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> It would require a significant depreciation of the euro -something which seems very unlikely at the current juncture- for the ECB to be constrained by the euro in setting its policy rate.

ECONOMIC RESEARCH

BNP PARIBAS

The bank
for a changing
world

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MONETARY DESYNCHRONIZATION BETWEEN THE ECB AND THE FEDERAL RESERVE AND THE EURO

As expected, the ECB has lowered its policy rate, despite the upward revision of the staff inflation forecast. In the US, the very strong labour market report for the month of May will probably make the Fed even more cautious in deciding on a first rate cut. Until we have resynchronisation -with both central banks being in rate cutting mode-, there should be more desynchronisation, reflecting a difference in the disinflation cycle in the US versus the Eurozone. There is concern that this might weaken the euro versus the dollar and possibly weigh on the ECB's policy autonomy. Such fears are unwarranted. Moreover, it would require a significant depreciation of the euro -something which seems very unlikely at the current juncture- for the ECB to be constrained by the euro in setting its policy rate. it is also important to look at the US side of the EUR/USD rate. A 'high US rates for longer' environment means more uncertainty about the growth outlook, which entails a tail risk for US short term interest rates and hence the dollar. When reflecting about exchange rates, the entire distribution of possible outcomes should be considered.

For a central bank, being credible matters more than anything else. In the absence of credibility, inflation expectations become unanchored, and the effectiveness of monetary policy takes a hit. Credibility is all about consistency. Firstly, time consistency, which means acting in line with the guidance that has been provided previously. In recent weeks the guidance from several ECB Governing Council members had become increasingly clear that the June meeting would see its first rate cut in this cycle. Against this background, not acting was out of the question, despite the uptick in the latest inflation data. Secondly, policy consistency, which means acting in line with its mandate and its reaction function. Given the rate cut, despite the upward adjustment of the ECB staff inflation forecast, the post-meeting press conference saw a strong insistence that the decision was only *"removing a degree of restriction"*[1], that policy remained restrictive and that further decisions would be data dependent. Unsurprisingly, 2-year German yields rose about five basis points (bp) on the news. The next day, the release of a very strong labour market report in the US[2] caused a similar increase in German yields on the back of a 10 bp jump in 2-year US Treasury yields. These developments are likely to intensify the debate on policy desynchronisation between the ECB and the Federal Reserve. The latter will probably be even less inclined than before to start cutting the federal funds rate whereas the former is expected to continue reducing the deposit rate, albeit at a gradual pace[3].

This means that until we have resynchronisation -with both central banks being in rate cutting mode-, there should be more desynchronisation. This shouldn't be a surprise because it simply reflects a difference in the disinflation cycle in the US versus the Eurozone. However, there is concern that this might weaken the euro versus the dollar, thereby -through its impact on import price and inflation in general- complicating matters for the ECB and possibly even weighing on its policy autonomy. Such fears are unwarranted. Firstly, there is a very loose relationship between the EUR/USD rate and the difference in policy rates (chart 1).

EURO IN DOLLAR AND DIFFERENCE OF OFFICIAL INTEREST RATES

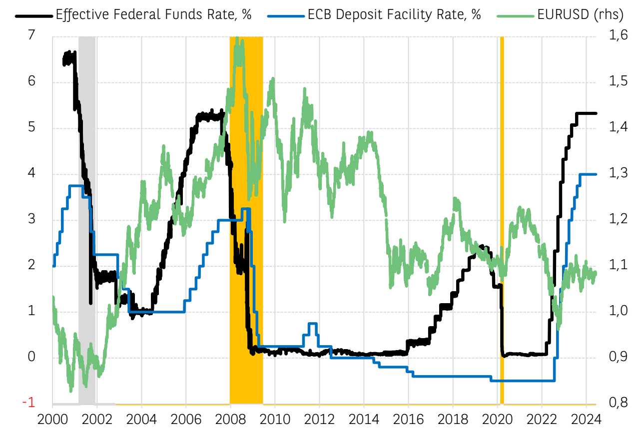

CHART 1 SOURCE: FEDERAL RESERVE BANK OF ST. LOUIS, ECB, BNP PARIBAS

EURO IN DOLLAR AND DIFFERENCE OF 2-YEAR NOMINAL INTEREST RATES

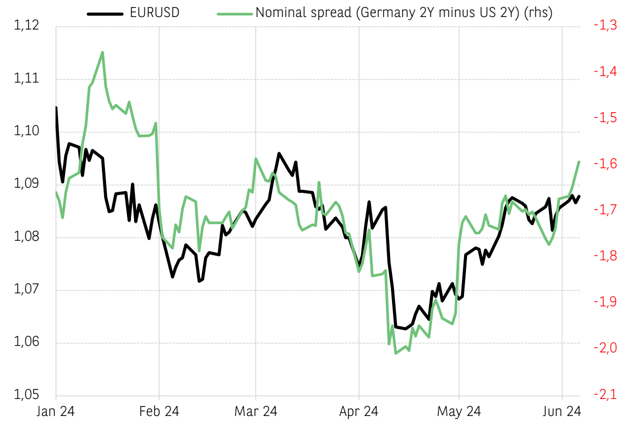

CHART 2 SOURCE: REFINITIV, BNP PARIBAS

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[1] Source: ECB, Press conference, Christine Lagarde, President of the ECB, Luis de Guindos, Vice-President of the ECB, Frankfurt am Main, 6 June 2024.

