WORLD MACRO-ECONOMIC SCENARIO 2024-2025

Quarterly – October 2024

ECO
ÉTUDES ÉCONOMIQUES GROUPE

Delicate balances

Against an extremely tense international backdrop, drawing up an economic and financial scenario is rather fraught task. There are many sources of potential disruption on the short term, including the US election, the Middle East conflict and the war in Ukraine, where tensions are at a peak. In particular, the risk that Middle East tensions will spread is sowing uncertainty on the oil market. Moreover, even within the major advanced economies, the potential for a soft landing in the US and a very modest acceleration in the Eurozone hang in delicate balance.

In the **US**, while the foundations of recent growth, tenacious beyond expectations, are showing some cracks, there are reasons to hope that they will not become too deep. On the one hand, we can count on the positive effects of an earlier cycle of monetary easing and, on the other, on the solid financial position of households, whose net worth has risen considerably thanks to strong gains in equities and property.

the heart of the threats is the already apparent slowdown in the labour market. While its cooling has so far been reflected more in a fall in job vacancies than in mass redundancies, it could approach an inflection point beyond which it would deteriorate rapidly. In addition, while household balance sheets are generally healthy on the whole, low-income households are in difficulty: credit card and auto loan delinquencies are at their highest level in over a decade. Finally, while the inflation situation has improved considerably recently, there is still a risk that it could stagnate at just above 2%.

Our scenario is therefore still based on a clear downturn towards the end of the year, without however degenerating into a recession: the probability of such an event seems low, though it is not zero. Growth is expected to reach 2.5% in 2024, the same rate as in 2023, before slowing to 1.3% in 2025. Although revised upwards, this cautious forecast remains below consensus and represents a marked slowdown compared with previous years. Total inflation is forecast to average around 2.9% in 2024, rising to 2.2% in 2025.

In **China**, the authorities will have to show lucidity, and certainly imagination, to manage the downside risks still hanging over the official 5% growth target. While the recently announced "all-out" stimulus plan has been favourably received by the markets, it is only the first step in revitalising an economy whose springs are slack: the crisis in the housing market is still unresolved, consumer confidence has been shaken by the weakening outlook for jobs and incomes, disinflationary pressures persist and domestic demand is sluggish, while threats to the dynamism of external demand are mounting (rising protectionism, reconfiguration of supply chains). Our growth forecasts of 4.7% in 2024 and 4.2% in 2025 therefore remain cautious.

Against the backdrop of a slowdown in the two main partner zones (the US and China), the acceleration in **Eurozone** growth will therefore depend essentially on the revitalisation of domestic demand, and private consumption in particular.

However, the results for the first half of 2024 have raised questions about the sustainability of a domestic recovery scenario: while the trend in household purchasing power has remained favourable to such a scenario, the trade-off between savings and consumption has belied it.

This preference for saving is justified on three counts: by uncertainty (linked to the lack of visibility, particularly on inflation after violent shocks, but also to the economic policy environment, not forgetting, more broadly, an anxiety-provoking international context), by the need to rebuild real cash balances eroded by inflation, and by the need to restore property purchasing power, a victim of the combined negative effects of prices and interest rates. More than its level (admittedly low, but only slightly below our forecast), it is therefore the composition of growth that has proved disappointing: the negative contribution of domestic demand has increased, the support of net exports has been eroded, inventories have made no contribution, but public consumption has made a positive one.

> ***There are many sources of potential disruption on the short term, including the US election, the Middle East conflict and the war in Ukraine, where tensions are at a peak***

Thanks to continued disinflation (with average inflation at 1.8% in 2025 after 2.3% in 2024), a solid financial situation for private agents and a resilient labour market, we can still assume that domestic demand will recover, albeit at a more moderate pace than previously forecast. Our scenario therefore assumes a modest acceleration in growth: after reaching 0.8% in 2024 (thanks in particular to positive carry-over effects), it should settle at 1.3% in 2025, ie, below potential. However, the risks have been recalibrated: the downside risk to growth exceeds the upside risk to inflation.

In this environment, with a marked slowdown in the US economy, a serious threat of China running out of steam and a moderate but fragile acceleration in Europe, it is clear that we need to stay **the course with the monetary easing** already underway. Given the markets' very favourable expectations of key rate cuts in both the US and the Eurozone, our scenario is currently less 'bold', but does not close the door to further easing.

At the September FOMC meeting, the **Federal Reserve** cut the Fed Funds rate by 50bp: this significant cut, justified both by the risks to the employment component of the Fed's dual mandate and the existence of substantial room for manoeuvre, does not, however, presage the future pace of cuts. Although our scenario now assumes an earlier rate-cutting cycle, it retains the magnitude of the overall easing cycle, ie, 200bp. However, the cuts would total 100bp (vs 50bp) in 2024 followed by another 100bp (vs 150bp) in 2025. The upper bound would thus fall from 4.50% at end-2024 to 3.50% in Q325. While our central scenario calls for less aggressive rate cuts than the jumbo 50bp cut in September, one or more further cuts of more than 25bp cannot be ruled out. Such decisions would be motivated by a substantial deterioration in the labour market.

As for the **ECB**, the continuing decline in inflation means that it may extend its gradual interest rate cuts. The relative resilience of the European economy and the level of inflation (still slightly too high, despite its decline) should encourage the ECB to remain cautious. The ECB would therefore maintain the pace of rate cuts initiated in June and September: one rate cut per quarter, in 25bp increments. The ECB would stop cutting rates in September 2025, once the deposit rate has reached 2.50%. Recent signs of fragility in domestic demand, the need to remove the "savings mortgage" weighing on household consumption, and the likelihood of downward revisions to the ECB's inflation forecasts could nonetheless prompt it to step up the pace of cuts.

A powerful downward movement in **interest rates** has already taken place, largely driven by the effective implementation of monetary easing, but also by expectations that key rates will continue to be cut at a sustained pace. The potential for further significant rate cuts is therefore limited.

In the **US**, 10Y USTs would reach 3.80% at end-2024, then 3.60% at end-2025. With monetary easing weighing on the short end of the curve, it would steepen. If Donald Trump is elected president in November, long-term rates could also rise due to expectations of an increase in the budget deficit (tax cuts) and higher inflation (linked mainly to tariffs), especially if the Republicans win a majority in Congress.

In the **Eurozone**, the 10Y Bund yield would be around 2.15% at end-2024 and 2.30% at end-2025. Finally, political fragmentation and a widening budget deficit have pushed the OAT-Bund spread to 80bp, the upper limit of the range (65-80bp) observed since the snap election was called in France; the spread is likely to remain within that range in the absence of any further shock.

Catherine LEBOUGRE

Focus Geopolitics – Keynes in Kazan?

There is no shortage of factors that could shift the global geopolitical scene over the next few quarters. These include the US election, the Middle East conflict, developments in Taiwan & the Philippines and the war in Ukraine.

Two factors in particular will weigh on the geopolitical scenario in the very near future. The **US election** is acting as a major geopolitical accelerator, as many operators (governments or armed groups) try to gain advantage from the political uncertainty in the US. Thus the global conflict calendar is closely linked to the political calendar in the US, which is clearly struggling in its role as the world's policeman. The other decisive factor is the **extreme tension we are seeing in the wars in Ukraine and Gaza**, which could generate global shock waves, particularly during the rest of this year.

This perception of a strategic window for action is also playing a role in the rising tensions between China and the Philippines, but these tensions are still not making headlines in the financial markets, which remain focused on the equally acute risk in Taiwan. However, the developments around the South China Sea islands are critical, since it looks like the rhetoric of real naval warfare – barring access to an area by skirmishing between vessels, harassment and blocking refuelling. In Taiwan, this same harassment strategy is meant to add to the people's political fatigue[1], while the conservative parliament amasses more power against that of the State.

Markets oblivious to the risk in the Philippines

More generally, **plenty of factors that could impact the long-term global scenario are at play in the region**: freedom of navigation; the limits the US and its allies can impose on the expansion of China's power and influence; and, lastly, the credibility of the Philippines, a major US ally. All this is taking place amid a shift in the balance of power as the Chinese Navy, whose shipyards have a huge production capacity, now exceeds the US Navy in terms of fleet (though the US Navy has more aircraft carriers). Admittedly, the US is trying to make up for lost time with "Project 33" – levelling up the troops for a 2027 conflict scenario – but regardless, many US allies are gearing up for a Trump scenario by seeking to become more autonomous. This accounts for the military build-up by both Japan and Poland – two 'bridgehead' countries against Russia and China. Geopolitics is clearly weighing on Polish and Japanese public policy decisions in favour of defence, and their regional influence is also growing in proportion to their desire for strategic autonomy[2].

All wars are related

In the Middle East, the war has now expanded into Lebanon. This is clearly a global risk, since Hezbollah is one of the central players in Iran's security paradigm in the region. It remains to be seen whether Iran will step outside its restraint (keeping in mind its tighter bond with Moscow).

> ***The tighter the* containment*, the more China will feel like a fortress under siege. This is the classic security dilemma that dangerously encourages one side to make a move before the other***

From now on, all wars are related: Chinese-Russian manoeuvres near Japan remind us of this, as does Russia's closer partnership with North Korea. In response, Japan, the Philippines, Australia, Korea, India and the US are also stepping up their collaboration through manoeuvres, military production agreements and interoperability of armies. Unfortunately, the tighter the containment line is pulled, the more China will feel like a fortress under siege. This is the classic security dilemma that incites one side to make a move before the other. Trying to damp down these tensions, Jake Sullivan was the first US security advisor in eight years to visit Beijing; he was received by Xi Jinping along with top military authorities. Rebuilding US-China communication channels is one way of mitigating risk scenarios and displays a real desire by both parties to at least stabilise relations.

Europe: between war and peace?

In Ukraine, the very tense military situation is quickly pushing scenarios toward two extremes. On one hand, we could see NATO become more directly involved with potential deep strikes in Russia; on the other there are persistent rumours of negotiations. Paradoxically, the two are not incompatible; the war may continue while negotiations are pursued.

And incidentally, those negotiations are a nod to the **rising influence of the Global South, with India manoeuvring to ply between Kyiv and Moscow.** China, too, is looking to cultivate the image of a stable power, which would offset its reputation as a plunderer of resources. And so this summer its diplomats made visits to the emerging countries, with a negotiation plan for Ukraine, designed jointly with Brazil, tucked under one arm. Even the Gulf nations are aligning in this peacekeepers' race, with the UAE acting as the go-

[1] According to the *Taiwan Public Opinion Foundation*, 50.4% of citizens do not believe a military alert is imminent.

[2] Per the Asean Study Center, Japan is the power that inspires the greatest confidence in Asean, ahead of the US and Europe. China, on the other hand, is seen as the greatest economic power and, most importantly, it has now pulled ahead of the US in terms of the choice of alignment countries in case geopolitical tensions increase.

between for prisoner swaps between Russia and Ukraine.

More generally, the Global South continues to take advantage of a global fragmentation scenario to build a multipolar world. Accordingly, the upcoming BRICs summit set to be held from 22-24 October in Kazan (Russia) will be important to watch, not only because Xi Jinping and Narendra Modi will likely meet there (and China-India relations is a pivot point in the global geopolitical scenario), but because trade & monetary cooperation between the BRICs is gradually deepening.

The sense of history

The BRICs do not want to be accused of creating market shocks, but they are clearly looking to reduce their vulnerability to the 'weaponisation' of the USD, eg, the freeze on the Bank of Russia's reserves and intensified sanctions. Against this backdrop, Donald Trump's threat that he will impose 100% tariffs on countries that split off from the USD may backfire. In reality, it would also be difficult to deny that this major monetary derisking also coincides with the world's demographic and institutional shift towards the Global South. This does not mean the USD will be replaced by the CNY; rather this shift could entail the diversification of reserve currencies, gold purchases by central banks or even, as some have suggested, a common currency backed by commodities that abound in the Global South. But at the BRICs summit in Kazan, any allusion to bancor[3] would likely have John Maynard Keynes rolling in his grave.

Geopolitical fragmentation continues, taking many faces, and not just of restructured trade & investment flows and rising protectionism. Legal fragmentation continues when Vladimir Putin can travel freely to Mongolia or Kazakhstan waives sanctions on aircraft. Societal fragmentation persists when Germany re-establishes border controls, reminding us that migration – intimately linked to climate – will be one of the key factors driving geopolitical scenarios in the years to come. Finally, political fragmentation endures as populism continues to rise in Europe, particularly in France and Germany of late. The crisis of political legitimacy in the old democracies runs deep, and it goes well beyond the election calendar.

Tania SOLLOGOUB

[3] Bancor was a supranational currency proposed by Keynes during World War II. This currency was not to be tied to any country but would draw on an international clearing union. Chinese economists endorsed the idea after the 2009 crisis, proposing the use of SDRs (Special Drawing Rights) in an international reserve currency.

DEVELOPED COUNTRIES

Delicate balances

USA – Economy set to slow, but recession may be avoided

Eurozone – A recalibration of risks

United Kingdom – Upside risks to the outlook

Japan – The premature rate hike giving last test to break out of deflationary recession

Delicate balances

After an over-stimulated recovery that was more sustained and tenacious than expected, the US economy is slowing but should be able to avoid recession. The Eurozone has escaped recession despite the shock of the war in Ukraine, but it is still 'convalescing' and could see growth accelerate slightly. But the global situation remains one of a delicate balance between deceleration factors and sources of resistance.

USA: ECONOMY SET TO SLOW, BUT RECESSION MAY BE AVOIDED

Resilience remains the key word in describing the US economy, which has continued to grow solidly through mid-year. While some cracks have begun to emerge, and we continue to anticipate a slowdown as we approach year-end, we have upgraded the forecast in that we now no longer think the slowdown will be severe enough to be characterised as a recession. Overall, we see 2024 growth matching last year's 2.5% pace on an annual average basis, despite Q424 growth nearly stalling as some economic activity is delayed until after election-related uncertainty clears up, before 2025 growth dips to 1.3%. This would represent a notable slowdown from the past few years, and remains a below-consensus outlook, though is not as sharp a slowdown as the mild recession in our prior forecast.

A few reasons have combined to drive the upgrade to our outlook, with one of the primary factors being a more front-loaded easing cycle from the Fed than we had previously anticipated. As we will cover in the Fed section later in the document, we now expect 100bp of easing in 2024 followed by another 100bp in 2024, as opposed to 50bp and 150bp, respectively, in the prior forecast. While our view that the first cut would only arrive later in the year ended up being on point, and we have maintained our expectation of 200bp of total cuts for the cycle as a whole, those are now more likely to be skewed towards 2024.

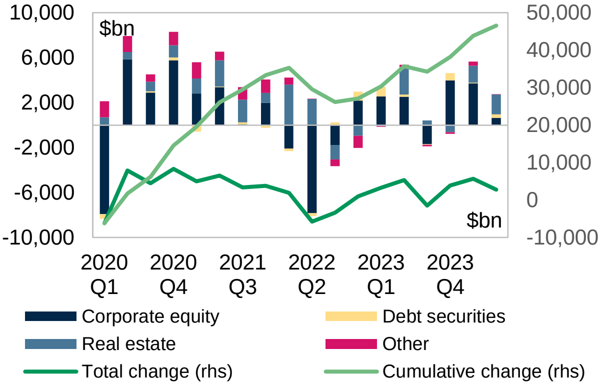
Admittedly, we continue to think that the economy overall is less interest rate-sensitive than in the past given large amounts of debt that had been locked into low fixed rates, as outlined in previous articles on monetary policy transmission and lags. However, lower sensitivity does not mean no sensitivity, and a faster beginning of the cycle will likely provide some relief for any debt that needs to be re-financed after reaching maturity.

Additionally, we currently lean toward the view that monetary policy transmission may work a bit faster on the way down than on the way up. This is due to the fact that, in some cases, debt holders can choose when and if to re-finance. Take mortgages, for example. On the way up, those that had been locked into low fixed-rate mortgages simply chose not to re-finance, thus providing some insulation from rising rates. On the way down, however, any mortgage holder that took out a higher rate mortgage should be able to re-finance at lower rates as soon as mortgages drop, thus providing fairly quick relief.

Although the financial situation of households has remained solid overall, some households are facing increasing difficulties.

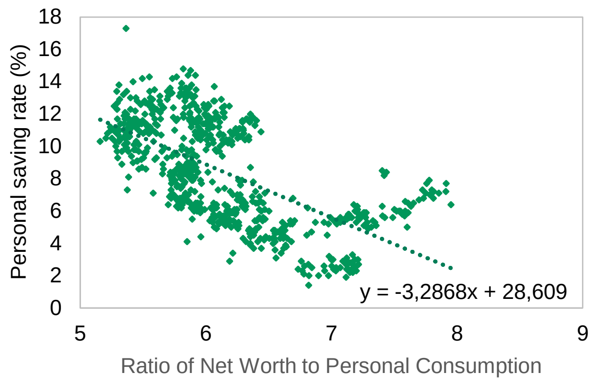
Outside of monetary policy transmission from a more front-loaded cycle, we also believe that very strong household balance sheets can help to avert recession. Specifically, household net worth is up by more than USD46trn compared to the pre-Covid peak, driven by strong gains in both equities and real estate. While we have noted the drawdown in excess savings in the past, we would put this in context of still-strong balance sheets. In fact, when looking at historical data, the personal saving rate tends to be lower when the

US household balance sheets very strong, showing surge in net worth



Sources: Federal Reserve, CA CIB

US: saving rate tends to be lower when net worth is elevated



Sources: Bloomberg, Federal Reserve, BEA, CA CIB ratio of net worth to consumption is higher (eg, consumers feel wealthier). Therefore, the lower saving rate that has contributed to the decline in excess savings is not as anomalous as it seems at first glance, given this surge in net worth, which suggests consumers can continue to spend, even if we think the pace of growth will slow.

