

ECO CHARTS

December 19

Summary of macroeconomic forecasts

■ **In the US**, economy, especially in the manufacturing sector, has shown some signs of weakness recently, prompting the US Federal Reserve to cut rates “preventively” ■ The materialization of US “trade war” through tariffs increases on worth \$300bn of imports is likely to weigh on firms profitability, then activity ■ The inverted yields curve is a bearish signal. It could be followed by sizeable downward adjustments in highly leveraged sectors such as energy and IT ■ As a consequence, the monetary policy would continue to ease.

■ **The Euro area**, growth is sharply decelerating, with some countries like Italy and Germany now close to recession ■ Extra EU trade is less dynamic, in line with fading external demand, in particular coming from EMEs ■ Inflation is expected to come-back near the 1pct level, as a consequence of falling oil prices ■ The ECB has consequently restarted its Asset Purchases Program (APP) and plan to buy EUR20bn per month (net) over an indefinite period of time. The depo rate was cut to -0.5% and will stay there for long.

| % | GDP Growth | | | Inflation | | |
|------------------|------------|--------|--------|-----------|--------|--------|
| | 2019 e | 2020 e | 2021 e | 2019 e | 2020 e | 2021 e |
| Advanced | 1.7 | 1.1 | 1.6 | 1.5 | 1.6 | 1.4 |
| United-States | 2.3 | 1.5 | 2.0 | 1.8 | 2.4 | 1.9 |
| Japan | 1.0 | 0.2 | 0.7 | 0.5 | 0.6 | 0.3 |
| Euro Area | 1.1 | 0.8 | 1.3 | 1.2 | 1.0 | 1.0 |
| Germany | 0.5 | 0.4 | 1.2 | 1.4 | 1.2 | 1.2 |
| France | 1.3 | 1.1 | 1.3 | 1.3 | 1.0 | 1.1 |
| Italy | 0.2 | 0.2 | 0.6 | 0.7 | 0.6 | 0.5 |
| Spain | 2.0 | 1.7 | 1.6 | 0.8 | 0.8 | 0.9 |
| Emerging | 3.8 | 4.0 | 4.2 | 4.6 | 4.6 | 3.6 |
| China | 6.1 | 5.7 | 5.8 | 2.8 | 3.5 | 1.5 |
| India | 5.8 | 5.5 | 6.0 | 3.0 | 3.3 | 3.5 |
| Brazil | 1.0 | 2.0 | 3.0 | 3.7 | 3.4 | 3.7 |
| Russia | 0.9 | 1.5 | 1.5 | 4.7 | 3.8 | 4.0 |

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, % | | 2019 | | | | 2020 | | | | 2018 | 2019e | 2020e |
|-------------------|-------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| End of period | | Q1 | Q2 | Q3 | Q4 | Q1e | Q2e | Q3e | Q4e | | | |
| US | Fed Funds | 2.50 | 2.50 | 2.00 | 1.75 | 1.50 | 1.25 | 1.25 | 1.25 | 2.50 | 1.75 | 1.25 |
| | Libor 3m \$ | 2.60 | 2.32 | 2.09 | 1.70 | 1.40 | 1.20 | 1.20 | 1.25 | 2.81 | 1.70 | 1.25 |
| | T-Notes 10y | 2.42 | 2.00 | 1.67 | 1.75 | 1.60 | 1.80 | 2.10 | 2.00 | 2.69 | 1.75 | 2.00 |
| 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 | -0.31 | -0.35 | -0.42 | -0.50 | -0.50 | -0.50 | -0.50 | -0.50 | -0.31 | -0.50 | -0.50 |
| | Bund 10y | -0.07 | -0.32 | -0.57 | -0.35 | -0.50 | -0.40 | -0.30 | -0.30 | 0.25 | -0.35 | -0.30 |
| | OAT 10y | 0.26 | -0.01 | -0.28 | -0.05 | -0.20 | -0.15 | -0.10 | -0.10 | 0.71 | -0.05 | -0.10 |
| UK | Base rate | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 |
| | Gilts 10y | 1.00 | 0.84 | 0.40 | 0.71 | 1.00 | 1.10 | 1.20 | 1.20 | 1.27 | 0.71 | 1.20 |
| Japan | BoJ Rate | -0.06 | -0.08 | -0.06 | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 | -0.07 | -0.10 | -0.10 |
| | JGB 10y | -0.09 | -0.16 | -0.22 | -0.05 | -0.10 | 0.00 | 0.05 | 0.10 | 0.00 | -0.05 | 0.10 |

| Exchange Rates | | 2019 | | | | 2020 | | | | 2018 | 2019e | 2020e |
|----------------|-----------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| End of period | | Q1 | Q2 | Q3e | Q4 | Q1e | Q2e | Q3e | Q4e | | | |
| USD | EUR / USD | 1.12 | 1.14 | 1.09 | 1.11 | 1.12 | 1.13 | 1.13 | 1.14 | 1.14 | 1.11 | 1.14 |
| | USD / JPY | 110.69 | 107.74 | 108.08 | 107.00 | 104.00 | 103.00 | 103.00 | 103.00 | 109.72 | 107.00 | 103.00 |
| EUR | EUR / GBP | 0.85 | 0.89 | 0.89 | 0.84 | 0.83 | 0.83 | 0.83 | 0.82 | 0.90 | 0.84 | 0.82 |
| | EUR / CHF | 1.12 | 1.11 | 1.09 | 1.10 | 1.11 | 1.12 | 1.12 | 1.14 | 1.13 | 1.10 | 1.14 |

Source : BNPP GlobalMarkets (e: Estimates & forecasts)

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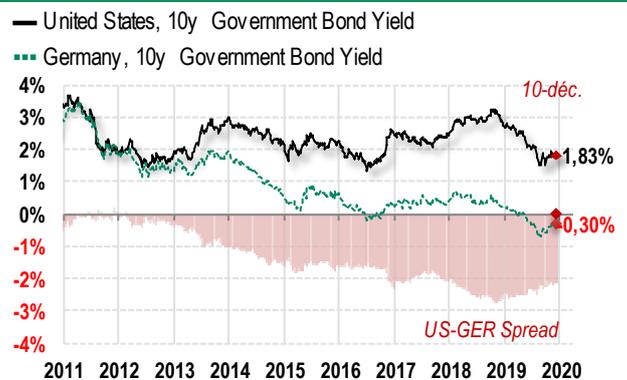
Euro-dollar

Euro vs Dollar



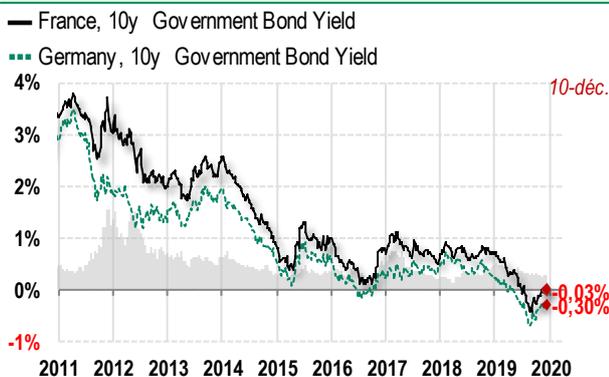
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Interest rates



