



**WORLD
MACRO-ECONOMIC SCENARIO
2024-2025**

Quarterly – December 2023

« *Fluctuat nec mergitur* »¹

Faced with high inflation and severe monetary tightening, advanced economies have shown unexpected resilience thanks to a range of shock absorbers, including savings, sound private balance sheets, lower sensitivity to the interest rate shock, a tight labour market and investment spurred by public policy. These economies are gearing down, each at their own speed – slowly but surely. And while they have yet to sink, the same holds for inflation.

In 2023, the **US** dodged a recession. In addition to surprisingly solid support from copious savings and the stimulus of President Joe Biden's industrial policy, the key factor to this resilience was lower interest rate sensitivity. But the hit from monetary tightening is not painless, just slower to spread – and longer-lasting. With growth still positive, albeit below potential, it appears the economy will stay afloat until the middle of 2024 before the impact of rising interest rates makes a bigger dent through debt refinancing. So, our central scenario calls for a recession as 2024 flows into 2025, but a shallow one. This is because businesses – and above all households – are on solid financial ground. In addition, consumers should do well in a labour market where the 'imbalance' favours supply and any cooling would result in a slight rise in unemployment. They will also benefit from lower inflation, which should dip below 3% in Q224 – even if service prices stay higher. As such, our scenario includes a measurable decline in average growth in 2024 (1.2% after 2.4% in 2023), which will sink deeper (to just 0.5%) in 2025, despite acceleration in store at the end of the period due to lower interest rates.

In the **Eurozone**, until a few months or even weeks ago, many commentators were still predicting stagflation – but the recovery in domestic demand and deflation are fending off that threat. Admittedly, the slowdown is dramatic. But it will be buffered by the deflationary process, which leaves room for a soft landing on a downward growth trend. However, higher real interest rates, a structural competitiveness shock linked to energy and a deeply uncertain external environment are all setting the Eurozone economy on course for lower growth than its pandemic-weakened potential.

Some of the factors that have allowed European growth to dip without sinking – despite inflation that is abating but still high, and the acute impacts of monetary tightening – will still be at work in 2024. Above all, employment and wages are holding up at the expense of productivity and unit labour costs. So we are basing our very 'soft' growth scenario on a recovery in consumer spending. This in turn is justified by flatter but still positive job creation, sustained wage growth, continued (albeit slower) deflation and, ultimately, improved confidence indicating a reduction in precautionary savings. Dipping from 8.6% in January to 2.4% in November, average headline inflation (YoY) is expected to fall to 5.5% in 2023, then 2.8% in 2024 and

2.5% in 2025. Meanwhile, growth is expected to crest at 0.5% in 2023, 0.7% in 2024 and 1.4% in 2025.

A year after **China** abandoned its zero-Covid policy, growth remains hobbled by structural issues, and stimulus policies are unable to generate the confidence necessary to stabilise and recover. The Chinese economy is operating below potential. It still suffers from a chronic lack of domestic demand, reflected by non-existent inflation. China is facing deflation and a serious real estate crisis, as well as an aging population, an accumulation of precautionary savings and high domestic debt. Taken together, it calls to mind late-1980s Japan and its "lost decade". China's 2024 growth target is expected to be officially announced in March and should be between 4.5% and 5.0%. It is more likely that the government will adopt a more cautious and conservative approach with a target of around 4.5%, to avoid the political risk of 'missing the target'. Our 2024 forecast is around this level, at 4.4%.

While the major central banks seem to have finished hiking their key rates, they are not done with inflation yet.

In terms of **monetary policy**, patience will be called for. While the major central banks seem to have finished hiking their key rates, they are not done with inflation yet. The quick and mechanical decline of headline inflation is likely to be followed by tougher – possibly stickier – core inflation. Our scenario for the US calls for lower headline and core inflation. Headline inflation is expected to stabilise at 2.4%, and core inflation at 2.7%, later in 2024 and throughout 2025. In the Eurozone, the risk of demand fuelling inflation has passed. But the wages-to-inflation transmission channel is still open, and the risk of second-round effects cannot be ruled out. Over the next two years, inflation is expected to stay above 2.4%. This means that inflation is slowly converging to the central banks' 'comfort zones' (which are still unclear) but would still be higher than the 2% targets set by those policymakers.

These inflation forecasts call for a prudent monetary easing scenario. In terms of cutting key rates, the markets' expectations seem 'aggressive'. Our US scenario includes a 25bp drop – but not until July 2024. This reduction will be gradual, with another 25bp cut in November, putting the Fed Funds rate's upper bound at 5% at the end of 2024. The predicted drop in growth

¹ *Fluctuat nec mergitur* – The motto of the city of Paris: "[She] is tossed [by the waves] but does not sink".

could give the Fed room to accelerate its cuts in 2025. The upper bound is likely to be 3.50% at the end of 2025 – a threshold the Fed may struggle to move below, with inflation stuck above its target and a neutral interest rate that could top its previous mark. As for the ECB, its first rate cut (25bp) is expected in September 2024. It would be followed by five cuts of 25bp each until the ECB reaches its neutral rate, with a deposit rate at 2.50%, in Q225.

Just as with monetary policy, our **long-term interest rate** scenario is one of ‘guarded optimism’. Between inflation, growth and the need to not ease financial conditions too quickly, everything urges policymakers to

be patient and points to a scenario of moderate decline in long-term rates once the series of key rate cuts has begun. In the US, our scenario has Treasury yields declining when the Fed makes its first cuts. It also calls for a ten-year yield of about 4% by the end of 2024. In the Eurozone, our forecast for government bond yields ‘clears up’ in H224. Our scenario is of a cumulative reduction of 75bp in 2024 in the ECB’s key rates, starting in September. This should usher the fixed income markets into a phase of decline and moderate steepening. The Bund yield is expected to be around 2.60% at the end of 2024.

Catherine LEBOUGRE

Focus – Geopolitics: the brick wall of reality

Where do we stand? For the time being, the cyclical decline in US hegemonic power is unfolding more or less as predicted by political theory, with a crisis of democracy playing out alongside rivalry with the US's main competitor, China. And all this is happening under the pressure of an environmental emergency which, whether we like it or not, is pushing us from an economy dependent on fossil fuels towards one that is dependent on critical metals. The end of this hegemonic cycle is also a moment of opportunity for all revisionist actors², whether states or smaller groups, which, now that the world no longer has a policeman capable of stabilising the global system, are free to spring into action. For the moment, we are trapped in this world where threats are being put into action, and our only viable option seems to be deterrence.

This is precisely why the US has quickly moved its aircraft carriers into position close to the Israeli theatre of war to prevent the conflict from spreading. It is also why Poland is rearming and trying to become one of NATO's leading powers. Lastly, it is the lesson that many Asian countries, chief among them Japan and the Philippines, have drawn from the conflict in Ukraine: to be effective, **deterrence has to be very powerful and must be backed up by strategic alliances. It must be credible enough not only to prevent the other party from acting but also to prevent any other power from changing the prevailing status quo**, not only militarily but also economically (sanctions, reprisals, etc). For example, maintaining the status quo in the South China Sea is about not only preventing conflicts but also securing the trade flows on which the region's countries still depend for their growth.

More players willing to act means a greater need for deterrence

The deal Australia's prime minister recently struck with China to smooth the way for the two countries to resume their trade relationship should not be seen as a 'normalisation', since Australia's security arrangements are now aligned more closely with the US. It is, rather, an attempt to strike a balance between economic dependence on Beijing and deterrence. Nor will it halt the derisking of strategic sectors, first and foremost those that use dual technologies (military and civilian). Moreover, the concept of what constitutes a strategic sector may be broader or narrower depending on which country is doing the defining. It is also on the basis of this kind of balance of deterrence that the US and China are trying to negotiate the pause that was derailed last year by the 'balloon incident'. That was the purpose of the meeting between Xi Jinping and Joe Biden, a meeting that will obviously not end the strategic stand-off – above all, it gave Xi a chance to meet the American business community. Just after the meeting, Biden effectively called China a dictatorship.

Lastly, **for a deterrent to be effective, the risk of incidents – whether intentional or not – must be under control and the increase in incidents between Chinese and Philippine boats gives an idea of the risk**. That means re-establishing emergency military communications after the short-circuit triggered by Nancy Pelosi's visit to Taiwan. **Deterrence, which is now essential for**

defusing escalating tensions, is first and foremost a matter of respect, and its aims must be clearly defined: securing respect for one's sovereignty, independence, freedom and dignity. But this, of course, means nothing without the ability to deter (economically, militarily and ideologically).

Nor can any diagnosis of global geopolitics sidestep the US election calendar. Ultimately, this is central to the scenario. At this stage, the upcoming elections look set to be a global game-changer. If Donald Trump were to be re-elected, this time not by a ragtag assemblage of voters rejecting the current political class (known as *dégagisme*) but by a positive vote of support, this would not have the same political meaning as in 2016: it would confirm that Trumpist ideology is now firmly rooted in the electorate and among elected Republicans. Make no mistake: **in an environment of extreme political polarisation, a Trump re-election would undoubtedly usher America into the institutional unknown – a concern that has sometimes been downplayed.** Any attempt to reject this claim based on the resilience of America's institutions – and the near-sacredness of its constitution – must be taken with an increasingly large pinch of salt: those very institutions are increasingly giving off signals that they are at a breaking point. In particular, the Supreme Court is increasingly out of step with part of the electorate.

A world of double standards is a world of cognitive warfare

Seen from the outside, the US – though it is still a superpower in a great many fields – is no longer accepted as a model, not just by the international company of autocrats but also by a good chunk of the global population. Since the war in Iraq, it is no longer the world's natural and undisputed policeman. Western democracy's ability to ensure equal treatment for all is now being undermined by a key phenomenon whose enormous political power has only been strengthened by the bombing of Gaza: the issue of double standards. Longstanding democracies are being pressured to admit that they do not keep their promises and are forced, for good or ill, to hear a message that can be summarised thus: "Keep out of our domestic affairs: you have no

² States, groups and individuals that are radically opposed to prevailing rules, standards and values. Revisionist actors often think the only way to bring down the entire system is by adopting a radical posture (see *A World Restored*, Henry A. Kissinger, Houghton Mifflin, 1957).

superior moral or ideological mandate to get involved in them”.

Moreover, the fact that a huge section of the global population is focused on this message is a major strategic signal. It points to what the Rand Corporation saw in 1999 as a future key tenet of grand strategy: the noosphere³. This concept, invented in 1922 by Pierre Teilhard de Chardin, presupposed the gradual emergence of a “sphere of human thought”⁴ and moments of global planetary consciousness arising from humankind’s increased connectedness. When strategists at Rand dug up the Greek notion of the noos and invented noopolitik, the concept of information dominance burst onto the geopolitical stage. **“Conflicts will be won not by the biggest bomb but by the best story”⁵..**

Battle of the narratives

Wars of influence are nothing new, of course: in fact, they tend to be waged alongside struggles for power. As any reader of Sun Tzu will understand, securing a favourable position ahead of combat – or even winning without fighting – puts you at an advantage. And Joseph Nye pointed out the importance of soft power⁶ in the information age. **But the importance of influence went up a gear at the turn of the century when new technologies ran into the cognitive sciences.** The idea of cognitive warfare is becoming much more of an operational reality for all modern armies, as well as for all revisionist groups. **The goal now is to use cognitive science to shift people’s beliefs and values as well as their decision-making capability.** To this end, cognitive warfare makes use of emotional manipulation, identifying our cognitive biases and playing on areas of moral dissonance (our doubts and hesitations). After the land, the air, the oceans, space and cyberspace, it is now our minds that are being fought over.

As is evident from the war in Ukraine, the attacks on Israel and the bombing of Gaza, global public opinion will constitute one of the key battlegrounds of the 21st century. **This will be a high-intensity conflict in which we are already targets, victims and actors. No longer is it only states that decide who their friends and enemies are: that decision is informed first and foremost by public opinion.** That is what will determine who goes down in history as the winners in conflicts, sometimes even in defiance of the outcome of military engagements. In fact, governments are partly losing their grip on political sovereignty, which is defined precisely as the ability to name the enemy: political sovereignty is now being fought over in what are known as cognitive arenas, ie, “social

spaces in which worldviews are constructed” (social media, television studios, think tanks, NGOs, etc.)⁷.

However, not all geopolitical and political events become pretexts for a cognitive clash. **For such a clash to take place, events must come up against a key element of power or ideology and must be seized upon by actors who are particularly active in this area.** That is precisely what has happened with the attacks by Hamas and the ensuing bombing of Gaza, and it is precisely the trap that has been laid, not only for Israel but for all governments held hostage by public opinion. Conversely, the question of Nagorno-Karabakh, swallowed up by Baku in the space of just a few days, was not a global cognitive battleground despite the Armenian drama and the strategic importance of the Caucasus. The information war between the US and China clearly is one such battleground, and the battle is set to rumble on for years to come. This is something we need to be prepared for. Lastly, **there are some moments that are particularly conducive to cognitive and information attacks:** the Taiwanese and US elections are prime examples. Meanwhile, climate issues are already a key cognitive battleground.

We are and will continue to be subject to cognitive attacks of all kinds, not limited to the geopolitical arena. These attacks impact our political and economic scenarios through multiple channels, both direct and indirect.

How do these clashes play out? How do they affect us, as individuals and in the workplace, as we strive to expand our social responsibility? These questions arise because we are and will continue to be subject to cognitive attacks of all kinds, not limited to the geopolitical arena. These attacks impact our political and economic scenarios through multiple channels, both direct and indirect. They influence our choices, who we trust and what we invest in. If we are to resist this influence, we must understand how emotional shocks play out in time and space through mental pathways in us that act as powerful transmission belts.

This means understanding how the pain of those exposed to violence is instrumentalised through the emotions of those exposed to words and images. And it means understanding the economic and geopolitical role played by our fears, our anger and our empathy.

Tania SOLLOGOUB

³ J. Arquilla and D. Rondfeldt, *The Emergence of Noopolitik: Toward an American Information Strategy*, Rand Corporation, 1999

⁴ G. S. Levit, *The Biosphere and the Noosphere*, *Theories of V. I. Vernadsky and P. Teilhard de Chardin: A Methodological Essay*, *Archives Internationales d’Histoire des Sciences*, 2000

⁵ Quote by John Arquilla and David Rondfeldt, *Le Monde*, 6 June 1999

⁶ J. Nye, *Bound to Lead: The Changing Nature of American Power*, New York, [Basic Books](#), 1990

⁷ *La guerre cognitive*, Christian Harbulot & Didier Lucas, *École de Guerre Économique*



DEVELOPED COUNTRIES

The soft landing finally seems to be taking shape

USA – A delayed recession

Eurozone – Soft landing on a soft trend

United Kingdom – Restrictive monetary policy weighs on the outlook

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

The soft landing finally seems to be taking shape

Faced with high inflation and violent monetary tightening, advanced economies have shown unexpected resilience thanks to a variety of shock absorbers, eg, savings, healthy private balance sheets, less sensitivity to interest rate shocks, a tight labour market and investment invigorated by public strategies. They are surely slowing down, but gently. Without collapsing, but without inflation collapsing either.

USA: A DELAYED RECESSION

Growth in 2023 has been more resilient than we had originally anticipated, with recession failing to arrive. A number of factors contributed, likely including more of a fiscal boost than we had expected from President Joe Biden’s industrial policy and upward revisions to our estimate of households’ excess savings based on the BEA’s comprehensive revisions released in late September.

However, the main factor underlying the greater resilience is that we likely overestimated the near-term interest rate sensitivity of the economy. While this tightening cycle from the Fed has been more aggressive than any seen for decades, many households and corporates were able to lock in low rates for extended periods, allowing the economy to better withstand monetary tightening in the near term.

Thus, while we expect growth to slow beginning in Q423 given a number of headwinds including the resumption of student loan payments and higher credit card balances, once the initial shock of student loan payments is digested, we expect that the economy can continue to muddle along through the middle of 2024 given this diminished near-term interest rate sensitivity. This would mean a below trend, but still positive, rate of growth.

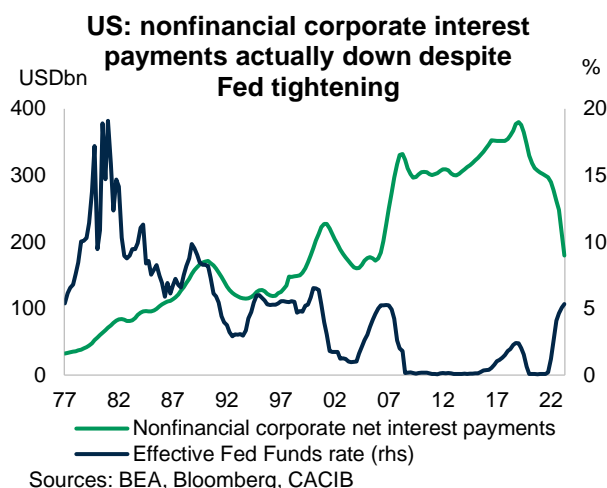
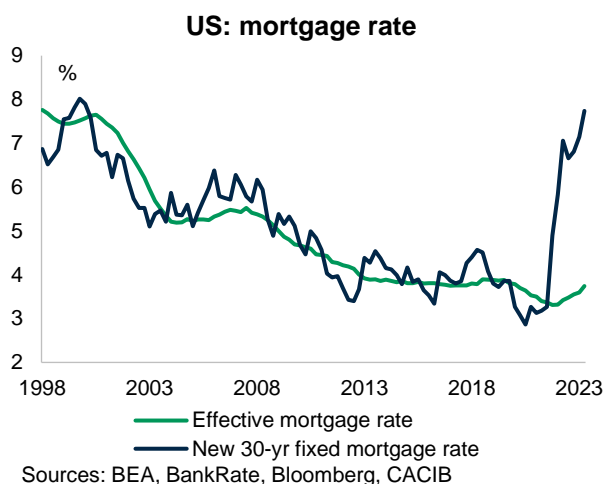
However, while a number of forecasts are calling for a rebound in 2025, we are more pessimistic on the outlook in late 2024 into early 2025, in large part due to our thoughts on monetary policy transmission and lags, as highlighted above. This reflects the fact that the amount of corporate debt maturing rises in

2024 and continues to grow in 2025, with maturing high yield debt jumping by an even larger percentage in 2025. Additionally, the transmission to households may slowly build up too as the effective mortgage rate gradually ticks up while delinquencies for other types of debt have started to show some cracks already.

