55,3	40,8	52,0	45,8	50,9	54,4	44,8	53,8	36,4	52,9																
Oct-20	51,3	52,9	49,3	56,3	56,8	50,1	61,3	46,2	49,0	65,8	53,2	51,2	54,1	52,7	50,6	50,8	54,2	42,1	52,1	53,5	50,4	51,7	54,0	42,2	48,4	49,3	50,6	51,0	47,8	55,2	37,6	50,0																
Nov-20	51,7	50,2	50,5	53,0	53,7	45,4	58,4	35,9	50,1	49,6	53,9	49,2	55,5	50,0	49,2	50,9	55,3	40,4	55,1	49,7	52,4	49,5	52,4	41,4	52,0	47,1	49,5	53,3	47,6	54,8	47,5	46,8																
Dec-20	51,1	54,0	50,7	54,6	54,8	49,7	57,3	38,7	51,8	53,2	60,1	52,6	55,6		48,6	50,7	52,8	38,4	55,1	52,6	50,4	47,7	49,7			51,5	47,6	52,9	51,8	40,2	51,8	41,1	52,8															

MANUFACTURING PMI – EMPLOYMENT

WD	Developed Markets														Emerging countries																																	
	NA							Europe							Asia-Oceania							LATAM							Eurasia							Middle East & Africa							Asia					
	World	CANADA	USA	EURO ZONE	AUSTRIA	DENMARK	FRANCE	GERMANY	GREECE	IRELAND	ITALY	NETHERLANDS	SPAIN	SWITZERLAND	UK	AUSTRALIA	NEW ZEALAND	JAPAN	SINGAPORE	BRAZIL	MEXICO	CZECH REPUBLIC	POLAND	RUSSIA	TURKEY	EGYPT	LEBANON	SAUDI ARABIA	SOUTH AFRICA	UAE	CHINA	HONG KONG	INDIA	INDONESIA	VIETNAM													
Jan-20	49,8	49,8	51,1	47,0	49,3	58,6	49,7	43,4	57,8	51,2	49,6	51,0	46,6	52,1	50,1	49,5	46,6	51,8	51,2	50,3	42,6	46,5	48,9	51,5	46,9	50,2	38,1	48,8	49,5	53,9	49,3	50,2																
Feb-20	47,2	51,1	50,6	47,7	51,1	56,2	48,6	45,0	57,2	48,4	49,2	49,0	45,2	51,0	49,7	49,5	51,4	50,9	51,7	49,4	44,1	47,3	47,9	53,2	46,8	50,0	37,1	49,4	41,2	50,4	50,6	48,4																
Mar-20	47,3	44,6	47,0	44,3	42,7	40,9	45,4	43,0	46,2	42,6	45,3	49,0	45,2	42,5	44,2	47,6	45,5	49,6	46,5	49,2	41,5	43,2	49,9	51,9	47,0	49,6	39,1	44,8	48,6	50,4	47,0	44,3																
Apr-20	41,5	25,1	36,4	35,8	33,3	40,5	32,5	37,2	30,0	30,5	39,3	39,9	30,9	40,5	28,1	38,8	41,2	46,1	39,0	34,2	35,4	38,6	33,4	44,5	46,1	47,2	26,9	46,4	47,7	43,1	34,3	38,2																
May-20	43,1	32,7	38,0	37,6	41,0	34,0	35,7	36,5	38,4	40,1	40,6	40,7	35,2	42,4	31,4	41,6	39,5	49,5	39,1	35,7	37,7	43,6	34,6	47,3	45,5	48,7	26,9	48,7	49,2	42,7	31,5	44,2																
Jun-20	46,0	44,8	47,9	41,3	44,1	45,4	44,6	38,8	47,9	46,1	40,3	41,2	44,6	39,0	41,4	45,9	48,4	47,7	43,7	36,8	41,1	46,5	46,9	52,8	44,6	47,0	33,2	46,4	48,6	44,3	39,1	47,8																
Jul-20	47,3	50,9	49,6	42,9	48,5	49,0	48,8	37,2	48,4	50,8	45,0	42,9	47,4	46,6	43,9	48,2	47,2	47,8	52,3	38,7	42,7	47,8	44,7	54,8	46,1	47,8	33,7	47,5	49,5	44,3	43,5	45,4																
Aug-20	48,6	53,9	52,7	44,2	44,7	48,8	44,7	40,2	50,5	47,5	49,4	48,3	46,7	45,4	43,8	47,8	49,2	48,4	56,4	41,5	45,1	49,6	48,6	54,3	45,9	48,2	38,6	41,5	49,8	45,5	46,9	43,7																
Sep-20	49,5	54,3	52,5	47,1	49,1	45,1	46,5	44,2	50,9	49,1	51,9	47,7	50,1	47,3	46,5	51,8	51,6	49,8	56,5	44,6	48,1	51,1	45,6	55,2	48,3	49,0	44,8	47,7	50,1	45,4	46,1	48,5																
Oct-20	49,5	51,2	51,9	47,2	46,7	52,7	47,9	44,4	49,8	50,8	50,5	48,0	50,4	44,1	45,4	48,7	52,4	48,9	58,2	45,6	50,3	52,3	47,4	55,5	47,8	48,8	49,1	47,6	50,2	47,3	45,6	50,5																
Nov-20	50,2	52,5	51,7	48,7	47,4	45,1	48,7	47,2	45,0	51,2	51,5	51,7	48,3	47,6	47,2	53,1	51,5	49,1	56,8	46,3	50,7	52,8	45,4	54,4	48,5	50,1	47,2	48,8	51,3	47,4	47,0	48,4																
Dec-20	50,1	55,8	52,2	49,2	49,4	45,7	50,4	46,5	47,8	53,0	53,2	52,4	48,5	52,3	48,8	53,4			50,1	53,8	43,4	53,2	52,5	47,9	54,4	47,6	49,1		47,7	49,9	47,6	47,4	50,8															



