WORLD MACRO-ECONOMIC SCENARIO 2024-2025

Quarterly – April 2024

ECO
ÉTUDES ÉCONOMIQUES GROUPE

Normalisation(s)?

"Normalisation" is on the horizon, but bumps in the road are likely. Interest rates have not bitten quite as hard as expected, while the labour markets have generally held up well, and inflation is subsiding. However, in the US, inflation may settle above the Fed's target. In the Eurozone, prices themselves may be an issue and could ultimately hobble growth.

In the **US**, the economy held up unexpectedly well in 2023, mainly due to its lower sensitivity to interest rates. Many households and businesses were able to lock in their debt at lower interest rates, enabling them to better absorb the impacts of monetary tightening, at least in the short term. Better short-term absorption does not mean that these households and businesses will be unaffected, but it does defer the repressive impact of high interest rates. The amount of corporate debt maturing is increasing in 2024 and will continue to grow in 2025. The impact of rising interest rates on households could also intensify slowly as the effective interest rate gradually rises, while arrears on other types of debt (eg, credit cards and auto loans) have already grown. Higher interest rates will bite eventually, when large amounts of debt have to be financed at higher interest rates, leading to a mild recession in Q424 and Q125. The recession will only be mild, mainly because unemployment is expected to rise only modestly to 4.6%. After 2.5% growth in 2023, our scenario calls for growth of 1.8% in 2024 and just 0.4% in 2025, despite gradual interest rate cuts orchestrated by a cautious Fed. Although it has slowed, inflation remains sticky. Despite an expected mild recession and further fairly robust wage growth, disinflation is expected to continue, But over our forecast horizon (2025), headline and core inflation are expected to fall to around 2.4% and 2.7%, respectively, which is above the 2% target.

In the **Eurozone**, headline inflation has come down (from an average annual rate of 5.5% in 2023 to an expected 2.6% in 2024 and 2.1% in 2025), and improved financing conditions are fuelling hopes of a recovery in domestic private-sector spending, in particular household consumption. As a result, our scenario is cautiously optimistic, and we are forecasting GDP growth of 0.7% in 2024 and 1.5% in 2025 (after growth of 0.5% in 2023). The short-term outlook has brightened somewhat, but doubts over the longer term persist, including unanswered questions about the potential growth in this new interest rate and inflation regime, and whether or not this new monetary normal is here to stay. Furthermore, the negative competitiveness shock associated with the war in Ukraine could have damaged the zone's growth potential on a more permanent basis. The downside risks to growth are greater than the upside inflation risks.

In **China** – which has no major recovery plan despite some ambitious official targets – our scenario remains cautious and projects that growth will fall from 5.2% in 2023 to 4.4% in 2024, which is barely an improvement on the 2022-23 average of 4.1%. China's easing measures mean that the best we can hope for is a modest slowdown and very muted reflation, given the persistence of disinflationary pressure associated with weak consumer demand, the absence of measures to stimulate consumer spending, and saturation in certain manufacturing sectors.

Expectations for monetary easing still seem too optimistic. Long rates may have to wait a little longer before embarking on a gradual downward trend.

Do not trip up when it comes to **monetary policy**. Slow and steady wins the race. Inflation has come down from extremely high levels, albeit unevenly, and has suffered shocks along the way (especially in the Eurozone). Central banks hiked their key rates to rein in inflation, and they have remained high for some time now. It is time to start cutting rates cautiously.

The **Fed** has been extremely vigilant and could start to cautiously ease its monetary policy with an initial 25bp cut to its key rate in July. Another 25bp cut in November would bring the upper bound of the Fed funds rate down to 5.00% by year-end. Based on the sharper slowdown in growth in our scenario for early 2025, we then expect the Fed to pick up the pace of its rate cuts and bring the upper bound down to 3.50%. With inflation expected to remain stubbornly above the Fed's target and the neutral interest rate likely to be higher than before, the Fed may have a tough time bringing the upper bound down further than 3.50%.

Meanwhile, the **ECB** should be able to start easing monetary policy in June given the improvement in inflation. The ECB is expected to cut rates by 75bp in 2024 and the same amount in 2025, bringing the deposit facility rate to 2.50%.

When it comes to **bond yields**, do not hope for too much. While markets were developing a scenario of imminent and widespread key rate cuts, solid growth and sticky inflation caused them to become disillusioned: long rates have risen. But expectations for monetary easing still seem too optimistic. Long rates may have to wait a little longer before embarking on a gradual downward trend.

In the **US scenario**, yields are slightly higher across the curve. To illustrate this, US Treasury yields are expected to be around 4.20% at year-end, compared to the previous forecast of 4.10%.

In the **Eurozone**, the upward adjustment implied by excessively optimistic expectations for monetary easing, the absence of a recession but also the budget deficits of several major countries, mean that we should not expect yields on European government bonds to fall significantly. The 10Y Bund yield is expected to be around 2.40% at the end of 2024. Sovereign spreads are not expected to suffer, assuming that the key factors keeping them narrower remain (easier financial conditions and lower volatility, pushing investors to be less risk-averse). With monetary easing set to begin, our scenario calls for spreads to widen very modestly, with France and Italy respectively offering premiums of approximately 60bp and 160bp over the Bund at the end of 2024.

Finally, on **FX**, the 2024 calendar is full enough for us to concentrate on this year alone before outlining a longer-term scenario. Monetary easing is around the corner, and there is the prospect of a mild recession in the US, where a presidential election will be held in November. The combination of these factors means that we are calling for the USD to underperform slightly against its G10 peers (except for the EUR) before recovering in Q4.

Catherine LEBOUGRE

Focus Geopolitics – Finding the balance between the shift to extremes and dissuasion

Major countries' desire for strategic autonomy and rising geopolitical tensions are fuelling a trend of widespread rearmament which, paradoxically, could become a source of tension itself.

As Russia – now officially at war – hardens its ideology, geopolitical issues in Europe are moving more quickly. In addition, the possibility that Donald Trump could be re-elected is increasing. While this is still just a hypothesis, many countries are beginning to rethink their strategies. As such, French President Emmanuel Macron launched a major debate in Europe over sending troops to Ukraine, driven by challenges on the front line and concerns that allies across the Atlantic would withdraw even further.

Power by association is weakening

Concerns over the US' role as a reliable ally have been apparent in some countries for several years now. Indeed, Trump's first term already highlighted the risks of volatility in US strategy, although some of the main aspects of this strategy were preserved despite political differences, in particular policy towards China, a policy that has bi-partisan support in Congress. However, this is not the case with the war in Ukraine, and if Trump is re-elected and decides to negotiate with Vladimir Putin 'man to man', it could be a game changer. More recently, the war in Gaza has shown how challenging it has been for the US to keep its ally Israel in line. Sporadic airdrops of aid, rather than the hundreds of trucks that are needed every day, are a clear sign of weakness for a country that remains a military superpower – capable of supplying weapons but unable to implement an adequate humanitarian aid operation.

As such, it is not just the risk that the US could turn its back on its allies, but more broadly, the fact that it does not appear to be the best positioned to stabilise the system of international relations. This is driving the rise in military spending throughout the world, with each country seeking to consolidate its autonomy and ability to protect itself in the face of ever-increasing threats. Widespread rearmament is a tactic being used to bolster offensive strategies, for those countries looking to change the world order or shift regional borders, but also for defensive and dissuasive approaches, for those that feel threatened by sweeping fragmentation.

This covert rush to obtain weapons means that the classic risk of a 'security dilemma' is also increasing.

Unfortunately, this covert rush to obtain weapons means that the classic risk of a 'security dilemma' is also increasing, particularly in the most volatile regions. There is a temptation to be the first to attack before an adversary becomes too powerful, given that it is impossible to know whether the other side is accumulating weapons to attack or to defend itself. **The balance between a policy of dissuasion and a security dilemma will be increasingly difficult to strike in the coming years, but it will be the only way to counter the shift to extremes.**

US allies are wary

Tokyo has already started a strategic review, as indicated in its most recent and much more offensive military programming law, which broke from its long-standing tradition of pacifism. Japan is dealing with a triple threat from China, Russia and North Korea, and the issue of sovereignty is critical. Chinese aggression around the Kinmen Islands and repeated clashes between Philippine and Chinese boats are also generating increased concern: tension and the risk of incidents are omnipresent in the South China Sea. As such, Japan is looking to develop its own defence capabilities, while also promoting closer ties with regional allies such as South Korea, the Philippines and Australia. The US is no longer the most important ally in these closer ties (especially with South Korea), but remains a key alliance partner. Tokyo is also looking to collaborate with AUKUS (Australia, the UK and the US).

Similarly, **Saudi Arabia's lavish arms spending is another aspect of this search for greater military autonomy**, although the Gulf remains under the American protective umbrella. Do not forget that issues of defence in this region have historical resonance. The Quincy Agreement, signed between US President Franklin D Roosevelt and the Saudi king in 1945, provided security protection for oil, literally underpinning the surge in US post-war power. In fact, the oil-dollar-military-industrial complex axis was born out of this pact, an axis that is weakened every time Saudi Arabia gets closer to China.

In Europe, the question of whether to make budget trade-offs in favour of military spending is now being asked, and the impacts of rearmament are already apparent in the government budgets of the most-exposed countries, such as Poland and the Baltic states. Nonetheless, there is a huge mountain to climb in terms of strategic independence, with the US accounting for 70% of NATO's total spending on average. Indeed, only eleven NATO members are expected to meet the commitment to allocate 2% of GDP to defence spending. According to Moody's, France is expected to join the 2% club this year, but we will have to wait until at least 2025 for Germany, 2028

for Italy and 2029 for Spain. Europe is unlikely to rearm quickly enough to help the war in Ukraine.

Are they in or are they out?

The entire world is witnessing the impacts on defence strategies of geopolitical fragmentation and the US policy crisis. This same concern led US Congress to mitigate the threat of the US' withdrawal from NATO, by adding the following provision to the National Defense Authorization Act a few months ago: *"The President shall not suspend, terminate, denounce, or withdraw the United States from the North Atlantic Treaty, (...) except by and with the advice and consent of the Senate, provided that two-thirds of the Senators present concur, or pursuant to an Act of Congress."*[1] That said, do not forget the US' historical reticence when it comes to potentially too-restrictive alliances (the Montego Bay Convention on Law of the Sea or the International Criminal Court). Furthermore, this was one of the arguments that convinced General Charles de Gaulle to greenlight the French nuclear deterrent force.

Gulliver's geopolitics strike again

America's military superpower is failing to prevent 'revisionist' states from taking action. We already know that, in such an interdependent world, smaller states can threaten the power of larger ones if they control a buffer power. This is how the Houthis have forced global shipping traffic[2] to reroute; they have forced insurance companies to adjust their pricing and caused factories in Hungary & Germany to shut down. Faced with such a threat, the EU has just launched its own defensive operation in the region[3], alongside the US- and UK-led Operation Prosperity Guardian (with coalition support from Australia, Canada, Bahrain and the Netherlands). However, the outcome of these operations remains uncertain, as the coalition has so far failed to bring peace to the Red Sea. Underestimating the endurance of the Houthis – whose strategy is clearly to draw attention to the situation in the Gaza Strip, but also Iranian geopolitics and their own political agenda in Yemen – would be dangerous.

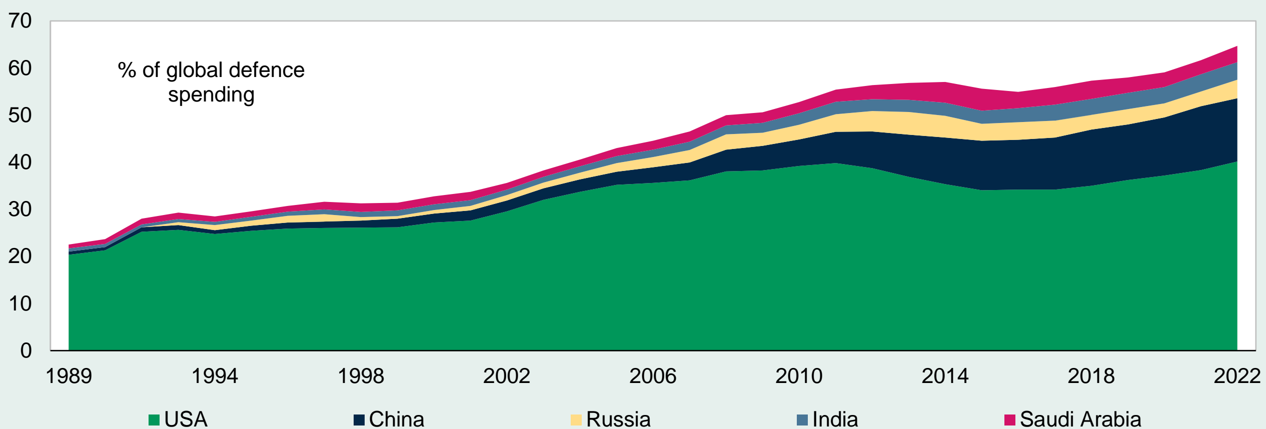
First-term and second-term Trump are not the same

Foreign policy rarely has such a major impact on a US election, but things are different this time. Some Democrats left their primary votes blank in protest of the Biden administration's response to the war in Gaza (which gives us an idea of the long-term worldwide political impact of the conflict in Palestine). The singularity of the Trump political phenomenon has been confirmed during the primaries. It is no longer just about capitalising on anger and votes from a middle class that feels left behind by globalisation, but rather building a vote of support with a strong ideological aspect that even goes as far as to claim that it is a vote to save our civilisation. So the mechanics of the 'second-term Trump' vote are not the same as his first term. It is being fuelled by something much deeper politically, and much more solid. As such, political analysts continue to pick apart the inner workings of the Republican Party's shift towards Trumpism, presaged by Mike Johnson's election as Speaker of the House of Representatives. Johnson, a member of the Christian right faction of the Republican Party, emphasises his Southern Baptist beliefs as the basis for his politics and believes that Joe Biden was not legitimately elected.

In fact, the ideological shift in the US could have the potential to further radicalise attitudes throughout US society, whether or not Trump is elected. This radicalisation will not necessarily impact the markets, because it is a deeply political trend and not a disruptive change likely to create an economic or geopolitical shock, as may be the case with war or stringent protectionist measures, for example. However, it has clearly been deeply rooted in American society for some time and will influence public policy for years to come.

Tania SOLLOGOUB

USA: still a military superpower



Sources: Sipri, Crédit Agricole S.A./ECO

[1] BILLS-118hr2670enr.pdf (congress.gov)

[2] See article: *Shipping – Courage under fire*

[3] Pursuant to *UN Security Council Resolution 2272, which demands that the Houthis cease all attacks against commercial and merchant vessels, and affirms the right to defend these vessels in accordance with international law.*

DEVELOPED COUNTRIES
Normalisation(s)?

USA – Still resilient for now, but monetary tightening to bite closer to year-end

Eurozone – focus shifts from inflation to growth

United Kingdom – The economy is turning the corner as the cost-of-living crisis dissipates and rate cuts approach

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

Normalisation(s)?

"Normalisation" is on the horizon, but bumps in the road are likely. Interest rates have not bitten quite as hard as expected, while the labour markets have generally held up well, and inflation is subsiding. However, in the United States, inflation may settle above the Fed's target. In the Eurozone, prices themselves may be an issue and could ultimately hobble growth.

USA: STILL RESILIENT FOR NOW, BUT MONETARY TIGHTENING TO BITE CLOSER TO YEAR-END

Resilience was the key word for the US economy in 2023, with a much-predicted recession not only being avoided, but growth actually accelerating to a very strong pace of 2.5% on an annual average basis. While growth slowed in Q423 compared to a surge in Q423, it still came in at a robust and above-trend pace of 3.2%, easily topping expectations.

As we noted last quarter, we believe that the main factor underlying the greater-than-anticipated resilience is that we likely overestimated the sensitivity of the economy to interest rates in the near term. While the Fed tightening cycle 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.

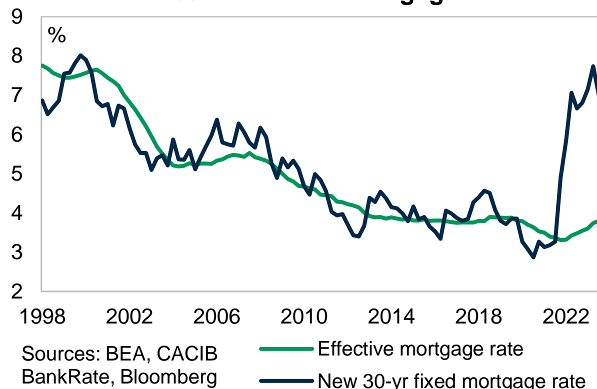
However, while a number of forecasts are calling for another year of strong growth in 2024, we are more pessimistic on the outlook in late 2024 into early 2025, in large part due to our thoughts on monetary policy transmission and lags, as touched upon above and outlined in more detail in the linked publications. This reflects the fact that the amount of corporate debt maturing and therefore needing to be re-financed at higher rates 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, such as credit cards and autos, have started to show some cracks already.

As such, we think that the economy will slow compared to H223 but continue to grow at a solidly positive pace in H124, but we believe that rate hikes will begin to bite more noticeably later in 2024, resulting in a recession in Q424/Q125 at which point there will be significantly more debt to be refinanced at higher rates. 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. This leaves growth slowing from 2.5% in 2023 to 1.8% in 2024 and just 0.4% in 2025, even if we expect the quarterly pace to bounce back in the latter portion of 2025 as interest rates come down.

Recession is not a high conviction call, especially given the unexpected resilience of the economy.

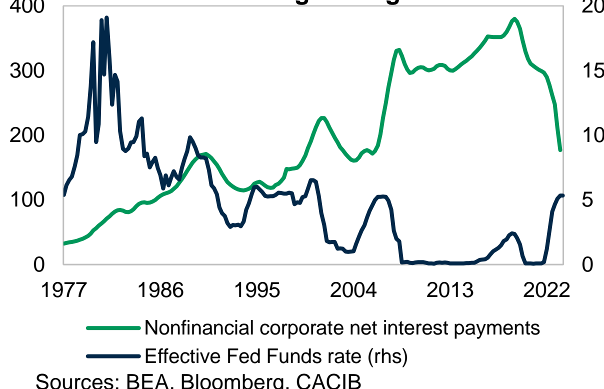
That said, we would acknowledge that recession is not a high conviction call, especially given the unexpected resilience of the economy thus far. While we do see some pain for certain segments of the economy, there is a possibility that this will be outweighed by continued strength in others. To use the consumer as an example, as consumption makes up around 70% of GDP, many of the household most susceptible to rising rates are those at the lower end of the income spectrum. However, upper-income households may remain better insulated, which creates the possibility of a two-speed economy in which lower-income households face recession-like conditions but upper-income households continue spending such that the overall economy avoids recession.