This leaves growth at 2.4% in 2023, 1.2% in 2024 and just 0.5% in 2025 on an annual average basis, even if we expect the quarterly pace to bounce back in the latter portion of 2025 as interest rates come down.

As such, we think that rate hikes will begin to bite more noticeably only later in 2024 as there will be significantly more debt that needs to be refinanced at higher rates by this time, resulting in a recession in Q424/Q125, though the timing is uncertain with a slightly earlier start a possibility. For now, we are keeping the base case as a relatively mild recession given healthy balance sheets for corporates and especially households, but as more and more debt is refinanced at higher rates, the risk of something breaking and a more severe downturn rises.

We also expect that fiscal policy may provide a bit less support than it is currently doing. While deficits will remain high, the primary deficit is expected to tick down from current levels based on projections from the Congressional Budget Office. Furthermore, agreement on the appropriations bills required to fund the federal government for the remainder of fiscal year 2024 may require some spending cuts in order to avoid a shutdown when the two-step deadlines arrive in early




2024 (19 January and 2 February, depending on the department).

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For the labour market, we expect some further cooling, and now look for a higher peak unemployment rate of around 4.6%. However, this is less of an increase than would be typical based on past recessions, in this case due to the unprecedented imbalance between labour demand and labour supply, which may continue to face headwinds as more baby boomers retire. This mismatch allows labour market cooling to be more skewed towards declining job openings than mass layoffs.

Despite the downturn in the economy, inflation has become a bit more entrenched, with services prices relatively sticky and only declining slowly. We anticipate this will continue to be the case, especially as labour supply constraints may keep wage growth at relatively healthy levels even as the

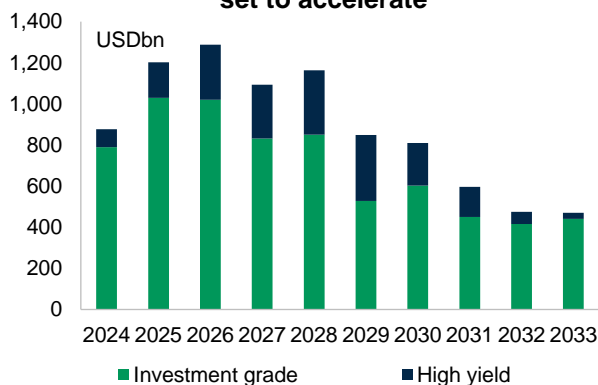
unemployment rate ticks modestly higher, and low inventories have kept home prices from dropping too sharply for the shelter component.

 Annual change	2023	2024
GDP	2.4%	1.2%
Inflation	4.2%	2.6%

As a result, while we expect both headline and core CPI to dip below 3% by Q224, we look for headline CPI to stabilise around 2.4% and core around 2.7% by later in 2024 before holding around these levels through 2025, thus failing to return to target during the entirety of our forecast horizon. A more severe recession could lead to a sharper slowdown back to the 2% target, but we are not convinced that a mild one would given factors that may mean inflation persistently hovers modestly above target.

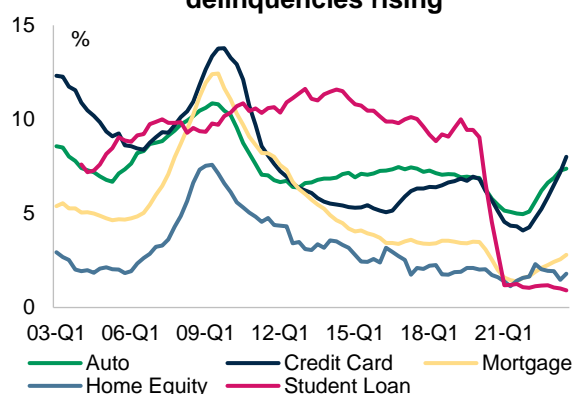
Nicholas VAN NESS

US: maturing corporate debt set to accelerate



Sources: Bloomberg, CACIB

US: non-mortgage consumer delinquencies rising



Sources: New York Fed, CACIB

EUROZONE: SOFT LANDING ON A SOFT TREND

The recovery in domestic demand and disinflation are taking us a step further away from the stagflationary scenario that was still widely predicted a few months ago, or even just a few weeks ago. A slight fall in GDP in Q3, continued positive employment growth and a sharp fall in inflation in November continue to provide further arguments in favour of our soft landing scenario – a marked slowdown cushioned by the disinflationary process. However, higher real interest rates, a structural competitiveness shock linked to energy, and a highly uncertain external environment mean that the Eurozone economy is landing on a growth path that is below its weakened potential compared with the pre-pandemic period. We expect growth in the Eurozone to be capped at 0.5% in 2023, 0.7% in 2024 and 1.4% in 2025.

The recovery in purchasing power is reflected in an upturn in consumption

Despite its slight decline in Q323 (-0.1% QoQ), GDP provides a rather comforting picture of the Eurozone's economy. Domestic demand has recovered and, after the decline at the end of 2022 and a sluggish first half, is once again making a positive contribution to GDP growth (0.2ppt) thanks to the rebound in private consumption (+0.3%) and the acceleration in public consumption (+0.3%). Investment, on the other hand, stagnated: the positive growth in investment in machinery and equipment and in transport barely offset the fall in investment in construction. The latter was particularly affected by the fall in residential investment, while investment in other types of construction has shown slightly negative growth for the past two quarters.

The weakness of global demand is reflected in external demand for the Eurozone, which is continuing to fall at a sustained rate, while decline in demand for inventories and investment is curbing imports. The contribution of net foreign demand was therefore zero, with exports and imports falling at the same rate (1.1% and 1.2% respectively).

Finally, **strong destocking subtracted 0.3ppt from growth, reducing the level of inventories after the large build-up recorded in Q223** (with a contribution of +0.7ppt). Inventories accumulation had enabled positive growth to be posted in Q2, despite sluggish domestic demand and a strongly negative contribution from net foreign demand. Although the level of inventories relative to GDP is still high, its recent fall bodes well for growth in the coming quarters.

Business activity is deteriorating, but insolvencies are not taking off

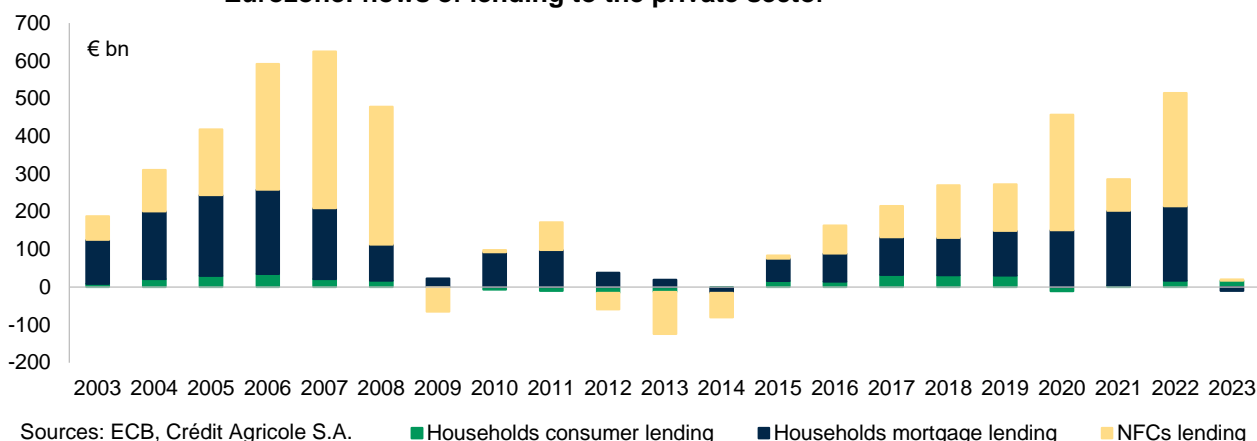
The December surveys confirm a contraction in economic activity in Q423 and gloomy confidence among private agents. The PMI index shows a sharp, albeit easing, fall in activity in industry, as well as a decline in services. In November, according to the European Commission's surveys, while confidence improved very modestly in the retail and construction sectors and among consumers, it remained very weak in industry.

The deterioration in activity in Q3 did not lead to an increase in business insolvencies. The number of insolvencies fell in Q3 to a level that is now higher than before the pandemic. While bankruptcies rose in manufacturing, they fell in services, where they had risen sharply since the pandemic.

The transmission of monetary tightening is powerful, but productive investment is resisting

The data on credit production for October shows that the transmission of monetary tightening is continuing apace, with lending to households slowing by 0.6% YoY and lending to non-financial businesses falling by a more pronounced -0.3% YoY. The turnaround in housing investment is a given: it has fallen by 5% since the start of its downturn in Q122. Productive investment remains underpinned by the transformation needs associated with the twin transitions and by the disbursement of NGEU funds. However, despite still comfortable margins, the rise in

Eurozone: flows of lending to the private sector



interest rates has reduced the net property income of non-financial companies, and maintaining a positive rate of investment has worsened their financing capacity.

The withdrawal of public support measures (Covid and energy) has eroded liquidity, although its level remains higher than in the pre-pandemic period.

The Commission's investment survey shows that a majority of companies are still planning to increase their capital expenditure in 2024, but their share is lower than in the survey conducted in April. Nevertheless, companies expect a general improvement in the business outlook and internal financing. Investment in housing should continue to contract, and the other components of construction should remain moderate but supported by NGEU funds in the peripheral countries. As for productive investment, it will be driven by an increase in domestic demand and a fall in input costs: these stimuli could partly offset the fall in margins and the increase in financing costs.

Employment and wages at the heart of the scenario

Employment growth has remained positive overall, but has slowed in industry and the number of hours worked has fallen. Although wages per employee lost some of their dynamism in Q323 (4.9% vs 5.4% YoY), they are still growing at a sustained rate. Their growth is coming up against a fall in productivity, putting upward pressure on unit labour costs. The risk of demand fuelling inflation has disappeared, but the transmission channel for inflation via wages is still open and the risk of second-round effects has not been totally ruled out. While the ECB does expect a deceleration in wages, it will nonetheless wait for this to be properly reflected in the national accounts figures before being reassured. Furthermore, although margins were squeezed a little in Q3, the ECB wants to continue monitoring unit profits to make sure that future wage rises are absorbed by margins and not passed on in selling prices. Confirmation of the slowdown in wages and profits based on national accounts data for Q423 and Q124 will therefore be necessary before the ECB decides to cut key rates.

This is all the more important given that 50% of the wages covered by the ECB's wage tracker will be subject to renegotiation in H124, and that it is also at the start of the year that companies will be readjusting their price lists.

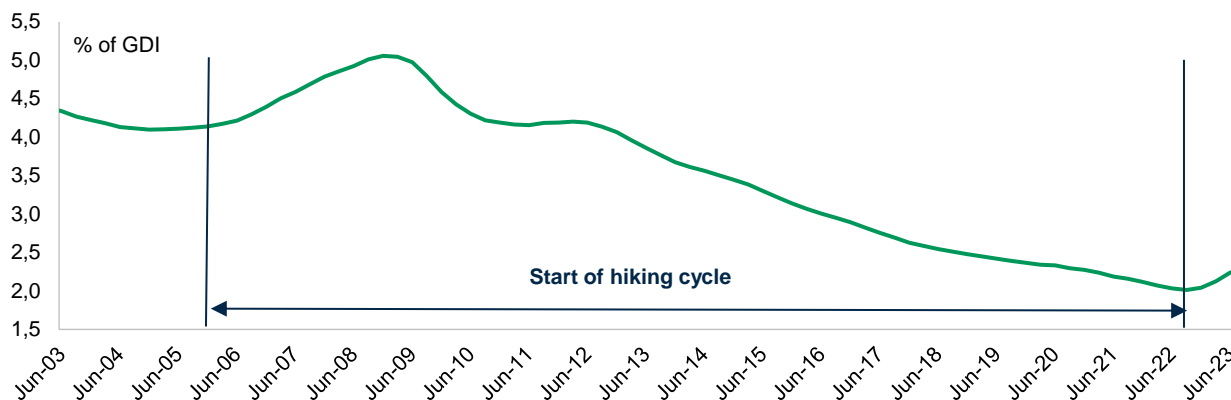
While the risk of demand fuelling inflation has disappeared, the channel through which inflation is transmitted by wages is still open.

Less dynamic but still positive job creation, sustained wage growth and disinflation justify our scenario of a recovery in household consumption. Household consumption has picked up after three quarters of recovery in real disposable income. **Our scenario predicts that the increase in purchasing power will boost confidence, thereby reducing precautionary savings.**

The Commission steps up the pressure on Member States

After three years of strong positive stimulus to the economy (4ppt of GDP accumulated between 2020 and 2022), **the budgetary stance would become restrictive in 2023 and 2024, taking the Eurozone's deficit to 3.4% in 2023, 3.1% in 2024 and 2.8% in 2025.** This moderation would make it easier to keep inflation under control by compressing demand and would not stand in the way of monetary tightening by the ECB. The measures designed to deal with Covid will have been entirely withdrawn in 2023, and those linked to rising energy costs will come to an end in 2024. The reduction in primary expenditure and investment subsidies (notably the Superbonus in Italy and the recapitalisation of Uniper in Germany in 2023) would more than offset the increase in public investment financed by national budgets, guaranteeing a negative impulse. National investment would be preserved and investment financed by European funds increased thanks to the peak in NGEU payments in 2024 and 2025.

Eurozone - Households: interest debt service-to-income ratio



Sources: Eurostat, Crédit Agricole S.A.

Annual change	2023	2024
GDP	0.5%	0.7%
Inflation	5.4%	2.8%

Hitherto favourable conditions for debt sustainability are deteriorating. Inflation, which had stimulated nominal growth in 2022 but also in 2023, is fading, thereby reducing the positive effect on the denominator of the debt/GDP ratio. While monetary tightening has had only a marginal impact on the cost of debt for the time being, due to long maturities, its effect will gradually be incorporated into the average

cost of outstanding debt. As a result, the gap between this rate and the nominal GDP growth rate will widen: stabilising or even reducing debt/GDP ratios will require ever smaller primary deficits (or, for some countries, ever larger surpluses). Choices will have to be made, as the post-Covid period has been characterised by structural spending increases and permanent tax cuts. This phase of transition to a new equilibrium of inflation and lower interest rates will therefore constrain government action. Until 2026, however, the capacity for investment spending made possible by European funds will continue to limit the restrictive stance of fiscal policy, offsetting the effort that will have to be made by national budgets.

Paola MONPERRUS-VERONI

Eurozone: bankruptcies by sector



Sources: Eurostat, Crédit Agricole S.A.

UNITED KINGDOM: SUBDUED GROWTH OUTLOOK AMIDST A RESTRICTIVE POLICY MIX

The UK economy looks set to avoid a recession for the time being, as surveys have turned out less pessimistic recently. However, any meaningful acceleration in the short term looks to be a low-probability scenario. After zero growth in Q323 due to falling private consumption and investment, prospects are for a stagnating economy in the coming quarters.

The main headwind to growth will be the past monetary policy tightening: according to the BoE, more than half of the impact of monetary policy has yet to feed through to the real economy (November Monetary policy report). This is plausible as the greater share of fixed rate mortgages implies a slower pass-through from mortgage rates to household disposable incomes than during the past periods of monetary tightening. High rates will weigh on household consumption, investment and job creation. In turn, weak demand will dampen domestic inflationary pressures in the course of next year, even though persistence may be slow to dissipate.

We expect the unemployment rate to rise above 4.5% in H224, ie, above the revised level of the BoE's medium-term equilibrium unemployment rate, implying the emergence of labour market slack. We look for inflation to fall below 3% in Q224 and the BoE to start cutting its rates in August 2024. However, risks remain tilted to the upside regarding inflation, given the tightness of the labour market, and hence, towards a delayed move by the BoE.


Confidence will likely be slow to recover, but there are tailwinds that should allow for resilient private consumption, not least the substantial excess savings built up since the end of 2019.

Investment, especially residential, but also productive investment, will be the main drag on growth next year. As inflation will likely continue to fall in the coming months, real interest rates will start to rise and will increasingly take their toll on private investment. Meanwhile, the global and domestic political environment will remain uncertain next year

with elections in the US and likely in the UK, slowing global growth and even a possible recession in the US. While tax incentives boosted business investment early this year, the Chancellor’s decision to make permanent the 100% capital allowance for qualifying business investment in new plant & machinery (known as ‘full expensing’) is now expected to lower investment in the short term, since the incentive to bring forward investment has now been removed.

