

ECONOMIC SCENARIO

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UNITED STATES

The possibility of a US recession triggered by monetary tightening is looking less and less likely given the resilience of an economy that continued to grow by 0.8% q/q in Q4 2023 and by 2.5% on average over the year, thanks to the resilience of household consumption and the strength of nonresidential investment. Our central scenario is now that of a marked slowdown albeit without an economic recession in H1 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 now look forward to a soft landing and start cutting rates progressively, from May 2024.

CHINA

The post-Covid rebound in economic growth weakened rapidly in 2023 and proved to be weaker than initially expected. 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, defaults of developers and growing difficulties of certain financial institutions. Export momentum stalled last year due to the weakening in global demand and tensions with the US. Yet, Chinese exports have recently regained strength and this trend is expected to continue in the short term. Moreover, the government and the central bank have implemented new policy stimulus measures since last summer. Economic activity has strengthened slightly while consumer price inflation has remained very low. The authorities will keep an accommodative policy mix in the short term, still being constrained by the debt excess of the economy and the weak financial situation of local governments.

EUROZONE

The euro area narrowly escaped economic contraction in the last quarter of 2023. Real GDP remained stable in Q4, with annual growth of 0.5% in 2023. The negative effects of monetary tightening are expected to weigh on economic activity this winter. Activity is expected to inch higher in the first quarter of 2024, before a more pronounced recovery from spring onwards. This would be underpinned by a first rate cut by the ECB, which we expect to happen in April. This monetary easing would accompany the inflation decline, which is expected to come close to the 2% target during the second quarter. Disinflation, along with the dynamism of wages, is expected to support household purchasing power and consumption. Growth should also be supported by NGEU disbursements and its deployment on the ground.

FRANCE

France experienced 0% q/q growth in Q3 and Q4 2023 after a short-lived acceleration in Q2 2023 (+0.7% t/t, driven by exceptional factors, such as aeronautics). In Q4, corporate investment has decreased for the first time (after significant growth). In parallel, household consumption eroded and household investment decreased markedly. Disinflation is now visible (the harmonized index grew by 3.4% y/y in January 2024, compared to 5.7% y/y in September 2023), but the impact of higher interest rates should continue to be felt. As a result, we expect 0.1% growth q/q during the Q1 2024. Going forward, we expect no clear growth acceleration this year (0.6% in 2024 after 0.9% in 2023).

RATES AND EXCHANGE RATES

The last meetings of 2023 confirmed that the 25bp rate hike of the Fed funds in July and of the ECB policy rates in September (deposit rate at 4.00%, refinancing rate at 4.50%) was very likely to be the last of an exceptional tightening cycle. The possibility of a further monetary tightening has still not completely and officially disappeared, but it has been a lot 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. However, on both sides of the Atlantic, policy rates in real terms and the degree of monetary restriction would remain about unchanged. And 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. We expect the BoJ to end its negative interest rate policy in March or April, 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 rate 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	2.5	2.0	1.4	8.0	4.1	2.7	2.3
Japan	0.9	2.1	0.8	0.9	2.5	3.2	2.1	1.9
United-Kingdom	4.4	0.3	-0.1	1.1	9.1	7.4	2.2	2.3
Euro Area	3.4	0.5	0.7	1.6	8.4	5.4	2.1	1.9
Germany	1.9	-0.1	0.2	1.3	8.7	6.1	2.2	2.0
France	2.5	0.9	0.6	1.4	5.9	5.7	2.2	1.6
Italy	3.9	0.7	0.9	1.5	8.7	6.0	1.5	2.5
Spain	5.8	2.5	1.8	2.1	8.3	3.4	2.4	1.5
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: 1 February 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		Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q4 2025
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
Eurozone	deposit rate	4.00	3.50	3.00	2.75	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
	BTP 10y	4.25	4.00	3.95	3.90	4.20
UK	BONO 10y	3.45	3.25	3.10	3.05	3.30
	Base rate	5.25	5.00	4.75	4.25	3.00
	Gilts 10y	3.90	3.75	3.65	3.55	3.65
Japan	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

End of period		Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q4 2025
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 / JPY	160	158	157	155	153

Brent

Quarter Average		Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q4 2025
Brent	USD/bbl	78	81	86	83	82

Sources: BNP Paribas (Market Economics, Interest Rate

Strategy, FX Strategy, Commodities Desk Strategy)

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