

ECO CHARTS

February 19

Summary of macroeconomic forecasts

■ **In the US**, activity has been buoyant so far, largely thanks to tax cuts ■ For the foreseeable period, a landing is more than a possibility ■ Interest rates hikes and tariffs increases on worth \$300bn of imports will start to weigh on firms profitability, then activity ■ The downward adjustment could be sizeable in highly leveraged sectors such as energy and IT ■ As a consequence, the monetary tightening would mark a pause ■ Long term-bond yields would also stabilize, below the 3pct level.

■ **The Euro area**, growth is sharply decelerating, with some countries like Italy now in recession ■ Extra and intra EU trade is less dynamic, in line with fading external demand, in particular coming from EMEs ■ Inflation is expected to come-back below the 2pct level, as a consequence of falling oil prices ■ The ECB will stop its net asset purchases as off the 1st January of 2019, while keeping rates unchanged up to the end of year ■ This may cause a (slight) rebound in bond yields as well as in the value of euro.

%	GDP Growth			Inflation		
	2018 e	2019 e	2020 e	2018 e	2019 e	2020 e
Advanced	2.2	1.5	1.2	2.0	1.5	1.7
United-States	2.9	2.1	1.5	2.4	1.8	2.0
Japan	0.9	0.7	0.3	1.0	0.6	1.4
Euro Area	1.8	1.0	1.1	1.7	1.4	1.4
Germany	1.5	0.9	1.1	1.8	1.6	1.6
France	1.5	1.2	1.2	2.1	1.3	1.6
Italy	0.8	0.1	0.5	1.3	1.0	1.0
Spain	2.5	2.1	1.7	1.7	1.0	1.3
Emerging	5.9	5.9	5.7	2.7	2.7	3.1
China	6.6	6.2	6.0	2.1	1.9	2.5
India	7.4	7.6	7.8	3.8	4.0	4.1
Brazil	1.3	3.0	2.5	3.7	3.8	3.6
Russia	1.8	1.7	1.6	2.8	3.6	4.2

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



GROUP ECONOMIC RESEARCH



BNP PARIBAS

The bank
for a changing
world

Summary of financial forecasts

Interest rates, %		2018				2019				2018	2019e	2020e
End of period		Q1	Q2	Q3e	Q4e	Q1e	Q2e	Q3e	Q4e			
US	Fed Funds	1.75	2.00	2.25	2.50	2.50	2.75	2.75	2.75	2.50	2.75	2.75
	Libor 3m \$	2.31	2.34	2.40	2.81	2.80	3.05	3.05	3.00	2.81	3.00	3.00
	T-Notes 10y	2.75	2.86	3.06	2.69	2.80	3.00	2.80	2.80	2.69	2.80	2.50
Ezone	ECB Refi	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Euribor 3m	-0.33	-0.32	-0.32	-0.31	-0.30	-0.30	-0.30	-0.30	-0.31	-0.30	-0.25
	Bund 10y	0.50	0.31	0.47	0.25	0.20	0.30	0.35	0.40	0.25	0.40	0.40
	OAT 10y	0.60	0.62	0.75	0.71	0.65	0.65	0.65	0.70	0.71	0.70	0.70
UK	Base rate	0.50	0.50	0.75	0.75	0.75	1.00	1.00	1.25	0.75	1.25	1.25
	Gilts 10y	1.39	1.33	1.48	1.27	1.70	1.85	2.00	2.10	1.27	2.10	2.10
Japan	BoJ Rate	-0.07	-0.07	-0.06	-0.07	-0.10	-0.10	-0.10	-0.10	-0.07	-0.10	-0.10
	JGB 10y	0.04	0.03	0.13	0.00	0.00	0.00	0.00	-0.05	0.00	-0.05	-0.20

Exchange Rates		2018				2019				2018	2019e	2020e
End of period		Q1	Q2	Q3e	Q4e	Q1e	Q2e	Q3e	Q4e			
USD	EUR / USD	1.23	1.17	1.16	1.14	1.15	1.17	1.21	1.25	1.14	1.25	1.34
	USD / JPY	106.35	110.77	113.59	109.72	110.00	108.00	105.00	100.00	109.72	100.00	90.00
EUR	EUR / GBP	0.88	0.88	0.89	0.90	0.87	0.86	0.86	0.85	0.90	0.85	0.85
	EUR / CHF	1.18	1.16	1.13	1.13	1.16	1.17	1.18	1.20	1.13	1.20	1.25

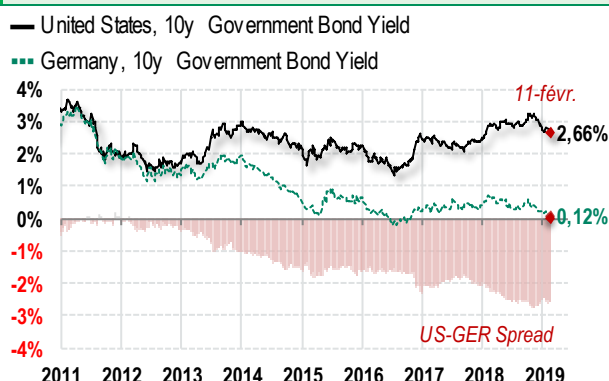
Source : BNPP GlobalMarkets (e: Estimates & forecasts)

