

ECOWEEK

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France : in better shape

■ 2017 growth forecast revised up to 1.6% ■ Further improvement in the business climate in June

In just two months' time, French growth prospects have improved substantially for 2017. In April, we were forecasting a slight acceleration in growth to an average annual rate of 1.4%, from 1.1% in 2016. Our updated June forecast calls for stronger growth of 1.6%. The INSEE has just released its own figures as well, and it is expecting an identical growth rate.

What has changed between our two forecasts? First of all, past growth, and the automatic impact of a more positive carry-over after Q1 2017 growth figures were revised upwards in late May, by 0.2 percentage points (from +0.26% q/q initially to +0.45%). Second, a series of upbeat indicators confirmed the solidity of the underlying trend: a net improvement in May confidence surveys, another upturn in the business climate in June, a sharp drop in the unemployment rate, and another solid rise in payroll employment in Q1.

The expected acceleration in growth is fuelled by household residential investment, as well as foreign trade, which is forecast to make a less negative contribution to growth thanks to a rebound in exports. This improvement can be attributed to firmer world growth and the expected catching-up effect in aeronautics, tourism and the grain sector, after the major difficulties encountered in 2016.

Growth would be even more robust if it were not for the expected slowdown in household consumption, and to a lesser extent, corporate investment. The average annual growth rate of corporate investment is indeed lowered by the expected payback, in Q2, of the end of the extra-depreciation measure. Even so, this hides an acceleration over the course of the year, fostered by favourable financing conditions, improved prospects for demand and higher corporate profit margins. As to the slowdown in household consumption, it can be traced to the upturn in inflation, which reduces purchasing power gains. Yet this negative effect is partly offset by the positive boost from the improvement in the job market situation.



Hélène Baudchon

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ECONOMIC RESEARCH DEPARTMENT



BNP PARIBAS

The bank
for a changing
world

On our radar screen

China A shares in MSCI index: the carrot and the stick

■ In June 2018 MSCI will include China A shares in its Emerging Markets index ■ Inclusion in the MSCI index acts as a carrot for Chinese companies, but also to some degree as a stick as well

MSCI, a company which amongst other things provides equity indices used by portfolio managers to benchmark their performance and risk, has announced that beginning in June 2018 it will include China A shares in its MSCI Emerging Markets index. 222 China A large cap stocks will be added, representing at the moment 5% of the A share market capitalisation. It is to be expected that over time this percentage is bound to increase.

The decision will force investors who adopt a passive investment style (index trackers) to build exposure to Chinese stocks, something which could influence the way active managers look at this market from an asset allocation perspective. Indeed they might spot an opportunity to tactically build a position in the run-up to the inclusion in the index.

Chinese authorities and companies will welcome the MSCI decision which creates more visibility, should trigger capital inflows and could even increase the valuation of Chinese stocks thereby influencing the cost of capital of Chinese quoted companies. The decision is relevant for economists as well. Increased in-depth coverage of a large number of Chinese companies should eventually lead to better information at the macro level: aggregating bottom-up information (e.g. in terms of balance sheet items or expected earnings per share growth) will make it easier to infer what the economy at large is doing. This is a good thing considering concerns about macro data reliability in China.

Inclusion in the MSCI index not only acts as a carrot for Chinese companies, but to some degree as a stick as well: the opportunities come with challenges. Being subjected to increased analyst scrutiny, companies will need to work on their communication to the market and on their governance, which is a factor investors will take on board when selecting which stocks to invest in.

Interestingly, this should have positive macro consequences, at least judging by research conducted by De Nicolo, Laeven and Ueda of the IMF back in 2006¹. The authors constructed a composite corporate governance quality index based on the amount of accounting information firms disclose, the extent to which companies smooth annual profits and a measure of stock price synchronicity which captures the opportunities of investors to discriminate between firms when picking stocks.

The index was calculated over the period 1994-2003 for major emerging market economies as well as developed economies. Over that period, corporate governance quality improved in most countries and this has positively and significantly impacted per capita GDP growth as well as productivity growth and the investment/GDP ratio. Improved transparency plays a key role in this respect.

