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ECONOMIC RESEARCH



BNP PARIBAS

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WILL COMPANIES USE BETTER CASH FLOWS TO INVEST?

A key question in assessing the pace of the recovery in coming quarters is what will happen to corporate investment. Financial analysts are expecting profits of US companies to increase. If confirmed, we can expect better cash flows which, based on historical relationships, should lead, with some delay, to a rise in capital formation by companies. However, there is a possibility that companies which have seen a pandemic-induced rise in indebtedness would prefer to use their extra cash to pay back debt. Cash flow uncertainty is another factor that could weigh on the willingness to invest.

In assessing next year's economic outlook, a key question is the behaviour of corporate investment. Given the traditionally rather steady pace of private consumption growth during a recovery, the dynamism, or lack thereof, of gross fixed capital formation by companies will make the difference between a subdued or robust recovery.

Pending the introduction of a vaccine, uncertainty –both health-related and economic- should remain high and act as a headwind to corporate investment¹. However, GDP is growing again and with that, company profits should increase. As shown in chart 1, in the US, reported EBITDA –a measure of company profitability- is still trending down though less than before and financial analysts are expecting a pick-up over the course of the next 12 months. EBITDA is quite correlated with cash flow², so one should expect an improvement of this metric as well as the recovery continues³.

From a macroeconomic perspective, cash flow is important because it is one of the drivers of gross fixed capital formation by companies. One could argue that at the current juncture, an increasing number of companies are accumulating cash, whilst being reluctant to invest because of the uncertainty. When the latter drops because the health situation improves, this cash could be unleashed and cause an acceleration of economic growth. As shown in chart 2, in the US, in recent recessions, cash flows increased well before the pick-up of corporate investment. This shouldn't come as a surprise. Companies

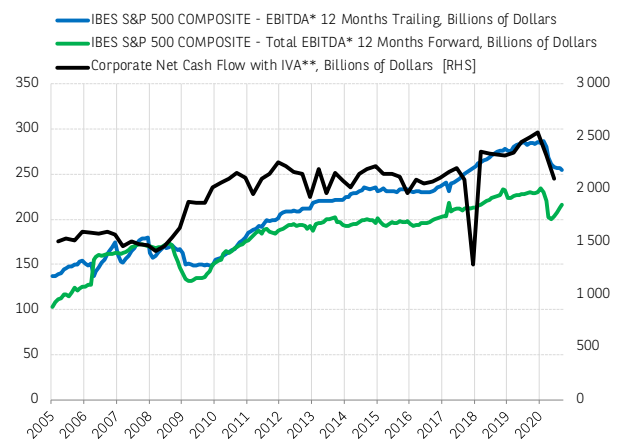
may still feel uncertain in the early phase of a recovery. According to research of the European Investment Bank, in absolute value terms, a decline in uncertainty has a smaller impact on corporate investment than an increase. Weaker firms also react more strongly to an increase in uncertainty.⁴ Unsurprisingly, the negative relationship between cash flow uncertainty on the one hand and corporate investment and corporate employment on the other hand is also stronger in recessions.⁵ Companies may also prefer to pay back debt. Empirical research shows that, in the longer run, investments are sensitive to cash flow, but in the short run, financially constrained companies will use the improved cash flow to reduce leverage, rather than increase investment.⁶

4. Source: European Investment Bank Investment Report 2019/2020.

5. Source: *Employment, Corporate Investment and Cash Flow Uncertainty*, Sanjai Bhagat and Lulian Obreja, 2011

6. Dasgupta, S., Noe, T., & Wang, Z. (2011). *Where Did All the Dollars Go? The Effect of Cash Flows on Capital and Asset Structure*. *Journal of Financial and Quantitative Analysis*, 46(5), 1259-1294. doi:10.1017/S0022109011000512

EBITDA VERSUS CASH FLOW



* earnings before interest, taxes, depreciation, and amortization,**Inventory valuation adjustment

SOURCE: US BEA, FEDERAL RESERVE OF ST LOUIS, REFINITIV, BNP PARIBAS

1. Corporate investment is particularly sensitive to uncertainty because it represents an irreversible, long-horizon commitment of corporate funds. Irreversibility means that it is difficult to stop a project once it has been initiated.

2. The correlation is far from perfect because the universes are different (companies of the S&P500 versus listed and unlisted companies in the national accounts) and, more importantly, both metrics look at earnings in a different way. EBITDA is a popular measure for company valuation. It is obtained by adding to net earnings (= net income) tax, interest, depreciation and amortization. Operating cash flow is equal to net income adjusted for depreciation, change in accounts payable and receivable and change in inventories (source: www.corporatefinanceinstitute.com). A popular definition for cash flow is profits after tax plus depreciation. In national accounts, "net cash flow with IVA is equal to undistributed corporate profits with IVA (inventory valuation adjustment) and CCAAdj (capital consumption adjustment) plus consumption of corporate fixed capital less capital transfers paid (net). It is a profits-related measure of internal funds available for investment." (source: US Bureau of Economic Analysis).

3. The big decline in cash flow in the fourth quarter of 2017 is related to the 2017 Tax Cuts and Jobs Act. This law imposed a one-time deemed repatriation tax on accumulated foreign earnings. It is recorded as a capital transfer from business to federal government and, as a consequence, decreases corporate cash flow (source: US Bureau of Economic Analysis).

