

ECOWEEK

No. 19-12, 22 March 2019

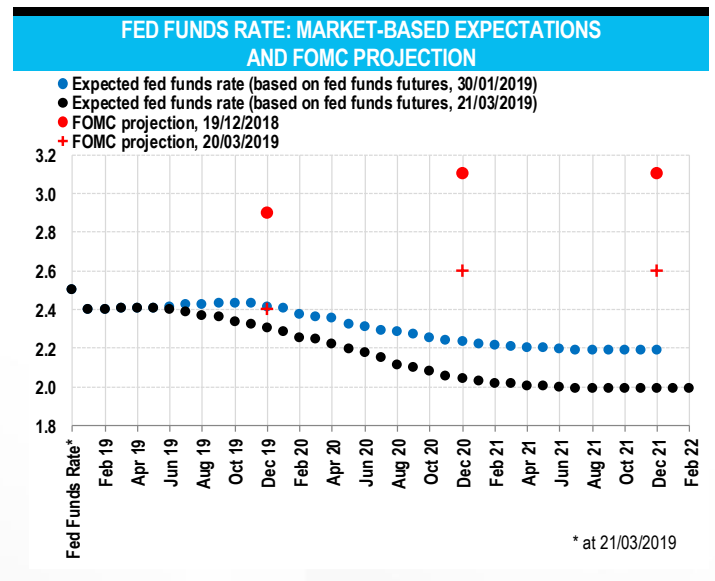
US: Discomforting dots

■ The growth projections of the FOMC members have been revised downwards and the unemployment projection has seen an upward revision ■ The projections for the federal funds rate (the “dots”) have dropped 50 basis points ■ The Fed chairman considers the outlook to remain favourable, adding that it is a great time to be patient ■ Markets are less upbeat. They interpret patience as an underlying concern about downside risks and price a rate cut in the course of next year. We expect the policy rate to stay at its current level, this year and next.

The new projections of the members of the Federal Open Market Committee are sobering. The median growth projection for this year has been revised from 2.3% to 2.1% and it has been trimmed for next year as well (from 2.0% to 1.9%). The change in the range of individual projections for 2019 is more significant (from 2.0-2.7% to 1.6-2.4%). The unemployment rate at the end of this year is now expected at 3.7% (from 3.5%). The projection for core inflation remained unchanged. Perhaps the most eye-catching is the 50 basis points downward adjustment of the projection for the federal funds rate, which is now expected to be at 2.4% by the end of this year and 2.6% thereafter, implying one rate hike in 2020.

Perhaps as a counterweight to these downward adjustments, during his press conference, Jerome Powell insisted repeatedly on the favourable outlook and the good fundamentals (employment growth, low level of unemployment, attractive levels of consumer and business confidence), whilst adding that the data did not send a signal to change rates in one or another direction.

According to the Fed Chairman “it’s a great time to be patient” when the outlook is favourable, inflation is under control and the policy rate is at a neutral level. Yet, it looks as if the repeated insistence on the need for being patient before contemplating the next move is interpreted by markets as reflecting an underlying concern about downside risks to the outlook. Projections pointing towards slowing growth and a moderate increase in the unemployment rate may contribute to this reading. As a consequence, as shown in the chart, the federal funds rate (inferred from the futures curve) is expected to decline in the course of 2020. The curve was already downward sloping at the end of January but since then it has dropped an additional 20 basis points for the second half of next year and beyond. Clearly, an upward shift remains a distinct possibility. It all depends on the data. However, given the guidance provided by the FOMC projections and the Fed Chairman, it looks as though the bar for ending up with a positively sloped federal funds rate curve –which would imply that the market expects rate several hikes again–, is high. In our view, the policy rate will remain at its current level this year and next.



