Summary

United States

Sometimes there is no room for doubt

On Tuesday, the FOMC meeting will be as unsurprising as can be. Last week, Janet Yellen gave a green light to a rate increase. The only condition attached was lifted by the February labour market report.

► Page 2

Netherlands

Wide range of choices at election

At the general election, the Dutch may choose between 28 parties. The forming of a new government could be a long process. As compromises have to be made, the end result is often, if not always, a middle-of-the-road policy.

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Market overview

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Summary of forecasts

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A retrouver dans

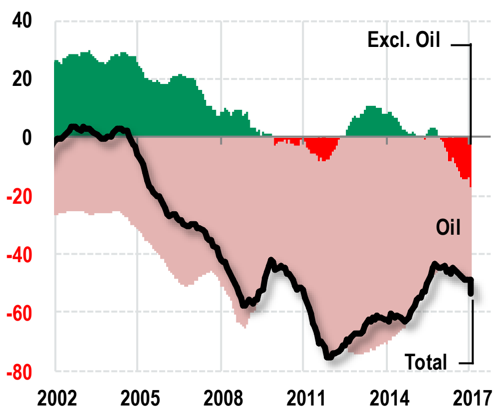
Eco TV WEEK

A balancing act

- **France accumulates deficits… and Germany, surpluses**
- **The two countries are nonetheless converging**

In January 2017, France reported an unprecedentedly high trade deficit of nearly 8 billion euros. This poor performance is partly coincidental: the customs office attributes it to the aftershock of exceptional airbus sales the previous month and provisioning delays for pharmaceutical products. Blame is also placed on the swelling energy bill. Although a single point does not make a trend, it is not a good sign either: even excluding oil, France is no longer able to reach a trade equilibrium (chart). The manufacturing industry reports recurrent, hefty deficits (EUR 43.7 billion in 2016). Some of France's strengths, such as agriculture, are coming under increasing pressure. And Germany is accumulating surplus after surplus, which is hardly satisfying either. Indeed, part of Germany's surpluses are France's deficits, and any correction will require a minimum of understanding between the two. France's supply-side policies do not really make sense unless Germany does something about supporting its demand. Some progress has been made along these lines. In 2014, Berlin introduced a minimum wage while Paris proposed its "responsibility pact". Over the past two years, unit labour costs have been converging between the two countries. At a time when isolationist theories are all the rage, it is important to point out and encourage the more complementary nature of French and German policies.

FRANCE, VISIBLE TRADE BALANCE



Source: Customs

THE WEEK ON THE MARKETS

Week 3-3 17 > 9-3-17

↘ **CAC 40**	4 995	► **4 982**	**-0.3**	%
↘ **S&P 500**	2 383	► **2 365**	**-0.8**	%
↗ Volatility (VIX)	11.0	► 12.3	+1.3	%
↗ **Euribor 3M** (%)	-0.33	► **-0.33**	**+0.0**	bp
↗ Libor $ 3M (%)	1.10	► 1.11	+0.7	bp
↗ OAT 10y (%)	0.96	► 1.06	+10.4	bp
↗ Bund 10y (%)	0.36	► 0.42	+6.6	bp
↗ US Tr. 10y (%)	2.49	► 2.60	+10.6	bp
↗ **Euro vs dollar**	1.06	► **1.06**	**+0.2**	%
↘ Gold (ounce, $)	1 225	► 1 203	-1.8	%
↘ **Oil (Brent, $)**	55.7	► **52.0**	**-6.6**	%

Source: Thomson Reuters

United States

Sometimes there is no room for doubt

■ **When the Fed's monetary policy committee meets next week, there will be no suspense. Last week, Janet Yellen already gave the green light to a rate increase under certain conditions, which were lifted by February labour market report.**

■ **Inflation is finally about to come in line with the Fed's target. Downward pricing pressures have evaporated as oil prices have picked up, the dollar has levelled off and above all, wage growth has strengthened.**

■ **The US economy has returned to a steady stride that clearly surpasses its long-term potential. There can be no doubt about the normalisation of monetary policy, even without the support of a fiscal stimulus, which seems to be increasingly less probable as the days go by.**

At next week's meeting, the Federal Open Market Committee (FOMC) will certainly decide to raise key rates, probably by 25 basis points. It is hard to be more certain. The last bit of doubt was finally lifted by the latest labour market report: the job market shows no signs of running out of steam, and the Fed can check this last point off its list.

