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"The quality of the anchoring of the commercial bank's money to the central bank's currency is not reflected in the stock of notes and coins but, on the contrary, in the confidence in the money issued by commercial banks, and the use associated with it."

ECONOMIC RESEARCH

BNP PARIBAS

The bank for a changing world

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THE DIGITAL EURO AND THE ROLE OF CENTRAL BANK CURRENCY ANCHOR

Monetary anchoring is one of the main arguments put forward by central banks to justify an eponymous digital currency. According to supporters of the digital euro, a reduction in the use of paper money or even its disappearance would be the natural next step and result in the creation of a digital form of central bank currency that would be the only guaranteed way of keeping the currency anchored in the digital era. Nothing could be less obvious.

In November 2021, during a speech on the digital euro, Fabio Panetta, then a member of the ECB's executive board, stated: "*People's confidence in private money is underpinned by its convertibility on a one-to-one basis with the safest form of money in the economy – central bank money, the monetary anchor – and hence with other regulated forms of money*"[1]. He added: "*Private issuers [of currency, i.e. banks, editor's note] have to rely on convertibility, as their money is exposed to operational, credit, liquidity and market risks*," while also noting that *"these risks are reduced through public policy safeguards, such as financial supervision, capital requirements and deposit insurance*".

In a recent article also addressing concerns – which they believe to be exaggerated – about bank disintermediation as the result of a digital euro, Bindseil, Cipolonne and Schaaf (2024)[2] posit the theory that the decline in use of banknotes for daily transactions will also eventually reduce the structural demand for banknotes. To support their claims, they point out that the nominal stock of banknotes decreased in 2023 for the first time since 2002 in the euro area, which they attribute to higher interest rates and the digitalisation of payments. In the light of the supposed risk of the reduced role as anchor coupled with the fall in banknotes in circulation, the ECB needs to ensure that "*the money [it issues] maintains its role as a monetary anchor*"[3].

But the combination of a reduction in use of banknotes as a payment instrument and a decline in banknotes in circulation does not really stand up to the facts. Despite decreased demand for banknotes for retail transactions, banknotes outstanding rose by 2.4x between 2002 and 2022 while, at the same time, its relative size increased from around 10% of household current accounts to 17.5%. These opposing trends are known as the "paradox of banknotes"[4]. Meanwhile, cash is still the most frequently used payment method at the point of sale, despite the sharp decline in use of cash since the Covid pandemic, with 59% of transactions (in terms of the number) still paid in cash in 2022[5].

According to ECB estimates, demand for banknotes in 2019 was motivated more to keep them as store of value (between 28% and 50%) than to pay for transactions (between 20% and 22%). A large proportion of demand also came from non-EU residents (between 30% and 50%).

In any case, the quality of anchoring of the commercial bank money to the central bank currency is not measured so much on the basis of the amount of the cash currency in the economy as on the basis of use of the commercial bank currency that is anchored to it. Economic agents willingly use the commercial bank currency rather than the central bank currency because they are confident that they will be able to convert deposits held with commercial banks into the central bank currency (hence the risk of a bank run when confidence slips). And this confidence in the value of the commercial bank money cannot be underpinned by just the deposit guarantee. Although this system guarantees reimbursement of a certain amount expressed in the euro unit of account as issued by the central bank (€100,000 since 2014 in the European Union). But the uniqueness of the value of the euro irrespective of the issuer (central bank or commercial banks) is ensured only by the ability to convert the commercial bank currency into the central bank currency at parity (cross-parity of euros from different commercial banks, in some way, by analogy with cross exchange rates). In other words, the ability to go to a bank counter or ATM to get cash in exchange for funds deposited with the bank, at parity. The number of ATMs has been in decline in the eurozone since 2015 but, as the ECB stresses, the density of ATMS is not the most relevant measure of ease of access to cash. The interpretation of this indicator is based on the implied assumption that cash machines' elimination is distributed uniformly across each country and among its population, which is not the actual situation. In this regard, a recent ECB study[6] states that the proportion of people living within 5 km of the nearest cash access point in 2020 ranged from 77% to 100% in the various countries in the eurozone, with a median of 95% for all countries.

