

“ The broad-based nature of disinflation should be welcomed because it increases the likelihood that the decline in inflation continues to spread through the Eurozone economy. However, this should not make us forget that despite the progress, inflation remains well above target and it is likely to take time before it gets back to 2%. ”

ECONOMIC RESEARCH



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## EUROZONE: LOOKING FOR HOPEFUL SIGNS IN THE INFLATION DATA

The September data show that disinflation continues in the Eurozone. Moreover, this development is broad-based and for more than half of the HICP items, 3-month inflation is below the ECB's target expressed on an equivalent basis. This increases the likelihood that the decline in inflation continues to spread through the Eurozone economy. However, despite the progress, inflation remains well above target. This implies that, if going forward monthly core inflation would correspond to the ECB's target (expressed as a monthly number), it would still take until September next year for it to get back to 2% in terms of annual inflation. Finally, the latest geopolitical developments imply a risk of higher energy prices, which could slow the decline of headline inflation and complicate matters for core inflation due to spillover effects.

Disinflation continues in the Eurozone. In September, annual headline inflation declined to 4.3% from 5.2% the month before and 9.9% in September last year. Energy prices were down (-4.6%) and inflation was lower for industrial goods excluding energy (4.1% versus 4.7% the month before) as well as services (4.7% versus 5.5% in August).

The broad-based nature of the disinflation trend is illustrated in chart 1, which shows the ranked inflation over 3 months of the HICP items<sup>1</sup>. This inflation measure reached its peak in April of last year. Since then, the curve has gradually shifted downwards and the frequency of extremely negative or positive observations -the left and right part of the chart- has declined as well. Chart 2 provides the same information but focuses on the middle part of the curves. The downward shift of the inflation curve is clearly visible. Consequently, more than half of the HICP items show 3-month inflation below the ECB's target calculated on an equivalent basis.

To shed a light on the speed and extent of disinflation, table 1 looks at the major HICP categories. When inflation is below the ECB's target the cell is highlighted. Annual inflation peaked in October of last year, so this month serves as a reference point. Since then, headline inflation, food inflation, non-energy industrial goods inflation and energy inflation have seen significant declines. Nevertheless, except for energy inflation, they still showed annual inflation well above target in September 2023.

On the other hand, the latest readings on 3-month inflation have brought hopeful news for food inflation and non-energy industrial goods inflation. The recent rebound in energy inflation is a source of concern because of its direct economic effects -households' purchasing power, the cost structure of companies, its impact on headline inflation- as well as spillover risks to other price categories if it were the start of a new trend. Turning to services, a diverse picture emerges.

EUROZONE INFLATION: RANKED HICP ITEMS  
(3 MONTH, NON-ANNUALISED)