The normalisation of monetary policy first began in December 2015, before being put on hold for a year. We had to wait until December 2016 for the Fed's second key rate increase. Seen from this angle, another rate increase in March might seem to be rushed. But this is not the case, for two reasons. First, it soon became apparent that the Fed would take advantage of any windows of opportunity. Without rushing matters, the Fed was clearly determined to move away from the zero lower bound as quickly as possible, which the central bank still considers to be its lower limit. Second, the US economy has been in a recovery since the third quarter of 2016, which has not only been confirmed with each statistical report, but also seems to be gaining strength.

Growth was slightly disappointing in the second half of 2016, but also because temporary "disturbances" made these statistics difficult to interpret at first sight. A closer look at the breakdown of data reveals an acceleration in final domestic demand, which is the core of US demand. There has been a particularly welcome rebound in business investment in equipment and software, even though the annualised quarterly increase of 1.9% might not seem very strong after four straight quarters of contraction.

We must keep in mind that the sluggish pace of capital expenditure by US companies is mainly due to the oil industry. Excluding "mining exploration, shafts, and wells", productive investment by US companies only declined in the second half of 2015, and increased throughout 2016. Moreover, manufacturing new orders and shipments data indicate an ongoing solid trend, even though these components are not always very reliable. The capital goods industry, excluding defence and aircrafts, has accelerated strongly in recent months: in January, new orders were up 8.7% (annualised 3-month rate), and shipments rose 6.7%.

The recovery reaches beyond this industry alone. For the manufacturing sector as a whole, output increased in January at the fastest pace in the past two years, order books continued to swell and confidence is on the rise. The manufacturing ISM rose to 57.7 in February, the highest level since fall 2014, with two of its components being above 60: production (62.9) and new orders (65.1). The non-manufacturing ISM is also in good health, which is characteristic of the economy as a whole: it rose to 57.6 in February, with the production and new orders components both above 60. Our M&N index – the weighted sum of the two ISM indices – is compatible with growth way above 3%.

Growth clearly seems to have returned to a rate significantly higher than its long-term potential (with the FOMC members estimate at 1.8%). In December, even Janet Yellen esteemed that the output gap had finally closed. The forces that were restricting price formation have dissipated, and the Fed is much more confident in its projections that inflation will return to its medium-term target. Though still under the effects of the rebound in oil prices, the Fed's target will almost certainly be reached as of February, for the first time since spring 2012. In January, the private consumption expenditure deflator was already at 1.9% year-on-year, and the index only needs to hold steady to rise above 2% in February. Excluding energy and food, core PCE inflation was still below 2%, and has held steady at 1.7% since August 2016. But it is showing signs of acceleration. One of these indicators is market-based PCE inflation, which only takes into account spending actually supported by households. Long limited to 1%, it has accelerated since early 2016, and recently rose above 1.7% year-on-year. Other indicators that statistically "clean up" any unsustainable variations, such as the Dallas Fed's trimmed-mean index, confirm that inflation is returning to its 2012 levels.

With growth above its long-term potential, oil prices exerting less downward pressure and the dollar's appreciation winding down, there are several arguments to support an upturn in inflation. We need to add one essential support factor: the dynamic labour market. The situation has come full circle and we can be sure that monetary policy will continue to be normalised. There is not even any need to talk about a possible fiscal stimulus, which seems increasingly improbable

Netherlands

Wide range of choices at election

- **On 15 March, Dutch voters go to the polls to elect the 150 members of the lower house of Parliament.**
- **The main campaign issues are immigration, the retirement age, health care costs, education and Europe.**
- **The VVD (conservative liberals) could remain the largest party. Given the polls, the most likely government is a centre-right coalition between VVD, Christian-Democrats (CDA and CU) and D66 (social liberals).**
- **Such a coalition is expected aiming for a balanced budget over the cycle. On a European level, it would insist on the strict observance of the Stability and Growth Pact.**

Wednesday, 15 March, the Dutch will go to the ballot boxes to elect 150 deputies for the Second Chamber, the Dutch lower house of Parliament. The voting takes place according to a proportional representation system. All parties make lists of candidates to be elected, and seats get allocated to each party in proportion to the number of votes the party receives. The electoral threshold is equal to the number of votes divided by the number of seats.

