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ECONOMIC RESEARCH

BNP PARIBAS

The bank for a changing world

EDITORIAL

THE (UN)SURPRISING WEAKENING OF THE DOLLAR AND WHAT COULD CHANGE IT

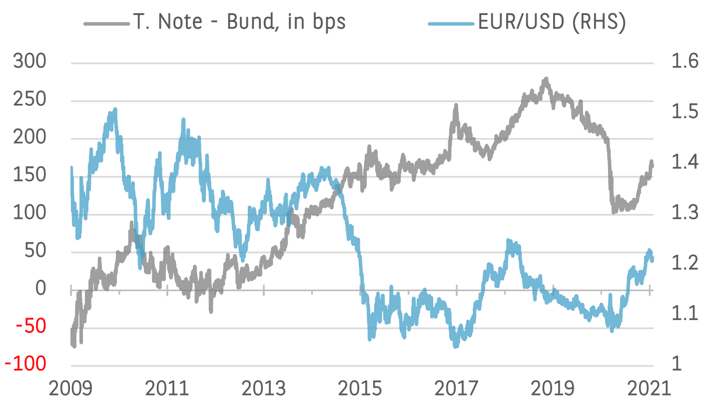
In recent months, the dollar has weakened versus the euro although the real bond yield differential between US Treasuries and Bunds has increased. Amongst the factors that may explain this development, Federal Reserve policy is particularly important through its impact on capital outflows from the US and currency hedging behaviour of eurozone investors. The biggest risk for a change in direction of the dollar would be a repetition of the 'taper tantrum' of 2013 with the Federal Reserve starting to point towards a possible beginning of the normalisation of its policy. However, such a change in guidance is not to be expected anytime soon.

In recent months, the yield spread between nominal 10-year US Treasuries and 10-year Bunds has increased significantly. Somebody who has not been following currency markets over that period could be forgiven for thinking that this should have led to a strengthening of the dollar versus the euro. After all, when US yields are rising and those in Germany and the other eurozone countries are more or less stable or even declining, one could expect capital to flow from the euro area to the US. This has clearly not been the case, as shown in chart 1.

Obviously, many theoretical arguments can be put forward why this assumption should not work, at least not all the time. One is that the yield difference may reflect different developments in terms of inflation and inflation expectations. In such case, it does not justify an appreciation of the higher yielding currency. However, chart 2 shows that the real bond yield differential has increased as of late, but this has not stopped the dollar from weakening. Moreover, it appears that since 2011, the correlation between the real yield difference and the EUR/USD exchange rate has been positive, rather than negative, as the capital flow model of exchange rates would imply.

This shows the complexity of explaining and forecasting exchange rates. Certain theoretical models work sometimes but not all the time[1], so the challenge is to assess which model may apply when producing a forecast or taking an investment decision. Several factors have played a role in the depreciation of the dollar in the past several months. One, the new strategy of the Federal Reserve of targeting average inflation can be considered as a commitment of being dovish for longer whereas there are serious doubts about the ECB following the Fed's lead when announcing the outcome of its own strategy review later this year. Two, the rising real yield differential could be associated with the huge US fiscal stimulus and the ensuing rising borrowing requirements. In that case, higher yields do not warrant a dollar appreciation. Three, historically, the combination of a very accommodative US monetary policy and improving prospects for the global economy typically have caused capital flows from the US to the rest of the world. This is quite likely again the case at the current juncture, witness the strengthening of several emerging currencies versus the dollar and the strong recent performance of emerging equities. Such a development could indirectly cause an appreciation of the euro versus the dollar to the extent that eurozone investors would be less inclined to invest in emerging markets than their US counterparts. Four, the short-term interest rate differential between the US and the eurozone has narrowed significantly in 2020. For European investors with big historical holdings of US assets, hedging this currency exposure has become very cheap. The is increased hedging of existing exposures is likely to weigh has weighed on the dollar[2]. Five, the fair value of the dollar versus the euro –based on the long-term relationship between the exchange rate and economic variables- is around 1.34[3], so this level can act as a magnet when other factors are 'pushing' the currency in this direction.

EUR/USD AND NOMINAL 10-YEAR BOND YIELD DIFFERENTIAL



SOURCE: REFINITIV, BNP PARIBAS

1. This point is analysed empirically in great detail in "Exchange rate prediction redux: new models, new data, new currencies", ECB working paper 2018, February 2017. The authors conclude that *"Overall, model/specification/currency combinations that work well in one period will not necessarily work well in another period."*

2. This argument was provided by Alexander Jekov, FX strategist of BNP Paribas Global Markets.
3. Calculation provided by BNP Paribas Global Markets.

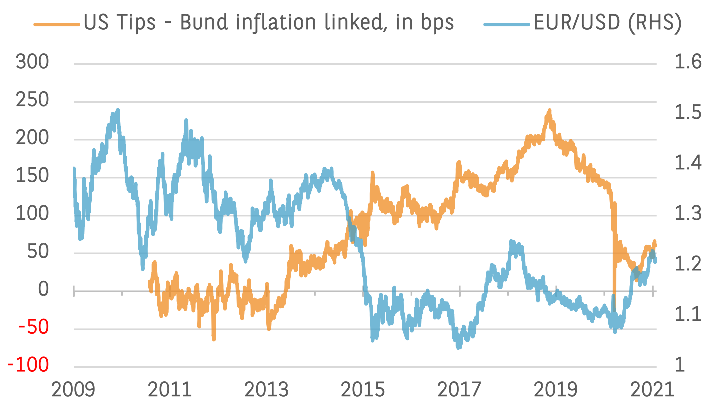
> The biggest risk for a change in direction of the dollar would be a repetition of the 'taper tantrum' of 2013 with the Federal Reserve starting to point towards a possible beginning of the normalisation of its policy.

