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“IN 2024, ONGOING DISINFLATION SHOULD ENABLE THE FEDERAL RESERVE AND THE ECB TO START CUTTING THEIR POLICY RATES. BOTH FACTORS SHOULD BE FOLLOWED BY A GRADUAL PICKUP IN ECONOMIC GROWTH.”

ECONOMIC RESEARCH

BNP PARIBAS

The bank
for a changing
world

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2024: LOWER CENTRAL BANK RATES AND THEN WHAT?

Further progress in terms of disinflation and the room this creates for central bank easing seem to be the only economic 'certainties' for 2024. What is left is a list of important questions that should be answered as the year progresses. What will be the pace and extent of rate cuts? Is there a risk of underestimating the impact of past rate hikes that still must manifest itself? What about the timing and strength of the pickup in growth in reaction to lower inflation and the start of policy easing? Is there a downside to the scenario of a soft landing in the US? The answers to these questions matter for the real economy but are especially important for financial markets and the policy rate expectations.

From a macroeconomic perspective, one of the defining characteristics of 2023 was the ongoing tightening of monetary policy, with the Federal Reserve and the ECB raising rates more than expected. These decisions, in combination with accumulating evidence in the latter part of the year of a clear downward trend in core inflation, changed the outlook for interest rates for 2024. 2022 was the year of the start of a tightening cycle, 2023 saw the terminal rate being reached and 2024 should be the year of cuts in official interest rates. In the US, the FOMC members' December projections pencil in three 25 basis points cuts in 2024. The message from the ECB is more opaque although recent comments of several governing council members suggest that the debate has clearly shifted from whether further hikes are warranted to how long rates should be kept at present levels. The consensus expects the ECB to start reducing rates in July, bringing the deposit rate back to 3.25% by the end of the year, compared with the current level of 4.00% (chart 1[1]). A similar survey in the US expects the first rate cut by the Fed in June and a cumulative reduction of the federal funds rate this year of 125 basis points[2]. It is safe to conclude that there is hardly any or even no debate on the question whether policy rates will go down this year. Further progress in terms of disinflation should warrant a reduction in official interest rates, if only to avoid that otherwise, real interest rates would increase thereby causing an unwanted further tightening in the monetary environment.

Further progress in terms of disinflation and the room this creates for central bank easing seem to be the only economic 'certainties' for this year. What is left is a list of important questions that should be answered as the year progresses. The first concerns the pace and extent of rate cuts. Central bankers have repeatedly insisted that their policy is data dependent, so key variables to monitor are the labour market -as an indicator of economic resilience or softness-, wage growth, inflation and inflation expectations.

ECB DEPOSIT RATE CONSENSUS FORECAST

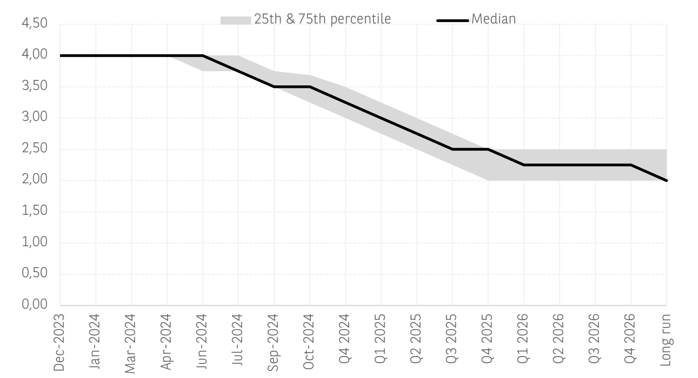


CHART 1 SOURCE: ECB SURVEY OF MONETARY ANALYSTS, DECEMBER 2023, BNP PARIBAS

A second question centers around the lingering concerns that part of the impact of past rate hikes still must manifest itself. This matters for companies that need to refinance debt or for households with adjustable-rate mortgages facing a rate reset. Concerning the former, key factors are the extent of debt refinancing[3], the increase in interest charges and how firms will cope with this increase by cutting costs, scaling back investments or simply by accepting a decline in profits. In addition, bankruptcies, which are already on the rise, may increase further. The role of adjustable-rate mortgages very much depends on the country being analysed. In the US, mortgages are typically at a fixed rate, whereas in the Eurozone, there are significant differences across countries[4].

