

ECONOMIC SCENARIO

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UNITED STATES

US activity decelerated only slightly in the first half of 2023 (+0.5% q/q on average per quarter after +0.6% q/q during the second half of 2022), thanks to the resilience of household consumption and the strength of nonresidential investment. The impact of the tighter monetary policy on lending standards is strong but it still limited on activity and employment growth. Q3 GDP growth was even stronger (+1.3% q/q according to the second estimate). A sharp slowdown remains expected, however, in Q4, because of the diminution of excess savings and the ensuing loss of momentum of the household consumption engine. The US economy would manage to escape a recession, even a technical one, but it would not avoid a temporary contraction of its GDP in Q2 2024. The peak in inflation was reached in mid-2022, and core disinflation is becoming more significant. Inflation should approach the 2% target in 2024. Progress on that front should be considered as sufficient by the Fed to start cutting rates progressively, from May 2024. Such an easing would prevent a rise in rates in real terms but monetary policy would remain in restrictive territory. This should limit the recovery in 2024.

CHINA

Economic growth rebounded in early 2023 following the end of the zero Covid policy, but the recovery has weakened very rapidly. Export momentum has stalled due to depressed global demand and tensions with the US. Domestic demand has remained held back by a significant loss in consumer and investor confidence. The crisis in the property sector has persisted, with the continued fall in sales, new defaults of developers and growing difficulties of certain financial institutions. Since last summer, the government and the central bank have implemented new policy stimulus measures. Economic activity has strengthened while consumer price inflation has remained very low. In the short term, real GDP growth is projected to stabilize. Policy makers remain constrained by the debt excess of the economy and the weak financial situation of local governments.

EUROZONE

According to the first estimate, real GDP in the Eurozone registered a small contraction in Q3 (-0.1% q/q) after two quarters of stagnation. The disparate performance between Member States weakens the overall result. France and Spain have been doing well, but Germany, Italy and the Netherlands are struggling. The rising negative effects of monetary tightening as well as the fading of the positive post-Covid-19 catching up effects and diminishing supply-side constraints contribute to the deterioration of business confidence and are expected to weigh on economic activity. We foresee real GDP growth to stall in Q4, before a sluggish recovery expected in 2024. The fall in inflation is continuing. Nonetheless the inflation rate is expected to remain above 2% y/y by the end of next year, forcing monetary policy to remain in restrictive territory – disinflation provides, along with wage and employment dynamics, a significant support to household purchasing power and consumption. Growth should also be supported by NGEU disbursements and its deployment on the ground.

FRANCE

French growth was negative in Q3 2023 (-0.1% q/q) after a short-lived acceleration in Q2 2023 (+0.6% t/t, driven by exceptional factors, such as aeronautics). While household consumption has surprised on the upside in Q3, it has remained depressed. In parallel, corporate investment, has reached a new high (+0.5% q/q). Disinflation is now visible (the harmonized index grew by 3.8% y/y in November), but the impact of higher interest rates should continue to be felt. As a result, we expect 0% growth q/q during the Q4. Going forward, we expect no clear growth acceleration next year (0.6% in 2024 after 0.8% in 2023).

RATES AND EXCHANGE RATES

In the US, the 25bp rate hike in July should be the last for the Fed. Regarding the ECB, the 25bp hike in September of its policy rates (deposit rate at 4.00%, refinancing rate at 4.50%) should mark the end of the tightening cycle too. The uncertainty about the possibility of a further monetary tightening has not completely disappeared, but it has been reduced by the fall in inflation, which is getting closer more visibly to the 2% target. Positive developments on the inflation front, together with the expected weakening of growth, pave the way for the first rates

cuts in April for the ECB and May for the Fed. On both sides of the Atlantic, the induced decline in long-term rates should be limited by the importance of bond issuance against a background of quantitative tightening. In this regard, we expect a halt in the spring of 2024 to the ECB's reinvestments under the PEPP.

On 31 October, the Bank of Japan (BoJ) adjusted its yield curve control policy (YCC) by allowing a wider fluctuation in 10-year sovereign interest rates around the target of 1%. Further adjustments to monetary policy are likely, given that the country currently faces the fastest rate of inflation since the early 1990s. The BoJ is unlikely to increase its policy rates this year, but we expect a first rate hike in March 2024. We expect the BoJ to end its negative interest rate policy in the first quarter of 2024, while significantly easing its yield curve control policy.

We remain bearish regarding the US dollar, particularly from Q2 2024 and especially versus the euro, given that we expect fewer cuts by the ECB than the Fed. We also expect the yen to strengthen versus the USD, based on the combination of the start of BoJ tightening, of the repatriation by Japanese investors of their foreign holdings, and of the fall in US bond yields.

GDP GROWTH AND INFLATION

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

Source : BNP Paribas (e: Estimates & forecasts)

Last update: 20 December 2023

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

INTEREST AND EXCHANGE RATES

Interest rates, %		Q1 2024	Q2 2024	Q3 2024	Q4 2024	T4 2025
End of period						
US	Fed Funds (upper limit)	5.50	5.00	4.50	4.00	2.75
	T-Note 10y	4.15	4.00	3.95	3.95	4.00
	deposit rate	4.00	3.75	3.50	3.25	2.50
	Bund 10y	2.45	2.35	2.20	2.20	2.50
	OAT 10y	3.02	2.91	2.75	2.75	3.05
UK	BTP 10y	4.25	4.00	3.95	3.90	4.20
	BONO 10y	3.45	3.25	3.10	3.05	3.30
	Base rate	5.25	5.00	4.75	4.25	3.00
Japan	Gilts 10y	3.90	3.75	3.65	3.55	3.65
	BoJ Rate	0.10	0.10	0.25	0.25	0.75
	JGB 10y	0.95	1.20	1.35	1.35	1.35
Exchange Rates		Q1 2024	Q2 2024	Q3 2024	Q4 2024	T4 2025
End of period						
USD	EUR / USD	1.10	1.12	1.14	1.15	1.18
	USD / JPY	145	141	138	135	130
	GBP / USD	1.26	1.29	1.31	1.32	1.36
EUR	EUR / GBP	0.87	0.87	0.87	0.87	0.87
	EUR / IPY	160	158	157	155	153
Brent		Q1 2024	Q2 2024	Q3 2024	Q4 2024	T4 2025
Quarter Average						
Brent	USD/bbl	85	86	91	91	85

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

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