# ECOWEEK

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ECONOMIC RESEARCH

BNP PARIBAS

The bank for a changing world

## SUPPLY-SIDE POLICY FOR A POST-COVID-19 WORLD

**The Covid-19 pandemic will have profound longer-term consequences. Certain industries will benefit, directly or indirectly, whereas others will suffer. The idea of thriving industries full of new opportunities and others struggling to survive reminds us of Schumpeter's creative destruction. Such a process can entail huge costs in the short run. Research shows the key role played by active labour market programmes. More broadly, economic policy not only needs to focus on the demand side but also, and increasingly, on the supply side so as to avoid that the pandemic acts as a lasting drag on growth.**

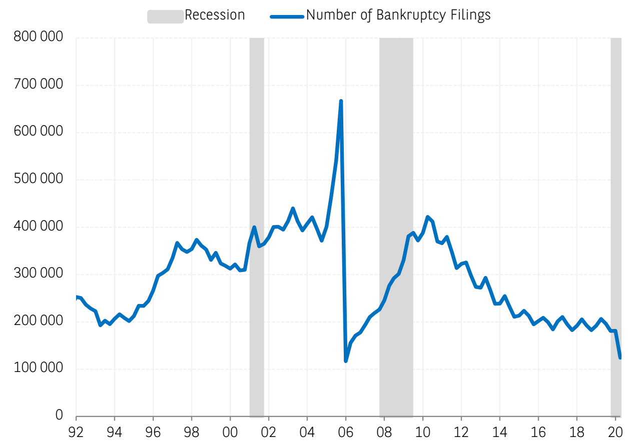
The analysis of the economic consequences of the Covid-19 pandemic has hitherto predominantly focused on the near term. This is understandable. First, there was the severe decline in activity in March-April related to lockdown. As restrictions were progressively lifted in May-June, activity rebounded. From July onwards, the recovery has been losing momentum partly as distancing rules have remained in place due to the presence of the virus and more recently the tightening of restrictions in many countries to stop the exponential increase in new infections.

However, there will also be profound longer-term consequences, such as higher debt burdens for governments and many companies and the risk that many people who have lost their jobs or are in furlough schemes will remain unemployed for a considerable time. The supply side of the economy will undergo change as value chains are modified to increase their resilience to shocks. The demand side will change as well. Certain changes to spending habits during lockdown –such as increased use of e-commerce- may become permanent, the demand for office space will evolve as well as more people work from home, even in a post-pandemic world, etc. The long-term growth outlook of certain industries may look very different today compared to one year ago. In addition, in order to reach the climate objectives of the Paris agreement, many countries aim at reaching carbon neutrality by 2050.

The pressure on many businesses is expected to remain high. *"Historically, there is a lag between declining GDP growth and rising bankruptcies and unemployment, which tend to peak a year after the initial shock and remain high for another two years."* [1] Moody's has calculated that, by February next year, the trailing 12-month global speculative-grade corporate default rate could reach a range of 9.7%-13.3% if a similar path were to be followed as in previous cycles[2]. This creates a challenge for governments on how to allocate scarce budgetary resources. This point was emphasized recently by the UK Chancellor of the Exchequer, Rishi Sunak when presenting his Winter Economy Plan to Parliament: *"We need to create new opportunities and allow the economy to move forward and that means supporting people to be in viable jobs which provide genuine security. As I've said throughout this crisis, I cannot save every business. I cannot save every job."*[3]

The idea of thriving industries full of new opportunities and others struggling to survive reminds us of Schumpeter's creative destruction. *"Creative destruction refers to the incessant product and process innovation mechanism by which new production units replace outdated ones."*[4] Such a process can entail huge costs in the short run, with people losing their jobs and the destruction of corporate value. This could lead to a defensive policy reaction. In particular, governments that face elections could be tempted to prolong the special programmes that were put in place during the lockdown for an extended period in order to preserve jobs and businesses. In many countries, insolvencies are currently well below the level registered a year ago. However,

UNITED STATES: BANKRUPTCY FILINGS




SOURCE: CIEC, BNP PARIBAS

1. Source: The Great Reallocation, Op-ed from Mr Agustín Carstens, General Manager of the BIS, for Project Syndicate, published 12 October 2020. According to the BIS, "bankruptcies among advanced-economy firms could rise by more than 20% *(from the 2019 baseline) next year."*
2. Source: www.moodys.com. The equivalent numbers were 3.6% in March and 6.1% in July this year.

3. Source: Winter Economy Plan speech as delivered by Chancellor Rishi Sunak, Published 24 September 2020, www.gov.uk.
4. Source: R. Caballero, economics.MIT.edu.

> In the longer run, the Covid-19 pandemic will entail structural change in many industries. Economic policy will increasingly need to focus on the supply side so as to avoid that the health crisis acts as a lasting drag on growth.

research shows that job security provisions slow down the adjustment process of the economy, lowers productivity growth and hence GDP growth.[5] This calls for a policy which, at a minimum, does not hamper structural adjustment but also finds ways to help those suffering from job displacement due to economic transformation.

The OECD has analysed this for 13 European countries over 1986-2008 and concluded that *"the probability that workers who lose their job due to plant closure find a job within the next year is positively related to spending on active labour market programmes."*[6] Such programmes include spending on job-search assistance, training, public sector job creation and subsidised employment in the private sector.[7] These policy questions are very much relevant at the current juncture. In the near term, Covid-19 is expected to cause a further increase in European unemployment and insolvencies. In the longer run, it will entail structural change in many industries with ensuing pressure on certain parts of the labour market. This means that economic policy will not only need to focus on the demand side but also, and increasingly, on the supply side so as to avoid that the pandemic acts as a lasting drag on growth.

**William De Vijlder**

5. Quoting Caballero, "By impairing worker movements from less to more productive units, effective labour protection reduces aggregate output and slows down economic growth. We estimated that moving from the 20th to the 80th percentile of job security lowers annual productivity growth by as much as 1.7 per cent."

6. Source: OECD, *Coping with creative destruction: reducing the costs of firm exit*, Economics department working papers No. 1353, 2016.