That said, the removal of recession from our base case means that we think recession risks have diminished, not that they have disappeared entirely, and we still see some potential threats on the horizon. For one, even as overall household balance sheets have remained healthy, some households are facing growing signs of stress. In particular, both auto and credit card delinquencies have been on a clear uptrend, and are now at their highest levels in over a decade. While these look largely confined to lower-income households for now, which may not be enough to drive recession given the resilience of upper-income households, any signs of further increase could send a warning.

Secondly, we would also highlight the cooling of the labour market, which has become increasingly clear in recent months. To be fair, current labour market data remains decent to solid, with the unemployment rate still low in historical terms at 4.2%, jobless claims also low and trending down over the past couple of months, and the layoffs rate remaining very low. Thus far, the data indicates labour market cooling that has been more skewed towards declining job openings than mass layoffs.

That said, the trend has been moving in the wrong direction, exacerbated by downward revisions for nonfarm payrolls, and there are signs the labour market could be near an inflection point. For example, the Beveridge curve looks to be close to transitioning from a steep portion of the curve to a flatter one, which highlights a risk that further cooling could be more skewed towards layoffs. Additionally, the unemployment rate has breached the Sahm rule threshold that has signalled a recession in the past. While the surge in immigration may be blurring the picture from this signal somewhat, it does at least pose a risk of a sharper deterioration going forward, as typically once the threshold is breached the unemployment rate only continues to move higher. Consequently, while we expect only modest further cooling, with the unemployment rate peaking at around 4.6%, we do think that some are underestimating the risk of a sharper deterioration that could lead to the onset of recession, even if we have removed this outcome from our base case for now.

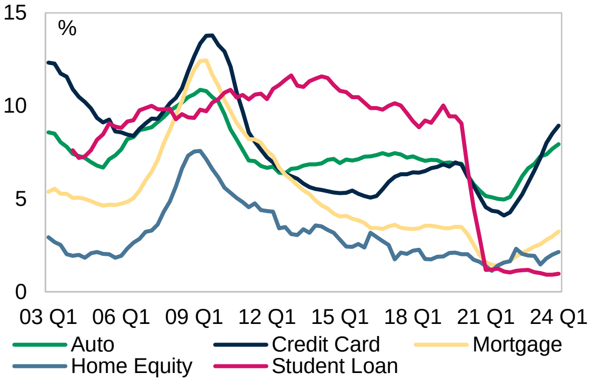
Lastly, inflation has improved notably over the past few months following a string of upside surprises in Q124, though we see some risk of stalling modestly above 2%. While we do not anticipate a renewed acceleration, barring an unexpected shock, we think that a combination of factors from demographics to de-globalisation to persistently aggressive fiscal policy may mean inflation persistently hovers modestly above target.

Annual change	2024	2025
GDP	2.5%	1.3%
Inflation	2.9%	2.2%

As a result, our forecast sees headline CPI levelling off around 2.4% and core around 2.7% by end-2025, though the path to get there differs somewhat. For headline, we see a bumpy path, with the recent dip in oil prices suggesting that headline could dip below 2% next spring before bumping back up by year-end, whereas we anticipate a slow and gradual decline for core CPI until it reaches the 2.7% range. If a recession does materialise, then inflation could fall further, though if an even more front-loaded Fed cycle than we currently anticipate emerges, then inflation could prove stickier.

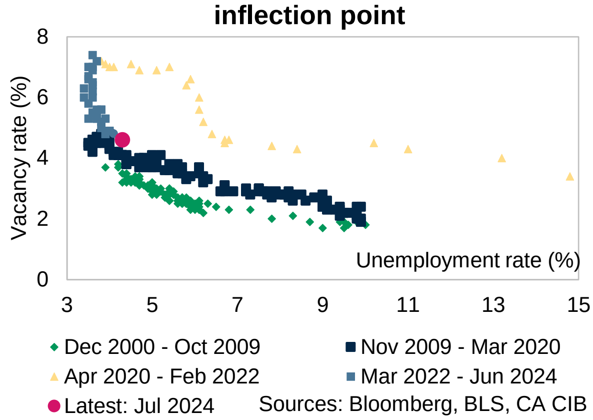
Nicholas VAN NESS

US: credit card & auto delinquencies at highest in more than a decade



Sources: New York Fed, CA CIB

US: Beveridge curve suggests labour market could be near inflection point



Sources: Bloomberg, BLS, CA CIB

EUROZONE: A RECALIBRATION OF RISKS

Our narrative, built around a recovery driven by domestic demand and private consumption in particular, is being put to the test. The results for H124 have not confirmed this scenario. **While the fundamentals of a recovery in household purchasing power are still valid, households continue to opt for a higher savings rate at the expense of consumption.**

In the absence of the driving force of private spending, the weakness of activity limits the potential for a cyclical recovery in productivity and the expected gains in profitability, constraining the prospects for strengthening productive investment. We postpone the recovery in domestic demand, but we expect it to materialise at a more moderate pace than previously anticipated. **In 2024, therefore, the scenario that emerges still benefits from positive base effects (+0.5% in Q2) but sets the growth path below potential.** We forecast GDP growth of 0.8% in 2024 and 1.3% in 2025.

In H124, growth disappointed above all because of its composition

After a year of barely positive quarterly growth in 2023 and a recovery in Q124 (+0.3%), **the pace of GDP growth weakened again in Q224** (+0.2%). Below our forecast (+0.3%), growth is also disappointing in terms of its composition. The negative contribution from domestic demand is increasing (-0.4ppt, after -0.2ppt in Q1), while the positive contribution from net exports is diminishing (+0.5ppt, after +0.9ppt). Inventories continued to fall at an unchanged rate, with a null contribution to growth.

After recovering in Q1, household consumption fell back (- 0.1% over the quarter after +0.3%), despite sustained growth in households' real income. This fall weakens our scenario of household spending strengthening as the driving force behind stronger GDP growth. Public consumption, on the other hand, has gained momentum (+0.6% after +0.1%).

The contraction in investment was significant (-2.2%), but should be put into perspective once the impact of the sharp fall in investment in Ireland (-65%) is taken into account, without which the decline would only have been 0.3%. The dynamic of investment in machinery and equipment (-0.9%) remains very weak, especially in Germany; that of investment in transport equipment (+2.4%) is the combination of a sharp fall in Germany and more positive developments in Spain, Italy and above all the Netherlands and Portugal. Finally, capital accumulation in the construction sector continues to be held back by housing (-1.3%), while investment in other construction is up (0.4%).

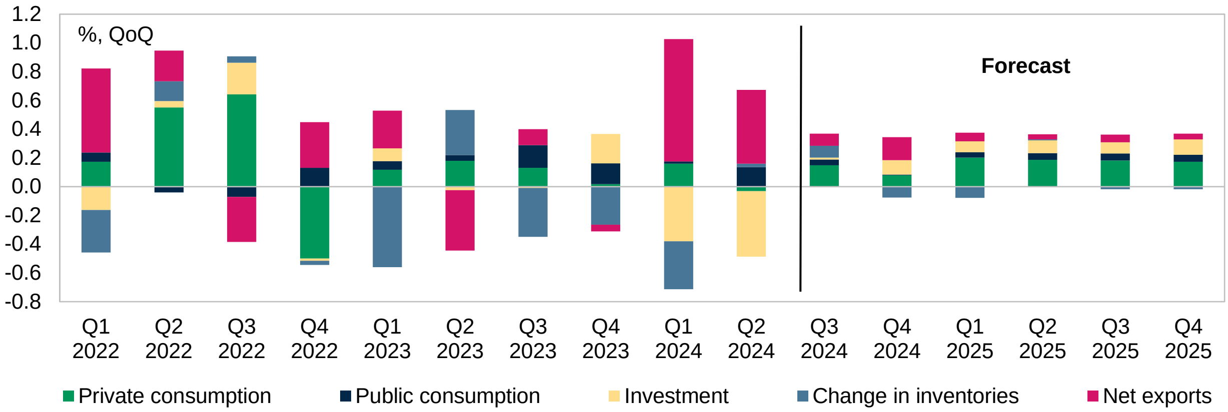
The positive contribution of net foreign demand is based on an acceleration in export growth, faster (+1.4%) than import growth (0.5%), the latter being constrained by weak domestic demand. However, the pace of exports is weakening in the four major economies of the zone, and while it remains positive in France and Spain, it is negative in Italy and Germany.

Industrial woes continue to cloud prospects for a more sustainable and robust recovery

While the economic and financial situation of private agents remains solid and the employment market resilient, **the marked slowdown in manufacturing activity is a risk factor for growth**.

Activity in industry was still slightly down, but this was offset by the positive rate of growth in value added in services (+0.2% over the quarter for market services, +0.1% for non-market services). However, this pace is weakening, and there is a risk that it will not be able to compensate for industry's woes for much longer, if they persist. Growth in employment (+0.2%) remains more sustained than that of activity, and the fall in productivity, which has been underway since the end of 2022, continued in Q2.

Eurozone: contributions to GDP growth



Sources: Eurostat, Crédit Agricole S.A.

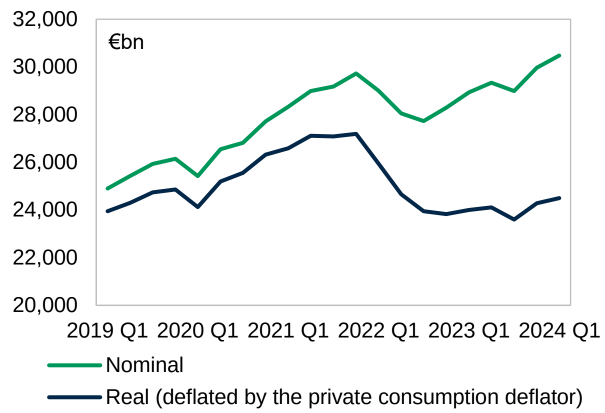
The recovery in private consumption is being postponed, not called into question

Negative in Germany (-0.2%), barely positive in France (+0.1%) and Italy (+0.2%), private consumption was slightly more dynamic in Spain (+0.3%) in Q2. Overall, this downturn has put the Eurozone savings rate on a new upward trajectory. **The savings rate has, in fact, started to rise again in all major Eurozone economies** despite the gains made by real incomes. After showing signs of erosion in 2022, the surplus savings accumulated after the pandemic have started to grow again.

We have recalibrated the balance of risks for the Eurozone, with the downside risk to growth outweighing the upside risk to inflation.

Three factors explain this trade-off in favour of savings. Firstly, precautionary savings increased in response to uncertainty surrounding (1) certain economic variables that have suffered violent shocks, notably inflation; (2) the economic, fiscal and monetary policy environment; and, more generally, (3) new geopolitical trends. Secondly, there is a need to save more to rebuild real assets, which have been eroded by inflation, as shown by the stock of financial wealth which has been falling in real terms since the end of 2021 and has only been recovering since the end of 2023, barely returning to its pre-pandemic level. Finally, increased savings are also a response to the need to rebuild property purchasing power, which has been reduced by the combined negative effects of prices and interest rates, outweighing the positive effects of income. The very weak growth in outstanding home loans (still negative in France and Spain) indicates that some of these savings are being used for repayments, offsetting the upturn in new lending. Over the coming quarters, the anticipated cuts in key rates and the continued reduction in the rate on new loans should attenuate this phenomenon. With real incomes continuing to rise, helped by the fall in inflation, **household consumption is expected to accelerate at the start of 2025, returning to a more sustained rate of expansion of +1.1% on average p.a. in 2025, after +0.7% in 2024**.

Households financial wealth (assets)



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

Investment recovery still hampered by a number of obstacles

The forecast for investment is subject to greater uncertainty; however, it also assumes a recovery at the end of 2024, allowing for positive growth in 2025 of +0.9% after -2.6% in 2024.

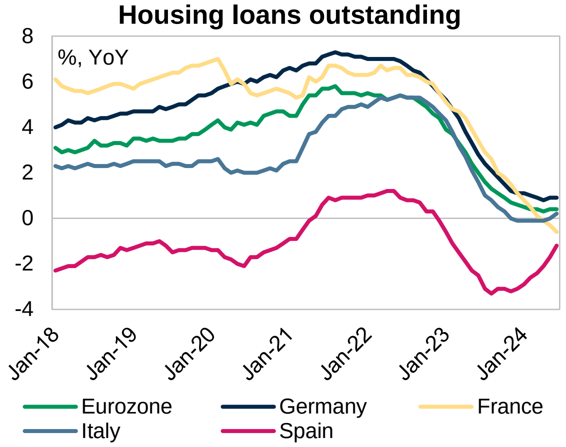
In Q2, all components were down by around 3% YoY, with the exception of other construction. The outlook for investment in machinery and equipment continues to deteriorate, with weak demand and falling capacity utilisation justifying less need for capacity expansion. Profitability has also deteriorated since the summer of 2023, as a result of the continuing dynamic rise in labour costs and the fall in productivity. **Our scenario for a recovery in investment is based on the gradual easing of financing conditions, slightly more buoyant European demand and lower growth in unit labour costs, which will decrease pressure on margins.** This scenario will also be underpinned by the still-substantial needs associated with the two transitions and the final phase of disbursement & spending of European NGEU funds. As for the housing component, the fall in interest rates on new loans and the recovery in new lending reinforce the prospects of a gradual stabilisation in household investment.

An unfavourable policy-mix

The economic policy environment is not yet favourable to growth. Our scenario for the ECB's key rate cuts has only been partially incorporated into the long end of the curve, and the real rate is still providing restrictive monetary stance, particularly given that inflation in September is expected to be below target and GDP growth below potential. The expected disinflationary environment, with inflation at 1.8% in 2025 and 2026, after 2.3% in 2024, is reinforced by the weakness of domestic demand and raises the question of whether an additional adjustment to our rate cut scenario is needed.

While the negative impulse from monetary policy should gradually diminish (at a rate of 25bp per quarter until September 2025), **the fiscal policy**

Housing loans outstanding



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

stance should become more restrictive, with the fiscal impulse at least as negative in 2025 as in 2024. While more painless measures have characterised the reduction in deficits in 2024 (withdrawal of support measures for energy costs), more difficult trade-offs will be required in 2025 on the expenditure side. The new rules imply major adjustments for some countries at least until 2030, and have contributed to a downward revision of our medium-term growth forecast. There is still some uncertainty surrounding their implementation, and in particular on the articulation between the preventive and corrective framework. We will have more complete information on the fiscal adjustment paths in our next forecasting exercise in December.

Against a backdrop of slowing growth in the two main partner zones (the US and China), the acceleration of growth in the Eurozone will depend mainly on revitalising domestic demand. We have recalibrated the risks, with the downside risk to growth outweighing the upside risk to inflation.

Annual change	2024	2025
GDP	0.8%	1.3%
Inflation	2.3%	1.8%

Paola MONPERRUS-VERONI

UNITED KINGDOM: UPSIDE RISKS TO THE OUTLOOK

Short-term growth rates to moderate before accelerating in 2025

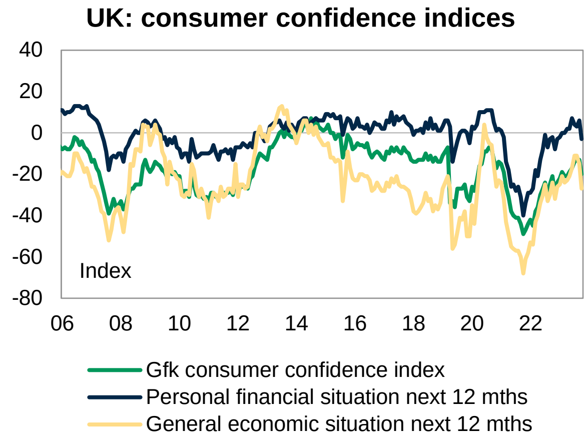
After vigorous growth in Q124 and Q224 (respectively 0.7% and 0.6% QoQ), activity is expected to slow down in H224 (to 0.3% QoQ per quarter), then pick up again in 2025 to 0.4% quarterly growth rates. As an annual average, growth for 2024 is forecast at 1.1%, then 1.5% for 2025 (compared to the previous 0.9% and 1.4%, respectively). This positive revision of annual growth rates is entirely due to growth in H124, which was above expectations but does not seem sustainable. In fact, GDP stagnated in June and July.

The factors conducive to a gradual acceleration in household consumption are all there.

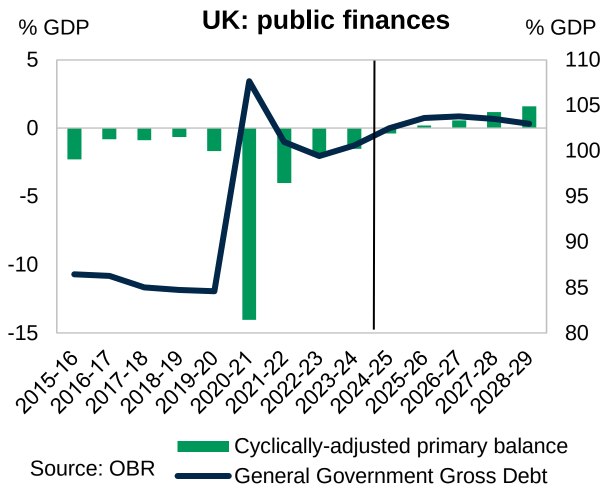
Underlying domestic demand is weak. In Q224, household consumption slowed compared to Q124 to just 0.2% QoQ. Gross fixed capital formation also disappointed, with both corporate and real estate investment down, although they were more than offset by surging public investment. However, business climate surveys continue to improve, suggesting that activity is expanding at a moderate rate in services, industry and construction.

