ECOWEEK

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After the words, time for action

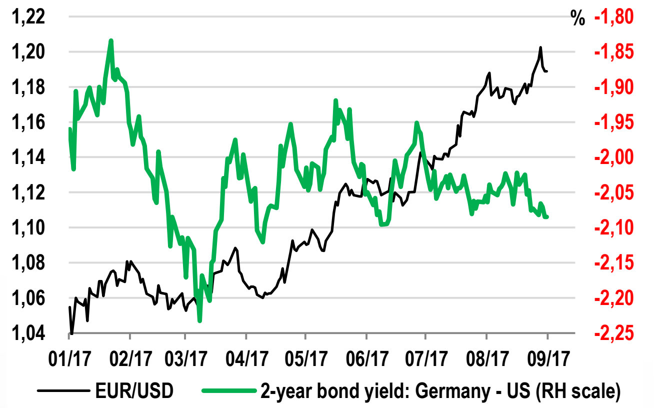
■ The economic policy agenda for the remainder of the year is well-filled ■ The ECB will clarify its intention regarding its QE program ■ The Federal Reserve is expected to start reducing the size of its balance sheet ■ Eyes are also turned towards the US (tax cuts?), France and Germany

Recent indicators have confirmed the picture of robust growth in the Eurozone and a clearly satisfactory performance for the world economy as a whole. Visibility is good.

In such a situation the attention shifts to other factors. Geopolitical uncertainty (North Korea) has caused some market nervousness in recent weeks. Attention is also turning towards what will happen on the policy front: 'after the words, the action', or more appropriately with respect to monetary policy, 'after the silence, time for announcements'.

In the coming two months we will see a clarification by the ECB about its intentions with respect to QE in 2018 (we expect an extension but with a lower monthly volume) whereas in its September meeting the FOMC may very well decide to start reducing its balance sheet. The recent silence of the Fed and the ECB (Janet Yellen nor Mario Draghi said anything about the cyclical outlook for monetary policy in Jackson Hole last week) meant that markets had a free run, witness the strong upward trend of the euro. This occurred although the two-year yield differential hasn't really moved since mid-April. It would also mean that the sensitivity to news at the upcoming meetings could be all the bigger. Other areas of economic policy could also see new developments. In the US, the White House and the administration are keen to push through tax cuts. If these were to be introduced, they could influence the outlook for growth, bond yields, monetary policy, and the dollar. In Europe, investors will be looking at France (after the labour market reform announcement, other areas, of which the budget, will follow) but also Germany with an eye on the possible coalition to be formed after the elections of 24 September. This matters not only for domestic economic policy but also for the European and Eurozone level.

EUR/USD VS 2-YEAR BOND YIELD SPREAD



Source : Thomson Reuters

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Eco WEEK

BNP PARIBAS

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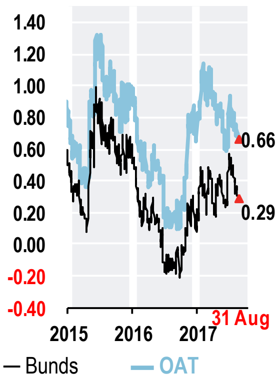
Markets overview

The essentials

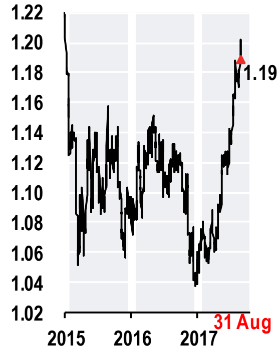
Week 25-8 17 > 31-8-17

↘	**CAC 40**	5 104	▶ **5 086**	**-0.4**	%
↗	**S&P 500**	2 443	▶ **2 472**	**+1.2**	%
↘	Volatility (VIX)	11.3	▶ 10.6	-0.7	%
↗	**Euribor 3M (%)**	-0.33	▶ **-0.33**	**+0.0**	bp
↘	Libor $ 3M (%)	1.32	▶ 1.32	-0.2	bp
↘	OAT 10y (%)	0.69	▶ 0.66	-2.8	bp
↘	Bund 10y (%)	0.31	▶ 0.29	-1.9	bp
↘	US Tr. 10y (%)	2.17	▶ 2.12	-4.9	bp
↗	**Euro vs dollar**	1.19	▶ **1.19**	**+0.1**	%
↗	Gold (ounce, $)	1 293	▶ 1 316	+1.8	%
↘	**Oil (Brent, $)**	52.3	▶ **52.3**	**-0.0**	%

