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FOMC

“ We expect the Fed to kick off its monetary easing cycle by a cut of 25 bps rather than 50 bps at the FOMC on 17-18 September, backed by the still orderly slowdown in the labour market. ”

ECONOMIC RESEARCH



BNP PARIBAS

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AFTER JACKSON HOLE: A LITTLE CLARITY, BUT A LOT OF UNCERTAINTY REMAINS

While the date of the Fed's first rate cut is now foreseeable (it will be at the FOMC on 17-18 September), everything else remains uncertain: the size of the cut, as well as the overall extent of the easing cycle and the timing of the cuts. Developments on the US labour market are key in this calibration. In terms of inflation, significant progress has been made regarding the return to price stability on both sides of the Atlantic, but the battle is far from won. This calls for caution in the monetary easing that is beginning. We expect the Fed to open this cycle with a cut of 25 bps rather than a cut of 50 bps – the orderly slowdown in the labour market working in favour of this – and to make a total of eight rate cuts by the end of 2025 (five consecutive cuts, then one per quarter), bringing the Fed Funds range to 3.25-3.50%. We anticipate that the Fed will succeed in piloting the US economy's soft landing. The ECB and the BoE started their monetary easing a little earlier than the Fed (June for the ECB, August for the BoE), and they would continue at a very gradual pace of -25 bps every quarter (until Q3 2025 for the ECB, bringing the deposit rate to 2.50%; until the end of 2025 for the BoE, the bank rate ending at 3.75%), each totalling six rate cuts.

At least one thing is clear after Jackson Hole and Jerome Powell's opening remarks on 23 August: the US Federal Reserve considers "the time has come for policy to adjust", i.e., for policy rates to be lowered¹. Furthermore, he was very explicit about the reasons behind this announcement and the reversal of the balance of the risks between the two components of the Fed's mandate (price stability and full employment): inflation is no longer the primary concern, it is the situation on the labour market that now matters. Powell was also clear in his presentation of the reasons behind the surge in inflation ("an extraordinary collision between overheated and temporarily distorted demand and constrained supply" and then its decline (the unwinding of these distortions and the monetary policy response), congratulating himself on the important role of monetary policy in this reversal. Philip Lane for the ECB² and Andrew Bailey for the BoE³, on the other hand, gave monetary policy only one role among others, while highlighting, as a minimum and rightly so, the importance of monetary tightening on anchoring inflation expectations.

While the date of the Fed's first rate cut is now foreseeable (it will be at the FOMC on 17-18 September), the question of the size of the cut remains open, as well as, quite naturally, the overall extent of the easing cycle and the timing of the cuts. Just after stating that it was time for the Fed to adjust its policy, that "the direction of travel is clear", Powell did not tie his hands any further and stated that "the timing and pace of rate cuts will depend on incoming data, the evolving outlook, and the balance of risks".

Developments on the US labour market are key for the monetary policy that will be adopted. Today, the exact nature of the current slowdown is still difficult to determine. Is this merely and essentially a normalisation of post-Covid-19 pressures? If so, a natural halt to the slowdown can be expected in a not-too-distant future. Or is this slowdown mainly due to monetary tightening? If so, a further deterioration is to be expected until a possible recession occurs, unless the Fed succeeds in a soft landing thanks to monetary policy easing. The difficulty, of course, is that the slowdown in the labour market is probably due to both effects, but to an indeterminate extent. Nevertheless, this can work in the Fed's favour and help it in its fine-tuning of the landing. The Richmond Fed President Tom

Barkin talks about a 'low-hiring, low-firing mode'⁴, from which it is not yet clear how the US economy will emerge, either upwardly (higher hirings) or downwards (stronger firings). Our baseline scenario continues to anticipate an upward exit, a soft landing of the US economy rather than a recession, supported in particular by lower interest rates. But, while the risk of recession remains low from our point of view, it is increasing.

