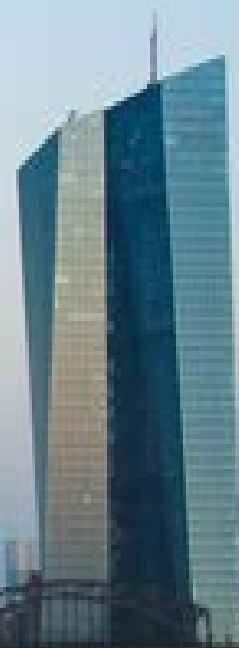


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“ THE CYCLICAL ENVIRONMENT IN THE EUROZONE, GERMANY AND FRANCE IS STABILISING BUT IT LOOKS PREMATURE TO CALL IT A BOTTOMING OUT. SIGNIFICANT PROGRESS IN TERMS OF DISINFLATION SEEMS TO BE A NECESSARY CONDITION FOR A LASTING UPTURN IN THE ECONOMIC OUTLOOK. ”



ECONOMIC RESEARCH



BNP PARIBAS

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EUROZONE: STABILISATION BUT NOT YET A BOTTOMING OUT

Recent business surveys suggest that the cyclical environment in the Eurozone, Germany and France is stabilising but it would be premature to call it a bottoming out. Such a positive development seems unlikely in the near term. Monetary policy is expected to remain tight for some time and part of the effect of the past rate hikes still needs to manifest itself. Bank lending policy is expected to remain cautious because of rising credit risk in a stagnating, high interest rates economy and credit demand from firms and households is weak. Significant progress in terms of disinflation seems to be a necessary condition for a lasting upturn in the economic outlook.

After the disappointing third quarter Eurozone GDP data -a contraction of -0.1% versus the second quarter-, recent business surveys have brought some relief. The Eurozone S&P Global composite flash PMI for the Eurozone improved slightly in November -from 46.5 to 47.1- on the back of better data for both manufacturing and services. When economic data have been on a downtrend, it is tempting to interpret the first sign of improvement as the start of a new uptrend. However, more is needed than one month of better data to be able to say that activity and demand are bottoming out. Looking at the average PMI for the past three months versus the previous three months, a stabilisation can be noted in manufacturing -the momentum is slightly positive but very close to zero- whereas momentum has been negative in the services sector (chart 1)¹.

In manufacturing, total as well as export orders have improved. However, the PMI employment data have weakened. This needs to be monitored closely considering the historical correlation between this series and Eurozone employment growth. In services, all series are weaker in recent months compared to before, except for input prices. This implies that news is concerning both on the activity and inflation front. France and Germany have also released business sentiment data recently. In the former, the INSEE business climate edged down from 98 to 97 -in September it was still at 100- but this is masking strong divergences.

The situation was stable in industry for a third consecutive month as well as in services. It weakened slightly in the construction sector whereas in retail trade the strong downtrend continued: since July this year, the index has lost 10 points, dropping from 106 to 96. In Germany, the ifo index improved in November for the third month in a row on the back of a better assessment of the current situation and expectations that were less pessimistic than before. Manufacturing saw a marked improvement, but the situation worsened slightly in services. Sentiment rose notably in trade and improved in construction.

Although based on these data the case can be made that the cyclical environment in the Eurozone, Germany and France is stabilising, it seems premature to call it a bottoming out, because this would suppose that the situation is about to improve².

¹ A similar chart with data up until August 2023 shows a situation that was far worse with negative momentum in manufacturing and a very negative momentum in services.

² Cambridge Dictionary defines 'to bottom out' as 'to have reached the lowest point in a continuously changing situation and to be about to improve'. Source: <https://dictionary.cambridge.org/>

³ With respect to firms, 'in the fourth quarter of 2023, banks expect a smaller net decrease in demand for loans to firms.' Concerning households, 'in the fourth quarter of 2023, banks expect a less pronounced decrease in the demand for housing loans and for consumer credit than in the third quarter.' Source: ECB Bank Lending Survey Q3 2023, 24 October 2023.

