

# ECOWEEK

No. 18-33, 14 September 2018

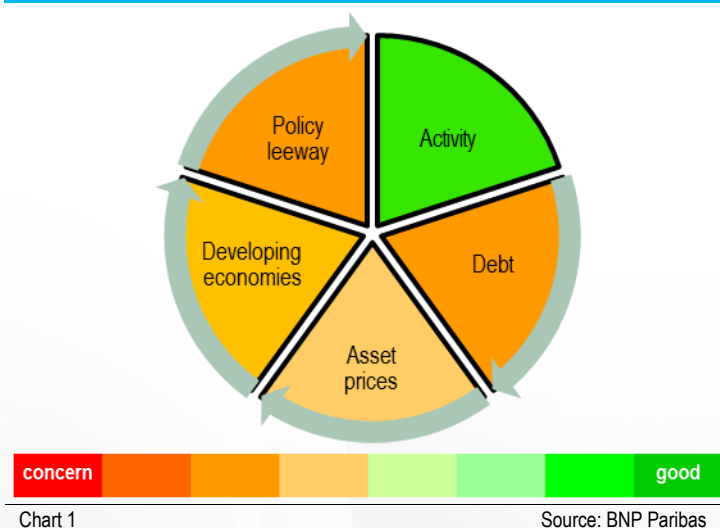
## Ten years after: The uncomfortable new normal

■ Ten years after the collapse of Lehman Brothers, assessing to what extent major economies have fully recovered from the ensuing global financial crisis and the Great Recession very much depends on the perspective which is chosen ■ A mixed picture emerges: in most countries per capita real GDP is higher than before the crisis ■ But public sector debt hasn't declined and growth has been slow, despite the expansionary policy stance ■ Policy rates are still (very) low and central bank balance sheets are vastly bigger ■ Policy leeway hasn't been restored which implies that thinking about how to address the next downturn should be high on the agenda

Former Fed chairman Ben Bernanke, in his *The courage to act – a memoir of a crisis and its aftermath*, uses 'The dam breaks' as the title of the chapter describing the fruitless efforts to find a solution for Lehman Brothers which led to the company filing for bankruptcy at 1.45 a.m. EST on Monday 15 September 2007. The metaphor in the title reminds us to what extent Lehman's collapse was an accelerator of a crisis which had been developing for a long time already. An accelerator which made it increasingly difficult to stop the spiral. To quote Bernanke: "It was a terrible, almost surreal moment. We were staring into the abyss." Tellingly, Tim Geithner, who was running the Federal Reserve of New York at the time before becoming Treasury Secretary under Obama, starts his memoirs, aptly called *Stress Test*, with the struggle to stop the decline of the economy early on in 2009, rather than focussing on Lehman. Assessing ten years later, to what extent major economies have recovered from the global financial crisis and the Great Recession is important. After all, the US expansion, which started in July 2009 is by historical standards of a respectable age so evaluating where we are ten years later helps in gauging the resilience to a new downturn. However, this exercise is also difficult because it very much depends on the perspective chosen. Focussing on GDP, the labour market, balance sheets, asset prices, developing economies and policy leeway, what emerges is a mixed picture. Per capita real GDP is higher than before the crisis but growth has been slow despite the expansionary policy stance. In some countries, the unemployment rate, in particular long-term unemployment, remains above pre-crisis levels. Several developing economies have seen a significant increase in corporate debt in foreign currency. Public sector debt in advanced economies hasn't declined, despite sustained growth and sharply declining interest rates. In conjunction with still (very) low policy rates and vastly bigger central bank balance sheets, this implies that policy leeway hasn't been restored. It means that in the 'new normal' of, for structural reasons, slower potential GDP growth and lower interest rates than before, discussing how to address the next downturn should be high on the agenda.

