

# ECONOMIC SCENARIO

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## UNITED STATES

The U.S. economy continued to grow in Q4, although it slowed slightly compared to Q3. However, the main drivers of growth, namely household consumption and private inventories, are fragile, suggesting that the economy should continue to slow. The labour market is still very tight, with job creation remaining high, the unemployment rate low and wage growth buoyant. Inflation seems to have peaked in the middle of 2022, but disinflation remains gradual and the inflation rate should remain significantly above the target of 2% by the end of 2023. From this point of view, the Fed is probably not quite done with raising its policy rates yet. The ongoing monetary tightening is expected to drive the US economy into recession in the second half of 2023 and limit the expected recovery in 2024.

## CHINA

Economic growth, which was sluggish and unbalanced in 2022, is projected to strengthen in 2023. The end of the zero Covid policy has led to a rebound in private demand and activity in the services sector since late January, and household consumption will continue to benefit from large catch-up effects in the short term. However, while export and industrial production prospects are darkened by the weakening in global demand, activity driven by the domestic market remains constrained by important drags. In fact, the recovery in the labour market remains uncertain, the improvement in the property and construction sectors is likely to be limited, and the worrying financial situation of local governments should constrain public investment. Fiscal and monetary support is expected to be prudent. Consumer price inflation, which averaged 2% in 2022, should accelerate only mildly in 2023.

## EUROZONE

Economic growth in the eurozone was zero in the fourth quarter of 2022, but better than expected for 2022 as a whole, at 3.5%. It continued to surprise favorably in the early months of 2023 judging by the improvement in survey data (business confidence and, to a lesser extent, consumer confidence). However, the combination of the inflationary shock, the energy crisis and forced monetary tightening and the build-up of their negative effects will weaken activity in 2023. Real GDP growth should be weakly positive in 2023 and 2024, at 0.6% and 0.5% respectively. Although it is expected to decline throughout 2023, inflation will remain elevated and well above the 2% target at the end of this year and still a bit above at the end of 2024, forcing monetary policy to remain in restrictive territory.

## FRANCE

Real GDP growth has decreased in H2 2022 (0.2% q/q in Q3 and 0.1% in Q4, after +0.5% in Q2). Corporate investment and inventory rebuilding have remained the main growth drivers, whereas household demand has played on the downside: household consumption has decreased by 1.2% q/q in Q4 and their investment by 0.9%. As inflation has reached a new peak in February 2023 (7.2% y/y according to the harmonized measure) and because of rising interest rates, household demand should remain subdued in 2023, weighing on our GDP growth forecast (0.5% in 2023, compared to 2.6% in 2022).

## RATES AND EXCHANGE RATES

In the US, the Federal Reserve should continue its tightening policy, but the terminal rate remains uncertain. Our March 7 forecasts see the federal funds rate at 5.75% (upper end of the target range) in July of this year. Given the expected slow decline in inflation and despite the economy entering recession, this level should be maintained through 2023 and only be followed by rate cuts in 2024. US Treasuries are largely pricing in the upcoming rate hikes. In the near-term, there is still some upward potential, in view of the Fed's bias, albeit somewhat less pronounced, to continue hiking, but subsequently yields should move lower as the inflation outlook improves and the market starts anticipating policy easing in 2024.

The ECB Governing Council is also expected to continue to raise its policy rates at its next two meetings, in May and June. However, the same uncertainty as for the Fed weighs on the terminal rate -i.e. the peak rate in this cycle. Our forecasts, updated on March 21, put the deposit rate at 3.50% in June (vs. 4% in July previously). In the near term, government bond yields could resume rising if the ECB continues to tighten but thereafter yields should move lower, driven by a gradual decline in inflation. Lower US yields should also play a role in the decline of Eurozone yields.

The Bank of Japan has increased the upper end of its target range for the 10-year JGB yield to 0.5% and further adjustments to the yield curve control policy cannot be excluded. Nevertheless, we do not expect the BoJ to proceed with a rate hike.

We expect the dollar to weaken somewhat versus the euro. The dollar's valuation is expensive, positioning in the market is very long and the long-term interest rate differential should narrow. We expect the yen to remain around current levels in the near term before strengthening versus the dollar considering that the federal funds rate should have reached its terminal rate.

### GDP GROWTH AND INFLATION

%	GDP Growth*				Inflation*			
	2021	2022	2023 e	2024 e	2021	2022	2023 e	2024 e
United-States	5.9	2.1	1.5	0.0	4.7	8.0	4.4	2.6
Japan	2.2	1.0	1.2	0.8	-0.2	2.5	2.6	1.4
United-Kingdom	7.6	4.0	-0.4	1.0	2.6	9.1	6.2	1.9
Euro Area*	5.3	3.5	0.6	0.5	2.6	8.4	5.3	2.5
Germany*	2.6	1.8	0.1	0.8	3.2	8.6	5.6	2.2
France*	6.8	2.6	0.5	0.9	2.1	5.9	5.8	2.9
Italy*	7.0	3.8	0.9	0.9	1.9	8.7	6.8	2.4
Spain*	5.5	5.5	1.4	1.1	3.0	8.3	3.8	2.3
China	8.4	3.0	5.6	5.3	0.9	2.0	2.7	2.5
India**	8.7	7.0	5.7	6.0	5.5	6.7	5.4	4.5
Brazil	4.6	3.0	0.5	1.3	8.3	9.4	5.4	4.9

SOURCE: BNP PARIBAS (E: ESTIMATES &amp; FORECASTS)

\* LAST UPDATE 21 MARCH 2023

\*\*FISCAL YEAR FROM 1<sup>ST</sup> APRIL OF YEAR N TO MARCH 31<sup>ST</sup> OF YEAR N+1

### INTEREST AND EXCHANGE RATES

Interest rates, %		Q2 2023	Q3 2023	Q4 2023	Q4 2024
End of period					
US	Fed Funds (upper limit)	5.50	5.75	5.75	4.00
	T-Note 10y	4.30	4.10	3.90	3.65
Eurozone	deposit rate*	3.50	3.50	3.50	2.75
	Bund 10y	3.10	2.90	2.50	2.00
	OAT 10y	3.65	3.45	3.02	2.50
	BTP 10y	5.10	5.15	4.75	3.80
	BONO 10y	4.10	4.00	3.60	2.90
UK	Base rate	4.25	4.25	4.25	3.50
	Gilts 10y	3.70	3.50	3.25	2.85
Japan	BoJ Rate	-0.10	-0.10	-0.10	0.10
	JGB 10y	0.95	0.95	0.90	0.95
Exchange Rates		Q2 2023	Q3 2023	Q4 2023	Q4 2024
End of period					
USD	EUR / USD	1.10	1.12	1.14	1.18
	USD / JPY	133	130	127	121
	GBP / USD	1.24	1.26	1.28	1.33
EUR	EUR / GBP	0.89	0.89	0.89	0.89
	EUR / JPY	146	146	145	143
Brent		Q2 2023	Q3 2023	Q4 2023	Q4 2024
End of period					
Brent	USD/bbl	85	90	90	95

\* LAST UPDATE 21 MARCH 2023

SOURCES: BNP PARIBAS (E: ESTIMATES &amp; FORECASTS) (MARKET ECONOMICS, INTEREST RATE STRATEGY, FX STRATEGY, COMMODITIES DESK STRATEGY)


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