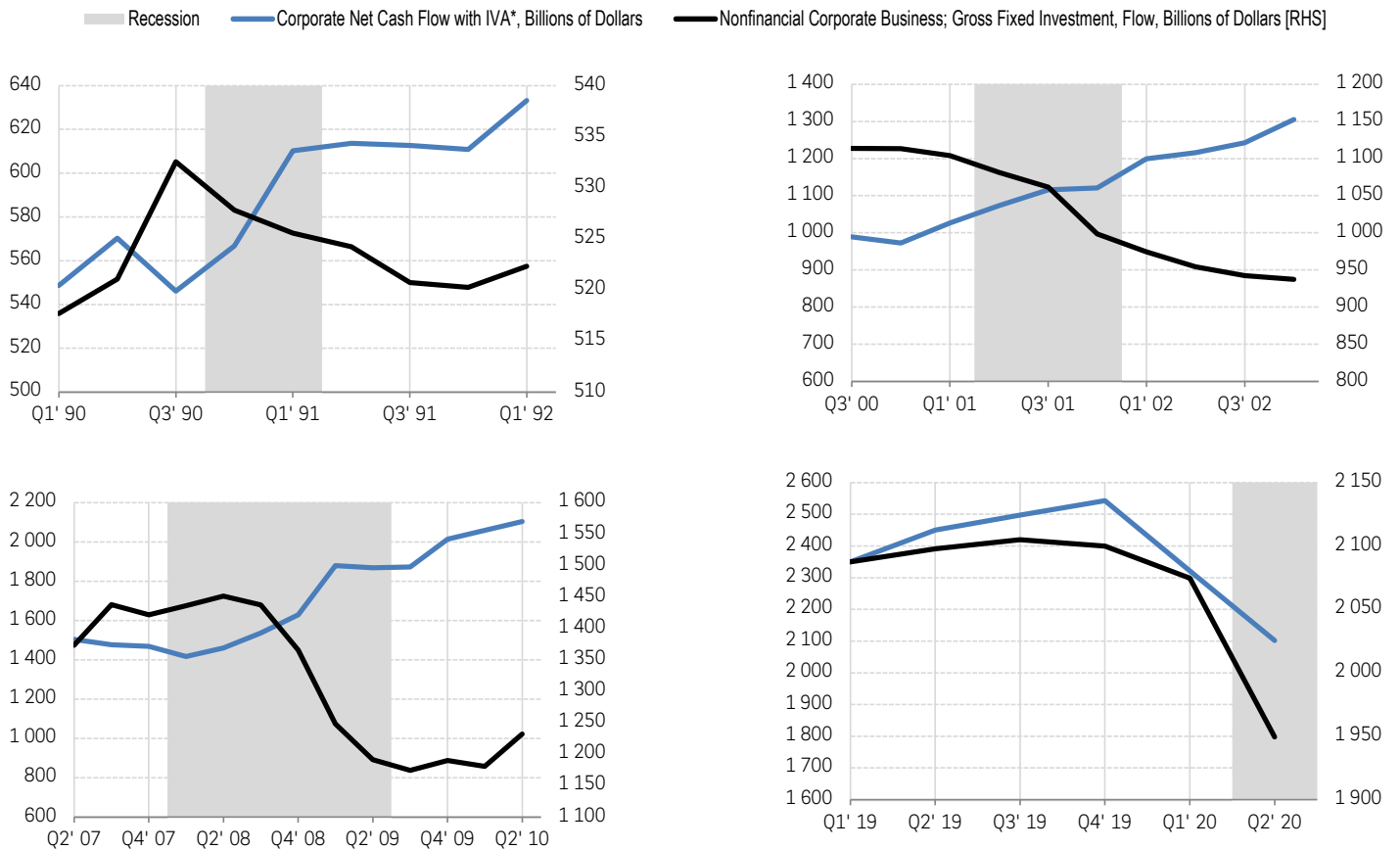
Cash flow uncertainty weighs on corporate investment. Monetary and fiscal policy can reduce this uncertainty by supporting the recovery and by providing a perspective on the policy stance for the next several years.



What insights do these results provide for the current recovery? First, the good news is that higher corporate cash flow is eventually followed by increased investments. However, there is a delay. This means that in the near term, household spending and government expenditures will be key for the pace of GDP growth. Second, financially weaker companies invest relatively speaking less. This is an issue considering the increase in corporate indebtedness following the collapse in activity earlier this year and calls for a policy aimed at strengthening the capital base of companies. Third, cash flow uncertainty matters. Here again economic policy has a role to play by supporting the recovery -monetary and fiscal policy- but also by providing a perspective on the policy stance for the next several years. Central banks do this by providing forward guidance. Governments could do the same and offer visibility in terms of taxes and expenditures.

William De Vijlder

CASH FLOW AND CORPORATE INVESTMENT



SOURCE: US BEA, FEDERAL RESERVE OF SAINT-LOUIS, BNP PARIBAS

MARKETS OVERVIEW

OVERVIEW

Week 2-10-20 to 8-10-20

➤ CAC 40	4 825	➤ 4 912	+1.8 %
➤ S&P 500	3 348	➤ 3 447	+2.9 %
➤ Volatility (VIX)	27.6	➤ 26.4	-1.3 bp
➤ Libor \$ 3M (%)	0.23	➤ 0.23	-0.4 bp
➤ OAT 10y (%)	-0.32	➤ -0.32	+0.3 bp
➤ Bund 10y (%)	-0.54	➤ -0.52	+1.5 bp
➤ US Tr. 10y (%)	0.69	➤ 0.77	+7.3 bp
➤ Euro vs dollar	1.17	➤ 1.17	+0.3 %
➤ Gold (ounce, \$)	1 908	➤ 1 889	-1.0 %
➤ Oil (Brent, \$)	39.4	➤ 43.4	+10.3 %