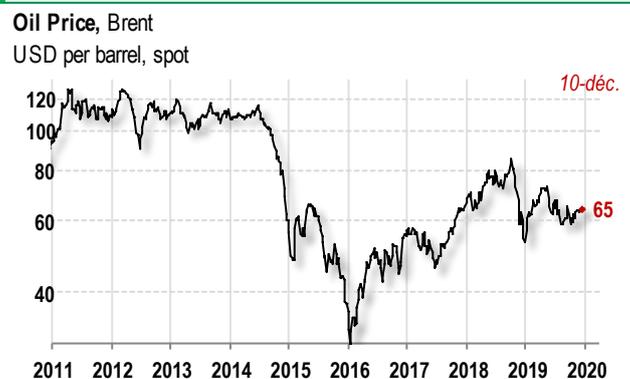
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Interest rates



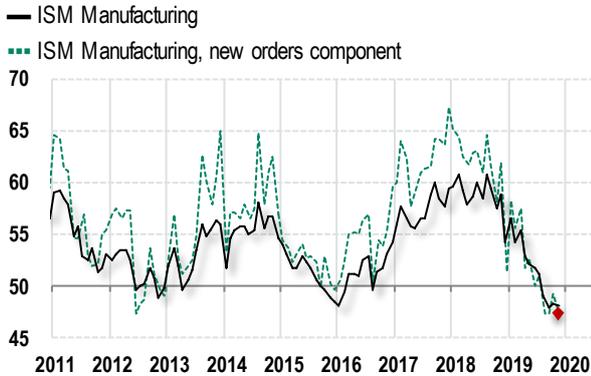
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Oil market



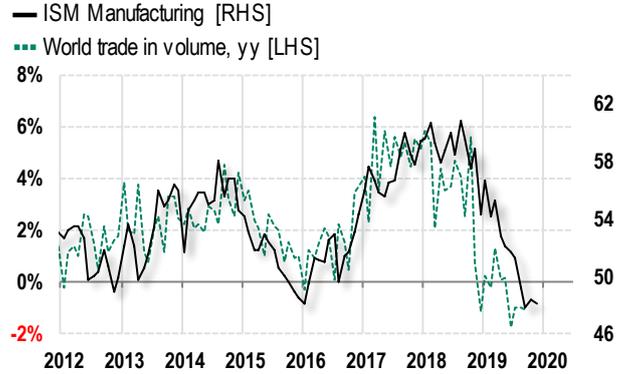
United States

7 US, business climate



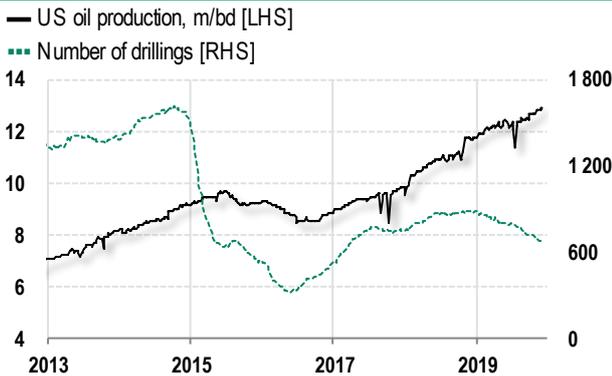
Slipping below 50. Some signs of stabilization..

8 US, business climate and world trade



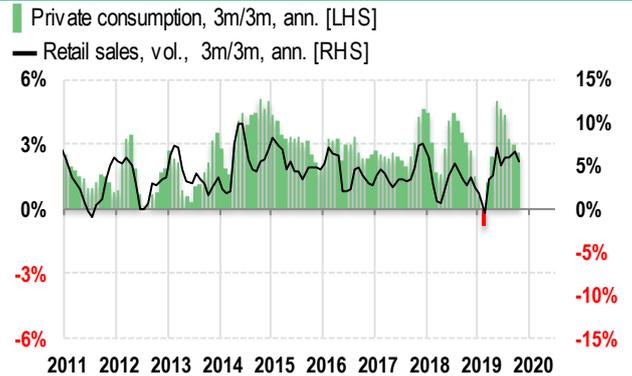
America first, but still moving with others....

9 US, domestic oil market peaking



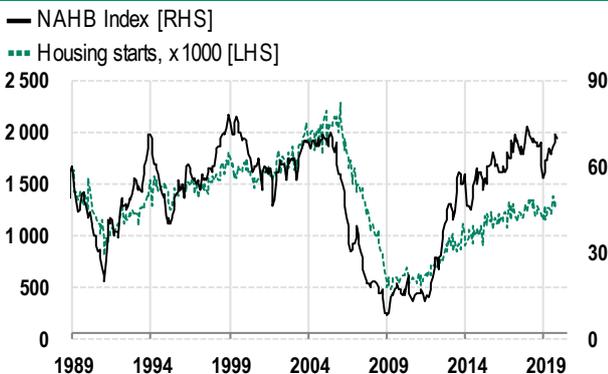
The number of drillings is now peaking, at a time when US oil production matches all times high.

10 US, consumption



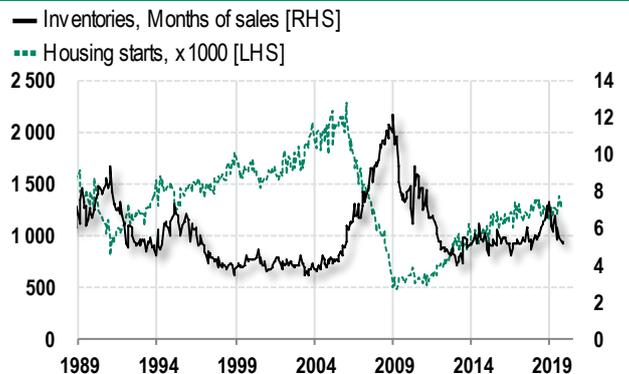
Keeping robust

11 US, housing market



The NAHB index has slightly rebounded...

12 US, housing market

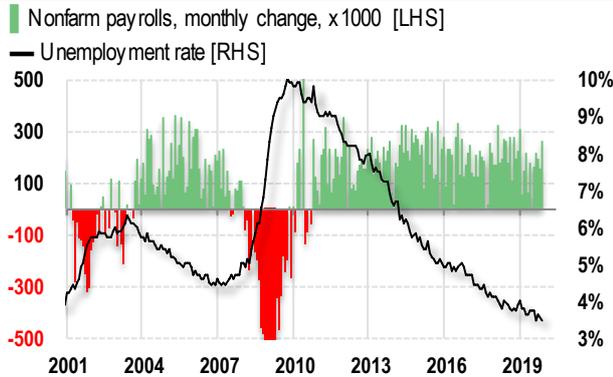


While inventories are down in month of sales.