We expect these factors to remain in place for the foreseeable future and hence the euro to appreciate further versus the dollar towards 1.25 at the end of this year and 1.30 at the end of 2022.

What could change the direction? In theory, a sudden change in guidance from the central banks could play a role. However, this is very unlikely. The Federal Reserve will not be in a hurry to adopt a more hawkish tone whereas the ECB's policy is already very accommodative. This sets the bar very high for more accommodation. Another factor could be a sudden drop in risk appetite of international investors. A move into a 'risk-off' environment is typically associated with a strengthening of the dollar on the back of US investors reducing overseas exposure. However, unless there would be an abrupt, considerable deterioration of the economic outlook, such a risk-off phase should be short-lived. A more intriguing question is whether a further widening of the yield differential and a weakening of the dollar could end up becoming self-correcting. For investors who intend to hold on to their bonds until maturity and are not subject to mark-to-market accounting, at some point the yield gap will become compelling and offer enough protection against a potential further depreciation of the dollar. A 200bp yield gap versus Bunds for a 10-year maturity offers a lot of downside protection for the currency. For marked-to-market investors, this argument does not apply. Moreover, they may consider US treasuries as being riskier than Eurozone bonds based on the outlook for GDP growth and inflation. The biggest risk for a change in direction would be a repetition of the 'taper tantrum' of 2013 with the Federal Reserve starting to point towards a possible beginning of the normalisation of its policy. However, such a change in guidance is not to be expected anytime soon: the Fed wants to overshoot its inflation target first.

William De Vijlder

EUR/USD AND REAL 10-YEAR BOND YIELD DIFFERENTIAL



SOURCE: REFINITIV, BNP PARIBAS

MARKETS OVERVIEW

OVERVIEW

Week 15-1 21 to 21-1-21

↘ CAC 40	5 612	▶	5 591	-0.4	%
↗ S&P 500	3 768	▶	3 853	+2.3	%
↘ Volatility (VIX)	24.3	▶	21.3	-3.0	pb
↗ Euribor 3M (%)	-0.55	▶	-0.54	+0.9	bp
↘ Libor $ 3M (%)	0.22	▶	0.22	-0.1	bp
↗ OAT 10y (%)	-0.38	▶	-0.31	+6.7	bp
↗ Bund 10y (%)	-0.57	▶	-0.53	+4.2	bp
↗ US Tr. 10y (%)	1.10	▶	1.11	+1.1	bp
↗ Euro vs dollar	1.21	▶	1.22	+0.5	%
↗ Gold (ounce, $)	1 825	▶	1 865	+2.1	%
↗ Oil (Brent, $)	55.2	▶	56.2	+1.8	%

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	-0.48	at	08/01	-0.50	at	01/01
Euribor 3M	-0.54	-0.54	at	20/01	-0.56	at	06/01
Euribor 12M	-0.51	-0.50	at	13/01	-0.51	at	08/01
$ FED	0.25	0.25	at	01/01	0.25	at	01/01
Libor 3M	0.22	0.24	at	13/01	0.22	at	20/01
Libor 12M	0.32	0.34	at	01/01	0.31	at	18/01
£ BoE	0.10	0.10	at	01/01	0.10	at	01/01
Libor 3M	0.03	0.03	at	13/01	0.03	at	01/01
Libor 12M	0.08	0.09	at	13/01	0.07	at	11/01

At 21-1-21

Yield (%)		highest 21		lowest 21	
€ AVG 5-7y	-0.41	-0.40	at 13/01	-0.46	at 04/01
Bund 2y	-0.68	-0.67	at 12/01	-0.75	at 01/01
Bund 10y	-0.53	-0.50	at 12/01	-0.60	at 04/01
OAT 10y	-0.31	-0.31	at 12/01	-0.41	at 04/01
Corp. BBB	0.55	0.56	at 12/01	0.50	at 08/01
$ Treas. 2y	0.13	0.15	at 06/01	0.12	at 04/01
Treas. 10y	1.11	1.14	at 12/01	0.91	at 01/01
High Yield	4.71	4.86	at 12/01	4.71	at 21/01
£ gilt. 2y	-0.05	-0.01	at 12/01	-0.08	at 04/01
gilt. 10y	0.35	0.38	at 12/01	0.21	at 04/01

At 21-1-21

EXCHANGE RATES

1€ =		highest 21			lowest 21			2021
USD	1.22	1.23	at	06/01	1.21	at	18/01	-0.7%
GBP	0.89	0.91	at	06/01	0.89	at	21/01	-1.1%
CHF	1.08	1.09	at	07/01	1.08	at	18/01	-0.4%
JPY	125.84	127.42	at	07/01	125.22	at	18/01	-0.4%
AUD	1.56	1.60	at	04/01	1.56	at	14/01	-1.3%
CNY	7.85	8.00	at	01/01	7.83	at	15/01	-1.8%
BRL	6.53	6.69	at	11/01	6.33	at	18/01	+2.7%
RUB	89.65	91.36	at	07/01	88.87	at	20/01	-0.9%
INR	88.69	89.88	at	07/01	88.36	at	15/01	-0.8%

At 21-1-21 *Change*

COMMODITIES

Spot price, $		highest 21			lowest 21			2021	2021(€)
Oil, Brent	56.2	56.7	at	12/01	51.2	at	04/01	+8.3%	+9.1%
Gold (ounce)	1 865	1 947	at	05/01	1 825	at	15/01	-1.7%	-1.1%
Metals, LMEX	3 523	3 580	at	07/01	3 415	at	01/01	+3.2%	+3.9%
Copper (ton)	8 014	8 167	at	07/01	7 749	at	01/01	+3.4%	+4.1%
wheat (ton)	258	2.6	at	15/01	247	at	01/01	+4.5%	+5.2%
Corn (ton)	202	2.1	at	14/01	188	at	04/01	+0.7%	+7.6%

