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> In the Eurozone, with disinflation continuing, all is set for the rate cutting cycle to start in June. Judging by the momentum of several survey data, it is also getting ready for a recovery in growth. The soft landing scenario seems confirmed.

ECONOMIC RESEARCH

BNP PARIBAS

The bank
for a changing
world

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MARCH SURVEY DATA: US RESILIENCE AND EUROZONE GETTING READY FOR A RECOVERY IN GROWTH

The S&P Global manufacturing PMIs for the month of March point towards a pickup in economic momentum in most countries. In the Eurozone, the improvement is strong, especially in manufacturing and to a lesser degree in services. Momentum is slow however in terms of employment. In the US, the recent pickup in manufacturing sentiment is also strong compared to history. Against the background of these and other strong data, Fed officials have insisted on the need for caution in cutting rates, all the more so considering that the pace of disinflation has clearly slowed. The US soft landing view is increasingly being challenged and 'no landing' is put forward as an alternative. In the Eurozone on the other hand, with disinflation continuing, all is set for the rate cutting cycle to start in June. It is also getting ready for a recovery in growth. The soft landing scenario in the Eurozone seems to be confirmed.

Survey data for the month of March point towards a broad-based pickup in the economic momentum.[1] [2] The S&P Global manufacturing PMIs show that most countries see an improved sentiment. Momentum is negative in Mexico, the UAE and Saudi Arabia but the level of the respective PMIs remains well above 50, which corresponds to expanding activity. Only two countries -Japan and Egypt- suffer from weaker confidence and a PMI below 50.

Focusing on the Eurozone, the improvement is strong, especially in manufacturing where momentum is at the 87th percentile of the historical distribution, whereas in services momentum is at the 78th percentile.[3] The improvement is broad-based with, in manufacturing, very high scores for new orders and the quantity of purchases. In services, business expectations and the assessment of new business opportunities have picked up markedly. Momentum in terms of employment on the other hand is slower in both services and especially manufacturing. This may reflect that due to labour hoarding, companies have enough staff to meet the expected increase in demand.[4] In such case, productivity would improve, which would be welcomed by companies given the pressure coming for wage growth. In terms of inflation, input price momentum has increased in manufacturing, which may be related to the consequences of the supply disruption from the attacks in the Red Sea. Output price momentum on the other hand is only slightly positive. This also applies to services where, importantly, input price momentum is negative, reflecting that an increasing number of companies are reporting an easing of input price pressures. However, the level remains very elevated and shows that most companies continue to face rising input prices.

These data confirm the picture offered by the European Commission's surveys. In March, economic sentiment -a composite indicator of the opinions in industry, services, retail trade, construction as well as consumer confidence- picked up to 96.3 from 95.5 the month before. All components except the construction sector saw an improvement. Although it's still below the long-term average of 100, since December of last year, the improvement since December of last year is significant compared with the low readings have been well above those seen between July and November.

In the US, the recent pickup in manufacturing sentiment is also strong compared to history. The momentum of the manufacturing PMI is at the 90th percentile of the distribution. Except for delivery times, which are stable, all series display an improvement in recent months. Companies have become significantly more positive on the new orders they receive.

PMI MANUFACTURING

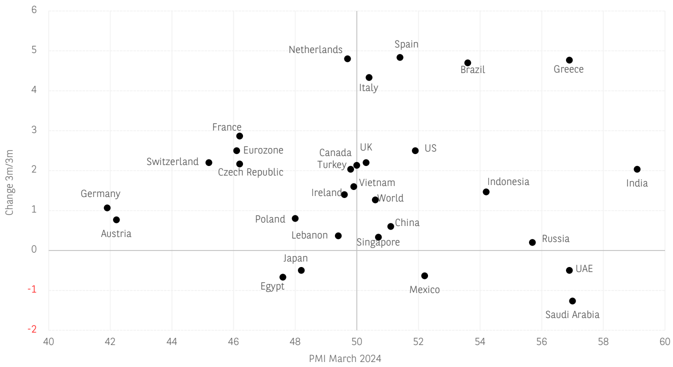

CHART 1 SOURCE: S&P GLOBAL, BNP PARIBAS

Contrary to what we observe in the Eurozone, the reading is also positive for the employment survey. In services, momentum is also positive albeit less strong, with a PMI at the 68th percentile[5]. The employment survey is evolving sideways. Input prices and output prices remain well above 50 -the former being close to 60- and reflect ongoing price pressures but momentum is slightly negative. The opposite holds for manufacturing where an increasing number of companies report higher prices. The Institute for Supply Management (ISM) surveys for March paint a similar picture with strong manufacturing momentum -82th percentile of the historical distribution- and less strong non-manufacturing momentum at the 71th percentile. The Federal Reserve Bank of Atlanta's nowcast neatly summarises the message from a broader range of data. Real GDP growth -quarter-on-quarter, seasonally adjusted annualised rate- is expected at 2.5% in the first quarter of this year, which is a robust performance given the level of interest rates. Against this background, the need for caution in cutting rates expressed recently by Fed board members as well as regional Federal Reserve presidents should not come as a surprise. The very strong March labour market report -303K new jobs, largely beating the Bloomberg consensus forecast of 212K; unexpected decline of the unemployment rate from 3.9% to 3.8%- will intensify the debate within the FOMC, implying that 3 cuts this year can no longer be taken for granted, all the more so considering that the pace of disinflation has clearly slowed.[6]