SOURCE: MARKIT, BNP PARIBAS



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ECONOMIC PULSE

7

MOBILITY: THE YEAR 2021 STARTS UNDER PRESSURE

The year 2021 starts under pressure from the rising number of Covid-19 cases in numerous countries. In Europe in particular, countries have had to tighten their health restrictions to contain the spread of the virus. In the weeks ahead, these new restrictions are bound to have a further negative impact on consumer traffic flows in the retail and leisure sectors. In mid-December, momentum had already begun to slow in most of the European countries, as illustrated by the latest Google Mobility Report released on 3 January.

In Germany, where the number of new cases has skyrocketed, the state and federal governments decided to tighten the lockdown rules. As a result, consumer traffic flows have reported the sharpest decline since the beginning of the pandemic, with the 7-day moving average down nearly 64% relative to the base line* (chart 1). Recently, the authorities have agreed to prolong and extend the lockdown at least till the end of January. Italy also reported a sharp decline in retail and leisure traffic flows after the second wave of the pandemic peaked in the first two weeks of November, with the 7-day moving average down 49% relative to the base line. In Belgium and France, consumer traffic flows also declined with the 7-day moving average down 39% and 34%, respectively, relative to the baseline. In both countries, the lockdown was loosened and a curfew replaced the earlier travel restrictions. In France, the 8 pm to 6 am curfew has been in effect nationwide since December 15, extended by a 6 pm to 6 am curfew in 15 departments since January 2.

6pm curfew could extend to 10 more departments starting 8 January, Prime Minister Jean Castex says. In Belgium, the 10 pm to 6 am curfew is in effect except in the Flanders region, where the curfew is from midnight to 5 am. In Spain, where a curfew has been in effect since the end of October 2020, consumer traffic flows have declined slightly, with the 7-day moving average down 25% relative to the baseline. The country is nearing the milestone of 2 million Covid-19 cases.

In the UK, consumer traffic flows have fallen sharply, with the 7-day moving average down 55% relative to the baseline (see chart 2). This is the sharpest decline since the country went again into lockdown in early November. The UK has witnessed a spectacular rebound in the pandemic in recent weeks, with 62,322 new cases on 6 January, a record high since the outbreak of the pandemic. Faced with the surge in new contaminations, on Monday, 4 January, Prime Minister Boris Johnson announced a total lockdown for England starting 6 January. Also Wales, Scotland and Northern Ireland have announced tighter rules. This will surely have an impact on retail and leisure traffic flows in the weeks ahead.

Finally, in the United States, the rebound in consumer traffic was short-lived and was followed by a relapse. In Japan, we have been approaching a return to normal since the last week in December.

