WORLD

MACRO-ECONOMIC SCENARIO 2022-2023

Quarterly – December 2021

ECO
ÉTUDES ÉCONOMIQUES GROUPE

Betting on a successful double normalisation

The outline of our reasonably optimistic scenario for advanced economies is for growth trending from unusually robust to still strong, combined with an easing of inflation. Although there is less to fear from the spread of the new variant (or variants) thanks to vaccines, this scenario assumes that demand will calm down and supply issues will ease. We are betting that this double normalisation will allow inflation to calm down before it becomes harmful.

In the **US**, growth – after a forceful 5.6% in 2021 – is expected to remain solid (3.8% in 2022) before gradually converging toward its long-term trend (2.3% in 2023). Growth is expected to benefit from solid consumption, driven by the improving labour market; high wage growth, if only in those sectors most affected by labour shortages; and the untapped savings pool, a safety net that is dampening the sharp acceleration in inflation that is still considered to be temporary. The scenario is clearly favourable on consumption, and investment too: businesses remain optimistic despite persistent supply chain disruptions and workforce shortages. Of course, we cannot underestimate the risk that inflation that stays higher for longer than anticipated will eat into purchasing power and undermine robust growth; however, this is not our central scenario.

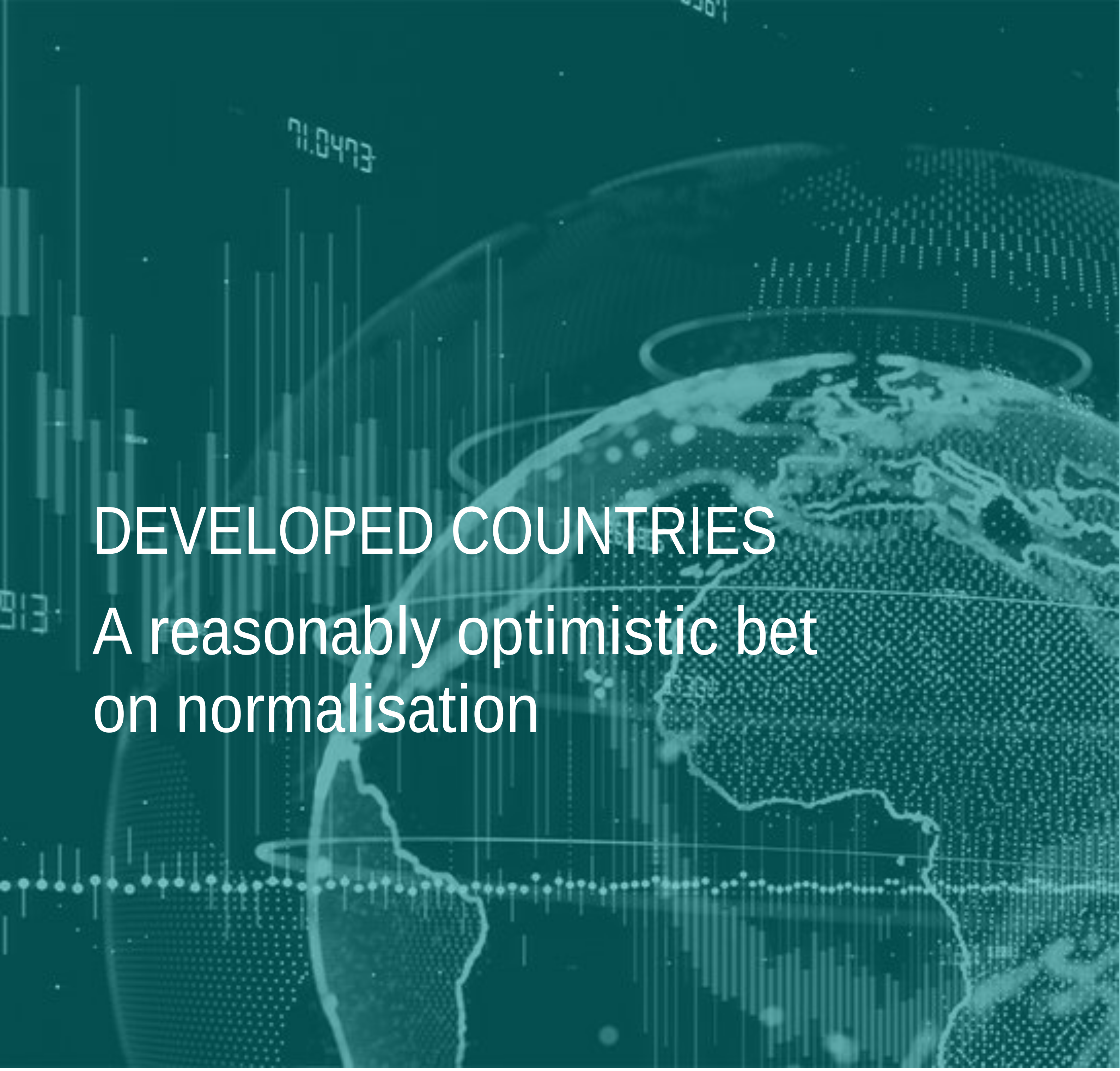
In the **Eurozone**, while the pace of recovery has not yet closed the negative output gap, the exogenous inflation shock does not seem capable of altering the scenario of growth decelerating slowly while remaining strong. After 5.2% in 2021, growth is expected to stand at 4.4% in 2022 and then 2.5% in 2023. In spite of its rebound, aggregate demand is being frustrated by lower supply (logistical blockages, strained supply chains, input & labour shortages), and remains weak. It is precisely that weakness that is keeping wage rises limited in our scenario, along with a more persistent yet temporary rise in inflation. Just as in the US, the main risk is that inflation will rise above our expectations. This would compromise growth by eroding purchasing power, rather than by expectations fuelling any wage-price spiral.

Our scenario applies very mixed levels of **monetary policy normalisation** (still preferable to monetary tightening). Based on the strength of actual or expected inflation, and how well growth is anticipated to hold up in their respective jurisdictions, central banks are committed to very different paths when it comes to withdrawing their exceptional and generous accommodative monetary policy. While the Federal Reserve has forged ahead, the ECB seems in no hurry and is expected to remain accommodative for some time to come.

Monetary policy normalisation is not expected to bring about substantial rises in bond yields. We expect a year of two halves in 2022. After a first half that will continue to be dominated by strong growth and high inflation, conducive to a trend of rising **interest rates**, a deceleration trend is expected to take over and push interest rates back down again. In the **US**, the 10-year government bond should recover, peaking at 1.75% at mid-year before starting to fall back and finishing 2022 at 1.35%. In the **Eurozone**, the ECB and the markets will assess the inflationary risk, and this, along with the markets' confidence in the ECB's diagnostics, will be decisive. The increase in inflation – and in its volatility – is expected to drive the term premium upward during H122. In sympathy with the ebb in growth and price pressures, rates are expected to move into a downward trend in H2. The German 10-year yield is expected to reach -0.25% by the end of 2022. Whereas the outlook is fading for new stimulus measures from the ECB, its messaging will have to be as subtle as it is convincing, in order to keep peripheral spreads from widening; however, they could widen slightly. The risk premiums offered by France and Italy are expected to sit at 35bp and 130bp, respectively, above the Bund at end-2022.

Sadly, the public health crisis has highlighted the gulf between developed and **emerging countries** (a fairly vague qualification, sometimes misused, even in these pages, on occasion), and on the fragmentation within that 'emerging world'. The exit from the crisis, with varying degrees of success, is producing identical effects. Fragmentation is continuing or even deepening: the cyclical shock from the crisis is having more devastating and longer-lasting effects, especially in the least-advanced countries. As such, it is difficult (indeed impossible) to trace an overall 'emerging' scenario, so unique are the stories. Still, we should try to sketch the broad lines. In terms of inflation and growth, 2022 could be very roughly sliced in two: an H1, amid US monetary policy normalisation, marked by new rate hikes and risks for the countries most in need of liquidity or most in debt; and a calmer H2, with an easing of restrictions, supply/demand imbalances and inflation.

Catherine LEBOUGRE



DEVELOPED COUNTRIES

A reasonably optimistic bet on normalisation

USA – Growth to rebound from delta-driven Q3 slowdown

Eurozone – Resilient to the persistent supply shock

United Kingdom – At the mercy of the variants

Japan – Economy to remain on a recovery path with political focus shifting to the upper house election in July 2022

Focus – Inflation: another year of inflation fears

Focus – Covid in Europe: the virus takes root, again

A reasonably optimistic bet on normalisation

The outline of our scenario is for growth trending from unusually robust to still strong, combined with an easing of inflation. Although there is less to fear from the spread of a new variant (or variants) thanks to vaccines, this scenario assumes that demand calms down and supply issues ease.

USA: GROWTH TO REBOUND FROM DELTA-DRIVEN Q3 SLOWDOWN

We expect US growth in 2022 to remain resilient overall despite some virus-induced choppiness in recent quarters. Impacts from the delta variant in Q321 have led to a modest downgrade to our 2021 forecast to 5.6% from 6.0%, though the trend of a strong rebound in 2021 followed by slower but still above-potential growth in 2022 remains intact. We see growth in 2022 at a solid rate of 3.8% with further slowdown back towards trend in 2023 to 2.3%.

Despite a slowdown to 2.1% in Q3, momentum was improved in the latter portion of that quarter and has carried over into October data thus far. This trend points to a rebound in Q4 to a pace above 5.0%, with growth remaining strong in the 3.5-4.0% range in H122 before gradually decelerating back towards 2.0% in H222 and into 2023.

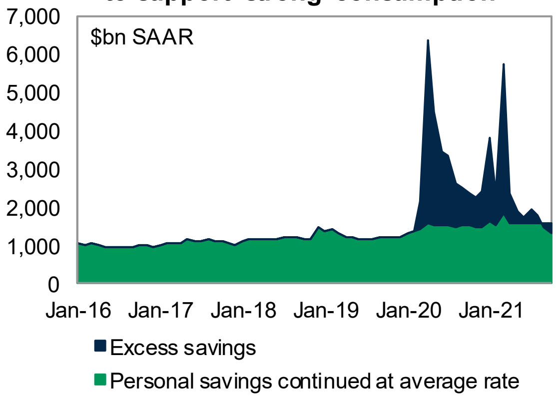
A number of factors should support the continuation of above-trend growth, starting with those bolstering the consumer. The first includes a significant pile of accumulated savings amassed during the past year and a half. While direct payments have already been disbursed and other stimulus measures such as enhanced unemployment benefits have now expired, the savings rate has only just returned to the pre-crisis range. This means that, while no longer continuing to grow savings, consumers have yet to draw down on a pile of more than USD2trn that has been built up, which should allow a cushion to offset rising prices and drive strong consumption.

The labour market should also provide support, with strong job growth following a softer patch during the delta wave, and signs that this will persist in the coming months given elevated labour demand. Labour supply issues may resolve only gradually, as health concerns persist and many workers will be able to draw on accumulated savings to allow for more pickiness in choosing a job, but this will not last forever so we see a stronger recovery in participation once we get into 2022. That may keep wage growth elevated in the near term, particularly in low-paying sectors where shortages are most acute. Though wage pressures should diminish as supply comes back on line, the near-term acceleration acts as another partial offset to help counter rising inflation.

Annual change	2021	2022
GDP	5.6%	3.8%
Inflation	4.7%	4.8%

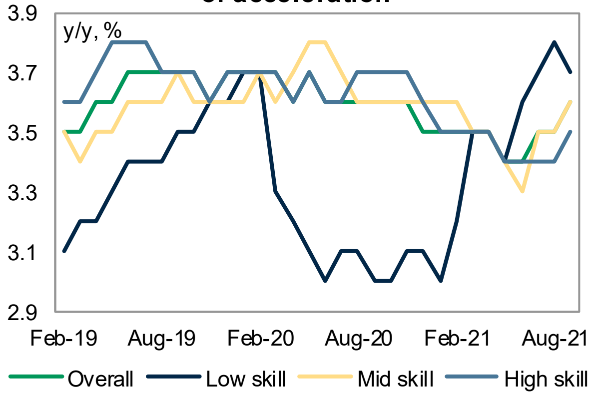
In addition to consumption, we remain fairly bullish in terms of investment as well. Recent surveys indicate that businesses are still optimistic despite ongoing issues with supply chain disruptions and labour shortages. In fact, both ISMs have been consistently above 60 in recent months, pointing to strong economic activity, with capital goods orders also signalling solid investment. Additionally, as businesses face rising costs, they may embark on investments aimed at enhancing productivity.

US: accumulated savings to support strong consumption



Sources: BEA, Bloomberg, CA CIB

US: wages show signs of acceleration



Sources: Atlanta Fed, Bloomberg, CA CIB

To add to the outlook for further fixed investment, businesses will also likely be looking to rebuild inventories after a significant drawdown in recent quarters. This pattern has persisted for each of the past three quarters as businesses have helped to satisfy elevated demand by dipping into stockpiles, so inventories are set to add to growth as they are replenished.

With the US recovery taking off faster than many peers in the early portion of 2021, in part driven by stronger stimulus, imports have outpaced exports thus far. We expect this trend to moderate and look for some reversal beginning in Q421 into 2022. For this year as a whole, net exports will act as a solid drag on growth, though not enough to offset strength in other categories, and the contribution will likely turn more neutral to slightly positive in 2022.

The US recovery taking off faster than many peers in the early portion of 2021.

After unprecedented policy support to counter the worst of the Covid impacts, both monetary and fiscal accommodation will be on the wane. The Fed will continue to normalise policy, though the overall stance will remain accommodative, while Covid relief packages are likely a thing of the past. That said, there is still some uncertainty on the fiscal side. While the bipartisan infrastructure bill with USD550bn in new spending has been passed, the Build Back Better bill focused on social spending of around USD1.75trn as of the latest iteration remains up in the air.

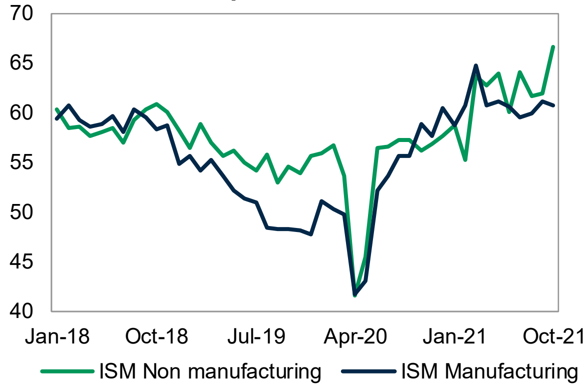
This could provide a modest boost to growth, though impacts will be more muted than earlier Covid relief bills as spending is spread over a number of years and will be at least partially offset by tax increases. **Still, the lingering impacts of past fiscal packages and only gradual removal of accommodation from the Fed should allow for a gradual slowdown as opposed to a sharp cliff as growth transitions back towards a trend-like pace.**

We see risks as tilted to the downside, with two main areas of concern. First, even if subsequent waves of Covid have trended towards smaller economic impacts than previous ones, Covid has not gone away and will continue to pose a risk, as seen in the delta impact in Q3 and the recent news on the Omicron variant.

Additionally, inflation concerns remain prominent, and a more persistent overshoot has the potential to cut into consumer purchasing power. In our base case, despite projections for further acceleration in Q122, we expect that consumers will be able to cope with a period of higher inflation given stronger wage gains and the ability to draw on accumulated savings. However, if there are additional upside surprises and readings do not begin to moderate more notably by H222, then inflation could begin to weigh more heavily on growth by cutting into consumer purchasing power.

