ECONOMIC SCENARIO

UNITED STATES

After a strong second half of 2022 (+0.7% q/q on average per quarter), US growth slowed sharply in Q1 2023 (+0.3% q/q). The growth breakdown allows us to put the weakness of the figure into perspective (this is mainly due to the very negative contribution of changes in inventories). Signs of the expected recession are still limited and even absent in the labour market, leading us to upwardly revise our near-term growth forecasts (Q2 growth a little more positive, Q3 a bit less negative). While the peak in inflation was reached in mid-2022, core disinflation remains gradual in such a way that headline inflation should stay significantly above the target of 2% by the end of 2023. The ongoing monetary tightening is expected to drive the US economy into recession in the second half of 2023 and limit the expected recovery in 2024.

CHINA

Economic growth, which was sluggish and unbalanced in 2022, will strengthen in 2023. The end of the zero Covid policy has led to a rebound in private demand and activity in the services sector since late January, and household consumption will continue to benefit from large catch-up effects in the short term. However, while export and industrial production prospects are darkened by the weakening in global demand, activity driven by the domestic market remains constrained by important drags. In fact, the recovery in the labour market remains uncertain, the improvement in the property and construction sectors is likely to be limited, and the worrying financial situation of local governments should constrain public investment. Fiscal and monetary support is expected to be prudent. Consumer price inflation, which averaged 2% in 2022, should accelerate only mildly in 2023.

EUROZONE

After a small GDP contraction in Q4 2022, economic activity in the eurozone surprised favorably in the early months of 2023 judging by the improvement in survey data (business confidence and, to a lesser extent, consumer confidence). However, the first estimate for Q1 2023 growth has been less positive than expected, up by only 0.1% q/q. The figure could even turn negative in the wake of the large downward revision to German growth: the eurozone would then fall into technical recession. A technical rebound is expected in Q2 but, after that, the build-up of the negative effects of monetary tightening would cause growth to fall back. After three quarters of stagnation, a limited recovery would follow. Although it is expected to decline throughout 2023, inflation would remain elevated and well above the 2% target at the end of this year and still a bit above at the end of 2024, forcing monetary policy to remain in restrictive territory.

FRANCE

Real GDP growth increased in Q1 2023 (0.2% q/q in Q1, after 0% in Q4 2022) driven by transport equipment's exports. However, household demand has played on the downside: household consumption stabilized (+0.1% q/q) in Q1 after -1% q/q in Q4 2022 whereas their investment decreased by 2.3% q/q in Q1 (after -1.2% in Q4). As inflation is still high (with a peak of 7.3% y/y in February 2023 according to the harmonized measure) and because of rising interest rates, household demand should remain subdued in 2023, weighing on our GDP growth forecast (0.5% in 2023, compared to 2.5% in 2022).

RATES AND EXCHANGE RATES

IIn the US, the 25 bp increase in the Fed Funds rate in May, once anticipated to be the last, may not mark the end of the hiking cycle. The Federal Reserve is likely to skip the June meeting and favor a status quo, given the steep tightening in lending standards, before reverting to one last 25 bp hike in July, given continued high inflation and labour market resilience. The slow pace of disinflation would argue in favor of no rate cut until the beginning of 2024, despite the US economy entering recession in the second half of 2023.The peak in long-term yields is likely to have been reached too. Bond yields should subsequently move lower as the inflation outlook improves and the market starts anticipating monetary policy easing in 2024.

Unlike the Fed, the ECB should not skip the June meeting: it should hike again considering the tightening of monetary conditions and credit standards is less advanced than in the US. While core inflation shows encouraging signs of easing in April and May, it is not yet sufficient to end the thinking cycle. We expect two additional hikes, 25 bp each, in June and July, raising the deposit rate to 3.75%. As part of its monetary tightening tools, the ECB also announced a complete halt, starting in July 2023, of its reinvestments under the APP. European long-term rates may also have peaked and should move lower, driven by both a gradual decline in inflation in the eurozone and lower US yields.

The Bank of Japan has increased the upper end of its target range for the 10-year JGB yield to 0.5% and further adjustments to the yield curve control policy cannot be excluded. Nevertheless, we do not expect the BoJ to proceed with a rate hike.

