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ECONOMIC RESEARCH



BNP PARIBAS

The bank
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world

HOW TO SPEND IT? VOUCHERS VERSUS VAT CUTS

The bleak outlook for the labour market implies there is a strong case for measures to boost consumer spending in order to keep the recovery on track. A host of instruments can be considered: vouchers, VAT rate cuts, income tax cuts, tax credits, negative income taxes. Amongst these, a voucher programme offers many advantages given the possibility for fine-tuning the target group, the final beneficiaries, the type of spending and the regional dimension. However, it comes with considerable administrative costs.

Survey, activity and spending data are improving in countries where the lockdown measures have been eased. At the same time, the frequency of corporate restructurings and announcements of lay-offs has increased, painting a bleak outlook for the labour market.

Given the weight of household consumption in GDP¹, there is a strong case for trying to boost consumer spending in order to keep the recovery on track. Several countries have already taken initiatives in this respect, such as Germany -temporary VAT cut, incentives to buy electrical car- or France -incentives for buying environment-friendly cars. In general, a variety of measures can be considered to stimulate spending. In addition to those already mentioned, there are vouchers, income tax cuts, tax credits², negative income taxes³, etc.

The choice may depend on different factors. First, there is the ease and speed of implementation. Tax cuts, tax credits and negative income taxes score high in this respect whereas distributing vouchers take more time and are administratively cumbersome. Second, there is the question of how fast the additional spending power becomes available. For VAT cuts, once passed into law, this can be quick. For vouchers it takes more time as it depends on the efficiency of the distribution system whereas an income tax cut only leads to higher spending power with considerable delay.

A third, important consideration is the possibility to target the beneficiaries. Rather than having everybody benefitting, a government might want to reach low income households or people having lost their job. Such a preference can be based on ethical grounds -helping those who suffer most- but also on economic considerations because these target groups can have a higher marginal propensity to consume out of extra income. This would imply a bigger bang-per-buck for the economy at large. This type of targeting is very much feasible with vouchers and income tax measures but not with VAT cuts.

Forth, the ability to focus on certain expenditure items is high in case of vouchers and VAT reductions but is absent for the other measures. Governments might want to focus on certain goods and services, in an effort to kill two birds with one stone -e.g. a subsidy for buying an electric car has an economic effect but is also welcome in the context of climate change policy-, to favour certain sectors which suffer from

subdued demand and high unemployment or to target activities with a high domestic value added and a low import content.

Fifth, vouchers can also be limited to people living in certain regions, towns and villages. The rationale would be based on a bigger multiplier effect in those parts of a country suffering from a deeper recession. The regional or local government could introduce such a programme as well. Income tax related measures could also be deployed regionally. Sixth, in case of vouchers, the cost of the initiative is known in advance⁴. For several other measures, any estimate will be very imprecise and depend on hypotheses. Finally, there is the important question of who is the direct financial beneficiary⁵. For most instruments, this is the household but in case of a VAT reduction, producers including

4. To be precise, this concerns the maximum cost. In reality, some people might not use the vouchers thereby lowering the cost of the programme.

5. A measure has a direct beneficiary -who benefits from the voucher, tax cut, etc.- and indirect beneficiaries, benefitting from the increased spending of the direct beneficiaries.

VOUCHERS VERSUS VAT CUTS

	Vouchers	Temporary VAT cut	Income tax cut	Tax credit	Negative income tax
Speed of implementation	slow	high	high	high	high
Speed of money being available	average	high	slow	high	slow
Possibility to target beneficiaries	high	no	high	high	high
Possibly to target in terms of items	high	high	no	no	no
Possibly to target in terms of geography	can be easily applied regionally, locally	difficult	possible	possible	possible
Cost estimate	precise in terms of maximum cost	imprecise	imprecise	precise	imprecise
Direct beneficiary	consumers	consumers and producers	consumers	consumers	consumers

SOURCE: BNP PARIBAS

1. In 2019, private consumption represented 53.5% of GDP in the eurozone, 53.7% in France, 52.2% in Germany and 68.0% in the US (data based on national sources).

2. A tax credit is an amount that can be deducted from the income taxes which are owed.

3. A negative income tax means that taxpayers earning less than a certain threshold would receive money from the government, rather than paying income taxes.

“ A voucher programme to boost household spending offers many advantages given the possibility for fine-tuning the target group, the final beneficiaries, the type of spending and the regional dimension.



shopkeepers may try to keep some of the benefit for themselves by lowering their prices less than the decline in indirect taxes.

All in all, a voucher system has many advantages if the objective is to kickstart spending, in particular because it allows for targeted measures with a maximum cost known from the outset. However, they come with a considerable administrative cost. Tax credits also score high on most dimensions.

Focussing on vouchers and VAT cuts –measures which seek to directly influence consumption- the key question of course is about their macroeconomic effectiveness, in terms of impact on consumption and GDP. A key condition is the temporary nature of the measures, creating an incentive to quickly step up spending. This is far less likely in case of a permanent reduction in VAT or if vouchers would not expire.

Like with any increase of domestic demand, the multiplier effect will depend on the import leakage –to what extent does higher domestic demand lead to increased imports- but a key factor is the existence of substitution effects. Households may decide to maintain their level of spending, but with a changed financing mix: part income, part vouchers or the extra spending power from the VAT reduction. There can also be an intertemporal substitution effect: consumption is brought forward, to the detriment of future consumption.

With so many conflicting influences, one needs to look at empirical studies to get a better insight. Research on a temporary voucher programme in March 1999 in Japan shows a positive impact on spending on semi-durables, without a drop in consumption after the programme had ended⁶. On the other hand, a nationwide voucher programme in Taiwan in 2009 “*may have had no effect on stimulating the economy*”⁷. Research on the reduction in 2009 of the VAT on sit-down restaurants in France concludes a limited effect for consumers, whereas a subsequent increase in VAT rates had a bigger impact on prices⁸. To conclude, comparing different ways of stimulating household spending, a voucher programme offers many advantages given the possibility for fine-tuning the target group, the final beneficiaries, the type of spending and the regional dimension.

