WORLD

MACRO-ECONOMIC SCENARIO 2023-2024

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ECO
ÉTUDES ÉCONOMIQUES GROUPE

A peculiar slowdown

The major developed economies have shown less wear than anticipated, but this does not mean they are on the road to recovery. If anything, their resilience is pumping the brakes rather than jamming them. The support factors, with all their unexpected length and vigour, are now running out as the causes of the slowdown grow stronger – inflation is still high; monetary and financial tightening are aggressive. And if we focus in on the tenacity of growth, we can already make out clear signs of fragility and uneven performance, especially in the Eurozone.

First stop, the **US,** where consumers have not only been borrowing more, turning to credit cards, they have also been dipping deeper into their savings. The surplus savings that carried over from the pandemic have eroded quite a bit. It is very likely that many lower-income households have worn out any safety cushions they may have built up. Credit terms are tightening, and housing investment has already suffered. Business surveys, like businesses' investment plans, are trending downward. Yet the consumer financial situation is healthy; the labour market is still tight; housing inventories are low; mortgage lending terms have improved (in that they are less 'lax'); and fixed-rate mortgages are prevailing. These factors will not be enough to avoid a recession – but they should help to damp it. It will still depend on how quickly inflation decelerates and, by extension, what happens with monetary policy. Under the combined effect of slowing demand and improving supply chains, our scenario is based on headline and core inflation both closing in on 3% by the end of 2023. Yet it also calls for growth to move below its long-term trend in 2023 (1.3%) and 2024 (0.6%).

In the **Eurozone**, economic activity is clearly flagging, but in terms of higher prices on commodity imports, it has been more resilient than expected. Of course, this resilience has its drawbacks: (1) while growth was only very slightly negative in Q422, this is largely an illusion: weakening domestic demand, hurt by falling consumption and investment, has been obscured by a distinctly positive contribution from net exports, much of which is explained by the normalisation of energy purchases; and (2) if recession has been avoided, it is because consumption fell off somewhat as the savings rate eroded, absorbing the (ultimately modest) loss in consumer purchasing power. Despite the normalisation in the savings rate (now lower than its pre-pandemic level in each of the Eurozone's large economies), the surplus savings accumulated since Covid continue to increase, except in Spain and Italy where they are beginning to erode.

The growth scenario now depends on whether the opposing forces currently at work will balance out, with inflation supposedly decelerating but monetary and financial tightening pairing up with a negative fiscal stimulus. Most indicators suggest that we have already reached peak inflationary shock. The decline in inflation is now being brought on by energy prices, whereas the other components are still being stimulated by the delayed effects of energy costs being passed on. Our central scenario calls for a downturn in headline inflation (which is expected to fall from 9.2% to 4.2% YoY between the end of 2022 and the end of 2023) and core inflation (from 5.2% to 3.6%), which nonetheless leaves a high average rate (5.9% for headline and 4.9% for core inflation). The scenario depends on a soft landing (GDP growth at 0.6% in 2023) followed by slow acceleration in mid-2024, though this means that growth (1.2% in 2024) would not return to potential by the end of 2024. This scenario is littered with downside risks (a sharper decline in the labour and credit markets), but there are upside risks too (households dipping into surplus savings).

In the Eurozone, if recession has been avoided, it is because consumption fell off somewhat as the savings rate eroded, absorbing the (ultimately modest) loss in consumer purchasing power.

In **China**, after the post-reopening catch-up phase, growth (3% in 2022) is expected to normalise, with an economic landing brought on by limited potential in terms of exports and investments in construction as well as persistent difficulties in rebalancing growth and investment towards private consumption. Our scenario calls for 5.2% growth in 2023. The global demand forecast could darken in H2, and economic growth in EMs could remain virtually stable (about 3.5% in 2023) despite China's acceleration.

In terms of monetary policy, just because banks are in trouble does not mean that central banks should turn away from their pet priority of reducing inflation. Financial stability will not be achieved at the expense of price stability. The latter continues to argue for monetary tightening even though we are close to the end, whereas managing liquidity requires specific instruments.

In the **US**, our scenario still hinges on a final 25bp hike in May, bringing the target range to its terminal level of 5.00-5.25%, followed by a pause until the end of the year. The Fed is expected to stay focused on special liquidity management tools to handle any banking sector troubles. These troubles will likely spell a tightening in credit terms, making the Fed's work easier and obviating the need for any additional increase in key rates. But the Fed is not expected to begin cutting rates until 2024, at a pace of 25bp per quarter, for a total of 100bp for the year. In the **Eurozone**, inflation remains very high and core inflation is showing signs of stickiness. Despite the tension on banks, the ECB is also expected to continue tightening its monetary policy – by another 75bp – bringing the deposit rate to its terminal rate of 3.75% in the summer.

Anticipating an early end to monetary tightening, justified by the financial stability goal, the bond markets celebrated excessively. More patience is needed before interest rates start down a slight slope: wait until inflation rates approach the central banks' targets and the end of monetary tightening comes into view. It won't be much longer now. **Lastly, central to the FX scenario, the USD could suffer slight downside pressures.** In the US, where key interest rates are due to peak soon, the recession is mild but indisputable, and the debt ceiling threatens to cause new blockages. The USD, already a bit tarnished, is starting to lose its appeal. Mostly, this is expected to benefit the other safe havens like the JPY, the CHF and the EUR.

Catherine LEBOUGRE

Focus – The three core trends in the global geopolitical rebuild

The geopolitical dominoes are quickly being reset, now driven by three core trends.

The first one is, of course, the conflict in Ukraine: its course is deciding – and tightening – the power alliances caught up in it. The second is the unfolding US/China power struggle, which is intensifying on the military preparation front, over Taiwan, but also on the value chain front, in all strategic power sectors, with semiconductors in the lead. And the third trend, geopolitical reshuffling, is hastening the autonomy of many states looking for a piece of the action so they can deploy their own strategy and show off their own assets.

The gap between the market forecasts and the reality on the ground in Ukraine

On the Ukrainian battlefield, there is now a widening gap between the market view, which seems to be reconciled to a military status quo, a stalemate, and the situation on the ground, which is sending signals of a slow but permanent escalation in the nature of the weapons delivered by the West and of Russia's increasingly nuclear-toned threats. On the markets, we are seeing a form of conflict dependency which threatens to underprice the risks of this war. Those risks are getting lost in the news cycle, shunted aside by fears of inflation and the financial crisis. In fact, though, this underpricing is an unspoken wager on a scenario: the implicit bet of a long, more or less frozen conflict, which could either start with a ceasefire or by a gradual decline in the intensity of the war. Such a scenario would not contain the ongoing re-militarisation of Western economies, which is now a long-term trend. On the other hand, a stabilised front would create fewer shocks for the markets and thus, apparently, less uncertainty, but with the risk of underestimating the profound effects of geopolitics on economic policy.

Obviously, this is a plausible scenario. And it is one of the outcomes proposed by the Chinese and Turkish mediations. Yet this solution would not be acceptable to the warring parties until military, economic or political resources were exhausted. Such is the usual end to wars of attrition. The intensity of the conflicts seems either industrially or humanly untenable in the long term. Besides, it would be a bitter pill for Ukraine to swallow, since it would, in practice, consolidate Russia's territorial gains. And that could be interpreted as a Russian victory. A bitter pill for the US, too, since the victory would validate its relative impotence in pushing Moscow back. And evolving public opinion in the US is another component of the scenario. Dwindling support from the Republican Party will be an ever bigger strategic factor as the US elections approach: last January, 40% of Republicans thought there was too much support for Ukraine, compared to 9% when the war broke out.

40% of Republicans think there is too much support for Ukraine.

In the face of all this, in Europe, the Polish-Lithuanian axis is growing stronger and moving toward a ramp-up of the war until Russia is defeated – and the sooner the better. It is also a likely bet that the war is helping to shift Europe's geopolitical centre of gravity eastward, with Poland fixed on building the largest land army on the Continent.

***China's diplomatic wake**-up call*

Along the US-China fault line, things have also been escalating since the Chinese balloon affair scrambled signals between them. The "theatre of war", as the armed forces call it, is coming into focus in Asia as alliances tighten (AUKUS[1]), the US gains access to new bases in the Philippines and Japan builds up its military. What we have here is the old maritime strategy of the arc of alliances across the major archipelagos; the more visible it gets, the clearer America's containment of China. Furthermore, signing a new military alliance treaty promises to unite the US and Indian defence sectors, along with their whole high-tech ecosystem. In this area, the line between the military and civil sectors is becoming very blurry indeed. The union is made easier by the rising antagonism between India and China along India's northern borders. Lastly, the Quad alliance[2] is becoming a hybrid cooperative platform – military, economic and commercial – between Japan, Australia, India and the US.

Admittedly, in the face of this, Beijing is economically weakened – embattled by its debts and its demographics – but still well-positioned on key value chains (batteries and solar panels in particular) and on strategic ores and metals. Lest we forget, China controls some 60% of the world's lithium output through its foreign interests. Moreover, Beijing is emerging from its lengthy Covid hibernation with a major geopolitical brag sheet, including mediating the Saudi Arabia/Iran rapprochement. Obviously, China's success is a failure for the US, which nevertheless remains a key security partner to the Gulf nations but is struggling to maintain its influence. And the politically fragile Israeli link will not do it any favours. As for Xi Jinping's momentous visit to Russia, it marks another Chinese success, transforming Russia de facto into a 'secondary' partner while increasing its influence in Central Asia. Across the

[1] AUKUS: tripartite military cooperation agreement between Australia, the US and the UK.

[2] Quadripartite cooperation between the US, India, Australia and Japan.

continental theatre of the Eurasian geopolitical battle, China is gaining ground.

The opportunism of the secondary powers

Beijing is also – perhaps unwittingly – a driving force behind the third core trend, ie, general geopolitical fragmentation, which is giving some nations leeway to deploy their ambitions for power, with Saudi Arabia and India first in line. While this fragmentation is obvious for the biggest of these countries, it is just as plain for so-called secondary powers angling to monetise every bit of their geopolitical added value. Egypt, in a tough sovereign position, knows it is a pivotal state and that its privatisation of some strategic assets is of interest to the Gulf nations. Turkey, levelled by the earthquake, knows it will be supported by Saudi Arabia which, in fact, is disbursing USD5bn to shore up Turkish reserves. Azerbaijan knows it has more room than other States to practice a brutal geopolitical strategy to the detriment of Armenia, without unleashing the Western hydra.

This group of secondary powers still has its jumble of interests, but the likely expansion of the BRICs in 2023 could cause a geopolitical stir. It will once again point to the fragmentation of the geopolitical scenario and the unanimous demand of the "Greater South" to reform the world's multilateral institutions.

Tania SOLLOGOUB

DEVELOPED COUNTRIES

Pumping the brakes: a less-abrupt but unmistakable slowdown

USA – Recession still the base case despite strong start to the year

Eurozone – An unusual mix of powerful supportive and deterrent factors

United Kingdom – Lower energy prices lift the near-term growth outlook

Japan – Domestic demand to offset weakness external demand

Focus – Banking sector stability tested by monetary tightening

Pumping the brakes: a less-abrupt but unmistakable slowdown

Just because the major developed economies have shown less wear than expected does not mean they are on the road to recovery. If anything, their resilience is pumping the brakes rather than jamming them. The unexpected support factors are running out, as the causes of the slowdown grow stronger – inflation is stinging as monetary and financial tightening digs its teeth in.

USA: RECESSION STILL THE BASE CASE DESPITE STRONG START TO THE YEAR

Economic data consistently surprised to the upside to start 2023, indicating greater resilience than we had anticipated and leading to an upward revision to the outlook in H123. However, we continue to see clear signs of slowing momentum, likely added to by turmoil in the banking sector, and maintain our base case outlook of a mild recession, albeit pushed back into H223 from mid-year in the prior forecast.

January data was strong nearly across the board, with the 500k+ jump in nonfarm payrolls and a 3%+ jump in retail sales particularly notable. On balance, we believe that this strength was somewhat exaggerated by abnormal weather patterns and difficulty with seasonal adjustment, and therefore does not augur a sustained re-acceleration in the economy. **However, it does point to an upside revision to Q123 growth to just above 2% and indicates that momentum could linger into Q223, where we now expect positive growth to be maintained, before contractions in each of Q323 and Q423.**

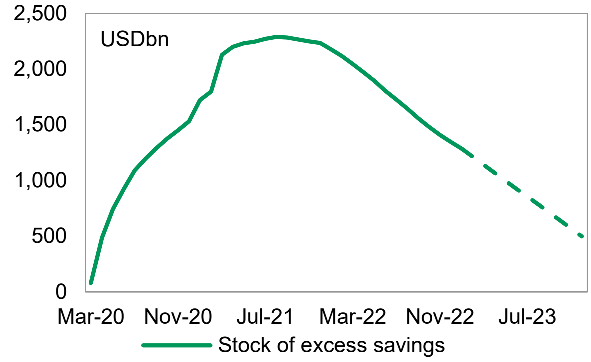
This quarterly pattern leads to an upward revision to 2023 growth to 1.3% on an annual average basis and a downward revision to 0.6% in 2024. While the tweak to the timing of recession does alter the annual growth numbers a bit, the big picture view is unchanged – the combination of elevated inflation and an aggressive Fed lead to an extended period of below-trend growth, with recession more likely than not.

In 2022, the main engine of growth was the consumer, with strong household balance sheets and a historically tight labour market keeping overall consumption advancing at a solid pace throughout the year even as headline growth was negative in H122. That said, despite a jump in seasonally-adjusted spending in January, we expect the sources of support that have been propping up spending into early 2023 to be on the wane as we move into H2.

For one, while overall household balance sheets remain healthy, with household net worth still up around USD30trn compared to the pre-Covid peak, consumers have recently become increasingly reliant upon credit cards and dipping into savings, sources of support that will not last forever. With regards to savings, in particular, we estimate that from a peak of USD2.3trn of excess savings that was amassed during the early portion of the recovery, over USD1trn has been drawn down, and we believe it is likely that many lower income households have fully drawn down any cushion.

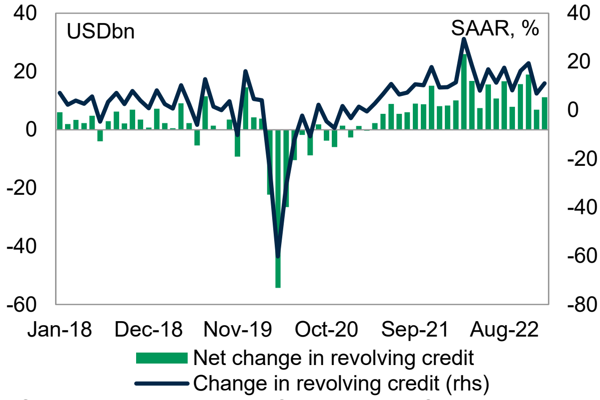
The labour market remains extremely tight at the moment as well, with NFP rising by more than 300k in each of January and February, the unemployment rate only a tick above the pre-Covid low at 3.6%, and job openings nearly doubling the number of unemployed. However, various employment-related metrics have come off their peaks, and the anecdotal evidence of layoffs having become increasingly common has

US: consumers have begun to draw down savings



Sources: BLS, Bloomberg, CA CIB

US: consumers increasingly reliant on credit cards



Sources: Fed, Bloomberg, Crédit Agricole CIB begun to work its way into some data, with Challenger job cut announcements coming in at around 180k for January and February, the highest level for these two months since 2009. **Given how strong labour demand is currently, we do not expect massive job losses, though look for the unemployment rate to gradually rise to the mid-4% range by year-end, with this softening of the labour market likely weighing on growth.**

On top of this, business surveys have been trending downwards as well, with the ISM manufacturing survey having been in contractionary territory below 50 for four straight months, and capex intentions in regional Fed surveys also declining. Additionally, the Fed's Senior Loan Officer Opinion Survey had already shown lending standards beginning to tighten, and **the turmoil in the banking sector will likely exacerbate this trend, curtailing the availability of credit and adding to headwinds for growth.**

With mortgage rates having spiked and affordability at historic lows, residential investment has already taken a substantial hit. While there have been signs of stabilisation as mortgage rates level off with the Fed nearing its terminal rate, tighter credit conditions will likely contribute to levels remaining weak throughout 2023. There are some factors that may work to limit spill-overs from housing to the broader economy including (1) historically low inventories that may mitigate home price declines; (2) lending standards that have improved significantly, which should limit defaults/foreclosures; and (3) the predominance of fixed rate mortgages, meaning that many households will not see any impact to monthly payments from higher rates. On balance, we do not expect this to be enough to avert recession, but it should help to keep any downturn relatively mild.

Taking everything together, we now anticipate this mild recession arriving in H223, with contractions in both Q3 and Q4. Recession is not a given, and we still see a path to a softer landing if inflation were to ease faster than expected, though banking sector concerns introduce substantial uncertainty and narrow the path to achieving a soft landing.