3 Euro-dollar

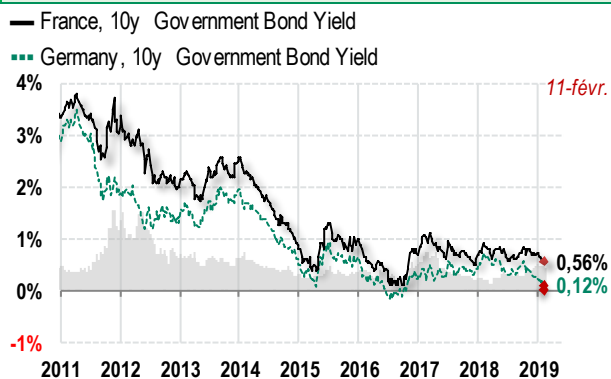
Euro vs Dollar



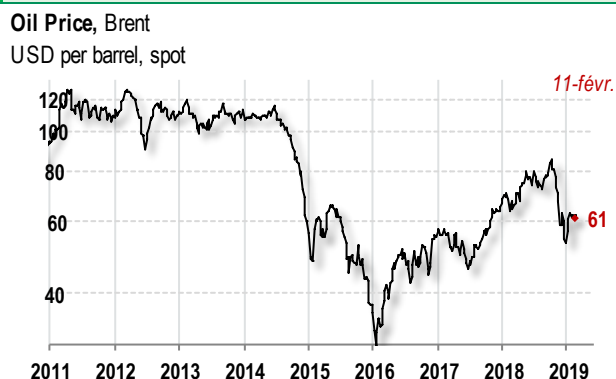
4 Interest rates



5 Interest rates

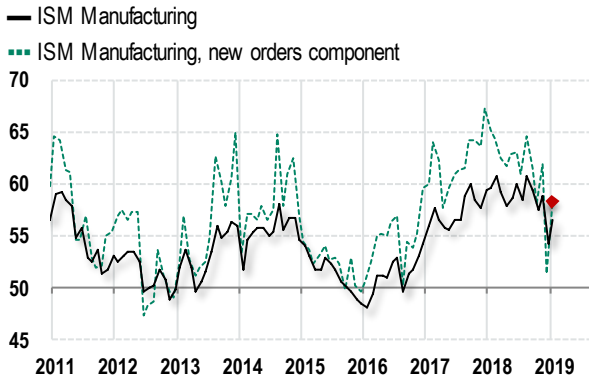


6 Oil market



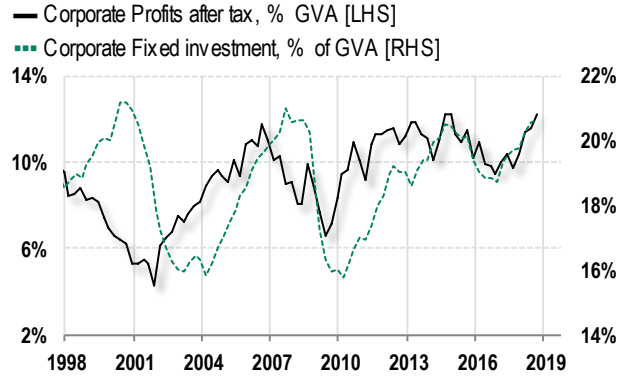
United States

7 US, business climate



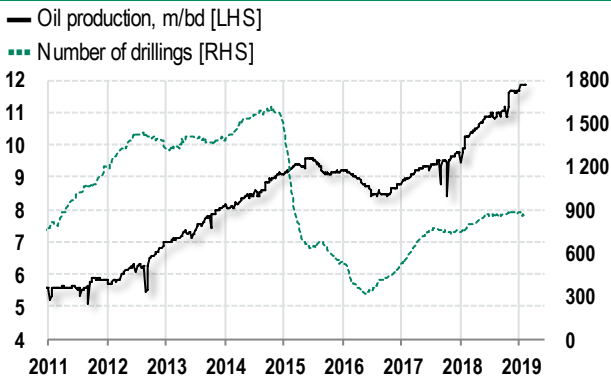
The business climate is now deteriorating.

8 US, investment cycle vs corporate profits



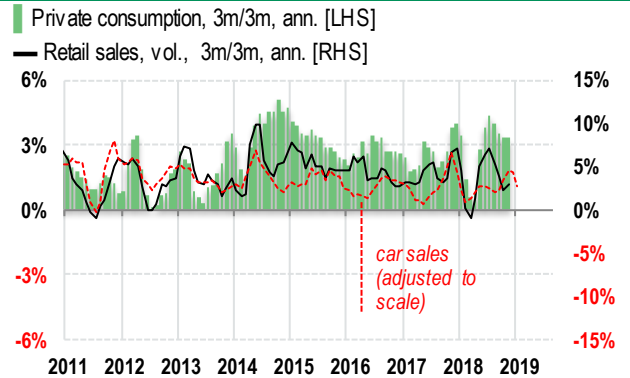
Corporate investment and profits are now relatively far along in the cycle.

9 US, domestic oil market recovers



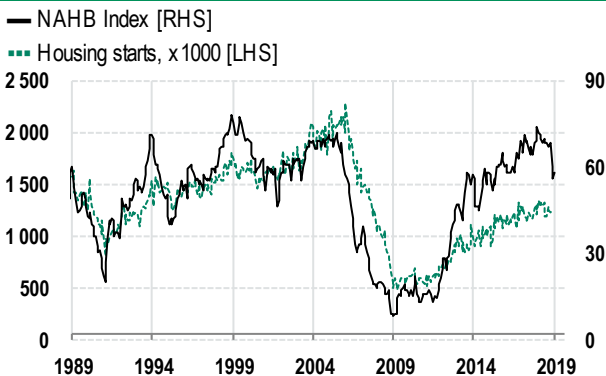
After dropping sharply, the number of drillings is on the rise again. US oil production is also recovering, matching all times high.

10 US, consumption



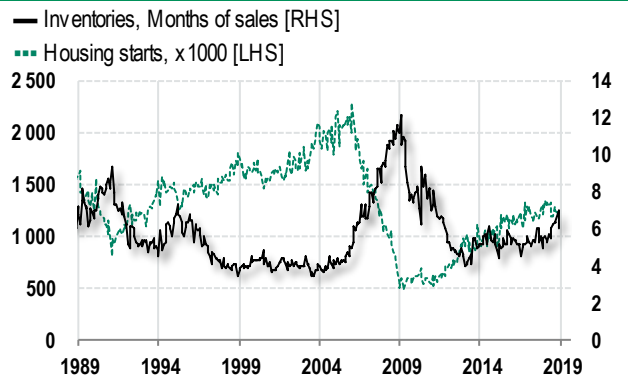
Very strong in Q3, correcting in Q4.

11 US, housing market on a good shape



The NAHB index is down from peak

12 US, housing market on a good shape

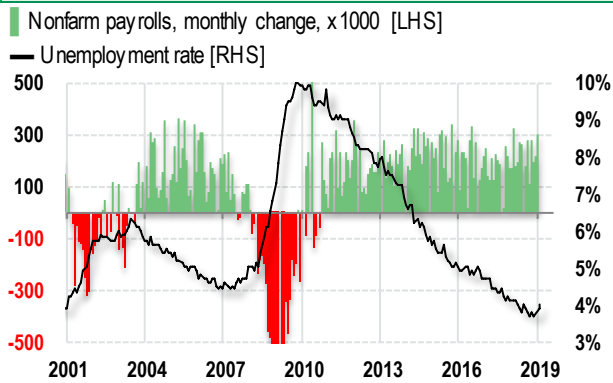


First signs of peaking. Inventories are up in month of sales.



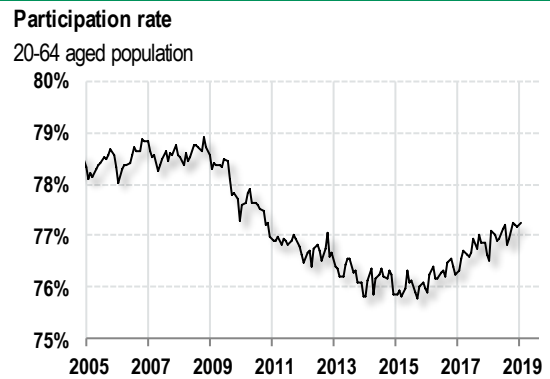
United States

13 US, non-farm payrolls vs unemployment rate



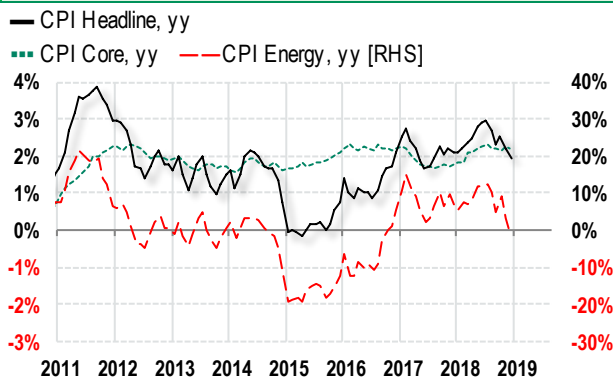
The US unemployment rate is below 4%, the lowest since 18 year.

14 US, labour force participation rate



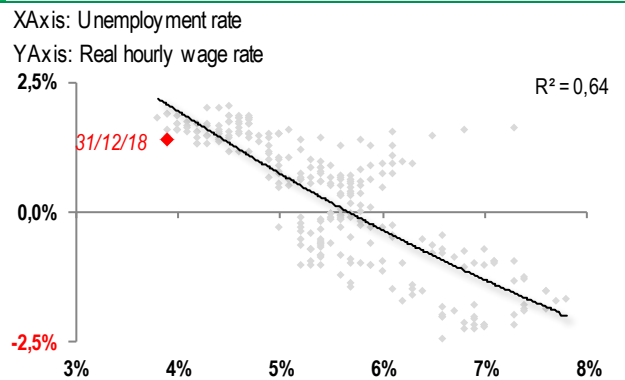
The participation rate among the working age population (20-64 year) has reverted upward, a further indication that the labour market is in better shape.