William De Vijlder

### TEN YEARS AFTER : A QUALITATIVE ASSESSMENT



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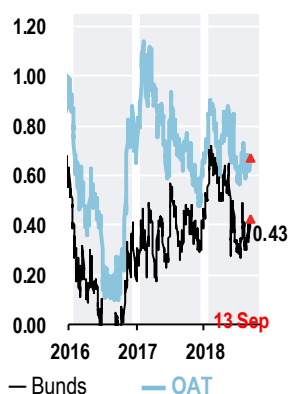
## Markets overview

### The essentials

Week 7-9 18 > 13-9-18

➤ CAC 40	5 252	➤ 5 328	+1.4 %
➤ S&P 500	2 872	➤ 2 904	+1.1 %
➤ Volatility (VIX)	14.9	➤ 12.4	-2.5 pb
➤ Euribor 3M (%)	-0.32	➤ -0.32	+0.0 bp
➤ Libor \$ 3M (%)	2.33	➤ 2.33	+0.0 bp
➤ OAT 10y (%)	0.66	➤ 0.67	+1.3 bp
➤ Bund 10y (%)	0.39	➤ 0.43	+3.4 bp
➤ US Tr. 10y (%)	2.94	➤ 2.97	+3.1 bp
➤ Euro vs dollar	1.16	➤ 1.17	+0.8 %
➤ Gold (ounce, \$)	1 198	➤ 1 203	+0.4 %
➤ Oil (Brent, \$)	76.5	➤ 78.3	+2.3 %

10 y bond yield, OAT vs Bund



Euro-dollar



CAC 40



### Money & Bond Markets

Interest Rates	highest' 18	lowest' 18
€ ECB	0.00 at 01/01	0.00 at 01/01
Eonia	-0.37 at 31/08	-0.37 at 18/05
Euribor 3M	-0.32 at 30/07	-0.33 at 01/01
Euribor 12M	-0.17 at 29/08	-0.19 at 19/02
\$ FED	2.00 at 14/06	1.50 at 01/01
Libor 3M	2.33 at 04/05	1.69 at 01/01
Libor 12M	2.86 at 11/09	2.11 at 01/01
£ BoE	0.75 at 02/08	0.50 at 01/01
Libor 3M	0.80 at 06/08	0.52 at 04/01
Libor 12M	1.05 at 02/08	0.76 at 03/01

At 13-9-18

Yield (%)	highest' 18	lowest' 18
€ AVG 5-7y	0.69 at 08/06	0.41 at 18/04
Bund 2y	-0.55 at 11/09	-0.79 at 29/05
Bund 10y	0.43 at 15/02	0.27 at 19/07
OAT 10y	0.67 at 08/02	0.57 at 13/07
Corp. BBB	1.69 at 05/09	1.17 at 08/01
\$ Treas. 2y	2.77 at 13/09	1.89 at 01/01
Treas. 10y	2.97 at 17/05	2.41 at 01/01
Corp. BBB	4.36 at 17/05	3.59 at 01/01
£ Treas. 2y	0.79 at 21/03	0.40 at 01/01
Treas. 10y	1.41 at 15/02	1.23 at 01/01

At 13-9-18

10y bond yield & spreads

4.63%	Greece	420 pb
2.78%	Italy	235 pb
1.87%	Portugal	144 pb
1.50%	Spain	107 pb
0.76%	Belgium	33 pb
0.67%	France	24 pb
0.64%	Austria	21 pb
0.61%	Ireland	18 pb
0.58%	Finland	15 pb
0.52%	Netherlands	9 pb
0.43%	Germany	

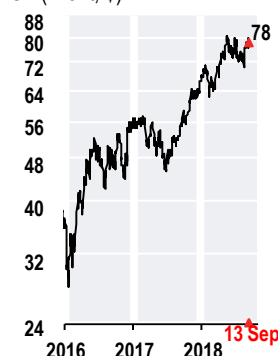
### Commodities

Spot price in dollars	lowest' 18	2018(€)
Oil, Brent	62.2 at 13/02	+20.8%
Gold (ounce)	1 179 at 17/08	-5.1%
Metals, LMEX	2 833 at 15/08	-14.8%
Copper (ton)	6 014 at 15/08	-14.2%
CRB Foods	316 at 30/08	-1.1%
wheat (ton)	155 at 16/01	+10.2%
Corn (ton)	119 at 29/08	-2.9%