[2] In May 2024, 272000 jobs had been created versus a Bloomberg consensus of 182000. The unemployment rate edged higher to 4.0% (Bloomberg consensus: 3.9%), from 3.9% in April. Against expectations, the growth in average hourly earnings accelerated to 4.1% from 4.0% the month before. Source: Bloomberg.

[3] For the remainder of this year, we expect further 25 bp rate cuts by the ECB in September and in December. We expect the first policy easing (25 basis points) by the Federal Reserve in December.

Secondly, the expected widening in the policy rate gap is limited.[4] This should imply that the 2-year yield spread between the US and Germany -which highly depends on monetary policy expectations- should not see huge swings either. This matters because since the start of the year, this spread has been highly correlated with the EUR/USD rate (chart 2). In the longer run, the correlation fluctuates and is closer for the interest rate differential in real terms than in nominal terms (charts 3 and 4). Thirdly, the monetary desynchronisation should influence the growth outlook in the Eurozone versus the US. In the former, rate cuts this year should support business sentiment, household confidence as well as spending whereas in the latter, with policy rates staying at their current level during a major part of the year, the growth outlook should soften. Historically, there is a rather close relationship between the difference in business sentiment and the EUR/USD rate: when sentiment in the Eurozone improves compared to the US, the euro tends to strengthen and vice versa (chart 5).[5] Finally, the inflation impact of a euro depreciation is rather small. Calculations by the ECB show that a 1% depreciation of the effective exchange rate of the euro, "*raises total import prices in the euro area and its member countries on average by around 0.3% within a year, and the headline HICP by around 0.04%.*"[6] It follows that it would require a significant depreciation of the euro -something which seems very unlikely at the current juncture- for the ECB to be constrained by the euro in setting its policy rate. In this respect, it is also important to look at the US side of the exchange rate. In a 'high rates for longer' environment in the US and the uncertainty this entails for the growth outlook, one should be mindful of the tail risk for US short term interest rates and hence the dollar. When reflecting about exchange rates, the entire distribution of possible outcomes should be considered.