Source: Thomson Reuters, BNP Paribas

William De Vijlder

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Eco
WEEK

ECONOMIC RESEARCH DEPARTMENT



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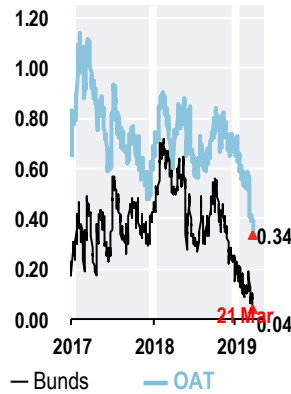
Markets overview

The essentials

Week 15-3 19 > 21-3-19

| | | | |
|--------------------|-------|---------|---------|
| ↘ CAC 40 | 5 405 | ▶ 5 379 | -0.5 % |
| ↗ S&P 500 | 2 822 | ▶ 2 855 | +1.1 % |
| ↗ Volatility (VIX) | 12.9 | ▶ 13.6 | +0.8 pb |
| ↗ Euribor 3M (%) | -0.31 | ▶ -0.31 | +0.0 bp |
| ↘ Libor \$ 3M (%) | 2.63 | ▶ 2.61 | -1.8 bp |
| ↘ OAT 10y (%) | 0.40 | ▶ 0.34 | -6.3 bp |
| ↘ Bund 10y (%) | 0.09 | ▶ 0.04 | -4.7 bp |
| ↘ US Tr. 10y (%) | 2.59 | ▶ 2.54 | -5.4 bp |
| ↗ Euro vs dollar | 1.13 | ▶ 1.14 | +0.3 % |
| ↗ Gold (ounce, \$) | 1 302 | ▶ 1 310 | +0.6 % |
| ↗ Oil (Brent, \$) | 66.9 | ▶ 68.2 | +1.9 % |

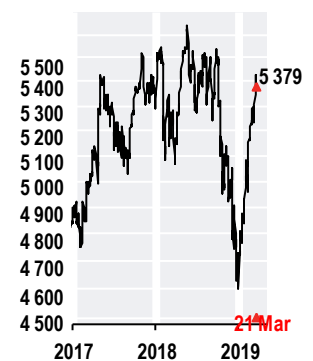
10 y bond yield, OAT vs Bund



Euro-dollar



CAC 40



Money & Bond Markets

| Interest Rates | highest' 19 | lowest' 19 |
|----------------|----------------|----------------|
| € ECB | 0.00 at 01/01 | 0.00 at 01/01 |
| Eonia | -0.37 at 01/01 | -0.37 at 26/02 |
| Euribor 3M | -0.31 at 24/01 | -0.31 at 02/01 |
| Euribor 12M | -0.11 at 06/02 | -0.12 at 02/01 |
| \$ FED | 2.50 at 01/01 | 2.50 at 01/01 |
| Libor 3M | 2.61 at 01/01 | 2.59 at 12/03 |
| Libor 12M | 2.81 at 21/01 | 2.81 at 19/03 |
| £ BoE | 0.75 at 01/01 | 0.75 at 01/01 |
| Libor 3M | 0.84 at 29/01 | 0.84 at 20/03 |
| Libor 12M | 1.11 at 11/01 | 1.11 at 11/03 |

At 21-3-19

| Yield (%) | highest' 19 | lowest' 19 |
|--------------|----------------|----------------|
| € AVG 5-7y | 0.45 at 09/01 | 0.45 at 26/02 |
| Bund 2y | -0.57 at 05/03 | -0.62 at 03/01 |
| Bund 10y | 0.04 at 01/01 | 0.04 at 21/03 |
| OAT 10y | 0.34 at 08/01 | 0.34 at 21/03 |
| Corp. BBB | 1.52 at 08/01 | 1.52 at 21/03 |
| \$ Treas. 2y | 2.40 at 18/01 | 2.39 at 03/01 |
| Treas. 10y | 2.54 at 18/01 | 2.54 at 20/03 |
| Corp. BBB | 4.14 at 01/01 | 4.14 at 21/03 |
| £ Treas. 2y | 0.69 at 27/02 | 0.68 at 03/01 |
| Treas. 10y | 1.06 at 18/01 | 1.06 at 21/03 |