MONEY & BOND MARKETS

Interest Rates	highest 20	lowest 20	Yield (%)	highest 20	lowest 20					
\$ FED	0.25	1.75 at 01/01	0.25	at 16/03	€ AVG 5-7y	-0.32	0.72	at 18/03	-0.35	at 30/09
Libor 3M	0.23	1.91 at 01/01	0.22	at 25/09	Bund 2y	-0.70	-0.58	at 14/01	-1.00	at 09/03
Libor 12M	0.35	2.00 at 01/01	0.34	at 06/10	Bund 10y	-0.52	-0.17	at 19/03	-0.84	at 09/03
£ BoE	0.10	0.75 at 01/01	0.10	at 19/03	OAT 10y	-0.32	0.28	at 18/03	-0.42	at 09/03
Libor 3M	0.06	0.80 at 08/01	0.05	at 05/10	Corp. BBB	0.86	2.54	at 24/03	0.65	at 20/02
Libor 12M	0.15	0.98 at 01/01	0.14	at 18/09	\$ Treas. 2y	0.15	1.59	at 08/01	0.11	at 04/08
At 8-10-20					Treas. 10y	0.77	1.91	at 01/01	0.50	at 09/03
					High Yield	5.75	1 1.29	at 23/03	5.44	at 21/02
					£ gilt. 2y	-0.01	0.61	at 08/01	-0.12	at 21/09
					gilt. 10y	0.33	0.83	at 01/01	0.04	at 04/08
					At 8-10-20					

EXCHANGE RATES

1€ =	highest 20	lowest 20	2020	Change
USD	1.17	1.20 at 01/09	1.07 at 20/03	+4.7%
GBP	0.91	0.94 at 23/03	0.83 at 18/02	+7.2%
CHF	1.08	1.09 at 05/06	1.05 at 14/05	-0.8%
JPY	124.56	126.82 at 31/08	114.51 at 06/05	+2.1%
AUD	1.64	1.87 at 23/03	1.60 at 01/01	+2.8%
CNY	8.00	8.26 at 30/07	7.55 at 19/02	+2.3%
BRL	6.59	6.69 at 20/08	4.51 at 02/01	+46.0%
RUB	91.07	92.95 at 29/09	67.75 at 10/01	+30.6%
INR	86.05	89.12 at 18/08	77.21 at 17/02	+7.4%
At 8-10-20				Change

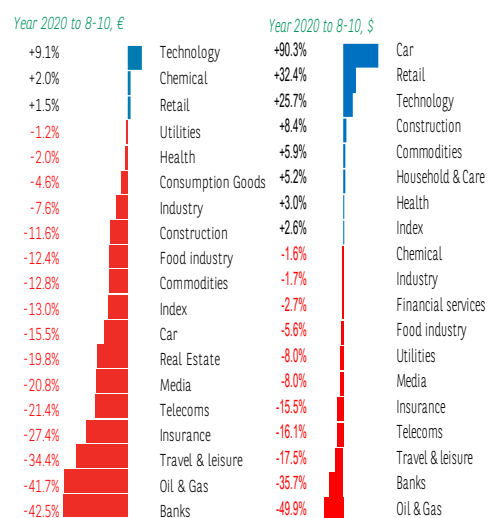
COMMODITIES

Spot price, \$	highest 20	lowest 20	2020	2020(€)	Change
Oil, Brent	43.4	69.1 at 06/01	16.5 at 21/04	-34.5%	-37.4%
Gold (ounce)	1 889	2 053 at 06/08	1 475 at 19/03	+24.3%	+18.7%
Metals, LME	2 985	3 046 at 18/09	2 232 at 23/03	+5.0%	+0.3%
Copper (ton)	6 678	6 853 at 18/09	4 625 at 23/03	+8.6%	+3.8%
wheat (ton)	222	2.4 at 21/01	178 at 26/06	-2.9%	-7.2%
Corn (ton)	143	1.5 at 23/01	113 at 28/04	-0.4%	-8.7%
At 8-10-20					Change

EQUITY INDICES

Index	highest 20	lowest 20	2020	Change
World				
MSCI World	2 427	2 494 at 02/09	1 602 at 23/03	+2.9%
North America				
S&P500	3 447	3 581 at 02/09	2 237 at 23/03	+6.7%
Europe				
EuroStoxx50	3 256	3 865 at 19/02	2 386 at 18/03	-13.1%
CAC 40	4 912	6 111 at 19/02	3 755 at 18/03	-1.8%
DAX 30	13 042	13 789 at 19/02	8 442 at 18/03	-1.6%
IBEX 35	6 993	10 084 at 19/02	6 107 at 16/03	-2.7%
FTSE100	5 978	7 675 at 17/01	4 994 at 23/03	-2.1%
Asia				
MSCI, loc.	948	1 034 at 20/01	743 at 23/03	-0.6%
Nikkei	23 647	24 084 at 20/01	16 553 at 19/03	-0.0%
Emerging				
MSCI Emerging (\$)	1 117	1 147 at 17/01	758 at 23/03	+0.0%
China	100	102 at 02/09	69 at 19/03	+17.1%
India	588	609 at 17/01	353 at 23/03	+2.0%
Brazil	1 431	2 429 at 02/01	1 036 at 23/03	-15.8%
Russia	550	857 at 20/01	419 at 18/03	-16.9%
At 8-10-20				Change