William De Vijlder

EURO IN DOLLAR AND DIFFERENCE OF 2-YEAR NOMINAL INTEREST RATES

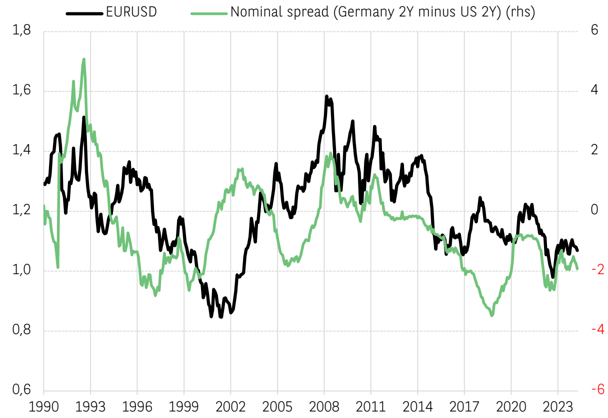

CHART 3

SOURCE: REFINITIV, BNP PARIBAS

EURO IN DOLLAR AND DIFFERENCE OF 2-YEAR REAL INTEREST RATES

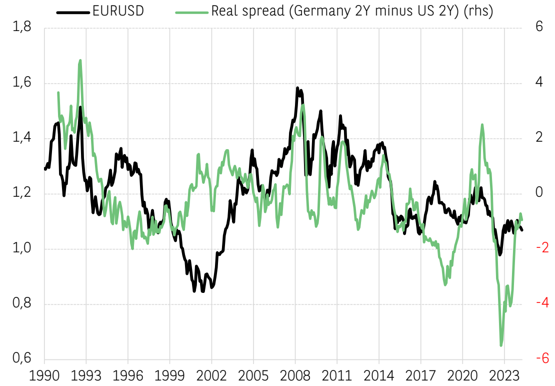

CHART 4

SOURCE: REFINITIV, BNP PARIBAS

EURO IN DOLLAR AND DIFFERENCE OF COMPOSITE PMI

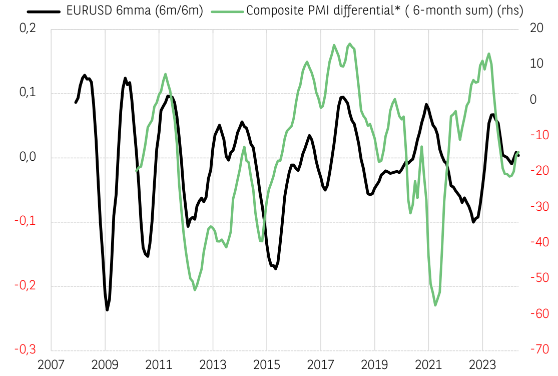

CHART 5

SOURCE: S&P GLOBAL, REFINITIV, BNP PARIBAS

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[4] Following the latest ECB decision, the difference between the upper limit of the federal funds target range and the ECB deposit rate is 175bp. We expect this to reach 200bp at the September meeting of the ECB before declining again to 175bp towards the end of 2025.

[5] Academic research confirms that economic momentum influences the exchange rate. See in this respect Magnus Dahlquist and Henrik Hasseltoft, Economic momentum and currency returns, Journal of Financial Economics, 2020, pp. 152-167.

[6] Source: Eva Ortega, Chiara Osbat, Exchange rate pass-through in the euro area and EU countries, ECB Occasional Paper 241, April 2020.

MARKETS OVERVIEW

OVERVIEW

Week 31-5 24 to 7-6 24

↗ CAC 40	7.993	▸	8.002	+0.1	%
↗ S&P 500	5.278	▸	5.347	+1.3	%
↘ Volatility (VIX)	12.9	▸	12.2	-0.7	pb
↘ Euribor 3M (%)	3.79	▸	3.76	-2.6	bp
↘ Libor $ 3M (%)	5.60	▸	5.60	-0.9	bp
↘ OAT 10y (%)	3.11	▸	3.10	-1.2	bp
↘ Bund 10y (%)	2.63	▸	2.60	-3.2	bp
↘ US Tr. 10y (%)	4.49	▸	4.44	-5.5	bp
↘ Euro vs dollar	1.09	▸	1.08	-0.4	%
↘ Gold (ounce, $)	2.331	▸	2.315	-0.7	%
↘ Oil (Brent, $)	81.8	▸	79.7	-2.6	%

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	3.76	3.97 at 18/01	3.75 at 05/06
	Euribor 12M	3.70	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	5.60	5.61 at 29/05	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 7-6-24

Yield (%)			highest 24	lowest 24
€	AVG 5-7y	2.64	2.64 at 01/01	2.64 at 01/01
	Bund 2y	3.22	3.23 at 24/05	2.53 at 01/02
	Bund 10y	2.60	2.66 at 29/05	2.02 at 03/01
	OAT 10y	3.10	3.15 at 29/05	2.47 at 01/01
	Corp. BBB	4.10	4.12 at 30/05	3.75 at 01/01
$	Treas. 2y	4.91	5.10 at 30/04	4.22 at 15/01
	Treas. 10y	4.44	4.70 at 25/04	3.86 at 01/02
	High Yield	7.89	8.24 at 16/04	7.73 at 13/03
£	gilt. 2y	4.83	4.96 at 29/05	3.98 at 01/01
	gilt. 10y	4.26	4.41 at 29/05	3.60 at 01/01

At 7-6-24

EXCHANGE RATES

1€ =		highest 24	lowest 24	2024
USD	1.08	1.10 at 01/01	1.06 at 15/04	-2.1%
GBP	0.85	0.87 at 02/01	0.85 at 27/05	-1.9%
CHF	0.97	0.99 at 27/05	0.93 at 08/01	+4.3%
JPY	169.56	170.60 at 31/05	155.33 at 02/01	+8.9%
AUD	1.64	1.67 at 28/02	1.62 at 02/01	+1.3%
CNY	7.83	7.88 at 06/06	7.69 at 15/04	-0.0%
BRL	5.71	5.75 at 05/06	5.31 at 13/02	+6.3%
RUB	96.28	102.67 at 23/02	95.72 at 19/01	-2.5%
INR	90.15	91.92 at 01/01	88.68 at 12/04	-1.9%

At 7-6-24 *Change*

COMMODITIES

Spot price, $		highest 24	lowest 24	2024	2024(€)
Oil, Brent	79.7	91.6 at 12/04	75.8 at 08/01	+2.6%	+4.8%
Gold (ounce)	2.315	2.432 at 21/05	1.989 at 14/02	+12.1%	+14.5%
Metals, LMEX	4.193	4.652 at 21/05	3.558 at 09/02	+11.4%	+13.9%
Copper (ton)	9.638	10.801 at 20/05	8.065 at 09/02	+13.9%	+16.3%
wheat (ton)	230	2.5 at 28/05	191 at 15/03	-1.3%	+0.9%
Corn (ton)	166	1.7 at 13/05	148 at 23/02	-0.5%	-2.7%