US: effective mortgage rate only modestly higher given predominance of 30Y fixed rate mortgages



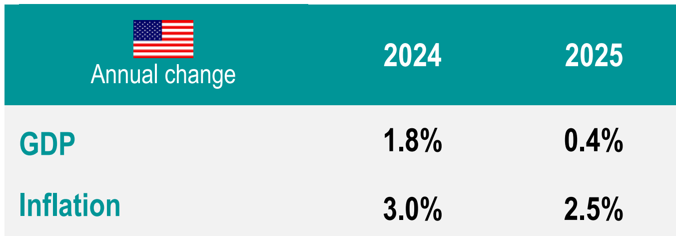
Sources: BEA, CACIB BankRate, Bloomberg

US: nonfinancial corporate net interest payments actually down despite Fed tightening



Sources: BEA, Bloomberg, CACIB

For the labour market, we expect some further gradual cooling, and look for a peak unemployment rate of around 4.6% given signs of cooling such as a weaker household survey in recent months and a slow grind lower in hours worked. 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.



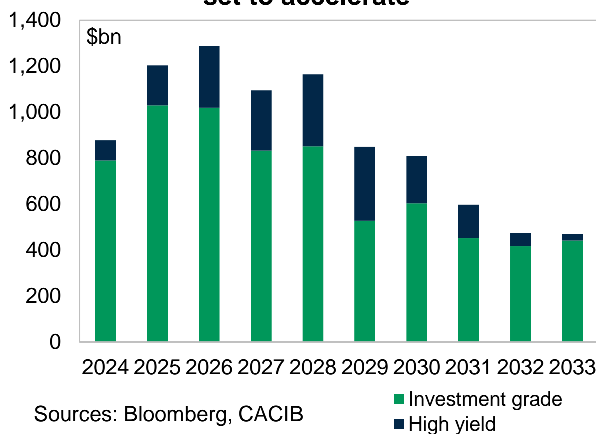
Annual change	2024	2025
GDP	1.8%	0.4%
Inflation	3.0%	2.5%

Despite the downturn in the economy, inflation has become a bit more entrenched, with services prices relatively sticky and only declining slowly. **We anticipate that 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.

As a result, while we expect both headline and core CPI to decelerate further, the path is very gradual and bumpy, and we see inflation holding above target throughout our forecast horizon. For example, we see headline CPI dipping below 3% to hover in the mid- to high-2% range in H224, before slowing a bit further in early 2025 but stalling once it reaches around 2.4%. For core CPI, we look for a gradual decline to around 3% by end-2024 and a modest additional decline in early 2025 before progress is halted once it hits the 2.7% range. 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.

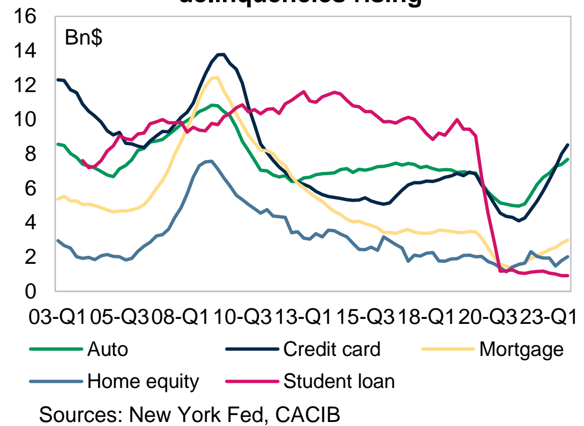
Nicholas VAN NESS

US: maturing corporate debt set to accelerate



Sources: Bloomberg, CACIB

US: non-mortgage consumer delinquencies rising



Sources: New York Fed, CACIB

EUROZONE: FOCUS SHIFTS FROM INFLATION TO GROWTH

The disinflationary process is well underway, and expectations of monetary loosening are well anchored, so attention is now shifting to the outlook for growth in the Eurozone economy in an environment that should be 'normalised' by the end of our forecast horizon.

It is thanks to the resilience of the labour market and a weaker-than-usual pass-through from the rise in key rates onto credit conditions that we are forecasting a recovery in spending by private domestic agents. **This leads us to build a cautiously optimistic scenario, which translates into GDP growth of 0.7% in 2024 and 1.5% in 2025.**

While there is relative confidence in the short-term scenario, there are still doubts for the longer term: **questions remain about the growth permitted by the new configuration of interest rates and inflation, and about the definitive nature of this new monetary normality**. In addition, the negative competitiveness shock linked to the war in Ukraine may have more permanently 'damaged' the region's growth potential. The fact that the German economy is lagging behind the other economies in the zone is a confirmation of such a weakness that will persist over the forecast horizon. The hierarchy between a more dynamic periphery than the centre is not called into question in the medium term.

The ongoing shock to prices calls into question the recovery potential of the manufacturing engine.

Landing on sluggish growth in 2023

GDP growth in the Eurozone slowed sharply during 2022, putting the economy on a stagnation path from the end of 2022. Growth was then sluggish throughout 2023, with the average annual growth rate falling from 3.4% in 2022 to 0.5% in 2023. In 2023, the contribution of domestic demand was divided by four compared with 2022; companies responded to this weak demand by destocking rather than producing, so that changes in inventories further dampened growth, from which they subtracted 0.4ppt. Foreign demand fell, but domestic demand for foreign goods receded even more: net exports therefore supported growth slightly.

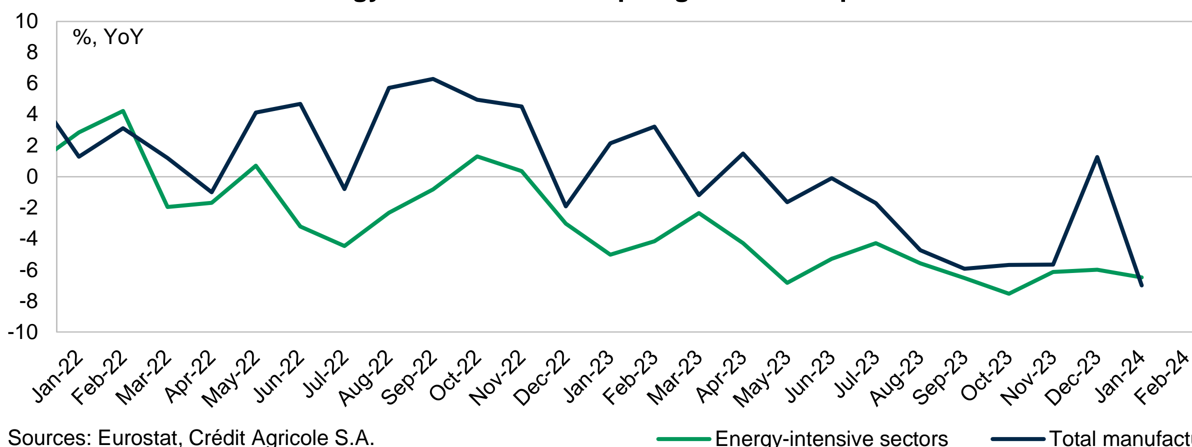
We can see the glass half full and note that, since the outbreak of the war in Ukraine and the two shocks that followed (inflationary surge and “extraordinary” monetary restriction), the region's economy has not collapsed. In fact, it grew by 1.3%. However, these gains were made mainly before the summer of 2022; since then, spending by private agents has grown little or not at all. After two quarters of slightly negative growth (-0.1% in Q3 and Q4 2024), this leaves a zero carry-over effect to average growth in 2024.

Short-term outlook clouded by industrial debacles

While the data from the various surveys over the past few months have provided us with positive surprises in the three major economies (the US, China and the Eurozone) and sent out weak signals of a recovery in activity, the global manufacturing cycle remains fragile. In the Eurozone, the value added in the industrial sector fell sharply in 2023, making a negative contribution to GDP growth. This drag on growth was offset by the construction sector, which continued to post a sustained rate of growth, and by the continued expansion of services, despite the marked slowdown in retail trade, transport and accommodation and food services.

According to the European Commission's business survey, **while confidence in industry has remained on a weakening trend since the summer of 2023, it recovered in March**. While the PMI surveys of purchasing managers still show no expansion in manufacturing activity, they do point to a smaller fall in production levels. The two surveys also point to a better alignment between orders and inventories, which is likely to herald a recovery in production. The visibility conveyed by January's industrial production index is poor: its sharp fall (-3.2% over the month) comes after a rebound in December 2023, and it is particularly affected by the volatility of the Irish index.

EMU: energy-intensive sectors plunge industrial production into red



Sources: Eurostat, Crédit Agricole S.A.

Lastly, down by 1.3% over the year in January, production in energy-intensive industries is not showing signs of recovery.

In the services sector, on the other hand, according to the PMI survey, activity increased in March for a second consecutive month, at the fastest pace since June 2023. The Commission's surveys confirm that, after deteriorating at the turn of the year, confidence is recovering and remains at a level above its long-term average. Moreover, the deterioration in confidence in the construction sector, which has been underway since the end of 2023, is said to have come to a halt in March. Weak demand is nevertheless increasingly perceived as a constraining factor by builders.

The recovery in household consumption has yet to be confirmed, but remains the basis of the scenario.

Q423 failed to confirm our scenario of a recovery in household consumption, based on growth in purchasing power. Consumption barely grew by 0.1%, slowing compared with Q323 (+0.3%). However, the recovery in purchasing power has accelerated: the wage bill in real terms rose by 0.8% over the quarter (after 0.5% in Q323); wages per capita grew faster than inflation, and employment growth held steady at 0.3% over the quarter despite the weakening in activity. We do not yet have the accounts for non-financial transactions, but it is likely that purchasing power gains have been spared.

Our scenario nevertheless retains its assumption of a recovery in household consumption, assuming continued gains in purchasing power thanks to wage-per-worker growth at a higher rate (4% in 2024 and 3% in 2025) than inflation (2.6% and 2.1% respectively). Growth in real disposable income and a fall in the savings rate would therefore support household spending. Consumers' confidence continues to recover, thanks to more favourable opinions about their past and future financial situation, less pessimistic expectations about the zone's economic situation, and better hiring prospects. Although consumers do not anticipate an increase in their main purchases, their savings intentions have stabilised.

Resilient profits and healing demand will support investment recovery

Growth in employee compensation slowed in nominal terms in Q423, allowing unit labour costs to decelerate despite the fall in productivity: this meant that **the distribution of value added remained favourable to profits, and the margin rate recovered slightly**. The relatively high level of the margin rate remains a point of strength for companies in the face of the expected erosion of profitability, itself a consequence of the anticipated deterioration in productivity The more robust recovery in activity, expected in the H224, should nevertheless support the recovery in productivity.

Investment suffered from weakening demand and tighter financing conditions. Households once again reduced investment in housing, which continued to decline (-0.6% over the quarter) in Q423. Investment in other construction recorded its second quarter of negative growth (0.3%), while productive investment turned sharply downwards. Without taking into account the erratic behaviour of investment in Ireland and the sharp drop in Belgium linked to specific transactions relating to ship sales abroad, investment would have fallen by 0.7% (compared with +1% recorded by Eurostat). **Held back by the housing component, investment is likely to remain sluggish throughout H124.** It should then pick up gradually, as financial conditions ease and demand improves.

Recovery in global demand but loss of market share

After the trough of 2023, **demand addressed to the Eurozone is expected to pick up**: exports are nevertheless likely to grow less rapidly as a result of the Eurozone economy's loss of competitiveness. This is due less to rising unit labour costs than to higher energy costs.

EMU - manufacturing: more reassuring orders-to-inventory ratio

Sources: S&P Global, PMI, Crédit Agricole S.A.

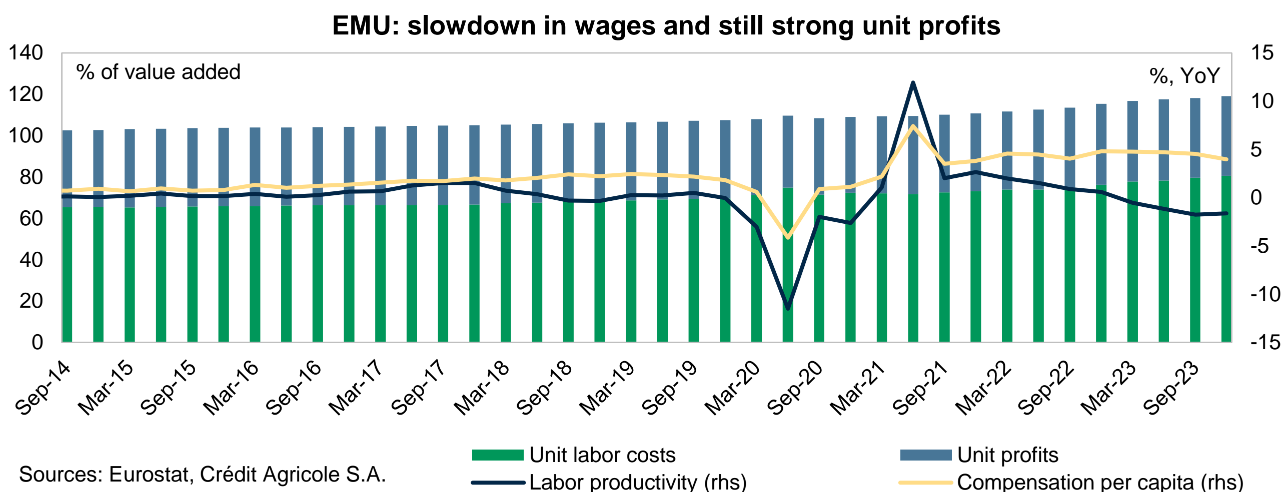
Downside risks to growth higher than upside risks to inflation

While the pace of price declines appears to be on a trajectory consistent with the central bank's target, it remains to be seen whether employees and companies will fully recover their wages and profits in real terms: there is an upside risk to the inflation trajectory. The materialisation of this risk is not retained in our central scenario, but the price level itself poses a problem. Prices are much higher than at the start of the decade, particularly for energy inputs, compared to the zone's main competitors. This is a permanent price shock that raises serious questions about the potential for recovery of the manufacturing sector, but also about the destruction of production capacity it could entail.

Annual change	2024	2025
GDP	0.7%	1.5%
Inflation	2.6%	2.1%

Paola MONPERRUS-VERONI

EMU: slowdown in wages and still strong unit profits



Sources: Eurostat, Crédit Agricole S.A.

UNITED KINGDOM: THE ECONOMY IS TURNING THE CORNER AS THE COST-OF-LIVING CRISIS DISSIPATES AND RATE CUTS APPROACH

We have raised our forecast for UK GDP growth in 2024 to 0.5% from 0.3% three months ago and to 1.4% in 2025 from 1.2% previously. The main factors behind the upward revisions are the small fiscal loosening announced in the Spring Budget, downward revisions to the inflation forecast and a slightly lower forecast for the BoE's key policy rate.

After a technical recession in H223, during which GDP contracted by 0.5% (vs stable activity expected three months ago), **the UK economy has started to recover**. Monthly GDP rose by 0.2% in January, led by the services sector. We now look for GDP growth of 0.3% QoQ in Q124 (upwardly revised from 0.1% QoQ expected previously), to be driven by a solid rebound of household consumption, as suggested by a 1.7% rebound in retail sales during the first two months of the year. **Indeed, fundamentals of domestic demand have been gradually improving, in particular purchasing power, setting the conditions for a recovery in private consumption.** The labour market remains tight (**unemployment rate still close to record lows at 3.9% and below its non-inflationary rate**) but is slowly easing (vacancies keep falling); wage growth is around 6%; growth in real disposable incomes has been positive for the past two quarters (3.8% YoY as of Q323); the saving rate (at 10%) is higher than pre-Covid levels; mortgage rates have passed their peak; and the housing market is slowly starting to recover.

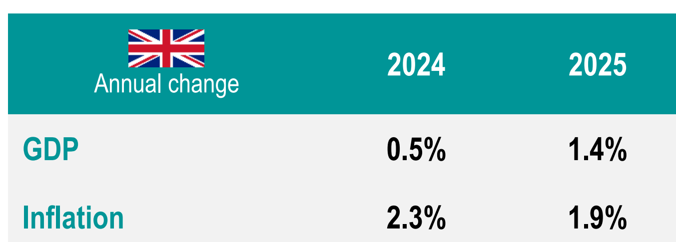
We expect inflation slightly above target over H2 in our central scenario, but still close to target (2.1% in Q424).

Furthermore, **in the Spring Budget, the Chancellor announced a fiscal easing for the third time in a row albeit by a weaker amount than in the previous budgets** (0.2% of GDP per year on average after 0.6% in the Autumn Statement). The main giveaways are a 2ppt cut to NICs for employees and the self-employed from April, following a similar cut in November's Autumn statement, and a freeze of fuel duty partly offset by tax rises. At the margin, these measures are expected to support domestic demand in the near term, alongside a 10% hike in the National Living Wage to take place in April, and an expected sharp fall in inflation below target in Q224 owing to a 12% cut in gas & electricity prices and a freeze in the fuel duty. At the same time, they are slightly improving the prospects of potential supply (by around 0.25ppt) through an

increase in labour supply and hence should be disinflationary in the long term.

CPI inflation has been on a downward trend and continued to surprise favourably as base effects offset an increase in energy prices in January. While core goods inflation is now below 2% and food inflation is falling, services inflation remains elevated, albeit also moderating. In Q224, headline inflation is likely to fall below the BoE's target of 2% in Q224, driven by a fall in energy prices, before rebounding thereafter. We expect inflation slightly above target over H2 in our central scenario, but still close to target (2.1% in Q424). A lower profile for inflation and a more dovish turn by the BoE since February leads us to advance our expectation for the first rate cut from August to June and to add one rate cut to our Bank rate forecast this year. We now expect three rate cuts in 2024, followed by four (one per quarter) in 2025. The Bank rate would thus end 2024 at 4.5% and 2025 at 3.5%.