15 US, muted tensions over prices



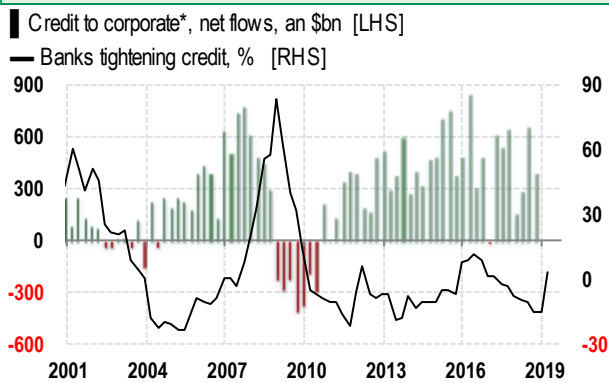
Energy was largely responsible for the past upturn in headline inflation. However, core inflation (excluding food and energy) is now slightly accelerating.

16 US, some tensions over wages



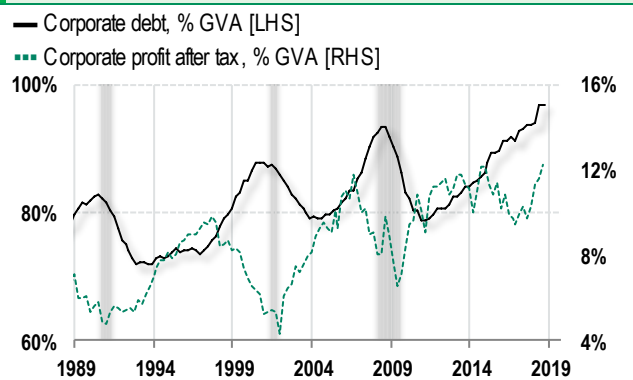
Real hourly wage growth is now accelerating (coming from zero). However, it is still below the path suggested by a traditional Phillips curve.

17 US, credit to corporates keeps healthy



Thanks to accommodating credit conditions, credit flows to corporates (loans & bond issues) have returned to healthy pre-crisis levels.

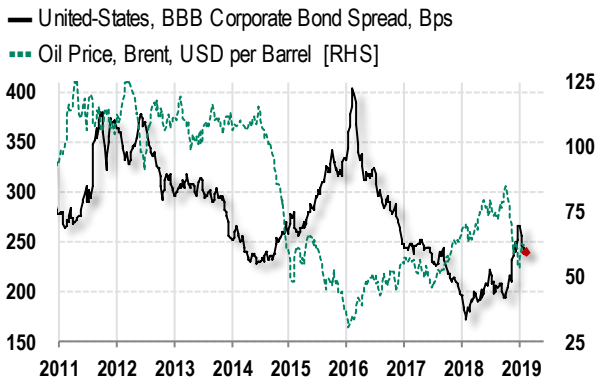
18 US, higher leverage in corporate sector



A cause for future concern? US companies are heavily in debt again, while their profitability is peaking, a configuration that has often preceded recessions.

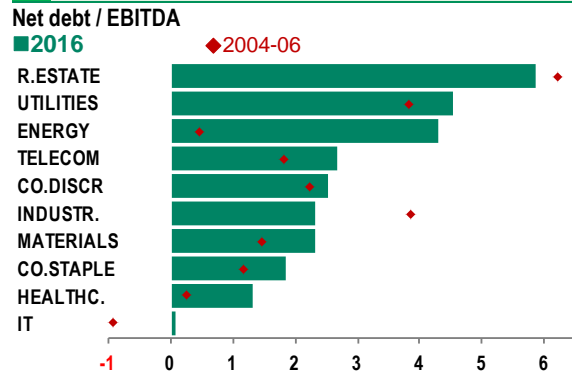
United States

19 US, low corporate spreads



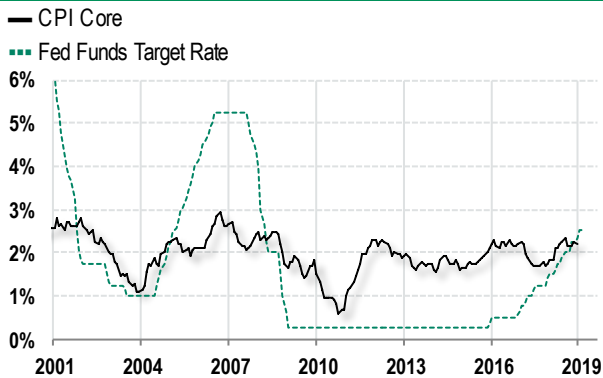
Corporate spreads have become sensitive to oil prices in the US. One explanation is the size of the highly-leveraged shale oil sector.

20 US, corporate net debt by sectors



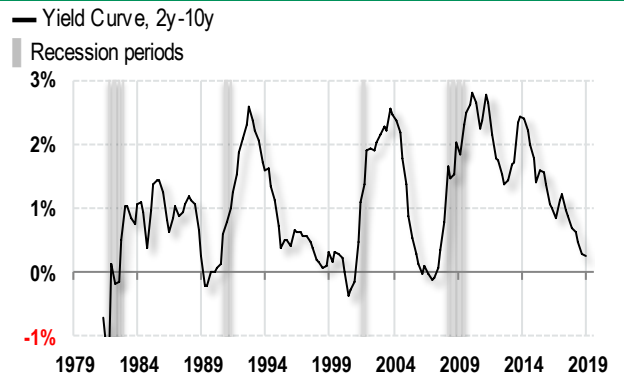
The energy sector has considerably increased its net debt ratio since the “revolution” of shale gas and oil took place.

21 US, Fed funds rate and core inflation



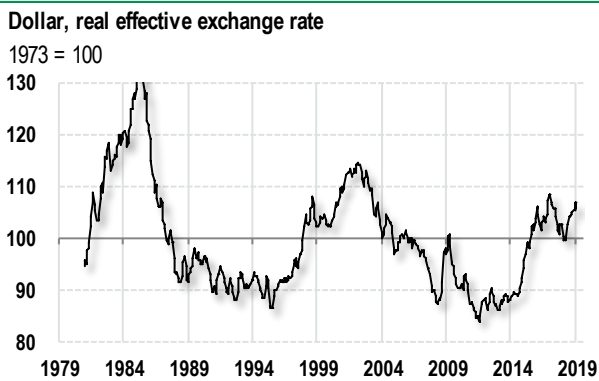
The Fed funds rate has ticked upwards, coming close to the core inflation level.

22 US, flatter yields curve



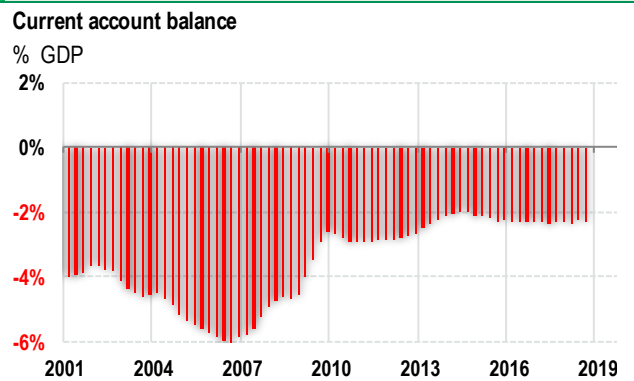
The normalizing monetary conditions are illustrated by flatter yield curve.