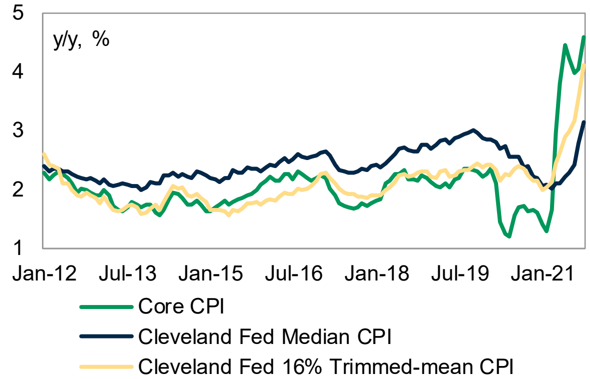
Nicholas VAN NESS

US: businesses remain confident despite bottlenecks



Sources: ISM, Bloomberg, CA CIB

US: broadening inflation pressures pose a key risk



Sources: BLS, Cleveland Fed, Bloomberg, CACIB

EUROZONE: RESILIENT TO THE PERSISTENT SUPPLY SHOCK

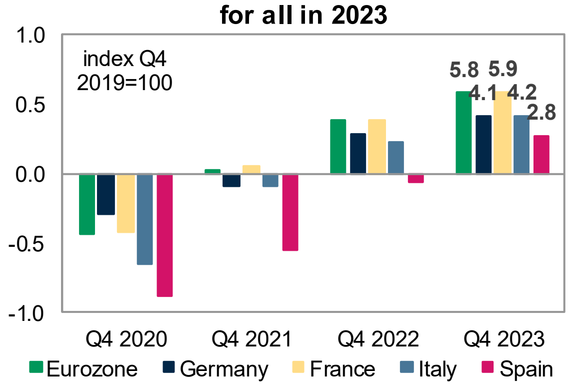
The Eurozone is facing an exogenous inflationary shock against a backdrop where the negative output gap still has not been closed. Indeed, at just -0.3% away, the zone has virtually returned to its pre-crisis GDP level, but will not reach the level it projected before the pandemic until mid-2022. Despite the strength of the rebound, aggregate demand is still weak, which is consistent with the modest uptick in wages and the temporary, albeit more persistent, rise in inflation.

More persistently weak supply is testing the strength of the recovery.

Optimism for a solid recovery tempered by new risks

The main risk of rising inflation is its impact on growth, as inflation erodes purchasing power, rather than on expectations that could fuel a price-wage spiral. Monetary and fiscal policy authorities should take into consideration the risk of growth being dragged down and maintain a cautious approach, which justifies our scenario of an ongoing accommodative policy mix.

Eurozone : full recovery for all in 2023



Sources: Eurostat, Crédit Agricole S.A.

Although there are visible signs that constraints in terms of inventories and backlogs of work in manufacturing are easing, supply issues (logistics bottlenecks, strained supply chains, input and workforce shortages) are proving to be the major test that this period of strong recovery needs to weather. This weakness is proving more persistent and is making economies more vulnerable to the slightest shock.

The damage inflicted on the Eurozone economy by the pandemic appears to be less severe than initially expected, which corroborates our optimistic scenario of growth transitioning from unusually strong to a more normal but steady pace. The impact of the fifth Covid wave remains limited for the region as a whole, thanks to high vaccination rates. For now, the challenge of a potentially vaccine-resistant Omicron variant is relegated to the risky scenario. We are forecasting GDP growth of 5.2% in 2021, 4.4% in 2022 and 2.5% in 2023.

A strong but incomplete rebound

Despite the strength of the rebound in Q221 (+2.2%), growth maintained its robust showing in Q3 (+2.2%) leaving a very large overhang (5.1%) for average annual GDP growth in 2021.

Although private consumption accelerated (+4.1%, after 3.9%), this pace is not enough to close the gap with the pre-crisis level, which remains at 2.4%.

Growth in productive investment excluding transport equipment remained positive, returning to its usual pace, while the build-up of transport equipment declined further (-8.6%). The dip in construction investment is due to drops in both components, housing and other construction, after several quarters of very solid growth.

From an unusual recovery to more normal expansion

The slowdown in activity that is projected in Q421 (0.5%) originates in the normalisation of demand, but is accentuated by growth downgrades in Germany, the Netherlands and Austria associated with the fifth wave of the pandemic. Growth should then return at a quicker pace than its pre-crisis level.

Risks directly related to the pandemic are easing, and extreme risks have been avoided

The risk of the private sector becoming insolvent due to the increased debt taken on in the wake of the pandemic is lower than initially thought. Corporate bankruptcies may still rise but not to the levels feared at the peak of the crisis. Existing corporate balance sheet support and favourable financing terms will underpin investment (+4.4% in 2022 and 2023, after 3.5% in 2021), strengthened by needs linked to the digital and energy transitions.

Eurozone households are gradually shifting their surplus savings into non-liquid assets, thereby driving investment and the housing market, as well as consumption. Nonetheless, low-income households still remain highly dependent on public support and have already begun to dip into surplus savings from the crisis. Rising wages and positive wealth effects will underpin consumption (5.9% in 2022 and 2.2% in 2023 after 3.5% in 2021) and savings trends will normalise. The potential erosion of accumulated surplus savings is an upside risk in our scenario.

YoY	2021	2022
GDP	5.2%	4.4%
Inflation	2.6%	3.0%

The growth gap opened by the pandemic has already been closed in France and will be closed more quickly in Italy than in Germany. Spain is lagging further behind and will only close its gap in 2023.

Paola MONPERRUS-VERONI

UNITED KINGDOM: AT THE MERCY OF THE VARIANTS

As the UK was just emerging from a summer marked by the delta variant, a new variant, Omicron, has cast its veil of uncertainty over the winter outlook there. Its severity remains under study and the government has so far contented itself with implementing precautionary measures. Q4 growth is therefore not expected to suffer too much. Business and household confidence is holding up but could again induce cautious behaviour.

Omicron is casting its veil of uncertainty

The delta variant caused disappointing growth in Q3 (GDP up by 1.3% compared to the expected 1.8%) despite September's rebound in activity, particularly in services. And it disappointed again in October with almost stable GDP over the month (0.1%), leaving a carry-over effect of just 0.5% for the last quarter of the year. However, confidence surveys, especially those among businesses, were encouraging ahead of the recent escalation of the worries about Omicron.

In October and November, increasing demand pushed the PMI composite survey well above its Q3 average, suggesting that activity should accelerate in Q4. Services were enjoying a rebound in foreign demand thanks to a recovery in tourism. On the flip side, industry has continued to suffer from serious bottlenecks and, although the business climate improved for the third month in a row, the survey points to a slowdown in production growth in Q4.

Year-on-Year	2021	2022
GDP	6.9%	4.8%
Inflation	2.6%	4.8%

Despite the end of the furlough scheme, consumer confidence improved in November but stayed lower than in the summer. The tightening of the labour market (unemployment down to 4.3% over three months at end-September, and record-setting vacancies) should continue to support household consumption, offsetting the negative effects of rising inflation on purchasing power.

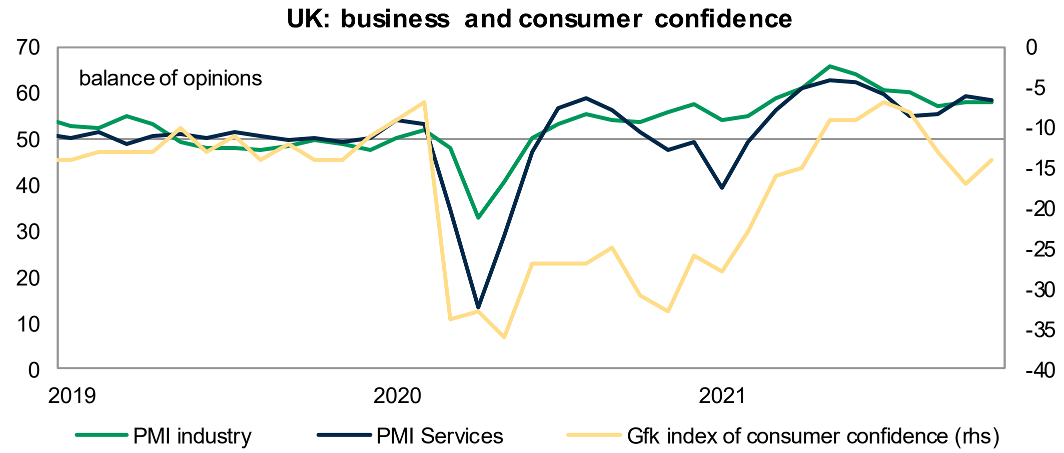
Budget tightening will be substantially reduced.

While there is still a great deal of uncertainty around Omicron, its impact on activity should be relatively limited. The measures put in place by the government to curb its spread are much less restrictive than at the start of the year. Consumers and businesses have demonstrated their ability to adapt to restrictions and associated working conditions (such as the obligation to work from home in particular), as shown by the less and less pronounced impact of the successive pandemic waves on GDP. On the other hand, Omicron should once again weigh on spending on services while boosting purchases of goods, thus exacerbating the already elevated inflationary pressures in the goods' sectors.

Less budgetary tightening than projected for the coming years

In October, Chancellor of the Exchequer Rishi Sunak announced a significant and unanticipated reduction in fiscal tightening, partially offset by an increase in the tax burden. While fiscal policy tightening will remain considerable over the next few years (the structural deficit is expected to decrease from 8.3% to 1.8% over the next three years), it will be cut sharply for fiscal year 2022-23 (by 0.8% of GDP). The OBR estimates that this lesser degree of tightening will boost GDP by 0.4% over the 2022-23 fiscal year. However, its effects on the economy are likely to be partially offset by the BoE's upcoming monetary policy normalisation and the negative impact of Brexit.

Slavena NAZAROVA



Sources: IHS Markit, Gfk, Crédit Agricole S.A.

JAPAN: ECONOMY TO REMAIN ON A RECOVERY PATH WITH POLITICAL FOCUS SHIFTING TO THE UPPER HOUSE ELECTION IN JULY 2022

After the faster-than-expected contraction in Q3, **we believe Japan's real GDP growth will perk up in Q4 and beyond** due mainly to a reactionary increase in auto production translating into an increase in exports; the realisation of pent-up consumer spending with a reduced number of new Covid-19 cases and more widespread vaccination; and the introduction of PM Fumio Kishida's first economic package to be coupled with the FY21 supplementary budget. Risks include a resurgence of new Covid cases, including those caused by the Omicron variant toward Q122, which could immediately suppress GDP growth.

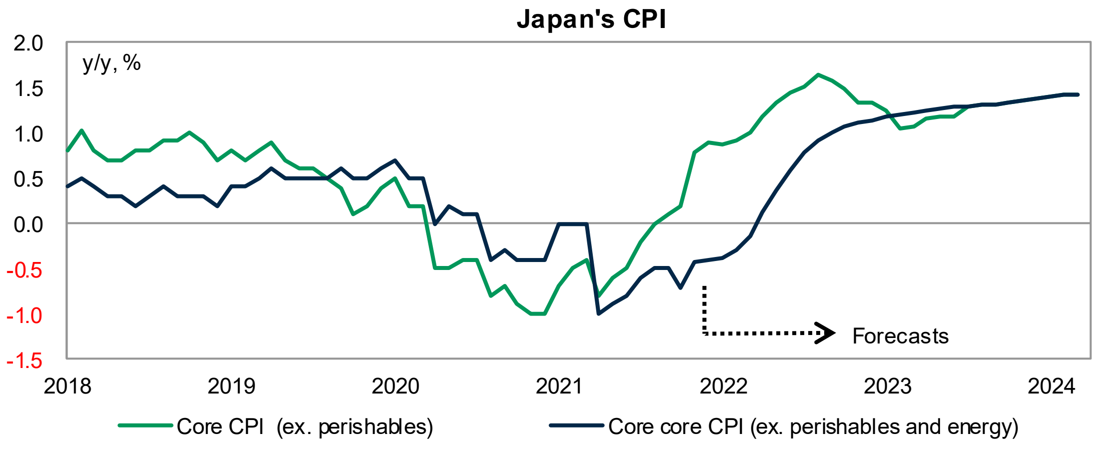
The inflation will slowly expand its YoY positive margin to reach 1.4% YoY in Q422.

Under these circumstances, Japan's output gap, which serves as a leading indicator of CPI by two to three quarters, will continue to shrink, **leading to our view that Japan's inflation measured by the core CPI (excluding perishables but including energy), the indicator most closely monitored by the BoJ, will slowly expand its YoY positive margin to reach 1.4% YoY in Q422**. However, CPI inflation will be nowhere near the 2% level targeted by the BoJ before the end of 2023 – and obviously not before April 2023, when Kuroda's term as BoJ governor ends – and therefore the BoJ will leave its monetary policy, ie, YCC and asset purchases, intact throughout our forecast horizon. One of the reasons for Japan's laggard inflation despite the global upstream inflationary pressure is that Japan is an importer of most of the energy, food and semi-conductors consumed at home, which has resulted in the outflow of income coupled with the worsening terms of trade, exerting a downward pressure on downstream inflation, ie, CPI.

Annual change	2021	2022
GDP	1,6%	3,0%
Inflation	-0,1%	1,3%

PM Kishida's economic package mentioned above includes the highest ever amount of government spending, JPY55.7trn or 10% of annual GDP. One of the political motives for this large government spending, in our view, is for Kishida to secure the ruling coalition's victory in the upper house election scheduled for July 2022. If this proves the case, and unless the lower house is dissolved, the Kishida cabinet can get a three-year window with no nationwide elections, the longest period allowed under Japan's legislation, giving the ruling LDP the time to discuss amending the constitution including pacifist article 9.

Kyohei MORITA



Notes: The VAT is excluded. Sources: MIC, Crédit Agricole CIB

FOCUS – Inflation: another year of inflation fears

Our scenario of the global economy's transition from an unprecedented post-pandemic recovery into a more normal expansion implies that demand will slow and supply will gradually recover, with moderate growth and a rebalancing of demand from goods to services and, as a result, more moderate inflation.

A final look at 2021

Inflation exceeded expectations in a big way in 2021, driven by skyrocketing commodity prices and unprecedented supply disruptions. Actually, most of the inflation risks materialised, with the noticeable exception of wages growth.

Global inflation drivers for 2022

We expect energy prices and supply disruptions to play a major role again, creating enormous uncertainty on the inflation outlook, not to mention the unpredictable factor that is Covid-19. In contrast, our economists do not expect a significant acceleration in wages after Q222, either in the US or in Europe. The energy transition will likely continue to play a major role, in 2022 and beyond, which is important because it may well justify some permanent – or at least persistent – inflation premium in inflation-linked products.

Eurozone inflation

Eurozone inflation is currently fuelled by technical effects – German VAT and new HICP weights – which will dissipate from January. Still, we expect extremely high inflation levels during most of H122 (around 3.5-4.0% with core around 2.0%), which will give the impression that high inflation is the new normal. On our side, we expect core inflation possibly back around 1.5% at end-2022, with a bumpy profile again in 2023 due to a new set of HICP weights.

Price-wage spiral: minimal risk

In the Eurozone, it is unlikely that recent inflation rises will have large and automatic repercussions on wage growth. Negotiated wages in the Eurozone rose only modestly in 2020 (+1.8% after +2.0% in 2018 and +2.2% in 2019). Wage negotiations early this year led to increases of 1.4% in Q121 and 1.7% in Q221. In Germany, negotiated hourly wages also increased moderately. After rising by 2.9% in 2019 and 2.2% in 2020, the trend remains modest in 2021: +1.5% in Q1; +1.4% in Q2 (1.2% and 1.5% respectively in July and August). With a forecast of 1.6% for 2021 and 1.8% for 2022, the Bundesbank expects a weaker increase in negotiated wages than before the crisis. Elsewhere, wage negotiations are generating only small increases (eg, +0.6% in Italy in 2021 and 2022).

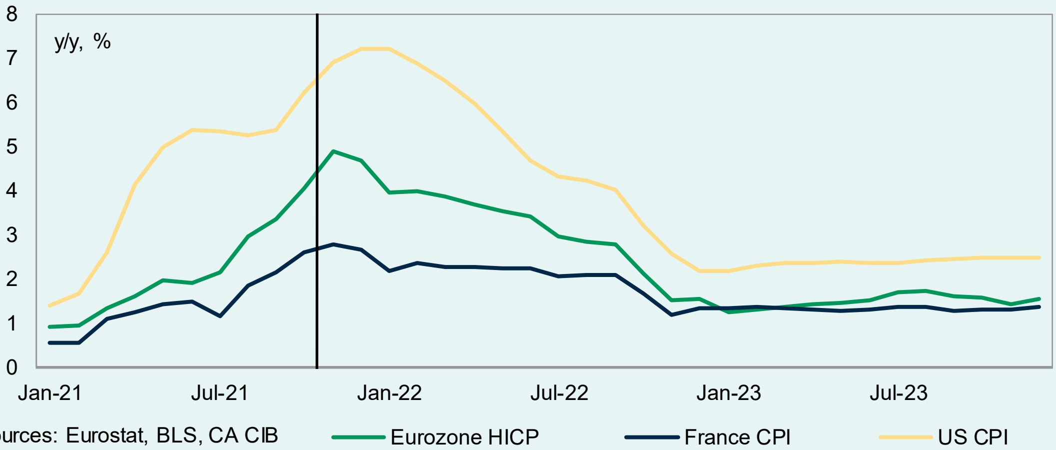
> *Inflation does not really play a formal role* ***in wage setting and, when it does, it's*** *inflation ex-energy.*

US inflation

At the time of writing, we expect US headline CPI to peak slightly above 7% in early 2022, with core CPI accelerating further to around 6% in Q122. From there, our inflation scenario shows a gradual decline from Q2, with core CPI passing below 3% at year-end. Strong inflation in rents will likely maintain core CPI above trend in 2023 as well, maybe even in 2024. This is one of the reasons why the phrase "transitory spike" no longer looks to be an accurate description of the US inflation picture.

