ECOWEEK

No. 19-21, 24 May 2019

Eurozone: Mixed signals

■Survey data released this week provide mixed signals with an improvement of consumer confidence, a weakening of the ifo business climate index in Germany and a stabilisation of the INSEE indicator in France ■The IHS Markit PMIs show a stabilisation in recent months in manufacturing, at a subdued to low level, and in services, at a more satisfactory level ■Several drivers of domestic demand remain supportive ■Nevertheless, unease remains, mainly for reasons on which the eurozone has no control and where the risk of further tariff increases is top of the list.

When the signals are mixed, making up one's mind is anything but easy. This is true in life, but also in gauging the economic environment and outlook. This point is well illustrated by survey indicators for May released this week.

The flash estimate of the European Commission's consumer confidence indicator showed an increase and confirmed the positive trend since the start of the year. The IHS Markit flash Purchasing Managers Index (PMI) for Germany again showed the divergence between the service sector, which continues to grow at a relatively robust pace, and manufacturing where output fell again. The Ifo business climate index weakened further, driven by a deterioration in the assessment of the current situation, the outlook remaining unchanged. In manufacturing, the outlook even improved for the first time since September last year. The business climate in services dropped considerably, in particular on the back of a worsening of the current environment and a bleaker outlook. Construction continues to boom.

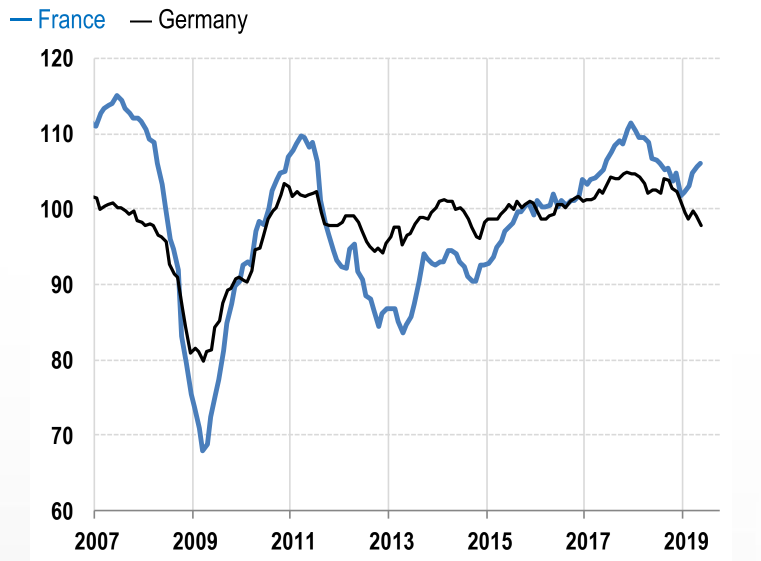
In France, the IHS Markit flash PMI paints a more upbeat picture than in Germany: "*Modest growth was driven by the service sector, which posted its quickest expansion since last November. Meanwhile, manufacturers saw another fall in production, although the rate of decline eased and was only fractional overall.*"[1] According to INSEE, the business climate was stable in May (it had troughed at the end of last year) on the back of a significant improvement in manufacturing and a weakening in retail trade and, to a lesser extent, in services. The employment climate weakened as well, although it remains at a high level.

For the eurozone as a whole, the composite flash PMI was virtually unchanged from April. Manufacturing output was down again whereas services continue to grow, albeit at a slower pace.

.../...

[1] Source : IHS Markit Flash France PMI press release, 23 May 2019

BUSINESS CLIMATE IN FRANCE AND GERMANY



Source: INSEE, IFO, BNP Paribas

ECONOMIC RESEARCH DEPARTMENT

When the eyes are too close to the screen, one runs the risk of only seeing pixels, so taking some distance may be necessary to see the picture. The PMI heatmap shows that manufacturing is in contraction territory in the past four months in the eurozone and, in Germany, in the past five months. The levels are well below 50, in particular in Germany. Recently there has been a stabilisation however. Over the same period, some improvement can be noted in France, where the index has crossed the 50 marker. There is some improvement of new export orders as of late, but the level is still below 50. Germany is far below this borderline between growth and contraction.