7. Passive policies include spending on unemployment insurance and related welfare benefits (source: OECD).

# MARKETS OVERVIEW



## OVERVIEW

*Week 9-10 20 to 15-10-20*

| | | | | |
|---|---|---|---|---|
| ↘ CAC 40 | 4 947 | ▸ 4 837 | -2.2 | % |
| ↗ S&P 500 | 3 477 | ▸ 3 483 | +0.2 | % |
| ↗ Volatility (VIX) | 25.0 | ▸ 27.0 | +2.0 | bp |
| ↗ Libor $ 3M (%) | 0.22 | ▸ 0.23 | +0.6 | bp |
| ↘ OAT 10y (%) | -0.33 | ▸ -0.39 | -6.5 | bp |
| ↘ Bund 10y (%) | -0.53 | ▸ -0.61 | -7.8 | bp |
| ↘ US Tr. 10y (%) | 0.78 | ▸ 0.73 | -4.1 | bp |
| ↘ Euro vs dollar | 1.18 | ▸ 1.17 | -1.0 | % |
| ↘ Gold (ounce, $) | 1 926 | ▸ 1 900 | -1.3 | % |
| ↗ Oil (Brent, $) | 43.0 | ▸ 43.3 | +0.7 | % |

## 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 | 0.22 | at | 25/09 |
| | Libor 12M | 0.34 | 2.00 | at | 01/01 | 0.34 | at | 06/10 |
| £ | BoE | 0.10 | 0.75 | at | 01/01 | 0.10 | at | 19/03 |
| | Libor 3M | 0.05 | 0.80 | at | 08/01 | 0.05 | at | 14/10 |
| | Libor 12M | 0.13 | 0.98 | at | 01/01 | 0.13 | at | 14/10 |

*At 15-10-20*

| Yield (%) | | | highest 20 | | | lowest 20 | | |
|---|---|---|---|---|---|---|---|---|
| € | AVG 5-7y | -0.40 | 0.72 | at | 18/03 | -0.40 | at | 15/10 |
| | Bund 2y | -0.77 | -0.58 | at | 14/01 | -1.00 | at | 09/03 |
| | Bund 10y | -0.61 | -0.17 | at | 19/03 | -0.84 | at | 09/03 |
| | OAT 10y | -0.39 | 0.28 | at | 18/03 | -0.42 | at | 09/03 |
| | Corp. BBB | 0.79 | 2.54 | at | 24/03 | 0.65 | at | 20/02 |
| $ | Treas. 2y | 0.14 | 1.59 | at | 08/01 | 0.11 | at | 04/08 |
| | Treas. 10y | 0.73 | 1.91 | at | 01/01 | 0.50 | at | 09/03 |
| | High Yield | 5.77 | 1 1.29 | at | 23/03 | 5.44 | at | 21/02 |
| £ | gilt. 2y | -0.05 | 0.61 | at | 08/01 | -0.12 | at | 21/09 |
| | gilt. 10y | 0.22 | 0.83 | at | 01/01 | 0.04 | at | 04/08 |

*At 15-10-20*

## EXCHANGE RATES

| 1€ = | | highest 20 | | | lowest 20 | | | 2020 |
|---|---|---|---|---|---|---|---|---|
| USD | 1.17 | 1.20 | at | 01/09 | 1.07 | at | 20/03 | +4.2% |
| GBP | 0.91 | 0.94 | at | 23/03 | 0.83 | at | 18/02 | +7.0% |
| CHF | 1.07 | 1.09 | at | 05/06 | 1.05 | at | 14/05 | -1.7% |
| JPY | 123.18 | 126.82 | at | 31/08 | 114.51 | at | 06/05 | +1.0% |
| AUD | 1.65 | 1.87 | at | 23/03 | 1.60 | at | 01/01 | +3.5% |
| CNY | 7.87 | 8.26 | at | 30/07 | 7.55 | at | 19/02 | +0.7% |
| BRL | 6.57 | 6.69 | at | 20/08 | 4.51 | at | 02/01 | +45.4% |
| RUB | 91.61 | 92.95 | at | 29/09 | 67.75 | at | 10/01 | +31.4% |
| INR | 85.85 | 89.12 | at | 18/08 | 77.21 | at | 17/02 | +7.1% |

*At 15-10-20* *Change*

## COMMODITIES

| Spot price, $ | | highest 20 | | | lowest 20 | | | 2020 | 2020(€) |
|---|---|---|---|---|---|---|---|---|---|
| Oil, Brent | 43.3 | 69.1 | at | 06/01 | 16.5 | at | 21/04 | -34.8% | -37.4% |
| Gold (ounce) | 1 900 | 2 053 | at | 06/08 | 1 475 | at | 19/03 | +25.0% | +19.9% |
| Metals, LMEX | 3 039 | 3 046 | at | 18/09 | 2 232 | at | 23/03 | +6.9% | +2.5% |
| Copper (ton) | 6 738 | 6 853 | at | 18/09 | 4 625 | at | 23/03 | +9.6% | +5.1% |
| wheat (ton) | 231 | 2.4 | at | 21/01 | 178 | at | 26/06 | +0.8% | -3.3% |
| Corn (ton) | 150 | 1.5 | at | 23/01 | 113 | at | 28/04 | | -4.1% |

