# ECOWEEK

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ECONOMIC RESEARCH

BNP PARIBAS

## ECB: PATIENCE REQUIRED

**The outcome of the ECB meeting was eagerly awaited considering the latest inflation data, the strengthening of the euro and the Federal Reserve's new strategy of targeting average inflation. The implicit message from the ECB President's press conference was "be patient" on the three areas of concern. Inflation is projected to pick up whilst staying well below the target, the euro exchange rate is being closely monitored and the sheer number of strategy review workstreams implies it will take quite some time before we learn about the outcome in terms of the inflation objective.**

In the run-up to the ECB meeting, three topics were top-of-mind: the recent inflation numbers, the strengthening of the euro and the reaction to the Federal Reserve's new strategy of targeting average inflation. The implicit message from the ECB President's press conference was *"be patient"* on the three areas of concern. Given the recent decline of core inflation and the euro appreciation, the upward revision of staff projection for 2021 and 2022 was, at first glance, surprising.[1] According to the ECB, *"the downward impact of the appreciation of the euro effective exchange rate is more than offset by the combined upward impact of the reversal of the German VAT cut in 2021, indirect effects of stronger oil prices as well as higher activity and lower unemployment projections."* Referring to the influence of activity and unemployment is somewhat puzzling considering that their projected values have not changed for 2021 and 2022 compared to the June projection.[2] It shows the complexity of interpreting longer-term inflation forecasts given delayed effects of policy measures and an interplay of sometimes conflicting forces. More important than the upward revision is the fact that (core) inflation is expected to remain far too low compared to the ECB's objective. A lot of patience will be needed to get there. It also implies that the current monetary policy stance will have to be maintained for a long time.

Against the inflation background, the market was eager to hear the comments of Christine Lagarde on the euro. For any central banker, talking about the exchange rate is much like handling a hot potato. When the currency is weakening in a slow growth environment, enthusiasm should be tempered. Otherwise there is the risk of being blamed of pursuing a beggar-thy-neighbour policy or even starting a currency war. An appreciation in a slow growth/low inflation situation doesn't make communication easier. Expressing serious concern triggers expectations of imminent policy action, without guarantee of being successful. Showing a lack of interest can weigh on the credibility of an inflation-targeting central bank. The ECB President did the strict minimum: developments of the euro exchange rate are being carefully monitored. Here again, patience is required from those who count on more outspoken communication or even action. Eventually, it could lead to an increase in the asset purchases. In the meantime, the Governing Council's wait-and-see attitude is understandable. After all, the euro strengthening is to a large degree related to the warm welcome of the EU recovery plan. Moreover, since August, the exchange rate versus the dollar has essentially been moving sideways.

The strategy review seems to be the area where most patience will be required from analysts and investors. Understandably, Christine Lagarde gave no indication on the possible outcome nor on whether the Fed's strategy would be a source of inspiration. On the latter's point she only said that the changes had been 'noted'. Rather, she provided an exhaustive list of all the ECB workstreams[3]. The insistence that they all interact suggests that all aspects of the outcome of the review will be communicated at the very end of the process. For anybody counting on an accelerated announcement of a change in the objective or in the calculation of inflation, the message is not to hold your breath. It will take time, a lot of time.

**William De Vijlder**

ECB ECONOMIC PROJECTIONS

| | SEPTEMBER 2020 | | | DIFFERENCE VERSUS JUNE PROJECTIONS | | |
|---|---|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2020 | 2021 | 2022 |
| Real GDP growth | -8.0 | 5.0 | 3.2 | 0.7 | -0.2 | -0.1 |
| HICP excluding energy and food | 0.8 | 0.9 | 1.1 | 0.0 | 0.2 | 0.2 |
| Unemployment rate | 8.5 | 9.5 | 8.8 | -1.3 | -0.6 | -0.3 |
| Unit labour costs | 4.3 | -1.7 | 0.1 | -0.1 | -0.2 | 0.0 |

SOURCE: ECB

1. In the previous projections (June 2020) inflation excluding energy and food was expected at 0.7% in 2021 and 0.9% 2022. The new projections are respectively 0.9% and 1.1%. Source: ECB staff macroeconomic projections for the euro area, September 2020
2. Moreover, unit labour costs have been revised downwards for 2021 (2022 was left unchanged)
3. Inflation measurement, price stability objective, Euro system modelling, digitalisation and the impact on monetary policy, climate change, financial stability and macroprudential policies, non-bank financial intermediation, communication and the interaction between monetary policy and fiscal policies.

For anybody counting on an accelerated announcement of a change in the ECB's objective or in the calculation of inflation, the message is not to hold your breath. It will take time, a lot of time.

# MARKETS OVERVIEW



## OVERVIEW

*Week 4-9 20 to 10-9-20*

| | | | | | |
|---|---|---|---|---|---|
| ↗ CAC 40 | 4 965 | ▸ | 5 024 | +1.2 | % |
| ↘ S&P 500 | 3 427 | ▸ | 3 339 | -2.6 | % |
| ↘ Volatility (VIX) | 30.8 | ▸ | 29.7 | -1.0 | pb |
| ↘ Euribor 3M (%) | -0.48 | ▸ | -0.49 | -0.5 | bp |
| ↗ Libor $ 3M (%) | 0.25 | ▸ | 0.25 | +0.2 | bp |
| ↗ OAT 10y (%) | -0.23 | ▸ | -0.20 | +3.0 | bp |
| ↗ Bund 10y (%) | -0.48 | ▸ | -0.43 | +5.2 | bp |
| ↘ US Tr. 10y (%) | 0.72 | ▸ | 0.68 | -4.0 | bp |
| ↗ Euro vs dollar | 1.18 | ▸ | 1.19 | +0.6 | % |
| ↗ Gold (ounce, $) | 1 921 | ▸ | 1 958 | +1.9 | % |
| ↘ Oil (Brent, $) | 42.6 | ▸ | 40.1 | -5.9 | % |