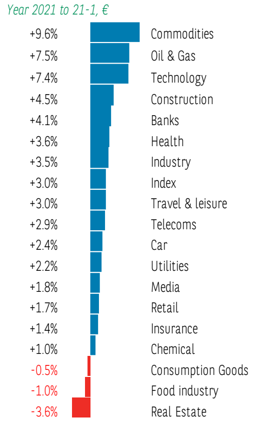
At 21-1-21 *Change*

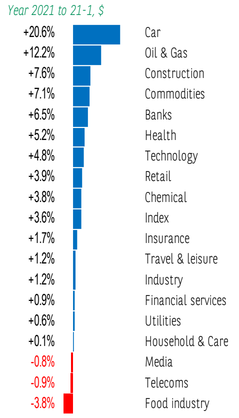
EQUITY INDICES

	Index	highest 21			lowest 21			2021
World								
MSCI World	2 766	2 766	at	21/01	2 670	at	04/01	+2.8%
North America								
S&P500	3 853	3 853	at	21/01	3 701	at	04/01	+2.6%
Europe								
EuroStoxx50	3 618	3 645	at	08/01	3 548	at	05/01	+1.8%
CAC 40	5 591	5 707	at	08/01	5 551	at	01/01	+0.1%
DAX 30	13 907	14 050	at	08/01	13 651	at	05/01	+1.4%
IBEX 35	8 122	8 408	at	08/01	8 074	at	01/01	+0.1%
FTSE100	6 715	6 873	at	08/01	6 461	at	01/01	+0.4%
Asia								
MSCI, loc.	1 086	1 086	at	21/01	1 044	at	06/01	+0.4%
Nikkei	28 757	28 757	at	21/01	27 056	at	06/01	+4.8%
Emerging								
MSCI Emerging ($)	1 406	1 406	at	21/01	1 292	at	01/01	+0.9%
China	121	121	at	20/01	108	at	01/01	+11.9%
India	706	708	at	14/01	678	at	01/01	+4.5%
Brazil	1 812	1 941	at	14/01	1 812	at	21/01	-0.1%
Russia	699	722	at	14/01	669	at	01/01	+4.2%

At 21-1-21 *Change*

PERFORMANCE BY SECTOR (Eurostoxx50 & S&P500)

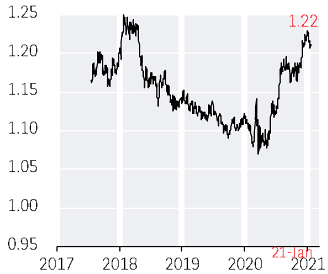




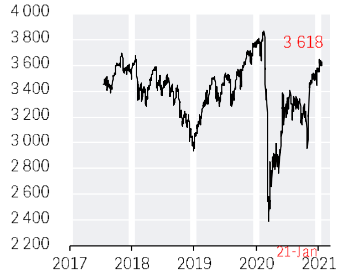
SOURCE: THOMSON REUTERS,

MARKETS OVERVIEW

EURO-DOLLAR

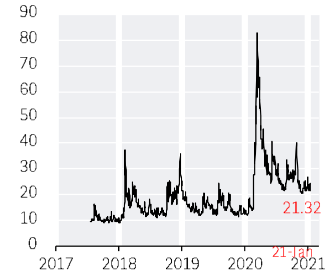


EUROSTOXX50



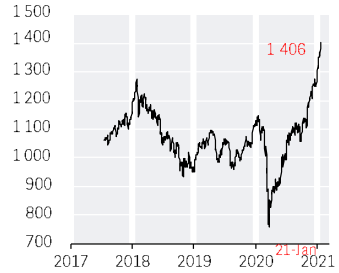
S&P500

VOLATILITY (VIX, S&P500)

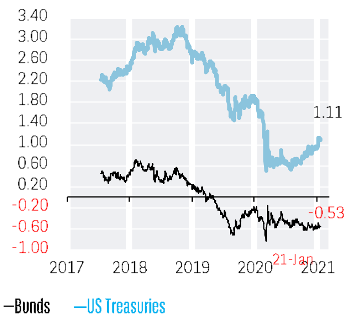


MSCI WORLD (USD)

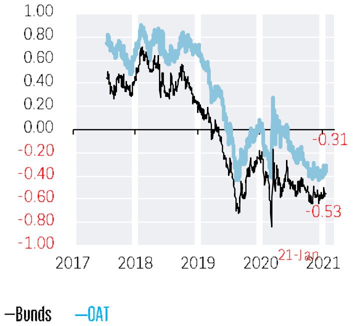
MSCI EMERGING (USD)



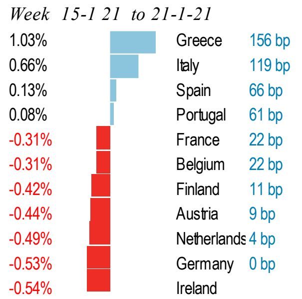
10Y BOND YIELD, TREASURIES VS BUND



10Y BOND YIELD

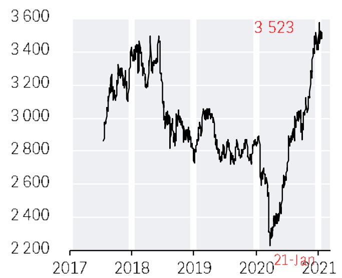


10Y BOND YIELD & SPREADS

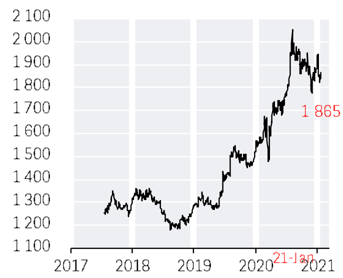


OIL (BRENT, USD)