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[1] Momentum is calculated as the difference between the average of the three most recent observations and the average of the previous three observations (using non-overlapping data).
[2] For a comprehensive "heatmap" view of the latest PMI data, see the Economic Pulse, page 7 and 8 in this issue of EcoWeek.
[3] Data since December 1998.
[4] A more negative interpretation would be that the employment survey is reacting with a lag to the weakness in demand. This would bode badly for the labour market outlook.
[5] Data from the Institute for Supply Management (ISM) since December 1997 provide a similar picture, with manufacturing momentum in the 82nd percent of distribution while it is in the 71st percent for non-manufacturing.
[6] For more detail see Inflation Tracker - March 2023 | Resistance to the downside (bnpparibas.com).

This explains why the soft landing view is increasingly being challenged and why 'no landing' is put forward as an alternative.[7] A priori, fewer rate cuts shouldn't matter that much for the real economy -after all it would be a sign of ongoing strength- but financial markets, where pricing has been based on the view that policy easing was coming, may look at this differently. In the Eurozone on the other hand, with disinflation continuing, all is set for the rate cutting cycle to start in June. It is also getting ready for a recovery in growth. The soft landing scenario in the Eurozone seems confirmed.

William De Vijlder

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[7] To illustrate this point, the latest Duke University CFO survey, published on 27 March 2024, was entitled 'What landing?'.

EUROZONE PMI

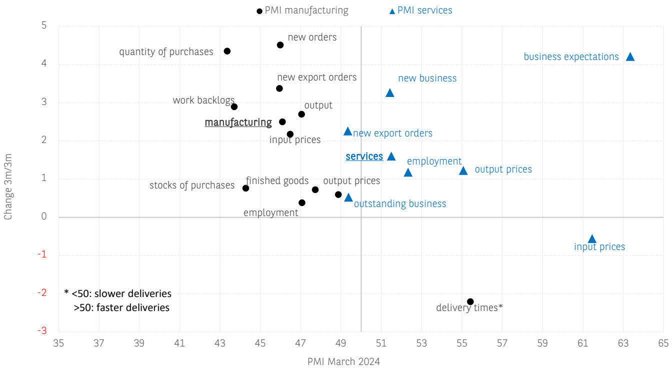


CHART 2

SOURCE: S&P GLOBAL, BNP PARIBAS

US PMI

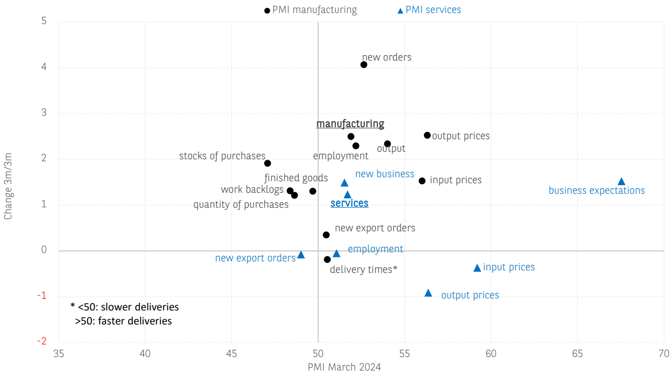


CHART 3

SOURCE: S&P GLOBAL, BNP PARIBAS

MARKETS OVERVIEW

OVERVIEW

Week 29-3 24 to 5-4-24

↘ CAC 40	8 206	▶	8 061	-1.8	%
↘ S&P 500	5 254	▶	5 204	-1.0	%
↗ Volatility (VIX)	13.0	▶	16.0	+3.0	pb
↘ Euribor 3M (%)	3.89	▶	3.89	-0.7	bp
↘ Libor $ 3M (%)	5.56	▶	5.56	-0.5	bp
↗ OAT 10y (%)	2.80	▶	2.92	+11.3	bp
↗ Bund 10y (%)	2.27	▶	2.38	+10.3	bp
↗ US Tr. 10y (%)	4.21	▶	4.40	+18.9	bp
↗ Euro vs dollar	1.08	▶	1.08	+0.2	%
↗ Gold (ounce, $)	2 214	▶	2 323	+4.9	%
↗ Oil (Brent, $)	87.4	▶	91.6	+4.7	%

MONEY & BOND MARKETS

Interest Rates			highest 24			lowest 24		
€	ECB	4.50	4.50	at	01/01	4.50	at	01/01
	Eonia	-0.51	-0.51	at	01/01	-0.51	at	01/01
	Euribor 3M	3.89	3.97	at	18/01	3.86	at	03/04
	Euribor 12M	3.66	3.76	at	19/03	3.51	at	01/02
$	FED	5.50	5.50	at	01/01	5.50	at	01/01
	Libor 3M	5.56	5.60	at	27/02	5.53	at	01/02
	Libor 12M	6.04	6.04	at	01/01	6.04	at	01/01
£	BoE	5.25	5.25	at	01/01	5.25	at	01/01
	Libor 3M	5.30	5.33	at	06/03	5.30	at	22/03
	Libor 12M	0.81	0.81	at	01/01	0.81	at	01/01