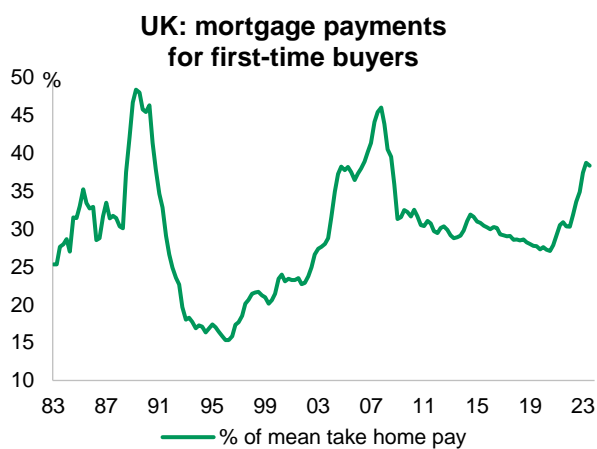
Elevated borrowing costs are weighing on consumer confidence, and households have increased their saving rate (9.5% in Q2) despite rising real disposable incomes, probably in preparation of a rising debt-service burden. Confidence will likely be slow to recover, but there are tailwinds that should allow for resilient private consumption, not least the substantial excess savings built up since the end of 2019. Growth in real disposable incomes should remain positive as inflation is expected to moderate more rapidly than incomes. The 10% rise in the National Living Wage and the 47% rise in the migrant salary threshold in April 2024, as well as the tax cuts announced in the Autumn statement (mainly a 2ppt cut to National Insurance Contributions paid by employees and the self-employed) will boost disposable incomes, helping partially offset the fiscal drag from frozen tax thresholds.

True, as inflation expectations decline and demand for labour diminishes, private sector wage growth is expected to continue to moderate in the coming months. However, pressures on pay growth would remain relatively strong (the BoE forecasts private sector wage growth around 5-6% next year) due to structural factors which have pushed up the equilibrium rate of unemployment (Brexit, post-pandemic issues such as long-term sickness among inactive people, mismatches between vacancies and the unemployed).

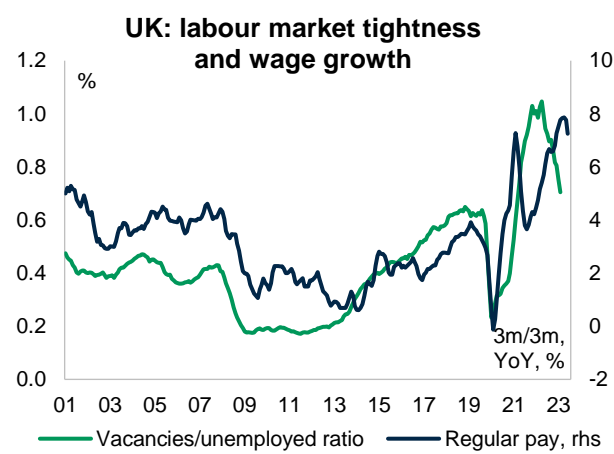
 Annual change	2023	2024
GDP	0.5%	0.4%
Inflation	7.4%	3.4%

Therefore, despite the restrictive monetary policy (and still restrictive budgetary policy stance), **we expect household consumption to remain resilient and to grow slightly in 2024** (0.6% after 0.4% in 2023). Moreover, with a general election likely in H224, the government is more likely than not to announce some further slight fiscal loosening coming in April 2024.

Slavena NAZAROVA



Sources: Nationwide, 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 above the potential growth rate of around 0.7%. Net trade will likely become negative as the global economy shows stronger signs of slowing down. However, resilient domestic demand combined with strong public 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. The government moving to cut the income tax in June 2024 should give an additional boost to private consumption in H224. Businesses' capex plans remain strong as they move to increase investments 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.

With private domestic demand still below the pandemic level (2019 average), the need for continued policy support to maintain domestic demand despite stronger external headwinds remains strong.

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 Kishida 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. Thus, we expect fiscal policy to remain accommodative not only to offset headwinds from the global economy, but to stimulate domestic private investments.


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.

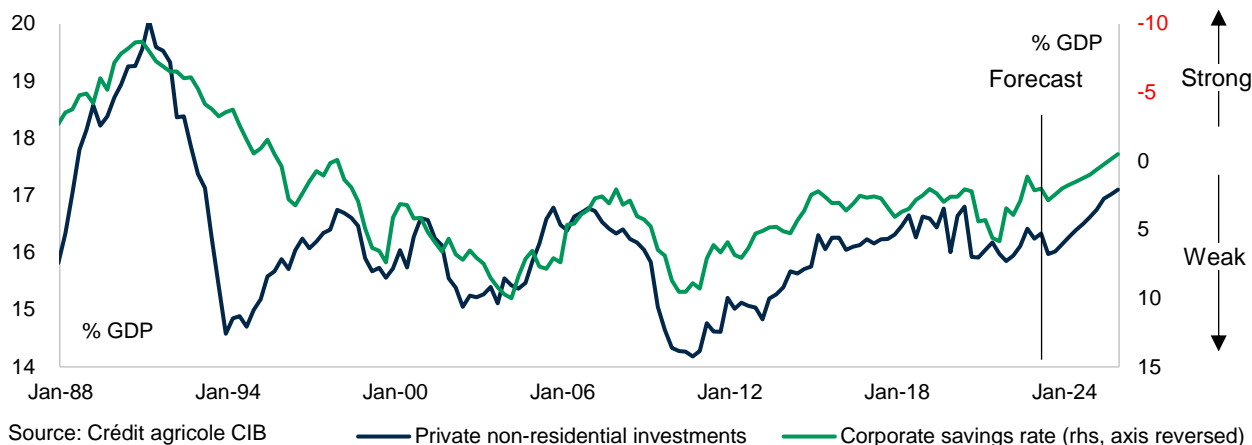
The primary cause of Japan's deflation has been continued excess savings by Japanese corporates. After the collapse of Japan's economic bubble, the corporate savings rate became positive, which has since then continued to destroy aggregate demand and in turn strengthen structural deflationary pressures.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

 Annual change	2023	2024
GDP	2.0%	0.7%
Inflation	4.0%	2.1%

Core CPI (ex-fresh food and energy) will likely start to decelerate in 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 toward 2% 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





EMERGING COUNTRIES

A narrow window of opportunity (against a backdrop of structural issues)

Overview – A narrow window of opportunity (against a backdrop of structural issues)

China – The end of the miracle?

Russia – More resilient than expected

Brazil – “Serenity and moderation”

India – Another year of outperformance

A narrow window of opportunity (against a backdrop of structural issues)

We may see the stars align somewhat during H124, with a better showing from China, a recovery in the electronics cycle and continuing disinflation in several countries. However, risk factors remain just as plentiful.

EMs could benefit from a slightly more favourable economic backdrop over the early part of 2024, thanks to a combination of several factors. This should help them to maintain decent growth, which is forecast at 3.7% in 2024 for the 25 largest economies. It should also widen the growth gap with developed countries and bring it closer to 2019 levels (just under 2ppt), albeit a long way from the bumper catch-up years of the early 2000s until the 2009 financial crisis, when the gap was c.4ppt.

Indeed, even the term “emerging” is becoming less and less appropriate to a world that is struggling to grow and, as it becomes forced to update its globalisation lexicon, emerging countries will also have to think about their growth models differently. Countries will have to focus more on domestic demand and, for those able to take advantage of it, the reorganisation of value chains.

We may see a combination of several positive factors in the early part of the year

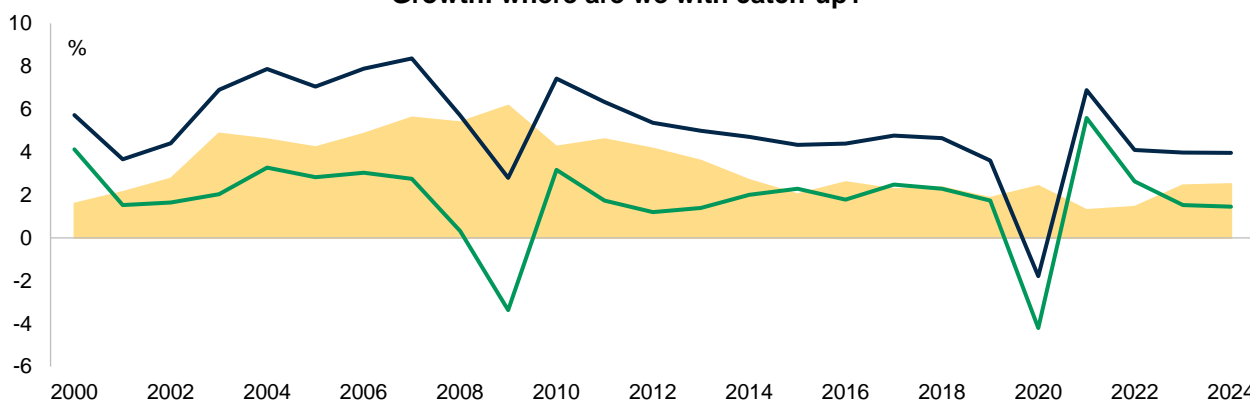
In the short term, China’s economy is expected to strengthen, which will be the leading support factor for emerging markets in H124. Of course, this will not change much when it comes to Beijing’s structural issues, which earned it a rating downgrade from Moody’s. Clearly, China is not the same economic entity – the country is no longer making the same promises and is contending with a myriad of uncertainty. However, size and centre of gravity are powerful factors, and the slightest positive economic trend could immediately trigger greater clarity for the external accounts of many emerging countries that count China as their largest trade partner.

This is particularly the case in Asia, where intra-regional trade remains higher than elsewhere, and where countries’ growth models are more open and more dependent on exports. Vietnamese growth, for example, is highly sensitive to foreign trade and is expected to have a strong showing in 2024. In addition to this slight revival in China, there are positive signs that the electronics cycle is recovering, which will give a boost to several Asian countries. Indeed, after a long period of decline, Korean exports have surged over the last two months. This intra-Asian trade should finally benefit from countries’ attempts – led by Australia and South Korea – to broker geopolitical thaws with China. Meanwhile, the political *rapprochement* between Seoul and Tokyo could drive increased trade (a currency swap that was closed in 2015 has been revived). While Taiwan is stepping up its investments in the Japanese semiconductor sector.

Monetary policy normalisation in Latin America and Central Europe

On the other side of the world, in Latin America, growth is expected to benefit from gradual monetary policy normalisation, which should give domestic demand a bit of a boost, in addition to the improvement in China’s economy. Of course, this will not be enough to increase very low potential growth in Brazil and Mexico, but economically, it is still a positive. **A similar story is likely in Central Europe,** although inflation is still higher than in other regions, which remain hobbled by tight labour markets and more impacted by the effects of the war on their doorstep. In Poland, higher minimum wages and real incomes in the public sector should underpin demand and growth in 2024. Above all, Poland is entering a

Growth: where are we with catch-up?



Sources: FMI, WEO, Crédit Agricole S.A.

■ Differential ■ Developed countries ■ Emerging and developing countries

much more favourable cycle, where the economic and political stars are aligning and should boost investor confidence. However, the journey to reform institutions, which now bear the hallmarks of the right-wing Law and Justice party, will be arduous, in a country that remains politically very divided.

Two major wars are raging, which could result in negative scenarios and more instability. The impacts on the most fragile neighbouring countries would be immediate.

Overall, inflation in emerging countries is not far away from its pre-Covid levels, with the obvious exceptions of Turkey and Argentina – where the impacts of the ultra-liberal programme and the new president's economic shock treatment remain to be seen, but for the moment we are sceptical. **However, in Turkey, although inflation was still 62% in November, the days of unorthodox monetary policy are over and the underlying components of price growth, excluding energy, are starting to come down.** The peak of the monetary rebalancing cycle is close. That said, Turkey's stance on the Israel-Hamas war is straining US-Turkey relations once again, creating the risk of sanctions and an institutional universe that investors will have a hard time dealing with.

Keep a close eye on uncertainty and volatility

The H1 backdrop for emerging countries could include more resilient growth and monetary normalisation. However, this comes amid broad-based weak growth and high uncertainty, which is a source of volatility. This volatility is likely to increase in H224 in the run-up to the US presidential election, especially given that the US remains the driving force behind many major emerging economies. Furthermore, elections will also be held in a number of less advanced countries – including Indonesia, Pakistan, India, Romania, South Africa, Sri Lanka and Croatia – which may also create brief episodes of mistrust, similar to what we observed recently on portfolio flows to Thailand. Specifically, the Taiwanese election will remain one of the major events in global geopolitics, which could trigger severe economic and financial volatility at any time.

Last but certainly not least, two major wars are raging, which could result in negative scenarios and more instability. The impacts on the most fragile neighbouring countries – Egypt especially – would be immediate. Portfolio investments and the incomes of workers abroad have already plummeted, while tourist numbers are falling, creating a complicated backdrop for next year for external accounts and foreign exchange. The IMF continues to support the country and privatisations are ongoing, but the country's path remains focused on the short term, and currency depreciation is making the population poorer. As such, even though the war in Gaza appears contained (for

now), its effects on confidence – which is hitting rock bottom in the region's most fragile neighbours – are very apparent.

A little further...

In Saudi Arabia, each year seems very different from the last for the world's largest oil producer. Following a very positive backdrop for oil in 2022, when the combination of an 11% increase in production to more than 10m bpd and a high average price of USD101/bl, which pushed GDP growth up to 8.9%, it was a very different story in 2023: over the first eleven months of the year, the average price was just USD82/bl, and production declined due to the cap agreed on by OPEC+. This double “price plus volume” effect is the exact opposite of 2022, and growth is expected to stagnate or even decline slightly this year, before recovering in 2024. This volatile environment is a reminder that the country is a rentier state and that it is much less diversified than it would like. It also explains why Riyadh's absolute priority is its 2030 transformation plan, not to be disrupted by the conflict in Gaza. It is certainly a factor that will play a role in the country's – and the region's – scenarios and geo-economic strategy in the coming months.

In the long term, the brick wall of reality

In the longer term, the big economic question for most emerging countries remains their ability to take advantage of the ongoing reorganisation of value chains. Whether we call it friendshoring, nearshoring, decoupling or derisking, the only thing that is certain is that investors are looking to reorganise their production chains right now, in order to guard against risks of sporadic shortages. The key word is supply shock risks, which could create a number of surprises when it comes to the structure of relative prices.

Rating agencies believe that the ratings of several emerging countries could benefit from this reorganisation in the future, either thanks to their commodities, such as Indonesia, Chile and the Congo, or new foreign direct investments in the case of Vietnam, India and Mexico.

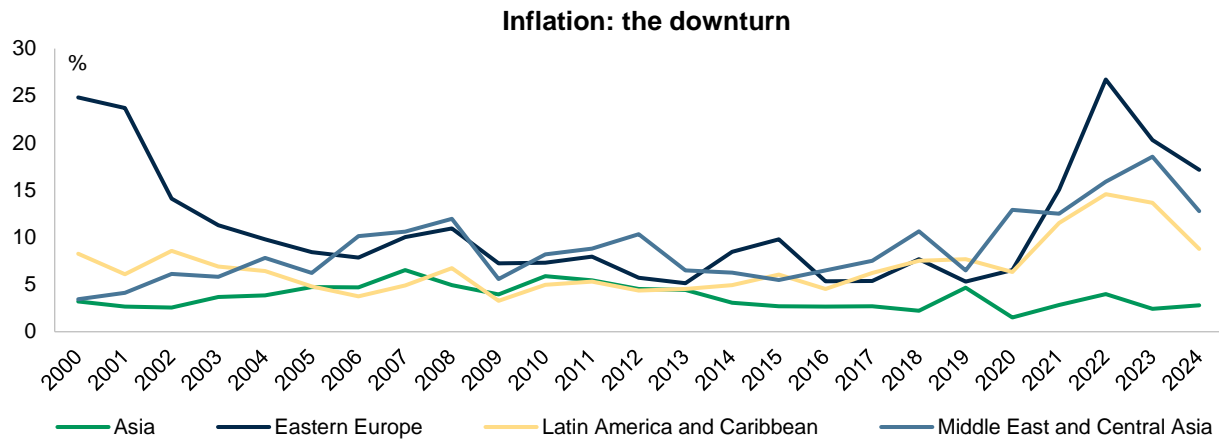
Annual change	2023	2024
GDP	3.7%	3.8%
Inflation	6.6%	5.1%

These three countries, which are generally cited as being in pole position for derisking, should benefit from their locations, cost of labour and “reassuring” political environments (although this last point is debatable). Indeed, Vietnam has seen its investment promises increase 15% over the first eleven months of 2023, and

Mexico has moved ahead of China as top exporter to the US. However, in the three cases, these future promises will also have to contend with numerous structural blockages that are common in these countries: network overloads and power cuts in Vietnam, insufficient infrastructure and labour market issues in India, and opaque governance in Mexico,

where productivity gains in the North still have not spread to the South... **Realistically, the brick wall of reality of another episode of globalisation will be a steep climb.**

Tania SOLLOGOUB



Sources: FMI, WEO, Crédit Agricole S.A.

CHINA: THE END OF THE MIRACLE?

The decision by Moody's to downgrade China's sovereign debt rating outlook from stable to negative is the latest entry in a list of ongoing concerns surrounding China's economy. A year after the country's draconian zero-Covid policy was abandoned, China remains mired in structural issues and is unable to generate the necessary confidence to stabilise growth.

Hopes for a recovery did not materialise in 2023

While 2023 did start well, with the end of public health restrictions driving a recovery in spending on services, which had been hobbled by three years of Covid, this was short lived. Starting in Q223, growth slowed and doubts resurfaced. The Chinese economy is running below its potential and remains characterised by chronically insufficient domestic demand. This is reflected in inflation, which has been flat or negative since June, pushing the PBoC to adopt a fairly accommodative monetary policy, in contrast to the rest of the world.


Starting in the second quarter of 2023, growth slowed and doubts resurfaced.

This deflation, combined with the current crisis in the real estate sector, is not unlike the situation in Japan in the late 1980s, and its "lost decade". China shares a number of traits with its neighbour, including an aging population, a build-up of precautionary savings, high debt and weak demand, which could trigger a liquidity trap phenomenon. Moody's highlighted these points, in particular China's debt, when justifying its decision.