Paola MONPERRUS-VERONI
Jean-François PERRIN

Inflation: forecasts



Sources: Eurostat, BLS, CA CIB

FOCUS – Covid in Europe: the virus takes root, again

Our endemic Covid scenario from over a year ago acknowledged that the virus could return to Europe even with progress on the vaccine front. Today, these risks are borne out by the rising number of delta variant infections throughout Europe and the global discovery of the Omicron variant, which was quickly put under close surveillance.

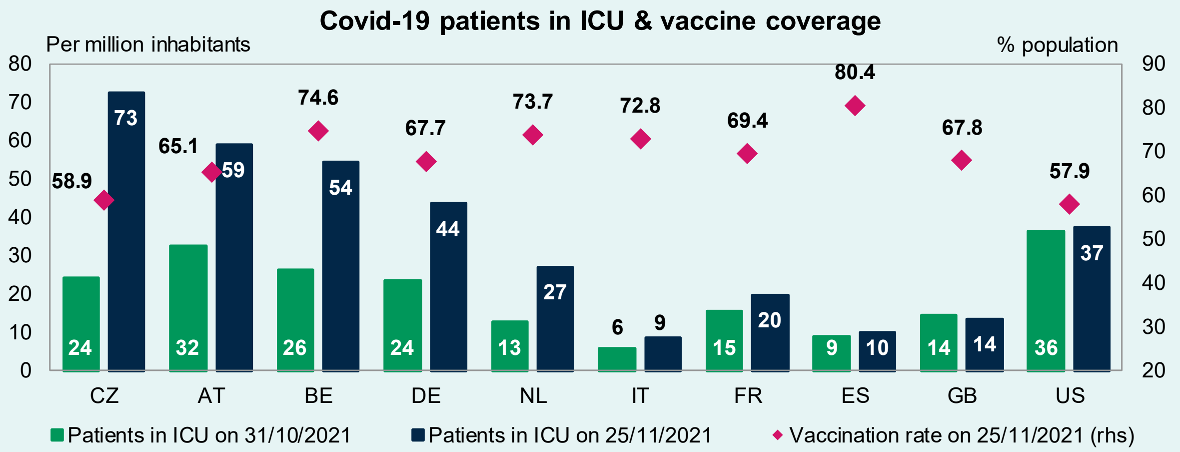
Pandemic resurgence and health measures

Although vaccination was to be our bulwark against the next wave this winter, it has not prevented the number of infections from escalating, first in Northern European countries (the Netherlands, Belgium, Germany and Austria), and then in all the others. Hospitals in some countries are back under pressure, forced to transfer patients to other facilities and reorganise routine operations. Still, the increase in the death toll is contained for the time being, in comparison with previous waves. To keep the spread of the virus in check, most countries have reintroduced more restrictive health measures. They are mainly focused on a more universal and stringent "health pass" in its various forms, with the primary result being the exclusion of unvaccinated people from a large number of services including restaurants, bars and cultural & recreational activities. This is the case in France, Italy and Germany. Other countries harder hit by the pandemic have introduced partial lockdowns, including early business closures (in the Netherlands and certain German states) and the more widespread use of remote work (in Belgium). Austria, which has been under even greater assault, has had to temporarily re-establish a widespread lockdown of the entire population. In the most affected countries, our growth projections have been adjusted downward for Q4 to account for the damaging effects on private consumption. This brings our forecast for German growth to 2.7% in 2021, compared to 3.2% previously. The appearance of this new wave has caught all countries off guard, resulting in a massive resumption of booster vaccination campaigns that drive home the idea that the virus could be with us for much longer than anticipated. At the same time, populations are becoming less and less amenable to successive vaccinations over time and are mounting protests against the reintroduction of social distancing measures. At the same time, the idea of introducing vaccine requirements for the entire adult population is simmering in a few countries, primarily Austria and Germany, with the main question being its constitutional validity.

Vaccines and treatments tested by the Omicron variant

The arrival of the new Omicron variant could reshuffle the cards for this exit from the crisis if it proves as dangerous as feared. Experts are still analysing how infectious and severe this new variant is, and its resistance to vaccines currently in use remains uncertain. Even if mRNA vaccines can be adapted to this new strain, they are unlikely to be available for several months, leaving us only partially protected from this variant in the meantime. Finally, Omicron could also thwart the European Medicines Agency's approval of treatments developed by Merck and Pfizer, which showed promise. Until we have answers to these many questions, we will have to get used to living with the risks of the pandemic and all the associated constraints for the foreseeable future.

Philippe VILAS-BOAS



Sources: OWID, Crédit Agricole S.A

EMERGING COUNTRIES

The emerging endemic

The emerging endemic

Quarter after quarter, the emerging world continues to splinter, with the economic shocks tied to the crisis having more structural effects in less-developed countries.

The health crisis has aimed the spotlight back on the difference between emerging markets, emerging countries (a broader concept) and less-developed or developing countries. Today, not only is the crisis unfolding very differently in the most-emerging and least-advanced economies, but it is also keeping us from thinking about these regions separately.

Consequences for the scenario of a part of the world outside the vaccination curves

In fact, sub-Saharan Africa has stalled EMs' vaccination curves, which lag those of more developed countries by four to five months. This does not mean that Africa is going to collapse from a health perspective, but it does mean that this part of the world, which will be the most populated in the long term, may remain a crucible for viral mutations: it heralds a 'new normal' health situation, one that is endemic rather pandemic.

The risk of fragmentation is also visible within the group of emerging markets. In the short term, the health factor is sporadically skewing the country's growth curves. For instance, Southeast Asia suffered in Q3, while Eastern Europe has been prey to the delta variant since autumn 2021. On the vaccine front, there is clear progress in the most developed countries, but many countries with lower per capita GDP are also catching up on their lag, such as Thailand and Morocco. Others are stagnating after a strong start, like Poland, or stagnating full stop, like Russia and Ukraine, whose refusal to vaccinate is the only thing they seem to agree on.

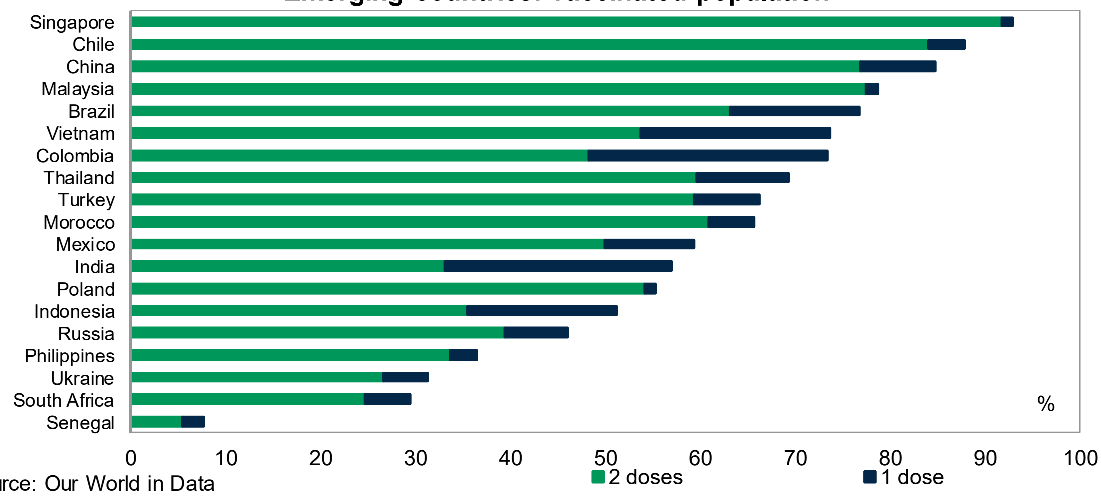
2022 in two acts

In terms of inflation as well as growth, we expect that 2022 will bring different trends between H1 and H2. H1, against a backdrop of US monetary policy normalisation, will be marked by further rate hikes and risks for the cash-poorest or most-indebted countries. For those with high rates already, in Latin America and Eastern Europe, growth will be limited. For Asia, which is less affected by inflation, monetary policy normalisation will switch on more clearly, but foreign trade will be less promising. Nonetheless, Asia has the advantage of being an essential link in the electronic value chain and should, over time, benefit from the RCEP[1], to be introduced next January. Conversely, the prospect of China turning inward on itself is a threat for the most-open countries. Therefore, H122 will be tense, but restrictions should ease in H2, with less of a supply/demand imbalance and lower cost-push inflation. Against this backdrop, however, signs of fragmentation from the emerging world should not be underestimated.

Factors of fragmentation

Rising prices will be harder to absorb when there is a wide producer price/consumer price gap – for example, at nearly 15 points in Latin America, this is a lasting source of cost-push inflation. The rise in energy prices is also having greater effects in certain countries: while the price index portion averages 10%, it may go up to 15% in Brazil, and then consumers will feel the brunt of its direct (transport, heating) or second-tier effects (fertilisers). In Colombia, rising prices for electricity, natural gas – and water – make up 33% of the global

Emerging countries: vaccinated population



Source: Our World in Data

[1] *The Regional Comprehensive Economic Partnership* (RCEP) is a draft free-trade agreement between fifteen countries around the Pacific Rim.

index. Naturally, this hits the poorest households the hardest.

Food prices play an enormous role in drawing lines between zones and countries; these prices are lower in Asia than elsewhere. While, on average, food prices fill 25% of the market basket in emerging markets, the percentage climbs to 40% in the least-developed countries where, furthermore, inflation is paired with food insecurity. Price increases and food shortages are concentrated on staple foods, and the FAO estimates that 44 countries are in need of food assistance.

In addition, the labour market's structure adds a fragmentation factor to the inflationary shock. Thus, Russian unemployment (4.3%) is at a low point for demographic reasons, but also because of the loss of workers from Central Asia. In Poland, too, there is a labour shortage, unlike Latin America (eg, Brazil and Colombia, where unemployment is nearly 14%), Turkey (12.5%) and South Africa (33.5%).

The labour market's structure adds a *fragmentation factor to the inflationary shock.*

Finally, while certain central banks reacted quickly, this is because of greater indexing and expectations than in the developed countries. Expectations are being de-anchored in Russia and Latin America, and it will all come down to confidence in 2022. Shifting expectations are threatening the countries that have a history of volatile exchange rates, or where the central banks' credibility is in peril. A prime example is Turkey, which is lowering rates at the president's insistence, despite runaway inflation. This is a hand grenade, but the pin is still in, because Turkey's large corporations know how to manage their currency risk.

Ergo, monetary policy in the emerging countries sits on a narrow ridge, while fiscal policy is stuck between a demand for normalisation for the most heavily indebted countries and social tensions stemming from the one-two punch of inflation and impoverishment. The IMF estimates that 65-75 million people have been cast into poverty. Protests in South Africa and India reflect this increasing insecurity, as does Colombia's rejection of tax reform. Meanwhile, elections in Peru and Chile show how polarised the continent is, and, in Brazil, the presidential campaign will weigh on the economic cycle. In many countries, 2022 will bring politics back into economic scenarios.

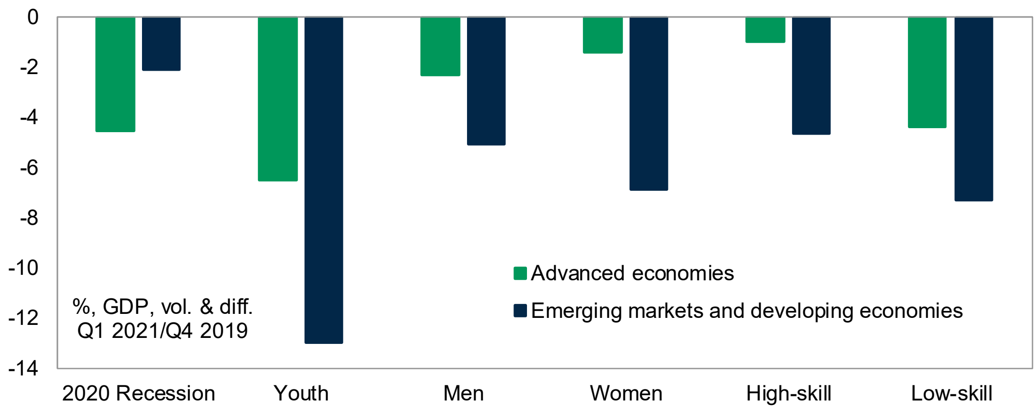
Medium-term scarring

The labour market's normalisation is lagging behind production everywhere, but especially for the least-developed countries. Women and children are bearing the biggest burdens in the crisis. Even before the pandemic, young people were three times more at risk of unemployment than adults. It's a paradox in a time when worker shortages are side-by-side with joblessness: in China, the urban youth unemployment rate is 14.6% for those aged 16-24, compared to the overall average of 4.9%.

Alas, the future will be no brighter for the least-developed countries: digitalisation is widening the productivity gaps between developed and less-developed countries, and they have not been this wide since 2005. According to the OECD, investors would do well to increase their direct investments in the advanced rather than the emerging economies in the first half of 2021. And so, market expectations could turn this developed/developing country fragmentation into a potent self-fulfilling prophecy.

Tania SOLLOGOUB

Economic shock and employment rate by worker groups



Sources: IMF (WEO Oct. 2021), Crédit Agricole SA/ECO

CHINA: A DESIRE FOR STABILITY, BUT SEVERAL AREAS OF DOUBT

After 7.7% in 2021, Chinese growth is expected to drop sharply to 4.9% in 2022 before rebounding to around 5.3% in 2023. March's two parliamentary sessions will help refine these forecasts depending on whether the authorities adopt specific targets, as was the case in 2019, or leave themselves with more leeway, like in 2021. In any case, the watchword is expected to be stability, although many areas of uncertainty remain.

Some (virtual) certainties…

Beyond the level of the adopted target, the composition of growth will be closely watched. In 2021, the growth model was skewed compared to previous years, with more foreign trade and investment, and less private consumption.

> *The current account surplus, fuelled by a record trade surplus, will almost certainly contract sharply in 2022*

While a slowdown in global demand is expected, and production prices – which are often linked to import prices (especially of commodities) – are likely to remain high, the current account surplus, fuelled by a record trade surplus, will almost certainly contract sharply in 2022. After 1.8% of GDP in 2021, it is expected to be only 1.2% in 2022 and 0.6% in 2023. The contribution of foreign trade to growth is expected to be very small, between -1ppt and +1ppt per quarter, as it was before 2020.

The second virtual certainty is that financial consolidation should continue but will slow down in order to avoid hampering activity. Monetary policy is expected to be slightly more accommodating, with a small rate cut (-10bp) expected during H122 in order to support growth. China's debt (excluding the central government), which hit 280% of GDP at the end of 2020, compared to 255% at the end of 2019, should continue to decline gradually on the back of the slowdown in loan origination and in the wake of real estate sector deleveraging.

…and many doubts

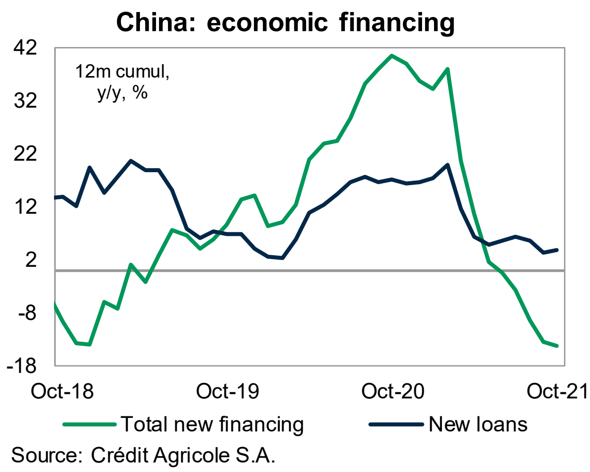
The first area of doubt is of course the development of the public health crisis and its implications, especially in terms of consumption. However, China has no intention of abandoning its "zero Covid" strategy, which is hampering household consumption trends, especially in terms of services (eg, transport, tourism, restaurants). The borders are not expected to reopen before the end of the Olympic Games in February. Without the driving force of consumption, inflation is expected to remain in check at around 2.3% in 2022.

