WORLD
MACRO-ECONOMIC SCENARIO 2023-2024

Quarterly – October 2023

ECO
ÉTUDES ÉCONOMIQUES GROUPE

A delicate balance

A tight labour market, eroded but still abundant 'over saving', a catch-up in service consumption, the tail of the post-Covid comet – these are the key factors that have boosted growth beyond expectations. When paired with overall sound balance sheets in the private sector, they have helped growth stand up far better against the threat posed by surging inflation and aggressive monetary tightening. At a time when monetary tightening is really starting to bite and the support from the post-pandemic recovery is waning, **disinflation is allowing us to anticipate a soft landing, rather than a collapse in growth.** This assumption is not without risk either, as we have seen with the spike in oil prices since the summer. This rebound, triggered by Saudi Arabia's production cuts, is a clear indication that, with no competing suppliers, OPEC+ remains in control.

"First among equals" (although that status is disputed), **the US economy's resilience has continued to surpass expectations, to the point of near-unsustainable speed**: as always, most of it has come from consumption, which is starting to flag. Pandemic-peak surplus savings (estimated at USD2,300bn, c.10% of GDP in March 2021) have dropped by half. After gradually declining, even dipping below its pre-crisis level in September 2021 (2017-19 average close to 8% of income), the savings rate appears to have stabilised, but at a very low level. In addition, hiring has hit a slower pace, job openings have dropped sharply, wage growth has declined, the quit rate is down significantly, and the participation rate is building back up. Credit card use is on the rise. Finally, outstanding revolving credit hit record levels: delinquencies have risen, and its growth has already begun to slacken.

Disinflation is allowing us to anticipate a soft landing, rather than a collapse in growth.

So will there or won't there be a recession (understood as two consecutive quarters of contracting GDP)? The answer to this question will tell us what kind of landing we will have. In its 'authentic' version – no recession – **we cannot rule out a soft landing. However, our central scenario calls for a very slight recession at the turn of 2023-24.** The 2024 landing is unlikely to be too hard: average growth is expected to hit a very respectable 2.1% in 2023, before slowing to 0.7% in 2024, leaving average inflation to continue its sharp decline (4.2% and 2.7% respectively in 2023 and 2024 after 8% in 2022).

In the Eurozone, the slowdown is already obvious. Adding to weaker global demand, which is clearly visible in the poor performance from exports, comes the crushing one-two punch of a commodity price spike in 2022 and an earlier impact than expected from interest rate hikes. These shocks are having very mixed effects on the Eurozone's major economies and making the zone's economic situation a tricky read. Yet overall, how hard (or soft) a landing we feel will depend on the combined effects of two opposing forces: gradual transmission of the most aggressive monetary tightening the Eurozone has ever seen, against the growing deflationary dynamic expected starting in Q423 and bringing average inflation down from 5.6% in 2023 to 3.0% in 2024 (after 8.4% in 2022). With monetary transmission at a peak in 2023 and business activity just stable over H223, average growth is projected at 0.5% after 3.4% in 2022. **The scenario of a modest recovery in growth (0.9% in 2024) is based on domestic demand alone**: that is, consumption, enjoying the gains in purchasing power afforded by deflation and the lagged adjustment of nominal wages to past inflation.

In the emerging universe, despite the slowdown in growth in developed countries, generally satisfactory albeit unimpressive growth is emerging. The scenario comes with high uncertainty. Among the risk factors are (1) US interest rates staying "higher for longer," a specific and costly constraint for the emerging economies and (2) the risk of a slowdown in disinflation that could disrupt monetary easing, whether planned or already begun by the central banks intent on preserving their credibility; however, the big risk is (3) **China, whose much-anticipated recovery has been a disappointment – there is ample questioning around whether China can support its economy**. The Chinese authorities have already implemented two major types of measures: (1) they have very conservatively eased monetary conditions; and (2) they have taken measures to assist the real estate sector. These actions are starting to have an impact. Our scenario calls for growth to stabilise at a level that is still satisfactory, albeit relatively weak with respect to past performances (5.1% and 4.5%, respectively, in 2023 and 2024 after 3% in 2022). But the risk remains of an insufficient or unfit countercyclical response that does not do enough to stabilise projected growth and restore confidence. And with it, the risk of prolonged weak demand and a correction in the real estate sector, along with a lasting negative impact on growth.

In terms of monetary policy, central banks are unlikely to let down their guard. In the wake of massive monetary tightening, even though their inflation targets are still some way off, central banks have recently opted to hit pause. **Barring an unpleasant inflation surprise that necessitates further tightening, we expect this pause to continue and key rates to remain high. We certainly should not expect rapid rate cuts.**

The Fed held the Fed funds rate (upper bound) at 5.50% in September but published a dot plot suggesting a drop of just 50bp in its key rate in 2024, rather than 100bp previously. This validates the risk of rates staying "higher for longer" and confirms that the Fed wants to avoid a premature easing of financial conditions. Our central scenario continues to be of a long pause followed by cuts beginning in June and bringing the upper bound of the Fed funds rate to 4.75% at end-2024. Nonetheless, most of the risks point to a more hawkish trend, and we cannot rule out another increase in Q423. In the Eurozone, while the risk of one last rate hike cannot be ignored, our scenario calls for the **ECB** to hold its rates at their current level (4.50% refi rate) at least until the end of summer 2024. Although it plans to continue its reinvestments until the end of 2024, the ECB could also decide to accelerate its quantitative tightening by stopping its reinvestments in the PEPP in early 2024.

Stubborn inflation, resistant growth and resolute monetary tightening have naturally caused bond yields to surge. A scenario where bond yields moderate slightly is taking shape in the US with forecasts for 10Y yields at 4.00% at end-2023 and 3.50% at end-2024. **However, this scenario seems premature in the Eurozone**, where the ECB has a clearly restrictive policy and may attempt to reduce its balance sheet more quickly. As such, we expect the Bund to be at around 2.60% at end-2023 and 2024. The "USD smile" story just keeps on going. With the US economy holding up, the Fed determined to bring inflation under control, a favourable interest rate differential and episodes of risk aversion, **the USD's short-term appeal is undeniable**.

Catherine LEBOUGRE

Focus Geopolitics – BRICS+: who they are, what they want and what they're setting off

Geopolitical tensions continue to build on many fronts, while the expansion of the BRICS+ is raising questions around the multi-polarity of powers.

Global geopolitical activity in Q323 was anything but calm, but the connection with the macroeconomic scenario is actually less clear than it has been at other times – like when the war against Ukraine broke out. But this is the long game. Indeed, global geopolitical balances are being rearranged, slowly impacting the supply structure by shifting value chains.

A second burial for the USSR

In Ukraine, it is hard to get a read on what is going on, and we must keep our scenarios cautious. This apparent 'stability' in the war must not obscure the fact that many global geopolitical factors hang in the balance. Furthermore, the conflict is spreading geographically and by sector, as **the gas war has become the grain war**. The biggest losers in this war are in the global south, the African countries that buy wheat and fertiliser crossing the Black Sea (70% of Russia's wheat) – Egypt in particular.

The sudden detonation of Russia's food weaponry comes as no surprise; the 2014 sanctions had stimulated Russia's production of grain, which became the third sector to achieve external surplus. In the longer term, with temperatures rising in southern Siberia, Russia's share of the world's total wheat trade will in turn increase, thereby solidifying the Sino-Russian strategic axis, this time on the farming side. In fact, Beijing is very keen to keep its silos topped up with wheat and rice – which make up 69% and 64% of the world's total, respectively.

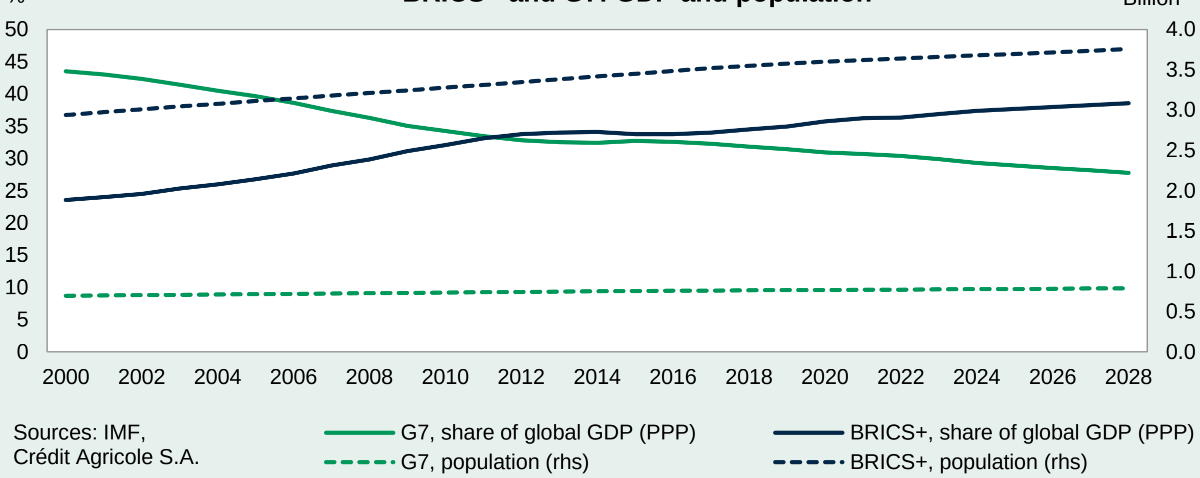
This binds the wheat war to the Black Sea war, and sadly though predictably, to the historical rhetoric of Russian power: "Every potentate who has only ground forces has only one hand; yet whoever has a navy too, has both hands" (Peter the Great). **Moscow is attempting to preserve its naval power and its access to the warmer waters while also trying to cut Ukraine's grain industry down.** All of this is making Turkey, guardian of the straits, into even more of a pivotal state, and it would be surprising if its President Recep Tayyip Erdogan were not keeping a close eye on power balances and natural gas in the Mediterranean. Azerbaijan is also taking the regional reshuffling as an opportunity to grab the Nagorno-Karabakh and redraw the Caucasus map to its own liking, while the international community seems not to notice. We are watching the USSR in its death throes – again.

Asia still under geopolitical strain

Meanwhile, we have seen more high-level contact in US-China relations, raising hopes of a return to the diplomatic channels that were blocked by the Chinese balloon incident. But these signals are not cancelling out the rising tension on other fronts, which have yet to plateau. These communication challenges between China and the US are seemingly just as great, because China has trouble accepting the idea of separating the climate issue from the global strategic rivalry, especially since it is presently in a position of strength on the value chain of green energy transition technology, batteries, solar panels and air conditioners. **So China, like Russia, is promoting the revisionist theme of a sweeping reform of the security balances.**

Most importantly, military communication channels are working poorly, and the risk of incidents in the Taiwan Strait is on the rise as military operations there intensify, with Beijing putting pressure on the island in the run-up to the 2024 elections. Meanwhile, the huge obstacle to maritime traffic is constantly worrying the hot spots in

BRICS+ and G7: GDP and population



Sources: IMF, Crédit Agricole S.A.

the South China Sea, where the US-Philippines rapprochement is getting serious. As for the US' success with its Asian alliances, whether on the security front or the technology war, this also gives China leave to play 'choking victim', as it will do whenever it pleases in order to camouflage the domestic nature of its economic difficulties. And this cry sounds a nationalist echo domestically (as the Chinese rush to buy the latest phone from Huawei) and internationally, in a Global South that has been galvanised by the BRICS' addition of six new members.

Are the BRICS+ at the helm?

There have been very different takes on that expansion – it is either a communications stunt or a major event, heralding a change in the global power balance. In our view, it is more the latter, but in reality, not for what the BRICS+ are but rather for what they represent and what they are setting off in geopolitical terms.

Indeed, the alliance is still very mixed – even motley. Ideologically (with rising China-India tensions), politically (an autocratic axis and some democracies) and economically (China's GDP crushes the others, with 18.8% of global GDP in purchasing power parity and a total of 37% for the whole group). Plus, **the BRICS have no permanent structure or precise agenda**. The final statement demands greater free trade (a paradox, at a time when industrialised nations are questioning it); any concrete actions are mainly on the monetary side, with a "BRICS Bank" based in Shanghai that is building up its mutual aid system in case of a crisis; and the bloc has more financial weight now that Saudi Arabia and the UAE have joined. It is clear that the BRICS are trying to arm themselves with money. There is also nothing very specific at this stage to help their two new food-insecure members: (1) Ethiopia, at high food risk; and (2) Egypt, which does not have the USD to pay for its imports.

> ***The BRICS+ are a group of pragmatic states firmly set on defending their interests, which are often in opposition.***

Nonetheless, the BRICS' legitimacy comes from their demographics (46% of the world's population), and even more so from the axis of power uniting China's manufacturing sector with Gulf energy (the BRICS+ account for 54% of global oil production). They are also an agricultural force, having integrated the rising agriculture (Argentina) and agribusiness (Brazil) powerhouses that are raking in 23% of the world's agricultural sales in value for the group.

But above all, **what gives the BRICS their power – and their primary legitimacy – is that they are the only voice that carries in the Great South, united by a common ambition to rebalance the international institutional system**. It is not a question of toppling the system but of reforming it. If the UN Security Council is to reform one day, it could be by integrating India, Brazil and South Africa, which António Guterres has been calling for. Also, the IMF would have to agree to rebalance its quotas (6.4% for China and 17.4% for the US).

What are the BRICS+ good for?

The BRICS+ are in no way the ideological alliance of non-alignment of the 1950s in Cancun. It is even quite the opposite: the BRICS+ are a group of pragmatic States, firmly set on defending their interests, which are often in opposition. Yet right now, they are joining together in their need to counterbalance the North. This counterweight is playing its role in today's geopolitical configuration: it validates the rebalancing of power polarities, and not just for China's gain, but for what are also known as the "secondary powers".

In fact, though they may have lost in the weight category, **the US** is still a superpower in military and monetary terms (the USD represents 54.7% of reserves and 47% of international currency payments, compared to 2.39% and 3.06%, respectively, for the CNY). On the other hand, the US **is no longer what we would call a hegemonic power**, ie, one capable of imposing or inspiring international rules or models. It no longer has that legitimacy, as confirmed by the BRICS' message.

The entire geopolitical issue as we move forward is whether (1) we will reach a scenario where the US-China rivalry structures everything; or (2) as we believe, it will be more multi-polar. In fact, **the BRICS+**, which began as an acronym coined by Goldman Sachs and is already holding its fifteenth meeting, **may be more of a moment in the history of global multilateralism than an alternative to existing institutions**. But in this, the representatives of the Great South are playing their role by giving a voice to the rebalancing that institutional history requires. As long as it is not swallowed up by China's agenda or, more broadly, by the US-China rivalry.

Tania SOLLOGOUB

DEVELOPED COUNTRIES
A delicate balance

USA – Can a soft landing be achieved?

Eurozone – Stagnation between powerful forces

United Kingdom – The short-term outlook is getting worse

Japan – A complete exit from deflation by the next global economic recovery

A delicate balance

The forces that drove an expansion beyond expectations (labour market, savings, services sector catch-up) are starting to weaken. Monetary and financial conditions have tightened significantly. However, balance sheets remain healthy, and disinflation is finally allowing us to anticipate a soft landing, rather than a collapse in growth.

USA: CAN A SOFT LANDING BE ACHIEVED?

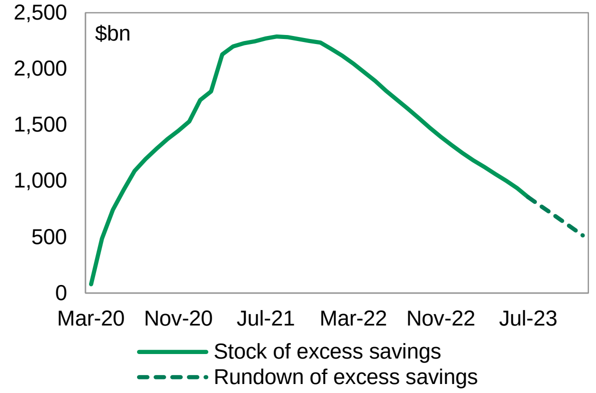
The resilience of the US economy has continued to surprise, with above-trend growth maintained through H123 and signs that growth may accelerate further in Q323. However, we continue to see headwinds lurking under the surface and believe that the current strength will prove unsustainable. As such, we maintain our base case that the economy will slow more sharply by year-end, with a (very) mild recession beginning in Q423 and lasting through Q124. This leaves overall growth at a strong 2.1% pace in 2023 on an annual average basis, before slowing to 0.7% in 2024.

Total excess savings peaked at USD2.3trn, but now has been cut nearly in half.