In terms of inflation, significant progress has been made regarding the return to price stability on both sides of the Atlantic, but the battle is far from won. The fall in headline inflation is significant, but the decline in core inflation is much more modest and slower, due in particular to persistently high inflation in services: the 2% inflation target still looks relatively remote from this point of view. Philip Lane made this clear at Jackson Hole, stating in his conclusion that "the return to target is not yet secure". This calls for caution in the monetary easing that is beginning. Isabelle Schnabel is also an important advocate of this approach, as her latest speech proves⁵. There are also two arguments in favour of moving rather relatively quickly into monetary easing and, at least, a return to neutral interest rates: 1. balancing the policy mix in order to try and offset the expected tightening of fiscal policy (this argument is more true for Europe than for the United States, where fiscal policy risks remaining accommodative rather than becoming restrictive⁶); 2. starting from a relatively high degree of monetary restriction (which alone could justify a rapid easing from certain points of view), the apparently smaller impact of monetary policy on activity and the long transmission lags.

According to our very recently updated forecasts, the Fed, the ECB and the BoE's easing cycles, although not completely identical, would remain generally synchronous, in line with a gradual approach. This would be a little more significant on the US side, considering the higher starting point, all of which is part of a generalised movement of rate cuts (see table). We expect the Fed to kick off its monetary easing cycle with a cut of 25 bps in the Fed Funds rate at the FOMC on 17-18 September. The labour market data released on 6 September and other recent US labour market indicators continue to describe an orderly slowdown and justify a cut of 25 bps instead of 50 bps.

1 Speech by Chair Powell on the economic outlook – Federal Reserve Board, 23 August 2024.

2 The effectiveness and transmission of monetary policy in the euro area (europa.eu), 24 August 2024.

3 Reflecting on recent times – speech by Andrew Bailey | Bank of England, 23 August 2024.

4 How Richmond Fed President Tom Barkin Sees the Economy Right Now – Bloomberg, 27 August 2024.

5 The euro area inflation outlook: a scenario analysis (europa.eu), 30 August 2024.

6 A risk that the Fed should communicate more about, according to Adam Posen (President of the Peterson Institute for International Economics), to prepare itself, and the public, for at least the high probability of a shift to tightening by mid-2025 should inflation accelerate (What Jay Powell should say at Jackson Hole (ft.com), 22 August 2024).



MARKETS OVERVIEW

OVERVIEW

Week 30-8-24 to 6-9-24

▼ CAC 40	7.631	▶ 7.352	-3.7 %	
▼ S&P 500	5.648	▶ 5.408	-4.2 %	
▲ Volatility (VIX)	15.0	▶ 22.4	+7.4 pb	
▼ Euribor 3M (%)	3.49	▶ 3.47	-2.2 bp	
▼ Libor \$ 3M (%)	5.28	▶ 5.20	-7.8 bp	
▼ OAT 10y (%)	2.92	▶ 2.78	-14.0 bp	
▼ Bund 10y (%)	2.23	▶ 2.11	-11.9 bp	
▼ US Tr. 10y (%)	3.92	▶ 3.72	-20.4 bp	
↔ Euro vs dollar	1.11	▶ 1.11	+0.5 %	
↗ Gold (ounce, \$)	2.505	▶ 2.515	+0.4 %	
▼ Oil (Brent, \$)	78.9	▶ 71.6	-9.2 %	

Interest Rates

		highest 24	+lowest 24	Yield (%)	highest 24	lowest 24
€ ECB	4.25	4.50 at 01/01	4.25 at 12/06	€ AVG 5-7y	2.64	2.64 at 01/01
€ ESTR	3.66	3.91 at 03/06	3.65 at 31/07	Bund 2y	2.51	3.23 at 10/06
Euribor 3M	3.47	3.97 at 18/01	3.45 at 04/09	Bund 10y	2.11	2.66 at 29/05
Euribor 12M	3.03	3.76 at 19/03	3.03 at 06/09	OAT 10y	2.78	3.30 at 01/07
\$ FED	5.50	5.50 at 01/01	5.50 at 01/01	Corp. BBB	3.59	4.14 at 10/06
Libor 3M	5.20	5.61 at 20/06	5.20 at 06/09	\$ Treas. 2y	3.69	5.10 at 30/04
Libor 12M	6.04	6.04 at 01/01	6.04 at 01/01	Treas. 10y	3.72	4.70 at 25/04
£ BoE	5.00	5.25 at 01/01	5.00 at 01/08	High Yield	7.37	8.24 at 16/04
Libor 3M	5.30	5.33 at 06/03	5.30 at 22/03	£ gilt. 2y	3.77	4.96 at 29/05
Libor 12M	0.81	0.81 at 01/01	0.81 at 01/01	gilt. 10y	3.89	4.41 at 29/05