1 Panetta F. (2021), "Central bank digital currencies: a monetary anchor for digital innovation", Speech by Fabio Panetta, Member of the Executive Board of the ECB, at the Elcano Royal Institute, Madrid, 5 November.
2 Bindseil U., Cipollone P., Schaaf J. (2024), "The digital euro after the investigation phase: Demystifying fears about bank disintermediation," VoxEU/VoxEU – CEPR's policy portal, 19 February.
3 Panetta F. (2023), "A digital euro: widely available and easy to use", Introductory statement by Fabio Panetta, Member of the Executive Board of the ECB, at the Committee on Economic and Monetary Affairs of the European Parliament, Brussels, 24 April 2023
4 Zamora-Pérez A. (2021), "The paradox of banknotes: understanding the demand for cash beyond the transactional use", ECB Economic Bulletin, Issue 2/2021.
5 ECB (2022), Study on the Payment Attitudes of Consumers in the Euro area (SPACE), December.
6 Zamora-Pérez (2022), "Guaranteeing freedom of payment choice: access to cash in the euro area", ECB Economic Bulletin, Issue 5/2022.

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Furthermore, in 2019, 89% of citizens of the eurozone considered it "easy" or "very easy" to access an ATM, while just 2% considered it "very difficult". Furthermore, it should be noted that the withdrawal of cash at some merchants (cashback) sometimes supplements the ATMs in areas with low density levels.

The ECB is presenting the digital euro as the digital counterpart to coins and banknotes. However, there is a real risk that consumers will regard it more as a substitute for bank accounts, particularly due to the similarity in means of payment and means of holding money between the digital euro and euros held in a commercial bank account (which, incidentally, has been a kind of "digital euro" since the euro was created in 1999). Importantly, there is the risk of an increase in the cost of banking resources (with the need to replace customer deposits with more expensive refinancing) and hence of bank loans. We believe that the only characteristics of the digital euro that could stem this risk would be a very low holding limit – comparable to the amount of cash reasonably held by each citizen for transaction purposes (a few hundred euros at the very most) – or an exclusively "offline" digital euro held in the form of a digital token stored on a mobile phone, the loss or theft of which would be final, as is the case with... cold, hard cash.

According to Aristotle, the three functions of money are as a medium of exchange, a store of value and a unit of account. These three functions, which are still relevant today, cannot be separated. It is up to the user rather than the issuer of the money to decide the main function they want to attribute in practice to each form of money. For example, we have seen that demand for banknotes was motivated more by the function of money as a store of value rather than as a payment instrument. Despite its clear and justified desire to restrict the "digital counterpart of banknotes" to its role as a medium of exchange, the ECB would be risking creating a new kind of store of value to rival banknotes... and bank deposits, to the detriment of financing the economy, monetary policy transmission, and financial stability.".

Laurent Quignon

MARKETS OVERVIEW

OVERVIEW

Week 1-3 24 to 8-3-24					
↗ CAC 40	7 934	▸	8 028	+1.2	%
↘ S&P 500	5 137	▸	5 124	-0.3	%
↗ Volatility (VIX)	13.1	▸	14.7	+1.6	pb
↗ Euribor 3M (%)	3.94	▸	3.94	+0.2	bp
↘ Libor $ 3M (%)	5.59	▸	5.58	-1.0	bp
↘ OAT 10y (%)	2.88	▸	2.71	-17.1	bp
↘ Bund 10y (%)	2.40	▸	2.25	-14.9	bp
↘ US Tr. 10y (%)	4.19	▸	4.09	-10.1	bp
↗ Euro vs dollar	1.08	▸	1.10	+1.1	%
↗ Gold (ounce, $)	2 074	▸	2 173	+4.8	%
↘ Oil (Brent, $)	84.2	▸	82.2	-2.4	%