1 'Consensus' refers to the median forecast in the latest ECB Survey of Monetary Analysts, published on 18 December 2023. The survey period was from 27 to 30 November 2023 and 39 respondents participated.
2 'Consensus' refers to the median forecast in the latest Survey of Market Participants conducted by the Federal Reserve Bank of New York. Responses from 27 market participants were received by 4 December 2023.
3 According to S&P Global, in the US, USD 247.7 billion of speculative-grade nonfinancial debt will mature in 2024 -more than double the amount of 2023- and for 2025 this should increase to USD 389.3 billion. For investment-grade issuers, the increase is a lot smaller. Source: Ballooning maturity wall a growing risk for speculative-grade companies, S&P Global, 14 June 2023.
4 According to calculations by the ECB (data for July 2023) the percentage of floating rate mortgage loans is high in Ireland (70.2%), Spain (73.1%) and very high in Portugal (85.7%), Greece (89.8%) and Finland (96.4%). In Belgium, 67% of mortgage loans had an interest rate fixation period at origination of more than 10 years. In France the equivalent number is 78.4%. Source: Real estate markets in an environment of high financing costs, ECB, Financial Stability Review, November 2023.

In 2024, ongoing disinflation should enable the Federal Reserve and the ECB to start cutting their policy rates. Both factors should be followed by a gradual pickup in economic growth.

Although the macroeconomic impact of the remaining effect of higher interest rates is very difficult to assess, there is a clear downside risk to growth and hence inflation. This also matters for financial markets and policy rate expectations.

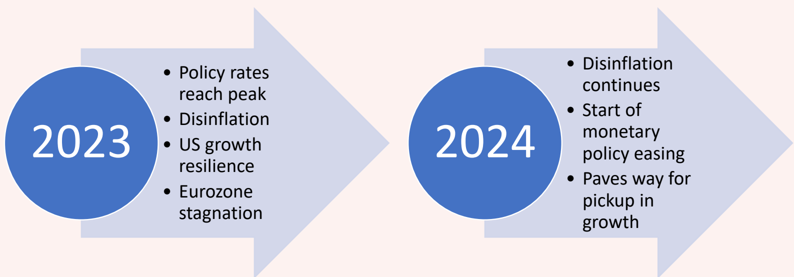
Question number three is about the timing and strength of the pickup in growth. Concerning the Eurozone, the ECB Survey of Professional Forecasters for the fourth quarter of 2023 saw respondents anticipating an improvement in the first half of 2024[5]. The December 2023 Eurosystem staff projections expect growth "*to recover gradually from the first quarter of 2024, supported by increases in real income and foreign demand*[6]." We expect a gradual pickup of quarterly growth from a non-annualised 0.1% in the first quarter to 0.3% in the second and 0.4% in the third and fourth quarter. In the US, the latest Federal Reserve Bank of Philadelphia's Survey of Professional Forecasters sees real GDP growing slowing in the first quarter of 2024 and reaccelerating as of the second quarter[7].

We expect zero growth in the first quarter and a contraction of -0.3% in the second followed by a slow recovery in the second half of 2024 with 0.2% non-annualised quarterly growth in the third and 0.3% in the fourth quarter. The question about the timing and strength of the growth pickup is especially important for financial markets and the pricing of the expected path for policy rates. This pricing will also depend on the answer to the fourth and final question: is there a downside to the scenario of a soft landing in the US? Such a landing implies that following sufficient monetary tightening, inflation converges back to target without a recession and a significant increase in the unemployment rate. This entails a risk that once activity is again in an upswing, bottlenecks and the ensuing risk to the inflation outlook would resurface quickly, triggering a reassessment of the outlook for monetary policy -an early end to the easing cycle- and an increase in bond yields.

William De Vijlder

5 The survey was released on 27 October 2023.
6 The forecast for non-annualised quarter-over-quarter growth is 0.2% in the first quarter of 2024, 0.3% in the second quarter and 0.4% in the third and fourth quarter. Source: Eurosystem staff macroeconomic projections for the euro area, ECB, December 2023.
7 Annualised quarter-over-quarter growth was estimated at 1.3% for the fourth quarter of 2023 and projected to slow down to 0.8% in the first quarter of 2024 and reaccelerate thereafter to respectively 1.3%, 1.5% and 1.7% in the second, third and fourth quarter. Source: *Federal Reserve Bank of Philadelphia, Fourth Quarter 2023 Survey of Professional Forecasters,* 13 November 2023.