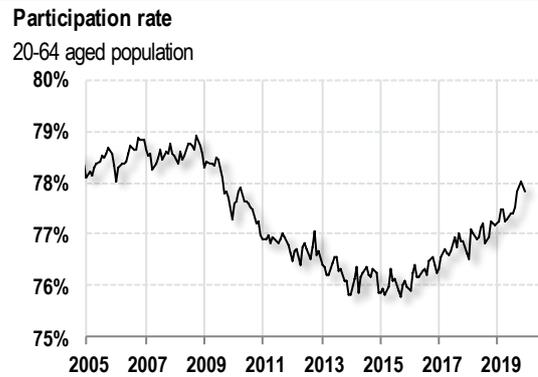
United States

13 US, non-farm payrolls vs unemployment rate



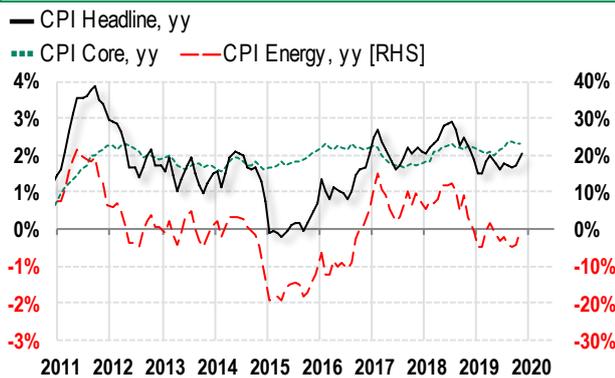
The US unemployment rate stands at 3.6%/3.7%, an historical low. But nonfarm payrolls are less dynamic.

14 US, labour force participation rate



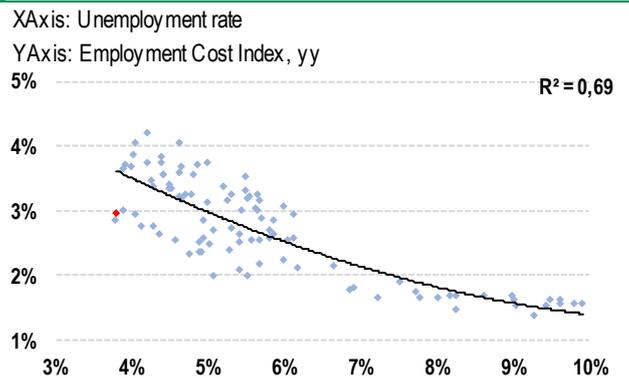
The participation rate among the working age population (20-64 year) has reverted upward.

15 US, muted tensions over prices



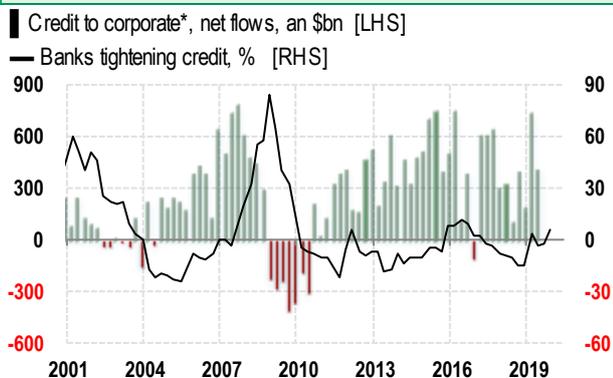
Energy prices are down. Core inflation stable.

16 US, some (limited) tensions over wages



Wage costs have increased in the wake of low unemployment rate, but not as such as a traditional Phillips Curve would have suggested.

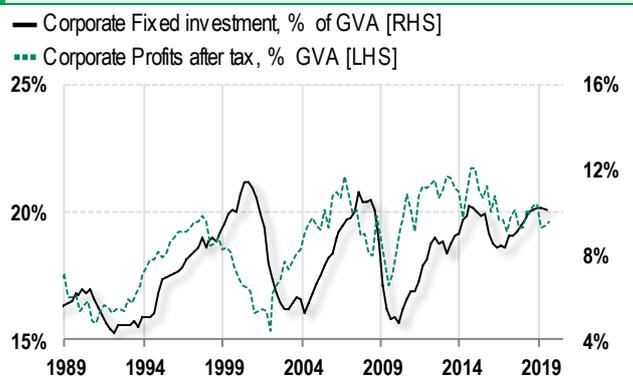
17 US, credit to corporates keeps healthy



*Bonds and loans

Still healthy.

18 US, profits and investment cycles

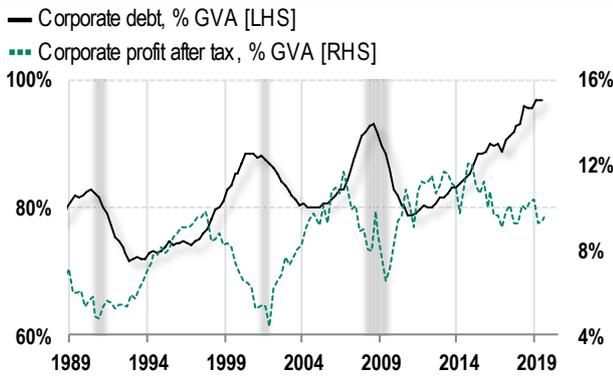


Profits and investment cycles are peaking



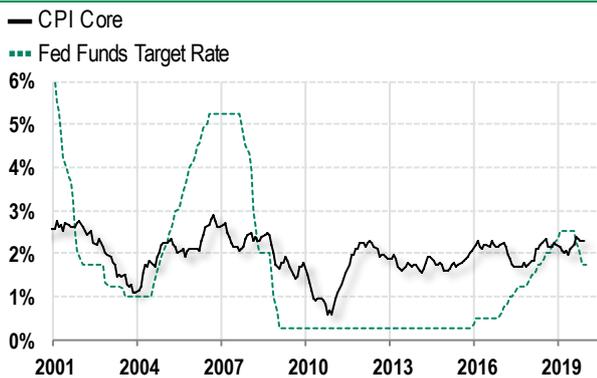
United States

19 US, higher leverage in corporate sector



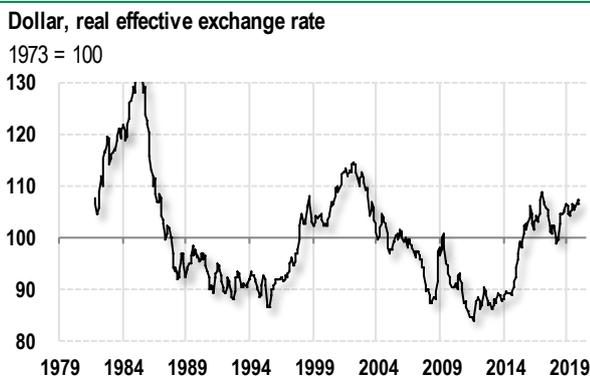
A cause for future concern? US companies are in debt again, while their profitability is peaking, a configuration that has often preceded recessions.

21 US, Fed funds rate and core inflation



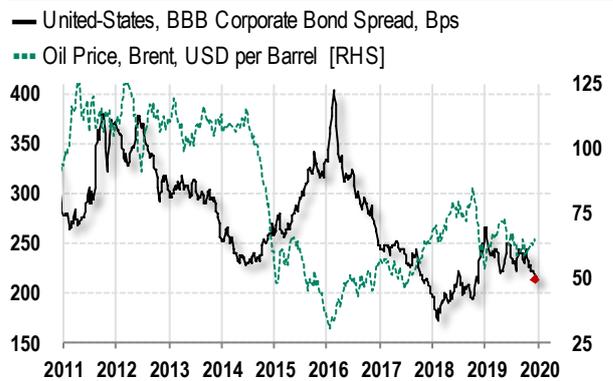
The Fed funds rate has ticked upwards, coming close to the core inflation level.