William De Vijlder

6. *Did Japan's shopping coupon program increase spending?* Chang-Tai Hsieh, Satoshi Shimizutani, Masahiro Hori, *Journal of Public Economics*, 2010, pp. 523–529. Semi-durables consist of clothing, footwear, sporting goods, video games, computer hardware and software and books. The programme was targeting families with young children as well as elderly people. The vouchers needed to be spent in the local communities.

7. *Did the Consumption Voucher Scheme Stimulate the Economy? Evidence from Smooth Time-Varying Cointegration Analysis*, Feng-Li Lin and Wen-Yi Chen, *Sustainability*, 2020

8. *Who benefitted from the July 2009 sit-down restaurant value-added tax cuts?* Youssef Benzarty and Dorian Carloni, *Institut Politiques Publiques*, note n° 32, 2018 En français: Qui a bénéficié de la baisse de la TVA dans la restauration en 2009?



MARKETS OVERVIEW

OVERVIEW

Week 26-6 20 to 2-7-20

➤ CAC 40	4 910	▶ 5 049	+2.8 %
➤ S&P 500	3 009	▶ 3 130	+4.0 %
➤ Volatility (VIX)	34.7	▶ 27.7	-7.1 pb
➤ Libor \$ 3M (%)	0.31	▶ 0.30	-0.9 bp
➤ OAT 10y (%)	-0.19	▶ -0.17	+2.0 bp
➤ Bund 10y (%)	-0.51	▶ -0.46	+4.7 bp
➤ US Tr. 10y (%)	0.64	▶ 0.67	+3.3 bp
➤ Euro vs dollar	1.12	▶ 1.12	+0.2 %
➤ Gold (ounce, \$)	1 761	▶ 1 776	+0.9 %
➤ Oil (Brent, \$)	41.1	▶ 43.2	+5.2 %

MONEY & BOND MARKETS

Interest Rates

		highest 20	lowest 20
\$ FED	0.25	1.75 at 01/01	0.25 at 16/03
Libor 3M	0.30	1.91 at 01/01	0.28 at 24/06
Libor 12M	0.53	2.00 at 01/01	0.53 at 01/07
€ BoE	0.10	0.75 at 01/01	0.10 at 19/03
Libor 3M	0.15	0.80 at 08/01	0.13 at 29/06
Libor 12M	0.43	0.98 at 01/01	0.43 at 01/07

At 2-7-20

Yield (%)

		highest 20	lowest 20
€ AVG 5-7y	-0.12	0.72 at 18/03	-0.28 at 04/03
Bund 2y	-0.67	-0.58 at 14/01	-1.00 at 09/03
Bund 10y	-0.46	-0.17 at 19/03	-0.84 at 09/03
OAT 10y	-0.17	0.28 at 18/03	-0.42 at 09/03
Corp. BBB	1.32	2.54 at 24/03	0.65 at 20/02
\$ Treas. 2y	0.16	1.59 at 08/01	0.13 at 07/05
Treas. 10y	0.67	1.91 at 01/01	0.50 at 09/03
High Yield	6.63	11.29 at 23/03	5.44 at 21/02
£ gilt. 2y	-0.09	0.61 at 08/01	-0.09 at 02/07
gilt. 10y	0.14	0.83 at 01/01	0.11 at 25/06

At 2-7-20

EXCHANGE RATES

1€ =		highest 20	lowest 20	2020
USD	1.12	1.14 at 09/03	1.07 at 20/03	+0.0%
GBP	0.90	0.94 at 23/03	0.83 at 18/02	+6.3%
CHF	1.06	1.09 at 05/06	1.05 at 14/05	-2.3%
JPY	120.85	124.16 at 05/06	114.51 at 06/05	-0.9%
AUD	1.63	1.87 at 23/03	1.60 at 01/01	+1.8%
CNY	7.93	8.08 at 04/06	7.55 at 19/02	+1.5%
BRL	5.99	6.42 at 13/05	4.51 at 02/01	+32.8%
RUB	79.09	87.95 at 30/03	67.75 at 10/01	+13.4%
INR	84.23	86.26 at 11/06	77.21 at 17/02	+5.1%

At 2-7-20 Change

COMMODITIES

Spot price, \$		highest 20	lowest 20	2020	2020(€)
Oil, Brent	43,2	69,1 at 06/01	16,5 at 21/04	-34,9%	-34,9%
Gold (ounce)	1 776	1 784 at 30/06	1 475 at 19/03	+16,8%	+16,8%
Metals, LME	2 699	2 894 at 20/01	2 232 at 23/03	-5,1%	-5,1%
Copper (ton)	6 071	6 270 at 14/01	4 625 at 23/03	-1,3%	-1,3%
CRB Foods	290	341,5 at 21/01	272 at 27/04	-14,3%	-14,4%
wheat (ton)	184	2,4 at 21/01	178 at 26/06	-19,7%	-19,8%
Corn (ton)	130	1,5 at 23/01	113 at 28/04	-1,3%	-13,2%

At 2-7-20 Change

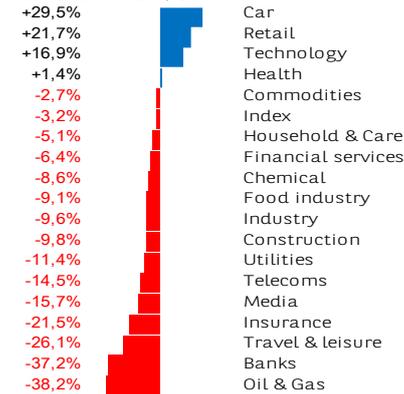
EQUITY INDICES

	Index	highest 20	lowest 20	2020
World				
MSCI World	2 228	2 435 at 12/02	1 602 at 23/03	-5,5%
North America				
S&P500	3 130	3 386 at 19/02	2 237 at 23/03	-3,1%
Europe				
EuroStoxx50	3 320	3 865 at 19/02	2 386 at 18/03	-11,3%
CAC 40	5 049	6 111 at 19/02	3 755 at 18/03	-1,6%
DAX 30	12 608	13 789 at 19/02	8 442 at 18/03	-4,8%
IBEX 35	7 499	10 084 at 19/02	6 107 at 16/03	-2,1%
FTSE100	6 240	7 675 at 17/01	4 994 at 23/03	-1,7%
Asia				
MSCI, loc.	908	1 034 at 20/01	743 at 23/03	-1,0%
Nikkei	22 146	24 084 at 20/01	16 553 at 19/03	-6,4%
Emerging				
MSCI Emerging (\$)	1 023	1 147 at 17/01	758 at 23/03	-0,8%
China	90	90 at 02/07	69 at 19/03	+6,1%
India	503	609 at 17/01	353 at 23/03	-10,6%
Brazil	1 495	2 429 at 02/01	1 036 at 23/03	-16,4%
Russia	621	857 at 20/01	419 at 18/03	-13,7%