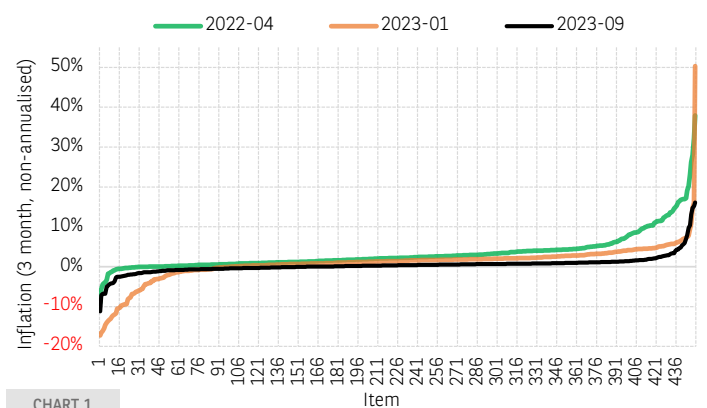


CHART 1

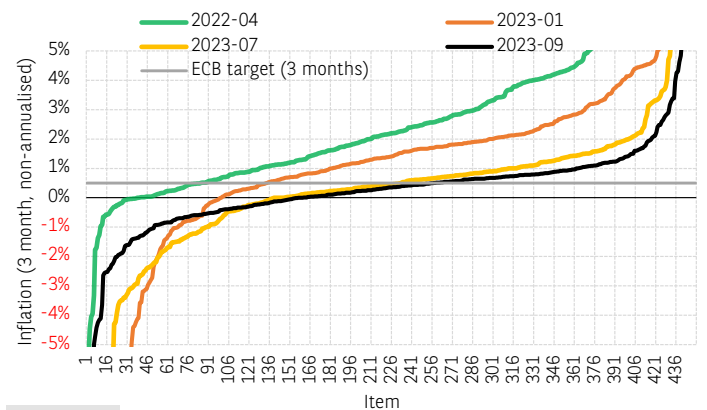


CHART 2

SOURCE: EUROSTAT, BNP PARIBAS

<sup>1</sup> The choice for a 3-month window to calculate the change in the price index seeks to strike a balance between having inflation sufficiently sensitive to the changes in the economic environment, whilst avoiding the potential volatility of inflation calculated on a month-over-month basis.

The broad-based nature of disinflation should be welcomed because it increases the likelihood that the decline in inflation continues to spread through the Eurozone economy. However, this should not make us forget that despite the progress, inflation remains well above target and it is likely to take time before it gets back to 2%.



## EUROZONE INFLATION

TABLE 1	annual inflation			3-month inflation									weight HICP	
	2022-10	2023-09	Change in annual inflation versus peak (Oct 2022)	2023-01	2023-02	2023-03	2023-04	2023-05	2023-06	2023-07	2023-08	2023-09		
All-items HICP	10.6%	4.3%	-6.3%	-0.6%	0.2%	1.5%	2.4%	1.6%	0.9%	0.2%	0.7%	0.8%	100%	
Food including alcohol and tobacco	13.1%	8.8%	-4.3%	3.0%	3.8%	4.4%	3.1%	1.8%	0.9%	0.8%	0.5%	0.2%	19.98%	
Non-energy industrial goods	6.1%	4.1%	-2.0%	-1.1%	-0.8%	1.2%	3.8%	3.3%	0.9%	-2.5%	-2.2%	0.0%	26.27%	
Energy	41.5%	-4.6%	-46.1%	-7.8%	-7.1%	-2.7%	-4.2%	-5.2%	-3.6%	-3.0%	2.4%	4.6%	10.23%	
Services (overall index excluding goods)	4.3%	4.7%	0.4%	0.3%	1.5%	1.4%	2.7%	2.0%	2.0%	2.2%	2.2%	0.7%	43.53%	
Services related to communication	-0.7%	0.0%	0.7%	0.9%	1.0%	1.2%	0.5%	0.5%	-0.2%	-0.8%	-1.0%	-0.4%		2.23%
Services related to housing	2.9%	3.7%	0.8%	1.1%	1.4%	1.4%	1.0%	0.8%	0.7%	0.8%	0.7%	0.7%		9.52%
Services - miscellaneous	2.7%	4.1%	1.4%	1.8%	1.9%	1.8%	0.9%	0.8%	0.8%	0.7%	0.4%	0.5%		9.23%
Services related to recreation, including repairs and personal care	7.3%	6.7%	-0.6%	-0.9%	1.9%	1.5%	4.4%	3.8%	4.0%	4.7%	4.5%	1.3%		15.25%
Services related to recreation and personal care, excluding package holidays and accommodation	6.1%	5.9%	-0.2%	1.9%	1.9%	1.8%	1.6%	1.4%	1.4%	1.2%	1.1%	1.1%		11.62%
Services related to package holidays and accommodation	12.5%	7.4%	-5.1%	-10.4%	2.9%	0.4%	14.3%	11.8%	12.4%	15.4%	14.7%	1.9%		3.63%
Services related to transport	5.9%	3.9%	-2.0%	-0.1%	1.0%	0.8%	4.2%	1.8%	1.8%	1.6%	2.4%	0.0%		7.31%
Overall index excluding energy, food, alcohol and tobacco	5.0%	4.5%	-0.5%	-0.2%	0.6%	1.3%	3.1%	2.5%	1.6%	0.4%	0.6%	0.4%		69.79%