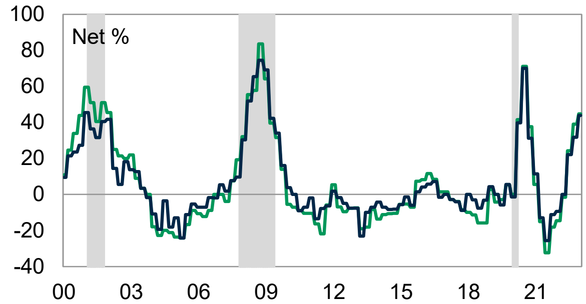
Annual change	2022	2023
GDP	2.1%	1.3%
Inflation	8.0%	3.9%

By end-2023, we see headline and core CPI dipping closer to the low-3% range given slowing demand combined with improving supply chains, which would begin to ease the burden on consumers. This improvement in inflation data would also allow the Fed to begin laying the groundwork for cuts in 2024, setting the stage for growth to rebound back to positive territory by Q124, though at a below-trend rate. Still, this pattern leaves growth at a below-trend pace for each of the next two years.

Despite our base case of recession, we have little expectation that policy will ride to the rescue. Regarding monetary policy, the Fed has made its inflation focus clear, and has indicated that it views the short-term pain of a recession that brings inflation to heel as preferable to the long-term pain that could result if inflation were to become de-anchored. As a result, we believe the Fed is unlikely to cut rates in 2023 even in the face of mild recession, barring renewed financial stability concerns. Meanwhile, the 2022 midterm elections resulted in a divided government, with Republicans in control of the House and Democrats in control of the Senate; an agreement on any major spending package looks very unlikely, especially while inflation continues to rage.

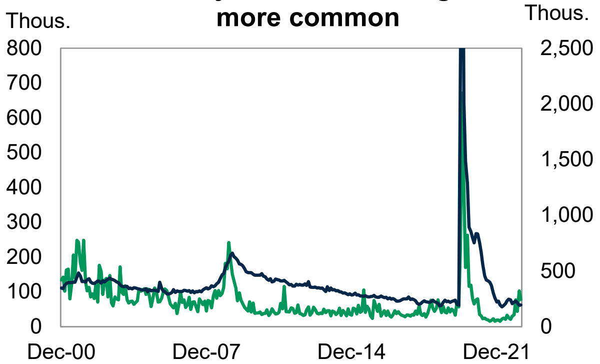
Nicholas VAN NESS

US: domestic respondents tightening standard for commercial & industrial loans



Sources: Fed, Bloomberg, CA CIB

US: job cuts becoming more common



Sources: Challenger, BLS, Bloomberg, CA CIB

EUROZONE: AN UNUSUAL MIX OF POWERFUL SUPPORTIVE AND DETERRENT FACTORS

The transmission of adverse shocks and high uncertainty caused a sharp deceleration in economic activity in the Eurozone, but its resilience was surprising and prevented a recession. The tension between a healthy private sector and persistently higher core inflation makes it more difficult for the ECB to steer the transition: the challenge is how to transition from this resilience to the end of the expansion phase as smoothly as possible. While our scenario assumes a soft landing (GDP growth at 0.6% in 2023 and 1.2% in 2024), with a slightly less optimistic bias than the consensus, the lags in the transmission of pro-cyclical monetary tightening may still be accompanied by downside risks over the forecast horizon, should the labour market and the credit cycle react more sharply to the rise in rates. This trade-off is not unique to the Eurozone: it could be complicated by stronger inflation resistance and lead to a sharper downturn in the global economy, with negative consequences for demand from the zone and financial stability. This scenario of a contraction in Eurozone growth is relegated to a stress scenario.

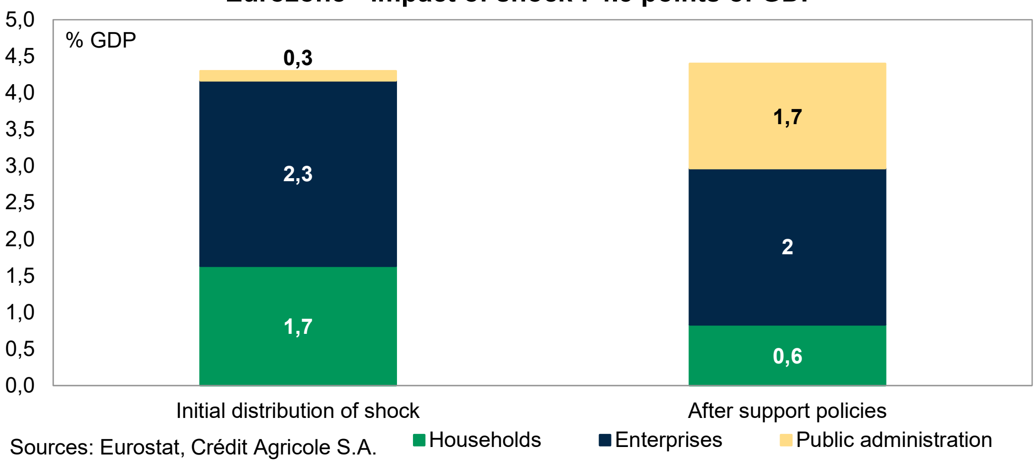
The illusion of resilience

Although GDP growth in Q422 was only marginally negative (-0.03% over the quarter), **this result conceals a deterioration in domestic demand characterised by a decline in private consumption** (-0.9% over the quarter) **and investment** (-0.6% if the sharp correction recorded in Ireland is excluded). Housing investment is down (-1.6%), as is investment in machinery, equipment and transport equipment. Only the construction industry did not decline in Q4 – it merely stagnated. The capital formation trend came to a sudden halt in Germany and Spain, both in construction and in business investment. Although GDP growth was not more negative, it was impacted by a strongly negative contribution from imports linked, among other things, to the normalisation of energy purchasing behaviour. We expect domestic demand to fall slightly again in Q123 (-0.1%), fuelled by a further, but more modest, decline in household consumption. Adjustments are still possible on the import and inventory side, but they are difficult to predict, with the potential of tipping the growth forecast either way early in the year.

The scenario's profile is then characterised by positive, albeit very modest, GDP growth, which accelerates slightly beginning in mid-2024. Two opposing factors explain this positive but sluggish growth, which will still not have returned to its potential rate by the end of 2024: on the one hand, the **fall in inflation** is giving households back their purchasing power, but on the other hand, the **rise in interest rates** is having an increasing impact on investment. For companies, the transmission of monetary policy was in full effect on rates to bank customers. The latest BLS survey indicates a tightening of credit conditions and a decline in credit demand, mainly due to the downturn in investment. The fall in input prices and European funds should nevertheless support business investment, offsetting the weakening of housing investment and allowing a gradual but modest strengthening of capital accumulation. For households, the tightening of credit conditions is more marked, while the fall in demand for mortgage loans is significant, and the largest since 2003.

Private consumption looks set to return to positive growth, but below the average for 2015-19. It will draw on growth in real disposable income that should return to positive territory beginning in Q223. Household income was supported by robust growth in labour income, but also by social benefits and transfers, both of which almost offset the negative effect of inflation. Over the last known period (Q322), the fall in household income purchasing power was limited to 0.3% on the year in the Eurozone and contained to 0.2% in France, while real income rose further in Germany and the Netherlands. In contrast, it fell more in Italy but especially in Spain, where the dynamics of nominal disposable income are weaker. **It is thanks to the decline in the savings rate that the fall in consumption was not sharper.** While the

Eurozone - impact of shock : 4.3 points of GDP



Sources: Eurostat, Crédit Agricole S.A.

savings rate is now below its pre-pandemic level in all the Eurozone's major economies, it has fallen more substantially in Spain and, to a lesser extent, in Italy. Excess savings accumulated since Covid continue to rise, except in Spain and Italy where, in Q322, they eroded for the first time. The availability of these surplus savings, if they were to be mobilised more quickly, constitutes an upside risk to our scenario.

Inflation: the delayed transmission of shocks and renewed pricing power

Most indicators suggest that the inflationary shock has peaked. Natural gas prices seem to have reached a 'new normal' at less than EUR100/MWh (averaging EUR75/MWh in 2023 and EUR90/MWh in 2024 in our forecast), well below the historical peak (EUR340/MWh) but above the historical average (EUR18/MWh). The recent stabilisation of natural gas prices is the (precarious) result of a number of one-off events; however, the factors that could push these prices up are still present. The fall in inflation is driven entirely by the fall in the energy component.

> *Increased pricing power and opportunistic margin behaviour are new risks for inflation*

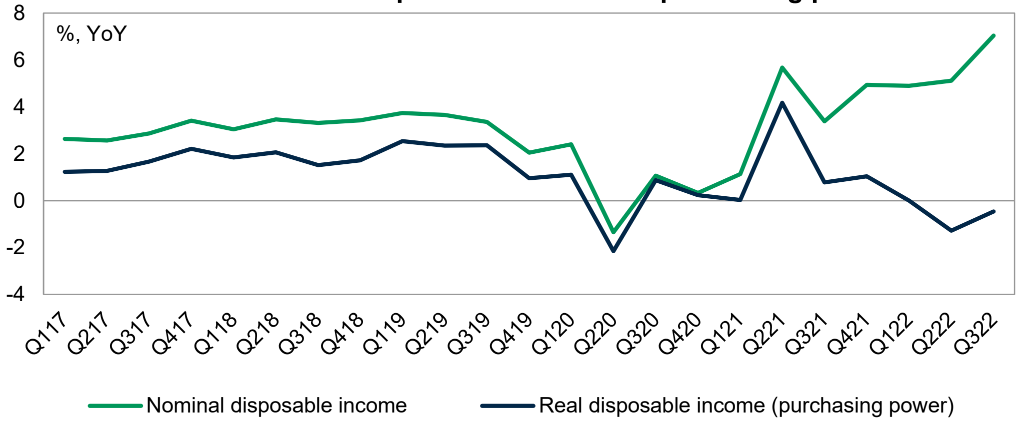
The rise in the other components is further being caused by the delayed effects of energy cost transmission. This is especially the case for processed foodstuffs, which saw higher prices in mass market retail in several countries at the beginning of the year. This is also true for services, where wages have risen rapidly, and this is being reflected in list prices. This is less the case for the prices of non-energy industrial goods, which are still being affected by the knock-on effects of past increases in energy prices, but have benefited from the easing of supply chain issues and the appreciation of the EUR. **We therefore expect inflation to fall to an average of 5.9% in 2023 and 3.1% in 2024. Core inflation will remain high at 4.9% on average in 2023 and 2.7% in 2024.**

Employment, productivity, and the wage mini-cycle

Wage pressure is increasing, with an acceleration in effective wages recorded in Q422 (5.4% YoY), driven mainly by the services sector (excluding trade, transport and accommodation), while a slowdown is visible in construction and industry. The contribution of the minimum wage increase was substantial in 2022 (with YoY minimum wage growth of 8% in Germany, 6% in France and 5% in Spain in H2). The increase in effective working hours has also contributed. The negotiated component of wages was more modest, with one-time bonuses to make up for past losses in purchasing power, while the future trend set by negotiations was more moderate. However, it accelerated at the end of the year. We expect per capita wages to accelerate to 5.1% in 2023 (after 4.8% in 2022) before slowing to 3.8% in 2024 with a smaller contribution from increases in the minimum wage, hours worked and bonuses.

Second-round effects are particularly visible in trends in corporate margins, which indicate a strengthening of companies' pricing power in the Eurozone and opportunistic behaviour facilitated by the volatility of relative prices. Margins are back to the peak of late 2017: high and rising in industry (especially at energy producers) and financial services, to a lesser extent in construction, while they are already falling in trade and other non-financial services. But the slowdown in the productivity cycle is already evident. We expect weakening productivity to drag down profits and limit the potential for wage increases. On the other hand, **employment will remain resilient with a limited increase in unemployment and some recourse to short-time work** (already happening in certain sectors).

EU: households' disposable income and purchasing power



Sources: Eurostat, Crédit Agricole S.A.

A pro-cyclical policy mix on two fronts

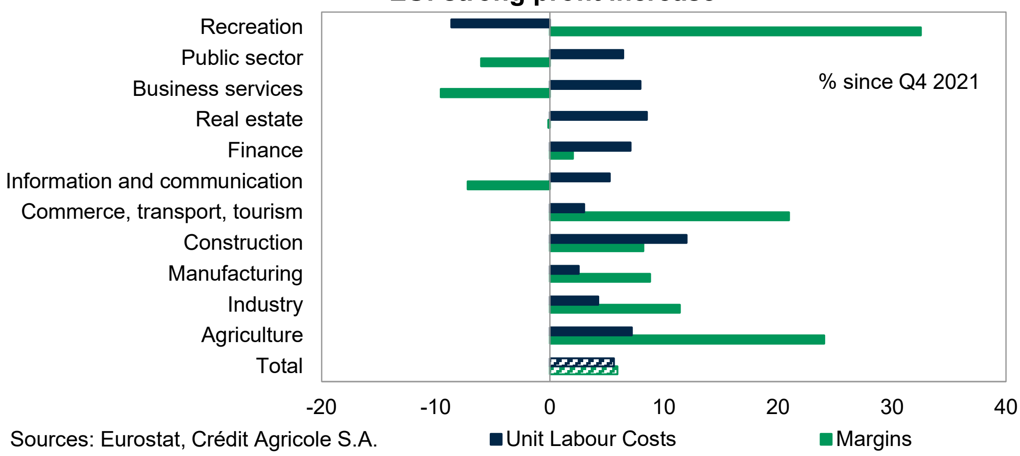
While the ECB continues to see inflation expectations coming unmoored and the triggering of a wage-price spiral as the biggest risk of inflation drifting away from its target, **it has also said that it is paying close attention to the trend in profits.** At its last meeting in March, it raised its key interest rates by 50bp, bringing the refinancing rate to 3.5% and the deposit rate to 3.0%. Above all, it has strengthened its data-driven approach by more explicitly revealing its reaction function. What it does in the future will depend on three factors: (1) its assessment of the inflation outlook based on available macroeconomic and financial data; (2) the trend in core inflation; and (3) the strength of monetary policy transmission. The disclosure of the reaction function reduces the opportunity for the more aggressive members of the Governing Council to speak out and pre-commit the ECB to a rate hike path. Nevertheless, the ECB said that if its central inflation scenario were to become a reality and uncertainty were to reduce, further rate hikes would be inevitable.

Annual change	2022	2023
GDP	3.5%	0.6%
Inflation	8.4%	5.9%

Fiscal policy remained rather neutral in 2022, partly offsetting the tightening of monetary policy. The improvement in deficits is mainly due to inflation, which has generated windfall revenues, partly used to finance measures to counter the impact of inflation replacing post-Covid measures. However, the European Commission has recently provided guidance on the application of fiscal supervision in 2023 and 2024 pending a legislative agreement on governance reform. **The excessive deficit procedures will apply from 2024 onwards based on 2023 budgetary outcomes.** The Commission recommends that countries be more responsible in controlling current expenditure. The aim is to reduce, but also better target, support measures linked to the rise in energy costs while avoiding any unjustified support for demand that could hamper the transmission of monetary policy. Countries will therefore be forced to scale back the scope of their energy-related support measures, with pressure mounting for tighter control of current spending. Indeed, the new guidelines link debt reduction trajectories to the trend in total expenditure (excluding interest) while forcing states to commit to their investment expenditure. The fiscal impulse will therefore be negative in 2023 (-0.8ppt of GDP) and 2024 (-0.7ppt).

Paola MONPERRUS-VERONI

EU: strong profit increase



Sources: Eurostat, Crédit Agricole S.A.

UNITED KINGDOM: LOWER ENERGY PRICES LIFT THE NEAR-TERM GROWTH OUTLOOK

After the UK economy narrowly avoided a recession in Q4-2022, the start of the year has been encouraging. A slight increase of GDP in January (+0.3% MoM) was followed by a strong rebound in the PMI surveys in February/ March. The improvement in business confidence looks driven by the recent substantial fall in energy prices. Furthermore, supply bottlenecks and shortages of materials seem to have normalized, lifting business confidence of the industrials. The labour market has remained tight (with stable unemployment rate at 3.7%), even though the vacancy rate has fallen from record highs and private sector wage growth eased slightly to 7%.

The cost of living crisis is far from over, with inflation now being boosted by increases in food prices.

Another positive development for the short-term outlook is the easing in the budgetary policy stance announced by the government's March Budget. This was possible thanks to a lower than expected public deficit for the current financial year and upward revisions to the OBR's economic forecasts, resulting in a reduction of £25bn a year in the expected fiscal borrowing compared to November. The Chancellor decided to use the majority of this room of manoeuver, or £20 bn a year for the next three years (0.8% of 2022 GDP), in order to provide a small boost to both the demand and supply side of the economy. A key measure was the announcement of an extension of the energy price guarantee at £2,500 for three additional months until the end of June. This means that next quarter's household energy bills will remain flat, rather than rising by 20% as they would have done with a £3,000 guarantee, implying lower path for inflation than expected prior to the Budget (-0.7 percentage point to 6.8% for CPI inflation in Q2-2023 on average).

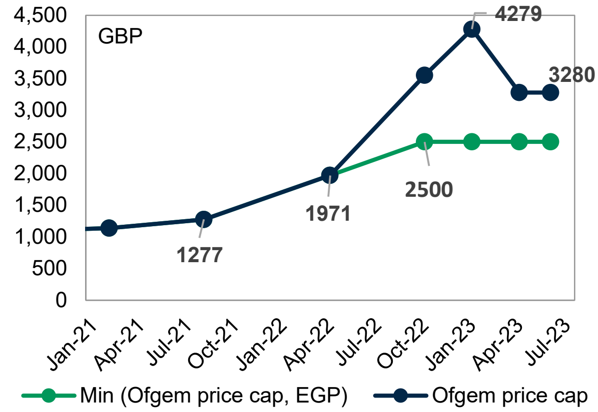
The overall budgetary stance remains the one of fiscal consolidation over the coming years with a fiscal impulse of -1.1% in FY2023-24 (versus -2.5% expected in November) and unchanged at -1.5% in FY2024-25. A key element of the fiscal tightening is the confirmed increase in the corporate tax rate from 19% to 25% from April and the personal tax thresholds' freeze as announced previously.