## MONEY & BOND MARKETS

| Interest Rates | | | highest 20 | | | lowest 20 | | |
|---|---|---|---|---|---|---|---|---|
| € | ECB | 0.00 | 0.00 | at | 01/01 | 0.00 | at | 01/01 |
| | Eonia | -0.47 | -0.44 | at | 31/03 | -0.47 | at | 31/08 |
| | Euribor 3M | -0.49 | -0.16 | at | 23/04 | -0.49 | at | 09/09 |
| | Euribor 12M | -0.40 | -0.05 | at | 22/04 | -0.41 | at | 09/09 |
| $ | FED | 0.25 | 1.75 | at | 01/01 | 0.25 | at | 16/03 |
| | Libor 3M | 0.25 | 1.91 | at | 01/01 | 0.23 | at | 24/08 |
| | Libor 12M | 0.41 | 2.00 | at | 01/01 | 0.41 | at | 09/09 |
| £ | BoE | 0.10 | 0.75 | at | 01/01 | 0.10 | at | 19/03 |
| | Libor 3M | 0.06 | 0.80 | at | 08/01 | 0.06 | at | 09/09 |
| | Libor 12M | 0.18 | 0.98 | at | 01/01 | 0.18 | at | 09/09 |

*At 10-9-20*

| Yield (%) | | | highest 20 | | lowest 20 | |
|---|---|---|---|---|---|---|
| € | AVG 5-7y | -0.26 | 0.72 | at 18/03 | -0.29 | at 11/08 |
| | Bund 2y | -0.63 | -0.58 | at 14/01 | -1.00 | at 09/03 |
| | Bund 10y | -0.43 | -0.17 | at 19/03 | -0.84 | at 09/03 |
| | OAT 10y | -0.20 | 0.28 | at 18/03 | -0.42 | at 09/03 |
| | Corp. BBB | 0.98 | 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 | 0.68 | 1.91 | at 01/01 | 0.50 | at 09/03 |
| | High Yield | 5.74 | 1 1.29 | at 23/03 | 5.44 | at 21/02 |
| £ | gilt. 2y | -0.10 | 0.61 | at 08/01 | -0.11 | at 08/09 |
| | gilt. 10y | 0.19 | 0.83 | at 01/01 | 0.04 | at 04/08 |

*At 10-9-20*

## EXCHANGE RATES

| 1€ = | | highest 20 | | | lowest 20 | | | 2020 |
|---|---|---|---|---|---|---|---|---|
| USD | 1.19 | 1.20 | at | 01/09 | 1.07 | at | 20/03 | +5.8% |
| GBP | 0.92 | 0.94 | at | 23/03 | 0.83 | at | 18/02 | +8.9% |
| CHF | 1.08 | 1.09 | at | 05/06 | 1.05 | at | 14/05 | -0.9% |
| JPY | 126.04 | 126.82 | at | 31/08 | 114.51 | at | 06/05 | +3.3% |
| AUD | 1.63 | 1.87 | at | 23/03 | 1.60 | at | 01/01 | +2.0% |
| CNY | 8.12 | 8.26 | at | 30/07 | 7.55 | at | 19/02 | +3.8% |
| BRL | 6.29 | 6.69 | at | 20/08 | 4.51 | at | 02/01 | +39.3% |
| RUB | 89.08 | 90.18 | at | 08/09 | 67.75 | at | 10/01 | +27.8% |
| INR | 87.20 | 89.12 | at | 18/08 | 77.21 | at | 17/02 | +8.8% |

*At 10-9-20* — *Change*

## COMMODITIES

| Spot price, $ | | highest 20 | | | lowest 20 | | | 2020 | 2020(€) |
|---|---|---|---|---|---|---|---|---|---|
| Oil, Brent | 40.1 | 69.1 | at | 06/01 | 16.5 | at | 21/04 | -39.5% | -42.8% |
| Gold (ounce) | 1 958 | 2 053 | at | 06/08 | 1 475 | at | 19/03 | +28.8% | +21.8% |
| Metals, LMEX | 2 991 | 3 044 | at | 07/09 | 2 232 | at | 23/03 | +5.2% | -0.5% |
| Copper (ton) | 6 690 | 6 811 | at | 07/09 | 4 625 | at | 23/03 | +8.8% | +2.9% |
| CRB Foods | 328 | 341.5 | at | 21/01 | 272 | at | 27/04 | -3.0% | -8.3% |
| wheat (ton) | 206 | 2.4 | at | 21/01 | 178 | at | 26/06 | -10.0% | -14.8% |
| Corn (ton) | 138 | 1.5 | at | 23/01 | 113 | at | 28/04 | -0.8% | -12.9% |