METALS (LMEX, USD)



GOLD (OUNCE, USD)



SOURCE: THOMSON REUTERS,

ECONOMIC PULSE

EUROZONE: COMPANIES ARE RESORTING TO BANK LOANS TO STAY AFLOAT RATHER THAN TO EXPAND BUSINESS

In the past, bank lending to companies and GDP have tended to move in unison, but with the Covid-19 crisis, these movements have become uncoupled in the eurozone. At a time when GDP growth has been contracting on a year-on-year basis – with a sharp contraction in Q2 2020 due to lockdown measures followed by an easing trend in Q3 after restrictions were lifted and a quarterly rebound – bank lending to the private sector has accelerated rapidly (+6.9% year-on-year in November 2020), buoyed by government measures to support corporate financing, like PGE state-backed loans in France, and the banks' strong implication in lending. Whereas bank lending to non-financial companies usually finances capital formation and investment, today it is serving instead to limit the impact of the downturn in sales on cash flow, and in the more favourable situations, to halt their decline in the face of uncertainty.

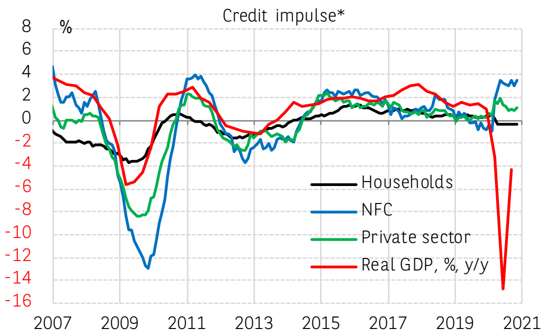
Regarding household loans outstanding, credit dynamics do not seem to be as removed from cyclical trends, although they have slowed somewhat (+3.1% year-on-year in November 2020).

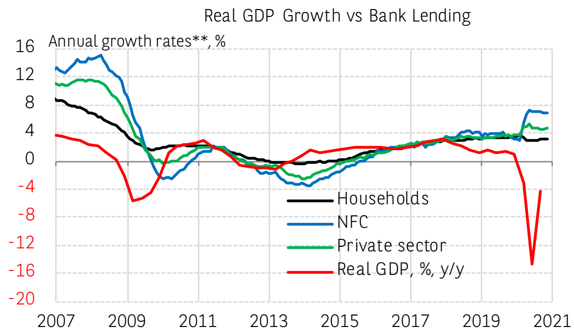
Residential loans outstanding have accelerated (+4.7% year-on-year in November 2020), which contrasts with the decline in consumer loans outstanding (-1%). All in all, after rising sharply in spring 2020, the credit pulse is holding at levels unseen since 2011, and are unusually high with regard to the cyclical environment.

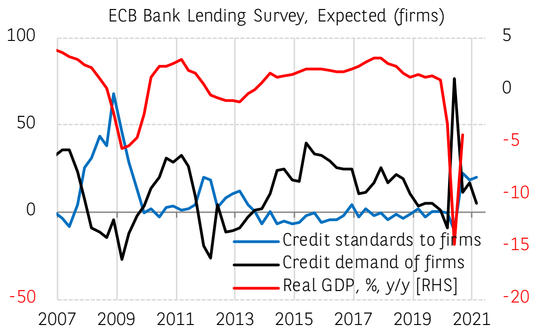
In Q1 2021, the banks surveyed in the ECB's latest BLS survey anticipate a slight increase in demand for corporate financing, relatively stable demand for consumer lending and a slight easing of demand for residential loans. They also expect lending conditions to tighten slightly, especially for residential lending.