TABLE 2	average monthly inflation since									
	2023-01	2023-02	2023-03	2023-04	2023-05	2023-06	2023-07	2023-08	2023-09	
All-items HICP	0.36%	0.43%	0.37%	0.28%	0.21%	0.26%	0.26%	0.43%	0.32%	
Food including alcohol and tobacco	0.60%	0.51%	0.34%	0.19%	0.19%	0.14%	0.08%	0.05%	0.07%	
Non-energy industrial goods	0.23%	0.50%	0.46%	0.15%	0.03%	-0.01%	0.01%	1.34%	2.11%	
Energy	-0.21%	-0.30%	-0.19%	0.15%	0.36%	0.98%	1.53%	2.39%	1.53%	
Services (overall index excluding goods)	0.46%	0.52%	0.48%	0.45%	0.31%	0.33%	0.24%	-0.32%	-0.85%	
Services related to communication	0.06%	-0.06%	-0.08%	-0.11%	-0.19%	-0.27%	-0.14%	-0.07%	-0.07%	
Services related to housing	0.31%	0.27%	0.24%	0.24%	0.24%	0.22%	0.23%	0.17%	0.14%	
Services - miscellaneous	0.35%	0.24%	0.22%	0.22%	0.19%	0.19%	0.18%	0.15%	0.36%	
Services related to recreation, including repairs and personal care	0.75%	0.98%	0.91%	0.88%	0.69%	0.65%	0.44%	-0.58%	-1.82%	
Services related to recreation and personal care, excluding package holidays and accommodation	0.47%	0.43%	0.40%	0.40%	0.37%	0.35%	0.35%	0.32%	0.27%	
Services related to package holidays and accommodation	1.71%	2.82%	2.58%	2.42%	1.77%	1.68%	0.85%	-2.99%	-7.40%	
Services related to transport	0.29%	0.46%	0.36%	0.31%	-0.10%	0.17%	0.00%	-1.06%	-1.78%	
Overall index excluding energy, food, alcohol and tobacco	0.37%	0.51%	0.46%	0.32%	0.20%	0.10%	0.14%	0.28%	0.22%	

SOURCE: EUROSTAT, BNP PARIBAS

For several categories -overall index, communication-related, housing-related, miscellaneous services- annual inflation in September was higher than in October last year. For other categories -recreation, package holidays, transport services- annual inflation has declined. Except for communication, all categories have annual inflation well above target. Looking at the evolution of 3-month inflation this year, communication-related services inflation has been low to negative since last April. Housing-related services have also seen a slower pace of price increases although inflation remains above target. Transport-related services inflation has also remained high although over the past three months inflation has dropped to zero. Package holidays and accommodation have seen a huge jump in inflation during spring and summer although the latest data show a significant decline in inflation. Finally, the recent evolution of core inflation ('Overall index excluding energy, food, alcohol and tobacco') is hopeful. Of the last three months, two had 3-month inflation slightly below target (0.4%) and one slightly above (0.6%).

Table 2 looks at the price data from another angle by showing the average monthly inflation for ever longer horizons<sup>2</sup>. This allows to gauge

the inflation momentum and whether there is convergence towards the ECB target. One can note a favourable development in terms of food inflation and since April of non-energy industrial goods. Energy inflation has seen significant fluctuations and rebounded recently. Package holidays and accommodation as well as transport-related services have also been volatile. Their recent decline has pulled down overall services inflation.