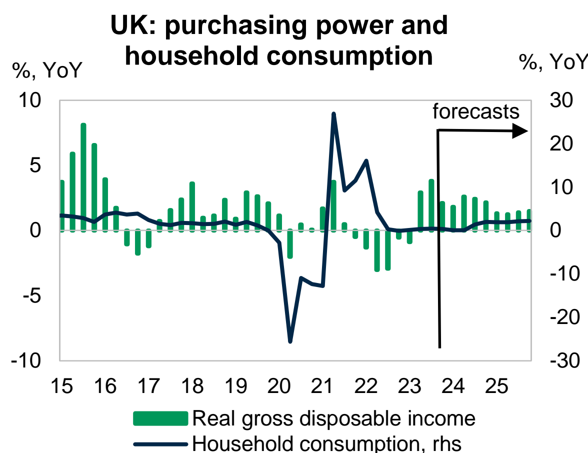
Still, risks to the economic and fiscal outlook remain significant. First, geopolitical risks including protracted disruptions in the Red Sea could lead to resurgent inflation and higher-for-longer rates. The US election and the possibility of a renewed trade war if Donald Trump is elected for a second term is likely to weigh on global trade, and on UK exports, while also adding to inflation. In the UK, **the general election is almost certain to result in a Labour government with a huge majority within the House of Commons**. This may be mildly positive for growth prospects as the Labour party favours a closer relationship with the EU. However, we expect little change in fiscal policy whichever party wins the election as it will inherit a very constrained fiscal situation (a margin of only 0.3% of GDP relative to the main fiscal rules). There is a cross-party consensus for the necessity to bring public debt on a downward path. Hence, there is little chance for any further budget stimulus. **In the medium term, uncertainty remains over the supply-side of the economy, especially labour market conditions, net migration and productivity growth.**



Annual change	2024	2025
GDP	0.5%	1.4%
Inflation	2.3%	1.9%

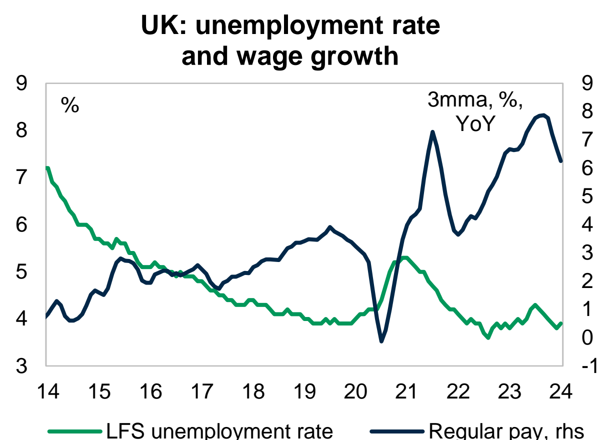
Slavena NAZAROVA

UK: purchasing power and household consumption



Sources: ONS, Crédit Agricole SA

UK: unemployment rate and wage growth



Sources: ONS, Crédit Agricole SA

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

Economy to mark negative growth as Japan's credit cycle takes a hit as a result of the BoJ's move

Japan's domestic private real demand remains 1.8% below the pre-Covid (2019) average as of Q423. The latest output gap estimate by the Cabinet Office indicates that Japan's output gap still remains negative at 0.6%.

The initial Shunto results indicate wage growth of 5.85%, surpassing the 3.80% observed at last year. However, last year's wage growth was driven mostly by corporates increasing wages in order to aid in light of higher import prices. This year's wage growth seems to be driven by corporates paying out their excess savings they have accumulated over the past year. Japan's wage growth is likely not due to a pick-up in demand.

The BoJ exiting from the negative interest rate regime despite domestic demand remaining will act as a drag on Japan's credit cycle. Combined with weakness in external demand, real GDP growth for 2024 will likely come in negative. A stronger JPY will

likely suppress corporate profits, while the increase in wages will likely lead households to offset the decline in savings until now and not increase their consumption by a significant margin.

Combined with weakness in external demand, real GDP growth for 2024 will likely come in negative.

In 2025, economic growth will likely come in below the potential growth rate of around 0.7%. Once the global economy enters the next cyclical upswing and nominal GDP growth picks up, corporates will likely increase capex. In 2026, real GDP growth will likely surpass the potential growth rate and private capex as a percentage of GDP will likely surpass the key 17% level, paving the way for Japan to fully exit from deflation in 2027. For this to materialise, fiscal policy will need to remain accommodative in line with the current Abenomics and "new capitalism" policy framework.

Inflation to decelerate below the 2% target as technical factors fade

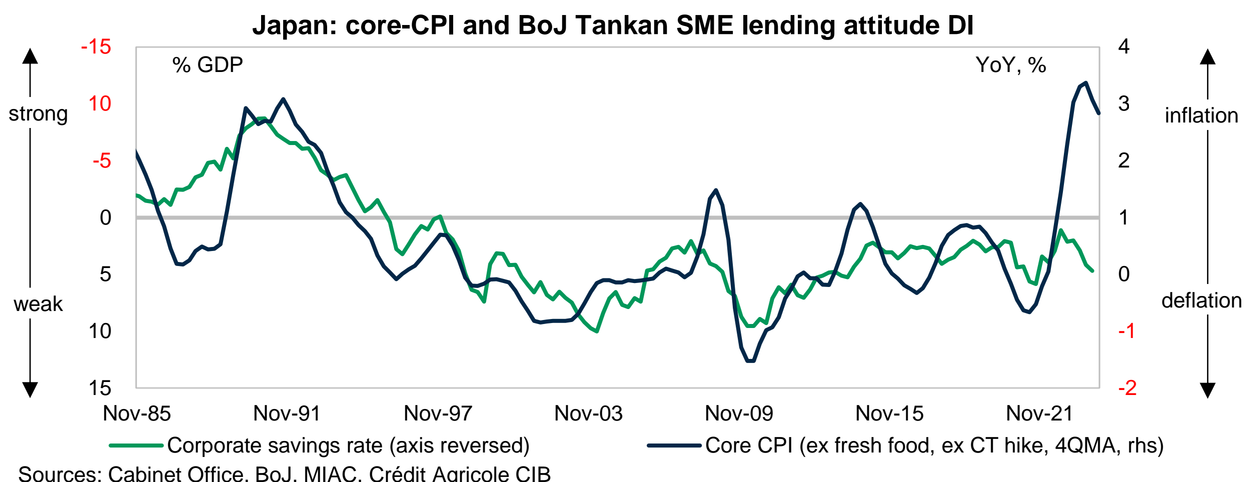
Key inflationary measures have significantly surpassed the BoJ's inflation target of 2%. However, most of the upward pressure on prices stems from temporary factors and is not due to a strong recovery of domestic demand. **The government and the BoJ maintain the view that Japan's economy has yet to achieve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

The primary cause of Japan's deflation has been continued excess savings by Japanese corporates. After the collapse of Japan's economic bubble, the corporate savings rate became positive, which has since then continued to destroyed aggregate demand and in turn strengthened structural deflationary pressures. The increase in capex and a tight labour market should remove excess corporate savings and strengthen inflationary pressures, but that will likely take a few years.

Annual change	2024	2025
GDP	-0.1%	0.4%
Inflation (ex-fresh food and energy)	2.2%	0.8%

Core CPI (ex-fresh food and energy) growth will likely start to decelerate in 2024 as upward pressures from higher import prices and cost push moves peak and fall below the BoJ's 2% target by H224. Core CPI growth will likely fall below 1% in 2025 due to a global economic slowdown, a stronger JPY and weak domestic demand. Core CPI will likely re-accelerate 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 2027.

Takuji AIDA – Arata OTO



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

EMERGING COUNTRIES

Trade-offs are required between disinflation and growth

Overview – Trade-offs are required between disinflation and growth

China – A long ladder to climb

Has Brazil become boring? Never

Russia – The growing war economy

India – Narendra Modi's wager

Trade-offs are required between disinflation and growth

Generally speaking, inflation is coming down and growth is stable in emerging countries, but a regional analysis shows a broad-based need to boost domestic growth. It also shows that the gap between the richest and the less affluent – where the latter are more exposed to climate risks – is constantly widening.

Overall, **emerging countries are seeing stable growth, which is forecast at 3.7% for 2024, the same level as in 2023**. Clearly, this year's resilient growth will be particularly contingent on the US – due to elections, growth and monetary policy – and China, but also geopolitical developments, especially the future of the war in Europe. The other major trend is disinflation. **We expect 2024 to be the year that monetary policy pivots and starts to boost domestic demand.**

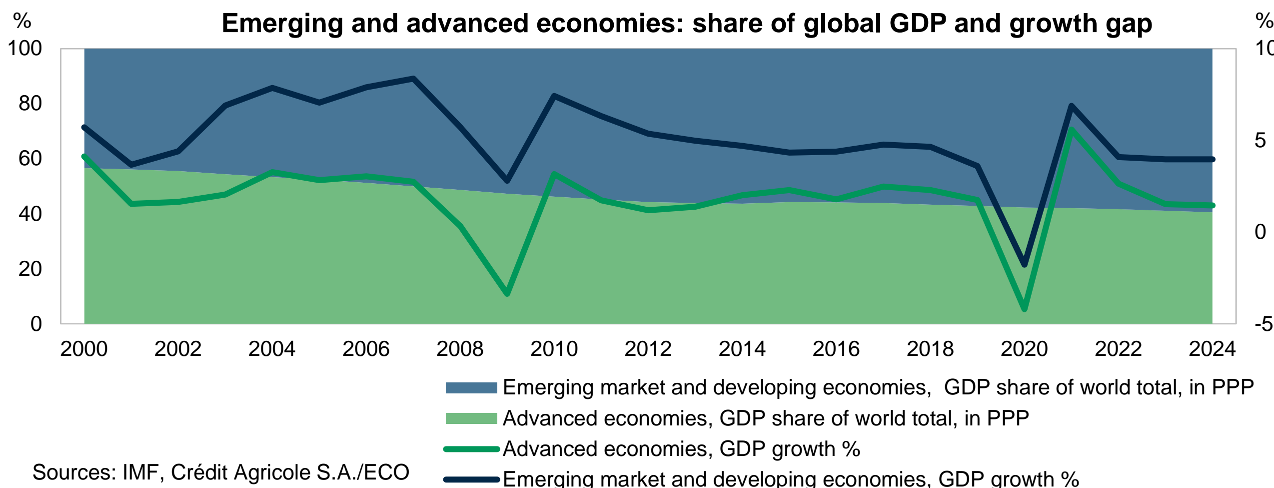
However, the overall picture of stable growth must be put into perspective, as the performance gap between the richest and most vulnerable emerging markets has been widening for several years. The most vulnerable countries have exhausted their fiscal margins grappling with the shocks of the last five years, none greater than climate risk. The food situation in Malawi, Zambia and Zimbabwe is a reminder that at least 50m people are at immediate risk of global warming in southern Africa. In recent months, Brazil and Vietnam have also had some brutal insight into what António Guterres has rightly referred to as the "era of global boiling".

Behind the stability...

In fact, **this year of "stability" in the emerging world will actually be very difficult for the poorest and most indebted nations**, with USD78bn in debt owed by low-income countries falling due, according to the IIF. For these countries, a liquidity risk is threatening to transform into a solvency risk. To avoid this scenario in a geostrategically important country, a jumble of assorted assistance programmes has been put together, adding USD35bn in direct investments from Abu Dhabi's ADQ fund, in addition to support from the IMF and the EU. These measures combined with a currency float "saved" Egypt, covering its liquidity needs for the next two years or so. It pushed down CDS and resolved currency shortages. With the worst avoided, it remains to be seen whether investments in coastal tourism will trigger sufficient growth to offset the shock of devaluation (the EGP has fallen 68% against the USD since 2022) and inflation (over 30%) on the incomes of an increasingly poor middle class. Today, 30% of Egyptians are estimated to live under the poverty line. In addition, the burden on income of public debt that is set to exceed 100% of GDP needs to be reduced. With interest payments accounting for 58% of revenues, Egypt has one of the highest ratios in the world, and the decline in revenues from the Suez Canal due to the conflict in the Red Sea is not going to help. Egypt has become a test case in transforming a tourism-based growth model into broader development. The Gulf states are taking action too – Saudi Arabia is adopting a similar strategy, drawing on the huge resources of its sovereign wealth fund, which continues to grow.

ASEAN is increasingly on the radar

Putting the poorest countries aside, the regional view of the emerging world is unsurprising, because it confirms Asia's role as the leading driver of growth. However, intraregional trends are shifting, underlining the role of ASEAN, which is increasingly on investors' radars. China's growth continues to slow, and in 2024 the country is expected to see lower growth than India, but also Malaysia, Indonesia, the Philippines and Vietnam, which is taking advantage of global value chain restructuring. Thailand is struggling – although its tourism industry has recovered sharply, it is yet to return to pre-pandemic



Sources: IMF, Crédit Agricole S.A./ECO

levels. The signature of an agreement with China to allow visa-free access should help.

Intraregional trends are shifting and highlighting ASEAN's role once again.

However, ASEAN also remains the region that is most directly exposed to the uncertainties of Chinese growth: Beijing is an essential but inhibiting partner. These countries are also facing the middle income trap, which is pushing them to find sources of domestic growth. For example, in Indonesia, the new president – and former defence minister – plans to extend the infrastructure investment policy to major strategic projects. However, for the world's largest nickel producer, the state of the market – characterised by overproduction and high inventories – also highlights a new challenge of regulating global prices, which plummeted in 2023.

In Latin America, there are constants too. **Growth is more resilient than a few years ago but still too weak.** Growth rates are struggling to take off in dual economies, characterised by large parallel sectors, weak investment and dissipation of productivity gains, as well as middle classes that were hit hard by Covid. And, at the moment, we are seeing the impact of El Niño, which is causing disappointing performance in certain countries, including Peru. In 2024, growth rates in Brazil and Mexico are expected to remain close to 2%, underlining the fact that the US' nearshoring to Mexico narrative will not be enough to change the country's economic trajectory, at least for now, nor will the Mayan Train project's public infrastructure investments. The upcoming elections are also not expected to mark a turning point in Mexico's trajectory, given that the question of absorbing Permex's debt into the public accounts is still pressing. In contrast, if Donald Trump is elected, Mexico is likely to be one of the first countries where Chinese investments – which have increased, and where the resulting production is destined for the US market – would be in the new president's crosshairs.

Politics could prove to be a game changer in South Africa as well. Late-May's general election could see the ANC lose its legitimacy even further at the polls. This would add to the financial risks in a country where public debt is at 75% of GDP, and where potential growth remains well below what is required to bring down an estimated unemployment rate of 32.4% as of the end of 2023. Growth averaged 1.3% from 2010 to 2023. This structurally sluggish activity, which is driving unrest and causing the social climate to deteriorate, is partly due to structural electricity shortages. As such, Pretoria is consolidating its position as a key player in the global south, but is struggling economically, socially and politically.

Amid the current growth, many countries are tempted to cut rates in light of disinflation. Monetary easing has already started in Latin America and Eastern Europe. Asia will take a more cautious approach and cut later, as the continent is anchored more closely to monetary policy in the US, and also because it did not suffer as much from high inflation.

Hungary cut rates again in March after inflation fell to 3.7% in February. Price trends will be contingent on growth for the rest of the year. For now, the manufacturing sector is being hobbled by weakness in the EU, but Hungary is counting on direct investments, particularly from China in the battery sector, to kick-start its industry again. However, Chinese presence in Eastern Europe is not all good news! Beijing's decision to promote the transition sector to make it a driving force for exports means that Eastern Europe is dealing with a vehicle price war being waged by Chinese champion BYD, which is exporting Chinese disinflation to the sector through excess supply. The Czech Republic and Slovakia – Germany's automotive sector partners in the region – will have to adapt to this new global competitive regime. Meanwhile, Poland is relying on its domestic demand, which has been boosted by higher real wages, to offset weak demand from Western Europe.

Inflation is declining in Latin America and rate cuts have begun, even though core inflation is often proving difficult to bring to heel due to higher services prices and, sometimes, in Brazil for example, higher real wages. The pace of rate cuts will be difficult to manage this year. They cannot be too early, or too sharp, or too detached from the Fed, otherwise they could trigger capital outflows. In Asia, central banks are aligned with the US, but El Niño has impacted food prices, especially in India and the Philippines, where rice harvests have proved challenging.

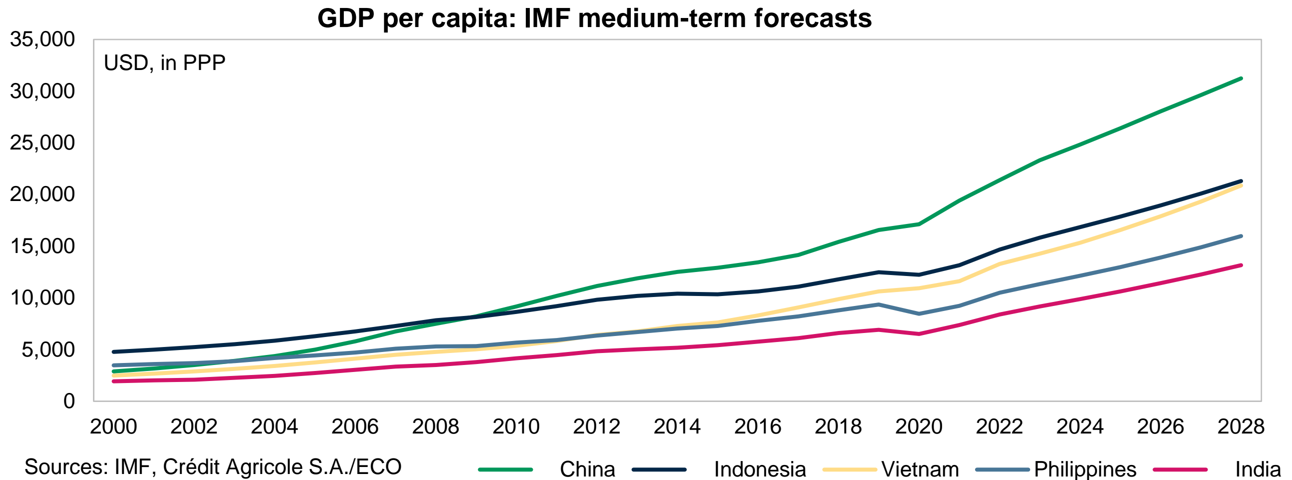
Annual change	2024	2025
GDP	**3.9%**	**3.9%**
Inflation	**5.8%**	**4.0%**

What about the outsiders?

Of course, we need to add into the picture the **inflation outsiders**, which **are also the countries exploring unorthodox economic policy**, none more so than Argentina. Javier Milei continues to slash fiscal spending, but this is causing an increase in the level of poverty, which is now impacting an estimated 57% of the population. Turkey has confirmed its return to an orthodox monetary policy, but with inflation at 70% in February, it has a major battle and a need for much higher interest rates on its hands. The Turkish economy is yet to win this battle, but rating agencies have taken note of the country's increased currency reserves, which, at USD131bn, have increased by

USD32bn since June 2023. The current account deficit is narrowing and public debt stands at just 30%. Investors expect Turkey to free itself from its monetary demons and finally take advantage of its businesses' growth potential and its young population. However, the potential for further geopolitical turmoil is high.