On a quarterly basis, GDP grew at annualised rates of 2.2% and 2.1% in Q123 and Q223, respectively, and a strong start to the current quarter, particularly for consumption, leaves Q323 growth tracking at above 3.0% in our base case, with some estimates placing growth even higher. The main driver of this resilience has been the consumer, with a relentless advance in consumption keeping the economy afloat thus far. However, as we have noted in a number of articles recently, we see growing headwinds that we believe will cause consumers to rein in spending towards the end of the year. These include:

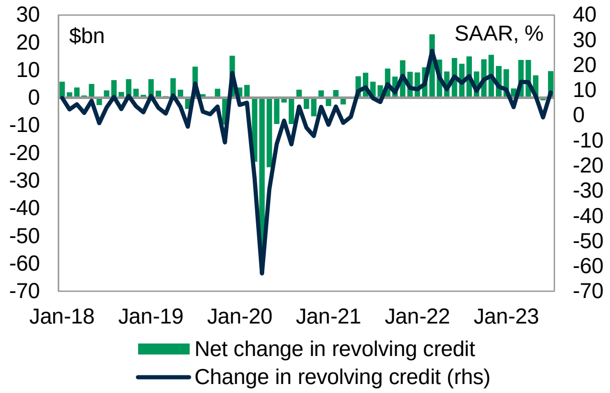
- ✓ **Waning excess savings:** Early in the pandemic, consumers amassed a substantial pile of savings above what historical trends would have suggested given unprecedented fiscal stimulus. More recently, however, the savings rate has plunged as consumers have turned to this savings to maintain spending growth in the face of high inflation. We estimate that total excess savings peaked at USD2.3trn, but now has been cut nearly in half, with many lower-income households likely having fully drawn down any excess savings they had built up.
- ✓ **Increasing reliance on credit cards:** In addition to excess savings, consumers have become increasingly reliant on credit cards, with revolving credit outstanding at an all-time high. While the ratio of revolving credit to personal income remains manageable for now, growth has already begun to slow and delinquencies are on the upswing, indicating that there may not be that much room for revolving credit to surge any further.
- ✓ **Resumption of student loan payments:** As part of the early pandemic response, student loans payments were paused, and that pause has now extended for more than three years. However, beginning on 1 October, it will abruptly end, with borrowers required to resume making monthly payments. With more than 43m borrowers facing an average monthly payment that could be in the range of USD300 (estimates vary), a number of households will have to re-direct money away from consumption and back to student loan payments.
- ✓ **Fading pent-up demand:** Consumers have been keen to spend on travel and experiences that they had to forego during lockdowns, likely helping to support the strong start to Q323. Anecdotally, however, various surveys including the Fed's latest Beige Book indicate that the summer may have acted as a bit of a 'last hurrah' for this type of revenge spending, which may at the margin weigh on spending moving forward.

US: consumers have continued to draw down savings



Sources: BLS, Bloomberg, CACIB

US: consumers increasingly reliant on credit cards



Sources: Fed, Bloomberg, CA CIB

- ✓ **Cooling labour market:** Finally, the labour market has remained very strong, though has increasingly shown signs of cooling, including a slower pace of hiring, a sharp decline in job openings, slowing wage growth, and a quits rate that has moved back to pre-pandemic levels. While we do not anticipate a severe deterioration in the labour market, we look for continued gradual cooling that brings the unemployment rate up to a peak of around 4.5% by next year, potentially weighing on spending going forward as well.

To be clear, we do not expect spending to fall off a cliff, especially as household balance sheets are still very healthy with cumulative net worth more than USD35trn above the pre-Covid peak. However, the headwinds identified above should lead to a modest pullback in spending, with the impact on the overall economy potentially magnified by a handful of other shocks arriving at the same time:

- ✓ **The UAW strike:** The United Auto Workers Union is currently on strike at each of the big three US automakers, the first time in history it has been striking at all three simultaneously. The strike is currently a targeted one, impacting around 25k workers, though the longer it lasts the greater the chance that it becomes more widespread, involving more of the nearly 150k workers represented by the UAW.

- ✓ **Government shutdown:** While Congress was able to unexpectedly reach a last minute deal to pass a stopgap spending bill funding the government until 17 November, the risk of a shutdown has not fully disappeared. An agreement on fiscal 2024 spending by the new mid-November deadline is not guaranteed, and if one is not reached then the government would shut down, with federal employees and contractors not paid on time and various economic releases delayed.

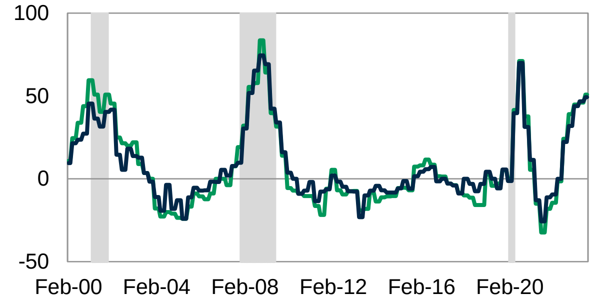
Annual change	2023	2024
GDP	2.1%	0.7%
Inflation	4.2%	2.7%

On top of these potential shocks, we have also seen a consistent tightening in lending standards that was only exacerbated by the turmoil in the banking sector that erupted in March. This trend has not fully worked its way through actual lending data, in our view, and thus could leave investment vulnerable to some pullback as well.

On balance, this leaves our base case seeing a mild recession, as outlined above. That said, we would stress that the recession in our base case is a very mild one, with the peak-to-trough decline in GDP at just under 1ppt and the unemployment rate only rising modestly compared to prior recessions to a peak of 4.5%, a scenario which we would consider to be a soft-ish landing. A full-on soft landing remains a possibility if the labour market continues to chug along and strong household balance sheets offset the consumer headwinds we identified above, and at this point risks to our baseline may be tilted in this direction even if we are not fully convinced at the moment.

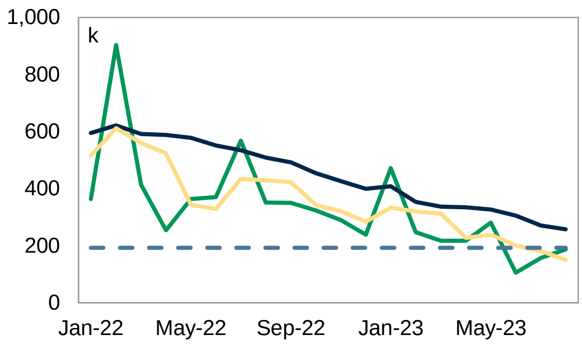
Nicholas VAN NESS

US: domestic respondents tightening standard for commercial & industrial loans



Sources: Fed, Bloomberg, CA CIB

US: hiring momentum slowing



Sources: BLS, Bloomberg, CA CIB

EUROZONE: STAGNATION BETWEEN POWERFUL FORCES

The ‘soft landing’ narrative continues, with a labour market holding up despite the activity slowdown, and a sound economic & financial position in the private sector. The Eurozone is no exception to this positive supply trend, though its slowdown is more dramatic than elsewhere and makes the question of where this abnormal growth cycle will end more acute. **With activity now 2.6% above pre-pandemic levels, annualised quarterly GDP growth has weakened severely from 4.2% in Q222 down to 0.5% in Q323.**

… between peak monetary transmission and the inflation brake

Almost equally to blame for hitting the brakes are (1) the shock over the terms of trade driving the rise in commodity prices in 2022; and (2) the impact – earlier and greater than expected – of rate hikes. Just how hard will this landing be? It depends on the clash between two powerful and opposing forces: the transmission of the broadest and fastest monetary tightening the Eurozone has ever seen, and the increased disinflationary momentum expected from Q423. Our scenario puts peak monetary transmission in 2023 and projects zero growth for H223, which holds the average annual growth rate right at its minimal gain from end-June, ie, 0.5%. Any move back to positive growth (0.9% annual average in 2024) will hinge on disinflation-linked gains in purchasing power and the time lag in adapting the wage dynamic to that of past inflation.

The cyclical and structural factors draining manufacturing

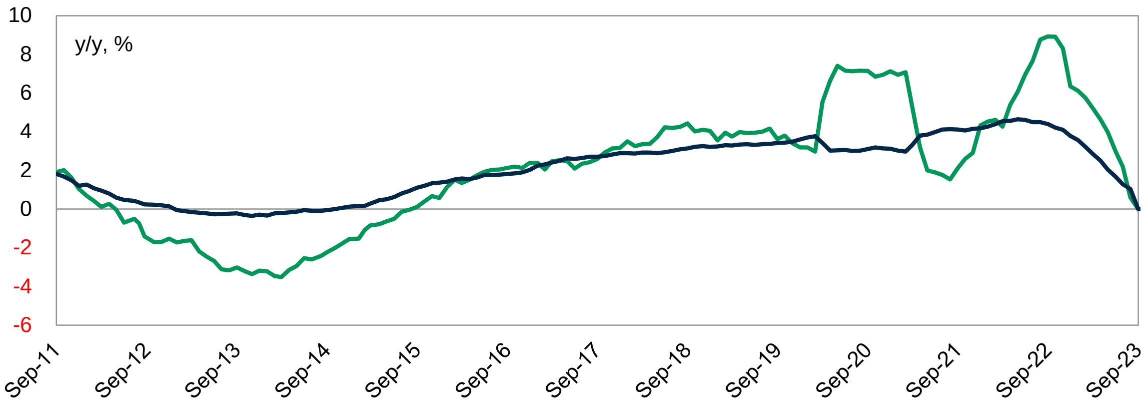
The Eurozone has not been immune to the weak global manufacturing cycle. Although business activity was slowing down sharply across all sectors in Q223, manufacturing was already showing a YoY decline (-0.7%). Within the sector, however, performances were all over the map because of value chain disruptions, relative price movements and shifts in post-pandemic demand behaviour. Energy-intensive sectors have shown a steady decline in business activity for the past year, while automotive-related sectors have benefited from normalisation in semiconductors and production backlogs that are still substantial. On the other hand, producers of durable goods, as well as the sectors upstream and downstream of construction, have taken a hit from increases in inflation and interest rates. Growth in construction, though still positive YoY, lost steam. Lastly, while services overall held on to positive YoY growth (1.6%), trade, hospitality and transport have lost their double-digit growth and are now virtually flat.

Adjustments in demand composition are still at work and will continue to scramble any reading of the trajectory in industrial activity, even as it contends with fading production backlogs and weaker orders facing high levels of finished goods inventories. After last spring’s major inventory build-up, industrial output is very likely to decline. And the slowdown promises to worsen in Q3. Surveys show a steeper decline in manufacturing activity plus the end of expansion in the service sector.

No impulse from demand in Q223

Ultimately, GDP growth in Q223 proved as flat as it was when the year began (+0.1% for the quarter after +0.1% in Q123). And it took a strong, and probably involuntary, accumulation of inventory to salvage growth (+0.4ppt contribution), offsetting the negative contribution from foreign trade (-0.4ppt) in the face of domestic demand providing no positive impulse for three quarters now (+0.1ppt in Q2). Growth in household consumption was interrupted by a marked decline at the end of 2022 and has not recovered, although it has not sunk any deeper since early 2023. And investment, after receding at the end of 2022, has been lacklustre at best for the past two quarters (+0.3% for the quarter). Housing investment has already dropped 2.6% YoY, while investment in non-residential construction has continued to grow, albeit at a slower pace. Investment in machines and equipment suffered from weak demand for durable and capital goods. In contrast, investment in transport goods, after a

Eurozone: change in outstanding amount of bank loans



Sources: Refinitiv, ECB, Crédit Agricole SA/ECO wretched 2021, continued to post positive, albeit slow, growth.

The slowdown in global demand is clear from the performance of exports of goods & services, which have been declining since late 2022. The tighter contraction in imports, having peaked with the emergency supplies of natural gas in the summer of 2022, brought a positive contribution from trade. On the other hand, normalisation of the import penetration rate now reveals the weakness in foreign sales and its negative impact on growth until Q123.

Consumers drive a modest recovery

With a 0.5% growth carryover in Q223 and weak demand from the rest of the world, our scenario is based on a modest recovery in domestic demand. While the resurgence in purchasing power tied to late-year deflation does not cancel out past losses, it may give household disposable income more positive momentum in real terms. Eurozone labour supply and employment stayed on a positive, albeit slowing, growth trend in Q2 (+0.2% for the quarter). Hours worked rose again overall, except in manufacturing and construction, which had already started to cut them back.

We expect unemployment to edge up as job creation slows, while the trend in the labour force remains solid. This means jobs will continue to support household income. The acceleration in wages per worker in Q223 (5.4% YoY) will no longer be fuelled by (waning) tensions on the labour market but will remain high in 2024 at close to 4% – well above inflation. Year-end salary negotiations, specifically in Germany, still promise rapid wage growth as the year comes to a close.

The relative strength of two opposing factors – monetary tightening and disinflation – will determine the hardness of the landing

Negative wealth effects, mainly due to higher interest rates, are expected to be modest in the Eurozone. The proportion of owners carrying loans, household debt and the share of variable-rate loans are all fairly low. None of these is spreading fears of a substantial drop in resources available for consumption, which is expected to grow at a rate of 1.1% in 2024 after 0.4% in 2023. In addition, these indicators have converged over the past decade, and the Eurozone is showing fewer asymmetric risks from weak household balance sheets, particularly from the 'systemic' countries. We are also seeing more variable loan renegotiations in the most vulnerable countries.

Investment recovers, with opposing dynamics

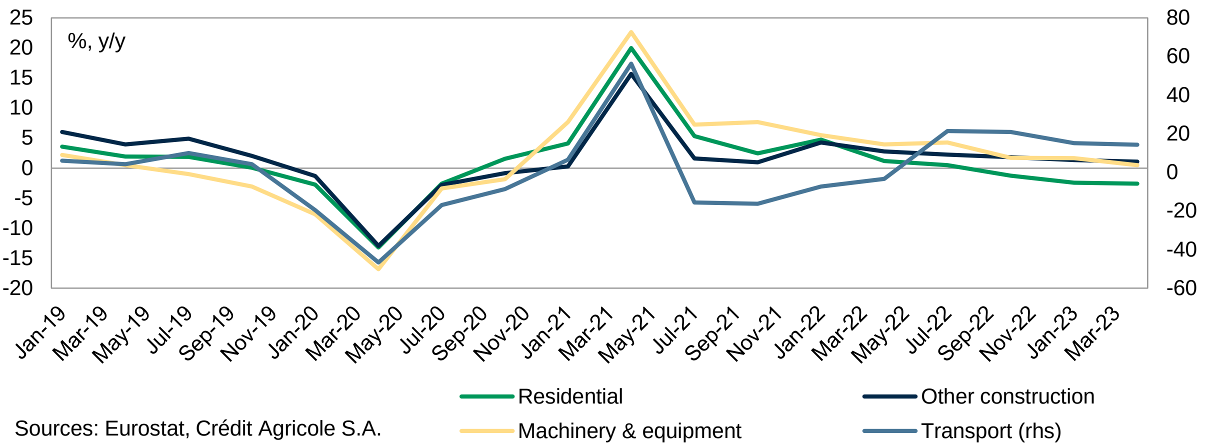
Between the anticipated erosion in profitability and higher costs from the gradual transmission of monetary policy, investment is unlikely to see a strong resurgence. The decline in productivity since late 2022 continued into Q223 (-1.4% YoY). In a disinflationary environment, the increase in unit labour costs driven by ever-faster wage growth per worker (5.4% YoY) can no longer be transferred to sale prices.

This erosion in pricing power is already documented by survey results in manufacturing and services. This cuts the risk of margin-driven second-round effects. Regardless, investment in infrastructure and in the dual transition continues to be financed by NextGenerationEU and, in the strategic sectors, by state aid. In addition, the renewal of business vehicle fleets will continue to support investment in transport goods. These factors are offsetting the marked drop in housing investment. Still, it appears that investment will see only very modest growth (1.1% in 2023 and 2024).

Shock response will be all over the map

The growing disparity in Eurozone economies is making it harder to read the economic situation there. Germany's economic weakness was exacerbated during the summer, particularly in manufacturing which was damaged simultaneously by the slowdown in its major export markets (China and the US) and by more structural factors including the rise in energy costs, leaving it less competitive. Our scenario for Germany is two quarters of contraction, in Q3 and Q4. By contrast, the peripheral countries have shown greater

Eurozone: investment, the first victim



Sources: Eurostat, Crédit Agricole S.A.