To conclude, the picture that emerges from a detailed look at inflation developments thus far this year is mixed. On the one hand, the broad-based nature of disinflation should be welcomed because it increases the likelihood that the decline in inflation continues to spread through the Eurozone economy. On the other hand, despite the progress, inflation remains well above target. This implies that, if going forward monthly core inflation would correspond to the ECB's target (expressed as a monthly number), it would still take until September next year for it to get back to 2% in terms of annual inflation. Finally, the latest geopolitical developments imply a risk of higher energy prices, which could slow the decline of headline inflation and complicate matters for core inflation due to spillover effects.

William De Vijlder

<sup>2</sup> The table shows the latest reading (September 2023) as well as average inflation over the past 2, 3, etc. months.



# MARKETS OVERVIEW

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## OVERVIEW

Week 13-10-23 to 20-10-23

↘ CAC 40	7 004	▶ 6 816	-2.7 %
↘ S&P 500	4 328	▶ 4 224	-2.4 %
↗ Volatility (VIX)	19.3	▶ 21.7	+2.4 pb
↘ Euribor 3M (%)	3.99	▶ 3.97	-1.6 bp
↘ Libor \$ 3M (%)	5.66	▶ 5.66	-0.4 bp
↗ OAT 10y (%)	3.29	▶ 3.42	+13.5 bp
↗ Bund 10y (%)	2.70	▶ 2.85	+15.2 bp
↗ US Tr. 10y (%)	4.62	▶ 4.91	+29.3 bp
↗ Euro vs dollar	1.05	▶ 1.06	+0.8 %
↗ Gold (ounce, \$)	1 919	▶ 1 994	+3.9 %
↗ Oil (Brent, \$)	91.0	▶ 92.2	+1.4 %

## MONEY & BOND MARKETS

Interest Rates

		highest 23	lowest 23	Yield (%)	highest 23	lowest 23
€ ECB	4.50	4.50 at 20/09	2.50 at 02/01	€ AVG 5-7y	2.64	2.64 at 02/01
Eonia	-0.51	-0.51 at 02/01	-0.51 at 02/01	Bund 2y	3.27	3.38 at 28/09
Euribor 3M	3.97	4.00 at 19/10	2.16 at 02/01	Bund 10y	2.85	2.94 at 28/09
Euribor 12M	4.19	4.23 at 29/09	3.30 at 19/01	OAT 10y	3.42	3.50 at 28/09
\$ FED	5.50	5.50 at 27/07	4.50 at 02/01	Corp. BBB	4.96	5.00 at 19/10
Libor 3M	5.66	5.69 at 10/10	4.77 at 02/01	\$ Treas. 2y	5.12	5.28 at 18/10
Libor 12M	6.04	6.04 at 30/06	4.70 at 20/03	Treas. 10y	4.91	4.98 at 19/10
£ BoE	5.25	5.25 at 03/08	3.50 at 02/01	High Yield	9.48	9.48 at 20/10
Libor 3M	5.40	5.60 at 30/08	3.87 at 02/01	£ gilt. 2y	4.88	5.51 at 06/07
Libor 12M	0.81	0.81 at 02/01	0.81 at 02/01	gilt. 10y	4.66	4.74 at 17/08

At 20-10-23

At 20-10-23

## EXCHANGE RATES

1€ =		highest 23	lowest 23	2023
USD	1.06	1.12 at 14/07	1.05 at 03/10	-0.8%
GBP	0.87	0.90 at 03/02	0.85 at 11/07	-1.8%
CHF	0.94	1.00 at 24/01	0.94 at 20/10	-4.4%
JPY	158.72	159.39 at 30/08	138.02 at 03/01	+12.7%
AUD	1.68	1.70 at 21/08	1.53 at 27/01	+6.4%
CNY	7.75	8.08 at 19/07	7.23 at 05/01	+4.4%
BRL	5.35	5.79 at 04/01	5.18 at 18/09	-5.1%
RUB	101.46	110.46 at 14/08	73.32 at 12/01	+30.2%
INR	88.01	92.37 at 14/07	86.58 at 08/03	-0.3%