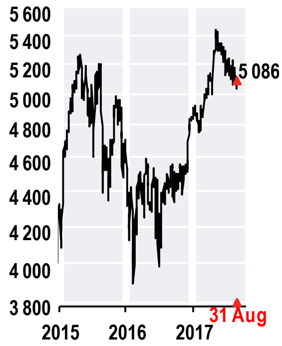
10 y bond yield, OAT vs Bund



Euro-dollar



CAC 40



Money & Bond Markets

Interest Rates		highest' 17		lowest' 17	
€ ECB	**0.00**	0.00	at 02/01	0.00	at 02/01
Eonia	**-0.35**	-0.33	at 02/06	-0.37	at 05/06
Euribor 3M	**-0.33**	-0.32	at 02/01	-0.33	at 10/04
Euribor 12M	**-0.16**	-0.08	at 02/01	-0.16	at 23/06
$ FED	**1.25**	1.25	at 15/06	0.75	at 02/01
Libor 3M	**1.32**	1.32	at 25/08	1.00	at 02/01
Libor 12M	**1.71**	1.83	at 15/03	1.68	at 06/01
£ BoE	**0.25**	0.25	at 02/01	0.25	at 02/01
Libor 3M	**0.28**	0.37	at 05/01	0.28	at 30/08
Libor 12M	**0.59**	0.78	at 09/01	0.59	at 29/08

At 31-8-17

Yield (%)		highest' 17		lowest' 17	
€ AVG 5-7y	**0.25**	0.68	at 17/03	0.18	at 21/06
Bund 2y	**-0.76**	-0.60	at 27/06	-0.96	at 24/02
Bund 10y	**0.29**	0.57	at 06/07	0.09	at 02/01
OAT 10y	**0.66**	1.14	at 06/02	0.59	at 14/06
Corp. BBB	**1.28**	1.65	at 01/02	1.25	at 29/08
$ Treas. 2y	**1.32**	1.41	at 03/07	1.14	at 24/02
Treas. 10y	**2.12**	2.61	at 13/03	2.12	at 31/08
Corp. BBB	**3.42**	3.90	at 14/03	3.42	at 31/08
£ Treas. 2y	**0.13**	0.33	at 29/06	0.01	at 28/02
Treas. 10y	**1.08**	1.51	at 26/01	0.87	at 14/06

At 31-8-17

10y bond yield & spreads

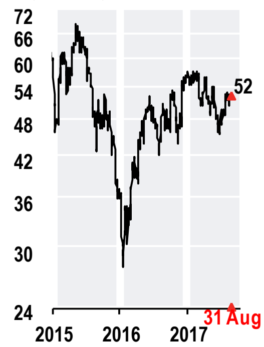
5.43%	Greece	514 pb
2.82%	Portugal	253 pb
2.05%	Italy	175 pb
1.45%	Spain	116 pb
0.68%	Ireland	39 pb
0.67%	Belgium	37 pb
0.66%	France	37 pb
0.57%	Austria	28 pb
0.51%	Netherland	21 pb
0.36%	Finland	6 pb
0.29%	Germany	

Commodities

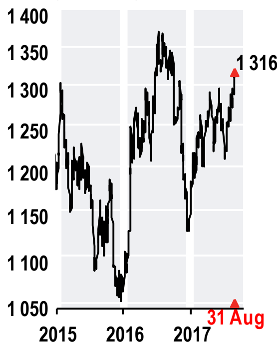
Spot price in dollars		lowest' 17			2017(€)
Oil, Brent	**52**	46	at	26/06	**-18.2%**
Gold (ounce)	**1 316**	1 156	at	03/01	**+0.9%**
Metals, LMEX	**3 217**	2 639	at	03/01	**+7.3%**
Copper (ton)	**6 760**	5 462	at	08/05	**+8.6%**
CRB Foods	**340**	325	at	24/04	**-11.0%**
wheat (ton)	**152**	146	at	24/04	**-7.7%**
Corn (ton)	**126**	121	at	30/08	**-15.8%**

At 31-8-17 *Variations*

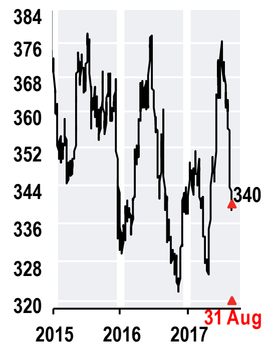
Oil (Brent, $)



Gold (Ounce, $)