At 6-9-24

MONEY & BOND MARKETS

		highest 24	lowest 24	2024	2024(€)
Oil, Brent	71.6	91.6 at 12/04	71.6 at 06/09	-7.8%	-8.4%
Gold (ounce)	2.515	2.524 at 29/08	1.989 at 14/02	+21.7%	+20.9%
Metals, LME\$	3.880	4.652 at 21/05	3.558 at 09/02	+3.1%	+2.4%
Copper (ton)	8.876	10.801 at 20/05	8.065 at 09/02	+4.9%	+4.2%
wheat (ton)	176	2.5 at 28/05	171 at 23/08	-24.3%	-24.8%
Corn (ton)	144	1.7 at 13/05	133 at 26/08	-1.7%	-17.7%

At 6-9-24

Change

EXCHANGE RATES

1€ =		highest 24	lowest 24	2024
USD	1.11	1.12 at 23/08	1.06 at 15/04	+0.7%
GBP	0.84	0.87 at 02/01	0.84 at 12/07	-2.6%
CHF	0.94	0.99 at 27/05	0.93 at 08/01	+0.7%
JPY	158.26	174.98 at 10/07	155.33 at 02/01	+1.6%
AUD	1.66	1.70 at 05/08	1.60 at 11/07	+2.3%
CNY	7.88	7.98 at 23/08	7.69 at 15/04	+0.6%
BRL	6.21	6.34 at 05/08	5.31 at 13/02	+15.7%
RUB	100.42	102.82 at 26/08	89.75 at 19/06	+1.7%
INR	93.35	93.79 at 23/08	88.68 at 12/04	+1.6%

At 6-9-24

Change

COMMODITIES

Spot price, \$		highest 24	lowest 24	2024	2024(€)
Oil, Brent	71.6	91.6 at 12/04	71.6 at 06/09	-7.8%	-8.4%
Gold (ounce)	2.515	2.524 at 29/08	1.989 at 14/02	+21.7%	+20.9%
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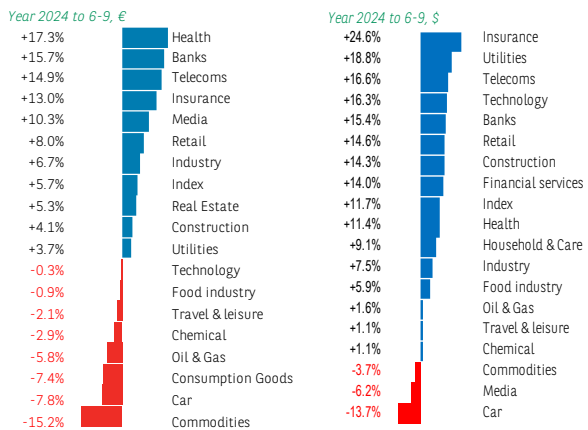
EQUITY INDICES

Index	highest 24	lowest 24	2024	Year 2024 to 6-9, €
World				
MSCI World	3.519	3.661 at 30/08	3.114 at 04/01	+11.0%
North America				
S&P500	5.408	5.667 at 16/07	4.689 at 04/01	+13.4%
Europe				
EuroStoxx50	4.738	5.101 at 15/05	4.403 at 17/01	+4.8%
CAC 40	7.352	8.240 at 15/05	7.130 at 06/08	-0.3%
DAX 30	18.302	18.931 at 02/09	16.432 at 17/01	+9.3%
IBEX 35	11.173	11.444 at 06/06	9.858 at 19/01	+1.1%
FTSE100	8.181	8.446 at 15/05	7.446 at 17/01	+0.6%
Asia				
MSCI, loc.	1.345	1.469 at 11/07	1.195 at 05/08	+0.8%
Nikkei	36.391	42.224 at 11/07	31.458 at 05/08	+8.7%
Emerging				
MSCI Emerging (\$)	1.075	1.125 at 11/07	958 at 17/01	+0.5%
China	55	64 at 20/05	49 at 22/01	-0.7%
India	1.107	1.125 at 02/09	915 at 03/01	+21.2%
Brazil	1.488	1.800 at 01/01	1.365 at 05/08	-4.8%