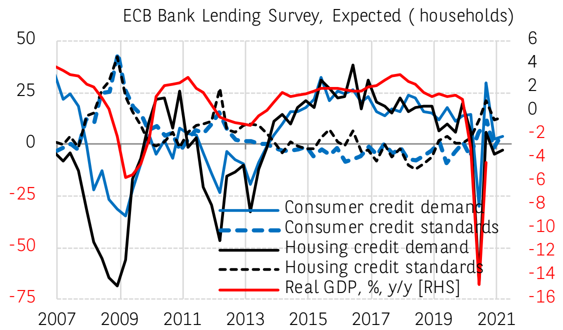
Laurent Quignon

CREDIT IN THE EUROZONE









SOURCE: ECB SURVEY ON THE DISTRIBUTION OF CREDIT, BLS, BNP PARIBAS CALCULATIONS

**Credit impulse is measured as the annual change of the annual growth rate of MFI loans*

*** Adjusted for securitizations*

ECONOMIC PULSE

EUROZONE: THE ECONOMY IS HIGHLY DEPENDENT ON THE VACCINATION PROCESS

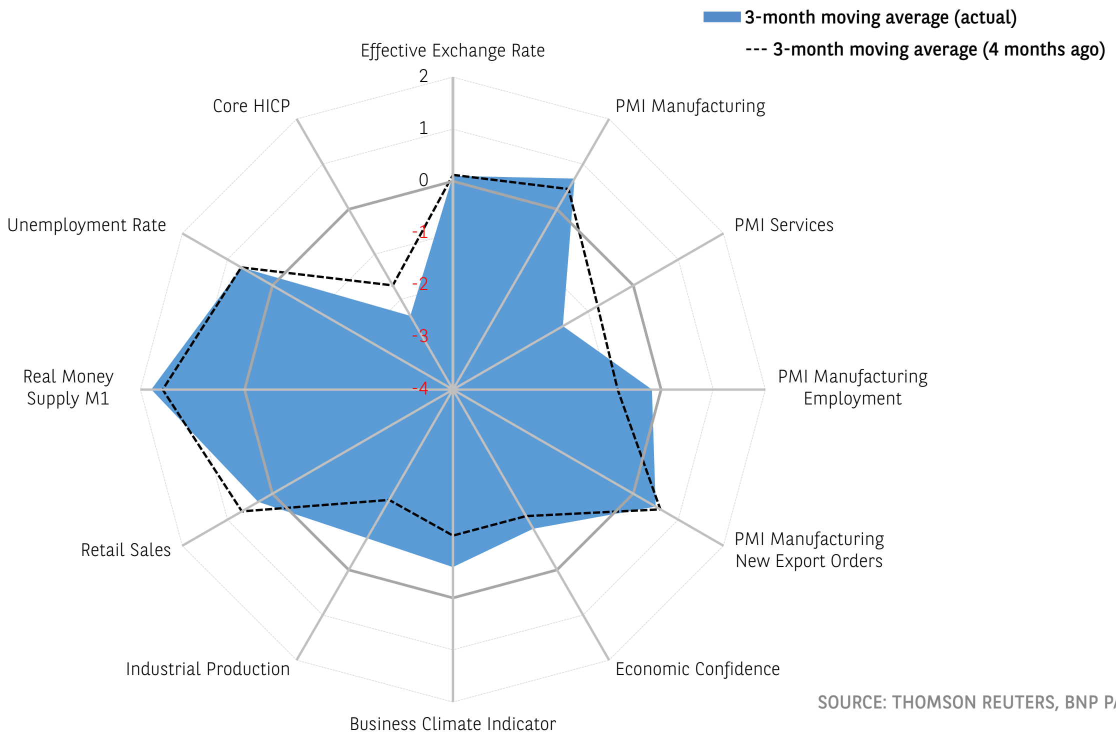
In Europe, the Covid-19 crisis is far from over. Since the beginning of 2021, many EU member states have had to introduce new restrictions to try to curb the pandemic. Germany, Ireland and Portugal, for example, are still in lockdown, while several other countries, like France, Italy and Spain, have implemented curfews. Restrictions have been reintroduced just as vaccination campaigns are beginning to be rolled out in Europe and around the globe. Although vaccinations are our biggest source of hope, it will probably take considerable time to reach herd immunity.

On the economic front, the size of the rebound and the speed at which we return to pre-crisis levels will depend on bringing the pandemic under control, and hence, to a large extent, on the effectiveness of the vaccination process. Since the outbreak of the Covid-19 pandemic, the eurozone's cyclical indicators have moved in line with health restrictions. This continues to be the case. The purchasing managers index (PMI) for the services sector, which was especially hard hit by lockdown measures, declined again in January reaching low levels (45 in January after 46.4 in December).Manufacturing PMI declined slightly in January (54.7 after 55.2 in December), but is still relatively high compared to the long-term average. Benefiting from China's strong economic rebound, the "new export orders" sub-component reported robust performances.

The European Commission's economic sentiment index, which had rebounded after the initial lockdown was lifted, has levelled off since September. It is relatively low compared to pre-crisis levels and the long-term average. This partly reflects subdued consumer confidence in the eurozone, which remains well below the long-term average. This is an issue considering that consumer spending will be key for the recovery. A speedy vaccination campaign should boost consumer confidence, which would stimulate private consumption, with households tapping into their accumulated savings. This would trigger favourable spillover effects to the rest of the economy. Prices in the eurozone fell again in December 2020 (-0.3% year-on-year), which confirms the necessity of maintaining the current level of monetary accommodation. Some fear a resurgence of inflationary pressures but, should this be the case, it will depend on their nature and origin whether this will change the ECB's communication.

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.

ECONOMIC PULSE

MOBILITY: NEW RESTRICTIONS WEIGH ON THE SERVICES SECTOR

The second wave of the pandemic has forced many countries to tighten coronavirus-related restrictions. The effect of these measures can be seen in the latest Google Mobility Report, published on 19 January, which summarises customer traffic for a large number of countries, using multiple indicators. The Google mobility indicator shows a significant fall in visits to retail and recreation outlets, although less than seen last spring in most countries (chart 1).

In the United Kingdom, after a rising trend in such visits since mid-November the figure stabilised in mid-December and then fell sharply following the application of new lockdown measures, with the 7-day moving average down nearly 65% relative to the baseline* (chart 1). Wales and Northern Ireland introduced their third lockdowns after Christmas. Scotland introduced stricter measures on 4 January, followed by England on 5 January. In Germany, footfall figures recorded a timid recovery after a sharp fall at the end of December 2020, with a 7-day moving average at nearly 60% relative to the baseline. On 14 January, the federal government and the 16 Länder agreed to a further tightening until at least 14 February. This will no doubt have a negative impact on retail and leisure visits over the coming weeks. In France, a curfew from 8pm to 6am has been in force across the entire country since 15 December; in 25 departments a curfew from 6pm to 6am came into force on 8 January. This was extended to a national curfew from 6pm to 6am from 16 January, for a period of at least a fortnight. As a result, the 7-day moving average of visits to retail and leisure facilities fell by 43% relative to the baseline.

In the US, visitor numbers continued to fall, after a small recovery in early January, and were at between 75% and 80% of their pre-crisis levels. In Japan, the return to normal seen in the last week of December was short-lived and was followed by a fresh fall. The decline in footfalls in the US and Japan remains significantly smaller than those in Europe.