2023 AND THE OUTLOOK FOR 2024



MARKETS OVERVIEW

OVERVIEW

Week 29-12 23 to 5-1-24				
↘ CAC 40	7 543	▶ 7 421	-1.6	%
↘ S&P 500	4 770	▶ 4 697	-1.5	%
↗ Volatility (VIX)	12.5	▶ 13.4	+0.9	pb
↗ Euribor 3M (%)	3.91	▶ 3.94	+2.7	bp
↘ Libor $ 3M (%)	5.59	▶ 5.59	-0.2	bp
↗ OAT 10y (%)	2.47	▶ 2.59	+12.0	bp
↗ Bund 10y (%)	2.00	▶ 2.11	+10.8	bp
↗ US Tr. 10y (%)	3.87	▶ 4.05	+18.1	bp
↘ Euro vs dollar	1.10	▶ 1.10	-0.6	%
↘ Gold (ounce, $)	2 065	▶ 2 056	-0.5	%
↗ Oil (Brent, $)	77.7	▶ 79.0	+1.7	%

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	3.94	3.94	at	05/01	3.91	at	02/01
Euribor 12M	3.58	3.58	at	05/01	3.51	at	01/01
$ FED	5.50	5.50	at	01/01	5.50	at	01/01
Libor 3M	5.59	5.59	at	01/01	5.59	at	02/01
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	5.32	5.32	at	01/01	5.32	at	03/01
Libor 12M	0.81	0.81	at	01/01	0.81	at	01/01

At 5-1-24

Yield (%)		highest 24			lowest 24		
€ AVG 5-7y	2.64	2.64	at	01/01	2.64	at	01/01
Bund 2y	2.84	2.84	at	05/01	2.68	at	01/01
Bund 10y	2.11	2.11	at	05/01	1.99	at	03/01
OAT 10y	2.59	2.59	at	05/01	2.47	at	01/01
Corp. BBB	3.96	3.96	at	05/01	3.75	at	01/01
$ Treas. 2y	4.47	4.47	at	05/01	4.33	at	01/01
Treas. 10y	4.05	4.05	at	05/01	3.87	at	01/01
High Yield	8.10	8.10	at	05/01	7.82	at	01/01
£ gilt. 2y	4.22	4.22	at	05/01	3.98	at	01/01
gilt. 10y	3.87	3.87	at	05/01	3.60	at	01/01

At 5-1-24

EXCHANGE RATES

1€ =		highest 24		lowest 24			2024
USD	1.10	1.10	at 01/01	1.09	at	03/01	-0.6%
GBP	0.86	0.87	at 02/01	0.86	at	05/01	-0.6%
CHF	0.93	0.93	at 04/01	0.93	at	02/01	+0.1%
JPY	158.24	158.45	at 04/01	155.33	at	02/01	+1.6%
AUD	1.63	1.63	at 04/01	1.62	at	02/01	+0.7%
CNY	7.86	7.86	at 05/01	7.79	at	03/01	+0.3%
BRL	5.35	5.38	at 04/01	5.35	at	05/01	-0.3%
RUB	99.74	100.17	at 03/01	98.76	at	01/01	+1.0%
INR	91.30	91.92	at 01/01	90.83	at	03/01	-0.7%

At 5-1-24 *Change*

COMMODITIES

Spot price, $		highest 24			lowest 24			2024	2024(€)
Oil, Brent	79.0	79.0	at	05/01	76.2	at	02/01	+1.7%	+2.3%
Gold (ounce)	2 056	2 067	at	02/01	2 034	at	03/01	-0.5%	+0.2%
Metals, LMEX	3 674	3 762	at	01/01	3 670	at	04/01	-2.3%	-1.7%
Copper (ton)	8 361	8 464	at	01/01	8 361	at	05/01	-1.2%	-0.6%
wheat (ton)	229	2.3	at	01/01	222	at	03/01	-1.6%	-1.0%
Corn (ton)	170	1.7	at	01/01	170	at	05/01	-0.2%	-1.7%