At 6-9-24

Change

PERFORMANCE BY SECTOR (Eurostoxx50 & S&P500)

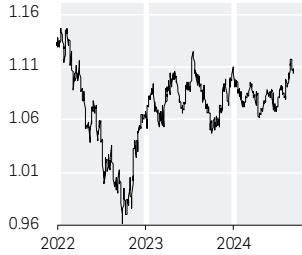


SOURCE: REFINITIV, BNP PARIBAS

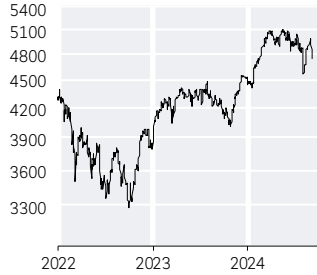


MARKETS OVERVIEW

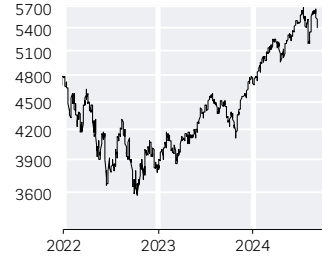
EURO-DOLLAR



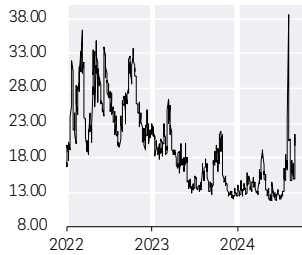
EUROSTOXX50



S&P500



VOLATILITY (VIX, S&P500)



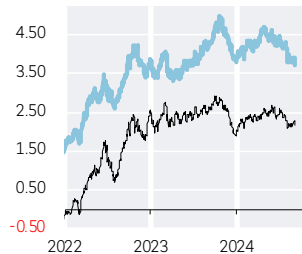
MSCI WORLD (USD)



MSCI EMERGING (USD)

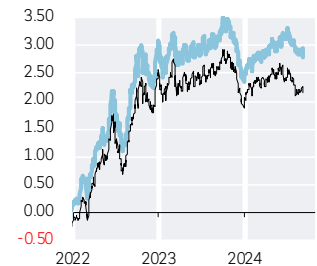


10Y BOND YIELD, TREASURIES VS BUND



—Bunds —US Treasuries

10Y BOND YIELD



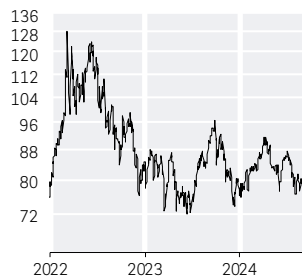
—Bunds —OAT

10Y BOND YIELD & SPREADS

Year 2024 to 6-9

3.75%	Greece	163 bp
3.52%	Italy	140 bp
2.96%	Spain	84 bp
2.78%	France	67 bp
2.72%	Portugal	61 bp
2.70%	Austria	58 bp
2.67%	Belgium	55 bp
2.64%	Finland	53 bp
2.45%	Netherlands	34 bp
2.43%	Ireland	32 bp
2.11%	Germany	

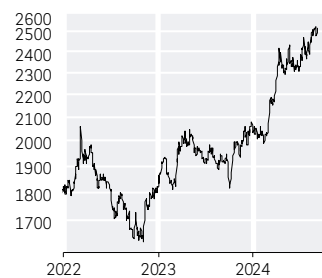
OIL (BRENT, USD)



METALS (LMEX, USD)



GOLD (OUNCE, USD)



SOURCE: REFINITIV, BNP PARIBAS



ECONOMIC PULSE

SERVICES AND MANUFACTURING PMIS: THE GAP CONTINUED TO WIDEN IN AUGUST

The S&P Global Composite PMI Output Index resumed rising in August, gaining 0.3 points to 52.8, after two months of decline. This is an encouraging sign for global activity halfway through Q3 2024. However, this improvement masks a fairly clear divergence between the services sector and the manufacturing one. In August, the global services index hit its highest level (53.8) since June 2023 (with the exception of May 2024), while the manufacturing sector index recorded its lowest level since December 2023 (49.5).

In the services sector, out of the 14 countries for which August data are available, nine reported an increase in the index from the previous month (with four falling and one unchanged). There were particularly notable increases in France, as well as, to a lesser extent, in the Eurozone, the United Kingdom, Spain and the United States. The index also rose in Canada but is still in contraction territory.