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	3.97	at	18/01	3.88	at	01/02
Euribor 12M	3.75	3.75	at	05/03	3.51	at	01/02
$ FED	5.50	5.50	at	01/01	5.50	at	01/01
Libor 3M	5.58	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	5.33	5.33	at	06/03	5.31	at	16/01
Libor 12M	0.81	0.81	at	01/01	0.81	at	01/01

At 8-3-24

Yield (%)		highest 24			lowest 24		
€ AVG 5-7y	2.64	2.64	at	01/01	2.64	at	01/01
Bund 2y	2.87	3.03	at	27/02	2.53	at	01/02
Bund 10y	2.25	2.44	at	28/02	2.02	at	03/01
OAT 10y	2.71	2.88	at	01/03	2.47	at	01/01
Corp. BBB	3.86	4.06	at	28/02	3.75	at	01/01
$ Treas. 2y	4.53	4.72	at	27/02	4.22	at	15/01
Treas. 10y	4.09	4.34	at	21/02	3.86	at	01/02
High Yield	7.75	8.10	at	05/01	7.75	at	08/03
£ gilt. 2y	4.55	4.68	at	13/02	3.98	at	01/01
gilt. 10y	3.98	4.22	at	13/02	3.60	at	01/01

At 8-3-24

EXCHANGE RATES

1€ =		highest 24		lowest 24			2024
USD	1.10	1.10	at 01/01	1.07	at	13/02	-0.8%
GBP	0.85	0.87	at 02/01	0.85	at	13/02	-1.8%
CHF	0.96	0.96	at 06/03	0.93	at	08/01	+3.2%
JPY	161.16	163.58	at 26/02	155.33	at	02/01	+3.5%
AUD	1.65	1.67	at 28/02	1.62	at	02/01	+2.0%
CNY	7.88	7.88	at 08/03	7.71	at	13/02	+0.6%
BRL	5.45	5.45	at 08/03	5.31	at	13/02	+1.5%
RUB	99.82	102.67	at 23/02	95.72	at	19/01	+1.1%
INR	90.74	91.92	at 01/01	88.97	at	13/02	-1.3%

At 8-3-24 *Change*

COMMODITIES

Spot price, $		highest 24			lowest 24			2024	2024(€)
Oil, Brent	82.2	84.2	at	01/03	75.8	at	08/01	+5.8%	+6.6%
Gold (ounce)	2 173	2 173	at	08/03	1 989	at	14/02	+5.2%	+6.0%
Metals, LMEX	3 739	3 762	at	01/01	3 558	at	09/02	-0.6%	+0.2%
Copper (ton)	8 487	8 546	at	07/03	8 065	at	09/02	+0.3%	+1.1%
wheat (ton)	200	2.3	at	01/01	200	at	08/03	-14.1%	-13.4%
Corn (ton)	161	1.7	at	01/01	148	at	23/02	-0.8%	-7.2%