At 2-7-20 Change

PERFORMANCE BY SECTOR (S&P500)

Year 2020 to 2-7, \$



SOURCE: THOMSON REUTERS,

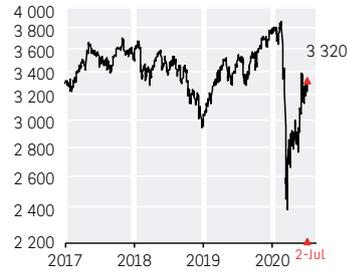


MARKETS OVERVIEW

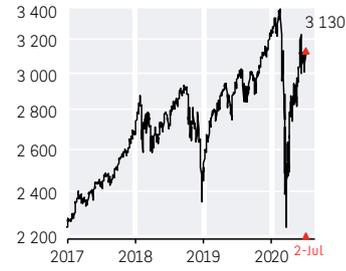
EURO-DOLLAR



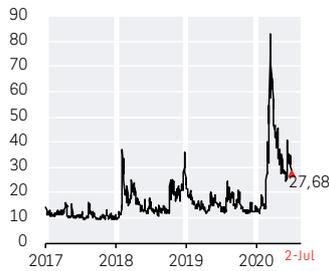
EUROSTOXX50



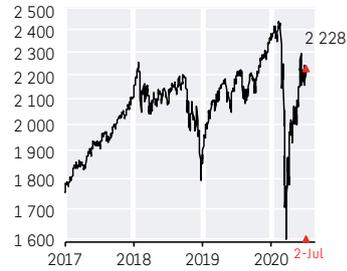
S&P500



VOLATILITY (VIX, S&P500)



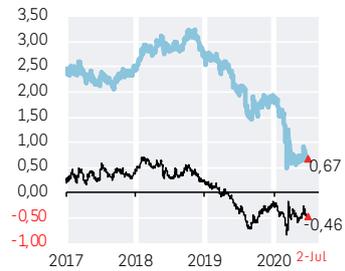
MSCI WORLD (USD)



MSCI EMERGING (USD)

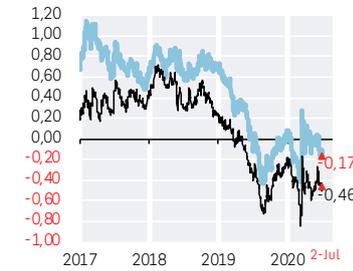


10Y BOND YIELD, TREASURIES VS BUND



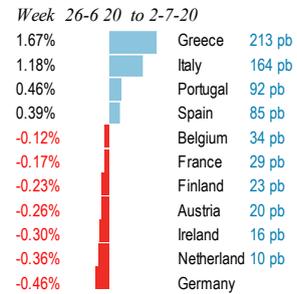
-Bunds —US Treasuries

10Y BOND YIELD



-Bunds —OAT

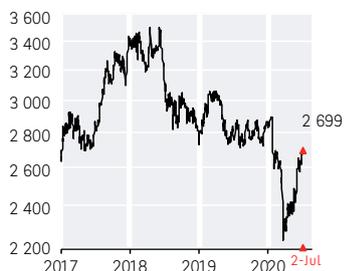
10Y BOND YIELD & SPREADS



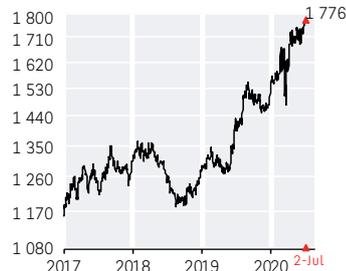
OIL (BRENT, USD)



METALS (LMEX, USD)



GOLD (OUNCE, USD)



SOURCE: THOMSON REUTERS,



ECONOMIC PULSE

EUROZONE : A RECOVERY, BUT THE ROAD AHEAD IS LONG

Are we over the worst? In the short term, that would seem to be the message from the latest economic data for May and June at our disposal. Having hit record lows in April, activity indicators posted a rally in May, and an even steeper recovery in June. This recovery was expected, despite the public health measures still in force, given the ending of the lockdown in the eurozone member states. However, the economic activity is still weaker than in normal periods (pandemic free).

