ECOWEEK

Issue 24.37
29 October 2024

"Some trends are clear whoever wins the White House: more economic fragmentation, more US public debt, more US exceptionalism acting as a magnet for foreign investment, a stronger dollar, and higher US interest rates, with the difference between the two candidates being one of degree rather than substance on economic matters."

ECONOMIC RESEARCH

BNP PARIBAS

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world

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GLOBAL MEETINGS UNDER THE SHADOW OF THE US ELECTIONS

The sun was shining last week in Washington, DC during the Annual Meetings of the International Monetary Fund (IMF), but the imminent US elections cast a shadow over the meetings of the Finance Ministers, Central Bank Governors, and private sector economists and finance professionals from all around the world who gathered in town. The better-than-expected state of the global economy was obscured, and all other conversations relegated to second or third billing, including the IMF's usual warnings about various dangers (excessive debt, insufficient growth, protectionism), the outlook for Europe (improving), for China (as well), for other EM (generally good) and digital finance (further gaining status).

On the US elections, those hoping to get a better sense of the likely outcome will have been disappointed. While both camps profess to have the lead, too close to call is the verdict for the White House, while the Senate is deemed likely to flip Republican and the House likely to align with the White House result. This would imply a Republican sweep in the event of a Trump victory.

Yet, some trends are clear whoever wins the White House: more economic fragmentation, more US public debt, more US exceptionalism acting as a magnet for foreign investment, a stronger dollar, and higher US interest rates, with the difference between the two candidates being one of degree rather than substance on economic matters. Where the two candidates differ more radically is in the area of defense and foreign policy, which ultimately also has economic implications for US allies. Overall, while US participants were generally sanguine about the country's economic prospects, participants from around the world went home with a sense of foreboding and need to prepare.

European policymakers welcomed the rapid disinflation registered without hit to their labour markets. Though the expected rebound in consumption has yet to materialize, they remained hopeful it would eventually do so and dismissed recession fears. With risks to inflation now seen as evenly balanced, a debate emerged about the potential for accelerating the pace of easing. However, at this stage, this seems a small minority view, not ruled out but a high bar to clear, requiring a material change in inflation projections. Labour market conditions will be an important indicator in that context. It was also clear that the diagnostic set out in the Draghi report about the urgent need to boost Europe's lackluster productivity growth is in fact widely shared. Views differ more on the remedies, but I left Washington more optimistic that action will be taken.

China's stimulus was another topic on which clarity remained elusive. While there has clearly been a shift in thinking at the top of the state on the need to stimulate the economy, expert China watchers disagreed on the ultimate effectiveness of the measures likely to be deployed. Beyond China, emerging markets policy makers also generally expressed satisfaction with the state of their economies and, to varying degrees, progress in bringing inflation down. But they were bracing themselves for the negative spillovers that would likely arise if US economic policies took a further expansionary, inflationary and protectionist turn. They noted with concern the underlying trend toward less free trade and investment regimes, notably in developed economies, and foresaw a world economy fragmented into blocs. Seeking greater integration within such blocs was seen as a partial remedy.

Digital finance, after years of being a trendy but somewhat fringe topic at the Meetings, seemed to be coming of age, at least judging by the seniority of policy makers discussing it in multiple panel discussions across town. Views continue to differ across jurisdictions on the need for central bank digital currencies for retail usage, but increasingly the focus is on how rather than if. Opinion is less divided on the benefits of digitization of wholesale finance— not just for payments but also settlements and potentially a whole range of wholesale financial transactions. In this area as well, policymakers are hoping —and working towards— resisting the fragmentation forces at play at in the geopolitical arena.

Many commentaries written this past week lamented the weakness of the two host institutions, the IMF and the World Bank, but in truth helplessness seemed widely shared among participants as they witnessed the ebbing of multilateralism and the global rules-based economic order, and pondered how to make the most of whatever comes next in their respective spheres of competence.