Annual change	2022	2023
GDP	4.1%	0.6%
Inflation	9.1%	6.7%

Therefore, while the near-term outlook for the UK economy looks brighter than expected three months ago, impediments to growth remain substantial. The cost of living crisis is far from over, with inflation now being boosted by increases in food prices. Monetary policy tightening has yet to produce its full effects on growth through higher interest rates and tighter credit standards. The main risks to growth are the uncertainties related to the geopolitical crisis with the risk of renewed tensions on energy prices and the impact on the economy of the significant monetary policy tightening in the UK and abroad so far.

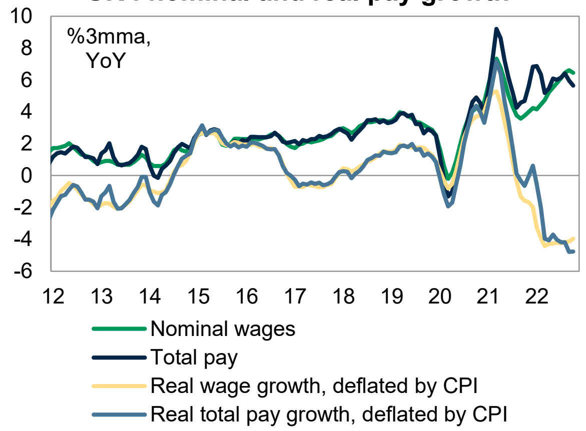
Slavena NAZAROVA

UK: typical household energy bill



Sources: heattable.co.uk, gov.uk, Crédit Agricole S.A.

UK : nominal and real pay growth



Sources: ONS, Crédit Agricole S.A.

JAPAN: DOMESTIC DEMAND TO OFFSET WEAKNESS EXTERNAL DEMAND

Domestic demand to continue supporting growth

Japan's move to a post-Covid world continue, lagging behind other key economies. Public health measures have been relaxed further in March and the government plans to lower the public health designation of Covid-19 in May.

The economic recovery will likely continue throughout CY23 and CY24. Net trade will likely become negative as the global economy shows signs of a slowdown. However, accommodative fiscal and monetary policies, combined with further progress toward a post-Covid world, should help maintain the pick-up in domestic demand and offset the decline in external demand.

We expect private consumption continue to remain firm as public health restrictions are eased further and cross-border travel picks up, helping to revive inbound tourism demand. Furthermore, a tight labour market continues to exert upward wage pressures, with the latest wage negotiations showing resilient results, preventing a significant hit on household income.

***The primary cause of Japan's deflation has been** continued excess savings by Japanese corporates.*

Although we do not expect PM Kishida to resign anytime soon, considering his popularity and the state of Japan's economy, **there is a growing consensus among the ruling coalition that the need for continued economic support to maintain domestic demand** despite stronger external headwinds remain strong.

Meanwhile, **businesses' capex plans remain strong** as they move to increase investments not only to alleviate supply chain disruptions but to offset the increasing labour shortage they face with capital. Private capex as a percentage of GDP remain below 16% since pandemic but, with the pickup in capex, we expect this ratio to head toward 17% over the coming years. The pick-up in capex combined with continued wage growth amid a tight labour market should help dissolve the abnormal state of excess corporate savings.

Recent spike in inflation likely to be temporary as structural deflationary pressure remain

Key inflationary measures have surpassed the BoJ's inflation target of 2%. However, most of the upward pressure on prices stem from the rise of import prices and not due to a strong recovery of domestic demand and underlying inflationary trends have likely not changed.

The government and the BoJ maintain the view that Japan's economy has yet to achieve the 2% inflation target in a sustainable manner. The primary cause of Japan's deflation has been continued excess savings by Japanese corporates.

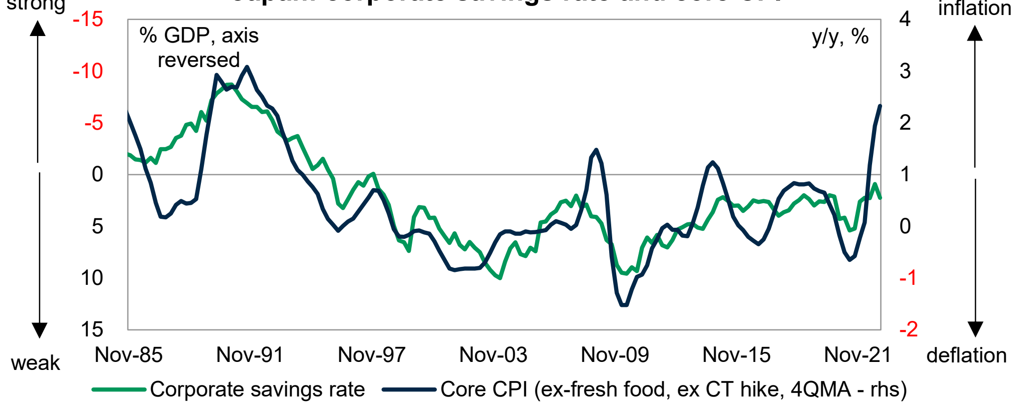
Annual change	2022	2023
GDP	1.6%	1.8%
Inflation (ex-fresh food)	2.3%	1.8%

After the collapse of Japan's economic bubble, companies strengthened their restructuring and debt reduction activities. As a result, the corporate savings rate became positive, which has since then continued to destroyed aggregate demand and in turn strengthened structural deflationary pressures.

The increase in capex and a tight labour market should remove excess corporate savings and strengthen inflationary pressures, but that will likely take a few years. **In the short-term, the recent spike in inflation will likely cause a strong base effect to appear in starting in the latter half of CY23 and suppress core CPI growth.** We expect core CPI to decelerate to 1.8% in CY23 and further to 1.6% in CY24. However, with structural deflationary forces gone by then, we expect inflation to reaccelerate toward the 2% target.

Takuji AIDA – Arata OTO

Japan: corporate savings rate and core CPI



Sources: Cabinet Office, BoJ, MIAC, Crédit Agricole CIB

Focus – Banking sector stability tested by monetary tightening

Monetary tightening should allow banks to return to higher levels of profitability, enabling them to increase their net interest margin. However, it also entails risks as it affects the valuation of certain financial products that are held as assets by banks. It also makes access to liquidity more expensive, or more difficult. Rising rates have contributed to the failure of an institution in the US. Thanks to healthier business & management models and the commitments of the ECB, European banks are now better protected than their US counterparts.

A rate hike with severe consequences in the US

The recent turmoil in the US banking sector and, in particular, the failure of Silicon Valley Bank (SVB) have highlighted the sensitivity of bank balance sheets to changes in interest rates and access to liquidity.

SVB, the sixteenth-largest bank in the US by balance sheet size at the end of 2022, specialised in financing technology companies and start-ups. In the wake of the Covid pandemic, these companies raised significant funds, which generated strong growth in deposits managed by the bank. SVB then chose to invest these abundant resources in US Treasury bills and mortgage-backed securities. Although these financial products are characterised by a low default risk, they nevertheless carry an interest rate risk, against which the bank did not adequately protect itself.

So, when the Fed tightened monetary policy and raised interest rates, the price of securities fell, and with it the valuation of these instruments that made up much of SVB's assets. In addition, the rise in interest rates has led to tighter financing conditions for technology companies, which looked to SVB to collect some of their cash. When the bank proved unable to raise additional funds to meet these withdrawal requests, depositors caused a bank run and SVB's bankruptcy. This event forced the Fed to intervene immediately. It reversed its quantitative tightening policy to avoid a liquidity crisis that could have spread to the entire US banking system.

A banking sector less exposed to crises in the EU

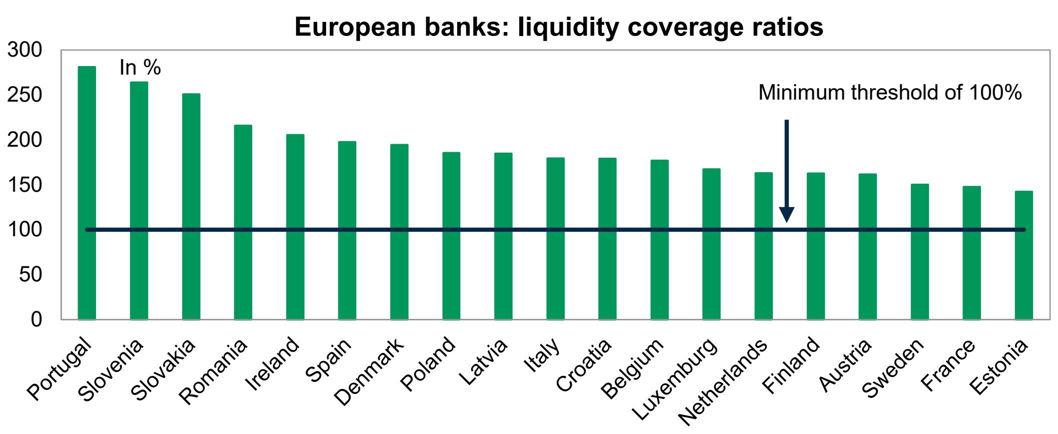
Of course, the European banking sector is far more resilient than SVB, as European supervisors and government officials have both pointed out. First, European banks have more diversified business models; no major credit institution is as dependent on one sector as SVB was on technology companies.

The European banking sector is subject to more stringent regulatory requirements than US banks

Moreover, European banks are subject to more stringent supervisory standards than the US bank, which was granted prudential exemptions in 2018 and was not even required to apply the Basel Accords in full, despite its substantial balance sheet size. For example, EU banks are subject to additional requirements on liquidity ratios (Liquidity Coverage Ratio, LCR; Net Stable Funding Ratio, NSFR), which they are well above. They are also subject to obligations relating to their interest rate risk management, which limit the probability of a bank run. Finally, most of them have capital levels well in excess of regulatory requirements that would allow them to absorb significant shocks, including on market interest rates, as demonstrated by the EBA and ECB stress tests.

The ECB is mindful of financial stability

Furthermore, the ECB is attentive to the situation in the banking sector, if only because the industry plays a key role in the transmission of its monetary policy. At the end of the Governing Council meeting on 16 March, Christine Lagarde explained that there was no trade-off between the price stability target and financial



Sources: ECB, Crédit Agricole SA / ECO

stability; she clarified the ECB's reaction function, which relies in particular on the consideration of financial data, as well as the strength of the transmission of monetary policy. Lagarde also indicated that her "toolbox" allowed her to both fight inflation (by using the level of interest rates) and maintain the proper functioning of the banking sector, via a range of unconventional instruments, which could include asset purchase programmes, the transmission protection instrument (TPI), collateral policy and the potential for a new wave of long-term financing operations (TLTRO).

Lionel POTIER

EMERGING COUNTRIES
Desperately seeking an anchor

Overview – Desperately seeking an anchor

China – Cleared for take-off

Brazil – Fiscal and monetary policies under review

Russia – Allegiance to china and support from neutral states

India – Turning spotlights into growth

Desperately seeking an anchor

Some EMs display interesting levels of carry, whereas others (in Asia in particular) enjoy interesting growth prospects. However, before this translates into convincing EM investment flows, the EM outlook needs to find anchors. Anchoring EM expectations is required on four fronts: (1) inflation and the future pace of disinflation; (2) economic growth once the effect of the Chinese reopening moderates; (3) the peak of US interest rates taking into account global liquidity risks; and (4) geopolitics.

If one looks at certain aspects of the global economy and market, 2023 should be the year of Emerging Markets.

Firstly: economic growth. According to the last IMF outlook, EMs are expected to generate as much as 87% of overall global growth this year. China would be responsible for more than one-third of it, and EMs excluding China and India for about another third. India alone should contribute twice more than the US and Euro Area together (16% vs 8%).

Secondly: the carry. The increase in US interest rates has reduced the average interest gap between EMs and the US. However, many EMs still display interest rates that stand well above the US. Of course, these high interest rates come with higher risks, but in a rather stable environment, these carry gaps may fuel investors' interest for EMs.

However, looking at portfolio flows to EMs, 2023 has not been a great year. Our proxy for capital flows, based on eight large EMs, suggests that this is at par with 2022 (even though Q122 was marked by the beginning of the war in Ukraine); and well below 2019 and 2021.

In our view, before the EM potential is unleashed, the EM outlook needs to find anchors. Anchoring EM expectations is required on four fronts: (1) inflation and the future pace of disinflation; (2) economic growth once the effect of the Chinese reopening moderates; (3) the peak of US interest rates taking into account global liquidity risks; and (4) geopolitics.

Anchor 1: Inflation

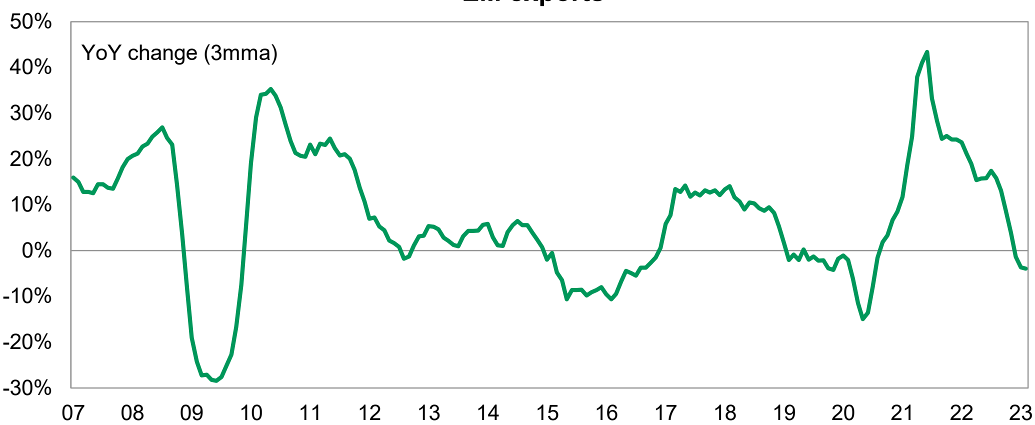
The global disinflation is on. The decline in commodity price since spring 2022 will continue to translate into a decrease in headline inflation, including in EMs. The decline in supply chain pressure to a level similar to pre-Covid, according to some metrics, such as the NY Fed index, and the normalisation in freight costs, also suggests that disinflation will continue. However, it is not clear how quickly disinflation will progress or where inflation will stabilise.

First, **many central banks have become reluctant to hike rates further despite still-high inflation**. This results in many countries running negative, or very negative, interest rates. Second, job markets have tightened in many countries. The unemployment rate reached record low levels in numerous Emerging countries at the beginning of 2023. Hence the risk of wage pressure contributing to put a cap under inflation. Negative real interest rates in a backdrop of still high inflation result in a risk of central banks being perceived as behind the curve, and currencies possibly paying the price for it should inflation be stickier than expected. In our view, this risk will likely decline in H2 as inflation drops further, but it should still be significant in Q2.

Anchor 2: Growth

When it comes to economic growth, there have been two good pieces of news since the beginning of the year. First, **the slowdown in the US and Europe has been milder than expected**. Both economies have resisted better than expected to fast and significant increases in interest rates. This has supported the EM outlook compared with initial expectations.

EM exports



Sources: Bloomberg, Crédit Agricole CIB

Second, **China's reopening has been quicker and more efficient than expected**. Therefore, the Chinese growth outlook has brightened. There should be positive spill-overs to some other EMs, particularly to Asian countries via tourist flows, which should continue to regain momentum in the coming quarters.

That being said, going forward, **the global growth environment may not remain as supportive in the rest of 2023**. Something has got to give, and the effect of the monetary tightening in developed economies may intensify. Developed economies are expected slow in H2. EM exports have already slowed significantly over the past few months, and weaker DM demand in H2 should not help.

Also, past the catch-up phase, **China's growth will likely get back to fundamentals**, possibly in the course of Q423, with an economic landing warranted by limited potential in terms of exports and construction investment, and some persisting difficulties when it comes to rebalancing growth from investment to private consumption.

Overall, combining the slowdown in the US and in China in Q2 and Q3, the outlook for global demand may not become less favourable in H2, in Q4 in particular.

Anchor 3: US interest rates

EM currencies have been fairly resilient to the recent tremors in the US and European banking sectors. This is largely because the turmoil has come along with a sharp decrease in US interest rates (both actual rates and rate expectations). This has meant relief for EM currencies, which had previously suffered from higher US rates last year and between early February and early March 2023.

> *Before the EM potential is unleashed, the EM outlook* ***needs to needs to find anchors… on four fronts***

What next? **Once the dust settles over the banking turmoil, US rates should resume their ascent**. Even if the Fed rate hikes are limited looking ahead, as inflation continues to decline, the pace of disinflation still carries significant uncertainty. In our view, there is a significant upside risk on US interest rates. In particular, the Fed funds future market is currently pricing significant rate cuts before the end of 2023. In our view, this is unlikely to happen. When the market backs away from such dovishness, EM currencies may feel the heat. This could happen in Q2. Then, after having adjusted upward, rates may stabilise in H2, providing a more stable environment for long EM positions.