Tania SOLLOGOUB



CHINA: A LONG LADDER TO CLIMB

A bumpy path to deliver growth stabilisation

We maintain a relatively cautious view on the Chinese economy for 2024, with the combination of growth stabilisation and mild reflation amidst a modest set of policy easing measures. The property sector drag will likely become less severe but remains a key risk to watch for growth.

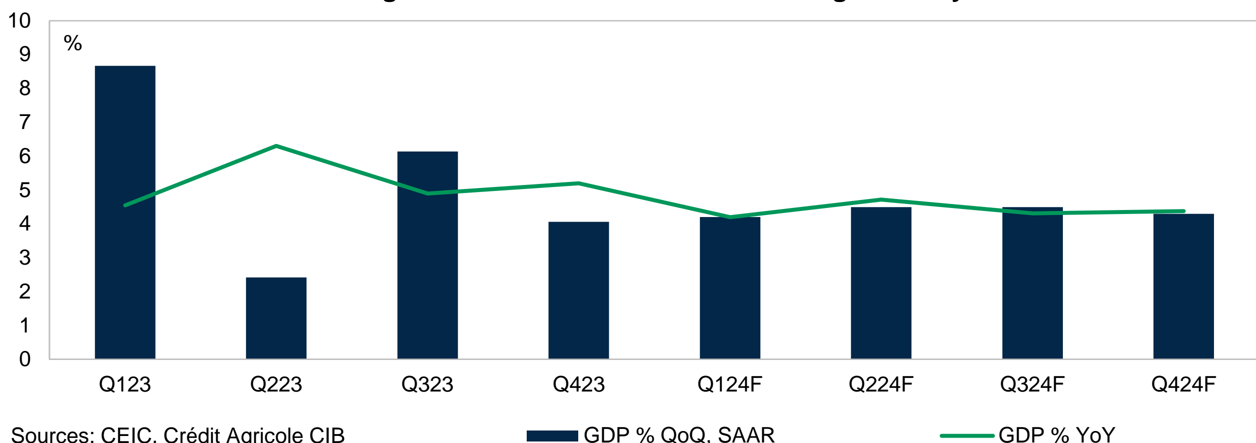
We expect GDP growth will slow to 4.4% in 2024 from 5.2% in 2023, only marginally better than the average of 4.1% in 2022-23. Continued consumption recovery and resilient infrastructure and manufacturing investment will likely cushion the ongoing property drag, while net exports could become less negative.

Ambitious targets, but no major stimulus

The 2024 National People's Congress (NPC) set its GDP growth target at "around 5.0%" and CPI inflation at "around 3%", in line with our and market expectation. These targets are very challenging, especially given the confirmation of a set of moderate policy easing measures, without major stimulus.

The CPI inflation turned positive in February for the first time since last August, helped by based effects.

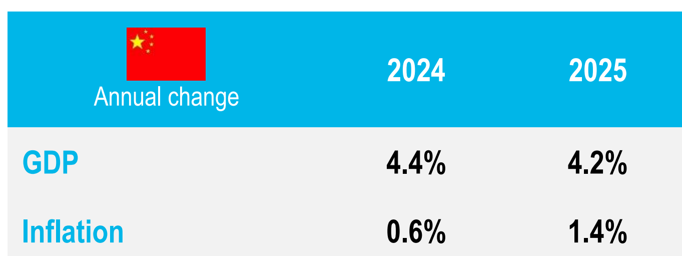
On the fiscal front, both the headline deficit ratio (at 3.0% of GDP) and the local government special bond issuance quota (at RMB3.9trn) was a bit below market expectations. Nonetheless, if we take into account both greater fiscal support from the Central Government (with special CGB issuance of RMB1trn in 2024 and more in the coming years) and likely larger quasi-fiscal spending via the policy banks, the augmented fiscal deficit ratio could rise moderately to 12.0% GDP from 10.4% in 2023, representing modestly greater fiscal support to the economy this year.



There are broad policy guidelines on various fronts, but it could be concerning to the markets that there is a lack of consumption stimulus, and further property rescue initiatives could also renew concerns, to materially turn around the weak expectation and low confidence level, while the emphasis on industrial policies may add onto the disinflationary pressures in a number of manufacturing sectors.

Some initial signs of improvement but sustainability remains a question

The major real data released so far in 2024 came out on the positive side, showing signs of growth stabilisation, especially related to manufacturing and infrastructure construction activities amidst intensified policy support. However, we also note the lack of a broad-based upward momentum in consumption growth despite the resilience of in-person services and holiday sales, while the further property sector slump is quite alarming. The latest credit data pointed to sluggish credit demand especially among the household sector, as weak expectation prevails.



Annual change	2024	2025
GDP	4.4%	4.2%
Inflation	0.6%	1.4%

Slow and mild reflationary process

The CPI inflation turned positive in February for the first time since last August, helped by based effects. We think CPI could be largely out of the deflationary zone now, though disinflationary pressures still persist, on soft consumption demand, overcapacity in a few manufacturing sectors, and a lack of consumption stimulus measures.

We maintain the view of a slow and mild reflationary process in 2024. We forecast headline and core CPI inflation at 0.6% and 0.9% respectively in 2024, vs 0.2% and 0.7% in 2023. PPI deflation will likely become less severe, averaging at -0.5% in 2024 vs -3.0%. GDP deflator could stay negative in Q1 and hover at around zero in Q2 before rising back to positive in H2.

Policy easing likely continues in 2024

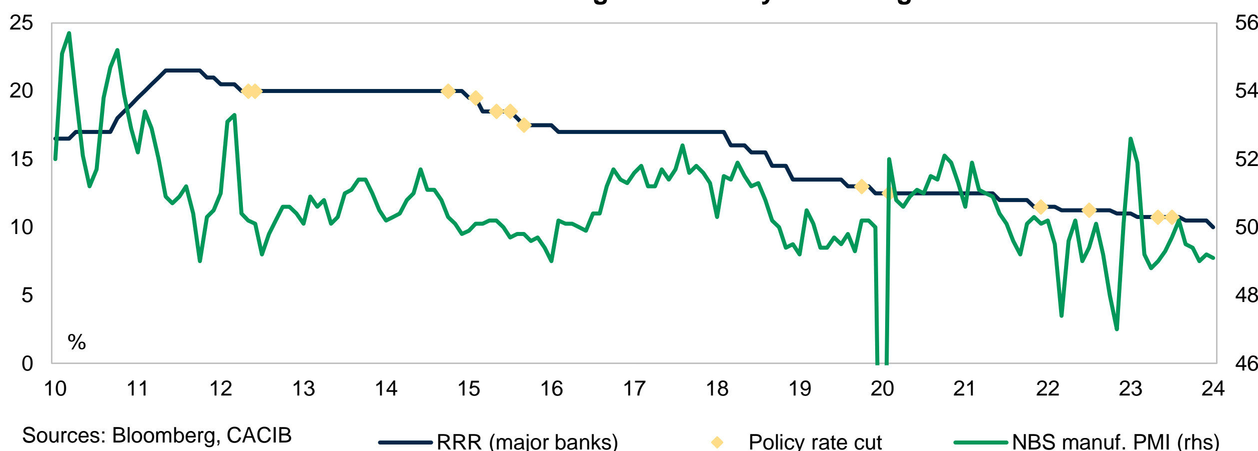
Chinese policymakers will likely further roll out their policy easing measures, as planned but not too aggressively, while continuing to monitor real data for any potential adjustment. It is still too early to assume a firm uptrend of economic growth, despite the latest encouraging data signals, without further policy support. After all, markets could remain sceptical about the sustainability of growth improvement with such a significant drag on the property sector.

On the monetary policy front, we expect easing in 2024. Following the recent 50bp RRR cut and 25bp cut in 5Y LPR, the PBOC could focus on guiding down bank deposit rates and lowering the RRR in the coming months, while waiting for the Fed to deliver its first rate cut in the current cycle. There is room for the PBoC to cut its policy rate, ie, the MLF rate, by a total of 20bp in 2024. We also expect the expansion of PSL of RMB1trn to support property.

Risks to watch

Domestically, it is key to watch how China could stabilise the property sector to manage the risk of prolonged sluggishness in demand which could in turn have a long-lasting negative growth impact. Externally, geopolitical factors and US-China decoupling concerns heading closer to the US election, may weigh on risk sentiment and result in greater market volatility.

Xiaojia ZHI



HAS BRAZIL BECOME BORING? NEVER

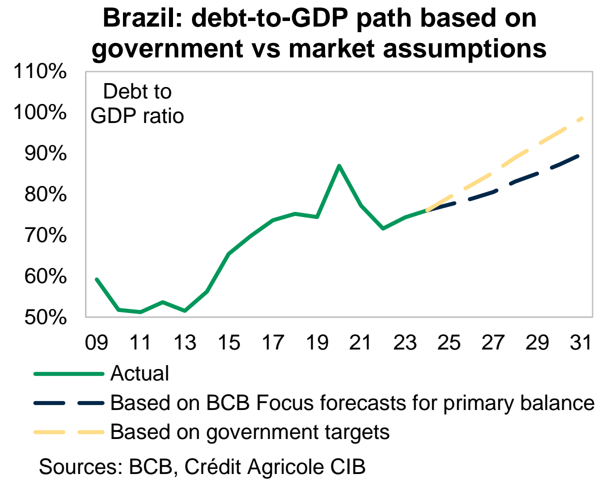
In the absence of attention-grabbing headlines, USD/BRL has been trading in a relatively narrow range in Q124, within an upward channel bound on the downside by the 50-day moving average. In this context, one could be forgiven to think that Brazil has become a boring country, which is usually a good thing when it comes to emerging markets. Countries with predictable politics and orthodox policymaking are rewarded with a low country risk premium and low asset price volatility.

Rather than Brazil becoming an unremarkable country however, the overall decline in EM FX vol appears to be behind these narrow ranges, and we believe it is too soon to ignore the Brazil risks.

First, the slowdown in China's growth has particularly strong implications for Brazil, given the importance of its exports of oil, iron ore and soybeans. Iron ore prices have collapsed by over 20% YTD as the decline in floor space under construction in China deepened. Soybean prices have been declining as well, while rising oil prices, in the wake of Ukrainian drone attacks on Russian oil refineries, provided an offset to Brazil's falling terms of trade YTD. The acceleration of China's slowdown, which until now has been managed with policy support, could have especially severe consequences for Brazil.

The slowdown in China's growth has particularly strong implications for Brazil.

Second, in our view, **the extremely low credit spreads in Brazil and hence a low country risk premium is out of sync with the worsening fiscal dynamics** as Brazil's GDP growth slows this year and real rates remain high. The post-pandemic decline in the debt-to-GDP ratio driven by strong economic recovery and a surge in inflation has faded and the ratio is rising again. Should the government meet its fiscal targets, the debt ratio should follow a modestly upward trajectory, but most market participants (as represented by the median assumptions extracted from the BCB focus survey assumptions), as are we, are sceptical this will be achieved.

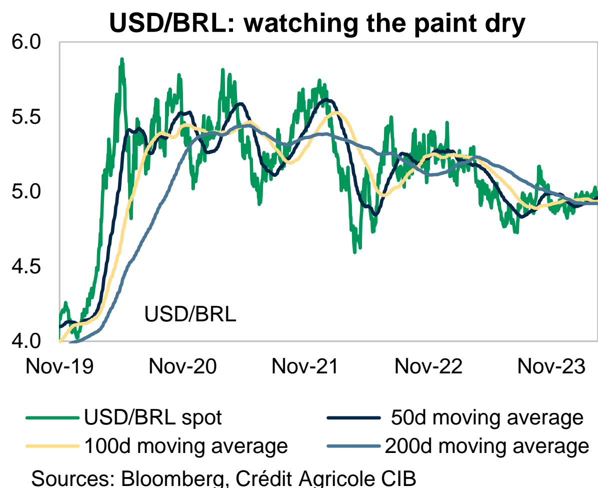


Sources: BCB, Crédit Agricole CIB

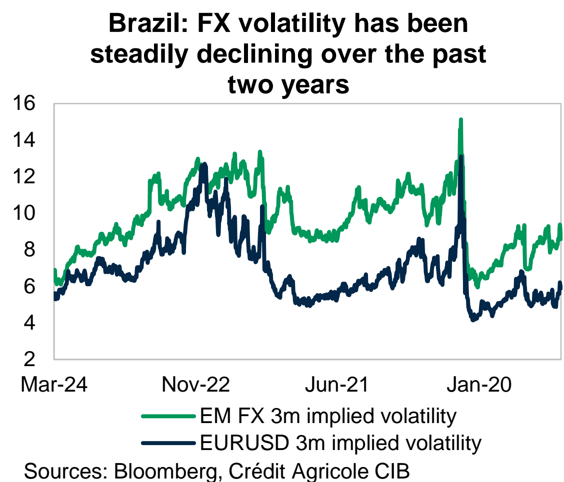
Finally, **while not specific to Brazil, we expect that the ongoing rise in US Treasury yields will sooner or later challenge currencies favoured by investors for their attractive carry-to-volatility ratio**, such as the BRL (as well as the MXN and COP in Latam). The overweight positioning that has built up is making these favoured currencies vulnerable to a correction. The two key risks that we are particularly focused on is the pick-up in monthly inflation in the US, challenging the US Fed's efforts to bend inflation to target, and the increasingly vocalised concerns about rising fiscal premium in the US, expressed by policy think tanks and investors alike.

Annual change	2024	2025
GDP	1.5%	1.8%
Inflation	3.8%	3.5%

Olga YANGOL



Sources: Bloomberg, Crédit Agricole CIB



Sources: Bloomberg, Crédit Agricole CIB

RUSSIA: THE GROWING WAR ECONOMY

The economic momentum in Russia was stronger than expected in H223 and in recent months. GDP growth was 5% YoY in Q223, Q323 and also likely Q423. It has benefited from three main factors.

First, **Russia has managed to partly redirect its exports** (including hydrocarbon exports) **from Europe to other destinations**, including the likes of China, India and Turkey. It has also managed to change the origin of its imports to cap the impact of sanctions and partly preserve the activity of domestic manufacturers and domestic consumption.

The government has remained committed to its decade-long choice to limit financial vulnerability in order to support geopolitical assertiveness

Second, **consumer demand has been relatively strong**, on the back of relatively supportive budget policy before the election, but also because of the strong growth in wages (scarcity of labour).

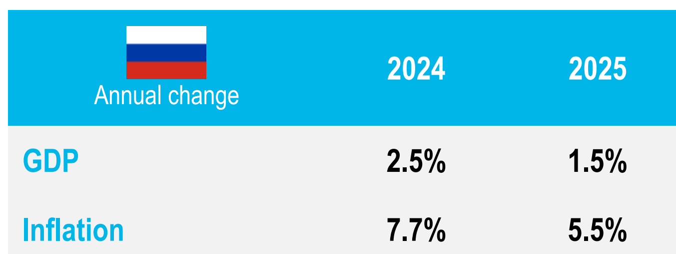
Third, and foremost, **the Russian economy has increasingly become a war economy**, and this has strongly stimulated the economy as a whole. Military spending has skyrocketed from an already high level of roughly 4% of GDP in 2022 to 7% of GDP in 2024. This has boosted industrial production and supported the entire economy.

In 2024, GDP growth will likely slow, as the increase in military spending is likely not replicable at the same pace, whereas the pace of export growth is moderating. Higher interest rates to fight inflation should also weigh on domestic demand. GDP growth at 2.5% looks like a reasonable assumption for the current year.

The war effort is obviously not without cost. Russia's financial leeway has been declining gradually. Besides inflationary pressure, the government's balance sheet has also been impacted. The size of the wellbeing fund has declined over the past two years. The liquid part of it, in particular, has eroded by about 45% since the war began. Government debt has also increased, but it remains particularly low by international standards, at only 22% of GDP according to the IMF. This is the consequence of a strong focus devoted to financial orthodoxy over the past decade, as the government has remained committed to its choice to limit financial vulnerability in order to support geopolitical assertiveness (financial orthodoxy used as a geopolitical shield).

In a nutshell, **Russia's financial leeway is declining, but at a gradual pace, and it remains significant at this stage**, particularly if the oil price remains at its current level, and as Russia manages to continue trading with the Global South.

On the external front, the current account balance has been narrowing, though. This is the result of rather strong domestic demand and gradually shrinking exports to the West. **We expect the current account surplus to decline from 2.5% of GDP last year to about 1.5% in 2024.**

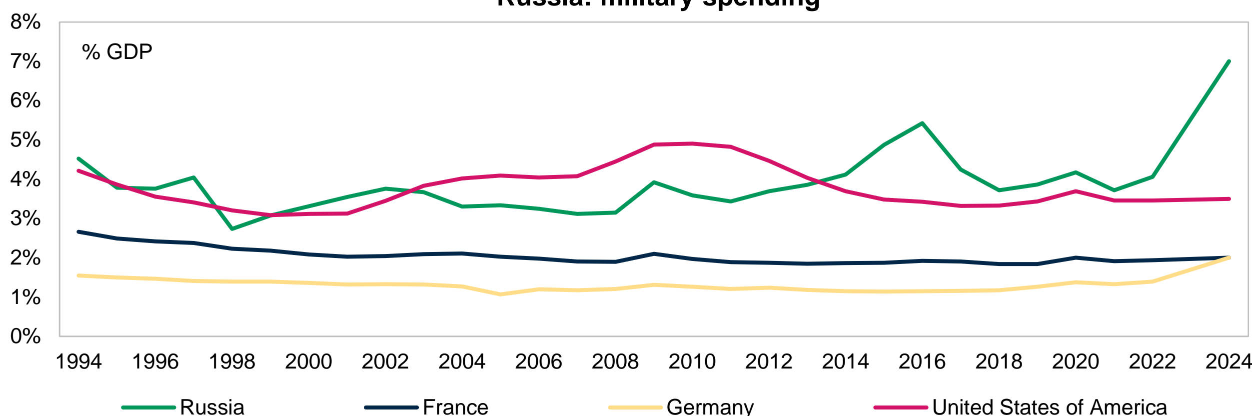


Annual change	2024	2025
GDP	2.5%	1.5%
Inflation	7.7%	5.5%

The CBR has had to hike interest rates strongly to fight inflation pressure, confirming that it maintains a key role in the commitment to financial orthodoxy. With the nominal 1W repo rate currently at 16%, the real rate is above 8% – one of the highest among the world's largest economies. The central bank may begin to lower rates at some point in H224 if inflation moderates, but any monetary easing would likely be gradual

Sébastien BARBÉ

Russia: military spending



Sources: SIPRI, IISS, National sources, Crédit Agricole CIB

INDIA: NARENDRA MODI'S WAGER

Starting on 19 April, 970m Indians will head to the polls, with the outcome a virtual certainty. Barring a monumental surprise, Narendra Modi will be re-elected to lead the country for a third term. The question is whether he will win a big enough majority to govern without the support of his traditional allies in Congress, which would give him free rein to further tighten his grip on the country.