At 21-3-19

10y bond yield & spreads

| | | |
|-------|------------|--------|
| 3.96% | Greece | 392 pb |
| 2.46% | Italy | 242 pb |
| 1.29% | Portugal | 125 pb |
| 1.11% | Spain | 107 pb |
| 0.48% | Belgium | 44 pb |
| 0.34% | France | 29 pb |
| 0.34% | Austria | 29 pb |
| 0.27% | Finland | 22 pb |
| 0.24% | Ireland | 19 pb |
| 0.13% | Netherland | 9 pb |
| 0.04% | Germany | |

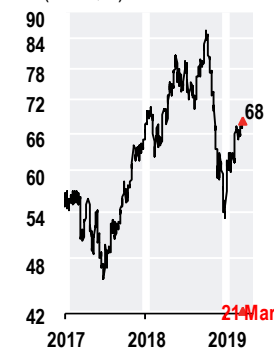
Commodities

| Spot price in dollars | lowest' 19 | 2019(€) |
|-----------------------|----------------|---------|
| Oil, Brent | 53.1 at 01/01 | +29.1% |
| Gold (ounce) | 1 281 at 21/01 | +2.8% |
| Metals, LMEX | 2 730 at 03/01 | +9.8% |
| Copper (ton) | 5 714 at 03/01 | +8.8% |
| CRB Foods | 324 at 07/03 | +5.7% |
| w wheat (ton) | 168 at 11/03 | -7.3% |
| Corn (ton) | 131 at 11/03 | +1.5% |

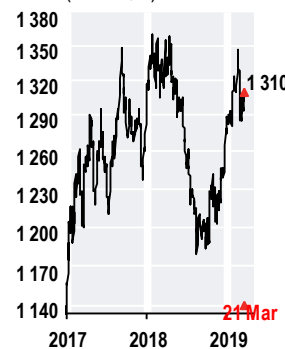
At 21-3-19

Variations

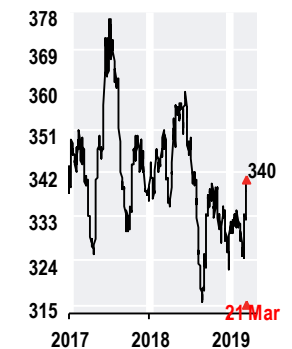
Oil (Brent, \$)



Gold (Ounce, \$)



CRB Foods



Exchange Rates

| € = | highest' 19 | lowest' 19 | 2019 |
|-----|-----------------|-----------------|-------|
| USD | 1.15 at 10/01 | 1.12 at 11/03 | -0.6% |
| GBP | 0.90 at 03/01 | 0.85 at 14/03 | -3.2% |
| CHF | 1.14 at 05/02 | 1.12 at 02/01 | +0.0% |
| JPY | 127.43 at 01/03 | 122.54 at 03/01 | +0.4% |
| AUD | 1.63 at 03/01 | 1.57 at 31/01 | -1.6% |
| CNY | 7.87 at 09/01 | 7.53 at 07/03 | -3.2% |
| BRL | 4.43 at 01/01 | 4.18 at 31/01 | -2.1% |
| RUB | 79.30 at 01/01 | 72.45 at 21/03 | -8.6% |
| INR | 82.00 at 04/02 | 77.74 at 18/03 | -2.0% |