Finally, services have essentially been stable (and above 50) for several months in the eurozone, France has left behind its soft patch of the turn of the year and Germany, confronted with a weak fourth quarter, has rebounded in the first quarter. The index is again well above 50 and is doing even slightly better than one year ago. Add to this the usual list of supportive fundamentals (employment levels, job creation, growth of negotiated wages –which at 2.24% is at a level not seen since the end of 2012–, low interest rates and easy access to finance), and one would look at the future with some degree of comfort.

Whether this will materialise in the growth numbers depends very much on the external environment. The WTO's world trade outlook indicator which was released this week suggests that weakness will extend into the second quarter. In addition, a lot will depend on how the trade negotiations between the US and China will develop – a solution looks more distant than ever –, what happens to Brexit and what the US will eventually decide on how it deals with automobile imports, a topic which is key for Germany and Europe. In a nutshell, the soft and hard data provide reasons for comfort but unease remains, mainly for reasons on which the eurozone has no control.

William De Vijlder

HEATMAP OF EUROZONE

	Manufacturing								Services						New export orders					
	EURO ZONE	AUSTRIA	FRANCE	GERMANY	IRELAND	ITALY	NETHERLANDS	SPAIN	EURO ZONE	FRANCE	GERMANY	IRELAND	ITALY	SPAIN	EURO ZONE	FRANCE	GERMANY	IRELAND	ITALY	SPAIN
Jun-18	54.9	56.6	52.5	55.9	56.6	53.3	60.1	53.4	55.2	55.9	54.5	59.5	54.3	55.4	52.6	51.2	52.2	55.4	52.3	52.7
Jul-18	55.1	56.8	53.3	56.9	56.3	51.5	58.0	52.9	54.2	54.9	54.1	57.4	54.0	52.6	52.0	48.4	52.9	53.5	50.6	54.0
Aug-18	54.6	56.4	53.5	55.9	57.5	50.1	59.1	53.0	54.4	55.4	55.0	58.0	52.6	52.7	52.0	50.6	51.8	56.5	50.2	52.4
Sep-18	53.2	55.0	52.5	53.7	56.3	50.0	59.8	51.4	54.7	54.8	55.9	58.7	53.3	52.5	50.2	49.1	48.1	56.4	50.9	51.9
Oct-18	52.0	53.8	51.2	52.2	54.9	49.2	57.1	51.8	53.7	55.3	54.7	57.2	49.2	54.0	49.1	48.8	47.6	53.9	47.8	52.6
Nov-18	51.8	54.9	50.8	51.8	55.4	48.6	56.1	52.6	53.4	55.1	53.3	57.1	50.3	54.0	49.4	49.2	47.4	54.4	49.4	52.4
Dec-18	51.4	53.9	49.7	51.5	54.5	49.2	57.2	51.1	51.2	49.0	51.8	56.3	50.5	54.0	48.5	47.0	46.8	52.7	47.8	53.2
Jan-19	50.5	52.7	51.2	49.7	52.6	47.8	55.1	52.4	51.2	47.8	53.0	54.2	49.7	54.7	48.5	49.5	46.5	51.2	49.0	52.8
Feb-19	49.3	51.8	51.5	47.6	54.0	47.7	52.7	49.9	52.8	50.2	55.3	55.9	50.4	54.5	46.4	49.3	42.2	52.4	50.3	48.3
Mar-19	47.5	50.0	49.7	44.1	53.9	47.4	52.5	50.9	53.3	49.1	55.4	55.3	53.1	56.8	44.8	47.2	38.9	53.4	47.9	51.9
Apr-19	47.9	49.2	50.0	44.4	52.5	49.1	52.0	51.8	52.8	50.5	55.7	54.7	50.4	53.1	45.9	48.2	39.3	53.0	52.0	52.4
May-19	47.7		50.6	44.3					52.5	51.7	55.0				46.8	49.6	42.6			