At 5-4-24

Yield (%)			highest 24			lowest 24		
€	AVG 5-7y	2.64	2.64	at	01/01	2.64	at	01/01
	Bund 2y	2.97	3.05	at	18/03	2.53	at	01/02
	Bund 10y	2.38	2.44	at	28/02	2.02	at	03/01
	OAT 10y	2.92	2.92	at	03/04	2.47	at	01/01
	Corp. BBB	3.85	4.06	at	28/02	3.75	at	01/01
$	Treas. 2y	4.81	4.81	at	05/04	4.22	at	15/01
	Treas. 10y	4.40	4.40	at	05/04	3.86	at	01/02
	High Yield	7.91	8.10	at	05/01	7.73	at	13/03
£	gilt. 2y	4.57	4.68	at	13/02	3.98	at	01/01
	gilt. 10y	4.07	4.22	at	13/02	3.60	at	01/01

At 5-4-24

EXCHANGE RATES

1€ =		highest 24		lowest 24			2024
USD	1.08	1.10	at 01/01	1.07	at	13/02	-2.1%
GBP	0.86	0.87	at 02/01	0.85	at	13/02	-1.0%
CHF	0.98	0.98	at 04/04	0.93	at	08/01	+5.0%
JPY	163.95	164.83	at 04/04	155.33	at	02/01	+5.3%
AUD	1.65	1.67	at 28/02	1.62	at	02/01	+1.7%
CNY	7.83	7.88	at 08/03	7.71	at	13/02	-0.1%
BRL	5.46	5.50	at 03/04	5.31	at	13/02	+1.8%
RUB	100.07	102.67	at 23/02	95.72	at	19/01	+1.3%
INR	90.10	91.92	at 01/01	88.97	at	13/02	-2.0%

At 5-4-24 *Change*

COMMODITIES

Spot price, $		highest 24			lowest 24			2024	2024(€)
Oil, Brent	91.6	91.6	at	05/04	75.8	at	08/01	+17.8%	+20.3%
Gold (ounce)	2 323	2 323	at	05/04	1 989	at	14/02	+12.5%	+14.8%
Metals, LMEX	4 011	4 015	at	04/04	3 558	at	09/02	+6.6%	+8.9%
Copper (ton)	9 209	9 242	at	04/04	8 065	at	09/02	+8.8%	+11.1%
wheat (ton)	206	2.3	at	01/01	191	at	15/03	-11.4%	-9.5%
Corn (ton)	161	1.7	at	01/01	148	at	23/02	-0.8%	-5.7%

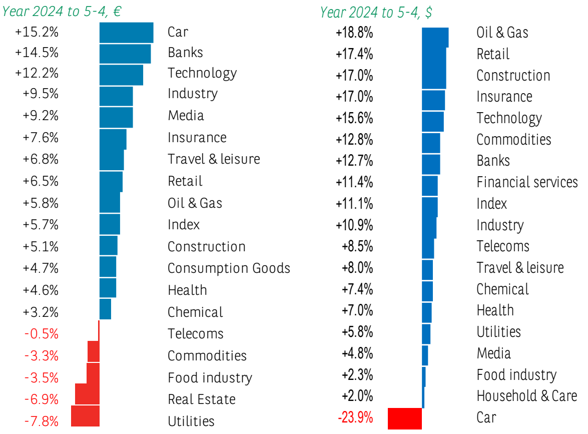
At 5-4-24 *Change*

EQUITY INDICES

	Index	highest 24			lowest 24			2024
World								
MSCI World	3 402	3 438	at	29/03	3 114	at	04/01	+7.4%
North America								
S&P500	5 204	5 254	at	28/03	4 689	at	04/01	+9.1%
Europe								
EuroStoxx50	5 015	5 083	at	28/03	4 403	at	17/01	+10.9%
CAC 40	8 061	8 206	at	28/03	7 319	at	17/01	+0.7%
DAX 30	18 175	18 492	at	28/03	16 432	at	17/01	+8.5%
IBEX 35	10 916	11 111	at	27/03	9 858	at	19/01	+0.8%
FTSE100	7 911	7 976	at	04/04	7 446	at	17/01	+0.2%
Asia								
MSCI, loc.	1 372	1 415	at	22/03	1 242	at	03/01	+1.0%
Nikkei	38 992	40 888	at	22/03	33 288	at	04/01	+16.5%
Emerging								
MSCI Emerging ($)	1 046	1 050	at	02/04	958	at	17/01	+0.2%
China	55	56	at	12/03	49	at	22/01	-1.1%
India	990	990	at	05/04	915	at	03/01	+7.5%
Brazil	1 618	1 800	at	01/01	1 616	at	03/04	-6.5%