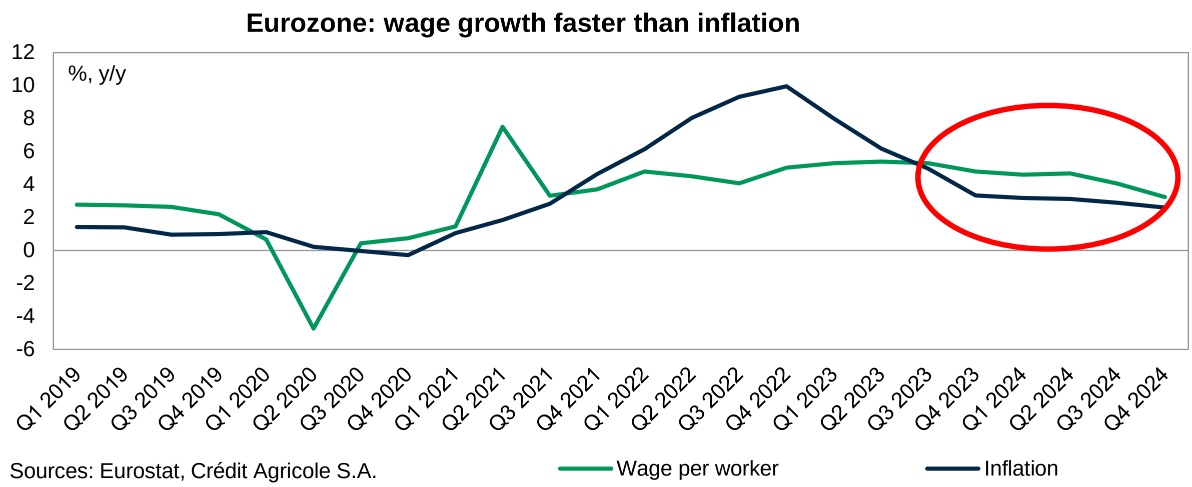
resilience so far, with a stellar performance by the tourism sector as well as investment efforts being boosted by NGEU's European funds. Apart from Italy, hobbled by its weak manufacturing sector, these countries should hold on to higher average growth than the rest of the Eurozone.

Annual average	2023	2024
GDP	0.5%	0.9%
Inflation	5.6%	3.0%

Public finances: moderately pro-cyclical

In the wake of highly expansionist policies in recent years, the pressure for a bold adjustment in public finances is rising. Our scenario is pricing in just-negative fiscal impulse in 2023 – less damaging than suggested by spring's stability plan announcements – with the implementation of countercyclical measures that offset higher oil prices. This defers the bulk of the adjustment to 2024.

Paola MONPERRUS-VERONI



UNITED KINGDOM: THE SHORT-TERM OUTLOOK IS GETTING WORSE

The economic impacts of monetary tightening are becoming increasingly apparent. Growth turned out to be decent enough in Q2 (+0.2% QoQ), indicating that domestic demand remains solid despite the scale of monetary tightening (515bp since the Bank of England began hiking in December 2021) and the significant rise in corporate bankruptcies (to their highest level since 2009). However, the short-term outlook has worsened since the end of the summer. The Composite PMI plummeted in August and September to 46.8 – its lowest level since the 2008 financial crisis, with the exception of the Covid lockdowns in 2020 and 2021. This indicator is a bellwether of UK growth and suggests that GDP fell by 0.4% in Q3. This weakening is due to falling demand in the services sector, which had held up well until now, and a deteriorating situation in manufacturing. Businesses are grappling with higher energy bills (fuel prices have rebounded), costly wages and rising interest rates, which are curbing demand. Real GDP already contracted 0.5% in July, laying the groundwork for a negative carryover (of -0.2ppt) for Q3.

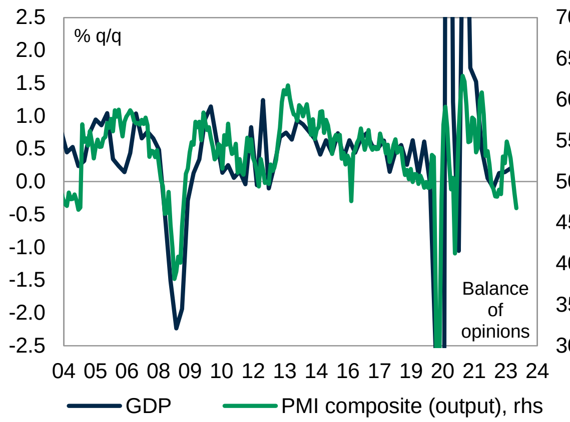
Businesses are grappling with higher energy bills, costly wages and rising interest rates, which are curbing demand.

The labour market is tight but continuing to show signs of loosening. The slowdown in activity is impacting the labour market, where lower employment has led to a rapid rise in the unemployment rate (to a higher-than-expected 4.3% in the three months to July from 3.8% three months earlier). Inactive workers have returned to the labour market, mainly people who were forced to stay at home for family reasons and, to a lesser extent, students and retirees. In contrast, the high proportion of people suffering from long-term illnesses (almost 30% of inactive workers) is why the participation rate remains around 1ppt lower than its pre-Covid level. Activity is therefore highly likely to not recover fully. Wage growth continued to pick up (8.1% in the private sector) and any future moderation seems uncertain in light of the ongoing labour market tightness.

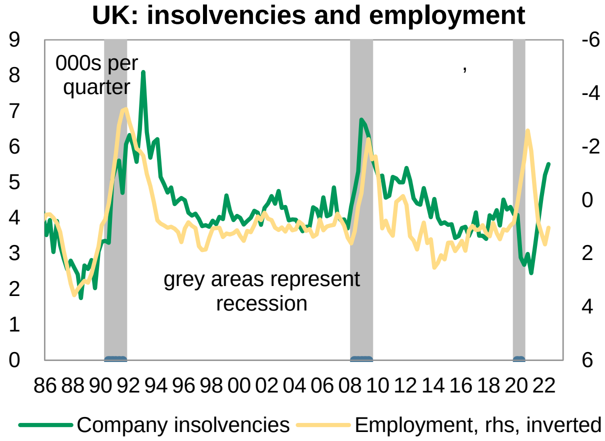
Annual change	2023	2024
GDP	0.4%	0.7%
Inflation	7.4%	3.1%

Our current scenario is for a mild recession in H2. This is likely to be caused by a decline in investment, in particular residential investment, but also lower foreign demand and a slowdown in household consumption. The latter should remain resilient. Households will benefit from higher real incomes that are finally growing again, and substantial excess savings built up during the pandemic. The savings rate (9.5% in Q223 vs 6% in Q419) is still above its pre-Covid level even though consumer confidence is improving and at its highest level since January 2022. However, exports are expected to fall further, on the back of declining demand from the US (our scenario is for a slight recession at the turn of the year) and the Eurozone. Finally, uncertainty, rising interest rates and Brexit will remain strong headwinds to investment.

Slavena NAZAROVA



Source: Crédit Agricole S.A.



Sources: ONS, Crédit Agricole S.A.

JAPAN: A COMPLETE EXIT FROM DEFLATION BY THE NEXT GLOBAL ECONOMIC RECOVERY

Domestic demand to offset weakness in external demand

We expect Japan's GDP to grow significantly above the potential growth rate of around 0.5%. 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, resilient domestic demand will likely offset the decline in external demand.

We expect private consumption to continue to remain resilient as the transition to a post-Covid world continues. Businesses' capex plans remain strong as they move to increase investments not only to alleviate supply chain disruptions but also to offset the increasing labour shortage they face with capital. Private capex as a percentage of GDP will likely surpass 17% in 2025, paving the way for Japan to fully exit from deflation.

Private capex as a percentage of GDP will likely surpass 17% in 2025, paving the way for Japan to fully exit from deflation.

The government reaffirmed its commitment to the Abenomics policy framework in the basic policies for the FY24 budget. One of the key themes of the government's "new capitalism" policies seems to be solving social issues and promoting growth by increasing public spending in areas that tend to be under-invested if left entirely to the private sector.

Under the "new capitalism" policies, the government will likely continue to support investments in growing areas and aid households via economic support programmes. With private domestic demand still below the pandemic level (CY19 average), the need for continued policy support to maintain domestic demand despite stronger external headwinds remains strong.

Inflation to decelerate below the 2% target but then reaccelerate toward the 2% target

Key inflationary measures have significantly surpassed the BoJ's inflation target of 2%. However, most of the upward pressure on prices stems from temporary factors and is not due to a strong recovery of domestic demand. The government and the BoJ maintain the view that Japan's economy has yet to achieve the 2% inflation target in a stable and sustainable manner with more change necessary for underlying inflationary trends to change.

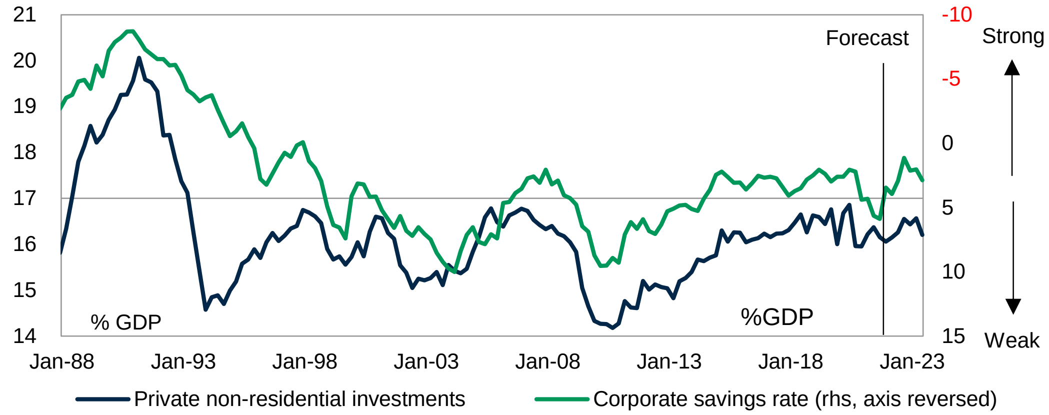
The primary cause of Japan's deflation has been continued excess savings by Japanese corporates. After the collapse of Japan's economic bubble, the corporate savings rate became positive, which has since then continued to destroyed aggregate demand and in turn strengthened structural deflationary pressures. 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.

Change YoY	2023	2024
GDP	2.0%	1.2%
Inflation (ex-fresh food and energy)	3.9%	1.9%

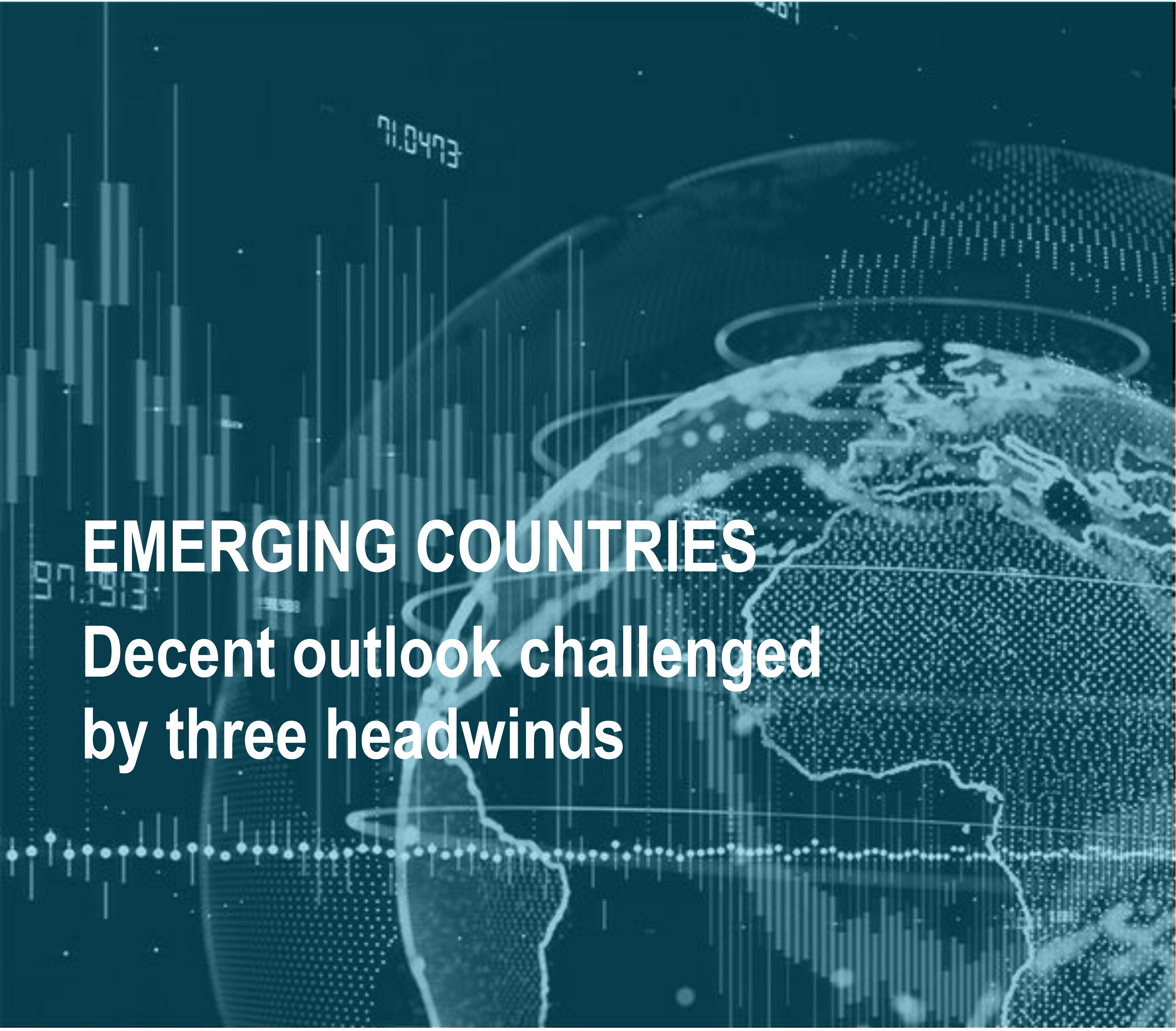
Core CPI (ex-fresh food and energy) will likely start to decelerate in H223 to H124 as upward pressures from higher import prices and cost push moves peak. Core CPI will likely fall below the BoJ's 2% target by H224. We expect prices to accelerate again as the global economy picks up and domestic demand strengthens further. The pick-up in wages should help strengthen domestic demand and drive the corporate savings rate back into negative territory, removing deflationary pressures and strengthening inflationary pressures. Inflation will likely surpass the 2% target in a sustained manner sometime in 2026.

Takuji AIDA – Arata OTO

Japan: corporate savings rate & private capex



Sources: Crédit agricole CIB



EMERGING COUNTRIES
Decent outlook challenged by three headwinds

Overview – Decent outlook challenged by three headwinds

China – Ramping up policy support

Brazil – Resilient economy, stubborn inflation and elusive fiscal target

India – Marching forward, but the old demons are never far behind

Decent outlook challenged by three headwinds

Our base-case scenario is for decent (but not impressive) EM economic growth, despite slowing growth in developed markets. But the high level of uncertainty suggests a low level of conviction, with three main possible headwinds.

We see three main transversal themes shaping the EM outlook in the coming quarters.

China: stabilisation, but the crucial transition remains to be done

First, the disappointment about China's growth was one of the main headwinds for EM momentum earlier this year. The focus has grown on whether China manages to support growth.

We expect the stabilisation of China's growth at a decent but relatively low level. The Chinese authorities have implemented two primary types of measures during the past few months. They have very carefully eased monetary conditions, including by lowering the reserve ratio recently. They have also strongly targeted the property sector, with specific measures aimed at supporting demand as well as supply. Given the size of the property sector in the economy, for the government budget and as a key asset for household savings (and its role in domestic confidence), this seems like a legitimate focus.

Higher for longer US interest rates would keep EMs under pressure, particularly markets with fragile balance sheets and those where central banks want to lower interest rates to support economic growth

Recent data releases suggest that these measures have started to pay off. The PMIs have somewhat improved; retail sales have done better in August, suggesting that consumers' appetite to spend may be recovering; and **the CNY has been more stable since August**.

This improvement is welcome, including for the global EM investment mood. Worries about China weighed on EM investors' appetite earlier this year. By the same token, signs of stabilisation should reassure them somewhat.

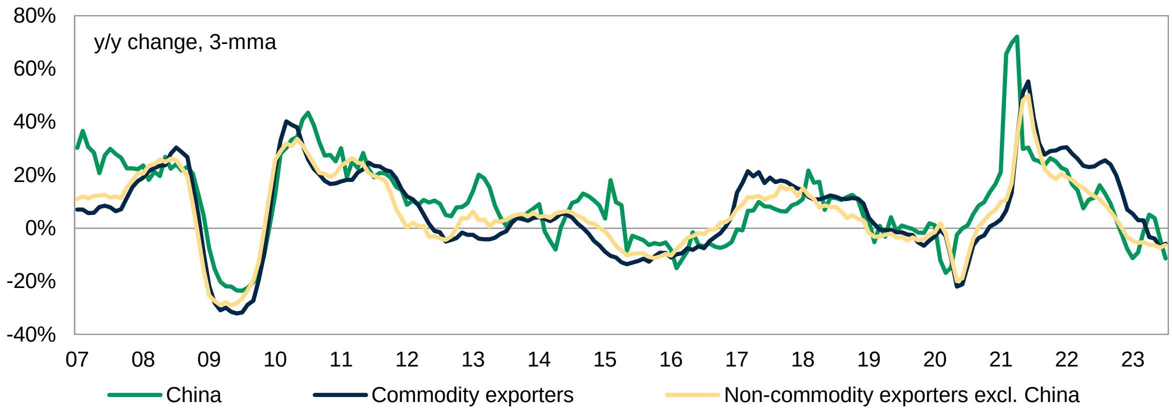
That being said, **China continues to face huge challenges when it comes to its transition from one economic model to another**. The economic green shoots we are talking about provide a bit more serenity in the short term, but they do not solve the more structural challenges. The rebalancing of growth from investment to consumption remains very problematic. It is bumping into a lack of consumer confidence as the economic and geopolitical environment has changed substantially over the past few years (increased uncertainty due to Covid, the real estate crisis, higher & more volatile unemployment, de-risking strategies challenging the role China plays in the global economy). Also, the Chinese authorities remain keen to avoid big stimulus measures to try to keep the overall economy's indebtedness under control. Furthermore, the crackdown on the private sector is unlikely to be fully reversed, and this is also likely to cap economic dynamism. Against this backdrop, **financial stress may also fuel market volatility, with two areas to be monitored in particular: (1) property developers and the real estate sector; and (2) regional government debt**.

