

ECOWEEK

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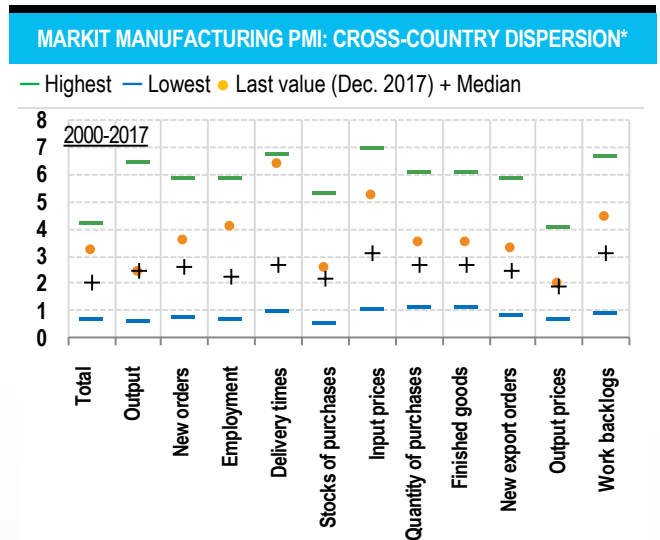
Eurozone: all together now?

- Eurozone growth has been robust in 2017 and the growth acceleration has been pretty much shared across eurozone members
- The cross-country dispersion of cyclical performance indicators has narrowed compared to the cyclical peak but has increased in 2017
- A favourable cyclical environment is a good opportunity to undertake policies aimed at narrowing structural dispersion

For the good functioning and the stability of a monetary union, it is important that economic performance of its members is sufficiently homogeneous, i.e. that cross-country dispersion is low. Two factors can cause sudden increases in dispersion: a global recession (like in 2008-2009) because some countries are more resilient than others to economic downturns and asymmetric shocks which hit one or a limited number of countries. The economic and financial environment has improved significantly in recent years so one would expect that cyclical dispersion has declined.

In order to have a detailed picture, the chart shows for the Markit PMI manufacturing index and its sub-series the dispersion (calculated as the cross-sectional standard deviation) for individual countries (Austria, France, Germany, Italy, the Netherlands, Spain. Although data are available for Greece they were excluded from the sample because they introduce too much of a bias). For each series, the minimum, maximum, median and most recent dispersion are shown.

Several observations can be made: 1. in general, the most recent observation is well below the cyclical high but still above the median (output and output prices are exceptions, they're at the median) which implies that dispersion is not that low; 2. dispersion is high for employment where Austria, Germany, the Netherlands and Ireland have high index values compared to the rest; 3. it is also high for work backlogs (Germany and France have higher index values than the rest; data are missing for Austria); 4. dispersion is very high for delivery times and input prices. In both cases, the situation in Ireland, Germany and the Netherlands points towards rising supply-side bottlenecks with significantly longer delivery times and higher input price inflation pressure than in the other countries. This illustrates the challenge of the ECB in setting its monetary policy stance. Indeed, in 2017 the manufacturing PMI dispersion has actually increased with Germany, the Netherlands and Austria powering ahead, Ireland, France and to a lesser extent Italy seeing strong rises whereas Spain's PMI hardly moved. These results are also a reminder of the necessity to seize the opportunity of a strong cyclical environment to undertake structural economies policies aimed at narrowing dispersion in the longer run.



*Austria, France, Germany, Ireland, Italy, Netherlands, Spain ** inverted scale
Sources: Markit, BNP Paribas

William De Vijlder

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ECONOMIC RESEARCH DEPARTMENT



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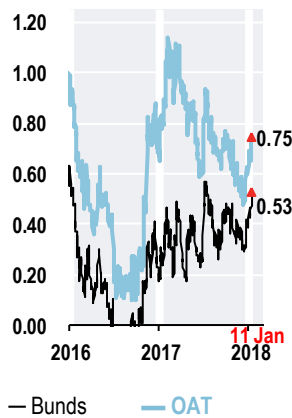
Markets overview

