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ECONOMIC RESEARCH

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EUROPEAN SILVER LININGS

Last week's news made for grim reading for many in Europe. First came the choice by our American friends to bring back to the White House a man who said just weeks ago that the EU would have to "pay a big price" if he won. Then the German governing coalition collapsed. Following factory closure announcements by VW in Germany a week before, the two largest German banks reported massive increases in their provisions for bad loans. Meanwhile, in France, lay-offs were announced by two high profile French companies in the automotive industry but also in retail a sector hitherto thought to be fine. Furthermore, the European Commission's quarterly sentiment indicators showed a worsening of economic sentiment and employment expectations in both France and Germany, with capacity utilization in industry at a low last seen in June 2020.

But look closer, and the picture is not uniformly grim. Apart from Germany and France, many EU economies are doing very well indeed. In 22 out of 28 economies, the Employment Expectations Index is above its long-term average and/or improving. And even in the two largest economies, there are areas of improvement, notably in services. It is after all a strength of the EU economy that its components rely on different growth drivers, both sectorally and geographically. This same heterogeneity that so complicates consensus-building is also a source of resilience.

Moreover, Donald Trump's election may well prove to be the jolt saving Europe from dithering about the steps needed to preserve its place in the world. European policymakers' muted and unhurried reactions to the Letta and Draghi Reports were beginning to unnerve or even despair the many who, in the business world and civil society, felt a sense of urgency in tackling their recommendations to restore EU competitiveness and boost its growth prospects. Bold action was seen as unlikely for at least a year owing to political paralysis in Germany – itself due to a dysfunctional coalition—, a highly unstable government in France, and historically poor relations between the two supposed engines of European integration. Suddenly, a sense of urgency has returned.

Germany now looks set to have a new Government shortly after the start of the Trump administration. Of course, it is too soon to tell what will come out of the elections, but polls point to a likely coalition led by CDU's Friedrich Merz—himself a business-friendly and Europe-savvy character. Critically, there are signs of growing support from public opinion and the corporate world for finding ways around the infamous "debt brake" (embedded in the German Constitution in 2009). This rule, which strictly limits the size of structural budget deficits, is credited for bringing Germany's debt to GDP ratio down to 63% of GDP, this ratio being one of the lowest in the Eurozone. But on the other hand, it has prevented the country from engaging in the kind of investment needed to maintain, let alone upgrade its creaking infrastructure and defense capabilities, with public investment running about 0.5 % of GDP below the eurozone average over the last 10 years. Having a German government that is stable enough to engage boldly with foreign partners, both within and outside Europe, can only be a good thing. One that is willing to invest significantly more in support of shared goals such as the energy transition and Europe's military and economic security would be a meaningful bonus.

At last, EU Leaders have recognized that "business as usual is no longer an option". So states the statement they adopted following the informal EU Council meeting on 8 November. "*We seize their wake-up call*" it continues, referring to the Letta and Draghi reports. Of course, there can be a long way between words and actions, but the Leaders haven't sounded so determined or united since confronting the COVID pandemic, and back then action did follow. It is noteworthy that the Leaders tasked the EU Commission to return in relatively short order – by mid-2025- with concrete plans for deepening the single market and reducing red tape. Lack of pan-European scale and excessive regulation are among the biggest disincentives to private investment, from which the bulk of the needed financing effort will need to come. Also welcome is EU Leaders' express commitment to "*upholding an open economy and building international partnerships*". The more the US steps away from this goal, and from carbon neutrality industrial policies, the more it is an opportunity for Europe to take global leadership in these areas. Now it needs to give itself the tools of these ambitions, as broadly outlined in the Letta and Draghi reports.

Intra-European geopolitics might get a reboot too, for the better. Even if France and Germany remain hampered by their economic difficulties in taking an active leadership role, paralysis isn't a fatality. A group of smaller and more dynamic economies could take the lead, as argued recently by the Financial Times' Martin Sandbu, including Southern ones. Last but not least, the election of Donald Trump makes it hard to ignore the commonalities of challenges, social models and world views between the EU and the United Kingdom for much longer. Nobody wants to reopen the Brexit scars, but on security, artificial intelligence, and the energy transition, both sides would evidently benefit from pooling efforts at least in part. And there is now a better chance for this to happen than there has been since 2016.