23 US, dollar effective exchange rates



Looking at the real effective exchange rate (trade weighted & adjusted for inflation), the dollar looks to be on the expensive side.

24 US, external accounts

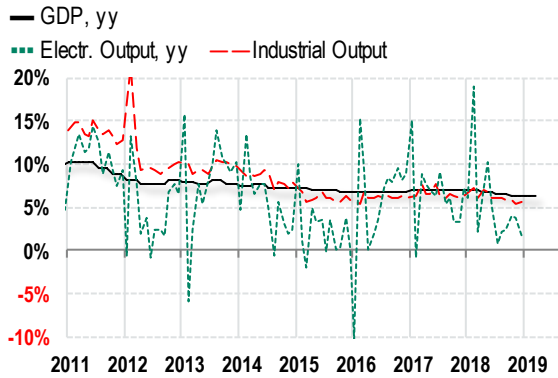


External deficits have stopped narrowing.



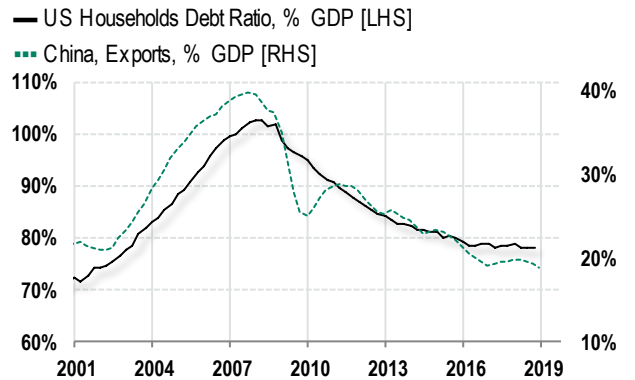
China

25 China, various activity indicators



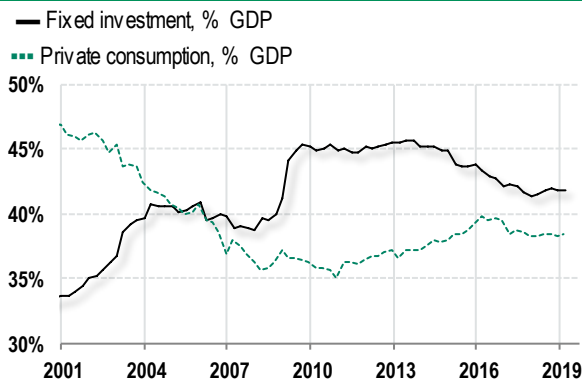
Electricity and industrial output both in line with GDP growth (at around 6% annually).

26 China, change in growth determinants



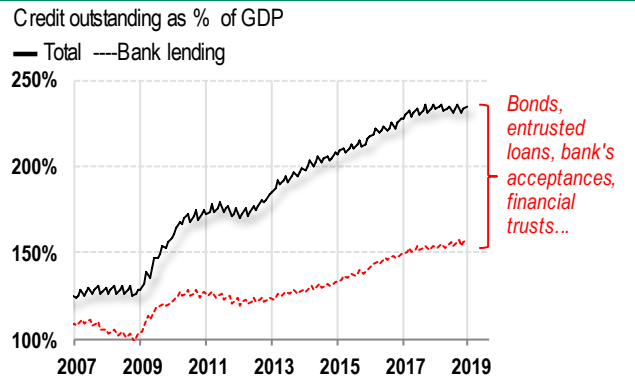
Bent on deleveraging, US consumers are importing less from China.

27 China, investment has come down



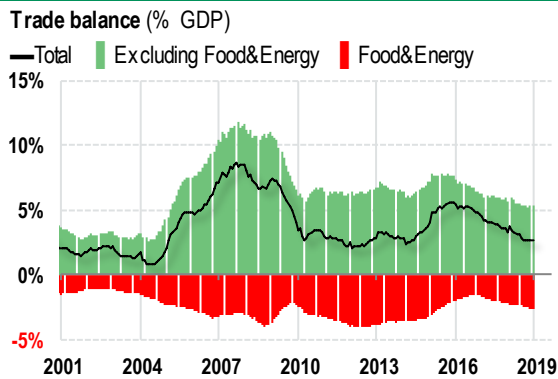
Consumption is still relatively low in terms of GDP (less than 40%)

28 China, credit



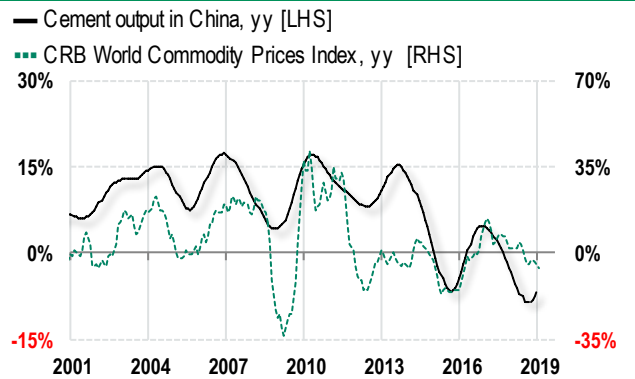
China has the highest internal debt ratio of the emerging countries.

29 China, trade surpluses remain large



External surpluses are still huge, even though they have narrowed somewhat since mid-2016 (rebound in oil prices).

30 China, leading the Commodity cycle

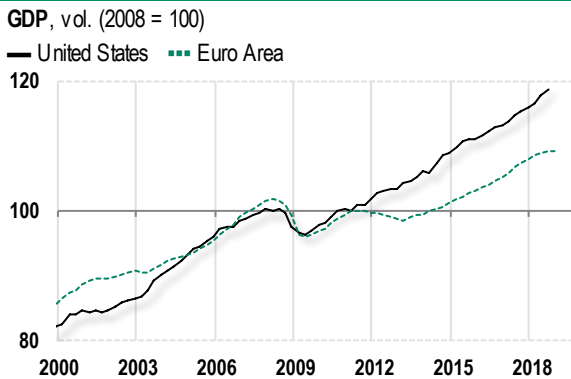


The Chinese cement industry seems to edge back toward recession, which has negative implication for commodity markets.



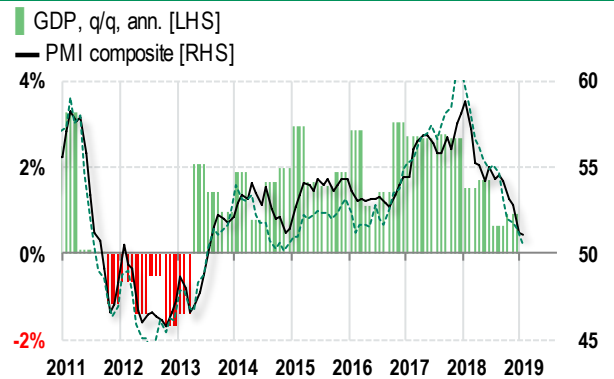
Euro Area

31 Euro area, lagging behind



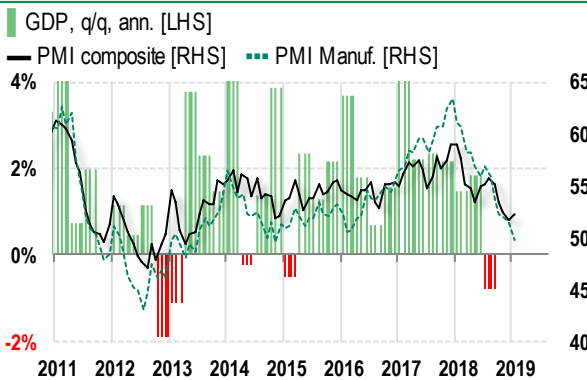
Although growth has accelerated, it still lags behind the US.