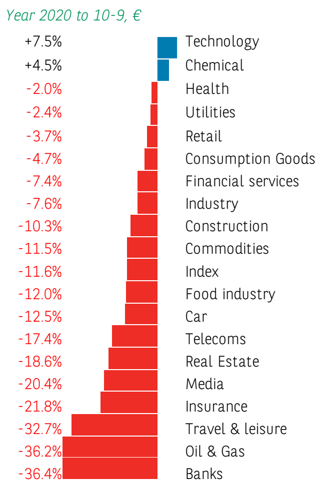
*At 10-9-20* — *Change*

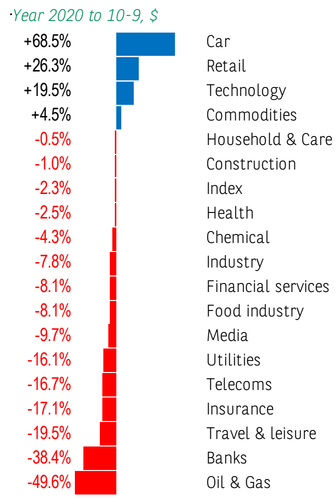
## EQUITY INDICES

| | Index | highest 20 | | | lowest 20 | | | 2020 |
|---|---|---|---|---|---|---|---|---|
| **World** | | | | | | | | |
| MSCI World | 2 368 | 2 494 | at | 02/09 | 1 602 | at | 23/03 | +0.4% |
| **North America** | | | | | | | | |
| S&P500 | 3 339 | 3 581 | at | 02/09 | 2 237 | at | 23/03 | +3.4% |
| **Europe** | | | | | | | | |
| EuroStoxx50 | 3 313 | 3 865 | at | 19/02 | 2 386 | at | 18/03 | -11.5% |
| CAC 40 | 5 024 | 6 111 | at | 19/02 | 3 755 | at | 18/03 | -1.6% |
| DAX 30 | 13 209 | 13 789 | at | 19/02 | 8 442 | at | 18/03 | -0.3% |
| IBEX 35 | 6 999 | 10 084 | at | 19/02 | 6 107 | at | 16/03 | -2.7% |
| FTSE100 | 6 003 | 7 675 | at | 17/01 | 4 994 | at | 23/03 | -2.0% |
| **Asia** | | | | | | | | |
| MSCI, loc. | 933 | 1 034 | at | 20/01 | 743 | at | 23/03 | -0.7% |
| Nikkei | 23 235 | 24 084 | at | 20/01 | 16 553 | at | 19/03 | -1.8% |
| **Emerging** | | | | | | | | |
| MSCI Emerging ($) | 1 085 | 1 147 | at | 17/01 | 758 | at | 23/03 | -0.3% |
| China | 96 | 102 | at | 02/09 | 69 | at | 19/03 | +11.7% |
| India | 567 | 609 | at | 17/01 | 353 | at | 23/03 | -1.4% |
| Brazil | 1 531 | 2 429 | at | 02/01 | 1 036 | at | 23/03 | -15.1% |
| Russia | 581 | 857 | at | 20/01 | 419 | at | 18/03 | -14.6% |