Isabelle Mateos y Lago

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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, driven by positive contributions from household consumption and investment. Our baseline scenario implies a +2.6% 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, which is expected to precede two 25bps cuts in November and 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 is expected to stabilise at 0.3% q/q in the third and fourth quarters of 2024, slightly higher than the rate recorded in the third quarter, at 0.2% q/q. However, the difficulties in industry, highlighted by the deterioration in PMIs in September, and the uncertainty about the Chinese economy, increase the downside risks to our forecasts. Significant growth differentials will persist between Member States during the second semester: stronger gains in activity are expected in Spain and Italy than in Germany and France. Overall Eurozone growth would be supported by the continuation of the ECB's cycle of interest rate cuts. After June and October, a third cut is expected at the meeting on 12 December, while the terminal rate is not expected to be reached until 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

French economy benefitted from a 0.2% q/q growth in Q2 (after 0.3% q/q in Q1 2024), mainly supported by exports. Disinflation is now visible (the harmonized index grew by 1.5% y/y in September 2024, compared to 5.7% y/y a year ago) but household consumption growth remains disappointing. 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

The US Federal Reserve started its monetary easing cycle in September, with a first 50 basis point cut in the Fed funds rate, which would be followed by two other 25 basis point cuts in November and December. By the end of 2024, another rate cut is also expected both from the BoE (November) and the ECB (December). On both sides of the Atlantic, however, the policy rates in real terms, and thus the degree of monetary restraint, would remain more or less unchanged. The resulting decline in long-term rates 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 three 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 2022	2023	2024 e	2025 e	Inflation 2022	2023	2024 e	2025 e
United States	2.5	2.9	2.7	2.1	8.0	4.1	2.9	2.2
Japan	1.1	1.7	-0.2	0.7	2.5	3.3	2.7	2.4
United Kingdom	4.8	0.3	1.0	1.5	9.1	7.3	2.5	2.3
Euro Area	3.4	0.5	0.8	1.4	8.4	5.4	2.3	1.9
Germany	1.4	-0.1	0.1	1.0	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	0.9	1.2	8.7	5.9	1.1	1.8
Spain	6.2	2.7	2.9	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: 25 october 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	2.75	2.50	2.25	2.25
	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	0.75	1.00	1.00	1.25
	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: 27 October 2024

MARKETS OVERVIEW

Bond Markets	in %	in bps			
	24-oct.-24	1-Week	1-Month	Year to date	1-Year
Bund 2Y	2.10	-0.5	-25.7	-57.6	-115.4
Bund 5Y	2.04	+3.9	+9.4	+9.9	-69.8
Bund 10Y	2.26	+7.5	+19.5	+25.7	-54.3
OAT 10Y	2.89	+7.4	+5.7	+42.3	-48.3
BTP 10Y	3.34	+10.8	-1.8	-19.0	-136.8
BONO 10Y	2.91	+8.0	+2.4	-3.9	-99.0
Treasuries 2Y	4.10	+10.8	+55.0	-23.7	-104.4
Treasuries 5Y	4.03	+14.9	+54.9	+17.0	-78.1
Treasuries 10Y	4.20	+12.6	+47.6	+33.7	-61.3
Gilt 2Y	3.89	+17.3	+15.8	-8.7	-89.7
Treasuries 5Y	4.09	+18.1	+32.1	+78.2	-22.4
Gilt 10Y	4.24	+18.1	29.7	+63.7	-30.3

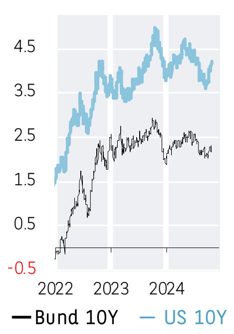
Currencies & Commodities	Level	Change, %			
	24-oct.-24	1-Week	1-Month	Year to date	1-Year
EUR/USD	1.08	-0.6	-3.2	-2.3	+1.9
GBP/USD	1.30	-0.6	-3.2	+1.7	+6.4
USD/JPY	151.91	+1.5	+5.7	+7.8	+1.4
DXY	111.99	+7.9	+11.5	+10.5	+6.1
EUR/GBP	0.83	+0.0	+0.0	-3.8	-4.3
EUR/CHF	0.94	-0.4	-0.8	+0.6	-1.2
EUR/JPY	164.02	+1.0	+2.4	+5.3	+3.3
Oil, Brent ($/bbl)	74.56	+2.6	-0.6	-4.0	-15.5
Gold ($/ounce)	2734	+0.6	+3.3	+32.4	+39.4

