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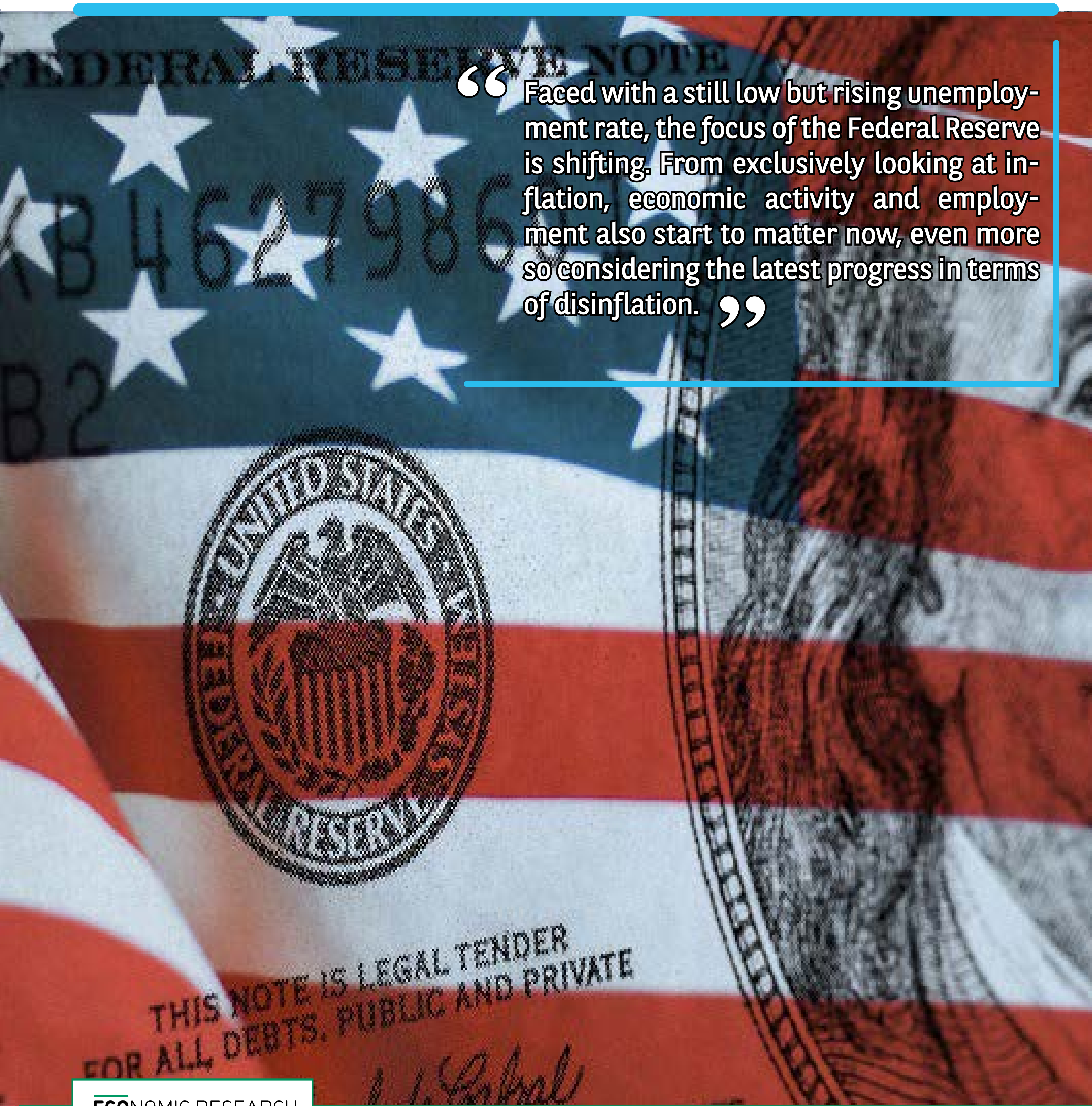

“Faced with a still low but rising unemployment rate, the focus of the Federal Reserve is shifting. From exclusively looking at inflation, economic activity and employment also start to matter now, even more so considering the latest progress in terms of disinflation.”

ECONOMIC RESEARCH

BNP PARIBAS

The bank
for a changing
world

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FEDERAL RESERVE: SHIFT IN FOCUS

US growth has clearly moderated in the first half of the year and the latest data for the Federal Reserve's preferred inflation metric (core personal consumption expenditures inflation) have been welcomed by the Fed and financial markets. The latter are now pricing in a high likelihood of a first rate cut in September. Faced with a still low but rising unemployment rate, the focus of the Federal Reserve is shifting. From exclusively looking at inflation, economic activity and employment also start to matter now, even more so considering the latest progress in terms of disinflation.