Isabelle Mateos y Lago

ECONOMIC SCENARIO

UNITED STATES

In the US, the prospect of a recession triggered by the monetary tightening still appears as ruled out, given the resilience on the economy illustrated by a +2.9% yearly annual GDP growth in 2023. In the wake of a slowdown in Q1 2024 (+0.3% q/q, following +0.8% in Q4 2023), GDP growth accelerated again at +0.7% q/q in Q2 and Q3, mainly driven by household consumption. Our baseline scenario implies a +2.7% yearly annual growth rate in 2024, enabled by the 2023 carryover effect, as well as an increase in real income. The inflation peak was reached in mid-2022 and, while Q1 2024 data had raised concerns, Q2 and early-Q3 data indicate that the disinflation path has markedly resumed. This picture, together with the softening of the labour market, paved the way for the Fed to undertake monetary easing. This has started in September, with a jumbo 50bps cut, followed by a 25bps cut in November. A further -25bps is expected in December, thereby bringing the target rate to +4.25% - +4.5% by year-end.

CHINA

Economic growth accelerated in Q3 2024 (+0.9% y/y vs. +0.5% in Q2) and stood at 4.8% y/y in the three quarters of 2024. To reach the official growth target of “about 5%” set for 2024, activity will have to rebound strongly in Q4. This will require the fast implementation of all the fiscal and property policy measures announced over the past few weeks. Economic growth started to gain some momentum in September. However, on the one hand, the manufacturing sector is likely to face a slowdown in its exports in the coming months due to the rising number of protectionist measures. On the other hand, domestic demand remains held back by significant brakes, including the crisis in the property sector, slower growth in household income, regulatory uncertainties, and low confidence of the private sector. Consumer price inflation stood at +0.5% y/y in Q3 2024, vs. +0.3% in Q2, but core inflation weakened and reached a low point in September (+0.1% y/y); the supply-demand imbalance fuels persisting deflationary pressures.

EUROZONE

Growth in the euro area surprised on the upside in the third quarter of 2024, expanding by 0.4% q/q according to Eurostat preliminary estimates. The difficulties in the industrial sector, highlighted by the current low PMI figures, and the uncertainty about the Chinese economy, increase the downside risks to our forecasts. While Spain is expected to record more solid gains in activity in the coming quarters, the gaps would narrow between Germany, France and Italy. Overall Eurozone growth would be supported by the continuation of the ECB’s cycle of interest rate cuts. We expect successive 25 basis point cuts in key rates at each ECB meeting, as the neutral rate will be reached in the third quarter of 2025. Growth in the Eurozone is also expected to be supported by a still resilient labour market and the disbursement of NGEU funds and their deployment on the ground.

FRANCE

GDP growth strengthened to 0.4% q/q growth in Q3 (after 0.2% q/q in Q2 2024), mainly supported by the positive impact of the Olympics and despite lower business and household investment (-1.4% and -0.9% q/q respectively). Disinflation is now visible (the harmonized index grew by 1.5% y/y in October 2024, compared to 4.5% y/y a year ago) but household consumption growth remains disappointing (excluding the positive impact of the Olympics). As a result, we except no growth acceleration in 2025 compared with 2024 (with a growth forecast of 1.2% for both years, after 1.1% in 2023).

INTEREST RATES AND EXCHANGE RATES

TThe US Federal Reserve started its monetary easing cycle in September, with a first 50 basis point cut in the Fed funds rate, followed by a 25bps cut in November, expected to be followed by another 25bps in December.

In December, a further rate cut is expected from the ECB, while the Bank of England would opt for the *status quo*, before restarting the downward cycle in early 2025. However, on both sides of the Atlantic, policy rates in real terms – which is a better indication of the degree of monetary tightening – would remain positive, at least until the second half of next year.