46 48 50 52 54

Chart 2

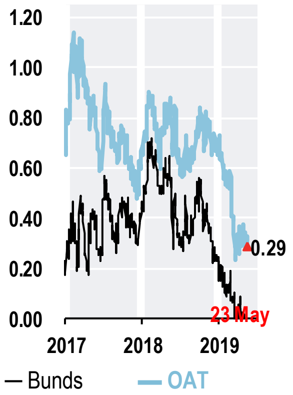
Source: Markit, BNP Paribas

Markets overview

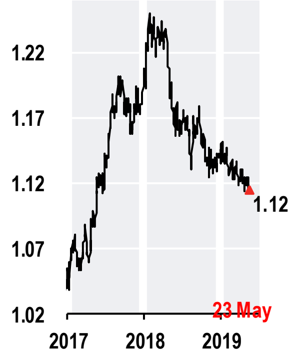
The essentials

Week 17-5 19 > 23-5-19				
↘ **CAC 40**	5 438	▸ **5 281**	**-2.9**	%
↘ **S&P 500**	2 860	▸ **2 822**	**-1.3**	%
↗ Volatility (VIX)	16.0	▸ 16.9	+1.0	pb
↗ **Euribor 3M (%)**	-0.31	▸ **-0.31**	**+0.3**	bp
↗ Libor $ 3M (%)	2.52	▸ 2.52	+0.3	bp
↗ OAT 10y (%)	0.28	▸ 0.29	+0.5	bp
↘ Bund 10y (%)	-0.10	▸ -0.12	-1.6	bp
↘ US Tr. 10y (%)	2.39	▸ 2.30	-9.7	bp
↘ **Euro vs dollar**	1.12	▸ **1.12**	**-0.1**	%
↗ Gold (ounce, $)	1 277	▸ 1 287	+0.8	%
↘ **Oil (Brent, $)**	72.6	▸ **67.7**	**-6.8**	%

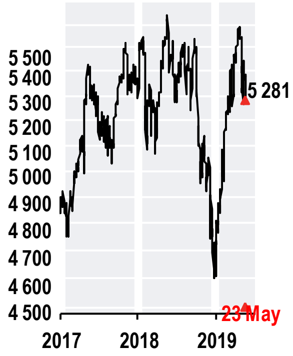
10 y bond yield, OAT vs Bund



Euro-dollar



CAC 40



Money & Bond Markets

Interest Rates		highest' 19		lowest' 19	
€ ECB	**0.00**	0.00	at 01/01	0.00	at 01/01
Eonia	**-0.37**	-0.36	at 01/01	-0.37	at 26/02
Euribor 3M	**-0.31**	-0.31	at 24/01	-0.31	at 20/05
Euribor 12M	**-0.15**	-0.11	at 06/02	-0.15	at 23/05
$ FED	**2.50**	2.50	at 01/01	2.50	at 01/01
Libor 3M	**2.52**	2.81	at 01/01	2.52	at 13/05
Libor 12M	**2.67**	3.04	at 21/01	2.61	at 16/05
£ BoE	**0.75**	0.75	at 01/01	0.75	at 01/01
Libor 3M	**0.80**	0.93	at 29/01	0.80	at 22/05
Libor 12M	**1.05**	1.19	at 11/01	1.04	at 17/05

At 23-5-19

Yield (%)		highest' 19		lowest' 19	
€ AVG 5-7y	**0.33**	0.68	at 09/01	0.32	at 17/05
Bund 2y	**-0.64**	-0.53	at 05/03	-0.65	at 15/05
Bund 10y	**-0.12**	0.25	at 01/01	-0.12	at 23/05
OAT 10y	**0.29**	0.73	at 08/01	0.24	at 27/03
Corp. BBB	**1.39**	2.15	at 08/01	1.26	at 07/05
$ Treas. 2y	**2.16**	2.62	at 18/01	2.16	at 23/05
Treas. 10y	**2.30**	2.78	at 18/01	2.30	at 23/05
Corp. BBB	**3.91**	4.65	at 01/01	3.91	at 23/05
£ Treas. 2y	**0.64**	0.83	at 27/02	0.63	at 02/04
Treas. 10y	**0.96**	1.35	at 18/01	0.96	at 23/05

At 23-5-19

10y bond yield & spreads

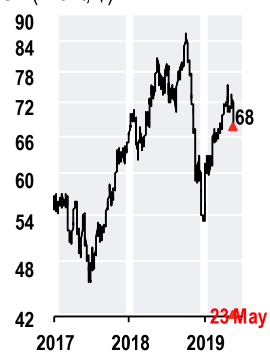
4.01%	Greece	412 pb
2.49%	Italy	261 pb
1.02%	Portugal	113 pb
0.86%	Spain	97 pb
0.38%	Belgium	49 pb
0.29%	France	40 pb
0.20%	Austria	31 pb
0.12%	Finland	23 pb
0.11%	Ireland	22 pb
0.09%	Netherland	20 pb
-0.12%	Germany	