In a nutshell, we are relatively constructive on China's growth in the coming quarters, but we believe the structural challenges facing China remain unresolved, and the secular deceleration of China's growth remains valid, beyond the short term.

US rates: high(er) for longer

Second, **the persisting uncertainty over the trajectory of US interest rates may keep a specific**

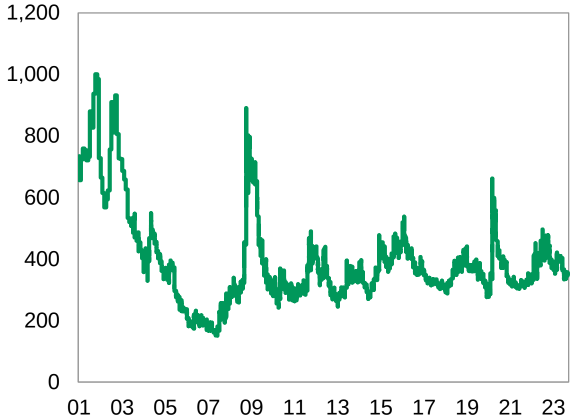
Emerging countries: exports



Sources: Datastream, Crédit Agricole CIB

constraint on EMs. The Fed has hiked its Fed fund rates by 525bp since March 2022. Are there more hikes to come? The Fed is keeping the door open to another hike later this year. And, given that its policy is strongly data-dependent, further hikes next year cannot be entirely ruled out, although this is not priced in by the market currently. On top of this, the market is currently pricing in some rate cuts from Q3 onwards.

EMBI+ Global spread



Sources: Datastream, Crédit Agricole CIB

But we believe **there is a major upside risk to this expectation**. The resilience of the US economic momentum, combined with the US pre-election backdrop next year, suggests that demand may remain strong, with fiscal policy reasonably supportive. In that case, the Fed may feel alone when it comes to fighting inflation, particularly if oil prices continue to increase. This would mean that US rates will remain high (or higher) for longer. Such an environment would be difficult for EMs. All EMs are not equal; some are more vulnerable than others. In our view, (1) countries running significant current account deficits and/or depending on external financing and (2) countries where central banks want to lower interest rates to support the economic momentum are among the most vulnerable.

Constrained EM monetary easing

The third theme is constrained EM monetary easing. Disinflation has been going on in most EMs over the past few quarters. Many central banks, particularly in Central Europe and Latin America, have initiated rate cut cycles or are on the verge of doing so. However, **the risk is that disinflation may become stickier going forward**. First, tight labour markets in many countries may fuel demand-led inflation pressure. Second, the recent rebound in some commodity prices may contribute to putting a floor under EM inflation. This is the case for oil prices (about +30% since mid-2023). **There is also some uncertainty about food prices.** The price of rice, in particular, has skyrocketed, in particular after the Indian export ban. Asia, where rice has a more important role in consumption habits compared with the rest of the world should may face more inflation pressure. Third, disinflation may be slowed by costs related to structural issues such as the energy transition, or de-risking at the global level.

The persisting inflation risks may make it more difficult to lower interest rates at some point. This would limit the benefits of monetary easing. It may also fuel a credibility issue for these central banks, which will decide to cut rates anyway despite the inflation (and FX) risk.

What growth outlook?

The EM growth outlook that is derived from such a situation is not impressive, but decent. Despite these challenges, we see EM growth benefiting from rate cuts, the stabilisation of China's growth and maybe the resilience of the US demand, if confirmed. We expect EM GDP growth to reach 3.6% in 2023, slightly lower than last year (3.8%). We then expect a limited acceleration in 2024, to 3.9%. This is below the EM long-term average economic growth. However, this would happen despite the on-going slowdown in developed markets, which our DM economists expect to continue into next year. Hence **the EM growth performance would overall reflect some resilience of domestic demand in EMs**. Also, some of the largest EMs, which are less open to trade compared with the EM average, may post relatively strong growth despite sluggish global exports. The most obvious example is India, which we expect to grow by almost 6% next year. Other countries are also starting to benefit from a diversification of investment out of China, eg, India, Indonesia or Vietnam.

Annual change	2023	2024
GDP	3.6%	3.9%
Inflation	6.0%	4.2%

Weak spots

Overall, the EM fundamentals and balance sheets are relatively decent, particularly in Asia, but also in some EMEA, and to a lesser extent in Latin America (where sovereign risk remains more of an issue though). But there are weak spots, which may remain under pressure against a backdrop of higher for longer US rates and higher commodity prices. These include Argentina and Egypt. Turkey used to be in this category. It remains vulnerable, but the orthodox economic policy shift taken by policymakers after the re-election of President Recep Tayyip Erdogan tends to make it somewhat more resilient.

Sébastien BARBÉ

CHINA: RAMPING UP POLICY SUPPORT

Growth still around the bottom, with some green shoots

China's economic data has been mostly disappointing in the past few months, after a brief rebound seen in Q1. The latest August macro data showed some early signs of marginal improvement, after the Chinese authorities ramped up their policy easing again. However, it is still early to call for a firm recovery, as the confidence level remains low among the private sector and the latest policy easing is yet to show a material positive impact on home sales with the property sector remaining as a key drag to growth. As growth slows, recurring news of debt defaults could continue to weigh on market expectations of the growth outlook and heighten worries about China's financial system stability. Externally, still-elevated US rates and the USD, as well as geopolitical factors, could continue to weigh on risk sentiment around China.

One positive aspect is that policymakers have shown their willingness to implement more supportive measures to stabilise the economy, but without any bazooka stimulus, considering some long-term side effects which might further aggravate China's structural economic imbalance and worsen the debt situation.

> *Externally, still-elevated US rates and the USD, as well as geopolitical factors, could continue to weigh on risk sentiment around China.*

With that in mind, **we are projecting a very mild sequential growth pick-up in H223 after the dip to 3.2% in QoQ saar terms in Q2**. It would bring China's growth to 5.1% in this year. For 2024, annual growth would slow further to 4.5%, but in sequential terms, it represents better sequential growth from now, as cyclical growth gradually improves when the positive policy impact kicks in.

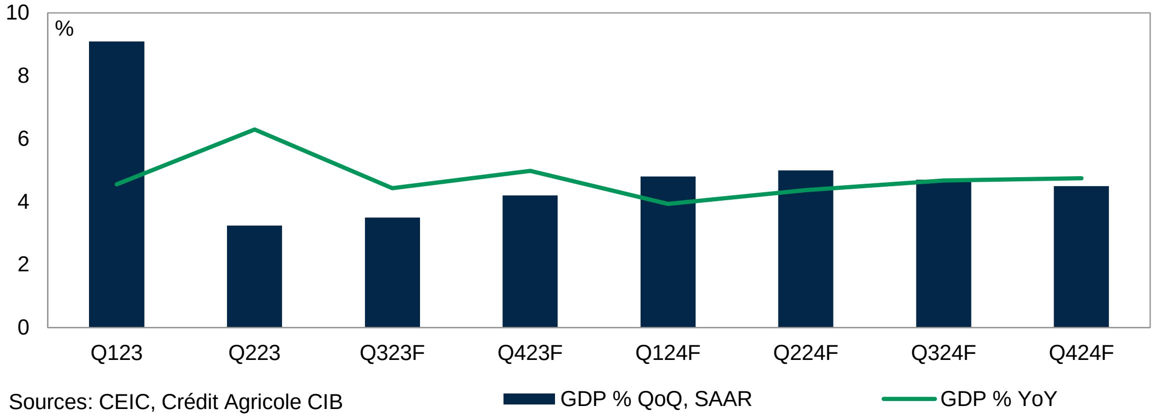
Muted inflation leaves room for further policy easing

China's inflation remains largely muted, with the latest CPI inflation reading just above zero while PPI remains in deflation. While both headline and core CPI inflation has likely bottomed out, they will likely remain quite mild and below pre-Covid levels in the rest of 2023 and 2024. Meanwhile, PPI could continue narrowing its decline and rise back to the inflationary zone again by early 2024. We forecast CPI and core CPI inflation at 0.5% & 0.9% respectively in 2023 and 1.8% & 1.4% in 2024. PPI could fall by an average of 2.5% in 2023 before rebounding 1.1% in 2024.

Policy easing on multiple fronts, no bazooka stimulus

We expect that **the government will further introduce policy easing measures on multiple fronts to co-ordinately stabilise expectations, revive confidence and boost demand**. We expect additional monetary policy easing, likely another 10bp MLF rate cut by the PBoC. This appears quite marginal, but we note that the policy consideration to not cut rates too aggressively or too quickly would include ensuring banking system stability and preserving some policy leeway. For some selected areas, such as housing mortgages, the rate reduction would be much larger than the headline. We expect there to be more efforts in LGFV bank loan restructuring to lower the interest payment costs. It is also important for the PBoC to fully utilise or even expand its rediscount/relending facilities to support key infrastructure projects & property project delivery and to provide better incentives/programmes to encourage bank lending.

China: gradual growth improvement in coming quarters as policy impact kicks in



Sources: CEIC, Crédit Agricole CIB

On the fiscal front, despite the growth challenges, China's fiscal spending has been disappointing with a narrower than budgeted fiscal deficit so far this year. This leaves room for China to reaccelerate its fiscal spending, particularly when private sector confidence remains low. Beijing could expand its quasi-fiscal spending through its policy banks to support investment in key industries and infrastructure. Raising the general budget deficit ratio beyond 3% of GDP and issuing special CGB bonds to stimulate consumption and fund investments could also be some policy options for Beijing to consider.

Annual change	2023	2024
GDP	5.1%	4.5%
Inflation	0.4%	1.8%

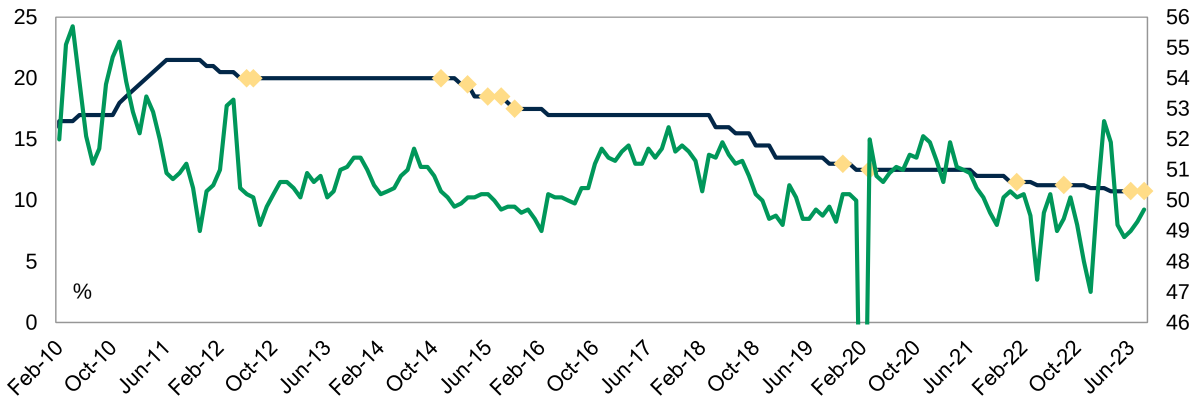
One particular area of policy focus would be to resolutely put an end to the prolonged property downward spiral and break the negative feedback loop, which would be crucial for China's growth stabilisation. China has recently stepped up its property easing measures, though it has yet to show any major impact on boosting home sales. We expect further easing actions to be taken to relax/scrap existing restrictions. China will likely expand its fiscal & liquidity support for developers and its project financing to stabilise property construction.

Risks to watch

In the near term, how China could stabilise the property sector and dissolve local government debt risks would be key to watch. We think a debt-induced financial crisis remains low in China near term, but would caution that prolonged demand sluggishness and property sector correction would have a long-lasting negative growth impact, if China is not forceful enough in its countercyclical measures and market reforms to restore confidence and stabilise growth expectations.

Xiaojia ZHI

China: room for more monetary policy easing ahead



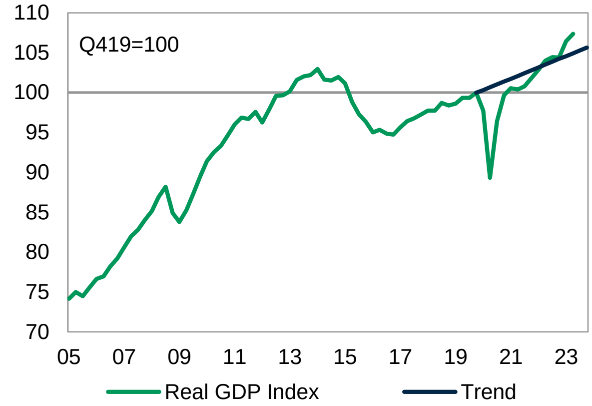
Sources: Bloomberg, CA CIB

BRAZIL: RESILIENT ECONOMY, STUBBORN INFLATION AND ELUSIVE FISCAL TARGET

Resilient economy and stubborn inflation keep the central bank on guard

Brazil's economic recovery has been surprisingly strong with the economy growing well above the pre-pandemic trend. The agricultural boom driven by bumper harvests has been a big driver of export growth. This in turn has supported wage growth and the fall in inflation, with real wage growth, currently at around 4%, supporting consumption.

Brazil: real GDP trend



Sources: FRED, IMF, Crédit Agricole CIB

The agricultural boom driven by bumper harvests has been a big driver of export growth.

This resilience and the resulting positive output gap have been top of the mind for **Banco Central do Brasil** (BCB), which **was among the first in EM to start the easing cycle this year**. In the statement accompanying BCB's latest decision to reduce the target Selic rate by 50bp to 12.75%, policymakers indicated that "further reductions of the same magnitude in the next meetings" would support "the necessary contractionary monetary policy for the disinflationary process".

The increase in inflation to 5.0% YoY in the first half of September, from 4.2% YoY and 3.2% YoY in the two prior periods, **combined with the hawkish tone of the minutes accompanying the latest policy decision, have significantly lowered the odds of the BCB increasing the pace of easing**. We have thus revised our policy rate forecast, expecting the Selic to end 2023 at 11.75% (previously 11.25%) and 2024 at 9.25% (previously 8.25%). This would still leave monetary policy in a slightly restrictive mode as inflation converges towards the target band of 3% +/- 1.5ppt for 2024 and given BCB's estimate of the neutral rate at 4.5%.

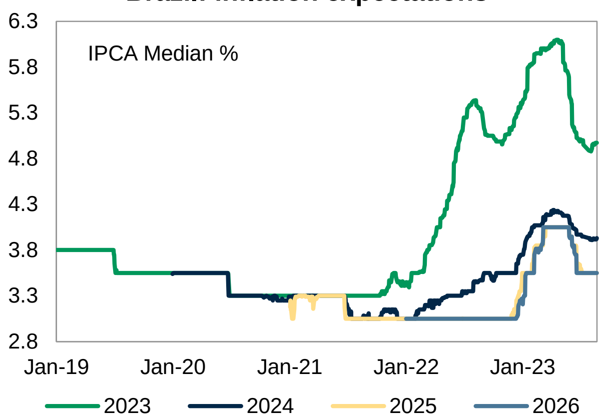
Annual change	2023	2024
GDP	3.0%	1.5%
Inflation	5.1%	4.0%

Fiscal: promises vs reality

Following the approval of the new fiscal rule by congress, the focus has shifted to the government's ability to deliver the targeted zero primary balance in 2024. While the government has presented multiple measures to balance the budget, the investment community continues to question their effectiveness and likelihood of approval in congress. Indeed, **the debt path based on the primary results extracted from the central bank's weekly focus survey suggests significant deterioration in public finances vs the more sustainable path implied based on the government's targets**.