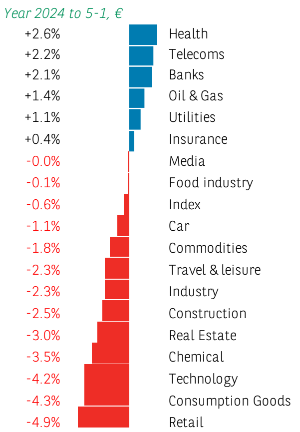
At 5-1-24 *Change*

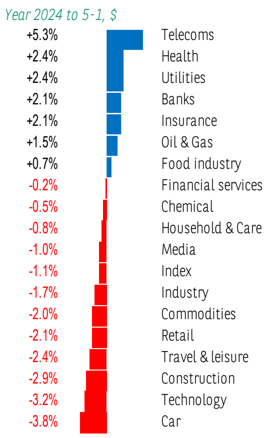
EQUITY INDICES

	Index	highest 24			lowest 24			2024
World								
MSCI World	3 121	3 169	at	01/01	3 114	at	04/01	-1.5%
North America								
S&P500	4 697	4 770	at	01/01	4 689	at	04/01	-1.5%
Europe								
EuroStoxx50	4 464	4 522	at	01/01	4 448	at	03/01	-1.3%
CAC 40	7 421	7 543	at	01/01	7 412	at	03/01	-0.2%
DAX 30	16 594	16 769	at	02/01	16 538	at	03/01	-0.9%
IBEX 35	10 165	10 182	at	04/01	10 053	at	03/01	+0.1%
FTSE100	7 690	7 733	at	01/01	7 682	at	03/01	-0.1%
Asia								
MSCI, loc.	1 249	1 249	at	05/01	1 242	at	03/01	+0.0%
Nikkei	33 377	33 464	at	01/01	33 288	at	04/01	-0.3%
Emerging								
MSCI Emerging ($)	1 002	1 025	at	01/01	1 002	at	05/01	-0.2%
China	54	55	at	01/01	54	at	05/01	-2.6%
India	927	927	at	05/01	915	at	03/01	+0.5%
Brazil	1 773	1 800	at	01/01	1 747	at	04/01	-1.2%

At 5-1-24 *Change*

PERFORMANCE BY SECTOR (Eurostoxx50 & S&P500)

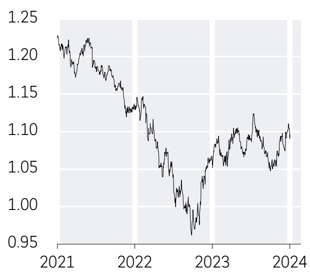




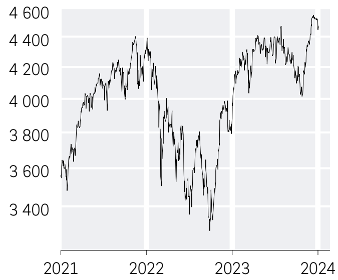
SOURCE: REFINITIV, BNP PARIBAS

MARKETS OVERVIEW

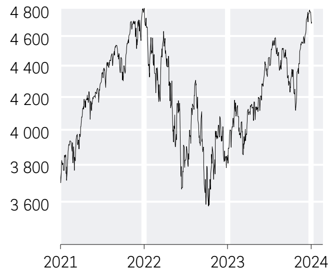
EURO-DOLLAR



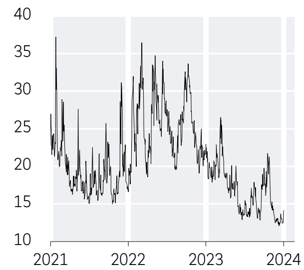
EUROSTOXX50



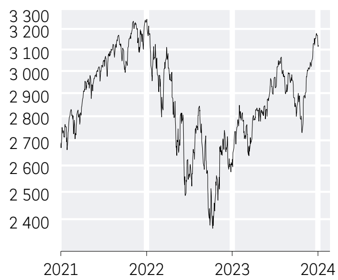
S&P500



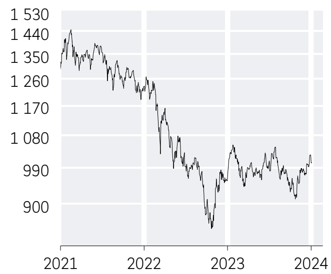
VOLATILITY (VIX, S&P500)