Equity Indicies					
World					
MSCI World ($)	3707	-1.2	+0.1	+17.0	+32.3
North America					
S&P500	5810	-0.9	+1.3	+21.8	+36.8
Dow Jones	42374	-2.1	+0.4	+12.4	+27.9
Nasdaq composite	18415	-0.4	+1.9	+22.7	+40.1
Europe					
CAC 40	7503	-1.4	-1.3	-0.5	+8.8
DAX 30	19443	-1.1	+2.3	+16.1	+30.7
EuroStoxx50	4935	-1.0	-0.1	+9.2	+21.4
FTSE100	8269	-1.1	-0.2	+6.9	+11.9
Asia					
MSCI, loc.	1381	-1.6	+0.1	+10.7	+18.1
Nikkei	38143	-2.2	+0.5	+14.0	+22.8
Emerging					
MSCI Emerging ($)	1135	-1.8	+0.2	+10.8	+23.2
China	67	-1.6	+10.2	+20.4	+22.0
India	1072	-2.7	-7.3	+16.3	+32.9
Brazil	1430	-0.4	-4.8	-20.6	-6.1

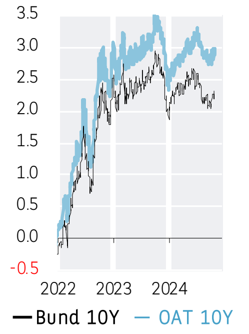
Performance by sector

Eurostoxx600		S&P500	
Year 2024 to 24-10, €		*Year 2024 to 24-10, $*	
+21.8%	Banks	+34.7%	Technology
+18.6%	Telecoms	+33.0%	Utilities
+17.5%	Retail	+32.2%	Insurance
+16.1%	Insurance	+31.6%	Construction
+14.5%	Industry	+29.3%	Telecoms
+14.5%	Media	+29.0%	Banks
+13.6%	Health	+26.7%	Financial services
+8.3%	Index	+26.3%	Retail
+6.8%	Travel & leisure	+23.7%	Index
+5.6%	Construction	+20.4%	Industry
+4.2%	Utilities	+16.5%	Travel & leisure
+3.6%	Technology	+12.9%	Commodities
+1.5%	Real Estate	+12.7%	Health
-0.6%	Food industry	+11.2%	Household & Care
-0.7%	Chemical	+11.1%	Chemical
-4.2%	Oil & Gas	+10.2%	Oil & Gas
-6.1%	Consumption Goods	+5.6%	Food industry
-6.9%	Commodities	+4.1%	Media
-9.8%	Car	-9.6%	Car

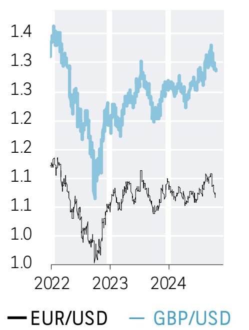
Bund 10Y vs US Treas. 10Y



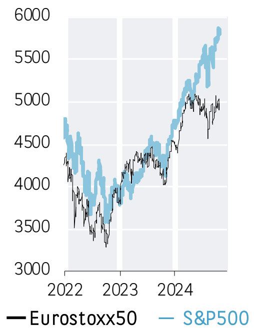
Bund 10Y vs OAT 10Y



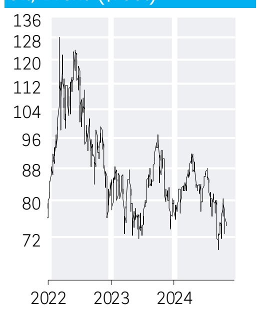
EUR/USD vs GBP/USD



EUROSTOXX 50 vs S&P500

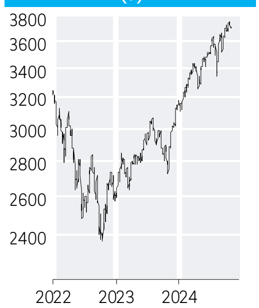


Oil, Brent ($/bbl)

