

ECOWEEK

N° 17-23// 9 June 2017

ECB: Balancing act

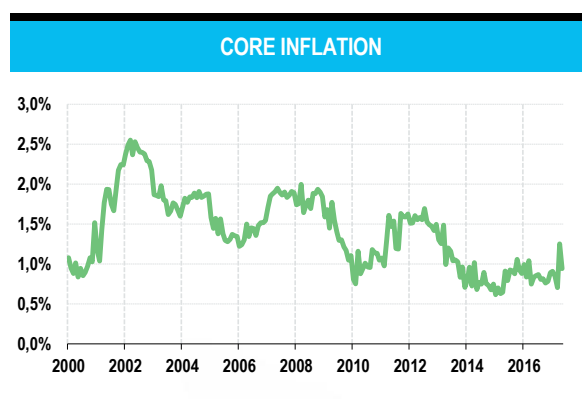
■ The ECB has tweaked its forward guidance ■ GDP forecasts have been revised up ■ Yet the central bank remained cautious on inflation

This week took place the ECB monetary policy meeting for June. As expected, members of the Governing Council decided to tweak the forward guidance, dropping the reference to potential lower policy rates in the future. They now expect “the key ECB interest rates to remain at their present levels for an extended period of time”.

This change comes against the backdrop of an improving economic outlook. The ECB revised its GDP forecasts up for this year and next as well as 2019 to respectively 2%, 1.8% and 1.7%. Besides, the risk assessment has been upgraded too: risks that were tilted to the downside are now broadly balanced. This is the first time since August 2011.

This optimism on the growth outlook should not be overplayed however and seen as a pre announcement of an imminent monetary tightening. Indeed, if the macroeconomic situation is undoubtedly improving, inflation pressures remain weak with core inflation still subdued. During the press conference M. Draghi repeatedly underlined the need to be patient, while at the same time insisting on factors that could delay the inflation adjustment such as the low quality of newly created jobs, the less optimistic picture depicted by broader measure of underemployment or structural changes that could weigh on wage growth (such a decentralization of wage talks).

All in all, the ECB sounded slightly more dovish than expected, giving the impression that it is in no rush to end QE. We expect more details on the exit strategy to be communicated at the September meeting although yesterday press conference conveyed the feeling that this announcement could be delayed



Source : Eurostat

Thibault Mercier

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ECONOMIC RESEARCH DEPARTMENT



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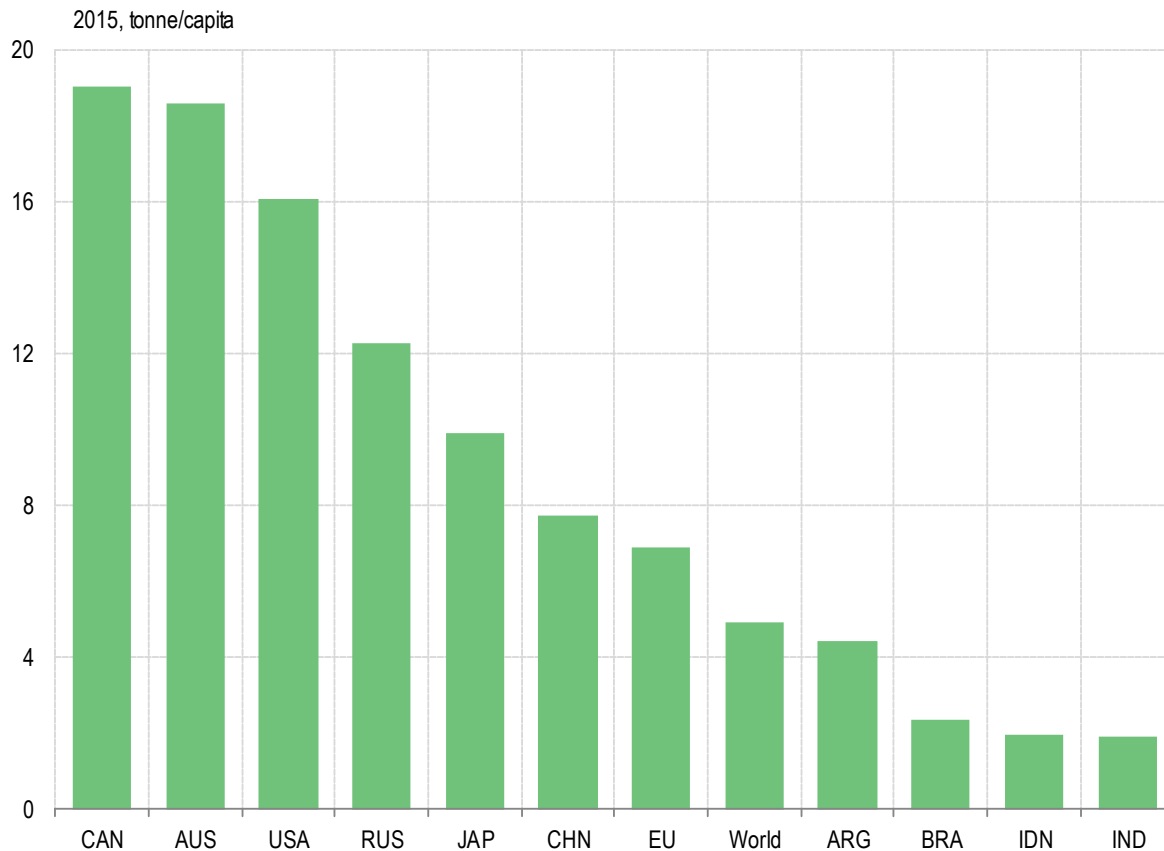
Chart of the week