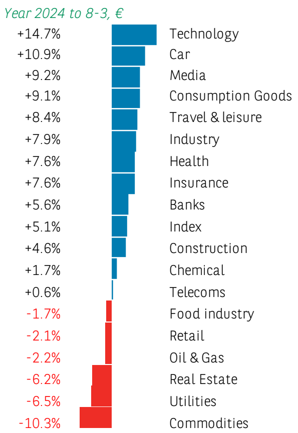
At 8-3-24 *Change*

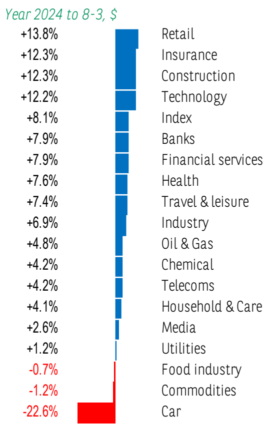
EQUITY INDICES

	Index	highest 24			lowest 24			2024
World								
MSCI World	3 380	3 391	at	07/03	3 114	at	04/01	+6.7%
North America								
S&P500	5 124	5 157	at	07/03	4 689	at	04/01	+7.4%
Europe								
EuroStoxx50	4 961	4 974	at	07/03	4 403	at	17/01	+9.7%
CAC 40	8 028	8 028	at	08/03	7 319	at	17/01	+0.6%
DAX 30	17 815	17 843	at	07/03	16 432	at	17/01	+6.3%
IBEX 35	10 306	10 320	at	07/03	9 858	at	19/01	+0.2%
FTSE100	7 660	7 733	at	01/01	7 446	at	17/01	-0.1%
Asia								
MSCI, loc.	1 388	1 388	at	08/03	1 242	at	03/01	+1.1%
Nikkei	39 689	40 109	at	04/03	33 288	at	04/01	+18.6%
Emerging								
MSCI Emerging ($)	1 037	1 037	at	08/03	958	at	17/01	+0.1%
China	53	55	at	01/01	49	at	22/01	-4.0%
India	989	989	at	07/03	915	at	03/01	+6.7%
Brazil	1 652	1 800	at	01/01	1 652	at	08/03	-6.1%

At 8-3-24 *Change*

PERFORMANCE BY SECTOR (Eurostoxx50 & S&P500)

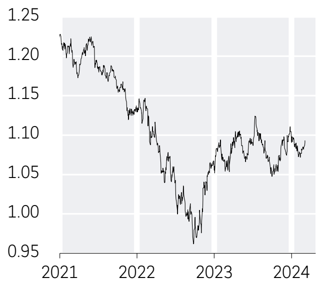




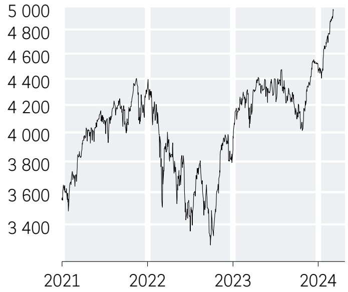
SOURCE: REFINITIV, BNP PARIBAS

MARKETS OVERVIEW

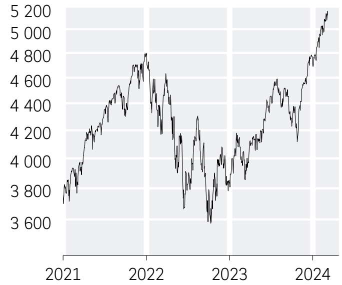
EURO-DOLLAR



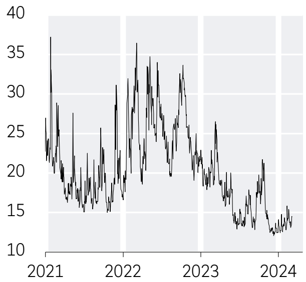
EUROSTOXX50



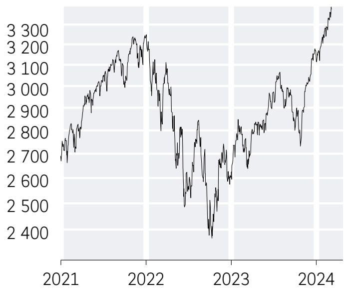
S&P500



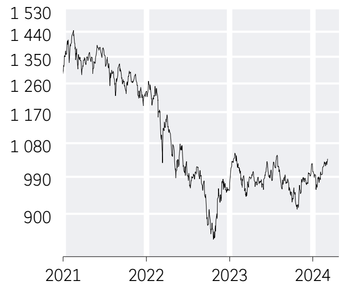
VOLATILITY (VIX, S&P500)