Anchor 4: Geopolitics

Geopolitical risks seem to have dropped down in the list of the market concerns. But they **still matter a lot for the rest of 2023**.

In Ukraine, it is difficult to see signs of an end to the war in the short term. By contrast, risks of an escalation are still present, as suggested by the reaffirmed friendship between China and Russia on the one hand, and the supply of more sophisticated arms by the West to Ukraine on the other hand (see the *focus on Geopolitics*).

The tensions between the US and China have intensified since last year, particularly as the US has worked to tighten China's access to critical technologies. Such pressure should continue. Tensions could also gain momentum into the end of the year and the beginning of next year. It is always difficult to predict countries' geopolitical stances, but with the Taiwanese elections due next year, China could possibly try to polarise the Taiwanese population and make the election look like a choice on the question of the Taiwan-mainland relationship, between a peaceful status quo and a stance that would be more consistent with an escalation of cross-strait tensions (traditionally, the KMT is more favourable to a status quo whereas the DPP is more openly affirming Taiwan's independence). Against such a backdrop, the issue of Taiwan could become an intensifying geopolitical volatility point in the coming quarters, and this could fuel market volatility.

To sum up

To sum up, **EMs may come closer to finding an anchor on two out of the four major issues they are facing**. EM inflation should continue to decline, capping the risk that EM central banks appear behind the curve, and providing some leeway for future rate cuts. The stabilisation of US interest rates in Q2 may also prepare a more stable environment for EMs in H2 (although the uncertainty over the pace of disinflation keeps risk scenarios alive when it comes to US interest rates).

By contrast, **the outlook for global demand may become more uncertain into the end of the year**. And geopolitical risk is more likely to intensity than to moderate in the coming quarters.

Key numbers Annual change	2022	2023
GDP	3.7%	3.6%
Inflation	8.9%	6.3%

When it comes to economic growth, we see EM economic growth remaining almost stable, despite the Chinese acceleration, at 3.6% in 2023, after 3.7% in 2022. It is worth noting that this would be despite a more marked slowdown in developed markets. Therefore, the EM-DM growth gap is expected to widen, illustrating EMs' resilience (Asia in particular).

Sébastien BARBÉ

CHINA: CLEARED FOR TAKE-OFF

A year of goldilock for China in 2023

We hold a constructive view on the Chinese economy for 2023, with the combination of growth recovery, mild reflation and a set of accommodative policy. This macro backdrop would be supportive for a modest appreciation of the CNY.

We expect GDP growth to likely pick up to 5.2% in 2023 from 3.0% in 2022, as the set of policies have finally been realigned to drive growth with a particular focus on reviving confidence. The government has set its GDP growth target at "around 5.0%", slightly below market expectation. We think it shows that China is emphasising more on the 'quality' rather than the 'quantity' of growth this year.

Policy realigned to deliver growth in 2023

Both monetary and fiscal policies will likely remain accommodative, especially in H1, as growth recovery is yet firm and inflation pressures remain mild, while the external environment could be quite challenging amidst tightening financial conditions globally and lingering geopolitical concerns. After the PBoC cut its RRR by 25bp early this month to replenish liquidity, we expect it to remain focused on credit expansion, and there could be room for lowering bank deposit rates and banks' loan prime rates, but it may not cut its policy rates without any major growth shocks. Fiscal budgets seemingly underwhelmed the markets, but we estimate the magnitude of fiscal supports to be similar to that in 2022, considering both on-balance-sheet fiscal accounts and quasi-spending via the policy banks.

Moreover, we believe the regulatory environment for the private economy could be much more friendly with rectification of previous overtightening as policymakers vow to support the private economy and boost confidence among entrepreneurs. Last but not least, amidst an increasingly complicated and challenging geopolitical landscape, China appears to have set a more conciliatory tone with an attempt to be more engaged with the rest of the world and to stabilise FDI sentiment.

> *We believe the regulatory environment for the private economy could be much more friendly with rectification of previous overtightening.*

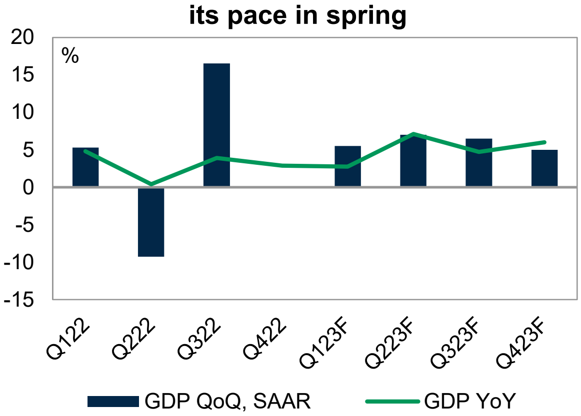
Growth recovery to show more momentum from Q2

Economic data so far in the year shows that **China's domestic activities have rebounded notably from the dip before the reopening in late 2022**, while exports are in contraction amidst weakening external demand. Though this data may not be impressive enough to meet the initial market optimism, we think the recovery trend remains on track. We expect that economic growth momentum will likely show a more significant strengthening starting from Q2 onwards.

Consumption to be the major growth driver

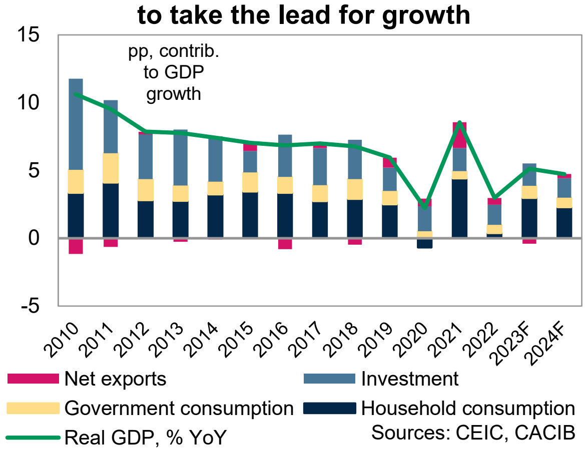
The primary driver would be household consumption growth, which we expect to accelerate to 8% in 2023 from a mere 1% in 2022, contributing almost 60% to headline 5.2% GDP growth. Labour market conditions and income growth will likely improve on better business outlook as China reopened and the regulatory environment becomes more supportive for the private sectors that suffered from regulatory tightening in the past two years. Chinese

China: growth recovery to pick up its pace in spring



Sources: CEIC, Crédit Agricole CIB

China: private consumption to take the lead for growth



Sources: CEIC, CACIB

households have accumulated a significant amount of excess savings, valued at c.3% of GDP according to our estimates. They could be spent gradually, as income growth picks up and home prices stabilise, reducing the need for precautionary saving.

Annual change	2022	2023
GDP	3.0%	5.2%
Inflation	2.0%	2.4%

Investment growth could also rise moderately, as the property sector becomes less of a growth drag this year. There have been some initial signs of property market stabilisation, as home prices in major cities rebounded in February and home sales also saw YoY gains. On the other hand, exports are likely to be a mild drag amidst the external growth slowdown.

A mild reflation as growth picks up

We expect CPI inflation to increase moderately in 2023, as core inflation gradually rises on reopening-led consumption demand improvement. Limited supply constraints, the lack of consumption stimulus and a shift of the pork price cycle will cap inflation upside. We forecast CPI and core CPI inflation at 2.4% and 1.4% respectively in 2023, vs 2.0% and 0.9% in 2022. PPI inflation could be 1.0% in 2023 vs 4.1% in 2022.

Risks to watch

Domestically, the stabilisation of the property sector would be important for both economic and financial stability. Externally, financial markets have been volatile as the dust of the banking turmoil is yet to settle while geopolitical concerns linger.

Xiaojia ZHI

BRAZIL: FISCAL AND MONETARY POLICIES UNDER REVIEW

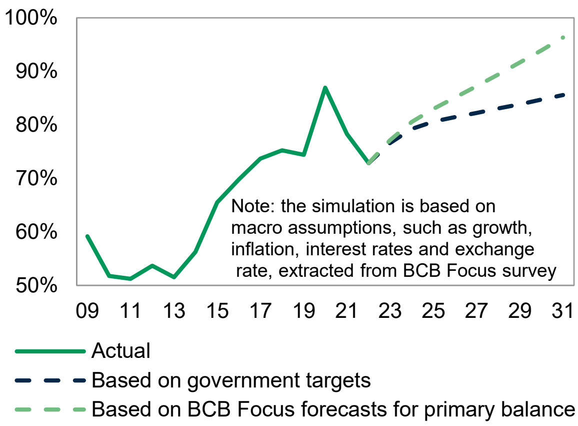
The new fiscal rule proposed in Brazil would replace the spending cap, approved in 2016, that limited the growth of central government expenditures to the rate of inflation. The new framework would instead limit the growth of primary expenditures to 70% of the growth rate of revenues in the previous year, subject to minimum and maximum bands. The rule would be adjusted based on fiscal performance vs set primary balance targets, which were proposed at zero for 2024, 0.5% surplus for 2025 and 1.0% surplus for 2026. If the primary balance is exceeded, the surplus can be used for investment; if the balance is below, with a tolerance of 0.25% on the downside only, spending in the following year would need to be capped at 50% of revenue growth.

Is the new fiscal rule credible?

The rule would certainly help slow the growth in debt-to-GDP ratio, even if not stabilise it completely, if implemented at face value. However, what really matters is the credibility of the primary targets set by the government, which could be changed in order to avoid punishment/reduction in expenditures. The proposed targets are ambitious, and to meet them the government will have to either massively increase taxes or cut spending, neither of which seems plausible.

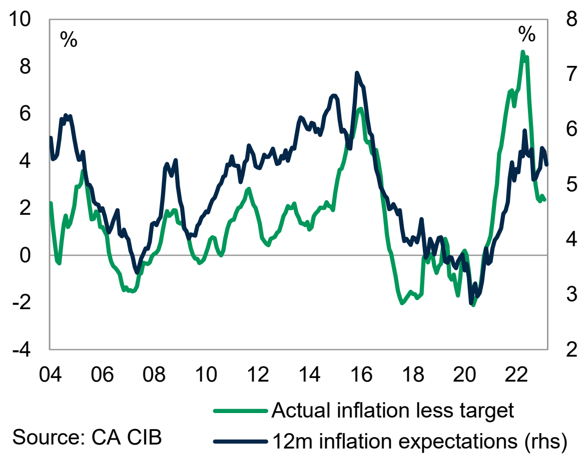
The bill will likely be amended in congress and could change materially by the time the final version is approved. If the amended bill and amended targets due to changing economic realities lead to the fiscal performance resembling the path in line with the

Brazil: debt to GDP ratio



Sources: BCB, Crédit Agricole CIB

Brazil: inflation



Source: CA CIB

market expectations (see below), the debt ratio will quickly begin to rise to new highs.

Revision of the inflation target is likely

Despite the political pressure to ease monetary policy, the central bank (BCB) remains hawkish and defiant. BCB's latest and otherwise expected decision to keep the target Selic rate on hold at 13.75% was accompanied by a daring statement. In contrast to the highly anticipated pivot to cuts, the central bank stated that it "reinforces that future monetary policy steps can be adjusted and will not hesitate to resume the tightening cycle if the disinflationary process does not proceed as expected".

Despite the political pressure to ease monetary policy, the central bank (BCB) remains hawkish and defiant.

That central bank stance has already invited more attacks from the executive and legislative branches of the government and in our view increases the odds that the inflation target, currently 3.25% for 2023 and 3.00% for 2024 and 2025 will be revised higher by the National Monetary Council (CMN) in June.

Annual change	2022	2023
GDP	2.9%	0.8%
Inflation	9.3%	5.1%

In the context of the target that will likely now be missed for three years in a row and given that inflation expectations have already been repriced (see charts below), we do not expect the decision to have a material impact on rate markets. This of course rests on our base case assumption that the central bank's independence will otherwise remain intact and Roberto Campos Neto remains in his post as the BCB president through the end of his term (end of 2024).

Olga YANGOL

RUSSIA: ALLEGIANCE TO CHINA AND SUPPORT FROM NEUTRAL STATES

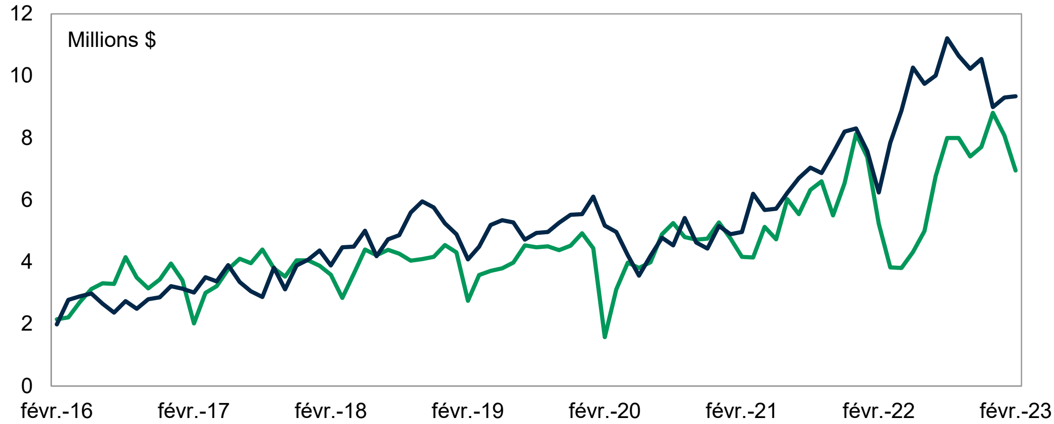
Today, it is impossible for analysts to know whether Russia is close to an economic or political breaking point, as the fog of war makes it hard to collect accurate statistics and information. This is clear from the differences in international organisations' growth forecasts, which for 2023 range from -5.6% (OECD) to +0.3% (IMF). However, this changes the whole scenario not only for Russia but also for Europe. If the first forecast for a major economic shock in 2023 comes true, Moscow will not have the means to wage a war of attrition; in the second case, with a mild recession, the question instead will turn to Ukraine's or the Western alliance's breaking points.

As for the **pressure on Russian households through prices**, it is also part of the war, as it affects domestic politics. For the time being, this pressure seems limited, as inflation stood at 11.7% in January. Of course, the decline in real income is clear (as evidenced by the contraction in retail sales, estimated at between 6% and 9% for 2022) and has only been partially offset by the rise in social benefits and minimum incomes. But it is probably not enough on its own, at least for the time being, to change the political mindset of a population that has traditionally been resilient to economic shocks.

The state budget is running a deficit, Russia is turning into a war economy

Despite this uncertainty, it is nonetheless clear that Russia has shown much more resilience than expected in 2022, with a GDP decline limited to 2.2%. Some of last year's favourable factors will be less so

China-Russia trade



Source: Crédit Agricole S.A.

this year, notably revenues from energy sales to the EU. As such, external surpluses are mechanically shrinking (but it is difficult to estimate them) and, above all, the budgetary situation is deteriorating. Federal revenues were reportedly down by 25% YoY in January 2023 compared with last year, while spending has increased 52%. As a result, the Russian budget is in a deficit and the state is drawing on its reserves.

Federal revenues were reportedly down by 25% year-on-year in January 2023 compared with last year, while spending has increased 52%.

But we must remain cautious: **the deficit is barely even 2% of GDP for now.** On the other hand, some of the factors enabling Russia to withstand the pressure will still be there this year, in particular the intensification of trade relations with many states that are trying to take advantage of the global geopolitical disruption. Chinese imports from Russia have increased by almost 50% in one year (mainly due to increased purchases of oil, coal and gas). As for Chinese exports, which rose by 32.7%, they give Beijing a dominant position in many areas of the Russian economy, such as a market share in the automotive sector, which has risen from 10% to 40% in one year. China now supplies almost all Russian smartphones.

Russia is far from being commercially cut off from globalisation

In Turkey, Russian oil has risen from 27% of the country's total energy purchases before the war to 52%. According to informal sources, the price of oil has fallen from USD60/bl to USD38/bl. Turkey has also become the largest buyer of Russian wheat, ahead of Iran and Egypt – note the record Russian harvest in 2022 and the 15% increase in its total **wheat sales**, with **increased volumes in particular to Saudi Arabia, Algeria, Mexico and Brazil**. More generally, Turkey is now a hub for trade with Moscow, and Russians form the largest foreign population there.

India is also taking advantage of the conflict to buy more fertiliser and energy at a discount, and the two countries want to increase their bilateral trade in 2023, expanding it into new areas. Let us also not forget that Moscow accounts for 50% of India's military equipment inventory, and that the maintenance relationship for this equipment mandates a *de facto* long-term relationship.

The UAE is also on the list of Russian partners, with non-oil trade reportedly up 57% in the first nine months of 2022. In Dubai, now the world's fourth-largest luxury real estate market, Russians have become the leading buyers in the sector. The UAE has come under criticism by the US for granting a license to a sanctioned Russian bank (the license has since been revoked), and for hosting an arms fair where Russian weapons were sold.

Annual change	2022	2023
GDP	-4.0%	-3.0%
Inflation	14.7%	4.8%

In fact, the **list of countries enabling Russia to withstand pressure is long, even in Europe**. Austria still has banks active on Russian soil and continues to buy gas from Moscow. In sum, while it is clear that the Russian economy is very fragile and increasingly isolated, it is also clear that it is far from being cut off from globalisation, and this is perhaps the biggest failure of the Western coalition at the moment. It remains to be seen where the political breaking points will be in this country, faced with the human cost of a particularly deadly conflict.