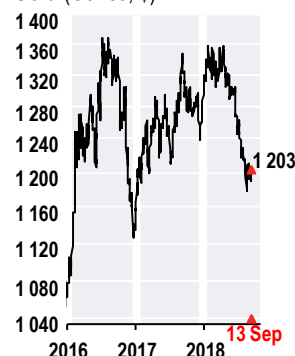
At 13-9-18

Variations

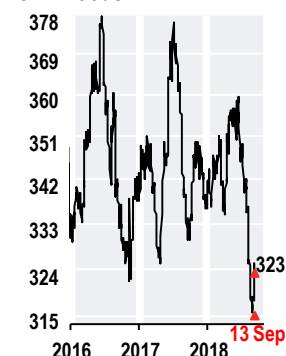
Oil (Brent, \$)



Gold (Ounce, \$)



CRB Foods



### Exchange Rates

€ =	highest' 18	lowest' 18	2018
USD	1.25 at 25/01	1.13 at 15/08	-2.8%
GBP	0.91 at 28/08	0.86 at 17/04	+0.4%
CHF	1.20 at 19/04	1.12 at 07/09	-3.4%
JPY	130.58 at 02/02	124.96 at 15/08	-3.5%
AUD	1.62 at 11/09	1.53 at 09/01	+5.8%
CNY	7.99 at 24/08	7.42 at 29/05	+2.2%
BRL	4.87 at 30/08	3.87 at 08/01	+22.4%
RUB	80.00 at 10/09	68.06 at 09/01	+15.7%
INR	84.27 at 13/09	75.92 at 08/01	+9.9%

At 13-9-18

Variations

### Equity indices

Index	highest' 18	lowest' 18	2018	2018(€)
CAC 40	5 640 at 22/05	5 066 at 26/03	+0.3%	+0.3%
S&P500	2 914 at 29/08	2 581 at 08/02	+8.6%	+11.7%
DAX	13 560 at 23/01	11 787 at 26/03	-6.7%	-6.7%
Nikkei	24 124 at 23/01	20 618 at 23/03	+0.2%	+3.8%
China*	101 at 26/01	74 at 12/09	-13.1%	-11.0%
India*	642 at 29/01	547 at 23/05	+6.1%	-3.5%
Brazil*	2 393 at 26/01	1 561 at 11/09	-2.8%	-20.5%
Russia*	707 at 26/02	551 at 23/08	+10.5%	-2.2%

At 13-9-18

Variations

\* MSCI index



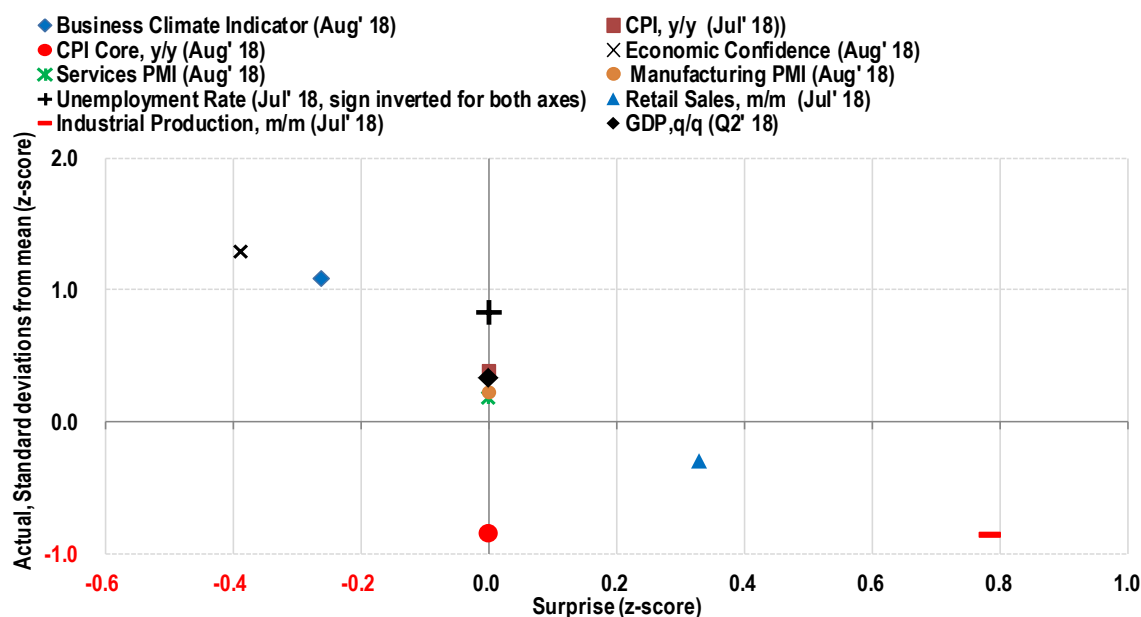
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## Pulse