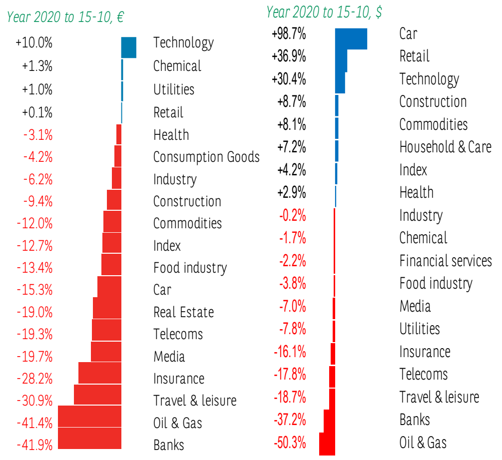
*At 15-10-20* *Change*

## EQUITY INDICES

| | Index | highest 20 | | | lowest 20 | | | 2020 |
|---|---|---|---|---|---|---|---|---|
| **World** | | | | | | | | |
| MSCI World | 2 436 | 2 494 | at | 02/09 | 1 602 | at | 23/03 | +3.3% |
| **North America** | | | | | | | | |
| S&P500 | 3 483 | 3 581 | at | 02/09 | 2 237 | at | 23/03 | +7.8% |
| **Europe** | | | | | | | | |
| EuroStoxx50 | 3 193 | 3 865 | at | 19/02 | 2 386 | at | 18/03 | -14.8% |
| CAC 40 | 4 837 | 6 111 | at | 19/02 | 3 755 | at | 18/03 | -1.9% |
| DAX 30 | 12 704 | 13 789 | at | 19/02 | 8 442 | at | 18/03 | -4.1% |
| IBEX 35 | 6 817 | 10 084 | at | 19/02 | 6 107 | at | 16/03 | -2.9% |
| FTSE100 | 5 833 | 7 675 | at | 17/01 | 4 994 | at | 23/03 | -2.3% |
| **Asia** | | | | | | | | |
| MSCI, loc. | 941 | 1 034 | at | 20/01 | 743 | at | 23/03 | -0.7% |
| Nikkei | 23 507 | 24 084 | at | 20/01 | 16 553 | at | 19/03 | -0.6% |
| **Emerging** | | | | | | | | |
| MSCI Emerging ($) | 1 121 | 1 147 | at | 17/01 | 758 | at | 23/03 | +0.1% |
| China | 102 | 103 | at | 13/10 | 69 | at | 19/03 | +18.7% |
| India | 578 | 609 | at | 17/01 | 353 | at | 23/03 | +0.4% |
| Brazil | 1 448 | 2 429 | at | 02/01 | 1 036 | at | 23/03 | -14.9% |
| Russia | 537 | 857 | at | 20/01 | 419 | at | 18/03 | -18.0% |