The essentials

Week 5-1 18 > 11-1-18

➔ CAC 40	5 471	▶ 5 489	+0.3 %
➔ S&P 500	2 743	▶ 2 768	+0.9 %
➔ Volatility (VIX)	9.2	▶ 9.9	+0.7 pb
➔ Euribor 3M (%)	-0.33	▶ -0.33	+0.0 bp
➔ Libor \$ 3M (%)	1.70	▶ 1.71	+0.5 bp
➔ OAT 10y (%)	0.67	▶ 0.75	+7.8 bp
➔ Bund 10y (%)	0.44	▶ 0.53	+8.8 bp
➔ US Tr. 10y (%)	2.48	▶ 2.53	+5.5 bp
➔ Euro vs dollar	1.20	▶ 1.20	+0.1 %
➔ Gold (ounce, \$)	1 319	▶ 1 321	+0.1 %
➔ Oil (Brent, \$)	67.6	▶ 70.0	+3.5 %

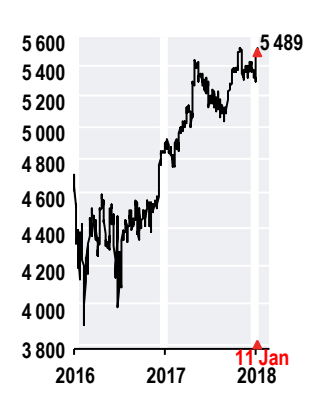
10 y bond yield, OAT vs Bund



Euro-dollar



CAC 40



Money & Bond Markets

Interest Rates	highest' 18	lowest' 18
€ ECB	0.00	0.00 at 01/01
Eonia	-0.36	-0.35 at 01/01
Euribor 3M	-0.33	-0.33 at 01/01
Euribor 12M	-0.19	-0.19 at 01/01
\$ FED	1.50	1.50 at 01/01
Libor 3M	1.71	1.71 at 10/01
Libor 12M	2.16	2.16 at 10/01
£ BoE	0.50	0.50 at 01/01
Libor 3M	0.52	0.52 at 10/01
Libor 12M	0.77	0.77 at 10/01

At 11-1-18

Yield (%)	highest' 18	lowest' 18
€ AVG 5-7y	0.47	0.49 at 02/01
Bund 2y	-0.59	-0.59 at 11/01
Bund 10y	0.53	0.53 at 11/01
OAT 10y	0.75	0.75 at 11/01
Corp. BBB	1.25	1.25 at 11/01
\$ Treas. 2y	1.99	1.99 at 11/01
Treas. 10y	2.53	2.55 at 10/01
Corp. BBB	3.64	3.67 at 09/01
£ Treas. 2y	0.54	0.54 at 11/01
Treas. 10y	1.35	1.35 at 11/01

At 11-1-18

10y bond yield & spreads

4.56%	Greece	403 pb
2.02%	Italy	149 pb
1.83%	Portugal	129 pb
1.54%	Spain	101 pb
0.75%	France	21 pb
0.74%	Belgium	21 pb
0.71%	Ireland	18 pb
0.69%	Finland	15 pb
0.67%	Austria	14 pb
0.63%	Netherland	9 pb
0.53%	Germany	

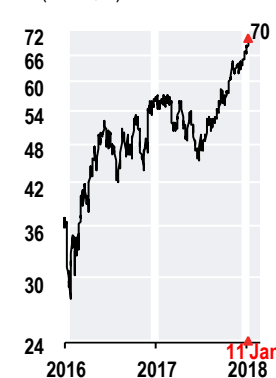
Commodities

Spot price in dollars	lowest' 18	2018(€)
Oil, Brent	70.0	66.4 at 02/01
Gold (ounce)	1 321	1 303 at 01/01
Metals, LME	3 373	3 344 at 09/01
Copper (ton)	7 103	7 060 at 09/01
CRB Foods	343	336 at 01/01
w wheat (ton)	161	159 at 01/01
Corn (ton)	128	126 at 08/01

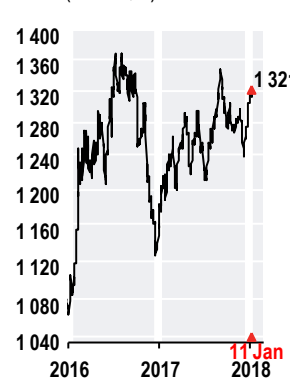
At 11-1-18

Variations

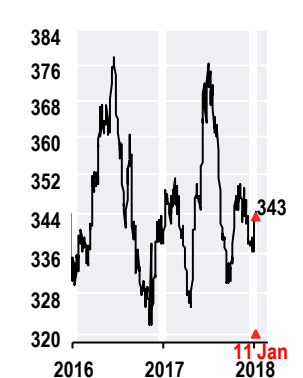
Oil (Brent, \$)



Gold (Ounce, \$)