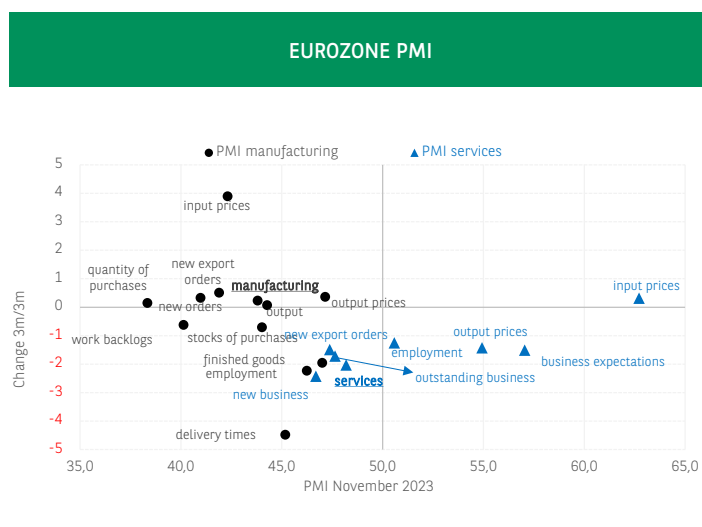


CHART 1

SOURCE: S&P GLOBAL, BNP PARIBAS

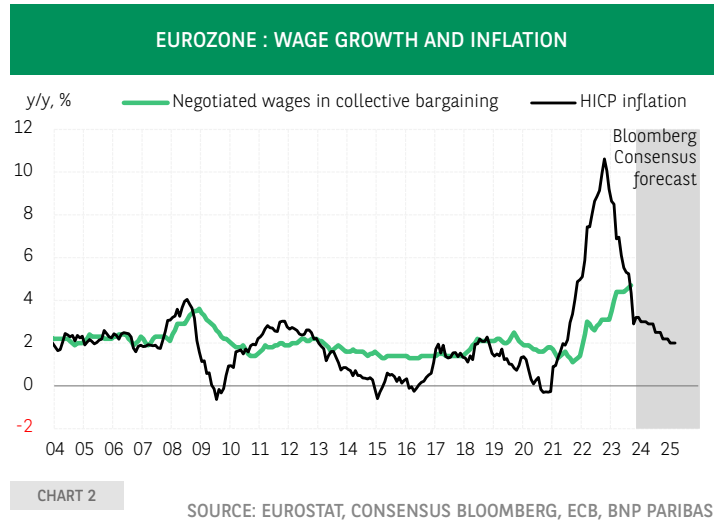
Such a positive development seems unlikely in the near term. Monetary policy is tight and is expected to remain so for some time and part of the effect of the past rate hikes still needs to manifest itself. Bank lending policy is expected to remain cautious because of rising credit risk in a stagnating, high interest rates economy and, as showed by the latest ECB bank lending survey, credit demand from firms and households is weak. Survey participants expect this trend to continue in the current quarter, albeit at a slower pace³. Uncertainty about the economic outlook may also push cash-rich households and firms to adopt a more cautious stance, which could weigh on discretionary spending and investments.

” The cyclical environment in the Eurozone, Germany and France is stabilising but it looks premature to call it a bottoming out. Significant progress in terms of disinflation seems to be a necessary condition for a lasting upturn in the economic outlook.



In the coming months, a genuine improvement in activity and demand will crucially depend on the outlook for official interest rates, which in turn will be driven by the inflation developments and prospects. Progress on disinflation should support the economy because it eases the pressure on the cost base of firms. Workers will benefit from the expected crossover between inflation and wage growth (chart 2): as the former drops below the latter, real wage growth increases, which should support consumer spending thereby raising confidence of firms. Finally, it will allow the ECB to provide guidance that the terminal rate has been reached, thereby eliminating lingering concerns of economic agents that rates would move higher still. Significant progress in terms of disinflation seems to be a necessary condition for a lasting upturn in the economic outlook.