A new investment cycle

India has entered a new investment cycle. After declining continuously between 2012 and 2021 – and plummeting when the pandemic broke out – **investment reached 34% of GDP in 2023 and is expected to continue rising towards 2008's record level of 39% of GDP**. However, for now, this growth is being increasingly driven by public spending, which primarily targets investment in infrastructure and sectors that the government identifies as priorities. Although India undoubtedly benefits from a positive geopolitical backdrop thanks to its position as an alternative to China, this is not fully evident in FDI figures, despite the major successes announced in the media, especially in the telecommunications sector.

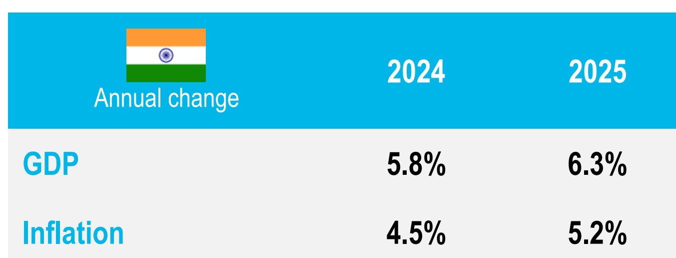
Bringing the growth model full circle

The path Modi has taken is a risk, because it cannot be completely viable in the medium term. **India is running fiscal and current account deficits that it is attempting to absorb**, and that it is financing though locally-issued public debt in INR. Continuing this investment trend, which is being ramped up even further during the election period, is out of sync with budget consolidation requirements, and so the private sector will eventually have to pick up the slack. It also comes at the expense of the traditional support role played by consumption.

While investment has increased more quickly than growth in recent quarters, the reverse is true of private consumption, which been particularly curbed by lower incomes in rural areas. That said, rural India's power should not be underestimated. Agriculture is still the main source of income for over half of Indian households.

The path Modi has taken is a risk, because it cannot be completely viable in the medium term.

The agriculture industry is still struggling to recover from Covid, the surge in inflation in 2022 (especially energy prices) **and extreme climate events** (harmful heatwaves and droughts) **that have impacted harvests.** These issues are driving the demands of farmers, who have been protesting for minimum crop prices for several weeks now.

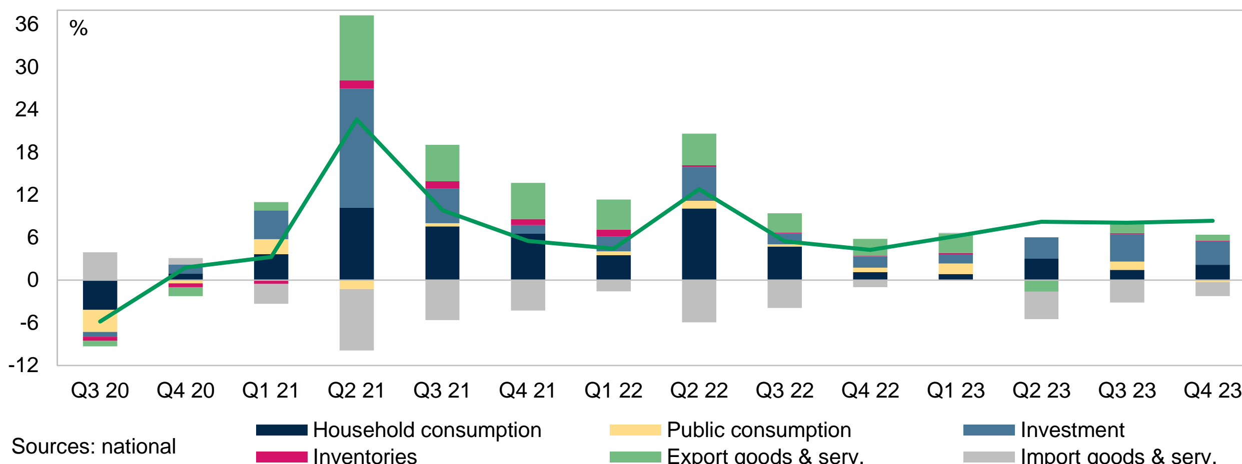


Annual change	2024	2025
GDP	5.8%	6.3%
Inflation	4.5%	5.2%

However, support from domestic consumption is vital, because India remains a second-tier player when it comes to global trade (1.8% of global goods exports and 4.8% of services exports). Modi's bet on increased investment spending also targets sectors such as new technologies and the automotive industry, where new national export champions could emerge. For that to happen, he will have to drop some of the excessive number of tariff and non-tariff barriers that India still maintains and that are making free-trade agreement negotiations difficult. Talks with the EU are at a standstill. Promises of growth firmly above 5.5%, and therefore better than China's, will not be enough on their own.

Sophie WIEVIORKA

India: contributions to growth



Sources: national

Oil – Fears that prices will rise are growing

Gas – As we wait for supply to increase in 2025, 2024 could look a lot like 2023

Shipping – Courage under fire

Oil – Fears that prices will rise are growing

Do not be fooled by the relative calm on oil markets at the moment. Risks of higher oil prices over the coming quarters are acute, and OPEC+ remains the puppet master.

The average oil price was fairly stable in Q124 compared to Q423 and 2023 as a whole. However, monthly average prices have been trending up since December. That said, we cannot confirm that these price increases between December and March are solely due to tankers having to change their Middle East-Europe routes since Houthi rebels began attacking vessels in the Red Sea. Narrower Brent-WTI spreads in March could also suggest that the oil market is contracting slightly.

This relative stability is due to fairly consistent demand for oil from major consumers like China and the US in recent months. As such, oil consumption growth in 2024 is expected to be half of the 2023 level. We think demand for oil will rise by just 1.0m to 1.5m bpd in 2024.

Saudi Arabia's geopolitical and economic interests will be pivotal in defining its oil policy and OPEC+'s decisions

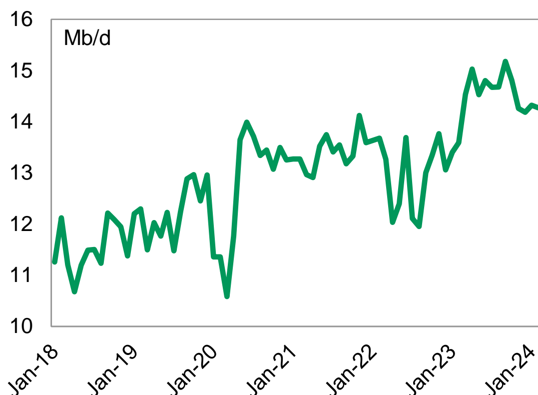
Like for like (Angola ceased to be a member of OPEC in December), **OPEC's production has also been relatively stable since autumn 2023**. The voluntary cuts decided on at the last ministerial meeting on 30 November were fairly well respected by OPEC and OPEC+ members. Since Angola's departure, Saudi Arabia's political influence in the cartel has increased. Production by Saudi Arabia and its allies in the Gulf Cooperation Council (Kuwait and the UAE) accounts for half of OPEC's production. Adding in Iraq and Iran, Middle Eastern countries are responsible for 80% of OPEC's global production. Saudi Arabia's geopolitical and economic interests will be pivotal in defining its oil policy and OPEC+'s decisions. Production in the US and Brazil, which offset the OPEC+ cuts in H223, has been relatively stable over the first few months of 2024. Since 1 January, the US has been allocating an average of 100k bpd to rebuilding the country's Strategic Petroleum Reserve.

As such, the market will be particularly sensitive to the discussions and decisions made at the next OPEC+ ministerial meeting, scheduled for early April. Saudi Arabia, whose fiscal breakeven oil price is slightly higher than current prices, has every incentive to keep oil prices at their current level or to increase them through further production cuts by the cartel and its partners. The extent of any additional cuts will also depend on Saudi Arabia and Russia's aligning interests.

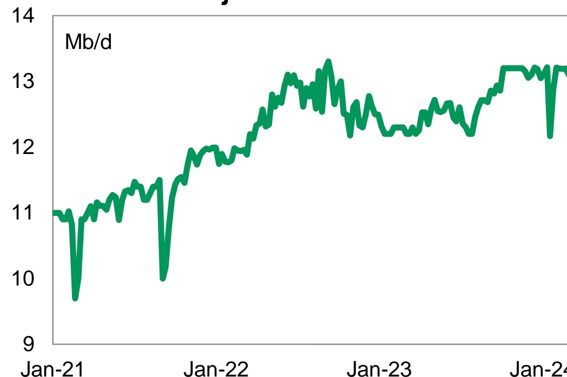
	Average oil price (barrel)
2024	$85
2025	$88

Our scenario is based on tighter control of the oil market by OPEC+ and therefore a gradual increase in oil prices over the coming quarters.

Stéphane FERDRIN



Source: Crédit Agricole S.A./ ECO



Sources: EIA, Crédit Agricole S.A. / ECO

Gas – As we wait for supply to increase in 2025, 2024 could look a lot like 2023

The natural gas market continues to gradually improve, in particular thanks to mild weather and increased electricity supply in Europe. Inventories are high as winter comes to an end, and 2024 could look a lot like 2023.

At the end of the 2023/2024 winter, wholesale natural gas prices are at the lower end of the range of prices we have seen since 1 January 2023. They are actually lower than at the same time last year. The natural gas market remains balanced thanks in particular to controlled consumption.

Weather conditions have also been especially favourable for the energy markets. Another relatively mild winter in Europe limited the need for heating and, as a result, demand for electricity and natural gas from European households. Winder and wetter conditions also had a positive impact on electricity generation at wind farms and hydropower plants.

Structurally, higher renewable energy capacity also helped increase electricity supply. The availability of French nuclear reactors relieved the pressure on European markets and enabled France to recover through electricity exports. Increased electricity supply thanks to renewable & nuclear energy and hydropower is curbing the use of fossil fuel-fired power stations to balance the electricity networks. Use of natural gas-fired power plants in Europe logically declined compared to 2022.

European natural gas inventories will end the winter at the same level as last year.

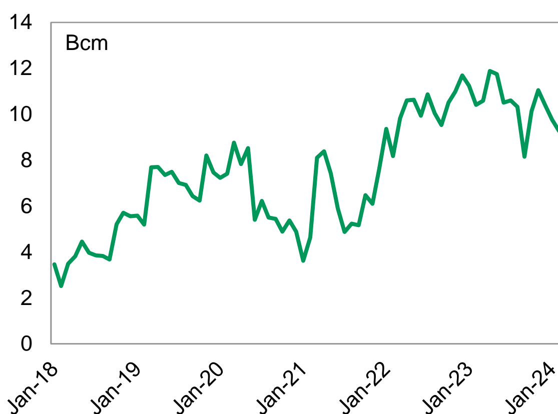
Asia slightly increased its liquefied natural gas (LNG) imports in 2023 compared to 2022, enabling Europe to import the LNG volumes it needed. China seems to still favour coal for its energy needs.

As a result, the use of European natural gas inventories has been relatively limited. Inventories will end the winter at the same level as last year. Inventory replenishment requirements are likely to be similar to last year and should limit tension on the LNG market this summer.

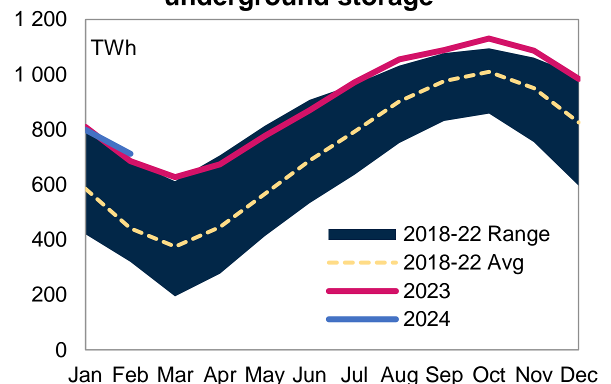
	EU LNG imports
Q423	+31.6 billion m³

It is very likely that Russian gas will soon no longer flow via Ukraine, potentially depriving central European countries (eg, Hungary, the Czech Republic) of 13bcm from 1 January 2025. This is only expected to cause limited disruption to the European natural gas market, as these volumes of Russian gas can be partly or entirely offset by increasing the volumes that flow through the Turk Stream gas pipeline that runs from Russia to Turkey and is connected to the European network. LNG supply is also expected to increase from 2025 as several North American liquefaction facilities start to come into service. These newly commissioned facilities could provide nearly 90bcm of gas per year in 2025 and 2026. Qatar's liquefaction megatrains are expected to supply close to an additional 40bcm of natural gas in 2026 and 2027.

Stéphane FERDRIN



Source: Crédit Agricole S.A./ECO



Sources: GIE, Crédit Agricole SA / ECO

Shipping – Courage under fire

Attacks by Houthi rebels on ships off the coast of Yemen are proving to be yet another challenge for global trade. European supply chains were initially destabilised, but the situation has improved with vessels now rounding the Cape of Good Hope, despite the longer shipping times and higher costs involved.

Ground strikes by the US & UK and the arrival of a European coalition have done little to re-establish security in the Red Sea. After sinking a ship and claiming their first victims, the Iran-backed Houthis are tightening their grip and now threatening to extend their attacks into the Indian Ocean. A speedy return to normal is becoming increasingly uncertain, even if there is a ceasefire in Gaza.

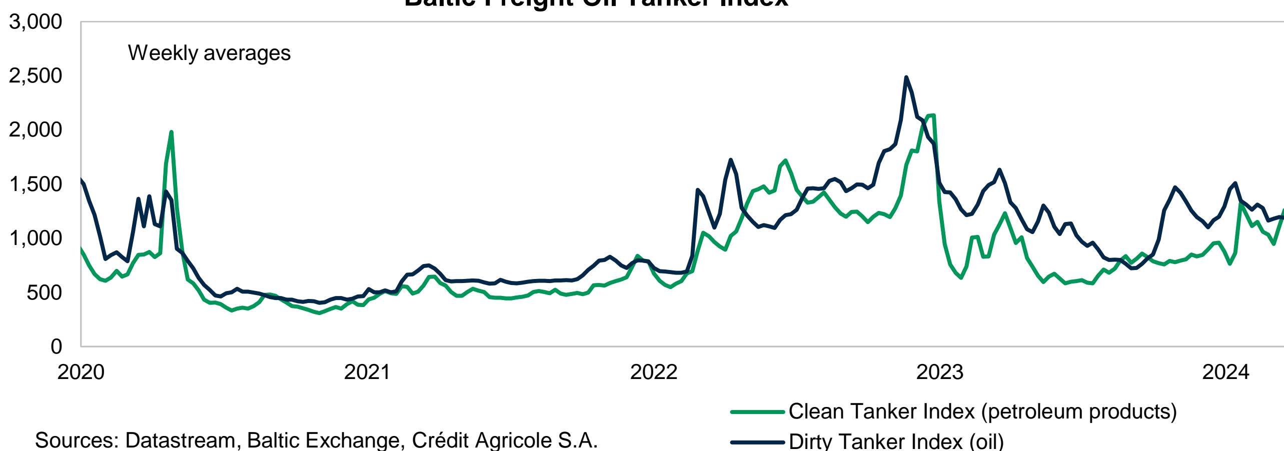
This new challenge is the latest in a long list of shocks that the shipping industry has had to contend with in the past three years. The Covid-19 pandemic, the war in Ukraine and its resulting sanctions and, more recently, restrictions in the Panama Canal due to El Niño – a foretaste of the climate crisis – have disrupted shipping and strengthened the role of the Suez route, where traffic has increased 30% in three years and which now accounts for more than 10% of sea trade. **These crises are often profitable for the industry because they tend to lengthen routes and push up freight rates if there is a lack of vessel capacity.**

This is exactly what is happening in the Red Sea: more than **half of ships have been diverted around the Cape of Good Hope**, adding at least 6,000km to Asia-Europe routes and 9,000km to shipments departing from the Persian Gulf. While Western vessels that are being more closely targeted by the Houthis have almost all rerouted, theoretically safer Russian and Chinese ships appear more inclined to pass through the Red Sea, even though 'mistakes' are not uncommon, as we saw when a Chinese tanker was recently attacked. **The share of shipping traffic that has rerouted varies substantially depending on the type of vessel,** the countries involved and the freight being carried. Bulk carriers, which are less dependent on the Suez route and many of which are still taking the risk of crossing the Red Sea, have seen little impact of the crisis.

Tankers, around 10% of which regularly pass through the Red Sea, have been more heavily impacted by the need to reroute, especially those carrying refined products that are often used to feed Europe. In 2023, 40% of European imports came from the Middle East or Asia, compared to just 15% of oil. Since the decoupling triggered by sanctions, Russian oil exports have been massively redirected to Asia, and there is a growing trend of European countries increasing imports from America. Meanwhile, Saudi oil terminals close to the Suez route continue to use it. **While the risk of a spike in prices is not out of the question in a market that has been strained since Russia invaded Ukraine, there are still enough ships transiting the Red Sea to keep the impact on tanker freight under control.**

Unlike the Covid crisis, which was the result of a double shock, demand is now convalescent and supply is overcapacity.

It is a different ball game for container shipping, a third of which usually takes the Red Sea route. Europe is the most affected, with nearly 60% of its exports containerised and 40% of its exports impacted. North America is also feeling the consequences, albeit to a lesser extent, especially since more vessels from Asia are using the Suez route to avoid the Panama Canal. With a few exceptions (new Chinese entrants taking advantage of the windfall effect, occasional crossings by large ships under escort), **most container traffic is now using the Cape of Good Hope route**.



Sources: Datastream, Baltic Exchange, Crédit Agricole S.A.

After the initial disorganisation due to a lack of vessels and containers, supply chains are now gradually returning to normal, with no congestion at ports so far. Shipping companies are redeploying their vessels and speeding them up slightly, although they are **restricted by their carbon emissions reduction targets, as Europe started taxing those emissions this year.** Shipping times to Northern Europe have been extended by one to two weeks, and by much longer for Mediterranean ports that are far from Gibraltar. However, after declining since December, arrival time reliability should improve again.

