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ECONOMIC RESEARCH

BNP PARIBAS

The bank for a changing world

WHAT IF THE ROAD TO COVID-19 IMMUNITY IS LONGER THAN EXPECTED?

The prospect of the deployment of a Covid-19 vaccine has raised expectations that the stop-start cycle seen this year will make way for a lasting economic recovery in 2021. There is concern however that bringing the pandemic under control could take more time than is currently assumed in economic projections. Under such a scenario, worries about possible new restrictions would remain elevated, although one can assume that, because of vaccination, these measures would be less strict than before and more local. Nevertheless, in the more exposed sectors, investment and employment could be clear victims.

The prospect of the deployment of a Covid-19 vaccine has raised expectations that the stop-start cycle seen this year will make way for a lasting economic recovery in 2021. A key factor in this respect is the decline in uncertainty: vaccination reduces the risk of new infection waves and the ensuing hit to the economy.

Covid-19 should cease to be a key factor in decisions taken by households and businesses when herd immunity - whereby enough people have immune protection so that sustained transmission is no longer possible[1] - is reached. The time to get there depends, amongst other things, on the speed and scope of the vaccination, the number of people accepting to be vaccinated, logistical factors, the longer-term effectiveness, etc. It raises concern that progress could be slower than is currently assumed in economic forecasts. Under such a scenario, worries about possible new restrictions triggered by another increase in infections would remain elevated. The extent to which economic agents would incorporate this uncertainty in their spending decisions depends on three factors.

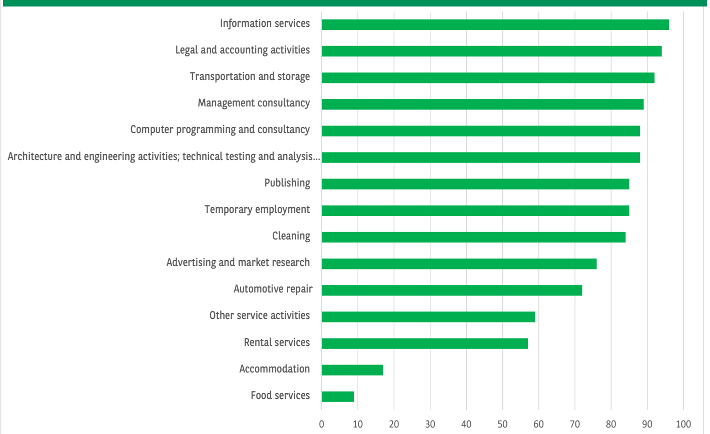
Firstly, the time horizon of the decision. Whereas day-to-day purchases by households should hardly be impacted, big ticket items such as cars could suffer from an increase in precautionary savings. Recurring bouts of Covid-19-related uncertainty should have a more severe impact on household investments (residential construction) and corporate investments. They represent a long-horizon commitment of financial resources and hence require sufficient confidence over the longer term. Secondly, the irreversibility of the decision. For households and businesses, stopping an investment project before it has been finalised comes at great cost. This means that, de facto, the decision to invest, once been taken, is very difficult to revert. This weighs on the willingness to invest when uncertainty is high. The final factor is the value of waiting. Postponing an investment project until uncertainty has dropped to a sufficiently low level creates value. It avoids being hit by bad outcomes because the drop in uncertainty reduces the likelihood of such outcomes.

In analysing Covid-19-related uncertainty, the value of waiting increases with the potential production shortfall caused by restrictive measures. The value of waiting and hence the tendency to postpone will also be higher when investments are irreversible and when the commitment horizon is long.

Should reaching a state of herd immunity take more time, the introduction of temporary restrictions may be necessary, depending on how new infections evolve. One can assume that, because of vaccination, these measures would be less strict than before and more local. This would imply that the economic impact, at the aggregate and sector level, would be more limited than in the second wave (see chart). Nevertheless, in the more exposed sectors, investment –an irreversible long-horizon commitment of financial resources- and employment could be clear victims.

William De Vijlder

FRANCE: EXPECTED LEVEL OF ACTIVITY IN MARKET SERVICES IN NOVEMBER 2020 (IN % OF NORMAL)



SOURCE: BASED ON BANQUE DE FRANCE, UPDATE ON BUSINESS CONDITIONS IN FRANCE, OCT. 2020

1. Source: McKinsey, *Covid-19: Briefing materials*, 30 October 2020.

Should vaccination take more time than expected in reducing health risk, the economic impact would be felt in investment and employment in those sectors which are most exposed to restrictions.

MARKETS OVERVIEW

OVERVIEW

Week 20-11 20 to 26-11-20

↗ CAC 40	5 496	▸ 5 567	+1.3	%
↗ S&P 500	3 558	▸ 3 630	+2.0	%
↘ Volatility (VIX)	23.7	▸ 21.3	-2.5	pb
↗ Libor $ 3M (%)	0.20	▸ 0.23	+2.8	bp
↗ OAT 10y (%)	-0.41	▸ -0.40	+0.3	bp
↘ Bund 10y (%)	-0.58	▸ -0.59	-0.4	bp
↗ US Tr. 10y (%)	0.82	▸ 0.87	+5.1	bp
↗ Euro vs dollar	1.19	▸ 1.19	+0.4	%
↘ Gold (ounce, $)	1 874	▸ 1 810	-3.4	%
↗ Oil (Brent, $)	45.0	▸ 47.8	+6.1	%

MONEY & BOND MARKETS

Interest Rates		highest 20	lowest 20
$ FED	0.25	1.75 at 01/01	0.25 at 16/03
Libor 3M	0.23	1.91 at 01/01	0.20 at 20/11
Libor 12M	0.34	2.00 at 01/01	0.33 at 28/10
£ BoE	0.10	0.75 at 01/01	0.10 at 19/03
Libor 3M	0.04	0.80 at 08/01	0.04 at 09/11
Libor 12M	0.14	0.98 at 01/01	0.12 at 04/11

At 26-11-20

Yield (%)		highest 20	lowest 20
€ AVG 5-7y	-0.42	0.72 at 18/03	-0.44 at 09/11
Bund 2y	-0.74	-0.58 at 14/01	-1.00 at 09/03
Bund 10y	-0.59	-0.17 at 19/03	-0.84 at 09/03
OAT 10y	-0.40	0.28 at 18/03	-0.42 at 04/11
Corp. BBB	0.56	2.54 at 24/03	0.56 at 26/11
$ Treas. 2y	0.17	1.59 at 08/01	0.11 at 04/08
Treas. 10y	0.87	1.91 at 01/01	0.50 at 09/03
High Yield	5.17	1 1.29 at 23/03	5.17 at 26/11
£ gilt. 2y	-0.03	0.61 at 08/01	-0.12 at 21/09
gilt. 10y	0.31	0.83 at 01/01	0.04 at 04/08

