



ECONOMIC RESEARCH DEPARTMENT

Summary

Global

2017: A critical year for the climate negotiations

In November 2016, the Paris agreement on climate change came into force and the countries even decided to accelerate the agenda for its implementation. However, the Trump presidency casts a shadow on further progress.

► Page 2

Eurozone

Characteristics of a healthier job market

The job market continues to recover, although it still has not offset the impact of the Great Recession.

► Page 4

Market overview

► Page 6

Summary of forecasts

► Page 7

Also in :



A weak euro for long

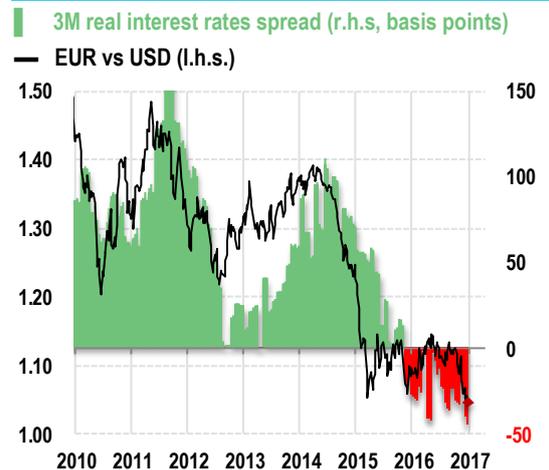
■ The euro is very low again vs. the dollar ■ A situation that is likely to persist

At around USD 1.05 on 5 January, the euro is trading at one of its lowest levels against the dollar in the past fifteen years. It is also very cheap regarding its purchasing power parity (USD 1.30), an advantage for European exporters that is bound to persist. This can almost entirely be attributed to the monetary policies of the US Federal Reserve (Fed) and the European Central Bank (ECB), which are completely out of phase.

Whereas the first has begun to raise key rates, the other is resolutely holding the cost of money below the zero lower bound. The Fed halted its quantitative easing programme – the modern version of printing money – in October 2014, while the ECB is pursuing QE at a monthly pace of EUR 80 billion (soon to be reduced to EUR 60 billion).

As a result, the already historical-wide yield gap, which largely governs the weakening of the single currency, continues to widen (see chart).

EURO-DOLLAR EXCHANGE RATE VS YIELD GAP



Source: Thomson Datastream

THE WEEK ON THE MARKETS

Week 30-12 16 > 5-1-17

↗ CAC 40	4 862	▶ 4 901	+0.8 %
↗ S&P 500	2 239	▶ 2 269	+1.3 %
↘ Volatility (VIX)	14.0	▶ 11.7	-2.4 %
↘ Euribor 3M (%)	-0.32	▶ -0.32	-0.2 bp
↗ Libor \$ 3M (%)	1.00	▶ 1.01	+0.7 bp
↗ OAT 10y (%)	0.69	▶ 0.82	+13.1 bp
↗ Bund 10y (%)	0.11	▶ 0.16	+5.4 bp
↘ US Tr. 10y (%)	2.45	▶ 2.37	-7.8 bp
↗ Euro vs dollar	1.05	▶ 1.06	+0.5 %
↗ Gold (ounce, \$)	1 157	▶ 1 184	+2.3 %
↘ Oil (Brent, \$)	56.7	▶ 56.2	-1.0 %

Source: Thomson Reuters