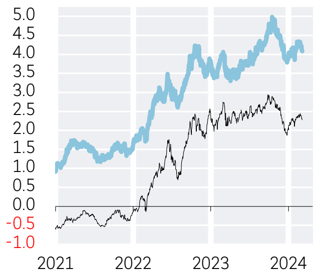
MSCI WORLD (USD)



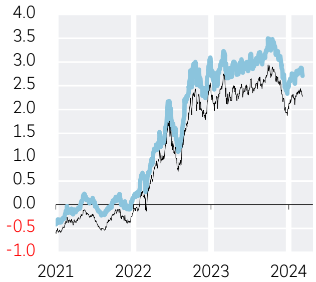
MSCI EMERGING (USD)



10Y BOND YIELD, TREASURIES VS BUND



10Y BOND YIELD

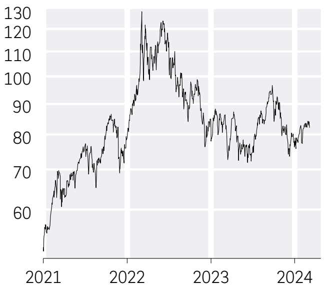


10Y BOND YIELD & SPREADS

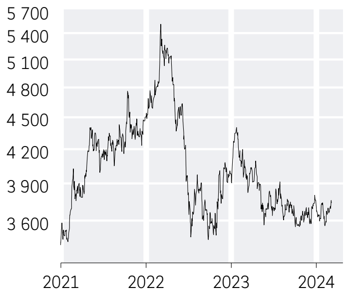
Year 2024 to 8-3

3.80%	Greece	155 bp
3.58%	Italy	133 bp
3.08%	Spain	83 bp
2.86%	Portugal	60 bp
2.72%	Belgium	47 bp
2.72%	Austria	46 bp
2.71%	France	46 bp
2.69%	Finland	43 bp
2.53%	Netherlands	28 bp
2.51%	Ireland	26 bp
2.25%	Germany	

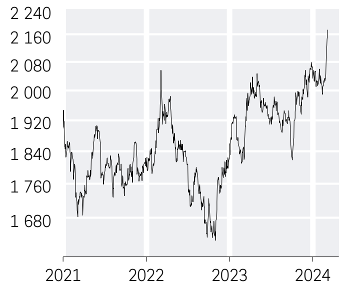
OIL (BRENT, USD)



METALS (LMEX, USD)



GOLD (OUNCE, USD)