*At 10-9-20* — *Change*

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



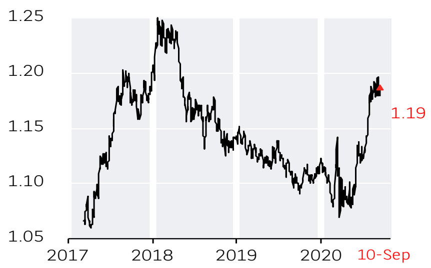




SOURCE: THOMSON REUTERS,

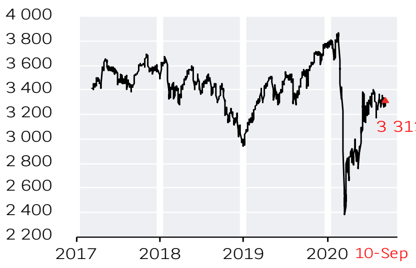
# MARKETS OVERVIEW



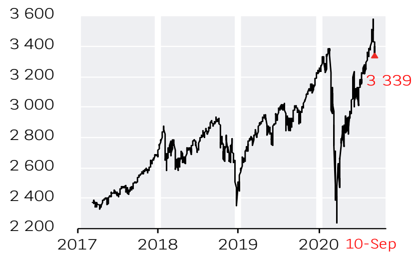
### EURO-DOLLAR



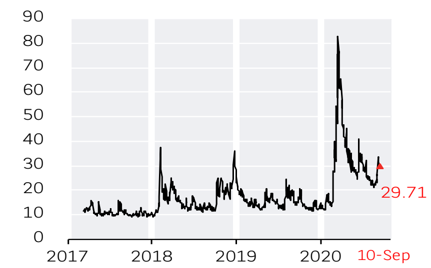

### EUROSTOXX50



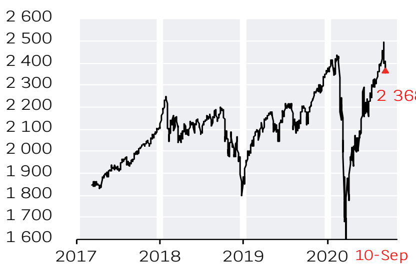

### S&P500



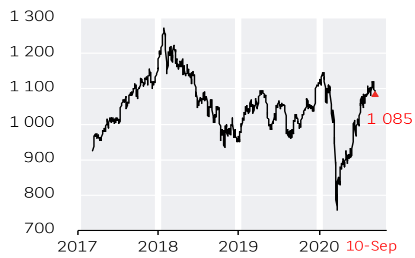

### VOLATILITY ( VIX, S&P500)



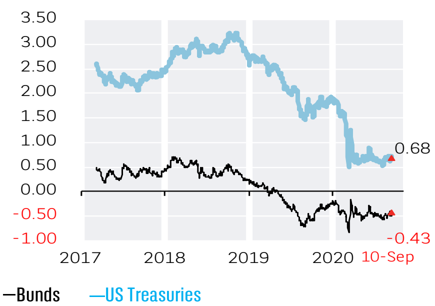

### MSCI WORLD (USD)



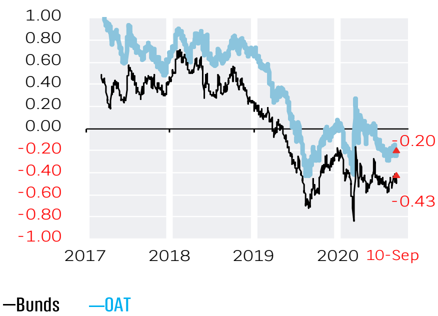

### MSCI EMERGING (USD)



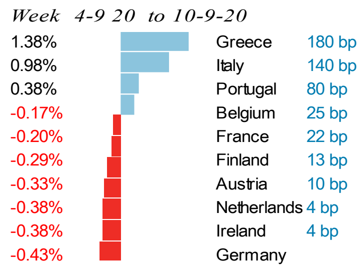

### 10Y BOND YIELD, TREASURIES VS BUND



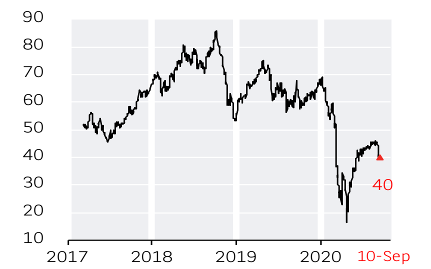

### 10Y BOND YIELD



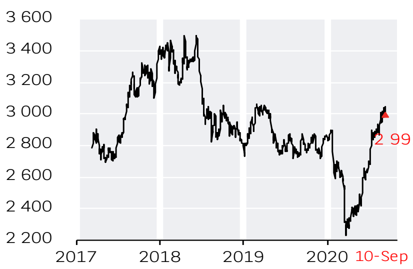

### 10Y BOND YIELD & SPREADS



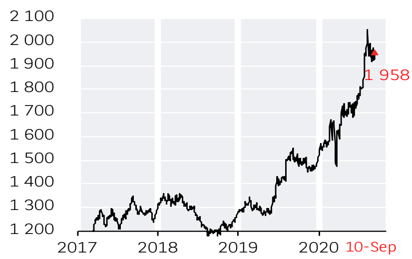

### OIL (BRENT, USD)




### METALS (LMEX, USD)




### GOLD (OUNCE, USD)




SOURCE: THOMSON REUTERS,

# ECONOMIC PULSE



## UNITED KINGDOM: WHILE THE ECONOMY IS RECOVERING, BREXIT CONCERNS ARE MOUNTING

According to data from the Office for National Statistics (ONS), GDP in the United Kingdom dropped by more than 20% in the second quarter, which was the worst performance in Europe. Over the first half of the year, only Spain did worse than the UK.

The government lifted restriction measures in the summer, so economic activity has logically been recovering since. According to ONS monthly data, GDP bounced back in May and then kept rising in June and July. Advanced economic indicators are also showing signs of improvement. The Purchasing Managers' Indices (PMIs) for the manufacturing and services sectors reached 55.2 and 58.8, respectively, in August – so they are now comfortably above 50, which marks the limit between deteriorating and improving conditions.

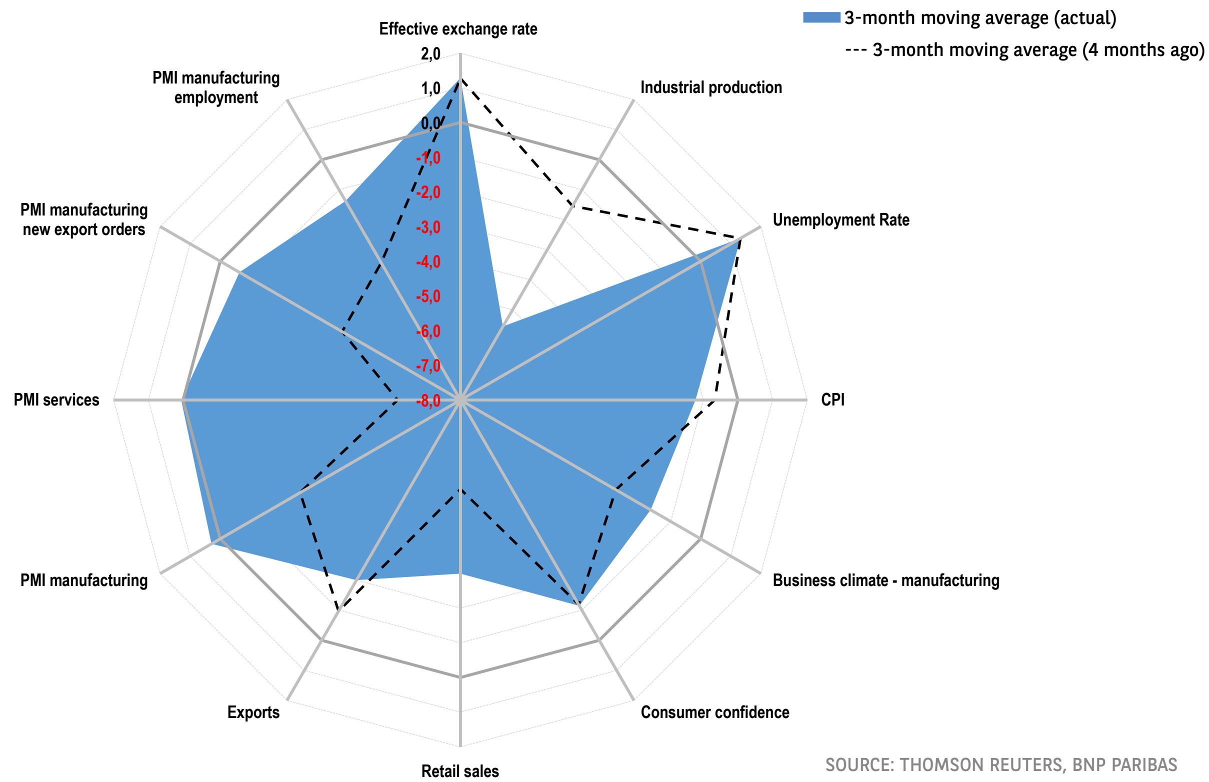
However, business and consumer confidence indices are struggling to return to pre-crisis levels. There are several reasons for that.