Shipping diversions have caused a supply shock of 6% to 8% of capacity. Shipping costs more than tripled in January on the Asia-Europe and Asia-North American East Coast routes, which had a knock-on effect on other routes such as Asia-North America West Coast that have not been directly impacted by the crisis, but that have found themselves lacking capacity due to redeployment. The low season has meant that shipping costs have started to come down again, and we expect them to keep declining over time as new supply continue to hit the market.

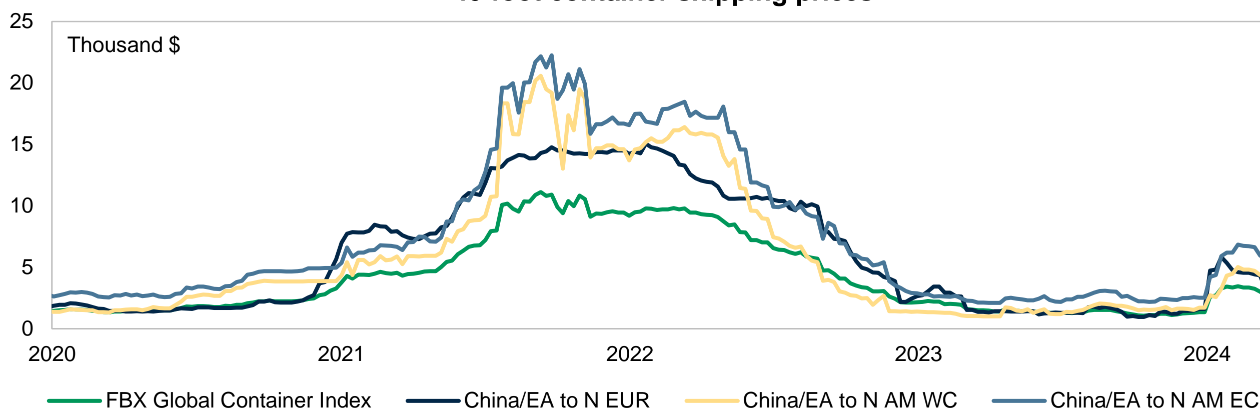
Unlike the two-fold shock we saw during the Covid crisis, when demand for goods was boosted by lockdowns and supply shortages were exacerbated by port congestion, **demand has been sluggish over the last year and far outstripped by supply.** Vessels ordered en masse during the bubble began to submerge the market, pushing carriers' results down into the red at the end of the year, and new capacity is expected to peak at 11% of the existing fleet this year.

	Container ship deliveries in 2024
Capacity	+3 million TEU* = 11% of the fleet as of the end of 2023 *Twenty-foot Equivalent Unit

This is why, even if we assume that the current insecurity in the Red Sea is here to stay, we expect shipping costs to gradually fall, although being potentially supported by peak season volumes or carriers implementing dynamic capacity management (demolitions, slow steaming, lay-ups). While the Baltimore accident should have a limited impact on other ports, the consequences of a potential failure of ongoing contract renegotiations with US East Coast dockworkers would be much more serious. **Unless the crisis spreads or port congestion, shipping costs are expected to fall to close to their pre-attack levels by the end of the year, but with the new European carbon tax now on top.**

Bertrand GAVAUDAN

40-foot container shipping prices



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

Monetary policy – There's no point in running...

Interest rates – Don't hope for too much

Exchange rates – Slight advantage for the dollar

Monetary policy – There's no point in running...

Do not trip up when it comes to monetary policy. Slow and steady wins the race. Inflation has come down from extremely high levels, albeit unevenly, and has suffered shocks along the way (especially in the Eurozone). Central banks hiked their key rates to rein in inflation, and they have remained high for some time now. It is time to start cutting rates cautiously.

FEDERAL RESERVE: PATIENCE IS A VIRTUE

The key question remains how long the Fed will leave rates at what is very likely to be a peak for the current tightening cycle. While hot early-2024 inflation has led some to raise the question of whether another hike could be a possibility, the Fed has not wavered from signalling that the next move will be a cut, and we continue to see the Fed beginning to ease later in the year as well.

That said, even if the Fed has pointed towards cuts at some point this year, that does not mean cuts are imminent. Instead, we continue to expect that the Fed will remain patient in waiting for an additional few months of data to strengthen its conviction that inflation is on the right track, with the first cut arriving only in July. The beginning of the cycle would then involve a gradual every other meeting pace with one more 25bp cut in November to result in an upper bound of 5.00% at year-end.

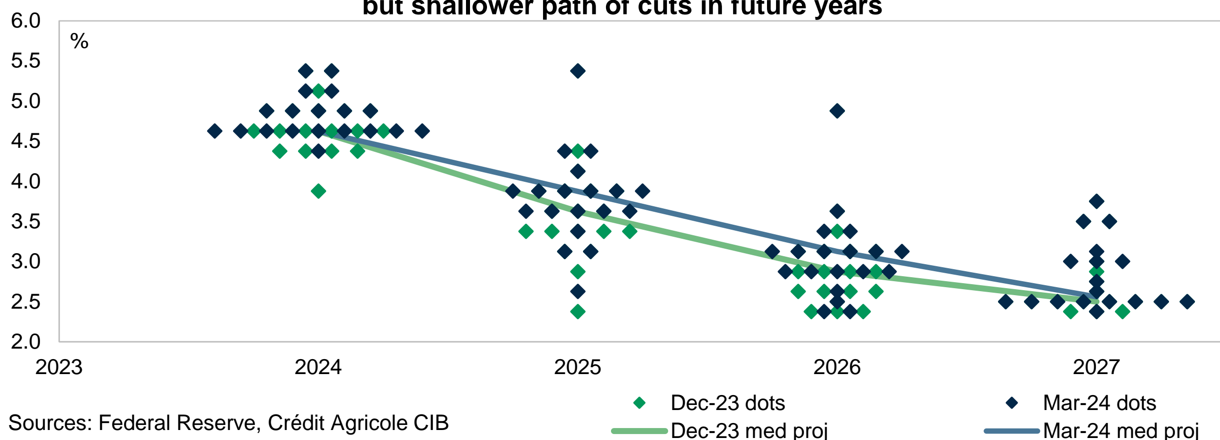
As the weakness in growth in our forecast becomes more evident by early 2025, the Fed is expected to the pace to 25bp per meeting from Q125 through Q325 to take the upper bound to 3.50%. That said, with only a mild recession and inflation still above 2% in late 2025 in our base case, the Fed would be hesitant to cut too deeply, and would pause at 3.50% as growth in the latter portion of 2025 stabilizes, 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*.

> ***With only a mild recession and inflation still above 2% in late 2025 in our base case, the Fed would be hesitant to cut too deeply.***

In the near term, we continue to see inflation as the key driver of the Fed's reaction function, and the hotter-than-expected January and February prints lead us to maintain our view of a first cut in July, though we see a risk of June if the next couple of months are more encouraging. A resilient economy thus far keeps the reaction function tilted towards inflation for now, though if the labour market and broader economy were to deteriorate faster than we expect, then the reaction function could shift more towards the employment side of the mandate.

Nicholas VAN NESS

March dot plot shows unchanged 2024 median, but shallower path of cuts in future years



Sources: Federal Reserve, Crédit Agricole CIB

EUROPEAN CENTRAL BANK: EDGING CLOSER TO RATE CUTS

Improved inflation figures should allow the ECB to begin cutting rates in mid-2024. The bank expects inflation to return to around 2% towards the end of 2025, a projection that we generally agree with.

However, **upside risks** to inflation remain, and the improvement in the economic outlook over H224 **is likely to encourage the ECB to take a cautious approach to monetary easing**.

The ECB is expected to cut rates by 75bp in 2024 and by the same amount in 2025. Until recently, we were expecting rate cuts to begin in September 2024, but the ECB's latest statement led us to revise our forecasts, and we now believe that an initial cut is on the table for June. As a result, we think that **the ECB will take a more gradual approach, cutting rates once per quarter.**

The ECB expects inflation to return to around 2% towards the end of 2025.

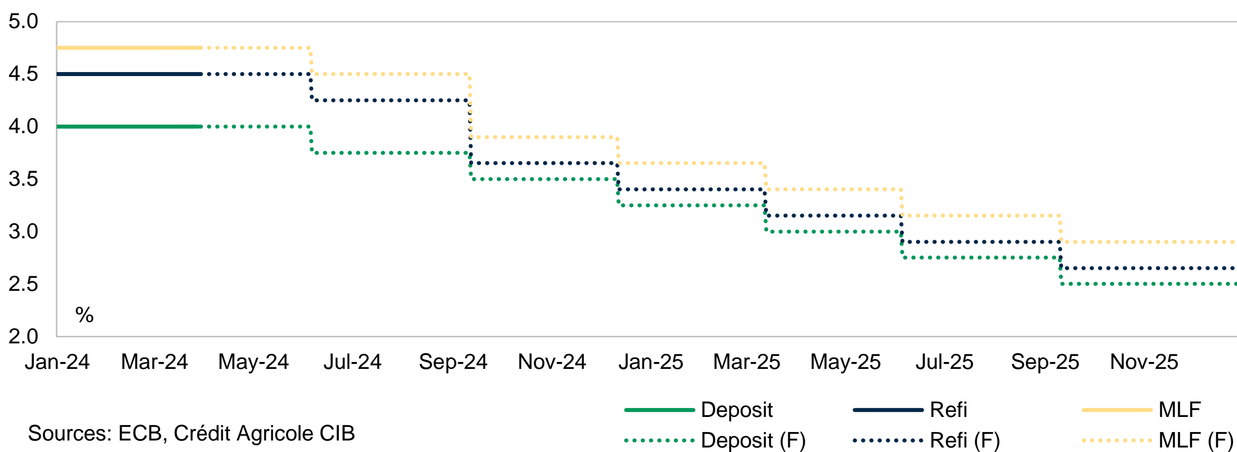
The ECB is likely to cut rates by 25bp in June (lowering the deposit facility rate from 4.00% to 3.75%), September (to 3.50%) and December (to 3.25%). In 2025, we expect the ECB to cut in March, June and September, ending its easing cycle with the deposit facility rate at 2.50%.

As the ECB indicated during the review of its monetary framework, the refinancing-deposit facility rate spread will be reduced from 50bp to 15bp in September (as such, based on the above cuts to the deposit facility rate, the refinancing rate would be cut by 25bp in June, from 4.50% to 4.25%, then by 60bp in September to 3.65%). This narrower spread will give banks an incentive to increase their borrowing under the ECB's MRO and 3M-LTRO programmes to partly offset the reduced banking sector liquidity due to TLTRO redemptions and monetary tightening.

During the review of its monetary framework, the ECB also indicated that new structural refinancing operations and a structural portfolio of securities would be introduced at a later stage. These programmes will be implemented once the ECB's quantitative tightening dries up banking sector liquidity too much, despite the short-term refinancing operations detailed above.

As a result, we do not expect the ECB to implement these programmes before 2028 at the earliest.

Louis HARREAU



Sources: ECB, Crédit Agricole CIB

BANK OF ENGLAND: GETTING CLOSER

The BoE has turned to a more dovish stance since the beginning of the year on the back of mildly lower-than-expected inflation rates (3.4% YoY in February for CPI, 4.5% for core CPI) and a technical recession of the UK economy in H223. The first rate cut looks closer than it did three months ago, but does not appear to be imminent. The MPC still needs more evidence of inflation persistence dissipating, albeit at different degrees among members.

To begin with, **the upward bias of the forward guidance was dropped in February**, implying that the BoE no longer saw further rate hikes as needed. Indeed, alongside a continued gradual easing in labour market conditions, the risks from domestic price and wage pressures were judged to be "more evenly balanced" compared to "skewed to the upside" in previous forecasts. Monetary policy was seen as "restrictive" and the question was for how long the Bank rate should be maintained at its current level of 5.25% before implementing a rate cut. Still, markets' expectations at that time, for a total of as much as 2ppt easing beginning in May, looked too optimistic.

Monetary policy was seen as "restrictive" and the question was for how long the Bank rate should be maintained at its current level of 5.25% before implementing a rate cut.

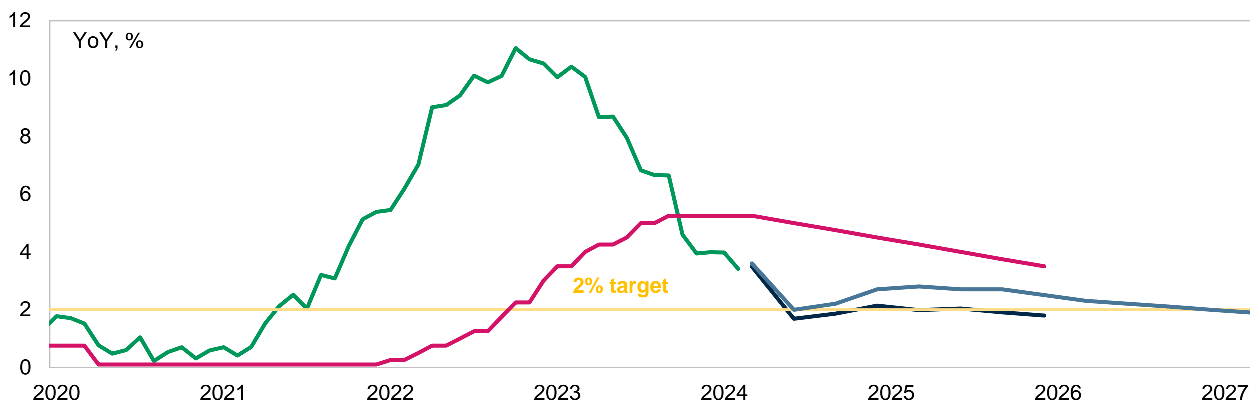
Then, **at the latest MPC meeting in March**, with rates having been held steady for the fifth consecutive meeting, **the evolution of the votes showed a meaningful dovish change**: the two prominent hawks Catherine L. Mann and Jonathan Haskel joined the MPC's status quo camp while Swati Dhingra continued to vote for a rate cut, becoming the only dissenter in the MPC. Additionally, for the first time, the MPC "*recognized that the stance of monetary policy could remain restrictive even if Bank Rate were to be reduced, given that it was starting from an already restrictive level*." We interpret this as a signal that the MPC would likely not need to wait for a normalisation of domestic inflationary pressures, especially services inflation and wage growth, to operate a rate cut.

Furthermore, **it may not necessarily adjust its policy at a monetary policy report meeting**, as the minutes indicated that MPC members "would continue to consider the degree of restrictiveness of policy *at each meeting*". The BoE had already shown in the past that it was able to make key policy moves at meetings without a monetary policy report, such as the first rate hike in December 2021. Finally, the MPC looked somewhat reassured regarding the momentum in domestic inflationary pressures. While still elevated, higher-frequency measures of core services inflation, short-term inflation expectations and wage growth across a number of measures had continued to moderate.

Therefore, **the odds for an earlier rate cut have clearly increased, so we no longer think that the BoE will wait until August.** A rate cut on 9 May is even possible, but this timing still looks somewhat too early, given that the BoE would not have a sufficient amount of data in May to inform its decision (only one inflation print). However, by the June meeting (20 June), it will have three inflation prints and more labour market data. **We advance our expectation for the first rate cut to June from August and continue to expect one rate cut per quarter.** The Bank rate would thus end 2024 at 4.5% and 2025 at 3.5%.

Slavena NAZAROVA

UK: CPI inflation and forecasts



Sources: ONS, BoE, Crédit Agricole S.A.

BANK OF JAPAN: DOVISH STANCE MAINTAINED DESPITE POLICY ADJUSTMENT

BoJ exits from YCC and negative interest rate regime at March monetary policy meeting

The Bank of Japan (BoJ) policy board decided to exit from yield curve control (YCC) and the negative interest rate regime and moved to a de-facto zero interest rate policy regime on a 7 to 2 vote at the March monetary policy meeting. The BoJ deciding to raise its policy rate to between 0.0-0.1% while raising the applicant interest on the current account balance to 0.1% (removing the 0.0% and -0.1% tiers). Alongside exiting from YCC, the BoJ announced its plan to end its qualitative easing programme including its purchases of ETF.

The push to adjust the current monetary policy regime within the central bank seems to have overpowered Governor Kazuo Ueda's dovish stance and his perceived emphasis on aligning the central bank's policy direction with that of the government. The BoJ will justify the move citing that the Shunto (annual wage negotiations) marked the second consecutive year of wage growth and the BoJ will likely foresee inflation running at 2% in FY26 when it releases its April outlook report.

The Shunto (annual wage negotiations) marked the second consecutive year of wage growth.

Although the central bank has raised its policy rate for the first time in seventeen years, the BoJ indicated that it plans to continue buying around JPY70trn in order to avoid a discontinuity of the current monetary easing policies. Even by removing the overshoot commitment of expanding the monetary base until the 2% inflation target is overshot, the BoJ signalling it will continue to purchase JGBs at a similar pace will prevent a decline of the central bank's balance sheet and in turn Japan's monetary base.

Despite making policy adjustments, BoJ maintains a dovish policy stance

The government continues to express its desire to shift Japan away from a "cost-cutting economy". With the government maintaining its commitment to the Abenomics framework of a policy-mix of accom-modative monetary and fiscal policies, the hurdle for the BoJ to turn hawkish remains high.

Despite making a major policy change, the central bank explicitly indicated that "the Bank anticipates that accommodative financial conditions will be maintained for the time being". Such statement is likely the central bank signalling to the government that it remains committed to supporting Japan's economy until it fully exits from deflation by maintaining a dovish policy bias and that the latest policy adjustment was not a hawkish shift toward subsequent policy tightening in the near future.

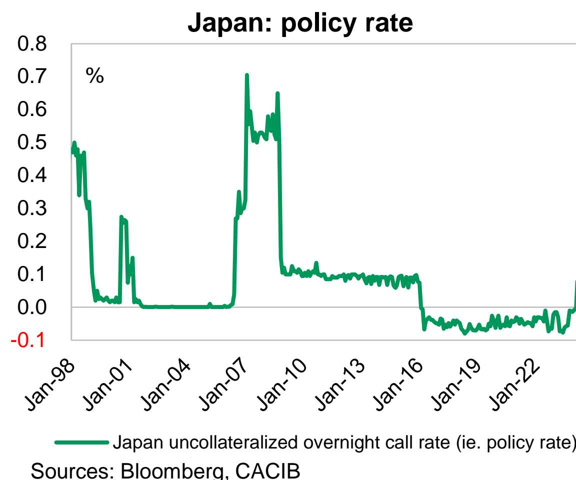
Next policy rate hike will likely be in Q425

Even though the BoJ has indicated that it will maintain accommodative financial conditions for some time, speculation of further policy tightening will likely linger. Combined with build-up in the BoJ's current account due to higher interest provided by the central bank, Japan's credit cycle will likely swing to the downside. As the economy faces stronger headwinds from the global economy and the credit cycle swinging to the downside, GDP growth and inflationary pressures would weaken significantly.