SOURCE: REFINITIV, BNP PARIBAS

AN ENCOURAGING SIGNAL FOR GLOBAL ACTIVITY IN Q1 2024

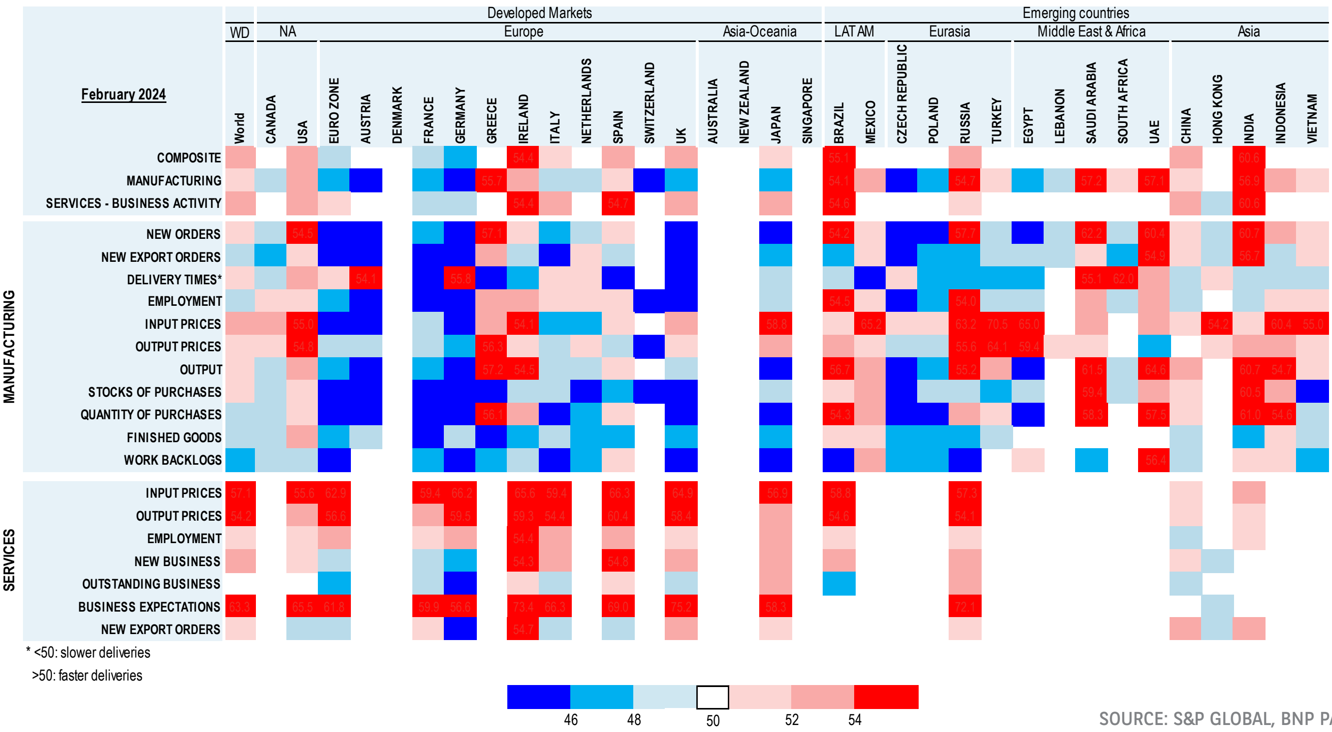
In February, the S&P Global Composite PMI improved for the fourth consecutive month (+0.3 points), to 52.1, its highest level since June 2023. This is a fairly clearly encouraging signal for Q1 global growth, especially as this improvement is being driven both by the manufacturing and services sectors. In February, the global PMI index in these two sectors reached its highest level since August 2022 and July 2023, at 50.3 and 52.4 respectively.

22 out of the 30 countries for which February data are available showed an improvement in the manufacturing sector, driven by the "new orders" and "output" components, especially in France, Ireland, Spain, Canada, South Africa and the United States. Conversely, Germany's manufacturing PMI index was down sharply compared to the previous month, because of a further sharp decrease in these two sub-components. In China, the manufacturing index recovered very slightly again, posting its fourth consecutive month in the expansion zone. The news on prices and supply was a little better. The global PMI for delivery times in the manufacturing sector fell slightly compared to January, its first drop since May 2023. The input price index and the output price index in the manufacturing sector stopped rising and fell marginally. On the employment side, the news is also improving: the index is closer to the 50s threshold, supported by a rise in Canada, the United States, France, Spain and Italy. However, the sharp drop in this component in Germany offset the improvement in the other Eurozone countries.

In the services sector, half of the countries in our sample showed an improvement in the index in comparison to the previous month. The rise was marked in France, Ireland, Spain and, to a lesser extent, in Italy, Germany and the Eurozone, where the index is notably back in the expansion zone. The index, on the other hand, fell slightly in the United States, Japan, the United Kingdom, and China, and sharply in Russia. Overall, only two components were up, those relating to "output prices" and, to a lesser extent, "new business".