William De Vijlder



MARKETS OVERVIEW

OVERVIEW

Week 17-11-23 to 24-11-23

▲ CAC 40	7 234	▶ 7 293	+0.8 %	
▲ S&P 500	4 514	▶ 4 559	+1.0 %	
▼ Volatility (VIX)	13.8	▶ 12.5	-1.3 pb	
▼ Euribor 3M (%)	3.98	▶ 3.94	-4.9 bp	
▲ Libor \$ 3M (%)	5.63	▶ 5.65	+2.0 bp	
▲ OAT 10y (%)	3.07	▶ 3.12	+5.0 bp	
▲ Bund 10y (%)	2.55	▶ 2.61	+6.0 bp	
▲ US Tr. 10y (%)	4.46	▶ 4.50	+4.4 bp	
▲ Euro vs dollar	1.09	▶ 1.09	+0.5 %	
▲ Gold (ounce, \$)	1 981	▶ 1 999	+0.9 %	
▼ Oil (Brent, \$)	80.7	▶ 80.3	-0.5 %	

MONEY & BOND MARKETS

Interest Rates

€ ECB	4.50		
Eonia	-0.51		
Euribor 3M	3.94		
Euribor 12M	4.06		
\$ FED	5.50		
Libor 3M	5.65		
Libor 12M	6.04		
£ BoE	5.25		
Libor 3M	5.36		
Libor 12M	0.81		

highest 23

lowest 23

Yield (%)

highest 23

lowest 23

€ AVG 5-7y	2.64	2.64	at 02/01	2.64	at 02/01		
Bund 2y	3.27	3.38	at 28/09	2.39	at 20/03		
Bund 10y	2.61	2.94	at 28/09	1.98	at 18/01		
OAT 10y	3.12	3.50	at 28/09	2.42	at 18/01		
Corp. BBB	4.58	5.00	at 19/10	3.95	at 02/02		
Treas. 2y	4.96	5.28	at 18/10	3.85	at 04/05		
Treas. 10y	4.50	4.98	at 19/10	3.30	at 06/04		
High Yield	8.70	9.48	at 20/10	7.94	at 02/02		
£ gilt. 2y	4.70	5.51	at 06/07	3.15	at 02/02		
gilt. 10y	4.36	4.74	at 17/08	3.00	at 02/02		

EXCHANGE RATES

1€ =		highest 23	lowest 23	2023	
USD	1.09	1.12 at 14/07	1.05 at 03/10	+2.5%	
GBP	0.87	0.90 at 03/02	0.85 at 11/07	-2.2%	
CHF	0.96	1.00 at 24/01	0.94 at 20/10	-2.3%	
JPY	163.56	163.97 at 15/11	138.02 at 03/01	+16.1%	
AUD	1.66	1.70 at 21/08	1.53 at 27/01	+5.5%	
CNY	7.83	8.08 at 19/07	7.23 at 05/01	+5.5%	
BRL	5.36	5.79 at 04/01	5.18 at 18/09	-4.8%	
RUB	97.15	110.46 at 14/08	73.32 at 12/01	+24.7%	
INR	91.22	92.37 at 14/07	86.58 at 08/03	+3.3%	

At 24-11-23 Change

COMMODITIES

Spot price, \$		highest 23	lowest 23	2023	2023(€)
Oil, Brent	80.3	96.6 at 27/09	71.9 at 12/06	-5.5%	-7.8%
Gold (ounce)	1 999	2 047 at 04/05	1 810 at 24/02	+10.1%	+7.4%
Metals, LMEX	3 654	4 404 at 26/01	3 551 at 05/10	-8.3%	-10.5%
Copper (ton)	8 330	9 331 at 23/01	7 824 at 05/10	-0.4%	-2.9%
wheat (ton)	210	2.9 at 13/02	168 at 29/09	-26.5%	-28.3%
Corn (ton)	172	2.7 at 13/02	161 at 21/08	-3.4%	-35.5%