At 5-4-24 *Change*

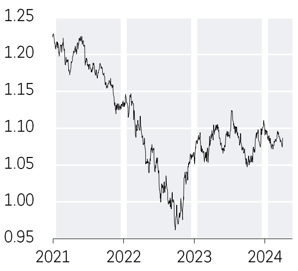
PERFORMANCE BY SECTOR (Eurostoxx50 & S&P500)



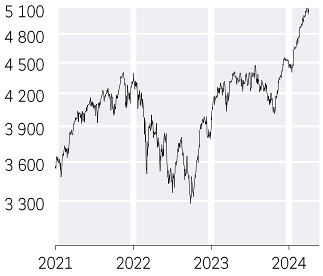
SOURCE: REFINITIV, BNP PARIBAS

MARKETS OVERVIEW

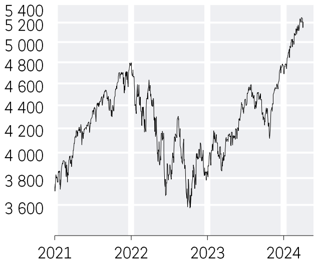
EURO-DOLLAR



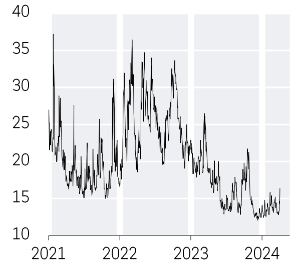
EUROSTOXX50



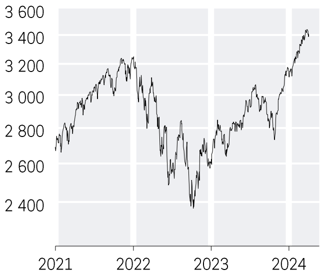
S&P500



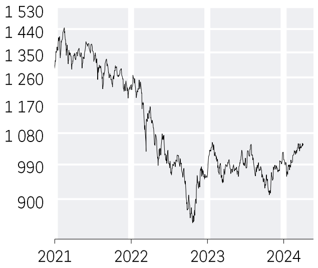
VOLATILITY (VIX, S&P500)



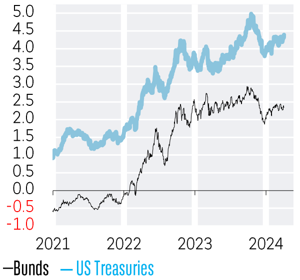
MSCI WORLD (USD)



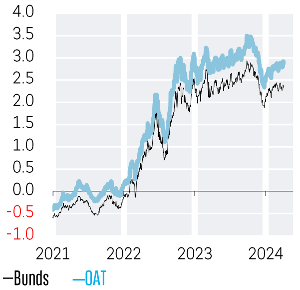
MSCI EMERGING (USD)



10Y BOND YIELD, TREASURIES VS BUND

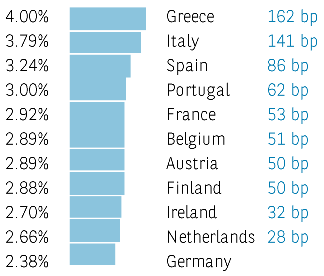


10Y BOND YIELD

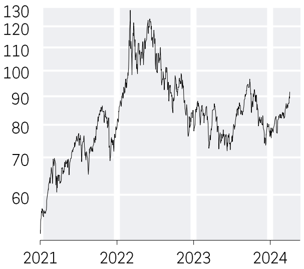


10Y BOND YIELD & SPREADS

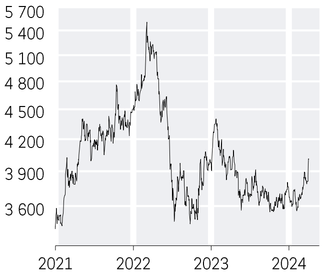
Year 2024 to 5-4



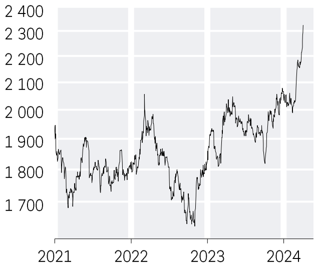
OIL (BRENT, USD)



METALS (LMEX, USD)