*At 15-10-20* *Change*

## PERFORMANCE BY SECTOR (Eurostoxx50 & S&P500)

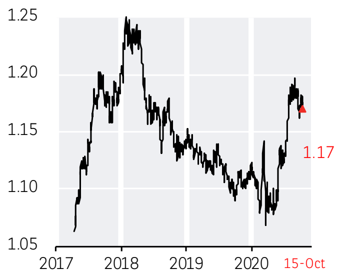



SOURCE: THOMSON REUTERS,

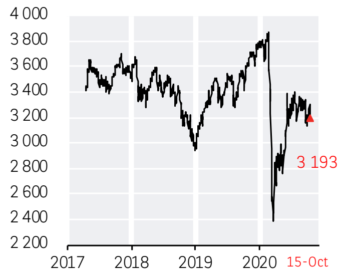
# MARKETS OVERVIEW



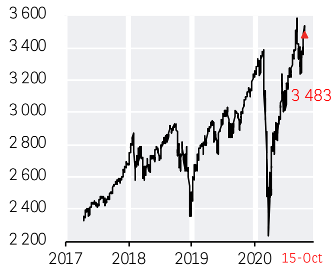
### EURO-DOLLAR



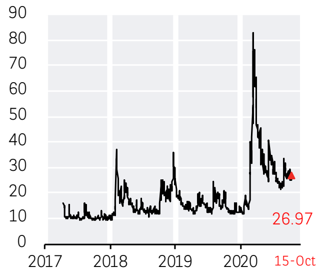

### EUROSTOXX50



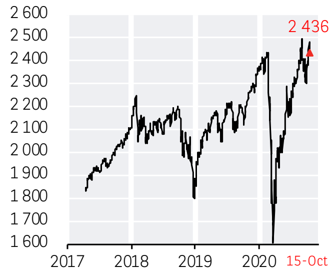

### S&P500



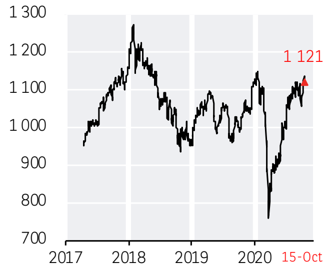

### VOLATILITY ( VIX, S&P500)



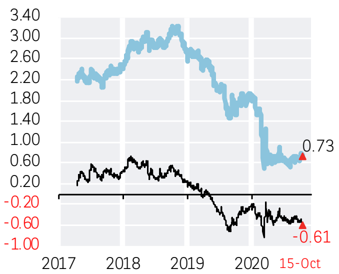

### MSCI WORLD (USD)




### MSCI EMERGING (USD)

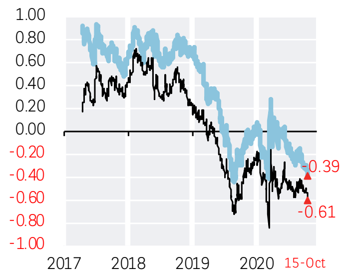



### 10Y BOND YIELD, TREASURIES VS BUND



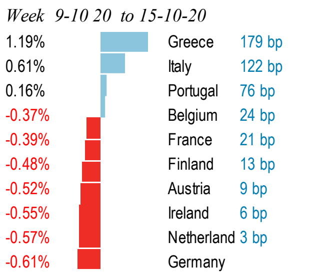

—Bunds —US Treasuries

### 10Y BOND YIELD

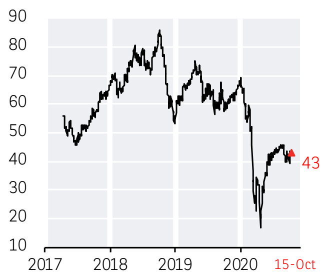



—Bunds —OAT

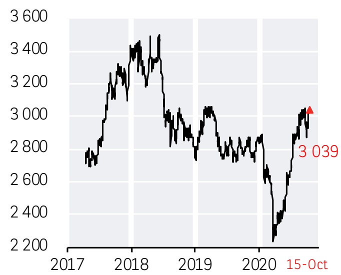
### 10Y BOND YIELD & SPREADS



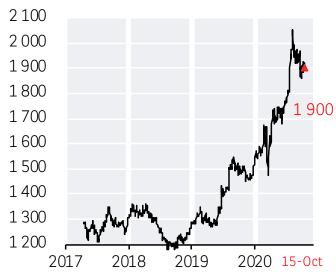

### OIL (BRENT, USD)




### METALS (LMEX, USD)




### GOLD (OUNCE, USD)




SOURCE: THOMSON REUTERS,

# UNITED KINGDOM: RECOVERY ALREADY SHOWING SIGNS OF WEAKNESS

Most economic activity indicators have continued to improve recently. The blue area, which informs on the economic conditions over the past three months, is much bigger than it was four months ago – its level then is indicated by the dashed line. That said, the idea of a V-shaped recovery is already forgotten. While the economy is still far from its pre-crisis level, the recovery seems to be running out of steam.

While the consensus expected a near-5% increase, UK GDP rose by only 2.1% in August, according to data from the Office for National Statistics (ONS). That reflected a slowdown across most sectors of the economy. The ONS Index of Services rose by just 2.4%, after a near-6% increase in July ; meanwhile, its Index of Production edged up only slightly in August, by 0.3%, while it had risen by more than 5% the previous month.

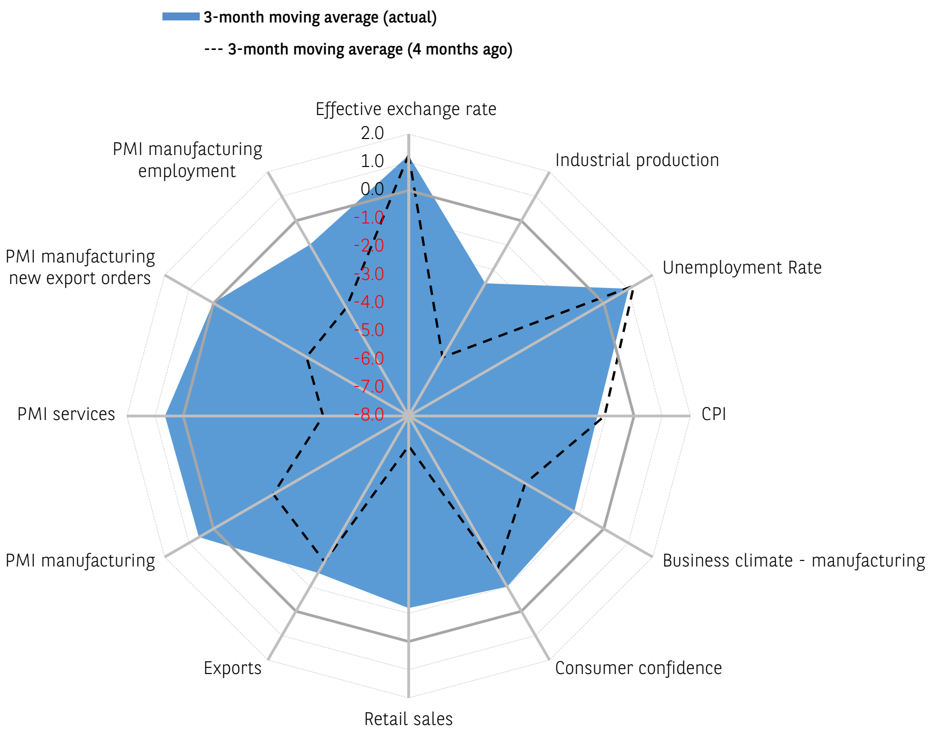
The labour market is also showing signs of weakness. Between June and August, redundancies increased by a record 114,000 compared to the three previous months, reaching their highest level since 2009. During this period, the unemployment rate rose by 0.4 percentage point to 4.5%. Given the fact that the new Job Support Scheme (JSS) is less generous that its predecessor (the Coronavirus Job Retention Scheme, CJRS), the ratio is very likely to continue to rise in the coming months.

What's more, there is little comfort to draw from survey data. While Purchasing Managers' Indices (PMIs) still suggest an expansion of activity, they dropped back a bit in September. Similarly, despite rising slightly recently, business and household consumer confidence indices are still indicative of a lack of optimism. Given the acceleration in the spread of the virus and the additional restriction measures announced by Prime Minister Boris Johnson, confidence could very well deteriorate again.

Meanwhile, EU and UK negotiators have still not reached a free-trade agreement. While Prime Minister Boris Johnson had announced at the start of September that the UK would "move on" if no deal was found by 15 October, negotiations are likely to continue after the EU Summit that ends today (Friday 16 October).

**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.*

## SPAIN: SLOWDOWN IN THE ECONOMIC RECOVERY

The economic recovery slowed down in September. That said, and as clearly shown on our barometer, the 3-month trend has continued to improve for most indicators – a logical process with the catching-up effect during the summer period. According to the Spanish National Employment Agency (SEPE), employment growth slackened in September (+109,271), compared to the previous month (+232,664). The unemployment rate was 16.2% in August. On the consumption side, retail sales posted only a modest increase in August (+0.3%), after falling in July.