The resulting decline in Government bond yields should be limited by the size of bond issuance against a backdrop 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%, before a new +15bps upward movement in July. At the same time, it was announced that the volume of JGBs purchases was to be halved.

We expect monetary policy to normalise gradually in the country, with only one additional hike envisaged by the end of 2024 (-25 BPS), before two more cuts in 2025.

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

Source : BNP Paribas (e: Estimates & forecasts)
Last update: 12 November 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		Q4 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025
US	Fed Funds (upper limit)	4.50	4.00	3.75	3.50	3.25
	T-Note 10y	3.80	3.70	3.70	3.65	3.65
Eurozone	deposit rate	3.00	2.50	2.00	2.00	2.00
	Bund 10y	2.15	2.10	2.10	2.15	2.25
	OAT 10y	2.88	2.80	2.85	2.85	2.95
	BTP 10y	3.60	3.40	3.45	3.55	3.65
	BONO 10y	2.93	2.85	2.85	2.88	2.98
UK	Base rate	4.75	4.50	4.25	4.00	3.75
	Gilts 10y	3.80	3.80	3.60	3.50	3.65
Japan	BoJ Rate	0.50	0.50	0.75	0.75	1.00
	JGB 10y	1.25	1.40	1.55	1.70	1.80

Exchange Rates

End of period		Q4 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025
USD	EUR / USD	1.12	1.13	1.14	1.14	1.15
	USD / JPY	139	138	136	134	131
	GBP / USD	1.35	1.36	1.37	1.37	1.39
EUR	EUR / GBP	0.83	0.83	0.83	0.83	0.83
	EUR / JPY	156	156	155	153	151

Brent

Quarter Average		Q4 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025
Brent	USD/bbl	78	78	72	77	74

Sources: BNP Paribas (Market Economics, Interest Rate Strategy, FX Strategy, Commodities Desk Strategy)
Last update: 1 November 2024

MARKETS OVERVIEW

Bond Markets

	in %	in bps			
	11-nov.-24	1-Week	1-Month	Year to date	1-Year
Bund 2Y	2,16	-5,2	-9,7	-51,4	-110,3
Bund 5Y	2,13	-5,0	+0,1	+18,4	-52,0
Bund 10Y	2,33	-3,9	+5,1	+32,5	-35,1
OAT 10Y	3,01	-3,8	+3,2	+53,8	-20,2
BTP 10Y	3,49	-6,5	+4,7	-4,3	-91,0
BONO 10Y	3,02	-4,9	+4,5	+6,8	-70,4
Treasuries 2Y	4,30	+2,7	+31,1	-4,0	-76,7
Treasuries 5Y	4,24	+5,1	+35,5	+38,4	-41,9
Treasuries 10Y	4,34	+3,9	+25,8	+47,2	-29,6
Gilt 2Y	4,19	-0,9	+30,7	+21,8	-47,6
Treasuries 5Y	4,32	-0,3	+24,7	+100,6	+15,7
Gilt 10Y	4,43	-0,9	21,9	+82,4	+0,7

Currencies & Commodities

	Level	Change, %			
	11-nov.-24	1-Week	1-Month	Year to date	1-Year
EUR/USD	1,06	-0,9	-2,7	-3,6	-0,2
GBP/USD	1,29	-0,5	-1,6	+1,0	+5,5
USD/JPY	153,89	+1,0	+3,1	+9,2	+1,6
DXY	111,99	+7,9	+11,5	+10,5	+6,1
EUR/GBP	0,83	-0,4	-1,2	-4,5	-5,4
EUR/CHF	0,94	-0,2	-0,1	+0,8	-2,8
EUR/JPY	163,86	+0,0	+0,3	+5,2	+1,4
Oil, Brent ($/bbl)	71,93	-2,3	-9,2	-7,4	-11,8
Gold ($/ounce)	2615	-2,6	-1,6	+26,6	+34,3