At 20-10-23

Change

## COMMODITIES

Spot price, \$		highest 23	lowest 23	2023	2023(€)
Oil, Brent	92.2	96.6 at 27/09	71.9 at 12/06	+8.6%	+9.5%
Gold (ounce)	1 994	2 047 at 04/05	1 810 at 24/02	+9.8%	+10.7%
Metals, LME	3 560	4 404 at 26/01	3 551 at 05/10	-10.6%	-9.9%
Copper (ton)	7 880	9 331 at 23/01	7 824 at 05/10	-5.8%	-5.1%
wheat (ton)	221	2.9 at 13/02	168 at 29/09	-22.8%	-22.2%
Corn (ton)	183	2.7 at 13/02	161 at 21/08	-3.0%	-28.9%

At 20-10-23

Change

## EQUITY INDICES

	Index	highest 23	lowest 23	2023
<b>World</b>				
MSCI World	2 791	3 064 at 31/07	2 595 at 05/01	+7.2%
<b>North America</b>				
S&P500	4 224	4 589 at 31/07	3 808 at 05/01	+10.0%
<b>Europe</b>				
EuroStoxx50	4 025	4 471 at 31/07	3 856 at 02/01	+6.1%
CAC 40	6 816	7 577 at 21/04	6 595 at 02/01	+0.5%
DAX 30	14 798	16 470 at 28/07	14 069 at 02/01	+6.3%
IBEX 35	9 029	9 695 at 27/07	8 370 at 02/01	+1.0%
FTSE100	7 402	8 014 at 20/02	7 257 at 07/07	-0.1%
<b>Asia</b>				
MSCI, loc.	1 177	1 256 at 15/09	1 065 at 04/01	+1.0%
Nikkei	31 259	33 753 at 03/07	25 717 at 04/01	+19.8%
<b>Emerging</b>				
MSCI Emerging (\$)	926	1 052 at 26/01	926 at 20/10	-0.3%
China	55	75 at 27/01	55 at 20/10	-13.0%
India	820	843 at 15/09	703 at 16/03	+6.8%
Brazil	1 505	1 733 at 26/07	1 296 at 23/03	-1.4%

At 20-10-23

Change

## PERFORMANCE BY SECTOR (Eurostoxx50 & S&P500)

Year 2023 to 20-10, €		Year 2023 to 20-10, \$
+14.3%	Retail	+43.7%
+12.4%	Media	+42.9%
+10.3%	Banks	+16.2%
+9.1%	Car	+11.6%
+8.6%	Technology	+10.5%
+6.8%	Construction	+8.8%
+6.3%	Oil & Gas	+8.2%
+4.0%	Travel & leisure	+7.9%
+3.2%	Health	+3.8%
+2.1%	Index	+2.0%
+1.9%	Consumption Goods	+0.9%
+1.1%	Industry	-2.4%
+0.7%	Insurance	-2.7%
-1.2%	Telecoms	-5.6%
-3.1%	Chemical	-5.8%
-3.2%	Utilities	-13.0%
-8.9%	Food industry	-14.4%
-12.6%	Real Estate	-14.7%
-18.0%	Commodities	-17.3%

SOURCE: REFINITIV, BNP PARIBAS

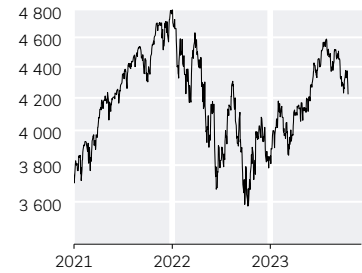
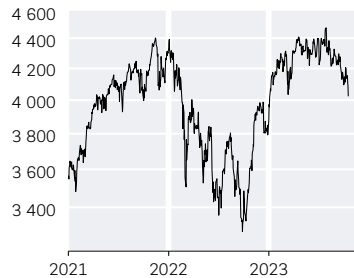
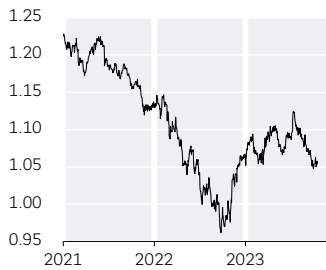