PERFORMANCE BY SECTOR (Eurostoxx50 & S&P500)

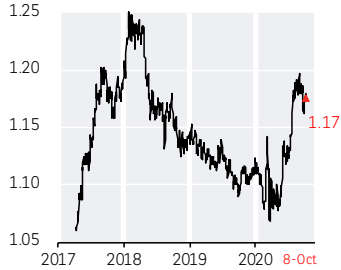


SOURCE: THOMSON REUTERS,

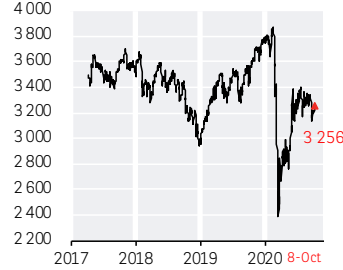


MARKETS OVERVIEW

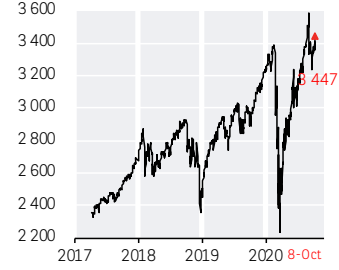
EURO-DOLLAR



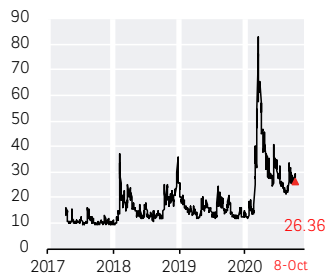
EUROSTOXX50



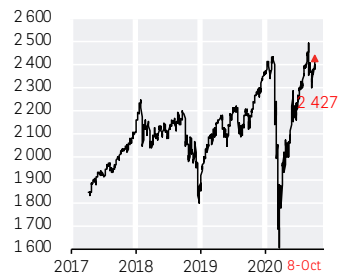
S&P500



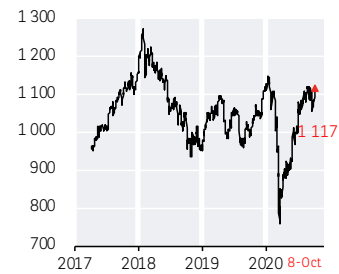
VOLATILITY (VIX, S&P500)



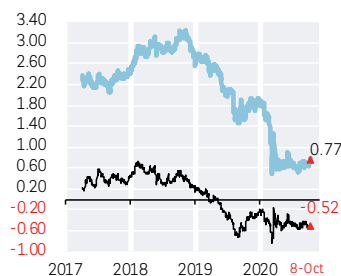
MSCI WORLD (USD)



MSCI EMERGING (USD)

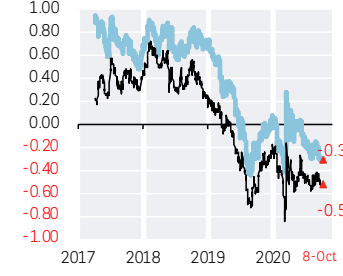


10Y BOND YIELD, TREASURIES VS BUND



-Bunds —US Treasuries

10Y BOND YIELD



-Bunds —OAT

10Y BOND YIELD & SPREADS

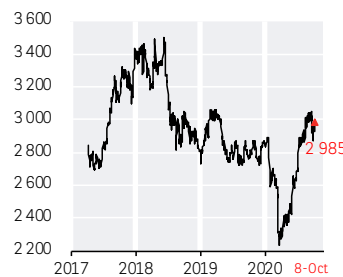
Week 2-10-20 to 8-10-20

1.30%	Greece	182 bp
0.67%	Italy	119 bp
0.21%	Portugal	73 bp
-0.31%	Belgium	21 bp
-0.32%	France	20 bp
-0.41%	Finland	10 bp
-0.44%	Austria	8 bp
-0.48%	Netherland	3 bp
-0.50%	Ireland	2 bp
-0.52%	Germany	

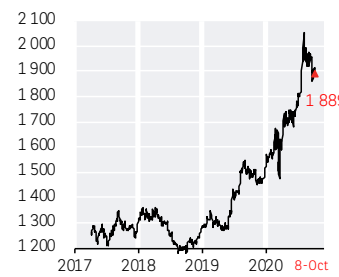
OIL (BRENT, USD)



METALS (LMEX, USD)



GOLD (OUNCE, USD)



SOURCE: THOMSON REUTERS,



ECONOMIC PULSE

PMI: SERVICES SECTOR IS SUFFERING AGAIN FROM THE PANDEMIC

The PMI data for September saw diverging trends, between sectors and geographies. The composite PMI has been stable in the United States in September after rebounding the month before. In the euro area however, the jump in July was shortlived and after the sharp drop in August, September saw another decline, leaving the PMI just above the 50 threshold. This overall number is hiding very diverging trends. In France, the index has dropped to 48.5 (it was at 57.3 two months earlier) whereas in Germany there was only a tiny decline over the same period, leaving the index at 54.7. In the United Kingdom, the index dropped in September -probably a reflection of Brexit negotiations uncertainty- though it stays at a high level (56.5). The Brexit effect was far more visible in Ireland where the index dropped from 54.0 to 46.9 in a single month.