At 21-3-19

Variations

Equity indices

| Index | highest' 19 | lowest' 19 | 2019 | 2019(€) |
|---------|-----------------|-----------------|--------|---------|
| CAC 40 | 5 426 at 19/03 | 4 611 at 03/01 | +13.7% | +13.7% |
| S&P500 | 2 855 at 21/03 | 2 448 at 03/01 | +13.9% | +14.6% |
| DAX | 11 788 at 19/03 | 10 417 at 03/01 | +9.4% | +9.4% |
| Nikkei | 21 822 at 04/03 | 19 562 at 04/01 | +8.0% | +7.5% |
| China* | 84 at 19/03 | 68 at 03/01 | +17.9% | +18.5% |
| India* | 594 at 20/03 | 530 at 19/02 | +5.0% | +7.2% |
| Brazil* | 2 149 at 04/02 | 1 944 at 01/01 | +8.9% | +11.2% |
| Russia* | 661 at 21/03 | 572 at 01/01 | +7.4% | +16.2% |

At 21-3-19

Variations

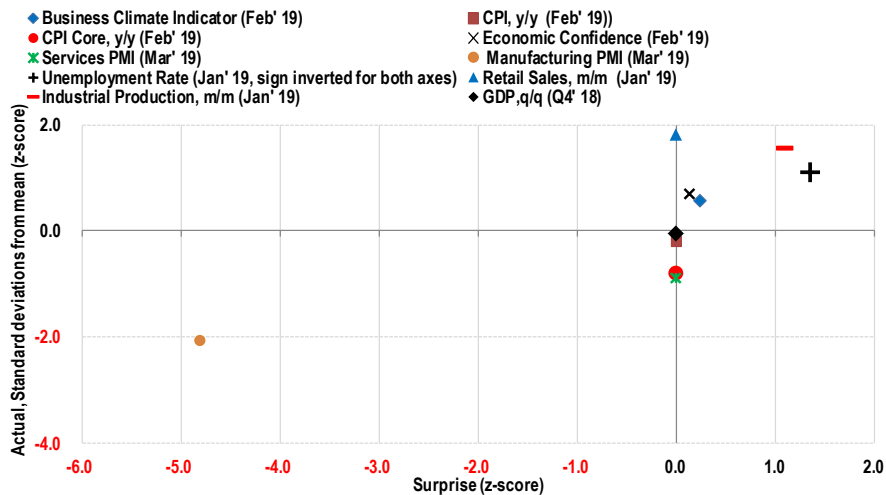
* MSCI index



Pulse

Eurozone: Further deterioration in manufacturing sector

The latest economic data are globally in line with, or even above, expectations. Some indicators remain at a high level compared to their long-term average. The further and significant deterioration in manufacturing activity draws our attention. In March 2019, the PMI manufacturing in the eurozone reached a lowest point since 2013, at 47.6, displaying a declining trend since the peak at the end of 2017 (60.6). A more pronounced decrease can be observed in Germany, where the PMI manufacturing reached only 44.7 in March, in line with the slowdown in global trade which weighs on exports orders. Although slightly below its long-term average, the PMI services in the eurozone remains resilient.



Source: Bloomberg, Markit, BNP Paribas

Indicators preview

Next week a lot of survey data will be published for the month of March. In Germany: IFO business climate, GfK consumer confidence. In France: business confidence and consumer confidence. In the US: the Conference Board consumer confidence and the University of Michigan sentiment index. In the UK: consumer confidence. For the eurozone the European Commission's economic confidence index and its components will be released. In addition we will have GDP growth for the 4th quarter of 2018 in France, the US and the UK. Home sales and building permits in the US are noteworthy as well in order to check whether the recent stabilisation of the housing market data is confirmed. Finally, we also have inflation in Germany and France.