	2021	2022
GDP (year-on-year change)	7.7%	4.9%
Current account balance (% GDP)	1.8%	1.2%

Nevertheless, the resumption of private consumption is a cornerstone of President Xi Jinping's two flagship concepts – Common Prosperity and dual circulation. Without it, it will be impossible to kick-start a virtuous circle of growth based on a more qualitative approach, which should lead to improved quality of life – bringing China into the ranks of the advanced economies by 2035 – or to bring certain value chains that are underpinned by domestic demand back inside China's borders.

Public spending efforts will also certainly be contingent on the strength of domestic demand. We may see an increased effort ahead of the 20th Party Congress that, barring a major surprise, will consolidate President Xi's position as the country's leader.

Sophie WIEVIORKA



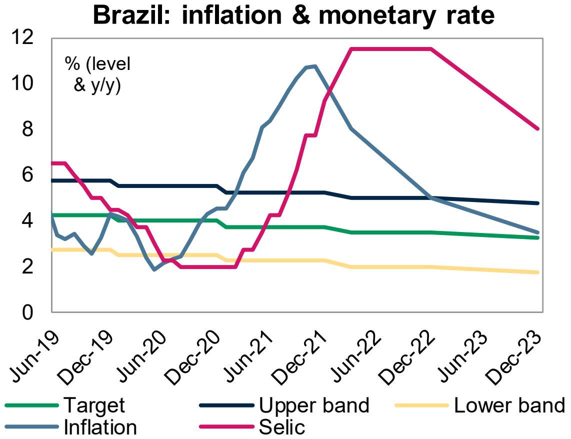
BRAZIL: THE PAINFUL SHIFT IN **"WHATEVER THE COST"**

The expansionist "whatever the cost" message of 2020 was followed by a budget adjustment in 2021 – which, as drastic as it is, remains limited in terms of the efforts to be made – and a restrictive "whatever the cost" on the monetary policy front. And 2022 – an election year to boot – is beginning to darken the horizon.

The 'easy' growth of the mechanical catch**-up phase is far* ***away, and 'sequential' growth is losing steam

The rebound in GDP, which was back at its pre-crisis level by Q121 thanks to a spectacular jump in investment (18% of GDP) followed by an equally spectacular jump in imports, has gradually been eaten away. At the end of Q3, only investment (generously) and exports (scarcely) were above their pre-crisis level. Hobbled by a slightly negative contribution from net foreign trade, growth might not exceed 3.9% in 2021.

Brazil: inflation & monetary rate



Sources: BCB (market readout), CASA/ECO

In 2022, given the improved vaccine coverage, there is less to fear from the spread of the new variant (or variants). Growth will get help from the continued normalisation of consumption, which will in turn get a boost from jobs numbers, credit's continued steady growth and consumers dipping into their accumulated savings. It will suffer from shrinking investment, along with a slump in imports which, coupled with strong exports, offers hope of a positive net contribution from trade. However, growth is not expected to clear 1% by much.

A painful and partial recovery of the public accounts is underway even as monetary policy tightens

At the end of October, the government's gross debt was 82.9% of GDP, a dip of 6ppt, thanks to growth. The 2022 budget has not yet been finalised: attempting to regain a bit of space, while settling the now-nagging question of *precatorios* (court-ordered government debt payments) and respecting (or at least not irretrievably rejecting) the constitutional fiscal anchors (including the rule on indexing the spending cap) is a matter of squaring the circle – and a matter of concern.

In 2022, the global situation will be less promising, but there is no reason to overestimate its negative impact.

Inflation's acceleration came as a shock, pushing it toward heights not seen since January 2016 (10.7%). Fearing that expectations would come 'unanchored' and blaming a tax policy seen to be lax, BCB has begun a cycle of extreme tightening. An increase of 150bp has been announced for February and could be followed by 'one last' jump of 75bp. However, the Selic is expected to stay on its high plateau for the duration (11.50% in our scenario), to ensure a credible decline in inflation. Given that inflation is not expected to return to the target (and only toward its high water mark) until the end of 2022, the BCB's activism has not been enough to prevent a rise in long-term rates. Those rates, however, are not stretched as tight as feared: the curve flattening is an encouraging sign for the BCB's credibility.

Annual change	2021	2022
GDP	3.9%	1.1%
Inflation	10.2%	4.8%

Export prices (base products, commodities) should remain where they belong. The BCB, more concerned by the domestic situation than the foreign one, has already broadly priced in the US tightening and, while financial conditions may be affected by increased volatility, they are not expected to over-stretch. External accounts are solid, reserves comfortable (USD368bn), public debt essentially internal, and non-residents very rare on the local market. The majority of risks are domestic: declining confidence, faltering governance, and increasing fiscal and political risks, as highly polarised elections (presidential and parliamentary in October) draw nearer and seem likely to turn into a battle between current President Jair Bolsonaro and former President Luiz Inacio Lula da Silva.

Catherine LEBOUGRE

RUSSIA: GEOPOLITICS IN THE **DRIVER'S SEAT**

Economic growth is likely to stay capped by endemic Covid, while geopolitical risk will remain central, including for the RUB.

Russia has not turned the page on Covid. The fourth wave of the pandemic remains rather intense. Furthermore, the vaccination rate lags other European countries. This suggests the pandemic will remain a constraint on domestic demand in the coming quarters, and eventually cap GDP growth, despite the relatively high oil price, the catch-up effect from last year's depressed base and the low unemployment rate. We expect GDP growth to reach 3.5% in 2021 and 2.7% in 2022.

> *Interestingly, Russia has for long taken into account its specific geopolitical backdrop when setting its economic policy.*

Another source of concern has intensified over the past few weeks: geopolitics. Tensions between Russia and Ukraine, and uncertainty about the US reaction, should continue to weigh on Russia and the RUB outlook looking forward.

Resilience

Interestingly, Russia has long taken into account its specific geopolitical backdrop when setting its economic policy. It has actually increasingly used financial orthodoxy as a geopolitical shield over recent years. By controlling the government finance imbalances and debt and by being serious about controlling inflation, it has managed to reduce vulnerability to capital flows and to possible sanctions.

This will likely continue in 2022. Given still-strong inflation pressure, the CBR should keep interest rates at a historically high level even as inflation likely moderates from Q2, in order to support real interest rates. It should also continue to limit the fiscal deficit. In addition, the increase in the oil price over the past year and a half has supported the trade surplus and allowed FX reserves to reach a record high level, which also provides a buffer against external financial pressure.

This should make it possible to limit the impact of possible sanctions on Russian financial markets.

The necessary upgrade of the development model

Beyond the geopolitical uncertainty, Russia is facing another challenge, and a long-term one: the necessary upgrade of its development model. This is warranted by the necessary energy transition. This is also required by the need to increase Russia's potential growth, which remains fairly low, at about 1.5-2.0%.

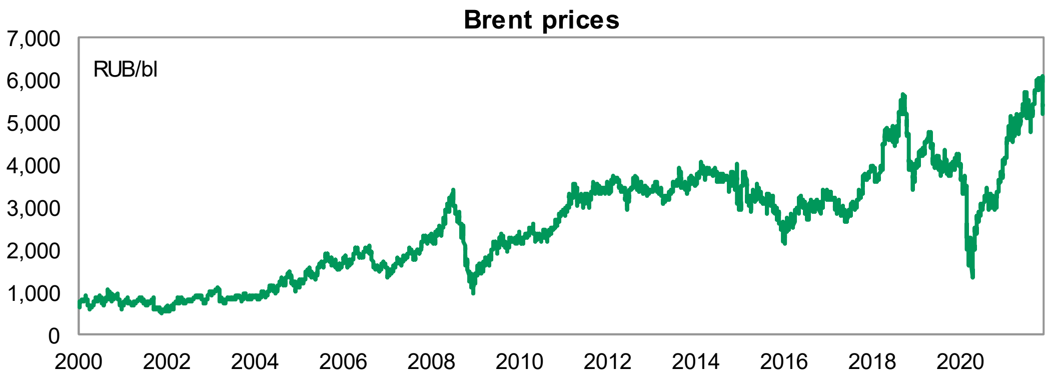
On the paper, the country's large fiscal leeway would make it possible to finance the rather ambitious investment plan unveiled by President Vladimir Putin at the beginning of his current mandate. The wellbeing fund has increased further in 2021, reaching USD185bn in November. However, the geopolitical backdrop suggests the government may have other priorities than focusing on investment in order to diversify the economy. Furthermore, the commodity rent is acting as a disincentive to diversify.

Annual change	2021	2022
GDP	4.2%	2.7%
Inflation	6.3%	5.8%

RUB outlook

FX-wise, the RUB should be capped by geopolitical uncertainty, but the large current account surplus, high interest rates and strong domestic and external balance sheets suggests some potential appreciation should the dust settle on the geopolitical backdrop.

Sébastien BARBÉ



Sources: Bloomberg, Crédit Agricole CIB

INDIA: EMERGING FROM THE PANDEMIC WITH AN INFLATION PROBLEM

India's economy stands to benefit significantly from an easing of Covid restrictions. While India's vaccination rate is low by EM Asia standards and at less than 60% of its population is well below the 70% threshold considered by scientists as needed to reach herd immunity, India likely has the advantage of significant naturally-acquired Covid antibodies following a surge in infections during a delta-variant wave.

The easing of Covid restrictions has already led to bounces in consumer and business confidence.

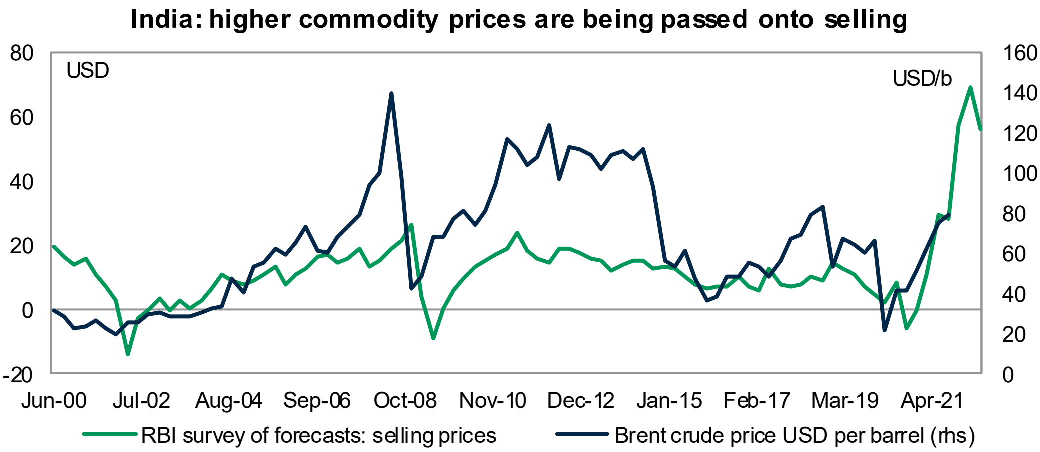
The easing of Covid restrictions has already led to bounces in consumer and business confidence, which will lead to stronger consumption and business investment; key drivers of the economy. Strong monsoons and the persistence of a La Nina weather event are positives for India's important agricultural sector. There is also a risk of fiscal policy remaining stimulatory, especially if RBI begins removing stimulus, as we expect, and the government steps in to support the economy further. The recovery in global trade and strong US economic growth will also help push the Indian economy along in 2022, and we forecast real GDP growth of 7.6% in 2022 up from a forecast 6% in 2021.

Inflation is fast becoming an issue for India, in our view. While La Nina and strong monsoons are keeping downward pressure on food price inflation, higher commodity prices, especially for energy, are placing upward pressure on input prices. Survey data suggests these higher input prices are being passed on to end consumers in the form of higher prices. RBI has already halted its asset purchases programme and is draining liquidity from the financial system to reduce upward pressure on inflation. We forecast that RBI will raise rates three times in 2022 to take the repo rate to 4.75% at year-end. This will constrain the acceleration in India's inflation from a forecast 5.1% in 2021 to 5.8% in 2022 and to just within RBI's 2-6% target band.

Annual change	2021	2022
GDP	9.6%	7.6%
Inflation	5.1%	5.8%

The INR will face opposing forces in 2022, but we forecast USD/INR to fall to 74.6 by end-2022. Weakening the currency in 2022 will be the Fed's accelerated tapering of its asset purchases and a hike to the Fed Funds rate, which will encourage capital outflows from the high-yielding INR. But three RBI rate hikes as well as another strong year of IPOs in India will attract capital inflows into India's financial markets and support the INR. Our Commodities Analyst forecasts Brent crude oil prices falling to USD70/bl by end-2022, which will be positive for India's current account balance and currency.

David FORRESTER



Sources: RBI, Crédit Agricole CIB

SECTORS

Oil – The calm before the storm?

Building materials – Higher prices and temporary supply chain issues

Container shipping – Stubborn congestion, signs of easing

Oil – The calm before the storm?

With demand growing more **slowly than in 2021, oil prices are expected to stabilise over 2022 and 2023. However, OPEC's** low production margins at the end of 2023 leave things open to the risk of another oil price surge after 2023.

From July to November 2021, supply did not keep up with the growth in demand. With mobility resuming, and a summer dominated by domestic car travel, fuel consumption was especially high in Europe and the US. The number of commercial flights also increased last summer, despite remaining below pre-pandemic levels. The additional 400k bpd that OPEC+ has produced each month since August have not been enough to balance out the oil market. For now, US crude production is relatively stable. American producers continue to tap the surplus wells drilled before the pandemic. This means that consumer countries are forced to draw on their commercial reserves to meet robust demand in petroleum products. Drawing on reserves has kept oil prices relatively high over H221 and close to autumn 2018 prices.

If the Omicron variant does not severely affect travel, growth in demand for oil products should reach 3.4m bpd in 2022, compared with 5.5m bpd in 2021. OPEC+ will still be key in balancing the market in 2022. As clearly confirmed at its meeting on 2 December 2021, OPEC+ is maintaining its phased increase in production of 400k bpd, which will depend largely on the major producers: Saudi Arabia, Russia, Iraq, the UAE, Kuwait and Kazakhstan. In fact, without investment in the extraction of new deposits, African producers are having trouble increasing their production. And that trouble promises to continue in 2022 and probably 2023. At this rate, OPEC+ would be back to pre-pandemic production levels in 2022. Although Iranian nuclear talks have resumed, we believe that any accord will take time and that Iranian oil will still be under US sanctions in 2022. American output is expected to increase by 0.8m bpd.

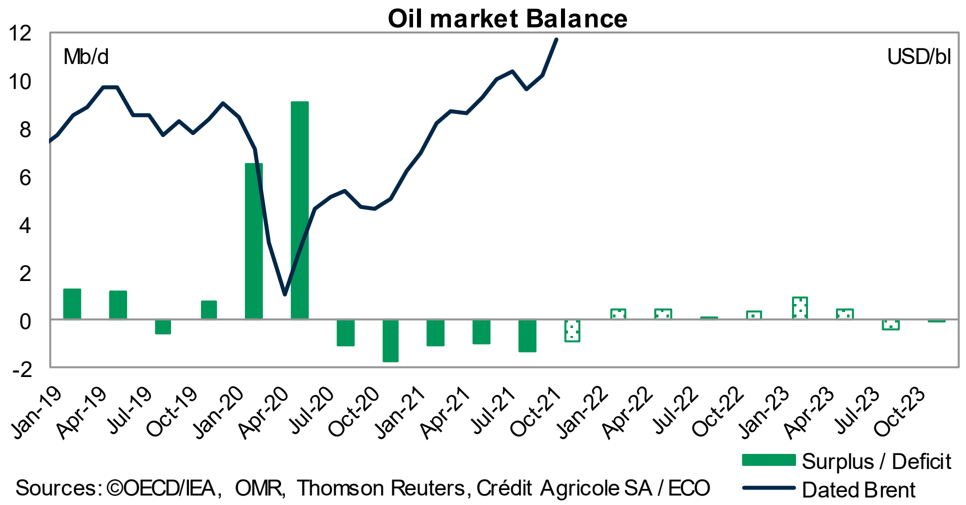
For 2023, our scenario is based on demand growing by 1.1m bpd, to close to pre-pandemic levels. Most of this demand growth should be met by increased production by OPEC – specifically, Iranian production resuming over H223.