Looking at the heatmap for the manufacturing sector, it is clear that it is holding up well. At the global level, the improvement continued in September. The US were stable but the euro area saw a noticeable pick-up with France doing better and Germany powering ahead to 56.4. China has been stable for the past three months at around (53.0 in September).

The services PMI eased slightly in the US in September whereas the euro area saw a considerable decline, to 48.0 on the back of a big drop in France (from 57.3 in July to 47.5 in September). Since July, Spain also saw an important decline to a very low 42.4 in September. All this reflects the impact of the renewed increase of the number of new Covid-19 infections.

Concerning the employment survey for manufacturing, September saw further improvement at the global level and in particular in the euro area. The reading improved in France and Italy whereas Germany and Spain witnessed a bigger increase. However, across countries, in level terms, the impression is more subdued than for the manufacturing PMI as a whole. This suggests ongoing caution of companies in terms of hiring. A similar conclusion applies to the composite PMI.

Finally, the assessment of export orders improved further at the global level. The reading for the euro area saw a big jump to 55.5 in September, driven by Germany. France improved as well, from 48.3 to 51.5. China saw a big increase, from 50.7 to 54.4.

William De Vijlder

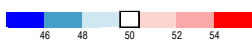
COMPOSITE PMI

	Developed Markets															Emerging countries																					
	WD	NA					Europe					Asia-Oceania					LATAM	Eurasia			Middle East & Africa																
		World	CANADA	USA*	EURO ZONE		AUSTRIA	DENMARK	FRANCE	GERMANY	GREECE	IRELAND	ITALY	NETHERLANDS	SPAIN	SWITZERLAND		UK	AUSTRALIA	NEW ZEALAND	JAPAN	SINGAPORE	BRAZIL	MEXICO	CZECH REPUBLIC	POLAND	RUSSIA	TURKEY	EGYPT	LEBANON	SAUDI ARABIA	SOUTH AFRICA	UAE	CHINA	HONG KONG	INDIA	INDONESIA
Dec-19	51.5																																				
Jan-20	52.1																																				
Feb-20	46.1																																				
Mar-20	39.2																																				
Apr-20	26.2																																				
May-20	36.3																																				
Jun-20	47.9																																				
Jul-20	51.1																																				
Aug-20	52.4																																				
Sep-20	52.1																																				

* MANUFACTURING & SERVICES

MANUFACTURING PMI

	Developed Markets															Emerging countries																			
	WD	NA					Europe					Asia-Oceania					LATAM	Eurasia			Middle East & Africa														
		World	CANADA	USA	EURO ZONE		AUSTRIA	DENMARK	FRANCE	GERMANY	GREECE	IRELAND	ITALY	NETHERLANDS	SPAIN	SWITZERLAND		UK	AUSTRALIA	NEW ZEALAND	JAPAN	SINGAPORE	BRAZIL	MEXICO	CZECH REPUBLIC	POLAND	RUSSIA	TURKEY	EGYPT	LEBANON	SAUDI ARABIA	SOUTH AFRICA	UAE	CHINA	HONG KONG
Dec-19	50.1	50.4	52.4	46.3	46.0	50.5	50.4	43.7	53.9	49.5	46.2	48.3	47.4	48.8	47.5	48.3	48.4	48.4	50.1	50.2	47.1	43.6	48.0	47.5	49.5	48.2	45.1	56.9	47.1	50.2	51.5	42.1	52.7	49.5	50.8
Jan-20	50.3	50.6	51.9	47.9	49.2	50.8	51.1	45.3	54.4	51.4	48.9	49.9	48.5	47.8	50.0	45.4	48.7	48.8	50.3	51.0	49.0	45.2	47.4	47.9	51.3	46.0	44.9	54.9	45.2	49.3	51.1	46.8	55.3	49.3	50.6
Feb-20	47.1	51.8	50.7	49.2	50.2	46.8	49.8	48.0	36.2	51.2	48.7	52.9	50.4	49.5	51.7	44.3	54.0	47.8	48.7	52.3	50.0	46.5	48.2	48.2	52.4	47.1	45.4	52.5	44.3	49.1	40.3	33.1	34.5	51.9	49.0
Mar-20	47.3	46.1	48.5	44.5	45.8	44.8	43.2	45.4	42.5	45.1	40.3	50.5	45.7	43.7	47.8	53.7	38.0	44.8	45.4	48.4	47.9	41.3	42.4	47.5	48.1	44.2	35.0	42.4	48.1	45.2	50.1	34.9	51.8	45.3	41.9
Apr-20	39.6	33.0	36.1	33.4	31.6	38.7	31.5	34.5	29.5	36.0	31.1	41.3	30.8	40.7	32.6	35.8	26.0	41.9	44.7	36.0	35.0	35.1	31.9	31.3	33.4	29.7	30.9	44.4	46.1	44.1	49.4	36.9	27.4	27.5	32.7
May-20	42.4	40.6	39.8	39.4	40.4	55.0	40.6	36.6	41.1	39.2	45.4	40.5	38.3	42.1	40.7	41.6	40.3	38.4	46.8	38.3	38.3	39.6	40.6	36.2	40.9	40.7	37.2	48.1	50.2	46.7	50.7	43.9	30.8	28.6	42.7
Jun-20	47.9	47.8	49.8	47.4	46.5	53.0	52.3	45.2	49.4	51.0	47.5	45.2	49.0	41.9	50.1	51.5	56.3	40.1	48.0	51.6	38.6	44.9	47.2	49.4	53.9	44.6	43.2	47.7	53.9	50.4	51.2	49.6	47.2	39.1	51.1
Jul-20	50.6	52.9	50.9	51.8	52.8	57.0	52.4	51.0	48.6	57.3	51.9	47.9	53.5	49.2	53.3	53.5	59.0	45.2	50.2	58.2	40.4	47.0	52.8	48.4	56.9	49.6	44.9	50.0	51.2	50.8	52.8	44.5	46.0	46.9	47.6
Aug-20	51.8	55.1	53.1	51.7	51.0	52.3	49.8	52.2	49.4	52.3	53.1	52.3	49.9	51.8	55.2	49.3	50.7	47.2	50.1	64.7	41.3	49.1	50.6	51.1	54.3	49.4	40.1	48.8	57.3	49.4	53.1	44.0	52.0	50.8	45.7
Sep-20	52.3	56.0	53.2	53.7	51.7	54.4	51.2	56.4	50.0	50.0	53.2	52.5	50.8	53.1	54.1	46.7	47.7	50.3	64.9	42.1	50.7	50.8	48.9	52.8	50.4	42.1	50.7	58.3	51.0	53.0	47.7	56.8	47.2	52.2	