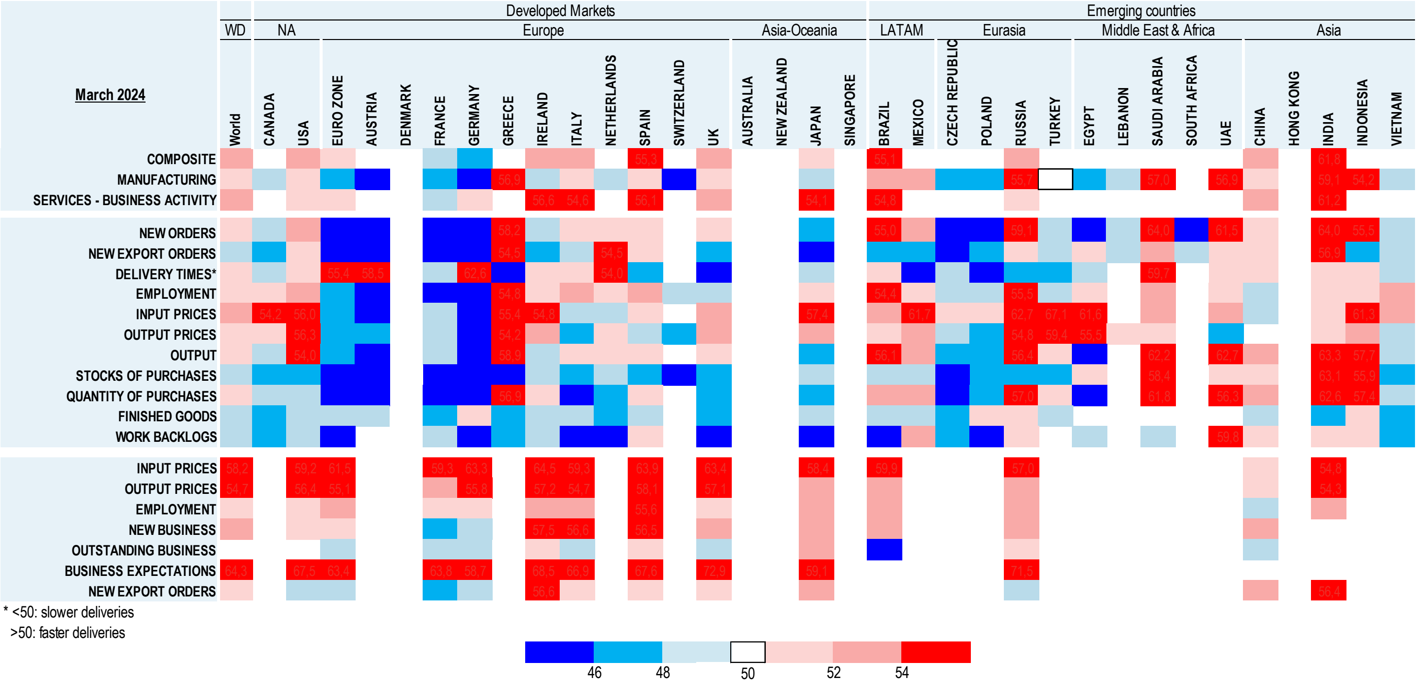
GOLD (OUNCE, USD)