A light at the end of the tunnel for consumers

British consumers are still opting for precautionary savings: the savings rate was 11.3% in Q124 and is likely to have increased further in Q224. Excess savings piled up since the pandemic now totals more than GBP450bn, while consumer spending is still 1.5% below pre-Covid levels. Consumers remain wary. Confidence (Gfk survey) sagged in September for the first time in seven months. The survey shows lower expectations on the economic situation and personal finances for the next twelve months. Past price shocks and still-high interest rates, plus uncertainty around the new Labour government's fiscal policy and the softening job market, are dragging consumer confidence down. Make no mistake however: the factors conducive to a gradual acceleration in household consumption are all there. Growth in real wages has held up for several quarters and should stay clearly positive through the forecast period, thanks to the expected ebb in inflation in 2025 (after a brief spike anticipated in Q424). Meanwhile, even if high rates will continue to impact indebted households, specifically



Sources: GFK, Crédit Agricole S.A.



Source: OBR

those that will need to renew their fixed-rate loans in the coming months, the peak impact of monetary tightening is largely behind us, and the monetary easing to come should do less to drive savings and more to drive consumption and investment.

30 October budget: uncertainties to resolve, and reasons for hope

In the short term, the uncertainty surrounding the 30 October budget is dragging down both business and consumer confidence. Indeed, Prime Minister Keir Starmer has already warned this would be a "painful" budget and that "things will get worse before they get better". Tax hikes to finance a GBP22bn (0.8% of GDP) "black hole" in public finances will most likely be heftier than promised during the electoral campaign. However, the impact on growth of an increase in current public spending financed by tax increases is likely to be neutral for growth overall, given similar fiscal multipliers. As for downside risks, excessive austerity could be a heavier weight on growth than expected, especially since the fiscal impulse (measured by the change in the structural primary balance) projected by the OBR is already sharply negative for the next few years. And for upside risks, higher government spending, particularly for investment, should have a positive impact on the outlook, given that it has the highest fiscal multiplier.

Moreover, the government's pro-business agenda and industrial strategy (whose details are yet to be announced) should boost business confidence and investment, notably in green energy and housing construction. That said, do not underestimate the risk of a let-down with the fiscal situation this tight. The budget deficit was higher than forecast over the first months of the current fiscal year (GBP64.1bn compared to the GBP57.8bn projected for April-August).

Passing the 30 October budget should dispel fears and may even bring back confidence. In addition, the Bank of England (BoE) could quicken its monetary easing in 2025 based on pleasant surprises on the inflation front, which would support growth and give the government back some leeway.

Passing the 30 October budget should dispel fears and may even bring back confidence. In addition, the Bank of England (BoE) could quicken its monetary easing in 2025 based on pleasant surprises on the inflation front, which would support growth and give the government back some leeway.

Annual change	2024	2025
GDP	1.1%	1.5%
Inflation	2.6%	2.1%

Slavena NAZAROVA

JAPAN: THE PREMATURE RATE HIKE GIVING LAST TEST TO BREAK OUT OF DEFLATIONARY RECESSION

GDP growth expected to run below potential from Q324

Q224 Real GDP was +0.8% QoQ (+3.1% annualised). It rebounded from -0.6% QoQ (-2.3% annualised) from Q1, which was also weak due to the suspension of shipments at some auto plants. Real consumption rebounded to +1.0% QoQ from -0.6% in Q1. However, increases in real GDP and real consumption have not rebounded from their previous declines: real GDP and real consumption in Q2 were -0.8% and -0.4% YoY, remaining negative for the second and fourth consecutive quarters, respectively. The level of real private domestic demand is still 0.9% below the pre-Covid 2019 average. The growth rate of real wages (scheduled wages) is expected to turn positive in H224 as the rate of inflation shrinks. However, consumption activity would remain stagnant for some time, partly because the rise in real wages would first go toward recovery of household fundamentals, such as a higher household savings rate, and partly because of the downward pressure of the reverse asset effect of falling stock prices. The global economy, especially in the US, is expected to show increasing signs of slowdown. As exports are pushed down, the Japanese economy would also experience a stronger slowdown, and real GDP growth is expected run below the potential growth rate which is around +0.7%, for four consecutive quarters, starting from Q3. Real non-residential investment in Q2 was solid at +0.9% QoQ, recovering from the -0.4% QoQ decline in Q1. Nominal GDP was +2.1% YoY, the 13th consecutive quarter of positive growth, supporting corporate investment activity.

The fact that this upward divergence in the cycle still exists indicates that the Japanese economy is firmly on its way to overcoming deflation.

Real non-residential investment as a percentage of GDP, which indicates the cycle of capex, reached 16.7% in Q2 and is at the peak level of the current cycle. Expectations for a sustained expansion of nominal GDP are providing support. The government, too, has indicated its commitment to expanding the size of the economy in this year's Basic Policies for Economic and Fiscal Management and Reform (Honebuto). However, the ability of corporates to spend, such as wages, is still weak relative to their earnings, and the corporate savings rate has continued to rise. The capex cycle and the corporate savings rate tend to move in the same manner, but this time the capex cycle has diverged upward. The fact that this upward divergence in the cycle still exists indicates that the Japanese economy is firmly on its way to overcoming deflation. If the capex cycle breaks above its long-standing ceiling of 17%, the corporate savings rate would return to a normal state of negative savings rate, and Japan would be able to completely exit the deflationary structural recession. The risk is that the BoJ's premature rate hikes and the government's policy towards premature primary balance surplus would create doubts about the sustained expansion of nominal GDP. If doubts arise, the capex cycle would collapse in the direction of the positive corporate savings rate, and the complete escape from the deflationary structural recession would fail.

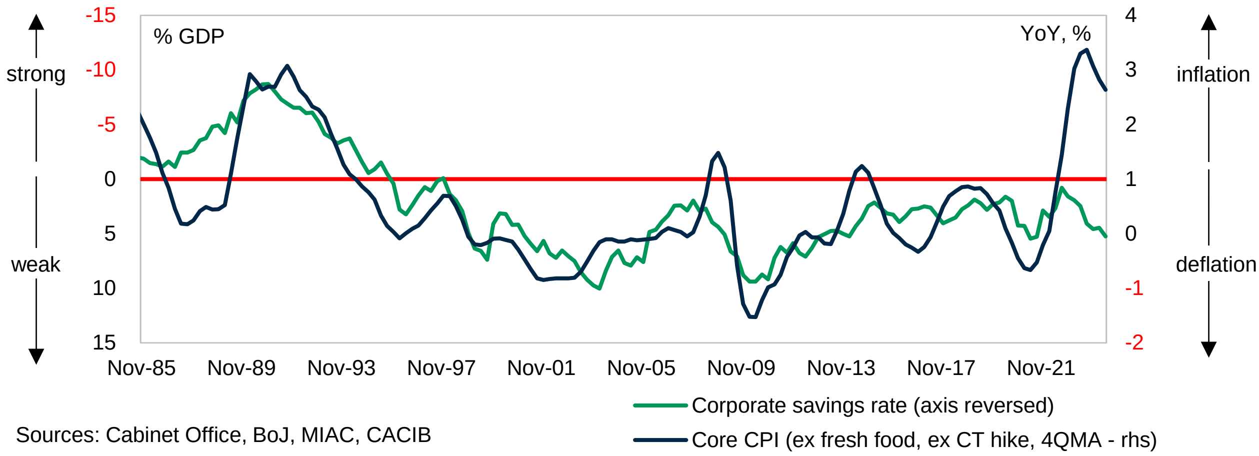
Inflation to decelerate below the 2% target by H224

CPI (excluding fresh food and energy) would fall below the price target of 2% YoY in H224 due to a lull in price transfers of rising import prices and stagnant domestic demand. It would temporarily fall below 1% in 2025. In the global cyclical recovery, corporate spending, including capital investment and wages, would become stronger, and the positive corporate savings rate, which caused the deflationary structural recession due to excess savings, would narrow. After 2026, the price inflation rate would again target 2%, with an increase in domestic demand due to higher real wages, and the rate of increase would expand. **By 2028, the corporate savings rate would turn negative, wiping out structural deflationary pressures, and the price target of 2% would be reached by accelerating wage growth and rising inflation expectations.**

Change YoY	2024	2025
GDP	-0.3%	0.2%
Inflation (ex-fresh food and energy)	2.3%	1.0%

Takuji AIDA – Ken MATSUMOTO

Japan: corporate savings rate and core CPI



Sources: Cabinet Office, BoJ, MIAC, CACIB

EMERGING COUNTRIES
Who benefits from derisking?

Overview – Who benefits from derisking?

China – The long winding path

Brazil – Central bank is forced to hike

Russia – The war economy requires further tightening of the policy mix

India – Growth, Narendra Modi’s lifeline as his leadership loses momentum

Who benefits from derisking?

Between falling US rates, the chip cycle, sluggish growth in China and difficulties in Germany, emerging countries are navigating the world with relative success and, in particular, trying to take advantage of the major global restructuring of trade and investment.

In the short term, growth in emerging countries is rather resilient overall, and many of them will take advantage of the window of opportunity opened by the Fed's rate cut. In Asia, the recovery of the tech cycle is expected to boost exports from Korea, Taiwan, Vietnam and Malaysia, where integrated circuits now account for 21% of exports. Another positive sign is that according to the IIF, middle-income countries have better access to the market and can more easily refinance their short-term debt. Finally, some 'hot spots' are less of a concern for investors.

Egypt in particular has emerged from a severe currency crisis thanks to a USD35bn liquidity injection from the UAE. However, this cautiously optimistic view should not distract from structural problems, particularly a risk to Egyptian stability. The country emerged from the crisis with deteriorated public finances & increased financing needs and must be watched closely. Turkey's sovereign rating is slowly rising, as it has rebuilt its foreign exchange reserves and is slightly reducing dollarisation.

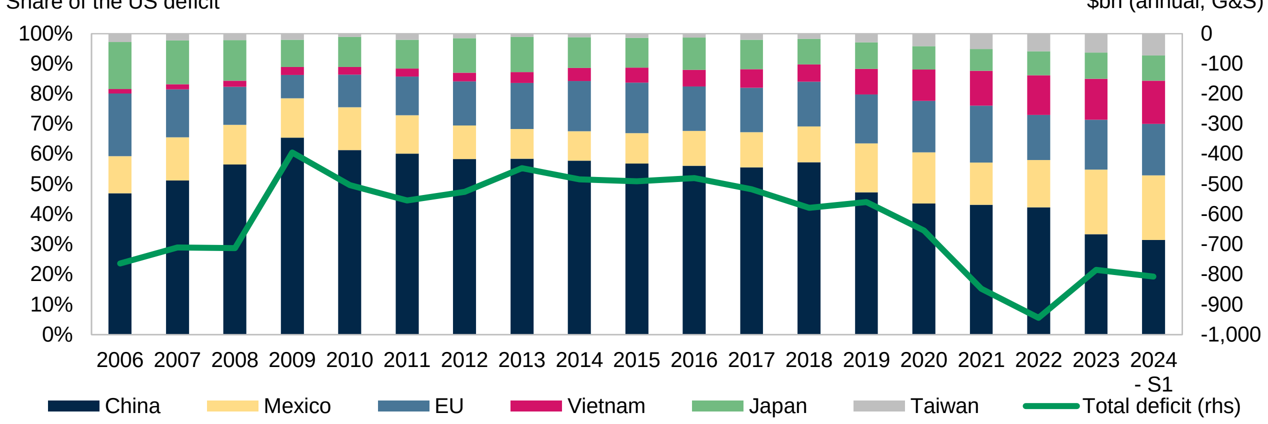
Middle class consumption is strong (except in China)

In addition to these singular performances, the economic situation in EMs will have to digest the effects of the slowdown in the US. This will affect certain Latam countries (including of course Mexico), but also Asian countries, such as Vietnam and Korea. In addition to the cooling of the US economy, China – which remains the central economic partner of ASEAN – is also slowing. This slowdown also has a direct impact on Brazil and Chile, where Beijing accounts for 31% and 39% of exports respectively. Moreover, this Chinese question is not a short-term issue: its structural nature is increasingly apparent. Finally, difficulties in Germany's automotive sector are hampering countries that are part of the sector's value chain, such as the Czech Republic, which is at the bottom of the European growth rankings. Slovakia also has direct exposure to the Chinese market: its factories produce SUVs (Volkswagen Group and Jaguar Land Rover) destined for China.

Over the coming months, **however, growth in many emerging countries should be able to rely on domestic demand**. For example, in Indonesia, solid activity in Q2, at 5% YoY, has already benefited from strong consumption by the middle class (+4.9% YoY) and investment (+4.4% YoY). Elsewhere, in Poland, Hungary and Romania, for example, consumption has been underpinned by sharp increases in real wages due to still structurally tight labour markets. But this is also hampering disinflation, which has slowed in some countries in the region.

Some Eastern European central banks are therefore taking a cautious approach to rate cuts and have paused, for example, in Poland and Hungary. In Brazil, inflation has picked up slightly, with growth exceeding expectations thanks to a solid labour market and fiscal support that delayed the expected consolidation of the public accounts. As a consequence, the debt-to-GDP ratio is deteriorating, which is once again drawing markets' attention to Brazil's sovereign profile. The central bank is therefore tightening monetary policy slightly to manage the recovery cycle, stabilise expectations and preserve its credibility.

US Trade deficit: main sources



Sources: BEA, Crédit Agricole SA/ECO

The election cycle is soon coming to an end... in EMs!

Finally, **many EMs have held their elections, leaving behind the some of the uncertainty that impacted expectations in early 2024**. Economic continuity has prevailed in many countries, while in others, unprecedented coalition situations have reduced policy leeway (eg, South Africa) or require investment to be redirected towards more social spending (eg, India). In Mexico, while growth is struggling, particularly due to the end of a cycle of infrastructure investment, President-elect Claudia Sheinbaum is not letting up. The impending reform of the system for appointing judges, by election, worries US investors, at a moment where the Mexican government paradoxically seeks to also take advantage of nearshoring and reassure markets! That said, Mexico, which has overtaken Beijing when it comes to US imports, is regularly accused of being a 'Trojan horse' for Chinese investment. But it is not alone.

Cui bono?

In fact, **several studies highlight the correlation between the decline in market share of China's exports to the US, and the increase in those of a few countries,** namely Mexico, Vietnam, Korea and India[4]. Above all, they are also increasing their imports from China[5], particularly those of intermediate goods. These studies also tend to prove that these 'connector' countries were already integrated into Chinese value chains and that this integration will likely increase[6]. The US derisking operation, which has been successful in terms of reducing direct trade links with Beijing, would therefore result in an increase in indirect dependencies between the US and China, and an increase in intra-industry trade between the connector countries and Beijing. Finally, most of these countries still run trade deficits with China, particularly India, which remains dependent on its manufacturing products.

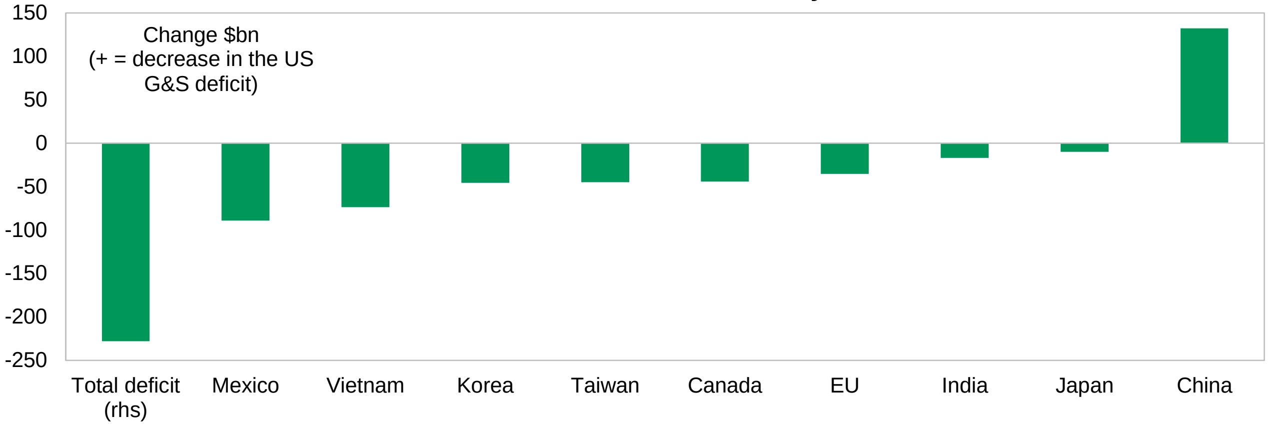
New growth patterns?

More generally, many EMs are seeking to take advantage of the US-China rivalry but sometimes find themselves caught between China's dumping and the rise of US protectionism. Thus, despite singing the praises of free trade, many countries in the global south – such as Brazil and Turkey – are also protecting themselves from China's aggressive trade practices by increasing customs duties. Many, including Thailand, are also imposing 'made locally' rules. As for Indonesia, nickel is now processed locally thanks to investment clauses imposed on China by the government. As a result, voluntarily or not, Beijing is participating in Indonesia's rise in global value chain.

As in DMs, EMs are also seeking to reconcile development, sovereignty, economic security, climate transition and industrial policy.

Indeed, the least developed countries are not immune to the global geo-economic paradigm shift, and they are also seeking to reconcile development, sovereignty, economic security, climate transition and industrial policy. It is a difficult task. Many countries are therefore embarking on industrial planning. One example is Malaysia, which is anchoring its development around existing high-tech hubs, thanks to a collaboration with Singapore. But such a plan also requires a window of opportunity for political calm inducing some stability in economic governance, which is not the case everywhere. In Thailand, for example, the budget prioritises short-term objectives.

US Trade deficit: June 2024 vs January 2018



Sources: BEA, Crédit Agricole SA/ECO

[4] Alfaro, Laura and Davin Chor. Global Supply Chains: The Looming "Great Reallocation." NBER Working Paper No. 31661. September 2023.