The country is divided in 20 voting districts. To participate in the ballot, parties that are not already represented in parliament have to pay a deposit of EUR 11,250, which is to be returned if the party obtains at least 75% of the electoral threshold. In addition, for each presented list in a voting district, the new parties have to be supported by at least 30 voters living in the district (10 voters in Bonaire). In the 2017 election, 28 parties will participate, a new record. However, according to the polls, less than 15 parties will obtain at least one seat (see table).

General election 2017 (%)

Party	Orientation	2012 Election	Average latest polls
VVD	Conservative liberal	26.8	16.4
PvdA	Labour	24.8	7.9
PVV	Far right	10.1	14.6
SP	Radical left	9.6	9.5
CDA	Christian democrats	8.5	12.0
D66	Social liberal	8.0	12.0
CU	Protestant	3.1	4.1
GL	Green/Left	2.3	10.3
SGP	Fundamental protestant	2.1	2.4
PvdD	Animal rights	1.9	3.3
50PLUS	Pensioners' interests	1.9	3.7
VNL	Far right		0.6
DENK	Multicultural		1.3
FvD	Far right		1.1
Other		0.9	0.8

Sources: Peilingwijzer and BNP Paribas Group Economic Research

Not everybody benefited from economic recovery

As no party has ever gained a majority in parliament, Dutch politics is all about coalition building. The current government is a coalition between the VVD (conservative liberals) and the PvdA (Labour). It is an unusual construction as the two parties are on opposite sides of the political spectrum. Nevertheless, the coalition has been rather successful in turning the economy around. In 2016, GDP was 3.5% above its 2008 peak. Employment is growing again and the unemployment rate declined to 5.3% in January. However, this is still higher than pre-crisis levels. Moreover, the job quality is declining. About one in five persons is working on a temporary contract. Lastly, as a result of the austerity policies, many groups feel disadvantaged. On average, purchasing power has not improved since the financial crisis.

Ambitious party programmes

Traditionally, before the election the main parties ask the Netherlands Bureau for Economic Policy Analysis (CPB), an independent government agency, to make an analysis of the economic impact of their election programme (table 1). It is considered to be a guarantee against unrealistic promises. This time, the PVV (far right) and 50Plus (party of the over-50s) were the only major parties that did not participate. In addition, the Netherlands Environmental Assessment Agency (PBL) has analysed some election platforms for their environmental impact.

These analyses show substantial differences between the party programmes. The VVD programme is best at preserving the sustainability of public finances and increasing employment. However, the party's policy threatens to widen the income differences. By contrast, the policies promoted by the SP (radical left) would substantially reduce income inequality, but to the detriment of employment because of higher labour costs. Not surprisingly, GreenLeft (GL) is best for the environment. The increase in environmental levies would be good for the Treasury, but might not go down well with car drivers. The party's policies would increase the usage of public transport by almost 30% and reduce the total mileage by 20%.These analyses stimulate the debate, but their effect on the election result is normally limited.

The main campaign issues are:

Refugees, immigration and integration

The PVV is, unsurprisingly, most outspoken on this topic. The party does not want to accept any asylum seekers and would halt immigration from Islamic countries. The other parties are willing to continue offering refuge for asylum seekers, although some parties would like tightening the rules. In addition, these parties are in favour of improving the integration of immigrants.

Reversing some of the measures of the outgoing government

The austerity policies of the outgoing government have not always received a warm welcome. In particular, the opposition parties would like to reverse some of them. However, the analysis by the CPB has demonstrated that such a reversal could be rather costly.