The latest issue of the Federal Reserve Bank of Richmond's National Economic Indicators -a weekly chart book providing a comprehensive overview of how the US economy is doing-, shows an economy that is clearly losing steam[1] . Looking at the trend in recent months, there is a slowdown in retail sales, real disposable income, home sales, housing starts and building permits. In June the Institute for Supply Management survey was basically stable for manufacturing (48.5 versus 48.7 in May), remaining in contraction territory, but the non-manufacturing index recorded a huge drop, from 53.8 to 48.8, on the back of a significant worsening of incoming orders. The level of manufacturers' new orders has been without any clear direction since the beginning of 2022 and this also applies to core capital goods -i.e. nondefense capital goods excluding aircraft-, which doesn't bode well for corporate investment. Investment in intellectual property remains an exception and has seen accelerating growth in recent quarters. The business inventory/sales ratio continues to rise in the retail sector, although it remains well below the pre-Covid levels. The monthly pace of job creations remains healthy -an average of 220.000 new jobs per month since the start of the year- but the pace is slowing. The job openings rate has dropped from an exceptionally high level – despite its decline it is still close to the pre-Covid high that was reached in 2018-, and the hiring rate and quits rate are on a downward path, reaching a level below that seen before the start of the recession in December 2007. Finally, the unemployment rate has been moving higher in recent months, reaching 4.1% in June, which admittedly is still a low level.

The Federal Reserve Bank of Atlanta's GDPNow indicator -a real-time estimate of real GDP growth based on available economic data-, helps to see the forest for the trees. For the second quarter, it points to a seasonally adjusted annualised growth rate of 2.0% versus the previous quarter. This number had declined in recent weeks to 1.5%, especially on the back of the ISM data published at the beginning of June and July, before rebounding following the latest labour market report. In his testimony before the US Senate, Jerome Powell sounded confident is his summary of recent cyclical developments.

"*Recent indicators suggest that the U.S. economy continues to expand at a solid pace. Gross domestic product growth appears to have moderated in the first half of this year*", adding that the labour market remains strong but no longer overheated[2]. Importantly, in terms of inflation, "*more good data would strengthen our confidence that inflation is moving sustainably toward 2 percent*." The use of the word 'good' was undoubtedly inspired by core personal consumption expenditures inflation, the Federal Reserve's preferred metric, which in May came in at 2.6% year over year and 1.0% annualised versus the month before.

US UNEMPLOYMENT RATE : SAHM RULE

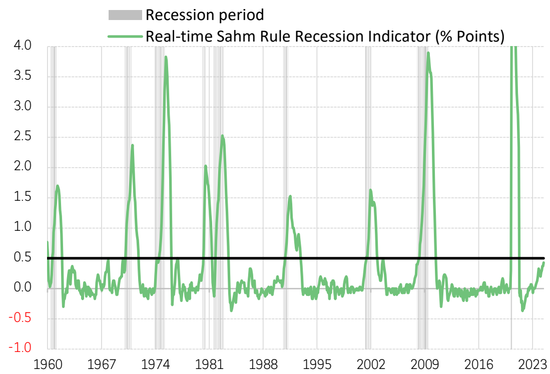


CHART 1

SOURCE: FEDERAL RESERVE BANK OF ST. LOUIS, NBER, SAHM CLAUDIA, BNP PARIBAS

Fixed income markets have obviously reacted to these developments. The 2-year Treasury yield, which is very sensitive to expectations about monetary policy, has dropped about 35 basis points since the end of May and federal funds futures contracts are now pricing in a 75% probability of a rate cut at the September FOMC meeting[3]. Probably, investors think that further progress in terms if disinflation will push the Federal Reserve to start cutting rates to avoid keeping rates high for too long. In this respect, the rise in the unemployment rate needs to be closely monitored keeping in mind the 'Sahm rule'. The Sahm recession indicator "*signals the start of a recession when the three-month moving average of the national unemployment rate (U3) rises by 0.50 percentage points or more relative to the minimum of the three-month averages from the previous 12 months.*[4]" Chart 1 illustrates this relationship and shows that we are getting close to the critical level of 0.5. Breaching this level would fuel concerns about mounting recession risk. Against this background, the words of Jerome Powell during his testimony show that the Fed's focus is shifting, and that greater emphasis is put on risk management: "*Elevated inflation is not the only risk we face. Reducing policy restraint too late or too little could unduly weaken economic activity and employment.*"

William De Vijlder

1 National Economic Indicators | Richmond Fed
2 Source: Federal Reserve, Statement by Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System, before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, 9 July 2024.
3 Source : CME website (CME FedWatch - CME Group).
4 Source : FRED, Federal Reserve Bank of St Louis.