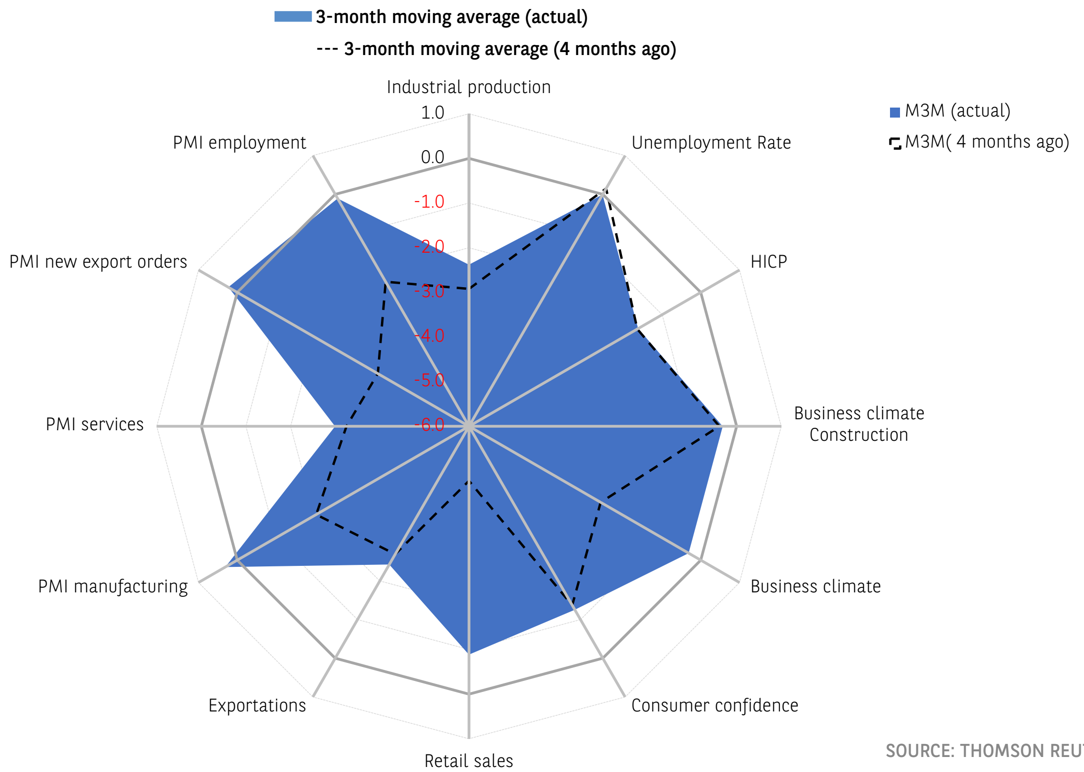
The leading indicators corroborated a slowdown in activity that is likely to continue at least until the end of this year, given the implementation of stronger health restrictions since the end of September. Indeed, the composite purchasing managers' index (PMI) fell from 48.4 in August to 44.3, pulled down by another drop in the services PMI (-5.3 points to 42.4). By contrast, the index for the manufacturing sector has risen above the 50 threshold indicating an expansion of activity. The sub-indicator for manufacturing employment has rebounded to 50.1, the highest level since April 2019. The gap in the recovery between the services and industrial sectors -visible on the PMI trend in the barometer– is likely to widen, given that health restrictions affect the former sector more strongly.

In its latest projection published this week, the IMF only slightly revised their GDP growth forecast for 2021. Indeed, the Washington-based organisation kept the GDP contraction unchanged for 2020 (-12.8%), but revised upward GDP growth by 0.9 points to + 7.2% for 2021

Finally, the housing market has continued to slow significantly. In September, the TINSA price index has recorded its biggest monthly drop since January 2013, pushing the year-over-year decline to 2.2%.

**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.*

# ITALY: CAUGHT UP BY THE SECOND WAVE

After keeping the epidemic at bay for most of the summer, Italy is now facing a strong resurgence in the number of Covid-19 cases. Last Tuesday (October 13), the government decided to tighten health restrictions, including the closure of restaurants, cafes, and nightclubs at midnight.

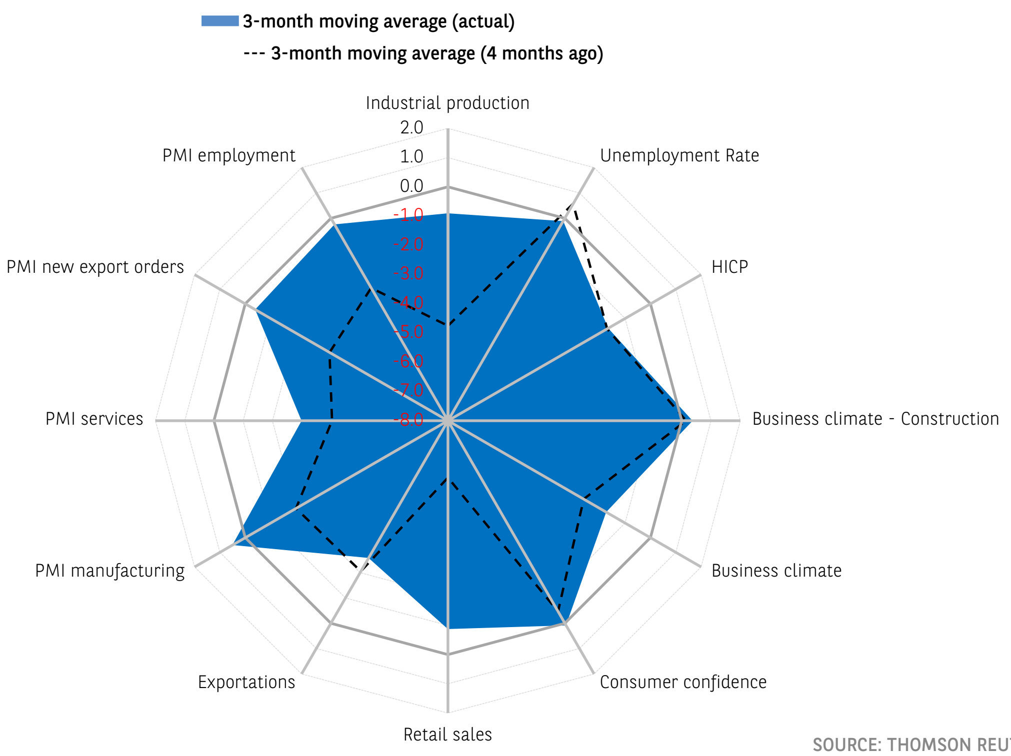
Until now, the good management of the epidemic had helped the economy rebound more vigorously than in most neighbouring countries. This is particularly true for industrial activity. In August, industrial production reached its highest level of the year, partly driven by a strong rebound in automobile sales. The purchasing managers' index (PMI) for the manufacturing sector improved markedly in September (53.2), led by the new orders subcomponent which rebounded significantly (55.1). On the consumption side, retail sales have recovered strongly too. They rose 11.2% in August and were only 0.8% below February's level.