Tania SOLLOGOUB

INDIA: TURNING SPOTLIGHTS INTO GROWTH

After a rather protectionist first term, characterised by the “Make in India” slogan, which aimed to increase India’s manufacturing capacity but did not generate the expected results, Prime Minister Narendra Modi is now looking to take advantage of the recovery of global supply chains to attract new investors. Modi wants India’s presidency of the G20 to be a showcase for the country, focused on neutrality and multilateral geopolitical alignment.

2023: robust growth continues

After Saudi Arabia, India had the strongest growth of any G20 country in 2022 (6.8%). This trend is expected to continue in 2023, with growth forecast to be around 6%.

With international trade remaining sluggish, growth in recent quarters has mainly come from investment and private-sector consumption. Widely covered announcements in the media, including the arrival of Foxconn and Apple’s increased production capacity, show that a new phase of investment could be in the cards for these production segments, even though it may take some time for these announcements to feed their way through into concrete figures.

***Modi wants India’s presidency of the G20 to be a** showcase for the country, focused on neutrality and multilateral geopolitical alignment.*

India is an energy importer and remains hobbled by rising commodity prices, which pushed its trade deficit up over USD280bn in February, despite the relief brought about in recent months by more stable prices and access to cheaper Russian oil.

The delicate policy-mix balancing act

India’s current account deficit reached 2.5% of GDP in late 2022. Imbalances are complicating the RBI’s monetary policy, as the central bank has to contend with higher US rates and rising inflation. The central bank has raised its key rate six times from its 2020 floor (+250bp, to 6.5%), bringing it back to pre-pandemic levels.

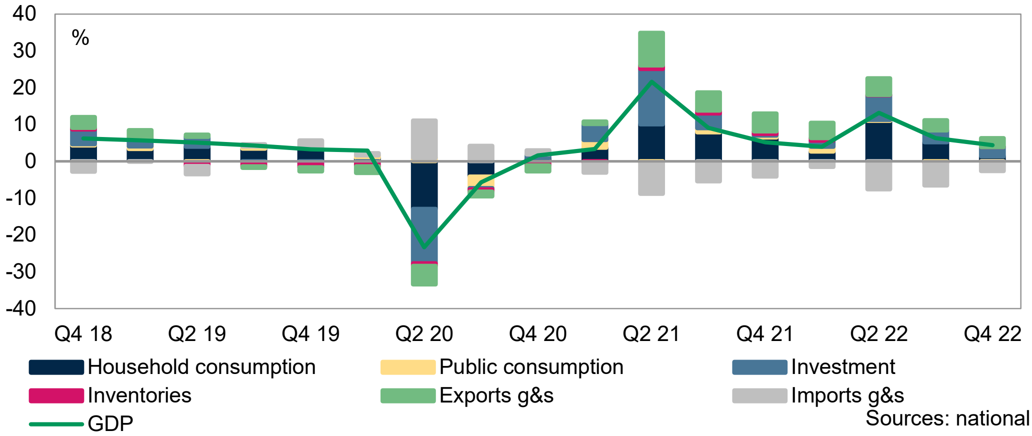
Inflation has slowed, but at 6.5% it is still slightly above the RBI’s 4-6% target range. While climate issues (a later monsoon, heat waves) seriously disrupted harvests in 2022, the 2023 season is also likely to be uncertain, as the heavy rains that fell in March could impact wheat production.

Annual change	2022	2023
GDP	6.7%	5.5%
Inflation	6.7%	5.5%

In terms of the budget, the deficit is expected to remain high, at around 5.9% of GDP. India is maintaining its target of bringing the deficit back under 4.5% of GDP by the 2025-26 fiscal year. This is ambitious, particularly since the government wants to continue investing, especially in infrastructure. Debt stands at 85% of GDP. Although this is high, it can be put into perspective because it is denominated in INR and held by local creditors.

Sophie WIEVIORKA

India: contributions to growth



Sources: national

SECTORS

Oil & gas – Is a new equilibrium being reached?

Oil & gas – Is a new equilibrium being reached?

After a period of imbalance, the oil market was able to adapt, leading to a decline in oil prices. The new equilibrium remains fragile and our scenario assumes a slight increase in oil prices due to moderate demand growth. Europe has managed to make up for the drop in Russian gas supplies with LNG, as Asia has reduced its LNG imports. In 2023, natural gas prices **will depend in large part on Asian importers' attitudes and hedging options.**

Oil: from a new fragile equilibrium...

Somewhat unexpectedly, the price of oil has remained stable since the end of 2022 at around USD80/bl. The market has adapted to the many pressures on oil trading since the start of the Russia-Ukraine conflict. Overall, Russian production is proving resilient despite the embargo and the price cap imposed by the G7. While Europe is replacing Russian imports of oil and petroleum products with imports from Africa, Central Asia and the Middle East, Russia is managing to bypass embargoes and find new destinations in Asia for its oil.

Overall, Russian production is proving resilient despite the embargo and the price cap imposed by the G7.

Production cuts by large producers in the Middle East (eg, Saudi Arabia, Iraq, the UAE) **following the decision by OPEC+ to reduce quotas starting on 1 November, are being offset by increased production by other OPEC+ members.** Demand has also been able to keep up with the new circumstances of the oil market. After a big increase in demand in 2021, demand growth has slowed in 2022 due to rising fuel prices. Since the much-feared sharp contraction in supply last year failed to materialise and demand has risen only moderately, oil prices have returned to their pre-Russia/Ukraine crisis levels.

However, the new balance is fragile. While the end of the zero-Covid policy in China could boost its demand for oil, fears of a financial crisis and persistent inflation could drag down oil demand. The oil market is also not immune to an intensification of armed conflicts and supply contraction.

In this uncertain environment, **our scenario is based on a projected increase in global demand driven by Chinese oil consumption**. Most of the increase in supply will come from the Middle East, where most of the excess capacity is concentrated. Our scenario thus assumes a slight increase in the price of oil to around USD100/bl over 2023.

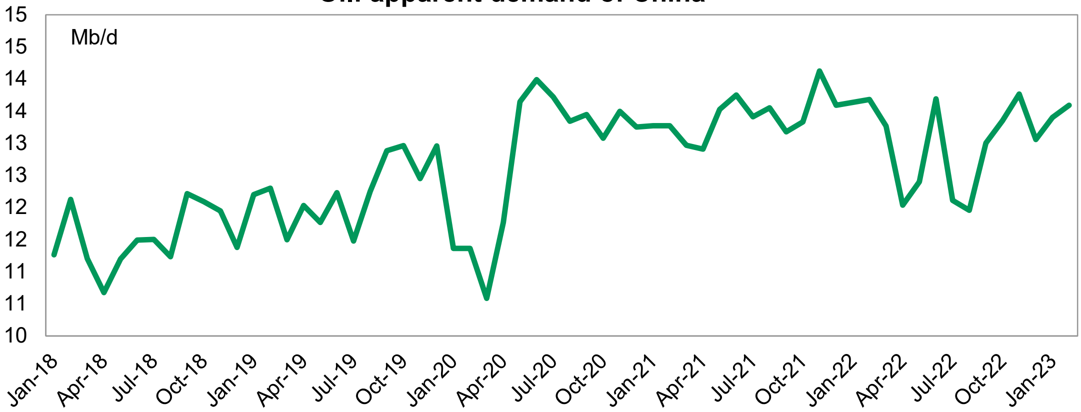
	Average oil price (barrel)
Q422	88.6
2023	94.0

Gas: ... to a new shaky equilibrium

The natural gas market has also managed to adapt to a severely disrupted supply market, allowing the price of natural gas to return to its pre-Russia/Ukraine crisis levels. In contrast to the oil market, the natural gas market has had to deal with a steeper drop in supply. Europe's rush to the LNG (Liquefied Natural Gas) market to offset both the loss of Russian gas supplies and to meet the need to replenish inventories, which were higher than in previous years, caused severe market tensions, with natural gas prices peaking at record levels last summer.

The adaptation of the natural gas market has been based on changes in LNG trading and on a decline

Oil: apparent demand of China



Source: Crédit Agricole S.A./ ECO

in natural gas consumption in Europe and in some Asian countries. Indeed, due to a lack of excess capacity, Asia has faded from the LNG market, allowing Europe to recover a large volume of LNG, mainly from the US, that was initially destined for Asian customers. The diversion of more than 50bcm of LNG, often at a high premium, would not have been enough to avoid shortages in Europe. European consumers, industries, governments, households and tradespeople have also had to reduce their consumption. China, to offset its drop in LNG imports (-22bcm in 2022), has increased its domestic production (+14bcm in 2022) and its natural gas imports by pipeline (+5bcm in 2022, mainly from Russia). China has also increased its use of coal as a source of energy and heat to Chinese industry and households. The growth rate of Chinese coal demand was twice as high in 2022 (+10%) as in previous years.

Thanks to lower consumption and LNG imports that did not decrease this winter, European inventories will end the winter period at a much higher level than last year.

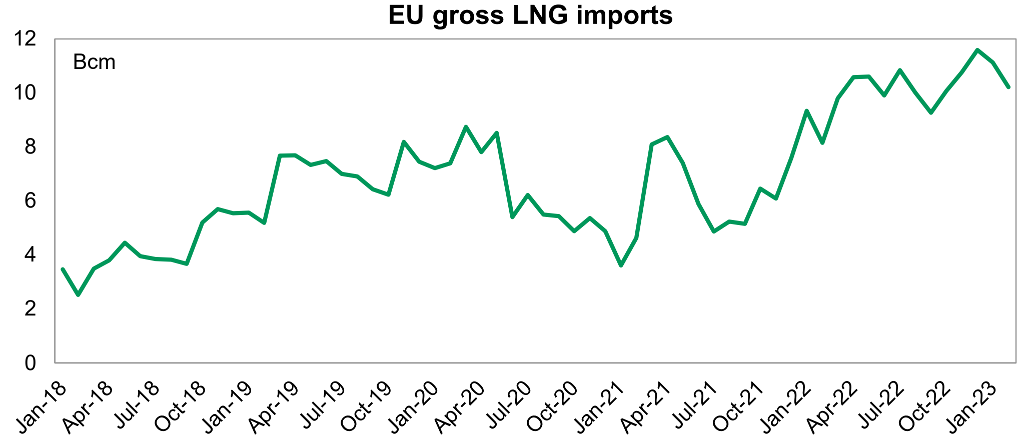
Thanks to lower consumption and LNG imports that did not decrease this winter, European inventories will end the winter period (defined as the period during which inventories are drawn down) at a much higher level than last year: 55% of capacity by the end of March 2023, vs 26% last year. The volume difference in inventories between 2023 and 2022 will not need to be purchased on the market and therefore, assuming no increase in natural gas demand in 2023 compared to 2022, Europe should not need to significantly increase its LNG imports in 2023. This stabilisation of Europe's LNG needs should provide relief to the LNG market, where liquefaction capacity is not expected to increase significantly in 2023.

EU LNG imports	
2022	+47.4bcm

As such, should Asian importers continue to fade over the last three quarters of 2023, the LNG market is unlikely to face a sustained increase in natural gas prices. However, the risks of volatility with periods of sharp price increases if Asia experiences a hot summer remain high in 2023. Conversely, if Asian importers do not fade away, the LNG market will see strong competition between Asia and Europe, resulting in higher natural gas prices. Asian importers' and utilities' attitudes and choices will therefore be crucial to natural gas prices not just in 2023, but surely in 2024 as well.

Stéphane FERDRIN

EU gross LNG imports



Source: Crédit Agricole S.A.

MARKETS

Monetary policy – Two-sided stability

Interest rates – Are we there yet?

Exchange rates – The dollar feels some downward pressure

Monetary policy – Two-sided stability

Just because the banks are in trouble doesn't mean the central banks should turn away from their pet priority of reducing inflation. Financial stability will not be achieved at the expense of price stability. The latter continues to argue for monetary tightening even though we are close to the end, whereas managing liquidity requires specific instruments.

FEDERAL RESERVE: FINANCIAL STABILITY VS PRICE STABILITY

After aggressive hikes totalling 475bp over the last nine meetings, the Fed's upcoming decisions have become more difficult given the turmoil that has erupted in the banking sector. It will now have to balance the need to maintain financial stability with its dual mandate goal of ensuring that inflation returns to the 2% target, which has introduced substantial uncertainty around the monetary policy outlook.

At the moment, we maintain our expectation that the Fed will deliver one more 25bp hike in May to take the target range to 5.00-5.25%, before then holding at this terminal rate through year-end. While markets are pricing multiple cuts in H223, we expect that these are unlikely to materialise barring a renewed flare-up of concerns around the banking sector. Instead, we look for the Fed to only begin cutting rates in 2024, with a total of 100bp of cuts spread gradually over the course of the year at 25bp per quarter.

While financial stability risks are undoubtedly important, the Fed has made clear that it would prefer to use other tools to address these concerns, leaving monetary policy to focus on price stability. An example of this separation principle was the swift creation of the Bank Term Funding Program and its decision to tweak the terms of discount window access; we expect the Fed to maintain its preference for these types of liquidity tools to address any other financial stability concerns that arise moving forward.

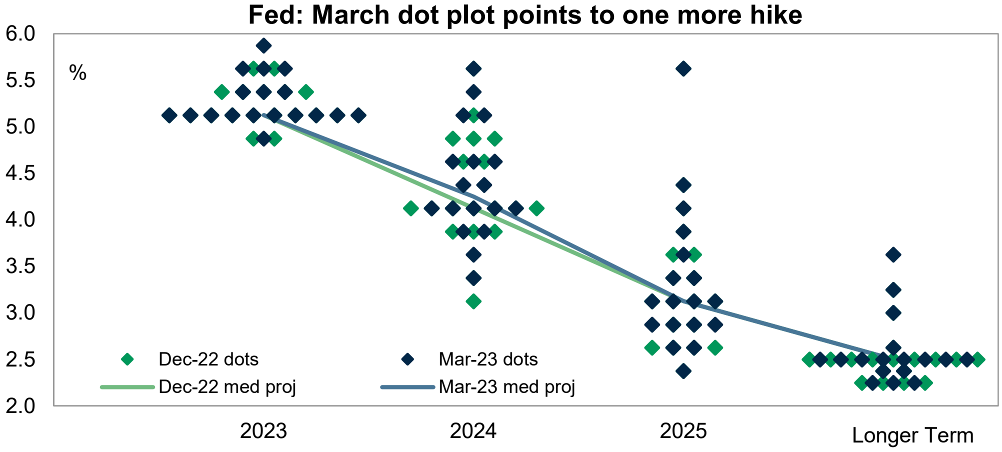
That said, banking sector turmoil will likely have an impact on the eventual Fed funds path, decreasing the likelihood of rates approaching 6%. Even if further contagion is avoided, we expect that the fallout of the tumult thus far will include a tightening of lending standards, which does some of the Fed's work for it and in effect substitutes for the necessity of even more hikes, obviating the need for any upward revision to our terminal rate projection.

Banking sector turmoil will likely have an impact on the eventual Fed funds path, decreasing the likelihood of rates approaching 6%.

Balance sheet run-off will continue as announced in May, having reached its peak pace of USD60bn Treasuries and USD35bn MBS in September. The emergency measures aimed at financial stability risks have led to a jump in the balance sheet the past couple of weeks that has offset a good chunk of the decline since QT started. However, these measures are meant to be temporary lending and not a change to the stance of monetary policy, and Chair Jerome Powell made clear at his most recent press conference that the Fed is not considering changes to QT at the moment.

Nicholas VAN NESS

Fed: March dot plot points to one more hike



Sources: Federal Reserve, Crédit Agricole CIB

EUROPEAN CENTRAL BANK: PRICE STABILITY AND FINANCIAL STABILITY

The ECB is expected to continue tightening its monetary policy despite the tension in the banking sector. Inflation remains high and core inflation is showing signs of stickiness.

Against this backdrop, **the ECB is likely to raise rates at its upcoming Governing Council meetings**. We forecast a terminal deposit facility rate of 3.75%, ie, 75bp higher than where it is now.

How fast the ECB decides to hike rates will depend on developments in the financial sector. While we maintain our call for a 50bp hike in May followed by 25bp in June, recent developments may push the ECB to adopt a more cautious approach, with three 25bp hikes in May, June and July.

At the same time, the ECB will have to continue the quantitative tightening it started in March, then ramp it up starting in July.

At the same time, the ECB will have to continue the quantitative tightening it started in March, then ramp it up starting in July. After reducing its balance sheet by EUR15bn per month between March and June, the ECB is expected to increase this to EUR20bn per month in July, before stopping reinvestments in the APP completely in January 2024.