First, concerns remain about how the pandemic will evolve. The resurgence of Covid-19 cases over the past few days has raised fears about a second wave that would wipe out the current economic recovery. Moreover, the end of the government's furlough scheme (Coronavirus Job Retention Scheme, CJRS), planned for October, raises concern about a surge in unemployment at the end of the year, which would certainly be followed by another fall in consumption. In fact, according to a study from the Chartered Institute of Personnel and Development and the Adecco Group, published last month, one out of three employers is planning to make redundancies in the third quarter.

Meanwhile, Brexit concerns are mounting. Prime Minister Boris Johnson has announced that the UK would *"move on"* if no deal was found before 15 October. What's more, the government has introduced legislation that would override parts of the Withdrawal Agreement reached with the EU, which would effectively break international law. While all this could only aim at obtaining concessions from the EU, there is a real possibility of a no-deal exit. As a result, the British pound has depreciated by nearly 4% against both the US dollar and the euro since the start of this month – even if its effective exchange rate has remained above its average since the Covid-19 crisis started.

**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.*

## ITALY: DISINFLATIONARY PRESSURES IN SERVICES INCREASE

The economic recovery has been stronger in the industrial sector than in services, the former benefitting from a sharp rebound in consumer goods spending, particularly durables. Moreover, the impact of health measures on industrial activity is lower than for services.

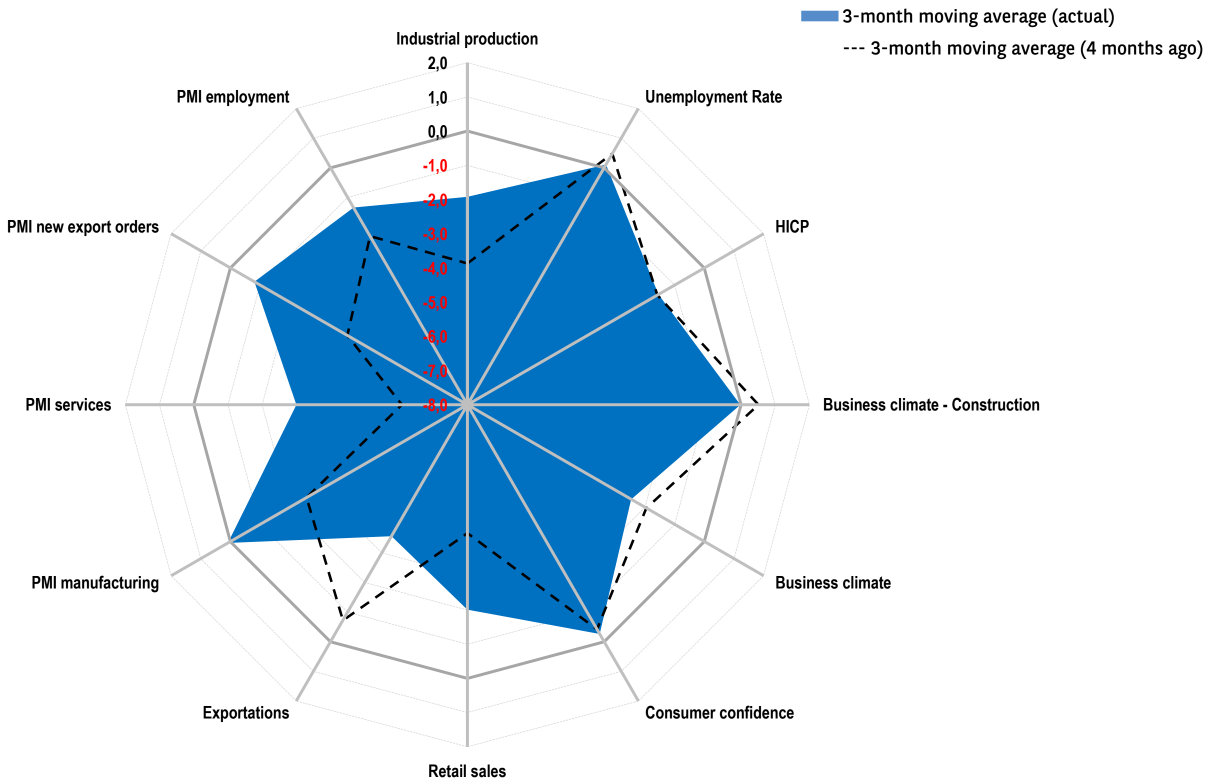
In contrast to other countries such as Spain and France, the Italian manufacturing sector PMI climbed again in August, rising 1.2 points to 53.1. The improvement of this indicator over the summer is clearly visible in our barometer. The sub-indicator for new orders reached an eighteen-month high at 56.3. Industrial production rose again in July (+7.4% month-on-month) and was 5.3% below the level in February.