At 26-11-20

EXCHANGE RATES

1€ =		highest 20	lowest 20	2020
USD	1.19	1.20 at 01/09	1.07 at 20/03	+6.0%
GBP	0.89	0.94 at 23/03	0.83 at 18/02	+5.4%
CHF	1.08	1.09 at 05/06	1.05 at 14/05	-0.7%
JPY	124.11	126.82 at 31/08	114.51 at 06/05	+1.7%
AUD	1.62	1.87 at 23/03	1.60 at 01/01	+1.2%
CNY	7.82	8.26 at 30/07	7.55 at 19/02	+0.0%
BRL	6.33	6.75 at 28/10	4.51 at 02/01	+40.1%
RUB	90.04	93.98 at 02/11	67.75 at 10/01	+29.1%
INR	87.94	89.12 at 18/08	77.21 at 17/02	+9.8%

At 26-11-20 *Change*

COMMODITIES

Spot price, $		highest 20	lowest 20	2020	2020(€)
Oil, Brent	47.8	69.1 at 06/01	16.5 at 21/04	-27.9%	-32.0%
Gold (ounce)	1 810	2 053 at 06/08	1 475 at 19/03	+19.0%	+12.3%
Metals, LMEX	3 311	3 311 at 26/11	2 232 at 23/03	+16.4%	+9.8%
Copper (ton)	7 387	7 387 at 26/11	4 625 at 23/03	+20.1%	+13.3%
wheat (ton)	227	2.4 at 21/01	178 at 26/06	-0.8%	-6.4%
Corn (ton)	161	1.6 at 23/11	113 at 28/04	+0.8%	+1.8%

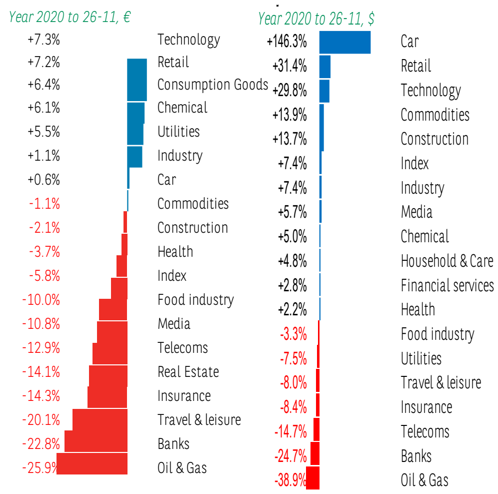
At 26-11-20 *Change*

EQUITY INDICES

	Index	highest 20	lowest 20	2020
World				
MSCI World	2 590	2 590 at 26/11	1 602 at 23/03	+9.8%
North America				
S&P500	3 630	3 635 at 24/11	2 237 at 23/03	+12.3%
Europe				
EuroStoxx50	3 511	3 865 at 19/02	2 386 at 18/03	-6.3%
CAC 40	5 567	6 111 at 19/02	3 755 at 18/03	-0.7%
DAX 30	13 287	13 789 at 19/02	8 442 at 18/03	+0.3%
IBEX 35	8 105	10 084 at 19/02	6 107 at 16/03	-1.5%
FTSE100	6 363	7 675 at 17/01	4 994 at 23/03	-1.6%
Asia				
MSCI, loc.	1 031	1 034 at 20/01	743 at 23/03	+0.2%
Nikkei	26 537	26 537 at 26/11	16 553 at 19/03	+12.2%
Emerging				
MSCI Emerging ($)	1 230	1 230 at 26/11	758 at 23/03	+1.0%
China	108	109 at 09/11	69 at 19/03	+25.5%
India	617	618 at 24/11	353 at 23/03	+7.9%
Brazil	1 700	2 429 at 02/01	1 036 at 23/03	-5.3%
Russia	625	857 at 20/01	419 at 18/03	-7.5%

At 26-11-20 *Change*

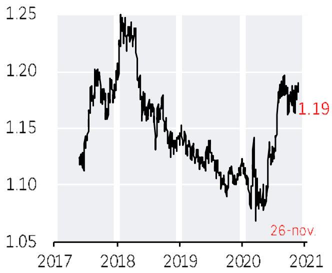
PERFORMANCE BY SECTOR (Eurostoxx50 & S&P500)



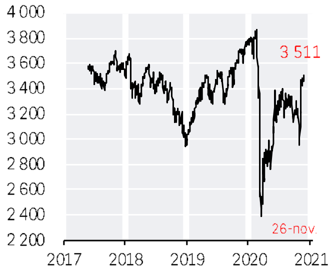
SOURCE: THOMSON REUTERS,

MARKETS OVERVIEW

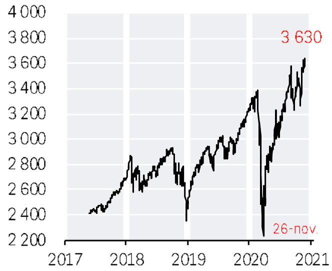
EURO-DOLLAR



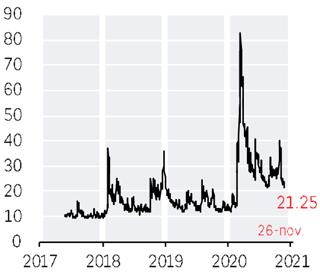
EUROSTOXX50



S&P500

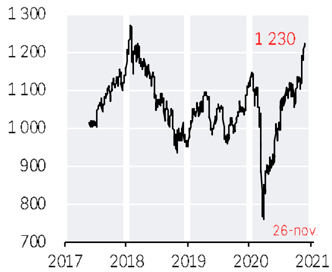


VOLATILITY (VIX, S&P500)

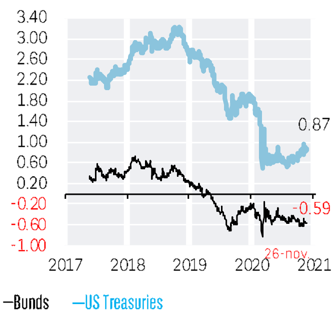


MSCI WORLD (USD)

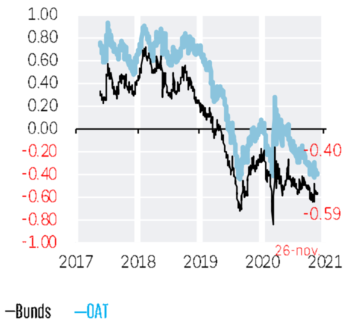
MSCI EMERGING (USD)