Tarik Rharrab

S&P GLOBAL PMI - FEBRUARY 2024



* <50: slower deliveries
>50: faster deliveries

SOURCE: S&P GLOBAL, BNP PARIBAS

ECONOMIC PULSE

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

		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	0.3		0.5	1.3			3.5	-0.7		3.7	0.4		2.4		0.1			-0.9	
	MANUFACTURING	0.3	1.4	1.5	-0.1	0.0		4.0	-3.0	1.0	2.7	0.2	0.4	2.3	0.9	0.5			-0.8	-0.1
	SERVICES - BUSINESS ACTIVITY	0.1		-0.2	1.8			3.0	0.6		3.9	1.0		2.6		-0.5			-0.2	
MANUFACTURING	NEW ORDERS	0.6	3.2	1.9	0.5	0.6		7.8	-3.6	2.6	3.7	0.5	-0.2	4.3		-0.7			-0.8	-0.2
	NEW EXPORT ORDERS	0.6	2.5	2.8	-0.1	1.8		2.6	-0.2	1.5	-4.0	-1.1	1.0	0.9		-3.4			-0.8	-0.2
	DELIVERY TIMES	1.1	-0.2	5.1	2.4	2.7		0.7	4.8	1.5	1.5	1.4	0.2	-1.8		-4.7			-0.3	0.1
	EMPLOYMENT	0.2	1.1	1.5	0.0	-2.8		1.7	-2.2	0.1	1.8	2.4	1.2	1.5	-2.4	-4.2			-0.2	
	INPUT PRICES	-0.1	0.5	-2.7	2.7	2.5		4.3	1.6	-0.3	3.8	3.4	1.0	4.0		0.3			-0.7	-0.1
	OUTPUT PRICES	-0.1	-0.5	0.3	-0.3	0.8		0.3	-1.8	2.3	0.9	0.8	0.5	0.9	5.8	0.3			-0.1	
	OUTPUT	0.9	1.2	4.2	0.1	2.9		5.9	-3.4	1.9	3.6	-1.2	1.6	1.4		2.8			-2.5	-0.1
	STOCKS OF PURCHASES	1.0	-1.0	3.5	0.8	1.1		-0.8	0.6	1.5	5.3	0.2	-1.5	0.8	-1.0	2.1			0.0	0.2
	QUANTITY OF PURCHASES	0.6		2.1	1.1	3.2		4.1	-3.7	2.0	9.3	0.7	4.1	5.2		-0.1			-0.2	
	FINISHED GOODS	0.0	-2.0	2.6	0.2	2.4		-2.0	-0.1	-0.5	-0.1	1.3	1.0	2.5		2.5			-0.1	0.1
	WORK BACKLOGS	0.7	1.5	4.6	-0.3			4.3	-2.8	0.8	1.2	-0.2	-1.6	3.8		-0.1			1.4	
SERVICES	INPUT PRICES	-0.1		-1.1	0.3			-0.3	0.8		2.2	0.1		0.3		1.6			-0.3	
	OUTPUT PRICES	1.2		2.1	0.3			-2.2	1.1		1.1			1.9		1.2			0.1	
	EMPLOYMENT	-0.1		-0.3	1.5			0.3	3.4		1.8	1.6		-0.6		0.1			2.6	
	NEW BUSINESS	0.1		-0.7	1.9			3.2	1.2		2.1	0.8		2.4		0.2			0.6	
	OUTSTANDING BUSINESS				0.4			2.1	0.4		1.9	-0.4		-1.9		-0.4			0.8	
	BUSINESS EXPECTATIONS	-0.8		-3.2	1.6			1.0	1.6		1.9	0.4		4.5		5.0			-2.0	
	NEW EXPORT ORDERS	-0.2		-2.1	1.1			2.2	-1.5		1.1	2.4		3.1		0.9			-2.1	