SOURCE: REFINITIV, BNP PARIBAS

THE GLOBAL ECONOMIC ACTIVITY STRENGTHENS IN Q1 2024

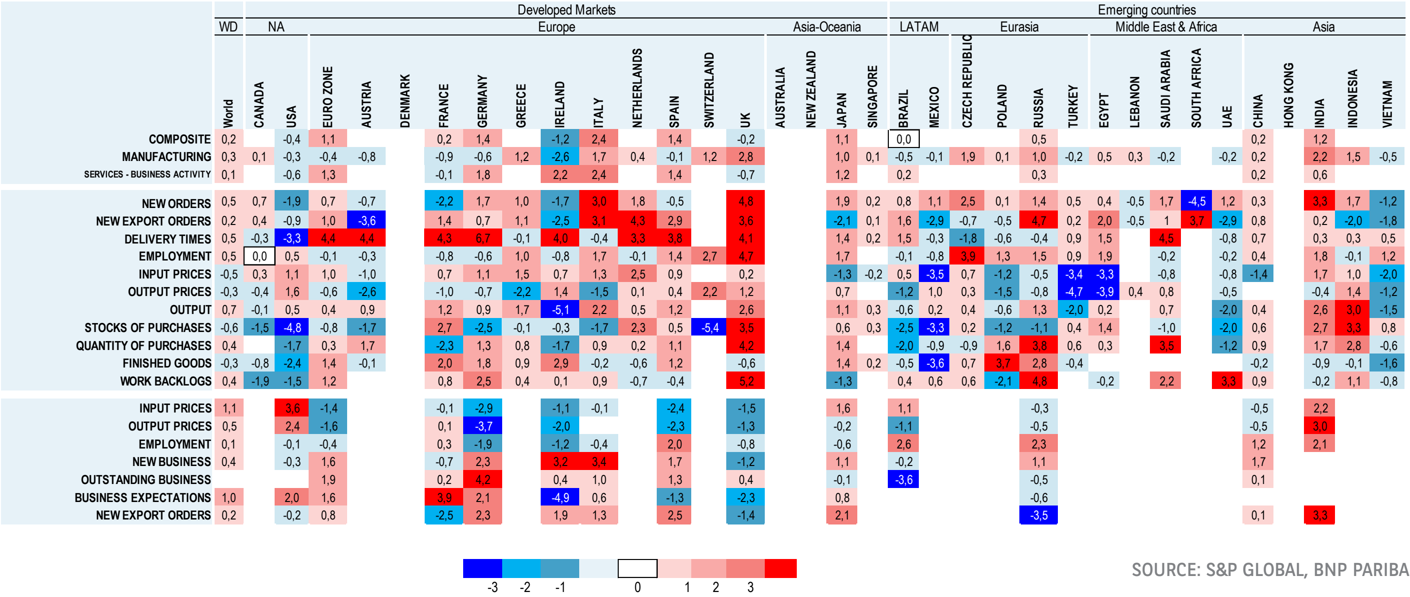
S&P GLOBAL PMI - MARCH 2024



			Developed Markets																		Emerging countries															
		WD	NA		Europe												Asia-Oceania				LATAM		Eurasia				Middle East & Africa					Asia				
	March 2024	World	CANADA	USA	EURO ZONE	AUSTRIA	DENMARK	FRANCE	GERMANY	GREECE	IRELAND	ITALY	NETHERLANDS	SPAIN	SWITZERLAND	UK	AUSTRALIA	NEW ZEALAND	JAPAN	SINGAPORE	BRAZIL	MEXICO	CZECH REPUBLIC	POLAND	RUSSIA	TURKEY	EGYPT	LEBANON	SAUDI ARABIA	SOUTH AFRICA	UAE	CHINA	HONG KONG	INDIA	INDONESIA	VIETNAM
	COMPOSITE													55,3							55,1													61,8		
	MANUFACTURING									56,9															55,7				57,0		56,9			59,1	54,2	
	SERVICES - BUSINESS ACTIVITY										56,6	54,6		56,1					54,1		54,8													61,2		
MANUFACTURING	NEW ORDERS									58,2											55,0				59,1				64,0		61,5			64,0	55,5	
	NEW EXPORT ORDERS									54,5			54,5																					56,9		
	DELIVERY TIMES*				55,4	58,5			62,6				54,0																59,7							
	EMPLOYMENT									54,8											54,4				55,5											
	INPUT PRICES		54,2	56,0						55,4	54,8								57,4			61,7			62,7	67,1	61,6								61,3	
	OUTPUT PRICES			56,3						54,2															54,8	59,4	55,5									
	OUTPUT			54,0						58,9											56,1				56,4				62,2		62,7			63,3	57,7	
	STOCKS OF PURCHASES																												58,4					63,1	55,9	
	QUANTITY OF PURCHASES									56,9															57,0				61,8		56,3			62,6	57,4	
	FINISHED GOODS																																			
	WORK BACKLOGS																														59,8					
SERVICES	INPUT PRICES	58,2		59,2	61,5			59,3	63,3		64,5	59,3		63,9		63,4			58,4		59,9				57,0									54,8		
	OUTPUT PRICES	54,7		56,4	55,1				55,8		57,2	54,7		58,1		57,1																		54,3		
	EMPLOYMENT													55,6																						
	NEW BUSINESS										57,5	56,6		56,5																						
	OUTSTANDING BUSINESS																																			
	BUSINESS EXPECTATIONS	64,3		67,5	63,4			63,8	58,7		68,5	66,9		67,6		72,9			59,1						71,5											
	NEW EXPORT ORDERS										56,6																							56,4		

* <50: slower deliveries
>50: faster deliveries

S&P GLOBAL PMI (MARCH 2024 VERSUS FEBRUARY 2024)