## Eurozone: Growth above potential but less than before

The majority of indicators are above their long-term average, reflecting above potential GDP growth. As is well known, core inflation remains low. The move to a somewhat softer growth environment is reflected in the small number of data which still manage to surprise to the upside whereas the rest is either in line with or even below expectations.



Source: Bloomberg, Markit, BNP Paribas

## Indicators preview

Next week will allow to make a first assessment of the month of September with the release of regional business survey data in the US (New York, Philadelphia), the Markit PMI for several countries, consumer confidence in the eurozone and trends in total orders in the UK. In addition we have several housing market related data in the US. The Bank of Japan has its regular meeting and consumer price inflation will be released for the eurozone.

Date Time	Country	Event	Period
09/17/18	Eurozone	CPI MoM	Aug
09/17/18	United States	Empire Manufacturing	Sep
09/18/18	United States	NAHB Housing Market Index	Sep
09/19/18	United Kingdom	CPI MoM	Aug
09/19/18	United States	Housing Starts MoM	Aug
09/19/18	United States	Building Permits MoM	Aug
09/19/18	Japan	BOJ Policy Balance Rate	Sept-19
09/19/18	United Kingdom	CBI Trends Total Orders	Sep
09/20/18	United Kingdom	Retail Sales Ex Auto Fuel MoM	Aug
09/20/18	United States	Philadelphia Fed Business Outlook	Sep
09/20/18	Eurozone	Consumer Confidence	Sep
09/20/18	United States	Existing Home Sales	Aug
09/21/18	France	Wages QoQ	2Q
09/21/18	France	GDP QoQ	2Q
09/21/18	France	Markit France Composite PMI	Sep
09/21/18	Eurozone	Markit Eurozone Composite PMI	Sep

Source: Bloomberg, BNP Paribas



## Economic scenario

### UNITED STATES

- Economy is expected to expand at a 3% or so in 2018, thanks to tax cuts, booming profits and credit. However, the current weakening in external trade indexes puts the risk on the downside.
- Inflation is accelerating in the wake of higher oil prices and more evident tensions in the labour market.
- The Fed will keep on normalizing monetary conditions. We forecast the Fed Funds target rate to reach 2.75% in Q1 2019.

### CHINA

- Economic growth will decelerate in 2018-2019. The export outlook is significantly darkened by US protectionist measures. Private domestic demand should be affected by the worsening performance of the export manufacturing sector and the continued moderation in the property market.
- In order to contain the slowdown, the central bank has started to ease liquidity and credit conditions. At the same time, the reduction in financial instability risks should remain a top policy priority. Fiscal policy will also be expansionary and infrastructure spending is projected to rise.

### EUROZONE

- The recovery is continuing, although it has been weaker than expected at the start of the year. Intra-EU trade grows with domestic demand, especially corporate investment.
- Inflation has rebounded in the wake of higher oil prices, but the core CPI trend remains subdued. Along with renewed tensions over sovereign debt spreads (Italy) this argues for the ECB to maintain the status quo on the refinancing rate for a long period of time.

### FRANCE

- Growth slows down but remains above potential. Households' consumption should get a boost from the planned tax cuts and the jobs recovery but inflation reduces purchasing power gains. Business investment dynamics remain favourable. The global backdrop is less supportive. A slight rise in core inflation is appearing but remains to be confirmed.