| Date | Country/Region | Event | Period | Surv(M) | Prior |
|-------------------|----------------|----------------------------------|--------|---------|-------|
| 03/25/19 | Germany | IFO Business Climate | Mar | -- | 98.5 |
| 03/26/19 | Germany | GfK Consumer Confidence | Apr | -- | 10.8 |
| 03/26/19 | France | Business Confidence | Mar | -- | 103 |
| 03/26/19 | France | GDP QoQ | 4Q | -- | 0.3% |
| 03/26/19 | United States | Housing Starts MoM | Feb | 0.2% | 18.6% |
| 03/26/19 | United States | Building Permits MoM | Feb | 0.2% | 1.4% |
| 03/26/19 | United States | Conf. Board Consumer Confidence | Mar | 131.9 | 131.4 |
| 03/27/19 | France | Consumer Confidence | Mar | -- | 95 |
| 03/27/19-04/03/19 | Germany | Retail Sales MoM | Feb | -- | 3.3% |
| 03/28/19 | Eurozone | Economic Confidence | Mar | -- | 106.1 |
| 03/28/19 | United States | GDP Annualized QoQ | 4Q | 2.3% | 2.6% |
| 03/28/19 | Germany | CPI EU Harmonized MoM | Mar | -- | 0.5% |
| 03/29/19 | United Kingdom | GfK Consumer Confidence | Mar | -- | -13 |
| 03/29/19 | France | CPI EU Harmonized MoM | Mar | -- | 0.1% |
| 03/29/19 | United Kingdom | GDP QoQ | 4Q | -- | 0.2% |
| 03/29/19 | United States | New Home Sales MoM | Feb | 2.3% | -6.9% |
| 03/29/19 | United States | University of Michigan Sentiment | Mar | 97.5 | 97.8 |

Source: Bloomberg, BNP Paribas



Economic scenario

UNITED STATES

- Growth is expected to slow to 2.3% this year. Trade war uncertainty acts as a drag, the housing market is softening, corporate investment should slow, as well as exports in reaction to the past strengthening of the dollar against a broad range of currencies.
- Core inflation remains well under control and has eased a bit.
- Following the dovish message from the January FOMC meeting, markets are pricing in a policy easing in the course of 2020.

CHINA

- Economic growth continues to slow, with an export outlook severely darkened by US tariff hikes.
- The central bank is easing liquidity and credit conditions, though the reduction in financial-instability risks via regulatory tightening should remain a priority. Fiscal policy has also turned expansionary through increased infrastructure spending and a rising number of household/corporate tax cuts.
- In the short term, private domestic demand should be affected by the knock-on effect of weakening exports and the continued moderation in the property market. Fiscal measures should support consumer spending.

EUROZONE

- The slowdown is becoming increasingly evident, especially in the German economy, which has suffered from one-off factors but also from a slowdown of exports to China. Capacity constraints also play a role. Business climate in the manufacturing sector continues to decline. Italy has now entered a technical recession with quarterly growth negative in the third and fourth quarter of 2018.
- Inflation is now expected to decrease following the past drop in the oil price, while core CPI is hardly moving. The activity slowdown also implies that the pick-up in core inflation should be slower than expected until recently. We do not expect the ECB to move rates this year (see below).

FRANCE

- Growth is slowing although the economy should show some resilience. Households' consumption should get a boost from the 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, the Fed has announced to be patient before deciding on any change in its policy. We expect key rates to stay on hold. We have changed the forecast for 10 year treasury yields and now expect a yield of 2.80% by mid-year and 2.70% at the end of the year.
- As the ECB confirmed that key rates won't change this year, the forecast for 10 year Bund yields and now expect a yield of 0.30% by mid-year and 0.40% at the end of the year.
- No change expected in Japan.
- The prospect of a 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).