23 US, dollar effective exchange rates



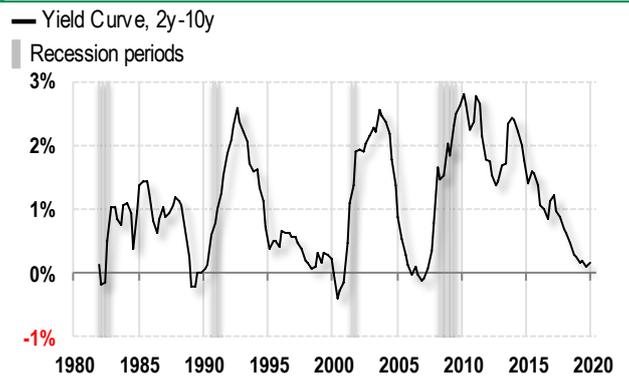
Looking at the real effective exchange rate (trade weighted & adjusted for inflation), the dollar looks to be on the expensive side.

20 US, corporate spreads



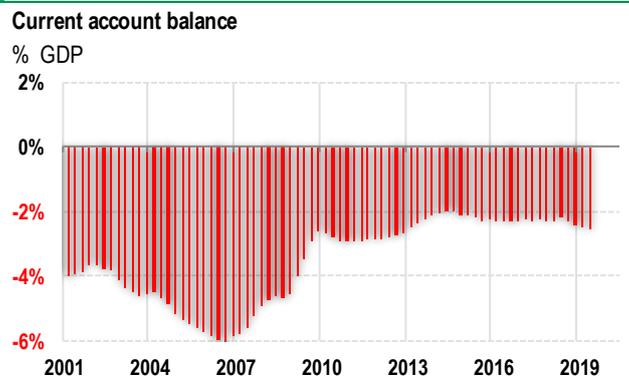
Corporate spreads have become sensitive to oil prices in the US. One explanation is the size of the highly-leveraged shale oil sector.

22 US, inverted yields curve



The yields curve is now flat to inverted, a bearish signal for economy.

24 US, external accounts

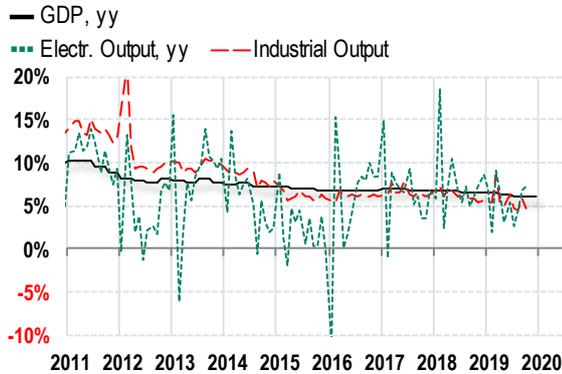


Tariffs increases did not help to curb external deficits, which have tend to widen recently.



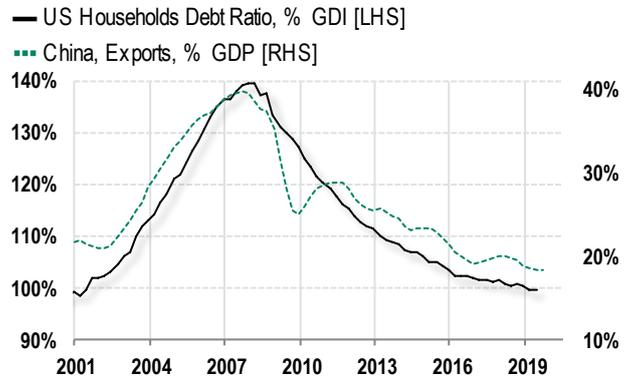
China

25 China, various activity indicators



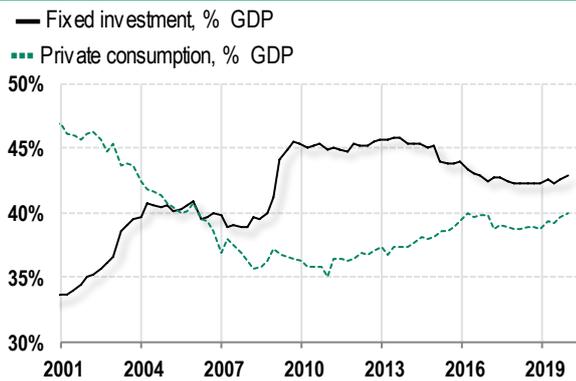
Electricity and industrial output both consistent with a slowdown in GDP, currently expanding at a less than 6% annual path.

26 China, change in growth determinants



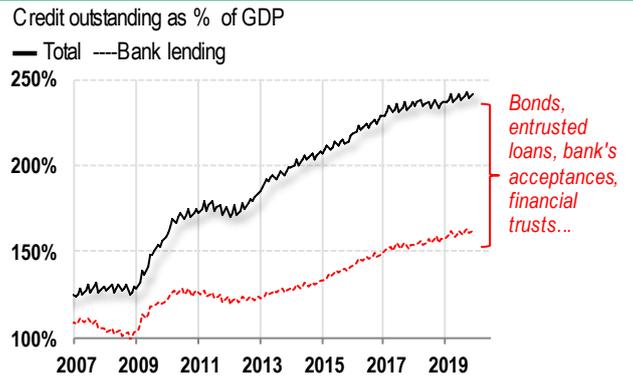
Bent on deleveraging, US consumers are importing less from China.

27 China, investment has come down



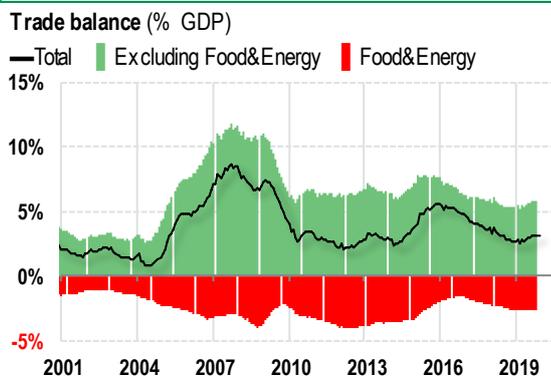
Consumption is still relatively low in terms of GDP (less than 40%)

28 China, credit



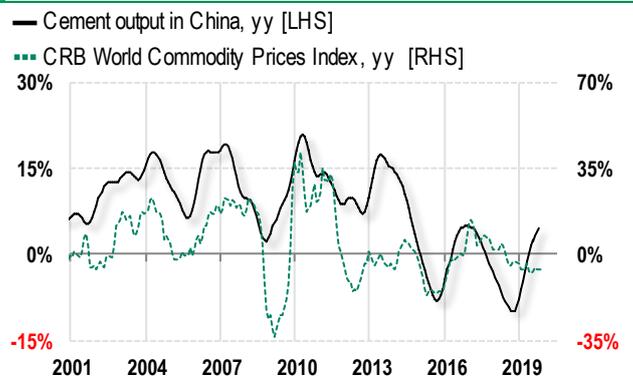
China has the highest internal debt ratio of the emerging countries.

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

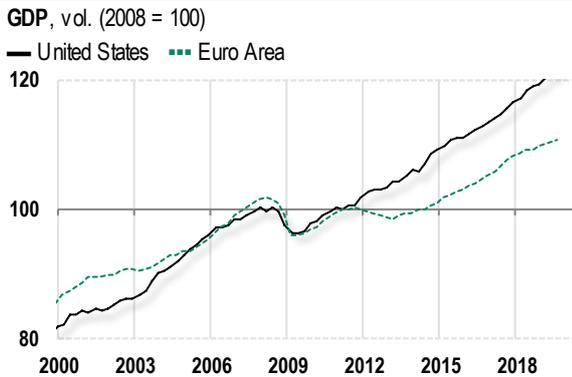


The Chinese cement industry seems to edge back toward recession, which has negative implication for commodity markets.