As a result, **the BoJ will likely not be able to raise its policy rate further until Q425** when (1) the key overseas central banks' rate cutting cycle bottoms out; (2) the global economy enters the next cyclical upswing; and (3) "extremely high uncertainties surrounding economies and financial markets at home and abroad" recede.

In 2026, with a pick-up in capex in light of an upswing in the global economy, the corporate savings rate likely falling back to its normal negative territory and economic growth surpassing the potential growth rate will pave the way for **the government to declare that the economy has completely exited from deflation**. With the move toward a complete exit from deflation becoming more certain, the BoJ will likely raise its policy rate by 25bp every quarter after Q425, reaching 1.25% by end-2026.

Monetary policy will fully normalise in 2027 once the policy rate surpasses the inflation rate and real policy rates reach 0%.



Sources: Bloomberg, CACIB

Arata OTO – Takuji AIDA

Interest rates – Don't hope for too much

When it comes to bond yields, don't hope for too much. While markets were developing a scenario of imminent and widespread key rate cuts, solid growth and sticky inflation caused them to become disillusioned: long rates have risen. But expectations for monetary easing still seem too optimistic. Long rates may have to wait a little longer before embarking on a gradual downward trend.

USA: HIGHER RATES, LESS STEEPENING

What we have learned from recent economic data is that the last mile in the Fed's fight against inflation has proven harder than previously thought and the labour market is still producing decent job gains. As such, we have fine-tuned our US rate forecast – modestly higher rates and a less steep yield curve, to account for more resilient growth and sticker inflation.

In our new forecast, rates are modestly higher across the curve. For instance, we expect the 10Y yield to trade around 4.20% at year-end vs 4.10% in the prior forecast. This is in line with expectations of stronger growth. We have upwardly revised 2024 annual average GDP forecast to 1.8% vs 1.6% prior.

For the Fed, we do not think the latest economic reports were a game changer. The FOMC kept three rate cuts in the March dot plot. Our base case continues to see the first cut arriving in July, with a total of 50bp easing for the year, which implies we are bearish vs market expectations in the short run. The 10Y Treasury yield has traded between 4.00% and 4.30% for the most part during the past month. The market sees a total of around 80bp of cuts by year-end, which we believe presents a high hurdle.

History suggests that the curve steepens into an easing cycle. This cycle, however, has been highly unusual, as the Fed has taken a data-dependent approach and the curve has been volatile given the strength in economic data. Against this backdrop, the yield curve continues to steepen in our new forecast, as the Fed cuts rates starting in Q324. However, we expect the curve to steepen less than in the prior forecast due to stronger growth and inflation slower to decline (see Chart 2). For example, the 2-10Y curve is inverted at -10bp at end-2024 in the new forecast, compared to almost flat previously.

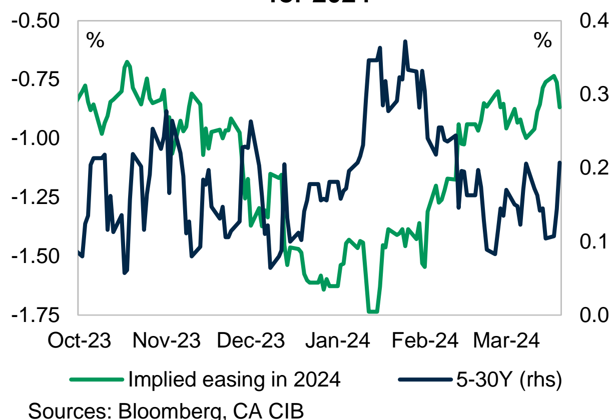
US elections will dominate market headlines over the coming months.

US elections will dominate market headlines over the coming months. Whoever wins the presidential election will have less fiscal room for manoeuvre than prior administrations. The budget outlook continues to deteriorate in the coming years, as the Congressional Budget Office (CBO) forecasts USD28trn debt held by the public for fiscal year (FY) 2024 (99% of GDP), and USD48trn for FY 2034 (116%). In terms of monetary policy, what is different this time from the 2016 elections is that the Fed will most likely be in an easing cycle in H224 and 2025, instead of hiking rates post 2016 elections. Inflation is higher now: core PCE at 2.6% in the Fed's forecast for 2024 vs an average of 1.6% in 2016.

Treasury term premium has stabilised this year after falling in late 2023. The 10Y ACM term premium is about -17bp now from a Q423 peak around +47bp. Amid strong equities and tight credit spreads, financial conditions have been accommodative despite high rates. In Treasury futures, while leveraged investors remain short, they have covered some short positions in the long end of the yield curve. Accommodative financial conditions provide little urgency for the Fed to cut policy rates.

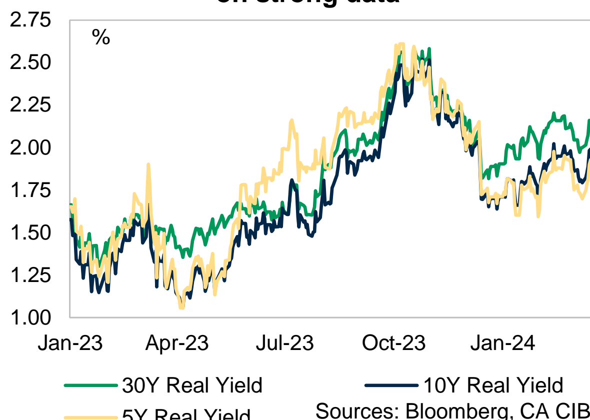
Alex LI

Market reduces easing expectations for 2024



Sources: Bloomberg, CA CIB

Real yields have risen this year on strong data



Sources: Bloomberg, CA CIB

EUROPE: TAKING STOCK

The very aggressive ECB rate cutting cycle anticipated at the start of the year has had a variety of headwinds, pushing the terminal rate from close to 2% to about 2.75% so far. The main driver leading to higher short-end rates has been a slow-down of the inflation descent in the face of sticky components related to services and labour markets.

But as we expected, growth has stabilised, albeit at low levels, and has shown signs of improvement mostly in the periphery countries. To be sure, Germany should not be counted upon as a growth engine, but in aggregate improvements in term of trade, government sponsored investment and eventually a boost to real household incomes will add to aggregate Eurozone growth. Also, banking systems remain healthy, and a loosening of financial conditions is boosting wealth on both sides of the Atlantic. At face value, based on financial markets, policy does not seem overly restrictive though real policy rates have been on the rise.

With inflation being sticky for longer, there being a lack of recession and fiscal deficits remaining material for many big countries, we continue to expect slightly higher core EGB yields because a fair amount of easing is already priced in.

Since the start of the year, the slope of the curve has remained deeply inverted despite a rate cutting cycle being priced in. Our view remains that the curve will not significantly change shape but should have better steepening prospects in H2, albeit localised to specific segments like the 5-30Y instead of the 2-10Y slope.

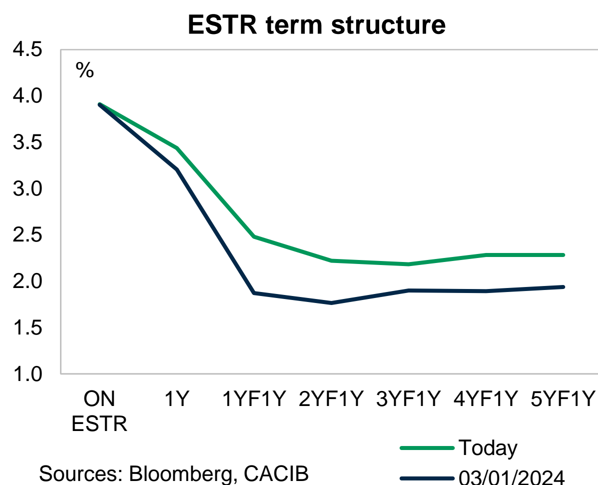
The rise in (front-end) yields was expected on our part, but we did not expect such a strong global market for riskier assets which has been the main driver of EGB spread compression. Note that a lack of volatility, combined with QT, has decreased the scarcity value of Bunds, most notably in Bunds where repo rates have been rising to ESTR levels and in line with other countries. This has resulted in a narrowing of swap spreads (ASW) as Bunds have lost their collateral scarcity value.

> ***A strong global market for riskier assets which has been the main driver of EGB spread compression***

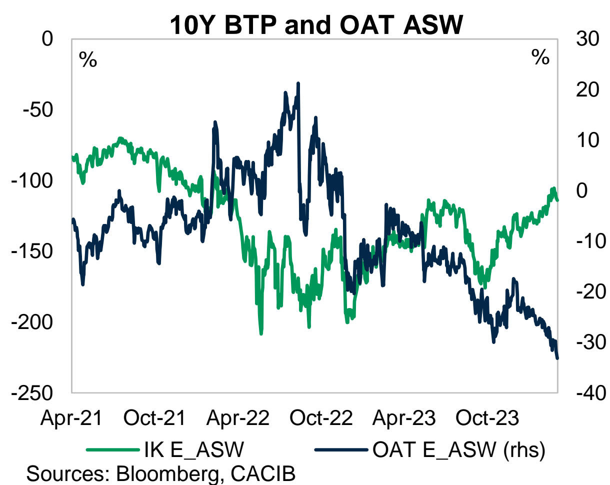
Looking at the performance of other EGB markets using swaps as the benchmark instrument however shows other strong developments. **Over the last three months, there has been no significant change to Italian or French economic fundamentals** – both countries have large deficits, are subject to (more relaxed) fiscal scrutiny and have unemployment around 7.5%. Yet despite and expected acceleration of the ECB's QT and less rate cutting prospects, BTPs have been the star performer this year, leading us to rein in our modest spread widening view.

While (1) an extended timeframe for adhering to EU fiscal rules and (2) the prospects of more EU issuance are signals pointing in the direction of solidarity, in our view, **the main driver of this spread compression has been the global easing of financial conditions within a background of lessened volatility, prompting investors to become relaxed about their risk taking.** After all, most central banks are embarking on easing cycles which should provide cover to investors, unless something unforeseen happens, reintroducing volatility just when no one expected.

Bert LOURENCO



Sources: Bloomberg, CACIB



Sources: Bloomberg, CACIB

Exchange rates – Slight advantage for the dollar

Finally, on FX, the 2024 calendar is full enough for us to concentrate on this year alone before outlining a longer-term scenario. Monetary easing is around the corner, and there is the prospect of a mild recession in the United States, where a presidential election will be held in November. The combination of these factors means that we are calling for the to underperform slightly against G10 peers (except for the euro) before recovering in Q4.

DEVELOPED COUNTRIES: CENTRAL BANK EASING COMING INTO VIEW

We continue to expect the Fed easing cycle to start in the summer and the US economy to slip into a recession in Q424. In the run up to the US elections in November, Donald Trump is leading in the polls and we further think that the Republicans could keep control over the House and regain control over the Senate.

We look at the FX market impact of the Fed easing cycles, US recessions and presidential elections since 1973 to draw conclusions about what to expect for the USD and G10 FX in the coming months. Our results suggest that the USD tended to lose some ground in the run-up to and in the early stages of past Fed easing cycles. The USD losses deepened when the Fed cut rates further in the run-up to US recessions but tended to recoup some losses at the start of past US recessions.

The USD could do well across the board if the elections result in a Republican Congress and either a Republican or a Democrat president.

Turning to the performance of the individual USD-crosses, our results suggest that the JPY and AUD rebounded the most in the months around the first Fed rate cut but that the CHF and EUR were best able to build on their initial gains if the Fed had to ease further to fight the economic downturn. **G10 risk-correlated and commodity currencies tended to be the biggest underperformers at the start of US recessions while liquid safe-havens like the CHF, JPY and the EUR held their ground better.**

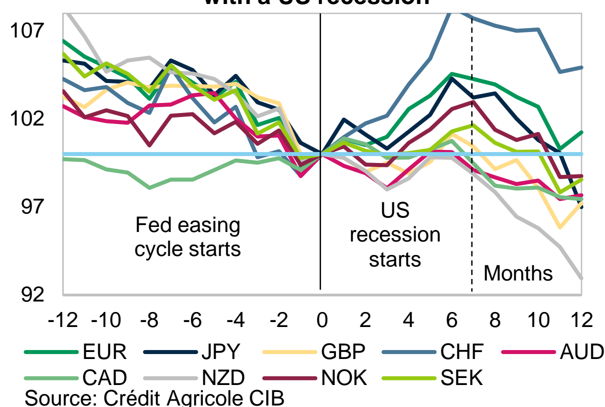
Turning to the US elections, our historic analysis suggests that the USD could do well across the board if the elections result in a Republican Congress and either a Republican or a Democrat president. We also note that the USD tended to appreciate by 2% on average in the first few months after the presidential vote, irrespective of the winner's party affiliation. In comparison, the USD TWI rallied by almost 4% in the couple of months after Donald Trump's 2016 victory, but it lost more than 4% in the wake of Joe Biden's victory in 2020.

At the level of individual USD-crosses, we note that the GBP was the best-performing major G10 currency in 2016 and 2020 while the JPY was the worst. Given that fears of a renewed escalation of global trade tensions could drive the FX price action into the election, we note that the USD tended to rally in the wake of tariff announcements by the Trump administration with the JPY and AUD being the worst and the CAD the best performers.

Our 2024 FX forecasts envisage moderate USD underperformance vs most G10 FX (with the notable exception of the EUR) in Q2-Q324, followed by a renewed USD outperformance in Q424. Our outlook is consistent with the historic USD price action around the start of past Fed easing cycles and the early stages of US recessions. A potential 'no landing' in the US could be also seen as an upside USD-risk. While the outcome of the US presidential election remains uncertain, we think that the risk of a Trump victory should embolden the USD-bulls in Q424.

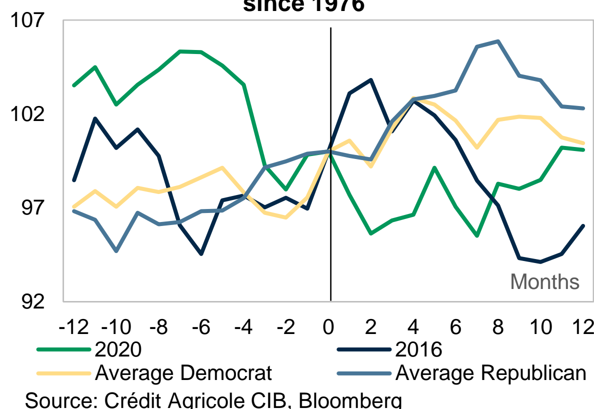
Valentin MARINOV

FX performance vs the USD around past Fed easing cycles coupled with a US recession



Source: Crédit Agricole CIB

USD performance around election day 2016 vs 2020 vs average performance since 1976



Source: Crédit Agricole CIB, Bloomberg

EMERGING COUNTRIES: A MILDLY CONTRUCTIVE OUTLOOK BUT AN ELEPHANT IN THE ROOM

We expect EM currencies, on average, to appreciate mildly vs the USD in the coming months, on the back of the following main factors.

Stronger domestic demand and Fed easing

First, **rate cuts in many countries** (in Central Europe and Latin America in particular) should support domestic demand. At the end of the day, it should allow overall annual EM GDP growth to remain roughly stable in 2024 compared with 2025 despite the US slowdown. The EM-DM growth gap should widen to EMs' benefit.

> ***Facing this mildly constructive outlook for EM currencies, the elephant in the room is the forthcoming US election.***

Second, **the likely beginning of rate cuts by the US Fed should act as a trigger**, relieve some pressure on the most fragile EMs and support portfolio flows to EMs.

Two investment angles

There remain two main themes through which investors should look at EMs. The first one is **carry**, which remains more elevated in many EMs vs USD rates (mostly out of Asia). This carry advantage tends to decline as EM central banks ease monetary policy, but lower rates in the US and the Eurozone should make it possible to preserve part of this carry attraction.

The second one is **growth**. Should the economic landing in the US be only a soft one, EMs that are plugged into the global cycle would likely be in position to benefit from the increase in flows to EMs. Asian markets seem well positioned from that point of view.

The elephant in the room

Facing this mildly constructive outlook for EM currencies, the elephant in the room is the forthcoming US election. If Donald Trump is elected for a second term, and if he implements some of the measures he has talked about, EM FX appreciation could be challenged. Trump has evoked import tariffs across the board and has significantly increased pressure on China. Should this materialise, there would be more pressure on global trade. Intensifying pressure on China would open the door to the risk of tensions of supply chains. The Fed may become less dovish, at least at the margins, in the event of a Republican administration that is particularly supportive of corporates and the stock market. Also, some lesser US involvement vis-à-vis Ukraine may result in higher geopolitical uncertainty, some flight to quality and a stronger USD, which would cap EM currencies vs the USD too. This may be more of a story for 2025, but the markets may begin to price it at some point in H224, frontloading its effect on EM currencies.

Chinese uncertainty

What happens in China also continues to matter, obviously. So far, **the policy aimed at supporting consumer demand has not been fully successful**. This is partly because the Chinese population's propensity to save is stronger than a few years ago, as the uncertainty has increased (property crisis, experience of the lockdown, increased volatility of unemployment). **This is also because the authorities are cautious when it comes to budget stimulus measures**, as they do not want to worsen the country's indebtedness ratios. However, we expect investment in infrastructure and the green transition to contribute to putting a floor under economic growth, in a way that would also be consistent with a gradual and limited appreciation of the CNY vs the USD.