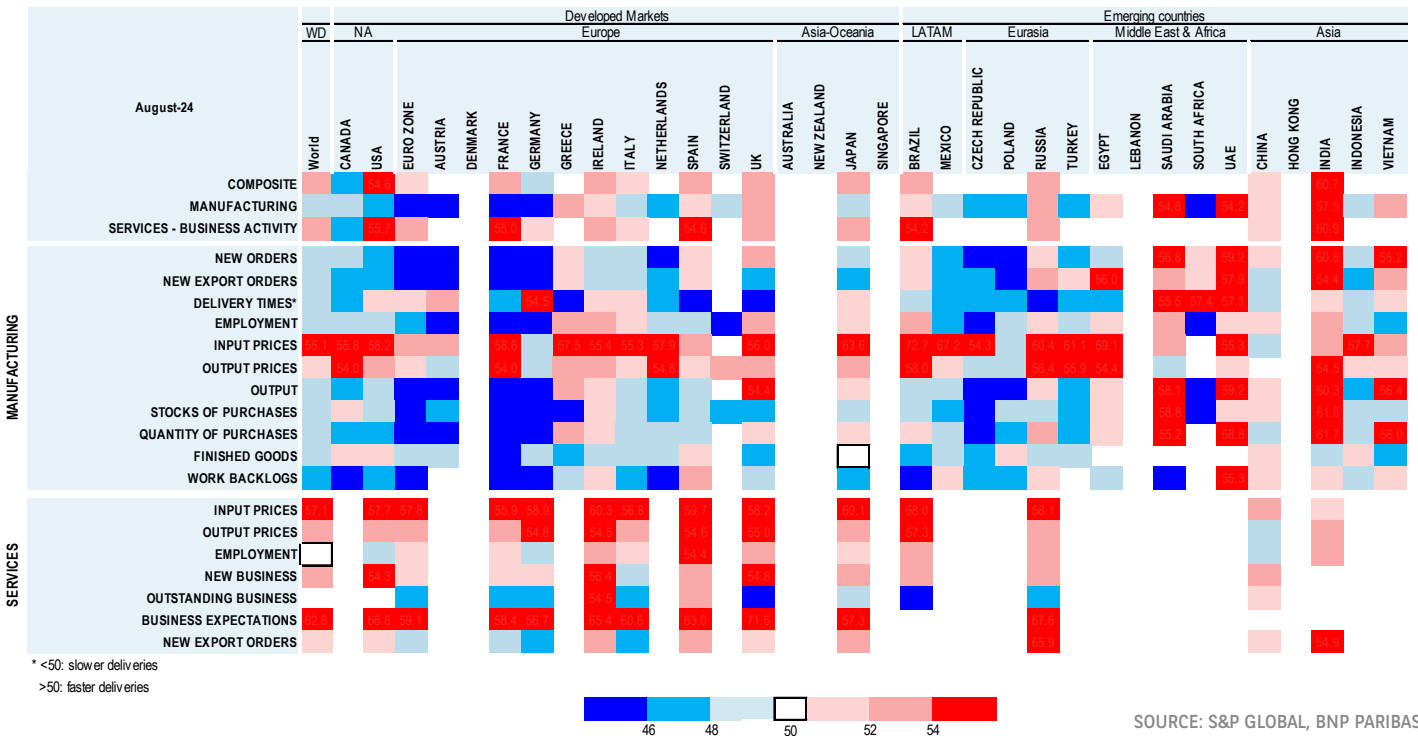
In France, the index hit its highest level since May 2022 (55). This increase, which is likely partially due to the Paris Olympic Games, will have to be monitored in the coming months. Overall, the increase in the services sector index has come hand in hand with increases in three of the six components covered by the survey: new export orders, new business and business expectations. On the minus side, the employment component fell, and stands now at on the neutral threshold (50). The fall in the "selling prices" and "input prices" indices is good news on the other hand.