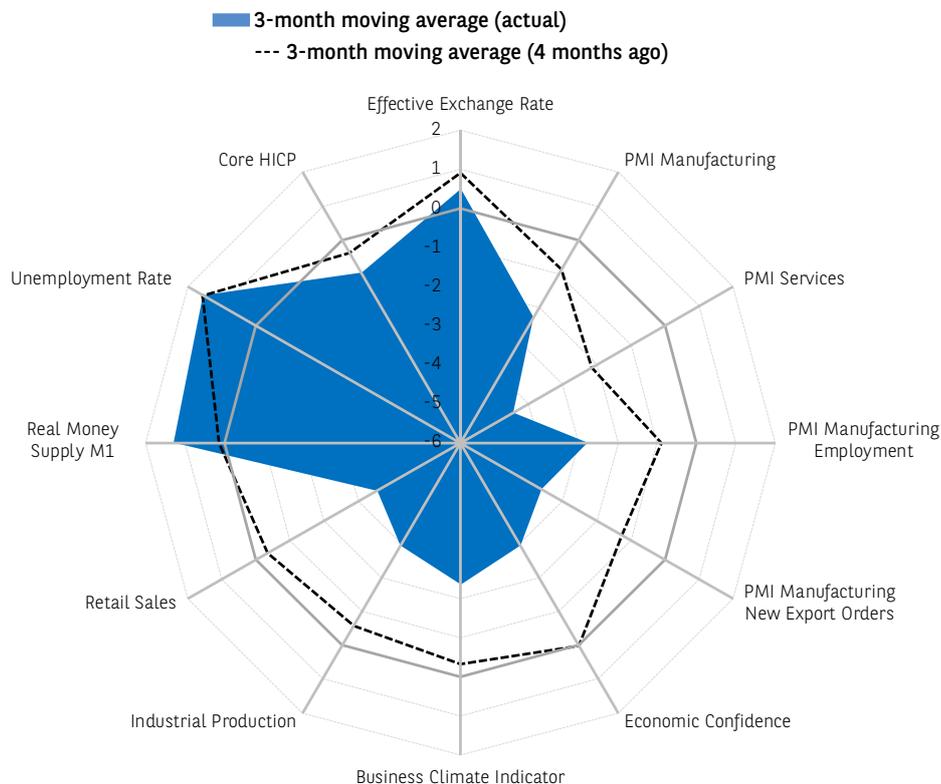
The Purchasing Managers Index (PMI) bounced back in June. The PMI composite was 47.5 (from 31.9 in May and 13.6 in April). Thus the level of economic activity remains very weak. The signal from the Economic Sentiment Index (ESI) is similar. This measure has rallied from a low of 64.8 in April to 75.7 in June. It is nevertheless still substantially below its long-term average (normalised at 100). Hard data on retail sales and industrial production show them at well below their levels of 3 months ago. However, the latest such figures available date from April.

At that point, manufacturing production, for example, had fallen 30% year-on-year. May and June are expected to have brought the beginnings of a recovery.

The M1 measure of money supply has risen rapidly over the past three months. Empirically, real growth in M1 money supply is a good leading indicator for economic activity in the euro zone. M1 grew by 12.5% (y/y in nominal terms) in May 2020, following increases of 11.9% in April and an average of 8.8% in Q1 2020. This trend can explain in part the marked acceleration in the broader M3 measure since the start of 2020. Lending to public authorities explains a significant part of this increase, most notably under the greater intensity of sovereign debt purchasing by Eurosystem. Despite this rapid growth in money supply, total inflation fell in May for the 5th consecutive month, reaching 0.1% (y/y), due in particular to weakness in energy prices. Underlying inflation fell to 0.8% in June.

Louis Boisset

QUARTERLY CHANGES



SOURCE: THOMSON REUTERS, BNP PARIBAS

The indicators in the radar are all transformed into 'z-scores' (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -6 and +2. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.



ECONOMIC PULSE

BUSINESS SENTIMENT CONTINUES TO IMPROVE

With an increasing number of countries scaling back if not removing the lockdown measures, the purchasing managers' indices have improved further in June. The world manufacturing PMI is now even above the level reached in February. Big increases have been noted in the US, France, Germany, Ireland, Spain, Turkey, Indonesia and Vietnam. Brazil and India have also seen a considerable improvement, which seems at odds with the health situation in these countries.

The assessment of export orders has also improved, though less than the manufacturing index. In Ireland and Turkey, the rebound is particularly strong and the index is again above the 50 mark.

In terms of the services sector, the string pick-up continues in the euro-zone, but contrary to manufacturing, we are still below the February level. The rebound in France from the April low has been spectacular. The same

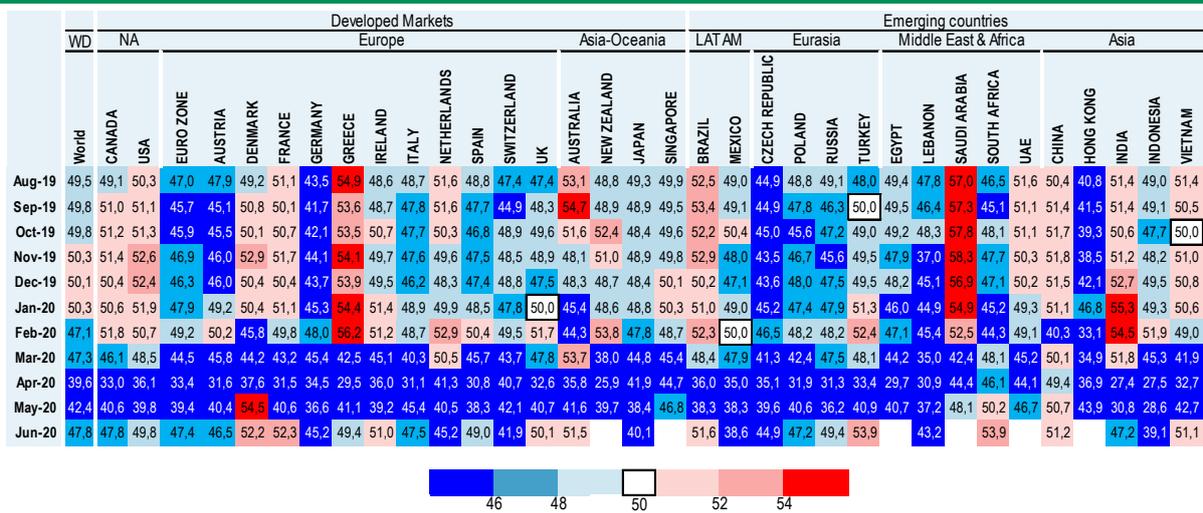
applies for Spain. In China services sector sentiment is now particularly strong, reaching the highest level for the period covered by the heatmap.

The manufacturing employment PMI is important to monitor given its correlation with the observed change in employment and the relationship with household spending. Although this series did improve in June, the pace is slower than for the overall manufacturing PMI. In several countries, it is stagnating (Italy is an example) or even declining, such as in Japan.