Commodities

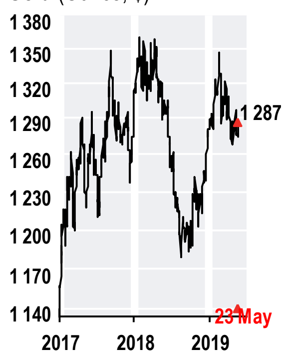
Spot price in dollars		lowest' 19		2019(€)
Oil, Brent	**67.7**	53.1	at 01/01	**+30.7%**
Gold (ounce)	**1 287**	1 268	at 02/05	**+3.0%**
Metals, LMEX	**2 786**	2 730	at 03/01	**+2.0%**
Copper (ton)	**5 901**	5 714	at 03/01	**+1.7%**
CRB Foods	**346**	324	at 07/03	**+9.3%**
wheat (ton)	**188**	167	at 10/05	**-2.3%**
Corn (ton)	**144**	128	at 24/04	**+8.7%**

At 23-5-19 *Variations*

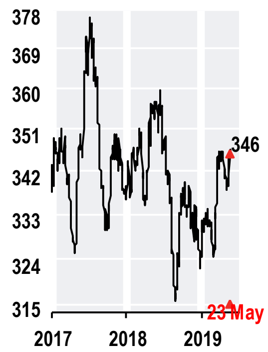
Oil (Brent, $)



Gold (Ounce, $)



CRB Foods



Exchange Rates

1€ =		highest' 19		lowest' 19		2019
USD	**1.12**	1.15	at 10/01	1.11	at 25/04	**-2.5%**
GBP	**0.88**	0.90	at 03/01	0.85	at 14/03	-1.9%
CHF	**1.12**	1.14	at 23/04	1.12	at 02/04	-0.4%
JPY	**122.35**	127.43	at 01/03	122.35	at 23/05	-2.4%
AUD	**1.62**	1.63	at 03/01	1.57	at 18/04	-0.3%
CNY	**7.71**	7.87	at 09/01	7.51	at 25/04	-1.7%
BRL	**4.50**	4.59	at 20/05	4.18	at 31/01	+1.6%
RUB	**72.27**	79.30	at 01/01	71.51	at 23/04	-8.9%
INR	**78.08**	82.00	at 04/02	76.84	at 03/04	-2.2%

At 23-5-19 *Variations*

Equity indices

	Index	highest' 19		lowest' 19		2019	2019(€)
CAC 40	**5 281**	5 592	at 23/04	4 611	at 03/01	+11.6%	**+11.6%**
S&P500	**2 822**	2 946	at 30/04	2 448	at 03/01	+12.6%	**+15.4%**
DAX	**11 952**	12 413	at 03/05	10 417	at 03/01	+13.2%	**+13.2%**
Nikkei	**21 151**	22 308	at 25/04	19 562	at 04/01	+5.7%	**+8.3%**
China*	**74**	86	at 09/04	68	at 03/01	+4.8%	**+7.2%**
India*	**583**	606	at 02/04	530	at 19/02	+4.8%	**+7.2%**
Brazil*	**1 961**	2 304	at 04/02	1 862	at 17/05	+5.0%	**+3.4%**
Russia*	**674**	685	at 22/05	572	at 01/01	+11.2%	**+20.9%**