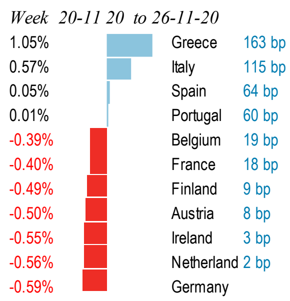
10Y BOND YIELD, TREASURIES VS BUND



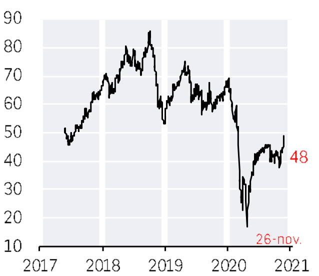
10Y BOND YIELD



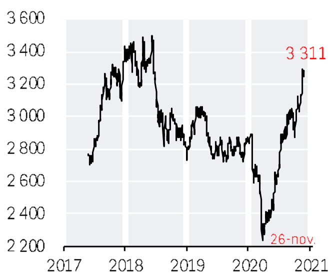
10Y BOND YIELD & SPREADS



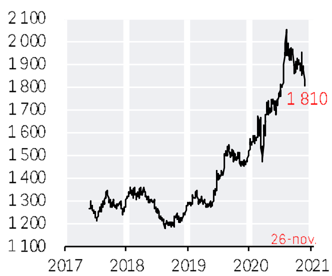
OIL (BRENT, USD)



METALS (LMEX, USD)



GOLD (OUNCE, USD)



SOURCE: THOMSON REUTERS,

UNITED STATES: BAD SIGNS

Even if a vaccine is made available soon, it will take months for the USA and the rest of the world to recover from the traumas of the Covid-19 pandemic.

Although the US economy is amongst those to have seen the best recoveries so far – notwithstanding comparison with China – it still bears many scars, some of which are clearly visible in our barometer.

Nine months after the onset of the pandemic, the labour market shows significant slack and is a long way from functioning normally.

Although the unemployment rate has fallen, it is still double what it was at the start of 2020. At 6.8% in October, it understates the severity of a crisis, which, even today, has resulted in the loss of 10 million jobs and the exclusion of many Americans from the labour force.

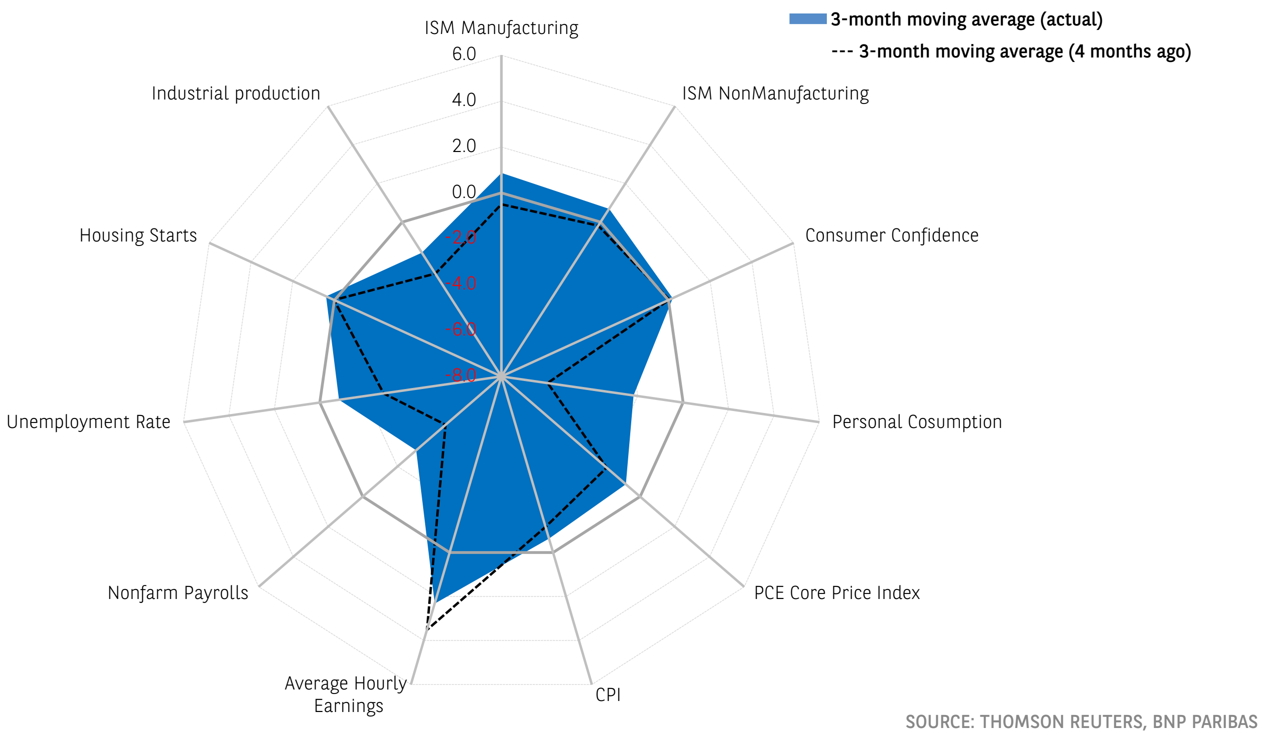
As we move into winter, the economic horizon is darkening due to the resurgence of the epidemic.

At the time of writing, the Covid-19 infection rate, that is the number of infections relative to population, is setting new records: nearly 50 new daily cases per 100,000 people, putting the rate now significantly above that in Europe.

Having initially been active in rural states such as North Dakota, Indiana, Kansas, Utah and Colorado, the third wave is now returning to major urban centres. In the state of New York, where the battle to control the virus has been amongst the most intense, schools have been closed, whilst curfews have been imposed in California; after months of improvement, the mobility indices provided by internet search engines show activity slowing again. In a recent presentation to the Bay Area Council Economic Institute, the Chairman of the Federal Reserve, Jerome Powell, indicated that the next few months could be "very difficult". Before getting back on track towards full normalisation, the economic barometer for the USA could once again point to a contraction.

Jean-Luc Proutat

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 -8 and +6. 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

UNITED KINGDOM: TUNED IN TO BBC – BUDGET, BREXIT, COVID

According to the first estimate from the Office for National Statistics (ONS), United Kingdom GDP rose by 15.5% in the third quarter, in line with consensus estimates, as restriction measures were progressively lifted following the first lockdown. Despite this record increase, the level of GDP was still nearly 10% below where it was at the end of 2019. While Spain is in a similar position, the GDPs of the United States, France, Germany and Italy have all returned to about 5% below where they were back then.