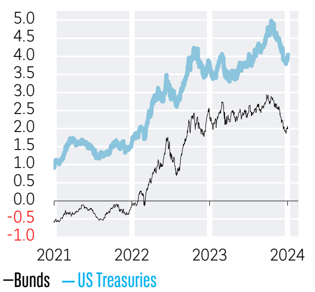
MSCI WORLD (USD)



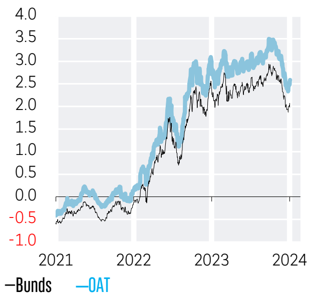
MSCI EMERGING (USD)



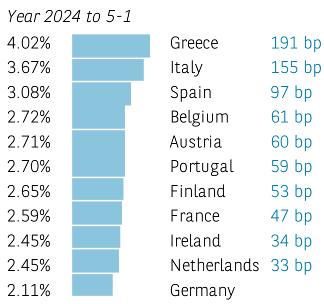
10Y BOND YIELD, TREASURIES VS BUND



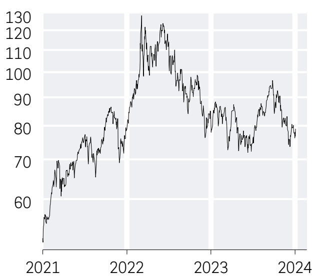
10Y BOND YIELD



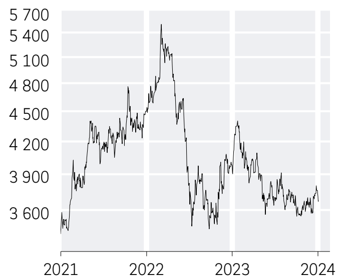
10Y BOND YIELD & SPREADS



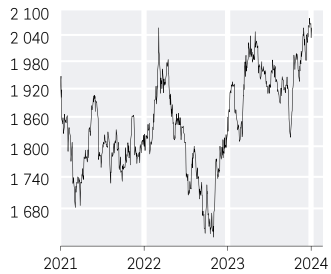
OIL (BRENT, USD)



METALS (LMEX, USD)



GOLD (OUNCE, USD)