			Developed Markets																		Emerging countries															
		WD	NA		Europe												Asia-Oceania				LATAM		Eurasia				Middle East & Africa					Asia				
		World	CANADA	USA	EURO ZONE	AUSTRIA	DENMARK	FRANCE	GERMANY	GREECE	IRELAND	ITALY	NETHERLANDS	SPAIN	SWITZERLAND	UK	AUSTRALIA	NEW ZEALAND	JAPAN	SINGAPORE	BRAZIL	MEXICO	CZECH REPUBLIC	POLAND	RUSSIA	TURKEY	EGYPT	LEBANON	SAUDI ARABIA	SOUTH AFRICA	UAE	CHINA	HONG KONG	INDIA	INDONESIA	VIETNAM
	COMPOSITE	0,2		-0,4	1,1			0,2	1,4		-1,2	2,4		1,4		-0,2			1,1		0,0				0,5							0,2		1,2		
	MANUFACTURING	0,3	0,1	-0,3	-0,4	-0,8		-0,9	-0,6	1,2	-2,6	1,7	0,4	-0,1	1,2	2,8			1,0	0,1	-0,5	-0,1	1,9	0,1	1,0	-0,2	0,5	0,3	-0,2		-0,2	0,2		2,2	1,5	-0,5
	SERVICES - BUSINESS ACTIVITY	0,1		-0,6	1,3			-0,1	1,8		2,2	2,4		1,4		-0,7			1,2		0,2				0,3							0,2		0,6		
MANUFACTURING	NEW ORDERS	0,5	0,7	-1,9	0,7	-0,7		-2,2	1,7	1,0	-1,7	3,0	1,8	-0,5		4,8			1,9	0,2	0,8	1,1	2,5	0,1	1,4	0,5	0,4	-0,5	1,7	-4,5	1,2	0,3		3,3	1,7	-1,2
	NEW EXPORT ORDERS	0,2	0,4	-0,9	1,0	-3,6		1,4	0,7	1,1	-2,5	3,1	4,3	2,9		3,6			-2,1	0,1	1,6	-2,9	-0,7	-0,5	4,7	0,2	2,0	-0,5	1	3,7	-2,9	0,8		0,2	-2,0	-1,8
	DELIVERY TIMES	0,5	-0,3	-3,3	4,4	4,4		4,3	6,7	-0,1	4,0	-0,4	3,3	3,8		4,1			1,4	0,2	1,5	-0,3	-1,8	-0,6	-0,4	0,9	1,5		4,5		-0,8	0,7		0,3	0,3	0,5
	EMPLOYMENT	0,5	0,0	0,5	-0,1	-0,3		-0,8	-0,6	1,0	-0,8	1,7	-0,1	1,4	2,7	4,7			1,7		-0,1	-0,8	3,9	1,3	1,5	0,9	1,9		-0,2		-0,2	0,4		1,8	-0,1	1,2
	INPUT PRICES	-0,5	0,3	1,1	1,0	-1,0		0,7	1,1	1,5	0,7	1,3	2,5	0,9		0,2			-1,3	-0,2	0,5	-3,5	0,7	-1,2	-0,5	-3,4	-3,3		-0,8		-0,8	-1,4		1,7	1,0	-2,0
	OUTPUT PRICES	-0,3	-0,4	1,6	-0,6	-2,6		-1,0	-0,7	-2,2	1,4	-1,5	0,1	0,4	2,2	1,2			0,7		-1,2	1,0	0,3	-1,5	-0,8	-4,7	-3,9	0,4	0,8		-0,5			-0,4	1,4	-1,2
	OUTPUT	0,7	-0,1	0,5	0,4	0,9		1,2	0,9	1,7	-5,1	2,2	0,5	1,2		2,6			1,1	0,3	-0,6	0,2	0,4	-0,6	1,3	-2,0	0,2		0,7		-2,0	0,4		2,6	3,0	-1,5
	STOCKS OF PURCHASES	-0,6	-1,5	-4,8	-0,8	-1,7		2,7	-2,5	-0,1	-0,3	-1,7	2,3	0,5	-5,4	3,5			0,6	0,3	-2,5	-3,3	0,2	-1,2	-1,1	0,4	1,4		-1,0		-2,0	0,6		2,7	3,3	0,8
	QUANTITY OF PURCHASES	0,4		-1,7	0,3	1,7		-2,3	1,3	0,8	-1,7	0,9	0,2	1,1		4,2			1,4		-2,0	-0,9	-0,9	1,6	3,8	0,6	0,3		3,5		-1,2	0,9		1,7	2,8	-0,6
	FINISHED GOODS	-0,3	-0,8	-2,4	1,4	-0,1		2,0	1,8	0,9	2,9	-0,2	-0,6	1,2		-0,6			1,4	0,2	-0,5	-3,6	0,7	3,7	2,8	-0,4						-0,2		-0,9	-0,1	-1,6
	WORK BACKLOGS	0,4	-1,9	-1,5	1,2			0,8	2,5	0,4	0,1	0,9	-0,7	-0,4		5,2			-1,3		0,4	0,6	0,6	-2,1	4,8		-0,2		2,2		3,3	0,9		-0,2	1,1	-0,8
SERVICES	INPUT PRICES	1,1		3,6	-1,4			-0,1	-2,9		-1,1	-0,1		-2,4		-1,5			1,6		1,1				-0,3							-0,5		2,2		
	OUTPUT PRICES	0,5		2,4	-1,6			0,1	-3,7		-2,0			-2,3		-1,3			-0,2		-1,1				-0,5							-0,5		3,0		
	EMPLOYMENT	0,1		-0,1	-0,4			0,3	-1,9		-1,2	-0,4		2,0		-0,8			-0,6		2,6				2,3							1,2		2,1		
	NEW BUSINESS	0,4		-0,3	1,6			-0,7	2,3		3,2	3,4		1,7		-1,2			1,1		-0,2				1,1							1,7				
	OUTSTANDING BUSINESS				1,9			0,2	4,2		0,4	1,0		1,3		0,4			-0,1		-3,6				-0,5							0,1				
	BUSINESS EXPECTATIONS	1,0		2,0	1,6			3,9	2,1		-4,9	0,6		-1,3		-2,3			0,8						-0,6											
	NEW EXPORT ORDERS	0,2		-0,2	0,8			-2,5	2,3		1,9	1,3		2,5		-1,4			2,1						-3,5							0,1		3,3		

SOURCE: S&P GLOBAL, BNP PARIBAS

Tarik Rharrab

ECONOMIC SCENARIO

UNITED STATES

The US economy has shown a surprising vigour in 2023, illustrated by the +0.8% q/q advance in Q4 GDP and a +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. Our baseline scenario implies a +2.8% rate of growth for 2024, enabled by factors such as the carryover effect from 2023 and an expected increase in real incomes, with a slowdown over S2. The inflation peak was reached in mid-2022, and the latter is expected to approach the 2% target in 2024. This picture paves the way for an easing of its monetary policy by the Fed, which can foresee a soft landing of the US economy and start cutting rates progressively as from June 2024.