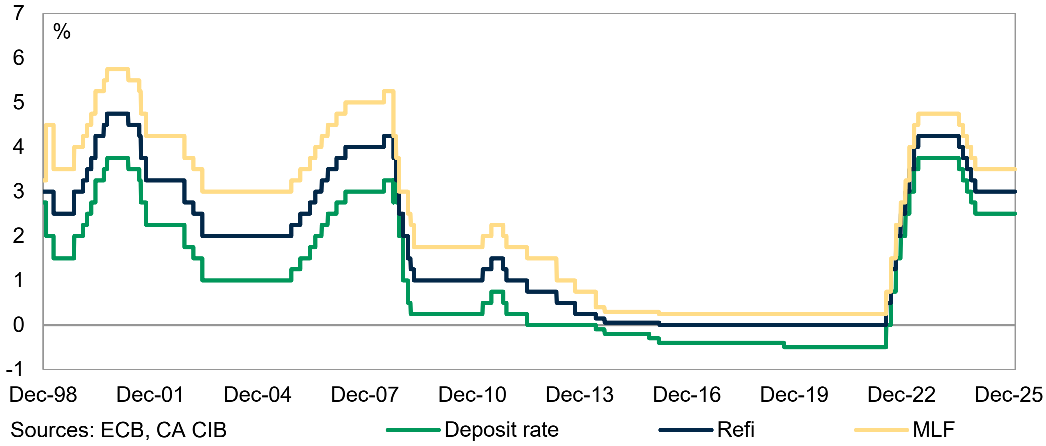
The ECB has still not started discussions about reducing its PEPP holdings, but we expect it to start scaling back this programme in January 2024, although for the time being, it is talking about continuing to reinvest until the end of 2024.

As the ECB continues its monetary tightening, it will have to remain ready to implement tools that ensure financial stability. At this stage, these instruments do not appear necessary, however, tension in the banking sector could mount, meaning the ECB would have to intervene. In addition to the USD swap lines already in place, the ECB could broaden the acceptance criteria for collateral securities. If necessary, a more powerful tool would be to use reinvestments in the PEPP to support corporate and banking sector refinancing through covered bonds.

Finally, **if concerns over banking sector liquidity rise significantly, the ECB could implement new long-term refinancing operations** – albeit under relatively unfavourable terms – **to ensure that no bank faces a short-term refinancing risk.**

Louis HARREAU

ECB: further rate hikes will be needed to ensure price stability



Sources: ECB, CA CIB

BANK OF ENGLAND: CAUGHT IN A VICE

The BoE has slowed its pace of monetary tightening since the beginning of the year, raising its key rate by 25bp in March to 4.25%, after 50bp in February. It is not hiding its reluctance to raise rates further. Already in February, the forward guidance was amended by including more conditionality. Whereas previously rate hikes were considered necessary if the economy was developing in line with expectations, the new forward guidance makes any further monetary tightening contingent on evidence of persistent inflationary pressures. "*If there were to be evidence of more persistent pressures, then further tightening in monetary policy would be required*". The BoE indicates that it will clearly look for these signs in labour market conditions, wage growth behaviour and services inflation.

The BoE is caught between inflation risk and financial stability risk.

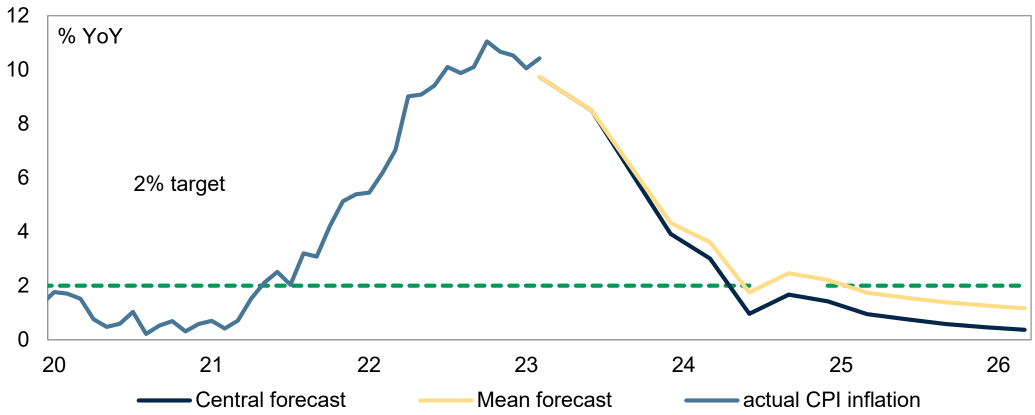
In addition, the BoE is more cautious about the risks to financial stability from rapid rate tightening and the recent episodes of stress in the banking sector abroad. Financial stability risks have been on the BoE's radar for several months now, especially after the pension fund debacle last September which saw long term rates rise dangerously. Mortgage rates have since fallen back, but are still at very high levels. The BoE is thus caught between inflation risk and financial stability risk.

A pause in tightening is probably necessary to assess these risks, and this is what we expect the BoE to do in the coming months. Our scenario assumes that rates will remain stable at 4.25% until Q224, after which we expect rates to fall as growth weakens and inflation approaches the 2% target.

At March's Monetary Policy Committee meeting, it was **the surprise sharp rise in CPI inflation in February that likely tipped the balance of risks in favour of further tightening**, against the backdrop of an improving demand outlook. But inflation is expected to fall more sharply than previously expected in the coming months thanks to lower energy prices and the government's recent extension of the cap on gas and electricity prices to the end of June. In May, the BoE will update its forecasts, and the changes are expected to be in favour of higher growth than expected in February (and therefore less unemployment) and lower inflation in the short term (but probably slightly higher in the medium term). This will only come with a rate hike if there is another sharp surprise rise in inflation, if wage growth picks up again, or if services inflation is higher than expected. **For the time being, the central scenario is still that these indicators will moderate.**

Slavena NAZAROVA

United-Kingdom: inflation forecasts from the BoE



Sources: BoE February Monetary Policy Report, Crédit Agricole S.A.

BANK OF JAPAN: NO CHANGE IN 2023

BoJ to remain on hold throughout 2023 as structural deflationary pressures remain

With the BoJ adjusting the YCC framework in December and core CPI (ex-fresh food) reaching above 2%, speculation lingers that the Bank of Japan (BoJ) will adjust its current easing framework soon.

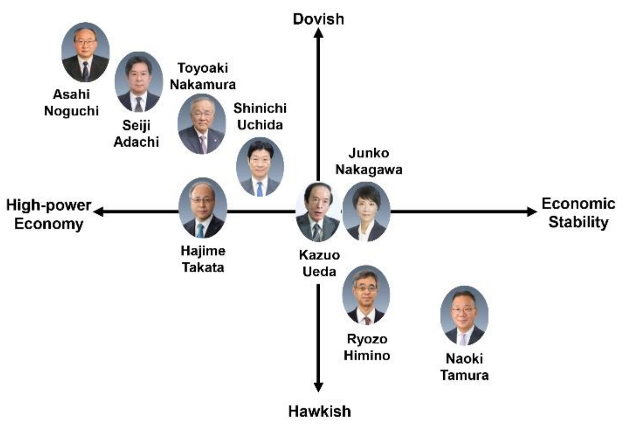
However, **we maintain our view that the BoJ will maintain its accommodative policy stance throughout 2023 and not move toward any tightening measures**. The BoJ seems to be determined to be one cycle behind the movements of global central banks in tightening its monetary policy in order to pull Japan completely out of deflation and stagnant growth.

The BoJ will likely try to avoid the same mistake it made in 2000 and 2006

The central bank's assessment of Japan's economy continues to be that the current recovery is premature and tightening at the moment would increase the risk of a repeat of the mid-2000s, when the BoJ failed to pull Japan out of deflation.

The intention of the policy adjustments announced in December and January was likely to make the current "quantitative and qualitative monetary easing with YCC" programme more sustainable so that it can continue the current policy framework until the next round of monetary tightening by key central banks.

Distribution of new BoJ policy board under Governor Ueda



Sources: Nikkei, BoJ, Credit Agricole CIB

Easing policies to be maintained under the new BoJ leadership

Kazuo Ueda, securing the approval of both houses of the Diet, will become in the next governor of the Bank of Japan in April. We expect the new BoJ leadership, including the newly-appointed deputy governors Shinichi Uchida and Ryozo Himino, to maintain the current accommodative monetary policy stance.

Doves, who support the current monetary easing framework policy-mix approach, will continue to remain a majority of the new BoJ policy board. That said, compared to the current policy board, the distribution of the new policy board is more balanced between the doves and the hawks. Thus, we believe that the likelihood that the current policy mix of monetary and fiscal policies could be implemented in a more balanced manner increased with the new leadership.

Further YCC adjustments unlikely as upward pressure on global bond yields weaken

At a time when the market is pricing in the risk of a US economic slowdown and Fed interest rate cuts, it would be unrealistic for the BoJ to tighten monetary policy. The BoJ will likely try to avoid the same mistake it made in 2000 and 2006, when it tightened policy as the global economy was turning to the downside.

Our main scenario continues to be that if (1) the US economy slows down the Fed stops raising interest rates by the middle of the year; and (2) financial markets price possible interest rate cuts in 2024, then global upward pressure on yields will likely weaken, giving the BoJ more room to maintain the current YCC policies.

However, we see a risk scenario if the US economy remains strong, the Fed continues to raise its policy rate and upward pressure on global bond yields strengthens. Such scenario would put pressure on the BoJ to adjust the current YCC framework.

The BoJ will likely start the normalisation process in the next round of global rate hikes in a few years' time. Our view is that the YCC framework could be adjusted some time in 2025, when the bank confirms that structural deflationary pressures are fully removed.

The negative interest rate will not be raised until 2026, after the BoJ assesses the effect of removing the YCC target, confirming the sustainability of the 2% inflation target and whether economy is strong enough for full normalisation of monetary policy. We believe full normalisation (a return to a normal positive policy rate framework) will not happen sooner than 2027.

Arata OTO – Takuji AIDA

Interest rates – Are we there yet?

Anticipating an early end to monetary tightening, justified by the financial stability goal, the bond markets celebrated excessively. More patience is needed before interest rates start down a slight slope: wait until inflation rates approach **the central banks' targets and the end of monetary tightening comes into view. It won't be much longer now.**

USA: BEARISH ON RATES, CURVE TO STAY INVERTED WITH NO EASING IN SIGHT YET

The banking sector turmoil has put global central banks in a tough spot between balancing financial stability and fighting high inflation. We expect the Fed would prefer to address financial risks with liquidity tools, while continuing raising policy rates to combat inflation. Against that backdrop, we believe the Fed would keep on track to hike by 25bp at the 3 May meeting to reach a terminal rate of 5.00-5.25%. We expect a rebound in Treasury yields, as markets start to normalise and to focus back on inflation, if and when the banking sector stabilises.

Inflation will likely remain sticky, especially core services inflation ex-shelter. We have analysed recent inflation history, comparing the speed of core CPI mean reversion from peaks to that of core PCE. Being the Fed's preferred inflation measure, core PCE has tended to decline at a much slower pace than core CPI, making the Fed unlikely have a dovish pivot until 2024, in our view. Markets have priced easing in H223, which seems unrealistic against expectations of high inflation.

Despite inflation likely slow to decline in the months ahead, financial stability concerns will likely lead to tightening bank lending practice, reducing the probability that the Fed would have to take rates closer to 6.00%, which the market had anticipated before banking headlines hit the tape in early March. Economic activity will likely face headwinds from tightening lending standards later this year if the banking sector turmoil is not resolved soon.

As the bank strains are likely to be temporary, we expect the yield curve to flatten again to price in ongoing Fed hikes. With the 2-10Y inversion hitting a trough at -108bp on 8 March, we do not expect the curve to flatten back to that level, and forecast the 2-10Y returning to -90bp. As the yield curve resumes flattening, we think Treasury yields will rise again, and forecast 4.85% in 2Y and 3.95% in 10Y by Q223.

We believe that stubbornly high inflation will prevent the Fed from easing until inflation is closer to its target

We believe that stubbornly high inflation will prevent the Fed from easing until inflation is closer to its target, as ensuring price stability remains the Fed's primary focus. After reaching the peak in rates, we look for Treasury yields to gradually decline starting in Q323, as a growth soft patch would likely call for lower policy rates in 2024. Meanwhile, the yield curve starts to steepen in our forecast, as an easing cycles approaches.

Our yield forecast is less dovish than the current market pricing, which calls for almost 100bp of easing in H223. We believe the market is overly pessimistic about the banking stress. While financial conditions have tightened, they are well above the stress levels seen during the global financial crisis and Covid.

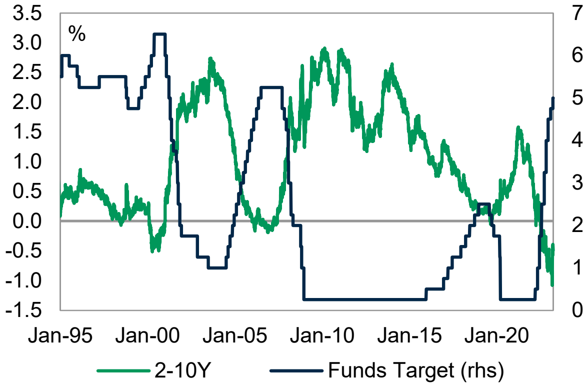
By 2024, inflation moving much closer to 2.00%, even if it is still modestly above the Fed's target, will likely mean the central bank is comfortable beginning to cut rates as a means to revive the economy from its sustained period of below-trend growth. We expect yields to continue grinding lower throughout 2024 and the 2-10Y curve to become upward-sloping by Q424.

Alex LI

Too much easing priced by markets

Sources: Bloomberg, Crédit Agricole CIB

Yield curve to resume flattening on additional tightening



Sources: Bloomberg, Crédit Agricole CIB

EUROPE: STILL AN INFLATION DRIVEN CYCLE

Much angst has been displayed on both sides of the Atlantic with regards to the banking sector, but for the most part we think this is misplaced. As yet, there is no asset class that is undergoing distress through widespread credit deterioration. For banks, this implies that their balance sheets are not in a distressed situation either, which could lead to systemic risks.

Rather, we have examples of poorly run companies blending terrible business and financial risk management practices prompting their demise. In the corporate sector, this seems to garner less attention because it primarily involves smaller zombie companies, and it is less problematic for the financial system that these gradually disappear. To be clear, tight monetary policy has the intent of creating slack and deleveraging the system. By freeing up scarce poorly used resources, inflation is addressed. So let there be no doubt, we are still in an inflation-driven cycle, and more deleveraging events lie ahead.

While headline inflation should drop in the months ahead due to energy and base effects, **core inflation continues to rise to levels that are unambiguously alarming**. The persistency (through time) of high inflation implies the price level is moving further away from levels associated with monetary stability and that labour markets will respond with higher wage demands. In effect, continuously rising prices drive rising wages, and policymakers need to implement highly restrictive policy to arrest this process.

In a sense, tighter financial conditions should be welcomed by the ECB, but stock markets and credit markets are not entirely co-operating, suggesting higher policy rates lie ahead. In our view, this suggests that higher EGB yields also lie ahead and that yield curves should continue to bear flatten. Earlier this year the OAT (2-10Y) curve inverted which we think is the natural state with a restrictive monetary policy setting. In our view, this recent bout of deleveraging will evaporate, leaving the ECB to continue tackling the inflation debacle which is partly of its own making.

Hence we continue to expect money market rates to increase and EGB curves to resume their flattening trend. Uncertainty may be perceived to have increased, boosting market volatility, but we are fairly certain that it will take a long time before (core) inflation is back to acceptable levels. The realisation that central banks will not move to easing policy and should continue hiking in smaller increments should alleviate some of the market uncertainty, prompting volatility to ease from very high levels. Note, however, that we do not expect volatility to return to previous moribund levels even once terminal rate levels are achieved and policy is on hold.

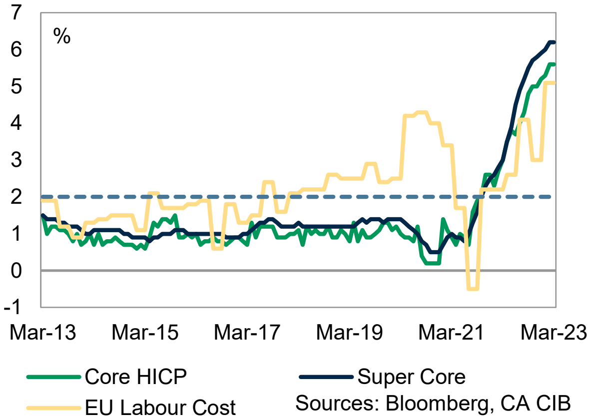
One of the more stand-out features during this recent period of elevated volatility has been the solid performance of periphery EGB markets.

One of the more stand-out features during this recent period of elevated volatility has been the solid performance of periphery EGB markets. Partially this may be due to some modest short positions being closed, but we also think this reflects the notion we are not (yet) in a credit deterioration cycle. And the main reason for this continues to be high nominal cash flows due to the impact of inflation on government (and corporate) finances. We maintain the view that EGB spreads should only modestly widen as the ECB proceeds with its tightening cycle through higher policy rates and QT.

At a country level, one might expect a bit more political risk premium to appear for France due to uncertainties over pension system reforms. But for **Italy, which continues with its pace of reforms and sound governance, there is no reason to be sceptical**. Indeed, one might add that large pools of household saving in Italy (and Spain) are increasingly being deployed in government bond markets given the measly deposit rate afforded by banks in light of the huge amount of excess liquidity still in place due and an entire decade of ECB monetary easing under Mario Draghi.