Climate: The United States leaves Paris climate agreement

Last week, US President Donald Trump announced that his country will leave the Paris Climate Agreement, which aims at limiting global warming to well below 2°C above pre-industrial levels by reducing emissions of greenhouse gases (GHGs). The US decision is a serious blow for the climate deal, as the country is one of the largest emitters of GHGs - second after China - and also of carbon per capita, well ahead of Europe, China or India.

Nevertheless, the momentum for taking climate action should remain strong at a global level. Even in the absence of regulations, companies have already been including carbon prices in their investment decisions. This is partly due to the growing pressure from the financial sector on industries to reduce greenhouse gas emission. Investors are increasingly demanding climate related information to better assess their exposure to climate-related risks.

Carbon emissions per capita



Source: Netherlands Environmental Assessment Agency

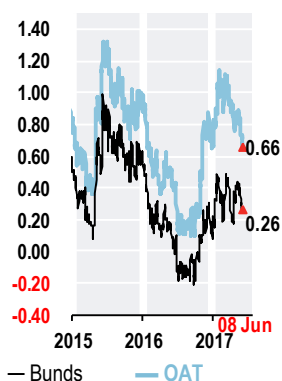
Market overview

The essentials

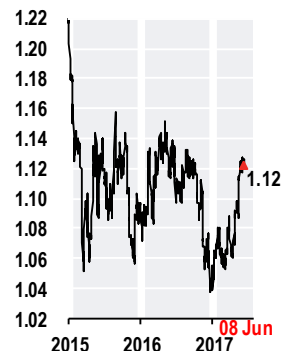
Week 2-6 17 > 8-6-17

➤ CAC 40	5 343	➤ 5 264	-1.5 %
➤ S&P 500	2 439	➤ 2 434	-0.2 %
➤ Volatility (VIX)	9.8	➤ 10.2	+0.4 %
➤ Euribor 3M (%)	-0.33	➤ -0.33	-0.1 bp
➤ Libor \$ 3M (%)	1.22	➤ 1.22	-0.2 bp
➤ OAT 10y (%)	0.71	➤ 0.66	-5.5 bp
➤ Bund 10y (%)	0.27	➤ 0.26	-1.0 bp
➤ US Tr. 10y (%)	2.16	➤ 2.19	+3.3 bp
➤ Euro vs dollar	1.13	➤ 1.12	-0.5 %
➤ Gold (ounce, \$)	1 278	➤ 1 276	-0.2 %
➤ Oil (Brent, \$)	49.9	➤ 48.0	-3.8 %