Tarik Rharrab

RETAIL AND RECREATION MOBILITY

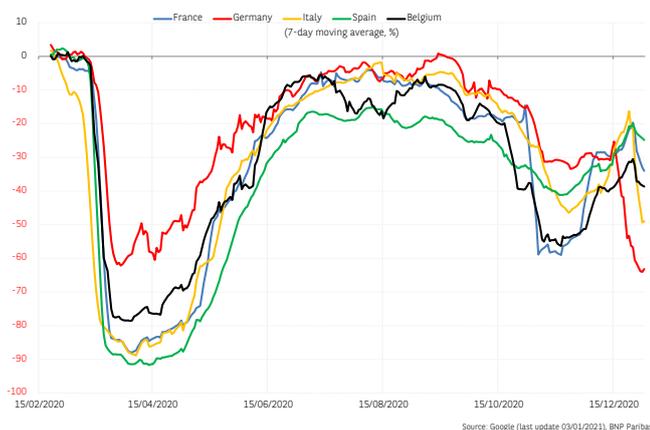


CHART 1

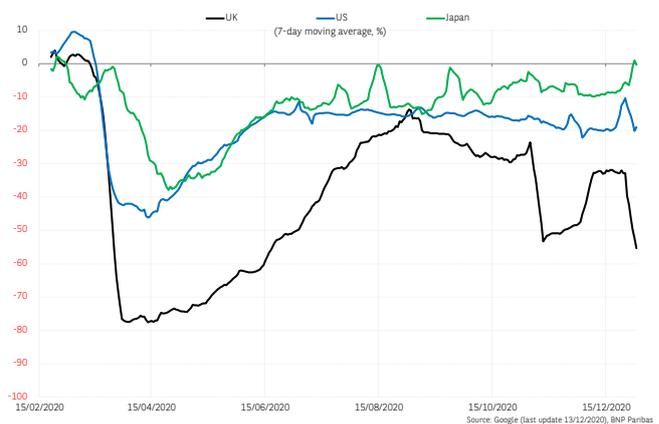


CHART 2

SOURCE: GOOGLE (LAST UPDATE 03 JANUARY 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.



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ECONOMIC SCENARIO

8

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 e	2021 e	2022 e	2019	2020 e	2021 e	2022 e
United-States	2.2	-3.6	4.2	4.1	1.8	1.3	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	-11.1	4.0	8.6	1.8	0.9	1.5	2.1
Euro Area	1.3	-7.3	3.8	5.5	1.2	0.2	0.8	1.3
Germany	0.6	-5.9	4.2	3.6	1.4	0.4	1.3	1.2
France	1.5	-9.5	6.3	3.8	1.3	0.5	0.6	1.2
Italy	0.3	-9.1	6.0	3.4	0.6	-0.2	0.5	1.3
Spain	2.0	-11.8	7.0	4.9	0.8	-0.4	0.4	0.9
China	6.1	2.3	9.5	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: INFLATION 23 NOV. 2020, GROWTH: 07 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)



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CALENDAR

9

LATEST INDICATORS

In China, the December manufacturing PMI was in line with the previous month but the non-manufacturing PMI was slightly weaker. Nevertheless, the composite PMI remains firmly above 50. In the eurozone, the services PMI declined somewhat under the influence of the lockdown measures and for the same reason, retail sales saw a big drop -more than expected- in November. However, the European Commission surveys for December showed an improvement of consumer confidence and industrial confidence. Services were essentially unchanged. In France, consumer confidence improved quite a bit and beat expectations. Industrial production declined in November, in line with expectations. There was a big drop -more than expected- in consumer spending due to the lockdown measures. The PMIs were as expected. In Germany, consumer confidence weakened. In the US, the data show a mixed picture with a decline of personal income and real personal spending in November, slower growth of capital goods orders and an unexpected drop in consumer confidence. The services PMI eased as well. The manufacturing PMI improved slightly however and initial jobless claims declined. Moreover, the ISM manufacturing and the ISM services index both improved strongly, thereby beating expectations. Finally, the labour market report disappointed with the US economy shedding 140.000 jobs. Although certain sectors created jobs, the losses were huge in leisure and hospitality, reflecting the impact of the pandemic.