Monthly GDP data show that, after a sharp rebound in June and July, the recovery showed some signs of weakness. Admittedly, Purchasing Managers' Indices (PMIs) came out higher than expected in November – the manufacturing index even rose above 55. But that will probably not be enough to prevent another fall in GDP in the fourth quarter. In light of the sanitary crisis, the government has imposed another lockdown in the entire country since 5 November.

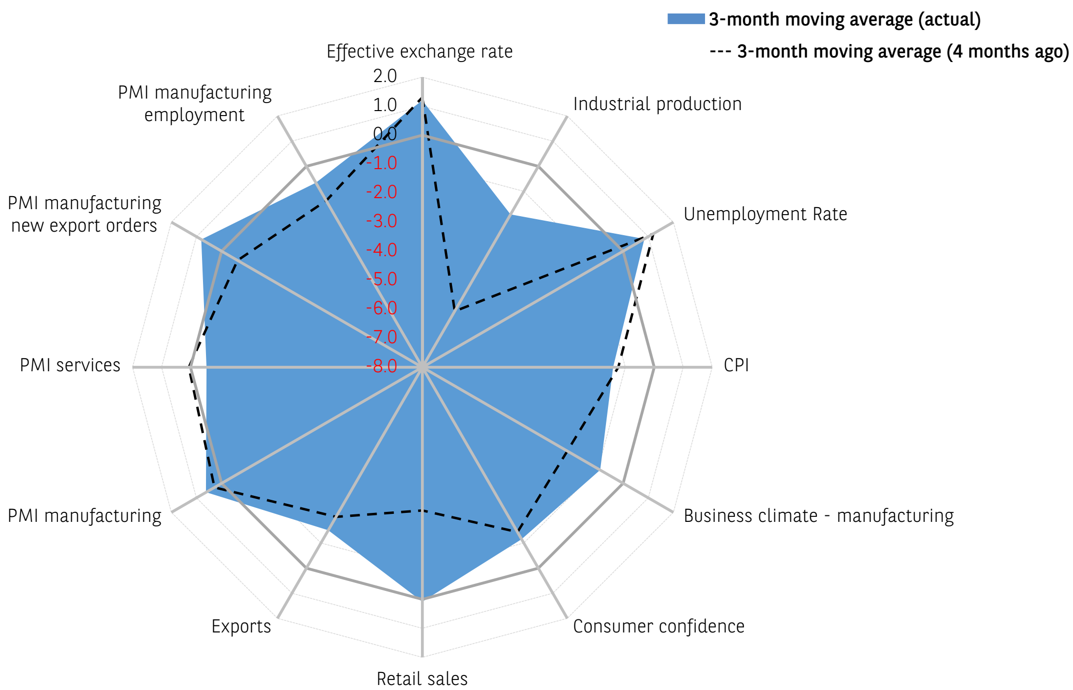
Nevertheless, this second lockdown should cause less economic damage than the first one. For a start, it will be shorter – Boris Johnson has confirmed this week that it will end on 2 December – and somewhat less restrictive. What's more, the level of activity was lower at the start of this lockdown than it was before the first one. Overall, BNP Paribas forecasts that GDP will fall by "only" 3.7% in the fourth quarter – activity dropped by nearly 20% in the second quarter.

Meanwhile, the end of the transition period that maintains the UK in the EU's single market and customs union is approaching rapidly. While there is a sense of optimism, a free-trade agreement still has not been found. In a study published last week, KPMG estimated that GDP would rise by 7.2% next year in the scenario of a deal, and by only 4.4% if the UK leaves without one.

It is against that background that Chancellor Rishi Sunak presented on Wednesday the spending review for the fiscal year 2020-21. This "mini-budget" provides GBP55bn of support for the public services response to Covid-19; the fastest rise in day-to-day spending in 15 years; and a rise in capital spending to GBP100bn, which corresponds to a GBP27bn increase compared to 2019-20.

Hubert de Barochez

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 -8 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

ITALY: THE RECOVERY AT A STANDSTILL

The marked improvement in the barometer shows that the rebound in economic activity was encouraging up to mid-October, before the epidemic picked up speed again. As in other countries, the pick-up in activity was concentrated in the industrial sector. The manufacturing PMI reached 53.8 in October (its highest level since March 2018), driven by a marked improvement in the new export orders component (+4.5 points to 55.8). Conversely, the services sector PMI fell by 2.1 points to 46.7.

Industrial activity has been supported in part by stronger external demand, which allowed for a significant rebound in exports. Moreover, and given that the recovery in exports was stronger than imports, the trade balance has improved significantly. After seasonal adjustments, the September trade surplus was the biggest since the current data series began in January 1993.

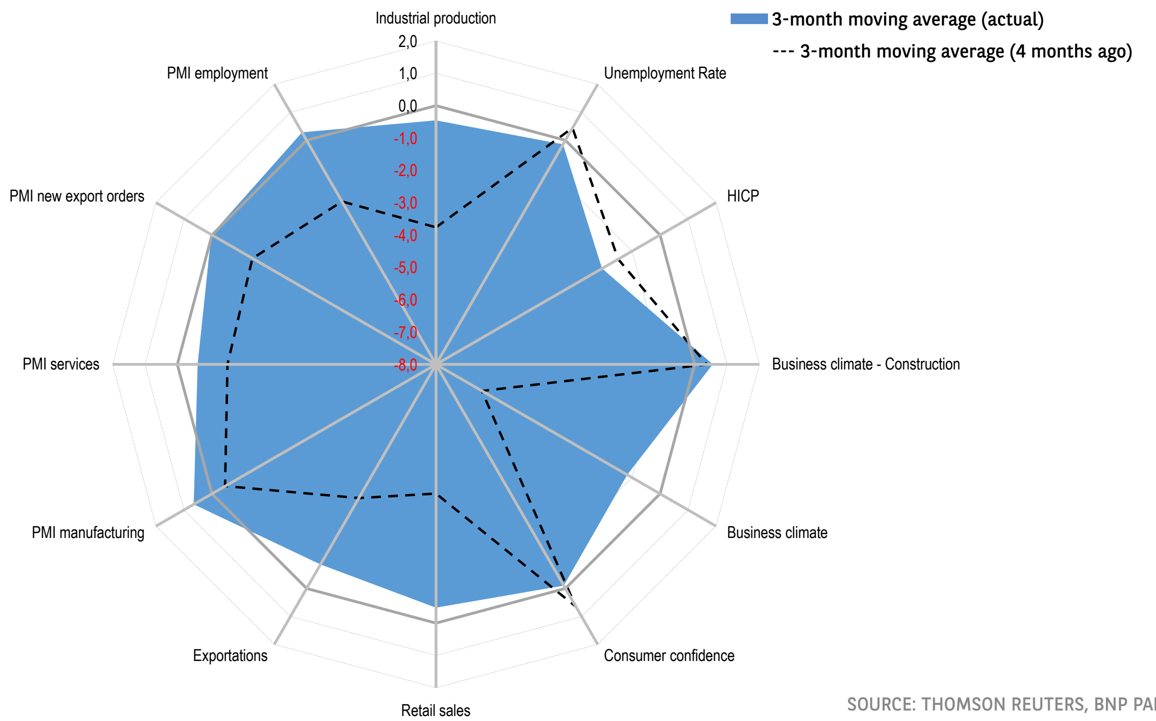
However, there are now fears of a fresh drop in economic activity in Q4, as predicted by Italian employers' federation Confindustria[1]. This drop in GDP may nevertheless be less significant than in other countries, due to the introduction of less severe restrictions and a weight of the industrial sector that is higher than in France or Spain most notably. That said, in its latest October forecasts, the European Commission predicted that Italian GDP will drop by 9.9% in 2020, followed by a 4.1% rebound in 2021.