[5] Freund, Caroline, Aaditya Mattoo, Alen Mulabdic, and Michele Ruta. 2023. Is US trade policy reshaping global supply chains? Policy Research Working Paper WPS10593, Washington, D.C.: World Bank Group.

[6] Dahlman, Abigail, and Mary E. Lovely. 2023. US-led effort to diversify Indo-Pacific supply chains away from China runs counter to trends. Realtime Economics. Washington, DC: Peterson Institute for International Economics.

As for India, its growth rate puts it in the leading EM group, but its progress in global value chains depends more on services than manufacturing, for the moment. Admittedly, the transformation of its GDP is real, with increased investment and developing infrastructure, but a huge part of the country's economy still runs on informal labour. Structural barriers to manufacturing development are numerous, and the country's share of global trade is low. We cannot overstate the fact that if India does indeed take its place in the global geo-economic picture, it likely will not follow the same path as China.

The asymmetry of the climate crisis

Finally, when it comes to the least developed countries, the impact of climate risk, which is constantly increasing, is terribly asymmetrical. In Morocco, growth is being curbed by a new recession in the agricultural sector (-5% in H124). There are also risks surrounding inflation, particularly food inflation. Above all, agricultural recessions are impacting employment, which is accelerating the urgency of reforms to diversify the economy. Tunisia is facing the same situation: a chronic lack of rain is impacting food balances, prices, external balances and the government budget that provides subsidies. And clearly, shortages are leading to the emergence of huge social and political risk in many countries. In Bangladesh, it even escalated into a revolution. While the North is mainly thinking about nationalism, war and protectionism, **debt, climate and food risk are slowly redrawing the Global South's political map.**

Tania SOLLOGOUB

CHINA: THE LONG WINDING PATH

Managing the downside risks

China's growth risk remains skewed to the downside, of China's growth target of 5%. Domestic demand remains sluggish amidst a prolonged property market slump and a broadening softening of consumption growth. Consumer confidence has ebbed as a weaker employment and income outlook weigh. Exports have been supportive of growth amidst a turnaround of the global trade cycle, but headwinds such as the rise of protectionism and structural trend of supply chain reallocation continue to loom.

We maintain our growth forecast at 4.7% in 2024 and 4.2% in 2025. Nominal GDP growth is likely to edge down to 4.5% in 2024 from 4.6% in 2023 before rebounding to above 5% in 2025.

Lingering disinflationary pressures

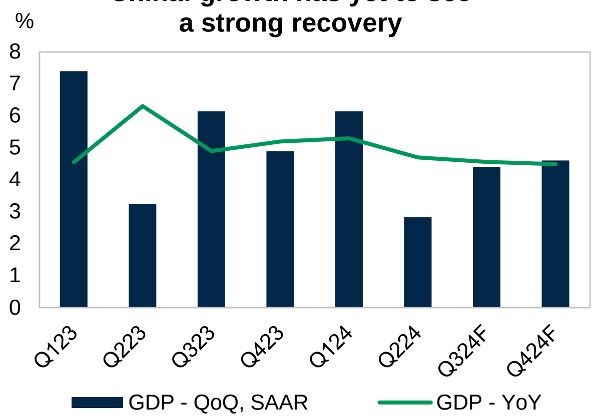
Lingering disinflationary pressures pose a further drag on the Chinese economy, hampering consumption and investment. August core CPI inflation further declined to the lowest level since March 2021, and PPI deflation notably expanded.

We maintain the view of a slow and mild reflationary process in 2024. We forecast headline and core CPI inflation at 0.3% and 0.7% respectively in 2024, vs 0.2% and 0.7% in 2023. PPI deflation will likely become less severe, averaging at -1.5% in 2024 vs -3.0% and could linger into early 2025 on falling global energy prices, normalising supply chain and domestic demand weakness amid the property downturn.

PBoC delivers on broad stimulus

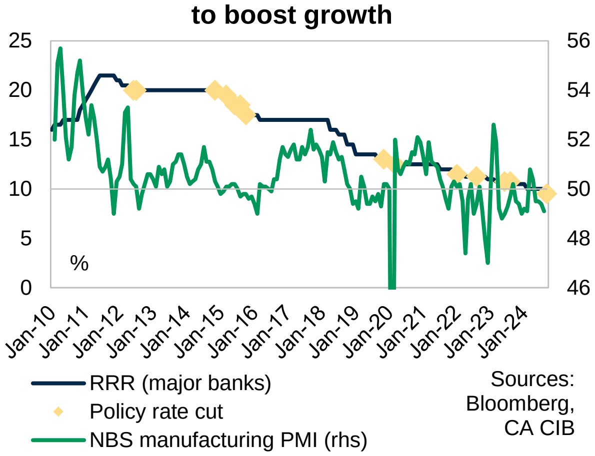
The Fed's 50bp jumbo cut has opened the door for the PBoC to provide more policy support, and the PBoC delivered a positive surprise to markets in September. It announced a basket of major easing measures covering multiple areas, including a 50bp RRR cut, a 20bp policy rate cut, a lowering of interest rates on existing mortgages by 50bp, a lowering of the down payment ratio for second home purchases by 10%, as well as PBoC lending facilities to support property destocking and equity markets.

China: growth has yet to see a strong recovery



Sources: CEIC CA, CIB

China: further easing is necessary to boost growth



Sources: Bloomberg, CA CIB

The basket of easing measures is the most significant in the current cycle. The easing measures and the authorities' tone show a willingness to step up its policy supports in a more significant way compared to the incremental easing in the past. This would be a positive policy step to managing the downside risk to China's annual growth target of 5%. Markets will pay attention to the performance of high frequency data during Golden Week and in the ensuing period to gauge the effectiveness of the latest round of measures.

Lingering disinflationary pressures pose a further drag on the Chinese economy, hampering consumption and investment.

Looking ahead, **the PBoC will likely cut its RRR by an additional 25-50bp in Q4**, given the large MLF maturity and acceleration of bond issuance, as well as to focus on implementation and potential expansion of its credit lending facilities. We think the policy rates could be further lowered by a total of 20bp by end-2025, with the next one arriving in H125. We also believe that balance sheet expansion will become increasingly important for the PBoC to both provide targeted liquidity supports as well as to build its government bond holdings to guide rate movement, as rates get increasingly lower.

The wait is on for fiscal stimulus

While the market has reacted positively so far to the latest round of monetary stimulus, these measures are only a first step to an easing of China's weak fundamentals. The lack of private credit demand means it is necessary for fiscal policy easing to step up more significantly to produce a more lasting turnaround in the economy.

Local deleveraging and revenue shortfalls have led to China's fiscal expenditures being significantly behind budget in 2024. In particular, China will need to tap more on the central government balance sheet to boost fiscal expenditure, and there is still room for that. The Third Plenum also called for fiscal reforms to better balance central vs local fiscal revenue and expenditure

There has been increasing discussion onshore about an increase of the fiscal budget deficit ratio and special CGB issuance. An important window to watch would be the upcoming NPC Standing Committee meeting in late October. In the meantime, **China will likely loosen the requirement on the usage of bond issuance proceeds**, in order to speed up fiscal expenditure, especially to support local property destocking.

Annual change	2024	2025
GDP	4.7%	4.2%
Inflation	0.3%	1.0%

Risk to watch

Policymakers will need to maintain their efforts to stimulate domestic confidence and ensure they deliver on fiscal policy to bring about a more lasting impact on China's growth. Externally, geopolitical developments such as US-China decoupling and the US elections will be keys risks to watch ahead.

Xiaojia ZHI

BRAZIL: CENTRAL BANK IS FORCED TO HIKE

2025 budget proposal casts a shadow over fiscal framework

On 30 August, Brazil's administration submitted to congress the 2025 budget proposal targeting a balanced budget with the help of 1.7% of GDP in revenue measures and just 0.25% in expenditure cuts. The spending cuts totalling BRL25.9bn, or 0.25% of GDP, were the smallest part of the budget, and are primarily comprised of addressing abuses in the pension & welfare systems and a part of the broader spending review programme proposed by the government.

The revenue measures add up to BRL168.2bn, or 1.7% of GDP, with (1) BRL101.5bn (1% of GDP) coming from non-recurring sources related to tax litigation and debt settlements, which underperformed in 2024 and that the administration expects to materialise in 2025; and (2) the remaining BRL66.7bn (0.7%) to come from revenue measures. The revenue measures appear to be focused on improving tax compliance, potential additional taxation on big tech companies & multinationals, additional taxes on corporate profits and interest on equity.

The strength of the labour market has been contributing to the strength of the domestic economy with consumption expanding.

The revenue raising proposals to increase taxes have already been met with strong opposition from congress. Thus it appears very unlikely that the administration will achieve the stated zero deficit target. After the primary targets were already revised this spring, another revision would call into question the strength of the entire current fiscal framework given that it relies on the rules triggered by non-compliance with the stated targets.

Separately, on 20 September, the administration presented its latest report on the 2024 revenues and expenses, showing that the government is on track to reach -0.25% of GDP deficit, within the allowed tolerance band around the balanced budget target.

The central bank begins a tightening cycle

Meanwhile, the latest data suggests that **Brazil's job market remains tight** as the unemployment rate has been relentlessly falling to 6.8%, the lowest level in a decade. Admittedly, the fall in the unemployment rate is a reflection of the fall in the labour participation rates of about 1.5% since the pandemic. **Nominal wage growth remains high, and in the context of declining inflation, real wages have been growing at 4-5% YoY**.

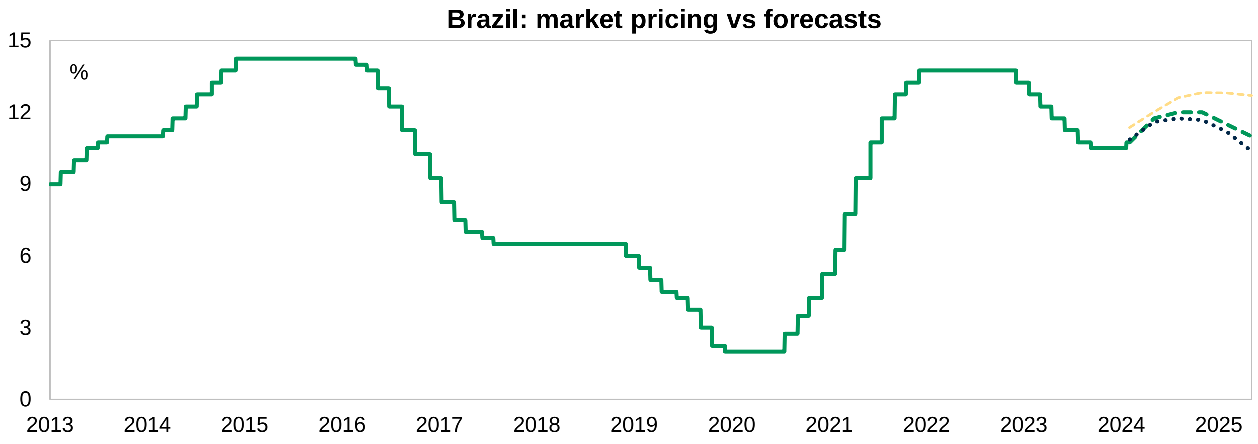
Annual change	2024	2025
GDP	3.1%	1.8%
Inflation	4.1%	3.8%

The strength of the labour market has been contributing to the strength of the domestic economy with consumption expanding by 2.5% QoQ in Q1 and 1.3% QoQ in Q2, which in turn helped the overall economy to expand by 1% QoQ in Q1 and 1.4% QoQ in Q2. In this context, inflation re-accelerated over the summer to 4.5% YoY as of July, the top of the 3% +/- 1.5% target band, with **services inflation increasing in particular**. Most worryingly, inflation expectations have deanchored.

Despite a double-digit monetary policy target rate, the central bank of Brazil (BCB) was compelled to start a hiking cycle on the same day that the US Federal Reserve kicked off an easing cycle with a larger-than-typical 50bp cut last week. The BCB hiked the policy rate by 25bp to 10.75%, while maintaining a hawkish tone in the accompanying statement. The minutes of the meeting released on Tuesday this week gave little away as the committee preferred to not share any future indication of its next steps.

At the time of writing, the local swap markets were split between a 50bp or 75bp hike at the next meeting on 7 November, followed by 50bp hikes in December and January of 2025 before the pace is moderated and the Selic is brought to 12.75%, 200bp above the current level. The market pricing is more aggressive than consensus and our forecast. We expect the pace of tightening to increase to 50bp in the two remaining meetings of the year and see the Selic reaching 12% early next year. That said, we do not rule out the central bank validating the market's pricing. We note that in Brazil, where the vast bulk of the debt is issued in domestic currency and purchased by domestic investors**, it is more often than not that the central bank eventually follows the market's lead lest it risk unravelling the risk premium and making its own job harder down the road**.

Olga YANGOL



Sources: BCB, Crédit Agricole CIB

RUSSIA: THE WAR ECONOMY REQUIRES FURTHER TIGHTENING OF THE POLICY MIX

The Russian economic growth has remained strong in 2024. It reached 4.7% YoY in H1, above the already robust 3.5% registered last year. There have been tiny signs of deceleration in Q3, like the (limited) decline of the manufacturing PMI and the slightly softer industrial production growth since June. However, overall, the momentum remains strong.

Robust momentum in a war economy

Russia's dynamism is increasingly coming from the war economy. The budget devoted to defence industries has kept on increasing, along with the labour force shifts to these industries. The draft budget for 2025 suggests that defence and national security spending could represent as much as 40% of the total government expenditures next year. The rest of the economy has also increasingly been involved in the support of these sectors.

Such dynamism has been made possible by the redirection of external trade connections and networks aimed at circumventing the effects of international sanctions.

The tightening of the policy mix is required to continue financing the war and try to put imbalances under control

The impulse of the war economy is supporting consumer demand. Private consumption has been the largest contributor to economic growth in the last four quarters, generating more than 75% of the overall economic growth of the country. The labour market has been deeply impacted. **The unemployment rate reached an all-time record low level, at 2.4% in July.** Real disposable income rose by 9.6% in Q2 – a strong level that had not been seen since the commodity super-cycle in the 2000s (before the Great Financial Crisis).

Looking ahead, economic growth should remain supported by the war economy, but the pace of growth should slow. Indeed, the imbalances generated by the war economy are requiring the tightening of the policy mix.

Annual change	2024	2025
GDP	3.5%	1.5%
Inflation	8.5%	5.5%

Further tightening ahead

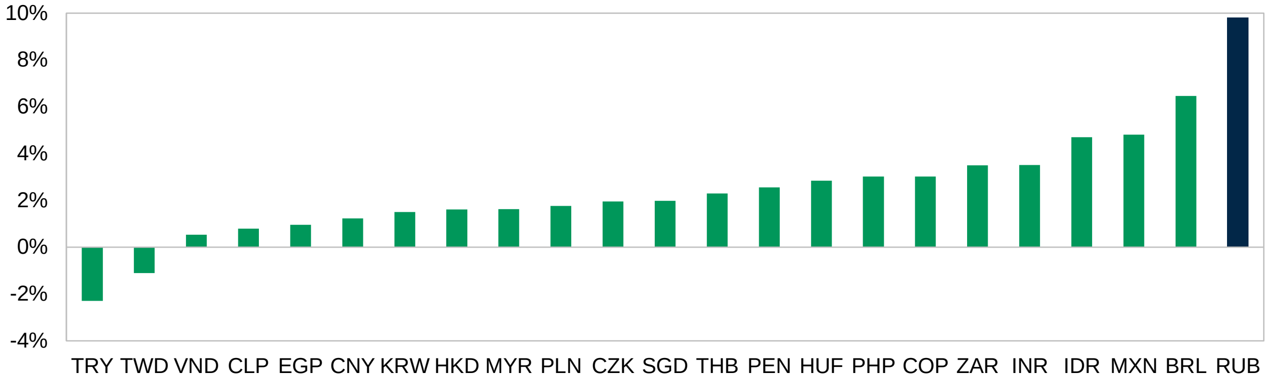
Inflation has accelerated, from a low point at 2.3% in April 2023 to 9.1% in August 2024. The CBR remains structurally hawkish, and Vladimir Putin's administration gives it ample leeway to keep orthodox policies in place. It has raised its repo rate by a total of 1,150bp to 19% since July 2023. With short-term real interest rates at around 10%, Russia runs the tightest monetary stance among the large economies. This is what it takes to use orthodox monetary and financial policy as a geopolitical shield. We expect another rate hike in Q4, to 20%.

The budget deficit has remained under control despite heavy military spending. Revenues have increased quicker than expenditures, thanks to the surge in oil & gas revenues (+61% YoY in H1) and to one-off special taxes. Looking ahead, the government will increase tax rates from 2025 in order to protect fiscal flexibility. The corporate profit tax rate will increase from 20% to 25%. A more gradual income tax rate will be applied, with a five-band scale ranging from 13% to 23% (compared with two tranches at 13% and 15% since 2023).

The tightening of the policy mix is required to continue financing the war and try to put imbalances under control. It will likely fuel an economic slowdown in 2025. We see GDP growth moderating from 3.5% in 2024 to 1.5% in 2025.

Sébastien BARBÉ

3-month real interest rates: cross-country comparison



Sources: Bloomberg, Crédit Agricole CIB

INDIA: GROWTH, NARENDRA MODI'S LIFELINE AS HIS LEADERSHIP LOSES MOMENTUM

The first one hundred days of Narendra Modi's third term have been unconvincing. Deprived of his absolute majority in Parliament, the prime minister has had to abandon bills, which aimed to further stifle his traditional scapegoats – the media, Muslims and the lower castes. His regional allies, who are clearly more preoccupied with making sure they do not divide their electorates too much, have paused this nationalist shift, at least for now.