By contrast, the services PMI fell to 47.1 in August, below the expansionary threshold (50). The drop in services activity this year is having a noticeable impact on prices. In August, services inflation (excluding tobacco) was at the lowest level since the current data began in January 1996. This downward pressure on prices was spread across a number of sectors (transport, communications, leisure, food). The overall CPI fell 1.3% month-on-month and -0.5% year-on-year.

Indeed, aggregate demand is held back by a sharp increase in households' savings rate and the deterioration in the labour market. Employment edged up in July (+84 990), but this offset only a small part of the jobs lost over the previous months (-556 460 between February and June). The unemployment rate climbed to 9.7% in July. As in many countries, the extension of the temporary layoff scheme has helped contain the number of corporate bankruptcies and redundancies. However, some are inevitable given the huge economic shock in the first half of the year. The second estimate of real GDP showed a 12.4% drop in economic activity in Q2, although this was a slight improvement from the initial figure (-12.8%).

**Guillaume Derrien**

QUARTERLY CHANGES




SOURCE: THOMSON REUTERS, BNP PARIBAS

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# ECONOMIC PULSE



## SPAIN: THE EPIDEMIC'S REBOUND WEIGHS ON CONFIDENCE

This week's Eurostat report confirmed that Spain has been Eurozone's worst impacted country by the coronavirus. Real GDP plunged 18.5% q/q in Q2. The resurgence of the epidemic and the implementation of new restrictions will hold back the economic recovery this semester, at least. Although the number of jobseekers fell in August (-34 371) there were still 765 000 more unemployed persons than in February (according to the Spanish employment agency, seasonally-adjusted data).

Furthermore, the purchasing managers indices (PMI) fell in August. The composite index dropped from 52.8 to 48.4, slipping back in contractionary territory. The manufacturing and the service PMIs both dropped below the 50 mark. These figures mirror the European Commission's confidence indices: the economic sentiment index also fell last month, from 90.6 to 88.1.

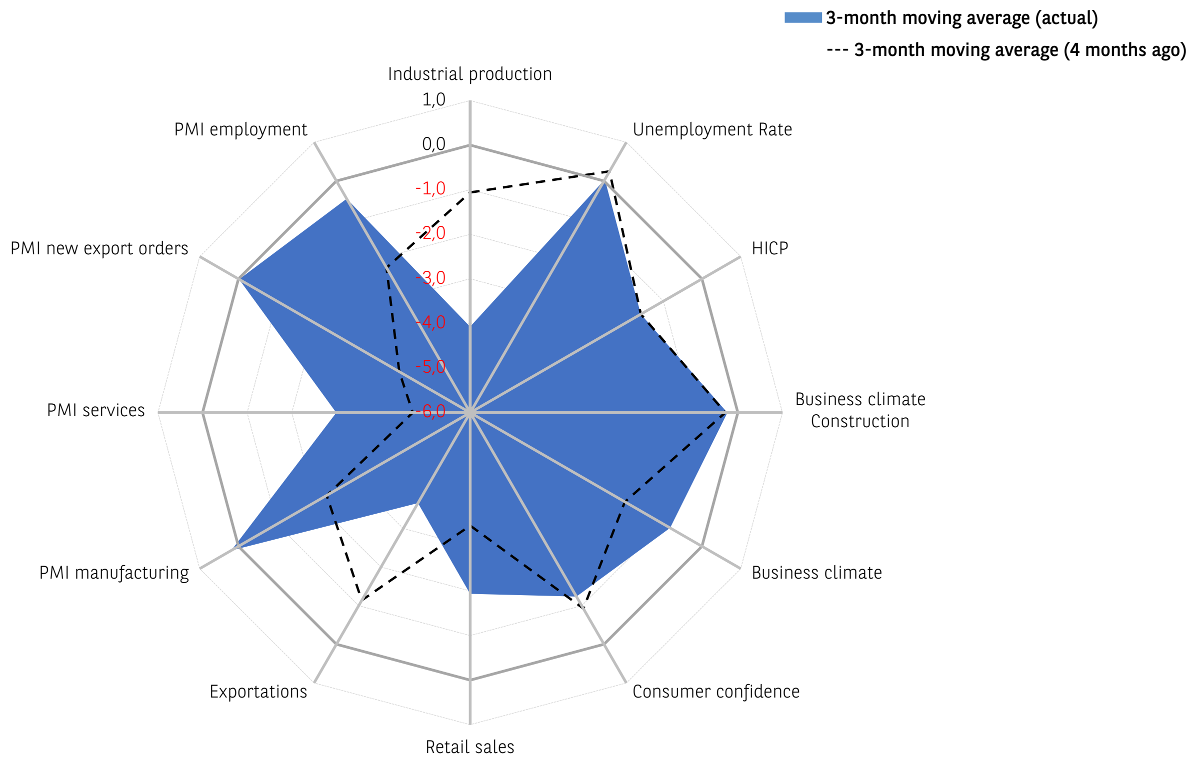
That said, retail sales have recovered strongly this summer, while car sales have risen above February's level. Government incentives to buy less-polluting cars (the Renove 2020 scheme) have helped stimulate demand for vehicles.

The recovery in other areas of industrial production – investment goods in particular – is comparatively slower. Exports have clawed back nearly two-thirds of the ground lost during the lockdown period. This improvement does not show up in the current barometer yet, but this will feed through over the next few months.

The fall in economic activity in the first half is increasingly weighing on consumer prices, with the overall CPI down 0.52% year-on-year in August. The underlying CPI (excluding energy and perishable food) rose by only 0.43% year-on-year in July, the lowest increase since April 2015. This was mainly due to prices in services, where activity levels have been hit much harder by the pandemic: the fall in the services CPI (excluding rents) over the past six months was the biggest since the current data series began in January 2002.