32 Euro area, GDP growth vs business surveys



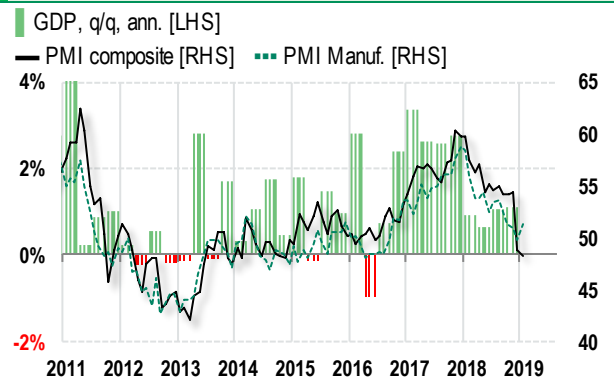
Still down.

33 Germany, GDP growth vs business surveys



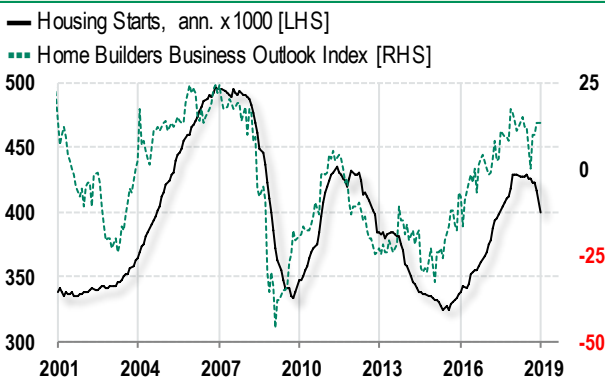
Back to more normal levels after having rocketed. The fall in Q3 GDP is partly accidental and should be corrected in Q4. However, the global trend appears less favourable.

34 France, GDP Growth vs business surveys



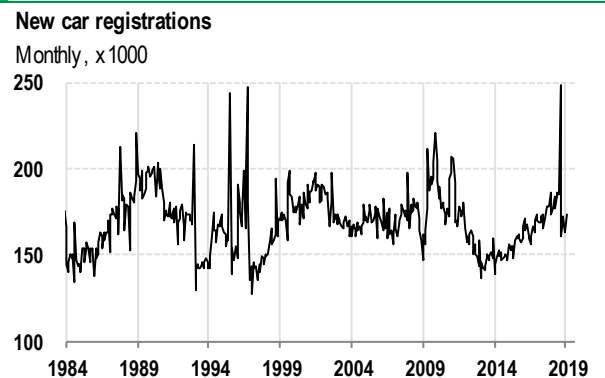
A downward trend, accentuated by the “gilets jaunes” protests in 18'Q4.

35 France, peaking housing?



After having returned to cyclical peaks (more than 400K annual starts) the housing activity in France is set to normalize.

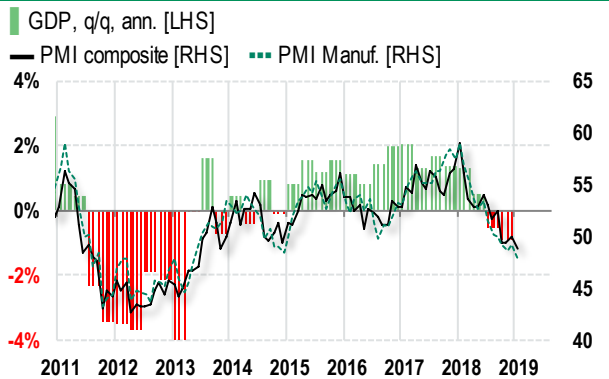
36 France, booming car registrations



A surge in Aug. ahead of more stringent technical standards. A downward correction occurred last autumn.

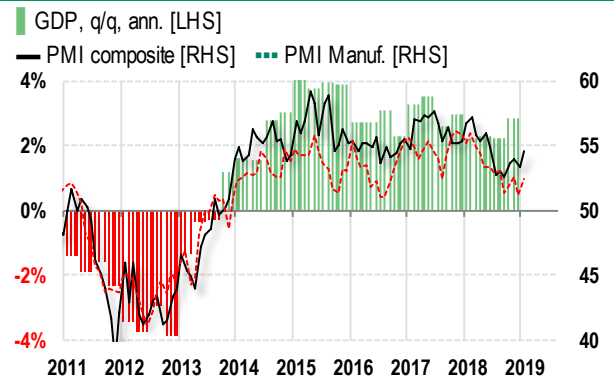
Euro Area

37 Italy, GDP growth vs business surveys



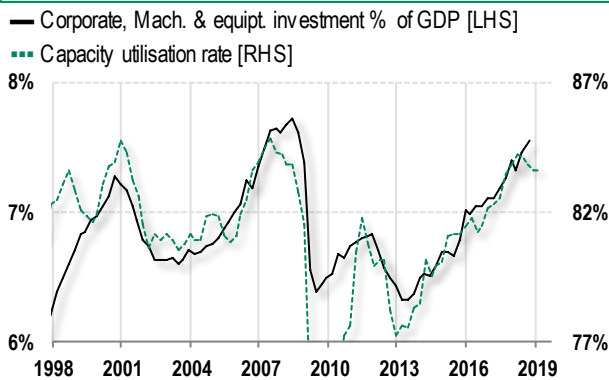
Back to zero or even below...

38 Spain, GDP growth vs business surveys



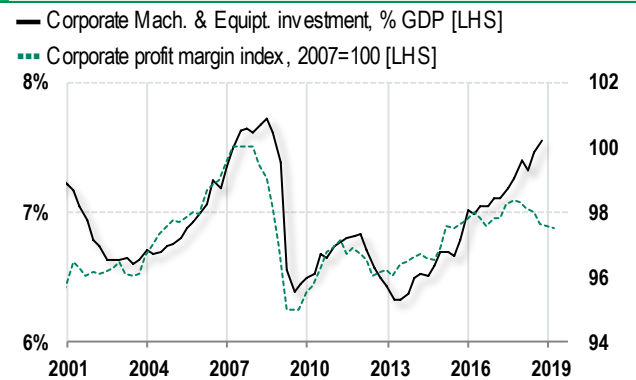
Still good, albeit losing some momentum

39 Euro area, fixed investment vs cap. utilization rate



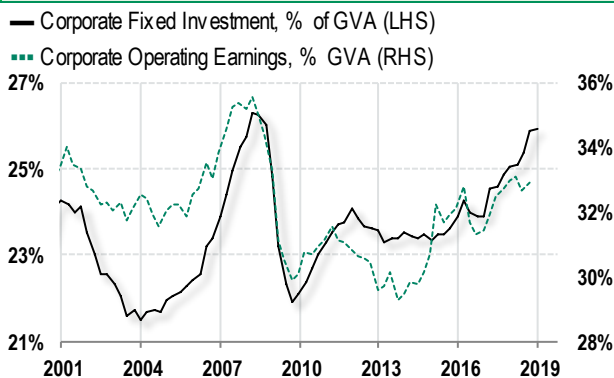
Higher capacity utilisation rates...