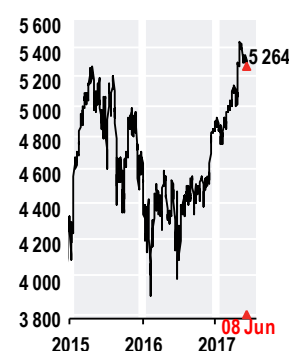
10 y bond yield, OAT vs Bund



Euro-dollar



CAC 40



Money & Bond Markets

Interest Rates	highest' 17	lowest' 17
€ ECB	0.00 at 02/01	0.00 at 02/01
Eonia	-0.36 at 02/06	-0.37 at 05/06
Euribor 3M	-0.33 at 02/01	-0.33 at 10/04
Euribor 12M	-0.13 at 02/01	-0.13 at 07/06
\$ FED	1.00 at 16/03	0.75 at 02/01
Libor 3M	1.22 at 02/06	1.00 at 02/01
Libor 12M	1.72 at 15/03	1.68 at 06/01
£ BoE	0.25 at 02/01	0.25 at 02/01
Libor 3M	0.29 at 05/01	0.29 at 07/06
Libor 12M	0.62 at 09/01	0.62 at 07/06

At 8-6-17

Yield (%)	highest' 17	lowest' 17
€ AVG 5-7y	0.27 at 17/03	0.23 at 02/01
Bund 2y	-0.76 at 25/01	-0.96 at 24/02
Bund 10y	0.26 at 10/03	0.09 at 02/01
OAT 10y	0.66 at 06/02	0.66 at 08/06
Corp. BBB	1.33 at 01/02	1.32 at 06/06
\$ Treas. 2y	1.32 at 14/03	1.14 at 24/02
Treas. 10y	2.19 at 13/03	2.15 at 06/06
Corp. BBB	3.51 at 14/03	3.48 at 06/06
£ Treas. 2y	0.09 at 06/01	0.01 at 28/02
Treas. 10y	0.98 at 26/01	0.92 at 06/06

At 8-6-17

10y bond yield & spreads

6.09%	Greece	583 pb
3.03%	Portugal	277 pb
2.17%	Italy	190 pb
1.47%	Spain	120 pb
0.69%	Ireland	43 pb
0.66%	France	39 pb
0.60%	Belgium	34 pb
0.48%	Netherlands	22 pb
0.45%	Austria	18 pb
0.31%	Finland	5 pb
0.26%	Germany	

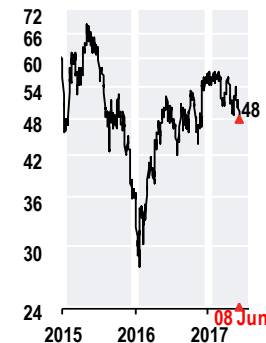
Commodities

Spot price in dollars	lowest' 17	2017(€)
Oil, Brent	48 at 08/06	-20.4%
Gold (ounce)	1 156 at 03/01	+3.6%
Metals, LMEX	2 639 at 03/01	-4.5%
Copper (ton)	5 462 at 08/05	-2.9%
CRB Foods	325 at 24/04	-1.0%
wheat (ton)	146 at 24/04	+8.6%
Corn (ton)	130 at 23/03	+0.7%

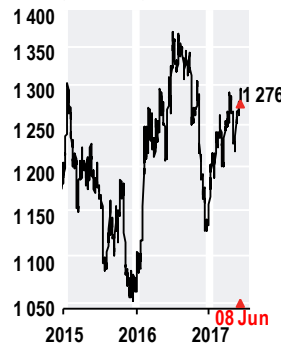
At 8-6-17

Variations

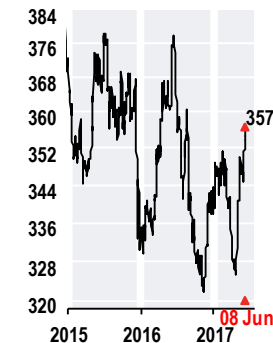
Oil (Brent, \$)



Gold (Ounce, \$)



CRB Foods



Exchange Rates

1€ =	highest' 17	lowest' 17	2017
USD	1.13 at 02/06	1.04 at 03/01	+6.4%
GBP	0.88 at 16/01	0.84 at 19/04	+1.5%
CHF	1.10 at 10/05	1.06 at 08/02	+1.2%
JPY	123.60 at 25/05	115.57 at 17/04	+0.5%
AUD	1.52 at 01/06	1.37 at 23/02	+2.2%
CNY	7.75 at 22/05	7.22 at 03/01	+4.0%
BRL	3.70 at 22/05	3.24 at 15/02	+7.4%
RUB	64.95 at 31/01	59.66 at 17/04	-0.7%
INR	72.17 at 31/01	68.18 at 07/04	+0.8%