That said, deflationary pressures have continued to intensify for both goods and services. On a year-over-year basis, the Harmonized Consumer Price Index (CPI) fell 0.87% in September, the biggest drop since the start of current statistics (January 1996). Based on the same statistics, the services CPI (excluding tobacco) have been in deflation for the first time (-0.1%).

The unemployment rate stabilised, edging down to 9.7% in August. Nevertheless, youth unemployment (15-24 years) continued to climb, up to 32.1%. The rise in employment has been so far modest: less than a third of the jobs lost during the first half of 2020 had been recovered in August. Nevertheless, the size of the labour force remains well below its level at the beginning of the year, which has limited the rise in the jobless rate so far.

**Guillaume Derrien**

QUARTERLY CHANGES




SOURCE: THOMSON REUTERS, BNP PARIBAS

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# ECONOMIC SCENARIO



## UNITED STATES

After its collapse in the second quarter (-31.7% on an annualized basis) the economy partially recovered during the summer months, with surveys (among households and businesses) returning to almost normal levels. However, at the end of September, the activity deficit to be filled compared to 2019 remains significant (in the order of 4 percentage points of GDP), as the sectors most exposed internationally are far from having returned to their pre-crisis level. With an unemployment rate that has doubled and is now close to 8.5%, the labour market remains hard-hit, a fact that no doubt weighed in the Fed's decision to further accommodate its policy in the long term by adapting its inflation targeting strategy.

## CHINA

After plummeting during the period of the strictest lockdown in February, economic activity has gradually turned around since March. The contraction in real GDP was unprecedented in Q1 2020, but the rebound in Q2 was strong enough to completely regain the ground that was lost. Monetary policy has been eased cautiously and should become less supportive in H2 2020 as the authorities focus more on containing risks in the financial system. Stimulus efforts should depend increasingly on fiscal policy in the year ahead, with infrastructure investment boosted further. Downside risks on our short-term scenario are significant, notably due to the sluggish momentum in private consumption growth and tensions with the US.

## EUROZONE

As expected, confinement measures taken to tackle the epidemic have severely hit the eurozone economy. GDP has massively fallen in Q2 2020, by -11.8% (q/q) after -3.7% in Q1 2020. While the economy entered Q3 2020 with relatively strong momentum, the latest indicators point to a somewhat slower pace with the risk of a significant decrease in GDP growth in Q4 2020. In all likelihood, the loss of activity following the Covid-19 shock should not be erased by the end-2021. Beyond the uncertainties about the pandemic, worries remain regarding the expected increase in both unemployment rate and bankruptcies. These developments could weigh respectively on consumer confidence and private investment. The policy mix will remain supportive, which is an essential condition for a strong recovery. Fiscal recovery packages, both at the national and European level, are a crucial complement to the accommodative and flexible monetary policy.

## FRANCE

In the first half of 2020, the economy suffered a massive recessionary shock caused by the Covid-19 pandemic and containment measures: GDP plunged by 5.9%q/q in Q1 and then by 13.8% q/q in Q2. Since mid-May and the end of the lockdown, a mechanical rebound has been at work: the catching up was vigorous until June-July and is helping to moderate the 2020 GDP contraction. But it remains incomplete and is losing steam. The French sectoral specificities, the dispersed nature of the recovery and the return to normal, both at the sector level and geographically, act as a brake. Uncertainty remains high as to the extent of the shock wave in terms of company failures and rising unemployment. The health situation remains worrying. By 2021, GDP would still be about 2% below its end-2019 level. However, the emergency measures implemented in the spring have played a key cushioning role, while the EUR 100 bn France Recovery plan, detailed on 3 September, have a reinforcing role. We estimate the additional growth in 2021 at 0.6 points.

## 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. Treasury yields should move higher on the back of the economic recovery and because the Fed will accept and actually wants inflation to rise beyond 2%.

In the eurozone, the ECB projects inflation in 2022 to remain well below its objective and, although the economy is recovering, it considers that risks are still tilted to the downside. This implies that current monetary policy will be maintained for a long time and that more easing is possible should circumstances require. This very accommodative setting should keep a lid on sovereign bond spreads. As usual, eurozone bond yields will be very much influenced by what happens to US yields. Clearly, fluctuations in risk appetite also play an important role.

The Bank of Japan is expected to maintain its current policy stance including its yield curve control strategy.

We expect the recent trend of dollar weakening to continue. 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 | 2019 | 2020 e | 2021 e |
| United-States | 2.2 | -4.2 | 4.2 | 1.8 | 1.3 | 1.9 |
| Japan | 0.7 | -5.4 | 1.2 | 0.5 | 0.0 | -0.3 |
| United-Kingdom | 1.5 | -9.7 | 6.9 | 1.8 | 0.7 | 1.3 |
| Euro Area | 1.3 | -8.0 | 5.2 | 1.2 | 0.3 | 0.9 |
| Germany | 0.6 | -5.6 | 4.7 | 1.4 | 0.6 | 1.6 |
| France | 1.5 | -9.8 | 6.8 | 1.3 | 0.6 | 0.9 |
| Italy | 0.3 | -10.0 | 5.3 | 0.6 | -0.1 | 0.4 |
| Spain | 2.0 | -13.0 | 5.0 | 0.8 | -0.3 | 0.6 |
| China | 6.1 | 2.5 | 7.5 | 2.9 | 2.8 | 2.3 |
| India* | 4.2 | -11.4 | 9.6 | 4.8 | 5.5 | 3.4 |
| Brazil | 1.1 | -5.0 | 3.0 | 3.7 | 2.6 | 2.6 |
| Russia | 1.3 | -5.0 | 3.1 | 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 09/10/2020