DATE	COUNTRY	INDICATOR	PERIOD	SURVEY	ACTUAL	PREVIOUS
12/21/2020	Eurozone	Consumer Confidence	Dec	17.3	-13.9	-17.6
12/22/2020	Germany	GfK Consumer Confidence	Jan	-7.6	-7.3	-6,8
12/23/2020	United States	Personal Income	Nov	-0.30%	-1.10%	-0,60%
12/23/2020	United States	Real Personal Spending	Nov	-0.30%	-0.40%	0,30%
12/23/2020	United States	U. of Mich. Sentiment	Dec	81.1	80.7	81.4
12/24/2020	United States	Initial Jobless Claims	Dec	880k	803k	892k
12/24/2020	United States	Cap Goods Orders Nondef Ex Air	Nov	0.60%	0.40%	1,60%
12/29/2020	United States	Conf. Board Consumer Confidence	Dec	97	88.6	92,9
12/31/2020	China	Composite PMI	Dec	--	55.1	55.7
12/31/2020	China	Manufacturing PMI	Dec	52	51.9	52.1
12/31/2020	China	Non-manufacturing PMI	Dec	56.3	55.7	56.4
12/31/2020	United States	Initial Jobless Claims	Dec	835k	787k	806k
01/04/2021	United States	Markit US Manufacturing PMI	Dec	56.3	57.1	56.5
01/04/2021	France	Markit France Manufacturing PMI	Dec	51.1	51.1	51.1
01/04/2021	Germany	Markit/BME Germany Manufacturing PMI	Dec	58.6	58.3	58.6
01/04/2021	Eurozone	Markit Eurozone Manufacturing PMI	Dec	55.5	55.2	55.5
01/04/2021	United Kingdom	Markit UK PMI Manufacturing SA	Dec	57.3	57.5	57.3
01/04/2021	United States	Markit US Manufacturing PMI	Dec	56.3	57.1	56.5
01/05/2021	United States	ISM Manufacturing	Dec	56.8	60.7	57.5
01/06/2021	Japan	Jibun Bank Japan PMI Services	Dec	--	47.7	47.2
01/06/2021	Japan	Jibun Bank Japan PMI Composite	Dec	--	48.5	48
01/06/2021	France	Markit France Services PMI	Dec	49.2	49.1	49.2

SOURCE: BLOOMBERG



DATE	COUNTRY	INDICATOR	PERIOD	SURVEY	ACTUAL	PREVIOUS
01/06/2021	France	Markit France Composite PMI	Dec	49.6	49.5	49.6
01/06/2021	Germany	Markit Germany Services PMI	Dec	47.7	47	47.7
01/06/2021	Germany	Markit/BME Germany Composite PMI	Dec	52.5	52	52.5
01/06/2021	Eurozone	Markit Eurozone Services PMI	Dec	47.3	46.4	47.3
01/06/2021	Eurozone	Markit Eurozone Composite PMI	Dec	49.8	49.1	49.8
01/06/2021	United Kingdom	Markit/CIPS UK Services PMI	Dec	49.9	49.4	49.9
01/06/2021	United Kingdom	Markit/CIPS UK Composite PMI	Dec	50.7	50.4	50.7
01/06/2021	United States	Markit US Services PMI	Dec	55.2	54.8	55.3
01/06/2021	United States	Markit US Composite PMI	Dec	--	55.3	55.7
01/06/2021	Japan	Consumer Confidence Index	Dec	32.5	31.8	33.7
01/06/2021	France	Consumer Confidence	Dec	91	95	89
01/06/2021	United States	Markit US Services PMI	Dec	55.2	54.8	55.3
01/06/2021	United States	Markit US Composite PMI	Dec	--	55.3	55.7
01/06/2021	United States	FOMC Meeting Minutes	Dec			
01/07/2021	Eurozone	Consumer Confidence	Dec	-17.3	-13.9	-17.6
01/07/2021	Eurozone	Retail Sales MoM	Nov	-3.40%	-6.10%	1,40%
01/07/2021	Eurozone	Economic Confidence	Dec	89.8	90.4	87,7
01/07/2021	Eurozone	Industrial Confidence	Dec	-8.6	-7.2	-10.1
01/07/2021	Eurozone	Services Confidence	Dec	-15	-17.4	-17.1
01/07/2021	Eurozone	CPI MoM	Dec	0.30%	0.30%	-0.30%
01/07/2021	Eurozone	CPI Core YoY	Dec	0.20%	0.20%	0.20%
01/07/2021	United States	ISM Services Index	Dec	54.5	57.2	55.9
01/07/2021	United States	Initial Jobless Claims	Jan	800k	787k	790k
01/08/2021	France	Industrial Production MoM	Nov	-1.00%	-0.90%	1,90%
01/08/2021	France	Consumer Spending MoM	Nov	-15.90%	-18.9%	3,90%
01/08/2021	Eurozone	Unemployment Rate	Nov	8.50%	8.30%	8.40%
01/08/2021	United States	Change in Nonfarm Payrolls	Dec	50k	-140k	336k
01/08/2021	United States	Unemployment Rate	Dec	6.80%	6.70%	6.70%
01/08/2021	United States	Labor Force Participation Rate	Dec	61.50%	61.50%	61.50%