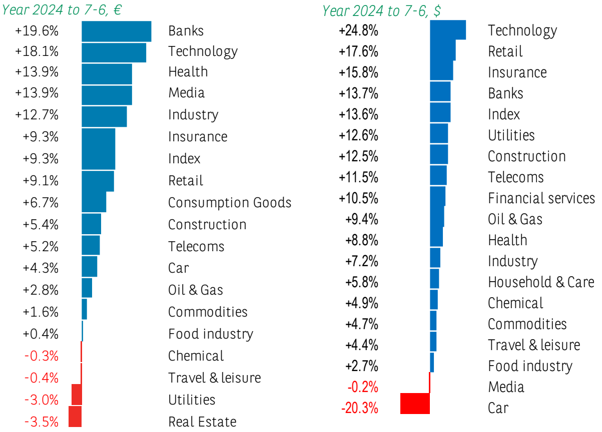
At 7-6-24 *Change*

EQUITY INDICES

	Index	highest 24	lowest 24	2024
World				
MSCI World	3.479	3.490 at 06/06	3.114 at 04/01	+9.8%
North America				
S&P500	5.347	5.354 at 05/06	4.689 at 04/01	+12.1%
Europe				
EuroStoxx50	5.051	5.101 at 15/05	4.403 at 17/01	+11.7%
CAC 40	8.002	8.240 at 15/05	7.319 at 17/01	+0.6%
DAX 30	18.557	18.869 at 15/05	16.432 at 17/01	+10.8%
IBEX 35	11.405	11.444 at 06/06	9.858 at 19/01	+1.3%
FTSE100	8.245	8.446 at 15/05	7.446 at 17/01	+0.7%
Asia				
MSCI, loc.	1.403	1.415 at 22/03	1.242 at 03/01	+1.2%
Nikkei	38.684	40.888 at 22/03	33.288 at 04/01	+15.6%
Emerging				
MSCI Emerging ($)	1.073	1.102 at 20/05	958 at 17/01	+0.5%
China	60	64 at 20/05	49 at 22/01	+8.3%
India	1.040	1.042 at 03/06	915 at 03/01	+13.1%
Brazil	1.449	1.800 at 01/01	1.449 at 07/06	-12.5%

At 7-6-24 *Change*

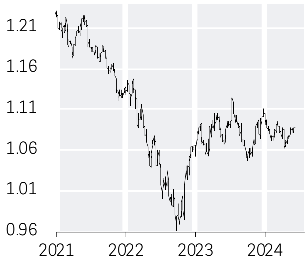
PERFORMANCE BY SECTOR (Eurostoxx50 & S&P500)



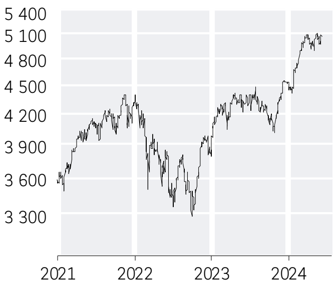
SOURCE: REFINITIV, BNP PARIBAS

MARKETS OVERVIEW

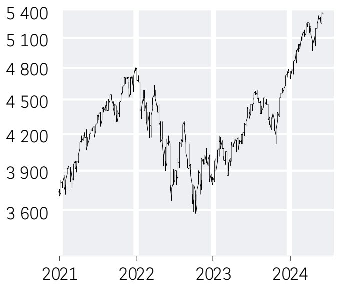
EURO-DOLLAR



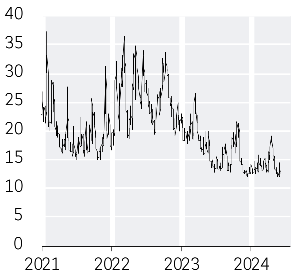
EUROSTOXX50



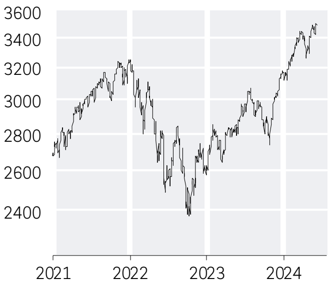
S&P500



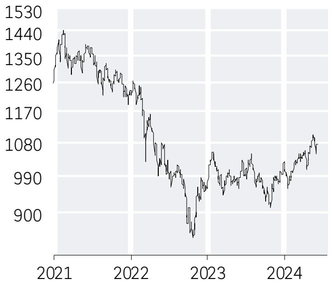
VOLATILITY (VIX, S&P500)



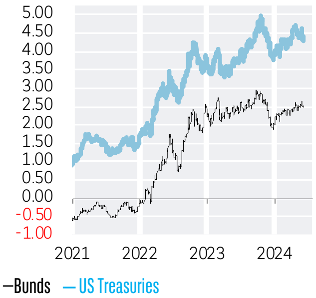
MSCI WORLD (USD)