SOURCE: MARKIT, BNP PARIBAS



SERVICES PMI

	World	USA	EUROZONE	FRANCE	GERMANY	IRELAND	ITALY	SPAIN	UK	AUSTRALIA	JAPAN	BRAZIL	RUSSIA	LEBANON	CHINA	HONG KONG	INDIA
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	57.5
Mar-20	36.8	39.8	26.4	27.4	31.7	32.5	17.4	23.0	34.5	38.7	33.8	34.5	37.1	35.0	43.0	34.9	49.3
Apr-20	23.7	26.7	12.0	10.2	16.2	13.9	10.8	7.1	13.4	27.1	21.5	27.4	12.2	30.9	44.4	36.9	5.4
May-20	35.2	37.5	30.5	31.1	32.6	23.4	28.9	27.9	29.0	31.7	26.5	27.6	35.9	37.2	55.0	43.9	12.6
Jun-20	48.1	47.9	48.3	50.7	47.3	39.7	46.4	50.2	47.1	31.5	45.0	35.9	47.8	43.2	58.4	49.6	33.7
Jul-20	50.7	50.0	54.7	57.3	55.6	51.9	51.6	51.9	56.5	44.0	45.4	42.5	58.5	44.9	54.1	44.5	34.2
Aug-20	52.0	55.0	50.5	51.5	52.5	52.4	47.1	47.7	58.8	42.5	45.0	49.5	58.2	40.1	54.0	44.0	41.8
Sep-20	51.6	54.6	48.0	47.5	50.6	45.8	48.8	42.4	56.1	36.2	46.9	50.4	53.7	42.1	54.8	47.7	49.8

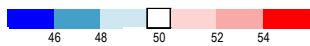
PMI MANUFACTURING - EMPLOYMENT

	WD	Developed Markets																	Emerging countries													
		NA		Europe									Asia-Oceania						LAT AM			Eurasia		Middle East & Africa		Asia						
		World	CANADA	USA	EUROZONE	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	INDONESIA
Dec-19	49.6	51.0	51.4	46.4	47.0	53.3	50.1	43.4	56.7	49.7	47.4	49.6	47.5	48.6	47.8	49.3	49.4	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	58.4	49.7	43.4	57.8	51.2	49.6	51.0	46.6	52.1	50.1	49.5	46.6	51.8	51.2	50.3	42.6	46.5	48.9	51.5	46.9	50.2	37.8	48.8	49.5	53.9	49.3	50.2
Feb-20	47.2	51.1	50.6	47.7	51.1	55.9	48.6	45.0	57.7	48.4	49.2	53.9	49.2	51.0	49.7	49.5	51.3	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	40.6	45.4	43.0	46.2	42.6	45.3	49.0	45.2	42.5	44.2	47.6	45.3	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	40.5	32.5	37.2	30.0	30.5	39.3	39.9	30.9	40.5	28.1	38.8	41.0	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	31.7	35.7	36.5	38.4	40.1	40.6	40.7	35.2	42.4	31.4	41.6	39.3	49.5	39.1	35.7	37.7	43.6	34.6	47.3	45.5	48.7	26.8	48.7	49.2	42.7	31.5	44.2
Jun-20	46.0	44.8	47.9	41.3	44.1	44.4	44.6	38.8	47.9	46.1	40.3	41.2	44.6	39.0	41.4	45.9	48.3	47.7	43.7	36.8	41.1	46.5	46.9	52.8	44.6	47.0	32.7	46.4	48.6	44.3	39.1	47.8
Jul-20	47.3	50.9	49.6	42.9	48.5	48.0	48.8	37.2	48.4	50.8	45.0	42.9	47.4	46.6	43.9	48.2	46.9	47.8	52.3	38.7	42.7	47.8	44.7	54.8	46.1	47.8	33.0	47.5	49.5	44.3	43.5	45.4
Aug-20	48.6	53.9	52.7	44.2	44.7	47.9	44.7	40.2	50.5	47.5	49.4	48.3	46.7	45.4	43.8	47.8	49.0	48.4	56.4	41.5	45.1	49.6	48.6	54.3	45.9	48.2	39.0	41.5	49.8	45.5	46.9	43.7
Sep-20	49.5	54.3	52.5	47.1	49.1	44.5	46.5	44.2	50.9	49.1	51.9	47.7	50.1	47.3	46.5	51.8		49.8	56.5	44.6	48.1	51.1	45.6	55.2	48.3	49.0	44.5	47.7	50.1	45.4	46.1	48.5