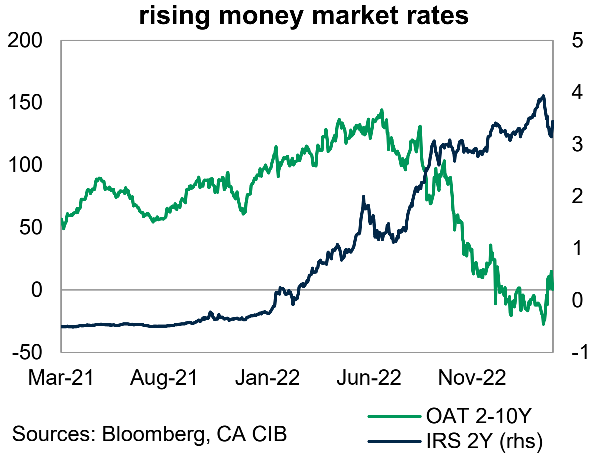
Bert LOURENCO

Labour costs catching up to elevated core inflation



Sources: Bloomberg, CA CIB

OAT curve inversion driven by rising money market rates



Sources: Bloomberg, CA CIB

Exchange rates – The dollar feels some downward pressure

In the US, where key interest rates are due to peak soon, the recession is mild but indisputable, and the debt ceiling threatens to cause new blockages. The USD, already a bit tarnished, is starting to lose its appeal. Mostly, this is expected to benefit the other safe havens like the JPY, the CHF and the EUR.

DEVELOPED COUNTRIES: AFTER A VOLATILE Q1, WHAT WILL THE REST OF 2023 LOOK LIKE?

According to our forecast profile for the USD, the currency could follow a volatile path but should ultimately remain under pressure for the remainder of 2023. In that, any USD underperformance should be more pronounced vs safe-havens like the JPY, CHF and EUR as well as gold while the USD could hold its ground better vs risk-correlated currencies against the backdrop of heightened market uncertainty surrounding the peak of the Fed tightening cycle, a US recession and a debt ceiling debacle.

The Fed tightening cycle was the main driver of FX markets in Q123 as investors tried to position for peak Fed hawkishness amid conflicting signals ranging from strong US data to, more recently, banking sector turmoil. As a result, at the end of Q1, the US rates markets have gone back to their views from early 2023 of a Fed rate peak of c.4.9% around mid-year and aggressive rate cuts into H223. The USD was on a rollercoaster ride in recent months as a result, trading close to its multi-month lows in the final stages of Q123.

The USD's underperformance was aggravated by the improving outlook in Europe and Asia that boosted credibility to the monetary tightening plans of the likes of the ECB while fuelling speculations that the BoJ would normalise its policy soon. That said, the USD was also trading at a significant discount relative to its rate appeal vs the rest of G10 earlier in 2023, and that gap has now been reduced considerably suggesting that many negatives with respect to the Fed outlook are in the price.

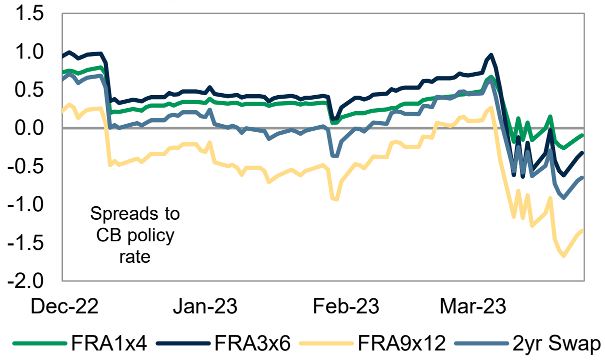
Looking ahead into Q223, the Fed outlook will remain a key USD driver. We expect the FOMC to deliver one final hike in May before pausing. Our historic analysis suggests that the USD tended to appreciate by c.2% on average in the three months leading to the final Fed rate hike before losing some ground once the Fed paused but mainly vs the JPY, CHF and EUR. This suggests that while the USD could recoup some ground in Q223, it could remain a sell-on-rallies vs other safe-haven currencies.

Looking beyond Q223, we think that two additional FX drivers will start dominating the FX price action. The first is a US recession that we expect in H223. Our analysis of the last six US recessions since 1980 suggests that the USD gained ground at the start of the recession especially vs risk-correlated currencies but ended up depreciating in the subsequent six months, with its losses most pronounced vs the JPY, the CHF and the EUR.

The USD could recoup some ground in Q223.

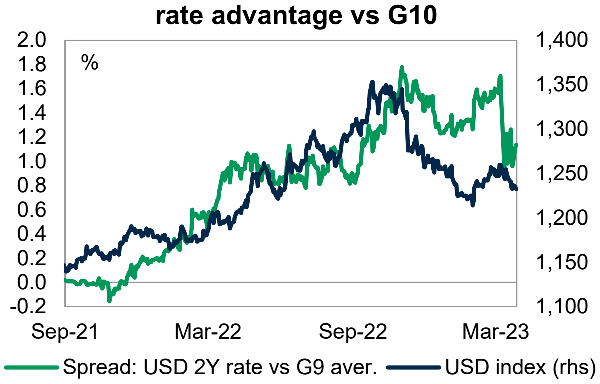
Another important USD driver in Q323 will be the looming US debt ceiling. The Congressional Budget Office has recently signalled that the so-called 'date-x' when the US government will run out of funds to meet its financial obligations would come around July-August. Our historic analysis suggests that the political uncertainty that usually preceded any debt ceiling resolution has been negative for both the USD as well risk-correlated currencies.

Markets are once again pricing in a peak of the Fed tightening cycle & rate cuts ahead



Source: Crédit Agricole CIB

As a result, the USD no longer trades at a discount relative to its rate advantage vs G10



Sources: Bloomberg, CA CIB

The USD's underperformance was more pronounced when government shutdowns preceded a debt ceiling resolution. In contrast, however, when the debt-ceiling debacle took place during a recession – as was the case in 2008 and 2009 – the USD rallied broadly. Our historic analysis further suggests that the USD was able to more than recoup its losses once the debt ceiling was resolved. That said, the JPY and gold were generally able to hold their ground vs the USD.

The above results underpin our forecast profile for the USD according to which the currency could follow a volatile path but should ultimately remain under pressure for the remainder of 2023. In that, any USD underperformance should be more pronounced vs safe-havens like the JPY, CHF and EUR as well as gold while the USD could hold its ground better vs risk-correlated currencies against the backdrop of heightened market uncertainty surrounding the peak of the Fed tightening cycle, a US recession and a debt ceiling debacle.

Valentin MARINOV

EMERGING COUNTRIES: WAITING FOR THE DUST TO SETTLE

Resilient to the banking turmoil

EM currencies have been resilient to the recent banking turmoil. Latin American currencies have been more impacted than their EM peers on average, in an initial phase, likely because of their integration with the US financial system. However, overall, EM FX has hardly weakened vs the USD. This is largely because US rates have declined significantly during the recent bout of risk aversion. Hence some relief for EMs.

Waiting for Fed rates to peak

By the same token, **when the dust settles over the banking jitters, US interest rates may recover, at least partly**. This should fuel a more defensive stance for EM currencies. In our view, EM currencies may be capped in the short term due to (1) the uncertainty relative to the pace of global and US disinflation (its stickiness) and (2) the dose of additional hawkishness the Fed will have to put on the table to make sure inflation actually comes under control. Against such a backdrop, EM currencies may find it difficult to appreciate sustainably in Q2.

The backdrop should be favourable enough in H2 for investors to feel more comfortable to pick some specific currencies, along some specific themes

If the peak in US rates is found in the course of Q2, then H2 may look more favourable. Given the remaining uncertainties looming over the EM backdrop (see the Emerging Market section of this publication), **we do not expect a very strong EM FX appreciation vs the USD**. But the backdrop should be favourable enough for investors to feel more comfortable to pick some specific currencies, along some specific themes.

Carry and growth

The carry should be one of them. **Some EM central banks have raised interest rates strongly.** As a consequence, they provide high carry. This is the case in Latin America and EMEA, not so much in Asia, where monetary policy has been much more limited.

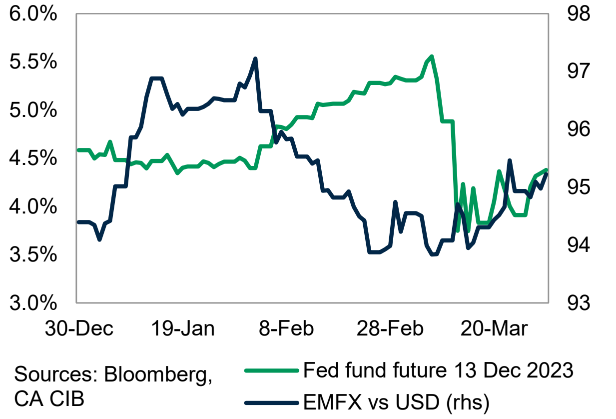
When the dust settles over US monetary tightening, some EMs may look like interesting carry trades, such as the HUF, the COP and even maybe ZAR.

Growth resilience should be another theme. Here, Asia stands out. Many Asian economies run stronger balance sheets (sovereign profile and balance of payment) compared with other EM currencies, and lower interest rates provide more room for resilience to economic growth. Equity flows may follow the stabilisation of US rates, supporting exchange rates. Also, China's reopening should send Chinese tourists back to other Asian countries, to South East Asia in particular, in a way that should benefit current account balances.

CNY: mild appreciation ahead

We expect the CNY itself to appreciate mildly. The interest rate gap with the USD remains unfavourable, but at least the end of the US tightening cycle should put an end to the widening USD-CNY rate gap. The reopening and the acceleration of economic growth may stimulate equity inflows. We expect the CNY to appreciate to 6.60 vs the USD at the end of 2023.

EMFX: resilient as US rate expectations decline



Sources: Bloomberg, CA CIB

Sébastien BARBÉ

ECONOMIC AND FINANCIAL FORECASTS

Economic forecasts

Interest rates

Exchange rates

Commodities

Public accounts

ECONOMIC FORECASTS

	GDP (yoy, %)			Consumer price (yoy, %)			Current account (% of GDP)		
	2022	2023	2024	2022	2023	2024	2022	2023	2024
United States	**2,1**	**1,3**	**0,6**	**8,0**	**3,9**	**2,5**	**-3,7**	**-3,3**	**-3,2**
Japan	**1,6**	**1,8**	**2,0**	**2,3**	**1,8**	**1,8**	**0,8**	**1,5**	**1,8**
Eurozone	**3,5**	**0,6**	**1,2**	**8,4**	**5,9**	**3,1**	**0,8**	**2,1**	**2,1**
Germany	1,9	-0,1	1,0	8,7	6,2	3,0	2,9	3,2	3,3
France	2,6	0,6	1,1	5,9	5,9	3,2	-2,1	-1,1	-0,9
Italy	3,8	0,6	1,0	8,7	7,4	3,3	-0,3	2,2	2,1
Spain	5,5	1,2	1,0	8,3	3,6	2,6	0,7	1,0	1,2
Netherlands	4,5	0,9	1,2	11,6	4,6	4,6	4,7	5,3	5,4
Belgium	3,1	0,7	1,5	10,3	3,6	3,1	-3,3	-1,4	-1,3
Other advanced									
United Kingdom	4,1	0,6	1,4	9,1	6,7	1,8	-4,6	-2,0	-0,6
Canada	3,3	0,4	1,4	6,9	3,7	2,3	0,7	0,5	0,2
Australia	4,0	1,9	1,6	6,5	4,5	2,5	0,9	-0,2	-0,4
Switzerland	2,1	0,6	1,4	2,9	2,5	1,5	6,5	5,8	6,3
Sweden	2,7	-1,1	0,5	8,4	8,5	3,5	4,3	3,6	3,0
Norway	3,2	1,9	0,6	5,8	4,8	3,3	30,5	28,6	27,5
Asia	**4,2**	**4,9**	**4,8**	**3,7**	**3,3**	**2,7**	**1,3**	**1,0**	**1,0**
China	3,0	5,2	4,8	2,0	2,4	2,2	2,3	1,6	1,2
India	6,7	5,5	6,0	6,7	5,5	4,0	-3,0	-2,8	-2,5
South Korea	2,6	1,8	2,5	5,1	3,4	2,0	1,8	2,3	3,0
Indonesia	5,3	5,0	4,5	4,2	3,5	3,0	1,0	-1,2	-0,5
Taiwan	2,4	2,4	2,4	2,9	1,9	1,6	13,3	11,8	10,8
Thailand	2,6	4,0	3,6	6,1	3,0	1,8	-3,4	2,8	4,5
Malaysia	8,8	5,0	4,5	3,6	3,0	2,5	2,6	3,0	2,8
Singapore	3,6	2,2	2,6	6,1	4,0	2,8	19,3	17,6	16,2
Hongkong	-3,5	3,6	3,7	1,9	2,4	2,2	10,7	7,1	5,8
Philippines	7,6	5,4	5,9	5,8	4,5	3,5	-4,4	-4,0	-2,0
Vietnam	8,0	6,7	6,7	3,2	4,0	3,0	0,2	1,6	2,0
Latin America	**3,0**	**1,0**	**1,5**	**8,9**	**5,9**	**4,2**	**-2,9**	**-2,0**	**-1,7**
Brazil	2,9	0,8	1,5	9,3	5,1	4,0	-2,9	-2,4	-2,0
Mexico	3,1	1,5	1,5	7,9	6,5	4,5	-1,8	-1,2	-1,0
Emerging Europe	**0,7**	**-0,2**	**1,8**	**30,2**	**16,1**	**11,1**	**1,6**	**0,6**	**0,0**
Russia	-4,0	-3,0	1,0	14,7	4,8	4,0	10,0	6,0	4,0
Turkey	4,9	3,0	2,0	73,0	40,0	30,0	-5,0	-3,5	-3,0
Poland	4,5	1,2	3,1	14,3	11,8	4,9	-4,0	-3,6	-3,0
Czech Republic	2,2	-0,5	2,4	15,0	9,5	3,8	-5,0	-2,5	-2,0
Romania	4,6	2,2	2,4	13,8	11,1	5,1	-8,8	-6,9	-6,2
Hungary	5,1	0,5	2,3	14,6	14,0	4,0	-6,7	-3,7	-3,2
Africa, Middle East	**5,0**	**3,0**	**3,1**	**13,2**	**12,4**	**8,9**	**7,8**	**4,8**	**3,5**
Saudi Arabia	8,9	3,2	2,8	2,5	2,2	2,1	14,9	9,5	7,9
United Arab Emirates	7,0	3,8	3,7	4,6	3,2	2,5	17,0	12,5	11,2
South Africa	2,0	1,2	1,8	6,9	5,0	4,8	1,2	-1,2	-0,8
Egypt	3,6	4,3	5,0	13,8	22,0	10,8	-3,9	-3,2	-3,2
Algeria	3,5	2,9	2,3	9,7	6,5	5,5	6,3	3,2	0,5
Qatar	4,4	2,7	2,5	5,0	3,2	2,2	22,0	13,1	10,1
Koweit	7,8	2,5	2,3	4,0	2,9	2,3	36,0	29,0	21,0
Morocco	1,3	3,2	3,2	6,6	3,9	2,0	-4,6	-3,8	-3,2
Tunisia	2,5	2,0	2,9	8,3	9,1	5,5	-9,2	-6,9	-6,0
Total	**3,3**	**2,5**	**2,7**	**8,2**	**5,5**	**3,7**	**0,4**	**0,4**	**0,4**
Advanced economies	**2,7**	**1,0**	**1,1**	**7,4**	**4,6**	**2,6**	**-1,1**	**-0,3**	**-0,2**
Emerging countries	**3,7**	**3,6**	**3,9**	**8,9**	**6,3**	**4,7**	**1,6**	**1,0**	**0,8**

	2022				2023				2024			
Real GDP growth, QoQ %	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
USA (annualised)	-1,6	-0,6	3,2	2,7	2,1	0,7	-1,3	-0,8	1,2	1,5	1,7	1,9
Japan	-0,5	1,2	-0,3	0,0	0,4	0,6	0,4	0,3	0,4	0,4	0,4	0,4
Eurozone	0,6	0,9	0,4	0,0	-0,1	0,2	0,3	0,3	0,3	0,3	0,4	0,4
Germany	0,8	0,1	0,5	-0,4	-0,3	0,1	0,2	0,3	0,3	0,3	0,3	0,3
France	-0,2	0,5	0,2	0,1	0,1	0,2	0,2	0,3	0,2	0,3	0,3	0,4
Italy	0,1	1,0	0,4	-0,1	-0,1	0,2	0,3	0,2	0,2	0,3	0,3	0,3
Spain	0,0	2,2	0,2	0,2	0,0	0,3	0,2	0,3	0,3	0,2	0,2	0,3
United Kingdom	0,5	0,1	-0,1	0,1	0,2	0,3	0,1	0,1	0,4	0,5	0,5	0,5

	2022				2023				2024			
Consumer prices, YoY %	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
USA	8,0	8,6	8,3	7,1	5,8	3,8	3,1	2,9	2,6	2,5	2,4	2,4
Japan	0,6	2,1	2,7	3,8	3,4	2,7	2,1	1,2	1,4	1,6	1,6	1,6
Eurozone	6,1	8,1	9,3	10,6	9,6	8,8	7,2	4,9	3,9	3,1	3,3	3,2
Germany	6,1	8,2	9,4	11,8	11,0	10,7	9,3	6,3	4,7	3,1	3,3	3,2
France	4,2	5,9	6,5	7,3	7,3	6,4	5,6	4,5	3,5	3,0	3,2	3,1
Italy	6,0	7,4	9,0	12,3	10,6	10,6	8,6	4,4	3,4	2,5	2,6	2,5
Spain	7,9	8,9	10,1	7,2	5,2	4,1	2,1	3,2	2,7	2,5	2,8	2,8
United Kingdom	6,2	9,2	10,0	10,7	10,1	7,5	5,7	3,7	2,8	1,8	1,4	1,1