Clearly, improved corporate governance will not be the dominating factor in the evolution of GDP and productivity, but the fact that historically an influence has been identified illustrates the relevance of company-level decisions for the broader macro economy. From a longer term perspective, this is perhaps the most important aspect of the MSCI decision.

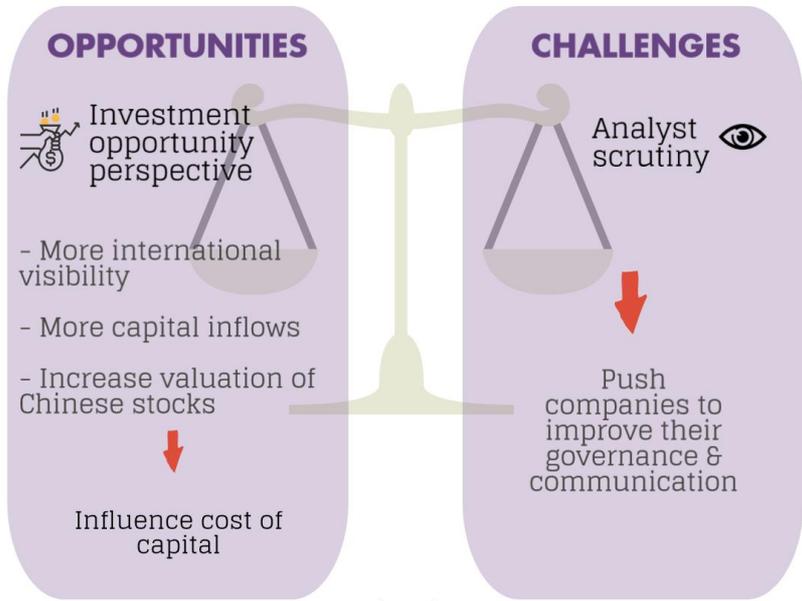
William De Vijlder

¹ Gianni De Nicolò, Luc Laeven, and Kenichi Ueda, Corporate Governance Quality: Trends and Real Effects, IMF Working Paper 06/293, 2006



CHINA A, MSCI: the carrot and the stick

June 2018: 222 China A shares
will join the MSCI Emerging
Markets Index



Markets overview

The essentials

Week 16-6 17 > 22-6-17

➔ CAC 40	5 263	➔ 5 282	+0.4 %
➔ S&P 500	2 433	➔ 2 435	+0.1 %
➔ Volatility (VIX)	10.4	➔ 10.5	+0.1 %
➘ Euribor 3M (%)	-0.33	➔ -0.33	-0.1 bp
➔ Libor \$ 3M (%)	1.27	➔ 1.29	+1.6 bp
➘ OAT 10y (%)	0.64	➔ 0.59	-4.3 bp
➘ Bund 10y (%)	0.28	➔ 0.26	-2.4 bp
➘ US Tr. 10y (%)	2.16	➔ 2.15	-0.4 bp
➘ Euro vs dollar	1.12	➔ 1.12	-0.4 %
➘ Gold (ounce, \$)	1 256	➔ 1 251	-0.4 %
➘ Oil (Brent, \$)	47.3	➔ 45.8	-3.1 %

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	-0.16 at 02/01	-0.16 at 21/06
\$ FED	1.25 at 15/06	0.75 at 02/01
Libor 3M	1.29 at 21/06	1.00 at 02/01
Libor 12M	1.74 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 21/06
Libor 12M	0.62 at 09/01	0.61 at 14/06

At 22-6-17

Yield (%)	highest' 17	lowest' 17
€ AVG 5-7y	0.18 at 17/03	0.18 at 21/06
Bund 2y	-0.66 at 22/06	-0.96 at 24/02
Bund 10y	0.26 at 10/03	0.09 at 02/01
OAT 10y	0.59 at 06/02	0.59 at 14/06
Corp. BBB	1.30 at 01/02	1.29 at 14/06
\$ Treas. 2y	1.34 at 14/03	1.14 at 24/02
Treas. 10y	2.15 at 13/03	2.14 at 14/06
Corp. BBB	3.48 at 14/03	3.46 at 14/06
£ Treas. 2y	0.17 at 06/01	0.01 at 28/02
Treas. 10y	0.95 at 26/01	0.87 at 14/06