We expect the dollar to weaken somewhat versus the euro. The dollar's valuation is expensive, positioning in the market is very long and the long-term interest rate differential should narrow. We expect the yen to remain around current levels in the near term before strengthening versus the dollar considering that the federal funds rate should have reached its terminal rate.

GDP GROWTH AND INFLATION

	GDP Growth*				Inflation**			
%	2021	2022	2023 e	2024 e	2021	2022	2023 e	2024 e
United-States	5.9	2.1	1.3	-0.1	4.7	8.0	4.0	2.5
Japan	2.2	1.0	1.1	0.8	-0.2	2.5	3.1	1.7
United-Kingdom	7.6	4.1	0.4	0.7	2.6	9.1	7.1	2.1
Euro Area	5.3	3.5	0.6	0.5	2.6	8.4	5.3	2.7
Germany	2.6	1.9	-0.4	0.5	3.2	8.7	5.7	2.4
France	6.8	2.6	0.5	0.6	2.1	5.9	5.6	2.6
Italy	7.0	3.8	1.1	0.7	1.9	8.7	6.0	2.3
Spain	5.5	5.5	1.8	0.8	3.0	8.3	2.8	2.2
China	8.4	3.0	5.6	5.3	0.9	2.0	2.7	2.5
India***	8.7	7.0	5.7	6.0	5.5	6.7	5.4	4.5
Brazil	5.0	2.9	2.5	0.5	8.3	9.3	5.0	4.8

* GDP: LAST UPDATE 2 JUNE 2023: US AND BRAZIL, LAST UPDATE 17 MAY 2023: UK AND JAPAN, LAST UPDATE 21 MAY 2023: GERMANY
** INFLATION LAST UPDATE 2 JUNE 2023: EUROZONE, GERMANY, FRANCE, ITALY, SPAIN, US AND BRAZIL
** FISCAL YEAR FROM 1ST APRIL OF YEAR N TO MARCH 31ST OF YEAR N+1
SOURCE : BNP PARIBAS (E: ESTIMATES & FORECASTS)

INTEREST AND EXCHANGE RATES

Interest rates, %

End of period		Q2 2023	Q3 2023	Q4 2023	Q4 2024
US	Fed Funds (upper limit)*	5.25	5.50	5.50	3.75
	T-Note 10y **	3.90	3.90	3.85	3.55
Eurozone	deposit rate*	3.50	3.75	3.75	2.75
	Bund 10y **	2.60	2.45	2.20	2.00
	OAT 10y	3.15	3.00	2.72	2.50
	BTP 10y	4.60	4.70	4.45	3.80
	BONO 10y	3.60	3.55	3.30	2.90
UK	Base rate*	4.75	5.00	5.00	3.75
	Gilts 10y **	3.80	3.55	3.35	2.80
Japan	BoJ Rate	-0.10	-0.10	-0.10	0.10
	JGB 10y**	0.45	0.60	0.65	0.80

Exchange Rates

End of period		Q2 2023	Q3 2023	Q4 2023	Q4 2024
USD	EUR / USD	1.10	1.12	1.14	1.18
	USD / JPY	133	130	127	121
	GBP / USD	1.24	1.26	1.28	1.33
EUR	EUR / GBP	0.89	0.89	0.89	0.89
	EUR / JPY	146	146	145	143

Brent

End of period		Q2 2023	Q3 2023	Q4 2023	Q4 2024
Brent	USD/bbl	85	90	90	95

* DEPOSIT RATE: LAST UPDATE AT 27 APRIL 2023, FED FUNDS AT 2 JUNE 2023, BOE RATE AT 20 APRIL 2023
** BUND 10Y: LAST UPDATE AT 3 MAY 2023, GILTS 10Y: 20 APRIL 2023, JGB 10Y: 28 MARCH 2023, US 10Y: 5 JUNE 2023

SOURCES: BNP PARIBAS (MARKET ECONOMICS, INTEREST RATE STRATEGY, FX STRATEGY, COMMODITIES DESK STRATEGY)