	2022				2023				2024			
Unemployment rate, %	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
USA	3,8	3,6	3,5	3,6	3,6	3,9	4,3	4,6	4,6	4,6	4,5	4,5
Japan	2,7	2,6	2,6	2,6	2,6	2,7	2,7	2,9	2,9	2,8	2,6	2,5
Eurozone	7,0	6,8	6,8	6,8	7,0	7,1	7,1	7,0	7,1	7,1	7,0	7,0
Germany	3,1	3,0	3,1	3,0	3,2	3,2	3,2	3,2	3,3	3,3	3,3	3,3
France	7,3	7,5	7,2	7,2	7,4	7,5	7,5	7,6	7,6	7,8	7,8	7,8
Italy	8,5	8,1	8,0	7,8	7,9	8,1	8,2	8,3	8,3	8,3	8,2	8,1
Spain	13,2	12,7	12,7	13,0	13,3	13,3	13,3	12,9	13,1	13,1	12,6	12,2
United Kingdom	3,8	3,6	3,7	3,6	3,6	3,7	3,9	4,1	4,1	4,1	4,1	4,1

	GDP (b)	Private consump-tion (b)	Public consump-tion (b)	Investment (b)	Exports (b)	Imports (b)	Net exports (a)	Changes in inventories (a)
Eurozone								
2022	3,5	4,3	1,1	3,8	7,2	8,0	-0,1	0,8
2023	0,6	0,3	0,9	-0,3	3,0	2,7	0,3	0,8
2024	1,2	1,2	0,7	1,3	2,9	2,8	0,1	0,8
Q1 2023	*-0,1*	*-0,1*	*0,2*	*0,1*	*0,7*	*0,6*	*0,1*	*0,8*
Q2 2023	*0,2*	*0,2*	*0,2*	*0,1*	*0,6*	*0,7*	*0,0*	*0,8*
Q3 2023	*0,3*	*0,3*	*0,2*	*0,1*	*0,7*	*0,7*	*0,0*	*0,9*
Q4 2023	*0,3*	*0,4*	*0,2*	*0,2*	*0,7*	*0,7*	*0,0*	*0,8*
Germany								
2022	1,9	4,4	1,2	0,6	3,0	6,1	-1,2	0,5
2023	-0,1	-0,1	0,7	-2,4	1,2	1,7	-0,2	0,5
2024	1,0	1,1	1,2	0,7	1,5	1,6	0,0	0,0
Q1 2023	*-0,3*	*-0,3*	*0,3*	*-0,8*	*0,3*	*0,4*	*-0,1*	*0,0*
Q2 2023	*0,1*	*0,3*	*0,3*	*-0,2*	*0,3*	*0,4*	*-0,1*	*0,0*
Q3 2023	*0,2*	*0,3*	*0,3*	*0,1*	*0,4*	*0,4*	*0,0*	*0,0*
Q4 2023	*0,3*	*0,3*	*0,3*	*0,2*	*0,4*	*0,4*	*0,0*	*0,0*
France								
2022	2,6	2,8	2,7	2,3	7,1	9,1	-0,7	0,7
2023	0,6	0,2	0,9	1,5	2,7	3,4	-0,3	0,3
2024	1,1	1,3	0,4	1,0	2,2	1,6	0,1	-0,1
Q1 2023	*0,1*	*0,2*	*0,2*	*0,0*	*0,6*	*0,5*	*0,0*	*-0,1*
Q2 2023	*0,2*	*0,3*	*0,1*	*0,0*	*0,7*	*0,5*	*0,0*	*-0,1*
Q3 2023	*0,2*	*0,3*	*0,0*	*0,2*	*0,5*	*0,6*	*0,0*	*0,0*
Q4 2023	*0,3*	*0,4*	*0,1*	*0,3*	*0,8*	*0,6*	*0,0*	*-0,1*
Italy								
2022	3,8	4,6	0,0	9,7	10,2	12,5	-0,5	-0,4
2023	0,6	0,5	0,1	2,4	3,1	1,2	0,7	-0,9
2024	1,0	1,2	0,0	0,6	1,9	2,0	0,0	0,1
Q1 2023	*-0,1*	*-0,3*	*0,1*	*0,6*	*0,3*	*0,1*	*0,1*	*-0,1*
Q2 2023	*0,2*	*0,2*	*0,1*	*0,3*	*0,3*	*0,7*	*-0,1*	*0,1*
Q3 2023	*0,3*	*0,4*	*0,0*	*-0,4*	*0,3*	*0,3*	*0,0*	*0,1*
Q4 2023	*0,2*	*0,4*	*0,0*	*-0,4*	*0,3*	*0,4*	*0,0*	*0,1*
Spain								
2022	5,5	4,4	-0,7	4,6	14,4	7,9	2,3	-0,2
2023	1,1	0,6	2,7	-1,2	1,4	0,9	0,2	0,3
2024	1,0	1,4	0,9	3,2	1,7	3,7	-0,6	0,0
Q1 2023	*0,0*	*0,1*	*0,2*	*0,3*	*0,2*	*0,8*	*-0,2*	*0,0*
Q2 2023	*0,3*	*0,2*	*0,4*	*0,6*	*0,4*	*0,5*	*0,0*	*0,0*
Q3 2023	*0,2*	*0,3*	*0,3*	*0,5*	*0,7*	*1,0*	*-0,1*	*0,0*
Q4 2023	*0,3*	*0,4*	*0,3*	*0,5*	*0,5*	*0,9*	*-0,1*	*0,0*
Portugal								
2022	6,7	5,7	2,4	2,7	16,7	11,0	2,1	-0,1
2023	1,2	-0,4	1,8	4,3	4,0	2,5	0,7	-0,2
2024	1,6	0,8	1,0	4,1	3,5	3,1	0,2	0,0
Q1 2023	*-0,1*	*-0,5*	*0,5*	*1,2*	*0,7*	*0,4*	*0,1*	*0,0*
Q2 2023	*0,6*	*-0,4*	*0,4*	*1,7*	*1,5*	*0,6*	*0,4*	*0,0*
Q3 2023	*0,6*	*0,1*	*0,6*	*1,5*	*1,0*	*0,7*	*0,1*	*0,0*
Q4 2023	*0,5*	*0,1*	*0,5*	*1,0*	*1,1*	*0,8*	*0,1*	*0,0*
Netherlands								
2022	4,5	6,6	0,3	3,1	5,3	4,4	1,3	-0,3
2023	0,9	0,5	0,5	0,4	5,5	5,2	0,9	-0,4
2024	1,2	0,9	0,8	0,1	3,8	3,6	0,6	0,0
Q1 2023	*-0,4*	*-1,1*	*0,1*	*-0,2*	*0,9*	*0,9*	*0,1*	*0,0*
Q2 2023	*0,2*	*0,2*	*0,2*	*-0,2*	*0,9*	*0,9*	*0,1*	*0,0*
Q3 2023	*0,2*	*0,3*	*0,2*	*-0,2*	*0,9*	*0,9*	*0,1*	*0,0*
Q4 2023	*0,2*	*0,3*	*0,2*	*-0,2*	*0,9*	*0,9*	*0,1*	*0,0*
United Kingdom								
2022	4,1	5,3	1,8	8,6	9,9	13,3	-1,2	0,3
2023	0,6	0,7	1,6	-1,1	6,1	-1,1	2,2	-0,4
2024	1,4	1,4	1,3	1,3	2,7	2,5	0,1	0,0
Q1 2023	*0,2*	*0,2*	*0,5*	*-0,5*	*0,5*	*0,2*	*0,1*	*0,0*
Q2 2023	*0,3*	*0,3*	*0,5*	*-0,5*	*0,5*	*0,2*	*0,1*	*0,0*
Q3 2023	*0,1*	*0,3*	*0,5*	*-0,5*	*0,0*	*0,2*	*-0,1*	*0,0*
Q4 2023	*0,1*	*0,2*	*0,5*	*-0,5*	*0,0*	*0,2*	*-0,1*	*0,0*

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

INTEREST RATES

Short-term interest rates		4-Apr	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Etats-Unis	Fed funds	5,00	5,25	5,25	5,25	5,00	4,75	4,50	4,25
	Sofr	4,84	5,05	5,05	5,05	4,80	4,55	4,30	4,05
Japon	Call rate	-0,01	-0,01	-0,01	-0,01	-0,01	-0,01	-0,01	-0,01
	Tonar	-0,01	0,02	0,03	0,03	0,03	0,03	0,03	0,03
Eurozone	Deposit	3,00	3,75	3,75	3,75	3,75	3,75	3,50	3,25
	€str	2,90	3,75	3,77	3,80	3,82	3,85	3,60	3,35
	Euribor 3m	3,05	3,75	3,75	3,75	3,75	3,63	3,38	3,15
United-Kingdom	Base rate	4,25	4,25	4,25	4,25	4,25	4,00	3,75	3,50
	Sonia	4,31	3,95	3,95	3,95	3,95	3,95	3,95	3,95
Sweden	Repo	3,00	3,50	3,50	3,50	3,50	3,50	3,50	3,50
Norway	Deposit	3,00	3,50	3,50	3,50	3,50	3,50	3,50	3,50
Canada	Overnight	4,50	4,50	4,50	4,50	4,50	4,50	4,00	3,50

10Y rates	4-Apr	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
USA	3,37	3,95	3,90	3,80	3,75	3,70	3,65	3,60
Japan	0,44	0,43	0,50	0,48	0,45	0,45	0,42	0,40
Eurozone (Germany)	2,28	2,70	2,60	2,60	2,40	2,35	2,45	2,40
Spread 10 ans / Bund								
France	0,51	0,65	0,60	0,65	0,60	0,55	0,55	0,55
Italy	1,86	2,35	2,20	2,30	2,10	2,05	2,05	2,00
Spain	1,02	1,15	1,10	1,15	1,05	1,00	1,00	1,00

Asia		4-Apr	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
China	1Y deposit rate	1,50	1,50	1,50	1,50	1,50	1,50	1,50	1,50
Hong Kong	Base rate	5,25	5,50	5,50	5,50	5,50	5,50	5,00	4,50
India	Repo rate	0,00	6,75	6,75	6,50	6,25	6,00	5,75	5,50
Indonesia	7D (reverse) repo rate	5,75	5,75	5,75	5,75	5,75	5,50	5,25	5,00
Korea	Base rate	3,50	3,50	3,50	3,50	3,50	3,50	3,25	2,75
Malaysia	OPR	2,75	2,75	2,75	2,75	2,75	2,75	2,50	2,50
Philippines	Repo rate	6,25	6,25	6,25	6,25	6,25	6,00	5,50	5,25
Singapore	6M SOR	4,19	4,30	4,30	4,30	4,25	4,25	3,45	3,00
Taiwan	Redisc	1,88	1,88	1,88	1,88	1,75	1,75	1,63	1,50
Thailand	Repo	1,75	2,00	2,00	2,00	2,00	2,00	1,75	1,50
Vietnam	Refinancing rate	5,50	5,00	5,00	5,00	5,00	5,00	5,00	5,00
Latin America									
Brazil	Overnight/Selic	13,75	13,75	13,75	12,75	11,75	10,75	10,50	10,50
Mexico	Overnight rate	11,25	11,25	11,25	10,75	10,25	9,75	9,25	8,75
Emerging Europe									
Czech Rep.	14D repo	7,00	7,00	6,75	6,50	6,00	5,75	5,50	5,25
Hungary	Base rate	13,00	13,00	13,00	11,50	9,50	8,00	7,00	6,00
Poland	7D repo	6,75	6,75	6,75	6,75	6,50	6,25	6,00	5,75
Romania	2W repo	7,00	7,00	7,00	7,00	6,75	6,50	6,25	5,75
Russia	1W auction rate	0,00	7,50	7,50	7,50	7,50	7,50	7,50	7,50
Turkey	1W repo rate	8,50	7,50	7,50	9,00	11,00	13,00	15,00	15,00
Africa & Middle East									
South Africa	Repo	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
UAE	Repo	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Saudi Arabia	Repo	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00

EXCHANGE RATES

USD Exchange rate

Industrialised countries		4-Apr	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Euro	EUR/USD	1,10	1,07	1,09	1,10	1,11	1,09	1,07	1,05
Japan	USD/JPY	131,9	128,0	125,0	122,0	120,0	122,0	124,0	125,0
United Kingdom	GBP/USD	1,25	1,23	1,27	1,29	1,31	1,28	1,27	1,25
Sw itzerland	USD/CHF	0,91	0,90	0,89	0,89	0,88	0,89	0,90	0,90
Canada	USD/CAD	1,35	1,33	1,30	1,27	1,26	1,25	1,24	1,25
Australia	AUD/USD	0,67	0,68	0,70	0,72	0,74	0,76	0,76	0,76
New Zealand	NZD/USD	0,63	0,63	0,64	0,65	0,68	0,71	0,72	0,72

Euro Cross rates

Industrialised countries		4-Apr	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Japan	EUR/JPY	145	137	136	134	133	133	133	131
United Kingdom	EUR/GBP	0,88	0,87	0,86	0,85	0,85	0,85	0,84	0,84
Sw itzerland	EUR/CHF	0,99	0,96	0,97	0,98	0,98	0,97	0,96	0,95
Sw eden	EUR/SEK	11,26	10,90	10,70	10,50	10,40	10,30	10,20	10,20
Norw ay	EUR/NOK	11,28	11,00	10,50	10,20	10,10	10,00	9,90	9,80

Asia		4-Apr	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
China	USD/CNY	6,88	6,65	6,65	6,60	6,55	6,60	6,52	6,50
Hong Kong	USD/HKD	7,85	7,82	7,82	7,81	7,80	7,80	7,78	7,76
India	USD/INR	82,10	79,00	79,00	80,00	79,00	78,00	78,00	78,00
Indonesia	USD/IDR	14895	15300	15200	15100	15100	15100	15000	15000
Malaysia	USD/MYR	4,40	4,32	4,25	4,20	4,18	4,18	4,16	4,15
Philippines	USD/PHP	54,4	55,0	54,8	54,0	53,8	53,2	53,0	52,5
Singapore	USD/SGD	1,33	1,32	1,31	1,30	1,30	1,29	1,29	1,29
South Korea	USD/KRW	1313	1240	1230	1200	1200	1210	1200	1190
Taiw an	USD/TWD	30,5	30,5	30,4	30,1	30,0	30,1	30,0	29,9
Thailand	USD/THB	34,1	33,2	32,8	32,0	32,5	32,5	32,6	31,8
Vietnam	USD/VND	23460	23400	23300	23000	22900	22900	22800	22700
Latin America									
Brazil	USD/BRL	5,08	5,50	5,50	5,50	5,50	5,50	5,50	5,50
Mexico	USD/MXN	18,12	20,25	20,00	20,00	20,00	20,00	20,00	20,00
Africa									
South Africa	USD/ZAR	17,94	17,50	16,50	16,50	16,30	16,30	16,50	17,00
Emerging europe									
Poland	USD/PLN	4,27	4,42	4,31	4,23	4,19	4,24	4,27	4,29
Russia	USD/RUB	79,49	66,00	68,00	70,00	70,00	70,00	70,00	70,00
Turkey	USD/TRY	19,23	19,30	19,90	20,50	20,80	21,10	21,50	21,80
Central Europe									
Czech Rep.	EUR/CZK	23,47	24,40	24,40	24,40	24,60	24,70	24,80	24,90
Hungary	EUR/HUF	378	408	400	390	385	380	375	370
Poland	EUR/PLN	4,68	4,73	4,70	4,65	4,65	4,62	4,57	4,50
Romania	EUR/RON	4,93	4,94	4,92	4,90	4,88	4,88	4,88	4,88

COMMODITIES

Av. quarter price		4-Apr	2023			2024			
			Q2	Q3	Q4	Q1	Q2	Q3	Q4
Brent	USD/BBL	84	100	95	100	98	110	100	105

Av. quarter price		4-Apr	2023			2024			
			Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gold	USD/oz	2,019	1,900	1,950	2,000	2,000	1,950	1,900	1,850

PUBLIC ACCOUNTS

	Government balance (% of GDP)			Public debt (% of GDP)		
	2022	2023	2024	2022	2023	2024
United States	**-4,3**	**-4,1**	**-4,1**	**97,8**	**98,0**	**99,5**
Japan	**-7,0**	**-3,5**	**-4,0**	**244,4**	**244,2**	**240,9**
Eurozone	**-3,9**	**-3,5**	**-2,9**	**93,7**	**93,2**	**92,9**
Germany	-3,3	-3,1	-2,2	67,0	67,5	67,0
France	-4,7	-5,3	-5,0	111,7	112,0	112,5
Italy	-8,0	-5,0	-3,7	144,6	144,1	143,9
Spain	-4,1	-4,2	-3,9	111,2	107,5	107,4
Netherlands	-0,8	-2,3	-2,3	49,9	50,0	50,1
Belgium	-4,3	-3,6	-5,6	105,2	108,1	109,9
Greece	-4,2	-1,5	-1,0	171,7	164,4	162,0
Ireland	1,6	2,9	2,9	35,7	31,0	28,3
Portugal	-1,3	-1,1	-1,0	114,6	110,0	109,0
United Kingdom	**-5,4**	**-4,5**	**-3,0**	**100,7**	**101,1**	**101,0**

Completed on 6 April 2023