MARKETS OVERVIEW

OVERVIEW

Week 28-6 24 to 5-7-24					
↗ CAC 40	7.479	▸	7.676	+2.6	%
↗ S&P 500	5.460	▸	5.567	+2.0	%
↗ Volatility (VIX)	12.4	▸	12.5	+0.0	pb
↗ Euribor 3M (%)	3.71	▸	3.71	+0.1	bp
↘ Libor $ 3M (%)	5.59	▸	5.57	-1.8	bp
↘ OAT 10y (%)	3.26	▸	3.16	-9.7	bp
↗ Bund 10y (%)	2.46	▸	2.51	+5.3	bp
↘ US Tr. 10y (%)	4.37	▸	4.28	-9.6	bp
↗ Euro vs dollar	1.07	▸	1.08	+1.0	%
↗ Gold (ounce, $)	2.326	▸	2.383	+2.5	%
↗ Oil (Brent, $)	86.4	▸	87.9	+1.7	%

MONEY & BOND MARKETS

Interest Rates		highest 24			lowest 24		
€ ECB	4.25	4.50	at	01/01	4.25	at	12/06
Eonia	-0.51	-0.51	at	01/01	-0.51	at	01/01
Euribor 3M	3.71	3.97	at	18/01	3.68	at	24/06
Euribor 12M	3.59	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	5.57	5.61	at	20/06	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 5-7-24

Yield (%)		highest 24			lowest 24		
€ AVG 5-7y	2.64	2.64	at	01/01	2.64	at	01/01
Bund 2y	3.07	3.23	at	10/06	2.53	at	01/02
Bund 10y	2.51	2.66	at	29/05	2.02	at	03/01
OAT 10y	3.16	3.30	at	01/07	2.47	at	01/01
Corp. BBB	3.96	4.14	at	10/06	3.75	at	01/01
$ Treas. 2y	4.66	5.10	at	30/04	4.22	at	15/01
Treas. 10y	4.28	4.70	at	25/04	3.86	at	01/02
High Yield	7.86	8.24	at	16/04	7.73	at	13/03
£ gilt. 2y	4.71	4.96	at	29/05	3.98	at	01/01
gilt. 10y	4.13	4.41	at	29/05	3.60	at	01/01

At 5-7-24

EXCHANGE RATES

1€ =		highest 24			lowest 24			2024
USD	1.08	1.10	at	01/01	1.06	at	15/04	-2.0%
GBP	0.85	0.87	at	02/01	0.84	at	11/06	-2.4%
CHF	0.97	0.99	at	27/05	0.93	at	08/01	+4.5%
JPY	174.24	174.34	at	03/07	155.33	at	02/01	+11.9%
AUD	1.61	1.67	at	28/02	1.60	at	28/06	-0.8%
CNY	7.87	7.88	at	06/06	7.69	at	15/04	+0.4%
BRL	5.94	6.09	at	02/07	5.31	at	13/02	+10.7%
RUB	95.63	102.67	at	23/02	89.75	at	19/06	-3.2%
INR	90.37	91.92	at	01/01	88.68	at	12/04	-1.7%

At 5-7-24 *Change*

COMMODITIES

Spot price, $		highest 24			lowest 24			2024	2024(€)
Oil, Brent	87.9	91.6	at	12/04	75.8	at	08/01	+13.1%	+15.5%
Gold (ounce)	2.383	2.432	at	21/05	1.989	at	14/02	+15.4%	+17.8%
Metals, LMEX	4.261	4.652	at	21/05	3.558	at	09/02	+13.3%	+15.6%
Copper (ton)	9.795	10.801	at	20/05	8.065	at	09/02	+15.7%	+18.1%
wheat (ton)	204	2.5	at	28/05	191	at	15/03	-12.3%	-10.5%
Corn (ton)	152	1.7	at	13/05	148	at	23/02	-1.3%	-10.8%