40 Euro area, corporate fixed investment vs profits



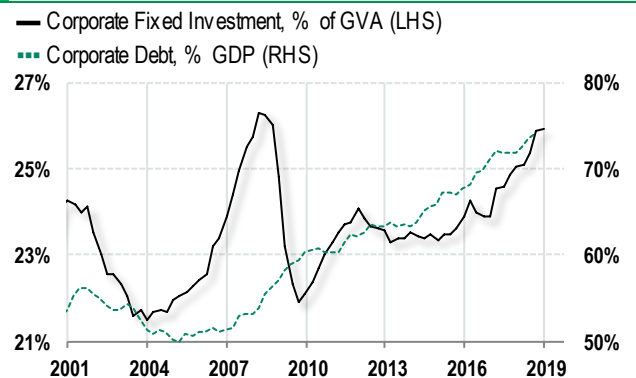
... and upward profit margins have triggered an upturn in corporate investment. Now peaking?

41 France, fixed investment vs corporate profit



Investment in France has been rather resilient compared to other countries, and despite various trends in corporate profits.

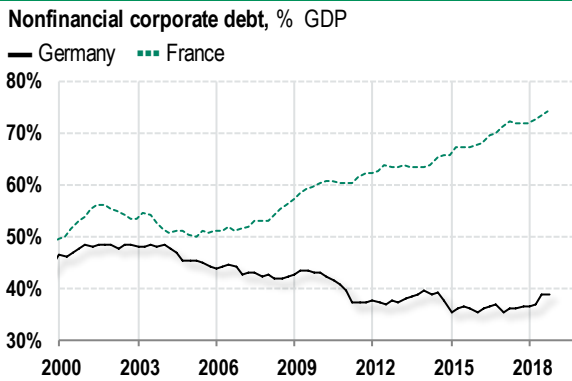
42 France, fixed investment vs corporate debt



Credit has been a support factor for investment in France.

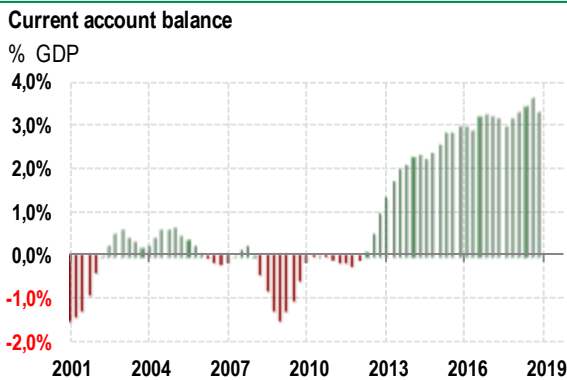
Euro area

43 Corporate debt ratio, diverging trends



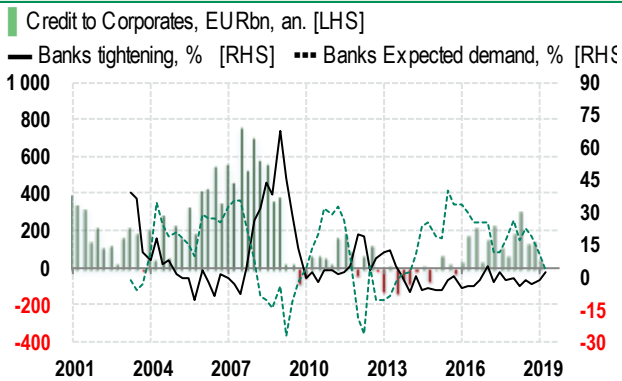
The French corporate debt has surged over the past decade. However, this is largely due to big companies, which are also cash rich. The net debt ratio is not so high.

45 Euro area, current accounts show large surpluses



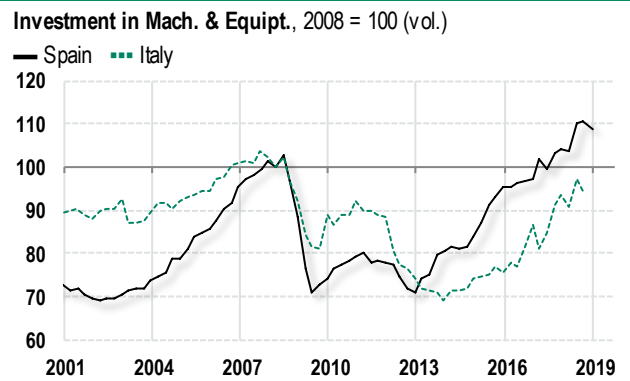
At a record high.

47 Euro Area, credit to corporates vs bank lending survey



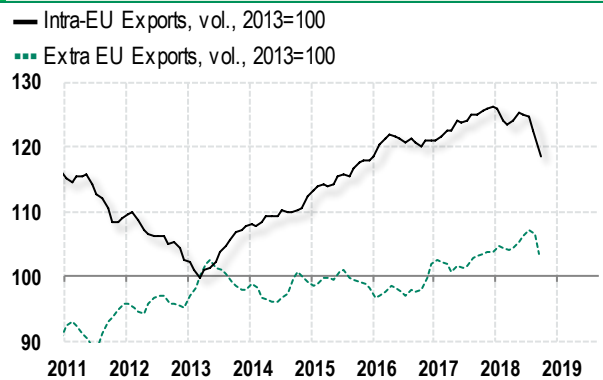
The ECB bank lending surveys are improving as lending standards return to normal. Corporate credit has slowly recovered since 2015.

44 Euro area, trend in corporate fixed investment



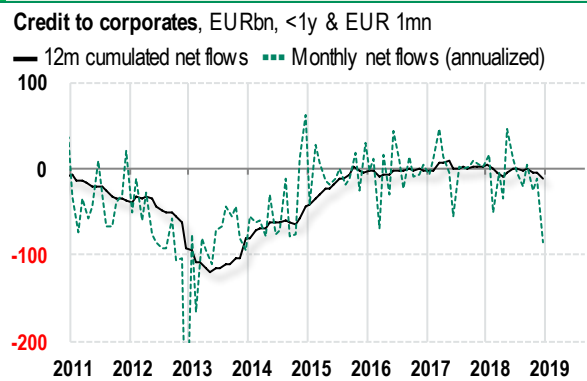
Corporate investment revives in keeping with profit margins, but not at the same pace across the board.

46 Euro area, trend in exports



Down both inside and outside EU, a further confirmation that global trade is weakening

48 Spain, credit to corporates (<1y, EUR 1mn)

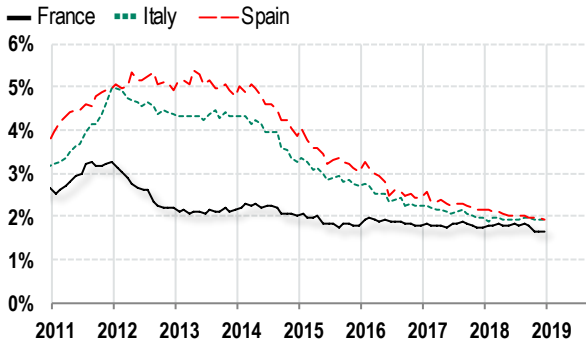


Credit to corporates (under 1 year and EUR 1mn) is stable in Spain.