CHINA

The post-Covid rebound in economic activity proved to be weaker than initially expected. Domestic demand has remained held back by a significant loss in private investor and consumer 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. These constraints to economic growth have persisted since the beginning of 2024. However, activity has strengthened slightly, driven by the manufacturing export sector, and helped by fiscal stimulus measures. In the short term, exports are likely to continue to gain strength. Moreover, the authorities are expected to continue to ease their economic policy mix, which is a prerequisite for reaching the official real GDP growth target of "about 5%" that has been set for 2024. Consumer price inflation will remain low. Yet the policy leeway of the government and the central bank is still being constrained by the debt excess of the economy and the weak financial situation of local government.

EUROZONE

The euro area GDP slightly contracted in the second half of 2023 according to the latest Eurostat data. Annual growth was only 0.4% in 2023. The negative effects of monetary tightening are expected to continue 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 June. 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 0.1% q/q growth in Q4 2023 after a short-lived acceleration in Q2 2023 (+0.6% 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 was stable and household investment decreased markedly. Disinflation is now visible (the harmonized index grew by 2.4% y/y in March 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 except 0.1% growth q/q during the Q1 2024. Going forward, we expect no clear growth acceleration this year (0.7% in 2024 after 0.9% in 2023).

RATES AND EXCHANGE RATES

The first policy rate cuts are taking shape somewhat more clearly. They would, according to our forecasts, occur in June for the Federal Reserve, the ECB, and the Bank of England. In particular, the Federal Reserve and the ECB declare they are about to have the necessary data and confidence to be in a position to estimate that inflation is heading sustainably towards the 2% target. The most prominent risk, however, is that inflation proves to be stickier than anticipated, which would delay the monetary easing. We expect three 25-basis-point rate cuts from the Fed by the end of 2024, four for the ECB and the Bank of England. 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.

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 this Spring (most likely in March), while keeping a loose approach to its yield curve control policy.

We remain fundamentally bearish regarding the US dollar, but the still-strong US growth pushes back and moderates its expected depreciation, especially versus the euro. The yen is expected to strengthen more significantly versus the USD, based on the combination of the start of BoJ tightening and of the repatriation by Japanese investors of their foreign holdings.

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

Source : BNP Paribas (e: Estimates & forecasts)
Last update: 4 April 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		Q2 2024	Q3 2024	Q4 2024	Q2 2025	Q4 2025
US	Fed Funds (upper limit)	5.25	5.00	4.75	4.25	4.00
	T-Note 10y	4.25	4.20	4.20	4.20	4.20
Eurozone	deposit rate	3.75	3.25	3.00	2.50	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	5.00	4.50	4.25	3.75	3.25
	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	0.90	1.00	1.20	1.40	1.35

Exchange Rates

End of period		Q2 2024	Q3 2024	Q4 2024	Q2 2025	Q4 2025
USD	EUR / USD	1.10	1.10	1.10	1.12	1.14
	USD / JPY	146	144	142	137	133
	GBP / USD	1.31	1.33	1.33	1.35	1.37
EUR	EUR / GBP	0.84	0.83	0.83	0.83	0.83
	EUR / JPY	161	158	156	153	152

Brent

Quarter Average		Q2 2024	Q3 2024	Q4 2024	Q2 2025	Q4 2025
Brent	USD/bbl	80	85	83	81	82

Sources: BNP Paribas (Market Economics, Interest Rate Strategy, FX Strategy, Commodities Desk Strategy)
Last update: 12 March 2024

FURTHER READING

France: business insolvencies stabilised at a high level in Q1 2024	EcoBrief	8 April 2024
Business insolvencies in Europe: diverging trends	EcoFlash	5 April 2024
Green energies increasingly competitive	Chart of the Week	3 April 2024
United States: The Federal Reserve, inflation data and markets	EcoWeek	3 April 2024
How ready is Latin America to meet the artificial intelligence (AI) challenge?	Chart of the Week	29 march 2024
EcoPulse - March 2024	EcoPulse	29 march 2024
French trade balance: 2023 review and 2024-2025 projections	EcoFlash	28 March 2024
French inflation: further disinflation expected in March, before 6 months of probable stabilisation	EcoBrief	28 March 2024
Shift in focus	EcoTV	28 March 2024
The other terminal rate: how far will policy rates be cut?	EcoWeek	27 March 2024
French economy Pocket Atlas - March 2024	French economy Pocket Atlas	21 March 2024
Non-financial corporations: production taxes still account for 2.6% of French GDP	EcoFlash	21 March 2024
Inversion of the US yield curve and recessions: a leading signal, usually	EcoTV	21 March 2024
The Fed's QT: are yesterday's sellers today's buyers?	Chart of the Week	20 March 2024
Canada: Running low on fuel	EcoFlash	19 March 2024
Global economy | Cyclical outlook: known unknowns	EcoWeek	19 March 2024
Inflation Tracker - March 2023 | Resistance to the downside	EcoCharts	15 March 2024
France: Stop-and-go growth cycles redux	EcoTV	14 March 2024
France, youth employment: on the verge of a more pronounced downturn?	Chart of the Week	13 March 2024
Eurozone | The digital euro and the role of central bank currency anchor	EcoWeek	13 March 2024
Audiobrief | French trade deficit: France is relatively deindustrialised but investing	Podcast - Macro Waves	12 March 2024

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