CRB Foods



Exchange Rates

€ =	highest' 18	lowest' 18	2018
USD	1.20	1.21 at 04/01	1.19 at 09/01
GBP	0.89	0.89 at 04/01	0.88 at 08/01
CHF	1.17	1.18 at 04/01	1.17 at 08/01
JPY	134.20	136.29 at 05/01	133.42 at 10/01
AUD	1.53	1.54 at 02/01	1.53 at 09/01
CNY	7.84	7.85 at 04/01	7.78 at 08/01
BRL	3.88	3.98 at 01/01	3.87 at 08/01
RUB	68.27	69.36 at 02/01	68.06 at 09/01
INR	76.69	76.69 at 11/01	75.92 at 08/01

At 11-1-18

Variations

Equity indices

Index	highest' 18	lowest' 18	2018	2018(€)
CAC 40	5 489	5 524 at 09/01	5 289 at 02/01	+3.3%
S&P500	2 768	2 768 at 11/01	2 674 at 01/01	+3.5%
DAX	13 203	13 386 at 09/01	12 871 at 02/01	+2.2%
Nikkei	23 710	23 850 at 09/01	22 765 at 01/01	+4.2%
China*	94	94 at 09/01	88 at 01/01	+6.1%
India*	622	623 at 08/01	606 at 01/01	+1.5%
Brazil*	2 160	2 160 at 11/01	2 023 at 01/01	+3.7%
Russia*	655	655 at 11/01	604 at 01/01	+7.0%

At 11-1-18

Variations

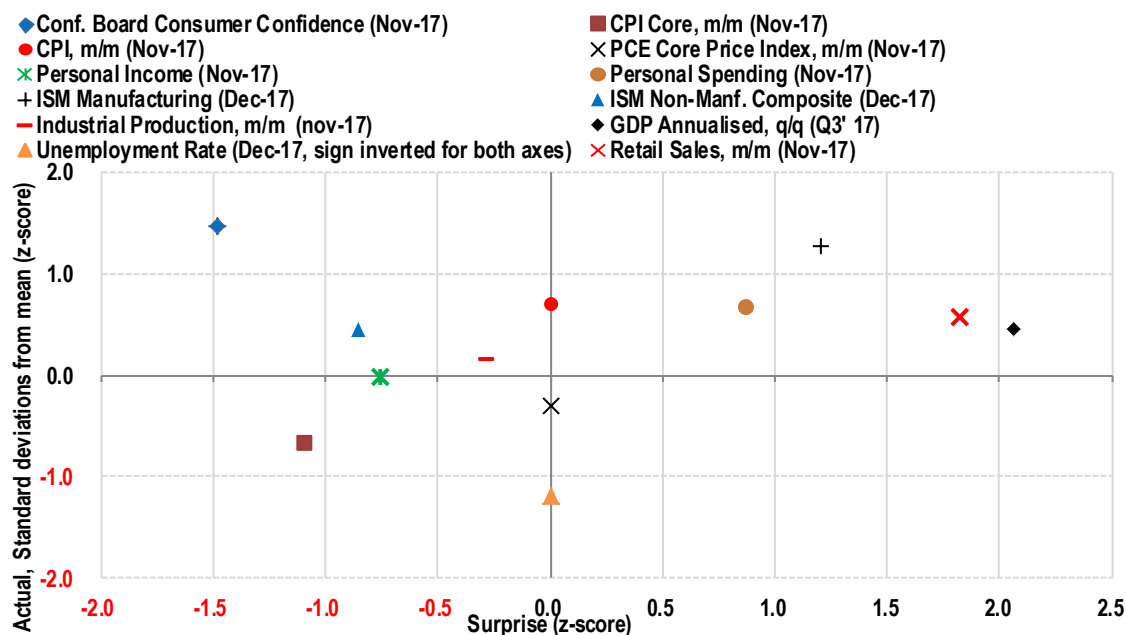
* MSCI index



Pulse

United States: a mixed picture

Although most indicators are above the horizontal line which means above the long term average, the picture is more mixed when comparing the outcome with the consensus expectation: several indicators are to the left of the vertical line implying surprises to the downside.



Sources: Markit, Bloomberg, BNP Paribas calculations

Indicators preview

A quiet week ahead for us in terms of data although the US will see the release of several indicators for January as well as the Fed Beige Book.