This background of tougher coronavirus-related measures can be seen in the Services PMI data for January, which show a contraction of service sector activity. In France, the index fell to 46.5 in January, from 49.1 in December, taking it to its lowest level for two months. In Germany, services activity continued to decelerate as the Services PMI reached 46.8 in January, its fourth consecutive monthly fall. In Japan, the index fell steeply to 45.7, having stabilised at 47.7 in December. Lastly, in the UK, the index has fallen substantially. It reached 38.8 in January from 49.4 in the previous month. It should be noted that in all four countries the index remains below the 50-mark, which separates contraction from expansion. In the US, the Services PMI stood at 57.5 in January compared with 54.8 in December, well above the consensus (53.6), and second highest since March 2015. These data confirm the close correlation between retail and recreation visits and the Services PMI.

Tarik Rharrab

RETAIL AND RECREATION MOBILITY

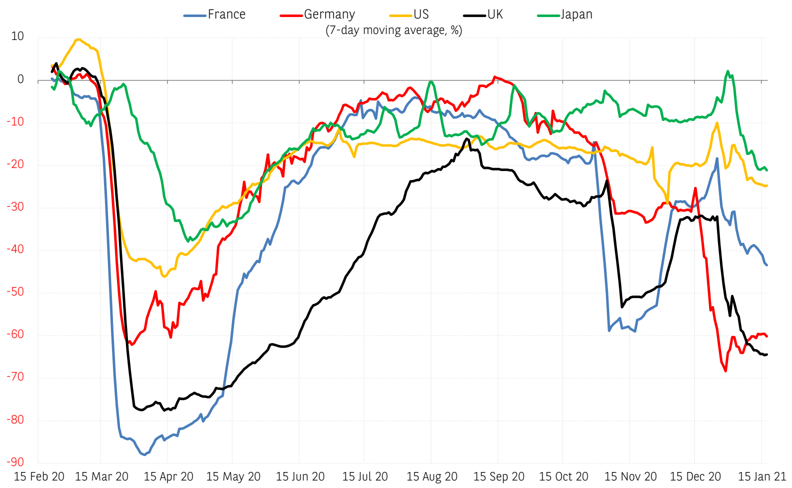
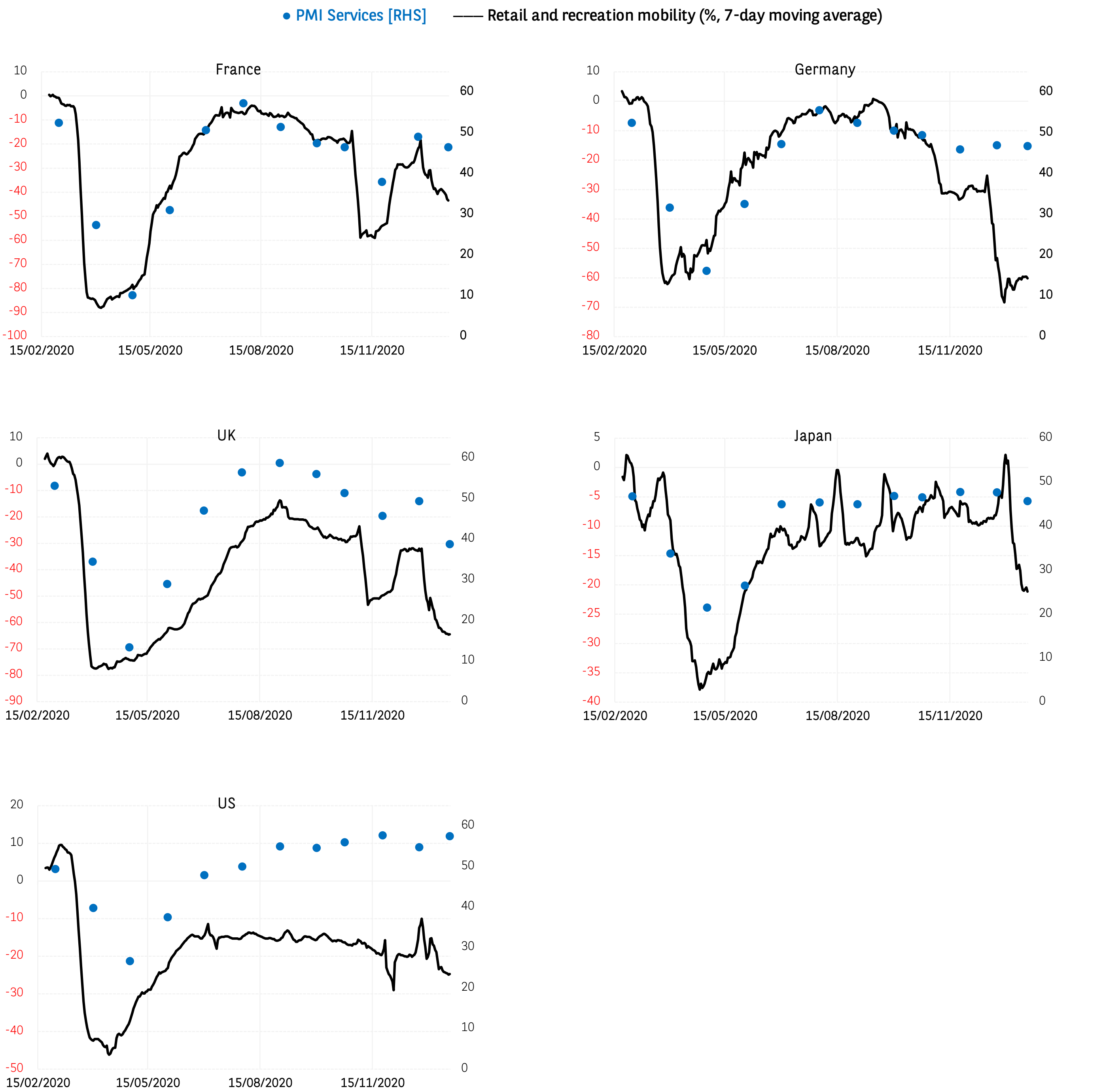