That is in particular the case of lowering the retirement age from 67 to 65 again, which is in the programme of PVV, 50Plus and SP. The CPB estimates the structural costs of the measure for the general retirement scheme at EUR 12 billion (or 2% of GDP). This does not even include the effect for the complementary schemes. The presentation of the CPB calculations during a television debate resulted in a sharp drop in support for 50Plus.

PVV and the parties on the left (PvdA, SP and GL) would like to abolish the co-payments in the health sector. They argue that many people renounce treatment, because of the expected costs. The other parties want to maintain the co-payments as they fear that otherwise healthcare spending will spin out of control. The CPB estimates the costs of the proposed measure at EUR 4.5 billion.

Finally, the PVV, 50Plus, SP, CDA and CU (both Christian Democrat) would like to replace the student loan system by grants for undergraduates. D66 (social liberals) would like to increase spending on education by EUR 4 billion, more than any other party, but use the money for improving the quality in education.

Europe

The PVV is the most anti-European party. It campaigns for leaving the EU. On the left, the SP is also against the EU and wants to negotiate a new European Treaty with less extensive powers for Brussels.

The other parties would like to remain in the EU, although most would like more subsidiarity and a strict observance of previous agreements such as the Stability and Growth Pact. Moreover, most parties agree that support to the banking union and a deposit guarantee scheme should be conditional on reducing risks in the European banking sector.

The VVD, CDA and D66 are in favour of the recently concluded free-trade deal with Canada (CETA). The PvdA, SP and GL oppose the treaty. Once it is approved by the Dutch parliament, the trade deal might still be turned down, as opponents have the right to contest it by calling for a referendum.

What happens after the election?

According to the latest polls, about 13 parties could enter parliament, of which some of them would have only a couple of seats. This is not exceptional. The outgoing parliament also consists of 13 parties plus four independent members. The current coalition is likely to lose its majority. According to the latest polls, it would only obtain 37 of the 150 seats. In particular, the PvdA is set for a drubbing, and risks losing two-thirds of its seats. The VVD is expected to remain the largest party, followed by the PVV.

After the election, the new parliament will convene to discuss the election result and the formation of the next government. It will nominate a person, probably a member of the largest party, for a scouting mission for a possible coalition. After having consulted all parties, this person will report back to Parliament. This will kick off a process of negotiations between the leaders of the envisaged coalition. Given the polls, the most likely outcome is a government between VVD, CDA, CU and D66.

The forming of a new government can be a rather long process. The longest government formation period lasted 208 days. As compromises have to be made, the end result is often, if not always, a middle-of-the-road policy. The change in government should be of little consequence for budgetary policy. Most parties would like to balance the budget over the cycle, and retain the current fiscal framework, whereby the coalition partners agree on spending limits at the start of the new government term.

What might change are emphases in policies. Even though the PVV is unlikely to enter government, its growing share of the vote might persuade the new coalition to take a harder line on migration and take a more critical stance vis-à-vis Brussels. Concerning the euro, the new coalition is likely to seek a strict application of the Stability and Growth Pact for all eurozone countries. Also policies for the elderly are likely to get more attention. In response to the increased support for 50Plus, other political parties have already announced more spending on long-term healthcare and retirement homes.

During the negotiations, the incumbent government will remain in place to handle daily issues and prepare budgets, but is not expected to introduce new legislation.

Markets overview

The essentials

Week 3-3 17 > 9-3-17

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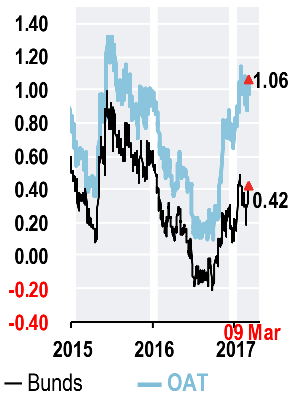
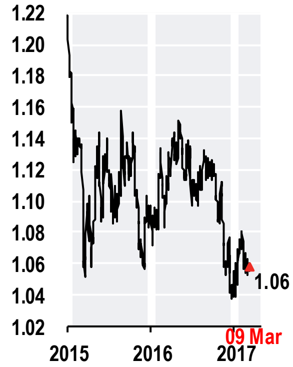
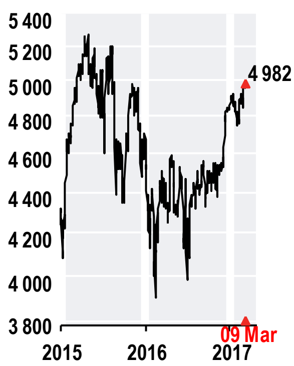
10 y bond yield, OAT vs Bund