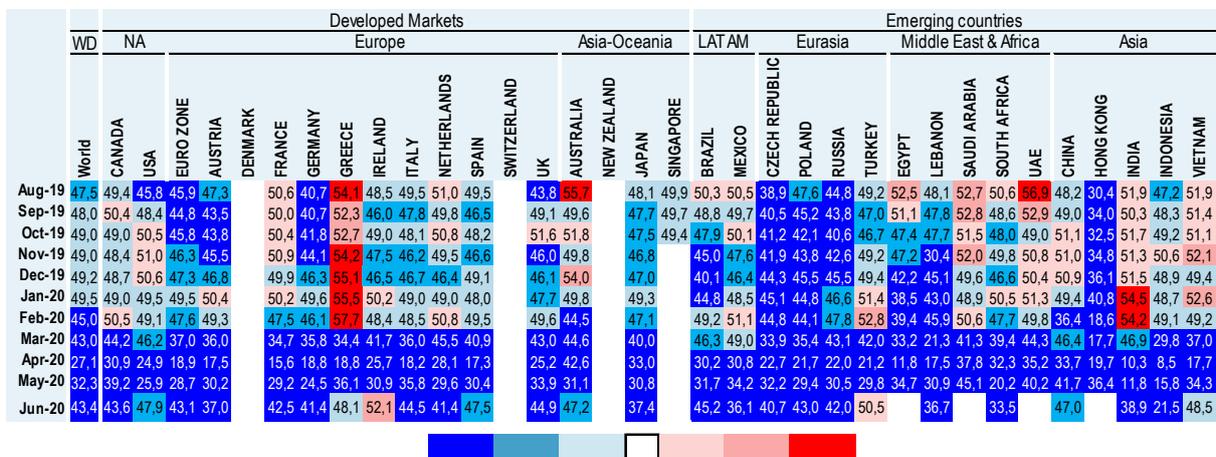
This conclusion does not change when looking at the composite employment index, which covers both manufacturing and services. To conclude, when looking at the broad-based ongoing improvement of the PMIs, it is important to keep in mind that the activity levels remain well below those registered before the pandemic.

William De Vijlder

MANUFACTURING PMI (WORLD)



MANUFACTURING PMI - NEW EXPORT ORDERS (WORLD)



SOURCE: MARKIT, BNP PARIBAS



MANUFACTURING PMI - EMPLOYMENT (WORLD)

	Developed Markets														Emerging countries																	
	WD	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	BRAZIL	MEXICO	CZECH REPUBLIC	POLAND	RUSSIA	TURKEY	EGYPT	SAUDI ARABIA	SOUTH AFRICA	UAE	CHINA	INDIA
Aug-19	49.6	50.6	50.1	47.9	47.9	36.1	51.0	45.0	54.7	50.5	49.7	52.5	48.5	48.4	47.8	50.3	50.2	51.2	50.4	49.7	46.3	49.2	49.6	49.9	50.8	50.1	39.6	49.9	49.9	50.9	49.1	50.9
Sep-19	49.6	52.1	50.9	47.1	45.1	30.1	50.6	43.5	53.1	50.0	49.5	54.2	48.7	49.8	47.1	49.6	49.9	50.9	52.9	49.3	45.5	49.6	47.9	50.2	51.0	51.5	40.5	50.2	49.9	51.0	48.9	49.2
Oct-19	49.2	51.2	51.3	46.7	45.0	34.9	52.3	42.4	55.0	51.2	48.3	51.5	48.7	51.5	47.1	50.4	49.9	51.6	50.1	50.9	45.2	49.1	48.0	50.9	50.7	51.1	42.3	50.6	48.2	50.5	48.7	48.9
Nov-19	50.2	51.4	52.7	48.0	46.4	60.5	52.8	45.0	56.0	49.2	49.4	50.6	48.9	51.5	46.8	50.2	48.9	51.9	50.5	47.9	43.5	49.1	47.7	48.5	48.3	51.1	41.8	49.8	50.1	49.8	49.1	50.5
Dec-19	49.6	51.0	51.4	46.4	47.0	57.2	50.1	43.4	56.7	49.7	47.4	49.6	47.5	48.6	47.8	49.3	49.5	51.0	49.3	49.1	43.4	48.9	47.8	48.6	47.6	50.5	43.0	50.3	50.0	52.0	49.0	50.7
Jan-20	49.8	49.8	51.1	47.0	49.3	60.5	49.7	43.4	57.8	51.2	49.6	51.0	46.6	52.1	50.1	49.5	46.7	51.8	51.2	50.3	42.6	46.5	48.9	51.5	46.9	50.2	37.8	48.8	49.5	53.9	49.3	50.2
Feb-20	47.2	51.1	50.6	47.7	51.1	58.5	48.6	45.0	57.7	48.4	49.2	53.9	49.2	51.0	49.7	49.5	51.1	50.9	51.7	49.4	44.1	47.3	47.9	53.2	46.8	50.0	37.5	49.4	41.2	50.4	50.6	48.4
Mar-20	47.3	44.6	47.0	44.3	42.7	39.7	45.4	43.0	46.2	42.6	45.3	49.0	45.2	42.5	44.2	47.6	44.8	49.6	46.5	49.2	41.5	43.2	49.9	51.9	47.0	49.6	39.0	44.8	48.6	50.4	47.0	44.3
Apr-20	41.5	25.1	36.4	35.8	33.3	38.2	32.5	37.2	30.0	30.5	39.3	39.9	30.9	40.5	28.1	38.8	41.1	46.1	39.0	34.2	35.4	38.6	33.4	44.5	46.1	47.2	26.6	46.4	47.7	43.1	34.3	38.2
May-20	43.1	32.7	38.0	37.6	41.0	32.5	35.7	36.5	38.4	40.1	40.6	40.7	36.2	42.4	31.4	41.6	39.4	49.5	39.1	36.7	37.7	43.6	34.6	47.3	45.5	48.7	28.8	48.7	49.2	42.7	31.5	44.2
Jun-20	45.8	44.8	47.9	41.3	44.1	42.1	44.6	38.8	47.9	46.1	40.3	41.2	44.6	39.0	41.4	45.9	47.7	43.7	36.8	41.1	46.5	46.9	52.8	32.7	48.6	44.3	39.1	47.8				