SOURCE: REFINITIV, BNP PARIBAS

ECONOMIC PULSE

ENCOURAGING NEWS FOR GLOBAL GROWTH, ALTHOUGH SECTOR DISPARITIES PERSIST

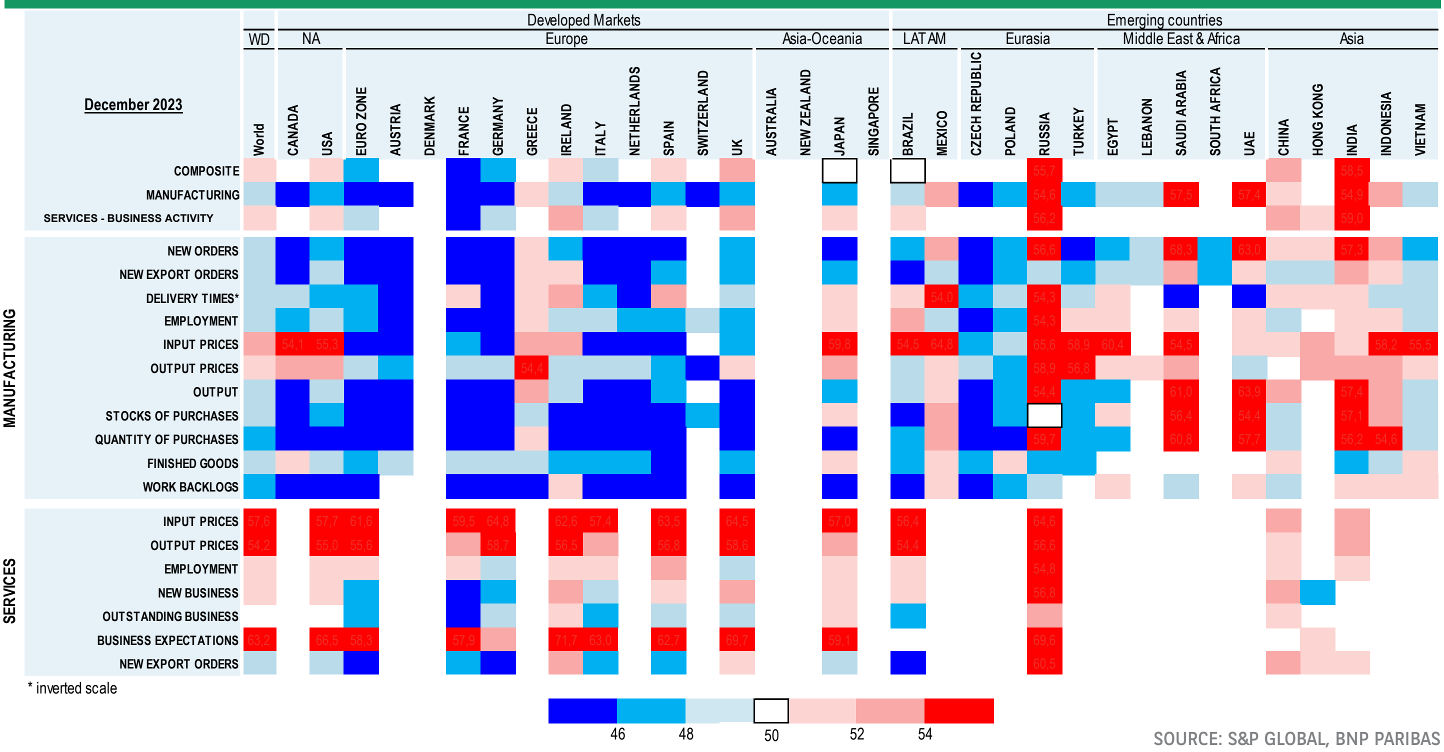
In December, the S&P Global Composite PMI index for worldwide business activity rose again slightly (+0.5 points), reaching 51, its highest level since August 2023. This is the second consecutive month of improvement, after five months of decline. The signal remains encouraging for global activity at the end of Q4 2023. However, this improvement masks a fairly clear divergence between the services sector and the manufacturing sector. In December, the global services index reached its highest level since August 2023 (51.6), while the manufacturing index recorded its lowest level since the same month (49).

In services, the index recovered in December in most countries covered by the survey (except Germany, Ireland and Brazil). At the global level, the following four components (out of the six compiled) are up: 'new business', 'employment', 'input prices' and 'business expectations'.

The table is very different for the manufacturing PMI: 15 of the 28 countries for which December data is available indicated a decline in the business climate in this sector (12 showed an improvement). At a global level, the decline in the 'new orders', 'output' and 'employment' components are a point of attention. The continued rise since mid-2023 in the component relating to delivery times must also be monitored too, particularly in view of the current tensions on maritime traffic in the Red Sea. In terms of countries, there is a fairly marked decline in the manufacturing PMI in the US, Canada, France, the United Kingdom, Ireland, Brazil, the Czech Republic, Poland and India. Conversely, the index is continuing to recover in the Eurozone, Germany, Greece and Switzerland and, to a lesser extent, China

Tarik Rharrab

S&P GLOBAL PMI (2023) - DECEMBER 2023



SOURCE: S&P GLOBAL, BNP PARIBAS

S&P GLOBAL PMI (DECEMBER VERSUS NOVEMBER 2023)