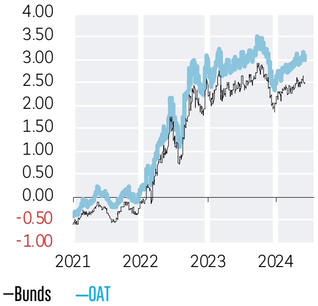
MSCI EMERGING (USD)



10Y BOND YIELD, TREASURIES VS BUND

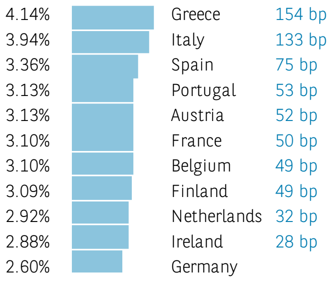


10Y BOND YIELD

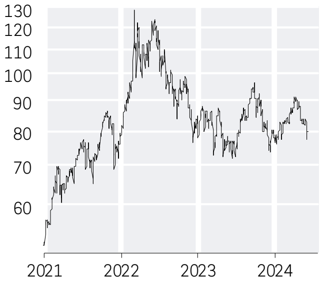


10Y BOND YIELD & SPREADS

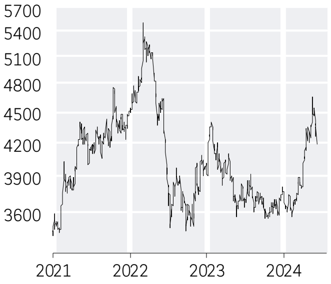
Year 2024 to 7-6



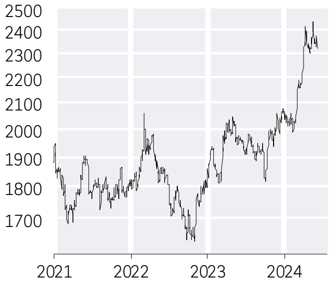
OIL (BRENT, USD)



METALS (LMEX, USD)



GOLD (OUNCE, USD)



SOURCE: REFINITIV, BNP PARIBAS

WORLD ACTIVITY CONTINUES TO IMPROVE IN MAY

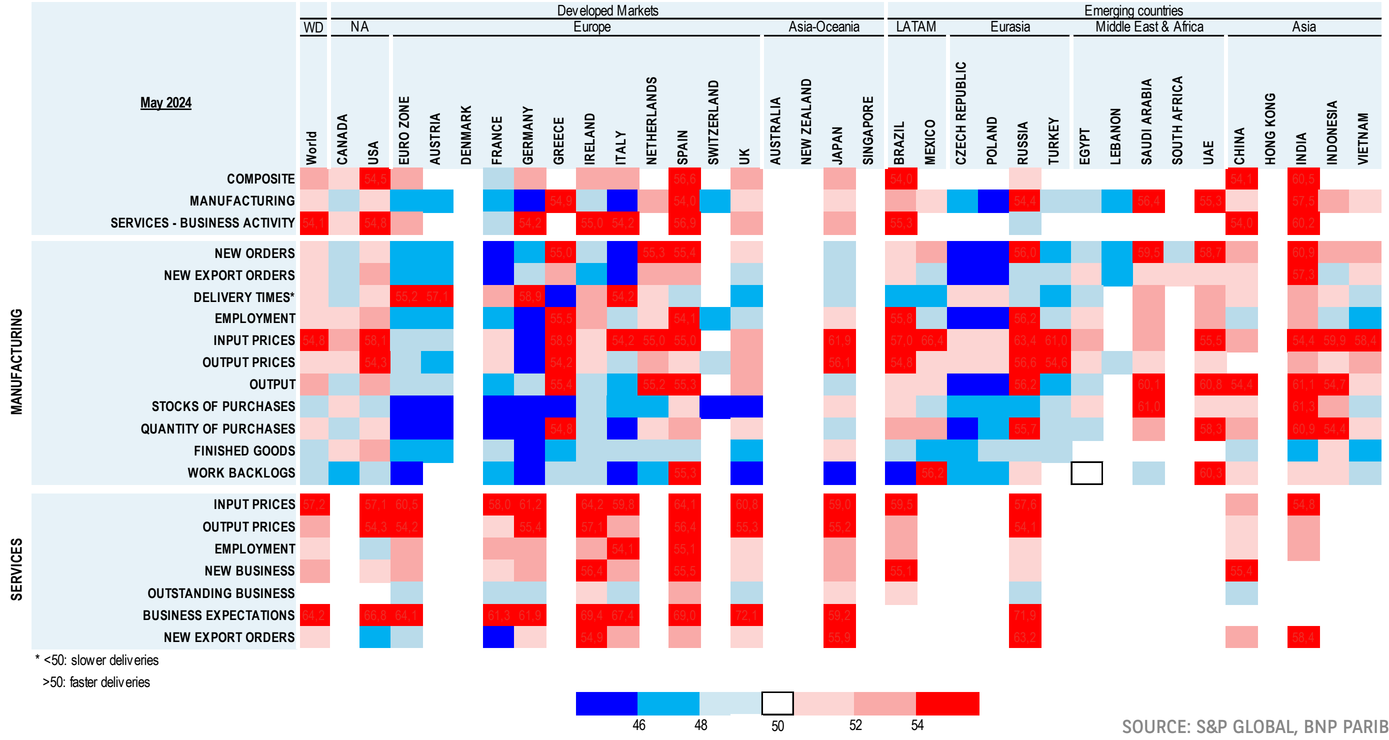
According to the most recent S&P Global survey, the World Composite PMI index significantly improved in May (+1.3 points), rising to 53.7, its highest level since May 2023. After the more modest increase in April (+0.1 point), this is a further encouraging sign for Q2 world activity, especially as this improvement is being driven by both the services and manufacturing sectors, with their respective PMI standing at their highest level since May 2023 and July 2022, at 54.1 and 50.9.