To deal with the extension of the health crisis, Giuseppe Conte's Government approved this week a new fiscal package of EUR 40 billion for 2021, to cover additional expenditure linked, amongst other things, to an extension of the temporary unemployment scheme, the purchase of vaccines, and enhanced support to businesses. Therefore, the public deficit for 2021 has been revised upward to 7.0% of GDP, which will push public debt to 155.6% by the end of next year.

Guillaume Derrien

1. Pil Italia: allarme Confindustria: "nuova recessione a fine anno", Wall Street Italia, 23 November 2020

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 -8 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

SPAIN: ALL EYES ON THE EMPLOYMENT FIGURES

The barometer provides a perfect illustration of the diverging trend observed between manufacturing and services activities. On average over the past three months, the manufacturing purchasing managers' index (PMI) index has moved above its long-term average, while the indicator for services remains well below this trend.

Despite hopes for a massive vaccination campaign in Q1 2021[1], which would help support the economic recovery, the coming weeks could be difficult on the labour market front: the six-month ban on redundancies for employers having used the temporary unemployment scheme (ERTE) may be coming to an end for many, since the first wave of returns to work occurred at the end of May or beginning of June.

The November data from the Spanish employment agency (SEPE) – due to be released on 2 December – will therefore be looked closely. Thus far, the rebound in employment has been modest. Although the number of workers affiliated to the social security system rose again in October (+45,364 on seasonally-adjusted figures), increases have slowed steadily since August, even as less than half of the jobs destroyed in the first lockdown have been recovered so far.

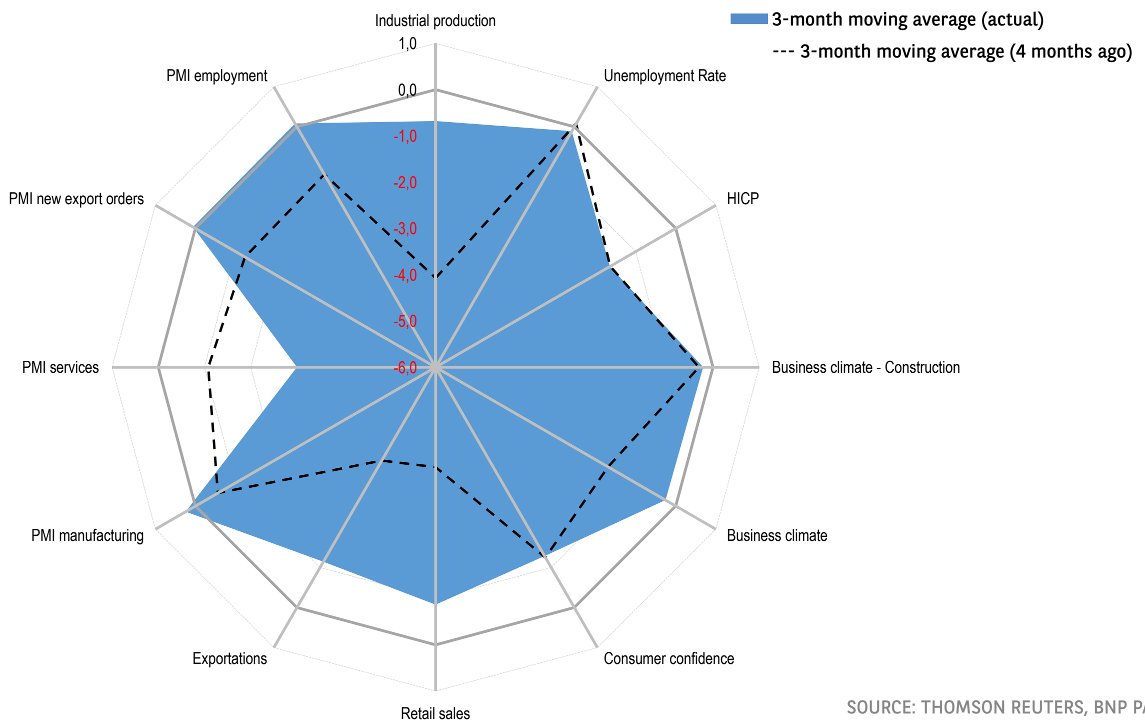
Moreover, deflationary pressures remain high. The consumer price index (CPI) dropped to -0.81% in October, on an annual rate basis. Energy prices remain very depressed, and other CPI components are also weakening, notably education, communication and "leisure & culture": core inflation (excluding energy and perishable foods) was thus the lowest since April 2015.

Although Spain now seems to have passed the peak of the second wave, infection rates remain very high and restrictions on activity will stay in place for several weeks to come. However, since 23 November the authorities in Catalonia have allowed a relaxation of these restrictions, with the re-opening, under strict conditions, of bars, restaurants and certain cultural facilities (cinemas, theatres, etc.).

1. Spanish PM predicts that 'very substantial' part of population could be vaccinated during first quarter of 2021, El Pais English, 20 November 2020

Guillaume Derrien

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 +1. 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.

RETAIL AND RECREATION: THE IMPACT OF LOCKDOWN AND RESTRICTIONS ON THE SERVICES SECTOR

According to Google's latest Mobility Report, published on 22 November, customer traffic in the retail and recreation sectors in France, Belgium and the UK remains far below baseline* levels at 59%, 56% and 51% respectively on a seven-day moving average (charts 1 and 2). However, a degree of stabilisation is noticeable, after the sharp drop seen in the early days of the autumn lockdowns. Germany, which has introduced less restrictive measures than France, has seen a fall of around 31%. In Spain and Italy, traffic has continued to decrease since the onset of the second wave of the pandemic in mid-September, with falls of 41% and 44% respectively on a seven-day moving average from baseline (chart 1). In both countries, governments have opted for local lockdowns.