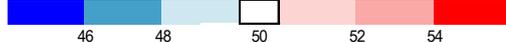
SERVICES PMI (WORLD)

	World	USA	EURO ZONE								AUSTRALIA	JAPAN	BRAZIL	RUSSIA	LEBANON	CHINA	HONG KONG	INDIA
			FRANCE	GERMANY	IRELAND	ITALY	SPAIN	UK										
Aug-19	51.8	50.7	53.5	53.4	54.8	54.6	50.6	54.3	50.6	52.3	53.3	51.4	52.1	47.8	52.1	40.8	52.4	
Sep-19	51.4	50.9	51.6	51.1	51.4	53.1	51.4	53.3	49.5	51.8	52.8	51.8	53.6	46.4	51.3	41.5	48.7	
Oct-19	51.0	50.6	52.2	52.9	51.6	50.6	52.2	52.7	50.0	55.2	49.7	51.2	55.8	48.3	51.1	39.3	49.2	
Nov-19	51.6	51.6	51.9	52.2	51.7	53.7	50.4	53.2	49.3	53.7	50.3	50.9	55.6	37.0	53.5	38.5	52.7	
Dec-19	52.0	52.8	52.8	52.4	52.9	55.9	51.1	54.9	50.0	48.7	49.4	51.0	53.1	45.1	52.5	42.1	53.3	
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	57.9	
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	46.7	48.3	50.7	47.3	39.7	46.4	50.2	47.0	45.0	47.8	43.2	58.4	33.7					



PMI INDICATORS (EUROZONE)

	Manufacturing								Services						New export orders							
	EURO ZONE		AUSTRIA	FRANCE	GERMANY	IRELAND	ITALY	NETHERLANDS	SPAIN	EURO ZONE		FRANCE	GERMANY	IRELAND	ITALY	SPAIN	EURO ZONE		FRANCE	GERMANY	IRELAND	ITALY
Aug-19	47.0	47.9	51.1	43.5	48.6	48.7	51.6	48.8	53.5	53.4	54.8	54.6	50.6	54.3	45.9	50.6	40.7	48.5	49.5	49.5		
Sep-19	45.7	45.1	50.1	41.7	48.7	47.8	51.6	47.7	51.6	51.1	51.4	53.1	51.4	53.3	44.8	50.0	40.7	46.0	47.8	46.5		
Oct-19	45.9	45.5	50.7	42.1	50.7	47.7	50.3	46.8	52.2	52.9	51.6	50.6	52.2	52.7	45.8	50.4	41.8	49.0	48.1	48.2		
Nov-19	46.9	46.0	51.7	44.1	49.7	47.6	49.6	47.5	51.9	52.2	51.7	53.7	50.4	53.2	46.3	50.9	44.1	47.5	46.2	46.6		
Dec-19	46.3	46.0	50.4	43.7	49.5	46.2	48.3	47.4	52.8	52.4	52.9	55.9	51.1	54.9	47.3	49.9	46.3	46.5	46.7	49.1		
Jan-20	47.9	49.2	51.1	45.3	51.4	48.9	49.9	48.5	52.5	51.0	54.2	56.9	51.4	52.3	49.5	50.2	49.6	50.2	49.0	48.0		
Feb-20	49.2	50.2	49.8	48.0	51.2	48.7	52.9	50.4	52.6	52.5	52.5	59.9	52.1	52.1	47.6	47.5	46.1	48.4	48.5	49.5		
Mar-20	44.5	45.8	43.2	45.4	45.1	40.3	50.5	45.7	26.4	27.4	31.7	32.5	17.4	23.0	37.0	34.7	35.8	41.7	36.0	40.9		
Apr-20	33.4	31.6	31.5	34.5	36.0	31.1	41.3	30.8	12.0	10.2	16.2	13.9	10.8	7.1	18.9	15.6	18.8	25.7	18.2	17.3		
May-20	39.4	40.4	40.6	36.6	39.2	45.4	40.5	38.3	30.5	31.1	32.6	23.4	28.9	27.9	28.7	29.2	24.5	30.9	35.8	30.4		
Jun-20	47.4	46.5	52.3	45.2	51.0	47.5	45.2	49.0	48.3	50.7	47.3	39.7	46.4	50.2	43.1	42.5	41.4	52.1	44.5	47.5		



SOURCE: MARKIT, BNP PARIBAS



ECONOMIC SCENARIO

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UNITED STATES

- The economy is increasingly impacted by the spreading of the coronavirus and concern is mounting about the increase in the unemployment rate, which will weigh on consumer spending. This explains the very significant measures taken by the Federal Reserve and those announced by the Administration. In addition the Administration is preparing a new package of measures. Clearly, the near term prospects depend on how the epidemic evolves. Once we will be beyond the peak, the measures taken thus far will be instrumental in supporting the recovery in demand and activity.

CHINA

- Economic activity fell abruptly in February, the first month of the lockdown, and real GDP contracted by an unprecedented 6.8% y/y in Q1 2020. Since March, activity has been recovering gradually, though more rapidly on the supply side and in the industry than on the demand side and in services. The authorities have loosened their monetary and fiscal policies gradually. Credit conditions are expected to continue to be eased cautiously given the already excessive debt burden of the economy. Meanwhile, the fiscal leeway remains large and public investment growth should accelerate further. Downside risks on our 2020 scenario are significant. On the external front, they are due to the vulnerability of the Chinese manufacturing sector to global trade weakening and US protectionism.

EUROZONE

- The huge impact of the coronavirus epidemic is becoming increasingly visible in activity and demand data, following lockdowns, but also in confidence data and business expectations. The first semester will be significantly affected although the extent depends on when the epidemic will be brought under control. Taking guidance from the experience in China, the second semester should see an improvement in activity, which should be helped by the huge support measures which are being taken. Forecasts are entirely dependent on the scenario which is assumed for the epidemic.