In services, out of the 14 countries for which May data is available, seven indicated an increase in the index from the previous month. There were marked increases in Germany, Ireland, Spain, Brazil, China, and the United States, where the index was sharply up (+3.5 points). However, in France, the index fell back into contraction territory (49.3, compared to 51.3 in April). The index also dropped significantly in the United Kingdom. In addition to the increase in the benchmark index, reinforcing the positive signal, the employment index is back in expansion territory. The "output prices" and "input prices" indices plateaued at a relatively high level.

For the manufacturing sector, the composite index increased across all developed countries, except for Canada, Greece, and Italy. This increase was driven by the new orders and output sub-indices. The index was also slightly up in China. At the global level, the employment sub-index improved, just as it did in services. However, this good news was offset by rising input prices and output prices. The "delivery times" component fell slightly again, which means longer global supply timescales.

Tarik Rharrab

S&P GLOBAL PMI - MAY 2024

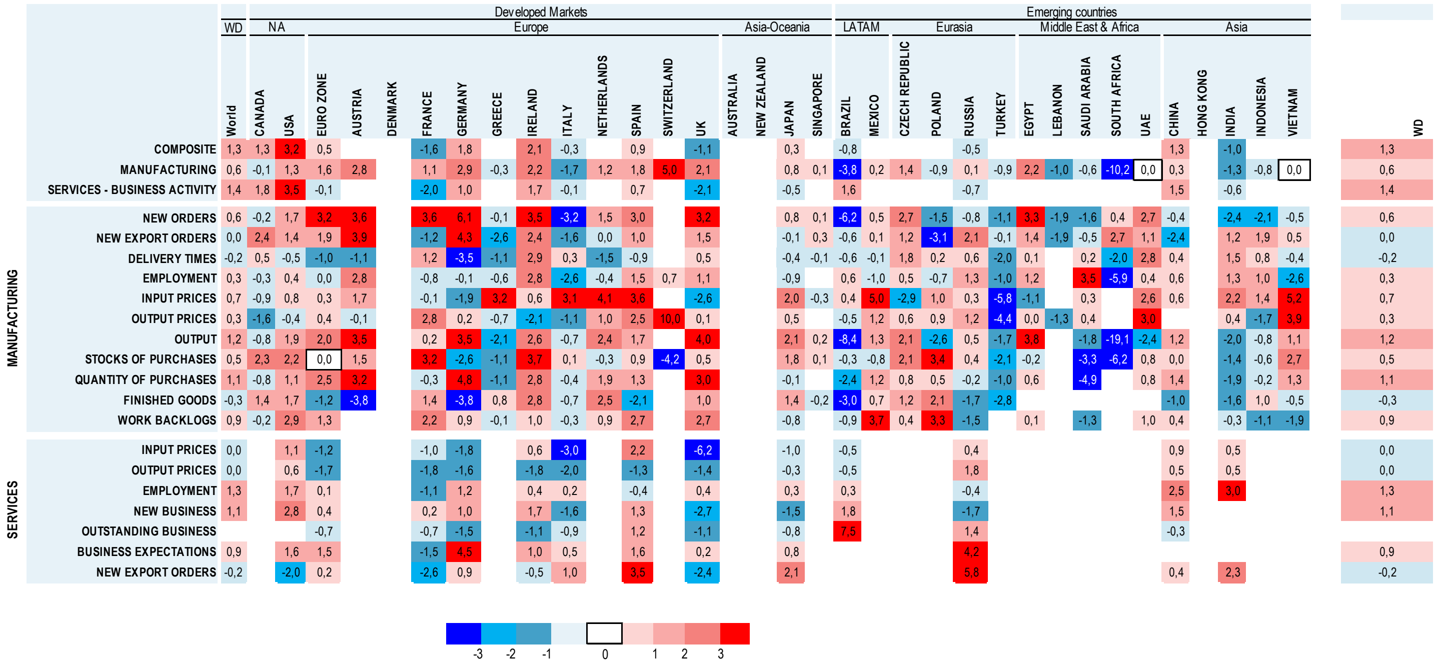


* <50: slower deliveries
>50: faster deliveries

SOURCE: S&P GLOBAL, BNP PARIBAS

ECONOMIC PULSE

S&P GLOBAL PMI, Δ (MAY, APRIL)



			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	WD
	COMPOSITE	1,3	1,3	3,2	0,5			-1,6	1,8		2,1	-0,3		0,9		-1,1			0,3		-0,8				-0,5							1,3		-1,0			1,3
	MANUFACTURING	0,6	-0,1	1,3	1,6	2,8		1,1	2,9	-0,3	2,2	-1,7	1,2	1,8	5,0	2,1			0,8	0,1	-3,8	0,2	1,4	-0,9	0,1	-0,9	2,2	-1,0	-0,6	-10,2	0,0	0,3		-1,3	-0,8	0,0	0,6
	SERVICES - BUSINESS ACTIVITY	1,4	1,8	3,5	-0,1			-2,0	1,0		1,7	-0,1		0,7		-2,1			-0,5		1,6				-0,7							1,5		-0,6			1,4
MANUFACTURING	NEW ORDERS	0,6	-0,2	1,7	3,2	3,6		3,6	6,1	-0,1	3,5	-3,2	1,5	3,0		3,2			0,8	0,1	-6,2	0,5	2,7	-1,5	-0,8	-1,1	3,3	-1,9	-1,6	0,4	2,7	-0,4		-2,4	-2,1	-0,5	0,6
	NEW EXPORT ORDERS	0,0	2,4	1,4	1,9	3,9		-1,2	4,3	-2,6	2,4	-1,6	0,0	1,0		1,5			-0,1	0,3	-0,6	0,1	1,2	-3,1	2,1	-0,1	1,4	-1,9	-0,5	2,7	1,1	-2,4		1,2	1,9	0,5	0,0
