

# ECONOMIC SCENARIO

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## UNITED STATES

In the US, the prospect of a recession triggered by the monetary tightening still appears as ruled out, given the resilience on the economy illustrated by a +2.9% yearly annual GDP growth in 2023. In the wake of a slowdown in Q1 2024 (+0.3% q/q, following +0.8% in Q4 2023), GDP growth accelerated again at +0.7% q/q in Q2 and Q3, mainly driven by household consumption. Our baseline scenario implies a +2.7% yearly annual growth rate in 2024, enabled by the 2023 carryover effect, as well as an increase in real income. The inflation peak was reached in mid-2022 and, while Q1 2024 data had raised concerns, Q2 and early-Q3 data indicate that the disinflation path has markedly resumed. This picture, together with the softening of the labour market, paved the way for the Fed to undertake monetary easing. This has started in September, with a jumbo 50bps cut, followed by a 25bps cut in November. A further -25bps is expected in December, thereby bringing the target rate to +4.25% - 4.5% by year-end.

## CHINA

Economic growth accelerated in Q3 2024 (+0.9% y/y vs. +0.5% in Q2) and stood at 4.8% y/y in the three quarters of 2024. To reach the official growth target of "about 5%" set for 2024, activity will have to rebound strongly in Q4. This requires the fast implementation of all the fiscal and property policy measures announced over the past few weeks. Economic growth gained some momentum in October, notably supported by the strengthening in household consumption and the strong performance of exports. However, the 2025 outlook remains uncertain. On the one hand, the manufacturing sector will face a rising number of protectionist measures. On the other hand, domestic demand remains held back by significant brakes, including the crisis in the property sector, slower growth in household income, and low confidence of the private sector. Consumer price inflation remains very low (+0.3% y/y in October 2024) and production prices have been falling for two years.

## EUROZONE

Growth in the euro area surprised on the upside in the third quarter of 2024, expanding 0.4% q/q. The difficulties in the industrial sector, highlighted by the current low PMI figures, and the uncertainty about the Chinese economy, increase the downside risks to our forecasts. While Spain is expected to record more solid gains in activity in the coming quarters, the gaps would narrow between Germany, France, and Italy. Overall Eurozone growth would be supported by the fall in inflation and the continuation of the ECB's cycle of interest rate cuts. Growth in the Eurozone is also expected to be supported by a still resilient labour market and the disbursement of NGEU funds and their deployment on the ground.

## FRANCE

GDP growth strengthened to 0.4% q/q growth in Q3 (after 0.2% q/q in Q2 2024), mainly supported by the positive impact of the Olympics and despite lower business and household investment (-1.4% and -0.9% q/q respectively). Disinflation is now visible (the harmonized index grew by 1.5% y/y in October 2024, compared to 4.5% y/y a year ago) but household consumption growth remains disappointing (excluding the positive impact of the Olympics). As a result, we expect no growth acceleration in 2025 compared with 2024 (with a growth forecast of 1.2% for both years, after 1.1% in 2023).

## INTEREST RATES AND EXCHANGE RATES

The US Federal Reserve started its monetary easing cycle in September, with a first 50bps cut in the Fed funds rate, followed by a 25bps cut in November. The cutting cycle would continue at this pace at each Fed meeting until March 2025, before a more gradual 25bps per quarter decline, bringing the Fed Funds target range to 3.00-3.25% by the end of 2025. Regarding the ECB, we also expect successive 25bps cuts in key rates at each meeting, until the deposit rate reaches 2% in June 2025, and then stabilises at that level, which is the middle of our range of neutral rate estimates. In December 2024, the Bank of England, for its part, would opt for the *status quo*, before restarting the downward cycle in early 2025. However, on both sides of the Atlantic, policy rates in real terms – which is a better indication of the degree of monetary tightening – would remain positive, at least until the second half of next year. The resulting decline in Government bond yields should be limited by the size of bond issuance against a backdrop 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%, before a new +15bps upward movement in July. At the same time, it was announced that the volume of JGBs purchases was to be halved.

We expect monetary policy to normalise gradually in the country, with only one additional hike envisaged by the end of 2024 (-25 BPS), before two more cuts in 2025.

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. 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	2,5	2,9	2,7	2,1	8,0	4,1	2,9	2,3
Japan	1,1	1,7	-0,3	0,7	2,5	3,3	2,7	2,4
United Kingdom	4,8	0,3	0,9	1,5	9,1	7,3	2,6	2,9
Euro Area	3,4	0,5	0,8	1,5	8,4	5,4	2,3	1,9
Germany	1,4	-0,1	-0,1	0,9	8,7	6,0	2,4	2,1
France	2,6	1,1	1,2	1,2	5,9	5,7	2,3	1,2
Italy	4,2	1,0	0,5	1,1	8,7	5,9	1,1	1,8
Spain	6,2	2,7	3,0	2,5	8,3	3,4	2,8	1,6
China	3,0	5,2	4,9	4,5	2,0	0,2	0,4	1,3
India*	7,0	8,2	6,9	6,7	6,7	5,4	4,7	4,3
Brazil	2,9	2,9	3,1	2,0	9,3	4,6	4,4	4,2

Source : BNP Paribas (e: Estimates & forecasts)

Last update: 22 November 2024

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

### INTEREST AND EXCHANGE RATES

#### Interest rates, %

End of period		Q4 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025
US	Fed Funds (upper limit)	4.50	4.00	3.75	3.50	3.25
	T-Note 10y	3.80	3.70	3.70	3.65	3.65
Eurozone	deposit rate	3.00	2.50	2.00	2.00	2.00
	Bund 10y	2.15	2.10	2.10	2.15	2.25
	OAT 10y	2.88	2.80	2.85	2.85	2.95
	BTP 10y	3.60	3.40	3.45	3.55	3.65
UK	BONO 10y	2.93	2.85	2.85	2.88	2.98
	Base rate	4.75	4.50	4.25	4.00	3.75
Japan	Gilts 10y	3.80	3.80	3.60	3.50	3.65
	BoJ Rate	0.50	0.50	0.75	0.75	1.00
	JGB 10y	1.25	1.40	1.55	1.70	1.80

#### Exchange Rates

End of period		Q4 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025
USD	EUR / USD	1.12	1.13	1.14	1.14	1.15
	USD / JPY	139	138	136	134	131
	GBP / USD	1.35	1.36	1.37	1.37	1.39
EUR	EUR / GBP	0.83	0.83	0.83	0.83	0.83
	EUR / JPY	156	156	155	153	151

#### Brent

Quarter Average		Q4 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025
Brent	USD/bbl	78	78	72	77	74

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

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