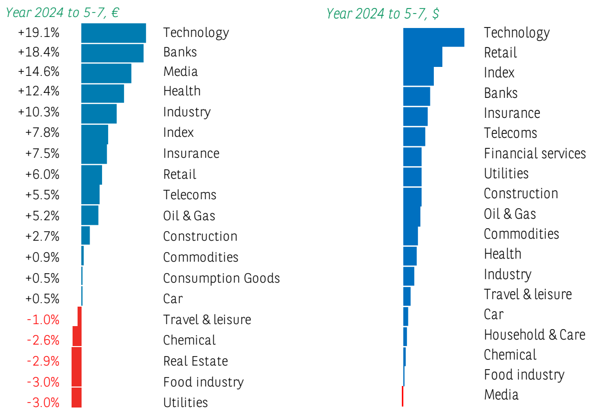
At 5-7-24 *Change*

EQUITY INDICES

	Index	highest 24			lowest 24			2024
World								
MSCI World	3.581	3.581	at	05/07	3.114	at	04/01	+13.0%
North America								
S&P500	5.567	5.567	at	05/07	4.689	at	04/01	+16.7%
Europe								
EuroStoxx50	4.979	5.101	at	15/05	4.403	at	17/01	+10.1%
CAC 40	7.676	8.240	at	15/05	7.319	at	17/01	+0.2%
DAX 30	18.475	18.869	at	15/05	16.432	at	17/01	+10.3%
IBEX 35	11.024	11.444	at	06/06	9.858	at	19/01	+0.9%
FTSE100	8.204	8.446	at	15/05	7.446	at	17/01	+0.6%
Asia								
MSCI, loc.	1.447	1.453	at	04/07	1.242	at	03/01	+1.6%
Nikkei	40.912	40.914	at	04/07	33.288	at	04/01	+22.3%
Emerging								
MSCI Emerging ($)	1.105	1.105	at	05/07	958	at	17/01	+0.8%
China	58	64	at	20/05	49	at	22/01	+4.6%
India	1.091	1.091	at	05/07	915	at	03/01	+18.8%
Brazil	1.446	1.800	at	01/01	1.387	at	19/06	-9.2%

At 5-7-24 *Change*

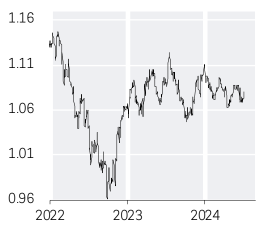
PERFORMANCE BY SECTOR (Eurostoxx50 & S&P500)



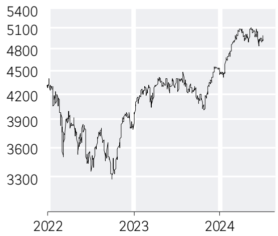
SOURCE: REFINITIV, BNP PARIBAS

MARKETS OVERVIEW

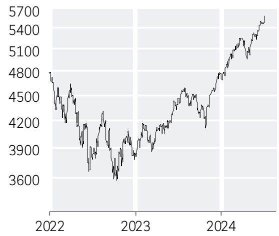
EURO-DOLLAR



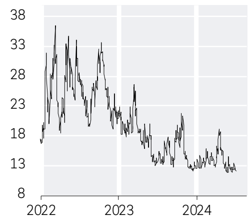
EUROSTOXX50



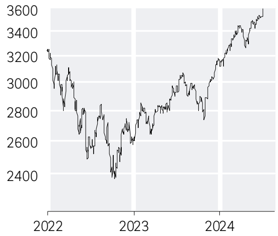
S&P500



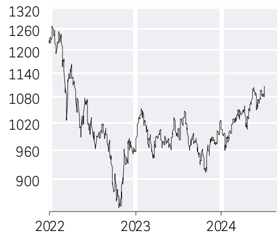
VOLATILITY (VIX, S&P500)



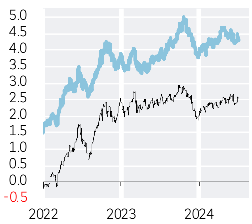
MSCI WORLD (USD)



MSCI EMERGING (USD)

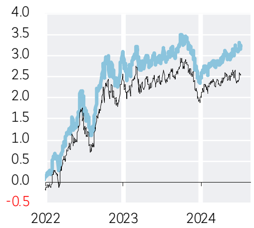


10Y BOND YIELD, TREASURIES VS BUND



—Bunds — US Treasuries

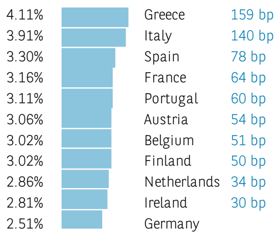
10Y BOND YIELD



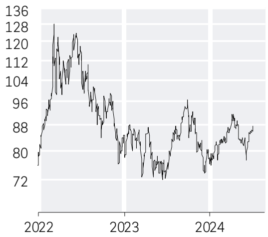
—Bunds —OAT

10Y BOND YIELD & SPREADS

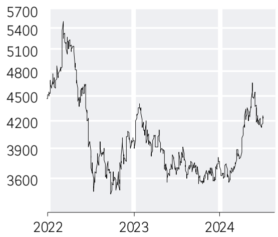
Year 2024 to 5-7



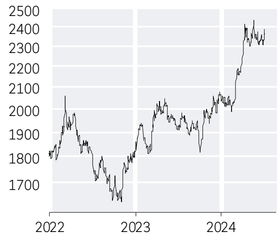
OIL (BRENT, USD)



METALS (LMEX, USD)



GOLD (OUNCE, USD)