Euro area

49 Euro area, financing conditions have improved

Bank's lending rates to corporates (<1Y & EUR 1mn)

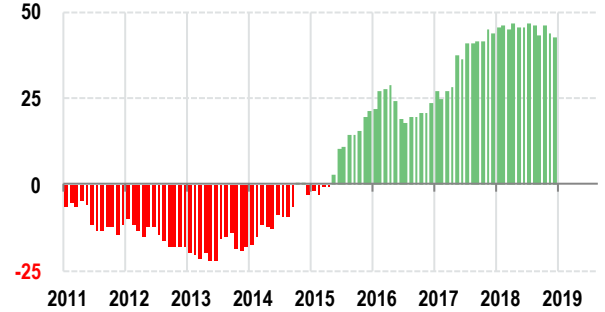


The convergence of lending rates signals a reduction in fragmentation.

50 Euro area, consumer credit

Euro area consumer credit

12m cumulated flows, EURbn

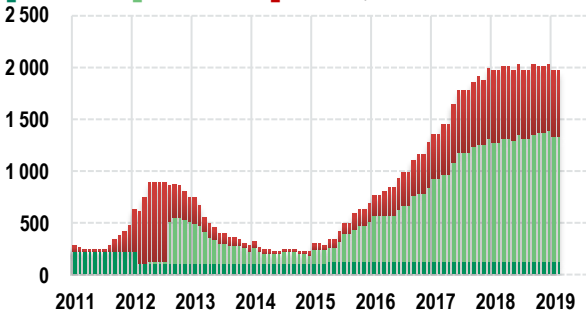


Consumer credit is firmly back in positive territory.

51 Euro area, base money surge with the QE

Money base

R.Reserves Ex.Reserves D. Facility

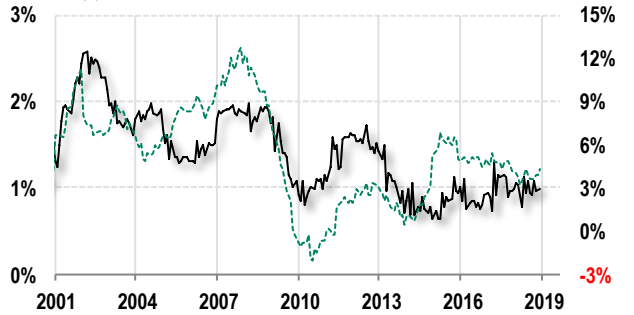


The ECB's TLTRO programme temporarily inflated the money base (bank holdings with the ECB), then growing with QE.

52 Euro area, M3 growth vs core inflation

CPI Core, yy [RHS]

M3, yy [RHS]

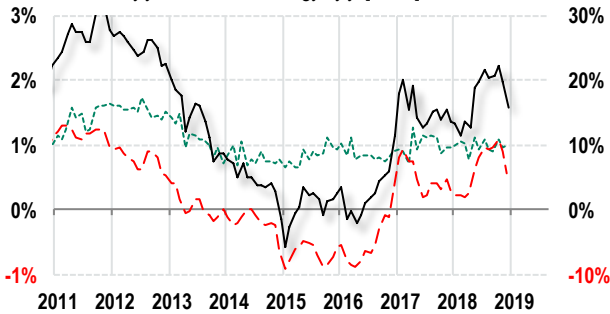


M3 growth is decelerating

53 Euro area, inflation still subdued

CPI Headline, yy

CPI Core, yy CPI Energy, yy [RHS]

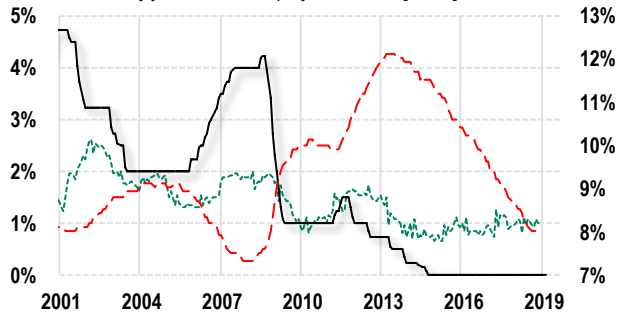


The core inflation rate is trending around 1% per year. The fluctuation in headline figure is mainly caused by energy.

54 Euro Area, ECB "refi" rate vs determinants

ECB Refi

CPI Core, yy Unemployment Rate [RHS]



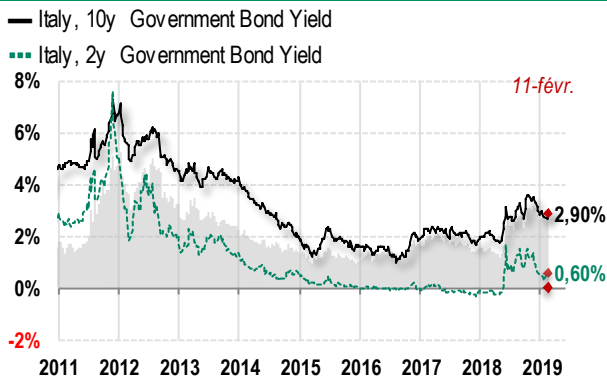
The refi has held at 0.0% since March 16, 2016, while the deposit facility rate (DFR) is negative at -0.40%. The decline in UR normally calls for normalisation, but not this time...



Markets

55

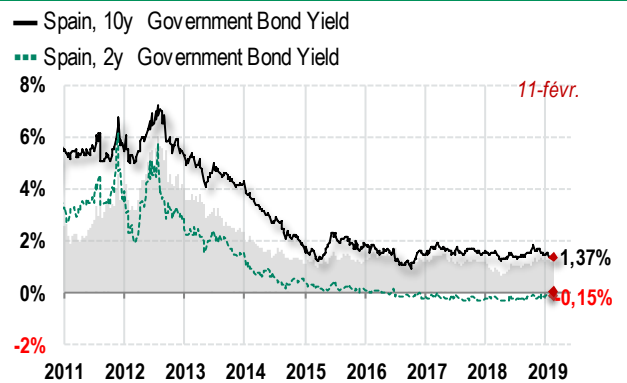
Italian 10 year rates



Rebounding, amid political uncertainties.

56

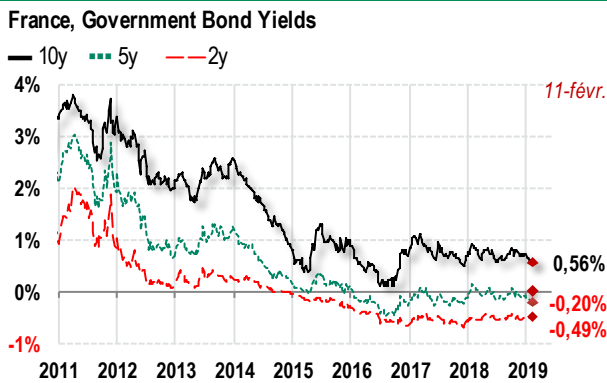
Spanish 10 year rates



Still relatively low.

57

France, over several maturities

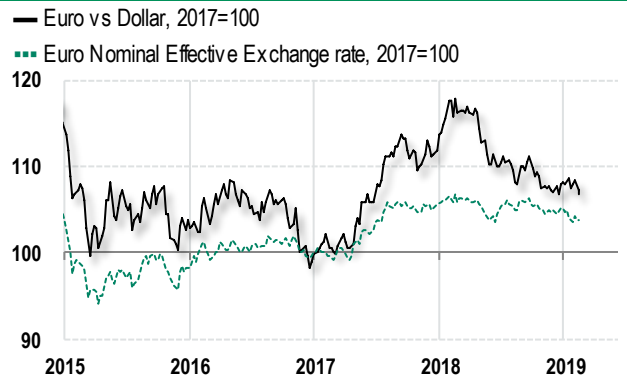


Sources : Thomson Datastream, BNP Paribas

Still very low by historical standard, at all maturities.