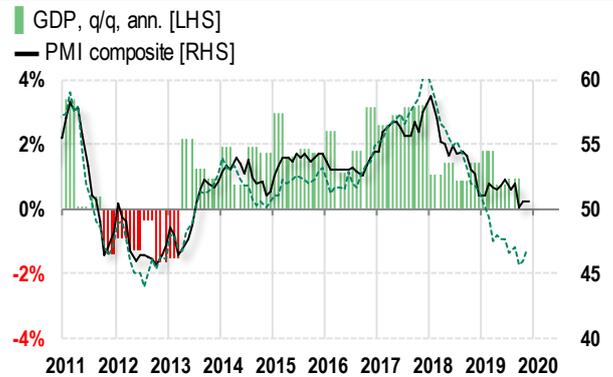
Euro Area

31 Euro area, lagging behind



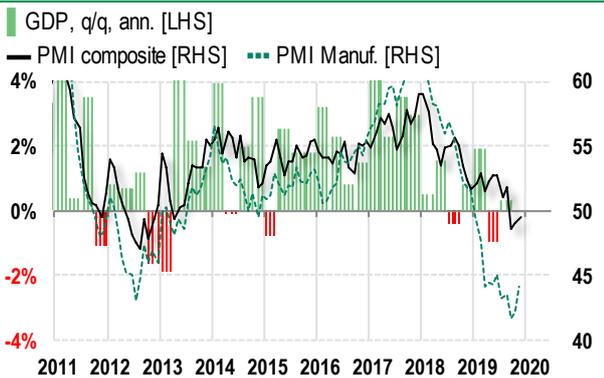
Although growth has accelerated, it still lags behind the US.

32 Euro area, GDP growth vs business surveys



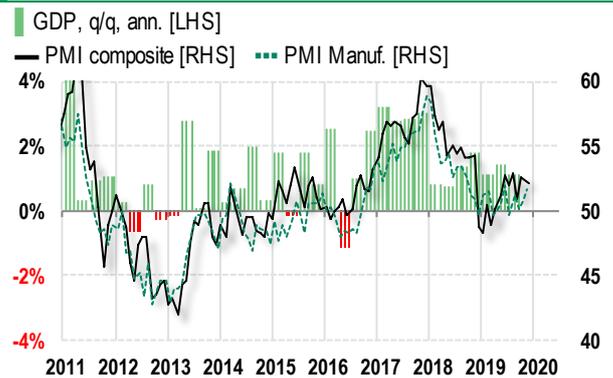
Surveys show big discrepancy between manufacturing and services.

33 Germany, GDP growth vs business surveys



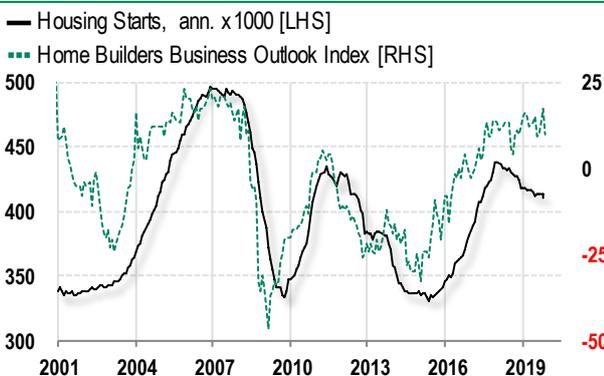
Deep recession in the manufacturing area.

34 France, GDP Growth vs business surveys



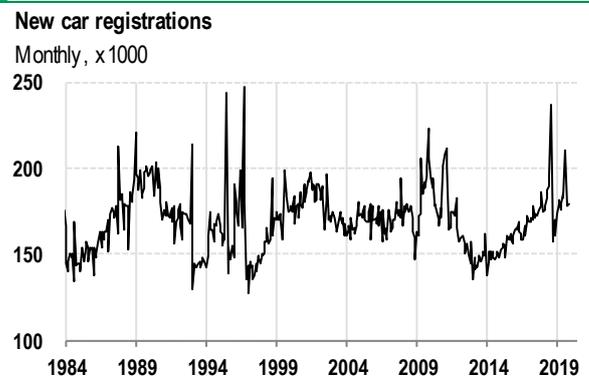
Leaning against the wind, as a major service-oriented economy. Early 19' tax cuts are also helping.

35 France, housing starts



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

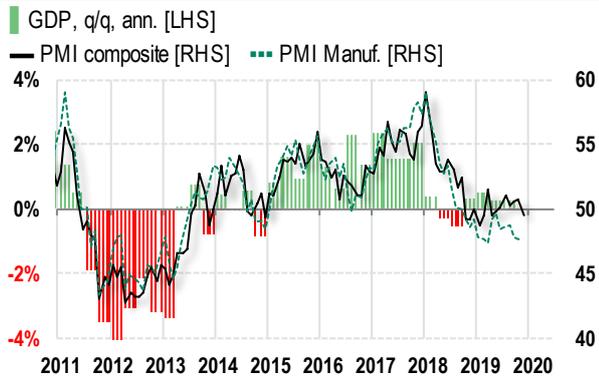
36 France, car registrations



August data distorted by inventories adjustments. The market has probably passed its peak.

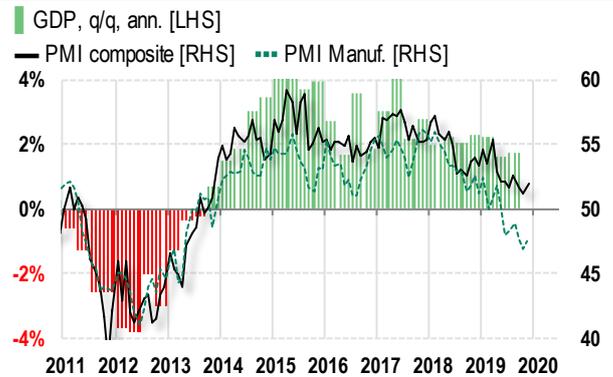
Euro Area

37 Italy, GDP growth vs business surveys



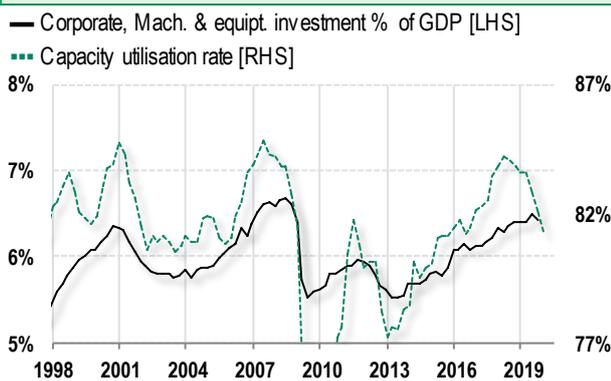
In recession territory...