What is the growth target for 2024?

China's 2024 growth target is expected to be announced in March during its parliamentary meeting, but figures are already starting to circulate. According to the consensus, the growth target is likely to be

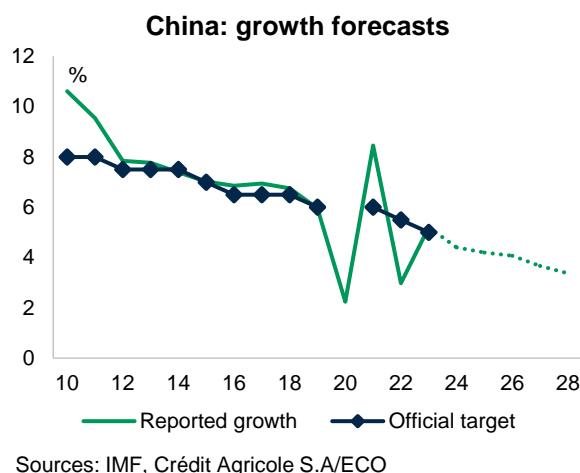
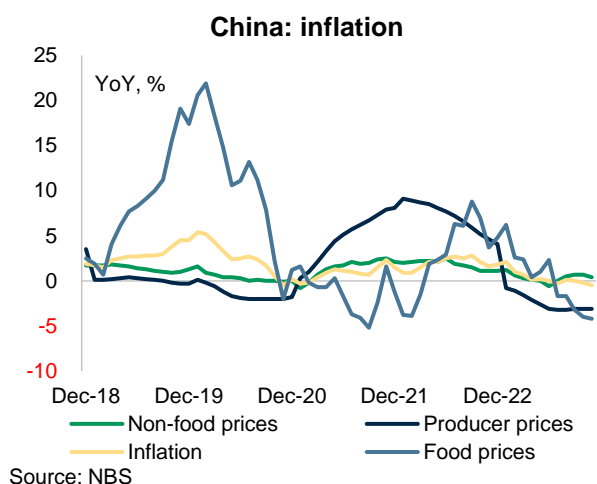
between 4.5% and 5.0%. A high target would send a strong signal to the economy, demonstrating that the authorities would be willing to step up their support for growth by unblocking additional fiscal resources. However, it is more likely that the government will adopt a more cautious and conservative approach with a target of around 4.5%, in order to avoid the political risk of missing the target.

 Annual change	2023	2024
GDP	5.2%	4.4%
Inflation	0.3%	1.3%

Our 2024 forecast is around this level, at 4.4%. It implies a slightly negative contribution from foreign trade, due to slowing global demand. However, this should be partly offset by a weak CNY, which will help China to regain market share. Although the central bank has intervened in recent months to support its currency against the USD, it appears to think that the current level of around 7.15 is appropriate and is therefore likely to maintain it.

Without any targeted measures, domestic consumption is unlikely to be able to drive the economy. Investment is expected to continue to benefit from a favourable monetary policy, with the central bank not ruling out further key rate cuts, but also stimulus measures aimed at infrastructure and the real estate market. However, these measures will not be enough to incite the confidence shock that households and investors are so eagerly awaiting. China is expected to see negative FDI inflows for the first time at the end of 2023.

Sophie WIEVIORKA




BRAZIL: “SERENITY AND MODERATION”

The imbalances inherited from Covid have been absorbed and, despite the (incomplete) fiscal adjustment and a now very restrictive monetary policy⁸, average growth has held up very well: it is expected to be around 3% in 2023. A natural slowdown is now clearly emerging (quarterly growth limited to 0.1% in Q3 after 1.4% and 1% in Q1 and Q2). However, the decline in investment⁹ continues to be countered by buoyant household consumption, driven by growth in real incomes, supported by disinflation, a buoyant labour market (with the unemployment rate falling to 7.6% in October despite a slight rise in the participation rate to almost 62%) and increased social benefits. On the supply side, after surging, agriculture is ‘correcting’, industry is running out of steam, but services are holding up well. The deceleration should continue at a moderate pace, allowing growth to slow without collapsing.

The central bank (BCB) seems reassured by the improvement in the international scenario (particularly in the US) and the underlying disinflation, but has no intention of lowering its guard.

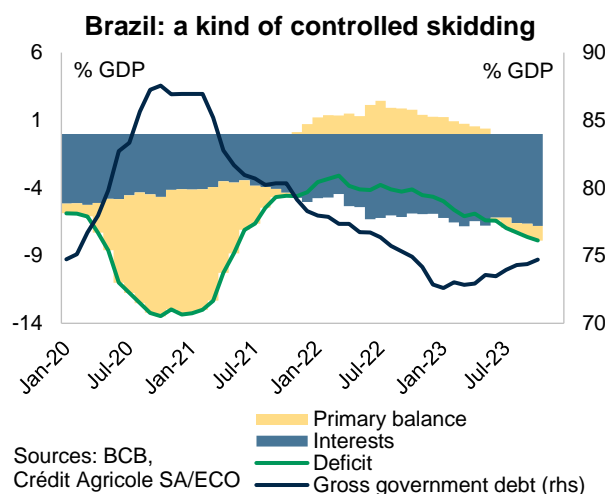
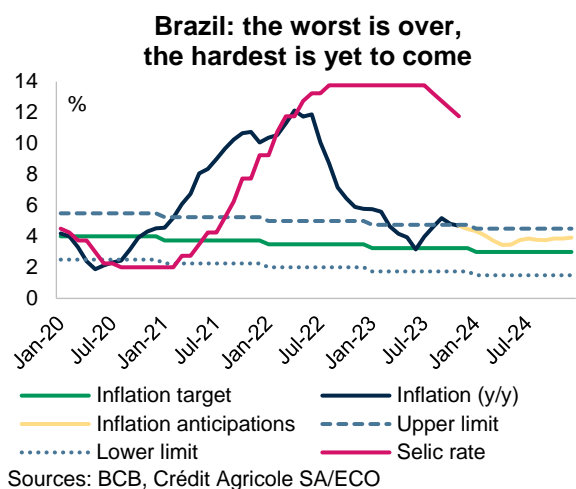
Inflation has fallen sharply, on (1) global disinflation (whose benefits have not been eroded, as is often the case, by the depreciation of the BRL, which is holding up well against the USD) **and (2) the very good results of the agricultural sector, which are promoting food disinflation.** Given the rise in wage costs and the resilience of the services sector, underlying inflation is also likely to resist: the ‘easy’ part of disinflation is over. Its downturn could be countered in 2024 by the impact of El Niño on food inflation, which would offset disinflation due to administered prices: a dual effect already incorporated into the central bank’s forecast (3.5% in 2024).

The central bank (BCB) seems reassured by the improvement in the international scenario (particularly in the US) and the underlying disinflation, but has no intention of lowering its guard. While the disinflation process is tending to slow and inflation expectations have only partially re-anchored, the BCB points out that monetary policy requires “serenity and moderation”. Without directly incriminating any fiscal laxity, it is also vital to firmly pursue the budgetary targets already set, as this is essential for anchoring inflation expectations and, consequently, for the conduct of monetary policy.

	2023	2024
 Annual change		
GDP	3,0%	1,5%
Inflation	4,5%	3,8%

What should we bear in mind? Firstly, the BCB should maintain a strategy of moderate easing, enabling it to ease financial conditions without jeopardising the convergence of inflation towards the 3% target. Our scenario is for the Selic rate to fall from 11.75% today to 9.25% by the end of 2024. Next, the BCB will be keeping a close eye on the fiscal path, believing that discipline (strengthening the framework and respecting targets) is essential to disinflation. While the new fiscal anchor and the desire to show a balanced primary budget are commendable, the adjustment is incomplete and the government must finally find the tools to increase its revenues on a permanent basis.

Catherine LEBOUGRE



⁸ According to the BCB, the average cost of credit stood at 22% in October 2023; however, during the monetary easing linked to the pandemic, this cost remained high (16.7% at its lowest in December 2020); YoY growth in loans to businesses and households is now negative and very slightly positive

⁹ The investment rate for Q323 was 16.6% of GDP, down on the same period in 2022 (18.3%). The savings rate was 15.7%, also down on Q3 of the previous year (16.3%).

RUSSIA: MORE RESILIENT THAN EXPECTED

Economic growth has reaccelerated in Q2 and Q3. After four consecutive quarters of annual contraction, GDP growth reached 4.9% YoY in Q2 and 5.5% YoY in Q3. This has reflected base effects (sharp slowdown after the beginning of the war in Ukraine), but also the resilience of domestic demand, both private consumption and investment.

The rise in inflation was strong initially. As a consequence, despite the nominal monetary tightening a year and a half ago, real interest rates dipped into negative territory until March 2023. Military spending has also supported growth (larger government deficit). Hydrocarbon exports have also remained strong, as Russia has managed to redirect them to countries of the Global South.

Slowdown expected in 2024

Looking forward, we expect a slowdown in 2024. The CBR has hiked its policy rate again rather aggressively from July 2023, keeping real rates quite high in positive territory. This weighs on domestic demand looking ahead.


Monetary policy as a political shield

The authorities have also put in place regulatory measures aimed at supporting demand for the RUB, such as mandatory repatriation and conversion of FX revenue in 43 industries. These measures may be

extended beyond the initial six-month period if necessary.

That way, the central bank is continuing to use monetary policy as a political shield to limit the RUB's volatility despite the sanctions.

On the current front, after record large surpluses in 2022 on the back of record oil prices and weak domestic demand, the current account has deteriorated in 2023. However, the surplus has remained decent compared with the pre-war period, also partly because the price of oil denominated in RUB remains relatively high.

 Annual change	2023	2024
GDP	2.0%	1.0%
Inflation	5.9%	5.5%

Elections

Elections are due in March. The suspense is limited. Vladimir Putin is likely to be re-elected. The focus will likely be on the participation rate in the backdrop of the war in Ukraine, and on the level of transparency.

Sébastien BARBÉ

Brent prices



Source: Crédit Agricole CIB

INDIA: ANOTHER YEAR OF OUTPERFORMANCE

Government spending fuelling growth, the weather a risk

We expect another year of economic outperformance by the Indian economy. Despite a higher cost of living and higher interest rates due to a tightening in monetary policy, consumption remains strong. India is picking up some of China’s lost supply-chain links as investors de-risk from China. Higher rates have modestly dented business sentiment. Despite firm business sentiment, private sector investment remains modest, but the government has increased by a third its already-significant infrastructure spending. **Real GDP growth is forecast to slow to 5.8% in 2024 from 6.1% in 2023.** Tighter monetary policy and weakening global trade will weigh on growth. **There is a downside risk to growth from El Nino,** which will last until Q224 and weigh on agricultural production. The Southern Oscillation Index (SOI) remains deep in El Nino territory.

RBI’s tight monetary policy tightening, lower oil prices and stabilisation in the INR will see headline inflation fall from 5.5% in 2023 to 4.5% in 2024. A slightly below average monsoon has taken upward pressure off food prices, but there are upside risks due to El Nino. The government will avoid significant food price inflation ahead of the general election by curbing food exports. Lower levels of economic outperformance and weaker oil prices will see India’s current account balance decline from -2.2% of GDP in 2023 to -1.8% of GDP in 2024. The risk to the deficit is to the upside if El Nino weighs on exports.


A better year ahead for the INR

Higher UST yields and a record-high trade deficit have weighed on INR in 2023. While oil prices were softer helping India’s terms of trade, falling food prices weighed on its trade balance. The outperformance of Indian and broader Asian equities by US equities also weighed on the currency. 2024 will be a better year for the INR and we forecast USD/INR to fall to 81 by end-2024. UST yields will head lower as the Fed cuts rates. We expect RBI to lag these Fed rate cuts. El Nino will boost food prices and India’s terms of trade; we acknowledge this will also hurt India food production,

however. The magnificent tech seven in the US will not continue outperforming other stock indexes and make US assets look more attractive relative to Asian assets.

Quote: text = 3 lines max

JP Morgan announced that from 28 June 2024, it will begin including Indian government bonds in its global Emerging Market bonds index. The inclusion will be staggered over ten months. Analysts’ estimates are for USD25bn of capital inflows, which is modest when compared to regular foreign investor inflows, the size of the Indian government bond market and the daily turnovers in the INR spot and NDF markets. So, these fresh inflows into the Indian Government Bond market are unlikely to turn the tide in the INR.

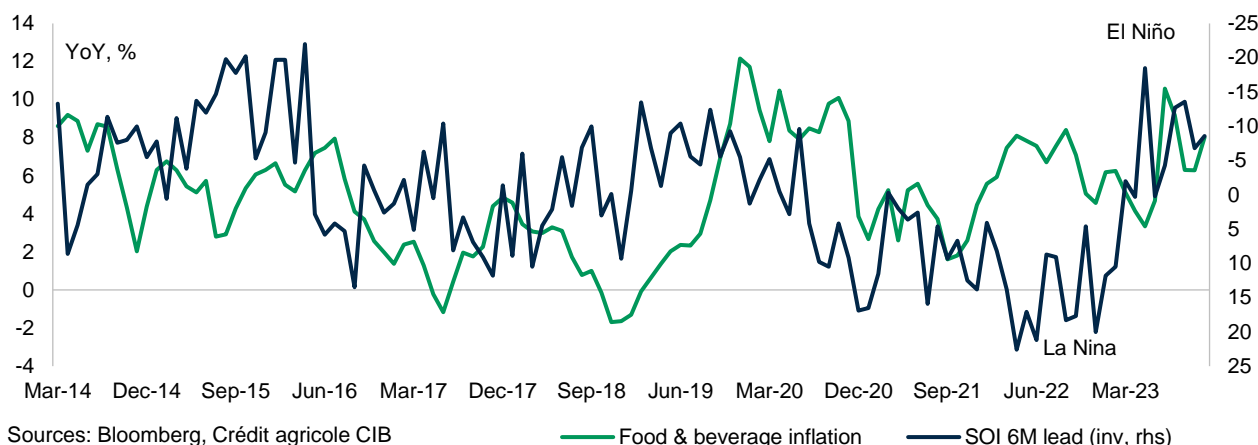
 Annual change	2023	2024
GDP	6.1%	5.8%
Inflation	5.5%	4.5%

Modi to stay in charge

Opinion polls and state election outcomes point to a comfortable victory by the incumbent NDA coalition government led by BJP leader and PM, Narendra Modi at the next general election likely to be held around April-May 2024. **The risk around the election is the NDA losing its absolute majority slowing Modi’s reform efforts.** Such an outcome would weigh on the INR and Indian assets but is unlikely. While the previously fractious opposition parties have united under the I.N.D.I.A banner raising its chances against the NDA, I.N.D.I.A has not chosen a PM candidate and is unlikely to before the election. This indecisiveness will hurt its chances of denting Modi’s lead in the polls. I.N.D.I.A is also underperforming in state elections.

David FORRESTER

India: El Nino threatens further food prices inflation





SECTORS

Oil – 2024 is looking very much like 2023


Gas – A balanced market, but exposed to the slightest disruption

Oil – 2024 is looking very much like 2023

OPEC+ is expected to remain active to ensure that the market stays balanced amid weaker growth in demand. However, market uncertainty will remain high throughout 2025 given Donald Trump’s potential return to the White House and his future policy on Russia and Iran.

The OPEC+ meeting held on 26 November was unable to put a stop to the slow erosion of oil prices over the last quarter of the year. At USD75 per barrel as 2023 comes to a close, oil prices have fallen back to their level before Saudi Arabia’s additional unilateral cut in July. Although substantial, this voluntary cut of 1m barrels per day was partly offset by (1) an increase in non-OPEC+ supply – especially US and Brazilian production – and (2) lower-than-expected growth in demand, which appears flat for the moment. Unsurprisingly, by continuing at October’s production levels, OPEC+ did not change the market balance. Even though this latest OPEC+ meeting revealed some divergences in interests among members, it also showed how much importance Saudi Arabia places on its relationship with Russia and its compliance with its commitments to reduce production. Indeed, Russia’s contribution to controlling supply is much more critical than any new members of OPEC+. Furthermore, Brazil’s membership would improve the ability of OPEC+ to control global supply. Currently, Brazil produces slightly more oil than the United Arab Emirates. Alongside the US, Brazil is one of the producers that has sharply increased its production, thereby helping to mitigate the impact of Saudi Arabia’s

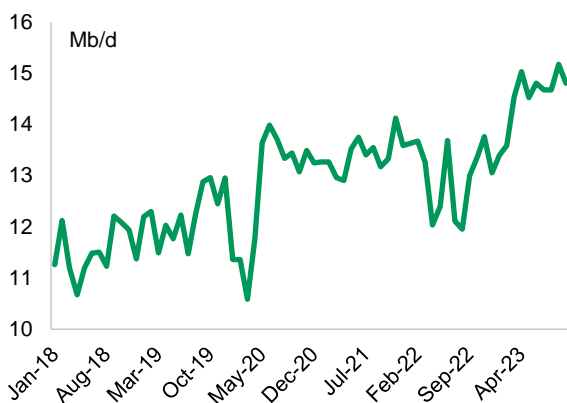
1m barrel a day cut in the summer. While Brazil is only officially joining OPEC+ as an observer, the country may also help to control global supply.

	Average oil price (barrel)
H423	87,5 \$
2024	87 \$

Our scenario is based on growth in demand of 1m barrels per day in 2024 and 2025. Saudi Arabia and Russia’s leadership of OPEC+ will help the group adapt its production to keep average oil prices at between USD80-90 per barrel. However, Donald Trump’s potential return to the Oval Office in 2025 could shift this supply balance. Specifically, a shift in US foreign policy – getting closer to Russia while shutting out Iran – could have a significant impact on the oil market.