Euro-dollar



CAC 40



Money & Bond Markets

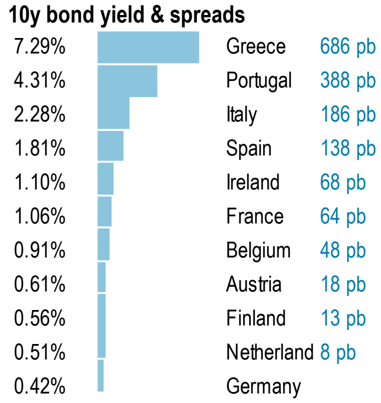
Interest Rates		highest' 17		lowest' 17	
€ ECB	**0.00**	0.00	at 02/01	0.00	at 02/01
Eonia	**-0.35**	-0.35	at 04/01	-0.36	at 22/02
Euribor 3M	**-0.33**	-0.32	at 02/01	-0.33	at 22/02
Euribor 12M	**-0.11**	-0.08	at 02/01	-0.11	at 28/02
$ FED	**0.75**	0.75	at 02/01	0.75	at 02/01
Libor 3M	**1.11**	1.11	at 08/03	1.00	at 02/01
Libor 12M	**1.80**	1.81	at 03/03	1.68	at 06/01
£ BoE	**0.25**	0.25	at 02/01	0.25	at 02/01
Libor 3M	**0.35**	0.37	at 05/01	0.35	at 01/03
Libor 12M	**0.72**	0.78	at 09/01	0.72	at 03/03

At 9-3-17

Yield (%)		highest' 17		lowest' 17	
€ AVG 5-7y	**0.54**	0.56	at 02/02	0.23	at 02/01
Bund 2y	**-0.86**	-0.66	at 25/01	-0.96	at 24/02
Bund 10y	**0.42**	0.49	at 26/01	0.09	at 02/01
OAT 10y	**1.06**	1.14	at 06/02	0.67	at 02/01
Corp. BBB	**1.56**	1.65	at 01/02	1.41	at 24/02
$ Treas. 2y	**1.37**	1.37	at 09/03	1.14	at 24/02
Treas. 10y	**2.60**	2.60	at 09/03	2.32	at 24/02
Corp. BBB	**3.88**	3.88	at 09/03	3.62	at 24/02
£ Treas. 2y	**0.04**	0.22	at 06/01	0.01	at 28/02
Treas. 10y	**1.15**	1.51	at 26/01	1.07	at 28/02

At 9-3-17

10y bond yield & spreads

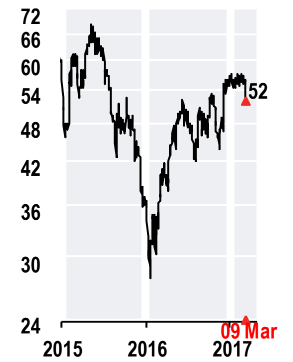


Commodities

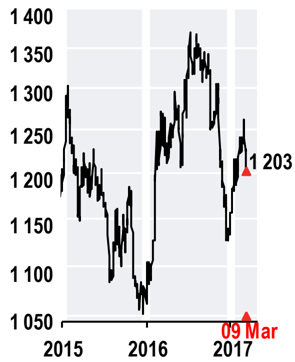
Spot price in dollars		lowest' 17			2017(€)
Oil, Brent	**52**	52	at	09/03	**-8.6%**
Gold (ounce)	**1 203**	1 156	at	03/01	**+3.6%**
Metals, LMEX	**2 800**	2 639	at	03/01	**+5.0%**
Copper (ton)	**5 673**	5 487	at	03/01	**+2.4%**
CRB Foods	**343**	339	at	02/01	**+1.0%**
wheat (ton)	**158**	146	at	02/01	**+7.9%**
Corn (ton)	**135**	133	at	02/01	**+1.5%**