In the manufacturing sector, out of the 29 countries for which August data are available, 13 reported a fall in the index compared with the previous month (with 15 improving and 1 remaining the same), driven by "new orders", "new export orders", "production" and "employment". There were sharp drops in South Africa, Brazil, Vietnam and, to a lesser extent, in the United States, where the index was in contraction territory for the second consecutive month, as well as in the Netherlands and Mexico. The index also dipped in Germany and France, falling further into contraction territory. This decrease was offset by positive development in other smaller countries, helping keep stable the index for the Eurozone. However, it is still firmly in contraction territory (45.8).

Conversely, Canada, Austria, Italy, the United Kingdom, Japan and China are some of the countries posting a rise in the manufacturing PMI. However, globally, it is worth noting that the employment sub-index fell in August, sliding back into contraction territory, in the wake of new orders declining in July and then stagnating in August, as well as output decreasing for the second month in a row. These two components will need to be monitored in the coming months. On the price front, survey data show that input prices fell for the second consecutive month, while output prices rose again slightly.

Tarik Rharrab

S&P GLOBAL PMI - AUGUST 2024



ECONOMIC PULSE

S&P GLOBAL PMI, Δ (AUGUST, JULY)

	Developed Markets														Emerging countries																		
	World	NA		Europe										Asia-Oceania		LATAM			Eurasia			Middle East & Africa			Asia								
		USA	EURO ZONE	AUSTRIA	DENMARK	FRANCE	GERMANY	GREECE	IRELAND	ITALY	NETHERLANDS	SPAIN	SWITZERLAND	UK	AUSTRALIA	NEW ZEALAND	JAPAN	SINGAPORE	BRAZIL	MEXICO	CZECH REPUBLIC	POLAND	RUSSIA	TURKEY	EGYPT	LEBANON	SAUDI ARABIA	SOUTH AFRICA	UAE	CHINA	HONG KONG	INDIA	INDONESIA
COMPOSITE	0.3	0.8	0.3	0.8	-0.9	-0.7	0.4	0.5	0.1	1.0	0.4	0.7	0.2	0.4	0.7	0.2	-3.1	-1.1	2.9	0.5	-1.5	0.2	0.6	0.7	0.4	-8.8	0.5	0.6	0.0	0.0	-0.6	-0.4	-2.3
MANUFACTURING	-0.2	1.7	-1.7	0.0	1.3	-0.1	-0.8	-0.3	0.3	2.0	-1.5	-0.5	5.5	0.4	0.7	0.2	-3.6	-1.1	2.9	0.5	-1.5	0.6	0.7	0.4	0.4	-8.8	0.5	0.6	0.0	0.0	-0.6	-0.4	-2.3
SERVICES - BUSINESS ACTIVITY	0.5	0.5	0.7	1.0	0.0	-4.9	-1.3	0.2	-0.3	0.7	0.7	1.2	1.2	0.0	0.0	0.0	-2.2	-2.2	2.9	0.5	1.2	0.6	0.7	0.4	0.4	-8.8	0.5	0.6	0.0	0.0	-0.6	-0.4	-2.3
NEW ORDERS	0.0	3.4	-1.4	-0.8	2.9	-2.0	-2.6	-0.2	-1.3	4.0	-2.5	0.8	0.0	1.2	0.3	0.3	-2.7	-2.2	3.7	0.6	-1.4	2.4	0.1	0.1	1.1	3.7	1.6	1.1	0.0	0.0	-1.4	0.0	-3.4