		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
		Developed Markets																			Emerging countries															
		WD	NA		Europe												Asia-Oceania				LATAM		Eurasia				Middle East & Africa					Asia				
	COMPOSITE	0,5		0,2	0,0			0,2	-0,4		-0,8	0,5		0,6		1,4			0,4		-0,7				3,3							1,0		1,1		
	MANUFACTURING	-0,3	-2,3	-1,5	0,2	-0,2		-0,8	0,7	0,4	-1,1	0,9	-0,1	-0,1	0,9	-1,0			-0,4		-1,0	-0,5	-1,4	-1,3	0,8	0,2	0,1	-1,1	0,0		0,4	0,1		-1,1	0,5	1,6
	SERVICES - BUSINESS ACTIVITY	1,0		0,6	0,1			0,3	-0,3		-1,0	0,3		0,5		2,5			0,7		-0,7				4,0							1,4	1,2	2,1		
MANUFACTURING	NEW ORDERS	-0,4	-3,0	-2,5	0,5	1,3		-2,2	2,2	1,7	-2,2	0,8	0,2	-0,7		0,9			-0,9		-2,9	-1,2	-3,6	-3,1	-0,5	1,0	-0,4	-1,7	2,0	-1,4	2,5	0,5	1,0	-1,5	1,1	1,6
MANUFACTURING	NEW EXPORT ORDERS	-0,1	-2,0	-1,4	0,4	2,6		-2,4	0,4	0,9	2,7	0,5	-1,0	1,7		0,2			-0,3		0,9	1,4	-5,0	-1,0	-1,4	-0,4	2,5	-1,7	5,5	0,8	-2,1	0,5	1,3	-0,3	0,8	0,9
MANUFACTURING	DELIVERY TIMES	0,3	-2,3	-1,4	1,3	0,1		-0,8	2,3	1,7	2,5	0,1	2,0	0,4		0,2			-0,3		2,2	-0,4	2,9	-1,4	1,6	-0,9	0,8		-3,6		0,3	1,1	1,8	0,2	-0,3	-0,1
MANUFACTURING	EMPLOYMENT	-0,5	-3,4	-0,2	0,0	-1,1		0,7	-0,4	0,3	-1,2	2,0	-0,4	-0,5	3,2	-1,1			0,4		0,8	-1,9	-1,3	0,9	1,4	0,9	1,4		-1,2		0,2	-1,5		-1,3	0,1	1,1
MANUFACTURING	INPUT PRICES	0,4	-1,5	2,9	0,5	1,7		-2,6	1,1	2,1	4,5	-0,4	-0,3	-1,3		1,2			0,8		1,5	2,6	3,3	-1,0	-0,6	-1,7	-0,9		-0,7		-1,9	-0,7	-2,5	0,1	-0,5	-0,4
MANUFACTURING	OUTPUT PRICES	0,6	-2,0	2,0	1,7	3,1		-1,0	2,5	2,4	1,8	3,3	1,1	-1,2	-3,0	-0,1			-0,7		-1,4	1,2	2,4	-0,9	0,0	0,6	-2,7	-0,1	1,9		-1,7		0,0	0,0	0,1	-1,9
MANUFACTURING	OUTPUT	-0,4	-0,8	-2,3	-0,2	-2,2		-0,4	-0,4	-0,3	-0,7	1,2	-0,8	0,9		-3,7			-0,4		-0,7	0,6	-3,6	-0,9	1,6	-0,1	-0,5		-0,1		0,0	0,5		-1,1	0,4	3,3
MANUFACTURING	STOCKS OF PURCHASES	-0,3	-2,0	0,9	-1,3	1,3		-0,8	-1,4	-1,7	-3,8	-0,6	-1,8	-1,0	4,4	-1,2			-0,4		-4,8	1,6	3,9	-1,0	-0,5	-0,5	-0,2		1,5		-3,9	-0,6		-1,2	0,8	1,5
MANUFACTURING	QUANTITY OF PURCHASES	-1,3		-5,0	0,3	1,1		-0,9	2,1	-0,6	-2,9	-0,1	-1,3	-0,9		0,1			-1,8		-0,6	0,1	-2,5	-2,1	4,9	-0,6	-0,4		-3,0		-2,4	-0,7		-3,0	1,1	0,7
MANUFACTURING	FINISHED GOODS	0,0	-0,2	0,8	0,8	1,8		2,1	0,8	1,1	0,4	-0,6	0,2	0,9		-0,7			1,8		-2,7	-0,6	-0,7	-0,6	4,0	-1,8						-1,0		0,4	0,9	0,2
MANUFACTURING	WORK BACKLOGS	-0,7	-0,3	-1,9	1,3			0,0	2,5	-0,6	0,2	1,7	-0,9	-2,6		0,6			-1,1		-1,0	2,2	-1,4	-1,5	-0,6		-1,0		1,1		-1,2	-1,3		0,0	0,3	1,9
SERVICES	INPUT PRICES	0,6		1,2	-1,0			-2,7	0,2		2,6	-1,6		-0,1		0,5			0,2		-2,1				-0,5							1,8		-1,3		
SERVICES	OUTPUT PRICES	-0,2		-1,2	1,1			-0,8	2,8		1,6			1,4		0,4			0,8		0,7				-0,6							-0,2		0,1		
SERVICES	EMPLOYMENT	0,6		1,7	0,0			0,2	-1,0		-1,4	0,8		1,5		-0,7			-0,9		-1,2				2,7							0,5		0,3		
SERVICES	NEW BUSINESS	1,2		1,2	0,4			0,8	-0,2		-1,2	-0,2		2,5		2,4			0,2		-1,2				4,1							2,5	-1,7			
SERVICES	OUTSTANDING BUSINESS				0,0			0,7	-0,1		-1,2	-0,9		0,2		2,5			-0,3		-3,1				0,1							-0,8				
SERVICES	BUSINESS EXPECTATIONS	1,4		2,6	1,3			2,5	0,1		2,2	1,3		1,7		2,1			0,3						-2,3								1,2			
SERVICES	NEW EXPORT ORDERS	-0,3		-1,0	-1,9			-0,9	-4,8		0,6	1,0		-1,5		-0,1			1,1		-5,8				0,7							0,6	1,2	-0,3		