At 9-3-17 *Variations*

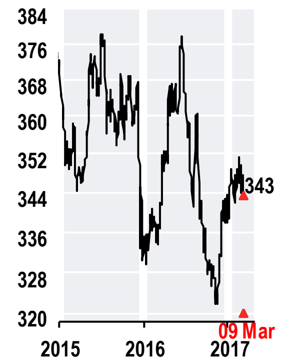
Oil (Brent, $)



Gold (Ounce, $)



CRB Foods



Exchange Rates

1€ =		highest' 17			lowest' 17			2017
USD	**1.06**	1.08	at	31/01	1.04	at	03/01	**+0.3%**
GBP	**0.87**	0.88	at	16/01	0.84	at	23/02	+2.0%
CHF	**1.07**	1.07	at	24/01	1.06	at	08/02	+0.1%
JPY	**121.51**	123.21	at	06/01	118.74	at	24/02	-1.2%
AUD	**1.41**	1.46	at	02/01	1.37	at	23/02	-3.1%
CNY	**7.31**	7.43	at	31/01	7.22	at	03/01	-0.3%
BRL	**3.37**	3.44	at	18/01	3.24	at	15/02	-2.0%
RUB	**62.84**	64.95	at	31/01	60.60	at	15/02	-2.4%
INR	**70.63**	73.32	at	31/01	70.21	at	02/03	-1.3%

At 9-3-17 *Variations*

Equity indices

	Index	highest' 17			lowest' 17			2017	2017(€)
CAC 40	**4 982**	4 995	at	03/03	4 749	at	31/01	+2.5%	**+2.5%**
S&P500	**2 365**	2 396	at	01/03	2 239	at	02/01	+5.6%	**+5.3%**
DAX	**11 978**	12 067	at	01/03	11 510	at	06/02	+4.3%	**+4.3%**
Nikkei	**19 319**	19 594	at	04/01	18 788	at	24/01	+1.1%	**+2.3%**
China*	**64**	66	at	22/02	59	at	02/01	+10.1%	**+9.6%**
India*	**493**	497	at	06/03	445	at	03/01	+8.7%	**+10.1%**
Brazil*	**1 819**	2 001	at	22/02	1 654	at	02/01	+6.4%	**+8.5%**
Russia*	**537**	622	at	03/01	537	at	09/03	-12.8%	**-11.1%**

At 9-3-17 *Variations*

* MSCI index

Economic forecasts

En %	GDP Growth 2016 e	GDP Growth 2017 e	GDP Growth 2018 e	Inflation 2016 e	Inflation 2017 e	Inflation 2018 e	Curr. account / GDP 2016 e	Curr. account / GDP 2017 e	Curr. account / GDP 2018 e	Fiscal balances / GDP 2016 e	Fiscal balances / GDP 2017 e	Fiscal balances / GDP 2018 e
Advanced	**1.6**	**2.0**	**2.1**	**0.8**	**2.0**	**1.9**						
United States	**1.6**	**2.4**	**2.7**	**1.3**	**2.5**	**2.7**	**-2.5**	**-2.4**	**-2.4**	**-3.4**	**-4.2**	**-5.0**
Japan	1.0	1.1	0.9	-0.1	1.1	1.0	3.8	4.2	4.6	-4.7	-4.4	-4.1
United Kingdom	1.8	1.8	1.1	0.6	2.7	2.7	-4.7	-4.1	-3.2	-3.0	-2.7	-3.1
Euro Area	**1.7**	**1.6**	**1.6**	**0.2**	**1.7**	**1.3**	**3.4**	**3.0**	**3.1**	**-1.7**	**-1.4**	**-1.2**
Germany	1.8	1.8	2.0	0.4	2.0	1.6	8.8	8.3	8.5	0.6	0.7	0.6
France	1.1	1.3	1.5	0.3	1.4	1.0	-1.2	-0.9	-1.1	-3.3	-3.0	-2.7
Italy	0.9	0.6	0.6	-0.1	1.3	1.0	2.1	2.2	2.1	-2.4	-2.4	-2.5
Spain	3.3	2.6	2.0	-0.3	2.6	1.5	1.8	2.1	2.1	-4.6	-3.6	-3.0
Netherlands	2.1	2.1	1.6	0.1	1.2	1.4	8.7	8.7	8.3	-0.5	0.0	0.3
Belgium	1.2	1.4	1.5	1.8	2.1	1.9	0.7	0.5	0.5	-3.0	-2.3	-2.2
Emerging	**4.2**	**4.5**	**5.0**	**4.8**	**4.6**	**4.4**						
China	6.7	6.2	6.4	2.0	2.7	2.5	1.9	1.6	1.4	-2.9	-3.5	-3.3
India	7.0	7.3	8.0	4.9	4.7	5.5	-1.1	-0.8	-1.5	-3.8	-3.5	-3.2
Brazil	-3.5	1.0	3.0	8.8	4.1	4.3	-1.2	-1.4	-2.1	-8.9	-9.6	-8.3
Russia	-0.6	1.2	2.0	7.1	4.2	4.3	1.7	2.4	2.0	-3.5	-3.1	-2.8
World	**3.1**	**3.4**	**3.8**	**3.1**	**3.5**	**3.4**						