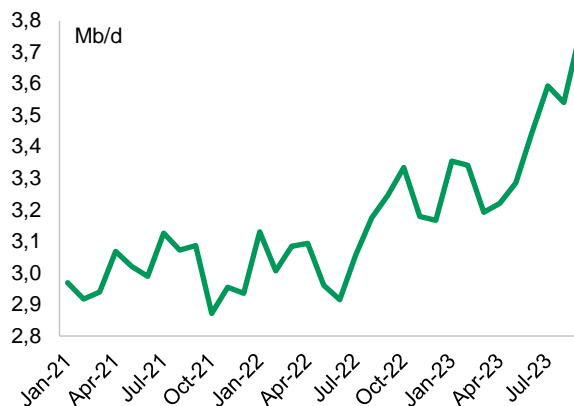
Stéphane FERDRIN

China: oil apparent demand



Source: Crédit Agricole S.A./ ECO

Brazil: oil production



Source: Crédit Agricole S.A. / ECO

Gas – A balanced market, but exposed to the slightest disruption

The natural gas market in 2024 is expected to be broadly similar to 2023 assuming a relatively mild winter in the northern hemisphere. However, this impression of “normalcy” should not hide the fact that, in terms of global supply, there is not enough excess capacity to meet any sharp increase in demand.

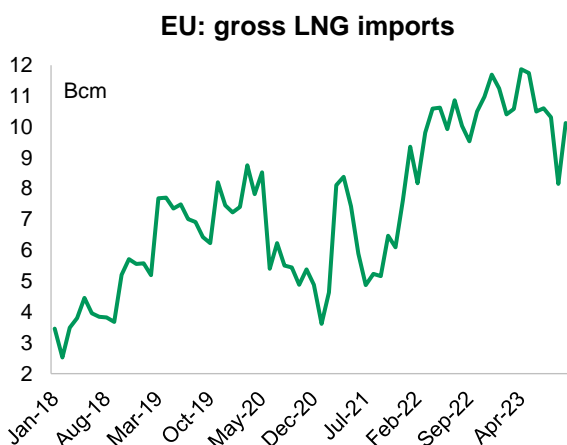
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In these early days of winter, the European natural gas market looks much like it did last year. **The EU’s imports of liquefied natural gas (LNG) are fairly consistent, averaging about 10bn m³ per month.** The US and Norway remain Europe’s largest natural gas suppliers. In addition, natural gas consumption is still under control. Demand from the industrial sector is yet to recover (except slightly in Spain) and households are continuing to be frugal. Increased availability of France’s nuclear reactors, hydropower plants and higher production of renewable energy have reduced the need for natural gas plants this year compared to last. As such, despite slightly less mild weather in October and November 2023 compared to the same months last year, **European inventories are higher than they were in November 2022.**

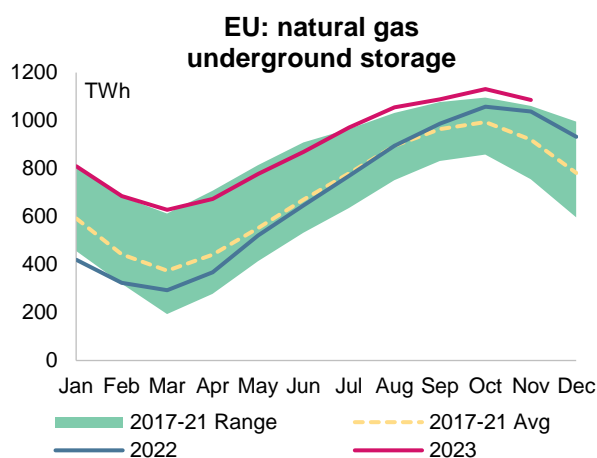
 EU LNG imports	
Q3 2023	29 billion m ³

Assuming that the 2023-2024 winter is not too harsh, inventory drawdowns should remain reasonable. In such a scenario, the market should remain fairly well balanced throughout 2024. As such, we can expect spot prices for natural gas on the European market to remain close to their 2023 levels, ie, between EUR30-70/MWh. However, **like last year, the natural gas market will remain vulnerable and exposed to even the slightest disruption to supply or any increase in demand to above normal levels.** As we wait for new natural gas production capacity to come online, European industries and households must continue to remain frugal.

Stéphane FERDRIN



Source: Crédit Agricole S.A./ECO



Sources: GIE, Crédit Agricole SA / ECO



MARKETS

Monetary policy – Be patient

Interest rates – Tempered optimism

Exchange rates – When the dollar smiles a little less

Monetary policy – Be patient

While the major central banks appear to have reached the end of their rate hikes, they have not yet finished with inflation. The mechanical and rapid decline in total inflation must be followed by the more difficult weakening in underlying inflation. Like growth, core inflation is likely to resist. This justifies a scenario of cautious monetary loosening.

FEDERAL RESERVE: A DOVISH PIVOT?

At various points in time, Fed speakers have cited three key questions that would need to be answered during the current tightening cycle:

- ✓ How fast would rates need to rise?
- ✓ How high would rates need to be taken?
- ✓ How long would rates need to be held at this peak?

With FOMC members sending strong signals that they are done with rate hikes, the remaining question of “how long?” will be the key in 2024. We expect that the Fed will want to see core PCE below 3% for two to three months before feeling comfortable cutting rates, with the first 25bp cut arriving only in July. This would be followed by a gradual pace with one more 25bp cut in November to result in an upper bound of 5.00% at year-end. These early cuts would be driven by a desire to avoid passive tightening of the real policy rate that would result if the nominal policy rate were held steady while inflation declines.

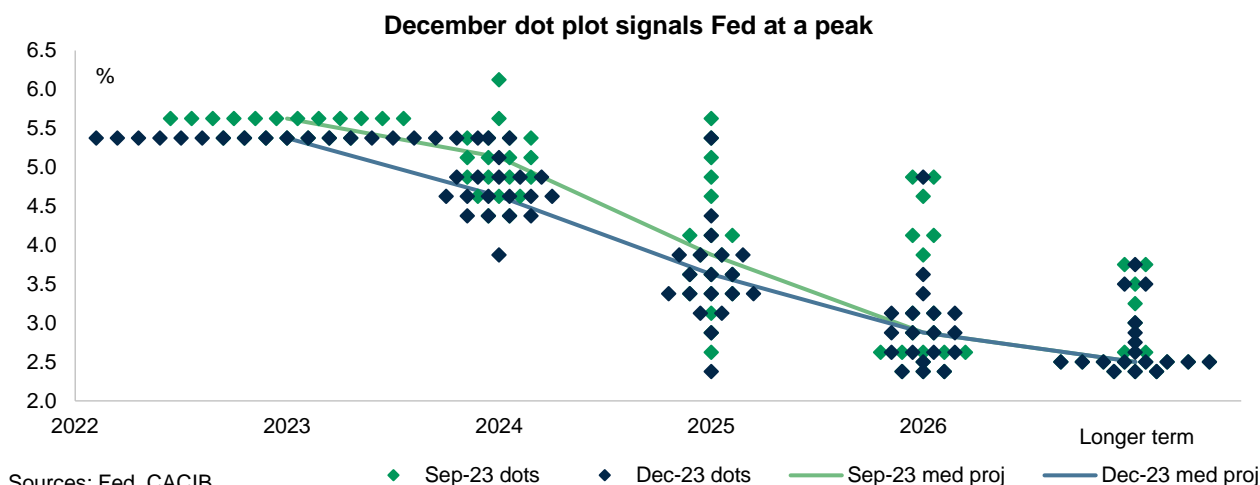
As the weakness in growth in our forecast becomes more evident by early 2025, the Fed ups the pace to 25bp per meeting from Q125 through

Q325 to take the upper bound to 3.50%. That said, with only a mild recession and inflation still above 2%, the Fed is hesitant to cut too deeply, and pauses at 3.50% as growth in the latter portion of 2025 stabilises, in part due to these cuts. However, we believe that the Fed may have a hard time moving much below the 3.50% range given the persistence of above-target inflation in our base case scenario and the possibility of a higher r^* .

The Fed will want to see core PCE below 3% for two to three months before feeling comfortable cutting rates.

That said, the Fed’s December meeting was much more dovish than we had anticipated, with Powell noting that rate cuts were at least on the Fed’s radar as a topic of discussion in the near future. **While we are not changing our forecast for now, the December FOMC does flag risks of an earlier start to and/or a more aggressive pace of the upcoming easing cycle.**

Nicholas VAN NESS



EUROPEAN CENTRAL BANK: NOT THERE YET

We expect inflation to remain above 2.4% until the end of 2025 and we do not expect a recession in the Eurozone. In this context, we believe that the ECB will have to remain hawkish for most of 2024.

The first rate cut would happen in September 2024 (18 months before the convergence of inflation to 2%), and would be followed by five rate cuts until March 2025 (25bp each), so that the ECB would reach its neutral rate in Q225 at 2.5%.

We acknowledge the hawkishness of this call, after the recent repricing and the softer communication of the ECB, but the resiliency of the economy and the stickiness of inflation should warrant high rates for long.

On monetary portfolios, the quantitative tightening of the APP (started in March 2023) will reduce the ECB's holdings by EUR340bn (EUR28bn/month on average). Regarding the PEPP, the ECB will reduce its holdings by EUR7.5bn per month in H224, before ending all reinvestments in January 2025 (around, EUR17bn/month of reduction).

The remaining EUR393bn of TLTRO will be repaid in 2024, they could be marginally replaced by borrowing at MRO and 3M LTRO, but banks' need for liquidity is very small.

The review of the monetary framework is due in spring. We expect the ECB to confirm the current floor system and acknowledge that excess liquidity should remain permanently above EUR1.5trn to EUR2.0trn to

ensure a smooth transmission of the monetary policy; this mean that from the end of 2025, the ECB would have to re-inject liquidity to keep excess liquidity above EUR2trn.

The easiest way would be new purchase programmes, but we believe that more favourable refinancing operations (with longer duration and lower rate than the 3M LTRO) would be a better way to steer banks' liquidity.

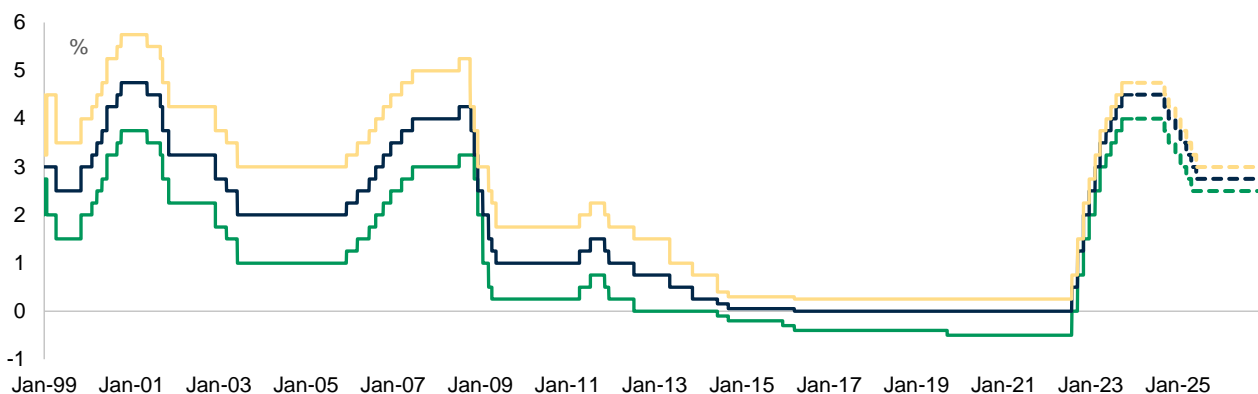
The resiliency of the economy and the stickiness of inflation should warrant high rates for long.

The ECB would also have to address the cost of excess liquidity (remunerated at the deposit rate). An increase of the MRR would be counterproductive, as it would weaken banks' liquidity and consequently hamper the transmission of the monetary policy. Instead, we expect the implementation of a reverse tiering, in which banks would be forced to put a certain multiple of their MRR at a dedicated facility, remunerated at 0% – but this facility would be LCR eligible, contrary to MRR.

At the same time, we expect the ECB to reinstate the 0% ceiling for government deposits. It would be consistent with the new framework and would have limited impact now that collateral availability has improved.

Louis HARREAU

ECB rate outlook



Sources: ECB, Crédit Agricole CIB — Deposit — Refi — MLF — Deposit (F) — Refi (F) — MLF (F)

BANK OF ENGLAND: A SHIFT TO THE “HIGHER FOR LONGER” STRATEGY

Price data has been going in the right direction for the BoE in recent months, confirming the view that there is no need for additional rate hikes. CPI inflation fell to 6.7% in September and in Q323, below expectations in the August monetary policy report, before dipping to 4.6% in October. This downside surprise was largely due to a larger-than-expected decline in core goods inflation. However, services inflation (down to 6.6% in October) has also been slightly weaker than expected. The labour market has continued to ease gradually. Even though the unemployment rate (at 4.2%) has not increased further, vacancies have continued to fall and currently stand around 150k above their pre-pandemic level. The vacancies-to-unemployed ratio, an indicator of labour market tightness, has declined to its lowest since July 2021. The slowdown in earnings growth gathered pace in October, driven by private sector wage growth, which declined to 7.3% from 7.9% in September. While wage growth is still too high to be consistent with meeting the 2% target, the moderation in price and wage inflation alongside the signs of continued disinflation in the labour market is reassuring. Furthermore, GDP growth has slowed in H223 and may weaken further in the coming months as sizable impacts from the past monetary tightening are still to come through. The BoE expects CPI inflation to fall sharply in the course of next year, although more slowly than in 2023. CPI inflation is set to reach 4.8% in Q423, 4.5% in Q124 and 3.8% in Q224. It is expected to return to the 2% target by the end of 2025 and fall below the target thereafter, reflecting an increasing degree of economic slack.

However, we are still far from a reversal in monetary policy. It needs to remain restrictive in the coming months in order to ensure that inflation will return sustainably to target. Inflation forecasts remain surrounded by upside risks. The labour market is still historically tight. Nominal wage growth is too high and projected to remain elevated in the short term (close to 6% in Q124 and 5% in Q424), which implies the risk of continued stickiness in services inflation. The BoE

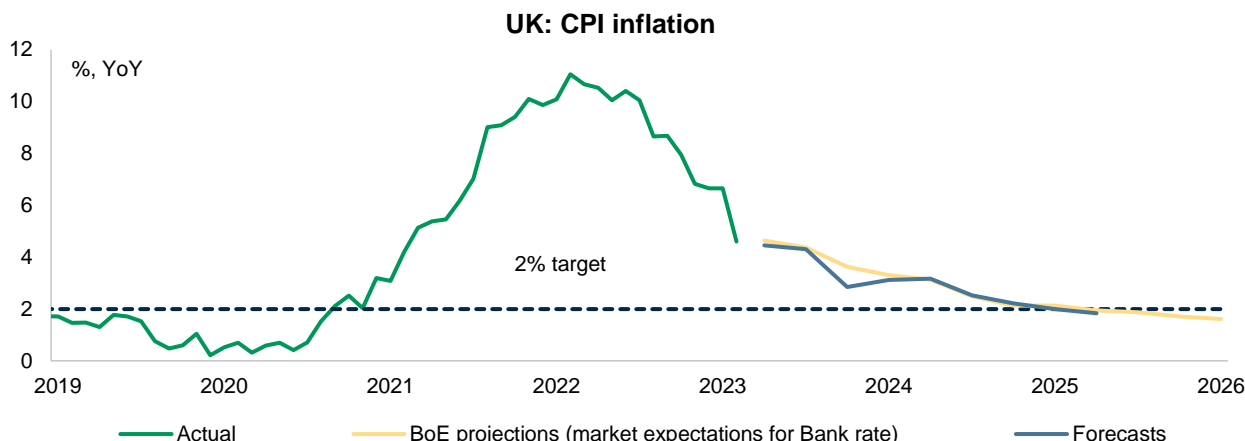
continues to judge that second-round effects in both domestic prices and wages will be slow to unwind. Reflecting the higher expected path of wage growth, in November, the MPC decided to slightly increase the scale of its judgement on the persistence of domestic prices in its modal projection. In addition, it revised upward its estimate for the medium-term equilibrium rate of unemployment (to 4.5%), which implies that the labour market needs to ease further before domestic inflationary pressures disappear. Hence, barring a major downside surprise in the data in the short term, such as a recession, risk management considerations imply that rates will have to be held ‘higher for longer’ to get inflation sustainably to target.

The BoE continues to judge that second-round effects in both domestic prices and wages will be slow to unwind.

One additional factor has raised the bar for rate cuts in H124: the fiscal easing (0.7% of GDP) announced in the Autumn statement on 22 November. While key policy measures reflect the government’s aim to improve the supply-side of the economy, in the near term, the cut in the NICs is expected to provide a modest boost to demand relative to supply. At the margin, this supports the case for the BoE keeping interest rates on hold for longer. Furthermore, the Spring budget is more likely that not to see additional fiscal easing ahead of a general election which will likely take place in H224 (or May at the earliest).

All in all, we believe that the BoE will be sufficiently confident to start cutting rates in August 2024, one year after the latest rate hike. This would be justified by the backdrop of weak growth, easing labour market tensions and a continued sharp fall in inflation in H124. We expect two 25bp rate cuts in H224, followed by four more cuts in 2025.

Slavena NAZAROVA



Sources: BoE, Crédit Agricole S.A.

BANK OF JAPAN: NO TIGHTENING IN 2024

BoJ not to tighten throughout 2024

Markets continue to speculate as to whether Japan's central bank will tighten its policy over the coming months, especially after the BoJ adjusted YCC on three occasions over the past year. However, the adjustments since last December were likely to strengthen the current YCC framework and not a first move toward tightening monetary policy.