At 22-6-17

10y bond yield & spreads

5.57%	Greece	531 pb
2.94%	Portugal	268 pb
1.89%	Italy	163 pb
1.36%	Spain	110 pb
0.64%	Ireland	38 pb
0.59%	France	33 pb
0.59%	Belgium	33 pb
0.46%	Netherland	20 pb
0.42%	Austria	16 pb
0.31%	Finland	5 pb
0.26%	Germany	

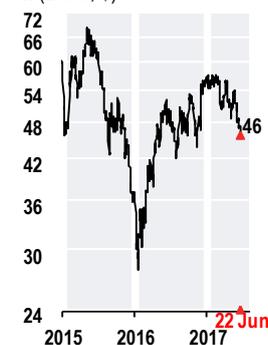
Commodities

Spot price in dollars	lowest' 17	2017(€)
Oil, Brent	46 at 20/06	-23.7%
Gold (ounce)	1 251 at 03/01	+2.2%
Metals, LMEX	2 757 at 03/01	-2.0%
Copper (ton)	5 724 at 08/05	-2.0%
CRB Foods	325 at 24/04	+2.2%
wheat (ton)	175 at 24/04	+12.8%
Corn (ton)	134 at 23/03	-4.3%

At 22-6-17

Variations

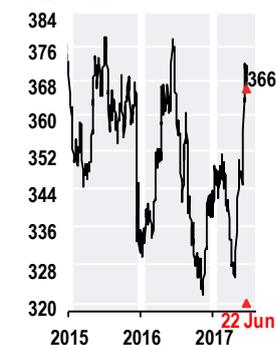
Oil (Brent, \$)



Gold (Ounce, \$)



CRB Foods



Exchange Rates

1€ =	highest' 17	lowest' 17	2017
USD	1.12 at 14/06	1.04 at 03/01	+5.8%
GBP	0.88 at 12/06	0.84 at 19/04	+3.2%
CHF	1.08 at 10/05	1.06 at 08/02	+1.2%
JPY	124.23 at 25/05	115.57 at 17/04	+1.0%
AUD	1.48 at 01/06	1.37 at 23/02	+1.6%
CNY	7.62 at 22/05	7.22 at 03/01	+4.0%
BRL	3.73 at 22/06	3.24 at 15/02	+8.5%
RUB	66.95 at 22/06	59.66 at 17/04	+4.0%
INR	72.03 at 31/01	68.18 at 07/04	+0.6%

At 22-6-17

Variations

Equity indices

Index	highest' 17	lowest' 17	2017	2017(€)
CAC 40	5 432 at 05/05	4 749 at 31/01	+8.6%	+8.6%
S&P500	2 453 at 19/06	2 239 at 02/01	+8.7%	+2.8%
DAX	12 889 at 19/06	11 510 at 06/02	+11.4%	+11.4%
Nikkei	20 230 at 20/06	18 336 at 14/04	+5.2%	+4.2%
China*	74 at 08/06	59 at 02/01	+24.8%	+17.4%
India*	546 at 05/06	445 at 03/01	+15.0%	+14.3%
Brazil*	1 646 at 22/02	1 639 at 21/06	+1.0%	-6.9%
Russia*	622 at 03/01	497 at 22/06	-18.6%	-22.0%

At 22-6-17

Variations

* MSCI index



Indicators

Wednesday 28 France, Consumer confidence (June)

May	June*	Over 3-m	Consumer confidence is expected to improve again significantly, as is usual after a presidential election.
102	104	↗	<i>*BNP Paribas forecast</i>

Thursday 29 Eurozone, Economic sentiment Indicator, European Commission (June)