FRANCE

- The recessionary shock triggered by the Covid-19 pandemic and ensuing lockdown measures is massive. After an already historic fall of 5.3% q/q in Q1, Q2 GDP plunge could reach 20% q/q according to the INSEE. However, as a result of the first phase of the deconfinement, some green shoots of the recovery are visible in May business surveys. The recovery is expected to gain momentum, but only progressively as it spreads to all sectors of activity. Not all of them are in the same boat in terms of catching up and getting back to normal. Our new growth scenario incorporates a deeper trough in activity followed by a shallower rebound. After responding to the emergency with relief measures, support for the economy is changing. Sectoral measures have already been identified (tourism, automobile); the global stimulus package, currently being drawn up, is announced for September.

INTEREST RATES AND FX RATES

- In the US, the Federal Reserve has taken, in several meetings, a host of measures to inject liquidity in the financial system and facilitate the financing of companies. The federal funds rate has been brought down to the zero lower bound and QE has been restarted. Additional measures are to be expected should the economic and liquidity situation deteriorate further. Treasury yields have seen initially a big drop, reflecting a flight to safety but have also been very volatile. More recently yields have increased on the back of expectations of a pick-up in activity once the lockdown eases and due to increased bond supply. We expect this trend to continue.

- In the eurozone, the ECB has taken considerable measures to inject liquidity by starting and subsequently extending a temporary Pandemic Emergency Purchase Programme, expanding the range of eligible assets under the corpo-

rate sector purchase programme (CSPP) to non-financial commercial paper and by easing the collateral standards by adjusting the main risk parameters of the collateral framework. More is to be expected should circumstances require. These measures should also keep a lid on sovereign bond spreads. The movement of bond yields will be very much influenced by what happens to US yields, and hence, in the near term, by news about the epidemic.

- The Bank of Japan has kept its policy rate unchanged but has decided to double its purchases of ETFs and J-REITS (Investment funds tied to Japanese real estate). The target for its corporate bonds purchases has also been increased.

- We expect the recent trend of dollar weakening to continue due to hedging behaviour and a view that the ECB action will be successful in avoiding market fragmentation and in supporting the economy.

GROWTH & INFLATION

%	GDP Growth**			Inflation		
	2019	2020 e	2021 e	2019	2020 e	2021 e
United-States	2.3	-6.6	5.8	1.6	1.2	2.2
Japan	0.7	-5.0	2.1	0.5	-0.2	-0.2
United-Kingdom	1.4	-8.8	5.4	1.8	0.7	1.7
Euro Area	1.2	-9.2	5.8	1.2	0.2	1.2
Germany	0.6	-6.0	5.3	1.4	0.5	1.4
France	1.3	-11.1	5.9	1.3	0.3	1.3
Italy	0.2	-12.1	6.1	0.6	-	-
Spain	2.0	-12.5	6.3	0.7	-0.2	1.3
China	6.1	2.5	8.1	2.9	3.1	2.0
India*	6.1	2.7	5.2	3.0	3.8	3.5
Brazil	1.1	-7.0	4.0	3.7	2.5	3.0
Russia	1.3	-6.5	3.5	4.3	3.3	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 01/06/2020

INTEREST & EXCHANGE RATES

Interest rates, %	2019		2020				2019			2020e			2021e		
	Q3	Q4	Q1	Q2e	Q3e	Q4e	2019	2020e	2021e	2019	2020e	2021e	2019	2020e	2021e
End of period															
US															
Fed Funds (upper limit)	2.00	1.75	0.25	0.25	0.25	0.25	1.75	0.25	0.25						
T-Notes 10y	1.67	1.92	0.67	0.80	1.00	1.25	1.92	1.25	1.50						
Ezone															
Deposit rate	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50						
Bund 10y	-0.57	-0.19	-0.46	-0.50	-0.30	-0.20	-0.19	-0.20	0.00						
OAT 10y	-0.28	0.08	-0.05	-0.15	0.00	0.05	0.08	0.05	0.20						
BTP 10y	0.83	1.32	1.55	1.30	1.20	1.10	1.32	1.10	1.10						
BONO 10y	0.15	0.47	0.68	0.50	0.50	0.50	0.47	0.50	0.60						
UK															
Base rate	0.75	0.75	0.10	0.10	0.10	0.10	0.75	0.10	0.10						
Gilts 10y	0.40	0.83	0.31	0.55	0.85	0.90	0.83	0.90	1.10						
Japan															
Bol Rate	-0.06	-0.05	-0.07	-0.10	-0.10	-0.10	-0.05	-0.10	-0.10						
JGB 10y	-0.22	-0.02	0.02	0.00	0.00	0.05	-0.02	0.05	0.15						

LAST UPDATE: 20/03/2020

Exchange Rates	2019		2020				2019			2020e			2021e		
	Q3	Q4	Q1	Q2e	Q3e	Q4e	2019	2020e	2021e	2019	2020e	2021e	2019	2020e	2021e
End of period															
USD															
EUR / USD	1.09	1.12	1.10	1.09	1.10	1.12	1.12	1.12	1.17						
USD / JPY	108	109	108	104	102	100	109	100	95						
GBP / USD	1.23	1.32	1.24	1.24	1.26	1.29	1.32	1.29	1.38						
USD / CHF	1.00	0.97	0.97	0.97	0.96	0.96	0.97	0.96	0.92						
EUR															
EUR / GBP	0.89	0.83	0.89	0.88	0.87	0.87	0.83	0.87	0.85						
EUR / CHF	1.09	1.09	1.06	1.06	1.06	1.07	1.09	1.07	1.08						
EUR / JPY	118	122	118	113	112	112	122	112	111						

LAST UPDATE: 12/05/2020

SOURCE: BNP PARIBAS GLOBAL MARKETS (E: ESTIMATES)



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CALENDAR

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LATEST INDICATORS

Data released this week show that the cyclical environment continues to improve. Although the eurozone confidence data collected by the European Commission came in below expectations, they did improve significantly compared to May. The PMIs for China continue to pick up, although less so for the manufacturing sector. The manufacturing PMIs for France, Germany and the eurozone didn't change that much compared to May. The US has seen several strong data: consumer confidence, ISM manufacturing (strongly above expectations). The labour market report was better than expected but one should be cautious in drawing conclusions from this considering the wide dispersion of forecasts.