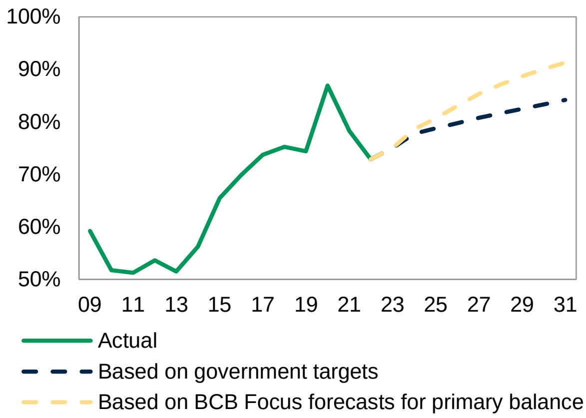
Olga YANGOL

Brazil: inflation expectations



Sources: BCB, Crédit Agricole CIB

Brazil: debt-to-GDP



Sources: BCB, Crédit Agricole CIB

INDIA: MARCHING FORWARD, BUT THE OLD DEMONS ARE NEVER FAR BEHIND

The tomato shortage that spread across India in July was yet another reminder that the country is extremely vulnerable to climate change and any resulting spike in food prices. As a large share of tomato crops were destroyed by heavy rain and pest attacks, the consumer price index, half of which consists of food, surged from 4.9% YoY in June to 7.4% in July.

Consumer spending will remain the biggest source of growth.

In August, calm was restored to the tomato market, but fears persist over other crops, eg, onions, wheat and rice. Therein lies the paradox of India, host to the G20 summit in September; for the occasion Delhi was emptied and cleared of its most visible signs of poverty.

Strong growth still driven by demand

India's growth is on track to continue. After 6.7% in 2022, it is expected to ease to around 6% in 2023. Come what may, in the numbers comparison game with China, India is expected to hold on to its lead. However, inflationary pressures will hamper Q3 growth despite the government's measures to freeze certain prices, and inflation is forecast to end the year at around 5.8%. Nonetheless, consumer spending will remain the biggest source of growth. For example, car and motorcycle sales, which are a bellwether for Indian demand, continue to post double-digit growth.

In foreign trade, like most Asian countries, India is seeing an adjustment in its trade balance connected with the slowdown in global demand. Exports, which rang up at USD405bn over twelve months in August, remain higher than pre-pandemic levels (averaging USD325bn over twelve months), as are imports (USD660bn over twelve months vs USD400bn pre-Covid), boosted by energy prices. This is keeping India's trade deficit above USD250bn, although it has narrowed slightly in recent months due to declining oil prices.

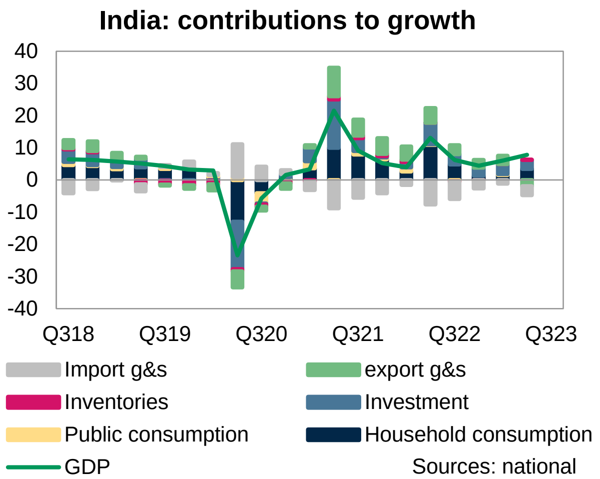
Annual change	2023	2024
GDP	6.1%	5.8%
Inflation	5.8%	4.0%

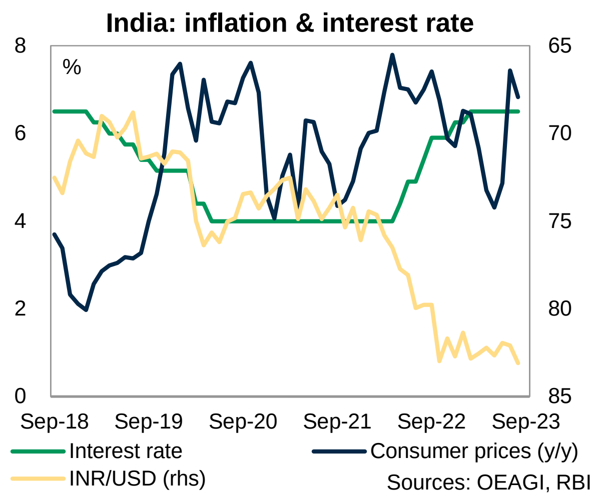
What can we expect from the policy mix?

After a period of depreciation in 2021 and 2022, due primarily to the USD's appreciation against all other currencies, USD/INR stabilised at around 83 – despite rising inflation this summer. To keep from penalising activity in the face of essentially cyclical inflation that had no impact on the exchange rate, **the Reserve Bank of India decided to hold its key interest rate at 6.5%.** We do not expect a return to a more accommodative monetary policy before end-Q124.

Meanwhile, the target 2023-24 budget has a deficit of 5.9% of GDP, slightly lower than the previous fiscal year's 6.4%. With defence and transport growth as focal points, it is not time to cut spending just yet: the next round of legislative elections is slated for the spring of 2024.

Sophie WIEVIORKA





SECTORS

Oil – The wait is over, and prices leave their sting

Gas – A second year of moderation

Oil – The wait is over, and prices leave their sting

Saudi Arabia's latest production cutback was the driving force behind this summer's high oil prices. With no competing suppliers, OPEC+ remains in control.

Saudi Arabia's unilateral decision to cut its production by an additional 1m bpd starting in July had a big impact on oil prices. Generally, Saudi production increases during the summer to meet the seasonal uptick in demand of up to 500k bpd from Saudi thermal power stations. So this summer, the market was left 1.5m bl short, sending a shock through the demand market and driving prices up steeply (+24% between June and September for Brent crude). This is a win from a budget standpoint (the 10% production cut was offset by a 24% oil price increase), so it is no surprise that Saudi Arabia is extending this cut until year-end.

> *In the short term, Russia's announcement that it is cutting back on petroleum product exports could exacerbate the inflationary pressures of cracks on prices at the pump*

The US has not been able to make up for the OPEC+ production cuts, handing control of the oil market over to Saudi Arabia and its main ally, Russia. The US has stopped drawing on its strategic reserves, which had relieved market pressure at a rate of 800k bpd in the summer of 2022. Fracking in the southern US has lost the momentum it had in 2014-19. Today, annual growth in crude oil production in the Permian Basin is only a third of what it was in 2018.

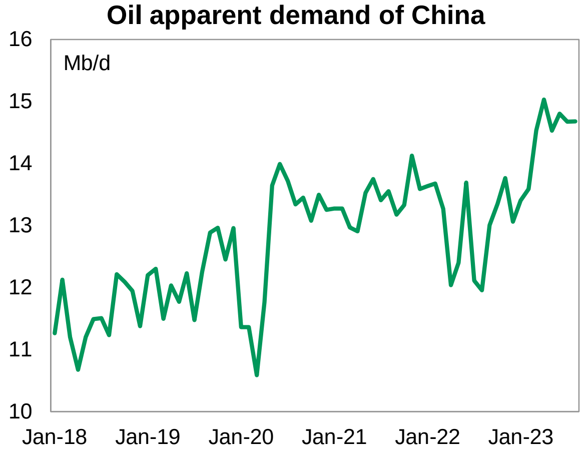
Our scenario for 2024 is based on an increase in Saudi production of 1m bpd and slow growth in US oil production, which should just about meet the projected increase in demand of 1m bpd. This means the market will stay tight in 2024, with oil prices close to where they are now. The increase in cracks (ie, the difference between petroleum product prices on leaving refineries and oil prices on arrival at refineries) since the start of H223 could persist throughout this year and into 2024.

In the short term, Russia's announcement that it is cutting back on petroleum product exports could exacerbate the inflationary pressures of cracks on prices at the pump. **Our scenario puts average oil prices at USD95/bl for 2024.** However, this USD10/bl jump in oil prices from 2023 to 2024 could go higher if Saudi cuts are repeated or if supply dwindles further.

	Average oil price (barrel)
H323	USD 86
2023	USD 95

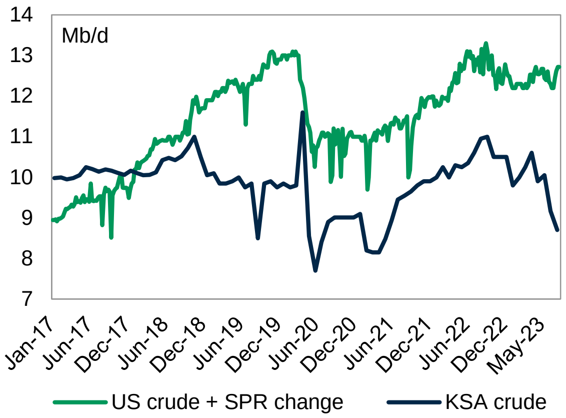
Stéphane FERDRIN

Oil apparent demand of China



Source: Crédit Agricole SA/ ECO

Crude oil production



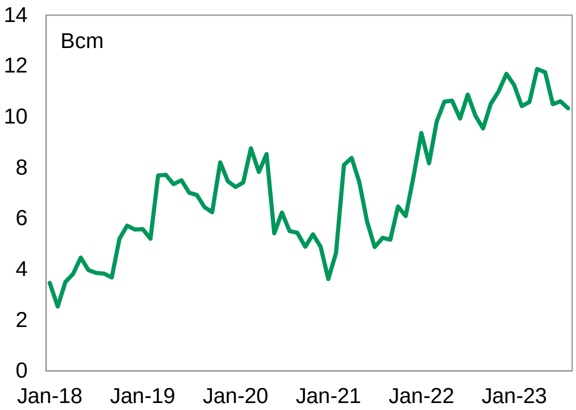
Sources: EIA, Crédit Agricole SA/ECO

Gas – A second year of moderation

The second winter after the abrupt cut-off of Russian natural gas to Europe may very well look like the first – provided the weather stays mild.

Europe is about to spend its second winter without Gazprom's natural gas, but this second winter is less of a concern. Last winter showed us that, in mild weather, moderating natural gas consumption allowed the global natural gas market to return to equilibrium despite having to do without most of Russia's gas exports.

EU gross LNG imports



Source: Crédit Agricole S.A.

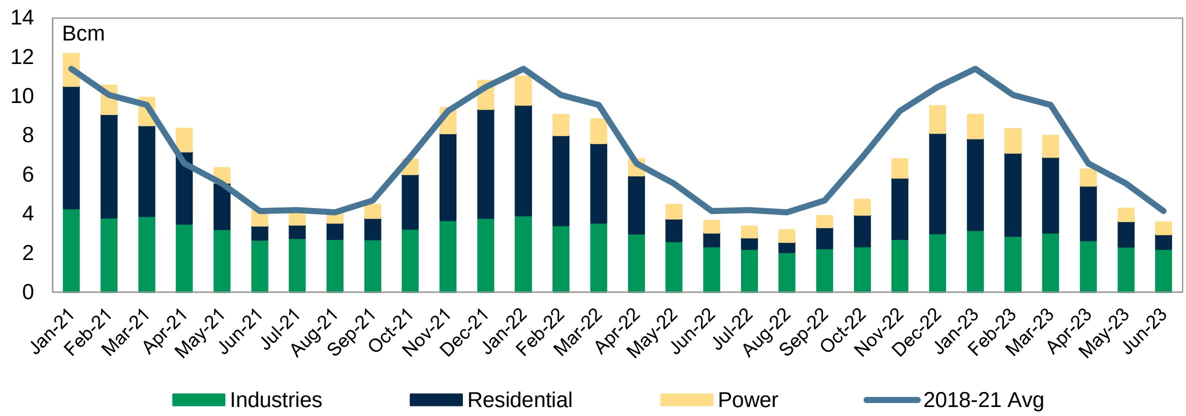
Despite a slight recovery in liquefied natural gas (LNG) imports in Asia, **the EU kept its LNG imports up this summer with an average 10.5bcm imported each month,** almost as much as last winter. Europe benefited from efficient use of renewable energies and a greater availability of France's nuclear reactors and hydropower plants, reducing the pressure on natural gas power plants this summer compared to last. With industrial activity in the high natural gas-consuming sectors (refineries, petrochemicals and fertilisers) staying flat, manufacturing is still consuming less than historic levels.

If this winter is harsher than last, it could drive up prices for the natural gas needed to reroute LNG from Asia to Europe.

The EU is leveraging LNG imports and lower consumption to build its underground natural gas inventories back up to 90% of their capacity, almost two months earlier than last year. While good inventory levels are reassuring, moderation will have to be the rule all winter long. If this winter is harsher than last, it could drive up prices for the natural gas needed to reroute LNG from Asia to Europe. Asia is expected to take a back seat to Europe if those prices start to spike. Over the first two months of the year, even with natural gas prices lower than last year, India and China continued to prioritise their coal-fired plants for their power generation. **Logically, then, the arguments for coal should hold up in Asia this winter and through the end of 2024.**

Stéphane FERDRIN

Germany: gas demand



Sources: Bundesnetzagentur, Destatis, Crédit Agricole SA/ECO

MARKETS

Monetary policy – Whatever you do, don’t let down your guard

Interest rates – Downside scenarios: from probable to premature

Exchange rates – The dollar just keeps on shining

Monetary policy – Whatever you do, don't let down your guard

In the wake of massive monetary tightening, even though their inflation targets are still some way off, central banks have opted to hit pause. Barring an unpleasant inflation surprise that necessitates further tightening, we expect this pause to continue and key rates to remain high.

FEDERAL RESERVE: HIGHER FOR LONGER

The Fed hit the pause button for a second time this year at the September FOMC, keeping the target range unchanged at 5.25-5.50%. With this decision well-telegraphed ahead of the meeting, the more notable development was the updated dot plot, which came in more hawkish than expected. Here, the 2023 median was maintained at 5.625%, suggesting one more hike in Q423, while the 2024 and 2025 medians were revised higher, with the new 2024 median coming in at 5.125% to suggest just 50bp of cuts next year as opposed to 100bp in the June dot plot.

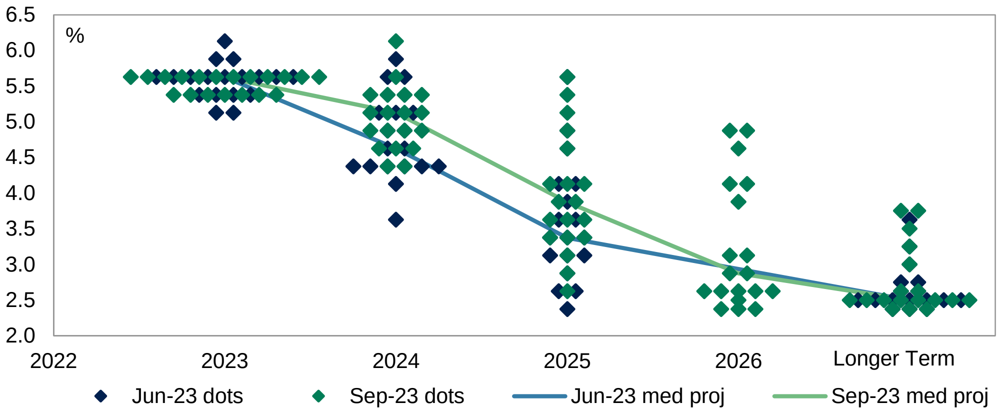
The dot plot contains an element of signalling, in which the Fed stays deliberately hawkish so as to prevent an unwanted easing of financial conditions.

Clearly, the Fed is emphasising a 'higher for longer' stance with this dot plot, and we concur that rates will remain elevated for a while. That said, we remain sceptical that the last hike indicated by the dot plot in 2023 will be realised. For one, we continue to believe that the dot plot contains an element of signalling, in which the Fed stays deliberately hawkish so as to prevent an unwanted easing of financial conditions that would make its job more difficult. Additionally, we see the Fed's updated economic forecasts, which indicate a high degree of confidence in a soft landing and minimal pain for the labour market, as overly optimistic.

Consequently, we believe that a sharper slowdown beginning at some point in Q423 will keep the Fed on hold for the remainder of this year, and maintain our base case for an extended pause that lasts well into 2024. With both headline and core inflation dipping below 3% by Q224, we then see the Fed's first cut arriving in June 2024, almost a year after the last hike, followed by additional 25bp cuts in September and December to leave the upper bound at 4.75% at end-2024. That said, risks continue to tilt towards a more hawkish path, meaning that an additional hike in Q423 cannot be ruled out, and that the first cut may not arrive until after June 2024.

Nicholas VAN NESS

September dot plot emphasizes 'higher for longer' stance



Sources: Federal Reserve, Crédit Agricole CIB

EUROPEAN CENTRAL BANK: THE END OF THE BEGINNING

The ECB has fought a large part of its inflation battle. Not only is the central bank now clearly in restrictive territory after raising interest rates by a total of 450bp in just over a year, but its monetary tightening is also (finally) starting to bite in the Eurozone.

