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"Central bankers will have to keep walking a tightrope for some time longer. As they have earned a good track record of it, and room to act, the year-ahead baseline scenario is fairly benign for both advanced economies and emerging markets."

ECONOMIC RESEARCH

BNP PARIBAS

The bank
for a changing
world

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EDITORIAL

SOFT LANDING IN SIGHT, BUT DON'T UNBUCKLE SEAT BELTS YET

Less than 2 years after spiking to decades highs, inflation is back in the neighbourhood of central bank targets in most of the world. Yet it is too soon to declare victory, as there are still cross currents for economic policy-makers to navigate. As they have earned a good track record of it, and room to act, the year-ahead baseline scenario is fairly benign for both advanced economies and emerging markets, with gradually easing financial conditions (from lower interest rates and a likely weaker US dollar) allowing activity to stabilize around trend growth.

As we approach 5 years since the onset of the Covid pandemic and the historic economic turbulences it generated, a soft landing finally appears to be in sight for the global economy.

More specifically, inflation, less than 2 years after spiking to decades highs, is back in the neighbourhood of central bank targets in most of the world. Remarkably, this sharp decline was achieved without much if any of the expected economic cost: in most regions, employment is now higher than pre-pandemic, unemployment is near historic lows, and output growth has remained positive, indeed in some cases even above trend.

After executing the steepest tightening of monetary policy in decades and holding in highly restrictive territory for about a year, all bar one1 of the world's largest central banks have now embarked on an easing cycle, with the US Federal Reserve (Fed) finally joining the party with a jumbo 50 bps cut on 18 September.

Yet it is too soon to declare victory, as there are still cross currents for economic policy-makers to navigate, even leaving aside the current shock-prone geopolitical environment.

On the inflation side, services inflation remains stubbornly high—in the Eurozone about double its pre-COVID level, meaning that inflation is near target only thanks to two factors which may not last: good luck on food and energy prices; and well below-target inflation for goods. This could constrain the future pace and scope of monetary easing, and we are already seeing some early easers like the Banco Central do Brazil having to raise interest rates again.

On the growth side, there are 3 issues calling for alertness:

• Industry is in recession in most of the world, with China's slumping imports exerting a significant drag on global industrial activity. Recent policy support, and potential additional measures yet to come, will help Chinese activity to stabilize, albeit at a lower level than pre-covid. The most recent data out of Europe suggests weak sentiment and broadening softness in activity. Meanwhile, labour markets are softening worldwide, a welcome normalization that could however easily tip over into outright weakness, as some Fed policy makers recently acknowledged.

• Consumption, except in the US, has yet to see a boost from higher purchasing power brought about by lower inflation and lower interest rates. Instead, saving rates have gone up and are now well above pre-covid average in the Eurozone and the UK. Household confidence is weak and any deterioration in the labour market risks worsening it.

• With debt to GDP ratios much higher than pre-pandemic everywhere, fiscal policy needs to deliver sustained adjustment, particularly where it has been lacking in 2024. In most cases, it can afford to be gradual, with the headwind from it more than offset by monetary easing. Where politics fail to deliver such adjustment however, or even deliver a stimulus (a possible outcome of the upcoming US elections), then central banks may find themselves unable to ease nearly as much as expected, and market fears over debt sustainability might add an additional premium to the cost of debt, contributing to tighter overall financial conditions.

Thus, central bankers will have to keep walking a tightrope for some time longer. As they have earned a good track record of it, and room to act, the year-ahead baseline scenario is fairly benign for both advanced economies and emerging markets, with gradually easing financial conditions (from lower interest rates and a likely weaker US dollar) allowing activity to stabilize around trend growth.

Just the kind of environment needed for other economic policy makers to refocus on tackling the well-known long-term challenges that have only become more pressing: low productivity growth, aging populations, climate change; and the more recent one of economic security.

Isabelle Mateos y Lago

Central bankers will have to keep walking a tightrope for some time longer. As they have earned a good track record of it, and room to act, the year-ahead baseline scenario is fairly benign for both advanced economies and emerging markets.