| % | GDP Growth | | | Inflation | | |
|------------------|------------|------------|------------|------------|------------|------------|
| | 2018 | 2019 | 2020 e | 2018 | 2019 e | 2020 e |
| Advanced | 2.2 | 1.5 | 1.3 | 2.0 | 1.4 | 1.6 |
| United-States | 2.9 | 2.3 | 1.8 | 2.4 | 1.7 | 2.0 |
| Japan | 0.8 | 0.2 | 0.3 | 1.0 | 0.5 | 0.5 |
| United-Kingdom | 1.4 | 1.1 | 1.5 | 2.5 | 2.0 | 1.9 |
| Euro Area | 1.8 | 0.9 | 1.0 | 1.8 | 1.2 | 1.4 |
| Germany | 1.4 | 0.7 | 0.9 | 1.9 | 1.4 | 1.7 |
| France | 1.5 | 1.2 | 1.2 | 2.1 | 1.2 | 1.7 |
| Italy | 0.8 | 0.0 | 0.5 | 1.3 | 0.9 | 1.2 |
| Spain | 2.5 | 2.1 | 1.7 | 1.7 | 1.0 | 1.4 |
| Emerging | 5.9 | 5.8 | 5.8 | 2.6 | 2.5 | 2.8 |
| China | 6.6 | 6.2 | 6.0 | 2.1 | 1.6 | 2.0 |
| India | 7.4 | 7.6 | 7.8 | 3.4 | 3.3 | 4.1 |
| Brazil | 1.1 | 2.0 | 3.0 | 3.7 | 3.8 | 3.6 |
| Russia | 1.7 | 1.5 | 1.8 | 2.8 | 5.1 | 4.1 |

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

| Interest rates, % | | 2019 | | | | 2018 | 2019e | 2020e |
|-------------------|-------------|-------|-------|-------|-------|-------|-------|-------|
| End of period | | Q1e | Q2e | Q3e | Q4e | | | |
| US | Fed Funds | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 |
| | Libor 3m \$ | 2.60 | 2.60 | 2.60 | 2.60 | 2.81 | 2.60 | 2.50 |
| | T-Notes 10y | 2.80 | 2.80 | 2.75 | 2.70 | 2.69 | 2.70 | 2.50 |
| Ezone | ECB Refi | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| | Euribor 3m | -0.30 | -0.30 | -0.30 | -0.30 | -0.31 | -0.30 | -0.30 |
| | Bund 10y | 0.20 | 0.30 | 0.30 | 0.30 | 0.25 | 0.30 | 0.40 |
| | OAT 10y | 0.65 | 0.65 | 0.65 | 0.60 | 0.71 | 0.60 | 0.70 |
| UK | Base rate | 0.75 | 1.00 | 1.00 | 1.25 | 0.75 | 1.25 | 1.25 |
| | Gilts 10y | 1.70 | 1.85 | 2.00 | 2.10 | 1.27 | 2.10 | 2.10 |
| Japan | BoJ Rate | -0.10 | -0.10 | -0.10 | -0.10 | -0.07 | -0.10 | -0.20 |
| | JGB 10y | 0.00 | -0.03 | -0.05 | -0.05 | 0.00 | -0.05 | -0.20 |

Source : BNP Paribas GlobalMarkets (e: Forecasts)

| Exchange Rates | | 2019 | | | | 2018 | 2019e | 2020e |
|----------------|-----------|------|------|------|------|------|-------|-------|
| End of period | | Q1e | Q2e | Q3e | Q4e | | | |
| USD | EUR / USD | 1.15 | 1.17 | 1.18 | 1.20 | 1.14 | 1.20 | 1.25 |
| | USD / JPY | 110 | 108 | 105 | 100 | 110 | 100 | 90 |
| | GBP / USD | 1.35 | 1.38 | 1.40 | 1.45 | 1.27 | 1.45 | 1.51 |
| | USD / CHF | 0.99 | 0.97 | 0.97 | 0.97 | 0.99 | 0.97 | 0.93 |
| EUR | EUR / GBP | 0.85 | 0.85 | 0.84 | 0.83 | 0.90 | 0.83 | 0.83 |
| | EUR / CHF | 1.14 | 1.14 | 1.15 | 1.16 | 1.13 | 1.16 | 1.16 |
| | EUR / JPY | 127 | 126 | 124 | 120 | 125 | 120 | 113 |

Source : BNP Paribas GlobalMarkets (e: Forecasts)

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