Demand growth

3.4m bpd in 2022

Overall, **oil prices are expected to stay within an average range of USD70-80/bl in 2022 and 2023**. Our scenario calls for an average oil price of USD73/bl over 2022 and 2023. With growth in demand weakening, and supply expected to keep increasing in 2022, oil prices could ease slightly in 2022 before rising again over H223, as OPEC's capacity margins dwindle. At the end of 2023, the production margins of OPEC and its largest producer, Saudi Arabia, could be low. Then the 2024 oil market would be more vulnerable to increased US production, and prices could soar again.

Stéphane FERDRIN



Sources: ©OECD/IEA, OMR, Thomson Reuters, Crédit Agricole SA / ECO

Building materials – Higher prices and temporary supply chain issues

Prices may rise 30-50% for some building materials, but the average is c.15% across the sector in France.

Since France's first lockdown in 2020, project delays and the boom in DIY home improvement projects have caused a sharp rebound in construction activity in 2021, bringing it back up to 2019 levels.

This brisk recovery is generating huge demand for building materials, demand that is barely being met due to worldwide production and logistics problems.

Building material prices
+15% in 2021

Highly variable price hikes

Because of this imbalance, prices for building materials are spiking, though quite variably depending on product type. Some materials subject to global market laws are showing huge increases, including aluminium (+20%), copper (+30%), steel (+50%) and PVC (+50%). Other locally-produced products are up much more moderately, such as aggregates (+3%). Between them, Saint-Gobain (global producer of glass, glass wool, plasterboard) has forecast its sales prices to rise 6% over 2021.

Prices are estimated to increase by 15% on average

Between these very different numbers, the BT01 Index, which is used to adjust building contract pricing in France, was up 5% YoY in August 2021. Given that this index is made up of about one-third building materials, and that its other components, specifically labour, have stayed relatively stable, we can estimate that building material prices will see an average yearly increase of 15%.

Supply chain issues generally manageable

Supply chain issues are affecting all kinds of building materials, including those made locally. This means that even lumber produced in France has been in short supply, since it has been in high demand for export to China and the US, two other fast-recovering markets. Some 29% of construction companies are reporting procurement issues, but only 13% say this is preventing their company from growing.

In addition, building material dealers are announcing no supply disruptions but longer delivery times, which may run up to two months for certain products. This is causing project delays that are, for the time being, manageable.

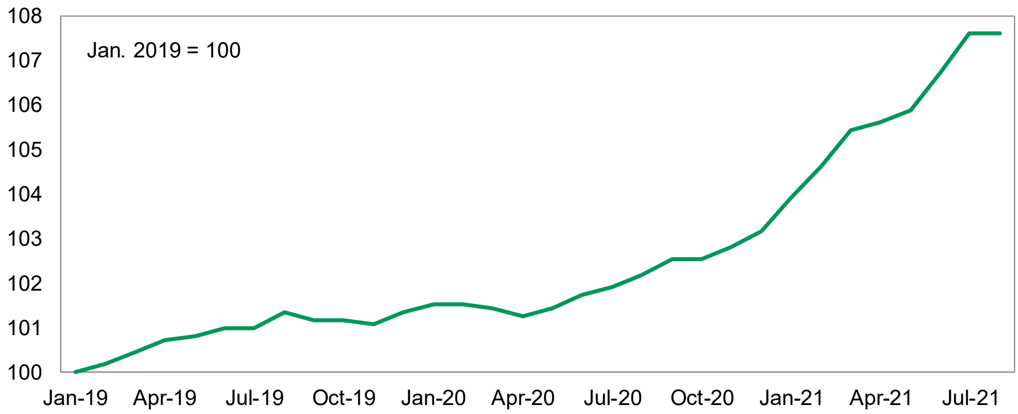
Prospects for stabilisation

Stakeholders have had the sense since September that prices for building materials are stabilising in France. Furthermore, these increases will be passed on to the consumer, which should moderate demand and bring it back in line with supply.

So, the current price hikes and procurement issues should be temporary, until supply and demand are brought back into balance, and provided the global commodity and energy markets also stabilise.

Quang Khoi NGUYEN

France: BT01 construction price index



Source: Crédit Agricole S.A.

Container shipping – Stubborn congestion, signs of easing

The global logistics crisis is still far from being resolved but seems to have peaked. While container shipping is still not running optimally struggling to cope with widespread port congestion, it has shown seen encouraging signs since November. However, the steady growth of the global economy, along with recurring waves of the pandemic, could prolong tensions.

Freight rates are still reaching extremes, ensuring record profits for carriers. After peaking in September, they have declined on the trans-Pacific route, which is by far the busiest as well as the most sensitive to the logistics crisis.

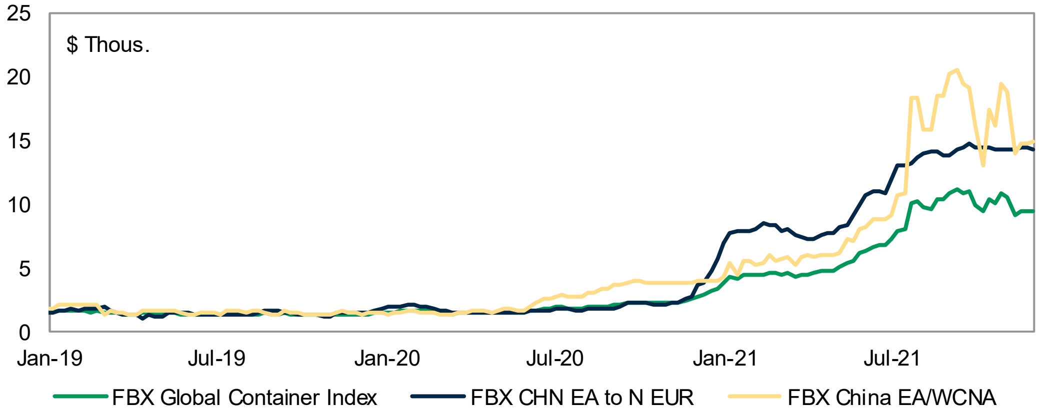
Container shipping has been grappling with severe port congestion since the summer, causing an unprecedented service downgrade. Widespread persistent delays are now forcing carriers to skip calls or cancel sailings. **As a result, container shipping operations tend to keep on performing poorly, with very low visibility.** Although the high season is over, the wave of US imports triggered by government support plans early in the year does not appear to be weakening yet, especially facing record blockages in US ports on the West Coast. Furthermore, saturation is now threatening East Coast ports. Following temporary closures of Chinese terminals in response to the delta variant, the crisis took on global proportions over the summer, with a domino effect from one hub to the next exacerbated by labour shortages, container surplus or shortages, extreme weather events and other factors. The British port of Felixstowe, impacted by Brexit, is the most backed-up hub in all of Northern Europe.

However, there are some signs of improvement. Clearing the ports of Los Angeles, the epicentre of the congestion and the port of entry for 40% of containers imported to the US, has become a political issue. The US House of Representatives has approved legislation aimed at strengthening regulation on ocean carriers. Port authorities have successfully used the threat of fines to move unrecovered imported containers out of the terminals. Although the backlog of waiting ships has increased, pushed off the coast to limit pollution, productivity is slowly improving. Singapore is shortening its queues by opening a new terminal to store containers. Hamburg, which has been recently cleared out, can now accommodate a previously suspended Asian service. In China, where power shortages are curtailing industrial output and exports, containers are becoming more readily available. This year, Chinese manufacturers will have produced the equivalent of 12-14% of the active global fleet.

Container traffic is expected to increase by nearly 7% in 2021 and by 4% in 2022, in line with supply growth. A slowdown should follow in subsequent years, while deliveries will reach a peak. **Congestion is expected to continue at least until Q222. The hoped-for de-congestion of the Los Angeles port could facilitate a resolution of the global logistics crisis, clearing the path towards gradually normalised cargo flows. Provided, that is, that the pandemic's resurgence does not create new bottlenecks.**

Bertrand GAVAUDAN

Transport price of a 40-foot container



Sources: Datastream, Freightos, Crédit Agricole S.A.

MARKETS

Monetary policy – Different paths to normalisation

Interest rates – A year of two halves

Exchange rates – The dollar's temporary advantage

Monetary policy – Different paths to normalisation

Based on the strength of actual or expected inflation, central banks are committed to very different paths towards monetary policy normalisation, which is still preferable to tightening. While the Fed has forged ahead, the ECB seems in no hurry.

FEDERAL RESERVE: HAWKISH SHIFT TO BRING FORWARD NORMALISATION TIMELINE

After finally beginning to take steps towards removing accommodation in announcing the beginning of taper at the November FOMC meeting, the Fed has undertaken a more agressive shift in a hawkish direction. That was confirmed by Chair Jerome Powell's recent Congressional testimony, when he explicitly stated that it was time to "retire" the word transitory, with inflation pressures having broadened and likely to remain elevated well into 2022. Powell offered concerns that persistently high inflation would run the risk of derailing the labour market recovery, pointing to a shift in the Fed's focus to the inflation side of the dual mandate.

Powell offered concerns that persistently high inflation would run the risk of derailing the labour market recovery.

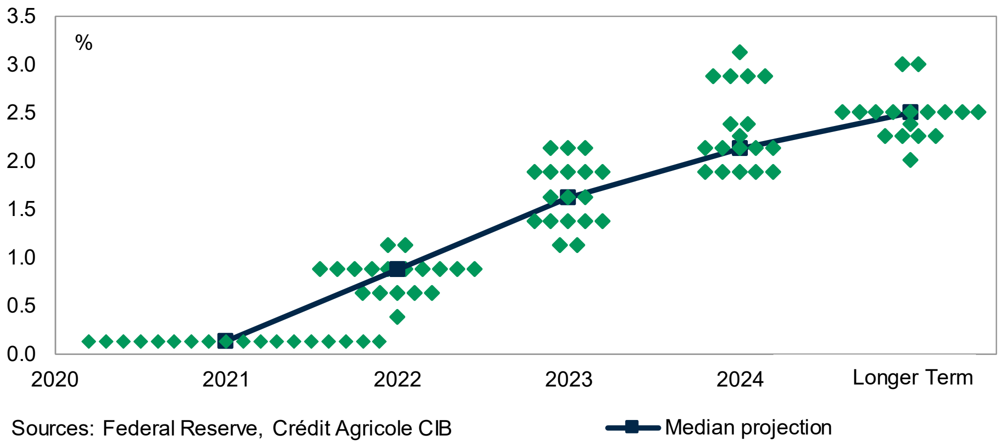
Given this shift, it is clear that the timeframe for the normalisation process has been moved forward, but the question is by how much. We remain somewhat cautious for now given that the Fed has stressed adaptability and the Omicron variant has introduced further uncertainty at the moment. Our expectations at the time of writing see taper continuing at the current pace with lift-off brought forward into Q422 compared to early 2023 previously, followed by three 25bp hikes in 2023.

However, the outlook is finely balanced and it would not take much to tip our base case into a more aggressive timeline – in fact, one more strong CPI report combined with additional clarity about Omicron could be enough. In December, the Fed announced a doubling of the pace of taper in December, meaning monthly reductions of USD20bn in Treasuries and USD10bn in MBS beginning with the January purchase schedule, which would conclude the process in mid-March vs mid-June at the current pace.

While the Fed has been clear in its efforts to divorce taper and lift-off, similar factors underlie the decision-making process on both fronts. The quicker end to asset purchases increases the likelihood of an earlier rate hike, while our central scenario still assumes a first hike only in Q4. However, caution is still warranted as the arrival of the omicron variant could dampen the recovery if further restrictions are needed, spurring the Fed to delay its normalisation.

Nicholas VAN NESS

FOMC December dot plot



Sources: Federal Reserve, Crédit Agricole CIB

EUROPEAN CENTRAL BANK: CONTINUED PATIENCE

Eurozone inflation, currently very high, is expected to drop back under the ECB's target in the medium term; but once the temporary effects have worn off, the ECB is expected to remain accommodative for a long time to come.

The ECB will not raise its rates until it can be sure that Eurozone inflation will remain sustainably around 2%.

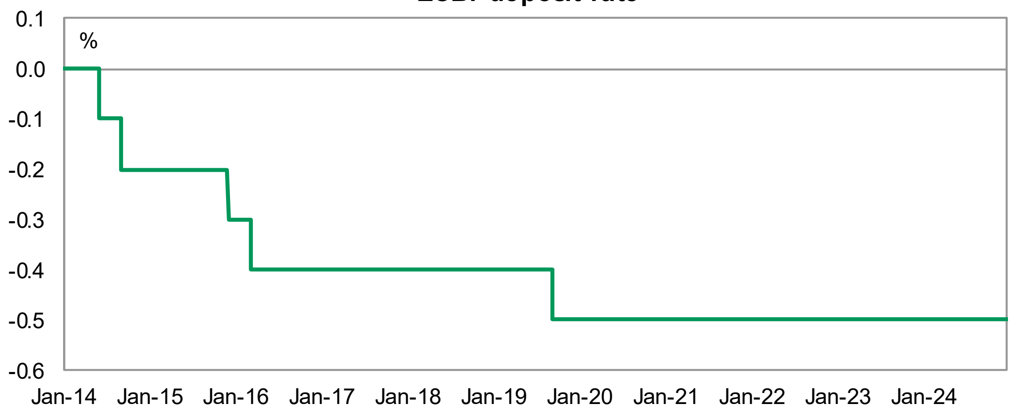
However, during 2022 it will have to withdraw the exceptional tools put in place during the pandemic. Specifically, in 2022, it will end the PEPP and normalise TLTRO III, which had extremely favourable terms during the crisis.

However, we expect the ECB to remain highly accommodative throughout this year and to confirm its intentions to remain as accommodative as needed to ensure that medium-term inflation returns to around 2%, which is still not the case despite the marked rise in recent months.

Strengthening of forward guidance in 2021 means that the ECB can be more resolute in its patient approach: **the ECB will not raise its rates until it can be sure that Eurozone inflation will remain sustainably around 2%.** As a result, not only are we not expecting a rate hike in 2022, but we also expect confirmation that rates will remain at their current level for a prolonged period of time.

Louis HARREAU

ECB: deposit rate



Source: ECB

BANK OF ENGLAND: MODEST MONETARY POLICY TIGHTENING BEGINS

Omicron did not prevent the BoE from raising rates in December

On 16 December, the BoE raised its key interest rate by 15bp to 0.25%. The decision was almost unanimous (eight to one). This was a surprise for most of the consensus – us included – which was expecting the initial rate hike to be postponed until next February considering the Omicron-related uncertainty. This hike confirms the BoE as the most hawkish of the major central banks in the advanced economies (Fed, ECB, BoJ), even though its economy is recovering more slowly from the Covid crisis. The BoE seems to minimise the fact that the economy has still not returned to its pre-crisis level and that Omicron is likely to cause growth to slow further during the winter.

> *This hike confirms the BoE as the most hawkish of the major central banks in the advanced economies.*

Rate hike justified by a solid labour market

The BoE indicated that any rate hike would be contingent on reassuring labour market progress following the end of the furlough scheme on 30 September. The labour market continued to tighten in October with unemployment falling to 4.2% (three months average). The number of vacancies and hiring difficulties have hit record highs. Wage growth remained solid. Households' and financial markets' medium- to long-term inflation expectations have increased. The BoE fears that not acting promptly may lead to more persistent inflation and a continued rise in inflation expectations, which would force it to raise rates more aggressively later on.

Inflation expected to peak at 6.0% next April

CPI inflation hit 5.1% in November, its highest level since September 2011 (core CPI was 4.0%). Inflation is expected to continue rising over the coming months to a peak of 6.0% in April, due to an anticipated rise in energy prices and the ongoing short-term supply issues. We (and the BoE) still expect inflation to moderate over the H222.