58

Euro-dollar

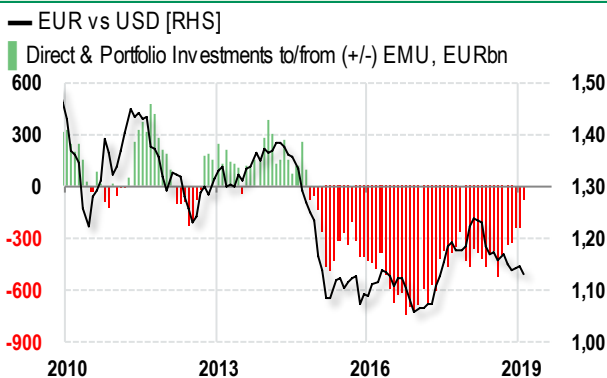


Sources : Thomson Datastream, BNP Paribas

Correcting from the 2017' rebound.

59

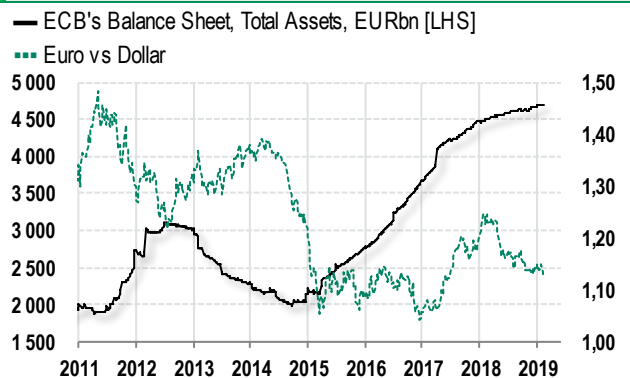
Euro-dollar vs capital flows



Net capital outflows from the EMU (direct and portfolio investments) still important but reducing.

60

Euro-dollar vs ECB's balance sheet

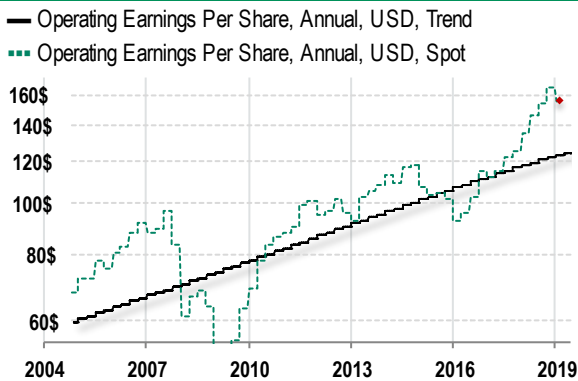


Lower range of fluctuation after QE.



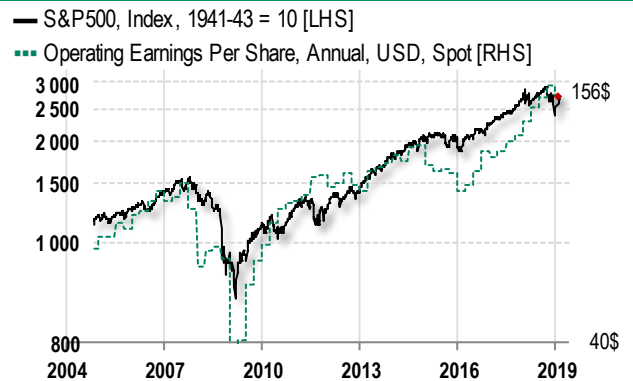
Markets & public finances

61 US, S&P500 Trend in Operating earnings



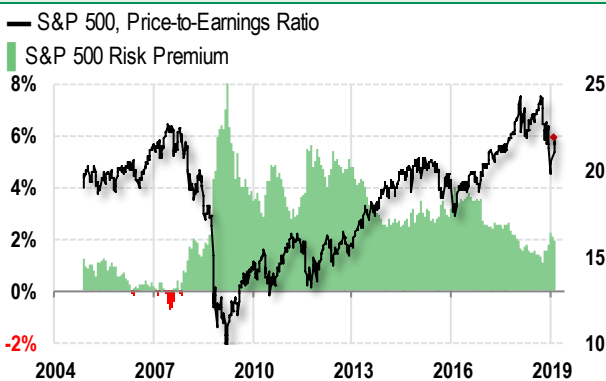
Earnings per share are now far above their long-term trend.

62 US, S&P500 index vs operating earnings



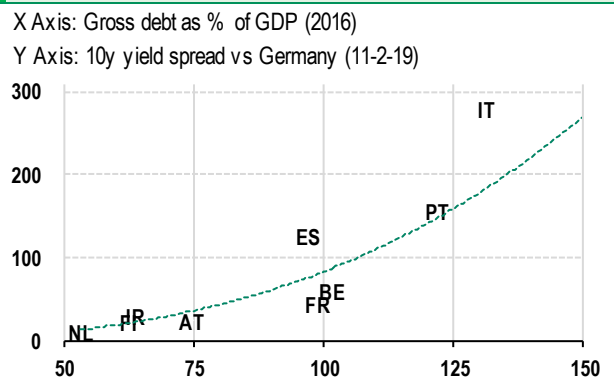
Correcting at the turn of the year.

63 US, S&P 500 "Fed model"



The PE ratio (based on trend EPS) is high, but the risk premium on the "risk-free" rate (*Treasuries*) is not so low.

64 Euro Area, 10y Yield spreads vs public debt...



... with some details (European Commission estimates)

	GDP	Gen. Gov. fiscal balance				Interests payment			Public debt		
		€bn	Total	Primary	Struct.	€bn	%GDP	Av. rate	Total	%GDP	Rating S&P
2018	€bn	€bn	%GDP	%GDP	%GDP	€bn	%GDP	Av. rate	€bn	%GDP	Rating S&P
Germany	3 392	53,3	1,6	2,5	1,4	31,4	0,9	1,5	2 040	60,1	AAA
France	2 352	-61,7	-2,6	-0,8	-2,5	43,6	1,9	1,9	2 321	98,7	AA
Italy	1 767	-34,0	-1,9	1,7	-1,8	64,6	3,7	2,9	2 316	131,1	BBB
Spain	1 213	-32,4	-2,7	-0,3	-3,1	29,1	2,4	2,5	1 176	96,9	A-
Netherlands	773	8,4	1,1	1,9	0,3	6,2	0,8	1,5	411	53,2	AAA
Belgium	455	-4,5	-1,0	1,4	-1,3	10,7	2,4	2,4	462	101,4	AA
Austria	386	-1,3	-0,3	1,3	-0,8	6,2	1,6	2,1	288	74,5	AA+
Greece	185	1,2	0,6	3,9	4,0	5,9	3,2	1,9	338	182,5	B+
Portugal	202	-1,5	-0,7	2,7	-0,9	7,0	3,5	2,9	245	121,4	BBB-
Finland	232	-1,8	-0,8	0,1	-0,8	2,0	0,9	1,5	139	59,8	AA+
Ireland	322	-0,4	-0,1	1,5	-0,2	5,2	1,6	2,6	206	63,9	A+
EMU	11 606	-73,3	-0,6	1,2	-0,7	215,6	1,9	2,2	10 085	86,9	
UK	2 391	-30,9	-1,3	1,2	-1,8	58,7	2,5	2,9	2 056	86,0	AA
EU	15 901	-109,4	-0,7	1,2	-1,7	295,4	1,9	2,3	12 945	81,4	



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