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

Financial forecasts

Interest rates		2016				2017						
End period		Q1	Q2	Q3	Q4	Q1e	Q2e	Q3e	Q4e	**2016**	**2017e**	**2018e**
US	Fed Funds	0.25-0.5	0.25-0.5	0.25-0.5	0.5-0.75	0.50-0.75	0.75-1.00	1.00-1.25	1.25-1.50	0.5-0.75	1.25-1.50	2.25-2.50
	3-month Libor $	0.63	0.65	0.85	1.00	1.05	1.25	1.50	1.75	1.00	1.75	2.50
	10-year T-notes	1.79	1.49	1.61	2.45	2.60	3.00	3.25	3.50	2.45	3.50	4.00
EMU	Refinancing rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25
	3-month Euribor	-0.24	-0.29	-0.30	-0.32	-0.33	-0.33	-0.30	-0.30	-0.32	-0.30	-0.05
	10-year Bund	0.16	-0.13	-0.19	0.11	0.30	0.50	0.75	1.00	0.11	1.00	1.60
	10-year OAT	0.41	0.20	0.12	0.69	0.95	0.95	1.15	1.45	0.69	1.45	2.00
	10-year BTP	1.23	1.35	1.19	1.84	2.10	2.20	2.60	3.00	1.84	3.00	3.40
UK	Base rate	0.50	0.50	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
	3-month Libor £	0.59	0.56	0.38	0.37	0.40	0.40	0.40	0.40	0.37	0.40	0.40
	10-year Gilt	1.42	1.02	0.76	1.24	1.25	1.55	1.75	1.90	1.24	1.90	2.50
Japan	Overnight call rate	-0.00	-0.06	-0.06	-0.06	-0.10	-0.10	-0.10	-0.10	-0.06	-0.10	-0.10
	3-month JPY Libor	0.10	0.06	0.06	0.06	0.05	0.05	0.05	0.05	0.06	0.05	0.05
	10-year JGB	-0.04	-0.23	-0.08	0.05	0.10	0.10	0.10	0.30	0.05	0.30	0.40

Exchange rates		2016				2017						
End period		Q1	Q2	Q3	Q4	Q1e	Q2e	Q3e	Q4e	**2016**	**2017e**	**2018e**
USD	EUR / USD	1.14	1.11	1.12	1.05	1.04	1.02	1.02	1.00	1.05	1.00	1.06
	USD / JPY	112	103	101	117	118	121	124	128	117	128	130
EUR	EUR / GBP	0.79	0.83	0.87	0.85	0.83	0.82	0.82	0.80	0.85	0.80	0.82
	EUR / CHF	1.09	1.08	1.09	1.07	1.08	1.10	1.12	1.12	1.07	1.12	1.15
	EUR/JPY	128	114	114	123	123	123	126	128	123	128	138

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