Lastly, in the US and Japan, two countries where restrictions have been lighter compared to Europe, the customer traffic trend has been stable since early June. It is down 16% and 10% respectively compared to a normal situation (chart 2). However, in the US the pandemic has seen exponential growth over recent weeks, with the number of infections moving above 12 million. Moreover, several states have introduced their own new restrictions to help tackle the spread of the virus. We therefore expect a downturn in customer traffic in the retail and leisure sectors over the near term.

According to the latest figures from Markit (chart 3), the services PMI numbers for France, the UK and Germany fell to 38.0, 46.0 and 46.2 respectively in November, from 46.9, 51.4 and 49.5 respectively in October. This drop is the consequence of the measures adopted by the three countries as they seek to control the virus. In the US, The services PMI grew by +0.8 point this month, from 56.9 to 57.7, highest since March 2015. In Japan, the services PMI remained more or less stable in November. These figures support the positive link between retail and recreation sector traffic and the services PMI.

Tarik Rharrab

RETAIL AND RECREATION MOBILITY

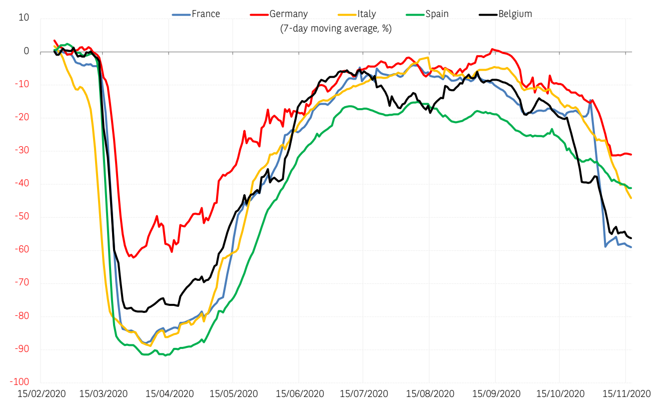


CHART 1

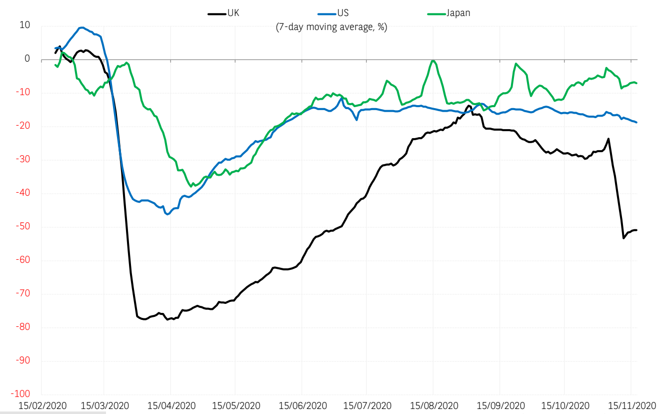


CHART 2

SOURCE: GOOGLE (LAST UPDATE 22 NOVEMBER 2020), 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*

ECONOMIC PULSE

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

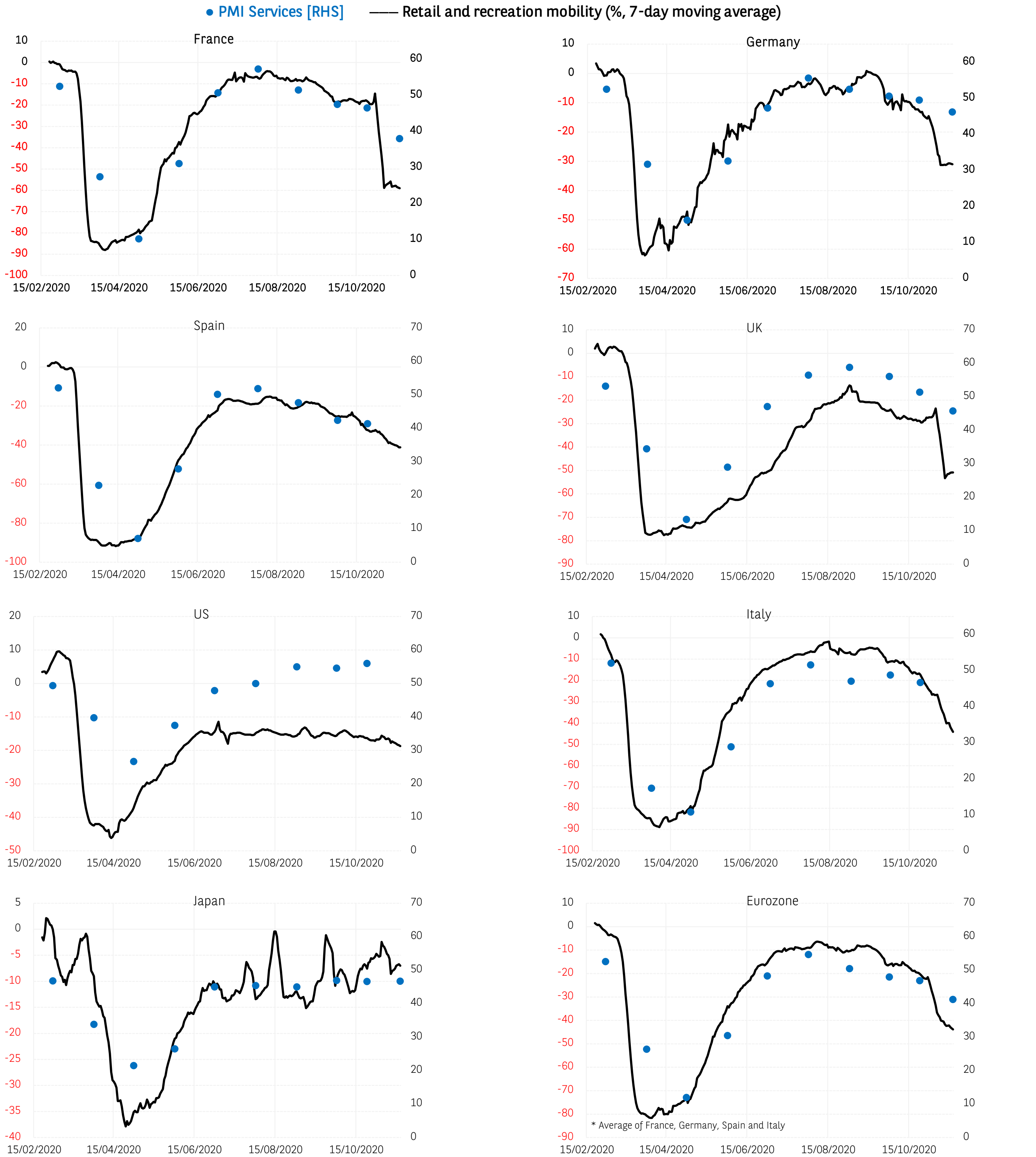


CHART 3

SOURCE: GOOGLE (LAST UPDATE 22 NOVEMBER 2020), 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, are expected to start to be tightened from Q4, as the authorities aim to contain risks in the financial system.