# BNP PARIBAS

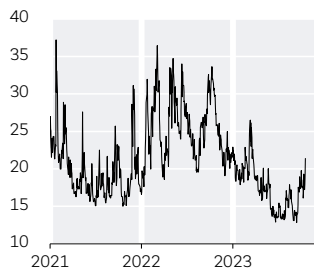
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# MARKETS OVERVIEW



**VOLATILITY (VIX, S&P500)**



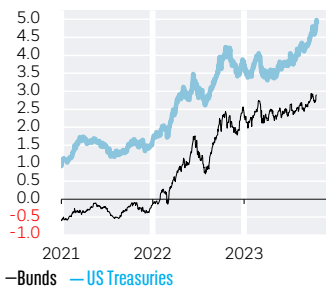
**MSCI WORLD (USD)**



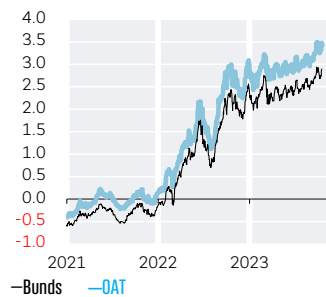
**MSCI EMERGING (USD)**



**10Y BOND YIELD, TREASURIES VS BUND**



**10Y BOND YIELD**

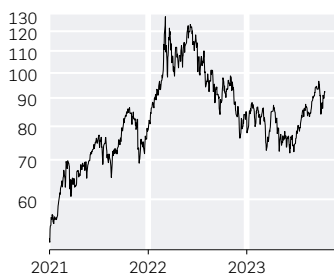


**10Y BOND YIELD & SPREADS**

Year 2023 to 20-10

4.91%	Greece	205 bp
4.78%	Italy	193 bp
3.95%	Spain	109 bp
3.55%	Belgium	69 bp
3.53%	Austria	67 bp
3.51%	Portugal	66 bp
3.45%	Finland	60 bp
3.42%	France	56 bp
3.30%	Ireland	44 bp
3.25%	Netherlands	40 bp
2.85%	Germany	

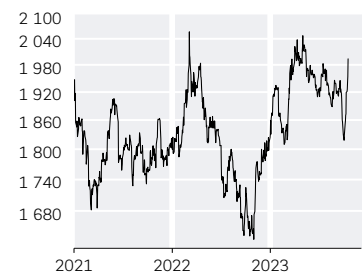
**OIL (BRENT, USD)**



**METALS (LMEX, USD)**



**GOLD (OUNCE, USD)**



SOURCE: REFINITIV, BNP PARIBAS



# ECONOMIC PULSE

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## CHINA: THE MODEST ECONOMIC RECOVERY CONTINUES

In Q3 2023, Chinese economic growth rebounded to +1.3% quarter-on-quarter, after a very poor +0.5% in the previous quarter. It stood at +4.9% year-on-year (y/y) compared to +6.3% in Q2 2023, but this slowdown is due to unfavourable base effects in Q3. Chinese economic growth reached 5.2% year-on-year over the first three quarters of 2023.

The indicators for September and Q3 2023 show a slight but continuous improvement in economic activity since the middle of the summer. In August and September 2023, economic activity in the services sector strengthened slightly (+6.9% y/y compared with +5.7% in July), supported by retail sales (+5.5% y/y in volume in August compared with +2.8% in July). Growth in industry remained at +4.5% year-on-year in August and September, compared to +3.7% in July. The manufacturing sector continues to suffer from declining exports (-10.8% y/y in current dollars in Q3 2023).

Although cautious, the new fiscal and monetary policy easing measures implemented in recent months have helped economic activity recover. This recovery is expected to continue in Q4. However, it remains modest and fragile.