At 8-6-17

Variations

Equity indices

Index	highest' 17	lowest' 17	2017	2017(€)
CAC 40	5 432 at 05/05	4 749 at 31/01	+8.3%	+8.3%
S&P500	2 439 at 02/06	2 239 at 02/01	+8.7%	+2.2%
DAX	12 823 at 02/06	11 510 at 06/02	+10.7%	+10.7%
Nikkei	20 177 at 02/06	18 336 at 14/04	+4.2%	+3.7%
China*	74 at 08/06	59 at 02/01	+26.5%	+18.3%
India*	546 at 05/06	445 at 03/01	+15.6%	+14.6%
Brazil*	2 001 at 22/02	1 654 at 02/01	+3.3%	-3.9%
Russia*	622 at 03/01	527 at 07/06	-17.3%	-17.8%

At 8-6-17

Variations

* MSCI index



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Indicators

Wednesday 14 United States, consumer price index y/y (May)

April	May*	Over 3-m	Inflation is slowing down, because of falling oil prices and slowing core prices
2.2	2.0	⬇️	

*Consensus Bloomberg

Wednesday 14 United States, retail sales m/m (mai)

April	May*	Over 3-m	Measure in current dollars, retail sales are dependent on oil prices
0.4%	0.1%	⬇️	

*Consensus Bloomberg

Wednesday 14 United States, FOMC (Fed fund target)

May	June*	Over 3-m	The process of normalising monetary policy is under way
0.75-1%	1-1.25%	⬆️	

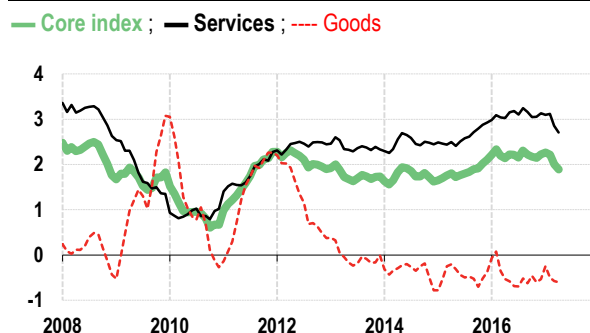
*Consensus Bloomberg

Wednesday 14 Eurozone, Industrial output m/m (May)

March	April*	Sur 3M	Industrial production should have rebounded in April
-0.1%	0.9%	⬆️	

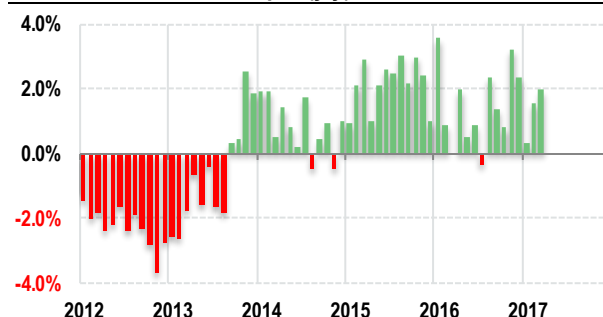
*Consensus Bloomberg

United States, Consumer price index (y/y, %)



Source: US Bureau of Labor Statistics

Euro Area, Industrial output (y/y)



Source: Eurostat



Economic scenario

UNITED STATES

- GDP growth keeps on a decent 2% pace, however the fiscal outlook remains uncertain. A fiscal stimulus still is possible, but it would not be implemented before end-2017. Potential effects are thus uncertain.
- The labour market is buoyant than ever. Still, the support to households' disposable income is not as strong as it looks as wage inflation remains limited.
- With inflation relatively muted at this stage of the cycle, the Fed is in no rush to increase rates. Still, as the labour market slowly normalises, wages will eventually accelerate, and the Fed funds target will move towards its equilibrium rate.