CRB Foods



Exchange Rates

1€ =		highest' 17			lowest' 17			2017
USD	**1.19**	1.20	at	29/08	1.04	at	03/01	**+12.7%**
GBP	**0.92**	0.93	at	29/08	0.84	at	19/04	+8.1%
CHF	**1.14**	1.15	at	03/08	1.06	at	08/02	+6.6%
JPY	**130.85**	131.33	at	30/08	115.57	at	17/04	+6.4%
AUD	**1.50**	1.52	at	01/06	1.37	at	23/02	+2.9%
CNY	**7.84**	7.99	at	03/08	7.22	at	03/01	+7.0%
BRL	**3.74**	3.81	at	29/08	3.24	at	15/02	+9.0%
RUB	**69.05**	71.97	at	02/08	59.66	at	17/04	+7.2%
INR	**76.00**	76.99	at	29/08	68.18	at	07/04	+6.2%

At 31-8-17 *Variations*

Equity indices

	Index	highest' 17			lowest' 17			2017	2017(€)
CAC 40	**5 086**	5 432	at	05/05	4 749	at	31/01	+4.6%	**+4.6%**
S&P500	**2 472**	2 481	at	07/08	2 239	at	02/01	+10.4%	**-2.1%**
DAX	**12 056**	12 889	at	19/06	11 510	at	06/02	+5.0%	**+5.0%**
Nikkei	**19 646**	20 230	at	20/06	18 336	at	14/04	+2.8%	**-3.4%**
China*	**82**	82	at	30/08	59	at	02/01	+40.3%	**+23.6%**
India*	**569**	579	at	04/08	445	at	03/01	+19.9%	**+13.0%**
Brazil*	**1 998**	2 013	at	24/08	1 639	at	21/06	+15.5%	**+6.0%**
Russia*	**561**	622	at	03/01	497	at	22/06	-10.5%	**-17.3%**