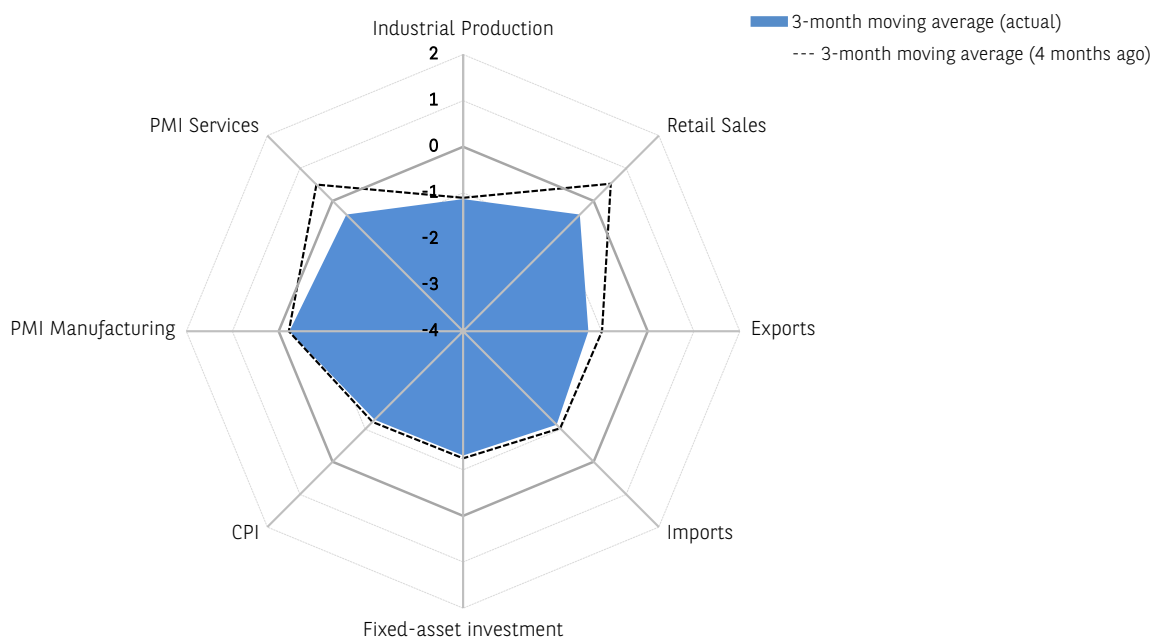
In particular, the property sector remains in crisis, which continues to significantly impact household confidence, economic activity in other sectors, and local government finances. Developers continue to face severe financial difficulties, the number of payment defaults is rising and debt restructuring remains very slow. Real estate investment continues to contract. In Q3 2023, the volume of housing sales fell by 23% y/y (vs. -20% in Q2 2023) and construction starts fell by 22% in Q3 (vs. 29% in Q2). Meanwhile, the number of completed property projects continues to recover thanks to support measures from the authorities.

Consumer sentiment remains weak. According to indicators published by the National Bureau of Statistics of China (NBS), the consumer confidence index remains very low. After dropping sharply to 86.8 in April-May 2022 during the lockdowns in Shanghai, it only temporarily recovered to over 90 in Q1 2023 following the end of the zero-Covid policy. It then fell again and stood at 86.5 in August.

However, labour market conditions are improving; the unemployment rate in urban areas fell to 5.0% in September 2023 compared to 5.2% in June (the unemployment rate of young people aged 16 to 24 is no longer being published). Consumers also benefit from almost zero consumer price inflation (+0.1% y/y in August and 0% in September), which is contained by the decline in food prices (-3.2% y/y in September) and fuel prices (-1.1% y/y in September). Core inflation recovered slightly to +0.8% y/y in Q3 2023, compared to 0.57% in Q2.

Christine Peltier

### CHINA: QUARTERLY CHANGES



SOURCE: NBS, BNP PARIBAS

The indicators in the radar are all transformed into 'z-scores' (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -4 and +2. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.