Monetary policy: easing on the cards

Although Modi can still count on officially robust growth – 7.7% in 2023 and around 7% forecast for 2024 – allowing him to position India as the fastest growing country in the G20, **the absence of structural reform could quickly hamper potential growth.**

The rate of investment remains solid, mainly thanks to the public sector, but India is beginning to suffer from a monetary framework that continues to be constrained by US monetary policy. With inflation finally stabilised at around 3.6% YoY in August, key rates (6.5%) are hobbling the economy, and real interest rates have spiked. US monetary easing will allow the RBI to regain some wiggle room, which may result in one or two rate cuts at the upcoming committee meetings (October, December and February).

India is beginning to suffer from a monetary framework that continues to be constrained by US monetary policy.

However, the central bank will likely maintain a fairly orthodox approach, especially to keep the INR stable. The currency depreciated sharply between 2020 and 2023 and lost nearly 20% of its value against the USD. Now, USD/INR is trading at a record high of 83.5-84.0. India is also contending with a structural trade deficit, although lower oil prices – provided they continue – should alleviate this slightly.

Employment growth remains weak

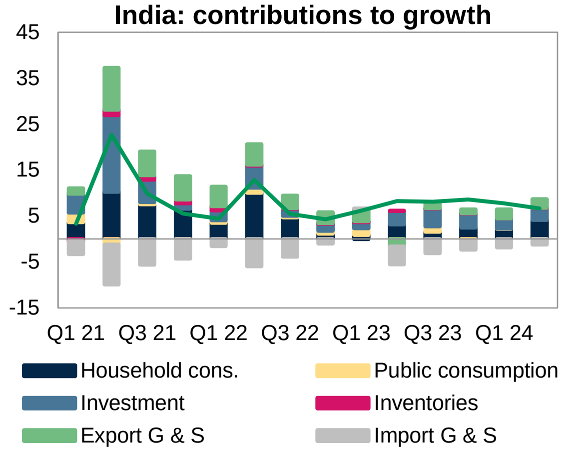
The labour market is the second area of concern. Although growth is high, it is still not enough to create the jobs needed to absorb new entrants into the labour market. The budget adopted during the summer made it a priority to support the employment of young people, who make up the overwhelming majority of unemployed in India (80% of unemployed individuals are under 35). However, the latest echoes from the labour market – for which there are no real statistics given that so many people work informally – point to increased difficulties, even for graduates of the most prestigious institutions.

While private consumption continues to be the main driver of activity, weak real wage growth, fuelled by the employment situation, is behind the moderation of recent months. Consumption is expected to rebound on the heels of a satisfactory monsoon season, which is synonymous with good harvests to come and improved consumer confidence, especially in rural areas, which still account for 50% of the population.

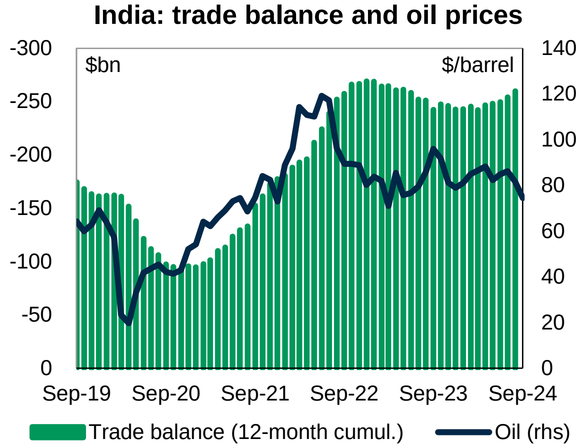
Annual change	2024	2025
GDP	7.3%	6.3%
Inflation	4.5%	4.6%

Finally, while India still wants to position itself as an alternative to China as the new workshop of the world, promises of investors – domestic or foreign – have been slow to materialise. Investment remains concentrated in public sector-adjacent segments, such as defence, roads, cement and steel, but it is still scarce in manufacturing, where the prospect of increased employment would be welcome.

Sophie WIEVIORKA



Sources: national



Source: Indian Ministry of Commerce and Industry

SECTORS

Oil – Turbulence in H224

Gas – Still keeping consumption under control

Oil – Turbulence in H224

Summer highlighted the fragility of demand for petroleum products as prices and Chinese demand both fell. However, markets may find a new "balance" thanks to China's economic stimulus and supply control by OPEC+.

After a relatively stable H124, the oil market has been more turbulent since summer, when oil prices started to fall. This imbalance seems to be due to both lower demand and greater supply. Demand declined particularly sharply in China starting in May. It was also in May that oil crack spreads[7] in Asia, Europe and the US started to narrow compared to last year. Finally, some OPEC members increased their production; Iran, which does not have to comply with quotas, increased its output the most. Despite the Western embargo, Iranian production has increased by 250k bpd so far this year.

Lower oil prices should logically be a positive factor in terms of rebuilding commercial and strategic stocks, such as those in the US

A collapse in prices, similar to what we experienced in spring 2020, is unlikely. The situation is different this time. While Chinese demand has fallen, demand from the OECD seems stable. Furthermore, Chinese demand has not fallen as much as it did in spring 2020, during the first lockdown. Over a twelve-month period, growth in demand for oil in China remains positive at around 250k barrels per day. In contrast to spring 2020, when oil and petroleum product inventories were high or even full, current stocks are still close to the lowest levels seen over the past five years. Lower oil prices should logically be a positive factor in terms of rebuilding commercial and strategic stocks, such as those in the US. Purchases of oil to rebuild inventories are therefore likely to underpin prices. We also believe that Chinese demand is likely to stabilise – or even increase slightly – in 2025 as Chinese authorities implement their economic stimulus, provided that this strategy is successful.

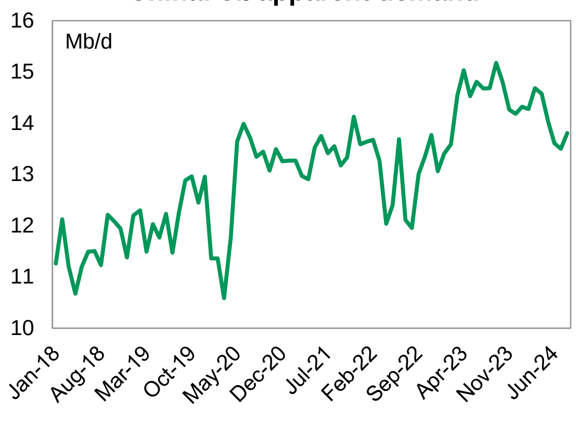
While Saudi Arabia is unlikely to have much influence on Iran's production policy, it seems to retain influence over Iraq, Kuwait and the UAE. Saudi Arabia's policy will therefore be to maintain cohesion within OPEC+ and to adapt quotas and its production to keep prices at around USD80-90/bl, the level required to achieve its ambitious economic programme. Indeed, Saudi Arabia is accelerating in its investment spending, pushing the oil price needed to maintain its balanced budget up to around USD90/bl.

Our scenario is for the oil market to gradually return to equilibrium with prices slightly below those of the previous quarter's scenario.

	Average oil price (barrel)
Q324	78 $
2025	81 $

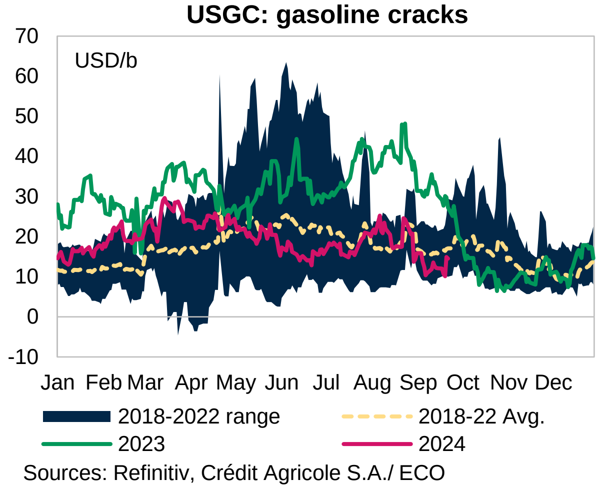
Stéphane FERDRIN

China: oil apparent demand



Source: Crédit Agricole S.A./ ECO

USGC: gasoline cracks



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

[7] Difference between the purchase price of crude oil and the selling price of finished products that a refinery produces.

Gas – Still keeping consumption under control

The relative stability of the European natural gas market over the past several months may be a prelude to a period of greater uncertainty at the beginning of 2025.

Europe's natural gas market was more stable this summer than the oil market, again because consumption remains under control and is not increasing. Overall, in the first eight months of 2024, Europe benefited from substantial electricity supply thanks to high levels of renewable energy generation and French nuclear production. Natural gas plants were less in demand as a result.

Controlled consumption has enabled Europe to replenish its natural gas stocks for the winter period, despite lower LNG (liquefied natural gas) imports. Like last year, inventories were 90% full at the end of August, while LNG imports by the EU fell by 3bcm (-25%) over the April-August period (injection period) in 2024 compared to 2023. LNG volumes released by Europe were absorbed by Asia, which experienced heatwaves this summer. China and India returned to their 2021 LNG import volumes.

The delays announced by some LNG export terminals in the US could also contribute to renewed tension in the natural gas market as we enter 2025

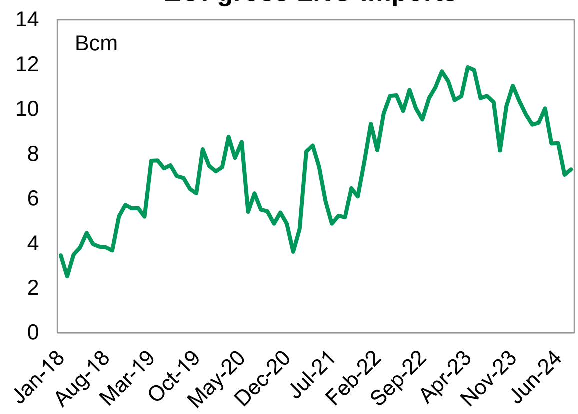
An alternative to Russian gas still transiting through Ukraine[8] from 1 January 2025 still has not been secured. One of the most affected countries is Italy, which will have to increase its LNG imports. The solution is also challenging for Slovakia and Hungary, which are landlocked and will have to rely on increased trade with neighbouring countries. The EU's LNG imports are therefore expected to increase in 2025, and there is a risk that natural gas prices may rise this winter, particularly if weather conditions turn out to be harsher than last winter and require greater use of inventories.

Transportation of natural gas from Azerbaijan to Ukraine, currently under discussion between the two governments, seems unlikely without Russia's participation. It seems implausible that an agreement will be reached and that terms will be defined for the delivery of Azerbaijani gas to Europe via Ukraine by the end of the year. The delays announced by some LNG export terminals in the US could also contribute to renewed tension in the natural gas market as we enter 2025. As a result, Europe will have no choice but to continue to be economical with its natural gas, especially if we experience a harsh winter in the northern hemisphere.

	EU LNG imports
Q2 2024	27 billion m³

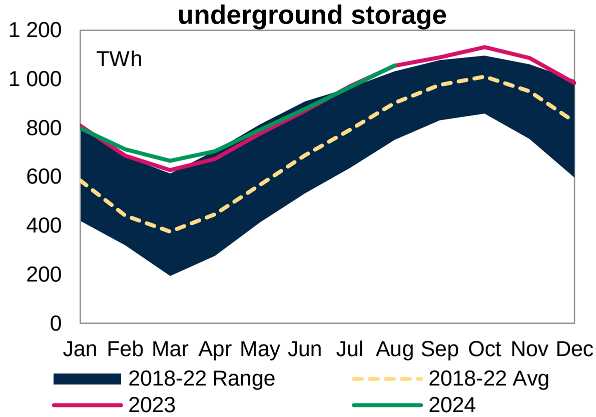
Stéphane FERDRIN

EU: gross LNG imports



Source: Crédit Agricole S.A. / ECO

EU : natural gas underground storage



Sources: GIE, Crédit Agricole SA / ECO

[8] This represents around 13bcm per year, ie, around 4% of the EU's annual consumption based on 2023 data.

MARKETS

Monetary policy – Further monetary easing “without excess”

Interest rates – Moderate fall in rates, slight steepening of the curves

Exchange rates – Slight advantage for the dollar

Monetary policy – Further monetary easing, without excess

The marked slowdown in the US economy, the serious threat that China may run out of steam and the moderate & fragile acceleration in Europe clearly justify staying the course of monetary easing. Our scenario is currently less 'optimistic' than the markets' but does not rule out further easing.

FEDERAL RESERVE: A MORE FRONT-LOADED EASING CYCLE

Following the September FOMC meeting, the time has arrived for an update to our Fed forecast, with the main takeaway being that we now expect a more front-loaded rate cut path, but maintain our view on the size of the overall cycle.

The 50bp cut in September was larger than our official forecast of 25bp, but we had thought there was a good case for the larger move given the shifting balance of risks towards the employment side of the dual mandate and the room to ease suggested by policy rules such as the Taylor Rule. With market pricing leaning towards a jumbo cut as well, the decision was therefore not a major surprise.

Moving ahead, however, we now expect that the Fed will dial down the pace of easing to 25bp per meeting in November and December, adding to the 50bp September cut to result in a total of 100bp of easing in 2024. This would leave the upper bound at 4.50% at year-end.

In 2025, we anticipate an additional 100bp of cuts by Q325, before the Fed then pauses with the upper bound at 3.50%. In this new base case, the Fed would continue the 25bp per meeting path in January and March, before slowing the pace further as rates approach the range of estimates of neutral, so as to minimise the risk of cutting too far, to 25bp per quarter for the last two cuts.

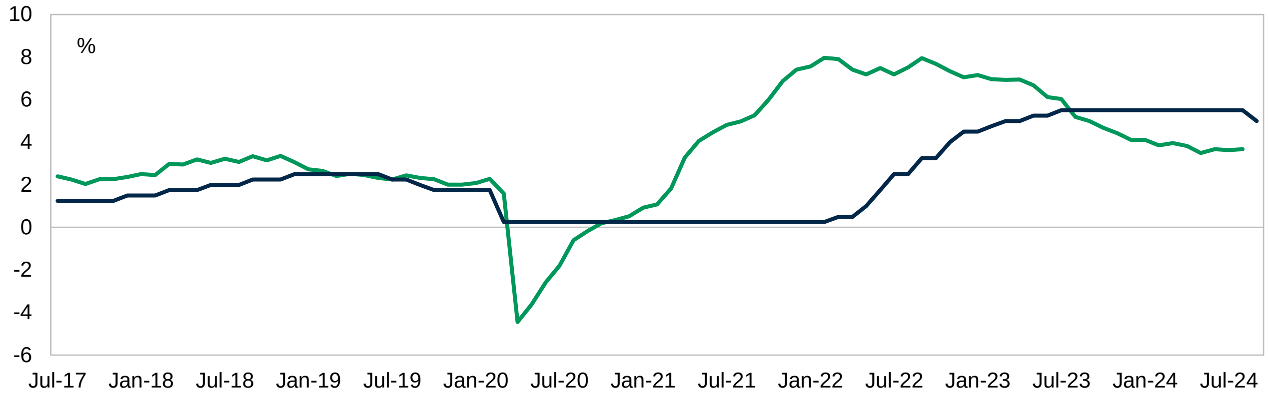
In 2025, we anticipate an additional 100bp of cuts by Q325, before the Fed then pauses with the upper bound at 3.50%.

Overall, this would mean a cycle with 200bp of total easing, unchanged from our prior forecast. However, the cycle would now be more front-loaded, with 100bp in 2024 and 100bp in 2025, as compared to 50bp and 150bp, respectively, in the prior forecast.

While our base case sees the Fed dialling down the pace of easing compared to the 50bp cut in September, an additional jumbo cut (or cuts) cannot be ruled out entirely. If this scenario were to materialise, we continue to think that it would be driven by the employment side of the mandate, where downside risks have grown.

Nicholas VAN NESS

US: Taylor Rule suggests room for Fed to front-load the cycle



Sources: Bloomberg, Fed, CA CIB

EUROPEAN CENTRAL BANK: GRADUAL EASING

The ongoing decline in inflation puts the ECB in a position to gradually continue cutting rates. However, the European economy is holding up, and inflation remains above target despite moving lower, so the central bank will likely move cautiously.

As a result, the ECB is expected to continue at the same pace as in June and September, cutting rates by 25bp per quarter. We think the ECB will stop cutting rates in September 2025 when the deposit facility rate reaches 2.5%.

Recent signs of weakness in the Eurozone economy and likely downward revisions to the ECB's inflation forecasts could push the central bank to cut more aggressively.

Recent signs of weakness in the Eurozone economy and likely downward revisions to the ECB's inflation forecasts could push the central bank to cut more aggressively. Markets are currently pricing in deeper cuts of close to 150bp over the course of the next six ECB meetings.

Quicker monetary easing remains possible, but would require the economic scenario to deteriorate compared to our forecasts.