SOURCE: REFINITIV, BNP PARIBAS

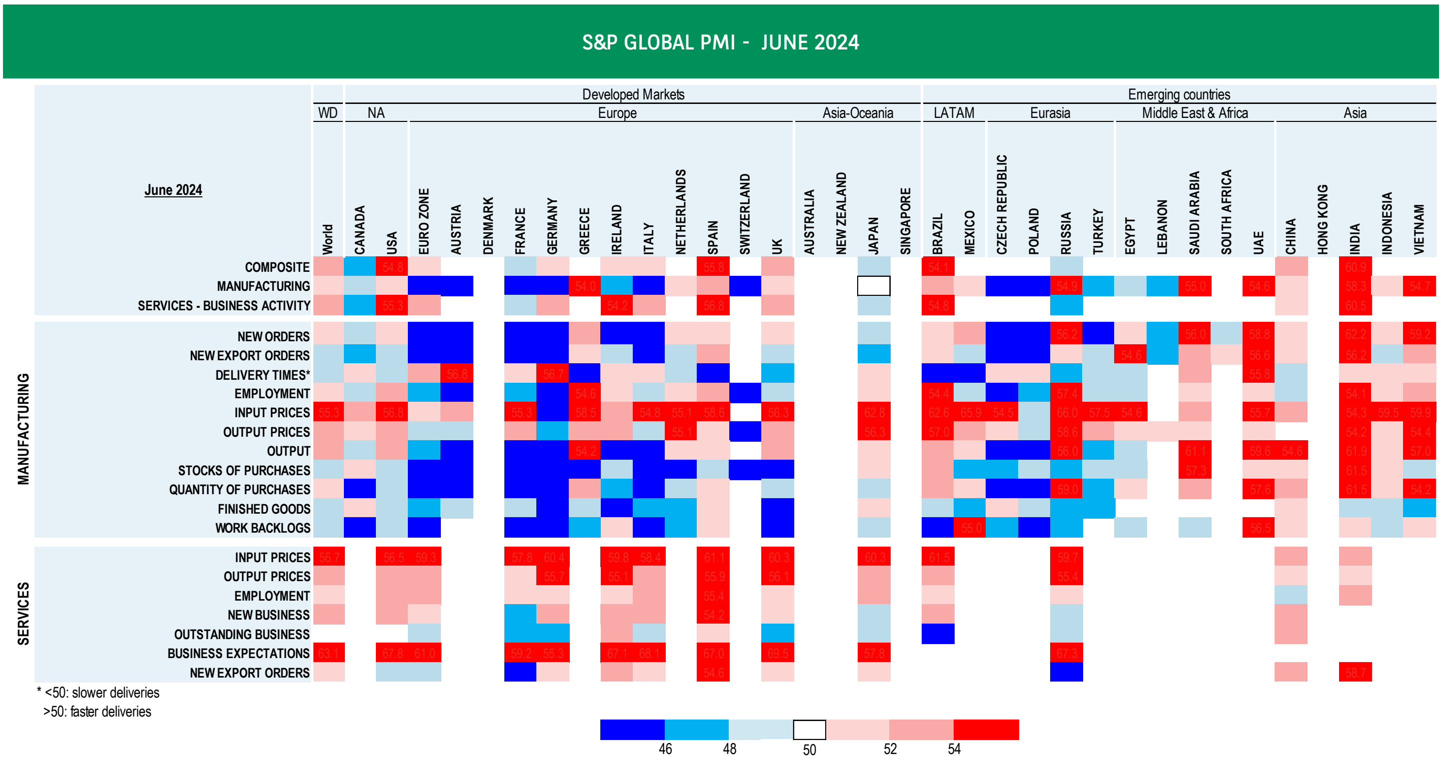
SERVICES PMI AND MANUFACTURING PMI: A DECLINE IN JUNE

The second quarter of 2024 ended with a fall in the S&P Global PMI for global activity. The index stood at 52.9 (compared with 53.7 in May), ending seven months of consecutive increases. This decline was driven by both the manufacturing and services sectors, with the global PMI at 50.9 (compared with 51.0 in May) and 53.1 (compared with 54.0 in May) respectively. This fall in the index is not necessarily a sign of a slowdown in global activity, but forthcoming surveys will be all the more important to see whether this is a new trend or just a temporary disruption.

In the manufacturing sector, of the 30 countries for which June data is available, 19 reported a fall in the index compared with the previous month (9, an improvement and 2, in stagnation), driven by "new orders", "new export orders" and "production", with a marked fall in Germany, Spain, Ireland, the Netherlands, Austria, the Eurozone and, to a lesser extent, France and Greece. The index also fell in the UK, Japan and Indonesia, but remains slightly above the threshold (50) separating the expansion zone from the contraction zone. Conversely, the United States, Italy, India, China and Vietnam are among the countries that posted a manufacturing PMI up on the previous month. At a global level, the employment sub-index has continued to improve since the start of 2024 (apart from stagnation in April). However, this good news was cancelled out by rising input prices and selling prices. The "delivery times" component fell for the second month in a row and moved into the contraction zone: geopolitical conflicts in the Red and Black Seas and the drought affecting the Panama Canal are resulting in longer supply times in most of the countries surveyed.