38 Spain, GDP growth vs business surveys



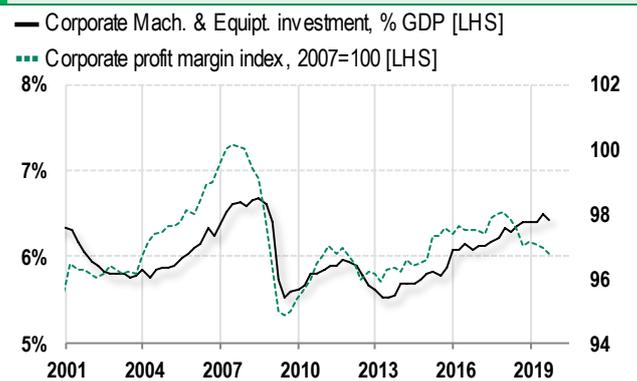
Still good, albeit losing some momentum

39 Euro area, fixed investment vs cap. utilization rate



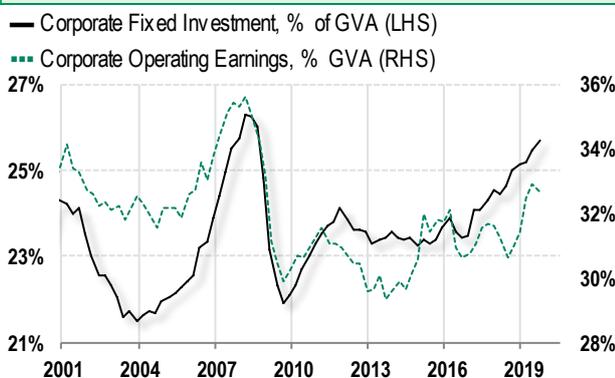
Higher capacity utilisation rates...

40 Euro area, corporate fixed investment vs profits



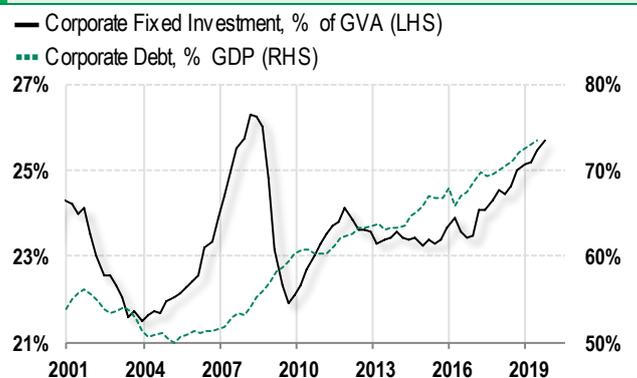
... and upward profit margins have triggered an upturn in corporate investment. Now peaking?

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. Early 19 surge is due to the transformation of CICE into tax cut.

42 France, fixed investment vs corporate debt

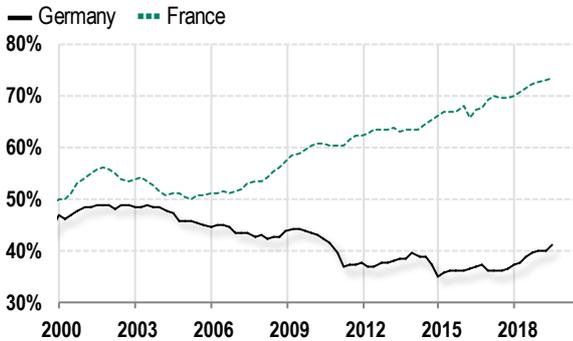


Credit has been a support factor for investment in France.

Euro area

43 Corporate debt ratio, diverging trends

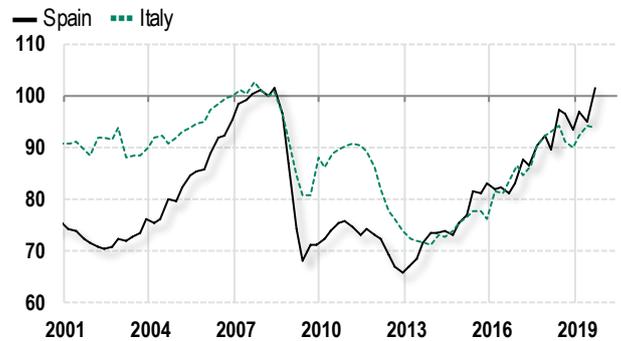
Nonfinancial corporate debt, % GDP



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.

44 Euro area, trend in corporate fixed investment

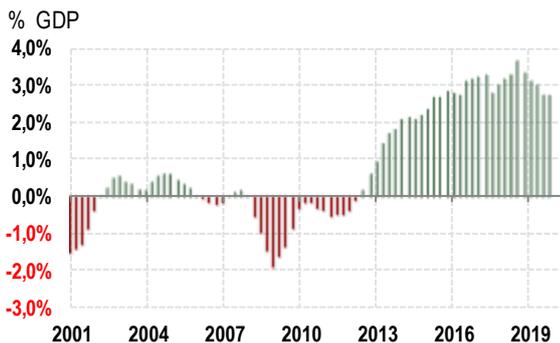
Investment in Mach. & Equip., 2008 = 100 (vol.)



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

45 Euro area, current accounts show large surpluses

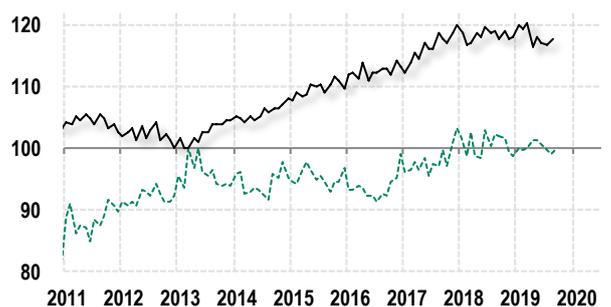
Current account balance



At a record high.

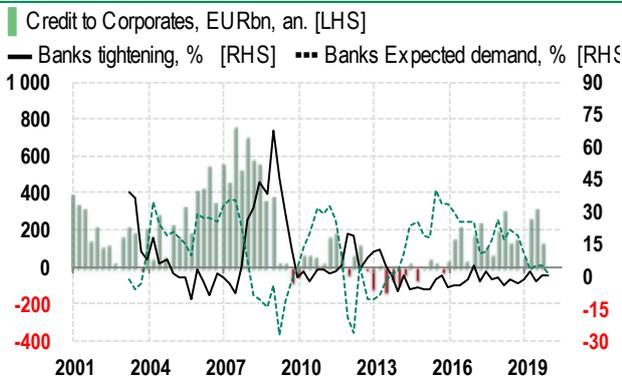
46 Euro area, trend in exports

Intra-EU Exports, vol., 2013=100
Extra EU Exports, vol., 2013=100



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

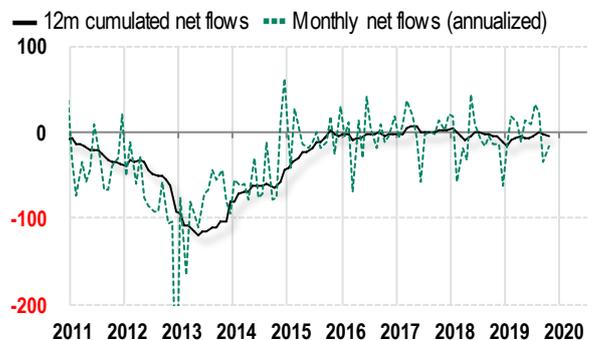
47 Euro Area, credit to corporates vs bank lending survey



Corporate credit has slowly recovered since 2015 but banks now expect demand to weaken.