**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 | - | - | - |
| France | 1.5 | -9.8 | 6.8 | - | - | - |
| Italy | 0.3 | -10.0 | 5.3 | - | - | - |
| Spain | 2.0 | -13.0 | 5.0 | - | - | - |
| 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 | Spot | 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 | 0.68 | 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 | -0.43 | -0.30 | -0.20 | -0.10 | 0.00 | -0.30 | 0.00 |
| | OAT 10y | -0.05 | -0.15 | -0.20 | -0.05 | 0.05 | 0.15 | 0.25 | -0.05 | 0.25 |
| | BTP 10y | 1.55 | 1.30 | 0.98 | 0.90 | 1.20 | 1.40 | 1.50 | 0.90 | 1.50 |
| | BONO 10y | 0.68 | 0.50 | 0.28 | 0.30 | 0.50 | 0.60 | 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 | 0.19 | 0.30 | 0.30 | 0.40 | 0.70 | 0.30 | 0.70 |
| Japan | BoJ Rate | -0.07 | -0.10 | -0.07 | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 |
| | JGB 10y | 0.02 | 0.00 | 0.03 | 0.05 | 0.05 | 0.10 | 0.15 | 0.05 | 0.15 |

| Exchange Rates | | 2020 | | | | 2021 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| End of period | | Q1 | Q2 | Spot | Q4e | Q1e | Q2e | Q4e | 2020e | 2021e |
| USD | EUR / USD | 1.10 | 1.09 | 1.19 | 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 | 1.29 | 1.41 | 1.43 | 1.45 | 1.48 | 1.41 | 1.48 |
| EUR | EUR / GBP | 0.89 | 0.88 | 0.92 | 87.23 | 0.87 | 0.86 | 85.81 | 0.87 | 0.86 |
| | EUR / JPY | 118 | 113 | 126 | 125 | 125 | 124 | 121 | 125 | 121 |

| Brent | | 2020 | | | | 2021 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Period-average | | Q1 | Q2 | Spot | Q4e | Q1e | Q2e | Q4e | 2020e | 2021e |
| Brent | USD/bbl | 51 | 33 | 40.12 | 49 | 61 | 58 | - | 44 | 59 |

LAST UPDATE: 09/10/2020

SOURCE: BNP PARIBAS GLOBAL MARKETS (E: ESTIMATES)

# CALENDAR



## LATEST INDICATORS

**As expected, the ECB did not change its policy but it did adapt the message by mentioning that the euro exchange rate is being monitored. In China, exports are growing at a healthy pace. In Japan, the EcoWatchers survey improved, in particular in terms of outlook. The contraction of eurozone GDP in the second quarter was slightly smaller than initially estimated. In the US, small business sentiment improved slighty whereas the initial unemployment claims were stable. In Japan, Germany and France, industrial production growth in July was significantly slower than the previous month.Comme prévu, la BCE n'a pas modifié sa politique, mais elle a adapté son message en mentionnant que le taux de change de l'euro est sous surveillance.**

| DATE | COUNTRY/ZONE | INDICATOR | PERIOD | CONSENSUS | ACTUAL | PREVIOUS |
|---|---|---|---|---|---|---|
| 09/07/2020 | Germany | Industrial Production SA MoM | July | -- | 1.2% | 9.3% |
| 09/07/2020 | China | Exports YoY (CNY) | August | -- | 11.6% | 10.4% |
| 09/07/2020 | China | Imports YoY (CNY) | August | -- | -0.5% | 1.6% |
| 09/08/2020 | Japan | GDP SA QoQ | 2Q | -8.1% | -7.9% | -7.8% |
| 09/08/2020 | Japan | Eco Watchers Survey Current SA | August | -- | 43.9 | 41.1 |
| 09/08/2020 | Japan | Eco Watchers Survey Outlook SA | August | -- | 42.4 | 36.0 |
| 09/08/2020 | France | Private Sector Payrolls QoQ | 2Q | -- | -0.8% | -0.6% |
| 09/08/2020 | Germany | Exports SA MoM | July | -- | 4.7% | 14.9% |
| 09/08/2020 | Eurozone | Employment QoQ | 2Q | -- | -2.9% | -2.8% |
| 09/08/2020 | Eurozone | GDP SA QoQ | 2Q | -- | -11.8% | -12.1% |
| 09/08/2020 | United States | NFIB Small Business Optimism | August | 98.9 | 100.2 | 98.8 |
| 09/09/2020 | China | PPI YoY | August | -2.0% | -2.0% | -2.4% |
| 09/09/2020 | China | CPI YoY | August | 2.3% | 2.4% | 2.7% |
| 09/09/2020 | Japan | Machine Tool Orders YoY | August | -- | -23.3% | -31.1% |
| 09/09/2020 | France | Bank of France Ind. Sentiment | August | -- | -- | 99 |
| 09/10/2020 | Japan | Core Machine Orders YoY | July | -- | -16.2% | -22.5% |
| 09/10/2020 | France | Industrial Production MoM | July | -- | 3.8% | 13% |
| 09/10/2020 | Eurozone | ECB Deposit Facility Rate | Sept-10 | -- | -0.500% | -0.500% |
| 09/10/2020 | United States | PPI Ex Food and Energy YoY | August | -- | 0.6% | 0.3% |
| 09/10/2020 | United States | Initial Jobless Claims | Sept-05 | -- | 884000 | 881000 |
| 09/11/2020 | United Kingdom | Manufacturing Production YoY | July | -10.5% | -9.4% | -14.6% |
| 09/11/2020 | United States | CPI Ex Food and Energy YoY | August | 1.6% | 1.7% | 1.6% |