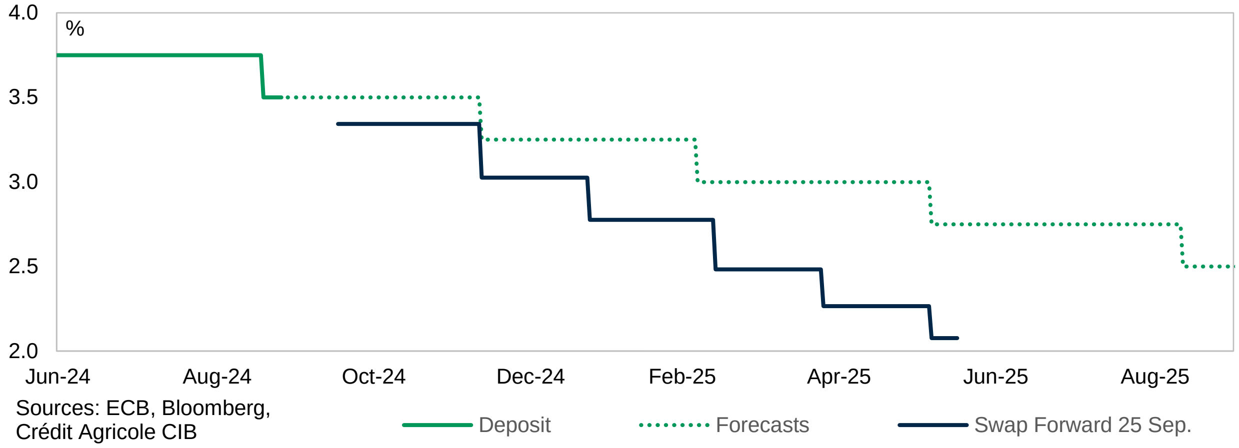
The ECB will continue its balance sheet policies at the same time. While the amounts borrowed under TLTRO III have now been almost fully repaid, the ECB has made standard refinancing operations more favourable for the banking sector by narrowing the spread between the refinancing and deposit facility rates. However, this measure has not led to an increase in demand for this type of operation, given that banks still have abundant surplus liquidity.

QT is continuing, as the ECB no longer reinvests the principal payments from maturing securities under its Asset Purchase Programme (APP) and only reinvests a portion of the principal payments from maturing securities under its Pandemic Emergency Purchase Programme (PEPP). This has reduced the ECB's balance sheet by EUR35bn per month and will increase to EUR45bn in January 2025 when the ECB halts all reinvestment.

The reduction of the ECB's balance sheet automatically reduces banking-sector liquidity. Although banking-sector liquidity remains abundant, it will decrease over the coming months, to the point where banks will increase their borrowing at standard refinancing operations. At that point, short-term interest premiums are likely to rise. **However, we do not expect these higher rates to appear until 2026.**

Louis HARREAU

ECB: deposit facility rate, forecasts and market expectations



Sources: ECB, Bloomberg, Crédit Agricole CIB

BANK OF ENGLAND: THE “OLD LADY” IS MOVING CAUTIOUSLY

Risks of stubborn inflation require a gradual approach to monetary easing

After starting to ease its monetary policy in August with an initial 25bp rate cut, the BoE left its key rate unchanged at 5.00% in September as expected. Only one member of the Monetary Policy Committee (MPC) voted to cut rates by another 25bp, suggesting that MPC members are almost unanimously in favour of a gradual approach to monetary easing. Although inflation reached the 2% target in May and has remained close to it since, the BoE remains concerned about the possibility of an unsustainable return to the target.

As disinflation accelerates in 2025 and provided there are no additional shocks, the BoE could decide to step up its monetary easing.

The BoE has set out three different scenarios: (1) in which disinflation continues on its own as global shocks dissipate, even with a less restrictive monetary policy than in other scenarios; (2) in which the normalisation of prices and wages requires a negative output gap with the opening of labour market slack from a more restrictive monetary policy stance relative to the first case; and (3) in which the BoE fears that structural changes in wage and price-setting may be under way, meaning that monetary policy is not restrictive enough, requiring the Bank to keep rates higher for longer than in the previous scenarios. There are differences of opinion among MPC members on how likely each scenario is, but “for most members, in the absence of material developments, a gradual approach to removing policy restraint would be warranted”. The Bank’s forward guidance continues to indicate that “monetary policy will need to continue to remain restrictive for sufficiently long until the risks to inflation returning sustainably to the 2% target in the medium term have dissipated further” and that “the committee continues to monitor closely the risks of inflation persistence and will decide the appropriate degree of monetary policy restrictiveness at each meeting”.

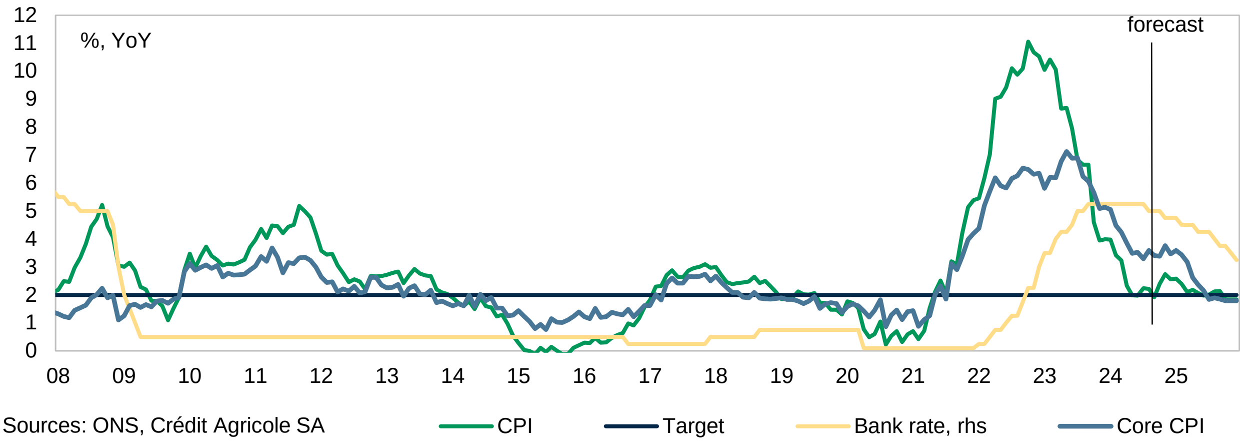
Disinflation is expected to accelerate in 2025, increasing the chances of further rate cuts

Our scenario assumes an additional 25bp rate cut this year, most likely in November, when the BoE will update its inflation forecasts. Inflation is expected to be volatile in the last months of the year: after an anticipated fall to 1.9% YoY in September against a backdrop of lower oil prices, inflation is expected to increase to an average of 2.6% YoY Q424, peaking at 2.7% YoY in November. The main reason for this acceleration in inflation is an upcoming 10% increase in administered gas and electricity prices in October, which will be added to less favourable base effects on energy prices, as well as still-elevated service inflation (5% YoY anticipated on average in Q424).

In 2025, our scenario assumes a rapid drop in inflation during H1, returning to the target by mid-year and falling to 1.8% YoY in Q425. Our forecasts are for a sharp drop in service inflation in early 2025, which would lead to a decline in the core inflation rate to 1.8% YoY from next July. As disinflation accelerates in 2025 and provided there are no additional shocks, the BoE could decide to step up its monetary easing. We are now including two additional rate cuts in H225 in our scenario. This implies a rate cut at each meeting starting in August 2025 and a total of six rate cuts over the year. **The key rate is expected to reach 3.25% in December 2025.**

Slavena NAZAROVA

UK: CPI inflation and key policy rate



Sources: ONS, Crédit Agricole SA

BANK OF JAPAN: LIKELY TO HALT RAISING RATES AFTER JANUARY 2025

BoJ likely to halt raising rates after January 2025

The BoJ's core core CPI projection (excluding fresh food and energy) is +1.9% for FY24, +1.9% for FY25, and +2.1% for FY26. Inflation is expected to remain in the neighbourhood of the 2% price stability target. The BoJ's scenario seems to be that by adjusting the degree of accommodative monetary policy, inflation would remain stable and not rise above the 2% price stability target. Core core CPI for August was +2.0% YoY, already achieving the inflation target, and it is likely to contract further from weak domestic demand. The BoJ is constructing its inflation forecasts mainly on upward pressure on wages from labour shortages due to the aging of the population and other factors, while downplaying the structural deflationary pressure of excess corporate savings.

> ***The BoJ is constructing its inflation forecasts mainly on upward pressure on wages from labour shortages, while downplaying the structural deflationary pressure of excess corporate savings.***

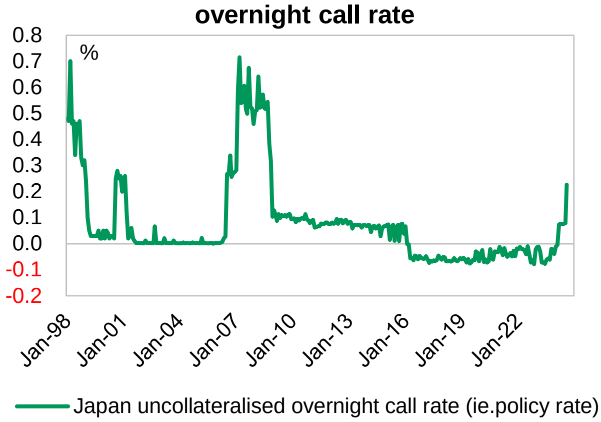
If labour shortages have a strong influence on corporate behaviour, then theoretically the corporate savings rate should fall as spending, including wages, increases and the labour participation rate rises sharply, but the opposite has been occurring. By underestimating the structural deflationary pressure of excess corporate savings, the BoJ's inflation forecasts are seen as having significant downside risk. Since domestic demand is still weak, the BoJ cannot offset the downward pressure from the US economic slowdown and the strong JPY, and core core CPI YoY is expected to contract to below 1% by H225.

The BoJ would likely hasten to raise its policy rate in response to the government's shift in economic policy, which it calls the normalisation of monetary policy, in order to extinguish zombie companies and promote greater economic efficiency. At the time the BoJ publishes Outlook for Economic Activity and Prices Report in January 2025, it could raise its policy rate from 0.25% to 0.50%, managing to maintain the growth and inflation outlook while the spillover from the US economic slowdown is still small. Monetary policy needs to be consistent with the government's economic policy direction. The shift in economic policy direction will likely bring forward the prospect of additional rate hikes from H225. The Fed's rate cut and the BoJ's rate hike would be a force for JPY appreciation. By the middle of next year, a slowdown in the US economy and a stronger JPY would begin to put downward pressure on the Japanese economy. Following the weakness of negative real GDP growth (-0.3%) in 2024, we expect growth to be near 0% in 2025, and the result of two consecutive years of running below potential growth (around +0.7%), they would temporarily halt the move toward a complete exit from deflation. With the economy slowing due to insufficient fiscal policy support, the rate of price inflation would also slow from the H225, ultimately making it harder for the BoJ to raise rates.

New Capitalism is expected to be replaced by neoliberalism, priority on fiscal consolidation and anti-Abenomics

Under the new Prime Minister Shigeru Ishiba, the previous policy of New Capitalism, aggressive fiscal policy and Abenomics is expected to be replaced by neoliberalism, priority on fiscal consolidation and anti-Abenomics. However, the move is expected to be gradual first, until the foundation of the government is stabilised. In fact, the economic policy approach taken prior to the announcement of the presidential election will be completely changed after the announcement, and the economic policy of the Kishida administration will be succeeded in the short term.

Japan: uncollateralised overnight call rate



Sources: Bloomberg, CA CIB

With next June's Basic Policies for Economic and Fiscal Management and Reform (Honebuto), the economy may steer in the direction of austerity. The existing target of achieving a primary balance surplus would probably be changed to a fiscal balance surplus including interest expenses, taking into account the direction of the BoJ's rate hikes. In the House of Councillors elections in next summer, the tax hike line would be avoided by the public and the opposition party coalition. The LDP-Komeito government will likely fall short of a majority of the seats up for election. Combined with the seats not up for re-election, the coalition would barely maintain a majority in the upper house.

Ken MATSUMOTO – Takuji AIDA

Interest rates – Moderate fall in rates, slight curve steepening

A powerful downward movement in interest rates has already taken place, largely driven by the effective implementation of monetary easing, but also by expectations of continuing rate cuts at a sustained pace. The potential that rates will fall significantly further over the long term is therefore very limited.

USA: CURVE TO STEEPEN ON EASIER POLICY AHEAD

Given the larger 50bp Fed rate cut at the September meeting and the sharp market rally since Q224, we expect US rates to stay in a range near term. **Through the jumbo rate cut in September, the Fed showed strong commitment "to supporting maximum employment and returning inflation to its 2 percent objective".**

The labour market has cooled but not deteriorated, while inflation has gradually declined but still not reached the Fed's 2.00% target. **We forecast the 10Y Treasury yield to trade around 3.80% at year-end, as our macro team has front-loaded Fed rate cuts, while maintaining the 3.50% terminal policy rate by Q325.**

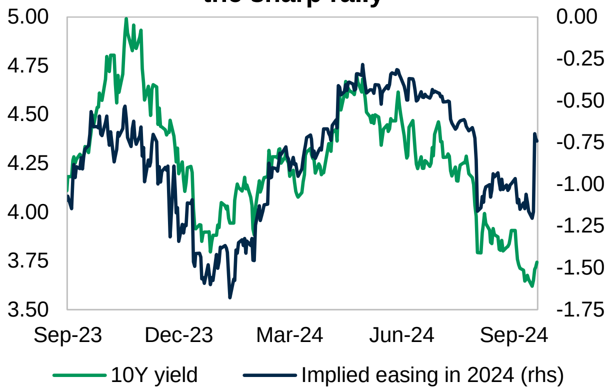
The September dots have shed light on the Fed's future rate path. The 2024 median dot implies a 25bp cut at each of the November and the December meetings to leave the upper bound at 4.50% at year-end. Beyond 2024, the 2025 median was revised down to 3.375% from 4.125%, implying four cuts of 25bp each that year. **Overall, the new dots point to a total of 250bp easing for the cycle.** Chair Jerome Powell has cautioned that the 50bp rate cut should not be viewed as the new pace, suggesting a base case of 25bp cuts at future meetings. The market is not convinced yet, pricing close to 75bp of additional easing by year-end, though we believe a step down to a 25bp pace is the more likely option.

While the front-end rates are largely a function of future rate cuts, 10Y and longer-term rates would be biased higher in a scenario of a possible second term as president for Donald Trump on expected higher deficit and inflation, as well as ensuing higher term premium. We see further curve steepening as "many more" rate cuts are on the horizon, as Chicago Fed President Austan Goolsbee suggested recently. That said, timing and entry level of steepeners are critical to P&L, given the Fed's data-dependent approach.

Regardless of who wins the presidential election, we expect the federal deficit to continue rising, although the composition of the deficit can be different.

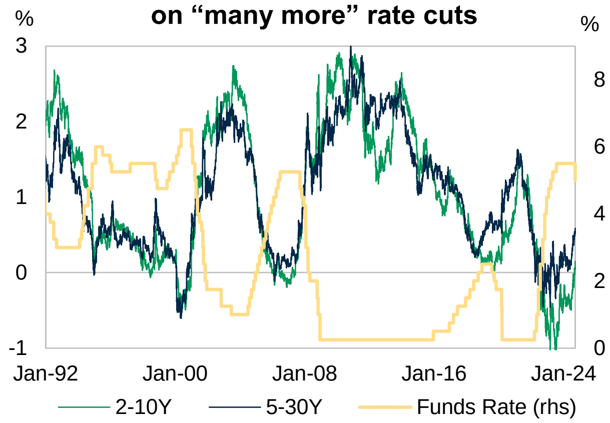
What complicates the rate outlook from now to year-end is the US election. Although Kamala Harris maintains an edge in the national polls, a Trump win cannot be ruled out given how close the polls are in the swing states. Regardless of who wins the presidential election, we expect the federal deficit to continue rising, although the composition of the deficit can be different – more tax cuts by Trump or more spending by Harris. The rising deficit puts upward pressure on Treasury term premium, resulting in a higher r*, in our view.

Neutral on duration following the sharp rally



Sources: Bloomberg, Crédit Agricole CIB

Curve to further steepen on "many more" rate cuts



Sources: Bloomberg, Crédit Agricole CIB

If Trump wins, which is our current macro call, although the presidential election outcome could be a coin flip, long-end rates could rise on expected larger deficit and rising inflation, mostly tariff driven, especially if Republicans take control of both Congress and the Senate.

If Harris wins, Bidenomics policy is like to continue. If there is a divided Congress, high levels of polarisation mean that any major fiscal package, whether tax cuts or additional spending, is unlikely. Hence, the status quo.

Alex LI

EUROPE: SLOW DOWN

Since the start of July, the EUR yield curve has been highly correlated to the USD in a broad bull steepening move. To be sure, yield curve volatility has almost exceeded yield level volatility, and we now have the EUR 5-10Y IRS segment positively sloped. Cyclically **the dis-inversion of the curve makes complete sense but we now have an expected loose policy setting for the ECB priced into the money market segment**. Projected terminal rates for both the USD and EUR curves are below our forecasts, so the steepening move can continue, albeit with higher rates in our view led by the 5-10Y sector.

Though the Fed has started with a 50bp cut, it is worth noting that it has a more flexible dual mandate and that its real policy rates are much higher if we use core inflation. In our view, **higher Eurozone core/domestic inflation suggests the ECB easing process should be gradual**, and without a recession markets have become too aggressive in expecting ESTR below 2% next year. Eurozone growth should remain below trend, but that is not a major problem as core inflation has to drop to 2.0% (from 2.8%) while most countries have full employment.

For EGBs, we still think Bunds can cheapen a bit further vs swaps and OATs will not go back to the tight spread levels observed earlier this year. These should stay wider reflecting fiscal and political uncertainty. **Lack of supply will support smaller issuers with positive ratings momentum** like Ireland and Portugal while Bonos' and BTPs' market depth implies slow relative performance vs Germany and France. Provided there is no big credit or deleveraging event, we remain sanguine about EGB spread risks.

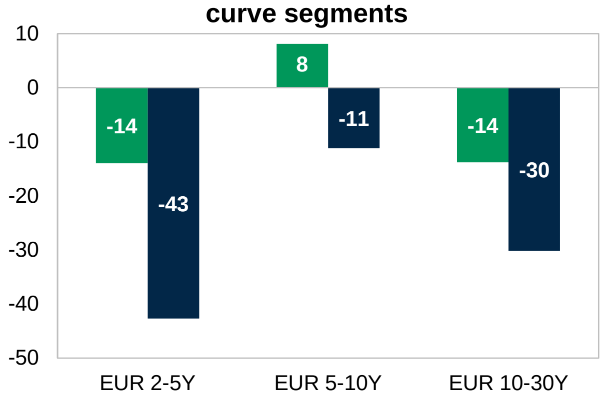
Without much impact, Belgium. France and Italy have been singled out for their excessive deficits, but only Italy has shown intent to reduce its deficit towards -3% within the next two years. Controlling spending and increasing the efficiency of tax collection in addition to healthy nominal growth will be required.