Equity Indicies

World					
MSCI World ($)	3795	+0,1	+1,7	+19,8	+30,8
North America					
S&P500	6001	+0,1	+3,2	+25,8	+35,9
Dow Jones	44293	+0,7	+3,3	+17,5	+29,2
Nasdaq composite	19299	+0,1	+5,2	+28,6	+39,9
Europe					
CAC 40	7427	+1,2	-2,0	-1,5	+5,4
DAX 30	19449	+1,2	+0,4	+16,1	+27,7
EuroStoxx50	4854	+1,1	-3,0	+7,4	+15,6
FTSE100	8125	+0,7	-1,6	+5,1	+10,4
Asia					
MSCI, loc.	1423	-0,2	+1,0	+14,1	+17,6
Nikkei	39533	+0,1	-0,2	+18,1	+21,4
Emerging					
MSCI Emerging ($)	1126	-0,9	-2,9	+10,0	+18,7
China	67	-1,1	-4,1	+20,7	+19,1
India	1053	-0,1	-5,3	+14,3	+28,5
Brazil	1403	+0,6	-1,7	-22,0	-13,8

Performance by sector

Eurostoxx600

Year 2024 to 11-11, €

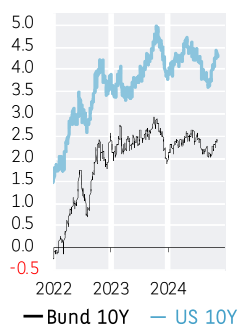
+23,2%	Banks
+18,1%	Telecoms
+17,4%	Media
+16,9%	Industry
+15,8%	Insurance
+12,0%	Travel & leisure
+11,6%	Retail
+9,0%	Health
+8,5%	Construction
+7,0%	Index
+1,7%	Technology
-0,2%	Utilities
-1,6%	Real Estate
-4,2%	Chemical
-5,8%	Food industry
-5,8%	Oil & Gas
-7,9%	Commodities
-8,3%	Consumption Goods
-13,6%	Car

S&P500

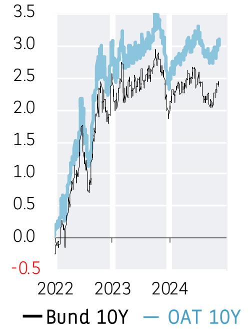
Year 2024 to 11-11, $

+42,8%	Banks
+41,4%	Construction
+41,0%	Technology
+37,3%	Financial services
+36,6%	Retail
+36,4%	Car
+35,5%	Insurance
+30,3%	Utilities
+30,3%	Index
+29,9%	Telecoms
+28,6%	Industry
+24,7%	Travel & leisure
+17,3%	Oil & Gas
+13,4%	Health
+13,0%	Media
+12,4%	Household & Care
+8,7%	Commodities
+7,9%	Chemical
+1,9%	Food industry

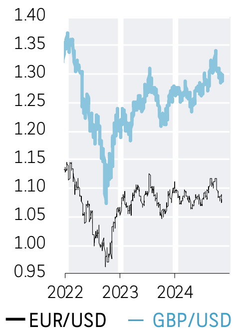
Bund 10Y vs US Treas. 10Y



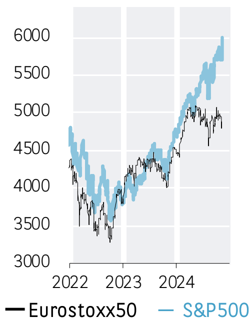
Bund 10Y vs OAT 10Y



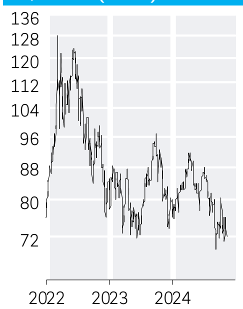
EUR/USD vs GBP/USD



EUROSTOXX 50 vs S&P500



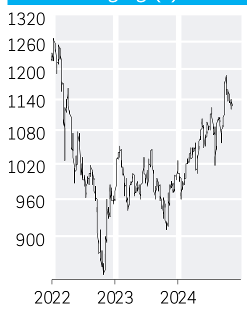
Oil, Brent ($/bbl)



Gold ($/ounce)

MSCI World ($)

MSCI Emerging ($)



SOURCE: REFINITIV, BNP PARIBAS

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