CHART 1

SOURCE: GOOGLE (17 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.*

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



SOURCE: GOOGLE (LAST UPDATE 17 JANUARY 2021), MARKIT, BNP PARIBAS

ECONOMIC SCENARIO

UNITED STATES

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

CHINA

After plummeting in Q1 2020, economic activity has experienced a V-shaped rebound since Q2. The recovery has first been driven principally by industrial production and investment in infrastructure projects and the real estate sector. Then exports have strengthened, supported by the rebound in global demand. Finally, the services sector and private consumption have regained growth momentum since last summer. In the short term, fiscal policy should continue to support economic growth. Domestic credit conditions, which have been eased prudently in 2020, 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	-5.6	2.7	5.1	1.4	0.4	1.3	1.2
France*	1.5	-9.0	5.5	4.7	1.3	0.5	0.6	1.2
Italy*	0.3	-9.0	4.5	4.4	0.6	-0.2	0.5	1.3
Spain*	2.0	-11.6	5.4	5.9	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: 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 China, quarterly growth of GDP in the 4th quarter was marginally below that of the previous quarter although on a year-over-year basis there was a significant acceleration. The growth of property investment and fixed assets investments picked up slightly but retail sales slowed. In the United Kingdom, CBO business optimism dropped, which is undoubtedly related to the rising number of infections. The ZEW survey saw an improvement in the expectations component for Germany and the euro area. Eurozone survey data (consumer confidence, flash PMIs) declined. In Germany, the PMIs were also weaker. In France on the other hand, business confidence edged higher and the manufacturing PMI was stable. The services and the composite PMIs declined. Business surveys in the UK recorded a considerable drop. In the US, the flash PMIs saw a strong increase, beating consensus expectations by a wide margin.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	ACTUAL	PREVIOUS
01/18/2021	China	GDP SA QoQ	4Q	2.7%	2.6%	3.0%
01/18/2021	China	GDP YoY	4Q	6.2%	6.5%	4.9%
01/18/2021	China	Industrial Production YoY	Dec	6.9%	7.3%	7.0%
01/18/2021	China	Retail Sales YoY	Dec	5.5%	4.6%	5.0%
01/18/2021	China	Property Investment YTD YoY	Dec	7.2%	7.0%	6.8%
01/18/2021	China	Fixed Assets Ex Rural YTD YoY	Dec	3.2%	2.9%	2.6%
01/18/2021	China	Surveyed Jobless Rate	Dec	5.2%	5.2%	5.2%
01/18/2021	Japan	Industrial Production MoM	Nov	--	-0.5%	0.0%
01/18/21-01/24/21	United Kingdom	CBI Business Optimism	Jan	--	-22	0
01/19/2021	Eurozone	EU27 New Car Registrations	Dec	--	-3.3%	-12.0%
01/19/2021	Germany	ZEW Survey Expectations	Jan	59.4	61.8	55.0
01/19/2021	Germany	ZEW Survey Current Situation	Jan	-68.3	-66.4	-66.5
01/19/2021	Eurozone	ZEW Survey Expectations	Jan	--	58.3	54.4
01/20/2021	United Kingdom	CPI Core YoY	Dec	1.3%	1.4%	1.1%
01/20/2021	Eurozone	CPI Core YoY	Dec	0.2%	0.2%	0.2%
01/20/2021	United States	MBA Mortgage Applications	Jan	--	-1.9%	16.7%
01/20/2021	United States	NAHB Housing Market Index	Jan	86.0	83.0	86.0
01/21/2021	Japan	Machine Tool Orders YoY	Dec	--	9.9%	8.7%
01/21/2021	France	Business Confidence	Jan	92.0	92.0	91.0
01/21/2021	Eurozone	ECB Deposit Facility Rate	Jan	-0.5%	-0.5%	-0.5%
01/21/2021	United States	Building Permits MoM	Dec	-1.7%	4.5%	5.9%
01/21/2021	United States	Housing Starts MoM	Dec	0.8%	5.8%	3.1%
01/21/2021	United States	Initial Jobless Claims	Jan	935k	900k	926k
01/21/2021	United States	Philadelphia Fed Business Outlook	Jan	11.8	26.5	9.1