May	June *	Over 3-m	Expected continuation of the improvement
109.2	110.1	↗	<i>*BNP Paribas forecast</i>

Friday 30 Eurozone, HICP (flash estimate), Eurostat (June)

May	June *	Over 3-m	Inflation could slow somewhat on the back of lesser energy contribution.
1.4%	1.3%	↘	

Friday 30 France, HICP (flash estimate) (June)

May	June	Over 3-m	Inflation is expected to be slightly lower on the back of a reduced energy contribution.
0.9%	0.8%	↘	<i>*BNP Paribas forecast</i>

Friday 30 France, Household spending on goods (May, m/m)

April	May *	Over 3-m	We expect a strong rise in household spending on goods, supported in particular by vehicles purchases.
0.5%	0.7%	↗	<i>*BNP Paribas forecast</i>

Tuesday 27 United States, Conference Board (June)

May	June*	Over 3-m	Consumer confidence keeps on correcting the end-2016 surge.
117.9	116.0	↘	

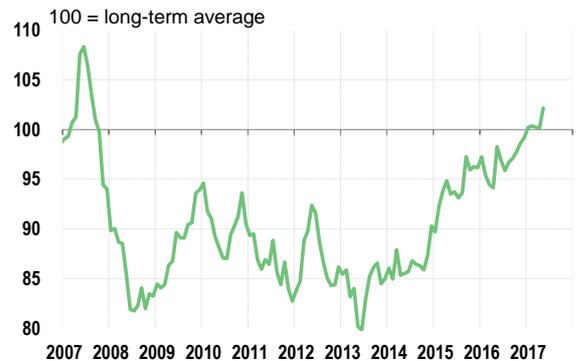
Monday 26 United States, Durable goods orders (May)

April	June *	Over 3-m	In end Q1 2017, nex orders for durable goods surged : they now normalise.
-0.8%	-0.6%	→	

Thursday 29 United States, GDP Growth final estimate (Q1, q/q saar)

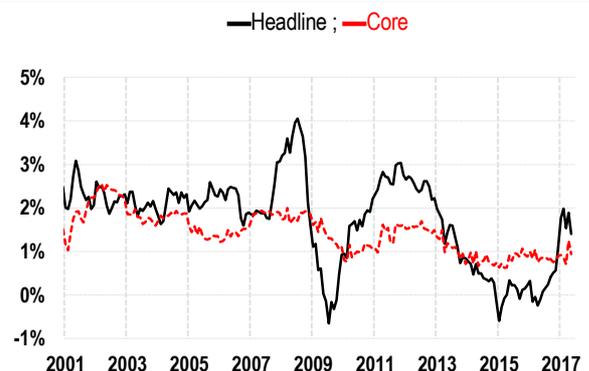
2 nd estim.	3rdest. *	Over 3-m	Growth slowed in Q1 and is likely to renound in Q2, even if to a limited extent.
1.2%	1.2%	→	

France: Composite index of consumer confidence



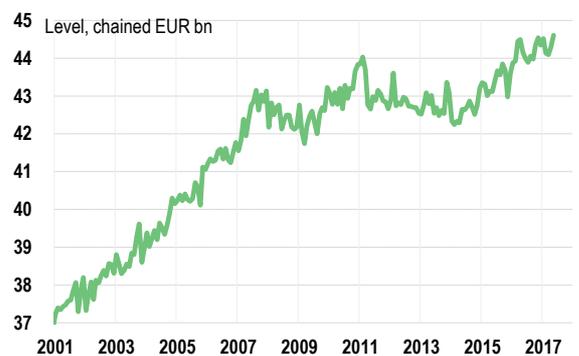
Source: INSEE

Euro zone : inflation



Source: Eurostat

France: Household spending on goods



Source: INSEE



Economic scenario

UNITED STATES

- GDP growth keeps on a decent 2% pace and may have picked-up in Q2. 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.. We forecast the Fed Funds target rates to come at 1.25/1.50% by year-end, 2/2.5% by mid 2018.

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 clear growth acceleration is underway. 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
		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
		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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