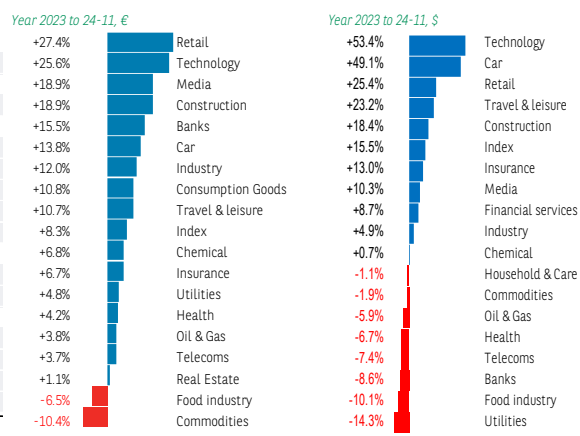
At 24-11-23 Change

EQUITY INDICES

Index	highest 23	lowest 23	2023	Year 2023 to 24-11, €
World				
MSCI World	3 015	3 064 at 31/07	2 595 at 05/01	+15.8%
North America				
S&P500	4 559	4 589 at 31/07	3 808 at 05/01	+18.7%
Europe				
EuroStoxx50	4 372	4 471 at 31/07	3 856 at 02/01	+15.2%
CAC 40	7 293	7 577 at 21/04	6 595 at 02/01	+1.3%
DAX 30	16 029	16 470 at 28/07	14 069 at 02/01	+15.1%
IBEX 35	9 939	9 939 at 24/11	8 370 at 02/01	+2.1%
FTSE100	7 488	8 014 at 20/02	7 257 at 07/07	+0.0%
Asia				
MSCI, loc.	1 235	1 256 at 15/09	1 065 at 04/01	+1.6%
Nikkei	33 626	33 753 at 03/07	25 717 at 04/01	+28.9%
Emerging				
MSCI Emerging (\$)	980	1 052 at 26/01	911 at 26/10	+0.3%
China	58	75 at 27/01	55 at 24/10	-9.4%
India	836	843 at 15/09	703 at 16/03	+9.3%
Brazil	1 678	1 733 at 26/07	1 296 at 23/03	+6.9%

At 24-11-23 Change

PERFORMANCE BY SECTOR (Eurostoxx50 & S&P500)



SOURCE: REFINITIV, BNP PARIBAS

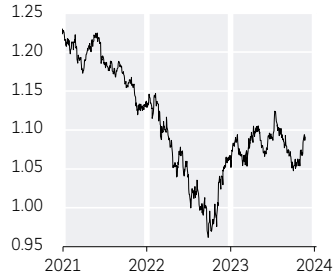


BNP PARIBAS

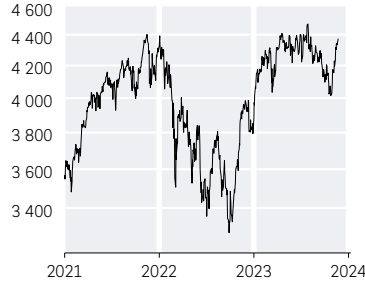
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MARKETS OVERVIEW

EURO-DOLLAR



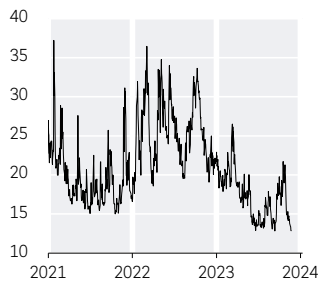
EUROSTOXX50



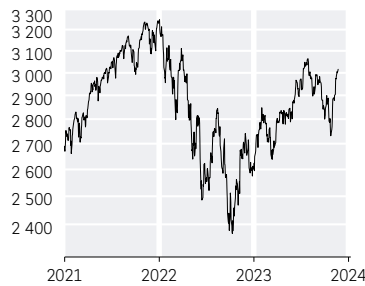
S&P500



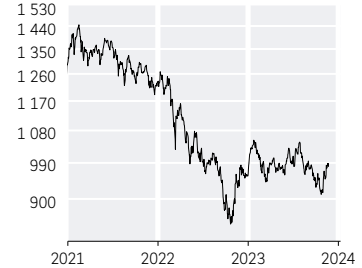
VOLATILITY (VIX, S&P500)