NEW EXPORT ORDERS	-1.0	3.6	-1.7	-0.6	1.2	-0.2	-3.6	-2.0	1.0	4.3	0.4	-0.2	-2.6	-1.2	0.2	0.2	-2.9	-1.4	3.9	-4.7	3.5	3.0	1.7	1.7	2	5	2.8	-1.2	-2.8	-3.2	-0.9	-0.9	-0.9
DELIVERY TIMES	0.3	-0.8	1.4	0.3	-1.7	-3.3	0.7	-2.5	0.5	3.1	2.1	-1.5	-0.1	0.6	0.3	0.3	2.9	1.6	-2.0	0.4	-1.9	-0.1	-2.0	0.1	2.8	-4.5	1.9	-0.3	-1.2	-0.2	0.2	0.2	
EMPLOYMENT	-0.3	-1.5	-2.4	0.2	0.2	0.6	-0.3	-1.6	1.4	2.4	-1.5	-3.0	-0.2	1.5	0.4	0.4	-1.8	0.3	0.8	1.3	-3.6	0.4	0.1	0.1	2.5	-3.2	-0.1	0.1	-0.2	0.5	-3.8	-3.8	
INPUT PRICES	-0.2	2.2	1.7	-0.2	1.6	-1.6	1.6	-2.3	-1.2	-1.0	-0.1	-3.9	-1.0	0.2	0.3	0.3	5.2	1.7	-1.1	-1.9	-7.2	-0.2	3.9	0.1	-0.4	-1.0	-0.6	-1.0	-0.6	-2.2	-1.0	-5.6	
OUTPUT PRICES	0.3	3.1	2.5	1.2	0.4	2.8	1.3	-2.9	1.7	1.5	1.2	-2.0	3.7	-2.4	0.3	0.3	-3.6	0.3	-0.3	-1.0	-0.8	1.5	2.7	0.1	1.0	-0.9	-0.9	-0.2	-1.0	-3.0	-3.0		
OUTPUT	-0.3	1.9	-2.3	0.2	-1.4	-1.1	0.2	-0.1	0.6	2.6	-0.5	-2.2	-0.5	1.6	0.3	0.3	-6.2	-1.0	6.2	1.7	-2.8	-0.4	1.1	0.1	-0.6	-11.9	1.0	0.4	-1.4	-1.3	-2.4		
STOCKS OF PURCHASES	0.3	3.7	-0.5	1.4	5.2	1.2	0.8	-2.5	2.7	1.7	0.2	1.5	2.9	0.1	0.1	0.1	-4.2	-0.6	-2.6	-2.5	1.1	-1.4	0.8	0.8	1.6	-3.6	0.9	0.5	0.5	-1.7	1.4		
QUANTITY OF PURCHASES	-0.2	-1.9	-0.8	0.1	0.1	-2.2	-3.2	-2.9	1.8	3.5	1.8	-0.3	3.3	0.3	0.3	0.3	-3.6	1.1	4.5	-2.3	-2.6	0.5	4.7	0.1	-0.7	1.5	-0.4	0.8	-0.1	0.6			
FINISHED GOODS	-0.2	-0.6	-1.1	1.6	2.6	-0.5	1.1	-2.2	4.0	4.4	1.9	-0.9	1.4	-0.5	0.3	0.3	-2.5	1.2	-0.7	1.8	3.0	0.3	0.3	0.3	-0.7	1.5	-0.4	-0.2	-0.7	-1.1	3.6		
WORK BACKLOGS	-0.4	-1.3	-1.6	-0.6	0.0	-1.6	-3.0	2.2	1.5	2.3	1.5	1.7	2.7	1.0	1.0	1.0	2.3	-3.5	-0.3	0.8	4.1	0.5	0.5	0.5	-4.4	-1.6	-0.3	-0.7	-1.0	0.0			
INPUT PRICES	-0.6	-0.6	-2.2	0.0	0.0	-2.8	-1.7	0.0	-2.0	-3.0	-2.2	-2.2	-2.2	0.1	0.1	0.1	2.5	0.0	0.0	0.0	-3.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.6	-1.7			
OUTPUT PRICES	-0.5	-0.7	0.9	0.0	0.0	1.2	1.1	-0.8	0.0	0.3	-0.6	-0.6	-0.6	-1.2	-1.2	-1.2	0.9	0.0	0.0	-2.2	-2.2	-2.2	-2.2	-2.2	-2.2	-2.2	-2.2	-2.2	-2.2	-2.2	-2.2		
EMPLOYMENT	-1.7	-3.2	-0.4	0.0	0.0	-0.6	-0.1	2.0	-1.4	0.6	-0.6	-0.6	-0.6	-2.0	-2.0	-2.0	1.1	0.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0		
NEW BUSINESS	0.5	1.2	0.3	0.0	0.0	3.4	-0.6	0.9	-2.0	-0.3	-0.1	-0.1	-0.1	-0.3	-0.3	-0.3	-1.4	0.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0		
OUTSTANDING BUSINESS	0.3	1.5	-1.2	0.0	0.0	-1.5	0.4	1.6	-1.8	-0.2	-2.5	-2.5	-2.5	-3.4	-3.4	-3.4	-0.5	0.0	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3		
BUSINESS EXPECTATIONS	0.3	1.5	-1.2	0.0	0.0	0.3	-0.2	-5.5	-3.7	-2.4	-2.3	-2.3	-2.3	-1.2	-1.2	-1.2	1.6	0.0	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6		
NEW EXPORT ORDERS	0.1	0.3	-0.4	0.0	0.0	2.8	-1.6	0.6	-2.7	-0.6	-2.8	-2.8	-2.8	4.0	4.0	4.0	0.0	0.0	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2		