Sébastien BARBÉ

Sources : Datastream, 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	**2.5**	**1.8**	**0.4**	**4.1**	**3.0**	**2.5**	**-3.1**	**-3.1**	**-3.0**
Japan	**1.9**	**-0.1**	**0.4**	**4.0**	**2.2**	**0.8**	**3.4**	**2.0**	**2.0**
Eurozone	**0.5**	**0.7**	**1.5**	**5.4**	**2.6**	**2.1**	**3.0**	**3.1**	**3.1**
Germany	-0.1	0.1	1.1	6.0	2.6	2.1	6.3	6.6	6.5
France	0.9	0.9	1.3	5.7	2.8	2.1	-1.0	0.1	0.1
Italy	1.0	0.8	0.9	5.9	1.5	2.0	0.6	2.3	2.3
Spain	2.5	1.9	2.0	3.4	3.3	2.1	2.5	1.1	0.9
Netherlands	0.1	0.7	1.1	4.1	2.8	2.3	9.9	7.6	7.5
Belgium	1.5	1.3	1.3	2.3	4.4	2.6	-0.8	-0.3	-0.3
Other advanced									
United Kingdom	0.1	0.5	1.4	7.3	2.3	1.9	-3.3	-2.4	-3.0
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	0.6	1.9	8.5	3.7	2.1	6.6	4.9	4.3
Norway	1.1	0.5	1.1	5.5	3.4	2.9	17.7	16.8	16.0
Asia	**4.9**	**4.6**	**4.6**	**2.2**	**2.0**	**2.5**	**1.5**	**1.2**	**1.1**
China	5.2	4.4	4.2	0.2	0.6	1.4	1.8	1.2	0.8
India	6.1	5.8	6.3	5.7	4.5	5.2	-1.8	-1.8	-1.6
South Korea	1.3	2.3	2.1	3.6	2.4	2.2	1.9	3.5	3.5
Indonesia	5.0	5.1	5.0	3.7	2.8	3.0	-0.2	-0.4	-0.7
Taiwan	1.4	3.0	2.3	2.5	2.1	1.9	13.9	11.5	11.3
Thailand	1.9	3.4	3.2	1.3	1.0	2.0	1.1	2.8	4.6
Malaysia	3.7	5.0	4.7	2.5	2.4	2.3	2.2	2.8	3.0
Singapore	1.1	2.7	2.8	4.8	3.3	3.0	19.8	17.0	16.7
Hongkong	3.2	3.0	3.1	2.1	2.2	2.2	8.6	9.2	9.6
Philippines	5.6	5.8	5.7	6.0	3.6	3.3	-2.3	-2.1	-2.0
Vietnam	5.1	6.0	6.3	3.3	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	2.9	1.5	1.8	4.6	3.8	3.5	-1.3	-1.7	-2.0
Mexico	3.2	1.8	1.5	5.6	3.8	3.5	-0.3	-1.4	-1.0
Emerging Europe	**2.9**	**2.7**	**2.6**	**20.3**	**20.3**	**8.2**	**-0.4**	**-0.3**	**-0.4**
Russia	3.6	2.5	1.5	5.9	7.7	5.5	2.5	1.6	1.3
Turkey	4.5	3.0	3.0	53.4	59.0	18.0	-4.3	-3.0	-3.0
Poland	0.2	2.8	4.6	11.6	3.3	3.6	1.6	1.6	1.1
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	**1.5**	**2.7**	**3.3**	**16.0**	**12.5**	**8.4**	**3.5**	**2.4**	**2.0**
Saudi Arabia	-0.9	3.1	4.1	2.3	2.1	2.0	4.0	3.2	2.8
United Arab Emirates	3.1	3.7	4.0	2.4	2.2	2.2	10.5	9.9	10.4
South Africa	0.5	1.1	1.6	5.9	5.0	4.5	-1.7	-2.4	-2.6
Egypt	3.1	3.5	4.4	33.9	32.8	17.5	-1.8	-2.5	-2.3
Algeria	2.9	2.5	2.5	9.3	6.9	6.2	2.4	1.1	-1.0
Qatar	1.9	2.2	2.5	3.0	2.5	2.1	16.2	15.2	13.3
Koweit	-0.5	1.7	3.0	3.7	2.6	2.2	19.0	15.0	13.2
Morocco	2.7	3.0	3.2	6.1	2.9	2.5	-1.0	-2.1	-2.0
Tunisia	0.4	1.5	1.9	9.3	7.9	7.1	-3.1	-3.4	-3.5
Total	**2.8**	**2.7**	**2.6**	**5.8**	**4.4**	**3.2**	**0.6**	**0.4**	**0.3**
Advanced economies	**1.5**	**1.1**	**1.0**	**4.8**	**2.7**	**2.1**	**0.1**	**0.0**	**0.0**
Emerging countries	**3.8**	**3.9**	**3.9**	**6.6**	**5.8**	**4.0**	**1.0**	**0.7**	**0.6**

	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	3.2	1.5	1.1	0.5	-0.8	-0.5	1.1	1.4	2.0
Japan	1.0	1.0	-0.8	0.1	-0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2
Eurozone	0.0	0.1	-0.1	-0.1	0.2	0.3	0.4	0.4	0.3	0.4	0.3	0.3
Germany	0.1	0.0	0.0	-0.3	0.0	0.1	0.3	0.3	0.3	0.2	0.3	0.2
France	0.0	0.6	0.0	0.1	0.2	0.3	0.4	0.4	0.3	0.2	0.2	0.4
Italy	0.5	-0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.1	0.4	0.1	0.2
Spain	0.5	0.5	0.4	0.6	0.4	0.4	0.6	0.5	0.6	0.5	0.4	0.2
United Kingdom	0.2	0.0	-0.1	-0.3	0.3	0.4	0.4	0.4	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	3.2	3.2	3.1	2.7	2.8	2.4	2.4	2.4	2.5
Japan	3.5	4.2	4.3	3.8	3.2	2.5	1.8	1.4	1.0	0.7	0.7	0.8
Eurozone	8.0	6.2	5.0	2.7	2.7	2.6	2.4	2.6	2.3	2.1	2.0	2.1
Germany	8.7	6.9	5.8	3.0	2.8	2.6	2.3	2.6	2.4	2.0	2.0	2.1
France	7.0	6.1	5.5	4.2	3.1	2.8	2.9	2.5	2.4	2.1	1.8	2.1
Italy	9.5	7.8	5.8	1.0	1.2	1.4	1.6	1.9	1.9	2.1	1.9	2.0
Spain	5.0	2.8	2.6	3.3	3.2	3.5	3.2	3.4	2.6	2.2	1.8	1.9
United Kingdom	10.2	8.4	6.7	4.2	3.5	1.7	1.9	2.1	2.0	2.0	1.9	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	3.7	3.8	4.0	4.2	4.3	4.4	4.6	4.6	4.5
Japan	2.6	2.6	2.7	2.5	2.5	2.5	2.6	2.6	2.6	2.7	2.7	2.7
Eurozone	6.7	6.6	6.6	6.6	6.7	6.8	6.6	6.6	6.6	6.6	6.5	6.5
Germany	2.9	3.0	3.0	3.1	3.2	3.2	3.1	3.1	3.0	3.0	3.0	3.0
France	7.1	7.4	7.4	7.5	7.8	8.0	8.0	7.8	7.9	7.8	7.8	7.7
Italy	7.9	7.7	7.6	7.4	7.5	7.5	7.6	7.6	7.6	7.7	7.7	7.7
Spain	12.8	12.0	11.9	11.8	12.2	12.0	11.2	11.2	11.8	11.6	11.0	10.9
United Kingdom	3.9	4.3	4.0	3.9	4.0	3.8	4.0	4.0	4.0	3.9	3.9	3.8

	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
Q1 2024	*0.1*	*0.1*	*0.1*	*0.3*	*0.1*	*-0.1*	*0.1*	*0.5*
Q2 2024	*0.2*	*0.3*	*0.1*	*0.1*	*0.3*	*0.3*	*0.0*	*0.5*
Q3 2024	*0.3*	*0.4*	*0.1*	*0.3*	*0.7*	*0.7*	*0.0*	*0.5*
Q4 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
Q1 2024	*-0.1*	*-0.1*	*-0.1*	*0.3*	*-0.3*	*-0.2*	*-0.1*	*0.0*
Q2 2024	*-0.1*	*0.2*	*-0.2*	*0.0*	*0.2*	*0.3*	*0.0*	*-0.1*
Q3 2024	*0.0*	*0.3*	*0.0*	*0.2*	*0.4*	*0.6*	*-0.1*	*-0.1*
Q4 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
Q1 2024	*0.2*	*0.1*	*0.2*	*-0.1*	*1.2*	*0.5*	*0.2*	*-0.1*
Q2 2024	*0.2*	*0.4*	*0.1*	*-0.1*	*0.3*	*0.2*	*0.0*	*-0.1*
Q3 2024	*0.3*	*0.5*	*0.1*	*0.0*	*0.4*	*0.3*	*0.0*	*0.0*
Q4 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
Q1 2024	*0.1*	*0.3*	*0.0*	*-0.1*	*0.2*	*-0.9*	*0.4*	*-0.4*
Q2 2024	*0.2*	*0.2*	*0.1*	*-0.3*	*0.2*	*0.2*	*0.0*	*0.1*
Q3 2024	*0.2*	*0.2*	*-0.1*	*-0.1*	*0.5*	*0.5*	*0.0*	*0.1*
Q4 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
Q1 2024	*0.2*	*0.2*	*0.3*	*0.6*	*0.5*	*0.7*	*0.0*	*0.0*
Q2 2024	*0.4*	*0.3*	*0.2*	*0.8*	*1.5*	*1.4*	*0.1*	*0.0*
Q3 2024	*0.4*	*0.3*	*0.2*	*0.9*	*1.1*	*1.0*	*0.1*	*0.0*
Q4 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
Q1 2024	*-0.3*	*0.1*	*0.5*	*1.0*	*0.6*	*0.8*	*-0.1*	*0.0*
Q2 2024	*0.4*	*0.3*	*0.1*	*1.3*	*0.9*	*1.0*	*0.0*	*0.0*
Q3 2024	*0.8*	*0.5*	*0.1*	*1.9*	*1.1*	*0.9*	*0.1*	*0.0*
Q4 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
Q1 2024	*0.2*	*0.1*	*0.5*	*0.2*	*0.8*	*0.9*	*0.0*	*0.0*
Q2 2024	*0.3*	*0.3*	*0.7*	*0.2*	*0.5*	*0.6*	*0.0*	*0.0*
Q3 2024	*0.3*	*0.3*	*0.7*	*0.3*	*0.5*	*0.7*	*-0.1*	*0.0*
Q4 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
Q1 2024	*0.0*	*-0.2*	*0.2*	*-1.0*	*0.5*	*0.0*	*0.1*	*0.1*
Q2 2024	*0.1*	*0.2*	*0.2*	*-1.0*	*0.6*	*0.2*	*0.1*	*0.0*
Q3 2024	*0.1*	*0.2*	*0.2*	*-1.0*	*0.6*	*0.2*	*0.1*	*0.0*
Q4 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		Apr-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Etats-Unis	Fed funds	5.50	5.50	5.25	5.00	4.50	4.00	3.50	3.50
	Sofr	5.34	5.32	5.07	4.82	4.32	3.82	3.32	3.32
Japon	Call rate	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.25
	Tonar	0.08	0.10	0.10	0.10	0.10	0.10	0.10	0.25
Eurozone	Deposit	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
	€str	3.91	3.66	3.41	3.16	2.91	2.66	2.41	2.41
	Euribor 3m	3.86	3.46	3.21	2.96	2.71	2.60	2.60	2.60
United-Kingdom	Base rate	5.25	5.00	4.75	4.50	4.25	4.00	3.75	3.50
	Sonia	4.94	4.69	4.44	4.20	3.95	3.71	3.46	3.21
Sweden	Repo	4.00	3.75	3.50	3.25	3.00	2.75	2.75	2.75
Norway	Deposit	4.50	4.50	4.25	4.00	4.00	3.75	3.50	3.25
Canada	Overnight	5.00	5.00	4.75	4.50	4.25	4.00	3.75	3.50

10Y rates	Apr-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
USA	4.39	4.30	4.25	4.20	4.00	3.85	3.90	3.95
Japan	0.78	0.82	0.84	0.86	0.82	0.80	0.84	0.97
Eurozone (Germany)	2.40	2.56	2.42	2.39	2.30	2.33	2.40	2.46
Spread 10 ans / Bund								
France	0.52	0.54	0.56	0.57	0.60	0.61	0.61	0.62
Italy	1.44	1.58	1.58	1.59	1.61	1.62	1.60	1.61
Spain	0.87	0.99	1.02	0.99	1.00	0.97	1.00	0.94

Asia		Apr-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
China	1Y deposit rate	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Hong Kong	Base rate	5.75	5.75	5.50	5.25	4.75	4.25	3.75	3.75
India	Repo rate	0.00	6.50	6.25	6.00	5.75	5.50	5.50	5.50
Indonesia	7D (reverse) repo rate	6.00	6.00	5.75	5.50	5.25	5.00	5.00	5.00
Korea	Base rate	3.50	3.50	3.25	3.00	2.75	2.50	2.50	2.50
Malaysia	OPR	3.00	3.00	2.75	2.50	2.25	2.00	2.00	2.00
Philippines	Repo rate	6.50	6.50	6.25	5.75	5.25	5.00	4.75	4.75
Singapore	3M SIBOR	3.70	3.65	3.55	3.40	2.95	2.40	2.10	2.10
Taiwan	Redisc	2.00	2.00	2.00	2.00	2.00	1.88	1.88	1.75
Thailand	Repo	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
Latin America									
Brazil	Overnight/Selic	10.75	9.75	9.25	9.25	9.00	8.50	8.50	8.50
Mexico	Overnight rate	11.00	10.50	10.00	9.50	9.00	8.50	8.00	7.75
Emerging Europe									
Czech Rep.	14D repo	5.75	4.75	4.00	3.75	3.50	3.25	3.00	3.00
Hungary	Base rate	8.25	6.75	6.00	5.25	4.75	4.75	4.75	4.75
Poland	7D repo	0.00	5.75	5.75	5.75	5.75	5.75	5.50	5.25
Romania	2W repo	7.00	6.75	6.50	6.00	5.75	5.50	5.25	5.00
Russia	1W auction rate	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	7.75	6.25	5.50	5.50	5.50

EXCHANGE RATES

USD Exchange rate

Industrialised countries		Apr-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Euro	EUR/USD	1.08	1.07	1.06	1.05	1.07	1.09	1.10	1.12
Japan	USD/JPY	151.6	148.0	146.0	144.0	142.0	142.0	140.0	138.0
United Kingdom	GBP/USD	1.26	1.26	1.26	1.25	1.27	1.30	1.33	1.35
Switzerland	USD/CHF	0.91	0.92	0.91	0.90	0.89	0.88	0.88	0.88
Canada	USD/CAD	1.36	1.37	1.34	1.36	1.34	1.32	1.30	1.28
Australia	AUD/USD	0.65	0.68	0.70	0.72	0.70	0.70	0.72	0.74
New Zealand	NZD/USD	0.60	0.62	0.62	0.64	0.62	0.62	0.64	0.66

Euro Cross rates

Industrialised countries		Apr-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Japan	EUR/JPY	163	158	155	151	152	155	154	155
United Kingdom	EUR/GBP	0.86	0.85	0.84	0.84	0.84	0.84	0.83	0.83
Switzerland	EUR/CHF	0.98	0.98	0.96	0.94	0.95	0.96	0.97	0.98
Sweden	EUR/SEK	11.56	11.30	11.20	11.30	11.00	10.80	10.60	10.50
Norway	EUR/NOK	11.67	11.30	11.00	11.50	11.10	10.80	10.50	10.20

Asia		Apr-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
China	USD/CNY	7.23	7.18	7.15	7.06	7.03	7.00	6.90	6.80
Hong Kong	USD/HKD	7.83	7.80	7.78	7.76	7.75	7.75	7.75	7.75
India	USD/INR	83.32	82.50	82.50	82.00	82.00	82.00	81.50	81.00
Indonesia	USD/IDR	15895	15500	15300	15300	15200	15000	14800	14500
Malaysia	USD/MYR	4.75	4.70	4.65	4.60	4.60	4.55	4.50	4.50
Philippines	USD/PHP	56.3	55.8	55.5	55.0	55.0	54.5	54.5	54.0
Singapore	USD/SGD	1.35	1.33	1.33	1.32	1.31	1.31	1.31	1.30
South Korea	USD/KRW	1351	1325	1320	1300	1280	1260	1250	1220
Taiwan	USD/TWD	32.0	31.5	31.5	31.2	31.0	31.0	31.1	31.0
Thailand	USD/THB	36.6	36.5	36.5	36.0	35.5	35.3	35.0	34.8
Vietnam	USD/VND	24900	24500	24500	24400	24200	24000	23800	23600
Latin America									
Brazil	USD/BRL	5.06	5.05	5.08	5.10	5.15	5.20	5.25	5.25
Mexico	USD/MXN	16.55	17.60	17.75	18.00	18.25	18.50	18.75	19.00
Africa									
South Africa	USD/ZAR	18.77	18.50	18.30	18.00	18.00	18.00	18.00	18.00
Emerging europe									
Poland	USD/PLN	3.98	4.00	4.02	4.04	3.95	3.87	3.83	3.75
Russia	USD/RUB	92.47	95.00	90.00	90.00	90.00	90.00	90.00	90.00
Turkey	USD/TRY	32.04	34.50	35.00	34.00	34.00	35.00	35.50	36.00
Central Europe									
Czech Rep.	EUR/CZK	25.28	25.20	25.10	25.00	24.90	24.80	24.70	24.50
Hungary	EUR/HUF	394	388	387	385	384	382	380	377
Poland	EUR/PLN	4.29	4.28	4.26	4.24	4.23	4.22	4.21	4.20
Romania	EUR/RON	4.97	4.97	4.97	4.97	4.96	4.96	4.96	4.96

COMMODITIES

Av. quarter price		2-Apr	2024			2025			
			Q2	Q3	Q4	Q1	Q2	Q3	Q4
Brent	USD/BBL	88	85	85	87	85	87	90	90

Av. quarter price		2-Apr	2024			2025			
			Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gold	USD/oz	2,259	2,100	2,100	2,100	2,100	2,150	2,150	2,200

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	**-4.1**	**-3.3**	**-2.9**	**93.2**	**93.0**	**92.8**
Germany	-2.3	-1.3	-0.9	64.3	63.0	62.6
France	-5.5	-4.8	-4.2	110.6	110.7	110.7
Italy	-7.2	-4.5	-3.9	137.3	139.0	139.0
Spain	-4.1	-3.5	-3.4	108.5	106.4	105.1
Netherlands	0.0	0.0	0.0	48.0	48.0	47.9
Belgium	-4.9	-4.8	-5.0	106.3	107.5	110.0
Greece	-1.8	-0.8	-0.6	164.6	151.7	146.7
Ireland	-1.6	-4.1	-3.9	43.1	49.6	52.8
Portugal	0.6	0.2	0.3	107.1	104.1	102.5
United Kingdom	**-5.2**	**-3.6**	**-3.0**	**96.7**	**99.8**	**102.5**

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