PMI MANUFACTURING - NEW EXPORT ORDERS

	WD	Developed Markets																	Emerging countries															
		NA		Europe									Asia-Oceania						LAT AM			Eurasia		Middle East & Africa		Asia								
		World	CANADA	USA	EUROZONE	AUSTRIA	DENMARK	FRANCE	GERMANY	GREECE	IRELAND	ITALY	NETHERLANDS	SPAIN	SWITZERLAND	UK	AUSTRALIA	NEW ZEALAND	JAPAN	SINGAPORE	BRAZIL	MEXICO	CZECH REPUBLIC	POLAND	RUSSIA	TURKEY	EGYPT	LEBANON	SAUDI ARABIA	SOUTH AFRICA	UAE	CHINA	HONG KONG	INDIA
Dec-19	49.2	48.7	50.6	47.3	46.8	49.9	46.3	55.1	46.5	46.7	46.4	49.1	46.1	54.0	47.0	50.1	40.1	46.4	44.3	45.5	45.5	49.4	42.2	45.1	49.6	46.6	50.4	50.9	36.1	51.5	48.9	49.4		
Jan-20	49.5	49.0	49.5	49.5	50.4	50.2	49.6	55.5	50.2	49.0	49.0	48.0	47.7	49.8	47.1	49.8	49.3	50.3	44.8	48.5	45.1	44.8	46.6	51.4	38.5	43.0	48.9	50.5	51.3	49.4	40.8	54.5	48.7	52.6
Feb-20	45.0	50.5	49.1	47.6	49.3	47.5	46.1	57.7	48.4	48.5	50.8	49.5	49.6	44.5	47.1	48.1	49.2	51.1	44.8	44.1	47.8	52.8	39.4	45.9	50.6	47.7	49.8	36.4	18.6	54.2	49.1	49.2		
Mar-20	43.0	44.2	46.2	37.0	36.0	34.7	35.8	34.4	41.7	36.0	45.5	40.9	43.0	44.6	40.0		46.3	49.0	33.9	35.4	43.1	42.0	33.2	21.3	41.3	39.4	44.3	46.4	17.7	46.9	29.8	37.0		
Apr-20	27.1	30.9	24.9	18.9	17.5	15.6	18.8	18.8	25.7	18.2	28.1	17.3	25.2	42.6	33.0		30.2	30.8	22.7	21.7	22.0	21.2	11.8	17.5	37.8	32.3	35.2	33.7	19.7	10.3	8.5	17.7		
May-20	32.3	39.2	25.9	28.7	30.2	29.2	24.5	36.1	30.9	35.8	29.6	30.4	33.9	31.1	30.8		31.7	34.2	32.2	29.4	30.5	29.8	34.7	30.9	45.1	20.2	40.2	41.7	36.4	11.8	15.8	34.3		
Jun-20	43.5	43.6	47.9	43.1	37.0	42.5	41.4	48.1	52.1	44.5	41.4	47.5	44.9	47.2	37.4		45.2	36.1	40.7	43.0	42.0	50.5	49.0	36.7	43.9	33.5	51.1	47.0	42.0	38.9	21.5	48.5		
Jul-20	47.2	47.8	49.8	51.8	49.6	45.9	54.8	45.2	58.7	48.9	46.4	53.9	47.7	41.4	40.2		46.2	41.6	43.6	50.5	48.5	54.4	51.7	45.3	45.7	40.7	47.7	48.3	36.2	43.3	38.4	41.7		
Aug-20	49.9	52.9	52.9	51.9	50.4	48.3	55.7	46.9	52.5	46.5	55.2	49.8	51.5	52.2	47.3		46.2	44.4	47.1	50.3	48.8	53.4	53.0	33.6	45.4	38.7	48.5	50.7	38.0	47.8	40.1	42.0		
Sep-20	51.7	51.3	51.2	55.5	52.7	51.5	61.2	49.3	47.7	51.3	54.0	51.4	53.4	46.5	47.3		53.9	42.0	50.2	51.0	43.8	50.9	55.3	40.8	52.0	45.8	50.9	54.4	44.8	53.8	36.4	52.9		

SOURCE: MARKIT, BNP PARIBAS



ECONOMIC SCENARIO

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

LAST UPDATE: 09/10/2020

SOURCE: BNP PARIBAS GLOBAL MARKETS (E: ESTIMATES)



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CALENDAR

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LATEST INDICATORS

The PMI data are discussed in detail in the Pulse in this EcoWeek. Japan saw an improvement of the services and composite PMI but their level remains low. The Eco Watchers Survey on the other hand saw a big jump and was well ahead of the consensus. In most countries, the PMIs came in better than expected. France is an exception with the numbers in line with expectations. In the US, the ISM services index increased versus the previous month and also beat the consensus with a considerable margin. German industrial production disappointed, versus the previous month as well as expectations. Its equivalent in France saw slower growth versus July as well as the consensus. Banque de France industrial sentiment weakened and came in below expectations. Eurozone retail sales in August were particularly strong. Finally, in the US, initial unemployment claims are hardly moving and remain at a high level. This is a concern for the pace of the recovery.