In services, most of the countries in our sample reported a fall in the index compared with the previous month, with the exception of the United States, France and India. The fall was marked in Canada and Japan, where their indices returned to the contraction zone, as well as in China and Russia, and to a lesser extent in Germany, the UK and Ireland. Overall, the services sector index was dragged down by the decline in three of the six components covered by the survey: new export orders, new business and business expectations. On the other hand, there was an increase in the employment index and a fall in the "output prices" and "input prices" indices – which is good news.

Tarik Rharrab



SOURCE: S&P GLOBAL, BNP PARIBAS

ECONOMIC PULSE

S&P GLOBAL PMI, Δ (JUNE, MAY)

Developed Markets

		WD	NA		Europe											Asia-Oceania			
		World	CANADA	USA	EURO ZONE	AUSTRIA	DENMARK	FRANCE	GERMANY	GREECE	IRELAND	ITALY	NETHERLANDS	SPAIN	SWITZERLAND	UK	AUSTRALIA	NEW ZEALAND	JAPAN	SINGAPORE
	COMPOSITE	-0.8	-3.1	0.3	-1.3			-0.1	-2.0		-2.4	-1.0		-0.8		-0.7			-2.9	
	MANUFACTURING	-0.1	0.0	0.3	-1.5	-2.7		-1.0	-1.9	-0.9	-2.4	0.1	-1.8	-1.7	-2.5	-0.3			-0.4	-0.2
	SERVICES - BUSINESS ACTIVITY	-0.9	-4.0	0.5	-0.4			0.3	-1.1		-0.8	-0.5		-0.1		-0.8			-4.4	
MANUFACTURING	NEW ORDERS	-0.4	0.1	0.7	-2.9	-2.5		-1.6	-4.4	-1.7	-3.3	0.1	-4.4	-3.5		-0.5			-0.7	-0.2
	NEW EXPORT ORDERS	-1.1	-1.9	-2.3	-2.0	-5.6		1.2	-4.7	-1.6	2.0	-0.1	-3.1	-0.3		-1.4			-1.2	-0.2
	DELIVERY TIMES	-0.7	1.3	-0.4	-2.4	-0.3		-1.5	-2.3	-2.0	-1.7	-3.5	-3.1	-3.9		0.6			1.7	-0.2
	EMPLOYMENT	0.2	-1.1	0.8	-0.4	-4.5		-0.7	0.3	-0.9	-2.5	0.9	-0.2	-1.0	-0.7	-0.4			0.1	
	INPUT PRICES	0.5	-0.3	-1.4	2.2	4.3		3.7	1.9	-0.4	2.2	0.5	0.1	3.6		3.4			0.9	0.2
	OUTPUT PRICES	0.6	0.8	-0.4	1.2	1.4		1.6	1.7	-0.3	2.5	-0.2	1.4	-0.2	-4.8	0.0			0.3	
	OUTPUT	-0.4	1.3	-0.8	-3.3	-4.8		-1.9	-3.7	-1.2	-4.4	-2.3	-3.5	-3.3		-0.1			0.6	-0.2
	STOCKS OF PURCHASES	-0.2	0.4	0.6	-0.9	0.2		-2.0	-0.6	-2.0	-0.6	-0.6	-0.7	-2.3	-2.3	0.2			-0.1	0.1
	QUANTITY OF PURCHASES	-0.7	-2.5	-1.3	-2.3	-3.1		-2.5	-3.0	-1.3	-1.7	-1.0	-0.7	-2.7		-1.5			0.2	
	FINISHED GOODS	-0.4	1.6	-2.7	-0.5	2.4		0.9	-0.4	1.9	-3.0	-1.6	-1.3	1.8		-2.4			-0.4	-0.2
	WORK BACKLOGS	-0.2	-3.4	0.9	-0.8			-1.4	-1.0	-2.1	1.3	-0.4	-0.6	-3.8		1.6			2.7	
SERVICES	INPUT PRICES	-0.5		-0.6	-1.2			-0.3	-0.8		-4.4	-1.4		-3.0		-0.6			1.2	
	OUTPUT PRICES	-0.8		-0.5	-0.7			-1.3	0.4		-2.0	-1.6		-0.5		0.8			-2.3	
	EMPLOYMENT	0.5		2.9	-1.4			-0.5	-3.0		-2.5	-1.0		0.3		-0.4			-0.9	
	NEW BUSINESS	-0.8		1.5	-2.0			-4.3	-1.2		-3.0	-0.3		-1.2		-0.1			-3.4	
	OUTSTANDING BUSINESS				-1.5			-1.6	-2.1		0.8	0.2		-2.9		-0.6			-2.1	
	BUSINESS EXPECTATIONS	-1.2		1.0	-3.1			-2.1	-6.6		-2.3	0.7		-2.1		-2.5			-1.5	
	NEW EXPORT ORDERS	-0.5		1.7	0.2			1.5	0.4		-1.9	-1.8		0.8		0.5			-4.1	