MARKETS OVERVIEW

OVERVIEW

Week 20-9 24 to 27-9-24				
↗ CAC 40	7.500 ▸	7.792	+3.9	%
↗ S&P 500	5.703 ▸	5.738	+0.6	%
↗ Volatility (VIX)	16.2 ▸	17.0	+0.8	pb
↘ Euribor 3M (%)	3.44 ▸	3.33	-11.0	bp
↘ Libor $ 3M (%)	4.95 ▸	4.85	-9.8	bp
↘ OAT 10y (%)	2.88 ▸	2.85	-3.8	bp
↘ Bund 10y (%)	2.16 ▸	2.07	-8.7	bp
↗ US Tr. 10y (%)	3.73 ▸	3.74	+1.4	bp
↗ Euro vs dollar	1.11 ▸	1.12	+0.3	%
↗ Gold (ounce, $)	2.614 ▸	2.648	+1.3	%
↘ Oil (Brent, $)	74.8 ▸	71.7	-4.1	%

MONEY & BOND MARKETS

Interest Rates		highest 24			+lowest 24		
€ ECB	3.65	4.50	at	01/01	3.65	at	18/09
Euribor 3M	3.33	3.97	at	18/01	3.33	at	27/09
Euribor 12M	2.77	3.76	at	19/03	2.76	at	26/09
$ FED	5.00	5.50	at	01/01	5.00	at	18/09
Libor 3M	4.85	5.61	at	20/06	4.85	at	27/09
Libor 12M	6.04	6.04	at	01/01	6.04	at	01/01
£ BoE	5.00	5.25	at	01/01	5.00	at	01/08
Libor 3M	5.30	5.33	at	06/03	5.30	at	22/03
Libor 12M	0.81	0.81	at	01/01	0.81	at	01/01

At 27-9-24

Yield (%)		highest 24		lowest 24	
€ AVG 5-7y	2.64	2.64	at 01/01	2.64	at 01/01
Bund 2y	2.33	3.23	at 10/06	2.33	at 27/09
Bund 10y	2.07	2.66	at 29/05	2.02	at 03/01
OAT 10y	2.85	3.30	at 01/07	2.47	at 01/01
Corp. BBB	3.48	4.14	at 10/06	3.48	at 27/09
$ Treas. 2y	3.59	5.10	at 30/04	3.55	at 24/09
Treas. 10y	3.74	4.70	at 25/04	3.62	at 16/09
High Yield	7.09	8.24	at 16/04	7.09	at 27/09
£ gilt. 2y	3.75	4.96	at 29/05	3.62	at 16/09
gilt. 10y	3.98	4.41	at 29/05	3.60	at 01/01

At 27-9-24

EXCHANGE RATES

1€ =		highest 24			lowest 24			2024
USD	1.12	1.12	at	27/09	1.06	at	15/04	+1.2%
GBP	0.83	0.87	at	02/01	0.83	at	24/09	-3.8%
CHF	0.94	0.99	at	27/05	0.93	at	08/01	+1.2%
JPY	159.71	174.98	at	10/07	155.33	at	02/01	+2.6%
AUD	1.61	1.70	at	05/08	1.60	at	11/07	-0.4%
CNY	7.84	7.98	at	23/08	7.69	at	15/04	+0.1%
BRL	6.08	6.34	at	05/08	5.31	at	13/02	+13.2%
RUB	104.33	104.33	at	27/09	89.75	at	19/06	+5.6%
INR	93.57	93.79	at	23/08	88.68	at	12/04	+1.8%

At 27-9-24 *Change*

COMMODITIES

Spot price, $		highest 24			lowest 24			2024	2024(€)
Oil, Brent	71.7	91.6	at	12/04	69.6	at	10/09	-7.8%	-8.9%
Gold (ounce)	2.648	2.667	at	26/09	1.989	at	14/02	+28.2%	+26.7%
Metals, LMEX	4.313	4.652	at	21/05	3.558	at	09/02	+14.6%	+13.3%
Copper (ton)	9.847	10.801	at	20/05	8.065	at	09/02	+16.3%	+15.0%
wheat (ton)	176	2.5	at	28/05	169	at	19/09	-24.5%	-25.4%
Corn (ton)	149	1.7	at	13/05	133	at	26/08	-1.4%	-15.5%