EUROZONE

After plummeting in Q2 2020 (-11.8% q/q, after -3.7% in Q1 2020), eurozone GDP rebounded robustly in Q3 2020 (+12.6%), exceeding expectations. Given the resurgence of the pandemic and the implementation of new sanitary restrictions in most of the member states, the recovery is losing momentum, raising fears that the economic situation could further deteriorate in the year-end period. The activity loss caused by the Covid-19 crisis is unlikely to be fully erased before year-end 2021. 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 possible 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.

INTEREST RATES AND FX RATES

In the US, the Federal Reserve's new strategy of targeting average inflation implies a dovish twist. Policy should remain on hold for quite some time, considering that the FOMC wants inflation to move beyond 2% so as to make up for below target inflation in recent years. Should the economic situation worsen, more measures are to be expected but this also depends on the size and nature of the expected fiscal stimulus. 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 is expected to announce measures to support the economy, all the more so considering that core inflation has dropped to a very low level. The very accommodative stance will be maintained for a long time. It should keep a lid on sovereign bond spreads. 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 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 which should support 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	3.7	3.2	1.8	1.3	1.9	1.9
Japan	0.7	-5.4	1.5	1.8	0.5	0.0	-0.4	-0.3
United-Kingdom	1.5	-11.5	6.4	6.8	1.8	0.9	1.5	2.1
Euro Area	1.3	-7.5	5.6	3.9	1.2	0.2	0.8	1.3
Germany	0.6	-5.9	4.2	3.6	1.4	-	-	-
France	1.5	-9.5	6.3	3.8	1.3	-	-	-
Italy	0.3	-9.1	6.0	3.4	0.6	-	-	-
Spain	2.0	-11.8	7.0	4.9	0.7	-	-	-
China	6.1	2.0	8.6	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 24/11/2020

INTEREST & EXCHANGE RATES

Interest rates, %		2020					
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		2020					
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		2020					
Period-average		Q1e	Q2e	Q3e	Q4e	2021e	2022e
Brent	USD/bbl	56	54	55	59	56	-

LAST UPDATE: 24/11/2020

SOURCE: BNP PARIBAS GLOBAL MARKETS (E: ESTIMATES)

CALENDAR

LATEST INDICATORS

In Europe, the flash PMIs for the services sector show the impact of restrictions put in place to address the second wave of infections. The drop was particularly important in France. With the exception of France, the decline of the manufacturing PMIs were rather limited. The US saw a positive surprise with both PMIs increasing whereas the consensus had expected a decline. In Germany the ifo business climate saw a broad-based deterioration across the different sectors. The decline of the expectations component was particularly important. In France business confidence and consumer confidence declined versus the month of October and more so than expected. German consumer confidence saw a similar development. Several US data were weaker than the month before and more so than anticipated: Conference Board consumer confidence, Richmond manufacturing index, initial jobless claims. New home sales were almost unchanged but nevertheless disappointed. French third quarter GDP growth has been revised upwards, to 18.7%. Eurozone economic confidence declined in November, though less than expected. Industrial confidence weakened but did better than anticipated. Services confidence saw a big decline but disappointed nevertheless.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	ACTUAL	PREVIOUS
11/23/2020	France	Markit France Manufacturing PMI	Nov	49.9	49.1	51.3
11/23/2020	France	Markit France Services PMI	Nov	39.6	38.0	46.5
11/23/2020	France	Markit France Composite PMI	Nov	42.0	39.9	47.5
11/23/2020	Germany	Markit/BME Germany Manufacturing PMI	Nov	56.0	57.9	58.2
11/23/2020	Germany	Markit Germany Services PMI	Nov	46.3	46.2	49.5
11/23/2020	Germany	Markit/BME Germany Composite PMI	Nov	50.5	52.0	55.0
11/23/2020	Eurozone	Markit Eurozone Manufacturing PMI	Nov	53.2	53.6	54.8
11/23/2020	Eurozone	Markit Eurozone Services PMI	Nov	42.0	41.3	46.9
11/23/2020	Eurozone	Markit Eurozone Composite PMI	Nov	45.6	45.1	50.0
11/23/2020	United Kingdom	Markit/CIPS UK Composite PMI	Nov	42.5	47.4	52.1
11/23/2020	United States	Chicago Fed Nat Activity Index	Oct	0.27	0.83	0.32
11/23/2020	United States	Markit US Manufacturing PMI	Nov	53.0	56.7	53.4
11/23/2020	United States	Markit US Services PMI	Nov	55.0	57.7	56.9
11/23/2020	United States	Markit US Composite PMI	Nov	--	57.9	56.3
11/24/2020	Japan	Tokyo Dept Store Sales YoY	Oct	--	-4.3%	-35.0%
11/24/2020	Germany	GDP SA QoQ	3Q	8.2%	8.5%	8.2%
11/24/2020	France	Business Confidence	Nov	84	79	90
11/24/2020	France	Consumer Confidence	Nov	92	90	94
11/24/2020	Germany	IFO Business Climate	Nov	90.2	90.7	92.5
11/24/2020	Germany	IFO Expectations	Nov	93.5	91.5	94.7
11/24/2020	Germany	IFO Current Assessment	Nov	87.5	90.0	90.4
11/24/2020	United States	Conf. Board Consumer Confidence	Nov	98.0	96.1	100.9
11/24/2020	United States	Richmond Fed Manufact. Index	Nov	20	15	29
11/25/2020	United States	GDP Annualized QoQ	3Q	33.1%	33.1%	33.1%
11/25/2020	United States	Initial Jobless Claims	Nov	730k	778k	748k
11/25/2020	United States	Cap Goods Orders Nondef Ex Air	Oct	0.5%	0.7%	1.0%
11/25/2020	United States	U. of Mich. Sentiment	Nov	77.0	76.9	77.0
11/25/2020	United States	New Home Sales MoM	Oct	1.7%	-0.3%	0.1%
11/25/2020	United States	FOMC Meeting Minutes	Nov			
11/26/2020	Japan	Machine Tool Orders YoY	Oct	--	-6.0%	-5.9%
11/26/2020	Germany	GfK Consumer Confidence	Dec	-4.9	-6.7	-3.2
11/27/2020	France	CPI EU Harmonized YoY	Nov	0.0%	0.2%	0.1%
11/27/2020	France	GDP QoQ	3Q	18.2%	18.7%	18.2%
11/27/2020	Eurozone	Economic Confidence	Nov	86.0	87.6	91.1
11/27/2020	Eurozone	Industrial Confidence	Nov	-10.9	-10.1	-9.2
11/27/2020	Eurozone	Services Confidence	Nov	-16.3	-17.3	-12.1
11/27/2020	Eurozone	Consumer Confidence	Nov	--	-17.6	-17.6
11/27/20-12/02/20	Germany	Retail Sales MoM	Oct	--		-2.2%