### INTEREST & EXCHANGE RATES

| Interest rates, % | | 2020 | | | | 2021 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| End of period | | Q1 | Q2 | Q3 | Q4e | Q1e | Q2e | Q4e | 2020e | 2021e |
| US | Fed Funds (upper limit) | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 |
| | T-Notes 10y | 0.67 | 0.80 | 0.64 | 0.75 | 0.90 | 1.00 | 1.20 | 0.75 | 1.20 |
| Ezone | Deposit rate | -0.50 | -0.50 | 0.00 | -0.50 | -0.50 | -0.50 | -0.50 | -0.50 | -0.50 |
| | Bund 10y | -0.46 | -0.50 | -0.54 | -0.30 | -0.20 | -0.10 | 0.00 | -0.30 | 0.00 |
| | OAT 10y | -0.05 | -0.15 | -0.32 | -0.05 | 0.05 | 0.15 | 0.25 | -0.05 | 0.25 |
| | BTP 10y | 1.55 | 1.30 | 0.77 | 0.90 | 1.20 | 1.40 | 1.50 | 0.90 | 1.50 |
| | BONO 10y | 0.68 | 0.50 | 0.16 | 0.30 | 0.50 | 0.20 | 0.70 | 0.30 | 0.70 |
| UK | Base rate | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 |
| | Gilts 10y | 0.31 | 0.55 | 0.14 | 0.30 | 0.30 | 0.40 | 0.70 | 0.30 | 0.70 |
| Japan | BoJ Rate | -0.07 | -0.10 | -0.03 | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 |
| | JGB 10y | 0.02 | 0.00 | 0.02 | 0.05 | 0.05 | 0.10 | 0.15 | 0.05 | 0.15 |

| Exchange Rates | | 2020 | | | | 2021 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| End of period | | Q1 | Q2 | Q3 | Q4e | Q1e | Q2e | Q4e | 2020e | 2021e |
| USD | EUR / USD | 1.10 | 1.09 | 1.17 | 1.23 | 1.24 | 1.25 | 1.27 | 1.23 | 1.27 |
| | USD / JPY | 108 | 104 | 106 | 102 | 101 | 99 | 95 | 102 | 95 |
| | GBP / USD | 1.24 | 1.24 | 1.28 | 1.41 | 1.43 | 1.45 | 1.48 | 1.41 | 1.48 |
| EUR | EUR / GBP | 0.89 | 0.88 | 0.91 | 0.87 | 0.87 | 0.86 | 0.86 | 0.87 | 0.86 |
| | EUR / JPY | 118 | 113 | 124 | 125 | 125 | 124 | 121 | 125 | 121 |

| Brent | | 2020 | | | | 2021 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Period-average | | Q1 | Q2 | Q3 | Q4e | Q1e | Q2e | Q4e | 2020e | 2021e |
| Brent | USD/bbl | 51 | 33 | 41.02 | 49 | 61 | 58 | - | 44 | 59 |

LAST UPDATE: 09/10/2020

SOURCE: BNP PARIBAS GLOBAL MARKETS (E: ESTIMATES)

# CALENDAR



## LATEST INDICATORS

**Data this week have been mixed. The ZEW survey expectations declined significantly in Germany and the eurozone. In Germany, the number was well below expectations. Eurozone industrial production slowed down in September versus August -a result which was in line with the consensus forecast- but new car registrations increased in September after a very negative August. Data for the United States also show a mixed picture. Business optimism of small companies improved and surprised positively. The opposite happened for the Empire State Manufacturing index which covers the state of New York. The Philadelphia Fed business outlook on the other hand recorded a big jump. Analysts had expected a number in line with the previous month. Retail sales were particularly strong in September beating the consensus by a wide margin. Industrial production on the other hand fell 0.6% in September, the weakest reading since spring.**

| DATE | COUNTRY | INDICATOR | PERIOD | SURVEY | ACTUAL | PREVIOUS |
|---|---|---|---|---|---|---|
| 10/12/20 | Japan | Core Machine Orders MoM | Aug. | -1.0% | 0.2% | 6.3% |
| 10/13/20 | United Kingdom | Employment Change 3M/3M | Aug. | -30k | -153k | -12k |
| 10/13/20 | Germany | CPI EU Harmonized MoM | Sep. | -0.4% | -0.4% | -0.4% |
| 10/13/20 | Germany | ZEW Survey Expectations | Oct. | 72.0 | 56.1 | 77.4 |
| 10/13/20 | Eurozone | ZEW Survey Expectations | Oct. | -- | 52.3 | 73.9 |
| 10/13/20 | United States | NFIB Small Business Optimism | Sep. | 100.9 | 104.0 | 100.2 |
| 10/13/20 | United States | CPI Ex Food and Energy YoY | Sep. | 1.7% | 1.7% | 1.7% |
| 10/13/20 | China | Exports YoY | Sep. | 10.0% | 9.9% | 9.5% |
| 10/13/20 | China | Imports YoY | Sep. | 0.4% | 13.2% | -2.1% |
| 10/14/20 | Japan | Industrial Production MoM | Aug. | -- | 1.0% | 1.7% |
| 10/14/20 | Eurozone | Industrial Production SA MoM | Aug. | 0.8% | 0.7% | 5.0% |
| 10/14/20 | United States | PPI Ex Food and Energy YoY | Sep. | 1.0% | 1.2% | 0.6% |
| 10/15/20 | China | PPI YoY | Sep. | -1.8% | -2.1% | -2.0% |
| 10/15/20 | China | CPI YoY | Sep. | 1.9% | 1.7% | 2.4% |
| 10/15/20 | France | CPI EU Harmonized YoY | Sep. | 0.0% | 0.0% | 0.0% |
| 10/15/20 | United States | Initial Jobless Claims | Oct-10 | 825k | 898k | 845k |
| 10/15/20 | United States | Empire Manufacturing | Oct. | 14.0 | 10.5 | 17.0 |
| 10/15/20 | United States | Philadelphia Fed Business Outlook | Oct. | 14.8 | 32.3 | 15.0 |
| 10/16/20 | Eurozone | EU27 New Car Registrations | Sep. | -- | 3.1% | -18.9% |
| 10/16/20 | United States | Retail Sales Control Group | Sep. | 0.3% | 1.4% | -0.1% |
| 10/16/20 | United States | Industrial Production MoM | Sep. | 0.5% | -0.6% | 0.4% |
| 10/16/20 | United States | University of Michigan Sentiment | Oct. | 80.5 | 81.2 | 80.4 |