Annual growth, %	2016	2017 e	2018 e
GDP	1.6	2.2	2.6
Private consumption	2.7	2.8	2.8
Gross Fixed Capital Formation	-0.5	5.0	5.5
Exports	0.4	3.0	2.6
Consumer Price Index (CPI)	1.3	2.0	2.5
CPI ex food and energy	2.2	2.1	2.7
Unemployment rate	4.9	4.6	4.2
Current account balance	-2.6	-2.8	-3.1
Fed. Govt. Budget Balance (% of GDP)	-3.1	-2.9	-3.5
Gross Fed. Govt. Debt (% GDP)	75.9	76.2	76.8

CHINA

- After a period of stabilisation since Q2 2016, growth is expected to slow down moderately in the short term.
- Exports should continue to rebound and infrastructure projects will continue to drive investment. However the downside risks are high due to the reduction in industrial production capacity, risks of a downturn in the real estate market and greater financial instability, and slow growth of household revenues.
- The authorities are expected to maintain an expansionist fiscal policy, while the central bank continues to tighten monetary conditions very cautiously.

Annual growth, %	2016	2017 e	2018 e
GDP	6.7	6.6	6.4
Industrial output	6.0	6.5	6.0
Gross Fixed Capital Formation (nominal)	8.1	8.5	8.0
Exports (nominal)	-7.7	6.0	5.0
Consumer Price Index (CPI)	2.0	1.8	2.3
Producer Price Index (PPI)	6.0	6.5	6.0
Current account (% GDP)	1.8	1.4	1.1
Gen. Govt. Balance (% of GDP)	-3.8	-3.2	-3.0
Foreign reserves (\$bn)	3 011	3 024	3 072

EUROZONE

- The recovery is getting stronger and broader: the dispersion of economic performances among member states is receding.
- Despite the cyclical recovery, core inflation still shows no sign of a convincing upward trend. For the recovery to enter its inflationary phase the economy has to improve further, until the point at which wages will tend to increase.
- The level of slack remains uncertain though. Broader measures of labor underutilization reach 18%, double the level of the current unemployment rate. The ECB is expected to remain cautious.

Annual growth, %	2016	2017 e	2018 e
GDP	1.7	1.9	1.6
Private consumption	1.9	1.5	1.4
Gross Fixed Capital Formation	3.5	1.9	2.6
Exports	2.9	4.5	3.9
Consumer Price Index (CPI)	0.2	1.6	1.4
CPI ex food and energy	0.9	1.1	1.4
Unemployment rate	10.0	9.3	8.8
Current account balance	3.3	3.6	3.5
Gen. Govt. Balance (% of GDP)	-1.5	-1.4	-1.3
Public Debt (% GDP)	91.3	90.3	89.0

FRANCE

- A slow growth acceleration is underway. Slightly higher rates of growth should resume. Households' consumption is supported by the jobs recovery but restrained by the upturn in inflation. Investment and exports dynamics are favourable. Risks lie slightly on the upside.
- We expect the output gap to slowly narrow and the unemployment rate to progressively decline, containing the rise in inflation.
- Fiscal policy should continue to combine growth supportive measures and consolidation ones. The fiscal deficit should not be a lot more reduced but it should remain below the 3% threshold.

Annual growth, %	2016	2017 e	2018 e
GDP	1.1	1.6	1.6
Private consumption	1.8	1.4	1.6
Gross Fixed Capital Formation	2.7	2.4	3.1
Exports	1.2	2.9	3.7
Consumer Price Index (HCPI)	0.3	1.3	1.0
CPI ex food and energy	0.6	0.7	0.9
Unemployment rate	10.1	9.6	9.3
Current account balance	-0.9	-1.1	-0.9
Gen. Govt. Balance (% of GDP)	-3.4	-3.0	-2.8
Public Debt (% GDP)	96.3	96.3	96.2

Sources: BNP Paribas Group Economic Research, European Commission ; e: Estimates and forecasts