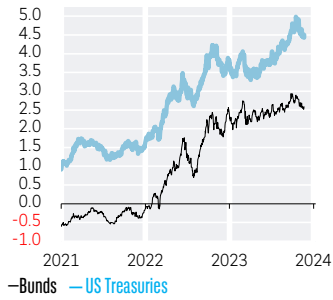
MSCI WORLD (USD)



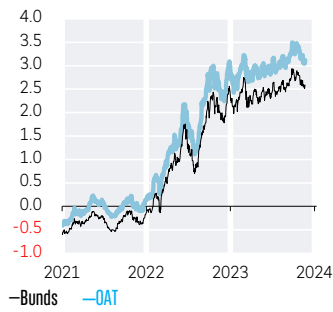
MSCI EMERGING (USD)



10Y BOND YIELD, TREASURIES VS BUND



10Y BOND YIELD

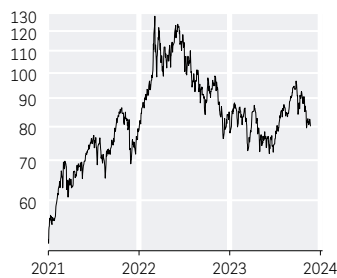


10Y BOND YIELD & SPREADS

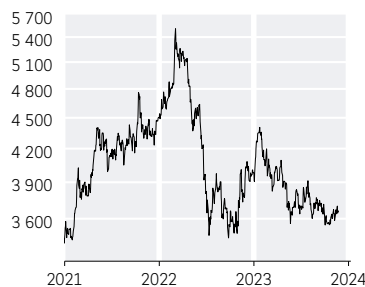
Year 2023 to 24-11

4.48%	Greece	186 bp
4.22%	Italy	161 bp
3.59%	Spain	97 bp
3.25%	Belgium	63 bp
3.23%	Portugal	62 bp
3.22%	Austria	60 bp
3.16%	Finland	54 bp
3.12%	France	50 bp
3.00%	Ireland	38 bp
2.98%	Netherlands	36 bp
2.61%	Germany	

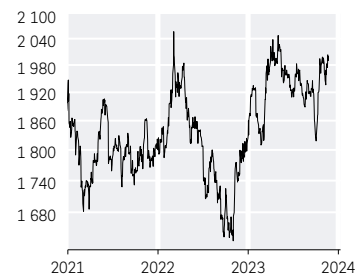
OIL (BRENT, USD)



METALS (LMEX, USD)



GOLD (OUNCE, USD)

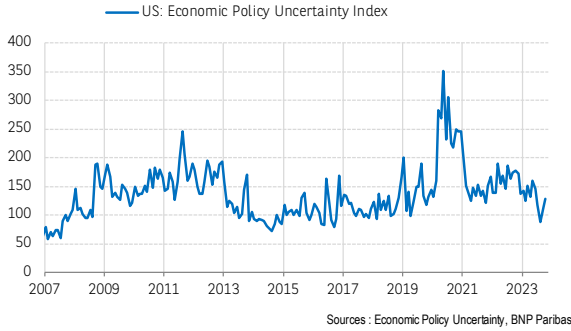


SOURCE: REFINITIV, BNP PARIBAS



ECONOMIC PULSE

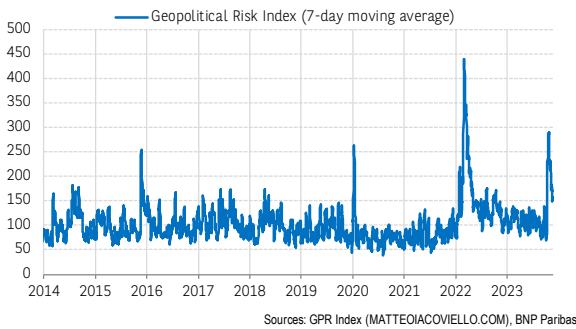
OCTOBER, A MONTH MARKED BY GEOPOLITICAL TENSION



In the United States, economic policy uncertainty, based on media coverage, increased in October for the second month in a row. The rise is probably related to the ongoing risk of a US government shutdown, and also to some uncertainty around the tone of the Fed's statement after the FOMC meeting of 31 October-1 November.