### INTEREST RATES AND FX RATES

- In the US, ongoing strong growth and a very low unemployment rate pave the way for more rate hikes. We expect 2 more this year and 1 in the first half of 2019 after which the Fed will want to see how the economy reacts. As a consequence, US treasury yields should increase, although to a limited degree: the market expects that the tightening cycle is already well advanced. The ECB has announced it intends to stop its net asset purchases at the end of 2018. A first hike of the deposit rate is expected after the summer of 2019. As a consequence, bond yields should increase. No change expected in Japan.
- The narrowing bond yield differential between the US and the eurozone should cause a strengthening of the euro, all the more so considering it is still below its long-term fair value (around 1.34).

### SUMMARY

%	GDP Growth			Inflation		
	2017	2018 e	2019 e	2017	2018 e	2019 e
<b>Advanced</b>	<b>2.2</b>	<b>2.2</b>	<b>1.5</b>	<b>1.8</b>	<b>2.1</b>	<b>1.9</b>
United-States	2.2	2.8	1.8	2.1	2.5	2.1
Japan	1.7	0.9	0.6	0.5	1.0	1.0
United-Kingdom	1.7	1.3	1.6	2.7	2.4	2.1
<b>Euro Area</b>	<b>2.5</b>	<b>2.0</b>	<b>1.5</b>	<b>1.5</b>	<b>1.9</b>	<b>1.9</b>
Germany	2.5	1.9	1.6	1.7	1.9	2.1
France	2.3	1.7	1.6	1.2	2.2	1.8
Italy	1.6	1.2	1.0	1.3	1.5	1.9
Spain	3.1	2.7	2.0	2.0	1.8	1.8
Netherlands	3.0	2.3	1.7	1.3	1.7	1.8
<b>Emerging</b>	<b>5.9</b>	<b>5.8</b>	<b>5.8</b>	<b>2.4</b>	<b>2.9</b>	<b>2.8</b>
China	6.9	6.4	6.1	1.6	2.1	1.9
India	6.7	7.4	7.6	3.6	4.5	4.4
Brazil	1.0	1.5	3.0	3.4	3.7	3.7
Russia	1.5	1.8	1.6	3.7	2.6	3.5

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

### INTEREST RATES & FX RATES

Interest rates, %		2018	2019						
End of period		Q4e	Q1e	Q2e	Q3e	Q4e	2017	2018e	2019e
US	Fed Funds	2.50	2.75	2.75	2.75	2.75	1.50	2.50	2.75
	Libor 3m \$	2.36	2.80	2.85	2.65	2.55	1.69	2.36	2.55
	T-Notes 10y	3.10	3.15	3.20	3.10	3.00	2.41	3.10	3.00
Ezone	ECB Refi	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Euribor 3m	-0.30	-0.30	-0.25	-0.20	-0.15	-0.33	-0.30	-0.15
	Bund 10y	0.75	0.85	1.00	1.10	1.20	0.42	0.75	1.20
	OAT 10y	1.00	1.10	1.25	1.35	1.45	0.66	1.00	1.45
UK	Base rate	0.75	0.75	1.00	1.00	1.25	0.50	0.75	1.25
	Gilt 10y	1.55	1.70	1.80	1.90	2.00	1.23	1.55	2.00
Japan	BoJ Rate	-0.10	-0.10	-0.10	-0.10	-0.10	-0.04	-0.10	-0.10
	JGB 10y	0.14	0.12	0.10	0.04	0.02	0.05	0.14	0.02

Exchange Rates			2019						
End of period		Q4e	Q1e	Q2e	Q3e	Q4e	2017	2018e	2019e
USD	EUR / USD	1.20	1.22	1.25	1.28	1.30	1.20	1.20	1.30
	USD / JPY	106	102	100	99	98	113	106	98
	GBP / USD	1.30	1.34	1.40	1.45	1.49	1.35	1.30	1.49
	USD / CHF	0.97	0.97	0.96	0.95	0.94	0.97	0.97	0.94
EUR	EUR / GBP	0.92	0.91	0.89	0.88	0.87	0.89	0.92	0.87
	EUR / CHF	1.16	1.18	1.20	1.22	1.22	1.17	1.16	1.22
	EUR / JPY	127	124	125	127	127	135	127	127