	DELIVERY TIMES	-0,2	0,5	-0,5	-1,0	-1,1		1,2	-3,5	-1,1	2,9	0,3	-1,5	-0,9		0,5			-0,4	-0,1	-0,6	-0,1	1,8	0,2	0,6	-2,0	0,1		0,2	-2,0	2,8	0,4		1,5	0,8	-0,4	-0,2
	EMPLOYMENT	0,3	-0,3	0,4	0,0	2,8		-0,8	-0,1	-0,6	2,8	-2,6	-0,4	1,5	0,7	1,1			-0,9		0,6	-1,0	0,5	-0,7	1,3	-1,0	1,2		3,5	-5,9	0,4	0,6		1,3	1,0	-2,6	0,3
	INPUT PRICES	0,7	-0,9	0,8	0,3	1,7		-0,1	-1,9	3,2	0,6	3,1	4,1	3,6		-2,6			2,0	-0,3	0,4	5,0	-2,9	1,0	0,3	-5,8	-1,1		0,3		2,6	0,6		2,2	1,4	5,2	0,7
	OUTPUT PRICES	0,3	-1,6	-0,4	0,4	-0,1		2,8	0,2	-0,7	-2,1	-1,1	1,0	2,5	10,0	0,1			0,5		-0,5	1,2	0,6	0,9	1,2	-4,4	0,0	-1,3	0,4		3,0			0,4	-1,7	3,9	0,3
	OUTPUT	1,2	-0,8	1,9	2,0	3,5		0,2	3,5	-2,1	2,6	-0,7	2,4	1,7		4,0			2,1	0,2	-8,4	1,3	2,1	-2,6	0,5	-1,7	3,8		-1,8	-19,1	-2,4	1,2		-2,0	-0,8	1,1	1,2
	STOCKS OF PURCHASES	0,5	2,3	2,2	0,0	1,5		3,2	-2,6	-1,1	3,7	0,1	-0,3	0,9	-4,2	0,5			1,8	0,1	-0,3	-0,8	2,1	3,4	0,4	-2,1	-0,2		-3,3	-6,2	0,8	0,0		-1,4	-0,6	2,7	0,5
	QUANTITY OF PURCHASES	1,1	-0,8	1,1	2,5	3,2		-0,3	4,8	-1,1	2,8	-0,4	1,9	1,3		3,0			-0,1		-2,4	1,2	0,8	0,5	-0,2	-1,0	0,6		-4,9		0,8	1,4		-1,9	-0,2	1,3	1,1
	FINISHED GOODS	-0,3	1,4	1,7	-1,2	-3,8		1,4	-3,8	0,8	2,8	-0,7	2,5	-2,1		1,0			1,4	-0,2	-3,0	0,7	1,2	2,1	-1,7	-2,8						-1,0		-1,6	1,0	-0,5	-0,3
	WORK BACKLOGS	0,9	-0,2	2,9	1,3			2,2	0,9	-0,1	1,0	-0,3	0,9	2,7		2,7			-0,8		-0,9	3,7	0,4	3,3	-1,5		0,1		-1,3		1,0	0,4		-0,3	-1,1	-1,9	0,9
SERVICES	INPUT PRICES	0,0		1,1	-1,2			-1,0	-1,8		0,6	-3,0		2,2		-6,2			-1,0		-0,5				0,4							0,9		0,5			0,0
	OUTPUT PRICES	0,0		0,6	-1,7			-1,8	-1,6		-1,8	-2,0		-1,3		-1,4			-0,3		-0,5				1,8							0,5		0,5			0,0
	EMPLOYMENT	1,3		1,7	0,1			-1,1	1,2		0,4	0,2		-0,4		0,4			0,3		0,3				-0,4							2,5		3,0			1,3
	NEW BUSINESS	1,1		2,8	0,4			0,2	1,0		1,7	-1,6		1,3		-2,7			-1,5		1,8				-1,7							1,5					1,1
	OUTSTANDING BUSINESS				-0,7			-0,7	-1,5		-1,1	-0,9		1,2		-1,1			-0,8		7,5				1,4							-0,3					
	BUSINESS EXPECTATIONS	0,9		1,6	1,5			-1,5	4,5		1,0	0,5		1,6		0,2			0,8						4,2												0,9
	NEW EXPORT ORDERS	-0,2		-2,0	0,2			-2,6	0,9		-0,5	1,0		3,5		-2,4			2,1						5,8							0,4		2,3			-0,2