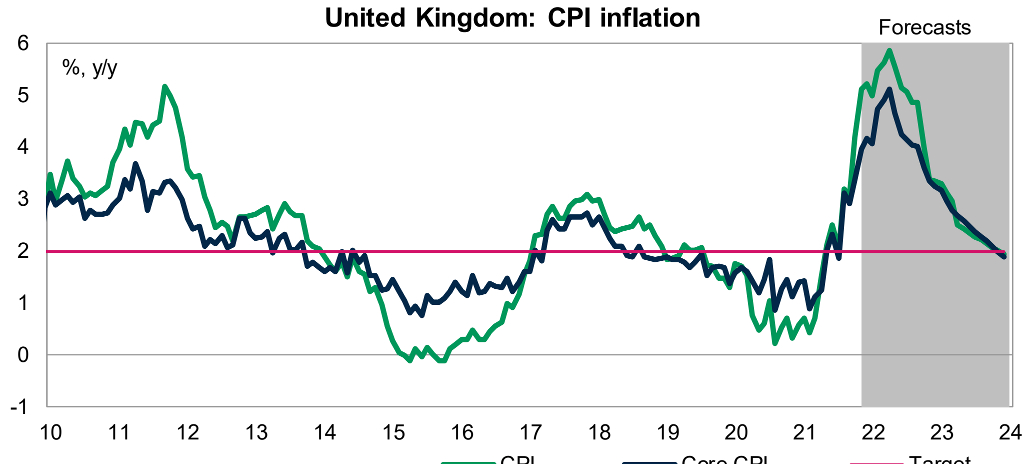
What about the pace of future tightening?

The BoE reiterated that "modest" tightening is likely to be necessary in order to sustainably bring inflation back down to its 2% target. Given the projections in November's Monetary Policy Report, the BoE seems to believe that the tightening priced in by the markets (Bank rate at 1% at the end of 2022) is compatible with its inflation target. The recovery is likely to lose more steam as purchasing power declines and Omicron leads to more precautionary consumer behaviours. As a result, we are forecasting a slightly slower pace of tightening, with two rate hikes in 2022 and one in 2023 (of 25bp each), but the BoE's aggressive stance implies that there are upside risks in these forecasts.

QE will be an additional tightening tool

The BoE's government bond purchasing programme reached its GBP875bn target in December. In line with its forward guidance announced last August, the BoE will stop reinvesting maturing assets once the Bank rate reaches 0.50% (probably next February). It will begin to actively sell these assets once the Bank rate reaches 1.00% and provided that economic conditions warrant it.

Slavena NAZAROVA



Sources: ONS, Crédit Agricole S.A.

BANK OF JAPAN: YCC TO BE LEFT INTACT WHILE OUR FOCUS SHIFTS TO THE TERMS OF TWO BOARD MEMBERS

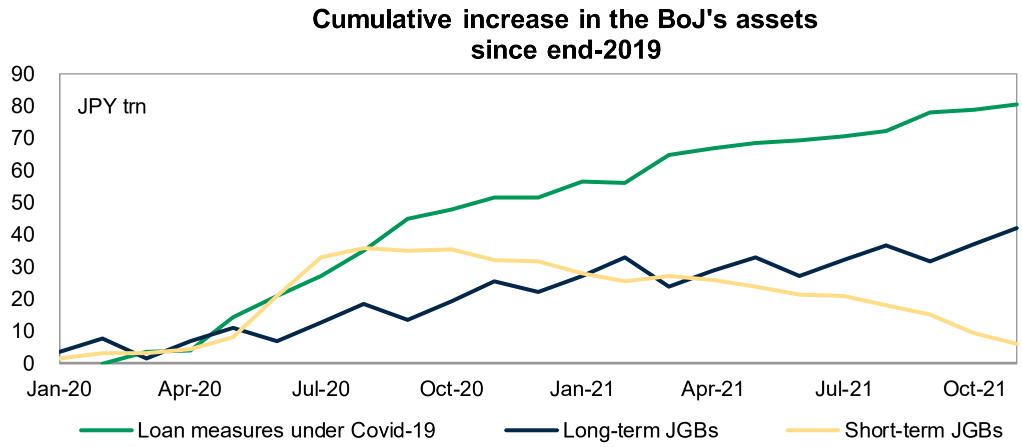
The BoJ's monetary policy has three pillars: YCC; asset purchases of TOPIX-linked ETFs and J-REITs; and loan/credit measures under Covid-19. **We remain of the view that the central bank will leave the first two intact for the foreseeable future (at least through 2023)** while most likely extending the deadline of the third from the current March 2022, in particular given the concern over the Omicron variant.

> ***G. Kataoka & H. Suzuki's replacement*** *will be providing a good occasion to* ***gauge the Kishida government's*** *stance toward monetary policy .*

We also need to note that **unlike the Fed and the ECB, whether to taper is not a relevant issue in gauging the future trend of the BoJ's monetary policy**. The reason for this is that the bank's primary policy target is YCC, ie, short- and long-term interest rates. Quantity is just a secondary parameter, for which there is no specific existing target, unlike until April 2020 when the BoJ officially dropped the "JPY80trn" language describing the targeted annual pace of an increase of the holdings of JGBs.

One of our focuses for the BoJ is the end of the terms of board members Goushi Kataoka and Hitoshi Suzuki in July 2022. Kataoka has been unique, having always been the only member dissenting from the current policy from a reflationist viewpoint while never presenting his own policy suggestion. Suzuki has also been unique in the sense that he has emphasised the negative side effect of the BoJ's policy the most of all the board members. In this sense, these two are on completely opposite ends of the board member spectrum. **Therefore their replacement will be interesting, providing a good occasion to gauge the Kishida government's stance toward monetary policy**. If Kataoka is replaced by a non-reflationist, which we believe is likely, it implies that PM Kishida attaches more importance to fiscal policy.

Kyohei MORITA



Sources: BoJ, Crédit Agricole CIB

Interest rates – A year of two halves

Monetary policy normalisation is not expected to bring about substantial rises in bond yields. After a first half that will continue to be dominated by strong growth and high inflation, conducive to a trend of rising interest rates, a deceleration trend is expected to take over and push interest rates back down again.

USA: ON THE PATH TOWARD NORMALISATION

The Fed has continued to support the recovery with an accommodative policy stance, though it has finally begun the normalisation process with its taper announcement in November. In light of Fed Chair Jerome Powell's recent hawkish comments, we see a risk that the pace of taper will be increased. An accelerated taper could bring lift-off up further to Q222, compared to Q422 in our base case.

Our 2022 US rate forecast is divided into two parts. In the first half of the year, we expect rates to rise, as growth remains strong and inflation stays elevated. The 10Y rises to 1.75% by mid-year in our forecast, as the yield curve flattens on Fed policy normalisation. The Treasury market sell-off reverses in H222 in our forecast. The Fed will then embark on the next stage of the tightening cycle by raising policy rates. Financial conditions tighten as the Fed withdraws liquidity. Contrary to conventional wisdom, this time Fed policy tightening should not lead to higher long-end yields. We forecast rates to decline in H222, led by the long end, as the curve flattening trend remains intact. The 10Y yield drops to 1.35% by end-2022, and the 30Y to 1.65% in our forecast.

We expect volatility to stay subdued in 2022 in general, and fall in the second half of the year, as evidenced in contained long end rates in our forecast. Front-end volatility could be high as the market prices in Fed rate hikes. Hence, a divergence between gamma and vega vol.

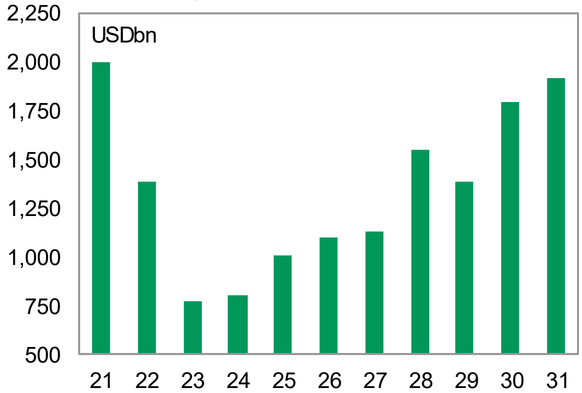
The US budget deficit will decline significantly in 2022, and so will Treasury issuance. The Treasury is overfunded based on the current coupon auction calendar, and will continue coupon supply reductions that started at the November 2021 refunding, in our view.

We expect volatility to stay subdued in 2022 in general, and fall in the second half of the year .

We expect demand for Treasuries to stay healthy in light of their counter-cyclical properties as the Fed tightens policy with risky assets at record highs. Ageing demographics and pension asset allocation strategy have increased pension demand for fixed income over recent years, a trend we expect to continue in the foreseeable future that will likely put downward pressure on rates. Bank holdings of Treasuries will likely rise as well; they have gone up almost USD400bn over the past year. We believe foreign investors will continue to find Treasuries an attractive yield-enhancing alternative to bunds and JGBs, thanks to the wide interest rate differentials.

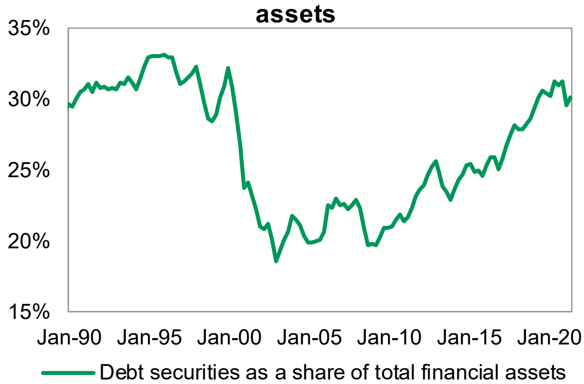
Alex LI

Annual change in debt held by public: Treasury issuance declines in 2022



Sources: CBO, Crédit Agricole CIB

Debt securities as a share of defined benefit private pension financial assets



Sources: Bloomberg, CA CIB

EUROPE: IT'S COMPLICATED

While the Fed has taken a less tolerant view about inflation and precipitated more volatility into the USD money market segment, the ECB is likely to remain dovish but actually start reducing its levels of accommodation. Reducing the monthly pace of QE does not imply rate hikes are anywhere on the agenda, but it does suggest that less strong forward guidance and higher rates volatility can be sustained (see Figure 1). With high levels of inflation and higher inflation volatility, we think this should imply more term premium to the EUR curve in H122.

Crucial will be the ECB's own assessment of inflation and the markets' and in turn the markets' view of how credible this might be. **No central bank wants to prematurely tighten, and certainly not the ECB**, but this delicate communication process will be difficult to pull off, in our view, and will also contribute to some weakening of periphery EGBs. Hence we think that investors should stay underweight the 5-10Y sector of periphery markets and that this is not the type of environment to focus on carry.

Clearly the investment environment is also being clouded by Covid, but this is hard to gauge at multiple levels – though our sense is that it might delay the resolution of supply bottleneck problems. Nevertheless, the ECB is more tuned to the fiscal realities of member states and will not allow policy transmission channels to break down. Hence, we think that a rise in yields will present a buying opportunity once it is clear that inflation is starting to descend at a more rapid pace. We think that once this starts to happen, the huge amounts of excess liquidity produced by the ECB will be happy to be deployed in modestly higher-yielding government bonds. A source of risk remains energy prices and energy transition policy, but this we believe would be growth negative, hurting consumers.

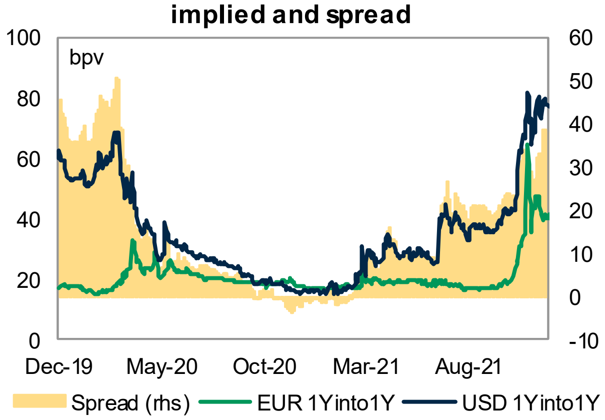
Though the SPD-led collation in Germany might imply less urgency for fiscal restraint at an EU level, we think **government net supply should fall by about EUR200bn in 2022**. This will make it easier for the ECB to absorb all new net sovereign issuance, but its balance sheet may actually fall for the year due to TLTRO paybacks. Nevertheless, the combination of negative policy rates and high expected inflation (see Figure 2) should help keep real yields very negative and prompt investors to seek shelter in riskier assets.

The combination of negative policy rates and high expected inflation should help keep real yields very negative and prompt investors to seek shelter in riskier assets.

From a political standpoint, we think EGB markets should focus most on Italian politics during 2022 and much less so on elections in France. This is because there is no clear Euro-sceptic candidate, implying only a few bp of political risk premium should emerge rather than any redenomination premium. Assuming the presidential elections are not problematic, an early 2023 Italian general election could however awaken the political forces from their slumber. Hence we do not expect periphery-bund spreads to tighten to new lows as new ECB stimulus prospects decline, but we do expect all curves to bull flatten in H222 as nominal GDP for most developed countries abates.

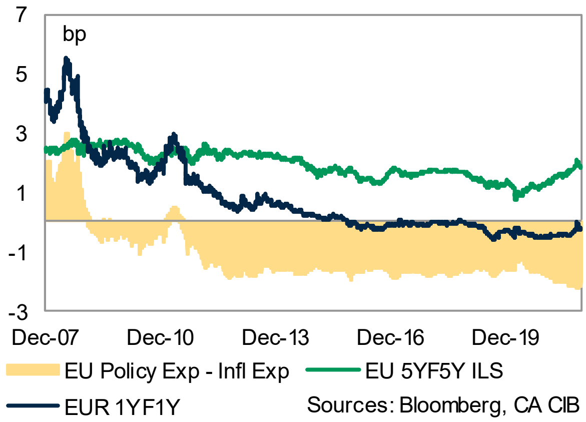
Bert LOURENCO

EUR and USD 1Yinto1Y implied and spread



Sources: Bloomberg, Crédit Agricole CIB

Short-term policy & long-term inflation expectations gap



Sources: Bloomberg, CA CIB

Exchange rates – **The dollar's temporary** advantage

The dollar is expected to be sought after, primarily since the Fed is further along on the path to normalisation, and then (abandoned in favour of other high-yielding G10 currencies, then by liquid reserve currencies like the EUR. On the back of their gradual post-Covid improvement, EM currencies are expected to post satisfactory – albeit unremarkable – performance.

DEVELOPED COUNTRIES: THE USD SMILE AND THE FX CARRY TRADES

Market Fed rate hike expectations should continue to support the high-yielding safe-haven USD into H122. A relatively gradual Fed tightening cycle from H222 should keep US real rates and yields negative and encourage investors to look for high-yielding USD alternatives especially as the global economy starts to catch up with the US.

The so-called 'USD smile' should remain the main driver of FX markets in the near term. Indeed, the USD's special role as a high-yielding safe haven could continue to support it during bouts of risk aversion and risk appetite. That said, we think that a more neutral USD outlook may be warranted, given that the currency's positives and negatives seem finely balanced at present.

On the USD positive side, we note the upcoming drain of excess USD liquidity on the back of QE taper, US debt ceiling resolution and foreign demand for USD funding into year-end. We further think that tighter US liquidity conditions could undermine risk sentiment and boost the safe-haven USD in the coming months. We also note the limited USD sensitivity to elevated energy prices and the recent issues plaguing manufacturing producers and exporters. This can be partly attributed to the fact that the US is among the few G10 economies that is adding to fiscal stimulus despite the ongoing economic recovery.

Among the USD negatives in the near term, we note the still 'patient' Fed that can keep US real rates and yields very negative and thus disadvantage the USD. We further believe that a potential growth threat to the US economic recovery over the winter months could be the return of the Covid pandemic which could delay the full re-opening of the all-important services sector and thus delay a more meaningful normalisation of the Fed policy until Q222.