Emerging countries

		LATAM		Eurasia				Middle East & Africa					Asia				
		BRAZIL	MEXICO	CZECH REPUBLIC	POLAND	RUSSIA	TURKEY	EGYPT	LEBANON	SAUDI ARABIA	SOUTH AFRICA	UAE	CHINA	HONG KONG	INDIA	INDONESIA	VIETNAM
	COMPOSITE	0.1				-1.6							-1.3		0.4		
	MANUFACTURING	0.4	-0.1	-0.8	0.0	0.5	-0.5	0.3	-0.1	-1.4	1.9	-0.7	0.1		0.8	-1.4	4.4
	SERVICES - BUSINESS ACTIVITY	-0.5				-2.2							-2.8		0.3		
MANUFACTURING	NEW ORDERS	-0.1	-0.3	-0.8	0.6	0.1	-1.5	1.4	0.2	-3.4	-1.2	0.1	-0.4		1.3	-1.9	6.6
	NEW EXPORT ORDERS	0.3	0.6	-0.7	1.5	1.4	-0.2	3.3	0.2	1.5	-0.4	5.7	-0.4		-1.1	-0.4	3.1
	DELIVERY TIMES	-0.4	-1.9	-0.6	-0.6	-1.5	1.2	0.1		0.3	0.7	2.1	-1.0		-0.5	-0.5	1.2
	EMPLOYMENT	-1.5	-1.1	-1.4	0.3	1.2	-0.4	-1.0		-1.2	2.8	-0.7	0.3		0.6	0.2	6.3
	INPUT PRICES	5.6	-0.5	3.9	-0.9	2.6	-3.5	2.6		0.5		0.2	0.3		-0.1	-0.4	1.5
	OUTPUT PRICES	2.2	1.1	-0.2	-0.9	2.0	-2.3	0.5	2.1	0.2		0.3			1.4	0.3	2.0
	OUTPUT	2.0	0.5	-1.7	-1.3	-0.2	0.3	0.6		1.0	-1.8	-1.2	0.2		0.8	-3.3	5.5
	STOCKS OF PURCHASES	2.0	-1.9	0.3	0.8	0.7	0.9	-0.5		-3.7	7.4	0.8	-0.5		0.1	-1.6	0.3
	QUANTITY OF PURCHASES	-0.8	-1.8	-0.3	-0.6	3.3	-2.4	3.8		-0.2		-0.7	-0.4		0.6	-2.6	2.6
	FINISHED GOODS	0.4	-1.1	3.3	-1.6	-0.8	-1.2						0.8		2.3	-2.6	-1.2
	WORK BACKLOGS	-2.1	-1.1	-1.2	-1.3	-3.6		-0.2		-1.7		-3.9	-1.2		0.0	-0.7	2.5
SERVICES	INPUT PRICES	2.0				2.1							-0.4		-1.6		
	OUTPUT PRICES	0.6				1.3							-1.4		-0.5		
	EMPLOYMENT	-1.9				-0.3							-1.0		0.3		
	NEW BUSINESS	-1.5				-0.9							-3.4				
	OUTSTANDING BUSINESS	-5.9				0.3							2.6				
	BUSINESS EXPECTATIONS					-4.6											
	NEW EXPORT ORDERS					-18.9							-0.2		0.3		

-3 -2 -1 0 1 2 3

SOURCE: S&P GLOBAL, BNP PARIBAS

ECONOMIC SCENARIO

UNITED STATES

The US economy showed surprising vigour in 2023, illustrated by +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. Despite a slowdown (+0.3% q/q v. +0.8% in Q4 2023), the GDP has expanded again in Q1 2024, driven by contributions from household consumption and investment. Our baseline scenario implies a +2.5% rate of growth for 2024, enabled by the very positive carryover effect from 2023 and an expected increase in real incomes. While the inflation peak was reached in mid-2022, Q1 2024 data have raised some concerns before an improvement in Q2. We forecast inflation to stand at +2.8% y/y in Q4 2024. This picture paves the way for a modest easing of its monetary policy by the Fed, which could start cutting rates progressively as the end of the year, with one rate cut in 2024.