However, the risks of a possible global economic slowdown, remaining structural deflationary pressures, and the government maintaining its commitment to the Abenomics policy framework should keep the BoJ from moving to tighten in 2024.

The government has indicated that it aims to pull Japan completely out of deflation by shifting the economy away from a "cost-cutting" economy. As part of achieving such a goal, it has indicated that it continues to expect the BoJ to maintain the current easing policy framework in order to work in coordination with the government to support Japan's economy.

With the BoJ taking into account the government's expectations, the central bank's stance has shifted and is now emphasising that a virtuous cycle of wage growth and inflation needs to materialise before changing its policies compared to before when it only emphasised a pick-up in wages.

The change in the BoJ's stance is likely a way for the central bank to limit speculation that it will start the tightening process as soon as it sees wages growing during next year's annual wage negotiations. The BoJ is likely signalling to markets that it will be some time before the tightening process starts.

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

With uncertainties in the global economy remaining, 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. The BoJ will likely maintain the

current monetary easing policies 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 BoJ is now emphasising that a virtuous cycle of wage growth and inflation needs to materialise before changing its policies compared to before when it only emphasised a pick-up in wages.

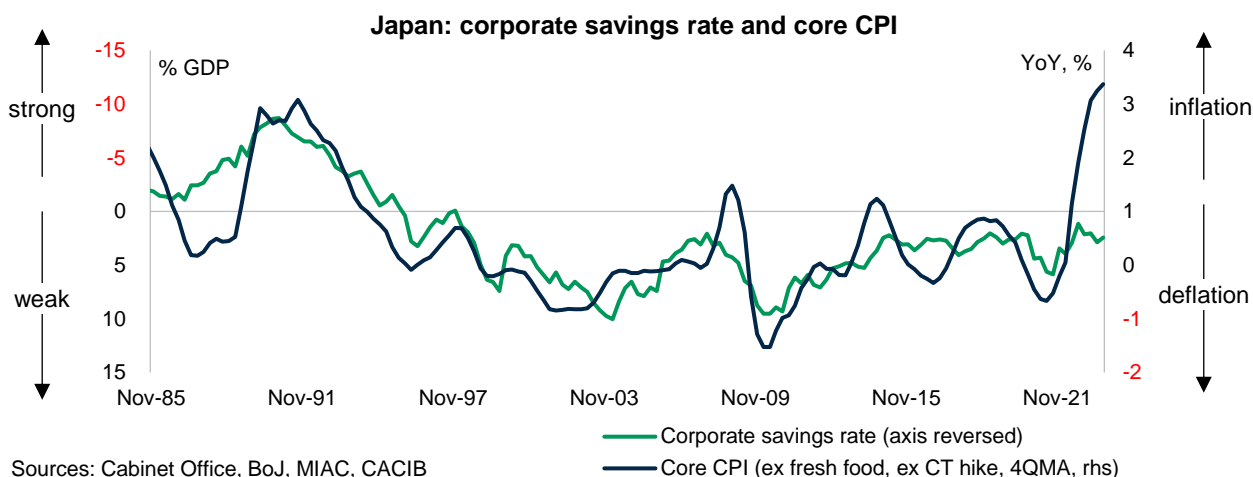
The central bank seems to be aiming to achieve the 2% inflation target by the time the global economic recovery materialises in a few years' time. We maintain our view that the tightening process will start after the BoJ can forecast inflation remaining at or above 2% in FY26 and FY27 in the April 2025 Outlook report.

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.

Current easing policies to be maintained but slight adjustments to alleviate side-effects remain possible

Our main scenario continues to be that if the US economy slows down, (1) the Fed will not raise its policy rate any more (our US economist expects no more rate increases by the Fed); and (2) financial markets will maintain their pricing of possible interest rate cuts in 2024. In such a scenario, we expect 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 yields will likely give the BoJ room to maintain the current YCC policies. However, the BoJ can move to further adjust the current easing policies to alleviate any side-effect that may strengthen.

Arata OTO – Takuji AIDA



Interest rates – Tempered optimism

Market expectations for interest rate cuts appear to be aggressive. Falling but resilient inflation, the absence of a collapse in growth, the need to avoid financial conditions easing too quickly: all these factors suggest that central banks should be patient and argue in favour of a scenario of moderate cuts in long-term interest rates, once the sequence of rate cuts has really got underway.

USA: CURVE STEEPENING INTO FED EASING CYCLE

The perception that inflation pressure is receding and that restrictive monetary policy is bound create economic slowdown in 2024 is baked into market pricing and has become broad consensus view. **We expect Treasury yields to decline in 2024, as the Fed finishes the aggressive rate hike cycle and starts cutting rates.** We forecast the 10Y Treasury yield to trade at around 4% at the end of 2024.

The Fed signalled more willingness to cut rates at the 13 December meeting by increasing implied easing from 50bp to 75bp for 2024 in the updated dot plot, which was a shift not totally expected by many market participants. **Although the yield curve should stay inverted in early 2024, inversion will gradually disappear later in the year as the easing cycle begins.** We expect the Fed to be gradual in cutting rates given the stubbornly high inflation and resilient labour market, although progress towards lower inflation has been made and the labour market has been cooling. As a result, we recommend patience in putting on curve steepeners.

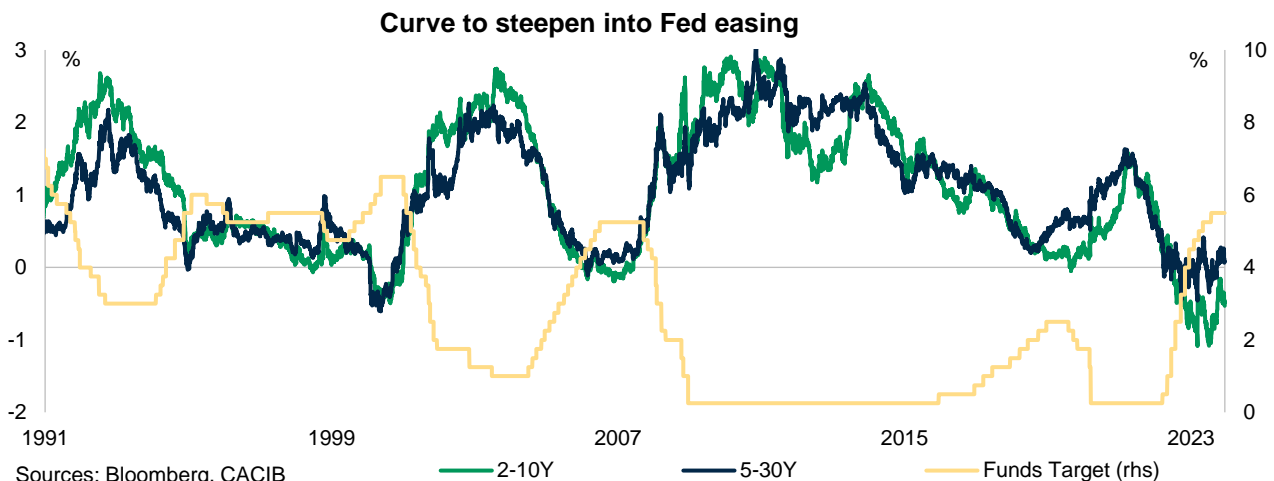
We have added **2025** in our forecast horizon, and expect continued **bull steepening**, as Fed rate hikes begin to bite more noticeably in late 2024 and the Fed becomes more aggressive in cutting rates. We have the 10Y Treasury yield declining to 3.80% and the 2-10Y curve steepening to 70bp at end of 2025 forecast.

Other factors contributing to our rate outlook include fears of weakening foreign demand, as well as further tweaks to the Bank of Japan's Yield Curve Control policy. Demand at recent Treasury auctions has been mixed. While the market impacts from the November 2024 US elections are far from certain, the outlook of high deficit and rising Treasury supply will not change over the medium term.

The Fed cited financial conditions as a factor that could drive the future rate path, financial conditions can move in both directions.

US Treasury reported a USD1.695trn deficit in fiscal year (FY) 2023, up from USD1.375trn in FY22. The outlook does not improve in the medium term, as the Congressional Budget Office (CBO) forecasts a USD1.6trn deficit for FY24, and USD1.8trn for FY25. Whoever wins the presidency will have less fiscal room for manoeuvre than prior administrations. Federal government interest payments have surged to USD1trn per year.

Treasury term premium has dropped recently amid falling yields. The 10Y ACM term premium is about -15bp from a recent peak around +50bp. Financial conditions have eased since the September FOMC meeting. Overall, asset managers seem to be trading on the long side, as rates looked attractive when the 10Y yield reached 5.00% last October. In Treasury futures, leveraged investors remain short, while asset managers stay long. While the Fed cited

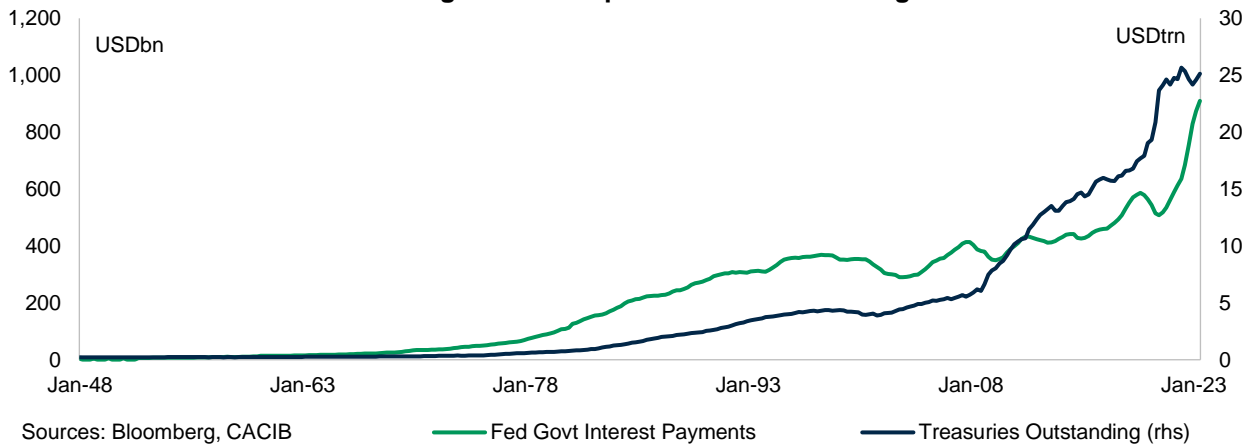


financial conditions as a factor that could drive the future rate path, financial conditions can move in both directions. If Treasury yields continue to decline further, then that could paradoxically raise the risk that

the Fed would feel compelled to keep rates high for longer.

Alex LI

Rising debt stock pushes interest cost higher



EUROPE: NOT SO FAST

Higher policy rates have done their job in arresting the demand for credit, *via* higher costs, as well as restraining its supply. But while banks have stopped lending in broad terms, we do not think the build-up of household leverage was a defining feature of the last few years. Viewed through large budget deficits, public sector money creation is a key feature of this with risks that deficits could be increased further in case of a deeper economic slowdown.

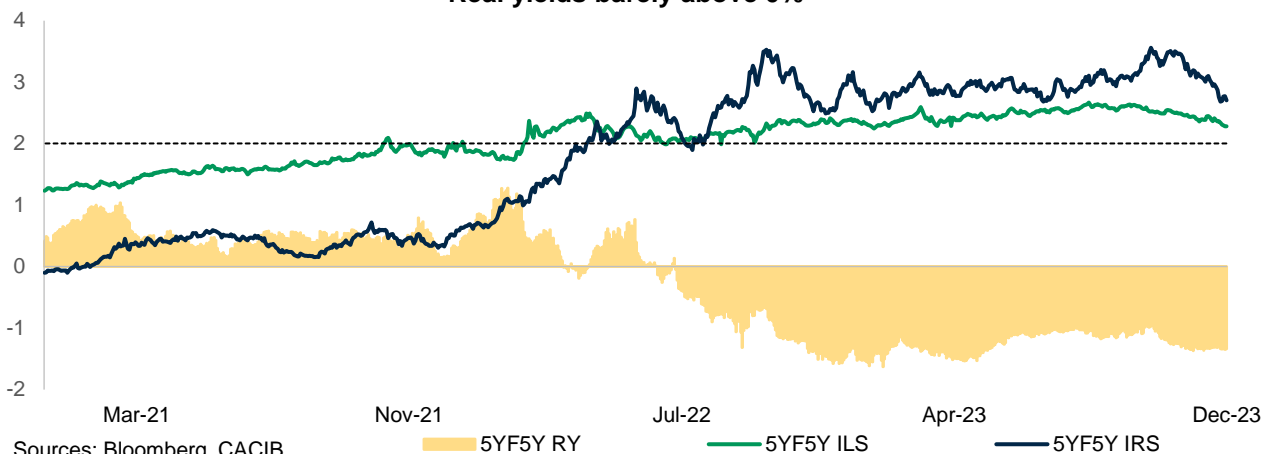
Meanwhile, QT, the process of whittling down central bank balance sheets via the cancellation of reserves upon bonds maturing, is frankly too slow to have a big impact on financial conditions. **Hence the main policy tool to reduce demand, to combat inflation, has been policy rates.** Meanwhile, QT in the background – and likely to accelerate further – should continue to very slowly impact financial markets. To be sure, the combination of QT and higher policy rates should act to increase EUR real yields as inflation expectations fall closer to 2%. Markets however have shifted to

expecting a series of ECB rate cuts next year as (German) growth has weakened and inflation continues to fall.

To us, the idea that the ECB should be accelerating its tightening through faster QT in the early part of next year seems at odds with the markets' expectations for rate cuts to be implemented at that same time. Moreover, the easy decline of inflation readings, through base effects, is now over, so the extrapolation of inflation below the ECB's target by the summer of next year seems overly optimistic to us. Therefore, given market positioning, our higher inflation forecasts and more optimistic stance on overall Eurozone growth for next year implies that **we expect to see a market correction in H124.**

With over a decade of low and negative yields, investors are wary of missing a buying opportunity. To us, this explains why the introduction of aggressive rate cuts has not been accompanied by the EUR curve

Real yields barely above 0%



steepening as one might usually expect. If the early rate cuts for next year do not come to fruition, one might expect the curve to bear flatten but we must also contend with the possible impact of the UST (and JGB) market correcting in addition to the usual Q1 strong supply calendar. Hence the curve has become less straightforward to call for next year and we would opt to simply buy front end ILS or be short duration.

With over a decade of low and negative yields, investors are wary of missing a buying opportunity.

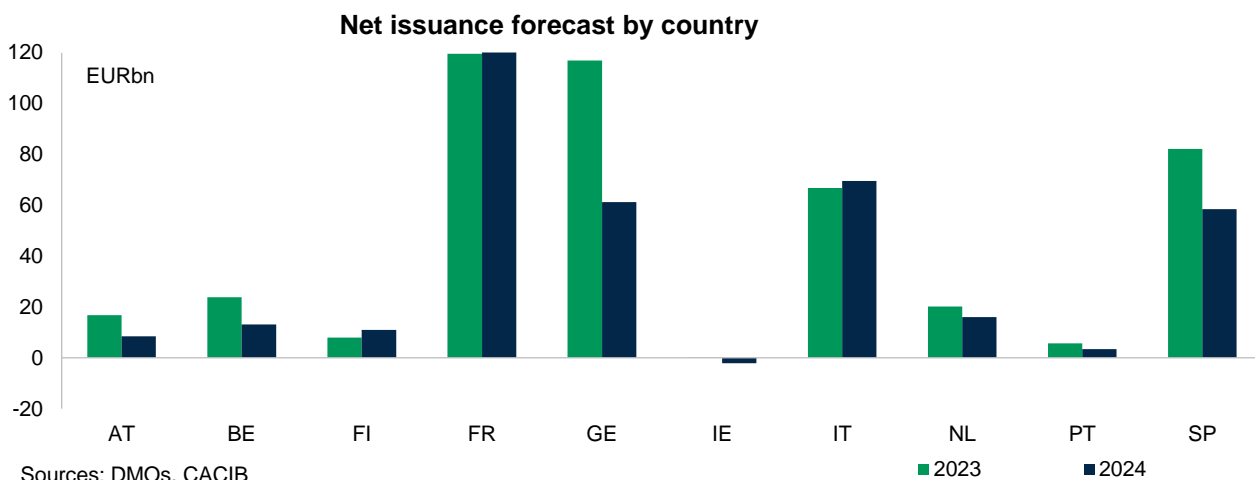
For H2 we would turn more constructive on EGB markets as tight policy is further transmitted through economies and inflation at target on a forward horizon looks more credible. **With 75bp of ECB cuts expected by us at the end of 2024, markets should start their bull steepening phase of the cycle.** And as we look further into 2025, what starts initially as 5-30Y steepening translates progressively into more 2-10Y segment steepening with the policy rate getting closer to neutral.

For EGBs, our gross issuance forecast for medium/long-term bonds from the big 10 EGB

issuers stands at EUR1,222bn, down EUR17bn from 2023, on the back of higher redemptions (EUR846bn, up EUR67bn). Net issuance should therefore drop to EUR376bn which is below our initial estimates despite governments settling on more proactive budgets to counteract part of the ongoing economic slowdown. Lower issuance expectations from Germany and Italy more than offset the increase in other jurisdictions.

The German Court decision ruling – that the transfer of EUR60bn unused funds from the WSF-Covid fund to the Klima- und Transformationsfonds (KTF) was unconstitutional and that special purpose funds cannot be used as flexible & transferable supplementary funding – leaves some open questions. German budget uncertainty remains, and the debt brake rules, which would mean structurally lower gross supply over the coming years, are under scrutiny. In the current context, governments may not like domestically- or externally-imposed spending rules, so it remains to be seen how far these will be challenged.