Date	Country	Event	Period	Survy	Prior
01/16/18	Germany	CPI EU Harmonized MoM	Dec	--	0.8%
01/16/18	United Kingdom	CPI MoM	Dec	--	0.3%
01/16/18	United States	Empire Manufacturing	Jan	18.0	18.0
01/17/18	United States	Industrial Production MoM	Dec	0.2%	0.2%
01/17/18	United States	Capacity Utilization	Dec	77.2%	77.1%
01/17/18	United States	NAHB Housing Market Index	Jan	--	74
01/17/18	United States	U.S. Federal Reserve Releases Beige Book			
01/18/18	Japan	Capacity Utilization MoM	Nov	--	0.2%
01/18/18	United States	Housing Starts MoM	Dec	-2.1%	3.3%
01/18/18	United States	Building Permits MoM	Dec	-1.0%	-1.4%
01/18/18	United States	Philadelphia Fed Business Outlook	Jan	22.7	26.2
01/19/18	United States	University of Michigan Sentiment	Jan	97.0	95.9

Sources: Bloomberg, BNP Paribas



Economic scenario

UNITED STATES

- GDP growth is accelerating along with the recovery in the emerging countries and reinforcing world trade. However the fiscal outlook remains uncertain. A fiscal stimulus still is possible, but it would not be implemented very rapidly. 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 1.75% in Q1 2018 and at 2.00% by mid-2018.

CHINA

- Economic growth has started to moderate during the fall and this trend should continue in the coming quarters.
- Despite the slowdown, the central bank will have to continue to act to encourage the deleveraging of financial institutions and corporates and reduce financial instability risks. The authorities should maintain an expansionist fiscal policy in the short term.
- The tightening of domestic credit conditions, restructuring measures in the industry and the correction in the property market will weigh on economic activity. Meanwhile, exports and private consumption should be supporting factors.

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		
	2017 e	2018 e	2019 e	2017 e	2018 e	2019 e
Advanced	2,1	2,4	1,7	1,7	1,7	1,9
United-States	2,3	2,9	1,9	2,1	2,0	2,2
Japan	1,5	1,3	0,6	0,3	0,6	0,8
United-Kingdom	1,5	1,2	1,8	2,7	2,7	2,4
Euro Area	2,3	2,4	1,8	1,5	1,6	1,7
Germany	2,6	2,8	2,1	1,7	1,7	1,8
France	1,8	2,0	1,6	1,2	1,6	1,8
Italy	1,6	1,5	1,1	1,4	1,4	1,5
Spain	3,1	2,6	2,2	2,1	1,8	1,6
Belgium	1,6	1,6	1,5	2,1	1,9	1,9
Emerging	4,5	4,8	4,9	4,0	4,2	4,2
China	6,8	6,4	6,5	1,6	2,3	2,5
India	7,0	7,6	7,8	3,4	4,5	4,9
Brazil	1,0	3,0	2,5	3,5	3,5	3,9
Russia	1,8	1,6	1,5	4,0	4,3	4,5

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

INTEREST RATES & FX RATES

Interest rates, %		2018				2019
End of period		Q1e	Q2e	Q3e	Q4e	Q4e
US	Fed Funds	1.75	2.00	2.25	2.25	2.25
	Libor 3m \$	1.55	1.70	1.80	1.85	1.75
	T-Notes 10y	2.60	2.75	2.75	3.00	2.90
Ezone	ECB Refi	0.00	0.00	0.00	0.00	0.25
	Euribor 3m	-0.30	-0.30	-0.30	-0.30	0.10
	Bund 10y	0.65	0.75	1.10	1.50	1.80
	OAT 10y	0.95	1.00	1.30	1.70	2.00
UK	Base rate	0.50	0.50	0.50	0.75	1.25
	Gilts 10y	1.45	1.55	1.90	2.30	2.30
Japan	BoJ Rate	-0.10	-0.10	-0.10	-0.10	-0.10
	JGB 10y	0.08	0.08	0.08	0.08	0.00

Exchange Rates		2018				2019
End of period		Q1e	Q2e	Q3e	Q4e	Q4e
USD	EUR / USD	1.14	1.13	1.18	1.22	1.30
	USD / JPY	116	117	115	112	105
	GBP / USD	1.25	1.26	1.33	1.39	1.48
	USD / CHF	1.03	1.04	1.01	0.98	0.96
EUR	EUR / GBP	0.91	0.90	0.89	0.88	0.88
	EUR / CHF	1.17	1.18	1.19	1.20	1.25
	EUR / JPY	132	132	136	137	137

Source : GlobalMarkets (e: Estimates & forecasts)



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