		Emerging countries: LAT AM		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	1.9				-2.9							0.0		-0.6		
	MANUFACTURING	1.3	2.1	1.3	0.8	2.3	1.0	-1.0	-0.3	1.8	8.1	0.5	0.1		0.4	-0.2	0.1
	SERVICES - BUSINESS ACTIVITY	1.5				-4.7							-0.2	-0.2	-1.2		
MANUFACTURING	NEW ORDERS	1.6	2.6	1.4	2.8	3.7	2.5	-1.9	0.3	1.7	3.8	-1.5	0.1	-0.4	0.4	-0.2	0.1
	NEW EXPORT ORDERS	-2.5	2.1	3.0	2.8	-0.9	0.1	-0.2	0.3	2.5	-1.5	4.6	0.0	3.1	3.0	-0.2	-1.5
	DELIVERY TIMES	2.5	0.8	0.6	-0.8	0.5	0.6	-2.3		-0.8	1.0	-1.6	-0.4	2.3	0.3	-0.5	-0.1
	EMPLOYMENT	0.7	2.0	0.6	-2.4	4.2	-1.2	-1.0		1.0	4.0	1.3	-0.3		0.0	0.2	1.2
	INPUT PRICES	1.4	-0.3	6.0	1.8	1.2	-0.6	1.6		-2.2		-0.1	-0.2	0.1	-1.4	2.5	-0.6
	OUTPUT PRICES	0.6	0.7	2.2	-1.1	-1.5	0.2	2.0	0.1	-1.7		-0.9		-1.4	-0.2	0.3	1.1
	OUTPUT	2.9	2.7	3.9	1.6	2.2	2.5	-2.2		3.4	11.5	2.6	0.2		1.0	-0.8	-0.1
	STOCKS OF PURCHASES	2.5	4.0	-1.3	-0.8	-0.7	-0.4	-0.1		0.8	11.2	-1.5	0.6		0.8	-0.9	-2.1
	QUANTITY OF PURCHASES	3.3	1.8	1.8	1.0	-1.4	2.8	-2.0		-0.1		0.5	0.1		1.0	-0.9	0.0
	FINISHED GOODS	1.6	0.9	0.2	-2.3	0.2	1.2						-1.6		-0.4	1.4	-1.4
	WORK BACKLOGS	-3.1	1.2	4.0	2.5	-3.8		-0.1		-3.8		3.8	-0.3		-0.9	0.1	-3.3
SERVICES	INPUT PRICES	1.4				-5.3							1.5		-2.7		
	OUTPUT PRICES	0.2				-3.3							1.8		-1.0		
	EMPLOYMENT	-0.8				-3.6							-1.8		-0.6		
	NEW BUSINESS	1.2				-4.1							0.1	2.4			
	OUTSTANDING BUSINESS	-3.6				0.9							-1.7				
	BUSINESS EXPECTATIONS					-1.8								-0.2			
	NEW EXPORT ORDERS					-2.7							0.8	-0.2	0.0		

-3 -2 -1 0 1 2 3

SOURCE: S&P GLOBAL, BNP PARIBAS

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

EUROZONE

The euro area GDP slightly contracted in the second half of 2023 according to the latest Eurostat data. Annual growth was only 0.5% 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 3.1% y/y in February 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	2.2	2.0
United-Kingdom	4.4	0.1	0.1	1.2	9.1	7.4	2.2	2.3
Euro Area	3.4	0.5	0.7	1.7	8.4	5.4	2.3	2.1
Germany	1.9	-0.1	0.0	1.4	8.7	6.0	2.3	2.1
France	2.5	0.9	0.7	1.4	5.9	5.7	2.4	1.8
Italy	3.9	0.9	0.9	1.4	8.7	5.9	1.2	1.8
Spain	5.8	2.5	2.0	2.1	8.3	3.4	2.7	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: 12 March 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

European Union: a future between ageing and greening	Chart of the Week	6 March 2024
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France: a business climate survey in line with continued disinflation	EcoBrief	25 January 2024

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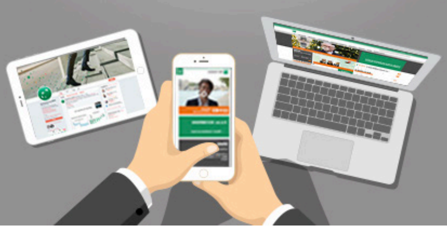

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