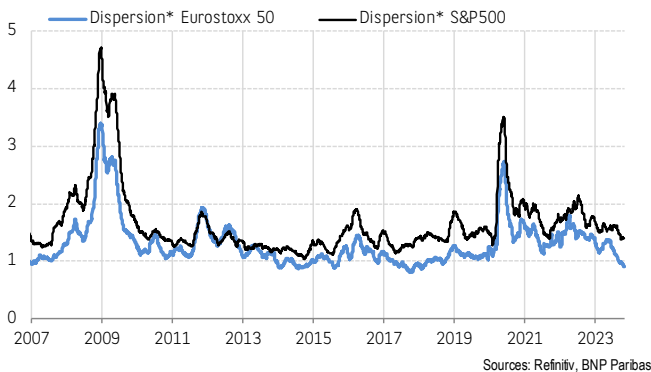
After a slight increase in uncertainty in September, US companies expressed slightly more confidence in their sales revenue growth in October. The improvement is probably linked to the strong GDP growth print in Q3 2023.



The geopolitical risk index, also based on media coverage, has resumed declining according to the latest available points, following a sharp rise in the first three weeks of October linked to recent tensions in the Middle East.

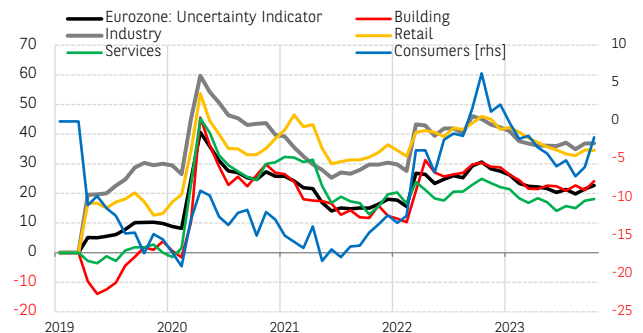


In contrast, regarding employment prospects, uncertainty increased again in October, in relation to the clearer signs of a slowdown in the US labour market.



The stock market based* uncertainty index continues to fall in the Eurozone and is now below its pre-pandemic level. This index also continues to weaken in the USA after a period of stability.

* dispersion of the daily returns of stock market index components



In the Eurozone, the European Commission's economic uncertainty index picked up again in October, buoyed by the construction sector, services and, above all, households' uncertainty. In the industry and retail trade sectors, uncertainty remained broadly stable.



ECONOMIC SCENARIO

8

UNITED STATES

US activity decelerated only slightly in the first half of 2023 (+0.5% q/q on average per quarter after +0.6% q/q during the second half of 2022), thanks to the resilience of household consumption and the strength of nonresidential investment. The impact of the tighter monetary policy on lending standards is strong but it still limited on activity and employment growth. Q3 GDP growth was even stronger (+1.2% q/q according to the preliminary estimate). A sharp slowdown is expected, however, in Q4, because of the depleted excess savings and the ensuing loss of momentum of the household consumption engine, before the economy slides into recession in the first half of 2024. The peak in inflation was reached in mid-2022, core disinflation is becoming more significant, but it remains gradual. Inflation should approach the 2% target in 2024. However, the slow pace of disinflation argues in favor of keeping monetary policy in restrictive territory, despite the expected start of the easing cycle in mid-2024. This should limit the recovery in 2024.

CHINA

Economic growth started to accelerate in early 2023 following the end of the zero Covid policy, but the recovery has weakened very rapidly. Export momentum has stalled due to depressed global demand and tensions with the US. Domestic demand has remained held back by a significant loss in consumer and investor confidence. The crisis in the property sector has persisted, with the continued fall in sales, new defaults of developers and growing difficulties of certain financial institutions. The government and the central bank have implemented new policy stimulus measures over the summer, aimed at supporting domestic demand and activity in the property sector. A slight improvement in real GDP growth thus appeared in Q3 2023 and is expected to continue in the short term. However, policy makers remain prudent, notably constrained by the debt excess of the economy and the weak financial situation of local governments.