SOURCE: BLOOMBERG

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	ACTUAL	PREVIOUS
01/21/2021	Eurozone	Consumer Confidence	Jan	-15.0	-15.5	-13.8
01/21/2021	Japan	BOJ Policy Balance Rate	Jan	-0.1%	-0.1%	-0.1%
01/22/2021	Japan	Natl CPI Ex Fresh Food, Energy YoY	Dec	-0.4%	-0.4%	-0.3%
01/22/2021	Japan	Jibun Bank Japan PMI Mfg	Jan	--	49.7	50.0
01/22/2021	Japan	Jibun Bank Japan PMI Services	Jan	--	45.7	47.7
01/22/2021	Japan	Jibun Bank Japan PMI Composite	Jan	--	46.7	48.5
01/22/2021	Japan	Tokyo Dept Store Sales YoY	Dec	--	-15.9%	-17.8%
01/22/2021	United Kingdom	Retail Sales Ex Auto Fuel MoM	Dec	1.0%	0.4%	-3.0%
01/22/2021	France	Markit France Manufacturing PMI	Jan	50.5	51.5	51.1
01/22/2021	France	Markit France Services PMI	Jan	48.4	46.5	49.1
01/22/2021	France	Markit France Composite PMI	Jan	49.0	47.0	49.5
01/22/2021	Germany	Markit/BME Germany Manufacturing PMI	Jan	57.2	57.0	58.3
01/22/2021	Germany	Markit Germany Services PMI	Jan	45.0	46.8	47.0
01/22/2021	Germany	Markit/BME Germany Composite PMI	Jan	50.0	50.8	52.0
01/22/2021	Eurozone	ECB Survey of Professional Forecasters				
01/22/2021	Eurozone	Markit Eurozone Manufacturing PMI	Jan	54.4	54.7	55.2
01/22/2021	Eurozone	Markit Eurozone Services PMI	Jan	44.5	45.0	46.4
01/22/2021	Eurozone	Markit Eurozone Composite PMI	Jan	47.6	47.5	49.1
01/22/2021	United Kingdom	Markit UK PMI Manufacturing SA	Jan	53.6	52.9	57.5
01/22/2021	United Kingdom	Markit/CIPS UK Services PMI	Jan	45.0	38.8	49.4
01/22/2021	United Kingdom	Markit/CIPS UK Composite PMI	Jan	45.5	40.6	50.4
01/22/2021	United Kingdom	GfK Consumer Confidence	Jan	-30.0	-28.0	-26.0
01/22/2021	United States	Markit US Manufacturing PMI	Jan	56.5	59.1	57.1
01/22/2021	United States	Markit US Composite PMI	Jan	--	58.0	55.3
01/22/2021	United States	Markit US Services PMI	Jan	53.6	57.5	54.8
01/22/2021	United States	Existing Home Sales MoM	Dec	-2.0%	0.7%	-2.2%

SOURCE: BLOOMBERG

CALENDAR: THE WEEK AHEAD

COMING INDICATORS

The highlights of next week's calendar are the FOMC meeting and the first estimate for 4th quarter GDP growth in the US, France and Germany. In addition, important surveys will be released: IFO in Germany, consumer confidence in several countries as well as the European Commission surveys on economic, industrial and services confidence. In the US, we will see the publication of several regional surveys.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	PREVIOUS
01/25/2021	Germany	IFO Business Climate	Jan	--	92.1
01/25/2021	Germany	IFO Expectations	Jan	--	92.8
01/25/2021	Germany	IFO Current Assessment	Jan	--	91.3
01/25/2021	United States	Chicago Fed Nat Activity Index	Dec	--	0.27
01/25/2021	United States	Dallas Fed Manf. Activity	Jan	--	9.7
01/26/2021	United Kingdom	Employment Change 3M/3M	Nov	--	-144k
01/26/2021	United States	Conf. Board Consumer Confidence	Jan	88.5	88.6
01/26/2021	United States	Richmond Fed Manufact. Index	Jan	--	19
01/27/2021	Japan	Leading Index CI	Nov	--	96.6
01/27/2021	Germany	GfK Consumer Confidence	Feb	--	-7.3
01/27/2021	France	Consumer Confidence	Jan	--	95
01/27/2021	France	Total Jobseekers	4Q	--	3673.4k
01/27/2021	United States	Cap Goods Orders Nondef Ex Air	Dec	--	0.50%
01/27/2021	United States	FOMC Rate Decision (Upper Bound)	Jan	0.25%	0.25%
01/27/21-02/02/21	Germany	Retail Sales MoM	Dec	--	1.90%
01/28/2021	Japan	Retail Sales MoM	Dec	--	-2.00%
01/28/2021	Eurozone	Consumer Confidence	Jan	--	--
01/28/2021	Eurozone	Economic Confidence	Jan	--	90.4
01/28/2021	Eurozone	Industrial Confidence	Jan	--	-7.2
01/28/2021	Eurozone	Services Confidence	Jan	--	-17.4
01/28/2021	United States	GDP Annualized QoQ	4Q	4.80%	33.40%
01/28/2021	United States	Initial Jobless Claims	Jan	--	--
01/28/2021	United States	New Home Sales MoM	Dec	1.40%	-11.00%
01/28/2021	United States	Kansas City Fed Manf. Activity	Jan	--	14
01/29/2021	Japan	Tokyo CPI Ex-Fresh Food. Energy YoY	Jan	--	-0.40%
01/29/2021	Japan	Industrial Production MoM	Dec	--	-0.50%
01/29/2021	Japan	Consumer Confidence Index	Jan	--	31.8
01/29/2021	France	GDP QoQ	4Q	--	18.70%
01/29/2021	Germany	GDP SA QoQ	4Q	--	8.50%
01/29/2021	United States	Personal Income	Dec	0.10%	-1.10%
01/29/2021	United States	Personal Spending	Dec	-0.50%	-0.40%
01/29/2021	United States	U. of Mich. Sentiment	Jan	79.2	79.2
01/29/2021	United States	U. of Mich. Current Conditions	Jan	--	87.7
01/29/2021	United States	U. of Mich. Expectations	Jan	--	73.8

SOURCE: BLOOMBERG

FURTHER READING

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 21.01. January 15, 2021 issue	EcoWeek	15 January 2021
The migration of risk in 2021	EcoTVWeek	15 January 2021
The growing cost of negative interest rates on excess reserves has temporarily been offset by the terms of tltro iii	Chart of the Week	14 January 2021
Turkey: ending the stop-and-go growth?	Conjoncture	12 January 2021
Global: Why the level of public indebtedness matters: a market perspective	EcoWeek	11 January 2021
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

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

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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

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