DATE	COUNTRY	INDICATOR	PERIOD	SURVEY	ACTUAL	PREVIOUS
10/05/2020	Japan	Jibun Bank Japan PMI Services	Sep	--	46.9	45.6
10/05/2020	Japan	Jibun Bank Japan PMI Composite	Sep	--	46.6	45.5
10/05/2020	France	Markit France Services PMI	Sep	47.5	47.5	47.5
10/05/2020	France	Markit France Composite PMI	Sep	48.5	48.5	48.5
10/05/2020	Germany	Markit Germany Services PMI	Sep	49.1	50.6	49.1
10/05/2020	Germany	Markit/BME Germany Composite PMI	Sep	53.7	54.7	53.7
10/05/2020	Eurozone	Markit Eurozone Services PMI	Sep	47.6	48.0	47.6
10/05/2020	Eurozone	Markit Eurozone Composite PMI	Sep	50.1	50.4	50.1
10/05/2020	United Kingdom	Markit/CIPS UK Services PMI	Sep	55.1	56.1	55.1
10/05/2020	United Kingdom	Markit/CIPS UK Composite PMI	Sep	55.7	56.5	55.7
10/05/2020	Eurozone	Retail Sales MoM	Aug	2.5%	4.4%	-1.8%
10/05/2020	United States	Markit US Services PMI	Sep	54.6	54.6	54.6
10/05/2020	United States	Markit US Composite PMI	Sep	--	54.3	54.4
10/05/2020	United States	ISM Services Index	Sep	56.2	57.8	56.9
10/07/2020	Germany	Industrial Production SA MoM	Aug	1.5%	-0.2%	1.4%
10/07/2020	United States	FOMC Meeting Minutes	Sep	--	--	--
10/08/2020	China	Caixin China PMI Composite	Sep	--	54.5	55.1
10/08/2020	China	Caixin China PMI Services	Sep	54.3	54.8	54.0
10/08/2020	Japan	Eco Watchers Survey Current SA	Sep	44.9	49.3	43.9
10/08/2020	Japan	Eco Watchers Survey Outlook SA	Sep	44.0	48.3	42.4
10/08/2020	United States	Initial Jobless Claims	Oct	820k	840k	849k
10/08/2020	France	Bank of France Ind. Sentiment	Sep	105	101	105
10/09/2020	France	Industrial Production MoM	Aug	1.7%	1.3%	3.8%

SOURCE: BLOOMBERG



CALENDAR: THE WEEK AHEAD

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COMING INDICATORS

A rather light week ahead of us with inflation data in Germany, the United States, China and France. Industrial production will be published in Japan, the euro area and the US. China will release statistics on exports and imports. Several surveys will be published: ZEW for Germany and the euro area, in the US we will have small business optimism, the Empire Manufacturing index, the Philadelphia Fed business outlook and the University of Michigan index. In the euro area new car registrations will be released for September and, for the same month, US retail sales.

DATE	COUNTRY	INDICATOR	PERIOD	CONSENSUS	PREVIOUS
10/12/20	Japan	Core Machine Orders MoM	Aug.	--	6.3%
10/13/20	United Kingdom	Employment Change 3M/3M	Aug.	--	-12000
10/13/20	Germany	CPI EU Harmonized MoM	Sep.	--	-0.4%
10/13/20	Germany	ZEW Survey Expectations	Oct.	--	77.4
10/13/20	Eurozone	ZEW Survey Expectations	Oct.	--	73.9
10/13/20	United States	NFIB Small Business Optimism	Sep.	--	100.2
10/13/20	United States	CPI Ex Food and Energy YoY	Sep.	1.8%	1.7%
10/13/20	China	Exports YoY	Sep.	8.0%	9.5%
10/13/20	China	Imports YoY	Sep.	-0.5%	-2.1%
10/14/20	Japan	Industrial Production MoM	Aug.	--	1.7%
10/14/20	Eurozone	Industrial Production SA MoM	Aug.	--	4.1%
10/14/20	United States	PPI Ex Food and Energy YoY	Sep.	--	0.6%
10/15/20	China	PPI YoY	Sep.	-1.9%	-2.0%
10/15/20	China	CPI YoY	Sep.	2.1%	2.4%
10/15/20	France	CPI EU Harmonized YoY	Sep.	--	0.0%
10/15/20	United States	Initial Jobless Claims	Oct-10	--	--
10/15/20	United States	Empire Manufacturing	Oct.	14.0	17.0
10/15/20	United States	Philadelphia Fed Business Outlook	Oct.	15.0	15.0
10/16/20	Eurozone	EU27 New Car Registrations	Sep.	--	-18.9%
10/16/20	United States	Retail Sales Control Group	Sep.	--	-0.1%
10/16/20	United States	Industrial Production MoM	Sep.	0.6%	0.4%
10/16/20	United States	University of Michigan Sentiment	Oct.	81.3	80.4

SOURCE: BLOOMBERG



FURTHER READING

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
Global: QE forever: on the slippery slope towards fiscal dominance?	EcoWeek	25 September
Global: Uncertainty: still high, though less than before	EcoWeek	25 September
Germany: Recovery held back by uncertainties	EcoWeek	25 September
United Kingdom: How hard will Brexit be?	EcoTV Week	25 September
A worrying trend in the public finances	Chart of the Week	23 September
US monetary policy goes inclusive	EcoWeek	18 September
China: Economic recovery is broadening	EcoWeek	18 September
France: An overview of the recovery plan	EcoTV Week	18 September
Towards a resumption of banking consolidation in southern europe?	Chart of the Week	16 September



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