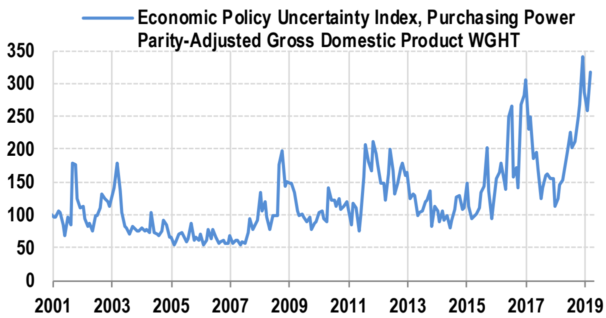
At 23-5-19 *Variations*

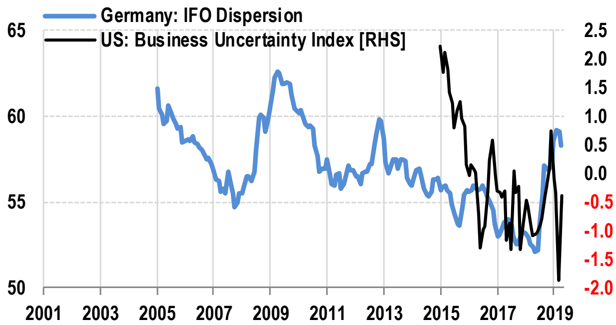
* MSCI index

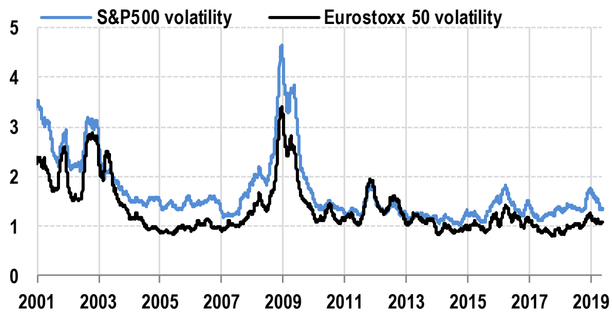
Pulse

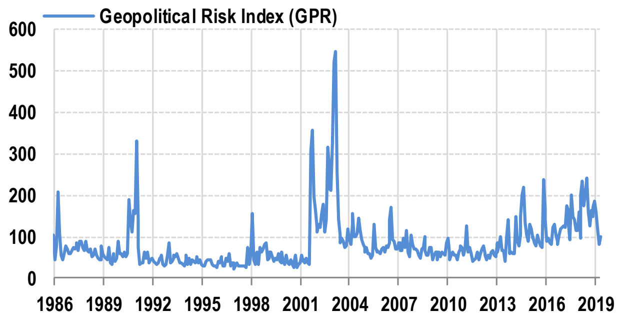
Global economy: trade tensions underpin a high level of economic policy uncertainty

Against a background of trade tensions between the US and China, economic policy uncertainty remains very high. Uncertainty of German companies, measured by the dispersion in their assessment of the business environment, is no longer increasing, yet remains at a high level. Uncertainty of US companies had dropped at the start of the year, but has now rebounded a bit. Geopolitical risk, measured using news coverage, has been on a rising trend since early 2013, although it has eased recently. Uncertainty based on the dispersion of the stock market performance of individual companies has declined since the start of the year.









volatility = 60-day moving average of the cross-sectional standard deviation of daily returns of the index constituents

Source: Economic Policy Uncertainty, Bloomberg, IFO, Atlanta Fed, BNP Paribas

Indicators preview

Next week sees the publication of consumer confidence data in several countries (Germany, France, US, UK, Japan). In France and Germany we will also have inflation numbers. The European Commission will publish its important economic sentiment index and its components. In the US we will have an updated estimate for first quarter growth.

Date	Region	Event	Period	Survey	Prior
05/27/2019	Germany	Retail Sales MoM	April	--	-0.2%
05/28/2019	Germany	GfK Consumer Confidence	June	--	10.4
05/28/2019	France	Consumer Confidence	May	--	96
05/28/2019	Eurozone	Economic Confidence	May	--	104.0
05/28/2019	Eurozone	Consumer Confidence	May	--	--
05/28/2019	United States	Conf. Board Consumer Confidence	May	130.0	129.2
05/29/2019	France	CPI EU Harmonized MoM	May	--	0.4%
05/29/2019	France	GDP QoQ	1Q	--	0.3%
05/30/2019	United States	GDP Annualized QoQ	1Q	3.1%	3.2%
05/31/2019	United Kingdom	GfK Consumer Confidence	May	--	-13
05/31/2019	Japan	Industrial Production MoM	April	--	-0.6%
05/31/2019	Japan	Retail Sales MoM	April	--	0.2%
05/31/2019	Japan	Consumer Confidence Index	May	--	40.4
05/31/2019	Germany	CPI EU Harmonized MoM	May	--	1.0%
05/31/2019	United States	Personal Income	April	0.3%	0.1%
05/31/2019	United States	Personal Spending	April	0.2%	0.9%
05/31/2019	United States	University of Michigan Sentiment	May	100.8	102.4

Source: Bloomberg, BNP Paribas

Economic scenario

UNITED STATES

- Growth picked-up by early 19 but this was partly due to one-off factors (inventory building…). The underlying trend in private domestic demand is more subdued. The housing market is softening, corporate investment should slow, as well as exports in reaction to the past strengthening of the dollar and trade tensions. Core inflation remains well under control and has eased a bit.
- Following the neutral message from the May FOMC meeting, we believe the Fed Funds target rate as well as the IOER will keep unchanged.