SOURCE: BLOOMBERG

# CALENDAR: THE WEEK AHEAD



## COMING INDICATORS

**It's central bank week next week with meetings of the Federal Reserve, the Bank of England and the Bank of Japan. The press conference of Jerome Powell will be particularly interesting for possible details about the new inflation targeting strategy. The week sees the publication of several data for China for the month of August. The Bank of France will release its business sentiment index. In terms of survey data for the month of September we have the ZEW index for Germany and the euro area and, in the US, the Empire manufacturing index, the Philadelphia Fed index, the NAHB housing market index and the University of Michigan sentiment index.**

| DATE | COUNTRY/ZONE | INDICATOR | PERIOD | SURVEY | PREVIOUS |
|---|---|---|---|---|---|
| 09/14/2020 | Japan | Industrial production m/m | July | -- | 8.0% |
| 09/14/2020 | France | Bank of France Ind. Sentiment | August | 99 | 99 |
| 09/14/2020 | Eurozone | Production industrielle CVS m/m | July | -- | 9.1% |
| 09/15/2020 | China | Industrial production y/y | August | 0.3% | -0.4% |
| 09/15/2020 | China | Retail sales y/y | August | -8.8% | -9.9% |
| 09/15/2020 | China | Fixed Assets Ex Rural (excluding rural households) | August | -0.4% | -1.6% |
| 09/15/2020 | China | Property investment g.a. | August | 4.1% | 3.4% |
| 09/15/2020 | China | Unemployment rate | August | 5.6% | 5.7% |
| 09/15/2020 | United Kingdom | Jobless Claims | August | -- | 7.5% |
| 09/15/2020 | France | CPI EU Harmonized MoM | August | -- | -0.1% |
| 09/15/2020 | Allemagne | ZEW survey expectations | Sept. | -- | 71.5 |
| 09/15/2020 | Eurozone | ZEW survey expectations | Sept. | -- | 64.0 |
| 09/15/2020 | United States | Empire Manufacturing | Sept. | 9.0 | 3.7 |
| 09/15/2020 | United States | Industrial production m/m | August | 0.9% | 3.0% |
| 09/16/2020 | United States | Retail sales Control Group | August | -- | 1.4% |
| 09/16/2020 | United States | NAHB Housing Market Index | Sept. | -- | 78 |
| 09/16/2020 | United States | FOMC Rate Decision (Upper Bound) | Sept. | 0.25% | 0.25% |
| 09/16/2020 | United States | FOMC Rate Decision (Lower Bound) | Sept. | 0.00% | 0.00% |
| 09/17/2020 | Eurozone | EU27 New Car Registrations | Sept. | -- | -22.3% |
| 09/17/2020 | Eurozone | CPI y/y | August | -- | 0.4% |
| 09/17/2020 | United Kingdom | Bank of England Bank Rate | Sept. | -- | 0.100% |
| 09/17/2020 | United States | Building permits m/m | August | 3.5% | 18.8% |
| 09/17/2020 | United States | Housing starts m/m | August | -2.2% | 22.6% |
| 09/17/2020 | United States | Philadelphia Fed Business Outlook | Sept. | 17.0 | 17.2 |
| 09/17/2020 | United States | Initial Jobless Claims | Sept. | -- | -- |
| 09/17/2020 | Japan | BOJ Policy Balance Rate | September | -- | -0.100% |
| 09/17-23/2020 | Japan | Tokyo Dept Store Sales | August | -- | -27.9% |
| 09/18/2020 | United Kingdom | Retail Sales Ex Auto Fuel MoM | August | -- | 2.0% |
| 09/18/2020 | United States | U.of Michigan sentiment | Sept. | 75.0 | 74.1 |
| 09/18/2020 | United States | U.of Michigan current situation | Sept. | -- | 82.9 |
| 09/18/2020 | United States | U.of Michigan expectations | Sept. | -- | 68.5 |

SOURCE : BLOOMBERG

# FURTHER READING



| | | |
|---|---|---|
| EcoTV - September 2020 | EcoTV | 10 September |
| Nordics not particularly optimistic despite smaller recession | Chart of the Week | 9 September |
| Covid-19, lockdown and the environment | Podcast | 8 September |
| Towards a lasting change in the way we produce and consume? | Podcast | 8 September |
| Killing two birds with one stone: fiscal policy to boost growth and meet climate goals | Podcast | 8 September |
| The global repercussions of the Federal Reserve's inflation averaging strategy | EcoWeek | 4 September |
| France: The take-off of the recovery | EcoWeek | 4 September |
| United States: The gap has not yet closed | EcoWeek | 4 September |
| The headaches of the ECB | EcoTV Week | 4 September |
| China: investment recovery continues | Chart of the Week | 2 September |
| US : The Federal Reserve enters a new era of inflation targeting | EcoWeek | 31 August |
| Eurozone : The recovery continues but momentum is slowing | EcoWeek | 31 August |
| Brazil: Investment in times of fiscal adjustment | EcoConjoncture | 31 August |
| France: matching surges in non-financial corporations' fundind and deposits | Chart of the Week | 26 August |
| Germany : Government stimulus package instills confidence | EcoWeek | 31 July |
| Global : Looking beyond the second quarter GDP numbers | EcoWeek | 31 July |
| The euro area economy: doing better | EcoTV Week | 31 July |
| Recovery fund: will the EU kill one bird with two stones? | Chart of the Week | 28 July |
| Eurozone: Confirmation of an economic upturn | EcoFlash | 27 July |
| European Union: The European Council agreement: not perfect, but truly historical | EcoWeek | 24 July |

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