SOURCE: BLOOMBERG



CALENDAR: THE WEEK AHEAD

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COMING INDICATORS

A rather light week ahead of us with inflation data in China, the United States and France. Several surveys will be published: EcoWatchers in Japan, Banque de France sentiment, US small business optimism, the Empire State manufacturing index and University of Michigan sentiment. The Federal Reserve's Beige Book will be eagerly awaited for its indications on the current state of the US economy. Another important indicator are US retail sales.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	PREVIOUS
01/11/2021	China	PPI YoY	Dec	-0.80%	-1.50%
01/11/2021	China	CPI YoY	Dec	0.00%	-0.50%
01/12/2021	Japan	Eco Watchers Survey Current SA	Dec	--	45.6
01/12/2021	Japan	Eco Watchers Survey Outlook SA	Dec	--	36.5
01/12/2021	United States	NFIB Small Business Optimism	Dec	--	101.4
01/12/2021	France	Bank of France Ind. Sentiment	Dec	--	96
01/13/2021	Japan	Machine Tool Orders YoY	Dec	--	8.60%
01/13/2021	Eurozone	Industrial Production SA MoM	Nov	0.20%	2.10%
01/13/2021	United States	CPI Ex Food and Energy MoM	Dec	0.10%	0.20%
01/13/2021	United States	U.S. Federal Reserve Releases Beige Book			
01/14/2021	United States	Initial Jobless Claims	Janv	--	787k
01/14/2021	China	Exports YoY CNY	Dec	6.80%	14.90%
01/14/2021	China	Imports YoY CNY	Dec	-0.70%	-0.80%
01/15/2021	United Kingdom	Monthly GDP (3M/3M)	Nov	--	10.20%
01/15/2021	France	CPI EU Harmonized MoM	Dec	--	0.20%
01/15/2021	United States	PPI Ex Food and Energy MoM	Dec	0.10%	0.10%
01/15/2021	United States	Empire Manufacturing	Jan	3.8	4.9
01/15/2021	United States	Retail Sales Control Group	Dec	--	-0.50%
01/15/2021	United States	Capacity Utilization	Dec	73.30%	73.30%
01/15/2021	United States	Industrial Production MoM	Dec	0.30%	0.40%
01/15/2021	United States	U. of Mich. Sentiment	Jan	79.5	80.7
01/15/2021	United States	U. of Mich. Current Conditions	Jan	--	90
01/15/2021	United States	U. of Mich. Expectations	Jan	--	74.6

SOURCE: BLOOMBERG



FURTHER READING

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January 2021 edition	EcoTV	7 January 2021
Special Edition – 2021: hopes and challenges	EcoTVWeek	7 January 2021
United Kingdom: Brexit: The worst has been avoided	EcoFlash	6 January 2021
Climate change is accelerating	Chart of the Week	6 January 2021
EcoWeek 20.47. December 18, 2020 issue	EcoWeek	18 December 2020
2020: Entering a new era	EcoTVWeek	18 December 2020
Quarterly Economic Outlook for OECD countries and China	EcoPerspectives	17 December 2020
Egypt: foreign currency liquidity restored	Chart of the Week	16 December 2020
EcoWeek 20.46. December 11, 2020 issue	EcoWeek	11 December 2020
December 2020 edition	EcoTV	10 December 2020
European Union: EBA reactivates its guidelines on moratoria on loan repayments	Chart of the Week	9 December 2020
United States: Are the GSEs ready to exit FHFA conservatorship?	EcoFlash	8 December 2020
EcoWeek 20.45. December 4, 2020 issue	EcoWeek	4 December 2020
After celebrating the reduction in uncertainty, investors to focus on the growth outlook	EcoTVWeek	4 December 2020
Greece: Will employment hold up in 2021?	Chart of the Week	2 December 2020
European Union Southern Europe: why such low potential growth?	Conjoncture	30 November 2020
United Kingdom: United Kingdom: what will be the economic consequences of a hard Brexit?	Conjoncture	30 November 2020
Global: What if the road to Covid-19 immunity is longer than expected?	EcoWeek	27 November 2020
US Bad signs	EcoWeek	27 November 2020
United Kingdom: Tuned in to BBC – Budget, Brexit, Covid	EcoWeek	27 November 2020



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