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

Credit to corporates, EURbn, <1y & EUR 1mn



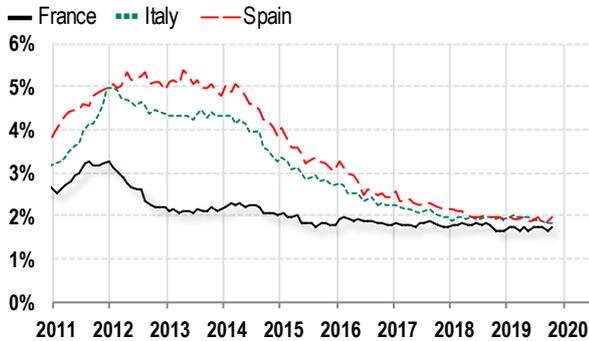
Credit to corporates (under 1 year and EUR 1mn) is stable in Spain.



Euro area

49 Euro area, financing conditions have improved

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

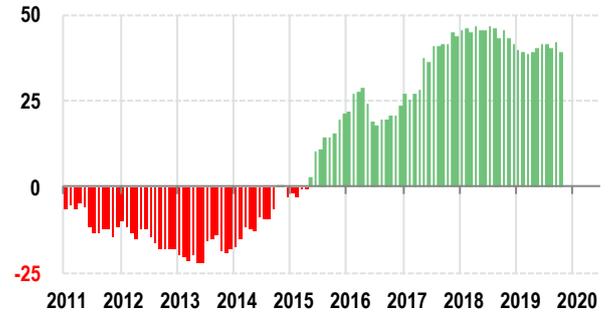


The convergence of lending rates signals a reduction in fragmentation.

50 Euro area, consumer credit

Euro area consumer credit

12m cumulated flows, EURbn

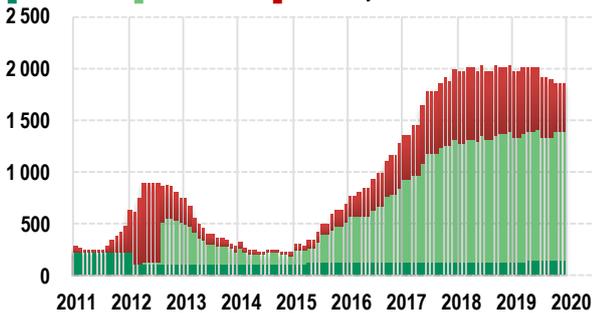


Consumer credit is firmly back in positive territory.

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 rather dynamic.

53 Euro area, inflation still subdued

— CPI Headline, yy

— CPI Core, yy — CPI Energy, yy [RHS]

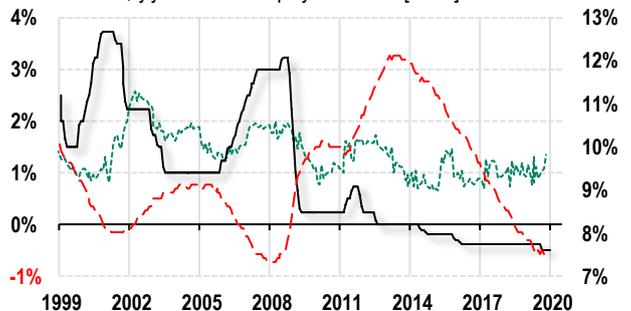


The core inflation rate is trending around 1% per year. The fluctuation in headline figure is mainly caused by energy.

54 Euro Area, ECB "refi" rate vs determinants

— ECB Depo rate

— CPI Core, yy — Unemployment Rate [RHS]



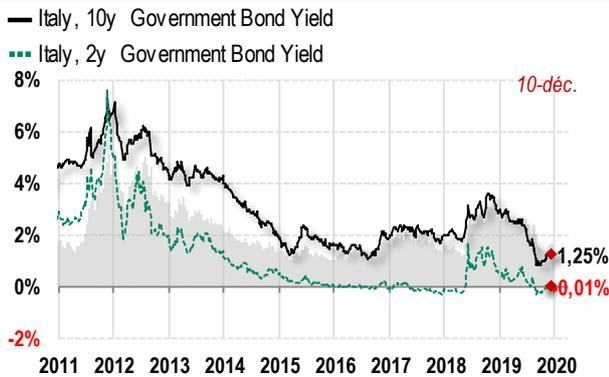
The ECB depo rate (now -0.50%) is negative since March 16. The decline in unemployment rate should have called for normalisation, but not this time...



Markets

55

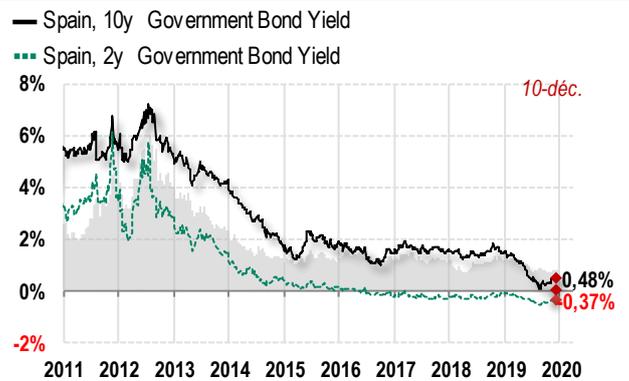
Italian 10 year rates



Rebounding, amid political uncertainties.

56

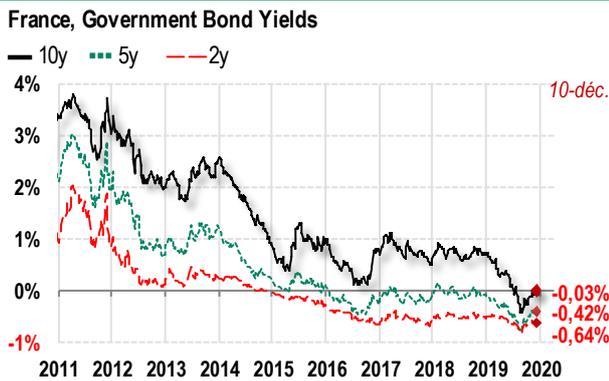
Spanish 10 year rates



Still relatively low.

57

France, over several maturities

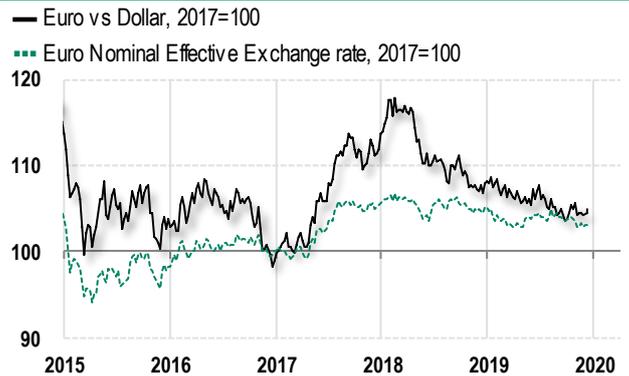


Sources : Thomson Datastream, BNP Paribas

Still very low by historical standard, at all maturities.