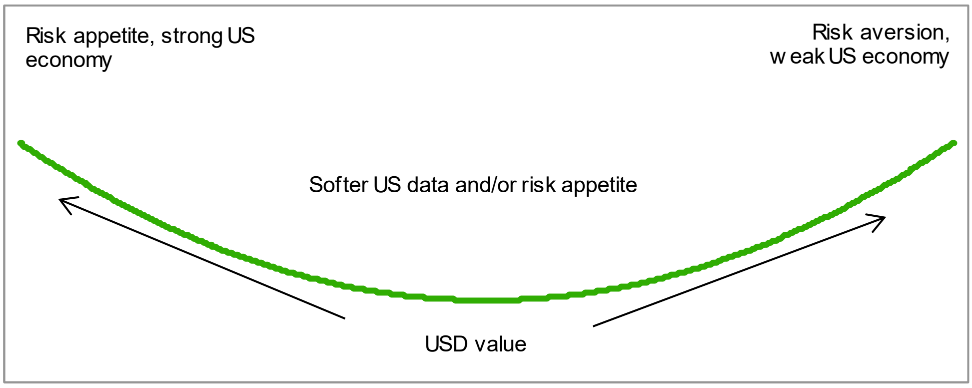
Moreover, we note that the USD is looking quite overbought and overvalued, according to our in-house gauges. We think that President Joe Biden's fiscal stimulus plans could lead to a potential deterioration of the US external imbalances and have positive growth effects on US trading partners.

The USD is looking quite overbought and overvalued.

In the long term, we see the USD selectively supported on the back of a combination of the easy fiscal and tighter monetary policy mix in the US. The mix should give the USD a boost vs low-yielding currencies like the JPY and CHF. Moreover, tightening US and global financial conditions can (temporarily) undermine risk sentiment and boost the USD vs risk-correlated and commodity currencies.

The above being said, a relatively gradual Fed policy normalisation could leave UST real yields in negative territory, encouraging diversification into higher-yielding G10 FX currencies like the NZD, CAD, AUD and NOK. Worsening US external imbalances and international growth spill-over effects from fiscal stimulus could boost the likes of the CAD and EUR.

The USD 'smile'

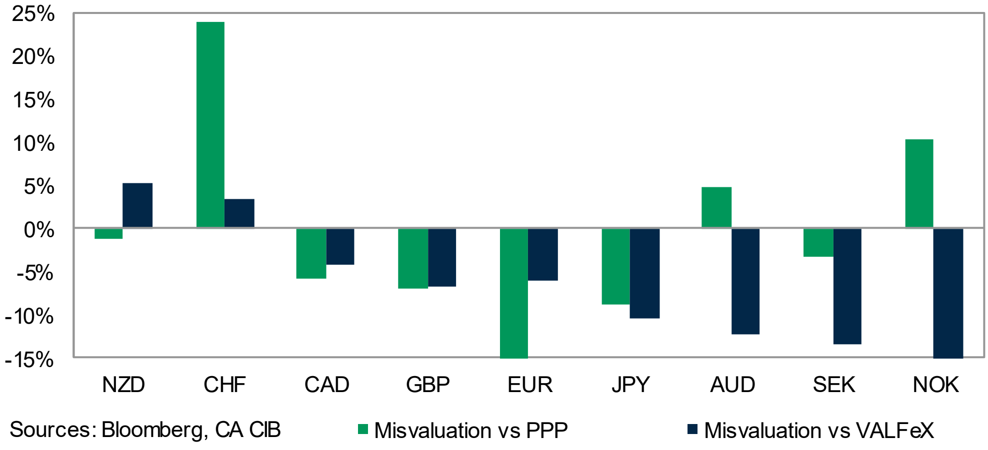


Source: Crédit Agricole CIB

In addition, in line with the global growth and trade recovery in 2022, foreign exporters and central banks seem likely to sell the USD especially against liquid FX reserve currencies like the EUR. Higher taxes and overregulation in the US can further hurt growth and reduce the appeal of USD assets, fuelling more diversification flows. Last but not least, the USD is overvalued vs the EUR, JPY, AUD, GBP, NOK and SEK.

Valentin MARINOV

The USD is looking overvalued vs many G10 currencies



Sources: Bloomberg, CA CIB

EMERGING COUNTRIES: WAITING FOR THE PLANETS TO ALIGN?

EM currencies may benefit from a gradual post-Covid improvement… EM FX performance is not expected to be stellar in 2022. EMs face three main challenges: the Chinese slowdown, the scars of Covid/inflation, insufficient reforms and geopolitics.

Normalisation?

When it comes to EM FX, from a few angles, 2022 could be seen as a year of normalisation. On the Covid front, on average, and with a lag vs developed markets, vaccination and the progress of adapting to living with the virus should continue to gradually attenuate the pandemic's effect on economies and markets (provided Omicron or another variant does not fully change the health outlook).

Inflation could also peak in Q2 and moderate into H2, inciting central banks to go easier on rate hikes. Also, EMs will continue to cope with the normalisation of US monetary policy, but the impact should be manageable provided the increase in US long-term yields remains limited.

Attractiveness

Does this mean that the planets will at last align, and that EM investors can benefit from a series of factors of attractiveness? As a matter of fact, the average EM carry has significantly increased compared with the pre-Covid period, as many central banks (at least out of Asia) have increased interest rates strongly to fight inflation. Also, many EM currencies have reached relatively cheap levels after having weakened and not fully recovered during the past two years. Finally, even if the past increase in commodity prices is unlikely to be replicated in the coming quarters, the levels reached by energy, metal and food prices are supporting the rent from which many commodity exporters are benefiting.

Challenges

In our view, the EM investment backdrop will indeed be slightly more favourable in 2022 than in 2021, but EMs will still have to face four main challenges. First, the China slowdown. China will likely smooth its economic deceleration in 2022, but its structural slowdown is here to stay, with possible impacts on Asian economies and commodity exporters. Second, the scars of inflation/Covid. The past year and a half has left some countries with higher interest rates, lower growth prospects and narrower fiscal flexibility, making it challenging to push economic growth and attract investors' flows (incl. Brazil, South Africa). Third, the need to upgrade development models. The weakness of the reform effort during the Covid crisis means some countries have to do more (reforms) with less (fiscal leeway), particularly as the energy transition is increasingly becoming a pressing issue. Fourth, geopolitical risks should sporadically fuel volatility, with two main focuses: the US-China relationship and the EU neighbourhood (tensions with Russia and possibly Turkey).

Pick the right currency

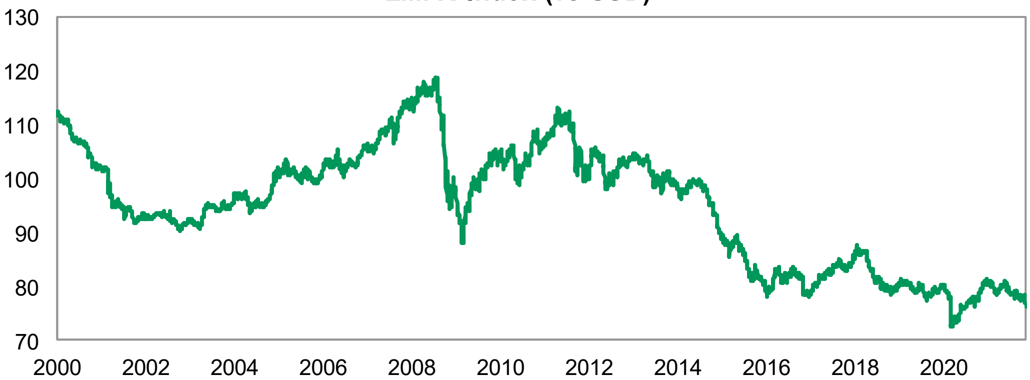
As a consequence: on average, we are cautiously constructive EM into 2022. But we insist on the need to be picky and to be agile, as bumps in US rate expectations will likely sporadically trigger episodes of EM sell-off. It makes lots of sense to pick the right high yielders: we favour the CNY, IDR, RUB, ZAR and MXN. It could also make sense to get positioned in South East Asia, including on the THB and SGD. In contrast, we believe it makes sense to be cautious on the TRY (persisting monetary management) and the BRL (key election in a difficult fiscal context).

Main risks

The main risks to this cautiously constructive EM view include: the possibility that the US Fed may frontload rate hikes (this would hit EM FX) the Chinese slowdown (if uncontrolled), and the uncertainty relative to the commodity price shake-up or a possible front-loading of an ESG constraint that would weigh on some specific markets.

Sébastien BARBÉ

EMFX Index (vs USD)



Sources: Bloomberg, Crédit Agricole CIB

ECONOMIC AND FINANCIAL FORECASTS

Economic forecasts

Interest rates

Exchange rates

Commodities

Public accounts

ECONOMIC FORECASTS

	GDP (yoy, %)			Consumer price (yoy, %)			Current account (% of GDP)		
	2021	2022	2023	2021	2022	2023	2021	2022	2023
United States	**5.6**	**3.8**	**2.3**	**4.7**	**4.8**	**2.4**	**-3.5**	**-3.2**	**-3.1**
Japan	**1.6**	**3.0**	**1.3**	**-0.1**	**1.3**	**1.2**	**2.7**	**1.8**	**1.8**
Eurozone	**5.2**	**4.4**	**2.5**	**2.6**	**3.0**	**1.5**	**2.8**	**2.9**	**3.1**
Germany	2.7	4.2	1.9	3.2	3.1	1.7	6.6	6.9	6.9
France	6.8	4.4	2.5	2.1	2.3	1.5	-1.0	-0.3	-0.4
Italy	6.3	4.2	2.4	1.9	2.7	1.0	3.3	3.2	3.4
Spain	4.4	5.4	4.3	3.0	3.6	1.2	1.5	1.7	2.4
Netherlands	4.6	4.2	1.9	2.7	4.2	1.9	8.4	8.8	8.8
Belgium	6.1	3.2	1.5	3.2	4.9	1.5	0.8	0.3	0.0
Other advanced									
United Kingdom	6.9	4.8	2.4	2.6	4.8	2.4	-4.0	-4.5	-5.0
Canada	5.1	3.9	2.5	3.3	3.2	2.2	0.6	0.2	-0.2
Australia	3.5	4.1	2.6	2.5	2.1	2.2	3.6	1.3	0.5
Switzerland	3.7	3.0	1.4	0.4	0.6	0.8	7.2	7.5	7.2
Sweden	4.7	3.0	1.8	2.0	2.3	1.7	5.6	5.4	5.2
Norway	4.2	4.0	2.4	3.3	2.7	1.9	3.6	3.4	3.3
Asia	**7.3**	**5.4**	**5.1**	**2.2**	**3.1**	**2.6**	**1.7**	**1.1**	**0.8**
China	8.1	4.9	5.3	0.9	2.3	2.0	1.8	1.2	0.6
India	9.6	7.6	6.0	5.1	5.8	4.5	-1.0	-2.2	-2.0
South Korea	4.1	3.3	2.7	2.4	1.8	1.6	4.9	4.5	4.2
Indonesia	3.5	5.0	4.5	2.0	3.0	3.0	-1.0	-1.3	-2.5
Taiwan	5.8	2.9	2.6	2.0	1.3	1.3	14.2	13.6	13.5
Thailand	0.8	3.9	4.0	1.2	1.5	1.2	-2.8	1.2	4.5
Malaysia	3.5	5.0	4.5	2.5	2.8	2.5	3.0	2.5	2.3
Singapore	7.2	3.8	3.0	2.1	1.9	1.2	18.6	16.8	15.2
Hongkong	6.5	3.3	2.9	1.6	2.1	2.0	8.3	5.0	5.5
Philippines	5.6	6.9	6.5	4.4	3.0	3.5	0.5	-0.5	-1.0
Vietnam	3.9	6.5	6.7	2.5	3.5	4.0	1.5	2.7	2.5
Latin America	**5.8**	**2.3**	**2.4**	**13.8**	**9.6**	**8.0**	**-0.2**	**-0.3**	**-0.9**
Brazil	3.9	1.1	2.2	10.2	4.8	3.3	-0.8	-0.6	-1.0
Mexico	5.6	2.8	2.5	7.1	3.6	3.2	1.5	1.0	-0.5
Argentina	7.8	2.2	2.0	51.0	46.0	40.0	1.0	0.8	0.5
Colombia	8.6	4.5	3.5	4.8	3.2	2.9	-4.5	-4.0	-3.8
Emerging Europe	**5.4**	**3.5**	**3.2**	**9.2**	**11.3**	**8.2**	**1.9**	**1.4**	**-0.2**
Russia	4.2	2.7	2.0	6.7	6.5	4.0	7.0	6.0	3.5
Turkey	8.0	3.8	4.0	18.0	25.0	20.0	-2.0	-2.0	-4.0
Poland	5.7	4.3	3.8	5.1	7.5	5.5	-0.8	-1.4	-1.8
Czech Republic	2.3	4.2	4.0	3.8	5.5	2.5	0.8	0.5	0.5
Romania	6.8	5.3	4.9	5.0	7.2	3.8	-6.5	-6.1	-6.0
Hungary	6.4	4.3	4.0	5.1	4.9	3.0	-0.5	-0.5	-0.3
Ukraine	3.0	3.6	4.0	9.4	7.9	5.5	-0.8	-2.1	-2.4
Africa, Middle East	**3.6**	**3.7**	**3.5**	**10.4**	**6.9**	**5.9**	**1.8**	**1.9**	**1.6**
Saudi Arabia	2.6	4.1	3.5	3.2	1.9	1.5	4.7	5.1	4.5
United Arab Emirates	2.8	4.2	3.7	0.0	1.9	1.8	8.5	9.8	9.0
South Africa	4.5	2.0	1.8	4.5	4.5	4.5	3.0	-0.5	-0.5
Egypt	4.5	5.0	5.3	5.4	6.3	6.1	-4.5	-3.5	-3.3
Algeria	3.0	2.5	1.9	5.3	5.9	6.0	-8.3	-6.9	-8.1
Qatar	2.9	3.6	3.1	1.6	2.5	2.1	5.0	5.4	5.1
Koweit	2.1	3.1	3.2	3.2	2.5	2.1	26.0	25.0	19.0
Morocco	5.4	3.9	3.7	1.1	1.5	1.6	-3.2	-3.5	-3.3
Tunisia	3.5	3.2	2.7	5.6	6.2	5.8	-5.9	-5.5	-5.3
Total	**5.8**	**4.3**	**3.4**	**4.4**	**4.6**	**3.3**	**0.8**	**0.5**	**0.2**
Advanced economies	**5.0**	**4.0**	**2.3**	**3.2**	**3.6**	**1.9**	**-0.2**	**-0.2**	**-0.2**

	2021				2022				2023			
Real GDP growth, QoQ %	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
USA (annualised)	6.3	6.7	2.1	5.7	3.8	3.4	2.5	2.3	2.2	2.2	2.1	2.0
Japan	-0.7	0.5	-0.9	1.5	1.3	0.8	0.3	0.3	0.3	0.3	0.3	0.3
Eurozone	-0.2	2.2	2.2	0.5	0.9	1.0	0.9	0.8	0.5	0.5	0.4	0.4
Germany	-1.9	2.0	1.7	0.2	1.3	1.2	0.7	0.6	0.3	0.3	0.3	0.3
France	0.1	1.3	3.0	0.7	0.9	0.6	0.8	0.8	0.7	0.4	0.4	0.4
Italy	0.3	2.7	2.6	0.4	0.5	1.0	0.9	0.8	0.3	0.6	0.4	0.5
Spain	-0.6	1.1	2.0	1.2	1.2	1.1	1.5	1.2	1.0	1.1	0.6	0.6
United Kingdom	-1.4	5.5	1.3	1.1	0.9	0.7	0.7	0.6	0.5	0.6	0.5	0.5

	2021				2022				2023			
Consumer prices, YoY %	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
USA	1.9	4.8	5.3	6.8	6.9	5.3	4.2	2.6	2.3	2.4	2.4	2.5
Japan	-0.5	-0.6	0.0	0.6	0.9	1.3	1.6	1.4	1.1	1.2	1.3	1.4
Eurozone	1.1	1.8	2.8	4.5	3.9	3.5	2.9	1.7	1.3	1.5	1.7	1.5
Germany	1.7	2.2	3.5	5.4	4.0	3.6	2.8	2.0	1.3	1.7	2.1	1.7
France	1.0	1.8	2.2	3.3	2.7	2.6	2.2	1.5	1.5	1.5	1.6	1.5
Italy	0.8	1.2	2.1	3.7	3.4	3.2	2.6	1.4	0.8	1.0	1.0	1.0
Spain	0.5	2.3	3.4	5.7	5.2	4.3	3.4	1.6	1.1	1.2	1.3	1.3
United Kingdom	0.6	2.1	2.8	4.9	5.4	5.5	4.9	3.6	3.1	2.4	2.2	2.0