Without a recession, markets have become too aggressive in expecting ESTR below 2% next year.

With their fragmented political situation, both Belgium and France have requested delays in submitting budget proposals, and one should not rule out more delays. The appointment of Michel Barnier as Prime Minister has not placated the OAT market given the hurdles that lie ahead. Moreover, leaks that the deficit will be higher than -6% have pushed the 10Y OAT-Bund spread to 80bp which is at the top end of the 65-80bp range held since the snap elections. While further negative headlines are possible, our view is that this range will maintain itself for the foreseeable future and is reflected in our updated EGB forecast given that so much bad news has been incorporated into OATs.

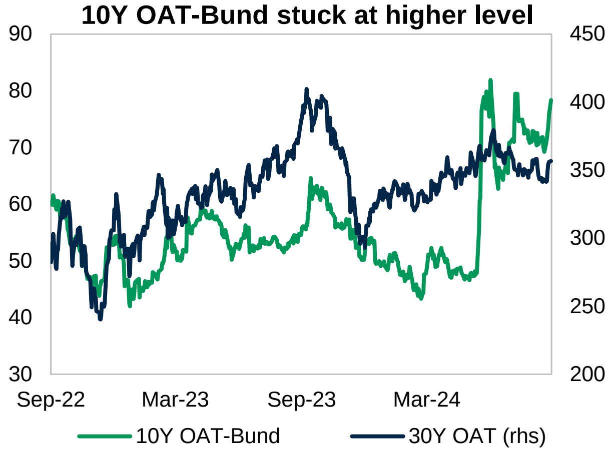
Controlling rather than reducing government spending while nominal growth stays positive is the sensible path. **Fragmented politics for the next few years however exposes France *via* its negative rating momentum and keeps some foreign investors away given the political risks.** The 10Y OAT-Bund

Disinversion of EUR IRS curve segments



Sources: Bloomberg, CA CIB

10Y OAT-Bund stuck at higher level



Sources: Bloomberg, CA CIB

spread is moving to a wider level, and indeed 10Y Bonos also now trade through OATs. The more structural picture is represented in the OAT 30Y spread vs swaps. Buy and hold investors may require higher 30Y OAT yields, but insurance and pension fund interest rate hedging favours using the swap curve from a number of perspectives.

While the EC increases its scrutiny over countries with large deficits, the plan seems to be taking shape for its own fiscal profligacy. Having come through with the NGEU to address the climate-related existential crisis, the recent Draghi report has laid the groundwork in terms of addressing the next two existential threats which are a lack of competitiveness in the technology sector and defence. Expecting the private sector to increase its own investment in these sectors by about EUR700bn per year is simply not feasible in our view which will force the public sector to step in by default though the hurdles are many.

Bert LOURENCO

Exchange rates – Slight advantage for the dollar

In the very short term, our outlook for the EUR's depreciation against the USD remains unchanged. However, our three- and six-month forecasts are less bearish than they were.

DEVELOPED COUNTRIES: STILL NEGATIVE ON EUR/USD BUT NOT AS BEARISH AS BEFORE

We maintain our negative EUR/USD outlook from current levels, but we tone down the bearishness of our 3M and 6M forecasts.

At the start of 2024, we based our bearish EUR/USD outlook on the expectation that the ECB would 'out-dove' the Fed. We continue to expect the ECB to deliver a total of three rate cuts this year and to follow these by another three rate cuts in 2025. **We now see a more frontloaded Fed easing cycle**, however, with the FOMC responding to the latest softening of the US labour market outlook by delivering a total of 100bp of cuts in 2024 rather than the two cuts expected before. **We still expect the Fed to push policy rates to 3.5% in 2025.**

Our new Fed forecast still implies a less dovish policy stance than expected by US rates investors at present. As a result, **the current rate market views suggest a more aggressive convergence between the Fed's and the ECB's relative policy outlook this year and early next year than implied by our own forecasts**. We should also mention, however, that we are broadly in line with the policy rate convergence expected by the markets in the next six to twelve months. Based on that, we continue to see the risks for EUR/USD as tilted to the downside in the next 3M-6M. At the same time, we maintain our more constructive outlook on EUR/USD for H225.

Another reason for our bearish EUR/USD outlook has been the upcoming US presidential election on 5 November. Ahead of the vote, we believe that it could be a closer race than suggested by national polls at present, making the outcome more difficult to predict. We also think that Donald Trump has a chance of winning despite the dip in his polling numbers since Vice President Kamala Harris replaced President Joe Biden as the Democratic Party nominee for president. That being said, the chances of a Republican sweep and thus the prospects for a sustained USD-rally have become dimmer of late, in our view. **As a result, while we remain negative on EUR/USD from current levels, we are less bearish than before.**

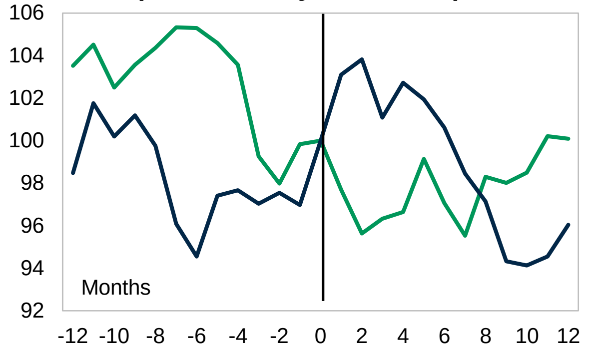
> *The chances of a Republican sweep and thus the prospects for a sustained USD-rally have become dimmer of late.*

Last but not least, **our negative EUR/USD outlook is based on the expectation that Eurozone sovereign credit risks could remain an important drag on the pair in the coming months**. We remain of the view that the persistent sovereign credit risks in the Eurozone could undermine investors' appetite for EUR-denominated EGBs.

With the above in mind, **we now expect EUR/USD to trade close to 1.08 in Q424 and Q125 vs 1.05 and 1.07 before, respectively**. Further out, we expect that the combination of relatively more aggressive Fed easing amidst a worsening US economic and softer inflation outlook to push the USD lower still, with EUR/USD revisiting 1.12 by Q425.

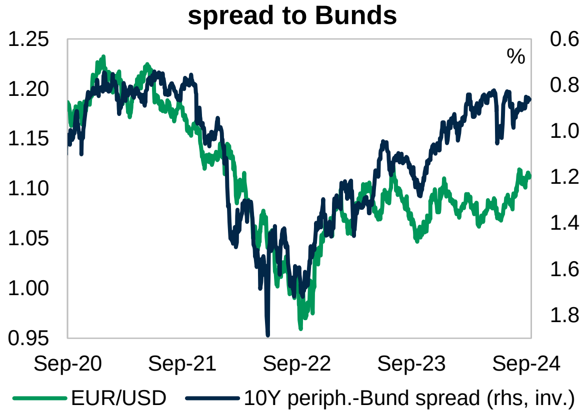
Valentin MARINOV

The USD index performance around the US presidential (USD=100 day of election)



Sources: Bloomberg, CA CIB

EUR/USD vs peripheral yield spread to Bunds



Sources: Bloomberg, CA CIB

EMERGING COUNTRIES: MIND THE GAP

From the macro angle, the backdrop for EM currencies in the next few months looks reasonably constructive.

Favourable macro backdrop

First, **the beginning of the Fed easing cycle provides some support to EM currencies**. As most EM central banks will lower their own interest rates less than the Fed in the coming months, the EM-US interest rate gap, which had narrowed significantly since mid-2022, should stop narrowing and even widen (gradually). This would benefit the EM FX carry attractiveness.

Second, **decreasing inflation and interest rates in EMs support the resilience of private domestic demand**. Real interest rates remain elevated in several countries, as inflation has generally dropped faster than rates, which caps the upside for domestic demand. However, overall domestic demand should still allow EM GDP growth to remain roughly stable despite the likely slowdown in developed countries. We expect aggregated EM GDP growth to reach 4.1% in 2024 (compared with 4.0% in 2023). We look for a slight slowdown in 2025 (to 3.8%). Therefore the outperformance of EM vs DM in terms of economic growth should also be maintained (actually increasing slightly in 2024 compared with 2023). This should favour capital flows to EMs.

Mind the gap and remain cautious and picky when considering long EM FX positions

Third, **the EM trade balances remain rather favourable on an aggregated basis**. The situation is contrasted within the EM universe. China posts an impressively large surplus, while India's deficit remains large. These two major countries aside, the aggregated EM trade balance has improved, from a deficit last year to a significant surplus in 2024. The improvement has been modest for commodity exporters (with only a slightly larger aggregated surplus), but more notable for non-commodity exporters (excluding India), where the aggregated deficit has narrowed strongly.

US-centric uncertainties

However, **EM also face headwinds, which are limiting the potential upside of currencies**. Beyond the numerous geopolitical risks, which have intensified further in recent months, particularly in the Middle East, there are two main risks related to US policies and politics, for the rest of the year.

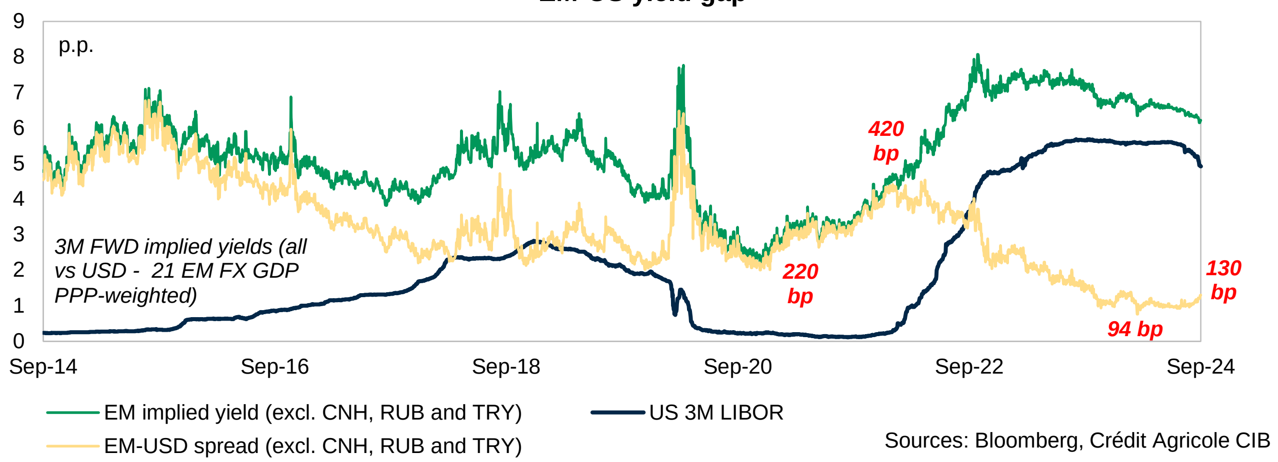
The first strong uncertainty relates to the USD and the pace of Fed rate cuts. The market has been pricing about 200bp of additional cuts in the Fed fund rate by the end of 2025. This assumes further disinflation on the back of a US economic landing. The risk is that (1) the US slowdown could be less significant than expected, and (2) actual US rate cuts fall short of expectations, in which case the USD's strength could cap EM FX appreciation. At some point, a less dovish–than-expected Fed could also contribute to an adjustment in US equity, which could fuel a correction for risky assets, including some EM currencies.

The US election makes is the second major source of uncertainty. Here we see two kinds of risks. First, the next president could raise import tariffs. The risk is obviously stronger if Donald Trump wins the election with strong support from the Congress. Trump has long evoked a 10% across-the-board tariff and 60% on imports from China. Such measures would likely harm export-oriented countries. It could also fuel inflation, put a floor under Fed rates and at the end of the day support the USD vs EM currencies. Second, should the next president support the economy with pro-business measures, this could make it more difficult for the Fed to cut rates, and EM currencies could come under pressure vs the USD.

In a nutshell, there are many reasons to be constructive EM FX, but there are also significant risks on the way, particularly in the coming months. At the end of the day, one should mind the gap, and remain cautious and picky when considering long EM FX positions.

Sébastien BARBÉ

EM-US yield gap



Sources: Bloomberg, Crédit Agricole CIB

ECONOMIC AND FINANCIAL FORECASTS

Economic forecasts

Interest rates

Exchange rates

Commodities

Public accounts

ECONOMIC FORECASTS

	GDP (yoy, %)			Consumer price * (yoy, %)			Current account (% of GDP)		
	2023	2024	2025	2023	2024	2025	2023	2024	2025
United States	**2.9**	**2.5**	**1.3**	**4.1**	**2.9**	**2.2**	**-3.1**	**-3.3**	**-3.2**
Japan	**1.7**	**-0.3**	**0.2**	**4.0**	**2.3**	**1.0**	**3.5**	**4.0**	**2.5**
Eurozone	**0.5**	**0.8**	**1.3**	**5.4**	**2.3**	**1.8**	**2.9**	**4.0**	**3.8**
Germany	-0.1	0.1	0.8	6.0	2.4	2.1	6.2	7.2	6.9
France	1.1	1.1	1.0	5.7	2.4	1.3	-0.7	1.7	1.6
Italy	1.0	0.8	0.8	5.9	1.0	1.4	0.5	2.7	3.5
Spain	2.5	2.6	1.8	3.4	2.8	2.0	2.6	2.1	0.9
Netherlands	0.1	0.7	1.3	4.1	3.1	2.0	9.9	9.4	8.8
Belgium	1.4	1.1	1.2	2.3	4.1	2.2	-1.0	0.7	0.3
Other advanced									
United Kingdom	0.1	1.1	1.5	7.3	2.6	2.1	-3.3	-3.8	-5.8
Canada	1.3	1.0	1.8	3.9	2.5	2.1	-0.7	-0.8	-1.0
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	-0.1	0.9	1.8	8.5	2.7	0.8	6.3	7.0	4.4
Norway	0.7	1.9	1.4	5.5	3.1	2.4	17.9	17.0	16.4
Asia	**5.2**	**5.1**	**4.6**	**2.1**	**1.8**	**2.2**	**1.6**	**1.4**	**1.2**
China	5.2	4.7	4.2	0.2	0.3	1.0	1.8	1.2	0.8
India	7.7	7.3	6.3	5.3	4.5	4.6	-1.4	-1.4	-1.6
South Korea	1.4	2.4	2.1	3.6	2.7	2.2	2.1	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	4.0	2.6	2.5	2.2	1.9	13.9	14.8	13.0
Thailand	1.9	2.4	3.0	1.3	1.0	2.0	1.1	2.8	4.6
Malaysia	3.7	4.6	4.7	2.5	2.4	2.3	2.2	2.8	3.0
Singapore	1.1	2.7	2.8	4.8	2.5	2.2	19.8	17.0	16.7
Hongkong	3.2	3.0	3.1	2.1	2.0	2.7	8.6	9.2	9.6
Philippines	5.6	5.8	5.7	6.0	3.2	3.0	-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**	**1.9**	**2.1**	**5.9**	**3.4**	**2.6**	**-3.0**	**-3.1**	**-2.6**
Brazil	2.9	3.1	1.8	4.6	4.1	3.8	-1.3	-1.7	-2.0
Mexico	3.2	1.5	1.2	5.6	4.8	3.6	-0.3	-1.4	-1.0
Emerging Europe	**2.9**	**3.0**	**2.4**	**20.3**	**20.5**	**8.4**	**-0.2**	**0.1**	**0.0**
Russia	3.6	3.5	1.5	5.9	8.1	5.5	2.5	2.7	2.2
Turkey	4.5	3.0	3.0	53.4	59.0	18.0	-4.3	-3.0	-3.0
Poland	0.2	2.3	3.5	11.6	3.8	4.4	1.6	0.8	0.6
Czech Republic	-0.3	1.2	2.6	10.8	2.2	2.1	0.4	0.8	1.2
Romania	2.1	3.2	3.5	10.5	5.8	3.9	-7.0	-6.5	-6.0
Hungary	-0.9	2.3	3.4	17.6	4.0	3.7	0.2	0.0	0.3
Africa, Middle East	**1.9**	**2.3**	**3.4**	**15.4**	**12.9**	**10.3**	**3.8**	**1.1**	**0.8**
Saudi Arabia	-0.8	1.7	4.5	2.3	2.1	2.1	3.2	0.0	-0.8
United Arab Emirates	3.6	3.4	4.5	1.7	2.4	2.2	10.5	8.5	6.9
South Africa	0.7	1.1	1.9	5.9	4.8	4.4	-1.6	-2.2	-2.3
Egypt	2.9	3.0	4.4	33.9	27.0	17.4	-1.1	-6.8	-5.1
Algeria	4.1	3.0	2.8	9.3	5.5	5.3	2.4	-0.3	-1.7
Qatar	1.7	2.2	2.6	3.0	2.2	2.0	16.0	15.0	15.0
Koweit	-3.6	-2.0	2.0	3.7	2.6	2.2	31.0	24.0	22.0
Morocco	3.3	3.0	3.2	6.1	2.5	2.4	-0.8	-2.6	-2.9
Tunisia	0.4	1.3	1.5	9.3	7.5	6.8	-2.7	-2.4	-2.9
Total	**3.0**	**3.0**	**2.7**	**5.7**	**4.4**	**3.1**	**0.7**	**0.6**	**0.3**
Advanced economies	**1.6**	**1.4**	**1.2**	**4.8**	**2.6**	**1.9**	**0.1**	**0.4**	**0.0**
Emerging countries	**4.1**	**4.2**	**3.9**	**6.4**	**5.7**	**3.9**	**1.1**	**0.8**	**0.6**