EUROZONE

According to the first estimate, real GDP in the Eurozone registered a small contraction in Q3 (-0.1% q/q) after two quarters of stagnation. The disparate performance between Member States weakens the overall result. France and Spain have been doing well, but Germany, Italy and the Netherlands are struggling. The rising negative effects of monetary tightening as well as the fading of the positive post-Covid-19 catching up effects and diminishing supply-side constraints contribute to the deterioration of business confidence and are expected to weigh on economic activity. We foresee real GDP growth to stall in Q4, before a sluggish recovery expected in 2024. The fall in inflation is continuing. Nonetheless the inflation rate is expected to remain above 2% y/y by the end of next year, forcing monetary policy to remain in restrictive territory – disinflation provides, along with wage and employment dynamics, a significant support to household purchasing power and consumption. Growth should also be supported by NGEU disbursements.

FRANCE

French growth decreased in Q3 2023 (+0.1% q/q) after a rough stagnation in Q4 2022 and Q1 2023 and a short-lived acceleration in Q2 2023 (driven by exceptional factors, such as aeronautics). While household consumption and investment have surprised on the upside in Q3, both have remained depressed. In parallel, corporate investment, reaching a new high (+1.5% q/q), has driven growth. Disinflation is now visible (the harmonized index grew by 4.5% y/y in October), but the impact of higher interest rates should continue to be felt. As a result, we expect 0% growth q/q during the Q4. Going forward, we expect no clear growth acceleration next year (0.7% in 2024 after 0.9% in 2023).

RATES AND EXCHANGE RATES

In the US, the 25bp rate hike in July should be the last for the Fed. Some uncertainty remains, however, given the still elevated core inflation and the resilience of activity and the labour market to date. In any case, these factors argue against a rate cut before mid-2024. Among other factors, the residual uncertainty on the policy rate peak is reflected in long-term rates, which remained on an upward trend during the last days of October. However, as the prospect of monetary easing in 2024 rises, long-term rates should resume their decline.

Regarding the ECB, the 25bp hike in September of its policy rates (deposit rate at 4.00%, refinancing rate at 4.50%) should mark the end of the tightening cycle, considering the effects of the monetary tightening already underway. But it is not yet certain that it will really be the last hike, given the still limited fall of core inflation. As part of its monetary tightening, the ECB also announced a complete halt, starting in July 2023, of its reinvestments under the APP. The next step concerns the PEPP. The ECB intends to pursue the reinvestments until at least the end of 2024; we expect them to end in March 2024. European long-term rates remain on an uptrend, moving in line with US rates, but in a more muted way. They are expected to ease gradually as uncertainty dissipates over the continuation of monetary 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 the YCC are likely given that the country currently faces the fastest rate of inflation since the early 1990s. The BoJ is unlikely to increase its policy rates this year, but we expect a first rate hike in March 2024.

We remain bearish regarding the US dollar versus the euro. The dollar's valuation is expensive and next year the Federal Reserve should ease more than the ECB. We expect the yen to remain around current levels in the near term before strengthening versus the dollar based on the expected monetary divergence between the Fed and the BoJ in 2024.