DATE	COUNTRY	INDICATOR	PERIOD	ACTUAL	PREVIOUS
06/29/2020	Eurozone	Economic Confidence	June	75.7	67.5
06/29/2020	Eurozone	Industrial Confidence	June	-21.7	-27.5
06/29/2020	Eurozone	Services Confidence	June	-35.6	-43.6
06/29/2020	Eurozone	Consumer Confidence	June	-14.7	-14.7
06/30/2020	China	Composite PMI	June	54.2	53.4
06/30/2020	China	Manufacturing PMI	June	50.9	50.6
06/30/2020	China	Non-manufacturing PMI	June	54.4	53.6
06/30/2020	France	CPI EU Harmonized YoY	June	0.1%	0.4%
06/30/2020	France	Consumer Spending MoM	May	36.6%	-19;1.2%
06/30/2020	Eurozone	CPI Estimate YoY	June	0.3%	0.1%
06/30/2020	Eurozone	CPI Core YoY	June	0.8%	0.9%
06/30/2020	United States	Conf. Board Consumer Confidence	June	98.1	85.9
07/01/2020	Japan	Tankan Large Mfg Index	2Q	-34	-8
07/01/2020	Japan	Tankan Large Non-Mfg Index	2Q	-17	--
07/01/2020	Japan	Jibun Bank Japan PMI Mfg	June	40.1	37.8
07/01/2020	China	Caixin China PMI Mfg	June	51.2	50.7
07/01/2020	Japan	Consumer Confidence Index	June	28.4	24.0
07/01/2020	France	Markit France Manufacturing PMI	June	52.3	52.1
07/01/2020	Germany	Markit/BME Germany Manufacturing PMI	June	45.2	44.6
07/01/2020	Eurozone	Markit Eurozone Manufacturing PMI	June	47.4	46.9
07/01/2020	United Kingdom	Markit UK PMI Manufacturing SA	June	50.1	50.1
07/01/2020	United States	ISM Manufacturing	June	52.6	43.1
07/01/2020	United States	FOMC Meeting Minutes	10 June		--
07/02/2020	Eurozone	Unemployment Rate	May	7.4%	7.3%
07/02/2020	United States	Change in Nonfarm Payrolls	June	4800k	2699k
07/02/2020	United States	Unemployment Rate	June	11.1%	13.3%
07/03/2020	Japan	Jibun Bank Japan PMI Composite	June	40.8	37.9
07/03/2020	China	Caixin China PMI Composite	June	55.7	54.5
07/03/2020	France	Markit France Services PMI	June	50.7	50.3
07/03/2020	France	Markit France Composite PMI	June	51.7	51.3
07/03/2020	Germany	Markit Germany Services PMI	June	47.3	45.8
07/03/2020	Germany	Markit/BME Germany Composite PMI	June	47.0	45.8
07/03/2020	Eurozone	Markit Eurozone Services PMI	June	48.3	47.3
07/03/2020	Eurozone	Markit Eurozone Composite PMI	June	48.5	47.5
07/03/2020	United Kingdom	Markit/CIPS UK Composite PMI	June	47.7	47.6

SOURCE: BLOOMBERG



CALENDAR: THE WEEK AHEAD

COMING INDICATORS

Next week has a light schedule in terms of data. In the US, we will have the non-manufacturing ISM, the composite PMI, initial unemployment claims and producer prices. The Banque de France will publish its industrial sentiment index. In Japan, the Eco Watchers Survey will be released, providing a picture of how economists assess the current situation and outlook.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	PREVIOUS
07/06/2020	Eurozone	Retail Sales MoM	May	--	-11.7%
07/06/2020	United-States	Markit US Composite PMI	June	--	46.8
07/06/2020	United-States	ISM Non-Manufacturing Index	June	49.1	45.4
07/07/2020	Japan	Leading Index CI	May	--	77.7
07/07/2020	Germany	Industrial Production WDA YoY	May	--	-25.3%
07/08/2020	Japan	Eco Watchers Survey Current SA	June	--	15.5
07/08/2020	Japan	Eco Watchers Survey Outlook SA	June	--	36.5
07/08/2020	France	Bank of France Ind. Sentiment	June	62	83
07/09/2020	Japan	Core Machine Orders MoM	May	--	-12.0%
07/09/2020	United-States	Initial Jobless Claims	4 July	--	--
07/10/2020	France	Industrial Production YoY	May	--	-34.2%
07/10/2020	United-States	PPI Ex Food and Energy YoY	June	--	0.3%
07/10/2020	China	Aggregate Financing CNY	June	--	3.19e+12

SOURCE: BLOOMBERG



FURTHER READING

A V-shaped recovery for France? Not so fast	EcoTV Week	3 July 2020
COVID-19: main fiscal and monetary measures	EcoFlash	30 June 2020
Mexico: the economic outlook is weakening further	Chart of the Week	30 June 2020
US banks: leverage ratios under pressure	Conjoncture	30 June 2020
European Union: fiscal policy in action	Conjoncture	30 June 2020
European Union: Central Europe industrial future remains bright	EcoFlash	29 June 2020
European Union: Boomerang economics	EcoWeek	26 June 2020
Germany: More confidence among businesses and households	EcoWeek	26 June 2020
France: Much brighter skies in June	EcoWeek	26 June 2020
Spain: A recovery strewn with obstacles	EcoWeek	26 June 2020
Impact investing and the European Recovery Plan	EcoTV Week	26 June 2020
COVID-19: main fiscal and monetary measures	EcoFlash	25 June 2020
US : Granting of government-backed loans is winding down	Chart of the Week	24 June 2020
United Kingdom: Record fall in GDP in April	EcoWeek	19 June 2020
China: The rebound in economic activity is clear, but will it continue?	EcoWeek	19 June 2020
European Union: The long shadow of unemployment	EcoWeek	19 June 2020
Spain: renewable energies offer new opportunities	EcoTV Week	19 June 2020
The Paris office market: a matter of yield	EcoTV	17 June 2020
DESI Index, a roadmap for the European Union	Chart of the Week	17 June 2020
Global: COVID-19: Key measures taken by governments and central banks (update)	EcoFlash	17 June 2020



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