Colour scale: -3 -2 -1 0 1 2 3

SOURCE: S&P GLOBAL, BNP PARIBAS

ECONOMIC SCENARIO

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 (+1.2% q/q according to the latest 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 contracted slightly in Q3 (-0.1% q/q) after two quarters of stagnation. The negative effects of monetary tightening are expected to continue to weigh on economic activity this winter. Apart from the possibility of a small technical recession in the second half of 2023, activity is expected to stabilize 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 by the end of the year: interest rates in real terms and the degree of monetary restriction would remain about unchanged. However, 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

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 4.1% y/y in December, compared to 5.7% y/y in December), but the impact of higher interest rates should continue to be felt. As a result, we except 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

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. 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. 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	2.4	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	2,3	1,9
United-Kingdom	4,4	0,3	-0,1	1,1	9,1	7,4	2,2	2,2
Euro Area	3,4	0,5	0,6	1,6	8,4	5,4	2,2	2,0
Germany	1,9	-0,1	0,3	1,3	8,6	6,0	2,2	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	5,9	1,3	1,8
Spain	5,8	2,3	1,5	2,1	8,3	3,4	2,3	1,8
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: 22 December 2023
* 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	3.75	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
	BTP 10y	4.25	4.00	3.95	3.90	4.20
	BONO 10y	3.45	3.25	3.10	3.05	3.30
UK	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	85	86	91	88	85

Sources: BNP Paribas (Market Economics, Interest Rate Strategy, FX Strategy, Commodities Desk Strategy)
Last update: 15 December 2023

FURTHER READING

December issue	EcoPulse	22 December 2023
Global economy: 2023: a year of transition with many surprises	EcoWeek	21 December 2023
Sub-Saharan Africa: multilateral creditors have redoubled their efforts to finance the region	Chart of the Week	19 December 2023
Housing supply challenges in France: an unsolvable issue?	EcoConjoncture	19 December 2023
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2023, a surprising year until the end	EcoTVWeek	15 December 2023
US: Santa Claus is coming to town	EcoWeek	15 December 2023
Eurozone: for the ECB, time for relaxation has not come yet	EcoBrief	14 December 2023
United States: Rising interest rates fuel hedge fund arbitrage	Chart of the Week	13 December 2023
Inflation tracker - December 2023	EcoCharts	8 December 2023
Eurozone: a little less uncertainty about the return to the inflation target in 2024	EcoTVWeek	8 December 2023
France: insolvencies in the construction sector catch up with those in retail trade	Chart of the Week	6 December 2023
European Union: capital market fragmentation and the cost of non-CMU	EcoWeek	6 December 2023
Federal home loan banks: their support for bank liquidity called into question	EcoTVWeek	1 December 2023
French employment data in Q3: fade to grey	EcoBrief	30 November 2023
Electric vehicles: a high voltage market	Chart of the Week	29 November 2023
Eurozone: stabilisation but not yet a bottoming out	EcoWeek	27 November 2023
China: Stabilization and sluggishness	EcoTVWeek	24 November 2023
November 2023 issue	EcoPulse	22 November 2023
Europe: less widespread but still meaningful labour shortages	EcoFlash	22 November 2023

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