As such, we expect the ECB to hold rates at their current levels (4.00% for the deposit facility rate, 4.50% for the refinancing rate and 4.75% for the marginal lending facility) **for the coming months.** Another hike is not out of the question if inflation proves sticker than anticipated, especially in the medium term. Indeed, although inflation is expected to come down rapidly over the coming months (to 5% by the end of the summer and 3% by the end of the year), it could then get stuck above 2% and push the ECB to tighten further.

In any case, the ECB is expected to keep rates high at least until the end of summer 2024. Starting in September 2024, when medium-term inflation (over the next 15-18 months) is estimated to be around 2%, the ECB will then be able to gradually start cutting rates and move closer to its neutral rate (which we estimate to be around 2.5%).

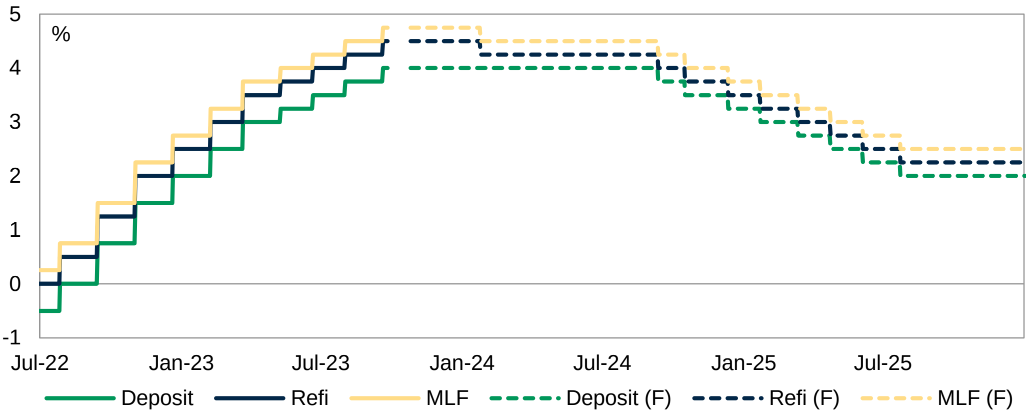
> ***The ECB has now fought a large part of its inflation battle***

Other monetary policy tools are expected to have a limited impact on the extent of monetary tightening. Although TLTRO repayments significantly reduce the liquidity surplus, they have not caused any particular tension for the banking system, while the very gradual reduction in QE has had little impact on sovereign yields.

As a result, the ECB could decide to speed up its quantitative tightening, by stopping reinvesting maturing principal payments purchased under the PEPP in early 2024. This contrasts with its current guidance, in which it says it intends to continue reinvesting until the end of 2024.

Louis HARREAU

ECB rates



Sources: ECB, Crédit Agricole CIB

BANK OF ENGLAND: ARE WE AT THE TOP OF THE CYCLE?

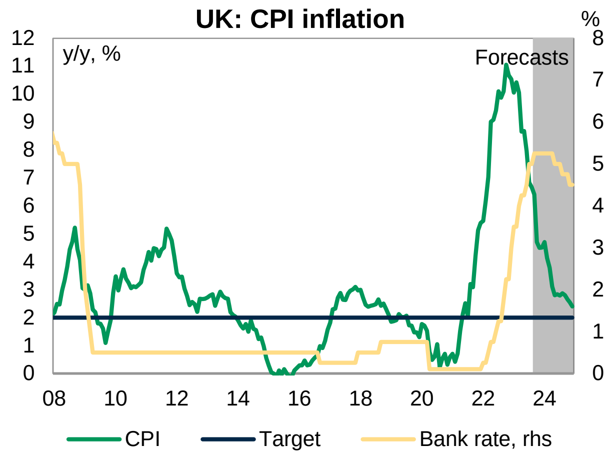
The BoE has paused its hiking since our last scenario in July. After surprising the markets with a 50bp increase in June, the BoE slowed to a 25bp hike in August, bringing the Bank rate to 5.25%, before holding in September. These decisions were largely dictated by the short-term economic data flow, especially the large surprises in inflation. However, **in September, we witnessed a significant shift in the BoE's reaction function**. A majority of Monetary Policy Committee members appeared to pay greater attention to the real economy. The BoE indicated that "the decision on whether to increase or to maintain the Bank Rate at this meeting had become more finely balanced between the risks of not tightening policy enough when underlying inflationary pressures could still prove persistent, and not placing sufficient weight on the impact of the previous tightening that was still to come through on activity and inflation". In particular, the MPC meeting minutes highlighted the weakness in the property sector and, more generally, in business surveys. This suggests that the central bank is probably paying more attention to the signs of economic weakening than we thought previously.

So, to quote BoE Governor Andrew Bailey, are we "much nearer now to the top of the cycle" or at the top? The BoE's forward guidance was left unchanged, stating that "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures". The BoE still believes that there is an upside risk to its inflation outlook, but that this risk has eased since May. Specifically, household consumption indicators are holding up well, and real incomes have started to rise again. The labour market remains tight and wage growth surprised to the upside. Core inflation could still have some unpleasant surprises in store. A further rate hike at November's meeting is still on the table, but now less likely.

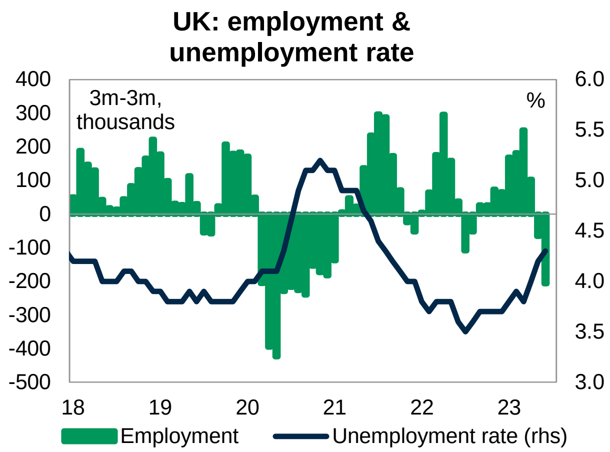
The BoE still believes that there is an upside risk to its inflation outlook, but that this risk has eased since May.

Our central scenario is compatible with rates remaining unchanged over the coming months. It is based on inflation falling rapidly over that time period, with CPI reaching 4.5% in December 2023 (5.3% for core CPI) and 2.5% at end-2024 (2.8% for core CPI). We have also reduced our growth forecasts and are pricing in a mild recession in H223, with the unemployment rate rising more quickly than previously anticipated (to 4.7% by the end of the year, a level above the long-term equilibrium rate of unemployment and consistent with spare capacity being opened up in the economy). **Our scenario argues for an earlier initial rate cut than three months ago.** We now think the BoE will start cutting rates in Q224 (Q324 in our previous scenario).

Slavena NAZAROVA



Sources: ONS, BoE, Crédit Agricole SA



Sources: ONS, Crédit Agricole S.A.

BANK OF JAPAN: NO TIGHTENING IN 2023 OR 2024

BoJ not expected to tighten in 2023 or 2024

Markets continue to speculate as to whether Japan's central bank will adjust its policy over the coming months, in particular as inflation runs above the BoJ's 2% target. However, a possible global economic slowdown, with structural deflationary pressures remaining, and the government maintaining its commitment to the Abenomics policy framework, should keep the BoJ from moving in 2023 or 2024.

The BoJ maintains the view that "there are extremely high uncertainties surrounding Japan's economic activity and prices, including developments in overseas economic activity and prices, developments in commodity prices, and domestic firms' wage- and price-setting behavior". Furthermore, the BoJ is still of the view that it cannot foresee inflation running at the 2% target accompanied by wage growth.

The central bank seems to be maintaining the stance that the risk of inflation not reaching 2% due to premature tightening is greater than the risk of inflation remaining above 2% as a result of the BoJ not tightening, especially as the government moves to implement an additional round of economic stimulus by year-end.

The BoJ aims to create an environment where it can foresee 2% inflation in a stable manner within two years

We believe that under Governor Kazuo Ueda, the BoJ aims to create an environment where it can foresee the 2% inflation target being met within two years, ie, in April 2025. Thus, unless inflation driven by wage growth picks up at a much faster pace than now, the BoJ will likely continue with the current monetary easing policies until 2025.

The BoJ's policy strategy seems to be that it is ready to be one cycle behind other central banks in tightening its monetary policy in order to make certain that (1) Japan's economy fully exits from deflation and (2) an inflationary environment driven by sustained wage increases and a strong recovery of domestic demand materialises.

The central bank seems to be aiming to achieve the 2% inflation target by the time the global economic recovery materialises in a few years' time. We expect the BoJ to start normalising monetary policy only after it forecasts inflation to reach 2% in FY26 and FY27 in the April 2025 Outlook report.

The BoJ's policy strategy seems to be that it is ready to be one cycle behind other central banks in tightening its monetary policy.

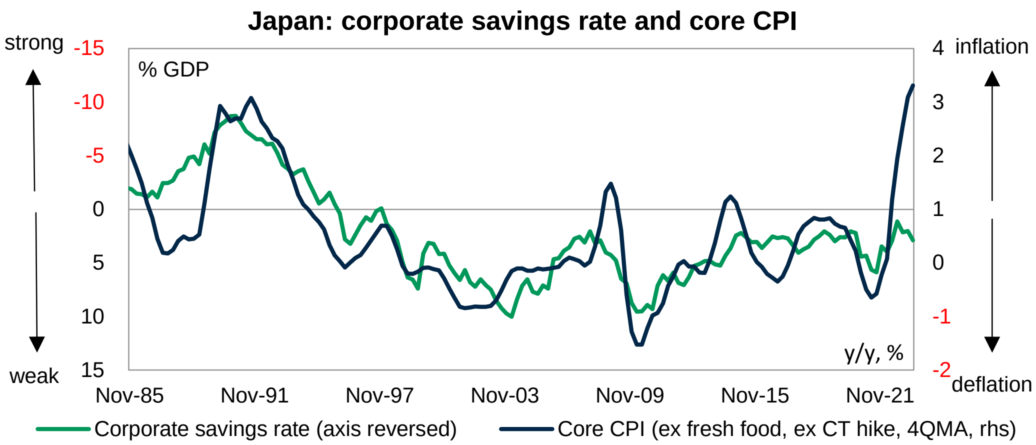
If by April 2025, the BoJ cannot foresee achieving the 2% inflation target, the BoJ will likely consider implementing a new framework that will allow the central bank to continue with monetary easing while minimising any side effects, taking into account the result of the latest announced review. Thus, we expect the YCC framework to be adjusted in some form in two years' time, regardless of the inflation outcome.

Whether YCC will be adjusted will depend on whether upward pressure on global bond yields strengthens

Our main scenario continues to be that if the US economy slows down, (1) the Fed will stop raising interest rates over the coming months (our US economist expects no more rate increases by the Fed); and (2) financial markets will price possible interest rate cuts in 2024. In such a scenario, we expect further upward pressure on global bond yields to be limited. Once markets start pricing in a possible economic slowdown and policy rate cuts by key central banks, downward pressure on global bond yields will likely give the BoJ room to maintain the current YCC policies.

We see a risk scenario if the US economy is stronger than expected and markets stop expecting the Fed to cut rates, stronger upward pressure on bond yields could force the BoJ to adjust YCC before 2025.

Arata OTO – Takuji AIDA



Sources: Cabinet Office, BoJ, MIAC, CA CIB

Interest rates – Downside scenarios: from probable to premature

Stubborn inflation, resistant growth and resolute monetary tightening have naturally caused bond yields to surge. Although a downside scenario is starting to take shape in the US, it seems premature in the Eurozone, where the ECB may attempt to reduce its balance sheet more quickly.

USA: GETTING INTO RESTRICTIVE TERRITORY

Rates have been higher on surprisingly resilient growth, potentially higher YoY headline CPI and a hawkish Fed. Treasury yields are at new highs, with the 10Y at levels not seen since 2007, looking attractive on a historical basis. Market volatility has been high lately, driven by the Fed's data dependency and its desire to keep rates higher for longer. Treasury term premium, which was depressed only two months ago, has surged with rising yields (see Chart 1).

The FOMC sees the current stance of rates policy as restrictive, and risks are now more two-sided, ie, the risk of over- and under-tightening has become more equal, according to Chair Jerome Powell at the September FOMC meeting press conference. This assessment comes after the rapid rise in Treasury and real yields over the past few months, with all benchmark real yields now at 2.15% and higher (see Chart 2).

The latest Fed surprise was an upward migration of the 2024 median dot by 50bp to 5.125% from 4.625% in the dot plot. Although some market participants had expected a 25bp bump, others had pencilled in no increase. The new 2024 median signals 50bp easing instead of 100bp in the June dots. We believe the Fed intends to emphasise that rate cuts would not be imminent but would be more gradual in 2024 if they are warranted, given resilient growth and sticky inflation.

The recent uptick in oil prices could be a wild card in the inflation outlook, presenting a challenge to central banks, as the pass-through effect from headline to core remains far from clear. Front-end inflation breakevens tend to outperform on rising energy prices. At the same time, a flat or inverted inflation breakeven curve is often associated with policy tightening.

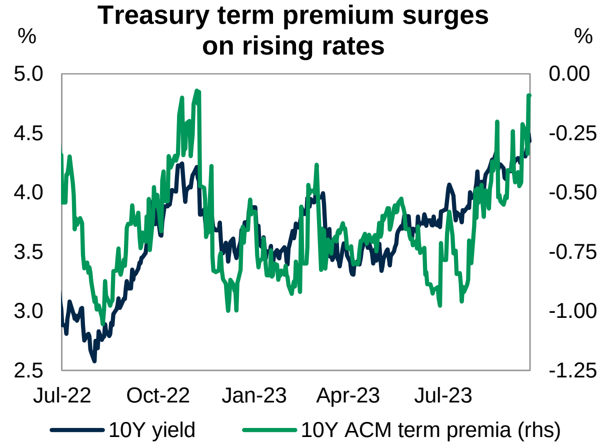
In addition to high oil prices, the rates market faces a few hurdles over the coming months.

In addition to high oil prices, the rates market faces a few hurdles over the coming months, such as (1) the resumption of student loan payments in October, which poses a headwind to consumption; (2) a possible government shutdown, absent a budget agreement for fiscal year 2024; and (3) the United Auto Workers (UAW) strike. The events make a bad cocktail for the economy, which could put downward pressure on rates. As a result, we expect Treasury yields to grind lower in the months ahead, with a 4.00% 10Y rate as our year-end target. Historically attractive rate levels have prompted real money investors to get long, evident in the CFTC Commitment of Traders report, with record net longs among asset managers.

We do not expect any rate cuts to materialise until Q224, even in the event of a mild recession, as inflation should remain too high for the Fed's comfort given the gradual decline that we expect. With around 80bp of easing priced in for 2024, we expect the yield curve to be range bound near term. In 2024, we expect the curve to steepen gradually as the Fed starts easing, with 2-10Y moving towards -25bp at year-end in our forecast.

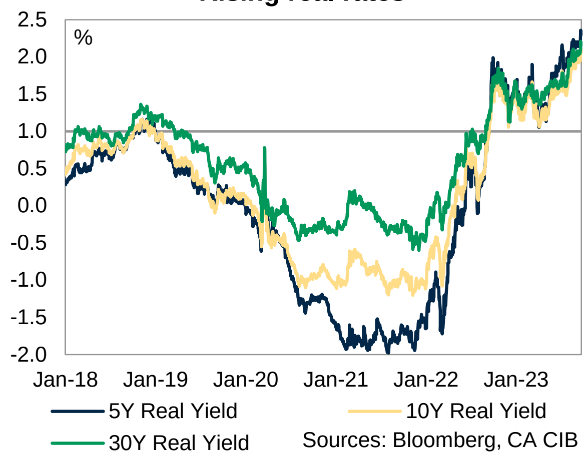
Alex LI

Treasury term premium surges on rising rates



Sources: Bloomberg, Crédit Agricole CIB

Rising real rates



Sources: Bloomberg, CA CIB

EUROPE: TARGETS ACHIEVED

Our long-held conviction that the EUR curve would have to bear flatten, and in the process become highly inverted around current levels, has come to fruition. **Given the nature and extent of the ongoing inflation overshoot, the ECB has had little choice but to increase policy rates to 4%**, an all-time high, and at the same time forge ahead in reducing its bloated balance sheet.

Worth highlighting, again, is that the primacy of central banks is their inflation targets, and these must be abided subject to well-functioning capital markets. So its stands that the outsized inflation overshoot requires an outsized policy response. But will it be enough? On this matter, only time will tell, but financial markets are not signalling that policy is exceedingly tight. Credit markets and real yields show that, relative to inflation expectations, and above all, nominal growth, funding rates are not exceedingly constraining.