GDP GROWTH AND INFLATION

%	GDP Growth				Inflation			
	2021	2022	2023 e	2024 e	2021	2022	2023 e	2024 e
United-States	5,9	1,9	2,4	0,8	4,7	8,0	4,1	2,2
Japan	2,3	1,0	2,0	1,0	-0,2	2,5	3,2	2,6
United-Kingdom	8,7	4,3	0,5	-0,1	2,6	9,1	7,4	3,0
Euro Area	5,6	3,4	0,5	0,9	2,6	8,4	5,5	2,4
Germany	3,1	1,9	-0,1	0,4	3,2	8,6	6,1	2,9
France	6,4	2,5	0,9	0,7	2,1	5,9	5,7	2,3
Italy	7,0	3,8	0,8	1,0	1,9	8,7	6,1	1,9
Spain	5,5	5,5	2,4	1,5	3,0	8,3	3,5	3,0
China	8,4	3,0	5,1	4,5	0,9	2,0	0,5	2,0
India*	9,1	7,2	6,1	6,0	5,5	6,7	5,9	5,0
Brazil	5,0	2,9	3,1	1,8	8,3	9,3	4,7	4,2

Source : BNP Paribas (e: Estimates & forecasts)

Last update: 29 November 2023

* Fiscal year from 1st April of year n to March 31st of year n+1

INTEREST AND EXCHANGE RATES

Interest rates, %		Q4 2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024
End of period						
US	Fed Funds (upper limit)	5.50	5.50	5.25	4.75	4.25
	T-Note 10y	4.20	4.05	3.95	3.90	3.90
Eurozone	deposit rate	4.00	4.00	3.75	3.50	3.25
	Bund 10y	2.60	2.45	2.40	2.30	2.35
	OAT 10y	3.17	2.99	2.93	2.85	2.92
	BTP 10y	4.50	4.25	4.10	4.10	4.25
	BONO 10y	3.70	3.45	3.35	3.30	3.40
UK	Base rate	5.25	5.25	5.00	4.50	4.00
	Gilts 10y	4.00	3.80	3.60	3.65	3.70
Japan	BoJ Rate	-0.10	-0.10	0.10	0.10	0.25
	JGB 10y	0.75	0.85	0.90	0.90	1.00

Exchange Rates		Q4 2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024
End of period						
USD	EUR / USD	1.10	1.11	1.12	1.13	1.15
	USD / JPY	145	145	140	138	135
	GBP / USD	1.29	1.29	1.29	1.30	1.32
EUR	EUR / GBP	0.85	0.86	0.87	0.87	0.87
	EUR / JPY	160	161	157	156	155

Brent		Q4 2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024
End of period						
Brent	USD/bbl	81	82	86	88	86

Sources: BNP Paribas (Market Economics, Interest Rate Strategy, FX

Strategy, Commodities Desk Strategy)

Last update: 25 September 2023



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FURTHER READING

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China: Stabilization and sluggishness	EcoTVWeek	24 November 2023
November 2023 issue	EcoPulse	22 November 2023
Europe: less widespread but still meaningful labour shortages	EcoFlash	22 November 2023
November 2023 issue	Pocket Atlas	22 November 2023
Malaysia: external accounts are still under pressure	Chart of the Week	22 November 2023
Global economy : household saving plays its cushioning part across the Atlantic, not (yet?) in the euro area	EcoWeek	20 November 2023
Romania: Twin deficits still persist	EcoTVWeek	17 November 2023
United States: The centrally cleared repo segment expands	Chart of the Week	15 November 2023
Global economy: The last mile of disinflation	EcoWeek	13 November 2023
Labour shortages in a receding labour market	EcoTVWeek	10 November 2023
French economy pocket atlas - October 2023	Ecobooklet	10 November 2023
Inflation tracker - November 2023	EcoChart	9 November 2023
French exports: if only one should remain...	EcoBrief	8 November 2023
United States: New home sales, a short-lived rebound?	Chart of the Week	8 November 2023
Japan: Yield curve out of control?	EcoWeek	6 November 2023
US: sprinting uphill	EcoTVWeek	3 November 2023
The economic consequences of geopolitical uncertainty	EcoWeek	30 October 2023
Latin America: shifting global winds dent portfolio inflows	EcoTVWeek	27 October 2023
Nigeria: remaining on course	EcoConjoncture	26 October 2023
Climate neutrality: beware of a two-speed transition!	Chart of the Week	25 October 2023
Eurozone: Looking for hopeful signs in the inflation data	EcoWeek	23 October 2023



GROUP ECONOMIC RESEARCH

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