CHINA

Economic growth was stronger than expected in Q1 2024 (+5.3% year-on-year), principally driven by the manufacturing export sector. On the contrary, domestic demand and activity in the services sector continued to lack momentum, still held back by the crisis in the property sector, regulatory uncertainties, and low confidence of consumers and private investors. To support activity, the authorities have been strengthening their industrial policy while maintaining a prudent demand policy. This economic policy mix risks amplifying the divergence in performance between sectors and the imbalance between domestic demand and supply, which have been apparent for several months. The real GDP growth target of "around 5%" set for this year is projected to be reached. Consumer price inflation is expected to remain very low; it averaged zero y/y in Q1 2024.

EUROZONE

Eurozone GDP picked up by 0.3% q/q in Q1 according to preliminary Eurostat data. The negative effects of monetary tightening on economic activity are expected to diminish in 2024. Growth would stabilise at 0.3% q/q in Q2 before strengthening at 0.4 q/q in the last two quarters of the year. This improvement would also be underpinned by the interest rate cut cycle by the ECB. After lowering its policy rates for the first time in June, we expect two more cuts in the second half of the year (one cut per quarter). This monetary easing would accompany the inflation decline, which is expected to come close to the 2% target during the third quarter. That said we expect continued stickiness in the more wage-sensitive parts of the inflation basket, like services. The disinflation process, along with the dynamism of wages, should support household purchasing power and consumption. Growth should also be boosted by NGEU disbursements and its deployment on the ground.

FRANCE

French economy benefitted from a 0.2% q/q growth in Q1 (after 0.3% q/q in Q4 2023), mainly supported by households' consumption of services and exports. As disinflation is now visible (the harmonized index grew by 2.6% y/y in May 2024, compared to 5.7% y/y in September 2023), our scenario for 2024 envisages a gradual improvement and heralds an even better 2025 (with a growth forecast of 1.4%, after 1.1% in 2024).

RATES AND EXCHANGE RATES

2024 should be the year of the start of the easing cycle by the Federal Reserve, the ECB and the Bank of England. Although the ECB proceeded with a first rate cut on June 6th, the timing of the first cut for the BoE and the Fed remains uncertain, as does the number of expected cuts for the whole year. We expect the first BoE rate cut to occur in August, whereas the Fed would start cutting at the very end of the year, in December. The Fed would thereby undertake a single rate cut in 2024, while their first move would be followed by two more for the ECB and the BoE (presumably 25 basis points cut each). 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.

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%, while the volume of JGBs will be reduced soon. We expect monetary policy to normalise very gradually in the country, with only one additional hike envisaged by the end of 2024 (probably in September).

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 (with stronger growth and inflation and less monetary easing across the Atlantic). 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	1,9	2,5	2,5	1,8	8,0	4,1	3,0	2,3
Japan	0,9	1,8	-0,4	0,7	2,5	3,3	2,6	2,5
United Kingdom	4,4	0,1	0,6	1,2	9,1	7,3	2,6	2,2
Euro Area	3,5	0,6	0,9	1,6	8,4	5,4	2,3	2,0
Germany	1,9	0,0	0,3	1,4	8,7	6,0	2,6	2,5
France	2,6	1,1	1,1	1,4	5,9	5,7	2,5	1,9
Italy	4,2	1,0	1,1	1,4	8,7	5,9	1,0	1,8
Spain	5,8	2,5	2,6	2,1	8,3	3,4	3,1	2,2
China	3,0	5,2	5,2	4,3	2,0	0,2	-0,1	1,2
India*	7,0	8,2	6,9	6,7	6,7	5,4	4,7	4,3
Brazil	2,9	2,9	2,2	2,0	9,3	4,6	4,1	4,1

Source : BNP Paribas (e: Estimates & forecasts)
Last update: 8 July 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)	5.50	5.50	5.25	4.75	4.25
	T-Note 10y	4.25	4.20	4.20	4.20	4.20
Eurozone	deposit rate	3.75	3.50	3.25	2.75	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	5.25	4.75	4.50	4.00	3.50
	Gilts 10y	4.00	3.80	3.70	3.55	3.65
Japan	BoJ Rate	0.10	0.25	0.25	0.50	1.00
	JGB 10y	-	1.05	1.25	1.45	1.60

Exchange Rates End of period		Q2 2024	Q3 2024	Q4 2024	Q2 2025	Q4 2025
USD	EUR / USD	1.05	1.05	1.06	1.08	1.10
	USD / JPY	155	154	153	150	148
	GBP / USD	1.25	1.27	1.28	1.30	1.33
EUR	EUR / GBP	0.84	0.83	0.83	0.83	0.83
	EUR / JPY	163	162	162	162	163

Brent Quarter Average		Q2 2024	Q3 2024	Q4 2024	Q2 2025	Q4 2025
Brent	USD/bbl	90	92	87	81	82

Sources: BNP Paribas (Market Economics, Interest Rate Strategy, FX Strategy, Commodities Desk Strategy)
Last update: 24 June 2024

FURTHER READING

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