CHINA

- Economic growth continues to slow. Activity rebounded in March 2019 but weakened again afterwards. The recent flare-up in trade tensions with the US has again darkened export prospects.
- 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, exports and private domestic investment should continue to decelerate. Tax measures should support consumer spending.

EUROZONE

- Despite a stronger than expected growth in the 1st quarter of 2019, the economic slowdown is continuing in the eurozone, especially in Germany, due to international environment uncertainties and a slowdown of exports to China. Capacity constraints also play a role and activity in the manufacturing sector continues to decline.
- Inflation is now expected to decrease 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.
- Monetary policy remains cautious and proactive, the ECB announcing the launch of another round of longer-term refinancing operations (TLTRO) for eurozone banks.

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 this year and next. We expect 10 year treasury yields to rise moderately, reaching 2.60% by the end of this year on the back of a somewhat higher term premium.
- The combination of slower growth and subdued core inflation leads us to expect that ECB official rates will remain unchanged this year and next. 10 year Bund yields are expected to rise only marginally to 0.00% by the end of this year. We forecast a yield of 0.15% by the end of 2020.
- No change expected in Japan.
- We expect the euro to strengthen versus the dollar considering that the latter is expensive on valuation grounds.

	GDP Growth			Inflation		
%	2018	2019 e	2020 e	2018	2019 e	2020 e
Advanced	**2.2**	**1.8**	**1.3**	**2.0**	**1.6**	**1.6**
United-States	2.9	2.7	1.8	2.4	2.1	2.0
Japan	0.8	0.6	0.2	1.0	0.6	0.5
United-Kingdom	1.4	1.3	1.4	2.5	1.9	1.9
Euro Area	**1.8**	**1.1**	**1.0**	**1.8**	**1.3**	**1.3**
Germany	1.4	0.6	1.0	1.9	1.5	1.5
France	1.6	1.3	1.2	2.1	1.4	1.5
Italy	0.7	0.3	0.2	1.3	0.9	0.9
Spain	2.6	2.2	1.9	1.7	1.0	1.2
Emerging	**4.5**	**4.2**	**4.7**	**4.7**	**4.8**	**4.3**
China	6.6	6.2	6.0	2.1	2.2	2.6
India*	7.0	7.4	7.6	3.4	3.5	4.2
Brazil	1.1	0.8	2.5	3.7	3.9	3.9
Russia	2.3	1.5	1.7	2.9	5.1	4.1

Source : BNP Paribas Group Economic Research (e: Estimates & forecasts)
* Fiscal year from April 1st of year n to March 31st of year n+1

Interest rates, %		2019						
End of period		Q1	Q2e	Q3e	Q4e	2018	2019e	2020e
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	2.42	2.50	2.50	2.60	2.69	2.60	2.50
Ezone	ECB Refi	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Euribor 3m	-0.31	-0.30	-0.30	-0.30	-0.31	-0.30	-0.30
	Bund 10y	-0.07	-0.05	-0.05	0.00	0.25	0.00	0.15
	OAT 10y	0.26	0.30	0.30	0.30	0.71	0.30	0.45
UK	Base rate	0.75	1.00	1.00	1.25	0.75	1.25	1.25
	Gilts 10y	1.00	1.85	2.00	2.10	1.27	2.10	2.10
Japan	BoJ Rate	-0.06	-0.10	-0.10	-0.10	-0.07	-0.10	-0.10
	JGB 10y	-0.09	-0.03	-0.02	-0.02	0.00	-0.02	-0.05

Source : BNP Paribas GlobalMarkets (e: Forecasts)

Exchange Rates		2019						
End of period		Q1	Q2e	Q3e	Q4e	2018	2019e	2020e
USD	EUR / USD	1.12	1.13	1.16	1.20	1.14	1.20	1.25
	USD / JPY	111.0	108.0	105.0	102.0	110.0	102.0	95.0
	GBP / USD	1.30	1.27	1.32	1.38	1.27	1.38	1.49
	USD / CHF	1.00	1.01	0.99	0.97	0.99	0.97	0.94
EUR	EUR / GBP	0.85	0.89	0.88	0.87	0.90	0.87	0.84
	EUR / CHF	1.12	1.14	1.15	1.16	1.13	1.16	1.18
	EUR / JPY	124.0	122.0	122.0	122.0	125.0	122.0	119.0

Source : BNP Paribas GlobalMarkets (e: Forecasts)

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