To us, this implies it is not yet time to become bullish on EGB markets, as many risks lie ahead and the ECB is not finished tightening policy. Although inflation will be falling, the next phase for the ECB should focus on more balance sheet reduction. TLTRO paybacks have achieved some of this already, but the ECB still has an enormous balance sheet of purchased fixed income assets. The figure on the left compares the Fed's SOMA account wind-down, of about USD95bn per month, with the ECB's APP wind-down of about EUR25bn per month. Given that this is the maximum pace of QT without proceeding with sales, inclusion of the PEPP seems the next step.

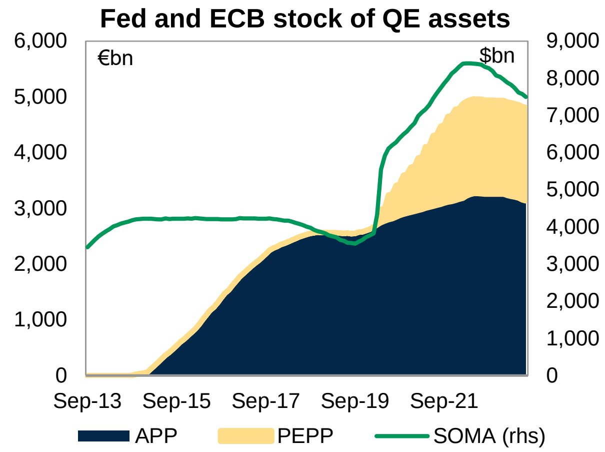
In our view, **QT does not lead to sustainable curve steepening but should help tighten financial conditions** with higher real yields and some widening of spreads as excess liquidity is reduced. A faster pace of QT, to be announced in the coming months, should signal that the tightening cycle continues, while we wait for inflation to drop. Higher real yields and fiscal slippage as growth slows to a crawl should be headwinds to periphery bonds markets and above all BTPs.

If we compare our 10Y EGB forecast for this quarter with the outturn, the outperformer has been BTPs (see figure on right). Technical factors driving this performance have been increased demand for a variety of retail products, and lower rates volatility. In our view, the biggest driver has been high nominal growth (almost 10% in 2022) acting to improve debt metrics, so much lower real growth in unison with bigger deficits needs to be monitored as this might alarm some investors.

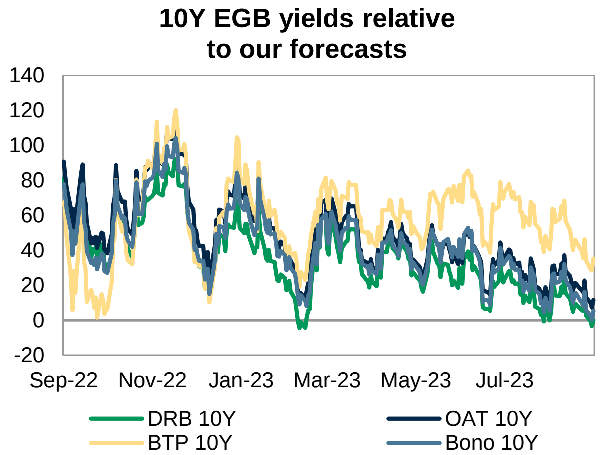
Lower real growth in unison with bigger deficits needs to be monitored as this might alarm some investors.

In sum, higher energy prices and lower growth may argue for more deficit spending, but this cocktail might be difficult to swallow. Though EGB yields have reached our targets, we need to find reasons to become constructive as a drop in activity and fall of inflation are not sufficient given how far we remain from the ECB's inflation target. Higher policy rates will take time to work through the economy by lowering credit demand, boosting savings and also biting through higher refinancing costs to the private sector as progress on the public sector deficits seems much more difficult under the current political backdrop.

Bert LOURENCO



Sources: Bloomberg, Crédit Agricole CIB



Sources: Bloomberg, Crédit Agricole CIB

Exchange rates – The dollar just keeps on shining

The dollar continues to shine. With the US economy holding up, the Fed determined to bring inflation under control, a favourable interest rate differential and episodes of risk aversion, the USD's short-term appeal is undeniable.

DEVELOPED COUNTRIES: THE USD IS SMILING, BUT CAN IT BE SUSTAINED?

The USD smile remains the dominant FX driver: the growing cyclical divergence between the resilient US economy and the rest of the world lends credibility to the Fed's hawkish policy stance and boosts the relative rate appeal of the USD. In addition, the rise of UST yields fuels risk aversion and thus safe-haven inflows into the currency. Many positives seem to be in the price of the USD, however, and a slowing US economy and peak Fed could slow down the currency rally and even push it into reverse in Q423. We remain cautious on EUR/USD ahead of a potentially tumultuous October when fears about the Eurozone periphery and market risk aversion may take its toll on the pair. Beyond that, however, we believe that EUR/USD could start recovering.

The USD smile remains the dominant FX driver so far this year: the growing cyclical divergence between the resilient US economy and the rest of the world lends credibility to the Fed's hawkish policy stance and boosts the relative rate appeal of the USD. In addition, the rise of UST yields and thus the tightening of global financial conditions fuel safe-haven inflows into the currency. The market risk-off tone is further aggravated by concerns about the impact of the Fed's QT and a US government shutdown on the outlook for US rates and yields.

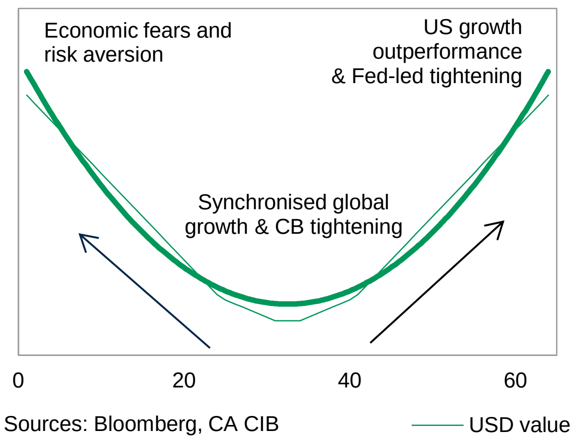
The latest EUR/USD sell-off may have pushed FX spot below its short-term fair value.

We expect the USD to remain supported as we head into Q423 but doubt that further significant appreciation is on the cards. For starters, we continue to think that both US economic activity and inflation would cool down in the coming months. This, coupled with the recent aggressive tightening of US financial and credit conditions should ultimately force the Fed to keep rates on hold at its November and December policy meetings. Our historic analysis of the FX price action in the wake of all Fed tightening cycles since 1973 would suggest that USD gains should become less pronounced vs commodity and risk-correlated currencies. The USD rally has even gone into reverse against the likes of other G10 majors like the EUR, CHF and JPY.

The EUR was among the hardest hit currencies during the latest resurgence of the high-yielding, safe-haven USD in Q323. The EUR sell-off was aggravated by a brutal unwinding of EUR longs, the repricing of ECB rate cuts in 2024 and a renewed widening of peripheral spreads to Bund yields. These developments reflected growing market fears about the impact of the intensifying Eurozone stagflation risks on the monetary policy and fiscal outlook. The announcement of the Italian and French 2024 budget plans as well as market positioning ahead of the 'lumpy' ECB EGB-redemptions in October have acted as catalysts as well.

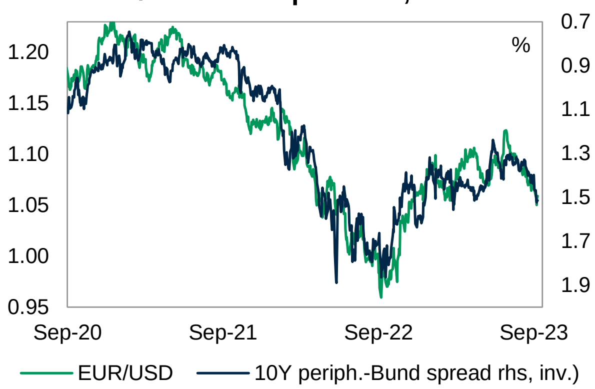
Looking ahead, we note that our valuation analysis suggests that the latest EUR/USD sell-off may have pushed FX spot below its short-term fair value. We estimate that value on the basis of fundamental drivers like EUR-USD rate spread and peripheral spreads to Bund yields. Furthermore, according to our ECB strategist, the rates markets are anticipating too-aggressive ECB easing in 2024 while our rates strategists believe that the current peripheral yield spreads are pricing in a lot of negatives already. We thus believe that the EUR/USD fair value could start

The USD smile



Sources: Bloomberg, CA CIB

Wide peripheral spreads could keep EUR/USD under pressure, for now



Sources: Bloomberg, Crédit Agricole CIB

moving higher in the coming months as market expectations adjust. In turn, this could help undervalued EUR/USD recover.

Based on the above analysis, **we remain cautious on the EUR/USD near-term outlook especially ahead of a potentially tumultuous month of October that could see persistent fears about the Eurozone periphery and market risk aversion take its toll on the pair.** Beyond that, however, we believe that EUR/USD could recover towards our year-end target of 1.08.

Valentin MARINOV

EMERGING COUNTRIES: DIFFERENTIATED TRAJECTORIES

Under our base-case scenario, the EMFX environment is supported by a handful of factors, which to some extent reflect the normalisation of the environment, after a few years marked by a succession of uncertainty factors (trade wars, Covid, China's slowdown and the inflation tsunami). The stabilisation of China's growth and continuing disinflation, in particular, may benefit the EM FX complex.

Watch China and US rates

Not only should the stabilisation of China's growth fuel an improvement of the overall EM risk perception, but it also contributes to supporting the CNY. We expect the CNY to stabilise close to its current level, and then to appreciate gradually into next year. Our target: USD/CNY at 7.20 in December and 7.05 in June. This, in turn, would relieve some pressure from other EM currencies, such as Asian currencies and commodity currencies.

The main risk to EMFX, in our view, relates to the possibility of US rates remaining high for longer

The impact of disinflation is more a double-edged one. On the one hand, it makes it possible to lower interest rates and lengthen the investment horizon, and, at the end of the day it should be supportive for economic growth. However, on the other hand, lower interest rates may also generate FX depreciation pressure on some markets, particularly as the Fed and the ECB do not intend to lower their own interest rates soon.

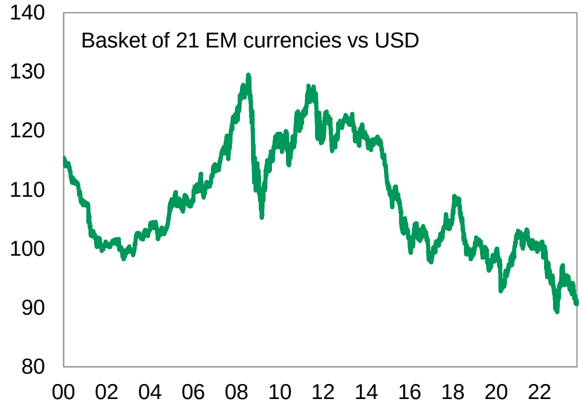
Differentiated trajectories

Currencies in Latin America, where central banks are expected to lower interest rates quite proactively, may underperform EM currencies, partly for that reason.

Central European central banks will also likely lower interest rates, but in a cautious way. Given that the market has already priced in significant monetary easing, the subsequent depreciation may be limited. The likes of the PLN, the HUF and to some extent the CZK, should also be supported by stronger trade balances compared with a few months ago.

Asian currencies should benefit from stronger balance sheets on average, and from the fact that they are hardly expected to lower interest rates in the coming month (not least because they have not tightened so much, so far this year).

EMFX vs USD



Sources: Bloomberg, Crédit Agricole CIB

The main risk to this EMFX view, in our view, relates to the possibility of US rates remaining higher for longer. The recent increase in some commodity prices (including oil and some food items), as well as the resilience of the US economic momentum, should it continue, may at some point support higher interest rate expectations. Should this risk materialise, Latin American currencies, as well as currencies of deficit countries, would likely suffer the most.

Sébastien BARBÉ

ECONOMIC AND FINANCIAL FORECASTS

ECONOMIC FORECASTS

	GDP (yoy, %)			Consumer price (yoy, %)			Current account (% of GDP)		
	2022	2023	2024	2022	2023	2024	2022	2023	2024
United States	**1.9**	**2.1**	**0.7**	**8.0**	**4.2**	**2.7**	**-3.8**	**-3.2**	**-3.0**
Japan	**1.0**	**2.0**	**1.2**	**1.1**	**3.9**	**1.9**	**1.7**	**2.0**	**1.3**
Eurozone	**3.4**	**0.5**	**0.9**	**8.4**	**5.6**	**3.0**	**1.2**	**2.1**	**1.9**
Germany	1.9	-0.4	0.5	8.7	6.1	2.9	4.0	3.9	3.3
France	2.5	0.9	1.0	5.9	5.8	3.1	-2.0	-0.5	0.1
Italy	3.8	0.7	0.6	8.7	6.1	2.7	-1.3	1.1	2.3
Spain	5.5	2.2	1.7	8.3	3.6	3.5	0.5	2.0	1.2
Netherlands	4.4	0.4	0.7	11.6	4.3	3.4	9.2	6.3	5.2
Belgium	3.2	0.9	1.0	10.3	2.3	2.5	-3.6	-0.9	-0.5
Other advanced									
United Kingdom	4.3	0.4	0.7	9.1	7.4	3.1	-3.1	-3.9	-4.5
Canada	3.3	1.1	0.9	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	2.9	-0.8	0.1	8.5	3.0	2.1	4.8	2.5	1.8
Norway	3.2	1.4	0.8	5.8	5.5	3.1	30.3	27.0	26.0
Asia	**4.2**	**4.9**	**4.6**	**3.5**	**2.4**	**2.5**	**1.4**	**1.1**	**1.0**
China	3.0	5.1	4.5	2.0	0.4	1.8	2.2	1.8	1.2
India	6.7	6.1	5.8	5.7	5.8	4.0	-2.6	-2.8	-2.5
South Korea	2.6	1.2	2.6	5.1	3.5	2.3	1.8	2.4	3.0
Indonesia	5.3	5.0	4.5	4.2	3.5	3.0	1.0	-1.2	-0.5
Taiwan	2.4	1.4	3.0	2.9	2.2	1.6	13.3	11.0	11.2
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	0.9	2.7	6.1	4.8	3.0	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	5.6	3.4	-4.4	-4.0	-2.0
Vietnam	8.0	5.2	6.4	3.2	4.0	3.0	0.2	1.6	2.0
Latin America	**3.0**	**0.6**	**1.9**	**9.9**	**5.9**	**3.4**	**-7.0**	**-3.4**	**-2.8**
Brazil	2.9	3.0	1.5	9.3	5.1	4.0	-2.9	-2.4	-2.5
Mexico	3.1	2.0	1.5	7.9	5.8	3.8	-1.8	-1.2	-1.0
Emerging Europe	**1.8**	**0.9**	**2.2**	**29.8**	**15.3**	**8.4**	**1.6**	**0.1**	**0.3**
Russia	-2.1	0.0	1.0	13.8	5.0	4.0	10.2	4.0	4.0
Turkey	5.4	2.5	3.5	73.0	36.0	20.0	-5.0	-4.0	-3.0
Poland	5.1	0.5	2.8	14.3	11.6	4.4	-3.0	0.8	-1.0
Czech Republic	2.4	0.2	2.1	15.0	11.0	2.7	-6.1	-2.2	-0.7
Romania	4.8	2.0	3.5	13.8	10.5	5.1	-9.3	-7.2	-6.5
Hungary	4.6	0.5	2.3	14.6	17.8	4.5	-8.2	-4.6	-3.5
Africa, Middle East	**4.9**	**2.0**	**2.9**	**13.2**	**15.9**	**10.5**	**7.3**	**4.0**	**2.9**
Saudi Arabia	8.7	1.0	3.0	2.5	2.2	2.1	13.6	6.3	5.2
United Arab Emirates	7.3	2.9	3.7	4.6	3.2	2.5	17.0	12.5	11.2
South Africa	2.0	0.5	1.8	6.9	5.8	4.8	-0.5	-1.2	-1.8
Egypt	4.1	3.6	4.2	13.8	33.1	21.5	-3.5	-2.7	-2.5
Algeria	3.2	2.7	2.3	9.7	7.9	6.2	6.3	2.4	0.5
Qatar	4.8	2.5	2.5	5.0	3.0	2.2	25.9	15.1	12.1
Koweit	8.0	1.1	2.5	4.0	2.9	2.3	29.0	19.0	15.0
Morocco	1.3	2.7	3.0	6.7	5.8	3.0	-3.8	-2.6	-2.6
Tunisia	2.5	1.7	2.5	8.3	9.1	5.9	-8.6	-6.9	-6.0
Total	**3.3**	**2.6**	**2.5**	**8.1**	**5.4**	**3.6**	**0.3**	**0.3**	**0.2**
Advanced economies	**2.6**	**1.4**	**0.9**	**7.3**	**4.8**	**2.7**	**-0.8**	**-0.4**	**-0.5**
Emerging countries	**3.8**	**3.6**	**3.9**	**8.8**	**6.0**	**4.2**	**1.2**	**0.8**	**0.7**