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# ECONOMIC SCENARIO

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## UNITED STATES

After a strong second half of 2022 (+0.7% q/q on average per quarter), US activity decelerated only slightly in the first half of 2023 (+0.5% q/q on average per quarter), 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 is expected to be very positive again before a sharp slowdown in Q4 and to slide into recession in the first half of 2024. The peak in inflation was reached in mid-2022 but core disinflation remains gradual. Headline 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 Q2 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 is thus expected 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

After a slight contraction in GDP in Q4 2022, the euro area returned to slightly positive growth in the first half of 2023. According to the latest figures available, Q1 growth was again revised up (from -0.1% to 0.0% and now to +0.1% q/q), while Q2 growth was downwardly revised to +0.1% q/q, erasing the initially reported technical rebound of +0.3% q/q. 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 negative effects of monetary tightening should intensify and further slow economic activity, which would stagnate in the second half of 2023, before starting a sluggish recovery. Although it is expected to decline throughout 2023, inflation would remain elevated, slightly exceeding 3% y/y at the end of this year. Illustrating the slowness of the disinflation process, it would still be significantly above the 2% target at the end of 2024 (2.5% y/y), forcing monetary policy to remain in restrictive territory.

## FRANCE

French growth significantly surprised on the upside in Q2 2023, with activity accelerating more than expected (+0.5% q/q, after stagnation in Q1 and a modestly positive Q4 2022). While household consumption and investment remain depressed, this rebound has been supported by business investment and, above all, exports. A negative correction is likely in Q3. Inflation rebounded in August (5.7% y/y according to the harmonized measure), driven by energy prices, but this rebound does not call into question the slow disinflation process. Because of rising interest rates, household demand should remain subdued in 2023, weighing on our GDP growth forecast (0.7% in 2023, compared to 2.5% in 2022).

## RATES AND EXCHANGE RATES

In the US, after having skipped the June meeting, the Federal Reserve proceeded, as expected, to a further 25bp rate hike in July. This increase should be the last in our view, but uncertainty remains 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. The residual uncertainty on the policy rate peak is reflected in long-term rates, which remained on an upward trend during the first half of September. However, as inflation falls further and the prospect of monetary easing in 2024 rises, long-term rates should resume their decline soon.

Unlike the Fed, the ECB did not pause in June but, like the Fed, it increased its key rates by 25bp in July. It did not stop there and hiked again by 25 bp in September (deposit rate at 4.00%, refinancing rate at 4.50%). We are of the view that this increase should mark, this time, the end of the ECB's tightening cycle, considering the

effects of the monetary tightening already underway. But it is not yet certain that it will really be the last, given the absence of a tangible fall at this stage 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. 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 the fall in core inflation should become more visible, dissipating uncertainty over the continuation of monetary tightening.

On 27 July, 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 0.5%. Further adjustments to the YCC cannot be excluded, given that the country currently faces the fastest rate of inflation since the early 1990s. Nevertheless, the BoJ is unlikely to increase its policy rates this year, but a rise is expected in 2024.

We remain structurally 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	0.7	4.7	8.0	4.2	2.4
Japan	2.3	1.0	2.0	1.0	-0.2	2.5	3.2	2.6
United-Kingdom	8.7	4.3	0.6	0.0	2.6	9.1	7.4	3.0
Euro Area	5.6	3.4	0.5	0.9	2.6	8.4	5.6	2.8
Germany	3.1	1.9	-0.3	0.3	3.2	8.6	6.2	3.0
France	6.4	2.5	0.7	0.5	2.1	5.9	5.8	2.7
Italy	7.0	3.8	0.8	1.0	1.9	8.7	6.2	2.2
Spain	5.5	5.5	2.2	1.5	3.0	8.3	3.5	2.8
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: 23 October 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
UK	BONO 10y	3.70	3.45	3.35	3.30	3.40
	Base rate	5.25	5.25	5.00	4.50	4.00
Japan	Gilts 10y	4.00	3.80	3.60	3.65	3.70
	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

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