Source : GlobalMarkets (e: Estimates & forecasts)



# GROUP ECONOMIC RESEARCH

■ **William DE VIJDER**  
Chief Economist

+33.(0)1 55 77 47 31

william.devijlder@bnpparibas.com

## ADVANCED ECONOMIES AND STATISTICS

■ **Jean-Luc PROUTAT**  
Head

+33.(0)1.58.16.73.32

jean-luc.proutat@bnpparibas.com

■ **Alexandra ESTIOT**

Works coordination - United States - United Kingdom - Globalisation

+33.(0)1.58.16.81.69

alexandra.estiot@bnpparibas.com

■ **Hélène BAUDCHON**

France (short-term outlook and forecasts) - Labour markets

+33.(0)1.58.16.03.63

helene.baudchon@bnpparibas.com

■ **Frédérique CERISIER**

Euro Area (European governance and public finances), Spain, Portugal

+33.(0)1.43.16.95.52

frederique.cerisier@bnpparibas.com

■ **Thibault MERCIER**

Euro Area (short-term outlook and monetary policy), France (structural reforms)

+33.(0)1.57.43.02.91

thibault.mercier@bnpparibas.com

■ **Catherine STEPHAN**

Nordic countries - World trade - Education, health, social conditions

+33.(0)1.55.77.71.89

catherine.stephan@bnpparibas.com

■ **Raymond VAN DER PUTTEN**

Germany, Netherlands, Austria, Switzerland - Energy, climate - Long-term projections

+33.(0)1.42.98.53.99

raymond.vanderputten@bnpparibas.com

■ **Tarik RHARRAB**

Statistics and Modelling

+33.(0)1.43.16.95.56

tarik.rharrab@bnpparibas.com

## BANKING ECONOMICS

■ **Laurent QUIGNON**  
Head

+33.(0)1.42.98.56.54

laurent.quignon@bnpparibas.com

■ **Céline CHOLET**

+33.(0)1.43.16.95.54

celine.cholet@bnpparibas.com

■ **Thomas HUMBLLOT**

+33.(0)1.40.14.30.77

thomas.humbloit@bnpparibas.com

## EMERGING ECONOMIES AND COUNTRY RISK

■ **François FAURE**

Head - Argentina, Central European countries

+33.(0)1 42 98 79 82

francois.faure@bnpparibas.com

■ **Christine PELTIER**

Deputy Head - Greater China, Vietnam, other North Asian countries, South Africa

+33.(0)1.42.98.56.27

christine.peltier@bnpparibas.com

■ **Stéphane ALBY**

Africa (French-speaking countries)

+33.(0)1.42.98.02.04

stephane.alby@bnpparibas.com

■ **Sylvain BELLEFONTAINE**

Turkey, Central European countries

+33.(0)1.42.98.26.77

sylvain.bellefontaine@bnpparibas.com

■ **Sara CONFALONIERI**

Africa (Portuguese & English-speaking countries)

+33.(0)1.42.98.43.86

sara.confalonieri@bnpparibas.com

■ **Pascal DEVAUX**

Middle East, Balkan countries

+33.(0)1.43.16.95.51

pascal.devaux@bnpparibas.com

■ **Hélène DROUOT**

Korea, Thailand, Philippines, Mexico, Andean countries

+33.(0)1.42.98.33.00

helene.drouot@bnpparibas.com

■ **Salim HAMMAD**

Latin America

+33.(0)1.42.98.74.26

salim.hammad@bnpparibas.com

■ **Johanna MELKA**

India, South Asia, Russia, Kazakhstan, CIS

+33.(0)1.58.16.05.84

johanna.melka@bnpparibas.com

■ **Michel BERNARDINI**  
Contact Média

+33.(0)1.42.98.05.71

michel.bernardini@bnpparibas.com



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