

# ECONOMIC SCENARIO

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## UNITED STATES

The US economy showed surprising vigour in 2023, illustrated by +2,5% yearly annual growth driven by the resilience of household consumption and the good figures of business investment. Thus, we have gradually ruled out the event of a recession induced by the cumulative monetary tightening. Despite a slowdown (+0.3% q/q v. +0.8% in Q4 2023), the GDP has expanded again in Q1 2024, driven by contributions from household consumption and investment. Our baseline scenario implies a +2.5% rate of growth for 2024, enabled by the very positive carryover effect from 2023 and an expected increase in real incomes. While the inflation peak was reached in mid-2022, Q1 2024 data have not allowed to gain more confidence regarding a rapid return of the CPI to its target. We forecast inflation to stand at +3.5% y/y in Q4 2024. This picture paves the way for a modest easing of its monetary policy by the Fed, which could start cutting rates progressively as the end of the year, with one rate cut in 2024.

## CHINA

Economic growth was stronger than expected in Q1 2024 (+5.3% year-on-year), principally driven by the manufacturing export sector. On the contrary, domestic demand and activity in the services sector continued to lack momentum, still held back by the crisis in the property sector, regulatory uncertainties, and low confidence of consumers and private investors. To support activity, the authorities have been strengthening their industrial policy while maintaining a prudent demand policy. This economic policy mix risks amplifying the divergence in performance between sectors and the imbalance between domestic demand and supply, which have been apparent for several months. The real GDP growth target of "around 5%" set for this year is projected to be reached. Consumer price inflation is expected to remain very low; it averaged zero y/y in Q1 2024.

## EUROZONE

Eurozone GDP picked up by 0.3% q/q in Q1 according to preliminary Eurostat data. The negative effects of monetary tightening on economic activity are expected to diminish in 2024. Growth would stabilise at 0.3% q/q in Q2 before strengthening at 0.4 q/q in the last two quarters of the year. This improvement would also be underpinned by a first rate cut by the ECB, which we expect to happen in June. This would be followed by two more cuts in the second half of the year, at a rate of one cut per quarter. This monetary easing would accompany the inflation decline, which is expected to come close to the 2% target during the third quarter. That said we expect continued stickiness in the more wage-sensitive parts of the inflation basket, like services. The disinflation process, along with the dynamism of wages, should support household purchasing power and consumption. Growth should also be boosted by NGEU disbursements and its deployment on the ground.

## FRANCE

French economy benefitted from a 0.2% q/q growth in Q1 (after 0.3% q/q in Q4 2023), mainly supported by households' consumption of services and exports. As disinflation is now visible (the harmonized index grew by 2.7% y/y in May 2024, compared to 5.7% y/y in September 2023), our scenario for 2024 envisages a gradual improvement and heralds an even better 2025 (with a growth forecast of 1.4%, after 1.1% in 2024).

## RATES AND EXCHANGE RATES

2024 should be the year of the start of the easing cycle by the Federal Reserve, the ECB and the Bank of England. However, the timing of the first cut remains uncertain, as does the number of expected cuts. The ECB seems closer than the Fed and the BoE to getting the data and necessary confidence to estimate that inflation is moving towards the 2% target on a sustainable basis. We expect the first ECB rate cut to occur in June and the first BoE cut in August, whereas the Fed would start cutting at the very end of the year, in December. The Fed would thereby undertake a single rate cut in 2024, while their first move would be followed by two more for the ECB and the BoE (presumably 25 basis points cut each). On both sides of the Atlantic, policy rates in real terms and the degree of monetary restriction would remain about unchanged. The induced decline in long-term rates should be limited by the importance of bond issuance against a background of quantitative tightening.

The Bank of Japan (BoJ) was the first central bank among G7 economies to act in 2024. The BoJ jointly announced the end of its negative interest rate policy and yield curve control policy at the March meeting. As a result, the policy rate target was raised from a corridor of -0.1-0.0% to 0.0-0.1%, although the volume of JGBs purchases remains broadly unchanged. We expect monetary policy to normalise very gradually in the country, with only one additional hike envisaged by the end of 2024 (probably in September).

We are fundamentally bearish regarding the US dollar, but it is so far supported by geopolitical tensions and diverging trends between the US and the Eurozone (with stronger growth and inflation and less monetary easing across the Atlantic). This leads us to push back and moderate the expected USD depreciation, especially versus the euro. The yen should also eventually strengthen versus the USD, partly as a result of the desynchronization of monetary policy, as the BoJ is tightening its monetary stance.

### GDP GROWTH AND INFLATION

%	GDP Growth				Inflation			
	2022	2023	2024 e	2025 e	2022	2023	2024 e	2025 e
United States	1,9	2,5	2,5	1,8	8,0	4,1	3,4	2,9
Japan	0,9	1,9	0,3	1,0	2,5	3,2	2,7	2,4
United Kingdom	4,4	0,1	0,6	1,2	9,1	7,4	2,6	2,2
Euro Area	3,5	0,5	0,9	1,6	8,4	5,4	2,3	2,0
Germany	1,9	0,0	0,3	1,4	8,7	6,1	2,6	2,5
France	2,5	0,9	1,1	1,4	5,9	5,7	2,5	1,8
Italy	4,2	1,0	1,1	1,4	8,7	6,0	1,0	1,8
Spain	5,8	2,5	2,6	2,1	8,3	3,4	3,2	2,2
China	3,0	5,2	5,2	4,3	2,0	0,2	-0,1	1,2
India*	7,1	7,6	6,5	6,4	6,7	5,4	4,7	4,3
Brazil	2,9	2,9	2,2	2,0	9,3	4,6	4,1	4,1

Source : BNP Paribas (e: Estimates & forecasts)

Last update: 10 June 2024

\* Fiscal year from 1st April of year n to March 31st of year n+1

### INTEREST AND EXCHANGE RATES

Interest rates, %		Q2 2024	Q3 2024	Q4 2024	Q2 2025	Q4 2025
End of period						
US	Fed Funds (upper limit)	5.50	5.50	5.25	4.75	4.25
	T-Note 10y	4.25	4.20	4.20	4.20	4.20
Eurozone	deposit rate	3.75	3.50	3.25	2.75	2.50
	Bund 10y	2.35	1.95	2.00	2.25	2.50
	OAT 10y	2.87	2.50	2.52	2.80	3.05
	BTP 10y	3.70	3.35	3.45	3.80	4.00
	BONO 10y	3.19	2.82	2.85	3.15	3.38
UK	Base rate	5.25	4.75	4.50	4.00	3.50
	Gilts 10y	4.00	3.80	3.70	3.55	3.65
Japan	BoJ Rate	0.10	0.25	0.25	0.50	0.75
	JGB 10y	-	1.05	1.25	1.45	1.60
Exchange Rates		Q2 2024	Q3 2024	Q4 2024	Q2 2025	Q4 2025
End of period						
USD	EUR / USD	1.05	1.05	1.06	1.08	1.10
	USD / JPY	155	154	153	150	148
	GBP / USD	1.25	1.27	1.28	1.30	1.33
EUR	EUR / GBP	0.84	0.83	0.83	0.83	0.83
	EUR / JPY	163	162	162	162	163
Brent		Q2 2024	Q3 2024	Q4 2024	Q2 2025	Q4 2025
Quarter Average						
Brent	USD/bbl	90	92	87	81	82

Sources: BNP Paribas (Market Economics, Interest Rate Strategy, FX Strategy, Commodities Desk Strategy)

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