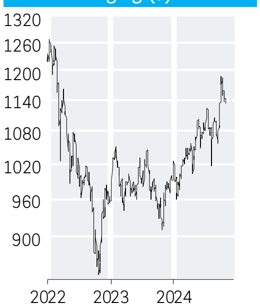


Gold ($/ounce)

MSCI World ($)



MSCI Emerging ($)



SOURCE: REFINITIV, BNP PARIBAS

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GROUP ECONOMIC RESEARCH

Isabelle Mateos y Lago Chief Economist	+33 1 87 74 01 97	isabelle.mateosylago@bnpparibas.com

OECD ECONOMIES AND STATISTICS

Hélène Baudchon Deputy chief economist, Head	+33 1 58 16 03 63	helene.baudchon@bnpparibas.com
Stéphane Colliac France, Germany	+33 1 42 98 43 86	stephane.colliac@bnpparibas.com
Guillaume Derrien Eurozone, United Kingdom - Global trade	+33 1 55 77 71 89	guillaume.a.derrien@bnpparibas.com
Anis Bensaidani United States, Japan	+33 1 87 74 01 51	anis.bensaidani@bnpparibas.com
Lucie Barette Southern Europe	+33 1 87 74 02 08	lucie.barette@bnpparibas.com
Tarik Rharrab Statistics		

ECONOMIC PROJECTIONS, RELATIONSHIP WITH THE FRENCH NETWORK

Jean-Luc Proutat Head	+33 1 58 16 73 32	jean-luc.proutat@bnpparibas.com

BANKING ECONOMICS

Laurent Quignon Head	+33 1 42 98 56 54	laurent.quignon@bnpparibas.com
Céline Choulet	+33 1 43 16 95 54	celine.choulet@bnpparibas.com
Thomas Humblot	+33 1 40 14 30 77	thomas.humblot@bnpparibas.com
Marianne Mueller	+33 1 40 14 48 11	marianne.mueller@bnpparibas.com

EMERGING ECONOMIES AND COUNTRY RISK

François Faure Head – Argentina, Turkey – Methodology, Modelling	+33 1 42 98 79 82	francois.faure@bnpparibas.com
Christine Peltier Deputy Head – Greater China, Vietnam – Methodology	+33 1 42 98 56 27	christine.peltier@bnpparibas.com
Stéphane Alby Africa (French-speaking countries)	+33 1 42 98 02 04	stephane.alby@bnpparibas.com
Pascal Devaux Middle East, Balkan countries	+33 1 43 16 95 51	pascal.devaux@bnpparibas.com
Hélène Drouot South Korea, Philippines, Thailand, Andean countries	+33 1 42 98 33 00	helene.drouot@bnpparibas.com
Salim Hammad Latin America	+33 1 42 98 74 26	salim.hammad@bnpparibas.com
Cynthia Kalasopatan Antoine Ukraine, Central European countries	+33 1 53 31 59 32	cynthia.kalasopatan.antoine@bnpparibas.com
Johanna Melka India, South Asia, Russia, Kazakhstan	+33 1 58 16 05 84	johanna.melka@bnpparibas.com
Lucas Plé Africa (Portuguese & English-speaking countries)	+33 1 40 14 50 18	lucas.ple@bnpparibas.com

CONTACT MEDIA

Mickaelle Fils Marie-Luce	+33 1 42 98 48 59	mickaelle.filsmarie-luce@bnpparibas.com

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Published by BNP PARIBAS Economic Research

Head office: 16 boulevard des Italiens – 75009 Paris France / Phone : +33 (0) 1.42.98.12.34

Internet: www.group.bnpparibas - **www.economic-research.bnpparibas.com**

Head of publication : Jean Lemierre / Chief editor: Isabelle Mateos y Lago

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