** HICP for euro area countries, CPI for others*

	2023				2024				2025			
Real GDP growth, QoQ %	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
USA (annualised)	2.8	2.4	4.4	3.2	1.6	3.0	1.7	0.5	0.8	1.4	1.7	2.0
Japan	1.3	0.7	-1.1	0.1	-0.6	0.7	0.3	0.0	-0.1	-0.1	0.0	0.1
Eurozone	0.0	0.1	0.1	0.1	0.3	0.2	0.4	0.3	0.3	0.4	0.3	0.4
Germany	0.1	-0.2	0.2	-0.4	0.2	-0.1	0.1	0.2	0.2	0.3	0.3	0.3
France	0.0	0.7	0.1	0.4	0.3	0.2	0.4	0.0	0.3	0.2	0.2	0.4
Italy	0.4	-0.1	0.3	0.1	0.3	0.2	0.3	0.2	0.1	0.3	0.2	0.3
Spain	0.4	0.5	0.5	0.7	0.8	0.8	0.3	0.2	0.5	0.5	0.5	0.2
United Kingdom	0.2	0.0	-0.1	-0.3	0.7	0.6	0.3	0.3	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	3.2	2.6	2.4	2.1	1.9	2.1	2.4
Japan	3.5	4.2	4.3	3.8	3.2	2.2	2.0	1.9	1.6	1.4	0.8	0.4
Eurozone	8.0	6.2	5.0	2.7	2.6	2.5	2.2	2.0	2.0	1.8	1.7	1.8
Germany	8.7	6.9	5.8	3.0	2.7	2.6	2.2	2.1	2.3	1.9	1.9	2.2
France	7.0	6.1	5.5	4.2	3.0	2.5	2.2	1.8	1.6	1.1	1.2	1.3
Italy	9.5	7.8	5.8	1.0	1.0	0.9	1.2	0.9	1.1	1.7	1.3	1.3
Spain	5.0	2.8	2.6	3.3	3.2	3.6	2.4	2.2	2.2	1.6	2.1	2.1
United Kingdom	10.2	8.4	6.7	4.2	3.5	2.1	2.1	2.6	2.4	2.1	2.1	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	2.6	2.5	2.5	2.6	2.7	2.8	2.9	2.9	3.0	3.0
Eurozone	6.7	6.5	6.6	6.6	6.6	6.5	6.4	6.4	6.4	6.3	6.3	6.3
Germany	3.0	2.9	3.0	3.1	3.3	3.4	3.1	3.1	3.0	3.0	3.0	3.0
France	7.1	7.4	7.4	7.5	7.5	7.5	7.6	7.7	7.6	7.4	7.5	7.7
Italy	7.9	7.7	7.7	7.4	7.2	6.8	6.8	6.8	6.9	7.0	7.0	7.0
Spain	12.9	12.0	12.0	11.9	11.8	11.6	11.2	11.3	11.4	11.2	10.9	11.0
United Kingdom	3.9	4.3	4.0	4.0	4.4	4.1	4.1	4.3	4.3	4.2	4.1	4.2

	GDP (b)	Private consump-tion (b)	Public consump-tion (b)	Investment (b)	Exports (b)	Imports (b)	Net exports (a)	Changes in inventories (a)
Eurozone								
2023	0.5	0.8	1.2	1.1	-0.3	-0.6	0.1	0.2
2024	0.8	0.7	1.6	-2.6	2.1	-0.4	1.2	-0.4
2025	1.3	1.1	0.8	0.9	3.1	2.5	0.4	-0.5
Q3 2024	*0.4*	*0.3*	*0.2*	*0.1*	*0.6*	*0.5*	*0.1*	*-0.3*
Q4 2024	*0.3*	*0.1*	*0.0*	*0.5*	*0.7*	*0.5*	*0.2*	*-0.4*
Q1 2025	*0.3*	*0.4*	*0.2*	*0.4*	*0.8*	*0.7*	*0.1*	*-0.4*
Q2 2025	*0.4*	*0.4*	*0.2*	*0.4*	*0.7*	*0.7*	*0.0*	*-0.4*
Germany								
2023	-0.1	-0.2	-0.1	-0.7	0.2	-0.3	0.2	0.0
2024	0.1	0.4	1.8	-3.1	0.0	-1.6	0.6	-0.6
2025	0.8	0.9	1.1	0.7	1.5	0.9	0.3	-0.3
Q3 2024	*0.1*	*0.1*	*0.1*	*-0.7*	*-0.2*	*-0.3*	*0.0*	*0.1*
Q4 2024	*0.2*	*0.2*	*0.2*	*0.0*	*0.4*	*-0.6*	*0.4*	*-0.4*
Q1 2025	*0.2*	*0.3*	*0.2*	*0.6*	*0.4*	*0.6*	*-0.1*	*-0.1*
Q2 2025	*0.3*	*0.3*	*0.3*	*0.6*	*0.6*	*0.6*	*0.0*	*-0.1*
France								
2023	1.1	0.9	0.8	0.7	2.5	0.7	0.6	-0.3
2024	1.1	0.5	1.5	-1.4	2.1	-1.4	1.2	-0.4
2025	1.0	0.7	0.6	0.7	1.8	1.8	0.0	0.3
Q3 2024	*0.4*	*0.4*	*0.4*	*-0.2*	*0.8*	*0.9*	*0.0*	*0.2*
Q4 2024	*0.0*	*-0.2*	*-0.1*	*0.1*	*0.5*	*0.5*	*0.0*	*0.1*
Q1 2025	*0.3*	*0.3*	*0.2*	*0.3*	*0.5*	*0.5*	*0.0*	*0.0*
Q2 2025	*0.2*	*0.2*	*0.2*	*0.3*	*0.2*	*0.3*	*0.0*	*0.0*
Italy								
2023	1.0	1.2	1.2	4.9	0.5	-0.2	0.2	-1.2
2024	0.8	0.0	-0.1	2.8	0.4	-3.7	1.3	-1.1
2025	0.8	1.3	-0.6	-0.6	1.9	1.8	0.1	0.2
Q3 2024	*0.3*	*0.2*	*-0.1*	*0.0*	*0.6*	*0.5*	*0.0*	*0.1*
Q4 2024	*0.2*	*0.2*	*-0.2*	*0.0*	*0.5*	*0.5*	*0.0*	*0.1*
Q1 2025	*0.1*	*0.4*	*-0.1*	*-0.4*	*0.6*	*0.5*	*0.0*	*-0.1*
Q2 2025	*0.3*	*0.4*	*-0.1*	*-0.4*	*0.6*	*0.5*	*0.0*	*0.1*
Spain								
2023	2.5	1.8	3.8	0.8	2.3	0.3	0.7	-0.1
2024	2.6	1.8	1.5	2.8	4.4	2.6	0.8	-0.1
2025	1.8	1.5	1.1	3.6	3.2	3.5	0.1	0.0
Q3 2024	*0.3*	*0.3*	*0.0*	*0.8*	*0.8*	*1.0*	*0.0*	*0.0*
Q4 2024	*0.2*	*0.2*	*0.1*	*1.1*	*0.9*	*1.3*	*-0.1*	*0.0*
Q1 2025	*0.5*	*0.4*	*0.4*	*1.0*	*0.8*	*0.8*	*0.0*	*0.0*
Q2 2025	*0.5*	*0.5*	*0.4*	*1.0*	*0.7*	*0.8*	*0.0*	*0.0*
Portugal								
2023	2.3	1.6	1.0	2.6	4.1	2.2	0.9	-0.4
2024	1.6	1.7	1.0	2.8	3.7	3.6	0.1	0.0
2025	2.2	2.0	0.7	6.2	3.2	3.8	-0.3	0.0
Q3 2024	*0.3*	*0.5*	*0.3*	*3.0*	*0.7*	*1.2*	*-0.2*	*0.0*
Q4 2024	*0.4*	*0.4*	*-0.1*	*2.0*	*0.5*	*1.0*	*-0.2*	*0.0*
Q1 2025	*0.3*	*0.6*	*0.0*	*1.1*	*0.5*	*1.0*	*-0.2*	*0.0*
Q2 2025	*0.9*	*0.6*	*0.5*	*1.2*	*1.2*	*0.8*	*0.2*	*0.0*
Netherlands								
2023	0.1	0.8	2.9	1.2	-0.4	-1.7	1.0	-2.2
2024	0.7	0.3	2.6	-1.6	0.1	-0.8	0.7	-0.4
2025	1.3	1.2	1.0	2.4	3.0	2.4	0.8	-0.8
Q3 2024	*0.4*	*0.4*	*0.2*	*-0.1*	*1.0*	*0.3*	*0.7*	*-0.5*
Q4 2024	*0.6*	*0.4*	*0.2*	*0.8*	*1.0*	*0.5*	*0.5*	*-0.3*
Q1 2025	*0.1*	*0.4*	*0.2*	*0.4*	*0.8*	*0.7*	*0.2*	*-0.4*
Q2 2025	*0.2*	*0.4*	*0.2*	*0.9*	*0.2*	*0.7*	*-0.4*	*0.2*
United Kingdom								
2023	0.1	0.2	0.5	2.2	-0.5	-1.5	0.3	-0.9
2024	1.1	0.4	2.3	1.3	-0.8	6.1	-2.2	0.1
2025	1.5	1.8	1.7	3.1	1.7	8.5	-2.4	0.4
Q3 2024	*0.3*	*0.3*	*0.0*	*0.4*	*0.5*	*7.0*	*-2.2*	*0.0*
Q4 2024	*0.3*	*0.4*	*0.4*	*0.8*	*0.3*	*0.7*	*-0.1*	*0.0*
Q1 2025	*0.3*	*0.5*	*0.4*	*0.8*	*0.3*	*1.0*	*-0.3*	*0.0*
Q2 2025	*0.4*	*0.5*	*0.4*	*0.8*	*0.5*	*1.0*	*-0.2*	*0.1*

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

INTEREST RATES

Short-term interest rates		2-oct.	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Etats-Unis	Fed funds	5.00	4.50	4.00	3.75	3.50	3.50
	Sofr	5.05	4.32	3.82	3.57	3.32	3.32
Japon	Call rate	0.25	0.25	0.50	0.50	0.50	0.50
Eurozone	Refinancing	3.65	3.40	3.15	2.90	2.65	2.65
	Deposit	3.50	3.25	3.00	2.75	2.50	2.50
	€str	3.42	3.16	2.91	2.66	2.41	2.41
	Euribor 3m	3.25	2.97	2.78	2.60	2.60	2.60
United-Kingdom	Base rate	5.00	4.75	4.50	4.25	3.75	3.25
	Sonia	4.69	4.44	4.20	3.95	3.71	3.46
Sweden	Repo	3.25	2.50	2.00	2.00	2.00	2.00
Norway	Deposit	4.50	4.50	4.25	4.00	3.75	3.50
Canada	Overnight	4.25	3.75	3.25	3.00	3.00	3.00

10Y rates	oct.-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
USA	3.79	3.80	3.70	3.55	3.50	3.60
Japan	0.82	1.00	1.10	1.10	1.00	1.00
Eurozone (Germany)	2.10	2.15	2.06	2.06	2.18	2.27
Spread 10 ans / Bund						
France	0.78	0.66	0.68	0.73	0.75	0.70
Italy	1.34	1.30	1.35	1.28	1.25	1.20
Spain	0.80	0.76	0.80	0.78	0.77	0.77

Asia		2-Oct	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
China	1Y deposit rate	1.50	1.50	1.40	1.40	1.30	1.30
Hong Kong	Base rate	5.25	4.75	4.25	4.00	3.75	3.75
India	Repo rate	0.00	6.25	6.00	6.00	5.75	5.50
Indonesia	7D (reverse) repo rate	6.00	5.75	5.50	5.25	5.25	5.25
Korea	Base rate	3.50	3.25	3.00	2.75	2.50	2.50
Malaysia	OPR	3.00	3.00	2.75	2.50	2.50	2.50
Philippines	Repo rate	6.25	6.00	5.50	5.25	5.00	5.00
Singapore	3M SIBOR	3.73	3.40	2.95	2.40	2.10	2.10
Taiwan	Redisc	2.00	2.00	2.00	2.00	2.00	1.88
Thailand	Repo	2.50	2.25	2.00	1.75	1.50	1.50
Vietnam	Refinancing rate	4.50	4.50	4.50	4.50	4.50	4.50
Latin America							
Brazil	Overnight/Selic	10.75	11.75	12.00	12.00	11.50	11.00
Mexico	Overnight rate	10.50	10.00	9.50	9.00	8.50	8.00
Emerging Europe							
Czech Rep.	14D repo	4.25	4.00	3.75	3.50	3.25	3.00
Hungary	Base rate	6.50	6.25	6.00	5.75	5.50	5.25
Poland	7D repo	5.75	5.75	5.75	5.75	5.50	5.25
Romania	2W repo	6.50	6.25	6.00	5.75	5.50	5.25
Russia	1W auction rate	19.00	20.00	17.00	15.00	12.00	12.00
South Africa	Repo	8.00	7.75	6.25	5.75	5.75	5.75

EXCHANGE RATES

USD Exchange rate

Industrialised countries		2-Oct	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Euro	EUR/USD	1.10	1.08	1.08	1.09	1.10	1.12
Japan	USD/JPY	146.5	144.0	142.0	142.0	140.0	138.0
United Kingdom	GBP/USD	1.33	1.29	1.29	1.30	1.33	1.35
Switzerland	USD/CHF	0.85	0.87	0.88	0.88	0.88	0.88
Canada	USD/CAD	1.35	1.37	1.35	1.33	1.31	1.30
Australia	AUD/USD	0.69	0.68	0.70	0.70	0.72	0.74
New Zealand	NZD/USD	0.63	0.62	0.62	0.62	0.64	0.66

Euro Cross rates

Industrialised countries		2-Oct	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Japan	EUR/JPY	162	156	153	155	154	155
United Kingdom	EUR/GBP	0.83	0.84	0.84	0.84	0.83	0.83
Switzerland	EUR/CHF	0.94	0.94	0.95	0.96	0.97	0.98
Sweden	EUR/SEK	11.33	11.50	11.30	11.10	10.90	10.70
Norway	EUR/NOK	11.67	11.80	11.40	11.10	10.80	10.60

Asia		2-Oct	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
China	USD/CNY	7.02	7.10	7.10	7.08	7.06	7.05
Hong Kong	USD/HKD	7.76	7.78	7.77	7.77	7.76	7.75
India	USD/INR	83.92	83.50	83.00	82.75	82.50	82.00
Indonesia	USD/IDR	15260	15400	15300	15000	14800	14500
Malaysia	USD/MYR	4.17	4.30	4.25	4.20	4.15	4.10
Philippines	USD/PHP	56.2	56.0	55.5	55.0	55.0	54.2
Singapore	USD/SGD	1.29	1.30	1.30	1.29	1.29	1.28
South Korea	USD/KRW	1324	1330	1310	1300	1290	1270
Taiwan	USD/TWD	31.9	32.1	31.8	31.6	31.5	31.2
Thailand	USD/THB	32.8	34.5	34.0	34.0	33.5	33.0
Vietnam	USD/VND	24652	24500	24400	24200	24200	24000
Latin America							
Brazil	USD/BRL	5.44	5.55	5.60	5.65	5.70	5.75
Mexico	USD/MXN	19.40	19.00	19.25	19.50	19.75	20.00
Africa							
South Africa	USD/ZAR	17.33	17.30	17.10	16.80	16.60	16.40
Emerging europe							
Poland	USD/PLN	3.88	3.96	3.94	3.89	3.85	3.77
Russia	USD/RUB	95.65	93.00	94.00	95.00	96.00	96.00
Turkey	USD/TRY	34.18	34.00	34.00	35.00	35.50	36.00
Central Europe							
Czech Rep.	EUR/CZK	25.31	25.20	24.80	24.70	24.60	24.50
Hungary	EUR/HUF	400	393	388	387	386	384
Poland	EUR/PLN	4.29	4.28	4.25	4.24	4.23	4.22
Romania	EUR/RON	4.97	4.98	4.97	4.97	4.97	4.97

COMMODITIES

Av. quarter price		2-Oct	2024	2025			
			Q4	Q1	Q2	Q3	Q4
Brent	USD/BBL	74	78	75	80	82	85

Av. quarter price		2-Oct	2024	2025			
			Q4	Q1	Q2	Q3	Q4
Gold	USD/oz	2,646	2,500	2,400	2,350	2,300	2,300

PUBLIC ACCOUNTS

	Government balance (% of GDP)			Public debt (% of GDP)		
	2023	2024	2025	2023	2024	2025
United States	**-6.0**	**-5.8**	**-5.8**	**98.2**	**100.2**	**101.6**
Japan	**-3.5**	**-4.0**	**-2.5**	**244.2**	**240.9**	**235.1**
Eurozone	**-3.6**	**-3.1**	**-2.7**	**88.6**	**89.1**	**90.0**
Germany	-2.5	-1.6	-1.2	63.6	62.3	62.5
France	-5.5	-6.1	-5.5	109.9	112.9	116.1
Italy	-7.2	-3.8	-3.3	137.3	135.8	137.9
Spain	-3.6	-3.4	-3.1	107.7	106.8	106.0
Netherlands	-0.3	-2.0	-2.1	46.5	44.4	45.8
Belgium	-4.4	-4.2	-4.8	105.2	105.3	106.3
Greece	-1.6	-1.2	-0.8	161.9	155.6	150.8
Ireland	1.7	0.5	1.4	43.7	44.6	43.1
Portugal	1.2	0.3	0.4	97.9	99.0	98.4
United Kingdom	**-5.9**	**-3.8**	**-2.8**	**101.3**	**103.6**	**105.7**

Completed on 4 October 2024


71.0473


3.1225
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