SOURCE: BLOOMBERG

# CALENDAR: THE WEEK AHEAD



## COMING INDICATORS

**A busy week ahead of us with, for China, third quarter GDP data, where the Bloomberg consensus expects a 5.5% y-o-y increase, and several other data such as retail sales and the jobless rate. In the US, several data will be published related to the housing market (NAHB index, building permits, housing starts). Data on business confidence will be released in France and the United Kingdom and on consumer confidence in the euro area and the United Kingdom. The highlight of the week will be the flash PMIs in several countries.**

| DATE | COUNTRY | INDICATOR | PERIOD | SURVEY | PREVIOUS |
|---|---|---|---|---|---|
| 10/19/2020 | China | GDP SA QoQ | 3Q | 3.3% | 11.5% |
| 10/19/2020 | China | GDP YoY | 3Q | 5.5% | 3.2% |
| 10/19/2020 | China | Industrial Production YTD YoY | Sep | 1.0% | 0.4% |
| 10/19/2020 | China | Retail Sales YTD YoY | Sep | -7.3% | -8.6% |
| 10/19/2020 | China | Fixed Assets Ex Rural YTD YoY | Sep | 0.9% | -0.3% |
| 10/19/2020 | China | Property Investment YTD YoY | Sep | 5.2% | 4.6% |
| 10/19/2020 | China | Surveyed Jobless Rate | Sep | 5.5% | 5.6% |
| 10/19/2020 | United States | NAHB Housing Market Index | Oct | 83 | 83 |
| 10/20/2020 | United States | Building Permits MoM | Sep | 3.3% | -0.9% |
| 10/20/2020 | United States | Housing Starts MoM | Sep | 2.4% | -5.1% |
| 10/21/2020 | United States | U.S. Fed Releases Beige Book | | | |
| 10/22/2020 | Japan | Tokyo Dept Store Sales YoY | Sep | -- | -29.1% |
| 10/22/2020 | France | Business Confidence | Oct | -- | 92 |
| 10/22/2020 | United Kingdom | CBI Business Optimism | Oct | -- | -1 |
| 10/22/2020 | United States | Initial Jobless Claims | Oct | -- | -- |
| 10/22/2020 | Eurozone | Consumer Confidence | Oct | -- | -13.9 |
| 10/23/2020 | United Kingdom | GfK Consumer Confidence | Oct | -- | -25 |
| 10/23/2020 | Japan | Jibun Bank PMI Mfg | Oct | -- | 47.7 |
| 10/23/2020 | Japan | Jibun Bank PMI Services | Oct | -- | 46.9 |
| 10/23/2020 | Japan | Jibun Bank PMI Composite | Oct | -- | 46.6 |
| 10/23/2020 | United Kingdom | Retail Sales Ex Auto Fuel MoM | Sep | -- | 0.6% |
| 10/23/2020 | France | Markit France Manufacturing PMI | Oct | -- | 51.2 |
| 10/23/2020 | France | Markit France Services PMI | Oct | -- | 47.5 |
| 10/23/2020 | France | Markit France Composite PMI | Oct | -- | 48.5 |
| 10/23/2020 | Germany | Markit/BME Manufacturing PMI | Oct | -- | 56.4 |
| 10/23/2020 | Germany | Markit Germany Services PMI | Oct | -- | 50.6 |
| 10/23/2020 | Germany | Markit/BME Germany Composite PMI | Oct | -- | 54.7 |
| 10/23/2020 | Eurozone | Markit Eurozone Manufacturing PMI | Oct | -- | 53.7 |
| 10/23/2020 | Eurozone | Markit Eurozone Services PMI | Oct | -- | 48.0 |
| 10/23/2020 | Eurozone | Markit Eurozone Composite PMI | Oct | -- | 50.4 |
| 10/23/2020 | United Kingdom | Markit UK PMI Manufacturing SA | Oct | -- | 54.1 |
| 10/23/2020 | United Kingdom | Markit/CIPS UK Services PMI | Oct | -- | 56.1 |
| 10/23/2020 | United Kingdom | Markit/CIPS UK Composite PMI | Oct | -- | 56.5 |
| 10/23/2020 | United States | Markit US Manufacturing PMI | Oct | -- | 53.2 |
| 10/23/2020 | United States | Markit US Services PMI | Oct | -- | 54.6 |
| 10/23/2020 | United States | Markit US Composite PMI | Oct | -- | 54.3 |

SOURCE: BLOOMBERG

# FURTHER READING



| | | |
|---|---|---|
| Preparing for a post-pandemic world: towards a more targeted economic policy | EcoTV | 16 October |
| United kingdom: mortgages caught between support and restriction | Chart of the Week | 14 October |
| US : The presidential election on 3 November | EcoFlash | 13 October |
| United Kingdom : Brexit: Time is running out to reach an agreement | EcoFlash | 13 October |
| Global : Will companies use better cash flows to invest? | EcoWeek | 9 October |
| Global : PMI: services sector is suffering again from the pandemic | EcoWeek | 9 October |
| EcoTV October 2020 | EcoTV | 9 October |
| Russia: Weak recovery | Chart of the Week | 7 October |
| 4th quarter 2020 issue of EcoEmerging | EcoEmerging | 5 October |
| Japan : Under pressure but improved household confidence provides some hope | EcoWeek | 2 October |
| Eurozone : The economic recovery is running out of steam | EcoWeek | 2 October |
| US : Still a substantial shortage of jobs | EcoWeek | 2 October |
| Does quantitative easing represent a free lunch for governments? | EcoWeek | 2 October |
| Germany: East and West moving closer together | EcoFlash | 2 October |
| United Kindom: Banks face the double challenge of Covid-19 and Brexit | EcoTV Week | 2 October |
| 4th quarter 2020 issue of EcoPerspectives | EcoPerspectives | 1 October |
| Germany: facing a sharp contraction of corporate investment | Chart of the Week | 30 September |
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