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 not allowed to gain more confidence regarding a rapid return of the CPI to its target. We forecast inflation to stand at +3.5% 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 a first rate cut by the ECB, which we expect to happen in June. This would be followed by two more cuts in the second half of the year, at a rate of 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 2.7% 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. However, the timing of the first cut remains uncertain, as does the number of expected cuts. The ECB seems closer than the Fed and the BoE to getting the data and necessary confidence to estimate that inflation is moving towards the 2% target on a sustainable basis. We expect the first ECB rate cut to occur in June and the first BoE cut 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%, although the volume of JGBs purchases remains broadly unchanged. 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	3,4	2,9
Japan	0,9	1,9	0,3	1,0	2,5	3,2	2,7	2,4
United Kingdom	4,4	0,1	0,6	1,2	9,1	7,4	2,6	2,2
Euro Area	3,5	0,5	0,9	1,6	8,4	5,4	2,3	2,0
Germany	1,9	0,0	0,3	1,4	8,7	6,1	2,6	2,5
France	2,5	0,9	1,1	1,4	5,9	5,7	2,5	1,8
Italy	4,2	1,0	1,1	1,4	8,7	6,0	1,0	1,8
Spain	5,8	2,5	2,6	2,1	8,3	3,4	3,2	2,2
China	3,0	5,2	5,2	4,3	2,0	0,2	-0,1	1,2
India*	7,1	7,6	6,5	6,4	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: 10 June 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	0.75
	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 May 2024

FURTHER READING

A brief history of self-employment in France	EcoFlash	6 June 2024
United States: Housing market developments amid monetary tightening	EcoFlash	6 June 2024
Export market share: is Germany heading towards a more pronounced slump?	Charts of the Week	5 June 2024
"Europeanising" long-term individual savings	EcoWeek	4 June 2024
Eurozone: what to expect from this week's ECB meeting?	EcoBrief	3 June 2024
French household savings rate: one last rise before a decrease?	EcoBrief	31 May 2024
EcoPulse - May 2024	EcoPulse	31 May 2024
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Audiobrief | European Union's trade balance: back in surplus	Macro Waves	28 May 2024
US: economic resilience despite higher rates. The role of company finances (part 2)	EcoWeek	27 May 2024
Does it matter if the ECB cuts rates before the Fed? No.	EcoTV	23 May 2024
US: economic resilience despite higher rates. The role of company finances (part 1)	EcoWeek	22 May 2024
Central Europe: improving growth prospects in the short-term	Charts of the Week	22 May 2024
Inflation tracker - May 2024 | Inflation has plateaued	EcoCharts	17 May 2024
Eurozone: the economic situation in the Eurozone is not shining, but it is getting brighter	EcoBrief	15 May 2024
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Eurozone growth starts the year on a positive note	EcoTVWeek	13 May 2024
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