SOURCE: S&P GLOBAL, BNP PARIBAS

ECONOMIC SCENARIO

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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 +2.5% 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 expected 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 growing softening of the labour market, paves the way for the Fed to undertake monetary easing. This is expected to start from September, with three rate cuts (-25bps) by end 2024 that would bring the target rate to +4.5% - +4.75%.

CHINA

Economic growth rebounded in Q1 2024 and slowed in Q2. It stood at 5% y/y in the first half of 2024. The different components of Chinese growth have exhibited diverging trajectories. In the manufacturing sector, activity is solid, driven by exports and supported by the authorities' industrial policy. Its growth momentum is nonetheless likely to weaken in the coming quarters. In the services sector, activity continues to lack momentum. Domestic demand remains held back by the crisis in the property sector, regulatory uncertainties, and low confidence of consumers and private investors. Recent measures to boost activity in the property sector have had no effect so far while domestic credit growth has decelerated since the beginning of the year in spite of monetary policy easing. In the short term, the authorities are expected to keep their industrial policy unchanged while introducing new monetary and fiscal measures that should help stimulate domestic demand. Consumer price inflation increased slightly during the summer (+0.6% y/y in August), but core inflation remains very low and the supply-demand imbalance continues to fuel 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, which has been revised lower by Eurostat: to 0.2%. 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, which began in June, and which would be followed by two further cuts in September and December. Growth is also expected to be bolstered by a still buoyant labour market and the disbursement of NGEU funds and their deployment on the ground. Inflation risks are balanced at this stage, and we expect headline inflation to gradually converge towards the 2% target by the second half of 2025. The decline in core inflation will be very gradual, due to the persistence of strong, albeit slowing, wage increases.

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 2.2% y/y in August 2024, compared to 5.7% y/y in September 2023) but household consumption growth remains disappointing. As a result, we expect no growth acceleration in 2025 compared with 2024 (with a growth forecast of 1.2% for both years, after 1.1% in 2023).

RATES AND EXCHANGE RATES

The US Federal Reserve is expected to start its monetary easing cycle in September, with a first 25 basis point cut in the Fed funds rate. This would be followed by two other cuts of a similar magnitude in November and December. Two rate cuts are also expected from the ECB and the BoE by the end of 2024. 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 (with stronger growth and inflation and less monetary easing across the Atlantic). 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	1.9	2.5	2.6	1.9	8.0	4.1	2.9	2.2
Japan	0.9	1.7	-0.2	0.7	2.5	3.2	2.6	2.4
United Kingdom	4.4	0.1	1.2	1.5	9.1	7.4	2.6	2.5
Euro Area	3.5	0.5	0.8	1.4	8.4	5.4	2.4	2.0
Germany	1.9	-0.1	-0.1	1.0	8.7	6.1	2.5	2.4
France	2.6	1.1	1.2	1.2	5.9	5.7	2.5	1.1
Italy	4.2	1.0	0.9	1.2	8.7	6.0	1.2	2.0
Spain	5.8	2.5	2.8	2.5	8.3	3.4	3.1	2.1
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	4.3	3.8

Source : BNP Paribas (e. Estimates & forecasts)

Last update: 6 September 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)	4.75	4.25	4.00	3.75	3.50	
	T-Note 10y	3.80	3.70	3.70	3.65	3.65	
	Eurozone	deposit rate	3.25	3.00	2.75	2.50	2.50
		Bund 10y	2.15	2.10	2.10	2.15	2.25
		OAT 10y	2.88	2.80	2.85	2.85	2.95
UK	BTP 10y	3.60	3.40	3.45	3.55	3.65	
	BONO 10y	2.93	2.85	2.85	2.88	2.98	
	Base rate	4.75	4.50	4.25	4.00	3.75	
Japan	Gilts 10y	3.80	3.80	3.60	3.50	3.65	
	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	82	79	75	80	77

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

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