Bert LOURENCO



Exchange rates – When the dollar smiles a little less

The dollar is likely to come under slight downward pressure as its yield advantage fades, before the return of risk aversion supports it towards the end of the year.

DEVELOPED COUNTRIES – 2024 OUTLOOK: THE DARK SIDE OF THE “USD SMILE”

Using the “USD smile” as the analytical basis of our G10 FX outlook, we expect the USD’s waning rate advantage to continue to push it towards the bottom of the USD smile around mid-2024. That said, **some negatives seem to be in the price of the USD already, given that the rates markets are pricing in overly aggressive Fed easing in 2024 in our view.**

The analytical basis of our 2024 FX market outlook is the so-called ‘USD smile’, which explains the USD performance with two key correlations:

- ✓ Positive correlation with US rates and yields;
- ✓ Positive correlation with risk aversion.

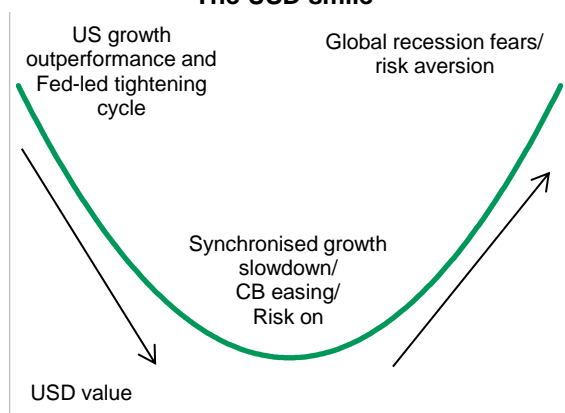
At present, while the policy divergence between the hawkish FOMC and the rest of G10 central banks remains considerable, market expectations of a dovish Fed pivot in 2024 have been eroding the USD’s rate appeal and pushing it down the left-hand side peak of the USD smile. That being said, we believe that the US rates markets are getting ahead of themselves pricing in Fed rate cuts in 2024. The USD could therefore regain some ground in early 2024 as the Fed pushback against the dovish market expectations intensifies, especially if this further weighs on risk sentiment at the start of 2024. Any USD-upside should be limited, however.

For the remainder of 2024, our FX outlook is based on the expectation that the USD rate and yield advantage would continue to wane as the US economic outlook deteriorates and thus converges to the rest of G10. As a result, the USD should move towards the bottom of the USD-smile in six to nine months.

A relatively more dovish ECB policy stance and growth concerns in the Eurozone could push EUR/USD lower in 2024.

The other key driver of the USD outlook is the resilience of global risk sentiment. We have previously identified a number of triggers of risk aversion and thus renewed USD strength that could

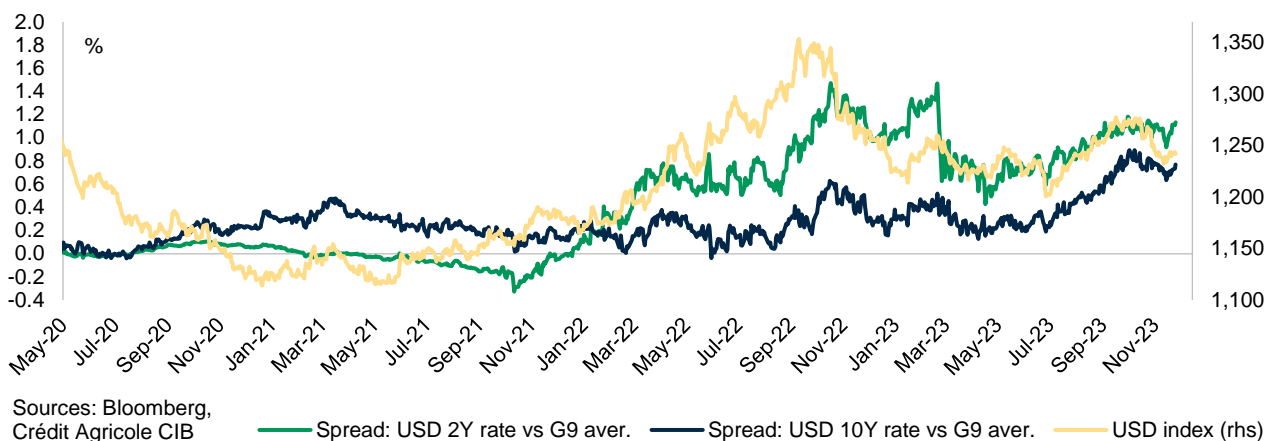
The USD smile



Source: Crédit Agricole CIB

A mild recession and political risks in the US as well as persistent global geopolitical risks could further fuel risk aversion and support the USD in Q424. Assuming that risk aversion would fade and the Fed rate cuts become more aggressive, we see the USD broadly lower in the very long term. A relatively more dovish ECB policy stance and growth concerns in the Eurozone could push EUR/USD lower in 2024. We expect abating global risk aversion and aggressive Fed cuts to push the pair higher once again in the very long term.

USD index vs spread between US rates & yields & the respective G9 averages



allow the currency to climb back towards the top of the USD smile:








- ✓ A global economic downturn and a US recession in late 2024 and early 2025 could be supportive for the USD initially;
- ✓ Growing US political and global geopolitical risks. A potential election win by Donald Trump could fuel concerns about a (global) trade war in a boost to the USD.

Our FX outlook further reflects the expectation that cyclical deceleration and political risks in the US as well as lingering global geopolitical risks could start to offset the risk-positive impact from Fed easing in Q424. These developments could support the USD in late

2024 and early 2025 especially vs the likes of the EUR and the GBP that could be disadvantaged by the relatively more dovish ECB and BoE. The USD should climb back up on the right-hand side of the eponymous smile.

In the very long term, we note that the USD-positive impact from market uncertainty over the US cyclical or political outlook tended to fade over time. We therefore expect that the risk aversion should abate. This coupled with the still dovish Fed (we expect 150bp of cuts in 2025), should once again weigh on the USD more broadly and push the currency towards the bottom of the USD smile.

Valentin MARINOV

Individual currency outlooks	
	A relatively more dovish ECB policy stance and persistent concerns about the outlook of the Eurozone economy could keep the EUR under pressure in 2024 especially if US growth concerns and political risks fuel risk aversion in Q424. In 2025, we expect abating risk aversion and aggressive Fed rate cuts to pull EUR/USD higher again.
	The currency should benefit from the start of the global easing cycle, BoJ policy normalisation and repatriation flows into Japan.
	We remain constructive on the CHF given its safe-haven appeal, but the end of the SNB's policy normalisation and FX overvaluation could pose risks.
	Converging outlook between the US and the UK could help stabilise the GBP outlook especially if a Labour election victory in 2024 eases Brexit angst.
	Supported in the run-up to the Fed easing cycle amid resilient commodity prices (on the back of a recovery in China and lack of capex). Persistent growth risks, returning US political risks and risk aversion could limit the gains in H224, however.
	To continue to struggle to retain higher-beta EUR proxy status, but could still recoup some ground in next 12 months with the help of the Riksbank.
	To continue to shine especially once the Fed starts to cut rates.

EMERGING COUNTRIES: BRAVE NEW WORLD?

We believe the backdrop should be favourable to a gradual and limited appreciation in 2024. The following factors favour such a view.

The end of the global tightening of monetary conditions, with the Fed being done with rate hikes in particular, and the market contemplating rate cuts suggests some relief for EM currencies. The EM-USD rate gap is not what it used to be, but it is still positive, and some EMs still present high interest rates.

The fact that the US economic slowdown should be a soft one is also consistent with the narrative of slow EM FX appreciation. It means EM exports will not suffer too much (all the more since we expect European and Chinese sequential growth to gain momentum in H124). At the same time, it will provide leeway for the Fed to cut rates.

However, the EM FX appreciation should be limited, for the following reasons, which also have to do with the US. First, there remains uncertainty about the pace of disinflation looking forward, and the possibility of interest rates expectations rebounding if the market realises it has been complacent.

Second, there is also a risk of a stronger-than-expected US slowdown. In that case, EM exports would suffer more and the external balance would be less supportive. The same would apply to the external contribution to economic growth.

Third, political and geopolitical risks could fuel FX volatility. There are plenty of elections in EM in H1 (beginning with Taiwan in January, and followed by Indonesia, Russia, Korea, India, South Africa and Mexico, just to mention the main ones). On top of this, the US election (November) may also fuel market worries, particularly as a Donald Trump victory could suggest that US-China tensions could intensify, and that import taxes could increase.

On a RV angle, most EM currencies display interesting expected returns, according to our forecasts, even compared with US Treasuries, although the risks explain these returns in many cases. EMEA continues to display interesting candidates for carry trades. Asia looks like a safer bet (but less exciting in terms of expected FX change). While we see Latin America to be stretched.

The EM FX appreciation should be limited, for reasons which mostly have to do with the US (interest rates and pace of economic landing).

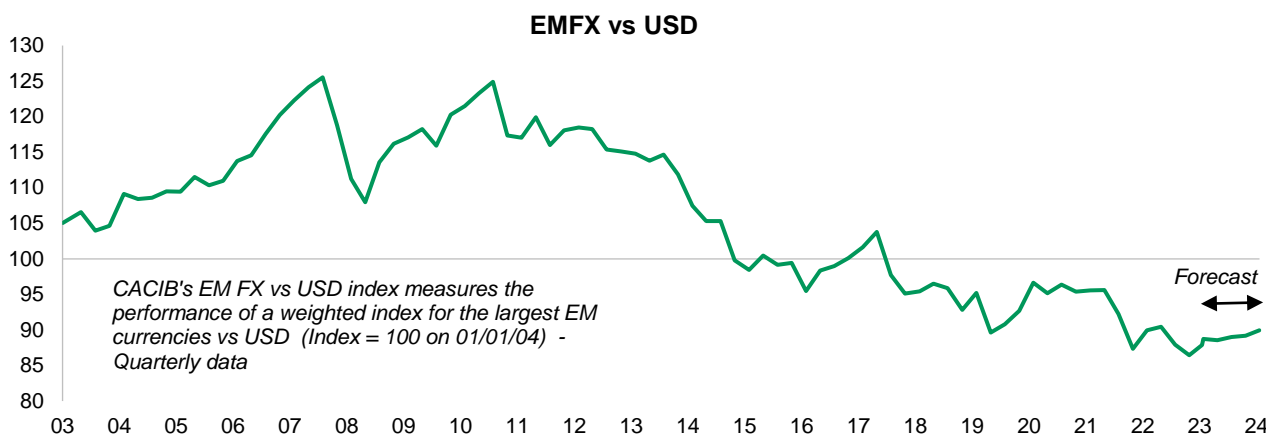
EMEA currencies display an interesting mix of still-high carry and re-accelerating growth (CE4 in particular). However, as the year goes on, monetary easing will erode the carry's appeal. In addition, non-cheap levels should cap the CE4 FX appreciation

The case for rotation looks quite strong in EMEA. Riskier markets should gain more attention in 2024, as CE4 currencies lose lustre. The TRY and to a lesser extent the EGP, contingent on the continuation of stabilisation measures and implementation of reforms, could return to fashion, thanks to high carry, with the most agile investors. The ZAR may also be worth considering, depending on the election results.

Asia looks like a safer bet. Many Asian currencies display lower carry compared with their EM peers, but also lower risk (stronger balance sheets). Asia should benefit from China's economic acceleration in H1.

Latam may be a riskier option. The carry remains high in many markets, but the valuations are stretched.

Sébastien BARBÉ



Source: Crédit Agricole CIB



ECONOMIC AND FINANCIAL FORECASTS

Economic forecasts

Interest rates

Exchange rates

Commodities

Public accounts

ECONOMIC FORECASTS

	GDP (yoy, %)			Consumer price (yoy, %)			Current account (% of GDP)		
	2023	2024	2025	2023	2024	2025	2023	2024	2025
United States	2.4	1.2	0.5	4.2	2.6	2.4	-3.1	-3.1	-3.0
Japan	2.0	0.7	1.8	4.0	2.1	1.6	2.0	1.3	1.3
Eurozone	0.5	0.7	1.4	5.4	2.8	2.5	2.4	2.8	2.7
Germany	-0.1	0.0	1.0	6.1	3.2	2.7	4.5	5.1	5.0
France	0.9	1.0	1.3	5.7	2.8	2.7	-1.0	-0.4	-0.4
Italy	0.7	0.6	0.9	5.9	2.5	2.3	1.0	2.5	2.5
Spain	2.4	1.6	1.4	3.4	2.7	2.1	2.2	1.2	0.9
Netherlands	0.2	0.7	1.2	4.1	2.3	2.7	9.1	9.0	8.9
Belgium	1.4	1.2	1.2	2.2	2.3	2.6	-0.2	0.3	0.3
Other advanced									
United Kingdom	0.5	0.4	1.2	7.4	3.4	2.1	-2.4	-2.0	-2.3
Canada	1.1	0.5	2.0	3.8	2.5	2.0	-0.8	-0.8	-0.8
Australia	1.8	1.2	2.0	5.8	4.0	3.4	0.6	-0.7	-0.8
Switzerland	0.9	1.8	1.2	2.2	2.0	1.7	8.0	8.0	7.6
Sweden	-0.2	0.3	1.8	8.5	3.2	2.1	2.5	1.8	1.4
Norway	1.1	0.5	1.1	5.5	3.6	3.0	30.3	13.5	14.5
Asia	4.9	4.6	4.6	2.3	2.4	2.6	1.3	1.2	1.1
China	5.2	4.4	4.2	0.3	1.3	1.6	1.8	1.2	0.8
India	6.1	5.8	6.3	5.5	4.5	5.2	-2.2	-1.8	-1.6
South Korea	1.3	2.3	2.1	3.7	2.4	2.2	1.9	3.5	3.5
Indonesia	5.0	5.1	5.0	3.8	2.8	3.0	-0.2	-0.4	-0.7
Taiwan	1.4	3.0	2.3	2.6	2.1	1.9	11.9	11.5	11.3
Thailand	2.3	3.4	3.2	1.5	2.4	2.0	1.1	2.8	4.6
Malaysia	4.6	5.0	4.7	2.8	2.4	2.3	2.2	2.8	3.0
Singapore	0.9	2.7	2.8	4.8	3.3	3.0	17.6	17.0	16.7
Hongkong	3.4	3.0	3.1	2.1	2.2	2.2	8.6	9.2	9.6
Philippines	5.2	5.8	5.7	6.0	3.6	3.3	-2.3	-2.1	-2.0
Vietnam	4.8	6.0	6.3	3.2	3.3	3.2	4.1	4.1	4.1
Latin America	0.3	2.0	2.1	5.9	3.4	2.6	-3.0	-3.1	-2.6
Brazil	3.0	1.5	1.8	4.5	3.8	3.5	-1.5	-1.7	-2.0
Mexico	3.2	1.8	1.5	5.8	3.8	3.5	-1.5	-1.4	-1.0
Emerging Europe	2.0	2.0	2.4	20.2	14.3	9.7	0.3	-0.3	-0.1
Russia	2.0	1.0	1.5	5.9	5.5	4.5	4.0	2.5	2.5
Turkey	3.5	3.0	3.0	53.0	40.0	25.0	-4.0	-3.0	-3.0
Poland	0.5	2.8	3.5	11.6	3.5	4.0	0.8	-1.0	-0.5
Czech Republic	-0.2	2.1	2.9	10.8	2.7	2.1	-0.7	0.1	1.2
Romania	1.5	3.5	3.0	10.5	5.3	3.6	-7.2	-6.5	-6.0
Hungary	-0.5	2.3	3.4	17.7	4.8	3.9	-2.2	-0.9	0.5
Africa, Middle East	1.7	2.8	2.9	16.1	11.3	7.5	4.0	2.8	2.6
Saudi Arabia	-0.1	3.0	2.8	2.3	2.1	2.0	6.3	5.2	4.8
United Arab Emirates	2.9	3.7	3.9	3.0	2.5	2.2	10.5	9.9	10.4
South Africa	0.5	1.8	1.5	5.8	4.8	4.5	-1.2	-1.8	-1.5
Egypt	3.1	3.9	4.4	33.5	26.0	12.0	-1.8	-2.5	-2.3
Algeria	2.7	2.3	2.5	9.3	6.9	6.0	2.4	1.1	-1.0
Qatar	2.5	2.5	3.1	3.0	2.2	1.9	15.1	12.1	13.3
Koweit	1.1	2.5	2.6	3.7	2.6	2.2	19.0	15.0	13.2
Morocco	2.7	3.0	3.2	6.3	3.0	2.2	-2.6	-2.6	-2.4
Tunisia	0.9	1.7	2.5	9.4	7.1	6.9	-5.5	-5.3	-5.4
Total	2.7	2.5	2.6	5.8	4.0	3.3	0.5	0.3	0.3
Advanced economies	1.5	0.9	1.1	4.8	2.7	2.3	-0.1	-0.2	-0.2
Emerging countries	3.7	3.8	3.9	6.6	5.1	4.1	1.0	0.8	0.7

	2023				2024				2025			
Real GDP growth, QoQ %	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
USA (annualised)	2.2	2.1	4.9	0.8	0.4	0.7	1.0	-0.6	-0.5	1.1	1.4	2.0
Japan	1.2	0.9	-0.7	0.2	0.2	0.3	0.4	0.2	0.5	0.7	0.6	0.5
Eurozone	0.1	0.1	-0.1	0.1	0.2	0.3	0.4	0.4	0.3	0.3	0.3	0.3
Germany	0.0	0.1	-0.1	-0.1	-0.1	0.0	0.3	0.3	0.3	0.2	0.2	0.2
France	0.1	0.6	-0.1	0.2	0.2	0.3	0.4	0.4	0.4	0.3	0.3	0.4
Italy	0.6	-0.4	0.1	0.1	0.2	0.2	0.3	0.4	0.2	0.2	0.0	0.2
Spain	0.6	0.4	0.3	0.2	0.4	0.4	0.5	0.3	0.4	0.2	0.2	0.1
United Kingdom	0.3	0.2	0.0	0.0	0.1	0.1	0.3	0.2	0.3	0.4	0.4	0.4