Economic forecasts

%	GDP Growth			Inflation			Curr. Account / GDP			Gen. Govt. Balance / GDP		
	2016	2017 e	2018 e	2016	2017 e	2018 e	2016	2017 e	2018 e	2016	2017 e	2018 e
Advanced	1.7	2.0	1.9	0.8	1.7	1.9						
United-States	1.6	2.2	2.6	1.3	2.0	2.5	-2.6	-2.8	-3.1	-3.1	-2.9	-3.5
Japan	1.0	1.4	1.0	-0.1	0.6	0.7	3.8	4.0	4.4	-4.7	-4.4	-4.1
United-Kingdom	1.8	1.8	1.1	0.6	2.6	2.6	-4.4	-3.4	-2.5	-3.0	-2.9	-2.3
Euro Area	1.7	1.9	1.6	0.2	1.6	1.4	3.3	3.6	3.5	-1.5	-1.4	-1.3
Germany	1.8	2.0	1.9	0.4	1.8	1.7	8.3	8.1	8.2	0.8	0.5	0.3
France	1.1	1.6	1.6	0.3	1.3	1.0	-0.9	-1.1	-0.9	-3.4	-3.0	-2.8
Italy	1.0	1.2	0.6	-0.1	1.6	1.2	1.6	2.1	2.2	-2.4	-2.3	-2.3
Spain	3.2	2.8	2.2	-0.3	2.1	1.6	1.8	2.1	2.1	-4.5	-3.2	-2.6
Emerging	4.1	4.5	5.0	4.4	3.1	3.5						
China	6.7	6.6	6.4	2.0	1.8	2.3	1.8	1.4	1.1	-3.8	-3.2	-3.0
India	7.5	7.3	7.8	4.9	4.9	5.2	-1.1	-0.8	-1.6	-3.8	-3.5	-3.2
Brazil	-3.6	0.5	3.0	8.8	4.0	4.4	-1.3	-1.3	-2.5	-8.9	-8.8	-7.7
Russia	-0.6	1.2	2.0	7.1	4.2	4.3	1.7	2.4	2.0	-3.5	-3.1	-2.8
World	3.1	3.5	3.7	2.8	2.5	2.8						

Source : BNP Paribas Group Economic Research, European Commission (e: Estimates & forecasts,)

Financial forecasts

Interest rates, %		2017				2018				2016	2017e	2018e
End of period		Q1	Q2e	Q3e	Q4e	Q1e	Q2e	Q3e	Q4e			
US	Fed Funds	1.00	1.25	1.25	1.50	1.75	2.00	2.25	2.50	0.75	1.50	2.50
	Libor 3m \$	1.15	1.20	1.50	1.75	1.90	2.05	2.25	2.45	1.00	1.75	2.45
	T-Notes 10y	2.40	2.20	2.60	3.00	3.10	3.25	3.25	3.25	2.45	3.00	3.25
Ezone	Taux "refi" BCE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.00	0.00	0.25
	Euribor 3 mois	-0.33	-0.33	-0.36	-0.36	-0.36	-0.36	-0.16	0.05	-0.32	-0.36	0.05
	Bund 10y	0.33	0.29	0.60	0.80	1.00	1.20	1.40	1.50	0.11	0.80	1.50
	OAT 10y	0.97	0.74	1.05	1.25	1.45	1.65	1.80	1.90	0.69	1.25	1.90
UK	Base rate	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.25	0.25	0.50
	Gilts 10y	1.07	1.00	1.10	1.25	1.40	1.55	1.80	2.00	1.24	1.25	2.00
Japan	BoJ Rate	-0.06	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.06	-0.10	-0.10
	JGB 10y	0.07	0.06	0.07	0.08	0.08	0.08	0.08	0.08	0.05	0.08	0.08

Exchange Rates		2017				2018				2016	2017e	2018e
End of period		Q1	Q2e	Q3e	Q4e	Q1e	Q2e	Q3e	Q4e			
USD	EUR / USD	1.07	1.10	1.07	1.04	1.05	1.06	1.08	1.10	1.05	1.04	1.10
	USD / JPY	111	115	117	120	118	116	114	112	117	120	112
	GBP / USD	1.25	1.31	1.30	1.30	1.30	1.29	1.29	1.29	1.24	1.30	1.29
	USD / CHF	1.00	1.00	1.05	1.08	1.07	1.06	1.04	1.05	1.02	1.08	1.05
EUR	EUR / GBP	0.86	0.84	0.82	0.80	0.81	0.82	0.84	0.85	0.85	0.80	0.85
	EUR / CHF	1.07	1.10	1.12	1.12	1.12	1.12	1.12	1.15	1.07	1.12	1.15
	EUR / JPY	119	127	125	125	124	123	123	123	123	125	123

Source : BNP Paribas Group Economic Research / GlobalMarkets (e: Estimates & forecasts)



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