	2022				2023				2024			
Real GDP growth, QoQ %	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
USA (annualised)	-2.0	-0.6	2.7	2.6	2.2	2.1	3.5	-0.8	-1.2	1.4	1.7	2.0
Japan	-0.6	1.3	-0.3	0.1	0.8	1.2	0.1	0.3	0.2	0.2	0.3	0.5
Eurozone	0.6	0.8	0.3	-0.1	0.1	0.1	0.0	0.0	0.3	0.4	0.4	0.4
Germany	1.0	-0.1	0.4	-0.4	-0.1	0.0	-0.2	-0.2	0.2	0.3	0.5	0.5
France	-0.1	0.4	0.3	0.1	0.0	0.5	0.1	0.2	0.2	0.3	0.4	0.4
Italy	0.1	1.2	0.3	-0.2	0.6	-0.4	0.1	0.1	0.0	0.4	0.5	0.5
Spain	-0.6	2.8	0.4	0.4	0.5	0.4	0.2	0.3	0.5	0.6	0.4	0.3
United Kingdom	0.5	0.1	-0.1	0.1	0.3	0.2	-0.2	-0.1	0.3	0.3	0.4	0.4

	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	4.1	3.6	3.4	3.1	2.8	2.5	2.4
Japan	-0.9	0.9	1.5	2.8	3.5	4.2	4.2	3.8	3.0	2.0	1.4	1.2
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	10.2	8.4	6.6	4.6	4.2	2.9	2.8	2.5

	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	3.5	3.5	3.8	4.1	4.3	4.5	4.4	4.4
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	6.7	6.6	6.8	6.9	6.9	6.9	6.9	7.0
Germany	3.1	3.0	3.1	3.1	3.0	2.9	3.2	3.4	3.5	3.6	3.7	3.7
France	7.4	7.5	7.2	7.2	7.1	7.3	7.3	7.5	7.5	7.7	7.7	7.8
Italy	8.4	8.1	8.0	7.9	7.9	7.7	7.8	7.8	7.9	7.9	8.0	8.0
Spain	13.2	12.8	12.8	13.0	12.8	11.9	12.0	12.4	12.2	11.9	11.4	11.7
United Kingdom	3.8	3.6	3.7	3.7	3.8	4.3	4.5	4.7	4.7	4.6	4.5	4.4

	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	3.4	4.3	1.3	2.9	7.1	8.0	-0.1	0.9
2023	0.5	0.4	0.0	1.1	0.1	-0.5	0.3	0.6
2024	0.9	1.1	0.8	1.1	1.0	1.3	-0.1	0.6
Q3 2023	*0.0*	*0.1*	*0.2*	*0.2*	*-0.2*	*0.1*	*-0.1*	*0.7*
Q4 2023	*0.0*	*0.2*	*0.3*	*0.1*	*-0.1*	*0.1*	*-0.1*	*0.7*
Q1 2024	*0.3*	*0.3*	*0.2*	*0.3*	*0.3*	*0.2*	*0.1*	*0.6*
Q2 2024	*0.4*	*0.4*	*0.2*	*0.4*	*0.7*	*0.6*	*0.1*	*0.6*
Germany								
2022	1.9	3.9	1.6	0.2	3.4	6.8	-1.3	0.7
2023	-0.4	-0.5	-2.5	1.0	-0.8	-0.9	0.1	0.1
2024	0.5	1.1	1.0	0.9	0.4	1.5	-0.5	0.0
Q3 2023	*-0.2*	*0.1*	*0.1*	*0.0*	*-0.4*	*0.4*	*-0.4*	*0.1*
Q4 2023	*-0.2*	*0.3*	*0.3*	*0.0*	*-0.4*	*0.4*	*-0.4*	*0.0*
Q1 2024	*0.2*	*0.3*	*0.3*	*0.2*	*0.4*	*0.4*	*0.0*	*-0.1*
Q2 2024	*0.3*	*0.3*	*0.3*	*0.4*	*0.5*	*0.4*	*0.1*	*-0.1*
France								
2022	2.5	2.2	2.6	2.3	7.4	8.8	-0.6	0.8
2023	0.9	-0.1	0.5	0.9	2.4	0.4	0.6	-0.1
2024	1.0	1.1	0.4	0.0	2.7	1.9	0.2	-0.1
Q3 2023	*0.1*	*0.3*	*0.0*	*-0.2*	*0.5*	*0.5*	*0.0*	*0.0*
Q4 2023	*0.2*	*0.3*	*0.1*	*-0.2*	*0.8*	*0.5*	*0.1*	*-0.1*
Q1 2024	*0.2*	*0.3*	*0.1*	*0.0*	*0.5*	*0.3*	*0.1*	*-0.1*
Q2 2024	*0.3*	*0.4*	*0.1*	*0.1*	*0.5*	*0.4*	*0.0*	*0.0*
Italy								
2022	3.8	4.6	0.0	9.7	10.2	12.5	-0.5	-0.4
2023	0.7	1.3	0.4	0.1	0.0	-1.5	0.5	-0.6
2024	0.6	1.2	0.2	-0.2	-0.1	-0.1	0.0	-0.1
Q3 2023	*0.1*	*0.2*	*0.5*	*0.0*	*-0.9*	*-1.2*	*0.1*	*-0.2*
Q4 2023	*0.1*	*0.2*	*0.5*	*0.0*	*-0.8*	*-0.7*	*0.0*	*-0.1*
Q1 2024	*0.0*	*0.2*	*0.1*	*-0.3*	*0.2*	*0.2*	*0.0*	*-0.1*
Q2 2024	*0.4*	*0.4*	*-0.1*	*0.2*	*0.5*	*0.5*	*0.0*	*0.1*
Spain								
2022	5.5	4.4	-0.7	4.6	14.4	7.9	2.3	-0.2
2023	2.2	0.4	2.0	3.4	3.3	1.2	0.9	0.1
2024	1.7	1.7	1.2	4.8	1.3	2.6	-0.4	0.0
Q3 2023	*0.2*	*0.1*	*0.3*	*0.5*	*0.4*	*0.8*	*-0.1*	*0.1*
Q4 2023	*0.3*	*0.2*	*0.3*	*1.0*	*0.4*	*0.7*	*-0.1*	*0.0*
Q1 2024	*0.5*	*0.3*	*0.2*	*1.3*	*0.8*	*0.8*	*0.0*	*0.0*
Q2 2024	*0.6*	*0.5*	*0.2*	*1.0*	*0.8*	*0.7*	*0.1*	*0.0*
Portugal								
2022	6.7	5.8	1.7	3.1	16.6	11.1	2.0	-0.1
2023	2.4	1.2	0.9	0.6	5.9	1.9	1.9	-0.2
2024	1.5	1.2	0.9	3.9	1.7	2.5	-0.4	0.0
Q3 2023	*0.4*	*0.2*	*0.4*	*0.5*	*0.4*	*0.7*	*-0.1*	*0.0*
Q4 2023	*0.2*	*0.1*	*0.5*	*1.0*	*0.6*	*0.8*	*-0.1*	*0.0*
Q1 2024	*0.4*	*0.3*	*0.1*	*1.0*	*0.9*	*1.0*	*0.0*	*0.0*
Q2 2024	*0.5*	*0.5*	*0.1*	*1.5*	*0.6*	*0.8*	*-0.1*	*0.0*
Netherlands								
2022	4.4	6.5	1.6	1.8	4.6	4.0	1.1	-0.2
2023	0.4	0.3	2.3	4.8	0.6	1.7	-0.8	-0.5
2024	0.7	0.4	0.9	0.9	0.9	1.2	-0.1	0.2
Q3 2023	*0.0*	*-0.1*	*0.2*	*-0.1*	*0.1*	*0.1*	*0.0*	*0.0*
Q4 2023	*0.1*	*0.1*	*0.2*	*0.0*	*0.1*	*0.1*	*0.0*	*0.0*
Q1 2024	*0.2*	*0.3*	*0.2*	*0.2*	*0.2*	*0.2*	*0.0*	*0.0*
Q2 2024	*0.3*	*0.3*	*0.2*	*0.3*	*0.4*	*0.4*	*0.0*	*0.0*
United Kingdom								
2022	4.3	4.9	0.1	6.7	9.9	14.1	-1.4	0.9
2023	0.4	1.0	2.7	5.6	-4.7	-0.9	-1.1	-1.1
2024	0.7	1.4	1.6	2.2	0.6	2.8	-0.7	-0.1
Q3 2023	*-0.2*	*0.6*	*0.4*	*1.5*	*-1.0*	*0.2*	*-0.4*	*0.0*
Q4 2023	*-0.1*	*0.3*	*0.4*	*-0.5*	*-1.0*	*0.0*	*-0.3*	*0.0*
Q1 2024	*0.3*	*0.3*	*0.2*	*0.5*	*1.0*	*0.8*	*0.0*	*0.0*
Q2 2024	*0.3*	*0.3*	*0.2*	*0.5*	*1.0*	*0.8*	*0.0*	*0.0*

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

INTEREST RATES

Short-term interest rates		03-oct.-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Etats-Unis	Fed funds	5.50	5.50	5.50	5.25	5.00	4.75
	Sofr	5.32	5.30	5.30	5.05	4.80	4.55
Japon	Call rate	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
	Tonar	-0.03	0.03	0.03	0.03	0.03	0.03
Eurozone	Deposit	4.00	4.00	4.00	4.00	4.00	3.50
	€str	3.90	3.98	4.00	4.02	4.05	3.55
	Euribor 3m	3.96	4.00	4.05	4.05	3.75	3.00
United-Kingdom	Base rate	5.25	5.25	5.25	5.00	4.75	4.50
	Sonia	3.95	3.95	3.95	3.95	3.95	3.95
Sweden	Repo	4.00	4.00	4.00	4.00	3.75	3.50
Norway	Deposit	4.25	4.50	4.50	4.50	4.50	4.25
Canada	Overnight	5.00	5.00	5.00	5.00	4.75	4.50

10Y rates	03-oct.-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
USA	4.76	4.00	3.90	3.65	3.55	3.50
Japan	0.77	0.60	0.57	0.50	0.47	0.46
Eurozone (Germany)	2.96	2.60	2.85	2.70	2.55	2.60
Spread 10 ans / Bund						
France	0.56	0.65	0.65	0.65	0.65	0.65
Italy	1.96	2.00	2.05	1.95	1.95	2.00
Spain	1.10	1.10	1.10	1.15	1.15	1.10

Asia		03-oct.-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
Hong Kong	Base rate	5.75	5.75	5.75	5.50	5.25	5.00
India	Repo rate	6.50	6.50	6.50	6.50	6.25	6.00
Indonesia	7D (reverse) repo rate	5.75	5.75	5.75	5.50	5.25	5.00
Korea	Base rate	3.50	3.50	3.25	3.00	3.00	3.00
Malaysia	OPR	3.00	3.00	3.00	2.75	2.50	2.50
Philippines	Repo rate	6.25	6.25	6.25	6.00	5.50	5.25
Singapore	3M SIBOR	4.06	4.30	4.25	4.25	3.45	3.00
Taiwan	Redisc	1.88	1.88	1.75	1.75	1.63	1.50
Thailand	Repo	2.50	2.50	2.50	2.50	2.25	2.00
Vietnam	Refinancing rate	4.50	4.50	4.50	4.50	4.50	4.50
Latin America							
Brazil	Overnight/Selic	12.75	11.75	10.75	9.75	9.25	9.25
Mexico	Overnight rate	11.25	11.00	10.50	9.50	8.50	7.50
Emerging Europe							
Czech Rep.	14D repo	7.00	6.75	6.25	5.75	5.25	4.75
Hungary	Base rate	13.00	11.50	9.50	8.00	7.00	6.00
Poland	7D repo	6.00	5.00	4.50	4.00	4.00	4.00
Romania	2W repo	7.00	7.00	6.75	6.50	6.25	5.75
Russia	1W auction rate	13.00	13.00	13.00	12.00	11.00	10.00
South Africa	Repo	8.25	8.25	8.00	7.00	6.00	6.00

EXCHANGE RATES

USD Exchange rate

Industrialised countries		03-oct.-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Euro	EUR/USD	1.05	1.08	1.09	1.09	1.07	1.05
Japan	USD/JPY	149.2	142.0	138.0	136.0	135.0	134.0
United Kingdom	GBP/USD	1.21	1.26	1.28	1.28	1.27	1.25
Switzerland	USD/CHF	0.92	0.90	0.89	0.88	0.89	0.90
Canada	USD/CAD	1.37	1.30	1.28	1.27	1.26	1.25
Australia	AUD/USD	0.63	0.65	0.66	0.68	0.68	0.68
New Zealand	NZD/USD	0.59	0.60	0.59	0.60	0.60	0.60

Euro Cross rates

Industrialised countries		03-oct.-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Japan	EUR/JPY	156	153	150	148	144	141
United Kingdom	EUR/GBP	0.87	0.86	0.85	0.85	0.84	0.84
Switzerland	EUR/CHF	0.96	0.97	0.97	0.96	0.95	0.94
Sweden	EUR/SEK	11.63	11.40	11.20	11.00	10.90	10.80
Norway	EUR/NOK	11.50	10.80	10.60	10.40	10.30	10.20

Asia		03-oct.-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
China	USD/CNY	7.30	7.20	7.10	7.05	7.05	6.95
Hong Kong	USD/HKD	7.83	7.81	7.80	7.80	7.78	7.76
India	USD/INR	83.18	82.00	81.00	80.50	80.00	80.00
Indonesia	USD/IDR	15575	15100	15100	15100	15000	15000
Malaysia	USD/MYR	4.72	4.60	4.55	4.50	4.40	4.40
Philippines	USD/PHP	56.7	56.0	55.5	55.3	55.2	54.5
Singapore	USD/SGD	1.37	1.33	1.31	1.30	1.29	1.29
South Korea	USD/KRW	1362	1280	1260	1250	1250	1230
Taiwan	USD/TWD	32.4	31.1	30.8	30.6	30.6	30.4
Thailand	USD/THB	37.1	34.0	33.0	32.5	32.0	32.5
Vietnam	USD/VND	24385	23600	23300	23300	23300	23000
Latin America							
Brazil	USD/BRL	5.13	5.25	5.30	5.25	5.20	5.15
Mexico	USD/MXN	17.89	18.30	19.00	18.75	18.50	18.30
Africa							
South Africa	USD/ZAR	19.33	18.00	17.50	17.50	16.50	16.50
Emerging europe							
Poland	USD/PLN	4.42	4.36	4.29	4.27	4.28	4.30
Russia	USD/RUB	98.45	99.00	95.00	90.00	90.00	90.00
Turkey	USD/TRY	27.50	30.00	28.00	26.00	26.00	26.00
Central Europe							
Czech Rep.	EUR/CZK	24.50	24.30	24.20	24.10	24.00	23.90
Hungary	EUR/HUF	390	395	391	387	383	379
Poland	EUR/PLN	4.63	4.71	4.68	4.65	4.58	4.52
Romania	EUR/RON	4.97	4.95	4.92	4.92	4.92	4.92

COMMODITIES

Av. quarter price		3-Oct	2023	2024			
			Q4	Q1	Q2	Q3	Q4
Brent	USD/BBL	91	95	92	95	97	95

Av. quarter price		3-Oct	2023	2024			
			Q4	Q1	Q2	Q3	Q4
Gold	USD/oz	1,826	2,000	2,050	2,000	2,000	1,950

PUBLIC ACCOUNTS

	Government balance (% of GDP)			Public debt (% of GDP)		
	2022	2023	2024	2022	2023	2024
United States	**-5.4**	**-5.7**	**-5.8**	**96.9**	**98.2**	**100.2**
Japan	**-7.0**	**-3.5**	**-4.0**	**244.4**	**244.2**	**240.9**
Eurozone	**-3.8**	**-3.5**	**-2.9**	**94.2**	**92.7**	**92.4**
Germany	-2.6	-2.3	-1.2	66.3	65.1	64.0
France	-4.8	-5.0	-4.7	111.8	109.6	109.5
Italy	-8.0	-5.3	-4.8	141.7	140.2	141.5
Spain	-4.8	-4.1	-3.3	113.2	111.6	109.8
Netherlands	0.0	-2.1	-1.7	51.0	49.2	50.1
Belgium	-4.3	-3.6	-5.5	105.2	108.1	109.9
Greece	-2.3	-1.8	-0.8	171.3	161.5	159.0
Ireland	1.6	-1.0	-1.1	44.7	45.3	46.9
Portugal	-0.4	-0.4	-0.2	113.5	108.9	104.1
United Kingdom	**-5.4**	**-4.5**	**-3.0**	**101.0**	**97.3**	**96.8**

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