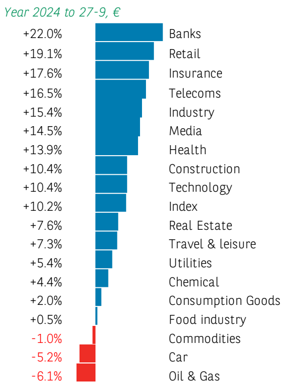
At 27-9-24 *Change*

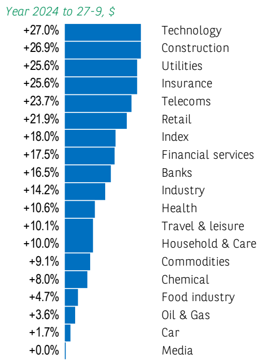
EQUITY INDICES

	Index	highest 24			lowest 24			2024
World								
MSCI World	3.727	3.727	at	27/09	3.114	at	04/01	+17.6%
North America								
S&P500	5.738	5.745	at	26/09	4.689	at	04/01	+20.3%
Europe								
EuroStoxx50	5.067	5.101	at	15/05	4.403	at	17/01	+12.1%
CAC 40	7.792	8.240	at	15/05	7.130	at	06/08	+0.3%
DAX 30	19.474	19.474	at	27/09	16.432	at	17/01	+16.2%
IBEX 35	11.968	11.968	at	27/09	9.858	at	19/01	+1.8%
FTSE100	8.321	8.446	at	15/05	7.446	at	17/01	+0.8%
Asia								
MSCI, loc.	1.420	1.469	at	11/07	1.195	at	05/08	+1.4%
Nikkei	39.830	42.224	at	11/07	31.458	at	05/08	+19.0%
Emerging								
MSCI Emerging ($)	1.175	1.175	at	27/09	958	at	17/01	+1.5%
China	67	67	at	27/09	49	at	22/01	+20.5%
India	1.164	1.164	at	27/09	915	at	03/01	+27.1%
Brazil	1.505	1.800	at	01/01	1.365	at	05/08	-5.9%

At 27-9-24 *Change*

PERFORMANCE BY SECTOR (Eurostoxx50 & S&P500)

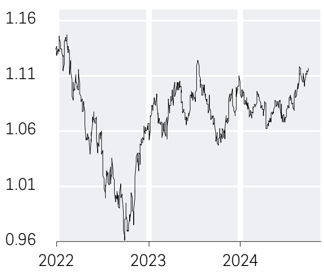




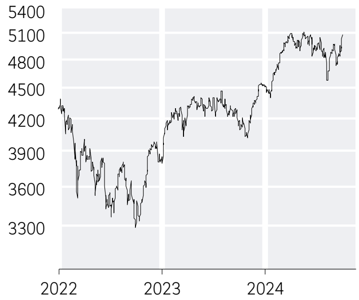
SOURCE: REFINITIV, BNP PARIBAS

MARKETS OVERVIEW

EURO-DOLLAR

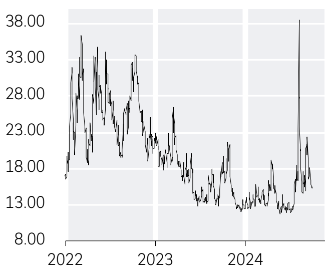


EUROSTOXX50



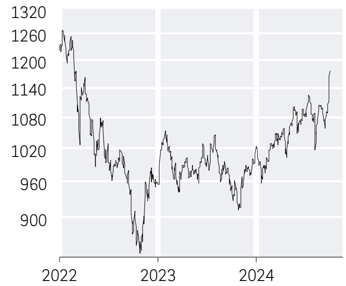
S&P500

VOLATILITY (VIX, S&P500)

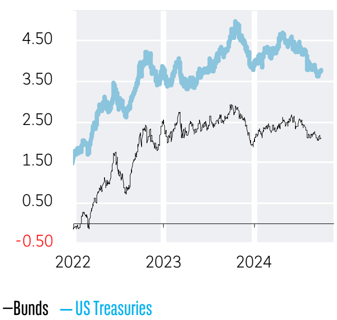


MSCI WORLD (USD)