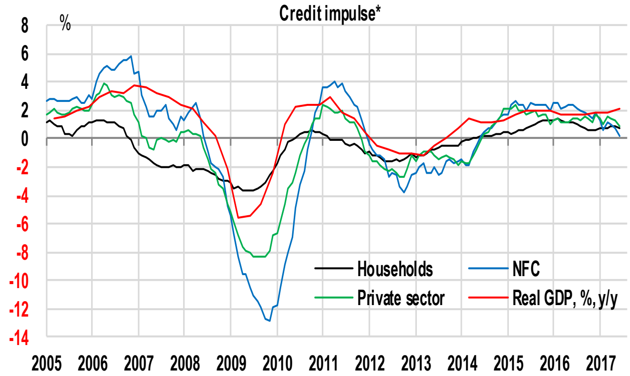
At 31-8-17 *Variations*

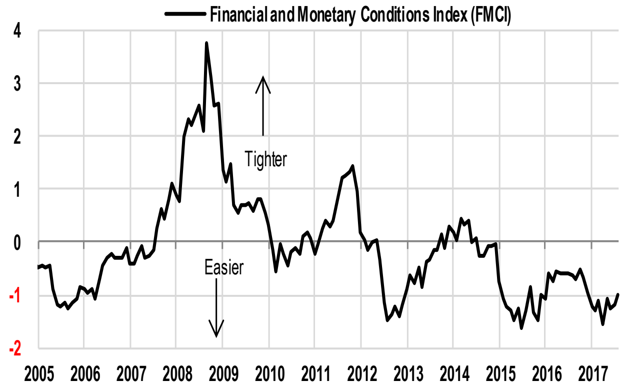
* MSCI index

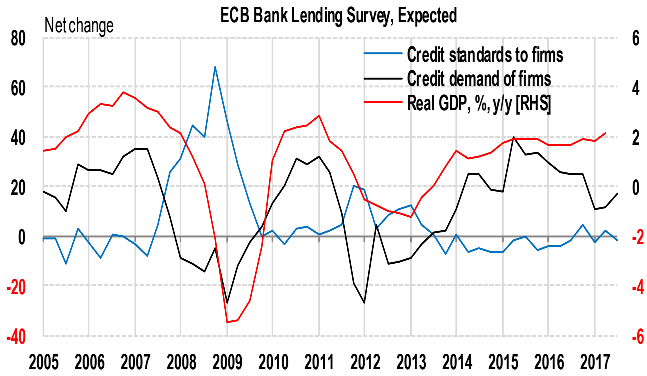
Pulse

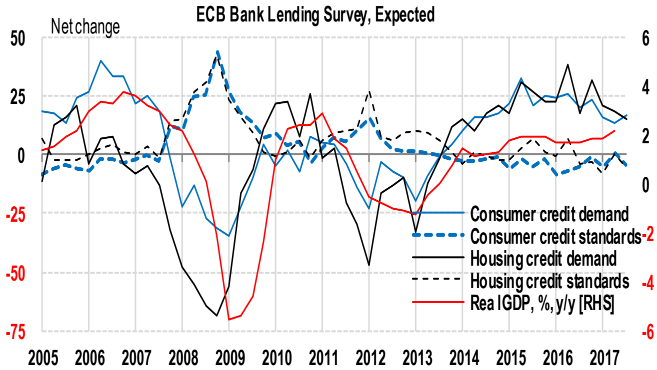
Eurozone: credit environment

The credit environment remains very easy. Despite a recent increase, related to the strengthening of the euro, the financial and monetary conditions index remains in easy territory. Credit standards applied to firms and households are neutral and the balance of banks expecting loan demand from firms and households (consumer credit and housing credit) to rise or to decline remains solidly positive, although less so than in 2016. This echoes the softening of the credit impulse (the change of the growth rate of credit).









*Credit impulse is measured as the annual change of the annual growth rate of MFI loans.

Sources: ECB, ECB BLS, Eurostat, BNP Paribas calculations

Indicators preview

All eyes are turned towards the ECB meeting. In addition, markets will pay attention to the composite PMIs and the Federal Reserve's beige book.

Date	Country	Event	Period	Survey	Prior
05/09/2017	Eurozone	Markit Eurozone Services PMI	August Final	--	54.9
05/09/2017	Eurozone	Markit Eurozone Composite PMI	August Final	--	55.8
05/09/2017	France	Markit France Composite PMI	August Final	--	55.6
05/09/2017	United Kingdom	Markit/CIPS UK Composite PMI	August	--	54.1
05/09/2017	Germany	Markit/BME Germany Composite PMI	August Final	--	55.7
06/09/2017	United States	ISM Non-Manf. Composite	August	55.0	53.9
06/09/2017	United States	U.S. Federal Reserve Releases Beige Book			
07/09/2017	Eurozone	ECB Press Conference			
07/09/2017	United Kingdom	BRC retail sales monitor %	August	--	1,4%
08/09/2017	France	Industrial Production MoM	July	--	-1.1%

Economic scenario

UNITED STATES

▪ GDP growth keeps on a decent 2% pace and picked-up a bit 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 as buoyant as 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.

CHINA

▪ After a period of stabilisation and slight recovery since Q2 2016, economic growth is expected to slow down moderately in the coming quarters.

▪ Exports should continue to rebound and infrastructure projects will continue to drive investment. However, downside risks are high due to the reduction in excess production capacity in the industry and given risks of a downturn in the property market and financial instability.

▪ The authorities will maintain an expansionist fiscal policy while the central bank should continue to tighten monetary conditions cautiously, especially to foster a deleveraging of financial institutions.

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.

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.

SUMMARY

	GDP Growth			Inflation		
%	2016	2017 e	2018 e	2016	2017 e	2018 e
Advanced	**1,6**	**2,1**	**1,9**	**0,8**	**1,6**	**1,7**
United-States	1,6	2,3	2,6	1,3	1,9	2,3
Japan	1,0	1,7	1,0	-0,1	0,4	0,6
United-Kingdom	1,8	1,5	1,0	0,6	2,8	2,8
Euro Area	**1,7**	**2,1**	**1,6**	**0,2**	**1,5**	**1,1**
Germany	1,8	1,8	2,0	0,4	1,9	1,7
France	1,1	1,6	1,6	0,3	1,4	1,0
Italy	1,0	1,3	0,9	-0,1	1,3	0,8
Emerging	**4,1**	**4,6**	**4,9**	**4,4**	**3,1**	**3,4**
China	6,7	6,6	6,4	2,0	1,8	2,3
India	7,5	7,3	7,8	4,9	4,9	5,2
Brazil	-3,5	1,0	3,0	8,8	3,6	3,8
Russia	-0,6	1,2	2,0	7,1	4,2	4,3

FX RATES

Exchange Rates			2018				
End of period		Q4e	Q1e	Q2e	Q3e	Q4e	2017e	2018e
USD	EUR / USD	1,13	1,15	1,17	1,19	1,20	1,13	1,20
	USD / JPY	118	120	118	116	114	118	114
	GBP / USD	1,26	1,29	1,31	1,37	1,41	1,26	1,41
	USD / CHF	0,99	0,97	0,96	0,94	0,96	0,99	0,96
EUR	EUR / GBP	0,90	0,89	0,89	0,87	0,85	0,90	0,85
	EUR / CHF	1,12	1,12	1,12	1,12	1,15	1,12	1,15
	EUR / JPY	133	138	138	138	137	133	137

INTEREST RATES

Forecasts currently under revision.

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