	2023				2024				2025			
Consumer prices, YoY %	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
USA	5.8	4.0	3.5	3.3	3.0	2.7	2.3	2.4	2.4	2.4	2.4	2.4
Japan	3.5	4.2	4.3	3.8	3.1	2.3	1.6	1.5	1.5	1.5	1.7	1.8
Eurozone	9.6	8.8	7.2	4.9	2.7	2.8	2.6	2.9	2.7	2.5	2.4	2.4
Germany	11.0	10.7	9.3	6.3	4.7	3.1	3.3	3.2	2.9	2.7	2.7	2.6
France	7.3	6.4	5.6	4.5	3.5	3.0	3.2	3.1	2.8	2.7	2.6	2.5
Italy	10.6	10.6	8.6	4.4	3.4	2.5	2.6	2.5	2.5	2.3	2.3	2.3
Spain	5.2	4.1	2.1	3.2	2.7	2.5	2.8	2.8	2.3	2.2	2.0	2.0
United Kingdom	10.2	8.4	6.7	4.5	4.3	2.9	3.1	3.2	2.5	2.2	2.0	1.8

	2023				2024				2025			
Unemployment rate, %	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
USA	3.5	3.6	3.7	3.9	4.1	4.2	4.3	4.3	4.4	4.6	4.6	4.5
Japan	2.6	2.6	2.7	2.6	2.6	2.7	2.7	2.7	2.6	2.5	2.4	2.3
Eurozone	6.7	6.6	6.6	6.8	6.8	6.9	6.7	6.8	6.7	6.7	6.6	6.6
Germany	2.9	2.9	3.0	3.1	3.2	3.2	3.1	3.1	3.0	3.0	3.0	3.0
France	7.1	7.3	7.4	7.7	7.9	8.0	8.0	7.9	7.9	7.8	7.8	7.8
Italy	7.9	7.7	7.6	7.6	7.7	7.7	7.8	7.8	7.8	7.9	7.9	7.9
Spain	12.8	12.0	12.0	12.3	12.2	12.0	11.3	11.6	11.8	11.6	11.1	11.3
United Kingdom	3.8	4.3	4.2	4.3	4.5	4.6	4.8	4.8	4.7	4.6	4.4	4.3

	GDP (b)	Private consumption (b)	Public consumption (b)	Investment (b)	Exports (b)	Imports (b)	Net exports (a)	Changes in inventories (a)
Eurozone								
2023	0.5	0.5	0.1	0.8	-0.7	-1.4	0.3	0.7
2024	0.7	1.1	0.7	0.9	0.6	0.8	-0.1	0.5
2025	1.4	1.3	0.6	1.8	2.8	2.8	0.1	0.5
Q4 2023	0.1	0.1	0.1	0.3	0.1	-0.1	0.1	0.5
Q1 2024	0.2	0.3	0.1	0.1	0.3	0.3	0.0	0.5
Q2 2024	0.3	0.4	0.1	0.3	0.7	0.7	0.0	0.5
Q3 2024	0.4	0.4	0.3	0.4	0.8	0.8	0.0	0.5
Germany								
2023	-0.1	-1.0	-2.2	1.0	-1.4	-2.5	0.5	0.2
2024	0.0	0.6	0.0	0.8	0.2	0.7	-0.2	-0.2
2025	1.0	1.3	0.7	1.1	2.4	2.5	0.0	0.0
Q4 2023	-0.1	-0.1	-0.1	0.3	-0.3	-0.2	-0.1	0.0
Q1 2024	-0.1	0.2	-0.2	0.0	0.2	0.3	0.0	-0.1
Q2 2024	0.0	0.3	0.0	0.2	0.4	0.6	-0.1	-0.1
Q3 2024	0.3	0.4	0.6	0.2	0.6	0.8	-0.1	0.0
France								
2023	0.9	0.6	0.5	1.3	1.6	0.6	0.3	-0.2
2024	1.0	1.5	0.7	0.2	1.9	1.7	0.0	0.0
2025	1.3	1.3	0.4	1.5	1.3	1.2	0.0	0.2
Q4 2023	0.2	0.1	0.2	-0.1	1.2	0.5	0.2	-0.1
Q1 2024	0.2	0.4	0.1	-0.1	0.3	0.2	0.0	-0.1
Q2 2024	0.3	0.5	0.1	0.0	0.4	0.3	0.0	0.0
Q3 2024	0.4	0.5	0.1	0.1	0.4	0.3	0.0	0.0
Italy								
2023	0.7	1.7	-0.4	0.4	-0.2	-0.4	0.1	-0.3
2024	0.6	1.2	-0.3	-0.8	1.3	-0.4	0.5	-0.4
2025	0.9	0.9	-0.6	1.7	2.6	2.5	0.1	0.1
Q4 2023	0.1	0.3	0.0	-0.1	0.2	-0.9	0.4	-0.4
Q1 2024	0.2	0.2	0.1	-0.3	0.2	0.2	0.0	0.1
Q2 2024	0.2	0.2	-0.1	-0.1	0.5	0.5	0.0	0.1
Q3 2024	0.3	0.3	-0.1	0.3	0.6	0.8	-0.1	0.1
Spain								
2023	2.4	2.1	2.6	1.8	0.7	-0.6	0.5	-0.2
2024	1.6	1.9	1.3	2.7	0.7	1.4	-0.2	-0.1
2025	1.4	1.5	0.4	2.4	3.6	3.9	0.0	0.0
Q4 2023	0.2	0.2	0.3	0.6	0.5	0.7	0.0	0.0
Q1 2024	0.4	0.3	0.2	0.8	1.5	1.4	0.1	0.0
Q2 2024	0.4	0.3	0.2	0.9	1.1	1.0	0.1	0.0
Q3 2024	0.5	0.4	0.1	0.7	1.3	1.0	0.1	0.0
Portugal								
2023	2.0	1.2	1.1	1.9	4.0	1.3	1.2	-0.4
2024	1.2	1.1	1.1	4.8	1.5	2.5	-0.5	0.0
2025	2.1	1.6	0.1	4.9	2.8	2.5	0.1	0.0
Q4 2023	-0.3	0.1	0.5	1.0	0.6	0.8	-0.1	0.0
Q1 2024	0.4	0.3	0.1	1.3	0.9	1.0	0.0	0.0
Q2 2024	0.8	0.5	0.1	1.9	1.1	0.9	0.1	0.0
Q3 2024	0.8	0.4	0.1	1.7	1.3	0.8	0.2	0.0
Netherlands								
2023	0.2	0.1	2.8	2.9	-0.8	-0.3	-0.5	-0.6
2024	0.7	0.4	2.7	0.1	0.7	1.1	-0.2	0.1
2025	1.2	1.2	2.2	1.4	1.6	2.1	-0.2	0.0
Q4 2023	0.2	0.1	0.5	0.2	0.8	0.9	0.0	0.0
Q1 2024	0.3	0.3	0.7	0.2	0.5	0.6	0.0	0.0
Q2 2024	0.3	0.3	0.7	0.3	0.5	0.7	-0.1	0.0
Q3 2024	0.3	0.3	0.7	0.5	0.5	0.7	-0.1	0.0
United Kingdom								
2023	0.5	0.4	-0.2	2.5	-0.4	-1.4	0.3	-1.1
2024	0.4	0.3	1.0	-2.5	1.7	0.9	0.2	0.0
2025	1.2	1.5	0.8	2.5	1.5	2.3	-0.3	0.0
Q4 2023	0.0	-0.2	0.2	-1.0	0.5	0.0	0.1	0.1
Q1 2024	0.1	0.2	0.2	-1.0	0.6	0.2	0.1	0.0
Q2 2024	0.1	0.2	0.2	-1.0	0.6	0.2	0.1	0.0
Q3 2024	0.3	0.3	0.2	0.5	0.4	0.5	0.0	0.0

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

(b) q/q, %

INTEREST RATES

Short-term interest rates		19-déc.-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Rats-Unis	Fed funds	5.50	5.50	5.50	5.25	5.00	4.50	4.00	3.50	3.50
	Sofr	5.32	5.30	5.30	5.05	4.80	4.30	3.80	3.30	3.30
Japon	Call rate	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
	Tonar	-0.01	0.00	0.00	0.00	0.00	0.00	0.02	0.02	0.02
Eurozone	Deposit	4.00	4.00	4.00	3.75	3.25	2.75	2.50	2.50	2.50
	€str	3.90	3.92	3.92	3.68	3.19	2.70	2.45	2.45	2.45
	Euribor 3m	3.92	4.02	3.80	3.55	3.05	2.65	2.58	2.60	2.60
United-Kingdom	Base rate	5.25	5.25	5.25	5.00	4.75	4.50	4.25	4.00	3.75
	Sonia	5.19	5.19	4.94	4.69	4.44	4.20	3.95	3.71	3.46
Sweden	Repo	4.00	4.00	4.00	3.75	3.50	3.25	3.00	3.00	3.00
Norway	Deposit	4.50	4.50	4.50	4.50	4.25	4.00	3.75	3.50	3.50
Canada	Overnight	5.00	5.00	5.00	4.75	4.50	4.25	4.00	3.75	3.50

10Y rates		19-déc.-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
USA		3.91	4.40	4.30	4.20	4.10	3.90	3.75	3.75	3.80
Japan		0.63	0.65	0.63	0.61	0.58	0.59	0.98	0.98	1.00
Eurozone (Germany)		2.02	2.65	2.85	2.75	2.60	2.70	2.65	2.50	2.30
Spread 10 ans / Bund										
France		0.51	0.65	0.70	0.70	0.70	0.75	0.75	0.75	0.75
Italy		1.63	2.05	2.15	2.05	2.00	2.00	1.95	1.85	1.80
Spain		0.95	1.25	1.25	1.25	1.30	1.35	1.40	1.40	1.40

		19-déc.-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Asia										
China	1Y deposit rate	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Hong Kong	Base rate	5.75	5.75	5.75	5.50	5.25	4.75	4.25	3.75	3.75
India	Repo rate	6.50	6.50	6.50	6.25	6.00	5.75	5.50	5.50	5.50
Indonesia	7D (reverse) repo rate	6.00	6.00	6.00	5.75	5.50	5.25	5.00	5.00	5.00
Korea	Base rate	3.50	3.50	3.50	3.25	3.00	2.75	2.50	2.50	2.50
Malaysia	OPR	3.00	3.00	3.00	2.75	2.50	2.25	2.00	2.00	2.00
Philippines	Repo rate	6.50	6.50	6.50	6.25	5.75	5.25	5.00	4.75	4.75
Singapore	3M SIBOR	3.69	3.70	3.65	3.55	3.40	2.95	2.40	2.10	2.10
Taiwan	Redisc	1.88	1.88	1.88	1.75	1.75	1.63	1.63	1.50	1.50
Thailand	Repo	2.50	2.50	2.50	2.25	2.00	1.75	1.75	1.50	1.50
Vietnam	Refinancing rate	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Latin America										
Brazil	Overnight/Selic	11.75	10.75	9.75	9.25	9.25	9.00	8.50	8.50	8.50
Mexico	Overnight rate	11.25	10.75	10.25	9.75	9.25	8.75	8.25	7.75	7.75
Emerging Europe										
Czech Rep.	14D repo	7.00	6.25	5.75	5.25	4.75	4.50	4.25	4.00	3.75
Hungary	Base rate	10.75	9.50	8.00	7.00	6.00	5.75	5.50	5.25	5.00
Poland	7D repo	5.75	5.50	5.50	5.25	5.25	5.25	5.25	4.75	4.75
Romania	2W repo	7.00	6.75	6.50	6.25	5.75	5.50	5.25	5.00	4.75
Russia	1W auction rate	16.00	16.00	14.00	12.00	10.00	9.00	8.00	7.00	7.00
South Africa	Repo	8.25	8.25	8.25	7.25	6.00	5.50	5.50	5.50	5.50

EXCHANGE RATES

USD Exchange rate

Industrialised countries		19-déc.-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Euro	EUR/USD	1.10	1.08	1.07	1.06	1.05	1.07	1.09	1.10	1.12
Japan	USD/JPY	143.7	146.0	144.0	140.0	138.0	138.0	136.0	134.0	132.0
United Kingdom	GBP/USD	1.27	1.27	1.26	1.26	1.25	1.27	1.30	1.33	1.35
Switzerland	USD/CHF	0.86	0.90	0.90	0.90	0.89	0.88	0.87	0.87	0.87
Canada	USD/CAD	1.33	1.34	1.32	1.30	1.32	1.31	1.30	1.29	1.28
Australia	AUD/USD	0.68	0.68	0.70	0.72	0.72	0.70	0.72	0.74	0.74
New Zealand	NZD/USD	0.63	0.62	0.62	0.63	0.62	0.61	0.62	0.64	0.64

Euro Cross rates

Industrialised countries		19-déc.-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Japan	EUR/JPY	158	158	154	148	145	148	148	147	148
United Kingdom	EUR/GBP	0.86	0.85	0.85	0.84	0.84	0.84	0.84	0.83	0.83
Switzerland	EUR/CHF	0.94	0.97	0.96	0.95	0.93	0.94	0.95	0.96	0.97
Sweden	EUR/SEK	11.15	11.20	11.00	10.90	11.20	11.00	10.80	10.60	10.50
Norway	EUR/NOK	11.27	11.30	11.10	10.90	11.50	11.10	10.80	10.50	10.20

Asia		19-déc.-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
China	USD/CNY	7.13	7.10	7.05	7.05	6.95	6.90	6.90	6.90	6.80
Hong Kong	USD/HKD	7.80	7.80	7.80	7.78	7.76	7.75	7.75	7.75	7.75
India	USD/INR	83.06	82.50	82.00	81.00	81.00	80.50	80.50	80.00	80.00
Indonesia	USD/IDR	15500	15200	15100	15000	15100	15000	14900	14800	14500
Malaysia	USD/MYR	4.68	4.60	4.60	4.50	4.45	4.40	4.40	4.35	4.30
Philippines	USD/PHP	56.0	55.5	55.3	55.2	54.5	54.5	54.0	54.0	53.5
Singapore	USD/SGD	1.33	1.34	1.33	1.32	1.31	1.31	1.31	1.31	1.30
South Korea	USD/KRW	1301	1300	1300	1280	1260	1260	1250	1240	1220
Taiwan	USD/TWD	31.3	31.7	31.7	31.6	31.3	31.3	31.2	31.1	31.0
Thailand	USD/THB	34.8	34.0	33.0	35.0	34.5	34.0	32.5	33.5	32.0
Vietnam	USD/VND	24350	24000	24000	23800	23800	23500	23400	23300	23200

Latin America

Brazil	USD/BRL	4.86	5.00	5.05	5.08	5.10	5.15	5.20	5.25	5.25
Mexico	USD/MXN	17.03	17.50	17.60	17.75	18.00	18.25	18.50	18.75	19.00

Africa

South Africa	USD/ZAR	18.34	18.00	17.50	17.00	17.00	17.50	17.50	18.00	18.00
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Emerging europe

Poland	USD/PLN	3.95	4.09	4.11	4.13	4.15	4.07	3.98	3.94	3.86
Russia	USD/RUB	90.50	95.00	95.00	90.00	90.00	90.00	90.00	90.00	90.00
Turkey	USD/TRY	29.09	30.00	29.00	28.00	28.00	29.00	30.00	31.00	31.00

Central Europe

Czech Rep.	EUR/CZK	24.52	24.20	24.10	24.00	23.90	23.80	23.70	23.60	23.40
Hungary	EUR/HUF	384	373	371	370	368	367	365	363	360
Poland	EUR/PLN	4.34	4.42	4.40	4.38	4.36	4.35	4.34	4.33	4.32
Romania	EUR/RON	4.97	4.92	4.92	4.92	4.92	4.92	4.91	4.91	4.90

COMMODITIES

Av. quarter price		19-Dec	2023	2024				2025			
			Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Brent	USD/BBL	79	84	85	87	90	87	85	87	90	90

Av. quarter price		19-Dec	2023	2024				2025			
			Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gold	USD/oz	2,046	2,050	2,000	2,025	2,050	2,100	2,100	2,055	2,025	2,000

PUBLIC ACCOUNTS

	Government balance (% of GDP)			Public debt (% of GDP)		
	2023	2024	2025	2023	2024	2025
United States	-6.0	-5.8	-5.8	98.2	100.2	101.6
Japan	-3.5	-4.0	-2.5	244.2	240.9	235.1
Eurozone	-3.4	-3.1	-2.8	93.8	93.7	93.3
Germany	-2.2	-1.5	-1.1	65.1	65.0	64.0
France	-4.9	-4.6	-4.2	109.7	109.7	109.7
Italy	-5.3	-4.5	-3.6	140.2	140.1	139.3
Spain	-4.1	-3.6	-3.8	109.3	107.9	107.1
Netherlands	-1.0	-1.9	-2.3	47.4	47.2	47.9
Belgium	-4.9	-4.8	-5.0	106.3	107.5	110.0
Greece	-1.8	-0.8	-0.6	162.8	153.2	151.6
Ireland	-1.2	-3.2	-3.0	46.0	51.2	53.4
Portugal	0.6	0.2	0.3	105.4	99.9	98.6
United Kingdom	-5.1	-3.2	-2.4	100.6	102.8	105.1

Completed on 21 December 2023

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