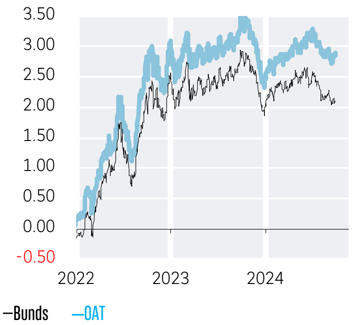
MSCI EMERGING (USD)



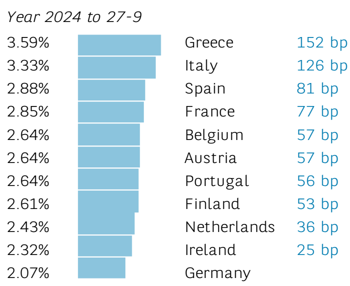
10Y BOND YIELD, TREASURIES VS BUND



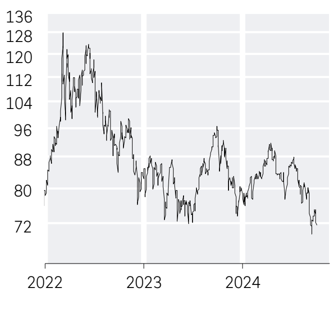
10Y BOND YIELD



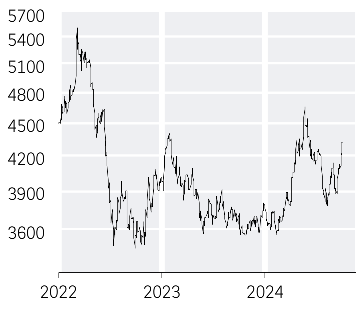
10Y BOND YIELD & SPREADS



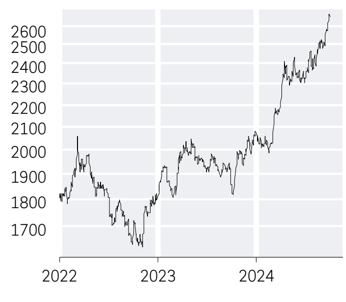
OIL (BRENT, USD)



METALS (LMEX, USD)



GOLD (OUNCE, USD)



SOURCE: REFINITIV, BNP PARIBAS

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 +2.5% 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 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 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%. 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, which began in June, and which would be followed by two more cuts in October and December. Growth is also expected to be supported by a still resilient labour market and the disbursement of NGEU funds and their deployment on the ground. We expect headline inflation to converge towards the 2% target by the second half of 2025.

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. This would be followed by two other 25bps cuts November and December. By the end of 2024, two further rate cuts are expected from the ECB (October and December), while the BoE will proceed with one more cut. 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	2.2
United Kingdom	4.4	0.1	1.2	1.5	9.1	7.4	2.6	2.4
Euro Area	3.5	0.5	0.8	1.4	8.4	5.4	2.3	1.8
Germany	1.9	-0.1	0.1	1.0	8.7	6.1	2.4	2.0
France	2.6	1.1	1.2	1.2	5.9	5.7	2.5	1.2
Italy	4.2	1.0	0.9	1.2	8.7	6.0	1.0	1.7
Spain	5.8	2.5	2.8	2.5	8.3	3.4	2.9	1.8
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: 30 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)	4.50	4.00	3.75	3.50	3.25
	T-Note 10y	3.00	2.75	2.50	2.25	2.25
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
	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	82	79	75	80	77

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

Last update: 30 September 2024

FURTHER READING

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On the path to widespread monetary easing in Asia	Chart of the Week	25 September 2024
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France: The fall in outstanding property loans is expected to continue	Chart of the Week	18 September 2024
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The "green" electricity revolution is well on its way, but the European Union still needs to pick up the pace	Chart of the Week	4 September 2024
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France: are we now seeing inflation below 2%?	EcoBrief	28 August 2024
July 2024 issue	French Economy Pocket Atlas	26 July 2024
Inflation tracker - July 2024 | Contrasting trends	EcoCharts	25 July 2024
Rising trade relations between ASEAN and China: a blessing and a curse	EcoTV	25 July 2024
Housing shortage, a major challenge for the Labour Party	Chart of the Week	25 July 2024
At the crossroads of abundance, scarcity, and disruption	EcoWeek	24 July 2024
July 2024 issue	EcoPulse	19 July 2024

GROUP ECONOMIC RESEARCH

Isabelle Mateos y Lago Chief Economist		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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