58

Euro-dollar

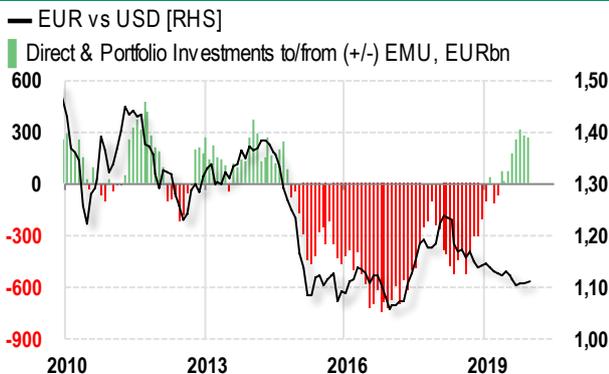


Sources : Thomson Datastream, BNP Paribas

Correcting from the 2017' rebound.

59

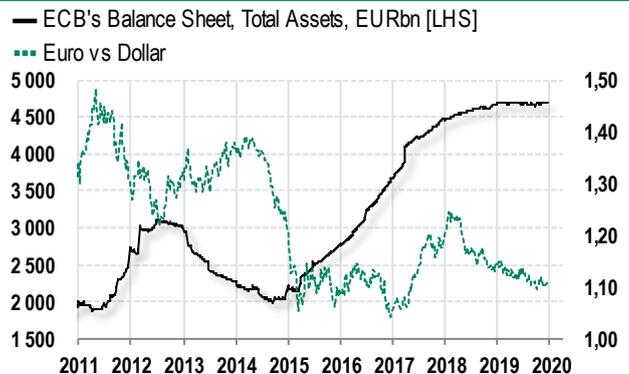
Euro-dollar vs capital flows



Capital outflows from the EMU (direct and portfolio investments) have stopped, replaced by net inflows (Brexit effect?). Correlation with EURUSD is lost.

60

Euro-dollar vs ECB's balance sheet



Lower range of fluctuation after QE.



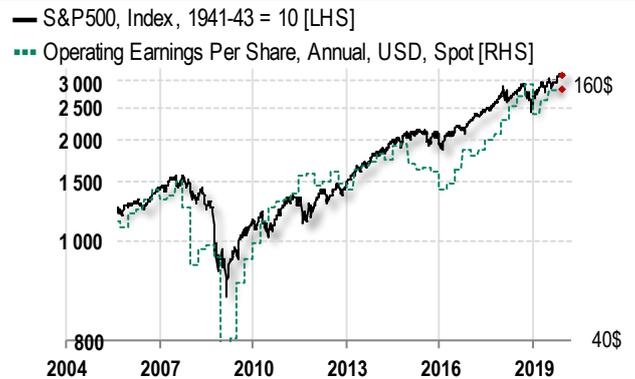
Markets & public finances

61 US, S&P500 Trend in Operating earnings



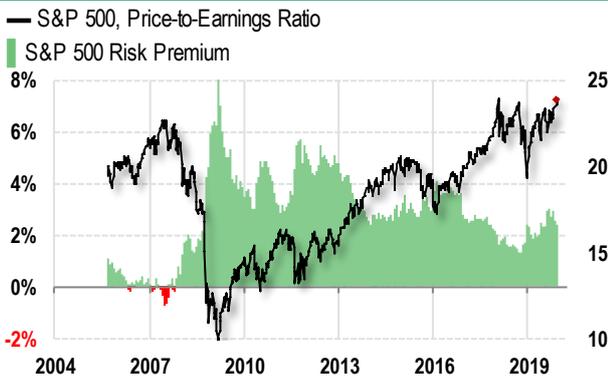
Earnings per share are now far above their long-term trend.

62 US, S&P500 index vs operating earnings



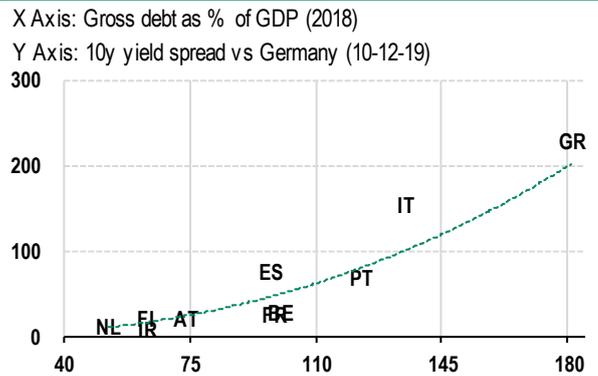
High in the sky.

63 US, S&P 500 "Fed model"



Based on trend EPS, the market valuation looks rather expensive

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



... with some details (European Commission estimates)

| | GDP | Gen. Gov. fiscal balance | | | | Interests payment | | | Public debt | | |
|-------------|---------------|--------------------------|-------------|------------|-------------|-------------------|------------|------------|---------------|-------------|-----|
| | | Total | Primary | Struct. | Total | Total | %GDP | Rating S&P | | | |
| 2018 | €bn | €bn | %GDP | %GDP | %GDP | €bn | %GDP | Av. rate | €bn | %GDP | |
| Germany | 3 344 | 62,4 | 1,9 | 2,8 | 1,4 | 31,7 | 0,9 | 1,5 | 2 069 | 61,9 | AAA |
| France | 2 353 | -59,5 | -2,5 | -0,8 | -2,7 | 40,3 | 1,7 | 1,8 | 2 315 | 98,4 | AA |
| Italy | 1 765 | -38,6 | -2,2 | 1,5 | -2,4 | 64,7 | 3,7 | 2,8 | 2 380 | 134,8 | BBB |
| Spain | 1 202 | -30,5 | -2,5 | -0,1 | -2,9 | 29,3 | 2,4 | 2,6 | 1 173 | 97,6 | A |
| Netherlands | 774 | 11,6 | 1,5 | 2,4 | 0,9 | 6,9 | 0,9 | 1,6 | 406 | 52,4 | AAA |
| Belgium | 460 | -3,4 | -0,7 | 1,4 | -1,8 | 9,6 | 2,1 | 2,1 | 460 | 100,0 | AA |
| Austria | 386 | 0,8 | 0,2 | 1,8 | -0,3 | 6,3 | 1,6 | 2,2 | 285 | 74,0 | AA+ |
| Greece | 185 | 1,8 | 1,0 | 4,3 | 5,1 | 6,1 | 3,3 | 1,9 | 335 | 181,2 | BB- |
| Portugal | 204 | -0,9 | -0,4 | 2,9 | -0,6 | 6,9 | 3,4 | 2,8 | 249 | 122,2 | BBB |
| Finland | 234 | -1,9 | -0,8 | 0,1 | -1,0 | 2,1 | 0,9 | 1,5 | 138 | 59,0 | AA+ |
| Ireland | 324 | 0,2 | 0,1 | 1,7 | -0,6 | 5,2 | 1,6 | 2,6 | 206 | 63,6 | AA- |
| EMU | 11 561 | -57,9 | -0,5 | 1,3 | -0,8 | 212,6 | 1,8 | 2,1 | 10 161 | 87,9 | |
| UK | 2 419 | -55,5 | -2,3 | 0,2 | -2,6 | 59,2 | 2,4 | 2,9 | 2 055 | 84,9 | AA |
| EU | 15 898 | -114,1 | -0,7 | 1,1 | -1,7 | 292,6 | 1,8 | 2,3 | 13 024 | 81,9 | |

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