SOURCE: BLOOMBERG

CALENDAR: THE WEEK AHEAD

COMING INDICATORS

As always a very busy week at the start of a new month. The highlight will be the employment report in the US but the purchasing managers' indices for several countries as well as the ISM indices for manufacturing and services will be eagerly awaited. Also of interest will be eurozone inflation and the unemployment rate. The Federal Reserve will publish its Beige Book, providing a detailed survey of the economic situation across the US. Finally, the OECD will publish its new Economic Outlook.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	PREVIOUS
11/30/2020	Japan	Industrial Production MoM	Oct	2.2%	3.9%
11/30/2020	Japan	Retail Sales MoM	Oct	0.5%	-0.1%
11/30/2020	Japan	Dept. Store, Supermarket Sales YoY	Oct	4.9%	-13.9%
11/30/2020	China	Composite PMI	Nov	--	55.3
11/30/2020	China	Manufacturing PMI	Nov	51.5	51.4
11/30/2020	China	Non-manufacturing PMI	Nov	56.0	56.2
11/30/2020	Germany	CPI EU Harmonized MoM	Nov	-0.8%	0.0%
11/30/2020	United States	Dallas Fed Manf. Activity	Nov	14.5	19.8
12/01/2020	Japan	Jibun Bank Japan PMI Mfg	Nov	--	--
12/01/2020	China	Caixin China PMI Mfg	Nov	53.5	53.6
12/01/2020	France	Markit France Manufacturing PMI	Nov	49.1	--
12/01/2020	Germany	Markit/BME Germany Manufacturing PMI	Nov	57.9	--
12/01/2020	Germany	Unemployment Change (000's)	Nov	5.0k	-35.0k
12/01/2020	Eurozone	Markit Eurozone Manufacturing PMI	Nov	53.6	--
12/01/2020	United Kingdom	Markit UK PMI Manufacturing SA	Nov	55.2	--
12/01/2020	Eurozone	OECD Publishes Economic Outlook		0	
12/01/2020	Eurozone	CPI Core YoY	Nov	0.2%	--
12/01/2020	United States	Markit US Manufacturing PMI	Nov	--	--
12/01/2020	United States	ISM Manufacturing	Nov	57.6	59.3
12/02/2020	Japan	Consumer Confidence Index	Nov	33.0	33.6
12/02/2020	Eurozone	Unemployment Rate	Oct	8.4%	8.3%
12/02/2020	United States	U.S. Federal Reserve Releases Beige Book		0	
12/03/2020	Japan	Jibun Bank Japan PMI Services	Nov	--	--
12/03/2020	Japan	Jibun Bank Japan PMI Composite	Nov	--	--

SOURCE: BLOOMBERG

12/03/2020	China	Caixin China PMI Composite	Nov	--	55.7
12/03/2020	China	Caixin China PMI Services	Nov	56.4	56.8
12/03/2020	France	Markit France Services PMI	Nov	38.0	--
12/03/2020	France	Markit France Composite PMI	Nov	39.9	--
12/03/2020	Germany	Markit Germany Services PMI	Nov	46.2	--
12/03/2020	Germany	Markit/BME Germany Composite PMI	Nov	52.0	--
12/03/2020	Eurozone	Markit Eurozone Services PMI	Nov	41.3	--
12/03/2020	Eurozone	Markit Eurozone Composite PMI	Nov	45.1	--
12/03/2020	United Kingdom	Markit/CIPS UK Services PMI	Nov	45.8	--
12/03/2020	United Kingdom	Markit/CIPS UK Composite PMI	Nov	47.4	--
12/03/2020	Eurozone	Retail Sales MoM	Oct	0.4%	-2.0%
12/03/2020	United States	Initial Jobless Claims	Nov	--	--
12/03/2020	United States	Markit US Services PMI	Nov	57.5	--
12/03/2020	United States	Markit US Composite PMI	Nov	--	--
12/03/2020	United States	ISM Services Index	Nov	56.0	56.6
12/04/2020	Germany	Factory Orders MoM	Oct	0.9%	0.5%
12/04/2020	United States	Change in Nonfarm Payrolls	Nov	500k	638k
12/04/2020	United States	Unemployment Rate	Nov	6.8%	6.9%
12/04/2020	United States	Average Hourly Earnings MoM	Nov	0.1%	0.1%
12/04/2020	United States	Average Weekly Hours All Employees	Nov	34.8	34.8
12/04/2020	United States	Labor Force Participation Rate	Nov	--	61.7%
12/04/2020	United States	Underemployment Rate	Nov	--	12.1%

SOURCE: BLOOMBERG

FURTHER READING

Is the end of conservatorship of Fannie Mae and Freddie Mac imminent?	EcoTVWeek	27 November
South Korea: beginning of a new wave	Chart of the Week	25 November
US : After Joe Biden wins US Presidential Election, what happens next?	EcoFlash	24 November
Eurozone : Pent-up demand to trigger inflation pick-up	EcoWeek	20 November
China : Continued momentum	EcoWeek	20 November
Global : Retail and recreation: the impact of social distancing and lockdown measures on mobility trend	EcoWeek	20 November
French labour market: current situation and outlook	EcoTVWeek	20 November
Decrease in non-performing loan ratios might soon end	Chart of the week	18 November
Global : L'annonce d'un vaccin contre la Covid-19 réduit le risque de perte extrême (tail risk)	EcoWeek	14 November
Zone Euro : Des risques sur la reprise	EcoWeek	14 November
The stop-go recovery	EcoTV	13 November
Turkey: Deciphering Lira's depreciation	EcoTV	13 November
France: The exceptional figures of the 2021 budget	EcoTV	13 November
France : The very muted variations of employment compared to the large swings in GDP	Chart of the Week	10 November
Fiscal policy takes centre stage (and will stay there)	EcoWeek	9 November
Manufacturing holding up well, services under pressure	EcoWeek	9 November
France: The Government-guaranteed loan evolves	EcoTVWeek	6 November
Eurozone : From rebound to relapse	EcoFlash	5 November
France 2021 budget: budgeting for crisis and recovery	EcoFlash	5 November

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