	GDP (b)	Private consump-tion (b)	Public consump-tion (b)	Investment (b)	Exports (b)	Imports (b)	Net exports (a)	Changes in inventories (a)
Eurozone								
2021	5.2	3.5	3.8	3.6	9.6	7.1	1.4	0.4
2022	4.4	5.9	1.4	4.4	5.9	6.0	0.2	0.3
2023	2.5	2.2	0.8	4.4	4.5	4.6	0.1	0.4
Q4 2021	*0.5*	*0.6*	*0.3*	*1.2*	*1.2*	*1.4*	*-0.1*	*0.2*
Q1 2022	*0.9*	*1.1*	*0.2*	*1.5*	*1.6*	*1.7*	*0.0*	*0.2*
Q2 2022	*1.0*	*1.0*	*0.2*	*1.5*	*1.5*	*1.4*	*0.1*	*0.2*
Q3 2022	*0.9*	*0.8*	*0.2*	*1.3*	*1.4*	*1.4*	*0.1*	*0.3*
Germany								
2021	2.7	0.7	3.0	1.4	7.1	7.4	0.2	1.2
2022	4.2	7.4	0.6	1.3	5.7	5.9	0.1	-0.3
2023	1.9	1.7	0.8	2.7	5.7	5.6	0.3	0.0
Q4 2021	*0.2*	*0.2*	*0.2*	*-0.1*	*0.7*	*0.6*	*0.1*	*0.0*
Q1 2022	*1.3*	*1.6*	*0.2*	*0.9*	*2.3*	*2.1*	*0.2*	*0.0*
Q2 2022	*1.2*	*1.4*	*0.2*	*0.9*	*2.3*	*2.1*	*0.2*	*0.0*
Q3 2022	*0.7*	*0.8*	*0.2*	*0.9*	*1.8*	*1.8*	*0.1*	*0.0*
France								
2021	6.8	4.8	6.4	11.7	8.4	6.8	0.3	-0.4
2022	4.4	5.7	2.4	3.4	6.3	4.7	0.4	-0.4
2023	2.5	2.0	0.8	3.0	2.9	2.8	0.0	0.6
Q4 2021	*0.7*	*1.2*	*0.3*	*0.9*	*1.8*	*1.8*	*0.0*	*-0.2*
Q1 2022	*0.9*	*0.9*	*0.2*	*0.8*	*1.7*	*1.5*	*0.0*	*0.1*
Q2 2022	*0.6*	*0.8*	*0.2*	*0.8*	*1.1*	*0.9*	*0.0*	*-0.1*
Q3 2022	*0.8*	*0.6*	*0.2*	*0.8*	*1.0*	*0.8*	*0.0*	*0.2*
Italy								
2021	6.3	5.2	0.9	15.7	12.8	13.4	0.1	0.1
2022	4.2	5.2	-0.6	5.1	8.4	7.0	0.6	-0.3
2023	2.4	2.6	-0.8	4.1	5.4	5.2	0.2	0.0
Q4 2021	*0.4*	*0.6*	*-0.1*	*0.7*	*1.2*	*1.3*	*0.0*	*-0.1*
Q1 2022	*0.5*	*0.8*	*-0.1*	*1.1*	*1.6*	*1.5*	*0.1*	*-0.2*
Q2 2022	*1.0*	*0.7*	*-0.2*	*1.4*	*2.0*	*1.7*	*0.1*	*0.2*
Q3 2022	*0.9*	*1.0*	*-0.2*	*1.3*	*2.4*	*2.1*	*0.2*	*-0.1*
Spain								
2021	4.4	4.3	3.3	3.4	11.6	11.3	0.4	0.2
2022	5.4	4.0	2.4	7.7	8.8	6.3	1.0	0.0
2023	4.3	3.4	2.0	7.3	5.0	3.9	0.5	0.0
Q4 2021	*1.2*	*0.9*	*1.1*	*1.5*	*2.3*	*2.0*	*0.2*	*0.0*
Q1 2022	*1.2*	*1.0*	*0.5*	*2.5*	*1.3*	*1.5*	*0.0*	*0.0*
Q2 2022	*1.1*	*0.8*	*0.5*	*2.5*	*1.3*	*1.3*	*0.0*	*0.0*
Q3 2022	*1.5*	*1.0*	*0.5*	*2.5*	*2.0*	*1.1*	*0.3*	*0.0*
Portugal								
2021	4.7	5.0	5.1	4.6	9.1	10.0	-0.9	0.4
2022	5.6	5.2	4.1	4.3	8.2	6.1	0.5	0.0
2023	2.1	2.1	1.6	3.2	4.0	3.9	-0.2	0.0
Q4 2021	*1.9*	*1.1*	*2.0*	*2.0*	*2.0*	*1.0*	*0.4*	*0.0*
Q1 2022	*0.7*	*0.7*	*0.5*	*2.0*	*1.0*	*1.4*	*-0.2*	*0.0*
Q2 2022	*0.7*	*0.7*	*0.5*	*1.5*	*1.0*	*1.2*	*-0.1*	*0.0*
Q3 2022	*0.5*	*0.5*	*0.4*	*0.8*	*1.0*	*1.0*	*-0.1*	*0.0*
Netherlands								
2021	4.6	2.9	3.8	3.4	6.7	4.9	2.1	-0.4
2022	4.2	4.6	2.3	2.6	4.7	4.2	0.9	0.2
2023	1.9	1.2	0.8	1.8	4.1	3.6	0.8	0.0
Q4 2021	*0.5*	*-1.0*	*0.5*	*3.5*	*0.6*	*0.6*	*0.1*	*0.0*
Q1 2022	*0.9*	*1.0*	*0.3*	*0.8*	*1.0*	*0.9*	*0.2*	*0.0*
Q2 2022	*0.8*	*0.8*	*0.3*	*0.8*	*1.0*	*0.9*	*0.2*	*0.0*
Q3 2022	*0.6*	*0.5*	*0.2*	*0.5*	*1.0*	*0.9*	*0.2*	*0.0*
United Kingdom								
2021	6.9	4.3	15.9	4.5	-2.7	1.3	-1.2	1.0
2022	4.8	6.3	5.6	6.4	6.0	8.4	-0.7	-0.5
2023	2.4	1.6	3.0	7.4	4.2	5.9	-0.6	0.0
Q4 2021	*1.1*	*3.0*	*0.9*	*1.0*	*2.0*	*2.2*	*-0.1*	*-0.9*
Q1 2022	*0.9*	*0.5*	*1.0*	*2.0*	*2.0*	*2.0*	*0.0*	*0.1*
Q2 2022	*0.7*	*0.5*	*1.0*	*2.0*	*1.5*	*2.0*	*-0.2*	*0.0*
Q3 2022	*0.7*	*0.5*	*1.0*	*1.8*	*1.0*	*1.5*	*-0.2*	*0.0*

(a) contribution to GDP growth (%, q/q) (b) q/q, %

INTEREST RATES

Short-term interest rates		16-Dec	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
Etats-Unis	Fed funds	0.25	0.25	0.25	0.25	0.50	0.50	0.75	1.00	1.25
	3M	0.18	0.20	0.35	0.50	0.70	0.70	1.00	1.25	1.50
Japon	Call rate	-0.03	-0.02	-0.02	-0.02	-0.02	-0.02	-0.02	-0.02	-0.02
	3M	-0.10	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Eurozone	Deposit	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
	3M	-0.57	-0.56	-0.56	-0.55	-0.55	-0.55	-0.55	-0.54	-0.54
United-Kingdom	Base rate	0.25	0.50	0.50	0.75	0.75	1.00	1.00	1.00	1.00
	3M	0.08	0.08	0.08	0.10	0.30	0.00	0.00	0.00	0.00
Sweden	Repo	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Norway	Deposit	0.50	0.75	1.00	1.00	1.25	1.25	1.50	1.50	1.75
Canada	Overnight	0.25	0.25	0.25	0.50	0.75	1.00	1.00	1.25	1.50

10Y rates	16-Dec	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
USA	1.42	1.65	1.75	1.55	1.35	1.40	1.50	1.60	1.65
Japan	0.04	0.08	0.09	0.11	0.11	0.11	0.11	0.11	0.11
Eurozone (Germany)	-0.35	0.05	-0.05	-0.20	-0.25	-0.10	0.05	0.20	0.30
Spread 10 ans / Bund									
France	0.35	0.45	0.40	0.35	0.35	0.40	0.40	0.40	0.40
Italy	1.33	1.50	1.40	1.30	1.30	1.60	1.55	1.55	1.55
Spain	0.74	0.85	0.80	0.75	0.75	0.85	0.80	0.85	0.85

Asia		16-Dec	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
China	1Y deposit rate	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Hong Kong	Base rate	0.50	0.50	0.50	0.50	0.75	1.00	1.00	1.25	1.50
India	Repo rate	4.00	4.25	4.50	4.50	4.75	5.00	5.00	5.25	5.50
Indonesia	7D (reverse) repo rate	3.50	3.50	3.50	3.75	4.00	4.25	4.25	4.50	4.75
Korea	Base rate	1.00	1.25	1.25	1.50	1.50	1.50	1.75	1.75	1.75
Malaysia	OPR	1.75	1.75	1.75	1.75	2.00	2.25	2.25	2.50	2.75
Philippines	Repo rate	2.00	2.00	2.00	2.00	2.25	2.25	2.50	2.50	2.75
Singapore	6M SOR	0.40	0.40	0.42	0.44	0.55	0.70	0.76	0.86	1.02
Taiwan	Redisc	1.13	1.13	1.13	1.13	1.25	1.25	1.25	1.25	1.25
Thailand	Repo	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00
Vietnam	Refinancing rate	4.00	4.00	4.00	4.50	5.00	5.00	5.00	5.00	5.00
Latin America										
Brazil	Overnight/Selic	9.25	11.50	11.50	11.50	11.50	11.50	10.00	8.50	7.00
Mexico	Overnight rate	5.00	5.75	6.00	6.00	6.00	6.00	6.00	5.50	5.50
Emerging Europe										
Czech Rep.	14D repo	2.75	3.50	3.50	3.25	3.00	2.75	2.75	2.75	2.75
Hungary	Base rate	2.40	3.00	3.00	3.00	3.00	3.00	3.00	2.75	2.50
Poland	7D repo	1.75	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25
Romania	2W repo	1.75	2.25	2.50	2.50	2.50	2.50	2.50	2.50	2.50
Russia	1W auction rate	7.50	9.50	9.50	9.50	8.50	7.50	6.50	6.50	6.50
Turkey	1W repo rate	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00
Africa & Middle East										
South Africa	Repo	3.75	4.50	5.00	5.00	5.00	4.50	4.00	4.00	4.00
UAE	Repo	0.65	0.60	0.60	0.60	0.85	0.85	1.10	1.35	1.50
Saudi Arabia	Repo	1.00	1.00	1.00	1.00	1.25	1.25	1.50	1.75	2.00

EXCHANGE RATES

USD Exchange rate

Industrialised countries		16-Dec	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
Euro	EUR/USD	1.13	1.14	1.15	1.16	1.18	1.18	1.19	1.20	1.21
Japan	USD/JPY	113.9	116.0	118.0	118.0	116.0	115.0	114.0	113.0	112.0
United Kingdom	GBP/USD	1.32	1.34	1.35	1.36	1.38	1.39	1.40	1.41	1.43
Switzerland	USD/CHF	0.93	0.93	0.94	0.94	0.94	0.94	0.94	0.94	0.93
Canada	USD/CAD	1.29	1.24	1.22	1.21	1.20	1.19	1.18	1.19	1.20
Australia	AUD/USD	0.71	0.74	0.74	0.75	0.76	0.77	0.78	0.79	0.80
New Zealand	NZD/USD	0.67	0.72	0.73	0.74	0.75	0.75	0.76	0.77	0.78

Euro Cross rates

Industrialised countries		16-Dec	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
Japan	EUR/JPY	128	132	135	136	136	136	136	136	136
United Kingdom	EUR/GBP	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.84
Switzerland	EUR/CHF	1.04	1.06	1.08	1.09	1.10	1.11	1.12	1.13	1.13
Sweden	EUR/SEK	10.27	10.10	10.10	10.00	9.90	9.80	9.80	9.70	9.70
Norway	EUR/NOK	10.25	10.00	9.90	9.80	9.70	9.60	9.60	9.50	9.50

Asia		16-Dec	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
China	USD/CNY	6.37	6.46	6.48	6.44	6.40	6.40	6.42	6.45	6.49
Hong Kong	USD/HKD	7.80	7.79	7.80	7.80	7.80	7.81	7.81	7.82	7.82
India	USD/INR	76.38	74.80	75.00	74.80	74.60	74.80	75.00	75.20	75.20
Indonesia	USD/IDR	14330	14000	14200	14000	13800	14000	14200	14300	14300
Malaysia	USD/MYR	4.23	4.12	4.15	4.10	4.08	4.10	4.15	4.15	4.15
Philippines	USD/PHP	50.2	50.0	49.6	49.2	48.8	48.6	48.6	48.4	48.2
Singapore	USD/SGD	1.37	1.34	1.33	1.33	1.32	1.32	1.31	1.31	1.30
South Korea	USD/KRW	1188	1155	1150	1145	1140	1130	1130	1120	1110
Taiwan	USD/TWD	27.8	27.8	27.7	27.6	27.5	27.5	27.5	27.4	27.3
Thailand	USD/THB	33.4	33.0	32.9	32.5	32.2	32.0	31.8	31.5	31.0
Vietnam	USD/VND	23030	22700	22650	22600	22600	22550	22500	22450	22400
Latin America										
Brazil	USD/BRL	5.71	5.60	5.75	6.00	5.75	5.75	5.70	5.65	5.60
Mexico	USD/MXN	21.24	20.20	20.10	20.00	20.00	20.50	21.00	23.00	20.10
Africa										
South Africa	USD/ZAR	16.18	16.00	15.00	14.50	14.50	14.00	14.00	14.50	15.00
Emerging europe										
Poland	USD/PLN	4.11	4.08	4.02	3.98	3.91	3.81	3.76	3.69	3.64
Russia	USD/RUB	74.00	70.00	70.00	72.00	74.00	75.00	75.00	75.00	75.00
Turkey	USD/TRY	14.79	14.50	15.00	15.10	15.20	15.30	15.40	15.50	15.60
Central Europe										
Czech Rep.	EUR/CZK	25.25	25.20	25.00	24.90	24.80	24.70	24.70	24.70	24.70
Hungary	EUR/HUF	369	360	355	355	350	345	340	340	340
Poland	EUR/PLN	4.62	4.65	4.60	4.60	4.60	4.50	4.47	4.43	4.40
Romania	EUR/RON	4.95	4.95	4.95	4.95	4.95	4.94	4.93	4.92	4.91

COMMODITIES

Av. quarter price		15-Dec	2022				2023			
			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Brent	USD/BBL	73	75	75	73	70	68	72	75	77

Av. quarter price		15-Dec	2022				2023			
			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gold	USD/oz	1,769	1,850	1,900	1,900	1,950	1,950	2,000	2,000	2,000

PUBLIC ACCOUNTS

	Government balance (% of GDP)			Public debt (% of GDP)		
	2021	2022	2023	2021	2022	2023
United States	**-12.4**	**-6.5**	**-4.7**	**102.2**	**102.6**	**101.8**
Japan	**-6.4**	**-7.0**	**-3.5**	**242.3**	**244.4**	**244.2**
Eurozone	**-7.5**	**-4.0**	**-2.2**	**98.5**	**99.1**	**99.7**
Germany	-7.8	-3.1	-1.4	72.3	71.3	70.5
France	-8.1	-5.0	-3.5	115.0	113.8	113.6
Italy	-9.4	-5.6	-4.3	154.4	151.3	150.2
Spain	-8.9	-6.3	-2.5	117.5	110.5	104.3
Netherlands	-5.0	-1.4	-0.4	57.8	56.4	55.1
Belgium	-7.8	-5.1	-4.9	112.7	113.1	114.6
Greece	-11.0	-3.3	-1.0	191.3	175.1	169.7
Ireland	-2.8	-1.4	-0.8	51.3	46.7	45.5
Portugal	-4.3	-2.6	-2.0	127.6	123.5	122.8
United Kingdom	**-10.1**	**-5.8**	**-4.5**	**102.5**	**103.4**	**103.8**

Completed on 17 December 2021

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ÉTUDES ÉCONOMIQUES GROUPE